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

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

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

R millions

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

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

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

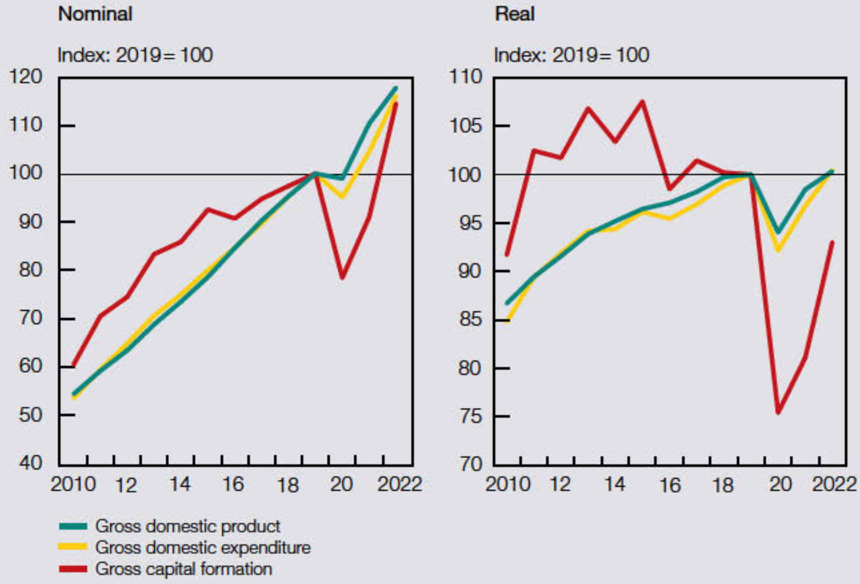
2 This box follows related boxes published in previous editions of the *QB*. See 'Box 1: Unpacking nominal national accounts aggregates' and 'Box 2: Unpacking gross fixed capital formation in South Africa' in the March 2021 and September 2020 editions of the *QB* respectively, available at https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulleti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

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

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

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

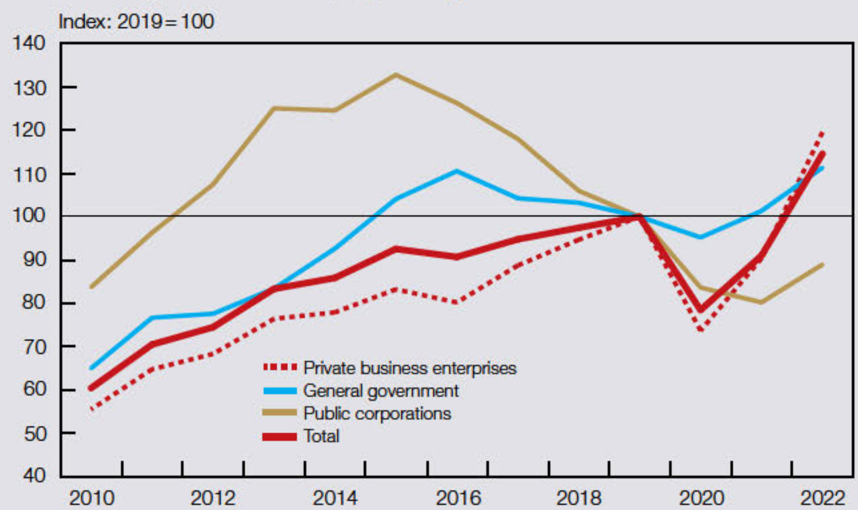
Capital formation and measures of economic activity



Sources: Stats SA and SARB

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

Gross capital formation by type of organisation



Sources: Stats SA and SARB

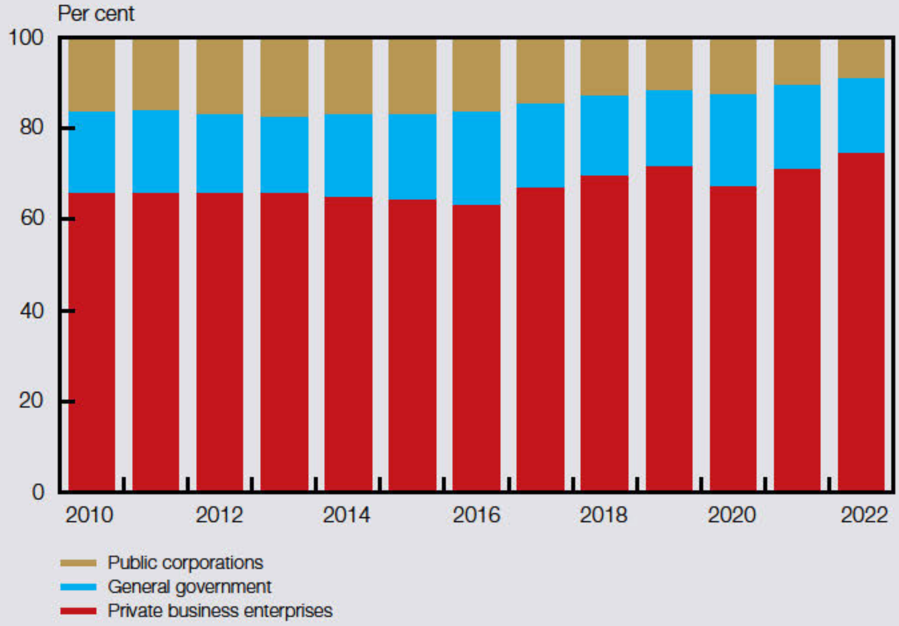
5 GDP is the total value of all goods and services produced within a country's borders over a specific period and serves as a measure of overall economic activity.

