Domestic economic developments

Domestic output[1,2]

Economic activity in South Africa remained fairly stagnant in the fourth quarter of 2023 as real *gross domestic product* (GDP) expanded by 0.1% following a contraction of 0.2% in the third quarter. The marginal expansion reflected increased activity in the secondary and tertiary sectors, while activity in the primary sector decreased. The real output of the *non-agricultural sector* increased by 0.3% in the fourth quarter of 2023.

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

2 The analysis in this section of the review is based on a revised set of national accounts estimates after more detailed data became available.

Real gross domestic product

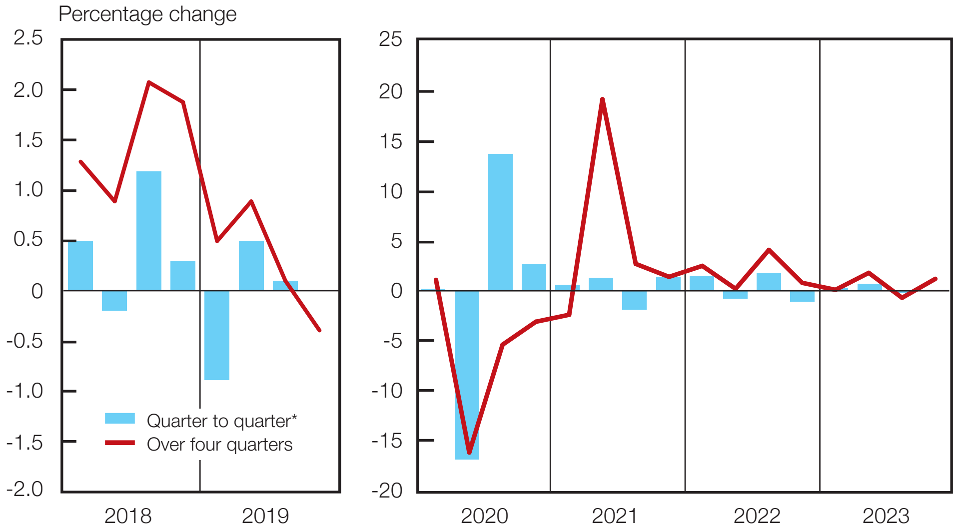
Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Sector	2022					2023				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Primary sector	-2.0	-6.5	12.5	-2.7	-4.1	-5.3	1.8	-5.2	-2.0	-5.0
Agriculture	-0.9	-11.8	31.4	-2.4	0.9	-14.3	3.7	-11.7	-9.7	-12.2
Mining	-2.6	-3.1	1.9	-3.0	-7.1	1.4	0.6	-1.0	2.4	-0.3
Secondary sector	3.3	-4.6	1.4	-1.1	-1.1	0.8	1.4	-1.3	0.2	-0.1
Manufacturing	4.3	-5.6	1.6	-1.2	-0.4	1.0	2.1	-1.1	0.2	0.5
Construction	-0.6	-2.6	4.1	0.4	-3.4	1.0	-0.1	-3.3	-1.4	0.6
Tertiary sector	1.5	0.7	0.8	-0.9	3.4	0.8	0.4	0.6	0.2	1.3
Wholesale and retail trade, catering and accommodation	2.9	-1.1	1.2	-2.2	3.5	0.8	-0.4	-0.3	-2.9	-1.7
Finance, real estate and business services	1.9	2.1	1.1	-1.6	3.4	0.8	0.6	0.9	0.6	1.8
*Non-primary sector***	*1.9*	*-0.3*	*0.9*	*-1.0*	*2.5*	*0.8*	*0.6*	*0.2*	*0.2*	*1.1*
*Non-agricultural sector****	*1.6*	*-0.5*	*1.0*	*-1.1*	*2.0*	*0.8*	*0.6*	*0.2*	*0.3*	*1.0*
Total	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.3**	**0.7**	**-0.2**	**0.1**	**0.6**

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

Source: Stats SA

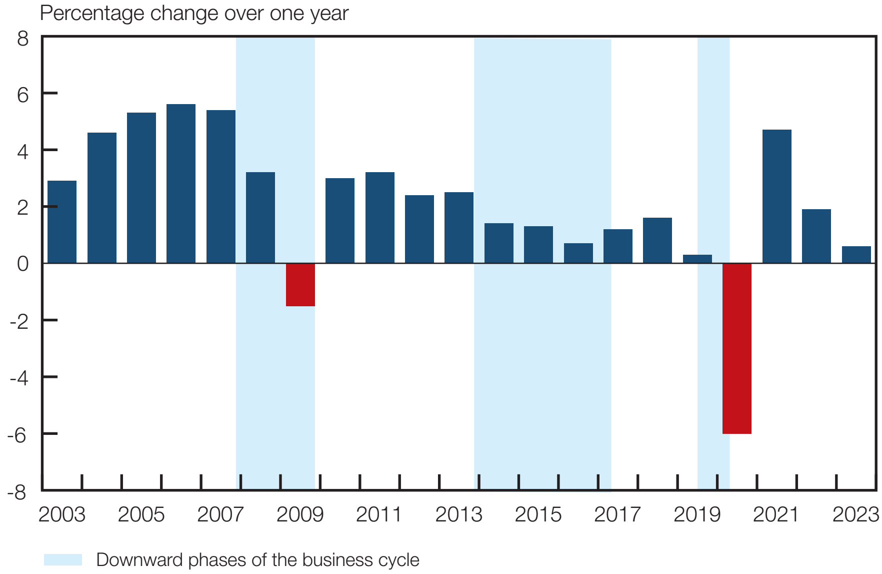
Real gross domestic product



* Seasonally adjusted
Source: Stats SA

Growth in annual output slowed significantly from 1.9% in 2022 to 0.6% in 2023, weighed down by energy and logistical constraints as well as lower domestic and global demand. The moderation reflected slower growth in the tertiary sector, while the real gross value added (GVA) by the primary and secondary sectors contracted for a second successive year. Despite the slowdown, annual output in 2023 was still 0.9% more than the 2019 level. Real GDP increased at an average seasonally adjusted and annualised rate of 2.0% during the current upward phase of the business cycle compared with an average contraction of 21.7% during the previous short downward phase that coincided with the coronavirus disease 2019 (COVID-19) pandemic.

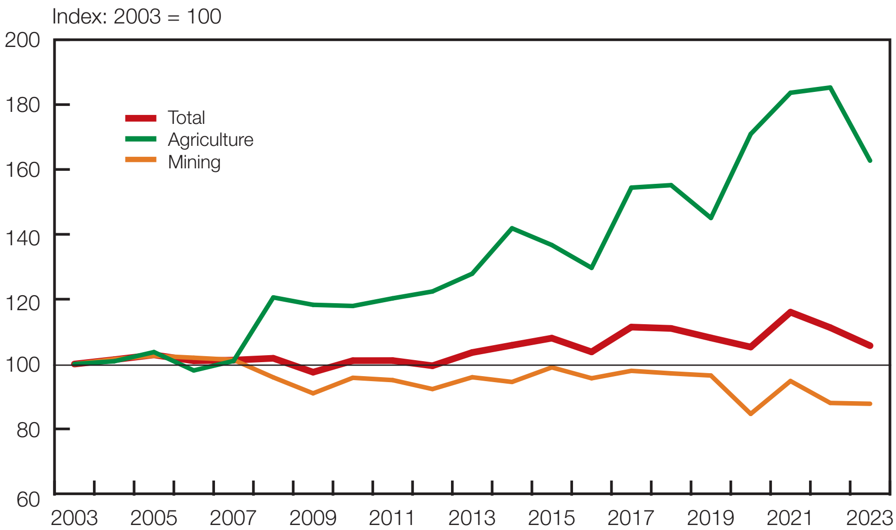
Real gross domestic product



Sources: Stats SA and SARB

The real GVA by the *primary sector* contracted further by 2.0% in the fourth quarter of 2023 after a revised sharp contraction of 5.2% in the third quarter, with mining output expanding following a decrease in the third quarter, while agricultural output contracted further. On an annual basis, the real GVA by the primary sector contracted further by 5.0% in 2023 as the output of both the agricultural and mining sectors decreased.

Real gross value added by the primary sector



Source: Stats SA

3 As measured by the Agricultural Business Chamber of South Africa/ Industrial Development Corporation's (Agbiz/ IDC) Agribusiness Confidence Index (ACI).

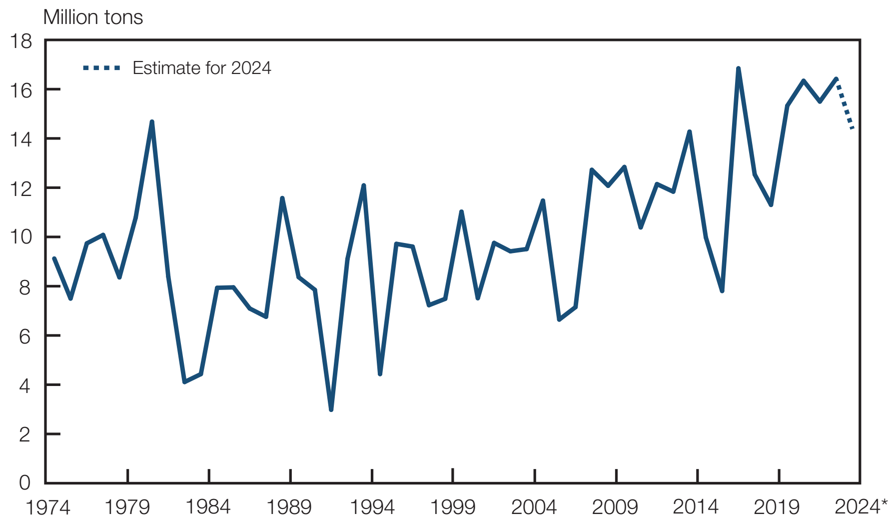
The real output of the *agricultural sector* contracted further by 9.7% in the fourth quarter of 2023 following a revised decrease of 11.7% in the third quarter, in line with the reported deterioration in agribusiness confidence.[3] The decrease emanated from the lower production of field crops as well as horticultural and animal products. On an annual basis, the real GVA by the agricultural sector contracted by 12.2% in 2023 following three successive years of expansion. Activity was impeded by the intensified electricity load-shedding, the outbreak of avian influenza that impacted the poultry industry as well as challenging operating conditions, including rising fuel costs and logistical constraints. Notwithstanding the annual contraction in output, the level of real GVA by the agricultural sector in 2023 was 12.2% higher than the pre-pandemic level in 2019.

Commercial maize crop and area planted

	Crop (million tons)	Area planted (million hectares)
2022/23: final	16.4	2.59
2023/24: estimate	14.4	2.64

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

Commercial maize production



* Calendar-year 2024 equals production season 2023/24

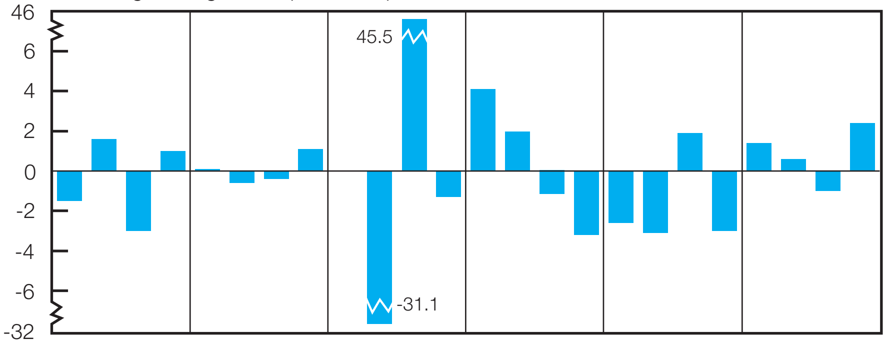
Sources: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development and SAGIS

Despite a 2.1% increase in the estimated area planted compared to the previous season, the estimated domestic commercial maize harvest at 14.4 million tons for the 2023/24 season is 12.6% lower than the final 2022/23 harvest. The estimated harvest for the 2023/24 season was adversely affected by the warm weather conditions and lack of rain in some parts of the country during February 2023. However, at 14.4 million tons, maize production would still be higher than the estimated domestic consumption of about 12.0 million tons per annum, with the surplus available for the export market.

The real GVA by the *mining sector* expanded by 2.4% and contributed 0.1 percentage points to overall GDP growth in the fourth quarter of 2023, after contracting by 1.0% in the third quarter. The expansion was largely driven by higher production volumes of platinum group metals (PGMs), coal, chromium ore and diamonds. The increased production of PGMs was

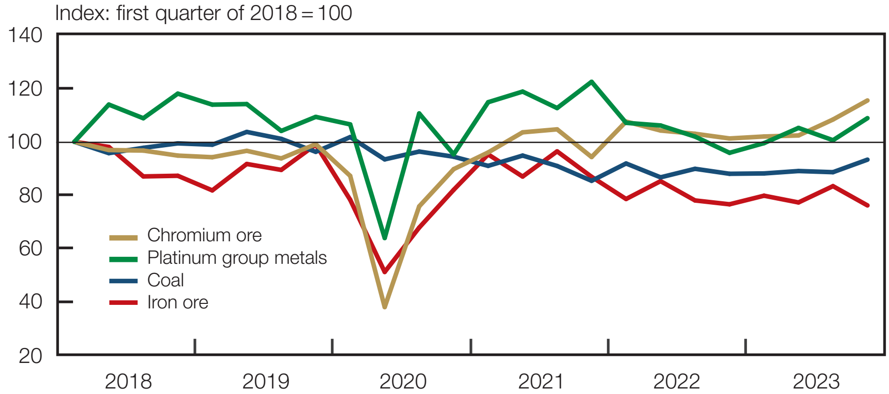
Real gross value added by the mining sector

Percentage change from quarter to quarter



Physical volume of mining production: selected subsectors

Index: first quarter of 2018 = 100



Seasonally adjusted

Source: Stats SA

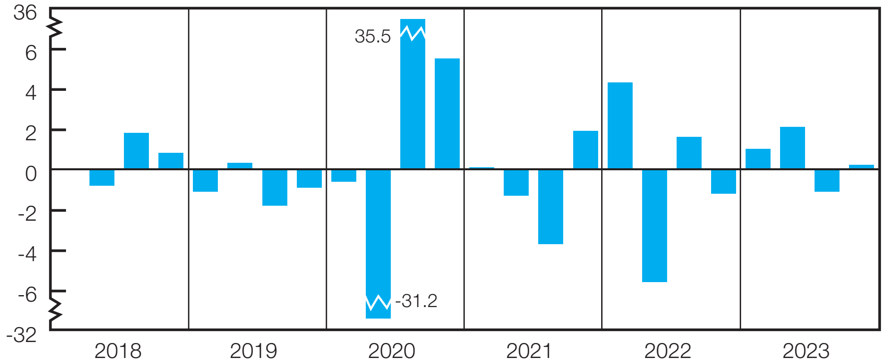
supported by improved global automotive and industrial demand, while coal production was driven by increased domestic industrial activity. By contrast, the production of iron ore, other metallic minerals and gold decreased over the period, with the latter likely weighed down by industrial action at a large gold mine. The real GVA by the mining sector decreased slightly by 0.3% in 2023 following a notable contraction of 7.1% in 2022. The marginal decline reflected lower production of diamonds, building materials and other non-metallic minerals. Mining output continued to be impeded by intensified electricity load-shedding, high operating costs as well as inefficient rail and port infrastructure.

Real economic activity in the *secondary sector* increased by 0.2% in the fourth quarter of 2023 following a decrease of 1.3% in the third quarter. The real output of the manufacturing and electricity, gas and water sectors increased, while that by the construction sector decreased further in the fourth quarter. The real GVA by the secondary sector contracted by 0.1% in 2023.

Manufacturing output reverted to a slight increase of 0.2% in the fourth quarter of 2023 following a decrease of 1.1% in the third quarter. Production increased in 6 of the 10 manufacturing subsectors, particularly in the subsectors supplying food and beverages; wood and wood products, paper, publishing and printing; motor vehicles, parts and accessories and other transport equipment; as well as furniture and other manufacturing products. These increases were partially offset by the lower production of basic iron and steel, non-ferrous metal products, metal products and machinery as well as petroleum, chemical products, rubber and plastic products.

Real gross value added by the manufacturing sector

Percentage change from quarter to quarter



Contributions to manufacturing production: fourth quarter of 2023*

Percentage points

Seasonally adjusted

* See text for the full description of subsectors

Source: Stats SA

Despite the marginal increase in manufacturing output, the sector is still facing a challenging operating environment due to rising input costs related to the ongoing electricity load-shedding and logistics disruptions at Transnet as well as weaker domestic and global demand. The uptick in manufacturing activity mirrored an increase in the seasonally adjusted utilisation of production capacity from 78.0% in August 2023 to 78.7% in November.

The real GVA by the manufacturing sector increased by 0.5% in 2023 following a contraction of 0.4% in 2022. The annual increase was largely driven by higher production volumes of basic iron and steel, non-ferrous metal products, metal products and machinery; motor vehicles, parts and accessories and other transport equipment; as well as wood and wood products, paper, publishing and printing.

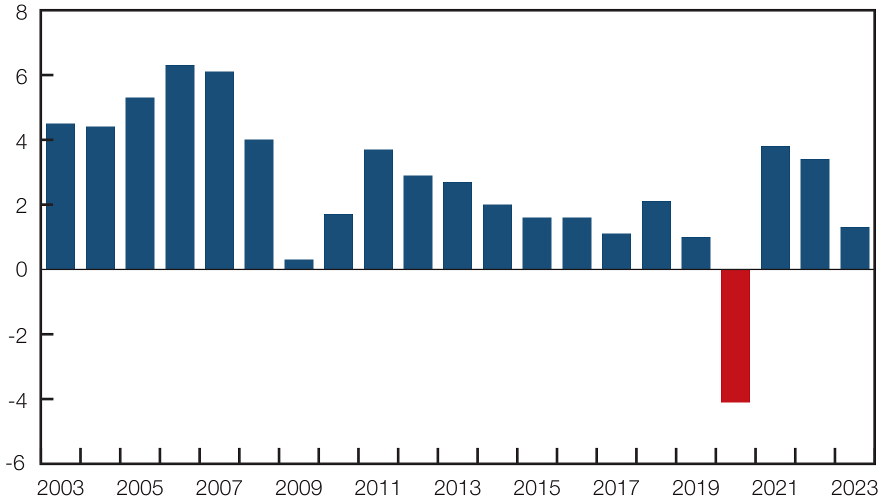
The level of real economic activity in the sector supplying *electricity, gas and water* increased further by 2.3% in the fourth quarter of 2023. A notable turnaround in both electricity production and consumption reflected improved electricity generation capacity at Eskom, which eased electricity load-shedding somewhat over this period and supported economic activity in the energy-intensive mining and manufacturing sectors. However, on an annual basis, electricity production and consumption decreased in 2023, resulting in an annual contraction of 3.8% in the real GVA by the electricity, gas and water sector, with real output still 9.9% below the pre-pandemic level in 2019.

The real output of the *construction sector* decreased further by 1.4% in the fourth quarter of 2023 after decreasing by 3.3% in the third quarter. This reflected decreased civil construction and residential building activity. Following six consecutive years of contraction, the real output of the construction sector increased by 0.6% in 2023 but was still 21.8% below the level recorded in 2019.

The real GVA by the *tertiary sector* increased further by 0.2% in the fourth quarter of 2023, marking the fourth successive quarterly expansion. Real output expanded in the transport, storage and communication services; finance, insurance, real estate and business services; and personal services sectors, while that of the commerce and general government services sectors contracted. Annual growth in the tertiary sector output moderated notably to 1.3% in 2023 from 3.4% in 2022.

Real gross value added by the tertiary sector

Percentage change over one year



Source: Stats SA

The real GVA by the *commerce sector* contracted for the third successive quarter by 2.9% in the fourth quarter of 2023, reflecting weaker demand amid constrained household finances as real economic activity decreased in the retail, wholesale, motor trade as well as catering and accommodation subsectors. The decline in the retail trade subsector resulted from lower sales of textiles, clothing, footwear and leather goods as well as pharmaceutical and medical goods, cosmetics and toiletries, signifying the muted impact of Black Friday promotions in November and festive season spending.

The contraction in the wholesale trade subsector reflected lower sales of agricultural raw materials; textiles, clothing and footwear; as well as solid, liquid and gaseous fuels. The weaker motor trade activity largely reflected lower sales of fuel and accessories, while new and used vehicle sales increased in the fourth quarter. The decline in the output of the commerce sector in the last three quarters of 2023 resulted in an annual contraction of 1.7% as the sector was adversely impacted by rising input costs, including electricity load-shedding, logistical challenges as well as weak demand.

Growth in the real GVA by the *transport, storage and communication services sector* accelerated to 2.9% in the fourth quarter of 2023 from 0.8% in the third quarter, contributing 0.2 percentage points to overall GDP growth. The expansion was underpinned by increased

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

5 The analysis in this section of the review is based on a revised set of national accounts estimates after more detailed data became available.

activity in road transportation, transport support and communication services. By contrast, rail freight transportation activity decreased further in the fourth quarter of 2023. Growth in annual output of the transport, storage and communication services sector moderated to 4.3% in 2023 from 8.3% in 2022, reflecting rail and port challenges as well as weaker global and domestic demand.

Real economic activity in the *finance, insurance, real estate and business services sector* increased by 0.6% in the fourth quarter of 2023, contributing 0.1 percentage points to overall real GDP growth over the period. The increase was supported by heightened activity in financial markets, real estate and business services subsectors. Growth in the real output of the finance, insurance, real estate and business services sector slowed to 1.8% in 2023 from 3.4% in 2022.

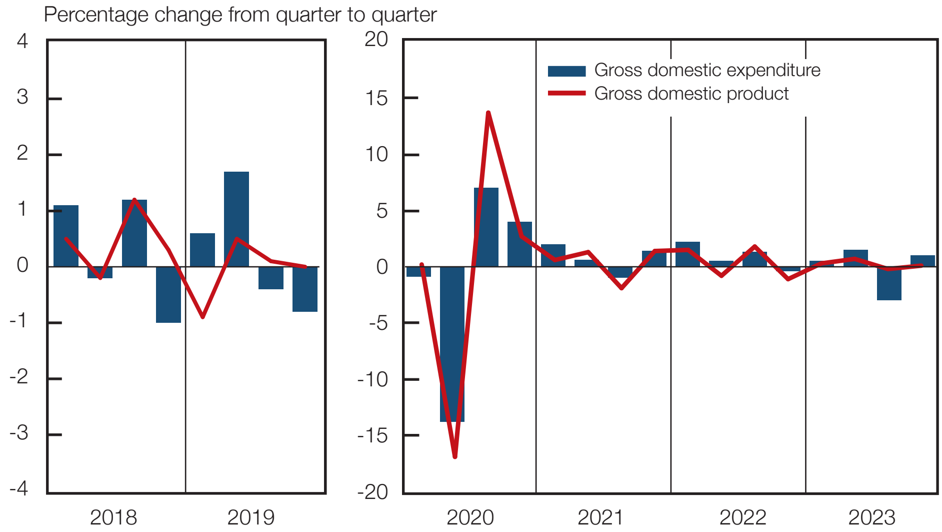
The real GVA by the *general government services sector* decreased by 0.6% in the fourth quarter of 2023 as employment in the civil service declined. In 2023, the annual output of the general government services sector expanded by 0.2% following an increase of 0.1% in 2022.

Growth in the real GVA by the *personal services sector* expanded by 0.9% and contributed 0.1 percentage points to overall GDP growth in the fourth quarter of 2023 as activity in health and education services increased. Annual output in the personal services sector increased by 2.0% in 2023.

Real gross domestic expenditure [4, 5]

Real *gross domestic expenditure* (GDE) increased by 1.0% in the fourth quarter of 2023, in tandem with the increase in real GDP, following a decline of 3.0% in the third quarter. Real final consumption expenditure by households increased alongside a moderate accumulation in real inventory holdings in the fourth quarter. By contrast, real final consumption expenditure by general government and gross fixed capital formation contracted over the period. On an annual basis, growth in real GDE moderated to 0.8% in 2023 from 3.9% in 2022.

Real gross domestic product and expenditure

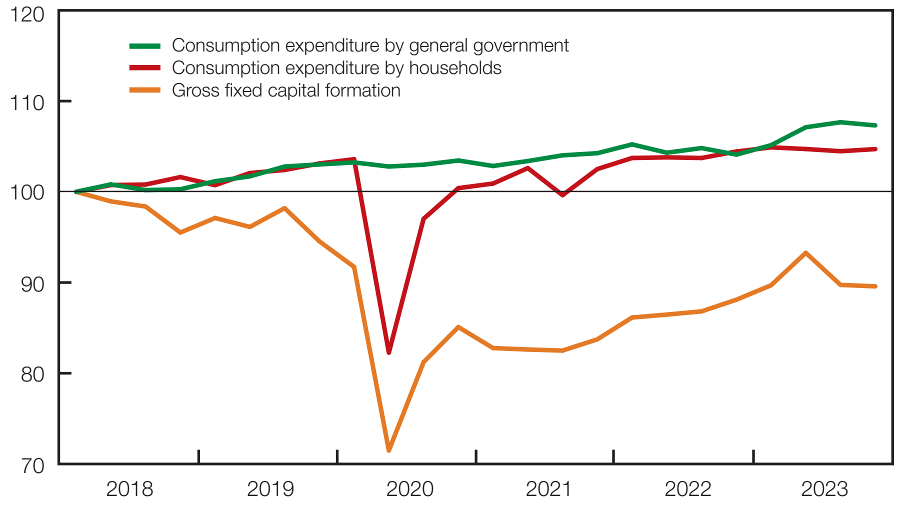


Seasonally adjusted

Sources: Stats SA and SARB

Components of real gross domestic final demand

Index: first quarter of 2018 = 100



Seasonally adjusted

Sources: Stats SA and SARB

Real gross domestic expenditure

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

Component	2022					2023				
	Q1	Q2	Q3	Q4	Year[1]	Q1	Q2	Q3	Q4	Year[1]
Final consumption expenditure										
Households	1.2	0.1	-0.1	0.7	2.5	0.4	-0.2	-0.2	0.2	0.7
General government	0.9	-0.9	0.5	-0.7	1.0	1.0	1.9	0.5	-0.3	2.1
Gross fixed capital formation	2.9	0.4	0.4	1.5	4.8	1.8	4.0	-3.8	-0.2	4.2
Domestic final demand[2]	1.4	-0.1	0.1	0.5	2.5	0.7	0.8	-0.6	0.1	1.5
Change in inventories (R billions)[3]	*14.4*	*35.7*	*86.9*	*40.2*	*44.3*	*30.9*	*69.5*	*-39.7*	*7.5*	*17.1*
Residual[4]	*0.1*	*0.2*	*0.3*	*0.3*	*0.2*	*0.3*	*0.2*	*0.1*	*0.0*	*0.1*
Gross domestic expenditure[5]	2.2	0.5	1.3	-0.4	3.9	0.5	1.5	-3.0	1.0	0.8

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

Sources: Stats SA and SARB

The change in real inventory holdings contributed the most to growth in real GDP in the fourth quarter of 2023 at 1.0 percentage points, followed by final consumption expenditure by households at 0.1 percentage points. By contrast, net exports and general government expenditure subtracted 1.0 and 0.1 percentage points respectively from overall economic growth. On an annual basis, real gross fixed capital formation made the largest contribution to overall GDP growth at 0.6 percentage points, while the change in inventory holdings deducted 0.6 percentage points.

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

Percentage points

Component	2022					2023				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Final consumption expenditure										
Households	0.8	0.0	0.0	0.5	1.6	0.3	-0.1	-0.2	0.1	0.5
General government	0.2	-0.2	0.1	-0.1	0.2	0.2	0.4	0.1	-0.1	0.4
Gross fixed capital formation	0.4	0.1	0.1	0.2	0.7	0.3	0.6	-0.6	0.0	0.6
Change in inventories	0.8	0.5	1.1	-1.0	1.3	-0.2	0.8	-2.4	1.0	-0.6
Residual	0.0	0.1	0.0	0.0	0.0	0.0	-0.2	-0.1	0.0	-0.1
Gross domestic expenditure	**2.2**	**0.5**	**1.3**	**-0.4**	**3.9**	**0.6**	**1.5**	**-3.1**	**1.0**	**0.8**
Net exports	-0.7	-1.3	0.5	-0.7	-2.0	-0.2	-0.9	2.9	-1.0	-0.2
Gross domestic product	**1.5**	**-0.8**	**1.8**	**-1.1**	**1.9**	**0.3**	**0.7**	**-0.2**	**0.1**	**0.6**

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

Sources: Stats SA and SARB

The real *exports* of goods and services increased by 0.6% in the fourth quarter of 2023 following a similar increase in the third quarter. Real manufacturing exports increased as the export volumes of prepared foodstuffs, beverages and tobacco as well as chemical products increased in the fourth quarter of 2023. Similarly, the exports of services and agricultural products increased in the fourth quarter, with the former increasing notably. By contrast, real mining exports reverted to a decline in the fourth quarter of 2023, largely due to a decrease in the export volumes of precious metals (including gold, PGMs and stones) and mineral products.

The real *imports* of goods and services reverted to an increase of 4.0% in the fourth quarter of 2023 from a substantial decline of 8.7% in the third quarter. The turnaround resulted from a marked increase in the volume of mining and agricultural imports in the final quarter of 2023. Mining imports were underpinned by increased imports of especially mineral products and precious metals (including gold, PGMs and stones), while real agricultural imports were boosted by higher vegetable product imports. By contrast, the volume of manufacturing imports contracted in the fourth quarter as the imports of machinery and electrical equipment; vehicles and transport equipment; as well as prepared foodstuffs, beverages and tobacco declined.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2023					
	Exports			Imports		
	Percentage of total**	Q3***	Q4***	Percentage of total**	Q3***	Q4***
Total	100.0	0.6	0.6	100.0	-8.7	4.0
Mining	39.5	0.8	-2.4	19.6	5.8	24.7
Of which:						
Mineral products	14.3	-0.9	-1.8	14.5	14.5	35.7
Precious metals, including gold, platinum group metals and stones	12.2	14.8	-7.4	1.1	-18.1	5.0
Base metals and articles thereof	13.0	-9.2	2.3	4.0	-12.0	-10.0
Manufacturing	36.6	0.2	0.5	63.3	-14.2	-3.0
Of which:						
Vehicles and transport equipment	1.4	21.2	-6.2	13.7	-3.2	-1.3
Machinery and electrical equipment	7.4	-9.8	-2.6	25.8	-23.8	-7.0
Chemical products	5.9	-9.7	6.5	10.0	-6.5	6.2
Prepared foodstuffs, beverages and tobacco	4.8	-5.6	12.0	2.1	-11.0	-11.9
Agriculture	10.3	3.1	2.3	4.0	-10.7	15.0
Of which:						
Vegetable products	9.0	4.8	4.6	2.3	-14.4	23.0
Services	13.2	-1.3	6.0	13.0	1.5	2.3

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2023
*** Not annualised
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

Real *net exports* subtracted 1.0 percentage points from real GDP growth in the fourth quarter of 2023, with mining and agriculture deducting 1.7 and 0.1 percentage points respectively. Real net exports of mineral products and precious metals (including gold, PGMs and stones) subtracted the most from real net mining exports. However, real net manufacturing exports contributed 0.6 percentage points to real GDP growth in the fourth quarter, largely due to higher net exports of machinery and electrical equipment as well as prepared foodstuffs, beverages and tobacco.

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

Percentage points

Component	2023					
	Exports		Imports*		Net exports	
	Q3	Q4	Q3	Q4	Q3	Q4
Total	**0.2**	**0.2**	**-2.7**	**1.2**	**2.9**	**-1.0**
Mining	**0.1**	**-0.3**	**0.3**	**1.4**	**-0.2**	**-1.7**
Of which:						
Mineral products	0.0	-0.1	0.5	1.5	-0.6	-1.6
Precious metals, including gold, platinum group metals and stones	0.5	-0.3	-0.1	0.0	0.5	-0.3
Base metals and articles thereof	-0.3	0.1	-0.2	-0.1	-0.2	0.2
Manufacturing	**0.0**	**0.1**	**-3.0**	**-0.5**	**3.0**	**0.6**
Of which:						
Vehicles and transport equipment	0.6	-0.2	-0.1	-0.1	0.8	-0.2
Machinery and electrical equipment	-0.2	-0.1	-2.2	-0.5	2.0	0.5
Chemical products	-0.2	0.1	-0.2	0.2	0.0	-0.1
Prepared foodstuffs, beverages and tobacco	-0.1	0.2	-0.1	-0.1	0.0	0.2
Agriculture	**0.1**	**0.1**	**-0.1**	**0.2**	**0.2**	**-0.1**
Of which:						
Vegetable products	0.1	0.1	-0.1	0.1	0.2	0.0
Services	**0.0**	**0.2**	**0.1**	**0.1**	**-0.1**	**0.1**

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

Sources: SARS, Stats SA and SARB

Real *final consumption expenditure by households* increased by 0.2% in the fourth quarter of 2023 following two successive quarterly decreases. Real outlays on durable goods and services reverted to increases, while real spending on semi-durable and non-durable goods declined. Household consumption expenditure was supported by a marginal increase in the real disposable income of households in the fourth quarter of 2023, even though consumer confidence remained weak. The level of real final consumption expenditure by households in 2023 rose by 0.7% compared with that in 2022.

Real final consumption expenditure by households

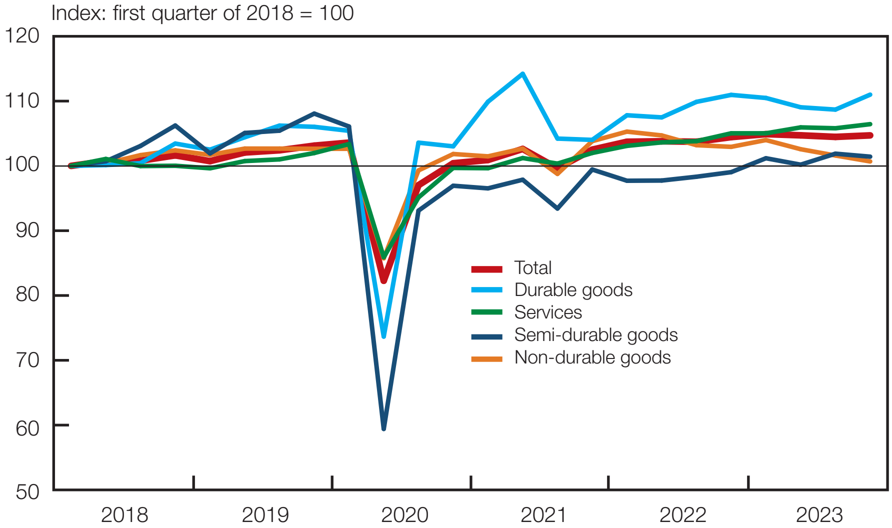
Quarter-to-quarter percentage change at seasonally adjusted but not annualised rates

Category	2022					2023				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Durable goods	3.7	-0.3	2.2	1.0	0.9	-0.4	-1.3	-0.3	2.1	0.7
Semi-durable goods	-1.7	0.0	0.6	0.7	1.4	2.2	-1.0	1.7	-0.5	3.0
Non-durable goods	1.4	-0.6	-1.4	-0.2	2.3	1.0	-1.4	-0.9	-0.9	-1.7
Services	1.1	0.5	0.2	1.2	3.1	0.0	0.9	-0.1	0.6	1.8
Total	**1.2**	**0.1**	**-0.1**	**0.7**	**2.5**	**0.4**	**-0.2**	**-0.2**	**0.2**	**0.7**

* Percentage change over one year

Source: Stats SA

Components of real final consumption expenditure by households



Seasonally adjusted
Sources: Stats SA and SARB

Real household expenditure on *durable goods* reverted to an increase of 2.1% in the fourth quarter of 2023 from a decrease of 0.3% in the third quarter. Growth in durable goods was led by increased outlays on personal transport equipment; computers and related equipment; as well as recreational and entertainment goods. Real purchases of other durable goods and furniture and household appliances increased at a slower pace. Purchases of passenger vehicles increased slightly in the final quarter of 2023, supported by the statistical effect of the low expenditure base in the third quarter.

Real consumer spending on *semi-durable goods* contracted by 0.5% in the fourth quarter of 2023 following an increase of 1.7% in the third quarter. Expenditure on motorcar tyres, parts and accessories; clothing and footwear; and miscellaneous goods decreased as household income remained under pressure. Real spending on household textiles, furnishings and glassware – the third largest category of semi-durable goods – as well as semi-durable recreational and entertainment goods reverted to increases.

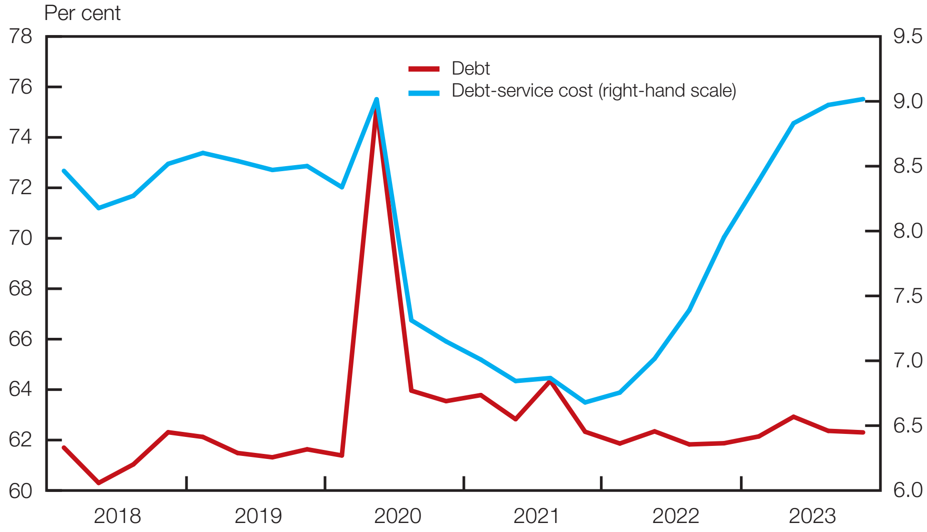
Households' outlays on *non-durable goods* contracted further by 0.9% in the fourth quarter of 2023 after decreasing by a similar magnitude in the third quarter. The decline was driven by reduced spending on food, beverages and tobacco (representing roughly 63% of non-durable goods); household fuel, power and water; household consumer goods; and medical and pharmaceutical products. Real outlays on petroleum products also declined over the period.

Real household expenditure on *services* increased by 0.6% in the fourth quarter of 2023 after declining by 0.1% in the previous quarter. The expansion was supported by an increase in real expenditure on miscellaneous and household services. By contrast, real outlays on transport and communication services; rent; recreational, entertainment and educational services; and medical services declined in the fourth quarter of 2023.

Seasonally adjusted nominal *household debt* increased further in the fourth quarter of 2023, consistent with the increase in nominal spending. This reflected increases in most categories of credit extended to households over the period. However, household debt as a percentage of nominal disposable income edged lower to 62.3% in the fourth quarter of 2023 from 62.4% in the third quarter as the increase in nominal disposable income narrowly exceeded that in household debt. Households' cost of servicing debt relative to disposable income remained unchanged at 9.0% in both the third and fourth quarter of 2023.

Annual growth in household debt accelerated slightly to 6.9% in 2023 from 6.4% in 2022. As a percentage of nominal disposable income, household debt edged marginally higher to 62.4% from 62.0% over the same period as the increase in household debt exceeded that in households' nominal disposable income. Households' cost of servicing debt relative to nominal disposable income increased to 8.8% in 2023 from 7.3% in 2022, reflecting the cumulative 125 basis point increase in the prime lending rate in 2023 as well as the higher outstanding stock of debt.

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



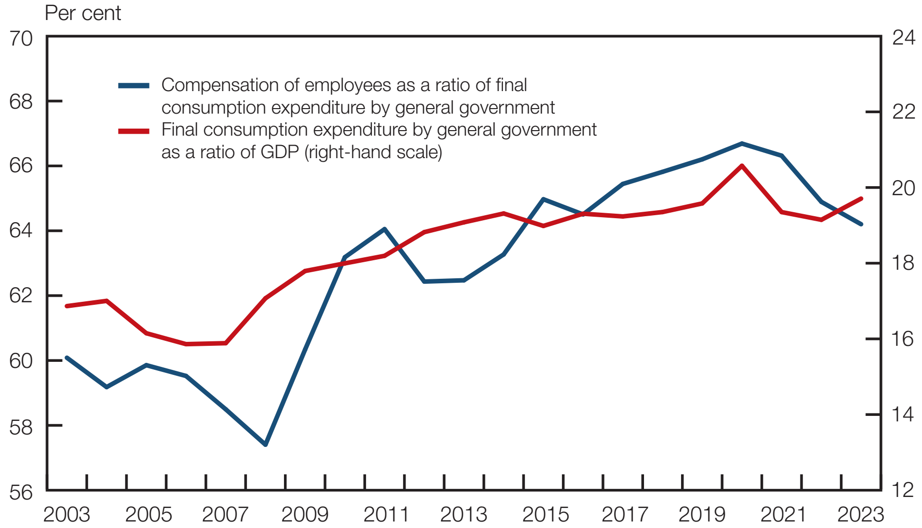
Seasonally adjusted
Source: SARB

Households' net wealth increased in the fourth quarter of 2023, benefitting from the higher market valuation of total assets relative to total liabilities. The higher asset valuation emanated from the higher prices of shares and, to a lesser extent, residential property. The ratio of net wealth to nominal disposable income rose to 396% in the fourth quarter of 2023 from 386% in the third quarter. On an annual basis, this ratio edged higher to 393% in 2023 from 392% in 2022 as the increase in net wealth marginally exceeded that in nominal disposable income. As such, households' net wealth remained at around 3.9 times the value of their annual disposable income in both 2022 and 2023.

The real *final consumption expenditure by general government* declined by 0.3% in the fourth quarter of 2023 following an increase of 0.5% in the third quarter. Both the compensation of employees as well as non-wage goods and services decreased over this period.

Growth in real final consumption expenditure by general government accelerated from 1.0% in 2022 to 2.1% in 2023 and contributed 0.4 percentage points to overall economic growth, as real spending on the compensation of employees as well as non-wage goods and services increased. The nominal compensation of employees relative to final consumption expenditure by general government decreased slightly to 64.2% in 2023 from 66.3% in 2021 and a recent peak of 66.7% in 2020. Consequently, the ratio of nominal final consumption expenditure by general government to GDP decreased from 20.6% in 2020 to 19.7% in 2023.

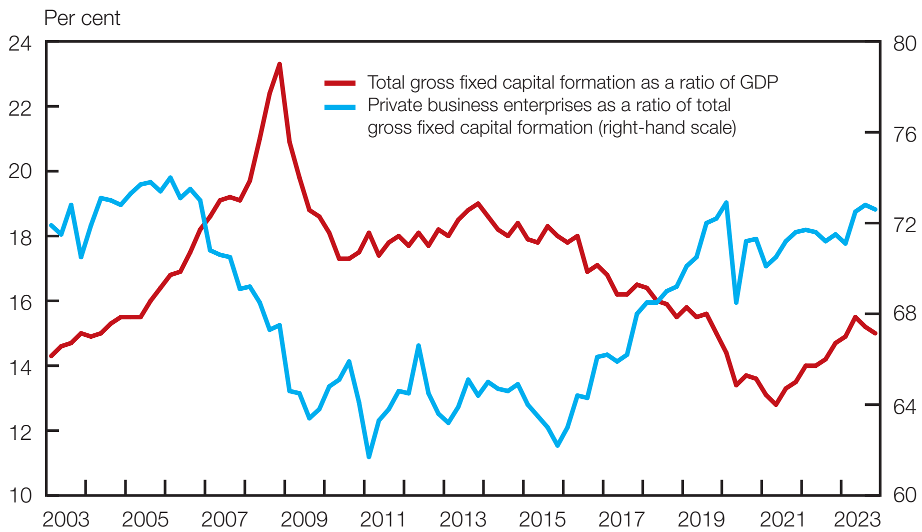
Nominal final consumption expenditure by general government



Source: Stats SA

Real *gross fixed capital formation* decreased further by 0.2% in the fourth quarter of 2023 following a contraction of 3.8% in the third quarter as the public sector reduced capital expenditure further, while fixed investment by the private sector remained unchanged. On an annual basis, real capital expenditure increased by 4.2% in 2023, marking the third consecutive annual increase. Consequently, the ratio of nominal gross fixed capital formation to nominal GDP increased to 15.2% in 2023 from 14.2% in the preceding year.

Nominal gross fixed capital formation



Seasonally adjusted
Source: Stats SA

Real capital outlays by *private business enterprises* remained unchanged in the fourth quarter of 2023 after receding by 3.4% in the third quarter. Reduced investment spending was recorded across all asset classes in the fourth quarter of 2023 except for computer software and computer equipment. On an annual basis, real capital expenditure by private business enterprises increased by 4.9% in 2023 compared with 5.2% in 2022, resulting in the private sector's share of total nominal gross fixed capital formation increasing to 72.3% in 2023 from 71.5% in the preceding year.

