Domestic economic developments

Domestic output[1, 2]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data and are annualised.

2 The analysis in this section is based on a revised set of national accounts estimates for 2020. These revisions are based on more detailed or more appropriate data that have become available.

In South Africa, real economic activity increased at a markedly slower pace in the fourth quarter of 2020, after the significant rebound in the third quarter when national coronavirus disease 2019 (COVID-19) lockdown restrictions were eased. Growth in the real *gross domestic product* (GDP) moderated markedly to an annualised rate of 6.3% in the fourth quarter of 2020, from a revised 67.3% in the third quarter. The slowdown was broad-based, with output growth decelerating sharply in the primary, secondary and tertiary sectors.

Real gross domestic product

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

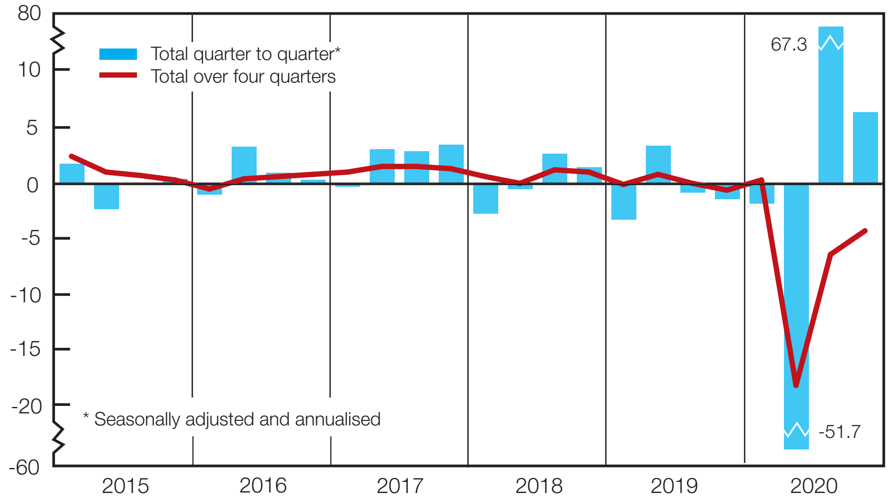
Sector	2019					2020				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Primary sector	-12.3	11.7	-5.7	-0.4	-3.1	-10.5	-55.7	165.0	0.5	-5.3
Agriculture	-16.8	-4.9	-4.5	-7.6	-6.9	38.8	22.0	20.1	5.9	13.1
Mining	-10.8	17.4	-6.1	1.8	-1.9	-22.1	-70.8	271.2	-1.4	-10.9
Secondary sector	-8.0	1.3	-5.0	-2.9	-1.4	-7.5	-71.9	158.1	16.9	-12.5
Manufacturing	-8.8	2.1	-4.4	-1.8	-0.8	-8.2	-74.7	212.9	21.1	-11.6
Construction sector	-5.3	-2.4	-6.9	-5.9	-3.3	-5.9	-76.8	73.6	11.2	-20.3
Tertiary sector	-0.4	2.9	0.9	-1.0	1.2	1.4	-42.4	37.8	3.3	-5.4
*Non-primary sector***	*-2.1*	*2.5*	*-0.4*	*-1.4*	*0.6*	*-0.6*	*-49.9*	*55.5*	*6.0*	*-6.9*
*Non-agricultural sector****	*-2.8*	*3.7*	*-0.8*	*-1.1*	*0.4*	*-2.5*	*-51.8*	*66.0*	*5.4*	*-7.2*
Total	**-3.2**	**3.3**	**-0.8**	**-1.4**	**0.2**	**-1.8**	**-51.7**	**67.3**	**6.3**	**-7.0**

* 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

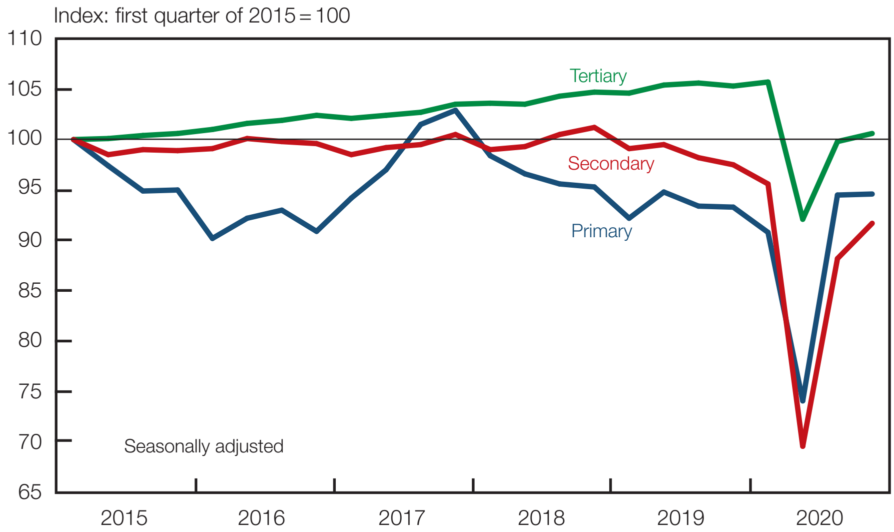
Real gross domestic product

Percentage change



Source: Stats SA

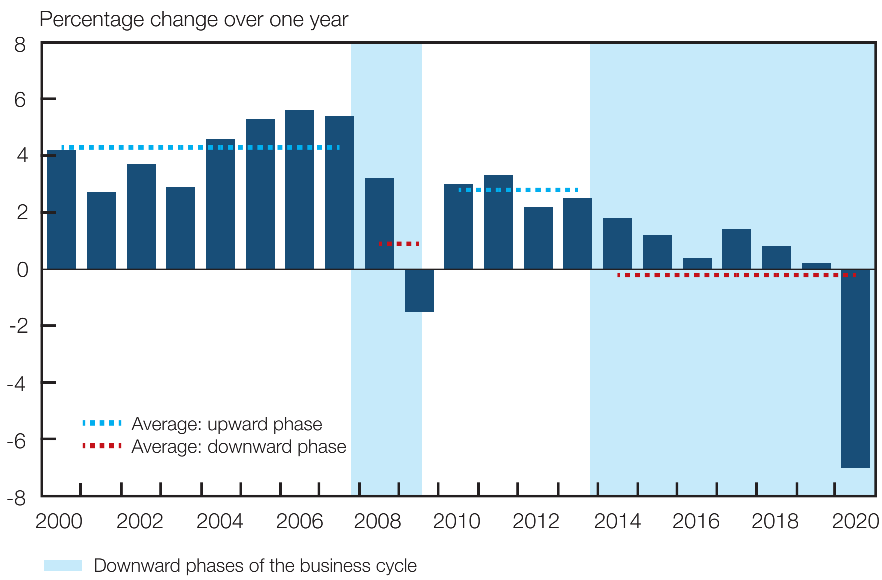
Real gross value added by main sectors



Source: Stats SA

Growth in annual output trended gradually lower from a recent high of 3.3% in 2011 to only 0.2% in 2019, before contracting substantially by 7.0% in 2020. The national lockdown-induced contraction in 2020 was the second-largest annual contraction since 1920, when real GDP fell by 11.9%, and was also about five times larger than the contraction of 1.5% that followed the global financial crisis in 2009. The decline in real GDP in 2020 consisted of a substantial contraction of 17.0% in the first half of the year and a recovery of 8.6% in the second half. Also, real GDP contracted by an annual average of 0.1% during the current downward phase of the business cycle, compared with an annual average increase of 2.8% during the preceding short upward phase.

Real gross domestic product

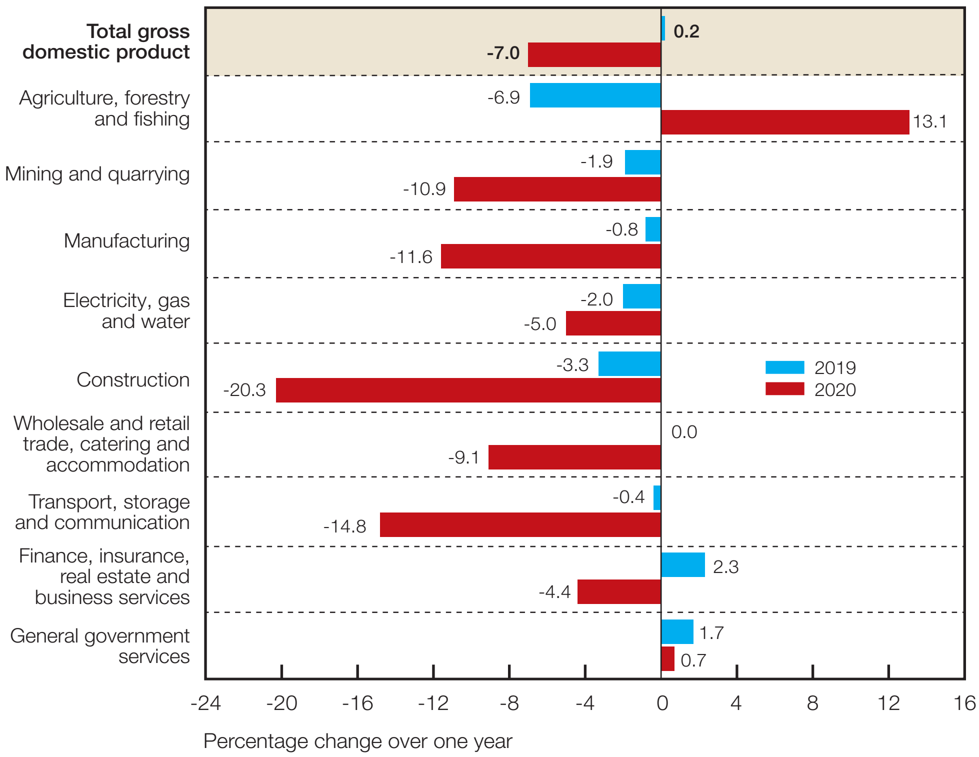


Sources: Stats SA and SARB

When excluding the contribution of the volatile primary sector, real output growth slowed to 6.0% in the fourth quarter of 2020, from 55.5% in the third quarter.

After increasing markedly by a revised 165.0% in the third quarter of 2020, growth in the real gross value added (GVA) by the *primary sector* moderated to only 0.5% in the fourth quarter as real mining output contracted anew, while agricultural output increased at a much slower pace.

Growth in the components of real gross domestic product



Source: Stats SA

The real output of the *agricultural sector* increased further by 5.9% in the fourth quarter of 2020, following an upwardly revised expansion of 20.1% in the third quarter. The increase in the fourth quarter mainly reflected the higher production of animal products. Steady growth in all four quarters of the year contributed to the acceleration in real output growth of the agricultural sector to 13.1% in 2020. The agricultural sector contributed 0.3 percentage points to real GDP growth in 2020 and was one of only two sectors with increasing GVA in the year. This reflected the bumper maize and citrus harvests, increased foreign demand and, as an essential goods provider, the relatively small impact of COVID-19 restrictions.

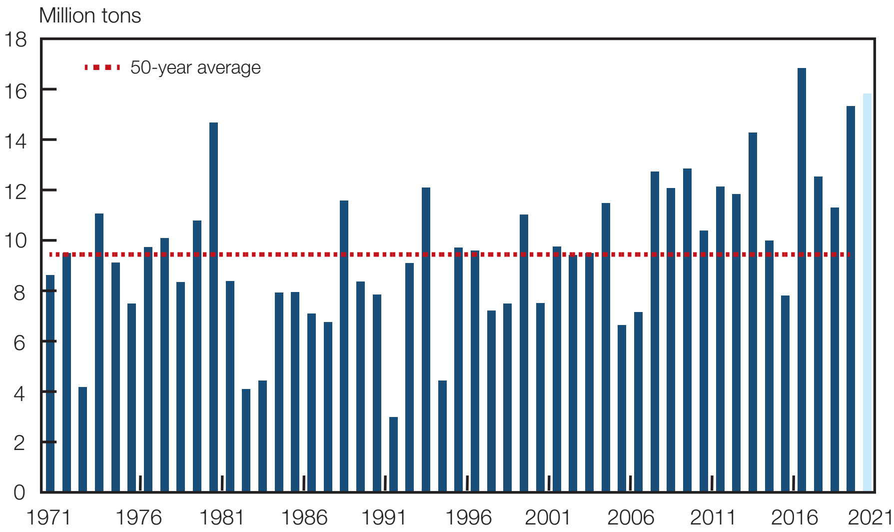
Favourable weather conditions improved soil moisture levels which assisted the first estimate of the commercial maize harvest for the 2020/21 season to be 3.6% higher than the final 2019/20 crop, and much higher than the average annual production of 9.4 million tons over the previous 50 years. At 15.8 million tons, the estimated harvest should exceed the expected domestic consumption of about 11.4 million tons per annum by a wide margin and provide for net exports in the 2021/22 marketing year. Similar to the slightly bigger harvest, the 2.8 million hectares expected to be planted in the 2020/21 season is 5.4% more than that in the previous season.

Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2019/20: final estimate...	15.3	2.6
2020/21: first production forecast...	15.8	2.8

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

Commercial maize production

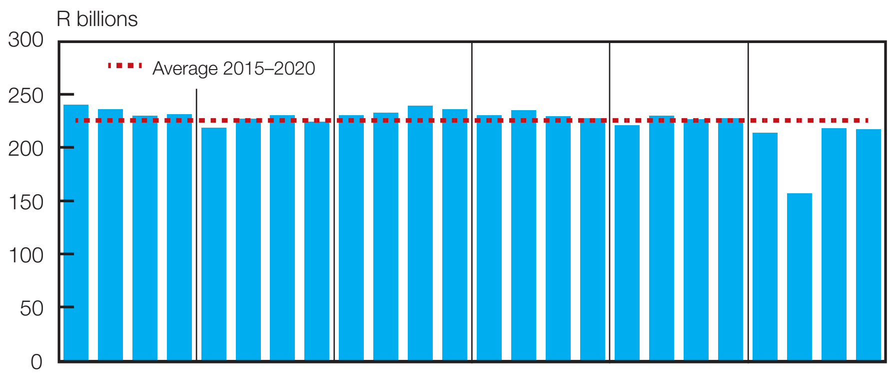


Calendar-year data, e.g. production season 2020/21 = 2021

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

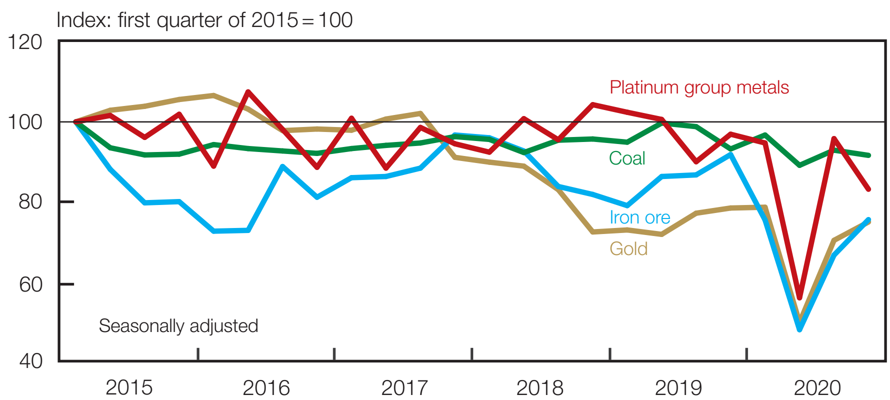
The real GVA by the *mining sector* contracted anew by 1.4% in the fourth quarter of 2020, following the exceptionally strong increase of 271.2% in the third quarter, albeit from the very low base in the second quarter due to the COVID-19 lockdown restrictions. Mining activity remained constrained by the perceived legislative uncertainty, physical distancing regulations, high operating costs and electricity supply disruptions.

Real gross value added by the mining sector



Seasonally adjusted and annualised

Physical volume of mining production: selected subsectors

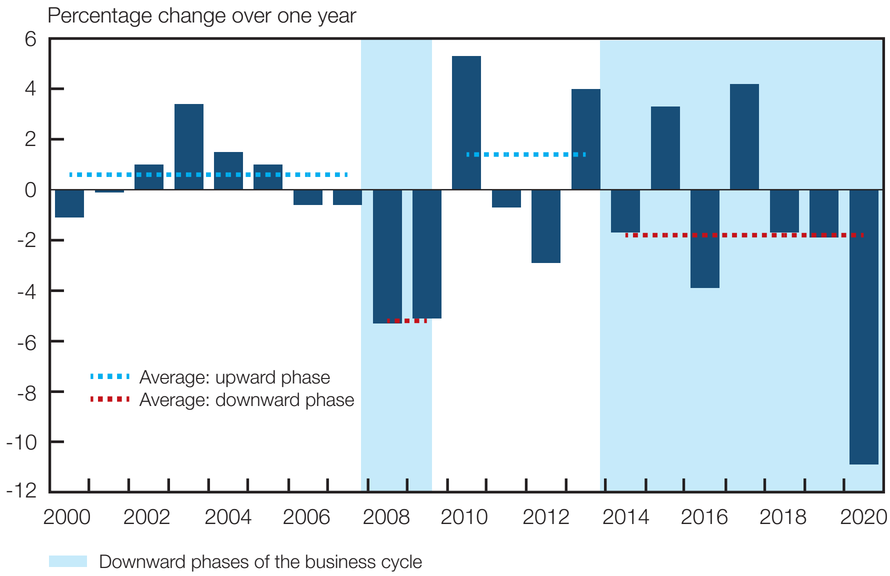


Source: Stats SA

The mining sector subtracted 0.1 percentage points from overall real GDP growth in the fourth quarter of 2020, with platinum group metals (PGMs), coal and diamonds contributing the most to the contraction. These contractions were partially offset by the increased production of iron ore, gold and chromium. The lower PGM production resulted from industrial action in November as well as maintenance challenges at one of the main converter plants, while weak domestic demand weighed on the production of coal. The level of real mining output in the fourth quarter of 2020 was slightly higher than the pre-lockdown levels but still below the average level of mining output from 2015 to 2020.

The real GVA by the mining sector decreased by 10.9% in 2020, marking the third consecutive annual contraction as well as the deepest contraction since annual records began in 1946. The contraction emanated from lower production of PGMs, coal, iron ore, chromium ore, copper, other metallic minerals, nickel, manganese ore, other non-metallic minerals and building materials. Apart from the COVID-19 lockdown restrictions, the production of PGMs was impacted by the weaker exchange value of the rand against the US dollar in 2020 and general global economic uncertainties resulting from the pandemic, while lower demand from China adversely impacted the production of iron ore. Despite the higher price of gold, activity in the gold mining sector continued to be suppressed by high costs of operating ultra-deep and aging mines as well as declining grades of output. In most of the past seven years, annual growth in real mining GVA has been much lower than the 20-year average (2000 to 2019) growth rate of -0.2%, while also being quite volatile over the past 13 years. Mining output should be supported by the strong rise in international commodity prices over the past year, but could be hampered by sporadic bouts of electricity load-shedding.

Real gross value added by the mining sector

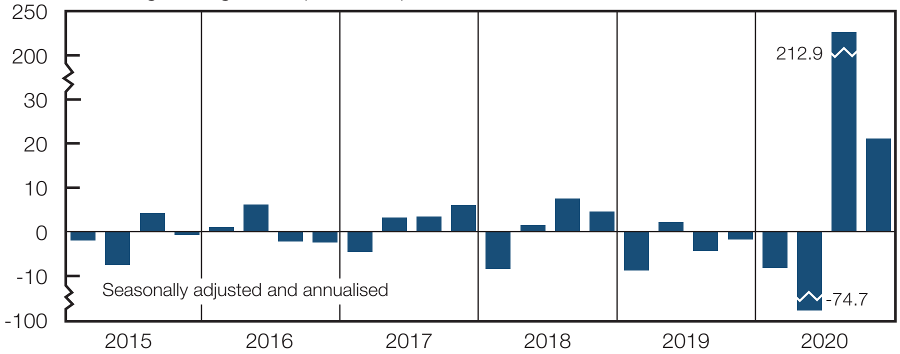


Sources: Stats SA and SARB

Real economic activity in the *secondary sector* increased further by 16.9% in the fourth quarter of 2020, after expanding significantly by 158.1% in the third quarter. The real output growth of all three secondary sectors – manufacturing, electricity, gas and water as well as construction – moderated over the period.

The real GVA by the *manufacturing sector* increased at a slower but still substantial pace of 21.1% in the fourth quarter of 2020. This brought manufacturing activity closer to pre-lockdown levels and contributed the most to overall GDP growth at 2.4 percentage points. Of the 10 subsectors, only the production volumes of petroleum, chemical, rubber and plastic products decreased in the fourth quarter. The increase in manufacturing production was driven by improved domestic and export demand, following the easing of lockdown restrictions. The higher production levels were also consistent with improved business confidence among manufacturers and the further increase in the seasonally adjusted utilisation of manufacturing production capacity, from 72.8% in August 2020 to 78.1% in November, closer to levels that existed prior to the COVID-19-related national lockdown.

Real gross value added by the manufacturing sector



Contributions to manufacturing production: fourth quarter of 2020*

Percentage points, seasonally adjusted

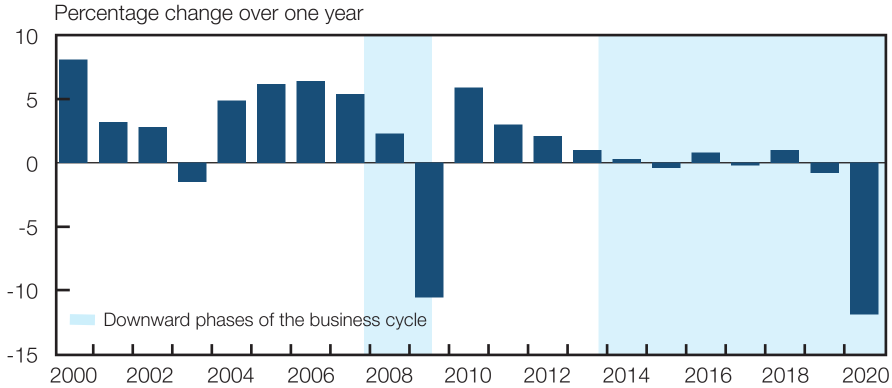
* See text for the full description of subsectors

Source: Stats SA

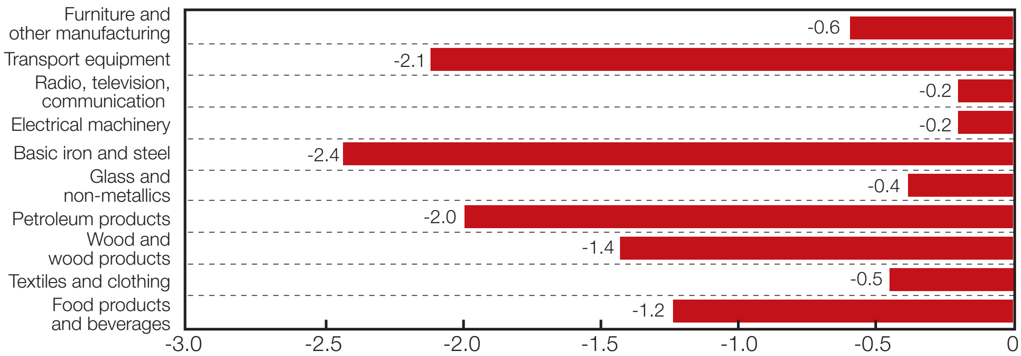
On an annual basis, growth in manufacturing output peaked at 5.9% in 2010 during the previous upward phase of the business cycle. Subsequently, growth slowed gradually and fluctuated around zero per cent throughout the current downward phase of the business cycle. Real manufacturing GVA then contracted by 11.6% in 2020, slightly more than the contraction of 10.6% in 2009, reflecting the impact of the COVID-19 lockdown restrictions. Although approximately two-thirds of the sector remained operational during the extended lockdown, durable and non-durable manufacturing subtracted 5.1 and 5.9 percentage points respectively from overall manufacturing output in 2020, as production in all 10 main manufacturing industries contracted.

