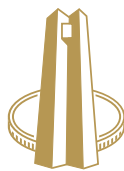


QUARTERLY BULLETIN

SEPTEMBER 2020



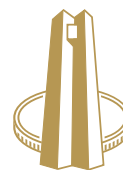
SOUTH AFRICAN RESERVE BANK





QUARTERLY BULLETIN

SEPTEMBER 2020



SOUTH AFRICAN RESERVE BANK



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Contents

Quarterly Economic Review

Introduction.....	1
Domestic economic developments	6
Domestic output	6
Real gross domestic expenditure	12
Gross nominal saving.....	28
Employment.....	29
Labour cost and productivity	34
Prices.....	36
External economic accounts.....	46
Current account	46
Financial account	56
Foreign-owned assets in South Africa.....	57
South African-owned assets abroad	58
Foreign debt.....	58
International investment position	60
International reserves and liquidity	61
Exchange rates	61
Turnover in the South African foreign exchange market.....	64
Monetary developments, interest rates and financial markets	67
Money supply.....	67
Credit extension	69
Interest rates and yields	73
Money market	77
Bond market	80
Share market.....	82
Market for exchange-traded derivatives	85
Real estate market	86
Non-bank financial intermediaries	87
Flow of funds.....	88
Public finance.....	91
Non-financial public sector borrowing requirement	91
Budget comparable analysis of national government finance.....	92
Boxes	
Box 1 Methodology underlying the compilation of the household sector balance sheet	18
Box 2 Unpacking gross fixed capital formation in South Africa	23
Box 3 Methodological changes to the compilation of the consumer price index in response to the COVID-19 lockdown.....	37
Box 4 The importance of travel receipts and payments in the current account of South Africa's balance of payments.....	53
 Note on recent developments in money creation in South Africa.....	 101
Notes to tables.....	107
Abbreviations	108
Statistical tables	
Contents	S-0
Statistical tables	S-2
Key information	S-148



Coronavirus UPDATE Covid-19 News



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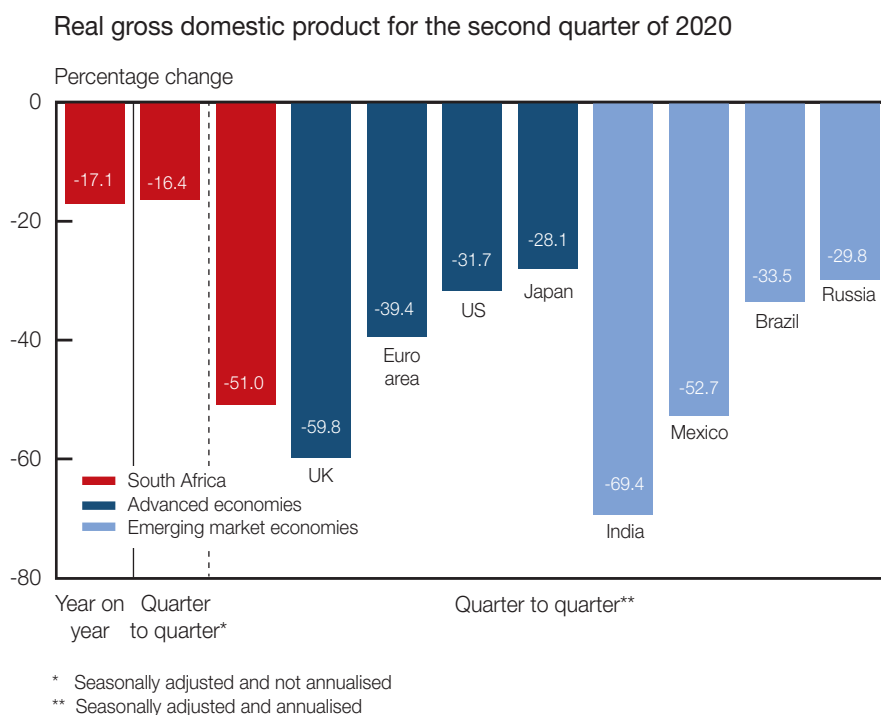
Unemployed Applicant

Surname		Personal	
Mailing Address		Given Name	
City		City	
City		Duration (yrs)	
Contact		Other	
Middle name		State	
State		Post	

Quarterly Economic Review

Introduction

In South Africa, as in most advanced and emerging market economies, the devastating impact of the coronavirus disease 2019 (COVID-19) pandemic and resultant lockdown restrictions on economic activity is reflected by all measures of the real gross domestic product (GDP) statistics for the second quarter of 2020.



Sources: Bloomberg, Haver and Stats SA

South Africa's real GDP contracted by a massive annualised 51.0% in the second quarter of 2020 – the largest contraction since quarterly records began in 1960 – extending the economic recession to a fourth quarter. In the second quarter of 2020, real GDP contracted by 16.4% on a quarter-to-quarter, not annualised basis, and the economy shrank by an unprecedented 17.5% in nominal terms.

The effect of the restrictions on economic activity in the second quarter of 2020 was broad-based, with output declining sharply in the primary, secondary and tertiary sectors. In the primary sector, the sharp contraction in real gross value added (GVA) was driven by a broad-based reduction in real mining output. Mining production was suppressed by supply-chain disruptions related to domestic and international lockdown restrictions, and after the initial hard lockdown by regulations that prohibited mines from operating at full capacity in the interest of the safety of workers. By contrast, agriculture was the only sector that expanded in the second quarter of 2020, albeit at a much slower pace than in the first quarter. This reflected the agricultural sector's essential-goods-provider status during the national lockdown as well as favourable weather conditions and increased foreign demand.



The real output of the secondary sector contracted even more than the primary sector in the second quarter of 2020. The sharp and broad-based decrease in manufacturing output subtracted the most of all sectors from overall GDP growth, at 10.8 percentage points. The decline in both electricity consumption and production reflected the sharp contraction in economic activity in the electricity-intensive mining and manufacturing sectors, while water consumption also declined. The real GVA by the construction sector decreased the most of all sectors in the second quarter of 2020, at 76.6%, as the national lockdown brought almost all construction activity to a halt.

The real output of the usually fairly stable tertiary sector also contracted sharply in the second quarter of 2020. The pronounced decline in the real GVA by both the commerce and the transport sectors largely reflected the restrictions on non-essential purchases and travel during the national lockdown. The real GVA by the finance, insurance, real estate and business services sector also decreased notably in the second quarter of 2020 – the first contraction since the second quarter of 2009, in the aftermath of the global financial crisis.

Real gross domestic expenditure (GDE) shrank for the fourth consecutive quarter in the second quarter of 2020, mirroring the contractions in real GDP over this period. All of the expenditure components subtracted from growth in real GDP in the second quarter of 2020. In particular, real gross fixed capital formation and real final consumption expenditure by households decreased significantly, alongside a fourth successive quarterly de-accumulation in real inventory holdings – the largest ever recorded – as well as real net exports, with global trade severely affected by COVID-19.

The sharp contraction in household consumption expenditure in the second quarter of 2020 reflected reduced real outlays on all categories. Spending on durable and semi-durable goods contracted the most, as these goods were mostly classified as non-essential during the lockdown, with sales prohibited. The real disposable income of households also contracted in the second quarter of 2020, as the compensation of employees declined amid job losses and reduced salary payments during the lockdown.

Household debt declined in the second quarter of 2020, for the first time since the third quarter of 2002. The outstanding balances of most categories of credit extended to households decreased as the national lockdown and related uncertainty likely affected households' saving and spending patterns. However, the ratio of household debt to nominal disposable income increased significantly from 73.6% in the first quarter of 2020 to 85.3% in the second quarter, as the notable quarter-to-quarter decline in nominal disposable income exceeded the decline in household debt. Households' net wealth increased notably in the second quarter of 2020, as the recovery in share prices after the sharp initial correction boosted the value of equity portfolios. The FTSE/JSE All-Share Price Index (Alsi) increased by 47.7% from a recent low on 19 March 2020 up to 11 September, in line with most international bourses.

Real gross fixed capital formation registered the largest contraction on record in the second quarter of 2020 following already sizeable contractions in the preceding two quarters. Real capital investment by both the private sector and public corporations declined steeply in the second quarter, while capital spending by general government decreased only slightly. Reduced spending on transport equipment was especially pronounced as new vehicle sales plummeted to an all-time low in April, with dealerships not allowed to operate under level 5 of the lockdown restrictions. In addition, infrastructure projects were delayed and interrupted by inaccessible project sites and restrictions on the use of essential amenities such as transport during the lockdown.



The national saving rate declined markedly from 15.8% in the first quarter of 2020 to 10.7% in the second quarter. This resulted from a marked increase in dissaving by general government, as revenue fell sharply across all major tax categories in the second quarter of 2020.

The effect of the COVID-19-related lockdown is not yet visible in the official labour market statistics, as the release of Statistics South Africa's (Stats SA) household-based *Quarterly Labour Force Survey* for the second quarter of 2020 has been delayed following lockdown-related logistical and methodological complications. The number of unemployed South Africans had already increased significantly 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. The official unemployment rate increased to a record high of 30.1% in the first quarter of 2020, reflecting the impact of the economic recession that had already started in the third quarter of 2019.

Growth in the formal non-agricultural nominal remuneration per worker was restrained by the recessionary conditions in the first quarter of 2020, with remuneration growth slowing in both the public and the private sector. Year-on-year growth in nominal unit labour cost in the formal non-agricultural sector moderated to 4.5% in the first quarter of 2020, while labour productivity continued to contract.

Both headline producer and consumer price inflation moderated to historical lows in May 2020 in the wake of the COVID-19 pandemic, mostly due to a significant decrease in fuel prices as the shutdown of economic activity in most economies suppressed the demand for crude oil. The lockdown restrictions aimed at containing the spread of COVID-19 required methodological changes to the compilation of the consumer price index (CPI), which introduced some temporary downward statistical bias. Headline CPI inflation then accelerated from a 16-year low of 2.1% in May 2020 to 3.2% in July, as fuel prices decreased at a slower year-on-year rate and as the extent of price imputations by Stats SA diminished. Underlying inflationary pressures receded further during the first half of 2020, reflective of muted price pressures amid the domestic recessionary conditions.

World trade volumes decreased notably further in the second quarter of 2020, reflecting the sharp contraction in output in many countries following production stoppages and with ports operating at reduced capacity. The adverse effects of this were also visible in South Africa's trade surplus, which more than halved from the first to the second quarter of 2020, as the value of net gold and merchandise exports contracted much more than merchandise imports. Mining and manufacturing exports contracted sharply in the second quarter of 2020 while agricultural exports increased, supported by citrus exports in particular. The value of merchandise imports contracted for a fourth consecutive quarter as most of the mining and manufacturing subcategories declined. The value of crude oil imports decreased sharply due to the marked decline in the average realised rand price per barrel and, to a lesser extent, lower volumes. South Africa's terms of trade improved further to a record high in the second quarter of 2020 as the rand price of exports increased while that of imports decreased.

The shortfall on the services, income and current transfer account widened significantly in the second quarter of 2020 as the deficits of all three sub-accounts widened. In particular, the deficit on the services account widened substantially due to the unusual circumstances brought about by the COVID-19-related international travel restrictions. Consequently, the balance on the current account of the balance of payments reverted from a surplus of 1.2% of GDP in the first quarter of 2020 – the only surplus since the first quarter of 2003 – to a deficit of 2.4% in the second quarter.





The net flow of capital on South Africa's financial account of the balance of payments reverted from an inflow of R16.6 billion in the first quarter of 2020 to an outflow of R10.3 billion in the second quarter. On a net basis, direct investment, financial derivatives and reserve assets recorded inflows during the second quarter, while portfolio and other investment recorded outflows. Portfolio investment flows largely reflected non-resident net sales of South African debt securities, as well as the redemption of international bonds by national government. This was partly countered by South African residents' disposal of foreign portfolio assets. Despite a further decrease in South Africa's international reserve assets in the second quarter of 2020, the level of import cover rose to a new all-time high of 8.0 months at the end of June, reflecting the continued decline in imports.

South Africa's positive net international investment position (IIP) increased more than threefold from the end of December 2019 to the end of March 2020, reflecting a notable increase in the market value of foreign assets and a further decline in foreign liabilities. The decrease in the nominal effective exchange rate (NEER) of the rand of 19.3% over this period affected foreign assets more than foreign liabilities, while divergent movements in some asset prices also contributed to the significant increase in the positive net IIP.

The NEER increased by 2.7% in the second quarter of 2020 following the notable decrease in the first quarter, as investor sentiment improved amid the gradual lifting of lockdown restrictions and further monetary policy easing in several countries, including South Africa. The NEER increased marginally further up to mid-September as domestic developments, such as the resumption of electricity load-shedding and the larger-than-expected contraction in real GDP in the second quarter of 2020, were offset by the continued appreciation of the rand against the United States (US) dollar.

The movements in South African government bond yields thus far in 2020 have reflected uncertainty as to the economic impact of the COVID-19 pandemic and the concomitant changes in South Africa's sovereign and currency risk premiums, as well as net sales of bonds by non-residents and fluctuations in the exchange value of the rand. Bond yields also reflected concerns about the sustainability of South Africa's public finances against the backdrop of an increase in government debt, as projected in the June 2020 Supplementary Budget. The decline in domestic short-term money market interest rates in the first half of 2020 continued after the further reduction in the repurchase (repo) rate in July.

Growth in the broadly defined money supply (M3) accelerated further in the second quarter of 2020 as both financial and non-financial companies as well as households showed a preference for bank deposits amid uncertainty about the impact of the national lockdown on economic activity and financial markets. By contrast, growth in total loans and advances extended by monetary institutions to the domestic private sector continued to moderate in the second quarter of 2020 amid the sharp contraction in real GDP. The deceleration occurred despite substantial interest rate relief and a variety of measures aimed at easing liquidity conditions to alleviate the effects of the COVID-19 pandemic.

The preliminary non-financial public sector borrowing requirement of R160 billion in the first quarter of fiscal 2020/21 (April–June 2020) far exceeded the R62.9 billion recorded in the same period of the previous fiscal year. This mainly reflected the notably larger cash deficit of national government, attributable to revenue shortfalls and higher transfers to other levels of general government for COVID-19-related expenditure. The response to COVID-19 was also evident in the change from a social security fund cash surplus in the first quarter of



fiscal 2019/20 to a sizeable deficit in the first quarter of fiscal 2020/21. The financing of national government's borrowing requirement led to a significant year-on-year increase of 18.7% in gross loan debt to 69.4% of GDP as at 30 June 2020.

National government revenue contracted sharply by 22.8% year on year in the first four months of fiscal 2020/21, as all tax categories underperformed following the restrictions on economic activity to try and curb the spread of the COVID-19 pandemic. By contrast, total expenditure increased by 2.7% over this period, yielding a cash book deficit of R260 billion, which was R104 billion more than a year earlier.

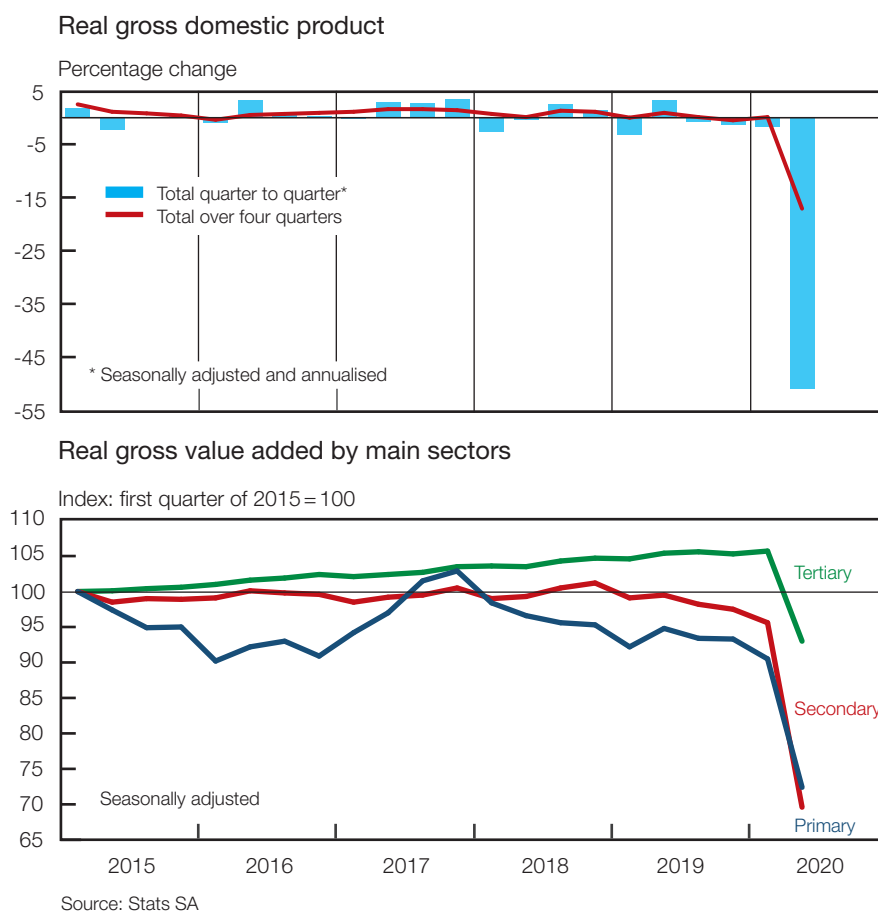


Domestic economic developments

Domestic output¹

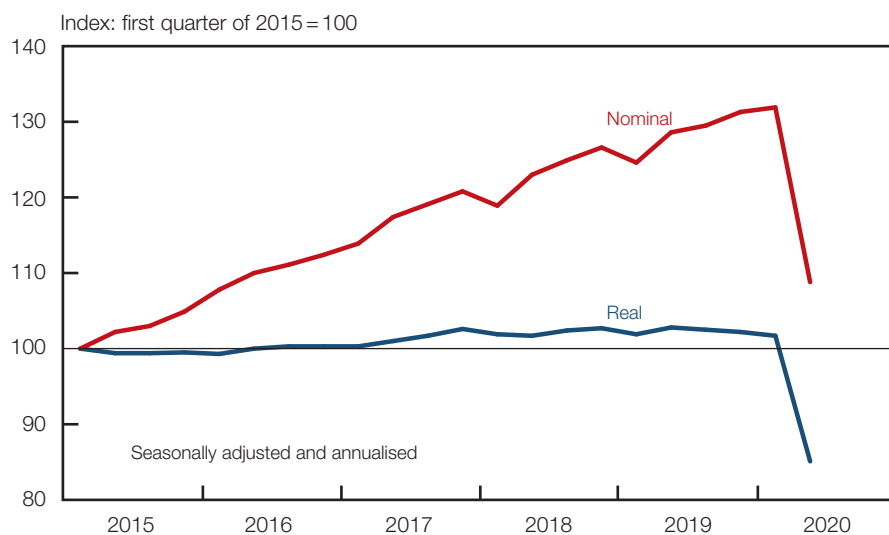
¹ The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data and are annualised.

South Africa's real *gross domestic product* (GDP) contracted considerably at an annualised rate of 51.0% in the second quarter of 2020 – the largest contraction since quarterly records began in 1960 – and by 16.4% quarter to quarter, not annualised. This extended the economic recession to a fourth quarter and reflected the devastating effect on economic activity of the national lockdown aimed at containing the spread of the coronavirus disease 2019 (COVID-19). The effect of the restrictions on economic activity was broad-based, with output declining sharply in the primary, secondary and tertiary sectors. Real GDP declined at a notably faster pace of 17.1% in the year to the second quarter of 2020 following an increase of only 0.1% in the year to the first quarter. The average *level* of real output was 8.7% lower in the first half of 2020 than in the corresponding period in 2019.



The significant contraction in real economic activity in the second quarter of 2020 was also prominent in nominal terms, with a quarter-to-quarter seasonally adjusted, but not annualised, decrease of 17.5%, which represented a R913 billion decline in the level of nominal GDP. On a seasonally adjusted and annualised basis, nominal GDP contracted by 53.7% in the second quarter of 2020.

Gross domestic product



Sources: Stats SA and SARB

When excluding the contribution of the climate-dependent agricultural sector, real output contracted by an unprecedented 50.6% in the second quarter of 2020 following a contraction of 2.3% in the first quarter, which was more than the decline of 1.8% in overall economic activity in that quarter.

Real gross domestic product

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

Sector	2019					2020	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Primary sector	-12.3	11.7	-5.7	-0.4	-3.1	-11.7	-59.1
Agriculture	-16.8	-4.9	-4.5	-7.6	-6.9	28.6	15.1
Mining	-10.8	17.4	-6.1	1.8	-1.9	-21.5	-73.1
Secondary sector	-8.0	1.3	-5.0	-2.9	-1.4	-7.5	-72.0
Manufacturing	-8.8	2.1	-4.4	-1.8	-0.8	-8.5	-74.9
Tertiary sector	-0.4	2.9	0.9	-1.0	1.2	1.5	-40.0
Non-primary sector**	-2.1	2.5	-0.4	-1.4	0.6	-0.5	-48.3
Non-agricultural sector***	-2.8	3.7	-0.8	-1.1	0.4	-2.3	-50.6
Total	-3.2	3.3	-0.8	-1.4	0.2	-1.8	-51.0

* Percentage change over one year

** The non-primary sector is total GVA excluding agriculture and mining.

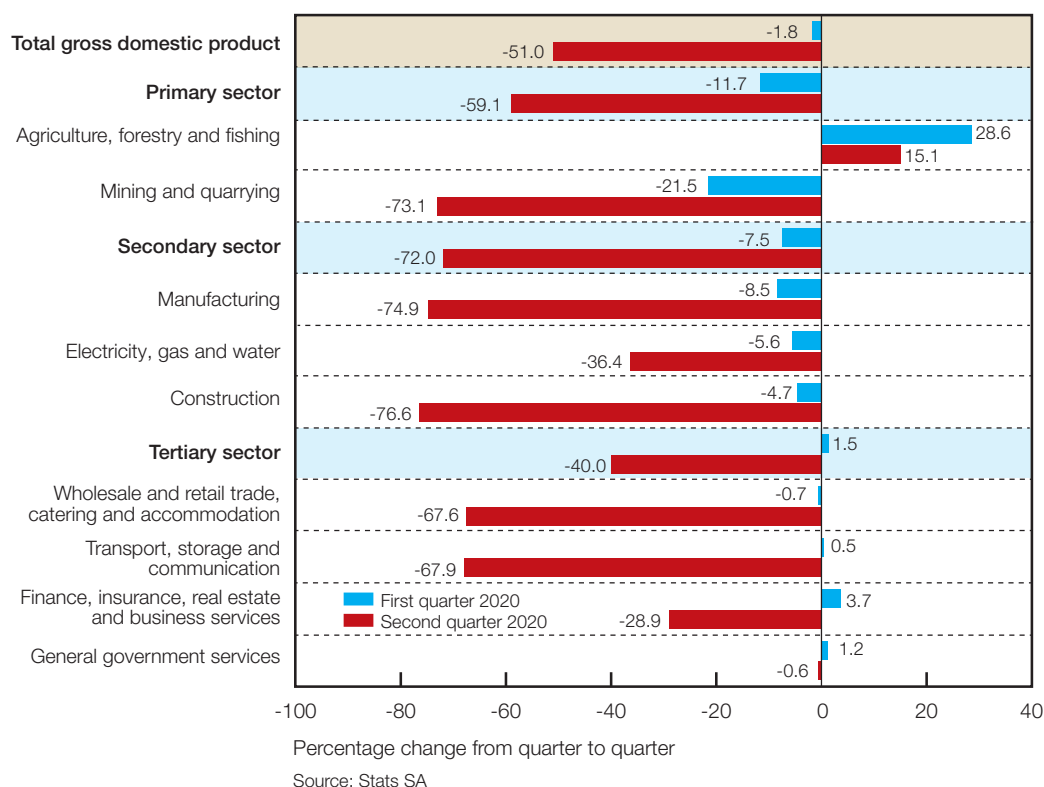
*** The non-agricultural sector is total GVA excluding agriculture.

Source: Stats SA

The plunge in the real gross value added (GVA) by the *primary sector* of 59.1% in the second quarter of 2020 marked a fourth successive quarterly contraction. The sharp decrease was driven by a massive reduction in real mining output, while the real GVA by the agricultural sector expanded for a second consecutive quarter, albeit at a much slower pace.



Growth in the components of real gross domestic product



The *agricultural sector* was the only sector that expanded in the second quarter of 2020, at a fairly robust pace of 15.1%. This reflected the agricultural sector's essential-goods-provider status during the national lockdown. The production of field crops as well as horticultural and animal products was supported by favourable weather conditions and increased foreign demand.

The expected commercial maize crop of 15.5 million tons for the 2019/20 season exceeds the estimated annual domestic consumption of about 11.4 million tons for 2020 by a significant margin. The area intended to be planted in the 2019/20 season is also 13.5% larger than the previous season's final area planted.

Commercial maize crop estimates

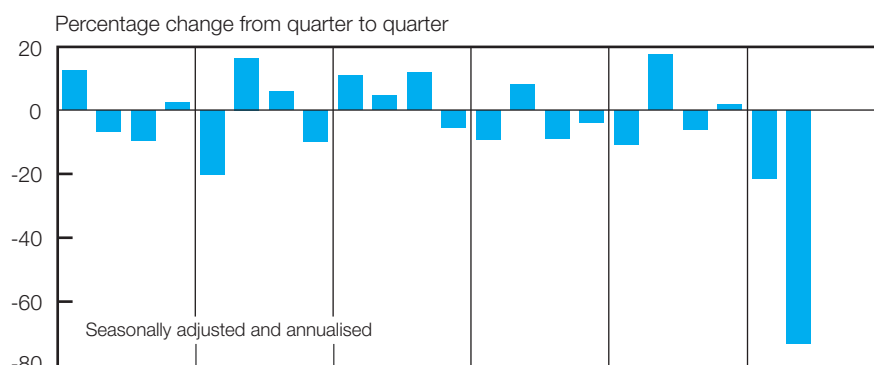
	Crop (million tons)	Area planted (million hectares)
2018/19: final crop	11.3	2.3
2019/20: seventh production forecast	15.5	2.6

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

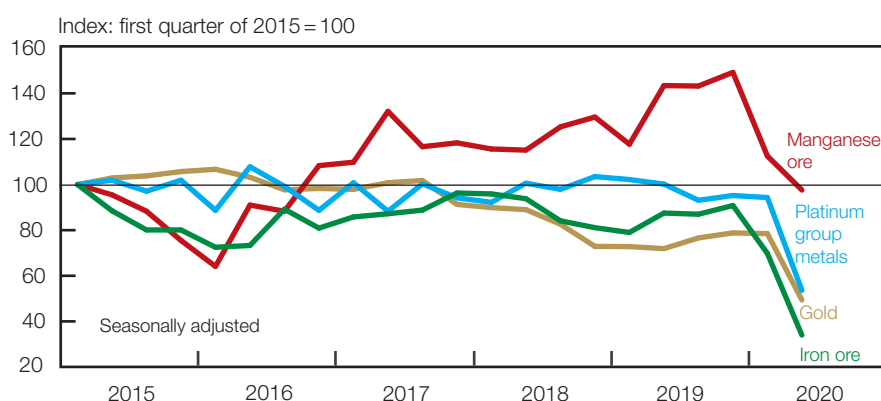
The real output of the *mining sector* contracted sharply further by 73.1% in the second quarter of 2020 following a decline of 21.5% in the first quarter. Mining output subtracted 6.0 percentage points from overall GDP growth as production declined in all the mining subsectors, particularly of platinum group metals (PGMs), gold, iron ore, chromium ore and coal. Constrained mining operations during the national lockdown, together with subdued global demand, particularly from China, due to global lockdowns amid the pandemic, weighed heavily on the production of iron ore and chrome. After the initial hard lockdown, output was still impeded by regulations that prohibited mines from operating at full capacity in the interest of the safety of workers. Production

was also suppressed by supply-chain disruptions related to domestic and international lockdown restrictions. As a result, the average level of real mining output was 19.8% lower in the first half of 2020 than in the corresponding period in 2019.

Real gross value added by the mining sector



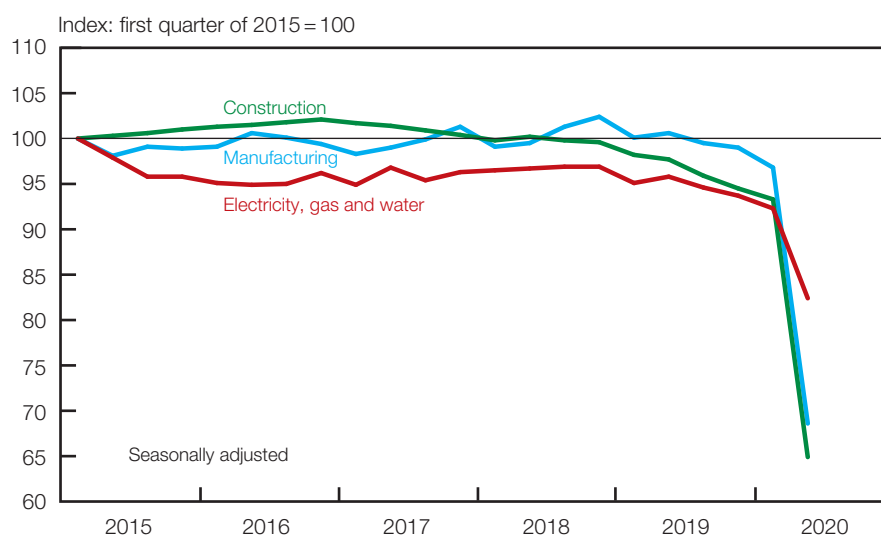
Physical volume of mining production: selected subsectors



Source: Stats SA

The real GVA by the *secondary sector* decreased by a massive 72.0% in the second quarter of 2020 following a contraction of 7.5% in the first quarter. The real output of all the secondary sectors – manufacturing, construction as well as electricity, gas and water – decreased further, and at an accelerated pace in the second quarter.

Real gross value added by the secondary sector



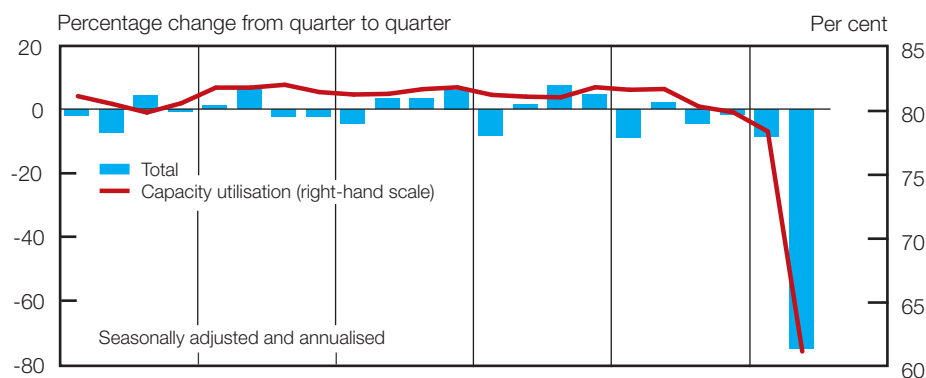
Source: Stats SA



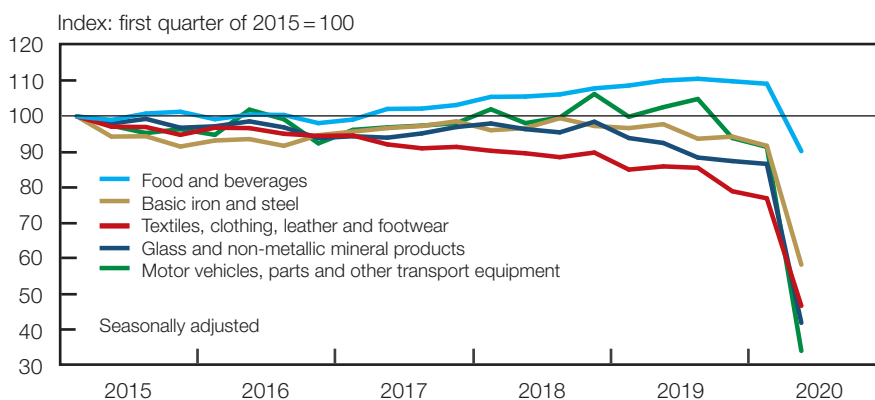
The real output of the *manufacturing sector* contracted by 74.9% in the second quarter of 2020 and subtracted the most of all sectors from overall GDP growth, at 10.8 percentage points. The weakness was broad-based as production volumes shrank in all the manufacturing subsectors, but more so in basic iron and steel, non-ferrous metal products, metal products and machinery; petroleum, chemical products, rubber and plastic products; as well as motor vehicles, parts and accessories, and other transport equipment. In particular, domestic motor vehicle production was severely affected by supply-chain disruptions. Similarly, the production of glass and non-metallic mineral products, food and, in particular, beverages as well as textiles and clothing plummeted due to the ban on the sale of alcoholic beverages and restrictions applied to the sale of clothing and textiles.

Even before the second quarter of 2020, manufacturing activity had already been impeded by rising input costs and insufficient demand in an environment of low business confidence. The average level of real manufacturing output in the first half of 2020 was 18.3% lower than in the corresponding period in 2019. The sharp and broad-based decrease in output was also reflected in the seasonally adjusted utilisation of production capacity in the manufacturing sector, which declined notably to a historic low of 61.2% in May 2020, from 78.4% in February.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



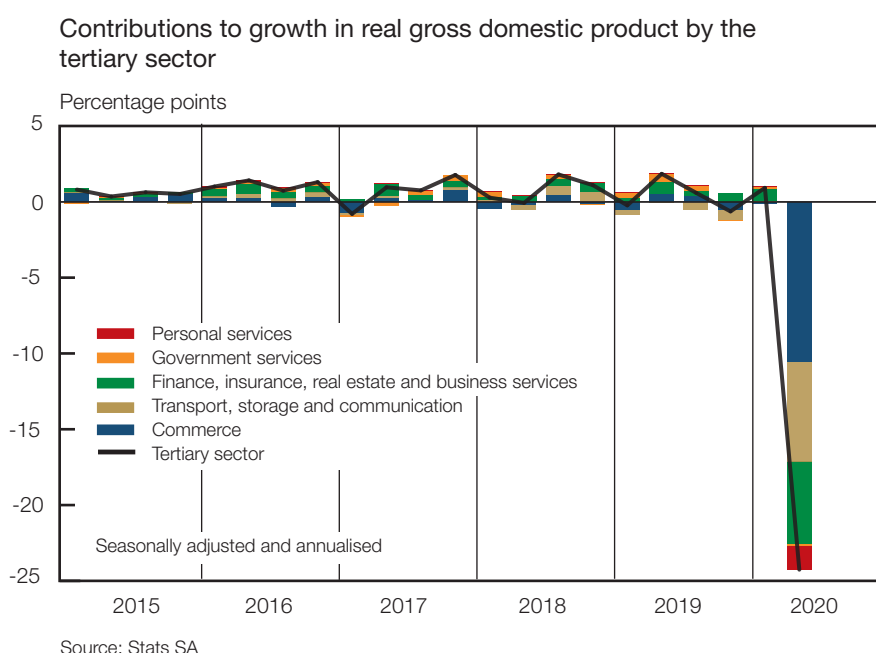
Source: Stats SA

The real output of the sector supplying *electricity, gas and water* declined for a fourth consecutive quarter in the second quarter of 2020, by a notable 36.4%, weighed down by both electricity distribution and water consumption. This contraction was worse than the decline of 16.7% in the first quarter of 2008 during a severe electricity crisis in South Africa. The decline in both electricity consumption and production reflected the sharp contraction in economic activity in the electricity-intensive mining and manufacturing sectors, as well as vandalism and supply disruptions to some defaulting municipalities. As a consequence, the average level of real output in the electricity, gas and water sector in the first half of 2020 was 8.7% lower than in the corresponding period of 2019.



The decrease in the real GVA by the *construction sector* of 76.6% was the most severe of all sectors in the second quarter of 2020 and extended the period of uninterrupted contractions to a full two years. The contraction in the second quarter reflected the further deterioration in civil construction as well as in residential and non-residential building activity as the national lockdown brought almost all construction activity to a halt. The average level of real output by the construction sector in the first half of 2020 was 19.3% lower than in the corresponding period in 2019.

The real GVA by the *tertiary sector* receded by an unprecedented 40.0% in the second quarter of 2020, and subtracted 24.3 percentage points from growth in overall GDP following a revised increase of 1.5% in the first quarter. The real economic activity in all of the tertiary sectors – commerce; transport, storage and communication; finance, insurance, real estate and business services; as well as general government services – contracted in the second quarter.



The real GVA by the *commerce sector* contracted by a marked 67.6% in the second quarter of 2020, subtracting 10.5 percentage points from overall GDP growth, following a revised decline of 0.7% in the preceding quarter. Activity in wholesale, retail and motor trade as well as in tourism and accommodation contracted sharply, weighed down by restrictions on non-essential purchases and travel during the lockdown. The commerce sector was also affected by, among other factors, rising unemployment, constrained income growth, supply-chain disruptions and weak consumer demand as a result of consumers' inability or reluctance to spend. Real wholesale trade activity was weighed down by lower sales of solid, liquid and gaseous fuels and related products, construction and building materials, as well as machinery, equipment and supplies. Real retail trade was constrained by lower sales by general dealers, retailers in textiles, clothing, footwear and leather goods as well as by the all other retailers category. Motor trade activity was severely impacted by the prohibition of vehicle sales, particularly in the first two months of the quarter. The sharp contraction in real output by the catering and accommodation subsector reflected the closure of restaurants and the termination of domestic and cross-border tourism due to the national lockdown.

The real output of the *transport, storage and communication services sector* reverted to a sharp contraction of 67.9% in the second quarter of 2020 following a slight increase of 0.5% in the first quarter. Weaker activity occurred in land and air transportation as well as in transport support services, as only the transportation of essential goods, which constitutes a small part of activity in the sector, was permitted for most of the quarter. Land freight transport was further negatively impacted by the cancellation of capital projects, the closure of all non-coal mines



and most manufacturing plants as well as the shutdown of almost all international trade during level 5 of the national lockdown. Passenger transport was severely curtailed by the travel restrictions. The average level of real output in the transport, storage and communication services sector was 15.5% lower in the first half of 2020 than in the corresponding period in 2019.

The real GVA by the *finance, insurance, real estate and business services* sector receded by 28.9% in the second quarter of 2020, subtracting 5.4 percentage points from overall GDP growth. This was the first contraction since the second quarter of 2009 when real output in the sector decreased by 0.6% in the aftermath of the global financial crisis. The contraction was evident in the finance and insurance subsector where reduced banking activity lowered the output of the monetary intermediation subsector. Activity in the real estate subsector was weighed down by the inability to process property transfers to conclude property transactions due to lockdown restrictions, while the subdued demand for business services reflected close linkages with other sectors in the economy, most of which were not allowed to operate.

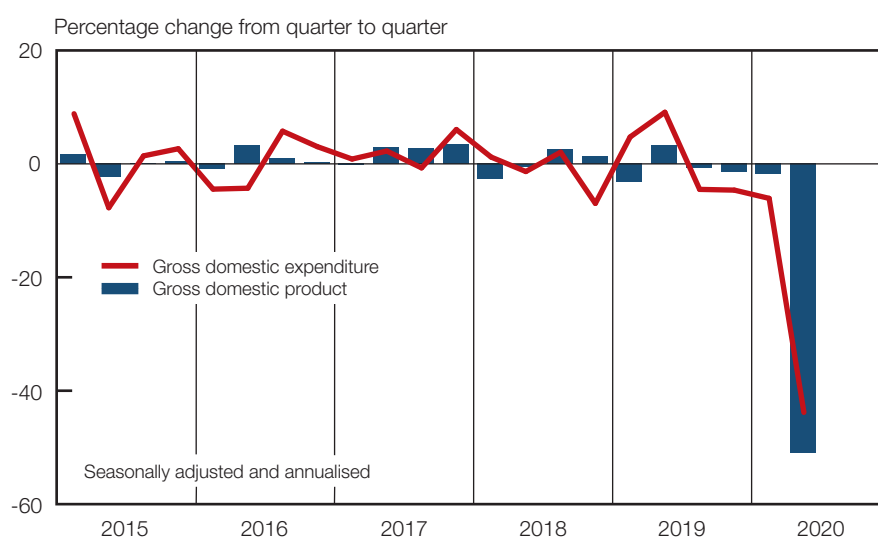
The real GVA by the *general government services* sector reverted from a revised increase of 1.2% in the first quarter of 2020 to a decrease of 0.6% in the second quarter. The contraction reflected a decrease in the number of employees in the general government sector.

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

Real gross domestic expenditure²

Real *gross domestic expenditure* (GDE) shrank for the fourth consecutive quarter in the second quarter of 2020, mirroring the contractions in real GDP over this period. Following a contraction of 6.1% in the first quarter of 2020, real GDE receded substantially by 43.8% in the second quarter, mostly weighed down by a further marked decline in real gross fixed capital formation and a sharp contraction in real final consumption expenditure by households, alongside a further significant de-accumulation in real inventory holdings. The real final consumption expenditure by general government reverted to a marginal decline from a slight increase in the previous quarter. The average level of real GDE in the first half of 2020 was 9.2% lower than in the corresponding period in 2019.

Real gross domestic product and expenditure



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	Q2
Final consumption expenditure							
Households.....	-0.9	2.5	0.3	1.4	1.0	0.2	-49.8
General government.....	2.2	2.7	1.4	-0.2	1.5	1.8	-0.9
Gross fixed capital formation.....	-4.1	5.8	4.1	-10.0	-0.9	-18.6	-59.9
Domestic final demand².....	-0.9	3.2	1.2	-1.2	0.8	-3.2	-43.8
<i>Change in inventories (R billions)³.....</i>	<i>-11.7</i>	<i>29.4</i>	<i>-13.9</i>	<i>-40.3</i>	<i>-9.1</i>	<i>-66.0</i>	<i>-74.0</i>
<i>Residual⁴.....</i>	<i>0.1</i>	<i>0.2</i>	<i>0.1</i>	<i>0.0</i>	<i>0.1</i>	<i>0.1</i>	<i>0.8</i>
Gross domestic expenditure⁵.....	4.7	9.1	-4.5	-4.6	0.7	-6.1	-43.8

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

All of the expenditure components subtracted from growth in real GDP in the second quarter of 2020. Households' final consumption expenditure and gross fixed capital formation subtracted the most at 31.0 and 11.6 percentage points respectively. Real net exports also subtracted substantially from overall GDP growth as global trade flows were severely impacted by COVID-19, while the change in real inventory holdings and final consumption expenditure by general government subtracted only marginally.

Contributions of expenditure components to growth in real gross domestic product

Percentage points

Component	2019					2020	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Final consumption expenditure							
Households.....	-0.5	1.6	0.2	0.8	0.6	0.1	-31.0
General government.....	0.4	0.5	0.3	0.0	0.3	0.4	-0.1
Gross fixed capital formation.....	-0.8	1.1	0.8	-2.0	-0.2	-3.8	-11.6
Change in inventories.....	5.3	5.3	-5.5	-3.3	-0.1	-3.2	-0.8
Residual.....	0.2	0.5	-0.5	-0.2	0.1	0.3	1.6
Gross domestic expenditure.....	4.6	9.0	-4.7	-4.8	0.7	-6.2	-41.9
Net exports.....	-7.8	-5.7	3.9	3.3	-0.6	4.4	-9.2
Gross domestic product.....	-3.2	3.3	-0.8	-1.4	0.2	-1.8	-51.0

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

Sources: Stats SA and SARB

The real *exports* of goods and services decreased by a marked 27.9% in the second quarter of 2020 following a marginal decline of 0.8% in the first quarter. Mining and manufacturing export volumes (including gold) contracted sharply alongside slower growth in agricultural exports as both the domestic and most global economies experienced trade restrictions associated with COVID-19-related lockdowns. The decline in mining exports reflected lower export volumes of particularly precious metals (including gold, PGMs and stones) as well as base metals and articles thereof, while manufactured exports were weighed down by vehicles and transport equipment. Similarly, the total real exports of services plummeted against a backdrop of global travel restrictions. However, the increased exports of vegetable products boosted overall agricultural exports.



Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2020					
	Exports			Imports		
	Percentage of total**	Q1***	Q2***	Percentage of total**	Q1***	Q2***
Total	100.0	-0.8	-27.9	100.0	-4.5	-17.7
Mining	45.0	-2.7	-19.0	19.9	-3.6	-14.9
<i>Of which:</i>						
Mineral products.....	20.2	5.9	-5.3	14.5	-3.4	-13.4
Precious metals including gold, platinum group metals and stones	13.6	-10.1	-33.4	1.1	-13.5	-30.3
Base metals and articles	11.2	-6.1	-24.4	4.4	-1.3	-16.2
Manufacturing	34.6	3.2	-34.6	63.5	-4.3	-16.5
<i>Of which:</i>						
Vehicles and transport equipment	12.0	2.8	-60.6	13.1	5.4	-55.7
Machinery and electrical equipment	6.8	-0.3	-36.5	25.3	-7.8	-9.9
Chemical products	5.5	9.8	-7.5	9.4	-2.9	6.9
Prepared foodstuffs, beverages and tobacco	3.8	0.3	-7.8	2.6	-5.8	-9.3
Agriculture	5.7	11.0	6.7	3.4	4.3	5.1
<i>Of which:</i>						
Vegetable products	4.4	12.0	10.0	1.5	-1.5	39.4
Services	13.6	-7.6	-61.4	12.3	-9.0	-34.3

* 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.

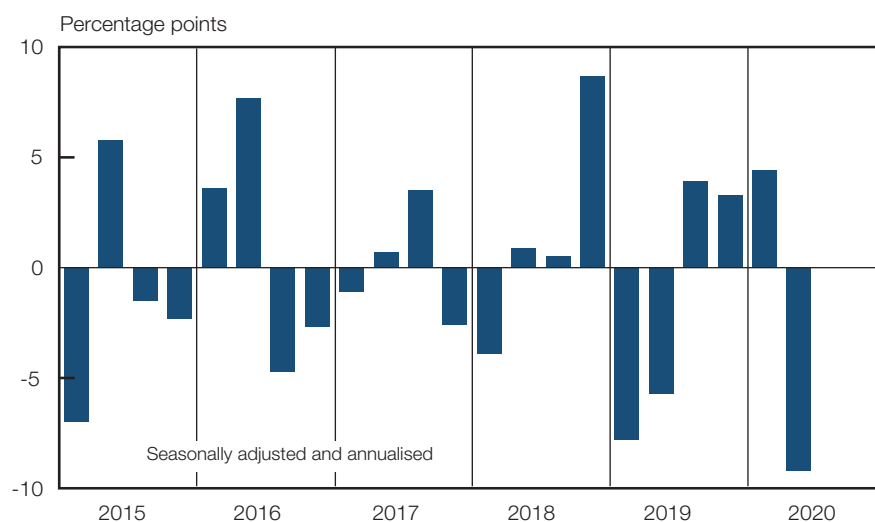
Sources: SARS, Stats SA and SARB

The real *imports* of goods and services also declined notably further in the second quarter of 2020 as the volume of both mining and manufactured imports contracted. Weak domestic demand as well as lockdown-related supply disruptions and port closures led to lower imports of all the major mining and manufacturing product categories, except for chemical products. The real value of manufacturing imports reflected a substantial contraction in vehicles and transport equipment. Furthermore, the real imports of services were adversely affected by travel restrictions in adherence to lockdown regulations. By contrast, the real value of agricultural imports grew briskly due to increased domestic demand for vegetable products.

Real *net exports* subtracted a notable 9.2 percentage points from real GDP growth in the second quarter of 2020 as the net exports of mining, manufacturing and services shaved off 4.9, 1.4 and 3.3 percentage points respectively. The lower real net exports of precious metals (including gold, PGMs and stones) subtracted the most from overall net mining exports. In the manufacturing sector, the increased real net exports of vehicles and transport equipment were more than fully countered by the lower net exports of machinery and electrical equipment, chemical products, as well as prepared foodstuffs, beverages and tobacco.



