QUARTERLY BULLETIN

JUNE 2022

SOUTH AFRICAN RESERVE BANK

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South African Reserve Bank

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ISSN 0038-2620

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Printed by the Publishing Section of the South African Reserve Bank

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Quarterly economic review

Introduction

Economic activity in South Africa recovered further from the impact of the coronavirus disease 2019 (COVID-19) lockdowns in 2020, as real gross domestic product (GDP) increased by a robust 1.9% in the first quarter of 2022 following a revised increase of 1.4% in the fourth quarter of 2021. The real gross value added (GVA) by the secondary and tertiary sectors expanded at a faster pace in the first quarter of 2022, while that of the primary sector contracted. The level of real GDP surpassed the average 2019 level, before the onset of the COVID-19 pandemic, for the first time in the first quarter of 2022.

The real output of the primary sector reverted from a revised expansion of 3.4% in the fourth quarter of 2021 to a contraction of 0.4% in the first quarter of 2022. Growth in the real GVA by the agricultural sector moderated sharply in the first quarter of 2022 as the production of field crops and animal products decreased, with the former negatively impacted by excessive rainfall at the start of the 2021/22 production season. Mining output contracted for a third successive quarter in the first quarter of 2022 as production volumes declined across a wide range of subsectors.

The real GVA by the secondary sector increased further by 3.7% in the first quarter of 2022. Growth in real manufacturing output accelerated to a robust 4.9% in the first quarter of 2022 as production volumes increased in 7 of the 10 manufacturing subsectors. Real economic activity in the sector supplying electricity, gas and water switched from a contraction in the fourth quarter of 2021 to an expansion in the first quarter of 2022, reflecting a notable turnaround in both electricity production and consumption. The real GVA by the construction sector declined for a fourth successive quarter in the first quarter of 2022 due to lower civil construction and residential building activity.

Growth in the real output of the tertiary sector accelerated to 1.8% in the first quarter of 2022 as the real GVA by the finance, insurance, real estate and business services sector and by the general government services sector rebounded. Real output increased in the insurance, real estate and business services subsectors in the first quarter of 2022 alongside a recovery in the financial markets, as share and bond trading increased. Real economic activity in this sector has remained relatively resilient during the COVID-19 pandemic, staying above the average 2019 level, except in the second quarter of 2020. Real output growth in the commerce sector moderated slightly to a still brisk 3.1% in the first quarter of 2022 as real economic activity increased in the wholesale, retail and motor trade subsectors, benefitting from the further easing of lockdown restrictions. Growth in the real output of the transport, storage and communication sector also moderated somewhat in the first quarter of 2022, reflecting reduced activity in rail freight transportation as well as fewer passenger journeys undertaken.

Similar to real GDP, real gross domestic expenditure (GDE) accelerated to 2.2% in the first quarter of 2022 from 1.4% in the fourth quarter of 2021, but remained below the average 2019 pre-pandemic level. The acceleration reflected faster growth in both real gross fixed capital formation and final consumption expenditure by general government, while real final consumption expenditure by households increased at a slower pace alongside a much slower de-accumulation of real inventory holdings.

Growth in real final consumption expenditure by households more than halved to 1.4% in the first quarter of 2022, consistent with slower growth in the real disposable income of households. Real outlays on semi-durable and non-durable goods as well as on services increased at a slower pace, while expenditure on durable goods rose at a faster pace. Real spending on personal transport equipment increased strongly in the first quarter of 2022, reflecting the improved stock availability of new motor vehicles. The slower growth in household expenditure reflected, among other things, the surge in fuel prices which increased households' cost of living. Nevertheless, real household consumption expenditure finally surpassed the average 2019 pre-pandemic level in the first quarter of 2022.

Growth in household debt accelerated in the first quarter of 2022 as most categories of credit extended to households increased. However, household debt as a percentage of nominal disposable income decreased to 64.5% in the first quarter of 2022 from 65.1% in the fourth quarter of 2021, as the increase in nominal disposable income exceeded that in household debt. Households' cost of servicing debt as a percentage of nominal disposable income edged higher to 7.3% in the first quarter of 2022 from 7.2% in the previous quarter, reflecting the combination of the higher debt and the cumulative 50 basis point increase in the prime lending rate in the first quarter of 2022.

Households' net wealth increased further in the first quarter of 2022 as the increase in the market value of assets outpaced that in liabilities. The higher market value of assets reflected capital gains on equity portfolios and, to a lesser extent, an increase in house prices. Equity holdings were boosted by a further increase of 2.4% in the FTSE/JSE All-Share Index (Alsi) in the first quarter of 2022. Despite the further increase in nominal residential property prices in the first quarter of 2022, year-on-year growth has slowed gradually since the second quarter of 2021.

Growth in real gross fixed capital formation accelerated to 3.6% in the first quarter of 2022 as private business enterprises and general government increased capital outlays, while public corporations reduced capital spending. The significant increase in capital outlays by private business enterprises reflected increased investment in construction work as well as machinery and other equipment, lifting the private sector's share of total nominal gross fixed capital formation further to 72.3% in the first quarter of 2022. Despite the further increase, the level of total real fixed capital investment in the first quarter of 2022 was still 10.9% lower than the average in 2019, before the COVID-19 lockdown restrictions were imposed.

Total household-surveyed employment increased by a further 370 000 jobs in the first quarter of 2022, along with an improvement in the response rate of Statistics South Africa's *Quarterly Labour Force Survey*. The increase in employment was broad-based across the different sectors, with both formal and informal employment increasing notably. This, together with a decrease in the number of unemployed persons, resulted in a decline in South Africa's official unemployment rate to 34.5% in the first quarter of 2022 from 35.3% in the fourth quarter of 2021 — its first decrease after 11 consecutive quarters of increase, except for the second quarter of 2020.

Enterprise-surveyed formal non-agricultural employment increased marginally in the fourth quarter of 2021, mostly due to additional temporary employment gains in the public sector which more than offset job losses in the private sector. Most of the private sector job losses occurred in the finance, insurance, real estate and business services sector, followed by the construction sector. The trade, catering and accommodation services sector, which bore the brunt of the July 2021 civil unrest, and the non-gold mining sector were the only private subsectors that recorded employment gains in the fourth quarter of 2021.

Year-on-year growth in nominal remuneration per worker in the formal non-agricultural sector moderated from 9.2% in the third quarter of 2021 to 5.8% in the fourth quarter, as both private and public sector remuneration growth per worker slowed, largely reflecting the dissipation of base effects. Annual average growth in nominal remuneration per worker accelerated substantially from a record-low of 0.8% in 2020 to 7.4% in 2021, as both private and public sector remuneration growth quickened from the COVID-19-induced lows in 2020.

Labour productivity growth in the formal non-agricultural sector of the economy moderated further from 2.3% in the third quarter of 2021 to 1.1% in the fourth quarter, as year-on-year output growth slowed at a faster pace than that in employment. The annual average change in labour productivity reverted from a decrease of 1.7% in 2020 to an increase of 6.0% in 2021, impacted by the low base created by the COVID-19-induced contraction in output in 2020. Likewise, growth in nominal unit labour cost in the formal non-agricultural sector slowed from 6.8% in the third quarter of 2021 to 4.6% in the fourth quarter, as the moderation in total remuneration growth outweighed that in output growth. Annual average growth in nominal unit labour cost slowed further to 1.7% in 2021.

The acceleration in both headline consumer and producer price inflation thus far in 2022 has reflected the sustained surge in domestic and global inflationary pressures. Producer price inflation for final manufactured goods accelerated to a 14-year high of 13.1% in April 2022, reflecting sharply higher input costs, most notably those of fuel, coal, electricity, metals, fertiliser and freight transportation. The war between Russia and Ukraine has aggravated global supply chain disruptions and added to the shortage of critical commodities, such as wheat and crude oil. Headline consumer price inflation accelerated to 6.5% in May 2022, largely due to record-high fuel prices and, to a lesser extent, higher food prices. Consumer services price inflation was much lower but has nevertheless accelerated gradually since early 2021.

South Africa's trade surplus with the rest of the world increased in the first quarter of 2022 as the value of net gold and merchandise exports increased more than that of merchandise imports. The increase in both export and import values reflected higher prices, in particular for international commodity prices, and higher volumes. Following two consecutive quarterly declines, South Africa's terms of trade improved marginally in the first quarter of 2022.

The value of merchandise exports increased further in the first quarter of 2022 as mining, manufacturing and agricultural exports increased. Higher mining exports reflected increases in mineral products, mostly due to further price increases and, to a lesser extent, higher volumes. The United States (US) dollar price of a basket of domestically produced non-gold export commodities increased by 20.3% in the first quarter of 2022 following heightened supply concerns after Russia's invasion of Ukraine. The higher value of manufacturing exports in the first quarter of 2022 largely reflected the increased exports of vehicles and transport equipment as well as machinery and electrical equipment.

The higher value of merchandise imports in the first quarter of 2022 reflected increases in mining, manufacturing and agricultural imports. Manufacturing imports were boosted by significant increases in the importation of vehicles and transport equipment as well as machinery and electrical equipment. The higher value of mining imports continued to reflect the marked increase in the prices of minerals, particularly of crude oil and refined petroleum products, with especially diesel imports increasing notably.

The shortfall on the services, income and current transfer account widened in the first quarter of 2022 as larger deficits on the services and current transfer accounts outweighed a smaller deficit on the income account. This, combined with the larger trade surplus, resulted in a slight increase in the surplus on the current account of South Africa's balance of payments to 2.2% of GDP in the first quarter of 2022 from 2.1% in the previous quarter.

South Africa recorded a net inflow of capital on the financial account of the balance of payments of R23.4 billion in the first quarter of 2022 following a revised outflow of R55.2 billion in the fourth quarter of 2021. On a net basis, all financial account functional categories recorded inflows, except for reserve assets. Portfolio investment inflows reflected net purchases of domestic equity and debt securities by non-residents following net sales in the previous quarter.

South Africa's total external debt decreased from US$165.0 billion at the end of September 2021 to US$160.5 billion at the end of December as rand-denominated external debt decreased. Foreign currency-denominated external debt increased slightly over the same period.

South Africa's positive net international investment position (IIP) increased from the end of September 2021 to the end of December, following five successive quarterly declines. The value of foreign assets increased more than that of foreign liabilities over this period. The net IIP was influenced by valuation effects due to the notable increase in domestic and global share prices as well as the depreciation in the exchange value of the rand in the fourth quarter of 2021.

The nominal effective exchange rate (NEER) of the rand increased by 10.8% in the first quarter of 2022 following a decrease of 8.5% in the second half of 2021. The increase in the NEER was supported by higher international export commodity prices which resulted in the appreciation of some commodity-exporting emerging market currencies against the US dollar during the first quarter of 2022. However, the NEER declined in April and early May 2022, largely due to the strength of the US dollar after a 50 basis point increase in the US federal funds rate to combat rising inflation. The ongoing conflict between Russia and Ukraine, and the subsequent sanctions imposed on Russia by many countries, as well as the reimplementation of strict COVID-19 lockdown measures in China posed renewed risks to global economic growth and caused heightened currency volatility. Although South Africa's sovereign credit rating outlook was revised from stable to positive by Standard and Poor's in May, the NEER increased only marginally in May and early June, in line with other emerging market currencies amid a depreciating US dollar.

South African government bond yields fluctuated widely along an upward trend in the first half of 2022, broadly tracking movements in the exchange value of the rand. Domestic bond yields were largely impacted by global events over this period, notably the invasion of Ukraine by Russia in February 2022, rising global inflationary pressures, and the subsequent tightening of monetary policy by most central banks.

Domestic money market interest rates trended higher during the first half of 2022, in line with the four consecutive increases in the repurchase (repo) rate since November 2021, and reflected fluctuations in the exchange value of the rand, higher consumer price inflation and heightened global risk aversion. Increases in the longer-term interbank rates were more pronounced than in the short-term rates. Rates on forward rate agreements (FRAs) also resumed their upward trend in April and May 2022 alongside unfavourable domestic inflation outcomes and movements in the exchange value of the rand.

Growth in the broadly defined money supply (M3) accelerated further to 8.4% in March 2022 before moderating to 7.5% in April, close to the rates recorded in early 2021. The acceleration in M3 growth reflected a strong rebound in the deposit holdings of financial companies from a deep contraction in mid-2021 and an acceleration in the deposit growth of non-financial companies. Growth in the deposit holdings of households levelled off somewhat in early 2022 as consumption expenditure increased with the further relaxation of the COVID-19 restrictions.

Credit extended by monetary institutions to the domestic private sector increased further in the first quarter of 2022 as loans to both companies and households increased. Year-on-year growth in total loans and advances accelerated from a decline of 0.8% in March 2021 to 7.0% in April 2022 as the gradual increase in demand for credit coincided with the phasing out of the COVID-19 restrictions.

The preliminary non-financial public sector borrowing requirement decreased significantly in fiscal 2021/22 compared with the previous fiscal year. The smaller borrowing requirement stemmed mostly from the much smaller cash deficit of national government, largely due to better-than-expected tax collections, while the other levels of general government and the non-financial public enterprises and corporations recorded cash surpluses.

National government's cash book deficit decreased notably to 5.1% of GDP in fiscal 2021/22 from 9.8% in the previous fiscal year, as revenue collections improved significantly and far outpaced expenditure growth. The 26.3% increase in revenue reflected higher collections in all tax categories, with corporate income tax collections increasing the most as the mining sector benefitted from high commodity prices. Although national government's net borrowing requirement more than halved in fiscal 2021/22, gross loan debt still increased by 8.7% year on year to R4 278 billion at the end of March 2022, representing 67.4% of GDP.

Domestic economic developments

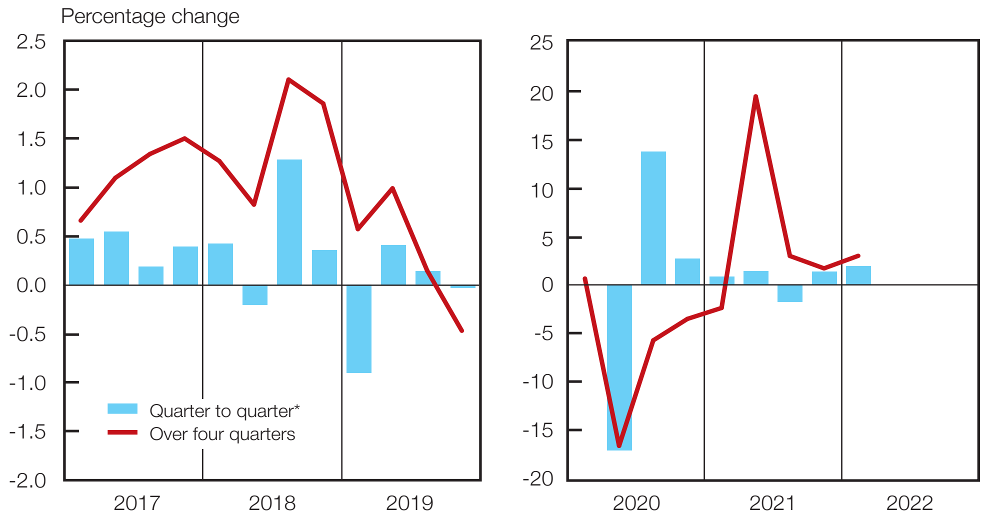
Domestic output[1, 2]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted but not annualised data, to conform to the official publication by Statistics South Africa (Stats SA).

2 The analysis in this section is based on a revised set of national accounts estimates from 2018 to 2021. These revisions are based on more detailed or more appropriate data that have become available.

Economic activity in South Africa recovered further in the first quarter of 2022, after having been impacted by the coronavirus disease 2019 (COVID-19) lockdowns in 2020, as growth in real *gross domestic product* (GDP) accelerated to 1.9% from a revised 1.4% in the fourth quarter of 2021. The real gross value added (GVA) by the secondary and tertiary sectors expanded at a faster pace in the first quarter, while that by the primary sector contracted. The level of real GDP surpassed the average 2019 level, before the COVID-19 pandemic, for the first time in the first quarter of 2022.

Real gross domestic product



* Seasonally adjusted

Source: Stats SA

Real gross domestic product

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

Sector	2021					2022
	Q1	Q2	Q3	Q4	Year*	Q1
Primary sector	4.9	5.5	-10.5	3.4	10.8	-0.4
Agriculture	6.1	11.3	-24.7	16.4	8.8	0.8
Mining	4.1	2.0	-1.1	-3.2	12.0	-1.1
Secondary sector	0.2	-1.4	-3.2	0.8	4.5	3.7
Manufacturing	0.4	-1.8	-4.3	2.4	6.5	4.9
Construction	0.2	-1.6	-1.1	-2.6	-2.2	-0.7
Tertiary sector	0.4	1.7	-0.5	1.3	4.1	1.8
Wholesale and retail trade, catering and accommodation	0.9	3.2	-4.4	3.9	6.4	3.1
Finance, insurance, real estate and business services	0.9	-0.5	1.2	-0.7	3.3	1.7
*Non-primary sector***	*0.4*	*1.0*	*-1.0*	*1.2*	*4.2*	*2.1*
*Non-agricultural sector****	*0.6*	*1.1*	*-1.0*	*0.9*	*4.6*	*2.0*
Total	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.9**

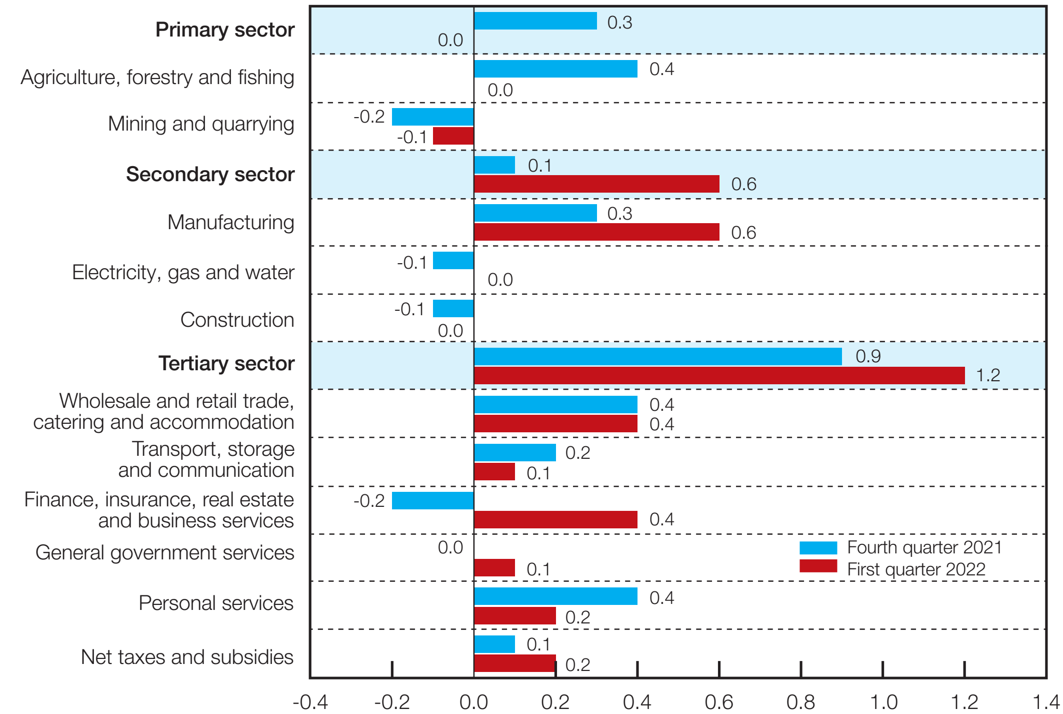
* Percentage change over one year
** The non-primary sector is total GVA excluding agriculture and mining.
*** The non-agricultural sector is total GVA excluding agriculture.

Source: Stats SA

In *nominal* terms, GDP increased by 2.9% on a quarter-to-quarter and seasonally adjusted basis in the first quarter of 2022, following an increase of 2.3% in the previous quarter.

When the generally more volatile primary sector is excluded, the real output in the *non-primary sector* increased by 2.1% in the first quarter of 2022, following an increase of 1.2% in the fourth quarter of 2021.

Contributions to growth in real gross domestic product



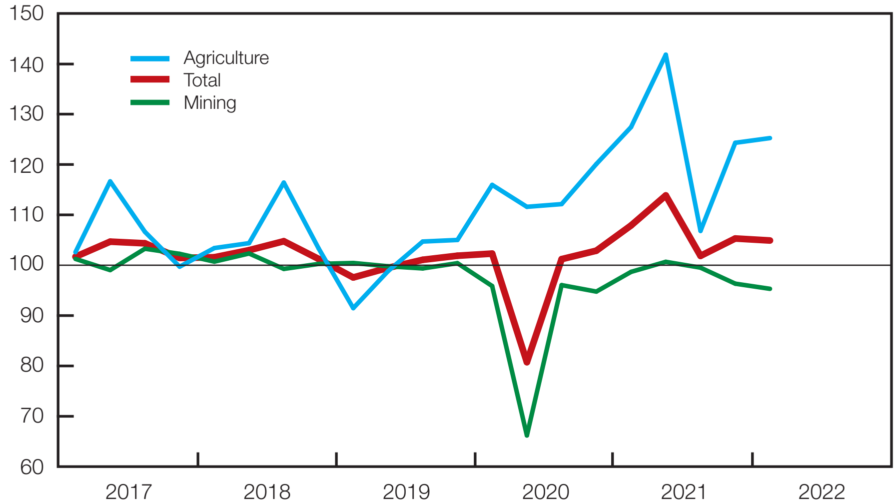
Percentage points

Source: Stats SA

The real output of the *primary sector* switched from a revised expansion of 3.4% in the fourth quarter of 2021 to a contraction of 0.4% in the first quarter of 2022, as the real GVA by the mining sector contracted while growth in agricultural output moderated significantly.

Real gross value added by the primary sector

Index: 2019 = 100



Seasonally adjusted

Source: Stats SA

Growth in the real GVA by the *agricultural sector* moderated significantly to 0.8% in the first quarter of 2022 in the wake of a notable expansion of 16.4% in the fourth quarter of 2021. The slowdown reflected the lower production of field crops and animal products, while the production of horticultural products increased. Excessive rainfall at the start of the 2021/22 production season gave rise to crop damage and, in some instances, replanting was necessitated, which raised input costs. In addition, input costs related to fuel, fertilisers and animal feed increased due to the Russia–Ukraine war, as both countries are key suppliers of these products on international markets.

According to the Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development, the expected commercial maize crop of 14.7 million tons for the 2021/22 season is 9.8% less than the final 2020/21 crop. There was also a reduction in the area planted in the 2021/22 season compared to the previous season.

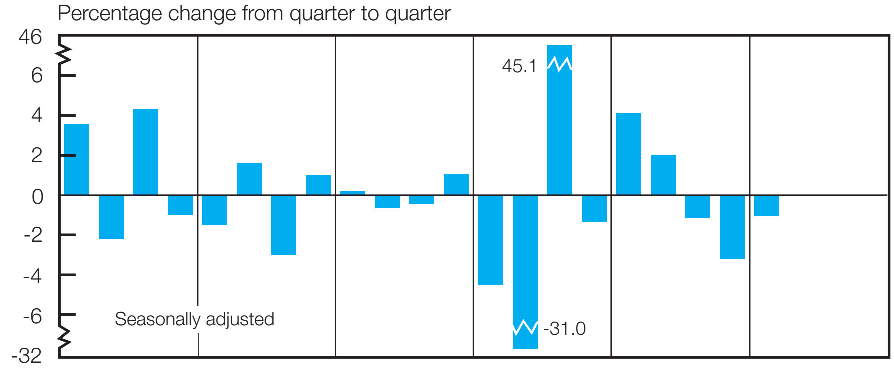
Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2020/21: final production estimate	16.3	2.8
2021/22: fourth production forecast	14.7	2.6

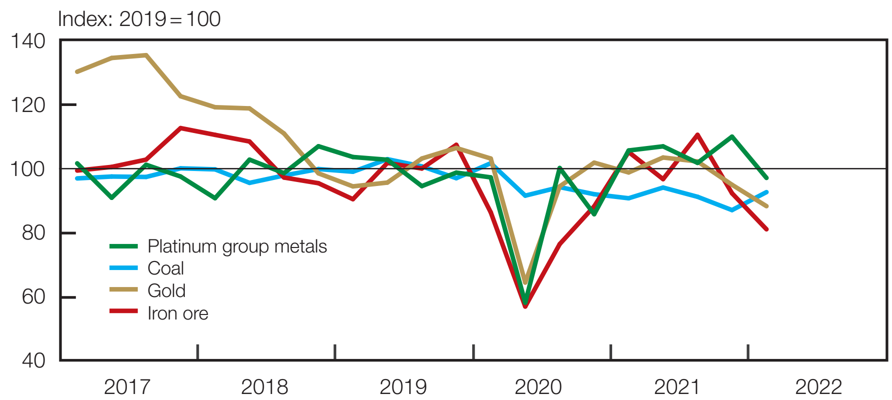
Source: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development

Despite high commodity prices, the real GVA by the *mining sector* receded further by 1.1% in the first quarter of 2022 – the third consecutive quarterly contraction – and subtracted 0.1 percentage points from overall real GDP growth. Production volumes declined across a wide range of subsectors, notably platinum group metals (PGMs), iron ore, gold, nickel and copper. These decreases were partially offset by the higher production of coal, manganese ore, diamonds and chromium ore.

Real gross value added by the mining sector



Physical volume of mining production: selected subsectors



Seasonally adjusted

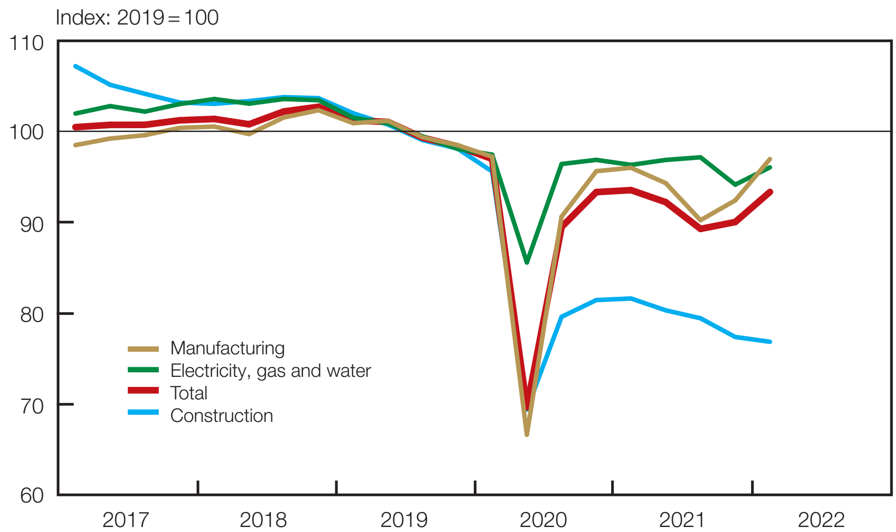
Source: Stats SA

The lower production of iron ore reflected subdued demand for steel due to the slowdown in global economic activity, while heavy rains, electricity supply disruptions and maintenance-related closures constrained the production of PGMs. Furthermore, the production of gold was negatively impacted by prolonged industrial action at one of South Africa's largest gold mines. By contrast, increased global demand due to the constrained supply of energy-related commodities and the sanctions on Russian imports underpinned the increased production of coal.

Domestic mining production was hampered by prolonged industrial action, electricity supply disruptions and high operating costs. Consequently, the seasonally adjusted level of real mining output in the first quarter of 2022 was still below that in 2019 before the onset of the COVID-19 pandemic, and comparable with that last attained in the fourth quarter of 2012 when the mining sector was challenged by severe industrial action.

Real economic activity in the *secondary sector* increased further by 3.7% in the first quarter of 2022, contributing 0.6 percentage points to overall GDP growth. The real output of the manufacturing and the electricity, gas and water sectors expanded, while that of the construction sector contracted further, albeit at a slower pace.

Real gross value added by the secondary sector



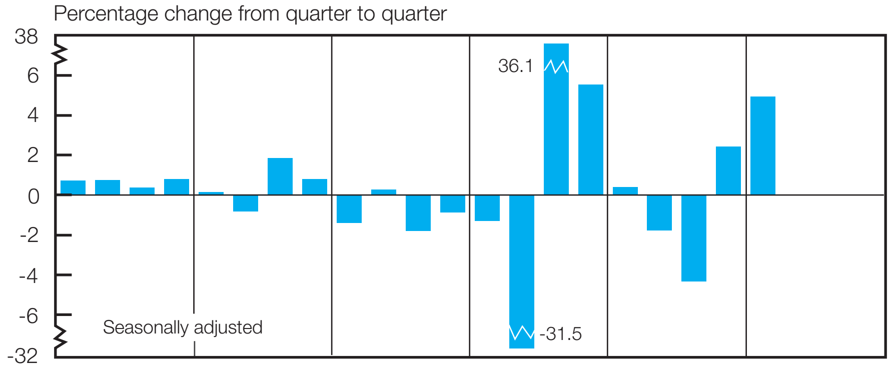
Seasonally adjusted

Source: Stats SA

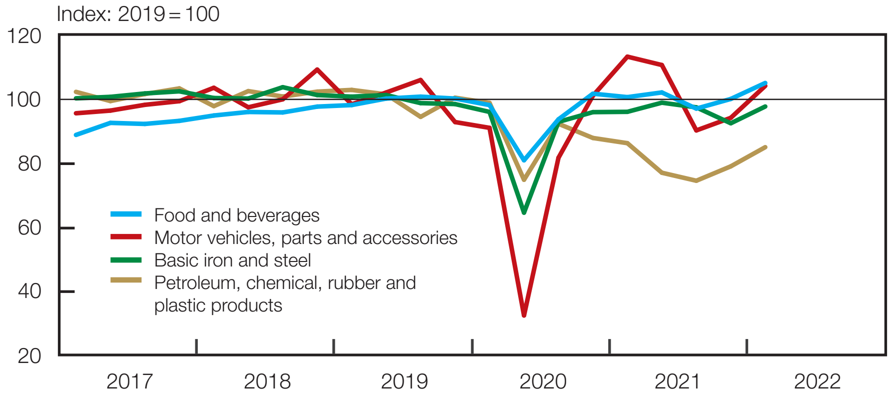
Growth in the real GVA by the *manufacturing sector* accelerated from a revised 2.4% in the fourth quarter of 2021 to 4.9% in the first quarter of 2022, contributing 0.6 percentage points to overall real GDP growth. The robust growth was supported by increased production in 7 of the 10 manufacturing subsectors, in particular petroleum, chemical, rubber and plastic products; food and beverages; basic iron and steel; non-ferrous metal products, metal products and machinery; as well as motor vehicles, parts and accessories and other transport equipment.

The expansion in real GVA by the manufacturing sector was aligned with the strong increase in the Absa Purchasing Managers' Index (PMI) in the first quarter of 2022, and was supported by increased production of both durable and non-durable goods. The increase in real output was also consistent with the improvement in the seasonally adjusted utilisation of production capacity from 77.1% in November 2021 to 77.7% in February 2022. Despite the increase, real manufacturing output in the first quarter of 2022 was still 3.0% below the average 2019 pre-pandemic level, as production was suppressed by global supply chain disruptions, raw-material shortages and renewed electricity supply constraints.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Seasonally adjusted

Source: Stats SA

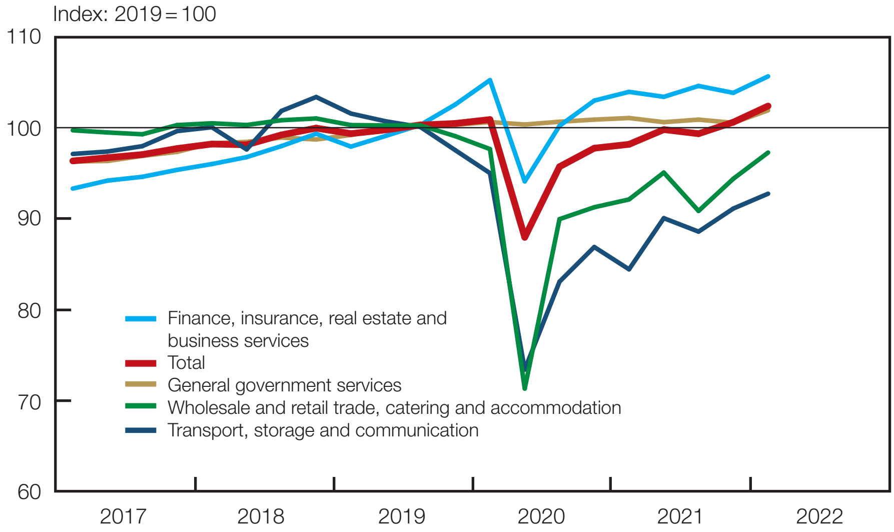
Real economic activity in the sector supplying *electricity, gas and water* expanded by 2.0% in the first quarter of 2022 following a contraction of 3.1% in the fourth quarter of 2021. The notable turnaround in both electricity production and consumption reflected improved generating capacity as well as increased economic activity in the energy-intensive manufacturing sector. Despite an increase in the real GVA by the sector, real seasonally adjusted output levels remained 3.9% below the 2019 average, before the onset of the COVID-19 pandemic, as high input costs and the recurrence of load-shedding continued to weigh on output.

Real GVA by the *construction sector* declined further by 0.7% in the first quarter of 2022 due to lower civil construction and residential building activity. This marked the fourth successive quarterly contraction, with real output in the construction sector still 23.1% lower in the first quarter of 2022 than the pre-lockdown level in 2019.

Growth in the real GVA by the *tertiary sector* accelerated from 1.3% in the fourth quarter of 2021 to 1.8% in the first quarter of 2022. Real output rebounded in the finance, insurance, real estate and business services sector and in the general government services sector alongside slower growth in the trade and transport sectors.

Real output growth in the *commerce sector* moderated from a revised 3.9% in the fourth quarter of 2021 to 3.1% in the first quarter of 2022, contributing 0.4 percentage points to overall real GDP growth. Real economic activity increased in the wholesale, retail and motor trade subsectors as lockdown restrictions eased further. The increase in wholesale trade was supported by the sales of food, beverages and tobacco as well as solid, liquid and gaseous fuels and related products.

Real gross value added by the tertiary sector



Seasonally adjusted

Source: Stats SA

Retail trade activity was underpinned by the increased sales of food, beverages and tobacco; household furniture, appliances and equipment; and the 'other retailers' category. Real economic activity in the motor trade subsector also increased in the first quarter of 2022 as new and used vehicle sales improved further from pre-pandemic levels. New model introductions and pent-up demand due to stock shortages in the previous quarter likely supported the ongoing recovery in the motor trade subsector. Despite the increase in the first quarter of 2022, the seasonally adjusted level remained well below that in 2019 as growth was weighed down by, among other factors, increased operating costs, global supply chain disruptions and high unemployment.

Growth in the real output of the *transport, storage and communication sector* moderated to 1.8% in the first quarter of 2022, following an increase of 2.9% in the fourth quarter of 2021. The deceleration reflected reduced activity in rail freight transportation as well as fewer passenger journeys undertaken over the period, partly induced by the deterioration of the rail infrastructure due to vandalism, cable theft and a lack of maintenance. By contrast, road freight transportation increased, specifically the trucking of coal to ports. Nevertheless, the real output of the transport, storage and communication sector was 9.0% higher in the first quarter of 2022 than a year earlier when COVID-19 restrictions were more inhibiting.

The real output of the *finance, insurance, real estate and business services sector* reverted from a contraction of 0.7% in the fourth quarter of 2021 to an expansion of 1.7% in the first quarter of 2022, contributing 0.4 percentage points to overall real GDP growth. The rebound mainly reflected increased activity in the insurance, real estate and business services subsectors alongside a recovery in the financial markets, as share and bond trading increased over the period. Real economic activity in the finance, insurance, real estate and business services sector remained relatively resilient throughout the COVID-19 pandemic, and remained above the 2019 level except for the second quarter of 2020 when activity in the real estate subsector was weighed down by the inability to process property transfers due to the lockdown restrictions, and the subdued demand for business services reflected close linkages with other sectors in the economy, most of which were not allowed to operate.

The real GVA by the *general government services sector* expanded by 1.4% in the first quarter of 2022 after contracting by 0.3% in the fourth quarter of 2021. The expansion reflected an increase in the number of national government employees, partly related to the 2022 population census.

3 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted but not annualised data, to conform to the official publication by Stats SA.

4 The analysis in this section is based on a revised set of national accounts estimates from 2018 to 2021. These revisions are based on more detailed or more appropriate data that have become available.

Real gross domestic expenditure[3, 4]

Growth in real *gross domestic expenditure* (GDE) accelerated to 2.2% in the first quarter of 2022 from 1.4% in the fourth quarter of 2021. However, the level of real GDE in the first quarter was still 0.6% below the average 2019 pre-pandemic level. Growth in both real gross fixed capital formation and final consumption expenditure by general government accelerated in the first quarter of 2022. Real final consumption expenditure by households increased at a slower pace alongside a significantly slower de-accumulation in real inventory holdings over the same period.

Real gross domestic expenditure

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

Component	2021					2022
	Q1	Q2	Q3	Q4	Year[1]	Q1
Final consumption expenditure						
Households	0.5	1.6	-2.8	3.0	5.6	1.4
General government	-0.6	0.4	0.5	0.2	0.6	1.0
Gross fixed capital formation	-3.1	-0.3	-1.1	1.6	0.2	3.6
Domestic final demand[2]	**-0.2**	**1.1**	**-1.9**	**2.2**	**3.8**	**1.7**
Change in inventories (R billions)[3]	*-21.8*	*-41.6*	*6.0*	*-25.0*	*-20.6*	*-3.8*
Residual[4]	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.3*
Gross domestic expenditure[5]	**2.1**	**0.7**	**-0.8**	**1.4**	**4.8**	**2.2**

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, seasonally adjusted and annualised
4 The residual as a percentage of GDP
5 Including the residual

Sources: Stats SA and SARB

Real final consumption expenditure by households contributed the most to growth in real GDP in the first quarter of 2022 at 1.0 percentage points, followed by gross fixed capital formation and the change in real inventory holdings at 0.5 percentage points each. By contrast, real net exports subtracted 0.3 percentage points from overall economic growth in the first quarter of 2022.

Contributions of expenditure components to growth in not annualised real gross domestic product

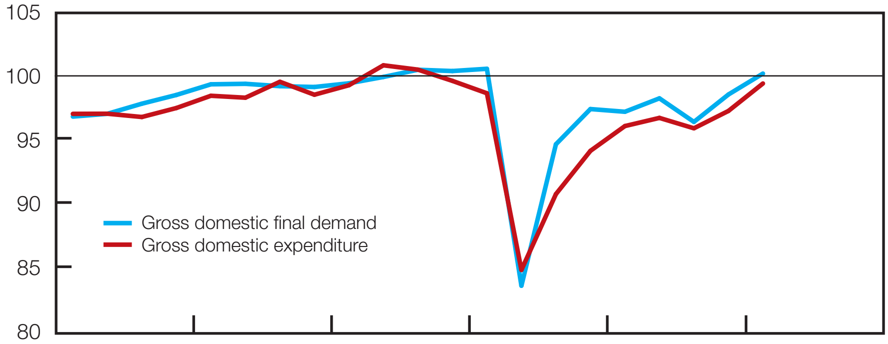
Percentage points

Component	2021					2022
	Q1	Q2	Q3	Q4	Year	Q1
Final consumption expenditure						
Households	0.4	1.0	-1.8	2.0	3.7	1.0
General government	-0.1	0.1	0.1	0.0	0.1	0.2
Gross fixed capital formation	-0.5	0.0	-0.2	0.2	0.0	0.5
Change in inventories	2.0	-0.4	1.0	-0.7	0.9	0.5
Residual	0.2	0.0	0.0	-0.1	0.1	0.1
Gross domestic expenditure	**2.0**	**0.7**	**-0.8**	**1.4**	**4.8**	**2.2**
Net exports	-1.2	0.7	-1.0	-0.1	0.1	-0.3
Gross domestic product	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.9**

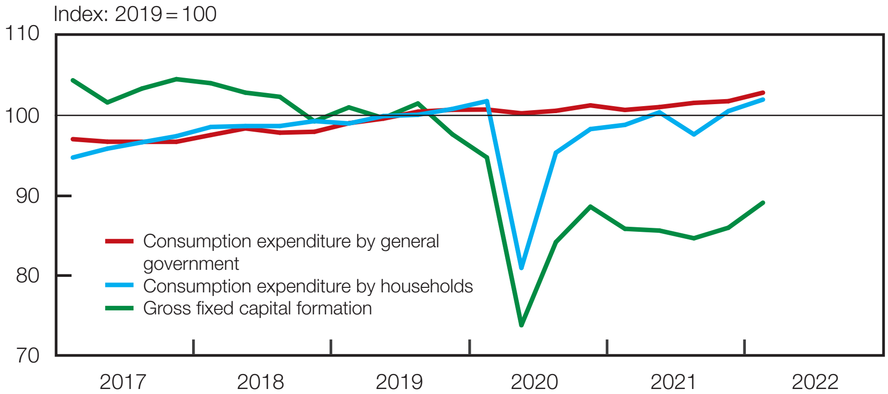
Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

Real gross domestic expenditure and final demand



Components of real gross domestic final demand



Seasonally adjusted

Sources: Stats SA and SARB

Nominal GDP at market prices (not seasonally adjusted and not annualised) of R1.59 trillion in the first quarter of 2022 was 8.4% higher than in the first quarter of 2021. Similarly, the total nominal gross disposable income increased by 8.3% year on year to R1.54 trillion in the first quarter of 2022.

Growth in selected nominal production and expenditure aggregates

Percentage change over four quarters

Component	2021					2022
	Q1*	Q2*	Q3*	Q4*	Year**	Q1*
Gross value added at basic prices	3.6	27.2	9.1	5.4	10.8	5.8
Gross domestic product at market prices	3.5	29.7	10.5	7.2	12.0	8.4
Gross operating surplus	6.9	43.8	9.8	6.1	15.4	6.3
Gross national income	4.5	29.1	9.0	7.1	11.8	7.9
Gross disposable income	4.2	29.2	9.3	7.7	12.0	8.3
Final consumption expenditure						
Households	0.0	27.9	6.9	8.3	9.9	9.3
General government	4.6	5.1	5.1	6.4	5.3	6.3
Gross fixed capital formation	-5.1	24.1	5.7	3.7	6.0	13.0

* Current prices, not seasonally adjusted and not annualised
** Annual statistics

Sources: Stats SA and SARB

The rate of increase in the real *exports* of total goods and services decelerated to 3.9% in the first quarter of 2022 following a notable increase of 8.3% in the fourth quarter of 2021. Growth in the real exports of manufactured and agricultural products accelerated alongside slower growth in the real exports of services. By contrast, mining export volumes contracted in the first quarter of 2022 due to weaker demand for precious metals (including gold, PGMs and stones) as well as base metals and articles thereof, while the export volumes of mineral products increased. The acceleration in the growth of manufacturing exports was broad-based, but more pronounced for vehicles and transport equipment as well as machinery and electrical equipment, while the export volumes of prepared foodstuffs, beverages and tobacco increased at a slower pace.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	Exports			Imports		
	Percentage of total**	2021 Q4***	2022 Q1***	Percentage of total**	2021 Q4***	2022 Q1***
Total	100.0	8.3	3.9	100.0	8.4	4.9
Mining	45.8	9.1	-6.6	19.4	7.5	5.1
Of which:						
Mineral products	16.7	-3.1	9.8	13.2	5.2	8.7
Precious metals, including gold, platinum group metals and stones	16.6	14.8	-23.4	1.3	1.8	-4.6
Base metals and articles thereof	12.5	18.6	-4.0	4.9	15.6	-1.5
Manufacturing	37.1	4.0	14.2	64.7	7.8	2.9
Of which:						
Vehicles and transport equipment	10.7	21.3	27.2	12.8	6.8	9.9
Machinery and electrical equipment	8.3	-8.4	20.1	23.1	12.0	0.6
Chemical products	6.8	-10.7	10.5	12.1	4.5	2.3
Prepared foodstuffs, beverages and tobacco	4.2	11.4	3.8	2.5	-5.5	-1.8
Agriculture	8.5	12.3	16.2	4.1	11.4	24.0
Of which:						
Vegetable products	7.1	12.7	18.0	2.0	11.2	16.2
Services	8.3	19.0	5.9	11.6	11.9	8.5

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2021
*** Not annualised
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

The real *imports* of goods and services also increased at a slower pace of 4.9% in the first quarter of 2022 following an increase of 8.4% in the fourth quarter of 2021. Mining imports reflected a contraction in the import volumes of precious metals (including gold, PGMs and stones) as well as base metals and articles thereof, while growth in the export volumes of mineral products accelerated. The import volumes of manufactured goods increased at a slower pace as domestic demand for especially machinery and electrical equipment as well as chemical products waned. The import volumes of vehicles and transport equipment increased at a faster pace in the first quarter of 2022, while that of prepared foodstuffs, beverages and tobacco declined at a slower pace. The import volumes of vegetable products boosted total agricultural imports.

Contributions of real exports and imports, and of net exports of goods and services, to growth in not annualised real gross domestic product

Percentage points

Component	Exports		Imports*		Net exports	
	2021 Q4	2022 Q1	2021 Q4	2022 Q1	2021 Q4	2022 Q1
Total	2.1	1.1	2.1	1.3	-0.1	-0.3
Mining	1.1	-0.8	0.4	0.3	0.7	-1.1
Of which:						
Mineral products	-0.1	0.4	0.2	0.3	-0.3	0.1
Precious metals, including gold, platinum group metals and stones	0.6	-1.1	0.0	0.0	0.6	-1.1
Base metals and articles thereof	0.6	-0.2	0.2	0.0	0.4	-0.1
Manufacturing	0.4	1.3	1.3	0.5	-0.9	0.8
Of which:						
Vehicles and transport equipment	0.5	0.7	0.2	0.3	0.3	0.4
Machinery and electrical equipment	-0.2	0.4	0.7	0.0	-0.9	0.4
Chemical products	-0.2	0.2	0.1	0.1	-0.3	0.1
Prepared foodstuffs, beverages and tobacco	0.1	0.0	0.0	0.0	0.2	0.1
Agriculture	0.3	0.4	0.1	0.3	0.1	0.1
Of which:						
Vegetable products	0.2	0.4	0.1	0.1	0.2	0.3
Services	0.4	0.1	0.4	0.3	0.0	-0.1

* 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* subtracted 0.3 percentage points from real GDP growth in the first quarter of 2022, as the real net exports of mining products detracted 1.1 percentage points. Real net mining exports were largely weighed down by precious metals (including gold, PGMs and stones). The higher real net exports of vehicles and transport equipment as well as machinery and electrical equipment contributed the most to overall net manufacturing exports. The real net exports of manufactured and agricultural products contributed 0.8 and 0.1 percentage points respectively to real GDP growth in the first quarter of 2022.

Growth in real *final consumption expenditure by households* slowed to 1.4% in the first quarter of 2022 from a revised 3.0% in the fourth quarter of 2021, consistent with slower growth in the real disposable income of households. Real outlays on semi-durable and non-durable goods as well as on services increased at a slower pace, while that on durable goods rose faster than in the previous quarter. The deceleration in household expenditure growth reflected the deterioration in consumer confidence amid the surge in especially fuel prices which increased households' cost of living. Nevertheless, real final consumption expenditure by finally surpassed the average 2019 level by 2.0% in the first quarter of 2022.

Real final consumption expenditure by households

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

Category	2021					2022
	Q1	Q2	Q3	Q4	Year*	Q1
Durable goods	7.0	2.4	-10.2	2.2	11.5	3.5
Semi-durable goods	1.9	0.4	-5.0	5.3	8.8	1.4
Non-durable goods	-0.1	1.1	-3.8	5.2	4.4	1.7
Services	-0.5	1.9	-0.2	1.5	4.7	0.9
Total	**0.5**	**1.6**	**-2.8**	**3.0**	**5.6**	**1.4**

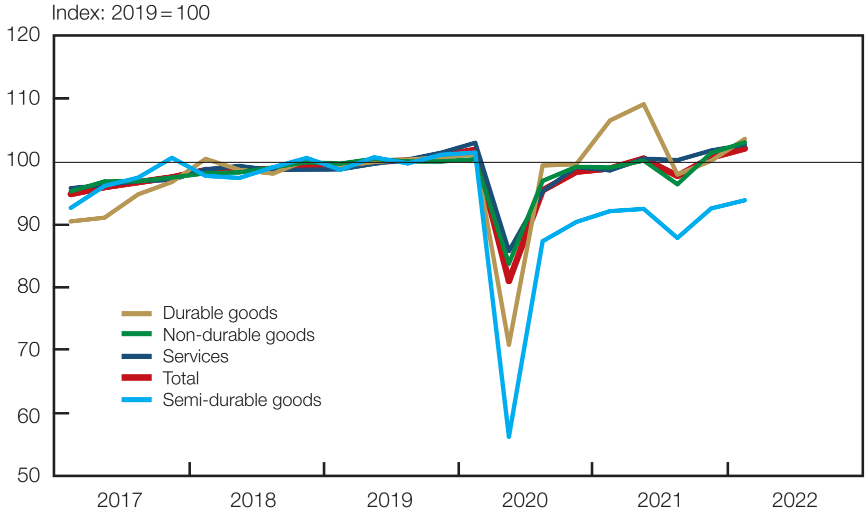
* Percentage change over one year

Source: Stats SA

Growth in the real purchases of *durable goods* accelerated to 3.5% in the first quarter of 2022 following a revised increase of 2.2% in the fourth quarter of 2021. Real outlays on personal transport equipment rose strongly in the first quarter of 2022 following marginal growth in the fourth quarter of 2021 when inventory shortages due to lingering supply chain constraints and the ongoing microchip shortage adversely affected the real purchases of motor vehicles. Real spending on computers and related equipment as well as on 'other' durable goods increased at a slower pace, while that on furniture and household appliances expanded following a contraction in the fourth quarter of 2021.

Components of real final consumption expenditure by households

Index: 2019 = 100



Seasonally adjusted

Source: Stats SA

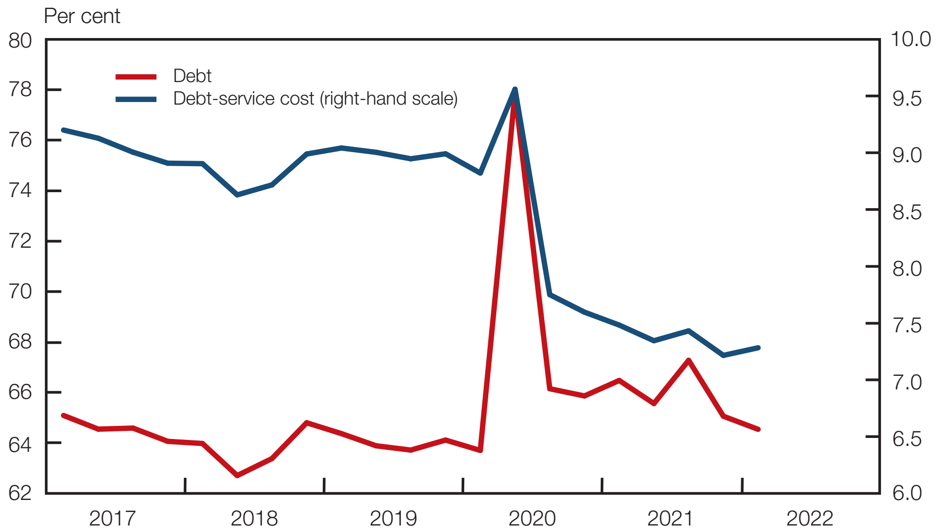
Growth in the real expenditure on *semi-durable goods* slowed to 1.4% in the first quarter of 2022 from a revised 5.3% in the fourth quarter of 2021. Consumption expenditure on clothing and footwear (which contributed 55% to this subsector); household textiles, furnishings and glassware, as well as motorcar tyres, parts and accessories increased at a slower pace. Real outlays on semi-durable goods have recovered relatively slowly from the COVID-19 restrictions and remained 6.2% below the average 2019 level.

Real outlays on *non-durable goods* increased at a much slower pace of 1.7% in the first quarter of 2022 compared with a revised 5.2% in the fourth quarter of 2021. Consumption expenditure on household consumer goods and on food, beverages and tobacco increased at a slower pace, whereas real spending on petroleum products decreased. The successive increases in fuel prices to above R20 per litre affected spending patterns in the first quarter of 2022.

