Domestic economic developments

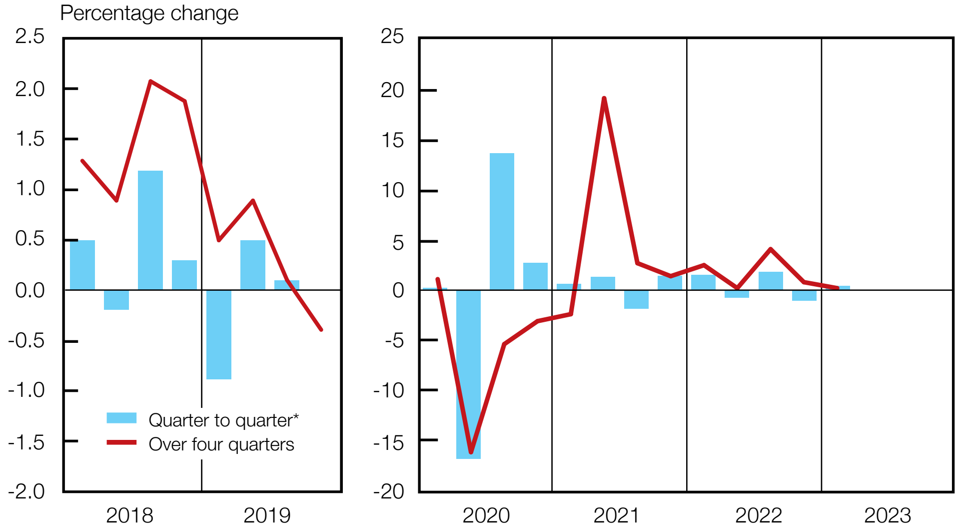
Domestic output[1, 2]

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

2 The analysis in this section is based on a revised set of national accounts estimates for 2018 to 2022, after more detailed data became available.

Economic activity in South Africa increased slightly in the first quarter of 2023 despite intensified electricity load-shedding. Following a revised contraction of 1.1% in the fourth quarter of 2022, real *gross domestic product* (GDP) increased by 0.4% in the first quarter of 2023 as the real gross value added (GVA) by the secondary and tertiary sectors expanded while the real output of the primary sector contracted further. The level of real GDP was 0.2% higher in the first quarter of 2023 than a year earlier and exceeded the average level in 2019, before the onset of the coronavirus disease 2019 (COVID-19) pandemic, by 0.5%.

Real gross domestic product



* Seasonally adjusted

Source: Stats SA

Real gross domestic product

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

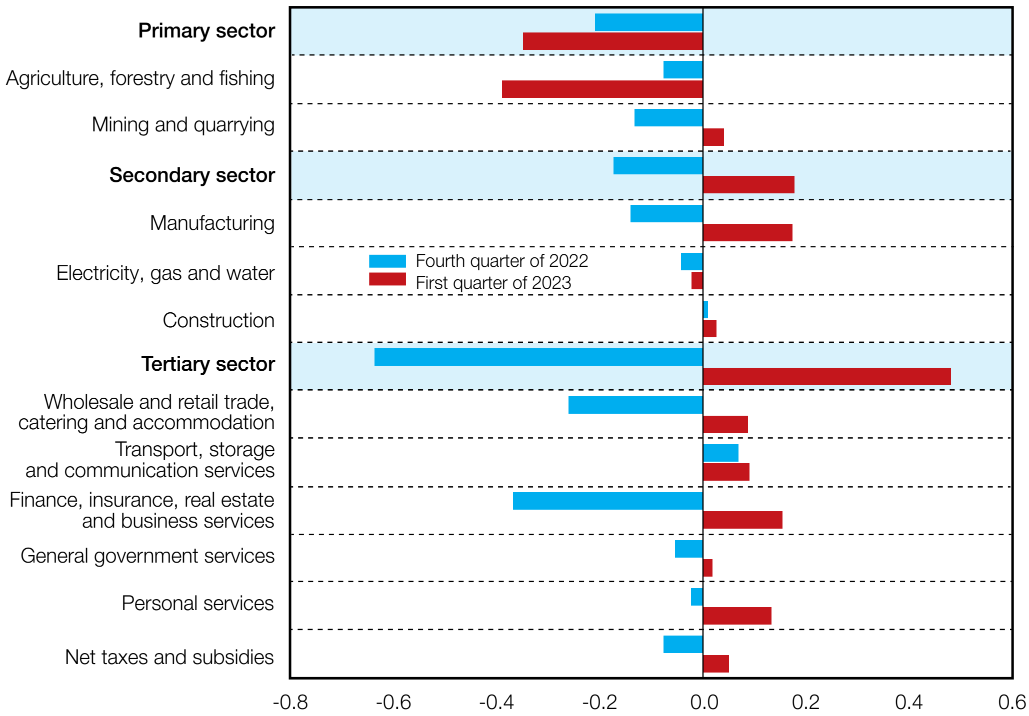
Sector	2022					2023
	Q1	Q2	Q3	Q4	Year*	Q1
Primary sector	-2.0	-6.5	12.5	-2.7	-4.1	-4.7
Agriculture	-0.9	-11.8	31.4	-2.4	0.9	-12.3
Mining	-2.6	-3.1	1.9	-3.0	-7.1	0.9
Secondary sector	3.3	-4.6	1.4	-1.1	-1.1	1.1
Manufacturing	4.3	-5.6	1.6	-1.2	-0.4	1.5
Construction	-0.6	-2.6	4.1	0.4	-3.4	1.1
Tertiary sector	1.5	0.7	0.8	-0.9	3.4	0.7
Wholesale and retail trade, catering and accommodation	2.9	-1.1	1.2	-2.2	3.5	0.7
Finance, insurance, real estate and business services	1.9	2.1	1.1	-1.6	3.4	0.6
*Non-primary sector***	*1.9*	*-0.3*	*0.9*	*-1.0*	*2.5*	*0.8*
*Non-agricultural sector****	*1.6*	*-0.5*	*1.0*	*-1.1*	*2.0*	*0.8*
Total	1.5	-0.8	1.8	-1.1	1.9	0.4

* 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

The real output of the *non-primary sector* expanded by 0.8% in the first quarter of 2023 following a contraction of 1.0% in the fourth quarter of 2022.

Contributions to growth in real gross domestic product



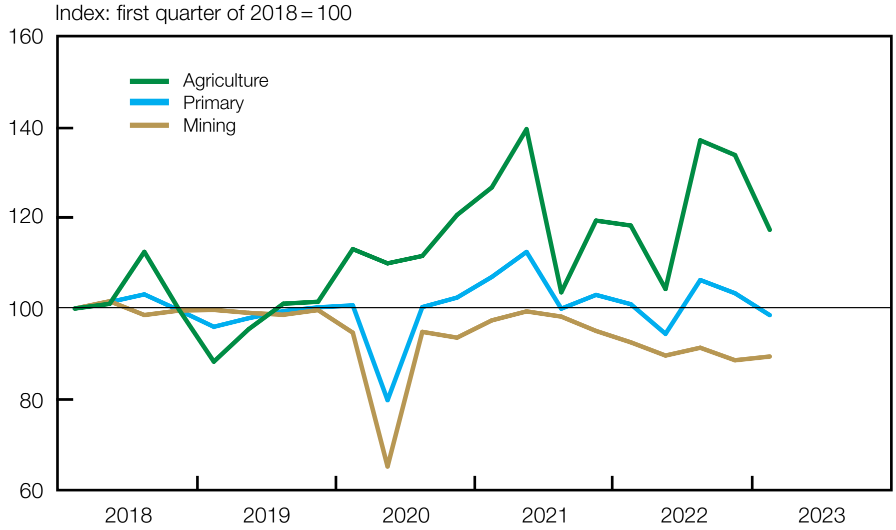
Percentage points

Source: Stats SA

The real GVA by the *primary sector* contracted by a further 4.7% in the first quarter of 2023 following a revised contraction of 2.7% in the fourth quarter of 2022. The real GVA by the agricultural sector decreased for a second consecutive quarter, while that of the mining sector expanded.

Real gross value added by the primary sector

Index: first quarter of 2018 = 100



Seasonally adjusted

Source: Stats SA

The real output of the *agricultural sector* contracted significantly by 12.3% in the first quarter of 2023 following a revised contraction of 2.4% in the fourth quarter of 2022. The decrease reflected the lower production of field crops and animal products, while the production of horticultural products increased. Intensified electricity load-shedding interrupted production activity, especially in the poultry industry, and, together with higher input costs, weighed on the real output of the agricultural sector. Consequently, the level of real agricultural output in the first quarter of 2023 was 5.4% lower than in the corresponding period of 2022.

The estimated commercial maize harvest of 16.2 million tons for the 2022/23 season is 4.6% larger than the final 2021/22 crop – and, if realised, will be the third-largest harvest on record. However, the estimated area planted in the 2022/23 season is 1.4% smaller than in the previous season, mostly due to excessive rainfall as well as higher operating costs.

Commercial maize crop and area planted

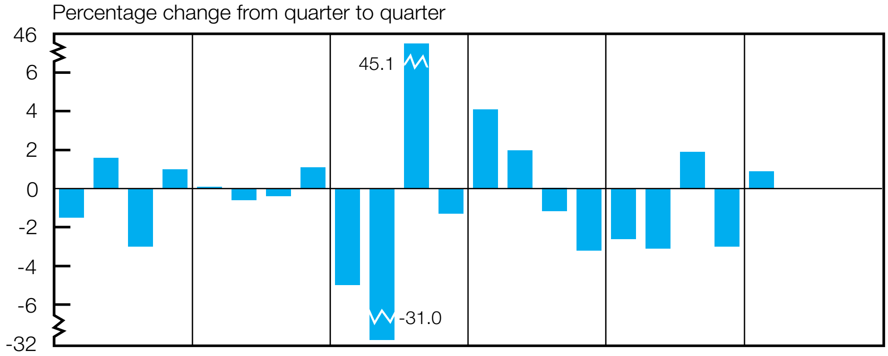
	Crop (million tons)	Area planted (million hectares)
2021/22: final	15.5	2.6
2022/23: estimate	16.2	2.6

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

The real GVA by the *mining sector* expanded by 0.9% in the first quarter of 2023 following a contraction of 3.0% in the fourth quarter of 2022. Production increased in 5 of the 12 mining subsectors, with platinum group metals (PGMs), gold, iron ore and manganese ore contributing the most. These increases were somewhat offset by decreases in the production of diamonds, other metallic minerals and copper. Gold production was boosted by the higher gold price, driven by risk aversion amid high global inflation, currency volatility and bank failures.

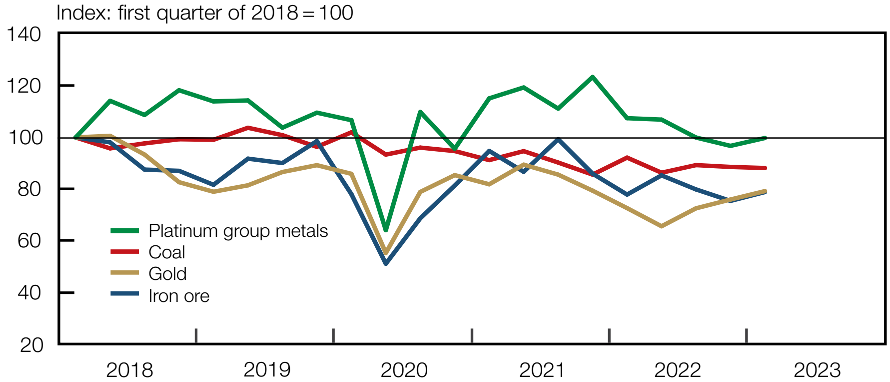
Real gross value added by the mining sector

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 higher iron ore price and increased industrial demand for steel, mainly from China, supported the production of iron ore. By contrast, the lower production of coal reflected a sharply lower coal price and a decline in both industrial demand and coal exports as well as subdued electricity generation due to increased load-shedding.

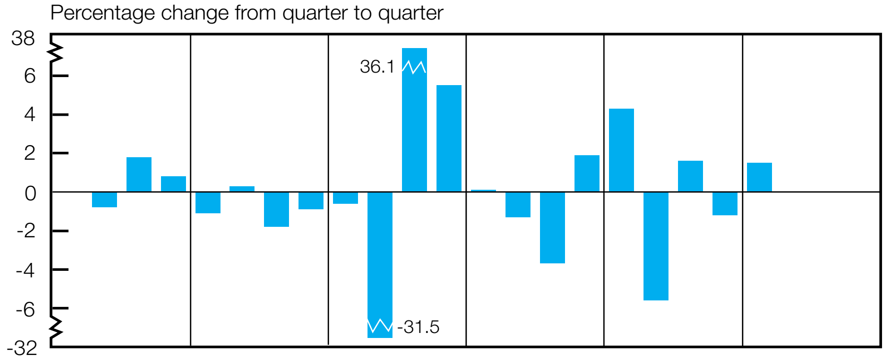
Notwithstanding the increase in mining production, the level of real output in the first quarter of 2023 was 3.9% lower than in the corresponding period of 2022. Activity continued to be hampered by intensified electricity-supply disruptions, high operating costs, regulatory uncertainty as well as slow global economic growth and generally lower commodity prices.

The real GVA by the *secondary sector* increased by 1.1% in the first quarter of 2023 and contributed 0.2 percentage points to overall GDP growth following a decrease of 1.1% in the fourth quarter of 2022. Real output increased in the manufacturing and construction sectors, while the real GVA by the electricity, gas and water supply sector contracted further in the first quarter of 2023.

The real output of the *manufacturing sector* increased by 1.5% in the first quarter of 2023 following a revised decrease of 1.2% in the fourth quarter of 2022. Manufacturing output contributed 0.2 percentage points to overall GDP growth. Production increased in 4 of the 10 manufacturing subsectors, especially in food and beverages; petroleum, chemical products, rubber and plastic products; as well as basic iron and steel, non-ferrous metal products, metal products and machinery. By contrast, the production of motor vehicles, parts and accessories and other transport equipment as well as wood and wood products, paper, publishing and printing decreased notably.

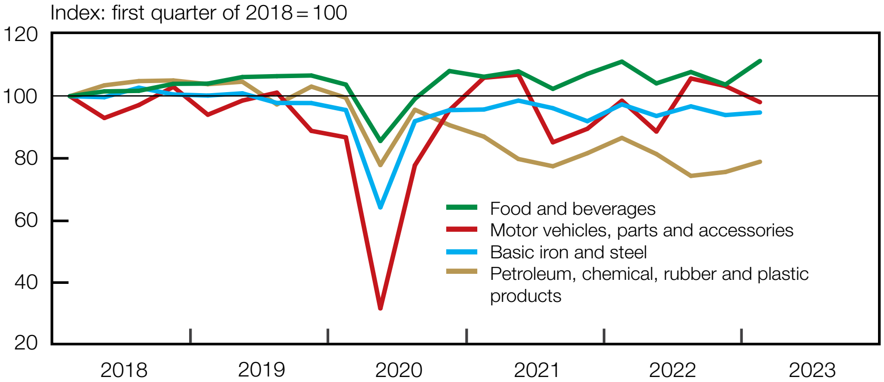
Real gross value added by the manufacturing sector

Percentage change from quarter to quarter



Physical volume of manufacturing production: selected subsectors

Index: first quarter of 2018 = 100



Seasonally adjusted

Source: Stats SA

Although manufacturing output increased in the first quarter of 2023, the seasonally adjusted utilisation of production capacity in the sector remained unchanged at 78.3% from November 2022 to February 2023. The level of real output in the manufacturing sector was

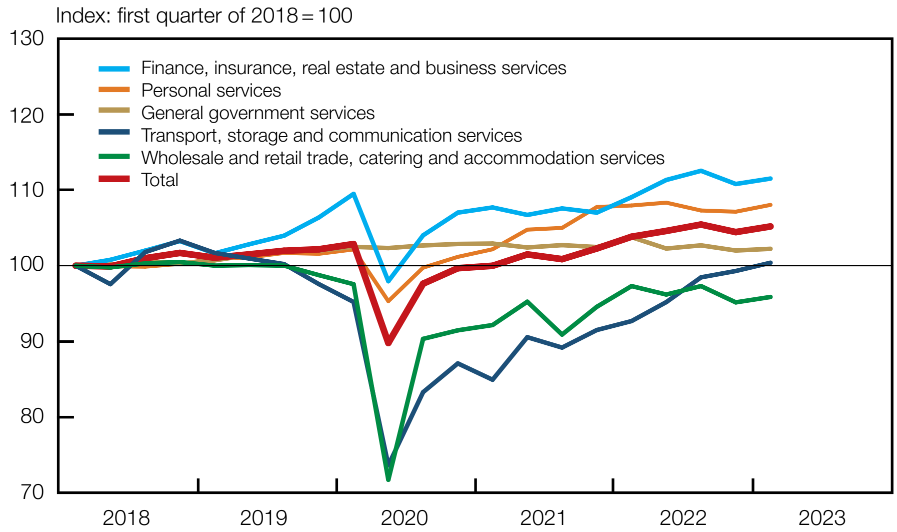
3.6% lower in the first quarter of 2023 than in the corresponding period of 2022 and 6.2% below the average pre-pandemic level in 2019. This likely reflected the impact of electricity load-shedding, rising input costs, logistical disruptions at Transnet, and subdued domestic and global demand.

The real GVA by the sector supplying *electricity, gas and water* contracted further by 1.0% in the first quarter of 2023, marking the fourth consecutive quarterly contraction. The volume of electricity produced and consumed both decreased in the first quarter, reflecting subdued demand from the electricity-intensive mining and manufacturing sectors, severe load-shedding due to planned maintenance, and an increased number of incidents of unplanned maintenance. Consequently, the level of real output of the sector was 6.3% lower in the first quarter of 2023 than in the corresponding period of 2022.

Consistent with improved confidence among civil contractors, real economic activity in the *construction sector* maintained its upward momentum as it increased by 1.1% in the first quarter of 2023. This reflected increased civil construction as well as residential and non-residential building activity. As a result, the level of real output in the first quarter of 2023 was 4.2% higher than in the corresponding period of 2022.

Real economic activity in the *tertiary sector* increased by 0.7% in the first quarter of 2023 after decreasing by 0.9% in the fourth quarter of 2022. Growth in the real GVA by the transport, storage and communication services sector accelerated, while the real output of the commerce; personal services; finance, insurance, real estate and business services; as well as general government services sectors increased following decreases in the fourth quarter of 2022.

Real gross value added by the tertiary sector



Seasonally adjusted

Source: Stats SA

The real output of the *commerce sector* increased by 0.7% in the first quarter of 2023 following a decrease of 2.2% in the fourth quarter of 2022. The real output of the retail and wholesale trade as well as the catering and accommodation services subsectors increased, while activity in the motor trade subsector decreased. The increase in wholesale trade was supported by higher sales volumes of machinery, equipment and supplies. Retail trade activity was boosted by higher sales of textiles, clothing, footwear and leather goods as well as pharmaceuticals and medical goods, cosmetics and toiletries.

By contrast, the contraction in motor trade activity reflected lower sales of both new and used vehicles, likely reflecting the effects of higher interest rates and elevated vehicle prices.

The level of real GVA by the commerce sector in the first quarter of 2023 was 1.5% lower than in the corresponding period of 2022, as the sector continued to be suppressed by rising operational costs, intensified electricity load-shedding, weak business and consumer confidence, subdued growth in the real disposable income of households as well as a sustained high unemployment rate.

The real GVA by the *transport, storage and communication services sector* expanded further by 1.1% in the first quarter of 2023, contributing 0.1 percentage points to overall GDP growth. This reflected both the increased volume of goods and number of passengers transported by rail as well as increased air transportation, transport support services and communication services. By contrast, road transportation activity decreased over the period. In the first quarter of 2023, the real output of the transport, storage and communication services sector was 7.8% higher than in the corresponding period of 2022.

The real output of the *finance, insurance, real estate and business services sector* reverted from a revised contraction of 1.6% in the fourth quarter of 2022 to an expansion of 0.6% in the first quarter of 2023, contributing 0.2 percentage points to overall real GDP growth. This reflected increased activity in the insurance, banking, real estate and business services subsectors. The increase in the real GVA by the banking subsector was driven by higher fee income in the first quarter of 2023 following a decrease in the preceding quarter.

Following a contraction of 0.7% in the fourth quarter of 2022, the real GVA by the *general government services sector* expanded by 0.2% in the first quarter of 2023, consistent with the increased number of government employees.

The real GVA by the *personal services sector* increased by 0.8% in the first quarter of 2023 and contributed 0.1 percentage points to overall GDP growth following a revised decrease of 0.1% in the fourth quarter of 2022. This reflected increased activity in community services.

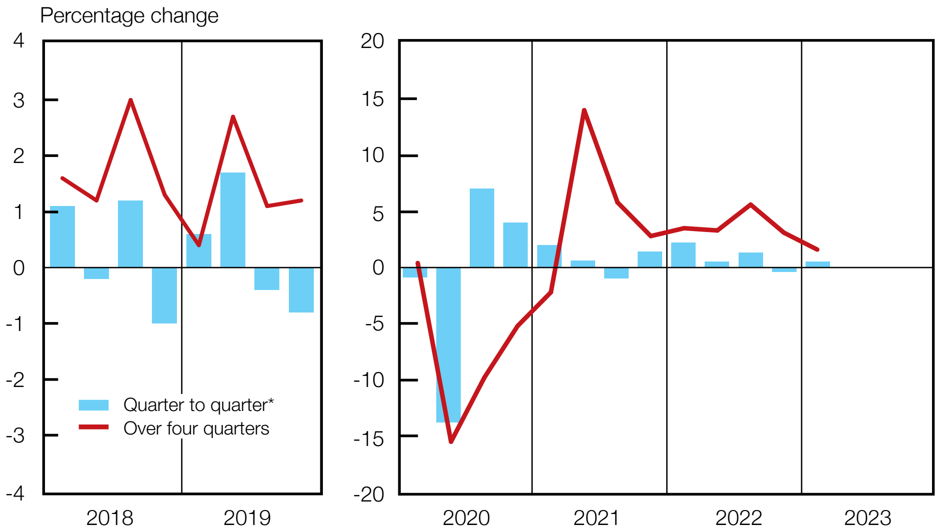
Real gross domestic expenditure[3, 4]

Real *gross domestic expenditure* (GDE) increased by 0.5% in the first quarter of 2023 following a decrease of 0.4% in the fourth quarter of 2022. Real final consumption expenditure by general government switched from a marginal decrease in the fourth quarter of 2022 to an increase in the first quarter of 2023, while real final consumption expenditure by households, real gross fixed capital formation and real inventory holdings all increased at a slower pace. The level of real GDE in the first quarter of 2023 was 1.6% higher than in the first quarter of 2022.

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

4 The analysis in this section is based on a revised set of national accounts estimates for 2018 to 2022, after more detailed data became available.

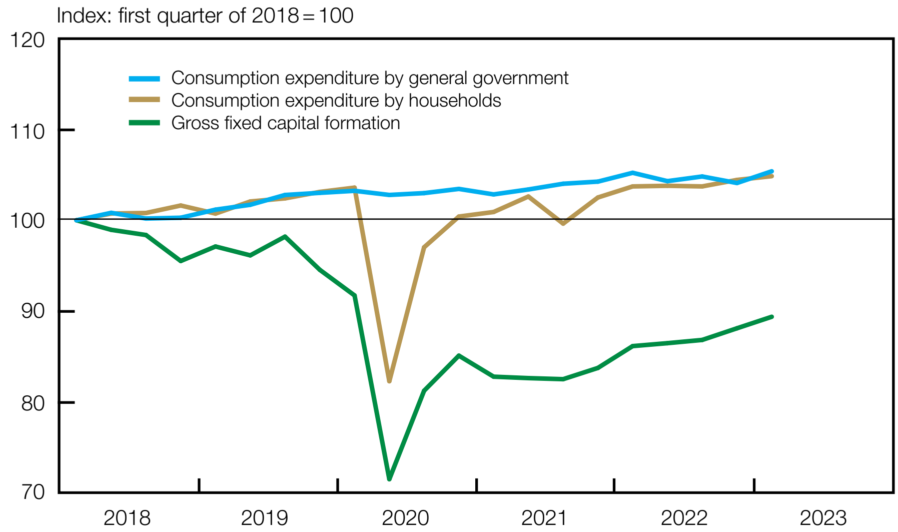
Real gross domestic expenditure



* Seasonally adjusted

Sources: Stats SA and SARB

Components of real gross domestic final demand



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
Final consumption expenditure						
Households	1.2	0.1	-0.1	0.7	2.5	0.4
General government	0.9	-0.9	0.5	-0.7	1.0	1.2
Gross fixed capital formation	2.9	0.4	0.4	1.5	4.8	1.4
Domestic final demand[2]	**1.4**	**-0.1**	**0.1**	**0.5**	**2.5**	**0.7**
Change in inventories (R billions)[3]	*14.4*	*35.7*	*86.9*	*40.2*	*44.3*	*35.0*
Residual[4]	*0.1*	*0.2*	*0.3*	*0.3*	*0.2*	*0.3*
Gross domestic expenditure[5]	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.5**

1 Percentage change over one year
2 Comprises final consumption expenditure by households and general government as well as gross fixed capital formation
3 At constant 2015 prices; seasonally adjusted and annualised
4 The residual as a percentage of GDP
5 Including the residual

Sources: Stats SA and SARB

Real final consumption expenditure by households contributed the most to growth in real GDP at 0.3 percentage points in the first quarter of 2023. Final consumption expenditure by general government and gross fixed capital formation contributed a further 0.2 percentage points each. By contrast, real net exports and the change in inventories deducted 0.2 and 0.1 percentage points respectively from overall economic growth in the first quarter of 2023.

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
Final consumption expenditure						
Households	0.8	0.0	0.0	0.5	1.6	0.3
General government	0.2	-0.2	0.1	-0.1	0.2	0.2
Gross fixed capital formation	0.4	0.1	0.1	0.2	0.7	0.2
Change in inventories	0.8	0.5	1.1	-1.0	1.3	-0.1
Residual	0.0	0.1	0.0	0.0	0.0	-0.1
Gross domestic expenditure	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.5**
Net exports	-0.7	-1.3	0.5	-0.7	-2.0	-0.2
Gross domestic product	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.4**

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

Sources: Stats SA and SARB

The real *exports* of goods and services expanded by 4.1% in the first quarter of 2023 following a contraction of 3.2% in the fourth quarter of 2022. The real exports of mining products and manufactured goods reverted from declines in the fourth quarter of 2022 to increases in the first quarter of 2023, while those of agricultural products and services increased at a faster pace. Strong foreign demand for base metals and articles thereof boosted mining export volumes, while the real exports of mineral products and precious metals (including gold, PGMs and stones) declined.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	Exports			Imports		
	Percentage of total**	2022 Q4***	2023 Q1***	Percentage of total**	2022 Q4***	2023 Q1***
Total	**100.0**	**-3.2**	**4.1**	**100.0**	**-0.8**	**4.4**
Mining	**42.0**	**-6.8**	**2.3**	**19.2**	**-0.3**	**-3.0**
Of which:						
Mineral products	16.2	-8.4	-6.4	13.7	0.4	-4.5
Precious metals, including gold, platinum group metals and stones	13.3	4.2	-6.4	1.1	19.4	7.0
Base metals and articles thereof	12.6	-14.9	23.9	4.4	-6.7	-1.2
Manufacturing	**36.7**	**-2.9**	**3.7**	**62.9**	**1.4**	**9.8**
Of which:						
Vehicles and transport equipment	10.8	5.1	-0.2	12.5	33.6	5.3
Machinery and electrical equipment	7.8	-3.8	5.2	23.5	-1.2	19.0
Chemical products	6.5	-9.5	4.2	11.8	-10.5	7.6
Prepared foodstuffs, beverages and tobacco	4.3	-6.7	11.3	2.1	-5.6	19.4
Agriculture	**9.7**	**5.5**	**8.5**	**4.4**	**-15.9**	**-2.7**
Of which:						
Vegetable products	8.2	6.0	10.3	2.1	5.3	1.4
Services	**11.3**	**3.1**	**8.3**	**13.3**	**-6.5**	**-8.1**

* 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

The increase in manufacturing exports was broad-based, as the export volumes of machinery and electrical equipment, chemical products as well as prepared foodstuffs, beverages and tobacco reverted to increases in the first quarter of 2023, while the real exports of vehicles and transport equipment declined. The further increase in agricultural export volumes was supported by vegetable products.

The real *imports* of goods and services rebounded from a decline of 0.8% in the fourth quarter of 2022 to an increase of 4.4% in the first quarter of 2023 following a marked increase in the import volumes of manufactured goods. The robust domestic demand for manufactured products was broad-based as the real imports of machinery and electrical equipment; chemical products; and prepared foodstuffs, beverages and tobacco increased meaningfully in the first quarter of 2023 after decreasing in the preceding quarter, while the rate of increase in the real imports of vehicles and transport equipment slowed. Mining import volumes decreased further as the contraction in mineral products as well as base metals and articles thereof outweighed the further increase in precious metals (including gold, PGMs and stones). The import volumes of both agricultural products and services also decreased further in the first quarter of 2023.

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	Exports		Imports*		Net exports	
	2022 Q4	2023 Q1	2022 Q4	2023 Q1	2022 Q4	2023 Q1
Total	**-0.9**	**1.1**	**-0.2**	**1.3**	**-0.7**	**-0.2**
Mining	**-0.8**	**0.2**	**0.0**	**-0.2**	**-0.8**	**0.4**
Of which:						
Mineral products	-0.4	-0.3	0.0	-0.2	-0.4	-0.1
Precious metals, including gold, platinum group metals and stones	0.1	-0.2	0.1	0.0	0.1	-0.3
Base metals and articles thereof	-0.5	0.7	-0.1	0.0	-0.5	0.8
Manufacturing	**-0.3**	**0.4**	**0.3**	**1.8**	**-0.6**	**-1.5**
Of which:						
Vehicles and transport equipment	0.1	0.0	1.1	0.2	-1.0	-0.2
Machinery and electrical equipment	-0.1	0.1	-0.1	1.3	0.0	-1.2
Chemical products	-0.2	0.1	-0.4	0.2	0.2	-0.2
Prepared foodstuffs, beverages and tobacco	-0.1	0.1	0.0	0.1	0.0	0.0
Agriculture	**0.1**	**0.2**	**-0.2**	**0.0**	**0.4**	**0.3**
Of which:						
Vegetable products	0.1	0.2	0.0	0.0	0.1	0.2
Services	**0.1**	**0.3**	**-0.3**	**-0.3**	**0.4**	**0.6**

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

Sources: SARS, Stats SA and SARB

Lower real *net exports* subtracted 0.2 percentage points from real GDP growth in the first quarter of 2023 as real net exports of manufactured products subtracted 1.5 percentage points, while real net exports of mining products, agricultural products and services together added 1.3 percentage points. Real net exports of vehicles and transport equipment; machinery and electrical equipment; and chemical products subtracted the most from overall net manufacturing exports. Real net mining exports were mostly supported by the contribution of base metals and articles thereof.

Growth in real *final consumption expenditure by households* moderated to 0.4% in the first quarter of 2023 from a revised 0.7% in the fourth quarter of 2022, in line with a similar slowdown in growth in the real disposable income of households. Real spending on durable goods and on services decreased. By contrast, real outlays on semi-durable goods increased at a faster pace, while those on non-durable goods reverted from a slight contraction to a notable expansion. Despite the slowdown, the level of real household expenditure was still 0.7% higher in the first quarter of 2023 compared with that in the corresponding quarter of 2022.

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
Durable goods	3.7	-0.3	2.2	1.0	0.9	-0.2
Semi-durable goods	-1.7	0.0	0.6	0.7	1.4	2.4
Non-durable goods	1.4	-0.6	-1.4	-0.2	2.3	1.0
Services	1.1	0.5	0.2	1.2	3.1	-0.2
Total	**1.2**	**0.1**	**-0.1**	**0.7**	**2.5**	**0.4**

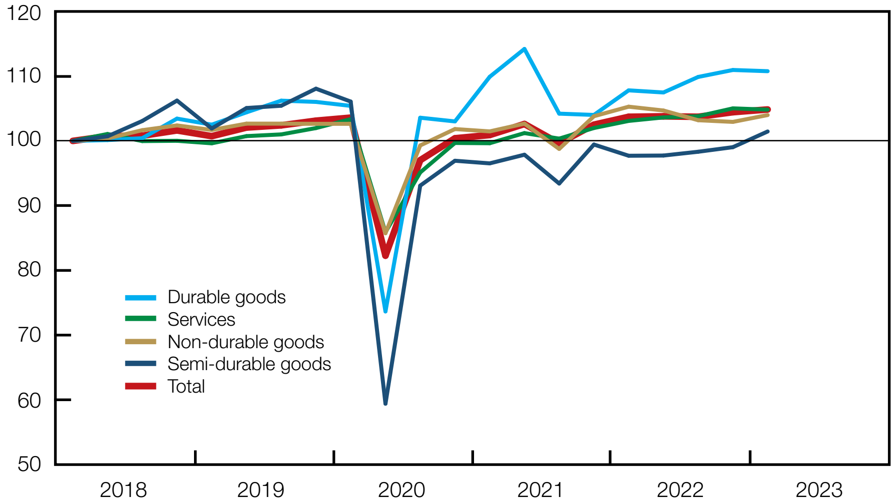
* Percentage change over one year

Source: Stats SA

Real outlays on *durable goods* contracted by 0.2% in the first quarter of 2023 after a revised expansion of 1.0% in the fourth quarter of 2022. The decline was consistent with the decrease in the First National Bank (FNB)/Bureau for Economic Research (BER) Consumer Confidence Index and the increased pressure on consumers' disposable income. Real purchases of personal transport equipment declined further in the first quarter of 2023, while real outlays on furniture and household appliances (the third-largest durable goods category in 2022) remained virtually unchanged. Consumer spending on recreational and entertainment goods (the second-largest category in 2022) increased following a decline in the fourth quarter of 2022, while that on other durable goods rose at a slower rate.

Components of real final consumption expenditure by households

Index: first quarter of 2018 = 100



Seasonally adjusted

Sources: Stats SA and SARB

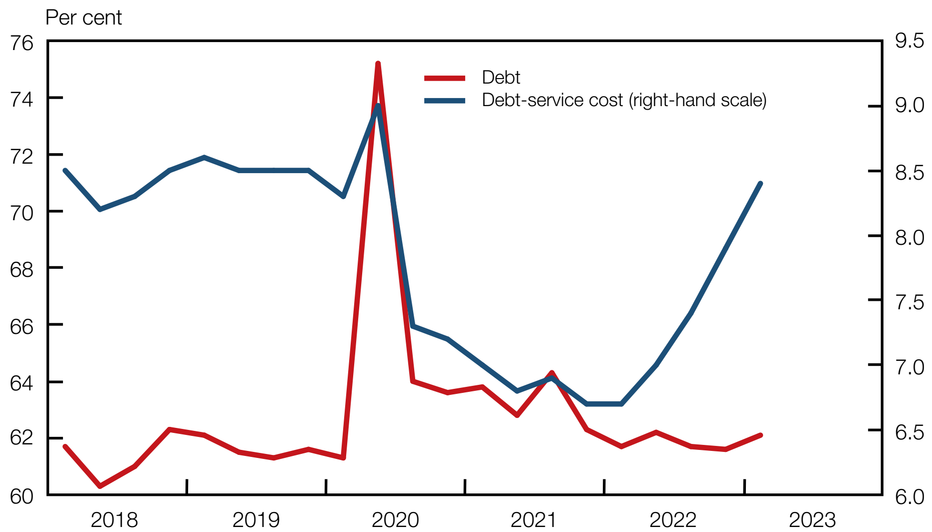
Growth in real expenditure by households on *semi-durable goods* accelerated to 2.4% in the first quarter of 2023 from 0.7% in the fourth quarter of 2022. Real purchases of household textiles, furnishings and glassware increased at a faster pace, while those of motorcar tyres, parts and accessories (the second-largest semi-durable goods component in 2022) and of miscellaneous goods reverted from decreases in the fourth quarter of 2022 to increases in the first quarter of 2023. Real spending on clothing and footwear (the largest semi-durable goods component in 2022) increased at a slower pace. Real spending on semi-durable goods decreased the most of all the durability categories in the lockdown-affected second quarter of 2020. Despite rebounding in the third quarter of 2020, the recovery in semi-durable goods consumption expenditure by households has lagged that of the other durability components as the level in the first quarter of 2023 was still 3.5% below the average pre-pandemic level in 2019.

Real spending on *non-durable goods* reverted to growth of 1.0% in the first quarter of 2023 following a contraction of 0.2% in the fourth quarter of 2022. Consumer outlays on medical and pharmaceutical products increased further, while purchases of food, beverages and tobacco (which contributed 62% to this subsector in 2022) as well as of household consumer goods increased following decreases in the previous quarter. The real purchases of petroleum products increased at a marginally slower pace in the first quarter of 2023. The increases in these categories outweighed the decrease in spending on household fuel, power and water.

Real expenditure on *services* contracted by 0.2% in the first quarter of 2023 following an increase of 1.2% in the fourth quarter of 2022. Reduced spending on household and miscellaneous services outweighed the increased real outlays on rent, medical services as well as transport and communication services.

Seasonally adjusted nominal *household debt* increased in the first quarter of 2023 as most categories of credit extended to households increased. With the increase in household debt exceeding that in nominal disposable income, household debt as a percentage of nominal disposable income edged higher to 62.1% in the first quarter of 2023 from 61.6% in the fourth quarter of 2022. Households' cost of servicing debt relative to their disposable income increased to 8.4% in the first quarter of 2023 from 7.9% in the fourth quarter of 2022, as both the stock of debt and interest rates increased.

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



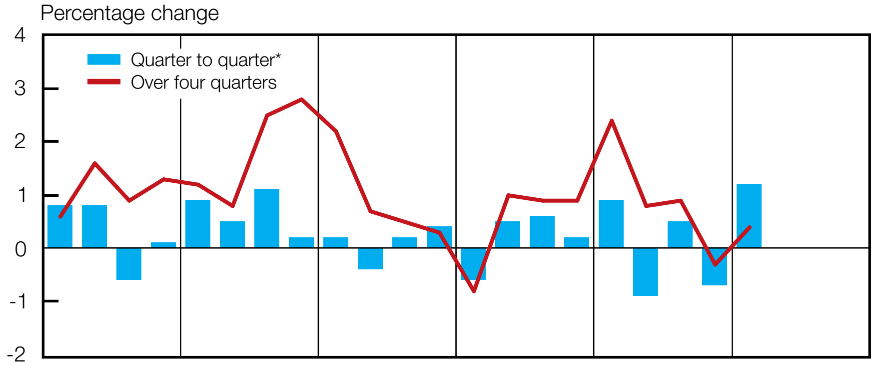
Seasonally adjusted
Source: SARB

Households' net wealth increased further in the first quarter of 2023 as the market value of total assets increased more than that of total liabilities. The higher value of assets resulted from an increase in share prices and in the value of housing stock. Consequently, the ratio of net wealth to nominal disposable income increased from 391% in the fourth quarter of 2022 to 397% in the first quarter of 2023.

Real *final consumption expenditure by general government* switched from a decrease of 0.7% in the fourth quarter of 2022 to an increase of 1.2% in the first quarter of 2023 as real spending on both the compensation of employees as well as non-wage goods and services increased. The level of real final consumption expenditure by general government in the first quarter of 2023 was 0.4% higher than in the corresponding period in 2022, while the seasonally adjusted level was 3.2% higher than the average pre-pandemic 2019 level.

Real final consumption expenditure by general government

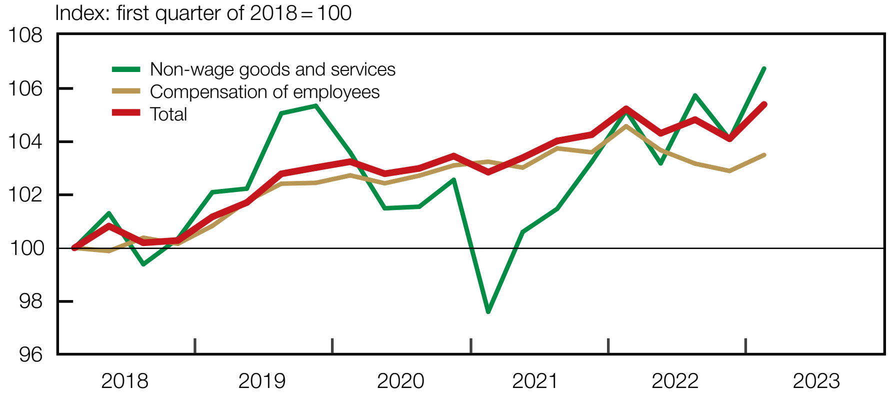
Percentage change



* Seasonally adjusted

Components of real final consumption expenditure by general government

Index: first quarter of 2018 = 100



Seasonally adjusted

Source: Stats SA

Real *gross fixed capital formation* increased further by 1.4% in the first quarter of 2023 following a revised increase of 1.5% in the fourth quarter of 2022, mainly due to faster growth in capital investment by general government. Capital spending by public corporations increased at a marginally faster pace, while that by private business enterprises moderated. Despite the increase in the first quarter of 2023, the level of real gross fixed capital expenditure remained well below the average level in 2019. However, the level of real gross fixed investment in the first quarter of 2023 was 3.5% higher than in the corresponding period of 2022.