The real output of the sector supplying *electricity, gas and water* increased marginally by 2.2% in the fourth quarter of 2020, following an expansion of 58.0% in the third quarter. The slower pace of increase in both electricity production and consumption reflected the recovery to pre-lockdown levels and the renewed implementation of load-shedding towards the end of the quarter. In addition, economic activity in the energy-intensive mining and manufacturing sectors moderated in the fourth quarter. Although electricity production and consumption levels were already depressed prior to the COVID-19 lockdown, the associated restrictions on economic activity aggravated the situation, resulting in a decrease of 5.0% in the real GVA by the electricity, gas and water sector in 2020, following a contraction of 2.0% in 2019. Electricity costs, the recurrence of load-shedding, illegal connections, infrastructure theft and vandalism remain notable structural impediments to future output growth. These constraints are being alleviated to some extent by the continued expansion of renewable energy infrastructure through the ongoing Independent Power Producer Programme.

Real gross value added by the manufacturing sector



Contributions to manufacturing production in 2020*



Percentage points

* See text for the full description of subsectors

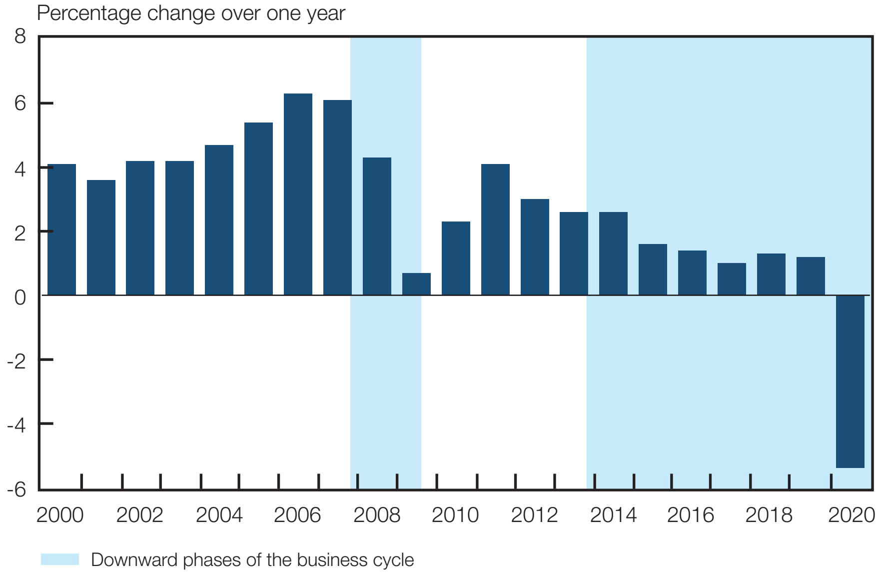
Sources: Stats SA and SARB

The real GVA by the *construction sector* remained well below pre-lockdown levels as it increased at a slower pace of 11.2% in the fourth quarter of 2020, after expanding notably by 73.6% in the preceding quarter. This reflected a much slower pace of increase in civil construction, non-residential and residential building activity. Activity continued to be impeded by the protracted economic downturn, reduced infrastructure investment, policy uncertainty and the lingering effects of the COVID-19 pandemic. Accordingly, construction output declined sharply by 20.3% in 2020, marking the fourth successive annual contraction.

The real GVA by the *tertiary sector* rose further by 3.3% in the fourth quarter of 2020 and contributed 2.2 percentage points to overall GDP growth, following an expansion of 37.8% in the third quarter. Output contracted in the finance, insurance, real estate and business services sector, while growth moderated in the commerce; transport, storage and communication as well as the general government services sectors in the fourth quarter. Following a contraction of 12.1% in the first half of 2020 and an increase of only 2.6% in the second half of the year, output remained far below pre-lockdown levels with real economic activity in the tertiary sector declining by 5.4% for the year as a whole – the first annual contraction in 28 years.

Real output growth in the *commerce sector* contributed 1.3 percentage points to overall GDP growth in the fourth quarter of 2020, despite slowing to 9.8% after expanding by a robust 137.0% in the third quarter. Real wholesale trade activity declined, while both retail and motor trade activity increased in the fourth quarter. Despite improved business confidence, real output of the wholesale subsector was suppressed by weak consumer demand, constrained household finances, electricity supply interruptions and continued supply-chain disruptions.

Real gross value added by the tertiary sector



Sources: Stats SA and SARB

Weaker wholesale trade activity reflected subdued sales of precious stones, jewellery and silverware; solid, liquid and gaseous fuels and related products; as well as machinery, equipment and supplies. Increased new vehicle sales within a low interest rate environment supported activity in the motor trade subsector, while real retail trade activity was boosted by sales of food, beverages and tobacco; household furniture, appliances and equipment; and hardware, paint and glass. Retail trade activity was, only to a limited extent, supported by Black Friday promotions in November, reflecting lower consumer demand as household disposable income growth remained constrained due to job losses and decreases in remuneration as a result of the national lockdown.

The real output of the *transport, storage and communication services sector* increased at an annualised rate of 6.7% in the fourth quarter of 2020 and contributed 0.5 percentage points to overall GDP growth, after expanding by 78.1% in the third quarter. The marginal improvement was supported by increased activity in both land and air transportation as well as transport support services. The volume of goods transported by both rail and road increased to pre-lockdown levels, while passenger transportation was still weighed down by both business and leisure travellers that remained cautious to make use of these services.

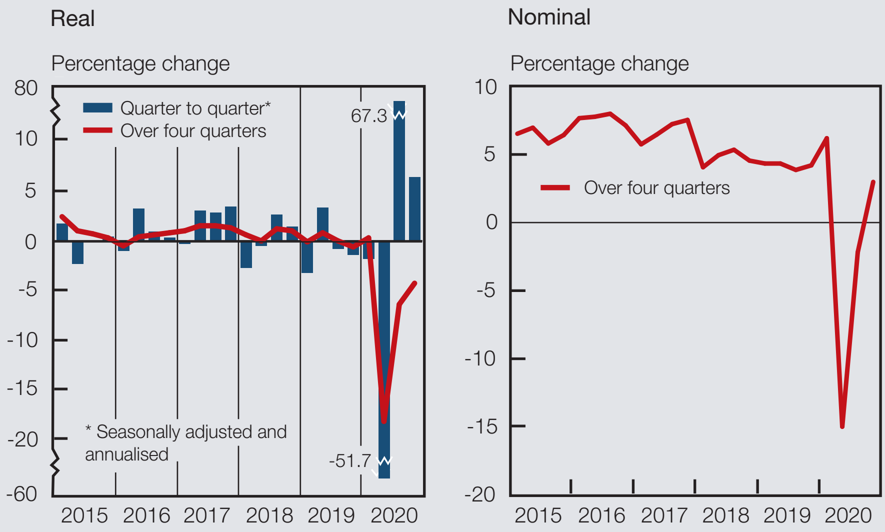
The real GVA by the *finance, insurance, real estate and business services sector* receded by 0.2% in the fourth quarter of 2020, from an annualised increase of 17.0% in the third quarter, and subtracted 0.1 percentage points from overall GDP growth. The slight contraction reflected slower growth in the monetary institutions obtaining funds in the form of depostis; insurance; and pension funds alongside a contraction in activities auxiliary to financial intermediation. Weighed down by reduced banking activity, the inability to process property transfers to conclude property transactions as well as close linkages with other struggling sectors in the economy, the GVA by this sector receded by an unprecedented 4.4% in 2020, from an increase of 2.3% in 2019. This was the first contraction since annual records began in 1946.

Growth in the real GVA by the *general government services sector* moderated to 0.7% in the fourth quarter of 2020 and contributed 0.1 percentage points to overall GDP growth, reflecting an increase in the number of government employees. In 2020, growth in general government services output moderated to 0.7% compared with 1.7% in 2019.

Box 1 Unpacking nominal national accounts aggregates [1, 2, 3]

The most familiar macroeconomic aggregate from the national accounts is growth in *real* gross domestic product [4] (GDP), which is an indicator of the change in real economic activity.[5] However, growth in *nominal* GDP at market prices [6] and its level, which indicates the monetary value of all final goods and services produced in an economy at current prices (i.e. without adjustment for inflation), is equally important.

Growth in gross domestic product



Source: Stats SA

Hence, the level of nominal GDP is an indicator of the size of an economy, and is also used as the denominator in the calculation of ratios to express the proportions of other economic aggregates relative to GDP. Changes in nominal GDP reflect changes in either the quantity and/or the price of the final goods and services produced, while a change in real GDP only indicates a change in volume/output. This box discusses selected national accounts aggregates at current prices (nominal terms) in the context of the production, distribution and accumulation accounts, and how they can be applied.

The quarterly level of nominal GDP (at current prices) and real GDP (at constant prices), on a not seasonally adjusted and not annualised basis as well as the annual levels of both, clearly shows the impact of the coronavirus disease 2019 (COVID-19) on the size of the domestic economy in 2020, in both nominal and real terms, and the longer term impact of price changes.

Selected national accounts aggregates at current prices (nominal terms) in the context of the production, distribution and accumulation accounts for the total domestic economy show how these aggregates are integrated into a coherent framework.

The level of nominal GDP is used to standardise selected macroeconomic aggregates, for example, saving, expenditure, capital formation and balances such as on the trade and current account as well as debt. These ratios, as a percentage of nominal GDP, facilitate international comparisons of variables that depend on the size of a country's economy.

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1 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

2 South Africa's gross domestic product (GDP) statistics are compiled and published by Statistics South Africa. For the methodology and statistics of the production-based GDP estimates, see http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2014.pdf and for the expenditure-based GDP estimates, see http://www.statssa.gov.za/publications/P0441/Expenditure_on_GDP_Sources_and_Methods.pdf

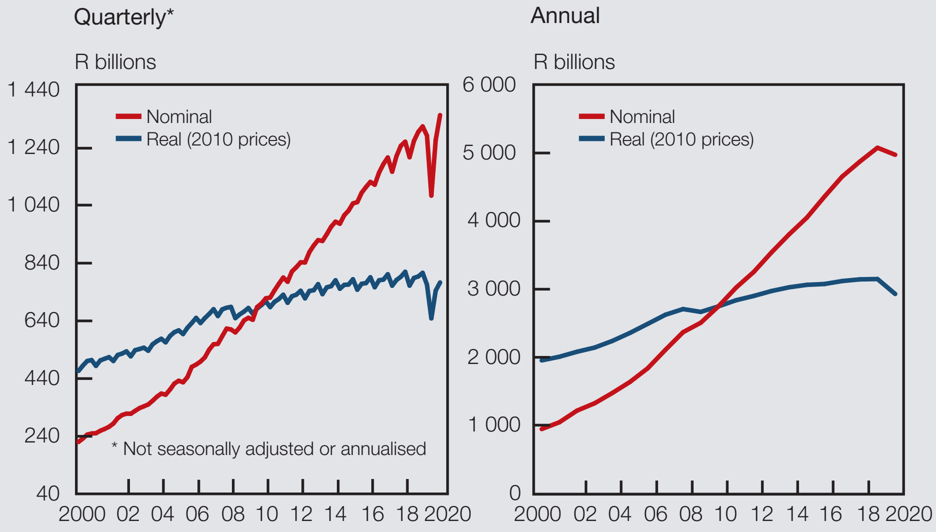
3 This box relates to the production, distribution and accumulation accounts of South Africa for the total domestic economy. See the statistical tables on pages S–112, S–116 and S–137 in this edition of the *Quarterly Bulletin*.

4 The quarter-to-quarter seasonally adjusted and annualised growth is quoted most often.

5 For gross value added statistics, see pages S–113 and S–114 and for real growth rates page S–156 in this edition of the *Quarterly Bulletin*.

6 This represents the current prices paid for the goods and services during a particular period.

Level of gross domestic product



Source: Stats SA

Selected national accounts aggregates of the total domestic economy at current prices[1]

R billions

	2019					2020				
	Q1*	Q2*	Q3*	Q4*	Year**	Q1*	Q2*	Q3*	Q4*	Year**
Gross value added at basic prices[a]	1 064	1 137	1 153	1 170	4 524	1 119	985	1 135	1 190	4 430
Gross domestic product at market prices[b]	**1 207**	**1 263**	**1 295**	**1 313**	**5 078**	**1 281**	**1 074**	**1 266**	**1 353**	**4 974**
Gross operating surplus[c]	475	515	519	502	2 010	501	407	510	521	1 938
Gross national income[d]	1 158	1 244	1 237	1 296	4 934	1 243	1 055	1 242	1 339	4 880
Gross disposable income[e].........	**1 149**	**1 235**	**1 228**	**1 287**	**4 899**	**1 235**	**1 047**	**1 230**	**1 325**	**4 837**
Final consumption expenditure[f]	986	1 016	1 035	1 104	4 140	1 032	916	1 036	1 117	4 101
Households..............................	723	749	763	824	3 059	757	644	753	825	2 978
General government.................	263	266	272	280	1 081	275	272	283	292	1 122
Gross saving[g]	**146**	**213**	**179**	**203**	**740**	**165**	**147**	**208**	**206**	**726**
Consumption of fixed capital	175	178	180	181	713	182	186	191	193	752
Net saving[h]	-30	35	-1	22	27	-17	-39	17	13	-25
Gross fixed capital formation[i]........	217	228	234	230	909	212	173	194	205	784
Change in inventories[j]..................	-13	17	8	-27	-16	-38	-13	-50	-65	-166
Net lending (+)/borrowing (-)[k].....	**-58**	**-32**	**-63**	**0**	**-153**	**-9**	**-14**	**65**	**66**	**108**

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

Sources: Stats SA and SARB

Notes to table

a The gross value added (GVA) at basic prices for the domestic economy as a whole is the sum of GVA of all institutional units engaged in production, and is also the balancing item of the production account, which comprises output at basis prices[2] less intermediate consumption.[3] See the statistical table on page S–113 in this edition of the *Quarterly Bulletin*.

b The GDP at market prices[4] is equal to the total GVA at basic prices, plus taxes on products, less subsidies on products. See the statistical tables on page S–112 and S–116 in this edition of the *Quarterly Bulletin*.

c The gross operating surplus is the balancing item of the generation of income account and is equal to GDP at market prices less compensation of employees, less taxes on production and imports, plus subsidies. The consumption of fixed capital (depreciation) should be deducted to derive the net operating surplus.

d The gross national income (GNI) is the total income of all residents of an economy in a specific period and is the balancing item of the allocation of primary income account, which is equal to the gross operating surplus plus compensation of employees (adjusted for net compensation to non-residents) and taxes on production and imports, less subsidies, plus property income received, and minus property income paid. See the statistical table on page S–137 in this edition of the *Quarterly Bulletin*. GNI is in this way equal to GDP at market prices plus primary income receivable from the rest of the world, less primary income payable to the rest of the world. See the statistical table on page S–112 in this edition of the *Quarterly Bulletin*.

e The gross disposable income is the balancing item of the secondary distribution of income account and is equal to gross national income plus current transfers received, minus current transfers paid.

f The final consumption expenditure of resident[5] households and general government on goods and/or services.

g Gross saving is the balancing item of the current account as carried forward to the capital account, and is equal to gross disposable income less final consumption expenditure and the residual.[6]

h Net saving is equal to gross saving minus the consumption of fixed capital (depreciation).

i Gross fixed capital formation is the value of acquisitions, less disposals of fixed (non-financial) assets.

j The change in inventories is the difference between additions to, and withdrawals from, inventories.

k Net lending[7]/borrowing[8] is the balancing item in the capital account and is equal to gross saving plus capital transfers receivable minus capital transfers payable, and less gross fixed capital formation and the change in inventories.

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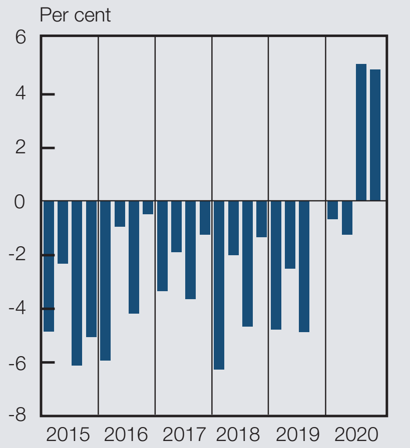
1 For the detailed statistical table, see page S–137 in this edition of the *Quarterly Bulletin*.
2 Output at basic prices is the amount receivable by a producer for output minus taxes on products payable, plus subsidies on products receivable.
3 Intermediate consumption is the value of goods and services consumed as inputs to the production process, excluding depreciation.
4 GDP at market prices measures the value of all final goods and services produced within the geographic boundaries of a country in a specific period.
5 A resident institutional unit is a unit that has a center of economic interest in the particular country.
6 The residual is the statistical discrepancy between the expenditure components and GDP.
7 Net lending is the amount of resources available to lend to deficit units in the economy through the financial account, even if they are retained in a bank deposit.
8 Net borrowing is the amount of resources required from surplus units in the economy through incurring liabilities in the financial account.

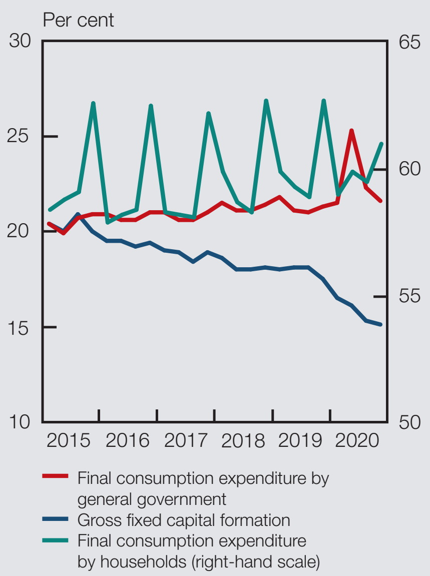
The ratio of South Africa's net lending or borrowing position relative to the rest of the world is one of these ratios. With the switch to a current account surplus as from the third quarter of 2020, the persistent net borrowing position switched to a net lending position as a ratio of GDP – this surplus amounted to 5.1% and 4.9% in the third and fourth quarter of 2020 respectively.

Total net lending/borrowing as a ratio of nominal gross domestic product



Sources: Stats SA and SARB

Consumption and investment as a ratio of nominal gross domestic product



Source: Stats SA

Nominal final consumption expenditure by households, (not seasonally adjusted and not annualised) as a percentage of GDP, increased to 61.0% in the fourth quarter of 2020, following ratios of below 60% in the first three quarters of 2020. Nominal gross fixed capital formation (not seasonally adjusted and not annualised), as a share of GDP, decreased to a low of 15.1% in the fourth quarter of 2020, as it continued its downward trajectory. The marked increase in the ratio of final consumption expenditure by general government (not seasonally adjusted and not annualised) in the second quarter of 2020 mainly reflected increased spending related to COVID-19 while nominal GDP declined notably due to the national lockdown.

Selected nominal aggregates as a ratio of gross domestic product

Ratio in per cent

	2019					2020				
	Q1*	Q2*	Q3*	Q4*	Year**	Q1*	Q2*	Q3*	Q4*	Year**
Gross saving	12.1	16.9	13.8	15.4	14.6	12.9	13.7	16.4	15.2	14.6
Net lending (+)/borrowing (-)	-4.8	-2.5	-4.9	0.0	-3.0	-0.7	-1.3	5.1	4.9	2.2
Final consumption expenditure	81.7	80.4	79.9	84.0	81.5	80.5	85.3	81.8	82.6	82.4
Households.............................	59.9	59.3	58.9	62.7	60.2	59.0	59.9	59.5	61.0	59.9
General government.................	21.8	21.1	21.0	21.3	21.3	21.5	25.3	22.3	21.6	22.6
Gross fixed capital formation[i]........	18.0	18.1	18.1	17.5	17.9	16.5	16.1	15.3	15.1	15.8

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

Sources: Stats SA and SARB

The growth rate measured over four quarters in these nominal aggregates (not seasonally adjusted and not annualised) is also informative in its own right. The total nominal GVA (not seasonally adjusted and not annualised) increased by 1.8% in the year to the fourth quarter of 2020, following two successive contractions, as the lockdown restrictions were eased. Similarly, nominal GDP increased by 3.0% in the year to the fourth quarter of 2020. What is also interesting to note is the growth in nominal gross disposable income in the third quarter of 2020, albeit marginal, as the lockdown restrictions were eased somewhat.