Real expenditure by households on *services* advanced at a slower pace of 0.9% in the first quarter of 2022 compared with 1.5% in the fourth quarter of 2021. Increased outlays on household services as well as transport and communication services were partly offset by slower growth in expenditure on medical services and miscellaneous services. Real spending on recreational, entertainment and educational services reverted from a contraction in the fourth quarter of 2021 to an expansion in the first quarter of 2022, while expenditure on rent remained broadly unchanged.

Growth in *household debt* accelerated in the first quarter of 2022 as most categories of credit extended to households increased. However, household debt as a percentage of nominal disposable income decreased to 64.5% in the first quarter of 2022 from 65.1% in the fourth quarter of 2021, as the increase in nominal disposable income exceeded that in household debt. Households' cost of servicing debt as a percentage of nominal disposable income edged higher to 7.3% in the first quarter of 2022 from 7.2% in the fourth quarter of 2021, reflecting the combination of the higher debt and the cumulative 50 basis point increase in the prime lending rate in the first quarter of 2022.

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

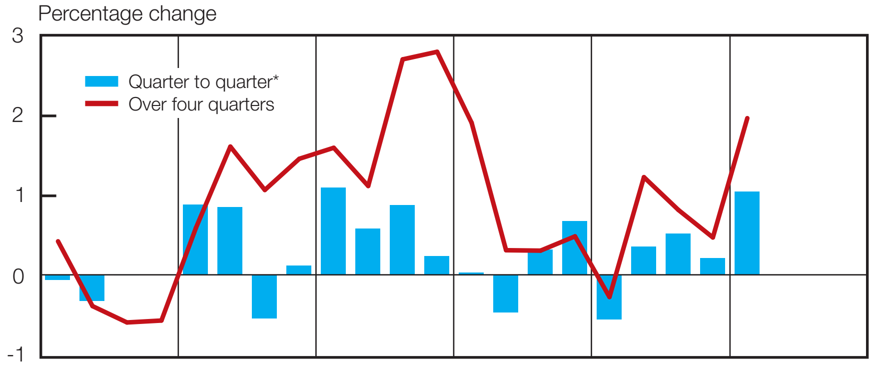


Seasonally adjusted
Source: SARB

Households' net wealth increased further in the first quarter of 2022 as the increase in the market value of total assets outpaced that in total liabilities. The higher market value of assets reflected capital gains on equity portfolios and, to a lesser extent, an increase in house prices. However, the ratio of net wealth to nominal disposable income decreased to 385% in the first quarter of 2022 from 392% in the previous quarter, as the increase in nominal disposable income exceeded that in households' net wealth.

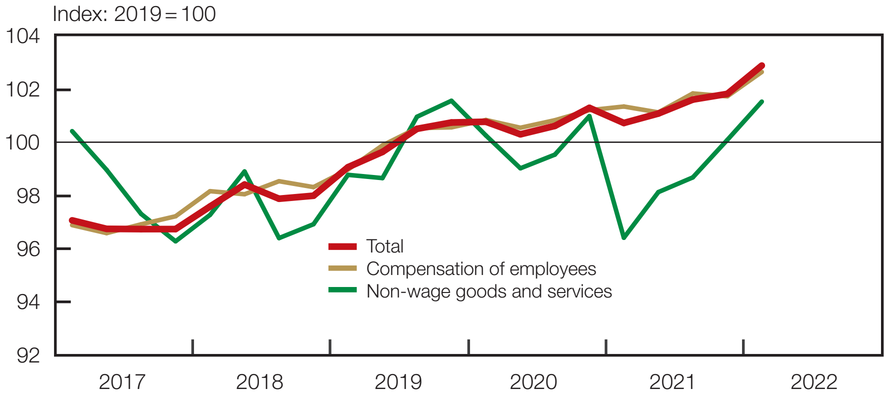
Real *final consumption expenditure by general government* increased further by 1.0% in the first quarter of 2022 following an increase of 0.2% in the fourth quarter of 2021. Real outlays on non-wage goods and services rose at a somewhat faster pace, while real spending on the compensation of employees rose following a slight contraction in the fourth quarter of 2022, partly reflecting increased wages related to conducting the 2022 population census. The level of real final consumption expenditure by general government in the first quarter of 2022 remained higher than the average 2019 pre-pandemic level.

Real final consumption expenditure by general government



* Seasonally adjusted

Components of real final consumption expenditure by general government



Seasonally adjusted

Source: Stats SA

Growth in real *gross fixed capital formation* accelerated to 3.6% in the first quarter of 2022 from 1.6% in the fourth quarter of 2021. Private business enterprises and general government increased capital outlays, while public corporations reduced capital spending in the first quarter of 2022. The level of real fixed capital investment in the first quarter of 2022 was still 10.9% lower than the average in 2019, before the COVID-19 lockdown restrictions were imposed.

Real gross fixed capital formation

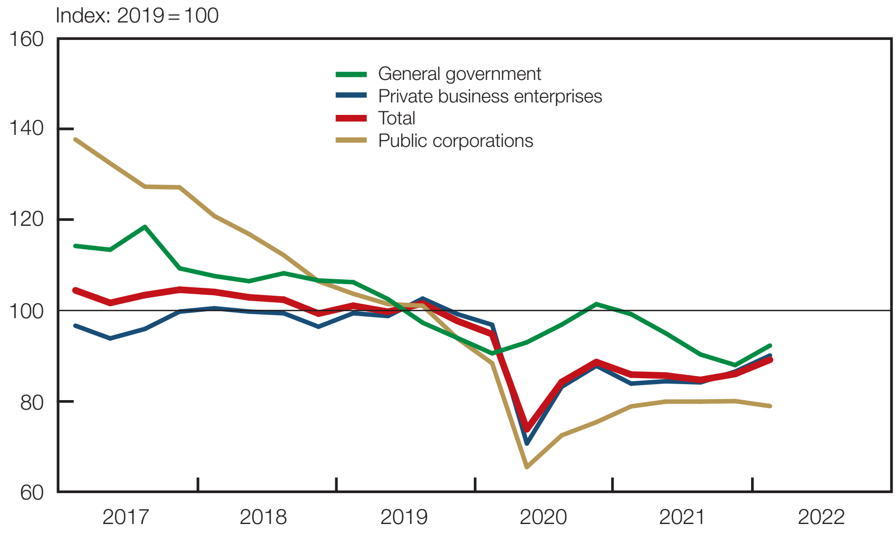
Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Sector	2021					2022
	Q1	Q2	Q3	Q4	Year*	Q1
Private business enterprises	-4.5	0.6	-0.3	2.8	0.1	4.1
Public corporations	4.6	1.3	0.0	0.1	5.6	-1.4
General government	-2.2	-4.3	-4.9	-2.6	-2.5	4.9
Total	-3.1	-0.3	-1.1	1.6	0.2	3.6

* Percentage change over one year

Source: Stats SA

Real gross fixed capital formation by type of organisation

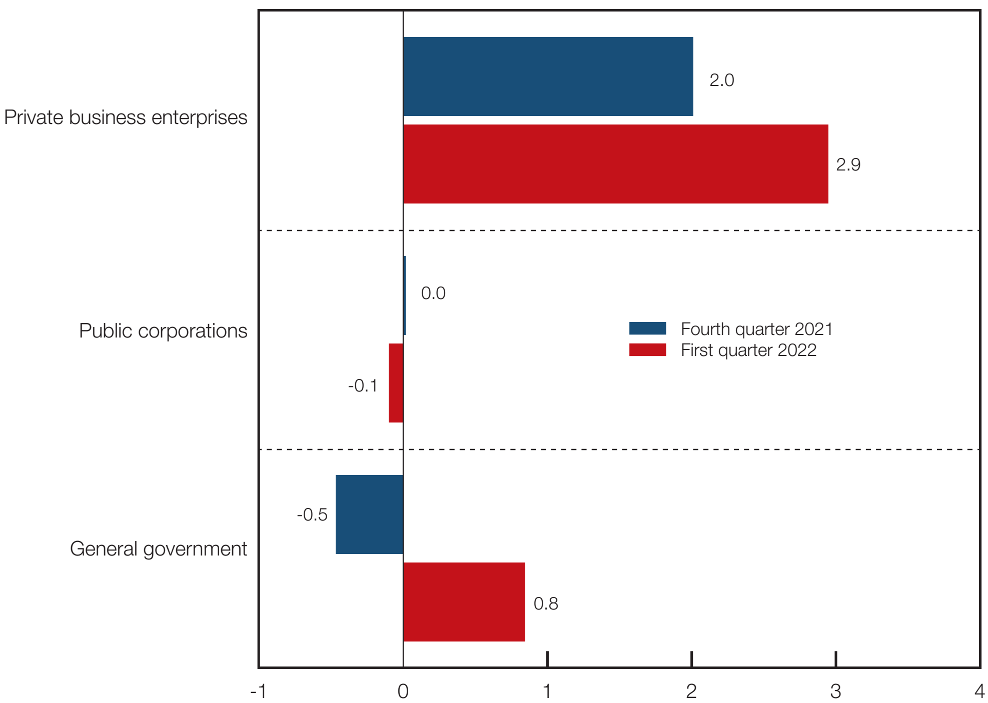


Seasonally adjusted

Source: Stats SA

Real gross fixed capital expenditure by *private business enterprises* increased at a faster pace of 4.1% in the first quarter of 2022, contributing 2.9 percentage points to growth in total real gross fixed capital formation. The significant increase in capital outlays by private business enterprises reflected increased investment in construction work as well as machinery and other equipment. The private sector's share of total nominal gross fixed capital formation increased further from 71.8% in the fourth quarter of 2021 to 72.3% in the first quarter of 2022. Furthermore, real capital expenditure by the private sector in the first quarter of 2022 was still 9.9% lower than the average in 2019, before the onset of the COVID-19 pandemic.

Contributions to growth in real gross fixed capital formation

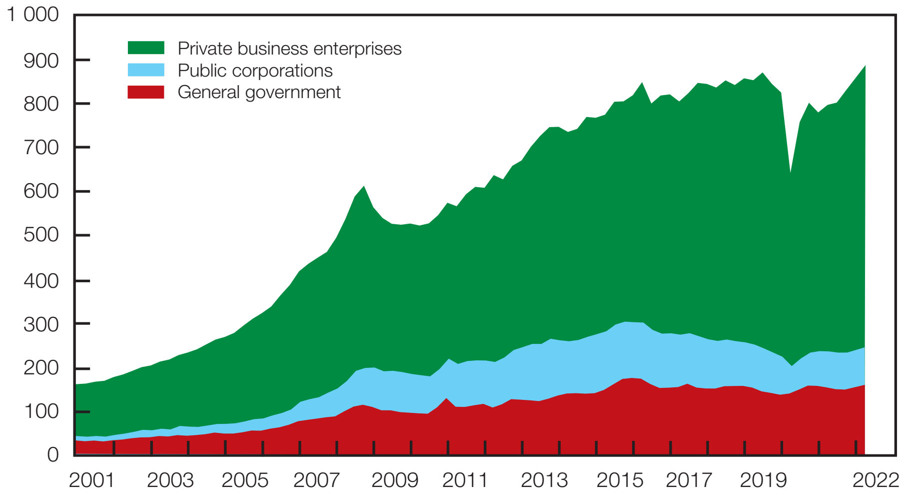


Percentage points

Source: Stats SA

Real gross fixed capital formation by the *public sector* increased in the first quarter of 2022 after decreasing for three consecutive quarters, underpinned by higher capital outlays by general government. Real gross fixed capital formation by *public corporations* decreased at a rate of 1.4% in the first quarter of 2022, subtracting 0.1 percentage points from growth in total gross fixed capital formation.

Nominal gross fixed capital formation by type of organisation



Seasonally adjusted
Source: Stats SA

Real capital investment by *general government* increased by 4.9% in the first quarter of 2022 following a decrease of 2.6% in the fourth quarter of 2021 as the central and provincial governments increased capital outlays. The general government added 0.8 percentage points to growth in total gross fixed capital formation following a sustained detraction during all four quarters of 2021. The increase in the first quarter of 2022 resulted in a slight increase in general government's share of total nominal gross fixed capital formation to 17.7%, from 17.6% in the final quarter of 2021.

Measured by type of asset, real gross fixed capital outlays on transport equipment, machinery and other equipment, and on non-residential buildings increased in the first quarter of 2022, while investment in residential buildings and construction works decreased.

Real *inventories* declined further by R3.8 billion (at seasonally adjusted and annualised 2015 prices) in the first quarter of 2022 following a revised decrease of R25.0 billion in the fourth quarter of 2021. The de-accumulation of inventories in the first quarter of 2022 largely reflected depletions of inventories in the trade and electricity sectors, while inventories were accumulated in the manufacturing sector.

Gross nominal saving

South Africa's *national saving rate* (gross saving as a percentage of nominal GDP) increased to 15.6% in the first quarter of 2022 from 15.1% in the fourth quarter of 2021. The increase in the saving rate of corporate business enterprises outweighed the increased dissaving by general government and the lower saving rate of households.

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 14.8% in the fourth quarter of 2021 to 16.6% in the first quarter of 2022 due to lower seasonally adjusted tax and dividend payments. Dissaving by *general government* as a percentage of GDP increased from a rate of 2.4% in the fourth quarter of 2021 to 3.5% in the first quarter of 2022. The increase in seasonally adjusted government expenditure exceeded that in seasonally adjusted government revenue. Revenue from mainly seasonally adjusted value-added tax (VAT) and company income tax decreased over the period. The saving rate of the *household sector* declined from 2.7% in the fourth quarter of 2021 to 2.5% in the first quarter of 2022, as the increase in seasonally adjusted nominal consumption expenditure outweighed that in nominal income.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted annualised rates

Sector	2021					2022
	Q1	Q2	Q3	Q4	Year	Q1
Corporate	18.2	13.9	15.8	14.8	15.6	16.6
General government	-4.3	0.4	-1.7	-2.4	-2.0	-3.5
Household	2.8	2.6	2.9	2.7	2.7	2.5
Total	**16.7**	**16.8**	**17.0**	**15.1**	**16.4**	**15.6**

Source: SARB

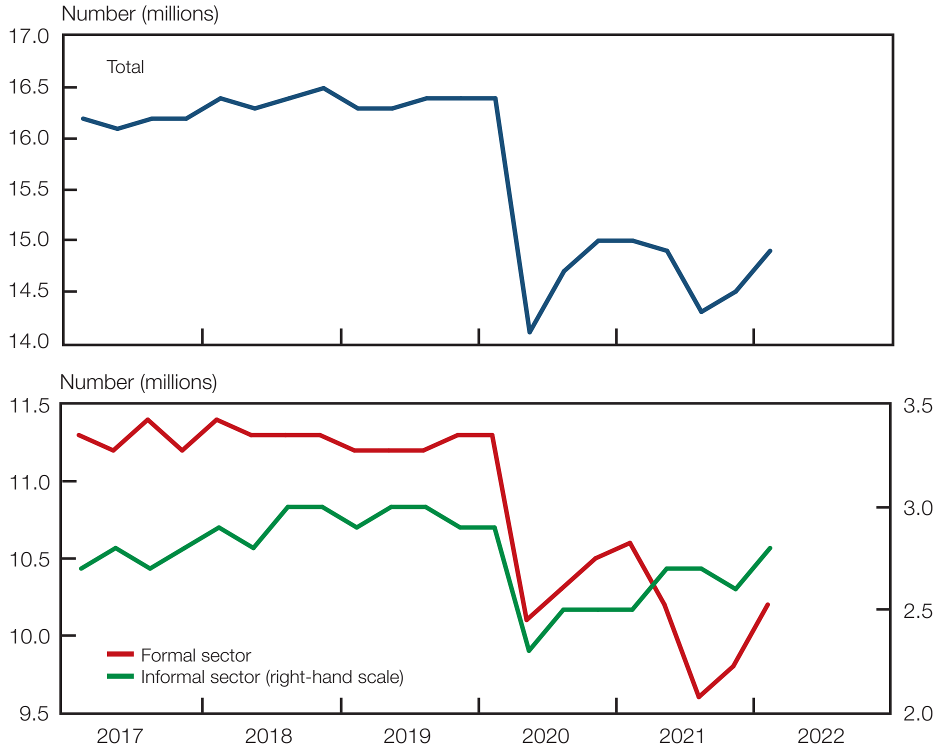
Employment

Total household-surveyed employment increased by a further 370 000 jobs (2.5% quarter to quarter) in the first quarter of 2022 following an increase of 1.8% in the fourth quarter of 2021, according to Statistics South Africa's *Quarterly Labour Force Survey (QLFS).*[5] The formal sector recorded a notable increase of 408 000 jobs (4.2%) in the first quarter of 2022, while 172 000 informal jobs (6.5%) were gained as employment continued to recover following the civil unrest-affected third quarter of 2021. By contrast, the agricultural sector and private households shed 23 000 (2.7%) and 186 000 (15.0%) jobs respectively in the first quarter of 2022.

Meaningful job gains were recorded in the manufacturing, mining and quarrying, and the electricity, gas and water supply sectors in the first quarter of 2022. By contrast, job losses were recorded in the construction and the financial intermediation, insurance, real estate and business services sectors.

5 Stats SA noted that the response rate of the *QLFS* was 64.7% in the first quarter of 2022 as face-to-face data collection was re-introduced, compared with 44.6% in the fourth quarter of 2021 (and 57.4% in the first quarter of 2021). Despite this improvement, Stats SA reiterated that these statistics should still be interpreted with caution.

Household-surveyed employment



Source: Stats SA

6 International Labour Organization, *World Employment and Social Outlook: Trends 2022*, January 2022. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_834081.pdf

7 The temporary employment rate is calculated as the number of persons employed on limited duration contracts expressed as a percentage of the total number of employed persons.

Despite the further increase in the first quarter of 2022, total household-surveyed employment was still 81 000 (0.5%) less than a year earlier, although this represented an improvement from the year-on-year decrease of 3.2% in the fourth quarter of 2021. The International Labour Organization (ILO) noted that the COVID-19 pandemic has structurally altered the labour market to such an extent that a return to pre-COVID-19 levels may not be sufficient to compensate for the setbacks.[6] The ILO further indicated an increase in temporary employment, linked to limited duration contracts, as a share of total employment. This is reflected by temporary employment rates[7] of 35.4% in upper middle-income countries, followed by 34.7% in lower middle-income countries, 33.7% in low-income countries, and 15.4% in high-income countries. For South Africa, this rate was 12.1% in the first quarter of 2022.

Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2021			2022	2022 Q1		
	Q2	Q3	Q4	Q1	Number	Per cent	Per cent
a. Total employed	14 995	14 282	14 544	14 914	370	2.5	-0.5
b. Total unemployed (official definition)	7 242	7 643	7 921	7 862	-59	-0.7	8.6
c. Total labour force (a+b)	22 237	21 925	22 466	22 776	310	1.4	2.4
d. Total not economically active	17 218	17 820	17 423	17 257	-166	-1.0	0.2
e. Population 15–64 years (c+d)	39 455	39 745	39 888	40 033	145	0.4	1.5
f. Official unemployment rate* (b/c) *100	32.6%	34.9%	35.3%	34.5%	–	–	–
g. Discouraged work seekers	3 131	3 862	3 806	3 752	-54	-1.4	19.8
h. Other reasons for not searching for work	1 719	1 302	956	1 387	431	45.1	-19.3
i. Expanded unemployment rate**	43.2%	46.6%	46.2%	45.5%	–	–	–

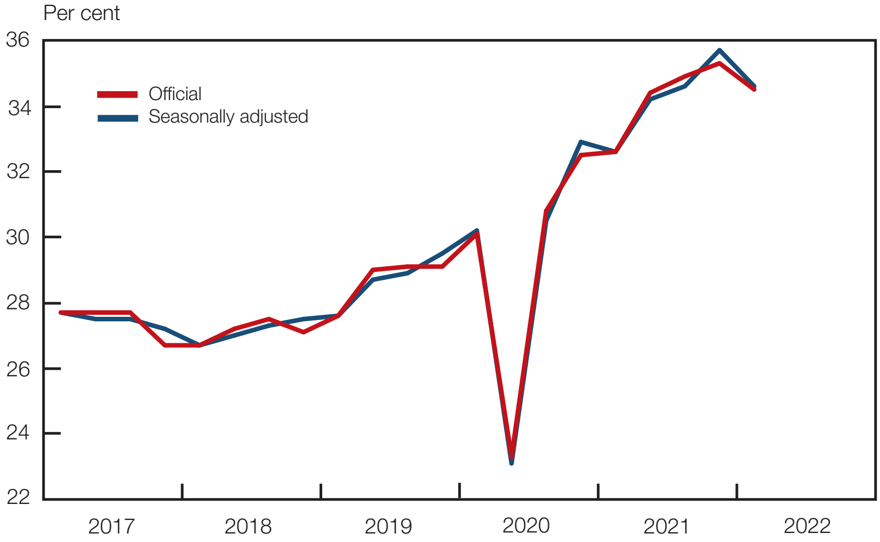
* Stats SA follows the ILO definition of calculating the official unemployment rate, which is internationally comparable.
** The expanded unemployment rate is calculated by Stats SA's in-house formula and is not internationally comparable.

Source: Stats SA

8 International Labour Organization, *World Employment and Social Outlook: Trends 2022*, January 2022. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_834081.pdf

The number of unemployed South Africans decreased by 59 000 (-0.7%) to 7.9 million in the first quarter of 2022. This, together with the notable increase in employment, caused the official unemployment rate to decrease from 35.3% in the fourth quarter of 2021 to 34.5% in the first quarter of 2022 – its first decrease after 11 consecutive quarters of increase, except for the second quarter of 2020 when most unemployed persons were classified as not economically active because they did not actively search for jobs due to the national lockdown. Similarly, the seasonally adjusted unemployment rate decreased from 35.7% to 34.6% over the same period. In the first quarter of 2022, most unemployed persons were new entrants (44.6%) followed by job losers (27.8%), while those who had previously worked five years ago represented 20.7% of the officially unemployed. Re-entrants and job leavers accounted for only 3.6% and 3.3% respectively. According to the ILO, global unemployment is expected to reach 207 million in 2022, surpassing the 2019 level by some 21 million.[8]

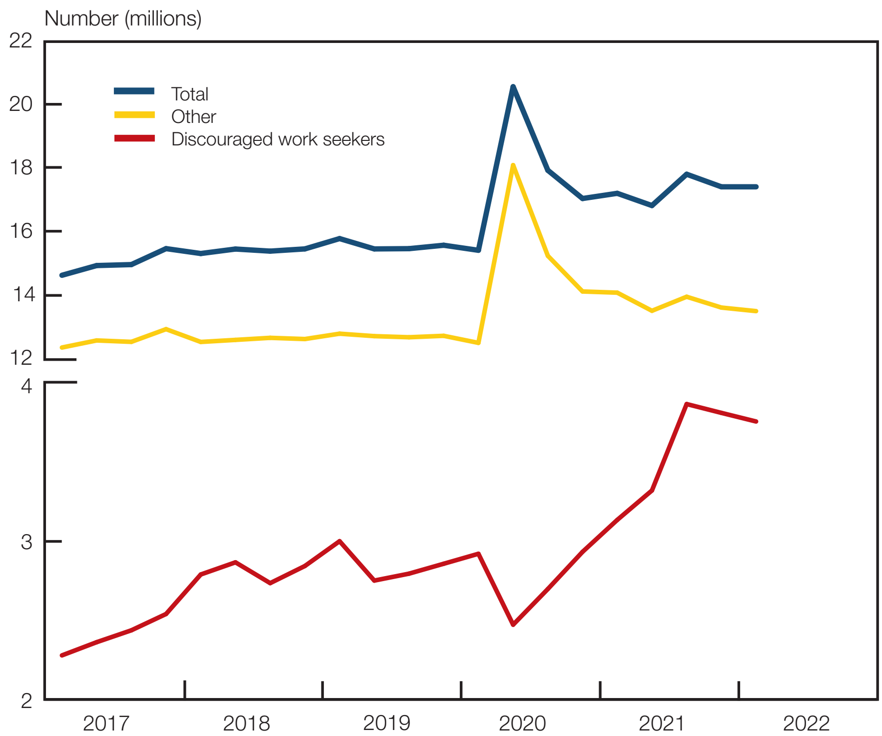
Unemployment rate



Sources: Stats SA and SARB

The youth unemployment rate (those aged 15–24 and actively searching for work) remained above 60% for the seventh consecutive quarter, despite decreasing from 66.5% in the fourth quarter of 2021 to 63.9% in the first quarter of 2022. Moreover, approximately 3.8 million of the 10.2 million of these young people, or 37.0%, were not in employment, education or training in the first quarter of 2022. Furthermore, education levels seem to be a crucial determinant of employment since those South Africans who obtained only ‘matric’ and ‘less than matric’ experienced the highest rates of unemployment, at 36.5% and 39.8% respectively in the first quarter of 2022.

Not economically active population

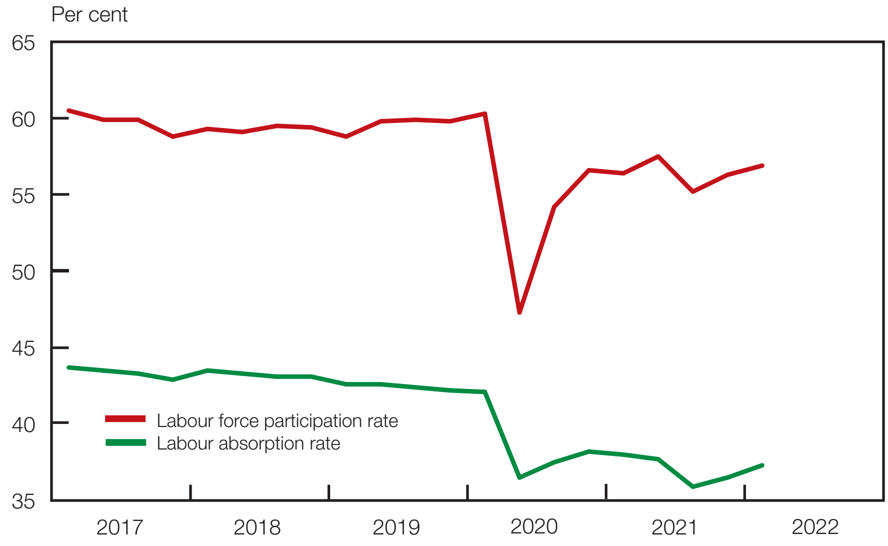


Source: Stats SA

9 The 'other not economically active' category includes persons who were not able to search for work during the civil unrest in July 2021.

Following the civil unrest in July 2021, the total labour force increased in the fourth quarter of the year and further in the first quarter of 2022 as some people returned to work while others resumed job-searching activities. Similarly, the not economically active population decreased by 166 000 persons (-1.0%) in the first quarter of 2022, mainly due to a decline of 112 000 (-0.8%) in the *other*[9] not economically active category and 54 000 (-1.4%) in the discouraged work seekers category. Consequently, the expanded unemployment rate, which includes discouraged work seekers and the *other* category, decreased from 46.2% in the fourth quarter of 2021 to 45.5% in the first quarter of 2022.

Labour force participation and labour absorption rates



Source: Stats SA

10 The labour force participation rate is calculated as the total labour force, including both employed and unemployed persons, expressed as a percentage of the working age population (aged 15–64).

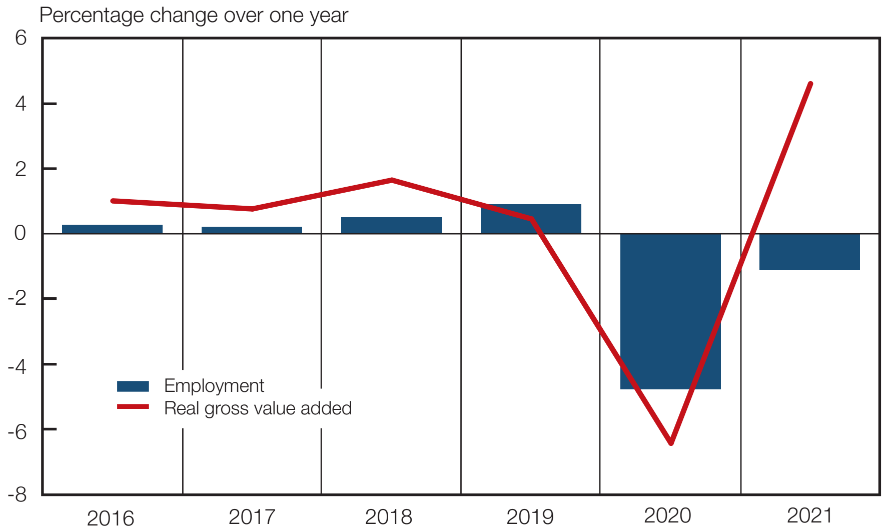
11 The labour absorption rate is calculated as the percentage of the working age population (aged 15–64) who are employed.

The labour force participation rate[10] increased further from 56.3% in the fourth quarter of 2021 to 56.9% in the first quarter of 2022, consistent with the increase in the labour force that was supported by an increase in employment during the quarter. The labour absorption rate[11] also increased slightly from 36.5% in the fourth quarter of 2021 to 37.3% in the first quarter of 2022, in line with the increase in employment.

Broadly consistent with the increase in household-surveyed employment, *enterprise-surveyed formal non-agricultural employment* also increased marginally by 1 500 jobs (an annualised 0.1%) in the fourth quarter of 2021. This kept the total level of such employment at an estimated 9.97 million persons. The marginal increase mostly reflected additional temporary employment gains in the public sector, which more than offset job losses in the private sector. On an annual average basis, formal non-agricultural employment decreased further in 2021 following the significant number of COVID-19-related job losses in 2020, despite a relatively strong rebound in output growth in 2021.

Public sector employment increased by 29 800 employees in the fourth quarter of 2021. Substantial employment gains were made at provincial level, largely due to many temporary appointments made under Phase 2 of the Presidential Youth Employment Initiative. However, employment by national government departments and in the public transport, storage and communication sector decreased somewhat.

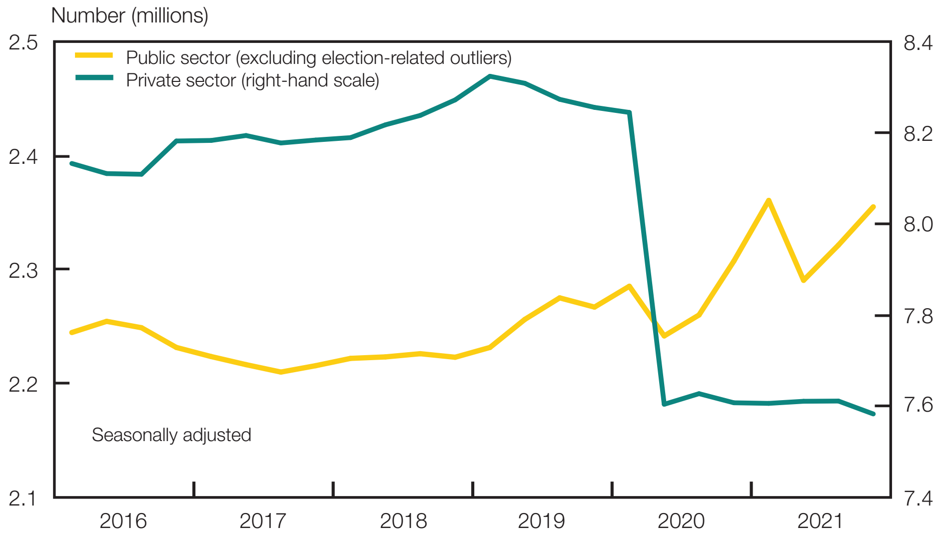
Formal non-agricultural employment and output



Sources: Stats SA and SARB

By contrast, the *private sector* shed an estimated 28 300 formal jobs in the fourth quarter of 2021, with employment falling to its lowest level since the first quarter of 2005. Most of these job losses occurred in the finance, insurance, real estate and business services sector, followed by the construction sector. The trade, catering and accommodation services sector, which bore the brunt of the July 2021 civil unrest, regained only some of the jobs lost in the third quarter. The only other sector that experienced job gains was the non-gold mining sector, but only marginally so. On an annual average basis, private sector employment decreased by a further 2.0% in 2021 following the marked decline of 4.8% in 2020, reflecting the ongoing impact of the COVID-19 pandemic.

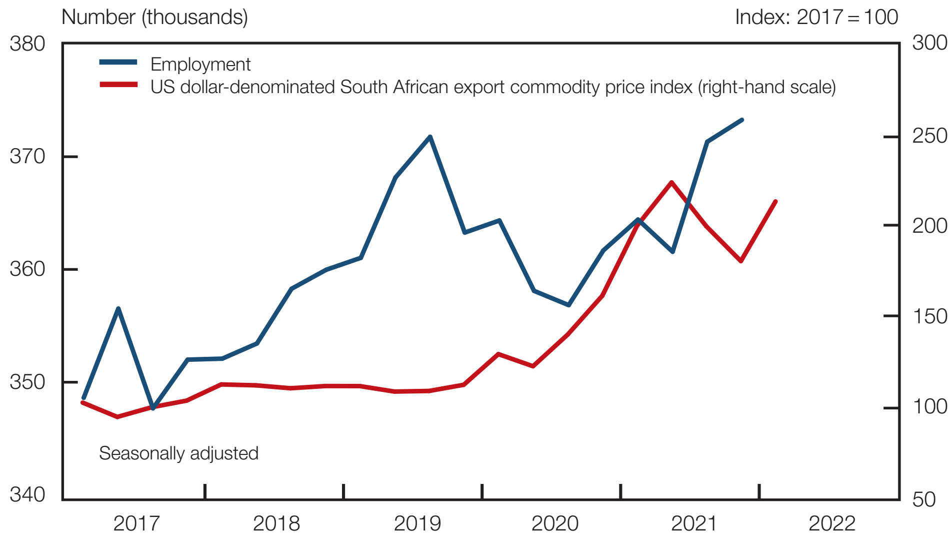
Public and private sector employment



Sources: Stats SA and SARB

Employment in the mining sector increased for a second consecutive quarter in the fourth quarter of 2021 as non-gold mining jobs increased marginally further. The cumulative 11 700 jobs created in the non-gold mining sector in the second half of 2021 probably reflected the earlier surge in international commodity prices. Conversely, employment in the gold-mining sector decreased for a third successive quarter, albeit at a much slower pace than in the preceding quarter.

Non-gold mining sector employment and international commodity prices



Sources: Stats SA and SARB

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

Manufacturing sector employment decreased for a third successive quarter in the fourth quarter of 2021 and for four successive years on an annual average basis. The post-lockdown recovery in manufacturing production has faced setbacks from the persistent and increased electricity load-shedding thus far in 2022, as well as the devastating floods in KwaZulu-Natal that damaged business infrastructure and halted operations at several factories, including the Durban port. Although manufacturing business confidence[12] improved from 38 to 43 index points in the first quarter of 2022, most of the survey responses preceded Russia's invasion of Ukraine on 24 February 2022, which might weigh on sentiment due to expected higher input costs, especially from the surge in international crude oil prices. Respondents to the Bureau for Economic Research's (BER) *Absa Manufacturing Survey* indicated that sales volumes rose in the first quarter of 2021, while a sustained increase in demand supported output growth. Despite higher output, the shortage of raw materials persisted as one of the main factors restraining increased production. Renewed supply chain disruptions following the war in Ukraine could see raw material and intermediate goods shortages persist for longer.

13 As measured by the First National Bank (FNB)/BER Civil Confidence Index.

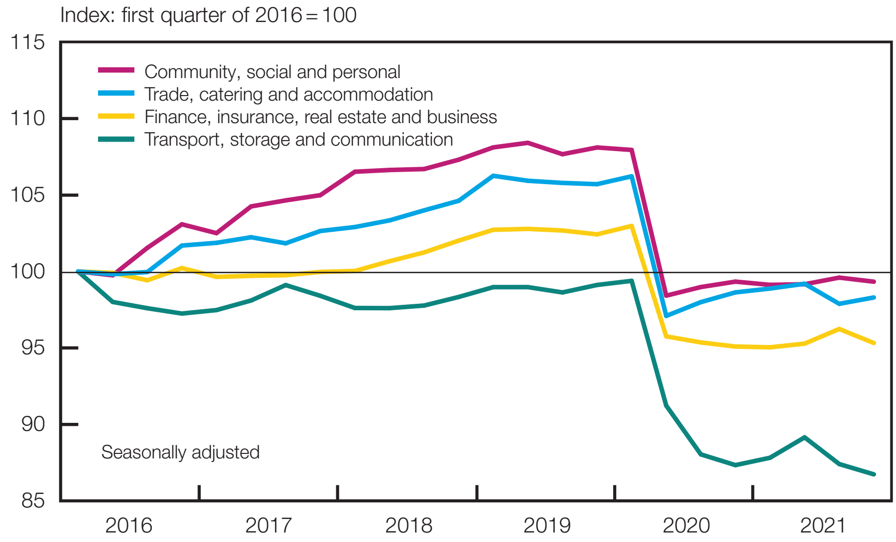
14 As measured by the FNB/BER Building Confidence Index.

Construction sector employment decreased at a significantly faster pace in the fourth quarter of 2021, more than reversing the previous quarter's marginal gains. The annual average loss of formal construction jobs amounted to 23 300 in 2021. In addition, civil confidence[13] unexpectedly fell by 6 index points to a low of only 9 index points in the first quarter of 2022, despite higher activity levels and less keen tendering price competition. The BER cited mounting concerns over the slow pace of tender awards as a possible reason for the fall in confidence. By contrast, building sector confidence[14] rose from 34 index points to a four-year high of 40 index points over the same period. Despite remaining below the neutral 50 level, confidence was supported by improved activity in especially the non-residential sector, although from an extremely low base. Respondents were also relatively upbeat about prospects for activity in the second quarter of 2022.

15 As measured by the BER's *Retail Survey.*

The *private services sectors* recorded the largest employment losses relative to all other sectors in the fourth quarter of 2021, led by the finance, insurance, real estate and business services sector that shed around 22 400 jobs. However, the trade, catering and accommodation sector regained only 8 900 of the 28 100 jobs that were lost in the third quarter. Discouragingly, retailer confidence[15] declined further from 52 to 49 index points in the first quarter of 2022, underpinned by rapidly rising selling prices and the easing of overall sales volume growth. Employment in the transport, storage and communication sector fell below its COVID-19 low recorded in the fourth quarter of 2020 as a further 2 500 jobs were lost in the fourth quarter of 2021.

Employment in the private services sectors



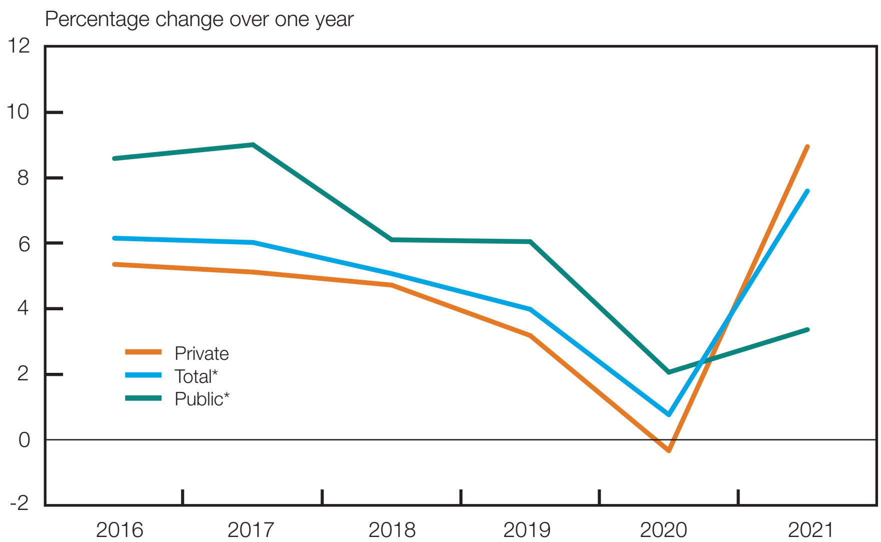
Sources: Stats SA and SARB

Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* moderated from 9.2% in the third quarter of 2021 to 5.8% in the fourth quarter, as both private and public sector remuneration growth per worker slowed. Annual average growth in nominal remuneration per worker accelerated substantially from a record-low of 0.8% in 2020 to 7.4% in 2021, as both private and public sector remuneration growth quickened from the COVID-19-induced lows in 2020.

The rate of increase in *nominal remuneration per worker in the private sector* slowed from 10.4% in the third quarter of 2021 to a still elevated 6.4% in the fourth quarter, reflecting the pandemic-induced base effects that continued well into the fourth quarter of 2020. The moderation in nominal remuneration growth per worker was broad-based across the private subsectors, except for the private transport, storage and communication sector, where remuneration growth accelerated into double digits.

Formal non-agricultural nominal remuneration per worker



* Excluding election-related outliers

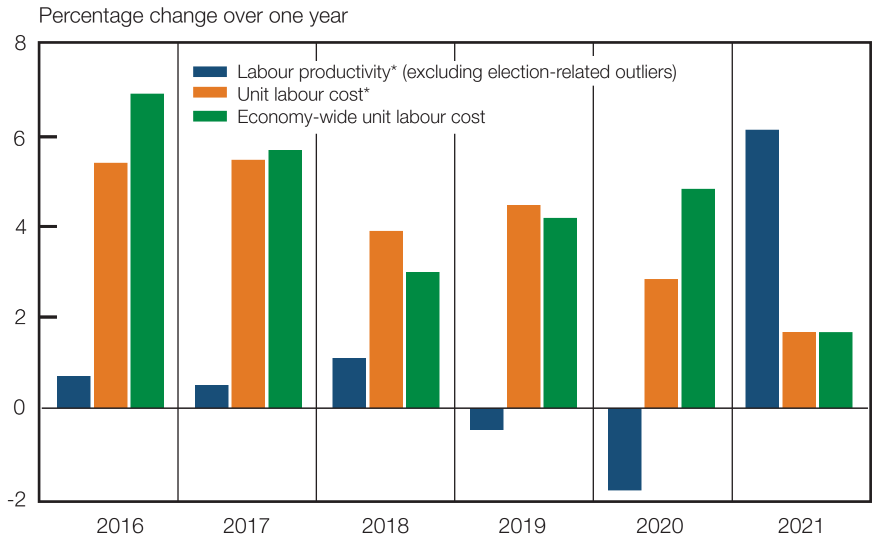
Sources: Stats SA and SARB

Nominal remuneration growth per public sector worker slowed from 5.5% in the third quarter of 2021 to 3.7% in the fourth quarter, largely reflecting the continued increase in low-earning temporary public sector employment. Growth in nominal remuneration per worker moderated across the public sector in the fourth quarter of 2021, except at national departments.

The *average wage settlement rate in collective bargaining agreements* increased to 4.9% in the first quarter of 2022 compared with 4.5% in the corresponding period of 2021, and an average of 4.4% for 2021 as a whole, according to Andrew Levy Employment Publications. Similarly, the *number of workdays lost due to industrial action* increased to 432 000 in the first quarter of 2022 compared with only 30 000 in the first quarter of 2021. The number of workdays lost was affected by the ongoing strike at a large food manufacturing company and partly by the gold-mining sector strike that commenced in March 2022. The 2022 wage negotiations have also commenced in the public sector and steel sector, where negotiations have reached a deadlock. The probability of further labour strikes is high, given the large gap between the wage demands of unions and the offers from firms.

Labour productivity growth in the formal non-agricultural sector of the economy moderated further from 2.3% in the third quarter of 2021 to 1.1% in the fourth quarter, as year-on-year output growth slowed at a faster pace than that in employment. The annual average change in labour productivity reverted from a decrease of 1.7% in 2020 to an increase of 6.0% in 2021, impacted by the low base created by the COVID-19-induced contraction in output in 2020.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

Growth in *nominal unit labour cost* in the formal non-agricultural sector slowed from 6.8% in the third quarter of 2021 to 4.6% in the fourth quarter, as the moderation in total remuneration growth outweighed that in output growth. Annual average growth in nominal unit labour cost slowed further from 2.8% in 2020 to 1.7% in 2021. Growth in economy-wide nominal unit labour cost slowed further from 3.5% in the fourth quarter of 2021 to 2.5% in the first quarter of 2022, as year-on-year output growth accelerated at a faster pace than growth in the compensation of employees.

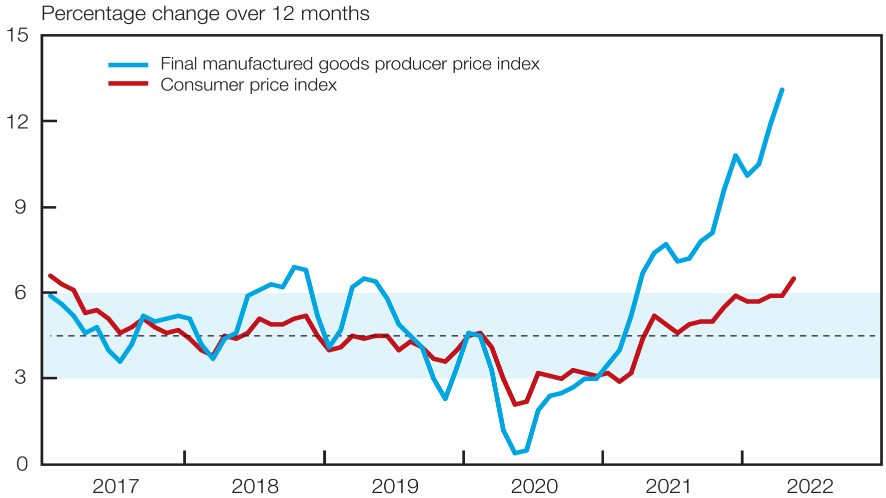
The changes in labour productivity and nominal unit labour cost over the past year largely reflected the normalisation from 2020 base effects when output was more severely impacted by the COVID-19 lockdown restrictions than employment and remuneration. These base effects may not have fully worked out yet as economic activity is still recovering from the lockdowns.

Prices[16]

The faster pace of increase in both headline consumer and producer prices thus far in 2022 has reflected the sustained surge in domestic and global inflationary pressures. Headline consumer price inflation accelerated to 6.5% in May 2022, breaching the upper limit of the inflation target range for the first time since March 2017 on account of both higher consumer goods and services prices, while final manufactured producer price inflation accelerated considerably to a multi-year high of 13.1% in April 2022. The acceleration in consumer goods price inflation resulted largely from record-high fuel prices and, to a lesser extent, from more elevated food prices. Similar to rising inflation in most advanced economies, domestic inflationary pressures largely reflect the immediate pass-through of higher international crude oil prices to domestic fuel prices as well as renewed global supply chain disruptions from the ongoing war between Russia and Ukraine.

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

Headline producer and consumer prices



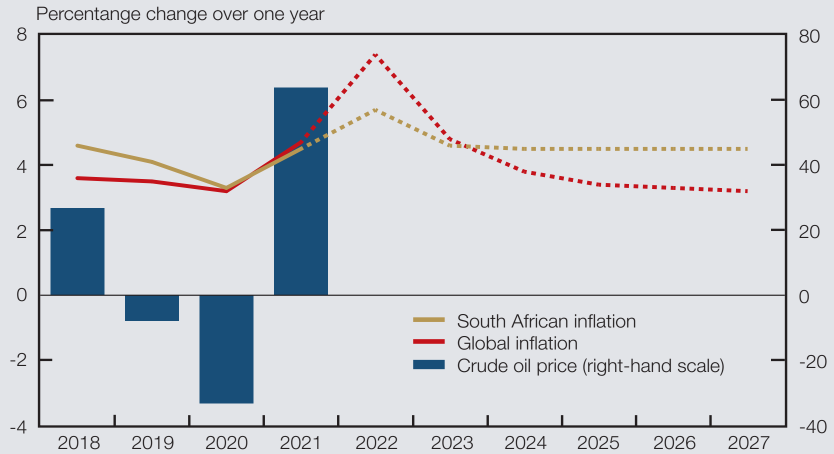
- - - - Midpoint of the inflation target range (4.5%)

Source: Stats SA

Box 1 International crude oil prices as a driver of domestic consumer price inflation

Global and domestic consumer price inflation, which were mostly driven by higher international crude oil prices, have accelerated notably from a multi-year low recorded in April 2020 during the initial coronavirus disease 2019 (COVID-19) hard lockdown.

Consumer price inflation and the price of crude oil*



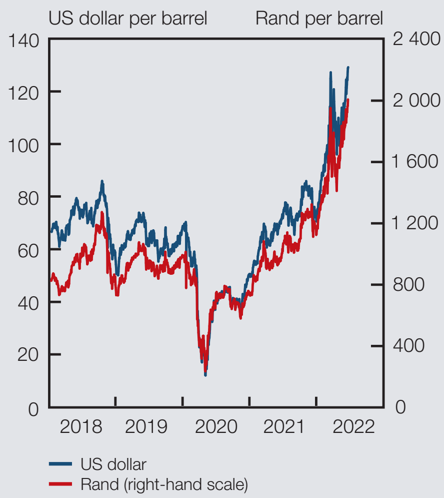
Dotted lines represent IMF forecasts

*Average spot prices of Dated Brent, West Texas Intermediate and the Dubai Fateh

Sources: IMF, Refinitiv and Stats SA

Strict COVID-19 lockdown measures by most countries abruptly halted economic activity which led to a decline in the price of Brent crude oil to about US$12 per barrel in April 2020. Subsequently, with the gradual lifting of these measures, economic activity resumed, and in early 2022 the price of Brent crude oil breached the 2018 level of US$80 per barrel. In addition, global inflationary pressures also reflected severe supply chain constraints as demand exceeded supply for many final and intermediate goods. The price of Brent crude oil then surged further following Russia's invasion of Ukraine on 24 February 2022, to almost US$128 per barrel in early March 2022, with Russia being the third-largest crude oil producer in the world. Since then, the Brent crude oil price has fluctuated within a range of between US$100 and US$125 per barrel. The ongoing conflict in Ukraine and the sanctions imposed on Russia by many countries have also exacerbated and prolonged the global supply chain disruptions, adding further upward pressure on consumer prices in most economies.

Brent crude oil price



Exchange rate and rand price of Brent crude oil

Sources: Refinitiv and SARB

The impact of the post-lockdown increase in the international price of crude oil on the South African economy was initially softened somewhat by the appreciation in the exchange value of the rand, but since June 2021 the depreciation in the exchange value of the rand has exacerbated the further increase in the US dollar price of Brent crude oil.

In South Africa, the Department of Mineral Resources and Energy adjusts the regulated prices of fuel monthly. The final inland pump price of 95-octane petrol comprises the basic fuel price (50.9% of the total price),[1] several duties and levies (31.1%), margins (12.7%) and other costs (5.3%). As a net importer of fuel, the basic fuel price in South Africa reflects the prices of international petroleum products and the exchange value of the rand against the US dollar, as well as shipping costs. The general fuel and Road Accident Fund (RAF) levies are determined annually in the Budget by the Minister of Finance, with the former providing funding for road infrastructure and the latter for third-party vehicle accident claims.

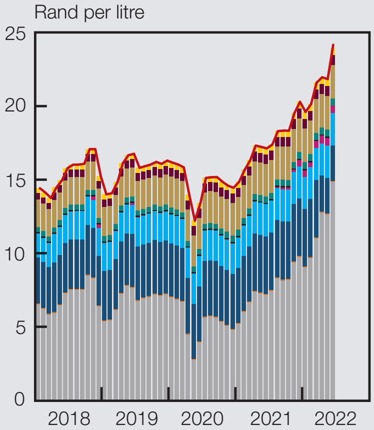
The increase in domestic fuel prices since early-2021 was driven largely by the basic fuel price, which reflected the sharp increase in international petroleum product prices. In response, the Minister of Mineral Resources and Energy and the Minister of Finance jointly announced temporary short-term relief[2] on 31 March 2022, which included a reduction of R1.50 per litre in the general fuel levy for April and May 2022. Without this temporary relief, the price of inland 95-octane petrol would have amounted to R23.34 per litre in May 2022 and the year-on-year percentage change would have been 35.5% instead of 26.8%. Subsequently, the ministers issued another joint statement on 31 May[3] announcing the extension of the temporary relief by a further two months; the R1.50 reduction in the general fuel levy was extended to June 2022, whereafter it will be reduced to 75 cents in July before being discontinued altogether from August.

1 The percentages in brackets represent the contribution to the total inland 95-octane petrol price in March 2022, before the temporary fuel levy relief.