Real gross fixed capital formation

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

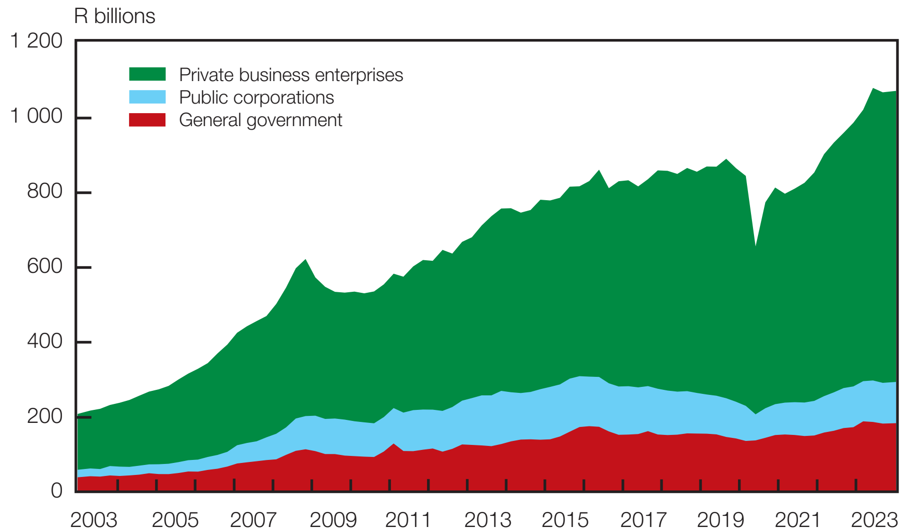
Sector	2022					2023				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Private business enterprises ...	2.8	0.2	-0.5	1.8	5.2	1.0	6.0	-3.4	0.0	4.9
Public corporations................	3.5	1.7	2.3	0.2	8.2	-1.4	1.4	-5.6	-1.0	-1.8
General government.............	2.6	0.1	3.1	1.0	1.0	7.3	-2.1	-4.2	-0.4	5.7
Total......................................	**2.9**	**0.4**	**0.4**	**1.5**	**4.8**	**1.8**	**4.0**	**-3.8**	**-0.2**	**4.2**

* Percentage change over one year

Source: Stats SA

Real gross fixed capital spending by the *public sector* decreased by 0.6% in the fourth quarter of 2023 following a decrease of 4.8% in the preceding quarter, as both public corporations and general government decreased investment spending. Real fixed capital outlays by *public corporations* decreased by 1.0% in the fourth quarter of 2023, subtracting 0.1 percentage points from growth in total gross fixed capital formation. Investment in machinery and equipment, computer software, computer equipment and construction works by state-owned companies (SOCs) decreased in the fourth quarter of 2023. On an annual basis, real gross fixed capital expenditure by public corporations decreased by 1.8% in 2023 following an increase of 8.2% in 2022, with their share of total nominal gross fixed capital formation decreasing to 10.3% in 2023 from 11.0% in the previous year.

Nominal gross fixed capital formation by type of organisation

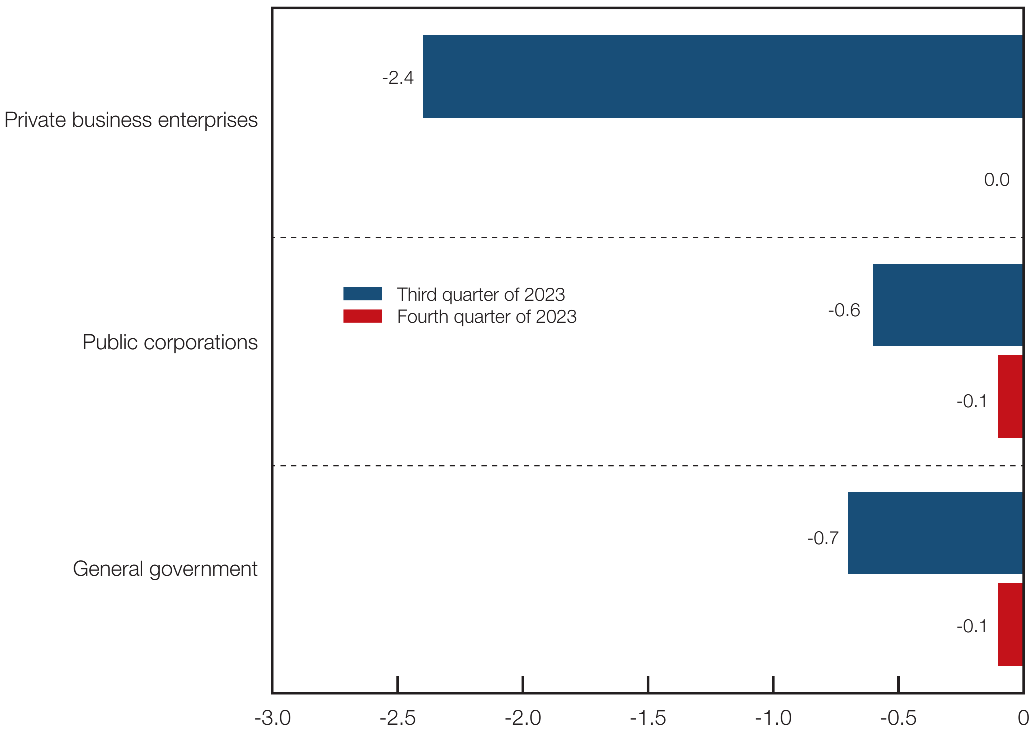


Seasonally adjusted

Source: Stats SA

Real gross fixed capital expenditure by *general government* decreased by 0.4% in the fourth quarter of 2023 following a decrease of 4.2% in the preceding quarter. The decrease reflected lower investment spending on construction works, research and development and non-residential buildings in the fourth quarter of 2023. On an annual basis, growth in real capital spending by general government accelerated to 5.7% following an increase of 1.0% in 2022, while its share of total nominal gross fixed capital formation decreased slightly to 17.4% in 2023 from 17.5% in the previous year.

Contributions to growth in real gross fixed capital formation



Percentage points

Source: Stats SA

Measured by asset type, real gross fixed capital outlays on all asset categories decreased in the fourth quarter of 2023, except for *other assets*[6] and non-residential buildings. On an annual basis, real capital investment in machinery and other equipment, computer software and non-residential buildings increased the most in 2023, while investment in research and development and residential buildings decreased.

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

Real gross fixed capital formation in most industries increased in 2023, except for the finance, real estate and business services sector. Fixed investment by the trade, catering and accommodation as well as the transport, storage and communication services sectors contributed the most to growth in total fixed capital expenditure in 2023.

Real *inventory holdings* (at seasonally adjusted and annualised 2015 prices) increased by R7.5 billion in the fourth quarter of 2023 following a revised contraction of R39.7 billion in the third quarter. The increase in inventories contributed 1.0 percentage points to overall GDP growth in the fourth quarter of 2023, with most of the inventory accumulation recorded in the trade, manufacturing and electricity sectors. On an annual basis, the domestic economy recorded inventory accumulation of R17.1 billion in 2023 after an increase of R44.3 billion in 2022.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) for South Africa decreased to 12.7% in the fourth quarter of 2023 from 14.5% in the third quarter. The saving rates of corporate business enterprises and households decreased in the fourth quarter, while that of general government improved slightly. Consequently, the share of total gross capital formation financed through foreign capital (the foreign financing ratio) increased sharply to 15.5% in the fourth quarter of 2023 from 3.3% in the third quarter. The annual national saving rate decreased to 14.0% in 2023 from 14.9% in 2022.

Gross saving as a percentage of gross domestic product

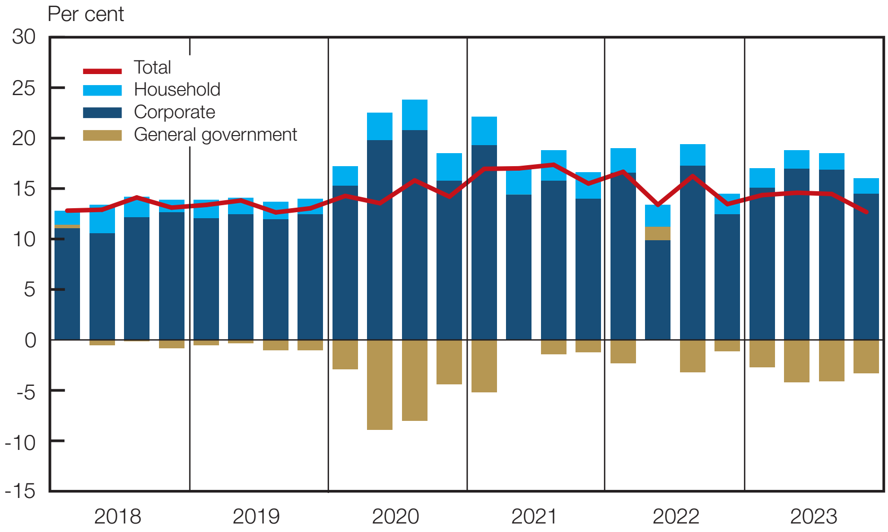
Ratio in per cent based on seasonally adjusted and annualised data

Sector	2022					2023				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Corporate	16.6	9.9	17.3	12.5	14.1	15.1	17.0	16.9	14.5	15.9
General government	-2.3	1.3	-3.2	-1.1	-1.3	-2.7	-4.2	-4.1	-3.3	-3.6
Household	2.4	2.2	2.1	2.0	2.2	1.9	1.8	1.6	1.5	1.7
Total	**16.7**	**13.4**	**16.2**	**13.5**	**14.9**	**14.4**	**14.6**	**14.5**	**12.7**	**14.0**

Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP decreased to 14.5% in the fourth quarter of 2023 from 16.9% in the third quarter due to higher seasonally adjusted tax payments. On an annual basis, the corporate saving rate increased to 15.9% in 2023 from 14.1% in 2022, mainly due to the increase in operating surpluses and the decline in tax payments. Dissaving by *general government* decreased to 3.3% in the fourth quarter of 2023 from a rate of 4.1% in the third quarter due to the faster pace of increase in seasonally adjusted tax revenue compared to the pace of increase in seasonally adjusted nominal expenditure. The dissaving rate of general government increased to 3.6% in 2023 from 1.3% in 2022. Gross saving by the *household sector* as a percentage of GDP decreased to 1.5% in the fourth quarter of 2023 from 1.6% in the third quarter as the increase in seasonally adjusted nominal consumption expenditure outweighed that in seasonally adjusted disposable income. Similarly, the annual saving rate of households decreased to 1.7% in 2023 from 2.2% in 2022.

Gross saving as a percentage of gross domestic product



Sources: Stats SA and SARB

Employment

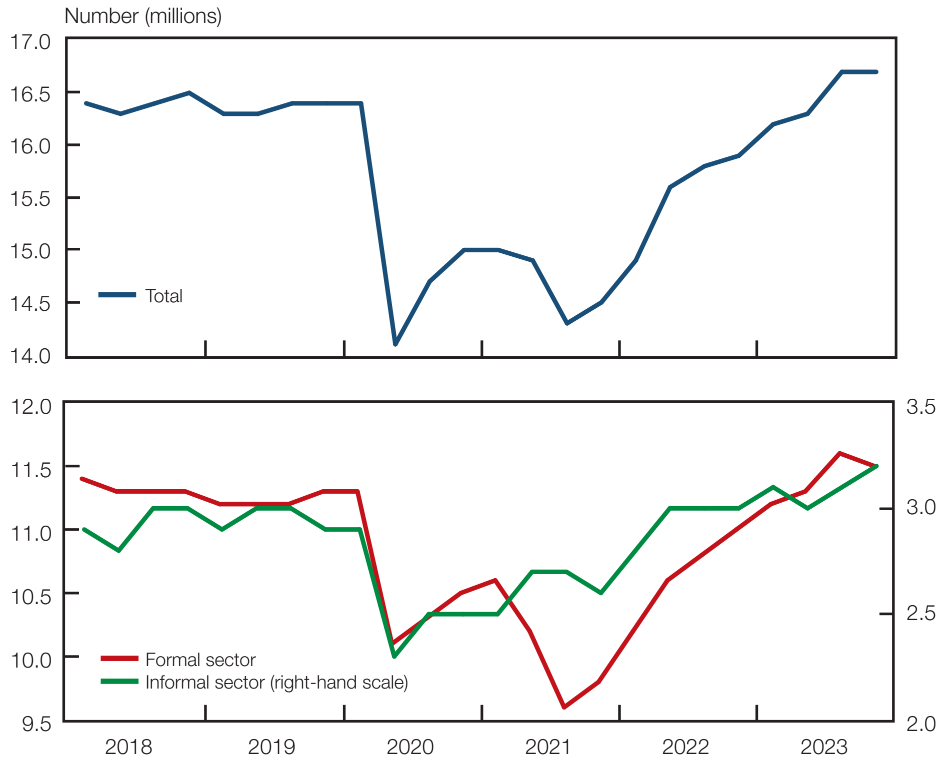
Total household-surveyed employment decreased for the first time since the third quarter of 2021, contracting by 22 000 (0.1%) in the fourth quarter of 2023, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS).*[7] Although job losses were recorded in two of the four main sectors, employment remained above its pre-COVID-19 level. Formal sector employment decreased by 128 000 (1.1%) as significant job losses were recorded in the community, social and personal services sector, while agricultural sector employment decreased by 35 000 (3.7%). Conversely, 124 000 (4.0%) more persons were employed in the informal sector and 18 000 (1.7%) more jobs were recorded in the private household sector in the fourth quarter of 2023. The year-on-year pace of increase in total household-surveyed employment slowed from 6.2% in the third quarter of 2023 to 4.9% in the fourth quarter.

7 Stats SA noted that the response rate of the *QLFS* was 88.8% in the fourth quarter of 2023, up from 88.3% in the third quarter (and 88.2% in the fourth quarter of 2022).

The seasonally adjusted total number of new and renewed job postings on the PNet web platform decreased by 2.6% in the fourth quarter of 2023 and by 2.9% on a month-to-month basis in January 2024, with the total job postings still 14.0% lower compared with January 2019, before the onset of the COVID-19 pandemic. The International Labour Organization (ILO) also reported a slowdown in job vacancies in most advanced economies, underpinned by a reduction in the labour force and labour force participation rates, thus resulting in structural labour market and skills imbalances.[8] Moreover, the ILO noted that the persistent weakness in global economic growth is expected to result in minimal job creation during 2024, with global employment growth expected to be less than half of that recorded in 2023.

8 International Labour Organization. 2024. *World Employment and Social Outlook: Trends 2024.* International Labour Office. Geneva.

Household-surveyed employment



Source: Stats SA

Employment contracts of a limited duration decreased by 4.4% on a quarter-to-quarter and seasonally adjusted basis in the fourth quarter of 2023, reflecting the termination of employment contracts related to Phase IV of the Presidential Youth Employment Initiative (PYEI) that commenced in February 2023. Employment contracts of an unspecified duration decreased by 1.1% and those of a permanent nature by 0.9% in the fourth quarter of 2023.

Household-surveyed labour market statistics

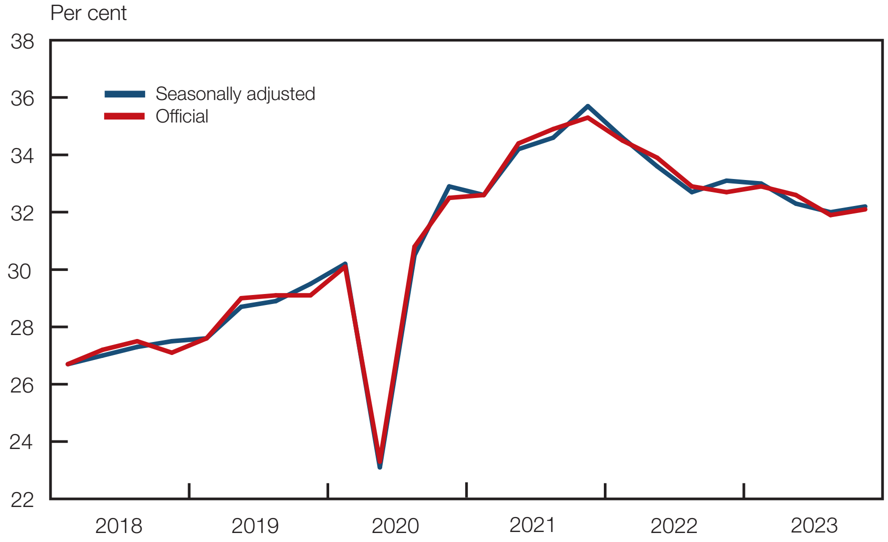
	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2022	2023			2023 Q4		
	Q4	Q2	Q3	Q4	Number (thousands)	Per cent	Per cent
a. Total employed	15 934	16 346	16 745	16 723	-22	-0.1	4.9
b. Total unemployed (official definition)	7 753	7 921	7 849	7 895	46	0.6	1.8
c. Total labour force (a+b)	23 688	24 268	24 594	24 619	25	0.1	3.9
d. Total not economically active	16 774	16 478	16 292	16 403	111	0.7	-2.2
e. Population 15–64 years (c+d)	40 462	40 746	40 886	41 022	136	0.3	1.4
f. Official unemployment rate* (b/c)*100	**32.7%**	**32.6%**	**31.9%**	**32.1%**	–	–	–
g. Discouraged	3 363	3 182	3 156	3 049	-107	-3.4	-9.3
h. Other reasons for not searching for work	1 136	1 252	1 206	1 275	68	5.7	12.2
i. Expanded unemployment rate**	**42.6%**	**42.1%**	**41.2%**	**41.1%**	–	–	–

* 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

South Africa's total labour force increased slightly by 0.1% to 24.6 million in the fourth quarter of 2023 as the total number of unemployed persons increased, while the number of employed persons decreased. South Africa's official unemployment rate increased from 31.9% in the third quarter of 2023 to 32.1% in the fourth quarter, while the seasonally adjusted unemployment rate increased from 32.0% to 32.2% over the same period.

Unemployment rate



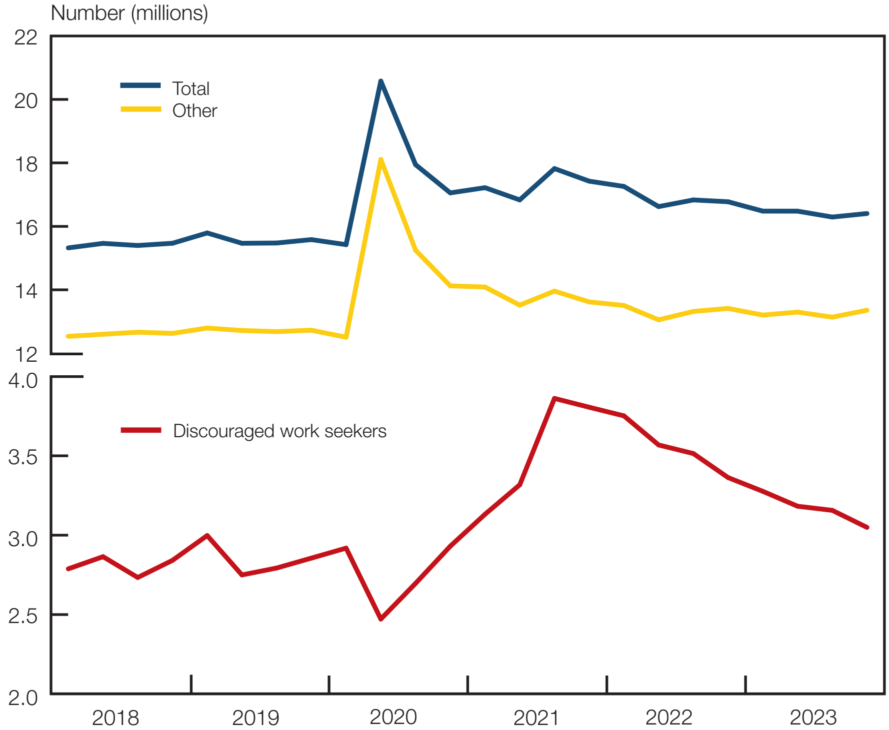
Sources: Stats SA and SARB

The total number of officially unemployed persons in the fourth quarter of 2023 consisted of 42.6% new entrants to the labour market, followed by 28.2% job losers and 21.6% representing those who last worked five years ago, while re-entrants and job leavers acounted for 4.2% and 3.4% respectively. The proportion of long-term unemployment (being unemployed for one year or longer) to total unemployment remained elevated at 77.1% in the fourth quarter of 2023.

The youth unemployment rate (those aged 15–24 years and actively searching for work) increased from 58.0% in the third quarter of 2023 to 59.4% in the fourth quarter. Furthermore, the share of young persons who were neither in employment, education, or training (NEET) increased from 32.7% in the third quarter of 2023 to 33.0% in the fourth quarter, equivalent to 3.4 million out of 10.2 million young persons. According to the ILO, the share of youth NEET globally is expected to increase marginally from 21.7% in 2023 to 21.8% in 2024 and is expected to remain at this rate in 2025.[9]

9 International Labour Organization. 2024. *World Employment and Social Outlook: Trends 2024.* International Labour Office. Geneva.

Not economically active population



Source: Stats SA

The not economically active population increased by 111 000 (0.7%) persons in the fourth quarter of 2023 due to a decrease of 107 000 (3.4%) in the number of discouraged work seekers alongside an increase of 218 000 (1.7%) in the *other*[10] not economically active category. Consequently, the expanded unemployment rate, which includes discouraged work seekers, decreased for a ninth consecutive quarter to 41.1% in the fourth quarter of 2023 from a recent peak of 46.6% in the third quarter of 2021.

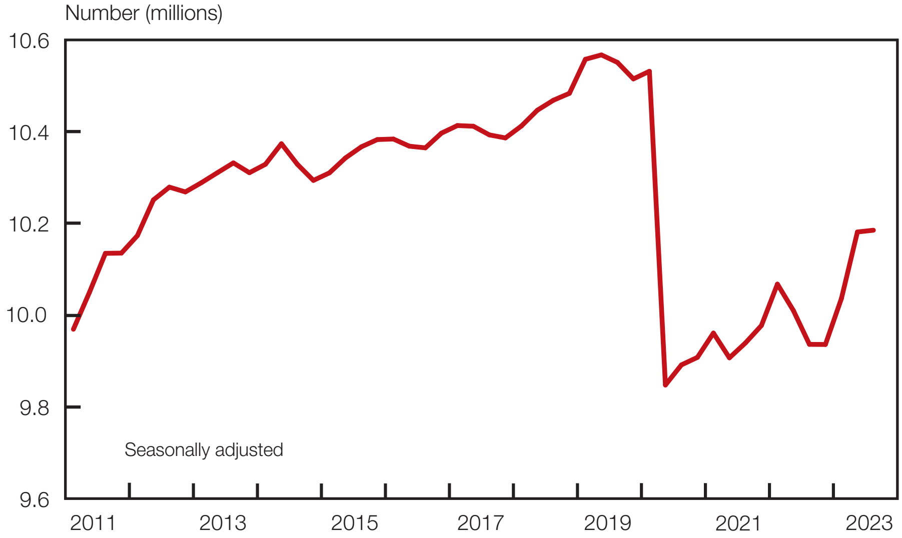
The labour force participation rate decreased marginally from 60.2% in the third quarter of 2023 to 60.0% in the fourth quarter, while the labour absorption rate (the percentage of the working age population (15–64 years) who are employed) decreased from 41.0% to 40.8% over the same period.

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

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

Enterprise-surveyed formal non-agricultural employment[11] increased by 14 400 (an annualised increase of 0.6%) in the third quarter of 2023, largely reflecting further expansion in temporary public sector employment, while private sector employment decreased. This represents a third successive quarterly increase in employment, albeit at a much slower pace than in the first half of the year.

Total formal non-agricultural employment*



* Excluding election-related outliers

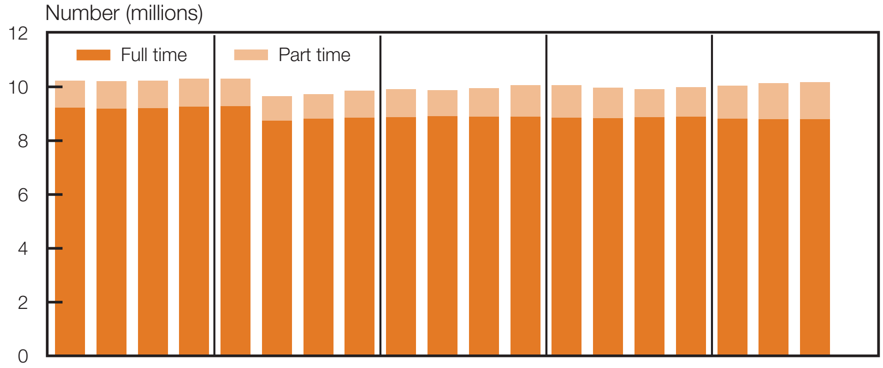
Sources: Stats SA and SARB

The recovery in formal jobs after the COVID-19 pandemic in 2020 mostly reflects part-time employment. The increase in part-time employment coincided with the introduction of the PYEI in the Basic Education sector as an intervention to address the high youth unemployment in South Africa. This is reflected in a substantial increase of 53.1% (representing a cumulative gain of around 481 000 jobs) in employment in the community, social and personal services sector between the second quarter of 2020 and the third quarter of 2023, mostly in public sector employment. As a result, part-time employment as a share of total formal non-agricultural employment increased to 13.6% in the third quarter of 2023 from 9.4% in the second quarter of 2020.

Public sector employment increased at a slower pace in the third quarter of 2023 by 26 500 (4.3%) compared with an increase of 127 800 (23.0%) in the second quarter, largely due to temporary election-related employment by the Electoral Commission of South Africa (IEC). This resulted in a cumulative gain of 268 600 jobs in the first three quarters of the year that mostly reflected employment related to Phase IV of the PYEI at provincial level as well as the Expanded Public Works Programme (EPWP). Employment increased at all public sector tiers in the third quarter of 2023, except at local governments and SOCs in the transport, storage and communication sector.

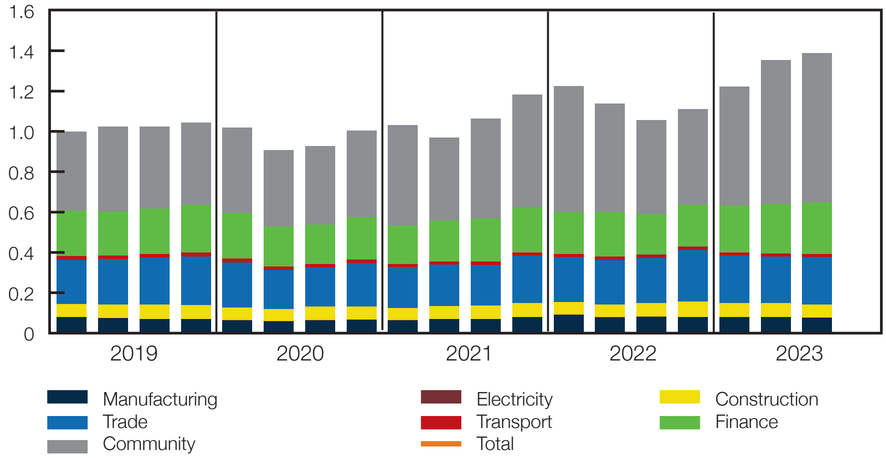
Contributions to total formal non-agricultural employment*

Number (millions)



Contributions to formal non-agricultural part-time employment*

Number (thousands)

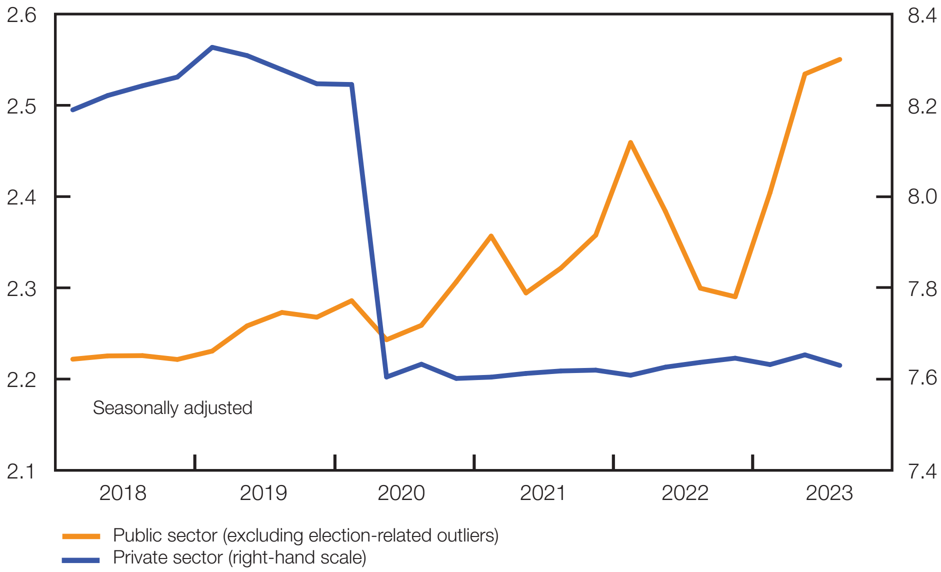


* Not seasonally adjusted

Source: Stats SA

Public and private formal non-agricultural employment

Number (millions)



Sources: Stats SA and SARB

By contrast, *private sector employment* decreased by 12 200 (0.6%) in the third quarter of 2023, almost reversing the gains made in the second quarter. Despite job gains in five of the private subsectors, significant job losses in the finance, insurance, real estate and business services; construction; and manufacturing sectors outweighed those gains.

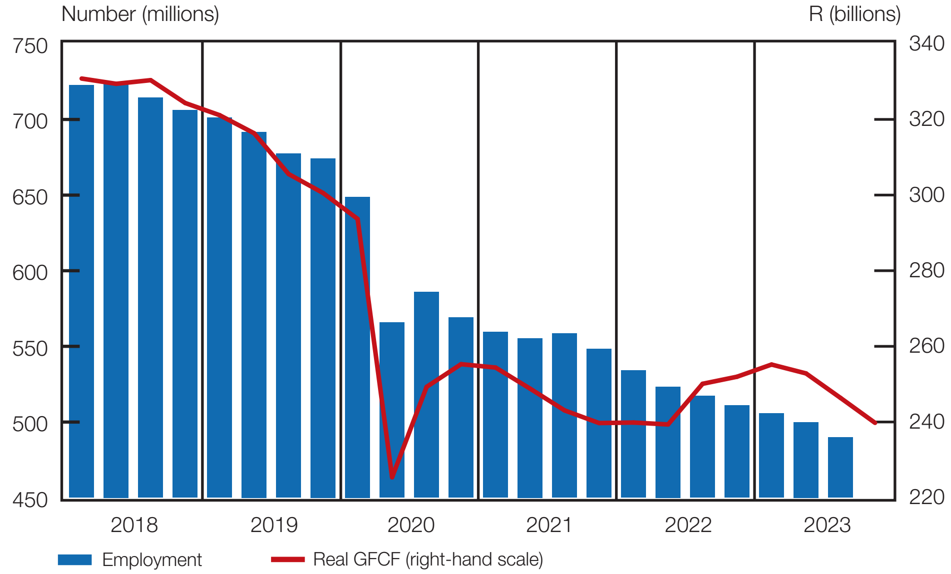
Mining sector employment increased in the third quarter of 2023 following a marginal decrease in the preceding quarter. Further employment gains were recorded in the non-gold mining sector, while the gold-mining sector added a similar number of jobs compared to those that were lost in the second quarter. Mining sector employment has increased for four consecutive quarters up to the third quarter of 2023, reflecting the lagged effect of the earlier surge in international commodity prices alongside the depreciation in the exchange value of the rand, on balance, over this period. However, the outlook for mining sector employment appears bleak, with several mining companies announcing restructuring processes towards the end of 2023 and into 2024 against the backdrop of continued electricity supply curtailment, debilitating rail and port constraints as well as lower international commodity prices, according to the Minerals Council South Africa.

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

Employment in the *manufacturing sector* peaked at 1.19 million in the second quarter of 2023 following a cumulative gain of 26 000 jobs since the fourth quarter of 2020, before shedding 6 000 jobs in the third quarter of 2023, consistent with the lower GVA by the sector. In addition, sentiment indicators showed that the manufacturing sector remained under pressure in the fourth quarter of 2023 and into 2024 amid a tough domestic and global operating environment. Manufacturing business confidence[12] improved by only three index points to 26 in the fourth quarter of 2023, while the seasonally adjusted Absa Purchasing Managers' Index (PMI) remained below the neutral 50-point level in the three months to January 2024 due to a sharp deterioration in new orders and business activity. The Bureau for Economic Research (BER) noted that higher confidence levels are needed for a sustained improvement in non-energy investment, and thus also employment creation, in the manufacturing sector.

The pace of job shedding accelerated in the *construction sector* in the third quarter of 2023, continuing the sustained downward trend in employment in this sector since the second quarter of 2016. Cumulatively, the construction sector has shed 75 800 jobs in the eight quarters up to the third quarter of 2023, lagging the upward momentum in gross fixed capital formation from the second half of 2022, which has since lost some traction again.

Formal construction sector employment and gross fixed capital formation*



* Includes residential and non-residential buildings as well as construction works

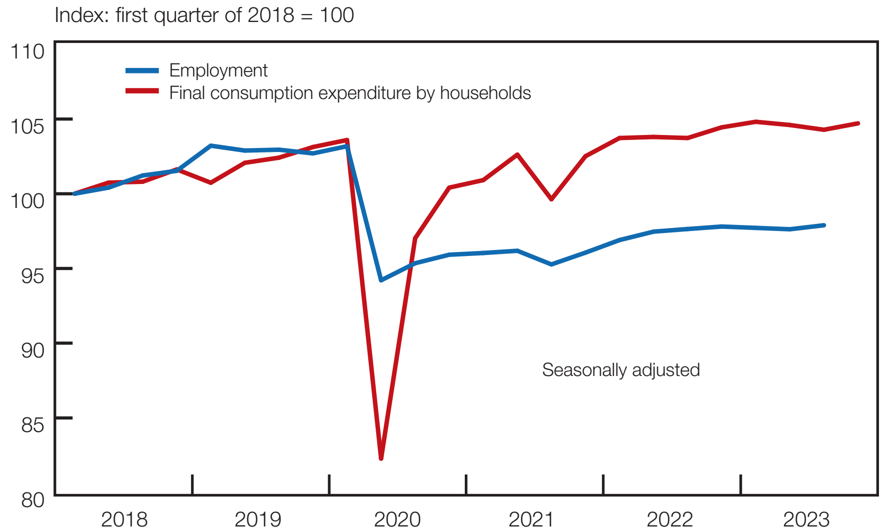
Seasonally adjusted

Sources: Stats SA and SARB

According to the BER's *Construction Survey,* growth in civil construction activity continued to improve in the fourth quarter of 2023, along with an improvement in most of the indices underlying civil construction confidence. However, this has not translated into better sentiment, as the First National Bank (FNB)/BER Civil Confidence Index shed two index points to 41 in the fourth quarter of 2023. By contrast, building confidence[13] rose to 43 index points over the same period – its highest level in eight years, though still below the neutral 50-point level – underpinned by further growth in building activity. Non-residential contractors were significantly more upbeat, while residential contractors noted that the lack of new demand as a business constraint was noticeably higher, reflecting the impact of higher interest rates on the demand for new housing.

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

Formal trade sector employment and household consumption expenditure



Sources: Stats SA and SARB

Employment in the *trade, catering and accommodation services sector* increased by 5 800 in the third quarter of 2023 following two consecutive quarters of marginal job losses. The slower growth in trade sector employment since the third quarter of 2022 is reflective of the high cost of living, which together with higher interest rates, has eroded households' disposable income and constrained their spending ability. This was also reflected in contractions in real wholesale, retail and motor trade sales in the fourth quarter of 2023. This was despite a further increase in retailer business confidence[14] from 32 to 47 index points in the fourth quarter, which was likely driven by an uptick in profitability and lower levels of electricity load-shedding during the quarter. However, the BER expects business conditions to remain challenging in the first half of 2024, given subdued consumer demand.

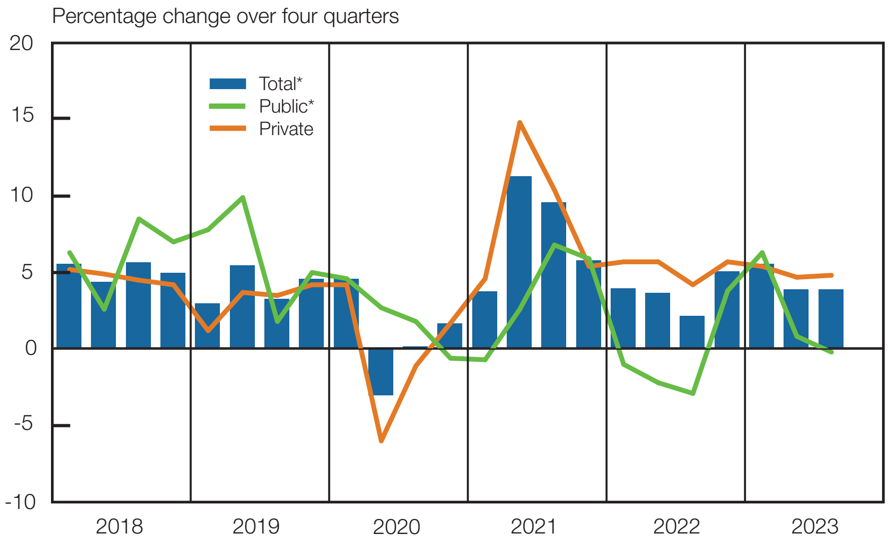
14 As measured by the BER's *Retail Survey.*

Employment in the *finance, insurance, real estate and business services sector* decreased by 11 600 in the third quarter of 2023, partially reversing the meaningful gains made in the preceding quarter.

Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* moderated marginally further from a revised 3.8% in the second quarter of 2023 to 3.7% in the third quarter, as growth in nominal remuneration per worker slowed sharply in the public sector.

Formal non-agricultural nominal remuneration per worker



* Excluding election-related outliers

Sources: Stats SA and SARB

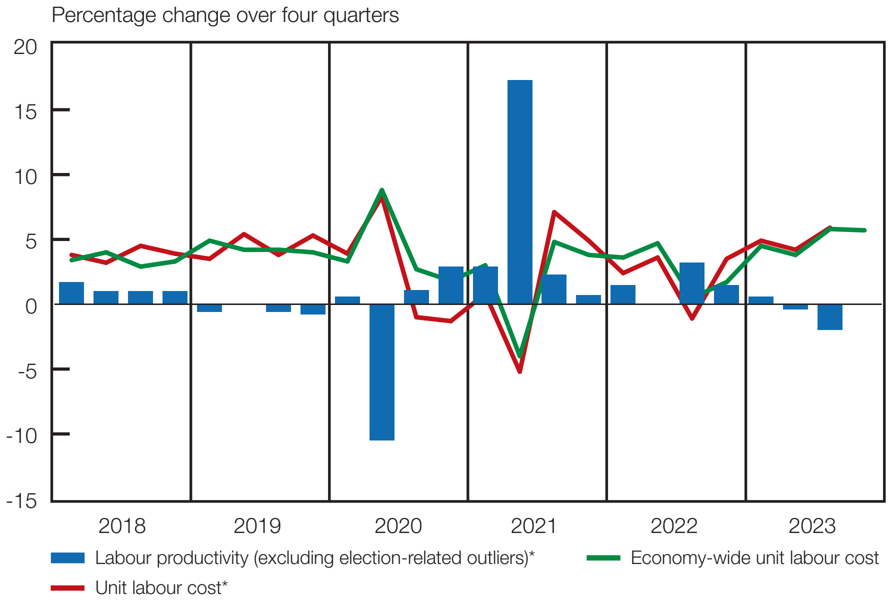
Growth in *nominal remuneration per public sector worker* reverted from an increase of 0.8% in the second quarter of 2023 to a decrease of 0.4% in the third quarter, reflecting the notable increase in the number of lower-earning temporary employees.

By contrast, *nominal remuneration growth per private sector worker* accelerated marginally from 4.7% in the second quarter of 2023 to 4.8% in the third quarter. Although there was a clear divergence between the private subsectors in the fourth quarter, the acceleration in nominal remuneration growth per worker in three of the subsectors (construction; finance, insurance, real estate and business services; and transport, storage and communication services) slightly outweighed the deceleration in the remaining four (mining; manufacturing; trade, catering and accommodation services; and community, social and personal services).

The *average wage settlement rate* in collective bargaining agreements was 6.3% in 2023 compared with an annual average of 6.0% in 2022, according to Andrew Levy Employment Publications. The number of working days lost due to industrial action rose notably to 4.9 million in 2023 from 2.4 million in 2022, largely due to the nationwide public sector strike in March 2023 and the prolonged municipal workers' strike in July 2023.

Growth in labour productivity in the formal non-agricultural sector slowed for a fourth successive quarter from an increase of 3.5% in the third quarter of 2022 to a decrease of 2.0% in the third quarter of 2023, as year-on-year growth in employment accelerated, partly due to the marked increase in temporary public sector employment over this period, while output growth slowed.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

Sources: Stats SA and SARB

Growth in nominal unit labour cost in the formal non-agricultural sector accelerated from 4.2% in the second quarter of 2023 to 5.9% in the third quarter, as year-on-year growth in total remuneration accelerated and that in output slowed. The notable acceleration in nominal unit labour cost since the fourth quarter of 2022 largely reflected base effects related to the delayed implementation of the annual public sector wage increase. Growth in economy-wide nominal unit labour cost moderated slightly from 5.8% in the third quarter of 2023 to 5.7% in the fourth quarter, as year-on-year output growth marginally outweighed that in the compensation of employees.

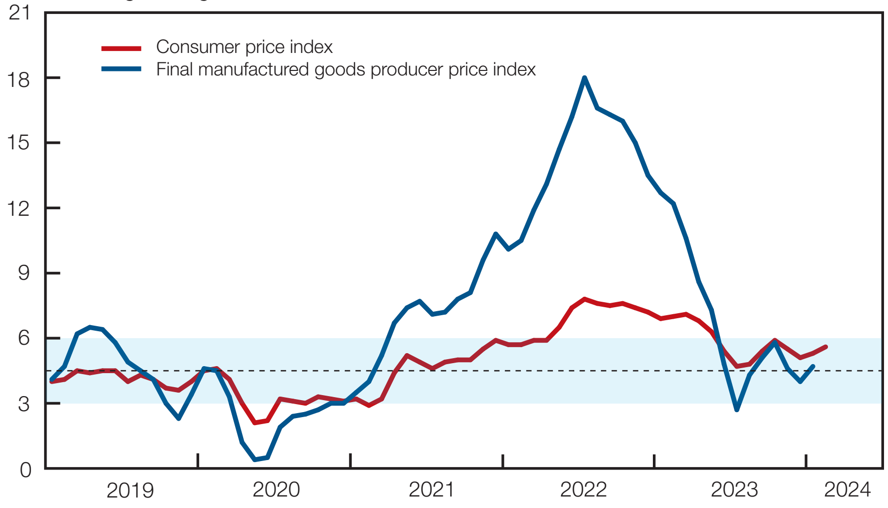
Prices[15]

Global consumer price inflation continued to ease in the opening months of 2024 amid restrictive monetary policy, but inflation remained above target in most countries as geopolitical tensions intensified. Recent attacks on the critical Red Sea shipping route heightened fears of disruptions to global supply chains, raising concerns about additional inflationary pressures. Domestic inflationary pressures eased during most of 2023, with headline consumer price inflation decelerating from a high of 7.1% in March to 4.7% in July, largely due to base effects from lower food and transport price inflation. Headline inflation then became more volatile as it fluctuated between 5.0% and 6.0% up to early-2024, mostly tracking movements in non-core items such as food, fuel and electricity.

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

Headline producer and consumer prices

Percentage change over 12 months



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

Source: Stats SA

Headline producer price inflation for final manufactured goods accelerated from a low of 2.7% in July 2023 to 5.8% in October following higher prices of coal, petroleum, chemical, rubber and plastic products, before decelerating to 4.0% in December 2023, largely due to lower prices of food, beverages and tobacco products as well as coal, petroleum, chemical, rubber and plastic products. In addition, in December 2023, final manufactured producer price inflation of paper and printed products decelerated to 3.5%; household appliances and office machinery slowed to 0.9%; and furniture and other manufacturing moderated to 1.1%. Subsequently, producer price inflation for final manufactured goods accelerated to 4.7% in January 2024 on account of an acceleration in the categories of coke, petroleum, chemical, rubber and plastic products; textiles, clothing and footwear; paper and printed products; and transport equipment. The producer prices for intermediate manufactured goods have remained in deflation for six consecutive months and were 2.2% lower in December 2023 compared to a year earlier before reverting to inflation of 0.2% in January 2024. The lower intermediate manufactured producer prices resulted largely from decreases in the prices of chemicals, rubber and plastic products as well as basic and fabricated metals. On an annual average basis, final manufactured producer price inflation more than halved from 14.4% in 2022 to 6.8% in 2023, while intermediate manufactured producer price inflation slowed sharply from 14.5% to 1.3% over the same period.

Producer price inflation

Annual average percentage change

	2021	2022	2023	Jan 2024*
Final manufactured goods	7.1	14.4	6.8	4.7
Intermediate manufactured goods	16.3	14.5	1.3	0.2
Electricity and water	12.8	10.4	14.5	16.8
Mining	12.0	18.0	4.5	-5.9
Agriculture, forestry and fishing	9.3	14.6	8.1	6.6

* Changes in prices from January 2023 to January 2024

Source: Stats SA

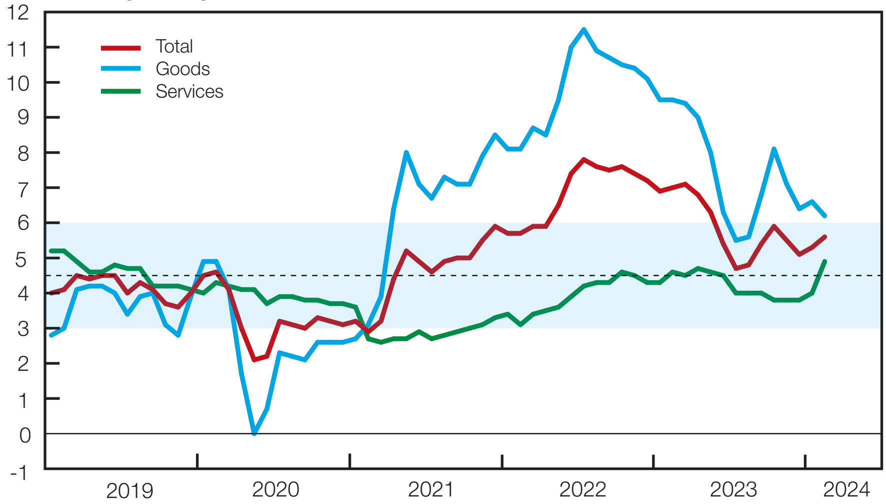
Electricity and water producer price inflation remained elevated throughout 2023 and accelerated further to 16.8% in January 2024, as especially electricity price inflation accelerated. On an annual average basis, producer price inflation for electricity and water quickened from 10.4% in 2022 to 14.5% in 2023.