Growth in selected nominal production and expenditure aggregates

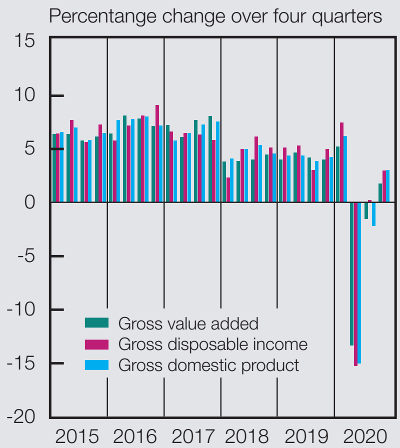
Percentage change over four quarters

	2019					2020				
	Q1*	Q2*	Q3*	Q4*	Year**	Q1*	Q2*	Q3*	Q4*	Year**
Gross value added at basic prices	4.0	4.6	4.2	4.0	4.2	5.2	-13.3	-1.5	1.8	-2.1
Gross domestic product at market prices	4.3	4.3	3.9	4.2	4.2	6.2	-15.0	-2.2	3.0	-2.0
Gross operating surplus	3.9	4.6	4.8	4.2	4.4	5.5	-21.0	-1.8	3.9	-3.6
Gross national income	4.8	5.3	3.1	5.0	4.5	7.3	-15.2	0.5	3.3	-1.1
Gross disposable income	5.1	5.3	3.0	5.0	4.6	7.4	-15.3	0.2	3.0	-1.3
Final consumption expenditure										
Households.............................	4.3	5.4	5.0	4.2	4.7	4.7	-14.1	-1.3	0.2	-2.6
General government.................	5.7	4.1	3.4	3.9	4.2	4.7	2.1	3.9	4.4	3.8
Gross fixed capital formation[i]........	0.7	4.7	4.2	0.6	2.5	-2.4	-24.0	-17.2	-10.9	-13.8

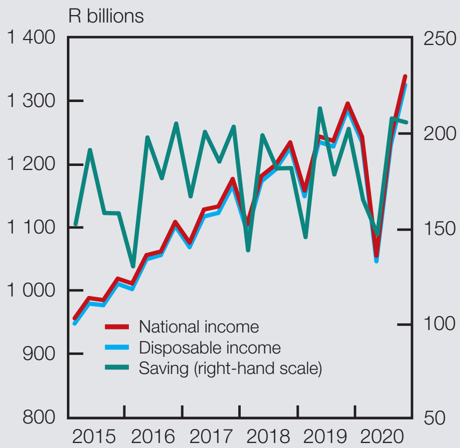
* Current prices not seasonally adjusted and not annualised
** Annual statistics

Sources: Stats SA and SARB

Nominal output and income aggregates



Nominal gross income and saving aggregates



Sources: Stats SA and SARB

These statistics, expressed in nominal terms, are particularly useful in the analysis of aggregates such as gross national income and saving. The level of nominal gross national income increased during the fourth quarter of 2020, following the normalisation in economic activity in most sectors of the economy, as a result of the further easing of lockdown restrictions. The nominal gross disposable income also increased to R1.3 trillion in the fourth quarter of 2020 – 3.0% higher than in the same quarter of the previous year. After accounting for final consumption expenditure, gross saving amounted to R206 billion in the fourth quarter of 2020 or 15.2% of GDP.

3 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data and are annualised.

4 The analysis in this section is based on a revised set of national accounts estimates for 2020. These revisions are based on more detailed or more appropriate data that have become available.

Real gross domestic expenditure[3, 4]

In line with the slower growth in real GDP, growth in real *gross domestic expenditure* (GDE) moderated from 25.4% in the third quarter of 2020 to 11.2% in the fourth quarter. Real final consumption expenditure by general government rose slightly faster while that by households as well as real gross fixed capital formation increased at a slower pace. In addition, real inventory holdings decreased at a slower pace in the fourth quarter. For 2020 as whole, real GDE declined by 8.9%, following a slight increase of 0.7% in 2019. This was the third but most acute annual contraction since 2009, in the wake of the global financial crisis. Real GDE contracted, on average, by 0.2% per annum during the current downward phase of the business cycle compared with a contraction of 0.1% in real GDP, as the demand for goods and services declined slightly more than the average production thereof over the period.

Real gross domestic expenditure

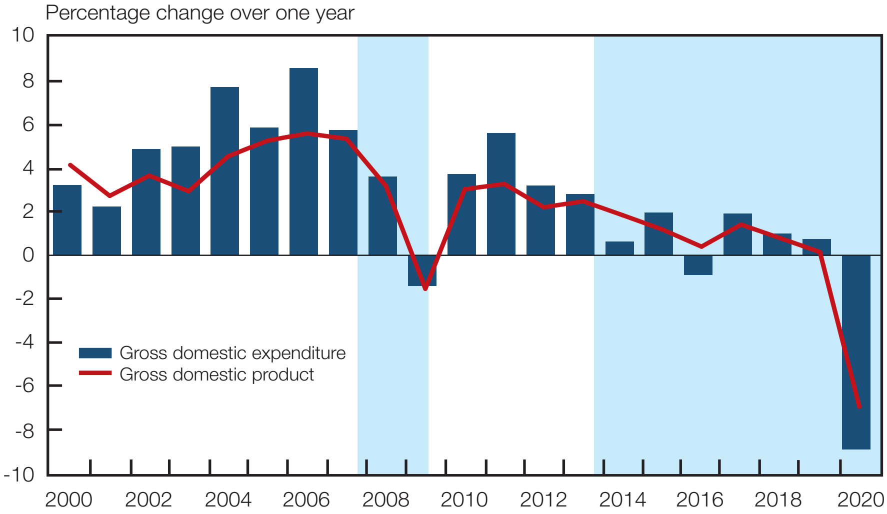
Quarter-to-quarter percentage change at seasonally adjusted annualised rates

Component	2019					2020				
	Q1	Q2	Q3	Q4	Year[1]	Q1	Q2	Q3	Q4	Year[1]
Final consumption expenditure										
Households	-0.9	2.5	0.3	1.4	1.0	0.0	-52.0	75.3	7.5	-5.4
General government	2.2	2.7	1.4	-0.2	1.5	1.8	-2.1	0.8	1.1	0.5
Gross fixed capital formation	-4.1	5.8	4.1	-10.0	-0.9	-18.7	-59.4	26.9	12.1	-17.5
Domestic final demand[2]	**-0.9**	**3.2**	**1.2**	**-1.2**	**0.8**	**-3.3**	**-45.4**	**46.7**	**6.8**	**-6.5**
Change in inventories (R billions)[3]	*-11.7*	*29.4*	*-13.9*	*-40.3*	*-9.1*	*-70.7*	*-29.3*	*-144.1*	*-115.1*	*-89.8*
Residual[4]	*0.1*	*0.2*	*0.1*	*0.0*	*0.1*	*0.0*	*0.4*	*0.3*	*0.2*	*0.2*
Gross domestic expenditure[5]	**4.7**	**9.1**	**-4.5**	**-4.6**	**0.7**	**-7.1**	**-41.9**	**25.4**	**11.2**	**-8.9**

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 2010 prices
4 The residual as a percentage of GDP
5 Including the residual

Sources: Stats SA and SARB

Real gross domestic product and expenditure



Sources: Stats SA and SARB

The real final consumption expenditure by households and the change in real inventory holdings contributed the most to real GDP growth in the fourth quarter of 2020, at 4.7 and 4.0 percentage points respectively. By contrast, real net exports subtracted 4.4 percentage points. For 2020 as a whole, all of the expenditure components subtracted from overall GDP growth, except for the small contribution of 0.1 percentage points by the real final consumption expenditure by general government and a somewhat more substantial contribution of 2.1 percentage points by real net exports.

Contributions of expenditure components to growth in real gross domestic product

Percentage points

Component	2019					2020				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Final consumption expenditure										
Households	-0.5	1.6	0.2	0.8	0.6	0.0	-32.7	46.3	4.7	-3.4
General government	0.4	0.5	0.3	0.0	0.3	0.4	-0.3	0.2	0.2	0.1
Gross fixed capital formation	-0.8	1.1	0.8	-2.0	-0.2	-3.8	-11.4	5.2	1.9	-3.3
Change in inventories	5.3	5.3	-5.5	-3.3	-0.1	-3.8	4.1	-21.6	4.0	-2.6
Residual	0.2	0.5	-0.5	-0.2	0.1	-0.1	1.0	-0.4	-0.2	0.1
Gross domestic expenditure	**4.6**	**9.0**	**-4.7**	**-4.8**	**0.7**	**-7.3**	**-39.3**	**29.8**	**10.7**	**-9.1**
Net exports	-7.8	-5.7	3.9	3.3	-0.6	5.6	-12.3	37.5	-4.4	2.1
Gross domestic product	**-3.2**	**3.3**	**-0.8**	**-1.4**	**0.2**	**-1.8**	**-51.7**	**67.3**	**6.3**	**-7.0**

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

Sources: Stats SA and SARB

The rate of increase in the real *exports* of goods and services decelerated to 6.1% in the fourth quarter of 2020, following a significantly higher 31.0% in the third quarter. Growth in the exports of mining and manufacturing goods slowed in the fourth quarter, while the real exports of services increased by 14.2%, following a decrease of 2.0% in the third quarter. By contrast, real agricultural exports contracted in the fourth quarter of 2020. Slower growth in total mining exports reflected a slight contraction in the export volumes of mineral products as well as a moderation in foreign demand for precious metals (including gold, PGMs and stones) and base metals and articles thereof. A contraction in the export volumes of prepared foodstuffs, beverages and tobacco, alongside slower growth in the export volumes of all other manufactured goods, suppressed growth in total manufactured exports, while a decline in vegetable exports weighed on total agricultural exports.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2020					
	Exports			Imports		
	Percentage of total**	Q3***	Q4***	Percentage of total**	Q3***	Q4***
Total	100.0	31.0	6.1	100.0	-0.5	11.1
Mining	47.8	28.5	5.2	22.1	1.5	6.7
Of which:						
Mineral products	21.0	16.9	-3.8	16.4	1.1	0.6
Precious metals including gold, platinum group metals and stones	16.1	55.4	12.1	1.2	44.1	5.2
Base metals and articles	10.7	19.3	12.7	4.5	-6.1	32.0
Manufacturing	35.2	52.0	7.9	63.4	0.0	14.8
Of which:						
Vehicles and transport equipment	10.1	107.9	27.7	10.9	20.3	58.4
Machinery and electrical equipment	7.3	76.2	4.3	25.2	4.5	4.0
Chemical products	7.1	20.9	5.5	11.2	-4.0	-1.2
Prepared foodstuffs, beverages and tobacco	4.1	21.0	-11.3	2.6	-13.1	11.8
Agriculture	8.0	4.0	-5.9	4.2	-5.5	-6.0
Of which:						
Vegetable products	6.5	1.4	-4.1	2.0	-12.3	-12.9
Services	7.9	-2.0	14.2	9.7	-5.9	5.5

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2020
*** Not annualised
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

The real *imports* of goods and services expanded by a marked 11.1% in the fourth quarter of 2020, following a slight contraction of 0.5% in the third quarter. Growth in mining, manufacturing and services import volumes accelerated in the fourth quarter. By contrast, agricultural imports declined at a slightly faster pace. Stronger domestic demand for base metals and articles thereof outweighed the slower pace of increase in the importation of mineral products and precious metals (including gold, PGMs and stones). Manufactured import volumes increased markedly as domestic demand for especially vehicles and transport equipment as well as prepared foodstuffs, beverages and tobacco increased at a much faster pace.

Contributions of real exports and imports as well as net exports of goods and services to growth in real gross domestic product

Percentage points

Component	2020					
	Exports		Imports*		Net exports	
	Q3	Q4	Q3	Q4	Q3	Q4
Total	**36.8**	**6.9**	**-0.7**	**11.4**	**37.5**	**-4.4**
Mining	**16.8**	**2.9**	**0.5**	**1.6**	**16.4**	**1.3**
Of which:						
Mineral products	4.9	-0.9	0.2	0.1	4.6	-1.0
Precious metals including gold, platinum group metals and stones	9.4	2.3	0.6	0.1	8.8	2.3
Base metals and articles	2.6	1.5	-0.4	1.4	3.0	0.1
Manufacturing	**19.7**	**3.3**	**0.0**	**9.6**	**19.7**	**-6.3**
Of which:						
Vehicles and transport equipment	8.0	3.1	2.1	5.3	5.9	-2.2
Machinery and electrical equipment	5.5	0.4	1.6	1.1	3.9	-0.7
Chemical products	2.0	0.5	-0.7	-0.1	2.7	0.6
Prepared foodstuffs, beverages and tobacco	1.2	-0.6	-0.5	0.3	1.7	-0.9
Agriculture	**0.5**	**-0.6**	**-0.4**	**-0.3**	**0.9**	**-0.3**
Of which:						
Vegetable products	0.1	-0.3	-0.5	-0.3	0.6	0.0
Services	**-0.2**	**0.8**	**-0.8**	**0.5**	**0.6**	**0.3**

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

Sources: SARS, Stats SA and SARB

Real *net exports* subtracted a notable 4.4 percentage points from real GDP growth in the fourth quarter of 2020, as the real net exports of manufactured and agricultural products detracted 6.3 and 0.3 percentage points respectively. The lower real net exports of vehicles and transport equipment; machinery and electrical equipment; as well as prepared foodstuffs, beverages and tobacco subtracted the most from overall net manufacturing exports. In the mining sector, the increase in the real net exports of precious metals (including gold, PGMs and stones) and base metals and articles thereof more than fully countered the lower net exports of mineral products.

Growth in the real *final consumption expenditure by households* moderated to a still fairly buoyant 7.5% in the fourth quarter of 2020, after the low-base-induced surge of 75.3% in the third quarter.

Real final consumption expenditure by households

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

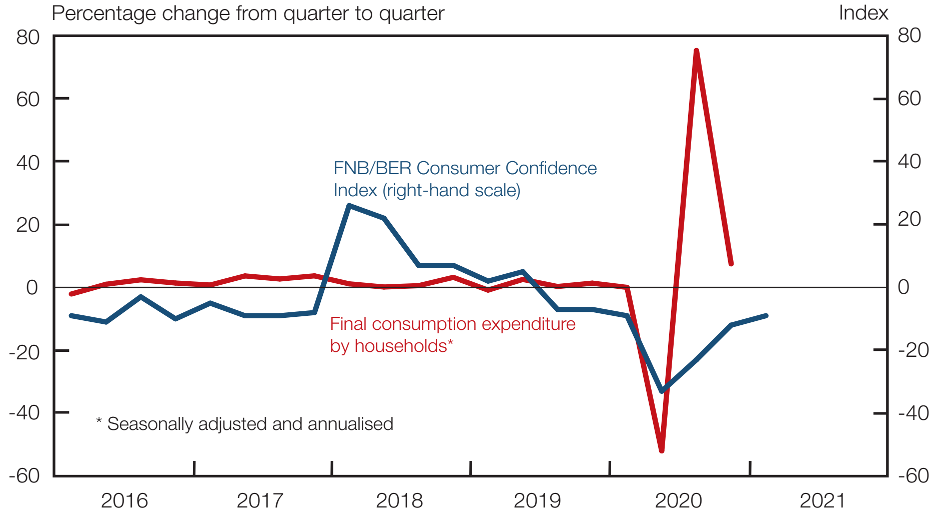
Category	2019					2020				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Durable goods	-7.2	8.7	2.2	-0.6	0.6	-7.7	-73.3	266.5	1.3	-8.4
Semi-durable goods	-11.4	3.7	-1.6	5.6	0.5	-5.7	-88.1	301.7	15.8	-18.3
Non-durable goods	-0.2	2.1	-0.2	0.7	1.1	4.6	-50.4	75.1	10.1	-3.9
Services	2.6	1.3	0.7	1.4	1.2	-0.7	-32.7	32.1	5.2	-3.2
Total	**-0.9**	**2.5**	**0.3**	**1.4**	**1.0**	**0.0**	**-52.0**	**75.3**	**7.5**	**-5.4**

* Percentage change over one year

Source: Stats SA

Consistent with low consumer confidence, as measured by the FNB/BER Consumer Confidence Index, subdued Black Friday sales in November as well as stricter lockdown regulations towards the end of December, real outlays on all spending categories increased at a slower pace in the fourth quarter.

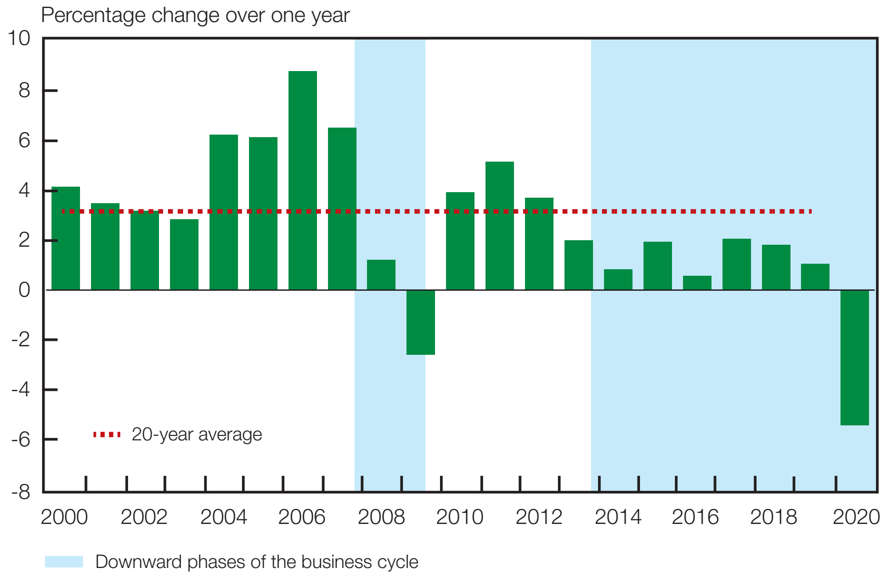
Real final consumption expenditure by households and consumer confidence



Sources: BER and Stats SA

Following a moderate increase of 1.0% in 2019, real final consumption expenditure by households contracted by 5.4% in 2020, more than double the contraction in 2009 in the wake of the global financial crisis. This compares with the average increase of 3.2% per annum over the previous 20 years. Purchases of durable, semi-durable and non-durable goods as well as services all contracted in 2020, mainly due to the adverse effects of the COVID-19 pandemic, which resulted in slower growth in households' real disposable income, rising unemployment and weak demand for large purchases amid the uncertain environment.

Real final consumption expenditure by households



Sources: Stats SA and SARB

Growth in real spending by households on *durable goods* moderated to 1.3% in the fourth quarter of 2020, following the rebound of 266.5% in the third quarter. Real outlays on personal transport equipment contracted in the fourth quarter of 2020, after surging from a very low base in the third quarter. The prevailing favourable vehicle financing terms, including historically low interest rates, could not support expenditure on personal transport equipment. Growth in household consumption expenditure on all other durable goods slowed, including computers and related equipment, furniture and household equipment as well as other durable goods. For the year as a whole, real outlays on total durable goods declined by 8.4% following a marginal increase of 0.6% in 2019.

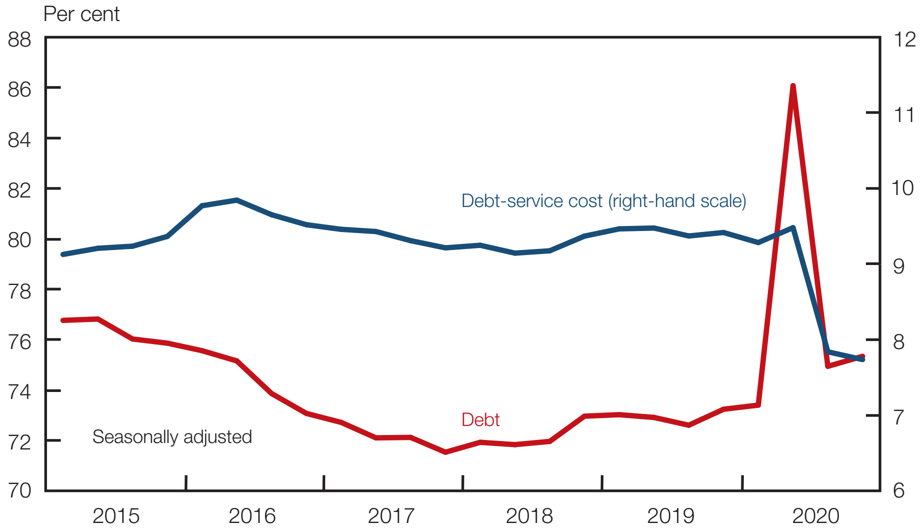
Real outlays on *semi-durable goods* rose by 15.8% in the fourth quarter of 2020, after expanding by as much as 301.7% in the third quarter from the lockdown-induced low base in the second quarter. The slowdown was especially pronounced for motorcar tyres and accessories, while consumer spending on clothing and footwear; household textiles, furnishings and glassware; as well as recreational and entertainment goods increased at a steady pace in the fourth quarter.

Growth in real purchases of *non-durable goods* slowed to 10.1% in the fourth quarter of 2020, following an increase of 75.1% in the previous quarter. Consumption expenditure on food, beverages and tobacco; petroleum products; household consumer goods; as well as medical and pharmaceutical products increased at a slower but solid pace, while real spending on power, water and fuel slowed in the fourth quarter. Real outlays on non-durable goods contracted by 3.9% in 2020 as a whole, following an annual increase of 1.1% in 2019.

Growth in real outlays by households on *services* moderated from 32.1% in the third quarter of 2020 to 5.2% in the fourth quarter. The slowdown was broad-based, as real consumer spending on almost all services subcategories lost pace in the fourth quarter, including household transport, communication, recreational, entertainment and educational services as well as rent. By contrast, household spending on medical services increased at a slightly faster pace in the fourth quarter of 2020. Real expenditure on services decreased by 3.2% in 2020, after having increased by 1.2% in 2019.

Household debt increased at a faster pace in the fourth quarter of 2020. Consequently, the ratio of debt to disposable income rose slightly to 75.3% in the fourth quarter of 2020 from 74.9% in the third quarter. However, households' cost of servicing debt relative to disposable income decreased slightly from 7.8% in the third quarter of 2020 to 7.7% in the fourth quarter.

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



Source: SARB

5 Annual changes in household debt and wealth were calculated by comparing the average levels per calendar year.

Growth in household debt moderated from 5.8% in 2019[5] to 4.0% in 2020. Despite the moderation, household debt as a percentage of nominal disposable income increased from 72.9% to 77.1% over the same period, as the increase in household debt exceeded that in households' nominal disposable income due to the impact of COVID-19. Conversely, households' cost of servicing debt relative to disposable income decreased notably from 9.4% in 2019 to 8.5% in 2020, reflecting the slower growth in household indebtedness and in particular the sizeable reduction in interest rates over the period.

Households' net wealth increased further in the fourth quarter of 2020 as the increase in total assets outweighed that in total liabilities. The increase in household assets was largely driven by equity and deposit holdings. The ratio of net wealth to nominal disposable income increased slightly to 371.2% in the fourth quarter of 2020 from 364.4% in the third quarter, as the increase in households' net wealth outpaced that in nominal disposable income.