Contribution of net exports to growth in real gross domestic product



Source: Stats SA

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

Percentage points

Component	2020					
	Exports		Imports*		Net exports	
	Q1	Q2	Q1	Q2	Q1	Q2
Total	-1.0	-25.2	-5.4	-16.0	4.4	-9.2
Mining	-1.5	-7.8	-0.9	-2.9	-0.5	-4.9
Of which:						
Mineral products	1.3	-0.9	-0.6	-2.0	1.9	1.0
Precious metals, including gold, platinum group metals and stones	-2.0	-4.6	-0.2	-0.3	-1.8	-4.3
Base metals and articles	-0.8	-2.3	-0.1	-0.6	-0.7	-1.6
Manufacturing	1.2	-10.7	-3.2	-9.3	4.4	-1.4
Of which:						
Vehicles and transport equipment	0.3	-6.2	0.8	-7.0	-0.5	0.8
Machinery and electrical equipment	0.0	-2.2	-2.2	-2.1	2.2	-0.1
Chemical products	0.6	-0.4	-0.3	0.6	0.9	-1.0
Prepared foodstuffs, beverages and tobacco	0.0	-0.3	-0.2	-0.2	0.2	0.0
Agriculture	0.8	0.4	0.2	0.2	0.6	0.2
Of which:						
Vegetable products	0.7	0.5	0.0	0.5	0.7	-0.1
Services	-1.2	-7.0	-1.3	-3.7	0.2	-3.3

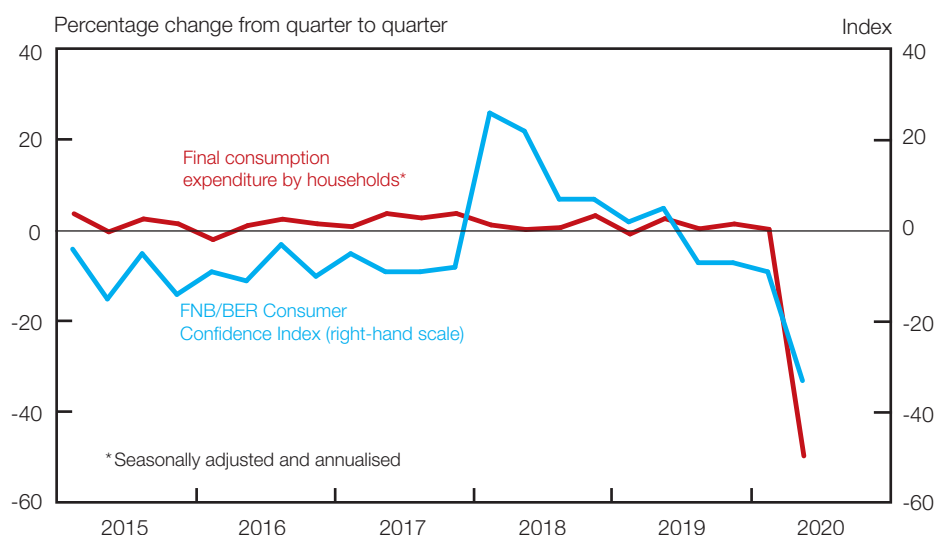
* A positive contribution by imports subtracts from growth and a negative contribution adds to growth. Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB



Households' real *final consumption expenditure* contracted markedly by 49.8% in the second quarter of 2020 following a marginal increase of 0.2% in the first quarter. The sharp decline reflected reduced real outlays on all categories, with spending on durable and semi-durable goods contracting the most as these goods were mostly classified as non-essential during the lockdown. The real disposable income of households also contracted in the second quarter of 2020, as the compensation of employees declined amid job losses and reduced salary payments due to the impact of the national lockdown. Real consumer spending by households contracted by 7.5% from the first half of 2019 to the first half of 2020, consistent with the decline in both consumer confidence and credit extension to households.

Real final consumption expenditure by households and consumer confidence



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	Q2
Durable goods.....	-7.2	8.7	2.2	-0.6	0.6	-6.3	-72.1
Semi-durable goods.....	-11.4	3.7	-1.6	5.6	0.5	-6.4	-87.8
Non-durable goods	-0.2	2.1	-0.2	0.7	1.1	4.3	-48.6
Services	2.6	1.3	0.7	1.4	1.2	-0.2	-29.0
Total	-0.9	2.5	0.3	1.4	1.0	0.2	-49.8

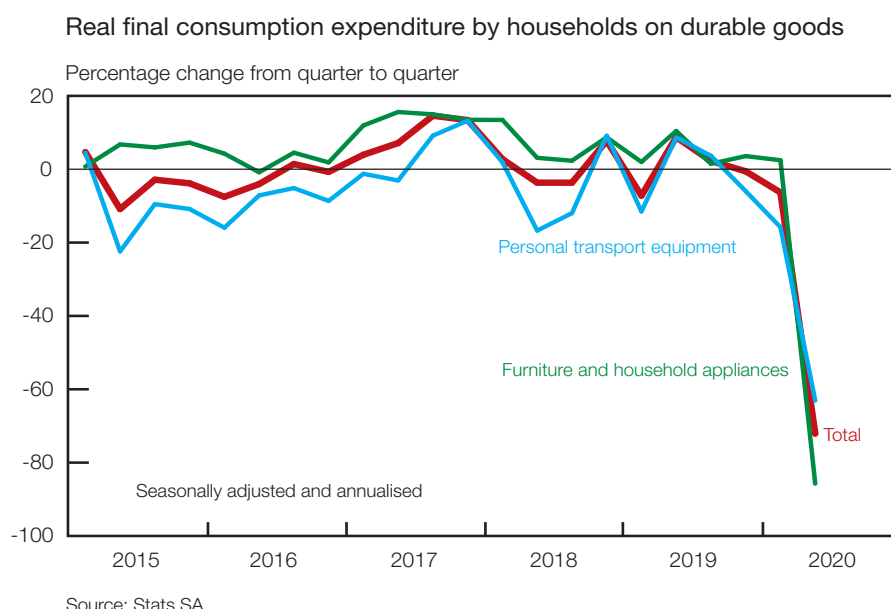
* Percentage change over one year

Source: Stats SA

Real consumption expenditure by households on *durable goods* plummeted by as much as 72.1% in the second quarter of 2020 following a decrease of 6.3% in the first quarter. Contractions occurred in all the durable goods categories, in particular personal transport equipment, furniture and household appliances, computers and related equipment, as well as durable recreational and entertainment goods. Real outlays on motor vehicles shrank notably in the second quarter of 2020 due to the closure of dealerships in April and May as a result of the national lockdown, while consumers spent significantly less on furniture and household appliances due to these products being classified as non-essential.



Real spending on *semi-durable goods* contracted by a substantial 87.8% in the second quarter of 2020 following a decline of 6.4% in the first quarter. Similarly to the other household spending categories, the weakness in semi-durable goods expenditure was broad-based as these goods were mostly classified as non-essential under the lockdown restrictions. Expenditure on clothing and footwear; household textiles, furnishings and glassware; as well as motorcar tyres, parts and accessories fell notably.



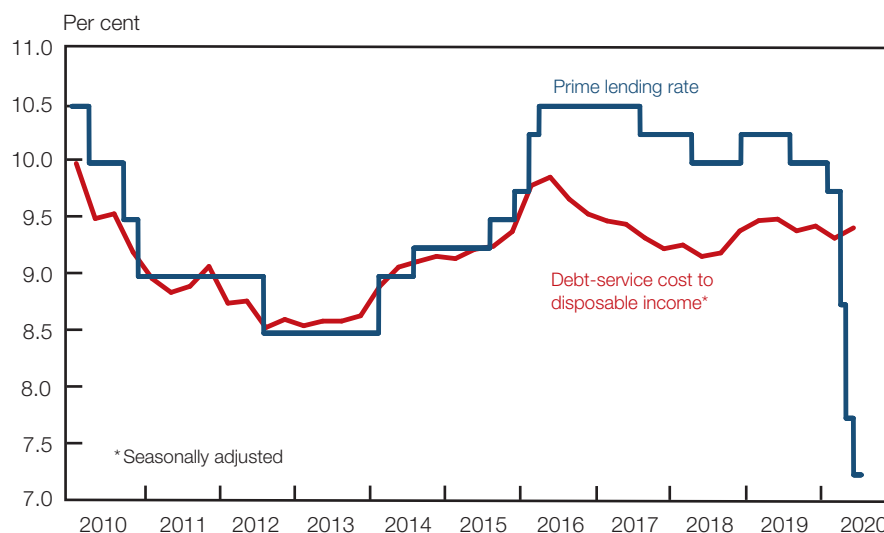
Real outlays on *non-durable goods* contracted by 48.6% in the second quarter of 2020, having increased by 4.3% in the first quarter due to pre-emptive buying ahead of the lockdown. Real spending on non-durable goods subtracted the most from growth in real final consumption expenditure by households in the second quarter of 2020, at 17.9 percentage points. Expenditure on food, beverages and tobacco declined sharply as the sale of tobacco products and alcoholic beverages was not permitted under lockdown regulations. Moreover, real spending in almost all of the other non-durable subcategories also decreased, including on household consumer goods; medical and pharmaceutical products; petroleum products; as well as non-durable recreational and entertainment goods. By contrast, expenditure on household fuel, power and water increased over the period.

Real household spending on *services* declined by 29.0% in the second quarter of 2020 compared with a moderate contraction of 0.2% in the first quarter. Outlays on transport and communication services fell notably, while real spending on most other services subsectors also decreased, including on recreational, entertainment and educational services, rent, household services, and miscellaneous services. Real spending on medical services increased by 8.0% in the second quarter after having decreased in the first quarter. The reduced expenditure on services subtracted 11.3 percentage points from growth in total final consumption expenditure by households in the second quarter of 2020.

Household debt declined in the second quarter of 2020 for the first time since the third quarter of 2002, consistent with a sharp contraction in nominal spending. The outstanding balances of most categories of credit extended to households decreased, probably as the national lockdown affected households' saving and spending patterns. Conversely, the ratio of household debt to nominal disposable income increased significantly from 73.6% in the first quarter of 2020 to 85.3% in the second quarter, as the quarter-to-quarter decline in nominal disposable income exceeded that in household debt. As the slowdown in nominal disposable income growth only marginally exceeded that in debt-service costs, the ratio of debt-service costs to disposable income edged higher from 9.3% in the first quarter of 2020 to 9.4% in the second quarter, notwithstanding the cumulative 275 basis points reduction in the prime lending rate in the first half of the year.



Household debt-service cost and the prime lending rate



Source: SARB

Households' net wealth increased notably in the second quarter of 2020, as the recovery in share prices after the sharp initial correction boosted the value of households' equity portfolios. Consequently, the ratio of households' net wealth to nominal disposable income increased to 413.4% in the second quarter of 2020, from 324.4% in the first quarter.

Box 1 Methodology underlying the compilation of the household sector balance sheet¹

The methodology to compile the household sector² balance sheet within the framework of the *System of National Accounts (SNA)*³, as well as the derived statistics and ratios of households' financial position, are discussed and analysed in this box.

The household sector balance sheet is compiled mainly from counterpart statistics of all the other institutional sectors that households transact with, rather than from surveyed data, and renders the all-important aggregate household debt statistic. The accompanying table and notes provide a walk-through of the household sector balance sheet, and how net wealth/worth⁴ and net financial wealth⁵ are derived.

Households' holdings of non-financial assets accounted for 35% of total assets in 2019, with the remaining almost two-thirds in financial assets dominated by vested interest in pension funds and long-term insurers.

Other debt accounted for just more than half of households' total liabilities in 2019, and mortgage loans made up the balance, their share receding to below 50% from 2015 onwards.

1 This box relates to the statistics of the household sector balance sheet on page S-136, credit extended by monetary institutions on page S-22, and the financial account on pages S-48 and S-49 in this edition of the *Quarterly Bulletin*. This box also follows the one on 'Household wage and income statistics' in the March 2020 *Quarterly Bulletin* and the one on the 'Methodology underlying the compilation of household saving and net lending/borrowing' in the December 2019 *Quarterly Bulletin*.

2 The household sector comprises an individual or a group of individuals, inclusive of unincorporated enterprises (i.e. not a separate legal entity from the owner) and non-profit institutions serving households (NPISHs), which are not predominantly financed or controlled by government and which provide goods or services to households free of charge or at prices that are not economically significant.

3 The compilation of South Africa's national accounts adheres to the guidelines of the *System of National Accounts 2008 (2008 SNA)* as the international standard for the measurement of economic activity. See <https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

4 Net wealth/worth is calculated as total assets (financial and non-financial) *minus* total liabilities.

5 Net financial wealth is calculated as total financial assets *minus* total liabilities.



Household sector balance sheet

	2019 R billions	Percentage of total
Non-financial assets^a	4 650	35
Residential buildings ^b	2 935	22
Other non-financial assets ^c	1 714	13
Financial assets	8 758	65
Assets with monetary institutions ^d	1 372	10
Interest in pension funds and long-term insurers ^e	4 596	34
Other financial assets ^f	2 790	21
Total assets	13 408	100
Total liabilities^g	2 278	100
Mortgage advances ^h	1 072	47
Other debt ⁱ	1 206	53
Net wealth/worth	11 131	
Total liabilities and net wealth/worth	13 408	
Memo items		
Net financial wealth	6 480	
Net wealth, including durable consumer goods ^j	11 916	

Notes to table

- a Produced assets (i.e. fixed assets, inventories and valuables) and non-produced assets (i.e. natural resources) at market value.
- b Residential buildings and low-cost housing (i.e. Reconstruction and Development Programme (RDP) houses). The capital stock of dwellings at constant prices is derived through the perpetual inventory method (PIM)¹ and adjusted with an average house price index².
- c The market value of non-residential buildings is estimated using capital stock at constant prices and adjusted with a derived non-residential price index³. The value of other structures (construction works); transport equipment; information, computer and telecommunications equipment; machinery and equipment; computer software; and cultivated biological resources is calculated using the same method as for residential buildings and adjusted with appropriate price indices, while the book value of inventories of unincorporated business enterprises is sourced from Statistics South Africa (Stats SA). The value of agricultural land is obtained from the Department of Agriculture, Forestry and Fisheries. Land underlying buildings is measured as the average ratio of the book value of the land relative to the purchase price of buildings, excluding the value of the land, for the various industries.
- d Households' holdings of currency as well as deposits with banks, mutual banks, Postbank, and the Land and Agricultural Development Bank of South Africa. It is assumed that households hold 70% of notes and coin in circulation outside of the monetary sector.
- e Households' interest in the accumulated funds of official pension and private self-administered pension and provident funds, as well as the technical reserves of long-term insurers.⁴
- f The value of short- and long-term debt securities is derived from the flow-of-funds statistics⁵ according to the methodology of Aron and Muellbauer (2006a).⁶ The value of RSA retail saving bonds is obtained from National Treasury, while long-term foreign securities are sourced from the biannual *Coordinated Portfolio Investment Survey (CPIIS)*. The value of listed equity is derived from a flow-of-funds accumulation from a base value, with the FTSE/JSE All-Share Price Index (Alsi) used to derive market value. The holdings of unlisted shares are estimated as a ratio of listed shares. Foreign shareholding is sourced from the *CPIIS*. Investment fund shares/units in money market and non-money market funds include both unit trusts and participation bond schemes.
- g A liability is established when a household is obliged, under specific circumstances, to provide a payment to a creditor.
- h House and farm loans at monetary institutions, securitised mortgages, as well as mortgage loans at non-bank financial institutions.
- i Personal loans; credit card debt; instalment sale credit; leasing finance; overdrafts; student loans; open accounts at buy-aids; securitisation transactions on retail trade, motor trade and other loans; and other accounts, including debt at local authorities.
- j Consumer durables are classified as expenditure and not as assets. See the 2008 SNA, page 269, paragraph 13.93.

1 The PIM constructs estimates of capital stock and consumption of fixed capital from gross fixed capital formation.

2 The weighted quarterly average house price index is derived from Standard Bank and First National Bank's house prices, and, prior to the third quarter of 2016, also from the Absa monthly average house price index.

3 This index is calculated from the rental values and capitalisation rates of industrial buildings and offices, obtained from Rode and Associates, and of shopping centres, obtained from Morgan Stanley Capital International (MSCI).

4 See pages S-39 and S-43 in this edition of the *Quarterly Bulletin* for the related statistics.

5 The national financial account statistics can be found on page S-49 in this *Quarterly Bulletin*.

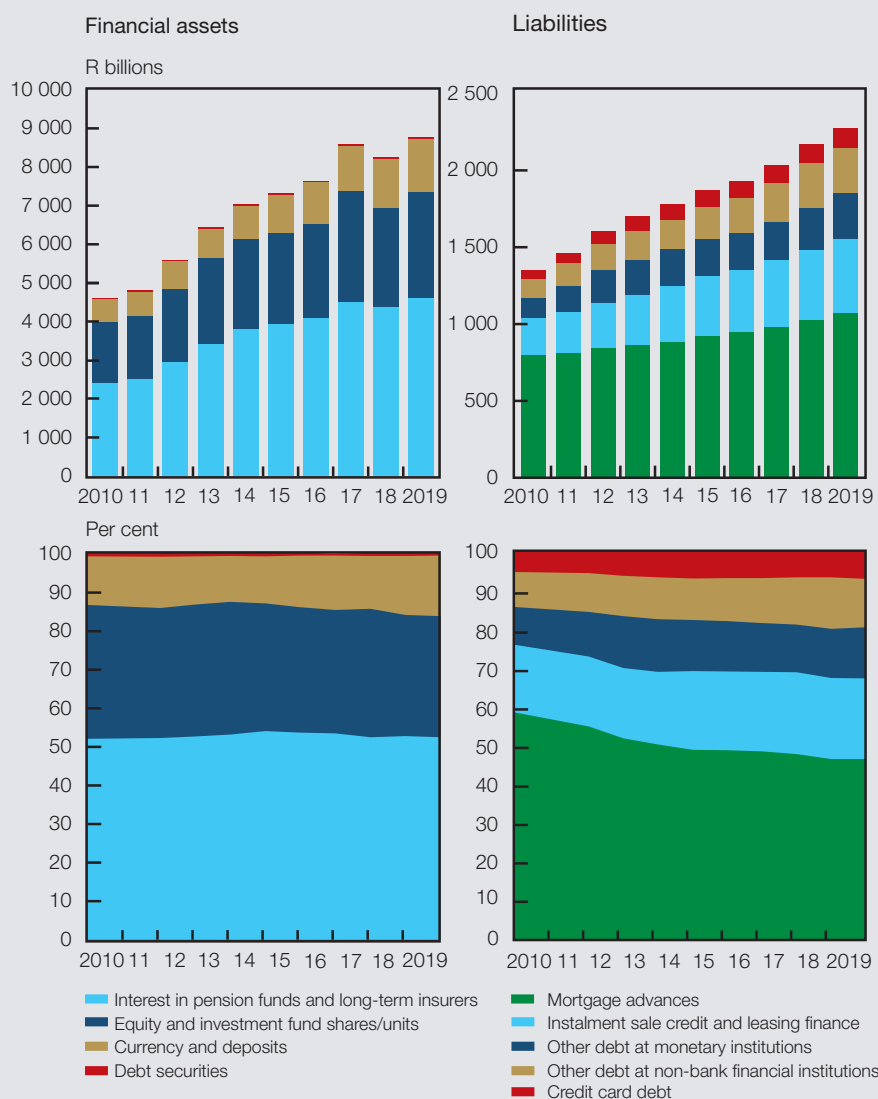
6 Aron, J and Muellbauer, J. 2006a. 'Estimates of household sector wealth for South Africa, 1970-2003'. *Review of Income and Wealth*, Vol. 52, No. 2: 285-308. International Association for Research in Income and Wealth, June.

Source: SARB





Composition of financial assets and liabilities



Source: SARB

Over the past 10 years, households sourced about 78% of their funds, on average, from monetary institutions, but with a declining trend: from almost 82% in 2010 to 76% in 2019. In contrast, debt acquired from non-bank financial institutions, which accounted for the difference, increased over this period. Monetary institutions provided 94% of mortgage advances and 62% of other debt, on average, between 2010 and 2019. In 2019, these institutions provided 94% of mortgage advances, 62% of instalment sale credit and leasing finance, and 46% of other loans and open accounts to households.

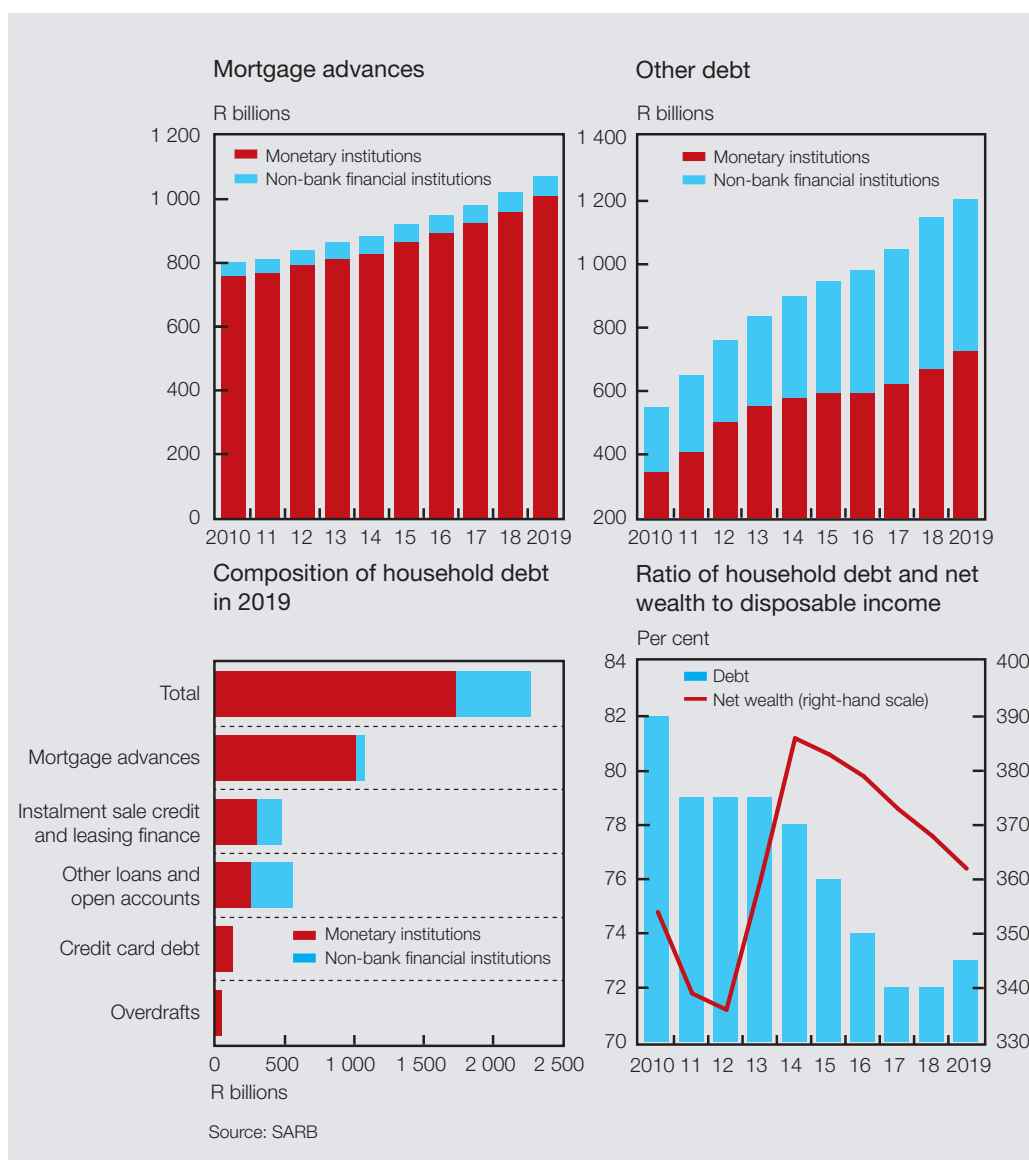
The financial position of the household sector can be assessed through various ratios, of which debt and net wealth/worth as a percentage of net disposable income⁶ are the two most frequently used. The household debt-to-disposable income ratio⁷ amalgamates debt in the balance sheet and income in the production, distribution and accumulation account as a measure of indebtedness, defined as the outstanding stock of debt relative to a year's income. The household net-wealth-to-disposable-income ratio⁸ reflects the number of times that the value of total assets *minus* liabilities exceeds a year's total income.

6 Net disposable income is the total available household resources *minus* the imputed consumption of fixed capital (depreciation). Total available household resources are calculated as gross disposable income after adjustment for the change in pension entitlements and the residual. See 'Box 1: Household wage and income statistics' in the March 2020 edition of the *Quarterly Bulletin*. See also the production, distribution and accumulation account of households on page S-134 in this *Quarterly Bulletin*.

7 For the ratio of household debt to disposable income, see page S-156 in this *Quarterly Bulletin*.

8 For the ratio of household net wealth to disposable income, see page S-156 in this *Quarterly Bulletin*.



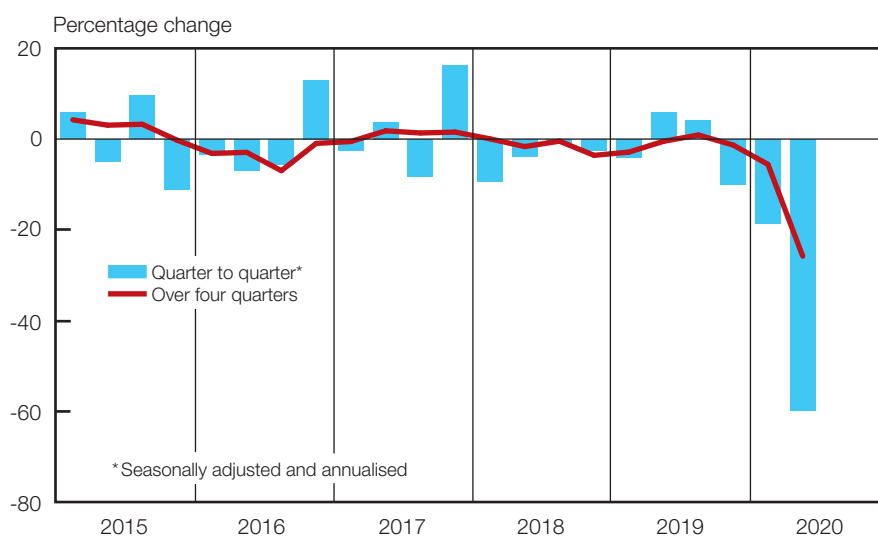


The real *final consumption expenditure by general government* declined by 0.9% in the second quarter of 2020 from an increase of 1.8% in the first quarter, as both real payments on the compensation of employees and outlays on non-wage goods and services contracted. The decreased real spending reflected government's effort to contain expenditure, which remained constrained by limited fiscal space and the high public sector wage bill. The level of total government expenditure in the first half of 2020 was 0.9% higher compared with the corresponding period in 2019.

Real *gross fixed capital formation* contracted by a further 59.9% in the second quarter of 2020 following a contraction of 18.6% in the first quarter. This was the largest quarterly contraction in real gross fixed capital formation on record, much larger than the previous record of 43.8% in the first quarter of 1986 following the debt standstill agreement and intensified sanctions imposed on South Africa in the previous year. Real capital investment by both the private sector and public corporations declined steeply in the second quarter, while capital spending by general government decreased slightly. The protracted decline in fixed capital investment reflected an already fragile business environment amid weak business confidence, political uncertainty, and constrained public sector budgets. The downward trend was compounded by the national lockdown, and culminated in the level of capital outlays in the first half of 2020 being 15.9% lower than in the corresponding period in 2019.



Real gross fixed capital formation



Source: Stats SA

Real gross fixed capital formation

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

Sector	2019					2020	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	-8.4	16.0	9.5	-10.3	1.1	-22.7	-62.4
Public corporations.....	16.3	-12.0	0.7	-0.3	-1.6	-13.1	-81.7
General government.....	-2.2	-16.3	-15.6	-17.6	-8.9	-2.2	-0.2
Total	-4.1	5.8	4.1	-10.0	-0.9	-18.6	-59.9

* Percentage change over one year

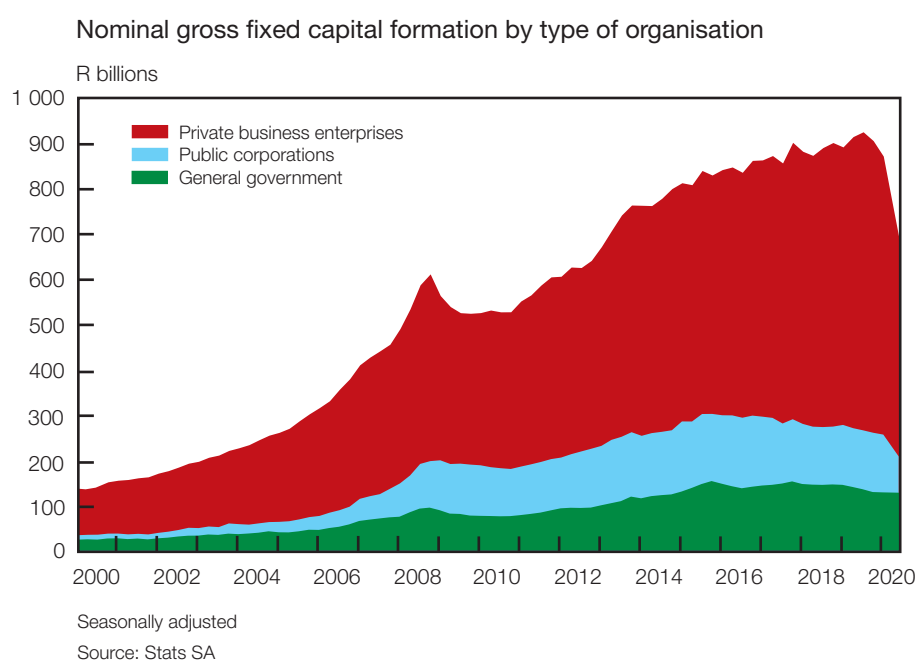
Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* contracted further by 62.4% in the second quarter of 2020 following declines of 22.7% and 10.3% respectively in the previous two quarters. The decrease in the second quarter was broad-based and the largest on record, and subtracted 44.8 percentage points from growth in total gross fixed capital formation. Reduced spending on transport equipment was especially pronounced as new vehicle sales plummeted to an all-time low in April 2020, with dealerships not allowed to operate under level 5 of the lockdown restrictions. The share of private business enterprises in total nominal gross fixed capital formation declined further, from 70.2% in the first quarter of 2020 to 69.5% in the second quarter, despite a marked decline in fixed investment by the public sector over the period.

Real gross fixed capital formation by the *public sector* also decreased in the second quarter of 2020, weighed down by a substantial contraction in capital investment outlays by especially *public corporations*. Real capital spending by public corporations declined further by a notable 81.7% in the second quarter and subtracted 15.1 percentage points from growth in total gross fixed capital formation following a decline of 13.1% in the first quarter. Infrastructure projects were delayed and interrupted by inaccessible project sites and restrictions on the use of essential amenities such as transport during the national lockdown. A significant increase in capital outlays on construction works by the electricity subsector was outweighed by lower capital expenditure on all the other asset types, particularly non-residential buildings,



transport equipment as well as machinery and equipment. Real capital expenditure by *general government* contracted by 0.2% in the second quarter of 2020 following a decline of 2.2% in the first quarter. Construction services partially resumed under lockdown level 4 and boosted capital outlays on construction works by all three spheres of government. Capital expenditure by general government was further driven by increased demand for computer equipment as well as computer software during the lockdown as work-from-home practices were introduced. However, increased capital spending on these assets was not enough to counter lower capital outlays by general government on other assets. The share of general government in total nominal gross fixed capital formation increased further to 18.4% in the second quarter of 2020 from 14.7% in the first quarter.



Real gross fixed capital expenditure contracted across all asset classes in the second quarter of 2020, except for other assets³, with the lockdown exacerbating the already existing negative trends. Real gross fixed capital investment in non-residential buildings declined for the eighth consecutive quarter, while real spending on construction works and residential buildings contracted for a seventh and fourth consecutive quarter respectively. Similarly, capital expenditure on machinery and equipment as well as on transport equipment declined for three consecutive quarters up to the second quarter of 2020.

³ Other assets include research and development, computer software, mineral exploration and cultivated biological resources.

Box 2 Unpacking gross fixed capital formation in South Africa¹

Gross fixed capital formation is an important macroeconomic aggregate in the construct of the *System of National Accounts 2008 (2008 SNA)*². This box showcases the various dimensions of the gross fixed capital formation statistics through a long-term analysis.

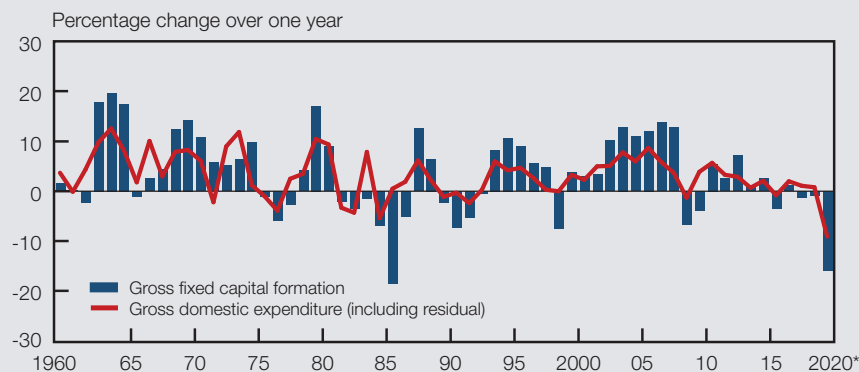
Growth in real gross fixed capital formation is an important driver of growth in real gross domestic expenditure and a major contributor to growth in real gross domestic product (GDP). The contraction in real gross fixed capital formation since 2018 has been exacerbated by the national lockdown aimed at curbing the spread of the coronavirus disease 2019 (COVID-19), which has contributed to the largest contraction on record in real gross fixed capital formation in the first half of 2020.

¹ This box relates to the statistics on gross fixed capital formation on pages S–120 to S–126 of this *Quarterly Bulletin*.

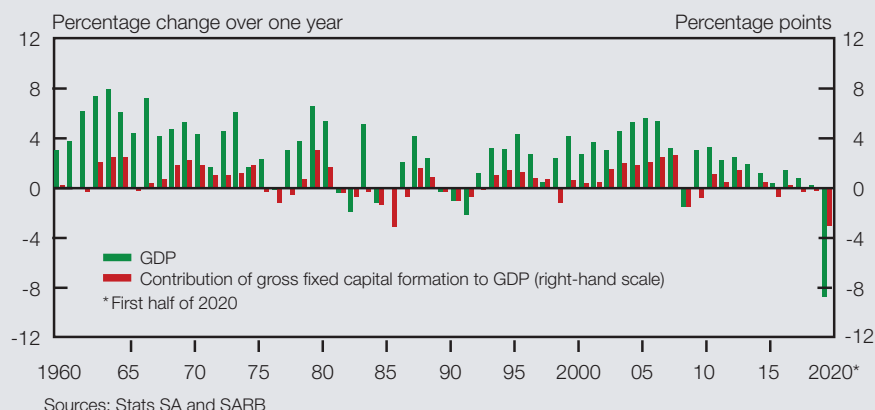
² The compilation of South Africa's national accounts adheres to the guidelines of the *System of National Accounts 2008 (2008 SNA)* as the international standard for the measurement of economic activity. See <https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>



Real gross domestic expenditure



Real gross domestic product

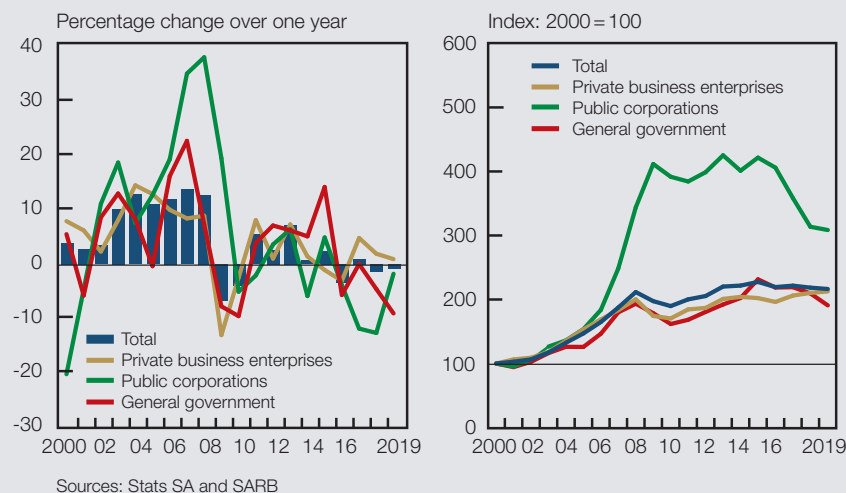


Sources: Stats SA and SARB

The contribution of gross fixed capital formation to GDP has declined significantly over time. The ratio of gross fixed capital formation to nominal GDP declined from 32.1% in 1976 to 15.2% in 2002. The ratio then increased to 23.5% in 2008 in the wake of the longest business cycle upswing on record, along with average growth of 7.4% per annum in real gross fixed capital formation during the 2000s. However, the ratio of gross fixed capital formation to GDP fell again to 17.9% in 2019 and further to 16.2% in the second quarter of 2020 – below its average of 18.3% during the 1990–2019 period – with average annual growth in real gross fixed capital formation of only 0.9% since 2010.

Weak growth, and at times contractions, in real gross fixed capital formation since 2009 reflects the slower pace of investment by all three institutional sectors: private business enterprises, public corporations and general government. Annual average growth in real capital outlays by all three of these sectors, in the sequence just indicated, slowed substantially from the 2000–2009 period to the 2010–2019 period: from 6.5% to 2.0%, from 12.6% to -2.8%, and from 6.6% to 0.7% respectively.

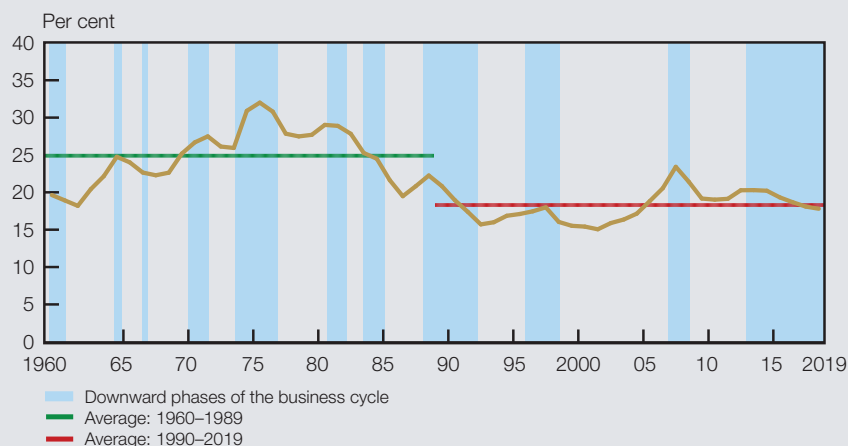
Real gross fixed capital formation by institutional sector



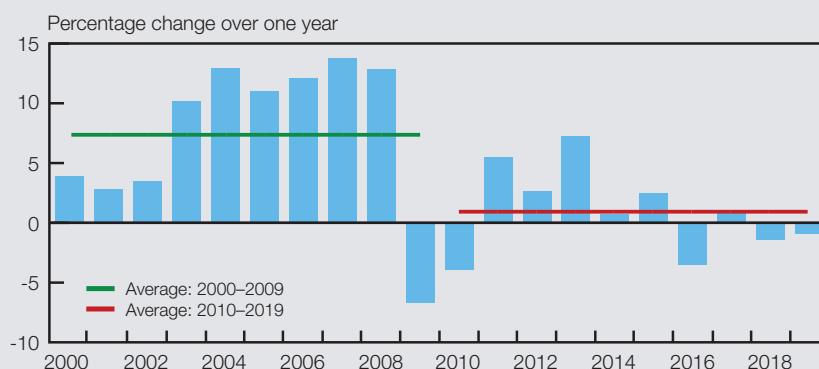
Sources: Stats SA and SARB



Gross fixed capital formation as a ratio of gross domestic product



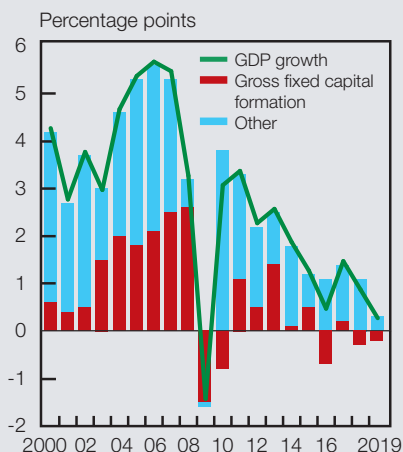
Real gross fixed capital formation



Sources: Stats SA and SARB

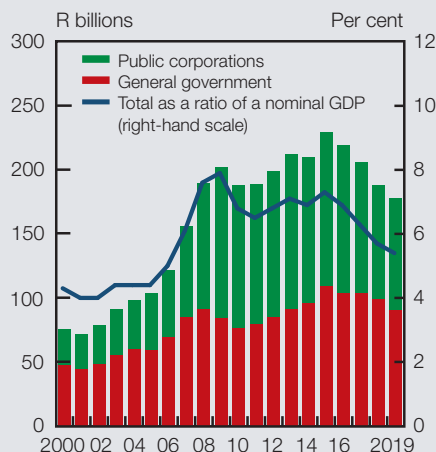
The significant contribution of gross fixed capital formation, as part of the expenditure components, to growth in real GDP waned after the global financial crisis, and subtracted from real GDP growth in three of the four years since 2016. Although the global financial crisis contributed to a contraction in fixed investment in South Africa, this was mitigated to some extent by substantial public infrastructure spending on residential buildings, the Gautrain project, the upgrading of the South African Airways (SAA) fleet as well as the commencement of Eskom's capacity expansion programme. The sustained spending by public corporations, and in particular the commencement of construction of renewable energy infrastructure, contributed to annual growth in real GDP in 2011 and 2012, and even more so in 2013.

Contribution of expenditure components to growth in real gross domestic product



Sources: Stats SA and SARB

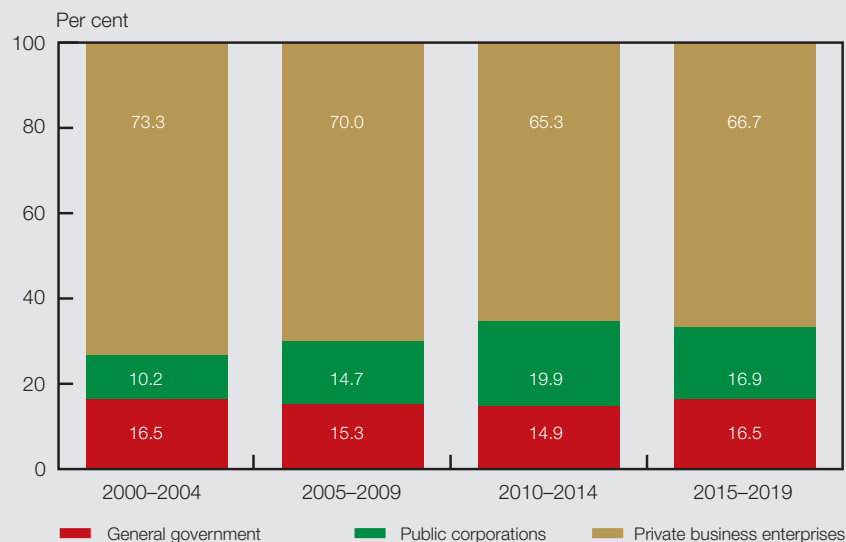
Real gross fixed capital formation by the public sector





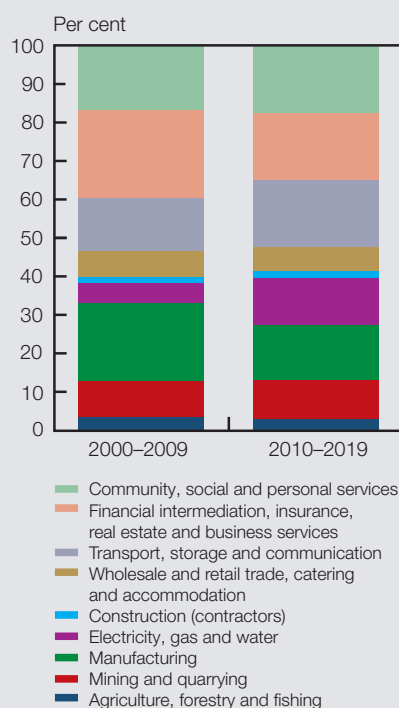
Real gross fixed capital formation by the public sector, both public corporations and general government, has contracted since 2016 due to underspending on the infrastructure budget, delays in the awarding of contracts and completion of infrastructure projects, the lack of financial sustainability of some state-owned companies (SOCs) as well as governance issues. As a consequence, capital spending by the public sector relative to nominal GDP declined from 7.3% in 2015 to only 5.4% in 2019.

Contribution to nominal gross fixed capital formation by type of institution

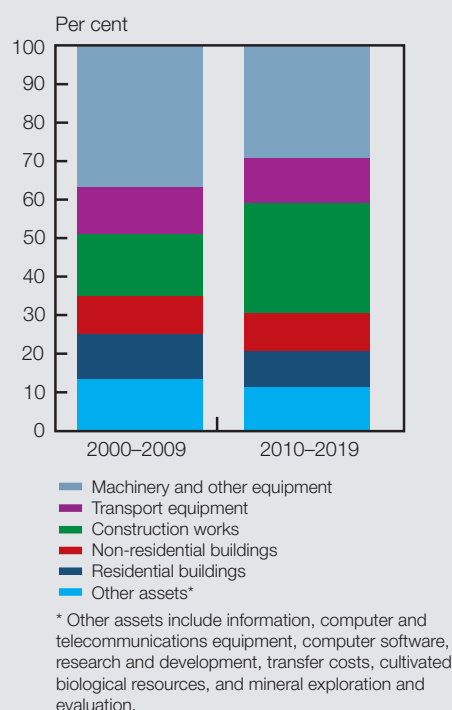


The contribution to gross fixed capital formation by institutional sector has nevertheless shifted gradually from private business enterprises to public corporations since the early 2000s. The decline in the share of private capital investment spending from 73.3% during the 2000-2004 period to 66.7% during the 2015-2019 period coincided with the reduced share of capital investment by the manufacturing sector. In contrast, the share of investment spending by public corporations in total capital investment increased from 10.2% to 16.9% between the same periods.

Contribution to nominal gross fixed capital formation by industry



Contribution to nominal gross fixed capital formation by asset



The slower growth in real capital spending since the global financial crisis also coincided with a structural change in investment spending related to the kind of economic activity, as depicted by the different industries. The contribution of the manufacturing industry to total gross fixed capital formation, which declined from 20.1% during the 2000–2009 period to 14.3% during the 2010–2019 period, does not bode well for industrialisation in South Africa. This is the largest decrease in the relative contribution of any industry to gross fixed capital formation, followed by the financial intermediation, insurance, real estate and business services industry. The latter reflected a decline in the contribution of investment in residential buildings to gross fixed capital formation, from 11.6% during the 2000–2009 period to 9.3% during the 2010–2019 period.

The change in the asset structure of gross fixed capital formation also reflects the declining share of investment spending on machinery and other equipment, from 36.8% during the 2000–2009 period to 29.4% during the 2010–2019 period. In contrast, the share of fixed investment in the electricity, gas and water industry increased markedly, specifically on construction works. The share of construction works in total investment increased from 16.0% during the 2000–2009 period to 28.5% during the 2010–2019 period. Despite this significant increase in investment spending, the country remains subject to frequent instances of electricity load-shedding.

When focusing on the period since 2010, machinery and other equipment contributed 0.3 percentage points to annual growth in real gross fixed capital formation, on average, during the 2010–2014 period, and subtracted to the same extent during the 2015–2019 period. Similarly, transport equipment and construction works contributed, on average, 1.0 and 0.6 percentage points respectively to the annual growth in total real gross fixed capital formation during the 2010–2014 period, before each subtracted 0.2 percentage points, on average, since 2015.