2 See https://www.gov.za/speeches/ministers-enoch-godongwana-and-gwede-mantashe-short-term-relief-measures-address-fuel-price

3 See http://www.treasury.gov.za/comm_media/press/2022/2022053101%20Joint%20statement-extension%20of%20the%20temporary%20reduction%20in%20the%20general%20fuel%20levy.pdf

Composition of the South African inland 95-octane petrol price



Basic fuel price
Customs and excise duty
General fuel levy
Road Accident Fund levy
Slate levy
Demand Side Management Levy
Wholesale margin
Dealers retail margin
Zone differential
Secondary cost recoveries
Fuel pump price

Source: Department of Mineral Resources and Energy

Brent crude oil and the inland 95-octane petrol price

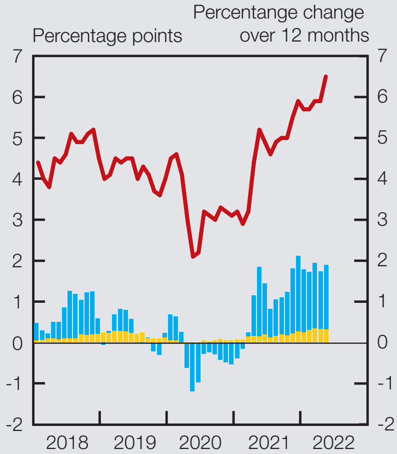
Oil
Petrol (right-hand scale)

Sources: Department of Mineral Resources and Energy and Refinitiv

The price of inland 95-octane petrol increased by 97.8% from a low of R12.22 per litre in May 2020 to a record high of R24.17 per litre in June 2022. The price of diesel more than doubled from R11.09 per litre to R23.09 per litre over the same period, and temporarily surpassed that of petrol in May 2022 for the first time since 2009 following a shortage of diesel supply due to lower Russian exports of distillate fuel and the depreciation in the exchange value of the rand.

Higher fuel prices directly influence domestic consumer price inflation, with a weight of 4.82% in South Africa's overall consumer price basket. Consumer fuel price inflation accelerated to a recent high of 33.2% in March 2022 and contributed 1.6 percentage points to headline consumer price inflation. Higher fuel prices

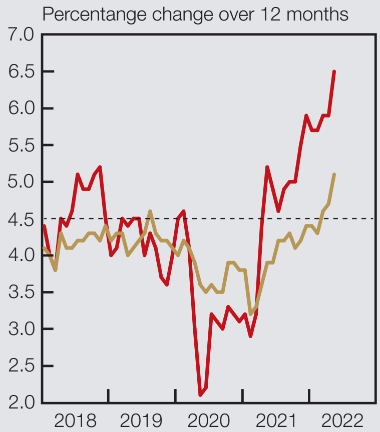
Contribution to headline consumer price inflation



Transport services
Fuel
Headline CPI (right-hand scale)

Source: Stats SA

Headline and underlying consumer prices



Headline CPI
Headline CPI excluding fuel
Midpoint of the inflation target range (4.5%)

also directly impact air and public road transport prices, and as most goods are transported by road, this often leads to price increases in other consumer goods. Consequently, the sharp increase in domestic fuel prices translated into transport services price inflation accelerating to 10.6% in March 2022 and contributing 0.34 percentage points to headline consumer price inflation, with a weight of 3.19% in the overall consumer price basket.

The acceleration in headline consumer price inflation to 6.5% in May 2022 primarily reflected the effects of higher domestic fuel prices. This is evidenced by the more benign domestic inflationary pressures of 5.1% in May 2022 when the impact of fuel prices is excluded from headline consumer price inflation. However, this measure of underlying inflation has nevertheless accelerated somewhat since early-2021 and could possibly reflect the gradual emergence of second-round price pressures.

Producer price inflation for final manufactured goods accelerated from 10.5% in February 2022 to a 14-year high of 13.1% in April, largely due to the higher price inflation of coke, petroleum, chemical, rubber and plastic products; food, beverages and tobacco products; as well as metals, machinery, equipment and computing equipment. Although still elevated, producer price inflation for intermediate manufactured goods decelerated for the fourth consecutive month to 17.6% in April 2022. This downward trend was mainly supported by more moderate price increases in basic and other metals as well as basic iron and steel, which outweighed the elevated increases in basic and non-ferrous metals.

Furthermore, electricity price inflation has slowed from a recent peak of 26.0% in September 2021 to 14.0% in April 2022, while water price inflation remained unchanged at 5.2%. The National Energy Regulator of South Africa (NERSA) approved an average annual increase in electricity prices of 9.61% for Eskom's direct customers and 8.61% for municipal customers, effective from 1 April 2022 and 1 July 2022 respectively. This is significantly lower than the 2021 increases of 15.07% and 17.8% for direct and municipal customers respectively, and should slow electricity price inflation further in the coming months. Producer price inflation for agriculture, forestry and fishing products accelerated markedly from 8.0% in February 2022 to 17.8% in April – the highest rate since July 2016 – as higher input costs, especially fuel, fertilisers and agrochemicals, affected the prices of cereals and other crops as well as that of live animals. Similarly, producer price inflation for mining products accelerated from 6.4% in February 2022 to 10.9% in April as the prices of especially coal and gas as well as gold and other metals increased.

Domestic and global producer price inflation remained elevated in the first four months of 2022, with input costs rising sharply, most notably those of fuel, coal, electricity, metals, fertilisers and freight transportation. The war between Russia and Ukraine has aggravated global supply chain disruptions and added to the shortage of critical commodities, such as wheat and crude oil. This, in turn, increased input prices and contributed to heightened uncertainty about the future trajectory of global economic activity. The difference between domestic consumer and producer price inflation increased to an all-time high of 7.2 percentage points in April 2022. Consequently, producers continued to bear the brunt of most of the cost increases as subdued demand limits pass-through to consumers.

Producer prices

Annual average percentage change

	2019	2020	2021	April 2022*
Final manufactured goods	4.6	2.6	7.1	13.6
Intermediate manufactured goods	2.6	2.5	16.2	17.6
Electricity and water	11.4	10.3	12.9	12.8
Mining	17.4	32.5	12.0	10.9
Agriculture, forestry and fishing	-1.8	4.7	9.3	17.8

* Changes in prices from April 2021 to April 2022

Source: Stats SA

Consumer food and fuel prices

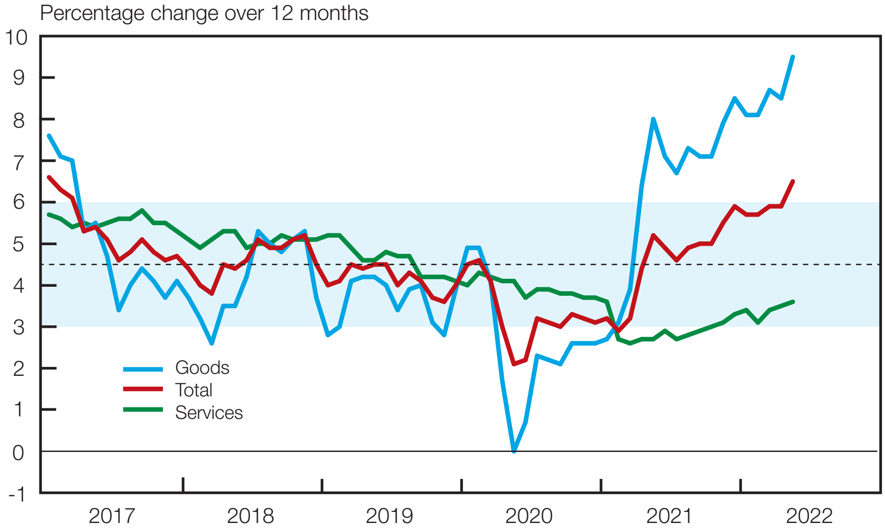
Percentage change over 12 months

Source: Stats SA

Headline consumer price inflation was just below the upper limit of the inflation target range in the period between December 2021 and April 2022 before breaching the target in May, mostly reflecting higher consumer goods prices but also slightly higher consumer services prices. Higher domestic living expenses mainly reflected record-high fuel prices following the surge in international crude oil prices and, to a lesser extent, higher food prices.

Headline consumer prices

Percentage change over 12 months

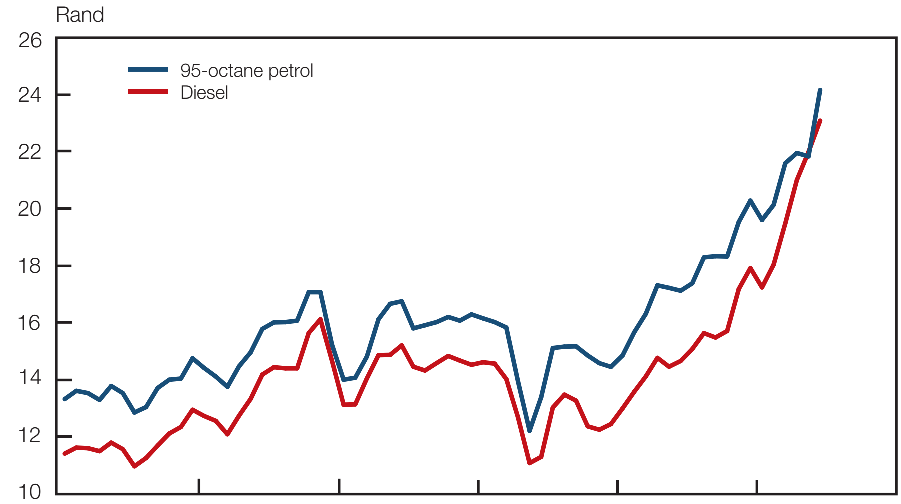


---- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Consumer goods price inflation accelerated throughout 2021 and further to 9.5% in May 2022. Non-durable goods price inflation was the main driver of this acceleration and amounted to 11.5% in May 2022. Non-durable goods price inflation primarily reflected higher fuel prices as the post-COVID-19 recovery in global demand resulted in elevated crude oil prices, which were exacerbated by supply and demand imbalances following the start of the Russia–Ukraine conflict. Although fuel price inflation slowed slightly to a still high of 29.2% in April 2022, it is expected to accelerate again, owing to the sharp increase in domestic fuel prices in June 2022 due to a notable under-recovery in the basic fuel price and the phasing out of the temporary fuel levy relief of R1.50 per litre in July and August.

Domestic inland petrol and diesel prices

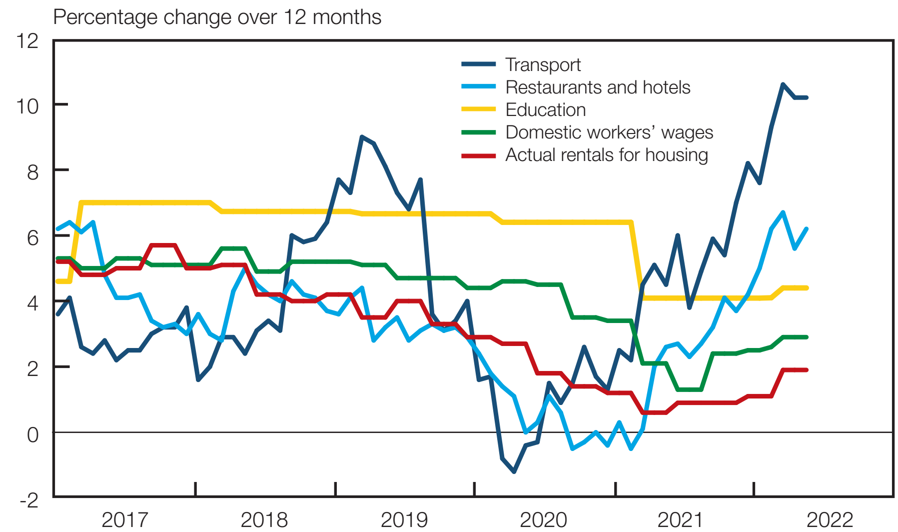


Source: Department of Mineral Resources and Energy

Durable goods price inflation remained relatively contained at 3.9% in March 2022 before accelerating to 4.7% in May, as vehicle price inflation quickened to 6.1% in the same month. The prices of second-hand vehicles have been increasing at a faster pace than those of new vehicles since October 2021 on account of shortages of certain new models. Semi-durable goods price inflation remained muted in an environment of weak consumer demand, hovering around 2.0% over the past 12 months.

Consumer services price inflation accelerated gradually from 2.7% in July 2021 to 3.6% in May 2022 as the pace of increase in the prices of especially transport services, rentals as well as restaurant and hotel services quickened. Education fees accelerated slightly from 4.1% in February 2021 to 4.4% in March 2022. Housing and utility services price inflation accelerated further to 2.8% in March, April and May 2022 as vacancy rates declined. Transport services price inflation accelerated to 10.6% in March 2022 due to the higher petrol and diesel prices. The rate of increase in domestic workers' wages also accelerated further to 2.9% in March 2022.

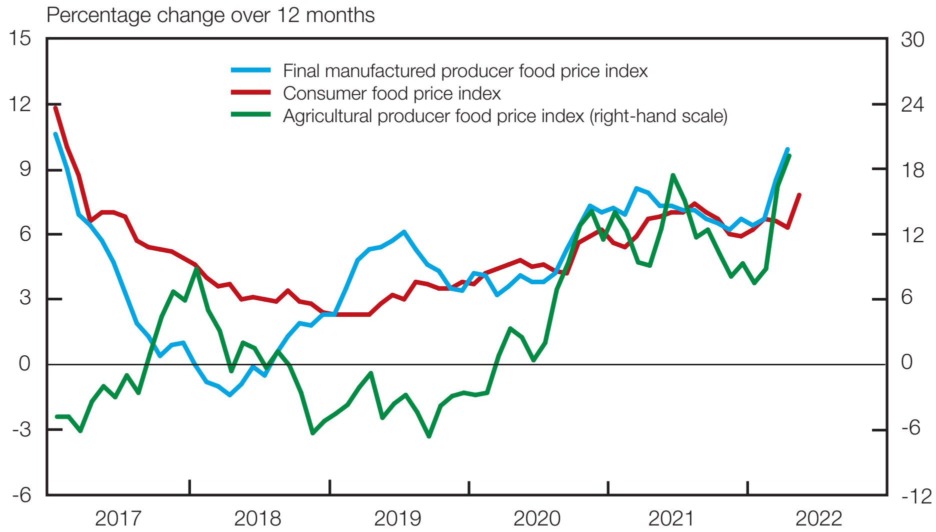
Consumer services prices



Source: Stats SA

Elevated *domestic consumer food price inflation* moderated somewhat in the two months to April 2022, despite a marked acceleration in agricultural and final manufactured producer food price inflation in March and April 2022. Agricultural producer food price inflation more than doubled from 8.8% in February 2022 to 19.2% in April due to a marked increase in the prices of both live animals as well as cereals and other crops, with the former impacted by the outbreak of foot and mouth disease and the latter by the sharply higher international maize and wheat prices following Russia's invasion of Ukraine. The prices of milk and eggs also increased notably in March and April 2022. Farmers continue to face sharp increases in input costs, notably of fuel and fertiliser, due to disrupted supply chains.

Producer and consumer food prices



Source: Stats SA

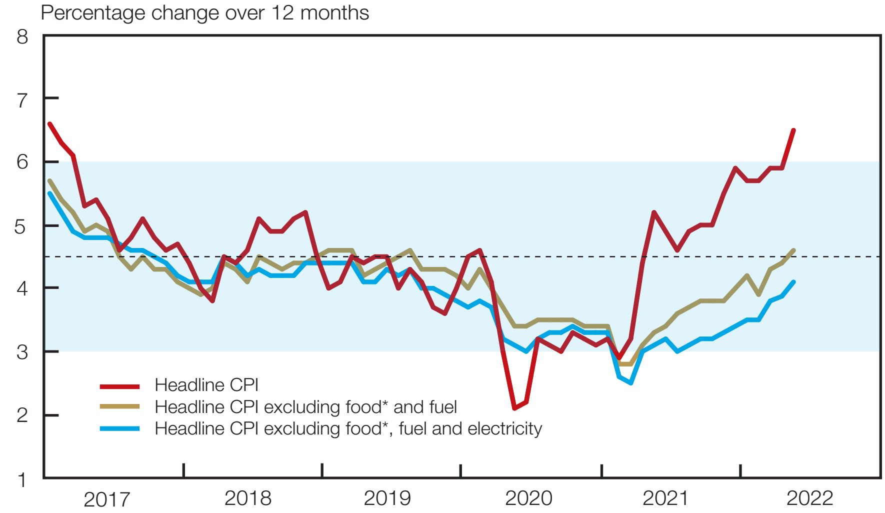
Final manufactured producer food price inflation – the largest category of manufactured producer prices – accelerated from 6.4% in January 2022 to a five-year high of 9.9% in April. The acceleration was widespread, with price inflation of oils and fats more than doubling from 21.6% in February 2022 to 47.7% in April, as the Russia–Ukraine conflict has had a significant impact on the prices of sunflower seeds.

Consumer food price inflation has contributed to the overall rise in domestic price pressures, although the full extent of the higher input costs and supply chain disruptions are not yet fully reflected. The rate of increase in consumer food prices slowed from 6.7% in February 2022 to 6.3% in April, before accelerating to 7.8% in May. The upward pressure on food price inflation thus far in 2022 has resulted mainly from higher meat; bread and cereals; and sugar, sweets and desert prices, which together account for about 60% of the total consumer food price basket. Non-alcoholic beverages price inflation accelerated from 1.1% in January 2022 to 4.9% in May, while alcoholic beverages and tobacco price inflation accelerated from 4.7% to 6.7% over the same period.

The international food price index of the United Nations' Food and Agriculture Organization (FAO) decreased slightly from an all-time high of 159.7 in March 2022 to 157.4 in May, as decreases in the international prices of dairy, sugar and vegetable oils outweighed increases in those of meat and cereals. Consequently, US dollar-denominated food price inflation decelerated from 34.0% in March 2022 to a still high 22.8% in May, while the rate of increase in the rand-denominated international food price index accelerated from 33.9% to 39.0% over the same period as the exchange value of the rand depreciated.

Most measures of *underlying inflation* accelerated gradually further during the first five months of 2022. When excluding the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant inflation measure accelerated steadily from a low of 2.8% in March 2021 to 4.6% in May 2022. Similarly, the South African Reserve Bank's (SARB) preferred measure of core inflation (also excluding electricity prices) gathered some momentum as it accelerated from 2.5% to 4.1% over the same period, though remaining below the midpoint of the inflation target range for 49 successive months. The increase in underlying inflationary pressures resulted primarily from higher services prices, notably of transport, housing, and restaurant and hotel services.

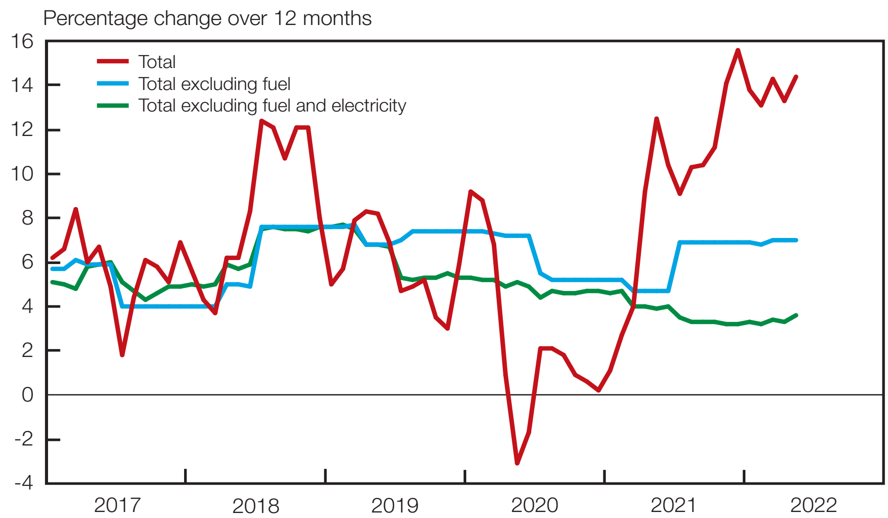
Headline and underlying measures of consumer prices



---- Midpoint of the inflation target range (4.5%)
* Food includes non-alcoholic beverages
Source: Stats SA

Administered price inflation has been driven higher by the marked increase in fuel prices since the start of 2021, amounting to 14.4% in May 2022. After moderating to 15.2% in July 2021, fuel price inflation quickened significantly to a high of 40.4% in December 2021 before moderating somewhat to 32.5% in May 2022. The price of inland 95-octane petrol has increased by a cumulative 704 cents per litre in the 12 months to June 2022. When excluding fuel prices, administered price inflation has remained at around 7% since July 2021, after the implementation of Eskom's annual tariff increase. When the marked increases in the prices of fuel and electricity are excluded from the calculation of administered prices, underlying administered price inflation remained relatively subdued, amounting to 3.6% in May 2022.

Administered prices

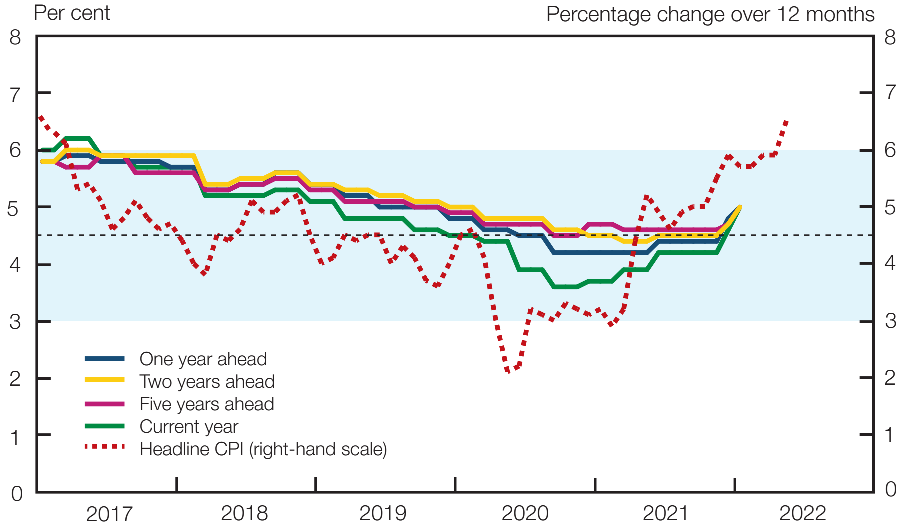


Source: Stats SA

Average headline consumer price inflation expectations[17] were adjusted higher over the entire forecast period in the survey conducted in the first quarter of 2022. Headline inflation is forecast to average 5.1% in 2022 (4.8% previously) and 5.0% in 2023 (4.7% previously) as all three respondent groups adjusted their inflation expectations upwards.

17 As measured by the *Survey of Inflation Expectations* conducted by the BER in the first quarter of 2022.

Inflation expectations and headline consumer prices



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

Sources: BER and Stats SA

Business representatives' inflation expectations remained higher than those of both financial analysts and trade union representatives over the entire forecast horizon. While business representatives expect inflation to average 5.3% in 2022 and to accelerate to 5.5% in 2023, financial analysts expect it to recede to the midpoint of the inflation target range in 2023. Trade union representatives expect it to remain stable at 5.0% for all three years. Average five-years-ahead inflation expectations increased from 4.7% in the survey conducted in the fourth quarter of 2021 to 5.0% in the survey conducted in the first quarter of 2022.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2022

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2022	5.1	5.3	5.0	5.1
2023	4.5	5.5	5.0	5.0
2024	4.5	5.4	5.0	5.0
The next five years	4.6	5.4	5.0	5.0

Source: BER

Household inflation expectations receded to 5.2% in the 2021 fourth-quarter survey after which it increased to 5.6% in the 2022 first-quarter survey.

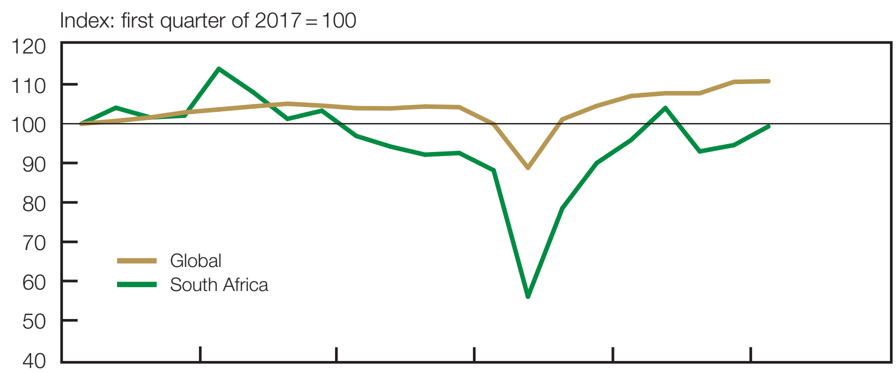
External economic accounts

Current account[18]

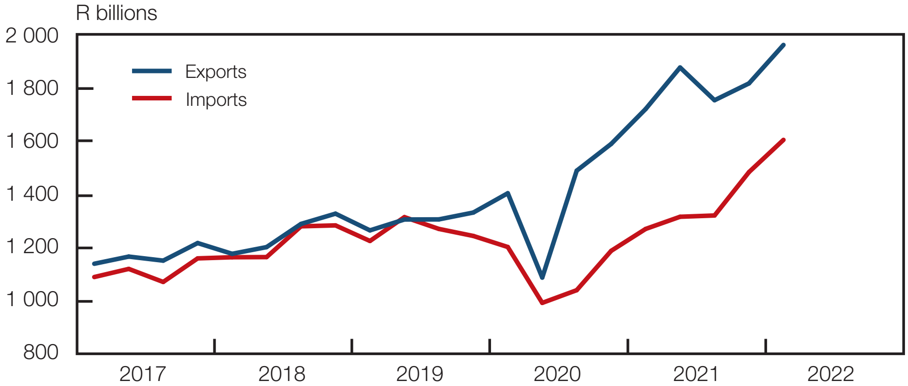
18 Unless stated to the contrary, the current account transaction flows referred to in this section are all seasonally adjusted and annualised.

In volume terms, South Africa's goods exports increased further in the first quarter of 2022, in step with somewhat slower growth in global trade. The value of both South Africa's exports and imports of goods increased to all-time highs in the first quarter of 2022.

Volume of goods exports



Value of South Africa's exports and imports of goods



Seasonally adjusted and annualised

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

With the value of net gold and merchandise exports increasing more than that of merchandise imports, South Africa's trade surplus increased to R360 billion in the first quarter of 2022 from R336 billion in the fourth quarter of 2021. The increase in both export and import values reflected higher prices, in particular for international commodity prices, and higher volumes. The increase in the surplus on the current account of the balance of payments from R132 billion in the fourth quarter of 2021 to R143 billion in the first quarter of 2022 resulted from an increase in the trade surplus, while the deficit on the services, income and current transfer account widened. Accordingly, the surplus on the current account increased slightly to 2.2% of GDP in the first quarter of 2022 from 2.1% in the preceding quarter.

Current account of the balance of payments

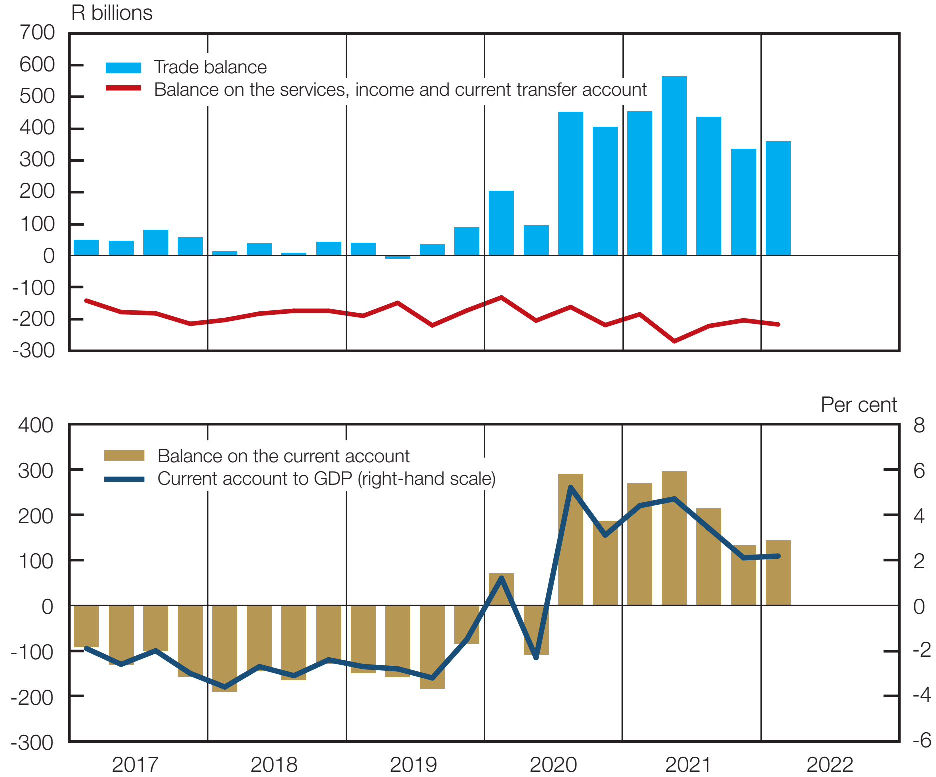
R billions, seasonally adjusted and annualised

	2021					2022
	Q1	Q2	Q3	Q4	Year	Q1
Merchandise exports	1 618	1 782	1 653	1 702	1 689	1 891
Net gold exports	107	100	105	120	108	76
Merchandise imports	-1 271	-1 317	-1 321	-1 486	-1 349	-1 608
Trade balance	**454**	**565**	**437**	**336**	**448**	**360**
Net services, income and current transfer payments	-185	-270	-222	-204	-220	-217
Balance on current account	**269**	**296**	**214**	**132**	**228**	**143**
As a percentage of gross domestic product						
Trade balance	7.5	9.1	7.0	5.3	7.2	5.5
Services balance	-1.2	-1.0	-1.0	-1.0	-1.1	-1.2
Income balance	-1.0	-2.7	-2.0	-1.8	-1.9	-1.5
Current transfer balance	-0.9	-0.6	-0.5	-0.3	-0.6	-0.6
Balance on current account	**4.4**	**4.7**	**3.4**	**2.1**	**3.7**	**2.2**

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

Sources: Stats SA and SARB

Current account of the balance of payments

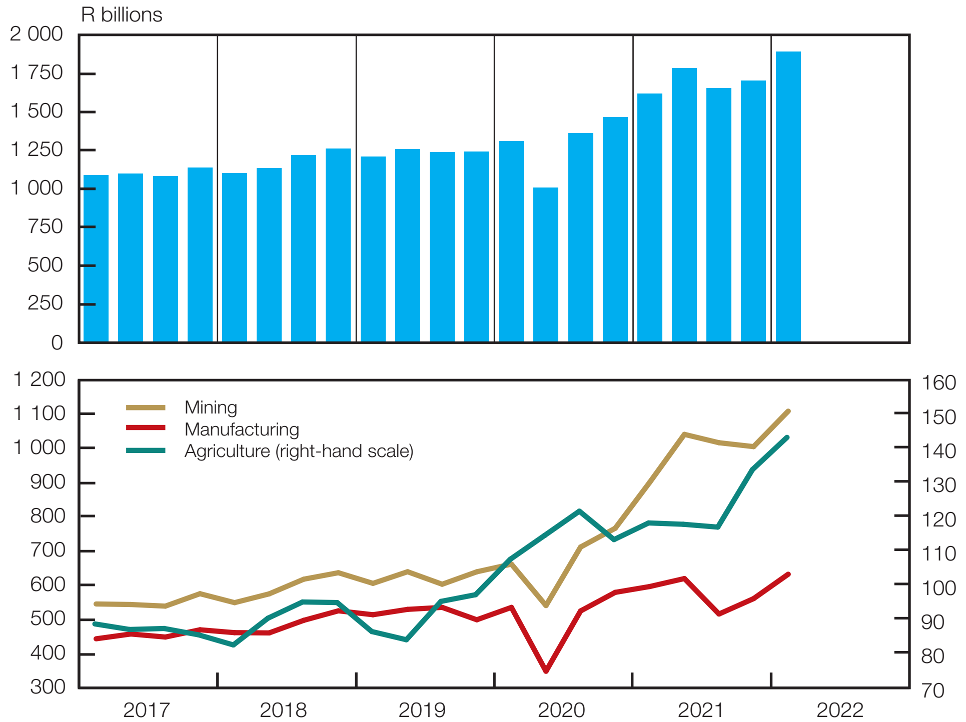


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The further increase in the value of merchandise exports of 11.1% in the first quarter of 2022 reflected increases in mining, manufactured and agricultural products. The higher value of mining exports reflected increases in mineral products, particularly coal, chromium and iron ore, mostly due to further price increases and, to a lesser extent, higher volumes. In the first quarter of 2022, India imported 37.8% of South Africa's total coal exports. The export value of pearls, and precious and semi-precious stones also increased over the period, along with an increase in bullion coins. These increases outweighed the lower export value of other mining products, especially PGMs, which were affected by a contraction in production due to abnormally high rainfall, safety stoppages due to reported fatalities as well as electricity supply constraints.

Value of merchandise exports*

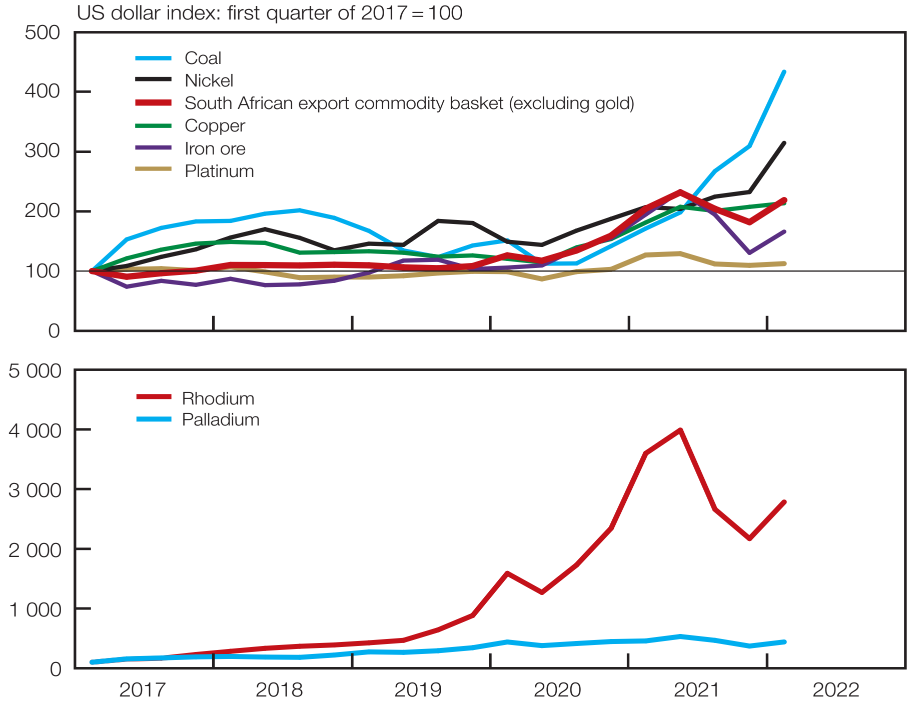


* Excluding net gold
Seasonally adjusted and annualised
Sources: Stats SA and SARB

The higher value of manufacturing exports in the first quarter of 2022 largely reflected the increased exports of vehicles and transport equipment. The number of vehicles exported increased from about 67 400 in the fourth quarter of 2021 to 85 000 in the first quarter of 2022, according to naamsa | the Automotive Business Council. The export value of machinery and electrical equipment also increased over the period. In addition, the value of agricultural exports increased sharply in the first quarter of 2022 on account of international demand from the Netherlands and the United Kingdom for locally produced grapes, and from Taiwan, Vietnam, South Korea and Italy for yellow maize.

The prices of most commodities increased during the first quarter of 2022 following heightened supply concerns after Russia's invasion of Ukraine. The United States (US) dollar price of a basket of domestically produced non-gold export commodities increased by 20.3% in the first quarter of 2022, following a decline in the two preceding quarters. The increase was broad-based, with notable increases in the prices of coal, nickel, iron ore, rhodium and palladium. The higher coal price reflected, among other factors, tight supplies and a surge in the prices of alternative energy-related commodities, especially gas. The Indonesian government's ban on coal exports, which remained in place throughout January 2022, also contributed to higher coal prices, although the ban was lifted at the beginning of February. The surge in the price of nickel mainly reflected supply shortages from Russia – the world's third-largest producer. Iron ore prices increased, partly due to heavy rains in some parts of Brazil which halted production during January, and signs of increased steel production in China. In addition to supply concerns, the prices of palladium and rhodium, which reached an all-time high in March 2022, were driven higher by indications that the global semiconductor shortage was easing, allowing for the increased production of other components where palladium and rhodium serve as inputs.

International prices of selected South African export commodities*



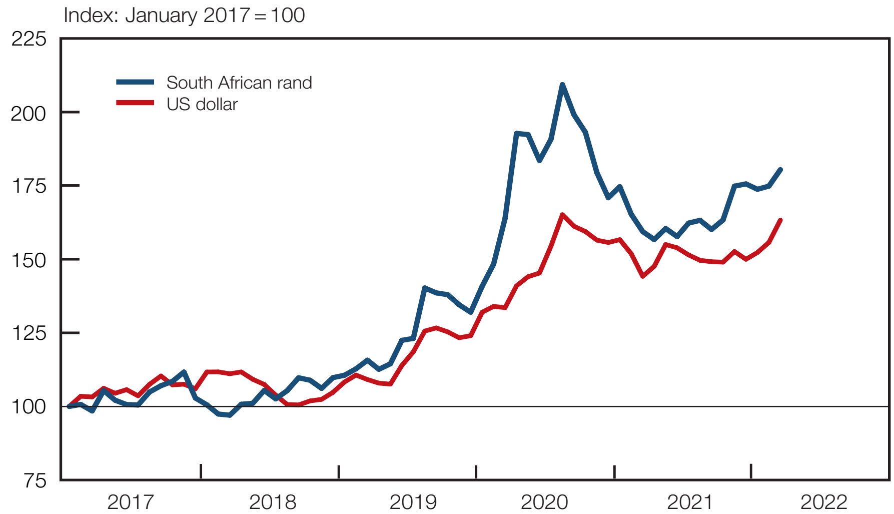
* Quarterly averages

Sources: Afriforesight, World Bank and SARB

The rand price of merchandise exports rose by 4.7% in the first quarter of 2022 following a 4.0% decline in the fourth quarter of 2021, while volumes increased by 6.1% in the same period.

The average US dollar price of gold on the London market increased in the first three months of 2022 in response to global inflation concerns and Russia's invasion of Ukraine, as both boosted safe-haven demand.

Gold price



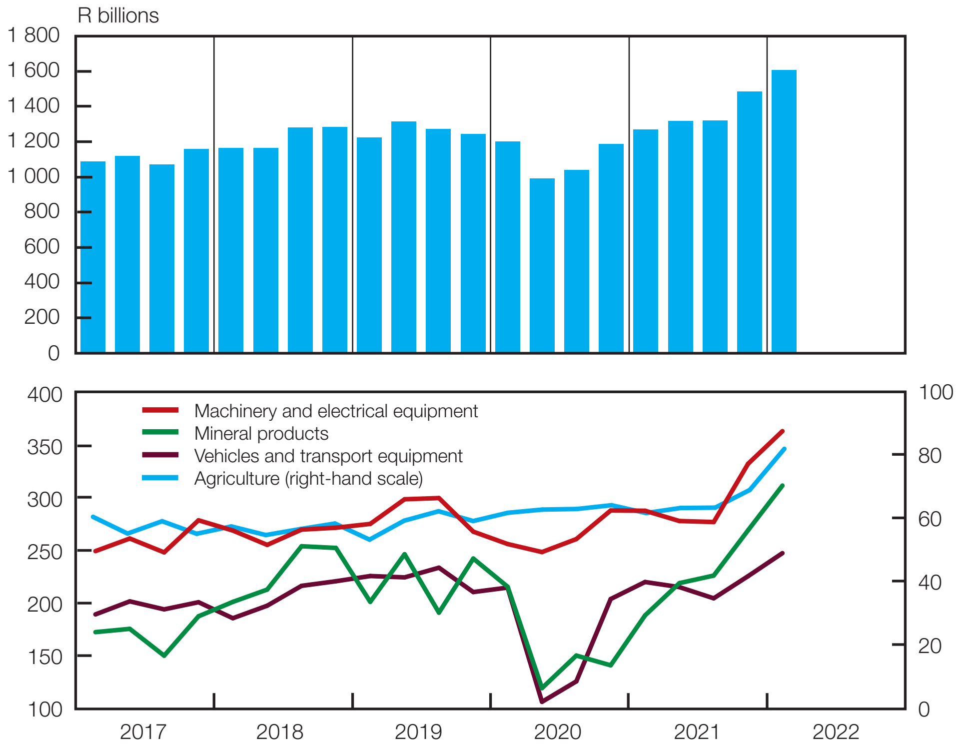
Sources: Refinitiv and SARB

Global demand for gold (excluding over the counter) increased by 7.2%, from 1 151 tons in the fourth quarter of 2021 to 1 234 tons in the first quarter of 2022, as holdings of gold-backed exchange traded funds (ETFs) experienced net inflows of 269 tons in the first quarter, according to the World Gold Council. The price of gold on the London market increased, on average, by 4.4%, from US$1 795 per fine ounce in the fourth quarter of 2021 to US$1 874 per fine ounce in the first quarter of 2022.

The average realised rand price of net gold exports increased by only 2.7% in the first quarter of 2022, affected by the appreciation in the exchange value of the rand over this period. The prolonged industrial action at a large gold producer in South Africa led to a contraction in gold production and a decline of 36.4% in the value of net gold exports in the first quarter of 2022, despite the higher gold price.

The increase in the value of merchandise imports by a further 8.2% in the first quarter of 2022 reflected increases in manufactured, mining and agricultural products. Manufacturing imports were boosted by significant increases in the importation of vehicles and transport equipment as well as machinery and electrical equipment. The former reflected higher imports of passenger vehicles and automotive components.

Value of merchandise imports

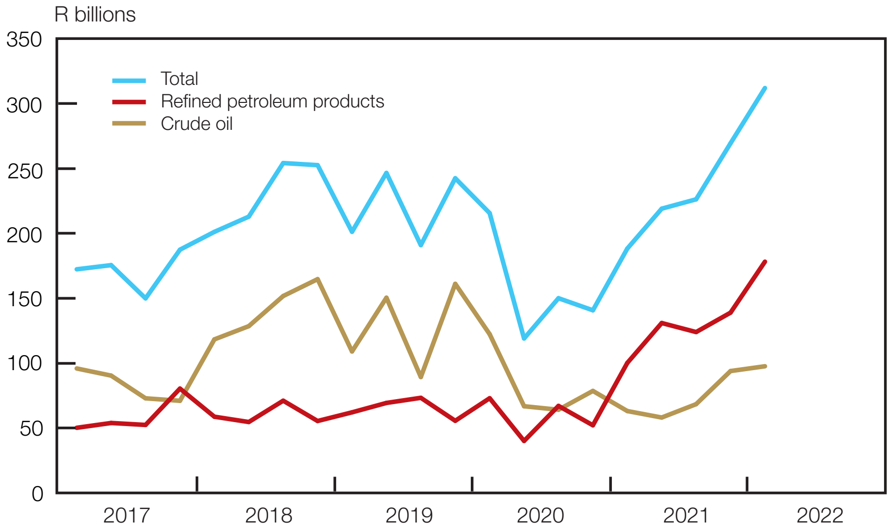


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The value of mining imports continued to reflect the marked increase in the prices of minerals, particularly of crude oil and refined petroleum products. The value of refined petroleum products increased by 26.9% in the first quarter of 2022, with the contribution of diesel, which is also used to generate electricity, increasing from 55.3% in the fourth quarter of 2021 to 63.0% in the first quarter of 2022. The value of imported crude oil increased by only 4.0% in the first quarter of 2022 as the lower volumes partly neutralised the higher prices. On average, the realised rand price of imported crude oil increased by 13.5%, from R1 165 per barrel in the fourth quarter of 2021 to R1 322 per barrel in the first quarter of 2022.

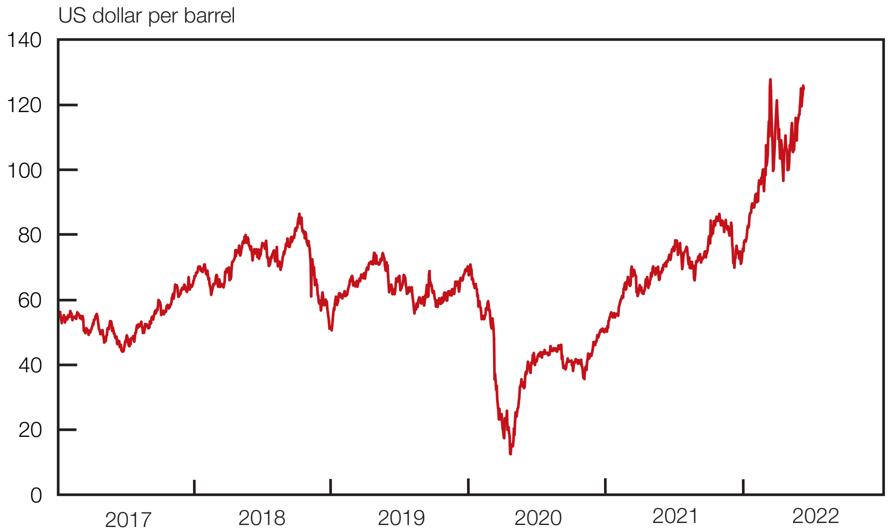
Value of mineral imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The marked increase in the monthly average spot price of Brent crude oil in January 2022 reflected higher global demand and supply concerns amid escalating tension between Russia and Ukraine at the time. Subsequently, geopolitical tension escalated in Eastern Europe following Russia's invasion of Ukraine in February, further raising supply concerns. In March, the price of Brent crude oil rose further to its highest monthly average level since June 2014. On a quarterly basis, the spot price of Brent crude oil increased by 23.7%, from an average of US$79.76 per barrel in the fourth quarter of 2021 to US$98.64 per barrel in the first quarter of 2022. The oil price subsequently declined in April due to, among other factors, concerns about the prospects of slower global economic growth, constrained demand in China following renewed strict COVID-19 lockdown measures, and the prospects of interest rate increases in most countries. The price of Brent crude oil then increased anew to an average of US$113.12 per barrel in May 2022 on expectations of the easing of lockdown restrictions in China.

Brent crude oil price

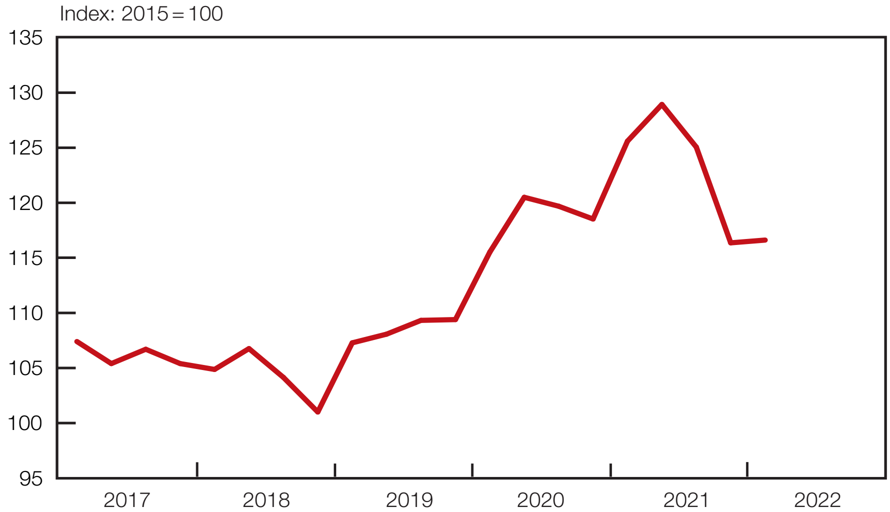


Source: Refinitiv

The further increase in the rand price of merchandise imports of 3.6% in the first quarter of 2022 mainly reflected higher international crude oil prices as well as the higher prices of goods in some of South Africa's trading partners. Over the same period, the volume of merchandise imports increased by 4.5%. As a result, the import penetration ratio (i.e. real merchandise imports as a ratio of GDE) increased from 23.6% in the fourth quarter of 2021 to 24.2% in the first quarter of 2022.

South Africa's terms of trade improved marginally in the first quarter of 2022 as the rand price of the exports of goods and services rose at a slightly faster pace than that of imports.

Terms of trade*

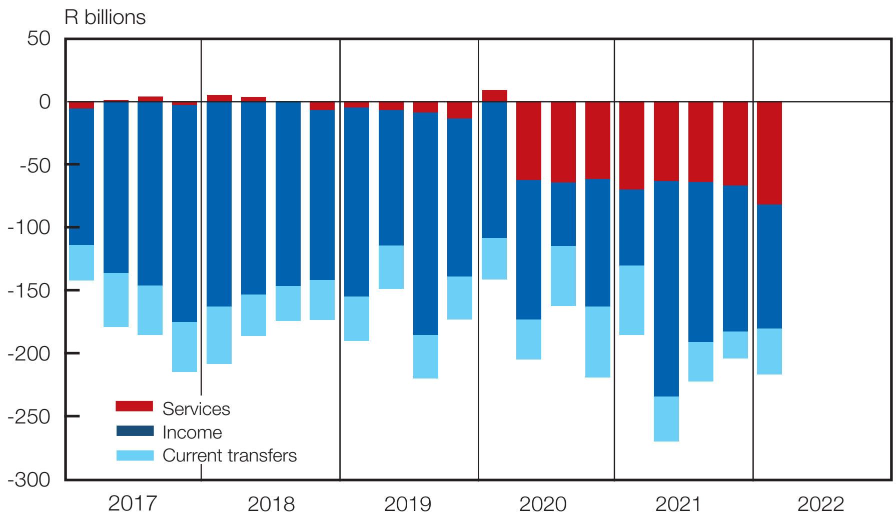


* Including gold

Sources: Stats SA and SARB

The deficit on the services, income and current transfer account widened to R217 billion in the first quarter of 2022 from R204 billion in the fourth quarter of 2021, as larger deficits on the services and current transfer accounts outweighed a smaller deficit on the income account. The deficit as a ratio of GDP increased slightly to 3.3% in the first quarter of 2022 from 3.2% in the fourth quarter of 2021.

Net services, income and current transfer payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

The services deficit increased further in the first quarter of 2022 as gross services payments increased more than receipts. Both payments and receipts of travel- and passenger-related services continued to increase amid the further easing of COVID-19 restrictions, both domestically and abroad, particularly in Europe. Although both the number of foreign tourists visiting South Africa and South African residents travelling abroad continued to increase steadily, both remained significantly below pre-COVID-19 levels. In addition, an increase in gross payments for freight-related transportation services, which was consistent with the increase in imported goods, contributed to the increase in the total services deficit in the first quarter of 2022.

The deficit on the income account narrowed for a third successive quarter in the first quarter of 2022 due to a larger increase in gross dividend receipts than that in gross dividend payments. Although gross dividend payments rose by only 5.5% in the first quarter of 2022, it increased by 36.8% year on year due to the exceptionally low value recorded in the first quarter of 2021. Gross dividend payments increased to 1.9% of GDP in the first quarter of 2022, marginally exceeding the average of 1.7% in 2020 and 2021 (excluding the third quarter of 2021, which was influenced by exceptionally high dividend receipts and payments). The higher level of gross dividend payments stemmed largely from the continued high commodity prices. Gross dividend receipts increased meaningfully to R119.6 billion in the first quarter of 2022 – the third-highest level on record. Gross interest payments increased somewhat further in the first quarter of 2022, in line with rising global and domestic interest rates, and prevented the income deficit from narrowing further.

Net current transfer payments increased in the first quarter of 2022 as gross current transfer receipts decreased noticeably, while gross current transfer payments increased marginally. Consequently, net current transfer payments as a ratio of GDP increased from 0.3% in the fourth quarter of 2021 to 0.6% in the first quarter of 2022 – the same as in 2021.

The capital transfer account recorded a significant outflow in the first quarter of 2022 as a result of the settlement of global claims by a South African company.

