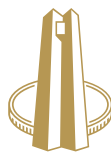


QUARTERLY BULLETIN

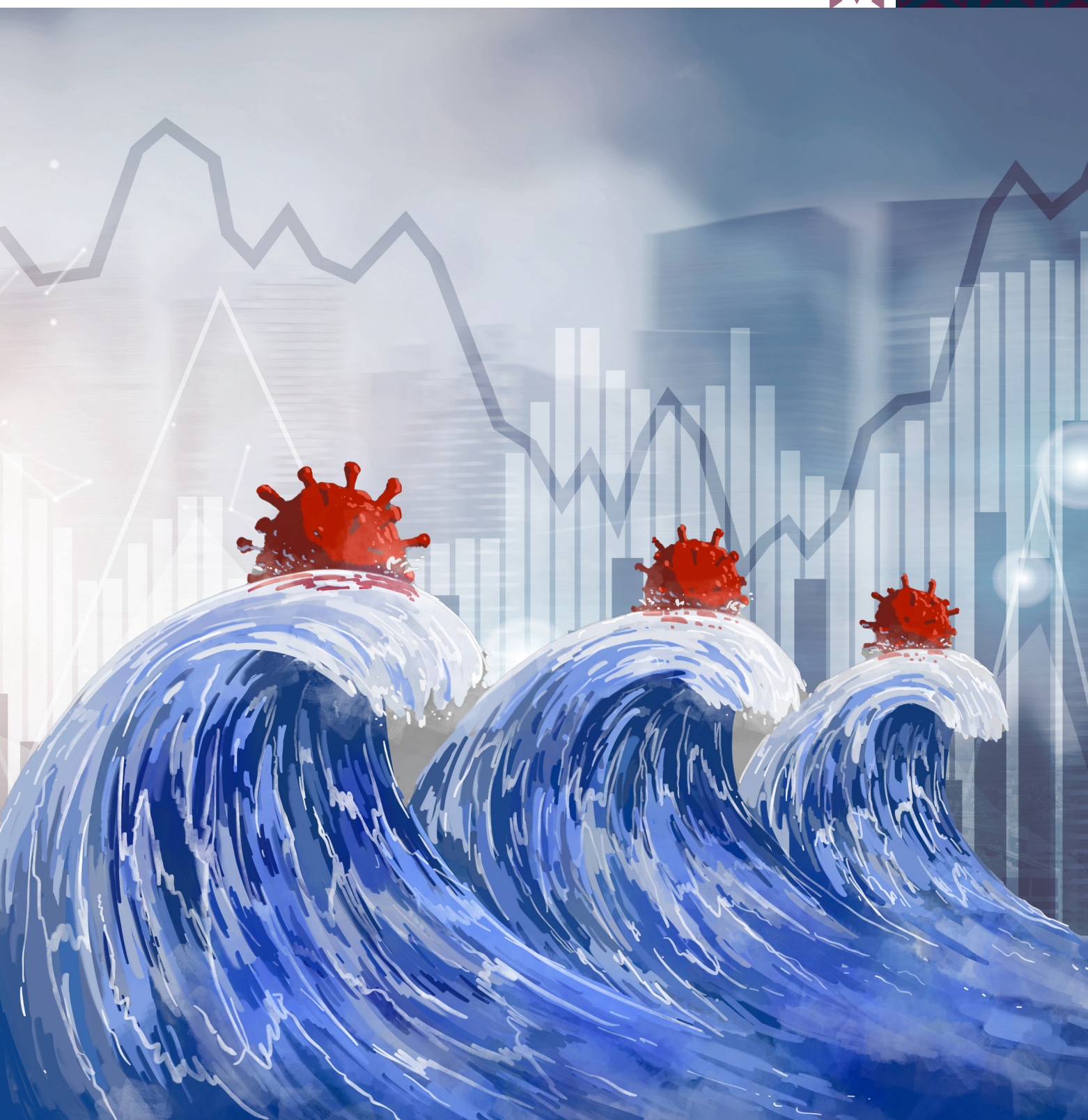
SEPTEMBER 2021



SOUTH AFRICAN RESERVE BANK



A purposeful journey





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SOUTH AFRICAN RESERVE BANK

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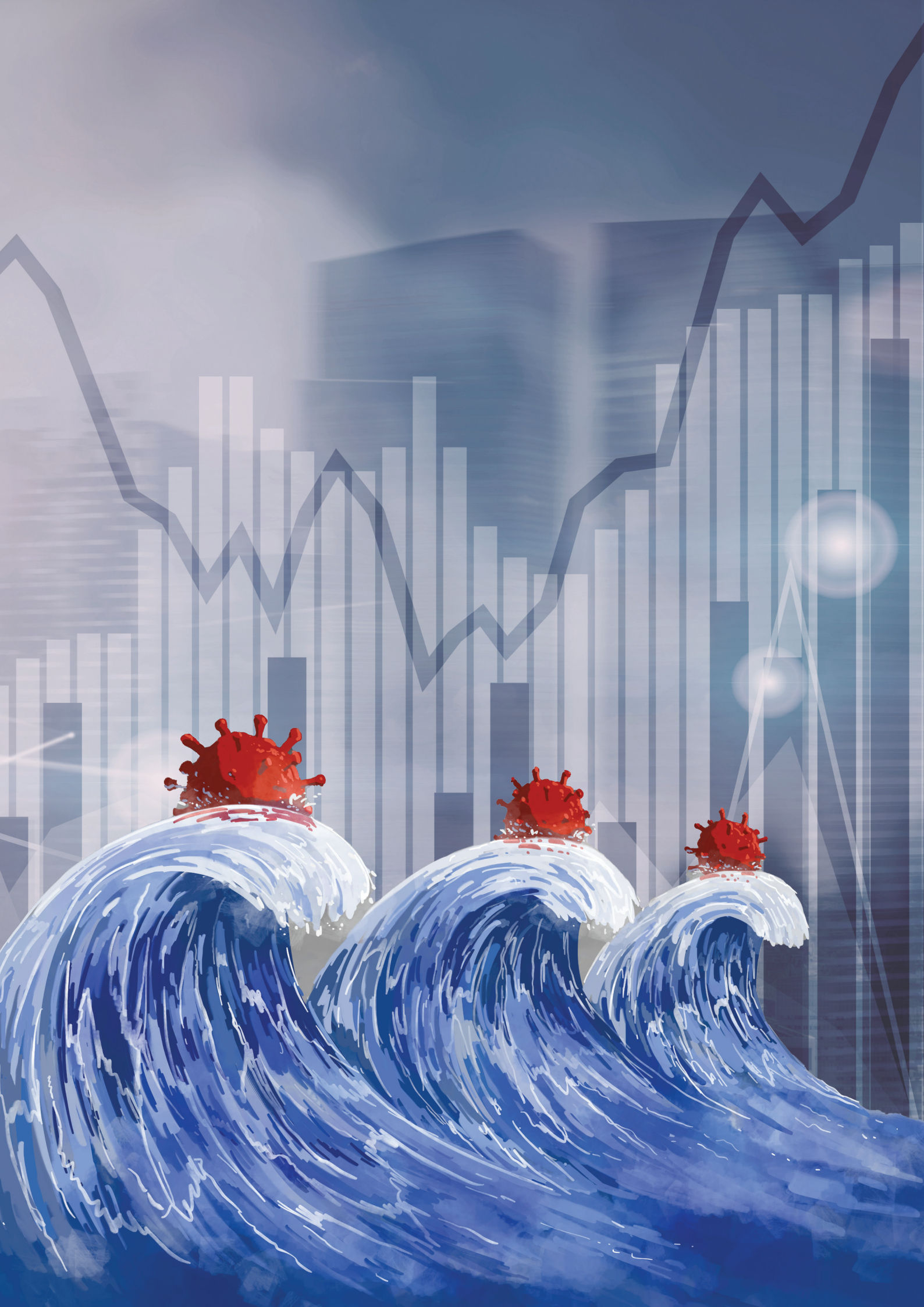
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Quarterly economic review

Introduction

Real economic activity in South Africa expanded for a fourth consecutive quarter in the second quarter of 2021. Growth in real gross domestic product (GDP) accelerated marginally from a revised 1.0% (4.2% annualised) in the first quarter of 2021 to 1.2% (4.7% annualised) in the second quarter, despite the third wave of coronavirus disease 2019 (COVID-19) infections. However, the seasonally adjusted level of real output in the second quarter of 2021 was still lower than the level in the first quarter of 2020 at the onset of the COVID-19 pandemic.

Growth in the real gross value added (GVA) by the primary sector accelerated further in the second quarter of 2021, even though real mining output increased at a slower pace. Mining production continued to be supported by higher international commodity prices and improved global economic activity. The real GVA by the agricultural sector increased at a brisk pace in the second quarter of 2021 after contracting in the first quarter. Agricultural output was boosted by the increased production of field crops, with the most recent commercial maize crop estimate for the 2020/21 season being 6.6% more than the final crop for the 2019/20 season. The production of horticultural and animal products also increased in the second quarter of 2021.

Real economic activity in the secondary sector contracted in the second quarter of 2021 following an increase in the previous quarter, as real GVA by both the manufacturing and construction sectors contracted. By contrast, real GVA by the sector supplying electricity, gas and water increased in the second quarter of 2021 after contracting in the previous quarter. Production volumes declined across a broad spectrum of manufacturing subsectors in the second quarter, with the petroleum industry severely affected by the closure of some crude oil refineries. Decreases in residential and non-residential building activity as well as in civil construction activity weighed on output in the construction sector in the second quarter, with the sector still severely affected by the COVID-19 pandemic and weak investor sentiment. The volume of electricity produced and consumed both increased in the second quarter of 2021, reflecting improved capacity at Eskom's power plants as the sixth and final unit at Medupi Power Station achieved commercial operation status.

The real GVA by the tertiary sector expanded at a faster pace in the second quarter of 2021, largely due to a marked rebound in the real output of the transport, storage and communication sector as activity in road freight transportation and transport services increased notably. The ongoing commodity price boom further supported freight transport of mining and agricultural products. Real output of the commerce sector increased further in the second quarter of 2021 and edged closer to pre-lockdown levels, as activity in the wholesale, retail and motor trade as well as in the tourism and accommodation subsectors increased. By contrast, real GVA by the finance, insurance, real estate and business services sector contracted over the period as activity declined in the finance and insurance subsectors, with reduced banking activity lowering monetary intermediation output.

Growth in real gross domestic expenditure (GDE) decelerated sharply to a rate of 0.2% (0.9% annualised) in the second quarter of 2021 following a significant increase of 2.4% (9.9% annualised) in the first quarter, mainly due to a faster pace of de-accumulation in real inventory holdings. Growth in real final consumption expenditure by households moderated, while real gross fixed capital formation reverted to an expansion from a contraction in the first quarter. Real net exports contributed the most to overall economic growth in the second quarter of 2021 as real exports increased at a faster pace than real imports.

Growth in real final consumption expenditure by households almost halved to 2.1% in the second quarter of 2021, consistent with slower growth in the real disposable income of households. Growth in real outlays on durable and semi-durable goods moderated, while real spending on services contracted. Although purchases of personal transport equipment increased at a faster



pace, real spending on almost all the other durable goods subsectors declined in the second quarter. Household expenditure on non-durable goods increased at a faster pace, largely due to increased spending on food, beverages and tobacco, and petroleum products.

The ratio of household debt to disposable income decreased slightly from 67.1% in the first quarter of 2021 to 66.7% in the second quarter, as the quarter-to-quarter increase in nominal disposable income exceeded that in household debt. Households' cost of servicing debt relative to nominal disposable income decreased slightly to 7.5% in the second quarter of 2021, from 7.6% in the first quarter.

Households' net wealth increased in the second quarter of 2021 as the increase in total assets outweighed that in total liabilities. The value of assets was supported by an increase in equity holdings in particular, as domestic share prices increased further. The FTSE/JSE All-Share Index (Alsi) increased for seven consecutive months up to May 2021, before temporarily receding in June and then surging to a new all-time high in mid-August. Subsequently, share prices tapered off up to mid-September.

Real gross fixed capital formation increased in the second quarter of 2021 after contracting in the first quarter, but remained well below its pre-lockdown level. Private business enterprises increased capital outlays in the second quarter, while public corporations and general government reduced capital spending amid continued financial strain. Increased investment in especially transport equipment as well as in machinery and other equipment outweighed lower investment in all construction-related asset categories in the second quarter of 2021.

The post-lockdown recovery in employment has thus far lagged the recovery in economic activity. Total household-surveyed employment decreased further in the second quarter of 2021 as the decline in formal sector employment outweighed increases in the informal and agricultural sectors as well as in private households. The number of unemployed persons increased notably to 7.8 million in the second quarter of 2021, reflecting increased labour market participation. As a result, the official unemployment rate increased further to a new record high of 34.4% in the second quarter of 2021. With the number of discouraged work seekers increasing by 3.3 million, the expanded unemployment rate – which also includes those who did not search for work due to other reasons – increased to 44.4% over the same period.

Growth in nominal remuneration per worker in the formal non-agricultural sector accelerated further from 1.5% in the fourth quarter of 2020 to 3.7% in the first quarter of 2021. The acceleration occurred in the private sector, as wage growth per worker was supported by the return to work of furloughed workers as well as an increase in bonus and overtime payments. By contrast, growth in public sector remuneration per worker contracted at a faster pace, largely due to the non-implementation of the annual public sector wage increase in 2020 to curtail government expenditure. Overall formal non-agricultural remuneration per worker still contracted in real terms in the first quarter of 2021, albeit at a slower pace.

Labour productivity growth in the formal non-agricultural sector of the economy accelerated from an upwardly revised 2.3% in the fourth quarter of 2020 to 3.1% in the first quarter of 2021, as the rebound in output outweighed that in employment on a year-on-year basis. Conversely, the change in nominal unit labour cost in the formal non-agricultural sector reverted from a year-on-year decrease of 0.8% in the fourth quarter of 2020 to a slight increase of 0.6% in the first quarter of 2021, as total remuneration recovered at a faster pace than output.

Most measures of producer price inflation have accelerated sharply thus far in 2021. In particular, intermediate manufactured producer price inflation accelerated markedly to 17.6% in July 2021, reflecting higher international commodity prices and the shortages of many raw materials. Headline consumer price inflation accelerated from a 16-year low of 2.1% in May 2020 to 5.2% a year later, before slowing to 4.6% in July 2021. The acceleration reflected base effects from the price imputations of some items employed by Statistics South Africa (Stats SA) from April 2020 and, more recently, increases in fuel, food and electricity prices. When excluding these three items from the consumer price index, core inflation was muted at 3.0% in July 2021.



South Africa's trade surplus with the rest of the world widened substantially to a record high in the second quarter of 2021. The value of net gold and merchandise exports increased to a new all-time high and outpaced the increase in the value of imports. The higher value of exported goods reflected a marked increase in prices, along with a lesser increase in volumes, while the increase in imports mostly reflected higher prices. This resulted in a further improvement in South Africa's terms of trade in the second quarter of 2021.

The value of mining exports increased strongly in the second quarter of 2021, boosted by especially platinum group metals, which continued to benefit from the surge in the prices of these commodities. Manufacturing and agricultural exports also increased over this period. Mining and agricultural products supported the increase in the total value of merchandise imports in the second quarter of 2021. Mining imports reflected continued demand for mineral products, particularly refined petroleum products, as some local refineries shut down for maintenance and others closed permanently. Imports of articles of iron and steel also increased notably as the domestic steel shortage experienced since the start of the COVID-19 pandemic continued. Manufacturing imports decreased in the second quarter of 2021 as the import values of machinery and electrical equipment as well as vehicles and transport equipment declined, with the latter reflecting the global semiconductor shortage, among other factors.

The significantly larger trade surplus more than compensated for the much larger shortfall on the services, income and current transfer account, resulting in the surplus on the current account of the balance of payments widening further from 4.3% of GDP in the first quarter of 2021 to 5.6% of GDP in the second quarter. The shortfall on the income account increased substantially in the second quarter of 2021 as gross dividend payments rebounded following improved profits in some sectors, particularly mining, while gross dividend receipts decreased sharply.

The net outflow of capital on South Africa's financial account of the balance of payments increased to R109.6 billion in the second quarter of 2021 following an outflow of R64.7 billion in the first quarter. On a net basis, only direct investment recorded an inflow, while portfolio investment, financial derivatives, other investment and reserve assets all registered outflows. Direct investment liabilities increased as non-resident parent entities increased their equity investment in domestic subsidiaries, among other things. Portfolio investment outflows mainly reflected a further surge in the acquisition of foreign portfolio assets by South African residents.

South Africa's total external debt decreased from US\$170.4 billion at the end of December 2020 to US\$164.7 billion at the end of March 2021. This was mainly due to a decrease in foreign currency-denominated external debt as long-term loans of the private non-banking sector decreased, and due to the redemption of an international bond by the public sector. Rand-denominated external debt also decreased slightly over the period.

South Africa's positive net international investment position (IIP) decreased further in the three months to the end of March 2021 as the value of foreign liabilities increased more than that of foreign assets. The higher value of foreign liabilities reflected increased direct and portfolio investment, which was boosted by the marked increase in the share prices of companies listed on the JSE Limited in the first quarter of 2021.

The nominal effective exchange rate (NEER) of the rand increased further by 2.7% in the second quarter of 2021, and by 18.4% between the end of March 2020 and the end of June 2021 as it recovered after the outbreak of COVID-19. After increasing in April and May 2021, the NEER declined in June following a more hawkish monetary policy stance by the United States (US) that raised expectations of a faster-than-expected adjustment in interest rates, which negatively affected demand for emerging market assets. The NEER then increased up to 10 September 2021, despite the domestic civil unrest in July as well as rising concerns about the impact of new COVID-19 outbreaks on the global and domestic economic recovery.

South African government bond yields decreased from the beginning of April 2021 up to mid-June, reflecting cumulative net purchases of domestic bonds by non-residents and a decline in US government bond yields following indications that interest rates in the US will probably not be raised in the short-term. The subsequent slight increase in South African bond yields up to





mid-September 2021 occurred against the backdrop of the domestic civil unrest in July, non-resident net sales of domestic bonds in June and July, and the depreciation in the exchange value of the rand.

The strong growth in the broadly defined money supply (M3) in the first half of 2020 had slowed to a near standstill by mid-2021. The sharp deceleration partly reflected base effects as deposit balances were accumulated a year earlier amid the uncertainty during the initial COVID-19 lockdown period. The slowdown in deposit growth of the corporate sector was driven by a marked contraction in the deposit holdings of financial companies as bank deposits became less attractive amid the low interest rate environment. Growth in household deposits slowed to a lesser extent over this period.

Year-on-year growth in total loans and advances extended by monetary institutions to the domestic private sector accelerated somewhat in the four months to July 2021, but remained subdued. Credit extended to companies contracted on a year-on-year basis over this period, largely reflecting the decline in general loans and slower growth in mortgage advances. By contrast, credit extended to the household sector has accelerated gradually thus far in 2021, as the low interest rate environment stimulated some credit demand and progressively less restrictive lockdown regulations revived consumer demand. Mortgage advances to households led the acceleration alongside increased demand for residential property.

Funding by the public sector in the domestic primary bond market has declined thus far in 2021, as higher commodity price-induced tax collections have reduced national government's borrowing requirement. The decline reflected reduced net issues by national government as well as net redemptions by public corporations and local government. By contrast, private sector funding has been buoyant in the first eight months of 2021, with banks continuing to dominate net bond issuance.

The preliminary non-financial public sector borrowing requirement decreased significantly in the first quarter of fiscal 2021/22 compared with the same period in the previous fiscal year. This largely reflected the much smaller cash deficit of national government following significantly higher revenue collections along with a moderate increase in expenditure. The deficits of the social security funds and the non-financial public enterprises and corporations also decreased significantly over this period.

Although national government revenue surpassed originally budgeted estimates across a broad spectrum of tax categories in the first quarter of fiscal 2021/22, the increase in corporate income tax collection was most pronounced, driven by mining companies in particular. This lowered national government's cash book deficit significantly and reduced the need for funding, with the funding activities of national government substantially increasing its overall available cash balances. National government's gross loan debt increased to R4 051 billion as at 30 June 2021, or 68.8% of GDP.

Notice regarding the revision of South Africa's national accounts statistics

On 25 August 2021, Statistics South Africa (Stats SA) published the revised benchmarked estimates of gross domestic product (GDP) for the period from the first quarter of 1993 to the fourth quarter of 2020. This was followed on 7 September 2021 by the publishing of the revised GDP for the first quarter of 2021 and the GDP for the second quarter of 2021.

The South African Reserve Bank's (SARB) media notice of Thursday, 26 August 2021 envisaged that the September 2021 edition of the *Quarterly Bulletin* would include the national accounts balanced production, expenditure and income statistics from the first quarter of 1993, and would be available on the SARB website with the release of the September 2021 *Quarterly Bulletin*.

However, due to the proximity of the release of the September 2021 *Quarterly Bulletin* to the Stats SA releases and the extent of the further revisions required to the additional SARB national accounts statistics, the following historical statistics will only be available from the first quarter of 2010, and published on the SARB website with the release of the September 2021 *Quarterly Bulletin*:

- Financing of gross capital formation: S-132
- Production, distribution and accumulation accounts of South Africa: S-133 to S-138
- Current income and saving: selected items: S-139
- Key information: S-156; S-157; S-158

These revised statistics from the first quarter of 1993 to the fourth quarter of 2009 will be released on the SARB website on 21 October 2021.

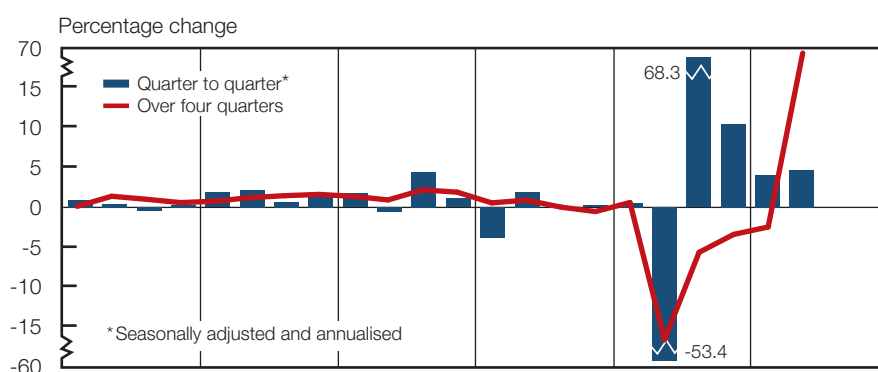
The revised statistics from 1946 to the fourth quarter of 1992 will only be available on the SARB website on 15 December 2021 with the release of the December 2021 *Quarterly Bulletin*, following the backward linking of the timeseries.

Domestic economic developments

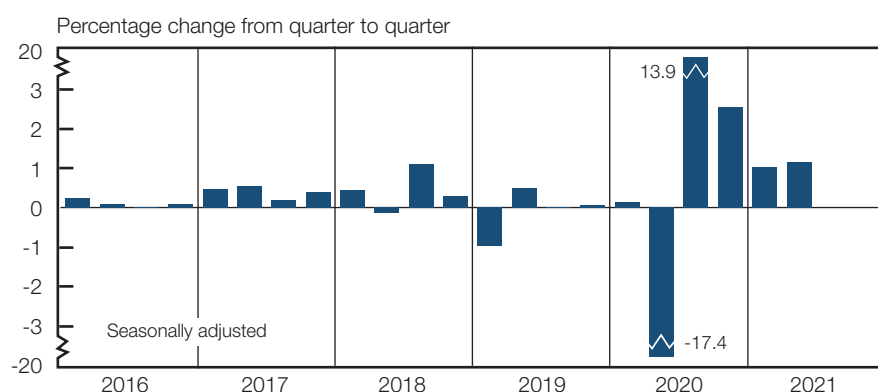
Domestic output^{1, 2}

Real economic activity in South Africa increased for a fourth consecutive quarter in the second quarter of 2021, starting with the rebound in the third quarter of 2020 when the initial strict coronavirus disease 2019 (COVID-19) lockdown measures were first eased. Growth in real *gross domestic product* (GDP) accelerated marginally from a revised annualised rate of 4.2% in the first quarter of 2021 to 4.7% in the second quarter, despite the third wave of COVID-19 infections. Real gross value added (GVA) by both the primary and tertiary sectors rose further, while the real output of the secondary sector contracted. Consistent with the slight acceleration in growth, the level of real GDP was 19.3% higher in the second quarter of 2021 compared with a year earlier, when the pandemic-related lockdown restrictions resulted in the largest contraction since quarterly records began in 1960. In turn, the seasonally adjusted level of real output in the second quarter of 2021 was still lower than the level in the first quarter of 2020 at the onset of the COVID-19 pandemic. On a seasonally adjusted but not annualised basis (the new headline measure), real GDP growth accelerated slightly from 1.0% in the first quarter of 2021 to 1.2% in the second quarter.³

Real gross domestic product



Headline growth rate in real gross domestic product



Source: Stats SA

In *nominal* terms, GDP growth moderated slightly to 1.6% on a quarter-to-quarter seasonally adjusted but not annualised basis in the second quarter of 2021, following an increase of 1.8% in the previous quarter. When annualised, to indicate what the outcome would be if this quarterly expansion persisted for all four quarters of the calendar year, the increase in nominal GDP was 6.7%.

Real gross domestic product

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

Sector	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Primary sector	0.3	-61.8	144.4	7.2	-3.7	9.8	14.5
Agriculture	45.2	-16.2	-0.4	29.3	13.4	-4.0	27.0
Mining.....	-17.6	-77.5	341.6	-3.6	-11.9	18.5	8.0
Secondary sector	-3.8	-73.9	171.2	17.2	-12.8	1.6	-2.8
Manufacturing.....	-2.4	-77.9	235.4	23.2	-12.3	2.1	-3.3
Construction.....	-9.5	-75.9	80.9	7.8	-19.8	1.8	-5.3
Tertiary sector.....	2.4	-43.1	41.4	8.4	-4.3	4.0	5.9
Non-primary sector**	1.0	-51.0	59.9	10.1	-6.1	3.5	4.1
Non-agricultural sector***	-0.1	-52.8	68.1	9.3	-6.4	4.3	4.3
Total	0.5	-53.4	68.3	10.6	-6.4	4.2	4.7

* Percentage change over one year

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

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

Source: Stats SA

When excluding the contribution of the climate-dependent agricultural sector, growth in the real output of the *non-agricultural sector* was maintained at 4.3% in both the first and second quarters of 2021.

Real gross domestic product

Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Sector	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Primary sector	0.1	-21.4	25.0	1.8	-3.7	2.4	3.4
Agriculture	9.8	-4.3	-0.1	6.6	13.4	-1.0	6.2
Mining.....	-4.7	-31.1	45.0	-0.9	-11.9	4.3	1.9
Secondary sector	-1.0	-28.5	28.3	4.0	-12.8	0.4	-0.7
Manufacturing.....	-0.6	-31.4	35.3	5.3	-12.3	0.5	-0.8
Construction.....	-2.5	-29.9	16.0	1.9	-19.8	0.5	-1.4
Tertiary sector.....	0.6	-13.1	9.1	2.0	-4.3	1.0	1.5
Non-primary sector**	0.3	-16.3	12.4	2.4	-6.1	0.9	1.0
Non-agricultural sector***	-0.0	-17.1	13.9	2.2	-6.4	1.1	1.1
Total	0.1	-17.4	13.9	2.5	-6.4	1.0	1.2

* Percentage change over one year

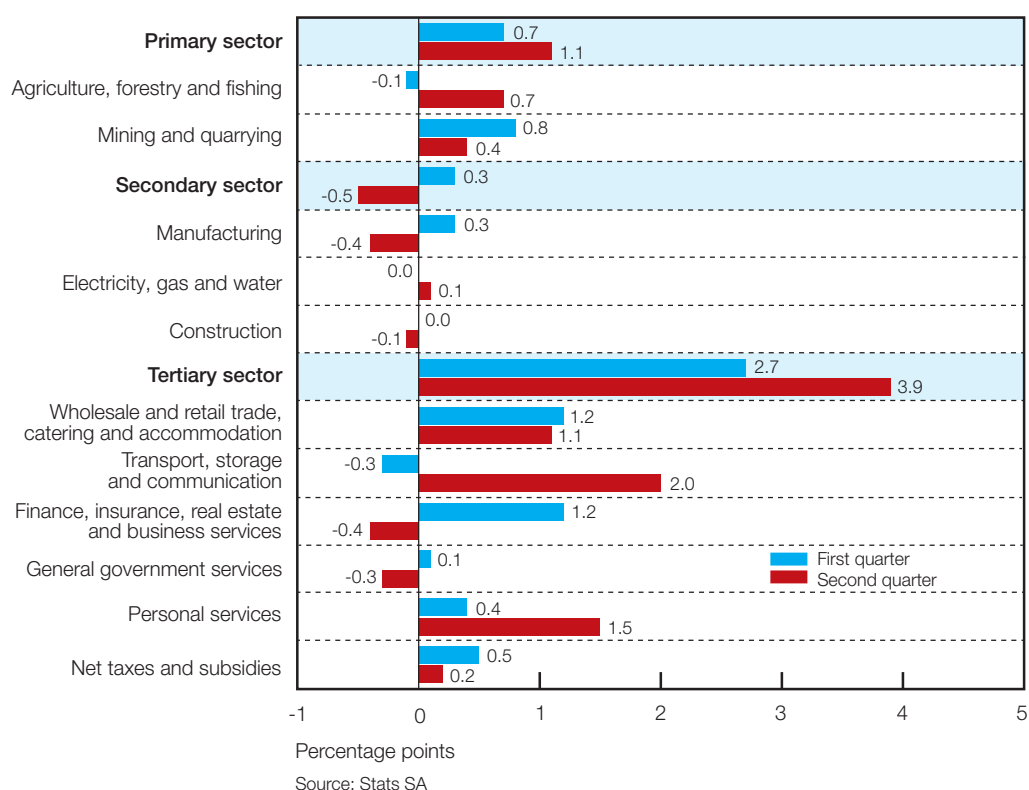
** The non-primary sector is total GVA excluding agriculture and mining.

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

Source: Stats SA

Real GVA by the *primary sector* expanded significantly by 14.5% in the second quarter of 2021 following an expansion of 9.8% in the first quarter. Real output of the mining sector increased at a much slower pace, while real agricultural output increased significantly after contracting in the first quarter.

Contributions to annualised growth in real gross domestic product in 2021



Real output of the *agricultural sector* increased by a sizeable 27.0% in the second quarter of 2021 and contributed 0.7 percentage points to overall real GDP growth, following a revised contraction of 4.0% in the first quarter. This resulted from an increased production of field crops as well as horticultural and animal products. Encouragingly, real economic activity in the agricultural sector was 8.3% higher in the first half of 2021 compared with the corresponding period of 2020, and well above pre-COVID-19 levels.

Commercial maize crop estimates

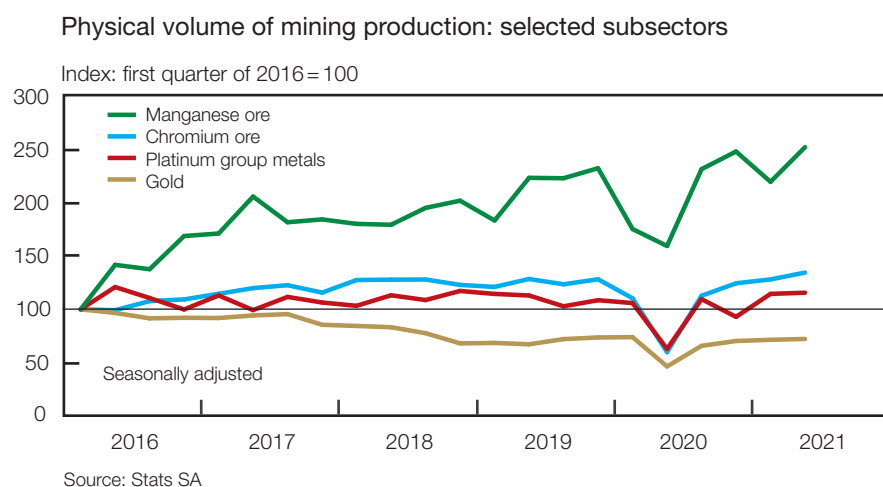
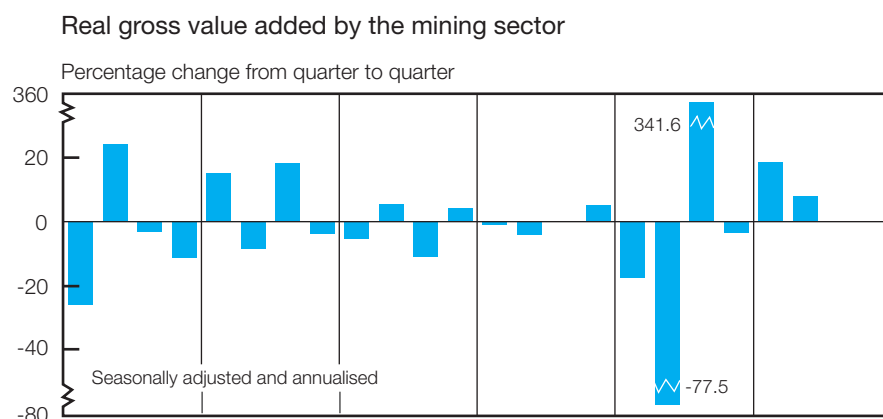
	Crop (million tons)	Area planted (million hectares)
2019/20 final crop	15.3	2.6
2020/21: seventh production forecast	16.3	2.8

Source: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development

The most recent commercial maize crop estimate of 16.3 million tons for the 2020/21 season is 6.6% more than the final crop for the 2019/20 season. Higher agricultural commodity prices motivated increased maize plantings in the 2020/21 season to an expected 2.8 million hectares – 5.5% more than in the previous season.

Following a notable expansion of 18.5% in the first quarter of 2021, growth in the real GVA by the *mining sector* moderated to 8.0% in the second quarter. The mining sector contributed 0.4 percentage points to overall real GDP growth, with platinum group metals (PGMs), gold,

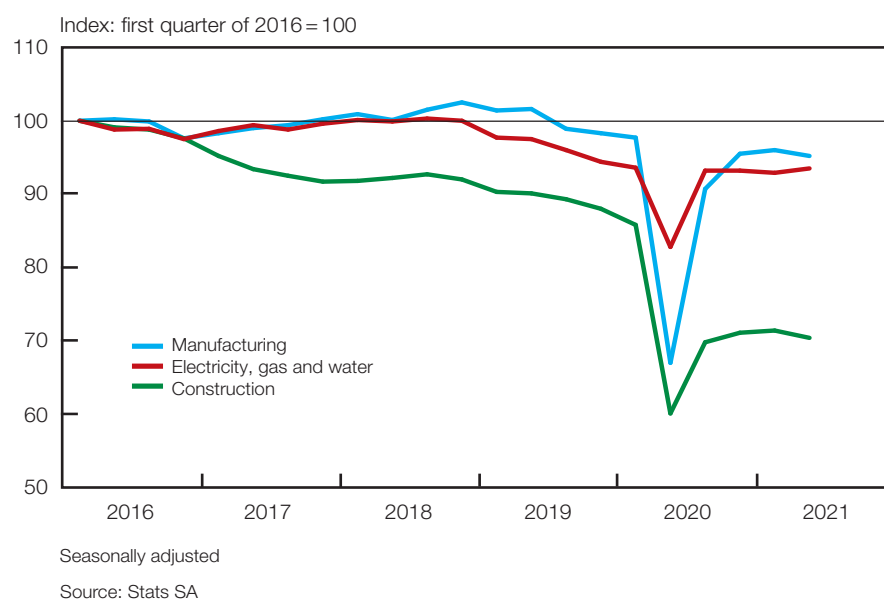
manganese ore, other non-metallic minerals and chromium ore contributing the most. Real mining production continued to be supported by higher international commodity prices and improved global economic activity. However, unreliable electricity supply, inefficiencies in rail infrastructure, the resurgence of COVID-19 infections, rising domestic cost pressures and an uncertain policy environment still weighed on the sector's activity levels in the second quarter of 2021. Despite the slower growth in real mining output, the level of real output was 53.5% higher in the second quarter of 2021 than in the corresponding quarter in 2020 – mostly due to the low COVID-19-induced base a year earlier. Also, the seasonally adjusted level of real mining production in the second quarter of 2021 was slightly higher than in the fourth quarter of 2019 before the onset of the COVID-19 pandemic. On a seasonally adjusted but not annualised basis, growth in real mining output moderated from 4.3% in the first quarter of 2021 to 1.9% in the second quarter.



Real economic activity in the *secondary sector* contracted by 2.8% in the second quarter of 2021 following a revised increase of 1.6% in the first quarter, subtracting 0.5 percentage points from overall real GDP growth. Real output of the manufacturing and construction sectors contracted in the second quarter of 2021, while the real GVA by the electricity, gas and water supply sector increased after contracting in the first quarter.

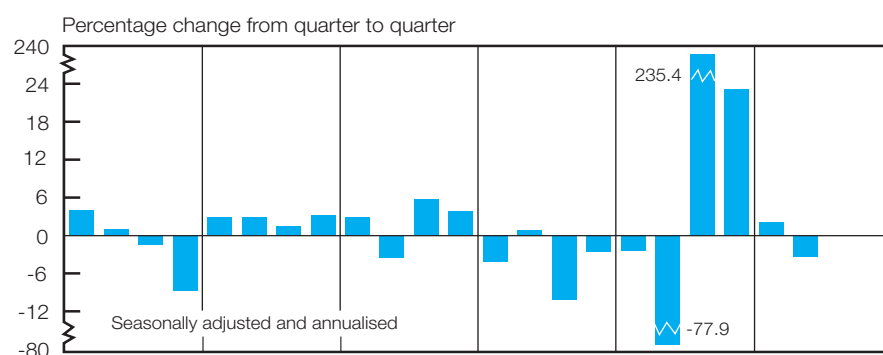


Real gross value added by the secondary sector

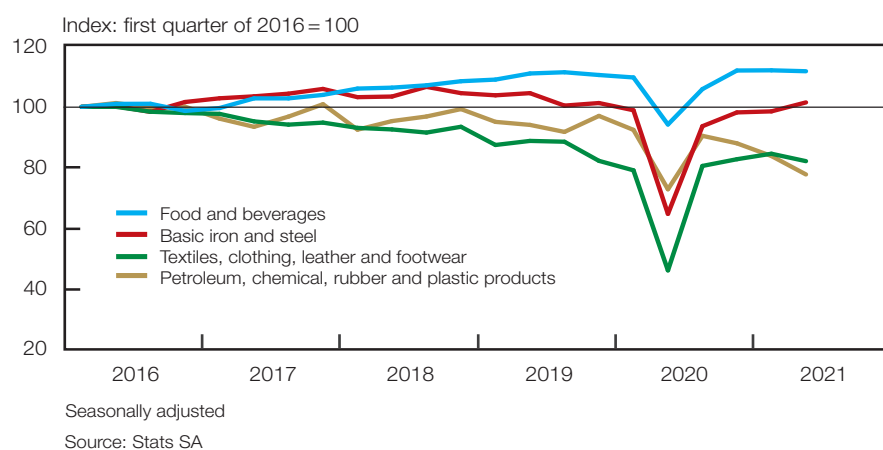


Following three consecutive quarters of expansion, the real output of the *manufacturing sector* contracted by 3.3% in the second quarter of 2021 and subtracted 0.4 percentage points from overall real GDP growth. The broad-based decrease in production volumes was particularly evident in the subsectors supplying petroleum, chemical products, rubber and plastic products; food and beverages; textiles, clothing, leather and footwear; as well as glass and non-metallic mineral products, while production volumes increased in the basic iron and steel subsector. The petroleum industry was severely affected by the closure of some crude oil refineries, whereas basic iron and steel production benefitted from the surge in global demand.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors

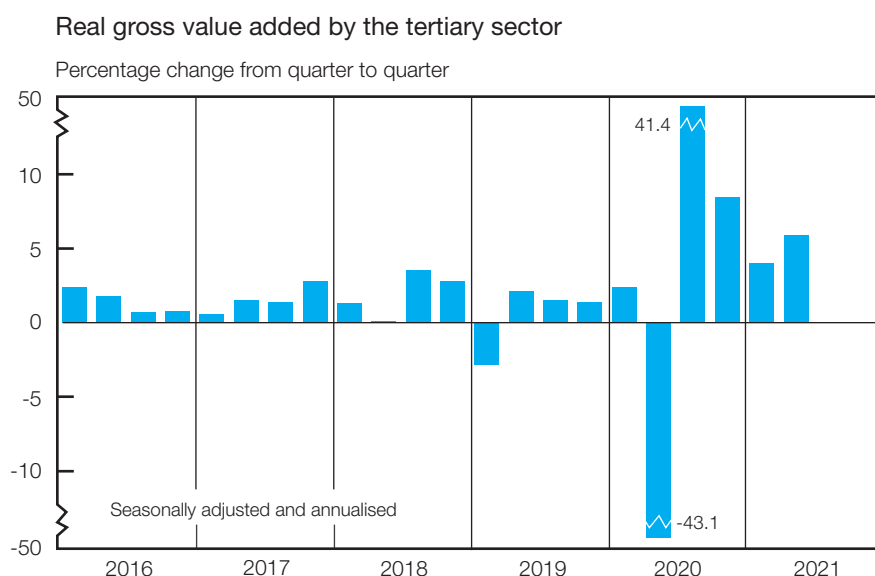


Manufacturing activity continued to be impeded by weak domestic demand, rising input costs, electricity-supply disruptions, raw material shortages and subdued business confidence. Despite the contraction in the second quarter of 2021, the level of real manufacturing output in the first half of the year was still 17.0% higher than in the corresponding period of 2020, while the seasonally adjusted level in the second quarter of 2021 was below the level in the first quarter of 2020 at the onset of the COVID-19 pandemic. Furthermore, the seasonally adjusted utilisation of production capacity in the manufacturing sector increased to 79.0% in May 2021 from 76.9% in February.

The real GVA by the sector supplying *electricity, gas and water* expanded by 2.7% in the second quarter of 2021, following a revised contraction of 1.2% in the first quarter. The increase was evident in both electricity production and consumption, reflecting improved capacity at Eskom's power plants as the sixth and final unit at Medupi Power Station achieved commercial operation status. Low temperatures during most of the quarter also added to the demand for electricity and contributed to raising the level of real output by 13.0% in the year to the second quarter of 2021. Despite an increase in the real GVA by the sector, both consumption and production levels remained below those that existed before the onset of South Africa's electricity-supply challenges in 2008.

Following three consecutive quarterly increases, real economic activity in the *construction sector* contracted by 5.3% in the second quarter of 2021, with production levels declining to those recorded in 2007. Building activity in the residential and non-residential subsectors as well as civil construction activity declined in the quarter as a result of still being severely affected by the COVID-19 pandemic and weak investor sentiment, and an oversupply in some non-residential subsectors. Consequently, the average level of real output in the first half of 2021 was 2.9% lower than in the corresponding period of 2020 when COVID-19 lockdown restrictions halted most construction activity.

Real GVA by the *tertiary sector* expanded by a lively 5.9% in the second quarter of 2021 after a revised increase of 4.0% in the first quarter. Growth in the transport, storage and communication sector rebounded strongly, alongside a moderation in the commerce sector. By contrast, output contracted in the finance, insurance, real estate and business services as well as the general government services sectors.





Real output of the *commerce sector* increased further by 9.3% in the second quarter of 2021 after having increased by a revised 11.0% in the first quarter, edging closer to pre-lockdown levels. Real economic activity in the wholesale, retail and motor trade as well as in the tourism and accommodation subsectors increased in the second quarter. With the exception of precious stones as well as food and beverages, wholesale trade activity was supported by higher sales of solid, liquid and gaseous fuels and related products; construction and building materials; and other household goods. Retail trade activity was boosted by increased sales of food, beverages and tobacco products; textiles, clothing, footwear and leather goods; and household furniture, appliances and equipment, reflecting eased lockdown restrictions during most of the quarter and an improvement in personal finances. Sales of new and used vehicles rose as the motor trade subsector continued to benefit from the low interest rate environment. In addition, the GVA by the catering and accommodation subsector was supported by increased domestic tourism, whereas foreign tourism remained suppressed as international borders were closed anew, along with concerns over the emergence of new COVID-19 variants.

The real GVA by the *transport, storage and communication services sector* expanded further at an annualised rate of 30.5% in the second quarter of 2021 and contributed the most to overall real GDP growth, at 2.0 percentage points, following a revised decline of 4.3% in the first quarter. The expansion was mainly driven by activity in road freight transportation and transport services, as business outlets slowly started to re-stock. The ongoing commodity price boom further supported freight transport of mining and agricultural products, along with a recovery in the transport volumes of commercial products, most notably parcels. By contrast, reduced activity in rail freight and passenger transport services in part reflected the closure of some rail services for maintenance to infrastructure following further widespread vandalism. Real output of the transport, storage and communication services sector was 4.2% higher in the first half of 2021 than a year earlier, but still more than 6% lower than its most recent seasonally adjusted pre-lockdown peak in the first quarter of 2020. Activity in the transport sector reflects the severity of the impact of the hard lockdown in the second quarter of 2020 and the recent moderation in the economic recovery.

Real GVA by the *finance, insurance, real estate and business services sector* receded by 1.7% in the second quarter of 2021, subtracting 0.4 percentage points from overall real GDP growth. This contraction was evident in the finance and insurance subsectors, with reduced banking activity hampering monetary intermediation output.

Real GVA by the *general government services sector* contracted by 3.4% in the second quarter of 2021 following an increase of 1.3% in the preceding quarter, reflecting a decline in the number of national, provincial and local government employees.

Real gross domestic expenditure^{4, 5}

Growth in real *gross domestic expenditure* (GDE) decelerated to 0.9% in the second quarter of 2021 following a significant increase of 9.9% in the first quarter, mainly due to a notably faster pace of de-accumulation in real inventory holdings. Growth in real final consumption expenditure by households moderated alongside an expansion in real gross fixed capital formation in the second quarter of 2021, following a contraction in the first quarter. General government spending contracted further in the second quarter. The level of real GDE in the first half of 2021 was 5.3% higher than in the corresponding period of 2020, but remained well below pre-lockdown levels. On a seasonally adjusted but not annualised basis, real GDE growth slowed from 2.4% in the first quarter of 2021 to 0.2% in the second quarter.

4 The analysis in this section is based on the revised benchmarked and rebased national accounts statistics. See 'Note on the benchmark revisions and rebasing of South Africa's national accounts statistics' on page 98 in this edition of the *Quarterly Bulletin*.

5 Unless stated to the contrary, the quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data and are annualised.



Real gross domestic expenditure

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

Component	2020					2021	
	Q1	Q2	Q3	Q4	Year ¹	Q1	Q2
Final consumption expenditure							
Households.....	2.5	-60.5	94.6	12.8	-6.5	4.1	2.1
General government.....	2.1	-0.9	0.3	2.5	1.3	-1.7	-0.5
Gross fixed capital formation	-11.8	-62.6	61.6	22.8	-14.9	-11.7	3.7
Domestic final demand²	0.1	-52.3	63.9	12.0	-6.3	0.5	1.8
<i>Change in inventories (R billions)³</i>	<i>-28.0</i>	<i>90.7</i>	<i>-142.4</i>	<i>-102.6</i>	<i>-45.6</i>	<i>-13.5</i>	<i>-21.7</i>
<i>Residual⁴</i>	<i>0.2</i>	<i>0.2</i>	<i>0.4</i>	<i>0.2</i>	<i>0.3</i>	<i>0.4</i>	<i>0.4</i>
Gross domestic expenditure⁵	-3.5	-46.3	32.0	15.6	-8.0	9.9	0.9

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 2015 prices

4 The residual as a percentage of GDP

5 Including the residual

Sources: Stats SA and SARB

Real gross domestic expenditure

Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Component	2020					2021	
	Q1	Q2	Q3	Q4	Year ¹	Q1	Q2
Final consumption expenditure							
Households.....	0.6	-20.7	18.1	3.1	-6.5	1.0	0.5
General government.....	0.5	-0.2	0.1	0.6	1.3	-0.4	-0.1
Gross fixed capital formation	-3.1	-21.8	12.8	5.3	-14.9	-3.1	0.9
Domestic final demand²	0.0	-16.9	13.1	2.9	-6.3	0.1	0.4
<i>Change in inventories (R billions)³</i>	<i>-28.0</i>	<i>90.7</i>	<i>-142.4</i>	<i>-102.6</i>	<i>-45.6</i>	<i>-13.5</i>	<i>-21.7</i>
<i>Residual⁴</i>	<i>0.2</i>	<i>0.2</i>	<i>0.4</i>	<i>0.2</i>	<i>0.3</i>	<i>0.4</i>	<i>0.4</i>
Gross domestic expenditure⁵	-0.9	-14.4	7.2	3.7	-8.0	2.4	0.2

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 2015 prices

4 The residual as a percentage of GDP

5 Including the residual

Sources: Stats SA and SARB

Contributions of expenditure components to growth in annualised real gross domestic product

Percentage points

Component	2020					2021	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Final consumption expenditure							
Households.....	1.6	-41.9	56.3	8.3	-4.2	2.7	1.4
General government.....	0.4	-0.1	0.1	0.5	0.2	-0.4	-0.1
Gross fixed capital formation	-1.9	-10.1	9.0	3.1	-2.4	-1.8	0.5
Change in inventories	-3.3	8.0	-30.2	3.8	-1.8	8.2	-0.7
Residual	-0.4	-0.1	1.6	-0.8	0.0	0.9	-0.1
Gross domestic expenditure	-3.6	-44.3	36.6	15.0	-8.2	9.6	0.9
Net exports	4.2	-9.2	31.6	-4.4	1.8	-5.4	3.8
Gross domestic product	0.5	-53.4	68.3	10.6	-6.4	4.2	4.7

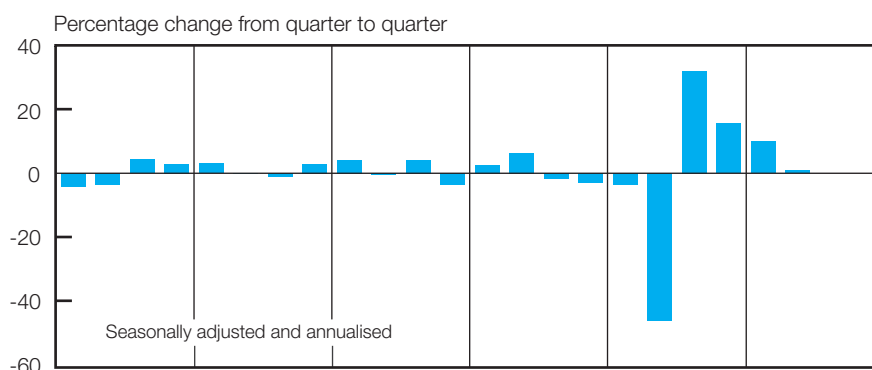
Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

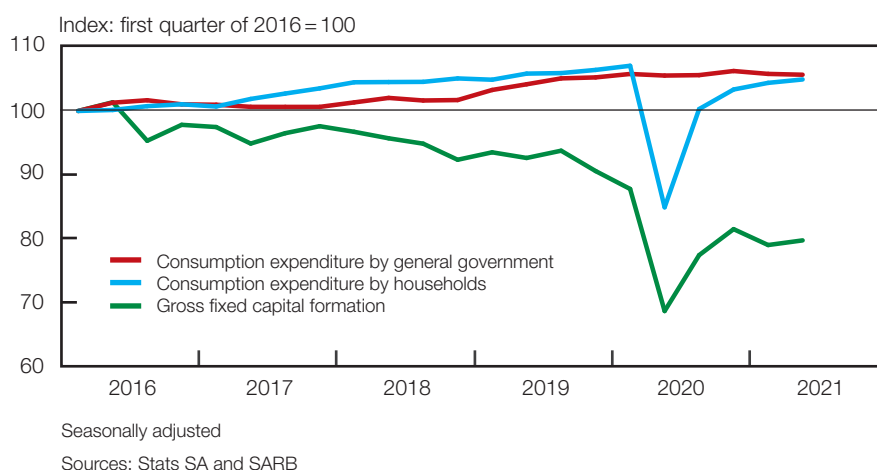


Real net exports contributed the most to growth in real GDP in the second quarter of 2021, at 3.8 percentage points, with final consumption expenditure by households contributing a further 1.4 percentage points. By contrast, the change in real inventories subtracted 0.7 percentage points from overall economic growth.