Contributions to growth in real gross fixed capital formation by asset type

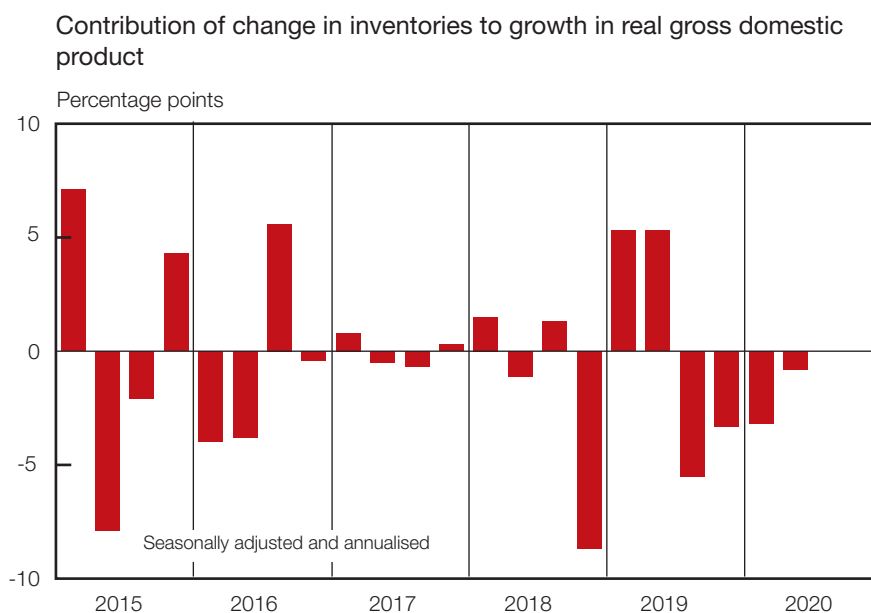
Percentage points

Asset type	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Residential buildings	-2.1	-0.4	0.1	0.4	0.8	0.5	-0.4	0.2	-0.3	-0.3
Non-residential buildings	-0.4	-0.8	-0.1	0.1	0.7	-0.4	0.2	-0.7	-0.3	-1.0
Construction works	-2.2	1.5	-0.3	3.1	0.7	0.2	-0.8	-0.1	0.0	-0.2
Transport equipment	0.7	1.4	1.4	2.1	-0.7	1.0	-1.0	0.1	-0.7	-0.5
Machinery and other equipment	0.2	3.0	-0.2	0.0	-1.4	0.3	-2.2	1.2	-1.5	0.4
Other assets*	-0.1	0.9	1.6	1.6	0.7	0.9	0.6	0.4	1.4	0.8
Total	-3.9	5.5	2.6	7.2	0.7	2.5	-3.5	1.0	-1.4	-0.9

* Other assets include information, computer and telecommunications equipment, computer software, research and development, transfer costs, cultivated biological resources, and mineral exploration and evaluation.

Source: Stats SA

Real inventory holdings decreased further by R74 billion (at annualised 2010 prices) in the second quarter of 2020 – a fourth successive quarterly decline – and the largest ever recorded. The closure of most mines and manufacturing plants, particularly during the early stages of the nationwide lockdown, prohibited production activity, which led to the de-stocking of inventories in most sectors of the economy to fulfill existing commitments, alongside notable declines in the imports and exports of goods and services.



Source: Stats SA

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) declined markedly to 10.7% in the second quarter of 2020, from 15.8% in the first quarter. Increased dissaving by general government outweighed the increase in saving by corporate business enterprises and households. All saving ratios were largely influenced by the unprecedented contraction in nominal GDP in the second quarter of 2020. The share of total gross capital formation financed through foreign capital (i.e. the foreign financing ratio) increased to 18.4% in the second quarter of 2020.

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	Q2
Corporate.....	13.9	12.8	13.4	13.1	13.3	16.1	18.0
General government.....	-0.6	0.9	-0.4	0.2	0.0	-1.8	-9.1
Household.....	1.3	1.2	1.3	1.2	1.2	1.5	1.8
Total.....	14.6	14.9	14.2	14.6	14.6	15.8	10.7

Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 16.1% in the first quarter of 2020 to 18.0% in the second quarter, mainly due to lower interest and dividend payments, after accounting for seasonal variations. The saving rate of *general government*



deteriorated markedly from a dissaving of 1.8% in the first quarter of 2020 to a dissaving of 9.1% in the second quarter. Government's seasonally adjusted nominal expenditure increased while revenue decreased notably across all major tax categories. Gross saving by the *household sector* as a percentage of GDP increased to 1.8% in the second quarter of 2020 from 1.5% in the first quarter. Household saving reflected a decrease in nominal consumption expenditure which exceeded that in nominal disposable income.

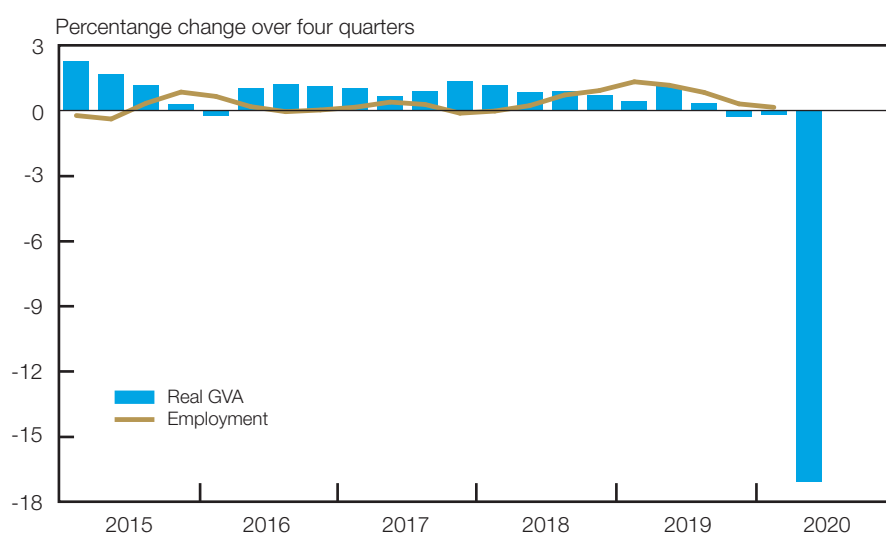
Employment⁴

Enterprise-surveyed⁵ *formal non-agricultural employment* increased by 10 500 (an annualised 0.4%) in the first quarter of 2020 after two successive quarters of labour paring. This raised the level of such employment to an estimated 10.23 million. These additional jobs were mostly created in the public sector, with only marginal job gains in the private sector. This occurred in the midst of an economic recession that had already started in the third quarter of 2019.

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

5 This is according to Stats SA's QES survey.

Formal non-agricultural employment and output



Sources: Stats SA and SARB

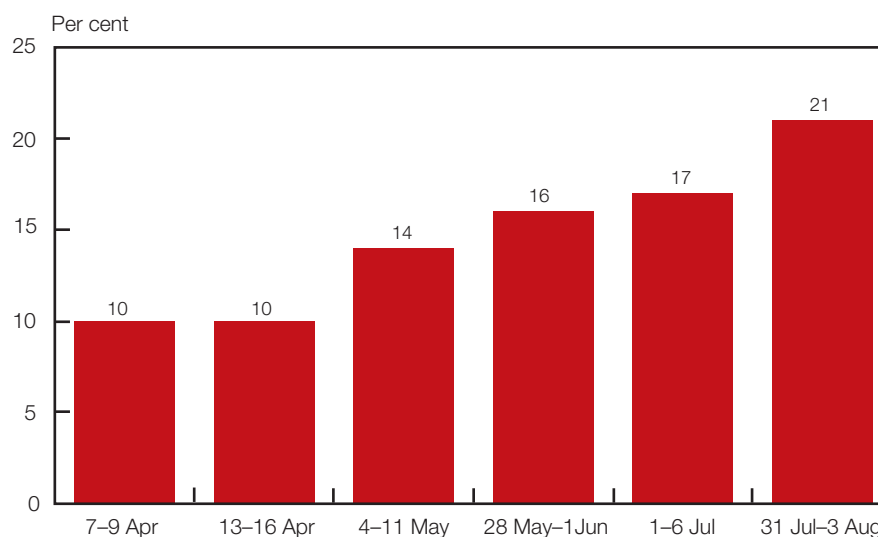
Employment in the second quarter of 2020 is expected to have been severely affected by the lockdown restrictions as economic activity was arrested and businesses experienced increased financial strain. Also, with employment generally lagging the business cycle, the marked contraction in output in the second quarter could imply a continuation of job losses after COVID-19 as it spills over into bankruptcies and permanent business closures as well as corporate restructuring.

A TransUnion report⁶ released on 12 August 2020 shows a marked deterioration in household finances during the lockdown. Respondents indicated that 89% of them were concerned about their ability to honour financial commitments and 77% stated that their finances had been negatively affected by COVID-19, while 21% had lost their jobs. Most concerning is the rising percentage of respondents in subsequent waves of the survey who indicated that they had lost their jobs.

6 See 'The COVID-19 pandemic's financial impact on South African consumers', available at <https://content.transunion.com/v/financial-hardship-report-sa-wave-six>



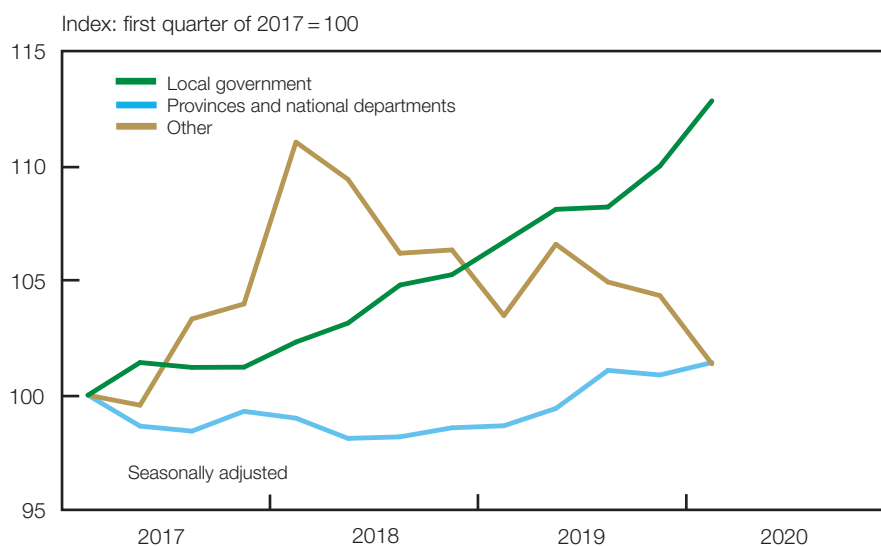
Proportion of respondents indicating job losses



Source: TransUnion

Public sector employment increased by an annualised 1.1% (and by 3.0% when excluding temporary election-related employment) in the first quarter of 2020. This largely reflected steady growth in the Expanded Public Works Programme (EPWP) at local government level. Provincial and national departments also increased their staff complement, while labour paring at other public sector enterprises and the government transport, storage and communication services sector continued. The latter reflected job shedding by ailing state-owned companies (SOCs) and the constrained fiscal situation in South Africa.

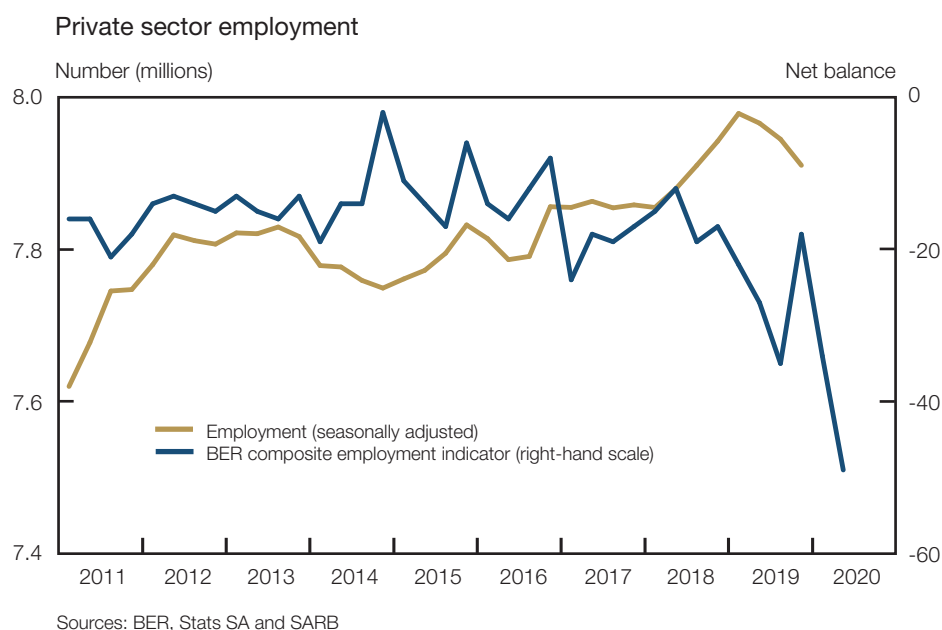
Public sector employment



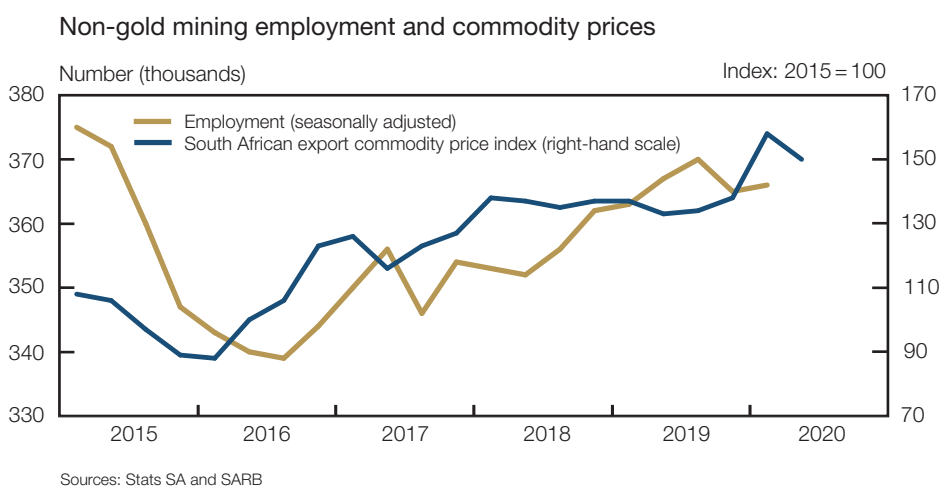
Sources: Stats SA and SARB

Private sector employment increased by a mere 4 300 in the first quarter of 2020 following three successive quarters of decline. The private services sectors created 31 600 jobs in the first quarter, mostly in the trade and business services not elsewhere classified. However, job losses persisted in the beleaguered goods-producing sectors as 27 300 jobs were shed in construction and manufacturing. The lockdown-induced disruption to economic activity could contribute to further job losses in these sectors in the quarters ahead. This possibility is corroborated by the Bureau for Economic Research's (BER) composite employment indicator⁷, which points to a sharp decrease in private sector employment in the second quarter of 2020.

⁷ This indicator represents the average net balance of the number of workers in the manufacturing, building as well as retail and wholesale trade sectors, as surveyed by Stellenbosch University's BER.

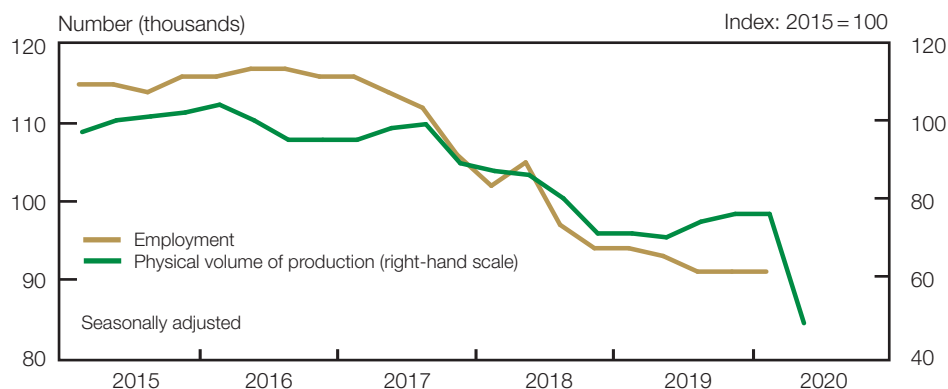


Employment in the *mining sector* increased somewhat in the first quarter of 2020, but not by enough to recoup the losses of the preceding quarter. The non-gold mining sector contributed the most to the increase, as the only goods-producing sector to have created additional jobs over the past 18 months. This was possibly a lagged response to the earlier increase in international commodity prices and the depreciation in the exchange value of the rand. The 360 new jobs created in the gold mining sector in the first quarter were not enough to stem the persistent year-on-year contraction of the past three years along with the structural decline in South African gold production.





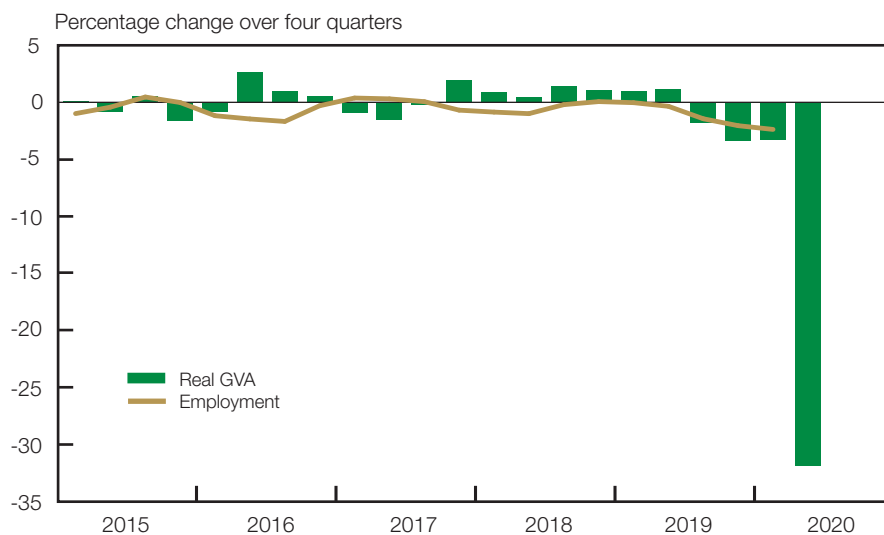
Gold mining employment and output



Sources: Stats SA and SARB

The *manufacturing sector* shed 31 700 jobs in the year to the first quarter of 2020, consistent with both weak demand and output as well as sustained underlying depressed sentiment. Given the COVID-19 lockdown measures, manufacturing business confidence plummeted to an all-time low of 6 index points in the second quarter of 2020 from an already low 17 index points in the first quarter. Respondents indicated that domestic and export demand plunged to record-low levels in the second quarter. This, together with insufficient demand surpassing the political climate as a more serious constraint for the first time since 2014, was reflected by record-low production and employment indicators. Respondents also reported record-low fixed investment outlays and expected further declines. In addition, the return of electricity load-shedding is expected to further limit the pace of economic recovery, while closures are likely to result in a permanent loss of manufacturing capacity and weaker employment prospects.

Manufacturing sector employment and output



Sources: Stats SA and SARB

The protracted recession in the *construction sector* resulted in an additional loss of around 21 700 jobs in the first quarter of 2020. Measured over four quarters, construction sector employment decreased for the 14th successive quarter up to the first quarter of 2020. This reflected a challenging operating environment even well before the outbreak of the COVID-19 pandemic. The *First National Bank (FNB)/BER Building Confidence Index* fell to an all-time low of 4 in the second quarter of 2020 from an already depressed 13 in the first quarter, reflecting the impact of the lockdown restrictions. Building activity is likely to remain under pressure going forward, as many contractors have indicated the ‘lack of new demand for building work’ as a constraint. Similarly, the *FNB/BER Civil Confidence Index*, which has been on a gradual upward trajectory since the beginning of 2019, fell to an all-time low of 5 in the second quarter of 2020 from 24 in the first quarter. Encouragingly, the BER has noted that the proposed infrastructure-led initiatives aimed at stimulating a post-COVID-19 economic recovery could boost construction activity and confidence over the medium term.

Job creation in the private services sectors, which continued to support total private sector employment in the first quarter of 2020, could fade substantially in the quarters ahead following the severe disruption to economic activity in the second quarter. The trade, catering and accommodation services sector could bear the bulk of retrenchments due to the prolonged period of time during which restaurants were unable to operate fully and travel restrictions remained in place. The *finance, insurance, real estate and business services sector* created around 17 000 employment opportunities in the first quarter of 2020 following job shedding during the previous two quarters. Further job losses could occur in the business services not elsewhere classified subsector given the prevalence of limited and unspecified duration contracts.

Employment in the *trade, catering and accommodation services sector* increased in the first quarter of 2020, more than compensating for the losses in the previous quarter. However, following the outbreak of the pandemic and subsequent lockdown restrictions, retailer clientele decreased and retailer business confidence⁸ dropped to a 29-year low of 11 in the second quarter of 2020 from 18 in the first quarter. This occurred in addition to a downward trend in confidence since the first quarter of 2014 amid sustained weak consumer demand. Sales of essential non-durable goods averted a total collapse in retailer confidence. The gradual lifting of the lockdown restrictions and subsequent resumption of economic activity will most likely lift confidence and support a recovery in sales. However, the pace of recovery to pre-lockdown levels could be slow as households’ ability and willingness to spend have been severely impacted. These conditions could dampen the prospects for employment opportunities in the retail environment.

8 As measured by the BER’s *Retail Survey*.

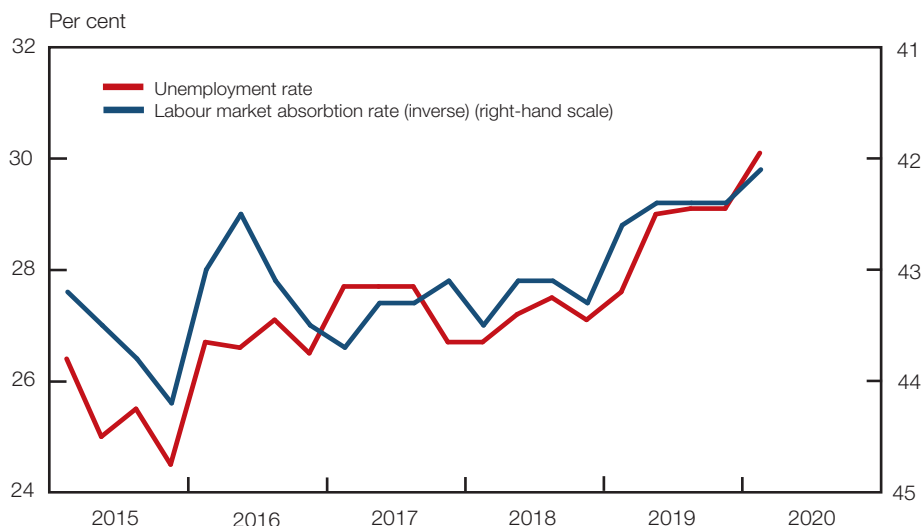
The release of Statistics South Africa’s (Stats SA) household-based *Quarterly Labour Force Survey* for the second quarter of 2020 has been delayed following national lockdown-related logistical and methodological complications. In the first quarter of 2020, total household-surveyed employment decreased by 38 000 from the fourth quarter of 2019 to a level that was still 91 000 (or 0.6%) more than in the first quarter of 2019, resulting in total employment of approximately 16.38 million.

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. This increase reflected a substantial surge in the number of new and re-entrants into the labour market who failed to find employment. The official unemployment rate thus 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). This reflected the economic recession that had commenced in the third quarter of 2019, while the COVID-19 pandemic is expected to result in a further marked increase in the unemployment rate from the second quarter onwards. Conversely, the labour market absorption rate declined from 43.7% in the first quarter of 2017 to 42.1% in the first quarter of 2020, as the economy was increasingly unable to absorb the number of new entrants into the labour market.





Official unemployment rate and labour market absorption rate

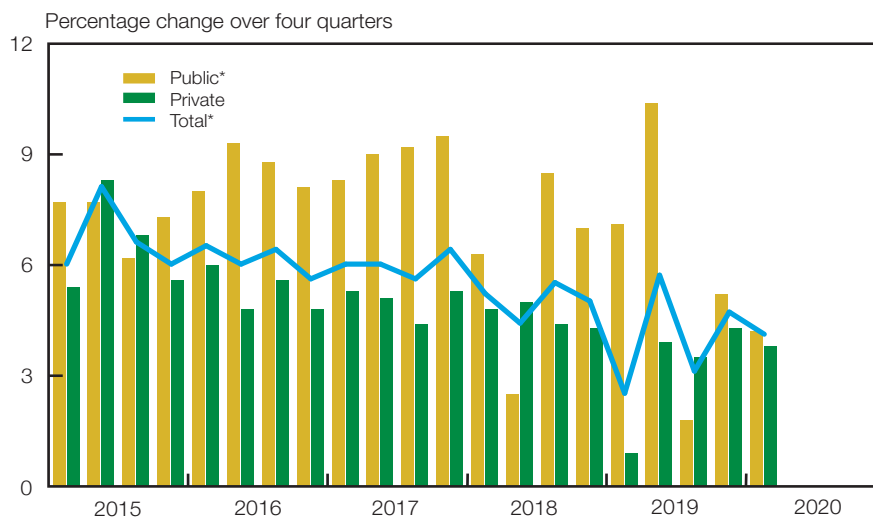


Source: Stats SA

Labour cost and productivity

Growth in the *formal non-agricultural nominal remuneration per worker* was restrained by recessionary conditions and a weak labour market. The year-on-year pace of growth in nominal remuneration per worker slowed from 4.7% in the fourth quarter of 2019 to 4.2% in the first quarter of 2020 – well below the long-run average of 9.4% since 1980. Remuneration growth per worker moderated in both the public and the private sectors in the first quarter. The combination of COVID-19-induced salary reductions, lower salary increases or even wage freezes, as well as significantly lower bonus, overtime and commission payments to preserve jobs could exert significant downward pressure on nominal remuneration growth in the medium term.

Formal non-agricultural nominal remuneration per worker



* Excluding election-related outliers

Sources: Stats SA and SARB

Public sector remuneration growth per worker slowed from 5.3% in the fourth quarter of 2019 to 4.5% in the first quarter of 2020 (and from 5.2% to 4.2% when excluding temporary election-related employment). Wage growth decelerated at provincial and local government levels as well as in the government transport, storage and communication services sector.

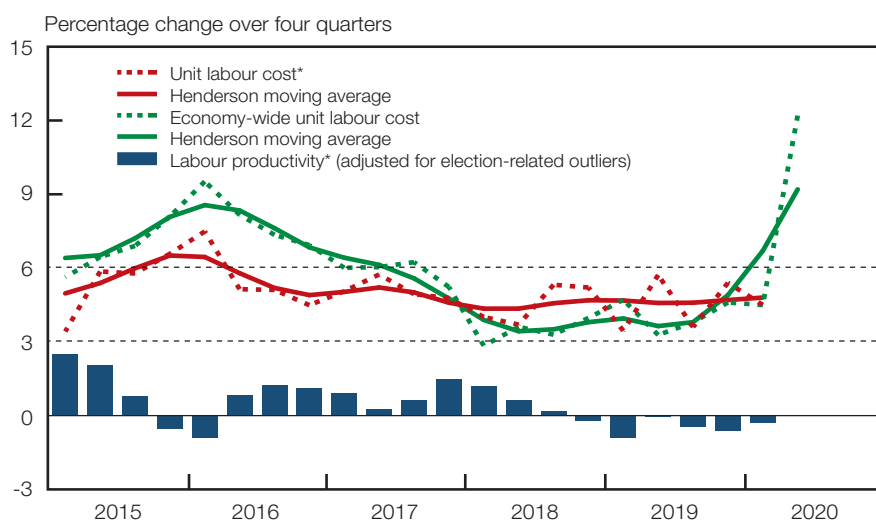


However, wage growth accelerated further at national departments and other public sector enterprises to above the upper limit of the inflation target range of 6%. Public sector wage growth can be expected to slow further in the coming quarters, following the non-implementation thus far in 2020 of the annual public sector wage increase to curb the high government wage bill. Should the courts find in favour of government to breach the legally binding collective wage agreement, the slowdown could extend into 2021.

Growth in the *nominal remuneration per private sector worker* trended further downwards, slowing from 4.3% in the fourth quarter of 2019 to 3.8% in the first quarter of 2020. In real terms, private sector remuneration per worker decreased by 0.8% from a year earlier. Wage growth slowed notably in the finance, insurance, real estate and business services sector, in the transport, storage and communication services sector, and in the private community, social and personal services sector, partly due to lower bonus and overtime payments. Conversely, wage growth per worker accelerated in the mining, manufacturing, construction, as well as trade, catering and accommodation services sectors. The marked acceleration in the gold mining sector resulted from the low base of a year earlier when remuneration was affected by major strike action.

The average *wage settlement rate* across the economy is expected to range between zero and 3.5% for the remainder of 2020, with an estimated average of 3.0% for the year as a whole compared with an average of 6.7% in 2019, according to Andrew Levy Employment Publications. The number of workdays lost due to industrial action (excluding issues surrounding COVID-19) settled in the region of 20 000 in the first half of 2020, well below the 1.10 million over the same period a year earlier. The outbreak of the pandemic deferred wage negotiations, which resulted in a reduction in industrial action.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

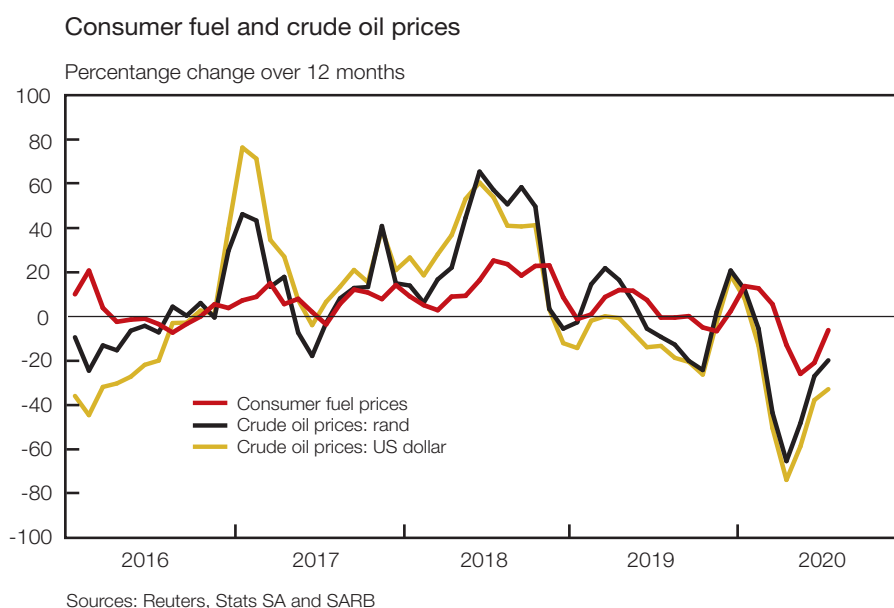
Sources: Stats SA and SARB

Labour productivity in the formal non-agricultural sector has contracted almost consistently since the fourth quarter of 2018, as output generally increased at a slower pace than employment. Labour productivity contracted by a further 0.3% in the year to the first quarter of 2020 following a contraction of 0.6% in the fourth quarter of 2019, as output contracted while employment growth slowed. Growth in the *nominal unit labour cost* in the formal non-agricultural sector moderated from 5.3% to 4.5% over this period, as year-on-year growth in total remuneration slowed at a faster pace than the contraction in output. However, *economy-wide unit labour cost growth* quickened notably from 4.5% in the first quarter of 2020 to a 27-year high of 12.2% in the second quarter, as the unprecedented contraction in output outweighed that in the compensation of employees on a year-on-year basis, thereby detracting from the informational content of this measure of labour cost.

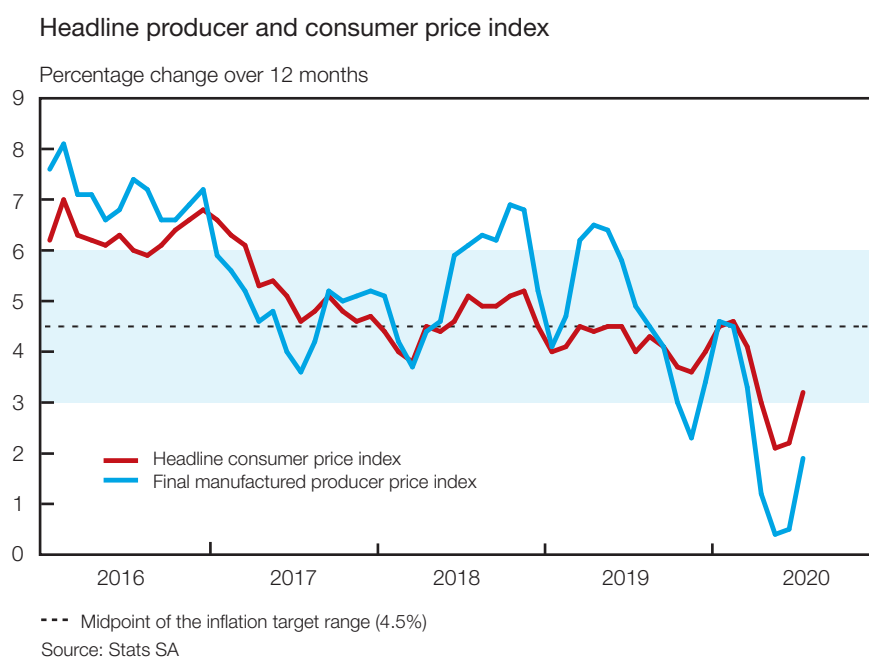
9 Unless stated to the contrary, all the rates mentioned in this section reflect year-on-year changes.

Prices⁹

Both headline producer and consumer price inflation moderated to historical lows in May 2020 in the wake of the COVID-19 pandemic, mostly due to a significant decrease in the price of fuel. The shutdown of economic activity in most economies suppressed the demand for crude oil and, together with fears of an unprecedented contraction in global output, caused the monthly average price of Brent crude to fall from a recent high of US\$67.15 per barrel in December 2019 to only US\$18.68 per barrel in April 2020. This resulted in a marked deceleration in domestic fuel price inflation, notwithstanding a concurrent significant depreciation in the exchange value of the rand.



Headline producer price inflation plummeted to 0.4% in May 2020, while headline consumer price inflation fell to a 16-year low of 2.1% in the same month. The lockdown restrictions aimed at containing the spread of the virus required methodological changes to the compilation of the consumer price index (CPI), which introduced statistical biases.



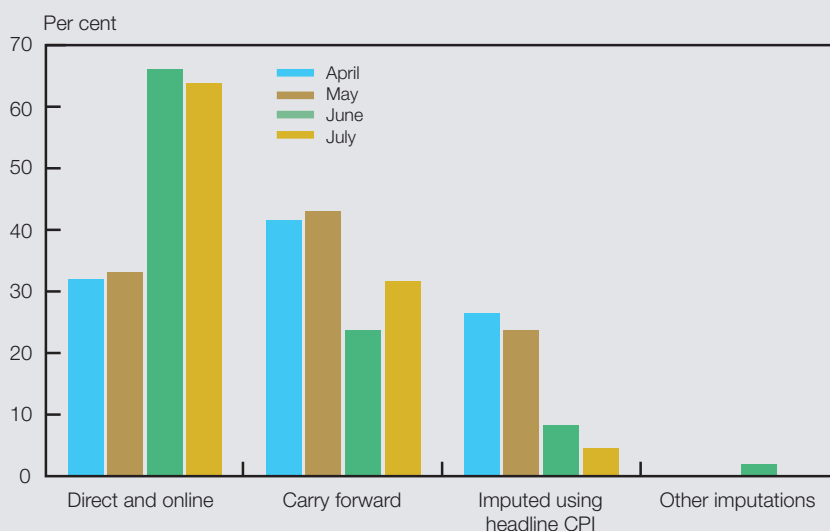
Box 3 Methodological changes to the compilation of the consumer price index in response to the COVID-19 lockdown

The compilation of the consumer price index (CPI) by Statistics South Africa (Stats SA) has faced significant challenges since the lockdown restrictions imposed in South Africa in response to the coronavirus disease 2019 (COVID-19) from 27 March 2020 and during the subsequent period of gradual normalisation.

The national lockdown prohibited certain products and services from being sold, and Stats SA's field staff were unable to conduct direct price collection at the stores selling retail items available for sale due to travel restrictions. As a result, some price data required to compile the CPI were unavailable, and not all products had comparable prices. This necessitated a change in the survey methodology to online price collection (where applicable) as well as the introduction of imputation practices in some instances.

Headline CPI was compiled using a combination of different techniques as from April 2020 to accommodate the challenges brought on by the imposition of lockdown restrictions. This included a combination of traditional direct in-store and online collection of comparable prices, headline CPI imputations of the price changes of those products and services¹ that were banned from being sold, the carrying forward of periodic surveyed prices (implying no month-to-month change)², and other imputations.

Contribution of the different methodologies to the weight of CPI



Source: Stats SA

In April 2020, imputations for items that were not allowed to be sold accounted for 26.5% of the weight of the CPI basket amid strict lockdown restrictions.³ Direct and online collection of prices accounted for a weight of 12% and 20% respectively of the items in the CPI basket. The direct collection of prices applied mainly to services, with the prices obtained from an official or administrative source. The prices of items with a weight of 41.5% that were not due for collection, were carried forward.

In May 2020, the lockdown was eased from level 5 to level 4, and a broader range of goods and services became available for sale, while Stats SA resumed in-store price collection. However, although available for sale in May, the prices of those products and services that were not allowed to be sold in April and were consequently imputed, were again imputed in May due to the absence of comparable prices for April. Headline CPI imputations accounted for 23.7% of the weight of the CPI basket.⁴ The collection of comparable prices of goods and services accounted for a combined weight of 33.1% in the CPI basket (13.1% direct and 20% online), while the prices of items with a weight of 43% were carried forward.

In June 2020, lockdown restrictions eased further from level 4 to level 3, and headline CPI imputations of price changes declined to a weight of only 8.3% of the goods and services in the CPI basket.⁵ Similarly to May, imputations were made for items that were not allowed to be sold in June or in the absence of a comparable price in May. The weight of the items for which prices were collected directly and online increased to 66%

1 For banned products and services where no consumer expenditure on the item in the CPI basket was possible, the index was imputed using the change in the headline (all items) index based on those products and services for which prices were available.

2 Where the price of a good or service does not change every month, and is only surveyed quarterly, six-monthly or annually.

3 See *Changes to the calculation and publication date of the April consumer price index (CPI) due to COVID-19 lockdown restrictions* published by Statistics South Africa (Stats SA) on 21 May 2020, available at http://www.statssa.gov.za/cpi/documents/CPI_COVID_method_issues_21_05_20.pdf

4 See *Update on the consumer price index (CPI) for May*, published by Stats SA on 10 July 2020, available at http://www.statssa.gov.za/cpi/documents/CPI_COVID_method_issues_May.pdf

5 See *Update on the consumer price index (CPI) for June and revised publication schedule*, published by Stats SA on 27 July 2020, available at http://www.statssa.gov.za/cpi/documents/CPI_COVID19_Method_Issues_June.pdf





of the CPI basket. The weight of the items for which indices were carried forward declined to 23.7%, while 2% of the weight of the CPI was imputed using the class mean method⁶.

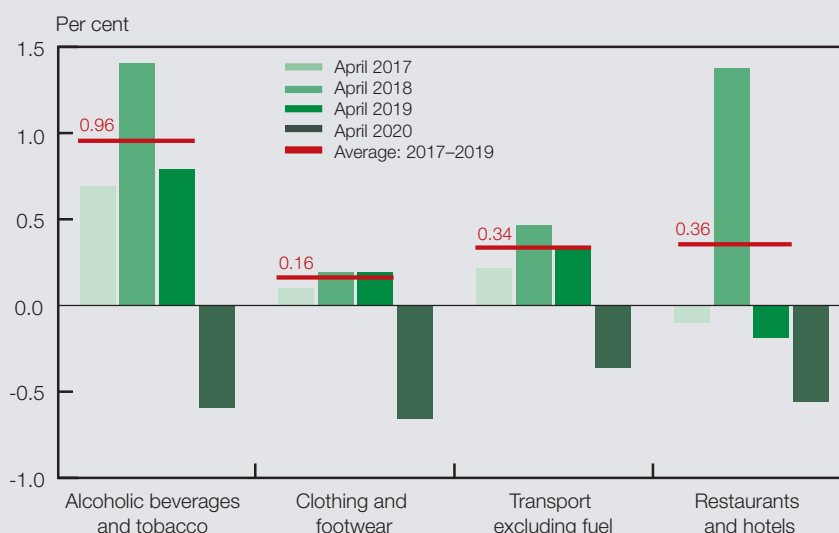
In July 2020, the collection and compilation methodology of the CPI largely normalised in the context of further easing of lockdown restrictions. Headline CPI imputations accounted for only 4.5% of the weight of the CPI basket, while 31.7% were carried forward and 63.8% were either collected directly or online in July.⁷ The increase in the weight of items carried forward from June to July reflects the usual decline in the number of quarterly surveys over this period.

The imputation methodology introduced some biases to consumer price inflation in April 2020, May and June, with headline CPI largely influenced by changes in food and fuel prices. These biases were more pronounced in the calculation of underlying inflation, as these measures include most of the imputed items. If the actual change in the prices of the goods and services that were imputed 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 marked month-to-month declines in fuel prices of 11.1% and 12.2% in April and May respectively exerted some downward bias on headline CPI, more than what would otherwise be justified by its weight of 4.58% in the CPI basket. In particular, these declines exacerbated the slowdown in core inflation.

The likely underestimation of some imputed categories in April and May is shown by the month-to-month changes in four of the imputed categories for the past four years. In all instances, the average month-to-month percentage changes during the 2017–2019 period were much higher than the April 2020 and May changes.

Month-to-month percentage change in selected imputed CPI categories in April: 2017–2020

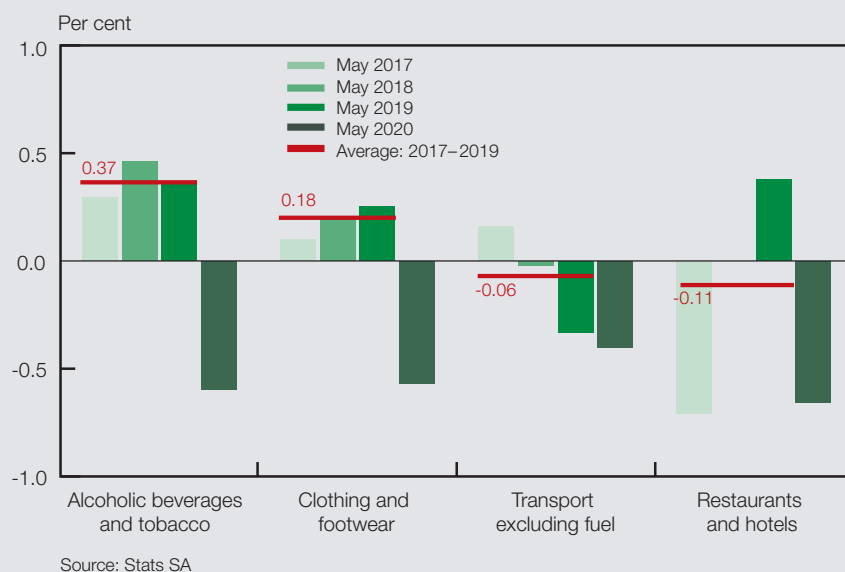


Source: Stats SA

⁶ This method entails imputing the average price change of a product or service using the change in the next-highest level aggregate index.

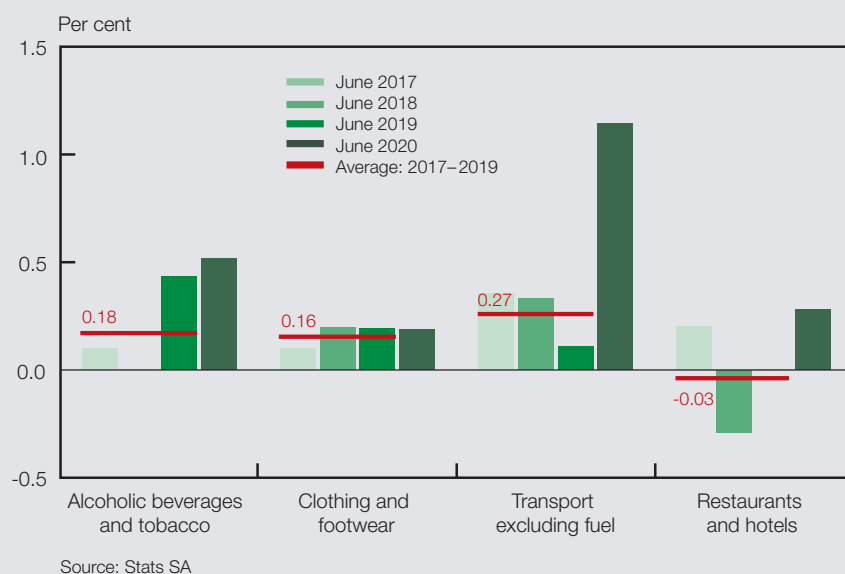
⁷ See *Update on the consumer price index (CPI) for July*, published by Stats SA on 20 August 2020, available at http://www.statssa.gov.za/cpi/documents/CPI_COVID_method_issues_July.pdf

Month-to-month percentage change in selected imputed CPI categories in May: 2017–2020



In June 2020, the downward bias in both headline and core inflation dissipated as fuel prices increased by 7.5% month to month, somewhat countering the inordinate decreases in fuel prices in the two preceding months and as the percentage of imputed items declined significantly.

Month-to-month percentage change in selected imputed CPI categories in June: 2017–2020

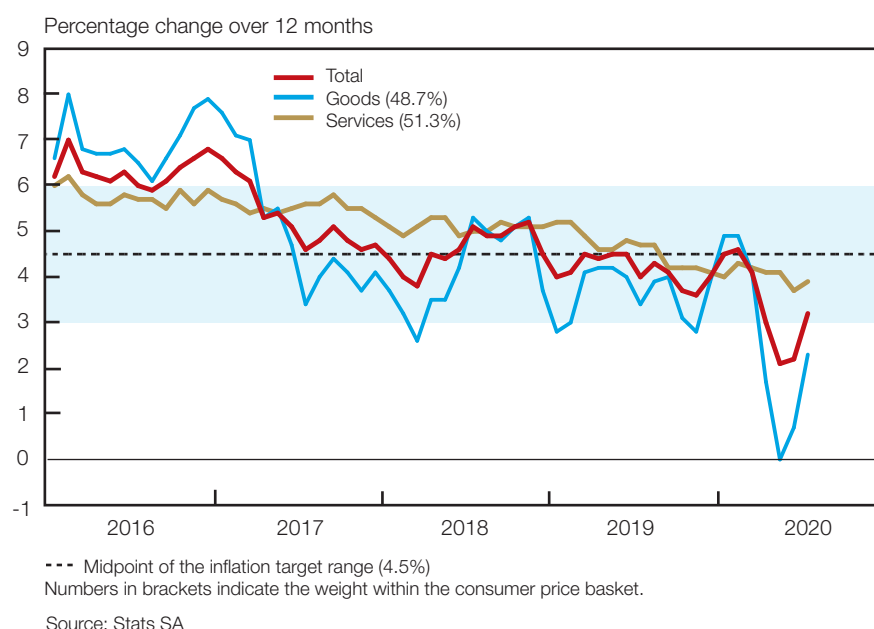




Whereas most measures of producer price inflation remained subdued and only increased moderately in recent months, mining product price inflation accelerated. Producer price inflation of mining products accelerated markedly to 49.0% in February 2020 – the highest rate of increase since the inception of this new measure of producer price inflation in January 2008 – and remained elevated at 29.6% in July as the prices of gold and non-ferrous metal ores increased markedly. The muted acceleration in intermediate manufactured goods price inflation to 2.4% in July 2020 was mainly driven by a quickening in the rate of increase in basic and fabricated metals prices, in particular precious and non-ferrous metal prices. Producer price inflation for agriculture, forestry and fishing products, which had been in deflation for 17 successive months up to February 2020 mainly due to lower agricultural product prices, subsequently accelerated slightly to 2.5% in July. Elevated producer price inflation for electricity and water decelerated from 15.5% in April 2020 to 8.1% in July, as both electricity and water price inflation moderated. However, electricity prices are expected to increase more than previously anticipated since the High Court ruled in favour of Eskom, allowing the utility to recover R69 billion in revenue in a phased manner over a three-year period, with the possibility of electricity prices increasing by as much as 15% per annum during this period.

The meaningful moderation in headline consumer price inflation from 4.6% in February 2020 to 2.1% in May was largely due to a substantial decline in consumer goods price inflation and, to a lesser extent, a deceleration in consumer services price inflation. Consumer goods prices were unchanged between May 2019 and May 2020, registering a year-on-year inflation rate of zero per cent. Consumer services price inflation moderated to a recent low of 3.7% in June 2020. The deceleration in headline CPI inflation reflected weak demand for most goods and services under lockdown, and recessionary conditions since the third quarter of 2019. Headline CPI inflation accelerated to 3.2% in July 2020 from its lowest level in almost 16 years, as fuel prices decreased at a slower year-on-year rate and as the extent of price imputations by Stats SA diminished.

