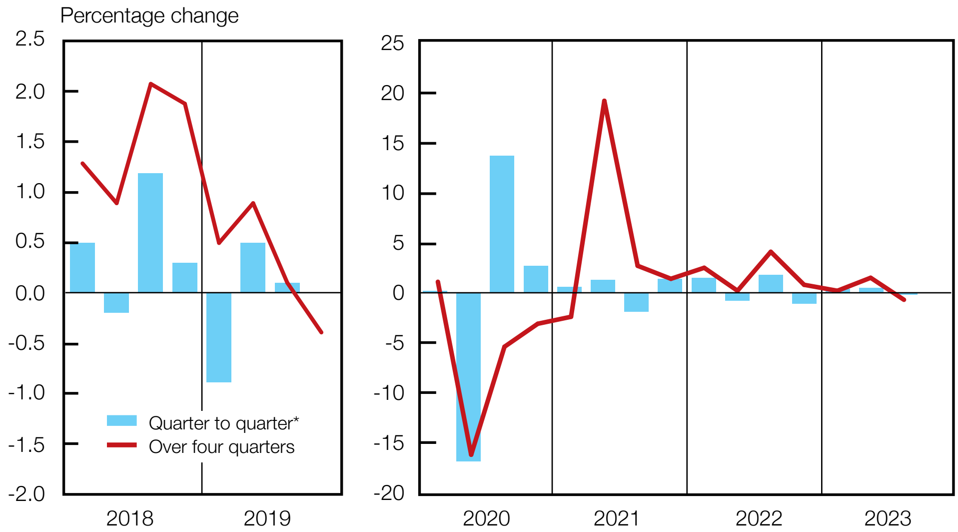
Domestic economic developments

Domestic output[1]

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

Economic activity in South Africa contracted in the third quarter of 2023, following two consecutive quarters of expansion. Real *gross domestic product* (GDP) decreased by 0.2% in the third quarter of 2023 following an expansion of 0.5% in the second quarter as the real output of the primary and secondary sectors contracted anew, while that of the tertiary sector increased further. The level of real GDP was 0.7% lower in the third quarter of 2023 compared to a year earlier, while the average level of real output in the first three quarters of 2023 was 0.3% higher than in the corresponding period of 2022.

Real gross domestic product



* Seasonally adjusted

Source: Stats SA

South Africa's economic growth projection for 2023 was adjusted as electricity load-shedding abated somewhat. According to the 2023 *World Economic Outlook (WEO)*, the International Monetary Fund (IMF) raised its real GDP growth forecast for South Africa from 0.3% to 0.9% for 2023, while National Treasury revised its estimate from 0.9% to 0.8% in the *2023 Medium Term Budget Policy Statement (MTBPS)*. In addition, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) also revised its real GDP growth expectation higher from 0.7% to 0.8% for 2023 at the November 2023 meeting.

The real output of the *non-primary sector* increased by 0.1% in the third quarter of 2023 following an increase of 0.3% in the second quarter.

After increasing by 1.6% in the second quarter of 2023, the real output of the *primary sector* decreased by 4.4% in the third quarter as the real output of the agriculture and mining sectors contracted anew.

Real gross domestic product

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

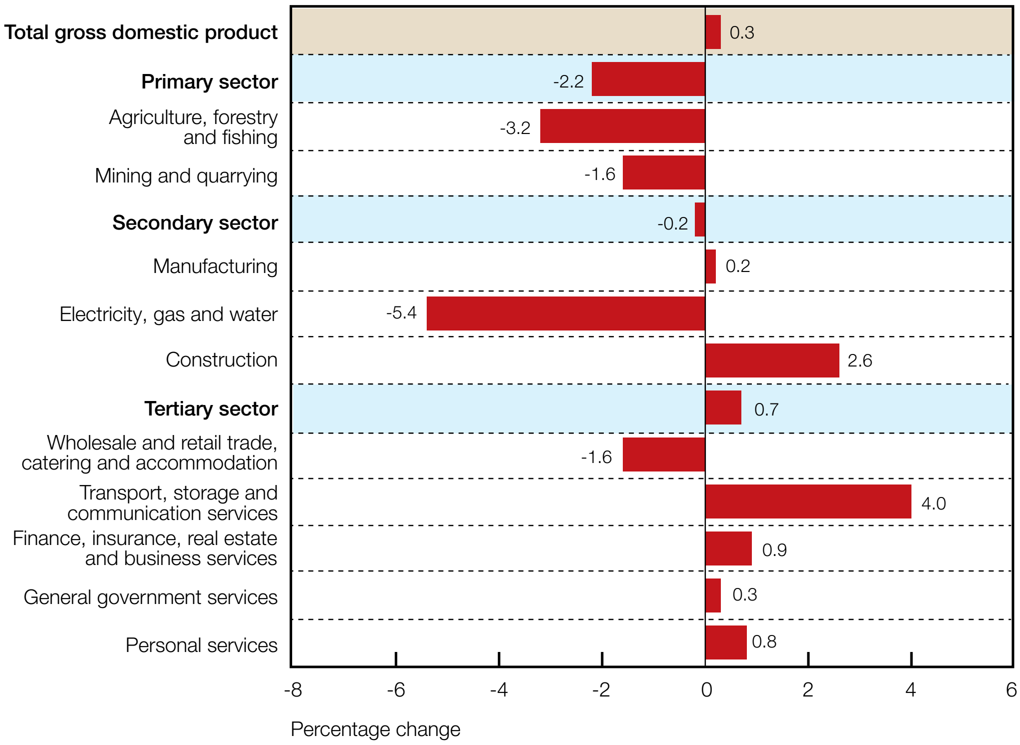
Sector	2022					2023		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Primary sector	-2.0	-6.5	12.5	-2.7	-4.1	-4.2	1.6	-4.4
Agriculture	-0.9	-11.8	31.4	-2.4	0.9	-11.9	2.8	-9.6
Mining	-2.6	-3.1	1.9	-3.0	-7.1	1.4	0.8	-1.1
Secondary sector	3.3	-4.6	1.4	-1.1	-1.1	1.1	1.4	-1.3
Manufacturing	4.3	-5.6	1.6	-1.2	-0.4	1.5	2.1	-1.3
Construction	-0.6	-2.6	4.1	0.4	-3.4	1.1	-0.2	-2.8
Tertiary sector	1.5	0.7	0.8	-0.9	3.4	0.7	0.1	0.4
Wholesale and retail trade, catering and accommodation	2.9	-1.1	1.2	-2.2	3.5	0.7	-0.3	-0.2
Finance, real estate and business services	1.9	2.1	1.1	-1.6	3.4	0.6	0.4	0.5
*Non-primary sector***	*1.9*	*-0.3*	*0.9*	*-1.0*	*2.5*	*0.8*	*0.3*	*0.1*
*Non-agricultural sector****	*1.6*	*-0.5*	*1.0*	*-1.1*	*2.0*	*0.8*	*0.4*	*0.0*
Total	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.4**	**0.5**	**-0.2**

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

Source: Stats SA

Real gross domestic product

Average level: first three quarters of 2023 compared with the same period of 2022



Source: Stats SA

The real gross value added (GVA) by the *agricultural sector* contracted significantly by 9.6% in the third quarter of 2023 following an expansion of 2.8% in the second quarter, subtracting the most from overall GDP growth at 0.3 percentage points. The decrease reflected the lower production of field crops as well as horticultural and animal products. Furthermore, the poultry industry was weighed down by the avian influenza outbreak. The average level of real agricultural output in the first three quarters of 2023 was 3.2% lower than in the corresponding period of 2022.

The estimated commercial maize harvest of 16.4 million tons for the 2022/23 season is 6.0% higher than the final harvest for the 2021/22 season – the second-largest harvest on record. However, the higher crop was harvested from a 1.4% smaller area planted than in the previous season. In addition, the area intended to be planted for the 2023/24 season (2.64 million hectares) is 2.0% larger than the 2022/23 season (2.59 million hectares) and more than the five-year average of 2.58 million hectares.

Commercial maize crop and area planted

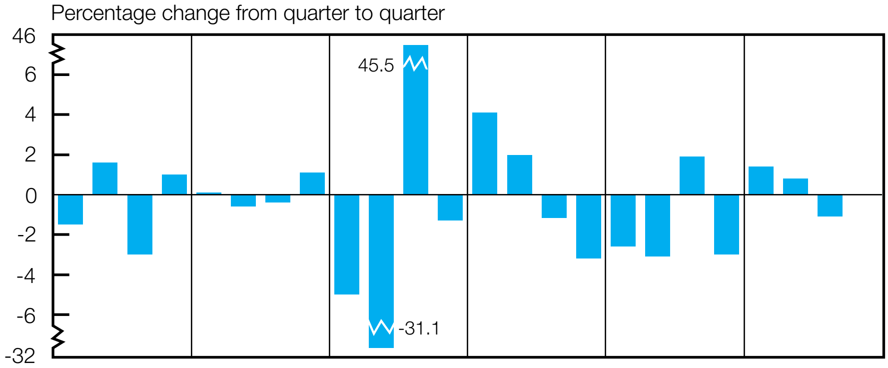
	Crop (million tons)	Area planted (million hectares)
2021/22: final	15.5	2.62
2022/23: estimate..	16.4	2.59

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

The real GVA by the *mining sector* decreased by 1.1% in the third quarter of 2023 following an increase of 0.8% in the second quarter. Production volumes decreased in 7 of the 12 subsectors, with platinum group metals (PGMs), gold, manganese ore, other metallic minerals and coal contributing the most to the contraction.

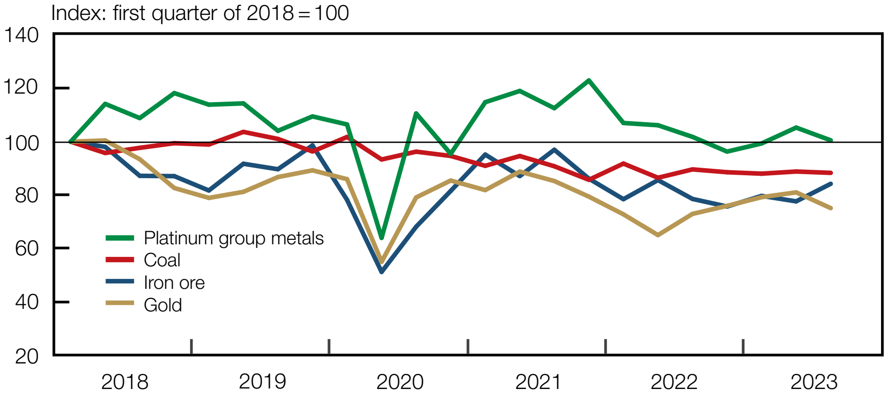
Real gross value added by the mining sector

Percentage change from quarter to quarter



Physical volume of mining production: selected subsectors

Index: first quarter of 2018 = 100



Seasonally adjusted

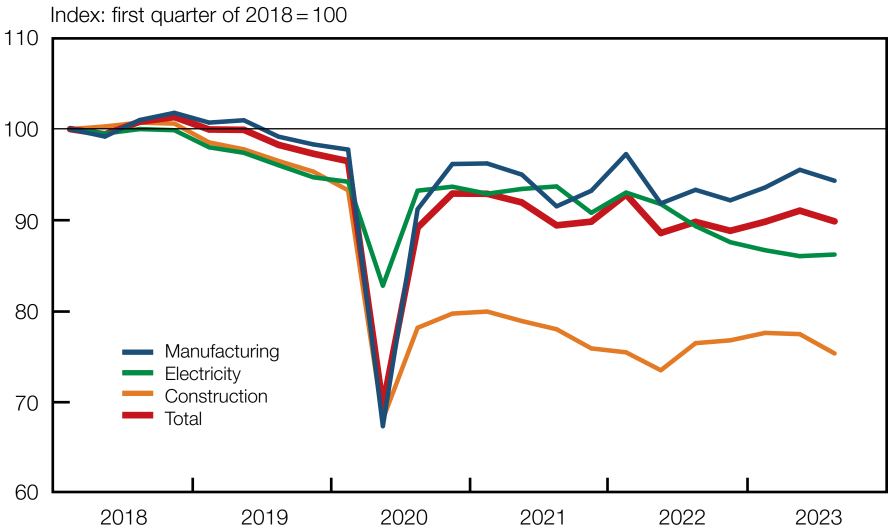
Source: Stats SA

The lower production of coal reflected subdued demand from industrial users and was also affected by the inefficient railway infrastructure associated with the export market, while the decline in PGMs reflected water supply disruptions and lower-quality concentration output. By contrast, the higher production of iron ore was likely supported by the re-opening of the rail channel and port following annual maintenance and the improved railway infrastructure network.

Mining activity continued to be suppressed by lower commodity prices, ongoing electricity load-shedding, high operating costs as well as inefficiencies in rail and port infrastructure. The average level of real mining output in the first three quarters of 2023 was 1.6% lower than in the corresponding period of 2022.

The real GVA by the *secondary sector* contracted by 1.3% in the third quarter of 2023 following an expansion of 1.4% in the second quarter. Manufacturing and construction output decreased, while the real output of the electricity, gas and water supply sector increased over the period.

Real gross value added by the secondary sector



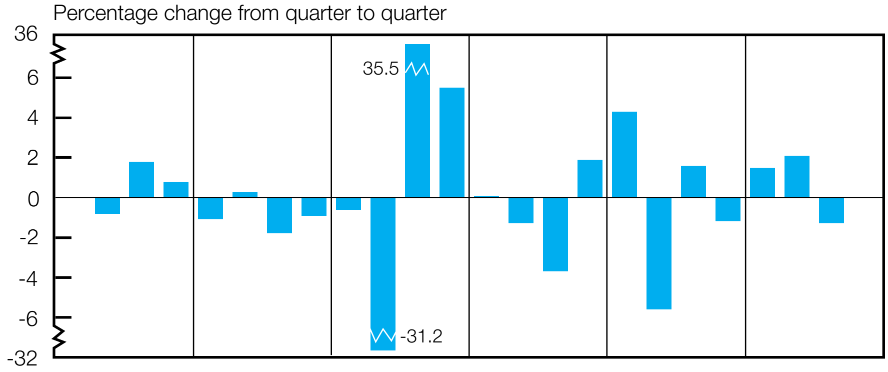
Seasonally adjusted

Source: Stats SA

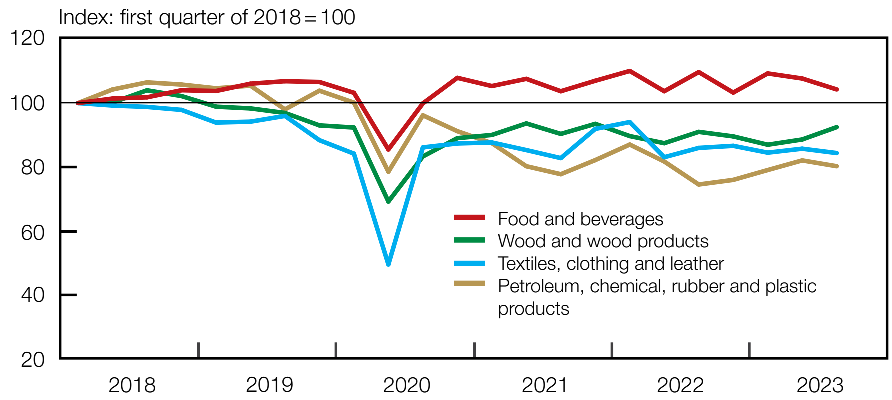
Following two quarters of expansion, the real output of the *manufacturing sector* contracted by 1.3% in the third quarter of 2023, subtracting 0.1 percentage points from overall GDP growth. Production volumes decreased in 8 of the 10 manufacturing subsectors, especially in the production of food and beverages; petroleum, chemical, rubber and plastic products; basic iron and steel, non-ferrous metal products, metal products and machinery; and furniture and other manufacturing. Conversely, the production of wood and wood products, paper, publishing and printing; and motor vehicles, parts and accessories and other transport equipment increased.

The contraction in manufacturing output was in line with a further deterioration in the seasonally adjusted Absa Purchasing Managers' Index (PMI) in the third quarter of 2023, reflecting subdued domestic and global demand conditions. Furthermore, manufacturing activity continued to be impeded by ongoing electricity load-shedding, rising input costs, supply chain disruptions and a deteriorating logistics infrastructure. However, the seasonally adjusted utilisation of production capacity increased slightly from 77.8% in May 2023 to 78.5% in August. The average level of real output of the manufacturing sector in the first three quarters of 2023 was 0.2% higher than in the corresponding period of 2022.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Seasonally adjusted

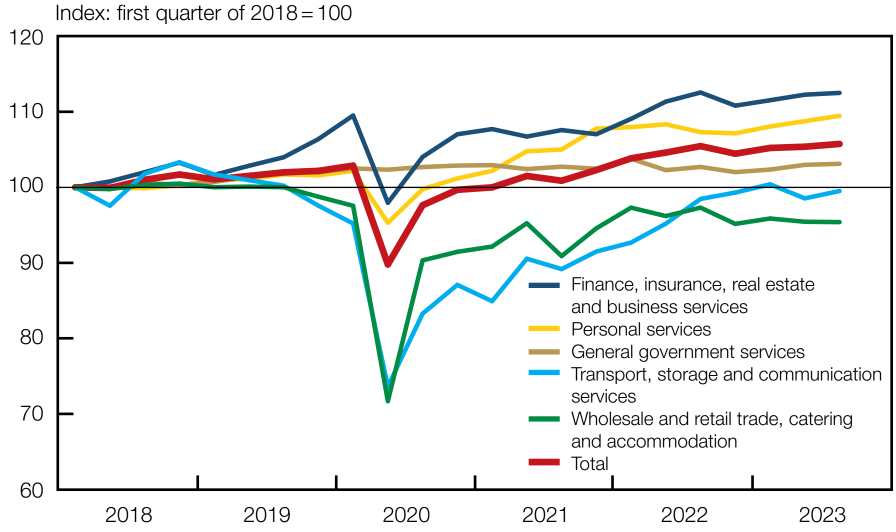
Source: Stats SA

After contracting for five consecutive quarters, the real output of the sector supplying *electricity, gas and water* expanded by 0.2% in the third quarter of 2023. The volume of both electricity produced and consumed increased over this period, indicating improved electricity generation capacity, possibly as a result of the implementation of elements of South Africa's Energy Action Plan. By contrast, water consumption declined over this period. The average level of real GVA in the sector supplying electricity, gas and water was 5.4% lower in the first three quarters of 2023 compared with the corresponding period of 2022.

Real economic activity in the *construction sector* decreased further by 2.8% in the third quarter of 2023 as civil construction as well as residential and non-residential building activity decreased. Despite decreases in the most recent two quarters, the average level of real output in the first three quarters of 2023 was still 2.6% higher compared with the corresponding period of 2022.

The real GVA by the *tertiary sector* increased further by 0.4% in the third quarter of 2023 following an expansion of 0.1% in the second quarter. This growth was driven by a further increase in the real output of the general government and personal services sectors as well as the finance, real estate and business services sector. Real output in the transport, storage and communication services sector also increased, following a decrease in the previous quarter. By contrast, the GVA by the commerce sector contracted further in the third quarter.

Real gross value added by the tertiary sector



Seasonally adjusted
Source: Stats SA

The real output of the *commerce sector* contracted further by 0.2% in the third quarter of 2023 following a contraction of 0.3% in the second quarter as real wholesale and motor trade activity decreased and retail trade increased only slightly. The lower activity in the wholesale subsector was underpinned by reduced sales of machinery, equipment and supplies; textiles, clothing and footwear; and food, beverages and tobacco. Motor trade activity was suppressed by lower sales of new vehicle sales amid the higher interest rate environment. In addition, retail trade activity reflected higher sales of textiles, clothing, footwear and leather goods as well as household furniture, appliances and equipment. The average level of the real output of the commerce sector in the first three quarters of 2023 was 1.6% lower than in the corresponding period of 2022.

The real output of the *transport, storage and communication sector* increased by 0.9% in the third quarter of 2023 and contributed 0.1 percentage points to overall GDP growth, following a decrease of 1.8% in the second quarter. This reflected increased activity in land and air transportation, transport support and communication services. By contrast, rail transportation decreased over the period, reflecting challenges with South Africa's rail network. The average level of real transport, storage and communication services output in the first three quarters of 2023 was 4.0% higher than in the corresponding period of 2022.

The real GVA by the *finance, real estate and business services sector* increased by 0.5% in the third quarter of 2023, contributing 0.1 percentage points to overall GDP growth. This mainly reflected increased activity in the monetary intermediation, real estate and business services subsectors. The pickup in monetary intermediation reflected higher fee income generated by commercial banks over the period.

The real GVA by the *general government services sector* increased further by 0.1% in the third quarter of 2023 as the number of government employees increased.

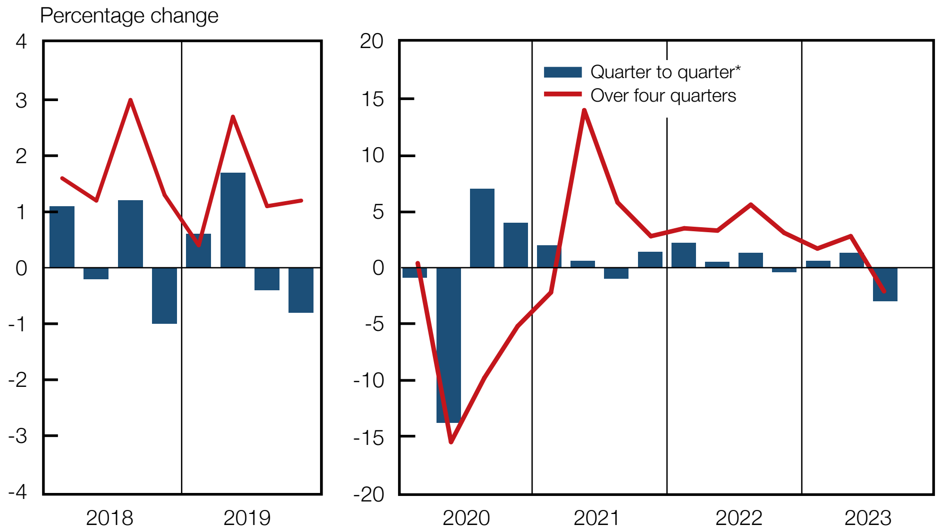
The real output of the *personal services sector* increased by 0.6% and contributed 0.1 percentage points to overall real GDP growth in the third quarter of 2023 due to increased activity in health and education services over the period. The average level of real GVA by personal services in the first three quarters of 2023 was 0.8% higher than in the corresponding period of 2022.

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

Real gross domestic expenditure[2]

Real *gross domestic expenditure* (GDE) declined by 3.0% in the third quarter of 2023 following an increase of 1.3% in the second quarter. Almost all the components of real final demand contracted in the third quarter of 2023, except for real final consumption expenditure by general government, alongside a notable de-accumulation in real inventory holdings. The average level of real GDE in the first three quarters of 2023 was 0.8% higher compared with the corresponding period of 2022.

Real gross domestic expenditure



* Seasonally adjusted

Sources: Stats SA and SARB

Real gross domestic expenditure

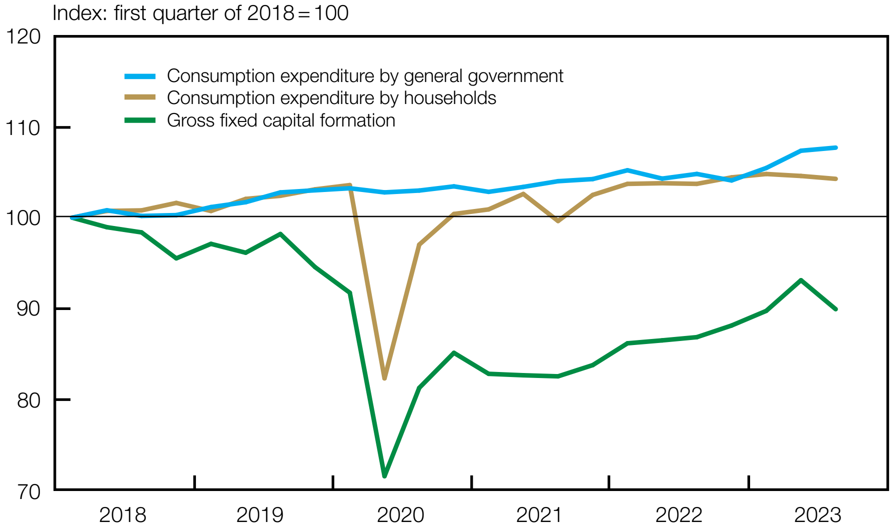
Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Component	2022					2023		
	Q1	Q2	Q3	Q4	Year[1]	Q1	Q2	Q3
Final consumption expenditure								
Households	1.2	0.1	-0.1	0.7	2.5	0.4	-0.2	-0.3
General government	0.9	-0.9	0.5	-0.7	1.0	1.3	1.8	0.3
Gross fixed capital formation	2.9	0.4	0.4	1.5	4.8	1.8	3.8	-3.4
Domestic final demand[2]	**1.4**	**-0.1**	**0.1**	**0.5**	**2.5**	**0.8**	**0.8**	**-0.7**
Change in inventories (R billions)[3]	*14.4*	*35.7*	*86.9*	*40.2*	*44.3*	*29.3*	*62.0*	*-44.5*
Residual[4]	*0.1*	*0.2*	*0.3*	*0.3*	*0.2*	*0.4*	*0.2*	*0.1*
Gross domestic expenditure[5]	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.6**	**1.3**	**-3.0**

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

Components of real gross domestic final demand



Seasonally adjusted

Source: Stats SA

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

Percentage points

Component	2022					2023		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Final consumption expenditure								
Households	0.8	0.0	0.0	0.5	1.6	0.2	-0.1	-0.2
General government	0.2	-0.2	0.1	-0.1	0.2	0.3	0.4	0.1
Gross fixed capital formation	0.4	0.1	0.1	0.2	0.7	0.3	0.6	-0.5
Change in inventories	0.8	0.5	1.1	-1.0	1.3	-0.2	0.7	-2.3
Residual	0.0	0.1	0.0	0.0	0.0	0.1	-0.2	-0.2
Gross domestic expenditure	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.7**	**1.3**	**-3.1**
Net exports	-0.7	-1.3	0.5	-0.7	-2.0	-0.3	-0.8	2.9
Gross domestic product	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.4**	**0.5**	**-0.2**

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

Sources: Stats SA and SARB

The change in real inventory holdings subtracted 2.3 percentage points from growth in real GDP in the third quarter of 2023, while real gross fixed capital formation and final consumption expenditure by households deducted a further 0.5 and 0.2 percentage points respectively. By contrast, real net exports contributed 2.9 percentage points to overall real GDP growth over the period.

The real *exports* of goods and services increased further by 0.6% in the third quarter of 2023, maintaining the same growth rate as in the second quarter. Real mining exports reverted from a decline in the second quarter of 2023 to an increase in the third quarter, largely due to higher export volumes of precious metals (including gold, PGMs and stones). Similarly, the volume of agricultural exports also reverted to an increase in the third quarter of 2023 due to a significant foreign demand for vegetable products. Conversely, the real exports of manufactured products decreased as machinery and electrical equipment; chemical products and prepared foodstuffs, beverages and tobacco declined. Likewise, services exports also decreased.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2023					
	Exports			Imports		
	Percentage of total**	Q2***	Q3***	Percentage of total**	Q2***	Q3***
Total	100.0	0.6	0.6	100.0	3.2	-8.6
Mining	42.0	-0.5	1.0	19.2	-1.3	5.3
Of which:						
Mineral products	16.2	1.3	-0.3	13.7	-4.9	13.7
Precious metals including gold, platinum group metals and stones	13.3	-1.8	14.9	1.1	-3.5	-18.0
Base metals and articles thereof	12.6	-1.2	-9.4	4.4	10.6	-12.0
Manufacturing	36.7	2.1	-0.1	62.9	3.3	-14.0
Of which:						
Vehicles and transport equipment	10.8	2.4	20.7	12.5	-11.5	-2.5
Machinery and electrical equipment	7.8	3.0	-10.2	23.5	18.0	-23.6
Chemical products	6.5	3.0	-9.7	11.8	-10.9	-6.9
Prepared foodstuffs, beverages and tobacco	4.3	6.2	-6.1	2.1	-2.3	-10.8
Agriculture	9.7	-6.0	4.2	4.4	21.1	-11.7
Of which:						
Vegetable products	8.2	-8.7	6.0	2.1	23.7	-16.1
Services	11.3	4.8	-1.4	13.3	4.1	2.0

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2022
*** 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

Real *imports* of goods and services contracted significantly by 8.6% in the third quarter of 2023 following an increase of 3.2% in the second quarter. The volume of manufacturing and agricultural imports decreased notably in the third quarter. Manufacturing imports reflected a notable contraction in machinery and electrical equipment; prepared foodstuffs, beverages and tobacco; chemical products; and vehicles and transport equipment. Agricultural imports declined largely due to weaker domestic demand for vegetable products. By contrast, the real imports of mining products increased notably as growth in the volume of mineral products accelerated.

Real *net exports* contributed 2.9 percentage points to real GDP growth in the third quarter of 2023, with manufactured and agricultural products contributing 2.9 and 0.3 percentage points respectively. Real net manufacturing exports were boosted by higher net exports of machinery and electrical equipment as well as vehicles and transport equipment, while real net agricultural exports were supported by vegetable products. By contrast, real net mining exports contracted due to weaker mineral export volumes and deducted 0.2 percentage points from growth in total net exports.

Real *final consumption expenditure by households* declined by 0.3% in the third quarter of 2023 following a contraction of 0.2% in the second quarter. Real consumer spending on durable and non-durable goods as well as services shrank, while outlays on semi-durable goods reverted to an increase. Household consumption expenditure contracted in tandem with the decrease in the real disposable income of households over the period. The level of real final consumption expenditure by households in the third quarter of 2023 was 0.5% higher than a year earlier, while the average level of real spending by households in the first three quarters of 2023 was 0.7% higher than the corresponding period of 2022.

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

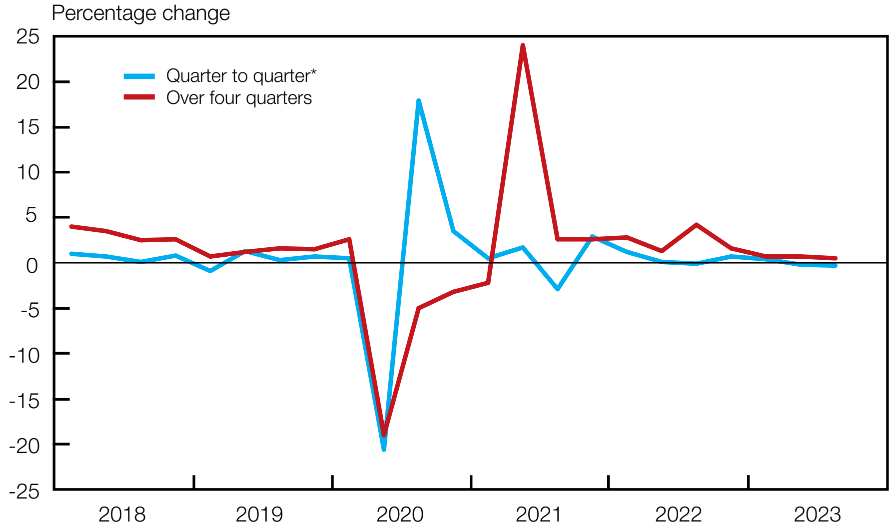
Percentage points

Component	2023					
	Exports		Imports*		Net exports	
	Q2	Q3	Q2	Q3	Q2	Q3
Total	0.2	0.2	1.0	-2.7	-0.8	2.9
Mining	-0.1	0.1	-0.1	0.3	0.0	-0.2
Of which:						
Mineral products	0.1	0.0	-0.2	0.5	0.2	-0.5
Precious metals, including gold, platinum group metals and stones	-0.1	0.5	0.0	-0.1	0.0	0.5
Base metals and articles thereof	0.0	-0.4	0.1	-0.2	-0.2	-0.2
Manufacturing	0.2	0.0	0.7	-2.9	-0.5	2.9
Of which:						
Vehicles and transport equipment	0.1	0.6	-0.5	-0.1	0.6	0.7
Machinery and electrical equipment	0.1	-0.2	1.5	-2.2	-1.4	2.0
Chemical products	0.1	-0.2	-0.4	-0.2	0.4	0.0
Prepared foodstuffs, beverages and tobacco	0.1	-0.1	0.0	-0.1	0.1	0.0
Agriculture	-0.2	0.1	0.2	-0.2	-0.4	0.3
Of which:						
Vegetable products	-0.2	0.1	0.1	-0.1	-0.4	0.3
Services	0.2	-0.1	0.2	0.1	0.0	-0.1

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

Sources: SARS, Stats SA and SARB

Real final consumption expenditure by households



* Seasonally adjusted

Source: Stats SA

Real final consumption expenditure by households

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

Category	2022					2023		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Durable goods....................	3.7	-0.3	2.2	1.0	0.9	-0.1	-1.2	-0.7
Semi-durable goods...........	-1.7	0.0	0.6	0.7	1.4	2.5	-1.1	2.0
Non-durable goods	1.4	-0.6	-1.4	-0.2	2.3	1.0	-1.2	-1.0
Services	1.1	0.5	0.2	1.2	3.1	-0.3	0.7	-0.2
Total...................................	**1.2**	**0.1**	**-0.1**	**0.7**	**2.5**	**0.4**	**-0.2**	**-0.3**

* Percentage change over one year

Source: Stats SA

Real household spending on *durable goods* contracted further by 0.7% in the third quarter of 2023 following a decrease of 1.2% in the second quarter. Real purchases of personal transport equipment as well as computers and related equipment declined, with the decrease in passenger vehicle sales highlighting the restrictive lending environment amid higher interest rates and elevated vehicle prices. Spending on furniture and household appliances, recreational and entertainment goods, and other durable goods reverted to an increase in the third quarter.

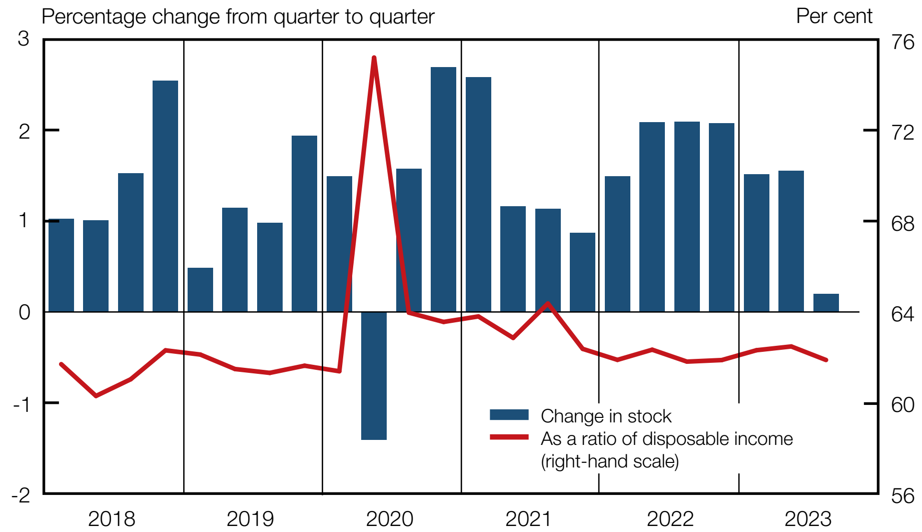
Real outlays by households on *semi-durable goods* increased by 2.0% in the third quarter of 2023 following a contraction of 1.1% in the second quarter as spending increased in most categories. Purchases of clothing and footwear; household textiles, furnishings and glassware; and motorcar tyres, parts and accessories increased, mirroring the slight improvement in wholesale and retail business confidence. However, real outlays on recreational and entertainment goods declined in the third quarter of 2023, albeit at a slower pace.

Real household expenditure on *non-durable goods* declined further by 1.0% in the third quarter of 2023 following a decline of 1.2% in the second quarter. Real spending on petroleum products and household fuel, power and water contracted over the review period, with consumer outlays on food, beverages and tobacco recording no growth.

Real expenditure on *services* decreased by 0.2% in the third quarter of 2023 after an increase of 0.7% a quarter earlier. Real expenditure on household services, transport and communication services; and medical and miscellaneous services contracted over the period. By contrast, real outlays on rent increased marginally in the third quarter of 2023.

Seasonally adjusted nominal *household debt* increased at a much slower pace in the third quarter of 2023 as the outstanding balances of most categories of credit extended to households moderated. Household debt as a percentage of nominal disposable income decreased to 61.9% in the third quarter of 2023 from 62.5% in the second quarter as the increase in nominal disposable income exceeded that in household debt. Households' cost of servicing debt as a percentage of disposable income edged higher to 8.9% in the third quarter from 8.8% in the second quarter due to the combination of higher debt and interest rates.

Household debt



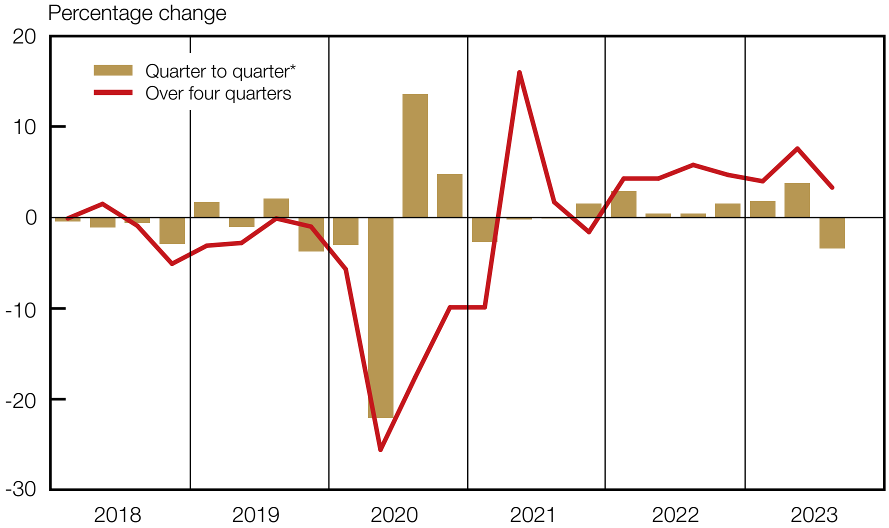
Seasonally adjusted
Source: SARB

Households' net wealth declined in the third quarter of 2023 as total assets decreased and total liabilities increased. The decline in total assets was due to the lower market value of equities, while the value of housing stock increased. Consequently, the ratio of net wealth to nominal disposable income decreased to 382% in the third quarter from 392% in the second quarter.

Growth in the real *final consumption expenditure by general government* moderated to 0.3% in the third quarter of 2023 from 1.8% in the second quarter. Real spending on both the compensation of employees and on non-wage goods and services increased, albeit at a slower pace. The average level of real spending by general government in the first three quarters of 2023 was 1.9% more than in the corresponding period of 2022.

Real *gross fixed capital formation* switched to a decrease of 3.4% in the third quarter of 2023 from an increase of 3.8% in the second quarter. Capital outlays by all three organisational types decreased in the third quarter. On a year-on-year basis, the level of real gross fixed capital investment in the third quarter of 2023 was 3.3% higher than in the corresponding period of 2022. Similarly, the average level of gross fixed capital formation in the first three quarters of 2023 was 4.9% higher than in the same period of 2022.

Real gross fixed capital formation



* Seasonally adjusted

Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* decreased by 3.1% in the third quarter of 2023 and deducted 2.2 percentage points from growth in total real gross fixed capital formation. This followed an increase of 5.4% in the previous quarter. The decrease in the third quarter was largely driven by reduced investment of computer software, computer equipment and construction works. However, the private sector's share of total nominal gross fixed capital formation increased slightly from 71.9% in the second quarter of 2023 to 72.3% in the third quarter.

Real gross fixed capital formation

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

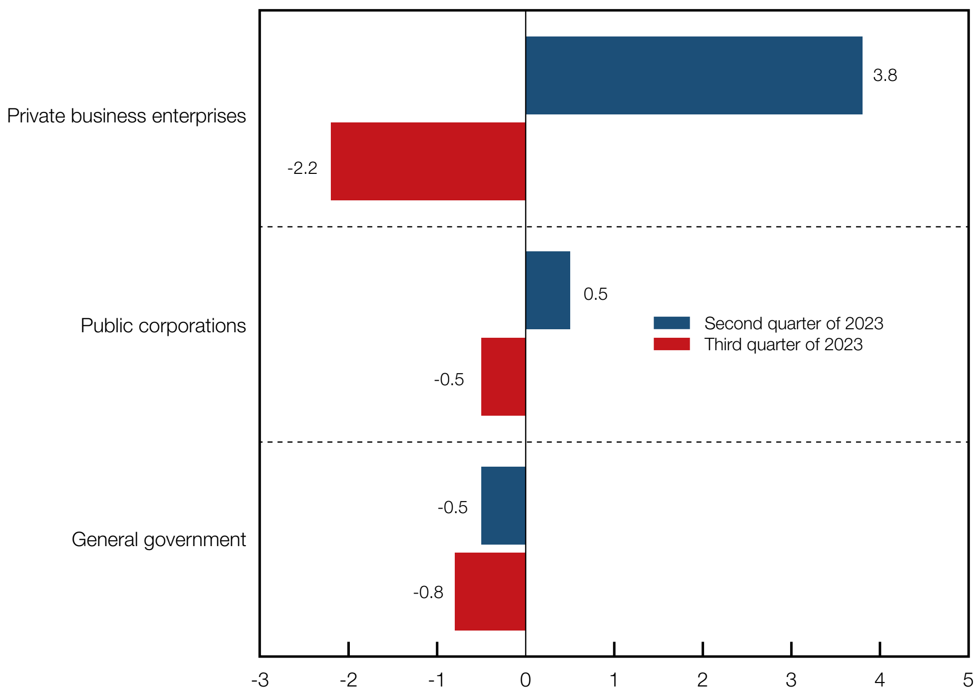
Sector	2022					2023		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Private business enterprises	2.8	0.2	-0.5	1.8	5.2	0.7	5.4	-3.1
Public corporations......................	3.5	1.7	2.3	0.2	8.2	0.8	4.2	-4.1
General government....................	2.6	0.1	3.1	1.0	1.0	7.2	-2.9	-4.5
Total	**2.9**	**0.4**	**0.4**	**1.5**	**4.8**	**1.8**	**3.8**	**-3.4**

* Percentage change over one year

Source: Stats SA

Real capital spending by the *public sector* decreased further by 4.3% in the third quarter of 2023 on account of a reduction in capital outlays by both general government and public corporations. Capital expenditure by *general government* decreased by 4.5% in the third quarter of 2023, subtracting 0.8 percentage points from growth in total real gross fixed capital formation. The decrease reflected reduced capital spending on transport equipment as well as machinery and equipment across the three spheres of government, in addition to lower computer equipment outlays by the general and provincial governments. Consequently, the share of general government in total nominal gross fixed capital formation decreased to 17.0% in the third quarter from 17.3% in the second quarter.