Real gross domestic expenditure



Components of real gross domestic final demand



Growth in selected nominal production and expenditure aggregates

Percentage change over four quarters

Component	2020					2021	
	Q1*	Q2*	Q3*	Q4*	Year**	Q1*	Q2*
Gross value added at basic prices	6.2	-11.8	-0.4	3.1	-0.8	3.2	24.4
Gross domestic product at market prices.....	6.2	-13.6	-1.4	3.1	-1.5	3.2	26.6
Gross operating surplus	9.1	-14.4	3.6	8.8	1.6	6.2	37.8
Gross national income.....	7.1	-13.9	1.2	3.3	-0.7	4.2	26.0
Gross disposable income	7.2	-13.9	1.0	3.0	-0.8	3.8	26.1
Final consumption expenditure							
Households.....	5.6	-16.8	-2.9	-1.5	-3.9	-0.3	26.3
General government.....	6.5	2.2	3.0	3.4	3.7	3.8	5.0
Gross fixed capital formation.....	-4.0	-24.2	-13.8	-6.2	-12.0	-6.4	22.4

* Current prices, not seasonally adjusted or annualised

** Annual statistics

Sources: Stats SA and SARB



Nominal GDP at market prices (not seasonally adjusted and not annualised) was estimated at R1.53 trillion in the second quarter of 2021 – 26.6% higher than in the second quarter of 2020 when the largest contraction occurred since quarterly records began in 1960. Likewise, the total nominal gross disposable income increased to R1.49 trillion – 26.1% higher than in the same quarter of the previous year. The final consumption expenditure by households and the level of gross fixed capital formation also increased substantially on a year-on-year basis in the second quarter of 2021, while the final consumption expenditure by general government increased by much less. The seasonally adjusted levels of these components were already between 1.6% (final consumption expenditure by households) and 6.1% (gross value added at basic prices) higher than in the first quarter of 2020, except for gross fixed capital formation, which was 3.6% lower.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2021					
	Exports			Imports		
	Percentage of total**	Q1***	Q2***	Percentage of total**	Q1***	Q2***
Total	100.0	1.0	4.0	100.0	6.5	0.4
Mining	42.9	-0.3	4.8	19.3	12.2	6.6
<i>Of which:</i>						
Mineral products	18.6	-8.0	6.0	13.6	18.6	3.3
Precious metals including gold, platinum group metals and stones	14.1	8.1	6.1	1.3	-17.5	48.1
Base metals and articles	10.2	1.0	1.2	4.4	4.2	7.3
Manufacturing	37.5	2.5	4.0	63.8	5.9	-1.8
<i>Of which:</i>						
Vehicles and transport equipment	10.4	4.3	6.2	11.7	8.9	-4.0
Machinery and electrical equipment	8.1	-0.2	0.9	22.7	6.0	-2.6
Chemical products	7.0	4.6	8.5	12.0	8.2	-1.5
Prepared foodstuffs, beverages and tobacco	4.6	1.3	-1.9	2.8	8.1	3.0
Agriculture	9.1	4.3	-2.9	4.7	-7.2	1.1
<i>Of which:</i>						
Vegetable products	7.5	5.0	-3.3	2.5	-0.4	1.1
Services	10.2	-0.3	6.4	12.0	6.7	2.9

* Based on seasonally adjusted and annualised data

** Expressed as a percentage of the total in 2020

*** 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

Growth in the real *exports* of goods and services accelerated to 4.0% in the second quarter of 2021 as manufacturing exports increased at a notably faster pace, and mining and services exports reverted from a slight contraction to an increase. By contrast, real agricultural exports contracted over the period. Slower growth in the export volumes of precious metals (including gold, PGMs and stones) was more than fully countered by the higher exports of mineral products and a slightly faster pace of increase in the real exports of base metals and articles thereof. The faster pace of increase in manufacturing exports was broad-based, except for a decline in the exports of prepared foodstuffs, beverages and tobacco due to lower foreign demand.

Real *imports* of goods and services increased at a much slower pace of 0.4% in the second quarter of 2021 following a notable increase of 6.5% in the first quarter. The slower pace of increase in mining imports reflected a significant slowdown in the importation of mineral products.



A contraction in the volume of manufacturing imports reflected weaker domestic demand for imported vehicles and transport equipment, machinery and electrical equipment as well as chemical products. Import volumes of prepared food stuffs, beverages and tobacco increased at a slower pace. Agricultural imports increased in the second quarter of 2021 following a decrease in the first quarter, while domestic demand for imported services moderated.

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

Percentage points

Component	2021					
	Exports		Imports*		Net exports	
	Q1	Q2	Q1	Q2	Q1	Q2
Total	1.1	4.2	6.5	0.4	-5.4	3.8
Mining	-0.1	2.2	2.2	1.3	-2.4	0.8
<i>Of which:</i>						
Mineral products.....	-1.5	1.0	2.3	0.5	-3.8	0.6
Precious metals, including gold, platinum group metals and stones.....	1.3	1.0	-0.2	0.5	1.5	0.5
Base metals and articles	0.1	0.1	0.2	0.4	-0.1	-0.2
Manufacturing	1.0	1.7	3.9	-1.3	-2.9	3.0
<i>Of which:</i>						
Vehicles and transport equipment	0.5	0.8	1.2	-0.6	-0.7	1.4
Machinery and electrical equipment	0.0	0.1	1.4	-0.6	-1.4	0.7
Chemical products	0.3	0.7	0.9	-0.2	-0.6	0.9
Prepared foodstuffs, beverages and tobacco.....	0.1	-0.1	0.2	0.1	-0.1	-0.2
Agriculture	0.4	-0.3	-0.3	0.0	0.7	-0.3
<i>Of which:</i>						
Vegetable products	0.4	-0.3	0.0	-0.3	0.4	0.1
Services	0.0	0.5	0.7	0.3	-0.8	0.2

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

Sources: SARS, Stats SA and SARB

Real *net exports* contributed a notable 3.8 percentage points to real GDP growth in the second quarter of 2021, with real net manufacturing and mining exports contributing 3.0 percentage points and 0.8 percentage points respectively. Real net exports of vehicles and transport equipment contributed the most to manufacturing exports, while the real net exports of prepared foodstuffs, beverages and tobacco detracted 0.2 percentage points during the quarter. Mineral products as well as precious metals (including gold, PGMs and stones) added the most to overall real net mining exports.

Growth in real *final consumption expenditure by households* lost some momentum to 2.1% in the second quarter of 2021 following a sturdier increase of 4.1% in the first quarter. This was consistent with slower growth in the real disposable income of households in the second quarter. Growth in real outlays on durable and semi-durable goods moderated, while real spending on non-durable goods increased at a faster pace. After two consecutive quarters of slower growth, real expenditure by households on services contracted in the second quarter of 2021. The moderation in household consumption expenditure growth reflected the weak recovery in employment thus far and the concomitant record-high unemployment levels as well as a deterioration in consumer confidence. Although real expenditure in the first half of 2021 was 8.8% higher than in the corresponding period of 2020, the seasonally adjusted level of real spending in the second quarter of 2021 was still lower than in the fourth quarter of 2019



before the onset of the COVID-19 pandemic. On a seasonally adjusted but not annualised basis, growth in real final consumption expenditure by households slowed from 1.0% in the first quarter of 2021 to 0.5% in the second quarter.

Real final consumption expenditure by households

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

Category	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Durable goods.....	-0.5	-76.1	283.1	-0.1	-8.6	26.0	11.0
Semi-durable goods.....	-0.7	-90.7	471.8	13.9	-17.7	10.6	2.2
Non-durable goods	2.4	-52.4	83.6	9.7	-4.6	1.2	3.2
Services	3.7	-52.2	53.9	17.2	-5.2	1.0	-0.3
Total	2.5	-60.5	94.6	12.8	-6.5	4.1	2.1

* Percentage change over one year

Source: Stats SA

Real final consumption expenditure by households

Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Category	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Durable goods.....	-0.1	-30.1	39.9	0.0	-8.6	5.9	2.6
Semi-durable goods.....	-0.2	-44.8	54.6	3.3	-17.7	2.6	0.5
Non-durable goods	0.6	-17.0	16.4	2.3	-4.6	0.3	0.8
Services	0.9	-16.9	11.4	4.1	-5.2	0.2	-0.1
Total	0.6	-20.7	18.1	3.1	-6.5	1.0	0.5

* Percentage change over one year

Source: Stats SA

Real outlays by households on *durable goods* increased at a slower pace of 11.0% in the second quarter of 2021 following a significant increase of 26.0% in the first quarter. Although growth in the purchases of personal transport equipment (40% of durable goods spending) accelerated, probably supported by the incentive of historically low interest rates, real spending by households on almost all of the other durable goods subsectors declined over the period. The only exception was real spending on 'other' durable goods, which increased at a slower pace in the second quarter of 2021.

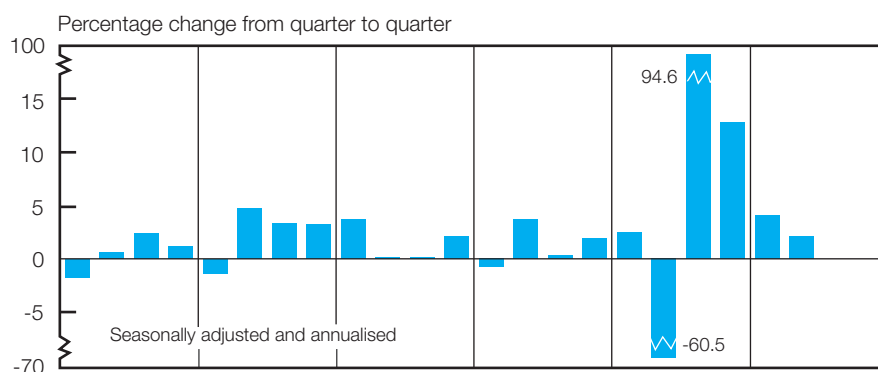
Growth in real household consumption expenditure on *semi-durable goods* moderated to 2.2% in the second quarter of 2021 from 10.6% in the first quarter. Real purchases of clothing and footwear as well as of recreational and entertainment goods increased at a slower pace in the second quarter, while that of household textiles, furnishings and glassware declined.

Real spending on *non-durable goods* advanced by 3.2% in the second quarter of 2021 after increasing by 1.2% in the first quarter. The rate of increase in real purchases of some subcategories accelerated, including food, beverages and tobacco as well as petroleum products, while real expenditure on household consumer goods moderated. By contrast, real outlays on household fuel, power and water; medical and pharmaceutical products; as well as recreational and entertainment goods contracted in the second quarter of 2021. Expenditure within the food subcategory diverged, with spending on fast foods outperforming historical levels, driven by a shift towards more affordable dining options, while household outlays on restaurants remained suppressed relative to pre-pandemic levels as renewed lockdown restrictions on sit-down meals were implemented in mid-June 2021.

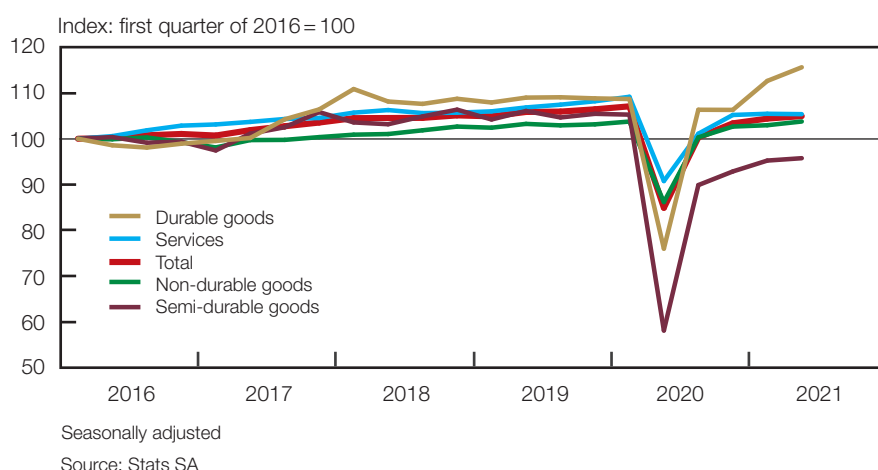




Real final consumption expenditure by households



Components of real final consumption expenditure by households



Real outlays on *services* declined slightly by 0.3% in the second quarter of 2021, weighed down by the further decline in real spending on miscellaneous services as well as slower growth in real outlays on rent and on transport and communication services. Real spending on household services grew at a somewhat faster pace, while that on medical services increased strongly.

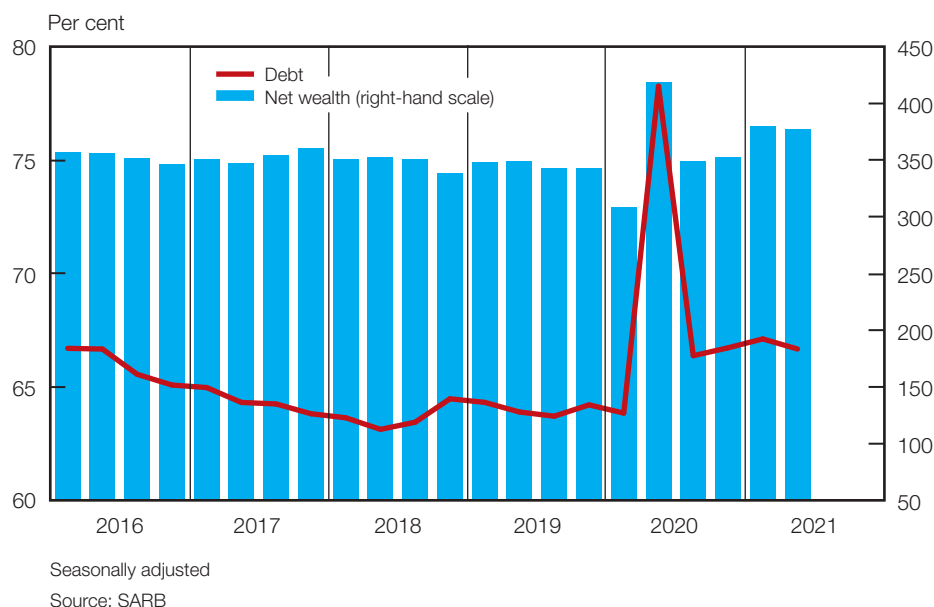
Household debt increased in the second quarter of 2021, consistent with the increase in nominal spending. However, household debt as a percentage of nominal disposable income edged lower to 66.7% in the second quarter of 2021, from 67.1% in the first quarter, as the quarter-to-quarter increase in households' nominal disposable income exceeded that in debt. Households' cost of servicing debt relative to disposable income decreased slightly to 7.5% in the second quarter of 2021 from 7.6% in the first quarter.

Households' net wealth increased in the second quarter of 2021 as the value of household assets increased more than liabilities. Nevertheless, the ratio of households' net wealth to nominal disposable income decreased to 377% in the second quarter of 2021, from 380% in the first quarter, as the increase in nominal disposable income outpaced that in net wealth.

Real *final consumption expenditure by general government* contracted at a slower pace of 0.5% in the second quarter of 2021, from 1.7% in the first quarter, as the decline in real spending on the compensation of employees was moderated by a much slower pace of decrease in real outlays on non-wage goods and services. The level of real final consumption expenditure by general government in the second quarter of 2021 was 0.1% lower than in the corresponding period of 2020.

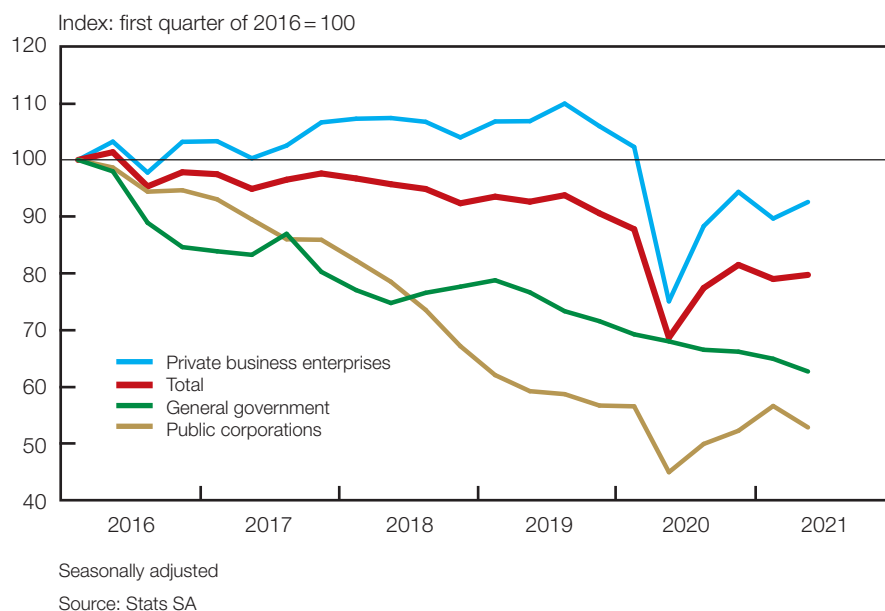


Household debt and net wealth as a ratio of disposable income



Real gross fixed capital formation increased somewhat by 3.7% in the second quarter of 2021 following a contraction of 11.7% in the first quarter. Private business enterprises increased capital outlays in the second quarter, while public corporations and general government reduced capital spending amid continued financial strain. The level of real gross fixed capital formation was 16.1% higher in the second quarter of 2021 than in the corresponding period of 2020, but still much lower than in the first quarter of 2020.

Real gross fixed capital formation by type of organisation



Real gross fixed capital outlays by *private business enterprises* increased by 13.7% in the second quarter of 2021 following a decrease of 18.5% in the preceding quarter. Increased investment in transport equipment partly offset reduced outlays on residential buildings in the second quarter of 2021. Despite strong growth in the second quarter, the level of private sector fixed investment remained well below pre-pandemic highs. The strong growth in the second quarter of 2021 raised the private sector's share of total nominal gross fixed capital formation to 72.3%, from 70.7% in the first quarter.

Real gross fixed capital formation

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

Sector	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	-13.1	-71.0	91.6	30.3	-16.2	-18.5	13.7
Public corporations.....	-1.0	-60.1	52.2	20.0	-13.9	37.9	-24.1
General government.....	-12.4	-7.0	-8.4	-2.0	-10.1	-7.3	-13.1
Total	-11.8	-62.6	61.6	22.8	-14.9	-11.7	3.7

* Percentage change over one year

Source: Stats SA

Real gross fixed capital formation

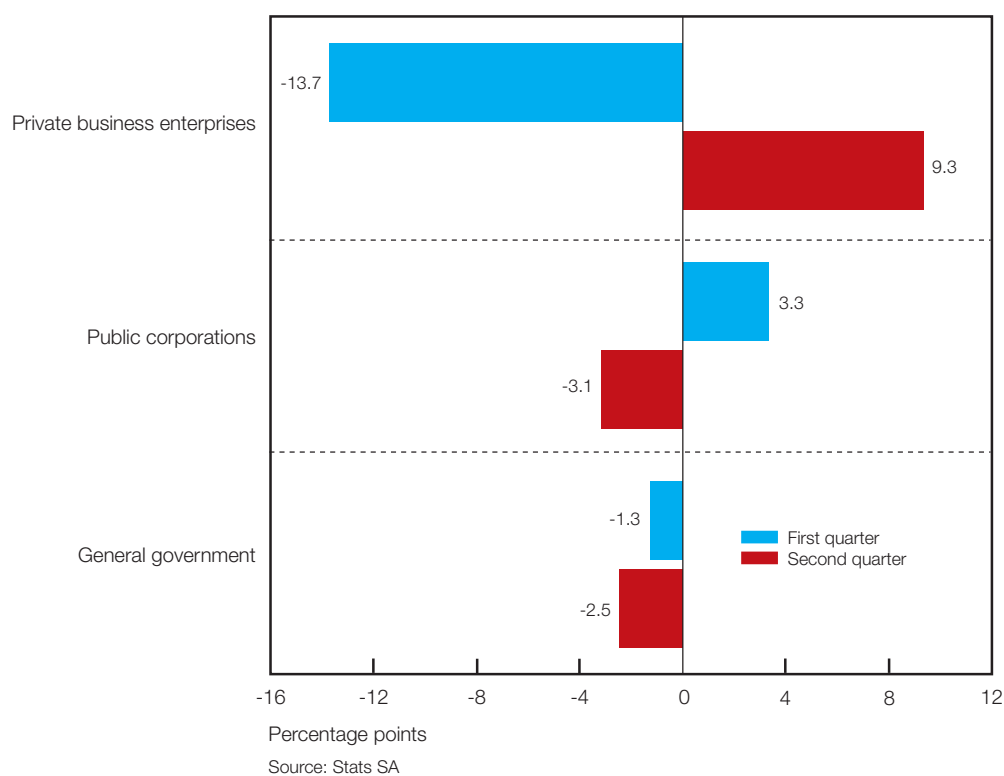
Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Sector	2020					2021	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	-3.5	-26.6	17.7	6.8	-16.2	-5.0	3.3
Public corporations.....	-0.2	-20.5	11.1	4.7	-13.9	8.4	-6.7
General government.....	-3.2	-1.8	-2.2	-0.5	-10.1	-1.9	-3.5
Total	-3.1	-21.8	12.8	5.3	-14.9	-3.1	0.9

* Percentage change over one year

Source: Stats SA

Contributions to annualised growth in real gross fixed capital formation in 2021



Real gross fixed capital formation by the public sector decreased by 17.6% in the second quarter of 2021 following an expansion of 8.0% in the first quarter. Real capital spending by *public corporations* contracted anew by 24.1% in the second quarter of 2021, with lower capital spending on most asset types. Long-standing project delays contributed to the contraction in capital investment by state-owned entities. Consequently, the share of public corporations in total nominal gross fixed capital formation decreased marginally from 11.3% in the first quarter of 2021 to 10.3% in the second quarter.

Real capital spending by *general government* contracted for a ninth consecutive quarter as investment decreased by a further 13.1% in the second quarter of 2021. Continued underspending on capital expenditure programmes resulted in general government subtracting 2.5 percentage points from growth in total gross fixed capital formation in the quarter.

Real gross fixed capital expenditure on transport equipment, machinery and other equipment, as well as in other assets, increased in the second quarter of 2021. Conversely, investment in all construction-related asset categories contracted during the second quarter of 2021.

Real inventory holdings decreased for a fourth consecutive quarter in the second quarter of 2021. The decrease partially underscored increased export demand. A drawdown of R21.7 billion in real inventory holdings in the second quarter of 2021 (at 2015 prices) followed a withdrawal of R13.5 billion in the first quarter, and subtracted 0.7 percentage points from growth in real GDP in the second quarter. Most of the depletion occurred in the mining, electricity (coal stocks) and transport sectors, whereas the trade sector continued to accumulate inventories.

Gross nominal saving

The national saving rate (gross saving as a percentage of nominal GDP) increased from 16.6% in the first quarter of 2021 to 18.0% in the second quarter. General government dissaved at a much slower pace, while the saving rate of both corporate business enterprises and households decreased somewhat.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted and annualised rates

Sector	2020					2021	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Corporate.....	15.9	23.1	21.9	16.9	19.3	17.9	16.6
General government.....	-2.9	-12.3	-9.3	-4.8	-7.1	-3.6	-0.8
Household.....	2.0	2.8	3.2	2.3	2.6	2.4	2.2
Total.....	15.0	13.6	15.8	14.4	14.7	16.6	18.0

Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP declined from 17.9% in the first quarter of 2021 to 16.6% in the second quarter, owing to strong growth in the seasonally adjusted tax payments of incorporated business enterprises.

Dissaving by *general government* as a percentage of nominal GDP decreased from 3.6% in the first quarter of 2021 to 0.8% in the second quarter. The increase in seasonally adjusted government revenue was boosted by corporate income tax (CIT) collections and outweighed the increase in seasonally adjusted government expenditure.

Gross saving by the *household sector* as a percentage of nominal GDP declined marginally to 2.2% in the second quarter of 2021, from 2.4% in the first quarter, as the increase in nominal consumption expenditure outweighed that in nominal disposable income.

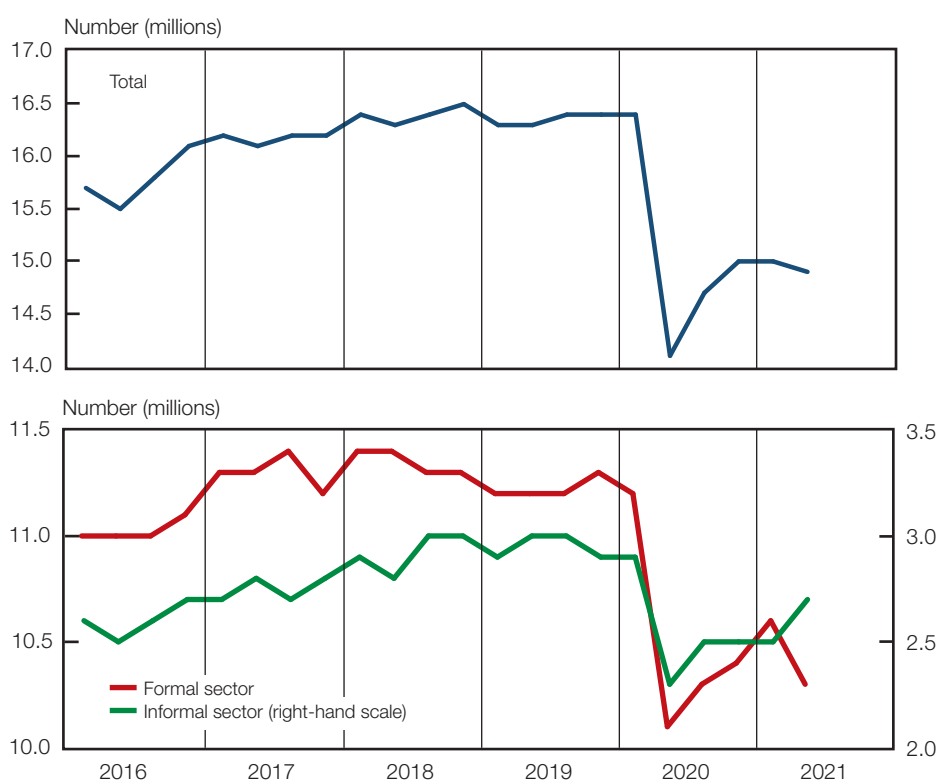
Employment

In recent months, the post-pandemic economic recovery has experienced headwinds from successive waves of COVID-19 infections and related lockdowns as well as the civil unrest in Gauteng and KwaZulu-Natal. The damage to property and infrastructure could impact much-needed job creation through its effect on business confidence and investment. Small, medium and micro enterprises (SMMEs), which are crucial for employment creation, were seriously affected by the unrest. These developments will likely prolong uncertainty and impede the momentum of the economic recovery, thereby negatively affecting firms' demand for labour. In addition, the possible emergence of new and more transmissible COVID-19 variants that could be more resistant to vaccines also remains a cause for concern.

Against this backdrop, *household-surveyed employment* decreased further by 53 000 (0.4%) in the second quarter of 2021, with the loss of 374 000 formal sector employment opportunities, according to the *Quarterly Labour Force Survey (QLFS)* published by Statistics South Africa (Stats SA).⁶ However, employment gains of 84 000, 70 000 and 67 000 were recorded in the informal and agricultural sectors and among private households respectively. The employment gains in the informal sector and among private households may reflect a return to normality after being the hardest hit by the pandemic and related lockdown restrictions in 2020, while agricultural employment was likely boosted by the bumper crops of 2021.

The level of total employment increased by 794 000 (5.6%) in the year to the second quarter of 2021, reflecting the low base a year earlier. However, this was insufficient to recover the number of jobs lost since the onset of the pandemic as total employment remained more than 1.3 million below the pre-COVID-19 level in the second quarter of 2020. Workers with unspecified employment contracts experienced the largest year-on-year employment increase (593 000) in the second quarter of 2021 followed by those with contracts of a limited duration (285 000). By contrast, employment of workers with permanent contracts decreased by 138 000 in the year to the second quarter of 2021, consistent with the uncertain post-COVID-19 environment.

Household-surveyed employment



Source: Stats SA

⁶ Stats SA noted that the response rate of the QLFS increased to 60.0% in the second quarter of 2021 compared with 57.4% in the first quarter, and (57.1%) a year earlier.

The International Labour Organization (ILO) noted that due to a decline in consumer demand caused by the pandemic, nearly one in three jobs in global manufacturing supply chains is likely to have been lost. A reduction in working hours furthermore contributed to lower overall labour income. This deterioration in the manufacturing sector also affected job prospects in other sectors.⁷

7 International Labour Organization, ILO Brief, 'COVID-19, vaccinations and consumer demand: how jobs are affected through global supply chains', June 2021. https://www.ilo.org/global/research/publications/WCMS_806472/lang-en/index.htm

Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2020		2021		2021 Q2		
	Q2	Q4	Q1	Q2	Thousands	Per cent	Per cent
a. Total employed	14 148	15 024	14 995	14 942	-53	-0.4	5.6
b. Total unemployed (official definition).....	4 295	7 233	7 242	7 826	584	8.1	82.2
c. Total labour force (a+b)	18 443	22 257	22 237	22 768	531	2.4	23.5
d. Total not economically active	20 578	17 054	17 218	16 832	-386	-2.2	-18.2
e. Population 15–64 years (c+d)	39 021	39 311	39 455	39 599	144	0.4	1.5
f. Official unemployment rate* (b/c)*100	23.3%	32.5%	32.6%	34.4%	—	—	—
g. Discouraged	2 471	2 930	3 131	3 317	186	5.9	34.2
h. Other reasons for not searching for work.....	6 041	1 471	1 719	1 119	-600	-34.9	-81.5
i. Expanded unemployment rate**	42.0%	42.6%	43.2%	44.4%	—	—	—

* Stats SA follows the ILO definition of calculating the official unemployment rate, which is internationally comparable.

** The expanded unemployment rate is calculated by Stats SA's own in-house formula and is not internationally comparable.

Source: Stats SA

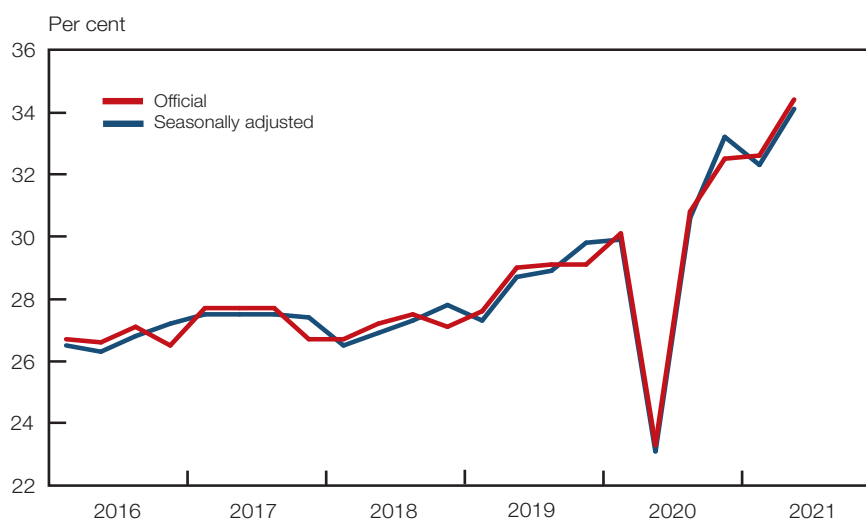
The number of officially unemployed South Africans increased notably by 8.1% to 7.8 million in the second quarter of 2021 and was 3.5 million (82.2%) more than a year earlier. The marked year-on-year increase reflects the low base in the second quarter of 2020 when official unemployment was understated by the classification of most unemployed persons into the not economically active category due to their inability to search for employment during the lockdown. The labour force increased by 2.4% on a quarter-to-quarter basis in the second quarter of 2021, and by 23.5% when compared with a year ago. As a result, the official unemployment rate increased sharply from 32.6% in the first quarter of 2021 to a new record high of 34.4% (compared to 23.3% a year ago) as more new entrants into the labour force and job losers searched for employment. The seasonally adjusted unemployment rate increased from 32.3% in the first quarter of 2021 to 34.1% in the second quarter. The expanded unemployment rate, which includes the discouraged work seekers and those who did not search for work due to other reasons, increased from 43.2% to 44.4% over the same period (and from 42.0% a year earlier).

Most unemployed persons in the second quarter of 2021 were new entrants (39.8%), followed by job losers (29.5%). Those who last worked at least five years ago (long-term unemployment) comprised 22.2% of the officially unemployed, while re-entrants and job leavers accounted for 4.3% and 4.1% respectively.





Unemployment rate



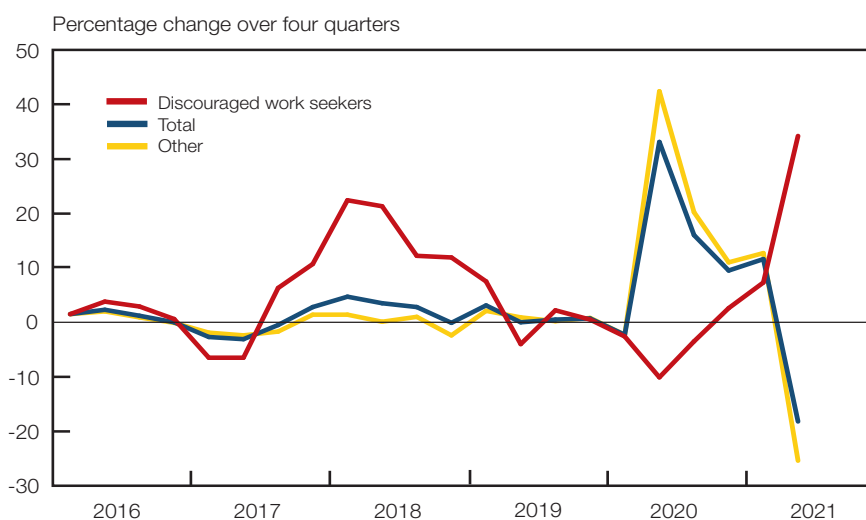
Sources: Stats SA and SARB

8 International Labour Organization, ILO Brief, 'An update on the youth labour market impact of the COVID-19 crisis', June 2021. https://www.ilo.org/emppolicy/pubs/WCMS_795479/lang-en/index.htm

Almost two out of three persons (64.4%) aged between 15 and 24 years (the youth) were unemployed in the second quarter of 2021, according to the *QLFS*. According to the ILO, global youth employment declined by 8.7% in 2020 compared with 3.7% for adults,⁸ with much of the decline in youth employment accounted for by an increase in the not economically active population rather than an increase in unemployment.

Moreover, approximately a third of the 10.2 million young persons, or 3.4 million, were not in employment, education or training in South Africa in the second quarter of 2021.

Not economically active population

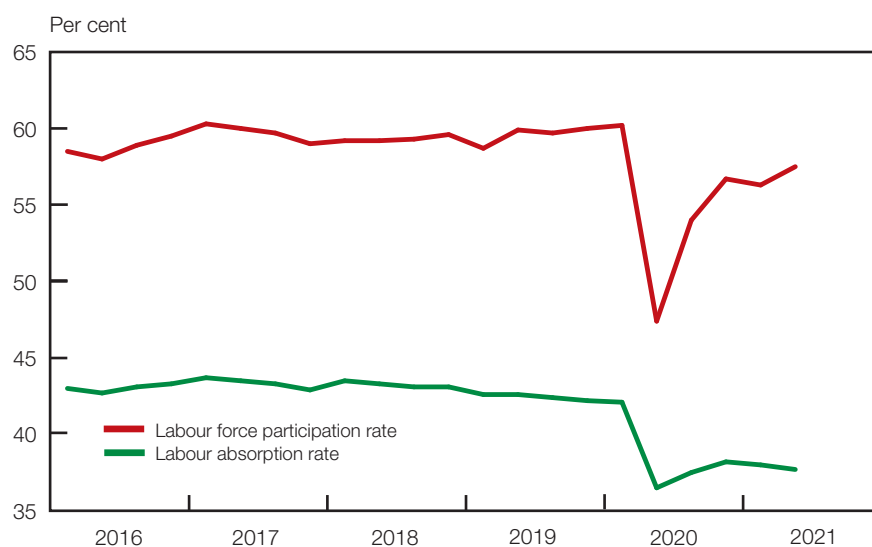


Source: Stats SA

The total not economically active population decreased by 386 000 persons (2.2%) in the second quarter of 2021, mainly due to the marked decrease of 571 000 persons (4.1%) in the other not economically active category. As the *other* category incorporates, among others, individuals who could not search for work due to the pandemic and related lockdown restrictions, this decrease likely indicates that these effects are gradually dissipating. The total number of not economically active persons was below pre-COVID levels in the second quarter of 2021, with a year-on-year decrease of 3.7 million persons (18.2%). However, the number of discouraged work seekers increased by 186 000 (5.9%) between the first and second quarters of 2021, and significantly by 846 000 (34.2%) year on year.



Labour force participation and labour absorption rates



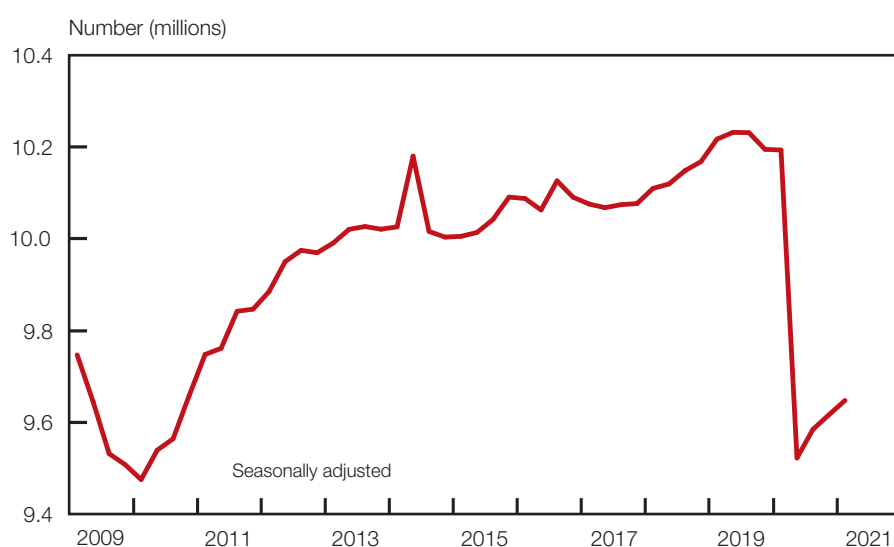
Source: Stats SA

The labour force participation rate increased from 56.4% in the first quarter of 2021 to 57.5% in the second quarter, consistent with the shift from the not economically active population to the labour force during the quarter. The labour absorption rate – which represents the percentage of the working population (aged 15–64) that is employed – decreased marginally from 38.0% in the first quarter of 2021 to 37.7% in the second quarter, in line with the decline in employment.

Employment gains in the formal non-agricultural sector of the economy continued to be limited as *enterprise-surveyed formal non-agricultural employment*⁹ increased by only 31 100 jobs (an annualised 1.3%) in the first quarter of 2021, raising the level of such employment to 9.65 million. This contributed to the formal non-agricultural sector only regaining 125 300 jobs in the three quarters to the first quarter of 2021, following the COVID-19-induced loss of about 671 000 jobs in the second quarter of 2020. Thus far, the public sector has contributed the most to the moderate recovery in employment, in particular through the Expanded Public Works Programme (EPWP).

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

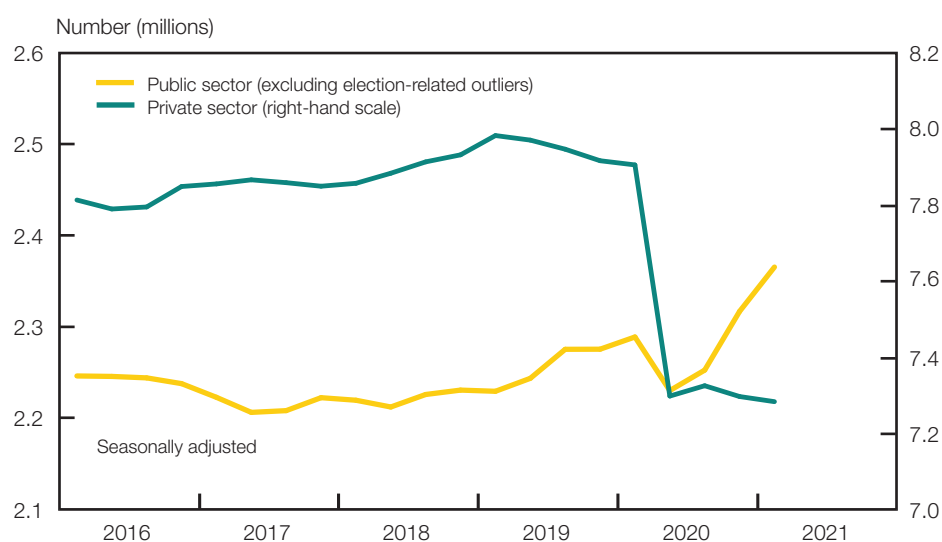
Formal non-agricultural employment



Sources: Stats SA and SARB

Public sector employment increased further by 44 600 jobs in the first quarter of 2021 to its second-highest level on record of 2.36 million. The increase could be attributed to the Presidential Youth Employment initiative in response to the pandemic and the appointment of teachers and general school assistants at provincial level as well as EPWP job opportunities. The large number of temporary work and training opportunities created through the EPWP in recent quarters has distorted the level and underlying trend in public sector employment, as these do not represent formal full-time employment. However, the headcount decreased at all other levels of the public sector, except for the transport, storage and communication services sector.

Public and private sector employment



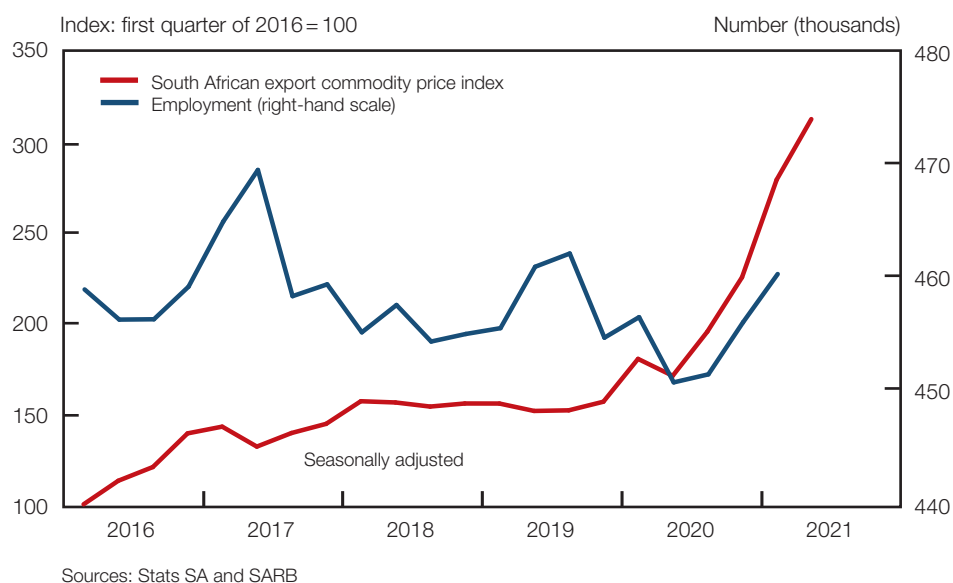
Sources: Stats SA and SARB

The absence of a revival in *private sector employment* reflects uncertainty related to the ongoing pandemic and the sustainability of the recovery in economic activity. The private sector shed an additional 13 500 jobs in the first quarter of 2021, with employment falling below the recent pandemic-induced low in the second quarter of 2020 and receding to its lowest level since the first quarter of 2005. Job losses were recorded in both the goods-producing and the services sectors in the first quarter of 2021. However, within the goods-producing sectors, the mining sector registered substantial job gains for a third successive quarter, likely boosted by the increase in commodity prices. By contrast, job shedding continued unabated in the construction sector. In the services sectors, marginal employment gains in the private community services sector were more than offset by job losses in the finance, transport and trade sectors.

Mining sector employment increased by 9 600 in the three quarters up to the first quarter of 2021, likely supported by the surge in international commodity prices as global economic activity recovered following the introduction of sizeable stimulus measures in many countries. Non-gold-mining employment increased for a second successive quarter in the first quarter of 2021, led by PGMs, coal, chrome and copper, while the increase in gold-mining employment more than compensated for the losses incurred in the preceding quarter.



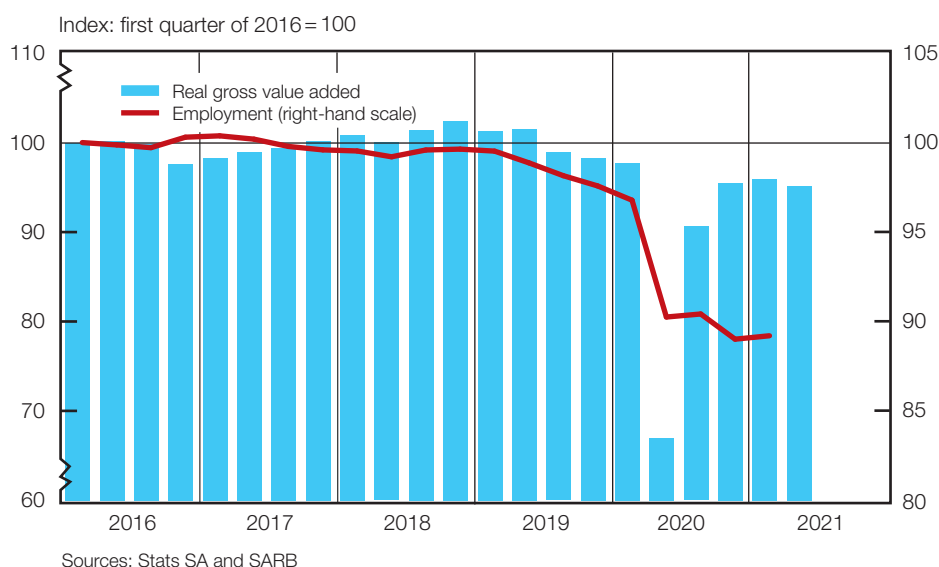
Mining sector employment and international commodity prices



Owing to the slower pace of increase of real gross value added by the manufacturing sector, *manufacturing employment* gains in the first quarter of 2021 were limited, and not sufficient to offset the 17 500 jobs lost in the fourth quarter of 2020. This, together with the recent civil unrest and the lingering COVID-19 pandemic, could suppress job creation in this sector. In addition, although the substantial rise in manufacturing business confidence¹⁰ by 21 index points to 46 in the second quarter of 2021 was encouraging, confidence is expected to wane in the third quarter due to the impact of the civil unrest as well as the cyberattack on Transnet's port operating systems in July. The sharp rise in manufacturing confidence in the second quarter was supported by improved underlying activity and demand, which both surpassed respondents' initial expectations.

¹⁰ As measured by the Bureau for Economic Research's (BER) Absa Manufacturing Survey.

Manufacturing sector employment and output

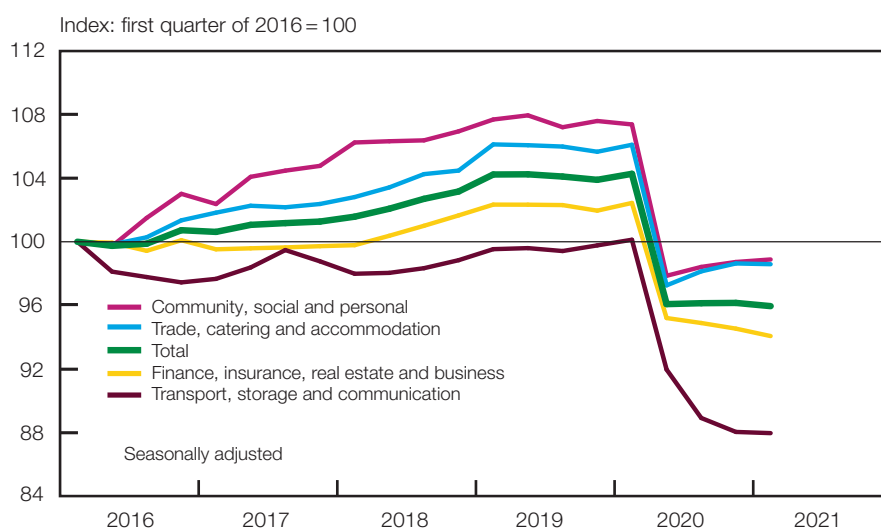




Employment in the *construction sector* decreased further in the first quarter of 2021, albeit at a much slower pace than in the previous quarter. The construction sector has shed a cumulative 144 900 jobs since the third quarter of 2018, with employment decreasing in each successive quarter, except for the third quarter of 2020, as the pandemic exacerbated the prevailing dire conditions. Furthermore, the *First National Bank/Bureau for Economic Research (FNB/BER) Civil Confidence Index* declined by 8 points to 13 in the second quarter of 2021, as worse-than-expected construction activity and tighter tendering price competition likely weighed on confidence. Respondents were increasingly worried about delays in the tender procurement process, especially in the public sector, while the rating of insufficient demand for new work has remained above 80% for most of the past five years. Conversely, the *FNB/BER Building Confidence Index* gained 12 points to a level of 39 in the second quarter of 2021, driven by higher confidence among building material manufacturers and retailers of hardware, while sentiment in the mainstream building sector remained downbeat. Regarding the outlook, the lack of new demand for building work remained elevated, along with continued pressure on profitability and higher input prices.

The private services sectors continued to bear the brunt of the pandemic following the reintroduction of lockdown restrictions in June 2021. The impact of successive waves of COVID-19 infections on employment creation could be softened by the increase in vaccinations as firms become more confident in the sustainability of the economic recovery. The *finance, insurance, real estate and business services sector* – which accounts for around 22% of total formal non-agricultural employment – shed a combined 192 000 jobs in the four quarters up to the first quarter of 2021. These job losses occurred mostly in business services not elsewhere classified (which includes labour brokers), financial intermediation and real estate activity. In addition, employment in the *transport, storage and accommodation services sector* shed jobs for a fourth successive quarter in the first quarter of 2021, albeit at a slower pace.

Employment in the private services sectors



Sources: Stats SA and SARB

11 As measured by the BER's Retail Survey.

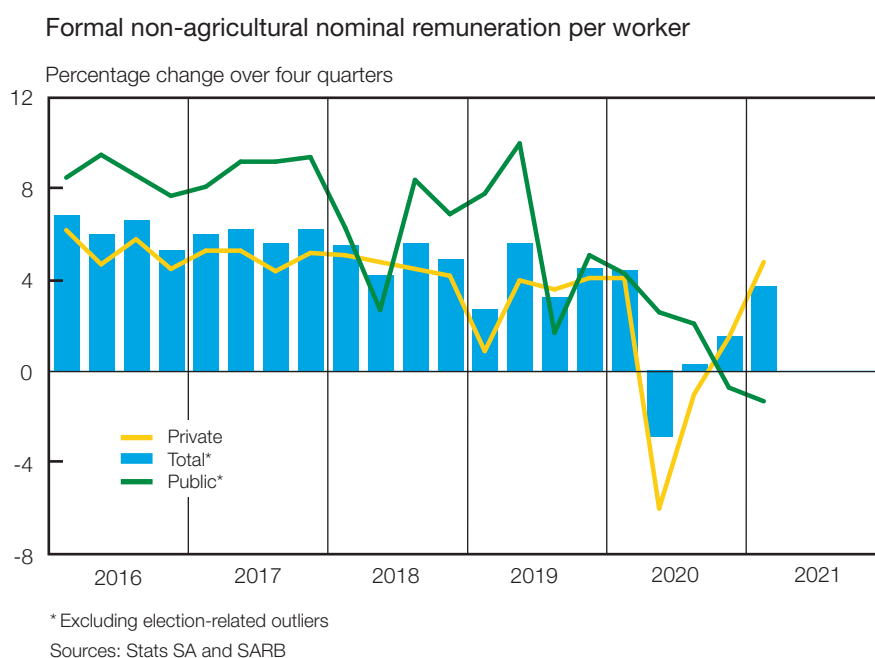
Employment in the *trade, catering and accommodation services sector* decreased marginally in the first quarter of 2021, following modest gains in the second half of 2020. However, retailer confidence¹¹ rose from 37 in the first quarter of 2021 to a six-year high of 54 in the second quarter, supported by improved business conditions and higher profitability due to improved sales volumes and strengthened pricing power. The easing of lockdown restrictions following the dissipation of the second wave of COVID-19 infections probably boosted retailer confidence in the second quarter. However, the recent civil unrest and vandalism in Gauteng and KwaZulu-Natal could dampen optimism in the sector, together with the four weeks of adjusted Level 4



lockdown restrictions between June and July 2021. In addition, rising food, fuel and electricity prices could erode consumers' disposable income as well as contribute to tougher trading conditions and weak employment growth.

Labour cost and productivity

The year-on-year rate of increase in *formal non-agricultural nominal remuneration per worker* accelerated further from 1.5% in the fourth quarter of 2020 to 3.7% in the first quarter of 2021 as private sector remuneration growth per worker recovered significantly, while public sector remuneration growth per worker contracted at a faster pace. However, this was only sufficient to lessen the contraction in real wages per worker marginally, with the pace of decrease slowing from 4.7% in the fourth quarter of 2020 to 3.0% in the first quarter of 2021.



The rate of increase in *private sector nominal remuneration per worker* quickened notably from 1.5% in the fourth quarter of 2020 to 4.8% in the first quarter of 2021, likely supported by the gradual return to work of furloughed workers and as further job losses were likely more prevalent among lower-income earners. In addition, bonus and overtime payments increased again for the first time since the historic pandemic-induced decrease in the second quarter of 2020. Remuneration growth per worker accelerated in all the private subsectors, except for the construction sector, where nominal remuneration per worker contracted for a fourth successive quarter in the first quarter of 2021.

Conversely, *remuneration growth per public sector worker* decelerated further, from -0.7% in the fourth quarter of 2020 to a historic low of -1.3% in the first quarter of 2021. This was directly related to the non-implementation of the annual public sector wage increase in 2020 to reign in government expenditure, together with the increase in low-earning EPWP employment in recent quarters, which lowered the average remuneration per worker. However, the contraction could be reversed from the third quarter of 2021, as the long-awaited collective bargaining agreement on wage increases in the public sector was signed by most trade unions in July 2021 following difficult and lengthy negotiations. The collective agreement comprised a non-pensionable cash allowance ranging between R1 220 and R1 695, effective from 1 April 2021, and a once-off pensionable increase of 1.5% for all employees on salary level 1 to 12. Remuneration per worker decreased at the provincial and national department level, while the rate of increase accelerated in all other public sector tiers in the first quarter of 2021.