Consumer price index

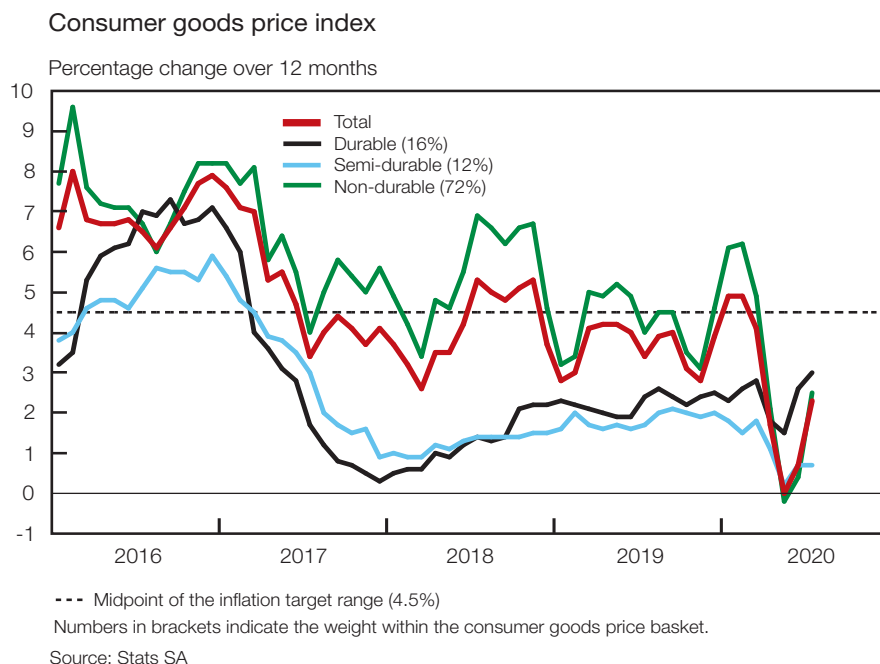


¹⁰ For a discussion on Stats SA's imputation methodology and the likely downward bias, see 'Box 3: Methodological changes to the compilation of the consumer price index in response to the COVID-19 lockdown' on page 37 in this edition of the *Quarterly Bulletin*.

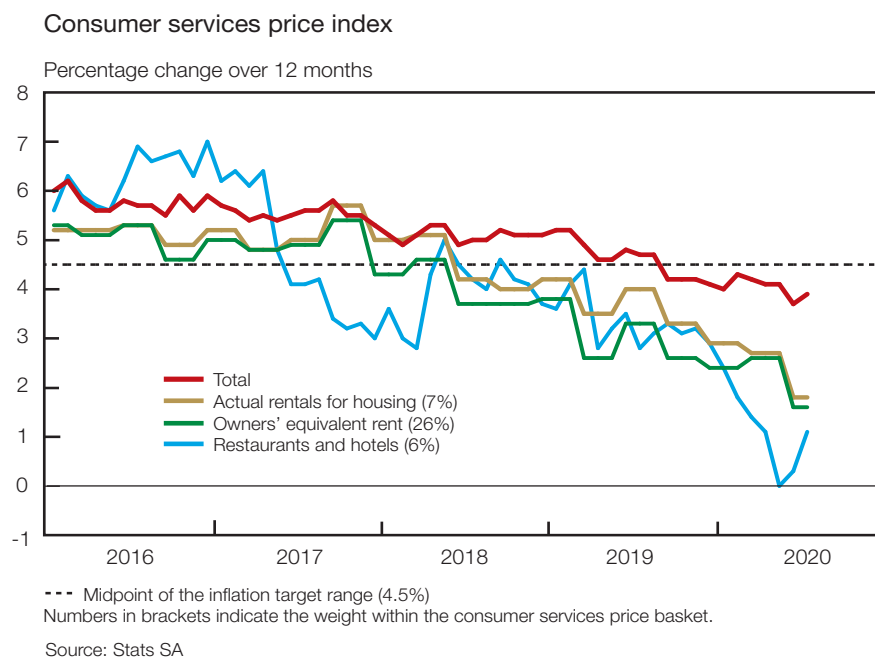
Consumer goods price inflation slowed notably between February 2020 and May, as the sharp decline in fuel prices caused non-durable goods price inflation to moderate from 6.2% to -0.2% over this period. Semi-durable and durable goods price inflation also slowed to 0.2% and 1.5% respectively in May 2020, despite the earlier marked depreciation in the exchange value of the rand. Price changes in many durable and semi-durable goods had to be imputed by Stats SA in April and May, resulting in a likely downward bias in these consumer goods price categories.¹⁰ Notwithstanding the methodological challenges, the subdued rates of increase in the prices of



all the consumer goods categories indicated benign inflationary pressures amid weak demand and a muted exchange rate pass-through in the current recessionary environment. Consumer goods price inflation subsequently accelerated slightly to 2.3% in July 2020 as fuel prices increased and Stats SA collected more durable and semi-durable goods prices.



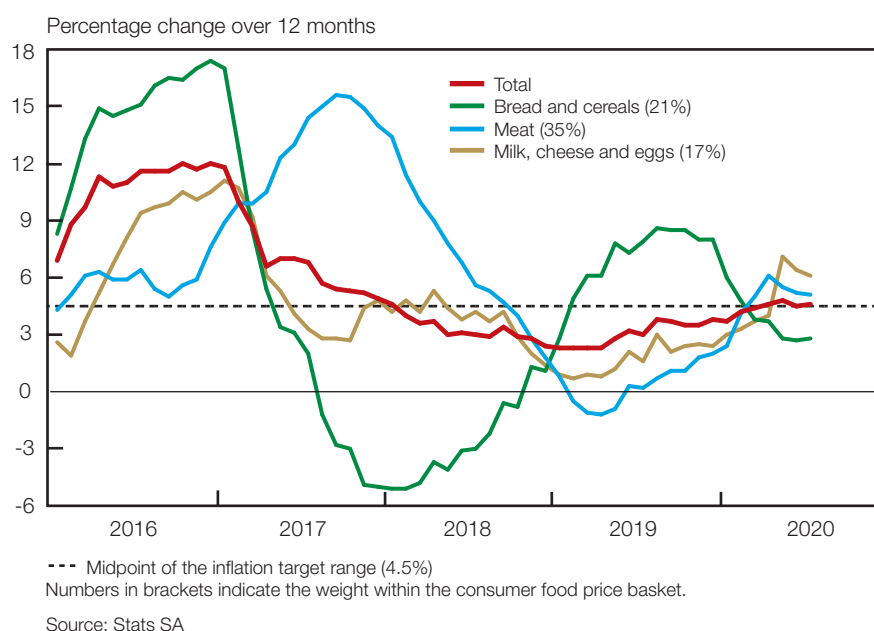
Consumer services price inflation moderated steadily over the past three years to 3.7% in June 2020 – its lowest level in 14 years. Price inflation in the housing and utilities category, with a combined weight of almost 40% in the consumer services price basket, decelerated substantially in June 2020, reflecting unusually low rental price inflation. The increased supply and falling demand for residential properties forced lower annual rental increases, which was further exacerbated by rising unemployment and the loss of income due to COVID-19. The price inflation of restaurant and hotel services, which also had to be imputed during the lockdown, slowed further in the first half of 2020 and amounted to only 0.3% in June. Hotel services prices in particular have been in deflation since December 2019, reflecting the general weak demand conditions even before the international and domestic travel restrictions exerted severe pressure on the leisure accommodation industry.





Consumer food price inflation remained relatively subdued during the opening months of 2020 despite having accelerated somewhat to 4.8% in May. The steep increase in meat prices contributed the most to the quickening in food price inflation, and reflected the building of herds after good rains and improved grazing conditions. The recent higher import tariffs on poultry products (with the highest individual weight within the consumer meat price basket) also contributed towards the third consecutive monthly acceleration in poultry price inflation in April 2020. However, meat price inflation slowed for three consecutive months up to July along with the sudden stop in demand from restaurants during the earlier part of the lockdown. Overall food price inflation moderated to 4.5% in June 2020, as price inflation for bread and cereals as well as milk, cheese and eggs also moderated, which, together with meat prices, account for 73% of the total consumer food price basket. Consumer food price inflation then accelerated slightly to 4.6% in July 2020. The current conditions are supportive of well-contained food price inflation for the remainder of 2020. The prospects for domestic agricultural conditions are promising and bode well for the consumer food price inflation outlook. Bumper global wheat and maize harvests, as well as the expected second-largest domestic maize harvest ever, should assist in keeping domestic food price inflation contained.

Consumer food price index

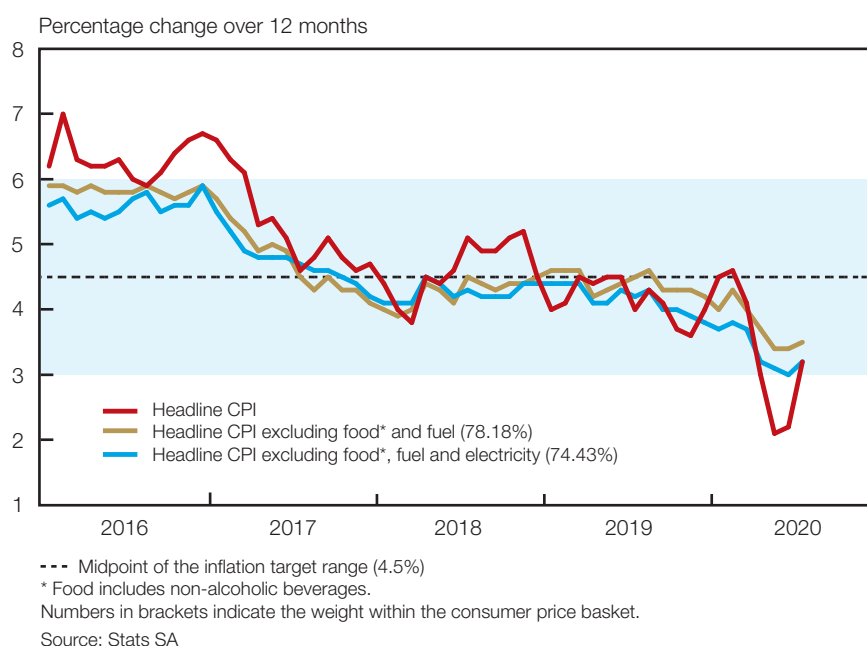


Rand-denominated international food price inflation soared in recent months as the sharp depreciation in the exchange value of the rand by far outweighed the sharp moderation in United States (US) dollar-denominated international food price inflation. The year-on-year rate of change in the US dollar-denominated 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 3.3% in May, driven by demand-side contractions linked to the effects of the COVID-19 pandemic and the related significant decrease in international crude oil prices. Thereafter, global food price deflation moderated to 2.2% in August 2020. 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 depreciated markedly against the US dollar over this period. Subsequently, this rate of increase moderated to a still high 16.3% in August 2020 as international food prices started to normalise and the exchange value of the rand appreciated slightly against the US dollar.



Underlying inflationary pressures receded further during the first half of 2020, reflective of muted price pressures amid the domestic recessionary conditions which impeded the ability of businesses to pass on price increases to consumers. When subtracting the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant measure of underlying inflation moderated from 4.3% in February 2020 to 3.4% in both May and June. The South African Reserve Bank's (SARB) preferred measure of core inflation (also excluding electricity prices) slowed to 3.0% in June 2020 – the lowest since March 2011 – with the moderation in core inflation emanating from lower goods and services price inflation, in particular the marked slowdown in rental price inflation. However, it should be noted that there was probably some downward bias in the measures of underlying inflation in April 2020 and May as price changes had to be imputed for many of these items during the lockdown. Core inflation accelerated slightly to 3.2% in July 2020 as the disinflationary effect of the imputations made by Stats SA over the lockdown period dissipated.

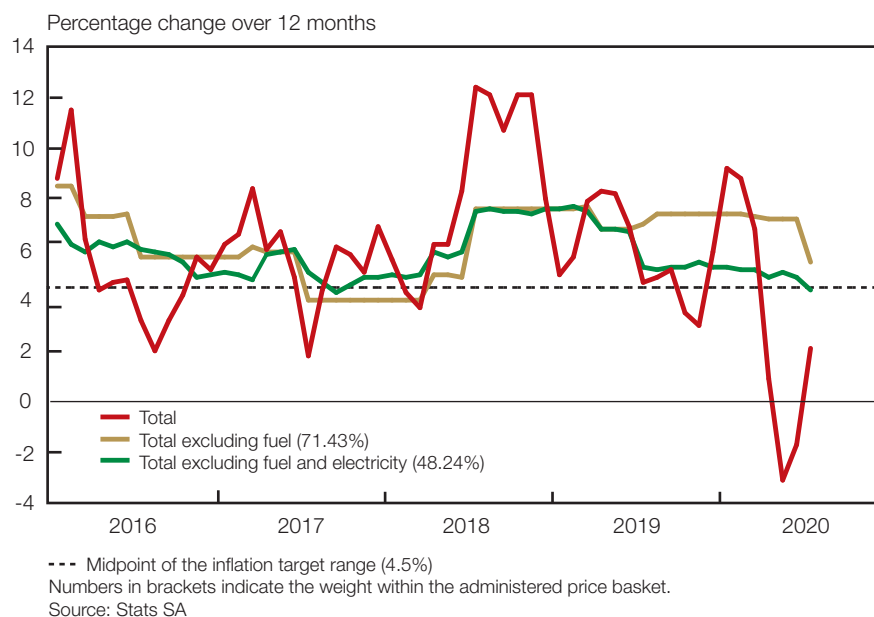
Headline and underlying measures of consumer prices



Administered price changes switched from a year-on-year increase of 9.2% in January 2020 to a decrease of 3.1% in May, and mirrored the marked moderation in fuel price inflation from 13.7% to -25.9% over the same period. Thereafter, administered price inflation accelerated to 2.1% in July as fuel prices decreased at a slower pace. However, when excluding fuel prices, administered price inflation decelerated only slightly to 7.2% in April 2020 and remained at this level up to June before moderating further to 5.5% in July. When also excluding electricity prices, administered price inflation moderated from 5.3% in January 2020 to 4.4% in July, largely due to the smaller increase in municipal assessment rates. These two measures of underlying administered price inflation have essentially moved sideways since July 2019, emphasising the susceptibility of total administered price inflation to fuel price changes, which comprises 28.63% of the total weight of the administered price basket.



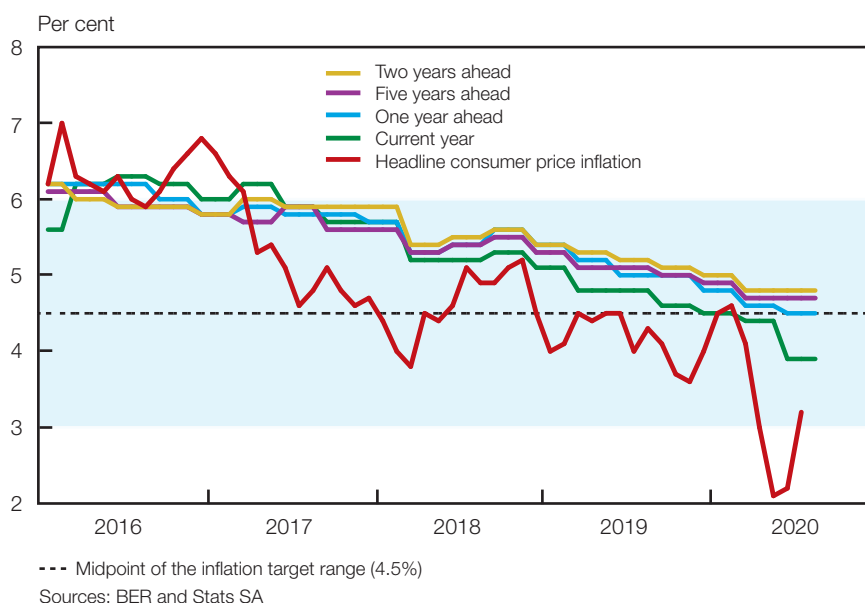
Administered price index



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

Average annual headline inflation expectations¹¹ for 2020 declined from 4.4% as surveyed in the first quarter of 2020 to 3.9% as surveyed in the second quarter – the lowest recorded inflation expectation in 15 years. Inflation expectations for 2021 decreased by 0.1 percentage points to 4.5% and those for 2022 remained unchanged at 4.8%.

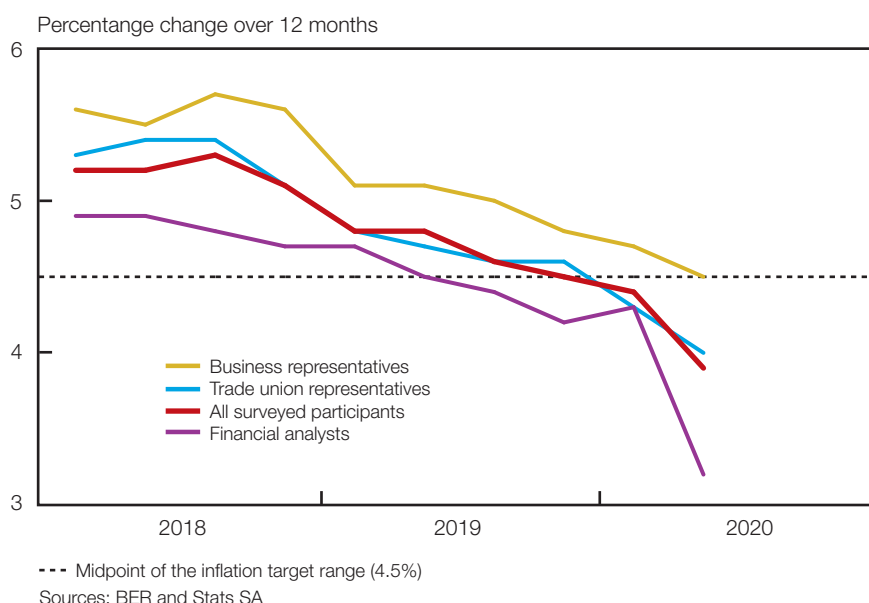
Inflation expectations and headline consumer price inflation



All the respondent groups lowered their inflation expectations for 2020 further. Financial analysts revised their expectations for 2020 downwards to a larger extent than business and trade union representatives. While financial analysts and trade unionists expect inflation in 2021 and 2022 to be at or below the midpoint of the 3-6% inflation target range, business representatives expect inflation to be in excess of 5%. Average inflation expectations for 2020 have declined by more than 2.0 percentage points since they were first surveyed in the first quarter of 2018.



Inflation expectations for 2020, by respondent group



The average *five-years-ahead inflation expectation* was unchanged at 4.7% in the second quarter of 2020.

Headline consumer price inflation expectations

Per cent, as surveyed in the second quarter of 2019

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2020.....	3.2	4.5	4.0	3.9
2021.....	4.2	5.1	4.3	4.5
2022.....	4.6	5.3	4.5	4.8
Five years ahead	4.6	5.2	4.2	4.7

Source: BER

Household inflation expectations rose notably to 6.2% as surveyed in the second quarter of 2020, after moderating to 4.8% in the previous quarter from 5.4% in the fourth quarter of 2019. Inflation expectations increased across all demographic groups, in particular among the low and lower middle-income groups as well as among people aged 50 years and older. However, due to the relatively small sample size, caution should be exercised in interpreting this outcome. The sharp increase in household inflation expectations conflicts with those of the other respondent groups as well as with the actual inflation outcomes. A possible explanation for this discrepancy could be that households incorrectly attributed their reduced purchasing power amid the COVID-19 lockdown to higher inflation instead of to lower incomes. Another possible explanation could be that households (to a greater extent than usual) mistakenly equated price increases, or expected price increases, of selected items (such as taxi fares, dairy, meat and petrol) with a general rise in inflation.

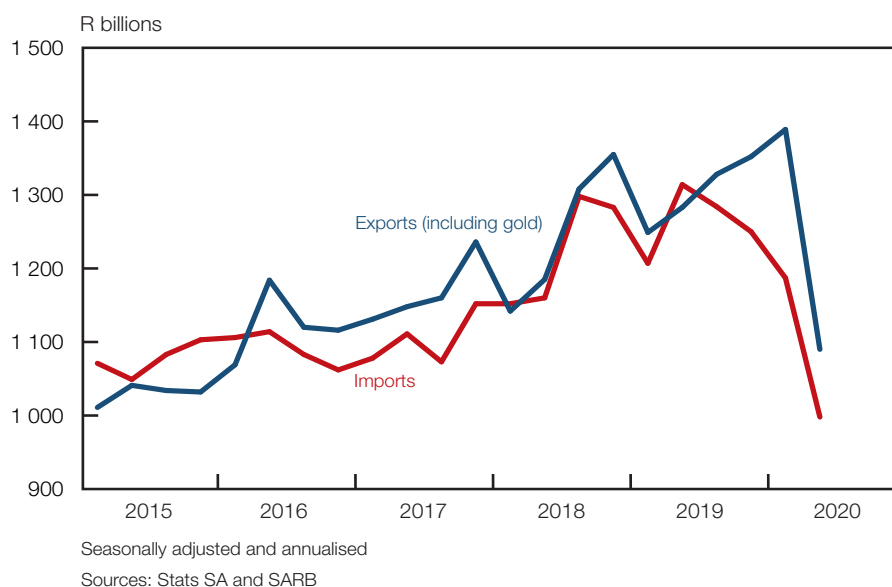
External economic accounts

Current account¹²

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 started to reflect the impact of the COVID-19 pandemic lockdown restrictions in the first quarter of 2020 and contracted further in the second quarter. This reflected a sharp contraction in output in many countries following production stoppages and ports operating at reduced capacity. In South Africa, lockdown restrictions were only introduced late in March, followed by a gradual relaxation from the beginning of May. Their adverse effects were clearly visible in South Africa's imports and exports in the second quarter of 2020.

Value of merchandise imports and exports



South Africa's trade surplus more than halved from R202 billion in the first quarter of 2020 to R91.5 billion in the second quarter. The much smaller trade surplus resulted from a larger contraction in the value of net gold and merchandise exports than merchandise imports. The decline in the value of both exports and imports reflected lower volumes.

Current account of the balance of payments

R billions, seasonally adjusted and annualised

	2019				2020	
	Q2	Q3	Q4	Year	Q1	Q2
Merchandise exports.....	1 233	1 258	1 260	1 236	1 292	1 010
Net gold exports.....	50	70	93	67	97	79
Merchandise imports.....	-1 314	-1 284	-1 250	-1 264	-1 187	-998
Trade balance.....	-31	44	102	39	202	92
Net service, income and current transfer payments.....	-175	-232	-171	-192	-138	-195
Balance on current account.....	-207	-188	-68	-153	63	-104
<i>As a percentage of gross domestic product</i>						
Trade balance.....	-0.6	0.9	2.0	0.8	3.9	2.1
Services balance.....	-0.3	-0.2	-0.3	-0.3	-0.1	-1.3
Income balance.....	-2.4	-3.6	-2.3	-2.8	-1.9	-2.4
Current transfer balance.....	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8
Balance on current account.....	-4.1	-3.7	-1.3	-3.0	1.2	-2.4

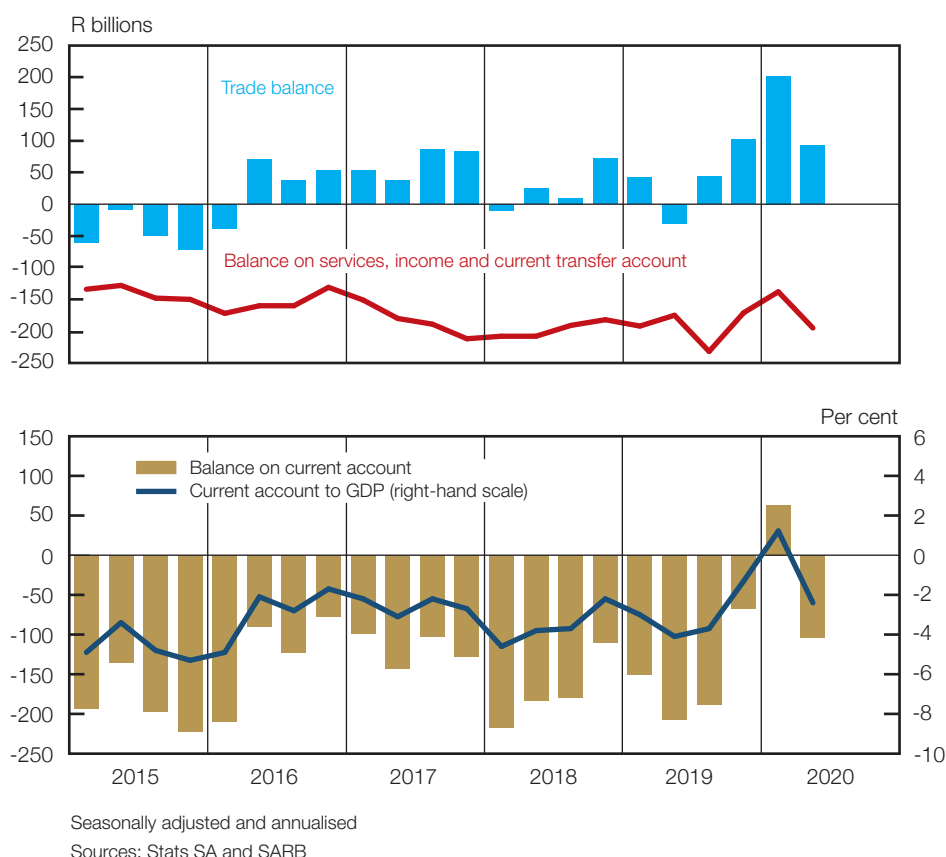
Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB



The smaller trade surplus in the second quarter of 2020 coincided with a much larger shortfall on the services, income and current transfer account. As a result, the balance on the current account of the balance of payments reverted to a deficit of R104 billion in the second quarter from a surplus of R63.4 billion in the previous quarter – the only surplus since the first quarter of 2003. The balance on the current account as a ratio to GDP therefore switched from a surplus of 1.2% to a deficit of 2.4%.

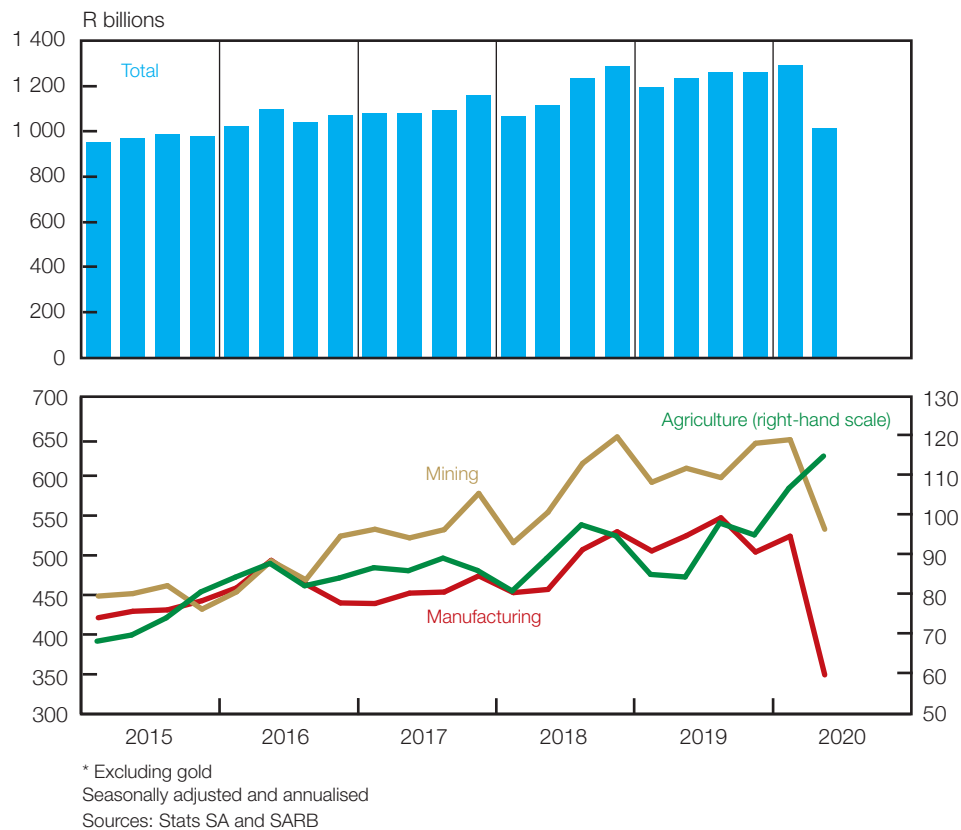
Current account of the balance of payments



The value of merchandise exports contracted sharply by 21.8% in the second quarter of 2020, as decreases in manufacturing and mining far outweighed the increase in agricultural exports. The decline in manufacturing exports was broad-based, with sharp decreases in vehicles and transport equipment as well as machinery and electrical equipment. The contraction in the value of vehicles and transport equipment exports of almost 60% from the first to the second quarter of 2020 largely reflected the impact of the lockdown restrictions on the domestic automotive manufacturing industry as well as that of major export destination countries. Accordingly, the number of vehicles exported (not seasonally adjusted or annualised), as reported by the National Association of Automobile Manufacturers of South Africa (NAAMSA), declined substantially from about 72 000 in the first quarter of 2020 to 32 000 in the second quarter.

The broad-based contraction in the value of mining exports reflected sharply lower production following the COVID-19-induced shutdowns, with mines operating below capacity to comply with the related health and safety protocols. The exports of PGMs were also affected by temporary closures for repairs in March 2020 and June. At the same time, the decline in the value of mineral exports reflected contractions in the exports of iron ore, silver ore and coal. The physical quantity of bulk iron ore and coal cargo declined by 28.6% and 17.1% respectively in the second quarter of 2020 (not seasonally adjusted or annualised), according to the National Ports Authority.

Value of merchandise exports*



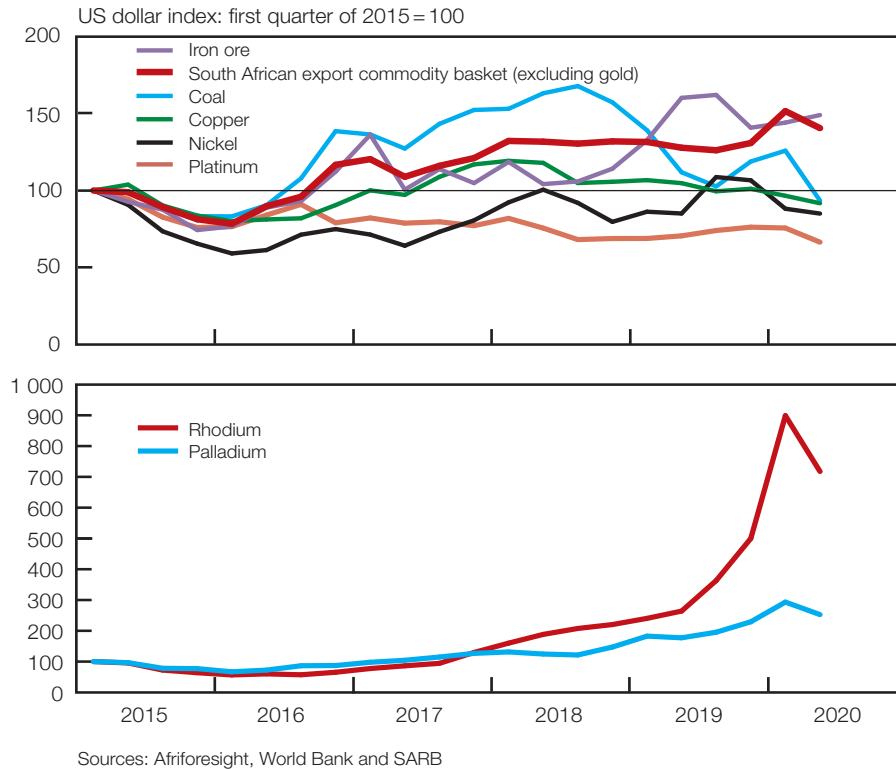
By contrast, the value of agricultural exports increased in the second quarter of 2020. This was largely due to a decent fruit harvest season, which resulted in higher exports of citrus. Citrus exports were also supported by increased foreign demand as the COVID-19 pandemic has raised the demand for vitamin C products. The value of maize exports also increased over the period.

The prices of several international commodities declined sharply in April 2020, especially those of base metals and energy, as global industrial activity contracted due to COVID-19 containment measures. However, base metal prices increased again in May and June, along with the recovery in industrial activity in especially China and an improvement in financial market sentiment. In contrast with other commodities, iron ore prices rose further for a second consecutive quarter in the second quarter of 2020, as an increase in China's steel output lowered stockpiles. The increase in iron ore prices also reflected supply concerns related to the impact of COVID-19 restrictions on Brazil – the world's second-largest iron ore producer and exporter. The price of coal decreased markedly by 25.7% amid depressed energy demand. Despite the decrease in the prices of PGMs in the second quarter of 2020, rhodium and palladium prices remained elevated.

Amid the divergent movements of individual commodity prices, the US dollar price of a basket of domestically produced non-gold export commodities declined by 7.3% in the second quarter of 2020 following a 15.8% surge in the first quarter. However, this was more than offset by the sharp depreciation in the average exchange value of the rand, which resulted in a 1.1% increase in the rand price of merchandise exports in the second quarter of 2020. Over the same period, the volume of merchandise exports contracted considerably by 22.6% as manufacturing and mining exports slumped.



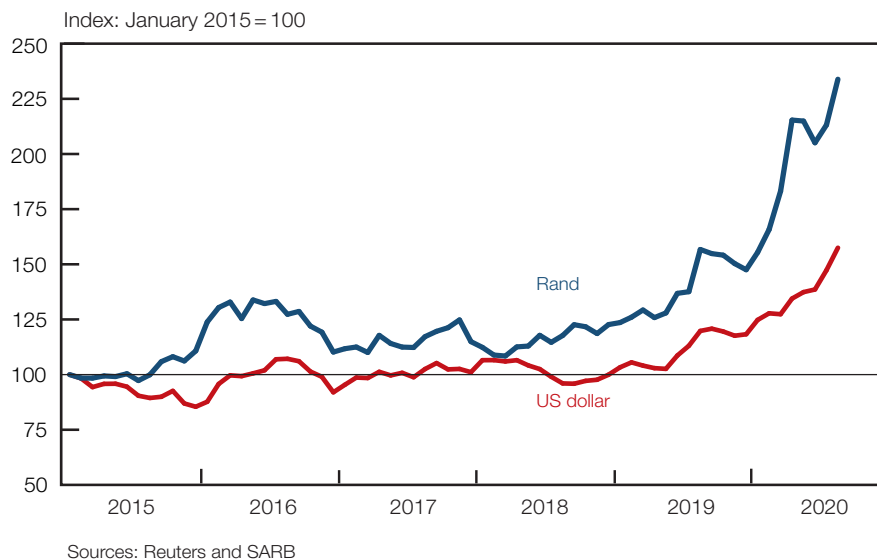
International prices of selected South African export commodities



The average US dollar price of gold on the London market has been rallying since the fourth quarter of 2018, and rose by a further 8.0% from US\$1 584 per fine ounce in the first quarter of 2020 to US\$1 711 per fine ounce in the second quarter. The gold price increased as a result of lower real interest rates in most economies as well as the continued investment demand due to the COVID-19 pandemic. The gold price surged further, to a record high in August 2020, as the prospects of more stimulus packages and continued geopolitical tensions, among other factors, boosted the safe-haven appeal.

The average realised rand price of net gold exports increased sharply by 19.5% in the second quarter of 2020 following the notable depreciation in the average exchange value of the rand. However, the value of net gold exports declined by 18.3% in the second quarter of 2020 as lower production and lower export volumes outweighed the impact of the higher rand price of gold.

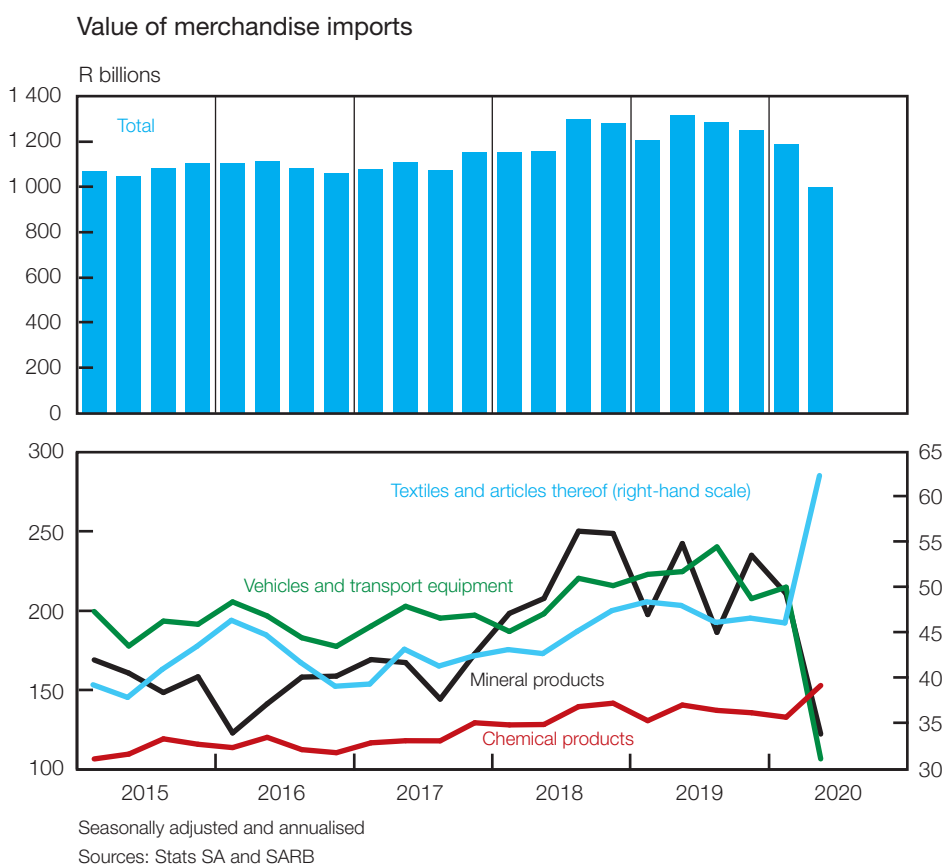
International gold price





Global investor demand for gold in the second quarter of 2020 manifested through gold-backed exchange-traded funds (ETFs). According to the World Gold Council, gold purchases by ETFs surged from about 300 tons in the first quarter of 2020 to 434 tons in the second quarter – almost matching the record of approximately 466 tons in the first quarter of 2009 during the global financial crisis.

The value of merchandise imports contracted markedly further by 15.9% in the second quarter of 2020, marking a fourth consecutive quarterly decline. Consequently, the value of merchandise imports contracted by 13.3% from the first half of 2019 to the first half of 2020. The sharp contraction in the second quarter of 2020 was primarily due to decreases in most of the subcategories of mining and manufacturing.

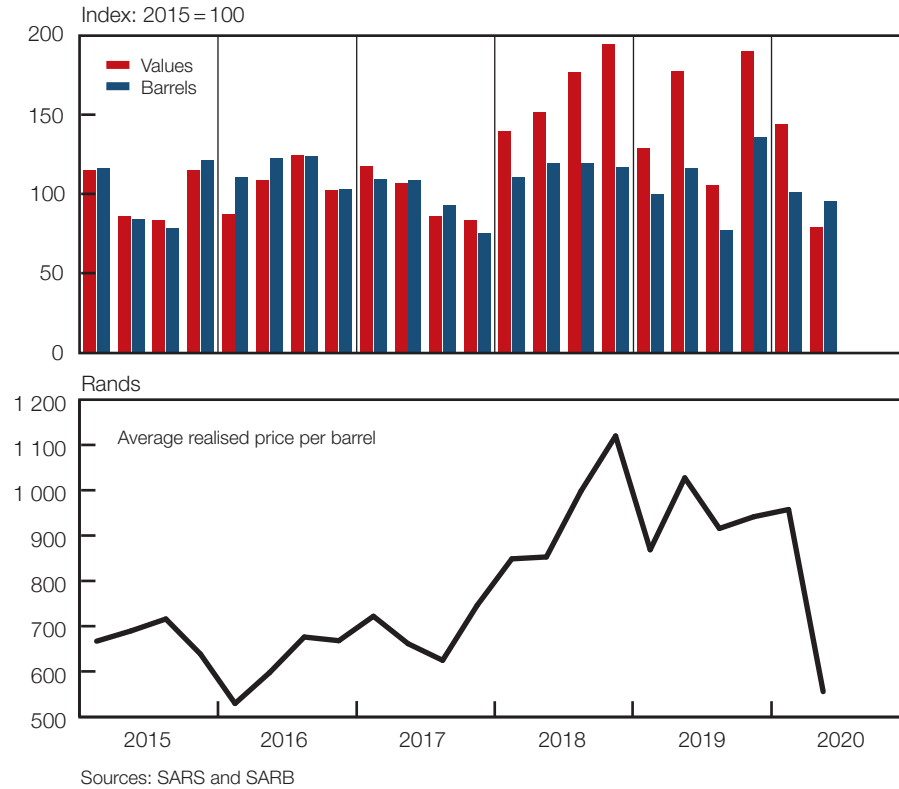


For mining, the value of mineral products as well as base metals and articles thereof declined the most. The value of imported mineral products, especially of crude oil and refined petroleum products, contracted in the second quarter of 2020. This reflected the impact of the lockdown on domestic oil refineries in response to lower demand, and although some refineries started to ramp up production from the middle of the second quarter, not all were fully operational by the end of the quarter.

Crude oil imports declined the most, with the number of barrels decreasing by approximately 6.0% in the second quarter of 2020. In addition, the value of crude oil imports was also affected by the sharp decline in the average realised rand price per barrel of 43.4% in the second quarter of 2020. Although the average realised US dollar price declined more than the US dollar spot price, the two prices were almost identical at around US\$30 per barrel in the second quarter of 2020.



Crude oil imports



International crude oil prices increased somewhat in May 2020 and June as the gradual relaxation of lockdown restrictions in several countries supported demand. Crude oil prices increased further in July and August as oil demand was expected to exceed supply in the second half of 2020. However, concerns about a second wave of COVID-19 infections in many countries and the resumption of lockdowns as well as rising tensions between the US and China, among other factors, contributed to containing the spot price of Brent crude oil at levels slightly above US\$45 per barrel at the end of August 2020.

International Brent crude oil price





Manufacturing imports in the second quarter of 2020 were weighed down by a noticeable decrease in the importation of vehicles and transport equipment. This reflected depressed domestic demand for foreign-produced automotive components and the delayed fulfilment of orders by foreign automotive component manufacturers. This, together with declines of other manufactured imports, outweighed the increases in the imports of chemical products as well as textiles and articles thereof, which were both driven by robust demand for COVID-19-related essential goods. The former reflected increased imports of organic chemicals, pharmaceutical products as well as miscellaneous chemical products, which mainly included diagnostics and laboratory reagents needed to scale up COVID-19 testing.

The volume of merchandise imports contracted markedly in the second quarter of 2020 due to mining and manufactured products. The import penetration ratio, which refers to real merchandise imports as a ratio of real GDE, dropped further from 25.5% in the first quarter of 2020 to 24.9% in the second quarter. The lower international prices of imported goods, in particular crude oil, exerted downward pressure on the rand price of merchandise imports in the second quarter of 2020.

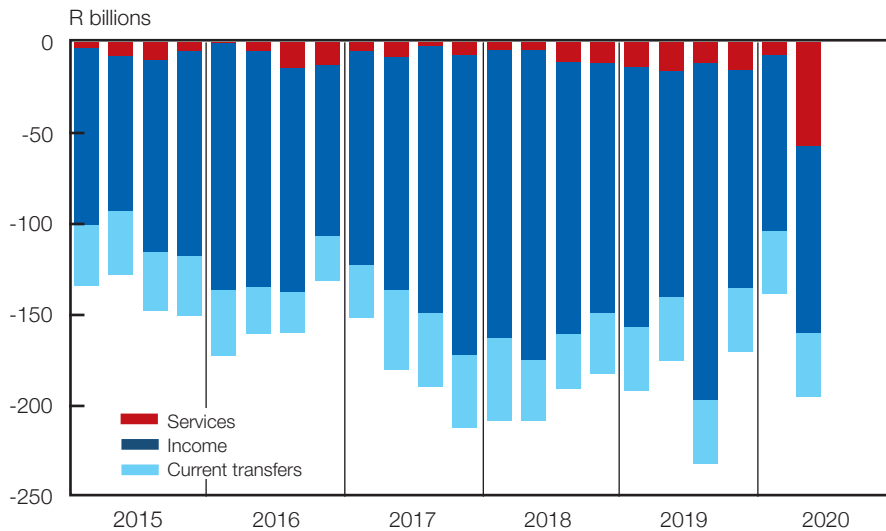
South Africa's terms of trade improved further to a record high in the second quarter of 2020 as the rand price of exports increased while that of imports decreased.



The shortfall on the services, income and current transfer account widened noticeably to R195 billion in the second quarter of 2020 from a relatively small deficit of R138 billion in the first quarter. The larger deficit was nevertheless still smaller than the all-time high deficit recorded in the third quarter of last year, but when expressed as a percentage of GDP it was the same, at 4.5%. The deficits of all three sub-accounts widened in the second quarter, in particular that of the services account.



Net service, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

Net service payments increased to an unprecedented level in the second quarter of 2020, as the unusual circumstances brought about by the COVID-19 restrictions impacted travel and passenger transportation significantly. As a percentage of GDP, the relatively large historical net travel receipts amount was effectively reduced to almost zero. Concomitantly, the traditional deficit on passenger transportation narrowed, as gross payments for this item were also essentially reduced to zero.

Box 4 The importance of travel receipts and payments in the current account of South Africa's balance of payments^{1,2}

In the compilation of the current account of the balance of payments statistics, travel³ receipts and payments are classified as services, as shown in the accompanying table. Unlike most other services, travel is not a specific type of service but rather a transactor-based item that covers an assortment of goods (acquired for own use) and services. Travel receipts reflect purchases by non-residents temporarily in South Africa, whereas travel payments reflect such purchases by residents temporarily abroad. As the name suggests, travel services are part of the services, income and current transfer account. Together with the trade account, which comprises the exports and imports of goods, it renders the balance on the current account of the balance of payments.

South Africa has recorded a persistent deficit on the services, income and current transfer account of about 3.5% of gross domestic product (GDP), on average, over the past 30 years, with the deficits on services, income and current transfers contributing 0.4, 2.5 and 0.6 percentage points respectively. The total services deficit is smaller than the other two deficits because of South Africa's travel surplus, resulting from travel receipts being about 2.5 times more than travel payments, on average, since 2010.

Travel receipts contributed significantly to total services receipts, at almost 56% on average during the past decade, whereas travel payments account for only about one-fifth of total services payments. Travel receipts have thus had a significant impact on the evolution of the services, income and current transfer account.

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

2 This box relates to the statistics published in the tables on pages S-82 to S-84 and S-86 to S-89 of this *Quarterly Bulletin*.

3 The purpose of travel could be business or personal related, or a combination of both. Business travel is associated with spending on goods and services acquired for personal use when the primary purpose is for business, while private travel includes goods and services acquired in relation to vacations, participation in recreational and cultural activities, visits with friends and relatives, pilgrimage, as well as education- and health-related activities.