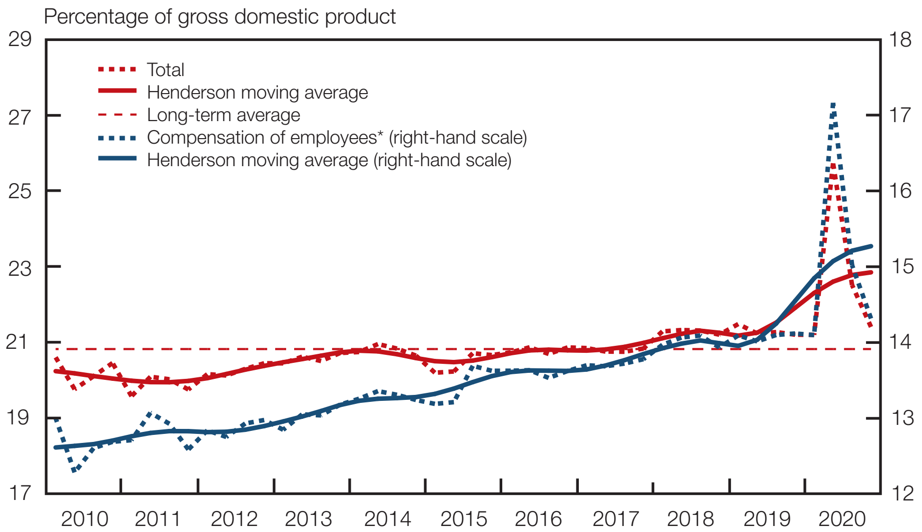
Households' net wealth deteriorated in 2020 as the value of household assets decreased somewhat while that of liabilities increased slightly. The lower value of assets resulted from a decrease in equity holdings in particular, as share prices fell sharply during the initial COVID-19-induced national lockdown. Nonetheless, the ratio of households' net wealth to nominal disposable income increased from 362.4% in 2019 to 369.4% in 2020, as significant job losses impacted household income more than wealth. This implies that households' net wealth was about 3.7 times the value of their disposable income.

Real *final consumption expenditure by general government* increased by 1.1% in the fourth quarter of 2020, after increasing by 0.8% in the third quarter. Growth in real outlays on non-wage goods and services accelerated slightly while the compensation of employees increased at a slower pace. For 2020 as a whole, real final consumption expenditure by general government increased by 0.5% and contributed 0.1 percentage points to overall economic growth. This was one of only two expenditure components that contributed to real GDP growth in 2020, largely due to increased spending on health in response to the COVID-19 pandemic.

6 The long-term average of 20.8% was measured as the average ratio from the first quarter of 2010 up to the fourth quarter of 2020.

The nominal consumption expenditure by general government relative to nominal GDP has trended higher over the past 10 years and surpassed the long-term average[6] from the first quarter of 2018. The upward trend was driven by the compensation of employees – the largest component of government spending.

Nominal final consumption expenditure by general government



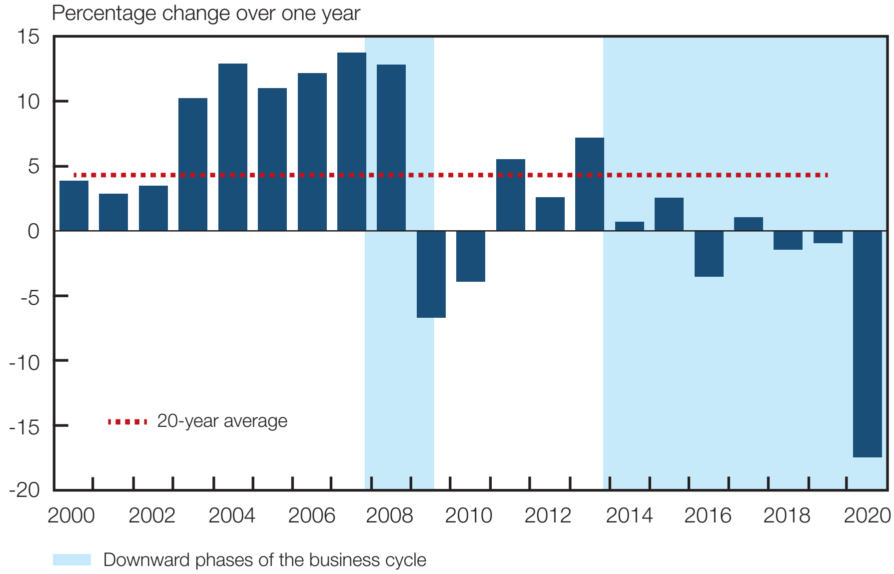
Seasonally adjusted

* Compensation of employees is the largest component of final consumption expenditure by general government

Source: Stats SA

Real *gross fixed capital formation* increased at a slower pace of 12.1% in the fourth quarter of 2020, following an expansion of 26.9% in the third quarter. At this rate gross fixed capital formation remained well below pre-lockdown levels as real capital spending by public corporations rebounded while private business enterprises and general government increased capital outlays further. Real capital expenditure decreased for a third successive year by a near-record 17.5% in 2020, after contracting by 1.4% and 0.9% in 2018 and 2019 respectively. This compares with annual average growth of 4.3% between 2000 and 2019. Capital investment in 2020 was severely impacted by COVID-19 restrictions, the ongoing power shortages, political uncertainty and the constrained fiscus. Consequently, the ratio of nominal gross fixed capital formation to nominal GDP declined from 17.9% in 2019 to 15.8% in 2020 – the lowest since 2002.

Real gross fixed capital formation



Sources: Stats SA and SARB

Real gross fixed capital formation

Quarter-to-quarter percentage change at seasonally adjusted annualised rates

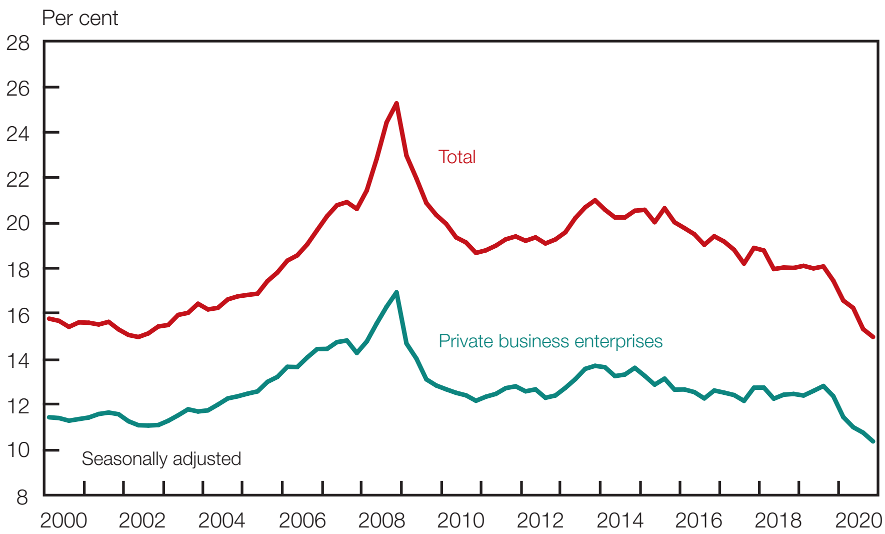
Sector	2019					2020				
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3	Q4	Year*
Private business enterprises ...	-8.4	16.0	9.5	-10.3	1.1	-28.3	-62.6	44.1	5.8	-19.3
Public corporations................	16.3	-12.0	0.7	-0.3	-1.6	11.6	-82.5	-20.5	57.4	-25.0
General government.............	-2.2	-16.3	-15.6	-17.6	-8.9	6.8	13.3	7.7	12.0	-1.3
Total.....................................	-4.1	5.8	4.1	-10.0	-0.9	-18.7	-59.4	26.9	12.1	-17.5

* Percentage change over one year

Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* increased by only 5.8% in the fourth quarter of 2020, following a significant increase in the third quarter from the low base in the second quarter. Investment in transport equipment, residential buildings as well as machinery and other equipment increased in the fourth quarter. For 2020 as a whole, real gross fixed capital formation by private business enterprises contracted markedly by 19.3%. As a result, the private sector's share of total nominal gross fixed capital formation decreased from 70.0% in 2019 to 69.1% in 2020.

Nominal gross fixed capital formation as a ratio of gross domestic product

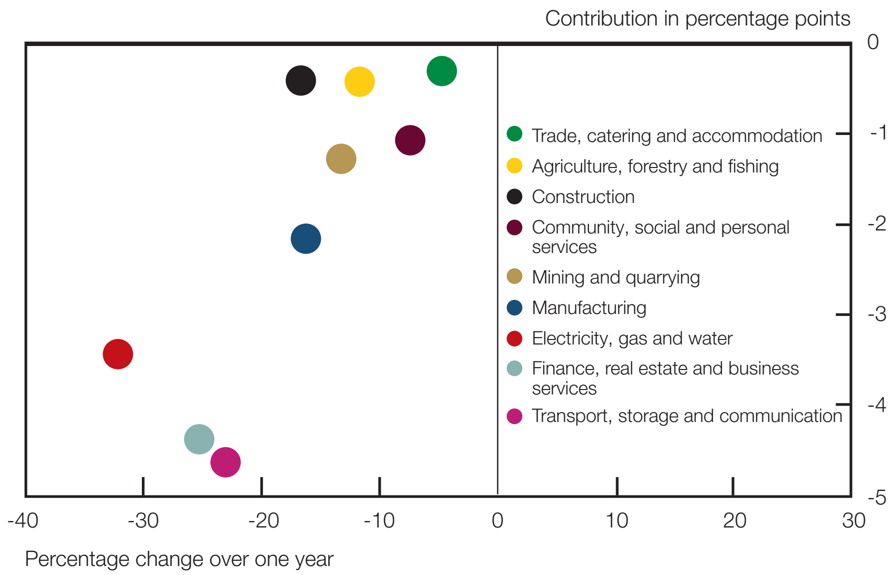


Source: Stats SA

Real gross fixed capital formation by the *public sector* increased anew in the fourth quarter of 2020, mainly boosted by public corporations. Real capital outlays by *public corporations* rebounded by 57.4% in the fourth quarter of 2020, from a revised decline of 20.5% in the third quarter. Increased capital spending by the transport subsector was mainly related to road infrastructure maintenance projects across the country as well as the acquisition and maintenance of port equipment and infrastructure. Spending by the electricity subsector emanated from the acquisition of machinery and equipment by state-owned entities for the maintenance and refurbishment of the power stations. On an annual basis, public corporations' fixed capital spending contracted for a fifth successive year, declining by a sizeable 25.0% in 2020, following a contraction of 1.6% in 2019.

Real capital spending by *general government* increased by 12.0% in the fourth quarter of 2020, following an increase of 7.7% in the third quarter. On an annual basis, aggregate real capital outlays by general government decreased for a third consecutive year by 1.3% in 2020, following declines of 4.4% and 8.9% in 2018 and 2019 respectively.

Real gross fixed capital formation by sector in 2020



Source: Stats SA

Real gross fixed capital expenditure increased across most *asset classes* in the fourth quarter of 2020, although generally at a slower pace than in the preceding quarter. A notable exception was real capital investment in transport equipment, which increased by 97.1% in the fourth quarter, in part due to the acquisition of three passenger aircraft. For 2020 as a whole, real investment in all major asset classes was markedly lower compared with 2019.

Real fixed capital expenditure decreased across all *industries* in 2020, even the agriculture, forestry and fishing sector, which was comparatively less affected by COVID-19 restrictions, being classified as an essential-goods provider. The electricity, gas and water; the finance, real estate and business services; as well as the transport, storage and communication sectors were affected the most as real gross fixed capital formation decreased by 30.5%, 26.4% and 25.2% respectively in these sectors.

Real *inventory* levels were depleted further by R115 billion in the fourth quarter of 2020, albeit at a slightly slower pace than the depletion of R144 billion in the preceding quarter. Decreases occurred in most sectors, but were particularly notable in the mining, trade and manufacturing sectors, with the latter two consistent with higher festive season spending. Due to the slower pace of decline, the change in real inventories added 4.0 percentage points to overall GDP growth in the fourth quarter.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) for South Africa declined markedly from a peak of 16.4% in the third quarter of 2020 to 14.4% in the fourth quarter. The decline in the saving rate of both corporate business enterprises and households outweighed the smaller dissaving by the general government. Despite fluctuating between a low of 11.6% in the second quarter of 2020 and a high of 16.4% in the third quarter, the annual national saving rate remained at 14.6% in both 2019 and 2020 – the lowest saving rate since the 14.4% recorded in 2018.

Gross saving as a percentage of gross domestic product

Ratio in per cent at seasonally adjusted annualised rates

Sector	2019					2020				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Corporate	13.9	12.8	13.4	13.1	13.3	16.1	18.7	22.4	15.2	18.0
General government	-0.6	0.9	-0.4	0.2	0.0	-2.0	-9.3	-8.5	-2.7	-5.4
Household	1.3	1.2	1.3	1.2	1.2	1.5	2.2	2.4	1.8	2.0
Total	**14.6**	**14.9**	**14.2**	**14.6**	**14.6**	**15.7**	**11.6**	**16.4**	**14.4**	**14.6**

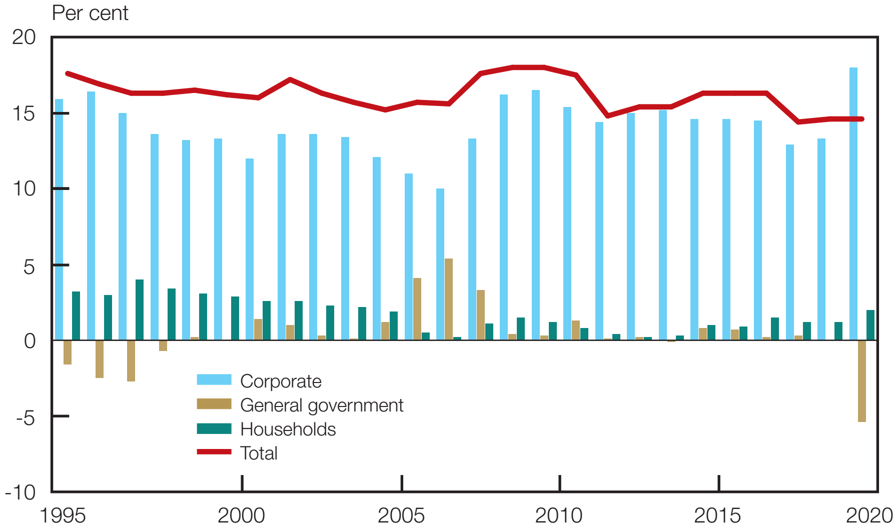
Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP decreased sharply from 22.4% in the third quarter of 2020 to 15.2% in the fourth quarter, mainly due to increased seasonally adjusted corporate tax payments. For 2020 as a whole, the corporate saving rate increased to 18.0%, from 13.3% in 2019, as less tax and dividends were paid amid the impact of COVID-19. This compares with the highest ever annual corporate saving rate of 19.6% in 1980.

Dissaving by *general government* as a percentage of nominal GDP slowed sharply further to 2.7% in the fourth quarter of 2020, from 8.5% in the third quarter. The increase in seasonally adjusted government revenue outweighed that in seasonally adjusted government expenditure over this period. However, for 2020 as a whole, the dissaving rate by general government deteriorated markedly to 5.4%, from zero per cent in 2019 – the highest dissaving rate since records began in 1960.

Gross saving by the *household sector* as a percentage of GDP edged lower from 2.4% in the third quarter of 2020 to 1.8% in the fourth quarter, as the increase in nominal consumption expenditure outweighed that in nominal disposable income. Household saving as a percentage of GDP increased to 2.0% in 2020 (the strongest saving performance since 2004), from only 1.2% in 2019, as nominal spending by households contracted by more than disposable income.

Nominal gross saving as a ratio of gross domestic product



Sources: Stats SA and SARB

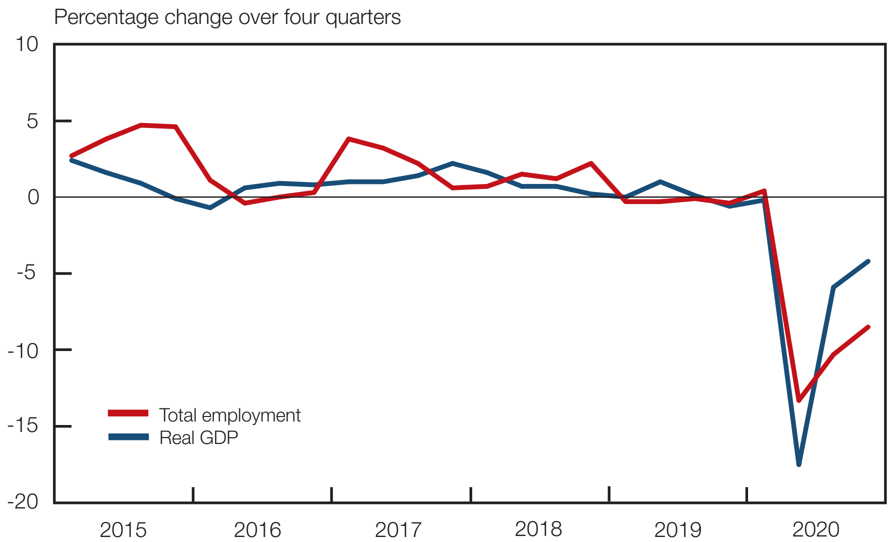
Employment[7]

7 Unless stated to the contrary, the *QES* data reported in this section are seasonally adjusted.

8 Stats SA noted that the response rate of the QLFS improved to 60.9% for the fourth quarter of 2020, from 57.6% for the third quarter.

Job searching increased during the fourth quarter of 2020, following the further easing of the COVID-19-related lockdown restrictions. As a result, *household-surveyed employment* increased further by a seasonally adjusted 238 000 (1.6%) from the third quarter of 2020 to the fourth quarter. Nevertheless, at approximately 15.02 million according to Stats SA's *Quarterly Labour Force Survey (QLFS)*, the level of total employment in the fourth quarter was still well below that of a year earlier, with job losses of about 1.4 million (8.5%) over this period[8] compared with a year-on-year decrease of 10.3% in the third quarter.

Household-surveyed employment and economic activity



Source: Stats SA

All four main household-surveyed subsectors registered job losses in the year to the fourth quarter of 2020; about 836 000 jobs were lost in the formal non-agricultural sector, 397 000 in the informal sector, 75 000 by private households, and 89 000 in the agricultural sector. In the fourth quarter of 2020, workers with unspecified employment contracts experienced the largest year-on-year job losses (837 000), followed by those with contracts of a more permanent nature (238 000) and those with contracts of a limited duration (177 000).

Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Change over four quarters
					Q4 2020		
	Q4 2019	Q2 2020	Q3 2020	Q4 2020	Number	Per cent	Per cent
a. Total employed	**16 420**	14 148	14 691	15 024	333	2.3	-8.5
b. Total unemployed (official definition)	**6 726**	4 295	6 533	7 233	700	10.7	7.5
c. Total labour force (a+b)	**23 146**	18 443	21 224	22 257	1 033	4.9	-3.8
d. Total not economically active	**15 581**	20 578	17 944	17 054	-890	-5.0	9.5
e. Population 15–64 years (c+d)	**38 727**	39 021	39 167	39 311	144	0.4	1.5
f. Official unemployment rate[1] (b/c)*100	29.1%	23.3%	30.8%	32.5%	–	–	–
g. Discouraged	**2 855**	2 471	2 696	2 930	234	8.7	2.6
h. Other reasons for not searching for work	**872**	6 041	2 995	1 471	-1 524	-50.9	68.7
i. Expanded unemployment rate[2]	38.5%	42.0%	43.1%	42.6%	–	2.3	-8.5

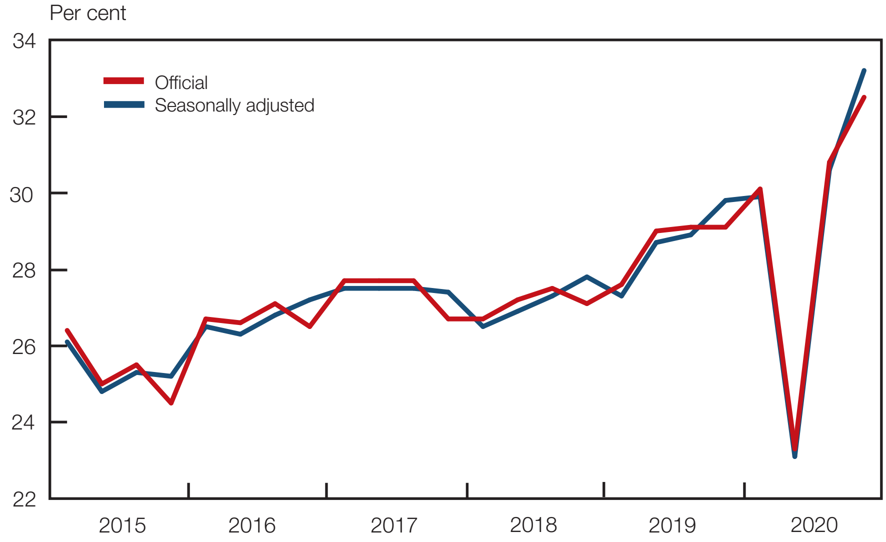
1 Stats SA follows the ILO definition of calculating the official unemployment rate, which is internationally comparable.
2 The expanded unemployment rate is calculated by Stats SA's own in-house formula and is not internationally comparable.

Source: Stats SA

Encouragingly, on a seasonally adjusted basis, job gains were fairly wide-spread among the different industries in the fourth quarter 2020, with only 4 out of the 10 recording job losses. Employment increased the most in the community, social and personal services sector during the quarter, with 430 000 jobs created mainly through the Expanded Public Works Programme (EPWP). Other sectors that recorded job gains in the fourth quarter of 2020 were construction (76 000); trade, catering and accommodation (58 000); and transport, storage and communication (49 000). Despite the increase in real economic activity, significant job losses were registered in the finance sector (123 000) and to a lesser extent in the mining sector (33 000) in the fourth quarter of 2020.

The total economically active population (labour force) increased further in the fourth quarter of 2020 with the easing of the lockdown restrictions. Unfortunately, the quarterly increase in employment of 333 000 (not seasonally adjusted) was surpassed by the increase in unemployment of 700 000 (10.7%) in the fourth quarter of 2020, and by 507 000 (7.5%) from a year earlier, which brought the number of officially unemployed persons to 7.2 million – the highest number on record. Therefore, South Africa's official unemployment rate increased further to 32.5% in the fourth quarter of 2020, from 30.8% in the third quarter (and 29.1% a year earlier), and is now the highest since the inception of the QLFS in 2008. The seasonally adjusted unemployment rate also increased, from 30.5% in the third quarter of 2020 to 33.2% in the fourth quarter (and 29.8% a year earlier). Most of the unemployed persons were new entrants (39.4%) and job losers (31.0%), while those who last worked five years ago (that is, the long-term unemployed) comprised 19.0% of the total in the fourth quarter of 2020.