Box 2 South Africa's external account[1] and banking sector[2] linkages with Russia and Ukraine

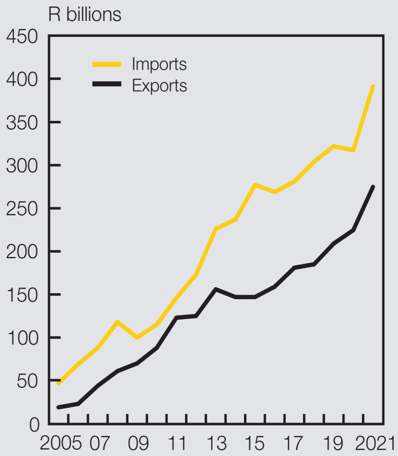
This box assesses South Africa's external account and banking sector exposure to Russia and Ukraine, in light of the conflict that started between the two countries on 24 February 2022. Although South Africa's direct exposure in terms of these linkages is limited, South Africa is affected indirectly by higher international crude oil and commodity prices, supply disruptions due to the sanctions imposed on Russia, restrictions on capital flows, and spillover effects from slower global economic growth and rising inflation.

South Africa's trade and investment links have changed since becoming a member of the BRICS alliance on 24 December 2010. This alliance is constituted of Brazil, Russia, India, China and South Africa, and was founded in 2001. Since joining this alliance, the value of both South Africa's exports to, and imports from, the BRICS countries have increased consistently. However, a sustained trade deficit with this alliance has persisted and widened over time. South Africa's imports from these countries relative to South Africa's total imports increased steadily to 29% of total imports in 2021, while South Africa's exports to these countries relative to South Africa's total exports have levelled off at around 15% since 2014.

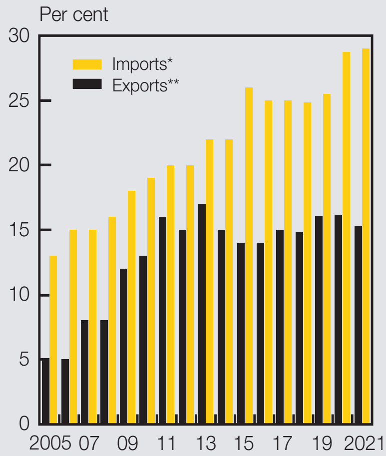
1 This box relates to the external account trade statistics in the trade account of the balance of payments on pages S–84 to S–89, and to the international investment position statistics on pages S–96 to S–105 in this edition of the *Quarterly Bulletin*.

2 The box also relates to the locational banking statistics on pages S–26 and S–27 in this edition of the *Quarterly Bulletin*.

South Africa's trade with BRICS countries



South Africa's trade with BRICS countries as a share of trade

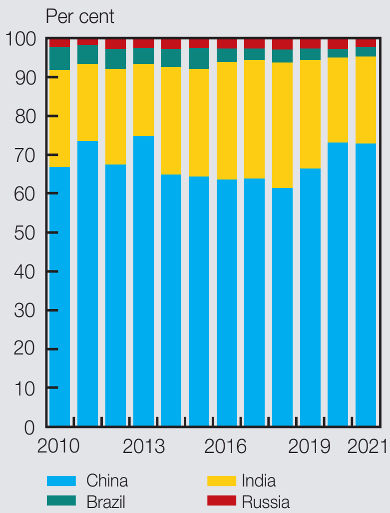


* Share of total imports
** Share of total exports

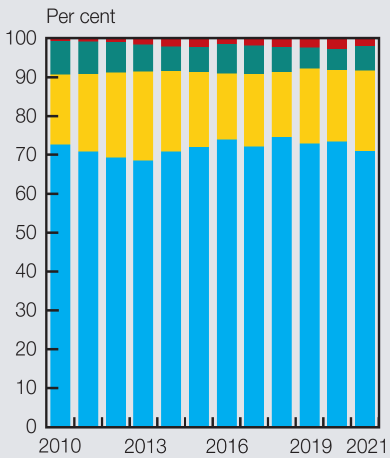
Sources: SARS and SARB

Within BRICS, South Africa's largest trading partner in terms of both exports and imports is China, followed by India and Brazil, and then Russia which constitutes only slightly more than 2% of both exports and imports.

Composition of South Africa's exports to BRICS countries



Composition of South Africa's imports from BRICS countries

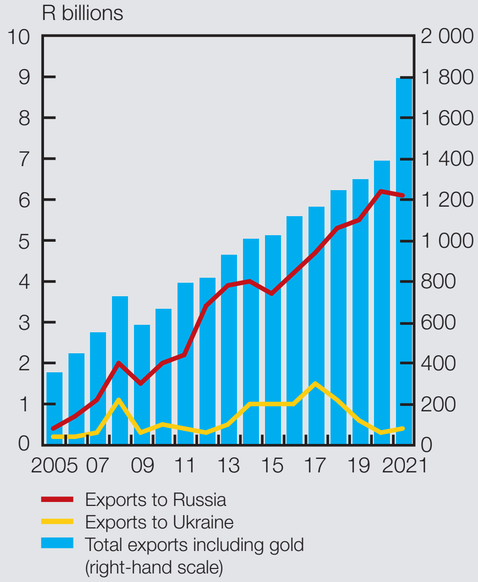


Sources: SARS and SARB

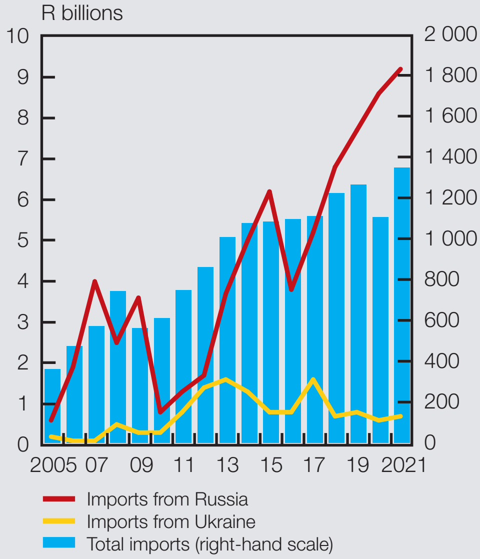
South Africa's trade with Russia increased after joining BRICS, with exports increasing marginally from 0.30% of total exports in 2010 to 0.34% in 2021, while the increase in imports was slightly more substantial, from 0.13% to 0.68% of the total over the same period. By contrast, South Africa's trade with Ukraine has remained even more negligible, at less than 0.1% on average for both exports and imports since 2010.

More than half of South Africa's exports to Russia are fruits and vegetables, followed by mineral products. South Africa mostly imports base metals and articles thereof from Russia, followed by chemical products (mainly fertilisers) and mineral products.

South Africa's merchandise exports



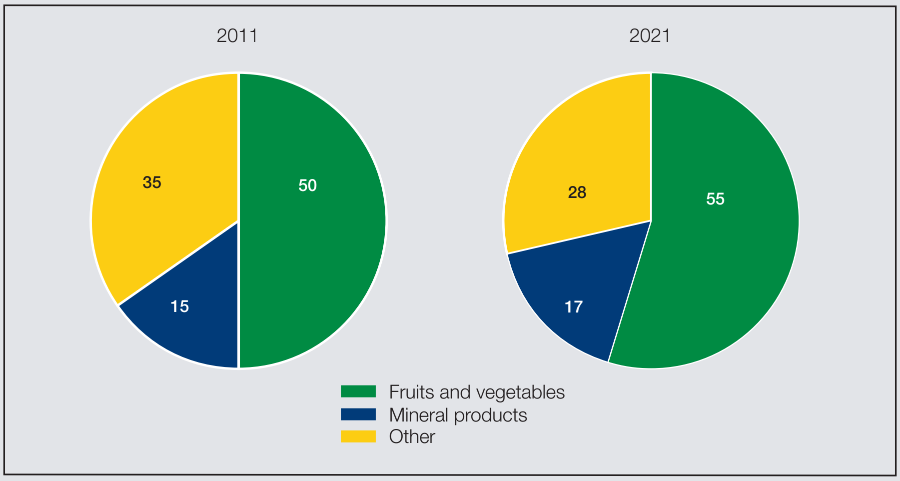
South Africa's merchandise imports



Sources: SARS and SARB

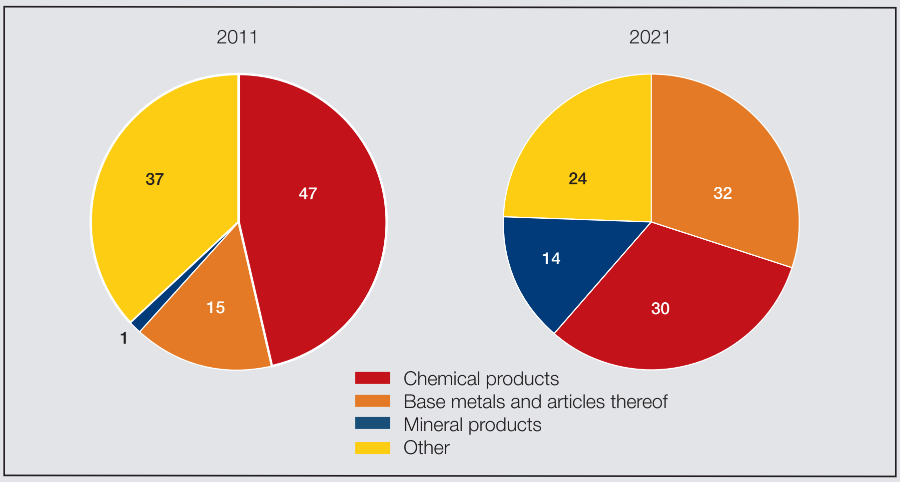
Product categories of South Africa's exports to Russia

Per cent



Product categories of South Africa's imports from Russia

Per cent

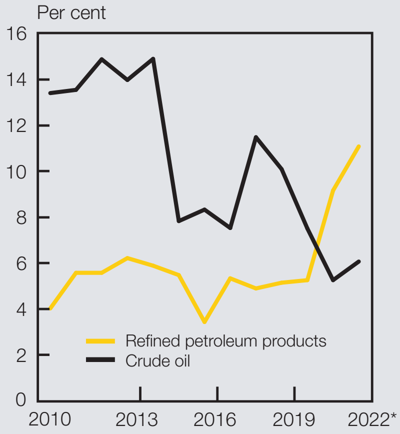


Sources: SARS and SARB

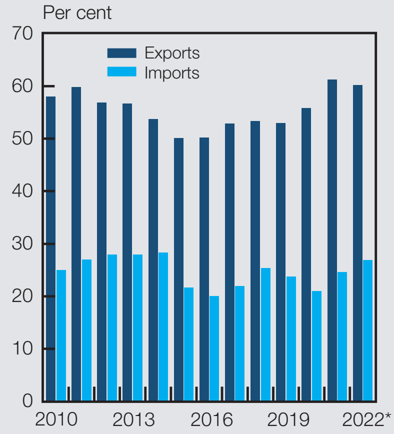
The conflict between Russia and Ukraine as well as the sanctions imposed on Russia heightened global supply concerns related to commodities such as food, crude oil and gas, and fertilisers, of which both countries are major exporters globally. According to the International Energy Agency's February 2022 report on global energy supplies, Russia is the world's second-largest crude oil exporter after Saudi Arabia, with disruptions affecting the international prices of this commodity. The spot price of crude oil, which has already increased in the wake of the coronavirus disease 2019 (COVID-19) pandemic, has surged further since mid-February 2022 in response to the conflict between these two countries and as sanctions on crude oil imports from Russia were imposed. The spot price of Brent crude oil increased by 23.7%, from an average of US$79.76 per barrel in the fourth quarter of 2021 to US$98.64 per barrel in the first quarter of 2022, and by 22.3% in rand terms.

South Africa is reliant on both crude oil and refined petroleum product imports, with the increase in the prices of these products adversely impacting the trade balance and, as such, the balance on the current account of the balance of payments. The value of imported crude oil and refined petroleum products accounted for 14.4% (comprising crude oil of 5.3% and refined petroleum products of 9.1%) of South Africa's total merchandise imports in 2021. The value of crude oil and refined petroleum product imports as a share of total merchandise imports increased to 17.2% in the first quarter of 2022 from 14.4% in 2021, and mainly reflected the effect of higher prices.

Crude oil and refined petroleum product imports as a share of South Africa's total merchandise imports



Mining products as a share of South Africa's total merchandise exports and imports



* First quarter of 2022

Sources: SARS and SARB

In addition, concerns about supply chain disruptions also raised the prices of other mining commodities, in particular those exported by South Africa. After declining for a second consecutive quarter in the fourth quarter of 2021, the US dollar price of a basket of domestically produced export commodities (including gold) rebounded substantially by 18.5% in the first quarter of 2022, or by 17.0% in rand terms. South Africa tends to benefit from high commodity prices through their contribution to the current account balance, with the value of mining exports accounting for 61.2% of the total value of exported goods in 2021 and 60.2% in the first quarter of 2022.

The terms of trade is important in assessing the net impact of the increase in commodity export prices and the imported crude oil price on the current account. In the first quarter of 2022, the terms of trade improved marginally as the rand price of exports of goods and services increased at a slightly faster pace than that of imports.

Although the price of crude oil recently increased by more than that of most of South Africa's major export commodities, the effect of higher crude oil prices on the current account is negated by the higher prices of exported mining commodities, as the share of mining exports to total exports is much higher than the share of mining imports (including crude oil and refined petroleum products) to total imports.

South Africa's bilateral international investment position[3, 4] (IIP) reflects, among other things, the country's foreign asset and liability position with Russia as at 31 December of each year.[5, 6]

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3 The methodology used to compile South Africa's IIP statistics adheres to the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF), available at https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

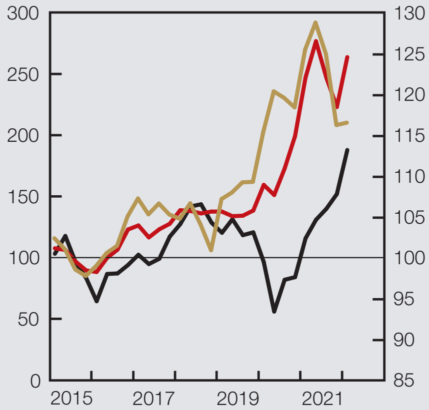
4 The IIP is a point-in-time statistical statement that shows the value and composition of the financial assets of the residents of a country (i.e. claims on non-residents and gold bullion held as reserve assets) and liabilities (i.e. claims by non-residents on residents).

5 Bilateral foreign assets and liabilities for Ukraine are not available as the country is included in the geographical demarcation of 'Other Western Europe' published on pages S–99 and S–103 in this edition of the *Quarterly Bulletin*.

6 South Africa's IIP is compiled according to the immediate host or investing economy approach, which is based on the direct relationships between the parties rather than on the residence of the ultimate partner economies or transactors. Therefore, South Africa's exposure to foreign assets and liabilities with Russia may be understated if these foreign assets and liabilities are indirectly held through a holding company in another country.

Terms of trade* and commodity prices

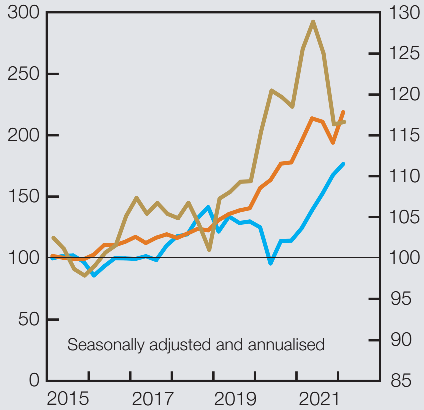
Index: 2015 = 100



South African export commodity prices in US dollar
Brent crude oil price in US dollar
Terms of trade (right-hand scale)

Terms of trade* and mining commodity price deflators

Index: 2015 = 100



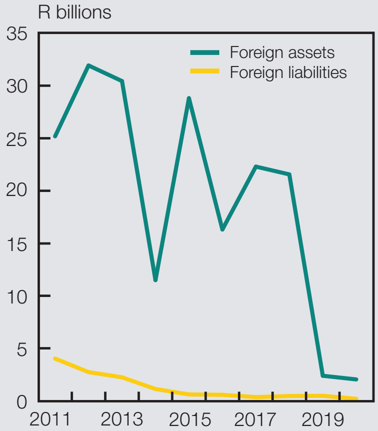
Mining exports
Mining imports
Terms of trade (right-hand scale)

* Including gold

Sources: Refinitiv, Stats SA and SARB

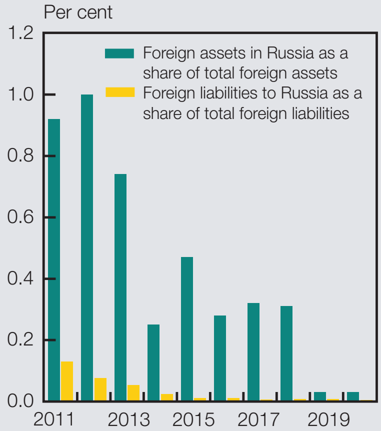
South Africa's international investment position with Russia

R billions



South Africa's relative exposure to Russia

Per cent

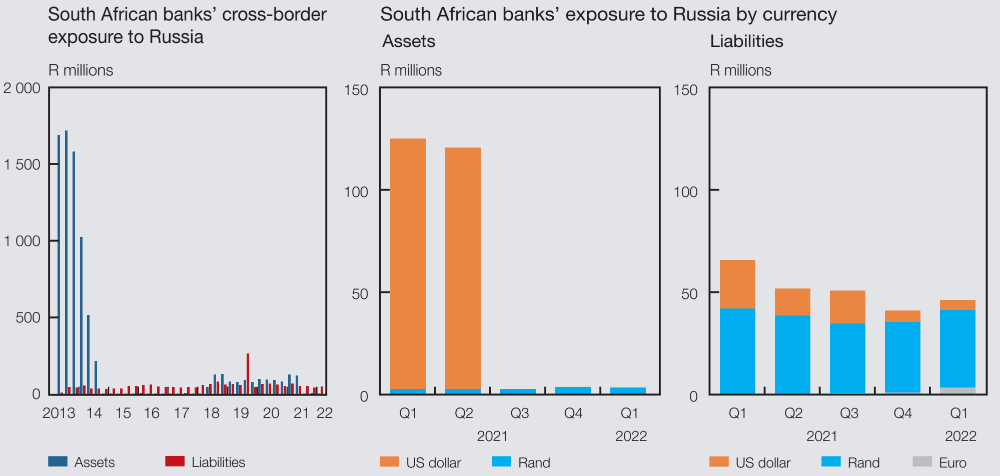


Source: SARB

South Africa's foreign assets in Russia were significantly more than its foreign liabilities to that country until the end of 2018, whereafter the substantial decline in foreign assets narrowed the difference significantly. This decline in South Africa's foreign assets in Russia from the end of 2018 to the end of 2019 was as a result of the reorganisation of a large South African company's foreign investments, whereby the South African company's foreign investments were consolidated in a separate holding company in an intermediate country. South Africa's foreign assets in Russia accounted for only 0.03% of its total foreign assets at the end of 2020. South Africa's foreign liabilities with Russia accounted for only 0.003% of South Africa's total foreign liabilities at the end of 2020.

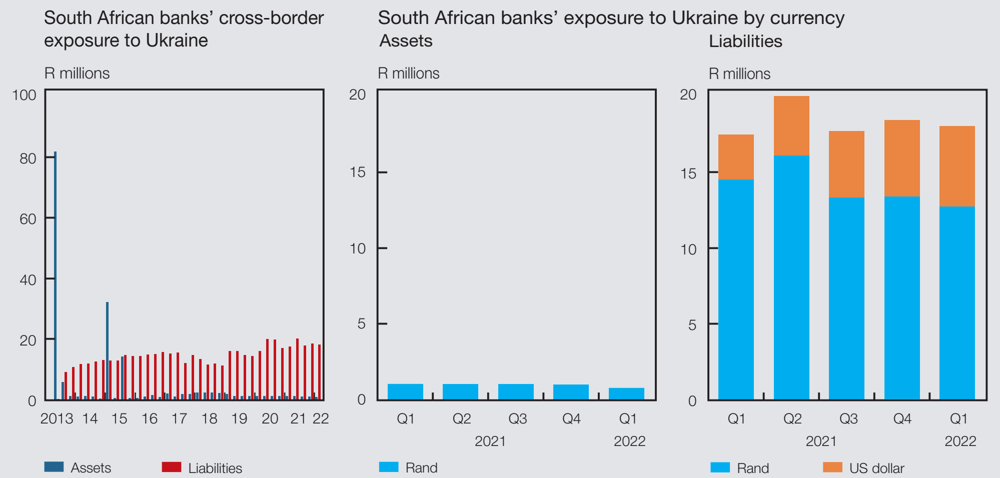
The South African banking sector's aggregate cross-border assets of just more than 14% of total assets generally exceed cross-border liabilities by a significant margin, along with limited positions against Russia and Ukraine.

The asset positions of South African banks with Russia declined to only R3.2 million in March 2022, from a recent high of R125.0 million in March 2021, as floating rate notes and term loans with Russian banks and non-financial institutions matured. Banks' asset positions were as high as R1.7 *billion* in September 2013, mostly on account of loans which were repaid during 2014. Changes in the Russian liabilities of South African banks mostly reflect deposit balances of households. South African banks' Russian assets are mostly held in rand (although prior to September 2021 holdings were mostly in US dollar), while the liability positions are held in both rand and US dollar.



Source: SARB

South African banks' cross-border exposure to Ukraine is even less than their exposure to Russia, but for Ukraine, liabilities dominate. Banks' Ukrainian assets declined from a high of R81.8 million in June 2013 to less than R1.0 million in both December 2021 and March 2022, while Ukrainian liabilities amounted to R18.4 million and R18.1 million in the fourth quarter of 2021 and the first quarter of 2022 respectively. These liabilities consist mainly of customers' foreign currency accounts and household deposits. South African banks' Ukrainian assets are mostly held in rand, while the liability positions are mostly in rand and US dollar.



Source: SARB

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an inflow of R23.4 billion in the first quarter of 2022 from a revised outflow of R55.2 billion in the fourth quarter of 2021. On a net basis, all financial account functional categories recorded inflows, except for reserve assets. Net financial account flows as a ratio of GDP reverted from -3.4% in the fourth quarter of 2021 to 1.5% in the first quarter of 2022.

Net financial transactions

R billions

	2021					2022
	Q1	Q2	Q3	Q4	Year	Q1
Change in liabilities						
Direct investment	6.5	17.3	557.9	22.7	604.4	27.2
Portfolio investment	-6.4	0.3	-362.1	-40.0	-408.2	64.2
Financial derivatives	-77.9	-55.0	-58.1	-54.8	-245.8	-46.6
Other investment	-12.3	-29.9	85.5	-29.6	13.7	81.2
Change in assets						
Direct investment	11.3	2.6	-3.7	-10.5	-0.3	-19.8
Portfolio investment	-39.8	-71.0	-244.4	-40.0	-395.2	-53.4
Financial derivatives	78.9	54.9	55.3	60.2	249.3	46.7
Other investment	-29.3	-4.7	-1.3	40.3	5.0	-69.2
Reserve assets	10.3	-23.9	-50.4	-3.3	-67.3	-6.8
Total identified financial transactions*	-58.7	-109.3	-21.3	-55.2	-244.5	23.4
As a percentage of gross domestic product	*-4.4*	*-7.0*	*-1.3*	*-3.4*	*-3.9*	*1.5*

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

Source: SARB

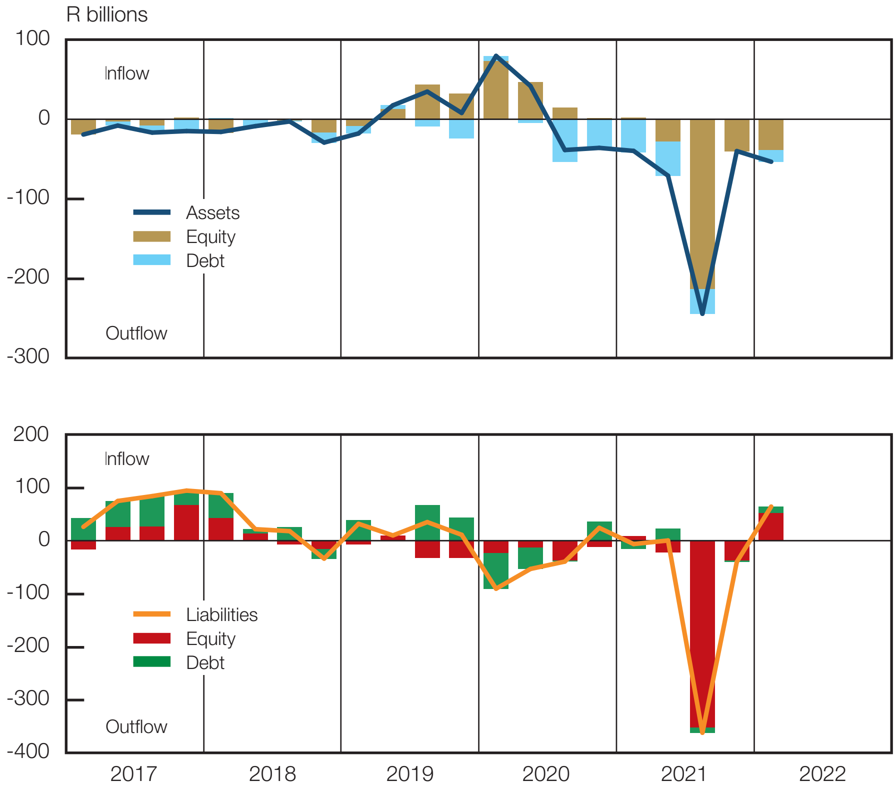
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded an inflow of R27.2 billion in the first quarter of 2022 following an inflow of R22.7 billion in the fourth quarter of 2021 as non-resident parent entities increased equity investments and granted loans to domestic subsidiaries.

Portfolio investment liabilities reverted to an inflow of R64.2 billion in the first quarter of 2022 following a revised outflow of R40.0 billion in the previous quarter as non-residents acquired mostly equity and, to a lesser extent, debt securities. Non-residents' net acquisition of equities of R52.0 billion in the first quarter of 2022 followed net sales of R37.0 billion in the previous quarter, while net purchases of debt securities of R12.3 billion followed net sales of R3.0 billion over the same period.

Other investment liabilities switched from a revised outflow of R29.6 billion in the fourth quarter of 2021 to a significant inflow of R81.2 billion in the first quarter of 2022. The inflow resulted mainly from non-residents granting loans to the domestic private banking and non-banking sectors as well as national government borrowing US$750 million from the World Bank. Long-term loans granted to the private non-banking sector were augmented by loans incurred as a result of the settlement of global claims by a South African company. Non-residents also increased their deposits in the domestic banking sector.

Portfolio investment flows



Source: SARB

South African-owned assets abroad

The acquisition of direct investment assets by South African residents increased to R19.8 billion in the first quarter of 2022 from R10.5 billion in the previous quarter as domestic parent companies acquired equity in, and granted loans to, non-resident subsidiaries.

South African residents increased their acquisition of foreign portfolio assets to R53.4 billion in the first quarter of 2022 following net purchases of a revised R40.0 billion in the fourth quarter of 2021, mainly due to the domestic private non-banking sector's purchases of foreign equity and, to a lesser extent, debt securities.

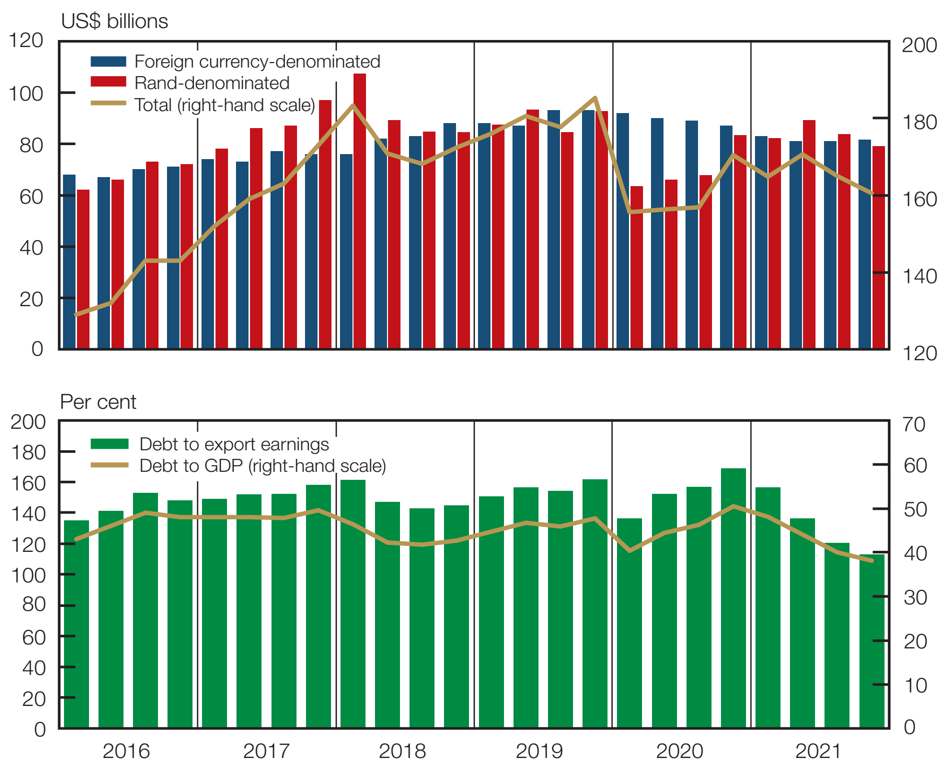
Other investment assets reverted to an outflow of R69.2 billion in the first quarter of 2022 from a revised inflow of R40.3 billion in the fourth quarter of 2021 as the domestic banking sector increased its deposits at non-resident banks, and the private banking and non-banking sectors granted short-term loans to non-residents.

Foreign debt

South Africa's total external debt decreased from US$165.0 billion at the end of September 2021 to US$160.5 billion at the end of December. However, expressed in rand terms, South Africa's total external debt increased from R2 498 billion to R2 550 billion over the same period as the exchange value of the rand depreciated against the US dollar.

Foreign currency-denominated external debt increased slightly from US$81.3 billion at the end of September 2021 to US$81.5 billion at the end of December. This was due to an increase in long-term loans of the private non-banking sector as well as loan finance obtained by government from the New Development Bank.

Foreign debt



Source: SARB

Foreign debt of South Africa

US$ billions at end of period

	2020		2021			
	Q3	Q4	Q1	Q2	Q3	Q4
Foreign currency-denominated debt	89.2	87.1	82.6	81.4	81.3	81.5
Debt securities	30.2	29.2	27.6	27.6	27.8	27.8
Other	59.0	57.9	55.0	53.8	53.5	53.7
Public sector	15.8	15.9	16.0	17.1	16.1	16.3
Monetary sector	16.4	16.3	15.4	14.4	14.7	14.6
Non-monetary private sector	26.8	25.7	23.6	22.3	22.7	22.8
Rand-denominated debt	67.7	83.3	82.1	89.2	83.7	79.0
Debt securities	40.8	54.3	52.3	59.2	53.3	51.9
Other	26.9	29.0	29.8	30.0	30.4	27.1
Total foreign debt	156.9	170.4	164.7	170.6	165.0	160.5
As a percentage of gross domestic product	*46.2*	*50.5*	*48.1*	*44.0*	*40.0*	*38.1*
As a percentage of total export earnings	*156.8*	*168.7*	*156.3*	*136.2*	*120.3*	*113.0*

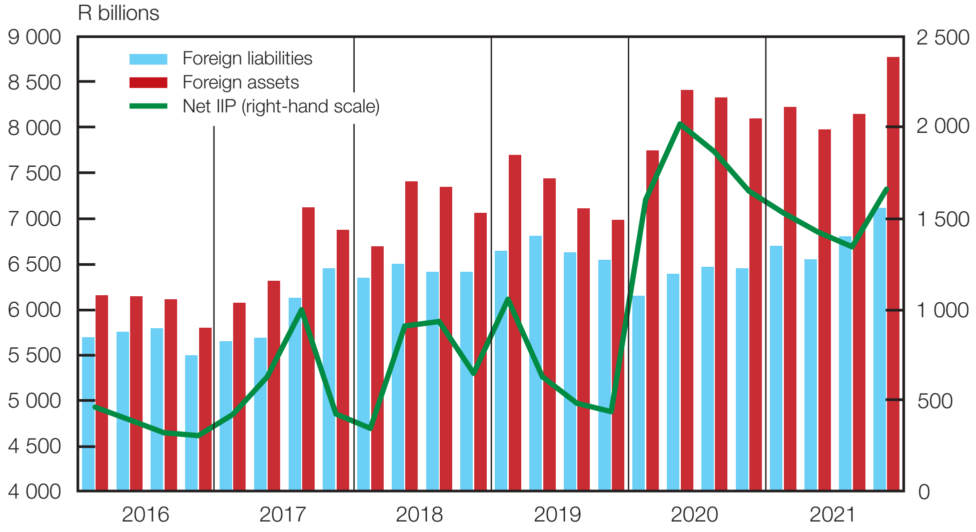
Rand-denominated external debt, expressed in US dollar terms, decreased from US$83.7 billion at the end of September 2021 to US$79.0 billion at the end of December. The decrease could mainly be attributed to a decline in non-resident short-term deposits with the domestic banking sector and the repayment of short-term loans by the private non-banking sector.

South Africa's total external debt as a ratio of GDP decreased from 40.0% at the end of September 2021 to 38.1% at the end of December. Similarly, the ratio of external debt to export earnings decreased from 120.3% to 113.0% over the same period.

International investment position

South Africa's positive net international investment position (IIP) increased from a revised R1 342 billion at the end of September 2021 to R1 662 billion at the end of December, as the value of foreign assets increased more than that of foreign liabilities. Movements in the exchange value of the rand had a positive effect on foreign assets and, to a lesser extent, on foreign liabilities, as the nominal effective exchange rate (NEER) of the rand decreased by 4.1%, on balance, in the fourth quarter of 2021.

South Africa's international investment position



Source: SARB

The market value of South Africa's foreign assets (outward investment) increased by 7.7%, from a revised R8 145 billion at the end of September 2021 to R8 774 billion at the end of December. The market value of all functional categories increased in the fourth quarter of 2021, except for other investment assets. Direct and portfolio investment assets increased mainly as a result of valuation effects due to the increase in share prices of dual-listed companies with primary listings abroad. Most international equity price indices recorded increases in the fourth quarter of 2021, with the US Standard & Poor's (S&P) 500 Index increasing by a notable 10.6%. Other investment assets decreased as non-residents repaid short-term loans to the domestic banking and private non-banking sectors, and as the domestic banking sector repatriated deposits placed with non-resident banks. The increase in reserve assets reflected proceeds from foreign borrowings by national government from the New Development Bank as well as valuation effects resulting from the depreciation in the exchange value of the rand.

The market value of South Africa's foreign liabilities (inward investment) increased by 4.5%, from a revised R6 803 billion at the end of September 2021 to R7 113 billion at the end of December, as all functional categories increased, except financial derivatives. Valuation effects due to the increase in the FTSE/JSE All-share Index (Alsi) of 14.7% in the fourth quarter of 2021 contributed to the increases in both direct and portfolio investment liabilities. Other investment liabilities increased, mainly as a result of national government borrowing US$400 million from the New Development Bank.

As a ratio of South Africa's annual GDP, foreign assets increased from 133.5% at the end of September 2021 to 141.4% at the end of December, while foreign liabilities increased from 111.5% to 114.6% over the same period. This resulted in an increase of the positive net IIP as a percentage of GDP from 22.0% at the end of September 2021 to 26.8% at the end of December.

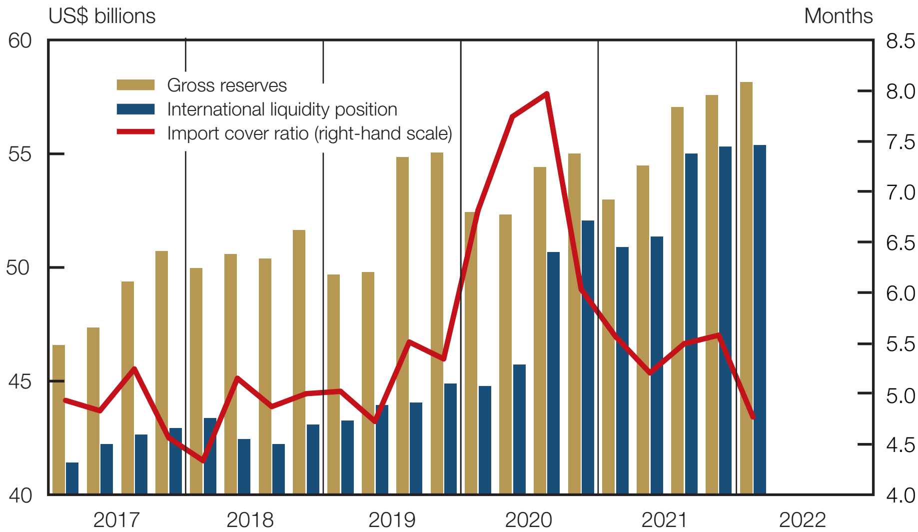
International reserves and liquidity

South Africa's international reserves increased by R6.8 billion in the first quarter of 2022 following an increase of R3.3 billion in the fourth quarter of 2021.

The value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities), expressed in US dollar terms, increased from US$57.6 billion at the end of December 2021 to US$58.2 billion at the end of March 2022, mainly due to proceeds received from foreign borrowings by national government from the World Bank. The country's gross gold and other foreign reserves increased further to US$59.3 billion at the end of May 2022, reflecting proceeds received from foreign bond issuances by national government. South Africa's international liquidity position[19] increased slightly from US$55.3 billion at the end of December 2021 to US$55.4 billion at the end of March 2022, before decreasing to US$54.4 billion at the end of May.

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

International reserves



Source: SARB

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) decreased from 5.6 months at the end of December 2021 to 4.8 months at the end of March 2022.

Exchange rates[20]

The nominal effective exchange rate (NEER) of the rand increased by 10.8% in the first quarter of 2022 following a decrease of 8.5% in the second half of 2021, but declined by 2.6% from the end of March to 10 June.

The increase in the NEER, which started in December 2021, was supported by higher international export commodity prices towards the end of that month. Subsequently, the NEER increased by 2.8% and 0.4% in January and February 2022 respectively, and by a notable 7.4% in March, as the currencies of some commodity-exporting emerging market economies appreciated against the US dollar during the first quarter of 2022.

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

Exchange rates of the rand

Percentage change

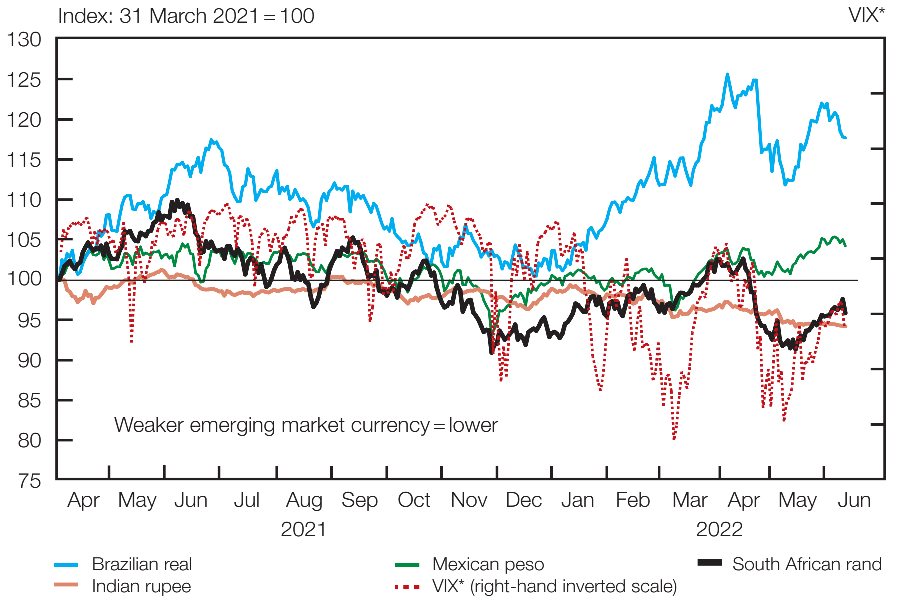
	30 Jun 2021 to 30 Sep 2021	30 Sep 2021 to 31 Dec 2021	31 Dec 2021 to 31 Mar 2022	31 Mar 2022 to 10 Jun 2022
Weighted average*	-4.5	-4.1	10.8	-2.6
Euro	-3.1	-2.3	11.6	-2.0
US dollar	-5.5	-4.7	9.8	-6.5
Chinese yuan	-5.5	-6.1	9.3	-1.4
British pound	-2.7	-5.3	13.1	-1.7
Japanese yen	-4.2	-2.0	16.2	2.6

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

Source: SARB

However, the NEER declined in April and early May 2022, largely due to the strength of the US dollar when global financial markets experienced a bout of risk aversion, when inflation concerns resulted in a 50 basis point increase in the US federal funds rate and with the announcement of measures to remove additional monetary policy stimulus. Uncertainty regarding global growth in response to China's reimplementation of strict COVID-19 lockdown measures caused heightened currency volatility. Furthermore, the ongoing conflict between Russia and Ukraine as well as the subsequent sanctions on Russia by many countries introduced new risks to global economic growth. Although South Africa's sovereign credit rating outlook was revised from stable to positive by Standard and Poor's in May, the NEER increased only marginally in May and early June, in line with other emerging market currencies amid a depreciating US dollar.

Emerging market currencies against the US dollar



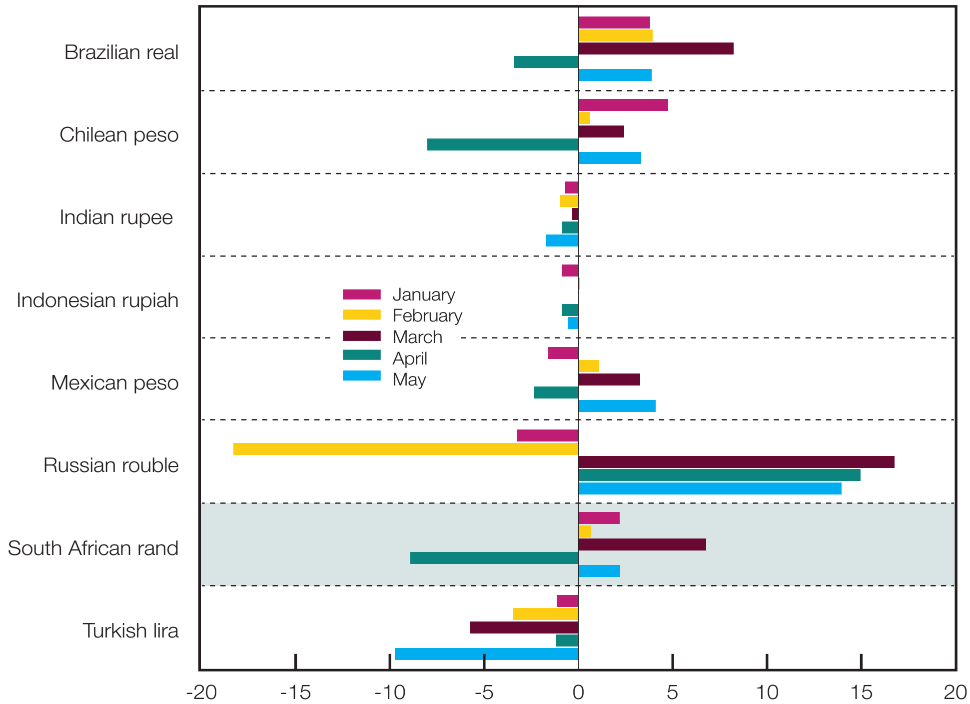
* The Volatility Index (VIX) is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options and it was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

Sources: Refinitiv and SARB

Emerging market currencies have remained volatile with large fluctuations against the US dollar thus far in 2022. Although some emerging market currencies were initially supported by higher international commodity prices, currencies generally depreciated during April 2022 and early May along with portfolio capital outflows. However, the Russian rouble has recovered in response to measures by the Central Bank of Russia to support the currency and limit capital outflows. Expectations that the European Central Bank will exit from negative interest rate policy could affect interest rate differentials between the US and the eurozone, influencing exchange rate movements.

Emerging market currencies against the US dollar in 2022

Percentage change from month to month



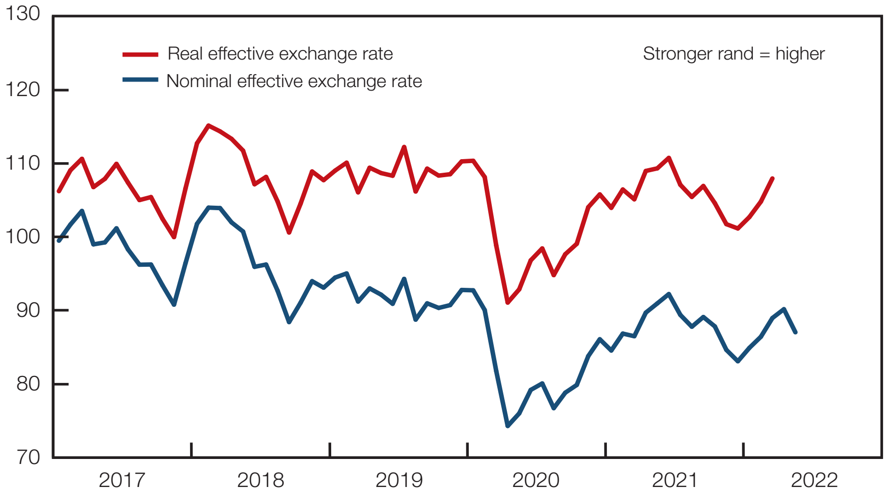
Depreciation (-)/appreciation (+)

Sources: Refinitiv and SARB

The decrease of 8.7% in the real effective exchange rate (REER) of the rand between June and December 2021 increased the competitiveness of domestic producers in foreign markets over this period. However, this trend reversed when the REER increased by 6.7% between December 2021 and March 2022.

Effective exchange rates of the rand

Index: 2015 = 100



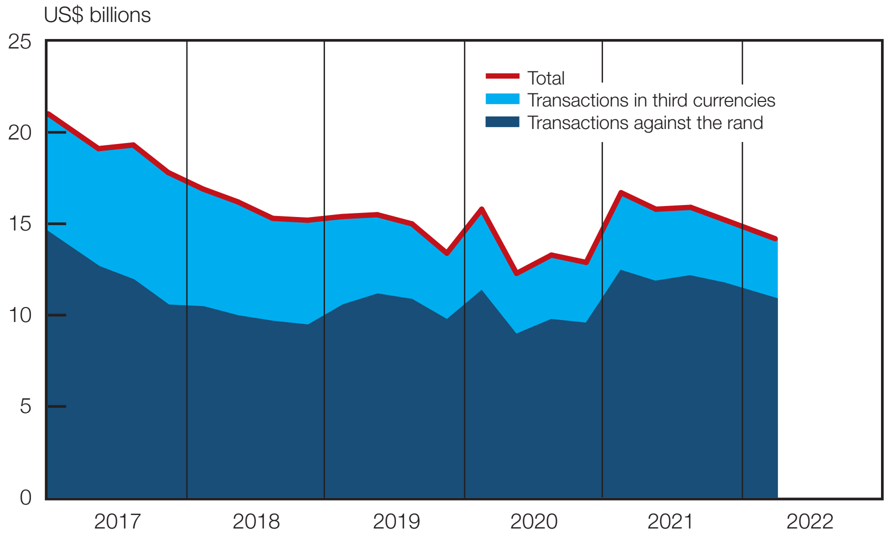
Source: SARB

Turnover in the South African foreign exchange market

The net average daily turnover[21] in the South African foreign exchange (FX) market decreased from US$15.2 billion in the fourth quarter of 2021 to US$14.2 billion in the first quarter of 2022, or by 6.4%, following a decrease of 4.3% in the previous quarter. FX transactions against the rand decreased from US$11.8 billion in the fourth quarter of 2021 to US$11.1 billion in the first quarter of 2022, or by 5.8%. Transactions in third currencies decreased for a fourth consecutive quarter, by 8.4%, from US$3.4 billion in the fourth quarter of 2021 to US$3.2 billion in the first quarter of 2022.

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

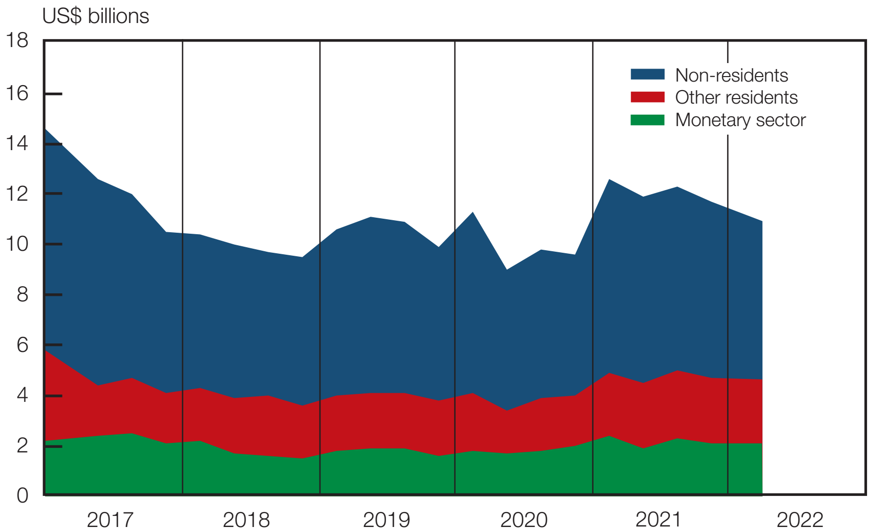
Net average daily turnover in the South African foreign exchange market



Source: SARB

Non-resident participation in the rand market decreased for a fourth consecutive quarter, from US$7.0 billion in the fourth quarter of 2021 to US$6.4 billion in the first quarter of 2022, or by 9.2%. Monetary sector and resident participation both remained unchanged at US$2.1 billion and US$2.6 billion respectively over the same period.

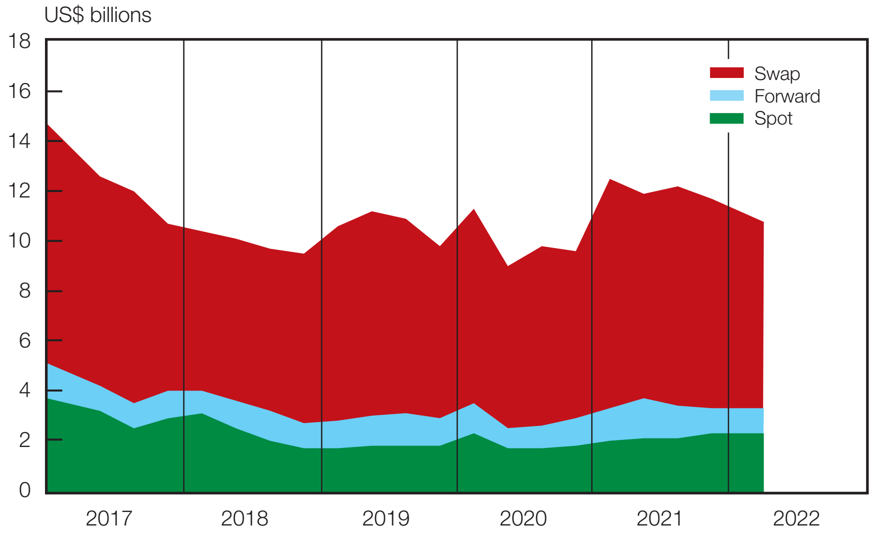
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

The value of swap transactions decreased from US$8.4 billion in the fourth quarter of 2021 to US$7.7 billion in the first quarter of 2022, or by 8.4%. However, the value of forward transactions and spot transactions both remained unchanged at US$0.9 billion and US$2.4 billion respectively over the same period.