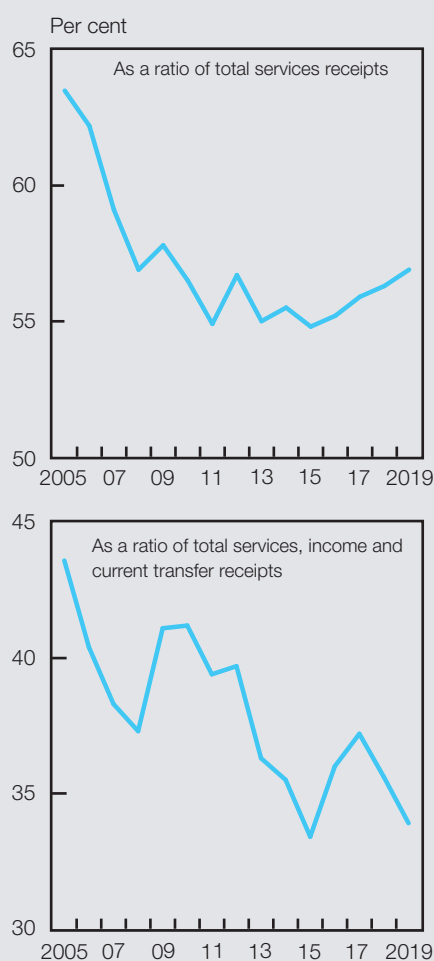


South Africa's current account of the balance of payments

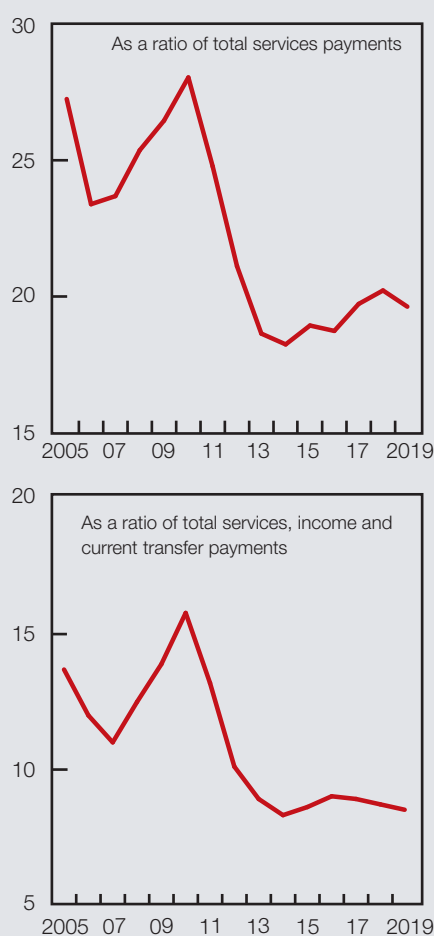
Calculation	High-level items	2019 R millions
	Exports of goods	1 303 145
Less	Imports of goods	1 263 824
<i>Equals</i>	Trade balance (A)	39 321
	Service receipts	212 721
	Of which: Travel receipts	121 132
Plus	Income receipts	116 781
Plus	Current transfer receipts	26 759
Less	Service payments	226 494
	Of which: Travel payments	45 407
Less	Income payments	259 944
Less	Current transfer payments	62 320
<i>Equals</i>	Service, income and current transfer balance (B)	-192 497
	Balance on current account (A+B)	-153 176

Sources: Stats SA and SARB

Travel receipts



Travel payments



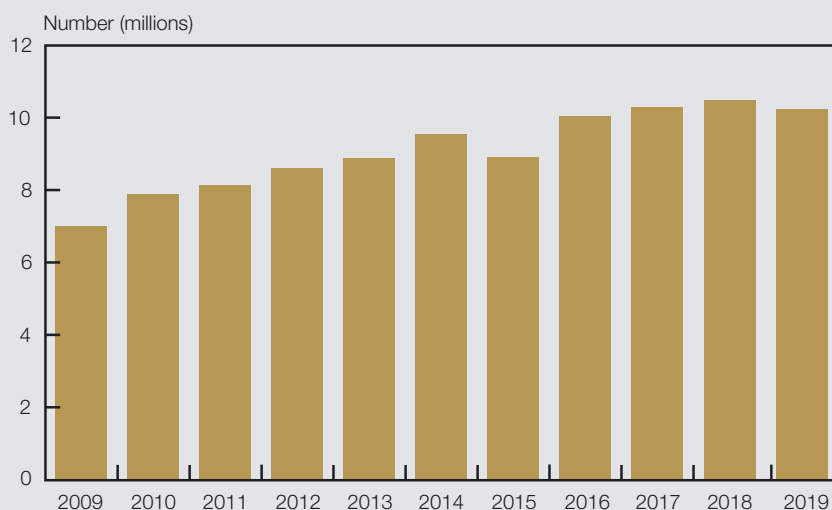
Sources: Stats SA and SARB



The bulk (around 92%) of the estimated total value of travel receipts reflects spending activities associated with a typical tourist, including spending on food, accommodation and transport. Hence, the number of foreign tourists⁴ visiting South Africa is an important indicator to assist in the estimation of the value of travel receipts, complemented by a variety of other sources, such as credit card payments. Similarly, the number of South Africans going temporarily abroad on business and personal travel is an important indicator to determine the value of travel payments.

The number of tourists visiting South Africa has been increasing steadily after South Africa's successful hosting of the 2010 FIFA World Cup™ before levelling off at just more than 10 million annually between 2016 and 2019. The origin of people visiting South Africa is diverse, and includes tourists from high-income countries in Europe and the United States (US) who tend to stay longer and spend more. Enticed by a depreciated domestic currency, especially since 2010, tourism from these countries has boosted overall travel receipts.

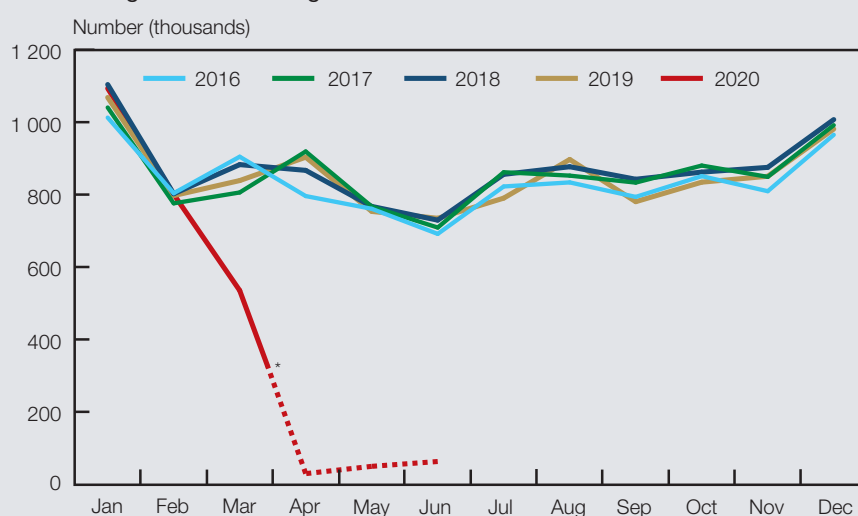
Foreign tourists visiting South Africa



Source: Stats SA

The number of tourists to South Africa is seasonal, with more arrivals in the months of January and December of each year, lifting the totals for both the first and the fourth quarters, which represents South Africa's summer season. In contrast, the second quarter (April, May and June) represents the start of the winter season, with fewer arrivals. This pattern is also related to the opposite seasons in the Northern Hemisphere. In 2020, the number of tourist arrivals in South Africa already declined notably in the first quarter, even though the domestic lockdown restrictions in response to the COVID-19 pandemic only took effect during the last week of March.

Foreign tourists visiting South Africa



* As from April, all foreign arrivals

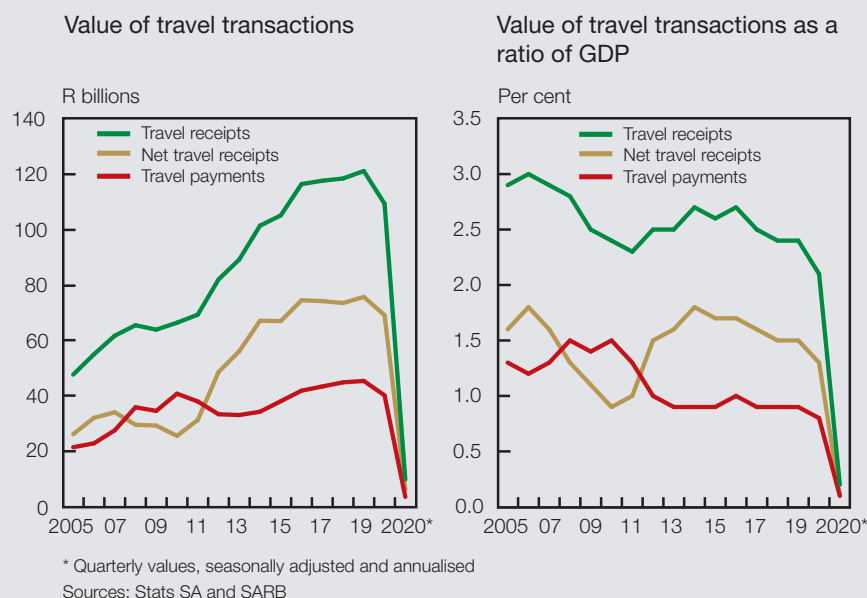
Source: Stats SA

⁴ This information has been obtained from Statistics South Africa's monthly newsletter, *P0351, Tourism and migration*, available at <http://www.statssa.gov.za/publications/P0351/P0351March2020.pdf>



However, certain countries of origin of tourists had already imposed such restrictions much earlier. This was followed by no foreign tourist arrivals during the second quarter.

In the second quarter of 2020, the sudden stop in inbound tourism, which resulted in plummeting travel receipts, was mitigated to some extent by a marked contraction in outbound travel payments.⁵ The net effect of these changes resulted in net travel receipts declining to as little as 0.1% of GDP in that quarter, compared with an average annual ratio of 1.5% for the 10-year period to 2019 and 1.3% in the first quarter of 2020. Although still marginally positive, this sudden and sharp decline in net travel receipts contributed to the current account balance reverting to a deficit of 2.4% of GDP in the second quarter of 2020 from a surplus of 1.2% in the first quarter.



International tourism is not likely to normalise soon. South Africa's borders remained closed by late September 2020, along with restricted international flights which are generally associated with the initial spread of COVID-19. Therefore, given the circumstances, the current account of the balance of payments is not expected to benefit much from travel receipts in the near future.

5 The quarterly statistics indicated in this box are seasonally adjusted and annualised to facilitate the calculation of ratios relative to GDP.

The deficit on the income account widened in the second quarter of 2020 after reaching its lowest level since the fourth quarter of 2016 in the first quarter of 2020. This could largely be ascribed to an increase in gross dividend payments from an unusually low base in the previous quarter. Gross dividend payments as a ratio of GDP increased to 2.2% in the second quarter of 2020 from 1.6% in the first quarter – the lowest ratio since the second quarter of 2004. Despite the increase in gross dividend payments as a percentage of GDP, it was still well below the quarterly average of 2.5% during the past five years, as it continued to mirror the weak economic conditions. In line with lower interest rates, gross interest payments contracted and prevented the deficit on the income account from widening further.

Net current transfer payments increased slightly in the second quarter of 2020 as gross payments increased more than gross receipts.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an outflow of R10.3 billion in the second quarter of 2020 from an inflow of R16.6 billion in the first quarter. On a net basis, direct investment, financial derivatives and reserve assets recorded inflows during the second quarter while portfolio and other investment recorded outflows, similar to the first quarter. Net financial account flows as a ratio of GDP switched from 1.3% in the first quarter of 2020 to -1.0% in the second quarter.



Net financial transactions

R billions

	2019				2020	
	Q2	Q3	Q4	Year	Q1	Q2
Change in liabilities						
Direct investment.....	27.9	17.3	10.5	66.8	29.0	17.4
Portfolio investment.....	10.0	40.2	9.3	88.0	-97.6	-54.8
Financial derivatives.....	-31.5	-37.9	-50.8	-163.2	-73.7	-116.1
Other investment.....	-4.9	0.9	-42.0	-10.2	52.0	-43.1
Change in assets						
Direct investment.....	5.5	-21.6	-12.4	-45.1	-9.2	18.9
Portfolio investment.....	17.5	34.7	8.7	43.0	79.6	41.7
Financial derivatives.....	31.0	34.8	52.3	159.0	87.8	129.5
Other investment.....	-50.3	83.0	24.6	5.4	-93.4	-25.9
Reserve assets.....	7.7	-77.2	9.9	-25.4	42.2	22.1
Total identified financial transactions*	12.8	74.3	10.1	118.5	16.6	-10.3
<i>As a percentage of gross domestic product.....</i>	<i>1.0</i>	<i>5.7</i>	<i>0.8</i>	<i>2.3</i>	<i>1.3</i>	<i>-1.0</i>

* Excluding unrecorded transactions. Components may not add up to totals due to rounding off.

Inflow + / outflow -

Source: SARB

Foreign-owned assets in South Africa

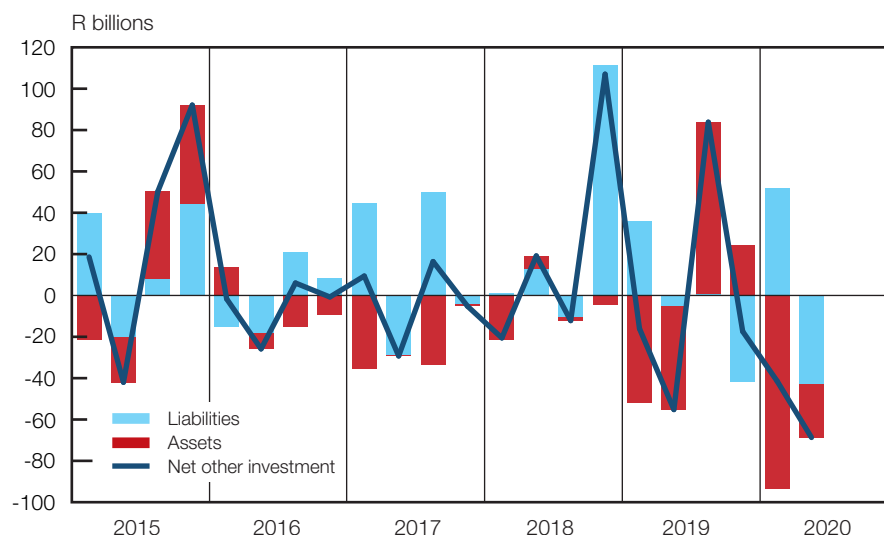
South Africa's direct investment liabilities increased by R17.4 billion in the second quarter of 2020 following an inflow of R29.0 billion in the first quarter, as foreign parent companies provided mainly debt funding to South African subsidiaries.

Portfolio investment liabilities recorded a smaller outflow of R54.8 billion in the second quarter of 2020 following an outflow of R97.6 billion in the first quarter. The outflow was mainly driven by non-residents' net sales of domestic debt securities and, to a lesser extent, equities. National government also redeemed two international bonds of US\$500 million and ¥30 billion during the second quarter of 2020. In total, non-residents disposed of debt securities of R41.7 billion in the second quarter following net sales of R74.4 billion in the first quarter. The net sales of equities declined to R13.1 billion from R23.2 billion over the same period.

Other investment liabilities reverted from an inflow of R52.0 billion in the first quarter of 2020 to an outflow of R43.1 billion in the second quarter due to the repayment of short-term loans by the domestic banking sector as well as the repatriation of deposits from the domestic banking sector by non-residents.



Other investment flows



South African-owned assets abroad

South Africa's direct investment assets abroad switched to an inflow of R18.9 billion in the second quarter of 2020 from an outflow of R9.2 billion in the first quarter. The reversal resulted largely from the repayment of loans by non-resident companies in a direct investment relationship with domestic companies.

South African residents disposed of foreign portfolio assets of a further R41.7 billion in the second quarter of 2020 following the disposal of R79.6 billion in the first quarter, as the domestic private non-banking sector sold foreign equities.

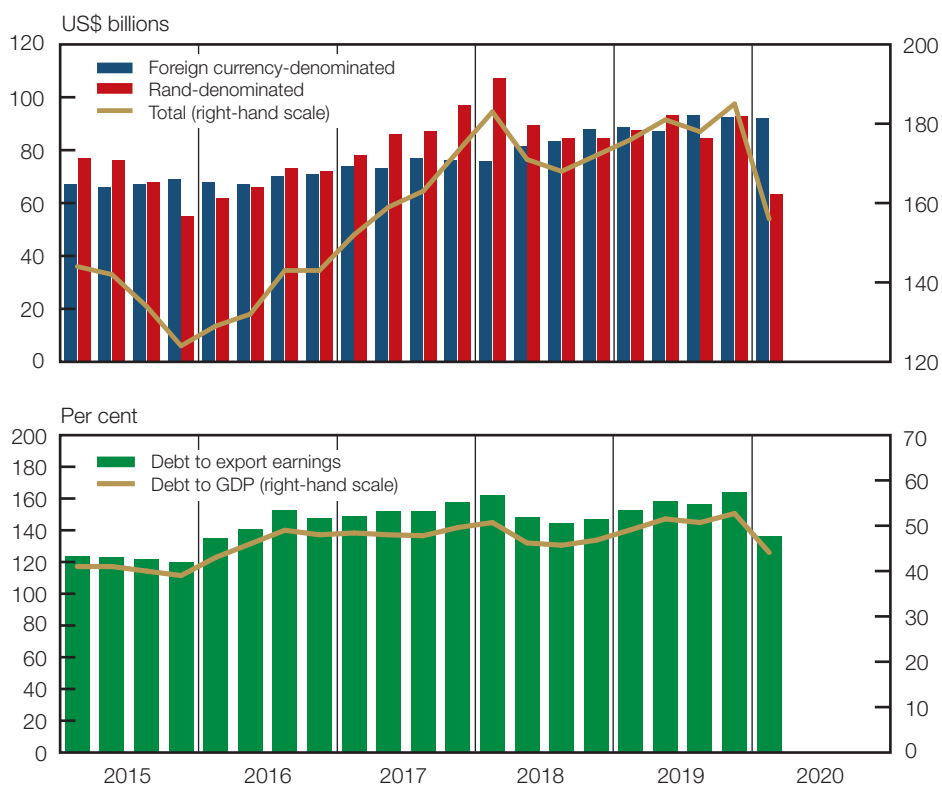
Other investment asset outflows of R25.9 billion in the second quarter of 2020 were much less than the outflow of R93.4 billion in the preceding quarter. The outflow was mainly the result of the domestic banking sector granting more short-term loans under repurchase agreements to non-residents, which was partly offset by the domestic banking sector's repatriation of deposits from non-resident banks.

Foreign debt

South Africa's total external debt decreased significantly from US\$185.4 billion at the end of December 2019 to US\$155.6 billion at the end of March 2020. However, expressed in rand terms, South Africa's total external debt increased from R2 603 billion at the end of December 2019 to R2 798 billion at the end of March 2020 as the exchange value of the rand depreciated against the US dollar.



Foreign debt



Source: SARB

Foreign currency-denominated external debt decreased marginally from US\$92.6 billion at the end of December 2019 to US\$92.1 billion at the end of March 2020. This decrease was mainly due to the redemption of a South African government foreign currency-denominated international bond.

South Africa's foreign debt

US\$ billions at end of period

	2018		2019		2020	
	Q4	Q1	Q2	Q3	Q4	Q1
Foreign currency-denominated debt.....	87.9	88.5	87.4	93.2	92.6	92.1
Debt securities	30.7	30.7	29.0	33.5	33.5	32.2
Other	57.1	57.8	58.4	59.7	59.1	59.9
Public sector	10.4	10.5	10.4	10.9	10.3	10.5
Monetary sector	18.6	17.9	18.0	17.8	18.7	19.7
Non-monetary private sector	28.2	29.4	30.0	31.0	30.0	29.7
Rand-denominated debt.....	84.6	87.5	93.2	84.5	92.8	63.5
Debt securities	48.1	50.4	55.1	50.0	57.6	36.9
Other	36.5	37.1	38.1	34.5	35.2	26.6
Total foreign debt	172.5	176.0	180.6	177.7	185.4	155.6
As a percentage of gross domestic product....	46.8	49.1	51.5	50.7	52.7	44.1
As a percentage of total export earnings	146.9	152.7	158.5	156.4	164.0	136.4

Source: SARB



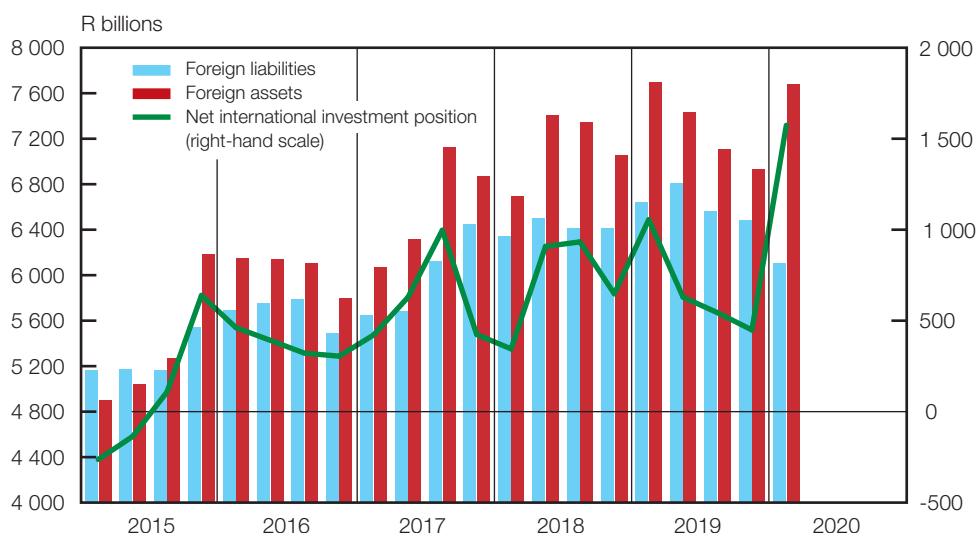
Rand-denominated external debt, expressed in US dollars, decreased substantially from US\$92.8 billion at the end of December 2019 to US\$63.5 billion at the end of March 2020. This decrease resulted mainly from the net sales of domestic rand-denominated bonds by non-residents, a decrease in the market value of non-resident bond holdings, as well as a decrease in the US dollar value of rand-denominated external debt due to the depreciation in the exchange value of the rand over the period.

South Africa's total external debt as a ratio of GDP decreased from 52.7% at the end of December 2019 to 44.1% at the end of March 2020. Similarly, the ratio of external debt to export earnings decreased from 164.0% to 136.4% over the same period.

International investment position

South Africa's positive net international investment position (IIP) increased more than threefold from R447 billion at the end of December 2019 to R1 574 billion at the end of March 2020. This reflected a marked increase in the market value of foreign assets and a further decline in foreign liabilities. The decrease in the nominal effective exchange rate (NEER) of the rand of 19.3% over the period affected foreign assets more than foreign liabilities. Divergent movements in some asset prices also contributed to the significant increase in the positive net IIP.

South Africa's international investment position



Source: SARB

The market value of South Africa's foreign assets (outward investment) increased by 10.8% from R6 927 billion at the end of December 2019 to R7 677 billion at the end of March 2020 following a decrease of 2.6% in the fourth quarter of 2019. All the functional categories of foreign assets increased in the first quarter of 2020, except for portfolio investment. Direct investment increased mainly as a result of the valuation effects of an increase in the share price of a large dual-listed company with a primary listing abroad, as well as the depreciation in the exchange value of the rand. Foreign portfolio investment assets declined as a result of a marked 20.0% decrease in the US S&P 500 Index as well as a decline in resident ownership of dual-listed companies domiciled abroad. Other investment assets increased mainly due to an increase in the value of resident banks' loans and deposits with non-residents, while reserve assets increased due to the valuation effects of the depreciation in the exchange value of the rand.

The market value of South Africa's foreign liabilities (inward investment) decreased by 5.8% from R6 480 billion at the end of December 2019 to R6 103 billion at the end of March 2020 following a decrease of 1.3% in the fourth quarter of 2019. The decrease reflected lower direct and portfolio investment, while financial derivatives and other investment increased. Direct and portfolio investment liabilities were impacted by the 22.1% decrease in the FTSE/JSE All-Share



Price Index (Alsi) in the first quarter of 2020. Non-residents also disposed of domestically issued debt securities while the market value of these securities declined as bond yields increased markedly in the first quarter. In addition, the South African government redeemed an international bond to the value of US\$1.6 billion. The increase in other investment liabilities resulted mainly from the decline in the NEER as well as non-residents granting short-term loans to the domestic banking sector.

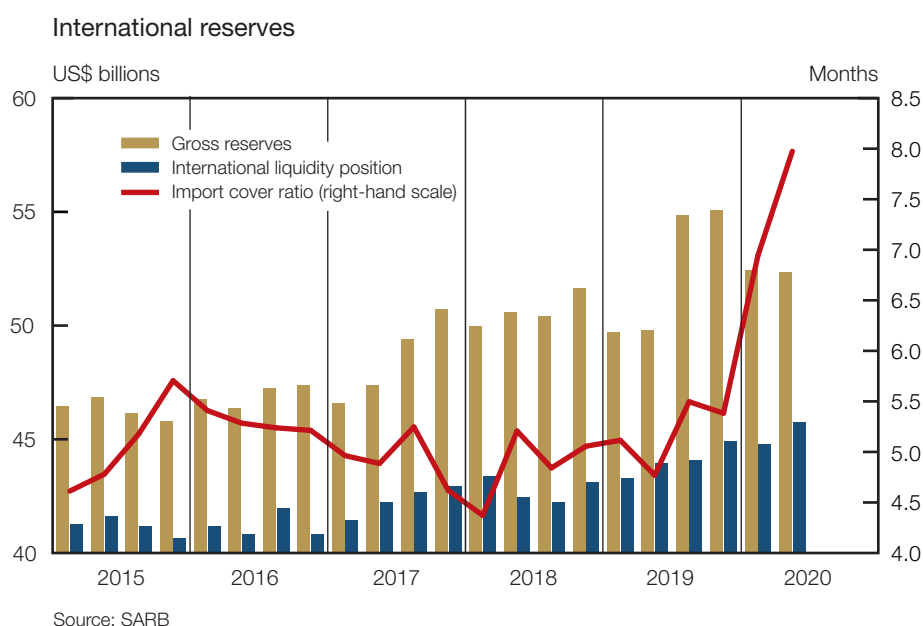
Foreign assets as a ratio of South Africa's annual GDP increased meaningfully from 136.4% at the end of December 2019 to 149.1% at the end of March 2020, while foreign liabilities decreased from 127.6% to 118.6% over the same period. This resulted in an increase in the positive net IIP to 30.6% of GDP at the end of March 2020.

International reserves and liquidity

South Africa's international reserve assets decreased by a further R22.1 billion in the second quarter of 2020 following a decrease of R42.2 billion in the first quarter.

Measured in US dollars, 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 slightly from US\$52.4 billion at the end of March 2020 to US\$52.3 billion at the end of June. Gross gold and other foreign reserves then increased substantially to US\$55.7 billion at the end of August, largely reflecting foreign borrowings received on behalf of government. South Africa's international liquidity position¹³ increased from US\$44.8 billion at the end of March 2020 to US\$45.7 billion at the end of June, and further to US\$50.5 billion at the end of August.

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.



The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports, as well as services and income payments) increased from 6.9 months at the end of March 2020 to a new all-time high of 8.0 months at the end of June.

Exchange rates¹⁴

The NEER of the rand increased by 2.7% in the second quarter of 2020 following a notable decrease of 19.3% in the first quarter amid the onset of global lockdown regulations which restricted economic activity in an effort to curb the spread of the COVID-19 pandemic. The NEER decreased by only 0.4% in April 2020, despite South Africa's exclusion from the FTSE World Government Bond Index (WGBI) following the sovereign credit rating downgrade to non-investment grade by the third major credit rating agency in March 2020. The downgrade was

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



well anticipated and likely already priced in, while sentiment was supported by monetary policy easing by several major central banks, including the SARB.

Exchange rates of the rand

Percentage change

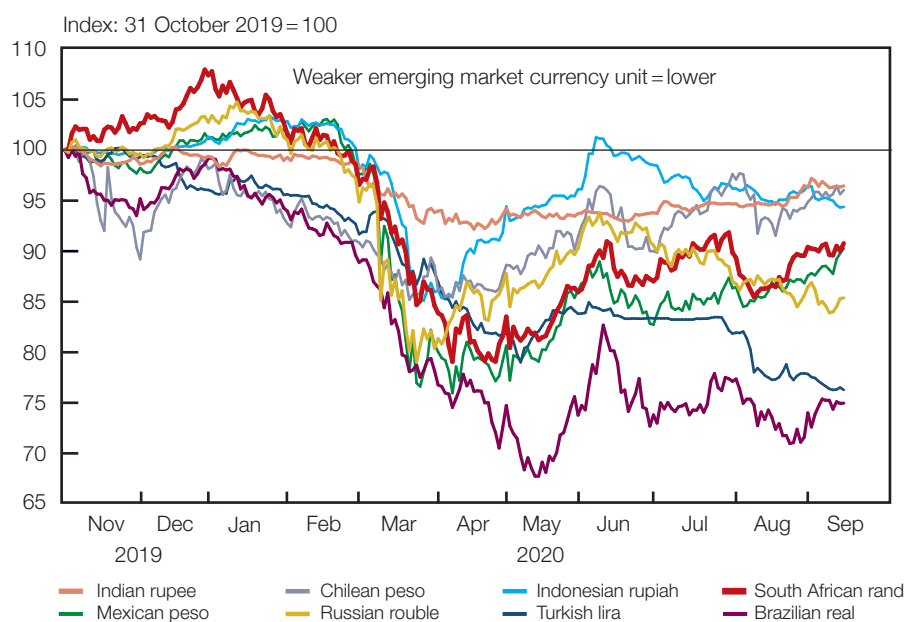
	28 Sep 2019 to 31 Dec 2019	31 Dec 2019 to 29 Mar 2020	29 Mar 2020 to 28 Jun 2020	28 Jun 2020 to 11 Sep 2020
Weighted average*	6.1	-19.3	2.7	0.3
Euro	5.5	-20.4	1.7	-2.0
US dollar	8.2	-21.9	3.8	3.4
Chinese yuan.....	5.6	-20.5	3.5	0.0
British pound.....	1.5	-16.9	4.2	-0.9
Japanese yen	9.0	-22.2	3.2	2.0

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

Source: SARB

The NEER then increased by 2.6% and 0.5% in May 2020 and June respectively. Investor sentiment improved in May amid the gradual easing of lockdown restrictions and further monetary policy easing in several countries. South Africa also experienced a reduction of portfolio outflows in May, in line with several other emerging markets. Investor sentiment became slightly less optimistic in June 2020 as global COVID-19 infection rates soared alongside a widespread gradual easing of lockdown restrictions.

Emerging market currencies against the US dollar

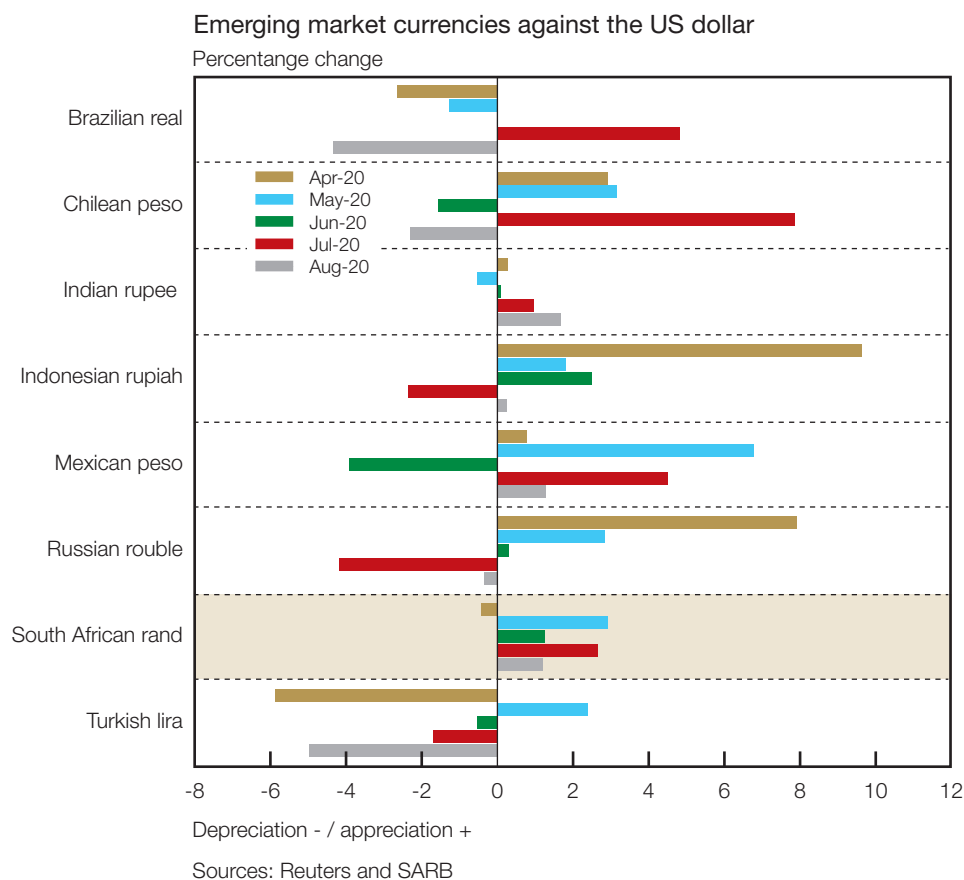


Sources: Reuters and SARB

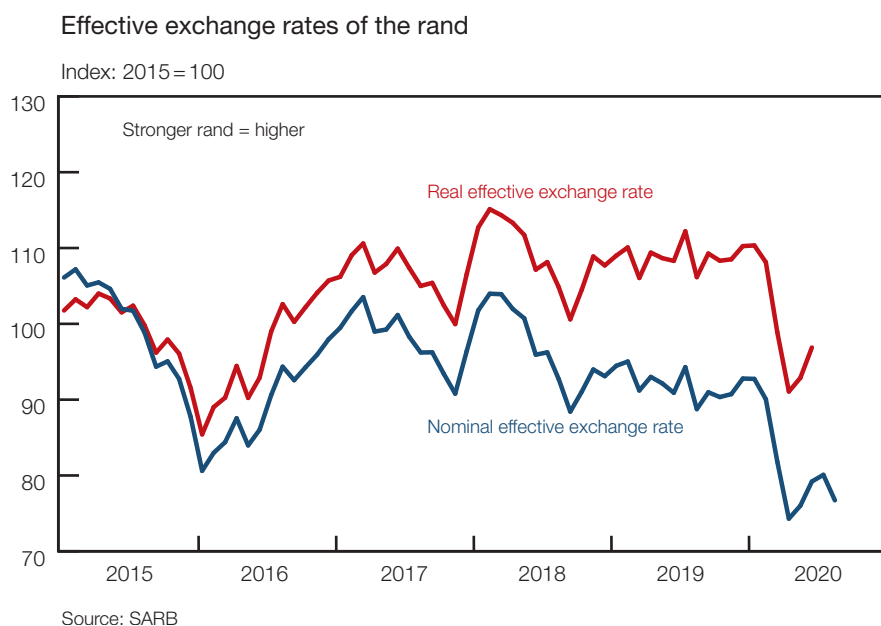
Risk appetite towards emerging market economies improved in July 2020 amid commitments of additional economic stimulus measures, particularly in the eurozone. Several emerging market currencies, including the rand, appreciated against the US dollar along with indications of economic weakness in the US together with political developments ahead of the presidential elections in November. The NEER increased marginally by 0.3% from the end of June 2020 to



11 September. Domestic developments, such as the resumption of electricity load-shedding and the release of second-quarter-of-2020 statistics that reflected a larger-than-expected contraction in real GDP, were offset by the continued appreciation of the rand against the US dollar.



The real effective exchange rate (REER) of the rand decreased by a notable 10.6% from June 2019 to June 2020, reflecting improved competitiveness for domestic producers in foreign markets over this period. This decrease resulted mainly from the sharp depreciation in the exchange value of the rand amid the implementation of lockdown restrictions at the end of March 2020 in response to the COVID-19 pandemic.

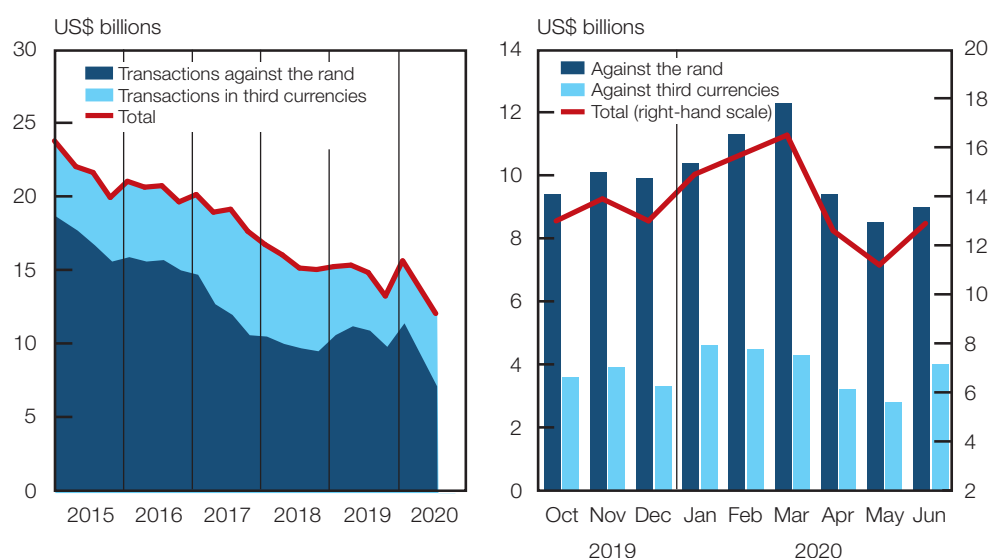


Turnover in the South African foreign exchange market

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.

The net average daily turnover¹⁵ in the South African foreign exchange (FX) market decreased significantly by 21.9% from US\$15.8 billion in the first quarter of 2020 to US\$12.3 billion in the second quarter, following an almost equally large increase of 17.8% in the previous quarter. These marked quarterly changes mainly reflected the impact of COVID-19 on the FX market. This resulted in declines in the value of FX transactions against the rand and in third currencies. The impact from COVID-19 was more severe in the market for third currencies during April 2020 and May, but these then increased more strongly than transactions against the rand in June. FX transactions against the rand decreased by 21.1% from US\$11.4 billion in the first quarter of 2020 to US\$9.0 billion in the second quarter, while FX transactions in third currencies decreased by 23.9% from US\$4.4 billion to US\$3.4 billion over the same period.

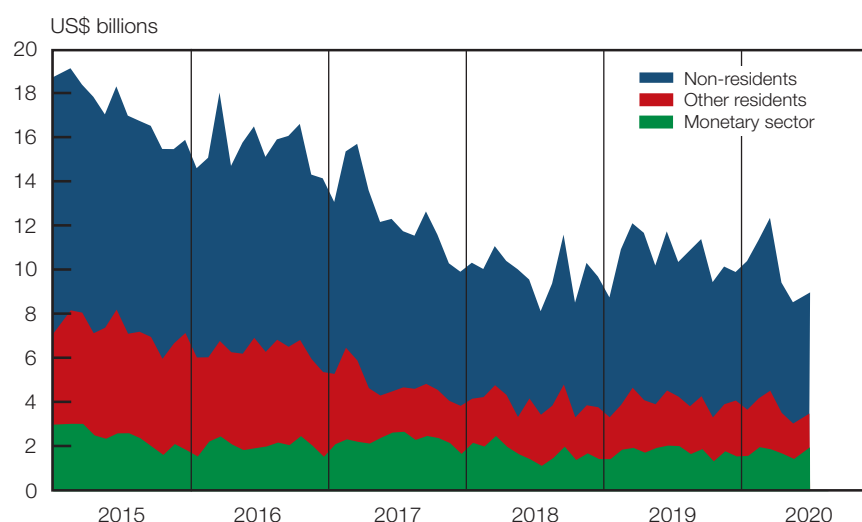
Net average daily turnover in the South African foreign exchange market



Source: SARB

Non-residents remained the dominant participants in FX transactions against the rand in the South African FX market. FX transactions against the rand with non-resident counterparties decreased significantly from US\$7.2 billion in the first quarter of 2020 to US\$5.6 billion in the second quarter. Transactions against the rand in the monetary sector and with residents also decreased, from US\$1.8 billion and US\$2.3 billion respectively in the first quarter of 2020 to US\$1.7 billion each in the second quarter.

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

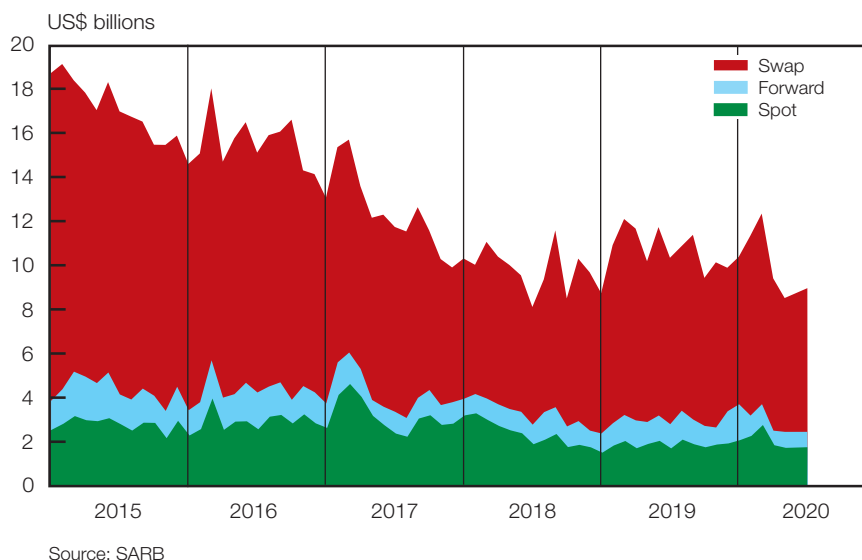


Source: SARB



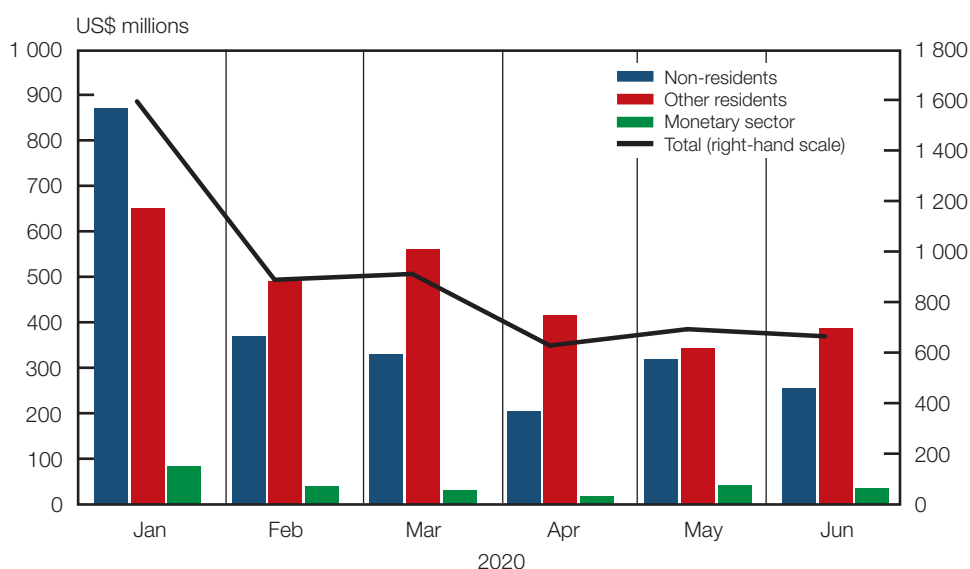
Swap transactions dominated the market for transactions against the rand, followed by spot and forward transactions. All the instrument types declined, on average, from the first quarter of 2020 to the second quarter amid the COVID-19 pandemic. Forward transactions declined the most at 41.2%, followed by spot transactions at 24.8% and swaps at 17.0%.

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



Non-residents dominated the counterparty composition in both the spot and the swap markets at the end of the first quarter of 2020, at US\$1.8 billion and US\$5.7 billion respectively, before declining to US\$1.1 billion and US\$4.1 billion respectively at the end of the second quarter.

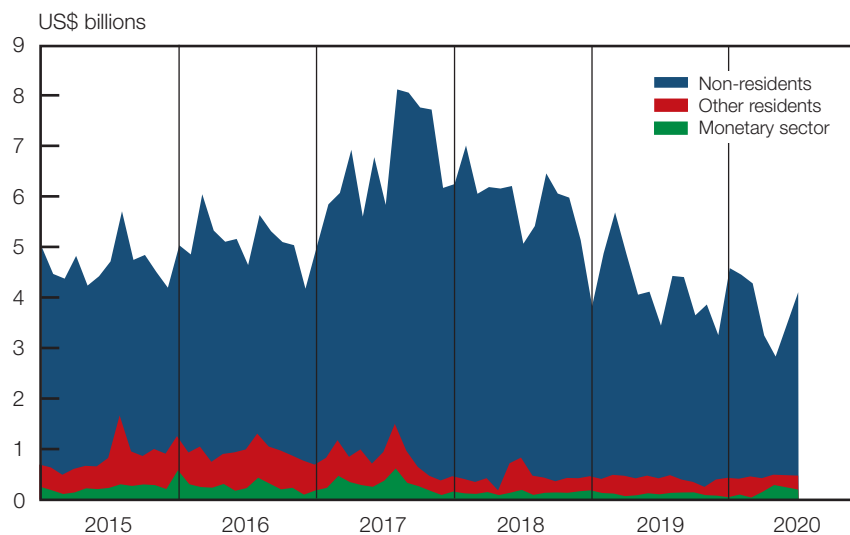
Composition of forward transactions of net average daily turnover in the South African foreign exchange market against the rand, by counterparty





The decrease in the turnover in third currencies from the first to the second quarter of 2020 was mainly driven by lower non-resident participation, from US\$4.0 billion to US\$2.9 billion, while resident participation declined from US\$0.4 billion to US\$0.2 billion. In contrast, the monetary sector's participation increased slightly from US\$0.1 billion in the first quarter of 2020 to US\$0.2 billion in the second quarter.

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



Source: SARB

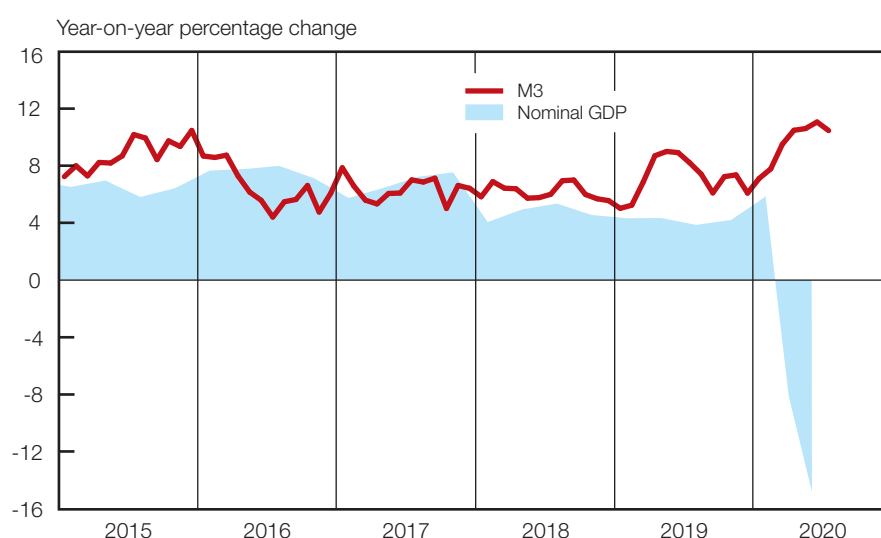


Monetary developments, interest rates and financial markets

Money supply

Growth in the broadly defined money supply (M3) accelerated further in the second quarter of 2020 as both financial and non-financial companies as well as households showed a preference for bank deposits amid uncertainty about the impact of the COVID-19-related national lockdown on economic activity and financial markets. With economic activity contracting sharply in the second quarter of 2020, the robust expansion in M3 outstripped growth in *nominal* GDP by an even larger margin. The quarter-to-quarter, seasonally adjusted and annualised growth in M3 accelerated rapidly from 8.8% in the first quarter of 2020 to 27.2% in the second quarter – its highest growth rate since 2007. With the significant expansion in M3 contrasting the contraction in GDP, the income velocity of M3 decreased sharply from 1.36 in the first quarter of 2020 to an all-time low of 1.05 in the second quarter.

Money supply and gross domestic product



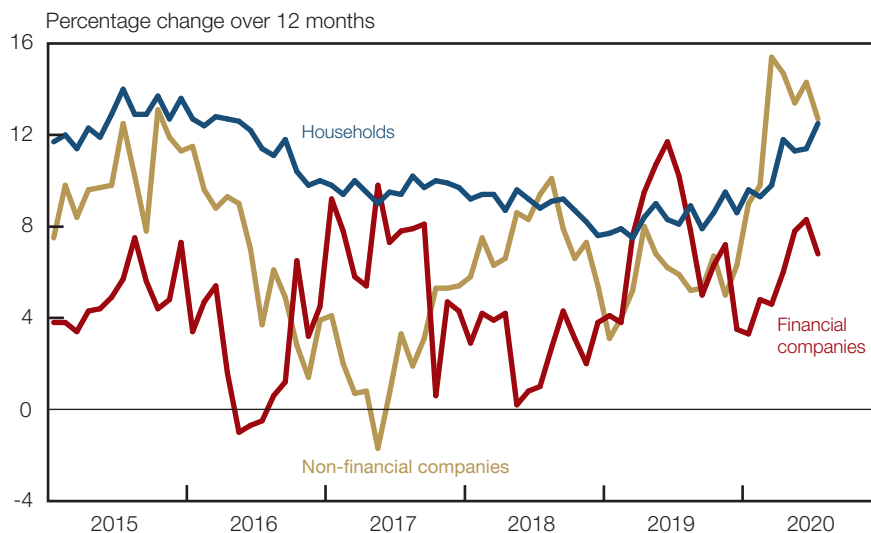
Sources: Stats SA and SARB

Growth in M3, which had increased from 7.1% in January 2020 to 9.5% in March before the lockdown, accelerated to 11.1% in June and 10.5% in July during the restrictions. The acceleration in deposit holdings was probably driven by a confluence of factors, including concerns about the uncertain impact on economic activity together with the effect of a temporary restriction on movement and business closures. Growth in the deposit holdings of the household sector fluctuated around a relatively lively average of 9.6% in the first three months of 2020, and gained further momentum to 11.8% in April when lockdown restrictions started to limit consumers' ability to spend. Household deposit growth then levelled off in May and June before again accelerating to 12.5% in July amidst uncertainty created by job losses, salary reductions, and permanent business closures constraining income growth.