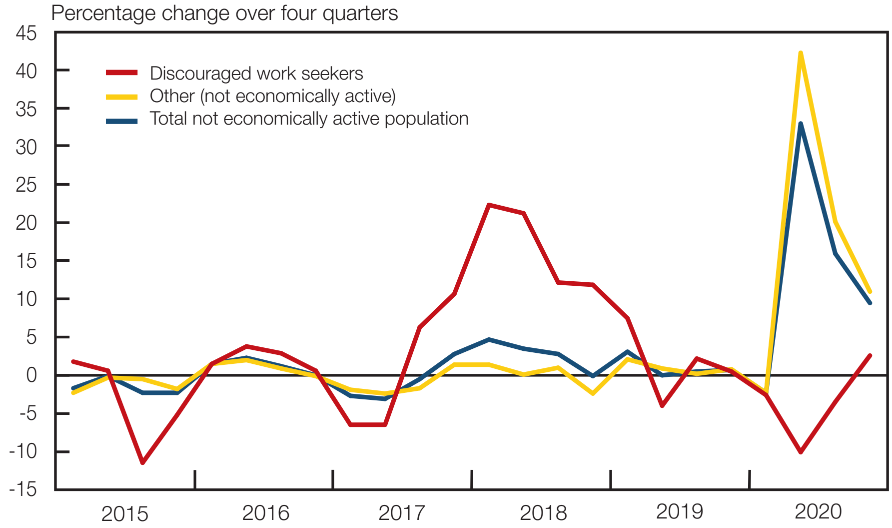
Unemployment rate



Sources: Stats SA and SARB

The number of discouraged work seekers increased further by 234 000 (8.7%) between the third and fourth quarter of 2020, and by about 75 000 (2.6%) in the year to the fourth quarter. Those not economically active due to 'other reasons', which increased significantly during the second quarter of 2020 and captures most people who could not search for work as a result of the COVID-19 lockdown restrictions, decreased further by 1.5 million (-50.9%) in the fourth quarter of 2020, following a decrease of 3.0 million (-50.4%) in the third quarter. Consequently, the total not economically active category decreased by 890 000 people (-5.0%) in the fourth quarter of 2020, despite still remaining high when compared with the pre-COVID-19 period as the return to the labour force remains gradual.

Not economically active population



Source: Stats SA

The International Labour Organization (ILO) indicated that previous crises in the labour market showed that reinstating or activating inactive people into employment is more difficult than re-employing the unemployed, which suggests that the labour market recovery could be very slow and protracted. According to the ILO, most of the global employment losses in 2020 translated into rising inactivity rather than unemployment, leading to an additional 81 million people shifting to inactivity alongside a 33 million shift to unemployment. As a result, the global labour force participation rate declined by 2.2 percentage points owing to the COVID 19 pandemic, compared with only a marginal decline of 0.2 percentage points between 2008 and 2009[9] in the aftermath of the global financial crisis. South Africa's labour force participation rate increased from a low of 47.3.% in the second quarter of 2020 to 56.6% in the fourth quarter, while the labour absorption rate – which represents the percentage of the working population (aged 15–64) who are employed – only improved from 36.3% to 38.2% over the same period.

9 International Labour Organization. 'ILO Monitor: COVID-19 and the world of work', Seventh edition. Updated estimates and analysis. 25 January 2021. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_767028.pdf

The phased reopening of the South African economy and resumption of economic activity in the third quarter of 2020 only marginally reversed the large formal non-agricultural sector employment losses in the second quarter. *Enterprise-surveyed*[10] *formal non-agricultural employment* increased by a mere 88 900 jobs (an annualised 3.8%) in the third quarter of 2020, following substantial job losses of around 672 800 in the second quarter. The level of such employment therefore only increased slightly to an estimated 9.60 million, despite the strong and broad-based rebound in the real GVA by the formal non-agricultural sector in the third quarter. Despite the current comparatively less restrictive lockdown measures, the second and possible subsequent waves of COVID-19 infections could contribute to a fragile and uneven protracted economic recovery, with limited potential to stimulate meaningful job creation over the medium term.

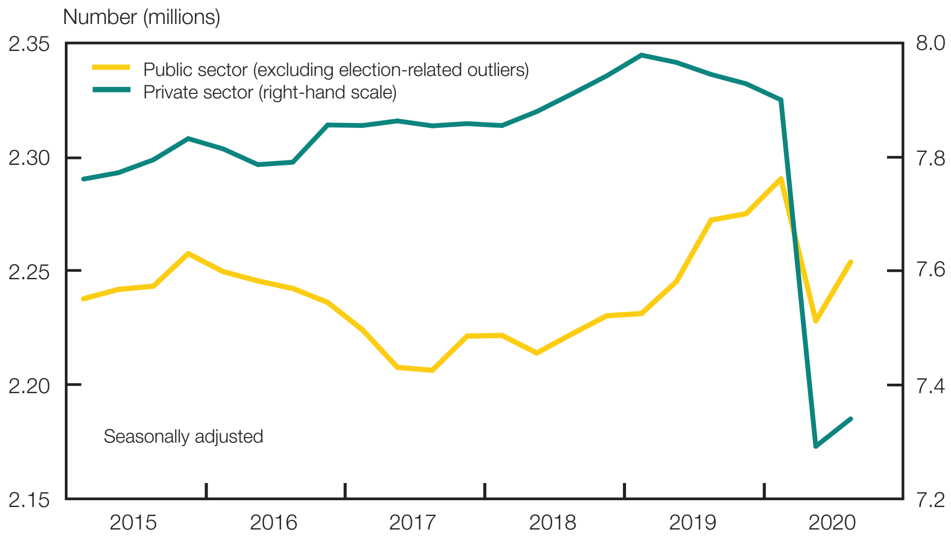
10 This is according to Statistics South Africa's (Stats SA) *QES survey.*

Formal non-agricultural employment

Sources: Stats SA and SARB

The lockdown-induced disruptions to economic activity resulted in a substantial loss of around 608 100 *private sector* jobs in the second quarter of 2020, of which only 48 300 were recovered in the third quarter. Marginal employment gains occurred in both the goods-producing and services sectors in the third quarter, mostly in trade, catering and accommodation services and in construction, which collectively created around 54 000 jobs. These marginal job gains were partly offset by further job shedding, albeit at a much slower pace than in the second quarter, in the following sectors: private transport, storage and communication services; finance, insurance, real estate and business services; and non-gold mining.

Public and private sector employment



Sources: Stats SA and SARB

Public sector employment increased at an annualised rate of 7.5% in the third quarter of 2020, as headcount increased at provinces, other public sector enterprises and in the public transport, storage and communication services sector. The increase was possibly related to the renewal of some of the contracts that had expired at the start of the national lockdown due to the financial year-end of various government institutions, as well as the resumption of the EPWP, following its temporary suspension due to the initial lockdown restrictions. This, together with projects earmarked by the government's economic recovery plan, points to a further increase in public sector employment in the medium term.

Enterprise-surveyed formal non-agricultural employment*

Sector	Change over one quarter: Q3 2020		Change over four quarters to Q3 2020	
	Number	Per cent annualised	Number	Per cent
Total goods-producing	*24 900*	*4.9*	*-184 400*	*-8.1*
Total services	*23 400*	*1.8*	*-420 100*	*-7.4*
Private sector	48 300	2.7	- 604 400	-7.6
National departments	-4 000	-3.5	-10 200	-2.2
Provinces	33 700	13.2	20 500	1.9
Local governments	-4 700	-5.5	-8 700	-2.5
Transport, storage and communication services	3 300	14.3	-3 200	-3.1
Other public sector enterprises, including electricity and IEC**	12 300	20.6	-17 800	-6.2
Public sector	40 600	7.5	- 19 300	-0.8
Grand total	88 900	3.8	- 623 800	-6.1

* Seasonally adjusted. Components may not add up to totals due to rounding off.
** Electoral Commission of South Africa

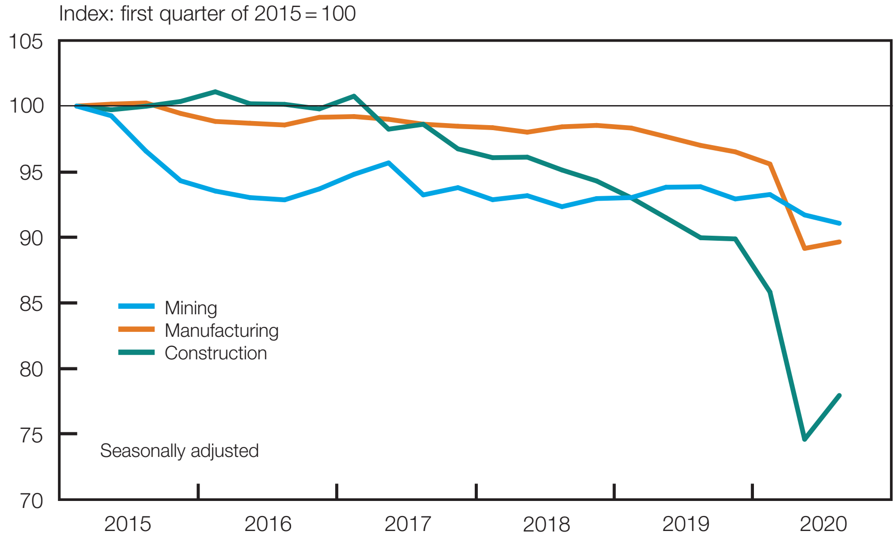
Sources: Stats SA and SARB

Mining sector employment decreased further in the third quarter of 2020, albeit at a much slower pace than in the second quarter. The non-gold mining sector shed 13 600 jobs in the second and third quarter of 2020 combined. Conversely, gold mining employment increased for a third successive quarter, consistent with increased output over the same period alongside significant gains in the price of gold.

Employment in the manufacturing sector increased by a mere 6 200 jobs in the third quarter of 2020, following a cumulative loss of around 117 500 jobs since the first quarter of 2019. This came as the pandemic exacerbated an environment of already weak demand amid sluggish output growth and depressed business sentiment. After slumping to a record-low of 6 index points in the second quarter of 2020, manufacturing business confidence[11] rose further to 31 index points in the fourth quarter, as business activity and demand picked up further, although trading conditions remained tough and the pace of the recovery slowed. As such, manufacturers rated insufficient demand as a less serious constraint than before, which likely contributed to the further recovery in production volumes. However, the BER noted that the increase in production was likely due to existing workers working longer hours rather than an increase in overall employment levels. While the worldwide roll-out of COVID-19 vaccines may boost global demand and a slowdown in new domestic infections raises expectations of an easing in lockdown measures, the elevated risk of load-shedding for the remainder of this year remains a downside risk for manufacturers.

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

Employment in the private goods-producing sectors



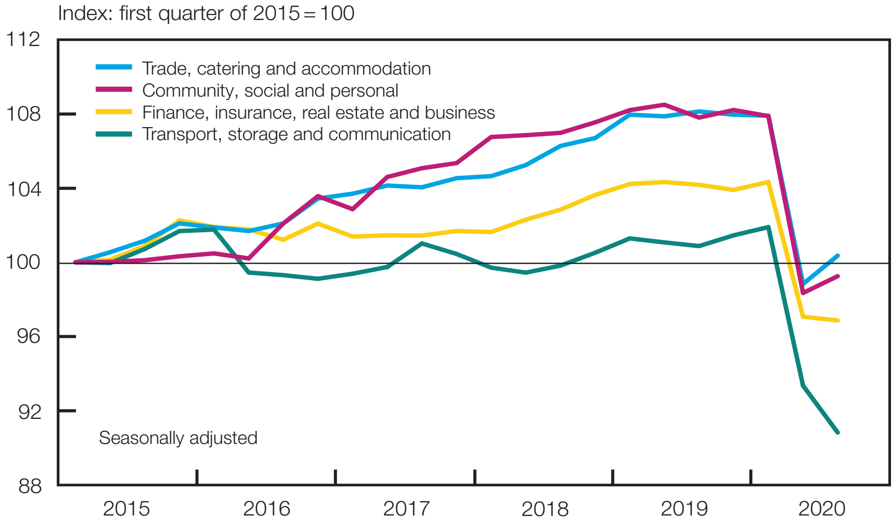
Sources: Stats SA and SARB

The *construction sector* registered the most employment gains among the goods-producing sectors in the third quarter of 2020, which ended a sequence of eight successive quarters of job losses. Subsequently, the *First National Bank (FNB)/BER Civil Confidence Index* gained 5 index points to a still depressed 16 in the fourth quarter of 2020. The rise in confidence was underpinned by improved construction activity, which together with a decline in tender price competition resulted in better overall profitability. However, the outlook for new projects remains uncertain over the medium term, with 88% of respondents indicating that insufficient demand for new construction work constrained business operations. Similarly, the *FNB/BER Building Confidence Index* increased by a further 5 index points to 29 over the same period, supported by a noticeable increase in residential activity, while non-residential activity deteriorated. The lack of growth in non-residential activity has put significant pressure on quantity surveyors and the broader building pipeline. FNB noted that the weakness in activity shown in the fourth quarter of 2020 survey results was consistent with the decline in the real value of building plans passed.

In the third quarter of 2020, the private services sectors recovered very few of the substantial job losses registered in the second quarter. These sectors were among the hardest hit by the COVID-19 disruption, and in addition to being affected by the lockdown restrictions for longer, they also employ many lower-skilled workers, often in lower-earning jobs and on flexible employment contracts.

The *finance, insurance, real estate and business services sector* – the largest sector in terms of employment – shed a further 4 500 jobs in the third quarter of 2020, particularly in financial intermediation as well as in legal, accounting, bookkeeping and auditing services. The *transport, storage and communication sector* also continued to shed jobs at an annualised rate of 10.4% in the third quarter of 2020, following an annualised decrease of 29.5% in the previous quarter. The transport sector in particular has been severely impacted by the COVID-19 travel restrictions, as evidenced by some well-established bus operators recently announcing closures.

Employment in the private services sectors



Sources: Stats SA and SARB

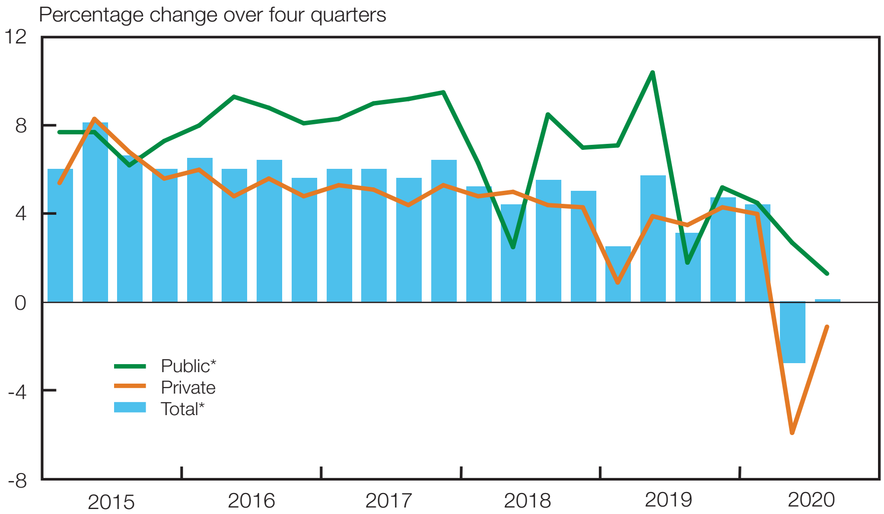
12 As measured by the Bureau for Economic Research's (BER) *Retail Survey.*

The *trade, catering and accommodation services sector* regained only 32 200 of the 191 300 jobs lost in the second quarter of 2020. The hotels and restaurants subsector registered the largest employment increase, as it started to recover from the initial lockdown during which very strict regulations were imposed on the activities of these establishments, while travel restrictions also applied. However, the reintroduction of sterner lockdown restrictions amid the second wave of COVID-19 infections presented yet another setback to the hospitality industry. Retailer confidence[12] surprised on the upside in the fourth quarter of 2020, rising from 36 to 50 index points, due to improved business conditions amid eased trading restrictions and increased clientele at malls and shopping centres. Despite these gains, retailers continue to face several challenges and it remains to be seen whether the sector can sustain this momentum. Chief among these is the sustained impact of the pandemic on household and corporate balance sheets, global supply-chain constrains, lower earnings, increased credit impairments, the closure of stores and the eventual termination of the COVID-19 relief grants, which greatly benefit the retail sector.

Labour cost and productivity

The year-on-year rate of change in *formal non-agricultural nominal remuneration per worker* reverted from an all-time low of -2.6% in the second quarter of 2020 to a marginal increase of 0.1% in the third quarter, assisted by the gradual return to work of furloughed workers in especially the private sector. However, this was only enough to slightly lessen the contraction in real wages per worker, with the pace of decrease only decelerating marginally from 6.1% in the second quarter of 2020 to 4.2% in the third quarter.

Formal non-agricultural nominal remuneration per worker



* Excluding election-related outliers

Sources: Stats SA and SARB

Private sector nominal remuneration per worker contracted further, but at a much slower pace of 1.1% in the third quarter of 2020, compared with the record decrease of 5.9% in the second quarter. The contraction in nominal wage growth per worker was broad-based across the private subsectors, with the exception of the non-gold mining sector.

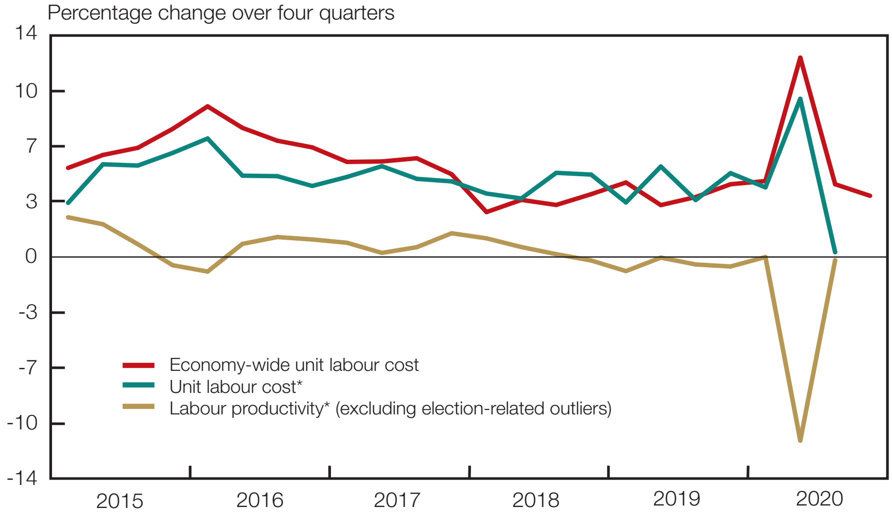
By contrast, *remuneration growth per public sector worker* only slowed further from 3.8% in the second quarter of 2020 to 1.4% in the third quarter, impacted by the non-implementation of the annual public sector wage increase in 2020 to curb the large government wage bill. Wage growth per worker slowed at all levels of the public sector, except at provinces. Growth in public sector remuneration will likely only accelerate again once a new agreement is reached to replace the 2018 multi-year wage deal, which expires on 31 March 2021. However, the 2021 Budget reiterated the commitment to restrain growth in the public sector wage bill by means of a zero annual cost-of-living adjustment until 2023/24, together with measures to reduce headcounts via a combination of early retirement and natural attrition as well as the freezing of non-critical posts.

According to Andrew Levy Employment publications, the *average wage settlement rate in collective bargaining agreements* decreased further to a 15-year low of 6.3% in 2020, from 6.7% in 2019. Similarly, the number of workdays lost due to industrial action fell notably to a historic low of only 55 000 in 2020 compared with 1.2 million in 2019, as many wage negotiations had to be deferred following the outbreak of the COVID-19 pandemic.

While growth in labour productivity and unit labour cost corrected somewhat from the COVID-19-induced distortion in the second quarter of 2020, the associated data distortions have impacted the conventional informational content of these economic indicators, which should therefore be treated with circumspection. *Labour productivity* in the formal non-agricultural sector of the economy contracted at a significantly slower pace of 0.2% in the third quarter of 2020, from the distorted historic contraction of 11.6% in the second quarter, as the rebound in output outweighed that in employment on a year-on-year basis.

Conversely, growth in *nominal unit labour cost* in the formal non-agricultural sector decelerated markedly from 10.0% in the second quarter of 2020 to 0.3% in the third quarter, as total remuneration recovered at a much slower pace than output. This was the lowest year-on-year rate of increase on record, indicating the absence of inflationary pressures emanating from wage increases at the moment. However, the COVID-19-induced data distortions could still be impacting the informational content of this economic indicator, and it should therefore also be interpreted with caution. Likewise, growth in economy-wide nominal unit labour cost moderated notably from a 27-year high of 12.6% in the second quarter of 2020 to 4.6% in the third quarter and subsequently to 3.9% in the fourth quarter, as the rebound in output outweighed that in the compensation of employees on a year-on-year basis.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

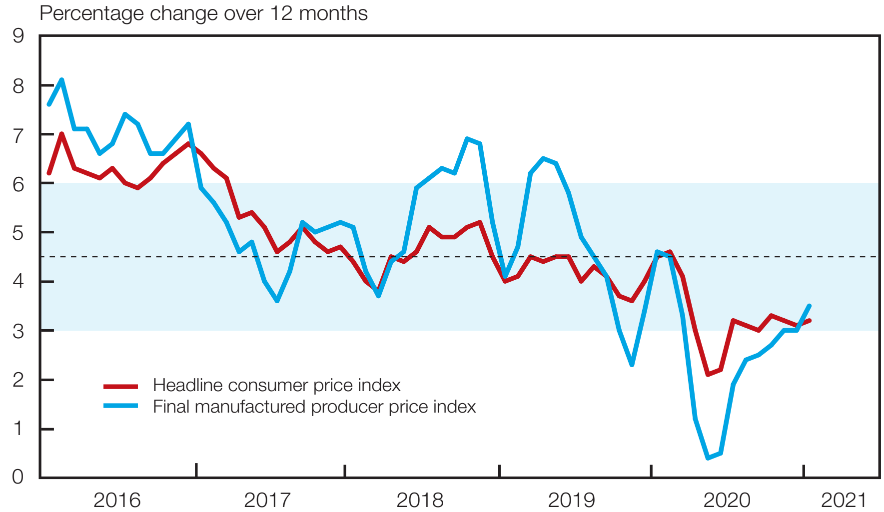
Sources: Stats SA and SARB

Prices[13]

13 All rates mentioned in this section reflect year-on-year changes, unless stated to the contrary.

Headline producer and consumer price inflation, which both accelerated moderately from nadirs in May 2020, still recorded historic annual average lows of 2.5% and 3.3% respectively for the year as a whole. The slowdown in both measures of price inflation to May 2020 primarily reflected the marked decrease in fuel prices in the wake of the COVID-19 pandemic. Producer price inflation for final manufactured goods slowed from 4.6% in January 2020 to 0.4% in May, before accelerating to 3.5% in January 2021. Headline consumer price inflation moderated from 4.6% in February 2020 to 2.1% in May, before accelerating to 3.3% in October and slowing marginally again to 3.2% in January 2021.