Contributions to growth in real gross fixed capital formation



Percentage points
Source: Stats SA

Real gross fixed capital spending by *public corporations* decreased by 4.1% in the third quarter of 2023 after recording an increase of 4.2% in the preceding quarter. The decrease in the third quarter reflected reduced capital outlays on transport equipment, computer software and non-residential buildings. The share of public corporations in total nominal gross fixed capital formation remained unchanged at 10.8% in the third quarter of 2023.

Measured by asset type, real gross fixed capital outlays on all asset categories decreased in the third quarter of 2023, except for transfer costs. Machinery and other equipment, transport equipment and *other assets*[3] subtracted the most from overall gross fixed capital formation.

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

Box 1 Unpacking capital formation statistics in South Africa[1, 2, 3]

Capital formation statistics, as indicators of investment in an economy, are important macroeconomic national accounts aggregates. Gross capital formation (GCF) is an essential driver of both gross domestic expenditure and production, while net capital formation increases the stock of non-financial assets. This box unpacks the difference between gross and net capital formation at current price levels[4], disaggregated by type of organisation and how it is financed. Specific reference is made to developments in 2020 at the time of the coronavirus disease 2019 (COVID-19) pandemic and thereafter.

Selected South African national accounts and balance of payments aggregates at current prices

R millions

	2019	2020	2021	2022
Capital formation[a]				
General government	148 208	141 116	150 196	165 015
Public corporations	105 232	88 023	84 406	93 613
Private business enterprises	636 512	468 948	575 333	760 761
Gross capital formation[b]	889 952	698 087	809 935	1 019 389
Less: Consumption of fixed capital[c]	721 642	746 059	785 997	865 121
Net capital formation[d]	168 310	-47 972	23 938	154 268
General government	27 341	16 711	16 066	17 947
Public corporations	32 237	12 995	5 128	7 549
Private business enterprises	108 732	-77 678	2 744	128 771
Saving				
Gross saving[e]	743 449	806 328	1 036 614	989 388
Less: Consumption of fixed capital	721 642	746 059	785 997	865 121
Net saving[f]	21 807	60 269	250 617	124 267
Financing				
Gross capital formation	889 952	698 087	809 935	1 019 389
Less: Consumption of fixed capital	721 642	746 059	785 997	865 121
Less: Net saving	21 807	60 269	250 617	124 267
Foreign finance[g]	146 504	-108 241	-226 678	30 001

a. Capital formation by type of organisation.
b. Gross capital formation comprises gross fixed capital formation and the change in inventories. Gross fixed capital formation is the value of acquisitions *less* disposals of fixed produced and non-produced non-financial assets. The change in inventories is the difference between additions to, and withdrawals from, inventories.
c. Consumption of fixed capital is the decline in the value of the stock of fixed produced non-financial assets due to normal wear and tear as well as obsolescence or normal accidental damage.
d. Net capital formation is gross capital formation *less* consumption of fixed capital.
e. Gross saving is the balancing item of the current account as carried forward to the capital account and is equal to gross disposable income *minus* final consumption expenditure and the residual, which is the statistical discrepancy between the expenditure components and gross domestic product.
f. Net saving is equal to gross saving *minus* the consumption of fixed capital.
g. Foreign finance is the mirror image of the balance on the current account of the balance of payments as from the perspective of the rest of the world. See pages S–84 and S–140 in this edition of the *Quarterly Bulletin*.

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1 This box relates to the statistics on capital formation published on pages S–114, S–134 and S–139 as well as E–2 to E–4 in this edition of the *Quarterly Bulletin (QB)*.

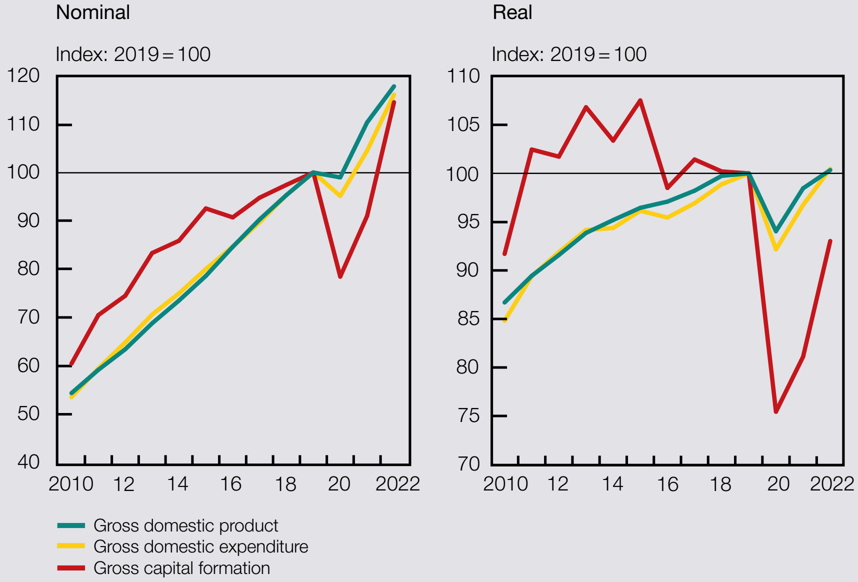
2 This box follows related boxes published in previous editions of the *QB*. See 'Box 1: Unpacking nominal national accounts aggregates' and 'Box 2: Unpacking gross fixed capital formation in South Africa' in the March 2021 and September 2020 editions of the *QB* respectively, available at https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/boxes/2021/Box%201%20Unpacking%20nominal%20national%20accounts%20aggregates.pdf and https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/boxes/2020/10329/Box-2-Unpacking-gross-fixed-capital-formation-in-South-Africa.pdf

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

4 This represents nominal values at current prices, not adjusted for inflation.

Within the context of the macroeconomic statistical framework, there is a high degree of co-movement between the levels of gross domestic product (GDP)[5], gross domestic expenditure (GDE)[6] and GCF.

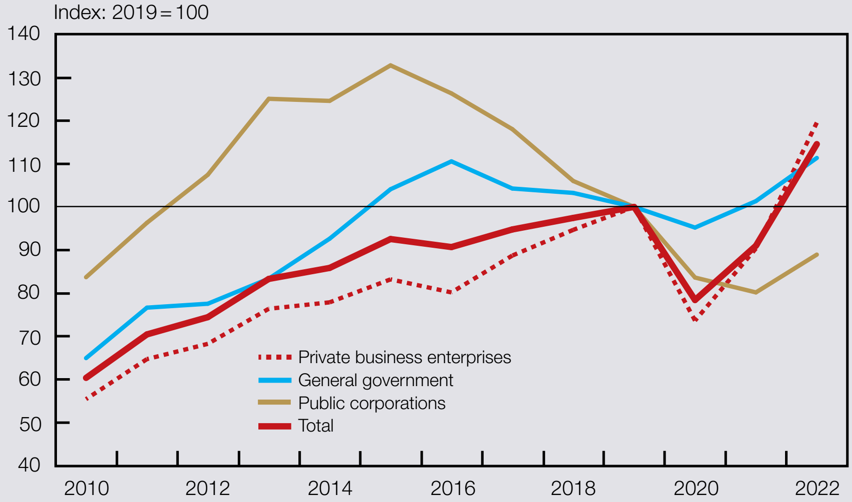
Capital formation and measures of economic activity



Sources: Stats SA and SARB

The level of South Africa's nominal GCF contracted by 21.6% in 2020 during the COVID-19 pandemic. This followed the postponement and cancellation of capital investment projects in various industries across all three organisational types as gross fixed capital formation contracted by 11.6% and the change in inventories decreased by R70.8 billion, partly due to the disruption in global supply chains affecting the movement of capital goods and materials.

Gross capital formation by type of organisation



Sources: Stats SA and SARB

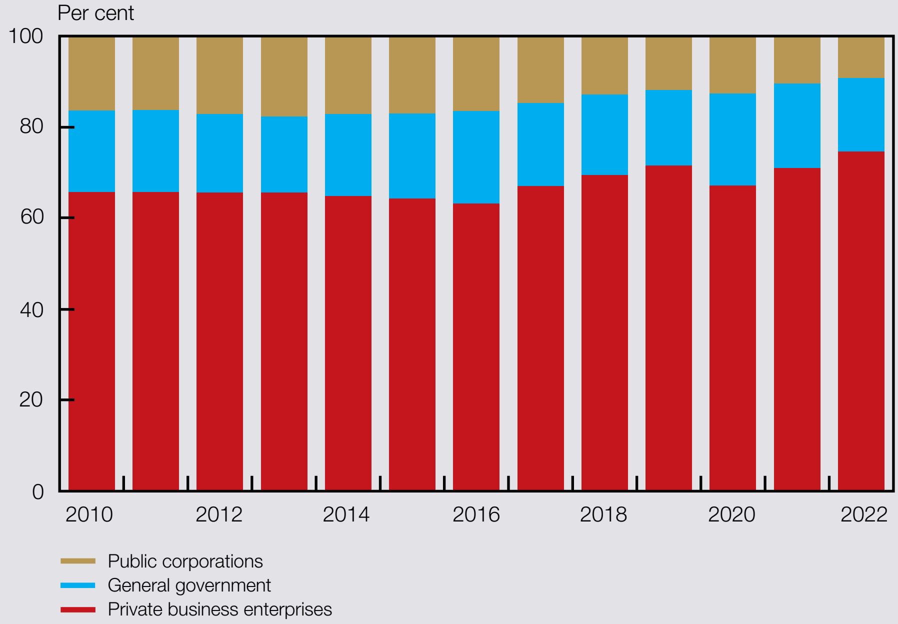
5 GDP is the total value of all goods and services produced within a country's borders over a specific period and serves as a measure of overall economic activity.

6 GDE is the total value of all expenditure by an economy.

The contraction in GCF by general government in 2020 was less severe due to the roll-out of pandemic-related responses such as the expansion and upgrade of healthcare infrastructure, the building of field hospitals, the establishment of additional COVID-19 testing and treatment centers as well as purchases of medical equipment. Following the contraction in 2020, the level of total GFC expanded to R1.0 trillion in 2022, mainly boosted by private business enterprises as capital investment by general government and public corporations recovered at a slower pace.

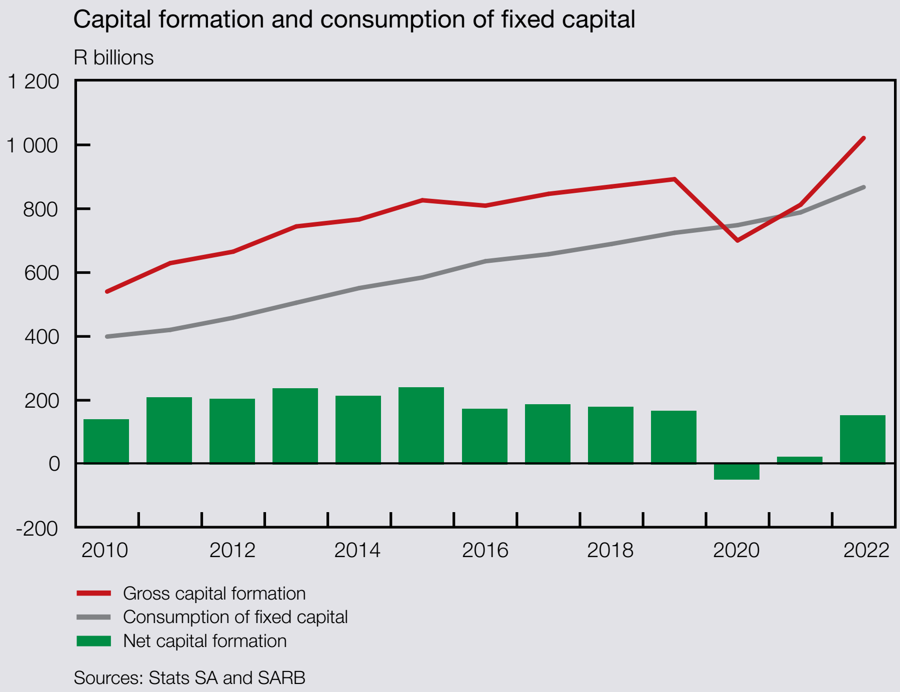
On average, private business enterprises contributed the most to total GFC during the period under review, followed by general government and public corporations. Despite this, the contribution of capital investment by private business enterprises decreased to 67% in 2020, from 72% in 2019, whereas that of general government and public corporations increased somewhat.

Contribution to gross capital formation by type of organisation

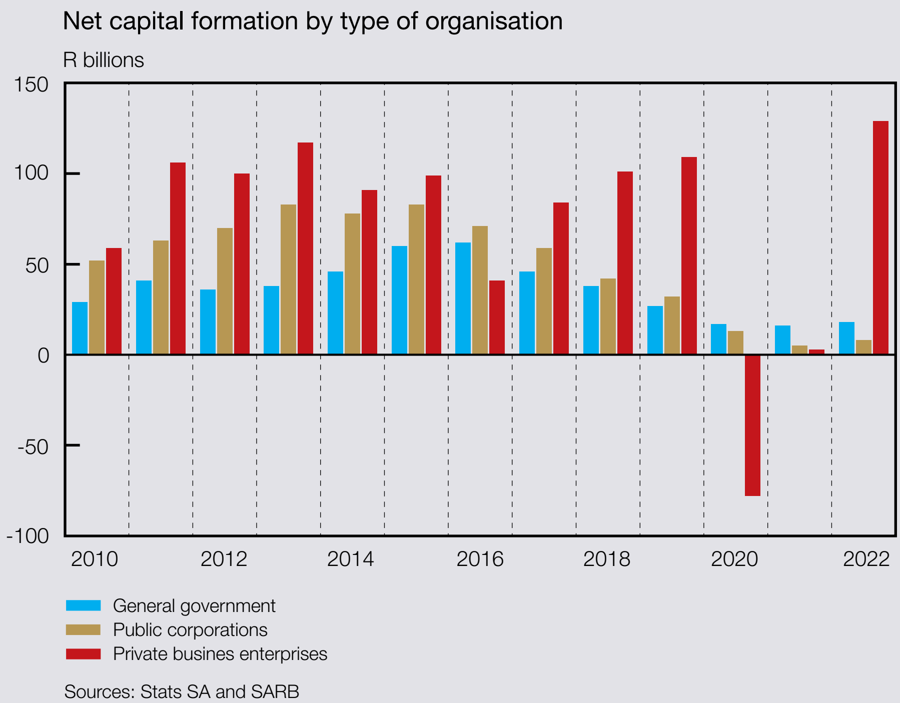


Sources: Stats SA and SARB

In 2020, the domestic economy recorded *negative* net capital formation of R48.0 billion as the consumption of fixed capital exceeded GCF. This negative net investment indicated that the economy was investing less than what was required to cover depreciation and was therefore unable to maintain or expand the stock of non-financial assets. The previous instance of negative annual net capital formation was recorded in 1993 when capital investment declined amid political uncertainty and the risk associated with the transition of government.

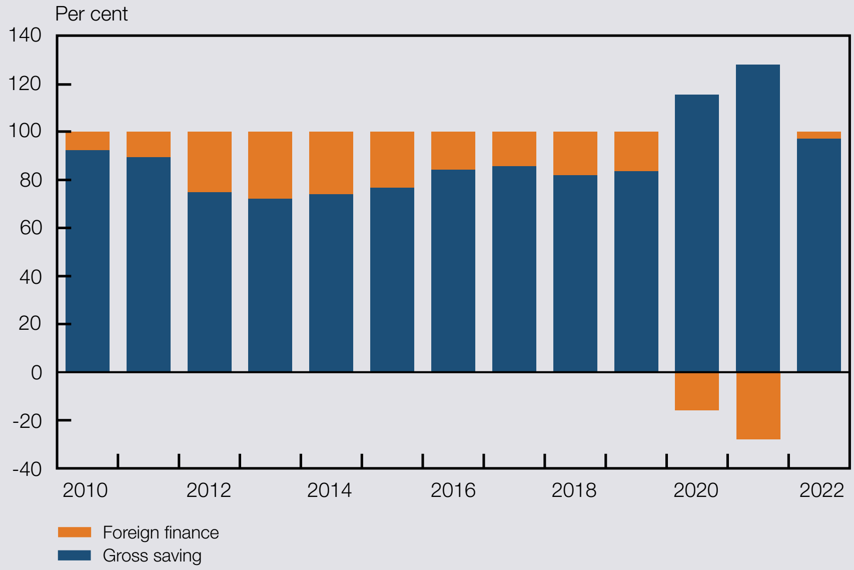


From an organisational type perspective, private business enterprises contributed the most to the contraction in net capital formation in 2020, at R77.7 billion. Net capital formation of all three organisational types again turned positive in 2021 and private business enterprises once again contributed the most as from 2022.



GCF continued to be financed through a combination of gross saving and foreign finance. Given that the consumption of fixed capital was the largest portion and only maintained the level of the current stock of non-financial assets, the combined value of net saving and foreign financing equated to net capital formation. This confirms the importance of both net domestic savings and foreign capital flows. In 2020 and 2021, South Africa recorded a current account surplus alongside capital outflows in the financial account of the balance of payments.

Financing of gross capital formation



Sources: Stats SA and SARB

Real *inventory holdings* decreased by R44.5 billion (at seasonally adjusted and annualised 2015 prices) in the third quarter of 2023 following an accumulation of R62.0 billion in the second quarter. The depletion of inventories was concentrated in the manufacturing, mining and transport sectors, partly due to the marked decrease in imports. By contrast, the trade sector accumulated inventories.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) remained unchanged at 14.5% in the third quarter of 2023. The increased saving rate of corporate business enterprises was offset by the decrease in household saving and the increased dissaving by general government. The share of total gross capital formation financed through foreign capital (the foreign financing ratio) decreased from 15.6% in the second quarter of 2023 to 1.9% in the third quarter.

Gross saving as a percentage of gross domestic product

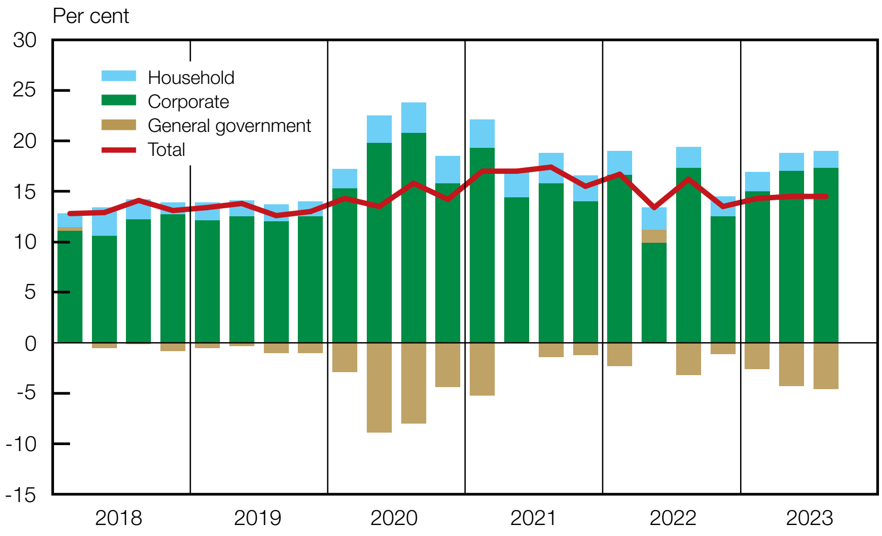
Ratio in per cent based on seasonally adjusted and annualised data

Sector	2022					2023		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Corporate......................	16.6	9.9	17.3	12.5	14.1	15.0	17.0	17.3
General government.....	-2.3	1.3	-3.2	-1.1	-1.3	-2.6	-4.3	-4.6
Household....................	2.4	2.2	2.1	2.0	2.2	1.9	1.8	1.7
Total............................	16.7	13.4	16.2	13.5	14.9	14.3	14.5	14.5

Source: Stats SA and SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 17.0% in the second quarter of 2023 to 17.3% in the third quarter, mainly due to higher operating surpluses. Dissaving by *general government* as a percentage of GDP increased slightly from 4.3% in the second quarter to 4.6% in the third quarter as the increase in the seasonally adjusted nominal government expenditure outweighed that in revenue collection. Gross saving by the *household sector* as a percentage of GDP declined marginally to 1.7% in the third quarter from 1.8% in the second quarter as the seasonally adjusted nominal consumption expenditure increased more than seasonally adjusted nominal disposable income.

Gross saving as a percentage of gross domestic product



Sources: Stats SA and SARB

Employment

Total household-surveyed employment increased sharply by 399 000 (2.4%) in the third quarter of 2023, surpassing its pre-COVID-19 peak for the first time as job gains were broad-based, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS)*.[4] Formal sector employment increased significantly by 287 000 (2.5%) in the third quarter followed by an increase of 61 000 (6.8%) in the agricultural sector, a 29 000 (0.9%) increase in the informal sector and 22 000 (2.0%) more jobs recorded in the private household sector. Formal sector employment was largely driven by job gains of 236 900 (9.1%) in the finance, insurance, real estate and business services sector as well as 118 800 (3.0%) in the community, social and personal services sector, which likely reflected increased temporary public sector employment.

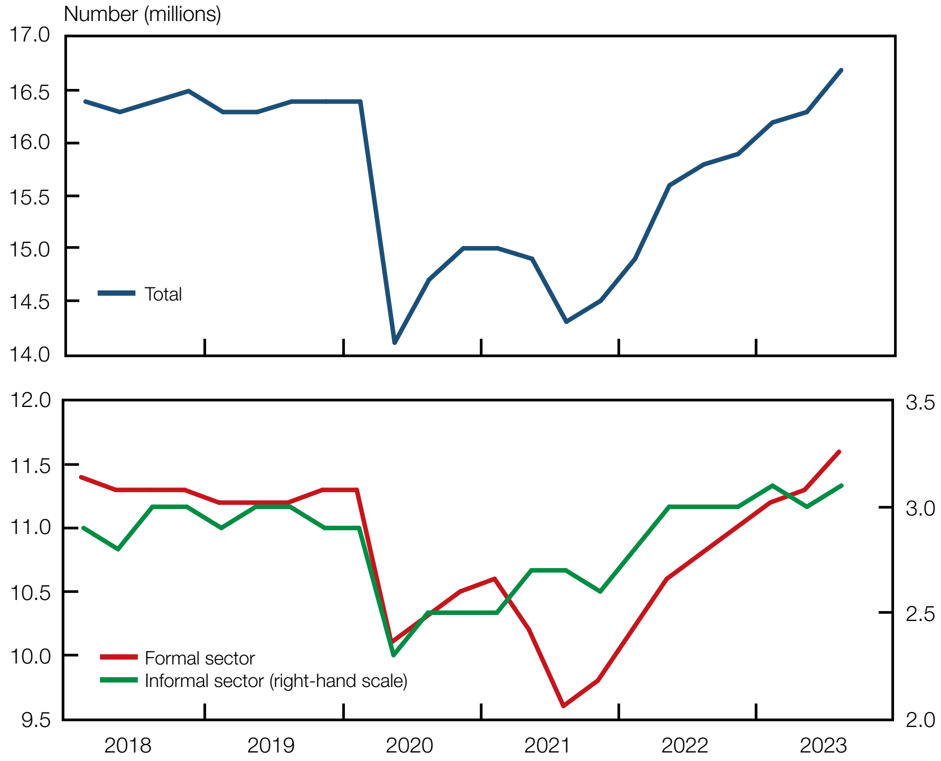
The year-on-year pace of increase in total household-surveyed employment accelerated to 979 000 (6.2%) in the third quarter of 2023 but was still lower than the recent peak of 1.5 million (10.4%) in the third quarter of 2022. The total number of new and renewed job postings on the PNet web platform increased by 3.4% in the third quarter of 2023, with total job postings 10.0% higher in October 2023 compared with October 2019, before the onset of the COVID-19 pandemic. However, the employment outlook remains sensitive to the weak economic growth environment, associated with electricity load-shedding, elevated production costs, low business confidence and higher interest rates. Despite the gloomy outlook, investment in renewable energy development is expected to contribute to job creation in the coming years while also supporting economic growth, according to a report on renewable energy and jobs.[5] About 13.7 million such jobs had been created globally in 2022 along with 12.7 million in 2021, consistent with the mission of the Global Accelerator on Jobs and Social Protection.[6]

4 Stats SA noted that the response rate of the *QLFS* was 88.3% in the third quarter of 2023, down from 89.3% in the second quarter, but up from 85.4% in the third quarter of 2022.

5 International Renewable Energy Agency (IRENA) and International Labour Organization (ILO), *Renewable energy and jobs: annual review 2023.*

6 This is a United Nations initiative aimed at investment to create at least 400 million decent jobs, primarily in the green, digital and care economies, and to extend social protection coverage to the over 4 billion people currently excluded.

Household-surveyed employment



Source: Stats SA

Employment contracts of a limited duration increased by 5.8% on a quarter-to-quarter and seasonally adjusted basis in the third quarter of 2023, partly reflecting the continued uptake in employment related to the Presidential Youth Employment Initiative (PYEI) as well as the Expanded Public Works Programme. Employment contracts of a permanent nature increased by 3.5%, while those of an unspecified duration increased by 4.8% in the third quarter of 2023.

South Africa's total labour force increased by 1.3% to 24.6 million in the third quarter of 2023, supported by the significant increase in the total number of employed persons alongside a decrease in the number of officially unemployed persons. Consequently, South Africa's official unemployment rate decreased further from 32.6% in the second quarter of 2023 to 31.9% in the third quarter. Similarly, the seasonally adjusted unemployment rate decreased marginally from 32.3% to 32.0% over the same period. Encouragingly, the International Labour Organization (ILO) reported that the unemployment rate in the BRICS[7] countries had decreased to 4.8% in 2022 and was expected to decrease further to 4.7% in 2023.[8]

7 Brazil, Russia, India, China and South Africa.

8 https://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/brics/lang--en/index.htm

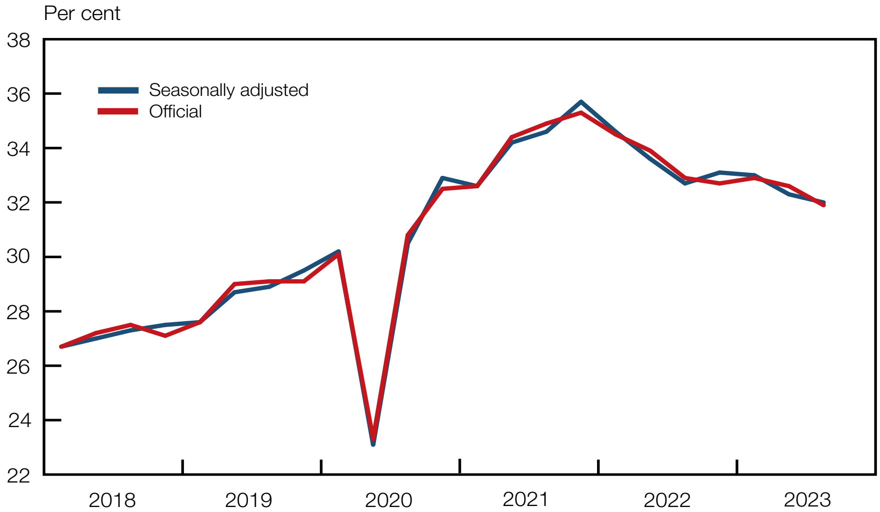
Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2022	2023			2023 Q3		
	Q3	Q1	Q2	Q3	Number	Per cent	Per cent
a. Total employed	15 765	16 192	16 346	16 745	399	2.4	6.2
b. Total unemployed (official definition)	7 725	7 933	7 921	7 849	-72	-0.9	1.6
c. Total labour force (a+b)	23 491	24 125	24 268	24 594	326	1.3	4.7
d. Total not economically active	16 831	16 479	16 478	16 292	-186	-1.1	-3.2
e. Population 15–64 years (c+d)	40 322	40 604	40 746	40 886	140	0.3	1.4
f. Official unemployment rate* (b/c)*100	**32.9%**	**32.9%**	**32.6%**	**31.9%**	–	–	–
g. Discouraged	3 514	3 276	3 182	3 156	-26	-0.8	-10.2
h. Other reasons for not searching for work	1 157	1 259	1 252	1 206	-46	-3.7	4.3
i. Expanded unemployment rate**	**43.1%**	**42.4%**	**42.1%**	**41.2%**	–	–	–

* 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

Unemployment rate

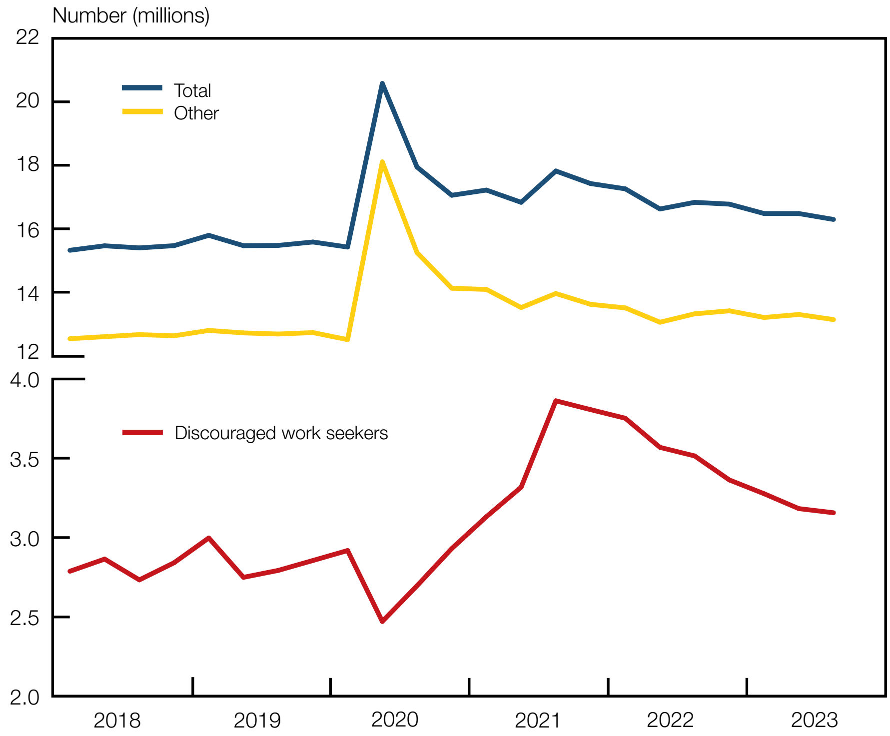


Sources: Stats SA and SARB

The number of officially unemployed persons in the third quarter of 2023 comprised mostly new entrants (42.0%) to the labour market followed by job losers (28.1%), while those who last worked five years ago represented 22.6% of the number of officially unemployed persons. Moreover, re-entrants and job leavers accounted for 3.9% and 3.5% respectively in the third quarter. The proportion of long-term unemployment (unemployed for one year or longer) to total unemployment remained elevated and has increased steadily over the past decade, from 65.5% in the third quarter of 2013 to 75.3% in the third quarter of 2023.

The youth unemployment rate (those aged 15–24 years and actively searching for work) decreased to 58.0% in the third quarter of 2023, with the share of young persons who were neither in employment, education nor training decreasing to 32.7%, or 3.3 million out of 10.2 million youth. Similarly, the unemployment rate of those aged between 25 and 34 years decreased from 39.8% in the second quarter of 2023 to 38.3% in the third quarter. Moreover, education levels seem to be an important catalyst to obtaining employment, since persons with education levels of 'only Matric' and 'less than Matric' continued to experience elevated rates of unemployment in South Africa at 33.0% (35.2% in the second quarter) and 38.8% (38.3% in the second quarter) respectively in the third quarter.

Not economically active population



Source: Stats SA

The not economically active population decreased by 186 000 (1.1%) persons in the third quarter of 2023 as the number of discouraged work seekers decreased by 26 000 (0.8%) and the number of *other*[9] not economically active persons decreased by 160 000 (1.2%). Consequently, the expanded unemployment rate, which includes discouraged work seekers, decreased for an eighth successive quarter to 41.2% in the third quarter of 2023 from a recent peak of 46.6% in the third quarter of 2021. According to the ILO, the global jobs gap indicator[10] is expected to reach 11.7% (453 million people) in 2023 – more than double the number of officially unemployed persons globally.

Encouragingly, South Africa's labour force participation rate increased further from 59.6% in the second quarter of 2023 to 60.2% in the third quarter, while the labour absorption rate (the percentage of the working age population, aged 15–64 years, who are employed) increased from 40.1% to 41.0% over the same period, consistent with the significant rise in employment during the quarter.

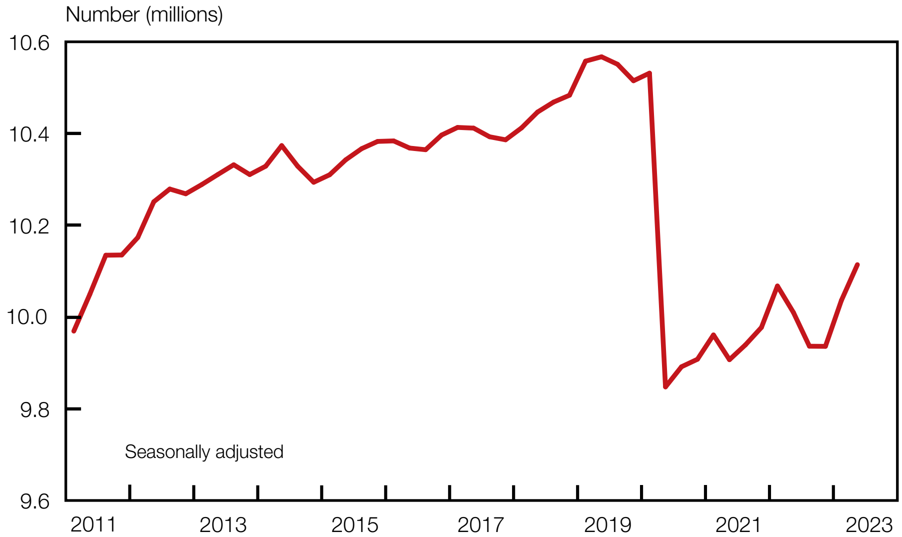
9 The 'other' not economically active category includes students, homemakers, those too old or too young to work as well as those who are ill or disabled. Stats SA has also included those people who could not search for work due to the pandemic and lockdown restrictions since the second quarter of 2020 and those who did not search for work due to the civil unrest in the third quarter of 2021.

10 The jobs gap indicator is a novel indicator developed by the ILO, capturing all persons who want to work but do not have a job. It incorporates all jobseekers or others who would work if they could and is a useful complement to the unemployment rate as it provides a more comprehensive view of labour underutilisation. See https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms_883341.pdf

Enterprise-surveyed formal non-agricultural employment[11] increased further by 3.1% in the second quarter of 2023, albeit at a marginally slower pace than in the preceding quarter. The 75 800 jobs gained raised the level of such employment to 10.1 million and partially reflected the continuation of temporary employment contracts in the public sector, alongside a modest increase in private sector employment.

11 As measured by Stats SA's *Quarterly Employment Statistics (QES)* survey. The statistics in this section were seasonally adjusted by the SARB and all quarterly growth rates were annualised.

Formal non-agricultural employment*

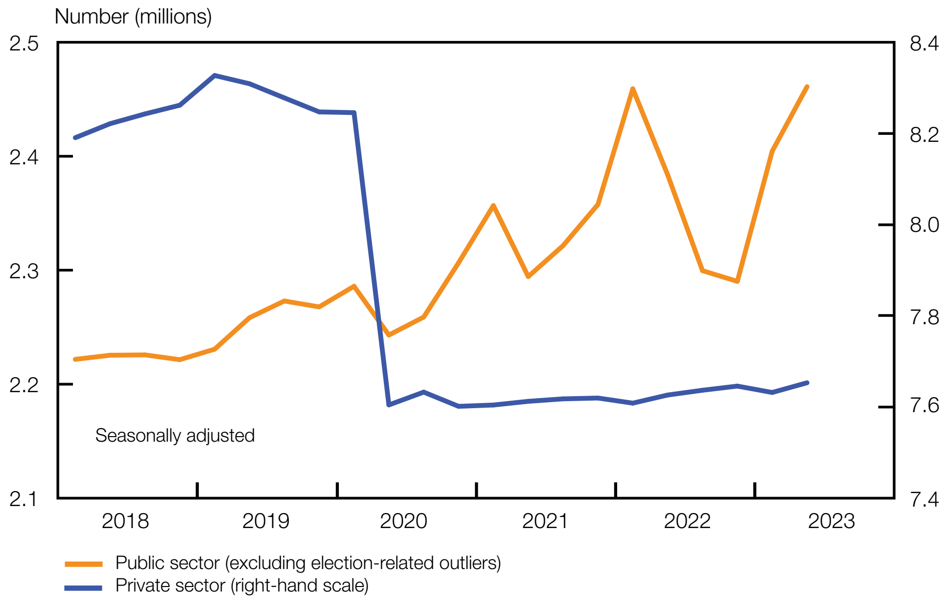


* Excluding election-related outliers

Sources: Stats SA and SARB

Public sector employment increased further by 54 400 (9.4%) in the second quarter of 2023, culminating in a gain of 168 800 jobs in the first half of the year. This increase largely reflected the ongoing employment related to Phase IV of the PYEI at provincial level in May 2023. However, the headcount was reduced in all other tiers of the public sector, except in other public sector enterprises.

Public and private sector employment

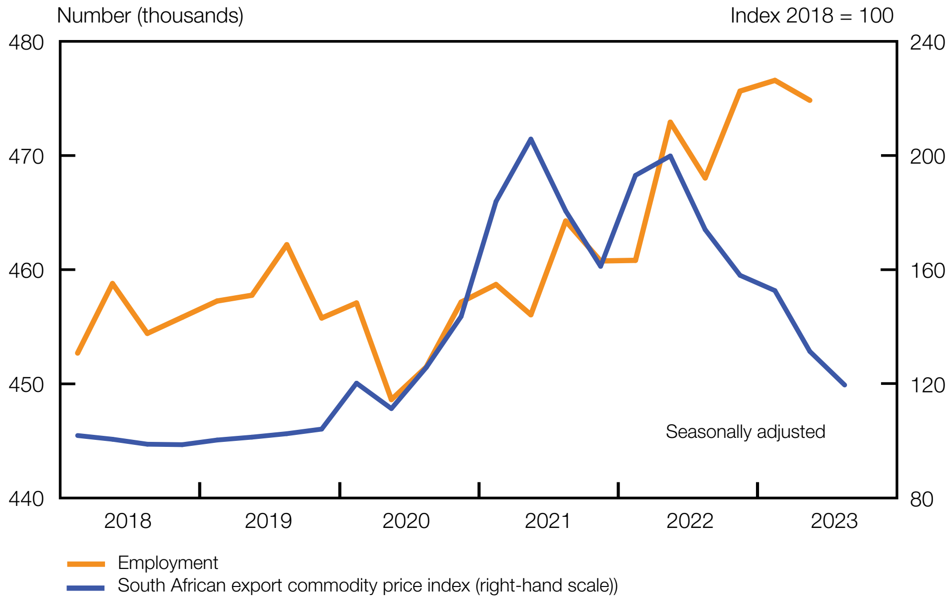


Sources: Stats SA and SARB

Private sector employment increased by 21 300 (1.1%) in the second quarter of 2023, with job gains recorded in five of the eight subsectors. These gains were most pronounced in the financial intermediation, insurance, real estate and business services sector. Despite a challenging domestic economic environment, employment numbers in the mining as well as the trade, catering and accommodation services sectors have consistently outperformed the rest of the private subsectors following the COVID-19 pandemic, while those in the construction as well as the transport, storage and communication services sectors continued to shrink.

Mining sector employment decreased in the second quarter of 2023 following two successive quarters of increases, weighed down by job losses in the gold-mining subsector. By contrast, employment in the non-gold mining subsector remained relatively unchanged over this period. Employment in the mining sector has recovered from the COVID-19 pandemic low and maintained a steady upward trajectory since the third quarter of 2020, despite ongoing domestic electricity and logistical constraints and the sharp moderation in international commodity prices since mid-2022.

Mining sector employment and international commodity prices



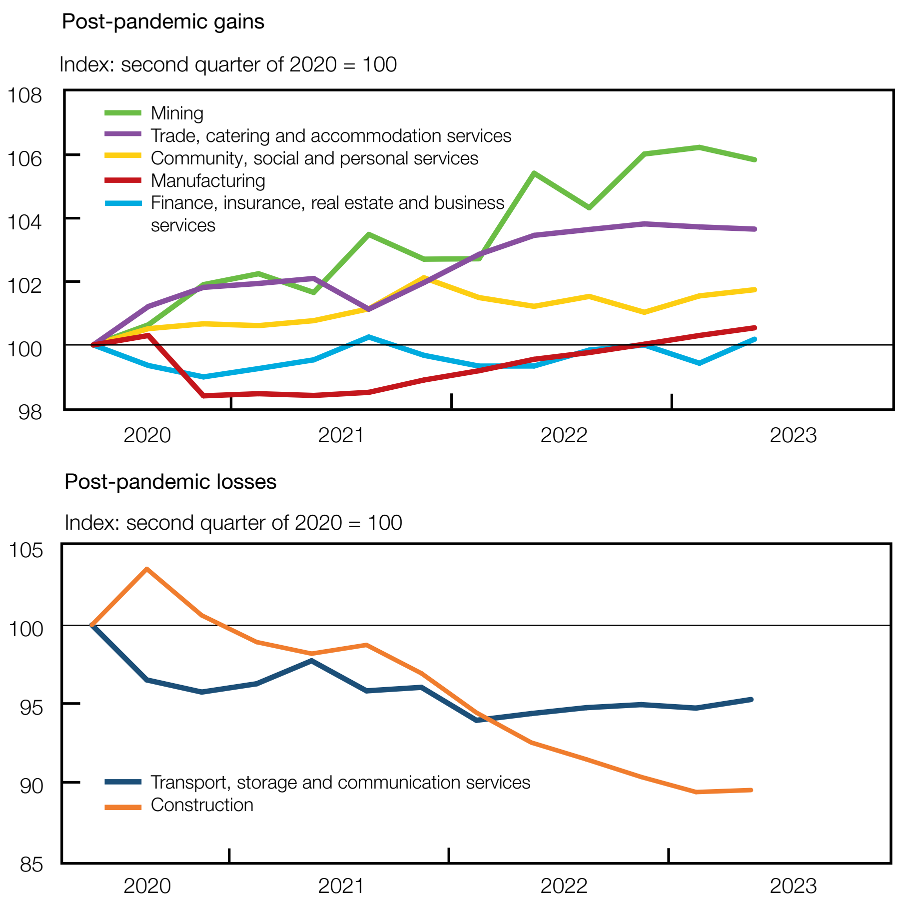
Sources: Stats SA and SARB

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

Manufacturing sector employment increased for an eighth successive quarter in the second quarter of 2023. After hovering at a three-year low of 17 index points in the first half of 2023, manufacturing business confidence[12] rose to 23 in the third quarter and further to 26 in the fourth quarter of the year, boosted by the reprieve in electricity load-shedding during both survey periods. However, slowing growth in South Africa's key trading partners and the tough domestic economic climate remain a concern for the recovery of the manufacturing sector.