Real gross fixed capital formation

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

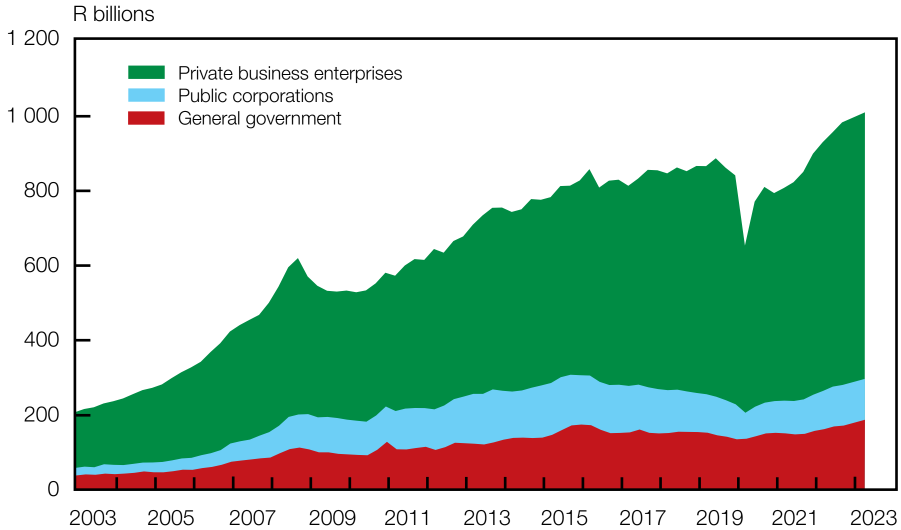
Sector	2022					2023
	Q1	Q2	Q3	Q4	Year*	Q1
Private business enterprises	2.8	0.2	-0.5	1.8	5.2	0.2
Public corporations	3.5	1.7	2.3	0.2	8.2	0.8
General government	2.6	0.1	3.1	1.0	1.0	7.0
Total	**2.9**	**0.4**	**0.4**	**1.5**	**4.8**	**1.4**

* Percentage change over one year

Source: Stats SA

Following an increase of 1.8% in the fourth quarter of 2022, growth in capital outlays by *private business enterprises* moderated to only 0.2% in the first quarter of 2023 and contributed 0.1 percentage points to growth in total real gross fixed capital formation. Increased investment in computer equipment as well as in residential and non-residential buildings more than offset the reduced capital outlays on construction works and transport equipment. Although the level of real gross fixed capital investment by private business enterprises in the first quarter of 2023 was 1.3% higher than in the corresponding period in 2022, it was still 9.1% lower than in 2019. Nevertheless, the private sector's share of total nominal gross fixed capital expenditure decreased slightly from 71.5% in the fourth quarter of 2022 to 70.6% in the first quarter of 2023.

Nominal gross fixed capital formation by type of organisation

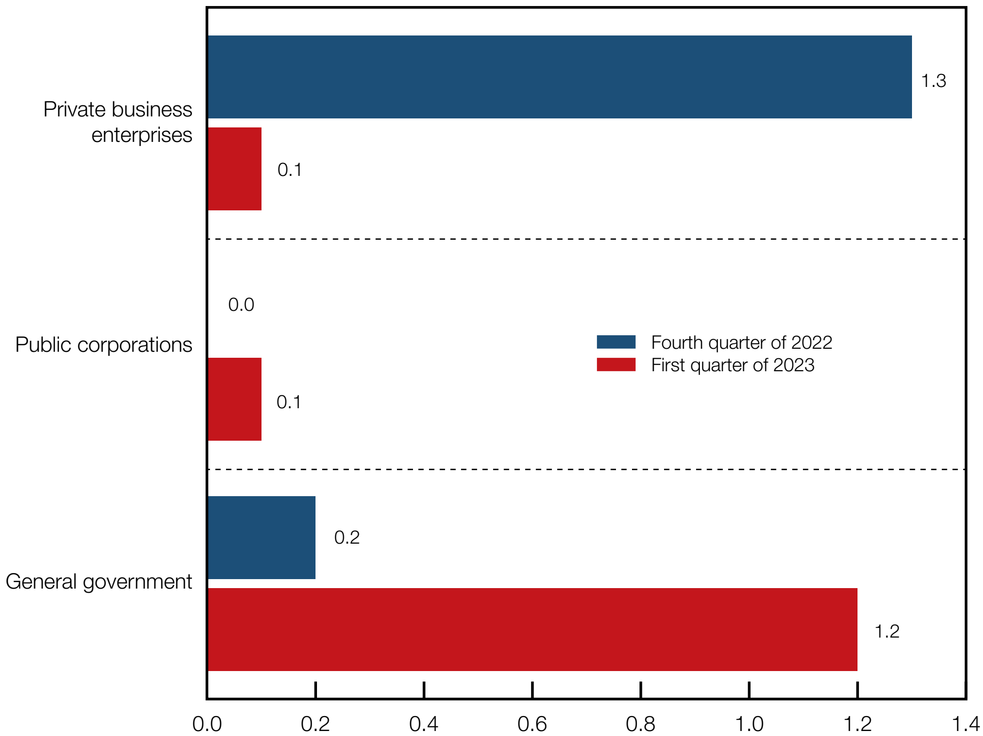


Seasonally adjusted

Source: Stats SA

Real capital spending by the *public sector* increased by 4.6% in the first quarter of 2023 following an increase of 0.7% in the fourth quarter of 2022. Real gross fixed capital spending by *public corporations* increased by 0.8% following an increase of 0.2% in the fourth quarter of 2022. The slightly faster pace of increase mainly reflected increased capital spending on machinery and equipment as well as on construction works.

Contributions to growth in real gross fixed capital formation



Percentage points
Source: Stats SA

Growth in real gross fixed capital formation by *general government* accelerated from a revised increase of 1.0% in the fourth quarter of 2022 to 7.0% in the first quarter of 2023, contributing the most to growth in total gross fixed capital formation at 1.2 percentage points. This reflected increased capital outlays by both the central and the provincial governments on especially transport equipment, computer equipment, machinery and equipment as well as non-residential buildings. General government's share of total nominal gross fixed capital formation increased further to 18.5% in the first quarter of 2023 from 17.4% in the fourth quarter of 2022.

Measured by asset type, lower real gross fixed capital outlays on transport equipment and transfer costs in the first quarter of 2023 were fully offset by increased capital spending on all other asset types.

Measured at seasonally adjusted and annualised 2015 prices, real *inventory holdings* increased by a further R35.0 billion in the first quarter of 2023 following an accumulation of R40.2 billion in the final quarter of 2022. The build-up of inventories in the trade and mining sectors was partly offset by the de-accumulation in the manufacturing, electricity and transport sectors. The continued inventory accumulation coincided with the further decrease in net exports of goods and services.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) increased to 14.5% in the first quarter of 2023 from 13.5% in the fourth quarter of 2022. Corporate business enterprises saved at a faster pace while the saving rate of households decreased somewhat and general government dissaved at a faster pace. The share of total gross capital formation financed through foreign capital (the foreign financing ratio) decreased from 14.7% in the fourth quarter of 2022 to 6.3% in the first quarter of 2023.

Gross saving as a percentage of gross domestic product

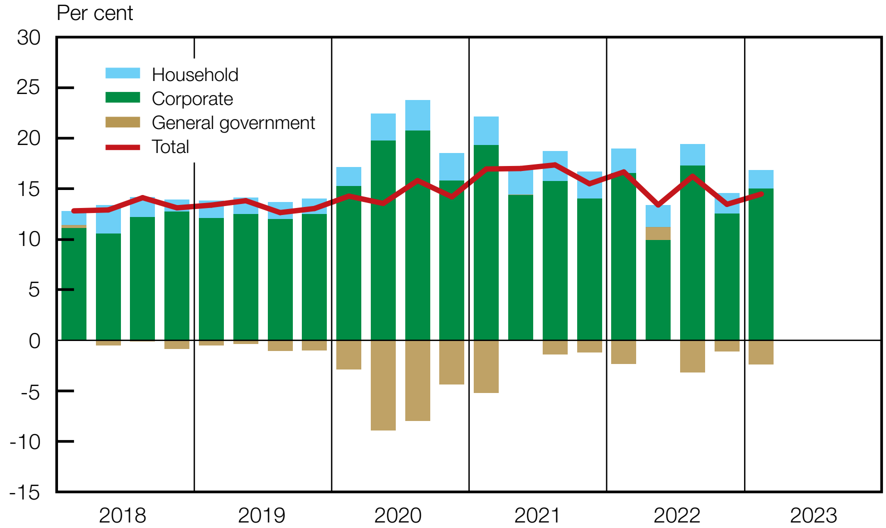
Ratio in per cent based on seasonally adjusted and annualised data

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

Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 12.5% in the fourth quarter of 2022 to 15.0% in the first quarter of 2023 as a result of a higher seasonally adjusted operating surplus combined with lower seasonally adjusted tax payments. With the increase in seasonally adjusted government expenditure exceeding that in nominal tax revenue, dissaving by *general government* as a percentage of nominal GDP increased further to 2.4% in the first quarter of 2023 from 1.1% in the fourth quarter of 2022. Gross saving by the *household sector* as a percentage of GDP decreased to 1.8% in the first quarter of 2023 from 2.0% in the fourth quarter of 2022, with gross saving declining as the increase in seasonally adjusted nominal consumption expenditure outweighed that in seasonally adjusted disposable income.

Nominal gross saving as a ratio of gross domestic product



Source: SARB

Employment

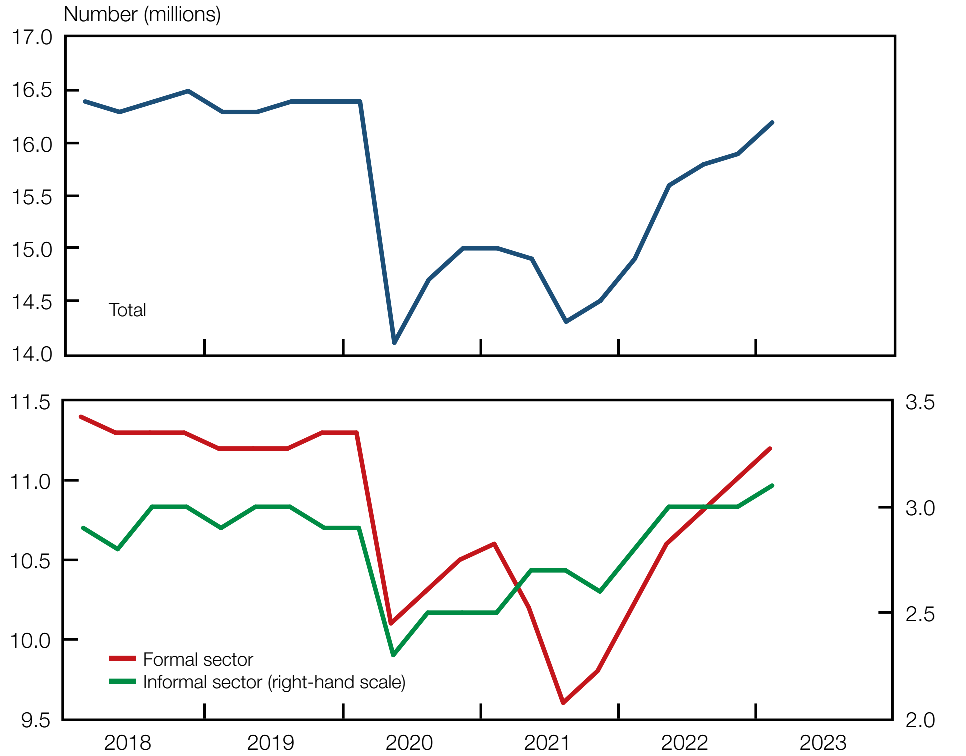
Total household-surveyed employment increased further by 258 000 (1.6%) in the first quarter of 2023 relative to the previous quarter, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS)* – closing in on the pre-COVID-19 level, similar to real GDP which marginally exceeded its pre-COVID-19 level. The increase reflected job gains in the formal sector of 209 000 (1.9%), the informal sector of 107 000 (3.6%) and the agricultural sector of

27 000 (3.2%). The private household sector employed 86 000 (7.5%) fewer people. The financial intermediation, insurance, real estate and business services sector recorded job gains of 184 000 (7.4%), while the community, social and personal services sector recorded job gains of 175 000 (4.7%) in the first quarter of 2023.

Total household-surveyed employment increased by 1.28 million (8.6%) in the year to the first quarter of 2023 alongside further improvements in the response rate of the *QLFS*, which enhanced the survey's accuracy.[5] The number of new and renewed job postings on the PNet web platform increased by 1.4% in the first quarter of 2023, which might support further growth in employment opportunities in the near term. However, the outlook for employment could be suppressed by the effects of ongoing electricity load-shedding and weak business confidence as well as the impact of higher inflation, wages and interest rates on economic activity.

5 Stats SA noted that the response rate of the *QLFS* was 88.6% in the first quarter of 2023 compared with 88.2% in the fourth quarter of 2022 (and 64.7% in the first quarter of 2022).

Household-surveyed employment



Source: Stats SA

Employment contracts of a permanent nature increased by 7.3% in the year to the first quarter of 2023 and those of an unspecified duration increased by 10.3%, whereas those of a limited duration increased the most, by 10.4%. The increase in limited-duration employment contracts partly reflected employment opportunities in terms of Phase IV of the Presidential Youth Employment Initiative (PYEI) which commenced in February 2023 in the basic education sector, with the second cohort having started in May.

Household-surveyed labour market statistics

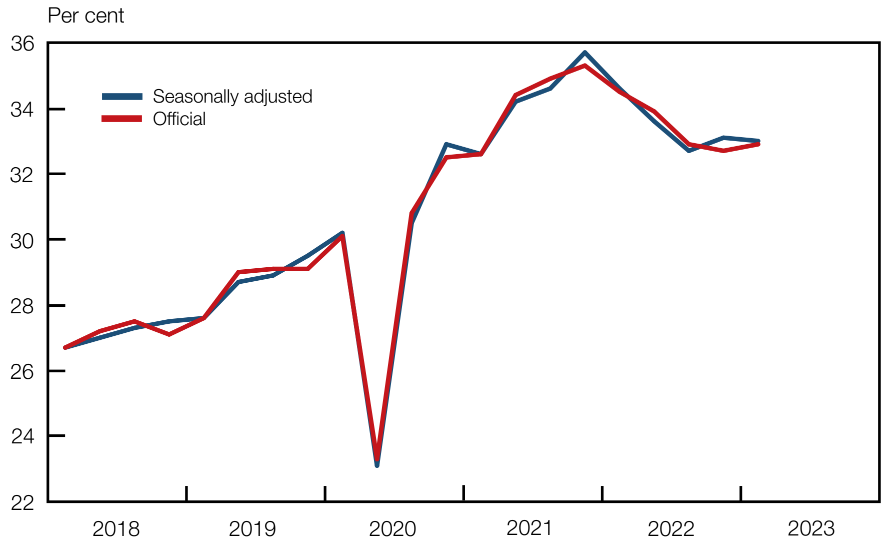
	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2022			2023	2023 Q1		
	Q1	Q3	Q4	Q1	Number	Per cent	Per cent
a. Total employed	14 914	15 765	15 934	16 192	258	1.6	8.6
b. Total unemployed (official definition)	7 862	7 725	7 753	7 933	179	2.3	0.9
c. Total labour force (a+b)	22 776	23 490	23 688	24 125	437	1.8	5.9
d. Total not economically active	17 257	16 831	16 774	16 479	-296	-1.8	-4.5
e. Population 15–64 years (c+d)	40 033	40 322	40 462	40 604	141	0.4	1.4
f. Official unemployment rate* (b/c)*100	**34.5%**	**32.9%**	**32.7%**	**32.9%**	–	–	–
g. Discouraged work seekers	3 752	3 514	3 363	3 276	-87	-2.6	-12.7
h. Other reasons for not searching for work	1 387	1 157	1 136	1 259	123	10.8	-9.2
i. Expanded unemployment rate**	**45.5%**	**43.1%**	**42.6%**	**42.4%**	–	–	–

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

Source: Stats SA

The number of officially unemployed persons in South Africa increased further by 179 000 (2.3%) to 7.93 million in the first quarter of 2023 and, together with the increase in the total number of employed persons, raised the total labour force to 24.1 million. This resulted in a marginal increase in South Africa's official unemployment rate to 32.9% in the first quarter of 2023 from 32.7% in the fourth quarter of 2022. By contrast, the seasonally adjusted unemployment rate decreased slightly to 33.0% from 33.1% over the same period.

Unemployment rate



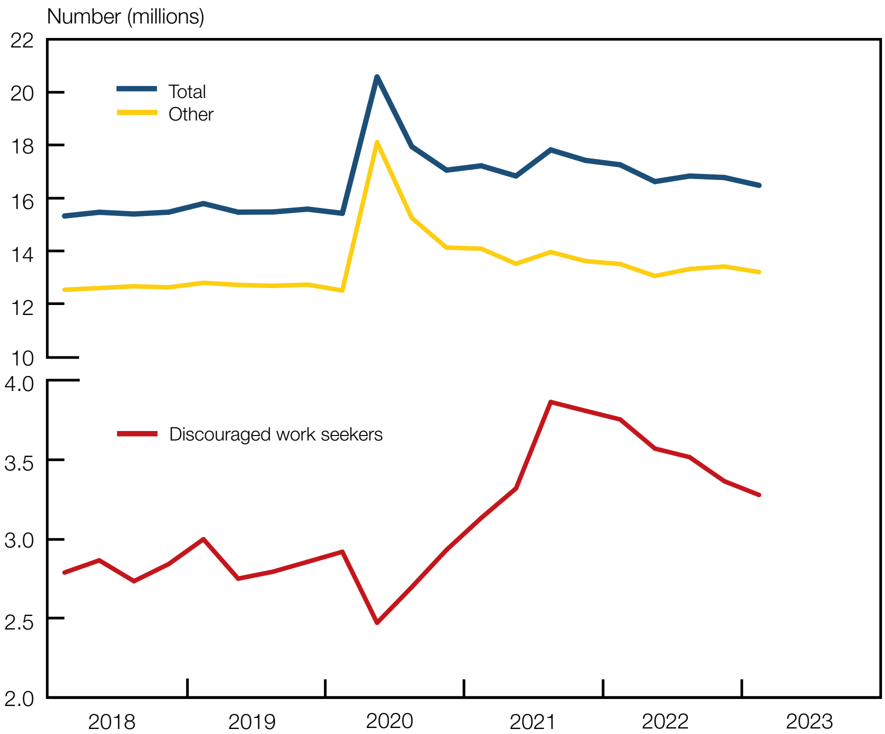
Sources: Stats SA and SARB

The total number of officially unemployed persons in the first quarter of 2023 comprised new entrants (46.0%), job losers (25.6%), those who last worked five years ago (22.2%), re-entrants (3.7%) and job leavers (2.5%). The proportion of long-term unemployment (being unemployed for one year or longer) to total unemployment has been increasing steadily over the past decade, from 65.5% in the fourth quarter of 2013 to 77.2% in the first quarter of 2023.

The youth unemployment rate (of those aged 15–24 years and actively searching for work) increased from 61.0% in the fourth quarter of 2022 to 62.1% in the first quarter of 2023. Moreover, the share of youth that is not in employment, education programmes or training (NEET) increased from 33.6% in the fourth quarter of 2022 to 36.1% in the first quarter of 2023, representing 3.7 million out of 10.2 million young persons. Similarly, the unemployment rate of those aged between 25 and 35 years increased from 39.9% to 40.7% over the same period. The International Labour Organization (ILO) has noted that more than one in five young people (aged 15–24 years) globally, or about 289 million, were classified as NEET in 2022.[6] Furthermore, education levels seem to be an important catalyst to obtain employment, since persons with education levels of ‘only Matric’ or ‘less than Matric’ experienced the highest rates of unemployment in South Africa at 35.6% and 37.6% respectively in the first quarter of 2023.

6 International Labour Organization, *World Employment and Social Outlook: Trends 2023*, Geneva: International Labour Office, 2023.

Not economically active population



Source: Stats SA

A large number of people continued to move out of the ‘not economically active’ category into the labour force and, as such, the ‘not economically active’ population decreased further by 296 000 (1.8%) from the fourth quarter of 2022 to the first quarter of 2023. The number of discouraged work seekers decreased by 87 000 (2.6%) and the *other* ‘not economically active’ category[7] decreased by 209 000 (1.6%) from the fourth quarter of 2022 to the first quarter of 2023. The expanded unemployment rate, which includes discouraged work seekers, decreased marginally from 42.6% in the fourth quarter of 2022 to 42.4% in the first quarter of 2023.

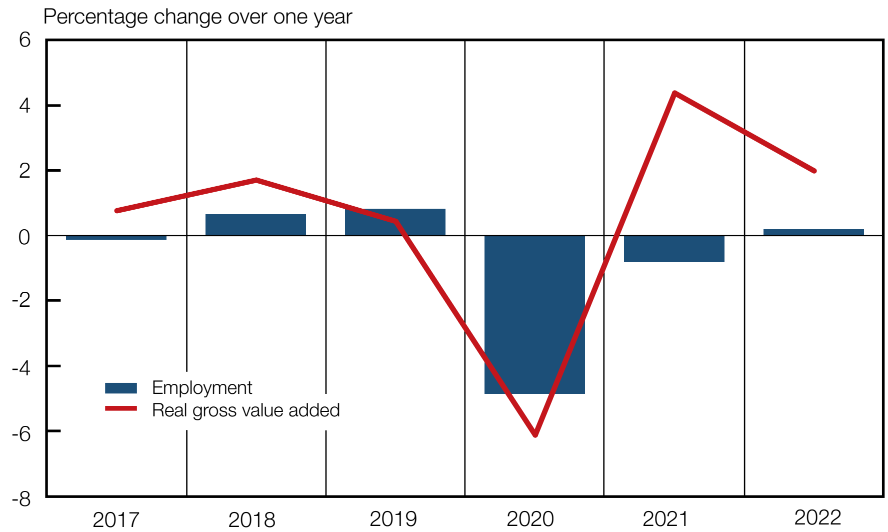
Encouragingly, the labour force participation rate increased further from 58.5% in the fourth quarter of 2022 to 59.4% in the first quarter of 2023, while the labour absorption rate (working-age population (15–64 years) who are employed) increased from 39.4% to 39.9% over the same period.

7 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 as well as those who did not search for work due to the civil unrest in the third quarter of 2021.

8 As measured by Stats SA's *Quarterly Employment Statistics (QES)* survey. The statistics in this section were seasonally adjusted by the South African Reserve Bank (SARB).

Enterprise-surveyed formal non-agricultural employment[8] decreased by 0.6% in the fourth quarter of 2022, slowing from a decrease of 3.1% in the third quarter and representing the third successive quarterly decrease in employment. The further loss of around 14 700 jobs lowered the level of such employment to 9.9 million in the fourth quarter of 2022 and largely reflected the termination of temporary employment in the public sector alongside marginal job shedding in the private sector. Annual average formal non-agricultural employment increased by only 0.2% in 2022 following the significant number of COVID-19-related job losses in 2020 and 2021, despite a rebound in output growth.

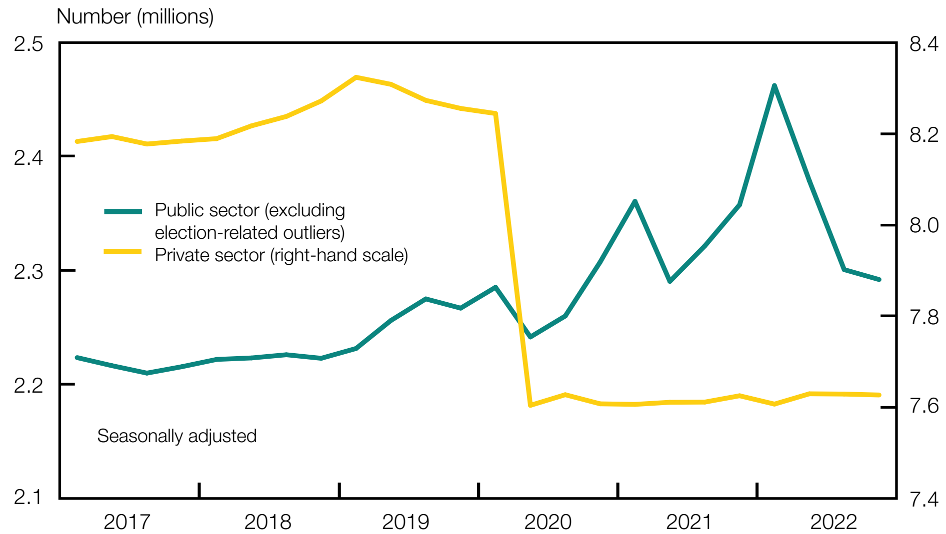
Formal non-agricultural employment and output



Sources: Stats SA and SARB

Public sector employment decreased for a third successive quarter in the fourth quarter of 2022, albeit at a much slower pace than in the preceding two quarters. The further decrease likely reflected the termination of the remaining employment contracts of workers employed under Phase III of the PYEI at provincial level, which officially ended in August 2022. Job losses were recorded at all tiers of the public sector, except local governments. Annual average growth in public sector employment slowed notably from 3.3% in 2021 to 0.5% in 2022, as fewer temporary work and training opportunities were awarded as part of the PYEI.

Public and private sector employment

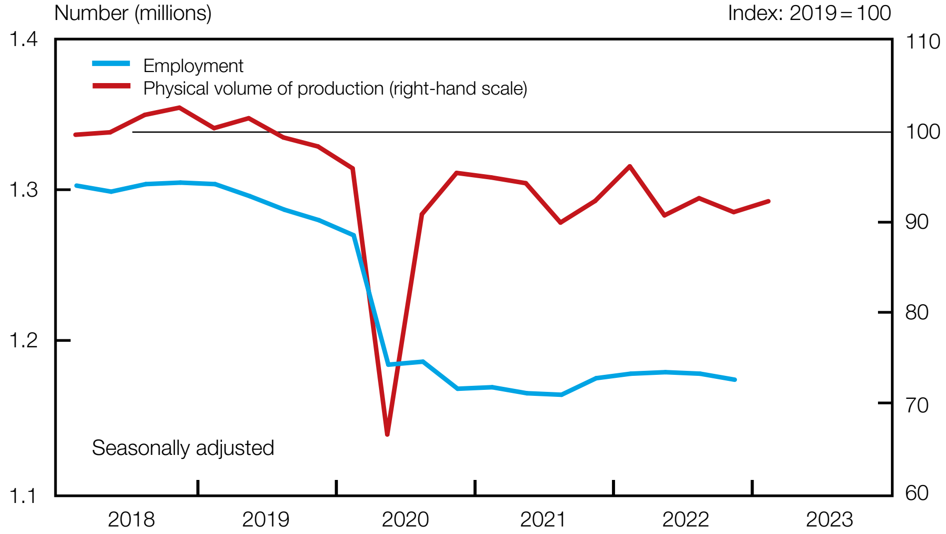


Sources: Stats SA and SARB

Private sector employment decreased marginally by about 2 000 jobs (0.1%) in the fourth quarter of 2022, with job losses registered in half of the eight subsectors. The services subsectors collectively shed around 3 300 jobs, with job losses being most pronounced in the finance, insurance, real estate and business services sector. Employment in the goods-producing sectors increased by only 1 400 as job gains in the non-gold mining and construction sectors were partially offset by further job losses in the manufacturing and gold mining sectors. Only a limited number of the substantial job losses in the private sector in 2020 was recouped in the subsequent two years and, as such, private sector employment recovered only marginally by 0.1% in 2022 following a substantial decrease of 6.3% in 2020.

Mining sector employment increased in the fourth quarter of 2022 but it was insufficient to compensate for the job losses in the previous quarter. Non-gold mining employment increased in the fourth quarter while the gold mining sector shed jobs for a second successive quarter. Lower international commodity prices as well as the ongoing domestic electricity and logistical constraints continue to weigh on the outlook for the mining sector.

Manufacturing sector employment and production



Sources: Stats SA and SARB

Manufacturing sector employment decreased at a faster pace in the fourth quarter of 2022 and has remained far below its pre-pandemic level for well over two years. The manufacturing sector experienced a turbulent and challenging 2022, with electricity load-shedding especially restricting the recovery in the sector, according to the BER. Unfortunately, these setbacks persisted into 2023, with business confidence[9] among manufacturers declining by 9 index points to 17 in the first quarter. The negative impact of electricity load-shedding on output, production costs and confidence was a key feature of the first-quarter 2023 survey outcome and could potentially influence investment and employment in the sector.

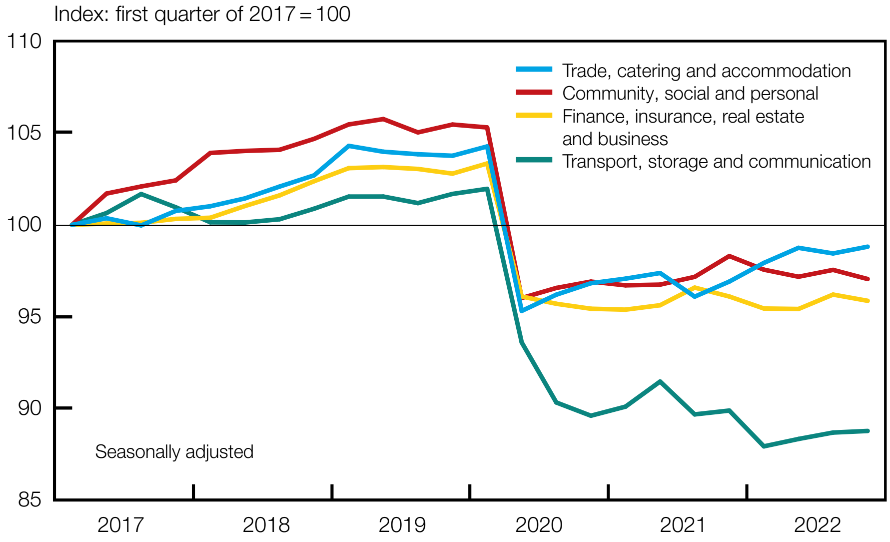
Construction sector employment increased marginally in the fourth quarter of 2022 following the combined loss of around 41 500 jobs in the previous four quarters. As such, the annual average level of employment in the construction sector contracted for a sixth successive year, with the pace of decline unchanged at 6.0% in 2022. Encouragingly, activity in the building and civil construction sector seems to be recovering, albeit off a very low base following years of contraction. The First National Bank (FNB)/BER Civil Confidence Index rose for four consecutive quarters to 42 in the first quarter of 2023 due to a marked rise in construction activity along with the expectation of even higher activity in the second quarter following an increase in orders being placed. While building sector confidence[10] remained unchanged at an index level of 33 over this period, building work picked up noticeably, with the activity indices for residential and non-residential builders rising to multi-year highs.

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

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

Employment in the trade, catering and accommodation services sector increased in the fourth quarter of 2022, fully offsetting the losses in the preceding quarter. However, the BER's *Retail Survey* for the first quarter of 2023 suggested a sector under pressure as it faces weak consumer demand, with retailer confidence declining markedly from 42 to 34 index points – the lowest level since the second quarter of 2020. Electricity load-shedding was cited as the main contributor to the rise in pessimism, with high consumer price inflation and higher interest rates to contain inflation continuing to constrain households' disposable income.

Employment in the private services sectors



Sources: Stats SA and SARB

Employment in the finance, insurance, real estate and business services sector – the largest employment provider in the private sector – remained around the pandemic-induced low for well over two years and fell by an additional 8 300 jobs in the fourth quarter of 2022. Encouragingly, *employment in the transport, storage and communication services sector* increased for a third consecutive quarter in the fourth quarter of 2022.

Labour cost and productivity

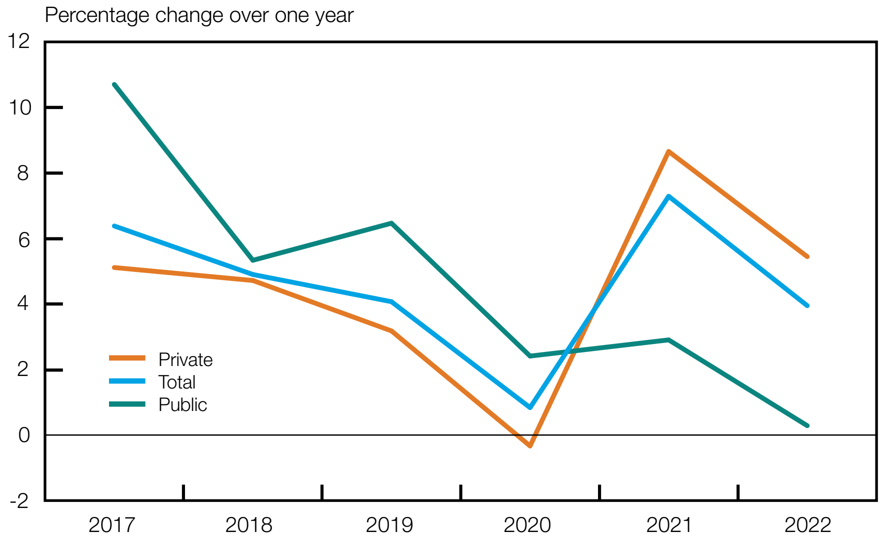
The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* quickened from 2.4% in the third quarter of 2022 to 5.8% in the fourth quarter following five consecutive quarters of moderation. Growth in average annual nominal remuneration per worker moderated from 7.3% in 2021 to 4.0% in 2022, reflecting a normalisation from the pandemic-induced base effects.

Nominal remuneration growth per private sector worker accelerated from 4.2% in the third quarter of 2022 to 6.1% in the fourth quarter, with accelerations in all the private subsectors except in community, social and personal services as well as in transport, storage and communication services. Construction sector remuneration growth per worker accelerated sharply as growth in total remuneration accelerated alongside a notable year-on-year decrease in employment.

The rate of change in *nominal remuneration per public sector worker* reverted from a decrease of 1.9% in the third quarter of 2022 to a notable increase of 5.8% in the fourth quarter. This largely reflected the unilateral implementation of a 3.0% across-the-board pensionable wage increase in the public sector as well as the continuation of the current non-pensionable cash allowance of R1 000 in October 2022. Growth in nominal remuneration per worker at provincial level and at other public sector enterprises[11] accelerated strongly.

11 These include parastatals, agriculture marketing boards, universities, technikons and public corporations (excluding the South African Broadcasting Corporation, the South African Post Office, Telkom and Transnet).

Formal non-agricultural nominal remuneration per worker

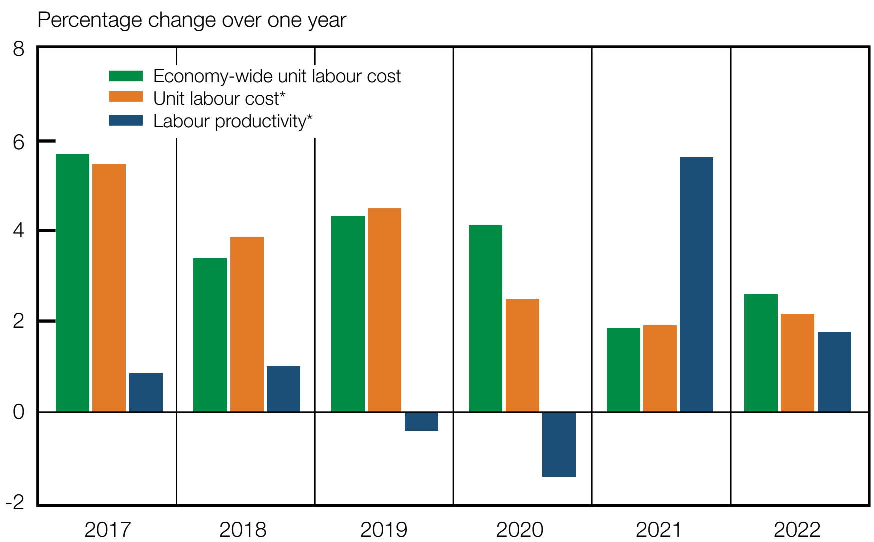


Sources: Stats SA and SARB

The *average wage settlement rate in collective bargaining agreements* was 6.0% in the first quarter of 2023 compared with 5.8% in the corresponding period of 2022, and amounted to an overall annual average of 6.0% in 2022, according to Andrew Levy Employment Publications. Wage settlements are expected to rise into the 6–8% range in 2023 given the expectation of additional pressure from unions to compensate for the perceived shortfalls owing to the sharp rise in consumer price inflation throughout 2022. The *number of working days lost due to industrial action* rose notably to 4.6 million in the first quarter of 2023 compared with 432 000 in the same period in 2022, largely due to the nationwide public sector strike that commenced on 6 March 2023 following the unilateral implementation of a 3.0% wage increase in October 2022.

Labour productivity growth in the formal non-agricultural sector moderated from 3.5% in the third quarter of 2022 to 2.0% in the fourth quarter as output growth slowed more than employment growth. Growth in labour productivity slowed markedly to 1.8% in 2022 from 5.6% in 2021 as the COVID-19-induced base effects dissipated.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

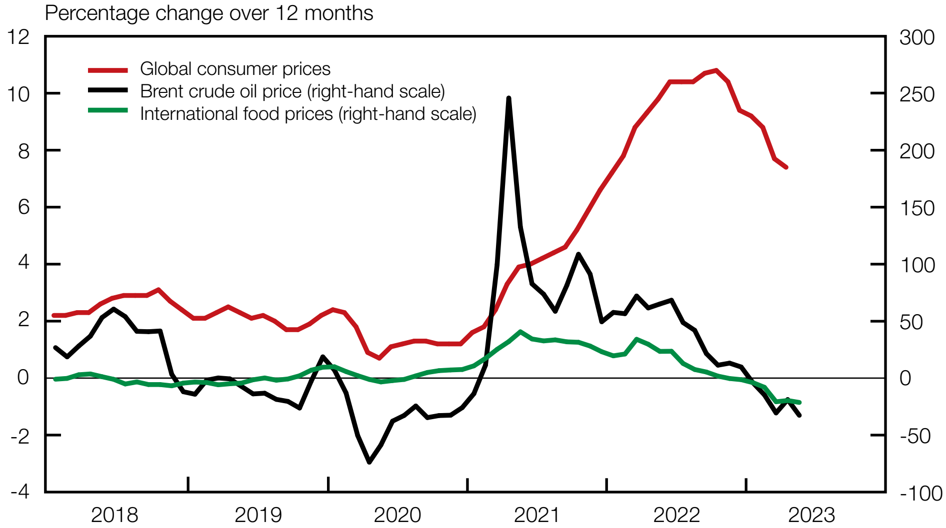
The change in *nominal unit labour cost* in the formal non-agricultural sector reverted from a decrease of 1.1% in the third quarter of 2022 to an increase of 3.7% in the fourth quarter as growth in total remuneration accelerated while that in output slowed. Average annual growth in nominal unit labour cost accelerated slightly from 1.9% in 2021 to 2.2% in 2022. Similarly, growth in economy-wide nominal unit labour cost quickened further from 1.7% in the fourth quarter of 2022 to 3.8% in the first quarter of 2023 as year-on-year output growth moderated while that in the compensation of employees accelerated.

Prices[12]

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

Lower international crude oil and food prices supported the marked deceleration in global consumer price inflation from a high of 10.8% in October 2022 to 7.4% in April 2023. Similarly, domestic inflationary pressures eased further in the opening months of 2023, especially at the producer level, along with lower domestic energy prices. However, the moderation in domestic consumer price inflation was initially constrained by an acceleration in food price inflation.

Global consumer, food and crude oil price



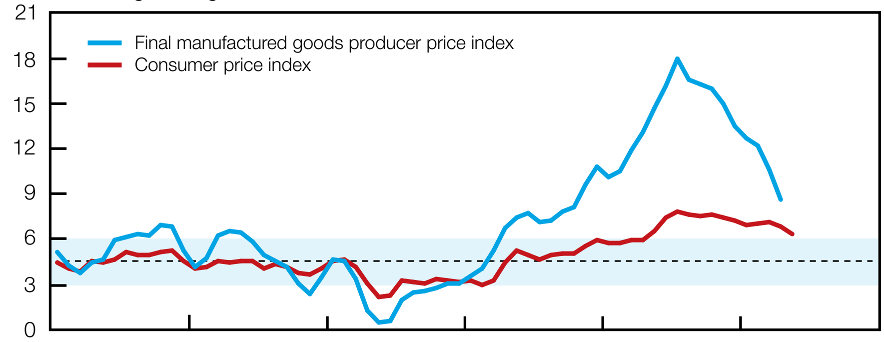
Sources: FAO, OECD and Stats SA

Headline consumer price inflation moderated from a recent high of 7.8% in July 2022 to 6.3% in May 2023 as domestic fuel price inflation (with a weight of 4.82% in the overall consumer price index (CPI) basket) receded sharply from 56.2% to 3.5%. However, this was somewhat countered by an acceleration in food and non-alcoholic beverages price inflation (with a weight of 17.14% in the overall CPI basket) from 9.7% to 14.0% in March 2023, before it slowed to 11.8% in May. Headline producer price inflation (i.e. for final manufactured goods) moderated markedly from 18.0% in July 2022 to a still high 10.6% in March 2023, mainly due to a significant deceleration in producer price inflation of coal and petroleum products from 61.7% to 13.5% over this period and a lesser moderation in producer food price inflation in recent months. The decline in headline producer price inflation was partly constrained by widespread increases in production costs due to the mitigating measures adopted for electricity load-shedding.

Producer price inflation for intermediate manufactured goods decelerated further in recent months to 5.0% in March 2023 due to lower price inflation in chemicals, rubber and plastic products as well as basic and fabricated metals. This also, in part, reflected the gradual normalisation of global supply chains and weaker demand following slower global economic growth.

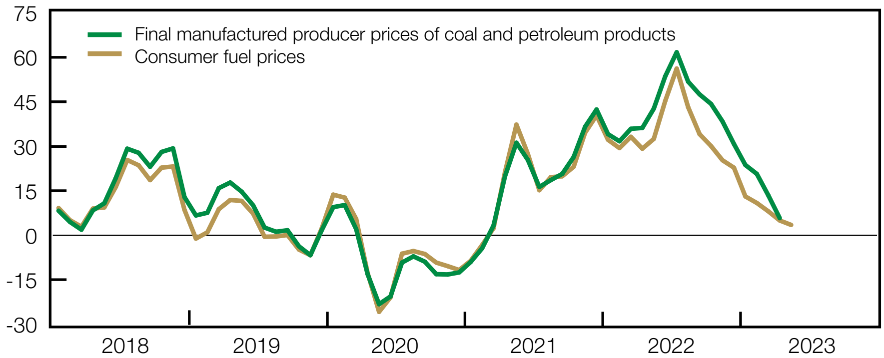
Headline producer and consumer prices

Percentage change over 12 months



Producer and consumer fuel prices

Percentage change over 12 months



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

Source: Stats SA

Producer price inflation for agriculture, forestry and fishing products decelerated significantly from a recent high of 17.4% in November 2022 to 7.5% in March 2023 as producer price inflation of agricultural and forestry products decelerated while that of fishing products accelerated. Producer price inflation of mining products moderated from 30.1% in September 2022 to 17.1% in March 2023 as lower coal and gas as well as non-ferrous metal price inflation more than offset the acceleration in gold and other metal ores price inflation. The producer prices of electricity and water increased by 10.1% in March 2023, mainly due to higher electricity price inflation.