Headline producer and consumer prices



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

Source: Stats SA

Producer price inflation for intermediate manufactured goods slowed further from an annual average of 2.7% in 2019 to 2.5% in 2020, mainly due to the slowdown in price inflation for chemical, rubber and plastic products and, to a lesser extent, saw milling and wood. By contrast, basic and fabricated metals prices increased briskly in 2020, reflective of supply-chain induced steel shortages. Producer price inflation of electricity and water moderated slightly to 10.2% in 2020, after it more than doubled to an annual average of 11.2% in 2019. This reflected the halving of electricity price inflation from 16.8% in April 2020 to 8.4% in December, due to, among other factors, the delayed implementation of the annual price increases in response to the COVID-19 pandemic. Water price inflation, which initially fluctuated in a narrow range of 7% to 8% in the first half of 2020, remained unchanged at 7.4% from July 2020. As a result, annual average water price inflation slowed for the fourth consecutive year from a recent high of 13.8% in 2016 to 7.6% in 2020.

Producer price inflation

Annual average percentage change

	2018	2019	2020	Jan 2021*
Final manufactured goods	5.4	4.6	2.5	3.5
Intermediate manufactured goods	3.5	2.7	2.5	8.6
Electricity and water	5.3	11.2	10.5	8.7
Mining	2.9	17.3	32.8	22.9
Agriculture, forestry and fishing	1.5	-1.8	4.7	11.3

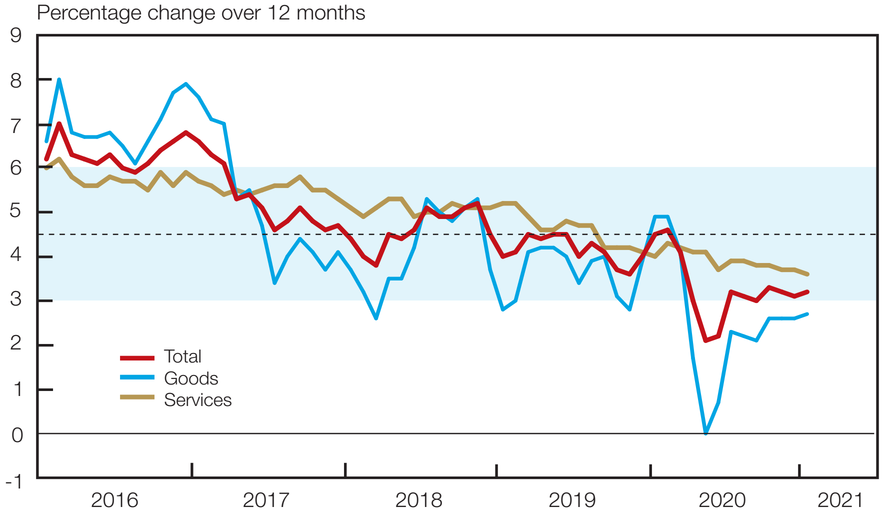
* Changes in prices from January 2020 to January 2021

Source: Stats SA

After remaining in deflation for 17 consecutive months, producer price inflation for agricultural, forestry and fishery products quickened from -1.1% in February 2020 to 12.0% in November, led by higher agricultural product prices. The annual average inflation rate accordingly accelerated from -1.8% in 2019 to 4.7% in 2020. Producer price inflation for mining products has remained very elevated throughout 2020, with the annual average almost doubling to 32.8% in 2020 – the highest annual average rate of increase since the inception of this measure in January 2008. The rand price of mining products was boosted by heightened global demand for gold, as reflected by the higher US dollar price of gold as well as a surge in most other commodity prices, following expectations of a global economic recovery with the easing of lockdown restrictions and progress with the development of COVID-19 vaccines. In addition, the higher rand prices of minerals also reflected the depreciation in the exchange value of the rand from 2019 to 2020.

Headline consumer prices

Percentage change over 12 months



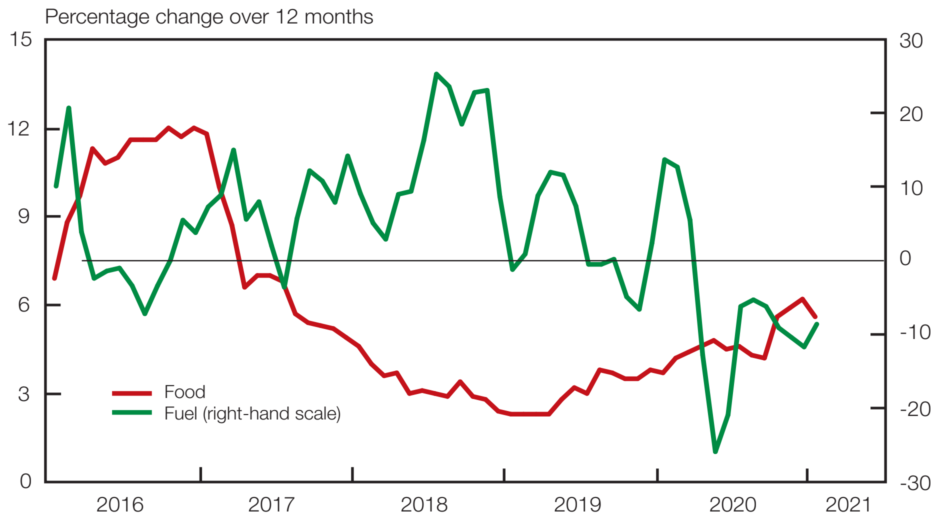
---- Midpoint of the inflation target range (4.5%)

Source: Stats SA

The deceleration in year-on-year headline consumer price inflation to a historical low of 2.1% in May 2020 – its lowest level in 16 years – was largely due to a substantial decline in consumer goods price inflation and, to a lesser extent, a further deceleration in consumer services price inflation. The annual average of 3.3% for 2020 was the lowest since 2004, and also significantly below the midpoint of the inflation target range of 4.5% for the second consecutive year. The deceleration in headline CPI inflation in 2020 reflected weak demand for especially non-essential goods and services during the national lockdown and Stats SA's price imputations from April to June, as well as the recessionary economic conditions that have prevailed since the third quarter of 2019.

Consumer goods price inflation moderated for a fourth consecutive year to an annual average of 2.6% in 2020, mainly influenced by the sharp moderation in non-durable goods price inflation, following the initial marked deceleration in domestic fuel price inflation. Fuel price inflation decelerated sharply from 13.7% in January 2020 to -25.9% in May and has subsequently remained in deflation up to December, amounting to its lowest annual average rate since 2015. Consumer food price inflation, the other notable component of non-durable goods price inflation, remained fairly muted and fluctuated around the midpoint of the inflation target range up to September 2020, before accelerating to 6.2% in December in response to the earlier acceleration in agricultural producer food prices.

Consumer food and fuel prices



Source: Stats SA

Both semi-durable and durable goods price inflation remained fairly muted in 2020, despite the significant depreciation in the exchange value of the rand in the first half of the year. Semi-durable goods price inflation halved from 2019 to 2020, to its lowest rate since 2010, indicating benign inflationary pressures amid weak consumer demand and muted exchange rate pass-through. Although durable goods price inflation accelerated slightly in the second half of the year, it remained relatively subdued.

Consumer services price inflation moderated further in 2020, with the annual average rate of increase slowing for the seventh consecutive year to 3.9%. Apart from the recessionary conditions that prevailed from mid-2019, the impact of COVID-19 was also clearly visible in many consumer services price categories. The moderation in services price inflation, from 4.3% in February 2020 to 3.6% in January 2021, was mainly led by the lowest housing rental price inflation since 2006 as well as the lowest restaurant and hotel services price inflation since the inception of the classification of individual consumption by purpose (COICOP) in January 2008. With restaurants and hotels being among the most severely impacted by the lockdown restrictions, price inflation slowed from 2.4% in January 2020 to -0.4% in December. Inflation in domestic worker wages also moderated to its lowest level in 23 years, at 3.4% in December 2020, likely impacted by the financial strain experienced by many households due to COVID-19.

Consumer price inflation

Annual average percentage change

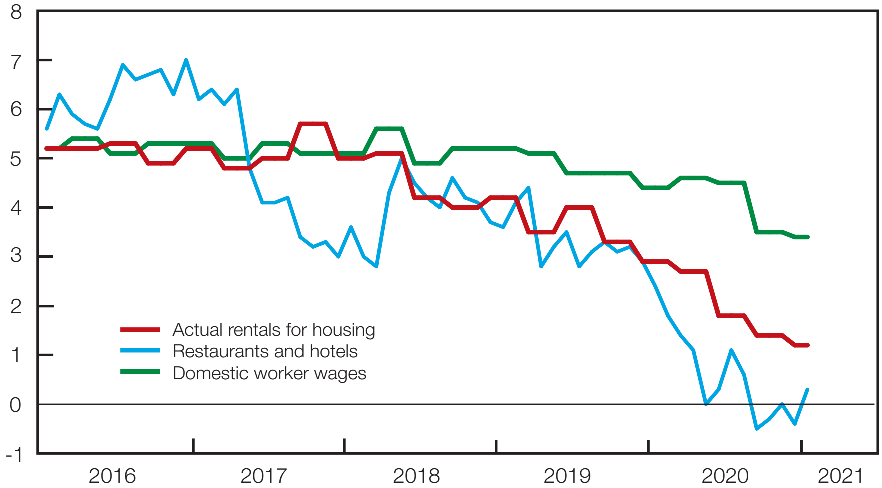
	Weight	2018	2019	2020	Jan 2021*
Headline CPI	100.00	4.7	4.1	3.3	3.2
Headline CPI excluding food and non-alcoholic beverages, fuel and electricity	74.43	4.3	4.1	3.3	3.3
Goods	48.70	4.2	3.6	2.6	2.7
Non-durable	7.81	5.4	4.2	3.0	2.8
Semi-durable	5.68	1.2	1.8	0.9	1.1
Durable	35.21	1.3	2.2	2.8	3.3
Services	51.30	5.1	4.6	3.9	3.6

* Changes in prices from January 2020 to January 2021

Source: Stats SA

Consumer services prices

Percentage change over 12 months



Source: Stats SA

Producer food price inflation was relatively benign early in 2020. However, following 18 months of deflation, agricultural producer food prices started to increase notably, with price inflation accelerating to as high as 14.1% in the year to November 2020, as especially cereals and other crops as well as live animal price inflation quickened. Manufactured producer food price inflation was more subdued at around 4% during the first eight months of 2020, before accelerating to 7.3% in November, following a quickening in the two highest weighted individual categories, namely meat and meat products as well as bakery products, in response to the earlier price increases in agricultural producer food prices. This led to a second successive acceleration in annual average manufactured food price inflation in 2020.

Food price inflation

Annual average percentage change

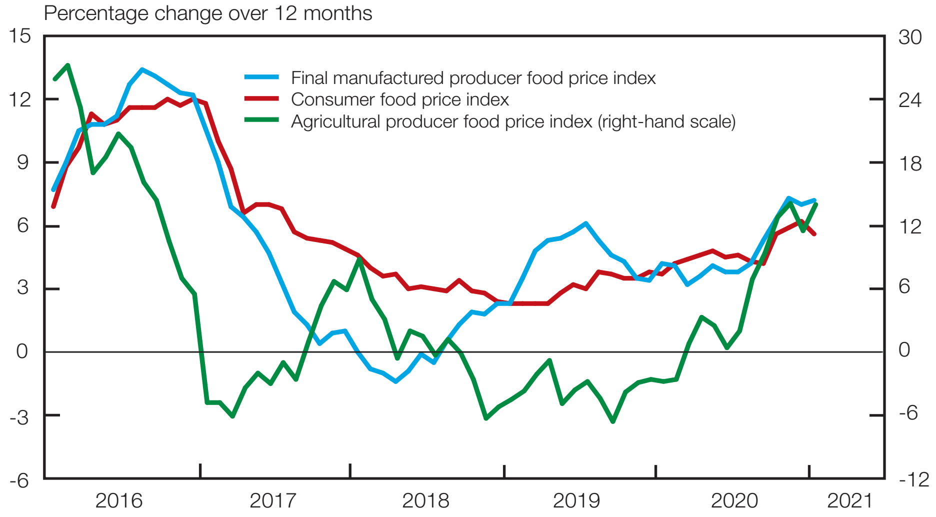
	2018	2019	2020	Jan 2021*
Agricultural producer food prices	0.6	-3.6	4.8	14.0
Manufactured producer food prices	0.2	4.5	4.7	7.2
Consumer food prices	3.3	3.1	4.8	5.6
FAO international food prices (rand-denominated)	-2.9	8.6	17.1	16.1

* Changes in prices from January 2020 to January 2021

Sources: FAO and Stats SA

Consumer food price inflation oscillated around 4.5% during the first nine months of 2020, before accelerating to 6.2% in December as the prices of most food categories increased. This rate of increase subsequently slowed to 5.6% in January 2021. After moderating for three consecutive years, consumer food price inflation accelerated from an annual average of 3.1% in 2019 to 4.8% in 2020. Price inflation in the three highest weighted food subcategories – meat, bread and cereals, as well as milk, cheese and eggs – which together account for 75% of the total food price basket, accelerated strongly in the closing months of 2020. These price increases probably resulted from double-digit increases in agricultural food prices, in part due to higher international agricultural commodity prices and the depreciation of the rand against the US dollar earlier in the year. Higher transportation costs due to the recent increase in fuel prices are also adding upward pressure to domestic food prices.

Producer and consumer food prices



Source: Stats SA

US dollar-denominated international food prices edged higher in January 2021, with the year-on-year rate of increase in the international food price index of the United Nations' Food and Agriculture Organization (FAO) accelerating for an eighth consecutive month to its fastest pace since July 2014. The latest increase reflected strong gains in the sugar, cereals and vegetable oils sub-indices, while meat and dairy prices also increased, but to a lesser extent. For 2020 as whole, the rate of increase in the FAO international food price index accelerated to a three-year high of 3.1%, although still well below its peak of 25.3% in 2011. When expressed in rand terms, FAO international food price inflation accelerated more substantially to 16.1% in January 2021, following the earlier depreciation in the exchange value of the rand.

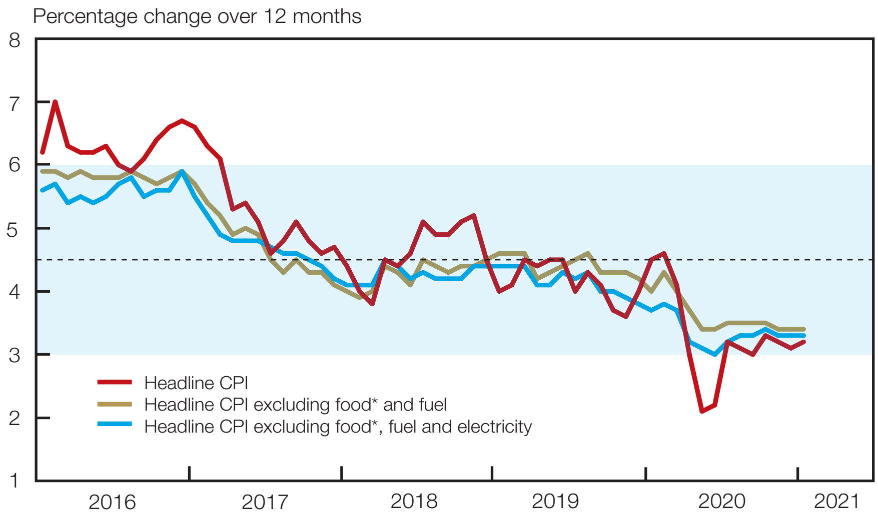
Concerns over production prospects in the southern hemisphere as well as dry conditions in parts of Europe contributed to higher international wheat prices, which in turn resulted in the marked acceleration in FAO international cereals price inflation, in US dollar terms, from 7.3% in August 2020 to 23.6% in January 2021. Consequently, the year-on-year rate of increase in the FAO international cereals price index, in rand terms, also accelerated noticeably from an already high 22.1% to 29.8% over the same period.

The acceleration in international food and cereals price inflation, in rand terms, could eventually impact domestic food prices. This, together with the recent acceleration in agricultural producer food price inflation, could exert further upward pressure on especially bread and cereals prices at the consumer level, which is the product group with the second highest weight in the consumer food price basket. The expected increase of 37.4% in domestic wheat production in the 2020/21 production season, according to the Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development, could mitigate price pressures only slightly given that South Africa is a net importer of wheat.

Underlying inflationary pressures receded to a multi-year low in June 2020. This reflected muted price pressures amid the domestic recessionary conditions which impeded the ability of businesses to pass on price increases to consumers, as well as the impact of price imputations by Stats SA during the initial strict national lockdown. When subtracting the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant measure of underlying inflation moderated to 3.4% in May 2020 and remained broadly at that level up to December – amounting to an annual average increase of 3.6% in 2020.

The South African Reserve Bank's (SARB) preferred measure of core inflation (also excluding electricity prices) has remained below the midpoint of the inflation target range for 38 successive months up to January 2021, and at 3.0% in June 2020 was the lowest since March 2011. Subsequently, core inflation accelerated to 3.4% in October 2020, as especially alcoholic beverages and tobacco as well as new vehicle price inflation quickened with the lifting of lockdown restrictions and the end of price imputations for these products. Core inflation then slowed marginally again to 3.3% in December 2020, as especially services price inflation moderated over the period. When expressed at an annual average rate, core inflation moderated for the fourth successive year to only 3.3% in 2020.

Headline and underlying measures of consumer prices



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

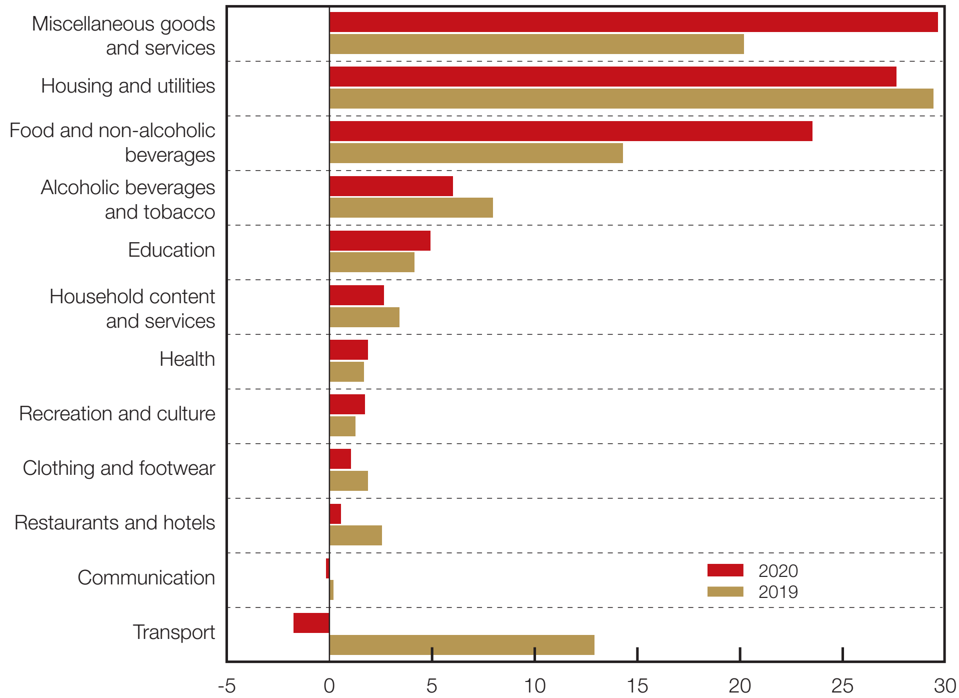
* Food includes non-alcoholic beverages

Source: Stats SA

Price changes according to the COICOP categories reflected a moderation in inflationary pressures in 2020. In 2020, annual average consumer price inflation moderated in 9 of the 12 COICOP categories, while it accelerated in the remaining 3 categories and only 2 of the COICOP categories exceeded the upper limit of the inflation target range of 6% in 2020 compared with 1 in 2019. In addition, annual average price inflation of 10 categories was below or at the midpoint of the inflation target range of 4.5% in 2020 compared with 7 in the previous year.

Miscellaneous goods and services was the main contributor to annual consumer price inflation in 2020, followed by housing and utilities. The contribution by transport decreased the most, moving from the fourth highest contributor in 2019 to the lowest contributor in 2020. This reflected the decline in international crude oil prices, following the COVID-19 lockdown restrictions which led to a marked decrease in domestic fuel prices. Inflation in the transport category also decelerated the most of all the COICOP categories, from an annual average of 3.7% in 2019 to -0.4% in 2020. The contribution of food and non-alcoholic beverages increased notably in 2020, given its fairly high weighting in the consumer price basket and the acceleration in domestic food price inflation.

Contributions to annual average headline consumer price inflation by COICOP* category



Per cent

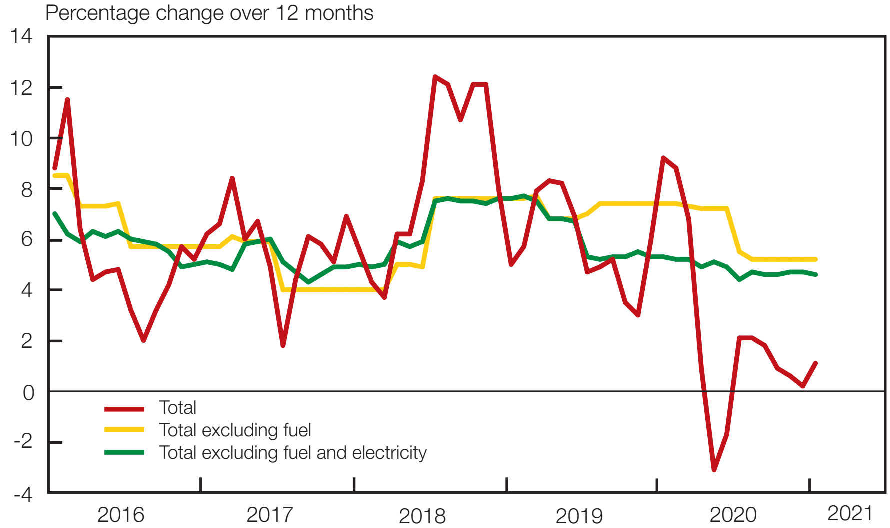
* Classification of individual consumption by purpose

Source: Stats SA

The annual average rate of *administered price inflation* slowed to 2.4% in 2020, from 5.8% in 2019. Changes in administered prices switched from a year-on-year increase of 9.2% in January 2020 to a decrease of 3.1% in May as fuel price inflation decelerated from 13.7% to -25.9% over the same period. Subsequently, administered price inflation accelerated slightly to 1.1% in January 2021 as fuel prices decreased at a slower pace. The impact of fuel, with a weight of 28.63% in the administered price basket, is evident from the deceleration in administered price inflation excluding fuel, from 7.4% in January 2020 to 5.5% in July, and further to 5.2% in the six months up to January 2021.