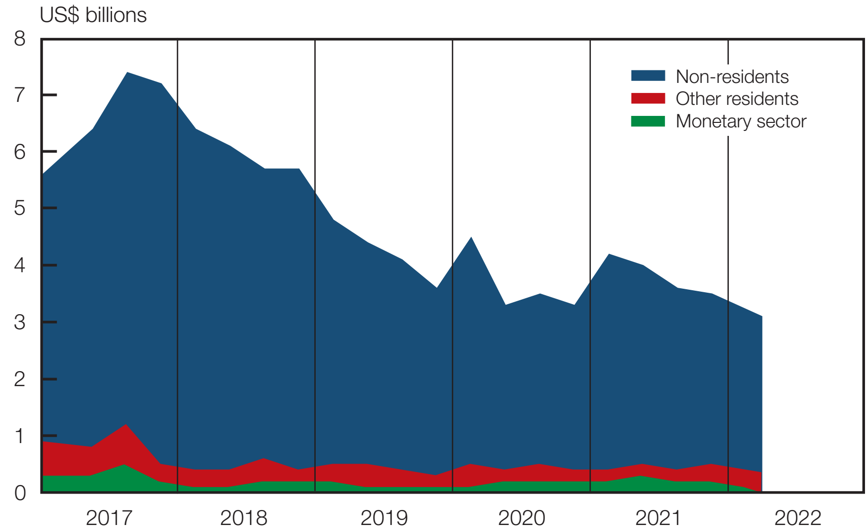
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

Non-resident participation in the third-currency market declined by 9.3%, from US$3.0 billion in the fourth quarter of 2021 to US$2.7 billion in the first quarter of 2022 – a fourth consecutive quarterly decline. While the contribution by residents and the monetary sector in the third-currency market was US$0.2 billion each in the fourth quarter of 2021, the value increased to US$0.3 billion for residents but decreased to US$0.1 billion for the monetary sector in the first quarter of 2022.

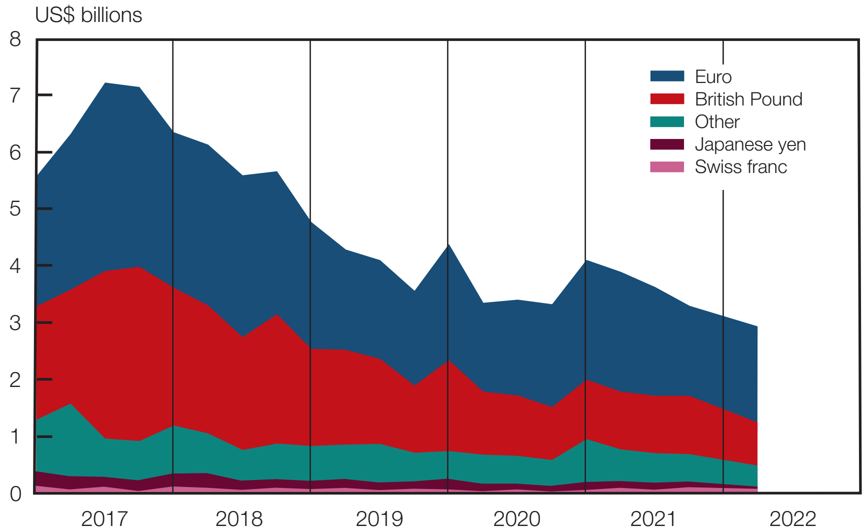
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

In the market for third currencies, the value of US dollar transactions against the euro remained unchanged at US$1.6 billion from the fourth quarter of 2021 to the first quarter of 2022. Transactions of the US dollar against the British pound decreased for the first time since 2021, to less than US$1.0 billion, and averaged US$0.7 billion in the first quarter of 2022. Transactions of the US dollar against the Japanese yen remained below US$0.1 billion in the first quarter of 2022. Similarly, transactions of the US dollar against the Swiss franc also remained unchanged at US$0.1 billion over the same period. US dollar transactions against other currencies decreased by 12.8%, from US$0.5 billion in the fourth quarter of 2021 to US$0.4 billion in the first quarter of 2022.

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



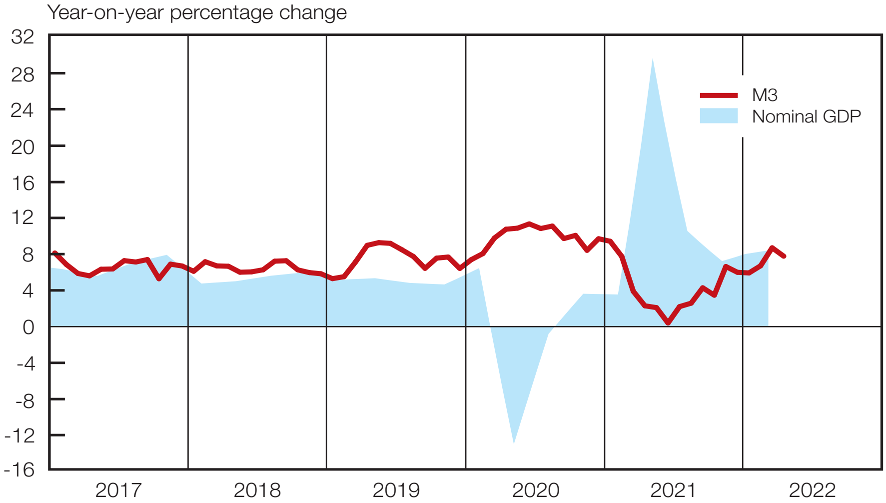
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Year-on-year growth in the broadly defined money supply (M3) accelerated from an 11-year low of 0.1% in June 2021 to 8.4% in March 2022 before moderating to 7.5% in April, close to the rates recorded in early 2021. In recent months, growth in M3 closely matched that in nominal GDP as it accelerated from a lower turning point in June 2021 along with a strong increase in the deposit holdings of financial companies. Comparably, the quarter-to-quarter seasonally adjusted and annualised growth in M3 decelerated from 10.0% in the fourth quarter of 2021 to 8.7% in the first quarter of 2022.

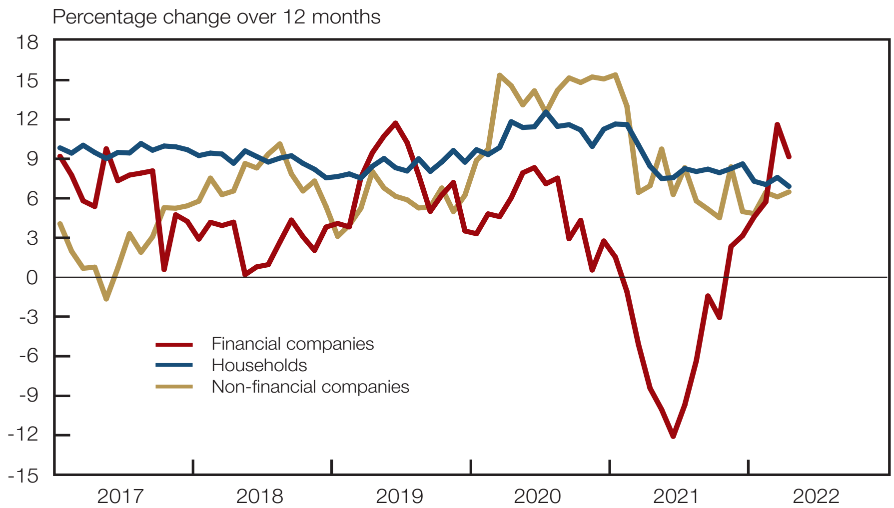
Money supply and gross domestic product



Sources: Stats SA and SARB

The acceleration in M3 growth reflected a strong about-turn in growth in the deposit holdings of financial companies from a deep contraction in mid-2021 to an increase of 11.6% in March 2022, which was boosted by dividend inflows, before slowing to 9.2% in April. Growth in the deposit holdings of non-financial companies, which moderated in 2021 after accelerating apace at the onset of the COVID-19 pandemic in 2020, accelerated somewhat from a recent low of 4.8% in January 2022 to 6.5% in April. Growth in the deposit holdings of households levelled

Deposit holdings of households and companies

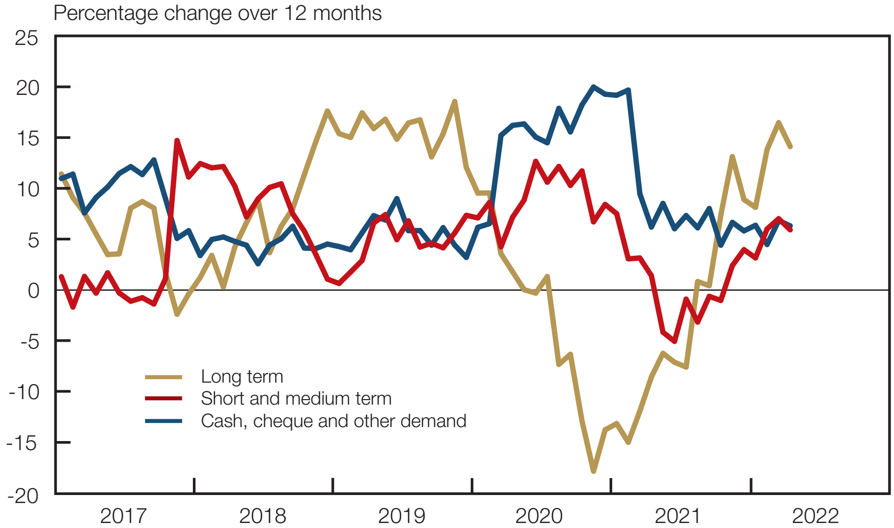


Source: SARB

off somewhat in early 2022 as consumption expenditure increased with the further relaxation of the COVID-19 restrictions.

By November 2021, the earlier contraction in long-term deposits had reverted to double-digit growth rates and accelerated further to 14.1% in April 2022, along with a growing preference for fixed interest rates. The year-on-year change in short- and medium-term deposits reverted from a contraction in mid-2021 to an expansion of 5.9% in April 2022. By contrast, growth in cash, cheque and other demand deposits slowed sharply from a high of 19.7% in February 2021 to 6.3% in April 2022 as the preference for liquidity waned amid progressively less onerous pandemic-related restrictions.

Deposits by maturity



Source: SARB

The deposit holdings of the corporate sector increased by a sizeable R115.8 billion in the first quarter of 2022 compared with a decrease of R10.6 billion during the same period in the previous year. The deposits of financial companies increased by R92.8 billion in the first quarter of 2022, partly boosted by dividend inflows, while those of non-financial companies increased by R23.0 billion. By contrast, the deposit holdings of the household sector decreased by R2.0 billion in the first quarter of 2022 compared with an increase of R12.6 billion in the first quarter of 2021. This marked the first quarterly decline in household deposits since the first quarter of 2011.

M3 holdings of households and companies

	Quarterly change (R billions)					Percentage of total M3 deposit holdings*
	2021				2022	
	Q1	Q2	Q3	Q4	Q1	
Households	12.6	36.9	53.2	26.8	-2.0	36.4
Companies: Total.................	-10.6	-50.8	129.1	38.2	115.8	63.6
Of which: Financial	-18.7	-29.6	94.9	-4.1	92.8	33.1
Non-financial.....	8.2	-21.1	34.2	42.3	23.0	30.4
Total M3 deposits................	**2.0**	**-13.9**	**182.3**	**65.0**	**113.8**	**100.0**

* Expressed as a percentage of the total outstanding balance as at March 2022

Source: SARB

Statistically, the counterparts to the increase of R113.8 billion in M3 in the first quarter of 2022 consisted of an increase of R100.4 billion in claims against the domestic private sector[22] and an increase of R76.8 billion in net claims on the government sector. By contrast, the value of the net foreign assets of the monetary sector shrank by R128.0 billion, while net other assets (a contra-entry that usually serves to absorb changes in foreign assets, among other factors) increased by R64.6 billion in the first quarter of 2022.

22 The next section on credit extension discusses this component in more detail.

Counterparts of change in M3

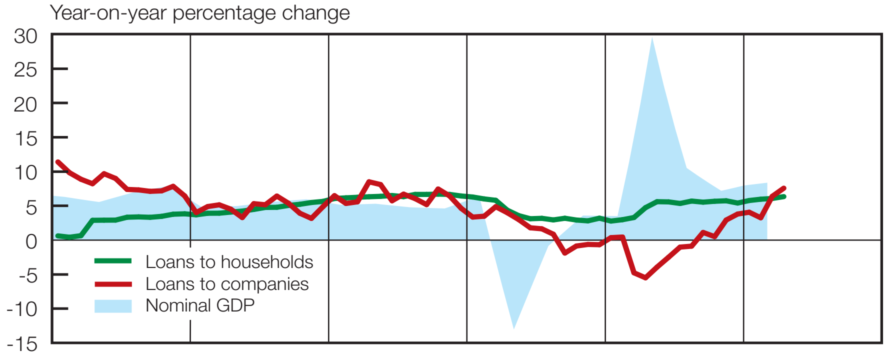
	Quarterly change (R billions)				
	2021				2022
	Q1	Q2	Q3	Q4	Q1
Claims on the private sector	-34.2	4.3	42.0	88.5	100.4
Net claims on the government sector	8.5	-26.3	102.4	3.8	76.8
Net foreign assets	9.1	27.7	110.3	11.5	-128.0
Net other assets	18.6	-19.7	-72.4	-38.8	64.6
Change in M3	2.0	-13.9	182.3	65.0	113.8

Source: SARB

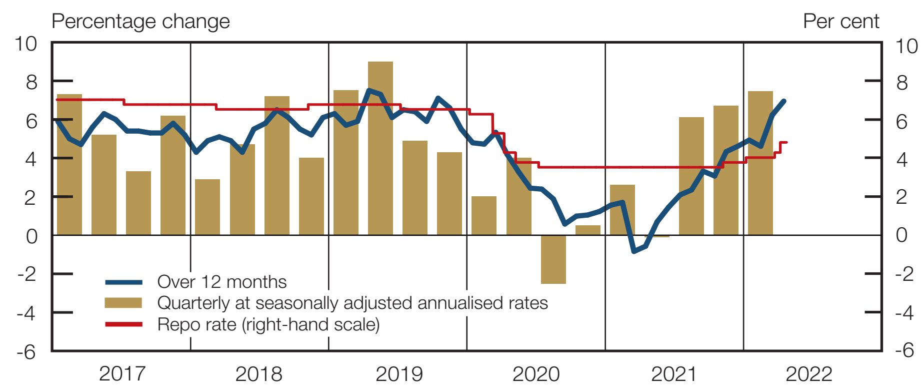
Credit extension

Credit extended by monetary institutions to the domestic private sector increased in recent quarters, after initially slowing following the introduction of the COVID-19-related restrictions.

Bank loans and gross domestic product



Total loans and advances to the private sector



Sources: Stats SA and SARB

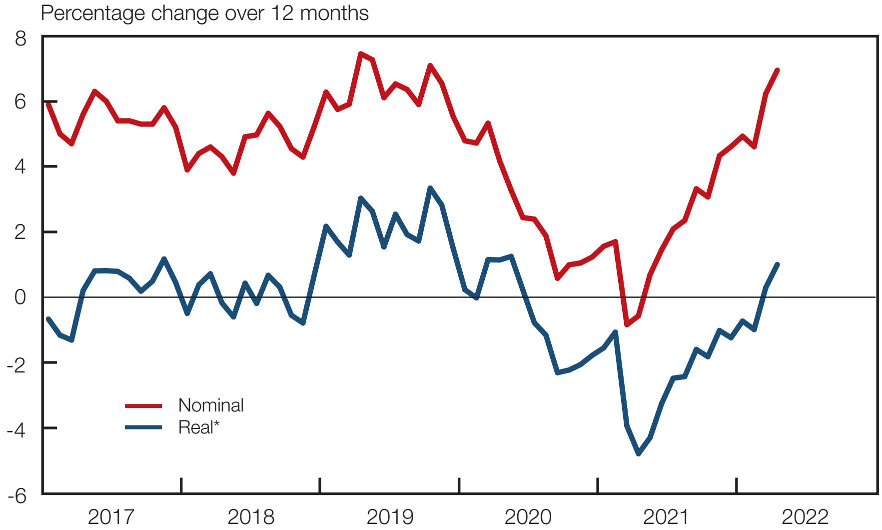
Growth in total loans and advances contracted on a year-on-year basis in March and April 2021 before accelerating from May onwards, largely led by faster growth in loans to companies and, more recently, also to households. Growth in total loans and advances quickened from a decline of 0.8% in March 2021 to 7.0% in April 2022 as the gradual increase in demand for credit coincided with the phasing out of the COVID-19 restrictions.

Growth in loans and advances to companies accelerated steadily from 1.1% in September 2021 to 7.6% in April 2022, reflecting the low base in 2021 and the gradual recovery in the demand for bank funding. Fairly stationary growth in loans and advances to households of around 5.6% between May and December 2021 accelerated to 6.3% in April 2022.

Quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector accelerated from a minor contraction of 0.1% in the second quarter of 2021 to 7.5% in the first quarter of 2022. Nonetheless, the credit-to-GDP ratio decreased somewhat from 58.1% in the fourth quarter of 2021 to 57.5% in the first quarter of 2022. The rate of expansion in credit extension recently edged closer to that in nominal GDP, with the increase in interest rates since November 2021 not yet dampening the demand for credit. Notwithstanding the rebound in nominal growth in total loans and advances over the past year, it only started to increase in real terms from March 2022 following 20 months of contraction.

Total loans and advances

Percentage change over 12 months



* Deflated with the headline consumer price index

Source: SARB

The increase in credit extension to the corporate sector of only R27.3 billion in the first quarter of 2022 was less than half the R64.2 billion recorded in the fourth quarter of 2021 – the largest increase since the first quarter of 2016 – and in contrast with the decline in the first quarter of 2021. The smaller increase in bank credit to corporates in the first quarter of 2022 reflected lower demand for loans by non-financial companies and net repayments by financial companies (security traders, vehicle financiers and asset managers). The extension of credit to the household sector increased in all four quarters of 2021 and expanded by a significant R40.1 billion in the first quarter of 2022 – the largest quarterly increase since the first quarter of 2008 – as the demand for credit was relatively broad-based across various types of credit.

Credit extended to households and companies

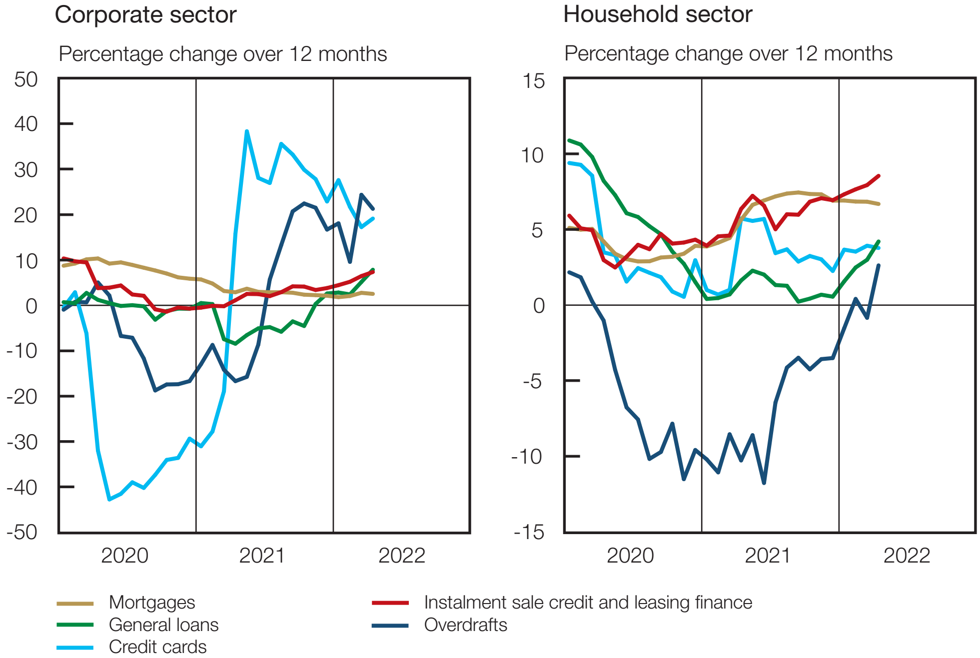
	Quarterly change (R billions)						Percentage of total loans and advances*
	2021					2022	
	Q1	Q2	Q3	Q4	Year	Q1	
Households	26.5	14.5	26.5	29.4	96.9	40.1	50.6
Companies: Total	-17.7	-0.6	22.3	64.2	68.2	27.3	49.4
Of which: Financial	*-21.1*	*4.0*	*5.7*	*14.0*	*2.6*	*-7.0*	*11.7*
Non-financial	*3.4*	*-4.6*	*16.6*	*50.2*	*65.6*	*34.3*	*37.8*
Total bank loans and advances	8.8	13.9	48.8	93.6	165.1	67.4	100.0

* Expressed as a percentage of the total outstanding balance as at March 2022

Source: SARB

Credit extension to companies was mainly driven by general loans and the utilisation of overdraft facilities for operational activities in the early months of 2022. General loans to companies (with a weight of 52.6%) recovered steadily from contractions in 8 of the 12 months of 2021 to year-on-year growth of 7.9% in April 2022, and reflected a gradual increase in credit demand amid less restrictive COVID-19 regulations. While small, the utilisation of overdrafts (with a weight of 10.8%) rebounded noticeably after contracting for 13 consecutive months up to June 2021, increasing by 24.4% year on year in March 2022 before moderating to 21.3% in April. The recent increase in demand for overdrafts followed in the wake of provisional tax and dividend payments in the early months of 2022, which likely depleted available deposit balances. Credit card advances (with a weight of 0.4%) increased by a marked 38.4% year on year in May 2021 due to base effects, but growth then moderated to 19.1% in April 2022. Growth in instalment sale credit to companies accelerated gradually to a new post-pandemic high of 7.3% in April 2022.

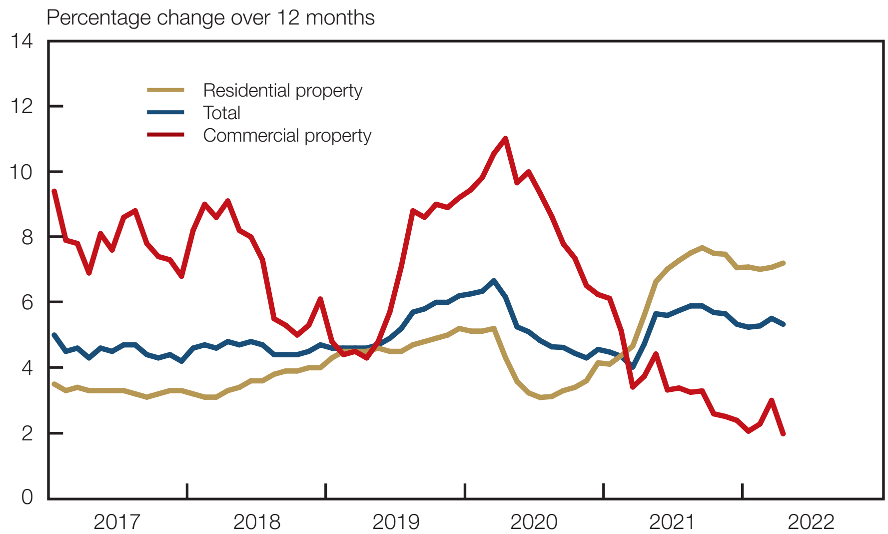
Selected loans and advances



Source: SARB

Growth in *credit extension to the household sector* continued to expand at a steady pace of around 5.6% in the second half of 2021 before accelerating to 6.3% in April 2022. The demand for credit over the past year was relatively broad-based across the various types of credit, largely driven by mortgage advances and instalment sales, while demand for general loans increased noticeably in the first four months of 2022. Growth in mortgage advances (with a weight of 59.1%) accelerated from a low of 2.9% in July 2020 to a 12-year high of 7.4% in August 2021, before receding and levelling off at around 6.8% in the first four months of 2022. Growth in instalment sale credit to households more than tripled from a low of 2.5% in May 2020 to 8.5% in April 2022 when it matched and even surpassed pre-pandemic rates. In addition to the strong increase in new vehicle sales in the first quarter of 2022, growth in instalment sale financing also benefitted from some banks' improved systems to reduce the turnaround time of vehicle loan applications to boost market share. Growth in credit card advances to households rebounded briefly from less than 1.0% in February 2021 to 5.7% in June, before slowing to 3.8% in April 2022. Growth in general (mostly unsecured) loans to households accelerated from a low of 0.2% in September 2021 to 4.2% in April 2022. Households' utilisation of overdrafts continued to contract in 2021 and into 2022, but the rate of decrease moderated from 11.8% in June 2021 to 0.8% in March 2022 before reverting to an increase of 2.6% in April. Uncertain job prospects amid high unemployment, together with the gradual increase in interest rates, could affect credit extension to households somewhat in the coming months.

Mortgage advances



Source: SARB

Growth in mortgage advances on commercial property remained constrained, fluctuating between 2% and 3% from March 2021 to April 2022. Although the value of non-residential buildings completed increased in the first quarter of 2022, activity has not yet recovered to its pre-COVID-19 level. By contrast, growth in mortgage advances on residential and agricultural property accelerated in 2021, but levelled off at around 7% from December 2021 to April 2022. On aggregate, growth in total mortgage advances reached a recent high of 5.9% in September 2021 before moderating to 5.3% in April 2022.

Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	Percentage of total credit extension*
Households	-0.5	5.4	6.2	6.2	10.4	36.1
Finance and insurance	-2.3	7.8	11.6	1.7	4.9	16.8
Real estate	4.1	2.6	2.2	2.3	0.7	11.2
Wholesale and retail trade	-8.3	-5.3	1.5	10.4	13.3	5.0
Manufacturing	-19.7	-19.3	-5.2	6.0	9.5	3.8
Business services	-4.9	1.5	-5.1	3.7	-4.7	3.0
Transport, storage and communication	-1.3	-3.6	-7.1	-2.8	-5.4	2.7
Electricity, gas and water	5.3	12.5	8.7	19.9	19.3	2.8
Agriculture, forestry and fishing	1.1	3.0	10.0	27.5	12.9	2.6
Mining and quarrying	-29.1	-49.4	-24.9	0.4	18.2	1.4
Construction	9.1	3.0	-2.1	-13.1	-9.6	0.8
Community, social and personal services, and other	19.0	4.4	0.3	4.7	8.5	13.8
Total	**0.2**	**2.3**	**3.9**	**5.2**	**7.3**	**100.0**

* Expressed as a percentage of the total outstanding balance as at March 2022

Source: SARB

The demand for credit increased in most of the economic sectors from the third quarter of 2021 to the first quarter of 2022 as economic activity recovered. The construction, transport and business services sectors were notable exceptions. The transport sector, which had not yet recovered to its pre-pandemic level, was severely impacted by the civil unrest in July 2021 and the disrupting effects of the recent floods in KwaZulu-Natal. Credit extension to households and to the wholesale and retail trade sectors increased notably as consumption expenditure increased amid the easing of COVID-19 restrictions. The notable increase in credit extension to the mining sector in the first quarter of 2022 was largely as a result of base effects due to the weak demand for credit during the same period a year earlier.

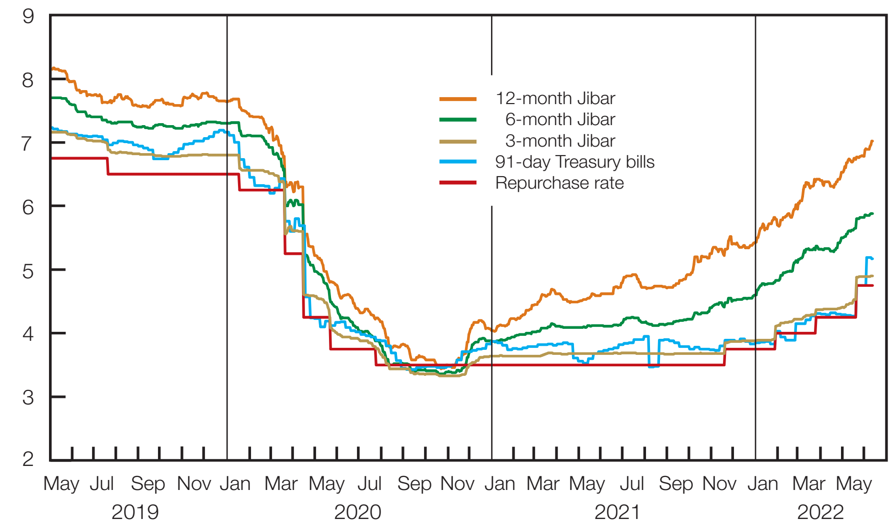
Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB increased the repurchase (repo) rate by 50 basis points to 4.75% per annum in May 2022. The MPC assessed the risks to the domestic inflation outlook to be on the upside, mainly driven by supply-side factors linked to fuel and food prices as well as electricity tariffs. Nonetheless, the MPC continues to regard the current level of the repo rate as accommodative and financial conditions supportive of demand for credit as economic activity continues to recover.

Domestic short-term money market interest rates trended higher during the first half of 2022. The movement in short-term interest rates has tracked the four consecutive increases in the repo rate since November 2021 and reflected fluctuations in the exchange value of the rand, higher consumer price inflation and heightened global risk aversion. The 3-month Johannesburg Interbank Average Rate (Jibar) increased by 52 basis points from 3.89% on 3 January 2022 to 4.41% on 30 April, and rose further to 4.90% on 10 June following the increase in the repo rate in May. Increases in the longer-term interbank rates were even more pronounced, with the 6-month Jibar increasing from 4.68% on 3 January 2022 to 5.88% on 10 June. Similarly, the benchmark 12-month Jibar rose to 7.02% on 10 June, increasing by 152 basis points from 5.50% on 3 January 2022.

The tender rate on 91-day Treasury bills (TBs) increased by 38 basis points from 3.94% in early February 2022 to 4.32% on 22 April, alongside lower demand from private sector banks which placed funds in higher yielding instruments. As a result, the 91-day TB auctions were undersubscribed and under-allotted. Subsequently, the tender rate on 91-day TBs increased to 4.75% from 20 May to match the increase in the repo rate, with a further increase to 5.17% on 10 June following lower demand from market participants.

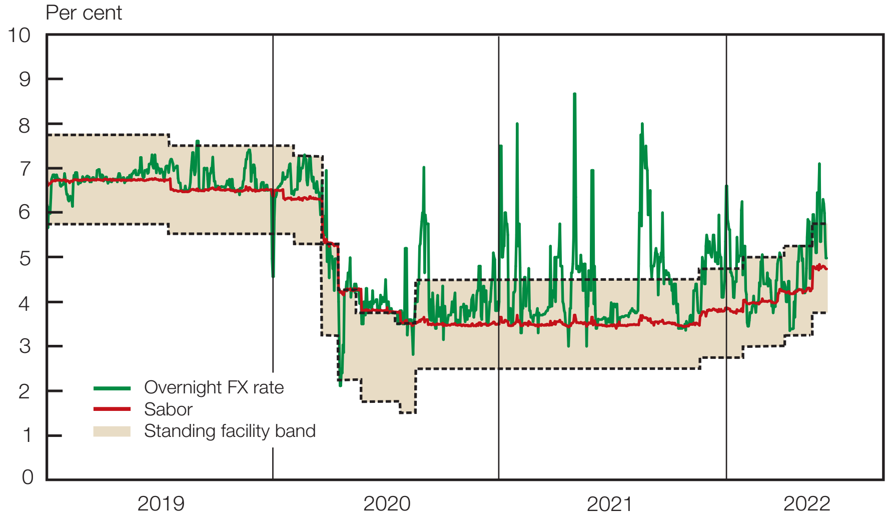
Money market rates



Source: SARB

Subdued movements in the South African Benchmark Overnight Rate (Sabor) reflected stable funding conditions in the interbank lending market, while fluctuations in the overnight FX rate also became more closely contained within the upper and lower limits of the standing facility band in recent months. The Sabor averaged 4.24% between 25 March and 19 May 2022 as it fluctuated around the prevailing repo rate at the time. The Sabor then increased to 4.74% on 10 June as it adjusted to the increase in the repo rate in May. Despite the reduced volatility in the overnight FX rate, it occasionally traded below the repo rate as a result of surplus liquidity in the FX forward market, which often reversed around month-end peak demand. For example, the overnight FX rate increased sharply from a low of 3.75% on 17 March 2022 to 5.10% on 28 March before decreasing to 3.35% in mid-April when demand dissipated.

Benchmark overnight rates

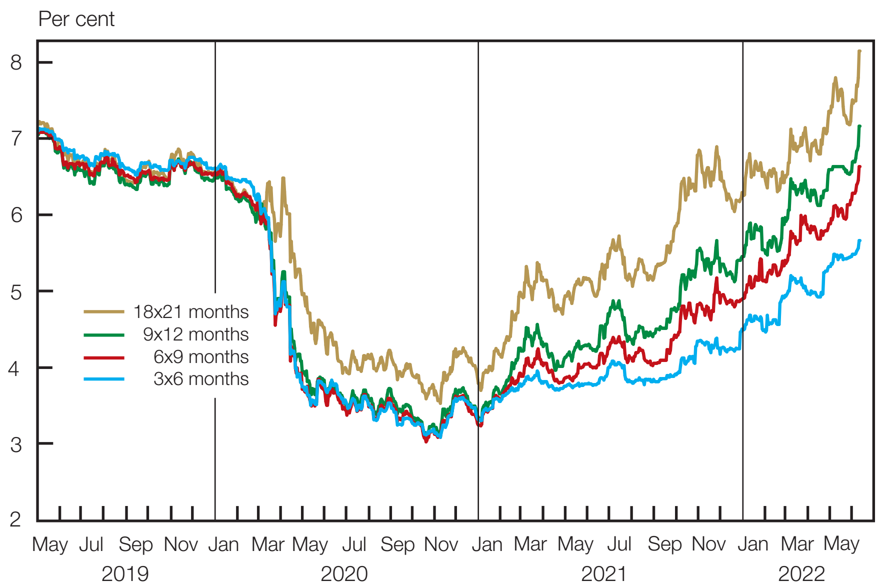


Source: SARB

In May 2022, the overnight FX rate fluctuated between a low of 4.20% on 6 May and a high of 7.10% at the end of the month to breach the upper standing facility limit amid liquidity constraints in the overnight FX market. The rate subsequently decreased to 4.98% on 10 June when demand stabilised. The overnight FX rate averaged 4.53% in the first quarter of 2022, up from 4.35% in the previous quarter.

Rates on forward rate agreements (FRAs), which initially declined somewhat after the March 2022 increase in the repo rate, resumed their upward trend in April and May alongside unfavourable domestic inflation outcomes and movements in the exchange value of the rand. The 3x6-month FRA increased by 56 basis points from 4.92% on 16 April 2022 to 5.48% on 6 May, and then fluctuated around that level up to early June before increasing slightly to 5.66% on 10 June. The 6x9-month FRA increased from 5.68% to 6.11% between 16 April and 6 May, and after a brief pause increased further to 6.63% on 10 June. The 9x12-month FRA displayed a similar upward trend during April and May 2022, increasing to 7.16% on 10 June. At current levels, both the short- and long-dated FRAs reflect expectations of further increases in the policy rate in coming months.

Forward rate agreements

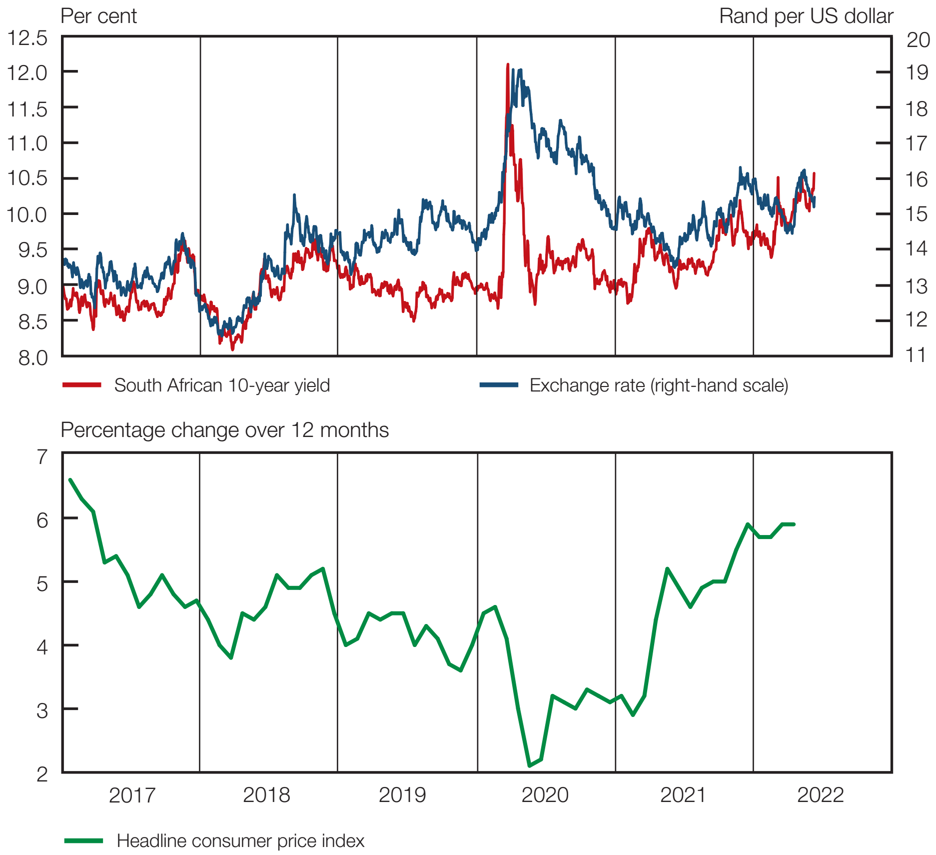


Source: SARB

The weighted average monthly flexible deposit and lending rates offered by private sector banks increased broadly in accordance with the changes in the repo and prime rate. The rate charged by banks on mortgage advances increased from 7.08% in February 2022 to 7.32% in April. Over the same period, the rate on instalment sale credit increased from 9.55% to 9.73%, while the interest rate on overdrafts increased from 8.48% to 8.73%. The interest rate on credit card advances was somewhat of an exception, as it decreased by 29 basis points from 13.85% in February 2022 to 13.56% in March, as these rates can be affected when clients settle monthly outstanding debt. The rate on credit card advances then increased to 13.85% in April 2022. The deposit rates offered by banks also increased in recent months, although the weighted-average interest rate on call deposits increased only marginally from 3.91% to 4.14% between February 2022 and April.

The *yield on 10-year South African rand-denominated government bonds* issued and traded in the domestic bond market fluctuated widely along an upward trend in the first half of 2022, while domestic consumer price inflation accelerated slightly. Despite a well-received 2022 Budget on 23 February, bond yields increased by 113 basis points from 9.38% on 17 February 2022 to 10.51% on 8 March as financial markets responded to Russia's invasion of Ukraine. Bond yields then declined by 71 basis points to 9.80% on 7 April as the exchange value of the rand appreciated further along with an upgrade of South Africa's sovereign credit rating outlook. Subsequently, bond yields increased by 77 basis points to 10.57% on 10 June as the exchange value of the rand depreciated, and as global bond yields and the US federal funds rate increased in response to surging inflation.

Government bond yield, the exchange rate and inflation



Sources: IRESS, JSE and Stats SA

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

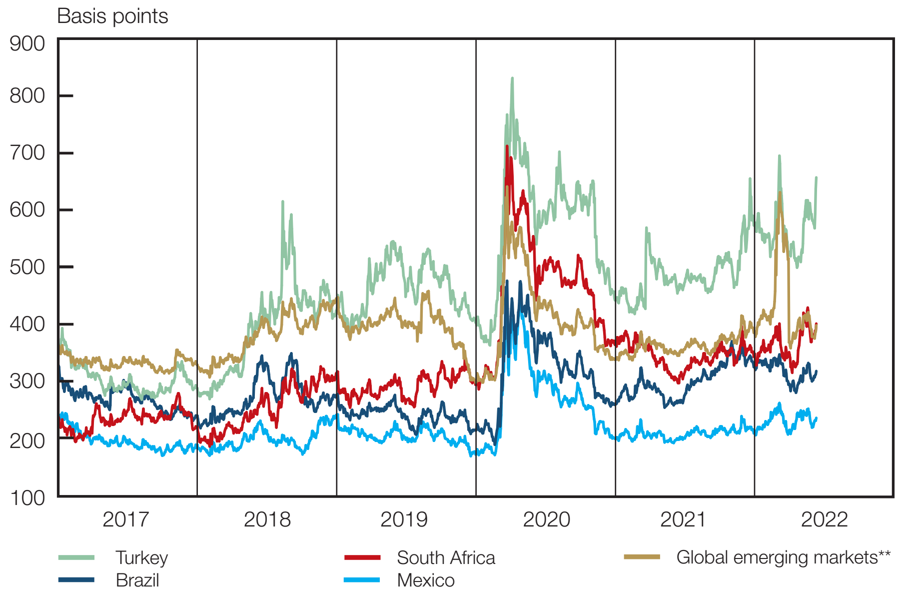
The slope of the *yield curve* flattened from 8 March 2022 to 7 April as yields at the short end increased while moving lower from the three-year maturity range. Subsequently, the yield curve steepened somewhat and by 10 June had shifted higher across all maturities, with yields at the extreme short end increasing by a lesser extent than those on longer-dated bonds. The steeper yield curve reflected, among other factors, the depreciation in the exchange value of the rand and domestic inflation concerns as international crude oil and food prices increased sharply in the wake of Russia's invasion of Ukraine. The yield gap,[23] which had initially narrowed from 734 basis points on 8 March 2022 to 632 basis points on 7 April, again widened to 665 basis points on 10 June.

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

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

The yield spread for emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[24] increased by 231 basis points from 400 basis points on 10 February 2022 to a high of 631 basis points on 8 March in response to the Russia–Ukraine conflict. The spread then declined by 273 basis points to 358 basis points on 5 April before again widening somewhat to 403 basis points on 10 June. Movements in the yield spread reflected changes in investor sentiment towards emerging market bonds and weaker emerging market currencies amid geopolitical tensions and the effect of the tightening of monetary policy in response to global inflation concerns. South Africa's *sovereign risk premium*[25] on US dollar-denominated government bonds in the eight-year maturity range narrowed from an average of 293 basis points in February 2022 to 272 basis points in April, before widening to 337 basis points in May.

Sovereign spreads*



* JPMorgan Emerging Markets Bond Index Plus
** The index excludes Russia as from 31 March 2022

Source: Bloomberg

Money market

The actual daily liquidity requirement of private sector banks averaged R37.4 billion in the first quarter of 2022 and varied between a low of R15.2 billion and a high of R56.8 billion. The high of R56.8 billion on 3 March 2022 was the highest since April 2020 as banks increased their participation in both the weekly main refinancing and the supplementary repurchase auctions. Banks' increased participation in the weekly refinancing auction at the time was to obtain liquidity to facilitate the distribution of coupon payments on government bonds. The private sector banks also occasionally utilised the supplementary reverse repurchase auctions to deposit additional funds at the SARB.

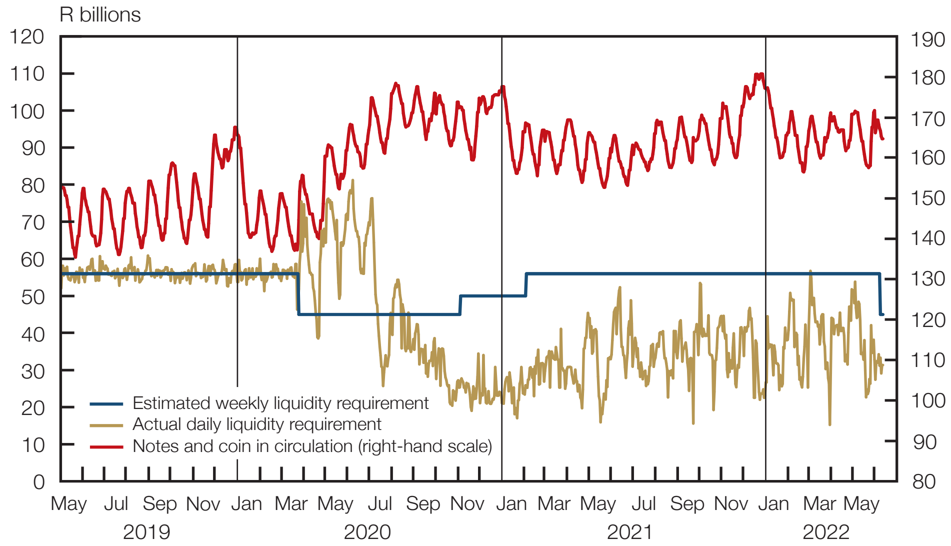
The SARB maintained the amount on offer at the weekly main refinancing auctions at R56.0 billion during the first five months of 2022, but the auctions generally remained undersubscribed. In April and May 2022, the average actual daily liquidity requirement increased to R39.9 billion and R41.4 billion respectively as banks needed funds to cover weekly and month-end transactions. On 8 June 2022, the amount on offer at the weekly main refinancing auction was reduced to R45.0 billion as the SARB started to transition to a new monetary policy implementation framework.

Since 1998, monetary policy in South Africa has been implemented using a classical cash reserve system whereby the SARB maintains a money market shortage. The shortage is maintained by draining excess reserves through various instruments and then lending the shortage to the money market at the repo rate. Following a review of global practices, the SARB is replacing the shortage system with a tiered floor system. The tiers – also referred to as quotas – reflect the limits for the amounts that banks can place at the SARB, with a penalty rate still in place for deposits in excess of banks' individual tiers. These tiers ought to discourage banks from hoarding excess funds and promote interbank lending. The new framework, in which the money market would remain in surplus, will be gradually phased in over a period of 12 weeks from 8 June 2022.[26]

26 For more detail, see https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2022/A-new-framework-for-implementing-Monetary-Policy-in-South-Africa

The total accommodation that the SARB provided to banks decreased from R46.1 billion at the end of January 2022 to R41.0 billion in March as the demand for liquidity at the weekly main refinancing auctions decreased. In April 2022, demand for liquidity increased to R53.2 billion before decreasing again to R37.5 billion in May.

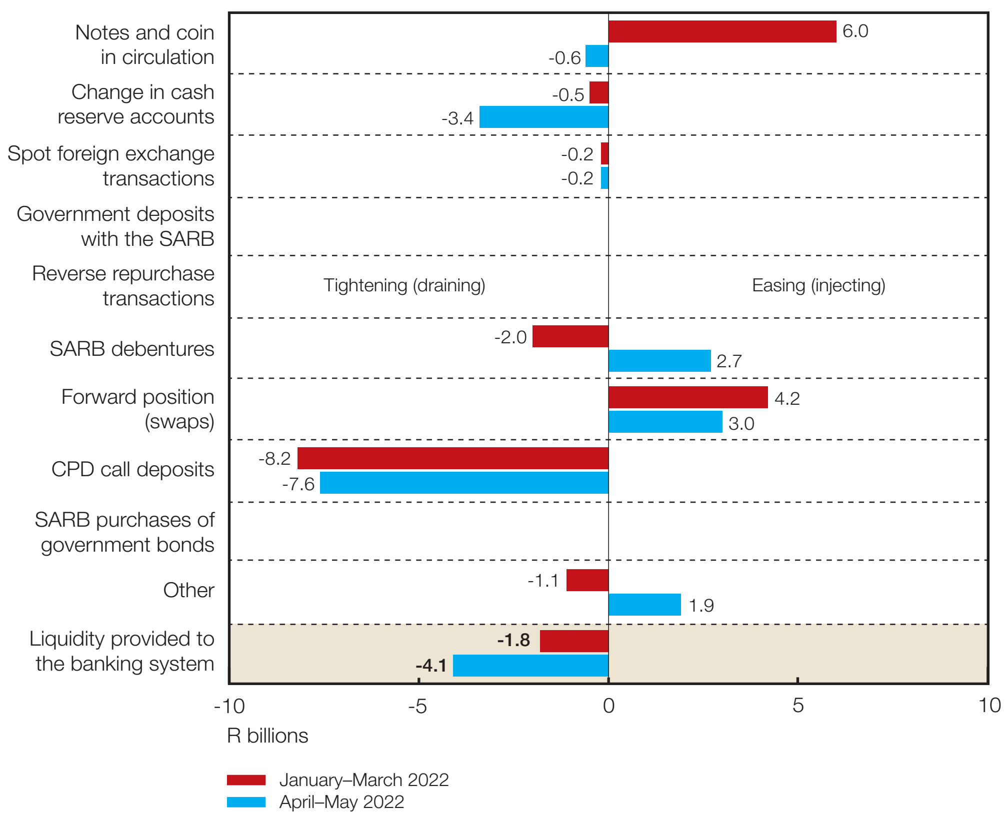
Liquidity requirement



Source: SARB

Money market liquidity contracted by a net amount of R1.8 billion in the first quarter of 2022 compared with a net expansion of R13.6 billion in the fourth quarter of 2021. The contraction was mainly due to an increase of R8.2 billion in deposits of the Corporation for Public Deposits (CPD) with the SARB, while the issuance of SARB debentures drained a further R2.0 billion. This was partly countered by a decrease of R6.0 billion in notes and coin in circulation outside of the SARB and by an injection of R4.2 billion through maturing International Financial Institutions' (IFIs) FX swaps.

Factors influencing money market liquidity



Source: SARB

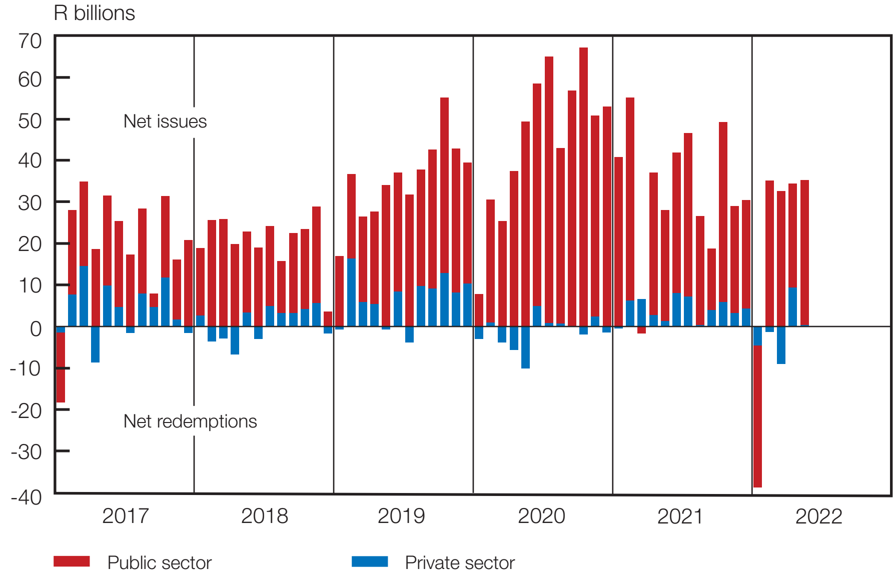
In April and May 2022, money market liquidity contracted by a net amount of R4.1 billion, mainly due to the placement of CPD call deposits of R7.6 billion with the SARB, to drain excess liquidity from the market for liquidity management purposes, an increase of R3.4 billion in the cash reserve deposits that private sector banks are required to hold at the SARB, and an increase of R0.6 billion in notes and coin in circulation outside of the SARB. This was partially offset by maturing SARB debentures of R2.7 billion and maturing swaps of R3.0 billion.

Bond market

The net issuance of listed bonds by the public sector[27] in the *domestic primary bond market* on the JSE Limited (JSE) of R93.5 billion in the first five months of 2022 was 37.3% less than in the corresponding period of 2021. This followed better-than-expected revenue collections by national government which reduced the borrowing requirement, and the redemption of the R212 inflation-linked government bond in January 2022. The private sector recorded net redemptions of listed bonds in the first five months of 2022, following net redemptions of R14.4 billion in the first three months of 2022 and net issues of R9.7 billion during April and May, compared with net issues of R16.6 billion in the five months of 2021.