The average wage settlement rate in collective bargaining agreements remained at a historic low of 4.5% in the first half of 2021 compared with 6.3% over the same period in 2020 and the average for 2020 as a whole, according to Andrew Levy Employment Publications. However, the number of workdays lost due to industrial action increased to 45 000 in the first half of 2021 from an artificially low of 20 000 over the same period a year earlier when the effects of the COVID-19 pandemic first surfaced. While there has been a notable decrease in the number of strikes, it seems that those that occurred were relatively long in duration.

Labour productivity and nominal unit labour cost



12 Note that the COVID-19-induced data distortions affected the informational content of economic indicators such as labour productivity and unit labour cost in 2020. These indicators should therefore be interpreted with some circumspection.

*Labour productivity growth*¹² in the formal non-agricultural sector of the economy accelerated from an upwardly revised 2.3% in the fourth quarter of 2020 to 3.1% in the first quarter of 2021, as the rebound in output outweighed that in employment on a year-on-year basis. Conversely, the change in nominal unit labour cost in the formal non-agricultural sector reverted from a year-on-year decrease of 0.8% in the fourth quarter of 2020 to an increase of 0.6% in the first quarter of 2021, as total remuneration recovered at a faster pace than output. The subdued year-on-year rate of increase suggests the absence of notable inflationary pressures emanating from wage increases. Economy-wide nominal unit labour cost contracted notably by 3.8% year on year in the second quarter of 2021 following an increase of 3.0% in the first quarter, as output accelerated at a much faster pace than the compensation of employees on a year-on-year basis. This largely reflected base effects from the second quarter of 2020, when output was much more severely impacted by the COVID-19 lockdown restrictions than compensation.

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

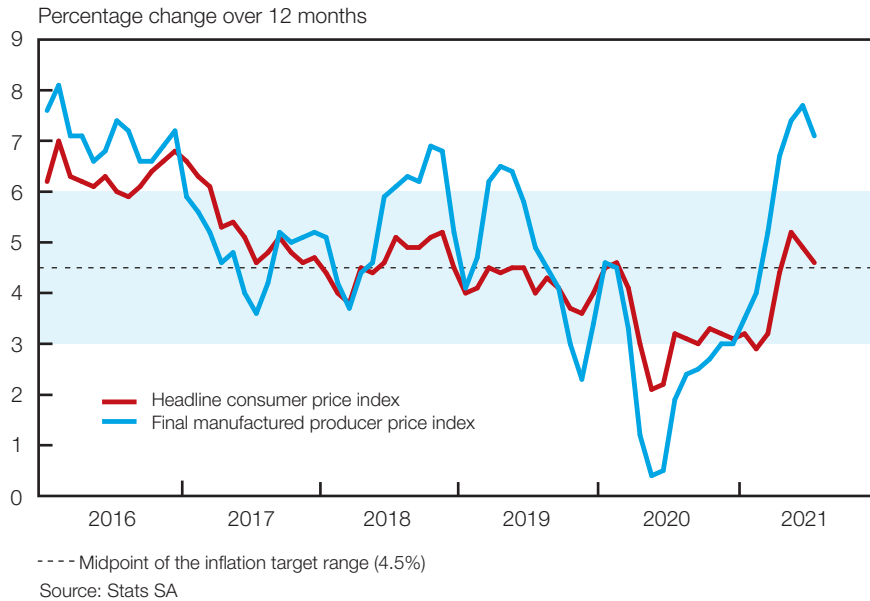
Prices¹³

Headline consumer and producer price inflation, which both rebounded in the wake of the COVID-19 pandemic from historical lows in May 2020, again accelerated in recent months as especially fuel, food and electricity prices increased at a faster pace.

Headline consumer price inflation accelerated from a 16-year low of 2.1% in May 2020 to 5.2% a year later – the highest inflation rate since November 2018. This partly reflected base effects from the price imputations of some items employed by Stats SA from April 2020. Subsequently, headline consumer price inflation decelerated to 4.6% in July 2021 as these base effects began to dissipate. Headline producer price inflation accelerated from a low of 0.3% in May 2020 to 7.7% in June 2021 due to the significant increase in food and fuel prices, and as shortages of some raw materials drove prices higher following global supply chain disruptions.

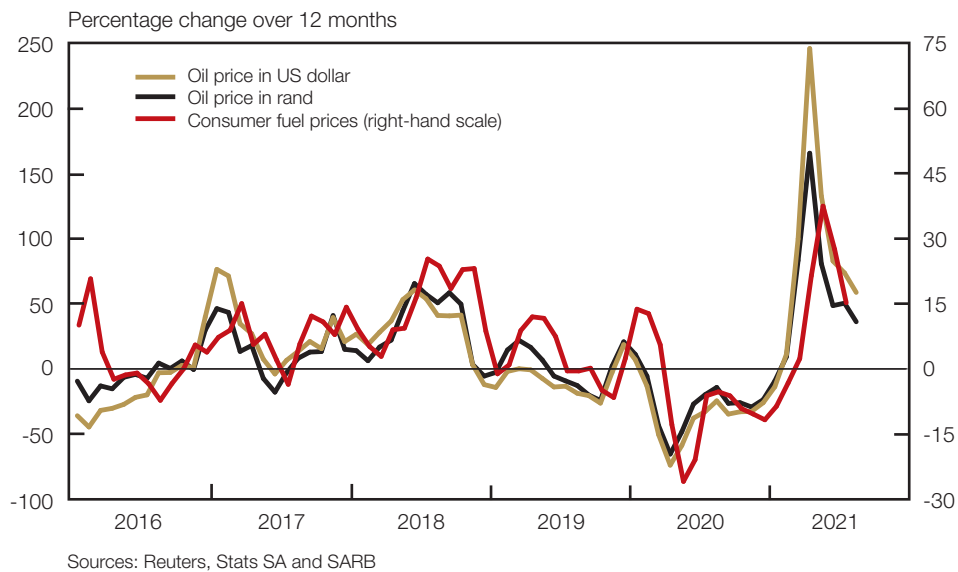


Headline producer and consumer prices



The acceleration in both headline producer and consumer price inflation largely reflected the marked acceleration in fuel price inflation and, to a lesser extent, food price inflation. The average monthly price of Brent crude oil increased by 302% to US\$75.09 per barrel in July 2021 from a low of US\$18.68 per barrel in April 2020.

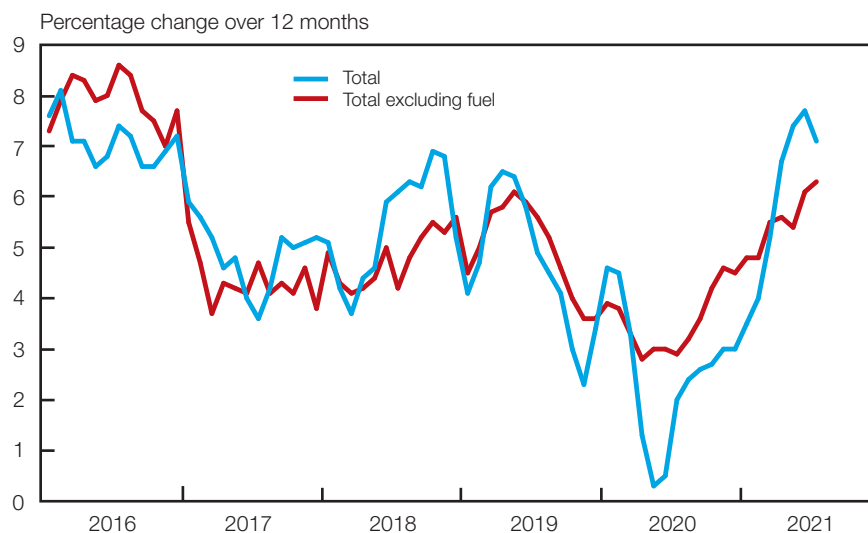
Brent crude oil and consumer fuel prices



The pace of acceleration in final manufactured producer price inflation was slower when excluding fuel prices, from 3.0% in May 2020 to only 6.1% in June 2021. At first, producers absorbed price increases amid subdued consumer demand, but more recently the higher fuel prices have spilled over into higher production costs.



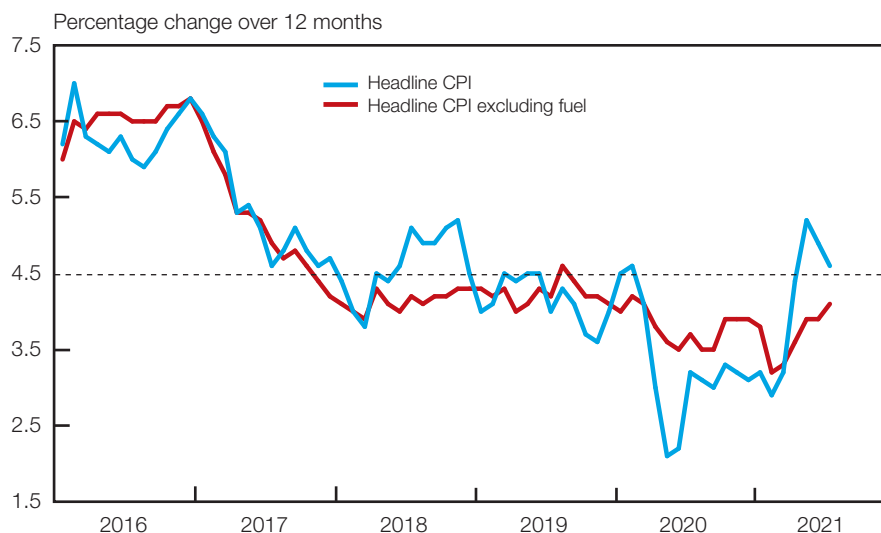
Final manufactured producer prices



Sources: Stats SA and SARB

The acceleration in headline consumer price inflation in the four months to May 2021 was largely driven by the surge in fuel price inflation. When excluding fuel prices from headline consumer price inflation, the year-on-year rate accelerated to only 3.9% in May and June 2021, mostly due to the low base a year earlier as a result of price imputations.

Consumer prices



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

Sources: Stats SA and SARB

Most measures of producer price inflation quickened in the first half of 2021. Intermediate manufactured goods price inflation accelerated markedly from 1.4% in June 2020 to 17.6% in July 2021, mainly on account of higher basic and fabricated metals as well as chemicals, rubber and plastic product prices. These price increases reflected continued supply chain disruptions and increased demand for these products as the global economic recovery gathered momentum. Electricity and water price inflation accelerated from 5.9% in April 2021 to 13.9% in July. The acceleration in electricity price inflation at the producer level reflected Eskom's tariff increases in April 2021 for direct bulk purchase customers and increases in July for municipal customers. Producer price inflation for mining products almost doubled from



10.8% in April 2021 to 20.6% in June, mainly due to increases in the prices of non-ferrous metal ores as well as coal and gas products. Annual producer price inflation for agriculture, forestry and fishing products accelerated from 7.1% in April 2021 to 13.3% in June due to higher prices of agricultural products, particularly products of crops and horticulture as well as milk, eggs and other animal products.

Consumer goods price inflation accelerated for a fifth consecutive month to 8.0% in May 2021, mainly due to the significant acceleration in non-durable goods price inflation from 2.8% in January 2021 to 9.5% in May. This followed the substantial quickening in fuel price inflation and, to a lesser extent, food price inflation. Durable goods price inflation also accelerated somewhat to 5.0% in May 2021 from a low of 3.3% in January, before moderating to 3.7% in July as new vehicle price inflation decelerated. Semi-durable goods price inflation remained muted, accelerating marginally from 1.1% in February 2021 to 2.6% in May, before slowing again to 2.0% in July. During the initial hard lockdown in 2020, most price imputations were for products in the durable and semi-durable goods baskets. Consumer goods price inflation subsequently slowed over a broad spectrum of products to 6.7% in July 2021.



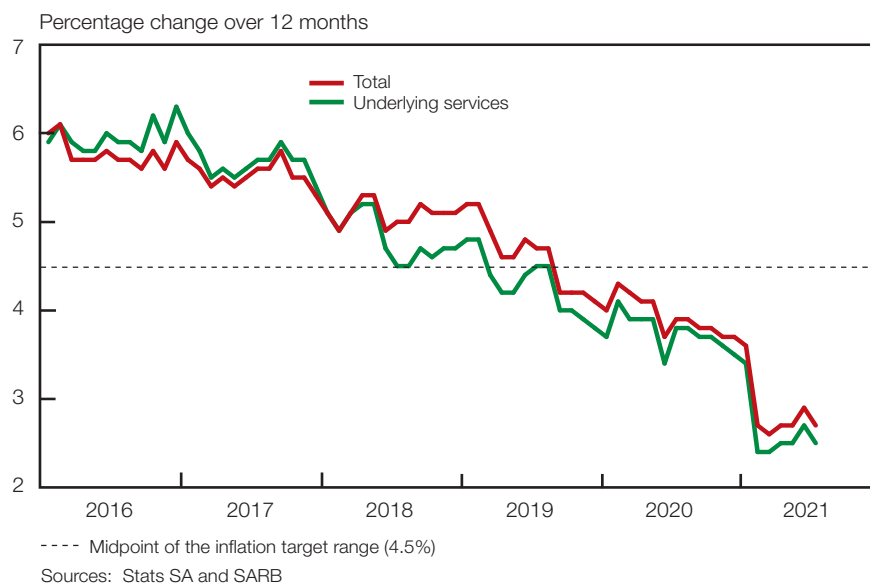
Underlying consumer goods price inflation¹⁴ has remained well below the midpoint of the inflation target range since March 2017. The acceleration in underlying goods price inflation to 4.1% in May 2021 largely reflected the quickening in durable and semi-durable goods price inflation, while the subsequent slowdown to 3.5% in July reflected the fading of the base effects from the price imputations.

¹⁴ This represents the total consumer goods price basket, excluding the more volatile food and non-alcoholic beverages, fuel and electricity prices.

Consumer services price inflation moderated steadily over eight months to a 15-year low of 2.6% in March 2021. Housing rental price inflation decelerated significantly further in the first half of 2021 as supply exceeded demand for rental property. Overall services price inflation then accelerated marginally to 2.9% in June as the downward trend in price inflation for both actual rentals for housing and owners' equivalent rent was contained, and as the prices of restaurant and hotel services as well as public road transportation increased at a faster pace. The imputed price inflation of restaurant and hotel services during the lockdown period slowed significantly in 2020. The decrease in hotel services prices up to March 2021 reflected general weak demand amid the impact of COVID-19 regulations. Subsequently, price inflation in this combined category accelerated somewhat from a low of 0.1% in March 2021 to 2.7% in June alongside the gradual easing of lockdown restrictions. By contrast, inflation in domestic worker wages moderated to a low of 1.3% in June and July 2021 as household finances remained constrained.



Consumer services prices

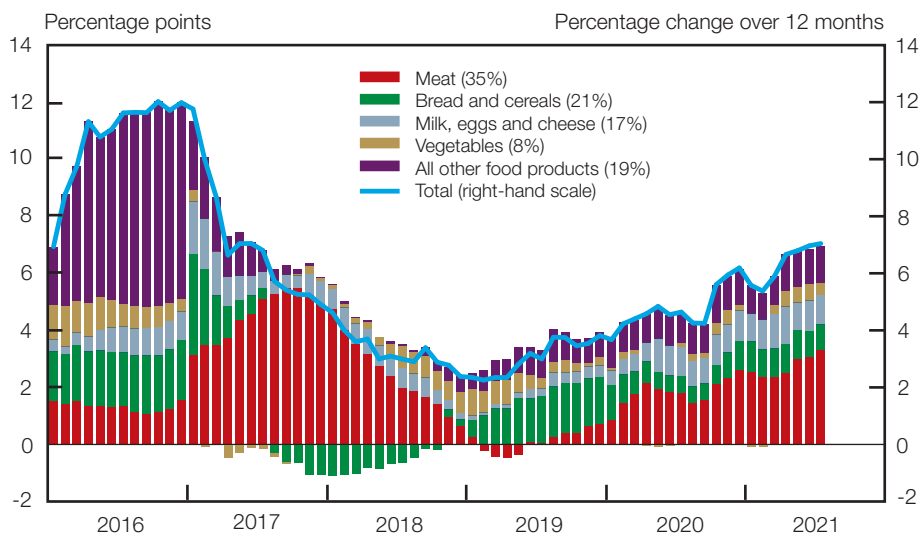


15 This represents the total consumer services price basket, excluding administered services prices.

Both overall and underlying consumer services price inflation breached the midpoint of the inflation target range in September 2019 and have remained below this level for 24 consecutive months. Underlying consumer services price inflation¹⁵ moderated to 2.4% in February 2021 before accelerating somewhat to 2.7% in June, largely due to the quickening of restaurant and hotel services price inflation and the marginal acceleration in rental services price inflation. Subdued price inflation of both underlying consumer goods and services is indicative of the absence of pricing power amid weak economic activity, with the acceleration in producer price inflation not yet observed at the consumer level.

Domestic food price inflation quickened further at both the agricultural and the consumer levels in June 2021, while moderating at the manufacturing level. Agricultural producer food price inflation accelerated to a high of 17.4% in June 2021 as price inflation of all categories of agricultural producer food products accelerated, except for cereals and other crops which moderated marginally. In part, this resulted from higher international agricultural commodity prices as well as a notable increase in domestic live animal prices. Manufactured producer food price inflation amounted to 7.3% in both May and June 2021, after having moderated somewhat from 8.1% in March 2021.

Contributions to consumer food price inflation



Numbers in brackets indicate weights in the total consumer food basket

Source: Stats SA



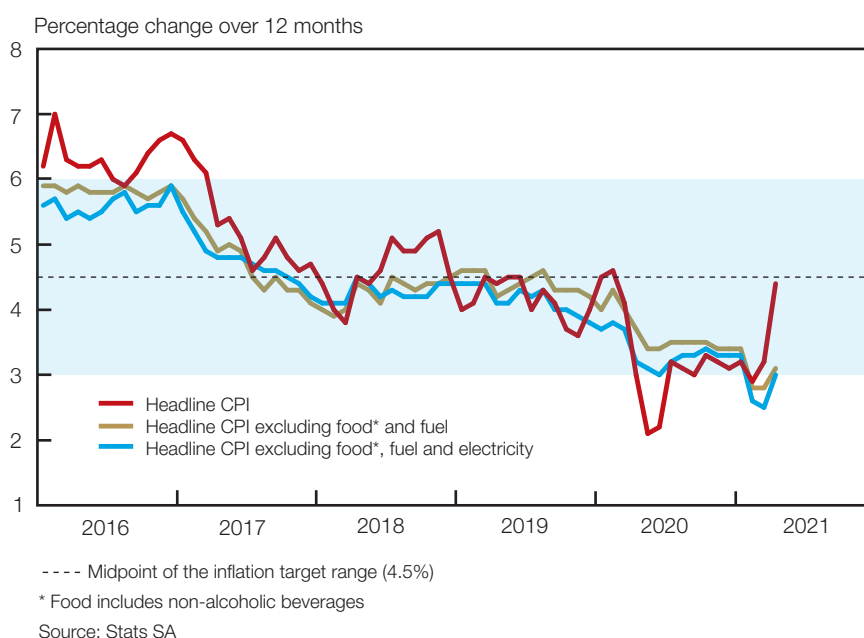
Consumer food price inflation followed the upward trajectory of agricultural food price inflation, accelerating to 7.0% in June and July 2021 as the prices of most consumer food products increased at a faster pace, led by meat prices. In addition, the seasonally adjusted and annualised quarter-to-quarter percentage change in consumer food prices accelerated from a low of 4.4% in the first quarter of 2021 to 10.1% in the second quarter. Globally, crop planting remained subdued, especially in the case of oils and fats, with these prices rising sharply to a year-on-year rate of 22.4% in July 2021.

The United States (US) dollar-denominated international Food Price Index of the United Nations' Food and Agricultural Organization (FAO) decreased in June and July 2021 before rebounding in August, mainly due to higher sugar, vegetable oil and cereal prices. The index was 31.9% higher than a year earlier following marked increases since mid-2020. Meat prices increased for the eleventh consecutive month, while sugar prices edged up for the fifth consecutive month in August 2021. International US dollar-denominated cereal price inflation accelerated to 31.1% in August 2021, driven largely by a marked increase in wheat prices due to reduced harvest expectations in several major exporting countries.

Rand-denominated international food price inflation initially slowed to 2.3% in April 2021, aided by the earlier appreciation in the exchange value of the rand, before accelerating to 14.2% in August. Similarly, rand-denominated international cereal price inflation accelerated from -1.9% to 12.5% over the same period. Despite the elevated international food price inflation, good domestic harvest prospects augur well for keeping domestic consumer food price inflation contained in the months ahead.

Underlying inflationary pressures remained muted within an environment of weak consumer demand. The recent acceleration in most measures of underlying inflation largely reflects the price imputation-induced low base of a year earlier. This is evident when excluding the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, as this measure of underlying inflation accelerated steadily from 2.8% in February 2021 to 3.4% in June, and further to 3.6% in July as electricity price inflation quickened notably.

Headline and underlying measures of consumer prices

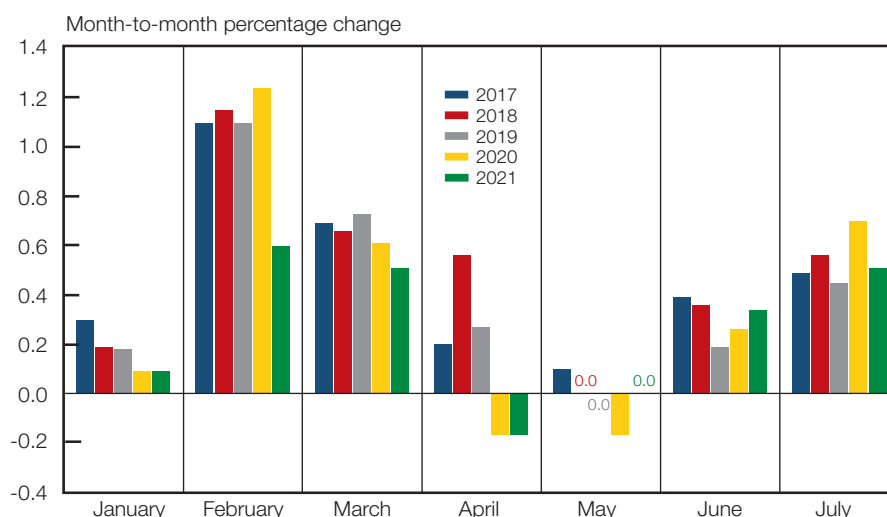


The SARB's preferred measure of core inflation (also excluding electricity prices) remained below the midpoint of the inflation target range for 39 successive months up to July 2021. Core inflation decelerated sharply from 3.0% in June 2020 to a record low of 2.5% in March 2021,

largely due to lower housing services price inflation and, to a lesser extent, a moderation in price inflation of education services. Core inflation then accelerated to 3.2% in June 2021 before slowing anew to 3.0% in July, mostly driven by the slight quickening in rental price inflation and the low base due to price imputations in 2020.

The effects of the price imputations are also visible in the month-to-month percentage changes in the core consumer price index (CPI), which were much lower in March, April and May 2020 in particular, than in the same months in previous years. The monthly percentage changes in core CPI then normalised again in 2021.

Headline consumer price index excluding food*, fuel and electricity

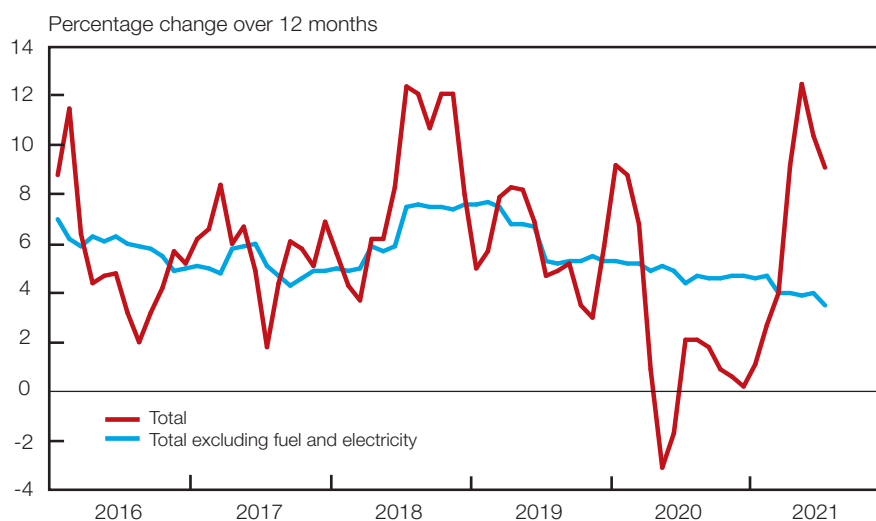


*Food includes non-alcoholic beverages

Source: Stats SA

Administered price inflation accelerated markedly from 0.2% in December 2020 to 12.5% in May 2021 as domestic fuel prices increased in response to higher international crude oil prices following the easing of lockdown restrictions globally. In May 2020, domestic fuel price inflation decelerated briskly to -25.9% as international crude oil prices plummeted on the back of suppressed demand due to COVID-19-related global lockdowns.

Administered consumer prices



Source: Stats SA



Subsequently, fuel price inflation surged to 37.4% in May 2021 before moderating to a still high 15.2% in July. Administered price inflation slowed to 9.1% in July 2021 as fuel and water prices as well as municipal assessment rates increased at a slower rate. By contrast, electricity price inflation more than doubled from 6.3% in June 2021 to 13.8% in July following the implementation of Eskom's annual tariff increase by municipalities. When excluding fuel prices, increases in administered prices moderated from 5.2% in February 2021 to 4.7% in March, and remained at this level up to June before accelerating to 6.9% in July due to the sharp increase in electricity prices. When excluding both fuel and electricity prices, administered price inflation remained stable throughout the second half of 2020 before moderating from 4.7% in February 2021 to 3.5% in July. This was the lowest rate since Stats SA changed to the classification of individual consumption by purpose (COICOP) framework for measuring South Africa's CPI in 2008.

*Average headline CPI inflation expectations*¹⁶ for 2021, 2022 and 2023 increased in the survey conducted in the second quarter of 2021, compared with the outcome of the previous survey. All three respondent groups revised their inflation expectations upwards for all three forecast periods, except trade unions for the 2023 period. Headline CPI inflation is forecast to average 4.2% (3.9% previously) in 2021 and 4.4% (4.2% previously) in 2022, and then to increase further to 4.5% in 2023.

¹⁶ These inflation expectations were measured by the *Survey of Inflation Expectations*, conducted by the BER in the second quarter of 2021.

The recent acceleration in the official CPI inflation rate, which resulted largely from the base effects in 2020, may have contributed to the higher inflation expectations in the second-quarter 2021 survey. Business representatives expect a much faster acceleration in inflation over the forecast horizon than the other two respondent groups.

Headline consumer price inflation expectations

Per cent, as surveyed in the second quarter of 2021

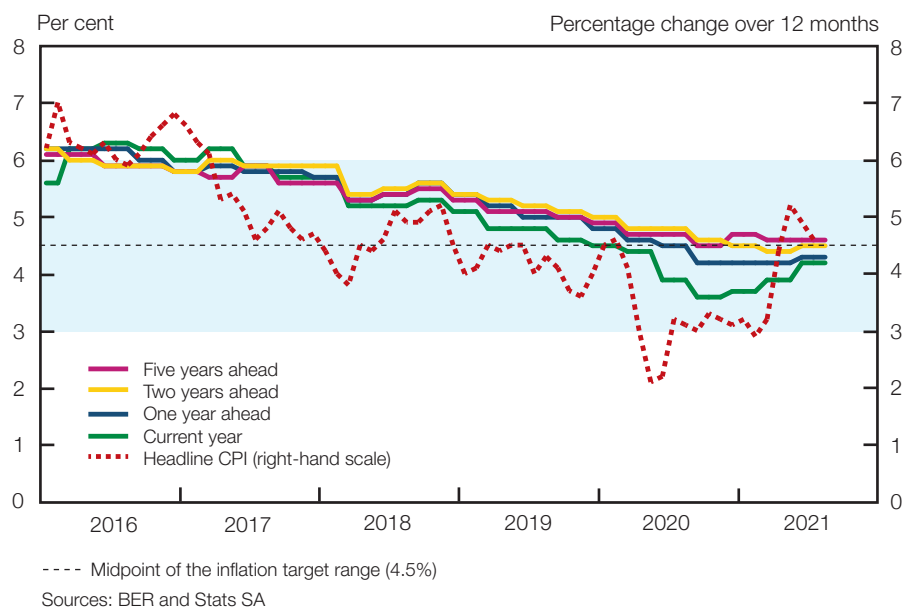
Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2021.....	4.3	4.2	4.1	4.2
2022.....	4.5	4.7	4.2	4.4
2023.....	4.5	5.0	4.2	4.5
Five years ahead	4.4	5.1	4.4	4.6

Source: BER

Average five-year-ahead inflation expectations remained unchanged at 4.6% in the second-quarter 2021 survey, slightly above the midpoint of the inflation target range.



Inflation expectations and headline consumer prices



After moderating from 5.3% in the fourth quarter of 2020 to 5.0% in the first quarter of 2021, *household inflation expectations* edged up to 5.1% in the second-quarter survey.



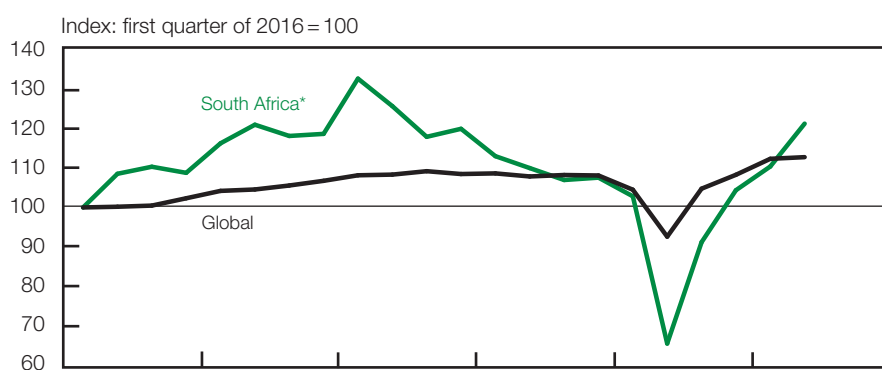
External economic accounts

Current account¹⁷

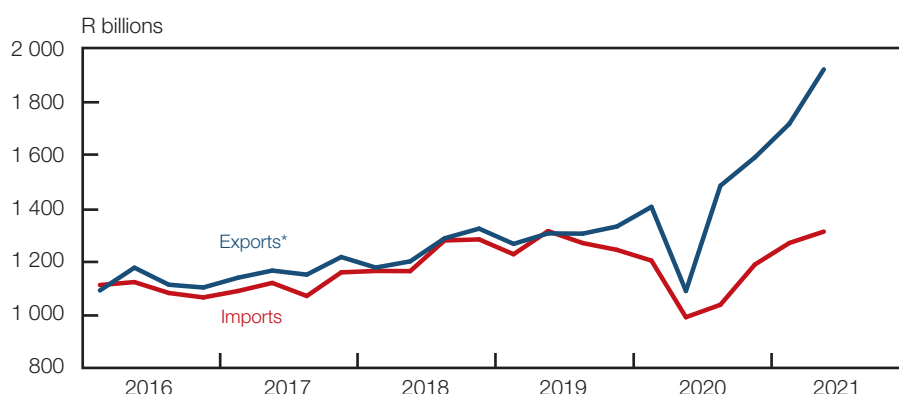
The faster pace of increase in South Africa's volume of merchandise exports in the second quarter of 2021 contrasted with a slowdown in global trade volumes. The value of South Africa's merchandise exports increased to a new all-time high, while imports increased to its second-highest level since the second quarter of 2019.

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

Volume of merchandise exports



Value of South Africa's merchandise exports and imports



* Including gold

Seasonally adjusted and annualised

Sources: CPB Netherlands Bureau for Economic Policy Analysis, Stats SA and SARB

As a result, South Africa's trade surplus widened substantially from R451 billion in the first quarter of 2021 to a record high of R614 billion in the second quarter, or 10.0% of nominal GDP. The higher value of goods exports reflected a notable increase in prices, along with a lesser increase in volumes, while imports mostly reflected higher prices. The surplus on the current account of the balance of payments widened from R261 billion (4.3% of GDP) in the first quarter of 2021 to R343 billion (5.6% of GDP) in the second quarter, as the extraordinarily large trade surplus more than compensated for the much larger shortfall on the services, income and current transfer account.



Current account of the balance of payments

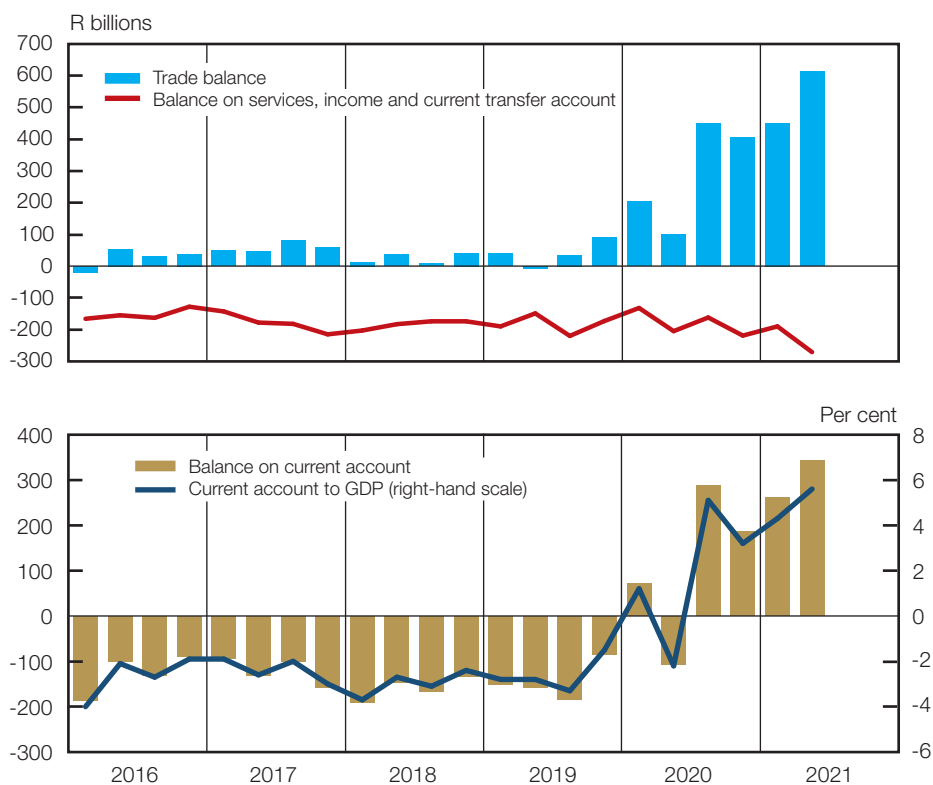
R billions, seasonally adjusted and annualised

	2020				2021	
	Q2	Q3	Q4	Year	Q1	Q2
Merchandise exports.....	1 009	1 358	1 466	1 286	1 614	1 827
Net gold exports.....	79	129	128	108	107	100
Merchandise imports.....	-989	-1 036	-1 189	-1 105	-1 270	-1 313
Trade balance.....	99	450	405	289	451	614
Net service, income and current transfer payments.....	-205	-162	-219	-180	-190	-271
Balance on current account.....	-106	288	186	110	261	343
<i>As a percentage of gross domestic product</i>						
Trade balance.....	2.1	8.1	6.9	5.2	7.5	10.0
Services balance.....	-1.3	-1.2	-1.1	-0.8	-1.2	-1.1
Income balance.....	-2.3	-0.9	-1.7	-1.7	-1.0	-2.8
Current transfer balance.....	-0.7	-0.8	-1.0	-0.8	-0.9	-0.6
Balance on current account.....	-2.2	5.1	3.2	2.0	4.3	5.6

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

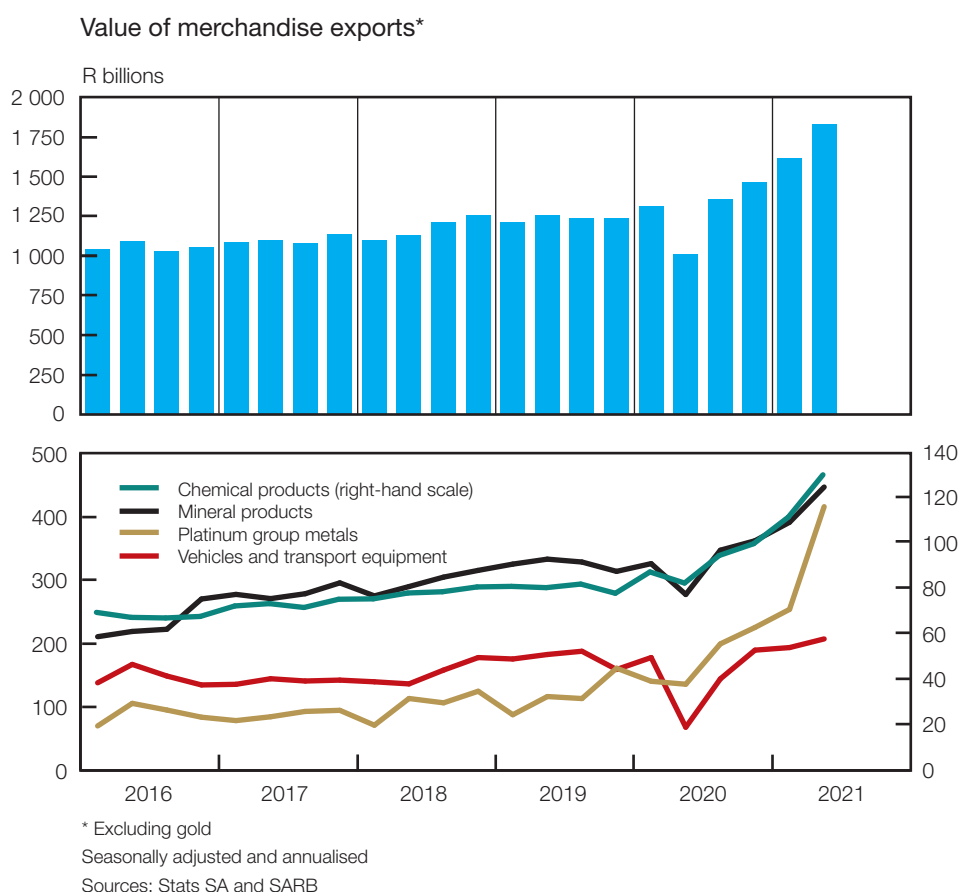
Sources: Stats SA and SARB

Current account of the balance of payments



The value of merchandise exports increased significantly by 13.2% in the second quarter of 2021 from an already high level. This marked a fourth consecutive quarterly expansion, with the value of mining exports increasing significantly more than that of manufacturing and agriculture.

Mining exports were boosted by PGMs, mineral products as well as base metals and articles thereof in the second quarter of 2021. PGM exports continued to benefit from the surge in the prices of these commodities as well as increased refining ability following the successful start-up of a converting plant towards the end of 2020. Rhodium accounted for 53% of total PGM exports in the second quarter of 2021, which was mainly destined for the US and the United Kingdom (UK). Minerals reflected higher exports of iron ore, chromium, and coal, with the latter boosted by an increase in the average realised rand price as logistical disruptions constrained physical quantities.



The higher value of manufacturing exports in the second quarter of 2021 was mostly supported by vehicles and transport equipment as well as chemical products. The former reflected passenger vehicles and the latter copper sulphates as well as COVID-19 vaccines and medicaments, with 70% of the latter destined for Kenya.

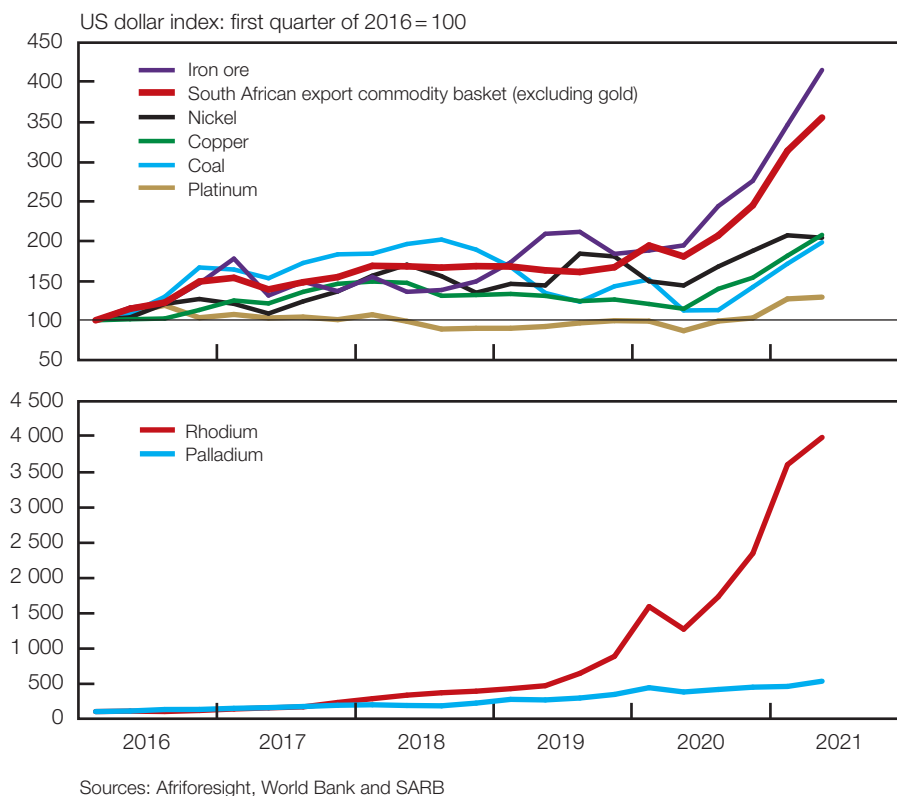
The increased value of agricultural exports in the second quarter of 2021 was bolstered by maize and citrus. Maize exports to Vietnam, Japan and South Korea accounted for about 62% of the total value of domestic maize exports in the second quarter. This fully compensated for the contraction in maize exports to Zimbabwe following the country's ban on maize and other maize meal imports in mid-May.

The US dollar price of a basket of domestically produced non-gold export commodities increased further by 13.4% in the second quarter of 2021 following a substantial increase of 28.4% in the first quarter, marking a fourth consecutive quarterly increase. The prices of copper and iron ore were supported by, among other factors, the expansion in global manufacturing



activity and concerns of supply disruptions, especially for copper. The price of copper reached a record high in early May 2021 and was further supported by the decarbonisation drive, as the metal is regarded as a key element for low carbon technologies. Coal prices increased to their highest level in over a decade as strong industrial activity resulted in robust demand for power generation, especially in Asia. The prices of most PGMs declined towards the end of the second quarter but still increased on a quarterly basis. The price of rhodium continued to surge in the second quarter as global demand from the automotive industry recovered. By contrast, the price of nickel decreased somewhat in the second quarter after rising sharply in the previous quarter due to, among other factors, supply concerns arising from the partial suspension of operations at two flood-affected nickel mines in Russia.

International prices of selected South African export commodities



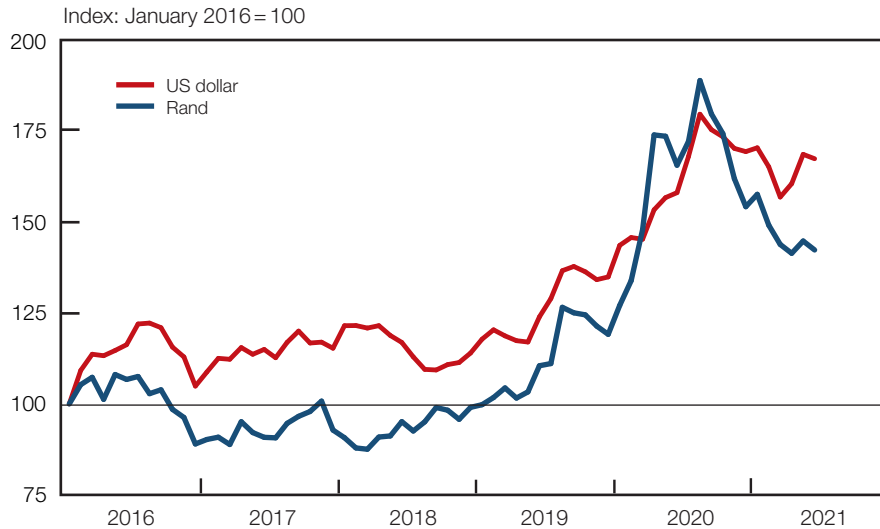
The rand price of merchandise exports advanced by 8.6% in the second quarter of 2021 along with the sustained increase in international commodity prices. Over the same period, the volume of merchandise exports also increased for a fourth consecutive quarter, by 4.2%.

The average US dollar price of gold on the London market increased in April and May 2021 amid fears of higher inflation, a weaker US dollar and lower real interest rates in the US. However, the gold price retreated in June following a hawkish statement by the US Federal Reserve. On average, the price of gold increased marginally from US\$1 800 per fine ounce in the first quarter of 2021 to US\$1 815 in the second quarter, or by 0.8%.

In rand terms, the average realised price of net gold exports declined by 2.7% in the second quarter of 2021, weighed down by the appreciation in the external value of the rand. This, alongside a contraction in the physical quantity of net gold exports, resulted in a decline of 6.3% in the value thereof.



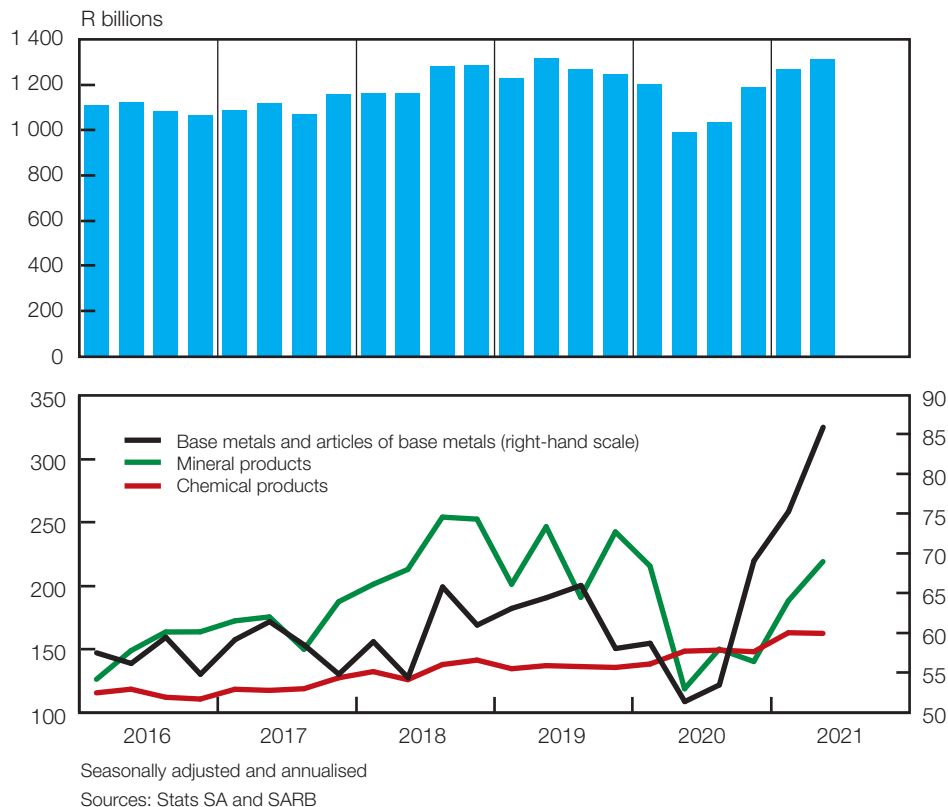
Gold price



Sources: Reuters and SARB

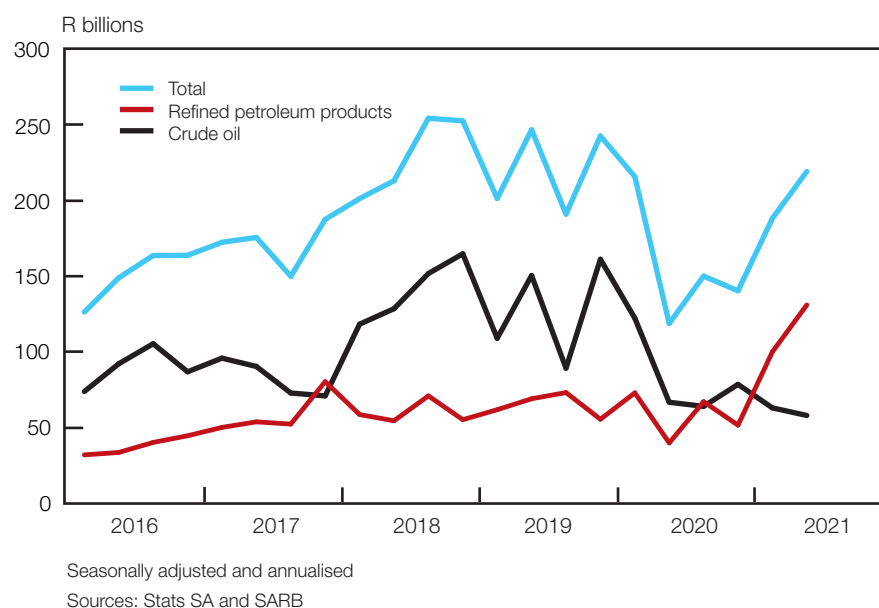
Mining and agriculture supported the increase in the total value of merchandise imports of 3.4% in the second quarter of 2021. Mining imports reflected continued demand for mineral products, particularly refined petroleum products, as some local refineries shut down for maintenance and others closed permanently during the quarter. Imports of base metals and articles thereof as well as pearls and semi-precious stones increased over the period. The former could be attributed to higher imports of articles of iron and steel as the domestic steel shortage since the start of the COVID-19 pandemic continued. This was exacerbated by the introduction of an import duty on hot rolled coil, which is payable when the converted product is sold in the domestic market.

Value of merchandise imports



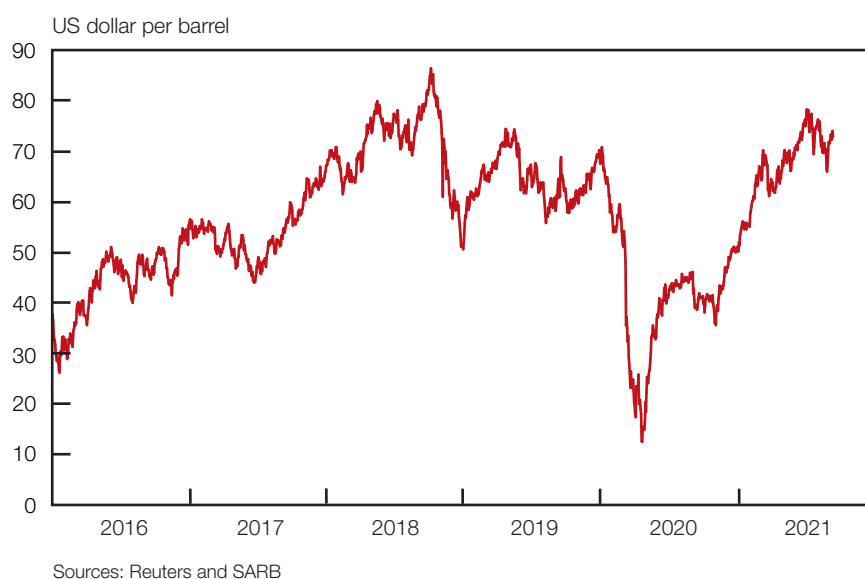
The value of crude oil imports declined by 7.9% in the second quarter of 2021. This reflected the effect of the significant contraction of 22.1% in the physical quantity of imported crude oil, which outweighed a sharp increase of 18.4% in the average realised rand price.

Value of mineral imports



The monthly average spot price of Brent crude oil declined for the first time in six months in April 2021 on concerns about the impact of rising COVID-19 infections in several countries. However, the price increased again in May and June 2021 as mobility restrictions were eased across Europe and the US, and as crude oil demand from refineries in some parts of Asia and Europe increased gradually. The spot price increased by about 13%, from an average of US\$60.73 per barrel in the first quarter of 2021 to an average of US\$68.70 per barrel in the second quarter. The price increased further in July to an average of US\$75.09 per barrel – the highest since October 2018 – as COVID-19 vaccinations gained traction globally. In mid-July 2021 the Organization of the Petroleum Exporting Countries and allies (OPEC+) agreed to increase production by 400 000 barrels per day each month, starting in August. The anticipated increase in supply, among other factors, resulted in the Brent crude oil price declining to an average of US\$70.91 per barrel in August 2021.

Brent crude oil price



The value of manufacturing imports decreased in the second quarter of 2021 following three consecutive quarterly increases, reflecting lower imports of machinery and electrical equipment as well as vehicles and transport equipment. The latter was weighed down by a contraction in the imports of original automotive components, largely due to the global semiconductor shortage and delays caused by the Suez Canal blockage towards the end of the first quarter. This more than offset marked increases in the importation of resins, plastics and articles thereof as well as optical and professional equipment.

The volume of merchandise imports, which increased by 6.5% in the first quarter of 2021, remained broadly unchanged in the second quarter. The import penetration ratio (i.e. real merchandise imports as a ratio of GDE) declined slightly from 23.2% in the first quarter of 2021 to 23.1% in the second quarter. Simultaneously, steadily rising production prices in key trading partner countries, together with the higher international crude oil price, contributed to a 3.3% increase in the rand price of merchandise imports in the second quarter.