The producer prices of mining products declined by 5.9% in January 2024 from a year earlier as the prices of coal and gas fell by 4.0% and that of non-ferrous metal ores decreased by 21.9% over this period. Producer price inflation for mining products slowed sharply to 4.6%, on average, in 2023 as lower international commodity prices amid weaker global demand continued to suppress overall producer price inflation for mining products. By contrast, the price inflation of gold and other metal ores accelerated significantly to 23.9% in January 2024.

Producer price inflation for agriculture, forestry and fishing products eased from a high of 12.0% in October 2023 to 6.6% in January 2024. The categories of cereals and other crops as well as other animal products remained in deflation over this period and recorded year-on-year decreases of 13.1% and 5.8% respectively in January 2024. Producer price inflation for milk and eggs remained elevated, despite decelerating somewhat from a high of 31.2% in November 2023 to 22.0% in January 2024, in part due to the gradual abatement of the effects of the avian influenza outbreaks.

Headline consumer prices

Percentage change over 12 months

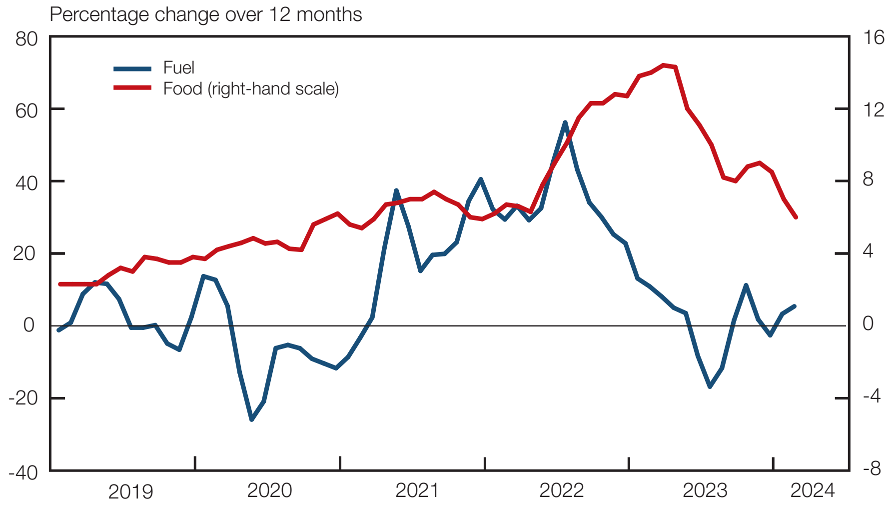


---- Midpoint of the inflation target range (4.5%)

Source: Stats SA

Headline consumer price inflation decelerated from an annual average rate of 6.9% in 2022 to 6.0% in 2023 but has remained above the midpoint of the inflation target range of 4.5%. Headline consumer price inflation eased from 5.9% in October 2023 to 5.1% in December as especially fuel and, to a lesser extent, food price inflation slowed. Subsequently, consumer price inflation accelerated to 5.6% in February 2024 following a reversal in fuel price inflation and an acceleration in services price inflation. Consumer services prices remained stable at 4.0% for the three months up to September 2023 before moderating slightly and remaining at 3.8% for three consecutive months up to December, after which it accelerated to 4.9% in February 2024.

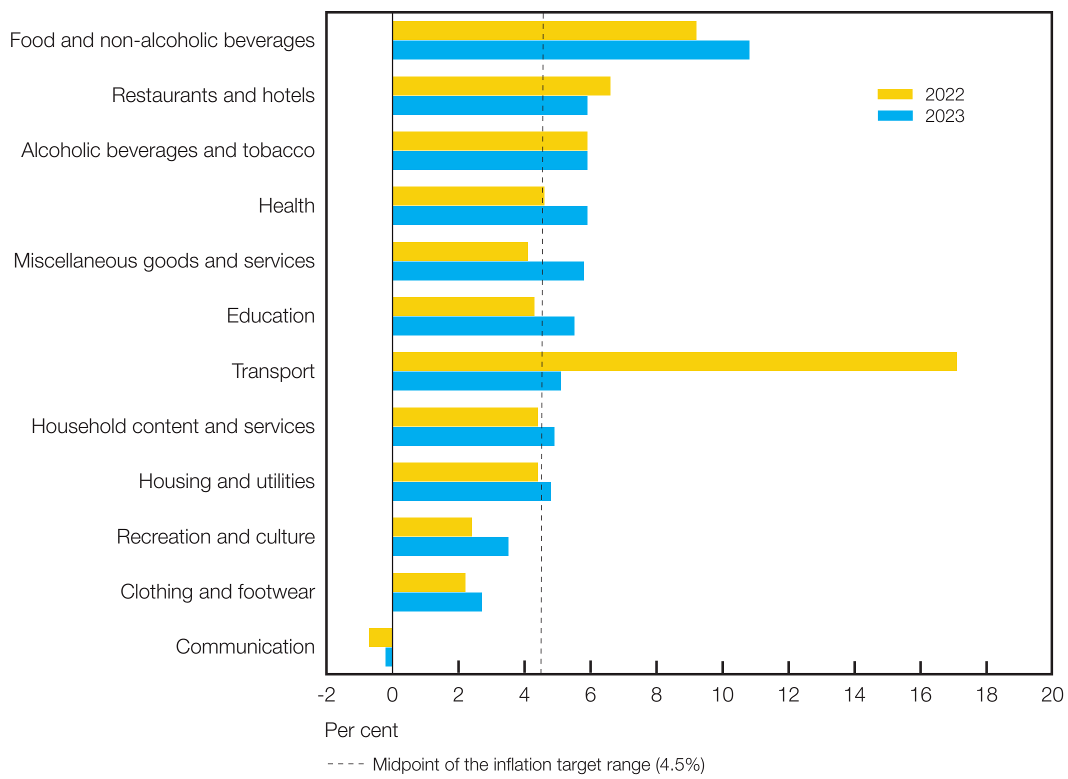
Consumer food and fuel prices



Source: Stats SA

Price changes based on the classification of individual consumption by purpose (COICOP) categories indicated that annual average consumer price inflation in 2023 accelerated in 9 of the 12 COICOP categories, decelerated in 2 and was unchanged in the remaining category. The food and non-alcoholic beverages category registered the highest annual average inflation rate as it accelerated from 9.2% in 2022 to 10.8% in 2023, while the transport category decelerated the most, from 17.1% in 2022 to 5.1% in 2023.

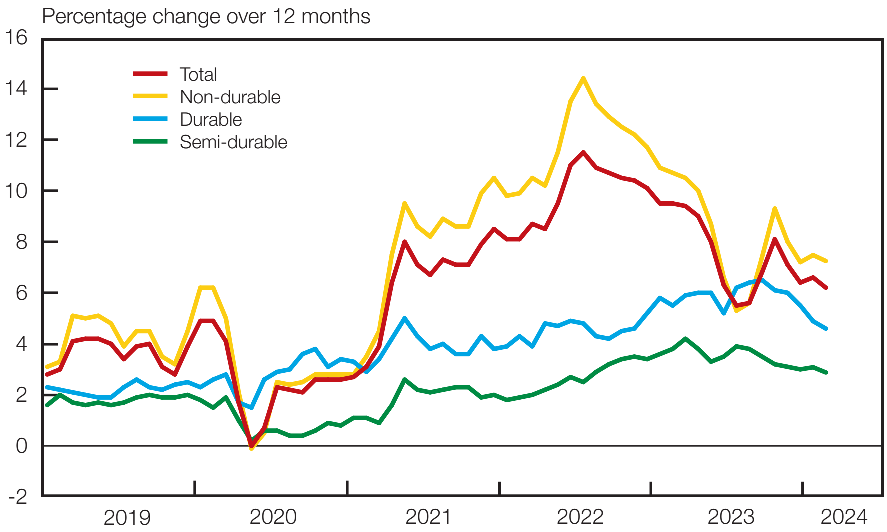
Annual average consumer price inflation by COICOP category



Source: Stats SA

Consumer goods price inflation remained elevated in 2023, despite its annual average rate slowing to 7.5% from 9.8% in 2022. Goods price inflation initially moderated to 5.5% in July 2023 before quickening to 8.1% in October and then slowing again to 6.4% in December. Goods price inflation in 2023 largely reflected movements in non-durable goods price inflation, especially for fuel. In February 2024, consumer goods price inflation slowed to 6.2%, largely due to lower food price inflation.

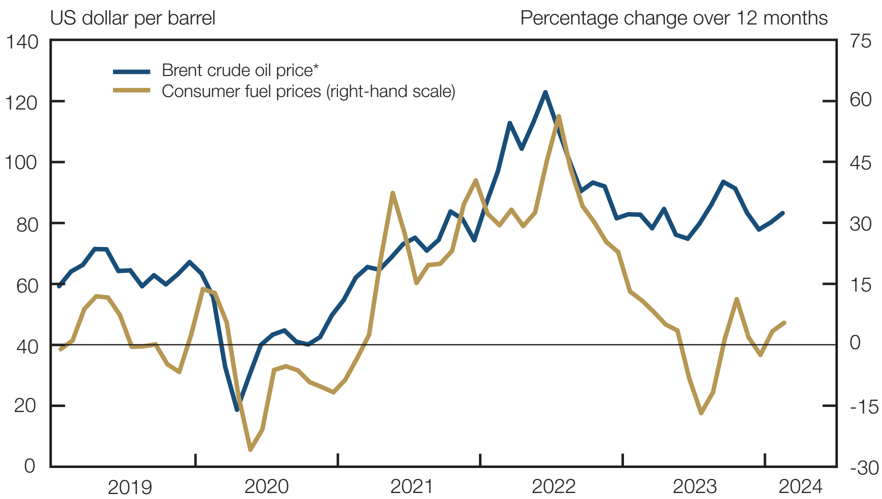
Consumer goods prices



Source: Stats SA

Consumer fuel price inflation slowed from elevated rates in 2022 to a low of -18.6% in July 2023 before displaying some volatility in the subsequent months, along with movements in international crude oil prices. Consumer fuel price inflation again reverted from 11.2% in October 2023 to -2.6% in December as international crude oil prices decreased. However, following intensified geopolitical tensions in the Middle East and increased shipping costs due to attacks on vessels in the Red Sea, the monthly average US dollar price of Brent crude oil increased from US$77.80 per barrel in December 2023 to US$83.18 per barrel in February 2024. Consequently, consumer fuel price inflation then quickened to 5.4% in February 2024.

Brent crude oil and consumer fuel prices



* Monthly average

Sources: Refinitiv, Stats SA and SARB

Durable goods price inflation decelerated from 6.5% in September 2023 to 4.6% in February 2024, largely reflecting the moderation in vehicle price inflation. New vehicle price inflation decelerated from 8.4% in September 2023 to 7.2% in February 2024, while used vehicle price inflation decelerated significantly from a high of 15.2% in January 2023 to 5.4% in February 2024. Semi-durable goods price inflation remained subdued and eased slightly from 4.0% in July 2023 to 2.9% in February 2024.

Consumer price inflation

Annual average percentage change

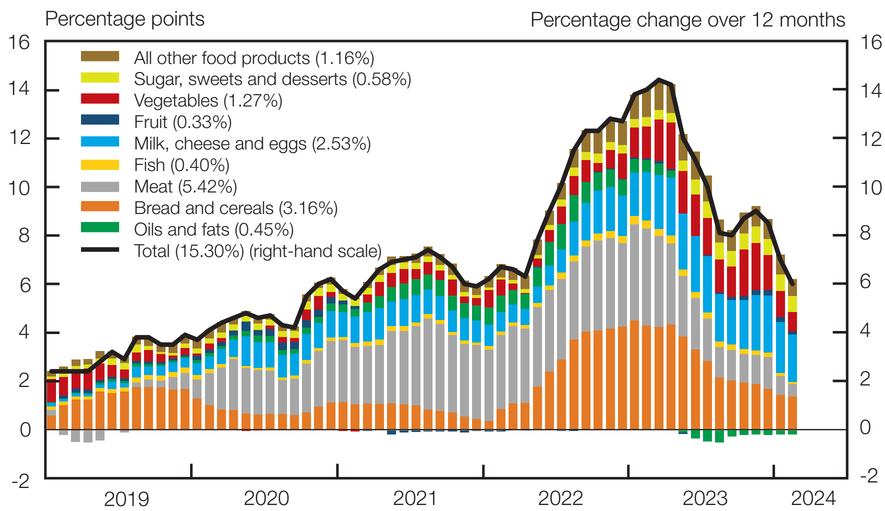
	Weight	2021	2022	2023	2024* Jan	2024* Feb
Headline CPI	100.00	4.5	6.9	6.0	5.3	5.6
Headline CPI, excluding food and non-alcoholic beverages, fuel and electricity	74.40	3.0	4.4	4.9	4.6	5.0
Goods	48.68	6.3	9.8	7.5	6.6	6.2
Non-durable	35.71	7.6	11.9	8.4	7.5	7.3
Semi-durable	5.38	1.9	2.7	3.6	3.1	2.9
Durable	7.59	3.8	4.5	5.9	4.9	4.6
Services	51.32	2.9	4.0	4.2	4.0	4.9

* Changes in prices over 12 months

Source: Stats SA

Annual average consumer *food price inflation* accelerated from 9.5% in 2022 to 11.0% in 2023, while producer food price inflation moderated. However, consumer food price inflation decelerated from 9.0% in November 2023 to 6.0% in February 2024, with decelerations in seven of the nine food price categories. Milk, cheese and eggs price inflation accelerated from 11.2% in September 2023 to 14.5% in December as egg price inflation remained at double-digit rates. Similarly, meat price inflation accelerated from 3.4% in September 2023 to 3.9% in December, reflecting the impact of the avian influenza outbreaks on poultry-related products. Subsequently, price inflation for milk, cheese and eggs as well as meat slowed in February 2024 to 12.0% and 1.5% respectively, as the impact of avian influenza started to dissipate.

Contributions to consumer food price inflation



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

Source: Stats SA

Box 1 The impact of the recent avian influenza outbreaks on domestic food prices

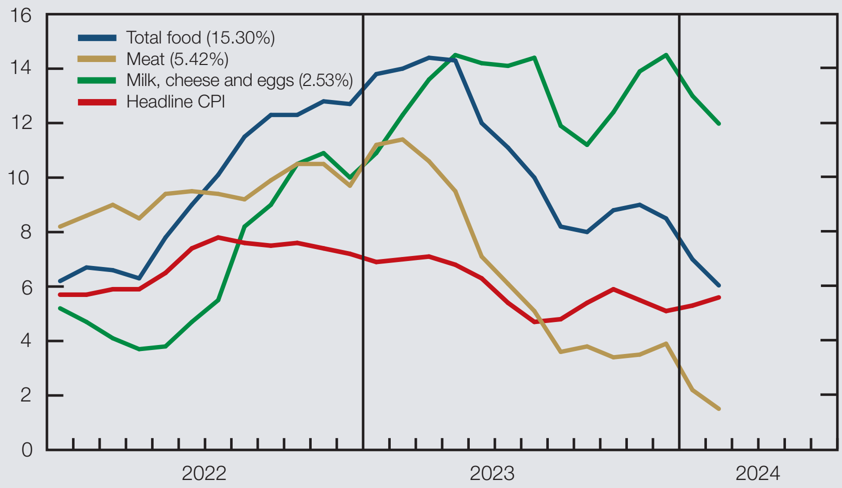
The outbreaks of highly pathogenic avian influenza (HPAI) adversely affected poultry farmers in South Africa during 2023. HPAI is a highly contagious viral infection that affects poultry such as chickens, ducks, geese and ostriches and other wild gallinaceous birds such as gulls and shorebirds. Two different strains caused the outbreaks in South Africa – avian influenza A(H5N1) in April 2023 and avian influenza A(H7N6) in September, leading to the significant culling of poultry.[1]

The outbreaks led to considerable shortages and subsequent price increases of poultry-related products, especially as the festive season approached. In response to the outbreaks, the exports of poultry to neighbouring countries were suspended and the impending shortage necessitated additional imports as a short-term solution to ensure adequate supply. The depreciation in the exchange value of the rand as well as import duties affected these imports, exerting further upward pressure on the prices of poultry-related products.

It is estimated that at least 205 000 chickens have died and approximately 8.5 million chickens (2.5 million broiler breeders, raised specifically for meat production, and approximately 6 million of the layer flock, bred for laying eggs) were culled, according to the South African Poultry Association (SAPA).

Headline and selected consumer food prices

Percentage change over 12 months



Numbers in brackets indicate weights in the overall consumer price index.

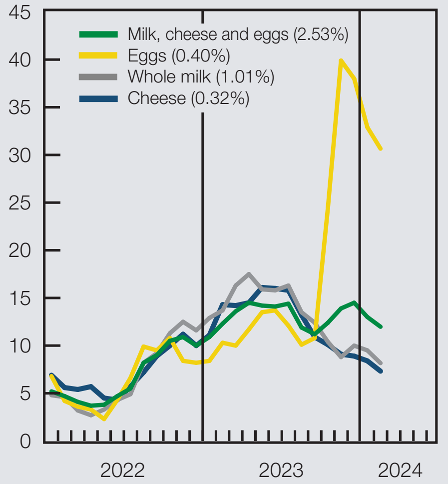
Source: Stats SA

Despite measures taken by the government and poultry industry to mitigate the shortages, the prices of poultry-related products exerted upward pressure on domestic food price inflation. After receding for six consecutive months, consumer food price inflation accelerated from 8.0% in September 2023 to 9.0% in November, with the prices of milk, cheese and eggs; sugar, sweets and desserts; and fruit and vegetables increasing the most. Despite the moderation in overall food price inflation to 8.5% in December 2023, the milk, cheese and eggs category accelerated from 11.2% in September to 14.5% and contributed 2.4 percentage points to the year-on-year increase in food price inflation in December. Within this category, the outbreaks affected the prices of especially eggs, as retailers adjusted prices upwards to manage the supply and demand imbalance exacerbated by panic-buying amid the reported shortages. Egg price inflation accelerated substantially from 10.1% in August 2023 to 40.0% in November before moderating somewhat to 30.7% in February 2024. Egg prices contributed 1.0 percentage points to the increase in overall food price inflation in both November and December 2023. On a month-on-month basis, egg prices increased by 13.4% in October 2023 and by a further 10.6% in November before decreasing by 2.6% in January 2024 and a further 0.4% in February, suggesting a gradual recovery of the poultry industry. Overall food price inflation slowed further to 6.0% in February 2024, with milk, cheese and eggs price inflation decelerating to 12.0% as the impact of the avian influenza started to dissipate.

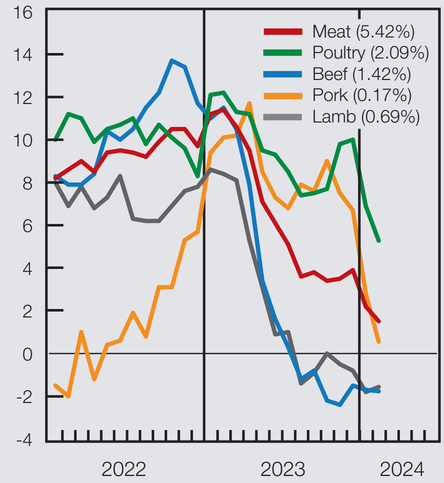
1 See Avian Influenza: H5 and H7 outbreak update report by the Department of Agriculture, Land Reform and Rural Development, available at https://www.dalrrd.gov.za/images/outbreaks/Avian%20Influenza/Reports/h5-and-h7-update-report-29-september-2023.pdf.

Consumer milk, cheese and egg prices

Percentage change over 12 months



Consumer meat prices



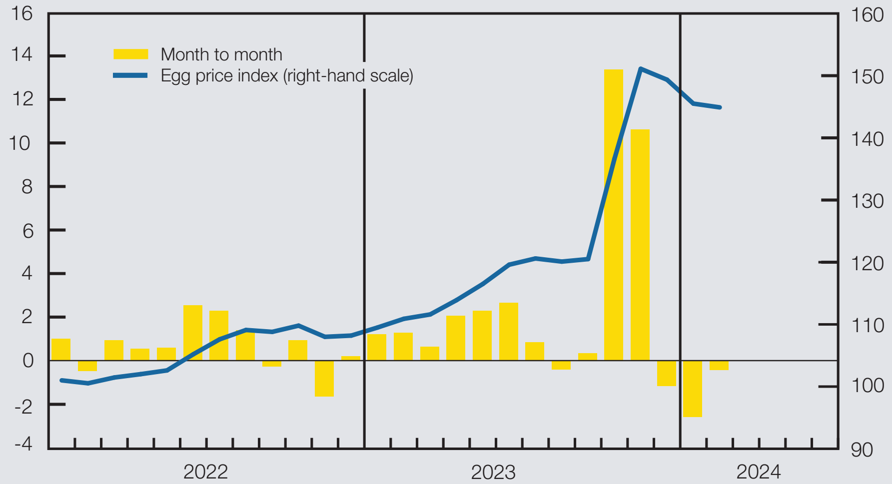
Numbers in brackets indicate weights in the overall consumer price index.

Source: Stats SA

Consumer egg prices

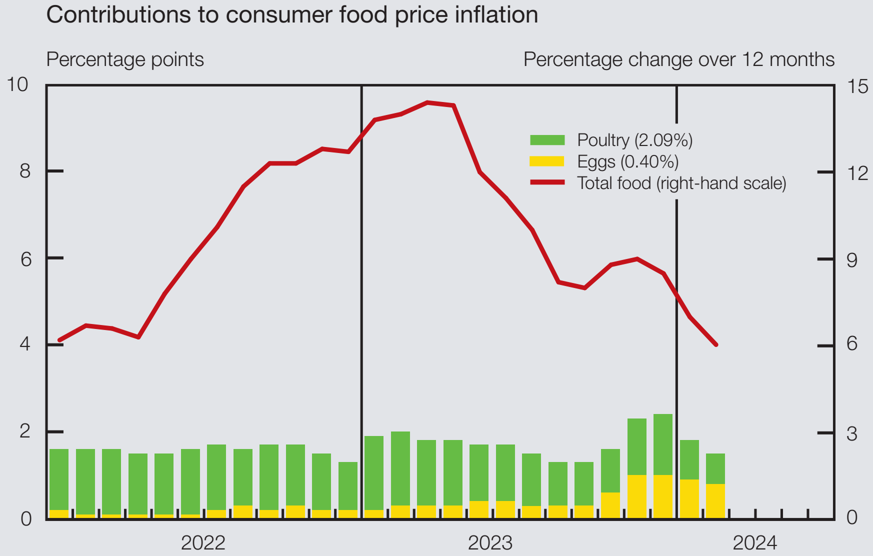
Percentage change from month to month

Index: December 2021=100



Source: Stats SA

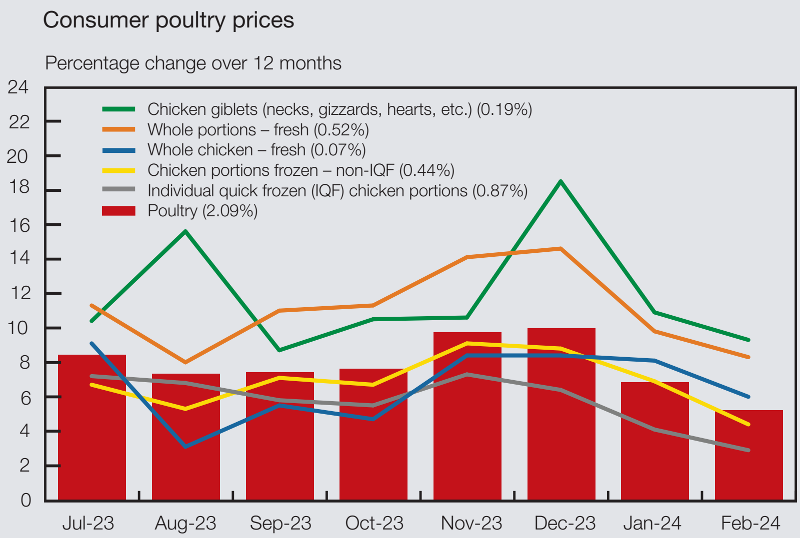
Lower beef and lamb prices have kept overall meat price inflation subdued in recent months, with consumer meat price inflation slowing from 11.4% in February 2023 to 1.5% in February 2024. Although not to the same extent as egg price inflation, poultry price inflation also accelerated from a low of 7.4% in August 2023 to 10.0% in December, after which it moderated to 5.3% in February 2024. However, poultry's contribution to overall food price inflation was more than that of eggs, at 1.3 and 1.4 percentage points in November and December 2023 respectively, given the larger weight of poultry in the consumer food price basket. Poultry prices were less affected than egg prices by the HPAI outbreaks as a result of the specific biosecurity measures the government undertook to allow poultry production to continue with minimal disruption, while the reserves of frozen poultry carried over from the winter season afforded the industry time to alleviate any chicken shortages, especially over the festive season. The impact on egg prices was more severe as eggs are more vulnerable to supply chain disruptions and their importation deemed impractical due to the length of shipment periods.



Numbers in brackets indicate weights in the overall consumer price index.

Source: Stats SA

In addition to the avian flu outbreaks, poultry prices were also impacted by the reinstatement of anti-dumping duties from August 2023 by the South African Revenue Service (SARS). These additional import tariffs against Brazil, Denmark, Poland, Ireland and Spain were lifted in July 2022 over concerns regarding their impact on soaring food prices. The anti-dumping duties were initially implemented in addition to the general import tariff on poultry to address the concerns of local poultry producers regarding their ability to compete with cheap imported chicken. Mechanically deboned chicken meat (MDCM), a paste used to manufacture processed foods that is not manufactured in South Africa; chicken offal (giblets, liver, necks, hearts, gizzards, etc.); and frozen bone-in chicken (leg quarters, thighs and drumsticks) are significantly less expensive to import. The local poultry industry currently does not produce sufficient volumes to satisfy the domestic demand and South Africa is therefore forced to import more poultry products. Apart from the avian flu outbreaks and import tariffs, domestic poultry prices are also impacted by continued electricity load-shedding, water supply interruptions, high feed costs as well as infrastructure and logistical challenges.



Numbers in brackets indicate weights in the overall consumer price index.

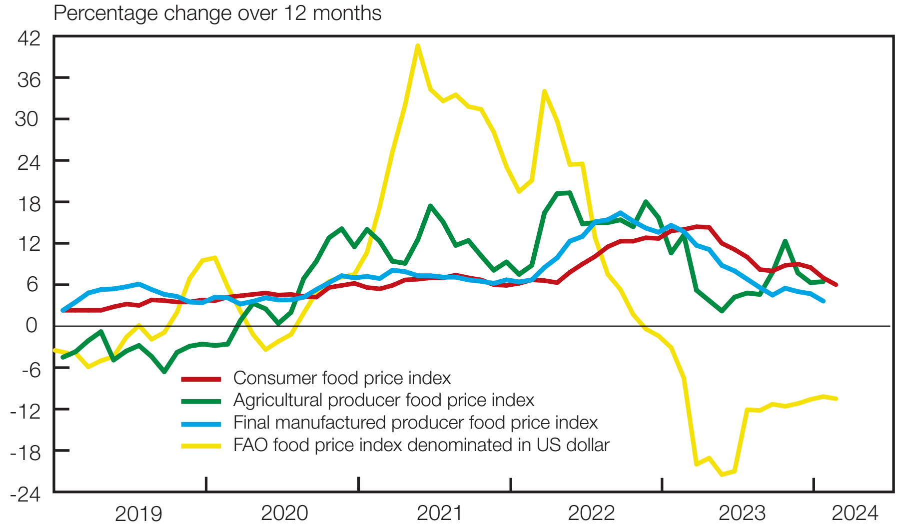
Source: Stats SA

With the implementation of strict biosecurity protocols and monitoring programmes, the HPAI infection rate seems to have peaked. Owing to the government's intervention to expedite the importation of poultry (including fertilised eggs), the egg supply has been improving, with consumer egg price inflation slowing to 30.7% in February 2024. On 25 January 2024, the International Trade Administration Commission of South Africa (ITAC) announced a rebate on general import tariffs on chicken in response to the impact of the HPAI outbreaks. The decision provides for a 30% rebate on boneless cuts and a 25% rebate on bone-in cuts of imported chicken. As such, consumer poultry price inflation subsequently slowed somewhat to 5.3% in February 2024.

16 Live animals include cattle, sheep, pigs and poultry.

Final manufactured producer food price inflation decelerated from an annual average rate of 12.2% in 2022 to 8.3% in 2023, as price inflation slowed in most subcategories throughout the year. Despite final manufactured producer food price inflation decelerating to 3.6% in January 2024, sugar price inflation remained elevated at 20.2%, while that of fruit and vegetables amounted to 11.8%, largely reflecting higher potato prices. Producer price inflation for agricultural products moderated from 12.3% in October 2023 to 6.5% in January 2024 as price inflation in crops and horticultural products and, to a lesser extent, live animals[16] and animal products slowed.

Producer and consumer food prices

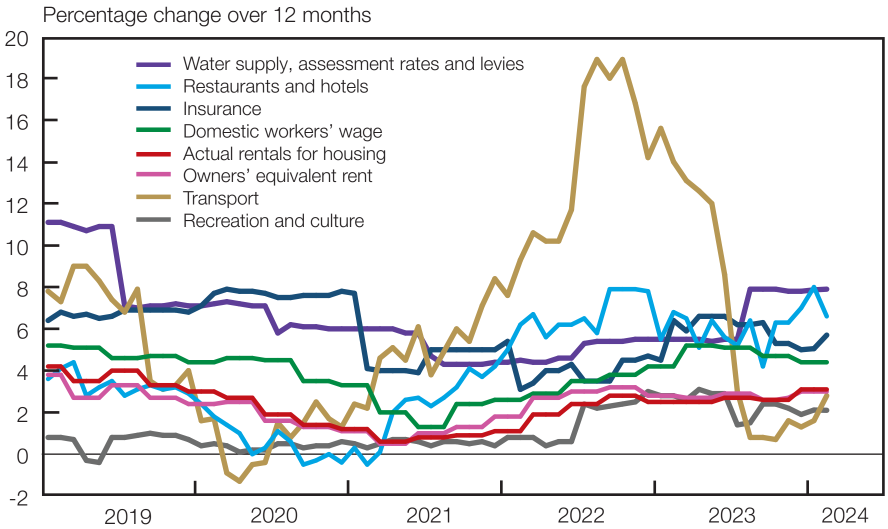


Source: Stats SA

The United Nations Food and Agriculture Organization's (FAO) US dollar-denominated food price index decreased further in February 2024 as decreases in cereals and vegetable oil more than offset the increase in sugar, meat and diary prices. The FAO food price index has been in deflation for 15 months, with the year-on-year rate of decrease moderating to 10.2% in February 2024. When expressed in rand terms, the FAO food price index decreased to a lesser extent, with the year-on-year rate of decline amounting to 5.0% in February 2024, reflecting the depreciation in the exchange value of the rand over the past year.

Although annual average *consumer services price inflation* accelerated to 4.2% in 2023 from 4.0% in 2022, it moderated to 3.8% in December 2023. Services price inflation remained stable below the 4.5% midpoint of the inflation target range during the second half of 2023, mostly on account of the slowdown in transport services price inflation, which peaked at 15.6% in January 2023 before moderating to 1.6% in January 2024 following the earlier decrease in fuel prices. Price inflation in domestic workers' wages, insurance, and recreation and culture services also decelerated slightly towards the end of 2023, outweighing accelerations in restaurant and hotel services price inflation and housing and utility price inflation. The latter accelerated as actual rentals for housing accelerated from 2.6% in November 2023 to 3.1% in December and owners' equivalent rent accelerated from 2.7% to 3.0% over the same period. Consumer services price inflation accelerated to 4.9% in February 2024, largely due to a sharp acceleration in health insurance inflation.

Consumer services prices

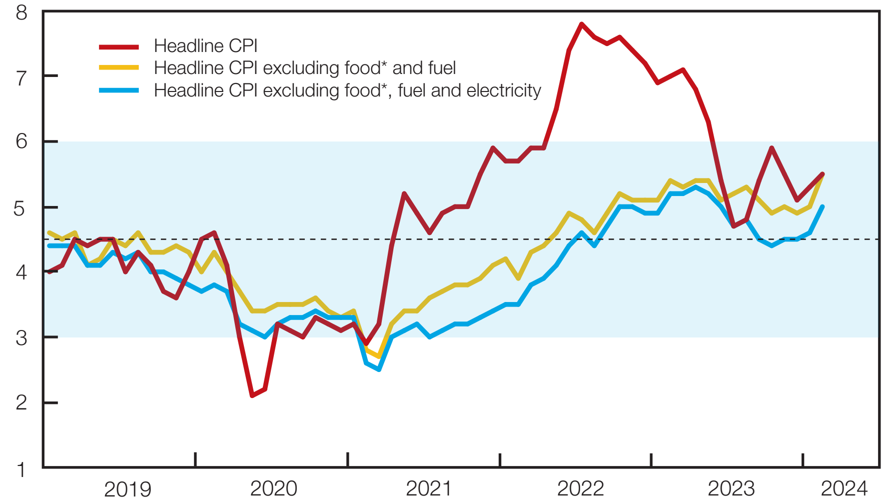


Source: Stats SA

Most measures of underlying inflation remained relatively contained at, or just above, the midpoint of the inflation target range in the second half of 2023. When subtracting the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant inflation measure slowed from 5.3% in August 2023 to 4.9% in December, before accelerating to 5.5% in February 2024. The South African Reserve Bank's (SARB) preferred measure of core inflation, which also excludes electricity prices, fell below the midpoint of the inflation target range to 4.4% in October 2023 before accelerating marginally to 4.6% in January 2024, as demand-driven inflationary pressures remained muted. However, core inflation accelerated to 5.0% in February 2024 as health insurance inflation quickened notably. When expressed at an annual average rate, core inflation quickened from 4.4% in 2022 to 4.9% in 2023.

Headline and underlying measures of consumer prices

Percentage change over 12 months



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

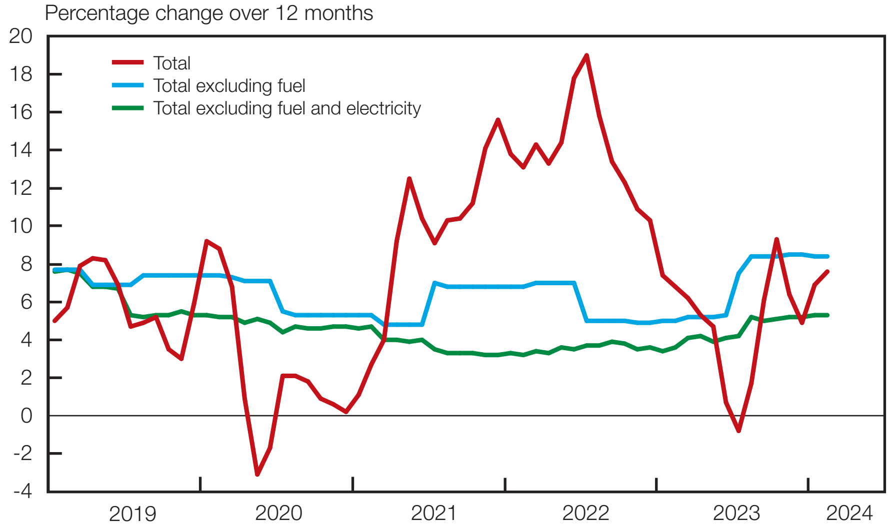
* Food includes non-alcoholic beverages.

Source: Stats SA

Annual average administered price inflation decelerated significantly from 14.0% in 2022 to 4.9% in 2023, mirroring the marked slowdown in fuel price inflation over this period. However, recent movements in fuel prices resulted in an acceleration in administered price inflation from -0.8% in July 2023 to 9.3% in October, before decelerating to 4.9% in December and accelerating again to 7.6% in February 2024. When excluding fuel prices, administered price inflation accelerated from 5.3% in June 2023 to 8.4% in January and February 2024, largely due to higher electricity prices following Eskom's annual tariff increase in July. When excluding both fuel and electricity prices, underlying administered price inflation accelerated to a lesser extent, from 4.1% to 5.3%, over the same period.

Administered prices

Percentage change over 12 months



Source: Stats SA

Average headline consumer price inflation expectations[17] for 2024 and 2025 were adjusted lower in the BER survey conducted in the first quarter of 2024 compared with the outcome of the previous survey. Headline CPI inflation expectations for 2024 decreased from 5.7% to 5.4% as financial analysts, business representatives and trade union representatives all lowered their inflation expectations. On average, the survey participants expect inflation to moderate marginally to 5.3% in 2025 and further to 5.2% in 2026.

17 As measured by the *Survey of Inflation Expectations* conducted by the BER in the first quarter of 2024.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2024

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2024	5.0	5.8	5.5	5.4
2025	4.7	5.6	5.6	5.3
2026	4.7	5.4	5.4	5.2
Five years ahead	4.7	5.4	5.3	5.1

Source: BER

Average five-years-ahead inflation expectations decreased slightly from 5.2% in the fourth quarter of 2023 to 5.1% in the first quarter of 2024, while households' inflation expectations for the coming 12 months also decreased from 7.2% to 6.7%.

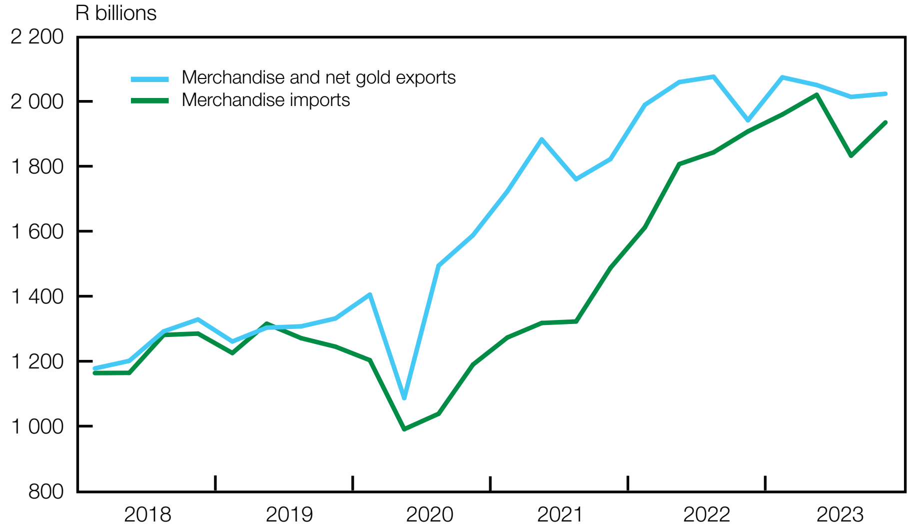
External economic accounts

Current account[18]

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

South Africa's trade surplus narrowed to R88.1 billion in the fourth quarter of 2023 from R181 billion in the third quarter as the value of merchandise imports increased at a faster pace than the value of merchandise and net gold exports. The increase in the value of merchandise imports reflected higher volumes and prices, while that of exports reflected higher prices.

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

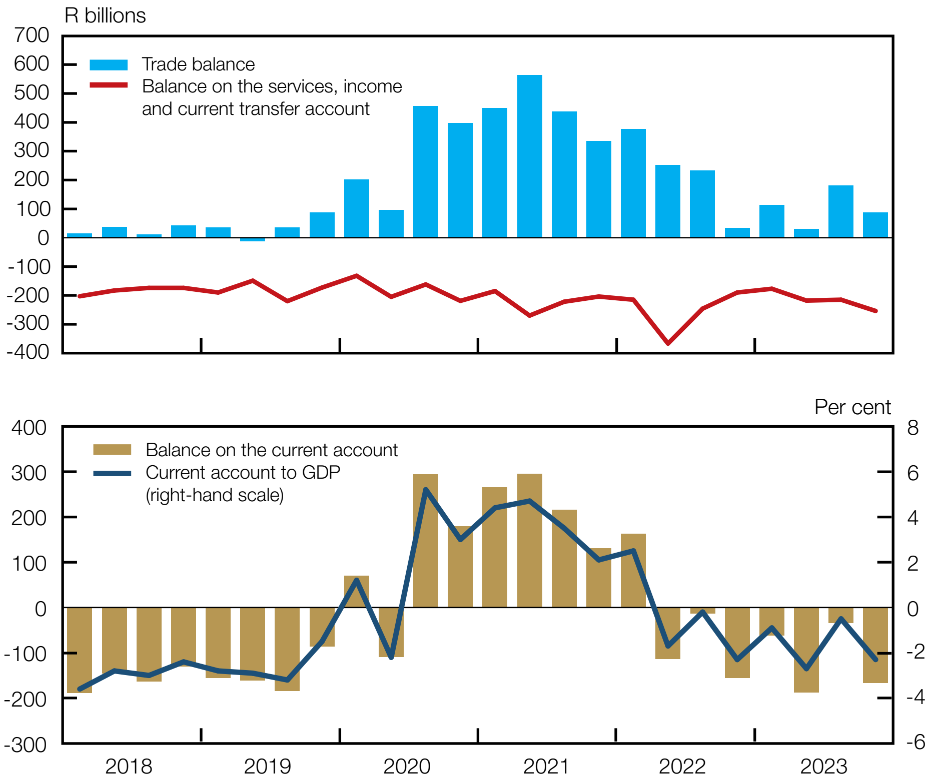
	2022	2023				
	Year	Q1	Q2	Q3	Q4	Year
Merchandise exports	1 930	1 953	1 956	1 886	1 901	1 924
Net gold exports	86	120	94	127	122	116
Merchandise imports	-1 792	-1 959	-2 020	-1 832	-1 935	-1 937
Trade balance	224	114	30	181	88	103
Net services, income and current transfer payments	-254	-177	-218	-215	-254	-216
Balance on current account	-30	-62	-187	-34	-166	-112
As a percentage of gross domestic product						
Trade balance	3.4	1.7	0.4	2.6	1.2	1.5
Services balance	-1.4	-1.0	-1.2	-1.3	-1.1	-1.2
Income balance	-2.1	-1.3	-1.2	-1.2	-1.8	-1.4
Current transfer balance	-0.4	-0.3	-0.7	-0.7	-0.6	-0.6
Balance on current account	-0.5	-0.9	-2.7	-0.5	-2.3	-1.6

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

Sources: Stats SA and SARB

The smaller trade surplus, together with a larger deficit on the services, income and current transfer account, resulted in a widening of the deficit on the current account of the balance of payments from R34.4 billion (0.5% of GDP) in the third quarter of 2023 to R166 billion (2.3% of GDP) in the fourth quarter. On an annual basis, the deficit on the current account widened from R30.0 billion (0.5% of GDP) in 2022 to R112 billion (1.6% of GDP) in 2023.

Current account of the balance of payments

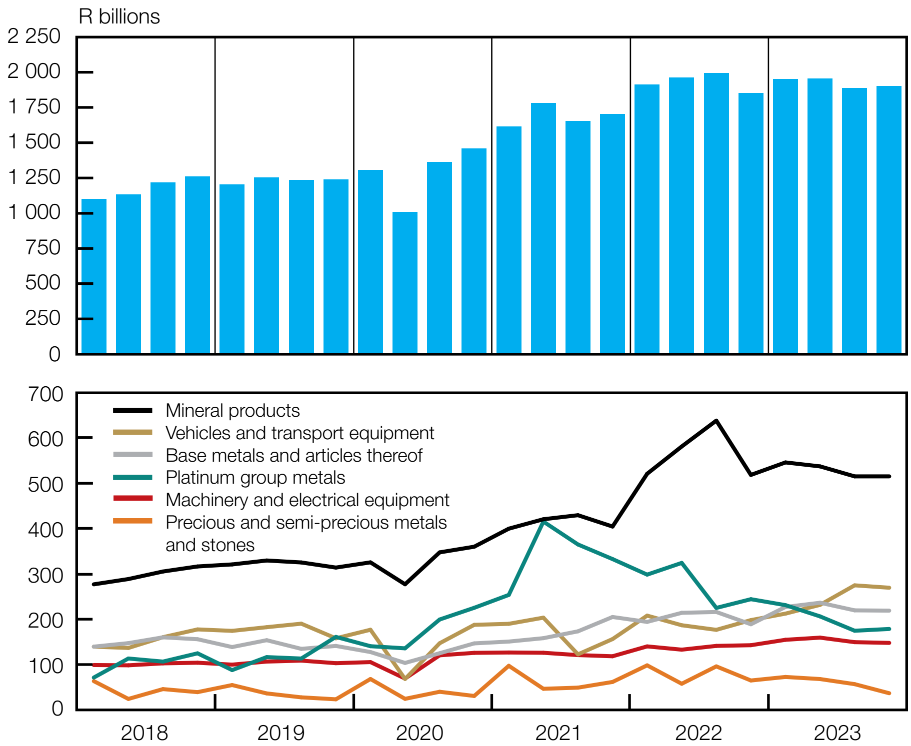


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The value of merchandise exports increased by 0.8% in the fourth quarter of 2023 as the value of manufacturing and agricultural exports increased. By contrast, the value of mining products decreased as the lower export value of pearls, precious and semi-precious stones as well as base metals and articles thereof outweighed the higher export value of platinum group metals (PGMs). The value of mineral exports remained broadly unchanged as higher exports of coal and iron ore were partly offset by sharp declines in exported manganese ore, refined petroleum products as well as zinc ore and concentrates.