Construction sector employment increased marginally in the second quarter of 2023, following six consecutive quarters of job losses. The Bureau for Economic Research's (BER) *Construction Survey* for the third quarter of 2023 showed a sustained improvement in civil construction activity over the past 12 months, accompanied by a rise in profitability and a continued decline in the constraint posed by insufficient demand for new projects. In addition, the First National Bank (FNB)/BER Civil Confidence Index rose from 41 to 43 index points in the third quarter. Building confidence also increased over this period due to an improvement in the underlying indices, especially among main and sub–contractors. This was supported by the recovery in both residential and non-residential building activity that continued into the third quarter.

Private sector employment



Seasonally adjusted

Sources: Stats SA and SARB

Employment in the trade, catering and accommodation services sector decreased marginally in the second quarter of 2023, in line with the general weakness in real economic activity in the sector. However, the BER's *Retail Survey* for the third quarter of 2023 reported an increase in business confidence among retailers, underpinned by an improvement in business conditions and sales volumes of particularly non-durable and semi-durable goods. Although inflation started to rise again in recent months, the BER survey expects some improvement in overall retail trade sales in the forthcoming quarters, provided headline consumer price inflation moves back towards the midpoint of the inflation target range and the pause in interest rate increases is maintained.

The *finance, insurance, real estate and business services sector* was the largest contributor to the increase in private sector employment in the second quarter of 2023, adding 17 800 jobs and fully reversing the losses registered in the previous quarter. Likewise, *employment in the transport, storage and communication services sector* increased somewhat in the second quarter of 2023 but, for a twelfth successive quarter, remained below the pandemic-induced low recorded in the second quarter of 2020.

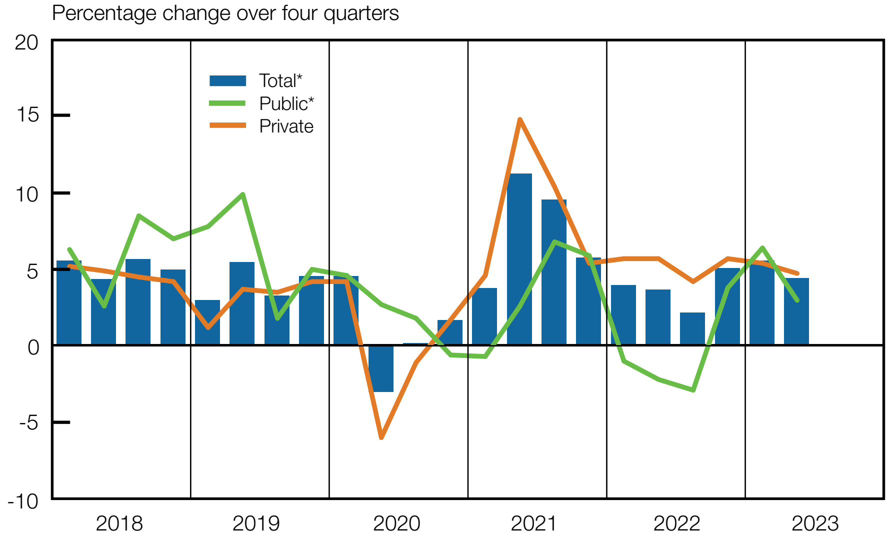
Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* moderated from 5.5% in the first quarter of 2023 to 4.3% in the second quarter as nominal remuneration growth per worker slowed in both the public and private sectors.

Growth in *nominal remuneration per public sector* worker slowed notably from 6.4% in the first quarter of 2023 to 2.9% in the second quarter as remuneration growth per worker slowed in all public sector tiers, except the public transport, storage and communication services sector. Nominal remuneration growth per worker at national department level slowed down markedly, largely reflecting base effects related to the significant number of low-earning temporary census workers employed by Stats SA a year earlier.

Nominal remuneration growth per private sector worker moderated from 5.4% in the first quarter of 2023 to 4.7% in the second quarter as nominal remuneration growth decelerated in all private subsectors, except gold mining, manufacturing, and trade, catering and accommodation services. Nominal remuneration per worker accelerated notably in the gold-mining sector, reflecting base effects related to the 'no work, no pay' principle enforced during the three-month-long strike at a prominent gold mine a year earlier.

Formal non-agricultural nominal remuneration per worker



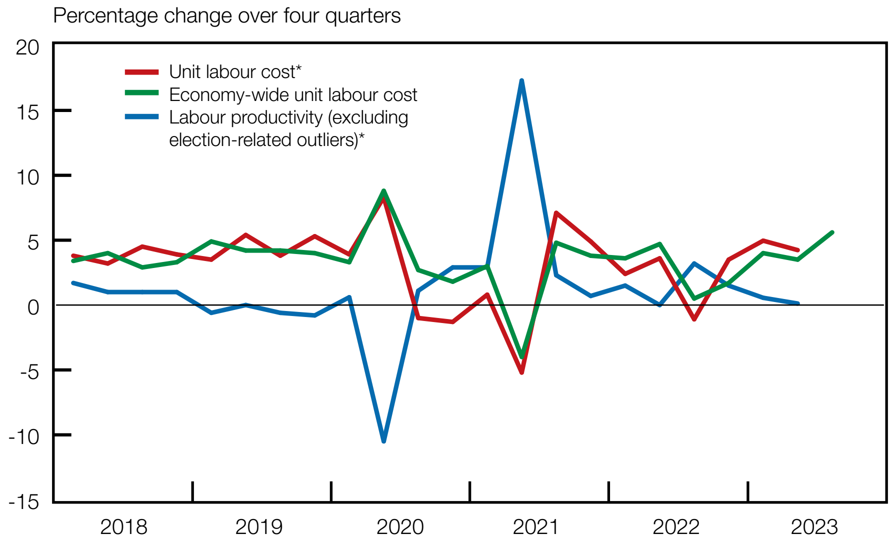
* Excluding election-related outliers

Sources: Stats SA and SARB

The *average wage settlement rate in collective bargaining agreements* was 6.4% in the first nine months of 2023 compared with 6.0% in the corresponding period of 2022 and an overall annual average of 6.0% in 2022, according to Andrew Levy Employment Publications. Most of the respondents expect wage settlements to converge in the 6.0–6.9% range in 2023. The *number of working days lost due to industrial action* rose notably to 4.8 million in the first nine months of 2023 compared with 1.7 million in the same period of 2022, largely due to the nationwide public sector strike in March 2023 and the municipal workers' strike in July.

Labour productivity in the formal non-agricultural sector remained unchanged in the second quarter of 2023 after growth slowed to 0.6% in the first quarter, as year-on-year employment growth exceeded that in output. Likewise, growth in *nominal unit labour cost* in the formal non-agricultural sector slowed from 5.0% in the first quarter of 2023 to 4.3% in the second quarter as year-on-year output growth accelerated at a faster pace than that in total remuneration. Growth in economy-wide nominal unit labour cost accelerated from 3.5% in the second quarter of 2023 to 5.6% in the third quarter as year-on-year growth in the compensation of employees accelerated while that in output slowed.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

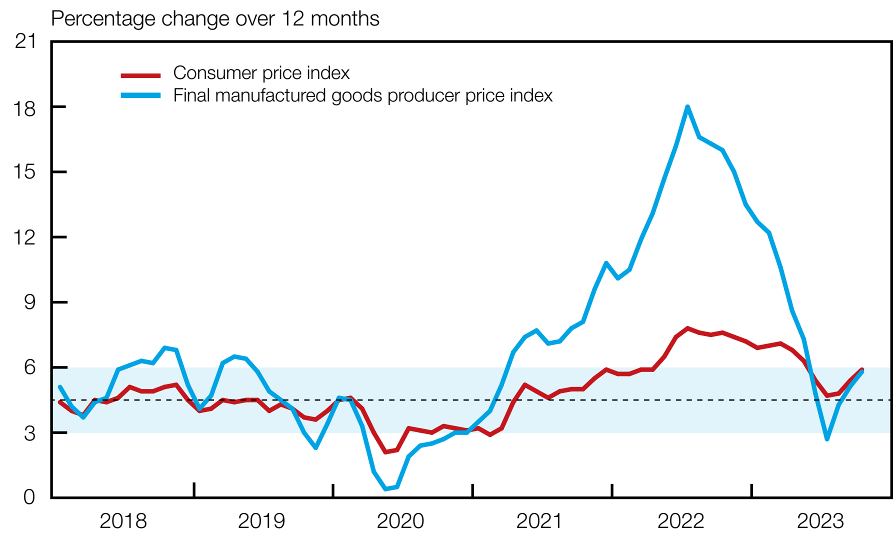
Sources: Stats SA and SARB

Prices[13]

Global consumer price inflation decreased slightly from 6.5% in the second quarter of 2023 to 6.2% in the third quarter, largely due to slower economic growth, the effects of stricter monetary policies by central banks and improvements in the global supply chain. After easing since mid-2022, domestic inflationary pressures increased somewhat with an acceleration in both headline consumer and producer price inflation in September and October 2023 as a result of production cost pressures from electricity load-shedding, elevated food prices – which were partly impacted by the avian influenza outbreak – and rising fuel prices.

13 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

Headline producer price inflation for final manufactured goods decelerated from a high of 18.0% in July 2022 to a low of 2.7% in July 2023, following lower fuel prices. Producer price inflation of final manufactured goods then accelerated to 5.8% in October 2023, largely due to the higher price inflation of coal, petroleum, chemical, rubber and plastic products as well as, to a lesser extent, food products. In addition, the producer price inflation for electrical machinery, communication and metering equipment accelerated from a year-on-year decrease of 1.9% in June 2023 to an increase of 5.9% in October as the demand for alternative energy sources increased. The rate of deflation in producer price inflation for intermediate manufactured goods accelerated from -0.1% in July 2023 to -2.9% in October as year-on-year decreases were recorded in the producer prices of basic and fabricated metals as well as chemicals, rubber and plastic products.

Producer price inflation

Percentage change over 12 months

	2023			
	Jul	Aug	Sep	Oct
Final manufactured goods	2.7	4.3	5.1	5.8
Intermediate manufactured goods	-0.1	-0.5	-2.9	-2.9
Electricity and water	18.3	17.9	16.4	16.1
Mining	-0.5	2.8	-4.8	-2.2
Agriculture, forestry and fishing	6.5	6.3	8.3	12.0

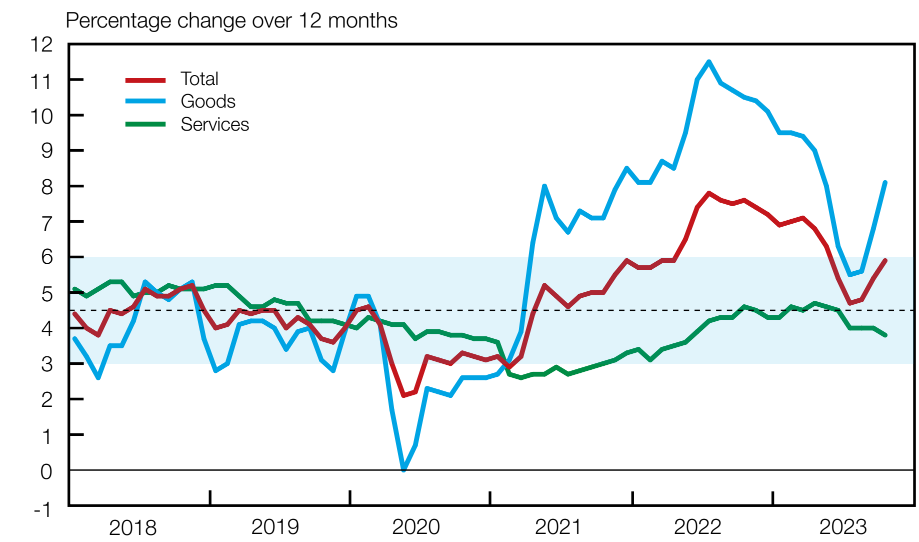
Source: Stats SA

Producer price inflation for electricity and water slowed somewhat to 16.1% in October 2023 from a recent high of 18.3% in July, reflecting the switch from winter to summer tariffs for Eskom's direct customers. Despite the recent moderation, prices have remained elevated following the 18.45% electricity price increase for municipal customers effected in July 2023 and Eskom's 18.65% tariff increase for direct customers implemented in April.

Producer price inflation for agriculture, forestry and fishing products accelerated from a low of 4.5% in May 2023 to 12.0% in October due to a notable quickening in agricultural producer prices. Producer price inflation of mining products slowed from 2.8% in August 2023 and recorded deflation of 2.2% in October, mostly due to a 9.1% year-on-year decrease in the coal and gas category, reflecting the high base in 2022 when coal prices soared on account of higher global demand to supplement the gas shortages in Europe.

Headline consumer price inflation moderated for four consecutive months up to July 2023, whereafter it gradually accelerated again to 5.9% in October 2023. The acceleration reflected higher goods prices amid higher fuel prices and elevated food prices. Conversely, consumer services price inflation trended broadly sideways from July to September 2023, before slowing further in October.

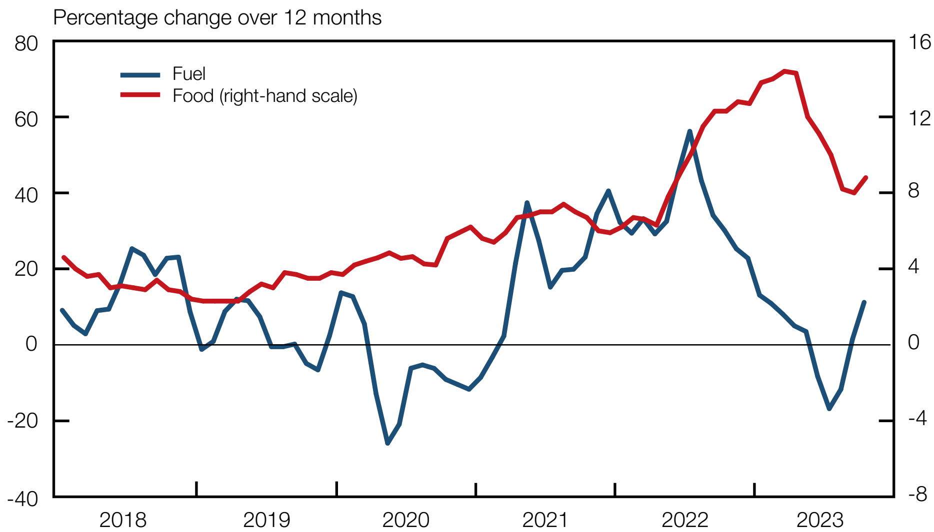
Headline consumer prices



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

Source: Stats SA

Consumer food and fuel prices

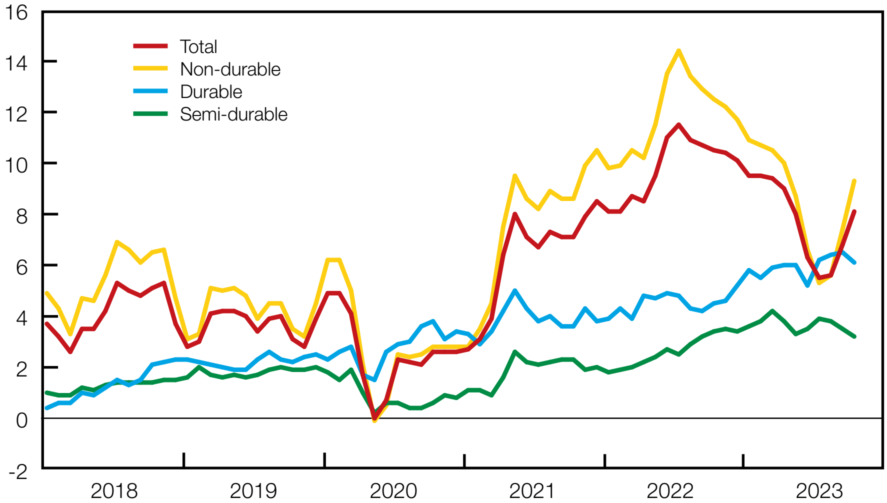


Source: Stats SA

Consumer goods price inflation decelerated to a low of 5.5% in July 2023 before accelerating notably to 8.1% in October, mainly due to an acceleration in non-durable goods price inflation from 5.3% to 9.3% over the same period. This reflected an increase in fuel, food and, to a lesser extent, electricity prices in the period under review.

Consumer goods prices

Percentage change over 12 months



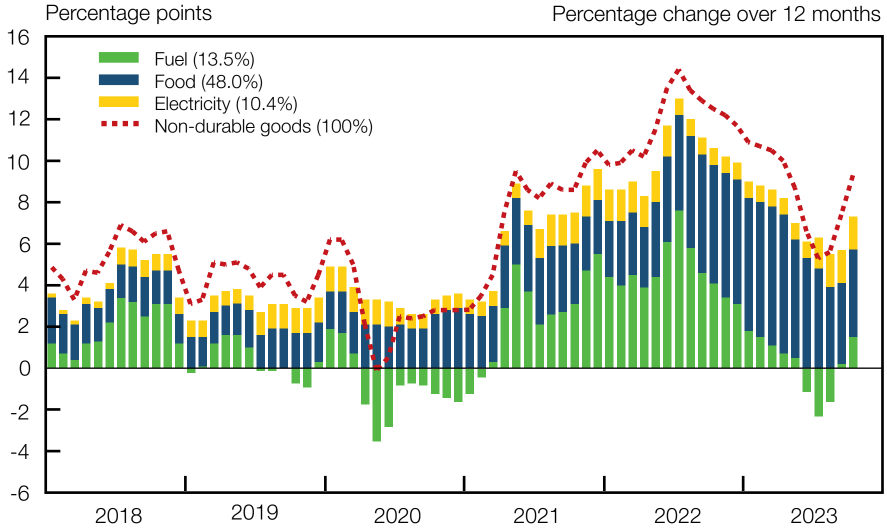
Source: Stats SA

Consumer fuel prices reverted to an increase of 11.2% in October 2023 from a decrease of 16.8% in July as international crude oil prices soared on tight supply expectations. The monthly average US dollar price per barrel of Brent crude oil increased from a low of US$74.79 per barrel in June 2023 to US$93.43 per barrel in September and remained above US$90 per barrel following the start of the conflict in the Middle East at the beginning of October, before receding at the end of October to average US$83.26 per barrel in November.

Main contributions to non-durable goods price inflation

Percentage points

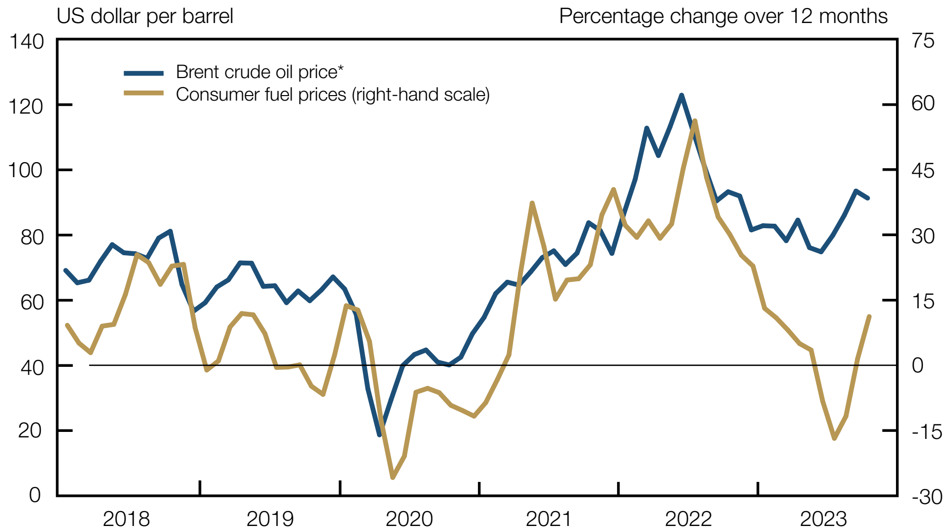
Percentage change over 12 months



The number in brackets indicates weights in the non-durable goods price index.

Source: Stats SA

Brent crude oil and consumer fuel prices



* Monthly average

Sources: Refinitiv, Stats SA and SARB

Durable goods price inflation accelerated from 5.2% in June 2023 to 6.5% in September, largely reflecting higher vehicle price inflation over this period. New vehicle price inflation accelerated from 6.2% in February 2023 to 8.4% in September, while second-hand vehicle price inflation decelerated from 15.2% in January 2023 to 8.8% in September. Thereafter, both new and used vehicle price inflation moderated somewhat in October 2023, resulting in a slowdown in durable goods price inflation to 6.1%. Semi-durable goods price inflation remained muted in an environment of weak consumer demand as it decelerated slightly from 3.8% in August 2023 to 3.2% in October.

Consumer price inflation

Percentage change over 12 months

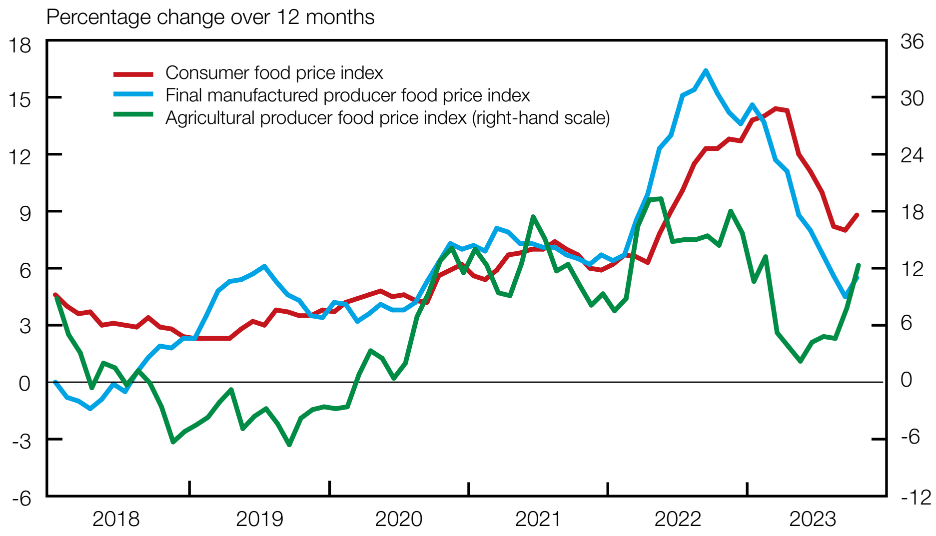
		2023			
	Weight	Jul	Aug	Sep	Oct
Headline CPI	100.00	4.7	4.8	5.4	5.9
Headline CPI, excluding food and non-alcoholic beverages, fuel and electricity	74.40	4.7	4.8	4.5	4.4
Goods	48.68	5.5	5.6	6.8	8.1
Non-durable	35.71	5.3	5.6	7.4	9.3
Semi-durable	5.38	3.9	3.8	3.5	3.2
Durable	7.59	6.2	6.4	6.5	6.1
Services	51.32	4.0	4.0	4.0	3.8

Source: Stats SA

Consumer food price inflation decelerated for a sixth consecutive month to 8.0% in September 2023 from a peak of 14.4% in March. The moderation in consumer food price inflation was interrupted in October 2023 when it accelerated to 8.8%, reflected in accelerations in five of the nine food price categories. The vegetables category as well as the milk, cheese and eggs category registered the largest accelerations to 23.6% and 12.4% respectively in October. The prices of poultry-related products were significantly impacted by the avian influenza outbreak in South Africa.

However, the deceleration in producer food price inflation has become more pronounced since the beginning of 2023. Final manufactured producer food price inflation decelerated from 14.6% in January 2023 to 4.5% in September, as price inflation in especially dairy products slowed from 8.6% to 2.6% over this period. In addition, oils and fats price inflation recorded year-on-year deflation of 13.7% in September 2023. Final manufactured producer food price inflation then accelerated to 5.5% in October 2023, largely due to higher meat, sugar as well as fruit and vegetable price inflation. Food price inflation at the agricultural level accelerated significantly from 2.2% in May 2023 to 12.3% in October as inflation for fruits and vegetables accelerated sharply to 52.1%, while the acceleration in price inflation of live animals as well as milk and eggs reflected the avian flu outbreak.

Producer and consumer food prices

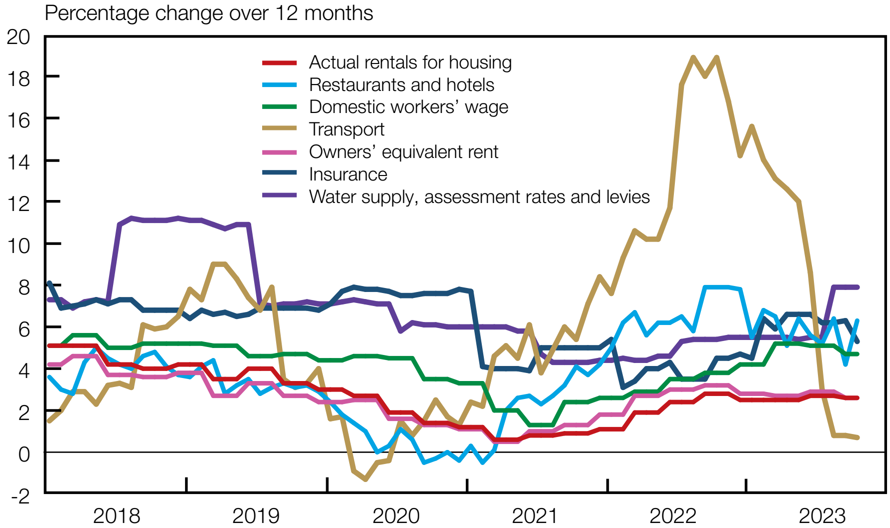


Source: Stats SA

In contrast to the recent acceleration in domestic food price inflation, international food prices continued to decrease up to October 2023. The United Nations' Food and Agriculture Organization (FAO) US dollar-denominated food price index decreased by 10.9% on a year-on-year basis in October 2023, marking the twelfth consecutive month of deflation. The downward trend in international food price inflation was supported by easing global supply chain pressures, improved global and domestic harvest prospects and war-related base effects from 2022. The prices of meat, dairy, cereals and vegetable oil continued to decelerate in October 2023, while international sugar price inflation remained elevated at 46.6%. However, when expressed in rand terms, the FAO food price index decreased to a lesser extent, by 6.4% on a year-on-year basis in October 2023, reflecting the depreciation in the exchange value of the rand.

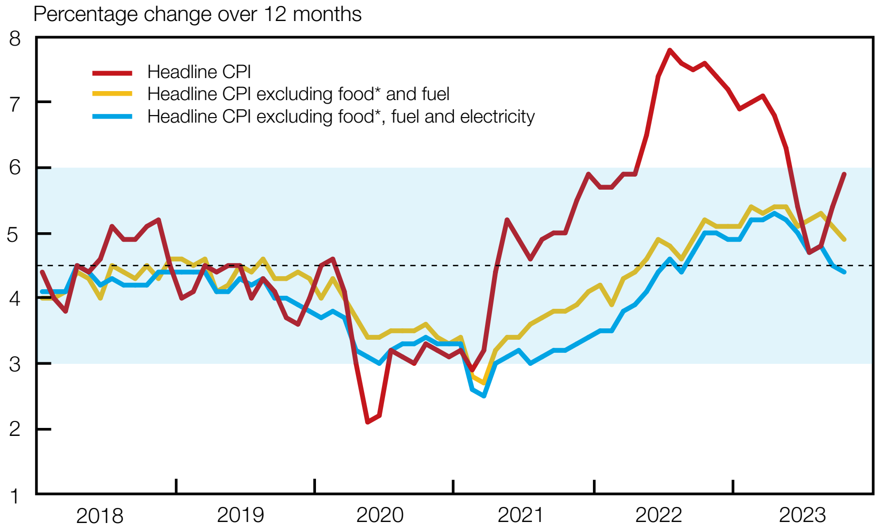
Consumer services price inflation remained unchanged at 4.0% for three consecutive months up to September 2023 before moderating to 3.8% in October. Transport services price inflation, specifically for road and air transport, has decelerated sharply thus far in 2023, slowing from 15.6% in January 2023 to 0.7% in October, partly reflecting base effects of the high fuel prices in the previous year. Slower rental services price inflation and domestic workers' wage inflation were offset by accelerations in the services price inflation of water supply, assessment rates and levies as well as recreation and culture in September 2023. In October 2023, the acceleration in restaurant and hotel services price inflation to 6.3% from 4.2% in September was outweighed by the slowdown in insurance services price inflation.

Consumer services prices



Source: Stats SA

Headline and underlying measures of consumer prices



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

* Food includes non-alcoholic beverages.

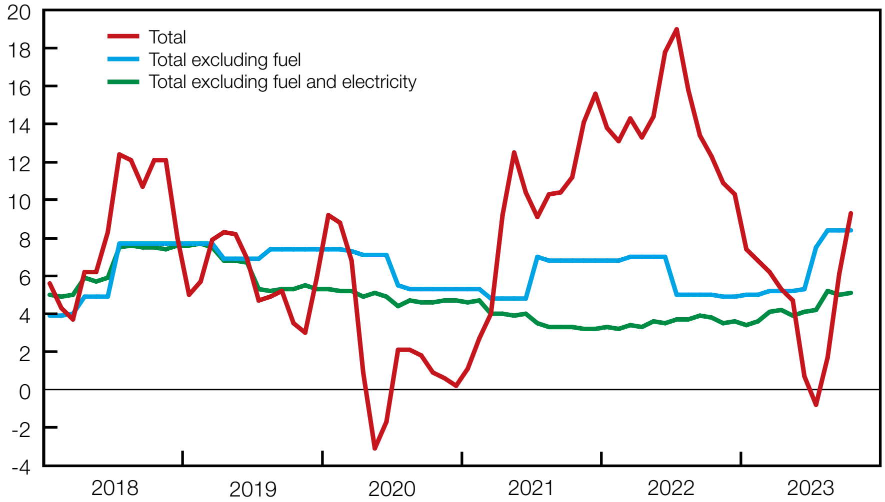
Source: Stats SA

Most measures of underlying inflation have moderated gradually in recent months. Headline consumer price inflation, excluding food, non-alcoholic beverages and fuel prices eased from 5.3% in August 2023 to 4.9% in October. Similarly, the SARB's preferred measure of core inflation, which also excludes electricity prices, decelerated to below the midpoint of the inflation target range, from 4.8% to 4.4% over the same period.

The deceleration in administered price inflation in the first six months of 2023 benefitted from a decrease in fuel price inflation from 7.4% in January 2023 to 0.7% in June. Since then, administered price inflation quickened to 9.3% in October 2023 as fuel price inflation accelerated significantly from -11.7% in August 2023 to 11.2% in October. When excluding fuel prices, administered price inflation accelerated from 5.0% in January 2023 to 8.4% in October. When also excluding electricity prices, underlying administered price inflation accelerated to a lesser extent, from 3.4% to 5.1% over the same period.

Administered prices

Percentage change over 12 months



Source: Stats SA

14 As measured by the *Survey of Inflation Expectations* conducted by the BER in the third quarter of 2023.

Average headline consumer price inflation expectations[14] decreased for all the forecast horizons in the survey conducted in the third quarter of 2023, compared with the outcome of the previous survey. Headline consumer price index (CPI) inflation for 2023 is expected to slow from 6.5% in the survey conducted in the second quarter of 2023 to 6.1% in the third-quarter survey as the inflation expectations of business and trade union representatives declined, while that of financial analysts remained unchanged. On average, all survey respondents expect inflation to moderate to 5.5% in 2024 and further to 5.3% in 2025.

Headline consumer price inflation expectations

Per cent, as surveyed in the third quarter of 2023

Average expected inflation	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2023	5.9	6.3	6.0	6.1
2024	5.0	6.0	5.6	5.5
2025	4.8	5.7	5.3	5.3
Five years ahead	4.8	5.5	5.0	5.1

Source: BER

Average five-years-ahead inflation expectations were projected to decrease from 5.2% in the second quarter of 2023 to 5.1% in the third quarter, while household inflation expectations for the coming 12 months also decreased from 8.1% to 7.0% over the same period. Encouragingly, the inflation expectations of all household income groups adjusted lower, with the higher middle-income group adjusting their expectation the most, from 8.2% to 6.0%. Households also expected lower inflation over the five-years-ahead period as it decreased from 10.7% in the second-quarter survey of 2023 to 9.8% in the third-quarter survey.

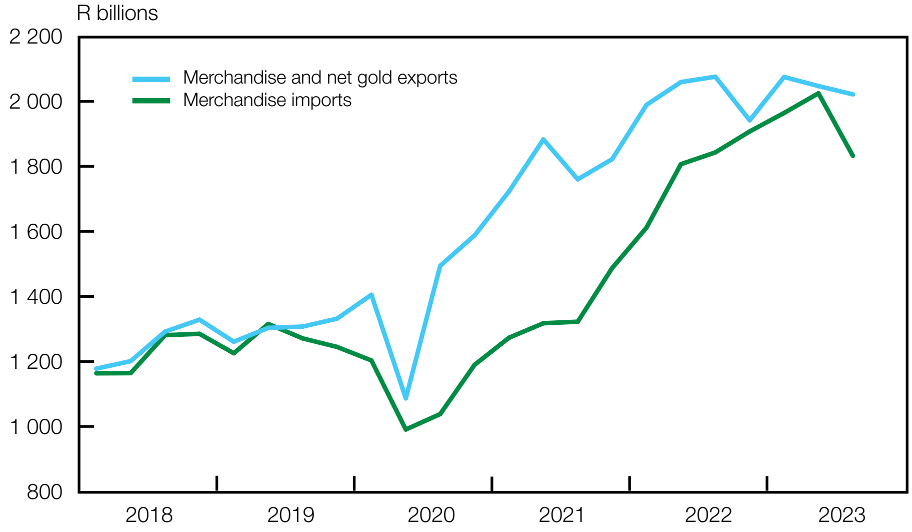
External economic accounts

Current account[15]

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

South Africa's trade surplus widened to R189 billion in the third quarter of 2023 from R22.2 billion in the second quarter as the value of merchandise imports decreased much more than that of merchandise and net gold exports. The decrease in the value of exports reflected lower prices, while that of imports reflected lower volumes, marking the first quarterly decrease since the third quarter of 2020.

Value of South Africa's exports and imports



Seasonally adjusted and annualised

Sources: Stats SA and SARB

Current account of the balance of payments

R billions, seasonally adjusted and annualised

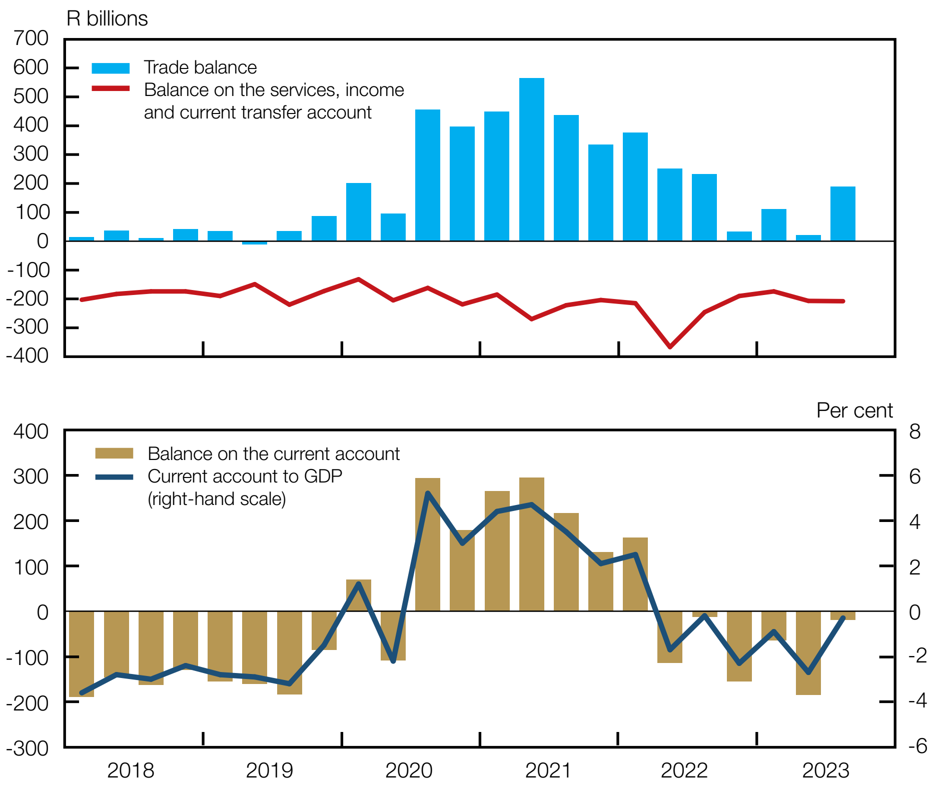
	2022			2023		
	Q3	Q4	Year	Q1	Q2	Q3
Merchandise exports	1 992	1 851	1 930	1 954	1 952	1 894
Net gold exports	83	90	86	120	94	127
Merchandise imports	-1 843	-1 907	-1 792	-1 964	-2 025	-1 832
Trade balance	**233**	**34**	**224**	**111**	**22**	**189**
Net services, income and current transfer payments	-246	-190	-254	-174	-207	-208
Balance on current account	**-13**	**-155**	**-30**	**-64**	**-185**	**-19**
As a percentage of gross domestic product						
Trade balance	3.5	0.5	3.4	1.6	0.3	2.7
Services balance	-1.6	-1.3	-1.4	- 1.0	-1.2	-1.2
Income balance	-1.8	-1.3	-2.1	-1.3	-1.1	-1.1
Current transfer balance	-0.3	-0.2	-0.4	-0.3	-0.7	-0.7
Balance on current account	**-0.2**	**-2.3**	**-0.5**	**-0.9**	**-2.7**	**-0.3**

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

Sources: Stats SA and SARB

The larger trade surplus more than offset the increase in the deficit on the services, income and current transfer account and contributed to the narrowing of the deficit on the current account of the balance of payments from R185 billion (2.7% of GDP) in the second quarter of 2023 to R19.3 billion (0.3% of GDP) in the third quarter.

Current account of the balance of payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

Box 2 Unpacking South Africa's external trade in goods and services[1]

This box analyses the drivers of South Africa's trade in goods and services since the significant impact of the coronavirus disease 2019 (COVID-19) pandemic in 2020, by unpacking it into export and import values as well as volumes and prices, and showing how changes in these prices affected the terms of trade.

The value of exports and imports of goods and services declined sharply in the second quarter of 2020, along with a similar decrease in volumes. Subsequently, the value of the exports and imports of goods and services recovered and exceeded pre-COVID-19 levels from the fourth quarter of 2020 and the first quarter of 2021 respectively. On balance, this partly reflected both higher export and import prices despite occasional declines, particularly in export prices. The recovery in volumes lagged somewhat and only exceeded pre-COVID-19 levels from the fourth quarter of 2021 for imports and from the first quarter of 2022 for exports. The value of exported goods consistently exceeded that of imports, which rendered a trade surplus throughout the period. By contrast, the large gap between services payments and receipts from the second quarter of 2020, partly due to COVID-19 restrictions on foreign tourists to South Africa, led to a sustained and larger shortfall on the services account than before the COVID-19 pandemic.

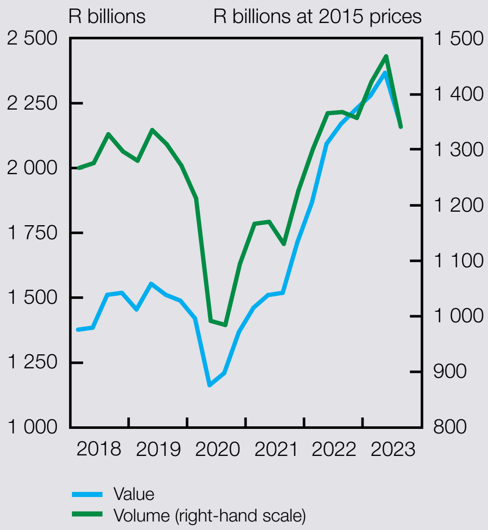
1 This box relates to South Africa's external trade in goods and services balance of payments statistics on pages S–86, S–87, S–92 and S–93 in this edition of the *Quarterly Bulletin (QB)* and the South African Reserve Bank's quarterly statistical press release *'Balance of payments: current account of the balance of payments'*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/current-account/2023/balance-of-payments--current-account-of-the-balance-of-payments0

Exports of goods and services

Seasonally adjusted and annualised

Sources: Stats SA and SARB

Imports of goods and services

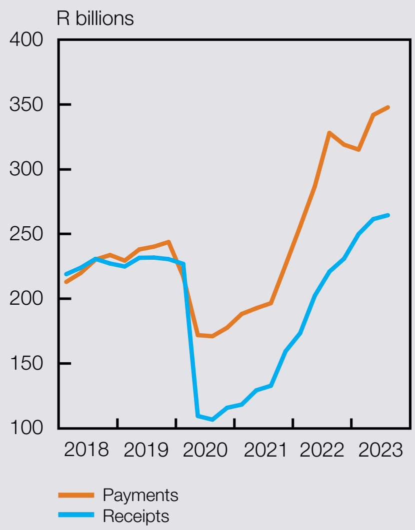


Value of trade in goods

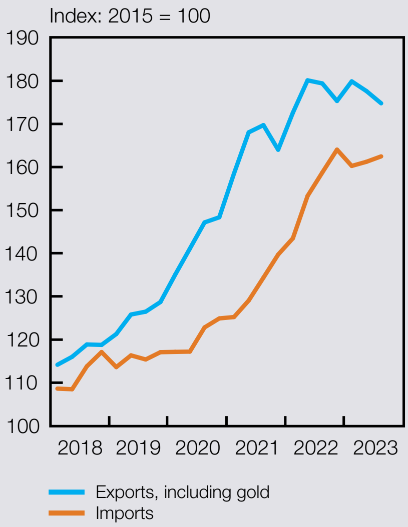
Seasonally adjusted and annualised

Sources: Stats SA and SARB

Value of trade in services

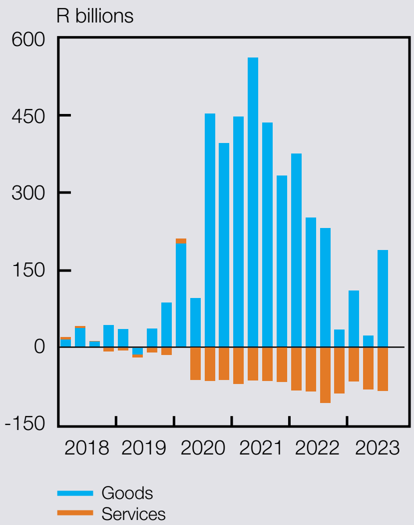


Export and import prices of goods and services



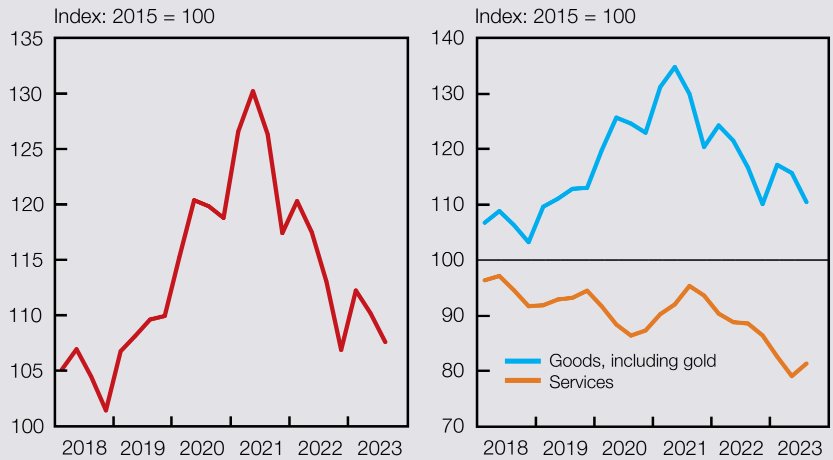
Sources: Stats SA and SARB

Goods and services balances



Seasonally adjusted and annualised

Terms of trade of goods and services, including gold



Sources: Stats SA and SARB

The value of trade in goods and services reflects changes in both volumes and prices, with that in prices determining the terms of trade.[2,3] Changes in the terms of trade associate an increase with an improvement[4] and a decrease with a deterioration.