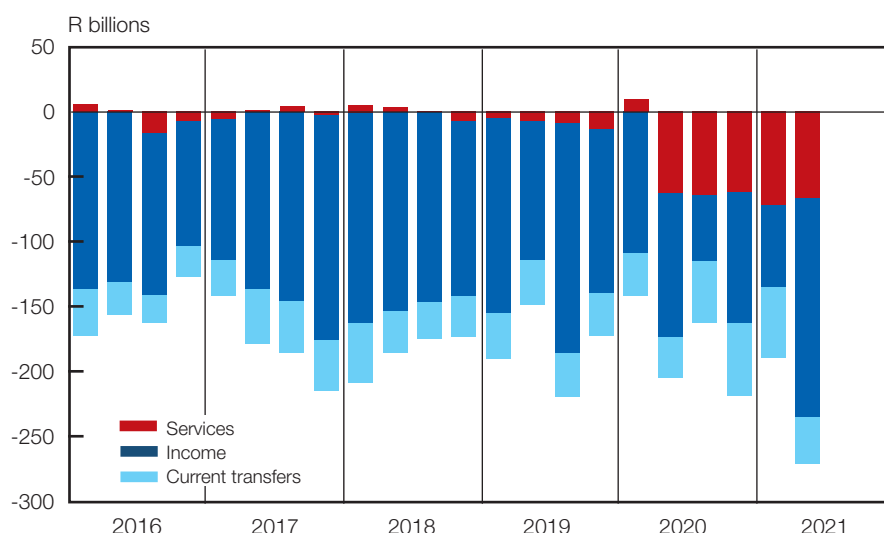
South Africa's terms of trade improved further in the second quarter of 2021 as the rand price of exports of goods and services increased more than the price of imports.

The shortfall on the services, income and current transfer account widened substantially to R271 billion (4.4% of GDP) in the second quarter of 2021 from a relatively small deficit of R190 billion (3.2% of GDP) in the first quarter. The larger shortfall can mainly be ascribed to a noticeably larger deficit on the income account, which was moderated by a narrowing of both the services and current transfer deficits.

The smaller services deficit in the second quarter of 2021 largely reflected an increase in net travel receipts as gross travel receipts increased. However, the level of gross travel receipts remained a fraction of that recorded prior to the COVID-19 pandemic. The seasonal pattern of lower spending by foreign tourists traditionally visiting South Africa during the second quarter compared to the first quarter, mainly ascribable to it being summer in the northern hemisphere during this period, was reversed in the second quarter of 2021. However, this merely reflected the depressed number of foreign tourists visiting South Africa in the first quarter and the accompanying lower spending compared to pre-COVID-19 levels. Gross passenger transportation payments also increased marginally as vaccinations gained traction. Net transportation payments increased by 2.2% as gross payments for other transportation services, particularly freight-related payments, continued to increase, consistent with the further increase in merchandise imports.



Net services, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The deficit on the income account widened substantially in the second quarter of 2021, largely due to dividend flows. The rebound in gross dividend payments reflected improved profits in some sectors, in particular mining, and the relatively low base in the first quarter. Low gross dividend payments contributed to the second quarterly dividend surplus (net dividend receipts) in 25 years in the first quarter of 2021. The level of gross dividend payments in the second quarter of 2021 was higher than the quarterly average for 2020, when dividend payments shrank by 32% as domestic economic activity contracted sharply following restrictions aimed at curbing the spread of COVID-19 infections. By contrast, compared to the first quarter of 2021, gross dividend receipts retreated sharply in the second quarter from an elevated level in the first quarter (when it contributed to the second dividend surplus in 25 years) to less than 2020 quarterly levels. These opposing movements resulted in the return to a more normal net deficit dividend position, which contributed to a widening in the income shortfall. Gross interest payments declined marginally in the second quarter of 2021 but increased by 9.0% when compared to the corresponding quarter of the previous year.

Net current transfer payments decreased noticeably in the second quarter of 2021, as gross current transfer payments declined steeply due to a decrease in payments to South Africa's partner countries in the Southern African Customs Union (SACU) at the start of the 2021/22 fiscal year.

Financial account

The net outflow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) increased to R109.6 billion in the second quarter of 2021 following an outflow of R64.7 billion in the first quarter. On a net basis, only direct investment recorded an inflow while portfolio investment, financial derivatives, other investment and reserve assets all registered outflows. Net financial account outflows as a ratio of GDP increased from a revised 4.4% in the first quarter of 2021 to 7.2% in the second quarter.



Net financial transactions

R billions

	2020				2021	
	Q2	Q3	Q4	Year	Q1	Q2
Change in liabilities						
Direct investment.....	19.7	-12.2	16.0	51.1	6.1	17.4
Portfolio investment.....	-53.3	-39.5	24.1	-159.3	-6.4	4.9
Financial derivatives.....	-116.1	-76.1	-69.8	-335.7	-79.9	-56.0
Other investment.....	-35.9	45.2	-42.4	16.9	-12.3	-34.2
Change in assets						
Direct investment.....	19.2	-10.9	33.2	32.5	11.3	3.0
Portfolio investment.....	41.7	-38.7	-36.0	46.6	-39.8	-71.0
Financial derivatives.....	107.2	78.7	69.8	324.7	75.3	54.9
Other investment.....	-17.9	12.1	-58.9	-163.5	-29.3	-4.7
Reserve assets.....	22.1	-15.2	5.1	54.2	10.3	-23.9
Total identified financial transactions*	-13.5	-56.5	-58.9	-132.7	-64.7	-109.6
As a percentage of gross domestic product.....	-1.1	-4.0	-3.9	-2.4	-4.4	-7.2

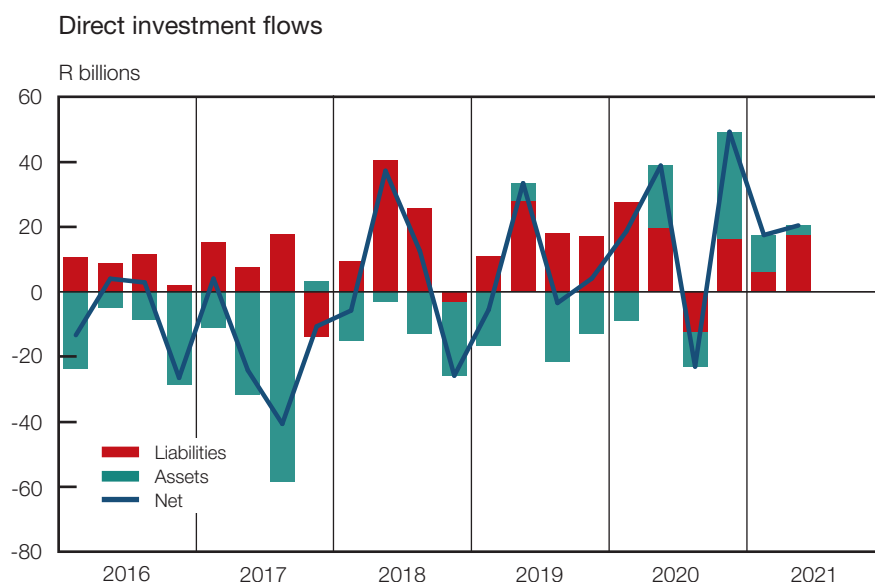
* Excluding unrecorded transactions. Components may not add up to totals due to rounding off.

Inflow (+)/outflow (-)

Source: SARB

Foreign-owned assets in South Africa

South Africa's direct investment liability inflows increased from R6.1 billion in the first quarter of 2021 to R17.4 billion in the second quarter, as non-resident parent entities increased their equity investment in domestic subsidiaries and as a foreign company acquired a subsidiary of a South African energy and chemicals group.



Source: SARB



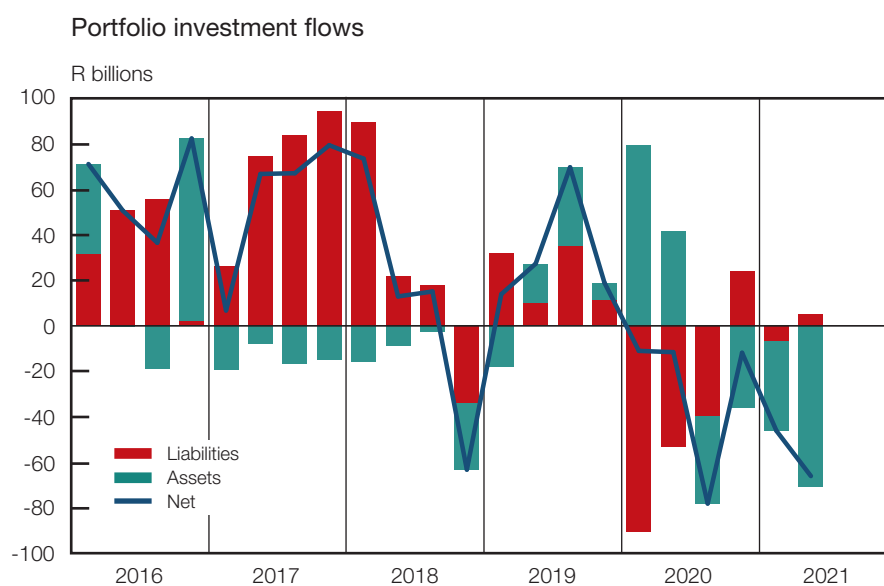
Portfolio investment liabilities reverted from an outflow of R6.4 billion in the first quarter of 2021 to an inflow of R4.9 billion in the second quarter, as non-residents' net acquisition of domestic debt securities outweighed net sales of domestic equities. Non-residents purchased debt securities of R27.0 billion in the second quarter of 2021 after disposing of R15.4 billion in the previous quarter, while net sales of equities of R22.1 billion in the second quarter represented a reversal from net purchases of R8.9 billion in the first quarter.

Other investment liabilities recorded an outflow of R34.2 billion in the second quarter of 2021 following an outflow of R12.3 billion in the preceding quarter, as non-residents' repatriation of deposits with the domestic banking sector outweighed the drawdown of foreign loans by both national government and the banking sector. This also included a US\$1 billion loan by national government from the New Development Bank in the second quarter.

South African-owned assets abroad

South Africa's direct investment assets recorded an inflow of R3.0 billion in the second quarter of 2021 following an inflow of R11.3 billion in the first quarter as domestic direct investors received debt repayments from non-resident direct investment enterprises.

South African residents' foreign portfolio assets surged further in the second quarter of 2021 with an outflow of R71.0 billion, following an outflow of R39.8 billion in the first quarter. This mainly reflected the domestic private banking and non-banking sectors' purchases of foreign debt and equity securities.



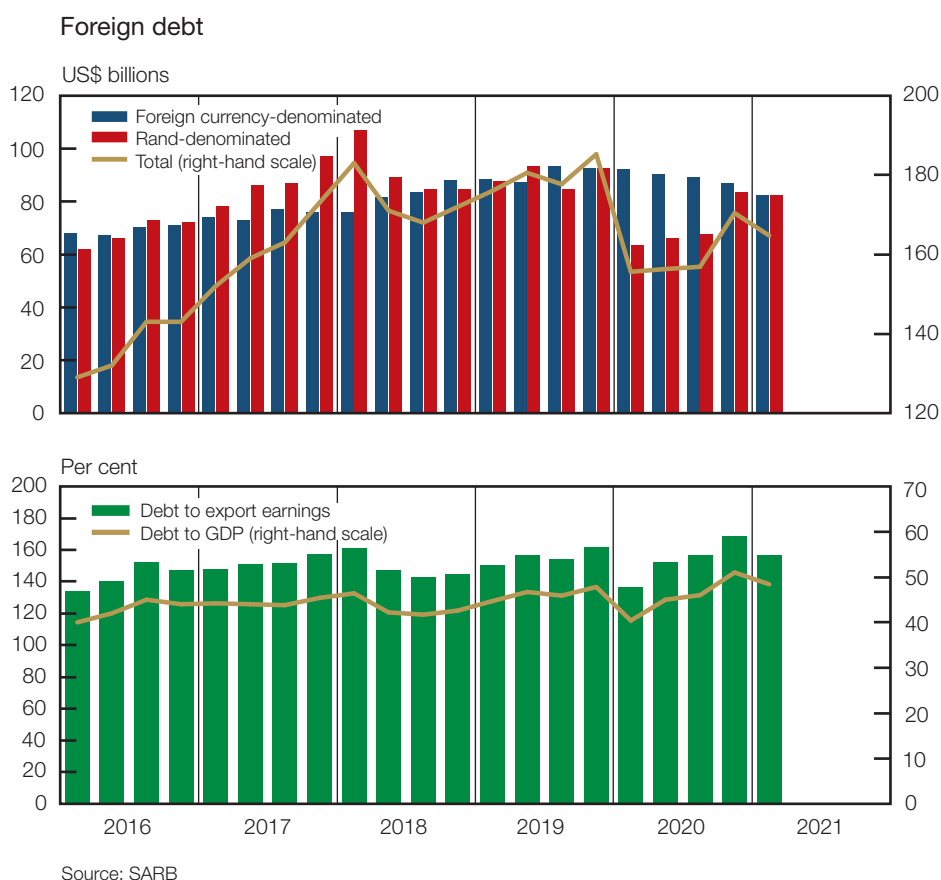
Source: SARB

Other investment assets recorded an outflow of R4.7 billion in the second quarter of 2021 following an outflow of R29.3 billion in the first quarter, as the domestic private non-banking sector acquired assets abroad. This was partly countered by the repayment of loans by non-residents to the domestic banking sector, together with the withdrawal of deposits from non-resident banks.



Foreign debt

South Africa's total external debt decreased from US\$170.4 billion at the end of December 2020 to US\$164.7 billion at the end of March 2021, and in rand terms, from R2 492 billion to R2 444 billion over the same period.



Foreign currency-denominated external debt decreased from US\$87.1 billion at the end of December 2020 to US\$82.6 billion at the end of March 2021. This was due to the decrease in long-term loans of the private non-banking sector as well as an international bond redemption by the public sector.

Rand-denominated external debt, expressed in US dollars, decreased slightly from US\$83.3 billion at the end of December 2020 to US\$82.1 billion at the end of March 2021. This was mainly due to a decrease in the market value of non-resident bond holdings as well as a decrease in long-term loans of the private non-banking and public sectors, which more than offset the net purchases of domestic rand-denominated bonds by non-residents.

South Africa's total external debt as a ratio of GDP decreased from 50.8% at the end of December 2020 to 48.4% at the end of March 2021, while the ratio of external debt to export earnings decreased from 168.7% to 156.6% over the same period.

Foreign debt of South Africa

US\$ billions at end of period

	2019		2020		2021	
	Q4	Q1	Q2	Q3	Q4	Q1
Foreign currency-denominated debt.....	92.6	92.1	90.3	89.2	87.1	82.6
Debt securities	33.5	32.2	31.4	30.2	29.2	27.6
Other	59.1	59.9	58.9	59.0	57.9	55.0
Public sector	10.3	10.5	10.9	15.8	15.9	16.0
Monetary sector	18.7	19.7	17.5	16.4	16.3	15.4
Non-monetary private sector	30.0	29.7	30.5	26.8	25.7	23.6
Rand-denominated debt.....	92.8	63.5	66.0	67.7	83.3	82.1
Debt securities	57.6	36.9	38.9	40.8	54.3	52.3
Other	35.2	26.6	27.1	26.9	29.0	29.8
Total foreign debt	185.4	155.6	156.3	156.9	170.4	164.7
<i>As a percentage of gross domestic product....</i>	<i>47.8</i>	<i>40.4</i>	<i>44.6</i>	<i>46.5</i>	<i>50.8</i>	<i>48.4</i>
<i>As a percentage of total export earnings</i>	<i>161.7</i>	<i>136.3</i>	<i>152.3</i>	<i>156.8</i>	<i>168.7</i>	<i>156.6</i>

Source: SARB

International investment position

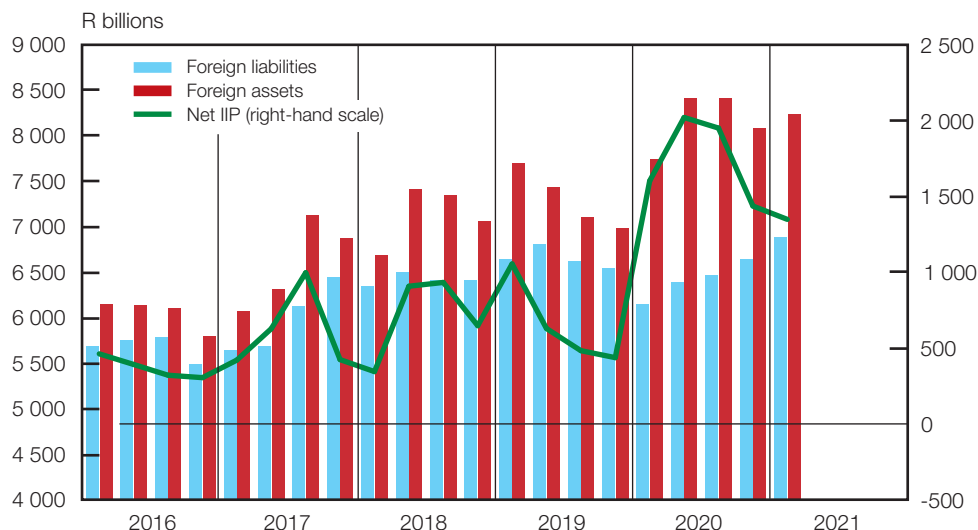
South Africa's positive net international investment position (IIP) decreased further from a revised R1 523 billion at the end of December 2020 to R1 441 billion at the end of March 2021, as foreign liabilities increased more than foreign assets.

The market value of South Africa's foreign assets (outward investment) increased by 2.0%, from a revised R8 179 billion at the end of December 2020 to R8 342 billion at the end of March 2021. In the first quarter of 2021 all the functional categories of foreign assets reflected an increase, except for financial derivatives and reserve assets. Foreign portfolio assets increased the most following an increase of 5.8% in the US Standard & Poor's (S&P) 500 Index as well as an increase in the value of residents' ownership of dual-listed companies domiciled abroad. These increases were augmented by the domestic private banking and non-banking sectors' purchases of foreign debt securities. Direct investment assets increased mainly as a result of valuation effects due to the increase in the share prices of dual-listed companies with a primary listing abroad, while other investment assets increased as the domestic private banking and non-banking sectors extended short-term loans to non-residents.

The market value of South Africa's foreign liabilities (inward investment) increased by 3.7%, from a revised R6 656 billion at the end of December 2020 to R6 901 billion at the end of March 2021. This reflected an increase in direct and portfolio investment, while financial derivatives and other investment declined. The increase in the FTSE/JSE All-Share Index (Als) of 11.9% in the first quarter of 2021 contributed to the higher values of both direct and portfolio investment liabilities. Other investment liabilities declined, mainly due to the repayment of long-term loans by the domestic private non-banking sector.



South Africa's international investment position



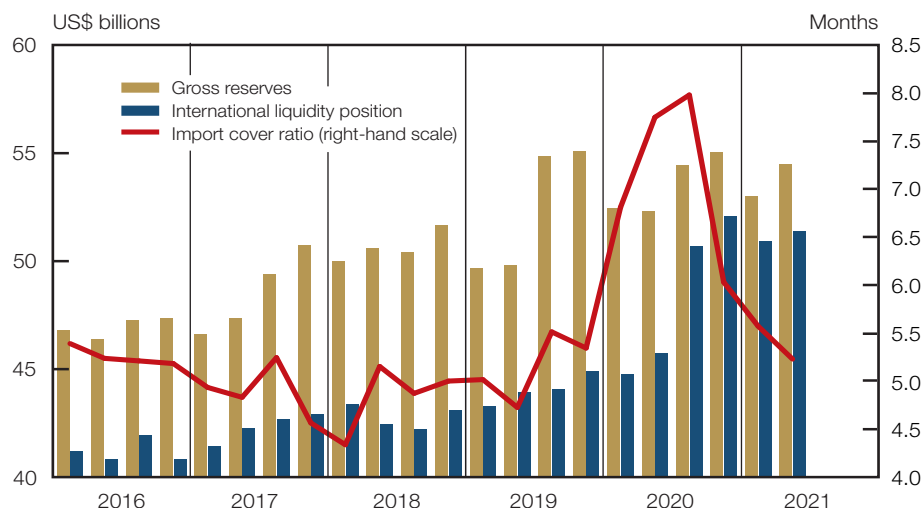
Source: SARB

As a ratio of South Africa's annual GDP, foreign assets increased from 148.1% at the end of December 2020 to 149.9% at the end of March 2021, while foreign liabilities increased from 120.6% to 124.0% over the same period. This resulted in a decline in the positive net IIP to 25.9% of GDP at the end of March 2021.

International reserves and liquidity

South Africa's international reserves increased by R23.9 billion in the second quarter of 2021 following a decrease of R10.3 billion in the first quarter.

International reserves



Source: SARB

The US dollar value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities) increased from US\$53.0 billion at the end of March 2021 to US\$54.5 billion at the end of June. The increase mainly reflected proceeds from foreign borrowings on behalf of government from the New Development Bank as well as foreign exchange swaps conducted for sterilisation and liquidity management purposes. These factors were partially offset by foreign exchange payments made



18 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.

on behalf of government. The country's gross gold and other foreign reserves increased further to US\$58.4 billion at the end of August following the issuance of a special drawing rights (SDR) allocation by the International Monetary Fund (IMF). South Africa's international liquidity position¹⁸ increased from US\$50.9 billion at the end of March 2021 to US\$51.4 billion at the end of June, and further to US\$55.7 billion at the end of August.

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) decreased from 5.6 months at the end of March 2021 to 5.2 months at the end of June.

Box 1 Unpacking South Africa's reserve assets^{1, 2, 3}

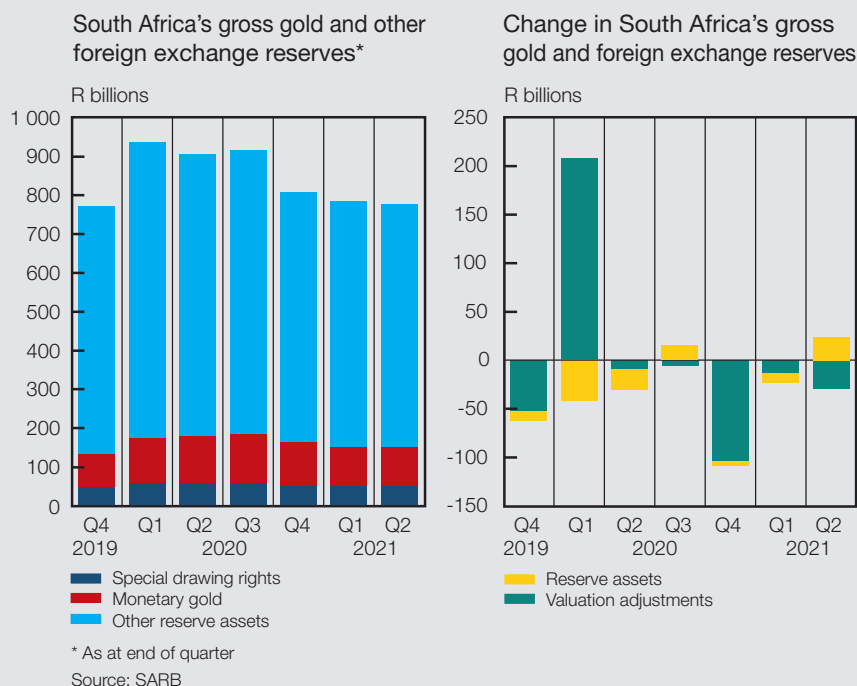
'Gross⁴ gold and foreign exchange reserves' is the major asset on the South African Reserve Bank's (SARB) balance sheet,⁵ and comprises monetary gold,⁶ special drawing rights (SDRs),⁷ the reserve position in the International Monetary Fund (IMF)⁸ as well as other reserve assets.⁹ All of the above are also part of foreign assets in South Africa's international investment position.¹⁰ The transactions in gross gold and foreign exchange reserve holdings are attributable to, among other things, proceeds from open market purchases, foreign direct investment and the government's foreign bond issues, and are recorded in reserve assets¹¹ in the financial account¹² of the balance of payments. The exchange value of the rand accounts for the difference between the value of gross gold and foreign exchange reserve holdings denominated in rands and in United States (US) dollars. Another concept, which is derived from the gross gold and foreign exchange reserve holdings, is the international liquidity position^{13, 14} in US dollar terms.

This box contextualises these main reserve-related statistical macroeconomic aggregates in relation to both the SARB's balance sheet and South Africa's external accounts, while also showing the drivers of the recent increase in the international liquidity position in US dollar terms relative to gross gold and foreign exchange reserves denominated in US dollars.

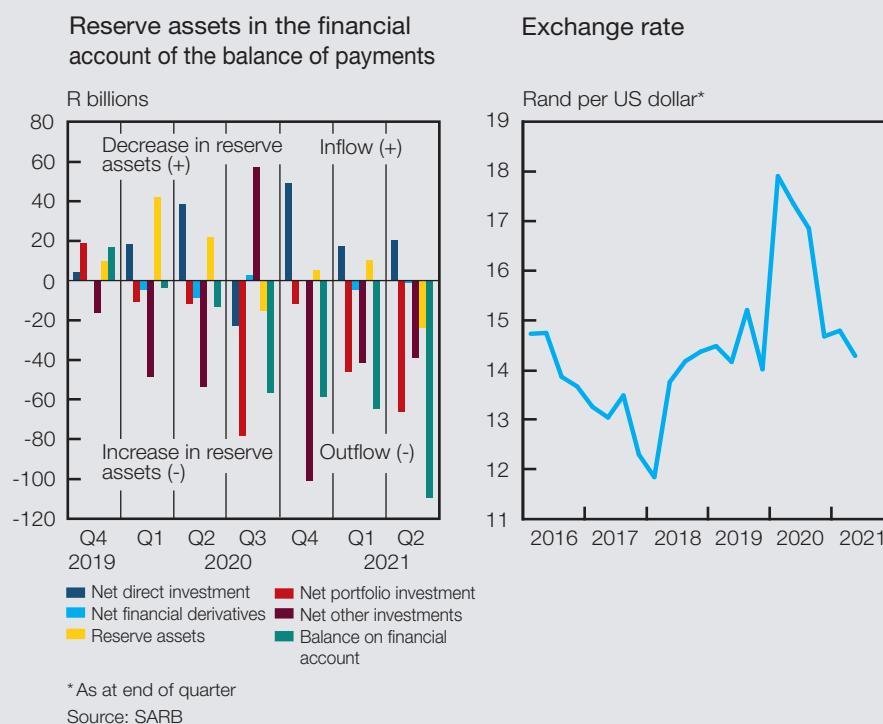
Based on end-of-quarter values, South Africa's gross gold and foreign exchange reserve holdings, denominated in rands, averaged R843 billion from 31 December 2019 to 30 June 2021, and comprised 13% gold, 6% SDRs and 81% other reserve assets. The change in the market value of gross gold and foreign exchange reserve holdings from quarter to quarter can be decomposed into the net monetisation or demonetisation of gold,¹⁵ which was negligible over the period; valuation adjustments;¹⁶ reserve-related liabilities,¹⁷ which were zero; and the change in reserve assets due to the acquisition or disposal of foreign assets.

- 1 A country's monetary authority controls its reserve assets, which are those external assets that are readily available for meeting balance of payments financing needs and for other related purposes (such as maintaining confidence in the currency and the economy, and to serve as a basis for foreign borrowing).
- 2 The compilation of South Africa's external accounts adheres to the guidelines of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)* of the International Monetary Fund, available at <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>
- 3 This box relates to the statistics published on pages S-3, S-82, S-83, S-93, S-95 and S-108 in this edition of the *Quarterly Bulletin*.
- 4 The 'gross gold and foreign exchange reserves' category includes foreign currency deposits received.
- 5 For the statement of the SARB's assets and liabilities, see <https://www.resbank.co.za/en/home/publications/statements/Statement-of-Assets-and-Liabilities>
- 6 As the monetary authority, a central bank's holdings of gold bullion is regarded as a financial asset.
- 7 The International Monetary Fund creates SDRs, which are held by the monetary authorities of member countries as part of reserve assets and these holdings can be converted into other currencies.
- 8 This is the sum of (a) the 'reserve tranche', that is, the foreign currency amounts (including SDRs) that a member country may draw from the IMF at short notice; and (b) any indebtedness of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member country, including the reporting country's lending to the IMF under the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).
- 9 Other reserve assets could include foreign currency assets such as currency and deposits, debt and equity securities, financial derivatives, and other claims, comprising loans and other financial instruments.
- 10 The international investment position is a statement of the composition and value of a country's foreign financial assets held by residents and liabilities towards non-residents as at a specific point in time. The difference between these external financial assets and liabilities represents a country's net international investment position.
- 11 The transactions in reserve assets from one period to another comprise the rand value of the change in gross gold and foreign exchange reserve holdings, adjusted for the monetisation/demonetisation of gold, valuation adjustments and reserve-related liabilities.
- 12 The financial account records the net acquisition and disposal of financial assets and liabilities between residents and non-residents during a specific period.
- 13 The international liquidity position in US dollars is calculated as the gross gold and foreign reserves *minus* foreign currency-denominated liabilities against both domestic and foreign counterparties *plus/minus* the forward position in foreign currency. Up to the end of February 2004, it was referred to as the 'net open foreign currency position of the SARB' (NOFP).
- 14 For the statement of the SARB's international liquidity position, see <https://www.resbank.co.za/en/home/publications/notices?category=Information%20Notice&year=&rows=25&page=1>
- 15 The monetisation or demonetisation of gold is the change in the classification of gold from a non-monetary good and non-financial asset to a monetary financial asset and vice versa, depending on the holder and reason for holding the gold.
- 16 Valuation adjustments are due to changes in exchange rates and market prices of the underlying reserve assets.
- 17 Reserve-related liabilities are the foreign currency liabilities of the monetary authority, which represents a direct claim by non-residents on reserve assets.





The change in reserve assets due to transactions by the SARB in gold and other foreign reserves is recorded in the reserve asset functional category¹⁸ of the financial account of the balance of payments.

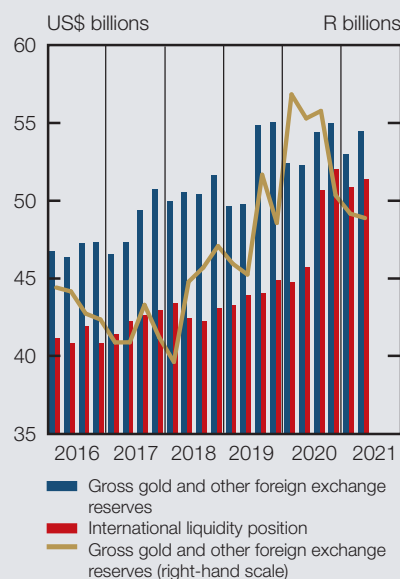


When the foreign currency-denominated value of gross gold and foreign exchange reserve holdings is converted to rand by applying the relevant exchange rates, the impact of changes in the exchange value of the rand is evident, with a weaker exchange value increasing the rand value and a stronger exchange value decreasing the rand value.

¹⁸ The five functional categories of the financial account are direct investment, portfolio investment, financial derivatives, other investment, and reserve assets.



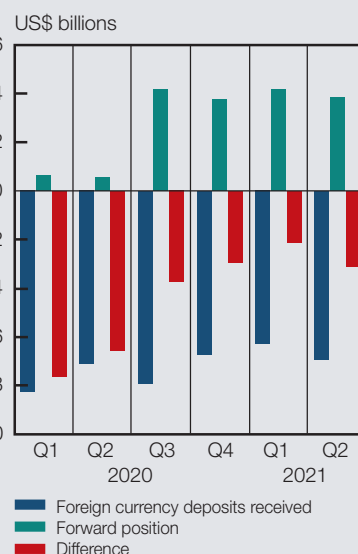
International reserves*



* As at end of quarter

Source: SARB

Difference between international liquidity position and the gross gold and foreign exchange reserves*



The international liquidity position, as defined above, reflects the financial resources and facilities at the disposal of the monetary authority of a country. In the case of South Africa, foreign currency deposits received¹⁹ are therefore deducted while the positive forward position²⁰ is added.

Deriving the international liquidity position

US\$ billions (end of period)

Category	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross gold and foreign exchange reserves	52.4	52.3	54.4	55.0	53.0	54.5
Foreign currency deposits received	-8.3	-7.1	-7.9	-6.7	-6.3	-6.9
Forward position.....	0.6	0.6	4.2	3.8	4.2	3.8
International liquidity position	44.8	45.7	50.7	52.1	50.9	51.4

Assets (+)/liabilities (-)

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

Source: SARB

As from the third quarter of 2020, the more pronounced increase in the international liquidity position, in US dollar terms, relative to the increase in gross gold and foreign exchange reserves, in US dollar terms, narrowed the difference between these two reserve aggregates to only US\$1.9 billion in May 2021. The driver of the increase in gross gold and foreign exchange reserves was the foreign currency proceeds of national government's borrowings abroad, through a US\$4.3 billion loan from the IMF and a US\$1.0 billion loan from the New Development Bank, which were both deposited at the SARB in July 2020. At the same time, the driver of the increase in the international liquidity position was the markedly larger forward position, which resulted from foreign exchange swaps conducted for sterilisation and liquidity management purposes. The international liquidity position continued to increase further in the first half of 2021, owing to both a decline in national government's foreign currency deposits and a further increase in the positive forward position.

¹⁹ Foreign currency deposits received include the foreign loans and foreign exchange purchases by National Treasury, both through outright purchases and foreign exchange swaps.

²⁰ The forward position mainly reflects outstanding foreign exchange forward transactions and includes foreign exchange swaps to sterilise foreign exchange purchases as well as swaps for liquidity management.



Exchange rates¹⁹

The nominal effective exchange rate (NEER) of the rand increased further by 2.7% in the second quarter of 2021 following an increase of 1.0% in the first quarter. The NEER increased by 18.4% between the end of March 2020 and the end of June 2021 as it began to recover after the first outbreak of COVID-19.

Exchange rates of the rand

Percentage change

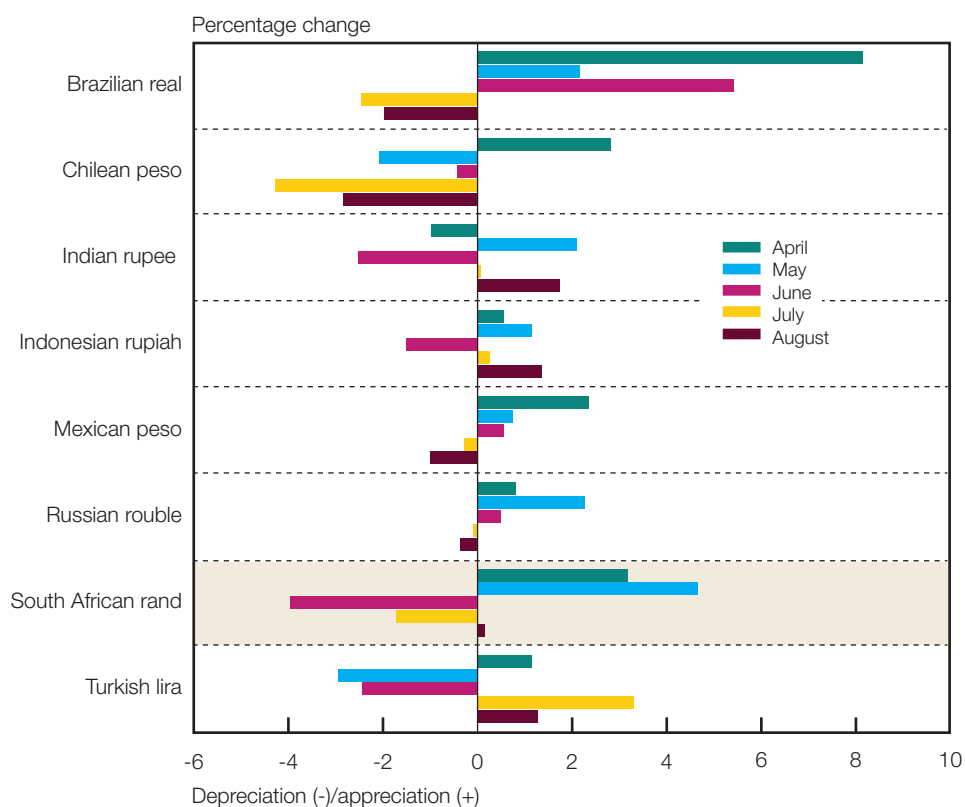
	30 Sep 2020 to 31 Dec 2020	31 Dec 2020 to 31 Mar 2021	31 Mar 2021 to 30 Jun 2021	30 Jun 2021 to 10 Sep 2021
Weighted average*	11.6	1.0	2.7	1.1
Euro	10.3	3.3	2.4	1.9
US dollar	15.7	-1.4	3.7	1.5
Chinese yuan.....	11.0	-1.1	2.2	1.2
British pound.....	8.7	-2.2	3.2	1.1
Japanese yen	13.0	5.8	3.5	1.0

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

Source: SARB

The NEER increased by 1.3% in April 2021 as improved sentiment towards emerging market currencies amid continued accommodative policies globally, despite concerns of rising inflation in the US, was somewhat neutralised by concerns about the slow COVID-19 vaccination roll-out in South Africa.

Emerging market currencies against the US dollar in 2021



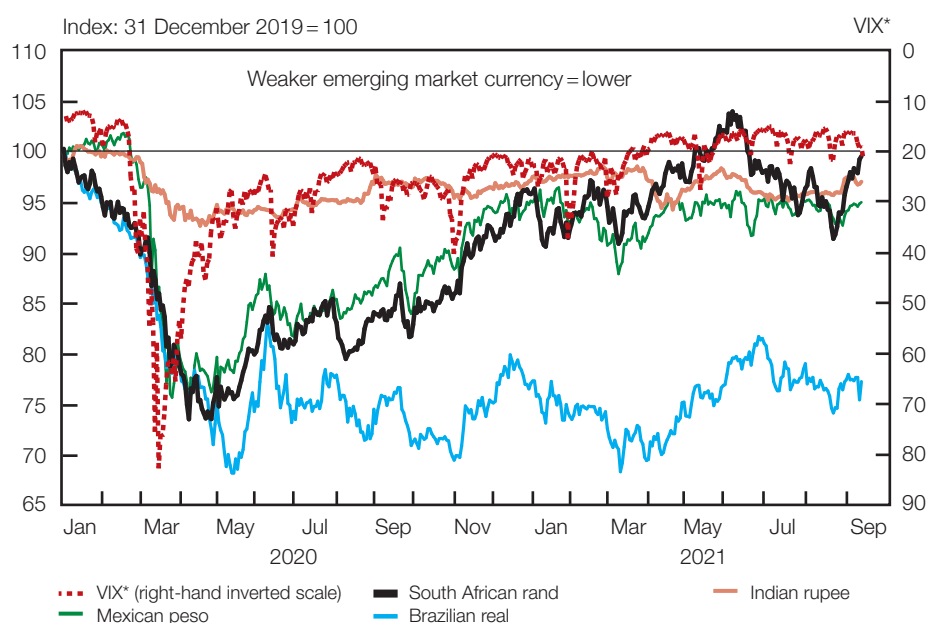
19 Unless stated to the contrary, all percentage changes in this section are based on the end of the period.



The NEER increased further by 3.8% in May 2021, mainly supported by the continued increase in merchandise exports along with rising international commodity prices, positive investor sentiment towards emerging market currencies, and a dovish monetary policy stance in the US. The NEER then declined by 2.3% in June 2021 following a more hawkish US monetary policy stance that raised expectations of a faster-than-expected adjustment in interest rates, which negatively affected demand for emerging market assets. The NEER increased by 1.1% from the end of June up to 10 September 2021, despite the domestic civil unrest in July as well as rising concerns about the impact of new COVID-19 outbreaks on the global and domestic economic recovery. These events were countered by the depreciation in the US dollar following comments by the US Federal Reserve that although asset purchases could slow down in 2021, interest rates would not be raised soon.

Although the rand has been more volatile against the US dollar thus far in 2021 compared to the Mexican peso, the Russian rouble and the Brazilian real, it still significantly outperformed the Russian rouble and the Brazilian real, while closely tracking the Mexican peso following the initial impact of COVID-19.

Emerging market currencies against the US dollar



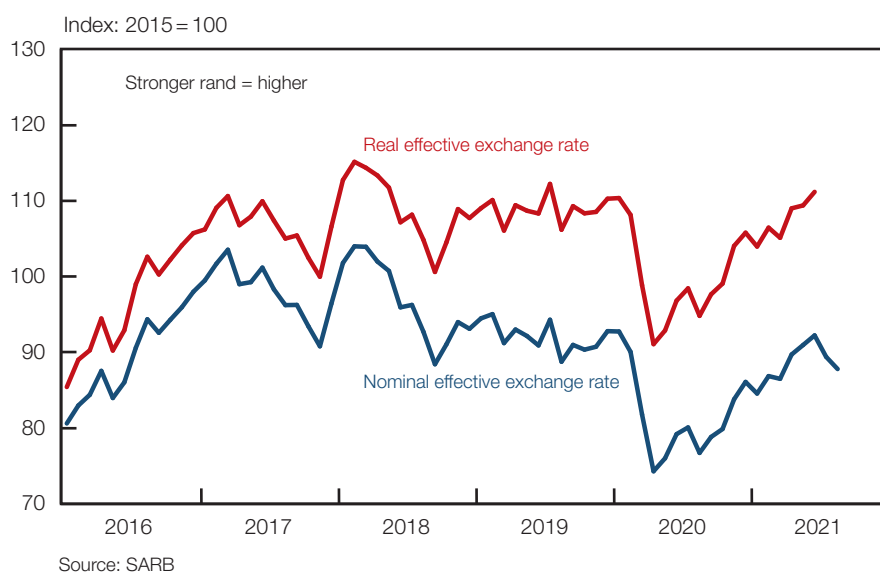
* The Volatility Index (VIX) is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options and was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

Sources: Bloomberg, Reuters and SARB

The real effective exchange rate (REER) of the rand decreased by a notable 15.8% between January 2020 and May 2020, amid a sharp depreciation of the exchange value of the rand at the onset of the COVID-19-related lockdown in March 2020. Subsequently, the REER increased by 17.7% between May 2020 and May 2021, returning to pre-COVID-19 levels, and reversing the improved competitiveness of domestic producers in foreign markets that was gained during the first outbreak of COVID-19.



Effective exchange rates of the rand



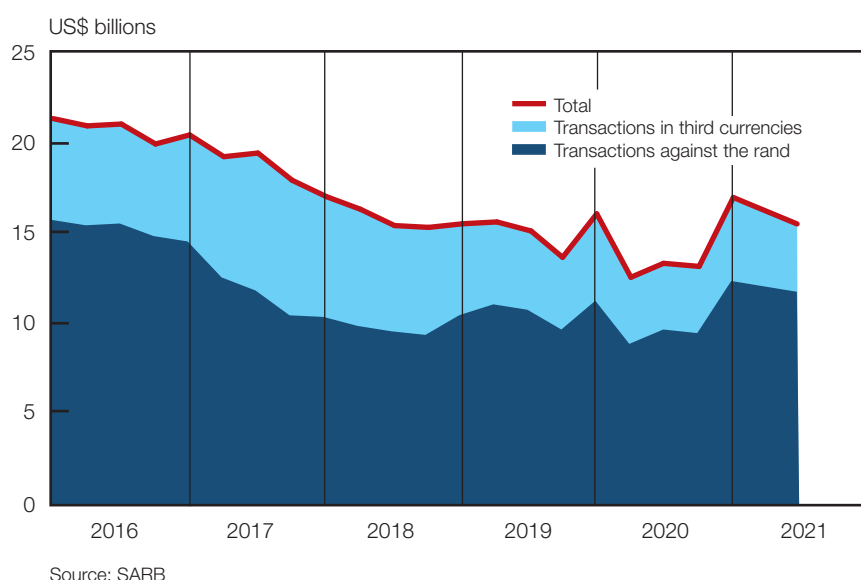
Turnover in the South African foreign exchange market

The net average daily turnover²⁰ in the South African foreign exchange (FX) market decreased by 5.2%, from US\$16.7 billion in the first quarter of 2021 to US\$15.8 billion in the second quarter, following a notable increase of 28.9% in the first quarter. The decline in the second quarter of 2021 mainly resulted from renewed uncertainty about new waves of COVID-19 infections, which caused currency volatility.

FX transactions against the rand decreased by 5.2%, from US\$12.5 billion in the first quarter of 2021 to US\$11.9 billion in the second quarter. Transactions in third currencies decreased by 5.1%, from US\$4.2 billion to US\$3.9 billion over the same period.

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

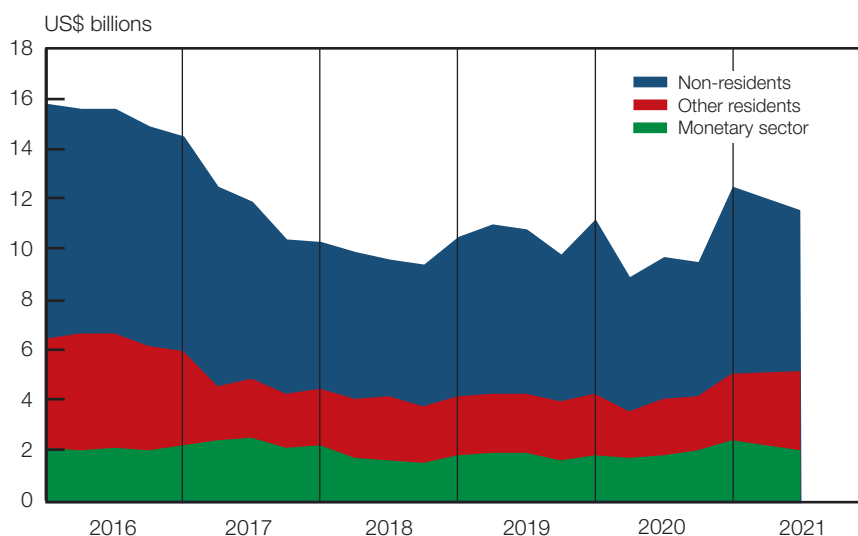
Net average daily turnover in the South African foreign exchange market



Counterparty participation in the domestic FX rand market displayed diverse movements after two consecutive quarterly increases. Participation by residents increased by 4.1% from the first quarter of 2021 to US\$2.6 billion in the second quarter. By contrast, participation by non-residents decreased by 3.3% from the first quarter of 2021 to US\$7.4 billion in the second quarter, and that of the monetary sector by 21.4% to US\$1.9 billion over the same period.



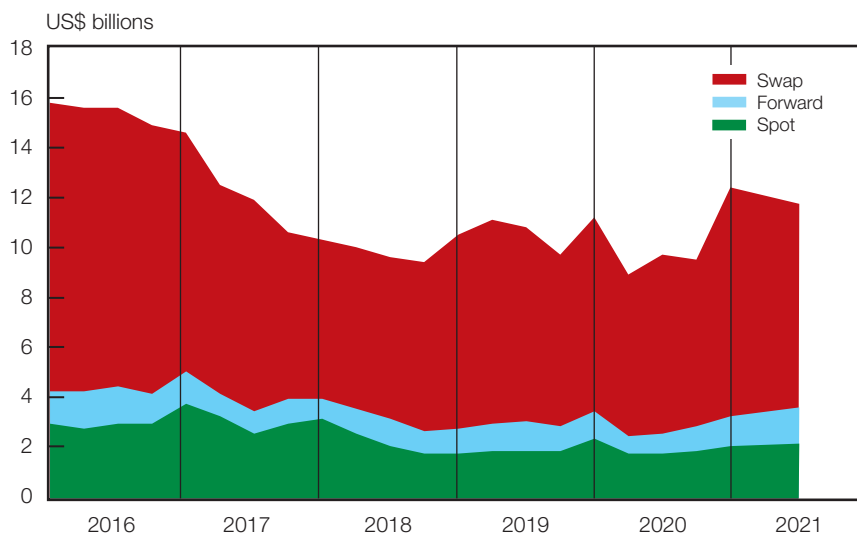
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

Swap transactions declined by 11.3%, from US\$9.2 billion in the first quarter of 2021 to US\$8.2 billion in the second quarter, and resulted in an overall decline in transactions against the rand. By contrast, forward transactions increased for a second consecutive quarter, by 23.3%, from US\$1.2 billion in the first quarter of 2021 to US\$1.5 billion in the second quarter, while spot transactions increased by 5.2%, from US\$2.1 billion to US\$2.2 billion over the same period.

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

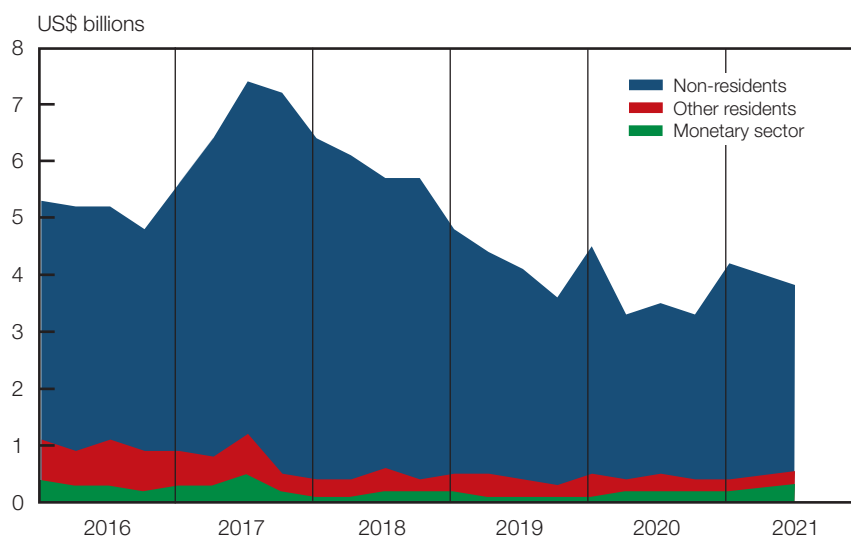


Source: SARB

Participation by non-residents in the third currency market declined by 8.5%, from US\$3.8 billion in the first quarter of 2021 to US\$3.5 billion in the second quarter, while transactions by the monetary sector and other residents combined remained below US\$1.0 billion over the same period.

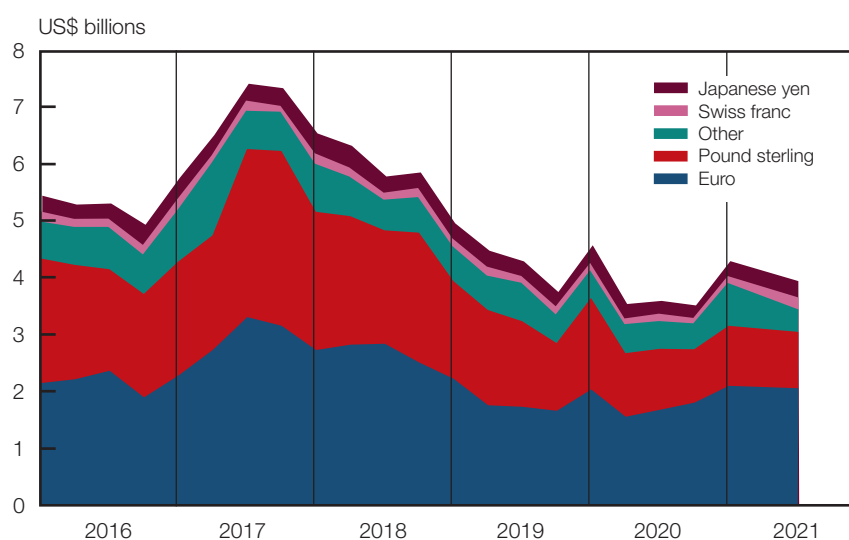


Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



The decline in the market for third currencies could be attributed to US dollar transactions against other currencies, which decreased by 26.1%, from US\$0.8 billion in the first quarter of 2021 to US\$0.6 billion in the second quarter, while transactions of the US dollar against the euro, yen and pound sterling remained unchanged at US\$2.1 billion, US\$0.1 billion and US\$1.0 billion respectively. On the contrary, transactions of the US dollar against the Swiss franc increased from US\$0.07 billion in the first quarter of 2021 to US\$0.1 billion in the second quarter.

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

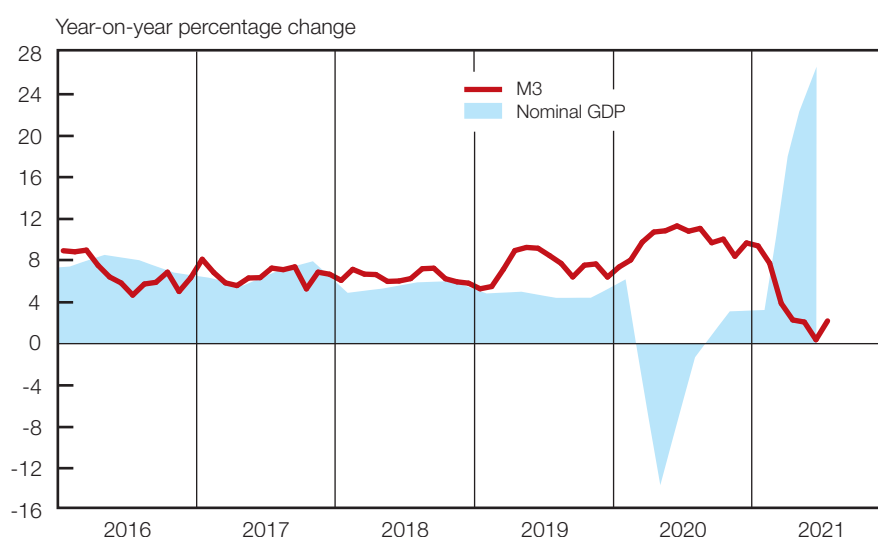


Monetary developments, interest rates and financial markets

Money supply

The strong growth in the broadly defined money supply (M3) in the first half of 2020 had slowed to a near standstill by mid-2021. This sharp deceleration partly reflected base effects owing to deposit balances that were accumulated a year earlier amid the uncertainty during the national COVID-19 lockdown restrictions. Moreover, the year-on-year rate of increase in M3 fell below that of nominal GDP for the first time since 2017. The quarter-to-quarter seasonally adjusted and annualised change in M3 also reverted from an increase of 2.9% in the first quarter of 2021 to a contraction of 1.3% in the second quarter. The income velocity of M3 accordingly increased from 1.45 in the first quarter of 2021 to 1.48 in the second quarter. Despite slowing, growth in household and non-financial company deposits continued to support overall money supply, while withdrawals of deposits by financial companies in recent months had a moderating effect.