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

Net issuance in the domestic primary bond market



Source: JSE

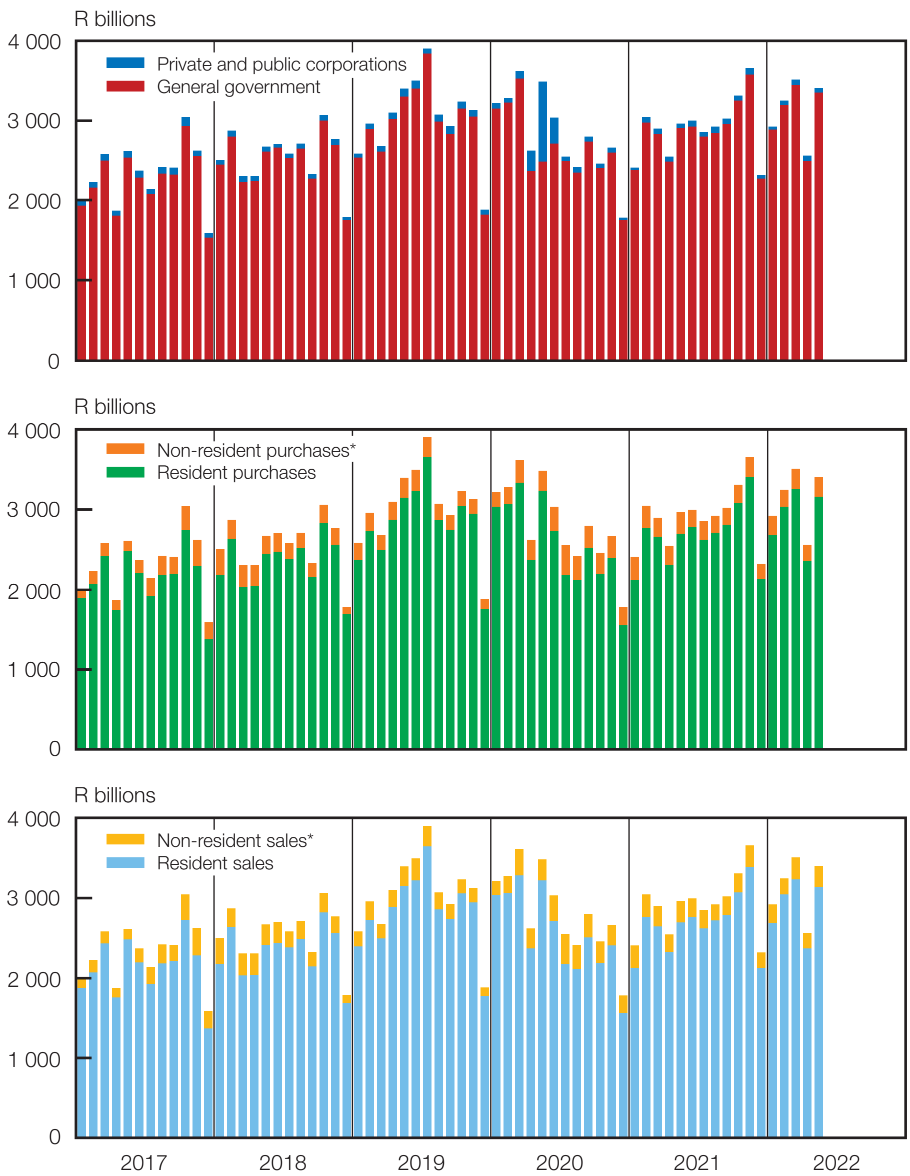
In addition to the JSE, the Cape Town Stock Exchange (CTSE) started listing debt securities in December 2021. As at the end of May 2022, private financial institutions had listed 11 bonds with the CTSE with an outstanding nominal amount in issue of R2.2 billion. These listings afford borrowers an alternative to bank funding.

In line with the announcement in the *2022 Budget Review*, National Treasury raised US$3 billion in the international capital markets in April 2022. This comprised a US$1.4 billion 10-year bond maturing in 2032 with a coupon rate of 5.875%, and a US$1.6 billion 30-year bond maturing in 2052 with a coupon rate of 7.3%. The oversubscription of these issuances displayed investor confidence that was supported by an improved fiscal position.

National Treasury also launched a more affordable Retail Savings Top Up Bond in April 2022 to encourage saving, particularly by younger investors. This requires an initial investment of R500 with the option of minimum top-ups of R100 over the term of the investment.

The daily average *value of turnover* of R153 billion in the domestic secondary bond market during the first five months of 2022 was 12.7% higher than in the same period of 2021, despite a decline of 4.2% in the daily average number of trades. Trading in general government bonds continued to be the main contributor to total turnover at R15.4 trillion in the five months to May 2022, with only R0.3 trillion in corporate bonds recorded over the same period. Non-residents mostly trade in government bonds, and their contribution to total turnover in the domestic bond market decreased to 7.5% in the five months to May 2022 compared with 9.5% in the same period of 2021.

Turnover in the domestic bond market by issuer and residency

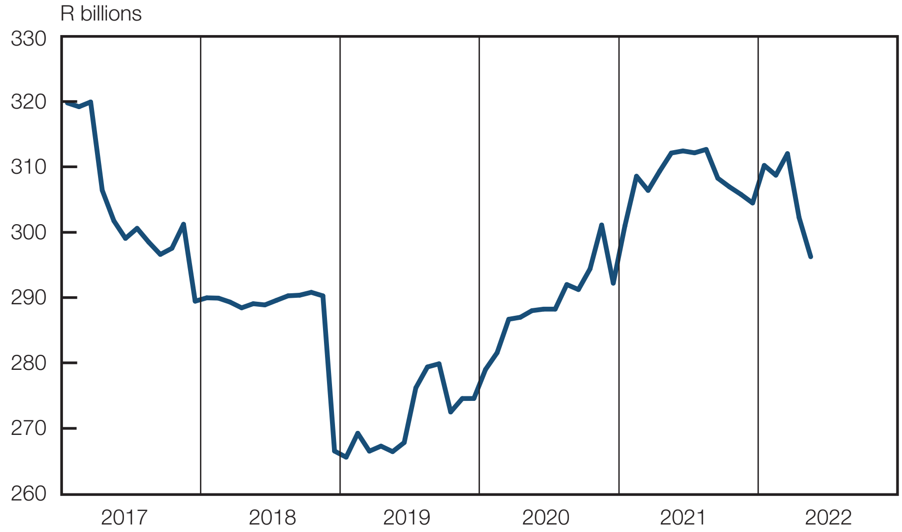


* Settled trades from 2019

Source: JSE

Net redemptions of rand-denominated debt securities in the *European and Japanese bond markets* of R8.2 billion in the five months to May 2022 contrasted net issuances of R19.9 billion in the corresponding period of 2021. These net redemptions reduced the total outstanding amount of rand-denominated debt in issue in these markets to R296 billion at the end of May 2022. In the coming months, net issuances will likely be dampened by significant scheduled redemptions despite a slow return of issuance in the Japanese bond market and an improvement in the outlook of South Africa's sovereign credit rating.

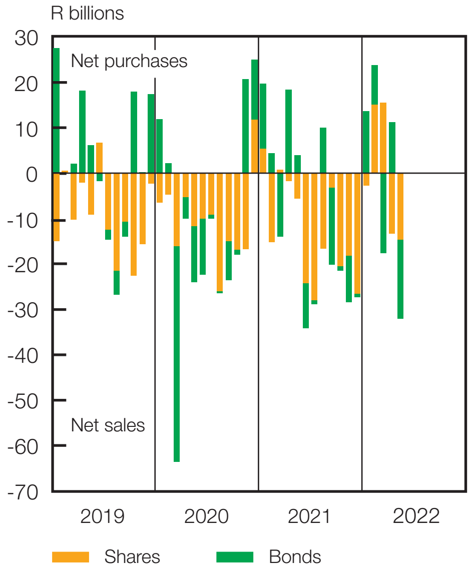
Outstanding amount of rand-denominated bonds in issue in international markets



Source: Bloomberg

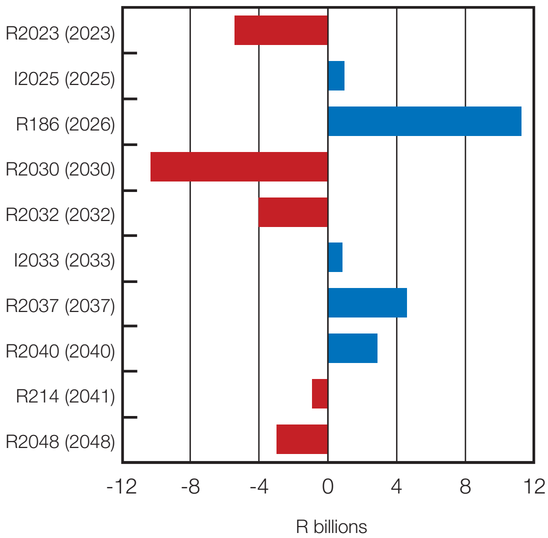
Non-resident net purchases of JSE-listed bonds of R4.9 billion in the first quarter of 2022 followed net sales of R7.9 billion and R11.9 billion in the third and fourth quarters of 2021 respectively, according to JSE data. However, non-residents' bond holdings then declined by R6.3 billion in April and May. Their cumulative net sales of bonds of R1.4 billion in the first five months of 2022 contrasted net purchases of R27.0 billion over the same period of 2021. Non-resident net sales of bonds could largely be attributed to, among other factors, higher global inflation and subsequent tighter monetary policies. Non-residents mostly acquired the *R186* government bond with a remaining four-year maturity and disposed of the *R2030* bond with a remaining eight-year maturity.

Non-resident net transactions in the domestic bond and share market



Source: JSE

Non-resident net transactions in government bonds by instrument and maturity in the first five months of 2022



Share market

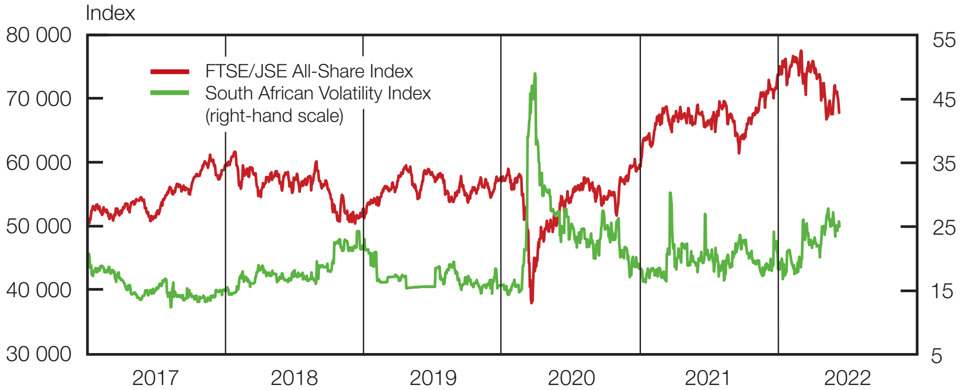
The value of *equity capital raised* in the domestic and international primary share markets by companies listed on the JSE declined by 23.1% to R5.2 billion in the five months to May 2022 compared with the corresponding period of 2021, with primary listed companies accounting for 91.2%. The lower level of equity funding reflected uncertainty about the domestic economic growth outlook. In the first five months of 2022, companies in the financial and resources sectors accounted for 62.6% and 19.4% respectively of the total value of equity capital raised.

The combined *value of turnover* in the secondary share market of the five South African stock exchanges increased to R2.6 trillion in the first five months of 2022 and was 12.3% more than in the same period of 2021, boosted by higher share prices. The combined market capitalisation of all shares listed on these exchanges increased to an all-time high of R23.2 trillion in January 2022 before declining to R20.9 trillion in May, reflective of the decline in share prices.

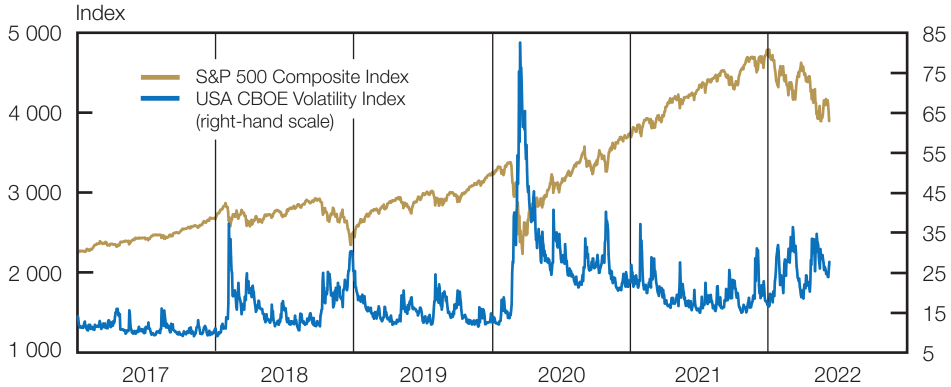
Non-residents briefly became net buyers of JSE-listed shares to the value of R27.9 billion in the first quarter of 2022 following net sales for 15 consecutive quarters, according to JSE data. Non-residents again reduced their holdings of domestic shares by R27.8 billion in April and May 2022 following concerns about the continued conflict between Russia and Ukraine and its impact on global economic growth prospects. In addition, continued electricity load-shedding and the devastating floods in KwaZulu-Natal remained a concern for the domestic economic outlook.

The further increase in the *FTSE/JSE All-Share Index* of 2.4% in the first quarter of 2022 contrasted the decline in the S&P 500 Composite Index along with sharply rising inflation in the US. However, the Alsi's all-time high of 77 536 index points on 2 March 2022 was followed by a decline of 12.6% to 67 804 index points on 10 June – a level last recorded in November 2021. Declines were concentrated in the precious metals and mining sector as well as the industrial sector, with decreases of 34.7% and 11.6% respectively over this period.

South African share and volatility indices



United States share and volatility indices



Sources: IRESS and JSE

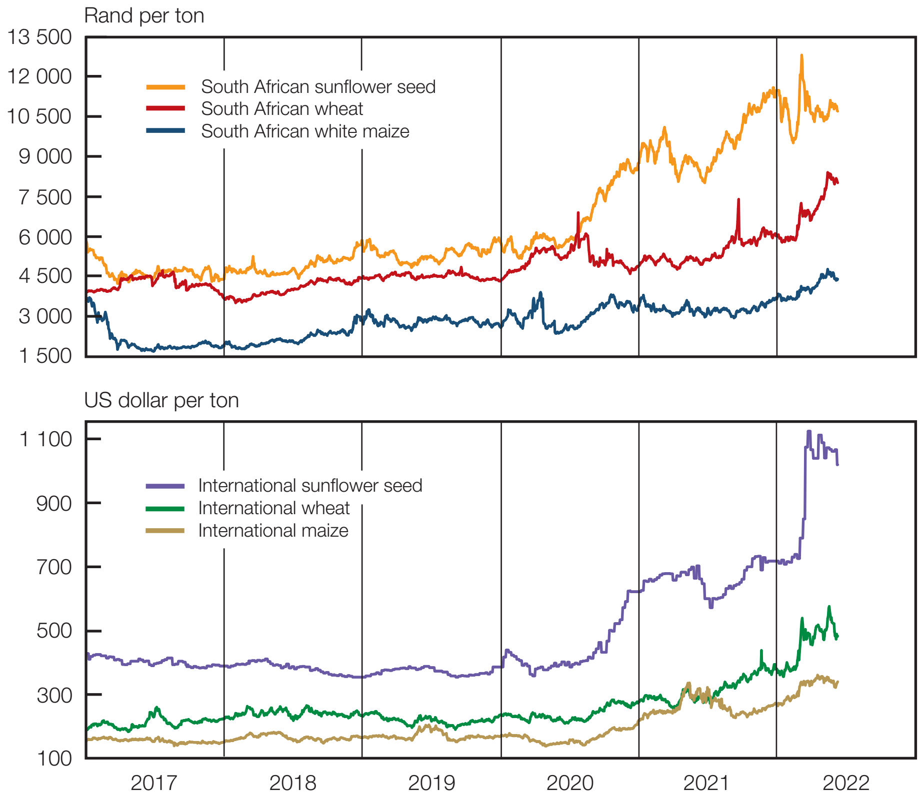
The decline was also in line with the trend on international bourses, all of which were impacted by global economic growth concerns amid rising global inflation and policy rates exacerbated by the conflict in Ukraine, as well as the lockdown restrictions that were reimposed in China after a renewed COVID-19 outbreak there. The increase thus far in 2022 in both the South African Volatility Index (SAVI) and the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) reflected these risks.

The overall *price-earnings ratio* of ordinary shares listed on the JSE declined from a recent high of 17.4 in January 2022 to a low of 11.7 in May as earnings increased and share prices declined. By contrast, the *dividend yield* increased from 1.8% in January 2022 to 2.9% in May as dividends declared increased while share prices declined.

Market for exchange-traded derivatives

The *spot prices of maize contracts* traded on the JSE continued to trend higher in the first five months of 2022, with white maize prices increasing notably by 22.9% from R3 581 per ton on 13 January 2022 to R4 400 per ton on 10 June. Domestic maize prices reflected higher international prices amid global supply shortages, as the conflict between Russia and Ukraine continued to weigh on global stocks and sharply higher domestic input costs. In addition, the South American and East African regions experienced poor crop harvests due to severe droughts.

Grain prices



Sources: International Grains Council and JSE

Similarly, the *spot price of domestic wheat contracts* increased sharply by 45.4%, from R5 782 per ton on 14 January 2022 to an all-time high of R8 409 per ton on 16 May, as the war in Ukraine disrupted global supply and production, and as the exchange value of the rand depreciated. In addition, as a net importer of wheat, domestic prices were also affected by import parity pricing. The spot price of domestic wheat then declined somewhat to R8 020 per ton on 10 June, along with lower international wheat prices.

Despite sharply higher international sunflower seed prices, the *spot price of domestic sunflower seed contracts* declined from an all-time high of R12 824 per ton on 8 March 2022 to a still high R10 318 per ton on 11 April. The decline partly reflected a significantly improved outlook for the domestic 2021/22 harvest. However, the price of domestic sunflower seeds increased somewhat to R10 713 per ton on 10 June along with rising demand for oilseeds from India and China following poor harvests, and the ban on the export of palm oil by Indonesia.

Turnover in commodity derivatives on the JSE increased the most of all exchange-traded derivatives. The increase in commodity derivatives of 20.8% in the first five months of 2022 compared with the corresponding period of 2021 reflected hedging alongside significantly higher commodity prices. Similarly, turnover in equity derivatives increased by 18.0% over the same period.

Derivatives turnover on the JSE, January to May 2022

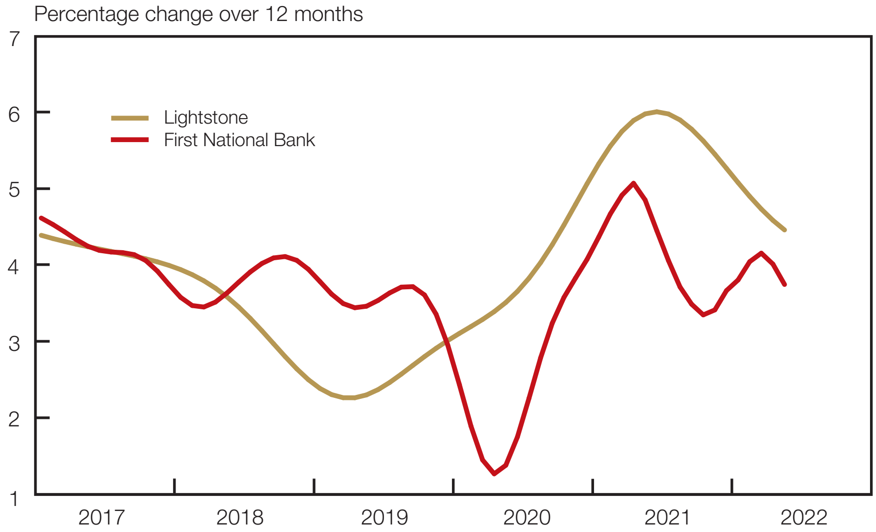
Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	2 665	18.0
Warrants	0.4	-53.5
Commodity	514	20.8
Interest rate	602	-3.1
Currency	277	7.3

Source: JSE

Real estate market

Growth in nominal residential property prices has slowed since the second quarter of 2021, with the two available house price indices increasing at year-on-year rates of only 3.7% and 4.5% in May 2022, extending single-digit increases since 2008. The moderation in growth in house prices was consistent with lower property demand amid rising interest rates and consumer price inflation, high unemployment and low consumer confidence. The slowdown in house price growth was noticeable across all the value categories, with the low value segment declining the most, alongside a decline in the number of property transfers.

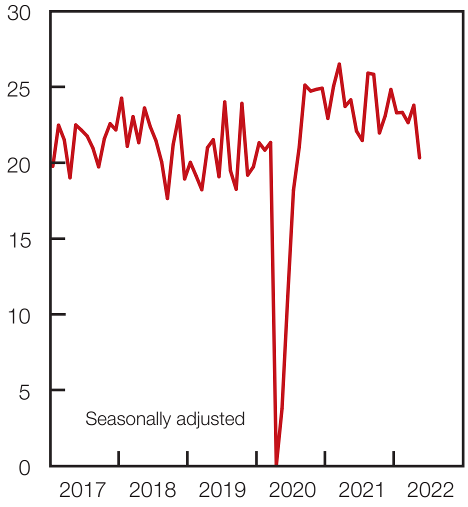
Nominal house prices



Sources: FNB and Lightstone

Residential property transfers

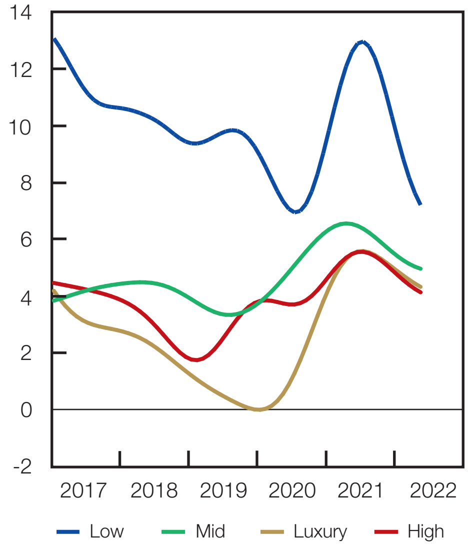
Number (thousands)



Source: Lightstone

Nominal house prices by value category

Percentage change over 12 months



Non-bank financial intermediaries[28]

The gross assets[29] of non-bank financial intermediaries declined marginally by 0.9% from the fourth quarter of 2021 to R14.5 trillion in the first quarter of 2022. On a year-on-year basis, the total assets of these institutions grew by 8.2% in the first quarter of 2022 compared with an increase of 16.2% in the fourth quarter of 2021. The assets managed on behalf of clients by the Public Investment Corporation (PIC) increased by 2.1% to R2.6 trillion in the first quarter of 2022 and that of finance companies increased by 0.5% to R299 billion over the same period. By contrast, the assets of insurance companies declined marginally by 0.7% to R4.2 trillion and that of unit trusts declined by 1.6% to R3.6 trillion over the same period. The decline in global share prices had a negative effect on the value of foreign assets as, for example, the foreign assets managed by unit trusts declined by 7.2% from the fourth quarter of 2021 to R1.0 trillion in the first quarter of 2022.

Total assets of non-bank financial institutions

* Other assets include insurance policies, reinsurance assets, loans, financial derivatives, accounts receivable and non-financial assets

Source: SARB

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

29 Assets are not consolidated for cross investment between these non-bank financial institutions.

The proportion of assets allocated by non-bank financial institutions to shares declined by 0.3 percentage points to 53.3% of total assets in the first quarter of 2022, alongside a decline in international share prices. Shares managed on behalf of clients by the PIC increased by 2.9%, while the shareholding of insurance companies declined by 3.1% in the first quarter of 2022. Holdings of interest-bearing securities by non-bank financial institutions increased by 0.3 percentage points to 22.0% of total assets in the first quarter of 2022, along with an increase of 1.9% in the All Bond Index (ALBI) over the same period.

Non-bank financial institutions' holdings of cash and deposits declined by 0.1 percentage points to 4.5% of total assets in the first quarter of 2022. Heightened volatility in the financial markets and higher interest rates might increase the holdings of cash and deposits in the future. The value of loans extended by non-bank financial institutions increased slightly to 3.9% of total assets over the review period. The loans extended by finance companies increased by 1.5% to R277 billion in the first quarter of 2022. On a year-on-year basis, credit extension by finance companies switched from a contraction of 3.1% in the first quarter of 2021 to an expansion of 3.8% in the first quarter of 2022.

Box 3 Unpacking the statistics of foreign financial assets held by South African institutional investors

South African institutional investors'[1] offshore investments are subject to prudential regulation.[2] This box unpacks their foreign financial asset statistics[3] and highlights pertinent underlying definitions and methodological principles, along with some general observations from these statistics.

From a methodological and definition perspective, there are important caveats and nuances to consider when using the statistics published in the *Quarterly Bulletin.* These statistics are compiled in accordance with the *System of National Accounts 2008 (2008 SNA)*[4] and related International Monetary Fund (IMF) manuals in the context of the prudential limits. Foreign financial assets in these statistics comprise all financial instruments issued by non-residents, inclusive of inward secondary-listed shares[5] on South African exchanges, whereas prudential regulation excludes the latter. The prudential regulation is based on the look-through principle, with disclosure of the underlying assets, whereas the information in the *Quarterly Bulletin* is not compiled on a look-through basis. Furthermore, the non-bank financial institution[6] statistics published in the *Quarterly Bulletin* do not include investment managers, and do not make a distinction between linked and non-linked life insurers and retail and institutional assets under management, while there is also an element of double counting if aggregated due to cross-holdings among these institutional sectors.[7] The external account statistics in the *Quarterly Bulletin* that relate to South Africa's foreign financial assets are published in the 'foreign portfolio investment'[8] functional category[9] of the international investment position (IIP).[10, 11] In the IIP, foreign portfolio investment assets are disaggregated by domestic institutional sector and by instrument. It must be noted that the methodology used by the South African Reserve Bank's (SARB) Financial Surveillance Department (FinSurv) in calculating the foreign exposure of institutional investors differs from the calculations in the *Quarterly Bulletin*. FinSurv's statistics are based on institutional investors' quarterly asset allocation reports

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1 In this analysis, institutional investors could include linked and non-linked life insurers, retirement funds, collective investment scheme management companies and discretionary financial services providers, which are specified depending on the source data.

2 The *2022 Budget Review* announced a change in the prudential limits from 30% and 40% as well as an additional 10% Africa allowance of total retail assets under management to a combined single prudential limit of 45% for all institutional investors. Therefore, offshore and/or African assets may be acquired up to 45% of total retail assets under management. See http://www.treasury.gov.za/documents/national%20budget/2022/review/Annexure%20F.pdf and https://www.resbank.co.za/content/dam/sarb/what-we-do/financial surveillance/institutional-investors/10-2022.pdf

3 The foreign financial assets statistics described in this box are extracted from the non-bank financial institution statistics (unit trusts, life insurers and retirement funds) on pages S–38 to S–46 and the external account statistics (South Africa's foreign portfolio investment as part of the international investment position) on pages S–97 and S–102 to S–105 in this edition of the South African Reserve Bank's (SARB) *Quarterly Bulletin*, as well as the SARB's Financial Surveillance Department's (FinSurv) quarterly asset allocation reports. For FinSurv's online reporting requirements, see https://www.resbank.co.za/en/home/what-we-do/financial-surveillance/institutional-investors.

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

5 A secondary listing is when a non-resident company with a primary listing on another overseas bourse also lists on a South African exchange.

6 Non-bank financial institutions include life insurers, retirement funds and unit trusts.

7 An example of double counting occurs when retirement funds invest through life insurers and asset managers in offshore funds which, in turn, invest in foreign financial instruments.

8 Portfolio investment is defined as cross-border transactions and positions in debt or equity securities, other than those included in direct investment or reserve assets.

9 The functional categories are the primary classification of financial transactions in the balance of payments and consist of direct, portfolio and other investments as well as financial derivatives and reserve assets.

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

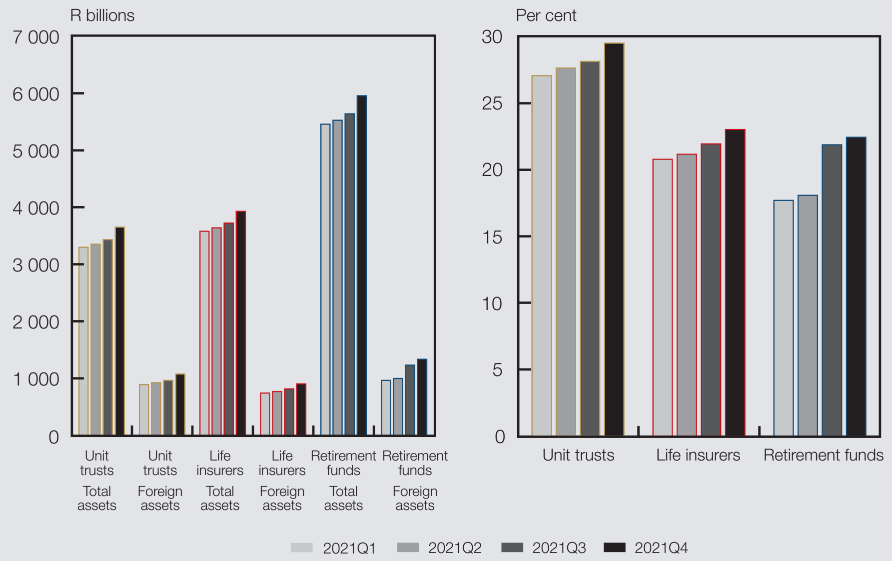
11 The methodology used to compile South Africa's IIP statistics adheres to the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* of the International Monetary Fund (IMF), available at https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

(QAARs),[12] which monitor the prudential limits of retail assets under management on a look-through basis and with inward secondary-listed shares on South African exchanges regarded as domestic financial assets, while inward-listed debt and derivative instruments referencing foreign assets are regarded as foreign.

The statistics of non-bank financial institutions in the *Quarterly Bulletin* render the following insights. Non-bank financial institutions' total assets of R13.5 trillion in the fourth quarter of 2021 included foreign assets of R3.3 trillion, with the foreign assets as a percentage of total assets of unit trusts, life insurers and retirement funds[13] amounting to 29.5%, 23.0% and 22.4% respectively. As expected, changes in the value of these institutions' foreign assets also reflected price developments in foreign financial markets and changes in the exchange value of the rand. Notably, the holdings of secondary-listed shares on South African exchanges accounted for 24.4% of total foreign assets in the fourth quarter of 2021, while most foreign assets were held in equity and investment fund shares at 86.2% during the same period.

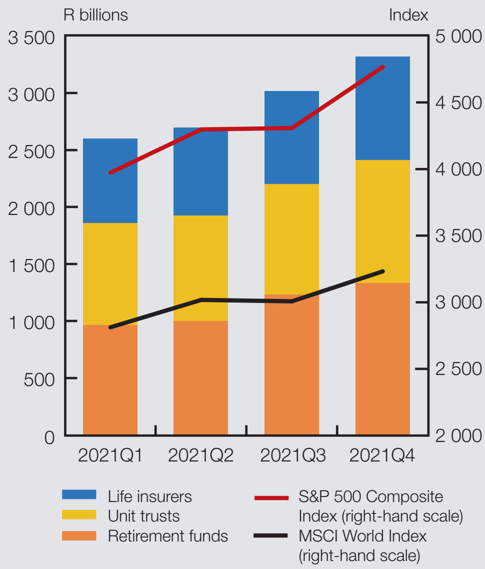
Assets of non-bank financial institutions in 2021

Foreign assets as a percentage of total assets in 2021



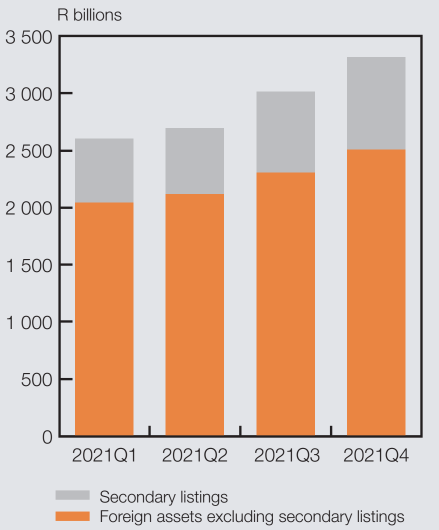
Source: SARB

Contribution of non-bank financial institutions to foreign assets



Source: SARB

Contribution of secondary listings* to foreign assets

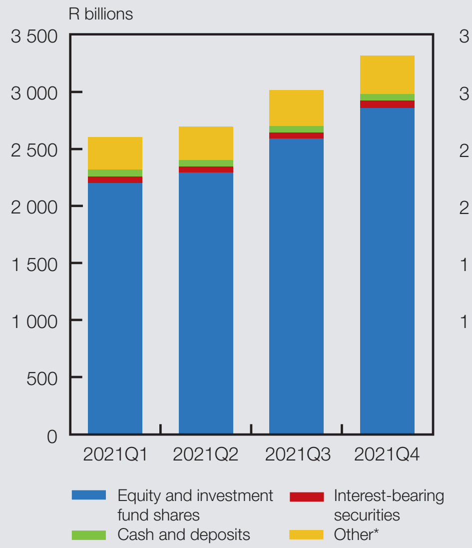


* Secondary listings on South African stock exchanges

12 The QAARs provide the primary mechanism for monitoring compliance with the prudential limit by FinSurv.

13 Retirement funds consist of funds that are regulated and supervised in terms of the Pension Funds Act 24 of 1956, and funds operating under own statutes, such as the Government Employees Pension Fund, Transnet and the Post Office.

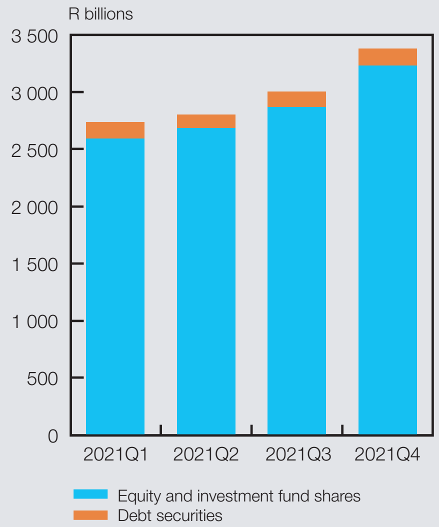
Non-bank financial institutions' foreign assets by type of financial instrument



* Other assets include insurance policies, reinsurance assets, loans, financial derivatives, accounts receivable and other assets

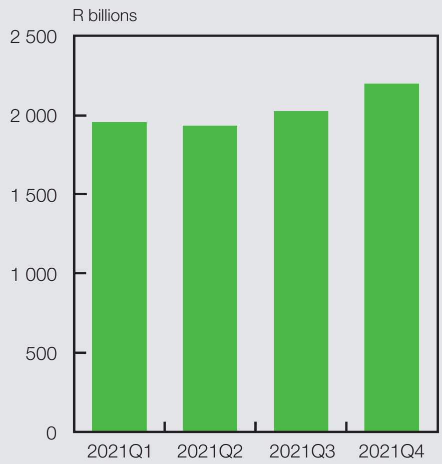
Source: SARB

International investment position: South Africa's private non-banking sector's foreign portfolio assets

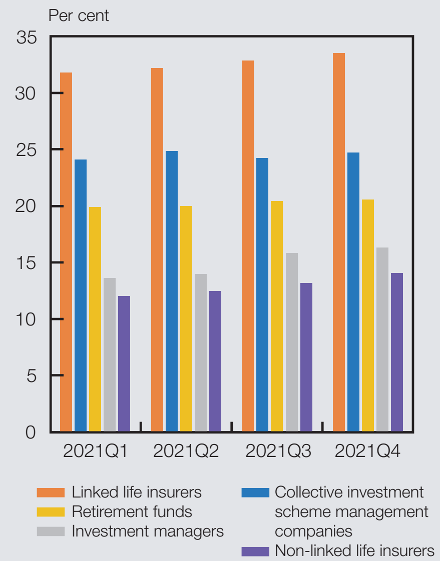


From an external accounts IIP perspective, the market value of the private non-banking sector's foreign portfolio assets of R3.4 trillion in the fourth quarter of 2021 comprised mostly equity and investment fund shares, at 95.6%. The IIP statistics reflect transactions (i.e. cross-border flows related to both investment outflows as well as inflows from the sale and repatriation of such financial assets) and revaluations due to price changes and movements in the exchange value of the rand.

Institutional investors' foreign retail assets under management



Institutional investors' foreign retail assets as a percentage of total retail assets under management



Source: SARB

The statistics based on institutional investors' QAARs show that retail assets deemed as foreign[14] amounted to R2.2 trillion in the fourth quarter of 2021. The foreign exposure of each institutional sector relative to that sector's total retail assets under management was well within the prudential limits, but that of individual institutional investors could differ.

14 This includes African investment.

Public finance[30]

Non-financial public sector borrowing requirement

The preliminary *non-financial public sector borrowing requirement* of R224.4 billion in fiscal 2021/22 was R363.8 billion less than the preliminary outcome of fiscal 2020/21. The significantly lower borrowing requirement reflected the notably smaller cash deficit of the consolidated general government, which stemmed mostly from the much smaller cash deficit of national government, while the other levels of general government and the non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded cash surpluses. The lower deficit of national government resulted from significantly higher cash receipts from operating activities due to strong tax collections.

30 Unless stated to the contrary, the year-on-year rates of increase in this section compare fiscal 2021/22 to fiscal 2020/21. Data for both fiscal years are unaudited and preliminary.

Non-financial public sector borrowing requirement

R billions

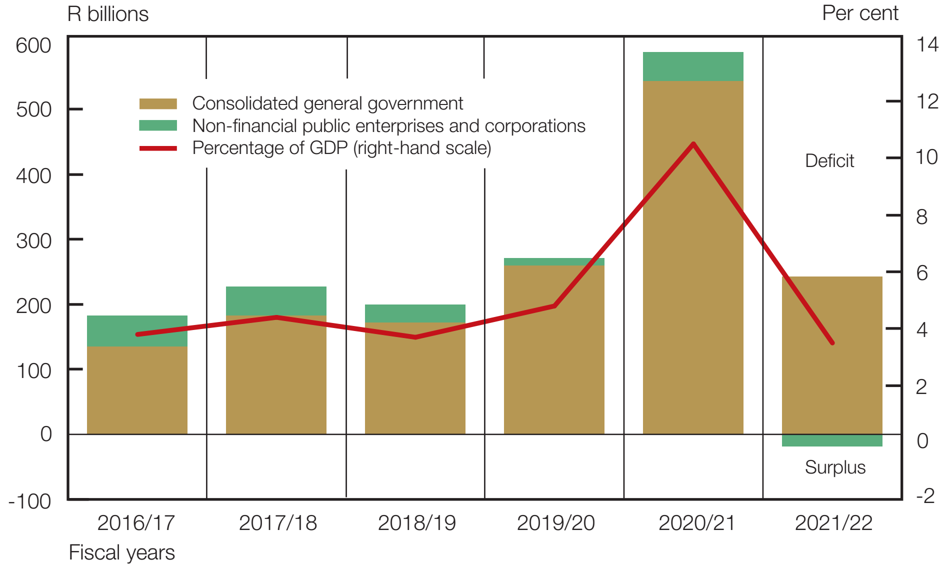
Level of government	Fiscal 2020/21*	Fiscal 2021/22*
Consolidated general government	543.2	242.7
National government	566.9	319.4
Extra-budgetary institutions	-13.2	-17.4
Social security funds	41.6	-3.0
Consolidated provincial government	-4.2	-3.0
Local governments	-47.9	-53.2
Non-financial public enterprises and corporations	45.0	-18.3
Total	588.2	224.4
As a percentage of gross domestic product	*10.5*	*3.5*

* Deficit (+)/surplus (–)
Components may not add up to totals due to rounding off.

Sources: National Treasury, Stats SA and SARB

The non-financial public sector borrowing requirement as a ratio of GDP decreased notably to 3.5% in fiscal 2021/22, from 10.5% in the previous fiscal year.

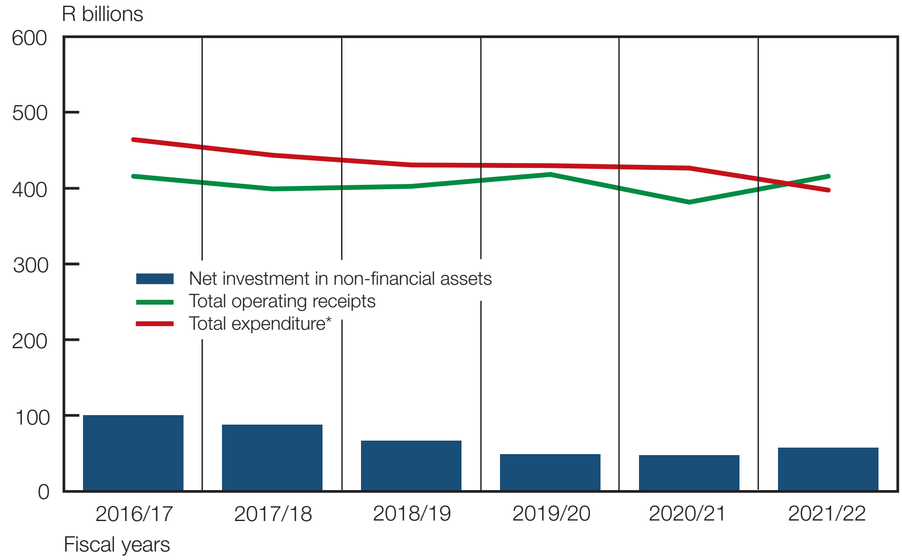
Non-financial public sector borrowing requirement



Sources: National Treasury, Stats SA and SARB

The financial activities of non-financial SOCs resulted in a preliminary cash *surplus* of R18.3 billion in fiscal 2021/22, a reversal from a preliminary *deficit* of R45.0 billion recorded in the previous fiscal year. Total cash receipts from operating activities increased by 9.0% year on year to R416 billion, while total expenditure, inclusive of cash payments for operating activities and net investment in non-financial assets, decreased by 6.8% to R398 billion in fiscal 2021/22. The higher cash receipts from operating activities resulted largely from an increase in the sales of goods and services as economic activity recovered from the COVID-19 lockdown restrictions. The decline in total expenditure resulted from fewer purchases of goods and services as well as lower interest payments, which outweighed the increase in net investment in non-financial assets in fiscal 2021/22.

Financial activities of non-financial public enterprises and corporations



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

Source: SARB

Net investment in non-financial assets by non-financial SOCs increased by R10.2 billion to R57.7 billion in fiscal 2021/22. The increase could be attributed to higher spending on infrastructure by major non-financial SOCs, alongside the resumption of economic activity amid the gradual easing of the COVID-19 lockdown restrictions.

Budget comparable analysis of national government finance

National government's cash book deficit of R325.7 billion in fiscal 2021/22 was significantly less than that projected in both the *2021 Budget Review* and the *2021 Medium Term Budget Policy Statement (2021 MTBPS)*. The smaller cash book deficit reflected a significant improvement in revenue collections, which far outpaced expenditure growth and contributed to lower-than-expected growth in gross loan debt. The net borrowing requirement was primarily financed through the issuance of debt securities in the domestic financial markets. National government's primary deficit of only R57.7 billion in fiscal 2021/22 is particularly striking compared with both the original and revised estimates of R212.8 billion and R140.7 billion respectively.

National government's total revenue increased robustly by 26.3% year on year to R1 561.3 billion in fiscal 2021/22, exceeding both the *2021 Budget Review* and the *2021 MTBPS* estimates by R209.6 billion and R78.1 billion respectively. Although all tax categories increased, corporate income tax (CIT) collections increased the most as the mining sector benefitted from high commodity prices. Total revenue as a ratio of GDP of 24.6% in fiscal 2021/22 was higher than the 22.0% in fiscal 2020/21.

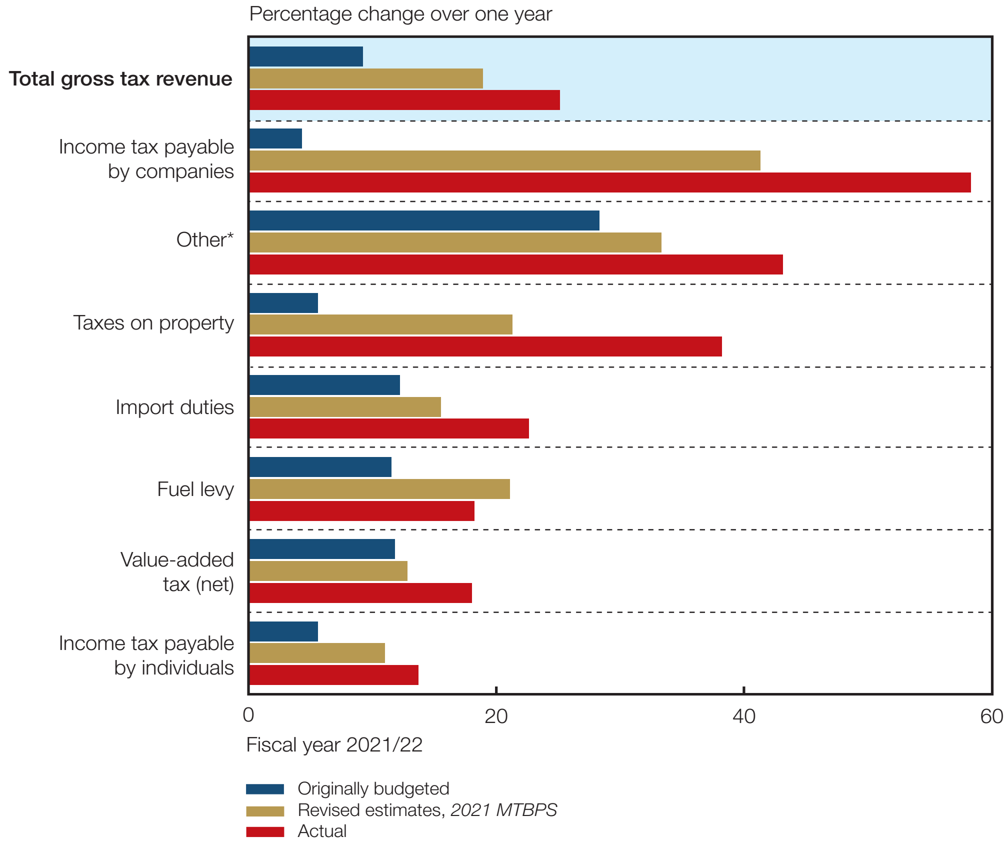
National government finances

	Actual Fiscal 2021/22		Originally budgeted[1] Fiscal 2021/22		Revised estimates[2] Fiscal 2021/22		Originally budgeted[3] Fiscal 2022/23	
	R billions	Percentage change[4]	R billions	Percentage change[5]	R billions	Percentage change[6]	R billions	Percentage change[5]
Revenue	1 561.3	26.3	1 351.7	9.3	1 483.2	20.0	1 588.0	1.7
Percentage of GDP	*24.6*		*25.3*		*24.0*		*24.7*	
Expenditure	1 886.9	5.5	1 834.3	2.6	1 893.1	5.9	1 975.3	4.7
Percentage of GDP	*29.7*		*34.3*		*30.7*		*30.7*	
Cash book balance[7]	-325.7		-482.6		-409.9		-387.2	
Percentage of GDP	*-5.1*		*-9.0*		*-6.6*		*-6.0*	
Primary balance[8]	-57.7		-212.8		-140.7		-85.5	
Percentage of GDP	*-0.9*		*-4.0*		*-2.3*		*-1.3*	
Gross loan debt[9]	4 277.7	8.7	4 382.8	11.4	4 313.9	9.6	4 692.2	9.7
Percentage of GDP	*67.4*		*81.9*		*69.6*		*72.8*	

1 *2021 Budget Review*
2 *2021 MTBPS*
3 *2022 Budget Review*
4 Year-on-year percentage change: actual outcome on previous year's actual outcome
5 Year-on-year percentage change: budgeted on previous year's actual outcome
6 Year-on-year percentage change: revised estimates on previous year's actual outcome
7 Cash book deficit (-)/surplus (+)
8 Cash book deficit (-)/surplus (+) excluding interest payments
9 As at 31 March for rand values
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: National Treasury, Stats SA and SARS

Growth in national government's gross tax revenue



* Including secondary tax on companies, withholding tax on interest and other excise duties
Sources: National Treasury, SARS and SARB

Revenue from taxes on income, profits and capital gains increased markedly by 27.1% year on year to R912.9 billion in fiscal 2021/22 and contributed 58.5% to national government revenue. This largely reflected increases of 58.3% in CIT and 13.7% in personal income tax (PIT) collections. The PIT receipts resulted from higher pay-as-you-earn (PAYE) collections across all sectors of the economy, while CIT collections reflected a notable increase in provisional tax payments following significant profits in the mining sector. As a result, taxes on income, profits and capital gains in fiscal 2021/22 were significantly higher than expected in both the *2021 Budget Review* and the *2021 MTBPS.*

National government revenue in fiscal 2021/22

Revenue source	Originally budgeted[1] Fiscal 2021/22		Revised estimates[2] Fiscal 2021/22		Actual Fiscal 2021/22	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Taxes on income, profits and capital gains	762.0	6.1	866.8	20.7	912.9	27.1
Of which: Income tax on individuals	516.0	5.6	542.0	11.0	555.5	13.7
Income tax on companies	213.1	4.3	288.7	41.3	323.5	58.3
Payroll taxes	17.8	45.4	18.9	54.6	19.3	57.8
Taxes on property..	16.8	5.6	19.3	21.3	22.0	38.2
Taxes on goods and services	514.3	12.9	524.8	15.2	549.4	20.6
Of which: Value-added tax (VAT) net	370.2	11.8	373.6	12.8	390.8	18.0
Domestic	430.1	9.4	440.0	12.0	448.8	14.2
Imports	181.3	9.0	193.3	16.1	204.5	22.9
Refunds................................	-241.2	5.7	-259.6	13.8	-262.4	15.0
Fuel levy	83.1	10.6	89.6	19.2	88.9	18.2
Other exise duties.................	49.4	30.1	48.8	28.4	56.5	48.6
Taxes on international trade and transactions.	54.0	13.2	55.7	16.9	59.9	25.6
Of which: Import duties	53.1	12.2	54.7	15.5	58.1	22.6
Other revenue[6]	32.8	-34.3	43.6	-12.6	43.7	-12.3
Less: SACU[7] payments	46.0	-27.5	46.0	-27.5	46.0	-27.5
Total revenue	1 351.7	9.3	1 483.2	20.0	1 561.3	26.3

1 *2021 Budget Review*
2 *2021 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including non-tax revenue and extraordinary receipts
7 Southern African Customs Union
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: National Treasury and SARS

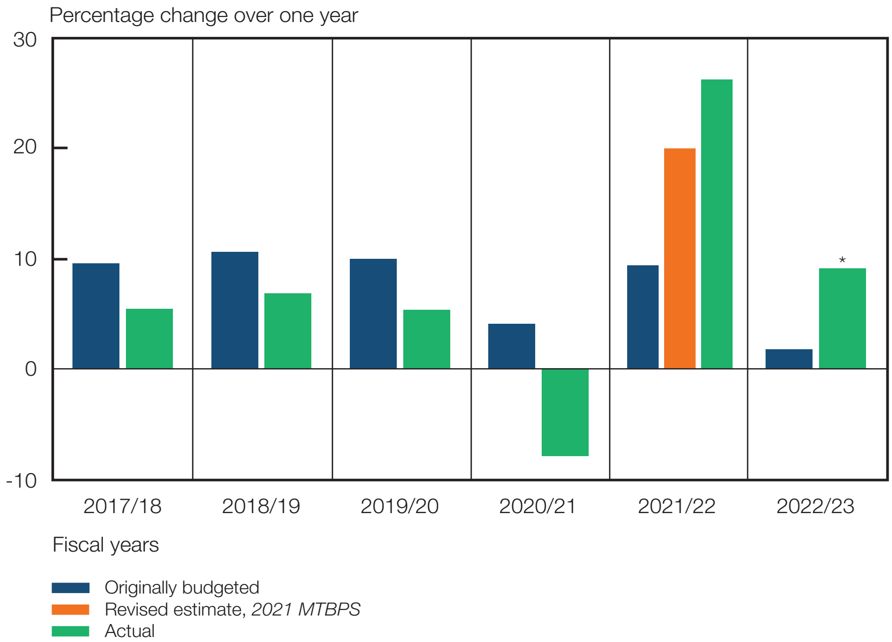
Taxes on goods and services also increased notably by 20.6% year on year to R549.4 billion in fiscal 2021/22, or R35.2 billion more than projected in the *2021 Budget Review* and R24.6 billion more than in the *2021 MTBPS*. The main drivers of the year-on-year increase were higher net VAT receipts (18.0%) followed by the fuel levy (18.2%) and other excise duties (48.6%).