Changes in South Africa's terms of trade are largely explained by goods rather than services prices, since the share of goods is larger than that of services for both exports and imports in volume terms.[5]

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2 The terms of trade is calculated as the ratio of a country's export prices to import prices.

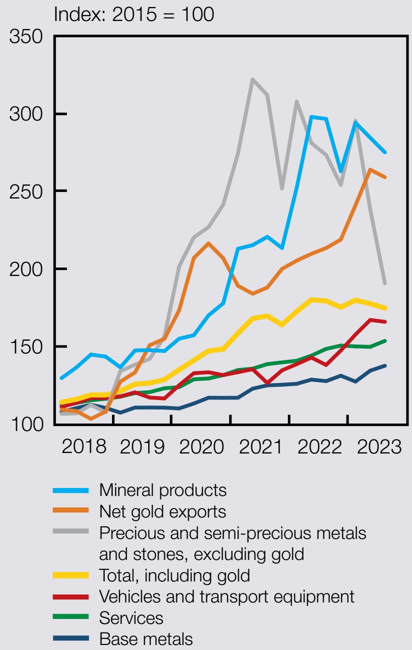
3 For a methodological discussion of the terms of trade, see 'Box 3: Unpacking South Africa's terms of trade' in the December 2020 edition of the *QB*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/boxes/2020/december-2020---unpacking-south-africa-s-terms-of-trade

4 An improvement in the terms of trade could, among other things, reflect an increase in export prices concomitant with either unchanged or lower import prices; a smaller decline in export prices than in import prices; unchanged export prices with a related decrease in import prices; or export prices increasing at a faster pace than import prices.

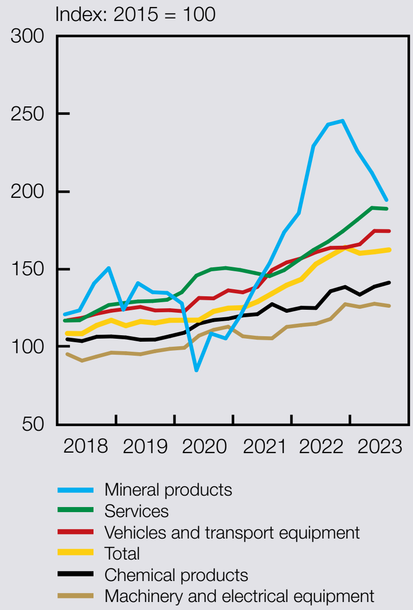
5 As from the first quarter of 2020, on average, the volume of goods accounted for 89.3% of total exports and 87.6% of total imports.

The increase in the terms of trade for the trade in goods from the first quarter of 2019 to the second quarter of 2021, and the subsequent decrease from the third quarter of 2020, reflects the impact of an increase and an ensuing decrease in international United States (US) dollar-denominated commodity prices as well as the fluctuations in the exchange value of the rand, given South Africa's status as a net commodities exporter. On the import side, the international US dollar price of Brent crude oil and the exchange value of the rand also had a significant impact on the terms of trade for the trade in goods.

Export prices of goods and services

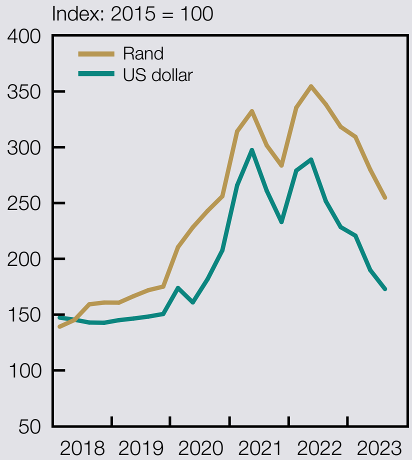


Import prices of goods and services



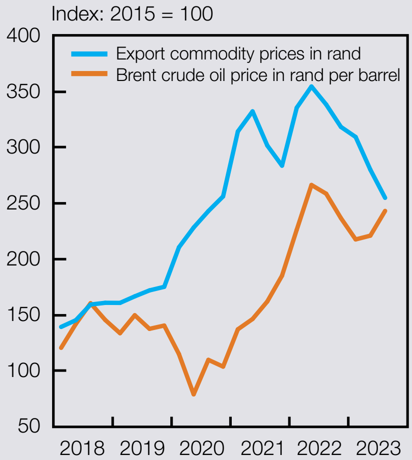
Sources: Stats SA and SARB

Export commodity prices



Sources: Afriforesight, World Bank and SARB

Export commodity prices and import price of crude oil

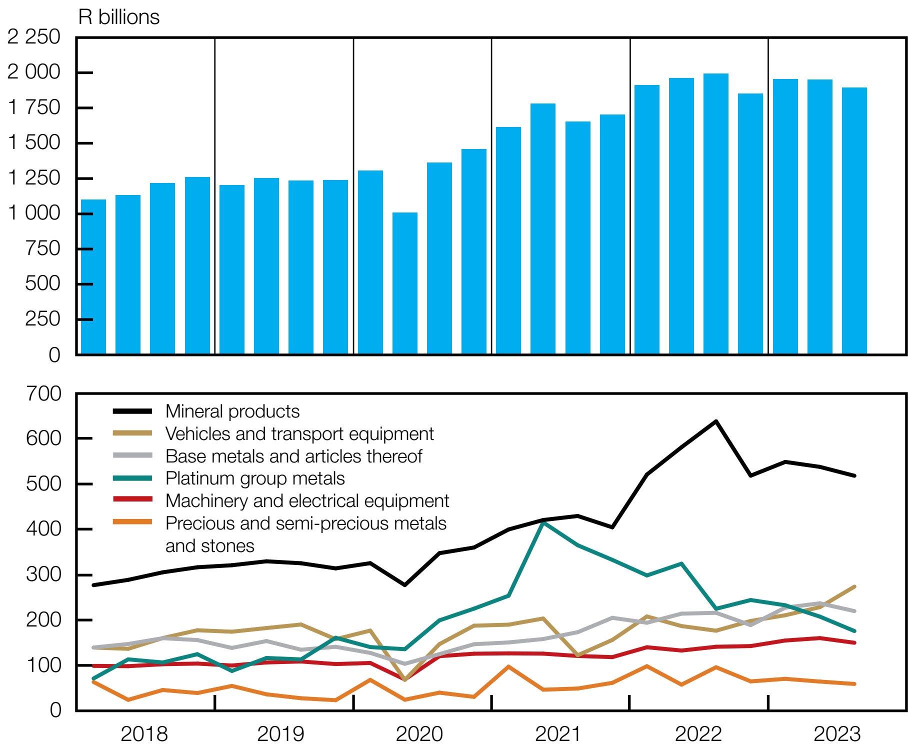


Sources: Refinitiv and SARB

Changes in the global demand for commodities such as platinum group metals – which were affected by, among other factors, supplies of semiconductors – and crude oil were the key drivers of the exports and imports of goods prices during the period. The terms of trade for services deteriorated from the first quarter of 2020 to the third quarter of 2020 as the prices of services imports increased at a faster pace than services exports. The second quarter of 2020 recorded the fastest pace of increase in the prices of both import and export services as the prices of transportation and other business services increased sharply. The terms of trade for services subsequently improved from the fourth quarter of 2020 until the third quarter of 2021 as import prices declined while export prices increased further. However, import prices recovered and continued to rise until the second quarter of 2023, contributing to a deterioration in the terms of trade for services over this period.

The value of merchandise exports decreased by 3.0% in the third quarter of 2023 as increases in the value of manufacturing and agricultural exports were outweighed by a notable decrease in the exports of non-gold mining products. The decrease in mining exports in the third quarter reflected lower PGMs, mineral products, base metals and articles thereof as well as pearls, precious and semi-precious stones exports. The exports of PGMs decreased for a third consecutive quarter as the lower realised rand prices of these metals outweighed the increase in the physical quantities exported. The lower value of mineral exports in the third quarter was primarily the result of a decline in iron ore exports, owing to several equipment breakdowns and weather disruptions at the Saldanha iron ore terminal, and a decrease in coal exports.

Value of merchandise exports*

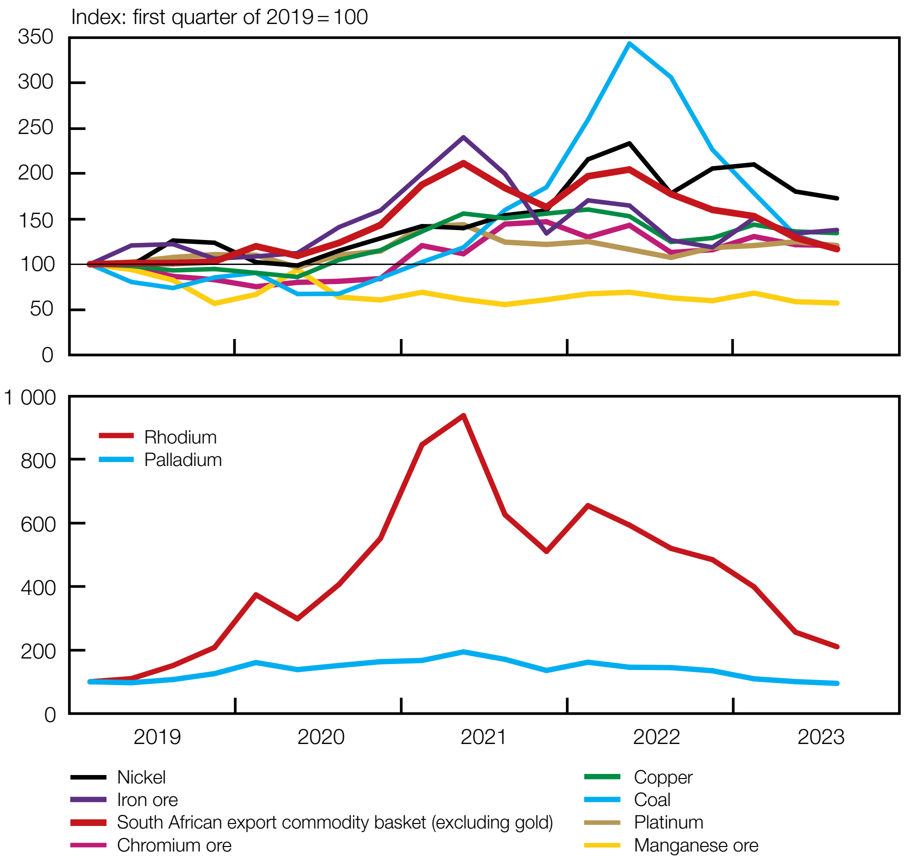


* Excluding net gold exports
Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of manufacturing exports increased further in the third quarter of 2023, benefitting from higher exports of vehicles and transport equipment, particularly passenger and commercial vehicles. According to naamsa | The Automotive Business Council, the number of vehicles exported increased sharply by 25.7% (not seasonally adjusted or annualised) in the third quarter. The increase in vehicles and transport equipment more than offset the decline in the value of other manufactured goods, especially chemical products, textiles and articles of textiles, machinery and electrical equipment as well as prepared foodstuffs, beverages and tobacco. The value of agricultural exports increased in the third quarter, supported by increased exports of citrus fruit.

The United States (US) dollar price of a basket of domestically produced non-gold export commodities decreased by 9.7% in the third quarter of 2023 as the prices of most commodities declined on account of a stronger US dollar, with notable decreases particularly in rhodium and coal prices. By contrast, the price of iron ore increased in the third quarter, mainly supported by the stimulus measures announced by the Chinese government to support the economy's struggling real estate sector.

Selected South African export commodity prices in US dollar*



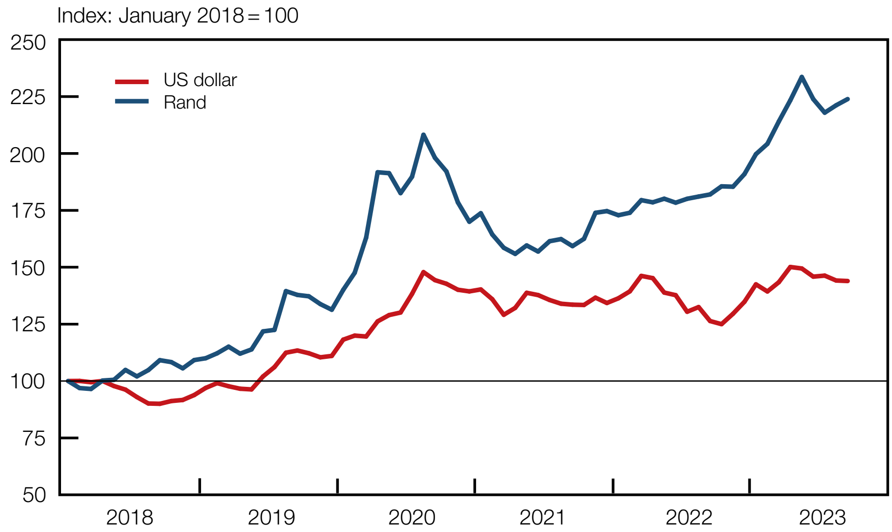
* Quarterly averages

Sources: Afriforesight, World Bank and SARB

The rand price of merchandise exports decreased by 2.7% in the third quarter of 2023, while the volume of merchandise exports decreased marginally by 0.2%.

The quarterly average US dollar price of gold on the London market decreased by 2.5% from US$1 978 per fine ounce in the second quarter of 2023 to US$1 929 per fine ounce in the third quarter, mainly due to a stronger US dollar. In rand terms, the average realised price of net gold exports decreased by 1.8% over the same period. However, the value of net gold exports increased by 34.6% in the third quarter of 2023 as the increase in the volumes exported outweighed the decrease in the average price of net gold exports.

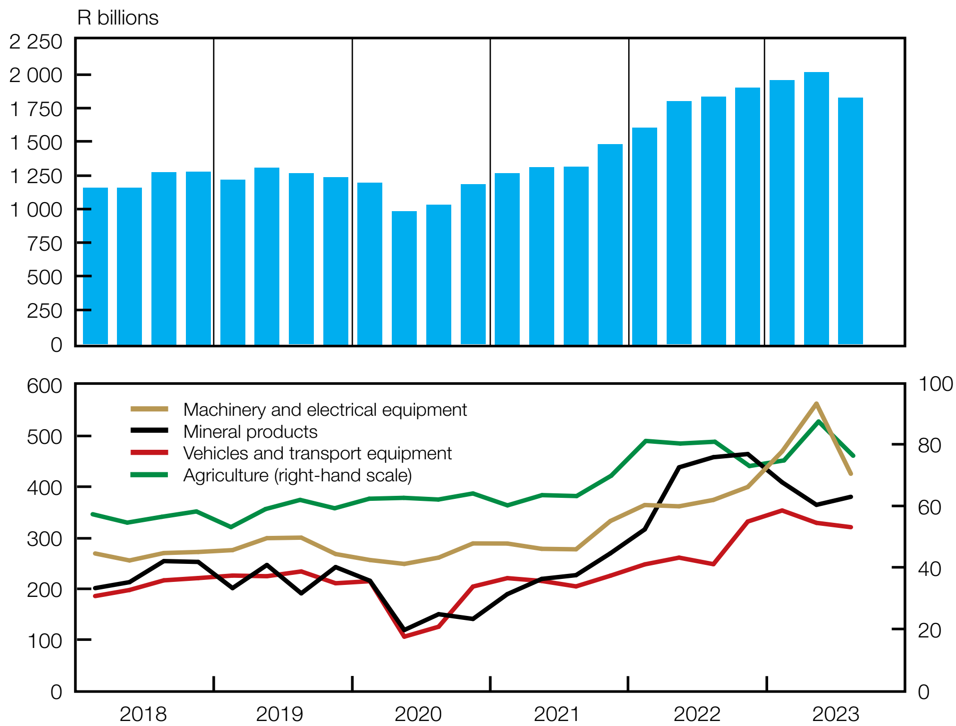
International price of gold



Source: Refinitiv

The value of merchandise imports decreased by 9.5% in the third quarter of 2023, ending the run of 12 consecutive quarterly increases. Imports of manufacturing, agriculture and mining products decreased, with the latter only decreasing slightly. The imports of manufactured goods recorded a significant decline, with almost all subcategories decreasing. Large decreases were recorded in the import subcategories of machinery and electrical equipment, chemical products, resins and articles thereof as well as vehicles and transport equipment. Machinery and electrical equipment reflected the high base effect of increased imports of energy-related products in the second quarter of 2023. The value of agricultural imports decreased in the third quarter due to a notable decline in the imports of vegetable products as well as live animals and animal products.

Value of merchandise imports

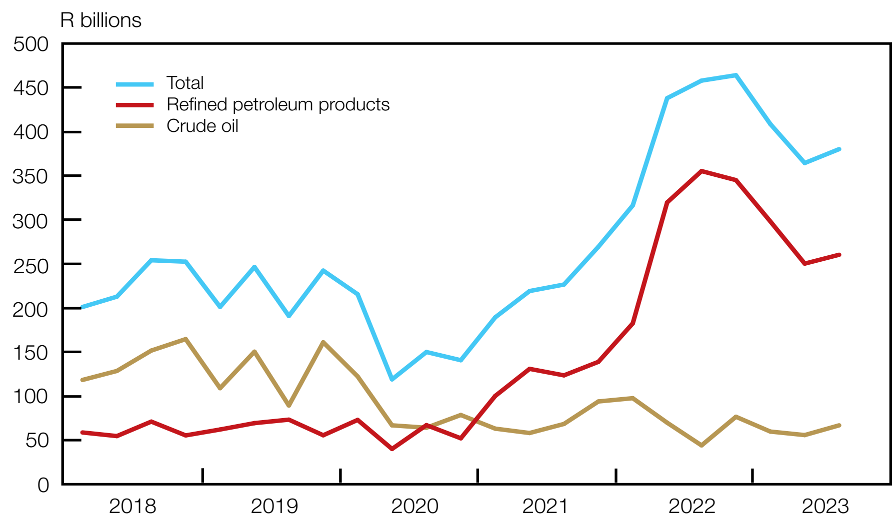


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The value of mining imports decreased slightly in the third quarter of 2023 as the lower value of base metals and articles thereof as well as pearls, precious and semi-precious stones were weighed down by reduced imports of copper wire and rough diamonds. However, mineral product imports increased in the third quarter after two consecutive quarters of decline, mainly as a result of higher imports of crude oil and refined petroleum products, particularly distillate fuel required to power up generators and open-cycle gas turbines amid ongoing electricity challenges. The value of crude oil imports increased by 19.8% in the third quarter due to an increase in the physical quantity imported, despite the lower average realised rand price. The average realised rand price of crude oil imported decreased by 1.3% from R1 621 per barrel in the second quarter of 2023 to R1 600 per barrel in the third quarter.

Value of mineral imports

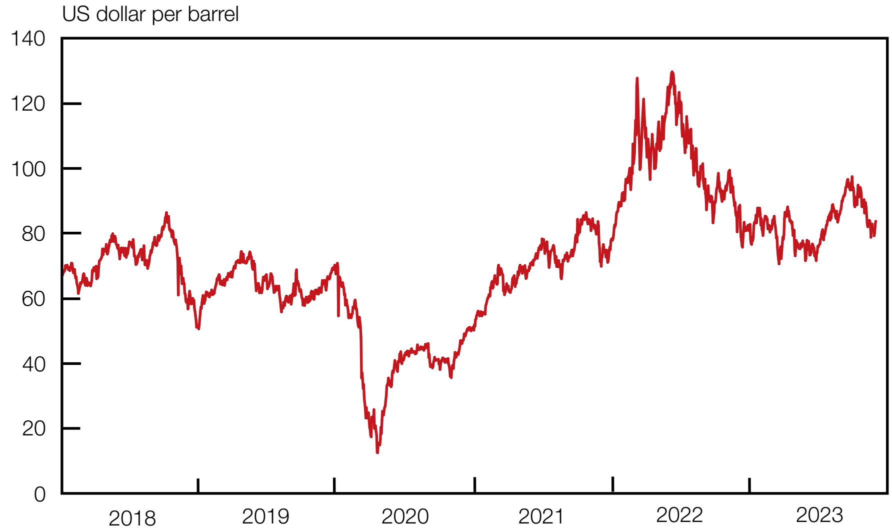


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The spot price of Brent crude oil increased in July and August 2023 supported by, among other factors, a weaker US dollar and tight supply as Saudi Arabia and Russia agreed on the extension of voluntary oil production cuts until the end of the year. This, together with low global oil inventories, contributed to a further increase in the price of crude oil in September 2023 to reach the highest level since August 2022. On average, the spot price of Brent crude oil increased by 10.1% from US$78.47 per barrel in the second quarter of 2023 to US$86.42 per barrel in the third quarter. However, the spot price of Brent crude oil then decreased from US$93.43 per barrel in September 2023 to US$91.25 per barrel in October alongside the strengthening of the US dollar and muted impact of the Israel–Palestine conflict on crude oil flows. The spot price of Brent crude oil decreased further to US$83.26 per barrel in November, weighed down by, among other factors, a larger-than-expected rise in US oil inventories.

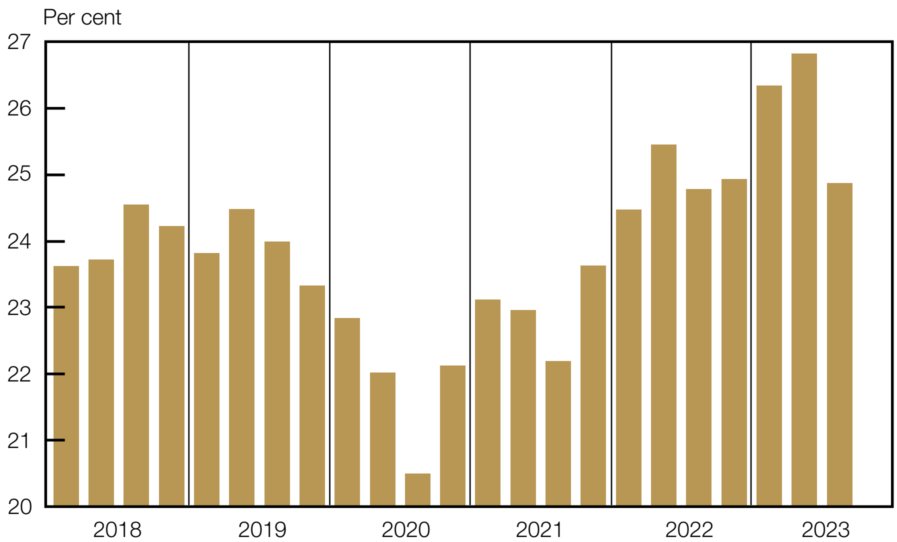
Brent crude oil price



Source: Refinitiv

The rand price of merchandise imports increased by 0.6% in the third quarter 2023, while the volume of merchandise imports declined by 10.1%. Consequently, the import penetration ratio (i.e. real merchandise imports as a ratio of GDE) decreased from a record high of 26.8% in the second quarter of 2023 to 24.9% in the third quarter.

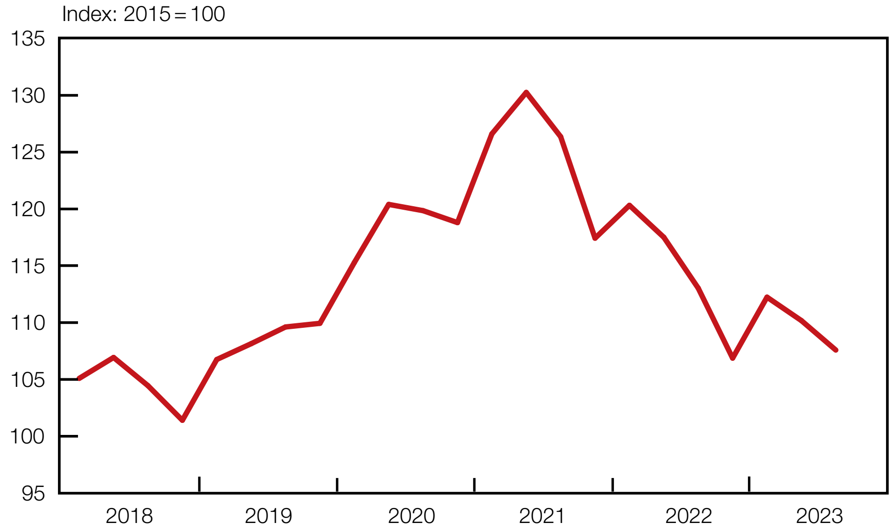
Import penetration ratio



Sources: Stats SA and SARB

South Africa's terms of trade deteriorated further in the third quarter of 2023 as the rand price of imported goods and services increased while that of exports decreased.

Terms of trade*

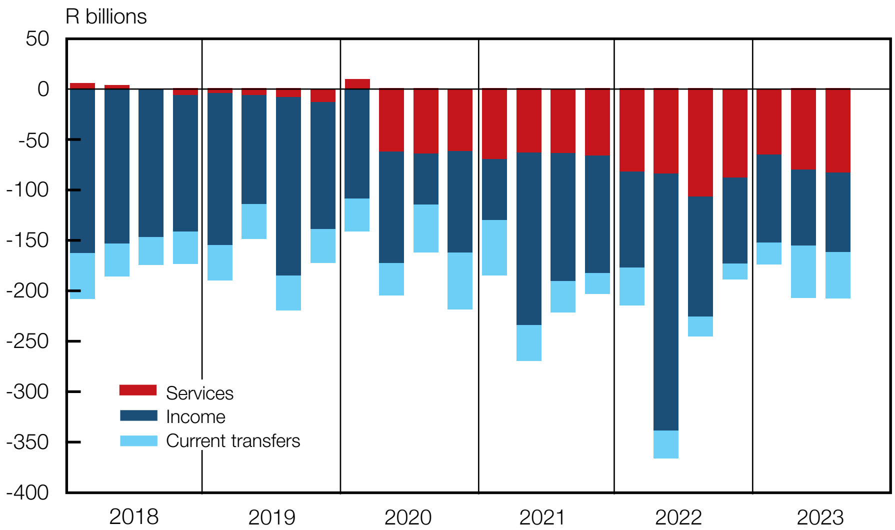


* Including gold

Sources: Stats SA and SARB

The shortfall on the services, income and current transfer account increased slightly to R208 billion in the third quarter of 2023 from R207 billion in the second quarter. The wider deficit could mainly be attributed to larger deficits on the services and income accounts along with a smaller deficit on the current transfer account. The deficit on the services, income and current transfer account as a ratio of GDP remained unchanged at 3.0% in the third quarter.

Net services, income and current transfer payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

The deficit on the services account increased in the third quarter of 2023 as the increase in gross services payments outweighed the increase in gross services receipts. Net transportation payments and net other services payments increased in the third quarter. The slight improvement in net travel receipts cushioned the deficit from widening further over the period. The shortfall on the services account remained unchanged at 1.2% of GDP in the third quarter.

The deficit on the income account widened in the third quarter of 2023 as gross income payments increased more than gross income receipts. Gross dividend receipts increased by 13.5% while gross dividend payments increased by 21.6% in the third quarter, with the latter reflecting a substantial increase in non-direct dividend payments. Gross interest payments decreased in the third quarter of 2023 following three consecutive quarters of increase but remained elevated within the higher interest rate environment. The income deficit as a percentage of GDP remained unchanged at 1.1% in the third quarter.

Net current transfer payments decreased in the third quarter of 2023 as gross current transfer receipts increased at a faster pace than gross current transfer payments. Net current transfer payments amounted to 0.7% of GDP in the third quarter.

Financial account

The net inflow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) increased to R39.7 billion in the third quarter of 2023 from R2.3 billion in the second quarter. On a net basis, all financial account categories, excluding portfolio investment, recorded inflows. Net financial account flows as a ratio of GDP increased from an inflow of 0.1% in the second quarter of 2023 to an inflow of 2.2% in the third quarter.

Net financial transactions

R billions

	2022			2023		
	Q3	Q4	Year	Q1	Q2	Q3
Change in liabilities						
Direct investment	15.6	64.0	151.0	0.5	53.8	26.0
Portfolio investment	-32.0	-25.6	42.6	-32.0	-4.6	-41.9
Financial derivatives	-97.6	-75.8	-285.1	-69.1	-43.6	-90.4
Other investment	9.9	47.5	186.3	13.1	-52.9	52.5
Change in assets						
Direct investment	-4.3	-16.1	-35.4	12.3	11.6	14.4
Portfolio investment	2.9	-17.6	-115.1	39.5	-21.3	17.5
Financial derivatives	79.1	65.9	251.9	72.7	73.9	99.7
Other investment	80.9	-23.5	-61.0	9.2	-12.2	-44.4
Reserve assets	-26.5	0.4	-68.2	1.6	-2.4	6.3
Total identified financial transactions*	**28.0**	**19.2**	**67.0**	**47.7**	**2.3**	**39.7**
As a percentage of gross domestic product	*1.6*	*1.1*	*1.0*	*2.9*	*0.1*	*2.2*

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

Source: SARB

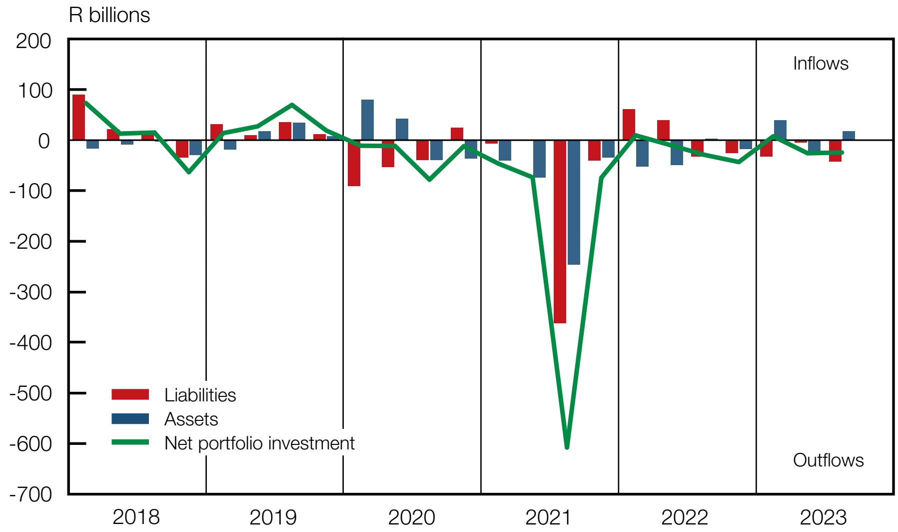
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded a reduced inflow of R26.0 billion in the third quarter of 2023 following an inflow of R53.8 billion in the second quarter as non-resident parent entities granted loans to, and increased equity in, domestic subsidiaries.

Portfolio investment liability flows recorded a significantly larger outflow of R41.9 billion in the third quarter of 2023 following an outflow of R4.6 billion in the preceding quarter as non-residents sold domestic debt and equity securities and a public corporation redeemed a US$1 billion international bond. Non-residents' net purchases of domestic debt securities of R23.2 billion in the second quarter of 2023 switched to net sales of R23.4 billion in the third quarter, while non-residents' net sales of domestic equity securities moderated from R27.8 billion to R18.5 billion over the same period.

Other investment liabilities switched to an inflow of R52.5 billion in the third quarter of 2023 from an outflow of R52.9 billion in the second quarter, mainly due to foreign loans received by, and an increase in non-residents' deposits in, the domestic banking sector.

Portfolio investment flows



Source: SARB

South African-owned assets abroad

South Africa's direct investment assets recorded an inflow of R14.4 billion in the third quarter of 2023 following an inflow of R11.6 billion in the second quarter as a domestic company in the technology sector reduced shareholding in a non-resident subsidiary.

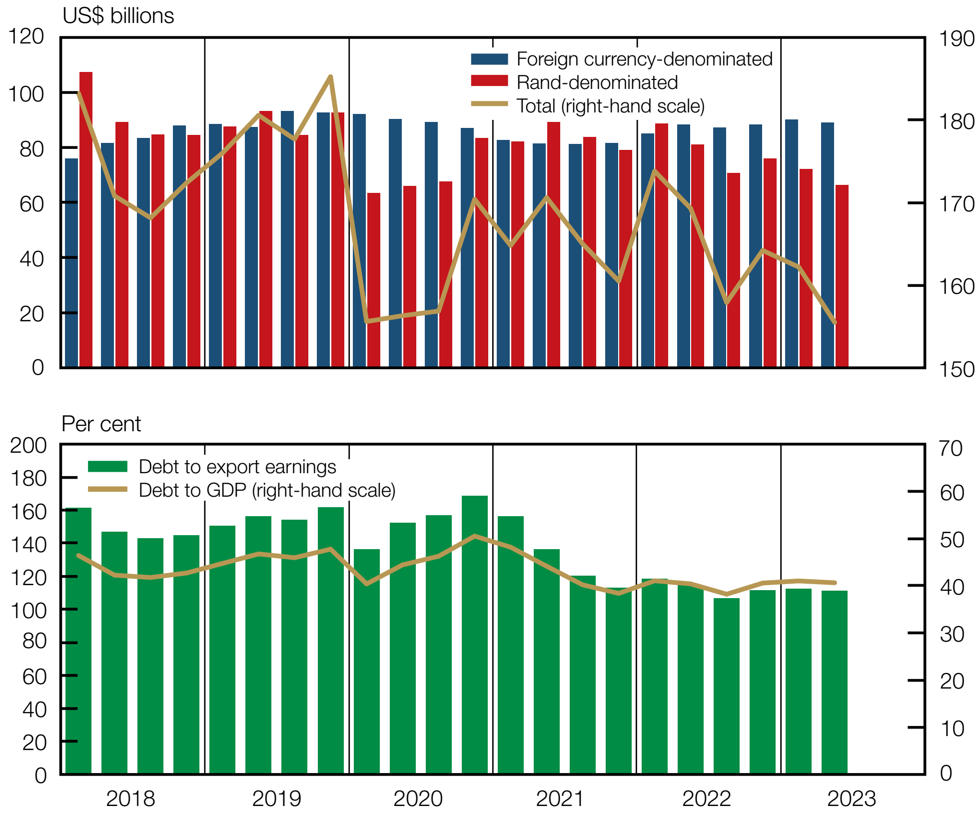
South Africa's foreign portfolio investment assets reverted to an inflow of R17.5 billion in the third quarter of 2023 from an outflow of R21.3 billion in the second quarter as the domestic banking sector's sales of foreign debt securities exceeded purchases of foreign equity securities by the private non-banking sector.

Other investment assets recorded a larger outflow of R44.4 billion in the third quarter of 2023 following an outflow of R12.2 billion in the preceding quarter as the domestic banking sector increased its deposits at non-resident banks and the private non-banking sector granted short-term loans to non-residents.

Foreign debt

South Africa's total external debt decreased from US$162.2 billion at the end of March 2023 to US$155.5 billion at the end of June. However, expressed in rand terms, South Africa's total external debt increased from R2 889 billion to R2 944 billion over the same period as the exchange value of the rand depreciated against the US dollar.

Foreign debt



Source: SARB

Foreign debt of South Africa

US$ billions at end of period

	2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2
Foreign currency-denominated debt	85.1	88.3	87.2	88.3	90.1	89.1
Debt securities	28.7	31.0	30.0	29.3	30.1	29.3
Other	56.4	57.3	57.2	59.0	60.0	59.8
Public sector	16.9	16.8	17.7	17.2	18.3	18.5
Monetary sector	15.1	15.8	14.9	16.8	16.2	16.4
Non-monetary private sector	24.4	24.7	24.6	25.2	25.5	24.9
Rand-denominated debt	88.7	81.0	70.7	75.9	72.1	66.4
Debt securities	57.6	50.5	43.3	46.5	43.4	41.7
Other	31.1	30.5	27.4	29.5	28.7	24.7
Total foreign debt	173.8	169.3	157.9	164.2	162.2	155.5
As a percentage of gross domestic product	*40.9*	*40.3*	*38.2*	*40.5*	*41.0*	*40.7*
As a percentage of total export earnings	*118.5*	*114.6*	*106.7*	*111.5*	*112.3*	*111.4*

Source: SARB

Foreign currency-denominated external debt decreased from US$90.1 billion at the end of March 2023 to US$89.1 billion at the end of June due to a repayment of loans by the private non-banking sector as well as a US$500 million international bond redemption by the domestic banking sector. The decrease was partially countered by a US$500 million South African National Roads Agency (SANRAL) Sustainability Loan extended to national government.

Rand-denominated external debt, expressed in US dollars, decreased from US$72.1 billion at the end of March 2023 to US$66.4 billion at the end of June. The decrease can mainly be attributed to the decrease in the US dollar value of rand-denominated external debt due to the depreciation in the exchange value of the rand and a decline in the loan liabilities of the domestic banking and private non-banking sectors. These factors were partially countered by non-residents' net purchases of bonds in the domestic capital market.

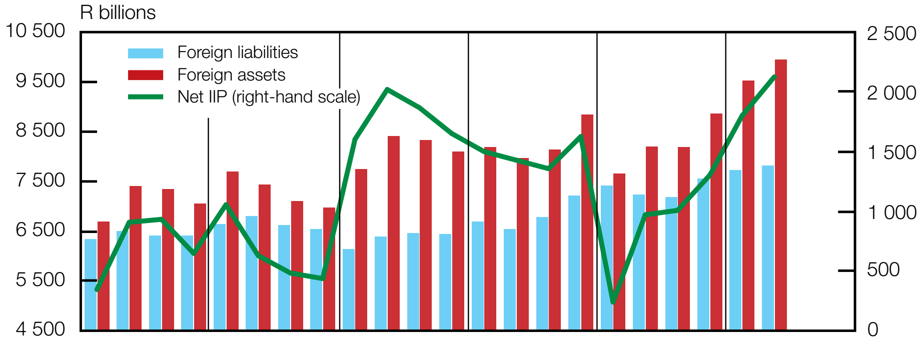
South Africa's total external debt as a ratio of annual GDP[16] decreased from 41.0% at the end of March 2023 to 40.7% at the end of June. The ratio of external debt to export earnings decreased from 112.3% to 111.4% over the same period.

16 Annual GDP is calculated as the sum of the most recent four quarters' nominal GDP.

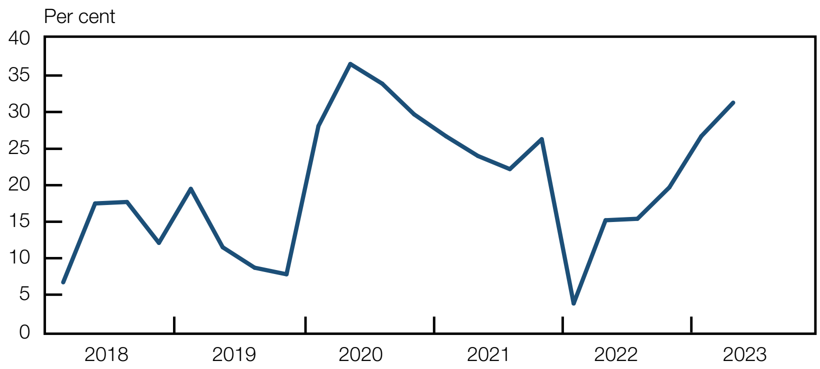
International investment position

South Africa's positive net international investment position (IIP) increased further from a revised R1 798 billion at the end of March 2023 to R2 128 billion at the end of June, reflecting a significantly larger increase in foreign assets than in foreign liabilities. The exchange value of the rand had a notable impact on foreign assets and, to a lesser extent, on foreign liabilities as the nominal effective exchange rate (NEER) of the rand declined, on balance, by 4.3% in the second quarter of 2023. While the US Standard & Poor's (S&P) 500 Index continued its strong growth in the second quarter of 2023, the FTSE/JSE All-Share Index (Alsi) declined slightly, further contributing to the increase in the positive net IIP.

South Africa's international investment position



Net international investment position to GDP



Source: SARB

The market value of South Africa's foreign assets (outward investment) increased by 4.4% from a revised R9 527 billion at the end of March 2023 to R9 948 billion at the end of June as all functional categories increased. The increase in direct and portfolio investment mainly resulted from the increase of 8.3% in the US S&P 500 Index as well as other international share market indices, including valuation effects of an increase in the share prices of dual-listed companies with a primary listing abroad. The increase in portfolio investment was augmented by the domestic banking sector's purchase of foreign debt securities during the second quarter of 2023. The growth in other investment assets was mainly due to the domestic banking sector extending short-term loans to non-residents, while the increase in reserve assets was mainly due to valuation effects as a result of the depreciation in the exchange value of the rand.