Money supply and gross domestic product



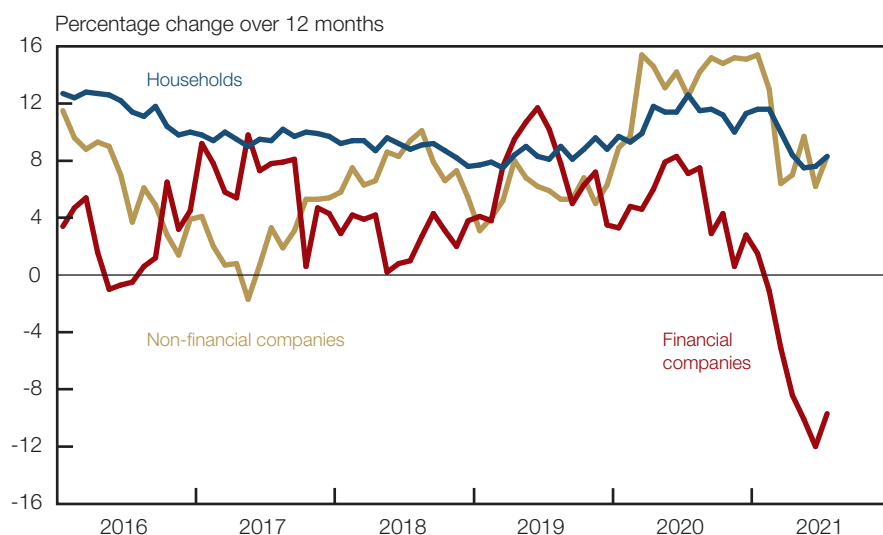
Sources: Stats SA and SARB

Year-on-year growth in M3 receded from an 11-year high of 11.1% in June 2020, during the strict COVID-19 lockdown period, to only 0.1% in June 2021 – the lowest growth rate since February 2010. The sharp deceleration during the first half of 2021 partly reflected significantly slower growth in the deposits of non-financial companies and a contraction in that of financial companies. In June 2021, a record amount of R75.7 billion in corporate deposits was withdrawn when financial and non-financial companies simultaneously drew down on deposits held with the monetary sector. This significant decline in corporate deposits reflected provisional tax payments and cash payments to shareholders following the unwinding of a large broad-based black economic empowerment shareholder scheme. In July 2021, the marginal growth in M3 of 1.9% was mostly supported by non-financial corporate and household deposits.

Year-on-year growth in corporate sector deposit holdings contracted by 1.5% in July 2021 – its fourth consecutive decline. Financial company deposits contracted by 9.7% in July compared with an increase of 7.1% a year earlier, while the rate of increase in non-financial corporates' deposit holdings decelerated to 8.3% in July, from 12.5% a year earlier.



Deposit holdings of households and companies



Source: SARB

The deposit holdings of financial companies contracted as bank deposits became less attractive in the low interest rate environment, with a switch to higher-yielding investment opportunities. Growth in the deposit holdings of non-financial corporates and households, which slowed as uncertainty abated, also reflected the effect of protracted weak economic conditions on income flows and job prospects. The deposit holdings of households and non-financial companies were also boosted by the placement of funds in bank deposits with the winding up and closure of a large money market fund between April and July 2021. The pace of increase in the deposit holdings of the household sector decelerated to 7.5% in May 2021, with a slight quickening to 8.3% in July, after ranging between 10% and 12% from April 2020 to March 2021.

Deposits by maturity



Source: SARB

The divergence in deposit growth between short- and long-term deposits since the start of the national lockdown in March 2020 has narrowed somewhat in recent months. Growth in cash, cheque and other demand deposits decelerated from a high of 20.0% in November 2020 to 7.3% in July 2021, similar to growth rates experienced in 2019 and early 2020. Short- and

medium-term deposits contracted by 0.9% in July 2021 after expanding by as much as 12.7% in June 2020. At the same time, the pace of decrease in long-term deposits moderated from 17.8% in November 2020 to 7.6% in July 2021. Long-term deposits reverted from drawdowns of R60.5 billion and R96.6 billion in the third and fourth quarter of 2020 respectively to increases of R23.0 billion and R78.1 billion in the first and second quarter of 2021 respectively.

The deposit holdings of the corporate sector decreased by R50.8 billion in the second quarter of 2021 compared with a sizeable increase of R59.1 billion during the same period in the previous year. The deposits of financial companies decreased by R28.6 billion in the second quarter of 2021 and those of non-financial companies by R22.1 billion. The household sector's increase in deposits was only R36.9 billion in the second quarter of 2021 compared with a much larger increase of R65.9 billion in the second quarter of 2020, reflecting the normalisation of household spending.

M3 holdings of households and companies

	Year-on-year change (R billions)					Percentage of total M3 deposit holdings*
	2020			2021		
	Q2	Q3	Q4	Q1	Q2	
Households	65.9	40.5	19.1	12.5	36.9	37.7
Companies: Total.....	59.1	-18.4	-24.2	-10.6	-50.8	62.3
<i>Of which:</i> Financial	77.3	-63.5	-66.7	18.7	28.6.7	31.6
Non-financial.....	-18.2	45.1	42.5	8.2	-22.1	30.7
Total M3 deposits.....	125.0	22.1	-5.0	2.0	-13.9	100.0

* Expressed as a percentage of the total outstanding balance as at June 2021

Source: SARB

In a statistical sense, the counterparts to the decrease of R13.9 billion in M3 in the second quarter of 2021 comprised a decrease of R26.3 billion in net credit extended to the government sector and R20.9 billion in net other assets of the monetary sector, which was partly countered by increases in net foreign assets of R28.6 billion and claims of R4.6 billion against the domestic private sector.

Box 2 The recent divergence between the outstanding value of cross-border assets and liabilities of South African banks^{1, 2}

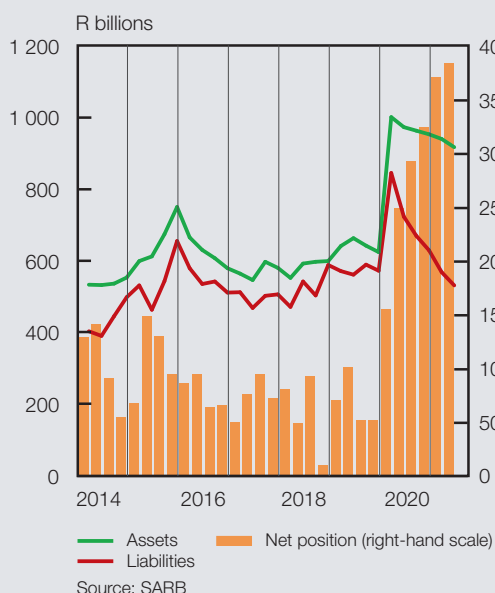
In South Africa, the outstanding value³ of registered banks⁴ cross-border⁵ assets and liabilities⁶ both increased significantly from the fourth quarter of 2019 to the first quarter of 2020,⁷ similar to that experienced by banks globally, as reported by the Bank for International Settlements (BIS).⁸ This, in particular, reflected the significant

- 1 This box relates to South Africa's locational banking statistics, published on pages S-26 and S-27 in this edition of the *Quarterly Bulletin*.
- 2 The methodology used to compile South Africa's international locational banking statistics adheres to the Bank for International Settlements' (BIS) 'Reporting guidelines and practices for the BIS international banking statistics', available at <https://www.bis.org/statistics/bankstatguide.htm>
- 3 Securities at market value, with loans and deposits at nominal value.
- 4 Registered banks refer to South African banks (excluding mutual banks) registered under the Banks Act 94 of 1990 and include registered local or foreign controlled domestic private sector banks and the South African branches and subsidiaries of foreign banks.
- 5 Cross-border refers to South African banks' foreign asset and liability positions with non-resident counterparties located outside of South Africa.
- 6 Cross-border assets consist of residents' claims against non-resident counterparties in domestic and foreign currency, while cross-border liabilities consist of non-resident claims on resident counterparties in domestic and foreign currency.
- 7 Measured as at the end of the quarter.
- 8 The BIS reported a noticeable increase in deposit liabilities and cross-border assets amid the COVID-19 pandemic. See 'BIS international banking statistics and global liquidity indicators at end-December 2020', available at <https://www.bis.org/statistics/rppb2104.htm>



depreciation in the exchange value of the rand, largely in response to the impact of the coronavirus disease 2019 (COVID-19) on economic activity and financial markets globally. The recent divergence between the outstanding value of assets and liabilities also reflects, among other factors, the bigger impact of the exchange value of the rand on foreign assets than on liabilities due to the larger share of foreign assets denominated in foreign currency. This contributed to an increase in the placement of foreign deposits, the extension of loans and the holdings of debt securities, inclusive of new claims. With the subsequent decline in the outstanding value of liabilities exceeding that of assets, the net positive external position of banks increased to a record high in the second quarter of 2021.

South African banks' cross-border exposure



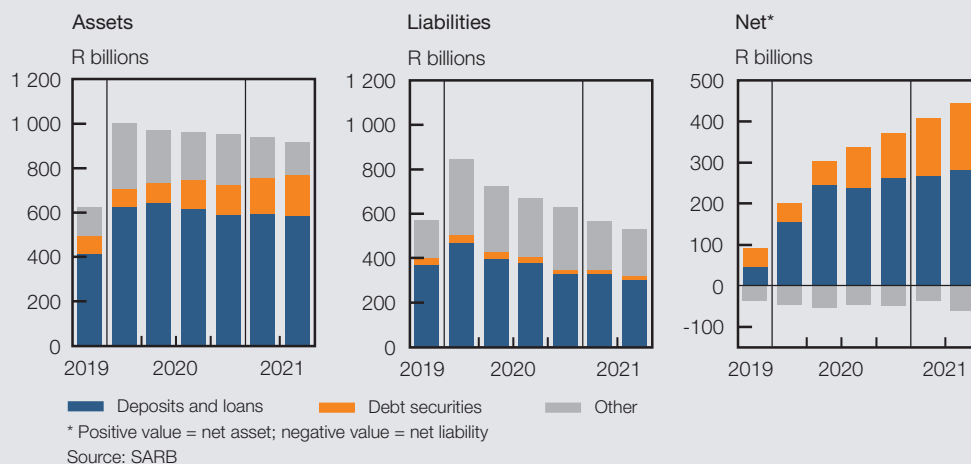
Exchange rate



This box analyses the drivers of the recent divergence between bank's cross-border assets and liabilities by unpacking the different dimensions of the underlying statistics.

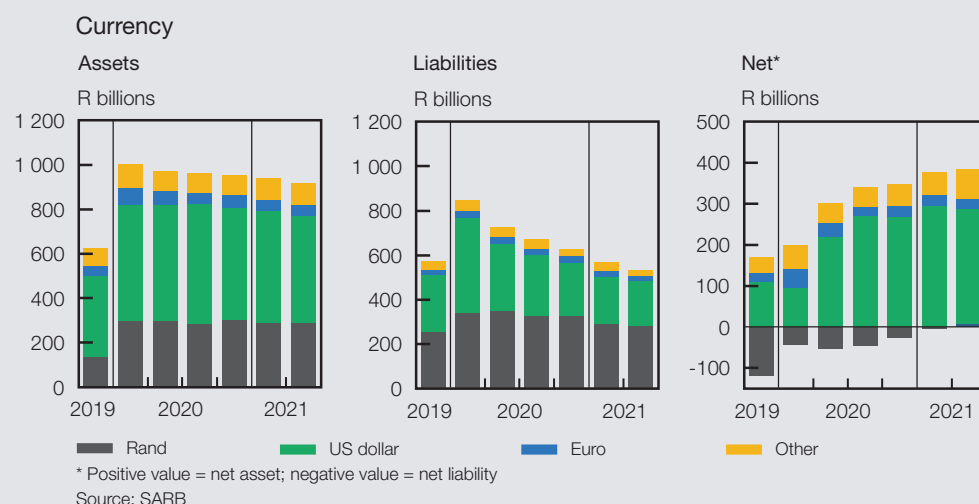
When disaggregating cross-border assets and liabilities by financial instrument, the increase in assets in the first quarter of 2020 was, in general, evenly split between deposits placed and loans extended on the one hand and other assets on the other hand, whereas on the liability side, other liabilities were more dominant than deposits and loans received. Other assets and other liabilities predominantly comprised derivative positions, and at the end of the first quarter of 2020 contributed 91.0% and 79.6% respectively. The change in derivative positions reflects foreign exchange and asset price movements amid the onset of the COVID-19 pandemic. On a net asset basis, the largest increase in the first quarter of 2020 was in deposits placed and loans extended, followed by debt securities held, both of which increased throughout the period under review, whereas other instruments maintained a net liability external position.

Financial instruments

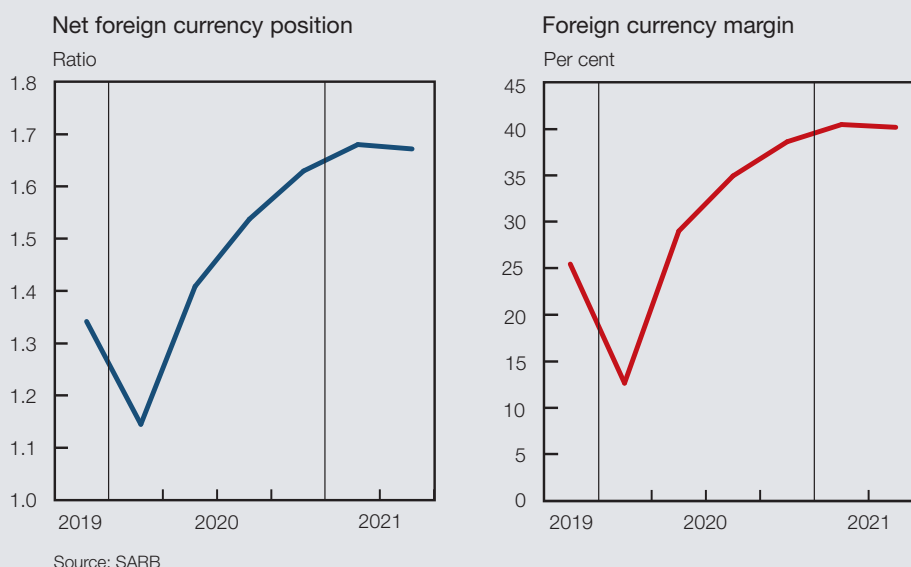


After the unprecedented increase in the first quarter of 2020, the value of assets remained elevated while the value of liabilities reverted to pre-COVID-19 levels. The sustained high of assets partly reflected investment in short-term debt securities and the placement of surplus foreign currency positions from cross-currency foreign exchange swap transactions in the money market through repurchase transactions, hence the increase in loan assets.

The currency composition shows that heightened risk awareness at the onset of the pandemic favoured both United States (US) dollar-denominated assets and liabilities. This was supported by the US Federal Reserve's US dollar liquidity injection, which contributed to the attractiveness of shorter-term US dollar/rand trades. In addition, investors funded rand investments through short-term foreign currency swaps instead of outright purchases of the rand. The currency exposure to both US dollar assets and liabilities increased significantly in the first quarter of 2020. However, as the exposure to US dollar assets was maintained throughout the period under review, along with a decline in US dollar liabilities, the net asset position in US dollars increased, whereas the net liability position in rands decreased.



The divergent movement between cross-border assets and liabilities denominated in foreign currency increased both the net foreign currency position⁹ – which indicates how foreign currency assets increased more than liabilities – and the foreign currency margin,¹⁰ with the latter increasing sharply from 13% in the first quarter of 2020 to 35% in the third quarter of 2020, and then more gradually in the ensuing three quarters.



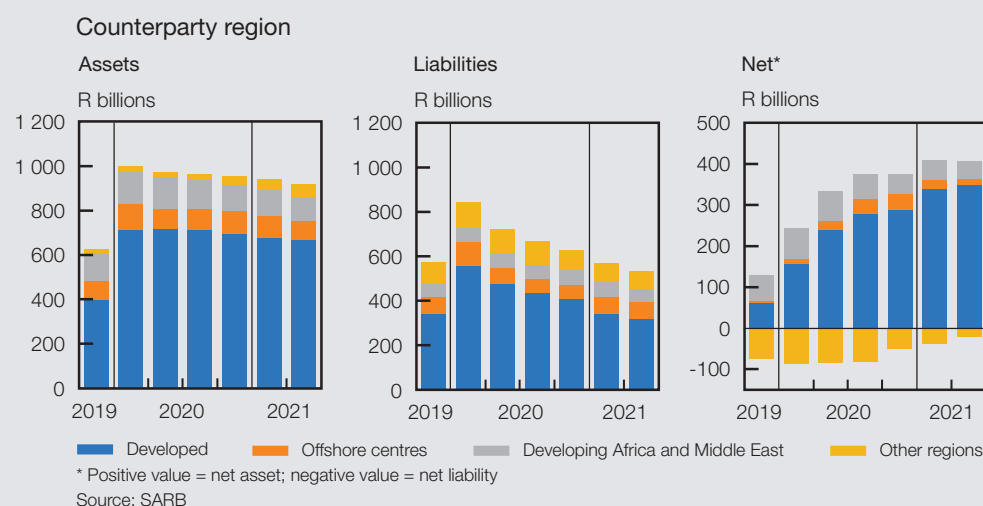
Globally, cross-border claims on and liabilities towards developed economies, denominated mostly in US dollars and mainly against the United Kingdom and the US, increased exponentially, according to the BIS. This was also the experience in South Africa, with both asset and liability positions against developed economies

⁹ The net foreign currency position constitutes cross-border assets and domestic assets denominated in foreign currency divided by cross-border liabilities and domestic liabilities denominated in foreign currency.

¹⁰ The foreign currency margin is calculated as 100 minus cross-border liabilities and domestic liabilities denominated in foreign currency divided by cross-border assets and domestic assets denominated in foreign currency. This is the margin by which foreign exchange assets exceeds foreign exchange liabilities. A positive value reflects a positive natural hedge and a negative value a negative hedge.



dominating, along with a growing net asset position. On a net basis, South Africa recorded a net negative liability position against other regions.

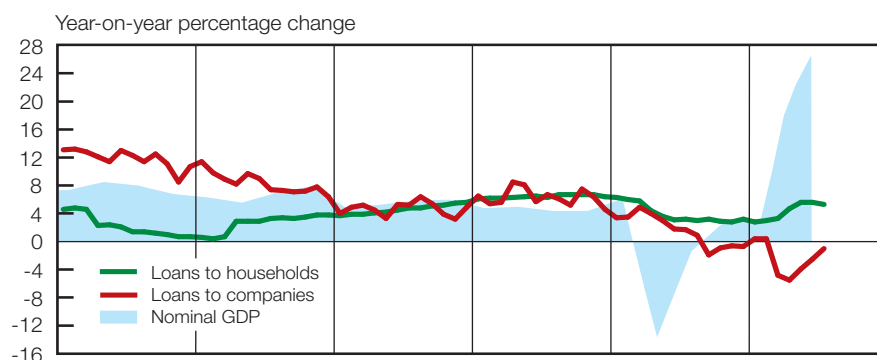


Cross-border assets as a percentage of total assets increased from 10.6% in the fourth quarter of 2019 to 14.0% in the second quarter of 2021, while cross-border liabilities as a percentage of total liabilities steadily decreased from 9.5% to 8.0% over the same period, widening the divergence.

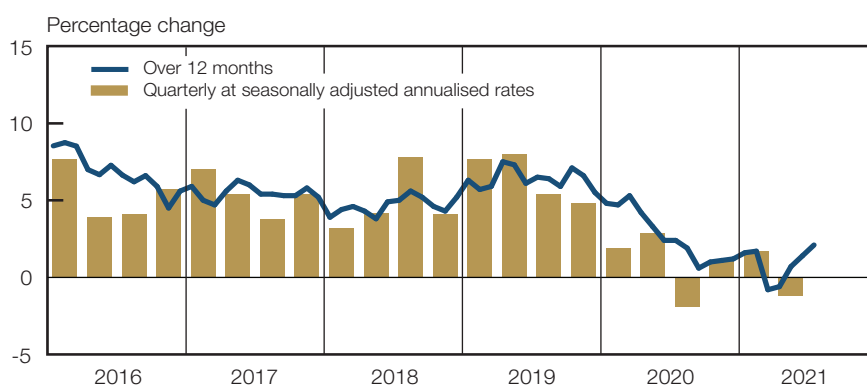
Credit extension

Growth in credit extended by monetary institutions to the domestic private sector has increased slightly in recent months, after first slowing at the beginning of the national lockdown before eventually contracting. Year-on-year growth in total loans and advances reverted from a contraction of 0.8% in March 2021 to an increase of 2.1% in July, regardless of the reinstatement of adjusted Level 4 lockdown measures and its anticipated impact on demand.

Bank loans and gross domestic product



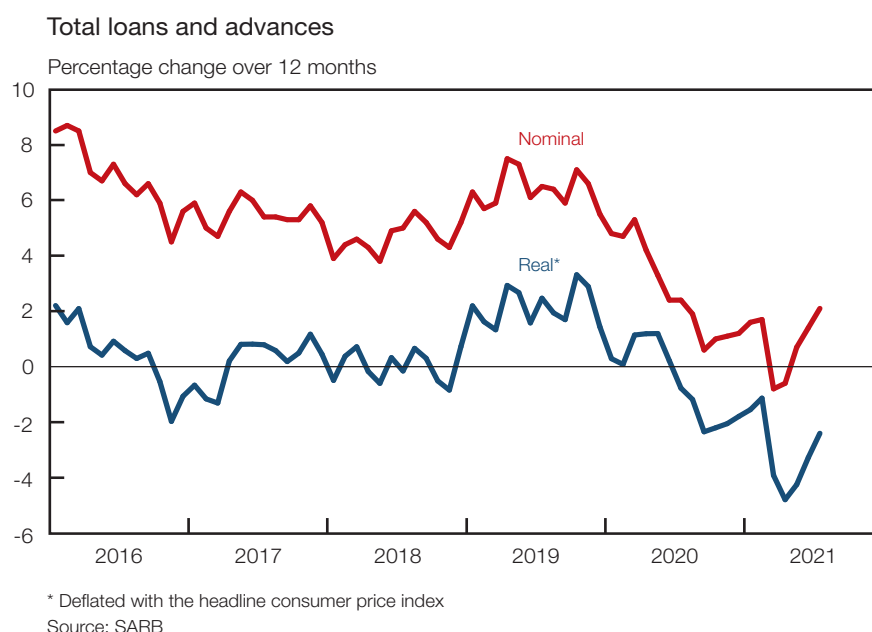
Total loans and advances to the private sector



Sources: Stats SA and SARB

Loans and advances to companies contracted slightly in the latter part of 2020, and by as much as 5.5% in April 2021, before the pace of contraction moderated to only 1.0% in July. By contrast, growth in credit extension to the household sector edged higher from 2.8% in January 2021 to 5.6% in June, before slowing somewhat to 5.3% in July when the adjusted Level 4 restrictions were implemented.

By contrast, the quarter-to-quarter seasonally adjusted and annualised change in total loans and advances to the domestic private sector showed a renewed loss of momentum in credit extension, as it reverted from an increase of 2.6% in the first quarter of 2021 to a contraction of 1.2% in the second quarter. With the growth in credit extension being less than the expansion of nominal GDP, the ratio of loans and advances to nominal GDP declined from 59.8% in the first quarter of 2021 to 58.7% in the second quarter. When adjusted for inflation, real credit extension continued to contract for the 13th consecutive month, by 2.4% in July 2021.



Credit extended to the corporate sector contracted by only R1.0 billion in the second quarter of 2021 compared with a decrease of R43.8 billion in the same quarter of 2020. Bank credit to financial companies increased somewhat in the second quarter of 2021, when especially holding companies and entities in the securities trading industry required loans for operational purposes. By contrast, repayments by non-financial companies, in particular mining and resources companies, consumer goods manufacturers, retailers and energy producers, exceeded new borrowings. Although credit extended to households increased at a slower pace in the first two quarters of 2021, it was still an acceleration from the first half of 2020.

Credit extended to households and companies

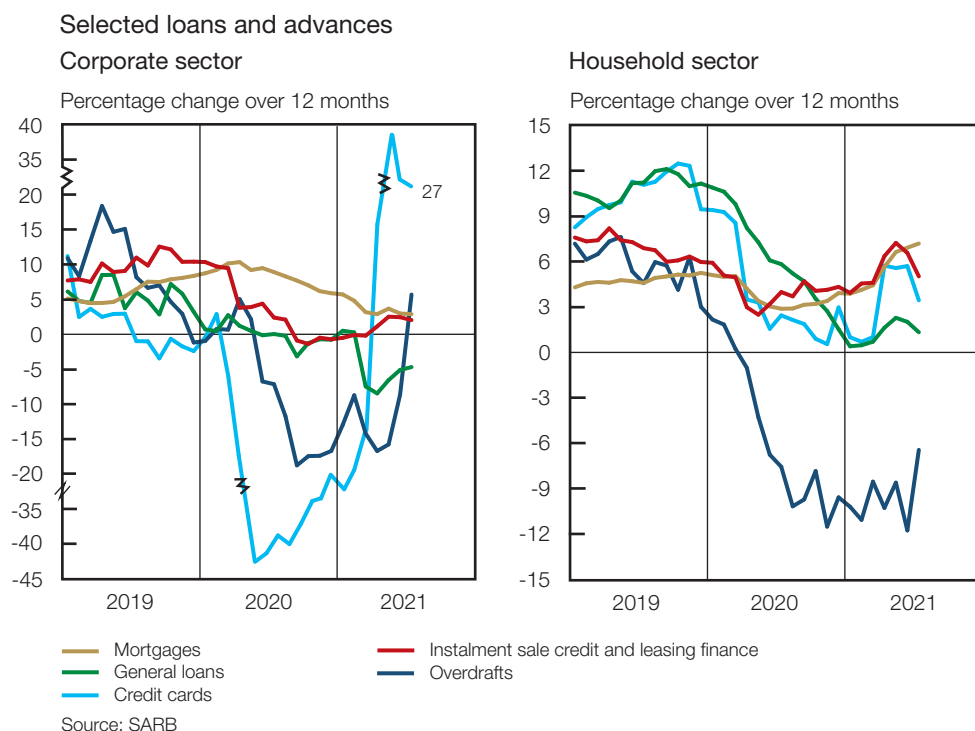
	Quarter-on-quarter change (R billions)					Percentage of total loans and advances*
	2020			2021		
	Q2	Q3	Q4	Q1	Q2	
Households	-24.1	25.8	29.9	26.5	14.5	50.9
Companies: Total.....	-43.8	-42.9	15.9	-17.7	-1.0	49.1
<i>Of which:</i> Financial	12.3	35.2	27.3	-21.5	4.0	12.0
Non-financial.....	-56.2	-78.1	-11.5	3.8	-5.0	37.1
Total bank loans and advances	-68.0	-17.2	45.7	8.9	13.5	100.0

* Expressed as a percentage of the total outstanding balance as at June 2021

Source: SARB



General loans to companies (companies' preferred form of credit) remained fairly static from early 2020 when the COVID-19 lockdown restrictions were first imposed, but contracted from June 2020 up to July 2021. Corporates' utilisation of overdrafts contracted by as much as 18.8% in September 2020, but the pace of contraction slowed to 8.7% in June 2021 before reverting to an expansion of 5.7% in July. Credit card advances, which constitute only 0.3% of loans to companies, rebounded by as much as 38.4% in May 2021 due to base effects, as it contracted by a similar magnitude a year earlier. Growth in mortgage advances extended to corporates moderated further in the first seven months of 2021, decelerating from a recent high of 10.3% in April 2020 to 2.9% in July 2021 alongside slowing demand from, among others, commercial property developers. Instalment sale credit increased by 2.0% in July 2021 after the rate of change fluctuated slightly below zero from September 2020 to March 2021. On aggregate, total loans and advances to companies contracted by 1.0% in July 2021.



Credit extended to the household sector displayed tentative signs of recovery in the first six months of 2021, as the low interest rate environment stimulated credit demand and progressively less restrictive lockdown regulations revived consumer demand. Mortgage advances, which constitute around 59% of all bank loans to households, benefitted the most, with growth accelerating from a recent low of 2.9% in July 2020 to 7.2% in July 2021 alongside increased demand from especially first-time home buyers. Growth in instalment sale credit to households also accelerated from a low of 2.5% in May 2020 to 7.2% in May 2021, as the low interest rates improved the affordability of vehicles, before slowing to 5.0% in July. Growth in credit card advances bottomed out in the early months of 2021 before accelerating to 5.7% in June, followed by a deceleration to 3.4% in July. Nonetheless, job losses and income uncertainty brought about by the COVID-19 pandemic impacted households' ability to borrow, as reflected by the low rate of increase in general (mostly unsecured) loans at 1.3% in July 2021, although this was up from 0.4% in January. Households' utilisation of overdrafts contracted at a rate of 6.4% in July 2021.

Growth in mortgage advances on commercial property has not benefitted from the low interest rates and less restrictive national lockdown environment to the same extent as growth in mortgage advances on residential property. On aggregate, total mortgage advances increased by 5.7% in July 2021, down from a recent high of 6.7% in March 2020, as growth in mortgage advances on commercial property slowed sharply from 10.6% to 3.4% over the period.

By contrast, growth in mortgage advances on residential property accelerated from a recent low of 3.1% in July 2020 to 7.3% in July 2021.



Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2020			2021		Percentage of total credit extension*
	Q2	Q3	Q4	Q1	Q2	
Households	3.7	2.5	2.3	-0.5	5.4	36.0
Finance and insurance	2.8	4.3	14.0	-2.3	7.8	17.7
Real estate	9.9	6.1	5.9	4.1	2.6	11.6
Wholesale and retail trade	4.1	-3.1	-6.0	-8.3	-5.3	4.7
Manufacturing	7.6	-2.3	-4.4	-19.7	-19.3	3.6
Business services	6.7	10.0	-2.2	-4.9	1.5	3.3
Transport, storage and communication	3.9	3.0	1.9	-1.3	-3.6	3.0
Electricity, gas and water	1.2	2.3	6.3	5.3	12.5	2.5
Agriculture, forestry and fishing	8.8	20.8	18.7	1.1	3.0	2.5
Mining and quarrying	33.2	-6.1	-8.5	-29.1	-49.4	1.0
Construction	10.5	12.1	8.1	9.1	2.9	0.9
Community, social, personal services and other	12.3	15.4	12.5	19.0	4.4	13.2
Total	6.2	4.9	5.3	0.2	2.3	100.0

* Expressed as a percentage of the total outstanding balance for June 2021

Source: SARB

Growth in credit extension differed across the various economic sectors and remained reflective of the uncertainties brought about by the COVID-19 pandemic and concomitant subdued economic activity. Credit extended to the mining and quarrying sector as well as to the manufacturing and trade sectors contracted, but for different reasons. The recent surge in international commodity prices has benefitted mining companies, likely reducing demand for bank credit, while also facilitating the repayment of loans. The manufacturing sector remains constrained by several factors following the pandemic-related shutdown, such as raw material shortages, maintenance at furnaces and rail transport challenges. The retail trade and the



transport and related sectors were affected in the second quarter of 2021 by more restrictive regulations amid the third COVID-19 wave, which reduced spending activity and the willingness to travel. By contrast, credit demand by the electricity, gas and water sector remained upbeat given the expansion of renewable energy projects, particularly with the launch of Bid Window 5 of the renewables programme earlier in 2021.

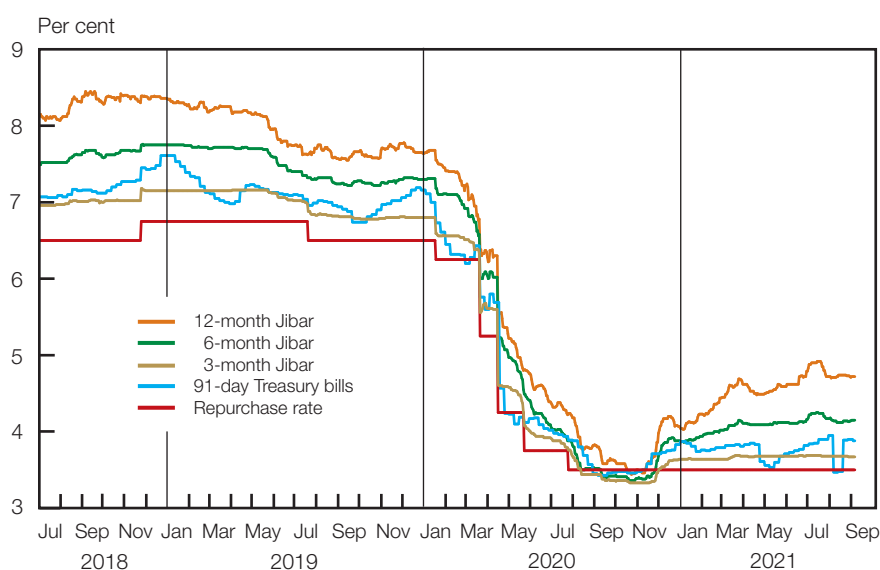
Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB kept the repurchase (repo) rate unchanged at 3.50% for a sixth consecutive meeting in September 2021, despite assessing the risks to the short-term inflation outlook to be on the upside, while risks to the domestic growth outlook were assessed to be balanced over the medium-term. Short-term inflation risks are posed by international crude oil prices as well as higher domestic electricity and other administered prices. Longer-term inflation risks mentioned include a weaker currency, higher domestic import tariffs and escalating wage demands.

Domestic short-term money market interest rates generally trended higher during the second quarter of 2021 along with uncertainty created by a renewed increase in COVID-19 infections. Subsequently, money market rates moved lower from late July 2021 when the exchange value of the rand appreciated and as conditions stabilised following the civil unrest earlier in the month. The six-month Johannesburg Interbank Average Rate (Jibar) increased from 4.09% on 9 April 2021 to 4.25% on 13 July before decreasing to 4.18% on 10 September, while the benchmark 12-month Jibar followed suit from a recent high of 4.92% on 19 July to 4.75% on 10 September. The three-month Jibar was somewhat of an exception as it fluctuated within a fairly narrow range of between 3.67% and 3.69% from 1 April 2021 to early September.

The tender rate on 91-day Treasury bills (TBs) remained relatively stable at around 3.83% up to early April 2021 before moving lower to 3.53% in the second week of May, fuelled by investor demand for short-term instruments. The TB rate then increased in a stepwise fashion to 3.95% in late July 2021 to levels last recorded at around the same time in 2020. The increase occurred amid weak demand from private sector banks that preferred to retain surplus cash to meet month-end obligations and to provide for withdrawals by government for coupon payments on government bonds. However, particularly high but short-lived demand from market participants at the weekly auction on 6 August 2021, which related to the prudential requirement for high-quality liquid assets, saw the rate on 91-day TBs declining notably to 3.47%, whereafter it once again fluctuated higher to 3.85% on 10 September amid a gradual decrease in demand.

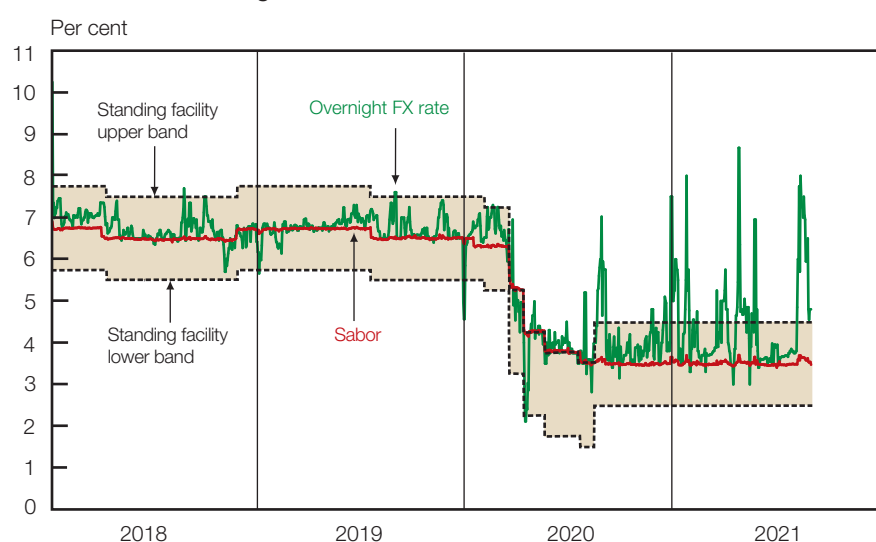
Money market rates



Source: SARB

Movements in the overnight FX rate were quite erratic in the early months of 2021, fluctuating between a low of 3.00% and a high of 8.67%, and often exceeding the upper band of the standing facility range as the interbank market was subject to periods of constrained liquidity. Subsequently, movements in the overnight FX rate became more subdued from June 2021 as coordination among market participants in the interbank market improved, and as banks were able to fund month-end and other intermittent liquidity requirements. However, the stable conditions were short-lived as the FX rate once again exceeded the upper band of the standing facility rate in mid-August amid high demand for liquidity in the FX market. Because of such outliers, the overnight FX rate fluctuated at around a relatively elevated average of 4.41% from 1 June 2021 to early September, although it was slightly down from an average of 4.46% in the first five months of the year. By contrast, the South African Benchmark Overnight Rate (Sabor) remained well within the standing facility limits and mostly traded marginally below the repo rate from early June 2021 to 10 September, as banks experienced surplus liquidity within the domestic overnight interbank market. The Sabor decreased from a recent high of 3.70% on 1 May 2021 to fluctuate at around 3.47% from 1 June up to mid-August. Increased demand for rand liquidity in the domestic market saw the Sabor temporarily rising to 3.69% on 18 August before it once again averaged 3.53% in the first 10 days of September 2021.

Benchmark overnight rates

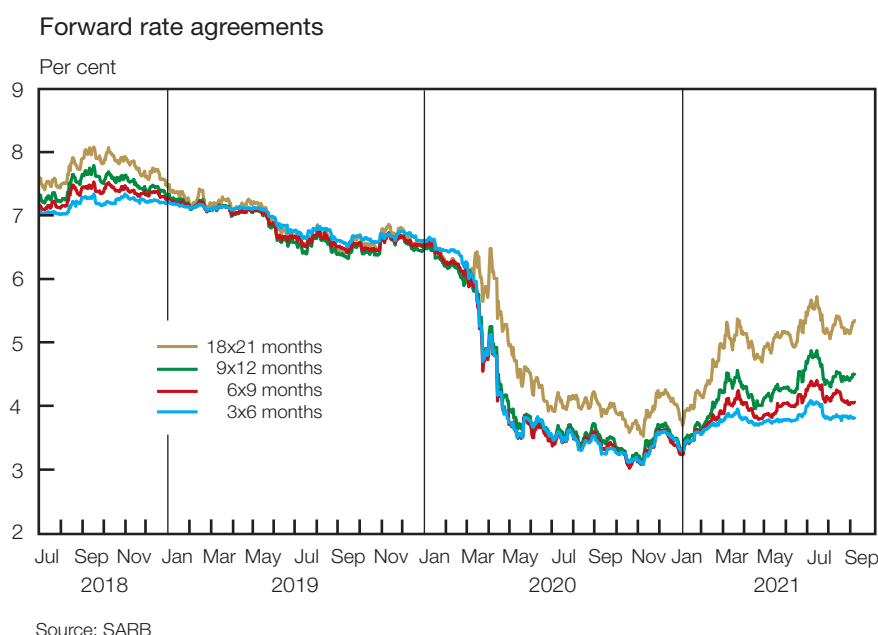


Source: SARB

Rates on forward rate agreements (FRAs) trended higher in the second quarter of 2021 and up to mid-September, probably lifted by the steady recovery in economic activity, higher inflation outcomes amid rising fuel prices, and the periodic depreciation in the exchange value of the rand. FRA rates across the different maturities exhibited similar patterns, moving higher in the second quarter before falling back in mid-July at the time of the civil unrest. The 3x6-month FRA rate increased by 38 basis points from 3.70% on 16 April 2021 to 4.08% on 5 July, before retracing to 3.79% on 2 August. Subsequently, the short-term FRA rate edged only slightly higher and remained relatively stable as it fluctuated at around 3.83% up to early September, when unrest-related concerns had subsided. The 6x9-month FRA also fell to a low of 4.06% on 26 July before increasing by 19 basis points to 4.25% on 11 August, but has since retraced to 4.09% on 10 September. Movements in the 9x12-month FRA rate were somewhat more pronounced, as it fell from a recent high of 4.87% on 6 July 2021 to 4.30% on 3 August, before increasing to 4.51% on 10 September.



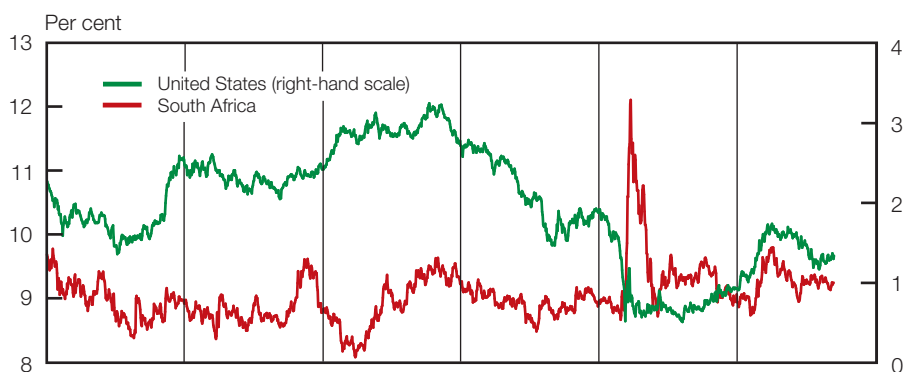
Private sector banks' deposit and lending rates have remained relatively stable thus far in 2021, with the prime lending rate remaining static at 7.00% following the monetary policy decision to leave the repo rate unchanged in September 2021. The weighted average flexible rate charged by banks on mortgage advances decreased marginally from 6.69% in March 2021 to 6.66% in July. Over the same period, the weighted average rate on overdrafts decreased marginally from 8.07% to 8.04%, while that on credit card advances decreased by 15 basis points from 13.52% in March 2021 to 13.34% in July. The deposit rates offered by banks also adjusted marginally lower in the second quarter of 2021, with the weighted average interest rate on call deposits decreasing from 3.55% in March 2021 to 3.53% in July. Banks offered an average of 4.65% on 12-month fixed deposits in July, while the average interest rate on current accounts amounted to only 1.45%. The interest rate on one-month notice deposits decreased marginally from 3.58% in March to 3.52% in July.



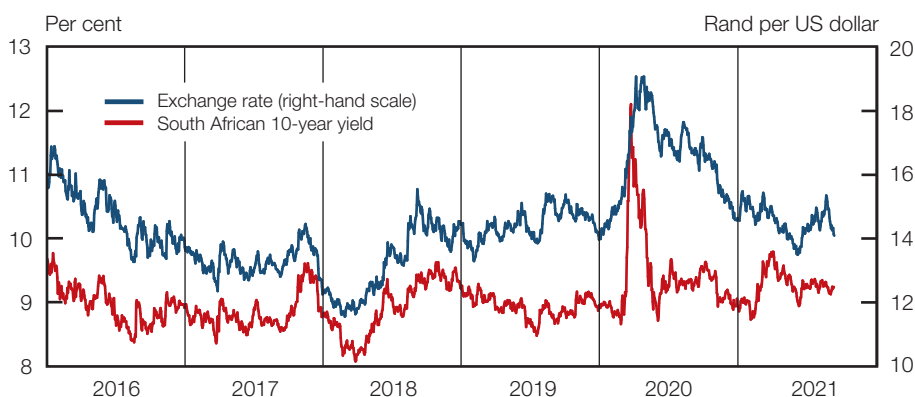
The yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market declined by 84 basis points, from a recent high of 9.79% on 1 April 2021 to 8.95% on 10 June. This reflected cumulative net purchases of domestic bonds by non-residents of R35.3 billion and a decline of 24 basis points in the yield on 10-year US government bonds over the same period, following indications that interest rates in the US will probably not be raised in the short-term. The subsequent increase in the South African bond yield to 9.25% on 10 September occurred against the backdrop of domestic civil unrest and a depreciation in the exchange value of the rand, as well as non-resident net sales of domestic bonds in June and July along with heightened concerns about new COVID-19 variants.



Ten-year government bond yields



Government bond yield and the exchange rate

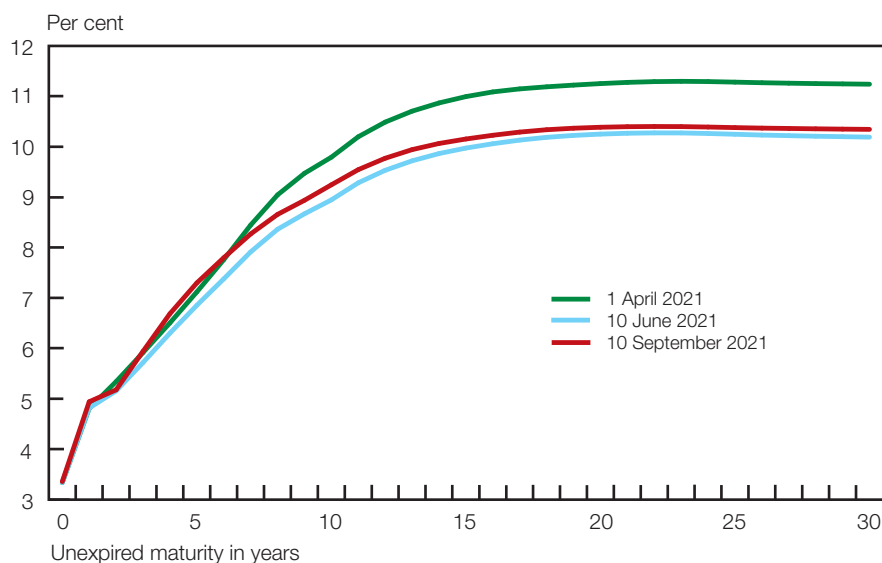


Sources: IRESS, JSE and SARB

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

As domestic bond yields declined, the level of the *yield curve* shifted lower from 1 April 2021 to 10 June, particularly over the medium- to long-term maturity range. Subsequently, the yield curve shifted slightly higher to 10 September, with bond yields increasing across the entire maturity spectrum. The increase in the level of the yield curve, among other things, reflected the depreciation in the exchange value of the rand and somewhat higher domestic inflation. The yield gap²¹ narrowed from 790 basis points on 1 April 2021 to 685 basis points on 10 June, before widening to 699 basis points on 10 September.

Yield curve



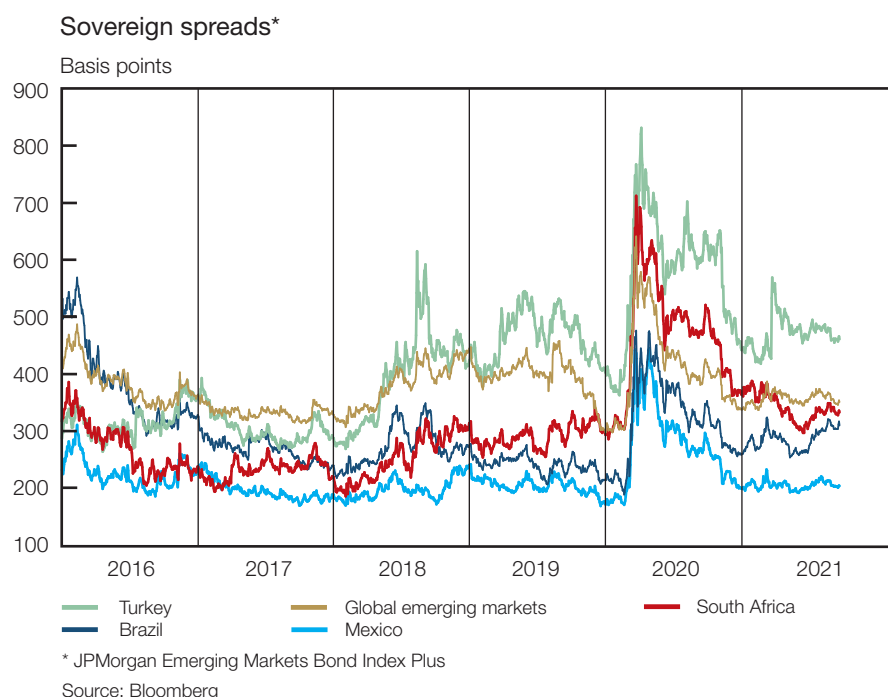
Sources: IRESS and JSE



The narrowing of the yield spread of emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),²² from a recent high of 370 basis points in March 2021 to 351 basis points in May, reflected the progress of COVID-19 vaccinations in various emerging market economies. The subsequent widening to 368 basis points in July reflected concerns related to the emergence of the Delta variant and the increase in global COVID-19 infections. The yield spread then narrowed again to 350 basis points in August. Similarly, South Africa's *sovereign risk premium*²³ on US dollar-denominated government bonds in the four-year maturity range narrowed from an average of 240 basis points in March 2021 to 170 basis points in August.

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

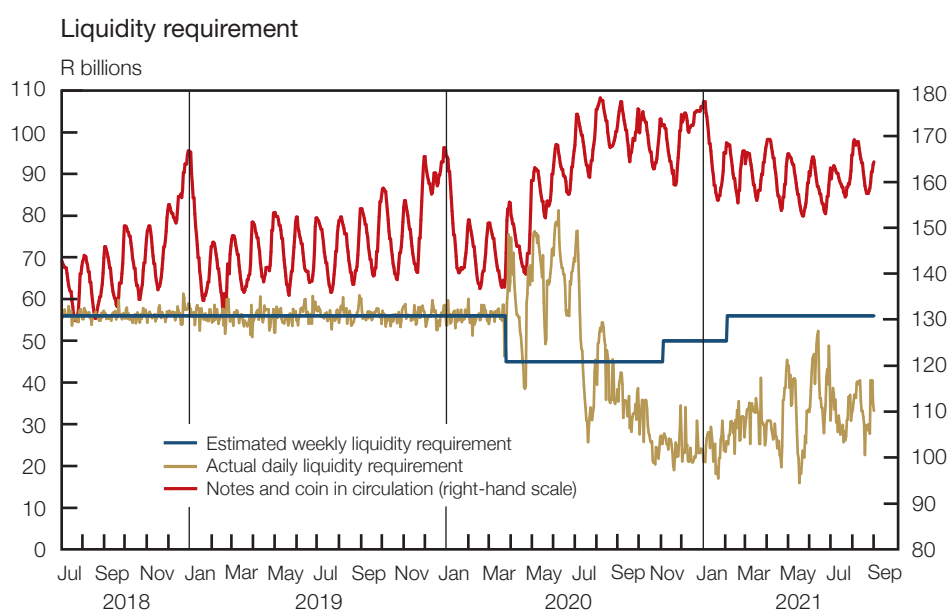
23 This is the differential between the yield on South African government US dollar-denominated bonds and that on US dollar-denominated bonds of the US government.



Money market

The actual daily liquidity requirement of private sector banks fluctuated at around an average of R33.7 billion in the second quarter of 2021, varying between a low of R15.9 billion and a high of R52.3 billion. This was wider than the range of between R17.0 billion and R41.1 billion in the preceding quarter. The low of R15.9 billion in May 2021 reflected banks' deposits in the end-of-day South African Multiple Option Settlement (SAMOS) facility while replenishing cash reserve balances previously drawn down at the SARB. The high of R52.3 billion in June reflected banks' demand for overnight supplementary repo auctions to meet end-of-day liquidity requirements. At the time, banks' participation in the weekly main refinancing auctions increased to obtain cash for coupon payments on government bonds. In July and August 2021, the average actual daily liquidity requirement amounted to R32.9 billion. The total accommodation provided by the SARB to banks increased from a low of R27.0 billion at the end of May 2021 to a high of R42.8 billion at the end of June, as demand for liquidity at the weekly main refinancing auctions increased. In August 2021, the total accommodation to banks decreased moderately to R38.8 billion at month-end as demand for liquidity moderated somewhat. The SARB maintained the weekly main refinancing auction at R56.0 billion throughout the second quarter of 2021 and up to the end of August, although it was generally undersubscribed as banks experienced periods of surplus liquidity.

Money market liquidity expanded by a net amount of R8.7 billion in the second quarter of 2021, in contrast to a contraction of R12.0 billion in the first quarter. During the second quarter, a decrease in notes and coin in circulation outside of the SARB expanded money market liquidity by R5.2 billion. Maturing SARB debentures of R11.4 billion as well as foreign exchange swaps of R10.6 billion also expanded money market liquidity. This was offset by an increase of R28.3 billion in deposit holdings of the Corporation for Public Deposits (CPD) at the SARB and an increase in the required cash reserve deposits of private sector banks of R6.9 billion. The increase in CPD call deposits at the SARB resulted from a substantial inflow of tax revenue to National Treasury, supplemented by the proceeds of loans from the IMF and the New Development Bank. FX transactions by the SARB in the spot market tightened overall money market liquidity by a further R0.2 billion. No transactions were settled in long-term reverse repurchase agreements in the second quarter of 2021 as market participants sought out returns offered by higher-yielding instruments.