Producer price inflation

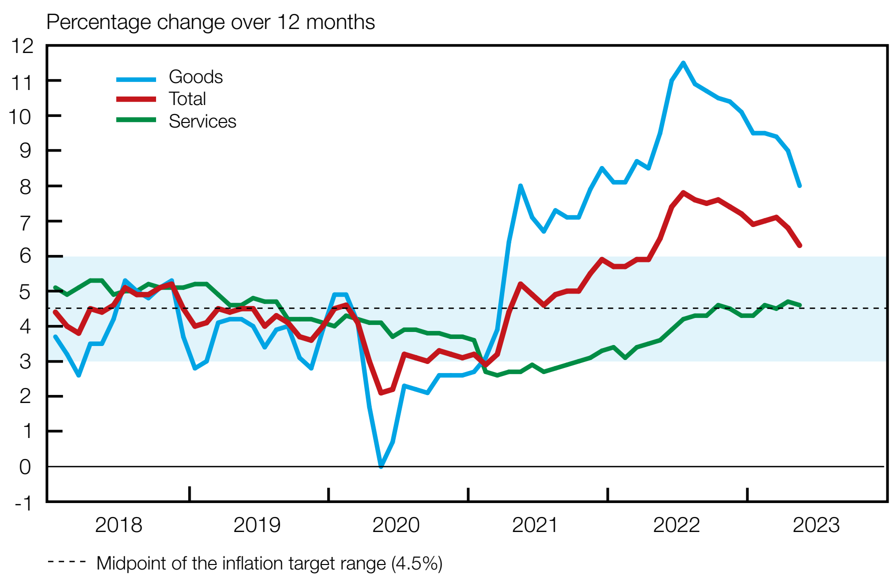
Percentage change over 12 months

	2023			
	Jan	Feb	Mar	Apr
Final manufactured goods	12.7	12.2	10.6	8.6
Intermediate manufactured goods	5.6	5.0	5.0	4.6
Electricity and water	9.8	11.2	10.1	13.1
Mining	19.9	19.5	17.1	10.5
Agriculture, forestry and fishing	11.7	14.2	7.5	6.0

Source: Stats SA

The gradual moderation in consumer price inflation from its recent peak in July 2022 was mainly due to a deceleration in consumer goods price inflation, particularly consumer fuel prices. By contrast, consumer services price inflation trended broadly sideways over the past six months. Despite the recent slowdown, headline consumer price inflation has remained above the midpoint of the inflation target range of 4.5% for 25 months up to May 2023 and above the 6.0% upper limit for 13 consecutive months.

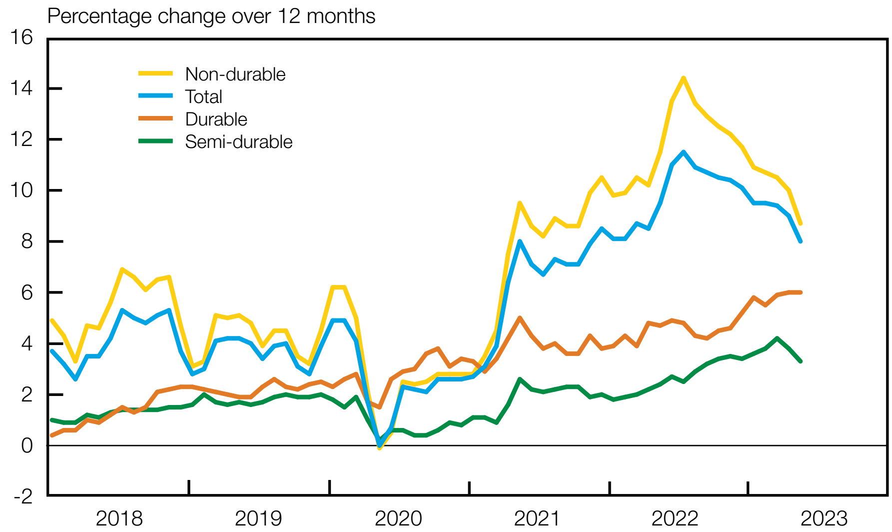
Headline consumer prices



Source: Stats SA

The moderation in *consumer goods price inflation* from a recent high of 11.5% in July 2022 to 8.0% in May 2023 contributed significantly to the deceleration in headline consumer price inflation. The lower consumer goods price inflation was mainly due to a moderation in non-durable goods price inflation, from 14.4% to 8.7% over this period, as fuel prices declined, notwithstanding an acceleration in durable and semi-durable goods price inflation.

Consumer goods prices



Source: Stats SA

Durable goods price inflation accelerated from 4.8% in July 2022 to 6.0% in both April and May 2023, partially reflecting higher new and used vehicle price inflation. Similarly, semi-durable goods price inflation accelerated from 2.5% in July 2022 to 4.2% in March 2023, in part reflecting higher clothing and footwear price inflation.

Consumer price inflation in 2023

Percentage change over 12 months

	Weight	Jan	Feb	Mar	Apr	May
Headline CPI	100.00	6.9	7.0	7.1	6.8	6.3
Headline CPI, excluding food and non-alcoholic beverages, fuel and electricity	74.40	4.9	5.2	5.2	5.3	5.2
Goods	48.68	9.5	9.5	9.4	9.0	8.0
Non-durable	35.71	10.9	10.7	10.5	10.0	8.7
Semi-durable	5.38	3.6	3.8	4.2	3.8	3.3
Durable	7.59	5.8	5.5	5.9	6.0	6.0
Services	51.32	4.3	4.6	4.5	4.7	4.7

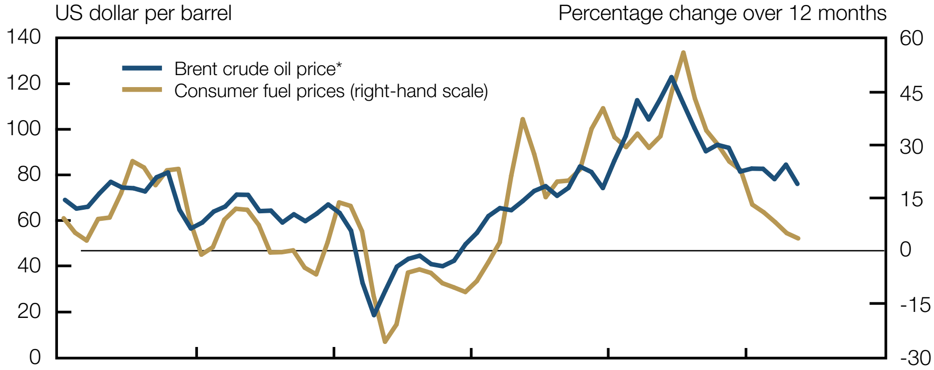
Source: Stats SA

Consumer fuel price inflation decelerated markedly from 56.2% in July 2022 to 3.5% in May 2023 along with continued decreases in international crude oil prices, with the monthly average price of Brent crude oil decreasing from US$122.78 per barrel in June 2022 to US$76.08 per barrel in May 2023. However, the benefits of the lower international crude oil prices were partly offset by a 20.8% depreciation in the exchange value of the rand from an average of R15.78 per United States (US) dollar in June 2022 to an average of R19.07 per US dollar in May 2023.

Brent crude oil and consumer fuel prices

US dollar per barrel

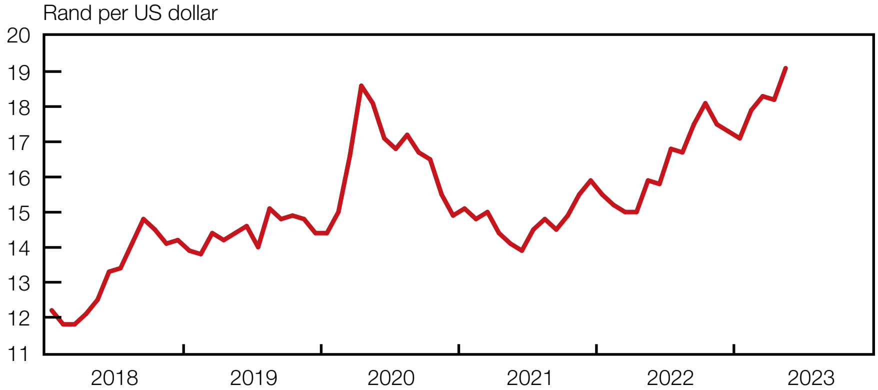
Percentage change over 12 months



* Monthly average

Exchange value of the rand

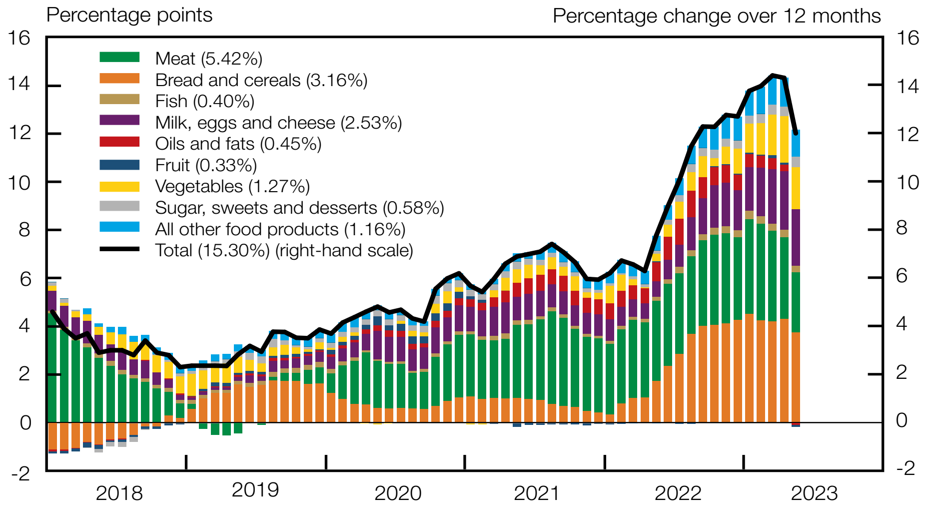
Rand per US dollar



Sources: Refinitiv, Stats SA and SARB

Consumer food price inflation accelerated further from 10.1% in July 2022 to 14.4% in March 2023 before slowing to 12.0% in May. The quickening in consumer food price inflation was broad-based, with accelerations in eight of the nine food price categories up to March 2023 likely reflecting higher operating costs and inventory losses due to electricity-supply constraints.

Contributions to consumer food price inflation

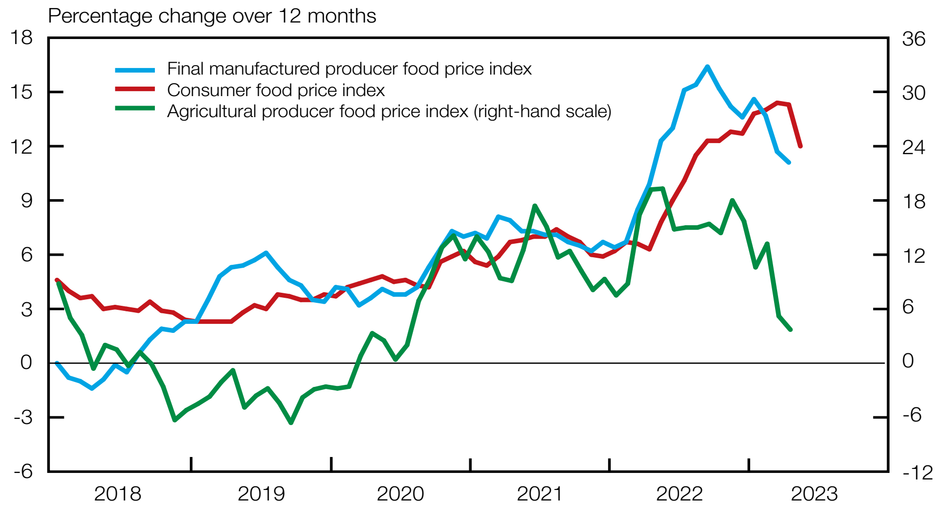


The numbers in brackets indicate weights in the overall consumer price index

Source: Stats SA

However, producer food price inflation has decelerated notably thus far in 2023. Final manufactured producer food price inflation decelerated from 16.4% in September 2022 to 11.7% in March 2023 as price inflation in especially meat and meat products slowed from 15.1% to 6.1% over this period. In addition, oils and fats price inflation decelerated sharply from 64.9% in July 2022 to 2.5% in March 2023. Similarly, agricultural producer food price inflation decelerated from 18.0% in November 2022 to 5.2% in March 2023 due to significantly lower price inflation of cereals and other crops as well as live animals. However, price inflation of milk and eggs as well as vegetables and fruits accelerated somewhat over this period.

Producer and consumer food prices



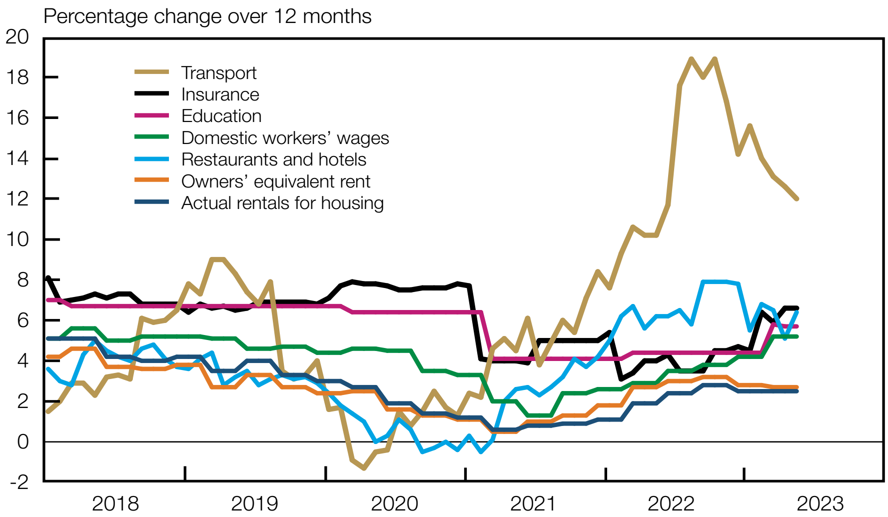
Source: Stats SA

Domestic consumer food price inflation has not yet reflected the marked decreases in international food prices, most probably due to the depreciation in the exchange value of the rand and additional costs related to electricity load-shedding. The United Nations' Food and

Agriculture Organization (FAO) US dollar-denominated food price index decreased by 21.4% on a year-on-year basis in May 2023 – marking the seventh consecutive decrease – with decreases in meat, dairy, cereals and vegetable oils. This trend was supported by lower crude oil prices, prospects of improved harvests, and the easing of global supply chain pressures. However, the year-on-year decrease in the FAO food price index, when expressed in rand terms, was much less at only 5.7% in May 2023.

Consumer services price inflation has remained relatively contained at an average of 4.4% since July 2022 – close to the midpoint of the inflation target range of 4.5%. Services price pressures emanated from domestic workers' wage inflation, which accelerated from 3.5% in July 2022 to 5.2% in May 2023, as well as from insurance services price inflation, which accelerated even more from 3.5% to 6.6% over the same period. However, these accelerations were offset by a deceleration in transport services price inflation from 18.9% in October 2022 to 12.0% in May 2023 as public road and air transport price inflation decelerated.

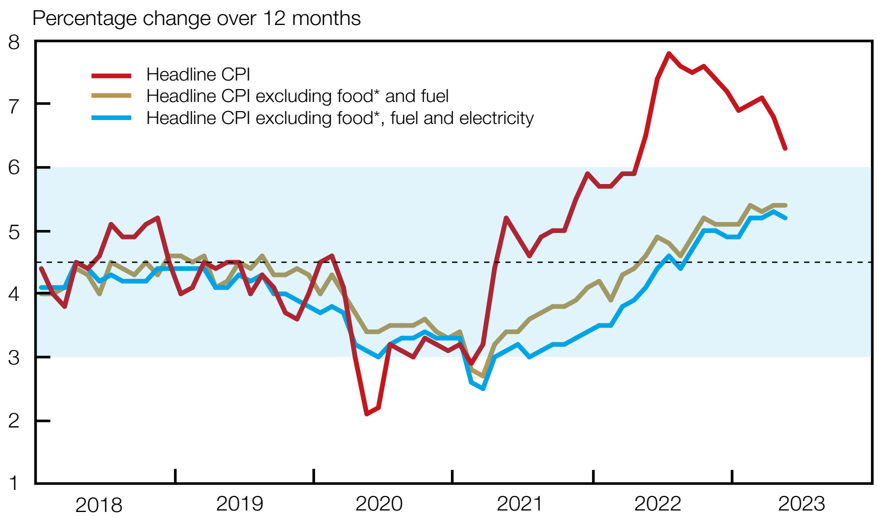
Consumer services prices



Source: Stats SA

Underlying consumer price inflation – excluding food, non-alcoholic beverages and fuel prices – accelerated steadily further from 4.6% in August 2022 to 5.4% in May 2023. Likewise, the South African Reserve Bank's (SARB) preferred measure of core inflation, which also excludes electricity prices, gathered pace from 4.4% to 5.2% over the same period.

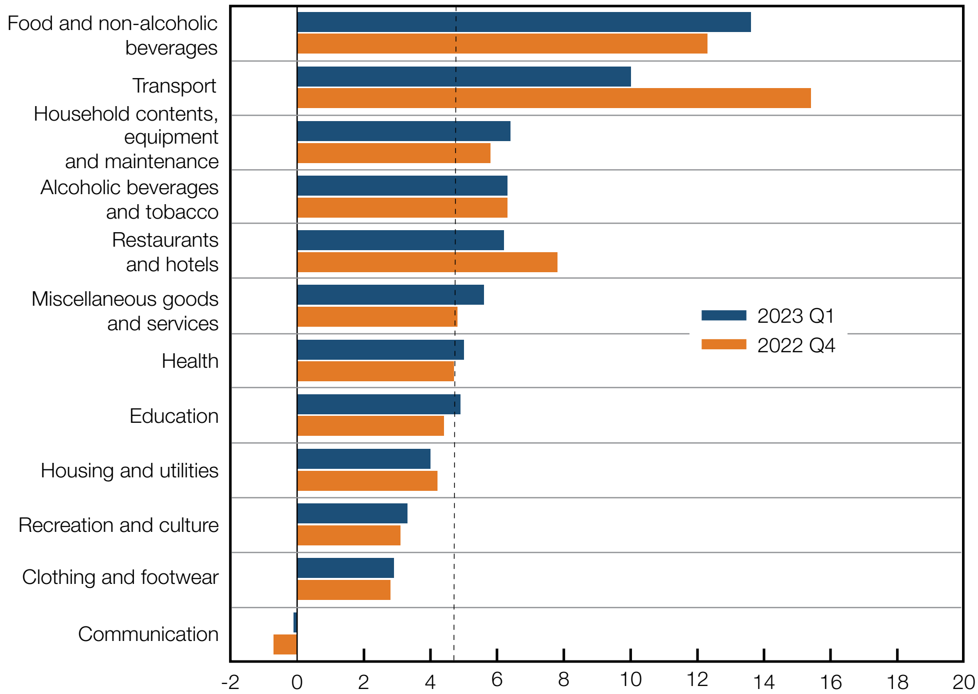
Headline and underlying measures of consumer prices



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

Most of the classification of individual consumption by purpose (COICOP) categories recorded price changes in excess of the midpoint of the inflation target range in the first quarter of 2023, with accelerations in nine and decelerations in three of the categories. Inflation in the food and non-alcoholic beverages category accelerated from 12.3% in the fourth quarter of 2022 to 13.6% in the first quarter of 2023 – the highest quarterly inflation rate of all the COICOP categories. Conversely, the transport category decelerated the most, from 15.4% in the fourth quarter of 2022 to 10.0% in the first quarter of 2023, mainly due to lower fuel price inflation.

Consumer prices by COICOP category



Percentage change over four quarters

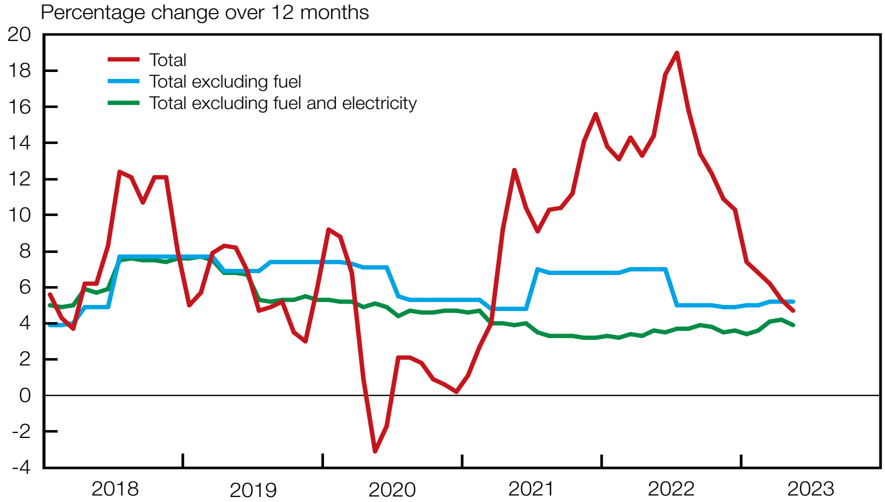
---- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Lower fuel price inflation also contributed to a marked deceleration in *administered price inflation,* from 19.0% in July 2022 to 4.7% in May 2023. When excluding fuel prices, administered price inflation fluctuated between 5.0% and 5.2% over this period. When also excluding electricity prices, underlying administered price inflation accelerated gradually to 4.2% in April 2023 before slowing to 3.9% in May.

Administered prices

Percentage change over 12 months



Source: Stats SA

Average headline consumer price inflation expectations[13] for 2023 were revised marginally higher to 6.3% in the survey conducted in the first quarter of 2023 from 6.1% in the survey conducted in the fourth quarter of 2022. Inflation expectations, on average, increased over most of the forecast horizons compared with the previous survey, even though inflation is expected to moderate over the longer term.

13 As measured by the *Survey of Inflation Expectations* conducted by the BER in the first quarter of 2023.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2022

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2023	5.1	5.3	5.0	5.1
2024	4.5	5.5	5.0	5.0
2025	4.5	5.4	5.0	5.0
Five years ahead	4.6	5.4	5.0	5.0

Source: BER

Average five-years-ahead inflation expectations remained unchanged at 5.5% in the survey conducted in the first quarter of 2023 and were marginally higher than the 5.4% from the survey conducted in the third quarter of 2022. *Household inflation expectations* for the coming 12 months increased from 6.3% as surveyed in the fourth quarter of 2022 to 7.0% in the survey conducted during the first quarter of 2023 as the inflation expectations of all income groups adjusted upwards. Moreover, households' five-years-ahead inflation expectations increased from 8.4% as surveyed in the fourth quarter of 2022 to 9.9% as surveyed in the first quarter of 2023.

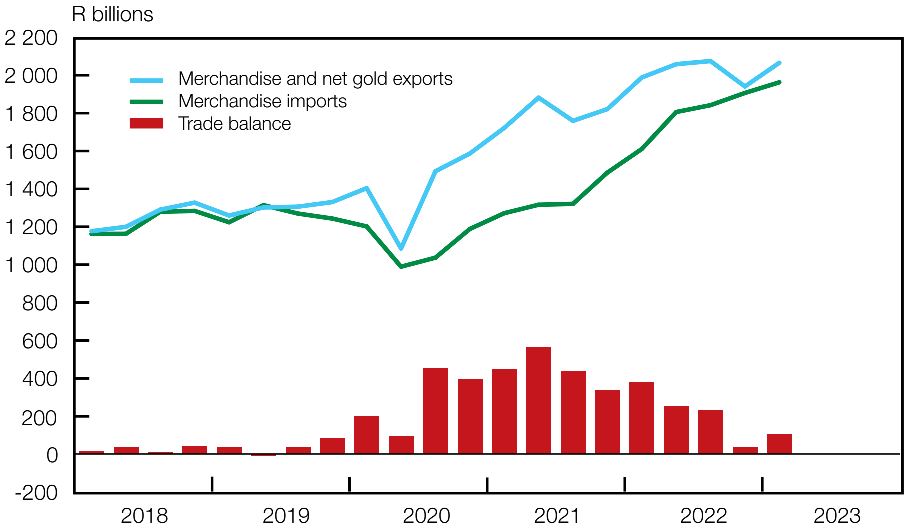
External economic accounts

Current account[14]

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

The value of both South Africa's exports and imports of goods increased in the first quarter of 2023, with the value of merchandise and net gold exports increasing more than that of merchandise imports. The trade surplus therefore widened to R103 billion in the first quarter of 2023 from only R34.2 billion in the fourth quarter of 2022. The increase in both export and import values reflected higher volumes, with the increase in exports also reflecting higher prices while import prices decreased.

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

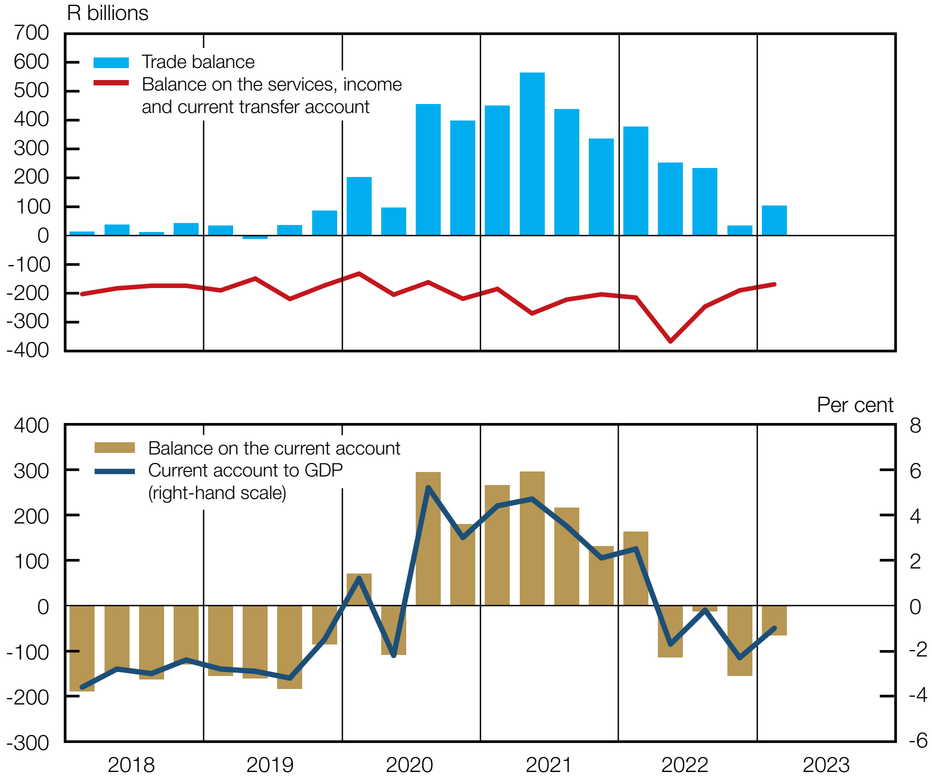
	2022					2023
	Q1	Q2	Q3	Q4	Year	Q1
Merchandise exports	1 913	1 964	1 992	1 851	1 930	1 946
Net gold exports	76	95	83	90	86	120
Merchandise imports	-1 611	-1 806	-1 843	-1 907	-1 792	-1 963
Trade balance	**377**	**252**	**233**	**34**	**224**	**103**
Net services, income and current transfer payments	-215	-367	-246	-190	-254	-169
Balance on current account	**163**	**-114**	**-13**	**-155**	**-30**	**-66**
As a percentage of gross domestic product						
Trade balance	5.9	3.8	3.5	0.5	3.4	1.5
Services balance	-1.3	-1.3	-1.6	-1.3	-1.4	-0.9
Income balance	-1.5	-3.8	-1.8	-1.3	-2.1	-1.3
Current transfer balance	-0.6	-0.4	-0.3	-0.2	-0.4	-0.3
Balance on current account	**2.5**	**-1.7**	**-0.2**	**-2.3**	**-0.5**	**-1.0**

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

Sources: Stats SA and SARB

The deficit on the current account of the balance of payments narrowed to R66.2 billion (1.0% of GDP) in the first quarter of 2023 from R155 billion (2.3% of GDP) in the fourth quarter of 2022 as the larger trade surplus coincided with a decrease in the deficit on the services, income and current transfer account.

Current account of the balance of payments

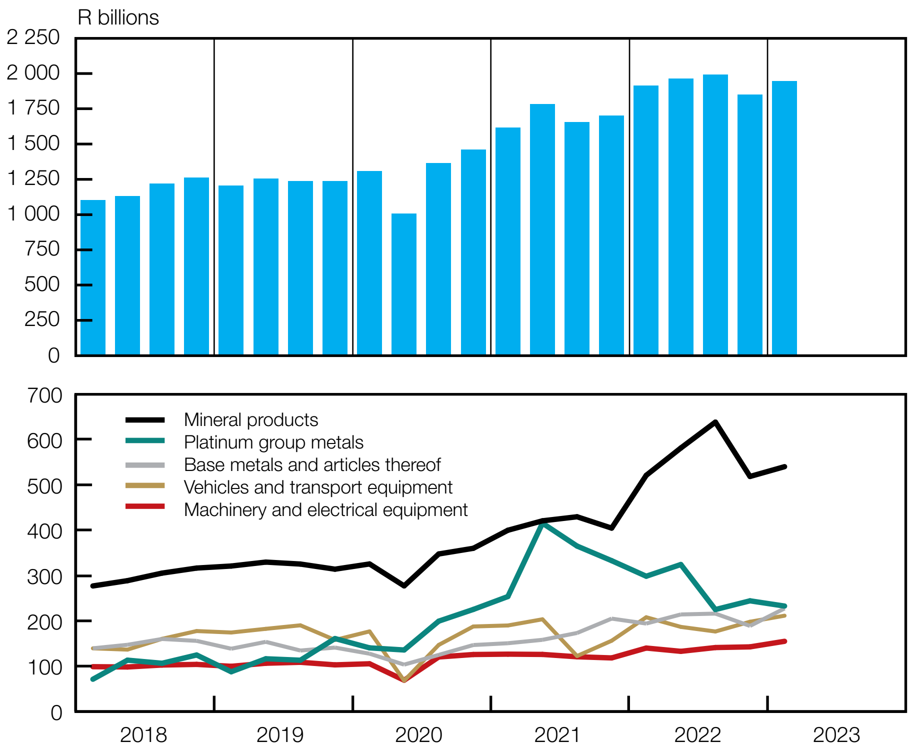


Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of merchandise exports increased by 5.2% in the first quarter of 2023 on account of mining, manufacturing and agricultural exports. Higher mining exports reflected the end of the Transnet strike in the fourth quarter of 2022, with increases in mineral products (in particular iron ore, manganese and chromium) as well as base metals and articles thereof, especially ferrochromium. The value of mineral products increased despite a notable decline in coal exports in the first quarter of 2023 as both the volumes and the prices of coal decreased. Overall, the stated increases more than offset the decline in exports of PGMs in the first quarter of 2023.

The value of manufacturing exports increased in the first quarter of 2023 due to vehicles and transport equipment, machinery and electrical equipment, prepared foodstuffs, beverages and tobacco (in particular sugars and sugar confectionery) as well as textiles and textile articles. The value of agricultural exports increased slightly as grapes and maize exports more than offset contractions in other agricultural exports.

Value of merchandise exports*

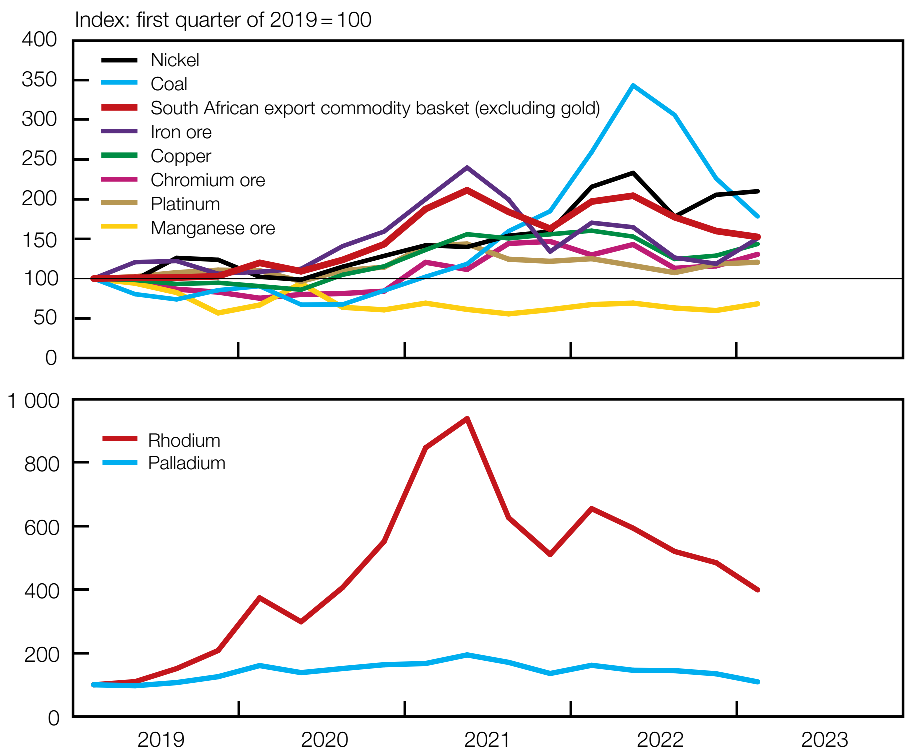


* Excluding net gold exports

Seasonally adjusted and annualised

Sources: Stats SA and SARB

Selected South African export commodity prices in US dollar*



* Quarterly averages

Sources: Afriforesight, World Bank and SARB

The US dollar price of a basket of domestically produced non-gold export commodities declined further by 4.6% in the first quarter of 2023 along with declines in the prices of palladium, rhodium and coal.[15] The significant decline in coal prices reflected excess supply due to high inventory levels and increased production, especially in China, as well as lower demand due to warm weather, particularly in Europe.[16] The prices of palladium and rhodium declined for the fourth successive quarter, largely on account of lower demand from the automotive industry. By contrast, the prices of iron ore, manganese ore, chromium ore, copper, nickel and platinum increased in the first quarter of 2023 along with a recovery in economic activity in China following the reopening of that economy in the first quarter of 2023 after COVID-19 restrictions were lifted. The increase in the international platinum price reflected, among other factors, the impact of electricity load-shedding on production volumes in South Africa, the war in Ukraine, and high global demand for hybrid vehicles.

Both the rand price and the volume of merchandise exports increased by 2.2% and 2.9% respectively in the first quarter of 2023 following declines in both in the fourth quarter of 2022.

The average US dollar price of gold on the London market increased by 9.2% to US$1 888 per fine ounce in the first quarter of 2023 from US$1 729 per fine ounce in the fourth quarter of 2022. The higher gold price reflected, among other factors, a weaker US dollar and smaller interest rate increases by the US Federal Reserve (Fed) together with increased consumer demand from China and also increased investor demand, by some central banks in particular.

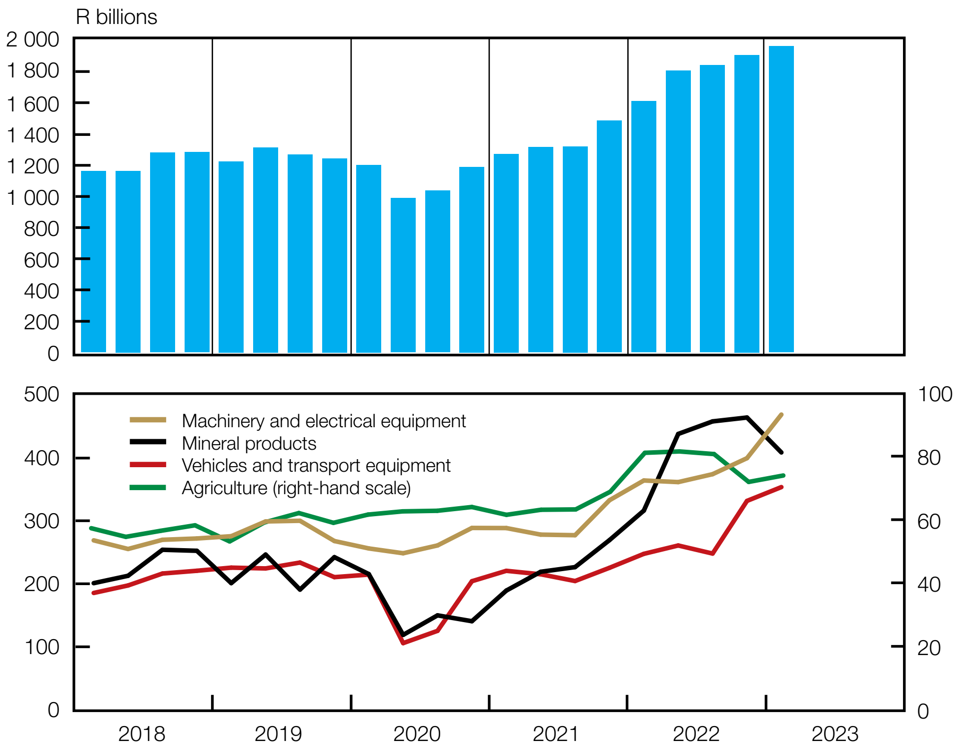
The average realised rand price of net gold exports increased by 10.2% in the first quarter of 2023 and, along with higher volumes exported, led to a marked increase in the value of net gold exports in the quarter.

The value of merchandise imports has been increasing since the third quarter of 2020, with the further increase of 3.0% in the first quarter of 2023 reflecting increases in manufactured and agricultural products. The sharp increase in the value of manufactured products was mainly due to higher imports of machinery and electrical equipment, vehicles and transport equipment, prepared foodstuffs, beverages and tobacco as well as chemical products. The significant increase in imported machinery and electrical equipment reflected domestic demand for foreign-produced photovoltaic cells, smartphones, harvesting machinery and static converters. The increase in vehicles and transport equipment reflected the importation of two aircraft and automotive equipment for the production of various new vehicle models to be launched during 2023 and, to a lesser extent, increased imports of passenger and commercial vehicles. The increase in the value of agricultural imports reflected live animals and products thereof as well as vegetable products, which more than offset the decline in animal and vegetable fats and oils.

15 The South African export commodity price index differs from the one in the previous *Quarterly Bulletin (QB)* as both the methodology and the weights have been revised.

16 Coal prices have been revised from the second quarter of 2022 following revisions by the World Bank, and chromium ore prices have been revised from the third quarter of 2019 following revisions by Afriforesight.

Value of merchandise imports

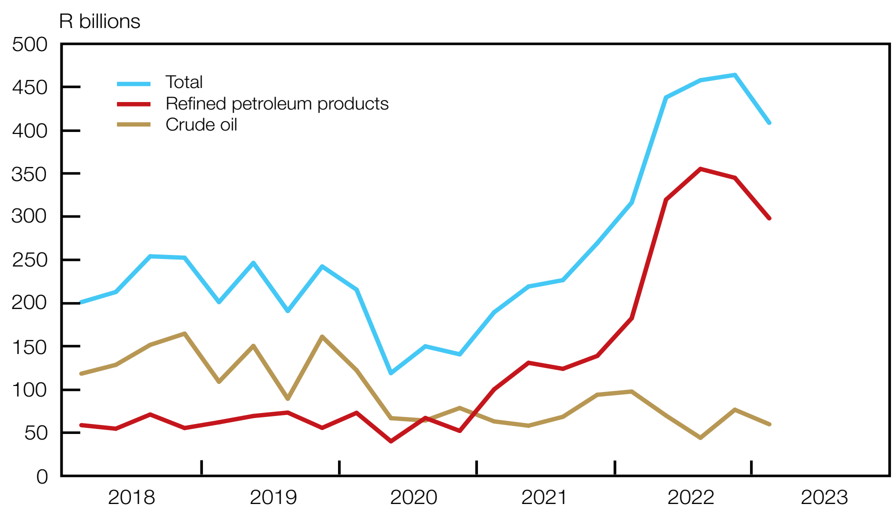


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The value of mining imports contracted in the first quarter of 2023. This reflected a substantial contraction in mineral products as imports of both crude oil and refined petroleum products decreased, in particular of distillate fuel and aviation kerosene. These declines reflected base effects following sharp increases in previous quarters. In addition, both lower volumes and lower prices contributed to the 21.9% contraction in the value of crude oil imports in the first quarter of 2023. The average realised rand price of crude oil imports decreased by 13.8% from R1 779 per barrel in the fourth quarter of 2022 to R1 534 per barrel in the first quarter of 2023.

Value of mineral imports



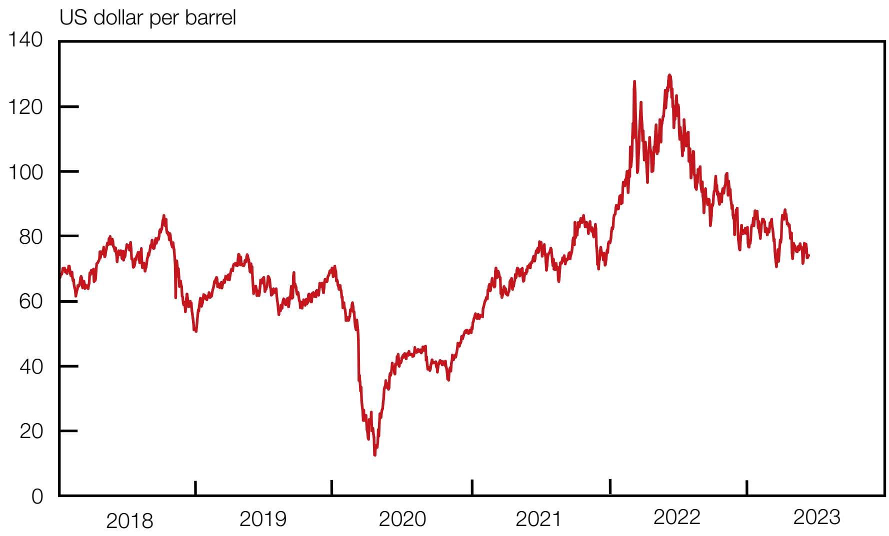
Seasonally adjusted and annualised

Sources: Stats SA and SARB

The decline in the spot price of Brent crude oil was briefly interrupted in January 2023 on expectations that the easing of COVID-19 restrictions in China could result in increased demand.