The market value of South Africa's foreign liabilities (inward investment) increased by 1.2% from a revised R7 729 billion at the end of March 2023 to R7 820 billion at the end of June. The increase in foreign liabilities also reflected an increase in all functional categories. Direct investment increased only marginally, while the moderate increase in portfolio investment was mainly due to net purchases of South African government bonds by non-residents. The increase in other investment liabilities was primarily due to the national government receiving a US$500 million SANRAL Sustainability Loan and, to a lesser extent, increased non-resident deposits in the domestic banking sector.

As a ratio of South Africa's annual GDP,[17] foreign assets increased from 141.7% at the end of March 2023 to 146.2% at the end of June, while foreign liabilities decreased from 115.0% to 114.9% over the same period. This resulted in an increase in the positive net IIP as a percentage of GDP from 26.7% at the end of March 2023 to 31.3% at the end of June.

17 Annual GDP is calculated as the sum of the most recent four quarters' nominal GDP.

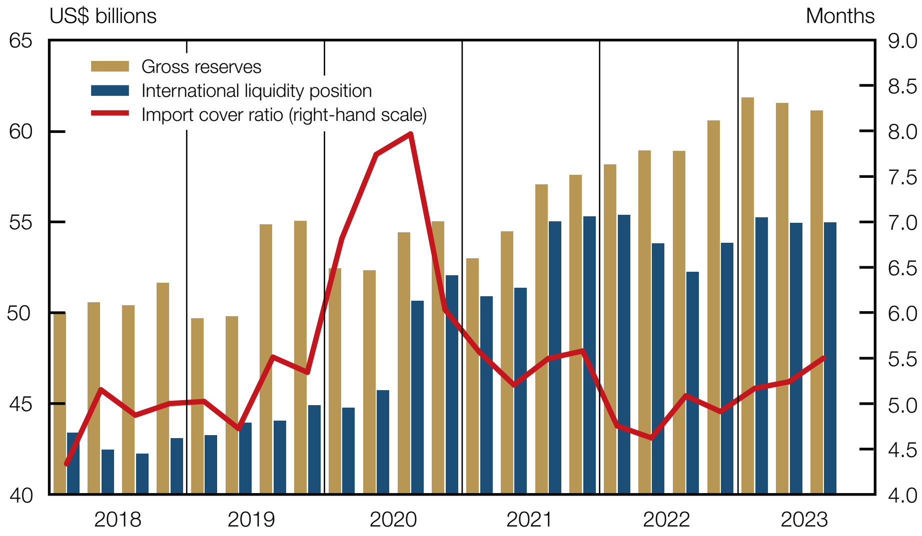
International reserves and liquidity

South Africa's international reserves decreased by R6.3 billion in the third quarter of 2023 following an increase of R2.4 billion in the second quarter.

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

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), measured in US dollar terms, decreased slightly from US$61.5 billion at the end of June 2023 to US$61.1 billion at the end of September, mainly due to foreign exchange (FX) payments and a decline in the US dollar gold price. The country's gross gold and other foreign reserves increased to US$61.7 billion at the end of November 2023. South Africa's international liquidity position[18] increased marginally from US$54.9 billion at the end of June 2023 to US$55.0 billion at the end of September, before increasing further to US$56.3 billion at the end of November.

International reserves



Source: SARB

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) increased from 5.2 months at the end of June 2023 to 5.5 months at the end of September.

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

Exchange rates[19]

The NEER of the rand increased by 2.5% in the third quarter of 2023 following a decrease of 4.3% in the second quarter. The NEER increased by 5.5% and 1.0% in July and September 2023 respectively but decreased by 3.8% in August. During the third quarter, the exchange value of the rand appreciated due to improved investor sentiment following the outcome of a stronger-than-expected expansion of the domestic economy in the second quarter and the reduced severity of electricity load-shedding. However, concerns about global economic growth and the effects of prolonged elevated global interest rates partly countered the positive impact of the domestic developments.

Exchange values of the rand

Percentage change

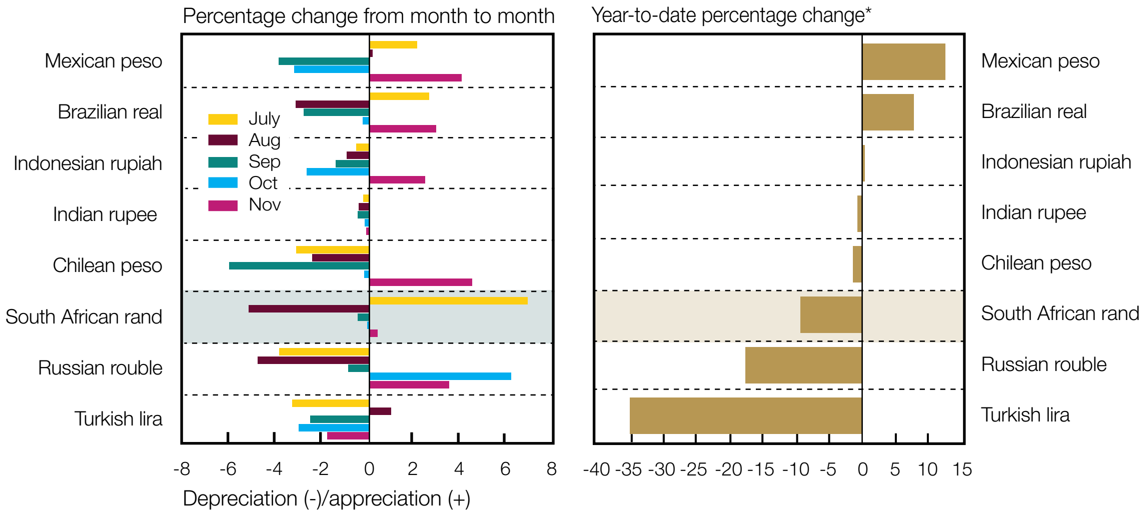
	31 Dec 2022 to 31 Mar 2023	31 Mar 2023 to 30 Jun 2023	30 Jun 2023 to 30 Sep 2023	30 Sep 2023 to 30 Nov 2023
Nominal effective exchange rate*	-5.3	-4.3	2.5	-1.7
Euro	-6.5	-5.6	3.0	-2.8
US dollar	-4.7	-5.9	0.7	0.3
Chinese yuan.......................................	-5.8	-0.5	1.3	-2.1
British pound.......................................	-7.0	-7.9	3.8	-3.2
Japanese yen......................................	-3.6	2.3	3.7	1.1

* The nominal effective exchange rate of the rand is a trade-weighted exchange rate against a basket of 20 currencies.
Depreciation (-)/appreciation (+)

Source: SARB

The rand was among the strongest-performing emerging market currencies against the US dollar in July 2023, appreciating by 6.8% amid changing inflation expectations in several major economies. Domestic factors further supported the rand, including easing geopolitical tensions leading up to the 2023 BRICS Summit in August as well as the reduced severity of electricity load-shedding, which lifted sentiment.

Emerging market currencies against the US dollar in 2023

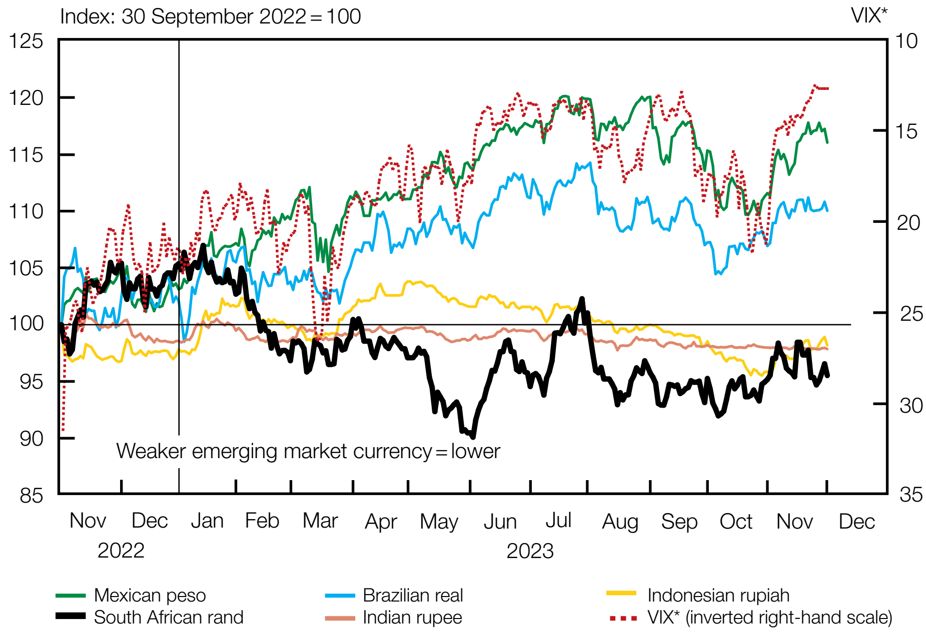


* From 31 December 2022 to 30 November 2023

Sources: Refinitiv and SARB

Most of these gains were reversed in August 2023 as the rand depreciated by 5.2% against the US dollar amid concerns about global economic growth following slowing economic activity in major trading partners, including China, as well as a downgrade of the US long-term credit rating by Fitch Ratings.

Emerging market currencies against the US dollar



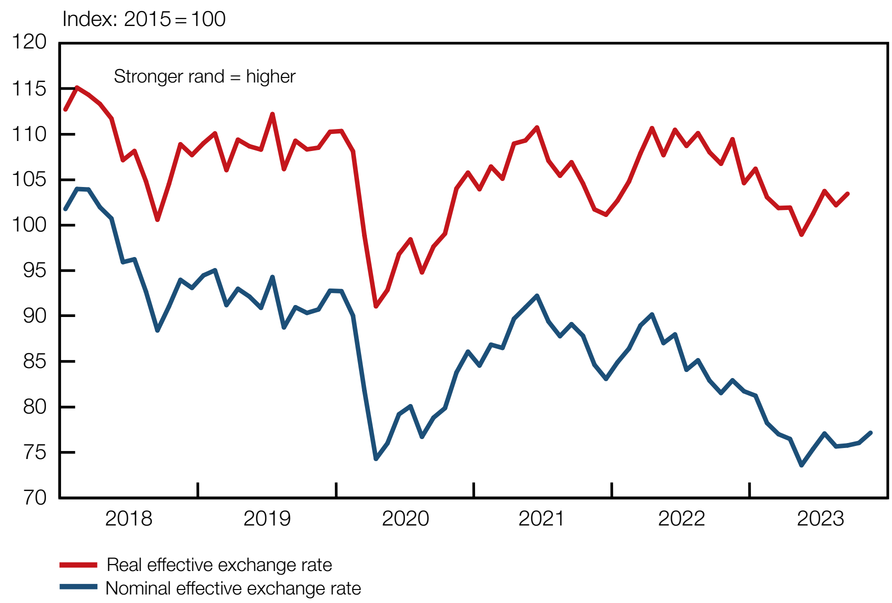
* The Volatility Index (VIX), developed by the Chicago Board Options Exchange (CBOE), is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options.The VIX provides a measure of market risk and investor sentiment.

Sources: Refinitiv and SARB

Investor sentiment was negatively affected by the reinstatement of increased electricity load-shedding in September 2023. However, this was offset by other domestic factors, including news of a stronger-than-expected expansion of the South African economy in the second quarter, resulting in a 1.0% appreciation in the NEER in September 2023.

The NEER decreased by 1.7% from the end of the third quarter of 2023 to 30 November amid higher domestic inflation and lower business confidence.

Effective exchange rates of the rand



Source: SARB

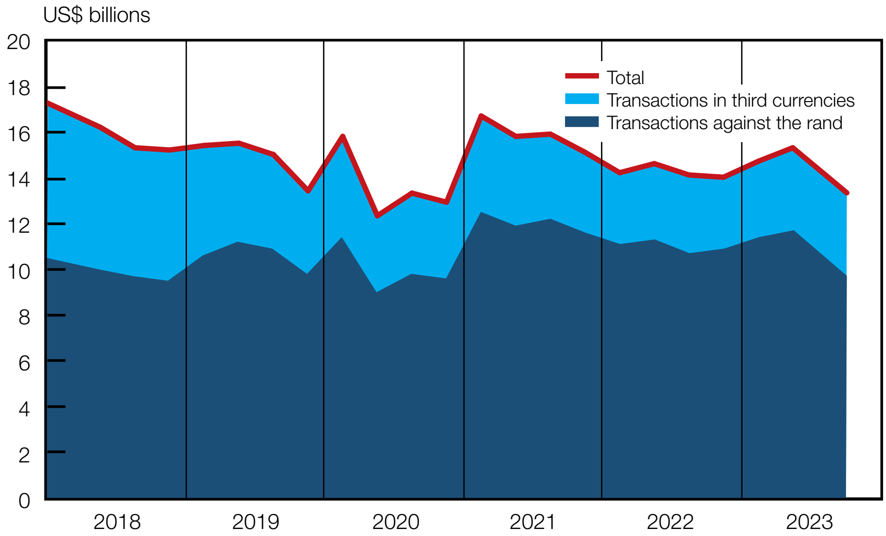
The real effective exchange rate (REER) of the rand decreased by 4.3% from September 2022 to September 2023, increasing the competitiveness of domestic producers in foreign markets.

Turnover in the South African foreign exchange market

The net average daily turnover[20] in the South African FX market decreased by 9.7% from US$15.3 billion in the second quarter of 2023 to US$13.8 billion in the third quarter, following an increase of 4.0% in the previous quarter. The decrease in net turnover in the third quarter could mainly be attributed to fluctuations in the exchange value of the rand. FX transactions against the rand declined from US$11.7 billion in the second quarter to US$10.2 billion in the third quarter. Transactions in third currencies decreased from US$3.7 billion in the second quarter to US$3.6 billion in the third quarter.

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

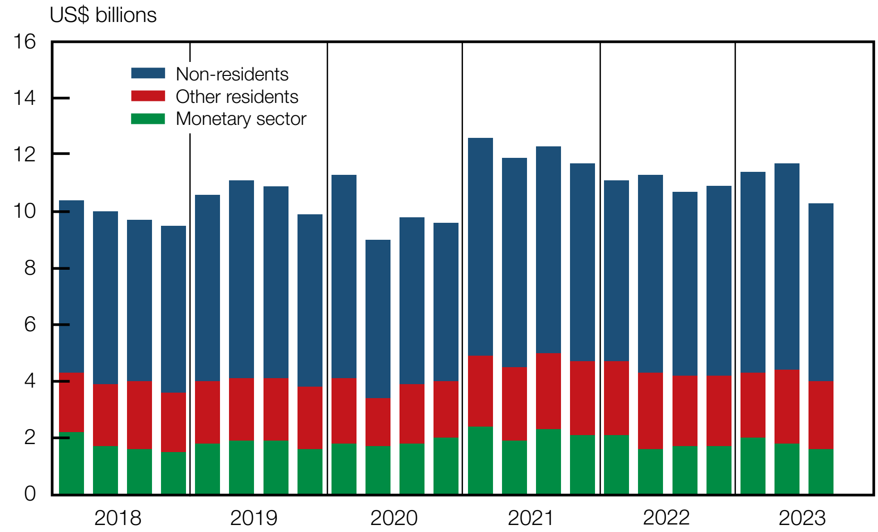
Net average daily turnover in the South African foreign exchange market



Source: SARB

Net average daily counterparty participation by non-residents in the rand market decreased from US$7.3 billion in the second quarter of 2023 to US$6.3 billion in the third quarter. Monetary sector participation in the rand market decreased for a third consecutive quarter from US$1.8 billion in the second quarter of 2023 to US$1.6 billion in the third quarter, while resident participation declined from US$2.6 billion to US$2.4 billion over the same period.

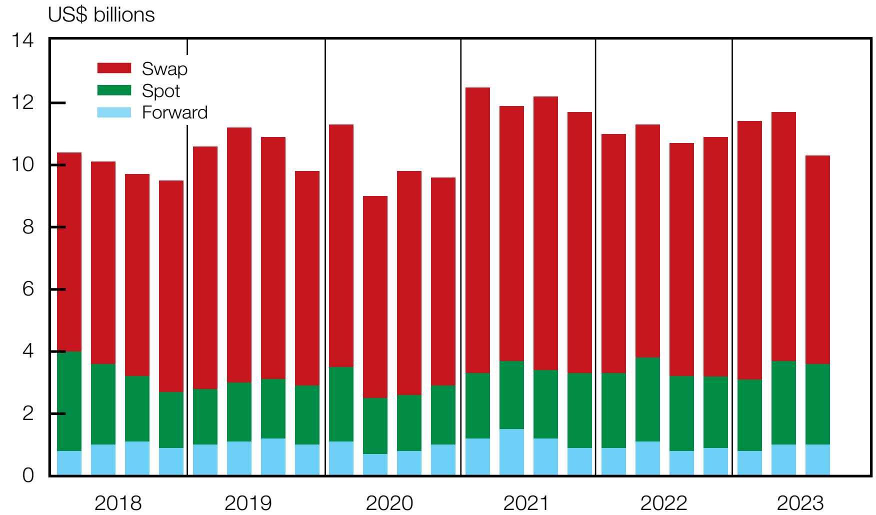
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

Net average daily swap transactions in the rand market decreased from US$8.0 billion in the second quarter of 2023 to US$6.7 billion in the third quarter – the second consecutive quarterly decrease. Forward transactions remained unchanged from the second to the third quarter of 2023 at an average of US$1.0 billion, while spot transactions declined from US$2.7 billion to US$2.6 billion over the same period.

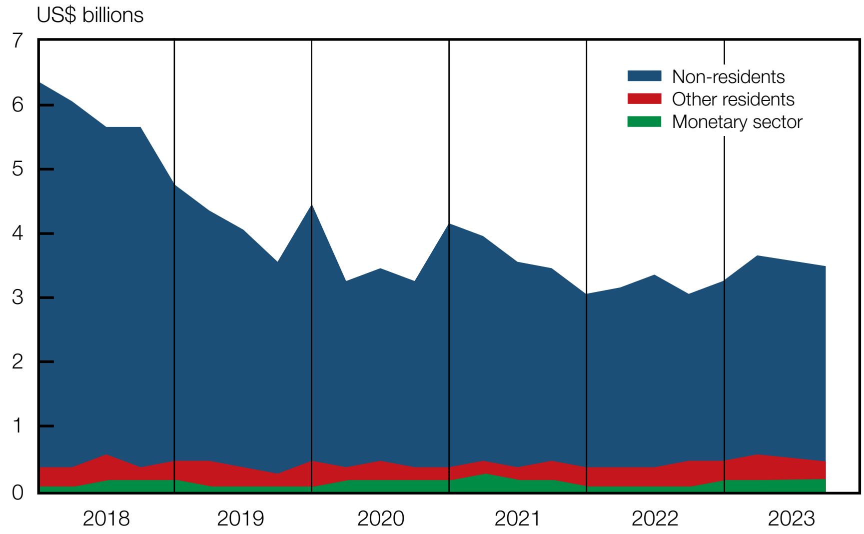
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

The decrease in net average daily turnover in third currencies could be attributed to reduced participation by non-residents from US$3.1 billion in the second quarter of 2023 to US$3.0 billion in the third quarter, while that of the monetary sector and residents averaged US$0.2 billion and US$0.4 billion respectively.

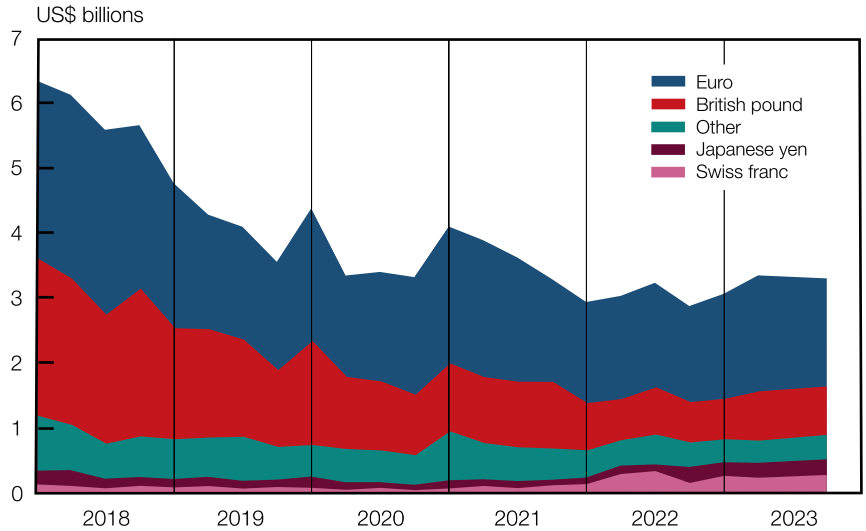
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

In the market for third currencies, US dollar against the euro transactions remained unchanged from the second to the third quarter of 2023 at US$1.8 billion. Similarly, US dollar against the yen transactions have remained unchanged at an average of US$0.2 billion since the fourth quarter of 2022. Transactions of the US dollar against the Swiss franc averaged US$0.2 billion from the second to the third quarter of 2023, while transactions of the US dollar against the British pound declined from US$0.8 billion to US$0.7 billion. US dollar transactions against other currencies increased marginally from US$0.3 billion to US$0.4 billion over the same period.

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



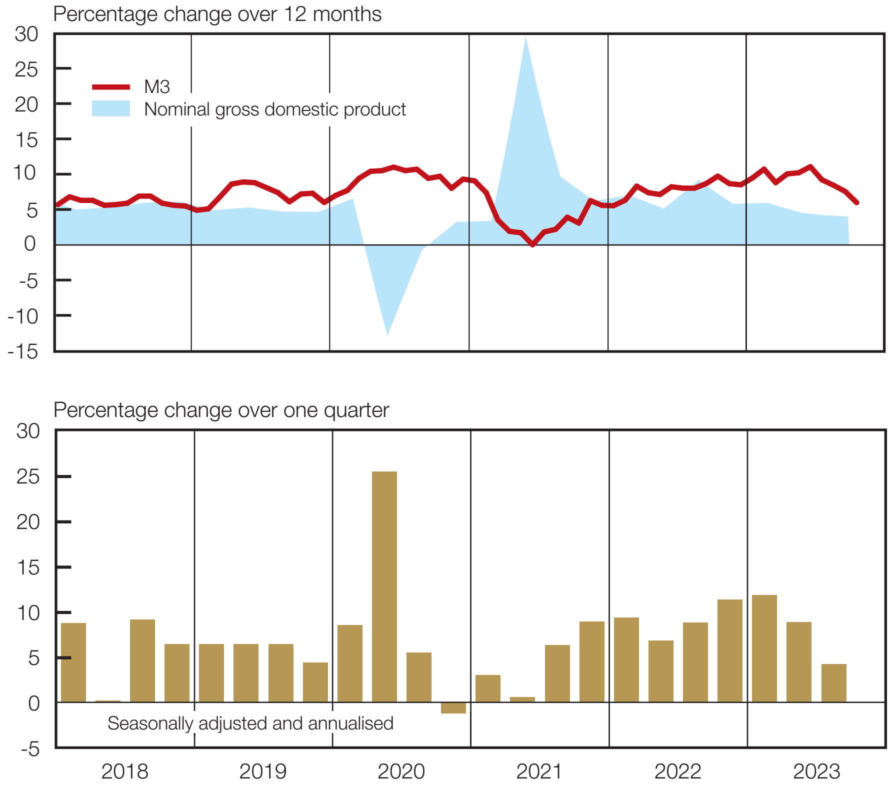
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Year-on-year growth in the broadly defined money supply (M3) decelerated from a post-COVID-19 high of 11.2% in June 2023 to 6.1% in October, dipping below the average pre-COVID-19 growth rate of 7.2% in 2019. The quarter-to-quarter seasonally adjusted and annualised growth in M3 also moderated from a three-year high of 11.8% in the first quarter of 2023 to 4.2% in the third quarter. The income velocity of circulation of M3 remained broadly unchanged at 1.41 in the third quarter of 2023 from 1.40 in the second quarter as the rate of change in M3 and nominal GDP was fairly similar.

Money supply and gross domestic product



Sources: Stats SA and SARB

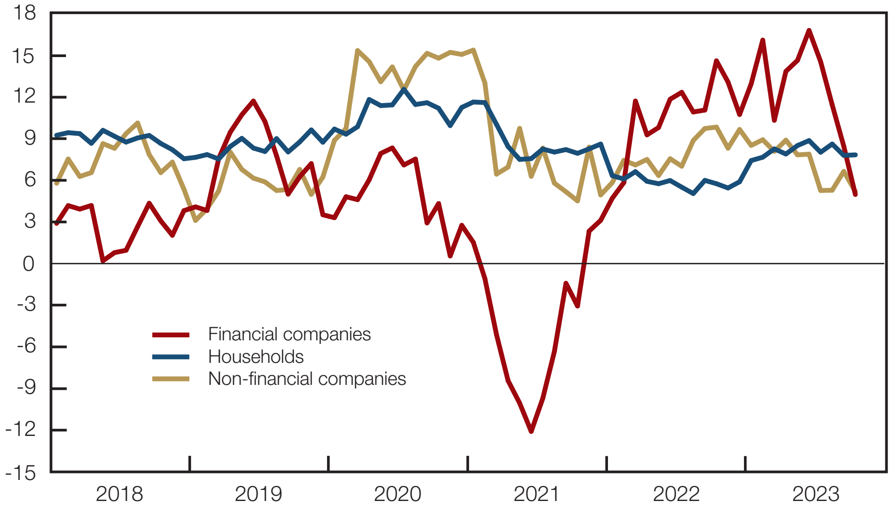
21 NCDs are included in the calculation of money supply due to their highly liquid nature.

The recent slowdown in M3 growth reflected a notable deceleration in the growth in deposit holdings of companies and, to a lesser extent, that of households. Growth in the deposit holdings of financial companies decelerated to 5.0% in October 2023 following double-digit growth in the first eight months of the year and a recent high of 16.8% in June on account of, among other things, declines in deposits by fund managers, unit trusts, insurers, the Public Investment Corporation (PIC) and some state-owned enterprises. Banks also contributed to the decline as the surplus-based monetary policy implementation framework (MPIF) reduced the need to issue negotiable certificates of deposit (NCDs)[21] for liquidity purposes. Similarly, growth in the deposits of non-financial companies also decelerated to a recent low of 5.2% in October 2023, down from 8.9% in April.

Despite the recent deceleration from 8.9% in June 2023 to 7.8% in October, growth in the deposit holdings of households remained firm, supported by higher interest rates, and still exceeded the 5.9% average growth rate in 2022.

Deposit holdings of households and companies

Percentage change over 12 months

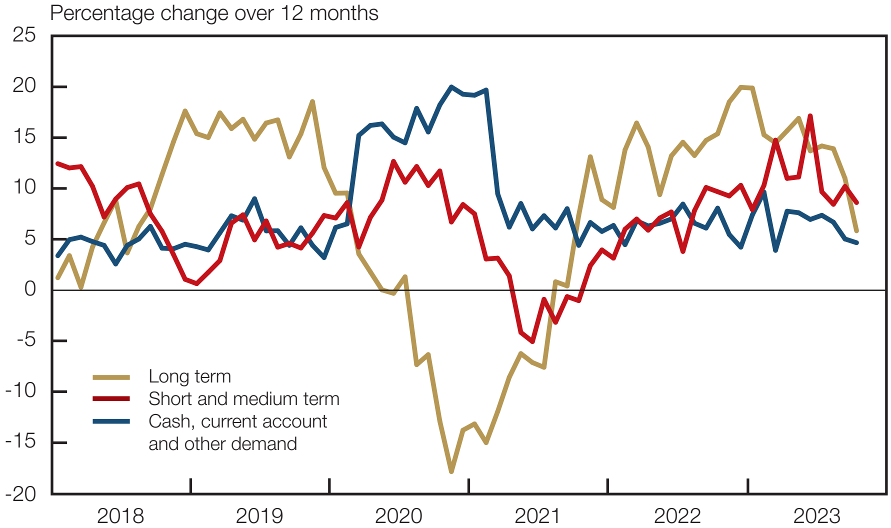


Source: SARB

Growth in the short- and medium-term deposit category decelerated sharply from a recent year-on-year high of 17.2% in June 2023 – the highest rate of increase since March 2009 – to 8.5% in August, and accelerated slightly to 10.2% in September before slowing again to 8.6% in October. Year-on-year growth in long-term deposits decelerated from a recent high of 19.9% in January 2023 to 5.9% in October, likely due to fund managers seeking alternative investment avenues, along with the reduced availability of NCDs as well as the calendar effect of deposits moving into the medium-term category due to their maturity dates. The recent trends in deposits by maturity reflect the effects of the transmission of monetary policy and associated risk outlook. Growth in cash, current account and other demand deposits also moderated in the first 10 months of the year, slowing from 9.7% in February 2023 to 4.7% in October as various fund managers, treasury companies and non-financial institutions invested some of their available funds elsewhere.

Deposits by maturity

Percentage change over 12 months



Source: SARB

Deposit holdings of the household sector increased by R43.4 billion in the third quarter of 2023 compared with an increase of R41.9 billion during the preceding quarter and R56.6 billion during the same period of 2022. The corporate sector's deposits increased by R34.8 billion in the third quarter of 2023, slightly down from the R38.3 billion increase in the second quarter, but significantly lower than the R160.3 billion increase recorded during the same period a year earlier. This change is reflected in the R52.5 billion increase in the deposits of non-financial companies in the third quarter 2023, which was partly offset by the R17.8 billion contraction in the deposit holdings of financial companies.

M3 holdings of households and companies

	Quarter-on-quarter change (R billions)					Year to date	Percentage of total M3 deposit holdings*
	2022		2023				
	Q3	Q4	Q1	Q2	Q3		
Households	56.6	26.6	20.6	41.9	43.4	105.9	36.5
Companies: Total..........................	160.3	35.6	116.6	38.3	34.8	189.7	63.5
Of which: Financial	95.3	-9.4	98.6	59.3	-17.8	140.2	33.4
Non-financial.............	65.0	44.9	18.0	-21.0	52.5	49.5	30.2
Total M3 deposits........................	**216.9**	**62.2**	**137.2**	**80.2**	**78.1**	**295.6**	**100.0**

* Expressed as a percentage of the total outstanding balance as at September 2023

Source: SARB

Statistically, the counterparts[22] to the R78.1 billion increase in M3 during the third quarter of 2023 reflected a substantial increase of R127.3 billion in net claims against the government sector, largely as a result of a significant decline in the deposit holdings of government and an increase in banks' holdings of government securities, alongside a further increase of R68.9 billion in claims on the domestic private sector. The recent decline in government deposits was partially the result of the payment of equitable share transfers to local government, payments made to Southern African Customs Union (SACU) members as well as the distribution of interest on government securities. The increases in net claims against the government sector and claims on the domestic private sector were partly offset by decreases in net foreign assets of the monetary sector of R88.5 billion and in net other assets of R29.6 billion.

22 While the analysis of the difference between changes in monetary aggregates and money holding sectors provides useful information, the complete analysis of the monetary balance sheet, with money on the one hand and its counterparts on the other, provides additional information from a statistical analysis perspective. See the *Monetary analysis* table on page S–24 in this edition of the *Quarterly Bulletin*.

Counterparts of change in M3

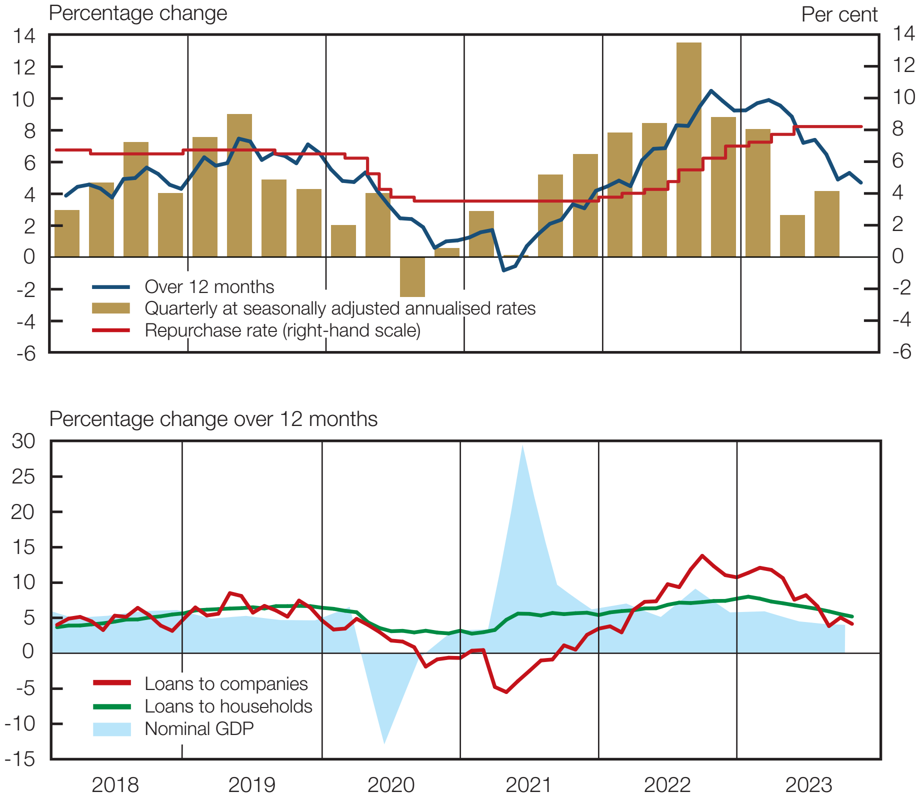
	Quarterly change (R billions)				
	2022		2023		
	Q3	Q4	Q1	Q2	Q3
Claims on the private sector..	133.4	6.6	92.2	35.4	68.2
Net claims on the government sector..	140.1	9.5	87.7	-65.1	127.3
Net foreign assets	12.3	-44.2	65.3	186.1	-88.5
Net other assets...	-69.0	90.3	-107.9	-76.2	-28.9
Change in M3..	**216.9**	**62.2**	**137.2**	**80.2**	**78.1**

Source: SARB

Credit extension

Year-on-year growth in total loans and advances extended by monetary institutions to the domestic private sector decelerated from a high of 9.9% in February 2023 to a low of 4.7% in October as loans to companies decelerated at a faster pace than loans to households. The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances also moderated notably from 8.0% in the first quarter of 2023 to 2.6% in the second quarter, before quickening to 4.1% in the third quarter.

Total loans and advances to the private sector and gross domestic product

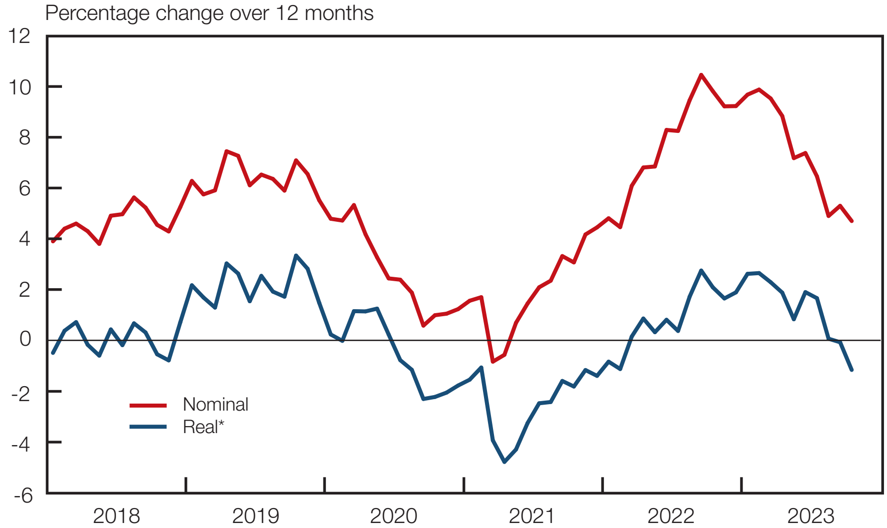


Sources: Stats SA and SARB

The ratio of loans and advances to nominal GDP declined from 60.1% in the second quarter of 2023 to 59.9% in the third quarter as growth in nominal GDP marginally exceeded the expansion in credit extension.

Growth in loans and advances to companies decelerated from double-digit growth rates in the first four months of 2023 to a recent low of 3.8% in August, before accelerating somewhat to 4.2% in October. The year-on-year growth in loans and advances to the household sector decelerated gradually for nine consecutive months, from 8.0% in January 2023 to 5.2% in October.

Total loans and advances



* Deflated with the headline consumer price index

Source: SARB

Growth in real (inflation adjusted) total loans and advances also moderated from a post-pandemic high of 2.8% in September 2022 to -0.1% in September 2023 – the first year-on-year contraction since February 2022 – and slowed further to -1.2% in October.

Credit extension to the household sector increased by R17.5 billion in the third quarter of 2023, marginally more than the increase of R16.7 billion recorded in the second quarter, but substantially lower than the increases recorded in the preceding three quarters as reflected in the slowdown in unsecured loans, which drove demand for household credit in 2022. The increase in credit extended to the corporate sector of R39.5 billion in the third quarter of 2023 was significantly higher than the increase of R2.4 billion in the previous quarter, but much lower than the R96.6 billion increase recorded over the same quarter a year ago. The rebound in corporate credit in the third quarter of 2023 reflected increases in credit extended to both financial and non-financial companies.

Credit extended to households and companies

	Quarter-on-quarter change (R billions)					Year to date	Percentage of total loans and advances*
	2022		2023				
	Q3	Q4	Q1	Q2	Q3		
Households	35.3	40.9	35.1	16.7	17.5	69.3	49.7
Companies: Total	96.6	9.8	50.9	2.4	39.5	92.8	50.3
Of which: Financial	43.2	-20.2	46.0	0.5	18.4	64.8	12.5
Non-financial	53.4	30.0	4.9	1.9	21.1	28.0	37.8
Total bank loans and advances	131.9	50.7	86.1	19.1	57.0	162.2	100.0

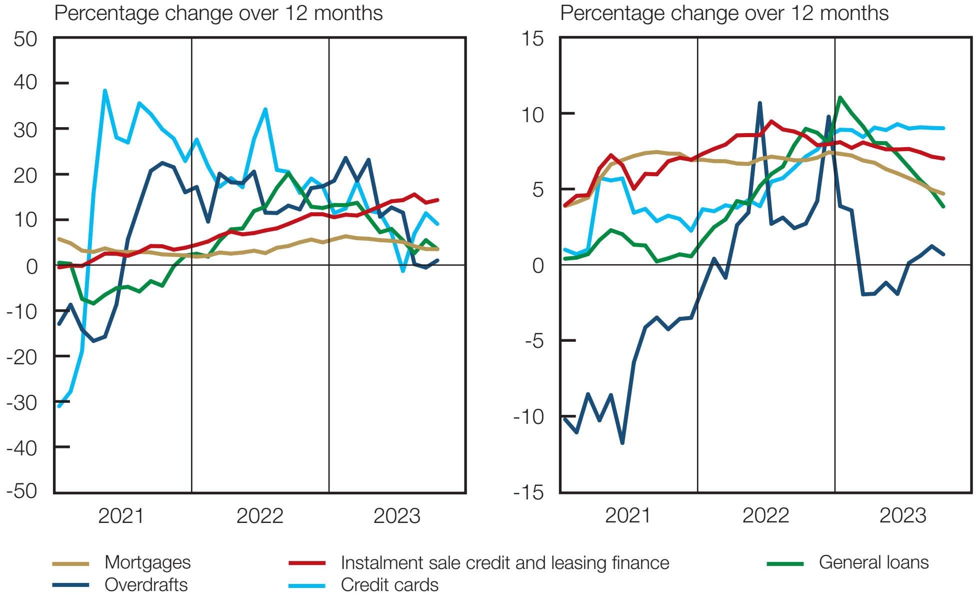
* Expressed as a percentage of the total outstanding balance as at September 2023

Source: SARB

Credit extended to companies moderated in recent months, reflecting a slowdown in general loans, credit card advances and overdrafts, before accelerating slightly from 3.8% in August 2023 to 4.2% in October. General loans to companies (54% of total company loans) partly contributed to the acceleration, increasing from a recent low of 2.6% in August 2023 to 3.5% in October as the utilisation of general purpose loans by both financial and non-financial companies increased. The recent acceleration partly reflected increases in intergroup loans with securities trading and treasury companies as well as a resurgence in general loans by non-financial companies in the petrochemical, vehicle manufacturing and logistics sectors. Growth in the utilisation of overdrafts by corporates (10% of corporate loans) decelerated from a high of 23.6% in February 2023 to 1.0% in October. This reflected, among other factors, repayments by companies in the agricultural sector following a bumper summer crop harvest and the reduction of overdraft balances by the treasury services of some mineral resources companies, retailers and insurance companies. Growth in credit card advances to companies (0.4% of corporate loans) rebounded to 8.9% in October 2023 following a year-on-year contraction of 1.3% in July. Growth in mortgage advances extended to companies (27% of corporate loans) moderated further from a recent high of 6.3% in February 2023 to 3.5% in October, reflective of the weak economic environment. Growth in instalment sale credit and leasing finance to companies (9% of corporate loans) gradually accelerated to a post-pandemic high of 15.5% in August 2023 as purchases of commercial vehicles increased, before softening to 14.3% in October.

Selected loans and advances

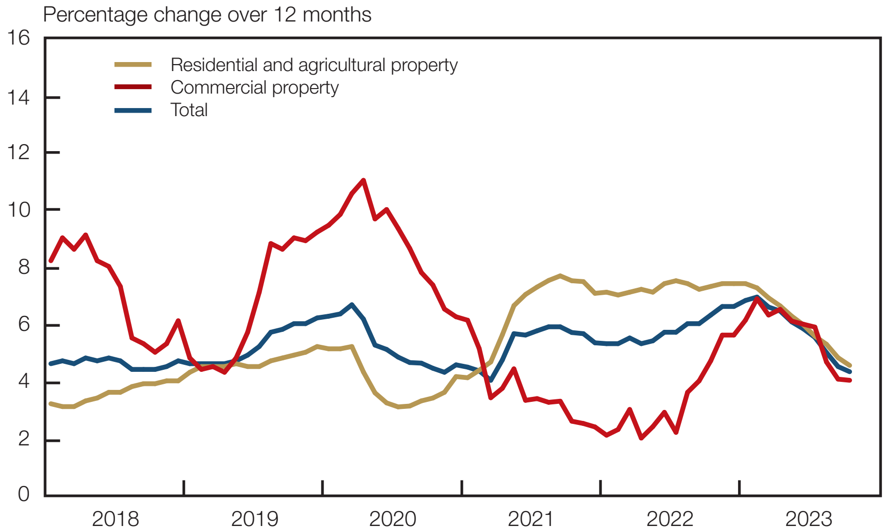
Corporate sector | Household sector



Source: SARB

Growth in credit extended to the household sector moderated gradually from 8.0% in January 2023 to 5.2% in October following a broad-based slowdown across the various types of credit categories. Growth in general loans to households (14% of total household loans) decelerated for nine consecutive months from 11.0% in January 2023 to 3.9% in October. The higher interest rate environment alongside muted income growth continued to impact negatively on households' ability to borrow. The overall moderation in credit extension to the household sector was also noticeable in the asset-backed credit categories. Growth in mortgage advances to households (59% of total household loans) decelerated steadily from 7.3% in January 2023 to 4.7% in October. Growth in instalment sale credit to households (18% of total household loans) also decelerated from 8.1% in March 2023 to 7.0% in October. Household credit card advances (7% of total household loans) levelled off at around 9.0% in recent months, while households' utilisation of overdrafts (2% of total household loans) has been relatively weak in 2023, with growth accelerating to only 0.7% in October.