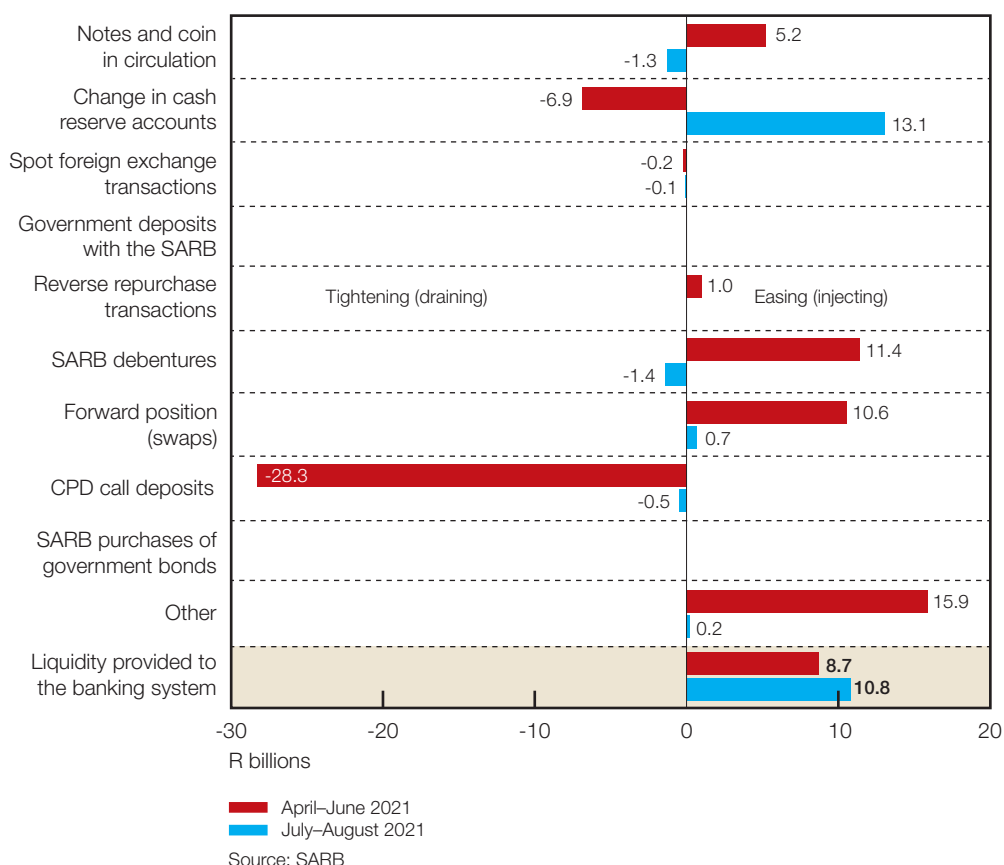
24 For a more detailed analysis on developments in money in circulation, see 'Note on banknotes and coin in South Africa' on page 113 in this edition of the *Quarterly Bulletin*.

In July and August 2021, money market liquidity eased by a further R10.8 billion, mainly due to a decrease in banks' required cash reserve deposits of R13.1 billion. This was partially offset by the issuance of SARB debentures of R1.4 billion and an increase in notes and coin in circulation outside of the SARB²⁴ of R1.3 billion.

Capital redemption and scheduled coupon interest payments on various government bonds amounting to R94.0 billion were made from government's tax and loan accounts between April and August 2021, with R1.5 billion accruing to the SARB's government bond portfolio.



Factors influencing money market liquidity conditions



Bond market

Funding by the public sector in the *domestic primary bond market* has declined thus far in 2021, as higher commodity price-induced tax collections have reduced national government's borrowing requirement. The public sector's²⁵ net issuance of listed bonds of R249 billion in the eight months to August 2021 was 19.7% less than in the same period of 2020. This reflected lower net issues by national government as well as net redemptions of R13.3 billion by public corporations and R1.9 billion by local government during this period.

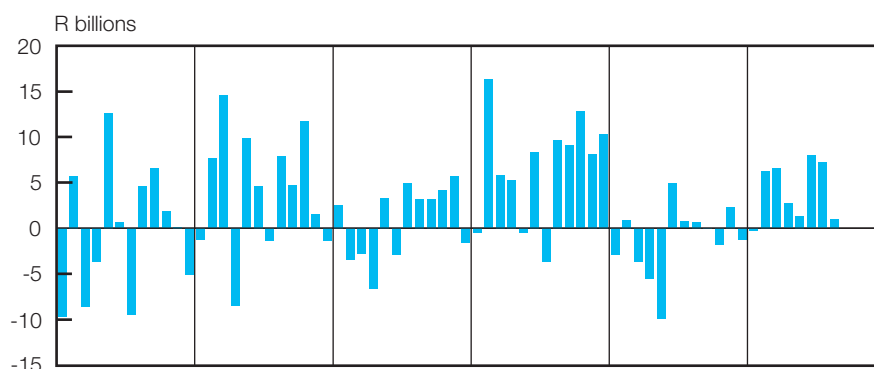
By contrast, private sector funding has been buoyant thus far in 2021, with net bond issuances of R32.8 billion in the first eight months of 2021 compared with net redemptions of R14.7 billion in the corresponding period of 2020. Banks, in addition to usual funding needs, also increased additional tier 1 issuance to meet their regulatory capital requirements. Banks continued to dominate private sector funding in the first eight months of 2021 with a net issuance of R31.5 billion, or 96.2% of the total net issuance. Special purpose vehicles' net issuance also increased to R0.9 billion over this period as opposed to net redemptions of R3.5 billion in the corresponding period of 2020, accounting for 2.8% of the total net issuance. The total value of all outstanding listed debt securities of both the public and private sector on the JSE Limited (JSE) of R4.2 trillion at the end of August 2021 was 13.7% more than a year earlier.

The daily *average value of turnover* in the domestic secondary bond market of R136 billion during the eight months to August 2021 was 6.2% lower than in the corresponding period of 2020. This reflected lower trading volumes, which more than offset record-high bond prices in August 2021.

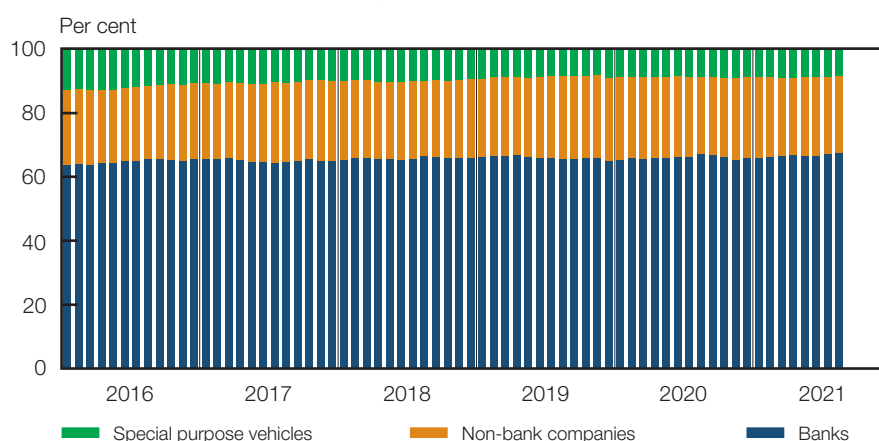
²⁵ The public sector bond issuance includes issuance by national government, extra-budgetary institutions, local governments as well as public corporations.



Private sector net bond issuance in the primary market



Contribution to the value of private sector bonds in issue



The bond issuance of rand-denominated debt by non-residents has remained robust thus far in 2021, particularly in the European bond market. The outstanding amount of rand-denominated debt in issue in the *European and Japanese bond markets* increased by R20.5 billion in the first eight months of 2021 compared with net issues of R17.4 billion in the same period of 2020.

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

R millions

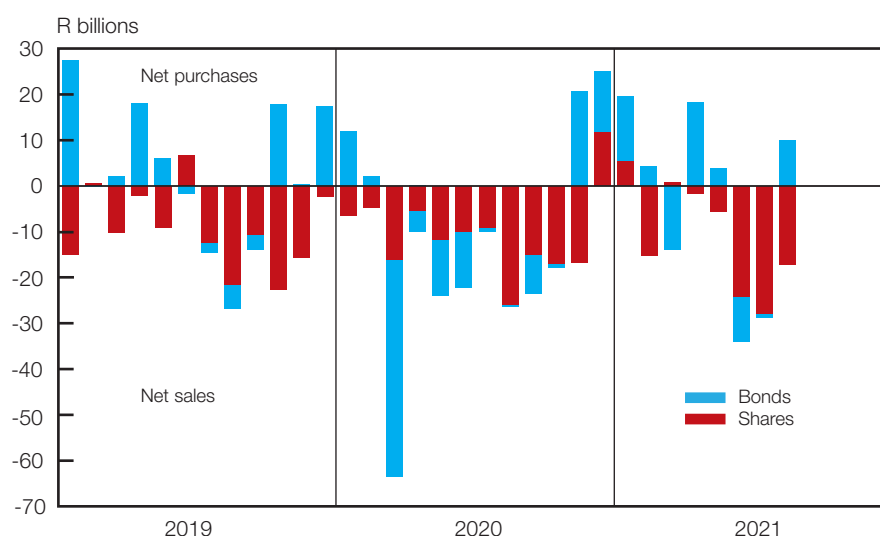
	Eurorand		Uridashi		Total	
	2020	2021	2020	2021	2020	2021
Issues.....	25 411	45 164	251	0	25 662	45 164
Redemptions.....	5 217	22 761	3 002	1 930	8 219	24 691
Net.....	20 194	22 403	-2 751	-1 930	17 443	20 473

Source: Bloomberg

Cumulative net purchases of JSE-listed bonds by *non-residents* of R26.2 billion in the first eight months of 2021 contrasted with net sales of R64.2 billion in the corresponding period of 2020, according to JSE data. Non-resident net purchases of bonds increased from R4.8 billion in the first quarter of 2021 to R12.4 billion in the second quarter, and amounted to R9.1 billion in July and August. This reflected, among other things, movements in the exchange value of the rand, expectations that major central banks will keep interest rates at current levels in the short term and the continued roll-out of COVID-19 vaccines.



Non-residents' net transactions in JSE-listed shares and bonds



Source: JSE

Share market

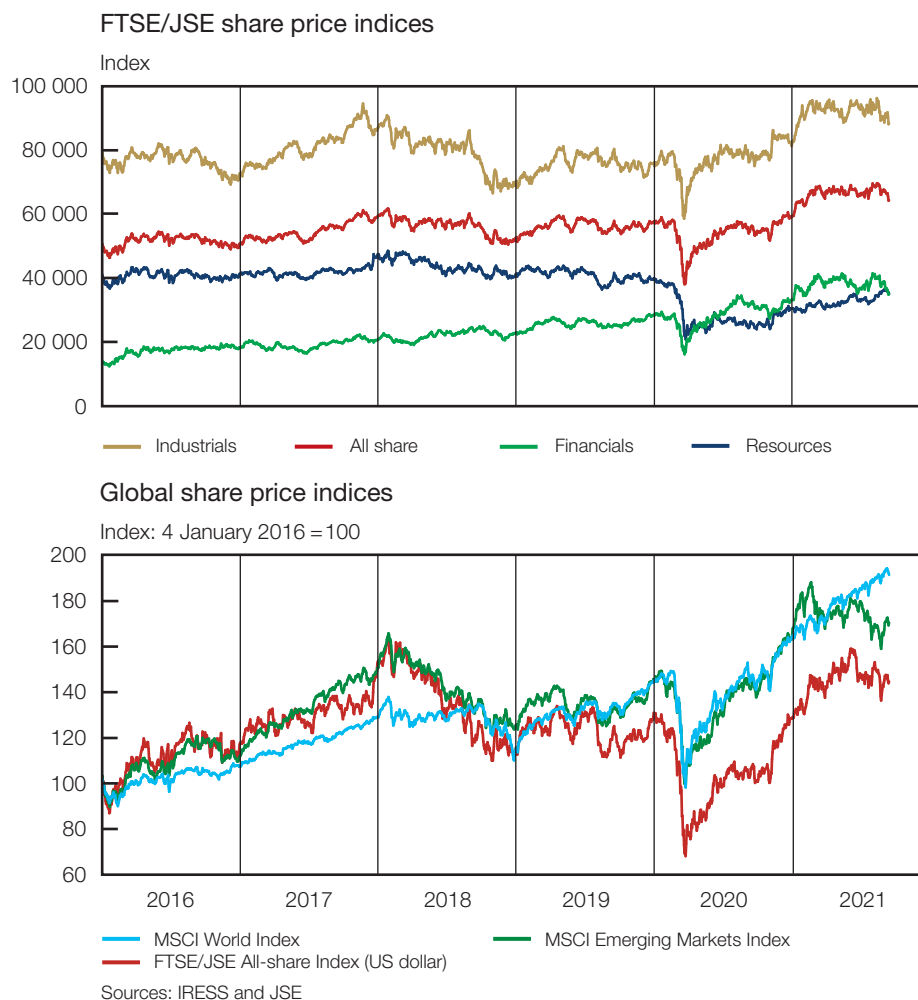
The value of *equity capital raised* by companies listed on the JSE in the domestic and international primary share markets of R11.0 billion in the first eight months of 2021 was 69.2% less than in the corresponding period of 2020. The low level of equity funding reflected the higher delistings compared to new listings as well as weak domestic economic activity. Companies in the financial sector accounted for 34.9% of the value of equity funding in the first eight months of 2021, and companies in the resources sector accounted for 51.0%, with the latter driven by the surge in commodity prices.

The combined *value of turnover* in the secondary share market of the five South African stock exchanges of R4.0 trillion in the first eight months of 2021 was 0.7% more than in the corresponding period of 2020, along with both higher prices and volumes. This reflected the all-time high number of both transactions and value of turnover on the JSE on 17 August 2021 due to a share-swap deal. Consistent with higher share prices, the combined market capitalisation of all the shares listed on these exchanges declined from an all-time high of R19.3 trillion in April 2021 to R18.8 trillion in June, before increasing to R19.2 trillion in August.

Cumulative net sales of JSE-listed shares by *non-residents* of R85.5 billion in the first eight months of 2021 was almost similar to the net sales of R88.9 billion in the corresponding period of 2020, according to JSE data. Thus far in 2021, non-resident net sales of shares have increased significantly from R9.1 billion in the first quarter of 2021 to R31.5 billion in the second quarter, and further to R45.0 billion in July and August. Despite strong increases in share prices, the sustained net sales by non-residents reflected weak domestic economic activity and the impact of continued Chinese regulatory restrictions on the technology sector, as well as concerns over the possible effect of the continued spread of COVID-19 variants on the global economic recovery.

Seven consecutive months of positive returns of the Alsi was temporarily interrupted in June 2021, before scaling to an all-time high on 11 August 2021. This overall upward trend reflected rising share prices of companies listed on international bourses, which was supported by expectations of continued accommodative monetary policy and the recent US\$1 trillion bipartisan infrastructure package in the US. On the JSE, the decline of 2.5% in the Alsi in June 2021 likely reflected, in part, renewed restricted economic activity due to the third COVID-19 wave. The subsequent increase in the Alsi of 4.1% in July 2021 reflected the release of strong corporate earnings and an increase of 11.7% in the share prices of the resources sector, with precious metals and mining shares recording the highest increases, supported

by the weaker exchange value of the rand. The Alsi then increased further by 0.9% to an all-time high of 69 617 index points on 11 August 2021, before declining to 64 296 index points on 10 September. The performance of the Alsi in rand terms thus far in 2021 has been more closely aligned with the MSCI World Index, which includes advanced economies, than with the MSCI Emerging Markets Index, which declined during 2021. However, in US dollar terms, the Alsi also declined from the beginning of June 2021, in line with the MSCI Emerging Markets Index.



Following the increase in the overall *price-earnings ratio* of ordinary shares listed on the JSE to 42.2 in November 2020, the ratio declined considerably to 15.0 in August 2021 as earnings increased sharply. Similarly, dividends declared increased noticeably and contributed to the increase in the *dividend yield* from 1.2% in February 2021 to 2.0% in August.

Market for exchange-traded derivatives

The *spot prices of white and yellow maize contracts* traded on the JSE remained volatile within a narrow range in the first eight months of 2021. The spot price of white maize decreased by 17.6%, from R3 598 per ton on 7 May 2021 to R2 966 per ton on 24 June, while the spot price of yellow maize decreased by 17.0%, from R3 757 per ton to R3 119 per ton, over the same period. The decline in domestic maize prices reflected lower international maize prices along with improved weather and planting conditions in Canada and the US, which led to upward revisions to production estimates in these countries, as well as maize import restrictions by Zimbabwe following a record-breaking harvest. Subsequently, domestic white and yellow maize prices increased to R3 293 per ton and R3 481 per ton respectively on 19 August, alongside



the depreciation in the exchange value of the rand. Thereafter, the maize prices declined to R2 949 per ton and R3 097 per ton respectively, along with the appreciation of the exchange value of the rand and generally optimistic forecasts for the 2021/22 season by the International Grains Council and the US Department of Agriculture as well as an expected abundant domestic supply. Maize exports to countries in the Far East, such as Taiwan, South Korea, Vietnam and Japan, are expected to continue.



The *spot price of domestic wheat contracts* increased by 21.1%, from R4 762 per ton on 13 April 2021 to R5 768 per ton on 10 September. As a net importer of wheat, South African wheat prices increased in line with the weaker exchange value of the rand which, together with higher fuel prices in recent months, impacted input costs. Domestic wheat prices continued to reflect higher international prices as global stocks remained tight due to the increase in consumption, especially in the global animal feed industry and for other industrial uses, despite the expected increase in global production.

Turnover in currency derivatives on the JSE contracted noticeably by 33.3% in the first eight months of 2021 compared with the corresponding period of 2020, and continued to reflect reduced hedging activity against adverse exchange rate movements. By contrast, market activity in commodity and equity derivatives increased over the same period, with equities continuing to dominate overall derivatives turnover on the JSE.

Derivatives turnover on the JSE, January to August 2021

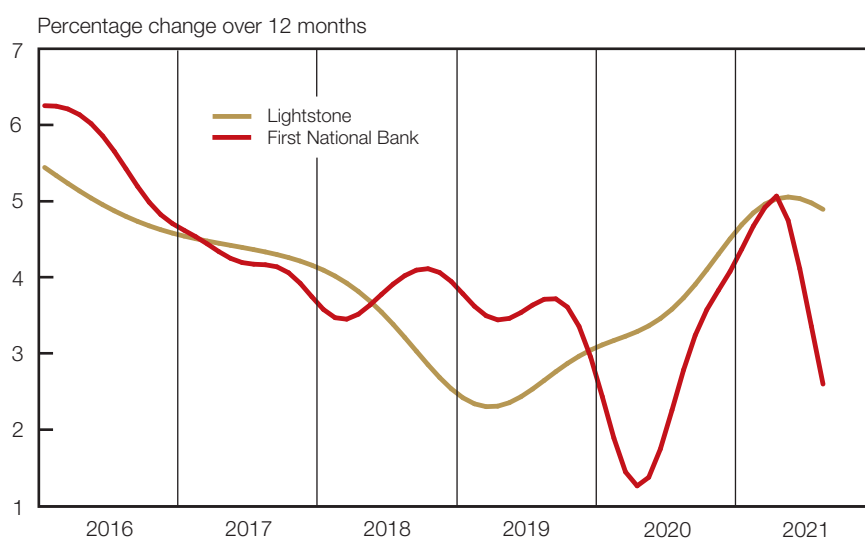
Type of derivative	Value (R billions)	Change over one year (per cent)
Equity.....	3 926	11
Warrants.....	2	16
Commodity.....	729	26
Interest rate.....	913	-9
Currency.....	510	-33

Source: JSE

Real estate market

Residential property prices started to increase at a faster pace from mid-2020 despite the COVID-19 pandemic, although still at low single-digit rates. The two available nominal house price indices for First National Bank (FNB) and Lightstone increased by 2.6% and 4.9% year-on-year respectively in August 2021. Although the pace of increase moderated somewhat during the three months to August 2021, nominal house prices remained above pre-pandemic levels. This reflected the emergence of a so-called ‘buyer’s market’ brought about by the low interest rates, work-from-home practices and home schooling, with more tenants now favouring home ownership.

Nominal house prices

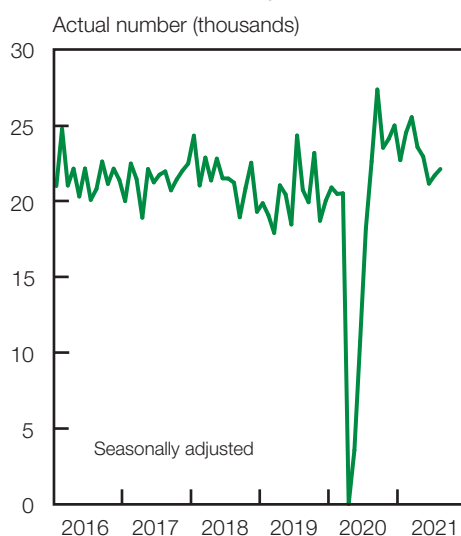


Sources: FNB and Lightstone

26 The demand and supply indices are derived from FNB's property valuers' database.

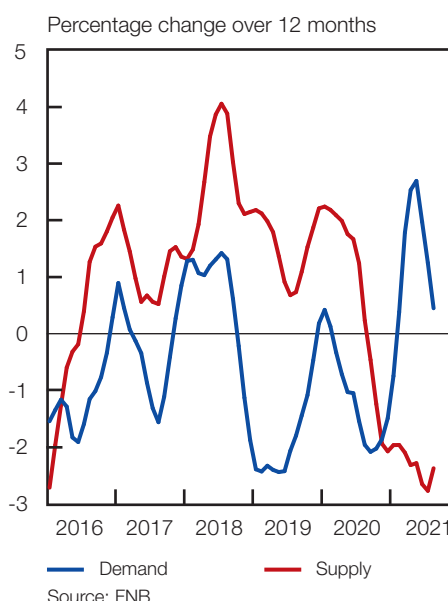
The recent moderation in the rate of increase in house prices may be an indication that overall demand has slowed, given the weak recovery in employment. This coincided with the decline in the number of property transfers as well as in FNB's residential property market demand strength indicator,²⁶ which declined in the three months to August 2021.

Residential property transfers



Source: Lightstone

Residential property market strength indices



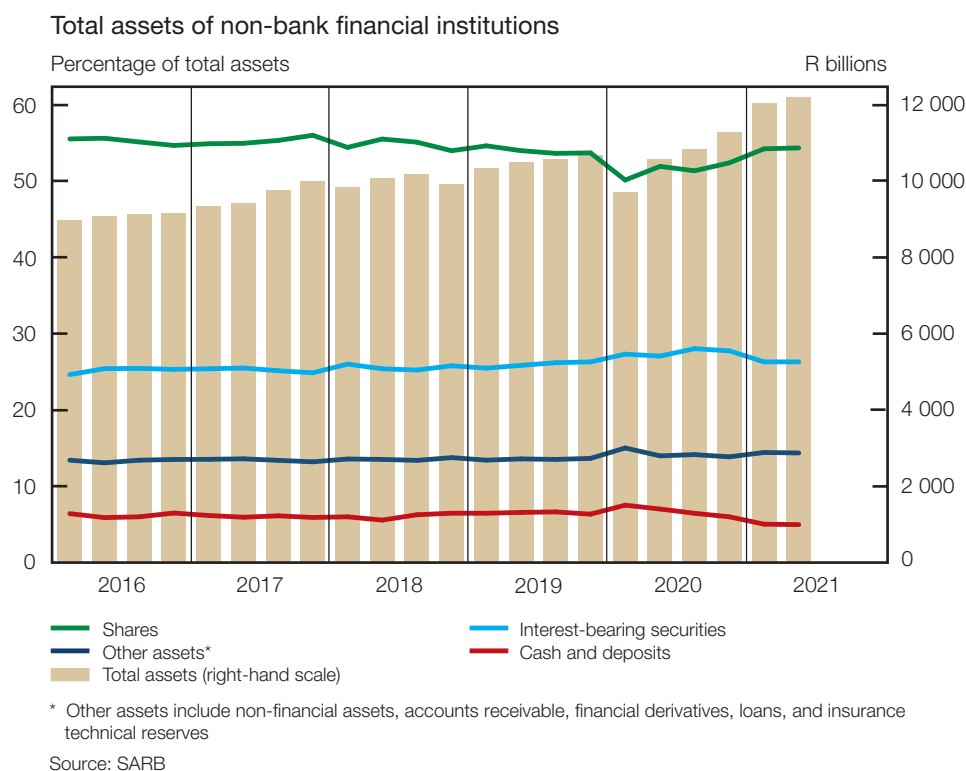
Source: FNB



Non-bank financial intermediaries²⁷

The unconsolidated total assets of non-bank financial institutions increased by 1.2% to R12.2 trillion in the second quarter of 2021 as some asset prices increased. At an institutional level, the total assets of insurers and unit trusts increased by 1.7% and 1.6% respectively in the second quarter of 2021, while that of the Public Investment Corporation (PIC) increased by 0.6%. Year-on-year growth in the total assets of these institutions slowed from 24.2% in the first quarter of 2021 to 15.2% in the second quarter.

²⁷ These consist of unit trusts, the Public Investment Corporation, life and non-life insurance companies, public and private pension funds, participation bond schemes, finance companies and non-monetary public financial corporations.



The shareholding of non-bank financial institutions increased by 0.1 percentage points from the first quarter of 2021 to 54.3% of total assets in the second quarter, despite lower share prices. The proportion of interest-bearing securities held by these institutions remained unchanged at 26.3% of total assets in the second quarter of 2021 even though bond prices increased, as reflected by the 6.9% increase in the All Bond Index over the same period.

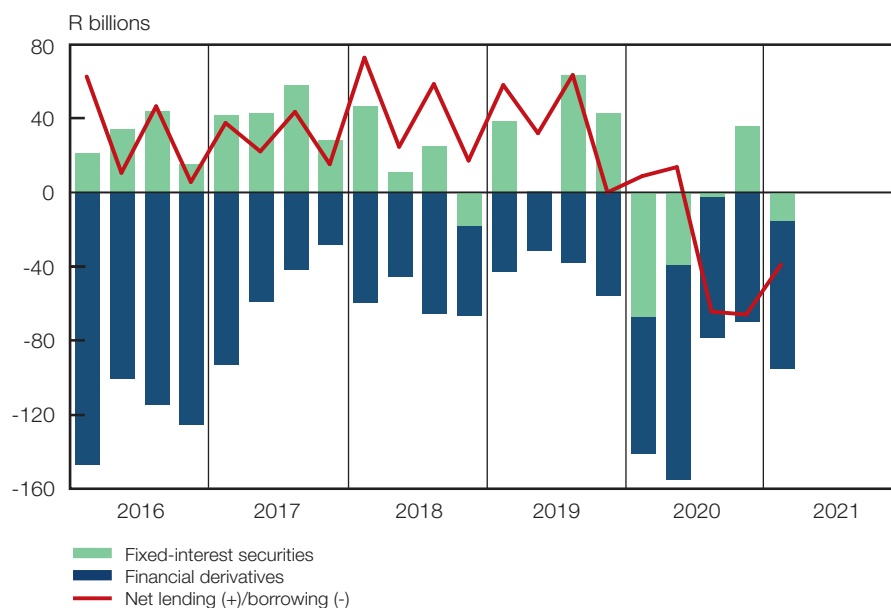
The non-bank financial institutions' holdings of cash and deposits fell by 0.1 percentage points from the first quarter of 2021 to 5.0% of total assets in the second quarter. The value of loans extended by these institutions increased by 0.2 percentage points to 4.6% of total assets over the same period. Credit extended by finance companies increased, with year-on-year growth in credit extended by these companies accelerating from -3.1% in the first quarter of 2021 to 1.6% in the second quarter.

Flow of funds

The global economic recovery continued to gather pace, supported by the roll-out of COVID-19 vaccines and policy stimulus. The net outflow of capital continued for the third consecutive quarter in the first quarter of 2021, at R39.1 billion, compared with R66.1 billion in the fourth quarter of 2020. The outflow was mostly due to financial derivatives and the redemption of an international bond of R23.0 billion by a public non-financial business enterprise, which more than offset non-residents' net purchases of domestic government bonds. The holding of domestic shares by non-residents increased by R23.6 billion in the first quarter of 2021. In addition, inflows of R16.6 billion in deposits to the domestic banking sector were recorded in the first quarter of 2021, as well as a decline of R11.1 billion in loans extended to domestic institutions.



Non-residents' net capital flows in selected instruments

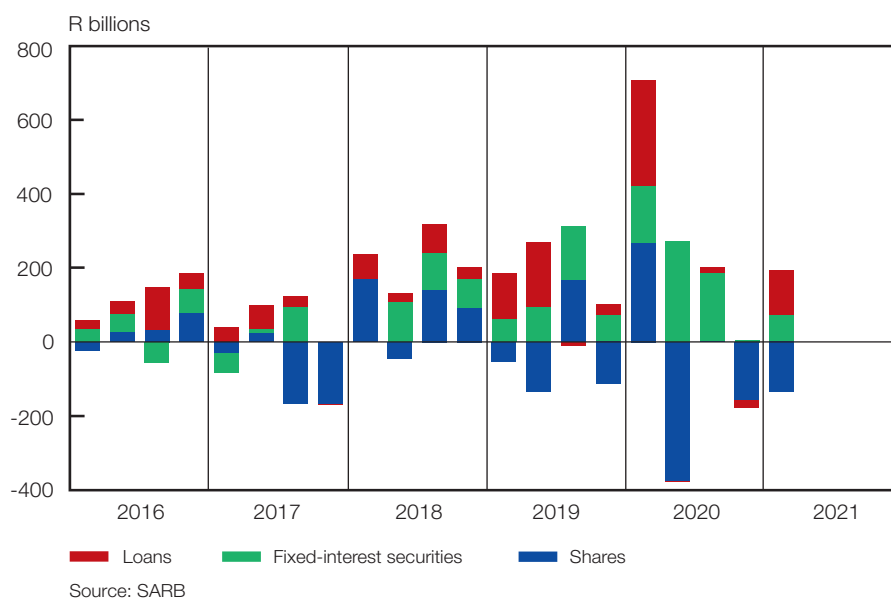


Source: SARB

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

The lifting of COVID-19-related domestic lockdown restrictions and accommodative global monetary policy supported non-resident sentiment and economic activity in the first quarter of 2021. However, *financial intermediation*²⁸ decreased over this period. Cash and deposits with banks contracted by R37.0 billion, largely due to withdrawals by central and provincial governments as well as other financial institutions. By contrast, household and non-resident holdings of deposits continued to increase, despite the low interest rates. The contraction in contributions to insurers and retirement funds of R10.4 billion in the first quarter of 2021 reflected the impact of the COVID-19 pandemic on contractual savings. Financial intermediaries' holdings of fixed-interest securities increased further, with net purchases of R73.5 billion in the first quarter of 2021 following net purchases of R6.1 billion in the previous quarter, as non-bank financial institutions invested in high-yielding government bonds. Intermediation through shares declined by R135 billion and loans extended increased by R120 billion as demand for bank loans and advances increased in the low interest rate environment.

Financial intermediation through selected financial assets



Source: SARB



The *general government sector's* continued fiscal support and spending on health care amid the pandemic increased the net borrowing requirement from R71.1 billion in the fourth quarter of 2020 to R135 billion in the first quarter of 2021, despite better-than-expected revenue collection. The deficit was financed through net bond issuance of R64.7 billion (including the redemption of the R208 government bond) and R26.5 billion in TBs. In addition, loans of R15.1 billion were repaid while deposits with the banking sector declined by R42.0 billion. Capital outlays on non-residential buildings as well as on transport and computer equipment continued to support the economic recovery in the first quarter of 2021.

Non-financial corporate business enterprises' gross saving increased by 9.9% in the first quarter of 2021 after declining by 27.0% in the fourth quarter of 2020, in part due to a decline in dividend payments. This resulted in a net lending position of R158 billion in the first quarter of 2021, which was channelled to the net acquisition of fixed-interest securities and shares as well as the extension of trade credit and short-term loans. The decline in non-financial corporate business enterprises' holdings of cash and deposits of R10.5 billion in the first quarter of 2021 reflected the funding of operations following the easing of lockdown restrictions. Non-financial corporations received credit of R17.9 billion, of which R10.8 billion was from bank loans and advances. Capital spending continued to be suppressed by subdued economic activity, low levels of confidence and frequent power outages.

The increase in *household* spending in the first quarter of 2021 was supported by the easing of lockdown restrictions and low interest rates. However, job losses continued in the first quarter, especially for lower-skilled occupations. Households recorded a net borrowing position of R18.2 billion in the first quarter of 2021, despite an increase in nominal disposable income. The shortfall was financed through loans of R26.0 billion, which mainly comprised mortgage loans, as demand for residential real estate increased amid the low interest rate environment. On the asset side, holdings of cash and deposits increased by R20.9 billion and units in unit trusts by R14.2 billion. However, due to retrenchments and the suspension of contributions to retirement funds, households' net interest in insurers and retirement funds decreased by R9.1 billion in the first quarter of 2021.



29 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–June 2021 to April–June 2020. Data for both periods are unaudited and preliminary.

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

Public finance²⁹

Non-financial public sector borrowing requirement³⁰

The preliminary *non-financial public sector borrowing requirement* of R27.2 billion in the first quarter of fiscal 2021/22 (April–June 2021) was significantly less than the R163 billion recorded in the same period of the previous fiscal year. The lower borrowing requirement reflected the much smaller deficit of the consolidated general government, which stemmed mostly from the sizeably smaller cash deficit of national government. The lower deficit of national government could be attributed to significantly higher revenue collections along with a moderate increase in expenditure. Cash surpluses were recorded by extra-budgetary institutions and the consolidated provincial government. The deficits of social security funds and the non-financial public enterprises and corporations, or state-owned companies (SOCs), also decreased when compared with the same period of the previous year.

Non-financial public sector borrowing requirement

R billions

Level of government	Apr–Jun 2020*	Apr–Jun 2021*
Consolidated general government	137.6	20.5
National government.....	129.3	21.1
Extra-budgetary institutions	-21.3	-25.6
Social security funds.....	24.7	3.2
Consolidated provincial governments	-22.1	-4.5
Local governments.....	27.0	26.3
Non-financial public enterprises and corporations	25.0	6.6
Total**	162.6	27.2
<i>As a percentage of gross domestic product.....</i>	<i>13.5</i>	<i>1.8</i>

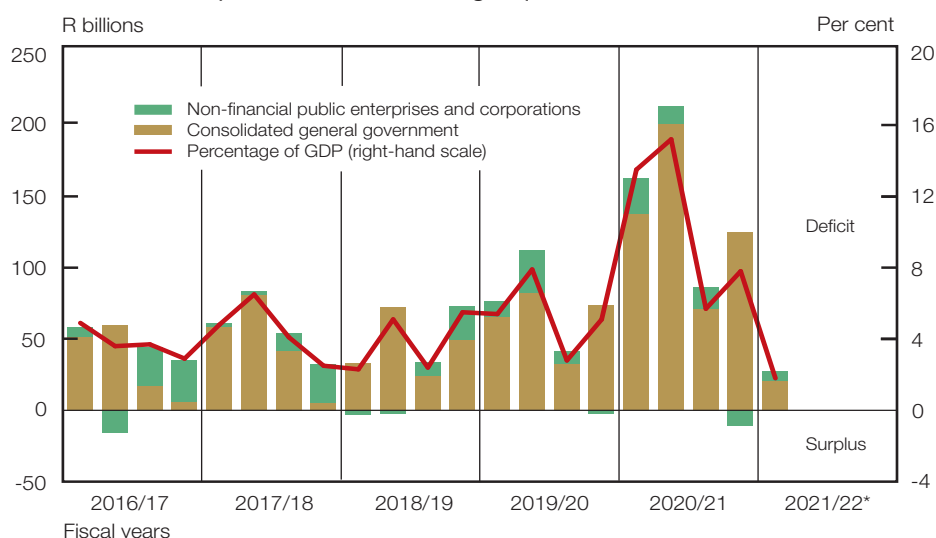
* Deficit (+)/surplus (-)

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

Sources: National Treasury, Stats SA and SARB

As a ratio of GDP, the non-financial public sector borrowing requirement of 1.8% in the first quarter of fiscal 2021/22 was significantly lower than the 13.5% recorded in the same period of fiscal 2020/21.

Non-financial public sector borrowing requirement



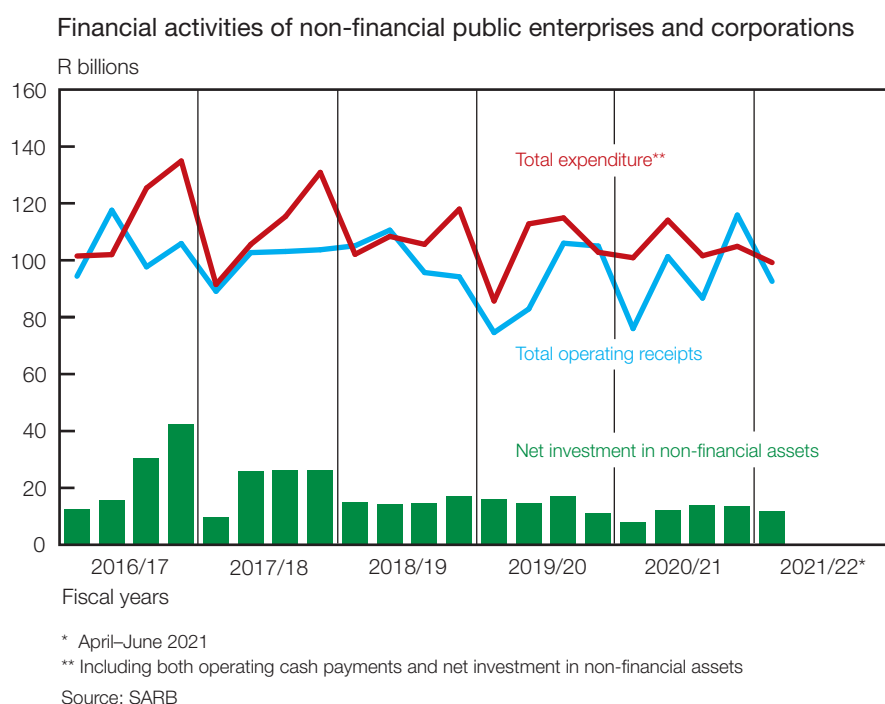
* April–June 2021

Sources: National Treasury, Stats SA and SARB



The preliminary cash deficit of the non-financial SOCs of R6.6 billion in the first quarter of fiscal 2021/22 was R18.3 billion less than in the same period a year earlier. This reflected an increase in total cash receipts from operating activities, primarily on account of financial support from government in the first quarter as well as a decline in cash payments for operating activities.

The total expenditure of non-financial SOCs decreased marginally by 1.7% year on year to R99.2 billion in the first quarter of fiscal 2021/22, while cash receipts from operating activities increased by a marked 21.9% to R92.6 billion over the same period. Net investment in non-financial assets increased to R11.9 billion in the first quarter of fiscal 2021/22. The year-on-year increase in total capital expenditure by non-financial SOCs reflected signs of economic recovery, although moderate, amid the effects of the COVID-19 pandemic and related lockdown measures.



Box 3 The inclusion of technical and vocational education and training colleges in national extra-budgetary institution statistics^{1,2}

South Africa established technical and vocational education and training (TVET) colleges in 2002³ to provide for quality skills development and practical training to address the need for artisans in the country. This followed various interventions, such as the introduction of learnerships through the Skills Development Act 97 of 1998, which were funded by the sector education training authorities (SETAs), whereas traditional apprenticeships were not government funded. Government has since initiated the Joint Initiative on Priority Skills Acquisition (JIPSA) to address workplace-based apprentice training through the National Artisan Development Project located in the Department of Higher Education and Training, and introduced grants for employers. Effective from this edition of the South African Reserve Bank's *Quarterly Bulletin*, the statistics of national extra-budgetary institutions⁴ have been extended to also include TVET colleges, as from fiscal 2015/16. This box reflects on the cash flow statistics of TVET colleges and introduces an enhanced presentation of national extra-budgetary institution statistics.

¹ This box relates to the statistics published on page S–68 in this edition of the *Quarterly Bulletin*.

² The compilation of government finance statistics adheres to the guidelines of the *Government Finance Statistics Manual 2014* (GFSM2014) of the International Monetary Fund. See <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>

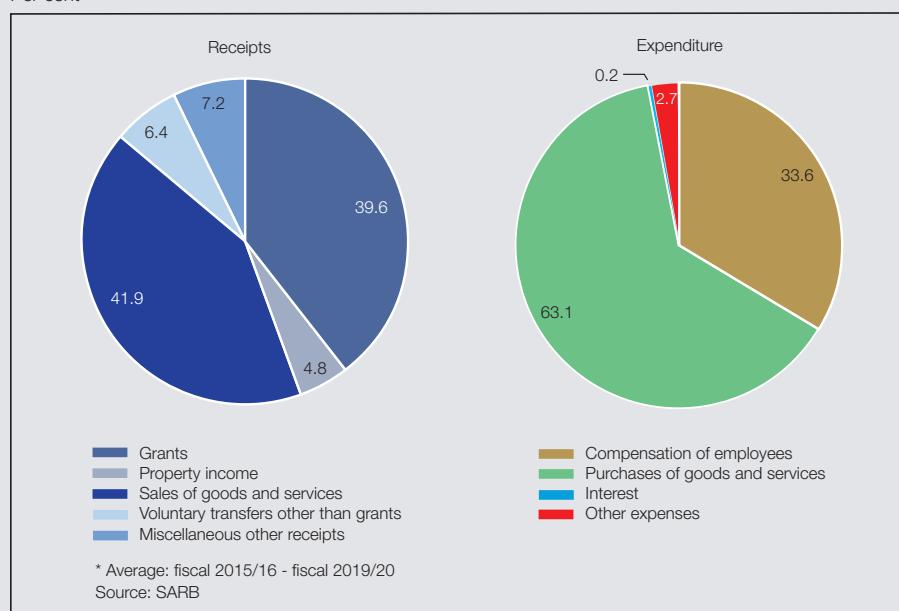
³ TVET colleges were established in 2002 in terms of the Further Education and Training Act 98 of 1998, when 150 technical colleges were merged into 50 multi-site colleges across the nine provinces, namely: Eastern Cape (8), Free State (4), Gauteng (8), KwaZulu-Natal (9), Limpopo (7), Mpumalanga (3), North West (3), Northern Cape (2) and Western Cape (6). In 2012, the TVET colleges moved from being classified under Further Education and Training, which included grades 10 to 12 and with a focus on vocational as well as occupation and career-orientation training, to the Department of Higher Education and Training.

⁴ National extra-budgetary institutions are independent government entities, with their own financial statements, operating under the authority or control of national, provincial or local governments. These entities may have their own sources of revenue, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, like that of budgetary accounts, they have discretion over spending. Such entities may be established to carry out specific government functions, such as road construction, the collection of taxes, or the delivery of non-market health or education services.

The TVET colleges are mainly funded through grants received from national government and further through the sale of goods and services. Cash receipts include funding for training from the Department of Higher Education and Training as well as other funding from private donations, tuition fees paid by learners, and financial aid from the National Student Financial Aid Scheme (NSFAS). Most cash payments indicated are for the purchase of goods and services, the compensation of employees and the net investment in non-financial assets.

Composition of cash receipts and expenditure from operating activities of technical and vocational education and training colleges*

Per cent



As from this edition of the *Quarterly Bulletin*, the statistics of consolidated national extra-budgetary institutions⁵ will include aggregated statistics of the TVET colleges. This will enhance the quality and coverage of the statistics, as previously only the transfer payments from national government to TVET colleges were recorded as other payments as part of cash payments. The impact of the changes on the statistics published on page S-68 of the *Quarterly Bulletin* is shown in the table below.

National extra-budgetary institution¹ statistics for fiscal 2019/20²

R millions

	Before: excluding TVETs	After: ³ including TVETs	Difference
Cash receipts from operating activities	295 916	305 458	9 542
Of which: Grants ⁴	158 523	163 729	5 206
Other receipts ⁵	133 778	138 115	4 337
Cash payments for operating activities	239 135	246 217	7 082
Of which: Compensation of employees	88 134	90 302	2 168
Purchases of goods and services	108 977	113 731	4 754
Interest	4 434	4 445	11
Other payments ⁶	37 591	37 740	149
Net cash flow from investment in non-financial assets ⁷	-23 317	-24 081	-764
Memo: cash expenditure⁸	262 452	270 298	7 846
Cash surplus (+)/deficit (-)⁹	33 464	35 160	1 696

1. Comprising other national government extra-budgetary institutions such as constitutional and regulatory institutions, universities, universities of technology, sector education and training authorities and TVET colleges
2. Statistics for the fiscal year 2019/20 referenced here are subject to revision as the most recent two years are preliminary
3. Consolidated, comprising aggregated TVETs and other national extra-budgetary institutions
4. Comprising transfers received from foreign governments, international organisations and other general government units
5. Comprising property income (including interest and dividends), the sale of goods and services, fines, penalties and forfeits, and other non-tax cash receipts
6. Comprising miscellaneous other current and capital expenses (including transfers to non-profit institutions serving households for non-social benefits) and property expenses other than interest
7. Net of acquisition and the disposal of non-financial assets. Inflow (+)/outflow (-)
8. The sum of cash payments for operating activities (expenses) and net investment in non-financial assets
9. Cash receipts from operating activities *minus* the sum of cash payments for operating activities and net investment in non-financial assets

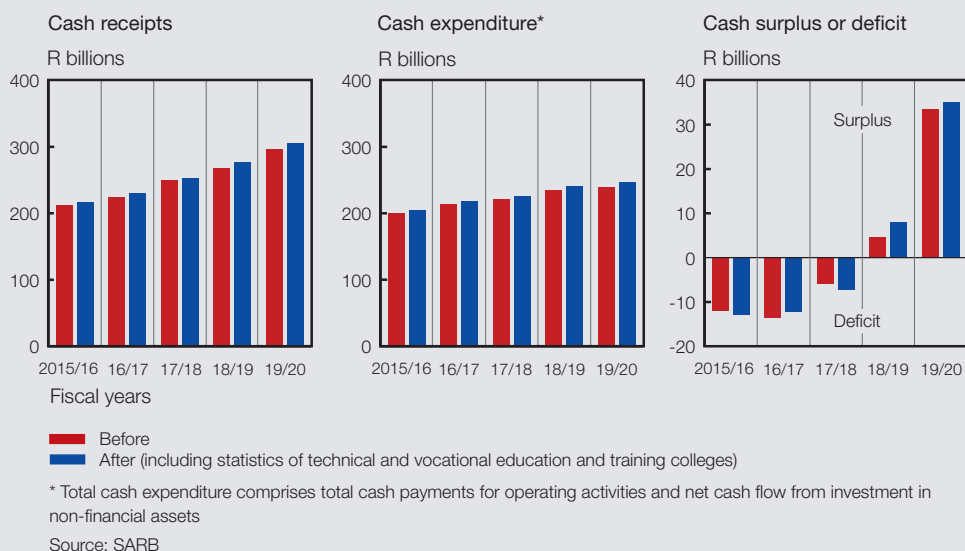
Sources: SARB and National Treasury

⁵ Based on TVET colleges' financial data as sourced from their audited annual financial statements.



The impact of the change in the reporting format reflects an increase of R9.5 billion in total cash receipts from operating activities and R7.8 billion in total cash expenditure, as well as an increase in the cash surplus of R1.7 billion in fiscal 2019/20. The grants paid by national government to the TVET colleges, which were previously recorded as other payments on page S-67 of the *Quarterly Bulletin*, are now reclassified on page S-68 as grants paid and grants received by TVET colleges, and are then consolidated at central government level on page S-70, which offsets both the grants paid and received between these two levels of government. The new statistics reporting format better reflects the expenditure of the grants and other receipts of the TVET colleges.

National extra-budgetary institutions' statistics before and after consolidation



Box 4 Changes to the reporting format of provincial extra-budgetary institutions' statistics^{1,2}

Provincial extra-budgetary institutions,^{3,4} as established by provincial government departments within the respective provincial governments of South Africa's nine provinces, are responsible for the provision of public services such as education, health, social development, governance and administration, agriculture, and roads and transport. As from this edition of the South African Reserve Bank's *Quarterly Bulletin*, the statistics of provincial governments have been extended to also include provincial extra-budgetary institutions, from fiscal 2009/10. This box reflects on the cash flow statistics of provincial extra-budgetary institutions and introduces an enhanced presentation of consolidated provincial government statistics.

These institutions are mainly funded through grants received (current and capital transfers) from the provincial revenue fund, owing to a limited ability to collect taxes, and further through the sale of goods and services, property income and voluntary transfers. Expenditure relates mostly to the purchase of goods and services as well as the compensation of employees, followed by other expenses on property and miscellaneous current and capital expenses.

Including the aggregated statistics of provincial extra-budgetary institutions⁵ and provincial governments in the reporting of consolidated provincial government statistics will enhance the statistics. Previously, only the grants transferred to the provincial extra-budgetary institutions were reported as miscellaneous other current expenses, as part of other payments. The impact of this change on the statistics published on page S-71 in this edition of the *Quarterly Bulletin* is shown in the accompanying table.

1 This box relates to the statistics published on page S-71 in this edition of the *Quarterly Bulletin*.

2 The compilation of government finance statistics adheres to the guidelines of the *Government Finance Statistics Manual 2014* (GFSM2014) of the International Monetary Fund. See <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>

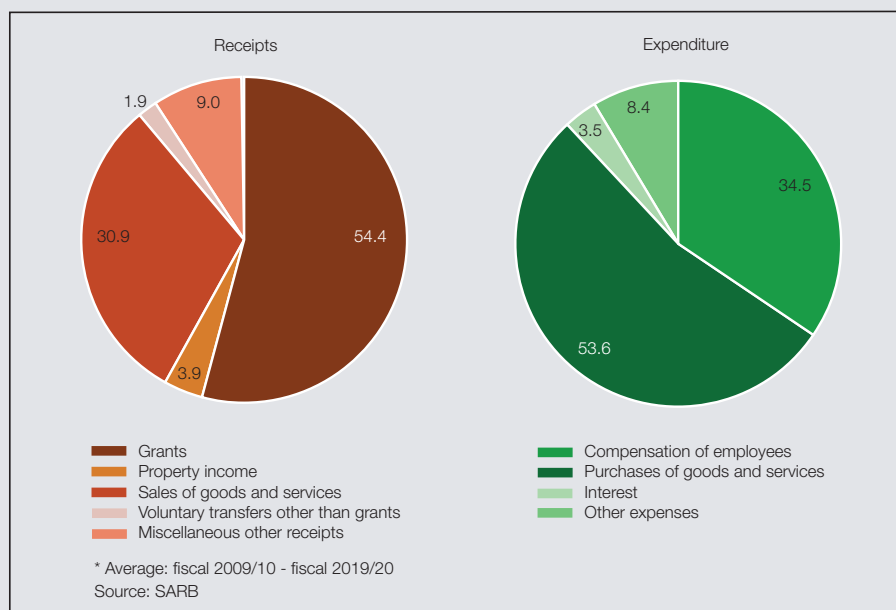
3 Provincial extra-budgetary institutions are classified as separate legal entities with limited autonomy, with their own financial statements. They are fully funded from the provincial revenue fund and mandated to fulfil a specific economic or social function of provincial government departments.

4 The number of provincial extra-budgetary institutions per province: Eastern Cape (10), Free State (2), Gauteng (14), KwaZulu-Natal (13), Limpopo (5), Mpumalanga (4), North West (6), Northern Cape (6) and Western Cape (10).

5 These statistics are based on provincial extra-budgetary institutions' financial data as sourced from their audited annual financial statements.