However, concerns about the outlook for global economic activity and a stronger US dollar resulted in a slight decrease in the spot price of Brent crude oil in February 2023, which was followed by a further decrease in March as banking turmoil weighed on sentiment. On average, the spot price of Brent crude oil decreased by 8.6% from US$88.88 per barrel in the fourth quarter of 2022 to US$81.22 per barrel in the first quarter of 2023. However, the spot price of Brent crude oil then increased to US$84.53 per barrel in April 2023 due to, among other factors, expectations of increased Chinese demand for fuel and tightening oil supplies following the decision by the Organisation of the Petroleum Exporting Countries and its allies (OPEC+) to reduce crude oil production. The spot price of Brent crude oil declined in May 2023, weighed down by, among other factors, a stronger US dollar and renewed economic growth concerns in the US and China.

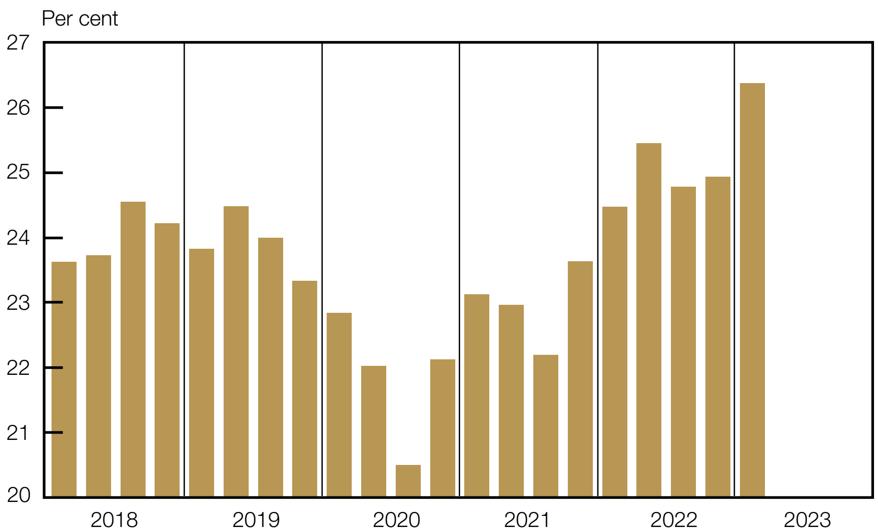
Brent crude oil price



Source: Refinitiv

The rand price of merchandise imports decreased by 3.2% in the first quarter of 2023 as international crude oil prices declined. However, the volume of merchandise imports increased further by 6.4% following a marginal increase of 0.2% in the fourth quarter of 2022. The import penetration ratio (i.e. real merchandise imports as a ratio of GDE) increased from 24.9% in the fourth quarter of 2022 to 26.4% in the first quarter of 2023 – the highest level on record.

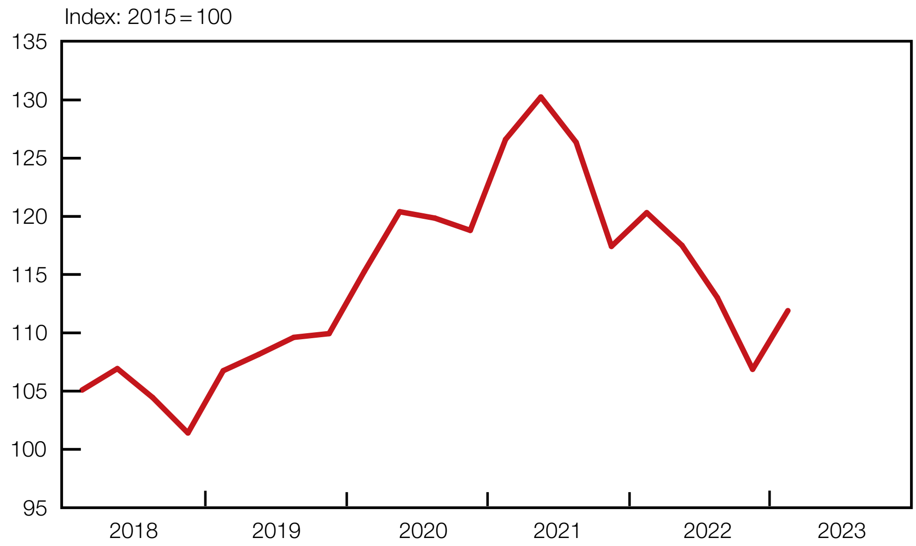
Import penetration ratio



Sources: Stats SA and SARB

South Africa's terms of trade improved in the first quarter of 2023 as the rand price of exports of goods and services increased while that of imports decreased.

Terms of trade*

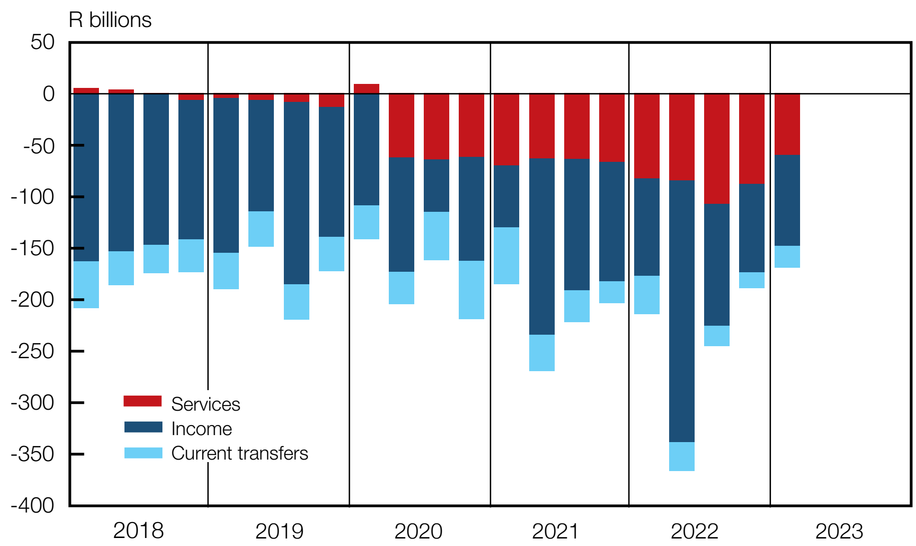


* Including gold

Sources: Stats SA and SARB

The shortfall on the services, income and current transfer account narrowed for a third consecutive quarter to R169 billion (2.5% of GDP) in the first quarter of 2023 from R190 billion (2.8% of GDP) in the fourth quarter of 2022. The further narrowing stemmed from a smaller deficit on the services account, while the deficits on the primary and secondary income accounts increased.

Net services, income and current transfer payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

Gross services receipts increased noticeably in the first quarter of 2023 while gross services payments declined, resulting in smaller net services payments. Gross services receipts were buoyed by further increases in gross travel receipts, consistent with the larger number of foreign tourists visiting the country, in particular from traditional markets. Gross services payments declined due to lower transportation payments and, to a lesser extent, lower gross travel payments. On a net basis, the increase in travel receipts also reflected the weaker exchange value of the rand, while the decline in transportation payments largely reflected a decline in freight-related transportation costs.

The deficit on the income account widened in the first quarter of 2023 as the decline in gross income receipts exceeded that in gross income payments. Gross dividend receipts decreased at a faster pace than gross dividend payments from the fourth quarter of 2022 to the first quarter of 2023, resulting in a decline in net dividend receipts. Dividend payments were probably affected by, among other things, electricity load-shedding, which continued to negatively affect companies' operating costs and productivity. Gross interest payments increased further in the first quarter of 2023 as domestic and global interest rates increased amid higher inflation. The income deficit as a percentage of GDP remained unchanged at 1.3% in the first quarter of 2023.

Net current transfer payments increased in the first quarter of 2023, as gross current transfer receipts and gross current transfer payments declined by 11.8% and 3.7% respectively from the fourth quarter of 2022. Net current transfer payments as a percentage of GDP increased from 0.2% in the fourth quarter of 2022 to 0.3% in the first quarter of 2023.

Financial account

The net inflow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) increased to R47.7 billion in the first quarter of 2023 following a revised inflow of R19.2 billion in the fourth quarter of 2022. On a net basis, all the functional categories recorded inflows. Net financial account inflows as a ratio of GDP increased from 1.1% in the fourth quarter of 2022 to 2.9% in the first quarter of 2023.

Net financial transactions

R billions

	2022					2023
	Q1	Q2	Q3	Q4	Year	Q1
Change in liabilities						
Direct investment	41.5	30.0	15.6	64.0	151.0	0.5
Portfolio investment	61.0	39.2	-32.0	-25.6	42.6	-32.0
Financial derivatives	-46.6	-65.1	-97.6	-75.8	-285.1	-69.1
Other investment	79.6	49.3	9.9	47.5	186.3	13.1
Change in assets						
Direct investment	-20.3	5.3	-4.3	-16.1	-35.4	12.3
Portfolio investment	-51.6	-48.8	2.9	-17.6	-115.1	39.5
Financial derivatives	46.7	60.1	79.1	65.9	251.9	72.7
Other investment	-74.1	-44.4	80.9	-23.5	-61.0	9.2
Reserve assets	-6.8	-35.2	-26.5	0.4	-68.2	1.6
Total identified financial transactions*	**29.4**	**-9.6**	**28.0**	**19.2**	**67.0**	**47.7**
As a percentage of gross domestic product	*1.9*	*-0.6*	*1.6*	*1.1*	*1.0*	*2.9*

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

Source: SARB

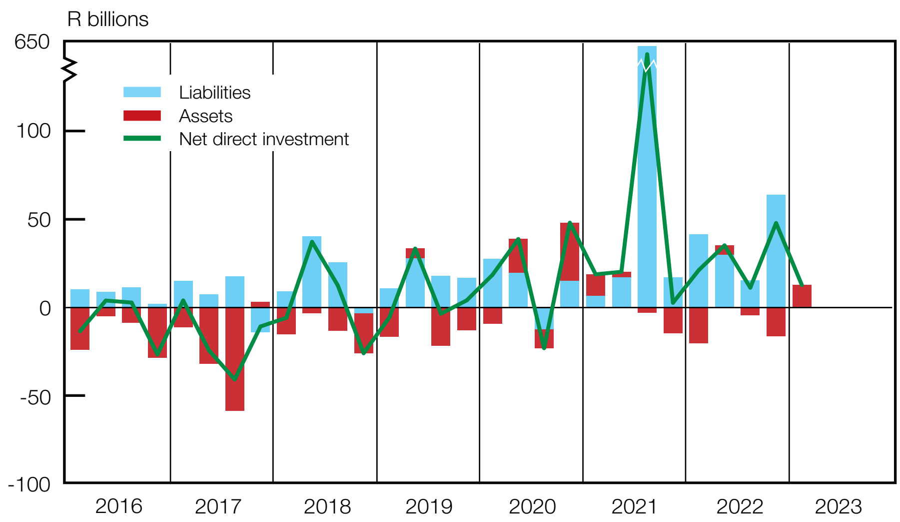
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded an inflow of only R0.5 billion in the first quarter of 2023 following a revised inflow of R64.0 billion in the fourth quarter of 2022 as non-resident parent companies granted loans to domestic subsidiaries. This was countered by the sale of some shares by a non-resident parent company following the listing of its domestic subsidiary in the food products sector on the JSE Limited (JSE).

Portfolio investment liability outflows increased from R25.6 billion in the fourth quarter of 2022 to R32.0 billion in the first quarter of 2023. Non-resident net sales of domestic debt securities decreased from R25.4 billion in the fourth quarter of 2022 to R18.7 billion in the first quarter of 2023 and were softened by the issuance of an international bond of US$1 billion by a public corporation in the first quarter of 2023. Non-residents' net sales of domestic equity securities of R13.3 billion in the first quarter of 2023 followed net sales of R142 million in the fourth quarter of 2022.

Other investment liability inflows slowed from a revised R47.5 billion in the fourth quarter of 2022 to R13.1 billion in the first quarter of 2023. The inflows in the first quarter of 2023 reflected long-term loans to public corporations and short-term loans to the private non-banking sector as well as national government's receipt of a €300 million climate change and just transition loan, which was partly offset by non-residents' repatriation of deposits from, and the repayment of foreign loans by, the domestic private banking sector.

Direct investment flows



Source: SARB

South African-owned assets abroad

South Africa's direct investment assets switched to an inflow of R12.3 billion in the first quarter of 2023 following a revised outflow of R16.1 billion in the fourth quarter of 2022 as domestic companies in the technology and retail trade sectors reduced their shareholding in non-resident subsidiaries.

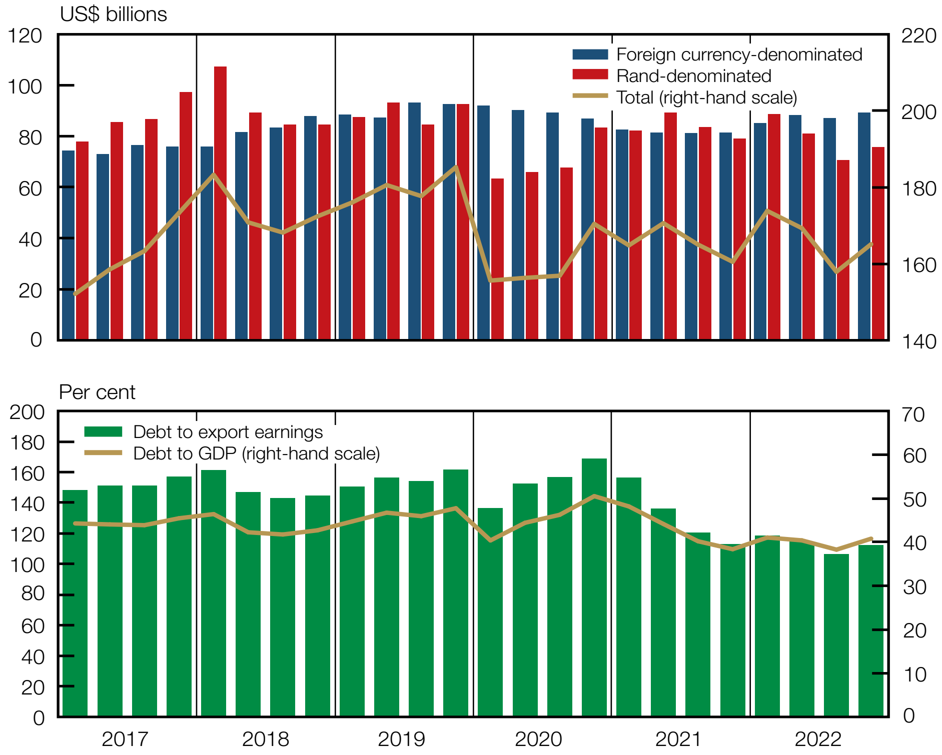
South Africa's foreign portfolio investment assets reverted from a revised outflow of R17.6 billion in the fourth quarter of 2022 to a significant inflow of R39.5 billion in the first quarter of 2023 as the domestic private non-banking sector sold foreign equity securities and as the domestic banking sector sold foreign debt securities.

Other investment assets switched from a revised outflow of R23.5 billion in the fourth quarter of 2022 to an inflow of R9.2 billion in the first quarter of 2023 as the domestic banking sector's repatriation of deposits from non-resident banks outweighed its repayment of short-term loans.

Foreign debt

South Africa's total external debt increased from US$157.9 billion at the end of September 2022 to US$165.1 billion at the end of December. However, expressed in rand terms, South Africa's total external debt decreased from R2 826 billion at the end of September 2022 to R2 804 billion at the end of December as the exchange value of the rand appreciated against the US dollar.

Foreign debt



Source: SARB

Foreign currency-denominated external debt increased from US$87.2 billion at the end of September 2022 to US$89.3 billion at the end of December. The increase was the net outcome of an increase in loans extended to the domestic banking sector and the €300 million loan to national government to finance climate change and just transition as well as an international bond redemption of US$1 billion by the private non-banking sector.

Foreign debt of South Africa

US$ billions at end of period

	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
Foreign currency-denominated debt	81.3	81.5	85.1	88.3	87.2	89.3
Debt securities	27.8	27.8	28.7	31.0	30.0	29.3
Other	53.5	53.7	56.4	57.3	57.2	60.0
Public sector	16.1	16.3	16.9	16.8	17.7	18.0
Monetary sector	14.7	14.6	15.1	15.8	14.9	16.8
Non-monetary private sector	22.7	22.8	24.4	24.7	24.6	25.2
Rand-denominated debt	83.7	79.0	88.7	81.0	70.7	75.8
Debt securities	53.3	51.9	57.6	50.5	43.3	46.5
Other	30.4	27.1	31.1	30.5	27.4	29.3
Total foreign debt	165.0	160.6	173.8	169.3	157.9	165.1
As a percentage of gross domestic product	*40.0*	*38.2*	*40.9*	*40.3*	*38.2*	*40.7*
As a percentage of total export earnings	*120.3*	*113.0*	*118.5*	*114.6*	*106.7*	*112.1*

Source: SARB

Rand-denominated external debt, expressed in US dollar, increased from US$70.7 billion at the end of September 2022 to US$75.8 billion at the end of December. This increase could mainly be attributed to the increase in the US dollar value of rand-denominated external debt due to the appreciation in the exchange value of the rand. The net sales of domestic rand-denominated bonds by non-residents were also more than offset by the increase in the market value of their remaining bond holdings as domestic bond yields declined in the fourth quarter of 2022.

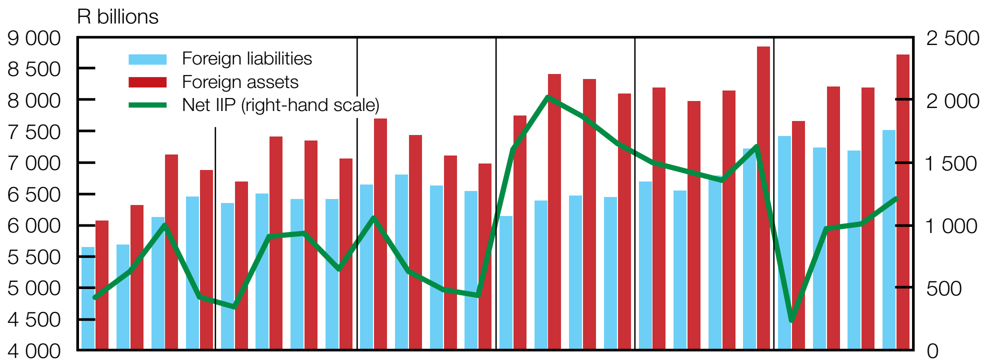
South Africa's total external debt as a ratio of annual GDP[17] increased from 38.2% at the end of September 2022 to 40.7% at the end of December. The ratio of external debt to export earnings increased from 106.7% to 112.1% over the same period.

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

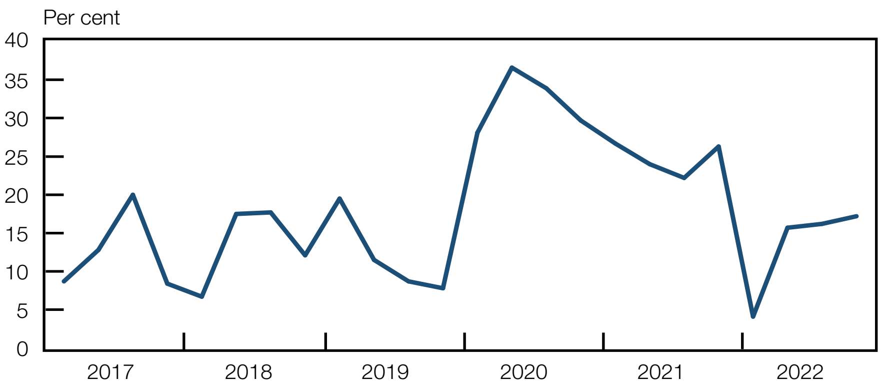
International investment position

South Africa's positive net international investment position (IIP) increased from a revised R1 008 billion at the end of September 2022 to R1 209 billion at the end of December as foreign assets increased more than foreign liabilities. The increase in both foreign assets and foreign liabilities was mainly driven by valuation effects as domestic and foreign share market indices increased in the fourth quarter of 2022.

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 6.4% from a revised R8 196 billion at the end of September 2022 to R8 721 billion at the end of December. Foreign assets in the fourth quarter of 2022 reflected an increase in all the functional categories, except for financial derivatives and reserve assets. Direct and portfolio investment assets increased mainly due to the valuation effects attributable to the increase in the share prices of foreign-listed companies as the US Standard & Poor's (S&P) 500 Index increased by 7.1% in the fourth quarter of 2022. Other investment assets increased slightly as non-residents' short-term loans from domestic banks increased.

The market value of South Africa's foreign liabilities (inward investment) increased by 4.5% from a revised R7 188 billion at the end of September 2022 to R7 512 billion at the end of December. The increase in foreign liabilities reflected an increase in all the functional categories, except for financial derivatives. Valuation effects due to the increase in the FTSE/JSE All-Share Index (Alsi) of 14.6% in the fourth quarter of 2022 contributed to the increase in both direct and portfolio investment liabilities. The increase in portfolio investment was partially countered by an international bond redemption to the value of US$1 billion by the private non-banking sector. Other investment liabilities increased as non-residents granted short-term loans to the domestic banking sector and national government received a €300 million climate change and just transition loan.

As a ratio of South Africa's annual GDP[18], foreign assets increased from 125.4% at the end of September 2022 to 131.6% at the end of December while foreign liabilities increased from 110.0% to 113.3% over the same period. This resulted in an increase in the positive net IIP from 15.4% of GDP at the end of September 2022 to 18.2% of GDP at the end of December.

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

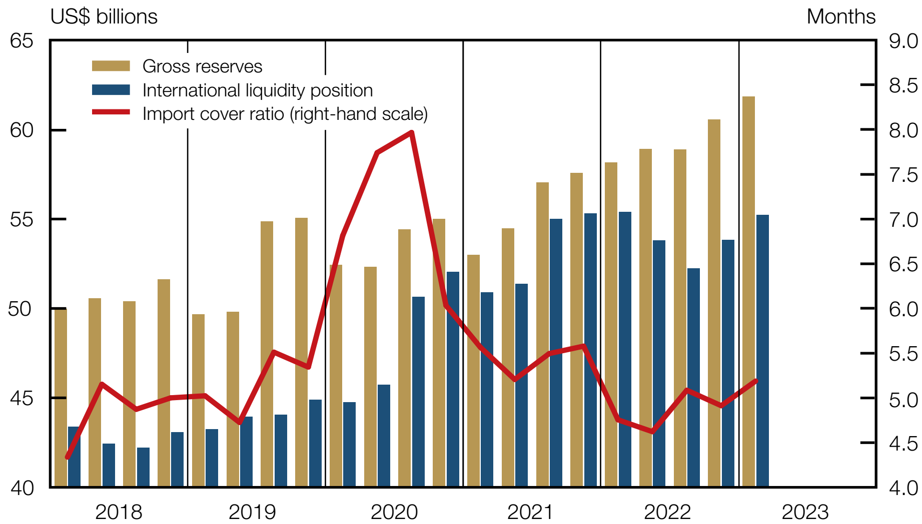
International reserves and liquidity

Following a marginal decrease of R0.4 billion in the fourth quarter of 2022, South Africa's international reserves decreased further by R1.6 billion in the first quarter of 2023.

The value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities), expressed in US dollar terms, increased from US$60.6 billion at the end of December 2022 to US$61.9 billion at the end of March 2023. This increase was largely due to proceeds from a foreign loan received by national government as well as an increase in the US dollar gold price. However, these increases were partially offset by foreign exchange (FX) payments. The country's gross gold and other foreign reserves then decreased to US$61.3 billion at the end of May 2023. South Africa's international liquidity position[19] increased from US$53.8 billion at the end of December 2022 to US$55.2 billion at the end of March 2023 before decreasing to US$55.0 billion at the end of May.

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

International reserves



Source: SARB

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) increased from 4.9 months at the end of December 2022 to 5.2 months at the end of March 2023.

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

Exchange rates[20]

The nominal effective exchange rate (NEER) of the rand decreased by 5.3% in the first quarter of 2023 following a marginal increase of 0.8% in the fourth quarter of 2022. The NEER decreased by 4.0% and 3.5% in January and February 2023 respectively but increased by 2.2% in March. Throughout, the exchange value of the rand was negatively impacted by the effects of severe electricity load-shedding on the domestic economic growth outlook as well as South Africa's greylisting by the Financial Action Task Force (FATF), but was fairly unaffected by the State of the Nation Address (SONA), the Cabinet reshuffle and the Budget speech. The NEER then decreased further by 1.7% from 31 March 2023 to 15 June.

Exchange rates of the rand

Percentage change

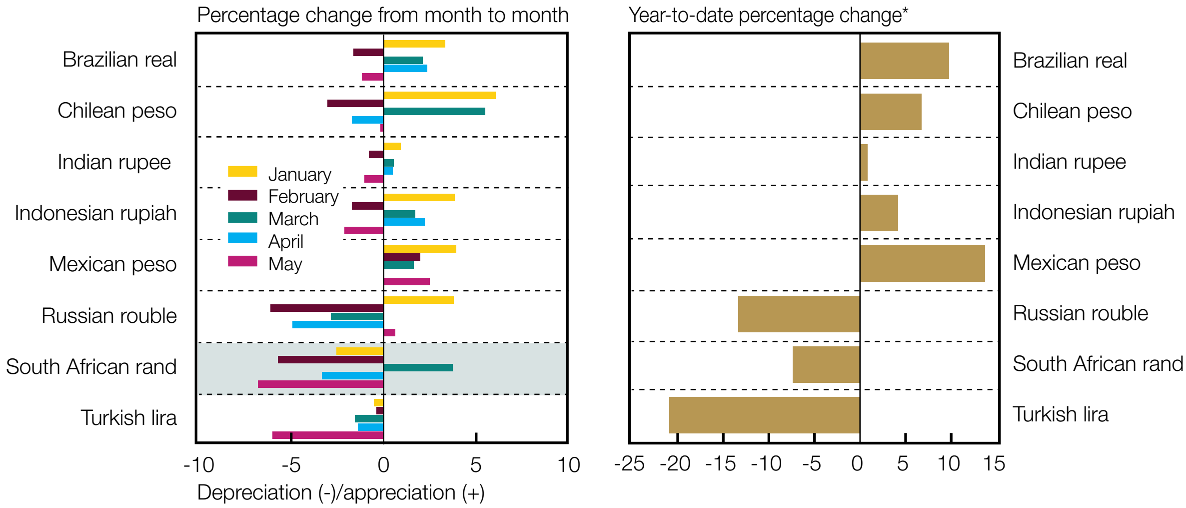
	30 Jun 2022 to 30 Sep 2022	30 Sep 2022 to 31 Dec 2022	31 Dec 2022 to 31 Mar 2023	31 Mar 2023 to 15 Jun 2023
Weighted average*	-4.6	0.8	-5.3	-1.7
Euro	-3.6	-2.8	-6.5	-2.4
US dollar	-9.2	5.4	-4.7	-2.8
Chinese yuan	-3.8	3.3	-5.8	1.2
British pound	-1.7	-2.0	-7.0	-5.1
Japanese yen	-3.8	-3.8	-3.6	3.0

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

Source: SARB

Several emerging market currencies strengthened against the US dollar in January 2023 as expectations of smaller future US interest rate increases and the abolishment of Chinese COVID-19 restrictions reduced the probability of a severe global economic slowdown. Despite these developments, the rand was the worst-performing emerging market currency, depreciating

Emerging market currencies against the US dollar in 2023



* From 31 December 2022 to 15 June 2023

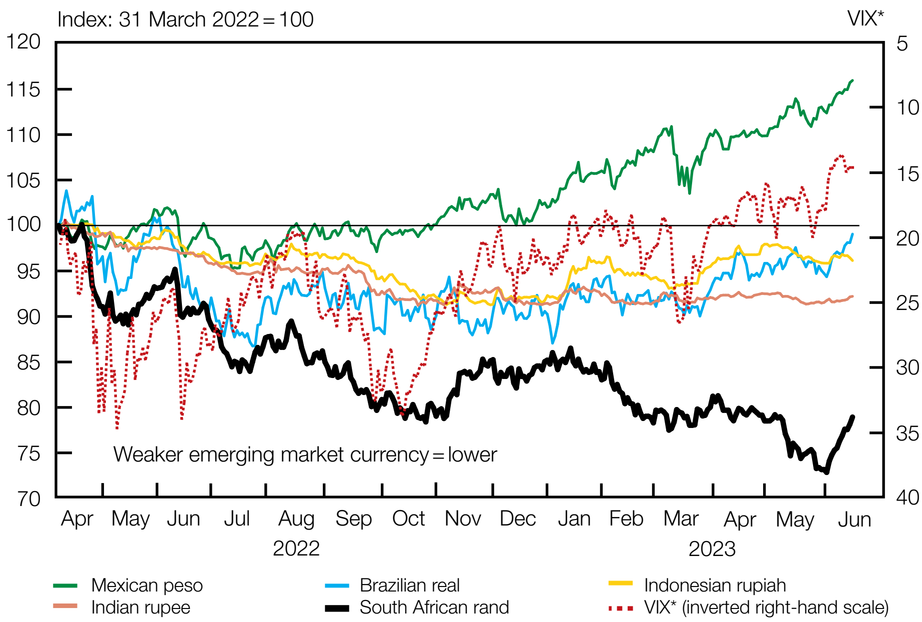
Sources: Refinitiv and SARB

by 2.5% against the US dollar in January 2023, as intensified electricity load-shedding affected domestic economic activity.

In February 2023, many emerging market currencies, including the rand, depreciated against the US dollar as some major global economies seemed to be on a stronger economic growth trajectory than initially anticipated. With inflation expectations improving along with lower crude oil prices, less aggressive interest rate hikes were also expected. The US Fed increased the Fed funds rate by 25 basis points, effective from 2 February 2023.

Financial market volatility increased abruptly in early March 2023 following the failure of Silicon Valley Bank – the largest US bank failure since the 2008/09 global financial crisis – as well as the takeover of Credit Suisse by UBS. Consequently, the US currency weakened and several emerging market currencies, including the rand, strengthened against the US dollar in March 2023. Volatility subsided from around mid-March as authorities responded swiftly to avert a potential global banking crisis.

Emerging market currencies against the US dollar



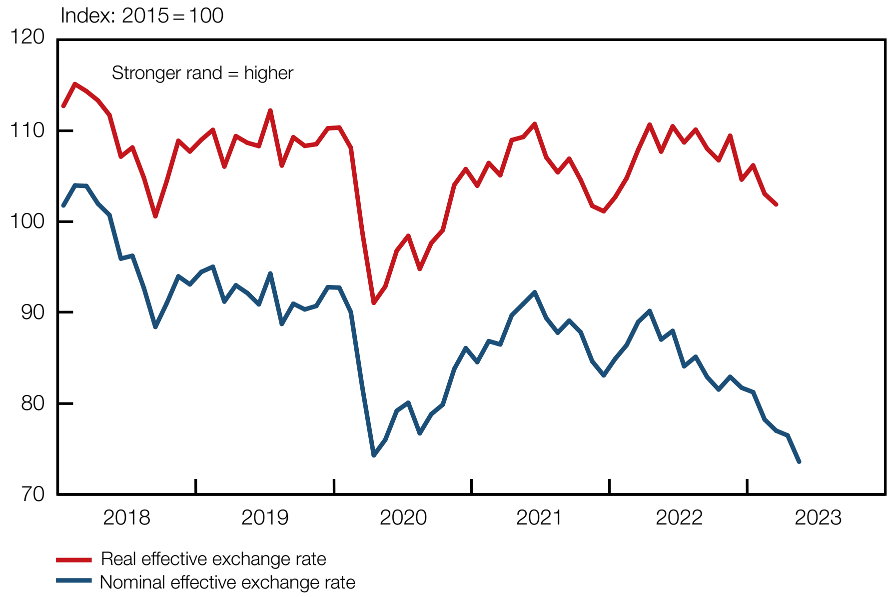
* The Volatility Index (VIX) is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options and it was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

Sources: Refinitiv and SARB

The rand was among the worst-performing currencies during April 2023 as the negative impact of severe electricity load-shedding on the domestic economic outlook continued to weigh on investor sentiment. The exchange value of the rand traded at its weakest levels ever against the US dollar in May 2023 following claims that South Africa provided arms to Russia and, during the week following the further 50 basis points increase in the repurchase (repo) rate. However, foreign exchange market sentiment adjusted quickly to these developments and, together with less severe electricity load-shedding, the exchange value of the rand subsequently appreciated by 7.9% against the US dollar from 31 May 2023 to 15 June.

The real effective exchange rate (REER) of the rand decreased by 5.6% between March 2022 and March 2023, marginally increasing the competitiveness of domestic producers in foreign markets.

Effective exchange rates of the rand



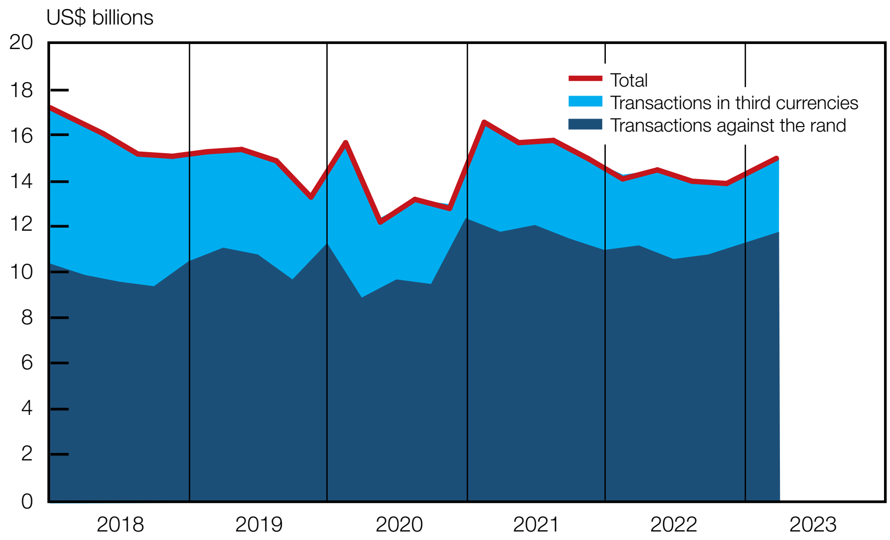
Source: SARB

Turnover in the South African foreign exchange market

Following the downward trend in 2022, net average daily turnover[21] in the South African FX market increased from US$14.0 billion in the fourth quarter of 2022 to US$14.7 billion in the first quarter of 2023. FX transactions against the rand increased from US$10.9 billion in the fourth quarter of 2022 to US$11.4 billion in the first quarter of 2023, while transactions in third currencies increased only marginally from US$3.1 billion to US$3.3 billion over the same period.

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

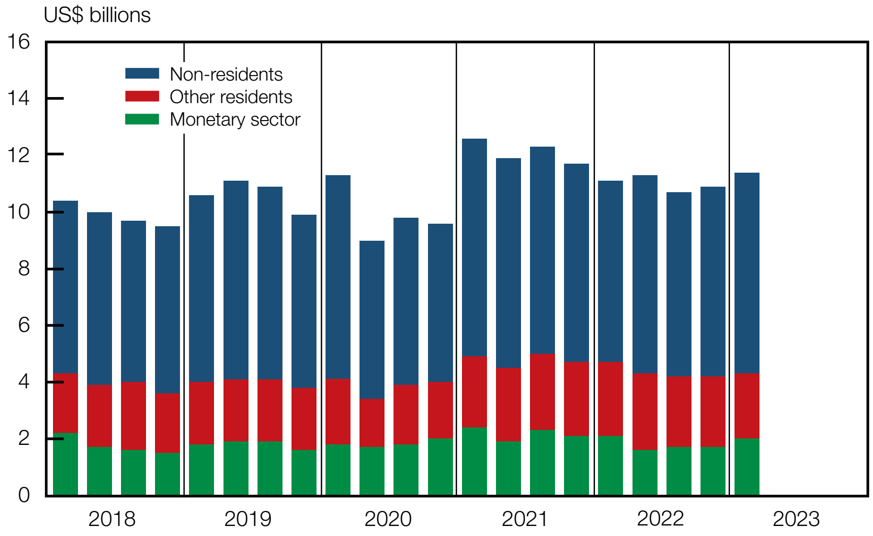
Net average daily turnover in the South African foreign exchange market



Source: SARB

Net average daily counterparty participation by non-residents in the rand market increased for a second consecutive quarter, from US$6.7 billion in the fourth quarter of 2022 to US$7.1 billion in the first quarter of 2023. Similarly, monetary sector participation increased from US$1.7 billion to US$2.0 billion over the same period. By contrast, other resident participation remained stagnant at US$2.5 billion in the third and fourth quarter of 2022 before decreasing marginally to US$2.3 billion in the first quarter of 2023.

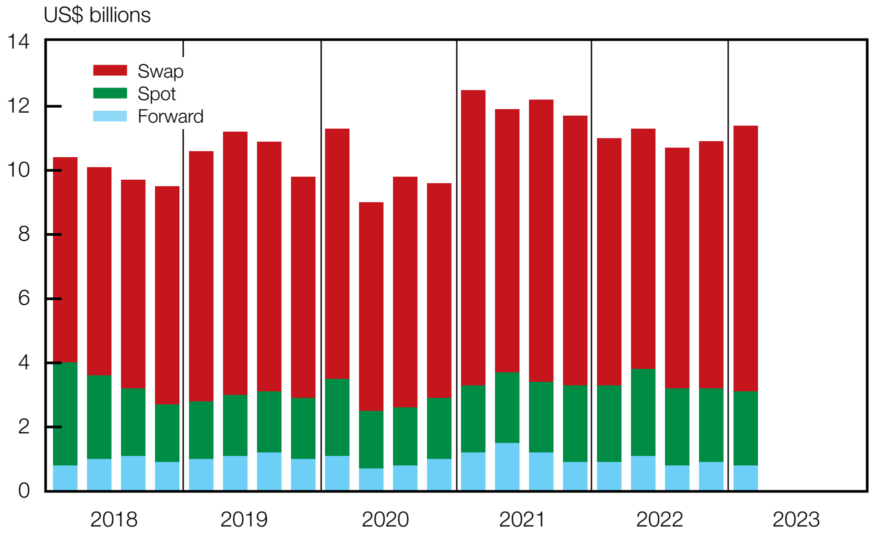
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

Net average daily swap transactions in the rand market increased from US$7.3 billion in the fourth quarter of 2022 to US$7.7 billion in the first quarter of 2023. Forward transactions decreased marginally from US$0.9 billion in the fourth quarter of 2022 to US$0.8 billion in the first quarter of 2023, while spot transactions remained unchanged at US$2.3 billion over the same period.

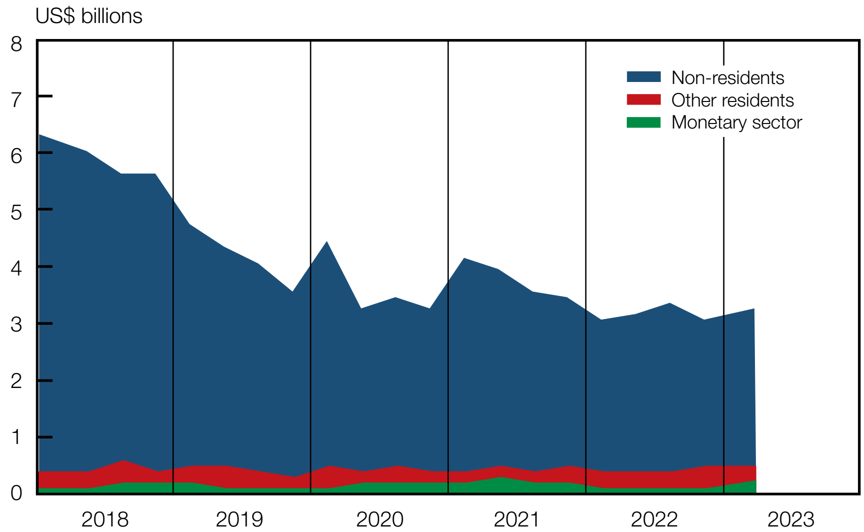
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

The increase in net average daily turnover in third currencies could be attributed to participation by non-residents, which increased from US$2.6 billion in the fourth quarter of 2022 to US$2.8 billion in the first quarter of 2023, while that of the monetary sector and residents averaged US$0.2 billion and US$0.3 billion respectively.

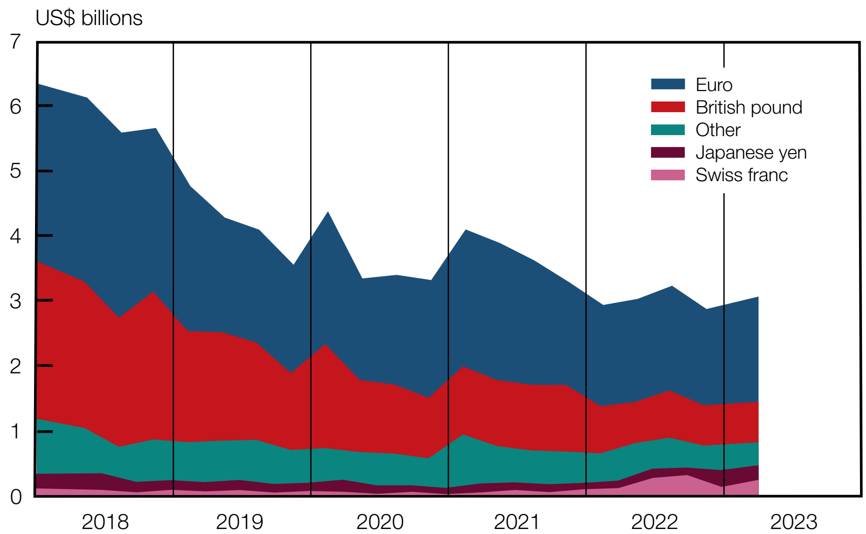
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

In the market for third currencies, US dollar transactions against most other currencies remained relatively stable during the first quarter of 2023, except for the euro and Swiss franc. US dollar transactions against the euro increased marginally from US$1.5 billion in the fourth quarter of 2022 to US$1.6 billion in the first quarter of 2023 and transactions against the Swiss franc increased from US$0.2 billion to US$0.3 billion over the same period. US dollar transactions against the Japanese yen, the British pound and other currencies remained unchanged at averages of US$0.2 billion, US$0.6 billion and US$0.4 billion respectively in the first quarter of 2023.