Mortgage advances



Source: SARB

Growth in mortgage advances on residential and agricultural property decelerated from 7.4% in January 2023 to 4.5% in October – the lowest rate recorded since March 2021, reflecting affordability constraints amid high debt-servicing costs. Similarly, growth in commercial property decelerated from 6.1% at the beginning of 2023 to 4.0% in October. On aggregate, growth in total mortgage advances decelerated for eight consecutive months from 6.9% in February 2023 to 4.3% in October – matching rates last recorded in 2021.

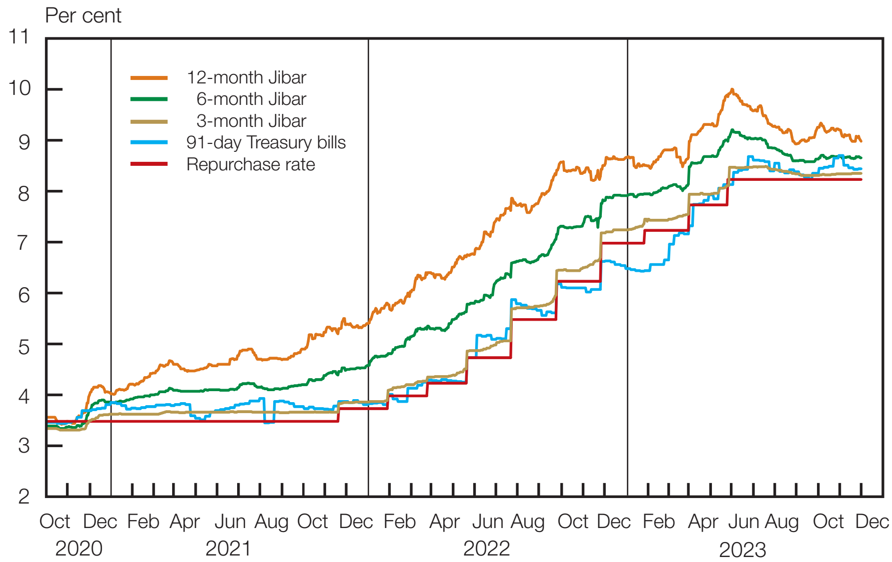
Interest rates and yields

The MPC of the SARB kept the repurchase (repo) rate unchanged at 8.25% per annum for a third consecutive meeting in November 2023 after increasing it by 50 basis points at the May 2023 meeting. The MPC noted continuous upside risks to the domestic inflation outlook, in part due to supply-side factors such as electricity and logistical constraints as well as volatility in domestic food price inflation and tight international crude oil markets.

Domestic short-term money market rates remained flat in recent months, increasing only moderately in response to fluctuations in the exchange value of the rand and an uptick in consumer price inflation. The three-month Johannesburg Interbank Average Rate (Jibar) remained range bound and fluctuated within a narrow range of between 8.33% and 8.37% from 1 September 2023 to late November, recording 8.37% on 30 November, which was 12 basis points higher than the repo rate. Movements in the six-month Jibar were also subdued, as it increased from 8.60% on 15 September 2023 to 8.68% on 30 November. The increase in the longer-dated 12-month Jibar was more pronounced, increasing by 36 basis points from 9.00% on 12 September 2023 to 9.36% on 4 October, before declining to 9.00% at the end of November. The South African Rand Overnight Index Average (ZARONIA) rate has been identified as the near risk-free successor of the Jibar and market participants have been urged to cautiously start using the ZARONIA as a reference rate in financial contracts from November 2023.

The tender rate on 91-day Treasury bills (TBs) increased by 46 basis points from 8.26% on 18 September 2023 to 8.72% on 30 October amid weak demand by private sector banks for these short-term instruments. Thereafter, the rate declined to 8.46% on 30 November.

Money market rates

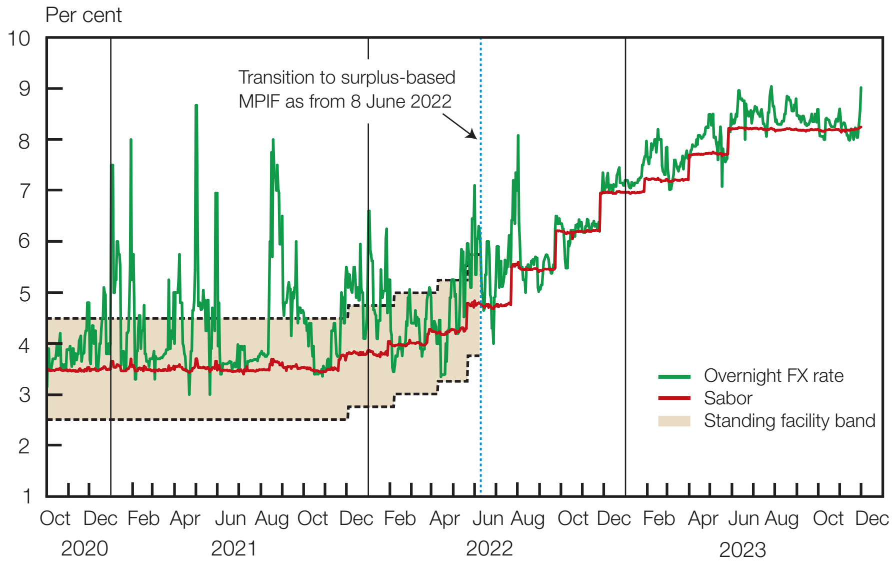


Source: SARB

The South African Benchmark Overnight Rate (Sabor) fluctuated in close alignment with the repo rate and remained relatively stable, averaging 8.18% from 1 September 2023 to mid-November as private sector banks continued to experience periods of surplus liquidity in the overnight interbank market. Thereafter, the rate increased marginally to 8.25% on 30 November.

The more volatile overnight FX rate averaged 8.49% in the third quarter of 2023, up from 8.20% in the second quarter. The overnight FX rate initially increased by 30 basis points from 8.29% on 15 September 2023 to 8.59% on 30 September when foreign banks required additional funding in the overnight FX forward market to meet month-end liquidity obligations. The overnight FX rate fluctuated in a similar fashion between a low of 8.00% on 9 October and a high of 8.60% on 31 October. The rate subsequently reached a low of 7.99% on 14 November and a high of 9.02% on 30 November.

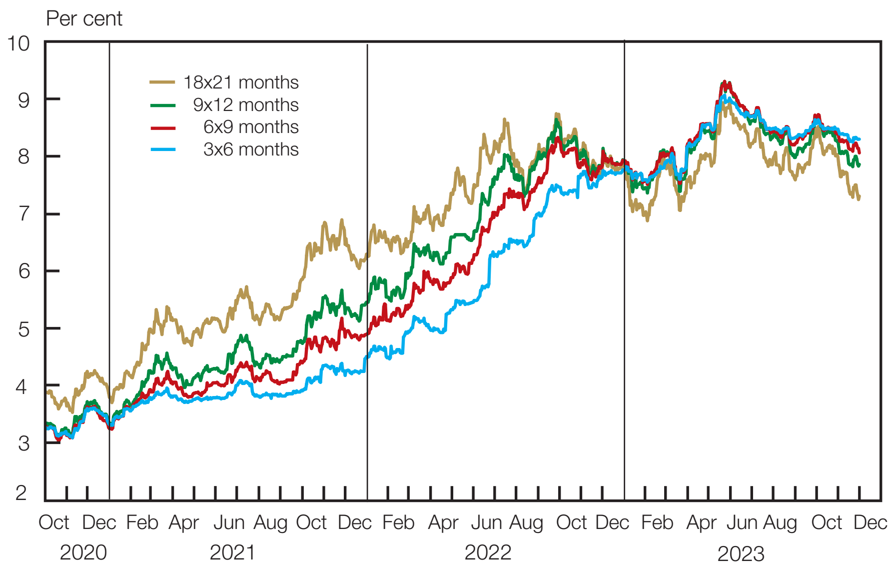
Benchmark overnight rates



Source: SARB

Rates on forward rate agreements (FRAs) initially increased from early September 2023 into the first week of October before the rates started trending lower, partly affected by the fluctuations in the exchange value of the rand and geopolitical concerns as well as market anticipation of a longer pause in the monetary policy stance. The 3x6-month FRA increased by 30 basis points from 8.34% on 1 September 2023 to 8.64% on 3 October before decreasing to 8.30% on 30 November. Similarly, the 6x9-month FRA increased by 48 basis points from 8.24% on 1 September 2023 to 8.72% on 4 October before decreasing to 8.06% on 30 November. The 9x12-month longer-term FRA increased by 67 basis points from 8.03% on 1 September to 8.70% on 4 October before decreasing to 7.86% on 30 November.

Forward rate agreements

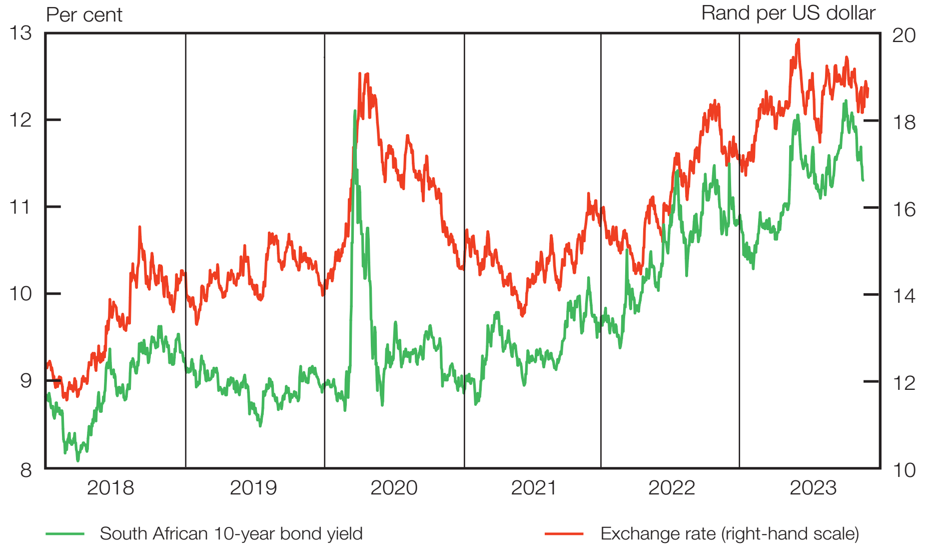


Source: SARB

The weighted average deposit and lending rates of private sector banks levelled off recently following the MPC's decision to keep the repo rate unchanged at the July and September 2023 meetings. The rate charged by banks on mortgage advances remained unchanged at 11.44% in August and September 2023. However, the rate on instalment sale credit decreased slightly from 12.01% to 11.98% over the same period, while the interest rate on overdrafts also remained fairly static between 12.02% in August and 12.01% in September. The interest rate on credit card advances decreased marginally from 18.13% in August to 18.09% in September. The weighted average interest rate on call deposits remained unchanged at 7.96% in August and September. Similarly, banks offered a weighted average rate on 12-month fixed deposits of 8.66% in August and 8.69% in September, while the weighted average interest rate on current accounts amounted to 4.65% in both months.

The *yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market* generally increased in the year to early October 2023, from 10.29% on 2 February to 12.23% on 4 October. The increase reflected heightened concerns over South Africa's fiscal outlook alongside a deterioration in revenue collection, the deprecation in the exchange value of the rand and higher international bond yields. Subsequently, the 10-year yield declined to 11.24% on 30 November, tracking the appreciation in the exchange value of the rand and lower international bond yields. The 10-year government bond yield also declined briefly in June and July 2023, following an appreciation in the exchange value of the rand and a notable decrease in domestic consumer price inflation.

Government bond yield and the exchange rate



Sources: IRESS, JSE and SARB

Movements in the level of the domestic *yield curve* generally increased across the maturity spectrum in the first 10 months of 2023, particularly in the longer-term maturity spectrum. These movements in part reflected the turmoil in bond markets as the prospect of higher-for-longer interest rates and a deteriorating fiscal debt outlook weighed on bond yields. Similarly, the inverted US yield curve also increased during the same period as market participants expected the US Federal Reserve (Fed) to increase and hold interest rates high for longer amid elevated inflation. Subsequently, the level of the domestic yield curve moved lower to the end of November. The yield gap[23] in South Africa widened from 378 basis points on 2 February 2023 to 476 basis points on 4 October, before narrowing to 378 basis points on 30 November.

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] narrowed from 420 basis points at the end of May 2023 to 365 basis points in November as emerging market bond yields generally declined while US bond yields increased. Likewise, South Africa's

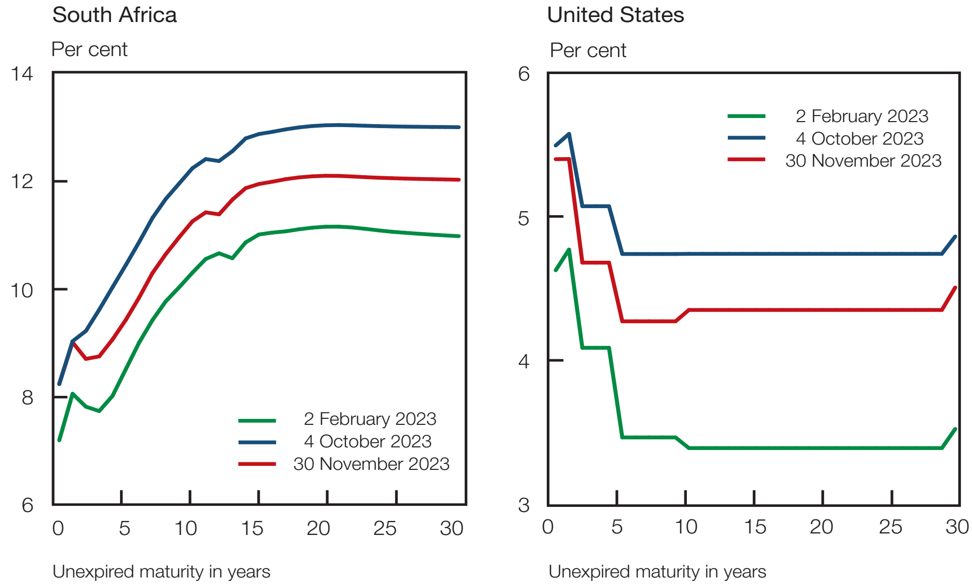
23 The yield gap is measured as the difference between yields at the extreme long and short ends of the yield curve.

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

sovereign risk premium[25] on US dollar-denominated government bonds in the seven-year maturity range narrowed from a monthly average of 384 basis points in May 2023 to 317 basis points in November.

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.

Yield curves

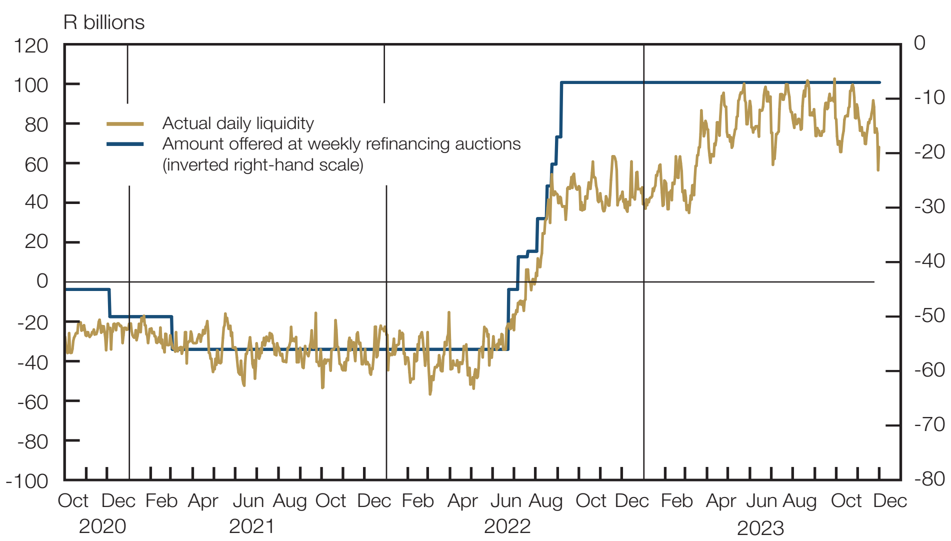


Sources: IRESS and JSE

Money market

Private sector banks' average daily surplus liquidity position amounted to R85.4 billion in the third quarter of 2023, although it varied between a low of R59.1 billion and a high of R102.7 billion. The low occurred on 3 July 2023 and reflected the temporary withdrawal of deposits by the Corporation for Public Deposits (CPD) from private sector banks and the placement thereof with the SARB as part of liquidity management activities. By contrast, the high of R102.7 billion was recorded on 28 September 2023 when CPD funds were withdrawn from the SARB, enhancing the liquidity of private sector banks and contributing to a marginal breach of the upper target range of R80 billion plus the R20 billion safety buffer. The amount on offer at the weekly refinancing auctions was maintained at R7.0 billion as it was deemed adequate to cover any short-term liquidity needs of private sector banks. In October and November 2023, the average daily surplus liquidity position of private sector banks amounted to R83.0 billion and R77.6 billion respectively.

Daily liquidity



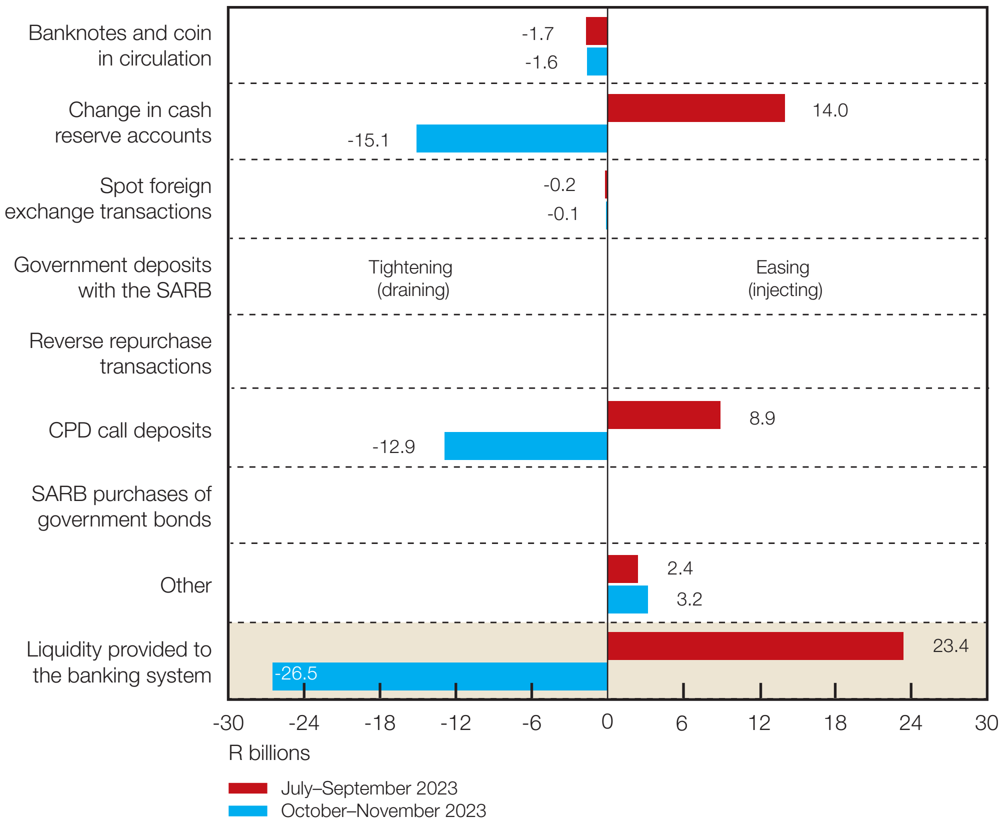
Source: SARB

Total accommodation provided to banks at the weekly main refinancing auctions decreased significantly from R1.2 billion in July 2023 to a low of R0.2 billion in both August and September as demand for liquidity at the weekly refinancing auctions remained muted. In October, the accommodation increased marginally to R0.4 billion.

Money market liquidity expanded by a net amount of R23.4 billion in the third quarter of 2023 compared with a contraction of R6.9 billion in the second quarter. The expansion was largely the result of a decrease in the cash reserve deposits that private sector banks are required to hold at the SARB, the withdrawal of R8.9 billion in deposits held by the CPD at the SARB which was then placed with private sector banks, and 'other factors' of R2.4 billion which mostly included accommodation provided to banks. The expansion was slightly offset by an increase of R1.7 billion in banknotes and coin in circulation outside of the SARB, along with foreign exchange transactions in the spot market of R0.2 billion.

In October and November 2023, money market liquidity contracted by R26.5 billion, mainly due to an increase in banks' required cash reserve deposits of R15.1 billion, the placement of R12.9 billion in CPD funds on deposit at the SARB, and an increase in banknotes and coin in circulation of R1.6 billion.

Factors influencing money market liquidity flows



Source: SARB

Bond market

The total *nominal value of outstanding listed*[26] *and unlisted*[27] *rand-denominated debt securities* issued by residents and non-residents in the domestic primary debt market increased by 9.4% year on year to R6.3 trillion at the end of October 2023. General government accounted for 72.4% (R4.6 trillion) of the total amount of debt securities in issue in the domestic primary debt market at the end of October 2023. The funding activity reflected government's larger borrowing requirement as projected in the *2023 Budget Review* and reinforced in the *2023 MTBPS*.

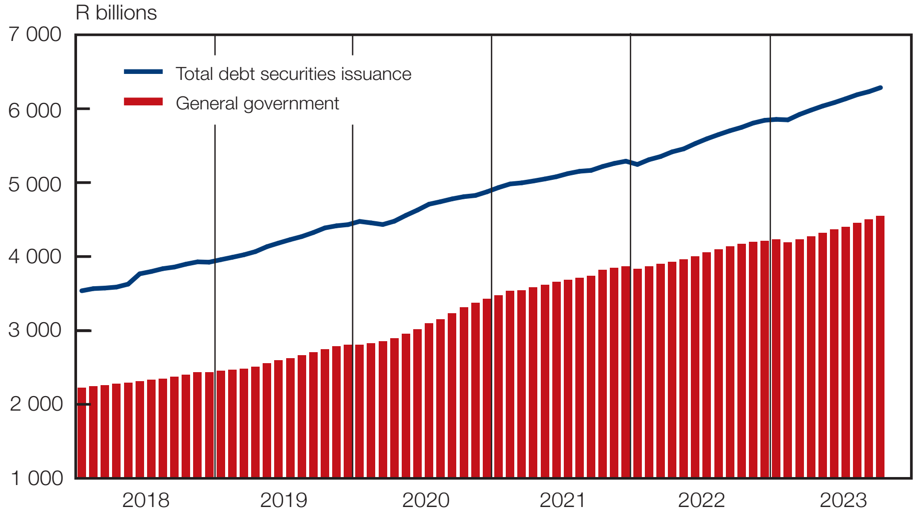
26 These are debt securities listed on the JSE Limited (JSE) and the Cape Town Stock Exchange (CTSE).

27 These are debt securities not listed on a stock exchange and traded in the over-the-counter (OTC) market.

The Shanghai-based New Development Bank, which was formed by the BRICS[28] countries, issued its first two rand-denominated bonds, namely a R1 billion five-year note and a R500 million three-year note, in August 2023. The proceeds of the successful placement are aimed at funding infrastructure and sustainable development projects in South Africa.

28 Brazil, Russia, India, China and South Africa.

Outstanding value of listed and unlisted rand-denominated debt securities in issue in the domestic primary debt market*

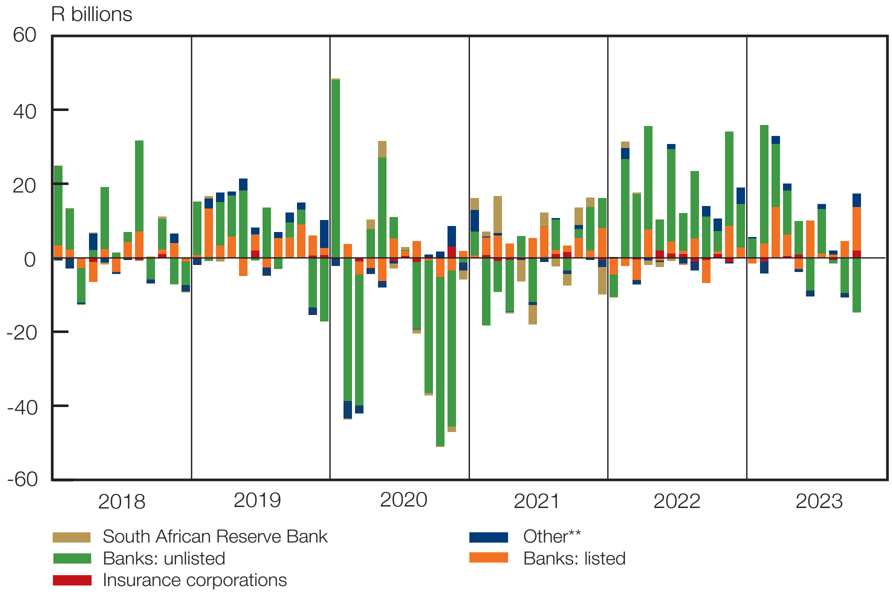


* Nominal value

Sources: Banks, CTSE, JSE, National Treasury and SARB

The nominal net issuance of rand-denominated debt securities in the domestic primary debt market by financial corporations of R106 billion in the first 10 months of 2023 was 28.2% lower than in the corresponding period of 2022. The reduced net issuance by financial corporations mainly reflected much smaller net issuance of unlisted debt securities by banks of R52.9 billion in the first 10 months of 2023 compared with R144 billion in the same period of 2022 amid lower investor demand for credit within a weak economic environment.

Net issuance of listed and unlisted rand-denominated debt securities by financial corporations in the domestic primary debt market*



* Nominal value

** Includes state-owned companies, real estate corporations, special-purpose vehicles and other financial corporations

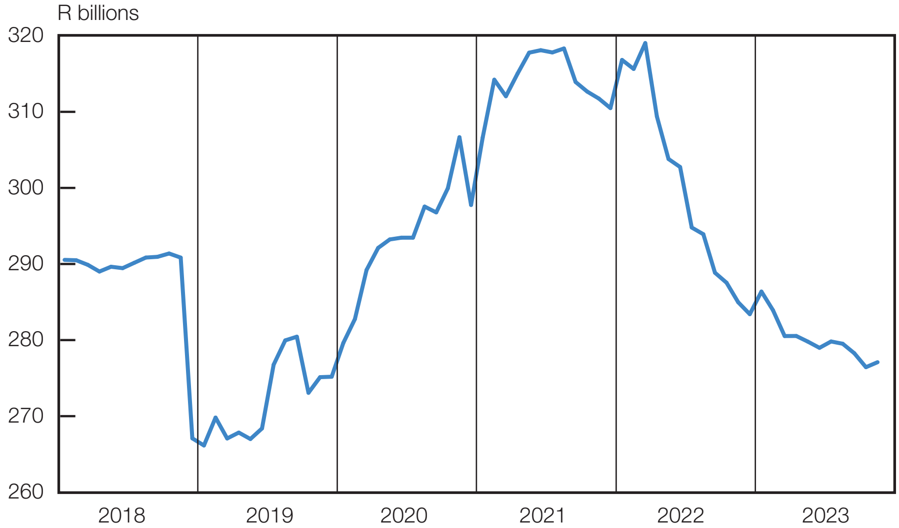
Sources: Banks, CTSE, JSE and SARB

29 Non-residents' participation rate refers to the gross value of bonds traded by non-residents as a percentage of the total value of bonds traded on the JSE.

The total *value of turnover* in the domestic secondary bond market of the JSE Limited (JSE) and Cape Town Stock Exchange (CTSE) amounted to R38.2 trillion in the first 11 months of 2023, which was 14.6% more than in the corresponding period of 2022, while the number of trades remained broadly the same over this period. Non-residents' participation rate[29] in the domestic bond market increased from an annual average rate of 8.1% in 2022 to an average rate of 11.4% in the first 11 months of 2023.

The total outstanding amount of rand-denominated debt securities in issue in the *European and Japanese bond markets* declined further to R277 billion at the end of November 2023 – a level last seen in December 2019. The decline was as a result of significantly lower issuances in these markets following the volatility in the exchange value of the rand and higher interest rates, among other factors.

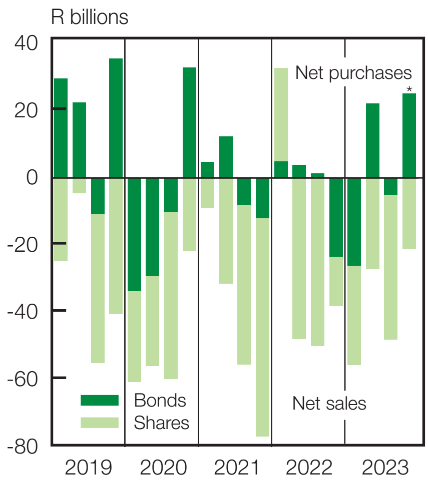
Outstanding amount of rand-denominated bonds in issue in international markets



Source: Bloomberg

Non-residents' net purchases of JSE-listed bonds of R22.1 billion in the second quarter of 2023 were followed by net sales of R4.9 billion in the third quarter, which switched to net purchases of R23.8 billion in October and November, according to JSE data. This resulted in cumulative net purchases of bonds by non-residents of only R14.9 billion in the first 11 months of 2023 compared to net sales of R4.6 billion in the corresponding period of 2022. The moderate cumulative net purchases reflected, among other factors, concerns about sticky inflation and the possibility of central banks keeping interest rates higher for longer. The share of non-resident holdings of domestic government bonds continued to decline from an all-time high of 42.8% in March 2018 to 25.4% in October 2023.

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



* October and November

Source: JSE

Share of non-resident holdings of domestic government bonds

Source: National Treasury

Share market

The *value of secondary equity capital raised*[30] in the domestic and international primary share markets by companies listed on the JSE of R40.1 billion in the first 11 months of 2023 was more than three times that in the corresponding period of 2022 – albeit from a very low base. A secondary-listed industrial company contributed the most to the total value of shares issued in the year to November 2023 as it had raised capital in November through shares issued to specific investors to the value of R21.6 billion following the conversion of warrants to ordinary shares. Over the same period, companies in the industrial sector contributed the most to the total value of capital raised at 60.7%, followed by companies in the financial sector.

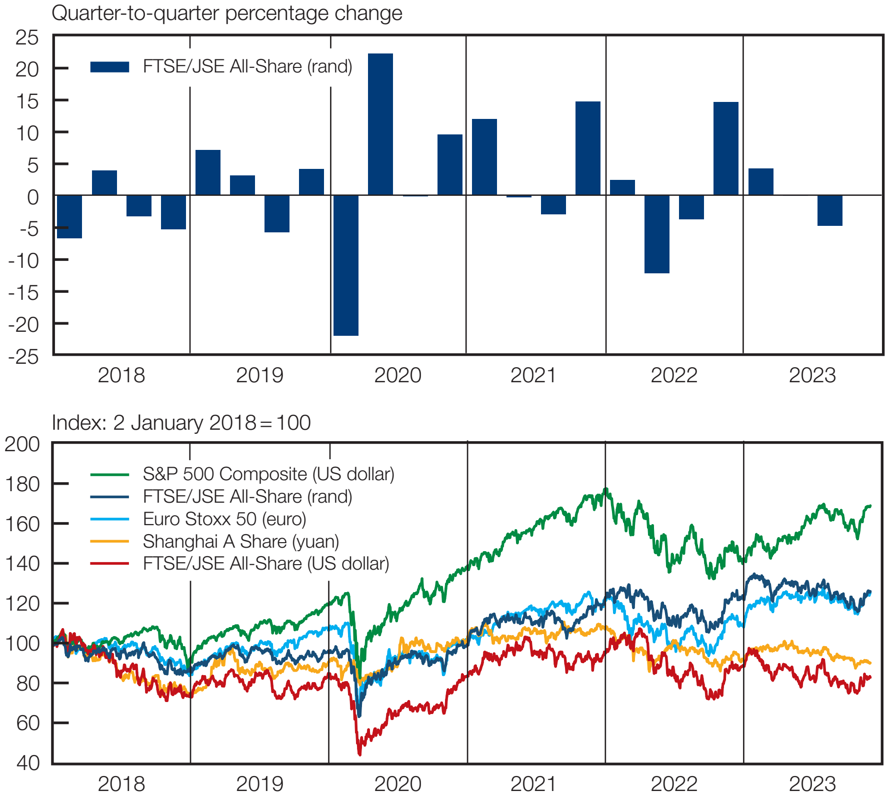
30 This excludes primary equity capital raised through new listings.

The combined *value of turnover* in the secondary share market of the South African stock exchanges of R5.1 trillion in the first 11 months of 2023 was 8.4% lower than in the same period of 2022. Lower volumes were also traded over this period. The combined market capitalisation of all the listed shares on these exchanges decreased from R23.0 trillion in January 2023 to R17.1 trillion in October, alongside lower share prices. Thereafter, the market capitalisation increased to R18.6 trillion in November as share prices fluctuated higher.

Non-residents' holdings of JSE-listed shares declined further by R43.2 billion in the third quarter of 2023, representing the sixth consecutive quarter of net selling in the domestic share market, according to JSE data. Non-residents further reduced their holdings of domestic shares by R17.1 billion in October and November, bringing cumulative net sales to R117 billion in the first 11 months of 2023, which was much higher than the R67.4 billion recorded in the corresponding period of 2022. Persistent net selling of domestic shares by non-residents was also reflected in the notable decline in the share of non-residents' holdings of total listed shares from a high of 40.0% in March 2023 to 29.8% in November. The continued sell-off in the domestic secondary market in the 11 months to November 2023 reflected, among other factors, investor concerns over the Middle East conflict escalating further, as well as concerns over domestic and global economic growth and the impact of electricity load-shedding in South Africa.

In rand terms, the Alsi declined by, on balance, 4.8% in the third quarter of 2023 – the worst quarterly performance since the second quarter of 2022. In US dollar terms, the Alsi largely followed most of its global counterparts and decreased by 4.1% during the third quarter of 2023, while the European and US share markets decreased by 7.2% and 3.6% respectively. Subsequently, the Alsi, in rand terms, briefly dipped below the 70 000 index level for the first time since 9 November 2022 to 69 452 index points on 27 October 2023 as concerns about the global economic growth outlook and the unfolding conflict between Israel and Palestine weighed on equity markets. Thereafter, share prices picked up somewhat to 75 534 index points on 30 November.

Share prices



Sources: IRESS and JSE

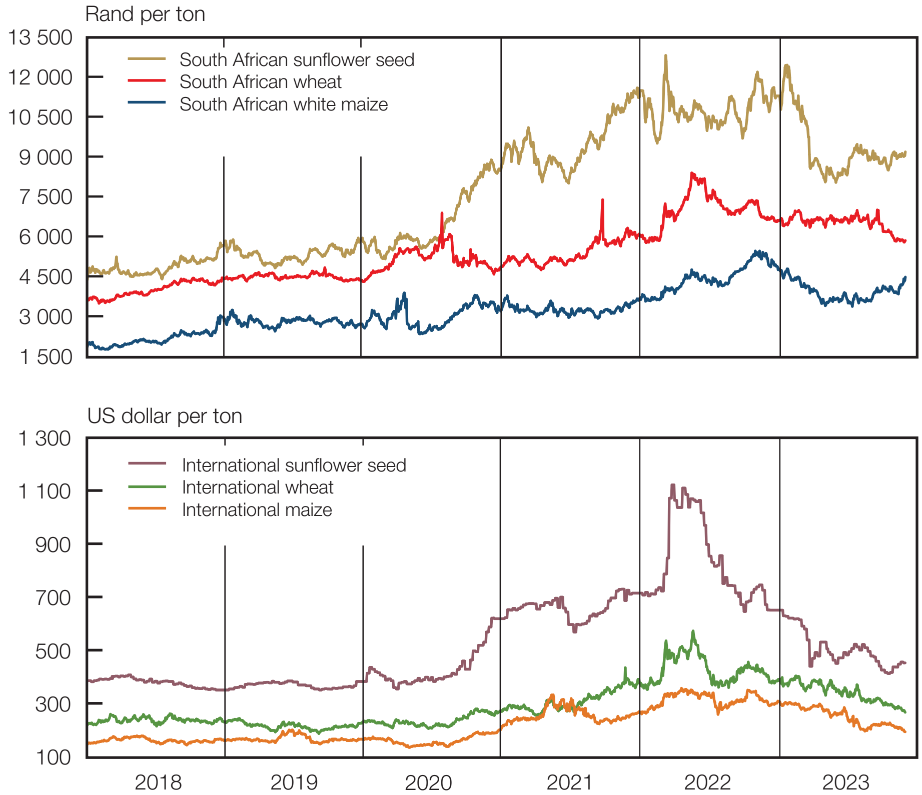
The overall *price-earnings ratio* of ordinary shares listed on the JSE declined from a recent high of 14.3 in January 2023 to 11.8 in November as share prices declined noticeable over the same period. The *dividend yield* increased from a low of 2.3% in February 2023 to 3.9% in October before decreasing to 2.9% in November as dividends declared declined while share prices increased.

Market for exchange-traded derivatives

The *spot prices of maize contracts* traded on the JSE fluctuated lower in the first seven months of 2023 before increasing in the ensuing four months to November. The spot price of white maize increased to R4 493 per ton on 30 November 2023 following a recent low of R3 387 per ton on 13 July 2023, reflecting the depreciation in the exchange value of the rand, despite lower international maize prices.

After fluctuating broadly sideways from the beginning of 2023, the *spot price of wheat contracts* traded on the JSE declined noticeably from a recent high of R7 015 per ton on 18 September to R5 867 per ton on 30 November following the appreciation in the exchange value of the rand and lower international wheat prices. Domestic wheat prices were also impacted by the increase in domestic wheat production forecasts for the 2023/24 production season as estimated by the Crop Estimates Committee (CEC) of the Department of Agriculture, Land Reform and Rural Development. This followed an expected large harvest from especially the Western Cape Province, which primarily benefitted from the conducive rainfall and thus offset the smaller expected harvests in most of the other provinces.

Grain prices



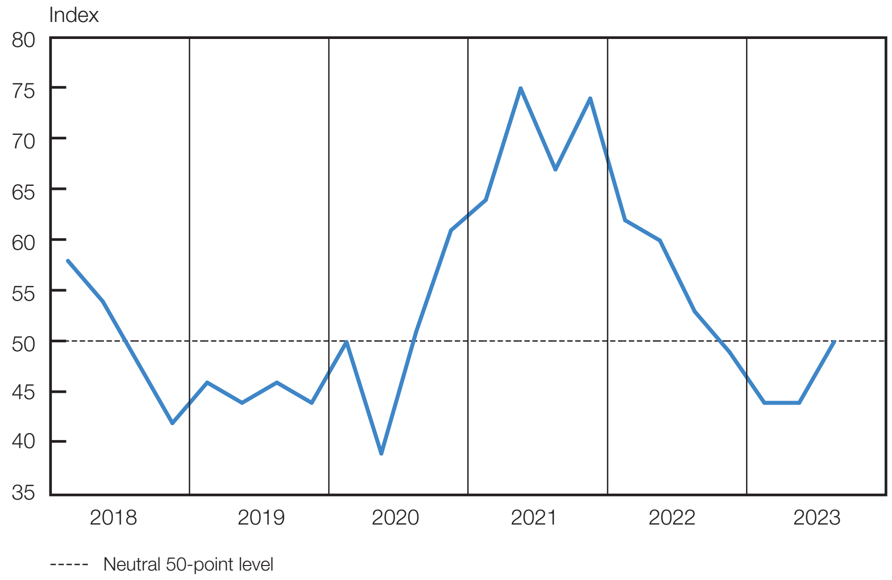
Sources: International Grains Council and JSE

The *spot price of domestic sunflower seed contracts* traded on the JSE increased to R9 200 per ton on 30 November 2023 following the sharp decline to a recent low of R8 048 per ton on 31 May. This increase was in line with higher international sunflower seed prices and a lower domestic sunflower seed harvest projected by the CEC for the 2022/23 production season.

Following the sharp decline in the Agricultural Business Chamber of South Africa (Agbiz)/Industrial Development Corporation (IDC) Agribusiness Confidence Index (ACI)[31] from a high of 75 index points in the second quarter of 2021 to 44 index points in the second quarter of 2023, the ACI increased to the neutral 50 index point level in the third quarter after remaining below this mark for the previous three quarters. This increase suggests that agricultural businesses were cautiously adapting to the challenging operating business conditions. Seven of the 10 subindices improved in the third quarter of 2023. The increase in the turnover and net operating income subindices reflected the benefits of a large agricultural harvest in the 2022/23 season, while the general agricultural conditions subindex increased together with favourable production conditions in the winter grains regions.

31 The ACI is constructed quarterly by Agbiz with support from the IDC and reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects that influence a business in the agricultural sector.

Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz

Turnover in currency derivatives on the JSE increased by 51.7% in the first 11 months of 2023 compared with the corresponding period of 2022, reflecting increased hedging amid continued volatility in the exchange value of the rand. By contrast, turnover in equity derivatives decreased slightly by 0.5% but continued to dominate the overall derivatives turnover on the JSE.