Value of merchandise exports*

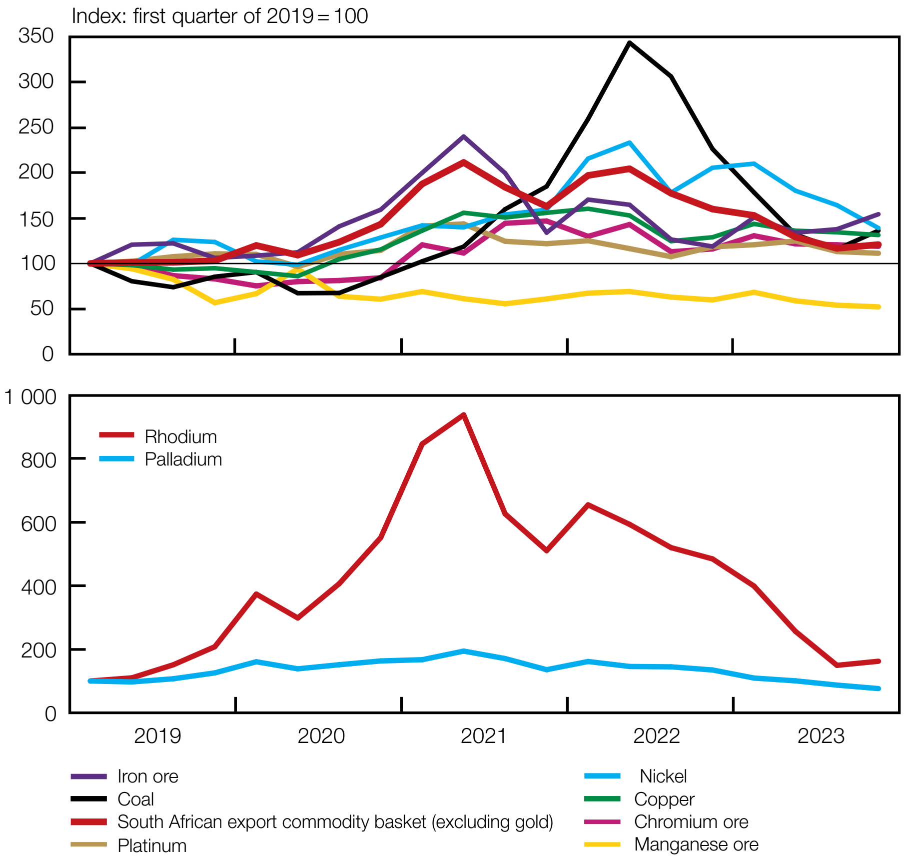


* Excluding net gold exports
Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of manufacturing exports increased for a sixth consecutive quarter in the fourth quarter of 2023, mainly reflecting higher exports of chemical products; prepared foodstuffs, beverages and tobacco; and paper and articles thereof. However, exports of vehicles and transport equipment decreased, partly due to the high base in the third quarter. In addition, exports of machinery and electrical equipment declined in the fourth quarter. The higher value of agricultural exports was boosted by the increased exports of fruit, in particular grapes, in the fourth quarter of 2023.

The United States (US) dollar price of a basket of domestically produced non-gold export commodities increased by 3.6% in the fourth quarter of 2023, aided by the higher international prices of coal, iron ore and rhodium. The increase in the price of coal was partly supported by, among other factors, coal supply constraints, while the price of iron ore remained resilient, underpinned by the economic stimulus in China and low inventory levels at Chinese ports. However, palladium and nickel prices recorded further noticeable declines over the period, with the price of nickel declining for a third consecutive quarter, mainly due to increased supply from Indonesia – the world's largest producer of nickel.

Selected South African export commodity prices in US dollar*



* Quarterly averages

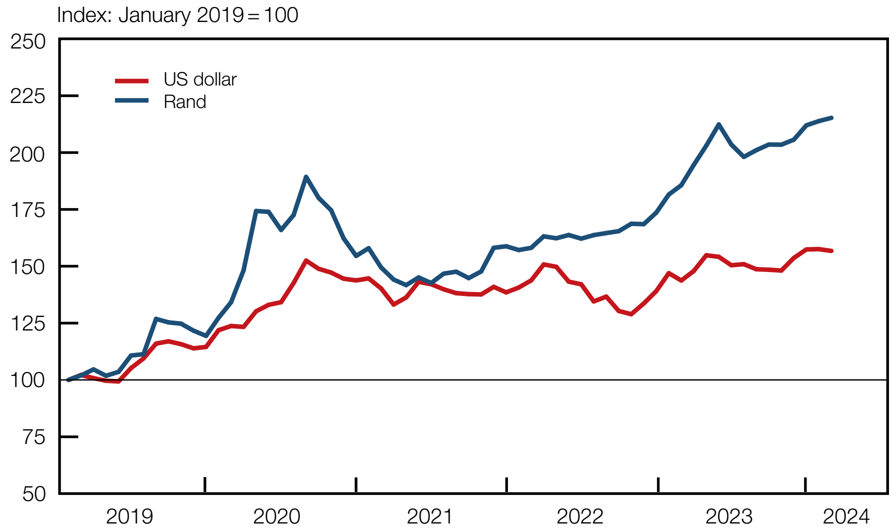
Sources: Afriforesight, World Bank and SARB

The rand price of merchandise exports increased by 0.5% in the fourth quarter of 2023 and the volume of merchandise exports increased by 0.3%, supported by higher volumes of agricultural and manufacturing exports. On an annual basis, the volume of merchandise exports as a ratio of GDP remained broadly unchanged at 23.4% in 2023.

The monthly average US dollar price of gold on the London market increased in November and December 2023 after trending lower since May 2023, reaching its highest level on record of US$2 078 per fine ounce on 28 December 2023. The higher gold price reflected, among other factors, increased central bank purchases related to the ongoing concerns over escalating geopolitical tensions, resulting in the average quarterly price of gold increasing by 2.5% from US$1 929 per fine ounce in the third quarter of 2023 to US$1 977 per fine ounce in the fourth quarter. The average monthly US dollar price of gold increased further to US$2 035 per fine ounce in January 2024 before declining slightly to US$2 024 per fine ounce in February 2024, weighed down by, among other factors, higher US Treasury yields. The annual average price of gold increased by 7.9% from US$1 801 per fine ounce in 2022 to US$1 943 per fine ounce in 2023.

In rand terms, the average realised price of gold increased by 6.6% in the fourth quarter of 2023 as the exchange value of the rand depreciated somewhat against the US dollar over the period. However, the value of net gold exports decreased by 4.0% as the physical quantity of gold exported decreased. On an annual average basis, the value of net gold exports increased by 34.5% from R86.2 billion in 2022 to R116 billion in 2023 as both the average realised rand price of gold and the physical quantity thereof increased, reflecting higher domestic production.

International price of gold

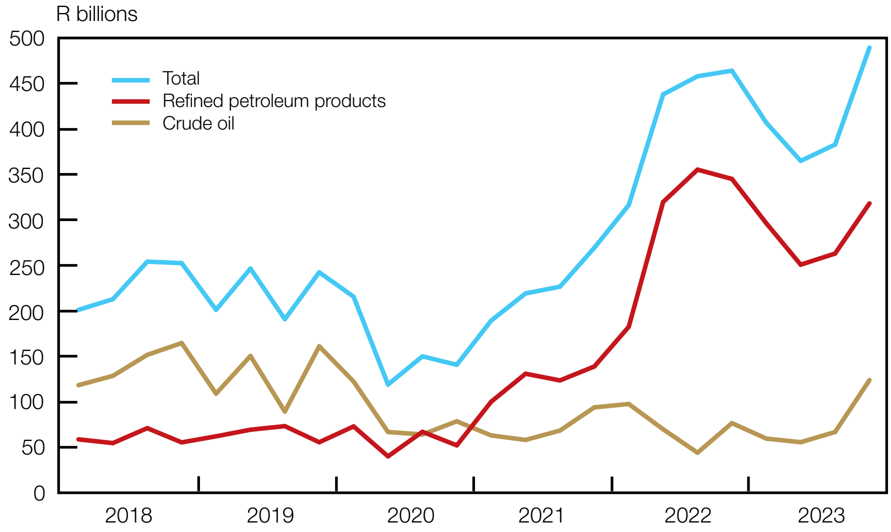


Source: Refinitiv

After contracting by 9.3% in the third quarter of 2023, the value of merchandise imports increased by 5.6% in the fourth quarter as the value of mining and agricultural imports increased. The sharp increase in mining imports was buoyed by mineral products, reflecting further increases in the imports of crude oil and refined petroleum products. The latter reflected the demand for distillate fuel (diesel) required to support Eskom's open-cycle gas turbines amid the ongoing electricity challenges. The value of crude oil imports surged by 85.4% in the fourth quarter of 2023 as both the physical quantity and the realised rand price thereof increased. The average realised rand price of imported crude oil increased by 12.4% from R1 600 per barrel in the third quarter of 2023 to R1 798 per barrel in the fourth quarter.

For 2023 as whole, the value of crude oil imports increased by 6.3% while that of refined petroleum products decreased by 6.2% due to lower petroleum imports, despite increased distillate fuel imports. The decrease in refined petroleum imports during the year reflected base effects following the sharp increase in 2022 due to the reduced domestic oil-refining capacity, which has since improved slightly.

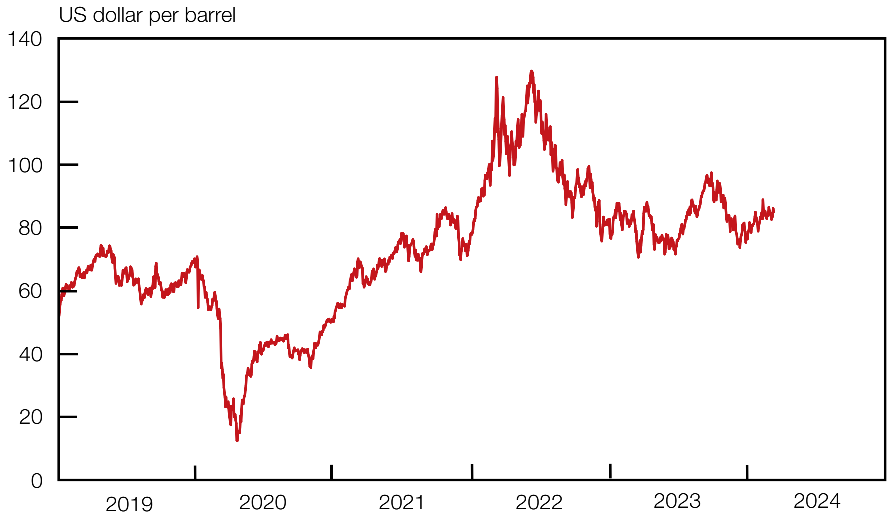
Value of mineral imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The monthly average US dollar spot price of Brent crude oil decreased by 2.7% from US$86.42 per barrel in the third quarter of 2023 to US$84.10 per barrel in the fourth quarter, mainly reflecting increased global crude oil supply and weak global economic activity. However, the price increased from a recent low of US$77.80 per barrel in December 2023 to US$83.18 per barrel in February 2024, supported by, among other factors, economic stimulus in China, stronger-than-expected US economic growth, increased geopolitical tensions and disruptions to the movement of ships in the Red Sea and the Gulf of Aden.

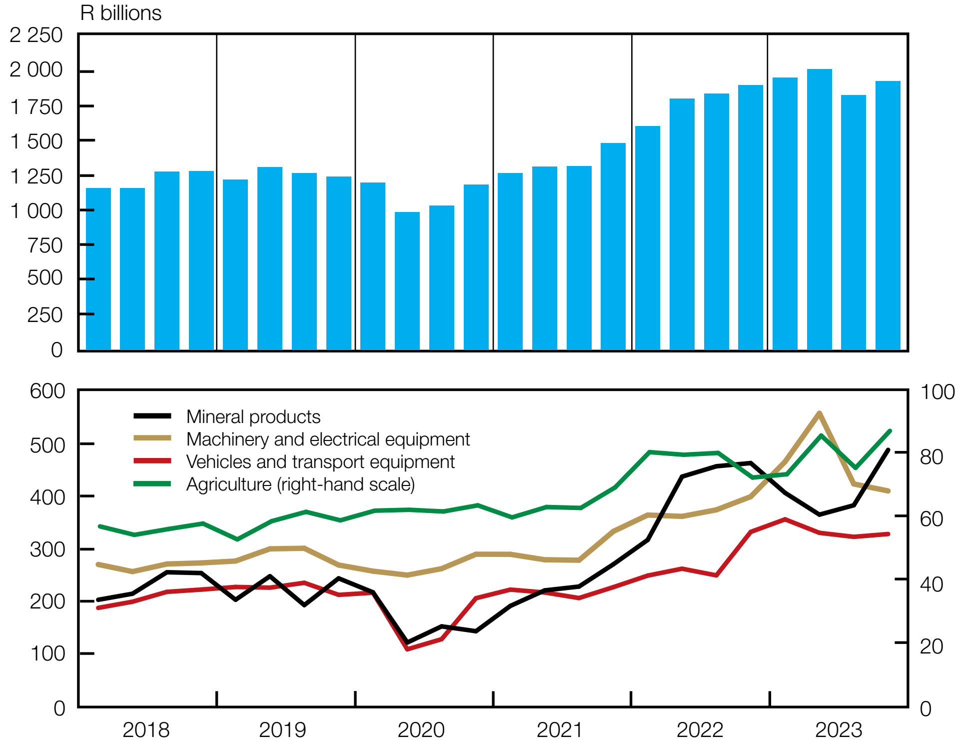
Brent crude oil price



Source: Refinitiv

The value of agricultural imports increased in the fourth quarter of 2023 due to a recovery in the imports of vegetable products as well as live animals and animal products. By contrast, the value of manufactured imports decreased slightly in the fourth quarter of 2023, largely due to decreases in machinery and electrical equipment, weighed down by lower imports of mechanical shovels, excavators and shovel loaders. However, the imports of chemical products; vehicles and transport equipment; and resins, plastics and articles thereof increased over the period.

Value of merchandise imports



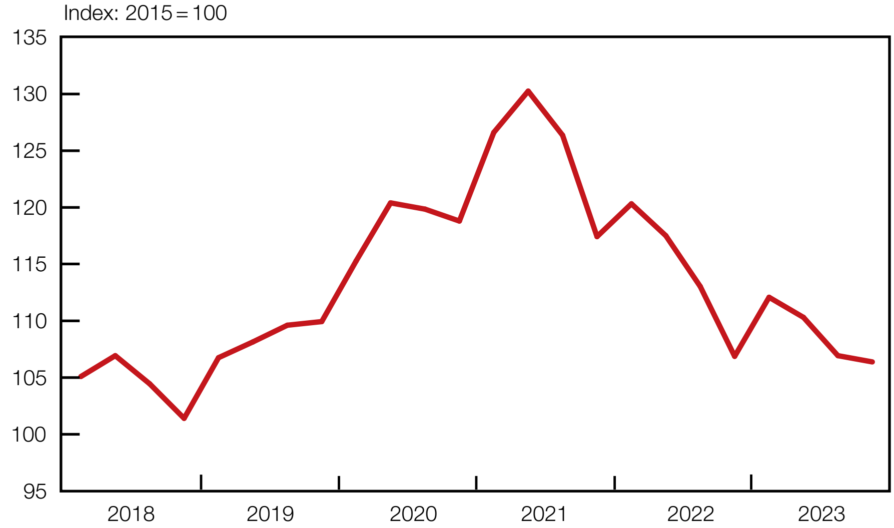
Seasonally adjusted and annualised

Sources: Stats SA and SARB

The rand price of merchandise imports increased by 1.3% in the fourth quarter of 2023 and the volume thereof increased by 4.3%. The import penetration ratio (i.e. real merchandise imports as a ratio of GDE) therefore rose from 24.8% in the third quarter of 2023 to 25.5% in the fourth quarter. The volume of merchandise imports increased for the year as a whole, resulting in an increase in the import penetration ratio from 24.9% in 2022 to 25.8% in 2023.

South Africa's terms of trade deteriorated in the fourth quarter of 2023 as the rand price of imported goods and services increased more than that of exports. On an annual average basis, the terms of trade also deteriorated in 2023 as the rand price of imported goods and services increased while that of exports moved broadly sideways.

Terms of trade*

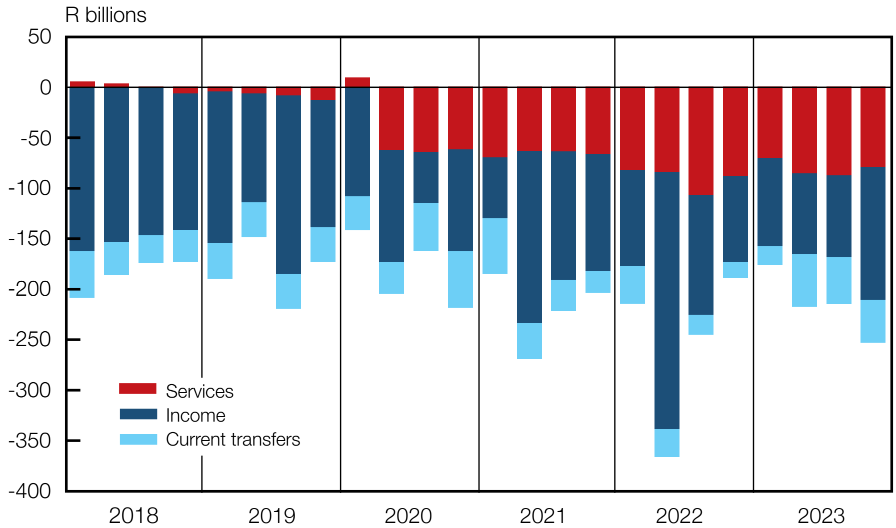


* Including gold

Sources: Stats SA and SARB

The shortfall on the services, income and current transfer account widened from R215 billion (3.1% of GDP) in the third quarter of 2023 to R254 billion (3.6% of GDP) in the fourth quarter. The larger deficit resulted from a wider deficit on the income account, which was cushioned somewhat by smaller deficits on the services and current transfer accounts. On an annual basis, the shortfall on the services, income and current transfer account narrowed to R216 billion (3.1% of GDP) in 2023 from R254 billion (3.8% of GDP) in 2022.

Net services, income and current transfer payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

The deficit on the services account decreased in the fourth quarter of 2023 as the increase in gross services receipts outweighed that in gross services payments. Despite quarterly increases in gross services payments, annual net services payments declined in 2023, mainly on account of higher net travel receipts as the number of foreign tourists visiting South Africa continued to recover after the COVID-19 pandemic. Net transportation payments remained relatively unchanged, while net payments for other services increased in 2023. As a percentage of GDP, the shortfall on the services account decreased from 1.4% in 2022 to 1.2% in 2023.

The deficit on the income account widened in the fourth quarter of 2023 as gross income payments increased and gross income receipts decreased. The increase in gross income payments was largely driven by a 12.7% increase in gross dividend payments and 10.6% increase in gross interest payments on account of higher debt levels and elevated global interest rates amid persistently higher inflation, while gross dividend receipts decreased by 11.1%. However, on an annual basis, gross dividend payments declined sharply by 25.4% in 2023, while gross dividend receipts increased by 0.1%. Gross interest payments increased by 22.2% in 2023 compared with an increase of 9.6% in 2022. As a percentage of GDP, the income deficit widened to 1.8% in the fourth quarter of 2023 from 1.2% in the third quarter but narrowed on an annual basis, from 2.1% in 2022 to 1.4% in 2023, mainly due to the lower dividend payments.

Net current transfer payments declined further in the fourth quarter of 2023 as the decrease in gross current transfer payments exceeded that in receipts. Net current transfer payments as a percentage of GDP increased to 0.6% in 2023 from 0.4% in 2022.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) switched to an outflow of R1.1 billion in the fourth quarter of 2023 from an inflow of R39.7 billion in the third quarter. On a net basis, all financial account categories except portfolio investment recorded inflows. As a ratio of GDP, net financial flows reverted from an inflow of 2.3% in the third quarter of 2023 to an outflow of 0.1% in the fourth quarter. The annual cumulative inflow on the financial account increased from R67.0 billion (1.0% of GDP) in 2022 to R88.6 billion (1.3% of GDP) in 2023.

Net financial transactions

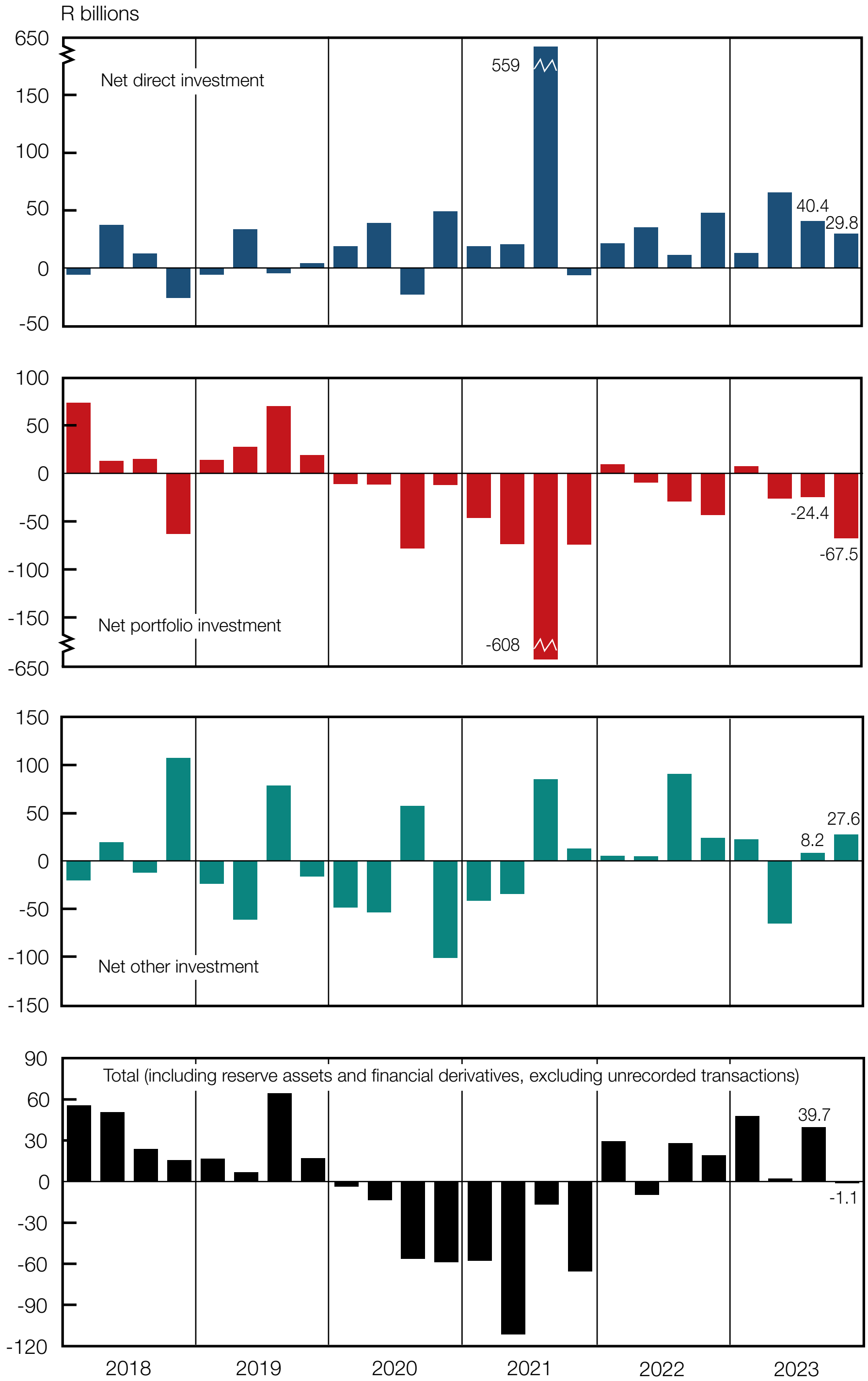
R billions

	2022	2023				
	Year	Q1	Q2	Q3	Q4	Year
Change in liabilities						
Direct investment	151.0	0.5	53.8	26.0	16.2	96.5
Portfolio investment	42.6	-32.0	-4.6	-41.9	-9.0	-87.5
Financial derivatives	-285.1	-69.1	-43.6	-90.4	-56.4	-259.6
Other investment	186.3	13.1	-52.9	52.5	-26.6	-13.9
Change in assets						
Direct investment	-35.4	12.3	11.6	14.4	13.6	51.9
Portfolio investment	-115.1	39.5	-21.3	17.5	-58.5	-22.8
Financial derivatives	251.9	72.7	73.9	99.7	57.6	303.8
Other investment	-61.0	9.2	-12.2	-44.4	54.2	6.9
Reserve assets	-68.2	1.6	-2.4	6.3	7.8	13.3
Total identified financial transactions*	**67.0**	**47.7**	**2.3**	**39.7**	**-1.1**	**88.6**
As a percentage of gross domestic product	*1.0*	*2.9*	*0.1*	*2.3*	*-0.1*	*1.3*

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

Source: SARB

Financial account of the balance of payments



Source: SARB

Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded a smaller inflow of R16.2 billion in the fourth quarter of 2023 compared with an inflow of R26.0 billion in the third quarter as non-resident parent entities increased their equity in domestic subsidiaries. Cumulatively, South Africa's direct investment liability inflows moderated from R151.0 billion in 2022 to R96.5 billion in 2023 as equity investment by foreign parent companies in domestic companies slowed down.

Portfolio investment liabilities recorded a smaller outflow of R9.0 billion in the fourth quarter of 2023 following an outflow of R41.9 billion in the third quarter as non-residents' net sales of domestic equity securities exceeded their net purchases of domestic debt securities. Non-residents' net sales of domestic equity securities increased from R18.5 billion in the third quarter of 2023 to R21.6 billion in the fourth quarter. However, non-residents' net sales of debt securities of R23.4 billion in the third quarter of 2023 switched to net purchases of R12.6 billion in the fourth quarter. Annual cumulative portfolio investment liabilities switched to an outflow of R87.5 billion in 2023 from an inflow of R42.6 billion in 2022.

Other investment liabilities reverted to an outflow of R26.6 billion in the fourth quarter of 2023 from an inflow of R52.5 billion in the third quarter, mainly due to the repayment of loans to non-residents as well as a reduction in non-resident deposits received by the domestic banking sector. These outflows were partly offset by national government's proceeds of a US$300 million energy governance loan from the African Development Bank (AfDB). On a cumulative basis, other investment liabilities switched to an outflow of R13.9 billion in 2023 from an inflow of R186.3 billion in 2022.

South African-owned assets abroad

South Africa's direct investment assets recorded an inflow of R13.6 billion in the fourth quarter of 2023 following an inflow of R14.4 billion in the third quarter, mainly due to a domestic company further reducing its shareholding in a non-resident subsidiary as well as the repayment of loans by non-resident subsidiaries to South African parent entities. Annual cumulative direct investment assets switched to an inflow of R51.9 billion in 2023 from an outflow of R35.4 billion in 2022.

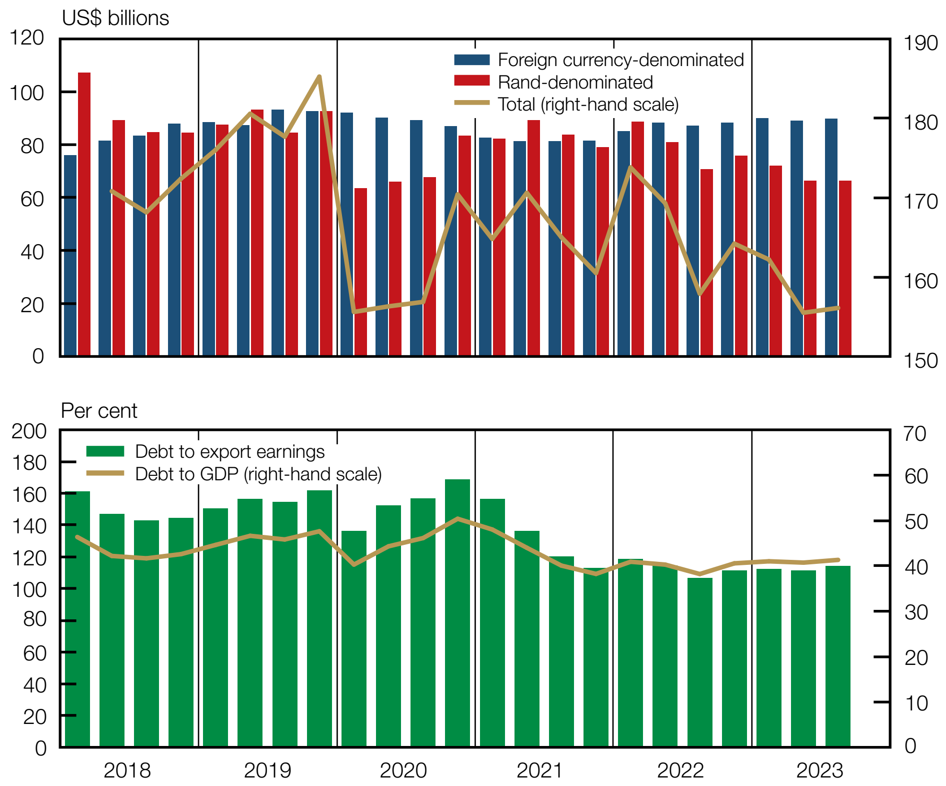
South Africa's foreign portfolio investment assets switched to an outflow of R58.5 billion during the fourth quarter of 2023 from an inflow of R17.5 billion in the third quarter as the domestic private non-banking sector acquired foreign equity and debt securities and the domestic banking sector acquired foreign debt securities. Cumulatively, portfolio investment assets recorded a smaller outflow of R22.8 billion in 2023 from R115.1 billion in 2022.

Other investment assets reverted to an inflow of R54.2 billion in the fourth quarter of 2023 following an outflow of R44.4 billion in the third quarter as non-residents made loan repayments to the domestic private non-banking sector and the domestic banking sector. The domestic banking sector also reduced its deposits at non-resident banks. Other investment assets switched from an annual cumulative outflow of R61.0 billion in 2022 to an inflow of R6.9 billion in 2023.

Foreign debt

South Africa's total external debt increased slightly from US$155.5 billion at the end of June 2023 to US$156.1 billion at the end of September. However, expressed in rand terms, South Africa's total external debt decreased slightly from R2 944 billion to R2 932 billion over the same period as the exchange value of the rand appreciated by 0.7% against the US dollar over this period.

Foreign debt



Source: SARB

Foreign currency-denominated external debt increased from US$89.1 billion at the end of June 2023 to US$89.8 billion at the end of September as loans and advances extended to the domestic banking sector increased, which was partially countered by a US$1 billion bond redemption by a public corporation.

Foreign debt of South Africa

US$ billions at end of period

	2022			2023		
	Q2	Q3	Q4	Q1	Q2	Q3
Foreign currency-denominated debt	88.3	87.2	88.3	90.1	89.1	89.8
Debt securities	31.0	30.0	29.3	30.1	29.3	27.8
Other	57.3	57.2	59.0	60.0	59.8	62.0
Public sector	16.8	17.7	17.2	18.3	18.5	18.4
Monetary sector	15.8	14.9	16.8	16.2	16.4	17.8
Non-monetary private sector	24.7	24.6	25.2	25.5	24.9	25.8
Rand-denominated debt	81.0	70.7	75.9	72.1	66.4	66.3
Debt securities	50.5	43.3	46.5	43.4	41.7	40.3
Other	30.5	27.4	29.5	28.7	24.7	26.0
Total foreign debt	169.3	157.9	164.2	162.2	155.5	156.1
As a percentage of gross domestic product	*40.3*	*38.2*	*40.5*	*41.0*	*40.6*	*41.3*
As a percentage of total export earnings	*114.6*	*106.7*	*111.5*	*112.4*	*111.5*	*114.2*

Source: SARB

Rand-denominated external debt, expressed in US dollars, decreased marginally from US$66.4 billion at the end of June 2023 to US$66.3 billion at the end of September. The decrease can be attributed to non-resident net sales of domestic bonds and a decline in the market value of these bonds, which was partially offset by an increase in the US dollar value of rand-denominated external debt due to the slight appreciation in the exchange value of the rand over the period as well as an increase in non-resident deposits with the domestic banking sector.

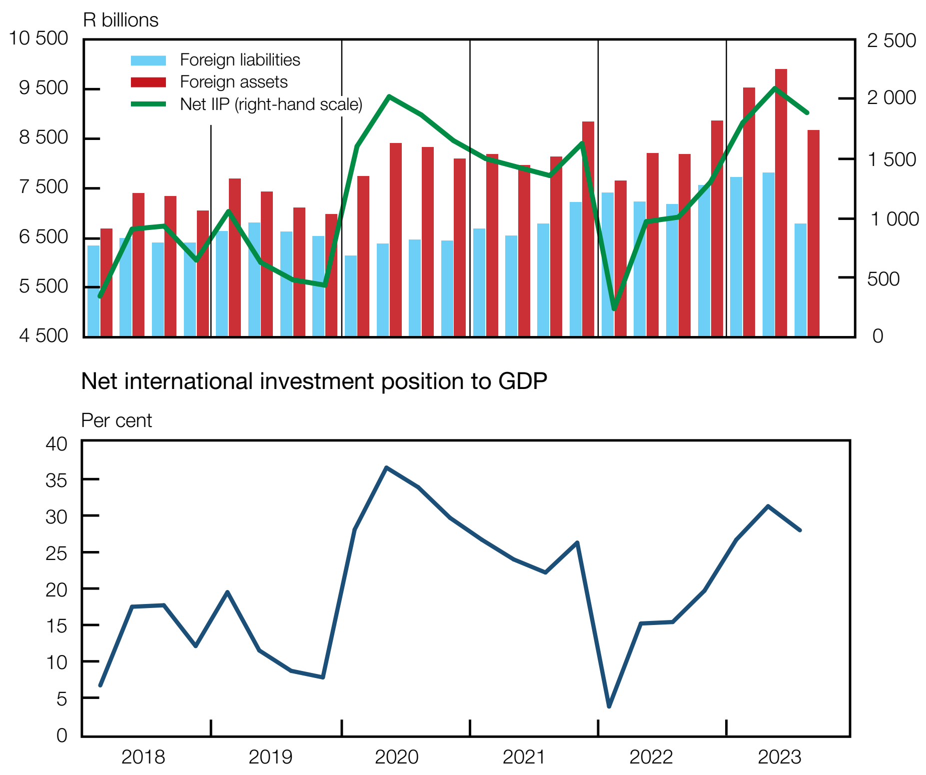
South Africa's total external debt as a ratio of annual GDP[19] increased from 40.6% at the end of June 2023 to 41.3% at the end of September. The ratio of external debt to export earnings increased from 111.5% to 114.2% of GDP over the same period.

19 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) decreased from R2 130 billion at the end of June 2023 to R1 924 billion at the end of September as the rand value of foreign assets decreased more than that of foreign liabilities. The removal of the cross-holding structure between Naspers Limited (Naspers) and Prosus N.V. (Prosus) in the third quarter of 2023 that was initially implemented in the third quarter of 2021, resulted in a significant decline in both foreign assets and foreign liabilities.

South Africa's international investment position



Source: SARB

The market value of South Africa's foreign assets (outward investment) decreased notably by 12.4% from R9 947 billion at the end of June 2023 to R8 713 billion at the end of September. All functional categories of foreign assets except other investment decreased in the third quarter of 2023. Direct investment recorded the largest decrease, mainly due to the decline in the Prosus share price following the removal of the cross-holding structure between Naspers and Prosus that resulted in a significant decline in the value of Naspers's investment in Prosus. Portfolio investment assets decreased due to valuation effects as global share prices decreased and the exchange value of the rand appreciated. This was partly offset by the relocation of AngloGold Ashanti Plc's primary listing to the New York Stock Exchange (NYSE) and its corporate domicile from South Africa to the United Kingdom (UK). Other investment assets increased as the domestic banking sector increased its deposits at non-resident banks and the private non-banking sector granted short-term loans and trade finance to non-residents. Reserve assets decreased mainly because of the appreciation in the exchange value of the rand in the third quarter of 2023.

The market value of South Africa's foreign liabilities (inward investment) decreased significantly by 13.2% from a revised R7 817 billion at the end of June 2023 to R6 789 billion at the end of September as all functional categories except other investment decreased. Direct investment recorded the largest decrease, mainly because of the removal of the cross-holding structure between Naspers and Prosus that resulted in the removal of Prosus's shareholding in Naspers. The decrease in both direct and portfolio investment liabilities was partly due to valuation effects related to the 4.8% decrease, on balance, in the FTSE/JSE All-Share Index (Alsi) in the third quarter of 2023. AngloGold Ashanti's move to relocate its primary listing to the NYSE and its corporate domicile from South Africa to the UK, together with a US$1 billion bond redemption by a public corporation, contributed to the decline in portfolio investment liabilities. Other investment liabilities increased mainly due to foreign loans received by and an increase in non-resident deposits with the domestic banking sector.

As a ratio of South Africa's annual GDP,[20] foreign assets decreased from 146.3% at the end of June 2023 to 126.9% at the end of September, while foreign liabilities decreased from 114.9% to 98.9% over the same period. This resulted in a decrease in the positive net IIP from 31.3% of GDP at the end of June 2023 to 28.0% at the end of September.

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

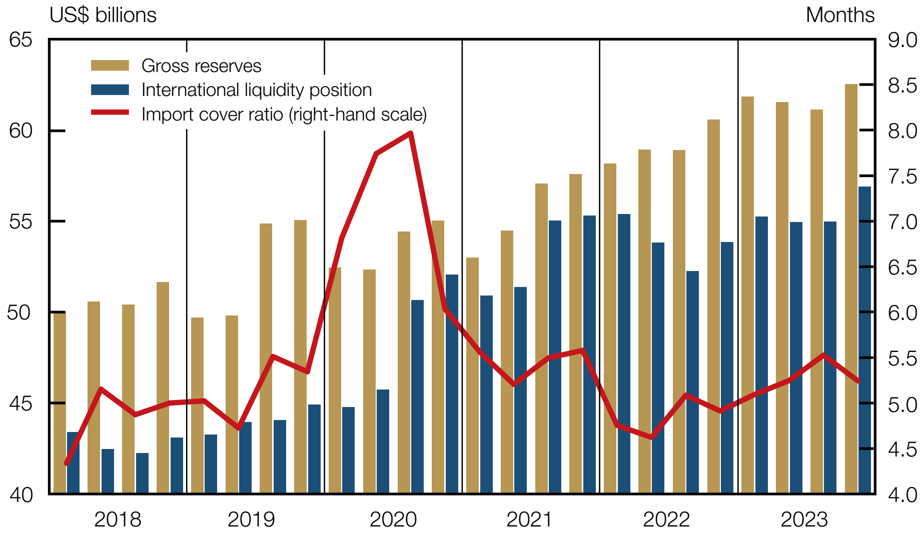
International reserves and liquidity

South Africa's international reserves decreased further by R7.8 billion in the fourth quarter of 2023 following a decrease of R6.3 billion in the third quarter.

The value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities), measured in US dollar terms, increased from US$61.1 billion at the end of September 2023 to US$62.5 billion at the end of December, mainly due to the proceeds from a foreign loan by national government from the AfDB as well as an increase in the US dollar gold price. The country's gross gold and other foreign reserves then decreased to US$61.7 billion at the end of February 2024. South Africa's international liquidity position[21] increased from US$55.0 billion at the end of September 2023 to US$56.9 billion at the end of December before decreasing slightly to US$56.7 billion at the end of February 2024.

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

International reserves



Source: SARB

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

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

Exchange rates[22]

The nominal effective exchange rate (NEER) of the rand decreased by 1.7% in the fourth quarter of 2023 following an increase of 2.5% in the third quarter. The decrease was driven by, among other factors, the ongoing concerns over global economic growth, particularly in South Africa's major trading partners, persistent geopolitical tensions and the constrained domestic fiscal position. However, a change in interest rate expectations in the US led to a 1.1% appreciation of the rand against the US dollar during the fourth quarter of 2023. The impact of domestic developments on the NEER during the fourth quarter was relatively muted.

Exchange values of the rand

Percentage change

	31 Mar 2023 to 30 Jun 2023	30 Jun 2023 to 30 Sep 2023	30 Sep 2023 to 31 Dec 2023	31 Dec 2023 to 15 Mar 2024
Weighted average*	-4.3	2.5	-1.7	1.0
Euro	-5.6	3.0	-3.2	1.2
US dollar	-5.9	0.7	1.1	-0.5
Chinese yuan	-0.5	1.3	-1.8	0.9
British pound	-7.9	3.8	-2.9	-0.5
Japanese yen	2.3	3.7	-4.1	4.6

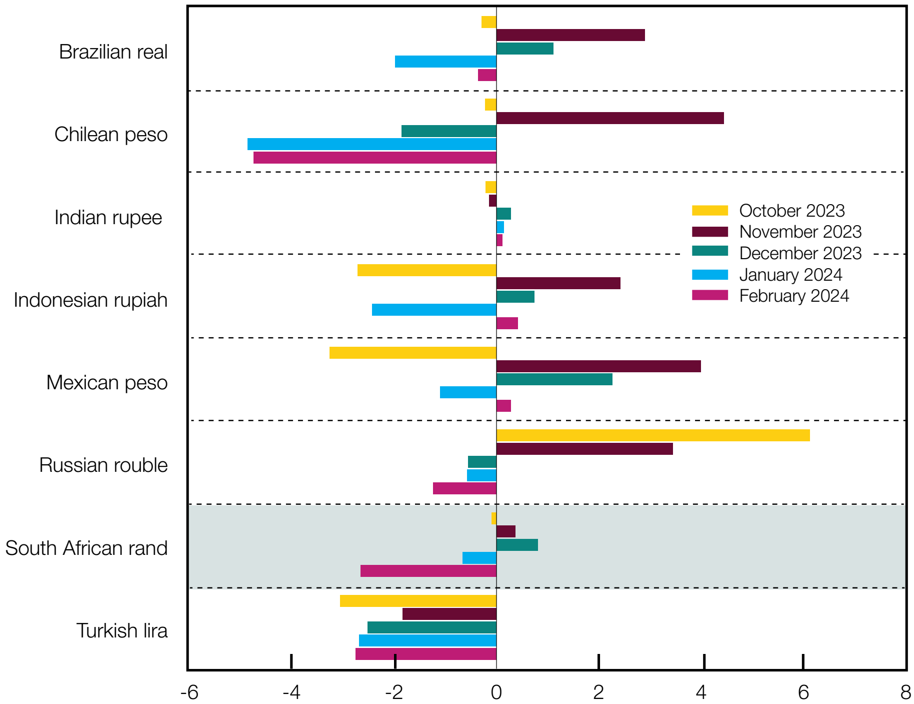
* Trade-weighted exchange rate against a basket of 20 currencies (nominal effective exchange rate)
Depreciation (-)/appreciation (+)

Source: SARB

During October 2023, the exchange value of the rand was mainly supported by expectations that the US Federal Reserve (Fed) would hold interest rates steady following the release of weaker-than-expected labour market statistics. This was partly offset by the outbreak of the Israel–Hamas conflict during the month, with the NEER increasing only marginally by 0.1% in October 2023, while the rand depreciated by 0.1% against the US dollar.

Emerging market currencies against the US dollar*

Percentage change from month to month



Depreciation (-)/appreciation (+)

* End of period

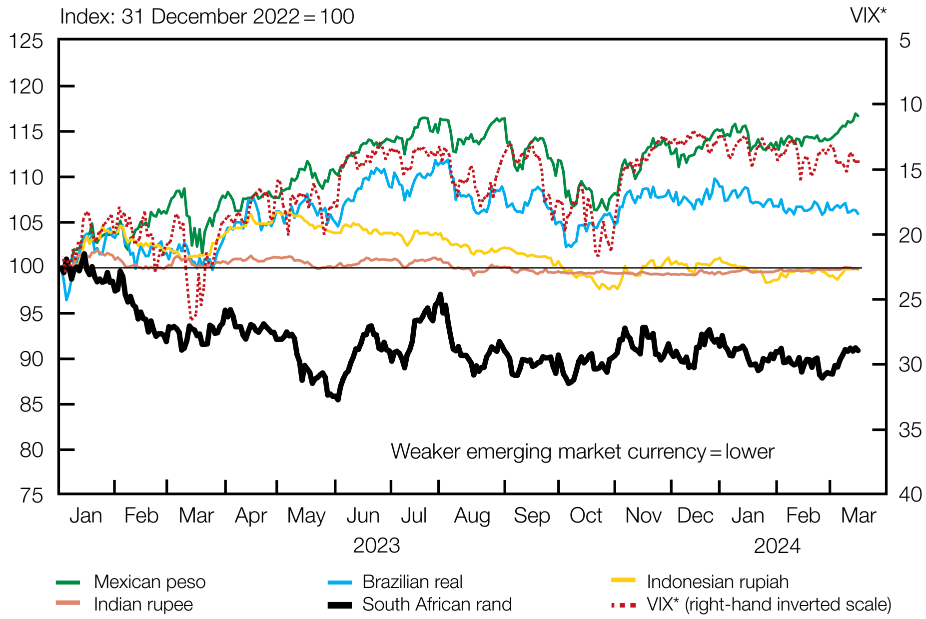
Sources: Refinitiv and SARB

The trade-weighted exchange value of the rand decreased by 1.8% in November 2023, impacted by moderate economic growth in the European Union (EU) as well as continued economic growth concerns in China amid the broadening real estate crisis in that country. This was despite an appreciation of several emerging market currencies, including the rand, against the US dollar during the month as expectations of no further monetary policy tightening by the Fed were reinforced by the slower-than-expected US inflation outcome.

The rand appreciated by 0.8% against the US dollar in December 2023 on account of improved investor sentiment related to positive domestic economic outcomes, including an increase in formal non-agricultural employment during the third quarter of the year and a larger-than-expected moderation in domestic producer price inflation in November 2023. The exchange value of the rand was also supported by expectations that the Fed will start lowering interest rates during 2024. The impact of these developments on the trade-weighted exchange value of the rand was offset by the increased portfolio investment outflows from South Africa and continued economic growth concerns in its major trading partner countries, leaving the NEER unchanged in December 2023.