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



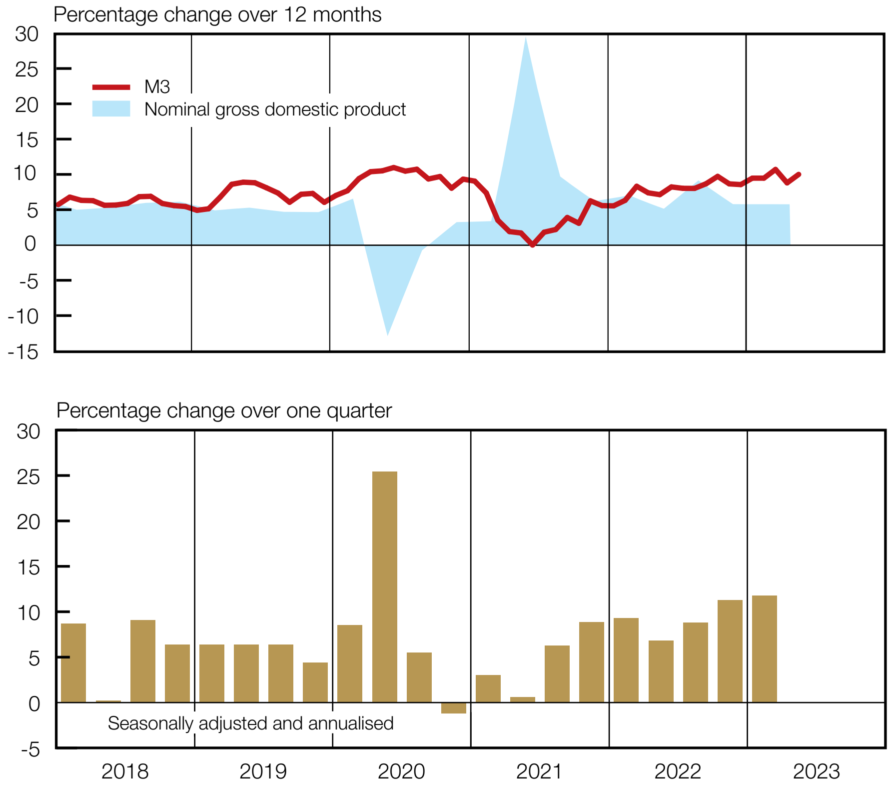
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Year-on-year growth in the broadly defined money supply (M3) accelerated further to a post-COVID-19 high of 10.8% in February 2023, with a slight moderation to 10.1% in April. The acceleration reflected double-digit growth in the deposit holdings of financial companies from the second half of 2022 as well as recent increases in household deposits. The quarter-to-quarter seasonally adjusted and annualised growth in M3 also accelerated further from 11.3% in the fourth quarter of 2022 to 11.8% in the first quarter of 2023 – the highest rate of increase since the second quarter of 2020. With growth in M3 exceeding that in nominal GDP, the income velocity of M3 declined from 1.43 in the fourth quarter of 2022 to 1.41 in the first quarter of 2023.

Money supply and gross domestic product



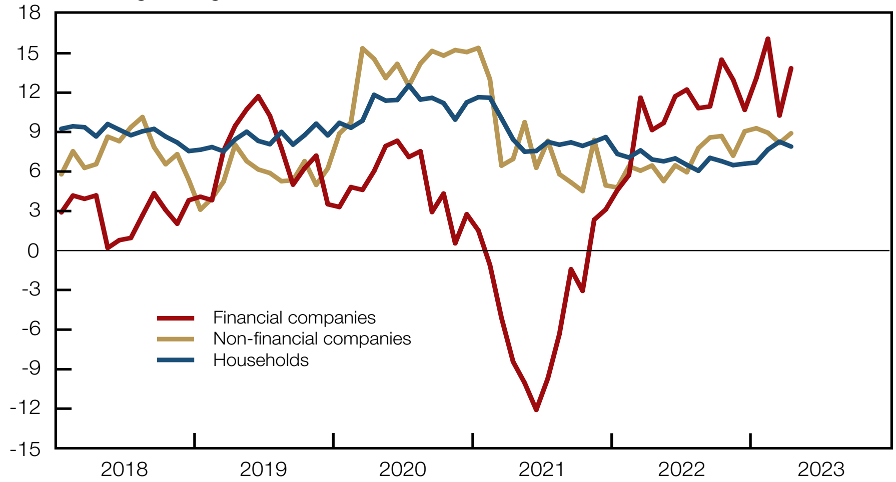
Sources: Stats SA and SARB

Growth in the deposit holdings of financial companies peaked at 16.1% in February 2023[22] before moderating to a still high 13.9% in April, reflecting, among other things, rising interest rates and deposits earmarked for dividend distribution. In contrast, growth in the deposit holdings of non-financial companies moderated somewhat from 9.7% in December 2022 to 8.9% in April 2023. The gradual moderation in growth in the deposit holdings of households in 2022 reflected higher food and fuel prices, weak employment prospects, and increasing debt repayments following the successive increases in interest rates. However, the higher interest rates also boosted households' long-term deposits, in particular those of trusts, with growth in household deposits subsequently accelerating from a low of 5.8% in December 2022 to 8.3% in March 2023 and 7.9% April.

22 Please note that a reclassification of data from non-financial companies to financial companies partly boosted the growth rates in the first two months of 2023. Revisions to monetary statistics involve adding new and/or additional information to the process of compiling these statistics, adjusting the information (because of methodological, conceptual and/or classification changes in line with the requirements of the *Monetary and Financial Statistics Manual and Compilation Guide),* making improvements to statistical techniques and/or information technology (IT) systems, or making adjustments as a result of correcting omissions and/or errors in the source data.

Deposit holdings of households and companies

Percentage change over 12 months

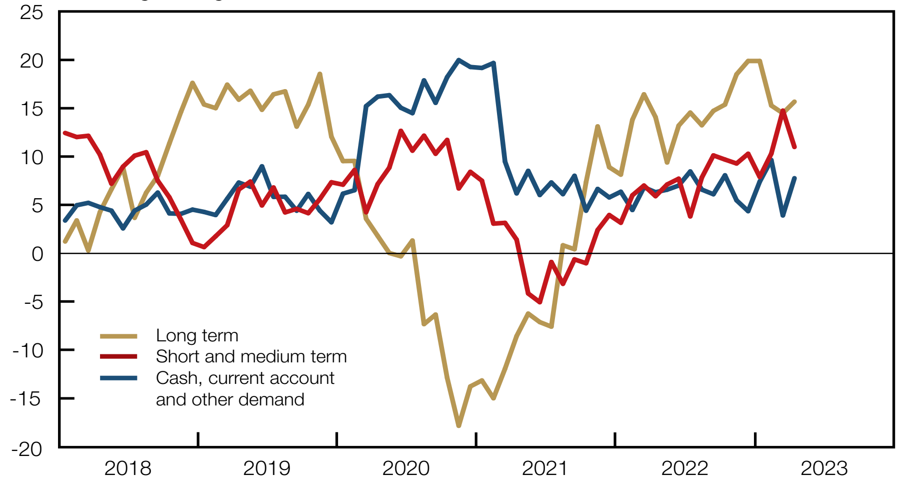


Source: SARB

Short- and medium-term deposits as well as long-term deposits have been rising in response to the successive increases in the repo rate since 18 November 2021. Growth in long-term deposits accelerated to a recent high of 20.0% in December 2022 before decelerating to 15.7% in April 2023, largely on account of base effects, with the monthly increases in the value of these deposits remaining high. Growth in short- and medium-term deposits rebounded to a high of 14.8% in March 2023 – the highest rate of increase since March 2009 – before moderating to 11.0% in April. By contrast, growth in cash, current account and other demand deposits fluctuated between a low of 4.2% in December 2022 and a high of 9.7% in February 2023, as is to be expected from liquid transactional accounts, before receding to 7.8% in April.

Deposits by maturity

Percentage change over 12 months



Source: SARB

The deposit holdings of the corporate sector increased by R115.8 billion in the first quarter of 2023 compared with an increase of R130.9 billion during the same period in 2022. The deposits of financial companies increased by R97.7 billion in the first quarter of 2023 compared with an increase of R94.7 billion in the same period a year earlier, whereas the deposits of non-financial companies only increased by a modest R18.1 billion compared with R36.2 billion in the first quarter of 2022. The household sector's deposit holdings increased by R22.2 billion in the first quarter of 2023 – a significant change from the R16.6 billion contraction in the first quarter of 2022.

M3 holdings of households and companies

	Quarterly change (R billions)					Percentage of total M3 deposit holdings*
	2022				2023	
	Q1	Q2	Q3	Q4	Q1	
Households	-16.6	29.5	56.6	25.0	22.2	35.9
Companies: Total	130.9	-48.3	160.3	36.4	115.8	64.1
Of which: Financial	94.7	-31.5	95.3	-9.5	97.7	33.6
Non-financial	36.2	-16.9	65.0	45.9	18.1	30.5
Total M3 deposits	**114.3**	**-18.8**	**216.9**	**61.4**	**138.0**	**100.0**

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

Source: SARB

From a statistical perspective, the counterparts to the substantial increase of R138.0 billion in M3 in the first quarter of 2023 comprised increases in claims on the domestic private sector of R91.3 billion, net claims of monetary institutions on the government sector of R88.3 billion, and monetary institutions' net foreign assets of R66.7 billion. Almost half of these increases were offset by a decline in net other assets of the monetary sector of R108.3 billion.

Counterparts of change in M3

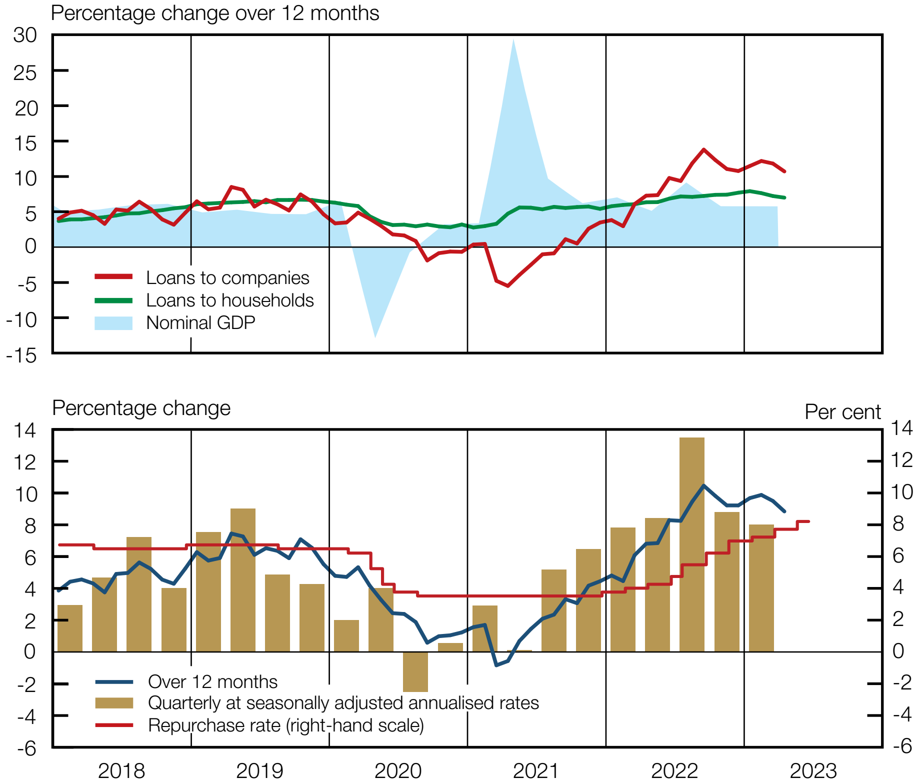
	Quarterly change (R billions)				
	2022				2023
	Q1	Q2	Q3	Q4	Q1
Claims on the private sector	103.7	71.9	133.4	5.8	91.3
Net claims on the government sector	76.6	-113.6	140.1	8.8	88.3
Net foreign assets	-128.4	91.3	12.3	-44.9	66.7
Net other assets	62.4	-68.5	-69.0	91.7	-108.3
Change in M3	**114.3**	**-18.8**	**216.9**	**61.4**	**138.0**

Source: SARB

Credit extension

Year-on-year growth in total loans and advances extended by monetary institutions to the domestic private sector accelerated to a 13-year high of 10.5% in September 2022 before moderating to 8.8% in April 2023 – still markedly higher than before COVID-19. Growth in total loans and advances in 2022 and thus far in 2023 reflected strong growth in loans to companies which outpaced the more moderate growth in loans to households, with the pace of increase in both moderating recently. The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector also moderated from 8.8% in the fourth quarter of 2022 to 8.0% in the first quarter of 2023. Despite the recent slowdown in credit extension, the credit-to-GDP ratio increased further from 60.4% in the fourth quarter of 2022 to 60.7% in the first quarter of 2023. For a detailed analysis of developments in credit extension before and after COVID-19, see Box 1 on the next page.

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



Sources: Stats SA and SARB

Box 1 A trend analysis of South Africa's credit extension pre- and post-COVID-19[1, 2]

Trends in the pace of expansion in credit extension to households and corporates are influenced by changes in the repurchase (repo) rate[3], the prevailing economic conditions and other developments, such as the onset of the coronavirus disease 2019 (COVID-19) pandemic, as mirrored by trends in gross domestic product (GDP) and the business cycle[4].

This box focuses on the pre- and post-COVID-19 trends in both nominal and real total loans and advances extended to the domestic private sector[5] and whether growth in credit extension has returned to pre-COVID-19 levels.

During the pre-COVID-19 period, total nominal loans and advances increased by 22.5% between January 2016 and December 2019, representing annual average growth of 5.8% from 2016 to 2019. This period was characterised by a relatively stable repo rate of 7.00% effective from March 2016 and 6.50% effective from July 2019, and also a transition of business cycle phases. During the COVID-19 period, credit extension slowed to 1.3% between March 2020 and September 2021 when the exogenous sudden stop in economic activity was followed by a gradual relaxation of restrictions.

1 This box relates to the credit extension by all monetary institutions statistics on page S–22 in this edition of the *Quarterly Bulletin (QB),* as adjusted to account for seasonality. The monetary sector comprises the following monetary institutions: commercial banks, mutual banks, the South African Reserve Bank (SARB), the Land Bank and Postbank.

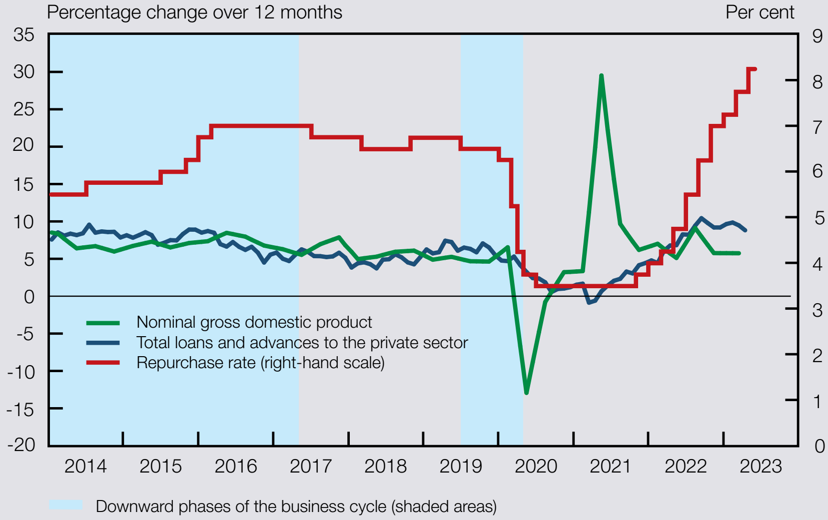
2 All trends were estimated by regressing the seasonally adjusted statistics along a linear trend with a constant term. The pre-COVID-19 sample covered January 2016 to December 2019 and the post-COVID-19 sample October 2021 to April 2023. Most of the COVID-19 lockdown restrictions curtailing economic activity were lifted on 1 October 2021 when they were adjusted to level 1 followed by the termination of the state of disaster as from 5 April 2022.

3 The repo rate is an interest rate determined by the Monetary Policy Committee of the SARB at which private sector banks are allowed to borrow money from the SARB. Banks will then pass along the interest rate to their clients but with adjustment to reflect, among other things, the riskiness of the client, the level of surety provided and the period of the loan.

4 The SARB determines reference turning points in the business cycle in terms of the growth cycle definition, which represent the fluctuations around the long-term trend of aggregate economic activity. The SARB's business cycle chronology, available on page S–164 in this edition of the *QB*, therefore represents reference turning point dates that distinguish between upward phases (periods when the rate of growth in aggregate economic activity either matched or exceeded the long-term trend) and downward phases (periods when aggregate economic activity either contracted or increased at a slower pace than its long-term trend). For a discussion of the most recently identified reference turning points, see 'The South African business cycle from 2013 to 2022' in the March 2023 edition of the *QB*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/articles-and-notes/2023/the-south-african-business-cycle-from-2013-to-2022.

5 Total loans and advances to the private sector include instalment sale credit and leasing finance, mortgage advances as well as other loans and advances, the last-mentioned of which represent general loans, overdrafts and credit card advances.

Total loans and advances, nominal gross domestic product and the repurchase rate



Sources: Stats SA and SARB

During the post-COVID-19 period, total nominal loans and advances increased briskly by 13.2% from October 2021 to April 2023 despite the increases in the repo rate, with year-on-year growth accelerating from 3.1% to 8.8% over this period.

During these three periods, the drivers of total loans and advances to households and corporates differed over time. In the pre-COVID-19 period, the demand for loans and advances by both the household and the corporate sector was relatively strong. For example, growth in general loans to households by private sector banks accelerated steadily from a low of 2.7% in December 2017 to 12.1% in September 2019, driven by a few key factors. A transition from secured credit to credit sources with no collateral requirement was driven by more conservative and generally risk-averse credit underwriting criteria. However, when the maximum lending amount that consumers could borrow without collateral was raised, in an attempt to counteract the loss of supply through risk adjustment, consumers started to utilise unsecured loans for purposes that they would otherwise have met with secured loans. In addition, banks improved their lending efficiency through simplified online loan origination and digitised processes, thereby increasing clientele. Growth in loans and advances to the corporate sector also maintained a steady pace, with instalment sale credit notably leading the way. However, growth in general loans to companies levelled off somewhat in 2018 and 2019 amid progressively slower economic growth.

The COVID-19 lockdown restrictions resulted in an abrupt and widespread slowdown in growth in most of the subcategories of credit extended to both households and corporates. A variety of measures was subsequently introduced to ease liquidity constraints in the domestic financial markets[6] while substantial interest rate relief was provided to support credit extension and to ease the repayment burden. In addition, the COVID-19 Loan Guarantee Scheme[7] was introduced to provide financial support and relief to small and medium enterprises (SMEs) as these enterprises are estimated to account for more than 90%[8] of formal businesses. However, an aversion to increased exposure to debt led to only a small disbursement of loans under this scheme. Several commercial banks also offered relief measures to households and corporates, ranging from three-month payment holidays to loan term revisions and reduced payment options.

The demand for credit was affected by several factors, such as successive waves of COVID-19 infections and related restrictions, the civil unrest in Gauteng and KwaZulu-Natal in July 2021 and the 2022 floods which impacted on operations at the Durban port and resulted in renewed supply chain disruptions and shortages of raw materials. These developments impacted on the corporate sector in particular, and the overall contraction in the outstanding balance of its loans and advances caused the nominal value of total loans and advances to the private sector to decline to well below the long-term pre-COVID-19 trend, as companies contribute about 50% to the total.

The post-COVID-19 period has been marked by a rapid increase in the nominal value of total loans and advances to the private sector. An extension of the pre-COVID-19 trend shows that the post-COVID-19 trend

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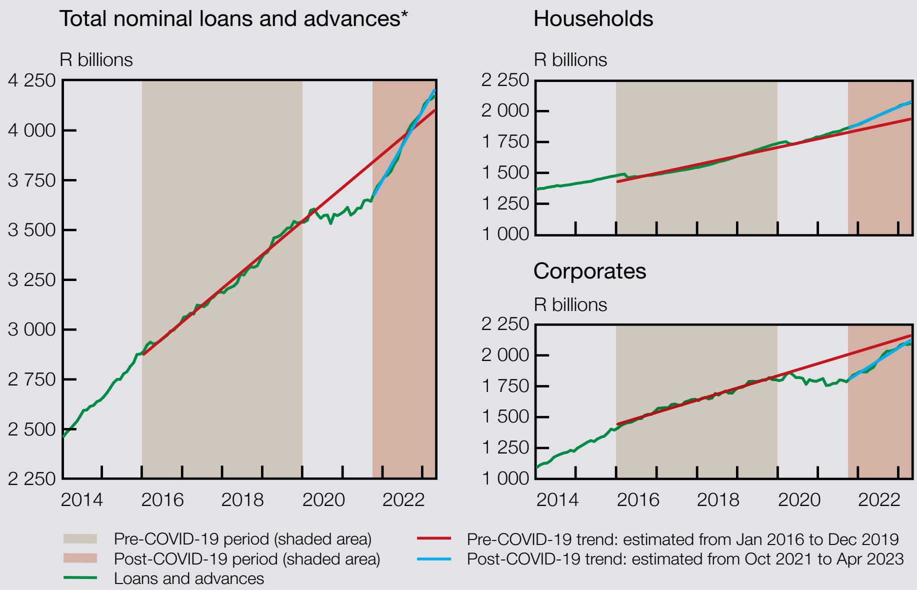
6 See 'Note on South Africa's liquidity measures in response to the COVID-19 pandemic' in the June 2020 edition of the *QB*, available at https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/articles-and-notes/2020/10089/Note-on-South-african-liquidity-measures.pdf, as well as 'Box 3: Unpacking special liquidity measures in response to the COVID-19 pandemic' in the March 2022 edition of the *QB,* available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/boxes/2022/March/UnpackingspecialliquiditymeasuresinresponsetotheCOVID19pandemic.

7 See the SARB media release at https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2020/9931.

8 See the McKinsey report at https://www.mckinsey.com/featured-insights/middle-east-and-africa/a-credit-lifeline-how-banks-can-serve-smes-in-south-africa-better.

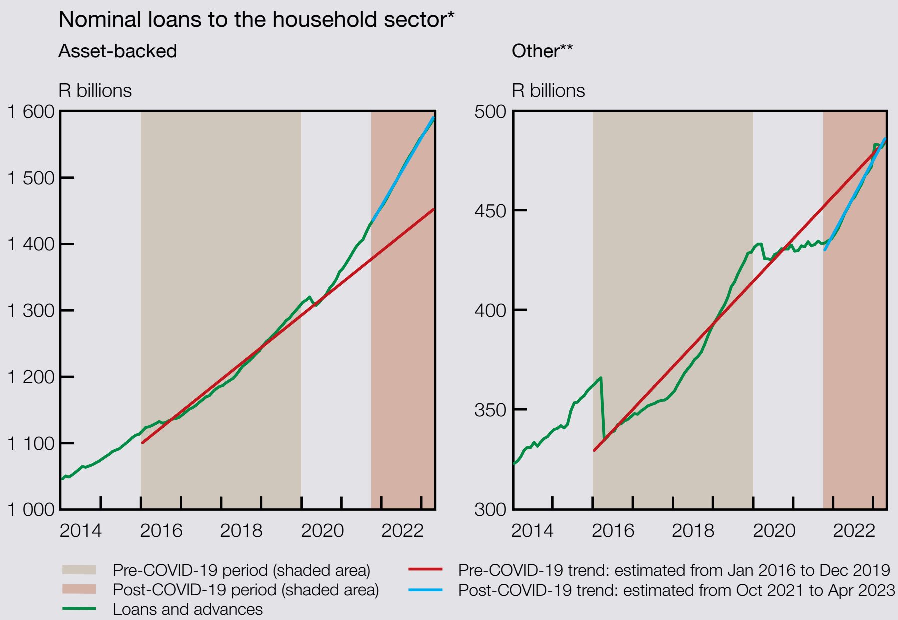
has become steeper and has surpassed the pre-COVID-19 trend. Loans and advances to the household sector generally maintained steady growth throughout the COVID-19 period, and the outstanding balance barely deviated from its long-term pre-COVID-19 trend, before accelerating during the post-COVID-19 period to exceed the pre-COVID-19 trend. Loans to the corporate sector were significantly affected during the COVID-19 period, and their post-COVID-19 recovery is still falling short of the pre-COVID-19 trend. The marked increase in the outstanding nominal value of total loans and advances to the private sector during the post-COVID-19 period occurred notwithstanding a 425 basis points increase in the repo rate between 18 November 2021 and 31 March 2023.



* Seasonally adjusted

Source: SARB

The nominal value of asset-backed loans[9] to the household sector, which accounts for about 76% of household credit, remained fairly robust throughout the COVID-19 period compared to the pre-COVID-19 period. This could most likely be attributed, at least partially, to historically low interest rates during the COVID-19 period, which supported the purchases of vehicles and homes by first-time buyers as well as the upgrading of existing properties in the wake of the adoption of work-from-home practices.



* Seasonally adjusted

** Other loans include general loans, overdrafts and credit card advances

Source: SARB

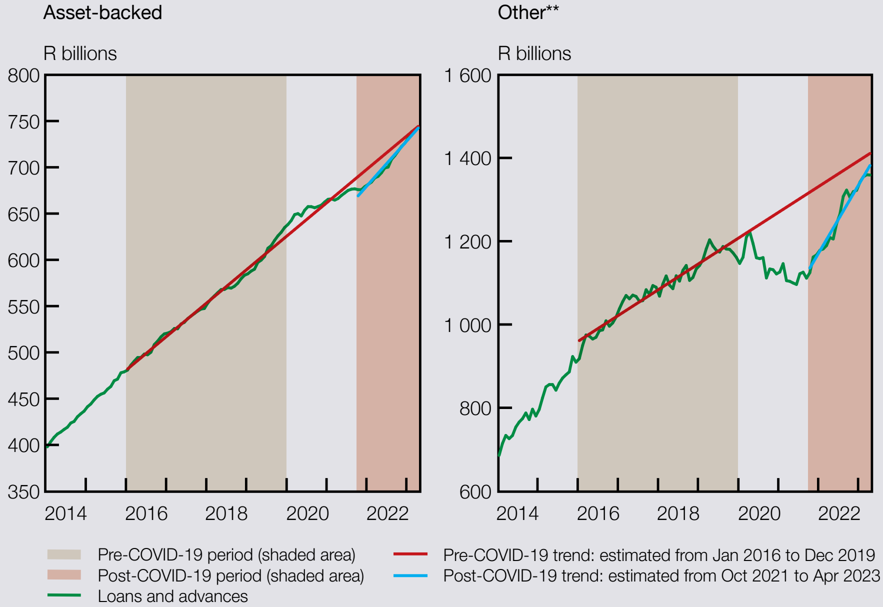
9 Asset-backed loans comprise mortgage advances as well as instalment sale credit and leasing finance.

The post-COVID-19 trend in the outstanding nominal value of these loans, which has increasingly been exceeding the pre-COVID-19 trend since the end of 2020, signals continued strength in demand for asset-backed loans by the household sector. This sharply contrasts with the post-COVID-19 trend in households' demand for other loans[10]. These loans, which are mostly unsecured, account for, on average, 24% of total loans and advances to households. At the onset of the pandemic, other loans contracted to below their pre-COVID-19 trend as households' ability to spend was curtailed by not only strict lockdown measures, but also the pandemic's impact on employment and the loss of income. During the subsequent post-COVID-19 period, household demand for other loans, mostly general loans, gradually returned to the pre-COVID-19 trend of expansion.

The nominal value of asset-backed loans to the corporate sector, which accounts for roughly 35% of total corporate sector credit, moved slightly above its pre-COVID-19 trend at the onset of the pandemic but later moderated to below it. Asset-backed corporate credit subsequently returned to its extended pre-COVID-19 trend in March 2023. Other loans, which account for about 65% of corporate sector credit, contracted markedly during the COVID-19 period. All the subcategories, in particular general loans to non-financial companies (about 68% of their other loans), remained suppressed throughout 2020 and 2021 due to heightened uncertainty and low business confidence, which resulted in caution to take on new debt and a reluctance to indulge in fixed capital formation.

Since early 2022, there has been a noticeable rebound in general loans, in particular from non-financial companies involved in consumer goods manufacturing, mining and resources, agriculture and retail trade for operational and working capital purposes along with investment in renewable energy generation, such as participation in the Renewable Energy Independent Power Producer Procurement Programme. The steepness of the post-COVID-19 trend has exceeded that of the pre-COVID-19 trend and could soon surpass it.

Nominal loans to the corporate sector*



* Seasonally adjusted

** Other loans include general loans, overdrafts and credit card advances

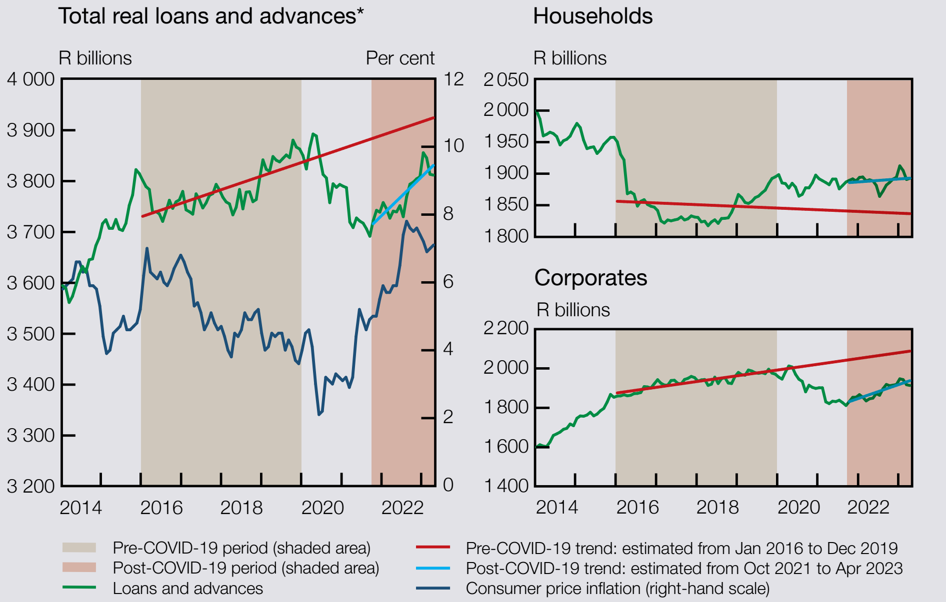
Source: SARB

Due to the impact of inflation, it is also important to analyse credit demand in real terms.[11] Rising inflationary pressures globally, aggravated by Russia's invasion of Ukraine in February 2022, were also evident domestically when consumer price inflation breached the upper limit of the inflation target range of 6.0% in May 2022, mainly due to record-high fuel prices. Most central banks, including the South African Reserve Bank (SARB), subsequently tightened monetary policy to curb the rising inflation. The repo rate increased from 3.50% on 18 November 2021 to 7.75% on 31 March 2023, increasing borrowing costs to their highest level since May 2009. The real value of total loans and advances to the private sector contracted sharply at the onset of the pandemic, with the post-COVID-19 period showing a steep increase, although still well below the pre-COVID-19 trend of expansion. By contrast, real loans and advances to the household sector

10 Other loans are not necessarily asset-backed and comprise general loans, overdrafts and credit card advances.

11 Credit in real terms refers to the nominal value of loans and advances as adjusted for consumer price inflation.

trended downward during the pre-COVID-19 period before increasing during the COVID-19 period and slightly further thereafter. The corporate sector's trend in real loans and advances was broadly similar to the trend in its nominal loans and advances. However, the recovery to the pre-COVID-19 level in real terms will likely take longer than that anticipated in nominal terms.



* Seasonally adjusted

Sources: Stats SA and SARB

Total loans and advances to the corporate sector increased by R48.1 billion in the first quarter of 2023, substantially more than the increases of R13.3 billion in the fourth quarter of 2022 and R28.2 billion in the first quarter of 2022. Non-financial companies accounted for most of the increase in corporate credit extension in 2022, whereas financial companies were the main driver in the first quarter of 2023. Total loans and advances to the household sector increased in all four quarters of 2022 and by a further R37.1 billion in the first quarter of 2023.

Credit extended to households and companies

	Quarterly change (R billions)					Percentage of total loans and advances*
	2022				2023	
	Q1	Q2	Q3	Q4	Q1	
Households	40.0	29.6	35.4	37.2	37.1	49.6
Companies: Total	28.2	64.4	96.6	13.3	48.1	50.4
Of which: Financial	-6.5	14.1	43.2	-20.4	40.6	12.5
Non-financial	34.8	50.3	53.4	33.7	7.5	38.0
Total bank loans and advances	**68.3**	**94.0**	**131.9**	**50.4**	**85.3**	**100.0**

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

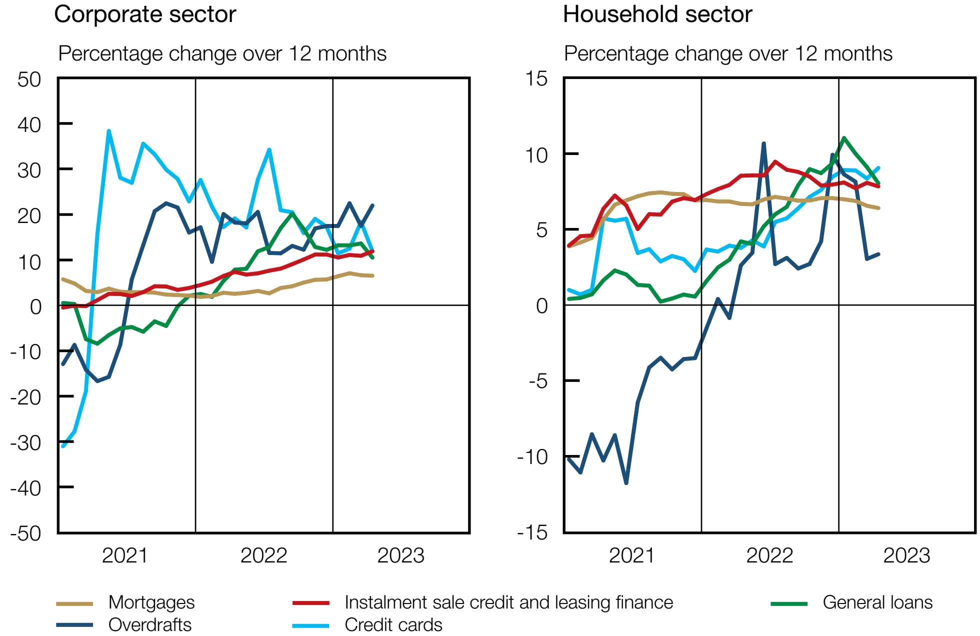
Source: SARB

Growth in *credit extension to the corporate sector* accelerated to a recent high of 13.8% in September 2022 and remained at double-digit rates despite slowing to 10.7% in April 2023. Growth in mortgage advances accelerated from a low of 1.8% in January 2022 to 7.0% in February 2023 – the highest rate of increase since October 2020 – before moderating to 6.5%

in April. This suggested increased demand for solar energy financing as well as for commercial property loans as hybrid work requires flexible and shared workspaces. Growth in instalment sale credit accelerated to a post-pandemic high of 11.9% in April 2023. This reflected increased vehicle sales supported by the rental vehicle market as well as increased demand for machinery and equipment. The acceleration in growth in general loans (53% of total loans and advances to corporates) to a post-pandemic high of 20.2% in September 2022 – the highest growth rate since July 2014 – partly reflected base effects as well as the post-COVID-19 normalisation of production activity, the repair of infrastructure damaged by the floods in July 2022, and the funding of the latest bid windows of the Renewable Energy Independent Power Producer Procurement Programme.

Growth in general loans moderated to 10.5% in April 2023 as demand by both financial and non-financial companies slowed amid protracted electricity-supply interruptions, which weighed on fixed capital formation. The smaller increase in general loans thus far in 2023 reflected less demand from non-financial companies and net repayments by financial companies such as security traders, vehicle financiers and asset managers. The utilisation of overdrafts increased at double-digit rates throughout 2022, to a high of 22.5% in February 2023, with growth remaining elevated at 22.0% in April. Non-financial companies were the main driver of the increased use of overdrafts due to provisional tax and dividend payments as well as commercial farming loans for the planting season. By contrast, credit card advances (0.4% of total loans and advances to corporates) moderated significantly from a recent high in July 2022. The outlook for credit extension to corporates is likely to be affected by strained business confidence, weak economic activity, electricity load-shedding and higher interest rates.

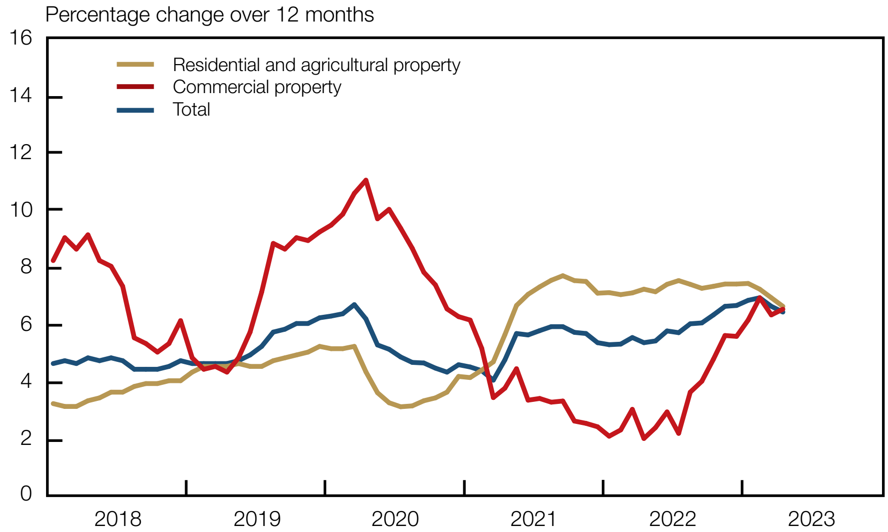
Selected loans and advances



Source: SARB

Credit extension to the household sector increased at a steady pace of around 7.0% in the second half of 2022 but growth accelerated to 7.9% in January 2023 before receding to 7.0% in April. Although surpassing pre-pandemic growth rates, the demand for most types of credit has moderated thus far in 2023. This possibly reflects the impact of higher food and fuel prices as well as increasing debt repayments due to higher interest rates. Growth in mortgage advances initially levelled off around an average of 7.0% in the second half of 2022 before decelerating to 6.4% in April 2023, with banks reporting a noticeable decline in new applications. Growth in instalment sale credit, although fairly robust, also moderated from a post-pandemic high of 9.5% in July 2022 to 7.8% in April 2023. The acceleration in growth in general loans (mostly unsecured) from 1.6% in January 2022 to 11.0% in January 2023 reversed somewhat to 8.0% in April. Growth in overdrafts remains volatile, rebounding from a contraction of 1.5% in January 2022 to an increase of 9.8% in December, only to decelerate to 3.4% in April 2023. By contrast, growth in credit card advances steadily accelerated from 3.7% in January 2022 to 9.1% in April 2023.

Mortgage advances



Source: SARB

Growth in total mortgage advances reached a recent high of 6.9% in February 2023 before moderating to 6.4% in April. Growth in mortgage advances on commercial property accelerated notably from 2.1% in January 2022 to 5.6% by year-end and further to 6.9% in February 2023 before slowing to 6.5% in April. By contrast, growth in mortgage advances on residential and agricultural properties remained steady at around 7.3% in 2022, surpassing pre-COVID-19 rates, although also moderating somewhat to 6.6% in April 2023.

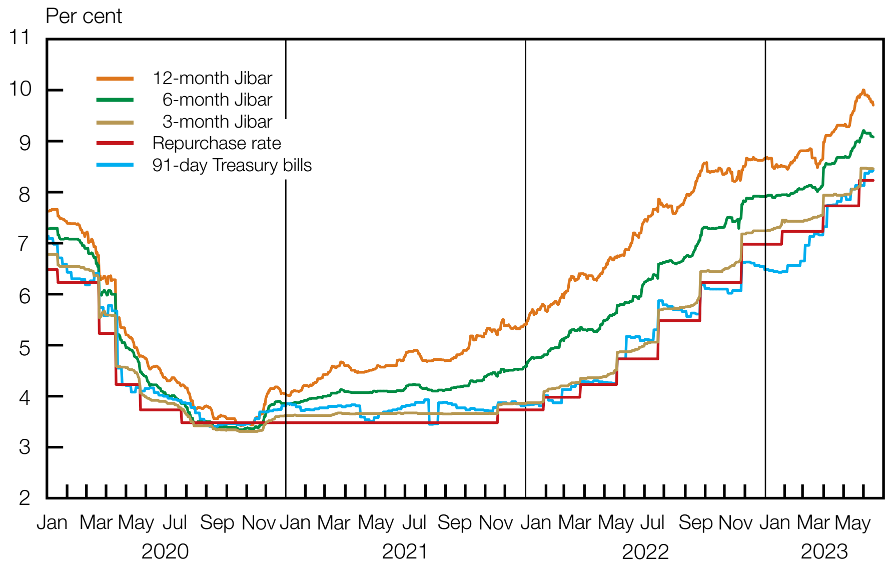
Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB raised the repo rate by a further 50 basis points to 8.25% in May 2023 – the highest in 14 years – bringing the cumulative increase since November 2021 to 475 basis points. The MPC assessed the risks to the domestic inflation outlook to be on the upside, primarily on account of elevated food and electricity prices, an acceleration in wage growth, a weaker exchange value of the rand, and the cost implications of persistent electricity load-shedding.