Growth in the deposit holdings of the corporate sector accelerated from 5.8% in January 2020 to 10.9% in June before slowing to 9.5% in July. Within the corporate sector, growth in the deposit holdings of non-financial companies accelerated significantly from 9.0% in January 2020 to 15.4% in March before the lockdown. During the course of the lockdown, the deposit growth of non-financial companies slowed to 12.7% in July 2020 as business activity was slow to gain traction. The rate of increase in the deposit holdings of financial companies decelerated to 7.0% in July after accelerating markedly from a low of 3.3% in January 2020 to 8.3% in June. This reflected investors' preference for liquidity amid uncertain financial market conditions and inflows from coupon payments on domestic government bonds of around R140 billion during the first seven months of 2020.



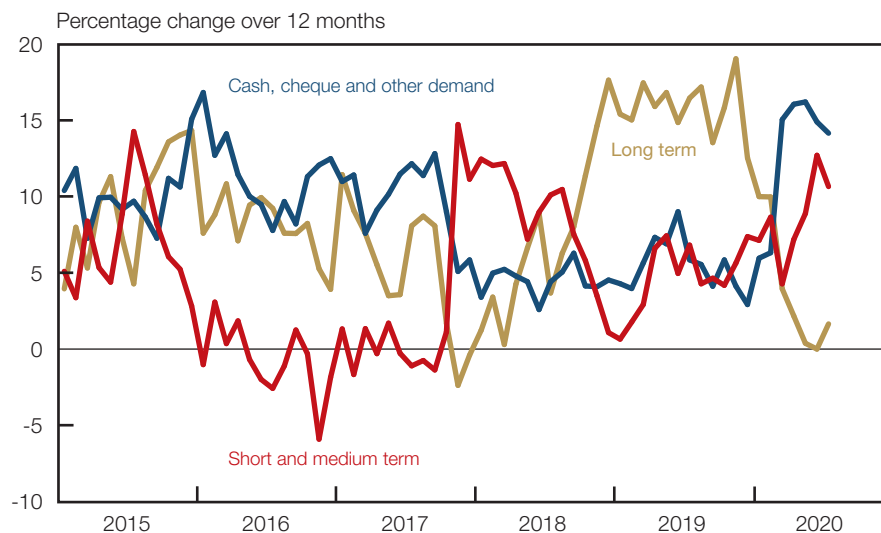
Deposit holdings of households and companies



Source: SARB

The preference for liquidity was also reflected by the sharp increase in the cash, cheque and other demand deposits, with growth accelerating from 6.0% in January 2020 to 16.2% in May before moderating slightly to 14.3% in July. Growth in other short- and medium-term deposits also accelerated briskly, from a low of 4.3% in March 2020 to 12.7% in June, with some moderation to 10.7% in July. This was offset by significantly slower growth in long-term deposits, which decelerated from 10.0% in January 2020 to zero growth in June, followed by a slight acceleration to 1.7% in July.

Deposits by maturity



Source: SARB

Total M3 deposits increased by a still sizeable R125 billion in the second quarter of 2020, although by much less than the recent high increase of R214 billion in the first quarter. The increase in deposit holdings in the second quarter was dominated by financial companies and households at R76.7 billion and R66.1 billion respectively. By contrast, the deposits of non-financial companies contracted by R17.6 billion, with provisional tax payments due in the



period and as the gradual resumption of business operations amid the COVID-19 lockdown restrictions also required the utilisation of funds. The deposits of financial companies reflected the increased placement of deposits by the Public Investment Corporation (PIC) and various fund managers as investor appetite for, among other things, negotiable certificates of deposit (NCDs) increased. The notable increase in household deposits was likely related to a change in consumption expenditure patterns in a recessionary and national lockdown environment.

M3 holdings of households and companies

	Year-on-year change (R billions)					Percentage of total M3 deposit holdings*
	2019			2020		
	Q2	Q3	Q4	Q1	Q2	
Households	41.5	32.9	21.2	27.0	66.1	35.1
Companies: Total.....	20.2	39.7	-24.9	187.4	59.1	64.9
<i>Of which:</i> Financial	25.3	9.9	-63.3	89.4	76.7	35.9
Non-financial.....	-5.1	29.8	38.4	98.0	-17.6	29.0
Total M3 deposits.....	61.8	72.6	-3.7	214.4	125.2	100.0

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

Source: SARB

Statistically, the counterparts to the M3 increase of R125 billion in the second quarter of 2020 included an increase of R86.2 billion in net credit extended to the government sector¹⁶. In addition, net foreign assets of the monetary sector contributed R46.8 billion, while net other assets (a contra-entry absorbing changes in foreign assets, among other factors) increased by R31.0 billion in the second quarter of 2020. A decrease of R38.9 billion in claims against the domestic private sector moderated the overall change in M3 somewhat.

16 This is the difference between government deposits and banks' claims on government (mainly holdings of government securities).

Credit extension

Growth in the total loans and advances extended by monetary institutions to the domestic private sector continued to moderate in the second quarter of 2020 amid the sharp contraction in domestic economic activity during the COVID-19-related lockdown. The year-on-year growth in total loans and advances slowed almost uninterruptedly from January 2020 to a low of 2.4% in July – with the exception of a brief acceleration to 5.3% in March when the lockdown was implemented. The deceleration occurred despite substantial interest rate relief and a variety of measures¹⁷ to ease liquidity conditions in support of credit extension to alleviate the effects of the COVID-19 pandemic.

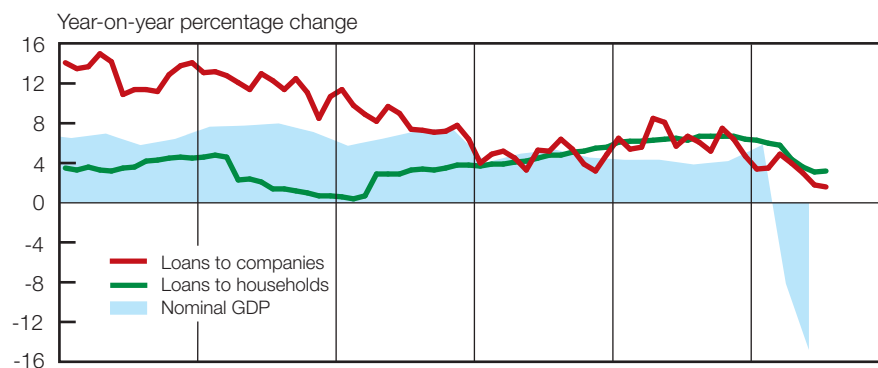
17 See the 'Note on South Africa's liquidity measures in response to the COVID-19 pandemic' on page 89 in the June 2020 *Quarterly Bulletin*.

Weak credit extension was also reflected by the quarter-to-quarter, seasonally adjusted and annualised growth in total loans and advances to the domestic private sector. This measure of credit extension increased from a multi-year low of 1.8% in the first quarter of 2020 to only 4.2% in the second quarter, significantly less than the 9.2% in the same period a year earlier. However, total loans and advances as a percentage of GDP increased notably from 68.1% in the first quarter of 2020 to 83.4% in the second quarter, largely due to the marked decrease in nominal GDP.

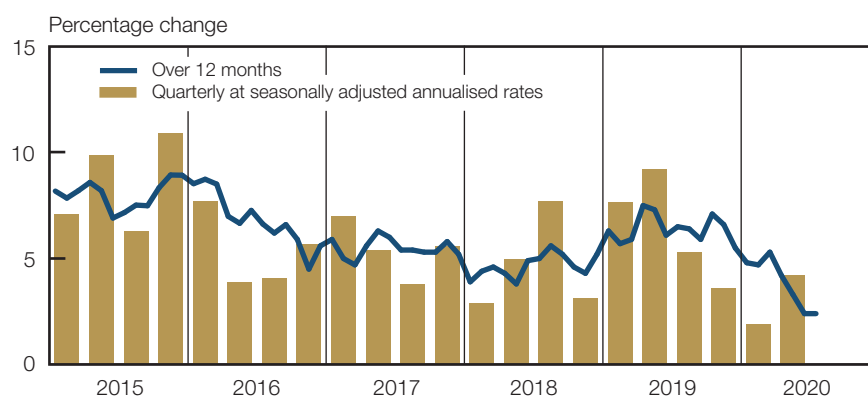




Bank loans and gross domestic product



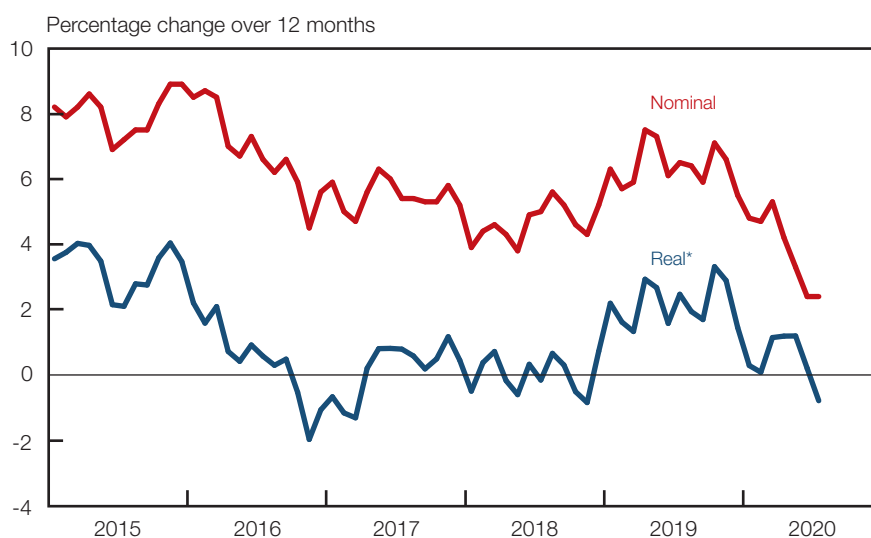
Total loans and advances to the private sector



Sources: Stats SA and SARB

Real credit growth slowed from a recent high of 3.3% in October 2019 to -0.8% in July 2020 as both the corporate and the household sector's demand for bank funding decreased at a faster pace than the moderation in consumer price inflation. Despite the weak growth in credit extension, the occasional increase in real credit growth in 2020 resulted from a sharp deceleration in consumer price inflation.

Total loans and advances

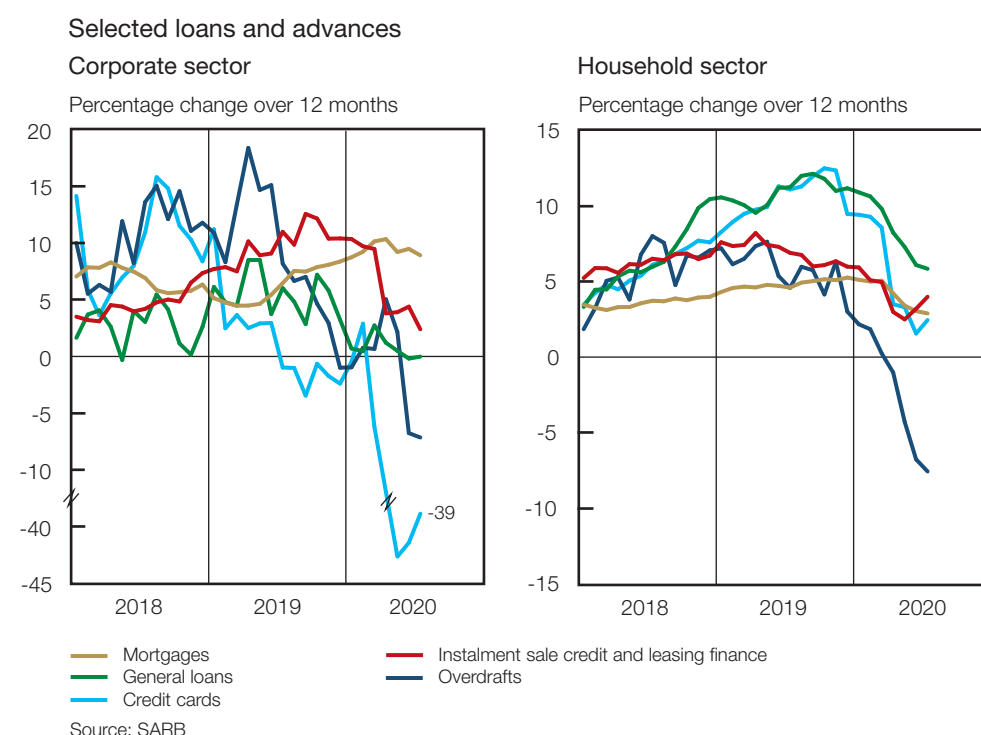


* Deflated with the consumer price index
Source: SARB



The corporate sector's demand for bank funding, which was already weak at the start of 2020, gained some momentum in the two months prior to the COVID-19-related national lockdown which commenced on 27 March. Growth in credit extended to the corporate sector subsequently petered out to 1.6% in July. Credit extension to households also decelerated during the first half of 2020, hampered by the inability to spend on non-essential goods and services as well as salary reductions and job losses. Growth in credit extension to the household sector moderated from 6.3% in January 2020 to 3.1% in June and 3.2% in July.

Credit extension to the corporate sector contracted by R44.3 billion in the second quarter of 2020 – the largest quarterly decrease since this was first measured in 1994. The dominant corporate credit category, general loans, decreased by R39.3 billion and also reflected the repayment of temporary bridging finance for a merger transaction concluded in the first quarter. Credit extension to non-financial companies contracted by R56.1 billion in the second quarter, in particular to the mining and mineral resources, energy production and retail trade sectors. By contrast, credit extension to financial companies, which focused on, among other things, securities trading and asset management, expanded by R11.8 billion.

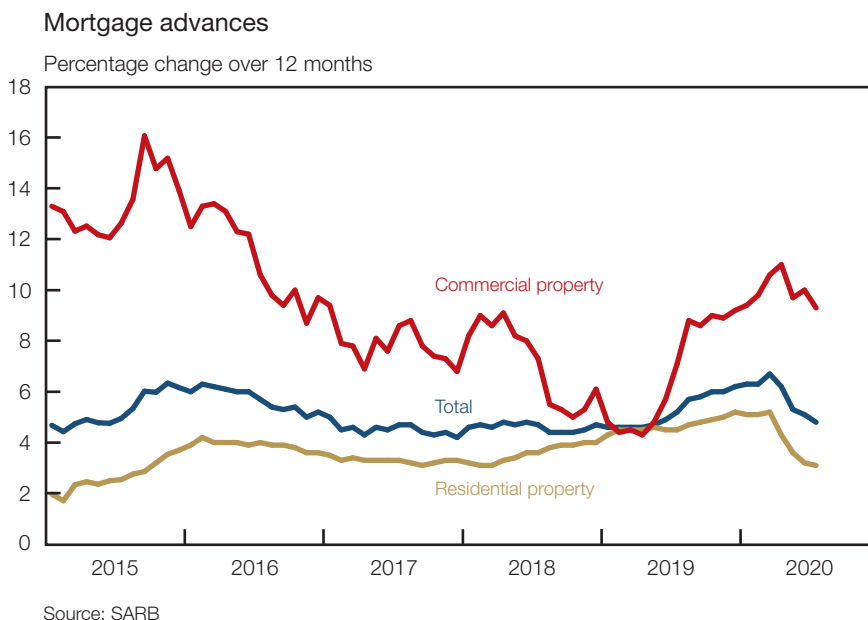


Growth in general loans to companies was particularly weak in the first seven months of 2020, moderating from 3.2% in December 2019 to -0.2% in June 2020, with a slight acceleration to zero per cent in July. The sharp contraction in domestic economic activity following the limited trading during the lockdown contributed to lower demand for credit. Credit card advances fell by as much as 42.8% year on year in May 2020 and by 39.0% in July, while overdrafts decreased by 7.1% in July. These two categories constitute 0.3% and 9.4% respectively of total loans to companies.

Credit extension to the household sector has moderated thus far in 2020, with all categories of credit slowing noticeably during the lockdown period owing to travel restrictions, the prohibition of non-essential purchases as well as income and employment uncertainty brought about by the COVID-19 pandemic. The year-on-year growth in general loans to households decelerated from a recent high of 12.1% in September 2019 to 5.8% in July 2020, while growth in instalment sale credit remained weak at 4.0% and that of credit card advances dwindled to 2.4%. At the same time, the utilisation of overdrafts contracted by 7.6% from a year earlier.



Growth in *mortgage advances* initially accelerated moderately further to 6.7% in March 2020 before moderating to 4.8% in July. The inability to view properties during the national lockdown was particularly evident in mortgage advances on residential and farm properties, with growth decelerating from 5.2% in March 2020 to 3.1% in July. The slowdown in residential mortgage advances was further exacerbated by the inability to process property transfers during this period. Growth in mortgage advances on commercial property was somewhat livelier, accelerating to 11.0% in April 2020 before moderating slightly to 9.3% in July.



Growth in *instalment sale credit and leasing finance*, mainly used to finance the purchases of new and used vehicles, also slowed noticeably in the first half of 2020 as vehicle sales plummeted amid the lockdown. 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 before accelerating marginally to 3.5% in July when vehicle sales were again allowed. However, the overall demand for new vehicles remained well below that of previous years.

The weak demand for credit was evident across nearly all the domestic economic sectors in the second quarter of 2020. Nonetheless, some sectors still experienced double-digit growth rates, such as mining and quarrying, construction as well as the community, social and personal services sector. Credit extension to the mining and quarrying sector rebounded in the second quarter of 2020, mainly due to facilities taken up by platinum mines and plant hire businesses. However, credit to this sector is a small component of overall credit extension, making it susceptible to base effects. Credit extension to the construction sector was one of the few categories where growth accelerated in the second quarter of 2020 as the sector resumed operations in May. Credit demand by the wholesale and retail trade sector switched from two consecutive contractions to an increase in the second quarter, possibly due to a larger variety of products being available for purchase and the resumption of selected business activities after the initial strict lockdown. Credit demand by the agriculture, manufacturing and real estate sectors remained fairly buoyant in the second quarter of 2020, although growth was lower than in the previous quarter. Credit growth in the transport, business services as well as electricity, gas and water supply sectors also decelerated notably in the second quarter as the national lockdown exacerbated the recessionary conditions.



Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2019			2020		Percentage of total credit extension*
	Q2	Q3	Q4	Q1	Q2	
Households	6.8	7.8	7.6	6.6	3.7	34.9
Finance and insurance	-1.2	-5.4	-7.2	8.7	2.8	16.8
Real estate	6.5	10.9	8.0	12.6	9.9	11.6
Wholesale and retail trade	2.9	0.3	-7.3	-0.1	4.0	5.1
Manufacturing	6.3	5.2	0.1	10.7	7.7	4.6
Business services	1.9	-1.9	-4.1	11.1	6.7	3.4
Transport, storage and communication	10.0	4.8	3.1	5.7	3.9	3.2
Electricity, gas and water	-1.3	9.8	10.4	3.5	1.2	2.3
Agriculture, forestry and fishing	7.9	-4.4	-7.5	12.4	8.8	2.4
Mining and quarrying	0.2	1.0	-6.5	4.2	33.2	2.0
Construction	5.9	2.3	5.7	6.4	10.5	0.9
Community, social, personal services and other	-0.5	-3.1	7.6	-3.0	12.3	13.0
Total	3.8	2.9	2.8	6.4	6.2	100.0

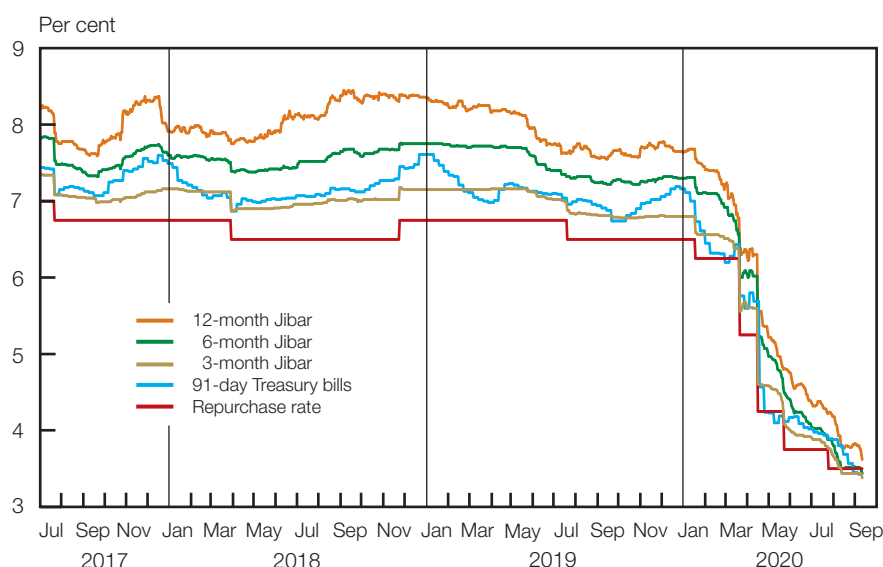
* Expressed as a percentage of the total outstanding balance for June 2020

Source: SARB

Interest rates and yields

The SARB's Monetary Policy Committee (MPC) lowered the repurchase (repo) rate by a further 25 basis points in July 2020 to 3.50%, but kept it unchanged at the September meeting. The SARB has lowered the repo rate by a cumulative 300 basis points since January 2020, in an attempt to mitigate the economic impact caused by the COVID-19 pandemic. The repo rate is currently not only at its lowest level since the inception of the repurchase framework in 1998, but also the lowest overall policy rate since 1973. The MPC has noted that the easing of lockdown restrictions has supported economic growth more recently, with high-frequency indicators showing a pickup in activity from extremely low levels. However, the recovery to pre-pandemic output levels is expected to be protracted.

Money market rates



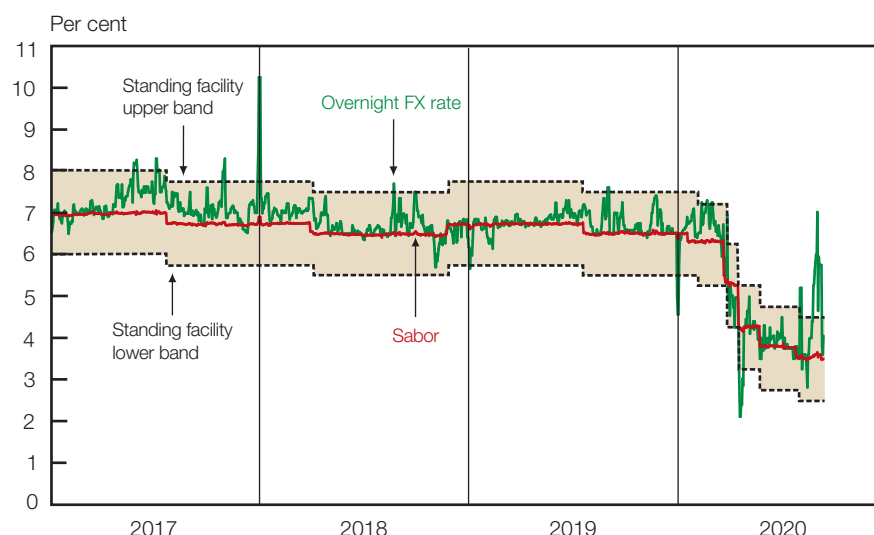
Source: SARB



The decline in domestic short-term money market interest rates in the first half of the year continued after the reduction in the policy rate in July 2020. The tender rate on 91-day Treasury bills (TBs), which decreased from 5.80% on 8 April 2020 to 3.45% on 28 August, reflected demand from banks for high-yield money market instruments rather than placing surplus funds at the standing facility rate offered by the SARB of 200 basis points below the repo rate. Subsequently, the tender rate decreased slightly to 3.43% on 11 September as demand moderated. The 3-month Johannesburg Interbank Average Rate (Jibar) decreased by 230 basis points, from 5.68% on 28 March 2020 to 3.38% in early September. Both the 6-month and the 12-month Jibar declined even more sharply, by more than 260 basis points each over the same period.

Movements in the South African Benchmark Overnight Rate (Sabor) on deposits were broadly aligned with those in the repo rate, as the Sabor decreased from 6.34% on 19 March 2020, a day before the decrease in the repo rate came into effect, to 3.48% on 11 September. Between April 2020 and early September, the Sabor fluctuated within a narrow range of, on average, only 3 basis points above and below the repo rate, only occasionally deviating slightly more whenever market conditions were less favourable. The overnight FX rate also started to decrease more significantly after the second reduction in the repo rate in March 2020, as it fell sharply from 6.72% on 19 March to 2.11% on 17 April, temporarily breaching the lower standing facility limit because of adequate liquidity in the market. The opposite occurred right at the start of August and again at its end, amid temporary shortages of liquidity in the FX forward market. On balance, the overnight FX rate continued its declining trend, from an average of 4.17% in May 2020 to an average of 3.81% in July, and further to 3.58% on 11 September.

Benchmark overnight rates

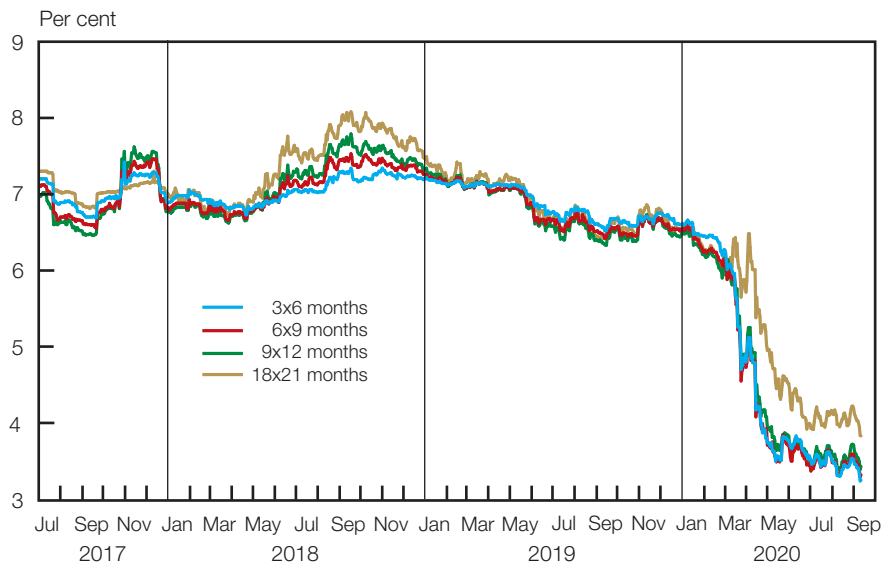


Source: SARB

The rates on forward rate agreements (FRAs) across the different maturities trended sharply lower until shortly after the July 2020 reduction in the repo rate, levelling off somewhat as market expectations of further policy rate cuts subsided. The FRA rates across the maturity spectrum then adjusted slightly higher towards the end of July as the exchange value of the rand depreciated, before declining further in early September with the lower-than-expected GDP growth outcome ahead of the MPC meeting. For example, the 3x6-month FRA decreased from 5.26% on 20 March 2020 to 3.43% on 15 July, but then edged slightly higher to 3.62% on 27 July. This FRA rate then fluctuated broadly sideways in August before declining further to 3.25% in early September. Similarly, the 6x9-month FRA decreased from 5.22% on 20 March 2020 to 3.31% on 11 August before increasing to 3.59% on 27 August. Subsequently, this FRA rate declined again to 3.33% on 11 September. The 9x12-month FRA followed suit, decreasing by 202 basis points from 5.40% on 20 March 2020 to 3.38% on 11 August before bottoming out and increasing to 3.72% on 28 August. Subsequently, the 9x12-month FRA declined to 3.45% on 11 September.



Forward rate agreements

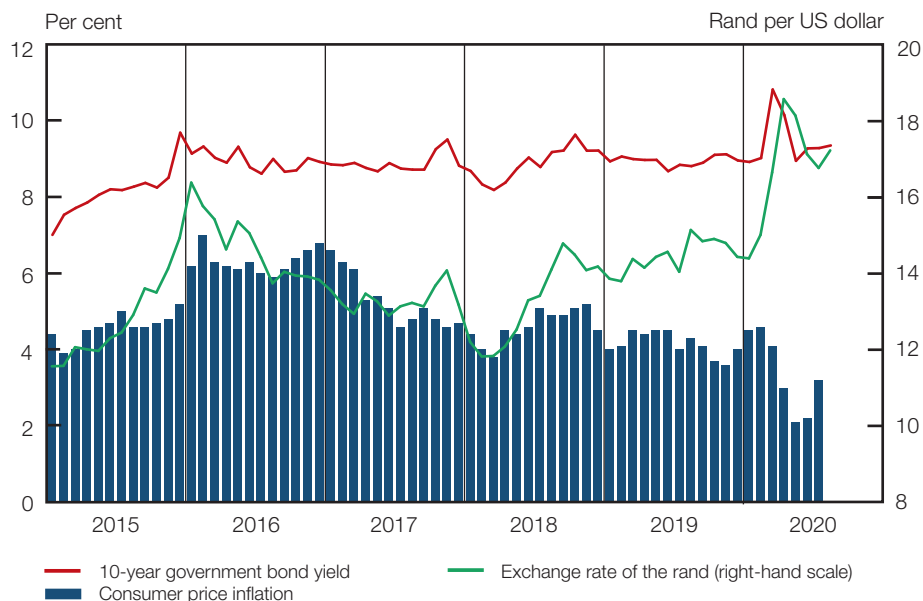


Source: SARB

Private sector banks continued to adjust their deposit and lending rates lower in line with the 300 basis points reduction in the repo rate since the start of 2020. Consequently, the prime lending rate declined from 9.75% on 19 March 2020 to a historical low of 7.00% on 24 July. Similarly, the weighted-average flexible rate charged by banks on mortgage advances decreased from 9.44% in February 2020 to 6.69% in July, while the average interest rate offered on a one-month notice deposit decreased from 6.17% to 3.62% over the same period. Thus far in 2020, the weighted-average flexible interest rate on mortgage advances has declined by a cumulative 267 basis points, while interest rates on one-month notice deposits have decreased by 254 basis points and those on call deposits by 217 basis points.

The significant decline in the yield on *10-year South African rand-denominated government bonds* issued and traded in the domestic market of 339 basis points in April and May to a recent low of 8.72% on 3 June 2020 was followed by a brief increase to 9.68% on 8 July before receding to 9.40% on 11 September. The movements in bond yields thus far in 2020 have reflected

Government bond yield, inflation and the exchange rate



Sources: IRESS, JSE, Stats SA and SARB

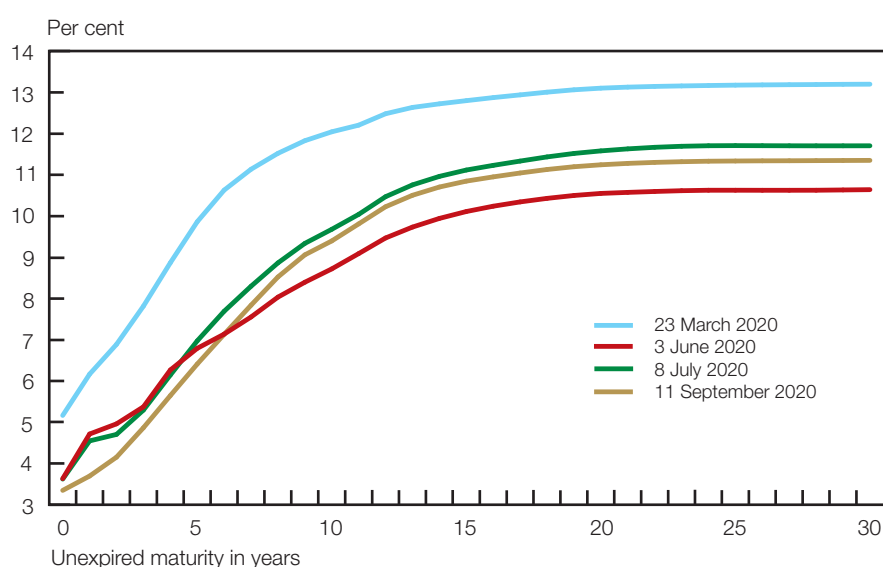


18 The yield gap is measured as the difference between yields at the extreme long and short ends of the yield curve.

uncertainty as to the economic impact of the COVID-19 pandemic and the concomitant changes in South Africa's sovereign and currency risk premiums as well as non-resident net sales of bonds. This was exacerbated by concerns about the sustainability of South Africa's public finances against the backdrop of an increase in government debt, as projected in the *Supplementary Budget*. More recently, bond yields reflected the strengthening of the exchange value of the rand and continued benign inflation.

The level of the *yield curve*, which initially declined notably and then flattened somewhat from 23 March 2020 to 3 June, again moved higher and steepened to early July amid renewed risk aversion, in particular beyond the five-year maturity range. Thereafter, the level of the yield curve moved slightly lower once more to 11 September 2020, while maintaining a steep slope. The short end reflected the lower repo rate and increased money market liquidity, whereas the 7–10-year maturity range discounted higher risk premiums and increased government borrowing. The yield gap¹⁸ narrowed from 803 basis points on 23 March 2020 to 701 basis points on 3 June before widening again to 800 basis points on 11 September.

Yield curve



Sources: IRESS and JSE

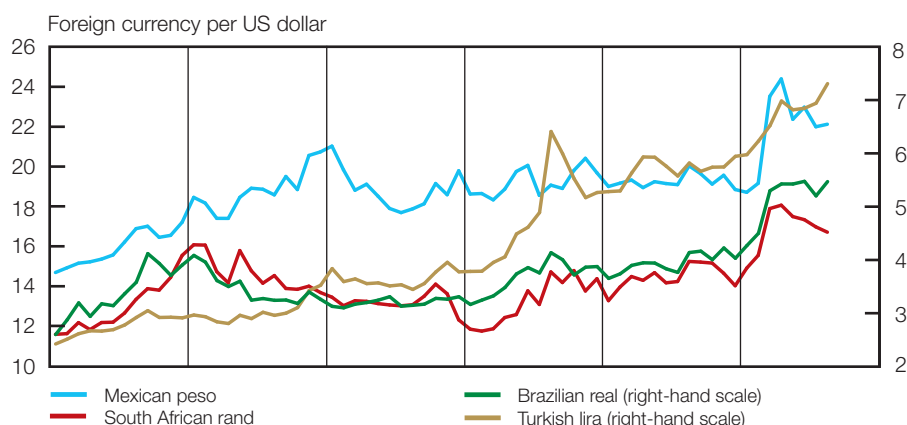
19 The EMBI+ measures the total returns on US dollar-denominated debt instruments of emerging market economies.

20 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.

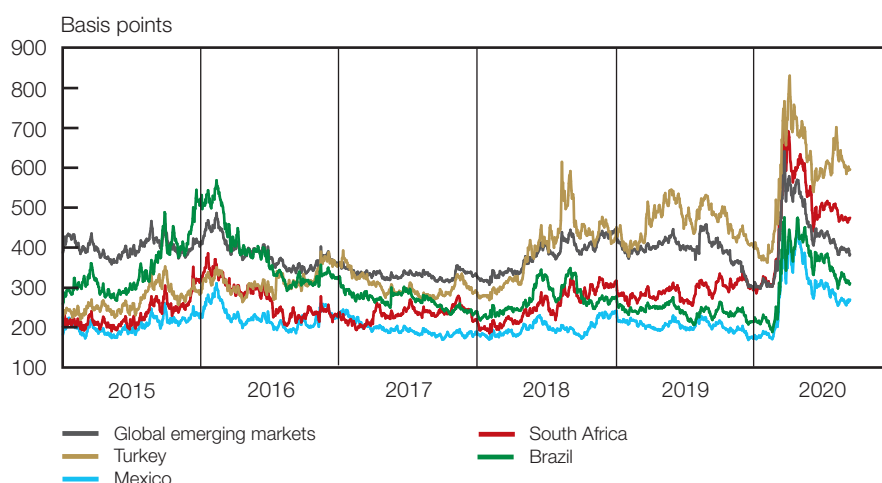
The yield spread of global emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+)¹⁹, narrowed significantly from a recent high of 543 basis points in March 2020 to 397 basis points in August. This followed continued global monetary and fiscal policy relief measures in response to the economic effects of the COVID-19 pandemic, the easing of lockdown restrictions, the gradual resumption of economic activity, as well as the strengthening of emerging market currencies. Similarly, South Africa's *sovereign risk premium*²⁰ on government's US dollar-denominated bonds in the five-year maturity range narrowed markedly from an average of 579 basis points in April 2020 to 386 basis points in August.



Selected emerging market exchange rates as at month end



Sovereign spreads*



* JPMorgan Emerging Markets Bond Index Plus

Sources: Bloomberg and IMF

Money market

The actual daily liquidity requirement of private sector banks averaged R64.2 billion in the second quarter of 2020 compared with R56.4 billion in the first quarter. In the second quarter of 2020, the liquidity required varied widely between a low of R38.5 billion and a high of R81.2 billion, a much wider range than the R46.3 billion to R75.5 billion in the preceding quarter. The low of R38.5 billion in April 2020 reflected maturing longer-term refinancing implemented by the SARB in March to increase liquidity in the market.

The SARB provides liquidity to the banking system through weekly refinancing auctions at the repo rate. In July 2020 and August, the SARB continued to offer weekly main refinancing of R45.0 billion and longer-term refinancing with a maturity of 91 days, with the intention of increasing money market liquidity. Due to the occasional surplus positions at the end-of-day square-off, the weekly main refinancing auctions were generally undersubscribed, and declined to a low of R4.1 billion on both 22 and 29 July 2020. Enhanced open market operations (OMOs), introduced by the SARB to manage money market liquidity conditions as from 3 August 2020, provided for both SARB debentures and longer-term reverse repos to be allotted at rates below and above the prevailing repo rate. Both auctions will continue to have maturities of 7, 14, 28 and 56 days. The SARB has also announced that, since the bonds in the monetary policy portfolio have increased in value, they will be utilised to conduct short-term buy- and sell-backs with commercial banks on a bilateral basis of up to one month.

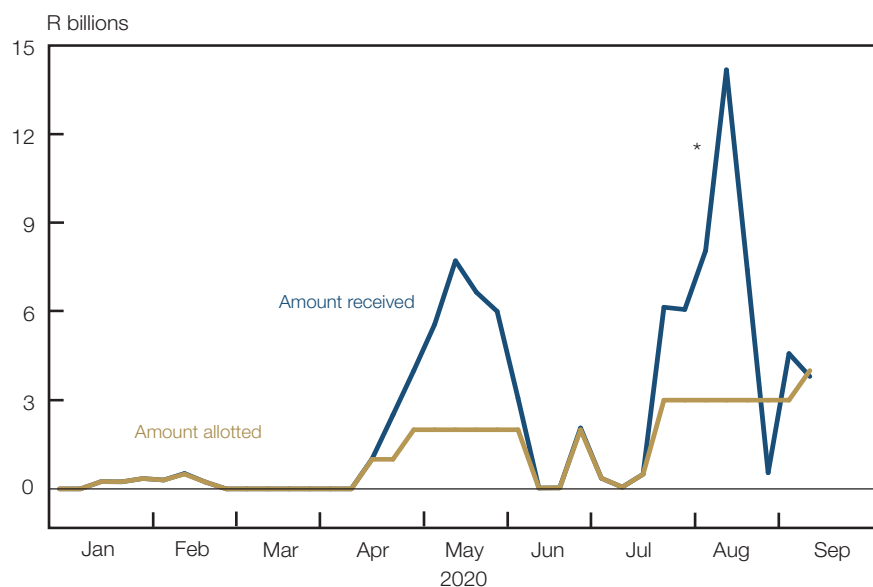
Participation in SARB debenture auctions, which has been limited for a number of years, increased during the national lockdown as banks occasionally experienced surplus liquidity.





Demand for SARB debentures increased in May 2020, with market participants willing to bid at rates below the repo rate, as the availability of instruments in which to place surplus cash was limited. Despite the increased demand, the SARB only allotted up to the standard amount on offer of R3.0 billion. Following the implementation of enhanced OMOs, the demand for debentures increased significantly as bids were allotted at rates above the repo rate. However, banks participate less in the debenture auctions at month-ends when demand for liquidity is higher.

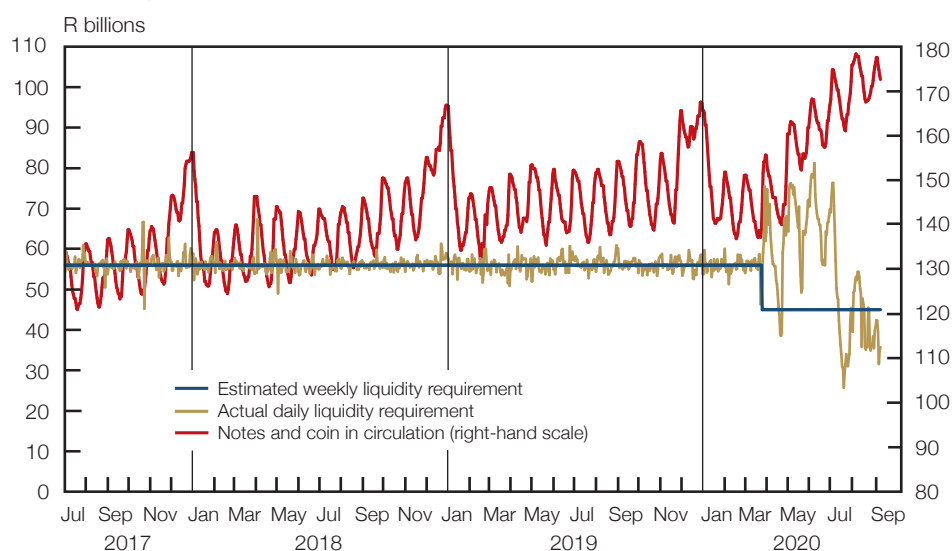
Participation in SARB debenture auctions



Source: SARB

The total accommodation to banks decreased significantly from R73.1 billion in May 2020 to R54.1 billion in July, as longer-term refinancing matured and demand for cash at the weekly main refinancing auctions declined considerably. In July 2020, the total accommodation to banks was initially only R29.1 billion before it increased by R25.0 billion through a supplementary repo auction on 31 July. In August 2020, the actual daily liquidity requirement averaged R43.3 billion, fluctuating between a low of R34.9 billion and a high of R54.4 billion, while the main financing auctions remained fixed at R45 billion.

Liquidity requirement



Source: SARB

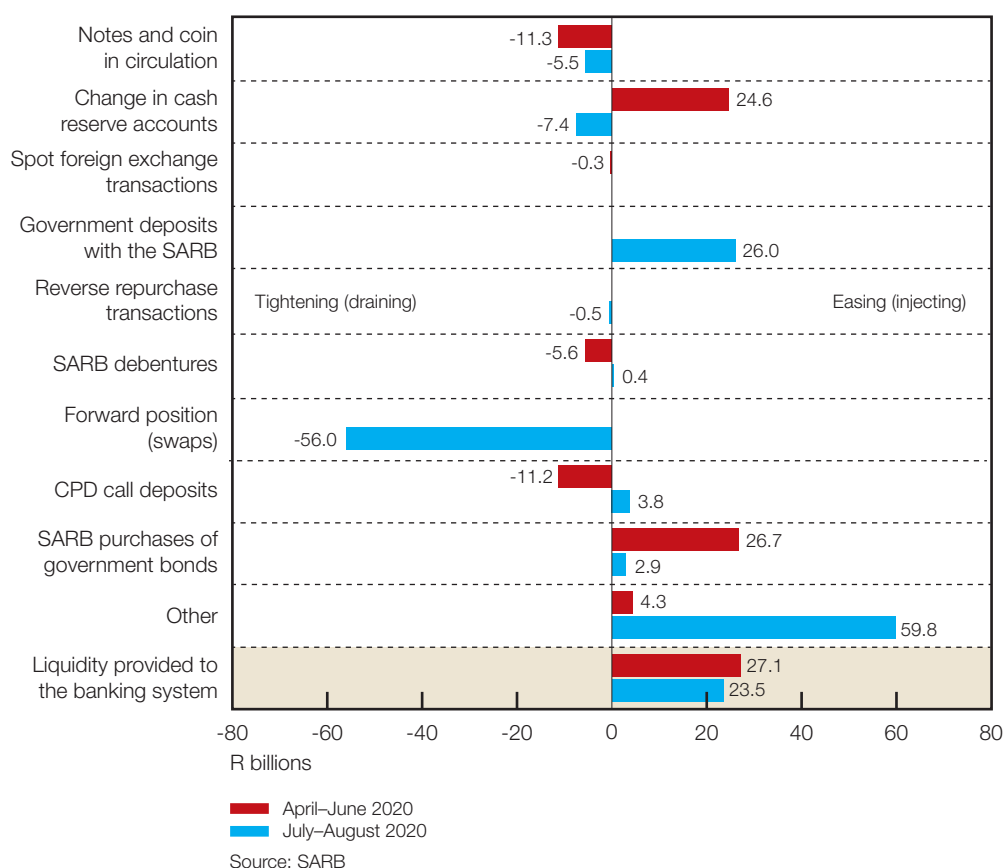


The factors that influence money market conditions expanded liquidity by a net R27.1 billion in the second quarter of 2020, compared with a contraction of R47.8 billion in the first quarter. During the second quarter, a decrease in the required cash reserve deposits of private sector banks expanded money market liquidity by R24.6 billion. The expansion was partially offset by an increase in notes and coin in circulation outside of the SARB of R11.3 billion. In addition, the SARB's liquidity management operations drained R16.8 billion from the money market through the placement of R11.2 billion as deposits at the Corporation for Public Deposits (CPD) and the allocation of SARB debentures to the value of R5.6 billion. No FX swap transactions were concluded for liquidity management purposes during the second quarter of 2020. In addition to the various customary liquidity measures, the SARB boosted money market liquidity by purchasing R26.7 billion of government securities.²¹

In July 2020 and August, money market liquidity eased again by R23.5 billion. This included further government bond purchases of R2.9 billion, a decrease in the CPD's call deposits with the SARB of R3.8 billion, and National Treasury withdrawing R26.0 billion from its sterilisation deposit account at the SARB. These movements were offset by an increase in notes and coin in circulation outside of the SARB of R5.5 billion, an increase in the required cash reserve deposits of banks of R7.4 billion, and FX swap transactions to the amount of R56.0 billion. The FX swap transactions were predominantly conducted to sterilise foreign currency-denominated inflows related to loans which the South African government received from the International Monetary Fund (IMF) and the New Development Bank (NDB).

21 The purchasing of government bonds forms part of an overall strategy of the SARB to expand liquidity and enhance the smooth functioning of the domestic financial markets. See the SARB's media statement dated 25 March 2020 titled 'Further amendments to the money market liquidity management strategy of the South African Reserve Bank and additions to the Monetary Policy Portfolio', available at <http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9805/Further%20amendments%20to%20the%20money%20market%20liquidity%20management%20strategy%20of%20the%20SARB.pdf>

Factors influencing money market liquidity conditions



From April 2020 to August, capital redemption and coupon interest payments of R74.5 billion were effected from government's tax and loan accounts. Although the SARB has embarked on a programme of buying government bonds, its portfolio remains relatively small and accrued total coupons of only R1.2 billion over this period.



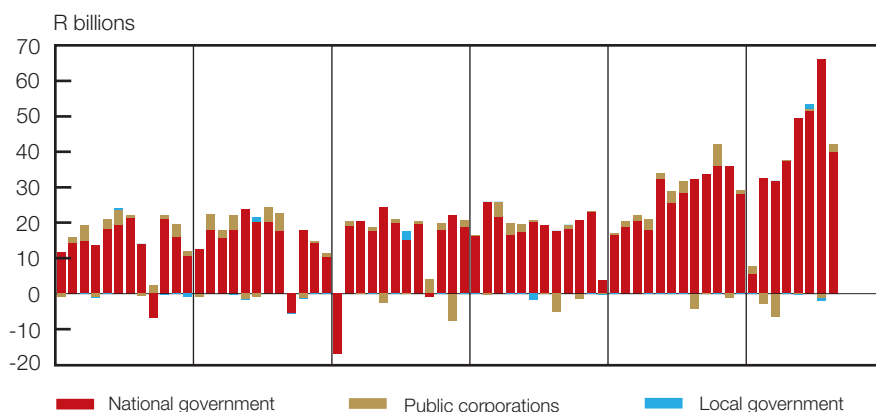
Bond market

Funding activity in the *domestic primary bond market* continued to be dominated by net issuances of listed government bonds in the eight months to August 2020. The combination of revenue shortfalls, stimulus packages to mitigate the severity of the pandemic, and higher debt-service costs contributed to a larger-than-projected budget deficit. The higher borrowing requirement has necessitated two increases thus far in 2020 in the nominal amount on offer at the weekly bond auctions for both the fixed-rate and the inflation-linked bonds, in May and July. In July 2020, the weekly fixed-rate bond auction amount increased from R6.1 billion to R6.6 billion, while the inflation-linked bond amount rose from R1.4 billion to R2.0 billion. This resulted in a record-high net issuance of listed bonds by national government of R314 billion in the eight months to August 2020, or an increase of 63.6% compared with the same period of 2019. By contrast, both public corporations and private sector²² companies recorded net redemptions of R5.1 billion and R14.7 billion respectively in the first eight months of 2020. The total value of all outstanding listed debt securities on the JSE Limited (JSE) of R3.7 trillion at the end of August 2020 was 14.7% more than a year earlier.