Several emerging market currencies, including the rand, weakened against the US dollar in January 2024 as the US policy interest rate was expected to remain elevated for longer than anticipated following the Fed's December 2023 meeting. The emerging market currency weakness was exacerbated by the continued global economic growth concerns and risk-off sentiment in US financial markets as geopolitical tensions escalated. The NEER increased by 1.0% from the end of 2023 to 15 March 2024.

Emerging market currencies against the US dollar

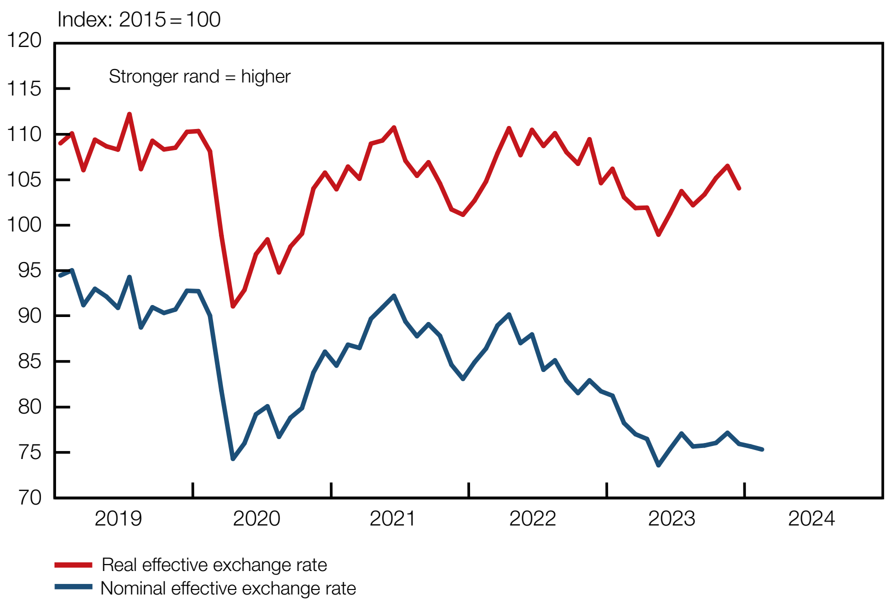


* The Volatility Index (VIX) is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options and it was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

Sources: Refinitiv and SARB

The rand was consistently among the weakest performing emerging market currencies against the US dollar in 2023, depreciating by 8.6% against the US dollar for the year as a whole. Some of the main drivers of the depreciation included the impact of electricity supply constraints on the domestic economic growth outlook – the most severe annual electricity load-shedding on record was experienced in 2023 – and a strong US dollar due to elevated interest rates in the US.

Effective exchange rates of the rand



Source: SARB

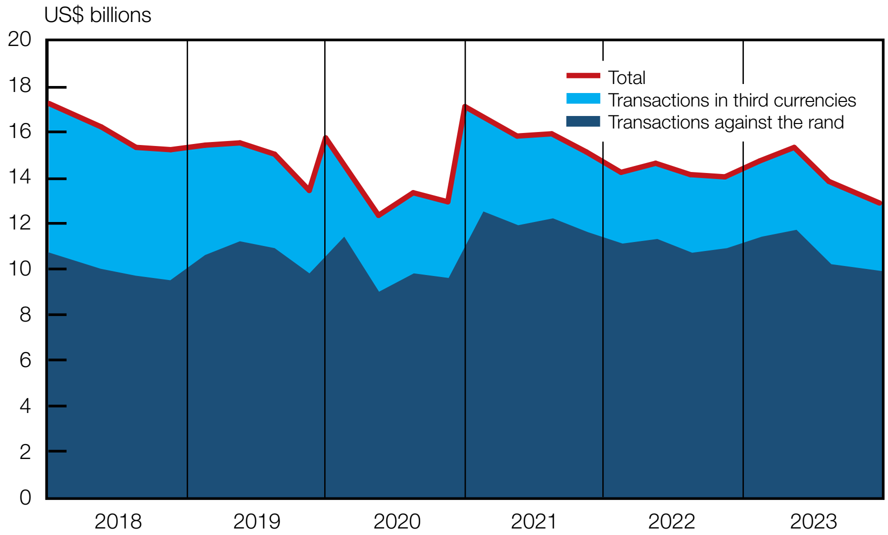
The real effective exchange rate (REER) of the rand decreased by 0.5% from December 2022 to December 2023, increasing the competitiveness of domestic producers in foreign markets somewhat.

Turnover in the South African foreign exchange market

The net average daily turnover[23] in the South African foreign exchange (FX) market decreased further by 4.5% from US$13.8 billion in the third quarter of 2023 to US$13.2 billion in the fourth quarter, following a decline of 9.7% in the third quarter. The decrease could mainly be attributed to fluctuations in the exchange value of the rand, coupled with fewer trading days over the festive period. FX transactions against the rand declined for a second consecutive quarter, from US$10.2 billion in the third quarter of 2023 to US$9.9 billion in the fourth quarter. Transactions in third currencies also decreased for a second consecutive quarter, from US$3.6 billion to US$3.3 billion over the same period.

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

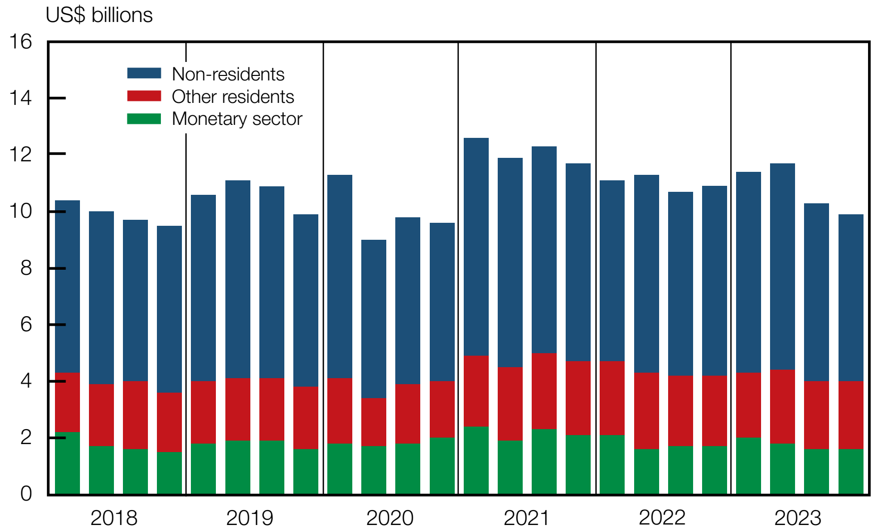
Net average daily turnover in the South African foreign exchange market



Source: SARB

Average participation by non-residents in the rand market decreased further from an average of US$7.3 billion in the second quarter of 2023 to US$6.3 billion and US$5.9 billion in the third and fourth quarter respectively. Both monetary sector and resident participation remained unchanged at US$1.6 billion and US$2.4 billion respectively over this period.

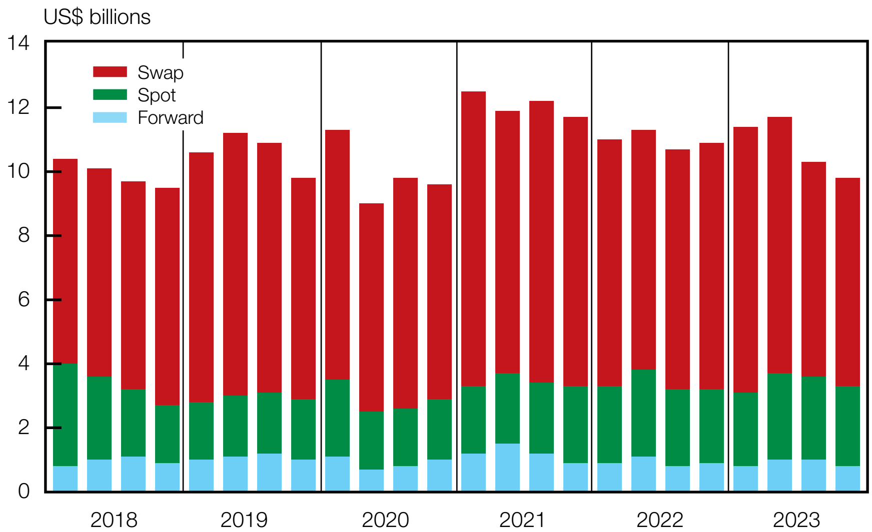
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

Net average daily swap transactions in the rand market declined further from US$6.7 billion in the third quarter of 2023 to US$6.5 billion in the fourth quarter. Forward transactions decreased from US$1.0 billion in the third quarter of 2023 to US$0.8 billion in the fourth quarter and spot transactions declined marginally from US$2.6 billion to US$2.5 billion over the same period.

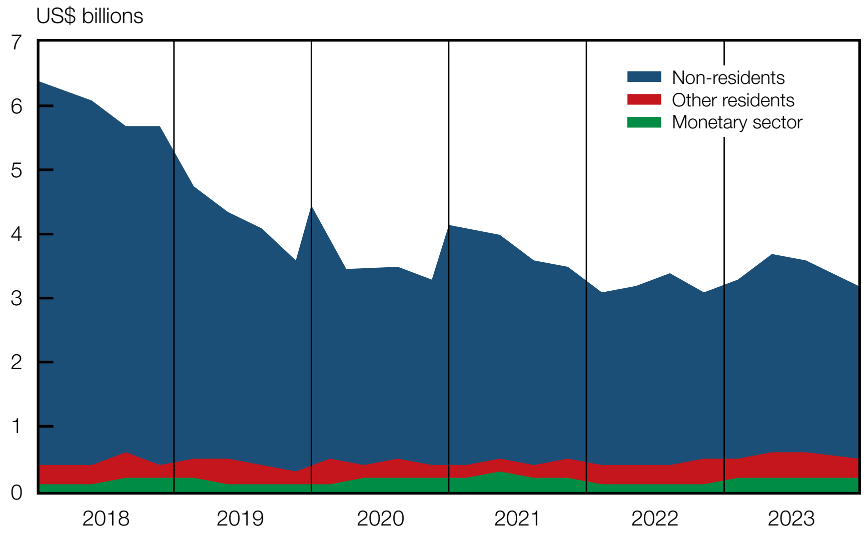
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

Participation by non-residents in the third currency market declined further from US$3.0 billion in the third quarter of 2023 to US$2.7 billion in the fourth quarter. Contributions by the monetary sector and residents remained low, with these transactions averaging US$0.2 billion and US$0.3 billion respectively in the fourth quarter.

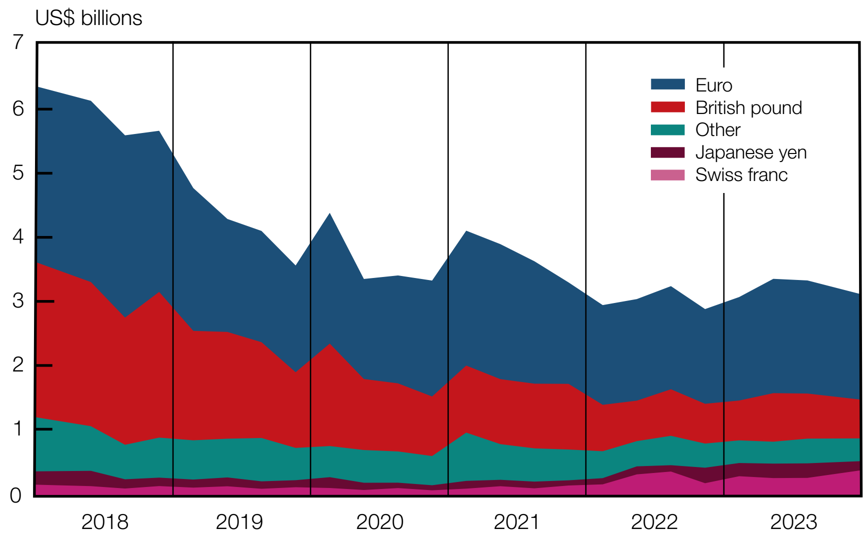
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

In the market for third currencies, US dollar transactions against the euro decreased from US$1.8 billion in the third quarter of 2023 to US$1.6 billion in the fourth quarter. Similarly, US dollar transactions against the yen declined from US$0.2 billion to US$0.1 billion over the same period. By contrast, transactions of the US dollar against the Swiss franc increased from US$0.2 billion in the third quarter of 2023 to US$0.4 billion in the fourth quarter, while transactions of the US dollar against the British pound declined from US$0.7 billion to US$0.6 billion over this period. US dollar transactions against other currencies remained unchanged at US$0.4 billion over the same period.

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



Source: SARB

Monetary developments, interest rates and financial markets

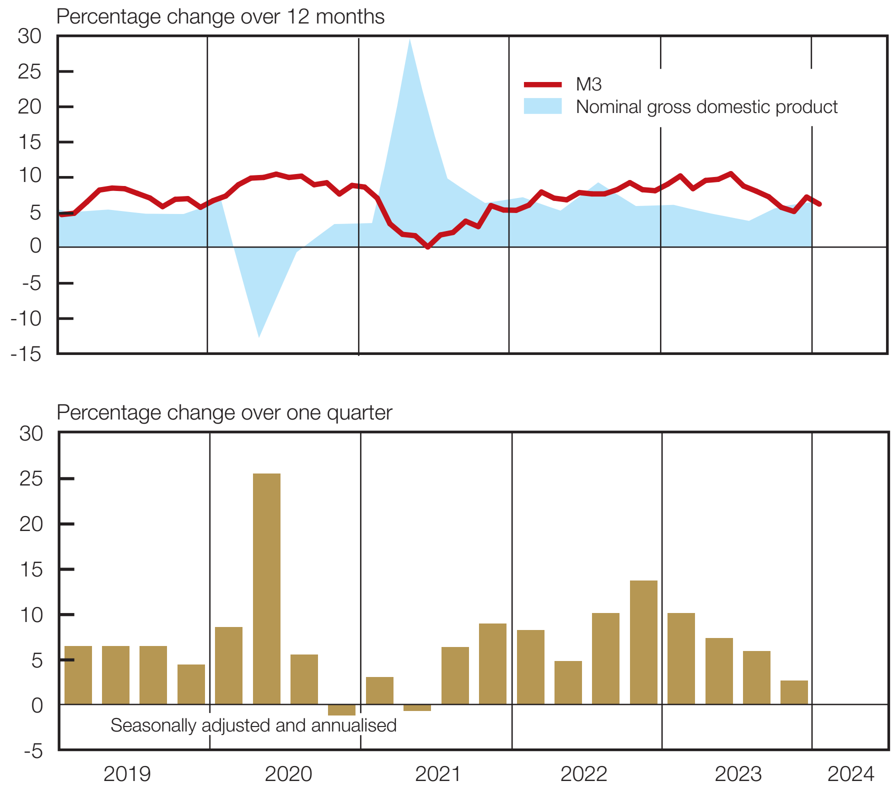
Money supply

Growth in the broadly defined money supply (M3) decelerated to 6.6% in January 2024 from 7.6% in December 2023. Nonetheless, M3 increased at a faster pace of 8.8% in 2023 compared with the annual average rates of 8.0% and 4.0% recorded in 2022 and 2021 respectively. However, it was not buoyant enough to surpass the 9.6% recorded in 2020 at the peak of the COVID-19 pandemic. Corporate sector deposits, notably those of financial companies, sustained the growth in M3 in the first half of 2023 but moderated sharply thereafter. By contrast, household deposits remained firm throughout 2023, supported by higher interest rates.

The quarter-to-quarter seasonally adjusted and annualised growth in M3 slowed from a recent high of 13.6% in the fourth quarter of 2022 to 2.6% in the fourth quarter of 2023 – the slowest rate of increase since the second quarter of 2021. Nonetheless, the income velocity of M3[24] measured 1.42 in the fourth quarter of 2023 after remaining unchanged at 1.41 in the third quarter, as growth in M3 still exceeded that in nominal GDP.

24 This is the ratio of the nominal seasonally adjusted GDP to the quarterly average nominal seasonally adjusted value of M3.

Money supply and gross domestic product

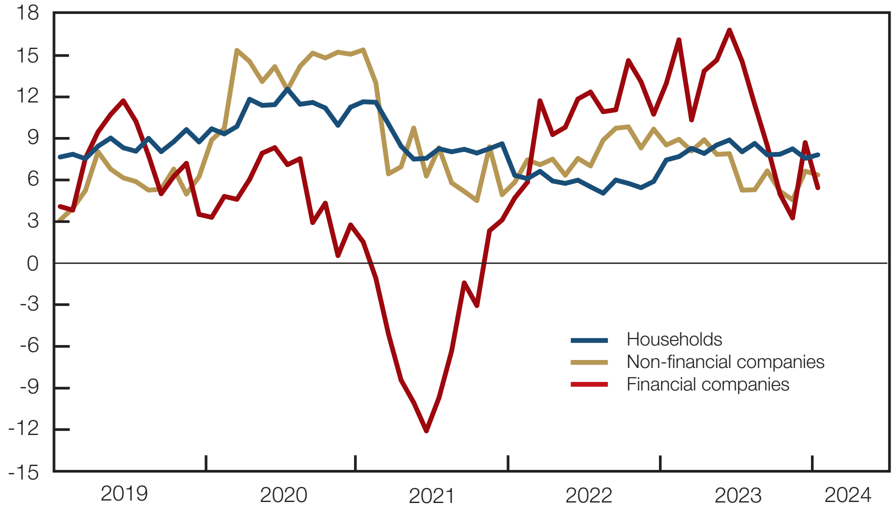


Sources: Stats SA and SARB

Growth in the deposit holdings of financial companies was particularly robust in the first eight months of 2023 before decelerating from 11.4% in August to 5.4% in January 2024. The slowdown was most pronounced in the deposits of private financial companies involved in securities trading, investment and asset management, along with a decrease in the deposits of money market unit trusts, fund managers and those of public financial companies, such as the Public Investment Corporation (PIC). Growth in the deposit balances of non-financial companies fluctuated between a high of 8.9% in February 2023 and a low of 4.6% in November, before accelerating to 6.4% in January 2024.

Deposit holdings of households and companies

Percentage change over 12 months



Source: SARB

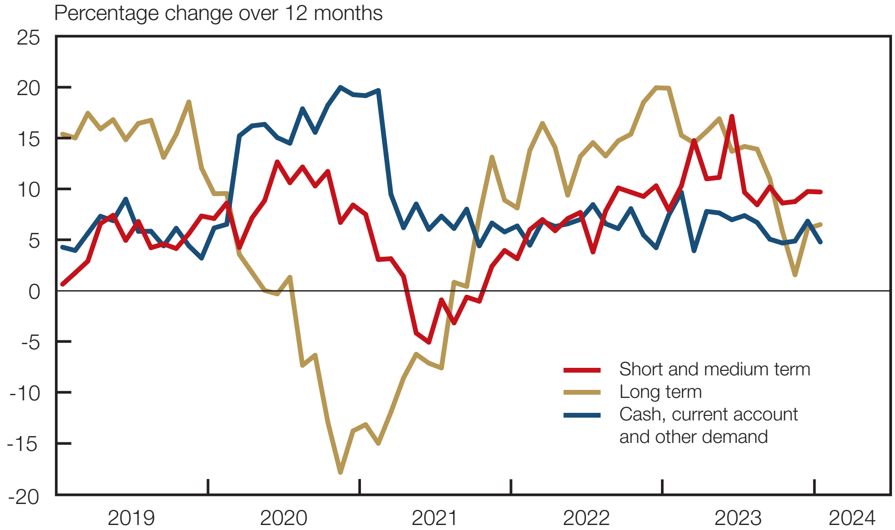
Growth in the deposit holdings of households remained stable and trended within a relatively narrow range between 7.4% and 8.9% in 2023, averaging 8.1% for the year, substantially higher than the average growth rate of 5.9% in 2022 but still marginally lower than the pre-COVID-19 average of 8.4% in 2019. The growth in household deposits continued to be supported by the demand for savings and investment products across the banking industry because of the higher interest rates. In January 2024, household deposits increased by 7.8%.

All three major deposit maturity categories contributed to the moderation in money supply from July to November 2023, with the most pronounced deceleration occurring in the long-term deposit category.[25] Growth in long-term deposits initially maintained firm double-digit growth between January and September 2023, before decelerating sharply to a low of 1.6% in November – the slowest rate of increase since September 2021. This was partly driven by fund managers searching for alternative investment opportunities as well as the reduced availability of negotiable certificates of deposit (NCDs) due to banks' reluctance to issue these instruments amid adequate liquidity. Twelve-month growth in long-term deposits subsequently remained subdued at 5.4% in January 2024.

25 M3 deposits consist of M2 *plus* long-term deposits.

Deposits by maturity

Percentage change over 12 months



Source: SARB

26 M2 consists of M1 *plus* short-term deposits (other than demand deposits) and medium-term deposits.

27 M1 consists of banknotes and coin in circulation, current and transactional account deposits *plus* other demand deposits.

Year-on-year growth in the short- and medium-term deposit category[26] decelerated from a high of 17.2% in June 2023 – the highest year-on-year growth rate since March 2009 – to 8.8% in November, before accelerating again to 9.7% in January 2024 when a substantial portion of the long-term deposits moved into the medium-term maturity category. Growth in cash, current account and other demand deposits[27] also moderated gradually during the course of 2023, slowing from 9.7% in February to 6.8% in December, and remained weak at 4.8% in January 2024.

The value of household deposits increased in all four quarters of 2023, contributing to an overall increase of R130.6 billion in 2023, which was higher than the R96.1 billion increase recorded in 2022. Despite a significant increase in company deposits in the first quarter of 2023, such deposits increased by R230.9 billion for the full year in 2023, well below the R278.4 billion increase recorded in 2022. Both financial and non-financial companies recorded smaller increases in 2023 compared with 2022.

M3 holdings of households and companies

	Change in rand billions							Percentage of total M3 deposit holdings***
	2022		2023					
	Q4*	Year**	Q1	Q2	Q3	Q4	Year	
Households	26.6	96.1	20.9	41.8	43.4	24.4	130.6	36.5
Companies: Total.................	35.6	278.4	116.9	38.3	34.8	40.8	230.9	63.5
Of which: Financial	-9.4	149.1	98.8	59.3	-17.7	-6.8	133.6	32.8
Non-financial.....	45.0	129.3	18.2	-21.0	52.5	47.6	97.3	30.7
Total M3 deposits...............	62.2	374.5	137.9	80.1	78.2	65.2	361.5	100.00

* Quarter-to-quarter change
** Year-on-year change
*** Expressed as a percentage of the total outstanding balance as at December 2023

Source: SARB

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

Statistically, the counterparts[28] to the R361.5 billion increase in M3 during 2023 comprised increases in claims on the domestic private sector of R218.2 billion, net claims of the monetary sector against the government of R202.3 billion and net foreign assets of the monetary sector of R149.4 billion. These increases were partly countered by a decline of R208.4 billion in net other assets of the monetary sector.

Counterparts of change in M3

	Change in rand billions						
	2022		2023				
	Q4*	Year**	Q1	Q2	Q3	Q4	Year
Claims on the private sector................	6.6	315.7	92.2	35.4	68.2	22.4	218.2
Net claims on the government sector...	9.5	112.6	87.7	-65.1	127.3	52.4	202.3
Net foreign assets	-44.2	-69.0	65.9	186.0	-88.3	-14.2	149.4
Net other assets..................................	90.3	15.3	-107.9	-76.1	-29.0	4.6	-208.4
Change in total M3 deposits..............	62.2	374.5	137.2	80.2	78.2	65.2	361.5

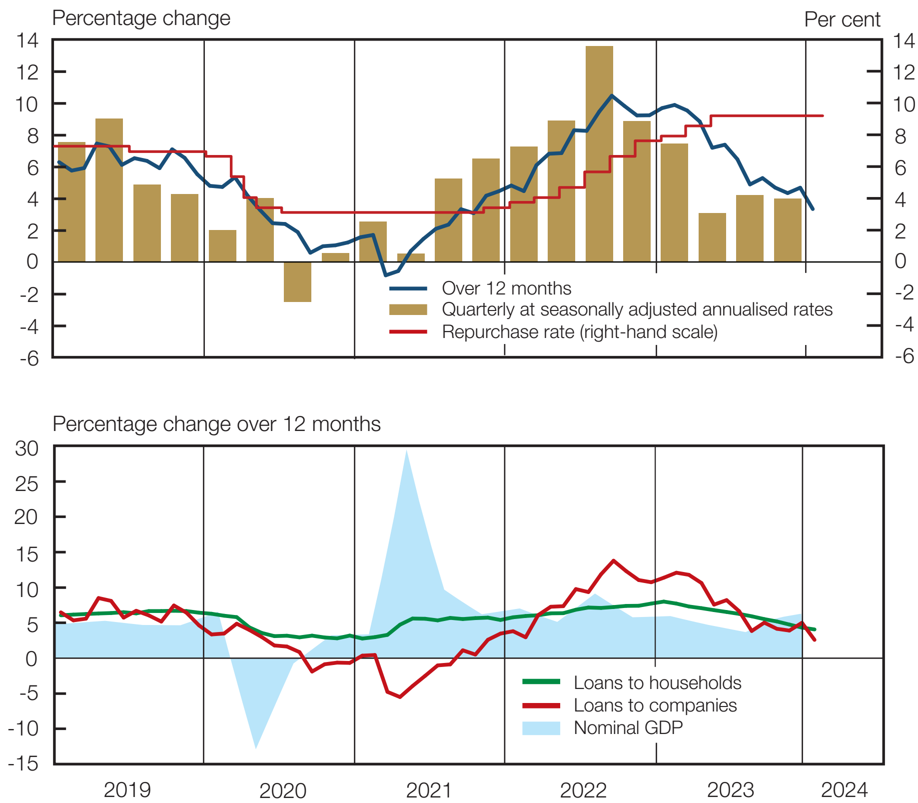
* Quarter-to-quarter change
** Year-on-year change

Source: SARB

Credit extension

Year-on-year growth in total loans and advances extended by monetary institutions to the domestic private sector moderated substantially from 9.7% in January 2023 to 3.3% in January 2024. The annual average growth in credit extension was 6.9% in 2023, notably lower than the 7.8% recorded in 2022 but still higher than the pre-pandemic average of 6.4% in 2019. The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances also slowed notably from 7.4% in the first quarter of 2023 to 4.0% in the fourth quarter, as growth in credit extension to companies decelerated at a faster pace than that to households. As such, the ratio of loans and advances to nominal GDP declined from 60.4% in the first quarter of 2023 to 59.7% in the fourth quarter, as growth in nominal GDP exceeded that in credit extension.

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

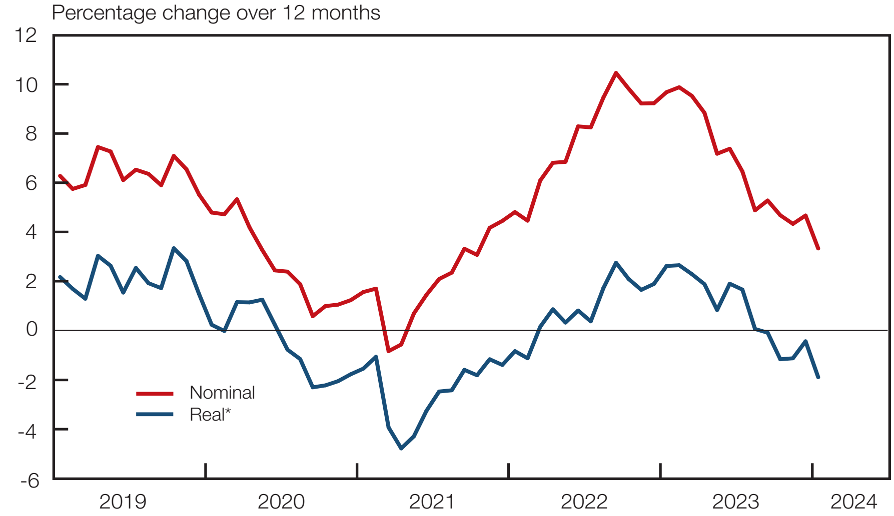


Sources: Stats SA and SARB

When adjusted for inflation, growth in total loans and advances displayed a similar trend as it moderated from 2.6% in January 2023 to a low of -1.9% in January 2024.

Total loans and advances

Percentage change over 12 months



* Deflated with the headline consumer price index

Source: SARB

In nominal terms, loans extended to companies increased by R102.8 billion in 2023 compared with an increase of R199.0 billion in 2022. The value of loans to non-financial companies increased by R35.9 billion in 2023, much less than the increase of R168.4 billion recorded in 2022. The increase in loans to financial companies more than doubled from R30.5 billion to R66.9 billion over the same period, arising from the reclassification of treasury entities of non-financial companies to financial companies in the first quarter of 2023, including intergroup and intercompany loans across the monetary sector as well as loans to fund managers and investment companies. Growth in loans to households slowed sharply from R145.9 billion in 2022 to R88.0 billion in 2023.

Credit extended to households and companies

	Change in rand billions							Percentage of total loans and advances***
	2022		2022					
	Q4*	Year**	Q1	Q2	Q3	Q4	Year	
Households	40.0	145.9	35.1	16.7	17.5	18.7	88.0	65.3
Companies: Total............................	9.8	199.0	50.9	2.4	39.5	9.9	102.8	34.7
Of which: Financial	-20.2	30.5	46.0	0.5	18.4	2.0	66.9	7.0
Non-financial................	30.0	168.4	4.9	1.9	21.1	7.9	35.9	27.7
Total bank loans and advances	50.7	344.8	86.1	19.1	57.0	28.6	190.8	100.0

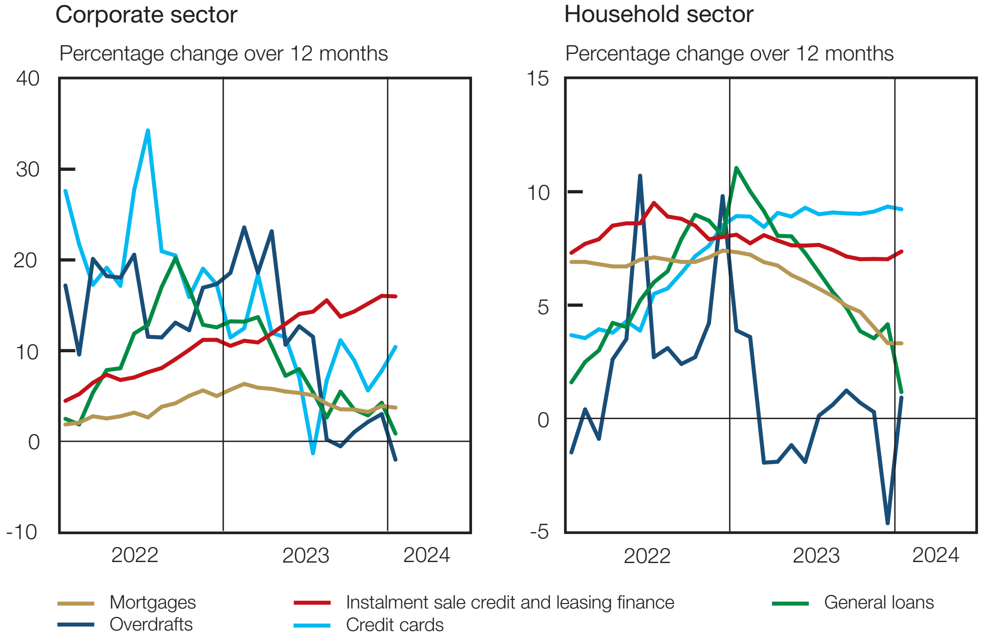
* Quarter-to-quarter change
** Year-on-year change
*** Expressed as a percentage of the total outstanding balance as at December 2023

Source: SARB

Growth in total loans and advances dipped below 5.0% from October 2023, largely driven by slower growth in credit extension to both households and companies amid the higher interest rates that coincided with weak domestic economic activity and lower consumer spending. Year-on-year growth in loans and advances extended to companies decelerated significantly from a high of 12.1% in February 2023 to a low of 2.6% in January 2024. Growth in most of the credit categories to companies either levelled off or slowed notably during 2023, except for instalment sale credit and leasing finance. The substantial moderation that occurred across the various categories reflected a combination of base effects, weak business confidence as well as high and rising operating costs amid slowing consumer demand.

A loss of momentum in fixed investment in 2023 contributed to the deceleration in the year-on-year growth in general loans to companies from 13.2% in January 2023 to a post-pandemic low of only 0.8% in January 2024. The utilisation of overdrafts by companies recorded double-digit growth rates in the first seven months of 2023, before contracting by 0.6% year on year in September, partly due to repayments by the agricultural sector following a bumper summer crop harvest. Growth in corporate overdrafts then edged higher to 3.0% in December 2023 before once again contracting by 2.0% in January 2024. Growth in mortgage advances to companies also remained subdued, decelerating from 5.7% in January 2023 to 3.7% in January 2024. By contrast, the resilience in instalment sale credit and leasing finance to companies, which grew by 16.0% in January 2024, partly reflected the demand for commercial vehicles. This was supported by the inefficiencies at domestic ports and a deteriorating freight rail transport system that contributed to the demand for heavy-duty transport vehicles.

Selected loans and advances



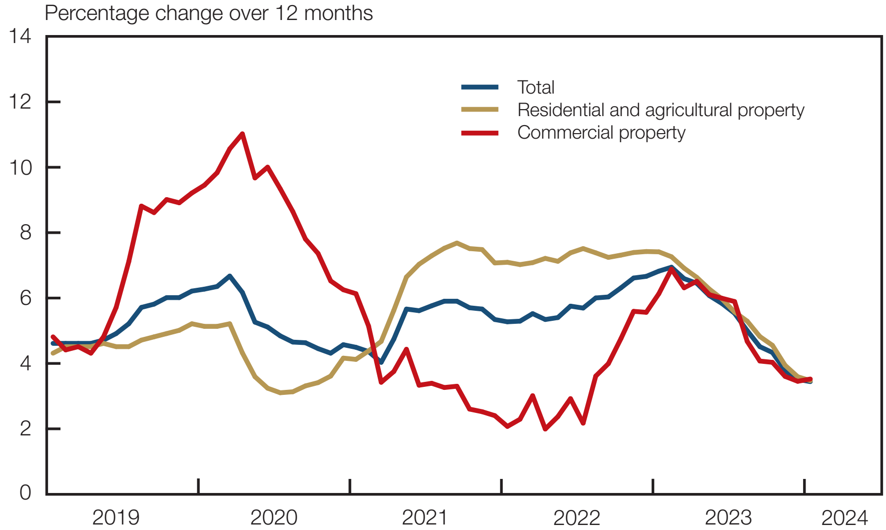
Source: SARB

Growth in loans to households slowed gradually from 8.0% in January 2023 to 4.1% in January 2024 – the lowest rate since March 2021. The annual average growth rate also eased to 6.3% in 2023 from 6.8% in 2022 as constrained household finances impacted borrowing and spending activity amid higher interest rates and a tightening of lending standards by banks due to rising defaults. The moderation in credit extension to households was broad-based across the various types of credit, particularly within mortgage advances and general loans. Year-on-year growth in mortgage advances to households slowed notably from 7.3% in January 2023 to 3.3% in January 2024. Likewise, growth in general loans to households moderated from a double-digit growth rate of 11.0% in January 2023 to 3.5% in November, before accelerating slightly to 4.2% in December and decelerating once again to only 1.2% in January 2024.

Growth in overdrafts to households remained volatile but broadly moderated throughout 2023, ending with a contraction of 4.6% in December followed by moderate growth of 0.9% in January 2024. By contrast, growth in credit card advances remained resilient as it increased at an annual average rate of 9.0% in 2023 compared with 5.3% in 2022, with households probably relying more on credit card debt to support their spending. Year-on-year growth in instalment sale credit to households remained firm, although it trended slightly lower from 8.1% in January 2023 to 7.4% in January 2024, likely reflecting special offers by vehicle dealerships through discounts and incentives as consumers considered more affordable vehicles.

Growth in mortgage advances on residential and agricultural property as well as on commercial property has trended downwards throughout 2023. Year-on-year growth in mortgage advances on residential and agricultural property decelerated from 7.4% in January 2023 to a low of 3.5% in January 2024. Growth averaged 5.7% in 2023 compared with 7.3% recorded in 2022. The moderation partly reflected affordability constraints from the effect of higher interest rates on debt-servicing costs and the resultant lower demand for residential property. Similarly, growth in commercial property decelerated from 6.1% in January 2023 to 3.5% in January 2024, averaging 5.3% in 2023 compared with 3.4% in 2022.

Mortgage advances



Source: SARB

Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB kept the repurchase (repo) rate unchanged at its current level of 8.25% per annum for a fourth consecutive meeting in January 2024. The MPC noted that policy remained restrictive but consistent with the inflation outlook and the need to address the upside risks to the domestic inflation trajectory, among which the increased geopolitical tensions, higher international crude oil prices and domestic electricity constraints. The risks to the medium-term domestic economic growth outlook were deemed to be balanced.

Domestic short-term money market rates have been fairly stable in recent months, alongside the unchanged policy rate. The three-month Johannesburg Interbank Average Rate (Jibar) traded in a narrow range between 8.35% and 8.40% from 1 December 2023 to early March 2024, recording 8.35% on 15 March 2024. Movements in the six-month Jibar were also range bound, decreasing by 9 basis points from 8.74% on 12 December 2023 to 8.65% on 2 February 2024. The rate has since decreased slightly to 8.63% on 15 March 2024. The longer-dated 12-month Jibar decreased by 20 basis points from 9.18% on 12 December 2023 to 8.98% on 2 February 2024, before increasing marginally to 9.03% on 15 March. The South African Rand Overnight Index Average (ZARONIA)[29] rate that was officially implemented from 3 November 2023, has traded slightly below the repo rate since inception and fluctuated in a narrow range between 8.11% and 8.15% from 1 December 2023 to early March 2024, and amounted to 8.12% on 15 March.

29 ZARONIA is a new benchmark reflecting the interest rate at which overnight wholesale funds are obtained by commercial banks.

Box 2 The South African Rand Overnight Index Average (ZARONIA) interest rate benchmark[1]

In the wake of a culmination of scandals involving the manipulation of the London Interbank Offered Rate (Libor)[2] among the rate-setting banks and the role it played in worsening the 2008 global financial crisis, international regulators and central banks initiated a coordinated response to improve the resilience and transparency of systemically important interest rate benchmarks. As such, the Financial Stability Board conducted a review of major interest rate benchmarks in 2013 and 2014 that gave rise to a global reform. South Africa followed suit in 2015 when it embarked on an exercise to determine whether the Johannesburg Interbank Average Rate (Jibar)[3] reflected an appropriate and representative sample of banks' money market funding. Another purpose of the exercise was to determine the size of the negotiable certificate of deposit (NCD)[4] market that serves as a basis for the calculation of Jibar.

This box provides a brief overview of the phased implementation of the new benchmark[5] interest rate in South Africa, namely the South African Rand Overnight Index Average (ZARONIA).[6] The South African Reserve Bank (SARB) started publishing[7] the ZARONIA rate on 1 November 2022 and afforded market participants and other users an observation period of 12 months to monitor its performance.[8] At the end of the observation period, the SARB and the Market Practitioners Group (MPG)[9] approved the use of ZARONIA, effective from 3 November 2023, and encouraged market participants to start using it as a reference rate in financial contracts, marking the culmination of the multi-year interest rate reform process.

In August 2018, the SARB published a *Consultation paper on selected interest rate benchmarks in South Africa*[10] with the objective to propose the reform of key interest rate benchmarks used in South Africa and to announce the establishment of the MPG.[11] The consultation paper found that the current design of interest rate benchmarks was not fully aligned with the new global standards and raised questions regarding the robustness, representativeness and credibility of Jibar.[12] With the calculation of Jibar based on only five submissions of forward-looking indicative rates at which contributing banks buy and sell NCDs, it was regarded as being vulnerable to manipulation. Furthermore, the market activity underlying key Jibar tenors, especially the three-month Jibar, had declined considerably in the aftermath of private sector banks adopting new funding strategies following the introduction of Basel III requirements, such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Jibar was also not seen as representative of the total cost of funding for banks and it was found that there were insufficient transactions in the NCD market to meet the data compliance and reference rate design requirements stipulated by the International Organization of Securities Commissions (IOSCO).[13]

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1 This box relates to the money market and related interest rates on page S–32 in this edition of the *Quarterly Bulletin (QB)*. It specifically reflects on ZARONIA, one of four new benchmarks in the overall reference rate reform process. The other benchmarks are:
- South African Secured Overnight Financing Rate (ZASFR);
- Term Wholesale Financial Corporate Fixed Deposit Benchmark Rate; and
- Term Wholesale Non-Financial Corporate Fixed Deposit Benchmark Rate.

2 Libor is regarded as an indicative interest rate, reflecting the rate at which banks offer to lend funds (wholesale money) to each other in the London interbank market and has been replaced in some parts with a Secured Overnight Financing Rate.

3 Jibar is compiled and published by the JSE Limited (JSE) as the calculation agent, using data from five contributing banks daily between 09:15 and 09:45. The JSE harvests bid and offer rates from the contributing banks' NCD trading screens and calculates the midpoint rates, which are ranked in descending order. The highest and lowest 25th percentile mid-rates are eliminated and the remaining 50th percentile rates are averaged to determine Jibar rates for the respective maturities.

4 An NCD is a negotiable type of fixed-deposit investment instrument offered by commercial banks.

5 Market participants often prefer to use credible reference rates against which they can price or evaluate the performance of selected financial instruments. Because reference rates tend to reflect wider market conditions, they assist in price discovery and reduce information asymmetry.

6 ZARONIA is a reformed version of the existing South African Benchmark Overnight Rate (Sabor) and reflects the interest rate at which rand-denominated overnight wholesale funds are obtained by commercial banks.

7 The SARB is the administrator of ZARONIA and publishes the rate daily at 10:00. https://www.resbank.co.za/en/home/what-we-do/financial-markets/south-african-overnight-index-average

8 Owing to the rate potentially underpinning a significant number of financial contracts, it was deemed critical that the conceptual design of the benchmark rate be rigorously tested to ensure that it is reliable, robust and sufficiently stable.

9 In 2018, the SARB embarked on an initiative to strengthen the widely used reference rates and established the MPG to make final decisions on the proposed benchmarks.

10 The consultation paper is available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/markets-consultation-paper/2018/8722

11 Established by the SARB to facilitate the decision-making on matters relating to the reform of interest rate benchmarks in South Africa, the MPG is a joint public and private sector body comprising representatives of the SARB, the Financial Sector Conduct Authority (FSCA) and other senior professionals from different market interest groups active in the domestic money market.

12 In South Africa, Jibar was the key money market benchmark used as a reference interest rate for financial instruments and derivatives, with the three-month Jibar being the most widely used and accepted reference rate for South African rand-denominated financial contracts.

13 IOSCO is a global co-operative of securities regulatory agencies that regulates the world's securities and futures markets. It establishes and maintains worldwide standards for efficient, orderly and fair markets.

The MPG established various workstreams, focusing on the different aspects of the markets that will underpin South Africa's transition to alternative reference rates, including, among other workstreams:

- the unsecured reference rate workstream;
- the risk-free reference rate workstream;
- the derivative workstream;
- the cash market workstream;
- the data collection and infrastructure workstream;
- the transition workstream;
- the governance workstream; and
- the communications workstream.

The role of the workstreams and subgroups was to provide technical input and recommendations to the MPG on specific issues that are relevant to the transition from Jibar. The insights and expertise of the workstreams were aimed at shaping industry opinions on the reform agenda, with, for example, the derivative and cash market workstreams established to look into how ZARONIA will be adopted in their respective markets.

Contrary to the forward-looking nature of Jibar, ZARONIA is regarded as more objective, robust and aligned with international standards because it is backward-looking and based on actual settled transactions reported daily to the SARB. ZARONIA is thus an overnight deposit rate and serves as a benchmark to reflect the interest rate at which overnight wholesale funds are obtained by commercial banks. Furthermore, it is calculated as a trimmed, volume-weighted mean[14] of interest rates paid on eligible unsecured overnight deposits.[15] The rate was expected to respond to changes in the policy rate and to be more resilient than Jibar, partly because of the depth and liquidity of the market that underpins it, and this has indeed been the case thus far. Furthermore, ZARONIA's response to changes in the policy rate is desirable because it suggests that the interest rate should be effective in transmitting monetary policy, which is why the MPG selected ZARONIA as the successor to replace Jibar as the preferred reference rate to underpin financial contracts from its official implementation. The table below summarises the main differences between ZARONIA and Jibar.

Main differences between ZARONIA and Jibar

ZARONIA	Jibar
Near risk-free rate	Built-in credit and term premium component
Overnight rate	Term rate
Backward-looking	Forward-looking
Fully transaction-based	Based on indicative rates
Broad array of market participants	Only five contributing institutions

Since its inception, ZARONIA has been trending at an average spread of 13 basis points below the repurchase (repo) rate and followed changes in the policy rate closely.[16]

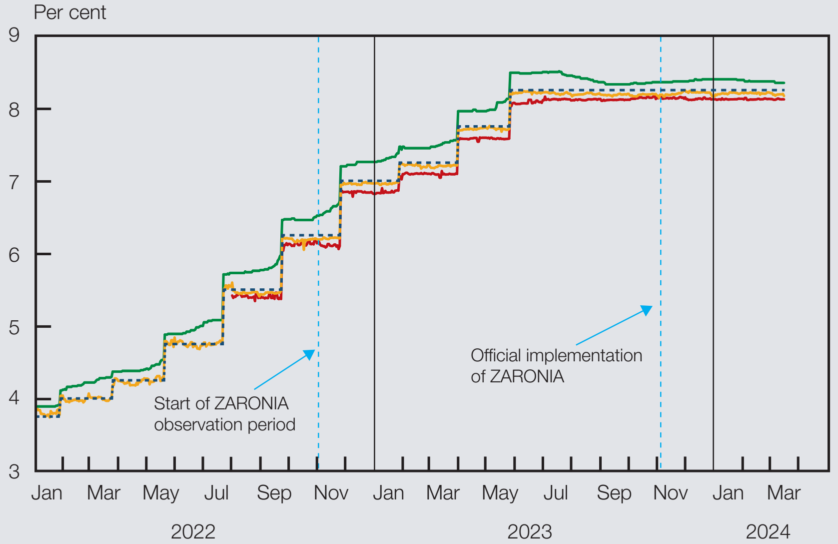
The SARB also publishes compounded averages and index values based on past realisations of the ZARONIA interest rate benchmark. The published compounded ZARONIA period averages provide market participants with a single point of reference for backward-looking term rates, including one-week, one-month, three-month, six-month, nine-month and 12-month tenors. Although the SARB has indicated that it would prefer a reasonably short Jibar transition phase, the adoption of the rate may take some time as market participants are still preparing market infrastructure.