Domestic short-term money market rates continued to trend higher during the first half of 2023, consistent with the consecutive increases in the repo rate. Money market rates were also affected by the actual and expected outcomes of consumer price inflation, volatility in global financial markets, and fluctuations in the exchange value of the rand. The three-month Johannesburg Interbank Average Rate (Jibar) increased by 53 basis points from 7.45% on 1 March 2023 to 7.98% by mid-April, and rose further to 8.48% on 15 June following the increase in the repo rate in May. The longer-term rates followed a similar trend, with the six-month Jibar increasing by 61 basis points from 8.09% on 1 March 2023 to 8.70% on 21 April and further to 9.10% on 15 June. Similarly, the benchmark 12-month Jibar increased by 50 basis points from 1 March 2023 to 9.33% on 21 April and further to 9.73% on 15 June, tracking the increase in the repo rate in May.

The increase in the tender rate on 91-day Treasury bills (TBs) was more pronounced, with the rate increasing by 128 basis points from 6.67% in early March 2023 to 7.95% on 28 April. This reflected both the increase in the repo rate and lower demand by private sector banks for short-term high-quality liquid assets (HQLA). From 6 April 2023, the 91-day TB rate once again started trading slightly higher than the repo rate for the first time since 22 September 2022, along with an increased issuance of TBs across the maturity spectrum relative to lower demand. The tender rate on 91-day TBs increased to 8.15% in the days prior to the increase in the repo rate on 26 May 2023, and further to 8.45% on 15 June amid low demand.

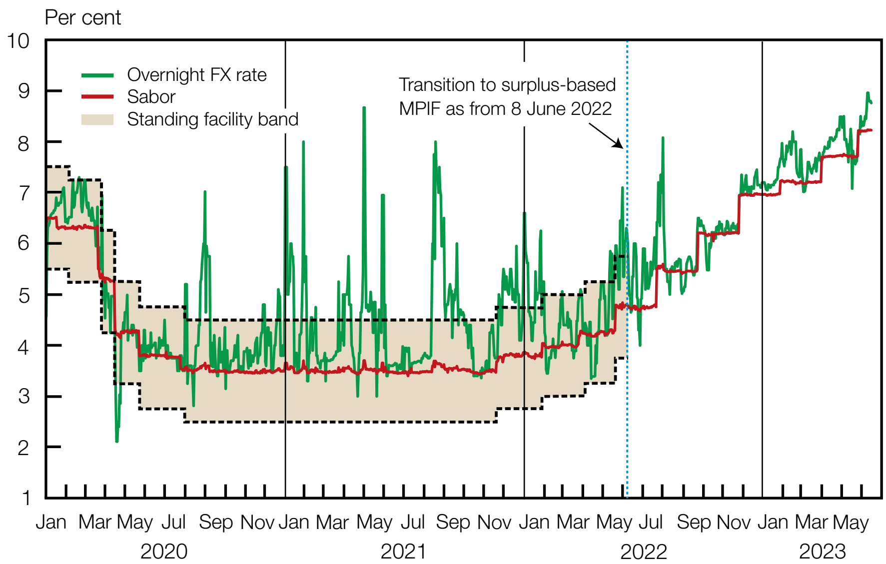
Money market rates



Source: SARB

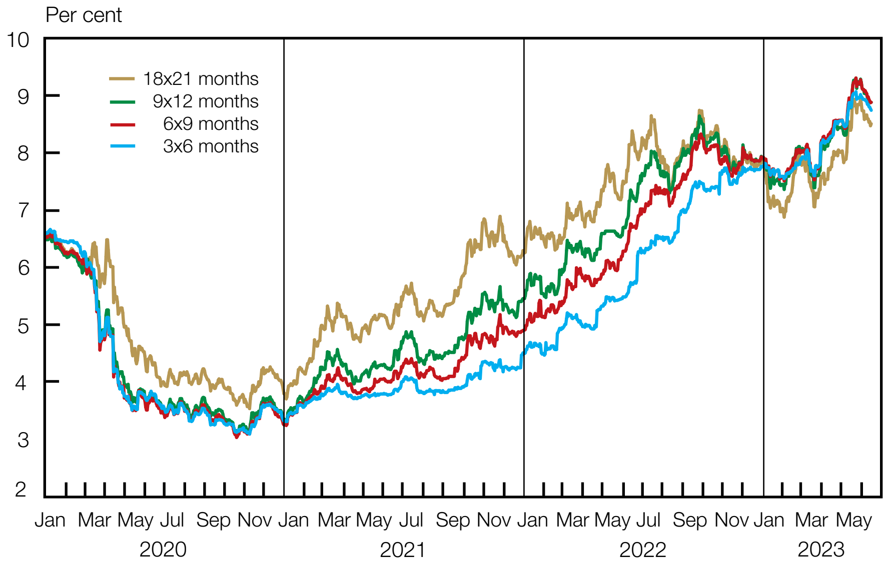
The South African Benchmark Overnight Rate (Sabor) fluctuated in close alignment with the repo rate, averaging 7.72% from April 2023 to mid-May, while also remaining relatively stable as banks continued to experience periods of surplus liquidity in the overnight interbank market. The Sabor then increased to 8.22% from 26 May 2023, in line with the increase in the repo rate in May, and remained close to this level up to 15 June. Movements in the overnight FX rate were more volatile, fluctuating between a low of 7.38% on 16 March 2023 and a high of 8.50% on 4 May, in accordance with the liquidity conditions in the overnight FX market and the increase in the repo rate. The overnight FX rate remained elevated as foreign banks' demand for rand liquidity in the FX market increased to meet daily liquidity. Subsequently, the rate increased further to 8.76% on 15 June 2023 due to tight liquidity conditions. The overnight FX rate averaged 7.96% in May 2023, down from 8.05% in April.

Benchmark overnight rates



The rates on forward rate agreements (FRAs) have trended upwards thus far in 2023 in response to generally higher-than-expected domestic inflation outcomes, increases in the repo rate, and fluctuations in the exchange value of the rand amid heightened electricity load-shedding and sociopolitical concerns. On balance, both the short- and the long-dated FRAs increased by more than 50 basis points after the March 2023 increase in the repo rate. For example, the 3x6-month FRA increased by 95 basis points from 7.60% on 20 March 2023 to 8.55% on 21 April and then fluctuated even higher prior to the further 50 basis points increase in the repo rate on 26 May but stabilised around 8.90% up to 15 June. Similarly, the 6x9-month FRA increased by 104 basis points from 7.53% on 20 March 2023 to 8.57% on 21 April before inching higher to 8.89% on 15 June. Likewise, the 9x12-month FRA increased by 110 basis points from 7.39% to 8.49% between March and April 2023, and then further to 8.89% on 15 June amid continued market uncertainty. By contrast, more subdued movements in the 18x21-month FRA indicated expectations of a lower repo rate over the longer term.

Forward rate agreements

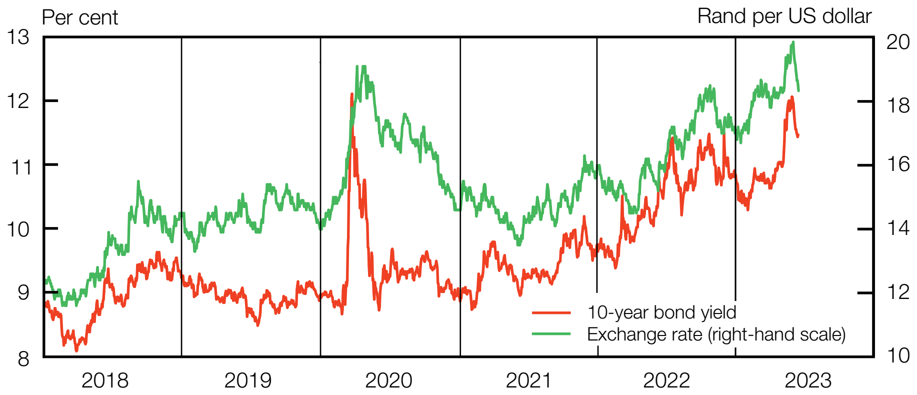


Source: SARB

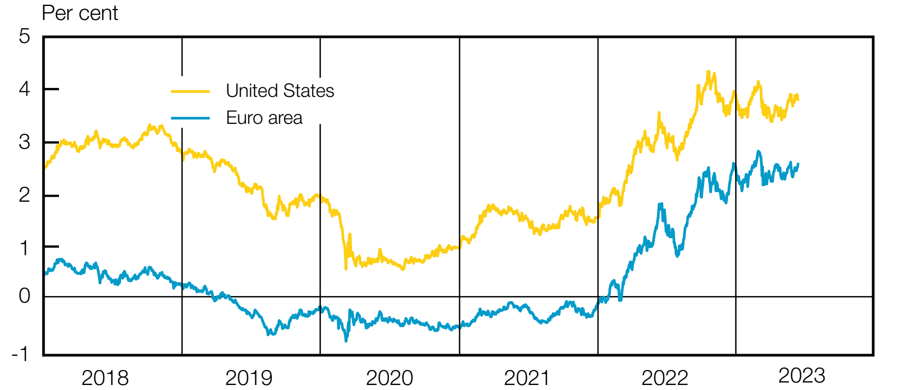
The weighted average monthly flexible deposit and lending rates offered by private sector banks also reflected the increases in the repo rate. The interest rate charged by banks on mortgage advances increased from 10.53% in February 2023 to 10.85% in April. Over the same period, the interest rate on instalment sale credit increased from 11.05% to 11.41%, while that on overdrafts increased from 11.16% to 11.53%. The interest rate on credit card advances rose by 16 basis points from 17.05% in February 2023 to 17.21% in April. The interest rates offered by banks on deposits also increased marginally, with the rate on call deposits increasing from 7.01% in February 2023 to 7.45% in April. Similarly, the rate offered on 12-month fixed deposits increased from 7.57% to 7.98% over the same period.

The *yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market* increased by 177 basis points from 10.29% on 2 February 2023 to 12.06% on 30 May, almost reaching the March 2020 high at the onset of the COVID-19 pandemic. This increase reflected domestic developments such as high consumer price inflation, further increases in the repo rate, and the sharp depreciation in the exchange value of the rand. Global factors, such as high inflation and monetary policy tightening by major central banks which raised international bond yields, also contributed to the increase in domestic bond yields. These factors also contributed to net sales of domestic bonds by non-residents. Subsequently, the yield on 10-year South African government bonds declined to 11.47% on 15 June 2023.

South African government bond yield and the exchange rate



Global 10-year government bond yields



Sources: IRESS, JSE and SARB

The level of the *yield curve* increased across the full maturity spectrum from 2 February 2023 to 30 May, although more so over the longer-term maturities. Subsequently, the level of the yield curve mostly declined, but flattened as the shorter-term maturities remained broadly at the same level. The yield gap[23] widened from 378 basis points on 2 February 2023 to 442 basis points on 30 May before narrowing to 393 basis points on 15 June.

The yield spread of emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[24] narrowed from 467 basis points in September 2022 to 374 basis points in January 2023 before widening to 420 basis points in May as market participants' assessment of emerging market risk changed. Similarly, South Africa's *sovereign risk premium*[25] on US dollar-denominated government bonds in the seven-year maturity range narrowed from a monthly average of 391 basis points in September 2022 to 306 basis points in January 2023 before widening to 384 basis points in May.

Money market

Private sector banks' average daily surplus liquidity position of R52.0 billion in the first quarter of 2023 varied between a low of R34.9 billion on 6 March 2023 and a high of R86.7 billion on 23 March. This followed an expansion of market liquidity from around R50 billion to around R80 billion along with an increase in banks' quotas because of the drawdown by National Treasury of its Sterilisation Reserve Deposits at the SARB.[26] The monetary policy implementation framework (MPIF) of the SARB currently aims to maintain a targeted liquidity surplus of R80 billion, with the additional buffer raised from R10 billion to R20 billion to allow banks more space to absorb liquidity changes without requiring assistance from the SARB.

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

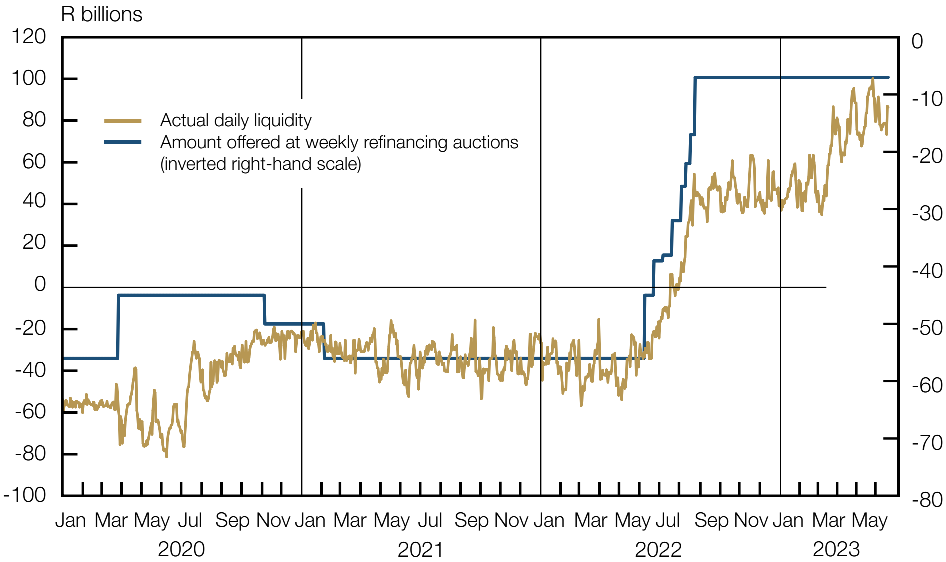
24 The EMBI+ measures the total returns on US dollar-denominated debt instruments of emerging market economies.

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.

26 See the notice of the SARB's Financial Markets Department at https://www.resbank.co.za/content/dam/sarb/publications/financial-markets/notices/fmd-notices/2023/notice-revisions-to-bank-quotas-february2023.pdf.

The SARB maintained the amount on offer at the weekly main refinancing auctions at R7.0 billion despite banks' reduced need to access funds since the implementation of the surplus-based MPIF. In April and May 2023, the average daily surplus liquidity position of private sector banks of R81.1 billion reflected banks' reduced deposits at the SARB at the end-of-day square-off. Total accommodation provided to banks has been decreasing continuously since the inception of the new MPIF; it declined from R3.6 billion in February 2023 to R1.8 billion in March. In May 2023, a surplus of R1.3 billion was recorded, slightly up from the surplus of R0.9 billion recorded in April.

Daily liquidity

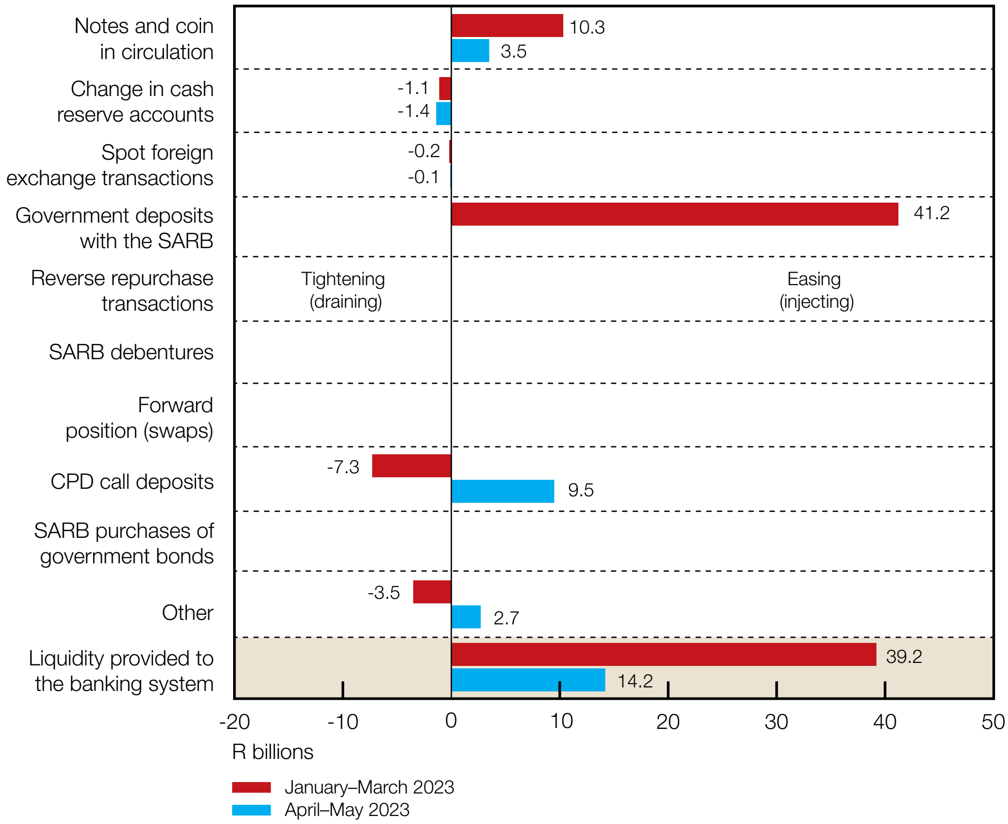


Source: SARB

Money market liquidity expanded by R39.2 billion in the first quarter of 2023, in contrast to the contraction of R10.5 billion in the fourth quarter of 2022. The main contributors to the first-quarter expansion were National Treasury's withdrawal of R41.2 billion from the Sterilisation Deposit Account at the SARB and the decrease in notes and coin in circulation outside of the SARB of R10.3 billion. This expansion was partly offset by the withdrawal of R7.3 billion in Corporation for Public Deposits' (CPD) deposits from banks (which were placed at the SARB), an increase in the required cash reserve deposits of private sector banks of R1.1 billion as well as 'other factors' of R3.5 billion, comprising coupon receipts on government securities and the redemption of the *R2023* government bond.

In April and May 2023, money market liquidity expanded by R14.2 billion, mainly due to a decrease of R9.5 billion in CPD deposits at the SARB and a decrease of R3.5 billion in notes and coin in circulation outside of the SARB. This was partly countered by an increase of R1.4 billion in the required cash reserve deposits of private sector banks at the SARB.

Factors influencing money market liquidity flows



Source: SARB

Bond market

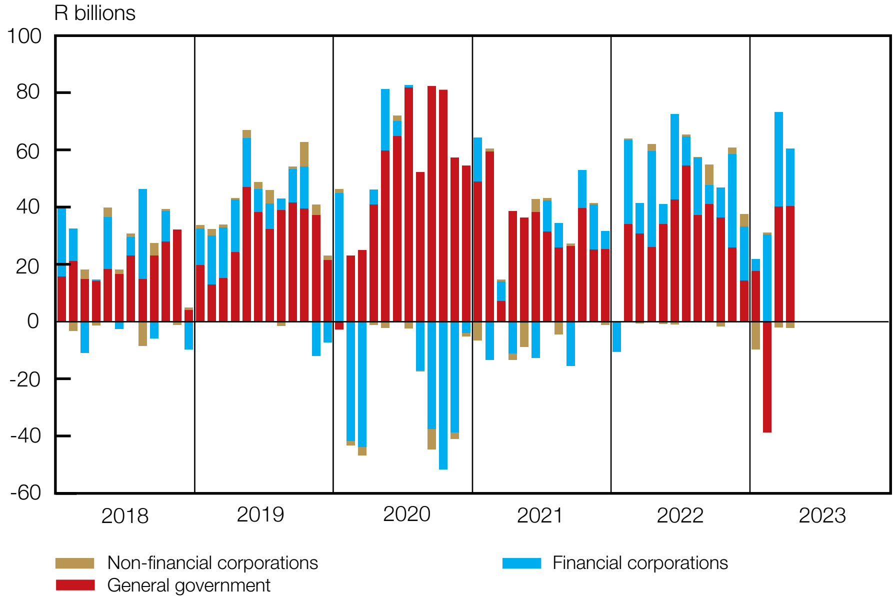
The total *nominal value of outstanding listed*[27] *and unlisted*[28] *rand-denominated debt securities* of R6.0 trillion issued by both residents and non-residents in the domestic primary debt market at the end of April 2023 was 10.4% more than a year earlier. In the first four months of 2023, the nominal value of general government's[29] net issuance amounted to R60.0 billion following the redemption of the *R2023* bond in February 2023 and the issuance of the *RN2030* floating-rate bond, the *I2031* inflation-linked bond and the *R2053* fixed-rate bond in April 2023. However, to provide for debt relief to Eskom, the *2023 Budget Review* projected an increased borrowing requirement for fiscal 2023/24 among other factors.

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

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

29 General government includes national government, extra-budgetary institutions and local governments.

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



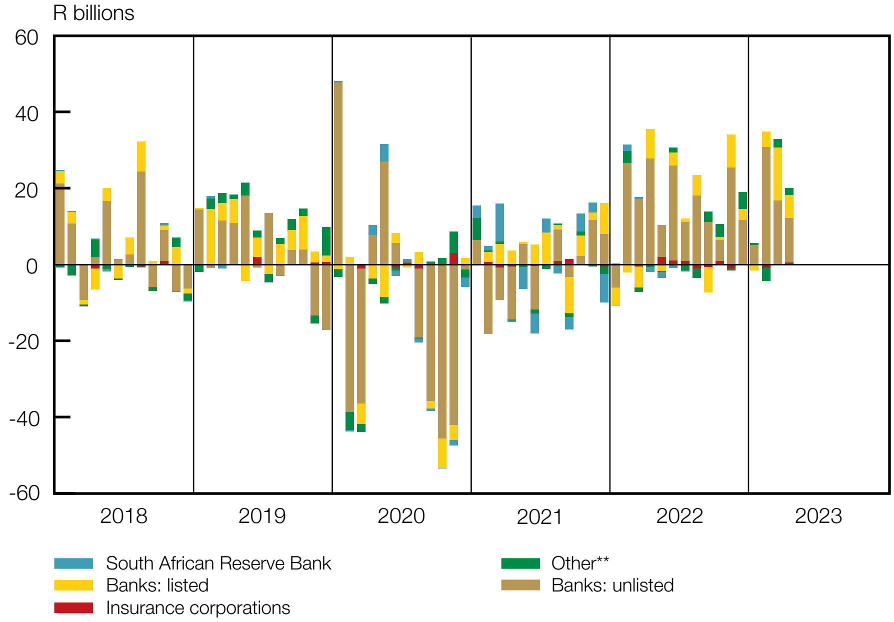
* Nominal value

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

30 Financial corporations include both public and private corporations.

By contrast, the nominal net issuance of rand-denominated debt securities in the domestic primary debt market by financial corporations[30] of R88.7 billion in the first four months of 2023 was much more than the R63.2 billion in the corresponding period of 2022. Banks dominated net issuance through unlisted debt securities and also accounted for 86.9% of the total outstanding nominal value of financial corporation debt securities in issue at the end of April 2023.

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



* Nominal value

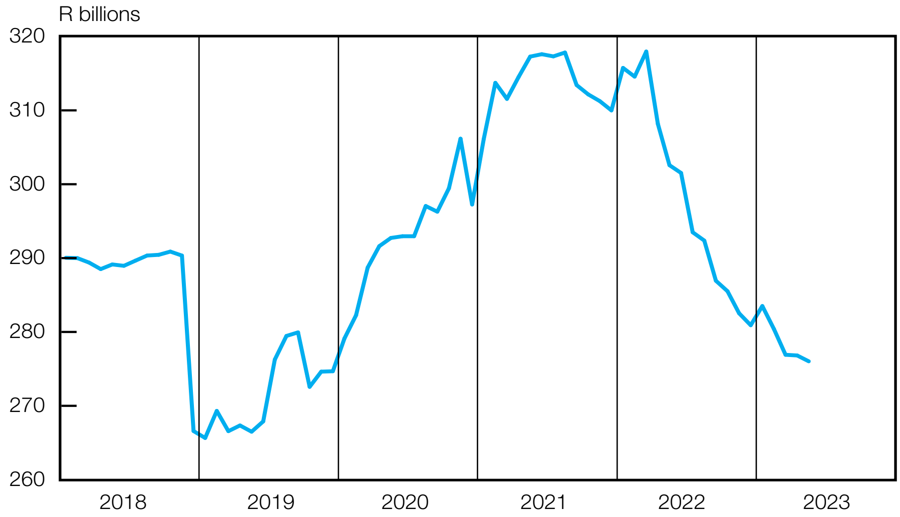
** Includes state-owned companies, real estate corporations, special-purpose vehicles and other financial corporations

Sources: Banks, CTSE, JSE and SARB

The daily average *value of turnover* in the domestic secondary bond market of R169 billion in the first five months of 2023 was 10.6% more than in the same period of 2022, while the daily average number of trades increased by 6.3% over the same period. This was supported by increased participation by non-residents from an average of 7.5% of total turnover in the first five months of 2022 to an average of 12.3% in the first five months of 2023.

The issuance of rand-denominated bonds in the *European and Japanese bond markets* remained subdued and, together with redemptions, culminated in net redemptions of R4.9 billion in the five months to May 2023. Hence, the total outstanding amount of rand-denominated bonds in issue in both these markets declined to R276 billion at the end of May 2023 – R41.9 billion less than the recent high of R318 billion in March 2022.

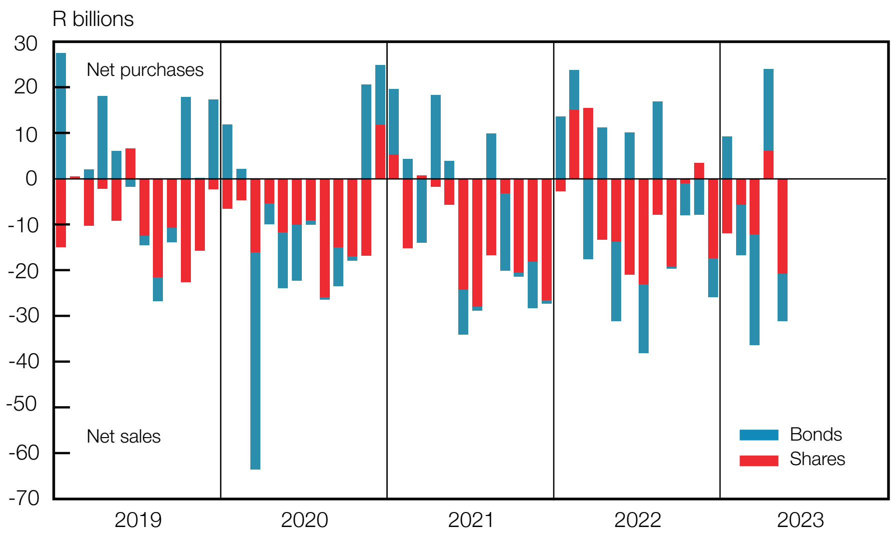
Outstanding amount of rand-denominated bonds in issue in international markets



Source: Bloomberg

Non-resident net sales of listed bonds increased from R23.4 billion in the fourth quarter of 2022 to R26.1 billion in the first quarter of 2023, according to JSE data. Non-residents recorded net sales of R24.3 billion in March 2023 – the highest monthly net sales since March 2020 at the height of the COVID-19 pandemic. The net sales then reverted to net purchases of R18.0 billion in April 2023 before again switching to net sales of R10.4 billion in May.

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



Source: JSE

The latter reflected a change in investor sentiment following allegations that South Africa was providing munitions to Russia. Cumulative net sales of R18.5 billion in the first five months of 2023 were significantly more than the net sales of R1.4 billion recorded in the corresponding period of 2022. This contributed to a decrease in non-resident holdings as a share of total domestic government bonds in issue from a recent high of 29.1% in February 2022 to 25.1% in May 2023.

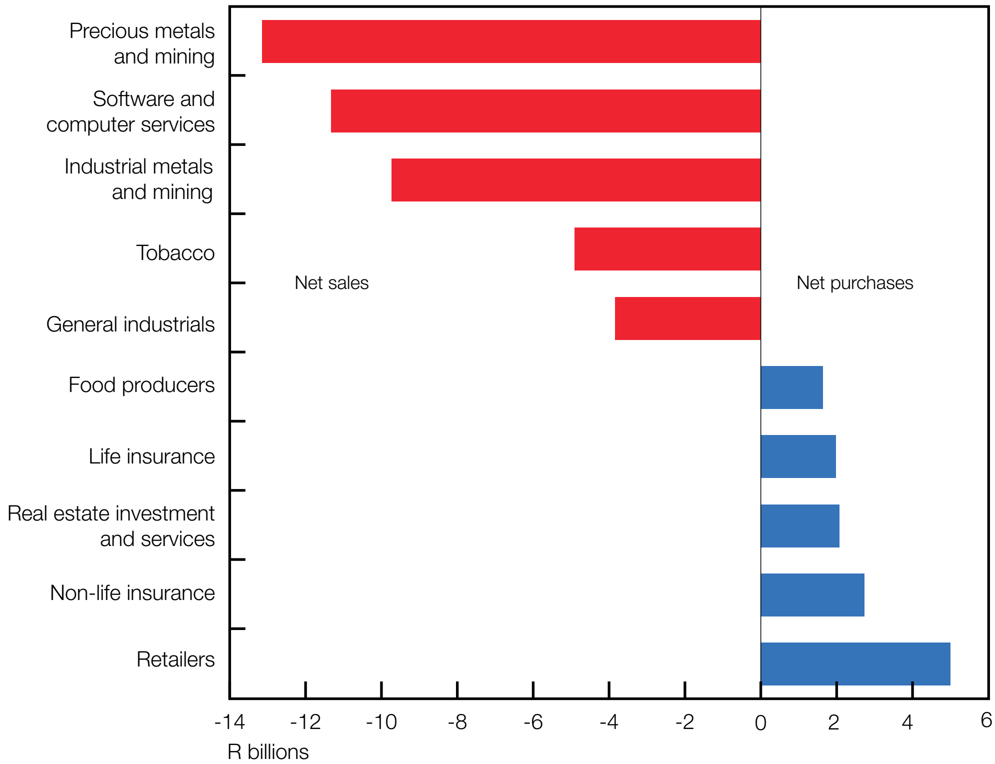
Share market

Equity capital raised in the domestic and international primary share markets by companies listed on the JSE remained subdued in the first five months of 2023 at R3.3 billion – 41.8% less than in the corresponding period of 2022. This reflected subdued actual and expected economic growth abroad and in South Africa. The industrial sector contributed the most to the total value of equity capital raised at 32.2% followed by the resources sector at 28.7% in the first five months of 2023.

The total *value of turnover* in the secondary share market of the five South African stock exchanges of R2.4 trillion in the first five months of 2023 was 8.7% less than in the same period of 2022. The combined market capitalisation of listed shares on these exchanges decreased from R23.0 trillion in January 2023 to R21.3 trillion in May, in step with a decline in share prices. The number of exchanges also decreased when the Financial Sector Conduct Authority revoked the licence of ZAR X on 13 February 2023.

Non-residents' net sales of listed shares increased from R14.8 billion in the fourth quarter of 2022 to R29.6 billion in the first quarter of 2023, according to JSE data. Thus far in 2023, net purchases have only occurred in April, to the amount of R6.0 billion, to be followed again by net sales of R20.7 billion in May. The almost persistent net sales reflected domestic challenges such as the sustained severe electricity load-shedding, which affects the already weak economic growth outlook.

Non-residents' net trading in the domestic share market from January to May 2023*



* Sectors with the highest net non-resident activity were included.

Source: JSE

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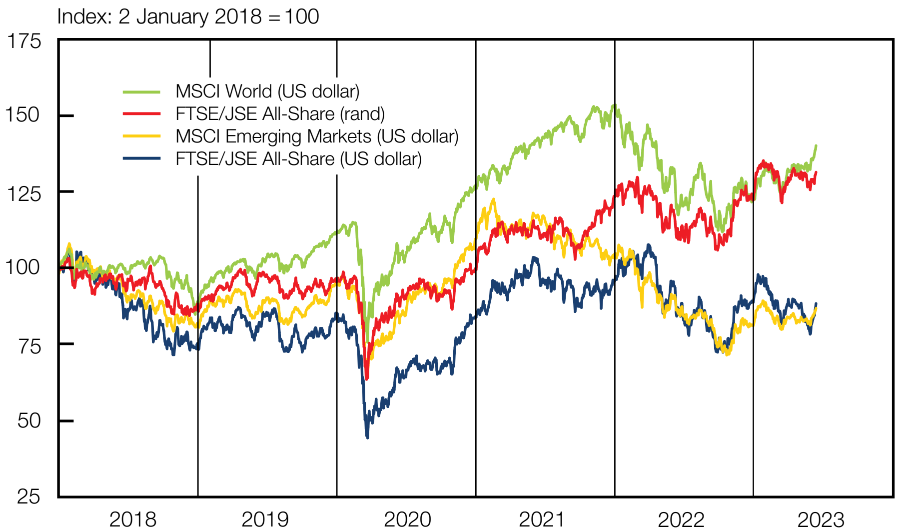
This resulted in cumulative net sales of JSE-listed shares of R44.2 billion in the first five months of 2023 compared with net purchases of R0.9 billion in the corresponding period of 2022. In the first five months of 2023, non-residents mainly purchased shares of retailers and non-life insurers, and mostly sold precious metals and mining shares, on a net basis.

Share prices in the domestic share market, as measured by the Alsi in rand terms, increased further by 4.2% in the first quarter of 2023 following an increase of 14.6% in the fourth quarter of 2022. In the first quarter of 2023, the industrial sector contributed the most, with an increase of 13.0%. Developed markets led the global rally in the first quarter of 2023 with an increase of 7.3% in the MSCI World Index and an increase of 3.5% in the MSCI Emerging Markets Index, while the Alsi, expressed in US dollar terms, declined by 0.7%. Despite high levels of electricity load-shedding and subdued economic growth, the Alsi, in rand terms, subsequently increased further by 3.2% to 78 532 index points on 15 June 2023 – 2.8% below the all-time high of 80 791 index points on 27 January.

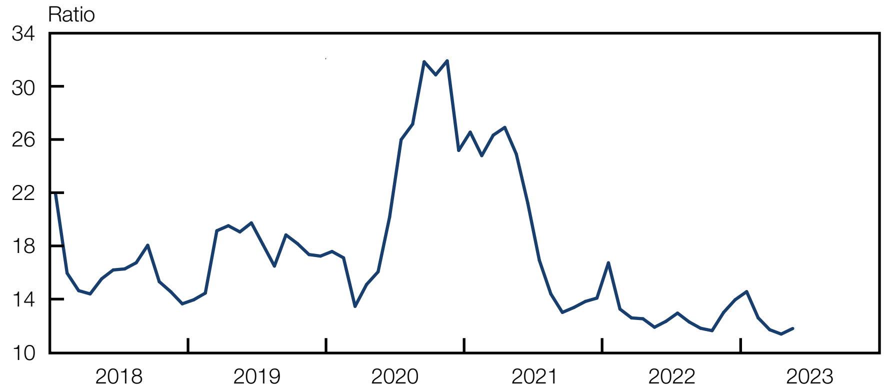
Share prices



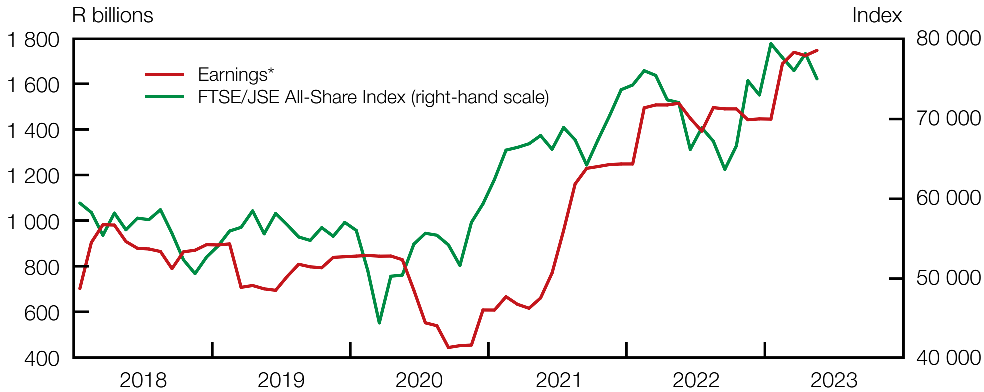
Sources: IRESS and JSE

The overall *price-earnings ratio* of ordinary shares listed on the JSE declined from a recent high of 14.6 in January 2023 to 11.8 in May as share prices declined and earnings increased to an all-time high. The mining sector contributed the most to the increase in earnings, supported by high international commodity prices and the weaker exchange value of the rand. With a rise in declared dividends, the *dividend yield* increased from 2.9% in January 2023 to 3.1% in April before returning to 2.9% in May.

Price-earnings ratio



Share prices and earnings



* Annualised rolling adjusted headline earnings

Sources: IRESS, JSE and SARB

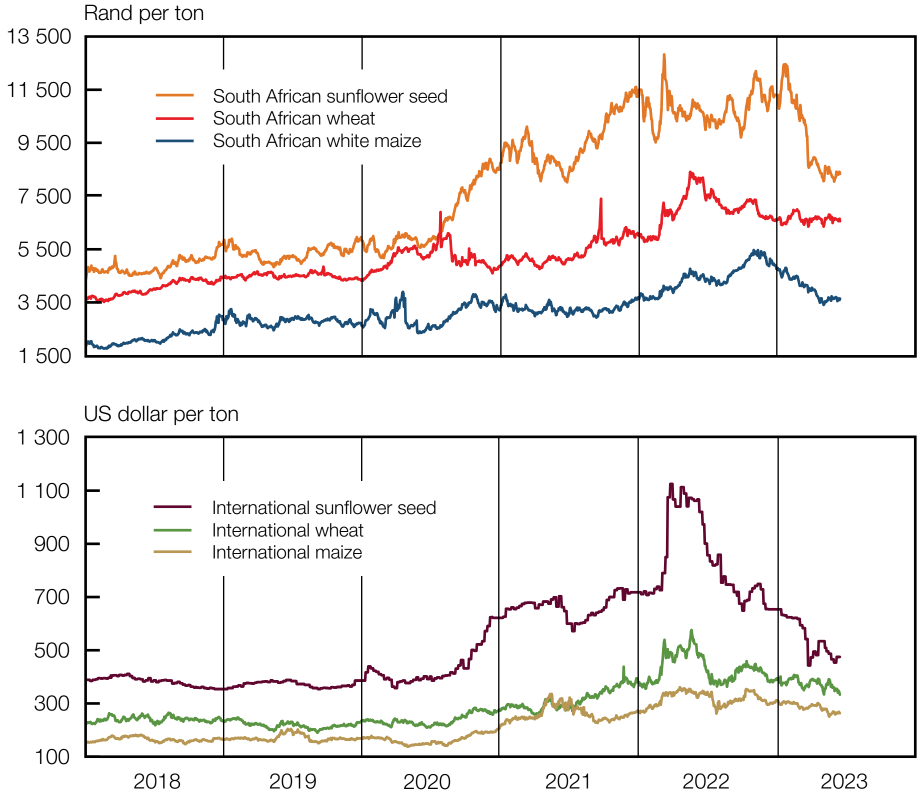
Market for exchange-traded derivatives

The *spot price of maize contracts* traded on the JSE has continued to trend lower thus far in 2023 from an all-time high in October 2022. The spot price of white maize declined notably by 33.3% from R5 471 per ton on 31 October 2022 to R3 649 per ton on 15 June 2023 as international maize prices declined together with higher expected domestic maize production for the 2023 season, according to the Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development.

The *spot price of domestic wheat contracts* briefly increased somewhat to R7 001 per ton on 22 February 2023 before declining by 6.3% to R6 557 per ton on 15 June – 22.0% lower than the all-time high of R8 409 per ton on 16 May 2022. The decline reflected lower international wheat prices, an increase in expected global wheat production by the International Grains Council as well as the renewal, at the end of March 2023, of the agreement providing for the safe exportation of grain from Ukrainian and Russian Black Sea ports.

The *spot price of domestic sunflower seed contracts* declined significantly by 33.1% from a recent high of R12 460 per ton on 23 January 2023 to R8 338 per ton on 15 June – prices last seen in mid-2021. This mostly reflected the decline in international sunflower seed prices following negotiations between the United Nations, Türkiye, Russia and Ukraine to facilitate the safe passage of grain exports from Black Sea ports.

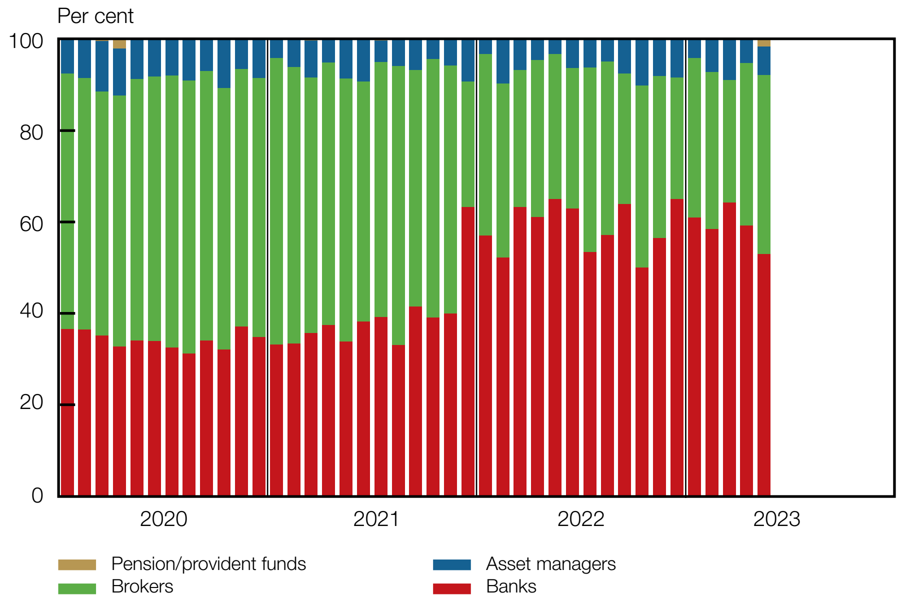
Grain prices



Sources: International Grains Council and JSE

JSE trading members in equity and currency derivatives comprise banks, brokers, asset managers and pension/provident funds. The dominance of brokers up to November 2021 has shifted to banks, which accounted for 52.9% of all trading in the equity and currency derivatives markets on the JSE in May 2023.

Market share of equity and currency derivatives on the JSE



Source: JSE

Turnover in currency derivatives on the JSE increased by 91.2% in the first five months of 2023 compared with the corresponding period of 2022, mainly reflecting hedging amid continued volatility in the exchange value of the rand. By contrast, turnover in equity derivatives, which dominates overall derivatives turnover on the JSE, decreased by 10.9% over the same period.