Administered prices

Percentage change over 12 months



Source: Stats SA

When also excluding electricity prices, administered price inflation moderated from 5.3% in January 2020 to 4.6% in January 2021. These two measures of underlying administered price inflation have essentially moved sideways since July 2019 and largely reflected a moderation in municipal assessment rates.

Average headline CPI inflation expectations[14] for all three forecast periods remained almost unchanged in the fourth quarter of 2020 relative to the third quarter survey. Headline CPI inflation is forecast to average 3.7% (3.6% previously) in 2020 and to edge up to 4.2% (unchanged) in 2021 and 4.5% (4.6% previously) in 2022.

14 Inflation expectations as measured by the Survey of Inflation Expectations, conducted by the BER in the fourth quarter of 2020.

Headline consumer price inflation expectations

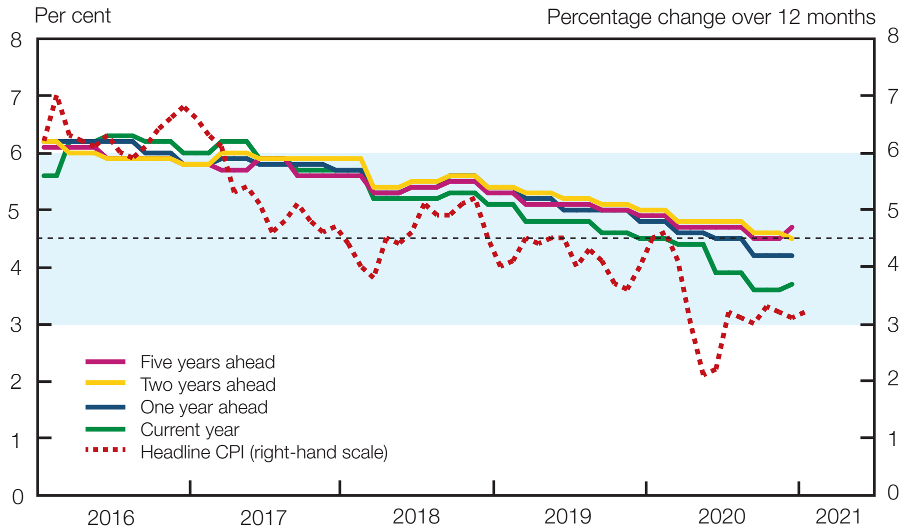
Per cent, as surveyed in the fourth quarter of 2020

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2020	3.2	4.1	3.7	3.7
2021	3.9	4.6	4.1	4.2
2022	4.1	5.0	4.2	4.5
The next five years	4.2	5.2	4.6	4.7

Source: BER

Business representatives' inflation expectations continued to exceed that of financial analysts and trade union officials over all forecast horizons. While business representatives expect inflation to average 4.6% in 2021 and accelerate to 5.0% in 2022, analysts and trade union representatives expect it to remain close to 4.0% in both years. Average five-years-ahead inflation expectations ticked up from 4.5% in the third quarter of 2020 to 4.7% in the fourth quarter survey, owing to the upward revision of business and trade union representatives' forecasts.

Inflation expectations and headline consumer prices



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

Sources: BER and Stats SA

After hovering at around 6.0% in both the second and the third quarter of 2020 surveys, *household inflation expectations* receded to 5.3% in the fourth quarter survey.

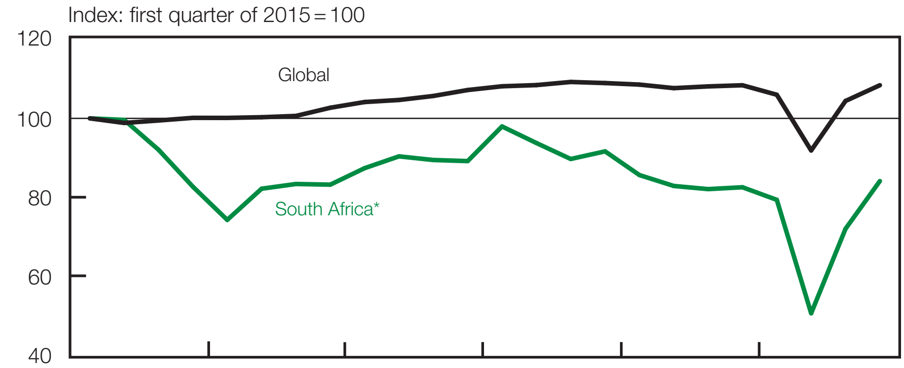
External economic accounts

Current account[15]

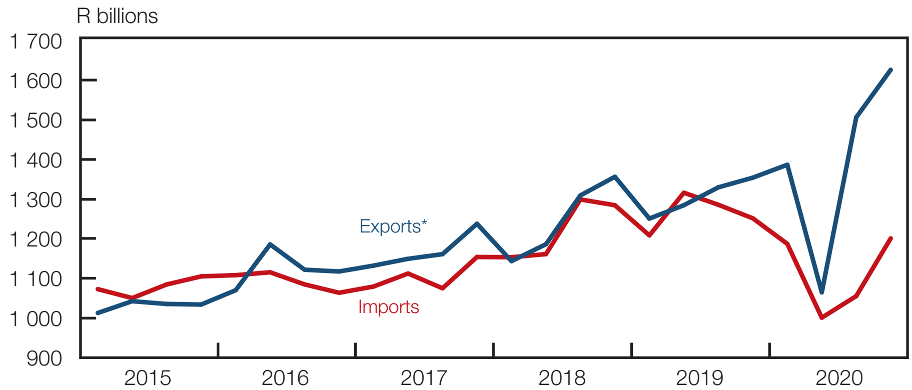
South Africa's exports followed the further increase in global trade volumes in the fourth quarter of 2020, as trade continued to recover from the COVID-19-induced low in the second quarter. The value of South Africa's net gold and merchandise exports surged further to an all-time high, while that of merchandise imports rose at a faster pace than in the previous quarter.

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

Volume of merchandise exports



Value of merchandise exports and imports



* Including gold
Seasonally adjusted and annualised
Sources: CPB Netherlands Bureau for Economic Policy Analysis, Stats SA and SARB

South Africa's trade surplus narrowed to R425 billion in the fourth quarter of 2020, from the record-high R451 billion in the third quarter. The higher value of imports primarily reflected a sharp increase in volumes, while the increase in the value of exports emanated from both volumes and prices. The smaller trade surplus, alongside a sizeable widening of the shortfall on the services, income and current transfer account, narrowed the surplus on the current account of the balance of payments from R294 billion in the third quarter of 2020 to R198 billion in the fourth quarter, or from 5.9% to 3.7% of GDP.

On an annual basis, South Africa's balance on the current account of the balance of payments switched from a deficit in 2019 to a surplus in 2020 in the midst of the COVID-19 pandemic – the first annual surplus since 2002. This outcome can largely be attributed to a significant increase in the trade surplus due to an improved export performance, which was supported by higher prices. At the same time, weak domestic demand alongside a sharp decline in crude oil prices weighed down the value of merchandise imports, while the shortfall on the services, income and current transfer account also narrowed. Consequently, the current account of the balance of payments switched to a surplus of 2.2% of GDP in 2020, from a deficit of 3.0% in 2019.

Current account of the balance of payments

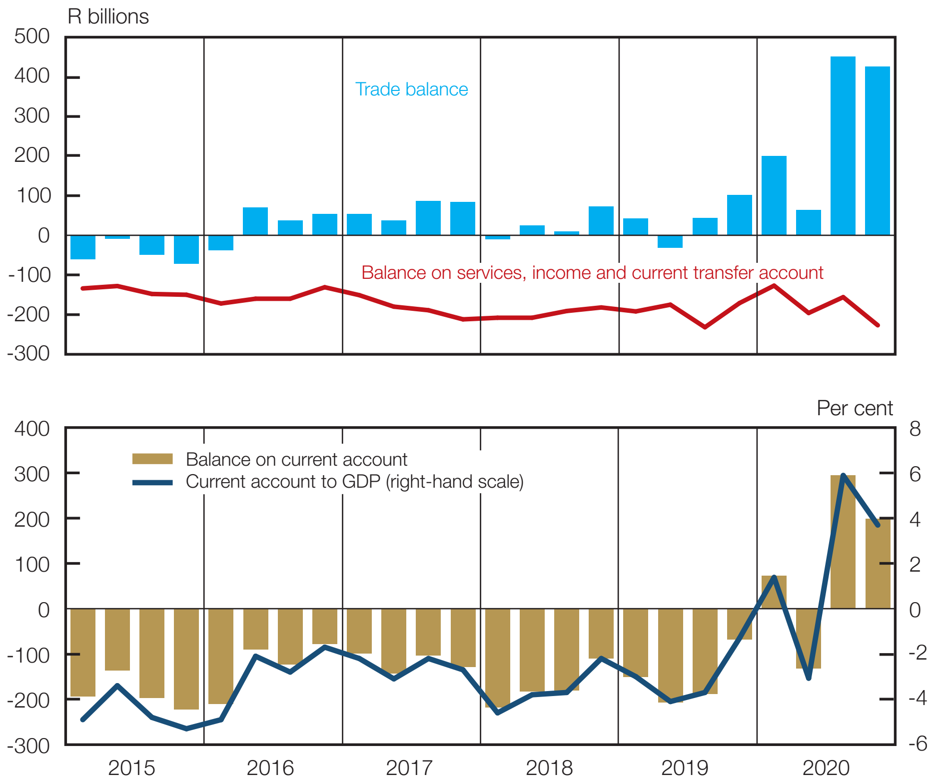
R billions, seasonally adjusted and annualised

	2019	2020				
	Year	Q1	Q2	Q3	Q4	Year
Merchandise exports	1 236	1 288	984	1 376	1 497	1 286
Net gold exports	67	97	79	129	128	108
Merchandise imports	-1 264	- 1 185	- 999	-1 054	-1 199	-1 109
Trade balance	39	200	64	451	425	285
Net service, income and current transfer payments	-192	-127	-196	-156	-227	-177
Balance on current account	-153	72	-132	294	198	108
As a percentage of gross domestic product						
Trade balance	0.8	3.8	1.5	9.0	7.9	5.7
Services balance	-0.3	0.1	-1.3	-1.1	-1.0	-0.8
Income balance	-2.8	-1.9	-2.4	-1.1	-2.2	-1.9
Current transfer balance	-0.7	-0.7	-0.8	-1.0	-1.0	-0.9
Balance on current account	-3.0	1.4	-3.1	5.9	3.7	2.2

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

Sources: Stats SA and SARB

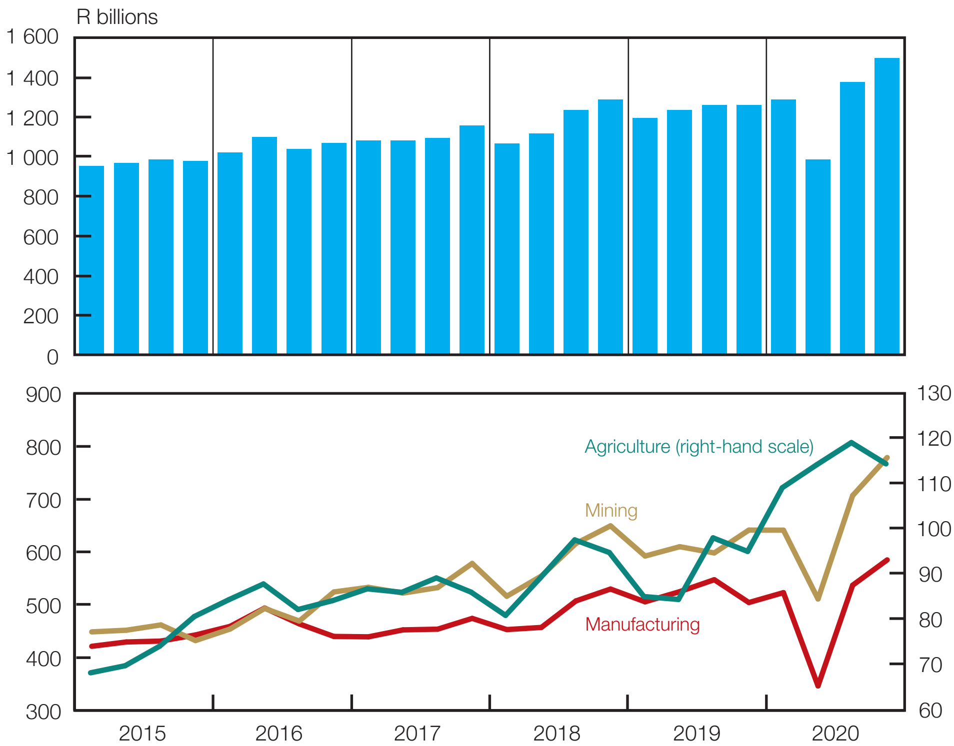
Current account of the balance of payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of merchandise exports increased further by 8.8% in the fourth quarter of 2020, after surging by a substantial 39.8% in the third quarter, supported by both the further recovery in global trade and higher international commodity prices. The export values of mining and manufactured goods increased further, whereas that of agricultural products contracted in the fourth quarter. For the year as a whole, the value of merchandise exports was 4.1% higher than in 2019.

Value of merchandise exports*



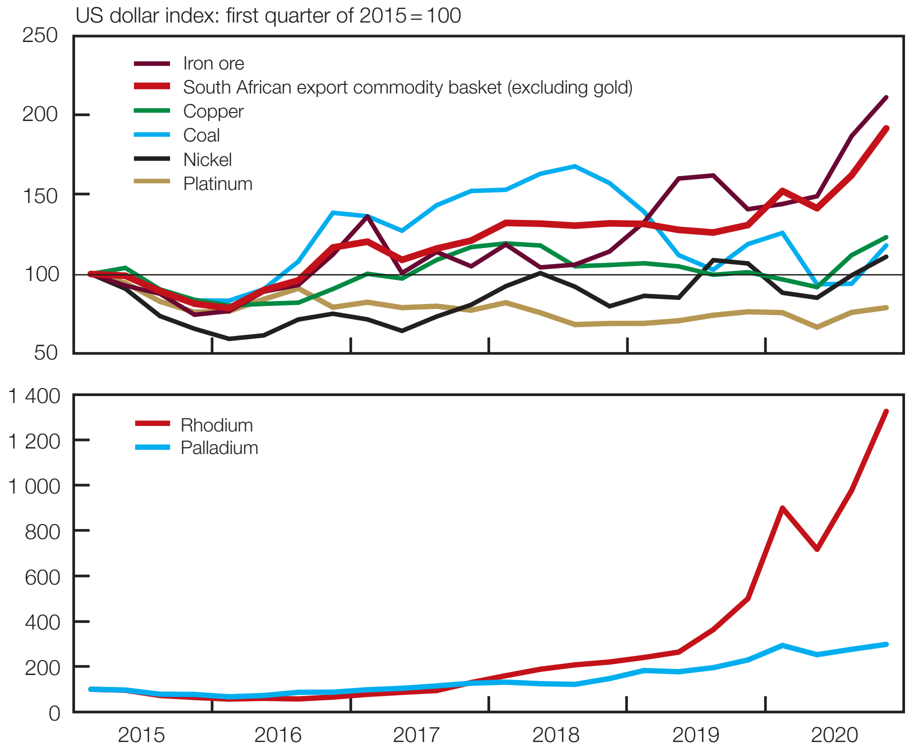
* Excluding gold
Seasonally adjusted and annualised
Sources: Stats SA and SARB

The strong rise in mining exports in the fourth quarter of 2020 was broad-based as exporters continued to benefit from the sharp increase in international commodity prices. The value of mineral exports was boosted especially by coal and iron ore. A large quantity of South African produced coal was exported to China, following the unofficial Chinese ban on Australian thermal coal, which marked the first substantial coal exports to China since 2014. The value of iron ore exports was boosted by the higher realised rand price of iron ore. Higher exports of rough diamonds, supported by jewellery demand during the holiday season, contributed significantly to increased exports of pearls, precious and semi-precious stones, while the exportation of platinum group metals (PGMs) also increased over the period.

Vehicles and transport equipment contributed most to the rise in the value of manufacturing exports in the fourth quarter of 2020. The number of vehicles exported increased from around 76 000 in the third quarter of 2020 to about 85 000 in the fourth quarter (not seasonally adjusted or annualised), according to naamsa | the Automotive Business Council. Over the same period, the value of agricultural exports, which has performed well in recent quarters, receded as maize and citrus exports contracted notably. The former reflected a sharp decline in demand for locally produced maize by Asian economies, particularly South Korea, Taiwan, Japan and Vietnam, following siginificant exports in preceding quarters.

The US dollar price of a basket of domestically produced non-gold export commodities continued to trend higher, increasing by a marked 18.4% in the fourth quarter of 2020. The prices of copper, iron ore and nickel were supported by, among other factors, an increase in global manufacturing activity and improved investor sentiment after the announcement of the global rollout of COVID-19 vaccines as well as a weaker US dollar. At the same time, the price of coal rallied mainly due to geopolitical tensions concerning coal exports between China and Australia. PGM prices rose further, continuing to benefit from, among other factors, rising global demand for these metals as well as supply concerns.

International prices of selected South African export commodities



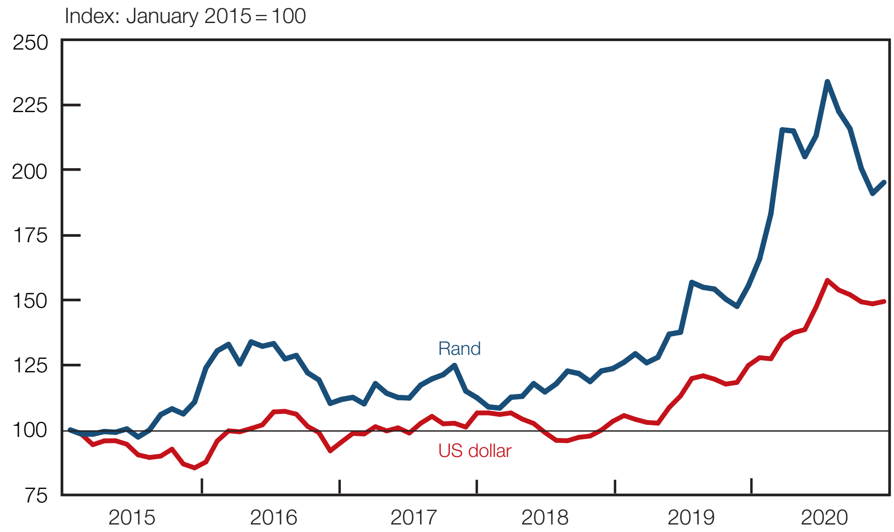
Sources: Afriforesight, World Bank and SARB

The rand price of merchandise exports continued to benefit from the strong increase in international commodity prices, increasing by 2.9% in the fourth quarter of 2020 despite the appreciation in the exchange value of the rand. Over the same period, the volume of merchandise exports also increased further, although at a much slower pace than in the third quarter. The rand price of merchandise exports rose, on average, by 9.4% in 2020, while the volume contracted. However, as a ratio of GDP, the volume of merchandise exports increased from 23.9% in 2019 to 24.4% in 2020.

The average US dollar price of gold on the London market increased during the first eight months of 2020 amid economic uncertainty, following the onset of the COVID-19 pandemic, but then declined from an all-time high in August 2020, as the safe haven demand for gold waned. On average, the price of gold declined by 1.9%, from US$1 911 per fine ounce in the third quarter of 2020 to US$1 875 per fine ounce in the fourth quarter. On an annual average basis, the gold price surged by as much as 27.2% in 2020, supported by strong investor demand.

In rand terms, the average realised price of net gold exports decreased at a faster pace of 4.4% in the fourth quarter of 2020 due to the appreciation in the external value of the rand. However, the value of net gold exports, which surged to an annualised R129 billion in the third quarter of 2020, declined only marginally by 1.0% to R128 billion in the fourth quarter as the lower prices were partially countered by higher volumes.

Gold price



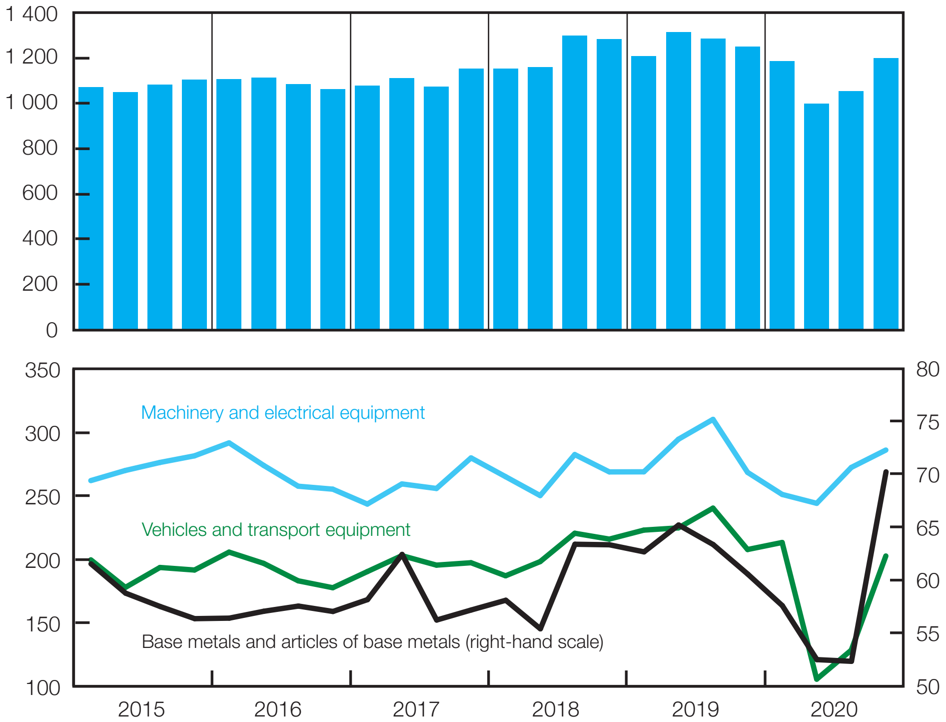
Sources: Reuters and SARB

The value of merchandise imports advanced further by 13.8%, from the third to the fourth quarter of 2020, on account of relatively firm domestic demand for manufactured goods and certain mining commodities. However, despite a second consecutive quarterly increase, the value of merchandise imports contracted by 12.2% for 2020 as a whole – the largest annual contraction since 2009.