Derivatives turnover on the JSE, January to November 2023

Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	5 672	-0.5
Warrants	1	-46.6
Commodity	1 324	-3.2
Interest rate	1 280*	1.1*
Currency	1 205	51.7

* January to October 2023

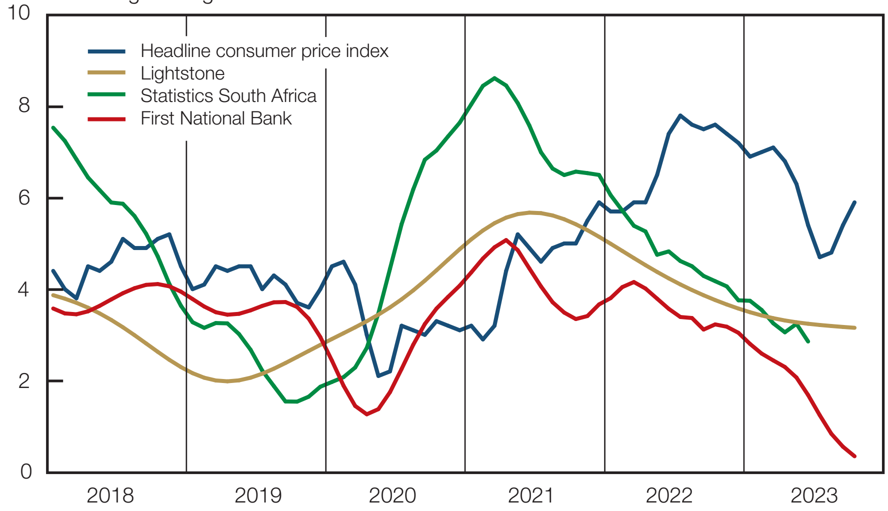
Source: JSE

Real estate market

Growth in nominal *residential property prices* remained subdued in the first 10 months of 2023 and at levels below headline consumer price inflation amid high interest rates and weak domestic economic activity. The year-on-year rate of increase in Stats SA's residential property price index moderated from 8.6% in March 2021 to 2.9% in June 2023. Growth in the FNB house price index continued to decelerate from April 2022 to a low of 0.4% in October 2023, while growth in the Lightstone residential property price index decelerated from 5.7% in June 2021 to 3.2% in October 2023.

Residential property and consumer prices

Percentage change over 12 months

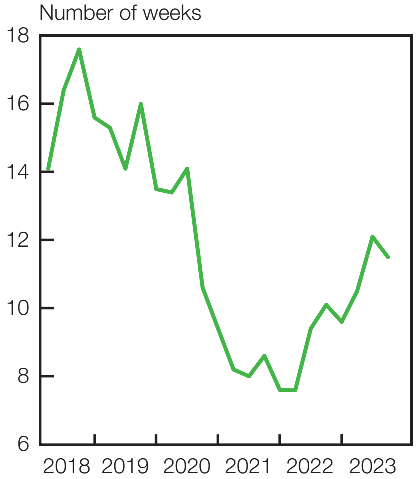


Sources: FNB, Lightstone and Stats SA

Lacklustre growth in nominal house prices coincided with an increase in the average time that residential properties remained on the market, from 9.6 weeks in the fourth quarter of 2022 to 11.5 weeks in the third quarter of 2023. In addition, the number of seasonally adjusted residential property transfers at the Deeds Office decreased by 18.9% in the 10 months to October 2023 compared with the same period of 2022.

Average time that residential properties remain on the market

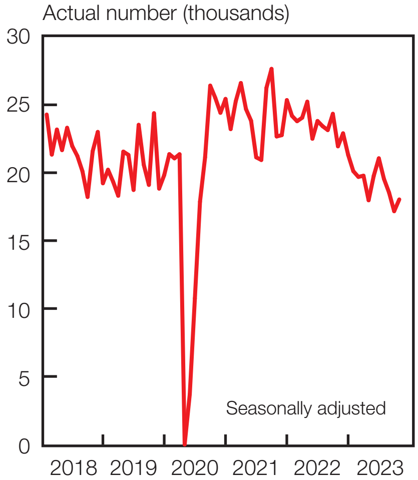
Number of weeks



Source: FNB

Residential property transfers

Actual number (thousands)

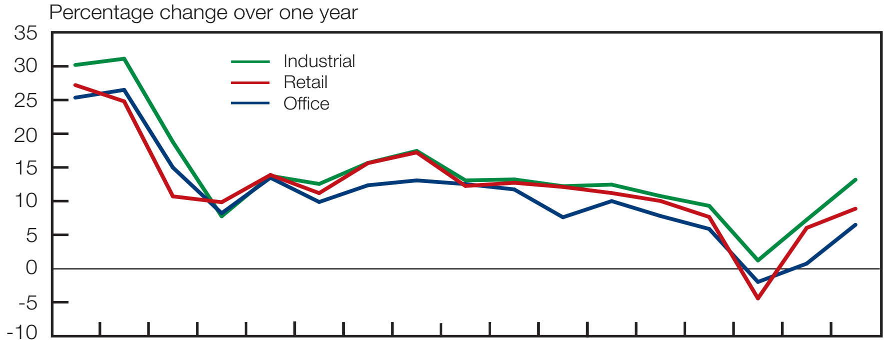


Source: Lightstone

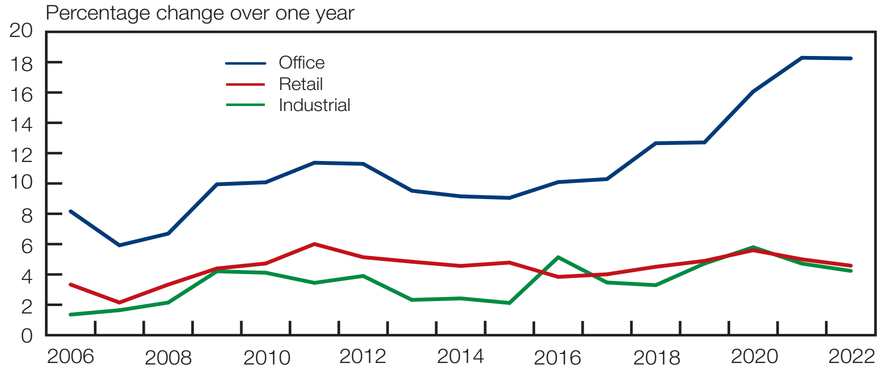
The total return[32] on *commercial property* displayed a marked improvement in 2022, largely driven by strong growth of 13.2% in the industrial property sector, which outperformed the retail and office sectors, according to MSCI data. The higher return on industrial property occurred alongside lower vacancy rates in industrial properties, which declined to 4.4% in 2022 compared with a notable high of 18.4% in office vacancy rates and 4.7% in the retail property sector.

32 Total return is calculated as the change in the market value of assets *less* capital expenditure *plus* the value of sales of assets *plus* net income, *divided by* the market value *plus* capital expenditure.

Total return on commercial property by sector



Vacancy rate of commercial property by sector



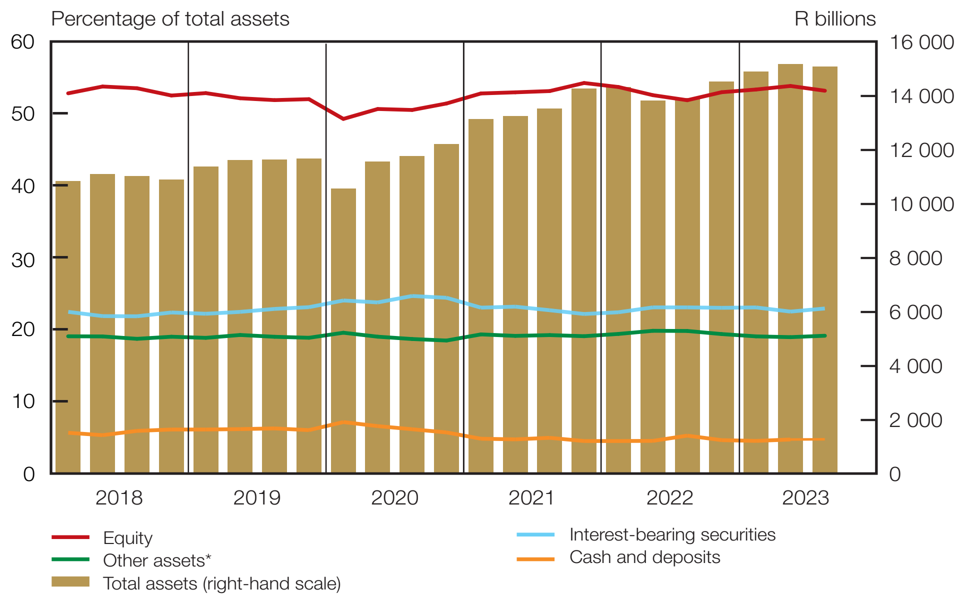
Source: MSCI

Non-bank financial intermediaries

The market value of the total assets of non-bank financial intermediaries[33] declined by 0.6% from the second quarter of 2023 to R15.1 trillion in the third quarter. On a year-on-year basis, the rate of increase in total assets moderated from 9.7% in the second quarter to 8.4% in the third quarter.

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

Total assets of non-bank financial intermediaries



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

Source: SARB

The market value of total assets held by unit trusts and insurance companies declined slightly by 0.3% and 0.9% respectively from the second quarter of 2023 to R3.9 trillion and R4.5 trillion respectively in the third quarter – weighed down by lower domestic and global share prices. Total assets managed by the PIC also declined by 1.6% from the second quarter of 2023 to R2.6 trillion in the third quarter. By contrast, the total assets of other financial intermediaries[34] increased by 1.9% to R454 billion over the same period.

34 These comprise financial corporations engaged in lending, securitisation vehicles and central clearing counterparties.

The share of unit trusts in the total assets of non-bank financial intermediaries increased by 0.1 percentage points from the fourth quarter of 2022 to 26.0% in the third quarter of 2023, while that of insurance companies declined by 0.1 percentage points to 29.9% over the same period. The share of assets managed by the PIC in the total assets of non-bank financial intermediaries amounted to 17.2% and that of other financial intermediaries to only 3.0% at the end of the third quarter of 2023.

Equity holdings by non-bank financial intermediaries declined by 0.7 percentage points from the second quarter of 2023 to 53.2% of total assets in the third quarter. The decline can be attributed to weak financial asset prices and subdued economic activity. However, equity holdings increased by a negligible 0.2 percentage points in the first three quarters of 2023 amid a slight decline of 0.9% in domestic share prices over the same period. Holdings of interest-bearing securities increased by 0.4 percentage points from the second quarter of 2023 to 22.9% of total assets in the third quarter despite a decline in bond prices. Non-bank financial intermediaries' exposure to interest-bearing securities is currently 0.8 percentage points higher than the 10-year average.

Holdings of cash and deposits relative to total assets increased slightly from the second quarter of 2023 to 4.8% in the third quarter. Loans extended by non-bank financial intermediaries remained unchanged at 4.3% of total assets over this period. The year-on-year growth in credit extension by other financial intermediaries decreased slightly from 14.7% in the second quarter of 2023 to 14.6% in the third quarter, alongside the high interest rate environment. The household sector received about 72.1% of the total value of loans extended by other financial intermediaries in the third quarter of 2023, while private non-financial corporations accounted for the remainder.

Flow of funds

The net inflow of capital from the *rest of the world* to South Africa decreased to R20.7 billion in the second quarter of 2023 from R48.0 billion in the first quarter due to heightened global risk aversion amid subdued economic growth prospects. Non-residents' net acquisition of domestic financial assets increased to R130 billion in the second quarter of 2023. This increase included net flows to insurers and retirement funds of R30.4 billion, while net sales of domestic fixed-income securities of R18.7 billion in the first quarter of 2023 switched to net purchases of R23.2 billion in the second quarter. Despite the receipt by general government of R9.5 billion related to a long-term sustainability loan extended by non-residents to the SANRAL, on a net basis loans of R27.7 billion were repaid in the second quarter of 2023, primarily by domestic non-financial corporate business enterprises. Non-residents' net sales of domestic shares of R13.4 billion in the first quarter of 2023 were followed by further net sales of R1.7 billion in the second quarter.

Residents' net purchases of foreign assets amounted to R109 billion in the second quarter of 2023 compared to net sales of R20.4 billion in the first quarter. Residents extended foreign loans of R40.3 billion and recorded net purchases of foreign debt securities of R115 billion in the second quarter of 2023, while their exposure to foreign financial derivatives decreased by R73.9 billion.

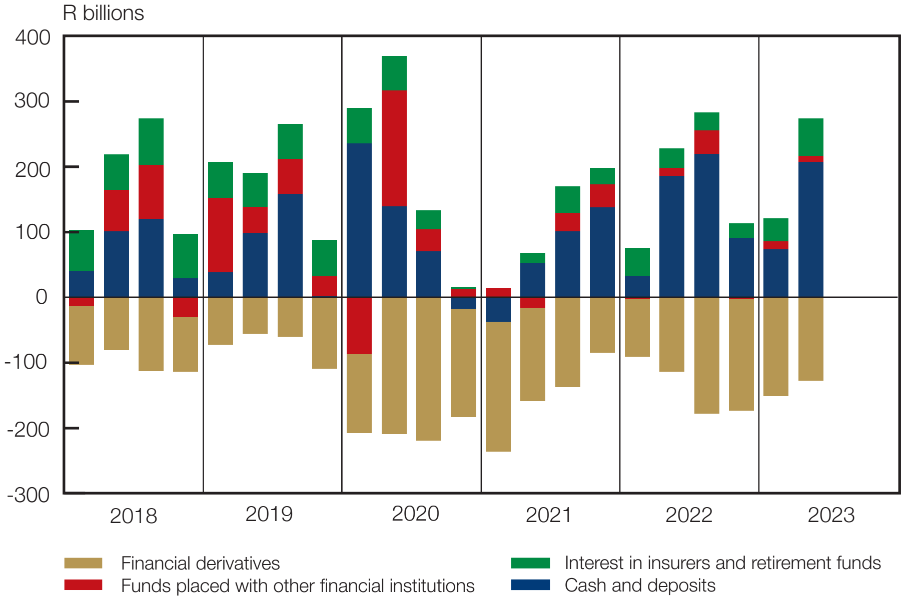
Domestic economic growth improved slightly in the second quarter of 2023, supported by less severe electricity load-shedding, despite higher interest rates. *Financial intermediaries'*[35] net incurrence of financial liabilities amounted to R258 billion in the second quarter of 2023 from R62.6 billion in the first quarter, which included cash and deposits of R207 billion in the

35 Financial intermediaries comprise the monetary authority, banks and non-bank financial intermediaries (excluding the PIC).

second quarter of 2023, mainly from central and provincial governments and households. The net inflow of funds to other financial institutions (collective investment schemes) moderated from R13.2 billion in the first quarter of 2023 to R9.3 billion in the second quarter, mainly from households. Furthermore, net flows to insurers and retirement funds amounted to R57.3 billion in the second quarter. The net repayment of loans by financial intermediaries and a reduction in financial derivative exposure were recorded over the same period.

Financial intermediation through the net acquisition of financial assets increased to R308 billion in the second quarter of 2023. Net sales of shares of R145 billion in the first quarter of 2023 switched to net purchases of R1.3 billion in the second quarter. Financial intermediaries extended loans of R98.5 billion in the second quarter of 2023, which was marginally lower than the R99.9 billion in the first quarter, reflecting a weak economic growth environment and the impact of higher debt-service costs. In addition, net purchases of fixed-interest securities increased from R103 billion in the first quarter of 2023 to R173 billion in the second quarter.

Financial intermediaries' net incurrence of selected financial liabilities



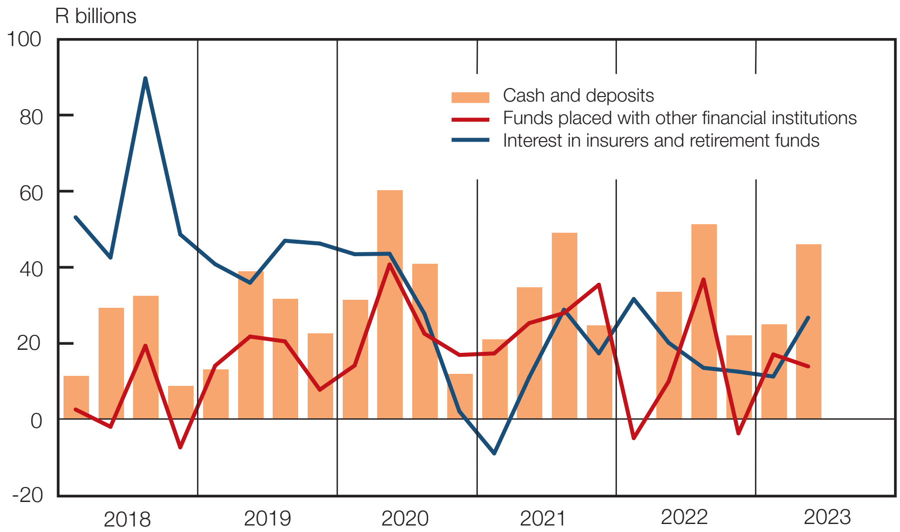
Source: SARB

The *general government sector's* finances remained constrained in the second quarter of 2023 as revenue from corporate taxes decreased along with weak economic growth. Gross capital formation by general government decreased by 3.6% in the second quarter of 2023 and contributed to a lesser net borrowing requirement of R86.8 billion over the same period. The shortfall was mainly financed in the domestic capital market through the net issuance of TBs of R19.5 billion and government bonds of R79.3 billion. Loans of R29.8 billion, which included the SANRAL Sustainability Loan of R9.5 billion, were an additional source of funding in the second quarter of 2023. General government's deposit holdings with monetary institutions increased by R40.7 billion in the second quarter of 2023 after decreasing by R31.9 billion in the first quarter.

The net lending position of *public and private non-financial corporate business enterprises* of R37.4 billion in the second quarter of 2023 was less than the R94.8 billion in the first quarter as the increase in gross capital formation of 35.9% outweighed that in gross saving of 12.8%. Private non-financial corporate business enterprises contributed the most to the increase in gross capital formation, mainly driven by increased outlays on machinery and equipment for renewable energy generation. The surplus funds were channelled to cash and deposits of R1.0 billion and loans extended of R4.6 billion, while net purchases of units in collective investment schemes amounted to R0.7 billion in the second quarter of 2023. On the liabilities side, non-financial corporate business enterprises repaid loans of R11.0 billion, mainly to the foreign sector, and recorded net share redemptions of R48.5 billion over the same period.

The *household sector's* net borrowing requirement of R21.0 billion in the second quarter of 2023 was less than the R28.0 billion in the first quarter as household finances remained under pressure. This was reflected in weak consumer confidence, with households remaining cautious about spending. Households financed the shortfall through the net incurrence of financial liabilities of R73.3 billion, with loans of R27.3 billion in the second quarter of 2023 compared to R34.3 billion in the first quarter. Households' net acquisition of financial assets of R52.3 billion in the second quarter of 2023 included cash and deposits of R45.9 billion, units in collective investment schemes of R14.1 billion, and net inflows to insurers and retirement funds of R26.9 billion.

Households' net acquisition of selected financial assets



Source: SARB

36 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–September 2023 with April–September 2022 for flows, and stocks as at 30 September 2023 over the year. Data for both periods are unaudited and preliminary.

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

Public finance[36]

Non-financial public sector borrowing requirement[37]

The preliminary *non-financial public sector borrowing requirement* increased significantly by R168.7 billion year on year to R219.3 billion in the first six months (April–September 2023) of fiscal 2023/24. The higher borrowing requirement reflected the significantly higher cash deficit of the consolidated general government, in particular national government. National government's higher deficit can largely be attributed to lower cash receipts from operating activities related to lower revenue collections in most tax categories. In addition, all other levels of general government recorded smaller cash surpluses, while the non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded a cash *deficit* in the period under review, in contrast to the *surplus* recorded in the first six months of the previous fiscal year.

Non-financial public sector borrowing requirement

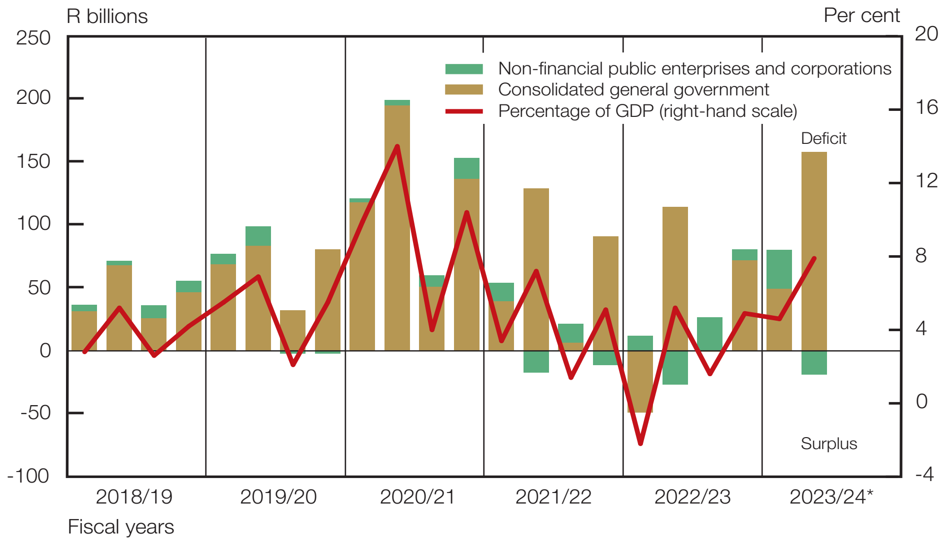
R billions

Level of government	Apr–Sep 2022*	Apr–Sep 2023*
Consolidated general government	65.5	207.2
National government	153.3	267.2
Extra-budgetary institutions	-42.1	-26.6
Social security funds	-19.5	-16.3
Consolidated provincial government	-13.4	-10.7
Local governments	-12.7	-6.3
Non-financial public enterprises and corporations	-14.9	12.1
Total	**50.6**	**219.3**
As a percentage of gross domestic product	*1.5*	*6.2*

* 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, increased to 6.2% in the first six months of fiscal 2023/24 compared with 1.5% in the first six months of the previous fiscal year.

Non-financial public sector borrowing requirement

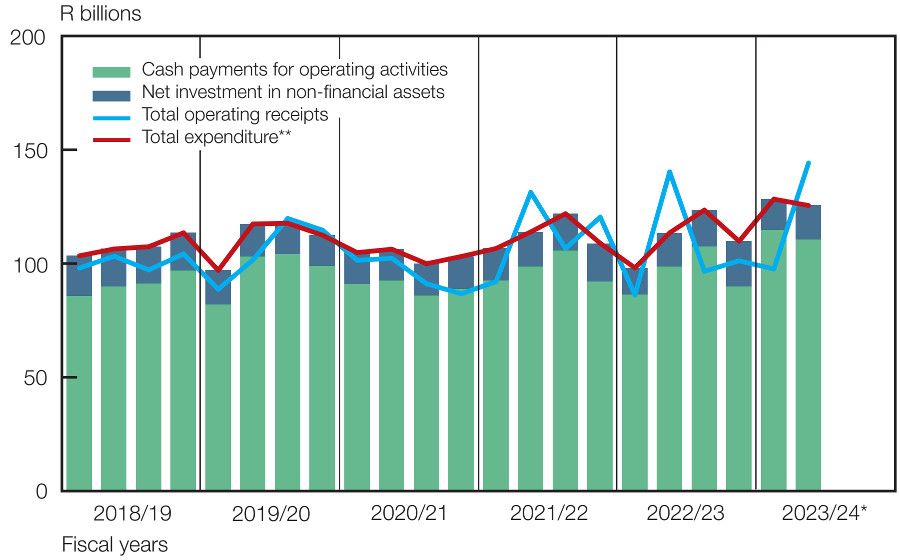


* April–September 2023
Sources: National Treasury, Stats SA and SARB

The preliminary financial activities of the non-financial SOCs resulted in a cash *deficit* of R12.1 billion in the first six months of fiscal 2023/24, in contrast to the cash *surplus* of R14.9 billion recorded in the same period of the previous fiscal year.

Total cash receipts from operating activities increased by 6.8% year on year to R241.8 billion as a result of the sales of goods and services in the first half of fiscal 2023/24. Total expenditure, inclusive of cash payments for operating activities and net investment in non-financial assets, increased by 20.0% year on year to R253.9 billion due to higher purchases of goods and services of R155.8 billion. Net investment in non-financial assets increased by 8.6% year on year to R28.5 billion in the first half of fiscal 2023/24.

Financial activities of non-financial public enterprises and corporations



* April–September 2023

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

Source: SARB

Box 3 The *2023 Medium Term Budget Policy Statement*[1]

The *2023 Medium Term Budget Policy Statement (2023 MTBPS)* sets out the government's strategy to avoid a fiscal crisis and prevent the build-up of systemic risks to the economy. The strategy, as set out in the *2023 MTBPS*, is focused on fiscal discipline by narrowing the budget deficit and stabilising debt, while ensuring continued assistance for the most vulnerable, investment in infrastructure and that the implementation of structural reforms are fast-tracked to support economic growth. The deteriorating rail freight network, inefficient port operations and frequent power interruptions remain government's main challenges and binding constraints to economic growth.

The main expected outcomes of the *2023 MTBPS* are to achieve a primary budget surplus[2] of 0.3% of gross domestic product (GDP) by fiscal 2023/24 and to stabilise national government's gross loan debt at 77.7% of GDP in fiscal 2025/26.

South Africa's fiscal and economic outlook remains constrained over the medium term, reflecting high inflation and electricity load-shedding alongside logistical inefficiencies, rising borrowing costs and a weaker global economic environment, all of which are not supportive of domestic economic growth prospects. Amid these factors, the *2023 MTBPS* revised annual growth in real GDP lower from 0.9% to 0.8% for 2023, with a projected average of 1.5% from 2024 to 2026. Consumer price inflation is expected to decelerate from 6.0% in 2023 to 4.5% in 2026 as the energy and food price shocks associated with the war in Ukraine and global supply chain disruptions slowly dissipate. The upside risks to the medium-term inflation outlook include a weakening exchange value of the rand, rising oil prices, the recent avian influenza outbreak and elevated administered prices for utilities such as electricity and water. However, headline inflation is expected to return to the midpoint of the 3–6% inflation target range in 2026.

1 The *2023 Medium Term Budget Policy Statement* was presented to Parliament by the Minister of Finance on 1 November 2023.

2 A primary budget surplus is attained when revenue exceeds non-interest expenditure.

Macroeconomic projections*

Percentage

	2022**	2023		2024		2025		2026
		Medium-term estimates***						
	Actual	Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Real GDP growth	1.9	0.9	0.8	1.5	1.0	1.8	1.6	1.8
CPI	6.9	5.3	6.0	4.9	4.9	4.7	4.6	4.5
Current account balance (as a percentage of GDP)	-0.5	-1.8	-2.4	-2.0	-3.0	-2.1	-3.0	-3.1
GDP at current prices (R billions)	6 628.6	6 894.8	6 947.3	7 338.3	7 321.4	7 814.5	7 786.8	8 288.7

* Calendar years
** *2023 MTBPS*
*** *2023 Budget Review, 2023 MTBPS*

Source: National Treasury

The *2023 MTBPS* revised consolidated government revenue lower by R44 billion to R1 915 billion compared to the *2023 Budget Review*'s original estimate of R1 959 billion for fiscal 2023/24. The lower-than-expected revenue estimate largely reflected downward revisions to near-term tax base growth projections, falling corporate tax collections and lower net value-added tax (VAT) collections. By contrast, the National Revenue Fund (NRF) receipts were revised higher by R11.3 billion, mainly owing to higher-than-expected revaluation profits from foreign currency transactions. Consolidated government revenue is expected to average 27.1% of GDP over the medium term compared with the 28.2% recorded in fiscal 2022/23. Compared with the *2023 Budget Review*, the gross tax revenue projected for fiscal 2023/24 was revised lower by R56.8 billion to R1 731 billion.

Fiscal framework*

R billions/percentage of GDP

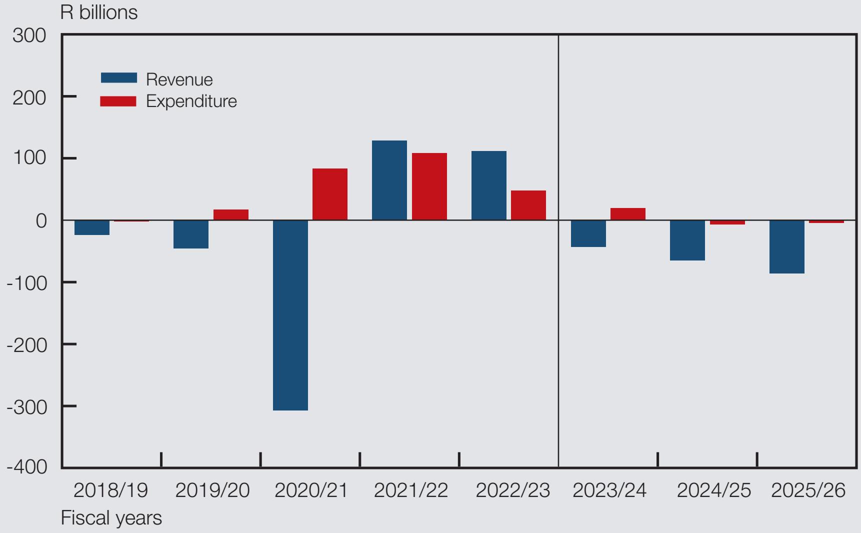
	2022/23**	2023/24		2024/25		2025/26		2026/27
	Outcome	Medium-term estimates***						
		Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	MTBPS
Total consolidated revenue	1 898	1 959	1 915	2 078	2 013	2 225	2 139	2 286
Total consolidated expenditure	2 145	2 243	2 262	2 360	2 352	2 477	2 473	2 589
Of which: Debt-service cost	*308.5*	*340.5*	*354.5*	*362.8*	*385.9*	*397.1*	*425.5*	*455.9*
Primary budget balance	*-1.5*	*65.1*	*24.4*	*93.0*	*64.2*	*138.3*	*100.0*	*145.2*
*Percentage of GDP*****	*-0.0*	*0.9*	*0.3*	*1.2*	*0.9*	*1.7*	*1.3*	*1.7*
Consolidated budget deficit	-247.0	-283.7	-346.5	-282.0	-339.9	-252.1	-334.0	-302.0
Percentage of GDP	*-3.7*	*-4.0*	*-4.9*	*-3.8*	*-4.6*	*-3.2*	*-4.2*	*-3.6*
Gross loan debt of national government	4 765	5 060	5 238	5 424	5 641	5 843	6 133	6 525
*Percentage of GDP*****	*70.9*	*72.2*	*74.7*	*72.8*	*75.8*	*73.6*	*77.7*	*77.5*

* Fiscal years
** *2023 MTBPS*
*** *2023 Budget Review* and *2023 MTBPS*
**** Main Budget

Source: National Treasury

The constrained fiscal framework provided no room for additional allocations to state-owned companies (SOCs). Owing to weak economic growth, operational inefficiencies, high cost structures and onerous debt obligations, most SOCs remain in financial distress and are unable to attract funding at reasonable rates and terms, and thus rely on fiscal funding. As outlined in the *2023 Budget Review*, the government will provide Eskom with a debt relief amount of R254 billion from fiscal 2023/24 to 2025/26 to enable the utility to undertake much-needed maintenance and investment, and to improve its financial position. The Eskom Debt Relief Amendment Bill tabled during the *2023 MTBPS* now includes conditions for the payment of interest by Eskom on amounts advanced as part of the debt relief loan. By 30 September 2023, government had paid R16.0 billion of the R78.0 billion debt relief for fiscal 2023/24. The Land Bank received R5.1 billion at the end of fiscal 2022/23 as part of the R7.0 billion allocation and the remaining portion will be transferred in the current fiscal year to use in its blended finance scheme. Transnet's issued guarantee of R3.5 billion for operational maintenance and the expansion of infrastructure remains unchanged.

Revisions to consolidated government's revenue and expenditure*



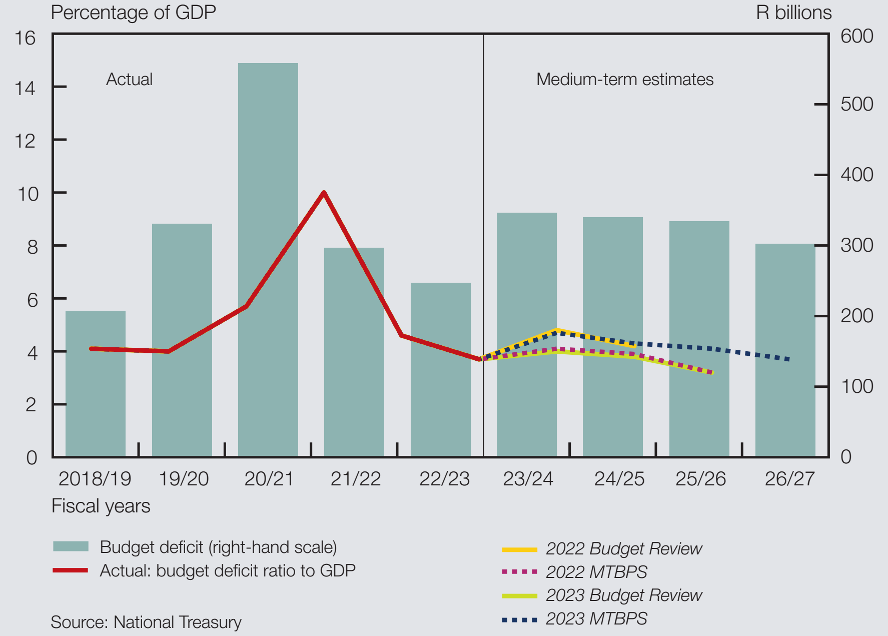
* *Budget Review* to *MTBPS*

Source: National Treasury

Consolidated government expenditure for fiscal 2023/24 was revised marginally higher in the *2023 MTBPS* to an estimated R2 262 billion, from R2 243 billion in the *2023 Budget Review*. Annual average growth in expenditure is projected at 4.6% over the next three years, peaking at R2 589 billion in fiscal 2026/27. These revisions reflect, among other things, expected wage bill adjustments, the extension of the R350 special COVID-19 social relief of distress grant until 31 March 2025 as well as an increase in infrastructure spending allocations. Total consolidated government expenditure by function (non-interest spending) is expected to increase at an annual average rate of 3.6%, while debt-service costs are expected to increase at an average rate of 8.7% over the medium term. Debt-service costs – the fastest-growing component of spending given the increase in national government debt – are expected to increase from R355 billion (5.1% of GDP) in the current fiscal year to R456 billion, or 5.4% of GDP, in the medium term. Similarly, debt-service costs as a share of consolidated government revenue will increase from 18.5% in fiscal 2023/24 to 19.9% in fiscal 2026/27, crowding out important social spending programmes.

The consolidated government budget deficit for fiscal 2023/24 is higher at 4.9% of GDP in the *2023 MTBPS* compared to 4.0% in the *2023 Budget Review*, and is expected to average 4.1% over the medium term.

Consolidated government budget deficit

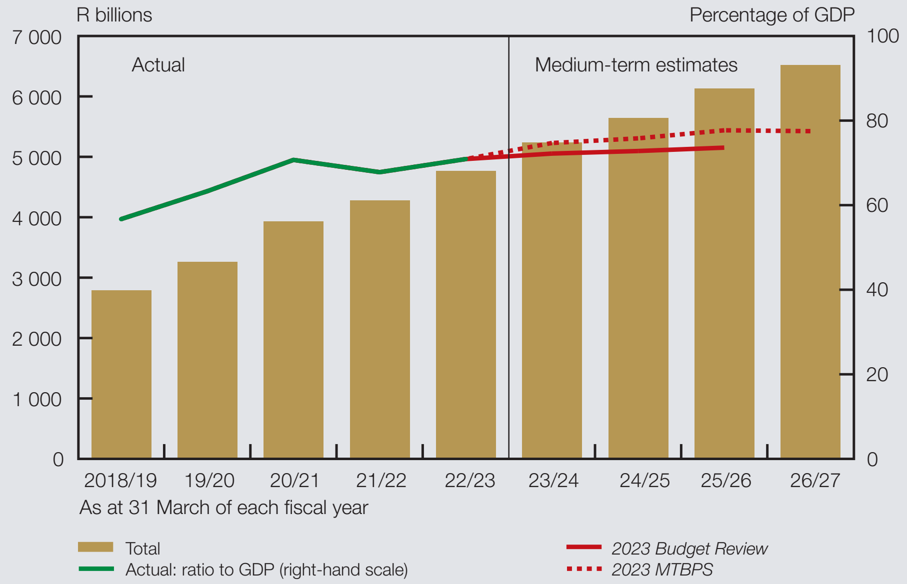


Source: National Treasury

Government's gross borrowing requirement (both the budget deficit and maturing loans) was revised higher to R564 billion for fiscal 2023/24 compared with R516 billion at the time of the *2023 Budget Review*. Over the medium term, the gross borrowing requirement is expected to average R554 billion. Government's financing strategy includes long-term borrowing in the domestic bond market, which is expected to increase to R464 billion in fiscal 2025/26 and decline to R349 billion in fiscal 2026/27. Debt redemptions are expected to increase from R156 billion in fiscal 2023/24 to R188 billion in fiscal 2025/26. Government plans to exchange some of the redemptions expected in fiscal 2023/24 for longer-dated bonds as part of the ongoing bond switch programme. Government will raise additional foreign funding of US$2.4 billion during the current fiscal year through concessional funding from international financial institutions to meet its foreign currency commitments. Over the next two years, government will also draw on its foreign exchange balances.

The gross loan debt of national government for fiscal 2023/24 was revised higher from R5 060 billion in the *2023 Budget Review* to R5 238 billion in the *2023 MTBPS*, and is expected to increase to R6 133 billion (stabilising at 77.7% of GDP) in fiscal 2025/26 and R6 525 billion (77.5% of GDP) in fiscal 2026/27, mainly driven by the budget balance as well as fluctuations in interest rates and the exchange value of the rand.

National government gross loan debt



Source: National Treasury

Budget comparable analysis of national government finances

National government's cash book deficit of R253.0 billion in the first half of fiscal 2023/24 (April–September 2023) was R89.0 billion more than in the first half of fiscal 2022/23 (April–September 2022) as expenditure growth outpaced that in revenue. The net borrowing requirement in the first half of fiscal 2023/24 was financed primarily in the domestic financial markets through the net issuance of long-term government bonds. National government's primary deficit[38] was substantially larger relative to the corresponding period of the previous fiscal year.

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

National government finances

	Actual Apr–Sep 2022		Actual Apr–Sep 2023		Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24	
	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Revenue	784.6	8.7	783.2	-0.2	1 759.2	3.6	1 714.8	1.0
Percentage of GDP	*23.3*		*22.3*		*25.1*		*24.5*	
Expenditure	948.6	2.7	1 036.2	9.2	2 034.6	1.3	2 044.9	1.9
Percentage of GDP	*28.2*		*29.5*		*29.0*		*29.2*	
Cash book balance[6]	-164.0		-253.0		-275.4		-330.1	
Percentage of GDP	*-4.9*		*-7.2*		*-3.9*		*-4.7*	
Primary balance[7]	-16.3		-80.5		65.1		24.4	
Percentage of GDP	*-0.5*		*-2.3*		*0.9*		*0.3*	
Gross loan debt[8]	4 651.7	11.9	5 080.0	9.2	5 060.2	6.2	5 238.0	9.9
Percentage of GDP	*71.2*		*74.0*		*72.2*		*74.7*	

1 *2023 Budget Review*
2 *2023 MTBPS*
3 Year-on-year percentage change: actual outcome on previous year's actual outcome
4 Year-on-year percentage change: budgeted on previous year's actual outcome
5 Year-on-year percentage change: revised estimates on previous year's actual outcome
6 Cash book deficit (-)/surplus (+)
7 Cash book deficit (-)/surplus (+) excluding interest payments
8 As at 30 September for actual rand values

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

Sources: National Treasury, SARS and Stats SA

National government revenue decreased by 0.2% year on year to R783.2 billion in the first half of fiscal 2023/24, reflecting lacklustre revenue collection across major tax categories, and resulted in the downward revision of the projected revenue for fiscal 2023/24 from R1 759 billion in the *2023 Budget Review* to R1 715 billion in the *2023 MTBPS*. Revenue as a ratio of GDP decreased from 23.3% in the first half of fiscal 2022/23 to 22.3% in the same period of the current fiscal year.

National government revenue in fiscal 2023/24

Revenue source	Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24		Actual Apr–Sep 2023	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Taxes on income, profits and capital gains	1 021.2	3.3	990.9	0.2	464.7	-0.2
Of which: Income tax on individuals	640.3	6.4	646.7	7.4	300.9	7.9
Income tax on companies	336.1	-3.3	300.3	-13.6	147.1	-12.7
Payroll taxes	23.0	10.2	22.7	8.7	11.0	9.5
Taxes on property	23.9	12.4	20.5	-3.3	9.9	-13.8
Taxes on goods and services	642.7	10.8	616.8	6.4	285.7	8.0
Of which: Value-added tax (VAT) net	471.5	11.6	445.8	5.5	205.1	4.8
Domestic	522.9	7.5	521.4	7.2	254.2	7.4
Imports	251.2	-1.5	277.3	8.8	123.1	12.3
Refunds	-302.6	-5.1	-352.9	10.6	-172.1	14.3
Fuel levy	90.4	12.3	92.0	14.3	45.5	32.1
Other excise duties	66.1	5.2	64.2	2.1	27.1	2.2
Taxes on international trade and transactions	76.6	0.7	79.7	4.8	32.7	-1.2
Of which: Import duties	74.2	0.2	77.7	5.0	31.7	-0.5
Other revenue[6]	51.7	-5.3	64.1	17.4	19.1	-11.9
Less: SACU[7] payments	79.8	82.7	79.8	82.7	39.9	82.7
Total revenue	1 759.2	3.6	1 714.8	1.0	783.2	-0.2

1 *2023 Budget Review*
2 *2023 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

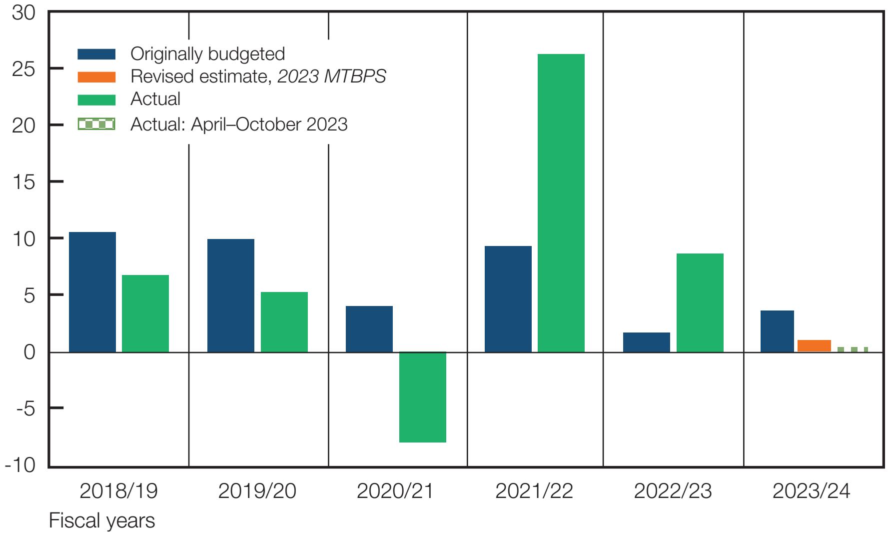
Collections from taxes on income, profits and capital gains decreased by 0.2% year on year to R464.7 billion in April–September 2023 and contributed 59.3% to total revenue. The decrease reflected lower-than-expected corporate income tax (CIT) receipts on account of reduced provisional tax payments from the mining, manufacturing and transport sectors. By contrast, revenue from personal income tax (PIT) increased by 7.9% year on year to R300.9 billion, largely due to higher pay-as-you-earn (PAYE) receipts. The *2023 Budget Review* projected revenue collections of R1 021 billion from taxes on income, profits and capital gains for fiscal 2023/24, which was revised lower to R990.9 billion in the *2023 MTBPS*.