Composition of cash receipts and expenditure from operating activities of provincial extra-budgetary institutions*

Per cent



Consolidated provincial government¹ statistics for fiscal 2019/20²

R millions

	Before: excluding provincial extra-budgetary institutions	After: ³ including provincial extra-budgetary institutions	Difference
Cash receipts from operating activities	633 610	643 040	9 430
Of which: Grants ⁴	612 984	612 984	–
Other receipts ⁵	6 726	16 156	9 430
Cash payments for operating activities	596 551	599 858	3 307
Of which: Compensation of employees	384 468	389 732	5 264
Purchases of goods and services	129 309	134 217	4 908
Interest	47	123	76
Grants	8 638	8 638	–
Other payments ⁶	57 020	50 080	-6 940
Net cash flow from investment in non-financial assets ⁷	-32 037	-35 224	-3 187
Memo: cash expenditure⁸	628 588	635 082	6 494
Cash surplus (+)/deficit (-)⁹	5 022	7 959	2 937

1 Comprising provincial government departments and provincial extra-budgetary institutions

2 Statistics for the fiscal year 2019/20 referenced here are subject to revision, as the most recent two years' financial statements are preliminary

3 Consolidated comprising aggregated provincial extra-budgetary institutions and provincial governments

4 Comprising transfers received from foreign governments, international organisations and other general government units

5 Comprising property income (including interest, dividends and rent), the sale of goods and services, and other non-tax cash receipts

6 Comprising subsidies, social benefits and miscellaneous other current and capital expenses (including transfers to non-profit institutions serving households for non-social benefits) and property expenses other than interest

7 Net of acquisition and disposal of non-financial assets. Inflow (+)/outflow (-)

8 The sum of cash payments for operating activities (expenses) and net investment in non-financial assets

9 Cash receipts from operating activities minus the sum of cash payments for operating activities and net investment in non-financial assets

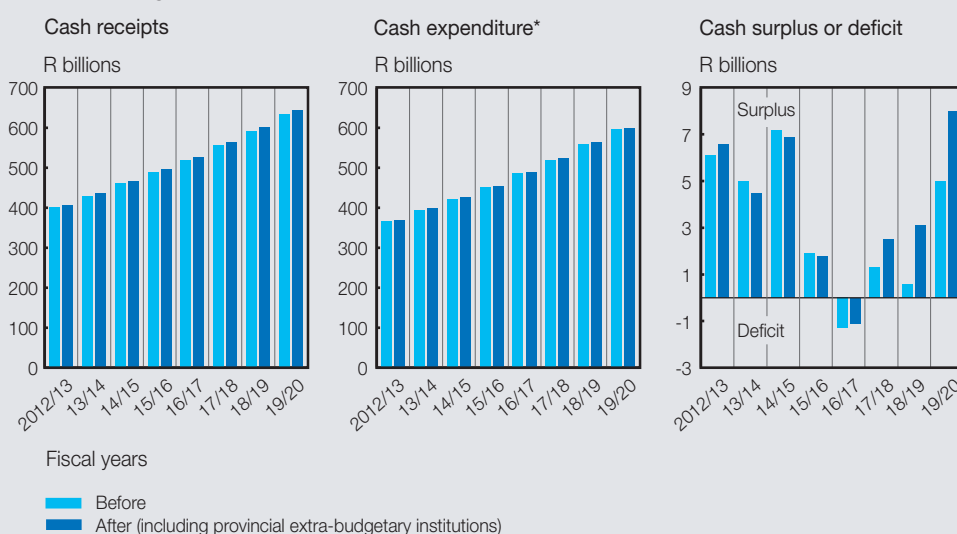
Sources: SARB and National Treasury

The change resulted in an increase of R9.4 billion in total cash receipts from operating activities and R3.3 billion in total cash expenditure as well as an increase in the cash surplus of R3.0 billion in fiscal 2019/20. The grants paid by provincial governments to the provincial extra-budgetary institutions, which were previously recorded as other payments, are now reclassified as grants paid and grants received by provincial extra-



budgetary institutions and are then consolidated with provincial government, which offsets both the grants paid and received. The new statistics reporting format better reflects the expenditure of the grants and other receipts of provincial extra-budgetary institutions.

Provincial government statistics before and after consolidation



* Total cash expenditure comprises total cash payments for operating activities and net cash flow from investment in non-financial assets
Source: SARB

Budget comparable analysis of national government finance

National government's cash book deficit in the first quarter of fiscal 2021/22 (April–June 2021) was significantly less than in the same period of the previous fiscal year – only R22.7 billion compared to R126 billion. The smaller cash book deficit reflected growth in revenue that far outpaced that in expenditure in the wake of stronger economic activity as the impact of the COVID-19 lockdown restrictions abated. The deficit was primarily financed through the issuance of debt securities in the domestic financial markets.

National government revenue increased markedly by 60.8% year on year to R386 billion in the first quarter of fiscal 2021/22. The improved revenue performance, albeit from a low base, reflected strong year-on-year growth in all tax categories, in particular corporate income tax (CIT). The *2021 Budget Review* projected total revenue of R1 352 billion for fiscal 2021/22 as a whole – R116 billion more than the preliminary outcome of fiscal 2020/21. Revenue as a ratio of GDP amounted to 25.2% in the first quarter of fiscal 2021/22 – higher than the 19.8% in the same period a year earlier.



National government finances

	Actual Apr–Jun 2020		Actual Apr–Jun 2021		Originally budgeted ¹ Fiscal 2021/22	
	R billions	Percentage change ²	R billions	Percentage change ²	R billions	Percentage change ³
Revenue	240	-24.6	386	60.8	1 352	9.3
<i>Percentage of GDP...</i>	19.8		25.2		25.3	
Expenditure	366	-2.6	408	11.7	1 834	2.6
<i>Percentage of GDP...</i>	30.3		26.7		34.3	
Cash book balance ⁴ ...	-126		-22.7		-483	
<i>Percentage of GDP...</i>	-10.4		-1.5		-9.0	
Primary balance ⁵	-96.7		9.8		-213	
<i>Percentage of GDP...</i>	-8.0		0.6		-4.0	
Gross loan debt ⁶	3 442	18.7	4 051	17.7	4 383	11.4
<i>Percentage of GDP...</i>	62.6		68.8		81.9	

1 2021 Budget Review

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

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

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

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

6 As at 30 June for rand values

Sources: National Treasury, SARS and Stats SA

The main source of revenue – taxes on income, profits and capital gains – increased significantly by 46.7% year on year to R236 billion in the first quarter of fiscal 2021/22 as collections of CIT surged by R57.5 billion and personal income tax (PIT) increased by R16.5 billion. CIT reflected increased provisional tax payments by large companies in the mining, manufacturing and finance sectors. Large profits, particularly in the mining sector, reflected the impact of the surge in global commodity prices. The 2021 Budget Review projected revenue collections of R762 billion from taxes on income, profits and capital gains for fiscal 2021/22 as a whole.

Revenue from taxes on goods and services increased by a sizeable 77.9% year on year to R124 billion in the first quarter of fiscal 2021/22. This reflected strong growth in net value-added tax (VAT) collections, the general fuel levy as well as other excise duties. Notwithstanding higher VAT refunds of R59.5 billion, especially to the mining and manufacturing sectors, the net VAT collection still amounted to R83.9 billion. Growth in domestic VAT collections significantly exceeded the budgeted full year growth rate of 9.4%, mainly driven by collections in the manufacturing sector. The 2021 Budget Review projected revenue from taxes on goods and services of R514 billion for fiscal 2021/22 as a whole.



National government revenue in fiscal 2021/22¹

Revenue source	Originally budgeted ² Fiscal 2021/22		Actual Apr–Jun 2021	
	R billions	Percentage change ³	R billions	Percentage change ⁴
Taxes on income, profits and capital gains	762.0	6.1	235.6	46.7
<i>Of which:</i> Income tax on individuals	516.0	5.6	128.4	14.8
Income tax on companies	213.1	4.3	98.7	139.3
Payroll taxes	17.8	45.4	4.5	73.4
Taxes on property	16.8	5.6	4.9	57.7
Taxes on goods and services	514.3	12.9	123.5	77.9
<i>Of which:</i> Value-added tax (VAT) net	370.2	11.8	83.9	59.8
Domestic	430.1	9.4	107.6	32.3
Import	181.3	9.0	35.8	35.8
Refunds	-241.2	5.7	-59.5	7.9
General fuel levy	83.8	11.5	23.0	105.8
Excise duties	49.4	30.1	13.8	298.1
Taxes on international trade and transactions	54.0	13.2	9.9	53.5
<i>Of which:</i> Import duties	53.1	12.2	9.5	47.4
Other revenue ⁵	32.8	-34.3	18.6	39.1
Less: SACU ⁶ payments	46.0	-27.5	11.5	-27.5
Total revenue	1 351.7	9.3	385.5	60.8

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

2 2021 Budget Review

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

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

5 Including non-tax revenue and extraordinary receipts

6 Southern African Customs Union

Sources: National Treasury and SARS

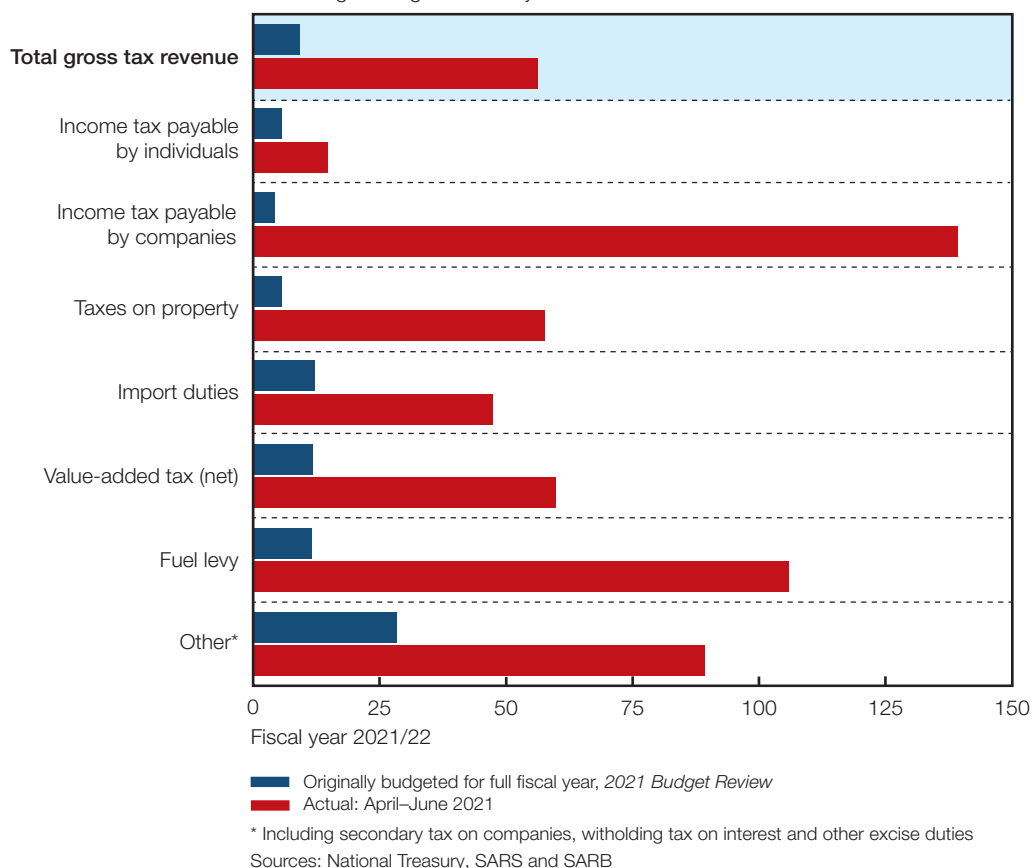
Income from taxes on international trade and transactions increased by 53.5% year on year to R9.9 billion in the first quarter of fiscal 2021/22. Higher collections in this tax category mainly resulted from increases in imported goods, such as original equipment components, machinery and electrical machinery.

Other revenue, which includes non-tax revenue, increased by 39.1% year on year from April to June 2021 to R18.6 billion, mainly due to higher rent on land of R14.6 billion. The 2021 Budget Review earmarked R46.0 billion for the Southern African Customs Union (SACU) for fiscal 2021/22 as a whole – a marked decline from the preliminary outcome of R63.4 billion in the previous year – with the first tranche of R11.5 billion transferred in April 2021.



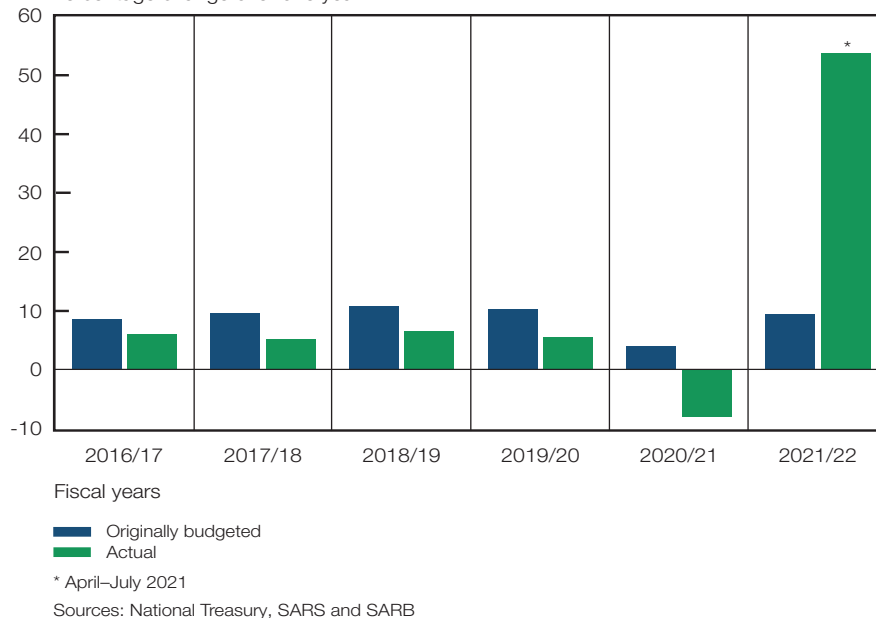
Composition of national government gross tax revenue

Percentage change over one year



Revenue of national government

Percentage change over one year



In the first four months of fiscal 2021/22, national government revenue increased by 53.8% year on year to R465 billion as all tax categories continued to outperform the budgeted targets.

National government expenditure increased by 11.7% year on year to R408 billion in the first quarter of fiscal 2021/22. The higher spending mainly reflected an increase in voted expenditure by national government departments. The *2021 Budget Review* projected an increase of R46.3 billion in total expenditure to R1 834 billion for fiscal 2021/22 as a whole. National government expenditure as a ratio of GDP of 26.7% in the first quarter of fiscal 2021/22 was lower than the 30.3% in the same period of the previous fiscal year.

National government expenditure in fiscal 2021/22¹

Expenditure item	Originally budgeted ² Fiscal 2021/22		Actual Apr–Jun 2021	
	R billions	Percentage change ³	R billions	Percentage change ⁴
Voted expenditure	980.6	-2.3	238.3	21.3
<i>Of which:</i> Transfers and subsidies.....	662.8	-0.6	158.7	14.7
Current payments	256.0	7.0	57.8	4.4
Payments for capital assets.....	15.0	31.2	1.2	2.8
Payments for financial assets.....	46.8	-45.7	20.5	...
Statutory amounts ⁵	853.7	8.9	169.9	0.4
<i>Of which:</i> Provincial equitable shares	523.7	0.6	130.9	-2.7
Interest on debt	269.6	16.1	32.5	11.4
General fuel levy	14.6	4.2	0.0	0.0
Total expenditure	1 834.3	2.6	408.2	11.7

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

2 *2021 Budget Review*

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

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

5 Including extraordinary payments

... Not available

Source: National Treasury

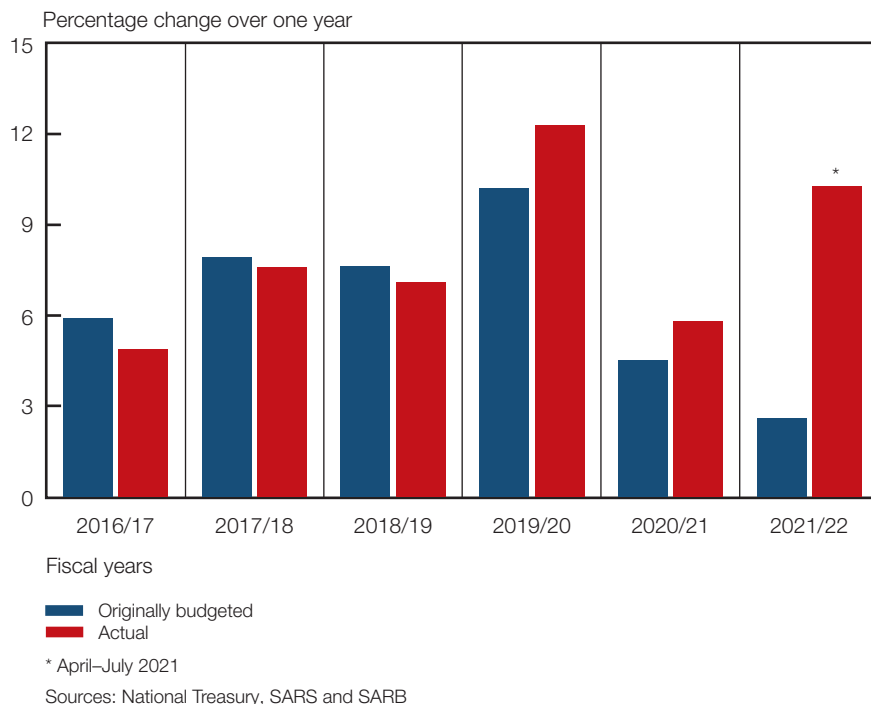
Total voted expenditure increased by 21.3% year on year to R238 billion in the first quarter of fiscal 2021/22. This mainly resulted from higher transfers and subsidies of R159 billion as well as payments for financial assets of R20.5 billion. Transfers and subsidies reflected transfers to the departments in the social cluster, such as the departments of Higher Education and Training, Basic Education, Social Development, and Health as well as in the economic cluster, such as Transport. Payments for financial assets largely reflected the R20.0 billion recapitalisation of Eskom.

Interest paid on national government debt increased by 11.4% year on year to R32.5 billion in the first quarter of fiscal 2021/22, reflecting the continued increase in the stock of national government debt. Government envisaged total debt-service costs of R270 billion for fiscal 2021/22 as a whole, as reflected in the *2021 Budget Review*.

Total equitable share transfers to provinces of R131 billion contracted by 2.7% year on year in the period under review. The *2021 Budget Review* envisaged total equitable share transfers to provinces of R524 billion for fiscal 2021/22 as a whole. In the first four months of fiscal 2021/22, total expenditure increased by 10.3% year on year to R621 billion, or 33.9% of the original estimate of R1 834 billion for the full fiscal year.

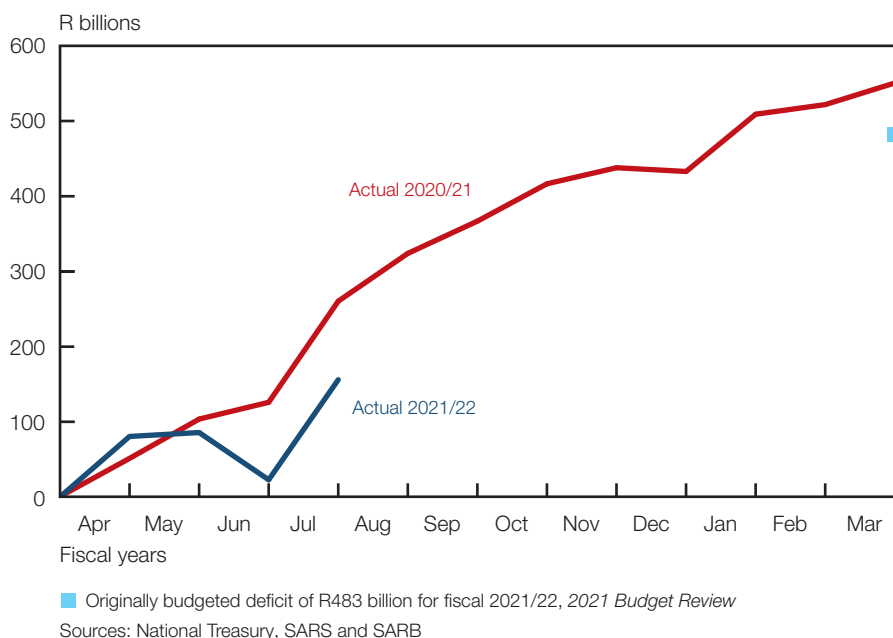


Expenditure by national government



National government revenue and expenditure resulted in a cash book deficit of only R22.7 billion in the first quarter of fiscal 2021/22 – R103 billion less than in the same period of fiscal 2020/21. The cash book deficit of R156 billion in the first four months of fiscal 2021/22 was R104 billion less than a year earlier. The *2021 Budget Review* envisaged a national government cash book deficit of R483 billion for fiscal 2021/22, slightly less than the previous fiscal year.

Cumulative deficit of national government



31 The primary balance is the cashbook surplus/deficit excluding interest payments.

The primary balance³¹ of national government reverted from a deficit of R96.7 billion (8.0% of GDP) in the first quarter of fiscal 2020/21 to a surplus of R9.8 billion (0.6% of GDP) in the first quarter of the current fiscal year, reflecting improved economic activity.



National government financing

R billions

Item or instrument	Actual Apr–Jun 2020	Actual Apr–Jun 2021	Originally budgeted ¹ Fiscal 2021/22
Cash book deficit	125.8	22.7	482.6
Cash flow deficit ²	162.8	26.0	...
Plus: Cost/profit on revaluation of foreign debt at redemption ³	6.5	0.0	2.5
Accrual adjustments	47.2	20.9	...
Net borrowing requirement	122.1	5.1	485.1
Treasury bills and short-term loans ⁴	65.3	7.9	9.0
Domestic bonds ⁴	102.9	58.4	319.2
Foreign bonds and loans ⁴	-8.0	14.1	44.3
Change in available cash balances ⁵	-38.1	-75.3	112.6
Total net financing⁶	122.1	5.1	485.1

1 2021 Budget Review

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

3 Cost (+)/profit (-)

4 Net issuance (+)/net redemption (-)

5 Increase (-)/decrease (+)

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

... Not available

Sources: National Treasury and SARB

National government's cash flow deficit decreased markedly from R163 billion in the first quarter of fiscal 2020/21 to R26.0 billion between April and June 2021. After accounting for the revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement was only R5.1 billion in the first quarter of fiscal 2021/22. This was R117 billion less than in the same period of the previous fiscal year.

National government financed the smaller net borrowing requirement primarily in the domestic financial markets through the net issuance of long-term government bonds. This, together with the net issuance of TBs and foreign debt, significantly increased government's available cash balances. Government's net issuance of domestic long-term government bonds amounted to R58.4 billion, while R7.9 billion was raised through TBs and short-term loans from the CPD. Net issuance of foreign bonds and loans rendered R14.1 billion. The funding activities of national government increased its overall available cash balances by R75.3 billion in the first quarter of fiscal 2021/22.

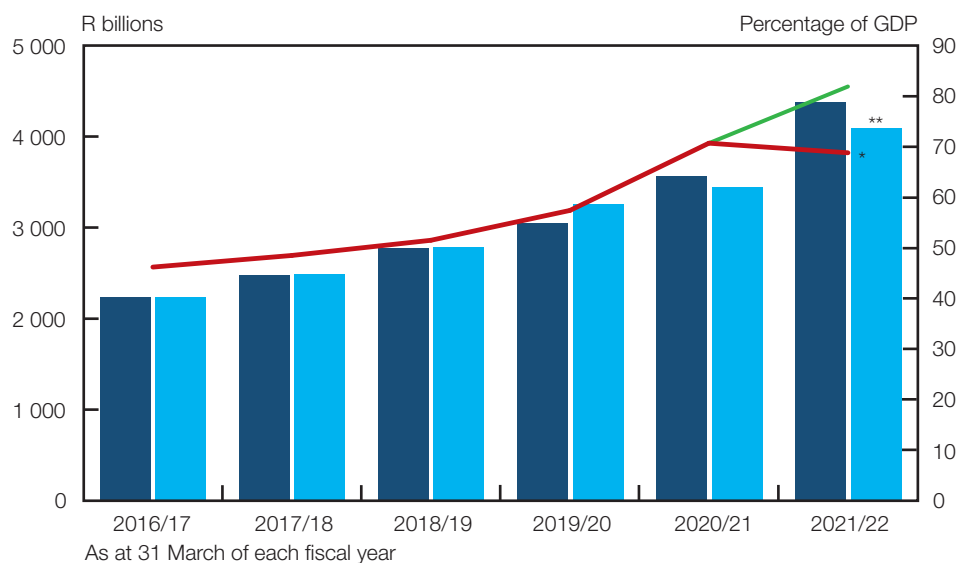
National government's gross loan debt (domestic and foreign) increased by R609 billion year on year to R4 051 billion as at 30 June 2021. Domestic debt accounted for 90.3% of total gross loan debt at the end of June 2021, with foreign debt accounting for the remainder. The 2021 Budget Review projected gross loan debt of R4 383 billion for fiscal 2021/22 as a whole. As at 31 July 2021, it had already amounted to R4 090 billion, or 93.3% of the total projected gross loan debt for the full fiscal year. However, the pace of net debt issuance slowed notably in the first quarter of fiscal 2021/22.

The gross loan debt as a ratio of GDP of 68.8% as at 30 June 2021 was markedly higher compared with 62.6% a year earlier but, encouragingly, remained below the originally budgeted target of 81.9% for fiscal 2021/22 as a whole.



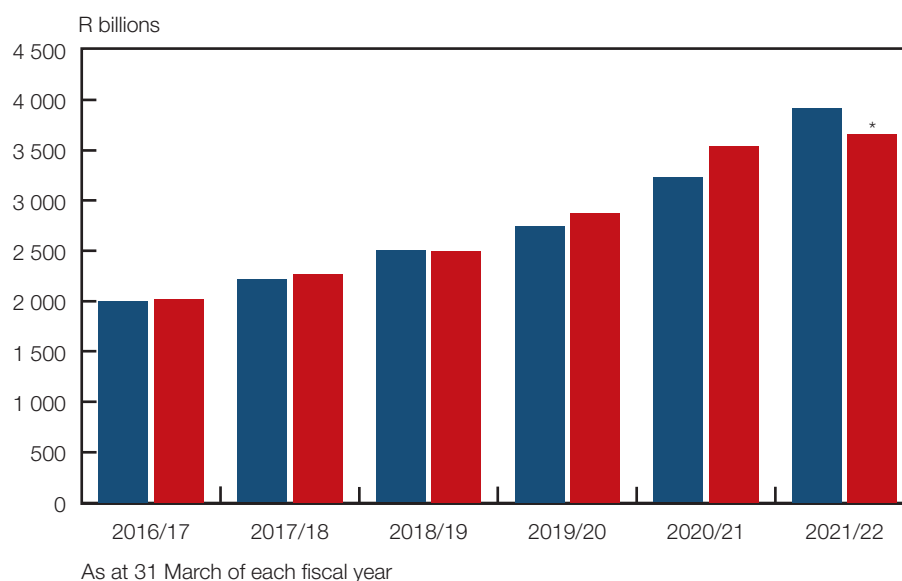


Gross loan debt of national government

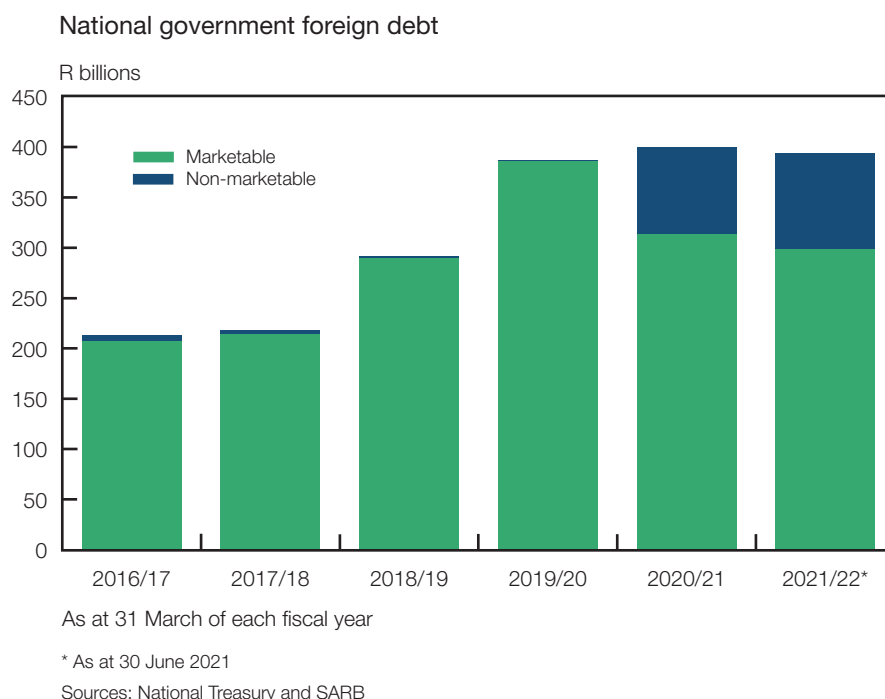


National government's domestic debt (marketable and non-marketable) of R3 657 billion as at 30 June 2021 was 18.7% higher than a year earlier. This substantial increase reflected the net issuance of domestic marketable debt, both marketable bonds and TBs, which increased by 21.4% year on year to R3 641 billion as at 30 June 2021. Domestic marketable bonds totalled R3 177 billion as at 30 June 2021, which was R537 billion more than a year earlier. Government's outstanding balance of TBs in issue increased by R105 billion year on year to R464 billion over the same period. The average outstanding maturity of domestic marketable bonds decreased from 171 months as at 30 June 2020 to 165 months a year later.

Domestic debt of national government



National government's total foreign debt (marketable and non-marketable) increased by 9.1% year on year to R394 billion as at 30 June 2021. This reflected the depreciation in the exchange value of the rand along with a US\$1 billion (R14.3 billion) loan in June 2021, which matures in March 2051, and three other loans to the total amount of R94.6 billion in July and October 2020. The non-marketable foreign debt increased significantly from R15.1 *million* as at 30 June 2020 to R95.8 billion (24.3% of total foreign debt) a year later, reflecting these loans. By contrast, the marketable foreign debt declined from R361 billion (about 100% of total foreign debt) to R298 billion (75.7% of total foreign debt) over the same period. Foreign debt remained in line with the R466 billion (8.7% of GDP) budgeted target for fiscal 2021/22.



Before accounting for exchange rate revaluation, national government's foreign debt amounted to R366 billion as at 30 June 2021 compared with R394 billion after revaluation (a revaluation effect of R27.5 billion). National government's foreign debt is denominated in five different currencies, namely the US dollar, euro, Japanese yen, the IMF's SDR and the rand. The US dollar-denominated debt continued to account for the bulk of the total outstanding balance of foreign debt at R314 billion (79.8% of the total) followed by the IMF's SDR at R62.2 billion (16.0% of the total), with the balance distributed between the remaining currencies. The average outstanding maturity of foreign marketable bonds decreased from 171 months as at 30 June 2020 to 159 months a year later.

Note on the benchmark revisions and rebasing of South Africa's national accounts statistics^{1, 2}

by E Botes and K Kuhn³

Introduction

The results of the comprehensive benchmarking and rebasing of South Africa's national accounts statistics, jointly undertaken by Statistics South Africa (Stats SA) and the South African Reserve Bank (SARB), were published by Stats SA on 25 August 2021 and have been incorporated in this edition of the *Quarterly Bulletin*. This *Quarterly Bulletin* and the SARB website include the revised statistics from the first quarter of 1993 to the second quarter of 2021 for most of the time series.⁴ As indicated in the SARB media release of 26 August 2021, the revised statistics from 1946 to the fourth quarter of 1992 will be available on the SARB website on 15 December 2021 with the release of the December 2021 edition of the *Quarterly Bulletin*, following the backward linking of the timeseries. In addition, a dedicated supplement containing all the revised statistics as well as a discussion on the conceptual, methodological, classification and source data changes will be published on 15 February 2022.

The main highlight of the revised national accounts statistics relates to the upward revision of the nominal gross domestic product (GDP) by 11% in 2020 and a higher level of 9.6%, on average, between 2011 and 2020. This increase in nominal GDP will lower the ratios of economic aggregates such as the fiscal deficit and debt to GDP by about a tenth. Estimated real GDP growth rates did not change materially, with the average growth rate between 2010 and 2020 increased marginally from 0.6% at 2010 prices to 0.7% at 2015 prices. Nominal gross value added (GVA) in 2015 showed a pronounced upward revision in the level of the finance, real estate and business services as well as the personal services sectors, while that of general government services and mining were revised lower. The contribution of the finance, insurance, real estate and other business services sector increased significantly to 24.3% of GDP in 2020, from the earlier estimate of 19.9%. The reclassification of various health and education services, from government to personal services, lowered the estimated contribution to GDP by government significantly from 19.4% to 9.2%, while that of personal services increased markedly from 6.0% to 17.3%. Furthermore, the revisions revealed a more consumption-driven economy, with most of the increase in GDP emanating from household consumption expenditure. The contribution of household spending to nominal GDP in 2020 increased from 60.0% to 62.3%, while that of fixed investment spending decreased from 15.8% to 13.7%.

This review and update of the estimates of the size, structure and performance of the economy differ substantially from regular annual revisions in terms of the scope of the changes and the length of the period being revised, while also incorporating new international best practices.

The revised national accounts statistics mainly reflect:

- improvements of, and revisions to, basic economic datasets as part of Stats SA's strategy to continually improve economic statistics;
- new internal and external source data, inclusive of the results of intermittent structural industry surveys;
- methodological improvements; and
- a change in the base year from 2010 to 2015 for the national accounts estimates at constant prices.

This note gives an overview of benchmarking and rebasing practices, new source data applied, methodological improvements as well as the revision of the GDP and the components of the gross domestic expenditure (GDE).

1 For more detail on the methodology used by Stats SA, see <http://www.statssa.gov.za/publications/Report%2004-04-04/Report%2004-04-042021.pdf>

2 Double deflation was applied during benchmarking to derive the volume estimates of output and intermediate consumption, as recommended in the *System of National Accounts 2008*. Consequently, the constant-price value added was calculated by subtracting the constant-price intermediate consumption from constant-price output. This ensures greater coherence in the national accounts, where real gross domestic product (GDP) growth from the expenditure side should equal real GDP growth from the production side. See <https://unstats.un.org/unsd/nationalaccount/docs/sna2008.pdf>

3 The authors would like to thank the staff of the National Accounts Unit in the Economic Statistics Department for their valuable contribution to the benchmarking and rebasing of South Africa's national accounts statistics.

4 Due to the proximity of the release of this edition of the *Quarterly Bulletin* to the Stats SA releases and the extent of the further revisions required to the additional SARB national accounts statistics, some historical statistics on the SARB website will only be available as from the first quarter of 2010. On 21 October 2021, these time series will be available on the SARB website as from the first quarter of 1993.



Benchmarking and rebasing

The concept of benchmarking relates to the adoption of new and additional high-frequency data sources that track short-term developments in an economy in the base year (2015 in this instance). These are then reconciled with more accurate and detailed data that are less frequently published to determine revised nominal levels in the base year, on which future estimates will be based.

Rebasing replaces the reference year for the real, or constant price, estimates of national accounts aggregates with a new and more recent base year to provide for changes in relative prices. The base year typically has to be a 'normal' year in the economy for which the required data are readily available.

National accounts statistics at constant prices reflect changes in the volume, or quantity, of goods and services produced or utilised. Volume changes in a macroeconomic aggregate between a chosen base period and the current period are measured by revaluing the aggregate in the current period at the prices that prevailed in the base period, and then calculating the change between these two periods. This eliminates the effects of price changes from the base period to the current period by recalculating the value of the aggregate in terms of the prices of goods and services in the base period. The prices in the selected base period are a factor in determining the real values of the different goods and services in other periods.

Relative values change over time as prices generally do not change at the same pace from one period to another. Shifts in relative prices may be brought about by changes in supply and demand that, in turn, reflect factors such as different rates of change in productivity in different industries, changes in the quality of products, technological advances, tax changes, international price movements, exchange-rate adjustments, and changes in tastes and preferences. To ensure that relative values, and therefore weighted average volume changes, approximate the current structure of the economy as closely as possible, base periods and weights must be changed at regular intervals.

The shift in the base year changes the units (rand value) in which output and expenditure volumes are measured, and the difference in the level between the previously published and the revised statistics primarily reflects the difference in the unit of measurement. For example, rebasing from 2010 prices to 2015 prices increased the level of real GDP, essentially reflecting the increase in the level of prices from 2010 to 2015. It does not indicate an increase of the same magnitude in the output or expenditure volumes.

The new constant price statistics, with 2015 as the base year, have been recalculated from 2010 onwards. This allows for changes in the growth rates on account of changes in the weighting structure (as a result of adjustments to the nominal statistics as deflated by new or re-indexed deflators), while at the same time ensuring that the weights used in the measurement of changes in real national accounts aggregates between 2010 and 2020 reflect the relevant new price and quantity structure for this period reasonably closely. The previously estimated time series, expressed in terms of constant 2010 prices, have been retained for the period up to 2010 and were linked to the new time series without being reweighted. However, due to the magnitude of some revisions, it was necessary to allow for a gradual phasing-in period prior to 2006 to accommodate the underlying revisions to certain aggregates. This implies that the growth rates at constant prices before 2006 could change accordingly in those cases.

In order not to disturb the previously identified growth patterns in volume statistics up to 2009, subtotals and totals up to 2009 were converted to 2015 prices independently of their components. Consequently, these converted subtotals and totals for the period before 2009 are not equal to the sum of their components. This implies that the constant price statistics do not add up in an accounting sense, with the difference being reflected in the residual.

New source data and methodological improvements

The benchmark revisions are based on relevant statistics released by Stats SA during the period 2013 to 2018 as well as some new external data sources. The most notable new sources are the 2014/15 *Living Conditions Survey*, the 2017 *Census of Commercial Agriculture* and various issues of the *Annual Financial Statistics (AFS) survey*, the *General Household Survey*, the *Quarterly Financial Statistics of Municipalities* and the annual *Structural Industry Surveys (SIS)* for the different industries that were conducted in a cycle of three to five years.

Methodological improvements in the estimation of the GDP by industry as well as the different expenditure components reflect a review of the classification of both industries and commodities, based on stakeholder requirements and a closer link to the *AFS survey* and the *SIS*. These methodological changes include:

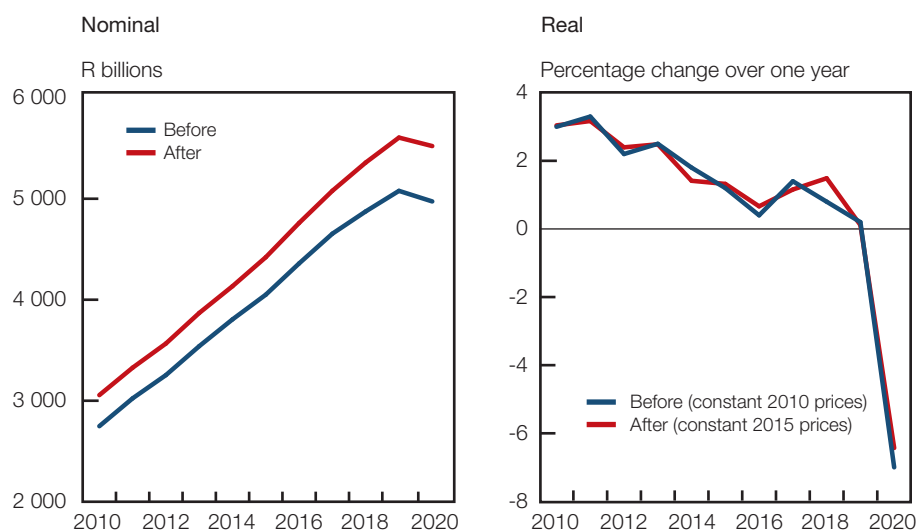
- new industry and product classification;
- a new supply and use table (SUT) framework;
- the reclassification of general government data by industry;
- improved trade services estimates;
- the addition of own-account activities by industry;
- refined methods for calendarisation, for calculating taxes on products as well as for trade and transport margins;
- improved estimates for financial services indirectly measured (FISIM); and
- a change from the straight-line to the geometric method for calculating the consumption of fixed capital.

Within the context of the new SUT framework, these tables were recompiled for the period 2013 to 2018 and were back-casted and linked to 1993, starting in 2012 for most of the production-based estimates and in 2009 for most of the expenditure-based estimates.

Revision to gross domestic product

The outcome of the benchmark revisions and rebasing exercise increased the level of nominal GDP, or GDP at current prices, by 9.2% in 2015. The difference between the revised and previous level of nominal GDP averaged 9.6% between 2011 and 2020, ranging from 8.6% in 2014 to 11.0% in 2020. The annual growth rates in real GDP before and after the revisions are similar, both in magnitude and progression, with the average growth rate between 2011 and 2020 edged higher from 0.7% before the revisions to 0.8% after the revisions. The largest deviation was in 2018, with annual increases still recorded for the period 2011 to 2019, while the initially estimated national lockdown-induced contraction of 7.0% in 2020 was revised lower to 6.4%.

Figure 1 Gross domestic product



Source: Stats SA



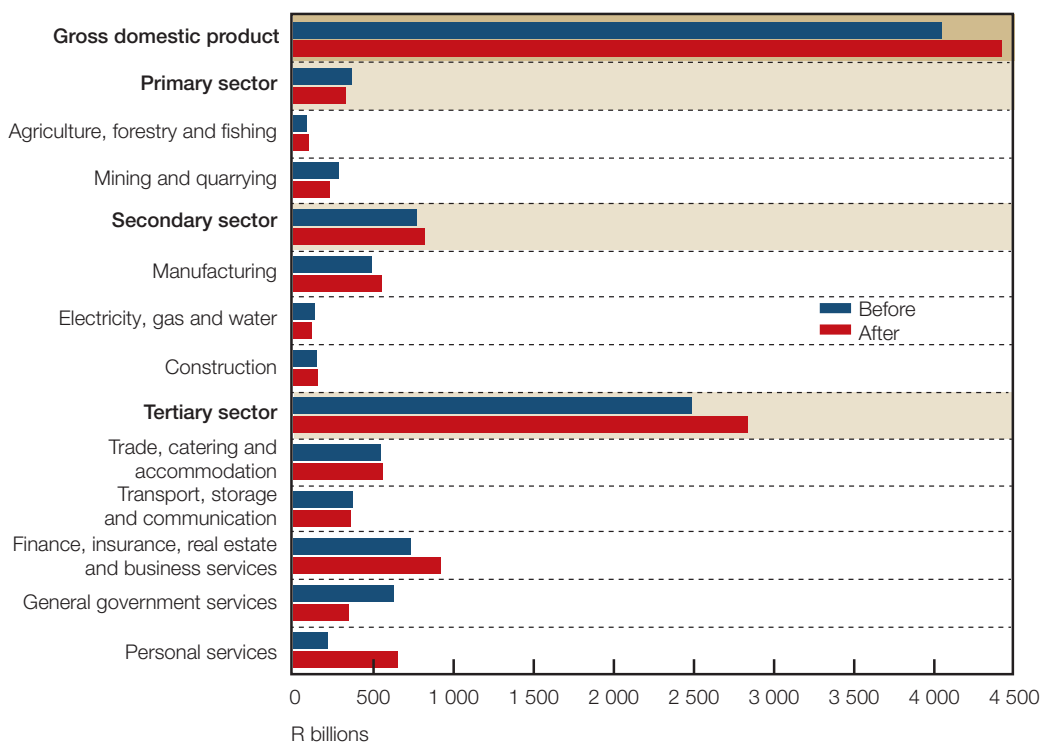
Table 1 Comparison of gross domestic product before and after benchmark revisions and rebasing

	Level of nominal gross domestic product				Growth in real gross domestic product		
	Current (R billions)			Percentage change	Percentage		Percentage points
	Before	After	Difference	Difference	Before (constant 2010 prices)	After (constant 2015 prices)	Difference
2011.....	3 024	3 327	303	10.0	3.3	3.2	-0.1
2012.....	3 254	3 566	313	9.6	2.2	2.4	0.2
2013.....	3 540	3 869	329	9.3	2.5	2.5	0.0
2014.....	3 805	4 134	329	8.6	1.8	1.4	-0.4
2015.....	4 050	4 421	371	9.2	1.2	1.3	0.1
2016.....	4 359	4 760	400	9.2	0.4	0.7	0.3
2017.....	4 654	5 078	425	9.1	1.4	1.2	-0.2
2018.....	4 874	5 358	484	9.9	0.8	1.5	0.7
2019.....	5 078	5 605	527	10.4	0.2	0.1	-0.1
2020.....	4 973	5 521	548	11.0	-7.0	-6.4	0.6

Source: Stats SA

A comparison of nominal GVA in 2015, before and after the revisions, shows that the increase in the level was most pronounced in the finance, real estate and business services and in the personal services sectors, along with a smaller increase in manufacturing. The level of nominal GVA was revised lower in the general government services and mining sectors.

Figure 2 Components of nominal gross value added in 2015



Source: Stats SA

5 This relates to the inclusion of unclassified businesses that were active on the business register but were previously not included in the AFS survey, which covers the formal business sector and is conducted by Stats SA.

In the finance, insurance, real estate and business services sector, the size of business services increased due to the application of new source data, while real estate estimates were aligned with the revised estimates on rent in the final consumption expenditure by households. This followed an improvement in the methodology for compiling owner-occupied housing estimates in real estate activities. Separate estimates were compiled for owner-occupied dwellings and dwellings rented out by unincorporated enterprises, using information from household final consumption expenditure. Improvements in the coverage of computer and related services and an increase in 'other' business activities due to an expanded coverage of the economy⁵ supported the increase in business services.

The significant downward revision in the GVA by the general government services sector is closely linked to the substantial upward revision in the other personal services sector. Education and health activities, previously classified as government services, have been reclassified as personal services because of a methodological change, in line with the *System of National Accounts 2008 (2008 SNA)*. In addition, education now includes new estimates for private education (based on household final consumption expenditure); sewage and refuse disposal and sanitation now includes local trading entities; recreational, cultural and sporting activities now include municipal sport, recreation and environmental protection activities, with the latter derived from Stats SA's *Quarterly Financial Statistics of Municipalities*.

Improved estimates of the non-observed economy were also included. Between 2013 and 2018, the non-observed economy accounted for, on average, 8% of total GVA.

Table 2 Contributions to gross value added and growth in real gross domestic product

Per cent

Sectors	Contributions of nominal gross value added by kind of economic activity to total value added at basic prices		Growth in real gross domestic product by kind of economic activity between 2010 and 2020	
	Before	After	Compounded annual growth rates	
	2010	2015	2010 prices	2015 prices
Primary sector	11.9	8.2	-0.6	0.3
Agriculture, forestry and fishing.....	2.6	2.5	1.8	3.4
Mining and quarrying	9.2	5.7	-1.4	-1.2
Secondary sector	20.9	20.6	-0.8	-1.1
Manufacturing.....	14.4	13.9	-0.6	-0.7
Electricity, gas and water.....	2.7	2.9	-1.0	-1.7
Construction.....	3.8	3.9	-1.4	-2.1
Tertiary sector.....	67.2	71.2	1.3	1.4
Trade, catering and accommodation	14.9	14.0	0.6	0.0
Transport, storage and communication.....	9.2	9.0	0.1	0.1
Finance, insurance, real estate and business services	21.0	23.2	1.8	2.4
Government services.....	16.2	8.7	1.9	2.3
Other personal services	6.0	16.4	1.3	1.1
Total	100.0	100.0	0.6	0.7

Source: Stats SA

When comparing the contribution of the various sectors to total nominal GVA at basic prices in the 2010 and 2015 benchmark years, that of the *primary sector* decreased from 11.9% to 8.2%, mainly due to the smaller mining sector. The compilation and estimation of the mining and quarrying sector's economic activity is now more reflective of an establishment basis, as recommended in the *2008 SNA*.



The contribution of the *secondary sector* shrank marginally from 20.9% to 20.6% between the 2010 and 2015 benchmark years, mainly due to the smaller contribution of the manufacturing sector as trade activities in this sector were re-allocated to the relevant trade services.

The increased contribution of the *tertiary sector* was driven by the higher contributions of both the finance, insurance, real estate and business services as well as the other personal services sectors, which more than offset smaller contributions by the transport, storage and communication services; the government services; and the trade, catering and accommodation services sectors.

The average annual growth rate in real GDP between 2010 and 2020 increased marginally to 0.7% at 2015 prices, from 0.6% at 2010 prices. Following the revisions, the real GVA by the primary sector, at constant 2015 prices, increased by 0.3%, on average, between 2010 and 2020. This compares to an average annual decline of 0.6% at constant 2010 prices. The annual average contraction in the real GVA by the secondary sector increased from 0.8% at 2010 prices to 1.1% at 2015 prices, while average growth in the tertiary sector accelerated marginally from 1.3% to 1.4% over this period.

Revision of the components of gross domestic expenditure

On the expenditure side, the most significant revision was the increase of 16.3% in the level of nominal final consumption expenditure by households in the 2015 benchmark year. By contrast, the nominal level of government final consumption expenditure increased only marginally, by 1.3%, while the level of gross fixed capital formation decreased by 3.2%. For households, increased expenditure on recreation and culture, restaurants and hotels, as well as on miscellaneous goods and services contributed the most to the upward revision, and originated from the following:

- A significant addition to the sale of alcoholic beverages by shebeens and taverns as well as an adjustment to include value added tax (VAT) affected restaurants and hotels.
- Census data on dwelling numbers by type of dwelling, nature of occupancy, and average rents increased actual and imputed dwelling rent.
- The SARB's estimates for life insurance, FISIM, financial services and insurance service charges were revised higher.
- Data from the Council for Medical Schemes, including an allowance for out-of-pocket expenses and pharmaceutical products, increased the estimates of medical and hospital services.
- Academic research on informal taxis increased the estimates of road transport fares.
- Estimates for tuition and boarding fees for private universities affected education estimates.

Table 3 Comparison of gross domestic expenditure components before and after benchmark revisions and rebasing in 2015

	Current (R billions)			Percentage change
	Nominal level			
Components	Before	After	Difference	Difference
Final consumption expenditure				
Households.....	2 420	2 815	395	16.3
General government.....	828	839	11	1.3
Gross fixed capital formation	823	796	-26	-3.2
Change in inventories	25	28	3	12.3
Residual	7	0	-7	
Gross domestic expenditure	4 103	4 478	375	9.1
Exports of goods and services.....	1 221	1 225	4	0.3
Imports of goods and services.....	1 274	1 283	8	0.7
Gross domestic product	4 050	4 421	371	9.2

Source Stats SA



The change in inventories, although very small in nominal terms, increased by 12.3% in 2015 following the revisions. The level of the nominal exports and imports of goods and services increased only marginally, by 0.3% and 0.7% respectively.

Figure 3 Components of expenditure on nominal gross domestic product in 2015

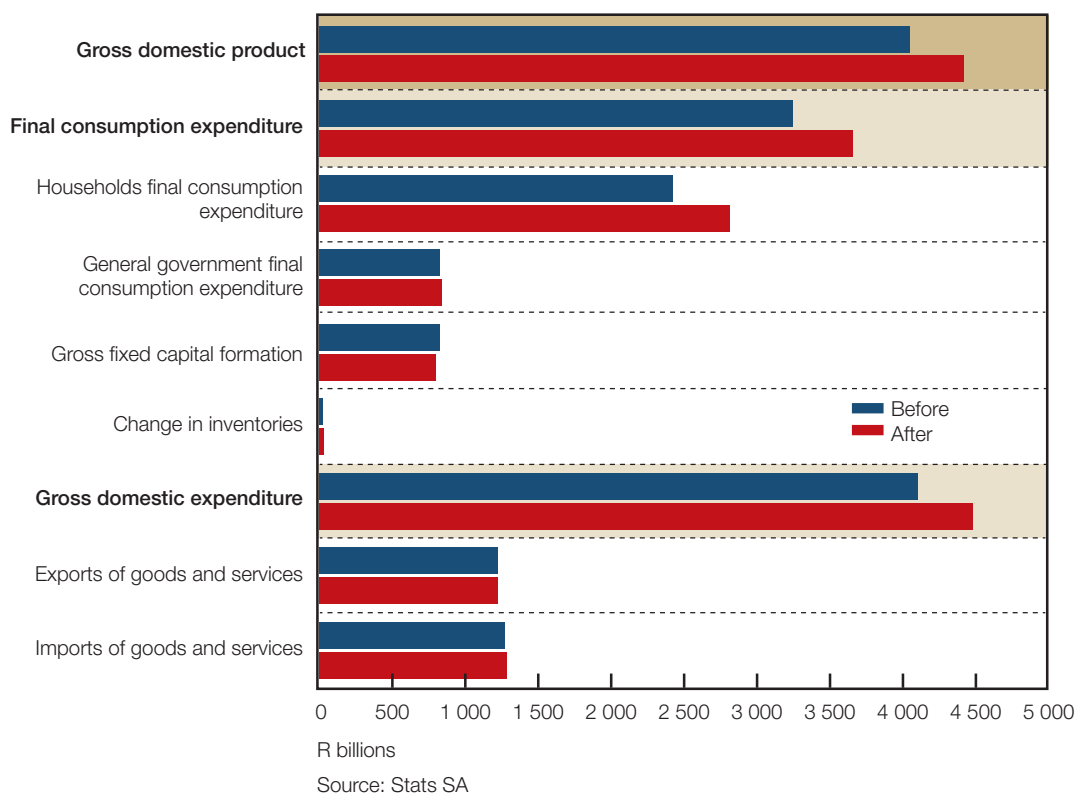


Table 4 Contribution of expenditure components to nominal gross domestic product and growth in real gross domestic expenditure

Per cent

	Contribution of nominal expenditure components to total nominal gross domestic product*		Growth in components of real gross domestic expenditure between 2010 and 2020	
	Before	After	Compounded annual growth rates	
	2010	2015	2010 prices	2015 prices
Final consumption expenditure				
Households.....	59.0	63.7	1.3	1.1
General government.....	20.2	19.0	1.6	2.0
Gross fixed capital formation	19.3	18.0	-0.6	-1.1
Change in inventories	0.2	0.6		
Gross domestic expenditure	98.8	101.3	0.7	0.8
Exports of goods and services.....	28.6	27.7	0.3	0.1
Imports of goods and services.....	27.4	29.0	0.7	0.5
Gross domestic product	100.0	100.0	0.6	0.7

* Totals may not add up due to rounding off.