Derivatives turnover on the JSE, January to May 2023

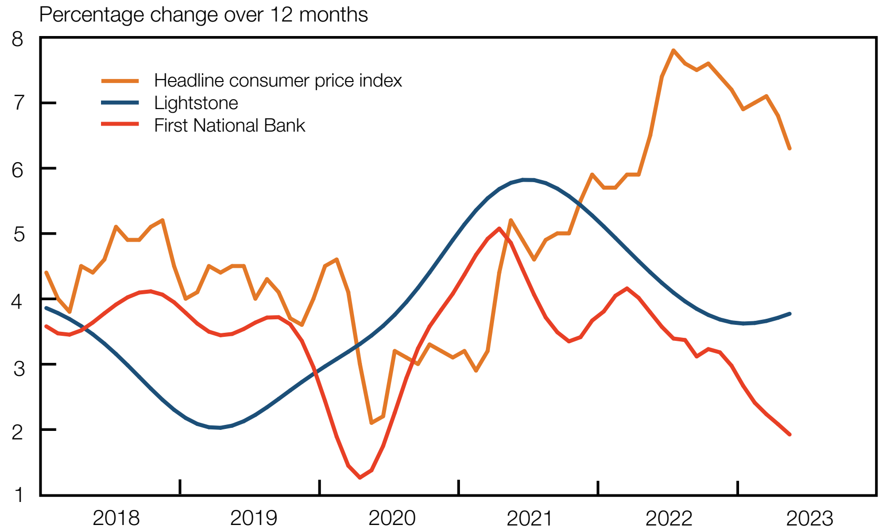
Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	2 374	-10.9
Warrants	0.3	-31.0
Commodity	538	4.8
Interest rate	634	5.3
Currency	529	91.2

Source: JSE

Real estate market

Although growth in one house price index started to accelerate recently, growth in nominal residential property prices was still subdued in the first five months of 2023, with the year-on-year rate of increase in the two available house price indices amounting to 1.9% and 3.8% respectively in May 2023 – well below consumer price inflation. Subdued growth in nominal house prices continues to reflect increased financial pressures from high inflation, below-inflation income growth and higher interest rates.

Residential property and consumer prices

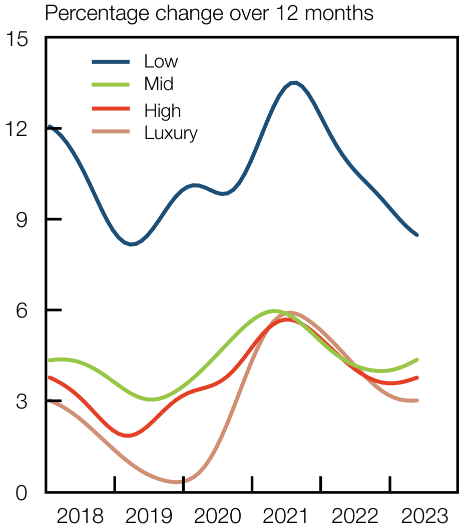


Sources: FNB, Lightstone and Stats SA

While house price growth in the mid- and high-value categories started to accelerate slightly during 2023, growth in the low-value segment slowed at a faster pace but still recorded the highest rate of increase. The average time that residential properties remained on the market also increased from 7.6 weeks in the first quarter of 2022 to 10.5 weeks in the first quarter of 2023 – the longest since the third quarter of 2020 during the COVID-19 pandemic.

Nominal house prices by value category

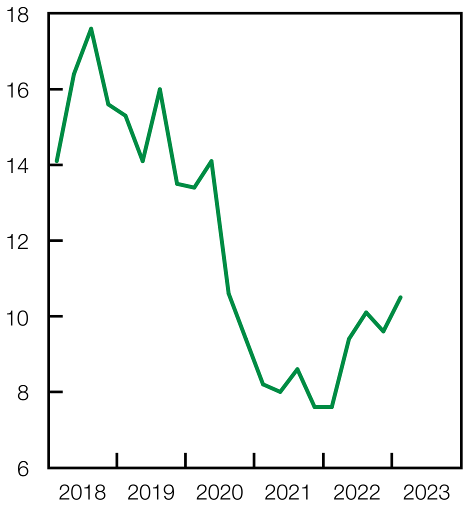
Percentage change over 12 months



Source: Lightstone

Average time that residential properties remain on the market

Number of weeks



Source: FNB

The total return[31] on *commercial property*, comprising both capital growth[32] and income return[33] was -3.2% in 2020 at the height of the COVID-19 pandemic, according to annual MSCI data. Subsequently, commercial property recovered and recorded a total return of 8.7% in 2022 – the highest since the 9.6% recorded in 2018. This was largely driven by income return of 7.9% while capital growth was only 0.8% in 2022. In that year, industrial property recorded the highest income return of 9.6%, followed by office space at 8.0%.

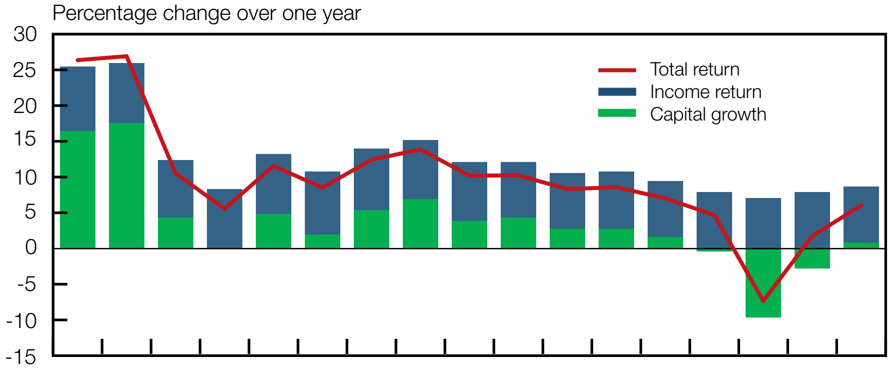
31 Total return is calculated as the change in the market value of assets *less* capital expenditure *plus* the value of sales of assets *plus* net income, *divided by* market value *plus* capital expenditure.

32 Capital growth is calculated as the change in the market value of assets *less* capital expenditure *plus* the value of sales of assets, *divided* by market value *plus* capital expenditure.

33 Income return is calculated as net income *divided by* market value *plus* capital expenditure.

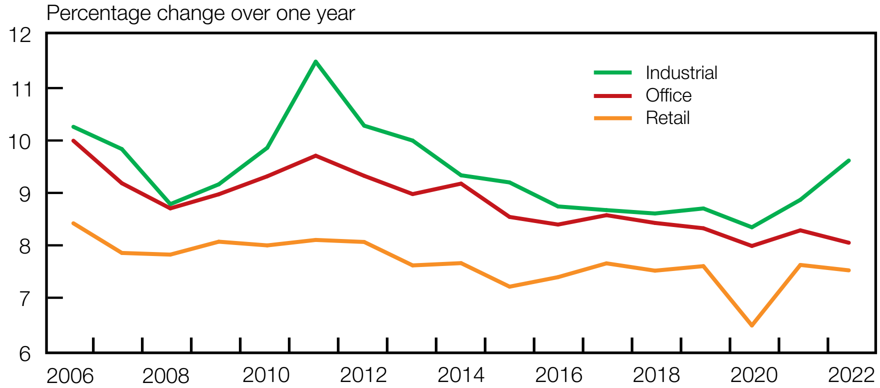
Total return on commercial property

Percentage change over one year



Income return on commercial property by sector

Percentage change over one year



Source: MSCI

Non-bank financial intermediaries

34 Net financial flows are measured as the difference between gross inflows and gross outflows.

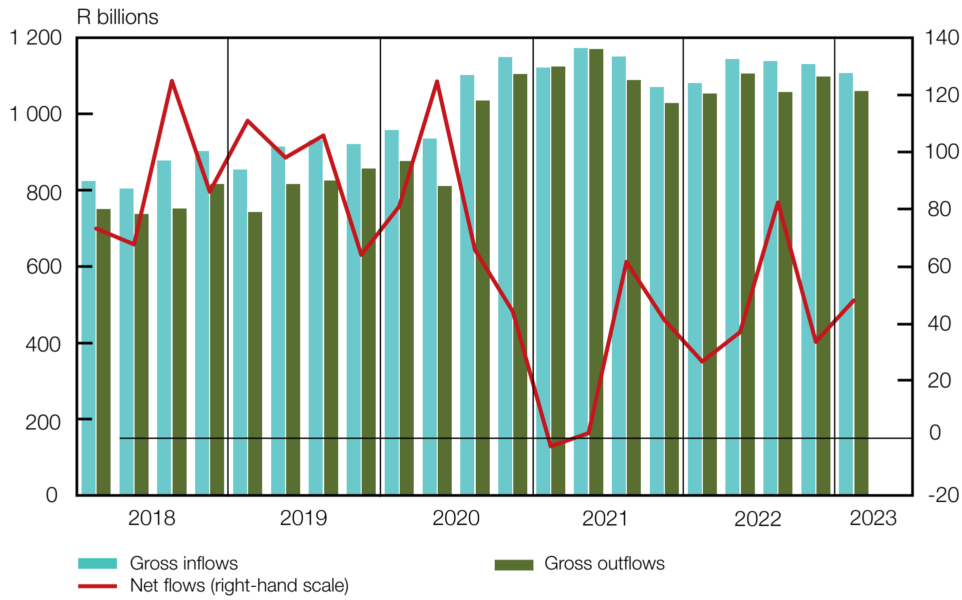
35 Non-bank financial institutions comprise unit trusts, life and non-life insurance companies as well as private and official retirement funds.

36 Gross inflows comprise investment and other income, contributions and premiums received as well as the sales of units, including switches.

The net financial flows[34] of non-bank financial institutions[35] increased from R33.7 billion in the fourth quarter of 2022 to R48.2 billion in the first quarter of 2023 alongside an increase in real economic activity, with those of insurance companies increasing the most, with a net inflow of R29.3 billion.

Gross inflows[36] to non-bank financial institutions decreased by 2.1% from the fourth quarter of 2022 to R1.1 trillion in the first quarter of 2023, or 66.7% of GDP. Gross inflows to money market and non-money market unit trusts declined by 2.6% from the fourth quarter of 2022 to R686 billion in the first quarter of 2023 following a decline in purchases of units by especially non-bank financial institutions. Gross inflows to insurance companies declined by 2.2% from the fourth quarter of 2022 to R279 billion in the first quarter of 2023 following a decline in premiums received by insurance companies amid the deterioration in the financial position of households. Investment income supported the 0.8% increase in gross inflows to private and official retirement funds to R142 billion in the first quarter of 2023.

Non-bank financial institution flows



Source: SARB

37 Gross outflows comprise the repurchases of units, benefits and claims paid, premiums paid on reinsurance outwards, surrenders, administrative expenses, dividends paid, and other expenditure.

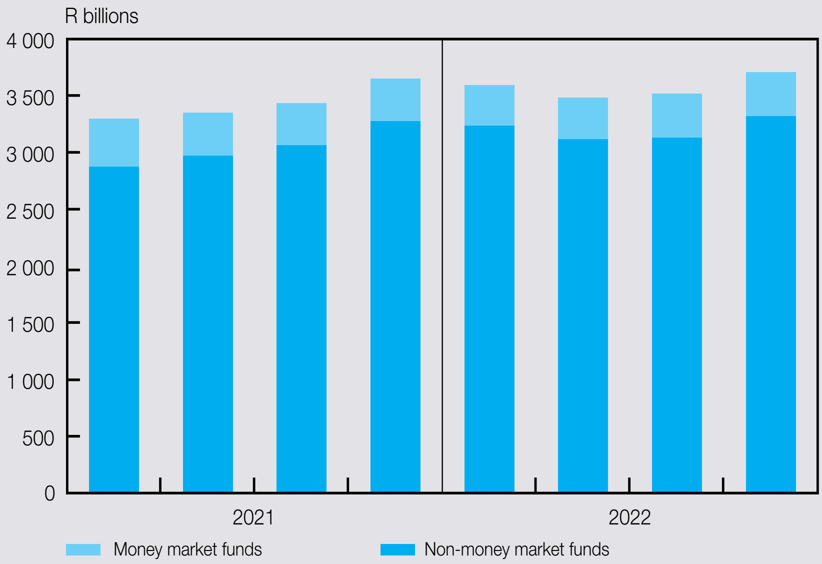
Gross outflows[37] from non-bank financial institutions decreased by 3.5% from the fourth quarter of 2022 to R1.1 trillion in the first quarter of 2023. Gross outflows from unit trusts decreased by 4.0% to R679 billion over the same period largely because of a decline in repurchases of units from money market unit trusts. Similarly, gross outflows from insurance companies also decreased by 6.5% from the fourth quarter of 2022 to R250 billion in the first quarter of 2023, with policy surrenders and other expenditure moderating the most. Gross outflows from private and official retirement funds increased by 6.4% to R131 billion in the first quarter of 2023 following higher benefits paid.

Box 2 The link between unit trust and integrated economic account statistics

This box contextualises the link between unit trust statistics[1] and financial sector[2] statistics in the experimental integrated economic accounts (IEA)[3] as published in the South African Reserve Bank's (SARB) *Quarterly Bulletin (QB)*. Unit trusts pool investor[4] funds in either money market[5] or non-money market[6] funds. The unbalanced[7] aggregated unit trust statistics serve as data inputs into the balanced financial balance sheet and accumulation accounts (FBSAA)[8] of the IEA. However, these statistics are balanced in the FBSAA, thus introducing minor differences.

Unbalanced aggregated unit trust statistics indicate the dominance of non-money market funds at 89.6% of total assets[9] as at 31 December 2022, while money market funds only accounted for 10.4%.

Total assets of unit trusts*



* Unbalanced aggregated statistics (including fund of funds); see page S–38 in this edition of the *Quarterly Bulletin*

Source: SARB

The composition of unit trust assets is dominated by equity and investment fund shares/units followed by debt securities, which accounted for 59.0% and 34.5% respectively of unbalanced aggregated total assets as at 31 December 2022, whereas currency and deposits only accounted for 5.2%.

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1 These statistics are published on page S–38 in this edition of the *Quarterly Bulletin (QB)*. Unit trusts are collective investment schemes established in terms of the Collective Investment Schemes Control Act 45 of 2002. Collective investment schemes also include participation bond schemes, hedge funds and other types of funds. See https://www.gov.za/documents/collective-investment-schemes-control-act.

2 The financial sector comprises all the resident corporations engaged in the provision of financial services as categorised into the institutional subsectors: the central bank, banks (deposit-taking corporations), money market and non-money market unit trusts, other financial intermediaries, financial auxiliaries, captive financial institutions and money lenders, insurance corporations and pension funds.

3 This refers to the experimental IEA statistics published on pages E–7 and E–8 in this edition of the *QB*.

4 For the compilation and analysis of statistics, investors in unit trusts are categorised into the following main institutional sectors: 'households', which includes individuals; 'financial corporations', comprising banks and non-bank financial institutions; 'non-financial corporations', comprising both public and private corporations; 'general government'; and 'the rest of the world', which includes all non-resident individuals and corporations.

5 Money market funds invest mostly in assets comprising money market instruments that have an original maturity of one year or less.

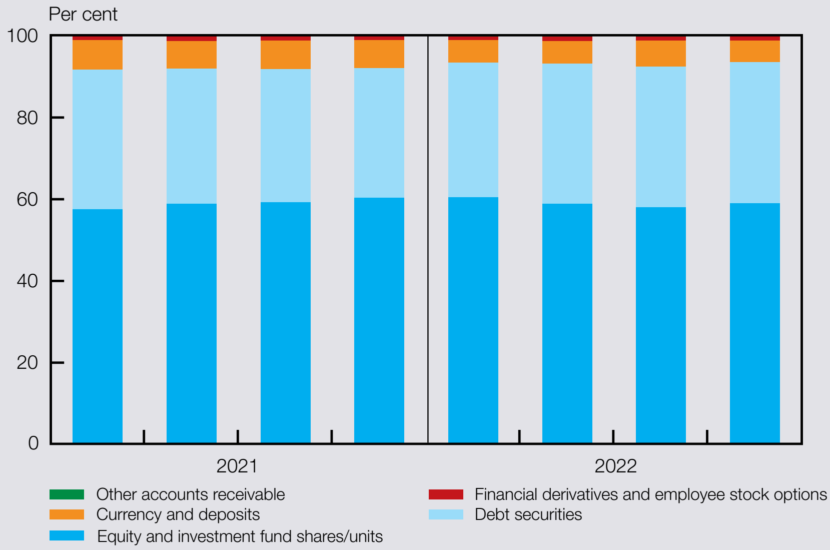
6 Non-money market funds comprise, among others, domestic equity funds, multi-asset funds, interest-bearing funds, worldwide funds, global funds, regional funds and foreign funds. The assets of non-money market funds comprise currency and deposits, debt securities, equity and investment fund shares/units as well as other assets such as accounts receivable, financial derivatives and employee stock options.

7 The unit trust statistics are unbalanced as they are only measured from the perspective of unit trusts and not integrated into the macroeconomic statistical framework.

8 The FBSAA component of the IEA comprises balance sheet stock positions as well as flows arising from transactions, revaluations and other volume changes. In the balanced version of these statistics, the FBSAA is horizontally balanced to ensure that institutional sector accounts are harmonised and integrated. The stock positions are balanced based on a hierarchy-of-sources matrix, which considers the coverage, the quality of source data and the compilation methodologies by type of financial instrument for each institutional sector vis-à-vis each counterparty institutional sector.

9 The total assets of unit trusts include fund of funds.

Composition of unit trust assets*



* Unbalanced aggregated statistics (including fund of funds); see page S–38 in this edition of the *Quarterly Bulletin*

The FBSAA in the IEA records the opening and closing financial asset and liability stock positions per financial instrument as well as the quarterly change between these positions, recorded in the accumulation accounts as transactions, valuations or other volume changes.

The balanced financial asset holdings of the total domestic economy increased by R1.6 trillion from 30 September 2022 to R46.7 trillion on 31 December 2022, with the financial sector holding most of the financial assets at 51.5%. The balanced financial assets of unit trusts increased by R170 billion to R3.6 trillion over the same period. As at 31 December 2022, equity and investment fund shares/units accounted for about 59.7% of unit trusts' financial assets and 32.8% of financial corporations' total financial assets.

The balanced liabilities of the total financial sector show that insurance, pension and standardised guarantee schemes as well as equity and investment fund shares/units accounted for 34.2% and 28.0% respectively of total liabilities as at 31 December 2022. At the same time, equity and investment fund shares/units represented 98.1% of unit trusts' total liabilities.

The link between the unit trust and IEA statistics is that the unbalanced aggregated unit trust statistics serve as data input into the FBSAA in the IEA. Through the balancing process, discrepancies or differences may arise, mainly at financial instrument level. Although money market and non-money market funds data are highly regarded in terms of coverage and accuracy, the difference between the balanced and unbalanced statistics can generally be attributed to its ranking in the hierarchy of sources vis-à-vis other counterparty institutional sectors in the balancing process.

Financial assets and liabilities stock positions of financial corporations and unit trusts as at 31 December 2022

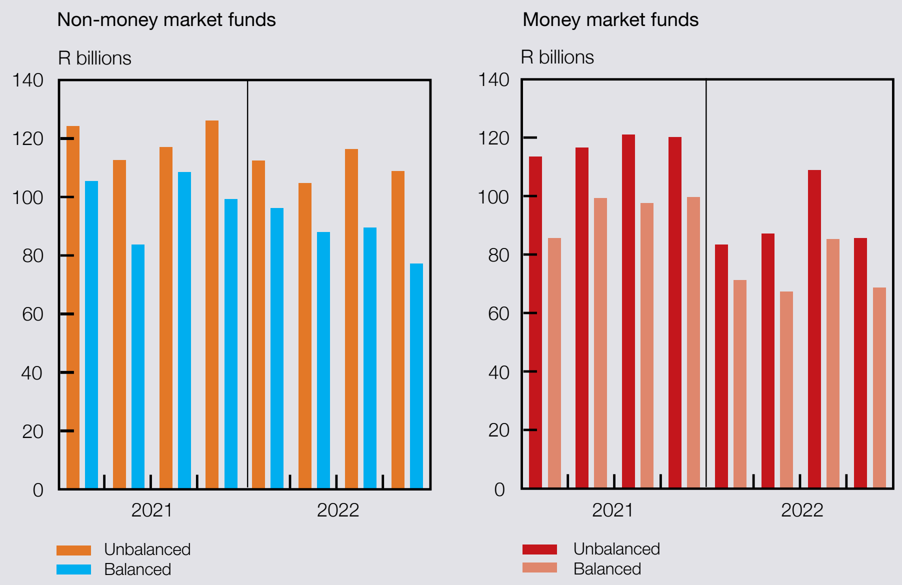
R millions

	Balanced integrated economic account statistics		Unbalanced unit trust statistics[1]	Balanced integrated economic account statistics[2]	Balanced-unbalanced ratio
	Financial corporations[2]	**Money market and non-money market unit trusts[3]**	**Money market and non-money market unit trusts[4]**	**Total domestic economy**	**Money market and non-money market unit trusts**
Monetary gold[5] and special drawing rights	224 431	-	-	**224 431**	-
Currency and deposits	1 982 886	145 888	194 658	**5 897 762**	74.9
Debt securities	5 866 164	1 256 202	1 279 382	**6 108 575**	98.2
Loans	5 323 559	5 629	-	**5 978 130**	-
Equity and investment fund shares/units	7 888 646	2 152 413	2 186 759	**16 844 627**	98.4
Insurance, pension and standardised guarantee schemes	1 924 175	-	-	**9 397 771**	-
Financial derivatives and employee stock options	375 379	38 637	38 562	**431 751**	100.2
Other accounts receivable	492 182	9 119	8 606	**1 863 829**	106.0
Total financial assets	**24 077 423**	**3 607 888**	**3 707 967**	**46 746 875**	**97.3**
Special drawing rights	-	-	-	**99 846**	-
Currency and deposits	5 590 887	-	-	**5 590 887**	-
Debt securities	1 892 516	-	-	**6 425 003**	-
Loans	1 531 419	-	-	**6 572 164**	-
Equity and investment fund shares/units	7 417 285	4 086 752	3 627 856	**14 791 284**	112.6
Insurance, pension and standardised guarantee schemes	9 076 189	-	-	**9 317 868**	-
Financial derivatives and employee stock options	409 825	44 175	44 656	**429 510**	98.9
Other accounts payable	599 209	34 567	35 455	**1 901 523**	97.5
Total liabilities	**26 517 329**	**4 165 493**	**3 707 967**	**45 128 086**	**112.3**

1 See the statistics on page S–38 in this edition of the *Quarterly Bulletin*
2 See the statistics on page E–7 in this edition of the *Quarterly Bulletin*
3 Including participation bond schemes
4 Excluding participation bond schemes
5 Monetary gold has no corresponding liability in the financial balance sheets, which results in the difference between the assets and liabilities.

The unbalanced currency and deposit assets of both money market and non-money market funds are larger than the balanced statistics. This could be due to the higher ranking (in the hierarchy of sources) attributed to banking data and either the possible misclassification of unit trusts by banks or the possible misclassification of currency and deposits by unit trusts.

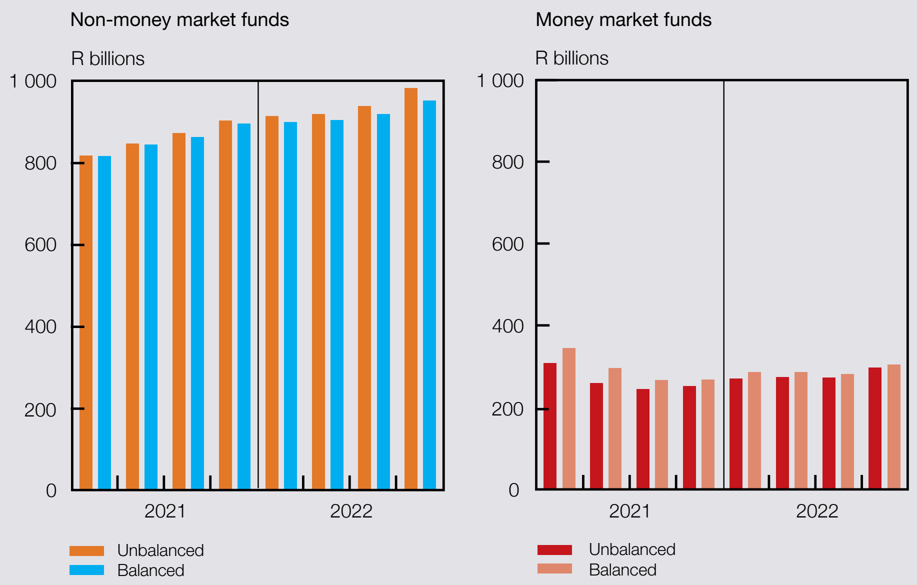
Assets of unit trusts: currency and deposits



Source: SARB

The balanced money market funds debt securities assets are slightly higher than indicated by the unbalanced statistics. However, for non-money market funds, the amounts indicated by the unbalanced statistics are generally slightly higher than the balanced statistics.

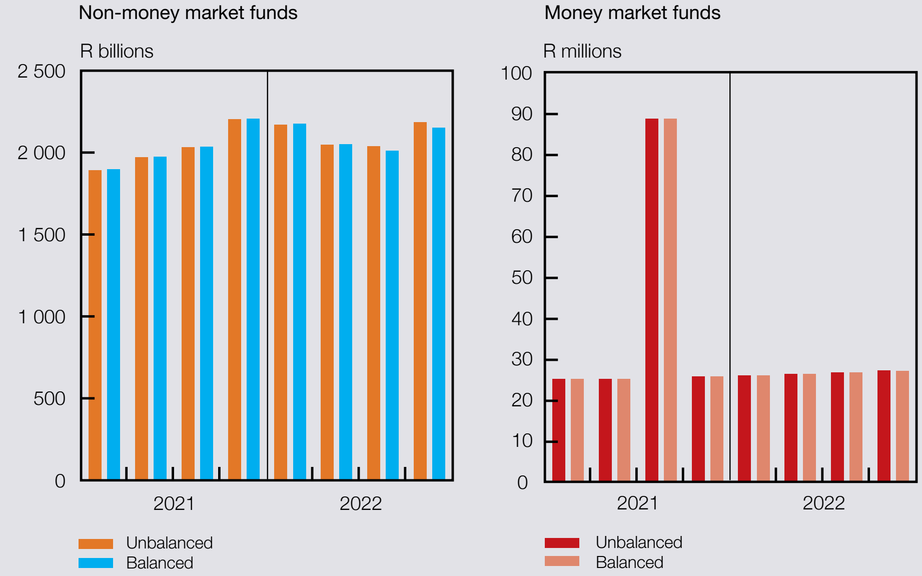
Assets of unit trusts: debt securities



Source: SARB

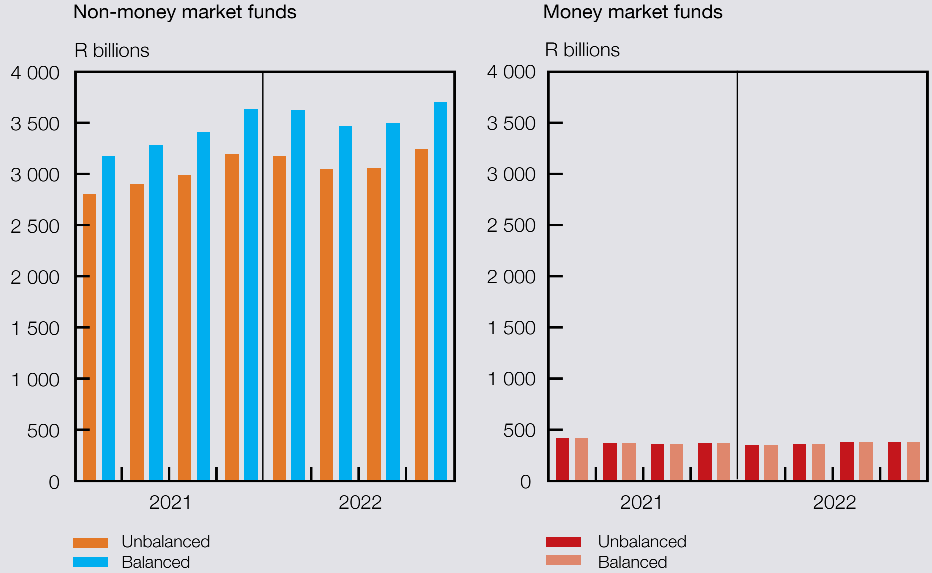
The balanced and unbalanced equity and investment fund shares/units asset amounts for non-money market funds almost match. Unit trust liabilities are dominated by equity and investment fund shares/units. In the case of non-money market funds, the balanced liability amounts are higher than the unbalanced amounts, whereas those of money market funds are closely matched.

Assets of unit trusts: equity and investment fund shares/units



Source: SARB

Liabilities of unit trusts: equity and investment fund shares/units



Source: SARB

The accumulation accounts for the fourth quarter of 2022 show how transactions, revaluations and other volume changes combined accounted for the difference between the opening and closing financial asset stock positions of financial corporations, unit trusts and the domestic economy between 30 September 2022 and 31 December 2022.

Balanced financial assets and accumulation accounts of financial corporations and unit trusts as at 31 December 2022

R millions

	Balanced integrated economic account statistics		
	Financial corporations[1]	Money market and non-money market unit trusts[2]	Total domestic economy[1]
Monetary gold and special drawing rights	222 301	-	**222 301**
Currency and deposits	2 022 711	174 963	**5 845 951**
Debt securities	5 805 965	1 200 186	**6 034 597**
Loans	5 184 684	5 495	**5 873 449**
Equity and investment fund shares/units	7 351 638	2 010 658	**15 641 786**
Insurance, pension and standardised guarantee schemes	1 911 196	-	**8 936 502**
Financial derivatives and employee stock options	482 535	32 788	**563 050**
Other accounts receivable	540 740	13 891	**2 024 059**
Closing balance sheet (as at 30 September 2022)	**23 521 770**	**3 437 981**	**45 141 693**
Monetary gold and special drawing rights	2 130	-	**2 130**
Currency and deposits	-39 825	-29 075	**51 811**
Debt securities	60 199	56 016	**73 978**
Loans	138 875	134	**104 681**
Equity and investment fund shares/units	537 008	141 755	**1 202 841**
Insurance, pension and standardised guarantee schemes	12 979	-	**461 269**
Financial derivatives and employee stock options	-107 156	5 849	**-131 299**
Other accounts receivable	-48 558	-4 772	**-160 230**
Accumulation accounts (fourth quarter of 2022)	**555 653**	**169 907**	**1 605 182**
Monetary gold and special drawing rights	224 431	-	**224 431**
Currency and deposits	1 982 886	145 888	**5 897 762**
Debt securities	5 866 164	1 256 202	**6 108 575**
Loans	5 323 559	5 629	**5 978 130**
Equity and investment fund shares/units	7 888 646	2 152 413	**16 844 627**
Insurance, pension and standardised guarantee schemes	1 924 175	-	**9 397 771**
Financial derivatives and employee stock options	375 379	38 637	**431 751**
Other accounts receivable	492 182	9 119	**1 863 829**
Closing balance sheet (as at 31 December 2022)	**24 077 423**	**3 607 888**	**46 746 875**

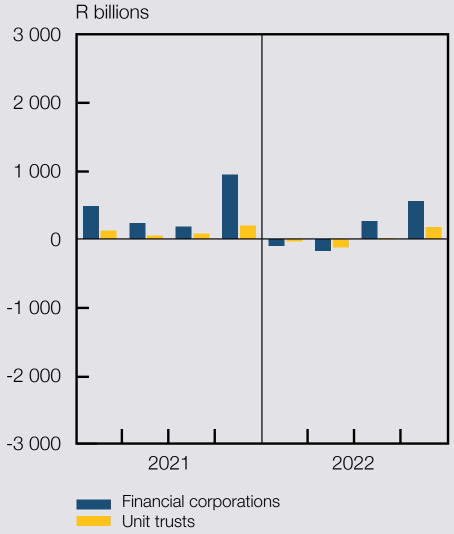
1 See the statistics on page E–8 in this edition of the *Quarterly Bulletin*
2 Including participation bond schemes

Changes in the financial assets of financial corporations and unit trusts (both money market and non-money market funds) in the accumulation accounts[10], except for currency and deposits as well as loans, mostly reflect revaluations. The accumulation accounts reflected an increase of R556 billion in the financial assets of financial corporations in the final quarter of 2022 – with revaluations increasing by R719 billion and transactions declining by R163 billion.

10 The components of the accumulation accounts are not directly measured but estimated using predominantly an adaptation of the approach described in international statistical manuals for deriving transactions and valuation changes using exchange rates and other prices. See Annex 5.1 of the 2016 Monetary and Financial Statistics Manual and Compilation Guide, available at https://www.imf.org/-/media/Files/Data/Guides/mfsmcg_merged-web-pdf.ashx.

An increase of R170 billion in the financial assets of unit trusts over the same period reflected revaluations to the value of R173 billion, which were partly offset by a decrease in transactions of R3.3 billion.

Balanced financial assets and accumulation accounts



Balanced financial asset revaluations and transactions

Source: SARB

38 Unless stated to the contrary, the year-on-year rates of increase in this section compare fiscal 2022/23 with fiscal 2021/22. Data for both periods are unaudited and preliminary.

Public finance[38]

Non-financial public sector borrowing requirement

The preliminary *non-financial public sector borrowing requirement* decreased by R74.3 billion year on year to R157.9 billion in fiscal 2022/23. The lower borrowing requirement reflected the smaller cash deficit of the consolidated general government due to higher cash surpluses at most levels of general government and a slightly smaller deficit at national government. National government's smaller cash deficit reflected significantly higher cash receipts from operating activities due to revenue from tax collections. Non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded a cash *deficit* in fiscal 2022/23 compared with a cash *surplus* in fiscal 2021/22.

Non-financial public sector borrowing requirement

R billions

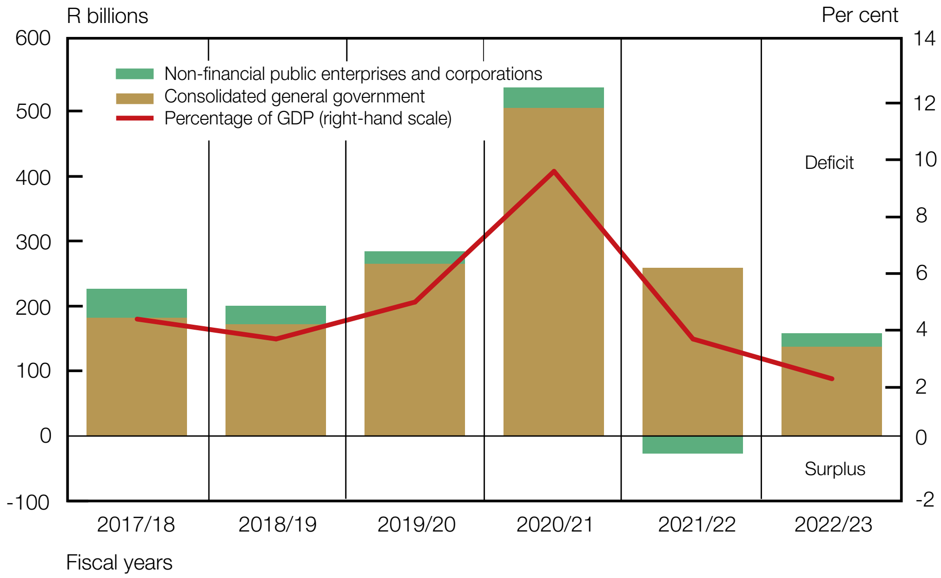
Level of government	Fiscal 2021/22*	Fiscal 2022/23*
Consolidated general government	259.1	137.4
National government	319.4	306.8
Extra-budgetary institutions	-16.6	-30.2
Social security funds	5.6	-26.0
Consolidated provincial government	-3.0	-11.0
Local governments	-46.3	-102.2
Non-financial public enterprises and corporations	-26.9	20.5
Total	232.2	157.9
As a percentage of gross domestic product	*3.7*	*2.3*

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

Sources: National Treasury, Stats SA and SARB

The non-financial public sector borrowing requirement as a ratio of GDP decreased notably to 2.3% in fiscal 2022/23 compared with a ratio of 3.7% in the previous fiscal year.

Non-financial public sector borrowing requirement

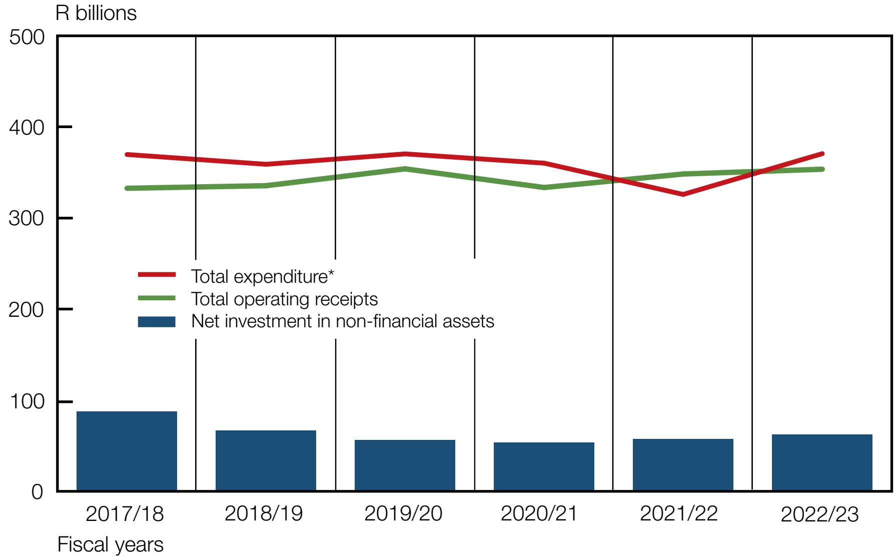


Sources: National Treasury, Stats SA and SARB

The financial activities of the non-financial SOCs resulted in a preliminary cash *deficit* of R20.5 billion in fiscal 2022/23 as opposed to a cash *surplus* of R26.9 billion in the previous fiscal year.

The total cash receipts from operating activities of the non-financial SOCs increased by only 1.5% year on year to R424 billion in fiscal 2022/23 due to less financial support from national government. Total expenditure, inclusive of cash payments for operating activities and net investment in non-financial assets, increased by 13.7% year on year to R445 billion, mainly driven by higher cash payments for operating activities owing to increased purchases of goods and services.

Financial activities of non-financial public enterprises and corporations



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

Source: SARB

Net investment in non-financial assets by the non-financial SOCs increased by R4.8 billion year on year to R62.2 billion in fiscal 2022/23 due to the spending on non-financial assets alongside some improvement in domestic economic activity.

Budget comparable analysis of national government finances

National government's cash book deficit of R310.0 billion in fiscal 2022/23 was R77.2 billion less than projected in the *2022 Budget Review* and R13.7 billion less than estimated in the *2022 Medium Term Budget Policy Statement (2022 MTBPS).* The smaller cash book deficit reflected an increase in revenue collections which outpaced that in expenditure. This contributed to a smaller net borrowing requirement, which was largely financed through the net issuance of domestic debt securities. National government's primary deficit of R1.7 billion was significantly smaller than both the original budget and the *2022 MTBPS* estimates of R85.4 billion and R16.0 billion respectively. National government's gross loan debt increased further to R4 765.5 billion as at 31 March 2023, higher than both the original budget and the *2022 MTBPS* estimates.

National government's total revenue increased by 8.7% year on year to R1 697.5 billion in fiscal 2022/23, exceeding both the original budget and the *2022 MTBPS* estimates by R109.5 billion and R3.0 billion respectively. Revenue collections remained resilient in fiscal 2022/23 notwithstanding the temporary fuel levy relief and the impact of electricity load-shedding on economic activity. Total revenue as a ratio of GDP of 25.3% in fiscal 2022/23 was higher than the 24.7% in the previous fiscal year.

National government finances

	Actual Fiscal 2022/23		Originally budgeted[1] Fiscal 2022/23		Revised estimates[2] Fiscal 2022/23		Originally budgeted[3] Fiscal 2023/24	
	R billions	Percentage change[4]	R billions	Percentage change[5]	R billions	Percentage change[6]	R billions	Percentage change[5]
Revenue	1 697.5	8.7	1 588.0	1.7	1 694.5	8.5	1 759.2	3.6
Percentage of GDP	*25.3*		*24.7*		*25.5*		*25.1*	
Expenditure	2 007.5	6.4	1 975.3	4.7	2 018.2	7.0	2 034.6	1.3
Percentage of GDP	*29.9*		*30.7*		*30.3*		*29.0*	
Cash book balance[7]	-310.0		-387.2		-323.7		-275.4	
Percentage of GDP	*-4.6*		*-6.0*		*-4.9*		*-3.9*	
Primary balance[8]	-1.7		-85.4		-16.0		65.1	
Percentage of GDP	*-0.03*		*-1.3*		*-0.2*		*0.9*	
Gross loan debt[9]	4 765.5	11.4	4 692.2	9.7	4 752.0	11.1	5 060.2	6.2
Percentage of GDP	*70.9*		*72.8*		*71.4*		*72.2*	

1 *2022 Budget Review*
2 *2022 MTBPS*
3 *2023 Budget Review*
4 Year-on-year percentage change: actual outcome on previous year's actual outcome
5 Year-on-year percentage change: budgeted estimates on previous year's actual outcome
6 Year-on-year percentage change: revised estimates on previous year's actual outcome
7 Cash book deficit (-)/surplus (+)
8 Cash book balance excluding interest payments: deficit (-)/surplus (+)
9 As at 31 March 2023 for rand values
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: National Treasury, SARS and Stats SA

Revenue from taxes on income, profits and capital gains (58.2% of total revenue) increased by 8.3% year on year to R988.5 billion in fiscal 2022/23, exceeding both the original budget and the *2022 MTBPS* estimates. Personal income tax (PIT) receipts increased by 8.4% on account of higher pay-as-you-earn (PAYE) collections, mainly from the finance, community and manufacturing sectors. Corporate income tax (CIT) receipts increased by 7.5%, partly due to provisional tax payments by the manufacturing, finance and transport sectors.