Revenue from taxes on goods and services increased by 8.0% year on year to R285.7 billion in April–September 2023. Fuel levy collections increased notably by 32.1% over the same period, recording the highest year-on-year growth of all tax categories as collections continued to recover following the termination of the temporary relief measure implemented in 2022. Net value-added tax (VAT) and other excise duties collections increased by 4.8% and 2.2% year on year respectively. The projected revenue from taxes on goods and services of R642.7 billion for fiscal 2023/24 in the *2023 Budget Review* was revised lower to R616.8 billion in the *2023 MTBPS*.

Taxes on international trade and transactions decreased by 1.2% year on year to R32.7 billion in April–September 2023 and reflected lower customs duties from the importation of articles of rubber and vehicles. The *2023 Budget Review* projected revenue from taxes on international trade and transactions of R76.6 billion for fiscal 2023/24, which was revised higher to R79.7 billion in the *2023 MTBPS*.

Revenue of national government

Percentage change over one year

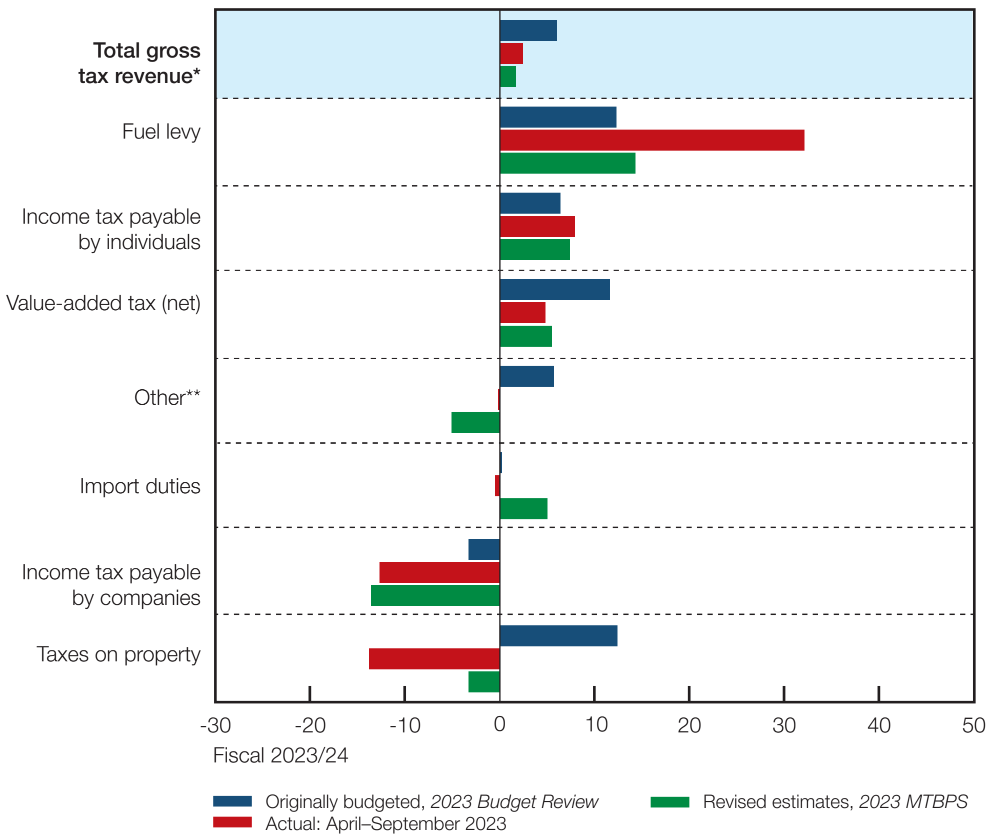


Sources: National Treasury, SARS and SARB

Other revenue, largely comprising non-tax revenue, decreased by 11.9% year on year to R19.1 billion in the period under review due to lower receipts of rent on land. The *2023 Budget Review* earmarked R79.8 billion for SACU payments for fiscal 2023/24 – a substantial increase from the R43.7 billion paid in fiscal 2022/23. Of the allocated amount, the first three equal instalments of R20.0 billion were each transferred in April, July and October 2023.

Growth in national government's gross tax revenue*

Percentage change over one year



* Before netting out SACU payments

** Including secondary tax on companies, withholding tax on interest and other excise duties

Sources: National Treasury, SARS and SARB

Total revenue collections of national government of R893.2 billion in the first seven months of fiscal 2023/24 (April–October 2023) represented a year-on-year increase of 0.4%, reflecting the lacklustre revenue collection across major tax categories.

National government expenditure increased by 9.2% year on year to R1 036 billion in the first six months of fiscal 2023/24, largely on account of rising voted expenditure by national government departments, higher interest payments on national government debt and higher equitable share transfers to provinces. The *2023 MTBPS* revised total expenditure upwards to R2 045 billion from the R2 035 billion outlined in the *2023 Budget Review* for fiscal 2023/24. Total expenditure as a ratio of GDP increased from 28.2% in the first half of fiscal 2022/23 to 29.5% in the same period of the current fiscal year.

National government expenditure in fiscal 2023/24

Expenditure item	Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24		Actual Apr–Sep 2023	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Voted expenditure	1 077.4	-0.9	1 065.0	-2.1	547.9	9.0
Of which: Transfers and subsidies	793.9	6.9	779.4	4.9	407.6	10.2
Current payments	263.3	0.2	267.0	1.6	132.6	9.2
Payments for capital assets	18.4	16.2	17.2	8.4	6.3	25.9
Payments for financial assets	1.9	-97.1	1.5	-97.8	1.4	-78.6
Statutory amounts[6]	957.1	4.1	982.8	6.9	488.2	9.5
Of which: Provincial equitable share	567.5	-0.6	585.1	2.5	297.2	6.0
Interest on debt	340.2	10.4	354.3	14.9	172.5	16.8
General fuel levy	15.4	0.6	15.4	0.6	5.1	0.6
Total expenditure	**2 034.6**	**1.3**	**2 044.9**	**1.9**	**1 036.2**	**9.2**

1 *2023 Budget Review*
2 *2023 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.

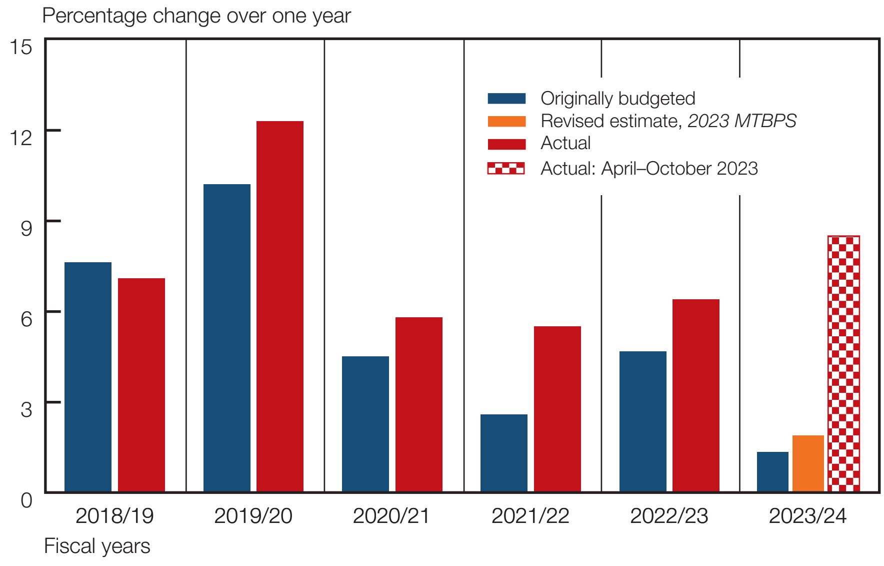
Source: National Treasury

Voted expenditure (52.9% of total expenditure) increased markedly by 9.0% year on year to R547.9 billion in April–September 2023, reflecting higher transfers and subsidies of R407.6 billion, current payments of R132.6 billion and payments for capital assets of R6.3 billion. By contrast, payments for financial assets declined sharply by 78.6% year on year to R1.4 billion, reflecting limited recapitalisation of SOCs. For fiscal 2023/24, the *2023 Budget Review* projected voted expenditure of R1 077 billion, which was revised lower to R1 065 billion in the *2023 MTBPS.*

Interest payments (debt-service costs) on national government debt of R172.5 billion represented a significant year-on-year increase of 16.8% in April–September 2023, reflecting the persistent rise in the stock of debt. In the *2023 Budget Review*, government envisaged total debt-service costs of R340.2 billion for fiscal 2023/24, which was revised upwards in the *2023 MTBPS* to R354.3 billion.

Equitable share transfers to provinces increased by 6.0% year on year to R297.2 billion in April–September 2023. The *2023 Budget Review* projected equitable share transfers to provinces of R567.5 billion for fiscal 2023/24, which was revised higher in the *2023 MTBPS* to R585.1 billion. In addition, R15.4 billion was earmarked for metropolitan municipalities as a share of the general fuel levy for the current fiscal year, and of this amount, R5.1 billion was transferred in August 2023, with the second tranche expected in December 2023.

Expenditure by national government

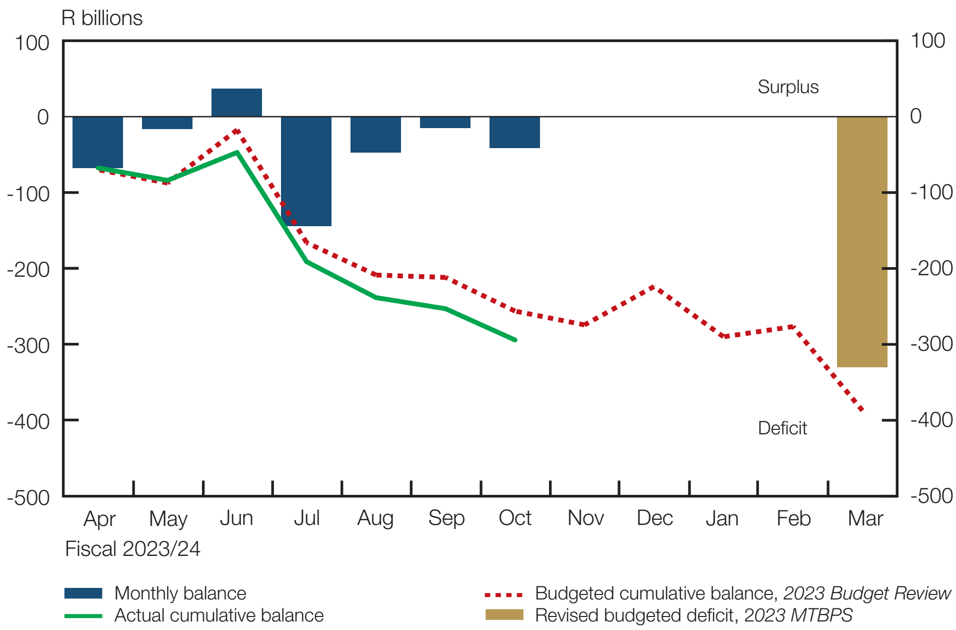


Source: National Treasury

In the first seven months of fiscal 2023/24, total expenditure increased by 8.5% year on year to R1 187 billion.

The preliminary outcome of total revenue and expenditure in the first six months of fiscal 2023/24 yielded a cash book deficit of R253.0 billion, which was R89.0 billion more than in the same period of fiscal 2022/23, as government spending increased while revenue decreased slightly. The *2023 Budget Review* projected a cash book deficit of R275.4 billion for the current fiscal year, which was revised higher to R330.1 billion in the *2023 MTBPS*.

Cash book balance of national government



Sources: National Treasury, SARS and SARB

National government's cash book deficit of R294.2 billion recorded in the first seven months of fiscal 2023/24 was significantly larger than the R204.5 billion deficit recorded over the same period of the previous fiscal year. National government's primary deficit of R80.5 billion in

April–September 2023 was almost five times higher than that of R16.3 billion recorded in the first half of fiscal 2022/23. The primary deficit as a ratio of GDP of 2.3% in the first half of fiscal 2023/24 was larger than the deficit of 0.5% recorded in the same period of the previous fiscal year. The *2023 Budget Review's* projection of national government's primary surplus of R65.1 billion (0.9% of GDP) for fiscal 2023/24 was revised lower in the *2023 MTBPS* to R24.4 billion (0.3% of GDP).

National government financing

R billions

Item or instrument	Actual Apr–Sep 2022	Actual Apr–Sep 2023	Originally budgeted[1] Fiscal 2023/24	Revised estimates[2] Fiscal 2023/24
Cash book balance[3]	**-164.0**	**-253.0**	**-275.4**	**-330.1**
Cash flow balance[3, 4]	**-201.9**	**-260.9**	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[5]	-8.6	0.0	-14.1	-19.3
Accrual adjustments	93.8	48.8	...	...
State-owned companies debt relief	...	-16.0	-78.0	-78.0
Net lending/borrowing requirement[6]	**-116.8**	**-228.2**	**-367.5**	**-427.4**
Treasury bills and short-term loans[7]	-3.7	52.7	48.0	48.0
Domestic bonds[7]	128.3	126.6	212.0	269.2
Foreign bonds and loans[7]	46.3	9.5	14.1	16.2
Change in available cash balances[8]	-54.0	39.3	93.3	93.9
Total net financing	**116.8**	**228.2**	**367.5**	**427.4**

1 *2023 Budget Review*
2 *2023 MTBPS*
3 Deficit (-)/surplus (+)
4 The cash flow balance includes extraordinary receipts and payments and differs from the cash book balance.
5 Cost (+)/profit (-)
6 Net lending (+)/net borrowing (-)
7 Net issuance (+)/net redemption (-)
8 Increase (-)/decrease (+)
Components may not add up to totals due to rounding off.
... Not available

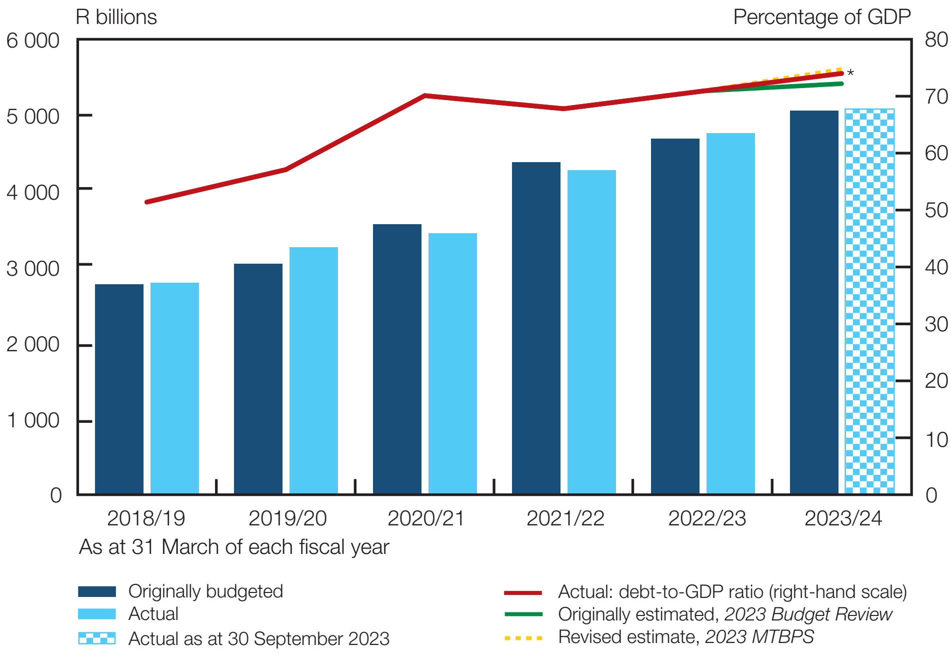
Sources: National Treasury and SARB

The cash flow deficit of national government increased to R260.9 billion in April–September 2023 from R201.9 billion in April–September 2022. After accounting for the cost of revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement of national government increased by R111.4 billion to R228.2 billion in the first half of fiscal 2023/24. The net borrowing requirement included R16.0 billion paid out in August 2023 as part of Eskom's debt restructuring programme.

The net borrowing requirement of national government in the first half of fiscal 2023/24 was mostly financed in the domestic financial markets through the net issuance of long-term government bonds to the value of R126.6 billion and the net issuance of TBs and short-term loans from the CPD of R52.7 billion. Government's net issuance of foreign bonds and loans was R9.5 billion in April–September 2023. Over the same period, national government's available cash balances decreased by R39.3 billion to finance part of the borrowing requirement.

National government's total gross loan debt (domestic and foreign) increased by 9.2% year on year to R5 080 billion as at 30 September 2023. The increase could be attributed to a rise in the outstanding stock of both domestic and foreign debt, owing to net issuances as well as the exchange rate revaluation effects brought about by the depreciation in the exchange value of the rand against other major trading currencies. The *2023 Budget Review* projected gross loan debt of R5 060 billion (72.2% of GDP) as at the end of fiscal 2023/24, which was revised upwards to R5 238 billion (74.7% of GDP) in the *2023 MTBPS* following the rising budget deficit and soaring exchange rate revaluation effects.

Gross loan debt of national government

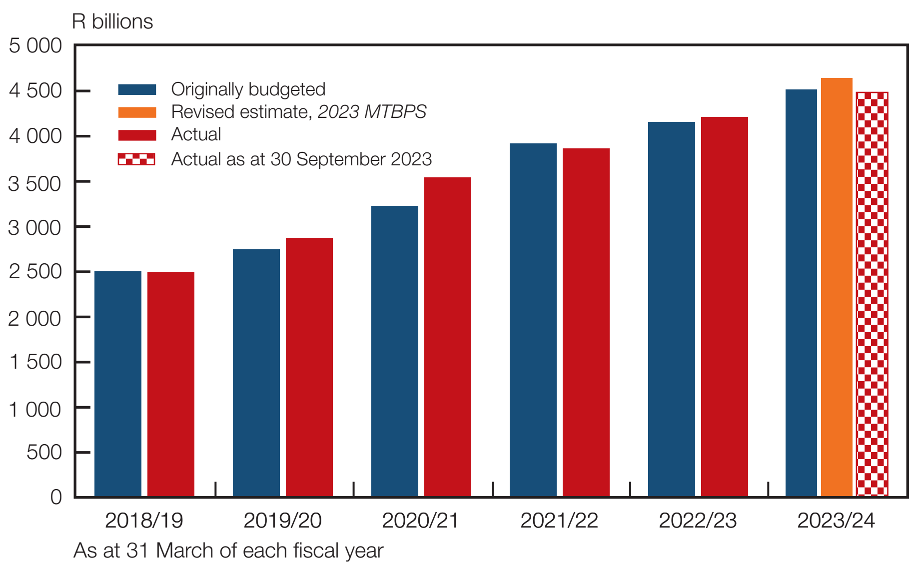


* Actual as at 30 September 2023

Sources: National Treasury, Stats SA and SARB

National government's gross domestic debt (marketable and non-marketable) increased by 9.2% year on year to R4 484 billion as at 30 September 2023. The increase reflected higher net issuances of domestic marketable debt which comprised bonds and TBs. Domestic marketable debt increased by 9.1% year on year to R4 457 billion (99.4% of gross domestic debt) as at 30 September 2023. Total domestic non-marketable debt increased by 20.9% year on year to R26.8 billion (0.6% of gross domestic debt) as at 30 September 2023. The *2023 MTBPS* revised the gross domestic debt slightly higher to R4 643 billion as at 31 March 2024 from the original estimate of R4 517 billion in the *2023 Budget Review*.

Domestic debt of national government

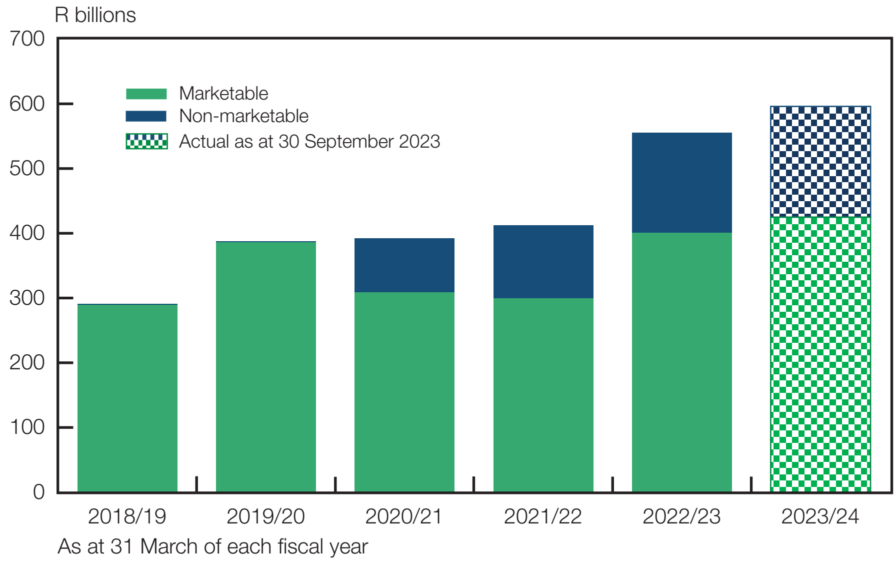


Source: National Treasury

National government's gross foreign debt (marketable and non-marketable) of R596 billion as at 30 September 2023 was 9.4% more than a year earlier. This can be attributed to the substantial borrowing (non-marketable debt) from international financial institutions as well as exchange rate revaluation effects.

Foreign marketable bonds of R425 billion accounted for the largest share of gross foreign debt at 71.3%, with the outstanding stock of non-marketable foreign debt accounting for the balance as at 30 September 2023. The average outstanding maturity of foreign marketable debt decreased to 154 months as at 30 September 2023 from 166 months a year earlier.

Foreign debt of national government



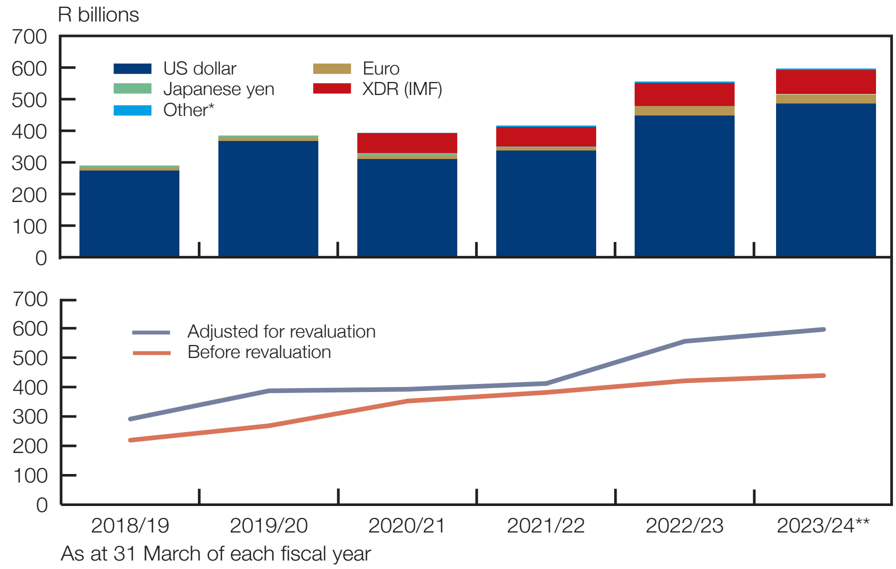
Sources: National Treasury and SARB

Non-marketable foreign debt increased significantly by 21.8% year on year to R171 billion (28.7% of gross foreign debt) as at 30 September 2023. The increase was on account of four new foreign loans, namely the €391 million COVID-19 Emergency Response Project Loan, the €300 million French Development Agency (AFD) Climate Change and Just Transition Loan, the €300 million KfW Development Bank Climate Change and Just Transition Loan, and the US$500 million third tranche of the SANRAL Sustainability Loan, along with exchange rate revaluation effects.

As at 30 September 2023, foreign debt of R596 billion exceeded both the original budgeted estimate of R543 billion in the *2023 Budget Review* and the upwardly revised estimate of R595 billion in the *2023 MTBPS* as at 31 March 2024.

National government's total outstanding balance of foreign debt was R439 billion before accounting for revaluation effects as at 30 September 2023, compared with R596 billion after accounting for the exchange rate revaluation adjustment. The US dollar-denominated debt accounted for 81.5% of total outstanding foreign debt followed by the IMF's XDR-denominated debt at 12.7%.

Currency composition of national government's foreign debt



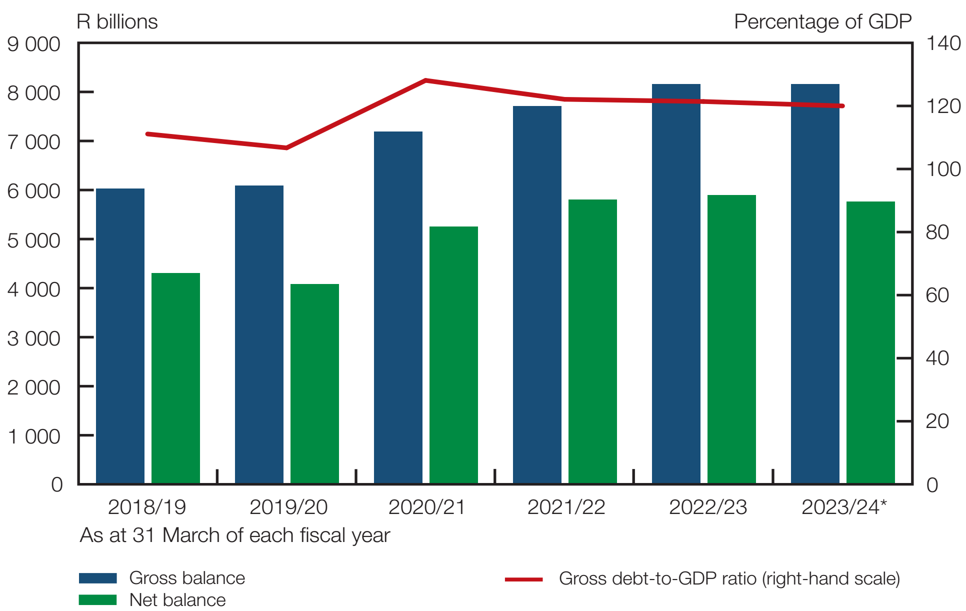
* Including the British pound, Swedish krona and South African rand
** As at 30 September 2023
Sources: National Treasury and SARB

Total gross loan debt of national government rose to R5 118 billion as at 31 October 2023 – R413.2 billion higher than as at 31 October 2022. Domestic debt continued to account for the largest share of total gross loan debt at 88.6%, while foreign debt accounted for the remaining share.

Total public sector debt[39]

The preliminary total consolidated *gross*[40] public sector debt (both domestic and foreign) of South Africa increased to R8 183 billion (120.4% of GDP) as at 30 June 2023, which was R528 billion more than a year earlier. As at 30 June 2023, consolidated *net*[41] public sector debt amounted to R5 763 billion (84.8% of GDP) compared with R5 504 billion (86.1% of GDP) as at 30 June 2022.

Total consolidated public sector debt



*As at 30 June 2023
Source: SARB

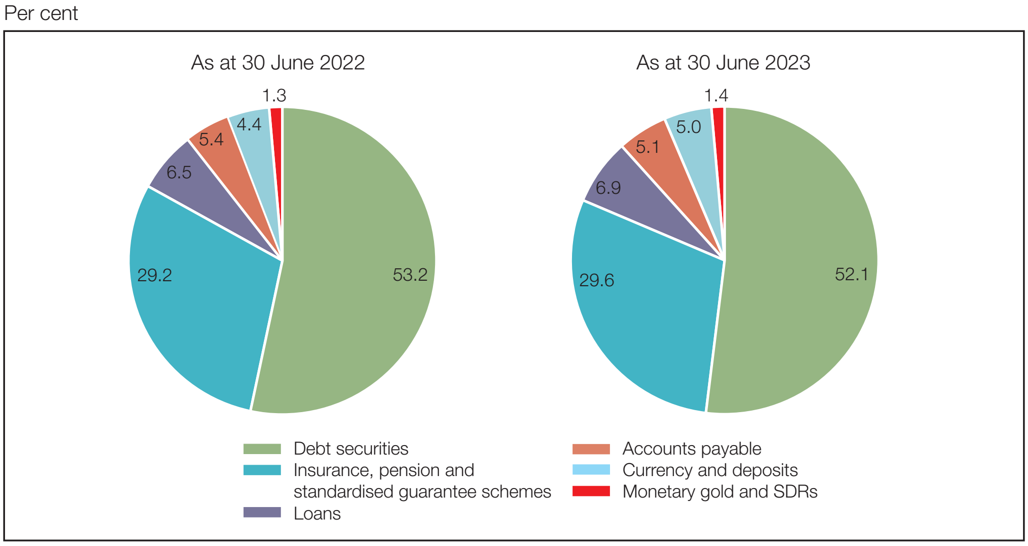
39 The public sector in South Africa comprises central government (national government, extra-budgetary institutions and social security funds), consolidated provincial government and local government, which together render the general government. The latter combined with both financial and non-financial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

40 Gross public sector debt comprises financial debt instruments such as special drawing rights (SDRs); currency and deposits; debt securities; loans; insurance, pension and standardised guarantees schemes; and other accounts payable – *before* netting the individual debt instrument against its corresponding financial assets.

41 Net public sector debt comprises SDRs; currency and deposits; debt securities; loans; insurance, pension and standardised guarantees schemes; and other accounts payable – *after* netting the individual debt instrument against its corresponding financial assets.

Debt securities increased to R4 259 billion as at 30 June 2023 and remained the largest contributor to total consolidated gross public sector debt at 52.1%, while monetary gold and special drawing rights (SDRs) amounted to R111 billion and accounted for only 1.4%.

Consolidated gross public sector debt



Source: SARB

Integrated economic accounts[42]

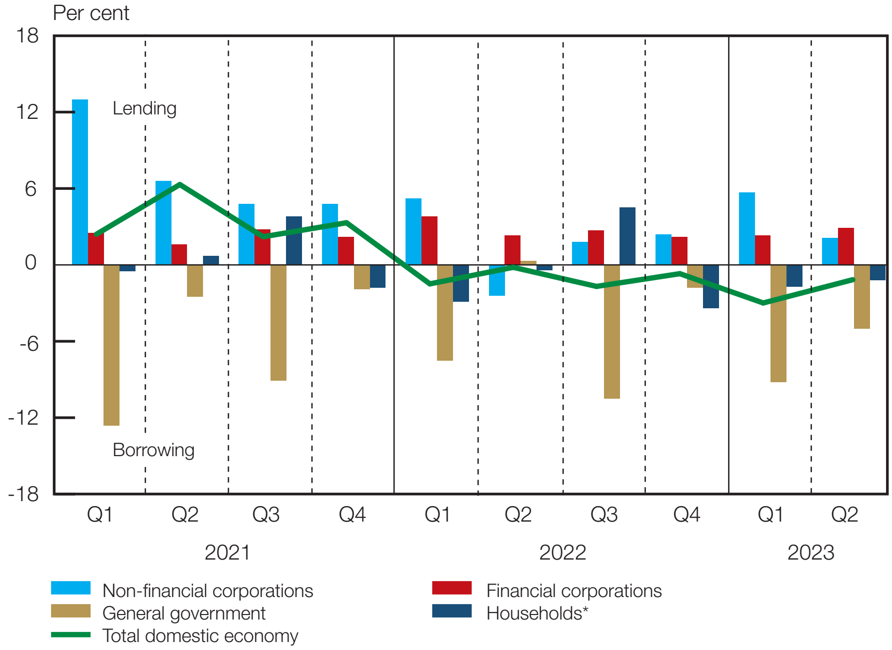
Current and capital account

South Africa's net borrowing position[43] decreased to R20.7 billion (1.2% of GDP) in the second quarter of 2023, from R48.0 billion (2.9% of GDP) in the first quarter. The increase in gross saving outpaced that in gross capital formation, resulting in a smaller net borrowing position. However, South Africa's net borrowing in the first half of 2023 more than tripled to R68.7 billion compared with R22.8 billion in the corresponding period of 2022.

42 The analysis in this section is based on the experimental statistics compiled for South Africa's integrated economic accounts (IEA) and is subject to further revision. See pages E–2 to E–12 in the experimental tables section in this edition of the *QB*.

43 Net lending/borrowing is calculated as gross saving *plus/minus* capital transfers receivable/payable *minus* gross capital formation.

South Africa's net lending/borrowing as a ratio of gross domestic product



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

Source: SARB

Both financial and non-financial corporations maintained net lending positions in the second quarter of 2023 as the level of gross saving improved in both sectors. Households and general government recorded lower net borrowing positions, which resulted from an increase in gross saving by households and a decrease in general government's gross dissaving.

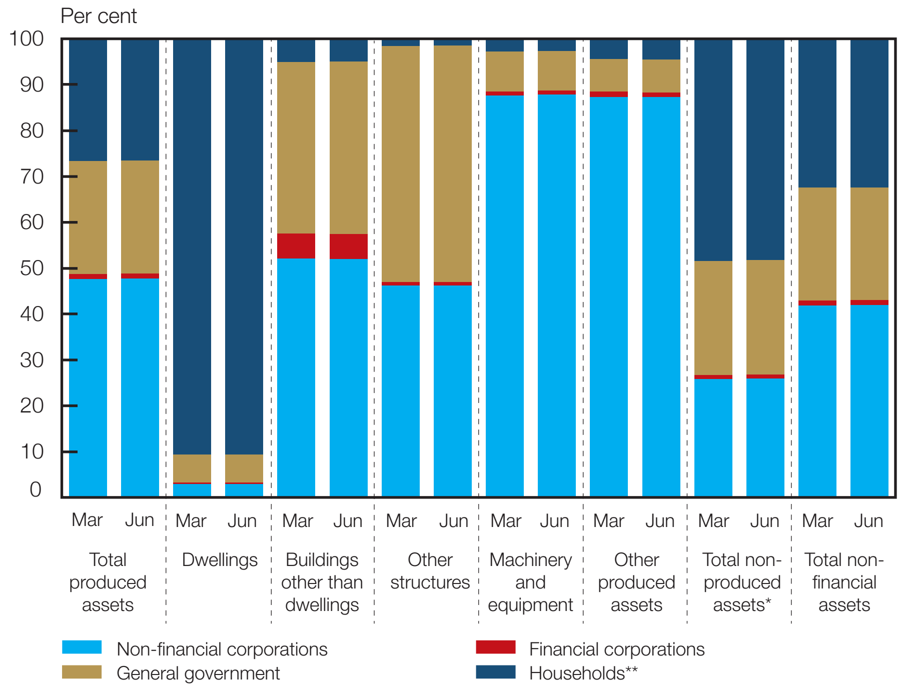
Non-financial balance sheet and accumulation account

The market value of total non-financial assets of the domestic economy increased by 1.8% to R18.3 trillion as at 30 June 2023. Non-financial corporations remained the largest holder of South Africa's non-financial assets, accounting for 42.4% of the total, while households and general government held 31.8% and 24.7% respectively. Financial corporations held only 1.1% of all non-financial assets, mainly in the form of buildings other than dwellings. As at 30 June 2023, households held 90.7% of all dwellings, while non-financial corporations accounted for 87.9% of total machinery and equipment holdings. Meanwhile, other structures such as roads, bridges and harbours were held mainly by general government and non-financial corporations at 51.6% and 46.2% respectively.

The market value of total produced fixed assets increased by 1.6% (R195.9 billion) to R12.5 trillion in the three months to 30 June 2023 on account of net capital formation of R14.9 billion alongside revaluations of R190.2 billion. Furthermore, the market value of other structures increased by R122.2 billion and that of machinery and equipment by R76.9 billion, contributing 1.0 and 0.5 percentage points respectively to the growth in capital stock of non-financial assets.

Households held 47.9% of non-produced assets (land only) as at 30 June 2023, with the remainder almost evenly distributed between non-financial corporations and general government.

Institutional sector non-financial asset holdings as at 31 March and 30 June 2023



* Land only
** Including non-profit institutions serving households
Source: SARB

Financial balance sheet and accumulation account

The market value of financial assets and liabilities of the total domestic economy increased by R1.0 trillion to R49.5 trillion and by R0.7 trillion to R46.9 trillion respectively in the three months to 30 June 2023. Holdings of equity and investment fund shares/units, currency and deposits as well as debt securities contributed the most to the increase in the value of both financial assets and liabilities.

Financial corporations' share of total financial assets increased slightly from 50.8% as at 31 March 2023 to 50.9% as at 30 June. This reflected the growth in the value of both foreign equity and investment fund shares/units as well as debt securities, which benefitted from the favourable valuation effects of equity and foreign debt securities related to higher global share prices and the depreciation in the exchange value of the rand. Over the same period, financial corporations' share of total liabilities increased from 57.7% to 58.2% due to significant growth in the value of currency and deposits holdings by both households and general government as well as life insurance and annuity entitlement commitments to households and the rest of the world (ROW).

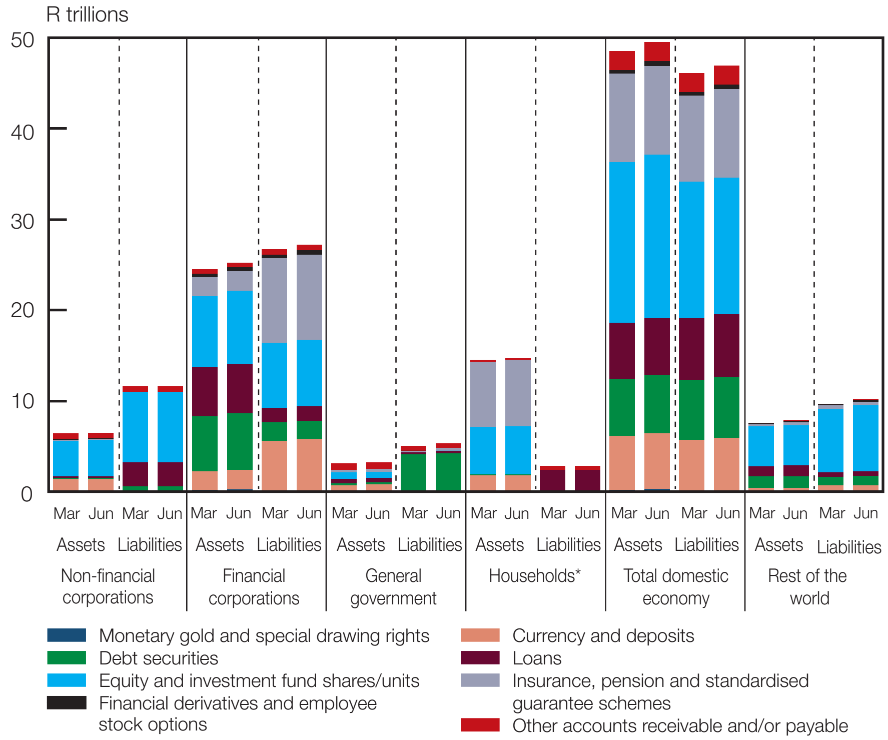
Households' share of total financial assets declined from 29.8% as at 31 March 2023 to 29.5% as at 30 June as their exposure to most financial instrument categories moderated somewhat. Households' share of total liabilities remained unchanged at 5.9%, notwithstanding moderate growth in the value of long-term loans extended by financial corporations.

Non-financial corporations' contribution to total financial assets declined slightly from 13.1% as at 31 March 2023 to 13.0% as at 30 June, reflecting reduced exposure to unlisted shareholdings in the ROW, while the share of total liabilities declined from 25.4% to 24.8% as their domestic and foreign equity funding decreased.

The increase in general government's share of total financial assets from 6.4% as at 31 March 2023 to 6.6% as at 30 June mostly reflected an increase in the value of currency and deposit holdings as well as valuation effects attributable to the increase in the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA).[44] At the same time, the general government's contribution to total liabilities increased slightly from 11.0% to 11.1%, largely on account of net issuances of national government debt securities (both short and long term) and a larger exposure to foreign loans.

44 A credit balance on the GFECRA accrues to government as a profit and a debit balance as a loss against government.

Market value of total financial assets and liabilities by institutional sector and financial instrument as at 31 March and 30 June 2023



* Including non-profit institutions serving households

Source: SARB

The market value of the ROW's holdings of South African financial assets increased from R7.7 trillion as at 31 March 2023 to R7.8 trillion as at 30 June due to increases in the value of equity and investment fund shares/units, insurance, pension and standardised guarantee schemes as well as loans by non-residents. Valuation effects due to the increase in share prices globally and the depreciation in the exchange value of the rand contributed to the increase in South Africa's total foreign assets (ROW total liabilities) from R9.8 trillion as at 31 March 2023 to R10.3 trillion as at 30 June.

Changes in both financial assets and liabilities in the total domestic economy in the second quarter of 2023 mostly reflected revaluations, which accounted for R0.8 trillion of the increase in the value of various financial instruments, especially in equity and investment fund shares/units. The balance of the change reflected net transactions of R0.2 trillion, with net purchases of debt securities and the increase in the nominal value of currency and deposits by residents contributing to the increase in financial flows during the quarter.

45 See page E–11 in the experimental tables section in this edition of the *QB*.

The analysis of the from-whom-to-whom market value of financial asset and liability stock positions between the domestic institutional sectors and the ROW as at 30 June 2023[45] shows that the household sector was the only institutional sector that recorded a positive net financial wealth (asset) position of R11.4 trillion, mainly against financial corporations. Non-financial corporations and general government both recorded a negative net financial wealth (liability) position, mainly as a result of the net incurrences of liabilities with financial corporations of R4.2 trillion and R2.9 trillion respectively and with the ROW of R3.9 trillion and R1.4 trillion respectively. The financial intermediation activities of financial corporations generated a near-balanced net financial wealth position due to asset claims of R25.2 trillion and liability commitments of R27.3 trillion in the total economy. The ROW's negative net financial wealth position comprised mainly liabilities of R6.0 trillion and R4.0 trillion incurred against financial and non-financial corporations respectively.