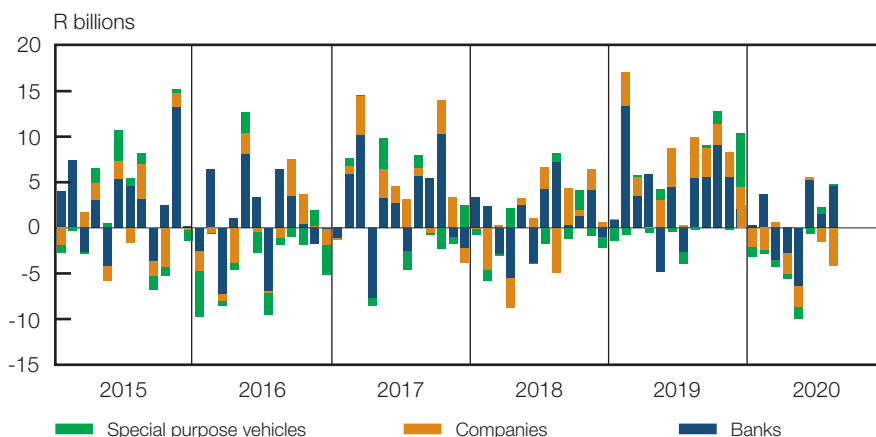
22 The private sector includes banks, companies and special purpose vehicles

Net issuances of listed bonds in the primary market

Public sector



Private sector



Source: JSE

Since their launch in May 2004, the interest rates offered on *RSA government fixed-rate retail savings bonds*, as priced off the government bond yield curve on a monthly basis, rose to historic highs in April 2020 before declining. The net issuance of retail bonds soared to R3.4 billion in the first seven months of 2020, compared with only R62.6 million in the whole of 2019 and net redemptions of R175 million in 2018. Inflation-linked retail savings bonds have been available from April 2007, for 3-, 5- and 10-year maturities.



Interest rates on RSA government fixed-rate retail savings bonds

Per cent

Effective from 2020	Maturity		
	2 year	3 year	5 year
1 January	7.25	7.50	8.25
1 February	6.75	7.00	8.00
1 March	6.50	6.75	8.00
1 April	7.75	9.00	11.50
1 May	6.50	7.75	10.00
1 June	6.00	7.00	8.50
1 July	5.25	6.00	8.00
1 August	5.25	6.00	8.00

Source: National Treasury

The daily average *value of turnover* of R145 billion in the domestic secondary bond market in the first eight months of 2020 was 4.3% lower than in the corresponding period of 2019, despite the heightened volatility in bond yields and significant non-resident net sales.

The outstanding amount of rand-denominated bonds in issue in the *European and Japanese bond markets* increased by 5.7% in the first eight months of 2020 following net issuances of R15.7 billion over the period.

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

R millions

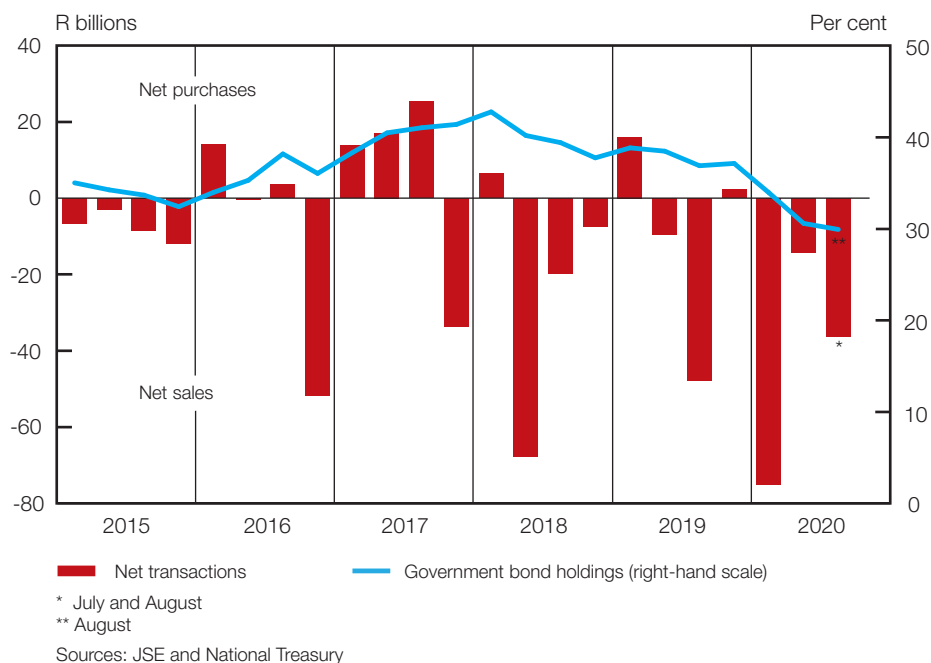
	Eurorand		Uridashi		Total	
	2019	2020	2019	2020	2019	2020
Issues	31 496	23 701	860	251	32 356	23 952
Redemptions	11 755	5 217	7 727	3 002	19 482	8 219
Net	19 741	18 484	-6 867	-2 751	12 874	15 733

Source: Bloomberg

Non-resident holdings of listed domestic bonds decreased by a further R14.4 billion in the second quarter of 2020 after significant net sales in the first quarter, according to JSE data. Subsequently, non-residents recorded further net sales of domestic bonds of R36.3 billion in July and August, resulting in cumulative net sales of R126 billion in the first eight months of 2020. This was considerably higher than the net sales of R31.1 billion in the corresponding period of 2019. The sell-off in the domestic bond market could be attributed to South Africa's deteriorated fiscal position and subsequent exclusion from the World Government Bond Index (WGBI) as well as concerns about the impact of the COVID-19 pandemic on economic activity. Non-resident holdings of domestic government bonds in issue on the JSE declined from an all-time high of 42.8% in March 2018 to only 29.9% at the end of August 2020 – their smallest holdings since March 2012.



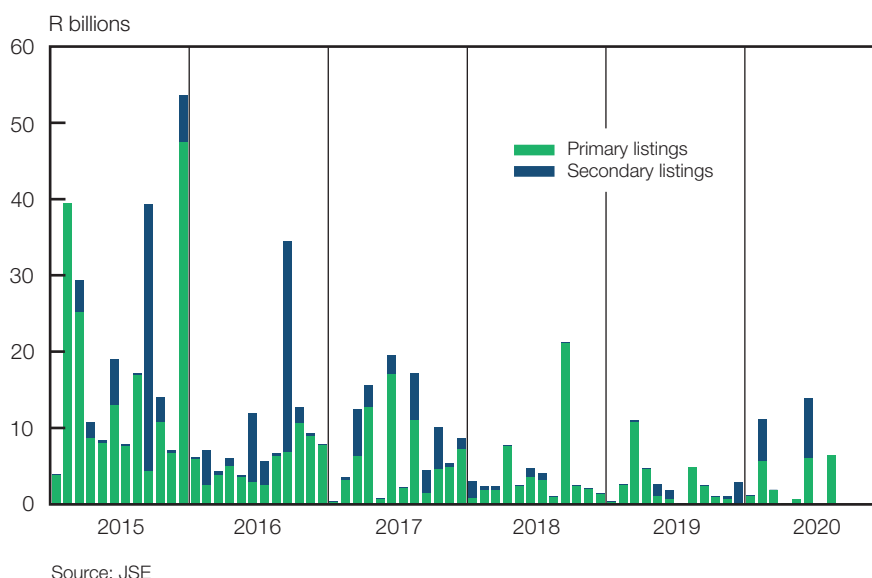
Non-resident net transactions in the domestic bond market



Share market

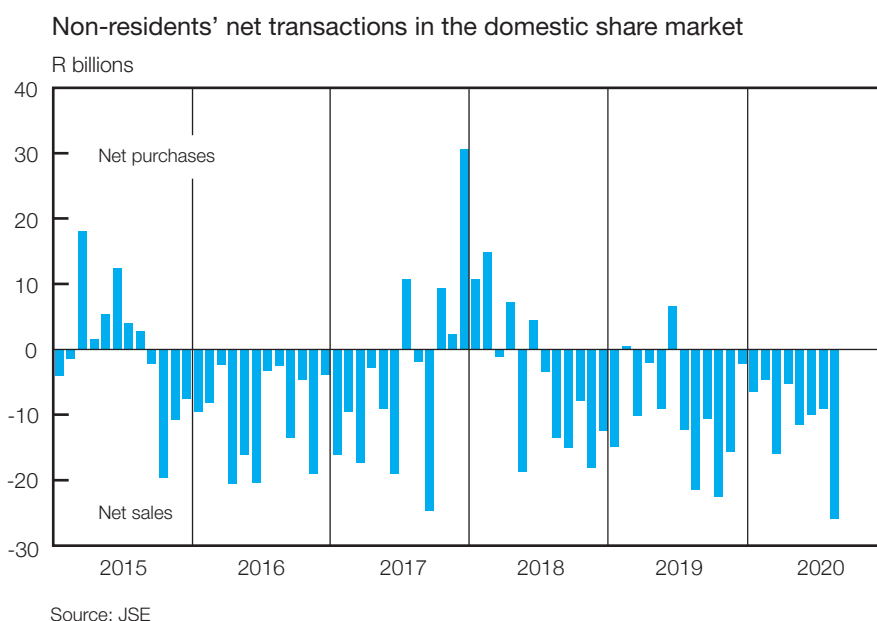
Equity capital raised by companies listed on the JSE in the domestic and international primary share markets of R35.6 billion in the eight months to August 2020 was 25.3% more than in the corresponding period of 2019. Although this was still less than in previous years due to weak business confidence, the economic recession as well as fewer listed companies, the restrictions brought about by COVID-19 increased companies' need to raise capital. The largest single contribution came from equity funding of R7.6 billion in June 2020, raised by a secondary listed platinum mining company through a general issue of shares for cash to partly fund the construction of a new copper-concentrating facility in Zambia. As a group, listed financial companies continued to contribute the most to funding activity, at 28.9% of the total value of capital raised in the first eight months of 2020, followed by companies in the resources sector at 24.8% and companies in the industrial sector at 24.5%.

Capital raised in the primary share market on the JSE



The *value of turnover* in the secondary share market of the JSE has remained robust thus far in 2020. The daily average turnover of R23.7 billion in the first eight months of 2020 was 19.6% more than in the corresponding period of 2019, along with record-high volumes in March 2020 and June. The higher volume of shares traded reflected heightened risk aversion as the spread of the COVID-19 pandemic raised fears of a global economic recession. The market capitalisation of all shares listed on the JSE 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 R17.2 trillion in August, reflecting share price movements.

Non-residents' net sales of shares listed on the JSE persisted in the first eight months of 2020, according to JSE data. Cumulative net sales of R88.9 billion in the first eight months of 2020 exceeded the R63.1 billion in the same period of 2019. In 2020, net sales of R54.0 billion in the first half of the year were followed by a further R34.9 billion in July and August. These persistent net sales by non-residents of listed shares reflected uncertainty as to the impact of COVID-19 on domestic and global economic activity as well as tensions between the US and China.



The *share prices* of companies listed on the JSE followed global markets in the case of both the sharp decline in the first quarter of 2020 amid the start of the COVID-19 pandemic and the firm recovery in the second quarter, which was supported by monetary and fiscal policy stimulus. In US dollar terms, the gain of 26.8% in the FTSE/JSE AlsI in the second quarter of 2020 was similar to that of other international share markets, such as the increases of 20.0% in the S&P 500 Composite Index and of 18.4% in the Euro Stoxx 50 Index while the Shanghai A Share Index increased by 8.5%, all in their respective domestic currencies.



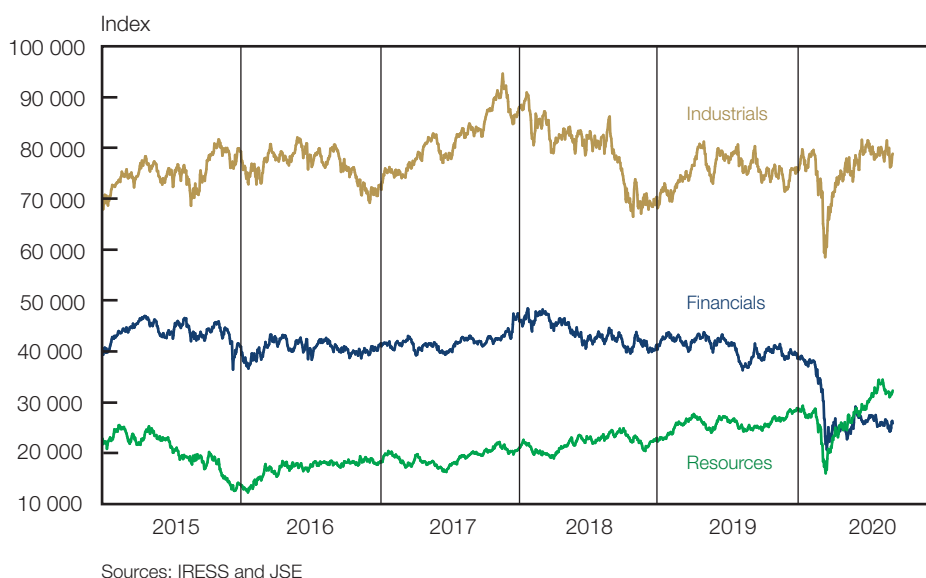
Share prices

Index: 2 January 2015 = 100



In rand terms, the Alsi increased by 47.7% from a recent low on 19 March 2020 up to 11 September – still 3.6% below the level on 17 February 2020, before the sharp correction commenced. The recovery in the Alsi mainly reflected gains in resources supported by higher international commodity prices followed by industrials, whereas financial shares remained under pressure due to the impact of the pandemic on banks through, among other factors, actual and expected credit losses.

FTSE/JSE share prices

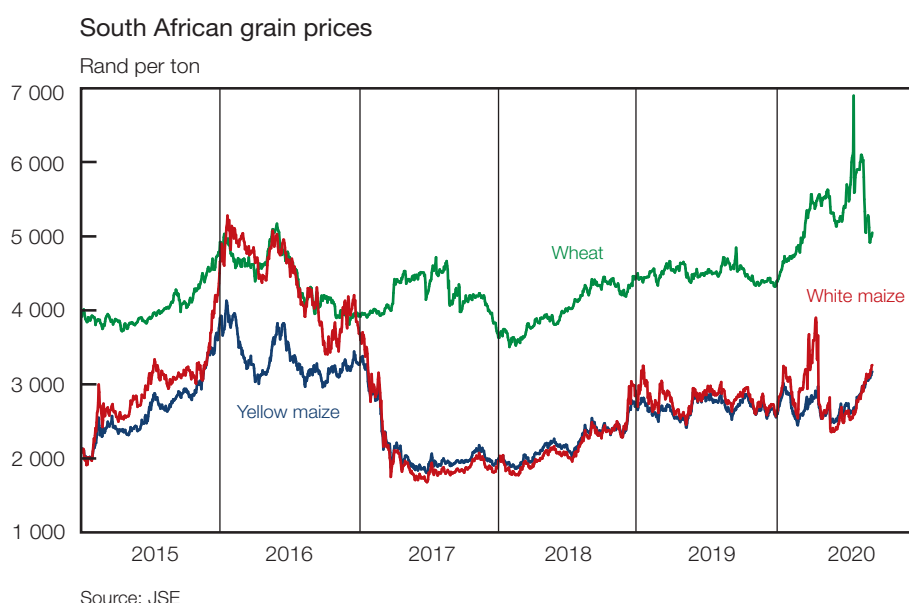


The overall historical *price-earnings ratio* of ordinary shares listed on the JSE increased from a recent low of 13.8 in March 2020 to a recent high of 33.4 in August, as share prices increased while earnings declined. This compares to a ratio of 17.8 in February 2020.



Market for exchange-traded derivatives

The *spot prices of white and yellow maize contracts* traded on the JSE have been volatile thus far in 2020. The spot price of white maize decreased notably by 39.6% from R3 900 per ton on 16 April 2020 to R2 356 per ton on 27 May following expectations of a bumper crop and the possibility of higher yields per hectare due to favourable weather conditions. Subsequently, the spot price of white maize increased by 38.4% to R3 261 per ton on 11 September. Similarly, the spot price of yellow maize initially decreased by 16.6% from 22 April 2020 to 3 June before increasing again by 27.9% to R3 172 per ton on 11 September. Notwithstanding the expectations of the second-largest domestic maize harvest on record, the recent firmer maize prices were supported by higher international maize prices and strong demand from regional and other markets as well as the delay in producer deliveries due to the late start of planting. South Africa is increasingly exporting maize to the southern and eastern parts of Africa where drought and locusts are destroying crops. Consequently, maize prices are expected to increase further, as South Africa also exports maize to South Korea, Taiwan, Japan and Vietnam.



The *spot price of domestic wheat contracts* continued escalating in the first five months of 2020 before decreasing momentarily at the beginning of June alongside lower international wheat prices as global wheat production estimates set new records following improved weather conditions. Subsequently, the spot price of wheat increased from R5 135 per ton on 9 June 2020 to an all-time high of R6 900 per ton on 24 July before decreasing again to R5 050 per ton on 11 September. Large global supplies could benefit South Africa as a net importer of wheat, as downward pressure on international wheat prices could also result in lower domestic wheat prices.

Turnover in warrants on the JSE increased significantly by 113% in the first eight months of 2020 compared with the corresponding period of 2019. By contrast, turnover in equity derivatives contracted over the same period but continued to dominate overall derivatives turnover on the JSE.

Derivatives turnover on the JSE, January 2020 to August

Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	3 435	-8
Warrants.....	1	113
Commodity.....	580	6
Interest rate	1 008	9
Currency	764	5

Source: JSE

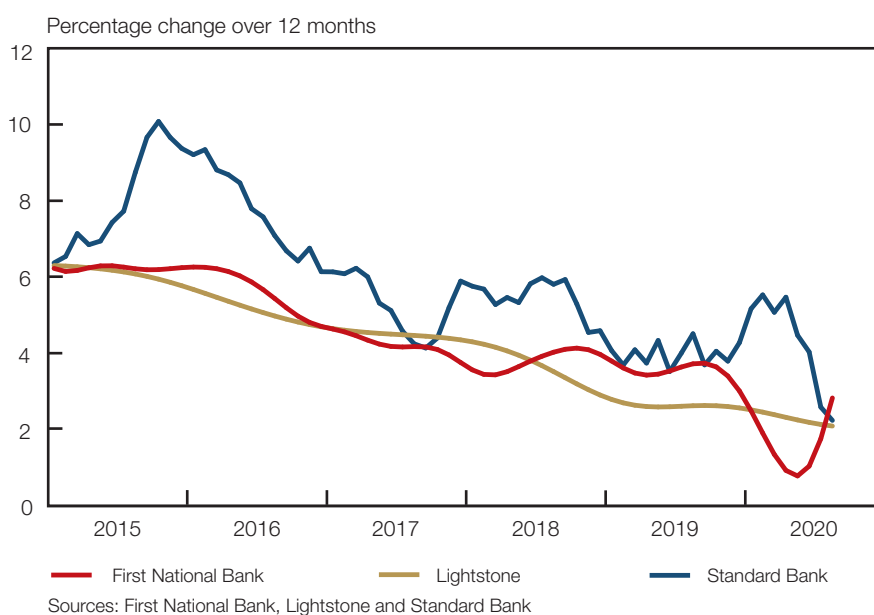




Real estate market

Growth in nominal residential property prices has continued to slow thus far in 2020. The year-on-year rate of change in nominal house prices varied between 2.1% and 2.8% across the different indicators in August 2020. Depressed demand for residential property continued to reflect weak economic activity (which was worsened by the pandemic and lockdown restrictions), high unemployment, lower levels of consumer confidence, and restrained growth in households' disposable income. However, the successive reductions in the repo rate could boost activity in the property market in support of house prices.

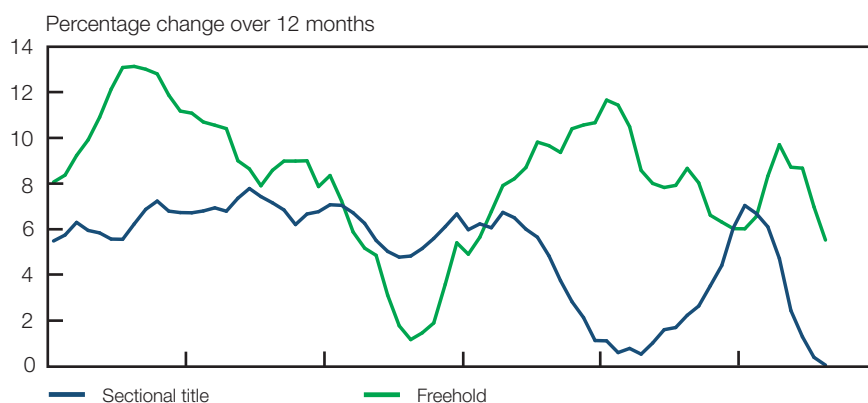
Nominal house prices



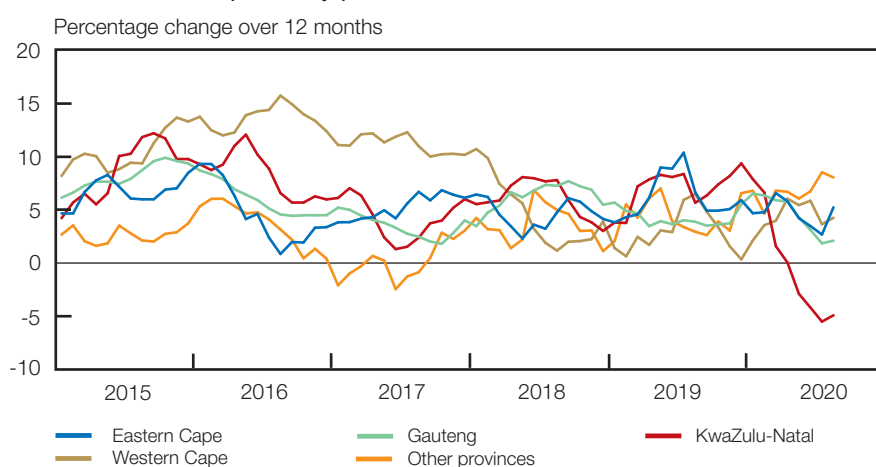
Although growth in freehold property prices accelerated slightly in the early months of 2020, it has since slowed in tandem with that of sectional title properties, according to Standard Bank. The year-on-year rate of increase in sectional title property prices slowed the most, to only 0.04% at the end of August 2020. In recent months, slow growth in house prices was evident in all the major provinces, with house prices in KwaZulu-Natal decreasing by 4.9% in the year to August 2020. Bond application volumes and the prices of luxury houses also declined, while average house prices in Gauteng increased by only 2.1% in the year to August.



Nominal house prices by type of property



Nominal house prices by province



Source: Standard Bank

Non-bank financial intermediaries²³

The financial flows of non-bank financial institutions in the second quarter of 2020 were significantly affected by COVID-19 relief measures and the heightened volatility in share prices, which reflected uncertainty as to the effects of the national lockdown on economic activity. Gross inflows²⁴ to these institutions declined by 2.8% from the first quarter of 2020 to R863 billion in the second quarter, and increased by 7.8% in the first half of the year compared with the same period in 2019. Challenging labour market conditions and a difficult trading environment had a negative impact on gross inflows to insurers, which declined by 7.6% from the first quarter of 2020 to R189 billion in the second quarter due to lower premiums from pension and retirement annuity products as well as a decline in investment income. Relief measures, such as the suspension of pension contributions to mitigate the impact of the pandemic on households and companies, lowered gross inflows to pension and provident funds in the second quarter of 2020. The contraction in economic activity and concomitant effect on households' disposable income could have a negative impact on retirement savings going forward.

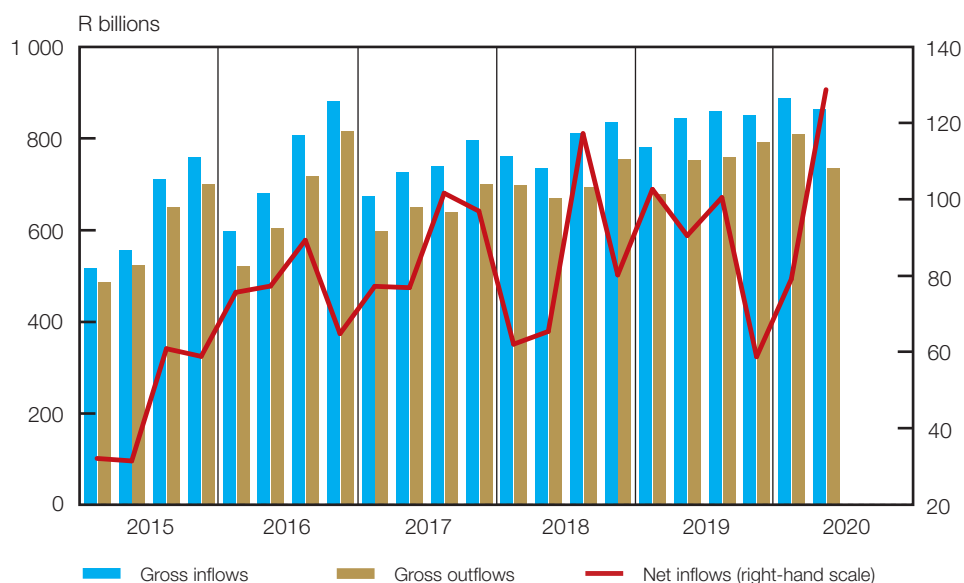
Gross inflows to unit trusts declined by 0.8% from the first quarter of 2020 to R599 billion in the second quarter, with inflows from the household sector declining by 6.6% to R263 billion. The gross inflows of non-bank financial intermediaries as a ratio of GDP increased by 10.7 percentage points from the first quarter of 2020 to 80.2% in the second quarter.

²³ These consist of pension and provident funds, insurers and unit trusts.

²⁴ These comprise investment income, contributions and premiums received, and sales of units.



Non-bank financial institutions' financial flows



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

Gross outflows²⁵ from non-bank financial institutions declined by 9.2% from the first quarter of 2020 to R734 billion in the second quarter. The decrease in gross outflows was most pronounced at unit trusts, as they declined by 9.0% to R527 billion over the same period. Gross outflows from money market funds declined the most in the second quarter of 2020. The gross outflows from insurance companies as well as pension and provident funds declined by 9.9% to R208 billion in the second quarter of 2020. Weak economic activity and continued job losses could inflate gross outflows from these institutions in the remainder of the year, as withdrawals and terminations increase.

26 This is measured as the difference between gross inflows and gross outflows.

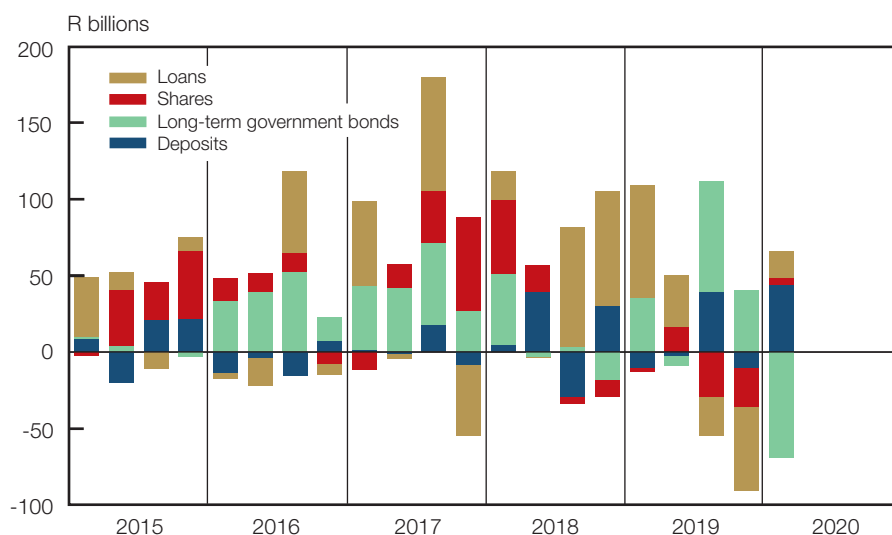
The net inflows²⁶ of non-bank financial institutions increased by R49.6 billion from the first quarter of 2020 to R129 billion in the second quarter. The unit trust industry contributed the most to net inflows at R72.4 billion in the second quarter of 2020. In the first half of 2020, net inflows amounted to R208 billion compared with R193 billion in the same period of 2019. Non-bank financial institutions invested most of the net inflows in interest-bearing securities and money market funds in the second quarter of 2020.

Flow of funds

Global financial markets experienced a significant reduction in risk appetite in the first quarter of 2020 as a direct consequence of uncertainty and concerns about the possible impact of the COVID-19 pandemic on global economic activity. This triggered large capital outflows from emerging markets as investors sought safe-haven assets. However, the South African economy received net capital inflows of R8.1 billion from the *rest of the world* in the first quarter of 2020 following an outflow of R0.1 billion in the fourth quarter of 2019. Net flows from abroad through deposits with the domestic banking sector rebounded significantly, from a net outflow of R10.2 billion in the final quarter of 2019 to a net inflow of R44.0 billion in the first quarter of 2020. Non-residents' net sales of long-term government bonds of R69.0 billion (including the redemption of a foreign bond of R24.7 billion) in the first quarter of 2020 contrasted with net purchases of R40.2 billion in the fourth quarter of 2019. In addition, the net purchases of domestic shares by non-residents amounted to R4.0 billion, while loans of R18.2 billion were extended to various domestic sectors in the review period.



Non-residents' net acquisition of selected financial assets



Source: SARB

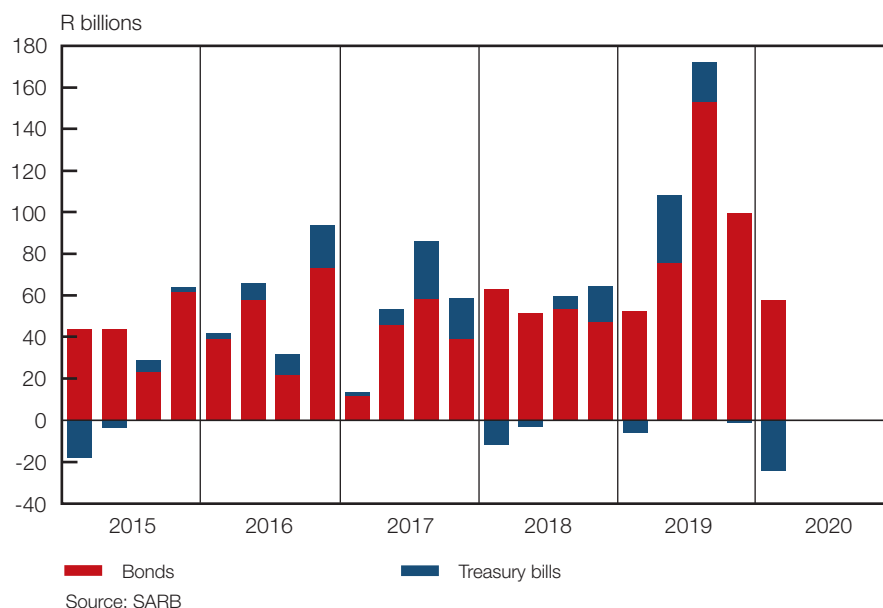
*Financial intermediation*²⁷ flows increased in the first quarter of 2020 despite the contraction in domestic output. The monetary authority lowered the repo rate twice in the first quarter of 2020 and eased liquidity constraints in the domestic financial market through, among other things, the purchasing of government bonds in the secondary market. The net sales of shares amounted to R443 billion and the net purchase of fixed-interest securities to R204 billion in the first quarter of 2020, to which the monetary authority contributed the most. This reflected a response to the sharp fall in share prices brought about by heightened concerns over the impact of the pandemic on economic activity. In contrast, loans extended by financial intermediaries amounted to R277 billion in the first quarter of 2020 compared to R18.3 billion in the final quarter of 2019. Bank loans and advances increased notably by R199 billion in the review period, compared with a decline of R37.1 billion in the fourth quarter of 2019. In the first quarter of 2020, financial intermediaries sourced funds through deposits of R235 billion, interest in retirement and life funds of R47.5 billion, and an additional R24.9 billion from funds placed with other financial institutions.

Progress with government's fiscal consolidation has been hampered by revenue under performance due to much-weaker-than-projected economic activity. *General government's* net borrowing requirement increased from R41.4 billion in the fourth quarter of 2019 to R77.9 billion in the first quarter of 2020. The larger shortfall was mainly financed in the domestic financial markets, with net issuances of R57.7 billion in bonds (lowered by the redemption of the R207 bond and a foreign bond), while recording net redemptions of TBs of R24.3 billion in the first quarter of 2020. The banking sector was the counterparty to R20.9 billion of the TB redemptions. In addition, the government sector sourced R7.7 billion through loans and lowered its deposit holdings by R16.2 billion in the first quarter of 2020.

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



General government's main sources of funding



Domestic economic conditions deteriorated further in the first quarter of 2020. With the third successive quarterly contraction in economic activity in the first quarter of 2020, capital outlays by *public and private non-financial corporate business enterprises* contracted markedly from R137 billion in the fourth quarter of 2019 to R115 billion in the first quarter of 2020. In the absence of capital spending, non-financial corporate business enterprises increased their deposit holdings at banks by R69.7 billion in the first quarter of 2020. Gross saving by non-financial corporate business enterprises increased over this period and contributed to a financial surplus of R71.5 billion. In addition, the sector's reliance on loans changed from a decline of R15.0 billion in the fourth quarter of 2019 to an increase of R56.2 billion in the first quarter of 2020.

The *household sector* also remained challenged in the first quarter of 2020 due to high administered prices and a decline in real wages, while consumer confidence worsened amid subdued economic growth prospects. Household consumption expenditure was boosted by pre-emptive buying prior to the national lockdown, which resulted in increased dissaving and an increase in the sector's borrowing requirement to R26.7 billion in the first quarter of 2020. Households' deposit holdings increased by R31.9 billion in the first quarter of 2020 following an increase of R22.5 billion in the previous quarter. Interest in retirement and life funds as well as deposits were the main drivers of households' net acquisition of financial assets of R74.7 billion. Meanwhile, loans received of R21.5 billion in the first quarter of 2020 were less than the R30.4 billion received in the final quarter of 2019, mainly due to rising income uncertainty and worsened job prospects.



Non-financial public sector borrowing requirement²⁹

The preliminary *non-financial public sector borrowing requirement* of R160 billion in the first quarter of fiscal 2020/21 (April–June 2020) far exceeded the R62.9 billion recorded in the same period of the previous fiscal year. The significantly larger borrowing requirement reflected the much higher deficit of consolidated general government, which stemmed mostly from the notably larger cash deficit of national government. The pronounced deficit of national government could be attributed to revenue shortfall together with higher transfers to other levels of general government for COVID-19 pandemic-related expenditure. The response to COVID-19 was also evident in the change from a social security fund cash surplus in the first quarter of fiscal 2019/20 to a sizeable deficit in the first quarter of fiscal 2020/21. The deficit of the non-financial public enterprises and corporations, or SOCs, also increased significantly compared with the same period of the previous year.

28 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–June 2020 to April–June 2019. Data for both periods are unaudited and preliminary.

29 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.

Non-financial public sector borrowing requirement

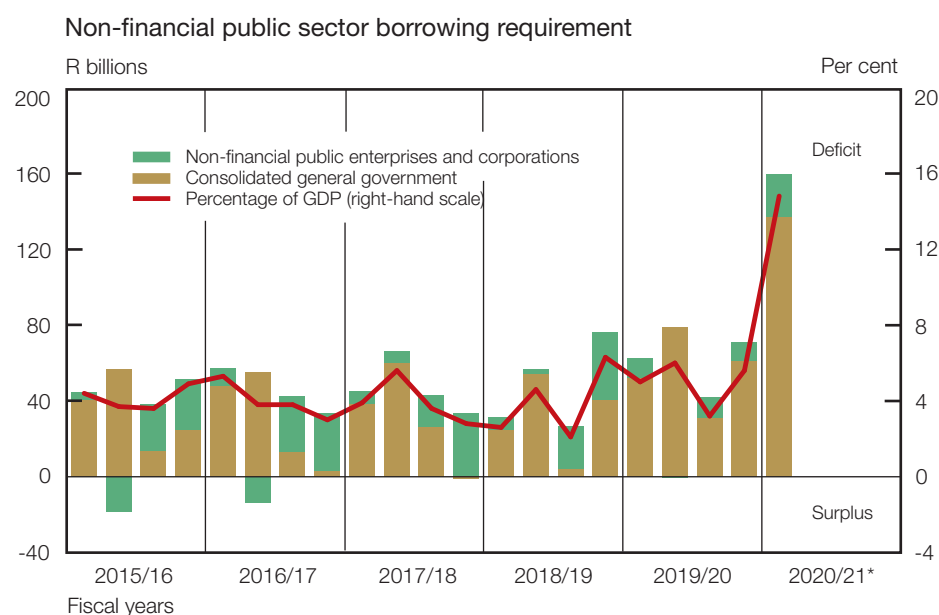
R billions

Level of government	Apr–Jun 2019*	Apr–Jun 2020*
Consolidated general government	51.8	136.8
National government.....	59.4	129.5
Extra-budgetary institutions	-17.7	-25.2
Social security funds.....	-7.9	27.6
Provincial governments.....	-8.4	-20.8
Local governments	26.5	25.7
Non-financial public enterprises and corporations	11.0	22.9
Total**	62.9	159.6
<i>As a percentage of gross domestic product.....</i>	<i>5.0</i>	<i>14.8</i>

* Deficit + / surplus –

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

Sources: National Treasury, Stats SA and SARB

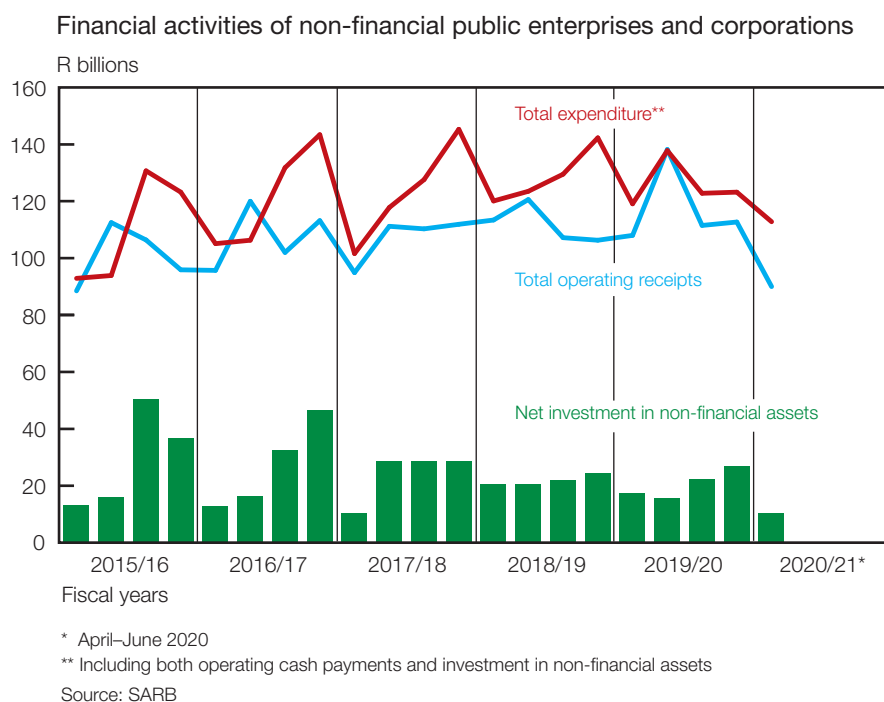


* April–June 2020

Sources: National Treasury, Stats SA and SARB

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

The preliminary cash deficit of the non-financial SOCs of R22.9 billion in the first quarter of fiscal 2020/21 was R11.8 billion more than in the same period a year earlier. This reflected a notable decline in total cash receipts from operating activities, notwithstanding a decrease in total expenditure³⁰. The total expenditure of non-financial SOCs decreased by 5.2% year on year to R113 billion in the first quarter of fiscal 2020/21, while cash receipts from operating activities contracted by a marked 16.7% to R90.0 billion over the same period. The decrease in total expenditure reflected lower net investment in non-financial assets during the period under review. The total capital expenditure by non-financial SOCs declined by 40.6% year on year to R10.4 billion in the first quarter of fiscal 2020/21.



As a ratio of GDP, the non-financial public sector borrowing requirement of 14.8% in the first quarter of fiscal 2020/21 was significantly higher than the 5.0% recorded in the same period of fiscal 2019/20.

Budget comparable analysis of national government finance

National government's significantly larger cash book deficit of R126 billion in the first quarter of fiscal 2020/21 (April–June 2020) was R68.4 billion more than in the same period of the previous fiscal year. The larger cash book deficit reflected markedly lower revenue, and was primarily financed through the increased issuance of debt securities in the domestic financial markets.



National government finances

	Actual Apr–Jun 2019		Actual Apr–Jun 2020		Originally budgeted ¹ Fiscal 2020/21		Revised estimates ² Fiscal 2020/21	
	R billions	Percentage change ³	R billions	Percentage change ³	R billions	Percentage change ⁴	R billions	Percentage change ⁴
Revenue	318	6.8	240	-24.6	1 398	4.1	1 100	-18.2
Percentage of GDP...	25.2		22.3		25.8		22.6	
Expenditure	375	15.4	366	-2.6	1 766	4.5	1 809	7.1
Percentage of GDP...	29.7		34.0		32.5		37.2	
Cash book balance ⁵ ...	-57		-126		-368		-710	
Percentage of GDP...	-4.5		-11.7		-6.8		-14.6	
Primary balance ⁶	-29		-97		-139		-473	
Percentage of GDP...	-2.3		-9.0		-2.6		-9.7	
Gross loan debt ⁷	2 900	11.2	3 442	18.7	3 562	9.2	3 974	21.9
Percentage of GDP..	58.3		69.4		65.6		81.8	

1 2020 Budget Review

2 2020 Supplementary Budget Review

3 Year-on-year percentage change: actual outcome on previous year's actual outcome

4 Year-on-year percentage change: budgeted on previous year's actual outcome

5 Cash book deficit (-)/surplus (+)

6 Cash book deficit (-)/surplus (+) excluding interest payments

7 As at 30 June for rand values

Sources: National Treasury, SARS and Stats SA

National government revenue contracted sharply by 24.6% to R240 billion in the first quarter of fiscal 2020/21 compared with the same quarter a year earlier. The notable decrease in revenue resulted from year-on-year decreases in all tax categories. The revenue underperformance could largely be attributed to restricted economic activity aimed at curbing the spread of the COVID-19 pandemic.

National government revenue in fiscal 2020/21¹

Revenue source	Originally budgeted ² Fiscal 2020/21		Revised estimates ³ Fiscal 2020/21		Actual Apr–Jun 2020	
	R billions	Percentage change ⁴	R billions	Percentage change ⁵	R billions	Percentage change ⁶
Taxes on income, profits and capital gains	813.6	5.3	631.4	-18.3	160.7	-16.0
Of which: Income tax on individuals	546.8	3.3	455.5	-13.9	111.9	-11.2
Income tax on companies	230.2	7.1	154.6	-28.1	41.3	-27.3
Payroll taxes	19.4	5.0	11.3	-38.9	2.6	-39.9
Taxes on property	17.5	9.6	14.2	-11.2	3.1	-15.5
Taxes on goods and services	514.0	4.5	417.4	-15.2	69.4	-35.4
Of which: Value-added tax (VAT) net	360.6	4.0	301.3	-13.1	52.5	-28.1
Domestic	421.7	5.6	360.5	-9.7	81.4	-15.3
Import	193.0	7.2	149.8	-16.7	26.3	-23.5
Refunds	-254.1	9.3	-209.0	-10.1	-55.2	-3.9
General fuel levy	85.2	6.3	64.9	-19.0	11.2	-42.2
Excise duties	56.0	4.9	41.6	-22.1	3.5	-71.8
Taxes on international trade and transactions	60.6	7.7	46.9	-16.7	6.5	-37.6
Of which: Import duties	59.5	7.2	45.8	-17.4	6.5	-35.7
Other revenue ⁷	36.2	-5.5	41.7	9.0	13.4	-0.5
Less: SACU ⁸ payments	63.4	26.1	63.4	26.1	15.8	26.1
Total revenue	1 398.0	4.1	1 100.0	-18.2	239.8	-24.6

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.

2 2020 Budget Review

3 2020 Supplementary Budget Review

4 Year-on-year percentage change: budgeted on previous year's actual outcome

5 Year-on-year percentage change: revised estimates on previous year's actual outcome

6 Year-on-year percentage change: actual outcome on previous year's actual outcome

7 Including non-tax revenue and extraordinary receipts

8 Southern African Customs Union

Sources: National Treasury and SARS





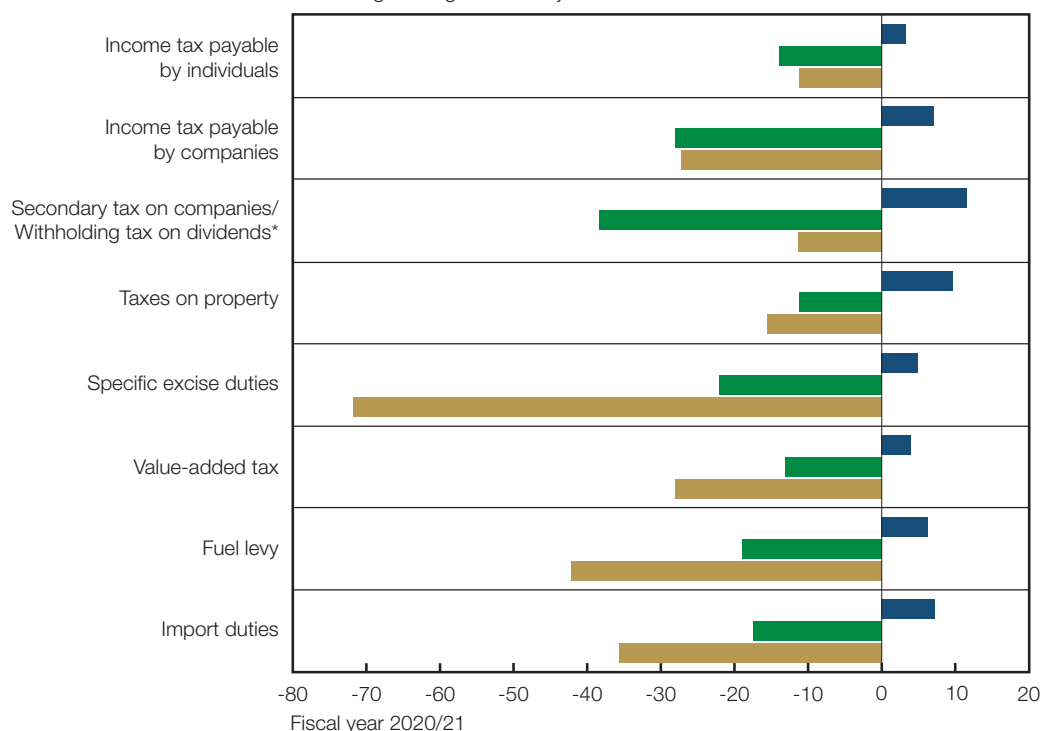
As a ratio of GDP, revenue was 22.3% in the April–June quarter of fiscal 2020/21 – lower than the 25.2% in the same period a year earlier. The *2020 Supplementary Budget Review* tabled on 24 June 2020 revised the revenue lower, from R1 398 billion, as originally projected in the February 2020 Budget, to R1 100 billion for fiscal 2020/21 as a whole.