Revenue from taxes on international trade and transactions of R59.9 billion in fiscal 2021/22 also increased by a sizable 25.6% year on year due to higher import volumes of especially original equipment components, vehicles, machinery and electrical machinery, as well as the settlement of deferred payments that were part of the COVID-19 tax relief measures.[31] As such, overall collections from taxes on international trade and transactions were also higher than projected in both the *2021 Budget Review* and the *2021 MTBPS*.

31 See https://www.sars.gov.za/businesses-and-employers/small-businesses-taxpayers/smme-tax-relief-measures-for-2021/.

Other revenue, largely comprising non-tax revenue, decreased to R43.7 billion in fiscal 2021/22. The budgeted transfer of R46.0 billion earmarked for the Southern African Customs Union payments for fiscal 2021/22 was transferred in four equal instalments, with the last one transferred at the end of January 2022.

Revenue of national government



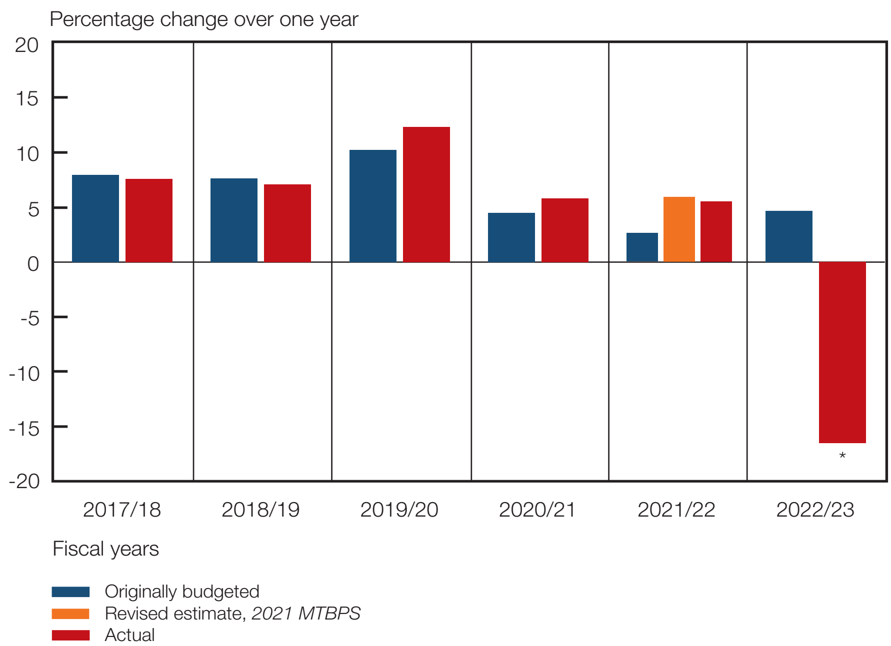
* April 2022

Sources: National Treasury, SARS and SARB

The *2022 Budget Review* projected a year-on-year increase of only 1.7% in national government revenue to R1 588 billion for fiscal 2022/23. In April 2022, the first month of fiscal 2022/23, total revenue increased by 9.1% year on year to R93.3 billion.

National government's total expenditure increased by 5.5% year on year to R1 886.9 billion in fiscal 2021/22 and was R52.7 billion more than projected in the *2021 Budget Review* and R6.2 billion less than in the *2021 MTBPS.* The increase provides for rising interest payments on national government debt and slightly higher voted expenditure by national departments. Total expenditure as a ratio of GDP of 29.7% in fiscal 2021/22 was much lower than the 31.9% recorded in the previous fiscal year.

Expenditure by national government



* April 2022

Sources: National Treasury, SARS and SARB

National government expenditure in fiscal 2021/22

Expenditure item	Originally budgeted[1] Fiscal 2021/22		Revised estimates[2] Fiscal 2021/22		Actual Fiscal 2021/22	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Voted expenditure	980.6	-2.3	1 033.7	3.0	1 034.4	3.0
Of which: Transfers and subsidies	662.8	-0.6	695.2	4.2	693.6	4.0
Current payments	256.0	7.0	266.8	11.5	256.0	7.0
Payments for capital assets	15.0	31.2	15.8	38.0	13.2	15.5
Payments for financial assets	46.8	-45.7	55.9	-35.1	71.6	-16.8
Statutory amounts[6]	853.7	8.9	859.4	9.6	852.6	8.7
Of which: Provincial equitable share	523.7	0.6	544.8	4.6	544.8	4.6
Interest on debt	269.6	16.1	269.1	15.9	267.9	15.4
General fuel levy	14.6	4.2	14.6	4.2	14.6	4.2
Total expenditure	1 834.3	2.6	1 893.1	5.9	1 886.9	5.5

1 *2021 Budget Review*
2 *2021 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including extraordinary payments
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Source: National Treasury

Total voted expenditure by national government departments increased by 3.0% year on year to R1 034.4 billion in fiscal 2021/22, exceeding both the *2021 Budget Review* and the *2021 MTBPS* projections by R53.8 billion and R713 *million* respectively. Transfers and subsides as well as current payments were the main drivers behind the increase, which together accounted for 91.8% of total voted expenditure. Payments for financial assets, which decreased by 16.8% year on year to R71.6 billion, included payments to Eskom (R31.7 billion), the South African Special Risk Insurance Association (R22.0 billion), South African Airways (R4.1 billion), Denel (R2.9 billion), the Government Employees Medical Scheme (R4.6 billion), and membership fees paid to the New Development Bank (R5.6 billion).

Interest paid on national government debt, which increased by 15.4% year on year to R267.9 billion in fiscal 2021/22, remained within budgeted projections and reflected the larger stock of national government debt.

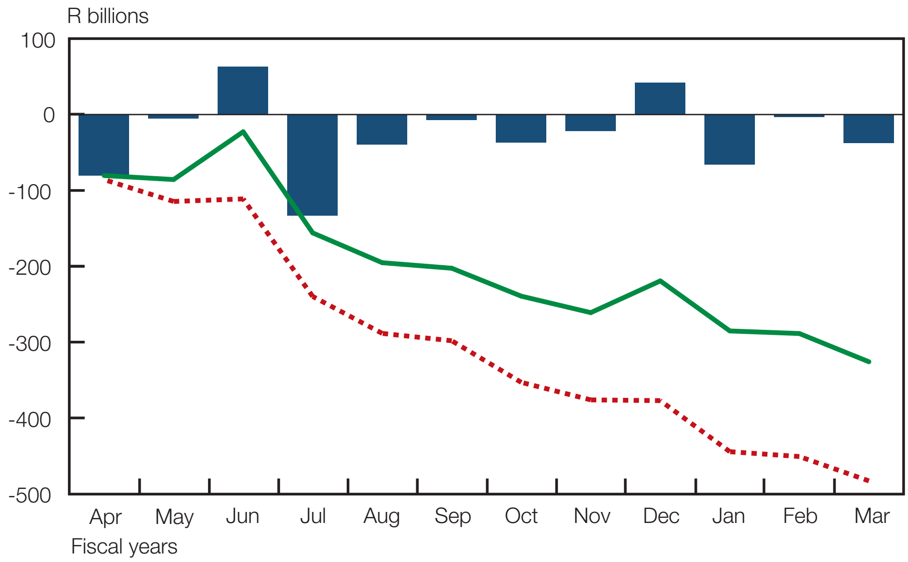
National government's equitable share transfers to provinces, which is the main source of provincial governments' revenue, increased by 4.6% year on year to R544.8 billion in fiscal 2021/22. Metropolitan municipalities received R14.6 billion of the general fuel levy, which was paid in three equal instalments.

The *2022 Budget Review* projected a year-on-year increase of 4.7% in national government expenditure to R1 975.3 billion for fiscal 2022/23. In April 2022, total expenditure decreased by 16.5% year on year to R138.5 billion.

National government's cash book deficit of R325.7 billion in fiscal 2021/22 was R226.2 billion less than in fiscal 2020/21, and was also significantly less than that projected in both the *2021 Budget Review* and the *2021 MTBPS*. National government's cash book deficit as a ratio of GDP decreased notably to 5.1% in fiscal 2021/22 from 9.8% in the previous fiscal year.

The *2022 Budget Review* envisaged a national government cash book deficit of R387.2 billion for fiscal 2022/23. In April 2022, the net outcome of national government revenue and expenditure yielded a cash book deficit of R45.2 billion, which was R35.2 billion less than a year earlier.

Cash book balance of national government



* *2021 Budget Review*

Sources: National Treasury, SARS and SARB

National government's primary[32] deficit of R57.7 billion in fiscal 2021/22 was significantly smaller than the deficit of R319.7 billion in the previous fiscal year. The primary deficit as a ratio of GDP of 0.9% in fiscal 2021/22 was much less than the 5.7% recorded in the previous fiscal year, and well below the budgeted projections for fiscal 2021/22.

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

National government financing

R billions

Item or instrument	Actual Fiscal 2020/21	Actual Fiscal 2021/22	Originally budgeted[1] Fiscal 2021/22	Revised estimates[2] Fiscal 2021/22
Cash book deficit	551.9	325.7	482.6	409.9
Cash flow deficit[3]	569.8	318.7	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[4]	6.5	1.9	2.5	1.9
Accrual adjustments	69.7	76.1	...	...
Net borrowing requirement	506.6	244.6	485.1	411.8
Treasury bills and short-term loans[5]	95.3	-7.7	9.0	0.0
Domestic bonds[5]	429.3	159.4	319.2	224.0
Foreign bonds and loans[5]	84.0	29.3	44.3	75.6
Change in available cash balances[6]	-101.9	63.6	112.6	112.2
Total net financing	506.6	244.6	485.1	411.8

1 *2021 Budget Review*
2 *2021 MTBPS*
3 The cash flow deficit includes extraordinary receipts and payments, and differs from the cash book deficit.
4 Cost (+)/profit (-)
5 Net issuance (+)/net redemption (-)
6 Increase (-)/decrease (+)
Components may not add up to totals due to rounding off.
... Not available

Sources: National Treasury and SARB

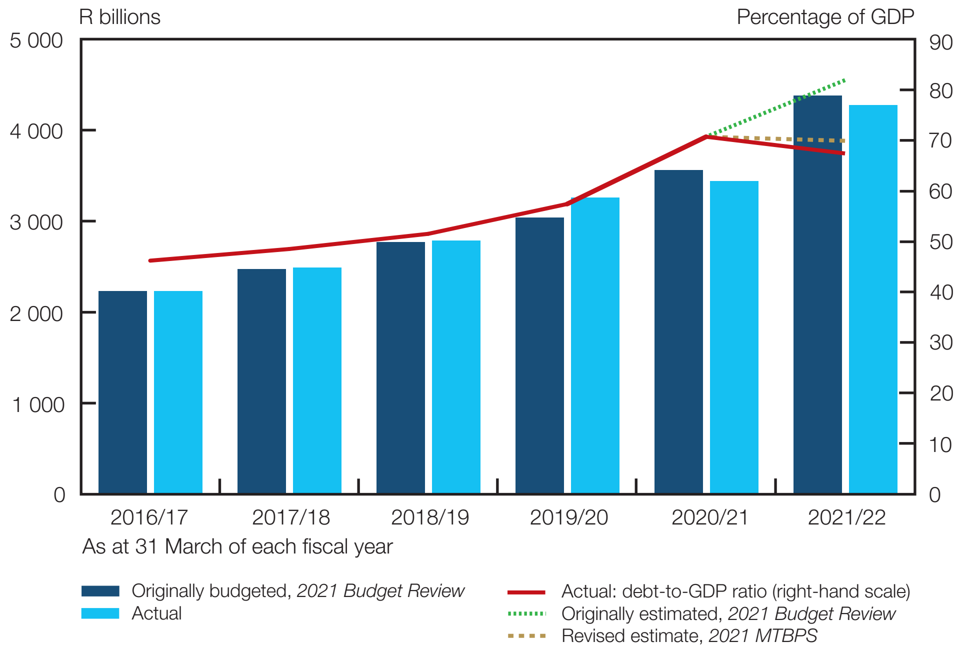
33 The net borrowing requirement is calculated as the cash flow deficit after accounting for the revaluation of foreign debt at redemption and accrual adjustments.

National government's cash flow deficit of R318.7 billion in fiscal 2021/22 was R251.1 billion less than in fiscal 2020/21. After accounting for the revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement[33] for fiscal 2021/22 more than halved year on year to R244.6 billion.

Government financed the lower net borrowing requirement in fiscal 2021/22 primarily in the domestic financial markets through the net issuance of long-term government bonds of R159.4 billion. Government's net issuance of foreign bonds and loans decreased to only R29.3 billion. By contrast, TBs and short-term loans from the CPD recorded a net redemption of R7.7 billion. National government's available cash balances decreased by R63.6 billion in fiscal 2021/22 following a large increase in the previous fiscal year.

National government's gross loan debt increased by 8.7% year on year to R4 278 billion as at 31 March 2022. This mainly reflected an increase in the outstanding stock of domestic debt, which continued to account for the bulk of total gross loan debt at 90.4%. Despite the increase, the gross loan debt of national government remained below the revised projection of R4 314 billion in the *2021 MTBPS*. Gross loan debt as a ratio of GDP of 67.4% as at 31 March 2022 was slightly lower than the revised estimate of 69.9% in the *2021 MTBPS*, and much lower than the original projection of 81.9% in the *2021 Budget Review.*

Gross loan debt of national government

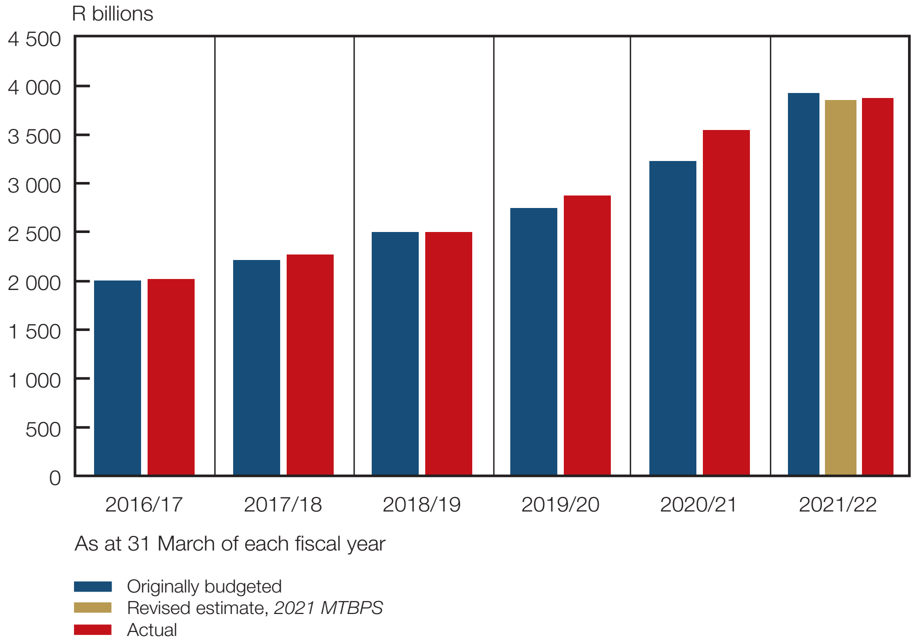


Sources: National Treasury, Stats SA and SARB

National government's gross domestic debt (marketable and non-marketable) increased notably by R322 billion, or 9.1%, year on year to R3 866 billion as at 31 March 2022. The increase mirrored net borrowing in the domestic financial markets, which increased the outstanding stock of domestic marketable debt securities to R3 846 billion as at 31 March 2022 and accounted for 99.5% of total domestic debt of national government. The stock of domestic non-marketable debt, which comprises short-term loans from the CPD as well as non-marketable bonds and other debt, increased by 16.9% year on year to R19.1 billion as at 31 March 2022.

The total outstanding stock of national government's foreign debt (marketable and non-marketable) increased by 5.0% year on year to R412.1 billion as at 31 March 2022 and reflected both exchange rate revaluation effects and net borrowing from the foreign sector. Non-marketable foreign debt increased significantly from R83.8 billion as at 31 March 2021 to R112.4 billion a year later, accounting for 27.3% of total foreign debt.

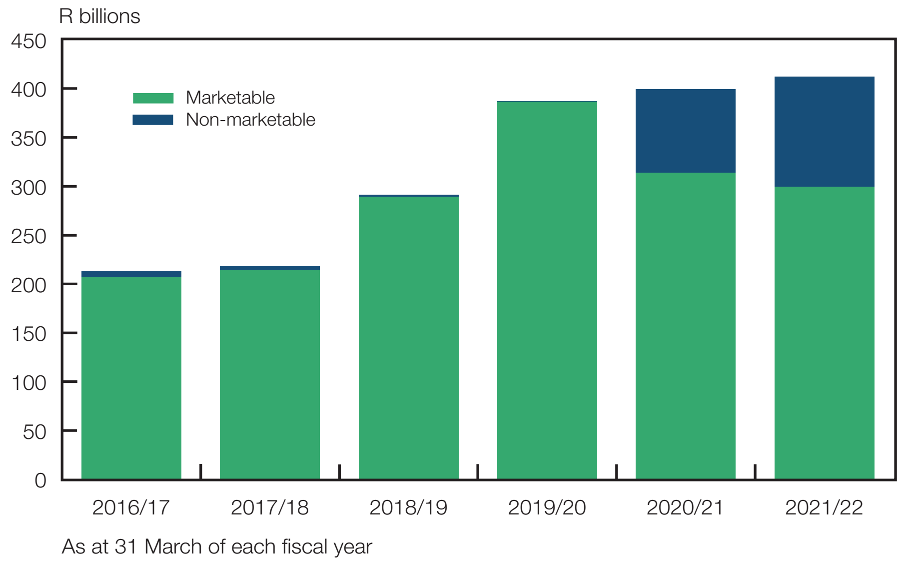
Domestic debt of national government



Sources: National Treasury, SARS and SARB

This reflected three foreign loans, namely a US$1 billion loan in June 2021, the South African National Roads Agency (SANRAL) Sustainability Loan of US$400 million in November 2021, and the US$750 million Development Policy Loan obtained from the World Bank in January 2022. By contrast, the outstanding stock of foreign marketable debt declined by 2.9% year on year to R299.7 billion as at 31 March 2022 and accounted for 72.7% of total foreign debt. Total foreign debt remained below the revised budget target of R470.1 billion in the *2021 MTBPS*.

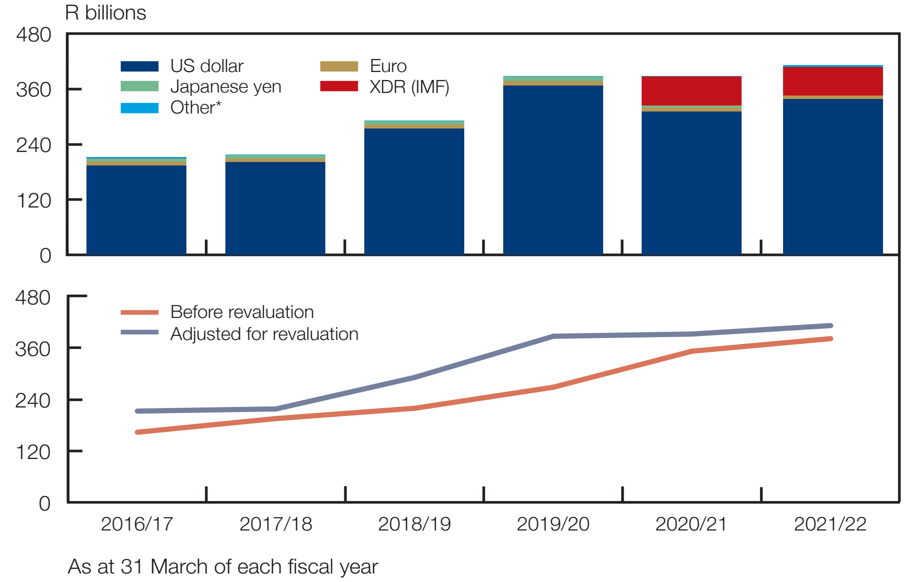
Foreign debt of national government



Sources: National Treasury and SARB

Revaluation effects of R30.4 billion increased the outstanding value of national government's foreign debt to R412.1 billion as at 31 March 2022. National government's foreign debt is denominated in the US dollar, the euro, the International Monetary Fund's (IMF) special drawing rights (SDRs), and the rand. US dollar-denominated debt together with the IMF's SDRs accounted for 96.8% of the total outstanding balance of foreign debt at the end of fiscal 2021/22. The average outstanding maturity of foreign marketable bonds decreased from 162 months as at 31 March 2021 to 152 months a year later.

Currency composition of national government's foreign debt



* Including the British pound, Swedish krona and South African rand

Sources: National Treasury and SARB

Total public sector debt[34, 35]

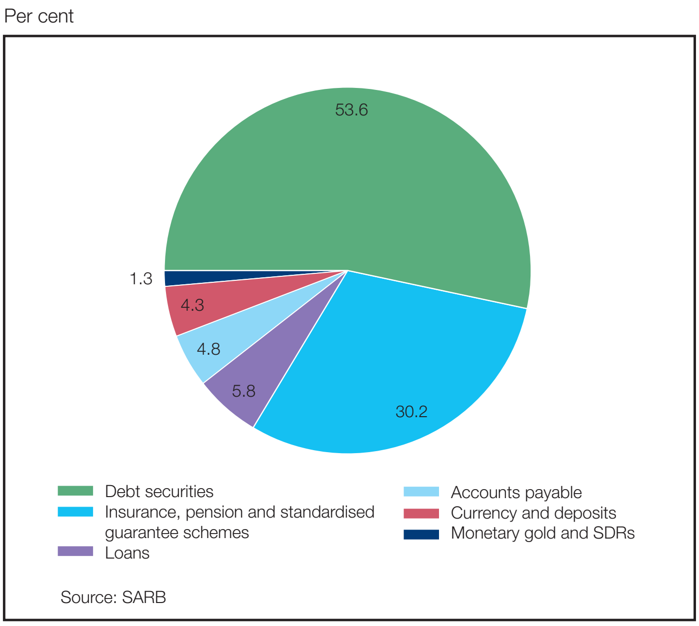
The preliminary *consolidated gross public sector debt*[36] of South Africa of R7 821 billion as at 31 December 2021 amounted to 125.6% of GDP. After netting the individual debt instruments against their corresponding financial assets, the consolidated net public sector debt as at 31 December 2021 amounted to R7 028 billion, or 112.9% of GDP. Debt securities issued by the public sector was the largest contributor to public sector debt at 53.6%. Although fully funded, the large pension liability of the public sector accounted for 30.2% of total public sector debt as at 31 December 2021.

34 The public sector in South Africa comprises central government (national government, extra-budgetary institutions and social security funds), provincial government and local government, which together render the general government. The latter, together with both non-financial and financial public corporations, renders the total public sector.

35 For more information on the development of public sector debt statistics for South Africa, see 'Note on South Africa's public sector debt statistics' on page 96 in this edition of the *Quarterly Bulletin.*

36 See tables KB907 and KB908 in the experimental statistical tables section on pages E–8 and E–9 in this edition of the *Quarterly Bulletin*.

Composition of consolidated gross public sector debt as at 31 December 2021



Source: SARB

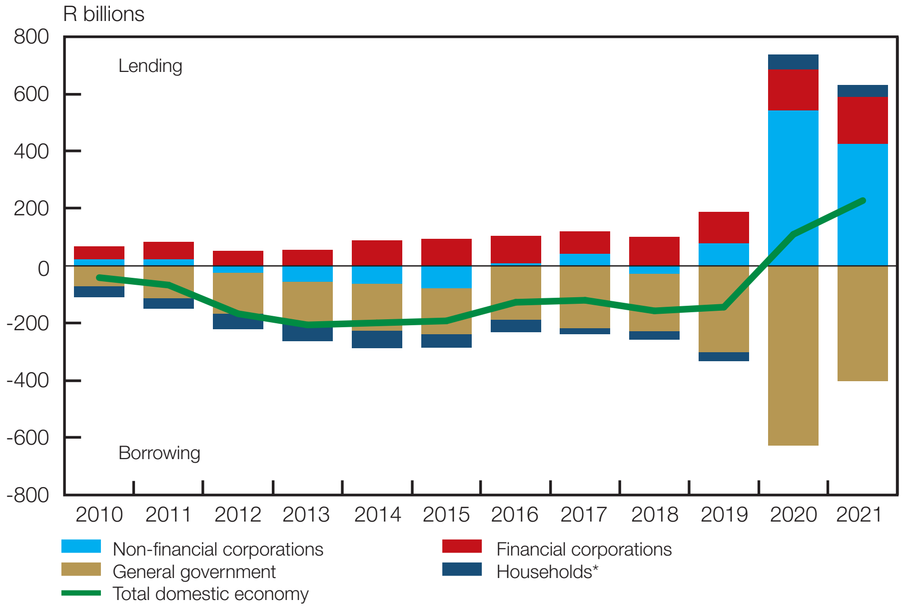
Integrated economic accounts[37]

Current and capital account

South Africa's net lending position increased from R36.4 billion in the third quarter of 2021 to R53.9 billion in the fourth quarter, or by R17.6 billion. The increase was the outcome of a slower pace of decrease in gross saving and, to a larger extent, a decline in gross capital formation. South Africa's net lending position as a percentage of GDP increased from 2.3% in the third quarter of 2021 to 3.3% in the fourth quarter. For 2021 as a whole, the net lending position more than doubled to R227.9 billion from R109.8 billion in 2020 as South Africa recorded two successive years of net financial investment accumulation.

37 The analysis in this section is based on the experimental statistics compiled for South Africa's integrated economic accounts (IEA) as part of the Group of Twenty (G20) Data Gaps Initiative (DGI-II) and are subject to further revision. See pages E–2 to E–5 in the experimental tables section in this edition of the *Quarterly Bulletin.*

South Africa's net lending/borrowing position



* Including non-profit institutions serving households
Net lending (+)/borrowing (-)

Source: SARB

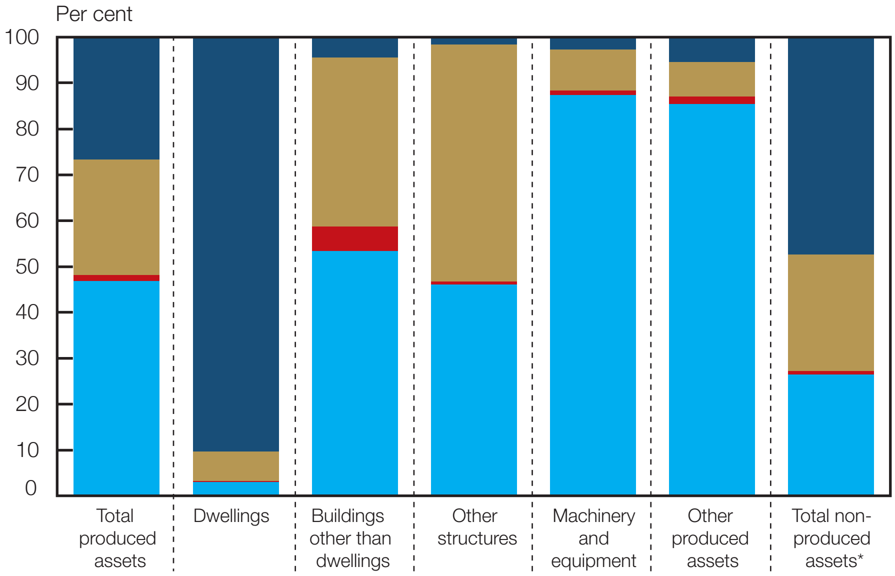
The non-financial corporations and financial corporations sectors maintained net lending positions in the fourth quarter of 2021, despite lower gross savings. By contrast, the household sector reverted to a net borrowing position and general government remained a net borrower in the fourth quarter of 2021, despite recording a gross saving position compared to a dissaving position in the preceding quarter.

Non-financial balance sheet and accumulation account

The market value of total non-financial assets in the South African economy amounted to R17.0 trillion as at 31 December 2021. Non-financial corporations accounted for 41.4% of total non-financial assets, followed by households and general government at 32.1% and 25.3% respectively. Dwellings is the largest non-financial asset class of households, while structures – such as roads, bridges and harbours – is the largest for general government. Financial corporations held only 1.2% of the country's non-financial assets as at 31 December 2021, primarily in the form of buildings other than dwellings. The market value of total produced fixed assets increased by 1.5% to R11.7 trillion in the three months to 31 December 2021, along with a marginal increase in new capital investment and positive price effects. Total gross fixed capital formation amounted to R214.0 billion compared with the consumption of fixed capital[38] of R213.9 billion. Revaluation amounted to R167.3 billion, mainly due to the higher market prices of machinery and equipment.

38 Consumption of fixed capital is defined as the decrease in the current value of the stock of fixed assets as a result of physical deterioration, normal obsolescence or normal accidental damage.

Institutional sector non-financial asset holdings as at 31 December 2021



* Only land

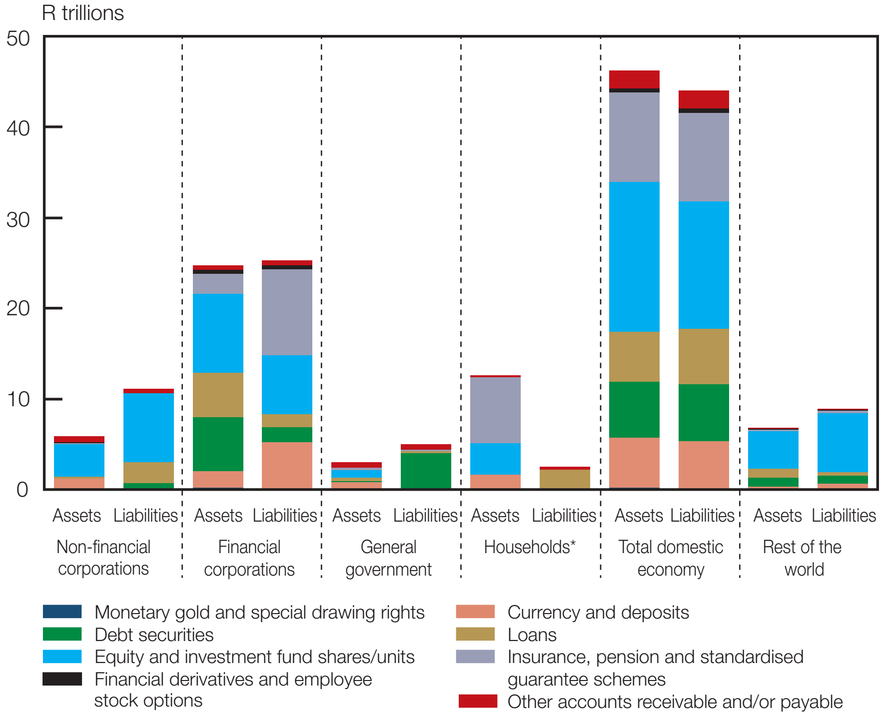
** Including non-profit institutions serving households

Source: SARB

Financial balance sheet and accumulation account

The market value of financial assets and liabilities held by all the domestic institutional sectors increased to R46.3 trillion and R43.9 trillion respectively as at 31 December 2021. Financial corporations accounted for the largest share of financial assets and liabilities at 53.5% and 57.6% respectively as at 31 December 2021, as the value of their equity and investment fund shares/units increased. Similarly, an increase in the value of the equity and investment fund shares/units of non-financial corporations increased their share of financial assets and liabilities to 12.7% and 25.3% respectively as at 31 December 2021. The share of financial assets held by households increased marginally from 27.0% as at 30 September 2021 to 27.5% as at 31 December 2021 due to continued growth in holdings of insurance, pension and standardised guarantee schemes, while loans accounted for 86.7% of households' share of 5.7% of total liabilities as at 31 December 2021. The general government only held 6.4% of all financial assets as at 31 December 2021, primarily in the form of equity and investment fund shares/units, while its share of 11.4% in liabilities consisted almost exclusively of debt securities. Substantial growth in the market value of the rest of the world's equity and investment fund shares/units increased its financial assets and liabilities in relation to the domestic institutional sectors to R6.8 trillion and R9.1 trillion respectively as at 31 December.

Market value of total financial assets and liabilities by institutional sector and financial instrument as at 31 December 2021



* Including non-profit institutions serving households

Source: SARB

The change in the market value of financial assets and liabilities in the fourth quarter of 2021 reflected a relatively balanced mix of both transactions in, and revaluations of, the various financial instruments, along with a minor increase in other volume changes. Revaluations contributed R2.7 trillion to the overall increase in the value of financial assets and liabilities in the fourth quarter to 31 December 2021, while transactions reduced them by R0.3 trillion.

Note on South Africa's public sector debt statistics[1, 2]

By C Groenewald[3]

Introduction

The compilation of debt statistics for South Africa's public sector[4] as a whole commenced as part of the Group of Twenty's (G20)[5] Data Gaps Initiative (DGI-II) in response to the global financial crisis, which prompted the need for transparency beyond national government debt securities and loans, as reflected in Recommendation II:16 of DGI-II.

This note presents both aggregated and consolidated public sector debt statistics with full institutional and financial instrument coverage,[6] subject to country-specific constraints, while adhering to international statistical standards, as the debt statistics extend beyond the current publicly available national government debt securities and loan statistics published by the South African Reserve Bank (SARB) in the *Quarterly Bulletin* and by National Treasury (NT) in the *Budget Review*.

Compiling public sector debt statistics in South Africa

The methodology underlying the compilation of the public sector debt statistics is complex and requires annual and quarterly data from a variety of sources which vary in availability and quality across the institutional sectors. Official data are sourced from NT to compile national government debt statistics, whereas data for the other spheres of the public sector are derived from audited annual financial statements, statistical surveys, and counterparty data from the integrated economic accounts (IEA).[7]

Table 1 Financial instruments included in public sector debt

Financial instrument	Definition
Debt securities	Debt securities are negotiable financial instruments serving evidence of debt, such as Treasury bills and bonds.
Loans*	Loans are created when creditors lend funds to debtors.
Special drawing rights	Special drawing rights (SDRs) are international reserve assets created by the International Monetary Fund that are allocated to member countries to supplement existing reserve assets. The SDR allocation is part of the debt of the recipient (national government), while SDR holdings form part of national government's assets.
Currency and deposits	Currency and deposits include currency in circulation and bank deposits.
Other accounts payable	Other accounts payable are financial liabilities created as a counterpart to transactions where there is a timing difference between the transactions and the corresponding payments.
Insurance, pension and standardised guarantee schemes	Insurance, pension and standardised guarantee schemes constitute the insurance technical reserves of insurers, pension funds and issuers of standardised guarantees.

* Loans include both short- and long-term loans

1 The public sector debt statistics published and discussed in this note, other than national government debt securities and loans, should be treated as experimental and are subject to revisions. The statistics are published as from this edition of the *Quarterly Bulletin* as part of the experimental statistical tables section to allow users to engage with the statistics and to provide valuable inputs for further improvements.

2 The methodology used to compile South Africa's public sector debt statistics adheres to the guidelines published in the International Monetary Fund's (IMF) *Public Sector Debt Statistics: Guide for Compilers and Users*, available at https://www.elibrary.imf.org/view/books/069/11874-9781616351564-en/11874-9781616351564-en-book.xml and the IMF's *Government Finance Statistics Manual 2014*, available at https://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm.

3 The views expressed in this note are those of the author and do not necessarily reflect those of the South African Reserve Bank.

4 The public sector in South Africa comprises central government (national government, extra-budgetary institutions and social security funds), provincial government and local government, which together render the general government. The latter, together with both non-financial and financial public corporations, renders the total public sector.

5 The G20 is an international forum for ministers of finance and central bank governors of the 19 largest advanced and emerging market economies as well as the European Union.

6 See tables KB907 and KB908 in the experimental statistical tables section on pages E–8 and E–9 in this edition of the *Quarterly Bulletin*.

7 The IEA is a macroeconomic statistical framework that consists of the current and capital account as well as the non-financial and financial balance sheet and accumulation accounts, which identifies interconnectedness among institutional sectors.

All traded securities are converted to market value[8] using price information from the relevant bourses where these instruments are listed and traded as well as from private financial market information providers,[9] while all loans are reported at original maturity.[10] The experimental[11] public sector debt statistics are published with a two-quarter lag. The last two years are preliminary and subject to revision based on the latest available audited annual financial statements. The full financial instrument coverage and its accompanying definitions in Table 1 relate to the public sector debt matrix in Figure 1, which also includes a breakdown of the public sector by institutional sector.

8 Market value reflects the market prices of actively traded financial instruments.

9 In this instance, data and information from the JSE Limited and Bloomberg are used.

10 Original maturity is the period from issue date to final payment date.

11 The availability of direct quarterly data is limited, resulting in indirect indicators used in selected cases.

Figure 1 Public sector debt matrix

		Financial instrument coverage					
		Debt securities	Loans	Special drawing rights	Currency and deposits	Other accounts payable	Insurance, pension and standardised guarantee schemes
Public sector institutional coverage	Public financial corporations*						
	Public non-financial corporations						
	Local government						
	Provincial government						
	Social security funds						
	Extra-budgetary institutions						
	National government						

Currently published statistics with official source data
Expanded experimental statistics

* Public financial corporations include the SARB and Corporation for Public Deposits as well as public sector pension funds, such as the Government Employees Pension Fund.

Currently, only national government debt, comprising debt securities and loans, is published as official statistics. The complete set of public sector debt statistics now includes experimental statistics for the rest of the public sector, covering the full range of financial instruments.

Public sector debt statistics are published on both an aggregated[12] and consolidated basis, with the latter eliminating all transactions of a debtor–creditor relationship that occur among the entities being consolidated, thereby avoiding the double counting of stock positions among a group of entities.

12 The IEA reflect counterparty data on an unbalanced and balanced basis, with balancing based on a hierarchy-of-sources matrix according to the quality of input data, which then equate all financial assets with liabilities.

Public sector debt statistics for South Africa are consolidated on a best-effort basis by using counterparty data from the IEA in the context of a subsector, such as central government, through consolidating national government, extra-budgetary institutions and social security funds. This is followed by consolidation between subsectors, such as general government and public financial and non-financial corporations, to produce consolidated statistics for the public sector as a whole.

Outcome

The aggregated and consolidated public sector debt statistics of South Africa as at 31 March 2021 are shown in Tables 2 and 3 respectively.

Table 2 Aggregated public sector debt statistics as at 31 March 2021

R billions

	Financial instrument coverage						
Public sector institutional coverage	Debt securities	Loans	Special drawing rights	Currency and deposits	Other accounts payable	Insurance, pension and standardised guarantee schemes	Total public sector per institutional sector
Total public sector per financial instrument	3 957	850	31	575	677	2 453	8 543
Public financial corporations*	107	400	-	575	23	2 279	3 384
Of which:							
SARB	15	326	-	484	11	-	836
CPD*	-	-	-	82	-	-	82
GEPF**	-	-	-	-	-	2 123	2 123
Other	92	74	-	8	12	155	341
Public non-financial corporations	287	265	-	-	280	-	832
General government	3 563	185	31	-	375	174	4 326
Local government	18	67	-	-	206	-	291
Provincial government	-	7	-	-	27	-	34
Central government	3 545	110	31		142	174	4 001
Social security funds	-	-	-	-	24	174	198
Extra-budgetary institutions	44	26	-	-	9	-	79
National government	3 501	84	31	-	108	-	3 724

* Public financial corporations include the SARB and Corporation for Public Deposits as well as public sector pension funds, such as the Government Employees Pension Fund.
** CPD: Corporation for Public Deposits
*** GEPF: Government Employees Pension Fund

Components may not add up due to rounding off.

Table 3 Consolidated public sector debt statistics as at 31 March 2021

R billions

		Financial instrument coverage						
		Debt securities	Loans	Special drawing rights	Currency and deposits	Other accounts payable	Insurance, pension and standardised guarantee schemes	Total public sector per institutional sector
Public sector institutional coverage	Total public sector per financial instrument	3 824	446	31	279	389	2 239	7 208
	Public financial corporations*	106	76	-	279	7	2 065	2 533
	Of which:							
	SARB	15	3	-	259	4	-	281
	CPD*	-	-	-	12	-	-	12
	GEPF**	-	-	-	-	-	1 909	1 909
	Other	90	73	-	8	3	155	330
	Public non-financial corporations	275	255	-	-	156	0	686
	General government	3 442	116	31		225	174	3 988
	Local government	14	17	-	-	173	-	204
	Provincial government	-	1	-	-	5	-	6
	Central government	3 428	98	31	-	47	174	3 778
	Social security funds	-	-	-	-	24	174	198
	Extra-budgetary institutions	44	14	-	-	-	-	58
	National government	3 384	84	31	-	23	-	3 522

* Public financial corporations include the SARB and Corporation for Public Deposits as well as public sector pension funds, such as the Government Employees Pension Fund.
** CPD: Corporation for Public Deposits
*** GEPF: Government Employees Pension Fund

Components may not add up due to rounding off.

The impact of the consolidation between tables 2 and 3 for *currency and deposits* is evident in the change from R575 billion on an aggregated basis to R279 billion on a consolidated basis after the elimination of the deposits of national government and other levels of government at the SARB and CPD.

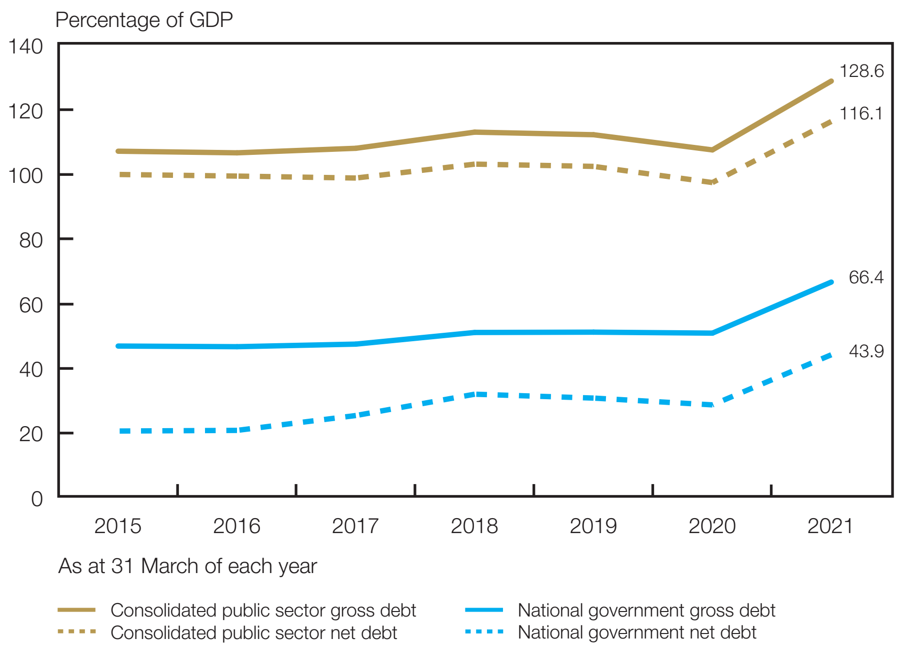
Similarly, the Gold and Foreign Exchange Contingency Reserve Account loan liability of R326 billion on the balance sheet of the SARB, which is payable to NT, is consolidated with only R3 billion remaining on the SARB's balance sheet.

By contrast, the International Monetary Fund's (IMF) *special drawing rights (SDRs)* allocation of R31 billion is reflected as a debt liability on the balance sheet of national government against the IMF and cannot be consolidated within the public sector.

A large portion of public sector debt (R1 909 billion) reflects the liabilities of the Government Employees Pension Fund (GEPF) – a public financial corporation – to its members. The GEPF pensions are fully funded, and although assets equal liabilities, the liabilities are shown as part of public sector debt, as the counterparty is the household sector and cannot be consolidated within the public sector.

Consolidated gross public sector debt of R7 208 billion as at 31 March 2021 amounted to 128.6% of nominal gross domestic product (GDP). This was almost double the official national government gross loan debt of R3 936 billion, or 70.2% of GDP, published in tables KB406 and KB456 on page S–57 in this edition of the *Quarterly Bulletin*, and by NT in the *Budget Review.*

Figure 2 Public sector debt

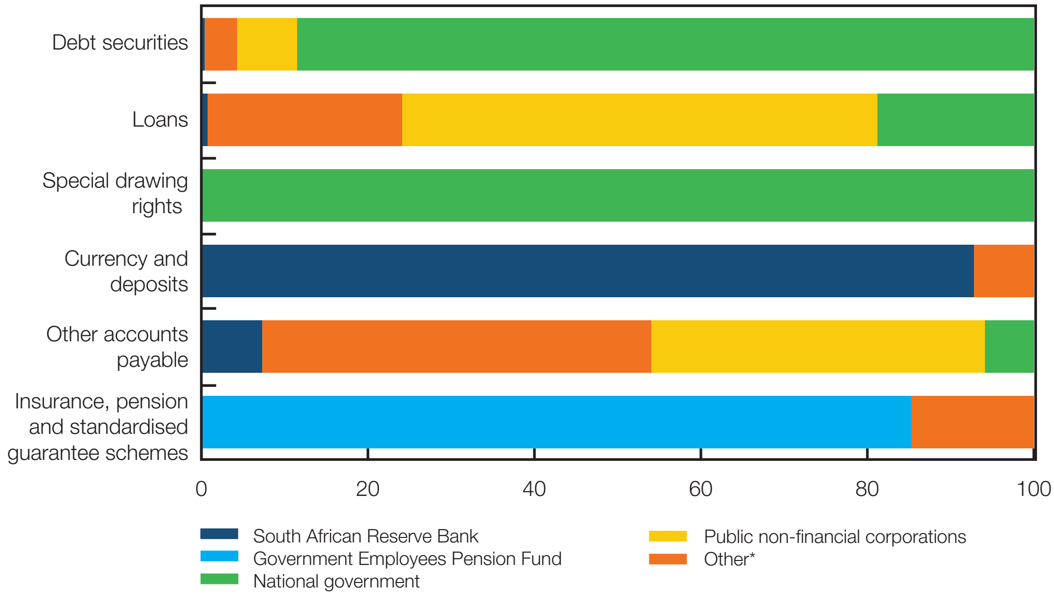


After netting the individual debt instruments against their corresponding financial assets, consolidated net public sector debt as at 31 March 2021 amounted to 116.1% of GDP, which was more than double the net loan debt of national government of 43.9% of GDP.

National government mostly finances its deficit through the issuance of debt securities (Treasury bills and government bonds) and is therefore the biggest issuer of debt securities in the public sector. As at 31 March 2021, national government's financial liability position had an 88.5% exposure to total debt securities outstanding by the public sector.

Figure 3 Consolidated public sector debt per instrument: contribution by level of government

As at 31 March 2021



* Including extra-budgetary institutions, social security funds, provincial and local governments, and other financial corporations

Public non-financial corporations account for just more than half of the total loan liabilities of the public sector, while SDRs[13] allocated by the IMF to South Africa form part of national government debt. The SARB is the only institution that issues banknotes and coin in South Africa and also acts as banker to government, and thus contributes about 93% to total *currency and deposit* liabilities in the public sector, with the Corporation for Public Deposits and the Postbank responsible for the remainder. The GEPF's large pension liability to its members accounts for 85.3% of total insurance, pension and standardised schemes liabilities of the public sector.

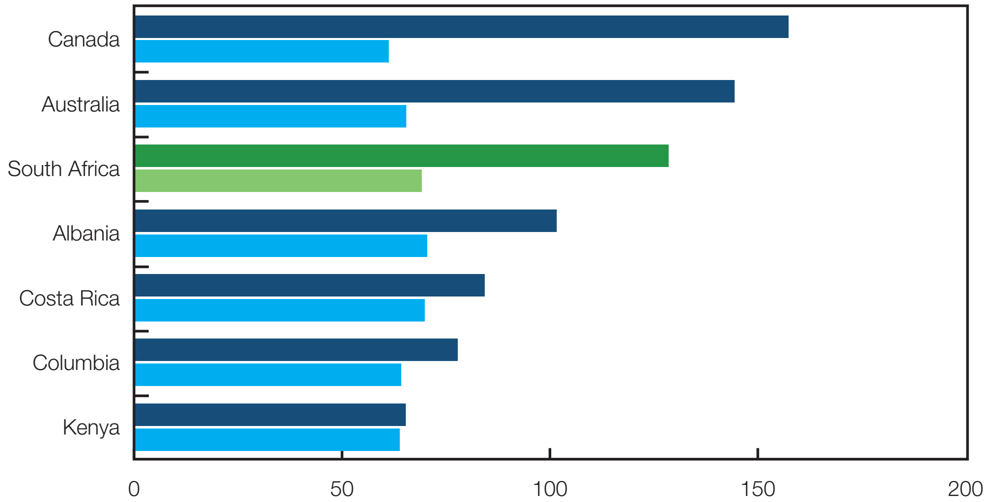
13 Foreign debt is converted to domestic currency by using the foreign exchange rates (at 10:30 Central Africa Time) as at the end of each period.

International comparison

Globally, the compilation of public sector debt statistics is usually challenging due to a lack of data. Consequently, most countries' public sector debt statistics are still a work in progress. South Africa's gross public sector debt ratio of 128.6% to GDP is in line with that of other countries that compile public sector debt. Similarly, the higher public sector debt relative to national government debt is not unique to South Africa, but an indication of the significant debt exposure of other public sector institutions.

Figure 4 International comparison of gross debt*

Percentage of GDP



As at 31 March 2021

Public sector debt

Central government debt

* South Africa's gross public sector debt is presented at market value while all other countries' public sector debt is in nominal value.

Conclusion

The extension of public sector debt statistics, from initially only covering the official headline national government debt to now covering total public sector debt on an experimental basis, will contribute significantly to enhanced transparency and more detailed cross-country comparisons to evaluate debt and fiscal risks. The public sector debt statistics will be reviewed regularly to improve their quality.

Note on the flow of funds in South Africa's national financial account for the year 2021

by B Khoza and S Madonsela[1]

Introduction

The statistical framework of the national financial account facilitates the analysis of financial intermediation among domestic institutional sectors as well as between South Africa and the rest of the world in the financing of real economic activity. The flow of funds matrix records the various domestic institutional sectors' net saving, consumption of fixed capital, capital transfers and gross capital formation, which renders sectoral net lending or borrowing positions. In addition, it also records the financing of these net lending or borrowing positions through the net acquisition of financial assets (uses of funds) and the net incurrence of financial liabilities (sources of funds).

The discussion on the flows in this note is based on the quarterly national financial account statistical tables for 2021 as appended and the annual data for 2021 as published on pages S–50 and S–51 in this edition of the *Quarterly Bulletin*. The analysis shows, among other factors, how the multiple coronavirus disease 2019 (COVID-19) waves, the civil unrest in July 2021, and ongoing electricity load-shedding have influenced economic activity in South Africa.

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

Institutional sector financing balances

Domestic economic activity rebounded from a contraction in real gross domestic product (GDP) of 1.0% in 2020 to an expansion of 12.0% in 2021. Of interest is the further increase in gross saving from R799 billion in 2020 to R1 020 billion in 2021. This reflected lower dissaving by general government, from an all-time high of R389 billion in 2020 to R125 billion in 2021, as national government's fiscal position improved with better-than-expected revenue collection amid continued expenditure restraint. With gross capital formation only increasing from R689 billion in 2020 to R792 billion in 2021, South Africa's net lending position to the rest of the world increased from R110 billion to R228 billion over the same period. On a net basis, South Africa's outward investment in financial assets abroad far outstripped non-resident investment into South Africa. These financing balances are shown in Table 1.