14 A trimmed mean removes a small, designated percentage of the largest and smallest values before calculating the average. Using a trimmed mean helps to eliminate the influence of outliers or data points on the tails that may unfairly affect the traditional mean.

15 There are 10 commercial banks that have been earmarked as reporting institutions that submit transactions data to the SARB on a daily basis. The reporting institutions and the SARB spent a substantial amount of time developing and implementing technology to enable the extraction, transfer and verification of data, as outlined in the SARB's Money Market Data Collection Reporting Guide. https://www.resbank.co.za/en/home/publications/publication-detail-pages/markets-consultation-paper/2020/10021

16 This is similar to the experience in other jurisdictions, where the Sterling Overnight Index Average (SONIA) and the Euro Short-Term Rate (ESTR) tend to be lower than the Bank of England's (BOE) and the European Central Bank's (ECB) policy rates respectively.

Benchmark rates and the repurchase rate



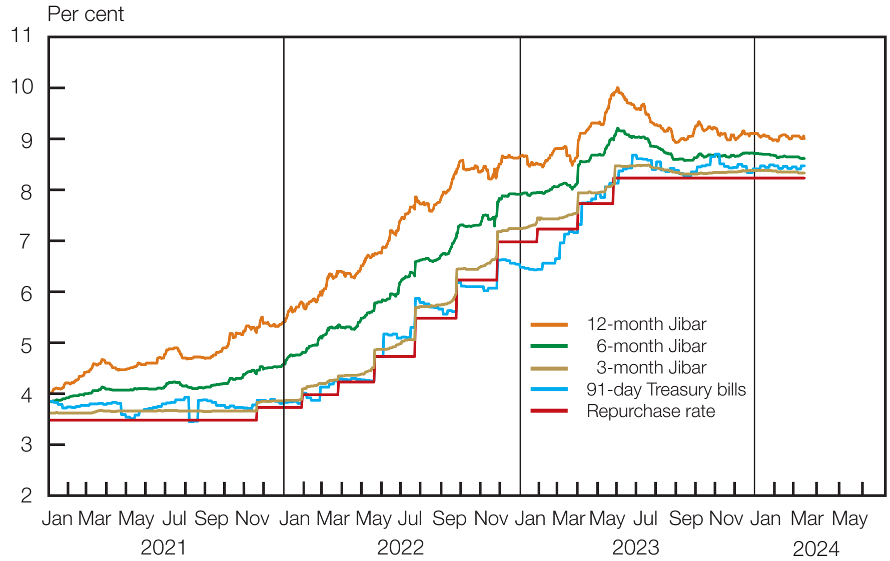
Source: SARB

With the change to ZARONIA, Jibar will eventually be phased out as a reference rate and it is intended that all contracts referencing Jibar will be transitioned by 2026. The transition will need to be treated with caution as contracts linked to Jibar will be gradually switched to the compounded[17] ZARONIA rates, while debt securities and other types of interest rate derivative contracts will change to ZARONIA. Furthermore, new contracts entered into after the announcement of the cessation date should reference ZARONIA. As an interest rate benchmark, ZARONIA will play an important role in the functioning of modern financial markets and promote adherence to international best practice

17 The ZARONIA compounded index represents the returns from rolling an investment that earns interest daily at the ZARONIA rate.

The tender rate on 91-day Treasury bills (TBs) decreased by 10 basis points from 8.46% on 1 December 2023 to 8.36% on 18 December amid an increased demand for short-term high-quality liquid assets. The rate thereafter increased to 8.51% on 22 January 2024 when the demand for these instruments moderated, settling somewhat lower at 8.49% on 15 March.

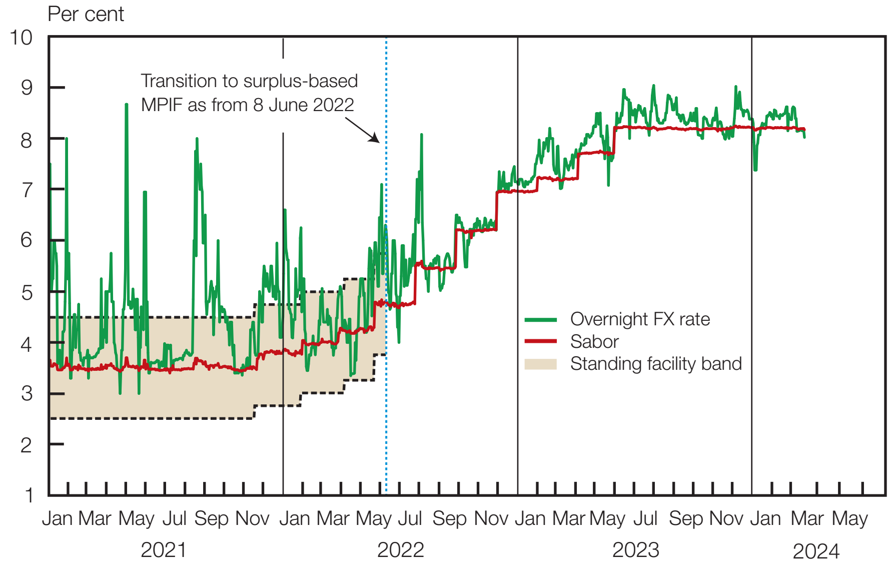
Money market rates



Source: SARB

The South African Benchmark Overnight Rate (Sabor) remained relatively stable as it fluctuated in close alignment with the repo rate, averaging 8.21% between December 2023 and early March 2024 and recording 8.17% on 15 March. The more volatile overnight FX rate averaged 8.30% in the fourth quarter of 2023, down from 8.49% in the third quarter. The overnight FX rate initially decreased by 164 basis points from 9.02% on 30 November 2023 to 7.38% in late December when foreign banks required less additional funding in the overnight FX forward market. The rate then increased by 116 basis points to 8.54% on 31 January 2024 when funding requirements increased to meet month-end liquidity demands. Subsequently, the overnight FX rate increased to 8.62% on 16 February 2024 as banks required funding to square off their positions before settling at 8.02% on 15 March.

Benchmark overnight rates



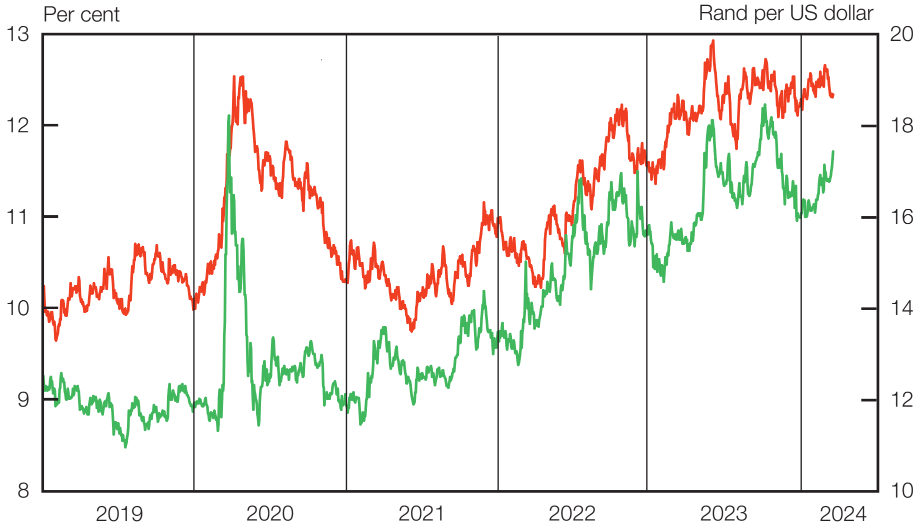
Source: SARB

Rates on forward rate agreements (FRAs) have trended slightly lower in recent months, reflecting fluctuations in the exchange value of the rand, market participants' expectations that the repo rate may have reached a peak amid relatively stable market conditions and lower domestic inflation outcomes. The 3x6-month FRA increased by 9 basis points from 8.22% on 1 February 2024 to 8.31% on 15 March. Similarly, the 6x9-month FRA increased by 28 basis points from 7.93% on 1 February 2024 to 8.21% on 15 March. The longer-term 9x12-month FRA increased from 7.73% on 1 February 2024 to 7.99% on 15 March as expectations of a decline in the repo rate over the short-term waned.

The weighted average deposit and lending rates of private sector banks remained relatively stable following the MPC's decision to continue keeping the repo rate unchanged in January 2024. The weighted average flexible interest rate charged by banks on mortgage advances remained unchanged at 11.45% between November and December 2023 before changing slightly to 11.44% in January 2024. Over the same period, the variable rate on instalment sale credit remained stable at 11.93%, while the interest rate on overdrafts decreased marginally from 12.12% in December 2023 to 11.99% in January 2024. The interest rate on credit card advances increased marginally from 18.03% in November 2023 to 18.19% in January 2024. At the same time, the weighted average interest rate offered on call deposits increased marginally from 8.01% in November 2023 to 8.02% in January 2024. Banks' offer on 12-month fixed deposits fluctuated close to 8.76% over the same period, while the weighted average interest rate on current accounts increased slightly from 4.63% in November 2023 to 4.64% in January 2024.

The *yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market* decreased from 12.23% on 4 October 2023 to 10.96% on 20 December. The decline reflected the notable appreciation in the exchange value of the rand, lower domestic headline consumer price inflation and increased demand for domestic bonds by non-residents. Subsequently, the 10-year yield increased to 11.72% on 15 March 2024, tracking the depreciation in the exchange value of the rand along with an acceleration in domestic consumer price inflation, despite domestic bond yields initially reacting favourably to the *2024 Budget Speech*.

Government bond yield and the exchange rate



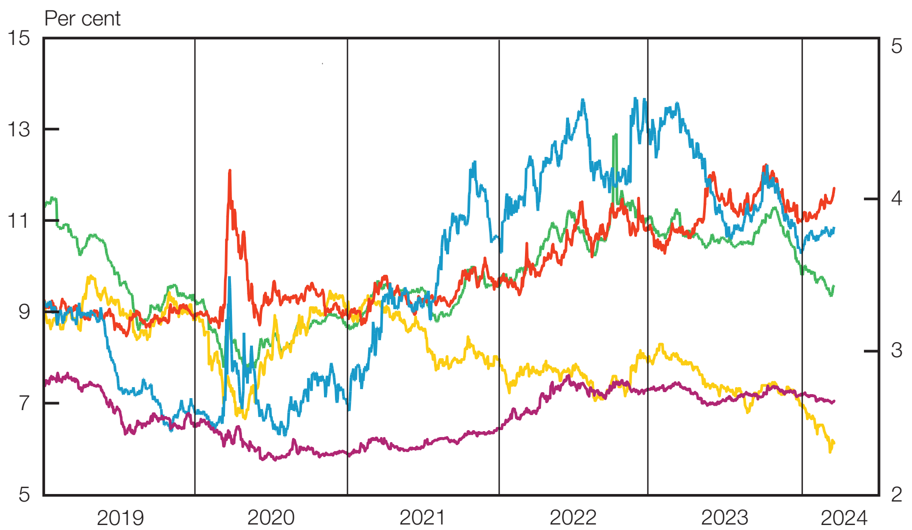
South African 10-year bond yield
Exchange rate (right-hand scale)

Sources: IRESS, JSE and SARB

Emerging market bond yields, as measured by the iBoxx Global Government Emerging Markets yield,[30] decreased by 31 basis points from 4 October 2023 to 20 December as lower global inflation raised expectations that most major central banks may have reached the end of their monetary policy tightening cycle. The Brazilian and South African 10-year government bond yields outperformed most of their global emerging market peers with significant declines of 159 and 127 basis points respectively, while declines in the bond yields of China and India were comparatively small over the same period. Subsequently, the iBoxx Global Government Emerging Markets yield fluctuated lower from 3.54% on 20 December 2023 to 3.38% on 15 March 2024, although bond yields of some emerging markets, including those of South Africa and Brazil, increased.

30 The iBoxx Global Government Emerging Markets yield reflects the performance of emerging markets' local currency-denominated investment-grade sovereign debt. The index aims to offer a broad coverage of investment-grade emerging market sovereign bonds, with minimum standards of investability and liquidity.

Emerging market 10-year government bond yields



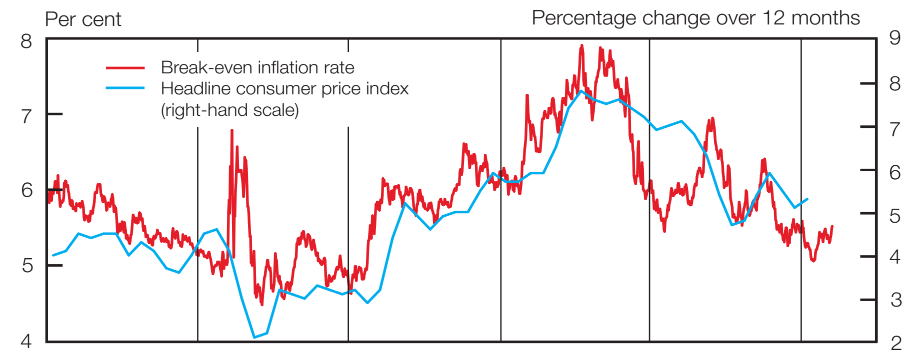
South Africa
India
China (right-hand scale)
Brazil
iBoxx Global Government Emerging Markets (right-hand scale)

Sources: IRESS and JSE

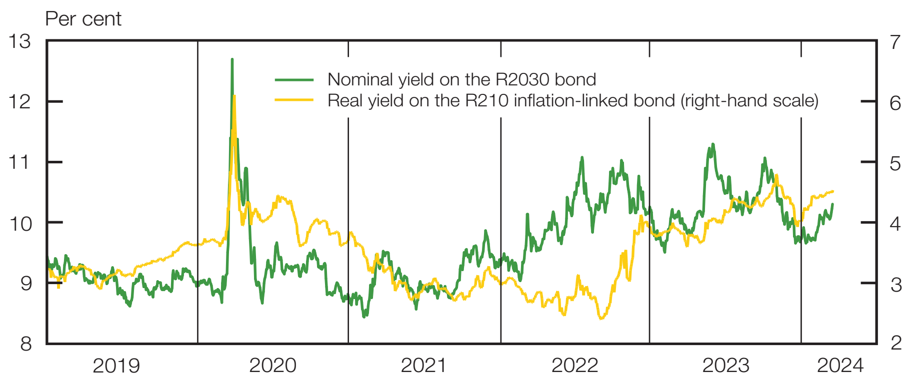
31 The break-even inflation rate in the four- to six-year maturity range is calculated as the difference between the nominal yield on the *R2030* conventional bond (maturing on 31 January 2030) and the real yield on the *R210* inflation-linked bond (maturing on 31 March 2028).

The *break-even inflation rate*[31] in the four- to six-year maturity range fluctuated lower from 6.95% on 31 May 2023 to 5.06% on 31 January 2024, moving below the 6% upper limit of the inflation target range, in line with the slowdown in headline consumer price inflation. Subsequently, the break-even inflation rate increased somewhat to 5.52% on 15 March, as the nominal yield increased more than the real yield.

Inflation rates



Government bond yields



Sources: IRESS, JSE and Stats SA

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

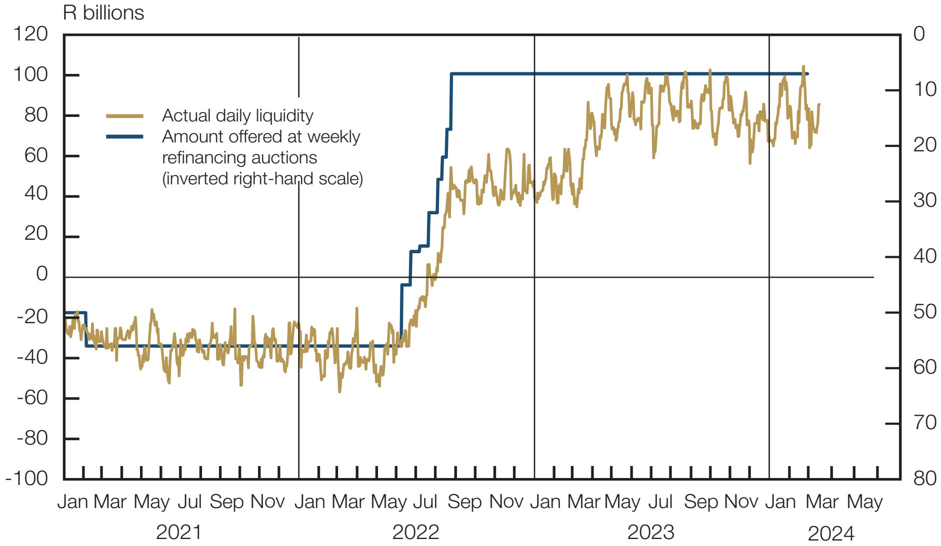
33 This is the differential between the yield on South African government US dollar-denominated bonds and that on US dollar-denominated bonds of the US government.

The yield spread for emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[32] narrowed from 420 basis points at the end of May 2023 to 320 basis points at the end of February 2024 as in general emerging market bond yields decreased while US bond yields increased. Similarly, South Africa's *sovereign risk premium*[33] on US dollar-denominated government bonds in the six-year maturity range narrowed from a monthly average of 384 basis points in May 2023 to 303 basis points in February 2024.

Money Market

Private sector banks recorded an average daily surplus liquidity position of R78.4 billion in the fourth quarter of 2023, which varied between a high of R99.7 billion on 24 October – almost equivalent to the R100 billion upper limit of the liquidity target range – and a low of R56.4 billion on 29 November. The high average daily surplus liquidity position occurred alongside the withdrawal of Corporation for Public Deposits (CPD) funds from the SARB and the placement thereof with private sector banks, temporarily boosting the overall surplus liquidity position of banks. The SARB continued to offer its weekly main refinancing auctions of R7.0 billion, although the banks' take-up of these funds remained relatively low within the current surplus-based monetary policy implementation framework (MPIF). In January 2024, the average daily liquidity position of private sector banks increased slightly to R83.6 billion as banks increased their participation in the weekly main refinancing auctions to ensure the availability of adequate funds in preparation for the upcoming coupon payments on government bonds. The total accommodation provided to banks increased marginally to R0.4 billion in February 2024 from a low of R0.2 billion in January.

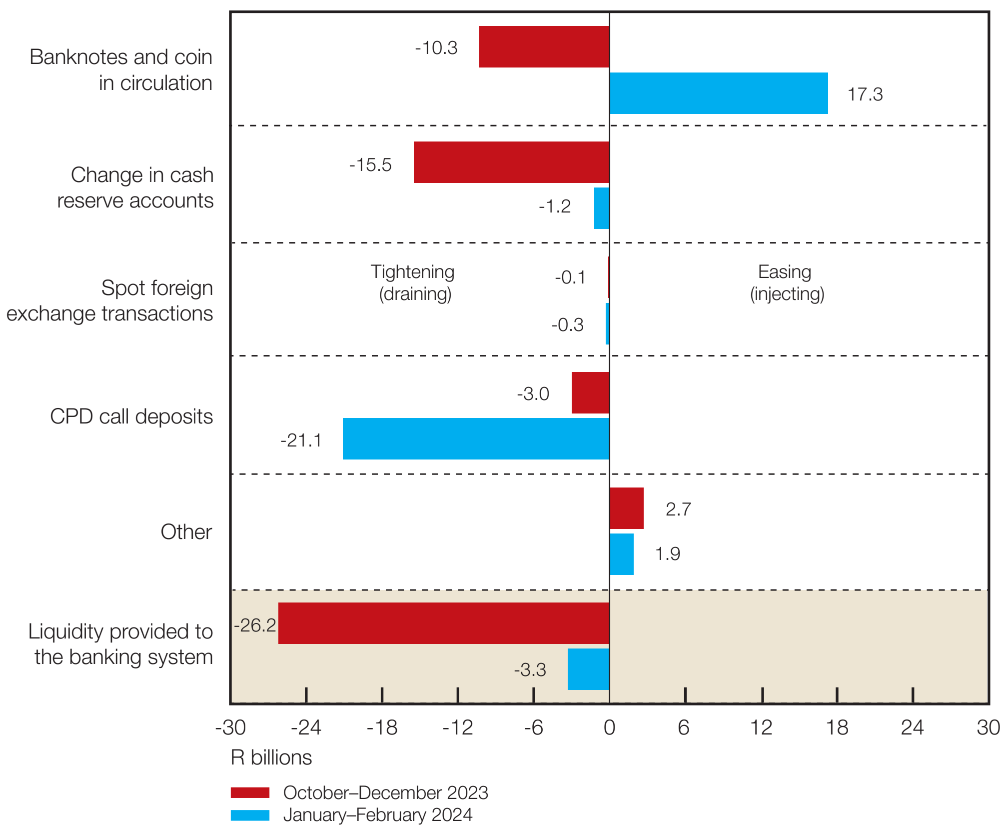
Daily liquidity



Source: SARB

Money market liquidity contracted by a net amount of R26.2 billion in the fourth quarter of 2023 in contrast to an expansion of R23.4 billion in the third quarter. The contraction in the fourth quarter reflected an increase of R15.5 billion in cash reserve balances that private sector banks were required to hold at the SARB for prudential reasons, an increase of R10.3 billion in banknotes and coin in circulation outside of the SARB, the placement of R3.0 billion in CPD deposits at the SARB and a moderate tightening in foreign exchange transactions by the SARB in the spot market of R0.1 billion. The contraction in liquidity was slightly offset by 'other factors' of R2.7 billion, which largely reflected accommodation provided to banks.

Factors influencing money market liquidity flows



Source: SARB

In January and February 2024, money market liquidity contracted by R3.3 billion, mainly due to the placement of R21.1 billion in CPD deposits at the SARB and an increase of R1.2 billion in the cash reserve deposits of private sector banks. This was partly countered by the decrease of R17.3 billion in banknotes and coin in circulation outside of the SARB after the end of the holiday season.

Bond market

The total *nominal value of outstanding listed*[34] and *unlisted*[35] *rand-denominated debt securities* issued by residents and non-residents in the domestic primary debt market of R6.3 trillion at the end of 2023 was 8.1% more than at the end of 2022. General government's[36] net issuance of listed debt securities in 2023 was 6.8% more than in 2022 and included net issuance of R376 billion by national government and net redemptions of R4.7 billion by local governments, including the redemptions of the *R2023* and *R197* government bonds in February and December 2023 respectively. Further net issuance of R56.2 billion in January 2024 increased the total outstanding amount in issue to R6.4 trillion at the end of January 2024, with a market value of R5.6 trillion.

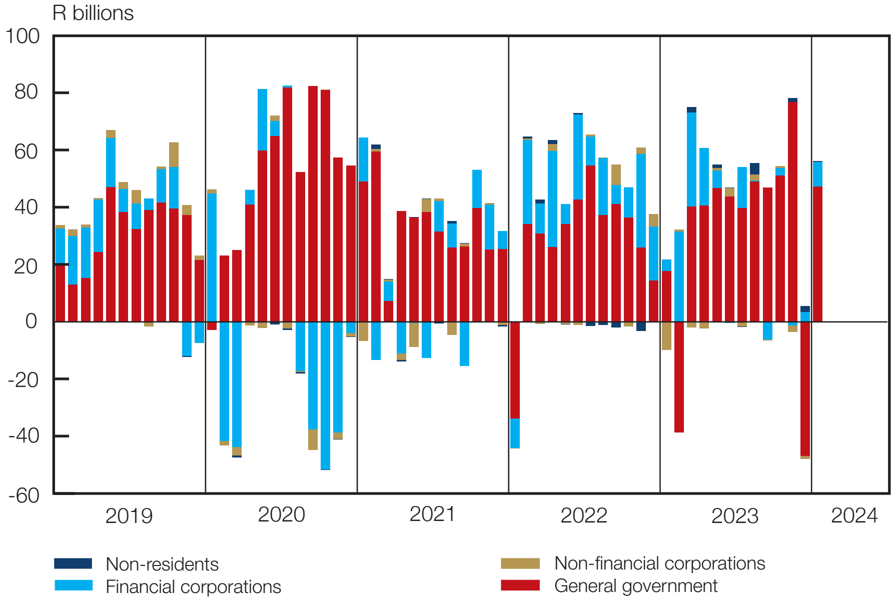
34 These are debt securities listed on the JSE Limited (JSE), Cape Town Stock Exchange (CTSE) and The Integrated Exchange (I-Ex).

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

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

National Treasury, through the RSA Domestic Sukuk Trustee (RF) Proprietary Limited, raised R20.4 billion with the issuance of its first rand-denominated Al-Ijarah Sukuk (Islamic financial certificate) in the domestic primary bond market in November 2023. The issuance was split into four tranches maturing between March 2029 and March 2036, namely the *RS2029, RS2031, RS2034* and *RS2036* debt securities. This served to broaden the investor base and demonstrate financial innovation and market expansion, thereby enhancing government's funding strategy.

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



* Nominal value

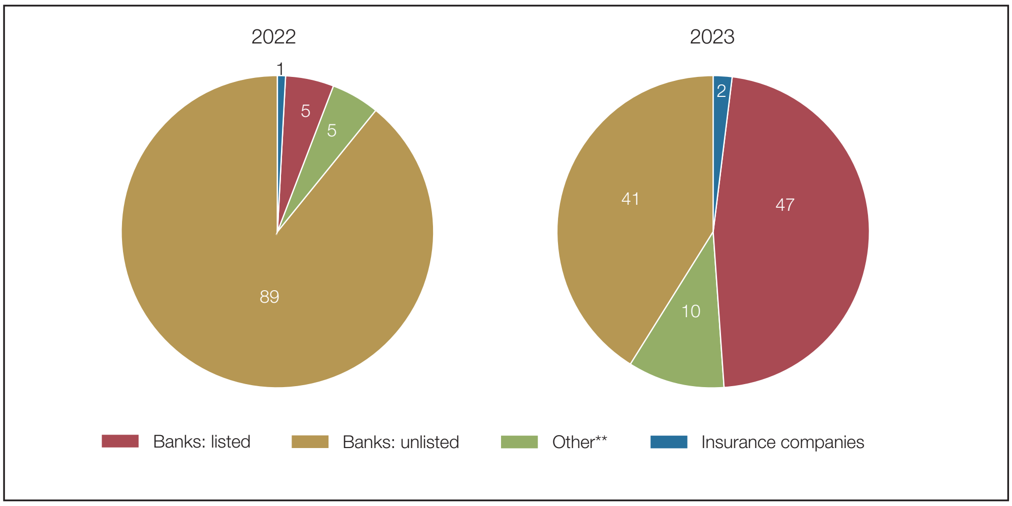
Sources: Banks, CTSE, I-Ex, JSE, National Treasury and SARB

The nominal net issuance of rand-denominated debt securities in the domestic debt market by financial corporations[37] of R108 billion in 2023 was 45.7% lower than in 2022. This mainly reflected lower net issuance of unlisted debt securities by banks due to reduced funding needs as investor demand for credit slowed amid weak economic conditions. However, banks continued to dominate net issuance and accounted for 86.2% of the total nominal value of financial corporation debt securities in issue at the end of 2023.

37 Financial corporations include both public and private corporations.

Composition of financial corporations' net issuance of listed and unlisted rand-denominated debt securities in the domestic primary debt market*

Per cent



* Nominal value

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

Sources: Banks, CTSE, I-Ex and JSE

The total *value of turnover* in the domestic secondary bond market of the JSE Limited (JSE) and Cape Town Stock Exchange (CTSE) amounted to R40.6 trillion in 2023, which was 14.5% higher than in 2022, while the number of trades declined by 1.1% over the same period. Non-residents' participation[38] in the domestic bond market increased from an annual average rate of 8.1% in 2022 to 11.4% in 2023. The value of turnover amounted to R6.7 trillion in the first two months of 2024.

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

Net redemptions of rand-denominated debt securities in the *European and Japanese bond markets* of R7.5 billion in 2023 were significantly lower than the net redemptions of R27.6 billion recorded in 2022, in line with lower scheduled redemptions. This contributed to a decline in the outstanding amount of rand-denominated bonds in issue in both markets from R283 billion at the end of 2022 to R276 billion at the end of 2023. Subsequently, the outstanding amount of rand-denominated debt in these markets increased slightly to R282 billion at the end of February 2024.

Rand-denominated bonds issued in international bond markets

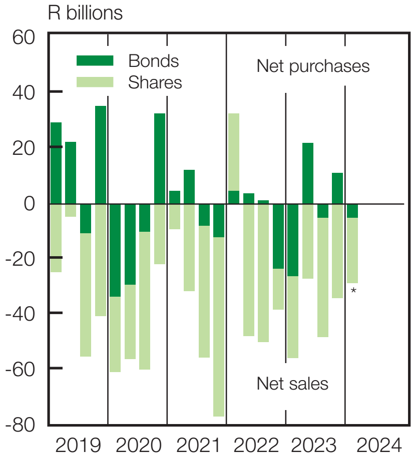
R millions

	Eurorand		Uridashi		Total	
	2022	2023	2022	2023	2022	2023
Issues	23 072	13 041	2 024	132	25 096	13 172
Redemptions	51 375	19 930	1 309	740	52 684	20 670
Net	-28 303	-6 889	715	-609	-27 588	-7 498

Source: Bloomberg

Non-residents' net purchases of JSE-listed bonds of R11.2 billion in the fourth quarter of 2023 followed net sales of R4.9 billion in the third quarter, according to JSE data. This resulted in cumulative net purchases of bonds by non-residents of only R2.3 billion in 2023 compared with net sales of R13.3 billion in 2022. Non-residents then reduced their holdings of JSE-listed bonds by R4.9 billion in the first two months of 2024, along with uncertainty regarding when major central banks would start lowering interest rates. Thus far in 2024, non-residents mainly transacted in government bonds and predominantly purchased the *R2030* instrument and sold longer-dated instruments on a net basis.

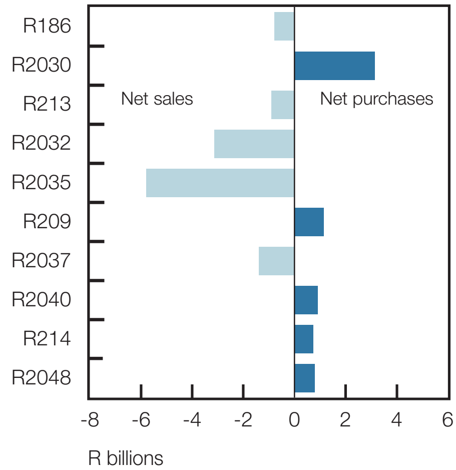
Non-resident net transactions in the domestic bond and share market



* January and February

Source: JSE

Largest net transactions by non-residents in government bonds by instrument and maturity in the first two months of 2024*



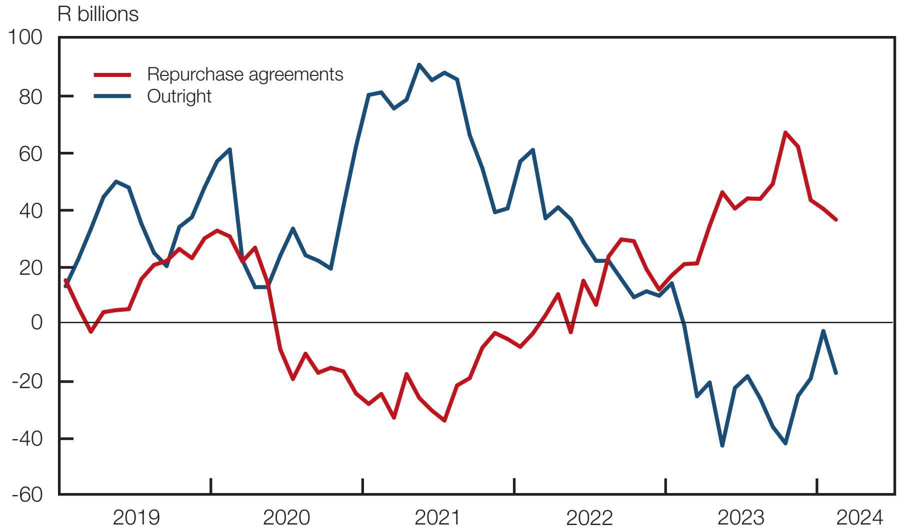
* R186 bond matures in 2025, R213 in 2031, R209 in 2036 and R214 in 2041

Non-residents were net buyers of cumulative outright trades[39] in the domestic bond market in the four years from January 2019 to December 2022. Cumulative outright purchases peaked at R90.3 billion in May 2021 compared with cumulative net sales of repurchase agreements (repos)[40] of R26.4 billion over the same period. Subsequently, non-residents reverted to cumulative net purchases via repos from March 2022 to make use of more short-term borrowing, while demand for outright trades decreased.

39 Outright trades are the outright purchases and sales of securities in the market, with no reverse transfer of ownership. Outright consideration transactions consist of standard spot trades, other standard trades, structured deals and options exercised.

40 Repurchase agreements (repos), a form of mostly short-term borrowing, are contracts to sell and subsequently repurchase securities at a specified price and date.

Non-resident net transactions in the domestic bond market by trade type*



* Cumulative from January 2019

Source: JSE

Share market

The *value of secondary equity capital raised*[41] in the domestic and international primary share markets by companies listed on the JSE increased significantly from R13.3 billion in 2022 to R41.4 billion in 2023 – its highest level since 2020. A secondary-listed industrial company contributed the most to the total value of shares issued in 2023 as it raised capital in November through shares issued to specific investors to the value of R21.6 billion following some corporate

41 This excludes primary equity capital raised through new listings.

actions. Companies in the industrial and financial sectors contributed the most to the total value of capital raised in 2023, at 58.9% and 34.1% respectively. The value of shares issued in the first two months of 2024 amounted to only R2.0 billion.

The combined *value of turnover* of R5.4 trillion in 2023 in the secondary share market of the four South African stock exchanges was 8.2% lower than in the same period of 2022 and amounted to R708 *billion* in the first two months of 2024. Listings on A2X Markets (A2X), CTSE and The Integrated Exchange (I-Ex) (previously Equity Express Securities Exchange) increased in 2023, while listings on the JSE decreased further with 23 delistings and only three new listings. Consistent with movements in share prices, the combined market capitalisation of all shares listed on all exchanges increased from a recent low of R17.1 trillion in October 2023 to R19.0 trillion in December before declining to R18.1 trillion in February 2024.

Number of listings on the various South African exchanges

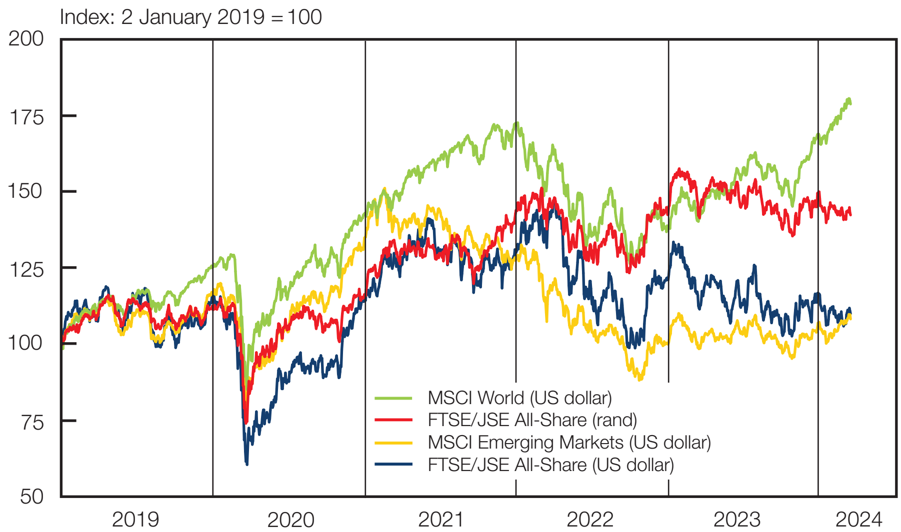
As at 31 December	JSE	A2X Markets	Cape Town Stock Exchange	The Integrated Exchange	ZAR X
2021	324	60	11	4	4
2022	304	93	15	6	3
2023	284	180	21	7	…
2024 (as at 29 February)	283	180	21	7	…

… The Financial Sector Conduct Authority revoked the licence of ZAR X on 13 February 2023.
Sources: A2X, CTSE, JSE, I-Ex and ZAR X

Non-residents' net sales of JSE-listed shares increased further to R134 billion in 2023 following net sales of R84.7 billion in 2022, according to JSE data. Further net sales of R23.7 billion were recorded by non-residents in the first two months of 2024. The continued sell-off in the domestic secondary share market reflected, among other factors, investor concerns over the ongoing economic growth woes in China and escalating geopolitical tensions in the Middle East. In addition, domestic factors included the effects of the continued electricity supply shortages, port and rail constraints and the general political climate related to the upcoming national and provincial elections in 2024.

Domestic *share prices* fared better in 2023 than in 2022 as the FTSE/JSE All-Share Index (Alsi), on balance, increased by 5.3% in rand terms compared with a decline of 0.9% in 2022. The Alsi, in US dollar terms, declined by 3.8% in 2023, underperforming relative to the MSCI Emerging

Share prices



Sources: IRESS and JSE

Markets Index, which increased by 7.0% over the same period. However, the MSCI World Index outperformed emerging markets with a notable increase of 22.1% in 2023. Subsequently, in US dollar terms, the Alsi fell by 5.6% from the end of December 2023 to 15 March 2024 and by 5.1% to 72 991 index points in rand terms over the same period. The decline resulted largely from global and domestic economic growth concerns as well as escalating tensions in the Middle East. The recent decline in domestic share prices was spread across all three major sectors on the JSE, led by the resources and financial sectors which respectively declined by 8.1% and 5.3% thus far in 2024.

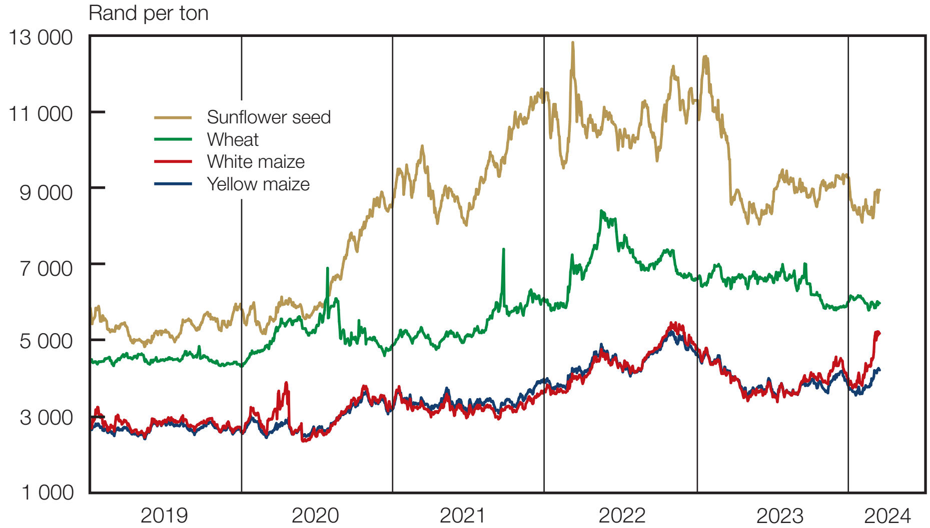
The overall *price-earnings ratio* of ordinary shares listed on the JSE declined from a recent high of 14.3 in January 2023 to 11.2 in October before increasing to 14.0 in February 2024. The increase was as a result of lower total earnings and higher share prices over this period. The *dividend yield* decreased from 3.9% in October 2023 to 2.0% in February 2024 as dividends declared decreased.

Market for exchange-traded derivatives

Despite lower international maize prices, the *spot prices of white and yellow maize contracts* traded on the JSE have generally trended upwards since July 2023, largely reflecting the depreciation in the exchange value of the rand. The spot price of white maize increased by 53.2% from R3 387 per ton on 13 July 2023 to R5 189 per ton on 15 March 2024. Similarly, the spot price of yellow maize increased by 22.6% over the same period. The increase was especially noticeable thus far in 2024 as adverse weather conditions threaten to reduce the 2023/24 harvest.

After increasing from a recent low of R8 346 per ton on 15 May 2023 to R9 359 per ton on 19 December, the *spot price of domestic sunflower seed contracts* fluctuated lower to R8 950 per ton on 15 March 2024 as international sunflower seed prices decreased.

Grain prices



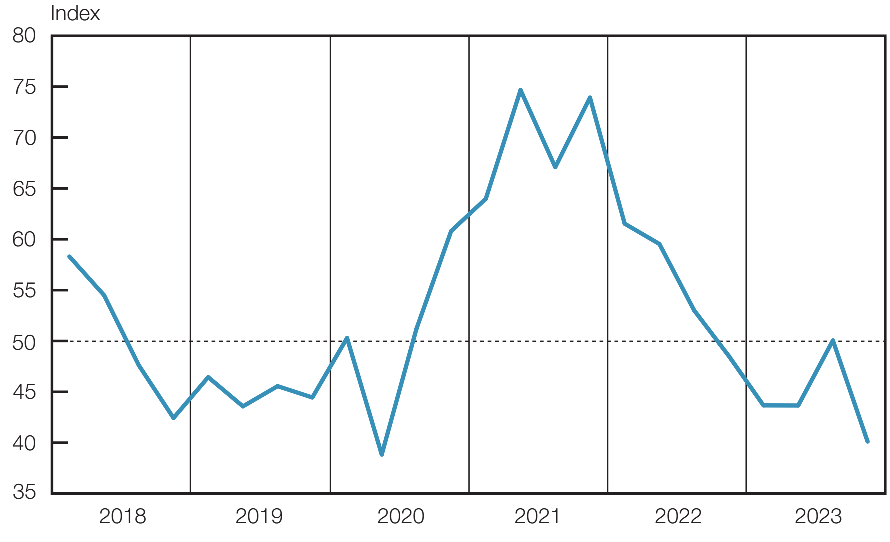
Source: JSE

The *spot price of domestic wheat contracts* increased slightly to R5 980 per ton on 15 March 2024, after declining from a recent high of R7 015 per ton on 18 September 2023 to R5 798 per ton on 1 December, while the international wheat price declined. Domestic wheat prices were impacted by heavy floods in the Western Cape province, leading to the deterioration in the quality of winter crops and a lower projected wheat harvest for the 2023/24 season, as estimated by the Crop Estimates Committee (CEC) of the Department of Agriculture, Land Reform and Rural Development.

The Agricultural Business Chamber of South Africa (Agbiz)/Industrial Development Corporation (IDC) Agribusiness Confidence Index (ACI)[42] deteriorated significantly from the neutral 50-point level in the third quarter of 2023 to 40 index points in the fourth quarter – its lowest level since the second quarter of 2020 at the height of the COVID-19 pandemic's hard lockdown restrictions. This decline reflected the adverse impact of economic infrastructure challenges on agricultural businesses, including the worsening rail and road transportation system, continuous electricity load-shedding and congestion at the ports. Eight out of the 10 subindices of the ACI declined in the fourth quarter of 2023, with the general agricultural conditions subindex declining by 16 index points.

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

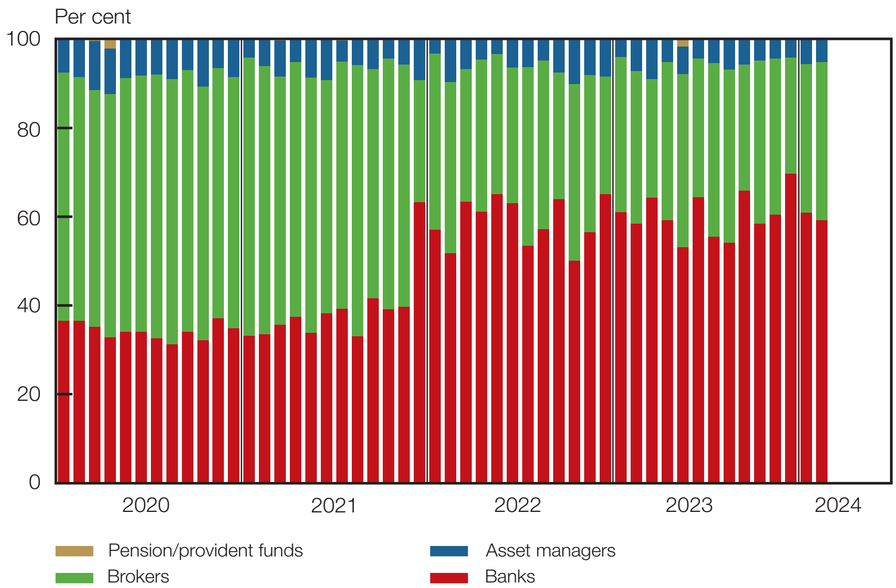
Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz

A comparison of the market share of the different JSE trading members shows that brokers' trading in the equity and currency derivatives market on the JSE dominated activity up to November 2021. Thereafter, banks' market share consistently outperformed that of brokers and accounted for 59.1% of all trading in the equity and currency derivatives markets on the JSE in February 2024.