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

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

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

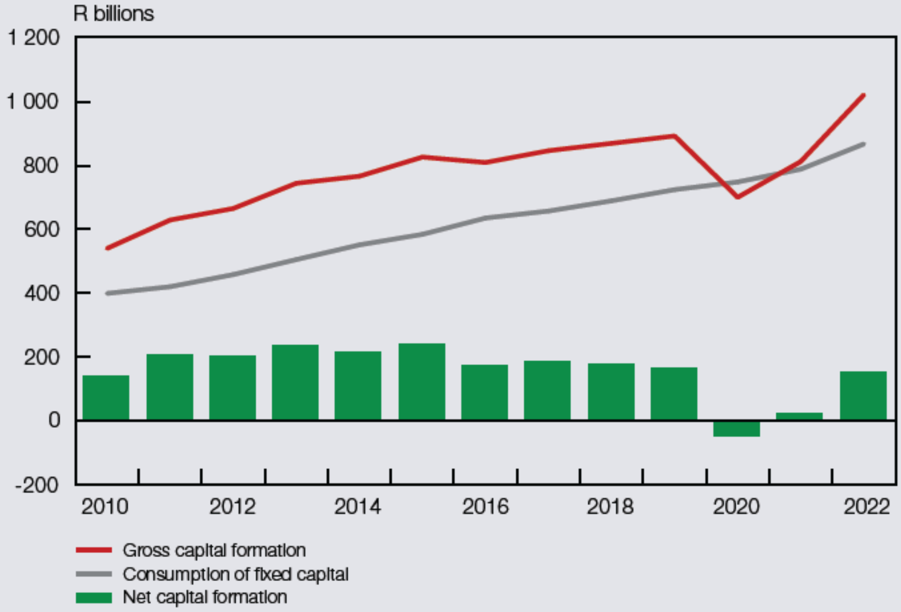
Contribution to gross capital formation by type of organisation



Sources: Stats SA and SARB

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

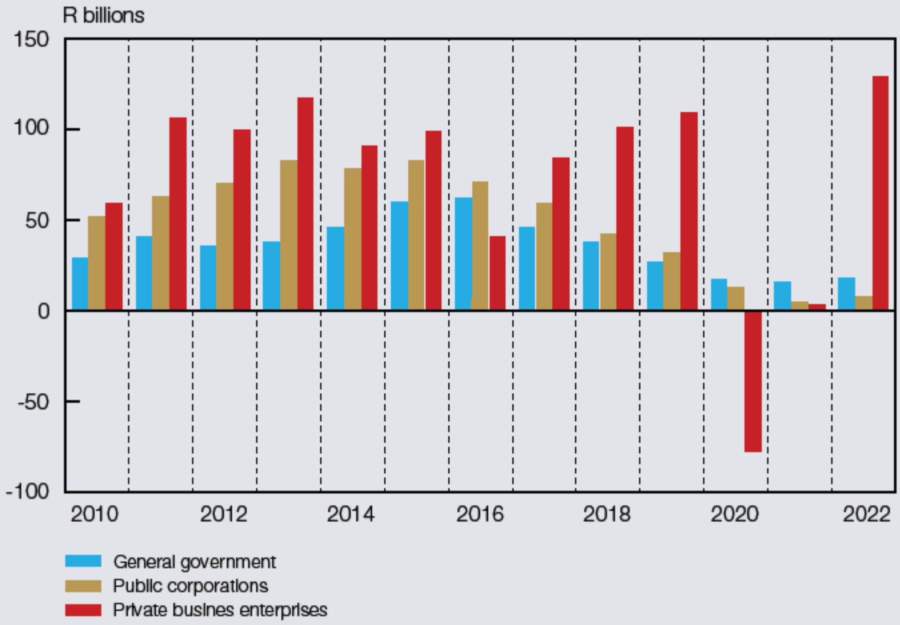
Capital formation and consumption of fixed capital