Revenue from taxes on goods and services (34.2% of total revenue) increased by 5.6% year on year to R579.9 billion in fiscal 2022/23 due to higher 'other' excise duties of R62.9 billion and net value-added tax (VAT) of R422.4 billion. However, with both net VAT receipts and the fuel levy smaller than projected, taxes on goods and services were less than the original budget and the *2022 MTBPS* estimates of R600.5 billion and R592.6 billion respectively.

Income from taxes on international trade and transactions increased by 27.0% year on year to R76.1 billion in fiscal 2022/23, exceeding both the original budget and the *2022 MTBPS* estimates of R62.5 billion and R74.5 billion respectively. This largely reflected the higher importation of mineral fuels, vehicles and electrical machinery.

National government revenue in fiscal 2022/23

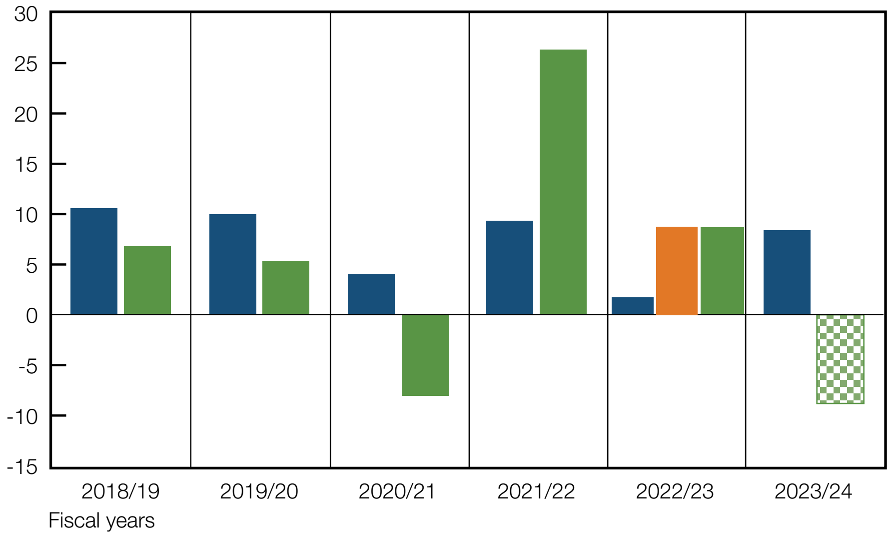
Revenue source	Originally budgeted[1] Fiscal 2022/23		Revised estimates[2] Fiscal 2022/23		Actual Fiscal 2022/23	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Taxes on income, profits and capital gains	894.3	-2.0	970.4	6.3	988.5	8.3
Of which: Income tax on individuals	587.9	5.8	596.1	7.3	602.0	8.4
Income tax on companies	269.9	-16.5	332.7	2.9	347.7	7.5
Payroll taxes	20.6	6.6	21.2	9.8	20.9	8.1
Taxes on property	20.3	-7.9	23.0	4.2	21.2	-3.6
Taxes on goods and services	600.5	9.3	592.6	7.9	579.9	5.6
Of which: Value-added tax (VAT) net	439.7	12.5	434.9	11.3	422.4	8.1
Domestic	475.9	6.0	488.2	8.8	486.5	8.4
Imports	215.5	5.4	246.6	20.6	254.9	24.7
Refunds	-251.8	-4.0	-300.0	14.3	-319.0	21.6
Fuel levy	89.1	0.3	80.6	-9.3	80.5	-9.5
Other exise duties	58.6	3.8	62.6	10.9	62.9	11.3
Taxes on international trade and transactions	62.5	4.3	74.5	24.3	76.1	27.0
Of which: Import duties	61.1	5.2	72.6	25.0	74.1	27.5
Other revenue[6]	33.6	-23.3	56.5	29.3	54.6	24.8
Less: SACU[7] payments	43.7	-5.0	43.7	-5.0	43.7	-5.0
Total revenue	1 588.0	1.7	1 694.5	8.5	1 697.5	8.7

1 *2022 Budget Review*
2 *2022 MTBPS*
3 Year-on-year percentage change: budgeted estimates 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

Revenue of national government

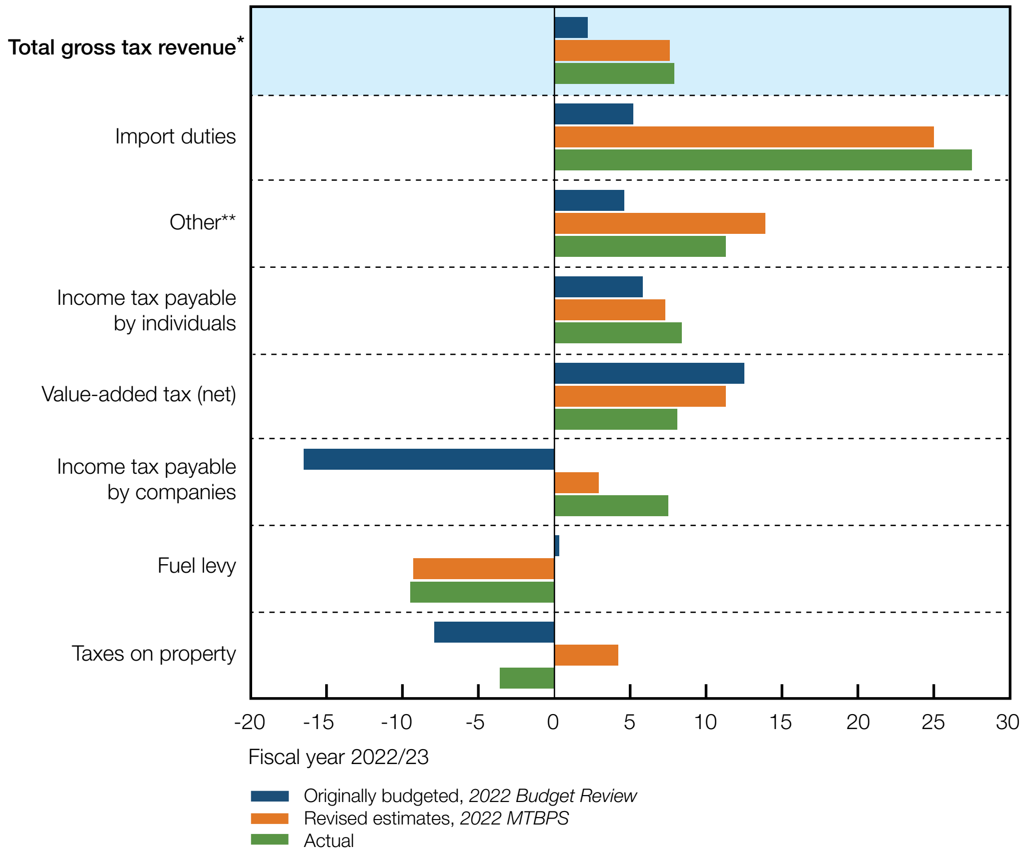
Percentage change over one year



Sources: National Treasury and SARS

Growth in national government's gross tax revenue*

Percentage change over one year



* Before SACU payments

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

Sources: National Treasury, SARS and SARB

Government revenue from other non-tax sources increased by 24.8% year on year to R54.6 billion in fiscal 2022/23, largely due to higher receipts of rent on land. Other revenue was R21.0 billion more than originally budgeted and R1.9 billion less than estimated in the *2022 MTBPS*. The Southern African Customs Union (SACU) received the full R43.7 billion budgeted for fiscal 2022/23, in four equal tranches.

The *2023 Budget Review* projected a 3.6% year-on-year increase in national government revenue to R1 759.2 billion for fiscal 2023/24. In the first month of fiscal 2023/24 (April 2023), total revenue decreased by 8.8% year on year to R85.1 billion.

National government expenditure increased by 6.4% year on year to R2 007.5 billion in fiscal 2022/23, more than the original budget estimate but less than expected in the *2022 MTBPS*. This reflected higher voted expenditure by national government departments, higher debt-service cost and higher equitable share transfers to provinces. Total expenditure as a ratio of GDP remained unchanged at 29.9% in fiscal 2022/23 compared with the previous fiscal year.

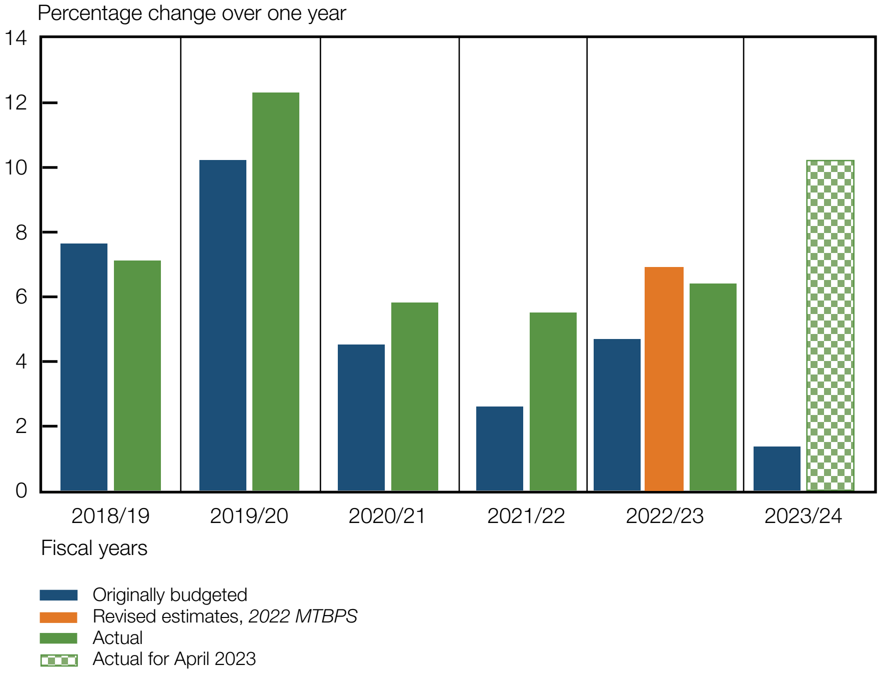
National government expenditure in fiscal 2022/23

Expenditure item	Originally budgeted[1] Fiscal 2022/23 R billions	Originally budgeted[1] Percentage change[3]	Revised estimates[2] Fiscal 2022/23 R billions	Revised estimates[2] Percentage change[4]	Actual Fiscal 2022/23 R billions	Actual Percentage change[5]
Voted expenditure	1 057.0	2.2	1 094.5	5.8	1 087.8	5.2
Transfers and subsidies	755.3	8.9	755.4	8.9	742.9	7.1
Current payments	260.7	1.8	263.1	2.8	262.8	2.7
Payments for capital assets	15.5	17.4	16.9	27.8	15.8	19.9
Payments for financial assets	25.6	-64.3	59.2	-17.4	66.2	-7.5
Statutory amounts[6]	918.2	7.7	923.7	8.3	919.7	7.9
Of which: Provincial equitable share	560.8	2.9	560.8	2.9	570.9	4.8
Interest on debt	301.7	12.6	307.5	14.8	308.3	15.1
General fuel levy	15.3	4.9	15.3	4.9	15.3	4.9
Total expenditure	1 975.3	4.7	2 018.2	7.0	2 007.5	6.4

1 *2022 Budget Review*
2 *2022 MTBPS*
3 Year-on-year percentage change: budgeted estimates 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.

Source: National Treasury

Expenditure by national government



Source: National Treasury

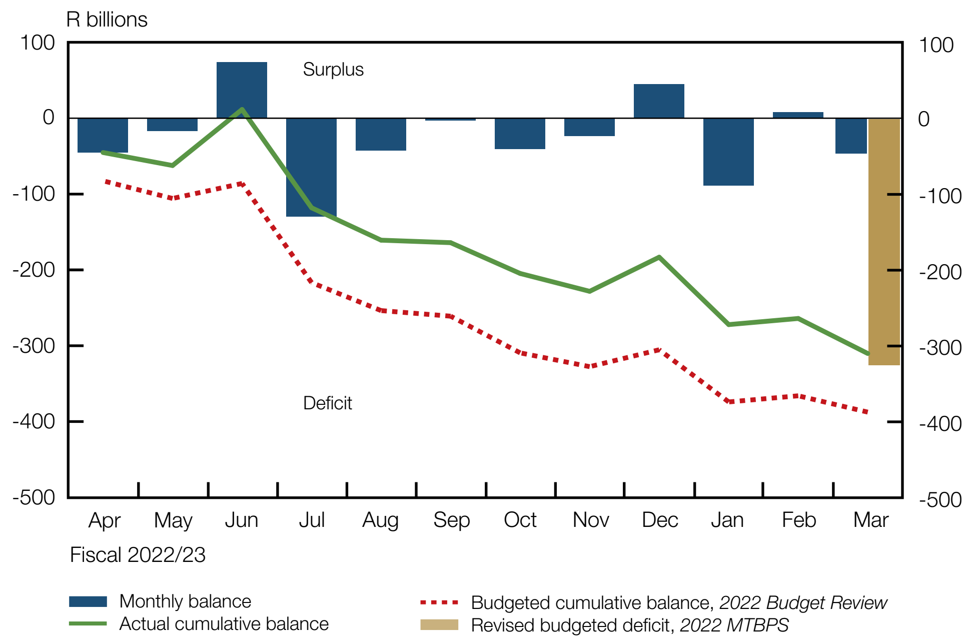
Total voted expenditure (54.2% of total expenditure) increased by 5.2% year on year to R1 087.8 billion in fiscal 2022/23, higher than the original budget but lower than the *2022 MTBPS* estimates. The increase resulted primarily from transfers and subsidies, current payments, and payments for capital assets. By contrast, payments for financial assets decreased by 7.5% year on year to R66.2 billion in fiscal 2022/23 – inclusive of payments to the South African National Roads Agency (R23.8 billion), Eskom (R22.0 billion), Transnet (R5.8 billion), the Land Bank (R5.1 billion), Denel (R3.6 billion), South African Airways (R2.6 billion) and the South African Post Office (R2.4 billion).

Interest paid on national government debt (15.4% of total expenditure) of R308.3 billion in fiscal 2022/23 reflected a 15.1% year-on-year increase in debt-service cost on account of the higher outstanding amount of government debt and changes in interest rates.

National government's equitable share transfers to provinces of R570.9 billion in fiscal 2022/23 exceeded both the original budget and the *2022 MTBPS* estimates by R10.1 billion. Metropolitan municipalities received the budgeted R15.3 billion general fuel levy in three equal instalments.

The *2023 Budget Review* projected a 1.3% year-on-year increase in national government expenditure to R2 034.6 billion for fiscal 2023/24. In April 2023, total expenditure increased by 10.2% year on year to R152.6 billion.

Cash book balance of national government



Sources: National Treasury, SARS and SARB

Developments in national government revenue and expenditure in fiscal 2022/23 resulted in a cash book deficit of R310.0 billion, which was R15.7 billion less than a year earlier. In addition, the cash book deficit was lower than the original budget and the *2022 MTBPS* estimates of R387.2 billion and R323.7 billion respectively. The cash book deficit as a ratio of GDP of 4.6% in fiscal 2022/23 was lower than the 5.2% recorded in the previous fiscal year.

The *2023 Budget Review* envisaged a national government cash book deficit of R275.4 billion for fiscal 2023/24. In April 2023, the net outcome of national government revenue and expenditure yielded a cash book deficit of R67.5 billion, which was R22.3 billion more than in April 2022.

National government's primary deficit of R1.7 billion in fiscal 2022/23 was significantly smaller than the deficit of R57.7 billion in the previous fiscal year. The primary deficit as a ratio of GDP of 0.03% in fiscal 2022/23 was much lower than the 0.9% recorded in the previous fiscal year and well below the originally budgeted projection of 1.3% for fiscal 2022/23.

National government financing

R billions

Item or instrument	Actual Fiscal 2021/22	Actual Fiscal 2022/23	Originally budgeted[1] Fiscal 2022/23	Revised estimates[2] Fiscal 2022/23
Cash book balance[3]	-325.7	-310.0	-387.2	-323.7
Cash flow balance[4]	-318.7	-335.6	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[5]	-1.9	-8.6	-8.8	-8.6
Accrual adjustments	76.1	114.6	...	...
Net lending/borrowing requirement[6]	-244.6	-229.7	-396.1	-332.4
Treasury bills and short-term loans[7]	-7.7	-25.6	0.0	-3.4
Domestic bonds[7]	159.4	158.5	249.1	227.8
Foreign bonds and loans[7]	29.3	57.4	40.8	66.7
Change in available cash balances[8]	63.6	39.4	106.2	41.3
Total net financing	244.6	229.7	396.1	332.4

1 *2022 Budget Review*
2 *2022 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 (+)

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

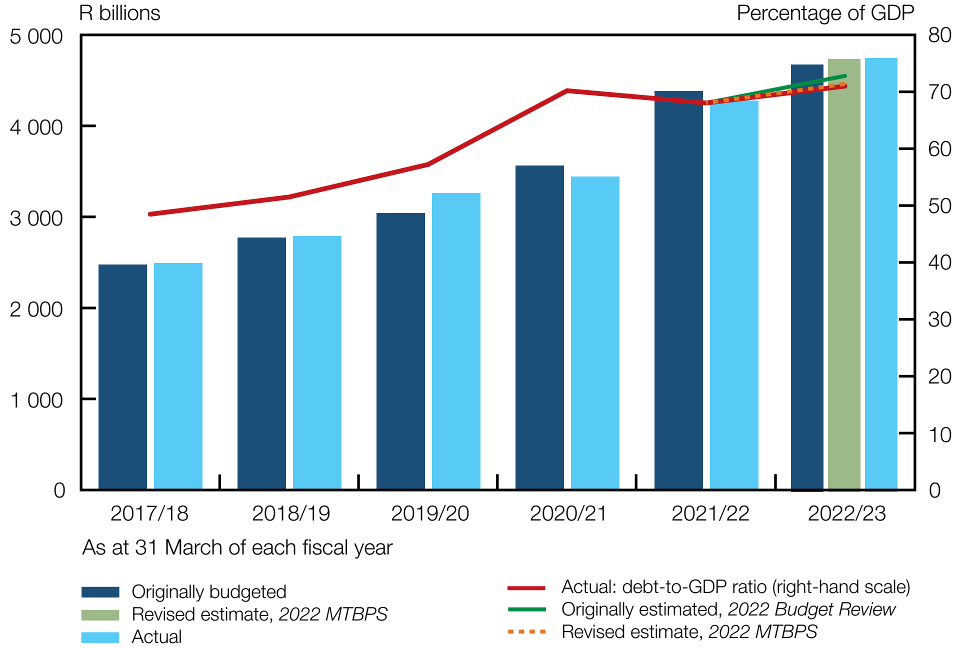
Sources: National Treasury and SARB

National government's cash flow deficit increased by R16.9 billion from R318.7 billion in fiscal 2021/22 to R335.6 billion in fiscal 2022/23. After accounting for the cost of revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement of national government amounted to R229.7 billion in fiscal 2022/23.

The lower net borrowing requirement of national government was mostly financed in the domestic financial market through the net issuance of long-term government bonds of R158.5 billion. Government's net issuance of foreign bonds and loans amounted to R57.4 billion in fiscal 2022/23, while TBs and short-term loans from the CPD together amounted to a net redemption of R25.6 billion. In addition, national government's available cash balances decreased by R39.4 billion over the same period.

National government's total gross loan debt (domestic and foreign) increased by R487.9 billion year on year to R4 765.5 billion as at 31 March 2023, exceeding both the R4 692.2 billion originally budgeted and the R4 752.0 billion estimated in the *2022 MTBPS*. Total gross loan debt as a percentage of GDP of 70.9% as at 31 March 2023 was higher than the 67.8% recorded a year earlier.

Gross loan debt of national government

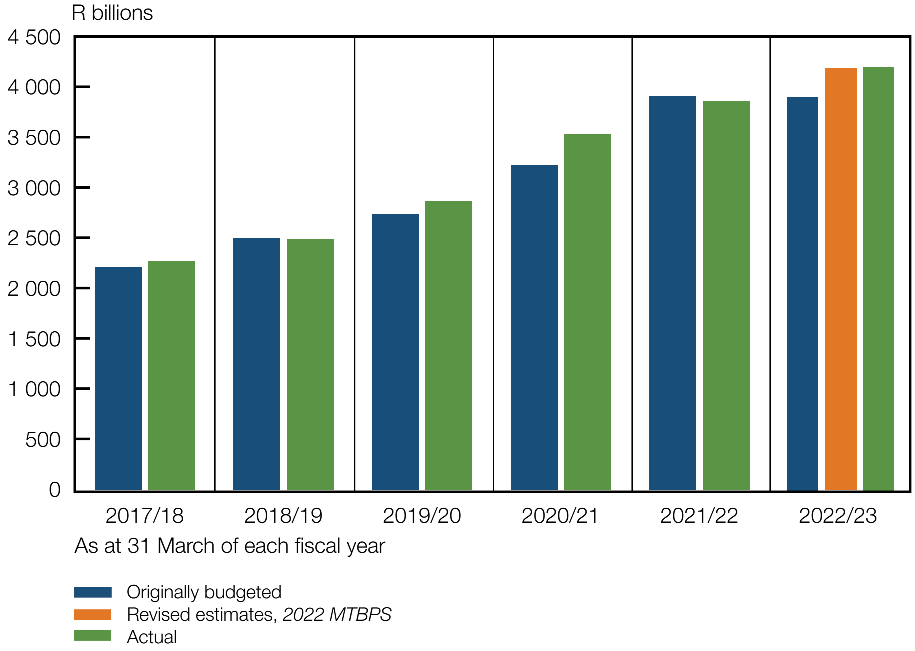


Sources: National Treasury, Stats SA and SARB

National government's gross domestic debt (marketable and non-marketable) increased by 8.9% year on year to R4 210 billion as at 31 March 2023, largely due to increased net borrowing through domestic marketable debt. Domestic marketable bonds increased by 8.8% year on year to R4 185 billion and accounted for 99.4% of the total outstanding stock of domestic debt as at 31 March 2023. However, a net redemption of R25.5 billion in fiscal 2022/23 lowered the outstanding amount of TBs to R422 billion as at 31 March 2023. The total stock of non-marketable domestic debt increased by 30.3% year on year to R24.9 billion at the end of March 2023. Total outstanding gross domestic debt exceeded both the original budget estimate of R4 159 billion and the *2022 MTBPS* estimate of R4 193 billion for fiscal 2022/23.

National government's gross foreign debt (marketable and non-marketable) increased by R144 billion, or 34.8%, year on year to R556 billion as at 31 March 2023. The significant increase could be attributed to net borrowing in the international financial markets through bonds and loans as well as exchange rate revaluation effects. Net issuance of R101 billion in fiscal 2022/23 increased the total stock of outstanding foreign marketable bonds to R401 billion as at 31 March 2023. National government issued two new notes (TY2/110 and TY2/111) in April 2022, raising R45.1 billion (US$3 billion). This increased the average outstanding maturity of foreign marketable bonds from 152 months at the end of March 2022 to 159 months a year later. About R27 billion (6.7% of total marketable bonds) and R36 billion (8.9% of total non-marketable bonds) were expected to be amortised over the short and medium terms respectively as at 31 March 2023.

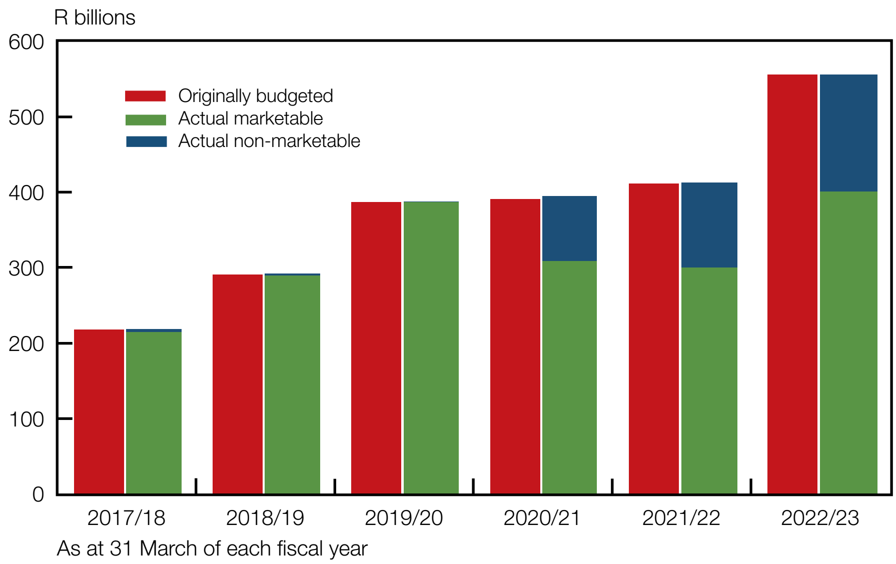
Domestic debt of national government



Source: National Treasury

Non-marketable foreign debt, which includes foreign loans, increased significantly by 37.8% year on year to R155 billion as at 31 March 2023. This reflected five new foreign loans: two US dollar-denominated loans totalling R12.6 billion (US$850 million) and three euro-denominated loans totalling R17.8 billion (€991 million). National government's total foreign debt exceeded the original budget estimate of R533 billion but remained below the *2022 MTBPS* estimate of R559 billion for fiscal 2022/23.

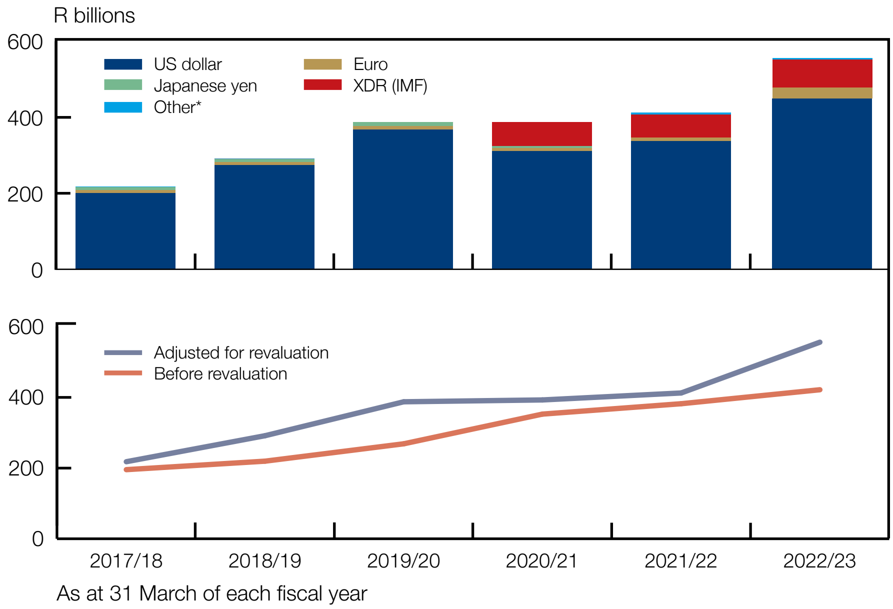
Foreign debt of national government



Sources: National Treasury and SARB

The increase in national government's total gross foreign debt to R556 billion as at 31 March 2023 also included exchange rate revaluation effects of R134 billion. US dollar-denominated debt accounted for the largest share of total outstanding debt, at 80.8%, followed by the International Monetary Fund's (IMF) special drawing rights (SDRs), at 13.1%, with the remainder divided between the other currencies, as at 31 March 2023.

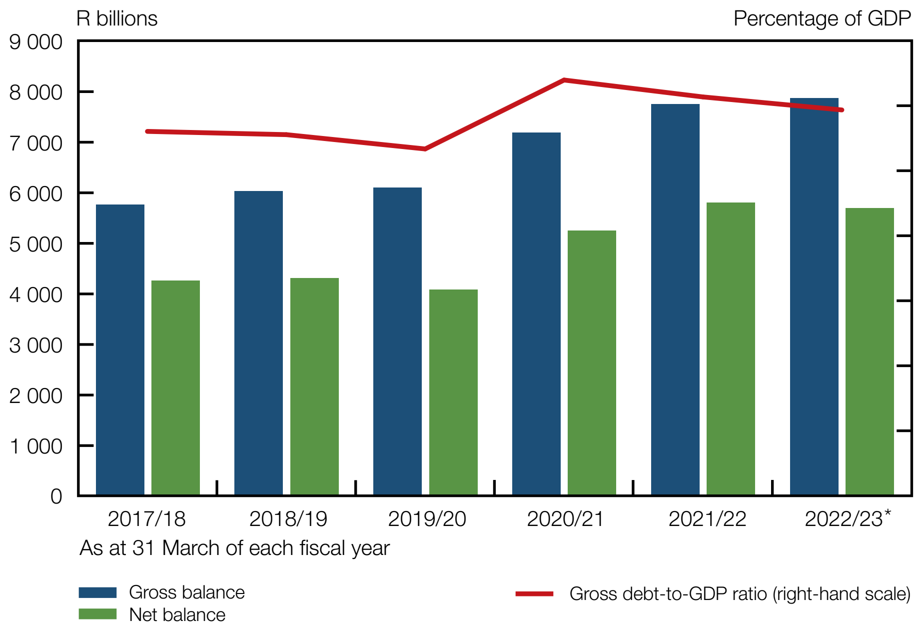
Currency composition of national government's foreign debt



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

Sources: National Treasury and SARB

Total consolidated public sector debt



* As at 31 December 2022

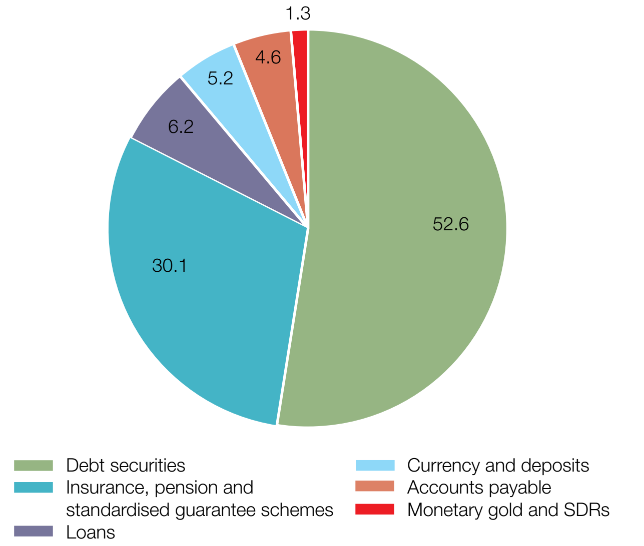
Source: SARB

Total public sector[39] debt

As at 31 December 2022, the preliminary consolidated *gross* public sector debt[40] of South Africa increased by R51.6 billion year on year to R7 871 billion, or 118.7% of GDP. Consolidated *net* public sector debt[41] of R5 691 billion (85.9% of GDP) as at 31 December 2022 was lower than the R5 759 billion (92.8% of GDP) recorded a year earlier.

Composition of consolidated gross public sector debt as at 31 December 2022

Per cent



Source: SARB

Total consolidated gross public sector debt securities (both domestic and foreign) amounted to R4 145 billion as at 31 December 2022 and represented a decrease of R37.1 billion compared with a year ago. At the end of December 2022, debt securities remained the largest contributor to total consolidated gross public sector debt, at 52.6%, while fully funded pension liabilities accounted for 30.1%.

39 The public sector in South Africa comprises central government (national government, extra-budgetary institutions and social security funds), provincial government and local government, which together render the general government. The last-mentioned, 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 guarantee 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 guarantee schemes; and other accounts payable – *after* netting the individual debt instrument against its corresponding financial assets.

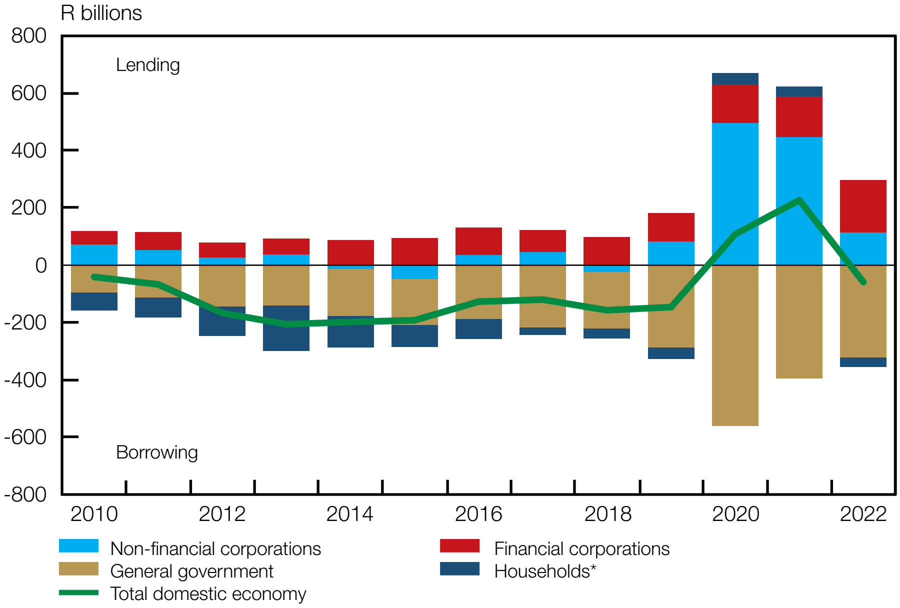
42 The analysis in this section is based on the experimental statistics compiled for South Africa's integrated economic accounts (IEA) and is subject to further revision. See pages E–2 to E–12 in the experimental tables section in this edition of the *QB*.

Integrated economic accounts[42]

Current and capital account

South Africa's net borrowing position decreased from R26.4 billion (1.6% of GDP) in the third quarter of 2022 to R9.7 billion (0.6% of GDP) in the fourth quarter. The smaller net borrowing position was the outcome of a decrease in gross saving and an even larger decrease in gross capital formation. The net borrowing position of the total domestic economy in 2022 of R58.9 billion contrasted a net lending position of R226.9 billion in 2021.

South Africa's net lending/borrowing position



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

Source: SARB

Both the non-financial and the financial corporations maintained their net lending positions in the fourth quarter of 2022, while households switched from net lending in the third quarter to net borrowing in the fourth quarter. Despite an increase in its gross saving, general government remained a net borrower in the fourth quarter of 2022. General government's net borrowing decreased to R321.4 billion in 2022 from R394.6 billion in 2021, while households reverted to a net borrowing position from a net lending position over the same period. Non-financial corporations' net lending shrank in 2022, whereas that of financial corporations increased.

Non-financial balance sheet and accumulation account

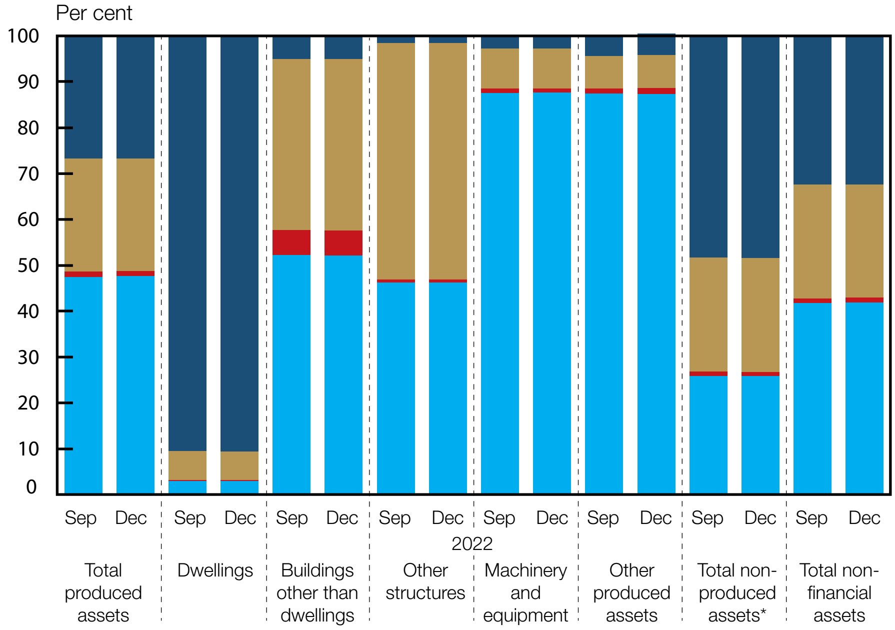
The market value of total non-financial assets of R17.8 trillion as at 31 December 2022 comprised non-financial corporations (41.8%), households (32.5%), general government (24.6%) and financial corporations (1.1%). At the end of 2022, buildings other than dwellings accounted for 5.5% of financial corporations' non-financial assets, whereas households owned 90.6% of all dwellings. General government and non-financial corporations accounted for most of the other structures – such as roads, bridges and harbours – at 51.5% and 46.2% respectively, while non-financial corporations owned 87.6% of total machinery and equipment as at 31 December 2022.

The market value of total produced fixed assets increased by 1.1% to R12.1 trillion in the three months to 31 December 2022. This increase reflected net capital formation of R19.4 billion, which was the outcome of gross fixed capital formation of R250.4 billion and the consumption of fixed capital of R231.0 billion. In addition, there were revaluations of R110.5 billion in the fourth quarter of 2022, with the change in the market value of machinery and equipment contributing the most as it increased by R82.5 billion in the quarter.

Households owned 48.4% of non-produced assets[43] as at 31 December 2022, with the remainder held in almost equal proportions by non-financial corporations and general government.

43 Non-produced assets currently consist only of land.

Institutional sector non-financial asset holdings



* 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 R1.6 trillion each in the fourth quarter of 2022 to R46.7 trillion and R45.1 trillion respectively as at 31 December 2022. This resulted mainly from increases in the market value of equity and investment fund shares/units as well as insurance, pension and standardised guarantee schemes and debt securities as both listed share prices and bond prices increased in the quarter.

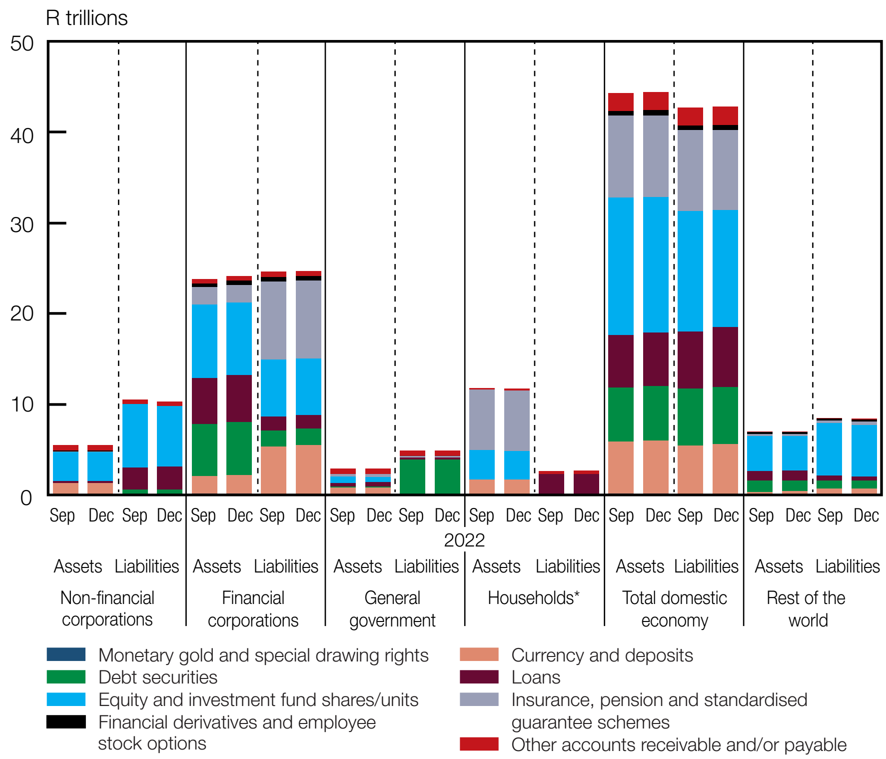
The decrease in financial corporations' share of total financial assets from 52.1% as at 30 September 2022 to 51.5% as at 31 December reflected a decline in the value of currency and deposit holdings as well as financial derivatives and employee stock options, despite increased holdings of equity and investment fund shares/units. Financial corporations' share of total liabilities remained unchanged at 58.8% over the same period.

Households' share of total financial assets increased from 29.4% as at 30 September 2022 to 30.3% as at 31 December, while total liabilities remained unchanged at 6.0% as at 31 December. Insurance, pension and standardised guarantee schemes as well as equity and investment fund shares/units contributed the most to the increase in households' total financial assets. Over the same period, non-financial corporations' contribution to total financial assets increased marginally from 12.2% to 12.3% due to an increase in the value of unlisted shareholding in the rest of the world (ROW), while their contribution to total liabilities increased from 23.7% to 24.1% due to revaluation effects, mostly of foreign listed shares.

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

The decrease in general government's share of total financial assets from 6.3% as at 30 September 2022 to 5.9% as at 31 December mostly reflected reductions in the value of equity and investment fund shares/units as well as the outstanding balance on the gold and foreign exchange contingency reserve account (GFECRA)[44]. The lower net bond issues by general government contributed to a smaller share of only 11.1% of total liabilities as at 31 December 2022.

Market value of total financial assets and liabilities by institutional sector and financial instrument



* Including non-profit institutions serving households

Source: SARB

The market value of the ROW's holdings of South African financial assets increased marginally from R7.0 trillion on 30 September 2022 to R7.5 trillion on 31 December following the higher value of equity and investment fund shares/units. At the same time, South Africa's total foreign assets increased marginally from R8.5 trillion to R8.9 trillion as the value of South African holdings of equity and investment fund shares/units increased.

Except for currency and deposits as well as loans, changes in both total financial assets and total liabilities in the domestic economy in the fourth quarter of 2022 mostly reflected revaluations, which accounted for an increase of R1.3 trillion in the value of the various financial instruments. The balance of the change in the market value reflected net transactions of R0.3 trillion, with net purchases of these instruments by residents adding to the revaluation increase.

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 December 2022[45] showed that households were the only institutional sector with a positive net financial wealth (asset) position due to claims of R2.5 trillion and R11.1 trillion against non-financial and financial corporations respectively. Non-financial corporations had the largest negative net financial wealth (liability) position in the domestic economy, mainly representing claims by financial corporations of R4.2 trillion and the ROW of R3.7 trillion.

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