Market share of equity and currency derivatives on the JSE

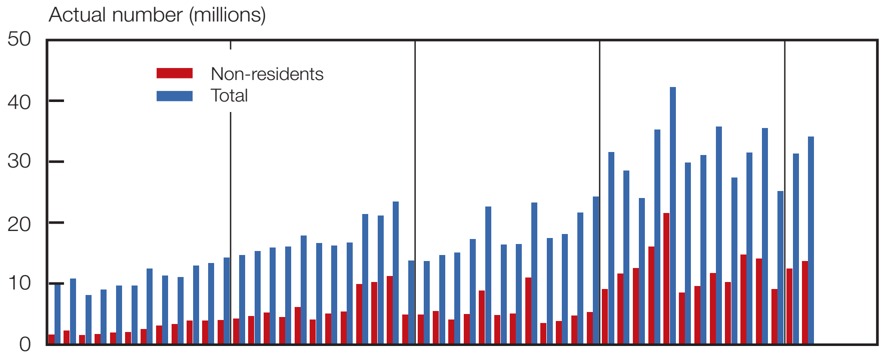


Source: JSE

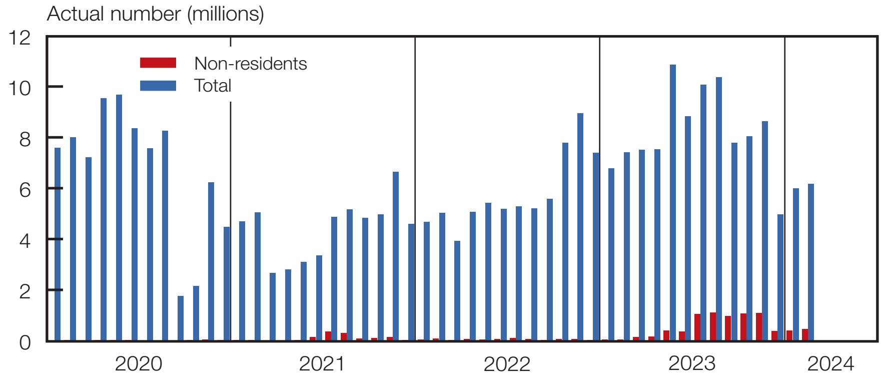
43 Open interest is the total number of outstanding derivatives contracts per instrument that have not been closed out or exercised on the JSE. It is calculated as the absolute number of open positions per tradable instrument.

Total open interest[43] on the equity derivatives market of the JSE was 20.2 million contracts more than the total open interest on the currency derivatives market at the end of 2023. Open interest on the equity derivatives market grew strongly to 34.1 million contracts at the end of February 2024, while that for currency derivatives amounted to 6.2 million contracts at the same time. Non-residents' share of the total open interest of equity derivatives contracts increased from an average of 30.1% in 2022 to 39.3% in 2023 and was much higher than their share of currency derivatives contracts. Robust non-resident activity on the equity derivatives market resulted from a significant increase in the trading of short positions in equity instruments. Non-residents' share of the total number of outstanding equity derivatives contracts amounted to 40.0% in February 2024.

Open interest in equity derivatives on the JSE



Open interest in currency derivatives on the JSE



Source: JSE

Turnover in currency derivatives on the JSE increased by 48.6% in 2023 compared with 2022, reflecting increased hedging against exchange rate movements. By contrast, equity derivatives turnover declined by 3.2% in 2023, despite contributing the most to the total value of derivatives turnover, while the turnover in commodity derivatives declined by 3.5% over the same period. All derivatives markets except warrants and commodities recorded lower turnover during the first two months of 2024 compared with the corresponding period of 2023.

Derivatives turnover on the JSE

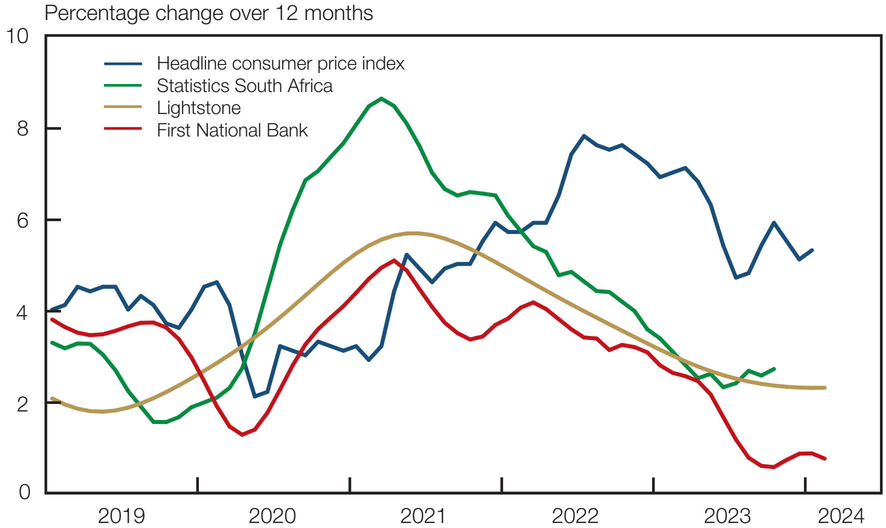
Type of derivative	Value (R billions)		Change over one year (per cent)	
	2023	Jan–Feb 2024	2023	Jan–Feb 2024
Equity	6 286	636	-3.2	-8.9
Warrants	1	0.1	-44.4	0.5
Commodity	1 413	261	-3.5	16.0
Interest rate	1 367	310	0.1	-3.8
Currency	1 277	116	40.6	-7.3

Source: JSE

Real estate market

Growth in nominal *residential property prices* remained subdued and slowed further in 2023 and in the opening months of 2024, remaining below headline consumer price inflation amid higher interest rates and weak domestic economic activity. The year-on-year rate of increase in Stats SA's residential property price index (RPPI) moderated from 8.6% in March 2021 to 2.3% in June 2023 before accelerating slightly to 2.7% in October. Year-on-year growth in the FNB House Price Index decelerated from 5.1% in April 2021 to only 0.7% in February 2024, while growth in the Lightstone Residential Property Index decelerated from 5.7% in June 2021 to 2.3% in February 2024.

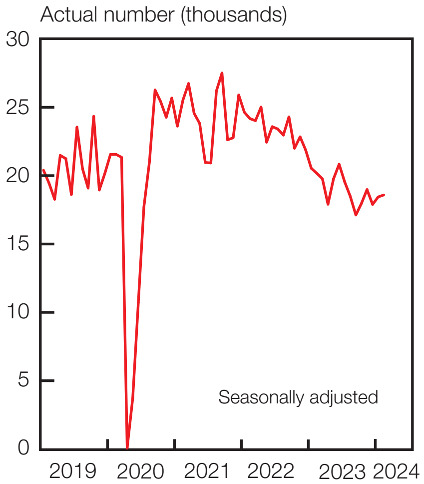
Residential property and consumer prices



Sources: FNB, Lightstone and Stats SA

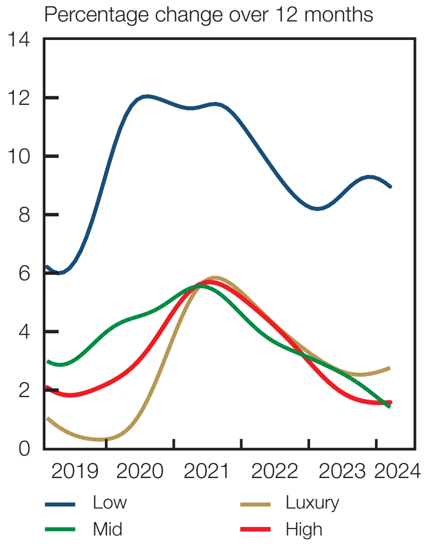
Lacklustre growth in nominal house prices coincided with the 18.6% decline in the number of residential property transfers at the Deeds Office in 2023 compared with 2022. Meanwhile, growth in nominal house prices was more evident in the low-value category, while growth in the other categories remained subdued in 2023.

Residential property transfers



Source: Lightstone

Nominal house prices by value category



Non-bank financial institutions

Net financial flows[44] of non-bank financial institutions[45] declined from R119 billion in the third quarter of 2023 to R65.4 billion in the fourth quarter. However, on an annual basis the net flows of these institutions increased by R58.8 billion from 2022 to R316 billion in 2023. Insurance companies contributed the most to growth in net flows, with an annual increase of R64.9 billion to R135 billion in 2023.

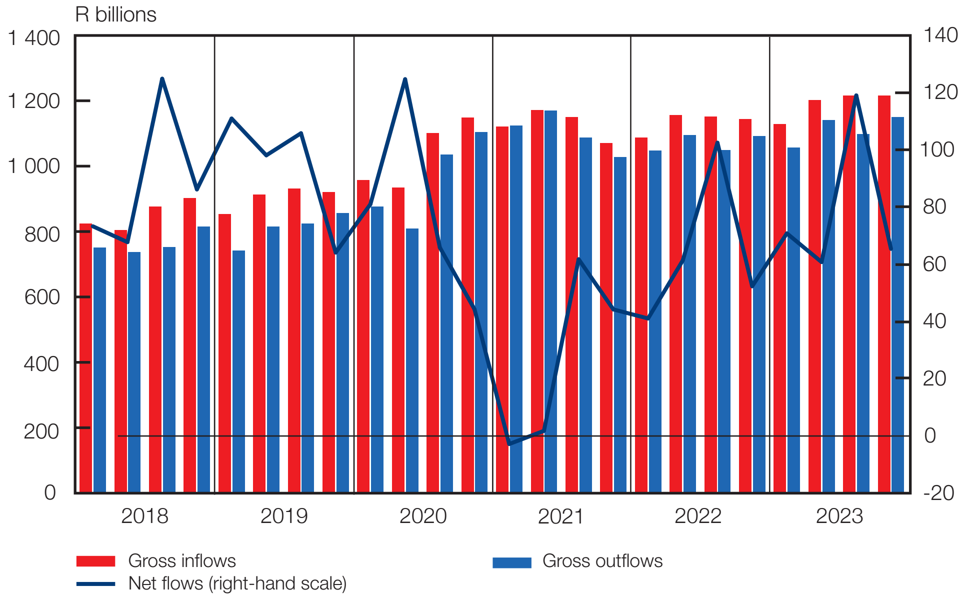
44 Net financial flows are measured as the difference between gross inflows and gross outflows.

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

Gross inflows[46] to non-bank financial institutions declined slightly by 0.03% from the third quarter of 2023 to R1.2 trillion in the fourth quarter. Gross inflows to insurance companies increased by 5.0% to R318 billion over the same period, with the increase in premiums received by life insurers contributing the most. A deterioration in the financial position of households and challenging trading conditions continued to have a negative effect on gross inflows to non-life insurance companies. Gross inflows to unit trusts declined by 0.8% from the third quarter of 2023 to R745 billion in the fourth quarter as gross inflows to non-money market unit trusts declined over this period. The significant decline in investment income weighed on gross inflows to retirement funds, which fell by 5.6% from the third quarter of 2023 to R153 billion in the fourth quarter. On an annual basis, gross inflows to non-bank financial institutions increased by 4.9% from 2022 to R4.8 trillion in 2023, and remained broadly unchanged at around 68.4% of GDP in 2023 compared with 2022.

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

Non-bank financial institution flows



Source: SARB

Gross outflows[47] from non-bank financial institutions increased substantially by 4.8% from the third quarter of 2023 to R1.2 trillion in the fourth quarter. Gross outflows from insurance companies increased the most by 11.9% from the third quarter of 2023 to R287 billion in the fourth quarter due to an increase in life policies surrendered and other expenditure. Gross outflows from unit trusts increased by 3.8% to R734 billion in the fourth quarter of 2023, as the household sector disinvested from money market funds. By contrast, private and official retirement funds'[48] gross outflows decreased in the final quarter of 2023 following a moderation in benefits paid.

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

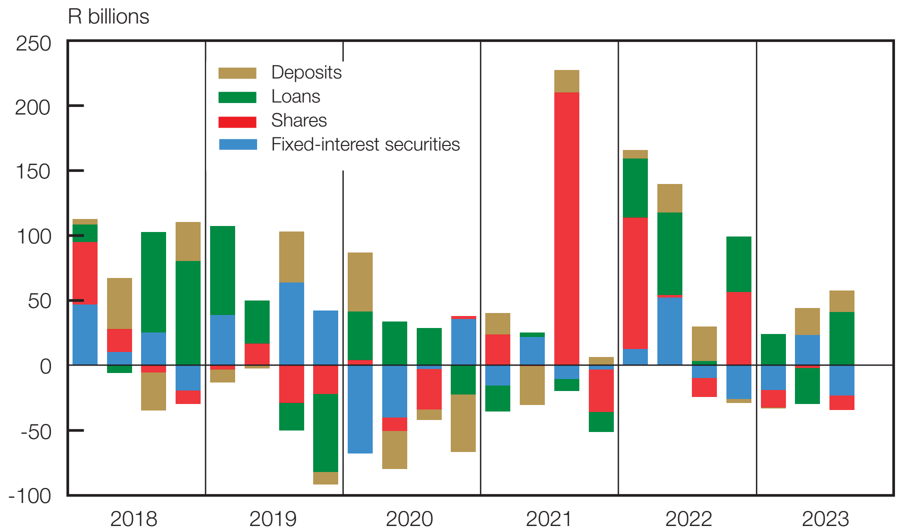
48 These are retirement funds not subjected to regulation and supervision in terms of the Pension Funds Act 24 of 1956, but established by own statutes, i.e. the Government Employees Pension Fund, Transnet and the Post Office.

Flow of funds

Global economic growth slowed in the third quarter of 2023 due to, among other factors, a contraction in Europe as well as weaker economic activity in China amid the deepening property sector crisis. The net inflow of capital from the *rest of the world* (ROW) to South Africa increased marginally to R30.4 billion in the third quarter of 2023 from R22.0 billion in the second quarter. However, non-residents' net acquisition of domestic financial assets of R95.7 billion in the second quarter of 2023 changed to net sales of R66.0 billion in the third quarter. Net sales of fixed-interest securities of R22.8 billion in the third quarter of 2023 (including the redemption of a US$-denominated international bond of a domestic non-financial public enterprise) followed net purchases of R23.2 billion in the second quarter. In addition, non-residents recorded net sales of domestic shares amounting to R11.4 billion and a decrease in exposure to financial derivatives of R90.4 billion in the third quarter of 2023. These outflows outweighed loans extended by non-residents of R40.9 billion mainly to domestic banks and non-financial corporate business enterprises as well as deposits with domestic banks of R16.9 billion in the third quarter of 2023.

South African residents became net sellers of foreign assets to the amount of R96.4 billion in the third quarter of 2023. Residents' net acquisition of foreign loans and shares amounted to R17.3 billion and R2.9 billion respectively in the third quarter of 2023, while their net sales of foreign fixed-interest securities, mainly by the banking sector, amounted to R79.7 billion and their exposure to financial derivatives decreased by R99.7 billion.

Non-residents' net transactions in selected domestic financial assets



Source: SARB

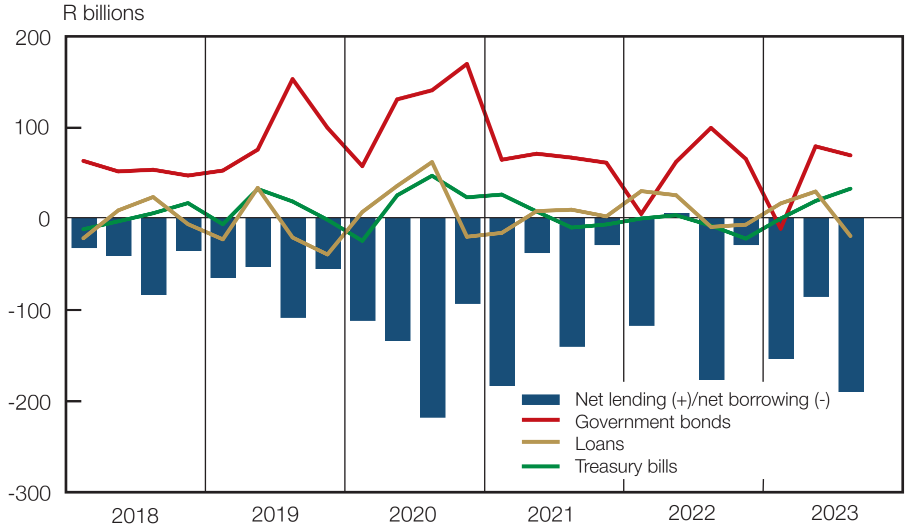
Domestic economic growth contracted in the third quarter of 2023 amid persistent structural constraints, including electricity supply shortages and congestion at some ports, along with higher inflation and interest rates that contributed to weak domestic demand. *Financial intermediaries'*[49] net incurrence of financial liabilities amounted to R47.8 billion in the third quarter of 2023 compared with R234 billion in the second quarter. Cash and deposits received by the monetary authority and other monetary institutions amounted to R3.9 billion in the third quarter of 2023, much lower than the R207 billion recorded in the second quarter, mainly because of withdrawals by central and provincial governments as well as other financial institutions. The net inflow of funds to collective investment schemes (part of other financial institutions) increased from R9.3 billion in the second quarter of 2023 to R33.0 billion in the third quarter, mainly from households. Insurers and retirement funds recorded a net inflow of R75.2 billion in the third quarter of 2023, mainly to life insurers. Financial intermediaries repaid loans of R2.8 billion in the second quarter of 2023, followed by loans received of R110 billion in the third quarter, with increased negative exposure to financial derivatives in the third quarter of 2023.

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

Financial intermediaries' net acquisition of financial assets amounted to R109 billion in the third quarter of 2023 compared with R284 billion in the second quarter. Net purchases of shares increased to R76.5 billion in the third quarter of 2023 from R9.5 billion in the second quarter. Despite weak economic activity and increased operating costs, intermediation through loans amounted to R134 billion in the third quarter of 2023 compared with R98.5 billion in the second quarter, mainly to non-financial corporate business enterprises. In addition, net purchases of fixed-interest securities decreased from R174 billion in the second quarter of 2023 to R9.4 billion in the third quarter.

Dissaving by *general government* increased in the third quarter of 2023, reflecting higher wages and subdued revenue collection, hampered by weak economic growth and lower international commodity prices. This contributed to the larger net borrowing position of the general government sector of R191 billion in the third quarter of 2023. The shortfall was mainly financed in the domestic capital market through net issuance of TBs of R32.9 billion and government bonds of R69.5 billion. Concerns about the domestic fiscal position continued to weigh on non-residents' demand for government bonds, while domestic banks reduced their net purchases from R25.7 billion in the second quarter of 2023 to R18.6 billion in the third quarter. Net purchases of government bonds by insurers and retirement funds amounted to R29.4 billion in the third quarter of 2023. In addition, loan repayments amounted to R19.0 billion in the third quarter of 2023, together with cash and deposit withdrawals of R62.2 billion.

General government's net funding position and sources of funding



Source: SARB

Gross capital formation by *public and private non-financial corporate business enterprises* decreased by 7.9% in the third quarter of 2023. The decrease in capital outlays by private non-financial corporate business enterprises reflected reduced investment in machinery and equipment as well as construction works, while delays in key infrastructure projects by public non-financial corporate business enterprises contributed to lower gross capital formation. This, together with an increase in gross saving, contributed to a larger net lending position of R41.7 billion in the third quarter of 2023. The surplus funds were channelled to financial instruments, including cash and deposits of R48.0 billion and loans extended of R10.7 billion, while net purchases of units in collective investment schemes amounted to R1.9 billion in the third quarter of 2023. The sector sourced funds through the net issuance of shares of R41.3 billion and loans of R76.8 billion in the third quarter of 2023, compared with repayments of R5.3 billion in the second quarter.

The *household sector's* net lending position amounted to R57.9 billion in the third quarter of 2023 compared with a net borrowing position of R14.6 billion in the second quarter, as gross saving increased. Households sourced funds through loans of R16.3 billion in the third quarter of 2023 compared with R27.3 billion in the second quarter. Households' net acquisition of financial assets of R103 billion in the third quarter of 2023 included cash and deposits of R42.1 billion, net purchases of units from collective investment schemes of R25.2 billion and net flows to insurers and retirement funds of R52.6 billion.

Public finance[50]

Non-financial public sector borrowing requirement[51]

The preliminary *non-financial public sector borrowing requirement* increased significantly by R187.5 billion year on year to R249.4 billion in the first nine months (April–December 2023) of fiscal 2023/24. The higher borrowing requirement reflected the substantially larger deficit of the consolidated general government, in particular national government. National government's higher deficit can largely be attributed to higher cash payments due to increased interest payments on national government debt (debt-service cost) and lower cash receipts from operating activities, related to weak revenue collection in most tax categories. In addition, all other levels of general government recorded smaller cash *surpluses*, while the non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded a larger cash *deficit* in the period under review.

50 Unless stated to the contrary, the year-on-year rates of change in this section compare April–December 2023 with April–December 2022 for flows and stocks as at 31 December 2023 over the year. Data for both periods are unaudited and preliminary.

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

Non-financial public sector borrowing requirement

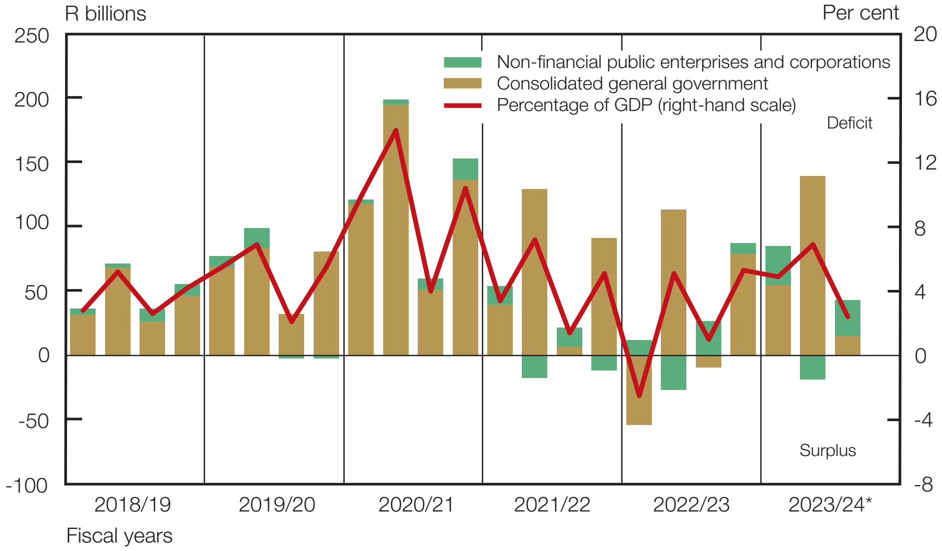
R billions

Level of government	Apr–Dec 2022*	Apr–Dec 2023*
Consolidated general government	50.0	209.4
National government	160.1	280.5
Extra-budgetary institutions	-40.3	-18.9
Social security funds	-24.9	-22.4
Consolidated provincial governments	-3.1	-0.3
Local governments	-41.7	-29.5
Non-financial public enterprises and corporations	11.9	40.0
Total	**61.9**	**249.4**
As a percentage of gross domestic product	*1.2*	*4.7*

* Deficit (+)/surplus (-)
Components may not add up to totals due to rounding off.
Sources: National Treasury, Stats SA and SARB

As a ratio of GDP, the non-financial public sector borrowing requirement increased to 4.7% in the first nine months of fiscal 2023/24 compared with the 1.2% recorded in the first nine months of the previous fiscal year.

Non-financial public sector borrowing requirement

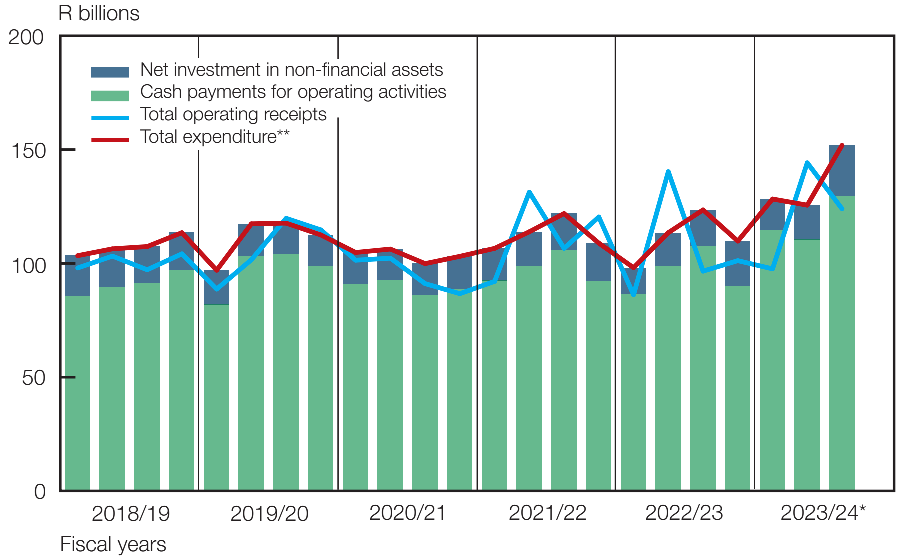


* April–December 2023
Sources: National Treasury, Stats SA and SARB

The significantly higher cash payments for operating activities of the non-financial SOCs, which outpaced the increase in their cash receipts from operating activities, resulted in a preliminary cash deficit of R40.0 billion in April–December 2023, almost four times more than the preliminary deficit of R11.9 billion recorded in the same period a year earlier. Total cash receipts from operating activities increased by 13.2% year on year to R365.8 billion in April–December 2023, on account of higher sales of goods and services of R297.5 billion.

Total expenditure, inclusive of cash payments for operating activities and net investment in non-financial assets, increased notably by 21.1% year on year to R405.8 billion in April–December 2023, mainly due to higher purchases of goods and services of R248.4 billion. Net investment in non-financial assets increased by 20.1% year on year to R50.8 billion over the same period.

Financial activities of non-financial public enterprises and corporations



* April–December 2023

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

Source: SARB

Box 3 The *2024 Budget Review*[1]

The 2024 Budget proposals outline the government's intention to balance fiscal sustainability and development, supported by structural reforms in energy, ports, railways and telecommunications as well as increased public investment and the stabilisation of public debt.

To assist with stabilising debt, the government will draw down R150 billion from the balance of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). The framework setting out GFECRA distributions will be formalised through legislation. A net reduction of R80.6 billion in non-interest expenditure over the medium term is expected to result in an improvement in the fiscal balance, with a consolidated budget primary surplus[2] of 0.2% in fiscal 2023/24.

Revenue collections thus far in 2023/24 have been well below the projections in the *2023 Budget Review*, mainly due to lower corporate income tax (CIT) and value-added tax (VAT), impacted by energy and other logistical constraints. The *2024 Budget Review* has revised growth in South Africa's real gross domestic product (GDP) for 2023 lower to 0.6% due to weaker-than-expected outcomes in the third quarter of 2023, particularly in household consumption expenditure and fixed investment. GDP growth has also been hampered by intensive and persistent electricity supply disruptions as well as the poor state of ports and freight rail infrastructure. Over the medium term, GDP growth is projected to average 1.6%. The outlook is supported by an expected recovery in household spending as inflation moderates and an increase in energy-related fixed investment.

1 The *2024 Budget Review* was presented to Parliament by the Minister of Finance on 21 February 2024.

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

Macroeconomic projections*

Percentage

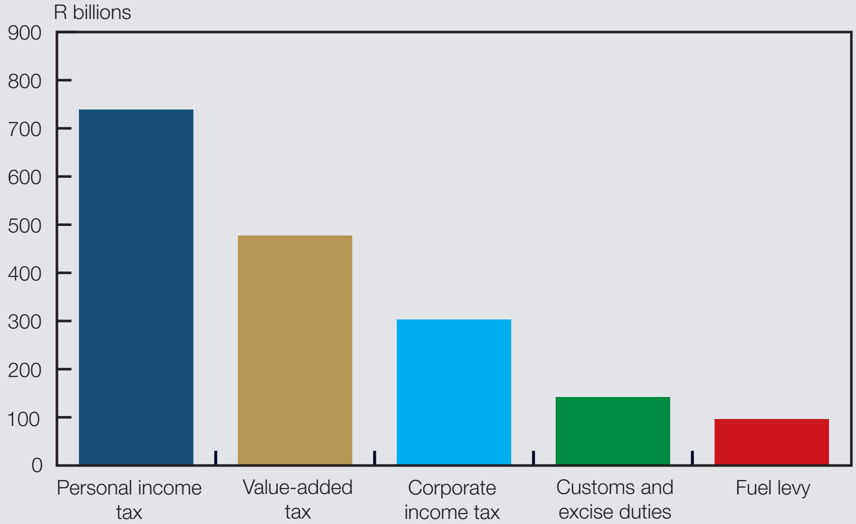
	2021	2022	2023		2024	2024	2025	2026
	Actual outcome		Budget	*MTBPS*	Budget	Medium-term estimates**		
Real GDP growth	4.7	1.9	0.9	0.8	0.6	1.3	1.6	1.8
Consumer price inflation.......	4.6	6.9	5.3	6.0	6.0	4.9	4.6	4.6
Current account balance*** ..	3.7	-0.5	-1.8	-2.4	-1.8	-2.8	-3.0	-3.0

* Calendar years
** *2024 Budget Review*
*** As a percentage of GDP

Source: National Treasury

The expected consolidated government revenue of R1 921 billion (27.3% of GDP) in fiscal 2023/24 represented a downward revision of R37.5 billion relative to the *2023 Budget Review* due to weak economic conditions and the resultant lower CIT and net VAT collections.

Major sources of consolidated government revenue in fiscal 2024/25



Sources: National Treasury and SARS

In fiscal 2024/25, personal income tax (PIT), VAT and CIT are expected to remain the main sources of government revenue, contributing 74.5% to the total revenue of consolidated government. Two long-term tax reforms – the two-pot retirement system and the global minimum corporate tax rate – will be implemented in fiscal 2024/25. The main tax proposals for fiscal 2024/25 include:

- no inflation adjustments to the PIT brackets, rebates and medical tax credits, raising additional revenue of R18.2 billion from direct taxes;
- an above-inflation adjustment on excise duties on alcohol of between 6.7% and 7.2%, while duties on certain tobacco products will increase by between 4.7% and 8.2%;
- no adjustment to the general fuel levy or the Road Accident Fund (RAF) levy, resulting in R4.0 billion in tax relief;
- an increase in the carbon fuel levy to 11c per litre for petrol and 14c per litre for diesel, effective from 3 April 2024, as required under the Carbon Tax Act 15 of 2019;
- the introduction of a global minimum corporate tax, with multinational corporations subject to an effective tax rate of at least 15%, regardless of where their profits are generated; and
- the availability of an investment allowance for new investments in electric vehicle manufacturing from 1 March 2026 that would allow producers of such vehicles to claim 150% of their qualifying investment spending as an incentive to encourage the production of electric vehicles and aid the transition to new-energy vehicles.

Consolidated fiscal framework indicators*

R billions

	2021/22	2022/23	2023/24			2024/25	2025/26	2026/27
	Outcome		2023 Budget	*2023 MTBPS*	2024 Budget	Medium-term estimates**		
Consolidated revenue	1 752	1 896	1 959	1 916	1 921	2 037	2 176	2 324
Percentage of GDP	*27.8*	*28.2*	*28.0*	*27.3*	*27.3*	*27.3*	*27.5*	*27.6*
Consolidated expenditure	2 044	2 141	2 243	2 262	2 269	2 369	2 471	2 598
Percentage of GDP	*32.4*	*31.9*	*32.0*	*32.3*	*32.2*	*31.8*	*31.2*	*30.8*
Consolidated budget balance..	-292	-245	-284	-347	-347	-332	-295	-274
Percentage of GDP	*-4.6*	*-3.6*	*-4.0*	*-4.9*	*-4.9*	*-4.5*	*-3.7*	*-3.3*
Primary balance	-16	71	66	8.0	17	59	128	174
Percentage of GDP	*-0.3*	*1.1*	*0.9*	*0.1*	*0.2*	*0.8*	*1.6*	*2.1*
Gross loan debt***	4 277	4 765	5 060	5 238	5 207	5 522	5 959	6 293
Percentage of GDP	*67.8*	*70.9*	*72.2*	*74.7*	*73.9*	*74.1*	*75.3*	*74.7*
Net loan debt***	4 011	4 516	4 913	5 088	5 057	5 432	5 890	6 219
Percentage of GDP	*63.5*	*67.2*	*70.1*	*72.6*	*71.7*	*72.9*	*74.4*	*73.8*

* Fiscal years. This is the consolidated budget framework of national, provincial and local government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.
** *2024 Budget Review*
*** Refers to national government, or main budget

Source: National Treasury

Consolidated government expenditure is expected to reach R2 269 billion (32.2% of GDP) in fiscal 2023/24 and increase to R2 598 billion (30.8% of GDP) in fiscal 2026/27. Over the medium term, government's priority is to enhance the effectiveness and efficiency of spending. The 2024 Budget allocates R1.4 *trillion* to social services programmes, R481 billion to learning and culture, R387 billion to social development, R272 billion to health and R265 billion to community development programmes over the medium term.

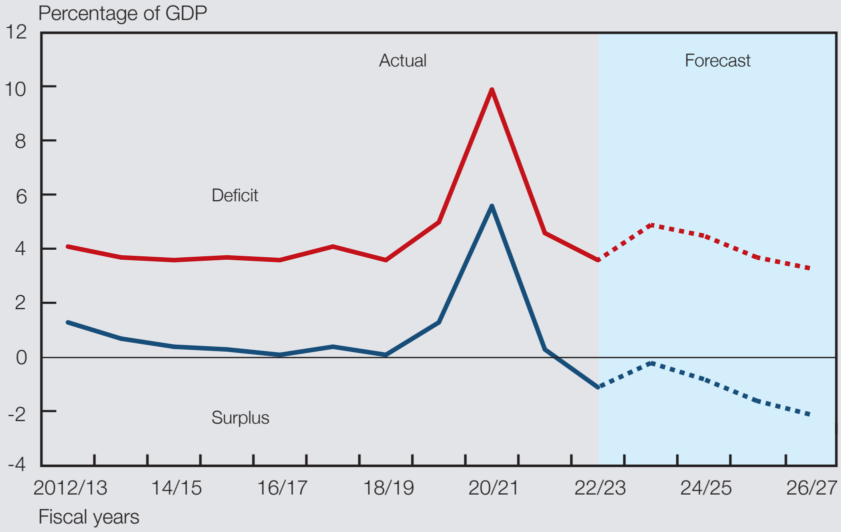
Over the medium term, these increases include an additional allocation of R251 billion to health, education, peace and security, and social development to provide for the carry-through costs of the 2023/24 wage increase, the extension of the COVID-19 social relief of distress grant as well as additional funding for election-related activities. An amount of R7.4 billion was set aside for the Presidential Youth Employment Initiative (PYEI) in fiscal 2024/25 through a combination of reprioritisation, provisional allocations and funding from the Unemployment Insurance Fund's (UIF) Labour Activation Programme.

Payments for capital assets, the fastest growing expenditure item, are expected to average annual growth of 10% over the medium term, mainly due to infrastructure allocations for transport and water projects. Similarly, debt-service costs are projected to increase from R356 billion (5.1% of GDP) in fiscal 2023/24 to R440 billion (5.2% of GDP) in fiscal 2026/27, representing annual average growth of 7.3%. Meanwhile, the social wage[3] is expected to constitute, on average, 60.2% of total non-interest spending over the next three years. Compensation of employees, which is a significant expenditure item, is expected to increase by 4.5%, on average – the third-fastest growing expenditure item.

The revised revenue and expenditure projections are expected to reduce the consolidated budget deficit from 4.9% of GDP in fiscal 2023/24 to 3.3% of GDP in fiscal 2026/27. The primary balance of consolidated government is expected to revert from a *deficit* of 0.3% of GDP in fiscal 2021/22 to a *surplus* of 0.2% of GDP in fiscal 2023/24 and 2.1% of GDP in fiscal 2026/27. The higher consolidated budget deficit for 2023/24 led to an upward revision of R84.1 billion in the public sector's borrowing requirement to R470 billion (6.7% of GDP) compared with the initial expectations in the *2023 Budget Review*. The borrowing requirement will be financed through a combination of domestic short- and long-term loans, foreign currency-denominated instruments and cash balances. The gross loan debt of national government is projected to increase from R5.2 *trillion* (73.9% of GDP) at the end of fiscal 2023/24 to R6.3 *trillion* (74.7% of GDP) at the end of fiscal 2026/27. The increase in gross loan debt will be driven by the projected budget deficit and the financing of the Eskom debt relief programme, which will be partially offset by the funds accessed from the accumulated balances in GFECRA. Over the next three years, the government will transfer R76.0 billion, R64.2 billion and R40.2 billion respectively to Eskom for capital and interest payments. In fiscal 2025/26, the government will also take over a maximum of R70 billion of Eskom's debt by converting selected debt instruments into government debt.

3 The social wage refers to spending on health, education, social protection, community development and employment programmes.

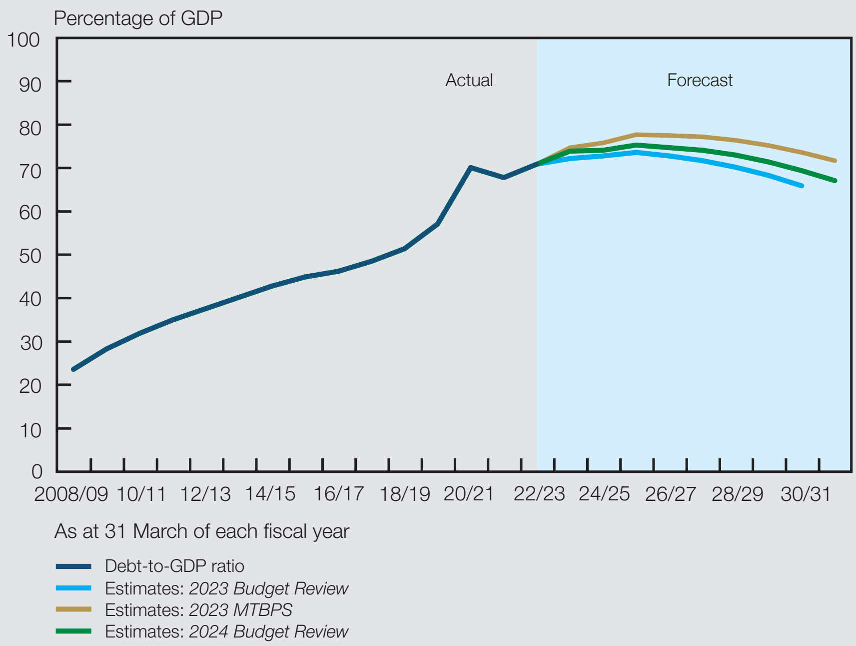
Consolidated fiscal balances



Source: National Treasury, *2024 Budget Review*

Government's total contingent liabilities – including guarantees to state-owned companies (SOCs), independent power producers (IPPs) and public-private partnerships (PPPs) – are projected at R1.1 *trillion* in fiscal 2023/24, almost unchanged from 2022/23. The total approved guarantees to SOCs are expected to increase by R33.0 billion to R503.3 billion by 31 March 2024, while the exposure amount will decrease by about R16.6 billion to R416.3 billion, with Eskom accounting for 85% of the exposure. The RAF remains the government's largest contingent liability.

National government's gross loan debt



Source: National Treasury

Despite the improved global outlook for 2024, South Africa's near-term economic growth remains constrained by lower international commodity prices and domestic structural constraints. Risks to the medium-term outlook include persistent electricity supply disruptions, freight rail and port infrastructure constraints, high sovereign credit risk and borrowing costs, slow revenue growth, an elevated public sector wage bill and the materialisation of contingent liabilities.

Budget comparable analysis of national government finances

The cash book deficit of national government increased by R111.3 billion year on year to R284.8 billion in the first nine months of fiscal 2023/24 (April–December 2023) as expenditure increased at a faster pace and revenue contracted slightly compared to the same period of the previous fiscal year. The net borrowing requirement for April–December 2023 was financed primarily in the domestic financial markets through the net issuance of TBs and short-term loans as well as long-term government bonds and, to a lesser extent, through the net issuance of foreign bonds and loans. National government's primary balance[52] switched from a *surplus* of R14.5 billion in April–December 2022 to a *deficit* of R64.6 billion in April–December 2023.

52 The primary balance is the cash book balance excluding interest payments.

National government finances

	Actual Apr–Dec 2022		Actual Apr–Dec 2023		Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24	
	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Revenue	1 235.7	8.5	1 233.3	-0.2	1 759.2	3.6	1 714.8	1.0
Percentage of GDP	*24.4*		*23.2*		*25.1*		*24.5*	
Expenditure	1 409.3	3.8	1 518.1	7.7	2 034.6	1.3	2 044.9	1.9
Percentage of GDP	*27.9*		*28.6*		*29.0*		*29.2*	
Cash book balance[6]	-173.6		-284.8		-275.4		-330.1	
Percentage of GDP	*-3.4*		*-5.4*		*-3.9*		*-4.7*	
Primary balance[7]	14.5		-64.6		65.1		24.4	
Percentage of GDP	*0.3*		*-1.2*		*0.9*		*0.3*	
Gross loan debt[8]	4 714.3	10.4	5 153.0	9.3	5 060.2	6.2	5 238.0	9.9
Percentage of GDP	*71.1*		*73.9*		*72.2*		*74.7*	

1 *2023 Budget Review*
2 *2023 MTBPS*
3 Year-on-year percentage change: actual outcome on previous year's actual outcome
4 Year-on-year percentage change: budgeted on previous year's actual outcome
5 Year-on-year percentage change: revised estimates on previous year's actual outcome
6 Cash book deficit (-)/surplus (+)
7 Cash book deficit (-)/surplus (+) excluding interest payments
8 As at 31 December 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

National government revenue decreased marginally by 0.2% year on year to R1 233 billion in the first nine months of fiscal 2023/24 as revenue from most tax categories decreased, while collections from taxes on goods and services increased. The *2023 Medium Term Budget Policy Statement (2023 MTBPS)* revised revenue for fiscal 2023/24 lower to R1 715 billion from the R1 759 billion projected in the *2023 Budget Review*. As a ratio of GDP, revenue decreased from 24.4% in April–December 2022 to 23.2% in the same period of the current fiscal year.

National government revenue in fiscal 2023/24

Revenue source	Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24		Actual Apr–Dec 2023	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Taxes on income, profits and capital gains	1 021.2	3.3	990.9	0.2	727.5	-0.1
Of which: Income tax on individuals	640.3	6.4	646.7	7.4	462.4	8.4
Income tax on companies	336.1	-3.3	300.3	-13.6	233.7	-13.9
Payroll taxes	23.0	10.2	22.7	8.7	16.8	9.1
Taxes on property	23.9	12.4	20.5	-3.3	14.7	-10.4
Taxes on goods and services	642.7	10.8	616.8	6.3	440.8	6.7
Of which: Net value-added tax (VAT)	471.5	9.6	445.8	3.6	318.1	3.4
Domestic	522.9	7.5	521.4	7.2	389.3	7.5
Imports	251.2	-1.5	277.3	8.8	188.9	8.0
Refunds	-302.6	-2.8	-352.9	13.4	-260.1	13.4
Fuel levy	90.4	12.3	92.0	14.3	68.4	19.6
Other excise duties	66.1	19.9	64.2	16.4	43.1	15.6
Taxes on international trade and transactions	76.6	0.7	79.7	4.8	51.8	-1.7
Of which: Import duties	74.2	0.2	77.7	5.0	50.2	-1.1
Other revenue[6]	51.7	-6.1	64.1	16.4	41.7	-3.0
Less: SACU[7] payments	79.8	82.7	79.8	82.7	59.9	82.7
Total revenue	1 759.2	3.6	1 714.8	1.0	1 233.3	-0.2

1 *2023 Budget Review*
2 *2023 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including non-tax revenue and extraordinary receipts
7 Southern African Customs Union

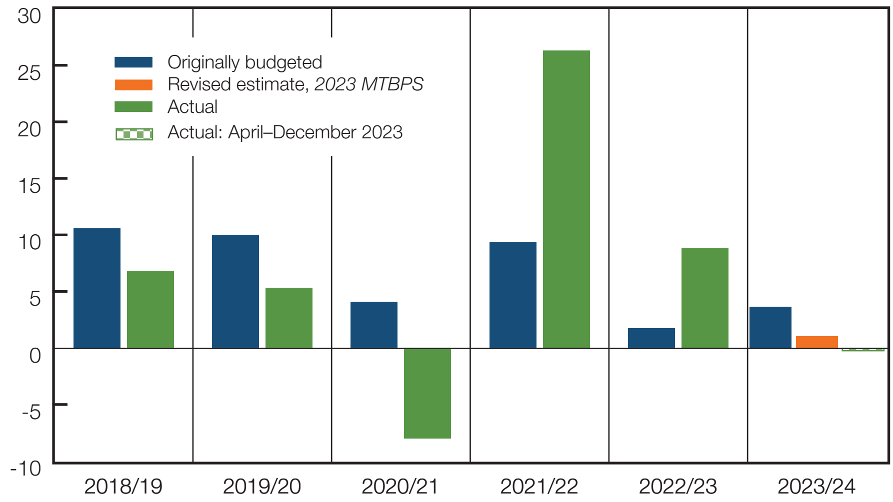
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: National Treasury and SARS

Taxes on income, profits and capital gains of R727.5 billion (59.0% of total revenue) in April–December 2023 were 0.1% lower compared with R728.1 billion in April–December 2022. This resulted from a significant decline in corporate income tax (CIT) receipts due to lower provisional tax payments from the mining, manufacturing and transport industries. By contrast, personal income tax (PIT) receipts increased by 8.4% year on year to R462.4 billion in April–December 2023, supported by higher pay-as-you-earn (PAYE) receipts from especially the finance and community services sectors. The *2023 Budget Review's* projected revenue collection of R1 021 billion from taxes on income, profits and capital gains for fiscal 2023/24 was revised lower to R990.9 billion in the *2023 MTBPS.*

Revenue of national government

Percentage change over one year



Fiscal years

Sources: National Treasury and SARS

Taxes on goods and services of R440.8 billion (35.7% of total revenue) in April–December 2023 were 6.7% more than in the same period of the previous year. The increase resulted mainly from a 3.4% increase in net value-added tax (VAT) receipts of R318.1 billion and a 19.6% increase in the fuel levy of R68.4 billion. The increase in the net VAT receipts was dampened somewhat by higher-than-anticipated VAT refunds of R260.1 billion, which increased by 13.4% year on year. Fuel levy collections continued to recover from a low base following the termination of the temporary relief measure implemented in 2022. The *2023 Budget Review's* projected revenue from taxes on goods and services of R642.7 billion for fiscal 2023/24 was revised lower to R616.8 billion in the *2023 MTBPS.*

Taxes on international trade and transactions decreased by 1.7% year on year to R51.8 billion in the first nine months of fiscal 2023/24, due to lower customs duties from the importation of especially beverages and vehicles. The *2023 MTBPS* revised revenue from taxes on international trade and transactions slightly higher to R79.7 billion for fiscal 2023/24 from the R76.6 billion projected in the *2023 Budget Review*.