Sources: Stats SA and SARB

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

Net capital formation by type of organisation



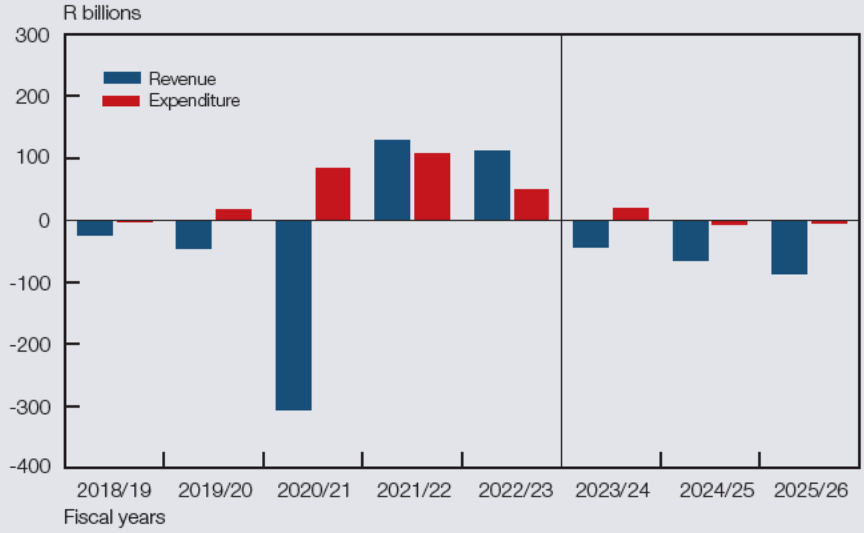
Sources: Stats SA and SARB

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

Sources: Stats SA and SARB

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

Revisions to consolidated government's revenue and expenditure*



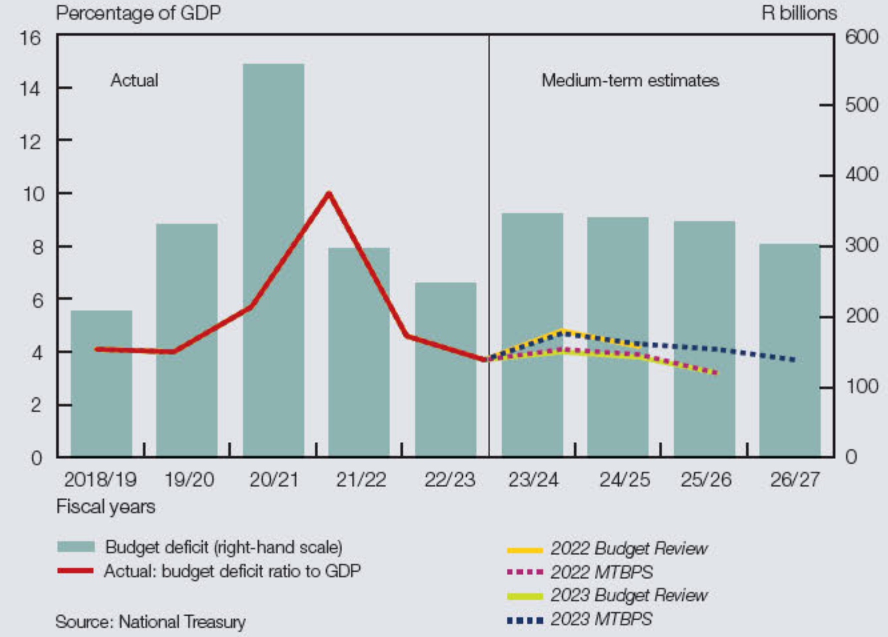
* *Budget Review* to *MTBPS*

Source: National Treasury

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

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

Consolidated government budget deficit

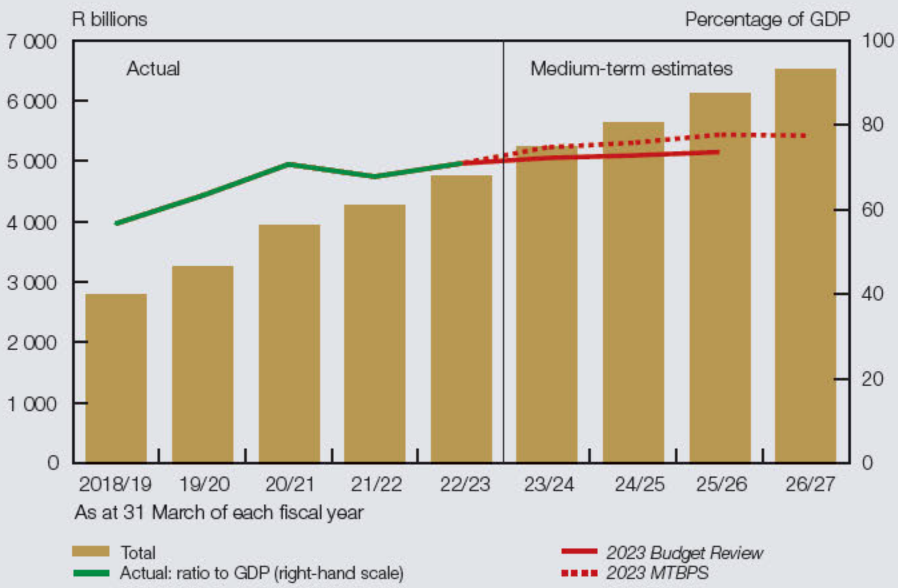


Source: National Treasury

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

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

National government gross loan debt



Source: National Treasury