Revenue from taxes on income, profits and capital gains of R161 billion in April–June 2020 was 16.0% less than in April–June 2019. The decrease stemmed largely from an 11.2% contraction in personal income tax (PIT) collections and an even more pronounced contraction of 27.3% in corporate income tax (CIT). The lower PIT resulted from lower pay-as-you-earn (PAYE) receipts due to layoffs and wages foregone, while the CIT underperformance resulted mainly from lower provisional payments amid limited domestic economic activity due to the national lockdown. The February 2020 Budget’s projected revenue from taxes on income, profits and capital gains of R814 billion for fiscal 2020/21 as a whole was revised lower to R631 billion in the *2020 Supplementary Budget Review*.

Revenue from taxes on goods and services decreased notably by 35.4% year on year to only R69.4 billion in the first quarter of fiscal 2020/21. The main drivers behind the contraction were lower net value-added tax (VAT) receipts of R52.5 billion, less income from the general fuel levy to only R11.2 billion, as well as lower excise duties of a meagre R3.5 billion. Revenue under-collection in this tax category mirrored the sharp contraction in real economic activity over and above the subdued consumer spending that was already evident prior to the COVID-19 pandemic. In particular, excise duties were adversely affected by the ban on the sale of tobacco and alcohol products. The 2020 Budget’s projected revenue from taxes on goods and services of R514 billion for fiscal 2020/21 as a whole was revised lower to R417 billion in the *2020 Supplementary Budget Review*.

Composition of national government revenue

Percentage change over one year



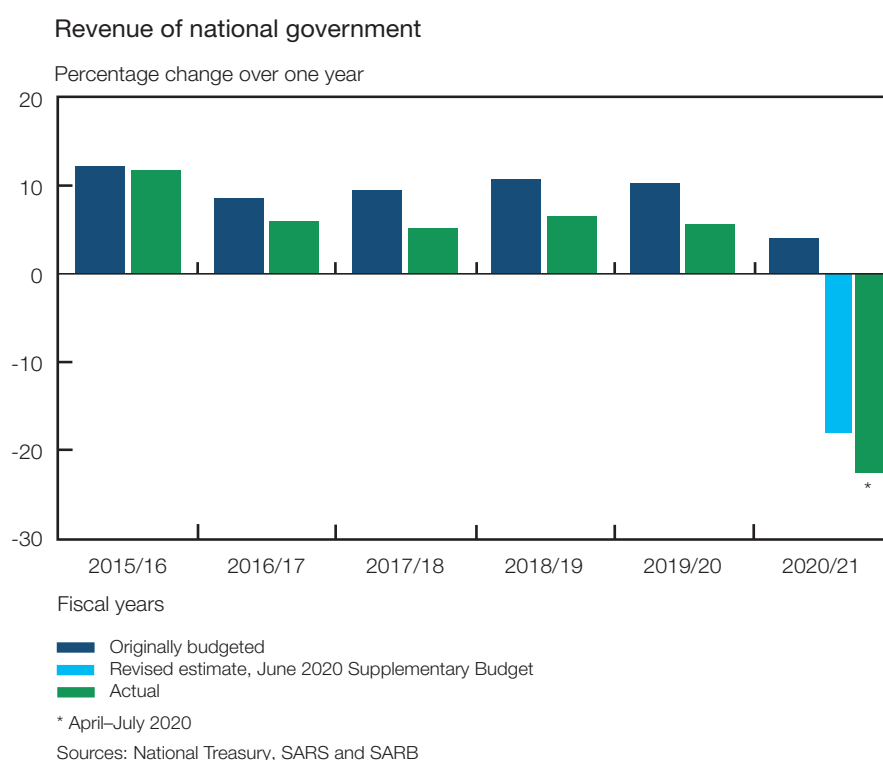
■ Originally budgeted for full fiscal year
 ■ Revised estimates, June 2020 Supplementary Budget
 ■ Actual: April–June 2020
 * Including secondary tax on companies and withholding tax on interest
 Sources: National Treasury and SARS



Taxes on international trade and transactions of only R6.5 billion in the first quarter of fiscal 2020/21 represented a significant decrease of 37.6% from a year earlier. This reflected supply-chain disruptions and subdued demand for imported goods amid the COVID-19 pandemic.

Other revenue, which includes non-tax revenue and extraordinary receipts, remained broadly unchanged at R13.4 billion in the first quarter of fiscal 2020/21 from a year earlier. The February 2020 Budget had earmarked R63.4 billion as transfers to the Southern African Customs Union (SACU) for fiscal 2020/21 as a whole. Of this amount, the first two tranches of R15.8 billion each were transferred in April 2020 and July.

In the first four months of fiscal 2020/21, total revenue collected contracted significantly by 22.8% year on year to only R303 billion as all tax categories underperformed following the restrictions on economic activity to try and curb the spread of the COVID-19 pandemic.



National government expenditure of R366 billion in the first quarter of fiscal 2020/21 was 2.6% less than in the first quarter of the previous fiscal year, mainly due to lower voted expenditure. National government expenditure as a ratio of GDP of 34.0% in April–June 2020 was higher than the 29.7% recorded in the same period a year earlier. The *2020 Supplementary Budget Review* revised total expenditure higher to R1 809 billion for fiscal 2020/21 from the R1 766 billion envisaged in the February 2020 Budget, largely due to COVID-19-related stimulus measures.

Total voted expenditure, which consists of transfers and subsidies, current payments as well as payments for capital and financial assets, contracted by 8.8% year on year to R196 billion in April–June 2020. Transfers and subsidies as well as payments for capital and financial assets were lower than in the same period of the preceding year. The departments of Social Development, Higher Education and Training, Health, Human Settlements as well as National Treasury received the largest share of transfers and subsidies. Current payments of R55.4 billion remained broadly unchanged in April–June 2020 when compared with the same period a year earlier. For fiscal 2020/21 as a whole, the February 2020 Budget's projected voted expenditure of R963 billion was revised higher to R988 billion in the *2020 Supplementary Budget Review*.



National government expenditure in fiscal 2020/21¹

Expenditure item	Originally budgeted ² Fiscal 2020/21		Revised estimates ³ Fiscal 2020/21		Actual Apr–Jun 2020	
	R billions	Percentage change ⁴	R billions	Percentage change ⁵	R billions	Percentage change ⁶
Voted expenditure	963.1	2.0	987.7	4.6	196.4	-8.8
<i>Of which:</i> Transfers and subsidies.....	644.0	2.8	663.9	6.0	138.3	-4.7
Current payments	261.3	8.3	262.8	8.9	55.4	0.4
Payments for capital assets	15.3	30.8	15.5	32.3	1.2	-19.8
Payments for financial assets...	42.5	...	45.5	-29.2	1.5	...
Statutory amounts ⁷	802.9	7.6	821.5	10.1	169.2	5.7
<i>Of which:</i> Provincial equitable share	538.5	6.5	538.5	6.5	134.6	6.5
Interest on debt	229.2	12.0	236.3	15.5	29.2	3.9
General fuel levy	14.0	6.5	14.0	6.5	0.0	0.0
Total expenditure.....	1 766.0	4.5	1 809.0	7.1	365.6	-2.6

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.

2 2020 Budget Review

3 2020 Supplementary Budget Review

4 Year-on-year percentage change: budgeted on previous year's actual outcome

5 Year-on-year percentage change: revised estimates on previous year's actual outcome

6 Year-on-year percentage change: actual outcome on previous year's actual outcome

7 Including extraordinary payments

... Not available

Source: National Treasury

Interest paid on national government debt (debt-service costs) of R29.2 billion in the first quarter of fiscal 2020/21 was 3.9% more than in the same period a year earlier. The *2020 Supplementary Budget Review* revised debt-service costs higher to R236 billion for fiscal 2020/21 as a whole, from the R229 billion originally envisaged in the February 2020 Budget. This reflected the expected increase in the outstanding stock of debt to fund the much larger deficit than initially envisaged.

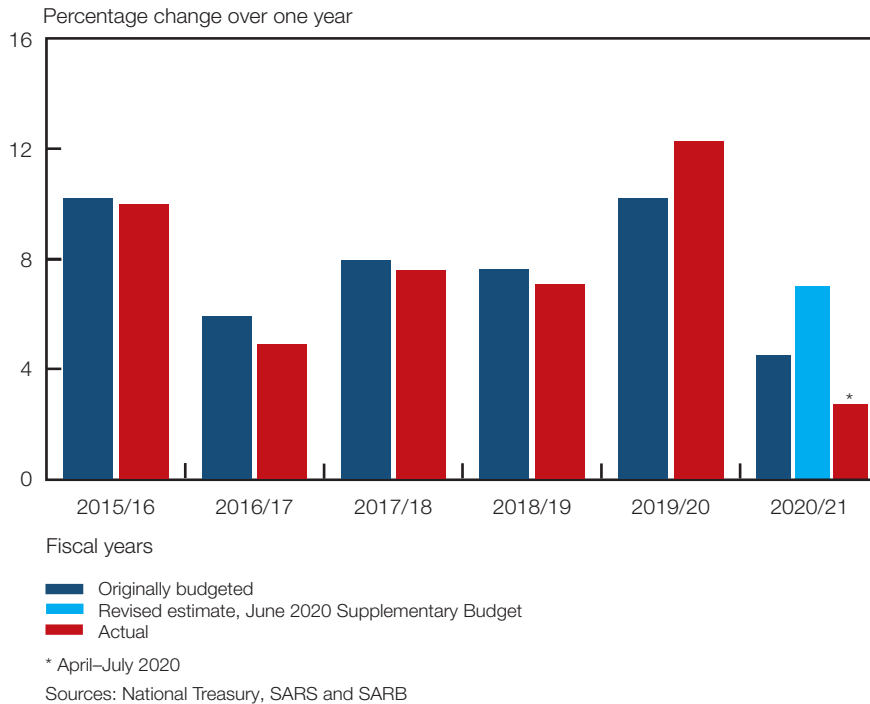
The February 2020 Budget earmarked a total allocation of R539 billion as equitable share transfers to provinces and R14.0 billion as a share of the general fuel levy to metropolitan municipalities for fiscal 2020/21. Of these amounts, national government had already paid out R135 billion to provincial governments in the first quarter of fiscal 2020/21, while the first of three equal tranches to metropolitan municipalities was only expected in August 2020.

In the first four months of fiscal 2020/21, total expenditure increased at a year-on-year rate of 2.7% to R563 billion. This represented 31.1% of the *2020 Supplementary Budget Review* estimate of R1 809 billion for fiscal 2020/21 as a whole.

Fiscal developments in the first three months of fiscal 2020/21 resulted in a significantly larger cash book deficit of R126 billion – more than double the R57.5 billion recorded in the same period a year earlier. The February 2020 Budget's envisaged cash book deficit of R368 billion for fiscal 2020/21 as a whole was subsequently revised higher to R710 billion in the *2020 Supplementary Budget Review* to almost double the original amount. This revision reflected the projected shortfalls in tax revenue due to the sharp contraction in economic activity and higher spending as a result of the COVID-19 pandemic.

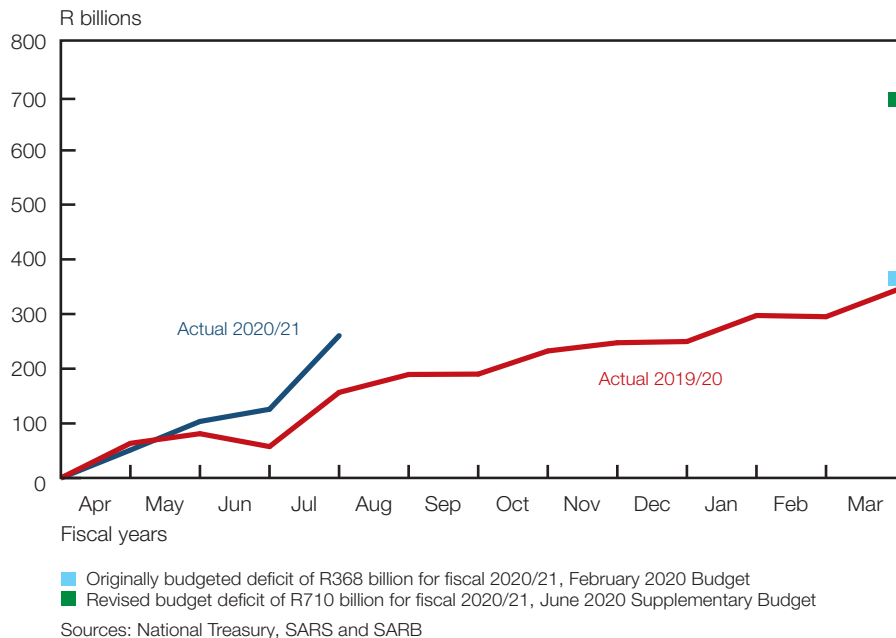


Expenditure by national government



In the first four months of fiscal 2020/21, the net outcome of national government's revenue and expenditure was a cash book deficit of R260 billion, which was R104 billion more than a year earlier.

Cumulative deficit of national government



National government's primary deficit³¹ of R96.7 billion in April–June 2020 was more than triple the R29.4 billion recorded in April–June 2019. The primary deficit as a ratio of GDP of 9.0% in the first quarter of fiscal 2020/21 was much higher than the 2.3% in the same period of the previous fiscal year. The *2020 Budget Review* had projected a national government primary deficit of R139 billion (2.6% of GDP) for fiscal 2020/21. However, this was revised significantly higher to R473 billion (9.7% of GDP) in the *2020 Supplementary Budget Review*.

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

National government financing

R billions

Item or instrument	Actual Apr–Jun 2019	Actual Apr–Jun 2020	Originally budgeted ¹ Fiscal 2020/21	Revised estimates ² Fiscal 2020/21
Cash book deficit	57.5	125.8	368.0	709.7
Cash flow deficit ³	51.4	162.8
Plus: Cost/profit on revaluation of foreign debt at redemption ⁴	11.4	6.5	4.3	6.7
Accrual adjustments	-8.1	47.2
Net borrowing requirement	70.9	122.1	372.3	716.4
Treasury bills and short-term loans ⁵	66.1	65.3	48.0	146.0
Domestic bonds ⁵	53.8	102.9	285.2	410.0
Foreign bonds and loans ⁵	-14.5	-8.0	21.3	117.2
Change in available cash balances ⁶	-34.5	-38.1	17.7	43.2
Total net financing⁷	70.9	122.1	372.3	716.4

1 2020 Budget Review

2 2020 Supplementary Budget Review

3 The cash flow deficit includes extraordinary receipts and payments, and differs from the cash book deficit.

4 Cost + / profit –

5 Net issuance + / net redemption –

6 Increase – / decrease +

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

... Not available

Sources: National Treasury and SARB

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

National government's cash flow deficit of R163 billion in April–June 2020 was R111 billion more than in April–June 2019. After taking the cost on the revaluation of foreign debt at redemption and accrual adjustments into account, the net borrowing requirement³² of R122 billion in the first quarter of fiscal 2020/21 represented a year-on-year increase of R51.2 billion.

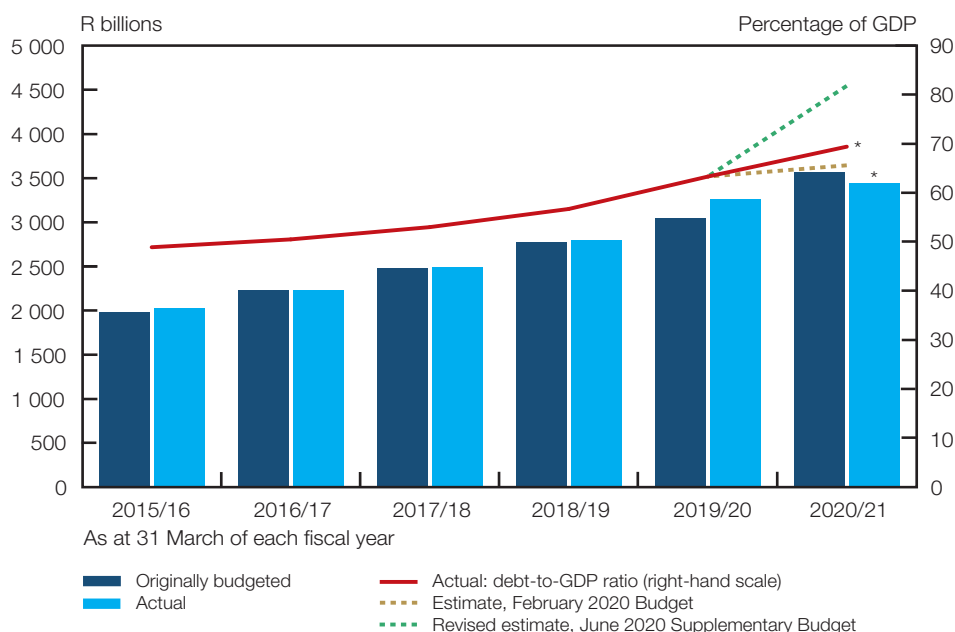
The higher net borrowing requirement of national government in April–June 2020 was financed primarily in the domestic financial markets through the net issuance of TBs and domestic long-term government bonds. Government's net issuance of TBs and short-term loans from the CPD amounted to R65.3 billion in April–June 2020, while the net issuance of domestic government bonds was R103 billion. By contrast, a net redemption of foreign bonds and loans of R8.0 billion was recorded over this period. These funding activities increased the available cash balances of national government by R38.1 billion in the first quarter of fiscal 2020/21.

The total gross loan debt of national government surged to R3 442 billion as at 30 June 2020, representing a notable year-on-year increase of 18.7%. This large increase reflected a rise in the stock of both domestic and foreign currency-denominated debt, with the stock of foreign debt increasing at a faster pace than that of domestic debt. Domestic debt accounted for 89.5% of the total gross loan debt as at 30 June 2020. The total gross loan debt was 69.4% of annual GDP as at 30 June 2020.

The 2020 Budget Review had projected gross loan debt of R3 562 billion (65.6% of GDP) for fiscal 2020/21. This was subsequently revised upwards to R3 974 billion (81.8% of GDP) in the 2020 Supplementary Budget Review. The notable upward revision was informed by the constrained and already deteriorated fiscal space, which was characterised by weaker-than-expected economic activity along with a concomitant revenue shortfall and higher expenditure, exacerbated by the COVID-19 pandemic.



Gross loan debt of national government



* As at 30 June 2020

Sources: National Treasury, Stats SA and SARB

The domestic debt of national government (marketable and non-marketable) increased by R441 billion year on year to R3 081 billion as at 30 June 2020. This significant increase in the outstanding value of domestic debt reflected the higher net issuances of domestic marketable debt, and comprised both bonds and TBs, which increased by 16.3% year on year to R2 999 billion as at 30 June 2020. Although much less in absolute terms, domestic non-marketable debt, which comprises retail bonds and short-term loans from the CPD, increased significantly by 31.5% to R82.4 billion in the year to 30 June 2020. This increase resulted primarily from higher net borrowing through short-term loans from the CPD of R16.2 billion, which increased the stock of this debt to R67.0 billion as at 30 June 2020.

National government's foreign currency-denominated debt (marketable and non-marketable) increased significantly by 39.0% year on year to R361 billion as at 30 June 2020. The increase could largely be attributed to an increase in the net issuance of foreign marketable debt, along with exchange rate revaluation effects. Foreign marketable debt increased from R259 billion as at 30 June 2019 to R361 billion a year later, and accounted for almost all of the total stock of foreign debt as at 30 June 2020. Notwithstanding this increase, government redeemed, among others, US dollar-denominated bonds of US\$500 million, equivalent to R8.7 billion, in June 2020.

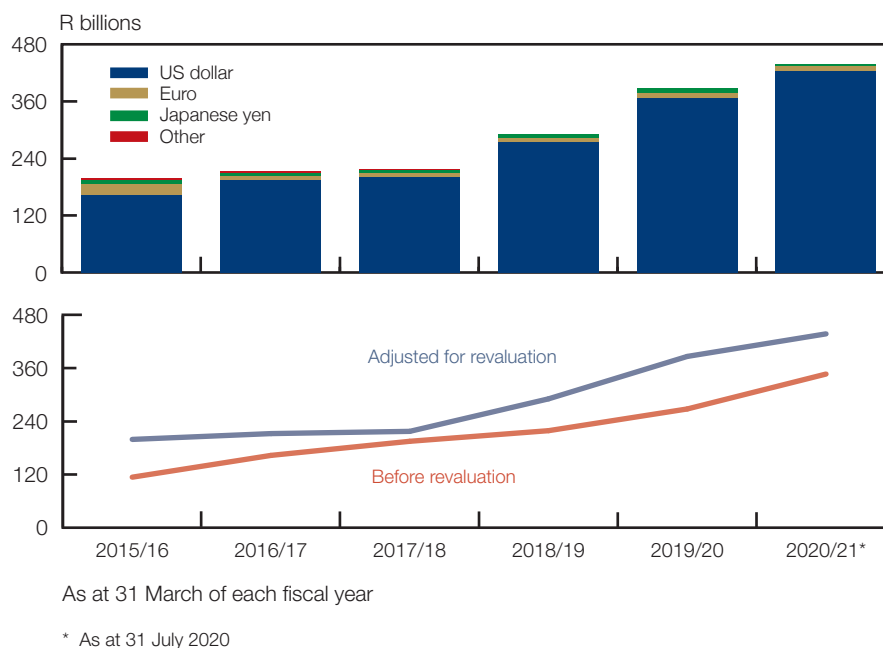
National government's foreign debt is trading mainly in three international currencies (the US dollar, euro and Japanese yen), with the US dollar accounting for about 96.0%, or R347 billion. The average outstanding maturity of foreign marketable bonds decreased from 183 months as at 30 June 2019 to 171 months a year later.

The rapid increase in national government's total gross loan debt as a ratio of GDP, from 48.9% as at 31 March 2016 to 69.4% as at 30 June 2020, is concerning. Interest paid (debt-service costs) averaged 3.5% of GDP between fiscal 2015/16 and 2019/20, and is expected to increase in line with the rising stock of debt. The primary deficit as a ratio to GDP increased from 0.6% in fiscal 2016/17 to 9.0% in the first quarter of fiscal 2020/21, and is expected to widen further to 9.7% for the full fiscal 2020/21. Debt sustainability requires primary surpluses, which are dependent on revenue collection and the containment of expenditure.



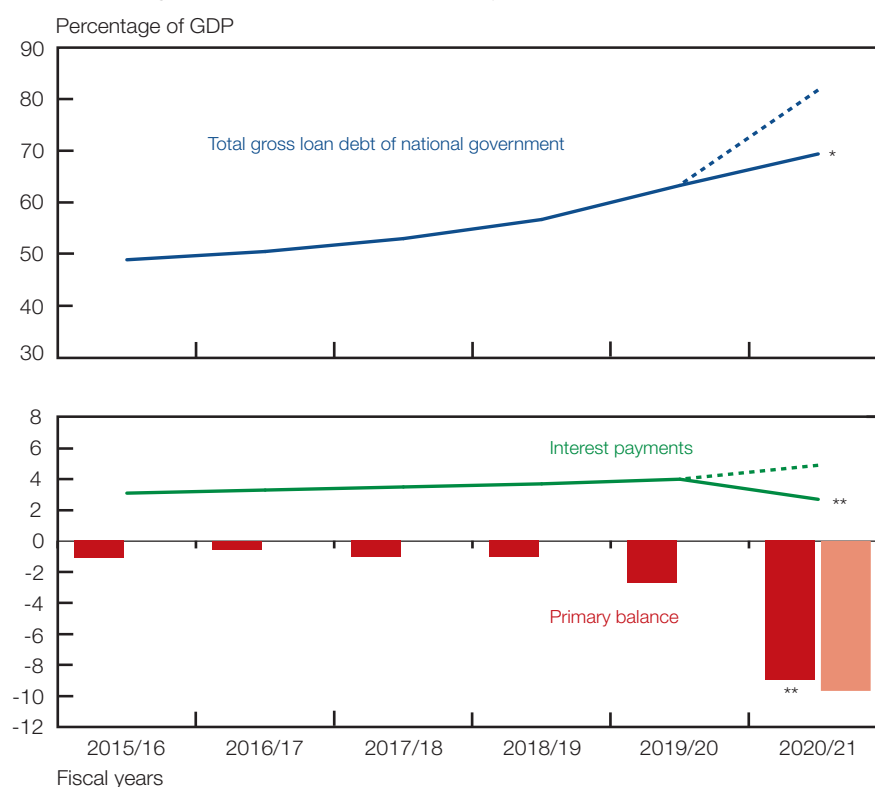


Foreign currency-denominated debt of national government



The total gross loan debt of national government increased further to R3 612 billion as at 31 July 2020. This reflected a rapid increase in foreign debt to R438 billion, from R261 billion a year earlier, and an 18.7% increase in domestic debt to R3 173 billion.

National government debt sustainability indicators



Revised estimates, June 2020 Supplementary Budget

* As at 30 June 2020

** April–June 2020

Sources: National Treasury, Stats SA and SARB

Note on recent developments in money creation in South Africa

by D H Meyer and M A Kock

Introduction

The coronavirus disease 2019 (COVID-19) pandemic has highlighted the role of money and its relationship to price developments in the economy. Central banks create money through increases in banknotes and coin in circulation, while the deposits of private sector banks held at the central bank also add to the monetary base¹, which supports the expansion of credit and broad money.

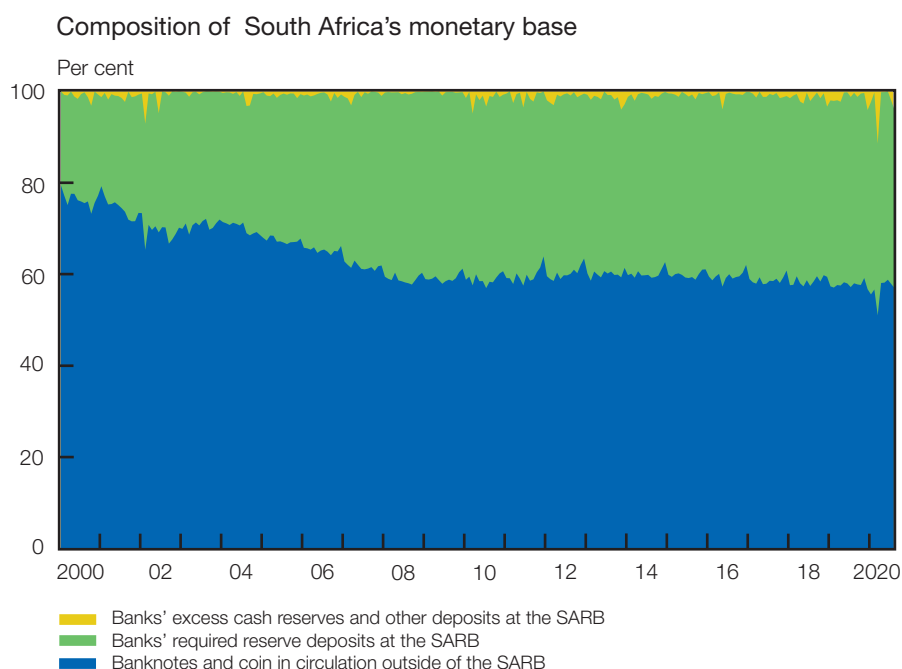
The composition of South Africa's monetary base

In the year 2000, notes and coin in circulation outside of the South African Reserve Bank (SARB) and bank deposits at the SARB contributed, on average, 76% and 24% respectively to the monetary base. However, these ratios gradually changed, with notes and coin outside of the SARB averaging 59% and bank deposits 41% of the monetary base between January 2008 and July 2020.

The composition of the monetary base is partly determined by the public's demand for banknotes and coin, while the rising contribution of banks' required reserves is mostly a function of the growth in banks' balance sheets up to 2008, after which its relative contribution remained fairly stable.

The monetary base increased almost ninefold from January 2000 to July 2020, with most of the increase attributable to the required reserve balance of banks. Over the same period, the relative contribution of banknotes and coin in circulation, which contributes the most in absolute terms, shrank.

¹ The monetary base is defined as currency in circulation and banks' deposit holdings at the central bank as well as those deposits of money-holding sectors at the central bank that are also included in broad money. Compilers may include additional components in the monetary base, depending on the types of liabilities issued by the central bank and the analytical use of the monetary base. In South Africa, the monetary base, or M0, includes banknotes and coin in circulation outside of the central bank as well as bank deposits with the central bank in national currency. See the *Monetary and Financial Statistics Manual and Compilation Guide 2019* published by the International Monetary Fund (IMF) in 2019, pages 197 to 200. Commercial banks also play a role in the creation of money. After putting aside the required reserve portion at the central bank, the remainder is available for credit extension. Banks are allowed some flexibility to draw down on mandatory deposits, and when these deposits at the central bank are reduced, the money in circulation increases.



Source: SARB

2 See the SARB's detailed liabilities and assets on pages S-2 and S-3 in this edition of the *Quarterly Bulletin*.

Composition of South Africa's monetary base²

R millions

	Jan 2000	Dec 2019	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Growth*
Banknotes and coin in circulation outside the SARB.....	27 809	165 574	155 544	160 368	161 787	166 850	175 873	6.3
Private bank deposits at the SARB	7 174	126 306	149 394	115 712	116 358	116 915	131 790	18.4
Required reserve balances.....	7 164	114 320	114 515	115 140	115 888	116 875	117 480	
Excess cash reserves and other deposits**.....	10	11 986	34 879	572	470	40	14 310	
Monetary base	34 983	291 880	304 938	276 080	278 145	283 765	307 663	8.8

* Multiples of the January 2000 value, as at July 2020

** Excluding deposits denominated in foreign currency

Source: SARB

3 The supplementary auctions in March 2020 contributed to a spike in banks' deposits at the SARB during that month. Although not specifically visible in the month-end balance, all-time high cash reserve withdrawals occurred in April 2020 due to a temporary liquidity strain when a supplementary repurchase transaction previously entered into matured.

The monetary base was R15.8 billion larger in July 2020 than in December 2019, amid large fluctuations related to COVID-19-induced liquidity interventions.³ Private sector bank deposits at the SARB increased by R23.1 billion from December 2019 to March 2020. Subsequently, banknotes and coin in circulation increased by R20.3 billion from March 2020 to July, while private bank deposits with the SARB declined by R17.6 billion as excess cash reserves and other deposits shrank.

Changes in the monetary base

R millions

	Dec 2019 to Mar 2020	Dec 2019 to Jul 2020	Mar 2020 to Apr 2020	Apr 2020 to May 2020	May 2020 to Jun 2020	Jun 2020 to Jul 2020
Banknotes and coin in circulation outside the SARB.....	-10 030	10 299	4 824	1 419	5 063	9023
Private bank deposits at the SARB	23 088	5 485	-33 682	647	556	14 875
Required reserve balances.....	195	3 161	625	748	987	605
Excess cash reserves and other deposits*.....	22 893	2 324	-34 307	-101	-431	9 202
Monetary base	13 058	15 783	-28 858	2 066	5 619	23 899

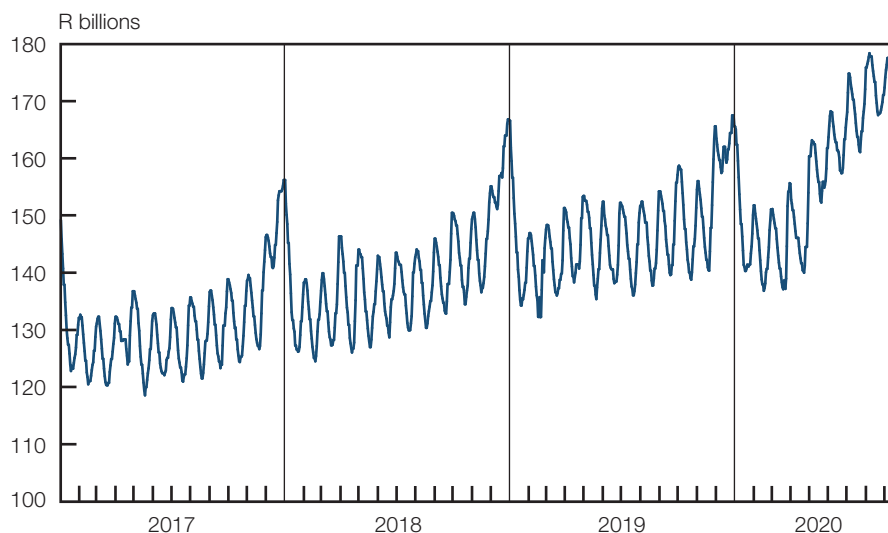
* Excluding deposits denominated in foreign currency

Source: SARB

Not too much should be read into the short-term changes in banknotes and coin in circulation, as the amount is by nature very volatile, with a high degree of seasonality. There are specific periods when the public's demand for notes and coin increases, most notably at year-end and during holiday periods.



Banknotes and coin in circulation outside of the SARB



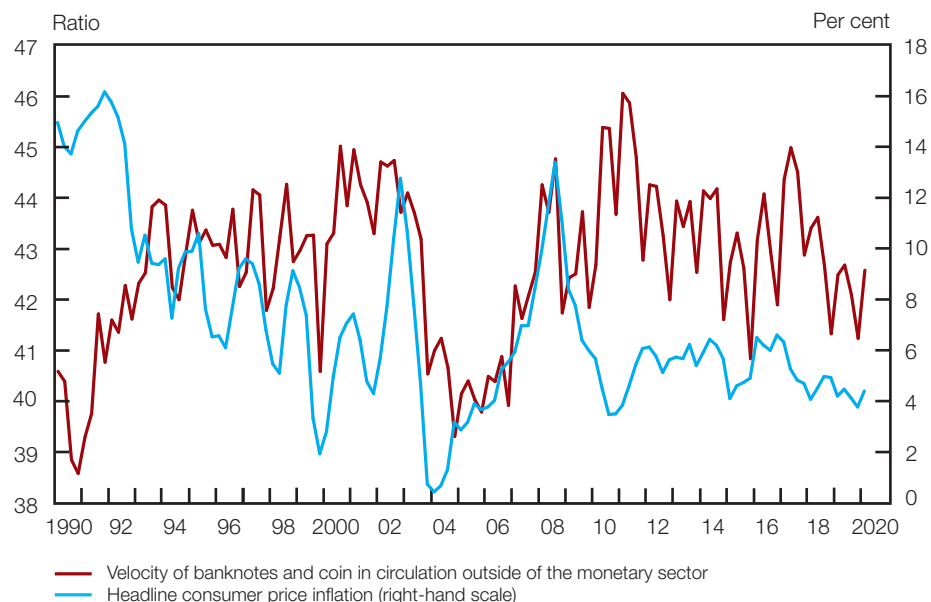
Source: SARB

The relationship of the monetary base to other macroeconomic variables

The public's demand for banknotes and coin drives cash in circulation, which could affect changes in the general price level in the economy. However, the velocity⁴ of banknotes and coin in circulation outside the monetary sector⁵ has been trending broadly sideways over the past decade, along with a moderation in consumer price inflation.

4 This is the ratio of the gross domestic product (GDP) at current prices divided by the average value of banknotes and coin in circulation outside of the monetary sector.

Velocity of banknotes and coin in circulation, and consumer price inflation



— Velocity of banknotes and coin in circulation outside of the monetary sector
— Headline consumer price inflation (right-hand scale)

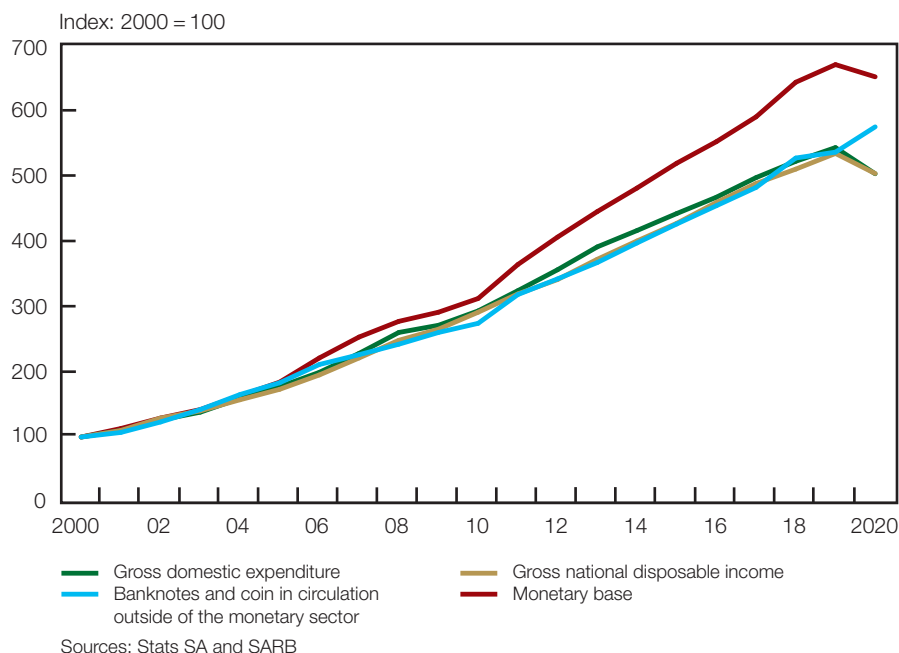
Sources: Stats SA and SARB

5 Banknotes and coin in circulation outside of the monetary sector equal the notes and coin that form part of the monetary base, but exclude the vault cash held by banks to reflect the notes and coin in the hands of the public.

When the evolution of gross domestic expenditure and gross national income at current prices is compared to that of banknotes and coin in circulation outside the monetary sector as well as the monetary base, it becomes evident that banknotes and coin increased in step with overall expenditure and income in the economy. This alignment with economic activity was therefore not inflationary.



Expenditure and income versus monetary base



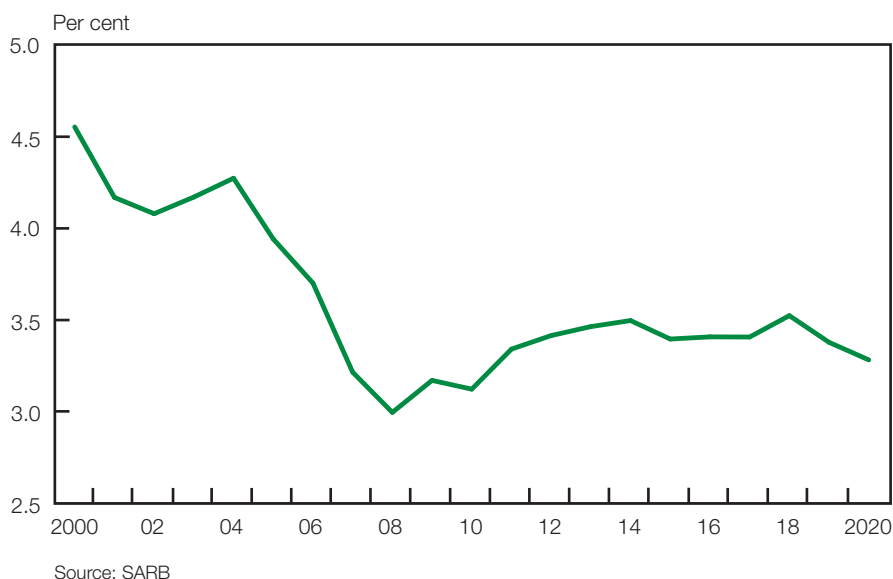
6 The monetary base is a measure of the funding base that underlies the money aggregates, rather than being a money aggregate in itself.

7 Since January 2000, the banknotes and coin in circulation outside of the monetary sector only accounted for 3.5%, on average, of the money supply (M3).

8 For the composition of South Africa's monetary aggregates, see page S-23 in this edition of the *Quarterly Bulletin*. The *Monetary and Financial Statistics Manual and Compilation Guide 2019* suggests that the selection of financial assets to be included in broad money aggregates should focus on their liquidity and usefulness as a store of value in real terms (i.e. their ability to maintain value despite changes in interest rates and prices). The M3 money supply includes notes and coin in circulation *plus* the domestic private sector's cheque and transmission deposits, demand deposits, short- and medium-term deposits as well as long-term deposits with the monetary sector.

Banknotes and coin in circulation outside of the monetary sector as a percentage of the overall broad money supply (M3) also declined from the early 2000s to 2008, after which it remained fairly stable, not contributing unduly to the growth in money supply.

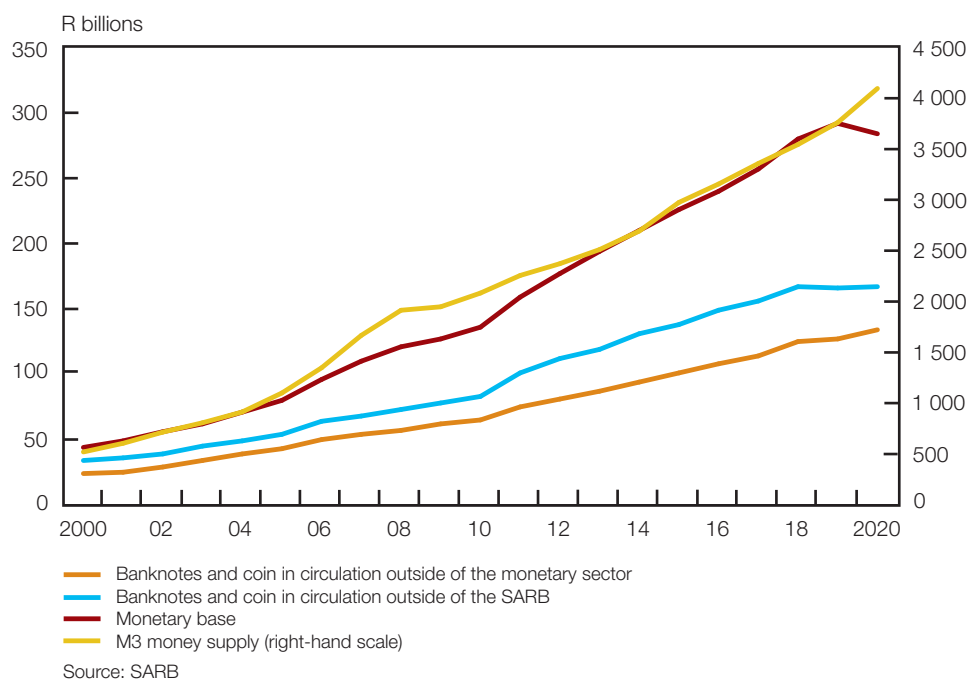
Banknotes and coin in circulation outside of the monetary sector as a ratio of M3



It is important to note that the monetary base⁶ and money supply are two different concepts, which share only that portion of banknotes and coin in circulation that falls outside of the monetary sector.⁷ However, the monetary base does affect money supply⁸ through the money multiplier.



Monetary base and money supply



The monetary base and the SARB's liquidity operations

The SARB's portfolio of government bonds grew from R8.1 billion in February 2020 to R38.4 billion in July on account of such purchases to increase money market liquidity. 'Normal' liquidity provision by the SARB – which includes the utilisation of cash reserves, resale agreements and the South African Multiple Option Settlement (SAMOS) system position – increased from R65.8 billion in December 2019 to R103.9 billion in March 2020 before declining to R54.3 billion in July.

Selected SARB assets and liabilities

R millions

	Jan 2000	Dec 2019	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
Assets							
Government bonds	6 299	8 103	9 222	20 644	30 830	35 890	38 383
Liquidity provided*	6 502	65 849	103 872	77 961	74 566	62 112	54 278
Total	12 801	73 952	113 094	98 605	105 396	98 0002	92 661
Liabilities							
Private bank deposits at the SARB..	7 174	126 306	149 394	115 712	116 358	116 915	131 790

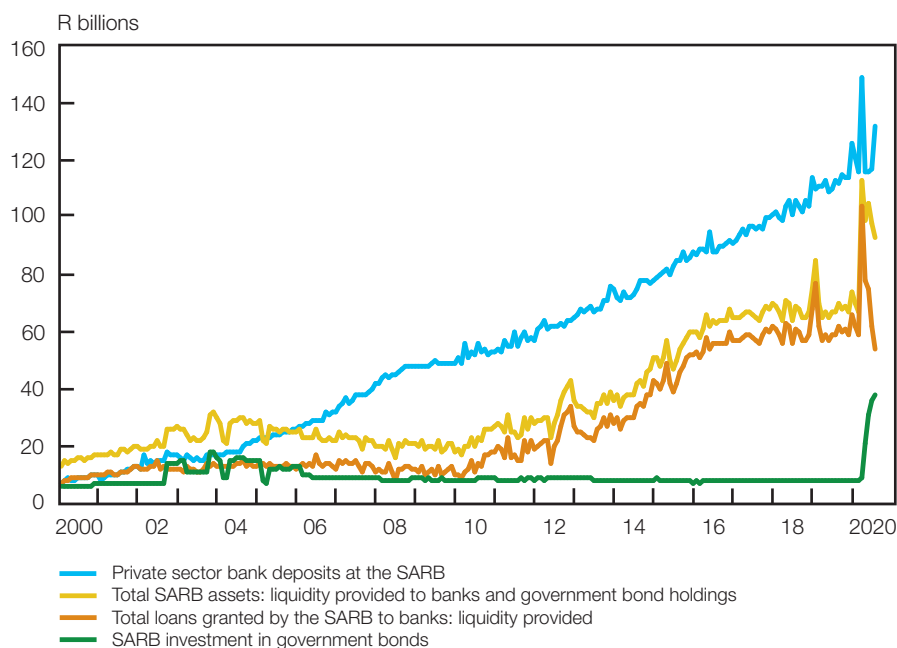
* Utilisation of cash reserves, resale agreements and the SAMOS system position

Source: SARB

Some of the liquidity provided by the SARB to banks finds its way back to the SARB as deposits of private sector banks with the SARB, which then forms part of the monetary base but, by definition, is excluded from the monetary aggregates and overall money supply.



Selected SARB assets and liabilities



Conclusion

Central banks create money under 'normal' circumstances and could also do so, to a much larger extent, under unusual circumstances by providing liquidity as part of efforts to ensure the continued functioning of financial markets. In addition to an increase in banknotes and coin in circulation, the central bank could also extend loans to banks and purchase government securities, both of which might increase bank deposits at the central bank and hence the monetary base, and through that the money supply. The intention is for banks to use the increased liquidity to extend credit to the private sector. However, when conditions allow, and as an interim measure, some excess liquidity may also end up being used to purchase short-term market instruments such as Treasury bills.

The creation of money could be inflationary if it were out of kilter with the demand for money and underlying economic activity, and could also contribute to asset price bubbles. It should therefore be very carefully managed by the monetary authority.



Notes to tables

Capital market activity: primary and secondary markets – Table S–32

The JSE's 129-year reign as the sole stock exchange in South Africa ended with the first listing on ZAR X in February 2017. Currently, there are four exchanges in addition to the JSE, namely ZAR X, 4 Africa Exchange (4AX), A2X Markets (A2X) (primarily a secondary listings market), and the black economic empowerment (BEE)-focused Equity Express Securities Exchange (ESEE). These exchanges were established to increase diversity and economic inclusion for the advancement of economic growth and development. The statistics for stock exchange transactions in the secondary share market in Table (KB203) now include the data of all five exchanges, not only of the JSE as in the past. The data of the four new exchanges have been included since inception.

National financial account – Tables S–48 and S–49

The national financial account flow-of-funds Tables (KB230) and (KB231) have been amended as from the first quarter of 2010 to incorporate the revised Public Investment Corporation (PIC) statistics, as explained in the Notes to tables, in the June 2020 *Quarterly Bulletin*.



Abbreviations

Alsi	All-Share Price Index
BER	Bureau for Economic Research
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPI	consumer price index
CPIS	Coordinated Portfolio Investment Survey
EMBI+	Emerging Markets Bond Index Plus
EPWP	Expanded Public Works Programme
ETF	exchange-traded funds
FAO	Food and Agriculture Organization
FNB	First National Bank
FRA	forward rate agreement
FX	foreign exchange
GDE	gross domestic expenditure
GDP	gross domestic product
GVA	gross value added
IMF	International Monetary Fund
IIP	International investment position
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
MPC	Monetary Policy Committee
NAAMSA	National Association of Automobile Manufacturers of South Africa
NCD	negotiable certificates of deposit
NEER	nominal effective exchange rate
NPISH	non-profit institutions serving households
OMO	open market operations
PAYE	pay as you earn
PIC	Public Investment Corporation
PIM	perpetual inventory method
PIT	personal income tax
PGM	platinum group metal
QES	<i>Quarterly Employment Statistics</i>



RDP	Reconstruction and Development Programme
REER	real effective exchange rate
S&P	Standard & Poor's
SAA	South African Airways
Sabor	South African Benchmark Overnight Rate
SACU	South African Customs Union
SARB	South African Reserve Bank
SARS	South African Revenue Service
<i>SNA</i>	<i>System of National Accounts</i>
SOC	state-owned company
Stats SA	Statistics South Africa
TB	Treasury bill
UK	United Kingdom
US	United States
VAT	value-added tax
WGBI	World Government Bond Index