Table 1 Institutional sector financing balances,[1] 2020 and 2021

R millions

	2020				2021			
	Gross saving	Net capital transfers	Gross capital formation[2]	Net lending (+)/net borrowing (-)[3]	Gross saving	Net capital transfers	Gross capital formation	Net lending (+)/net borrowing (-)
Foreign sector[4]	-109 588	-234	-	-109 822	-227 693	-225	-	-227 918
Financial intermediaries	160 520	-	17 805	142 715	182 521	-	17 835	164 686
General government	-388 600	-96 888	144 408	-629 896	-124 732	-129 915	151 308	-405 955
Non-financial business enterprises								
Public	27 001	78 409	78 138	27 272	36 853	114 934	86 513	65 274
Private	849 417	3 023	338 154	514 286	754 340	86	395 096	359 330
Households[5]	150 310	15 690	110 555	55 445	171 197	15 120	141 734	44 583
Total	689 060		689 060		792 486		792 486	

Surplus units (+)/deficit units (-)

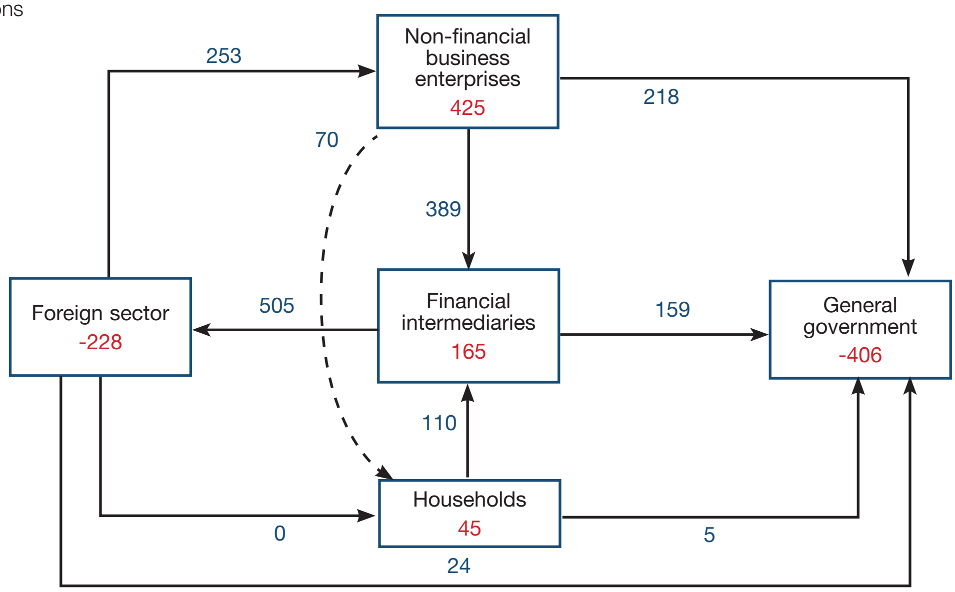
1 A positive amount reflects a net lending position and, by implication, the net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and, by implication, the net incurrence of financial liabilities.
2 Gross capital formation consists of fixed capital formation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

Source: SARB

The net inter-sectoral flow of funds among the main institutional sectors in 2021 is shown in Figure 1. The flow of funds framework shows how the saving-investment process is facilitated through transforming savings into lending among the various institutional sectors of the economy to fund investment in real economic activity. General government continued to be the largest net borrower at R406 billion in 2021, sourcing funds mainly through the issuance of bonds and long-term loans. The foreign sector's net borrowing position doubled to R228 billion in 2021, mirroring the domestic net lending position. Households' net lending position of R45 billion balanced the R70 billion received from non-financial business enterprises and the R115 billion extended to financial intermediaries and general government.

Figure 1 Net inter-sectoral flow of funds, 2021*

R billions



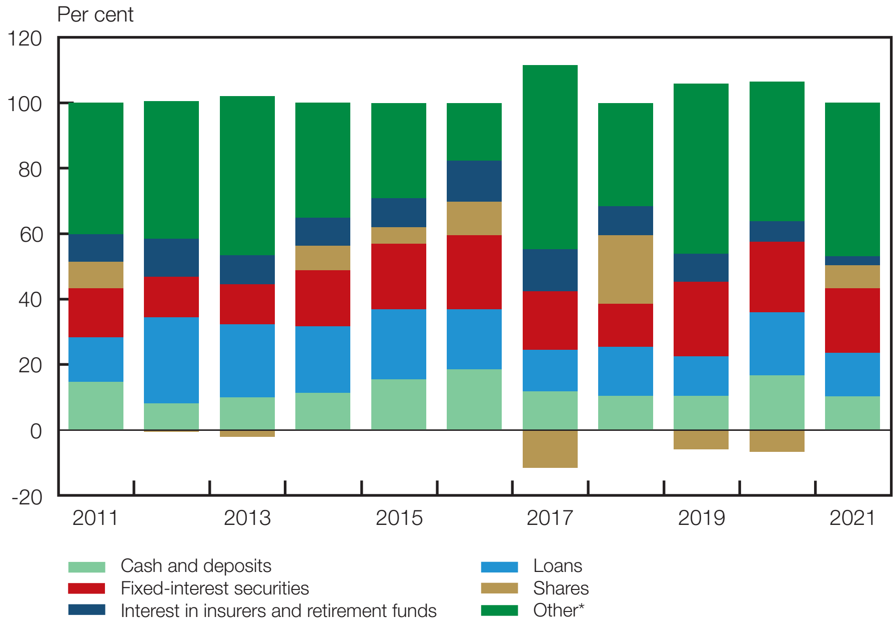
* The numbers may not balance perfectly due to rounding off. The red numbers inside the boxes represent the net lending (+) or borrowing (-) positions of the sectors, and the blue numbers outside the boxes illustrate the inter-sectoral flow of funds and the direction of flows. To calculate the net lending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

Source: SARB

The composition of the use of the different asset classes by institutional sectors in 2021 is shown in Figure 2. Interest in bonds was supported by, among other factors, fiscal consolidation and an upgrade of South Africa's sovereign credit rating outlook from negative to stable. Fixed-interest securities remained the preferred financial instrument and accounted for 19.6% of total flows[2] in 2021. The contribution of cash and deposits declined from 16.7% in 2020 to 10.3% in 2021 with a shift from short- to long-term deposits, while that of shares amounted to 7.0% in 2021 following a negative contribution of 6.6% in 2020. The contribution of credit extension moderated to 13.4%, while that of interest in insurers and retirement funds decreased further from 6.2% in 2020 to 2.8% in 2021 amid job losses.

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

Figure 2 Contribution of asset classes to total flows in the economy



* Gross capital formation, capital transfers and other financial instruments

Source: SARB

Institutional sectoral analysis

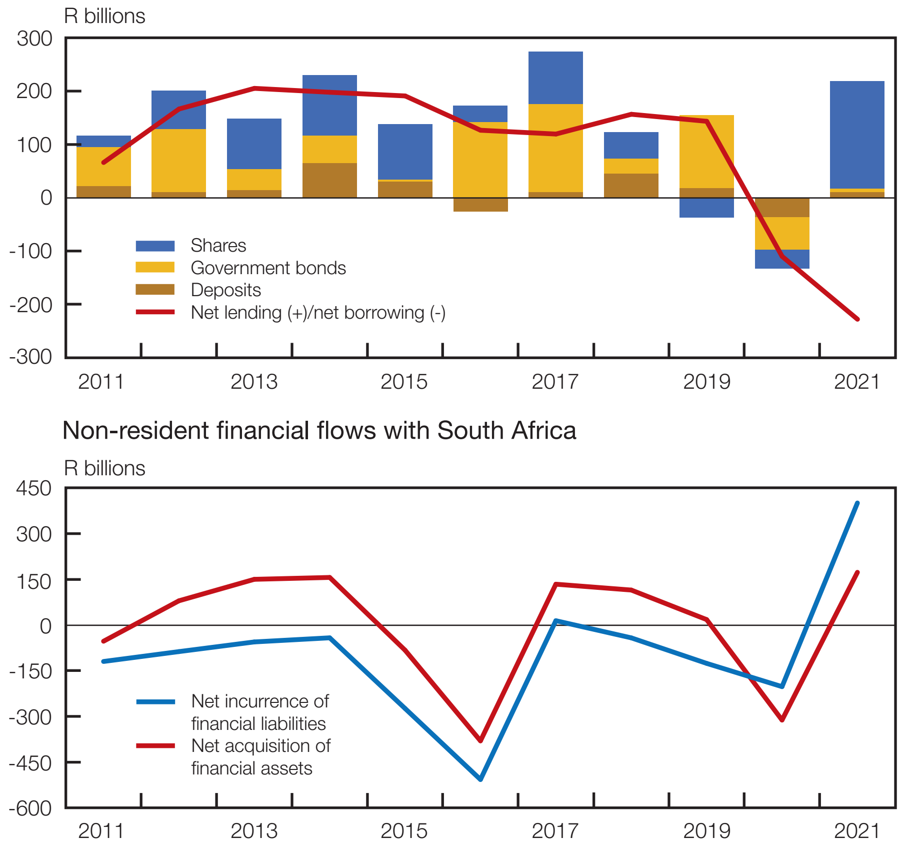
This section shows the institutional sectors' acquisition of financial assets and incurrence of liabilities as influenced by lenders' risk-return profiles and borrowers' funding requirements within the context of South Africa's macroeconomic environment.

Foreign sector

Net capital flows out of South Africa increased to R228 billion, or 3.7% of GDP, in 2021, from R110 billion, or 2.0% of GDP, in 2020. This showed less risk appetite for South African financial assets by non-residents and an increased appetite by South African residents for foreign financial assets. The risk profile changed as monetary policy in developed countries started to normalise amid rising inflation as well as in response to the July 2021 civil unrest and continued load-shedding in South Africa. However, non-residents' net acquisition of domestic financial assets still reverted to R174 billion in 2021 following net sales of R311 billion in 2020. This reflected the share exchange transaction between Prosus N.V. and Naspers Limited and the International Monetary Fund's (IMF) allocation of special drawing rights (SDR) in the third quarter of 2021 as well as the New Development Bank loan to national government in the fourth quarter of 2021. Despite this inflow through loans, in total loans of R38.6 billion were repaid to non-residents. Non-residents' disposal of debt securities issued by public enterprises of R17.8 billion outweighed their net purchases of government bonds of R6.5 billion in 2021.

The net incurrence of financial liabilities by the foreign sector changed as South African residents disposed of R202 billion in foreign financial assets in 2020 compared with net acquisitions of R402 billion in 2021. These net acquisitions occurred mainly in foreign collective investment schemes of R321 billion, foreign shares of R297 billion and fixed-interest securities of R146 billion.

Figure 3 Non-resident net transactions in selected South African financial assets



Source: SARB

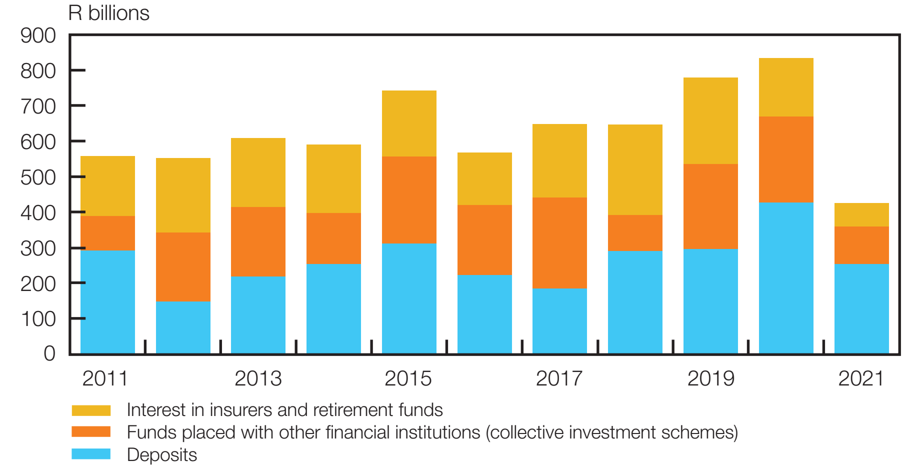
Financial intermediaries[3]

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

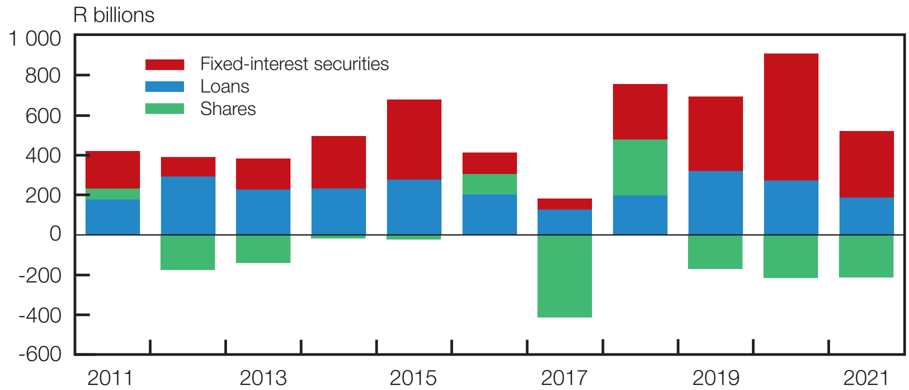
Intermediation by financial intermediaries, as measured by the net incurrence of financial liabilities, decreased from R820 billion in 2020 to R376 billion in 2021. Cash and deposit flows declined from R427 billion to R252 billion over this period. Funds placed with other financial institutions (collective investment schemes) were much lower at R106 billion in 2021 compared with R242 billion in 2020, mainly due to the closure of the largest domestic money market fund. However, funds placed with other institutions (mainly the Public Investment Corporation) increased significantly from R38.2 billion in 2020 to R137 billion in 2021. In addition, interest in insurers and retirement funds decreased further from R165 billion in 2020 to R66.4 billion in 2021 on account of withdrawals and less contributions from households due to job losses.

Intermediation by financial intermediaries, as measured by the net acquisition of financial assets, decreased from R963 billion in 2020 to R541 billion in 2021. In channelling funds to borrowers, financial intermediaries mainly invested in Treasury bills (TBs) and government bonds in response to national government's fiscal deficit. Loans by financial intermediaries declined from R272 billion in 2020 to R187 billion in 2021, despite higher growth in mortgage loans in a low interest rate environment. Intermediation through domestic shares reflected net sales of R215 billion, mostly by other financial institutions as well as insurers and retirement funds.

Figure 4 Financial intermediaries' net incurrence of selected financial liabilities



Financial intermediaries' net acquisition of selected financial assets



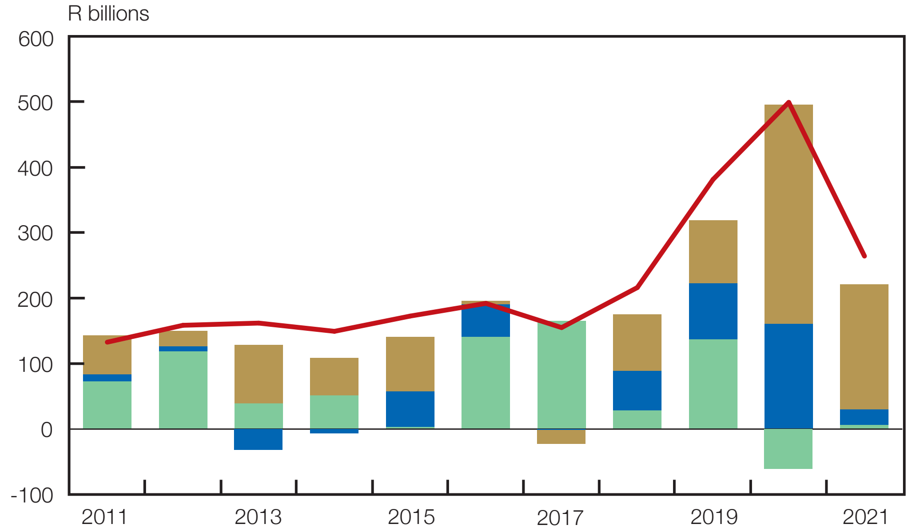
Source: SARB

General government

General government's fiscal consolidation efforts to slow debt accumulation have been affected by demands for additional spending due to COVID-19 relief measures, financial assistance to state-owned companies, and the cost of the July 2021 civil unrest. However, the fiscal position still improved in 2021 as revenue collection outperformed expectations, mainly due to windfall taxes from the mining sector. On balance, this reduced general government's net borrowing position to R406 billion, or 6.5% of GDP, in 2021, from an all-time high of R630 billion in 2020. The shortfall was financed in the domestic financial markets through the net issuance of R264 billion of government bonds and R18.2 billion of TBs in 2021. Furthermore, an amount of R5.2 billion was sourced from banks (including the New Development Bank and the World Bank) through loans.

Non-bank financial institutions acquired government bonds of R191 billion in 2021, while banks increased their government bond holdings by R24.2 billion. Non-residents' holdings of domestic government bonds changed from net sales of R60.8 billion in 2020 to net purchases of only R6.5 billion in 2021. The foreign sector's interest in domestic bonds was affected by emerging market risk aversion and the prospect of monetary policy tightening by major central banks.

Figure 5 General government bond funding by counterparty institutional sector

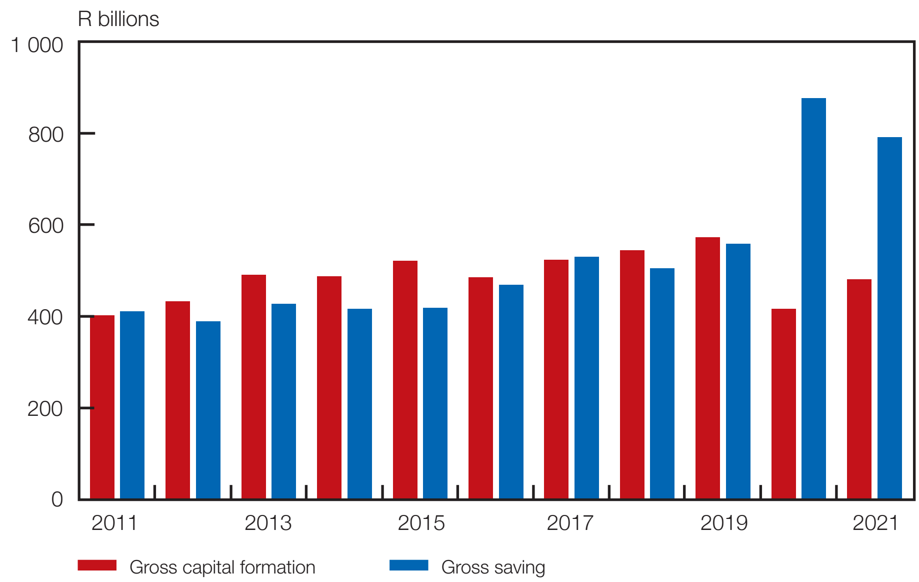


Source: SARB

Non-financial public and private corporate business enterprises

Non-financial corporate business enterprises contributed to, and benefitted from, the rebound in economic activity, particularly in the mining sector, as international commodity prices surged. Non-financial corporate business enterprises' gross capital formation increased from R416 billion in 2020 to R482 billion in 2021, following a decline of 27.3% in 2020. The increase was mainly driven by capital outlays by private non-financial corporate business enterprises on maintenance and technology upgrades. Gross capital formation was still much lower than gross saving of R791 billion in 2021, which declined somewhat from an all-time high of R876 billion in 2020, thus rendering a still-high non-financial corporate business enterprise net lending position of R425 billion.

Figure 6 Non-financial corporate business enterprises



Source: SARB

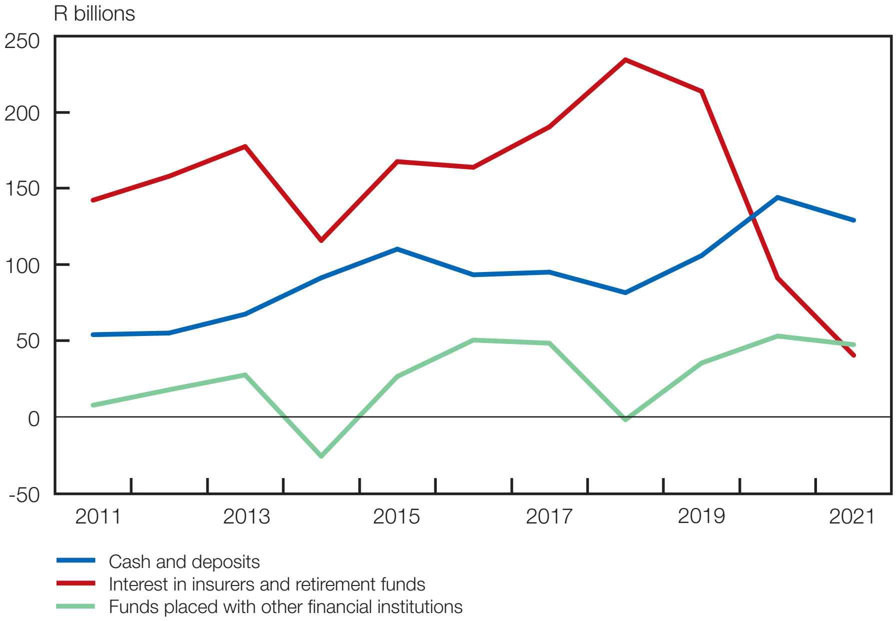
These funds were mainly channelled to deposits of R80.5 billion and shareholding of R95.5 billion, and the sector also increased its exposure to financial derivatives by R53.3 billion in 2021. Funds placed with other financial institutions declined by R8.9 billion over the same period. Non-financial corporate business enterprises' demand for credit has regained some momentum, with loans increasing from R13.6 billion in 2020 to R50.6 billion in 2021, while their net buyback of shares and issuances of fixed-interest securities amounted to R213 billion and R16.5 billion respectively in 2021.

Households

Household saving supported a net lending position of R44.6 billion in 2021, which was channelled to the banking sector through cash and deposits of R129 billion and investment with other financial institutions of R47.4 billion. However, interest in insurers and retirement funds decreased from R91.2 billion in 2020 to R40.4 billion in 2021 following withdrawals related to job losses.

Household spending increased in 2021 as confidence improved due to an increase in disposable income and lower interest rates since 2020. Households' demand for credit increased in 2021 as they sourced loans of R105 billion compared to repayments of R0.7 billion in 2020. The main component of credit extension to households was mortgage loans.

Figure 7 Household sector's net acquisition of selected financial assets



Source: SARB

Summary

The foreign sector's risk appetite towards emerging market financial assets remained sensitive to COVID-19, rising global inflation and the tightening of monetary policy. However, high commodity prices and their spillover to an improved fiscal position reduced risk aversion and contributed to the upgrade of South Africa's sovereign credit rating outlook. The flow of funds in the economy in 2021, as depicted in the national financial account framework, demonstrated a decline in total flows despite the rebound in economic activity. The main highlights during 2021 were:

- South Africa's net lending position with the rest of the world more than doubled.
- Non-residents' capital inflows to South Africa mostly reflected the share exchange transaction between Prosus N.V. and Naspers.

- South Africa's net acquisition of foreign financial assets increased noticeably.
- Total funds intermediated by financial intermediaries declined.
- The general government sector's net borrowing position decreased, with government bonds remaining the main source of funding.
- The demand for credit by non-financial corporate business enterprises increased.
- Gross saving by non-financial corporate business enterprises declined, while gross capital formation increased, with saving still exceeding investment by a wide margin.
- The continued decline in households' interest in insurers and retirement funds reflected job losses.

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National financial account tables

National financial account
Flow of funds for the first quarter 2021[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	-36 673		-364		25 816		32		15 337		5 486	
2. Consumption of fixed capital[4]			90		4 328		7		291		428	
3. Capital transfers	29	83										
4. Gross capital formation[4]				213		2 424		6		122		323
5. Net lending (+)/net borrowing (-) (S)	-36 727		-487		27 720		33		15 506		5 591	
6. Net financial investment (+) or (-) (U)		-36 727		-487		27 720		33		15 506		5 591
7. Net incurrence of financial liabilities (Total S 9 – 32)	12 805		-41 663		-143 761		27 737		-11 091		-58 593	
8. Net acquisition of financial assets (Total S 9 – 32)		-23 922		-42 150		-116 041		27 770		4 415		-53 002
9. Gold and other foreign reserves	-10 338			-10 338								
10. Cash and demand monetary deposits[5]	1 666	-917	-27 700	-3 989	2 972	2 542		-100		-1 320		5 421
11. Short-/medium-term monetary deposits[5]	-6 189	16 147		-2 100	-35 620			-8 779		-348		-35 145
12. Long-term monetary deposits[5]		1 362			23 317			8 594		-5 113		13 776
13. Funds placed with other financial institutions	45 066	8 931				-2 840		2 440		33 110	38 022	24 079
14. Funds placed with other institutions	-26 876					-25 219	27 737			24 500		52
15. Treasury bills	7 388			-613		8 829		61		1 055		6 164
16. Other debt securities[6]	-2 219	82		11 680	-1 994	1 728		-1 363	261	-357	5 535	-41 741
17. Bank loans and advances	33 328		2 317	55 904	54 770	34 825					-19 854	
18. Trade credit and short-term loans	55 517	29 522	141	-15 650	1 709	12 257				-2 591	-5 312	-747
19. Short-term government bonds[9]	62			-2 017		-34 169		-1 623		461		-1 697
20. Long-term government bonds[9]	1 011	8 194		1 652		4 409		13 905		29 491		47 324
21. Non-marketable debt of central government[7]												
22. Securities of local governments	-105					-53		-300		-1 676		407
23. Securities of public enterprises	7 576	-22 983	9 491		-73	12 494		-51		4 898	3 158	3 323
24. Other loan stock and preference shares	41 862	-585			-1 913	9 731		-520	4	3 915	-5 032	-261
25. Ordinary shares	168	23 741			219	11 516		15 428	-841	-87 692		-71 449
26. Foreign branch/head office balances												
27. Long-term loans	-13 813	-49 085	-12 860		-2 310			5 053	-81	9 820	-3 693	-678
28. Mortgage loans	1 274					13 144					-1 342	799
29. Interest in insurers and retirement funds[8]		-10 397				311			-4 687			
30. Financial derivatives	-78 853	-77 947			-215 468	-178 091			-4 673	-16 075	-26 626	-56 838
31. Amounts receivable/payable	-17 897	24 371	19	187	586	843		-4 975	2 658	8 069	-23 699	26 077
32. Other liabilities/assets	-25 823	25 642	-13 071	-76 866	29 783	11 526			-3 549	4 201	-19 563	28 099
33. Balancing item					261	176			-183	67	-187	33

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

KB230

1 A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds
2 Including mutual banks and the Postbank
3 Before April 2005, the Public Investment Commissioners
4 As taken from the national income (and production) accounts
5 Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank
6 Including bonds and money market instruments, such as bills, debentures and commercial paper, not specified in other line items in the table
7 Non-marketable bonds and other Treasury bills
8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account (continued)
Flow of funds for the first quarter 2021[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
-80 739		-19 210		-14 722		92 570		-8 906		-21 373		1. Net saving[4]
21 186		11 262		18 762		105 074		31 885		193 313		2. Consumption of fixed capital[4]
	74 536	14 950		55 554		23	**10**	4 092	**19**	74 648	**74 648**	3. Capital transfers
	24 394		**15 912**		**20 210**		**76 311**		**32 025**		**171 940**	4. Gross capital formation[4]
-158 483		-8 910		39 384		121 346		-4 973		-		5. Net lending (+)/net borrowing (-) (S)
	-158 483		**-8 910**		**39 384**		**121 346**		**-4 973**		**-**	6. Net financial investment (+) or (-) (U)
83 113		14 124		-43 062		-105 608		37 095		-228 904		7. Net incurrence of financial liabilities (Total S 9 – 32)
	-75 370		**5 214**		**-3 678**		**15 738**		**32 122**		**-228 904**	8. Net acquisition of financial assets (Total U 9 –32)
										-10 338	**-10 338**	9. Gold and other foreign reserves
	-82 131		**7 401**		**-923**		**35 793**		**15 161**	-23 062	**-23 062**	10. Cash and demand monetary deposits[5]
	24 934		**9 048**		**3 762**		**-52 940**		**3 612**	-41 809	**-41 809**	11. Short-/medium-term monetary deposits[5]
	-1 063		**-212**		**1 342**		**2 526**		**2 105**	23 317	**23 317**	12. Long-term monetary deposits[5]
			4 799		**-3 773**		**1 776**		**14 566**	83 088	**83 088**	13. Funds placed with other financial institutions
	3 185						**-1 657**			861	**861**	14. Funds placed with other institutions
26 452							**18 344**			33 840	**33 840**	15. Treasury bills
	-203			-1 082		5 145	**35 820**			5 646	**5 646**	16. Other debt securities[6]
345		-836		-7 271		18 041		9 889		90 729	**90 729**	17. Bank loans and advances
-15 198	**-121**	-330		615	**-132**	25 067	**42 220**	-892	**-3 441**	61 317	**61 317**	18. Trade credit and short-term loans
-39 107										-39 045	**-39 045**	19. Short-term government bonds[9]
103 769							**-195**			104 780	**104 780**	20. Long-term government bonds[9]
191									**191**	191	**191**	21. Non-marketable debt of central government[7]
		-1 752					**-235**			-1 857	**-1 857**	22. Securities of local governments
				-22 518			**-47**			-2 366	**-2 366**	23. Securities of public enterprises
	-1 863					8 905	**33 409**			43 826	**43 826**	24. Other loan stock and preference shares
				-409	**13**	-98 302	**9 278**			-99 165	**-99 165**	25. Ordinary shares
												26. Foreign branch/head office balances
-441	**-12 860**	882		-3 901	**787**	-29 869	**-20 180**	-1 057		-67 143	**-67 143**	27. Long-term loans
				-1 414		-2 700		18 125		13 943	**13 943**	28. Mortgage loans
					-146		**10 081**		**-4 536**	-4 687	**-4 687**	29. Interest in insurers and retirement funds[8]
				1 909	**-25 473**	-98 928	**-68 215**			-422 639	**-422 639**	30. Financial derivatives
7 102	**-5 030**			-9 343	**5 305**	86 493	**-5 084**	7 437	**3 593**	53 356	**53 356**	31. Amounts receivable/payable
	-218	15 870	**-15 784**	264	**15 420**	-19 838	**-25 225**	3 593	**871**	-32 334	**-32 334**	32. Other liabilities/assets
		290	**-38**	88	**140**	378	**269**			647	**647**	33. Balancing item

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KB231

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8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account
Flow of funds for the second quarter 2021[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	-100 864		-2 204		10 967		-53		14 611		6 670	
2. Consumption of fixed capital[4]			95		4 178		7		297		437	
3. Capital transfers	28	81										
4. Gross capital formation[4]				97		3 929		7		389		367
5. Net lending (+)/net borrowing (-) (S)	-100 917		-2 206		11 216		-53		14 519		6 740	
6. Net financial investment (+) or (-) (U)		-100 917		- 2 206		11 216		-53		14 519		6 740
7. Net incurrence of financial liabilities (Total S 9 – 32)	60 132		-30 776		-14 891		24 520		49 992		-27 305	
8. Net acquisition of financial assets (Total S 9 – 32)		-40 785		-32 982		-3 675		24 467		64 511		-20 565
9. Gold and other foreign reserves	23 911			23 911								
10. Cash and demand monetary deposits[5]	334	-3 583	13 045	7 989	37 420	3 062		-11 981		-2 293		2 874
11. Short-/medium-term monetary deposits[5]	-6 051	-18 574		-5 500	-71 845			6 540		694		-81 549
12. Long-term monetary deposits[5]		-8 219			73 488			13 301		-7 456		44 936
13. Funds placed with other financial institutions	70 302	-747				1 901		1 508		38 217	-24 078	31 654
14. Funds placed with other institutions	-5 268					-5 268	24 520			17 256		38
15. Treasury bills	12 217			760		29 025		1 595		-904		-14 382
16. Other debt securities[6]	-19 176	-82		-46 255	-54 895	156		644	138	6 629	2 255	-32 539
17. Bank loans and advances	-8 067		-1 317	-29 989	-30 756	-29 381					-9 480	
18. Trade credit and short-term loans	-8 168	15 606	-1 222	-431	27 976	-11 069				-1 106	-1 015	1 468
19. Short-term government bonds[9]	23			1 895		3 722		-2 635		-14 702		- 240
20. Long-term government bonds[9]	3 114	25 148				28 873		6 164		22 644		3 532
21. Non-marketable debt of central government[7]												
22. Securities of local governments						5				5 362		192
23. Securities of public enterprises	9 163	-5 452	-7 388			1 370		-9 169		5 802	-5 927	6 320
24. Other loan stock and preference shares	20 220	2 106			-1 120	3 284		-1 019	-556	9 172	3 076	-532
25. Ordinary shares	32 370	-52			23 286	1 108		7 113	-519	5 423		24 170
26. Foreign branch/head office balances												
27. Long-term loans	10 827	-14 278	- 22 919	-1	1 432			1 031	-42	2 292	-1 815	3 312
28. Mortgage loans	3 173					33 783					-636	667
29. Interest in insurers and retirement funds[8]		2 502				391			25 265			
30. Financial derivatives	-54 904	-54 973			-41 607	-51 476			-3 710	-641	-21 437	-9 562
31. Amounts receivable/payable	-3 162	15 220	-5 410	5 010	8 664	-5 887		11 375	14 110	-14 420	9 946	-5 736
32. Other liabilities/assets	-20 726	4 593	-5 565	9 629	13 050	-6 955			14 980	-7 344	21 605	4 609
33. Balancing item					16	-319			326	-114	201	203

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KB230

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8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account (continued)
Flow of funds for the second quarter 2021[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
10 354		-24 935		-5 988		91 652		-4 212		-4 002		1. Net saving[4]
21 748		11 619		19 177		106 024		33 402		196 984		2. Consumption of fixed capital[4]
	28 868	28		25 386		40	10	3 495	18	28 977	28 977	3. Capital transfers
	22 249		15 819		21 719		95 491		32 915		192 982	4. Gross capital formation[4]
-19 015		-29 107		16 856		102 215		-248		-		5. Net lending (+)/net borrowing (-) (S)
	-19 015		-29 107		16 856		102 215		-248		-	6. Net financial investment (+) or (-) (U)
91 374		2 162		-18 811		48 775		37 934		223 106		7. Net incurrence of financial liabilities (Total S 9 – 32)
	72 359		-26 945		-1 955		150 990		37 686		223 106	8. Net acquisition of financial assets (Total U 9 –32)
										23 911	23 911	9. Gold and other foreign reserves
	106 760		-9 434		-93		-59 872		17 370	50 799	50 799	10. Cash and demand monetary deposits[5]
	-25 555		-17 956		-4 756		68 600		160	-77 896	-77 896	11. Short-/medium-term monetary deposits[5]
	3 574		351		629		9 284		17 088	73 488	73 488	12. Long-term monetary deposits[5]
			-4 393		-14 740		-5 847		-1 329	46 224	46 224	13. Funds placed with other financial institutions
	7 226									19 252	19 252	14. Funds placed with other institutions
7 903							4 026			20 120	20 120	15. Treasury bills
	67			-2 233		2 564	33			-71 347	-71 347	16. Other debt securities[6]
-280		-3 067		4 528		-9 244		-1 687		-59 370	-59 370	17. Bank loans and advances
-1 010	-1 245	620		-334	-7	13 456	27 036	879	930	31 182	31 182	18. Trade credit and short-term loans
-11 983										-11 960	-11 960	19. Short-term government bonds[9]
83 247										86 361	86 361	20. Long-term government bonds[9]
538									538	538	538	21. Non-marketable debt of central government[7]
		-165					-5 724			-165	-165	22. Securities of local governments
	-3 152		-3	-138					-6	-4 290	-4 290	23. Securities of public enterprises
	1 448	50				13 110	20 321			34 780	34 780	24. Other loan stock and preference shares
				80	-7	6 208	23 670			61 425	61 425	25. Ordinary shares
												26. Foreign branch/head office balances
11 998	-22 919	75		-609	778	-23 637	8 188	3 093		-21 597	-21 597	27. Long-term loans
				-16		15 211		16 718		34 450	34 450	28. Mortgage loans
					40		5 082		17 250	25 265	25 265	29. Interest in insurers and retirement funds[8]
				600	-7 356	22 646	25 596			-98 412	-98 412	30. Financial derivatives
961	6 155			-10 239	12 921	1 701	7 773	11 437	-4 403	28 008	28 008	31. Amounts receivable/payable
		4 473	4 367	-10 337	10 477	6 708	22 218	7 494	-9 912	31 682	31 682	32. Other liabilities/assets
		176	123	-113	159	52	606			658	658	33. Balancing item

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KB231

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8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account
Flow of funds for the third quarter 2021[1]

R millions

Transaction items / Sectors	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	-36 294		-470		13 192		-53		25 650		9 213	
2. Consumption of fixed capital[4]			98		4 127		8		306		450	
3. Capital transfers	25	**82**										
4. Gross capital formation[4]				**139**		**3 954**		**8**		**423**		**349**
5. Net lending (+)/net borrowing (-) (S)	-36 351		-511		13 365		-53		25 533		9 314	
6. Net financial investment (+) or (-) (U)		**-36 351**		**-511**		**13 365**		**-53**		**25 533**		**9 314**
7. Net incurrence of financial liabilities (Total S 9 – 32)	256 393		105 075		117 412		59 148		140 741		116 568	
8. Net acquisition of financial assets (Total S 9 – 32)		**220 042**		**104 564**		**130 777**		**59 095**		**166 274**		**125 882**
9. Gold and other foreign reserves	50 390			**50 390**								
10. Cash and demand monetary deposits[5]	637	**2 137**	6 691	**-3 000**	9 649	**2 585**		**17 745**		**5 753**		**23 243**
11. Short-/medium-term monetary deposits[5]	-1 747	**13 650**		**-2 500**	88 204			**6 594**		**-11 653**		**58 856**
12. Long-term monetary deposits[5]		**1 691**			-4 060			**-5 728**		**1 112**		**-3 930**
13. Funds placed with other financial institutions	68 262	**-4 486**				**-348**		**1 574**		**70 323**	39 902	**21 080**
14. Funds placed with other institutions	-632					**-377**	59 148			**55 631**		**53**
15. Treasury bills	18 849			**-726**		**16 893**		**233**		**2 357**		**-2 437**
16. Other debt securities[6]	1 587	**-2**		**32 609**	33 557	**5 167**		**127**	2 334	**12 392**	358	**-14 253**
17. Bank loans and advances	-2 513		-654	**31 326**	32 335	**27 922**					9 284	
18. Trade credit and short-term loans	-17 556	**12 653**	71 915	**3 579**	-17 814	**-7 772**			10 594	**-1 606**	-2 425	**-3 541**
19. Short-term government bonds[9]	-42			**-873**		**4 532**		**-2 358**		**-7 402**		**171**
20. Long-term government bonds[9]	-1 263	**-18 858**				**-5 370**		**30 000**		**28 508**		**37 651**
21. Non-marketable debt of central government[7]												
22. Securities of local governments	-6					**-50**				**-1 282**		**-1 030**
23. Securities of public enterprises	-2 168	**7 375**	-1 989		-47	**-1 762**		**-5 636**		**-227**	10 583	**3 770**
24. Other loan stock and preference shares	31 077	**1 252**			1 614	**18 344**		**504**		**5 239**	704	**-768**
25. Ordinary shares	217 585	**210 081**			34 109	**4 492**		**12 645**	6 256	**71 463**		**60 410**
26. Foreign branch/head office balances												
27. Long-term loans	18 901	**-21 878**	29 158	**1**	-5 805			**2 852**	1 809	**331**	-1 244	**3 131**
28. Mortgage loans	1 310					**27 948**					-3	**864**
29. Interest in insurers and retirement funds[8]		**8 476**				**14**			33 819			
30. Financial derivatives	-55 263	**-58 097**			4 977	**-25 733**			2 100	**-786**	6 516	**-515**
31. Amounts receivable/payable	-37 031	**27 500**	369	**328**	-29 943	**31 298**		**543**	47 609	**-28 999**	28 163	**-26 631**
32. Other liabilities/assets	-33 984	**38 548**	-415	**-6 570**	-29 273	**32 745**			35 915	**-34 660**	24 548	**-29 932**
33. Balancing item					-91	**249**			305	**-220**	182	**-310**

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9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account (continued)
Flow of funds for the third quarter 2021[1]

R millions

Transaction items	General government: Central and provincial governments S	Central and provincial governments U	Local governments S	Local governments U	Corporate business enterprises: Public sector S	Public sector U	Private sector S	Private sector U	Households, etc. S	Households, etc. U	Total S	Total U
1. Net saving[4]	-111 209		-13 259		-12 819		94 008		60 646		28 605	
2. Consumption of fixed capital[4]	22 191		11 957		19 575		107 940		34 475		201 127	
3. Capital transfers		33 407	7 233		23 350		53	9	2 853	16	33 514	33 514
4. Gross capital formation[4]		19 174		15 369		22 294		130 877		37 145		229 732
5. Net lending (+)/net borrowing (-) (S)	-141 599		-9 438		7 812		71 115		60 813		-	
6. Net financial investment (+) or (-) (U)		-141 599		-9 438		7 812		71 115		60 813		-
7. Net incurrence of financial liabilities (Total S 9 – 32)	88 874		1 225		5 921		91 584		35 929		1 018 870	
8. Net acquisition of financial assets (Total U 9 –32)		-52 725		-8 213		13 733		162 699		96 742		1 018 870
9. Gold and other foreign reserves											50 390	50 390
10. Cash and demand monetary deposits[5]		-90 662		-312		6 087		22 355		31 046	16 977	16 977
11. Short-/medium-term monetary deposits[5]		-3 197		4 455		7 419		-4 864		17 697	86 457	86 457
12. Long-term monetary deposits[5]		-4 309		1 067		4 449		1 359		229	-4 060	-4 060
13. Funds placed with other financial institutions				-2 588		979		1 053		20 577	108 164	108 164
14. Funds placed with other institutions		3 464				237		-492			58 516	58 516
15. Treasury bills	-9 758							-7 229			9 091	9 091
16. Other debt securities[6]					-1 035		-2 243	-1 482			34 558	34 558
17. Bank loans and advances	302		1 230		-4 554		16 573		7 245		59 248	59 248
18. Trade credit and short-term loans	3 703	64 139	-121		-5 666	14	5 517	-20 752	-630	803	47 517	47 517
19. Short-term government bonds[9]	-5 888										-5 930	-5 930
20. Long-term government bonds[9]	72 848							-346			71 585	71 585
21. Non-marketable debt of central government[7]	711									711	711	711
22. Securities of local governments			-102					2 254			-108	-108
23. Securities of public enterprises		-2			-2 862					-1	3 517	3 517
24. Other loan stock and preference shares		451	100				-464	8 009			33 031	33 031
25. Ordinary shares					2 413	-76	141 381	42 729			401 744	401 744
26. Foreign branch/head office balances												
27. Long-term loans	4 724	29 158	54		-12 910	-247	-3 238	17 757	-344		31 105	31 105
28. Mortgage loans					-18		5 793		21 730		28 812	28 812
29. Interest in insurers and retirement funds[8]								5 987		19 342	33 819	33 819
30. Financial derivatives					-5 952	7 258	28 689	58 940			-18 933	-18 933
31. Amounts receivable/payable	22 232	-29 174			23 747	-9 621	-59 133	79 065	3 150	-45 146	-837	-837
32. Other liabilities/assets		-22 593	48	-10 552	12 568	-2 575	-40 536	-42 246	4 778	51 484	-26 351	-26 351
33. Balancing item			16	-283	190	-191	-755	602			-153	-153

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7 Non-marketable bonds and other Treasury bills
8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account
Flow of funds for the fourth quarter 2021[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	-53 862		-450		8 684		-46		21 892		8 359	
2. Consumption of fixed capital[4]			102		4 211		8		322		462	
3. Capital transfers	23	84										
4. Gross capital formation[4]				117		3 874		9		740		347
5. Net lending (+)/net borrowing (-) (S)	-53 923		-465		9 021		-47		21 474		8 474	
6. Net financial investment (+) or (-) (U)		-53 923		-465		9 021		-47		21 474		8 474
7. Net incurrence of financial liabilities (Total S 9 – 32)	72 753		20 344		78 365		26 093		17 208		58 290	
8. Net acquisition of financial assets (Total S 9 – 32)		18 830		19 879		87 386		26 046		38 682		66 764
9. Gold and other foreign reserves	3 309			3 309								
10. Cash and demand monetary deposits[5]	-1 024	1 434	4 122	-7 000	73 694	-1 585		-14 628		-4 840		7 802
11. Short-/medium-term monetary deposits[5]	2 644	1 521		10 500	94 218			1 079		-1 434		47 947
12. Long-term monetary deposits[5]		3 508		4 000	-35 121			-13 838		-1 271		-24 001
13. Funds placed with other financial institutions	137 537	2 695				195		1 804		104 862	51 924	54 303
14. Funds placed with other institutions	-13 502					-13 819	26 093			26 707		-133
15. Treasury bills	2 161			538		24 246		-925		-2 242		-17 810
16. Other debt securities[6]	22 680			20 393	37 211	5 775		-174	-398	12 000	-9 741	28 367
17. Bank loans and advances	-5 267		-432	-52 009	-51 405	62 694					17 711	
18. Trade credit and short-term loans	-32 672	-29 986	-4 773	-2 701	1 140	-287				-399	-63	3 766
19. Short-term government bonds[9]	3			340		2 447		-1 296		-6 643		-134
20. Long-term government bonds[9]	558	-7 949				19 732		4 719		33 231		18 404
21. Non-marketable debt of central government[7]												
22. Securities of local governments	26					-186				-100		-253
23. Securities of public enterprises	-8 393	3 277	-192		-54	-7 333		-569		-6 184	-669	1 023
24. Other loan stock and preference shares	-661	1 639			444	-8 663		-85	15	-944	-266	1 368
25. Ordinary shares	46 461	-32 485			19 090	-7 522		47 777	-905	-118 474		-108 627
26. Foreign branch/head office balances												
27. Long-term loans	10 646	18 823	38 788		- 2 919			-419	1 108	-48	11 856	621
28. Mortgage loans	-4 215					17 113					296	-162
29. Interest in insurers and retirement funds[8]		22 090				165			11 982			
30. Financial derivatives	-60 208	-54 843			-5 202	-24 214		6	3 039	8 949	3 887	584
31. Amounts receivable/payable	-4 264	40 105	-5 994	7 189	-389	216		2 595	-17 851	21 732	-33 233	24 229
32. Other liabilities/assets	-23 066	49 001	-11 175	35 320	-52 193	18 309			20 163	-26 165	16 441	29 353
33. Balancing item					-149	103			55	-55	147	117

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KB230

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3 Before April 2005, the Public Investment Commissioners
4 As taken from the national income (and production) accounts
5 Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank
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7 Non-marketable bonds and other Treasury bills
8 Members' interest in the reserves of retirement and all insurance funds
9 The classification of short-term and long-term government bonds is based on remaining maturity

National financial account (continued)
Flow of funds for the fourth quarter 2021[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
3 953		-24 372		-6 999		45 944		-11 074		-7 971		1. Net saving[4]
22 552		12 170		19 868		111 127		34 982		205 804		2. Consumption of fixed capital[4]
	22 191	6 876		10 642		7	8	4 750	15	22 298	22 298	3. Capital transfers
	22 392		15 999		22 289		92 417		39 649		197 833	4. Gross capital formation[4]
-18 078		-21 325		1 222		64 653		-11 006		-		5. Net lending (+)/net borrowing (-) (S)
	-18 078		-21 325		1 222		64 653		-11 006		-	6. Net financial investment (+) or (-) (U)
92 936		10 716		4 240		-32 684		39 918		388 179		7. Net incurrence of financial liabilities (Total S 9 – 32)
	74 858		-10 609		5 462		31 969		28 912		388 179	8. Net acquisition of financial assets (Total U 9 –32)
										3 309	3 309	9. Gold and other foreign reserves
	58 660		2 566		-6 231		29 012		11 602	76 792	76 792	10. Cash and demand monetary deposits[5]
	2 527		1 041		4 316		20 836		8 529	96 862	96 862	11. Short-/medium-term monetary deposits[5]
	1 005		-1 416		-3 732		-3 894		4 518	-35 121	-35 121	12. Long-term monetary deposits[5]
			289		-2 317		14 012		13 618	189 461	189 461	13. Funds placed with other financial institutions
	-481				-184		501			12 591	12 591	14. Funds placed with other institutions
-6 361							-8 007			-4 200	-4 200	15. Treasury bills
	131			-60		15 320	-1 480			65 012	65 012	16. Other debt securities[6]
-720		-215		7 499		31 479		12 035		10 685	10 685	17. Bank loans and advances
-2 442	4 281	-284		-557	64	-3 443	-23 189	1 588	6 945	-41 506	-41 506	18. Trade credit and short-term loans
-5 289										-5 286	-5 286	19. Short-term government bonds[9]
66 668							-911			67 226	67 226	20. Long-term government bonds[9]
555									555	555	555	21. Non-marketable debt of central government[7]
		-166					399			-140	-140	22. Securities of local governments
	3			-476					-1	-9 784	-9 784	23. Securities of public enterprises
	2 545	682		-1	-1	4 532	8 886			4 745	4 745	24. Other loan stock and preference shares
				3 435	9	-267 543	19 860			-199 462	-199 462	25. Ordinary shares
												26. Foreign branch/head office balances
6 098	44 132	81		152	-362	12 584	16 546	899		79 293	79 293	27. Long-term loans
				-6		3 450		17 426		16 951	16 951	28. Mortgage loans
					26		-18 686		8 387	11 982	11 982	29. Interest in insurers and retirement funds[8]
				480	3 918	50 989	58 585			-7 015	-7 015	30. Financial derivatives
34 427	-37 596			2 098		64 742	-20 957	-1 016	1 007	38 520	38 520	31. Amounts receivable/payable
	-349	10 477	-13 284	-8 243	9 717	54 607	-59 657	8 986	-26 248	15 997	15 997	32. Other liabilities/assets
		141	195	-81	239	599	113			712	712	33. Balancing item

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

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Notes to tables

Official retirement funds – tables on S–44 and S–45

The statistics of official retirement funds[1] in tables KB219 and KB221 were revised in this edition of the *Quarterly Bulletin*, as from the fourth quarter of 2009. The presentation of the time series is now in accordance with the *System of National Accounts 2008 (2008 SNA)*.[2]

The presentation of the income statement in table KB255 on page S–44, which replaced table KB219, includes the following changes:

- All items now include both domestic and foreign transactions, whereas previously all foreign transactions were included as part of net capital profits and other income.
- Other investment income, previously included in net capital profits and other income, is now shown separately and includes rent received as well as collective investment schemes' distributions and investment income from insurance policies.
- Regarding net capital profits and other income, the other net income is now shown separately as other income and other expenditure, and the net capital profits is now combined with net asset revaluation as net capital profit or loss on investments and assets.

The presentation of the assets in table KB254 on page S–45, which replaced table KB221, includes the following changes:

- Cash and deposits now exclude money market instruments.
- Money market instruments are now included as part of interest-bearing securities.
- Interest-bearing securities held by official retirement funds and issued by non-residents are now part of interest-bearing securities of the foreign sector.
- Non-financial assets and loans have been separated from other assets.
- Other assets now include accounts receivable, insurance policies and financial derivatives.
- All financial instruments, except interest-bearing securities, now include both domestic and foreign positions. Previously, the value of all foreign assets was included as part of other assets but it is now shown separately as 'Of which: Foreign assets'.

Supply chain pressure indicators – table on S–152

The South African Reserve Bank's composite supply chain pressure index[3] and its component indicators have been included in table KB711 on page S–152 as from this edition of the *Quarterly Bulletin.*

1 These are funds that are not subject to regulation and supervision in terms of the Pension Funds Act 24 of 1956, but which are established by their own statutes (i.e. the Government Employees Pension Fund, Transnet and the Post Office).

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

3 For more information on the compilation of this index, see 'Note on supply chain pressures in South Africa' in the March 2022 edition of the *Quarterly Bulletin*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletinsarticles-and-notes/2022/NoteonsupplychainpressuresinSouthAfrica

Abbreviations

Alsi	All-Share Index
BER	Bureau for Economic Research (Stellenbosch University)
BRICS	Brazil, Russia, India, China and South Africa
CBOE	Chicago Board Options Exchange
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPI	consumer price index
CTSE	Cape Town Stock Exchange
DGI	Data Gaps Initiative
EMBI+	Emerging Markets Bond Index Plus (JPMorgan)
FinSurv	Financial Surveillance Department (South African Reserve Bank)
FNB	First National Bank
FRA	forward rate agreement
FX	foreign exchange
G20	Group of Twenty
GDE	gross domestic expenditure
GDP	gross domestic product
GEPF	Government Employees Pension Fund
GVA	gross value added
IEA	integrated economic accounts
IIP	international investment position
ILO	International Labour Organization
IMF	International Monetary Fund
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
MPC	Monetary Policy Committee (South African Reserve Bank)
MTBPS	*Medium Term Budget Policy Statement*
NEER	nominal effective exchange rate
NT	National Treasury
PGM	platinum group metal
PIC	Public Investment Corporation
PIT	personal income tax
QAAR	quarterly asset allocation report
QLFS	*Quarterly Labour Force Survey*

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 right
SOC	state-owned company
Stats SA	Statistics South Africa
TB	Treasury bill
US	United States
VAT	value-added tax
VIX	Volatility Index