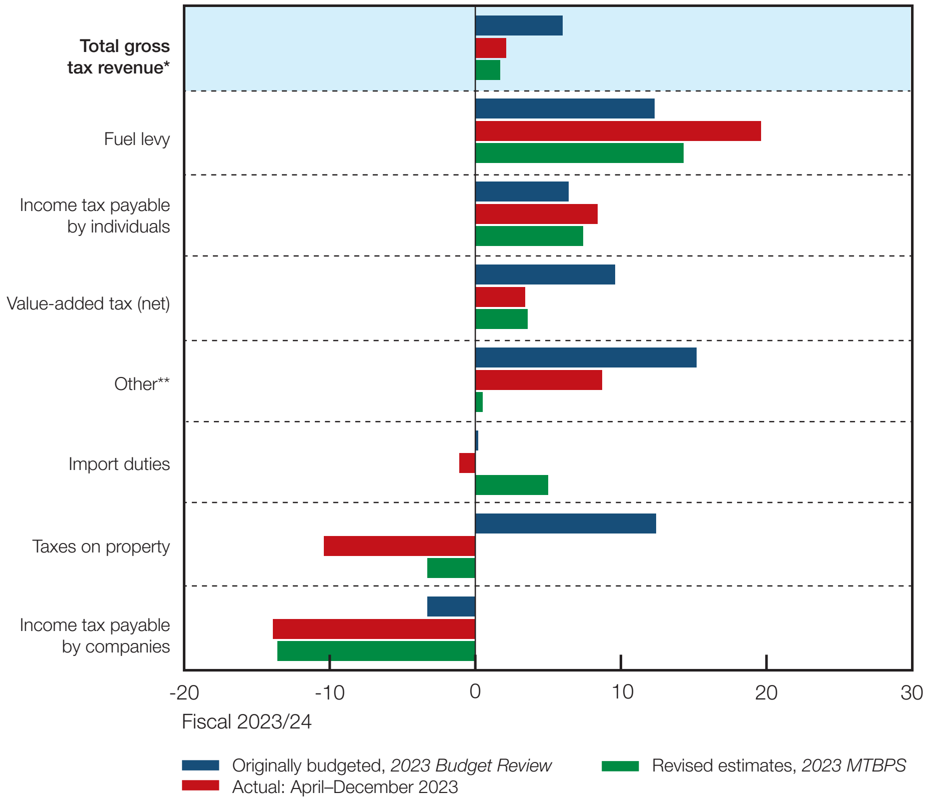
Other revenue, largely comprising non-tax revenue, declined by 3.0% year on year to R41.7 billion in April–December 2023, largely due to lower receipts from rent on land. The *2023 Budget Review* earmarked R79.8 billion for Southern African Customs Union (SACU) payments for fiscal 2023/24, which remained unchanged in the *2023 MTBPS* and represented a significant increase from the R43.7 billion paid in the previous fiscal year. The full allocated amount has been transferred in four equal tranches in April, July and October 2023 as well as in January 2024.

In the first 10 months of fiscal 2023/24, national government's total revenue decreased by 0.1% year on year to R1 350 billion, as revenue collection from most major tax categories remained subdued.

National government expenditure of R1 518 billion in the first nine months of fiscal 2023/24 was 7.7% more than in the same period of the previous fiscal year, driven largely by increases in voted expenditure by national government departments, interest payments on national government debt and equitable share transfers to provinces. The *2023 Budget Review's* projected total expenditure of R2 035 billion for fiscal 2023/24 was subsequently revised higher to R2 045 billion in the *2023 MTBPS*. As a ratio of GDP, total expenditure was 28.6% in April–December 2023 – higher than the 27.9% recorded in the same period of the previous fiscal year.

Growth in national government's gross tax revenue*

Percentage change over one year



* Before netting out SACU payments
** Including secondary tax on companies, withholding tax on interest and other excise duties

Sources: National Treasury, SARS and SARB

National government expenditure in fiscal 2023/24

Expenditure item	Originally budgeted[1] Fiscal 2023/24		Revised estimates[2] Fiscal 2023/24		Actual Apr–Dec 2023	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Voted expenditure	1 077.4	0.9	1 065.0	-2.1	821.7	6.5
Of which: Transfers and subsidies	793.9	6.9	779.4	4.9	606.7	8.4
Current payments	263.3	0.2	267.0	1.6	201.7	6.6
Payments for capital assets	18.4	16.2	17.2	8.5	11.9	29.3
Payments for financial assets	1.9	-97.1	1.5	-97.8	1.4	-89.5
Statutory amounts[6]	957.1	4.1	979.9	6.5	696.4	9.2
Of which: Provincial equitable share	567.5	-0.6	585.1	2.5	445.5	5.9
Interest on debt	340.2	10.4	354.3	14.9	220.3	17.1
General fuel levy	15.4	0.6	15.4	0.6	10.3	0.6
Total expenditure	2 034.6	1.3	2 044.9	1.9	1 518.1	7.7

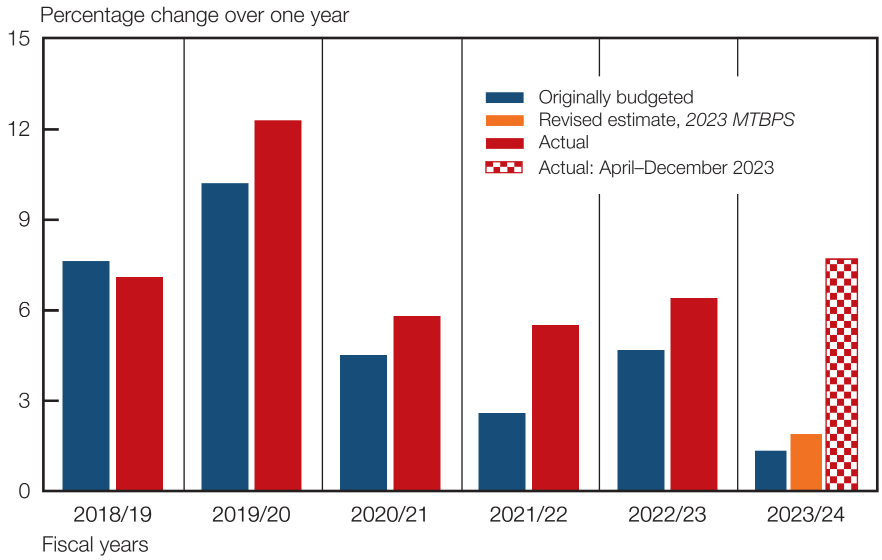
1 *2023 Budget Review*
2 *2023 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including extraordinary payments
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Source: National Treasury

Total voted expenditure by national government departments increased by 6.5% year on year to R821.7 billion (54.1% of total expenditure) for the period April–December 2023. The increase was largely on account of higher transfers and subsidies of R606.7 billion, current payments of R201.7 billion and payments for capital assets of R11.9 billion. By contrast, payments for financial assets contracted further by 89.5% year on year to only R1.4 billion as government continued to curtail funding to SOCs. The *2023 MTBPS* revised voted expenditure lower to R1 065 billion for fiscal 2023/24 compared to the R1 077 billion projected in the *2023 Budget Review*.

Interest payments (debt-service cost) on national government debt increased significantly by 17.1% year on year to R220.3 billion (14.5% of total expenditure) in the first nine months of fiscal 2023/24. The persistent rise in interest payments is reflective of the corresponding rise in the stock of gross loan debt. The *2023 Budget Review* envisaged total debt-service cost of R340.2 billion for fiscal 2023/24, which was revised upwards to R354.3 billion in the *2023 MTBPS*.

Expenditure by national government



Source: National Treasury

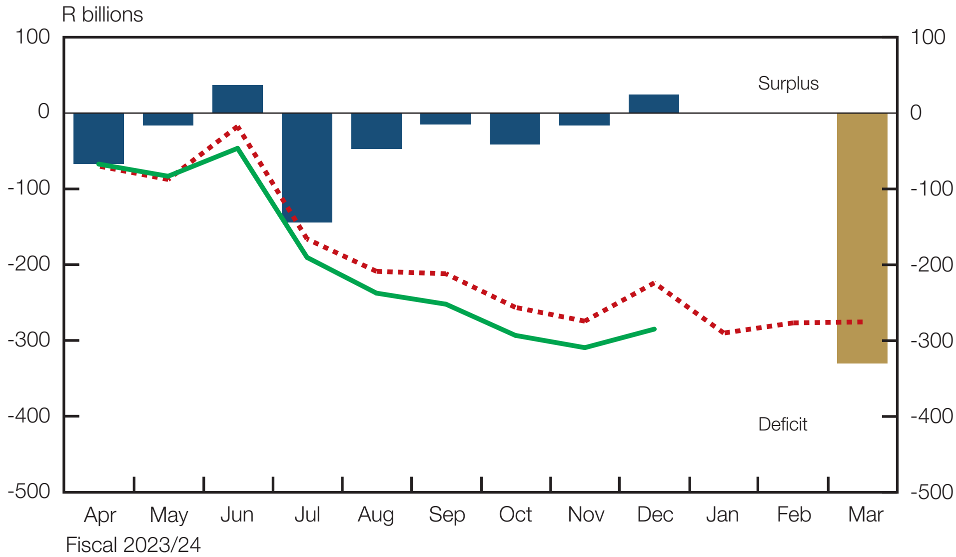
Equitable share transfers by national government to provinces – the main source of provincial government revenue – increased by 5.9% year on year to R445.5 billion in April–December 2023. The *2023 Budget Review* allocated R567.5 billion for equitable share transfers to provinces for fiscal 2023/24, which was revised higher to R585.1 billion in the *2023 MTBPS*. In addition, the *2023 Budget Review* allocated R15.4 billion in accordance with the general fuel levy sharing agreement with metropolitan cities in the current fiscal year, which remained unchanged in the *2023 MTBPS*. Of this amount, two equal tranches of R5.1 billion were transferred in August and December 2023, with the final tranche expected in March 2024.

Total expenditure of national government increased by 5.3% year on year to R1 697 billion in the first 10 months of fiscal 2023/24.

National government finances in the first nine months of fiscal 2023/24 yielded a cash book deficit of R284.8 billion – R111.3 billion more than in the same period of fiscal 2022/23. The *2023 Budget Review* projected a cash book deficit of R275.4 billion for the full fiscal year, which was revised higher to R330.1 billion in the *2023 MTBPS.*

The cash book deficit of national government in the first 10 months of fiscal 2023/24 increased by R85.5 billion year on year to R347.2 billion.

Cash book balance of national government



Sources: National Treasury, SARS and SARB

The primary balance of national government reverted to a *deficit* of R64.6 billion (1.2% of GDP) in April–December 2023 following a *surplus* of R14.5 billion (0.3% of GDP) recorded in the same period a year earlier. The primary *surplus* of R65.1 billion (0.9% of GDP) for fiscal 2023/24 envisaged in the *2023 Budget Review* was revised lower to R24.4 billion (0.3% of GDP) in the *2023 MTBPS*.

National government financing

R billions

Item or instrument	Actual Apr–Dec 2022	Actual Apr–Dec 2023	Originally budgeted[1] Fiscal 2023/24	Revised estimates[2] Fiscal 2023/24
Cash book balance[3]	-173.6	-284.8	-275.4	-330.1
Cash flow balance[4]	-213.7	-291.6	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[5]	-8.6	0.0	-14.1	-19.3
Accrual adjustments	108.2	97.1	...	...
State-owned companies debt relief	...	-44.0	-78.0	-78.0
Net lending/borrowing requirement[6]	-114.1	-238.5	-367.5	-427.4
Treasury bills and short-term loans[7]	-25.6	94.6	48.0	48.0
Domestic bonds[7]	178.4	83.7	212.0	269.2
Foreign bonds and loans[7]	51.8	5.4	14.1	16.2
Change in available cash balances[8]	-90.4	54.9	93.3	93.9
Total net financing	114.1	238.5	367.5	427.4

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

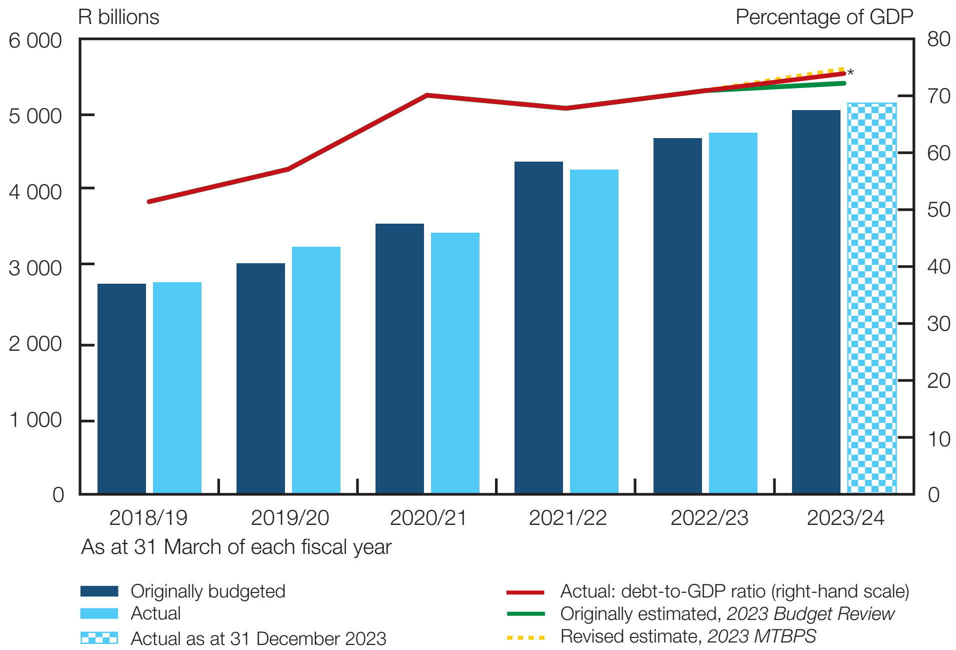
Sources: National Treasury and SARB

The cash flow deficit of national government increased from R213.7 billion (4.2% of GDP) in April–December 2022 to R291.6 billion (5.5% of GDP) in April–December 2023. After accounting for the cost of revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement of national government more than doubled year on year to R238.5 billion in the first nine months of fiscal 2023/24. The net borrowing requirement included a payment of R44.0 billion of the R78.0 billion allocated to Eskom's debt restructuring programme as presented in the *2023 Budget Review* and *2023 MTBPS*.

The net borrowing requirement of national government in the first nine months of fiscal 2023/24 was mostly financed in the domestic financial markets through the net issuance of long-term government bonds of R83.7 billion and the net issuance of TBs together with short-term loans from the CPD of R94.6 billion. Government's net issuance of foreign bonds and loans was significantly lower year on year at R5.4 billion in April–December 2023. Over the same period, national government's available cash balances decreased by R54.9 billion to finance part of the borrowing requirement.

National government's total gross loan debt (domestic and foreign) of R5 153 billion as at 31 December 2023 represented an increase of R439 billion (9.3%) compared with a year earlier. The increase resulted from higher net issuance of domestic debt, along with the revaluation of the inflation-linked bonds, and the net issuance of foreign debt, coupled with exchange rate revaluation adjustments. As at 31 December 2023, national government's gross loan debt accounted for 98.4% of the revised estimate of R5 238 billion at the end of the fiscal year in the *2023 MTBPS.* Gross loan debt as a percentage of GDP was 73.9% as at 31 December 2023, higher than the 71.1% recorded a year earlier. The *2023 MTBPS* envisaged a gross loan debt to GDP ratio of 74.7% at the end of fiscal 2023/24, which was expected to stabilise at 77.7% at the end of fiscal 2025/26.

Gross loan debt of national government

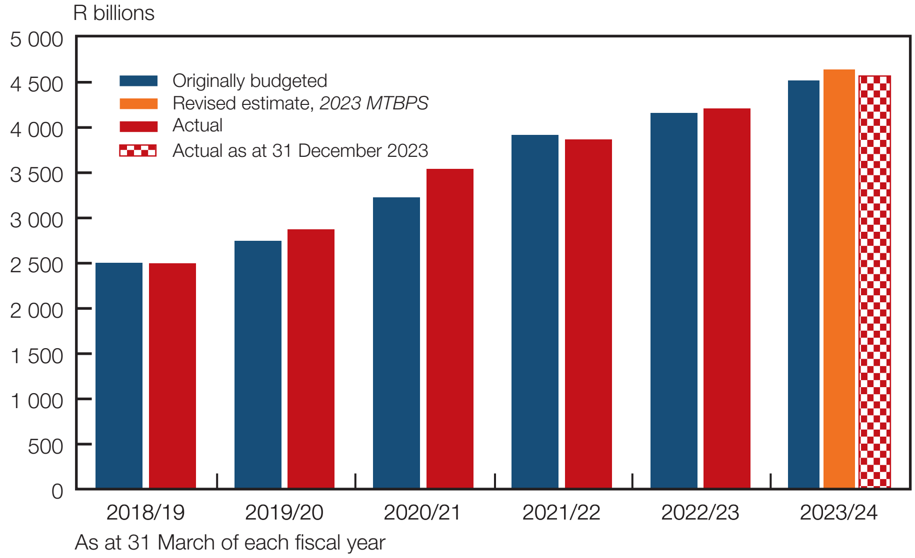


* Actual as at 31 December 2023

Sources: National Treasury, Stats SA and SARB

National government's gross domestic debt (marketable and non-marketable) of R4 569 billion as at 31 December 2023 represented an increase of R379 billion (9.0%) from the same period a year earlier. The increase mainly mirrored higher net borrowing of domestic marketable debt, comprising bonds (88.6% of total domestic marketable debt) and TBs (11.4% of total domestic marketable debt). Domestic marketable debt accounted for 99.4% of total gross domestic debt as at 31 December 2023. Non-marketable debt increased by 12.6% year on year to R27.1 billion as at 31 December 2023. The *2023 MTBPS* projected gross domestic debt of R4 643 billion at the end of fiscal 2023/24 compared with R4 210 billion recorded at the end of fiscal 2022/23.

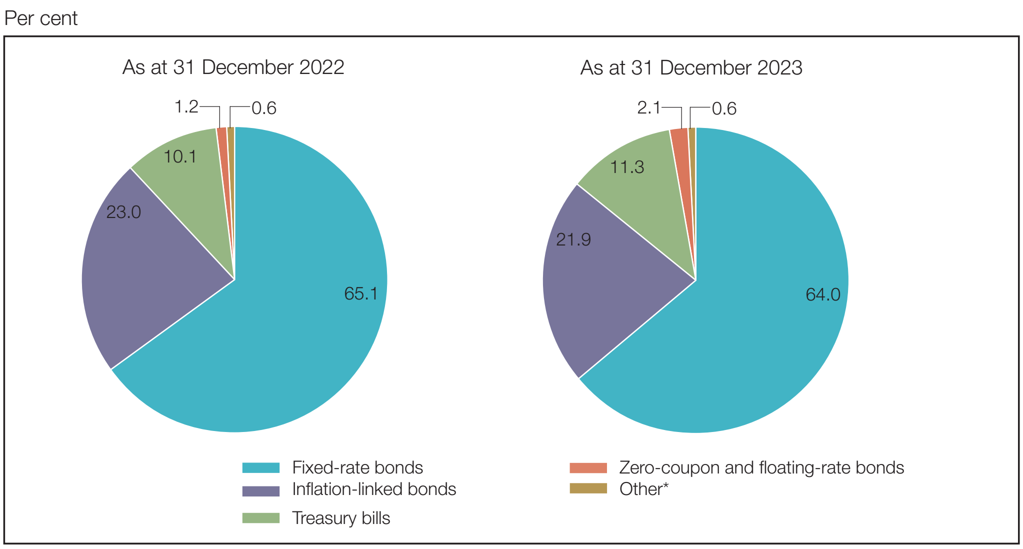
Domestic debt of national government



Source: National Treasury

As at 31 December 2023, fixed rate bonds continued to account for the largest share of national government's total domestic debt at 64.0% – lower than the 65.1% share recorded a year earlier. Inflation-linked bonds accounted for 21.9% of total domestic debt as at 31 December 2023, slightly lower than the 23.0% share recorded at 31 December 2022. National government redeemed the *R197* inflation-linked bond to the value of R90.6 billion in December 2023. TBs accounted for 11.3% of the total stock of domestic debt as at 31 December 2023 compared with 10.1% a year earlier.

Composition of national government's domestic debt **



* Including total outstanding domestic non-marketable bonds, short-term loans from the Corporation for Public Deposits and other debt

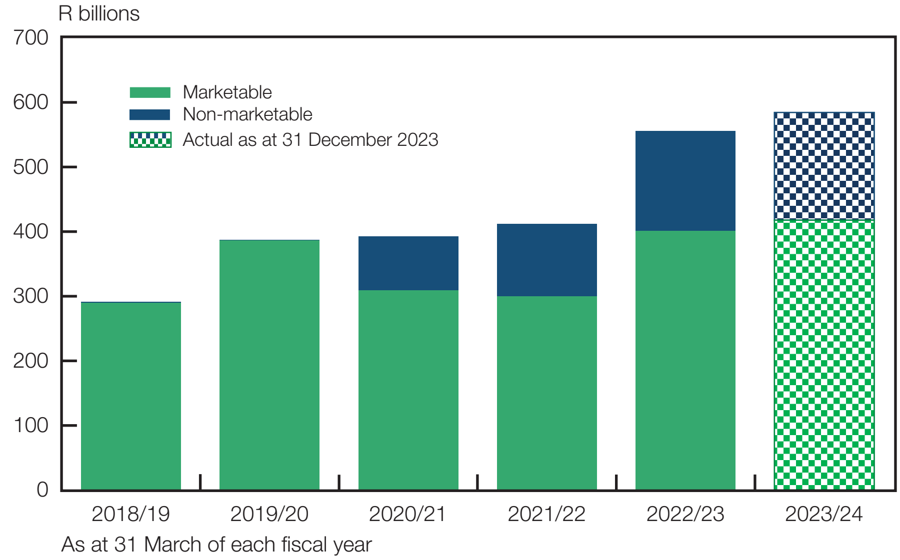
** Components may not add up to totals due to rounding off.

Source: National Treasury

National government's gross foreign debt (marketable and non-marketable) of R584 billion as at 31 December 2023 represented an increase of R59.7 billion (11.4%) from a year earlier. The increase reflected higher net issuance of foreign loans and exchange rate revaluation effects owing to the depreciation in the exchange value of the rand against other major currencies. Total marketable foreign debt rose by 9.1% year on year to R418 billion (71.5% of total gross foreign debt) as at 31 December 2023, solely on account of exchange rate revaluation effects as government did not issue any marketable foreign bonds during 2023. The average outstanding maturity of foreign marketable bonds decreased from 163 months as at 31 December 2022 to 150 months as at 31 December 2023.

Non-marketable foreign debt increased by R24.9 billion between December 2022 and December 2023, raising the total outstanding stock of this debt category to R167 billion as at 31 December 2023. This reflected new loans from international financial institutions of €600 million and US$800 million over this period. The *2023 MTBPS* projected gross foreign debt of R595 billion at the end of fiscal 2023/24 compared with R556 billion at the end of fiscal 2022/23.

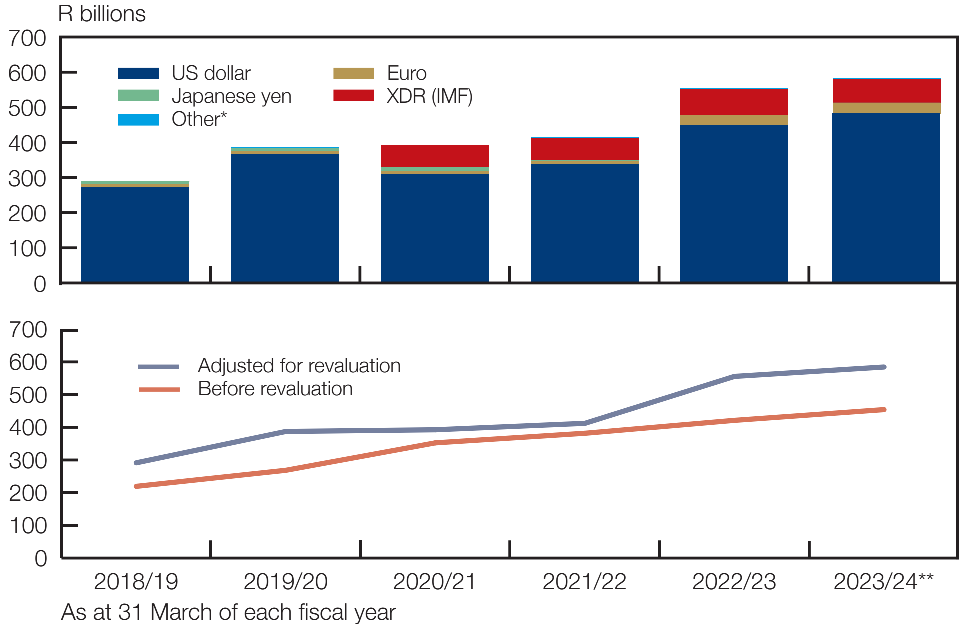
Foreign debt of national government



Sources: National Treasury and SARB

The total outstanding stock of foreign debt of national government was R454 billion before accounting for exchange rate revaluation effects as at 31 December 2023. This increased to R584 billion after the exchange rate revaluation adjustment, representing a revaluation effect of R130 billion. The US dollar-denominated debt represented 82.6% of the total outstanding foreign debt, followed by the International Monetary Fund's (IMF) special drawing rights (SDR)-denominated debt at 11.4%.

Currency composition of national government's foreign debt



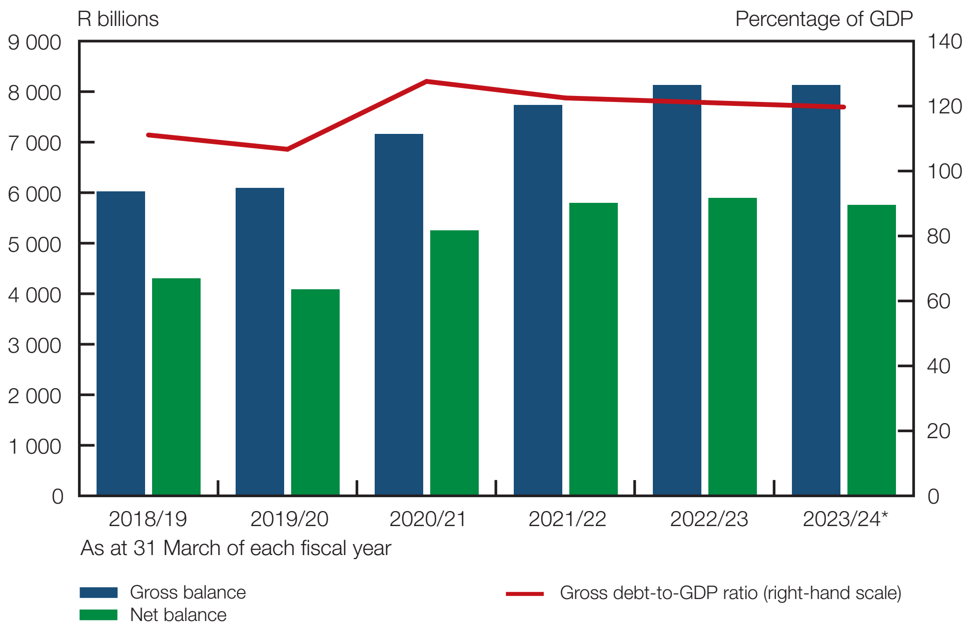
* Including the British pound, Swedish krona and South African rand
** As at 31 December 2023

Sources: National Treasury and SARB

Total public sector debt[53]

The preliminary total consolidated *gross*[54] public sector debt (both domestic and foreign) of South Africa rose to R8 136 billion (118.5% of GDP) as at 30 September 2023 from R7 753 billion (118.6% of GDP) as at 30 September 2022. After netting the individual debt instruments against their corresponding financial assets, the consolidated *net*[55] public sector debt amounted to R5 807 billion (84.6% of GDP) as at 30 September 2023 compared with R5 544 billion (84.8% of GDP) a year earlier.

Total consolidated public sector debt



*As at 30 September 2023

Source: SARB

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

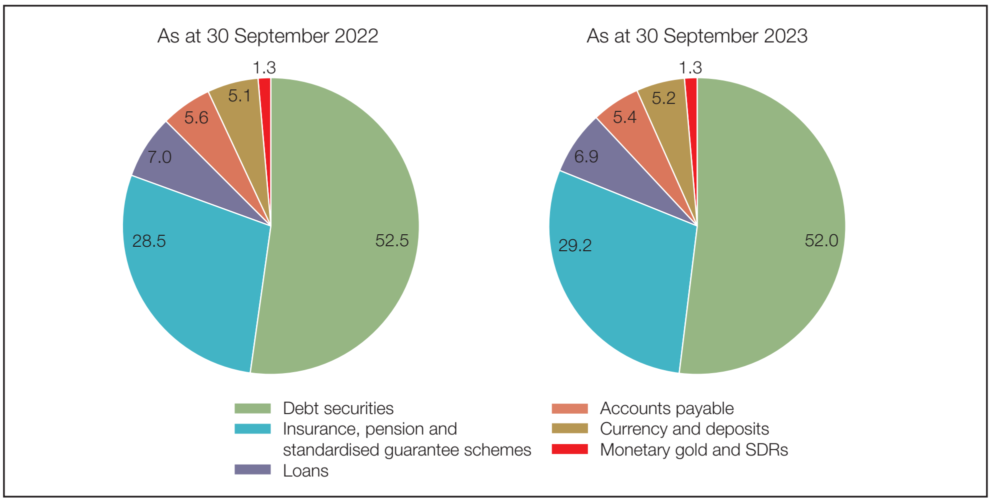
54 Gross public sector debt comprises financial debt instruments such as special drawing rights (SDRs); currency and deposits; debt securities; loans; insurance, pension and standardised guarantee schemes; and other accounts payable – *before netting* the individual debt instrument against its corresponding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

55 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.

The total outstanding public sector debt securities in domestic and international markets of R4 230 billion as at 30 September 2023 was R164 billion more than a year earlier and reflected an increase in public sector borrowing along with the revaluation effects on inflation-linked bonds and foreign-currency denominated debt. Debt securities were the largest contributor to total consolidated public sector debt at 52.0% as at 30 September 2023, while monetary gold and SDRs amounted to R109 billion and accounted for only 1.3%.

Consolidated gross public sector debt

Per cent



Source: SARB

Integrated economic accounts[56]

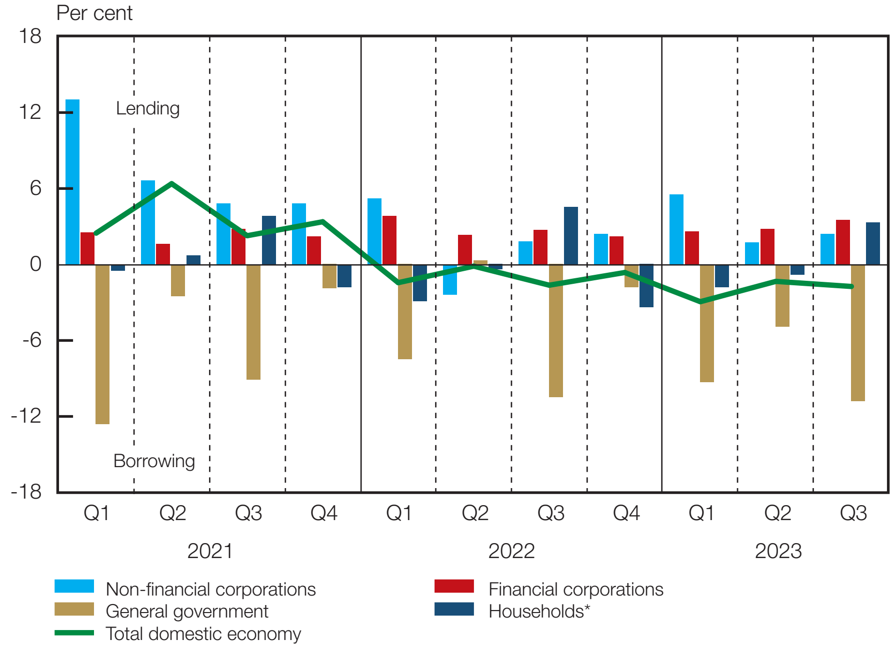
Current and capital account

South Africa's net borrowing position[57] increased to R30.4 billion (1.7% of GDP) in the third quarter of 2023 from R22.0 billion (1.3% of GDP) in the second quarter – marking the seventh consecutive quarter of net borrowing. The larger net borrowing position resulted from a larger decrease in gross saving than in gross capital formation.

56 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*.

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

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



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

Source: SARB

Similarly, the country's cumulative net borrowing in the first three quarters of 2023 more than doubled to R101.2 billion compared with R49.2 billion in the same period of 2022. The substantial borrowing requirement over this period resulted from an increase of R67.3 billion in gross capital formation and a decrease of R13.8 billion in gross saving, indicative of the prevailing challenging economic conditions.

Both financial and non-financial corporations maintained net lending positions in the third quarter of 2023 as the level of gross saving increased in both sectors. Households switched from net borrowing in the second quarter of 2023 to net lending in the third quarter as a result of higher levels of gross saving. By contrast, the general government's financial position remained under pressure as it recorded a significantly larger net borrowing position in the third quarter due to an increase in its gross dissaving.

Non-financial balance sheet and accumulation account

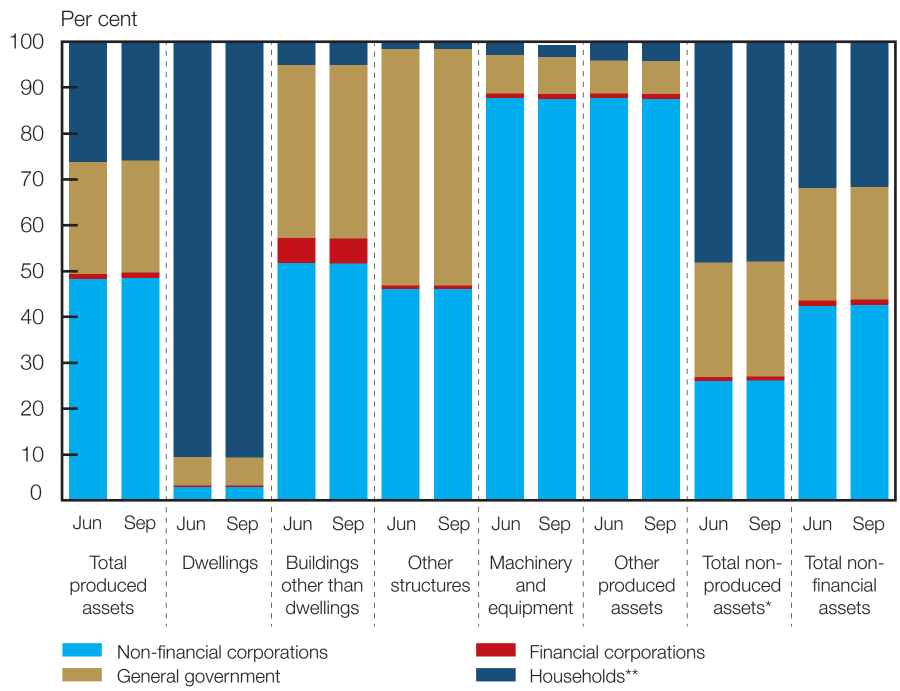
The market value of total non-financial assets increased by 1.3% to R18.5 trillion as at 30 September 2023. Non-financial corporations (private and public) held the largest share of total non-financial assets at 42.6%, while households and general government held 31.7% and 24.6% respectively. Financial corporations held only 1.1% of total non-financial assets, mainly in the form of buildings other than dwellings. As at 30 September 2023, households owned

90.7% of all dwellings in South Africa. General government and non-financial corporations accounted for the majority holdings of other structures, such as roads, bridges and harbours, at 51.6% and 46.1% respectively, while 88.2% of total machinery and equipment was held by non-financial corporations.

The market value of total produced fixed assets increased by 1.5% (R188.1 billion) to R12.6 trillion in the three months to 30 September 2023, resulting from an increase of R19.6 billion in net capital formation and revaluations of R168.4 billion in the third quarter of 2023. The market value of machinery and equipment increased by R98.9 billion and that of other structures by R91.4 billion in the third quarter, contributing 3.5 and 2.1 percentage points respectively to growth in the capital stock of non-financial assets.

Households owned 48.0% of non-produced assets (land only) as at 30 September 2023, with the remainder almost equally held by non-financial corporations (26.1%) and general government (25.0%).

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



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

Financial balance sheet and accumulation account

The market value of financial assets and liabilities of the total domestic economy decreased by R1.5 trillion to R48.4 trillion and by R1.3 trillion to R46.0 trillion respectively in the three months to 30 September 2023. Both financial assets and liabilities reflected significant decreases in the holdings of equity and investment fund shares/units that were partly offset by an increase in the value of loans and debt securities.

Financial corporations' share of total financial assets increased from 50.6% as at 30 June 2023 to 52.0% as at 30 September, as the decline in the holding value of equity and investment fund shares/units was neutralised by their exposure to debt securities, loans and other accounts receivable. Similarly, financial corporations' share of total liabilities increased from 58.1% to 59.0% over this period.

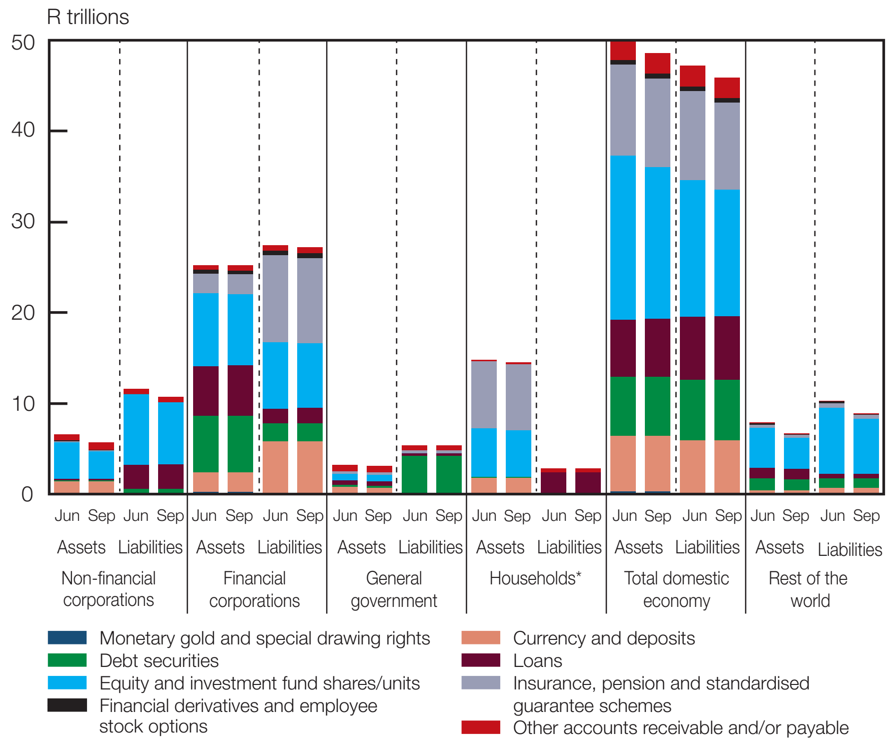
Households' share of total financial assets increased only slightly from 29.6% as at 30 June 2023 to 29.9% as at 30 September as the value of equity and investment fund shares/units as well as insurance, pension and standardised guarantee schemes remained subdued due to weaker asset prices. Similarly, households' share of total liabilities increased from 5.9% to 6.1% over this period amid moderate growth in the total value of their outstanding loan liabilities.

Non-financial corporations' contribution to both total financial assets and liabilities declined by 1.7 percentage points and 1.3 percentage points respectively to 11.5% and 23.4% respectively as at 30 September 2023, largely as a result of the unwinding of the equity cross-holding arrangement between a South African holding company and its international subsidiary.

The decline in general government's share of total financial assets from 6.6% as at 30 June 2023 to 6.5% as at 30 September was mostly due to a significant reduction in central and provincial governments' deposit balances with banks and the Corporation for Public Deposits (CPD) as well as a decline in the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA)[58] due to valuation effects. By contrast, general government's contribution to total liabilities increased from 11.3% to 11.6% over this period on account of an increase in loan balances with the CPD.

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

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



* Including non-profit institutions serving households

Source: SARB

The market value of the rest of the world's (ROW) holdings of South African financial assets decreased from R7.8 trillion as at 30 June 2023 to R6.7 trillion as at 30 September due to the removal of the cross-holding of equity between a South African holding company and its international subsidiary. The decline in the financial assets of the ROW mirrored the decrease in South Africa's total foreign assets (ROW total liabilities) from R10.3 trillion to R9.1 trillion over the same period. The decrease was exacerbated by valuation effects due to weaker global share prices and the appreciation in the exchange value of the rand.

Changes in both financial assets and liabilities in the total economy during the third quarter of 2023 were mostly due to transactions, which accounted for R1.6 trillion of the decline in the value of various financial instruments, especially equity and investment fund shares/units. Negative revaluation effects of R0.9 trillion incurred in the value of debt securities and equity and investment fund shares/units accounted for the balance of the change in both financial assets and liabilities during the quarter.

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

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 September 2023[59] shows that the household sector was the only institutional sector that maintained a positive net financial wealth (asset) position of R11.7 trillion, mainly against financial corporations. Non-financial corporations and general government both recorded negative net financial wealth (liability) positions, mainly as a result of the net incurrences of liabilities of R4.3 trillion and R2.9 trillion respectively with financial corporations as well as R3.1 trillion and R1.4 trillion respectively with the ROW. The financial intermediation activities of financial corporations generated a near-balanced net financial wealth position, with asset claims of R25.2 trillion and liability commitments of R27.1 trillion in the total economy. The ROW's negative net financial wealth position comprised mainly liabilities of R5.9 trillion and R2.9 trillion incurred against financial and non-financial corporations respectively.

Abbreviations

A2X	A2X Markets
ACI	Agribusiness Confidence Index
AfDB	African Development Bank
Agbiz	Agricultural Business Chamber of South Africa
Alsi	All-Share Index
BER	Bureau for Economic Research (Stellenbosch University)
BOE	Bank of England
CBOE	Chicago Board Options Exchange
CEC	Crop Estimates Committee
CIT	corporate income tax
COICOP	classification of individual consumption by purpose
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPI	consumer price index
CTSE	Cape Town Stock Exchange
ECB	European Central Bank
EMBI+	Emerging Markets Bond Index Plus (JPMorgan)
EPWP	Expanded Public Works Programme
ESTR	Euro Short-Term Rate
EU	European Union
FAO	Food and Agriculture Organization (United Nations)
Fed	United States Federal Reserve
FNB	First National Bank
FRA	forward rate agreement
FSCA	Financial Sector Conduct Authority
FX	foreign exchange
GDE	gross domestic expenditure
GDP	gross domestic product
GFCF	gross fixed capital formation
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GVA	gross value added
HPAI	highly pathogenic avian influenza
IDC	Industrial Development Corporation
IEA	integrated economic accounts
IEC	Electoral Commission of South Africa
I-Ex	The Integrated Exchange

IIP	international investment position
ILO	International Labour Organization
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPP	independent power producer
ITAC	International Trade Administration Commission of South Africa
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
LCR	liquidity coverage ratio
Libor	London Interbank Offered Rate
M3	broadly defined money supply
MDCM	mechanically deboned chicken meat
MPC	Monetary Policy Committee
MPG	Market Practitioners Group
MPIF	monetary policy implementation framework
MTBPS	*Medium Term Budget Policy Statement*
NCD	negotiable certificate of deposit
NEER	nominal effective exchange rate
NEET	neither in employment, education, or training
NSFR	net stable funding ratio
NYSE	New York Stock Exchange
OTC	over-the-counter
PAYE	pay-as-you-earn
PGM	platinum group metal
PIC	Public Investment Corporation
PIT	personal income tax
Plc	public limited company (UK)
PMI	Purchasing Managers' Index
PPP	public-private partnership
PYEI	Presidential Youth Employment Initiative
QB	*Quarterly Bulletin*
QES	*Quarterly Employment Statistics*
QLFS	*Quarterly Labour Force Survey*
RAF	Road Accident Fund
REER	real effective exchange rate
repo (rate)	repurchase (rate)
repos	repurchase agreements

ROW	rest of the world
RPPI	residential property price index
Sabor	South African Benchmark Overnight Rate
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SARS	South African Revenue Service
SAPA	South African Poultry Association
SDR	special drawing right
SOC	state-owned company
SONIA	Sterling Overnight Index Average
Stats SA	Statistics South Africa
TB	Treasury bill
UIF	Unemployment Insurance Fund
UK	United Kingdom
US	United States
VAT	value-added tax
VIX	Volatility Index
XDR IMF	SDR exchange rate
ZARONIA	South African Rand Overnight Index Average
ZASFR	South African Secured Overnight Financing Rate