Source: Stats SA

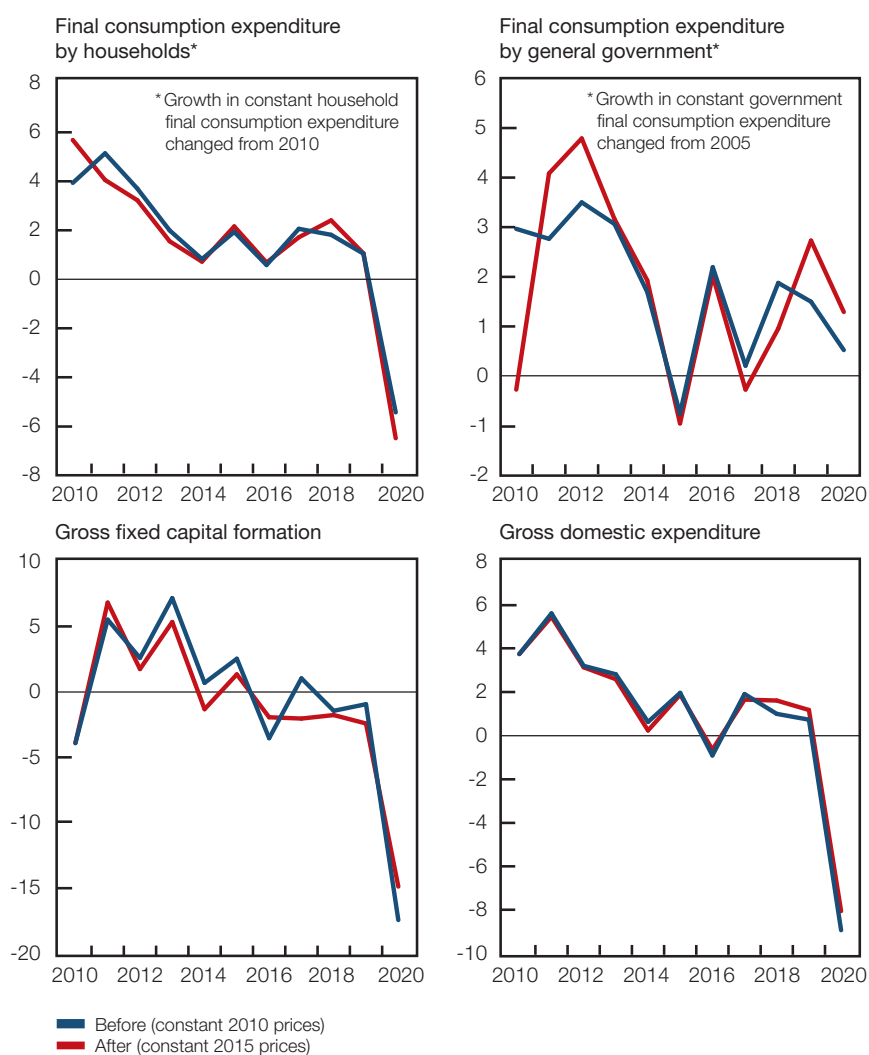
The magnitude of the revisions of all the subcategories of nominal and real final consumption expenditure by households varied from insignificant to substantial. Consequently, the contribution of final consumption expenditure by households to total nominal GDP increased from 59.0% in the 2010 benchmark year to 63.7% in the 2015 benchmark year. Nonetheless, the average annual rate of growth in the real final consumption expenditure by households between 2010 and 2020 was revised lower, from 1.3% at 2010 prices to 1.1% at 2015 prices.

Nominal final consumption expenditure by general government as a percentage of total GDP decreased from 20.2% in the 2010 base year to 19.0% in the 2015 base year. However, the average rate of growth in the real final consumption expenditure by general government between 2010 and 2020 was revised higher, from 1.6% at 2010 prices to 2.0% at 2015 prices.

Nominal gross fixed capital formation decreased from 19.3% of GDP in the 2010 base year to 18.0% in the 2015 base year. The average annual rate of contraction in real gross fixed capital formation between 2010 and 2020 almost doubled, from 0.6% at 2010 prices to 1.1% at 2015 prices.

Consistent with the GDP outcomes, the growth rates in the real expenditure components before and after the revisions are similar, both in magnitude and progression. Annual increases in the real final consumption expenditure by households were still recorded for the period 2010 to 2019, while the initially estimated national lockdown-induced contraction of 5.4% in 2020 was revised to 6.5%. The revised real final consumption expenditure by general government contracted in three of the years during the period 2010 to 2019, but the increase of 0.5% in 2020 was revised higher to 1.3%. For gross fixed capital formation, the revisions indicated five consecutive annual contractions from 2016 to 2020, while the decline of 17.5% in 2020 was revised to a smaller contraction of 14.9%.

Figure 4 Selected components of real gross domestic expenditure
Percentage change over one year



Source: Stats SA

Note on the impact of the benchmark revisions and rebasing of national accounts statistics on the current account of the balance of payments and the terms of trade

1 The authors would like to thank the following staff members of the Balance of Payments Unit in the Economic Statistics Department who were involved in the statistical preparation of the various macroeconomic estimates described in this note, namely Ms L Chiloane, Mr L de Wet, Ms V Manzi, Mr Z Meyer, Ms T M Mugwabana and Mr S Sithole.

2 The components of nominal GDP are reflected by the basic identity where $GDP = \text{household consumption (C)} + \text{investment (I)} + \text{government spending (G)} + \text{net exports (X - M)}$.

3 Stats SA published the benchmarked and rebased national accounts statistics on 25 August 2021. See 'Benchmarked and rebased estimates of gross domestic product, 2021', which includes the methods and sources, available at http://www.statssa.gov.za/?page_id=1854&PPN=Report%2004-04-04&SCH=72991.

4 For the affected balance of payments statistics, see pages S-82 to S-91 and S-154 to S-155 in this edition of the *Quarterly Bulletin*.

5 For detail on the methodology underlying the terms of trade, see 'Box 3: Unpacking South Africa's terms of trade' in the December 2020 edition of the *Quarterly Bulletin*.

by N Molemoeng, Z Jansen and M Steenkamp¹

Introduction

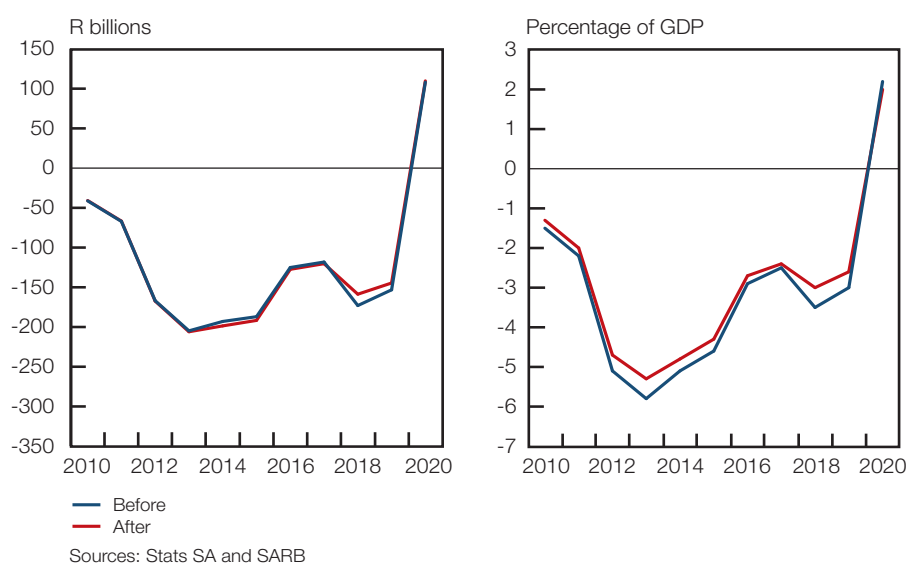
The benchmark revisions of the components of *nominal* gross domestic product (GDP)² by Statistics South Africa (Stats SA), in collaboration with the South African Reserve Bank (SARB),³ are conducted at regular five-year intervals. These revisions, along with the rebasing of the *real* (or *constant price*) estimates to the 2015 base year have impacted South Africa's current account of the balance of payments and the terms of trade statistics.^{4,5} The revised value of the current account balance remained broadly unchanged, despite a general upward revision of its components. This is consistent with the higher revised value of nominal GDP, which indicates a higher level of economic activity.

The balance on the current account of the balance of payments, expressed in *nominal terms*, is affected by both the revised *nominal* exports and the imports of goods and services, with those of goods impacting the trade account and those of services the services, income and current transfer account. In addition, although not part of the GDP components, cross-border income and current transfers also impact the current account. Furthermore, the terms of trade is also impacted by the revised nominal and real estimates of the imports and exports of goods and services.

Current account

The benchmark revision, which incorporated both reassessed conventional and new data sources, impacted the current account of the balance of payments from 2006, but with more observable changes from around 2013. The differences between the before- and after-revision statistics, both in nominal values and as a ratio of GDP, are indicated in the accompanying graphs and table. When assessing ratios to GDP, it should be noted that the revised nominal value of the GDP is R371 billion (about 9%) more in the 2015 base year and R548 billion (11%) more in 2020 than before the revision. However, the deficit on the current account of the balance of payments in 2015 was only R4.8 billion larger, while the surplus in 2020 was R1.6 billion more.

Figure 1 Current account



Generally, for the reasons mentioned, the post-revision ratios of the components of the current account of the balance of payments to GDP were somewhat smaller. Although the nominal value of the current account balance and the ratio relative to GDP have not changed materially, the levels of the contributing components were revised to varying degrees.

Table 1 Current account of the balance of payments before and after revision

	R billions										Percentage of gross domestic product									
	2013	2014	2015	2016	2017	2018	2019	2020	Average 2013–20		2013	2014	2015	2016	2017	2018	2019	2020	Average 2013–20	
Merchandise and net gold exports																				
Before	934	1 015	1 030	1 122	1 169	1 247	1 303	1 394	1 152		26.4	26.7	25.4	25.7	25.1	25.6	25.7	28.0	26.1	
After	933	1 012	1 027	1 120	1 168	1 248	1 303	1 394	1 151		24.1	24.5	23.2	23.5	23.0	23.3	23.2	25.2	23.8	
Merchandise imports																				
Before	1 004	1 070	1 077	1 091	1 104	1 223	1 264	1 109	1 118		28.4	28.1	26.6	25.0	23.7	25.1	24.9	22.3	25.5	
After	1 006	1 075	1 082	1 095	1 109	1 223	1 264	1 105	1 120		26.0	26.0	24.5	23.0	21.8	22.8	22.6	20.0	23.3	
Trade balance																				
Before	-69	-55	-47	31	65	24	39	285	34		-2.0	-1.4	-1.2	0.7	1.4	0.5	0.8	5.7	0.6	
After	-74	-63	-55	26	59	25	39	289	31		-1.9	-1.5	-1.2	0.5	1.2	0.5	0.7	5.2	0.4	
Services balance																				
Before	-12	-2	-6	-8	-5	-8	-14	-39	-12		-0.3	-0.1	-0.1	-0.2	-0.1	-0.2	-0.3	-0.8	-0.3	
After	-8	1	-2	-4	-1	1	-9	-45	-9		-0.2	0.0	-0.1	-0.1	0.0	0.0	-0.2	-0.8	-0.2	
Income balance																				
Before	-93	-102	-100	-120	-140	-154	-143	-94	-118		-2.6	-2.7	-2.5	-2.8	-3.0	-3.2	-2.8	-1.9	-2.7	
After	-94	-103	-101	-122	-141	-149	-140	-93	-118		-2.4	-2.5	-2.3	-2.6	-2.8	-2.8	-2.5	-1.7	-2.4	
Current transfer balance																				
Before	-31	-34	-34	-27	-38	-36	-36	-43	-35		-0.9	-0.9	-0.8	-0.6	-0.8	-0.7	-0.7	-0.9	-0.8	
After	-31	-34	-33	-27	-38	-35	-35	-42	-34		-0.8	-0.8	-0.7	-0.6	-0.7	-0.6	-0.6	-0.8	-0.7	
Services, income and current transfer balance																				
Before	-135	-138	-140	-156	-183	-197	-192	-177	-165		-3.8	-3.6	-3.5	-3.6	-3.9	-4.0	-3.8	-3.6	-3.7	
After	-133	-136	-137	-153	-179	-183	-183	-180	-161		-3.4	-3.3	-3.1	-3.2	-3.5	-3.4	-3.3	-3.3	-3.3	
Balance on current account																				
Before	-205	-193	-187	-125	-118	-173	-153	108	-131		-5.8	-5.1	-4.6	-2.9	-2.5	-3.5	-3.0	2.2	-3.2	
After	-206	-199	-192	-127	-120	-159	-145	110	-130		-5.3	-4.8	-4.3	-2.7	-2.4	-3.0	-2.6	2.0	-2.9	

Deficit (-)/surplus (+)

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

Sources: Stats SA and SARB

Trade account

6 A voucher of correction is a customs document used by traders or agents to correct or effect changes to a previously declared bill of entry.

Revisions to trade account statistics have been minimal since these statistics are subject to continual revisions through 'vouchers of correction'.⁶ Trade statistics are sourced from the South African Revenue Service (SARS) as the customs authority for the exports and imports of goods. On balance, the value of merchandise goods and net gold exports was adjusted slightly lower, while that of imports was revised slightly higher, particularly for the period 2014 to 2017. After revision, the annual average trade surplus for the period 2013 to 2020 was R3.4 billion less. The revised exports and imports of goods statistics also reflect further SARB balance of payments adjustments.

Figure 2 Exports and imports of goods

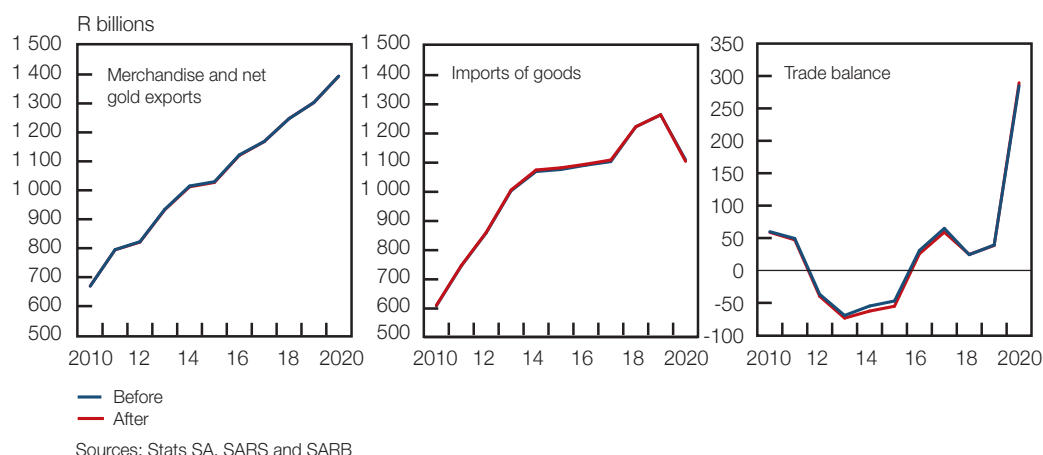
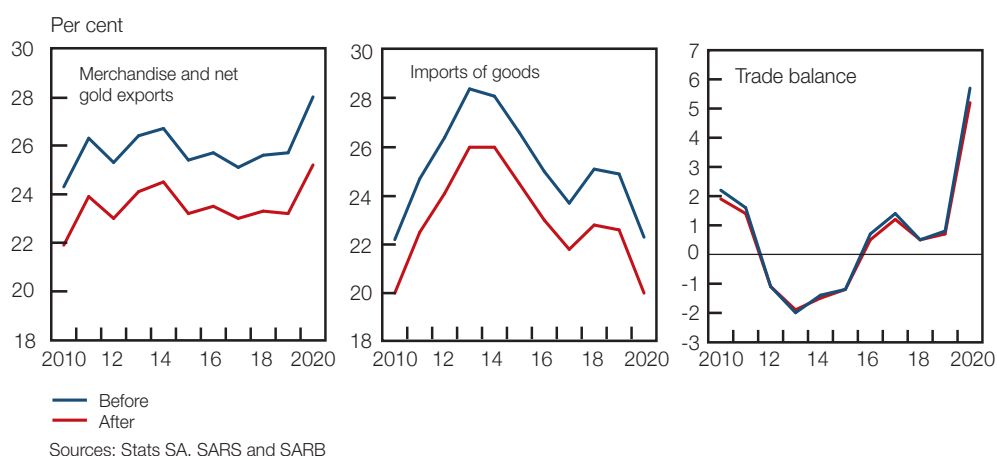


Figure 3 Exports and imports of goods as a percentage of gross domestic product



Services, income and current transfer account

7 For a discussion of travel receipts and payments, see 'Box 4: The importance of travel receipts and payments in the current account of South Africa's balance of payments' in the September 2020 edition of the *Quarterly Bulletin*.

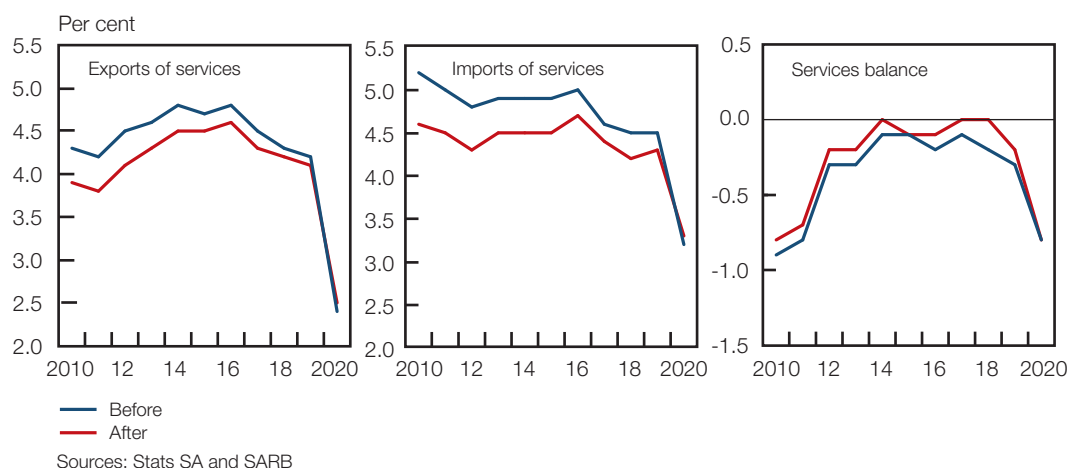
Trade in services, in the services, income and current transfer account, is based on data from the international transactions reporting system, which captures foreign exchange transactions of authorised dealers as well as an array of other dispersed data sources. Services estimates are more susceptible to revision due to their intangible and invisible nature. The value of both the exports and imports of services was revised higher. On balance, the services balance narrowed from an average annual deficit of R11.8 billion to R8.5 billion from 2013 to 2020, as the value of services exports, on average, increased more than that of services imports. The steep and abrupt widening of the services deficit in 2020 reflected the effect of the coronavirus disease 2019 (COVID-19) pandemic on travel and transport-related services to both the exports and imports of services.⁷



Figure 4 Exports and imports of services



Figure 5 Exports and imports of services as a percentage of gross domestic product



The value of services exports increased, mainly due to receipts for research and development services, whereas the higher value of imports largely reflected payments for computer-related services. Receipts for research and development services as a ratio of total exports of services increased notably, from an annual average of 0.8% before to 3.1% after the revisions for the 11-year period under review. Similarly, payments for computer-related services increased from 5.5% of total imports of services to slightly more than 9%, driven by domestic demand and the steady weakening in the exchange value of the rand since 2012. In addition, although relatively small, indirect financial services exported and imported are now measured through the introduction of the concept of financial intermediation services indirectly measured (FISIM).⁸ FISIM accounted for an annual average of only 1.9% and 1.3% of total exports and imports of services respectively from 2010 to 2020.

The estimated value of both income receipts and payments increased due to the upward revision of both dividend receipts from non-residents and dividend payments to non-residents from 2018 onwards, as informed by new and improved data sources. The marginally narrower income deficit reflected an increase in dividend receipts which slightly exceeded that in dividend payments.

⁸ FISIM is the indirect or imputed measurement of financial service charges levied by financial institutions on loans and deposits.

Figure 6 Income receipts and payments

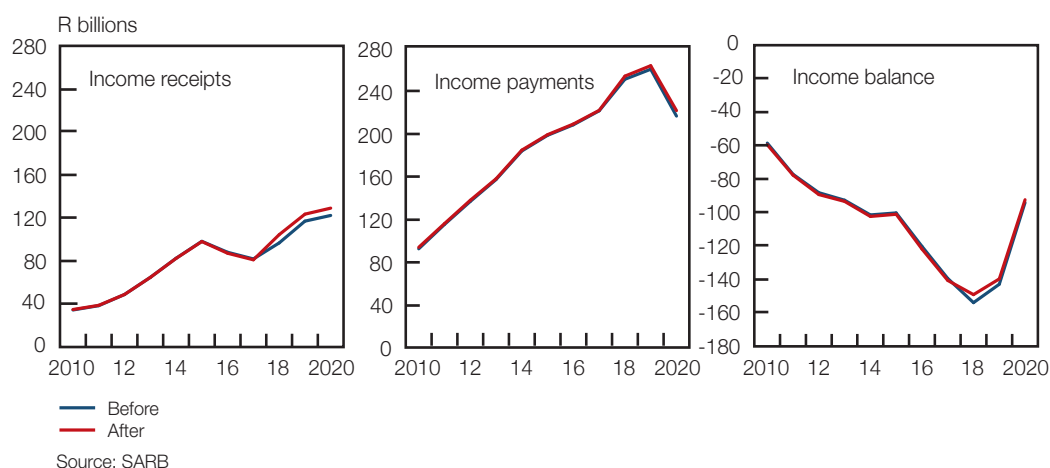
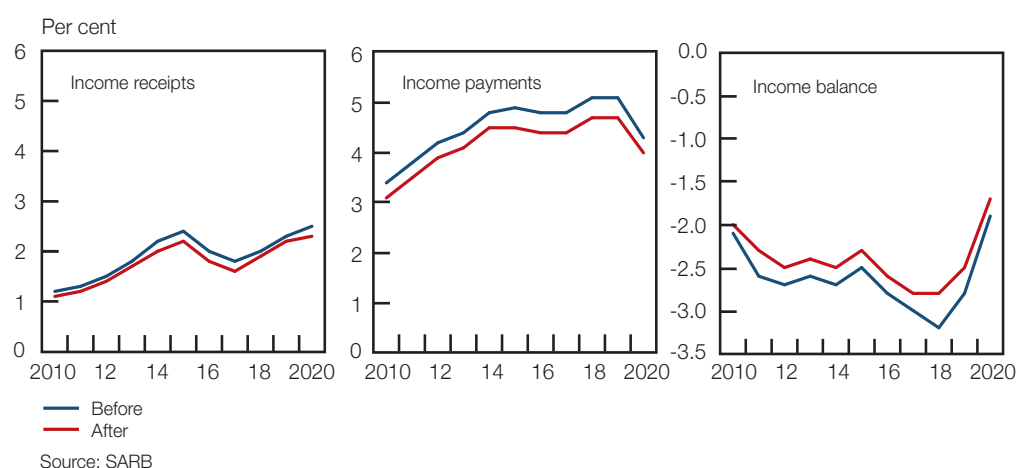


Figure 7 Income receipts and payments as a percentage of gross domestic product



The value of both current transfer receipts and payments was revised higher. The higher value of receipts reflected an upward revision of donations received by charities from abroad, whereas higher payments reflected gifts remitted abroad. In addition, both receipts and payments now reflect the newly introduced measurement of insurance premiums and claims. Collectively, these revisions narrowed the current transfer deficit slightly in recent years.

Figure 8 Current transfer receipts and payments

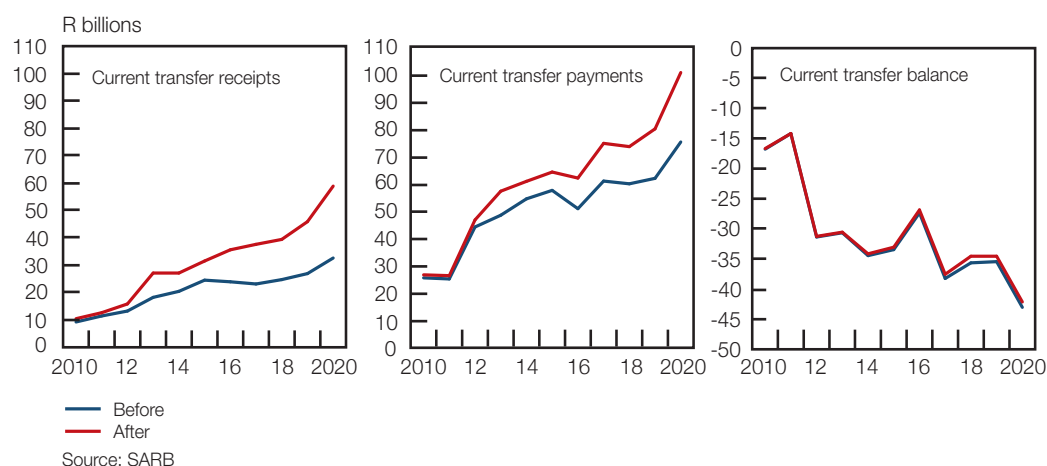
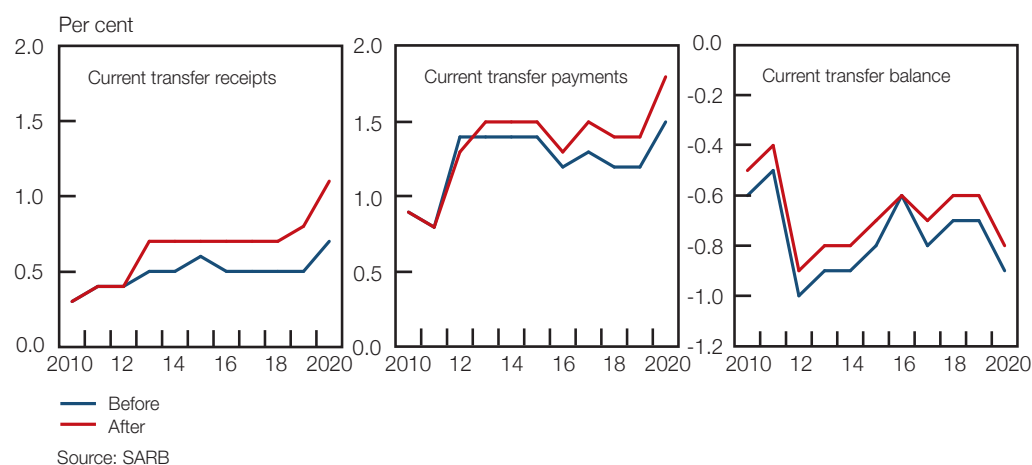


Figure 9 Current transfer receipts and payments as a percentage of gross domestic product



Terms of trade

The terms of trade measures a country's purchasing power of exports relative to the imports of goods and services, as reflected by the relationship between the relative prices of the exports and imports of goods and services at an aggregate level.

Table 2 Terms of trade

Index: 2015 = 100

	2013	2014	2015	2016	2017	2018	2019	2020	Average 2013–20
Export prices									
Before*	95.7	100.9	100.0	108.8	113.3	116.6	124.5	138.6	112.3
After	95.7	100.8	100.0	109.0	113.2	116.7	125.8	143.0	113.0
Import prices									
Before*	96.9	103.8	100.0	107.0	106.6	112.8	117.2	119.8	108.0
After	96.0	103.3	100.0	107.2	106.5	112.3	116.0	120.6	107.7
Terms of trade									
Before*	98.7	97.2	100.0	101.7	106.2	103.5	106.2	115.7	103.7
After	99.8	97.7	100.0	101.6	106.2	104.0	108.4	118.5	104.5

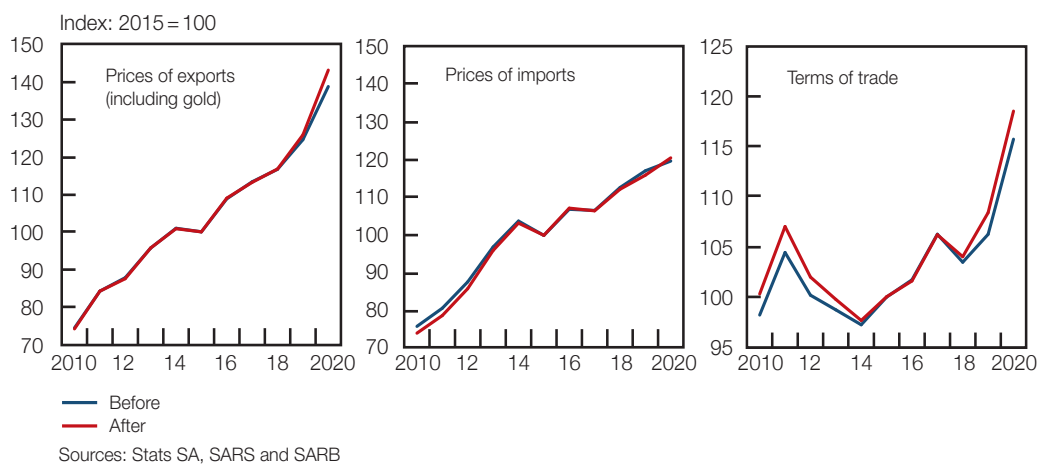
* For comparability, index values of 2010 were converted to 2015.

Source: SARB



The terms of trade was impacted by the revised nominal and real estimates of the exports and imports of goods and services, which changed the derived export and import prices. Among other things, the prices of some mining commodities that are applied to deflate the relevant components of GDP changed, while some price indices used to deflate imported goods were revised. On balance, the revision increased export prices and decreased import prices in more recent years, which further steepened the upward trend in the terms of trade from 2018 onwards.

Figure 10 Terms of trade



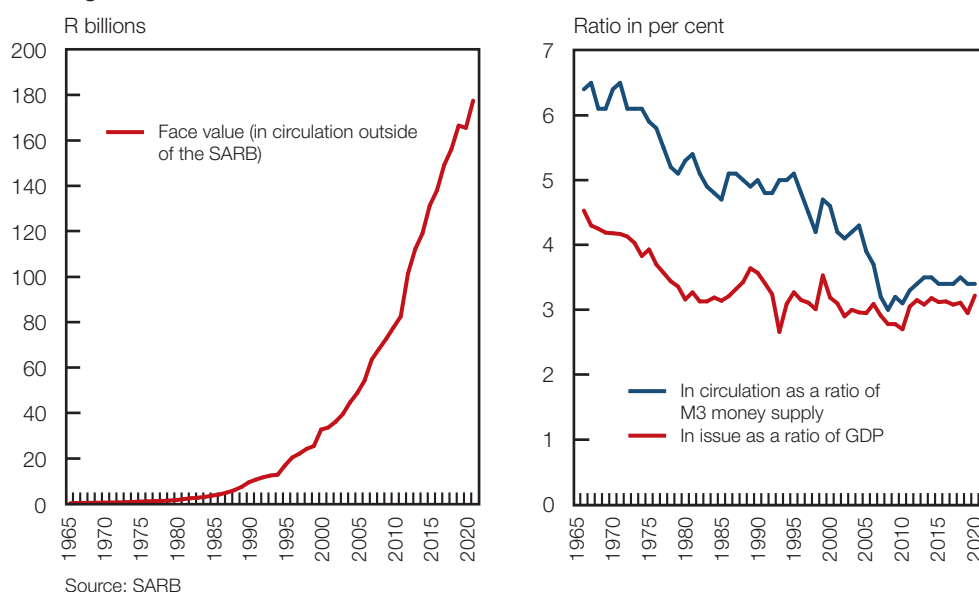
Note on banknotes and coin in South Africa¹

By L de Beer and J Shikwane

Introduction

The South African Reserve Bank (SARB)² is the sole issuer of banknotes and coin in South Africa and ensures the integrity as well as the availability of the currency. From a macroeconomic perspective, the face value of the rand in issue and in circulation in South Africa, outside of the SARB, has increased 695 times since the introduction of the rand in 1961.³ The currency in issue has broadly maintained its relative volume in relation to the level of nominal gross domestic product. The increased prevalence of electronic payments is also evident from the decline in the ratio of the currency in circulation outside of the monetary sector⁴ to total money supply (M3).⁵

Figure 1 Banknotes and coin



The purpose of this note is to explain the different concepts of banknotes and coin, its flow through the economy given its central role in paying for goods and services, its links to both the monetary base^{6, 7} and broadly defined money supply (M3), as well as the currency denomination composition and how demand has changed since the onset of the coronavirus disease 2019 (COVID-19) pandemic.

The flow of banknotes and coin through the economy

Banknotes and coin are produced and stored by the South African Bank Note Company (RF) Proprietary Limited and the South African Mint Company (RF) Proprietary Limited respectively. At issue, the currency is recorded as a liability on the balance sheet of the SARB. This amount in issue and in circulation outside of the SARB includes all currency denominated in rand issued by the SARB as the central bank and monetary authority of South Africa, less any amounts removed from circulation and destroyed. These banknotes and coin in issue and in circulation outside of the SARB are then placed into circulation through industry cash centres, and from there to the public through a variety of channels, such as bank branches, automated teller machines (ATMs) and retailers, until soiled banknotes find their way back to the SARB for destruction.

A small portion of the banknotes and coin in issue and in circulation outside of the SARB is held as an asset on the balance sheet of the private banking sector as vault cash for operational purposes, and the rest is in circulation outside of the monetary sector as an asset in the hands of the public. It is the latter, namely the public's demand for banknotes and coin, which reflects visible weekly and monthly seasonality. Likewise, this portion – also referred to as currency in

1 This note relates to the statistics of banknotes and coin on pages S-2, S-8, S-14, S-18 and S-23 in this edition of the *Quarterly Bulletin*.

2 The amended South African Reserve Bank Act 90 of 1989 (SARB Act) provides the enabling framework for the SARB's operations.

3 South Africa's currency system was initially modelled on the British currency system until 1961. On 14 February 1961 the rand replaced the pound as the generally accepted means of payment.

4 The monetary sector comprises the monetary authority (the SARB and the Corporation for Public Deposits) and the private sector banks, inclusive of mutual banks, the Postbank and the Land Bank.

5 The M3 money supply includes banknotes 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.

6 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. See pages 197 to 200 of the *Monetary and Financial Statistics Manual and Compilation Guide 2019* published by the International Monetary Fund (IMF) in 2019.

7 For a discussion on the monetary base, see the 'Note on recent developments in money creation in South Africa' in the September 2020 edition of the *Quarterly Bulletin*, available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/articles-and-notes/2020/10269>

circulation outside of the monetary sector – is the only part of banknotes and coin in issue and in circulation outside of the SARB that is part of M3.

The link between banknotes and coin, the monetary base and money supply

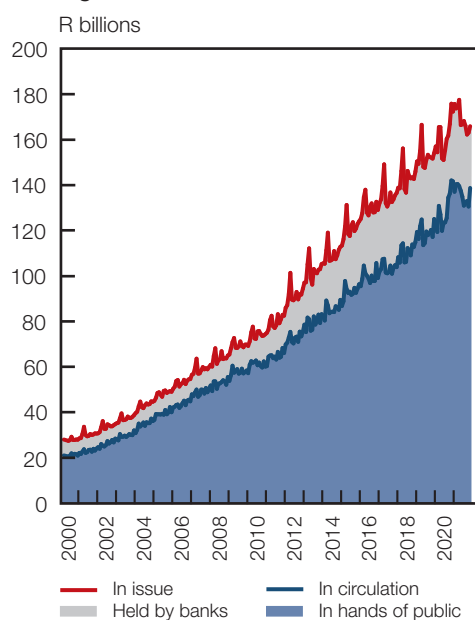
Banknotes and coin in circulation outside of the monetary sector is a small component of money supply, whereas banknotes and coin in circulation outside of the SARB is a major component of the monetary base. The monetary base (M0) is the total of banknotes and coin in issue and in circulation outside of the SARB, net of issuance and removal from circulation, plus both banks' required reserve deposits as well as excess cash reserves and other deposits at the SARB in rand, as shown in the shaded areas in Table 1.

Table 1 Contribution of main components of the South African Reserve Bank balance sheet as at 30 June 2021

Assets		Liabilities	
Total gold and foreign exchange reserves	87.8	Other liabilities	37.9
Securities	5.2	Required reserves, excess cash reserves and other deposits of private banks	32.4
Accommodation to banks	4.8	Banknotes and coin issued (in circulation outside of the SARB)	18.4
Domestic fixed assets and loans	1.9	Foreign loans and deposits	11.2
Other assets	0.2	Share capital and reserve fund	0.1
	100		100

Source: SARB

Figure 2 Banknotes and coin



Source: SARB

Contribution to money supply

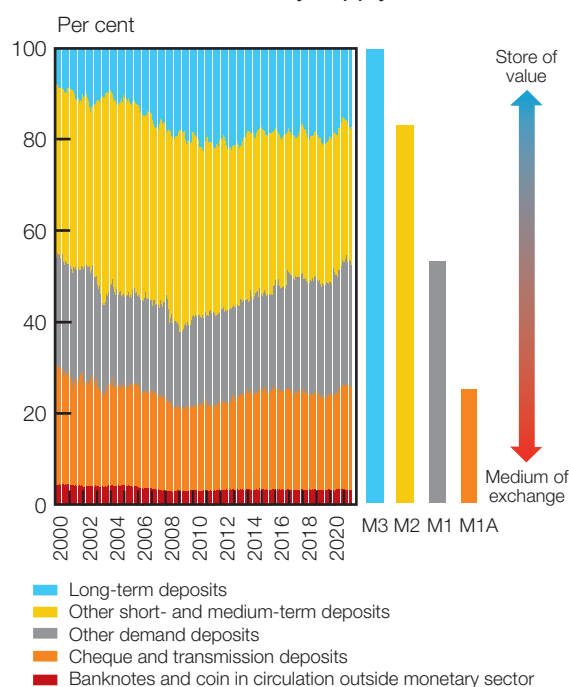


Figure 3 Monetary base

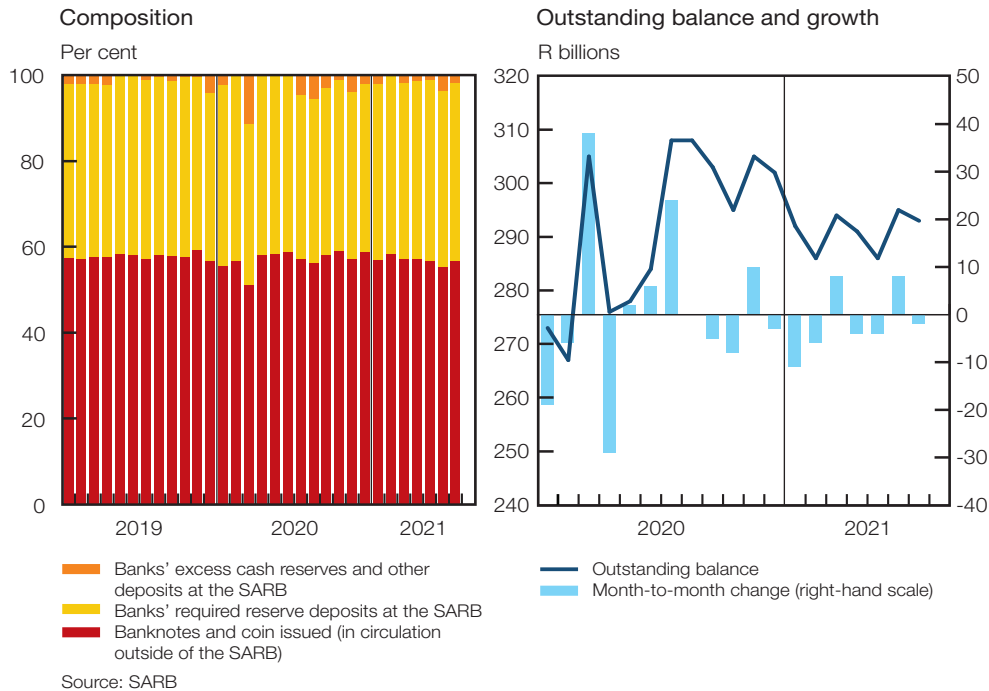
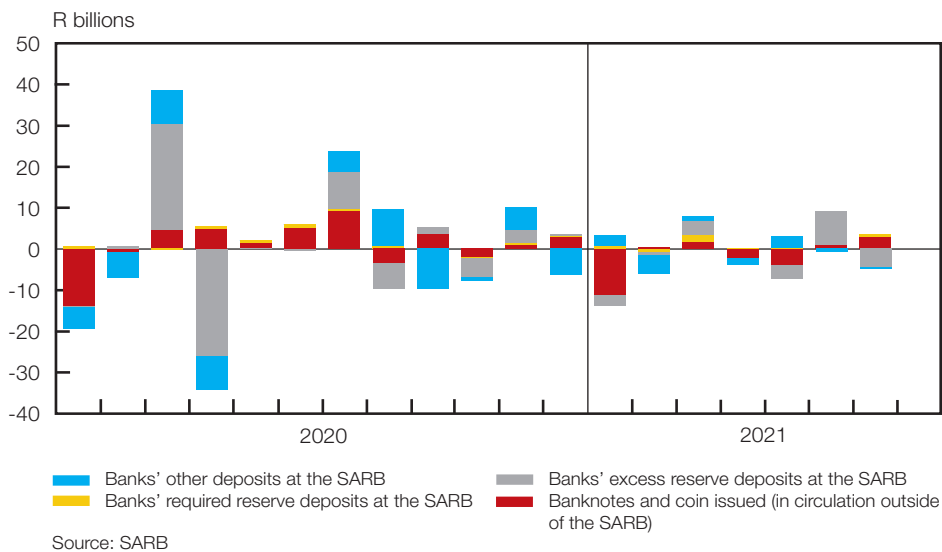


Figure 4 Contribution to month-to-month change in monetary base

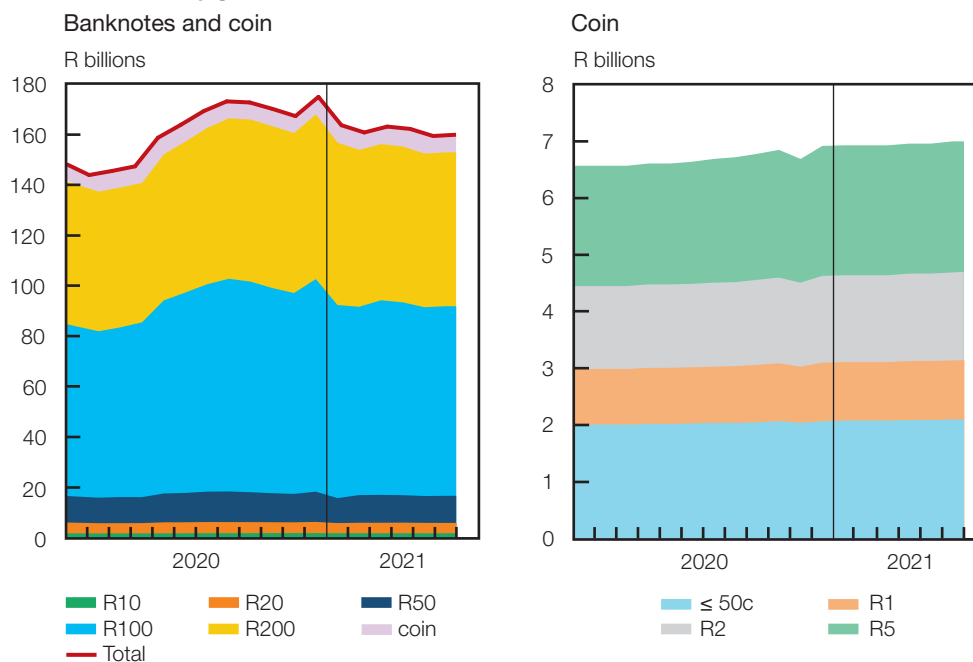


Since the onset of the COVID-19 pandemic, the increase in banknotes and coin in issue and in circulation outside of the SARB to provide for heightened demand during times of uncertainty, in particular for larger denomination banknotes, contributed to an increase in the monetary base. In March 2020, the monetary base increased as private sector banks increased their reserve balances at the SARB in the wake of the introduction of the special liquidity measures introduced by the SARB to alleviate potential liquidity shortfalls during the pandemic. In the next month, this was reversed when banks decreased their reserve balances at the SARB. At the time, banks showed a preference for cash for the special social grant pay-outs initiated by government as well as for uncertain day-to-day demand by the public. Monthly fluctuations in the monetary base reflected the impact of the pandemic on economic activity, which has become less pronounced since August 2020.

Denominations of banknotes and coin

The SARB provides for the public's demand for cash and aims to ensure an optimal currency mix. Although the public uses all denominations as a means of payment to facilitate transactions for goods and services, the lower-value denominations are used more frequently for this purpose and the higher-value denominations are sometimes held on to for longer periods due to them being considered as a more convenient store of value, thereby requiring less frequent replacement than the smaller banknote denominations.

Figure 5 Value of banknotes and coin in issue and in circulation outside of the SARB

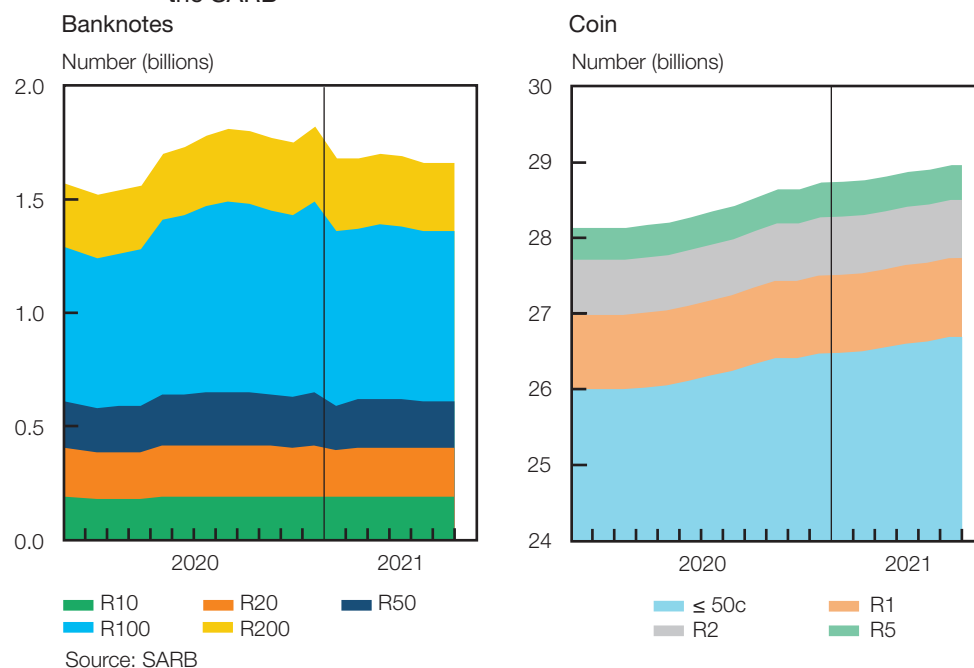


Source: SARB

Since the onset of the COVID-19 pandemic, the SARB has responded to the public's increased demand for higher-value banknotes. The SARB increased the total value of banknotes and coin in issue and in circulation outside of the SARB by 14.2% from March 2020 to December 2020, with the higher-value R100 and R200 banknotes increasing by 25.3% and 17.8% respectively. However, as the pandemic-related lockdown restrictions became less severe, the banknotes and coin liability of the SARB contracted by 8.1% from December 2020 to June 2021, with the R100 and R200 banknotes decreasing by 10.8% and 6.6% respectively.



Figure 6 Volume of banknotes and coin in issue and in circulation outside of the SARB



In terms of volume, the R100 denomination is the most popular, with an average of 776.6 million physical banknotes in circulation outside of the SARB between March 2020 and June 2021. This was followed by the R200 denomination, with an average of 307.3 million banknotes circulating during the same period. Most of the other denominations of banknotes in issue remained relatively stable during this period, while the number of coins in circulation outside of the SARB by far exceeded those of banknotes, owing to the range of small denominations.

Notes to tables

Capital market activity – table on S–32

The primary market net issues of marketable debt securities statistics in table KB203 were amended to reflect the change in the nominal, or face, value of outstanding balances of debt securities listed on the JSE Limited (JSE), as sourced from the JSE and National Treasury. Previously, the data were sourced from Strate and National Treasury, and reflected net cash receipts after the repayment of redemptions. In terms of the issuers' institutional sector, the previous statistics only reflected the domestic public sector, whereas the total universe of listed debt securities in the primary bond market is now covered, inclusive of domestic private sector issuers and issuance by non-resident entities.

Non-bank financial institutions – tables on S–47

The assets and liabilities of non-bank financial institutions in tables KB235 and KB236 are an aggregation of the following institutional subsectors: unit trusts, the Public Investment Corporation, life and non-life insurers, official and private pension funds, participation bond schemes, finance companies and non-monetary public financial corporations. The revised statistics now include the revisions to the life and non-life insurers' statistics as from the first quarter of 2001, as described in the notes to tables in the June 2021 edition of the *Quarterly Bulletin*, as well as funds invested by pension funds with insurers, which was added as from the first quarter of 2001. The allocations across the assets and liabilities in tables KB235 and KB236 changed due to an expanded financial instrument breakdown of insurers.

National financial account – tables on S–48 and S–49

Line items one to five in the national financial account flow of funds in tables KB230 and KB231 do not reflect the rebased national accounts statistics.

Ownership distribution of domestic marketable bonds of non-financial public enterprises, corporations and extra-budgetary institutions – table on S–65

The description of table KB437 has been changed from 'Ownership distribution of domestic marketable bonds of non-financial public enterprises and corporations' to 'Ownership distribution of domestic marketable bonds of non-financial public enterprises, corporations and extra-budgetary institutions' to provide for domestic marketable bonds issued by extra-budgetary institutions.

Government finance statistics of national government – table on S–67

Grants paid to technical and vocational education and training (TVET) colleges, which were previously reflected in table KB413 as part of other payments, are now included in grants paid as from fiscal 2015/16.

Government finance statistics of national extra-budgetary institutions – tables on S–68

The statistics in tables KB414 and KB439 have been revised from fiscal 2009/10 to reflect improved institutional classification and now also include TVET colleges as from fiscal 2015/16.



Government finance statistics of consolidated provincial government – tables on S–71

The statistics of provincial government in tables KB417 and KB442 now also include provincial extra-budgetary institutions as from fiscal 2009/10.

Government finance statistics of non-financial public enterprises and corporations – tables on S–74

The statistics in tables KB422 and KB445 have been revised from fiscal 2009/10 to reflect improved institutional classification.

Liabilities and assets of non-financial public enterprises and corporations – tables on S–80

The statistics in tables KB448 and KB449 have been revised from fiscal 2009/10 to reflect improved institutional classification.

Exchange rates and commodity prices – table on S–111

The description of table KB522 has been changed from ‘Exchange rates, commodity prices and financing rates’ to ‘Exchange rates and commodity prices’, as the rates on three-month financing have been replaced by the prices of palladium and coal, both in rand and US dollar terms. The rand price of Brent crude oil was also added. See table KB130 on page S–30 for the three-month Johannesburg Interbank Average Rate (Jibar).

Production, distribution and accumulation accounts of financial corporations – table on S–133

Time series for property income attributed to insurance policy holders and pension fund members, net non-life insurance premiums, non-life insurance claims, and the change in inventories were added to the production, distribution and accumulation accounts of financial corporations in table KB638 from this edition of the *Quarterly Bulletin*, to improve the alignment with the guidelines of the *System of National Accounts 2008 (2008 SNA)*.¹

1 The compilation of South Africa's national accounts statistics adheres to the guidelines of the 2008 SNA. See <https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>

Production, distribution and accumulation accounts of general government – table on S–135

Time series for property income attributed to insurance policy holders and pension fund members, net non-life insurance premiums, and non-life insurance claims were added to the production, distribution and accumulation accounts of general government in table KB640 as from this edition of the *Quarterly Bulletin*, to improve the alignment with the guidelines of the 2008 SNA.

Production, distribution and accumulation accounts of the rest of the world – table on S–138

Time series for net non-life insurance premiums and non-life insurance claims were added to the production, distribution and accumulation accounts of the rest of the world in table KB643 as from this edition of the *Quarterly Bulletin*, to improve the alignment with the guidelines of the 2008 SNA.



2 For more information, see the note published by Statistics South Africa at http://www.statssa.gov.za/?page_id=1854&PPN=P0441&SCH=72931

Selected national accounts statistics: percentage changes at constant 2015 prices – table on S–157

The national accounts statistics have been expanded with an additional table, KB807 with selected quarter-to-quarter seasonally adjusted, but not annualised, growth rates. This reflects the changed presentation of the headline measure of change in real gross domestic product (GDP) published by Statistics South Africa as from the GDP release for the second quarter of 2021. Hence, growth rates are expressed as quarter-to-quarter seasonally adjusted changes² and not as quarter-to-quarter seasonally adjusted and annualised changes.

Composite business cycle indicators – tables on S–149 and S–159

The revised and benchmarked national accounts statistics will result in revisions to selected component time series of South Africa's composite business cycle indicators in tables KB707 and KB813, which will be incorporated in the December 2021 edition of the *Quarterly Bulletin*.



Abbreviations

2008 SNA	<i>System of National Accounts</i>
AFS survey	<i>Annual Financial Statistics survey</i>
Alsi	All-Share Index
BER	Bureau for Economic Research (Stellenbosch University)
BIS	Bank for International Settlements
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPI	consumer price index
EMBI+	Emerging Markets Bond Index Plus
EPWP	Expanded Public Works Programme
FISIM	financial services indirectly measured
FNB	First National Bank
FRA	forward rate agreement
FX	foreign exchange
GDE	gross domestic expenditure
GDP	gross domestic product
GVA	gross value added
IIP	international investment position
ILO	International Labour Organization
IMF	International Monetary Fund
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
MPC	Monetary Policy Committee
NEER	nominal effective exchange rate
PGM	platinum group metal
QLFS	<i>Quarterly Labour Force Survey</i>
REER	real effective exchange rate
repo (rate)	repurchase (rate)
S&P	Standard & Poor's
Sabor	South African Benchmark Overnight Rate
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDR	special drawing rights
SIS	<i>Structural Industry Surveys</i>
SOC	state-owned company
Stats SA	Statistics South Africa
SUT	supply and use table
TB	Treasury bill
TVET	technical and vocational education and training
US	United States
VAT	value-added tax
VIX	Volatility Index