The higher value of manufacturing imports in the fourth quarter of 2020 resulted largely from vehicles and transport equipment as well as machinery and electrical equipment. The former reflected automotive equipment components due to increased production activity alongside the introduction of new vehicle models as well as the increased importation of passenger vehicles, of which production was affected by shutdowns in automotive plants in especially the United States and the United Kingdom due to COVID-19 regulations. Certain vehicles which were ordered prior to the initial lockdown were only shipped during the fourth quarter of 2020, following the clearing of the production backlog. The acquisition of three passenger aircraft further boosted the value of imported vehicles and transport equipment. Although the increase in the import value of machinery and electrical equipment were broad-based in the fourth quarter of 2020, the increase in nuclear fuel elements was especially pronounced, following a planned outage as part of routine maintenance at Koeberg power station.

The value of mining imports increased further in the fourth quarter of 2020, although at a slower pace than in the preceding quarter as mineral imports declined. Mineral imports were suppressed by a contraction in imported refined petroleum products, especially distillate fuel, partly due to sufficient domestic supply. This was, however, more than offset by marked increases in the importation of base metals and articles of base metals as well as crude oil. The former was mainly driven by flat-rolled products of iron and non-alloy steel, as local supply could not keep up with demand. This followed the abrupt disruption of the entire domestic supply chain due to COVID-19-related lockdown regulations that resulted in South Africa's primary steel producer ceasing operations at all of its blast furnaces.

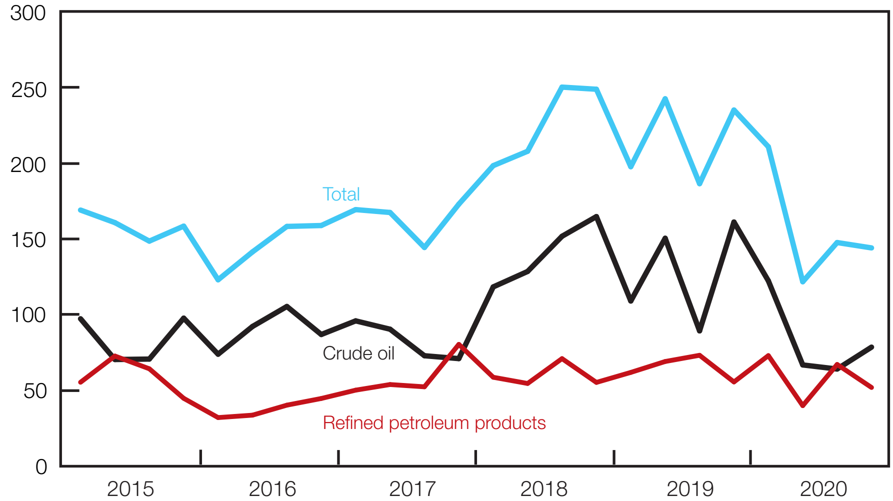
Value of merchandise imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The physical quantity of crude oil imports increased by a marked 28.4% in the fourth quarter of 2020, reflecting the replenishment of stock by some oil refineries amid increased demand brought on by the continued economic recovery and further relaxation of lockdown restrictions. The higher physical quantity of crude oil imports outweighed the decline in the average realised rand price of imported crude oil, which averaged about R716 per barrel in the fourth quarter, resulting in the increase in the value of crude oil imports.

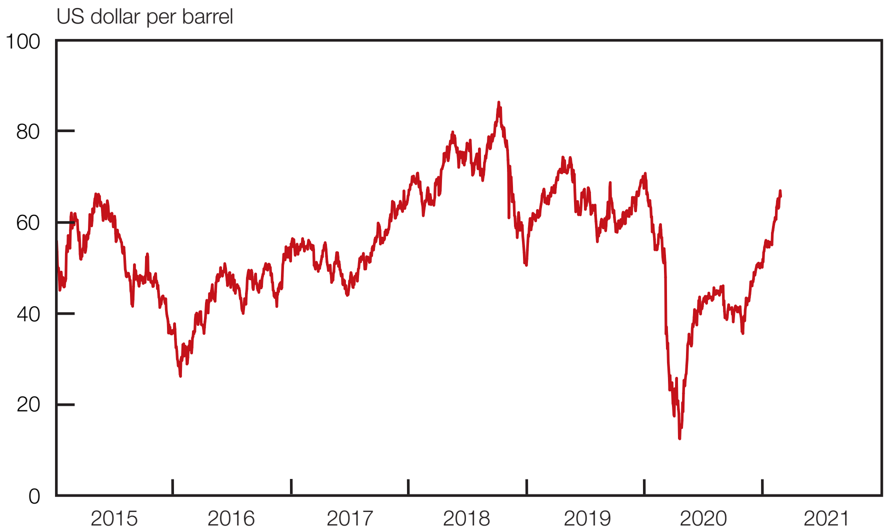
Value of mineral imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

After declining further for a second consecutive month in October 2020, the spot price of Brent crude oil bounced back in November to its highest level since March 2020, as the positive news about COVID-19 vaccines raised optimism about a recovery in global demand for oil. The spot price increased further in December, ending the year at above US$50 per barrel amid expectations of the gradual lifting of mobility restrictions and an acceleration in the global economic recovery. The rally gathered pace at the start of 2021, following an agreement by the Organization of the Petroleum Exporting Countries and allies (OPEC+) to keep production steady in February and March. The spot price averaged US$54.70 in January 2021 before increasing to US$65.70 per barrel at the end of February, the highest price since mid-January 2020.

Brent crude oil price



Sources: Reuters and SARB

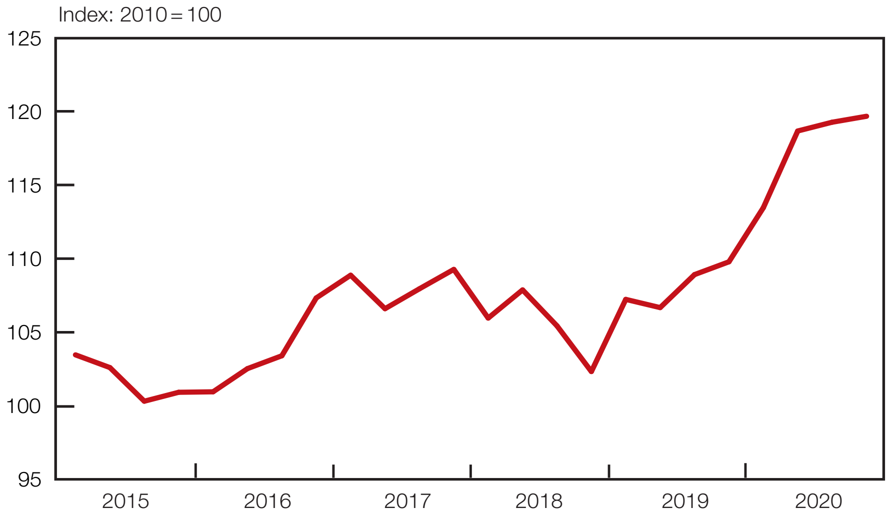
On an annual average basis, the spot price of Brent crude oil decreased significantly by 35.1%, from US$64.39 in 2019 to US$41.77 in 2020, as the COVID-19 pandemic reduced the global demand for oil.

The volume of merchandise imports, which has trended lower since the third quarter of 2019 and remained broadly unchanged in the third quarter of 2020, increased sharply by 11.7% in the fourth quarter. This resulted from higher manufacturing and mining import volumes. Consequently, South Africa's import penetration ratio – that is, real merchandise imports as a ratio of GDE – increased from 23.5% in the third quarter of 2020 to 25.5% in the fourth quarter. For 2020 as a whole, the volume of merchandise imports declined by 14.1%, and amounted to 24.9% of GDE.

The rand price of merchandise imports increased by 1.9% in the fourth quarter of 2020 and by 2.2% on an annual basis, as the depreciation in the exchange value of the rand outweighed the decline in international crude oil prices in 2020.

South Africa's terms of trade improved marginally further in the fourth quarter of 2020. The improvement resulted mainly from the continued rise in the international prices of locally produced commodities, alongside the lower rand price of international crude oil.

Terms of trade*



* Including gold

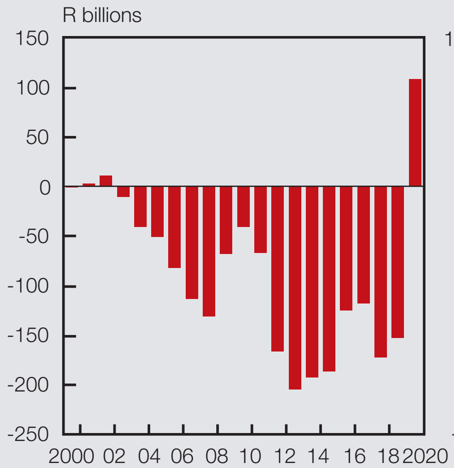
Sources: Stats SA and SARB

Box 2 The nexus between South Africa's balance on the current account of the balance of payments and saving and investment[1]

The balance on the current account of the balance of payments returned to an annual surplus in 2020, for the first time since 2002. Within the framework of the macroeconomic accounts, the difference between saving and investment is equal to the balance on the current account in an open economy. However, postulating the interrelationship between these variables in this manner is an oversimplification of the nuances and causalities between the main aggregates in the macroeconomic accounting framework, and in particular the balance on the current account in relation to gross saving and gross capital formation.

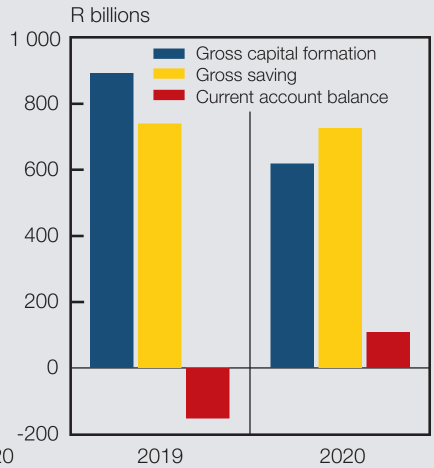
This box elucidates – at a high level – the macroeconomic accounting framework, to show how a current account deficit or surplus and the other aggregates relate to saving and investment, and how saving and investment relate to one another over the long term in the context of broader economic activity. From this nexus, it is evident that a current account surplus on its own does not necessarily support gross capital formation and that the pace of economic growth and its effect on income is a major driver of investment and saving. This is illustrated by the effect of the Coronavirus disease 2019 (COVID-19) on domestic economic growth, income generation as well as on saving and investment, despite the presence of a surplus on the current account.

Balance on the current account of the balance of payments



Source: SARB

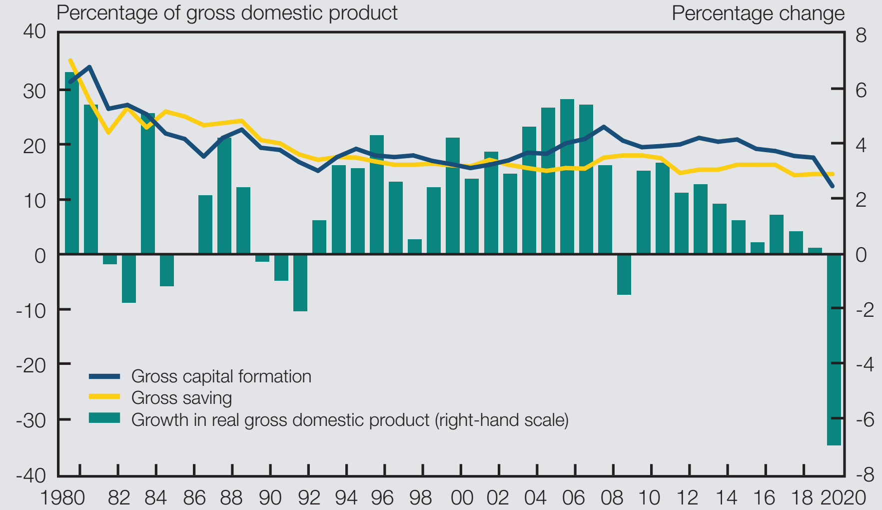
Balance on the current account, saving and investment



Sources: Stats SA and SARB

1 This box relates to the statistics published on pages S–82, S–84, S–112, S–116, S–137, S–138 and S–156 in this edition of the *Quarterly Bulletin*.

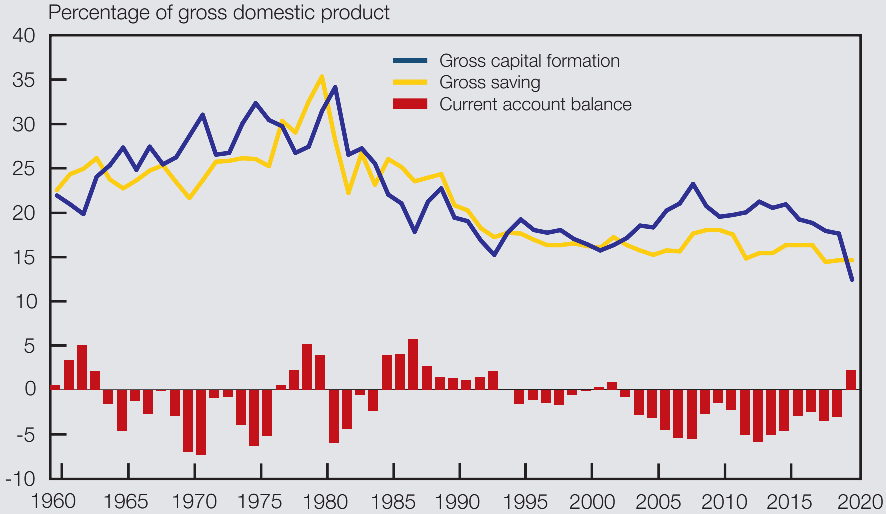
Economic activity in relation to saving and investment



Within the context of the macroeconomic accounting framework, the balance on the current account in an open economy is the difference between gross saving and gross capital formation, and when the current account is in a deficit (surplus) position, gross saving is less (more) than gross capital formation.[2] In this context, gross saving equals gross national disposable income less total final consumption expenditure, based on the notion that income not spent on final consumption expenditure will be saved.

Understanding the nexus between the balance on the current account, saving and investment, requires an appreciation of the fact that despite the necessity for the economic identity to hold,[3] it does not indicate causality. In practice, aggregate saving and investment are the outcomes of independent decisions and actions of a multitude of economic agents, implying the existence of a variety of causalities. For instance, a domestic institutional unit could first save from income generated and then embark on investment, or investment can be funded through banking sector credit extension, the financial markets through intermediation, or from non-residents. In all instances, the investment decisions will be informed by future prospects of economic activity and profits. A sizable portion of imported goods ultimately also find their way either directly or indirectly into consumption and investment expenditure, impacting both investment and the current account. Thus, investment spending on imported goods could contribute to a deficit or smaller surplus on the current account.

Balance on the current account relative to saving and investment



Sources: Stats SA and SARB

2 The gap between saving and investment not only relates to goods, but can for instance also be ascribed to an increase in dividend payments to the rest of the world, implying that when viewed in isolation, only saving would be affected.

3 An identity is a definition that always holds ex post, while an equation holds for specific values of the relevant aggregates.

South Africa's balance on the current account of the balance of payments within the context of the macroeconomic accounting framework

R millions

Calculations	High-level items	2019	2020
	Final consumption expenditure by households	3 058 619	2 978 356
Plus	Final consumption expenditure by general government	1 081 318	1 122 401
Plus	Gross fixed capital formation	908 878	783 620
Plus	Change in inventories	-15 773	-165 534
Plus	Residual	19 037	9 594
Equals	**Gross domestic expenditure (including residual)**	**5 052 077**	**4 728 437**
Plus	Exports of goods* and services**	1 515 866	1 515 419
Less	Imports of goods* and services**	1 490 318	1 269 881
Equals	**Gross domestic product**	**5 077 625**	**4 973 975**
Plus	Primary income and current transfers from the rest of the world**	143 540	154 604
Less	Primary income and current transfers to the rest of the world**	322 264	291 938
Equals	**Gross national disposable income**	**4 898 901**	**4 836 641**
Less	Gross domestic expenditure (including residual)	5 052 077	4 728 437
Equals	**Balance on current account**	**-153 176**	**108 204**
	Exports of goods* and services**	1 515 866	1 515 419
Less	Imports of goods* and services**	1 490 318	1 269 881
Plus	Primary income and current transfers from the rest of the world**	143 540	154 604
Less	Primary income and current transfers to the rest of the world**	322 264	291 938
Equals	**Balance on current account**	**-153 176**	**108 204**
	Gross national disposable income less the residual	4 879 864	4 827 047
Less	Total final consumption expenditure	4 139 937	4 100 757
Equals	**Gross saving**	**739 928**	**726 290**
Less	**Gross capital formation*** **	**893 104**	**618 086**
Equals	**Balance on current account**	**-153 176**	**108 204**

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

* Collectively part of the trade account, and in turn, part of the current account

** Collectively part of the services, income and current transfer account, and in turn, part of the current account

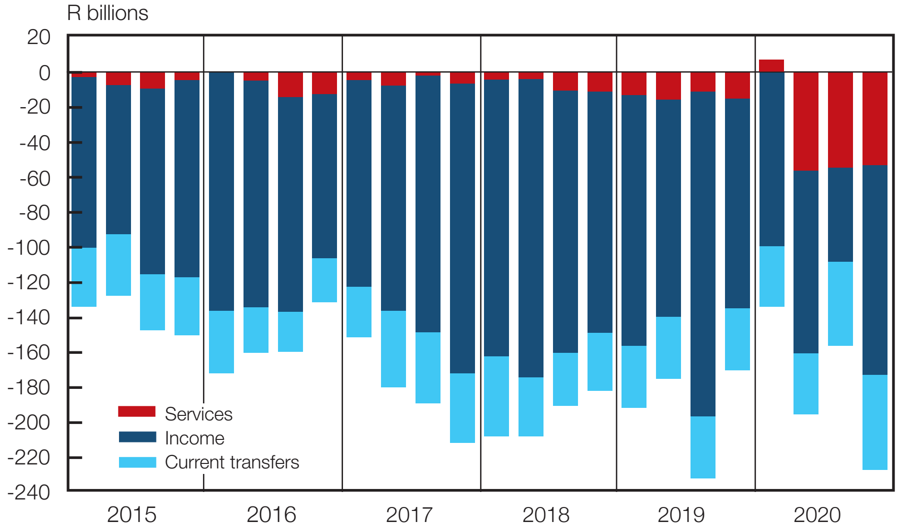
*** Generally referred to as investment

Sources: Stats SA and SARB

From the macroeconomic accounting framework, it is evident that in aggregate, a higher level of saving in relation to investment requires a current account surplus, as in 2020 and in all other such occurrences in the past. In the case of South Africa, both annual saving and investment as a ratio of gross domestic product (GDP) have trended lower since the beginning of the 1980s, irrespective of current account surpluses or deficits. Despite a persistent and increasing current account deficit from 2003 to 2008, at the beginning of the longest period of uninterrupted consecutive annual current account deficits of 17 years, the gradual decline in the saving and investment ratios to GDP was temporarily reversed. The larger annual current account deficits and the upward trend in both saving and investment relative to GDP during the 6-year period from 2003 to 2008 were accompanied by an above average annual real economic growth rate of 4.5%. This compares with an average annual real economic growth rate of only 1.4% for the remainder of the 17-year deficit period, whereas the average annual real economic growth rate amounted to only 2.0% from 1980 to 2002.

The shortfall on the services, income and current transfer account widened to a sizeable R227 billion in the fourth quarter of 2020, from a relatively small R156 billion in the third quarter, and relative to GDP from 3.1% in the third quarter of 2020 to 4.2% in the fourth quarter. The wider deficit in the fourth quarter of 2020 can mainly be ascribed to a noticeably larger shortfall on the income account, while the services deficit decreased somewhat along with a further increase in net current transfer payments. On an annual basis, as a percentage to GDP, the shortfall on the services, income and current transfer account narrowed to 3.6% in 2020 compared with 3.8% in 2019 and 4.0% in 2018.

Net service, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The services deficit declined somewhat in the fourth quarter of 2020 as the increase in gross travel receipts outweighed that in payments. South Africa's borders were officially opened to international tourists as from 1 October for the first time since the end of the first quarter when the initial hard lockdown restrictions were imposed. However, the number of international visitors to South Africa remained low as the second wave of COVID-19 infections emerged in a large number of countries, which included some of South Africa's most prominent sources of tourists. Net services payments were also severely impacted during 2020, particularly from the second quarter, as the global COVID-19 restrictions significantly reduced international travel. For 2020 as a whole, it is estimated that gross travel receipts, gross travel payments and gross passenger payments contracted by 66.4%, 67.9% and 73.7% respectively. The substantial decrease in gross travel receipts, from 2.4% of GDP in 2019 to only 0.8% in 2020, contributed significantly to the larger services deficit in that year. Consequently, in the absence of the relatively large historical travel surplus, the services deficit increased to an all-time high of almost R40.0 billion in 2020 compared with only R13.8 billion in 2019.

The deficit on the income account widened noticeably in the fourth quarter of 2020, from an extraordinary low level in the third quarter. The small income deficit in the third quarter resulted from the first quarterly dividend surplus (net dividend receipts) in almost 25 years, due to an extremely low level of gross dividend payments. Given the low base, gross dividend payments increased noticeably from the third quarter of 2020 to the fourth quarter, while gross dividend receipts decreased marginally. For the year as a whole, gross dividend payments declined by 34.2%, and to only 1.7% of GDP compared with an average annual ratio of 2.5% during the previous decade, indicative of the extraordinary conditions in 2020. By contrast, gross dividend receipts increased somewhat in 2020. Gross interest payments decreased in the fourth quarter of 2020 and marginally by 0.2% for the year as a whole, broadly in line with much lower interest rates than in 2019.

Net current transfer payments increased further in the fourth quarter of 2020 as gross current transfer payments increased, while gross current transfer receipts decreased somewhat. For 2020 as a whole, net current transfer payments amounted to 0.9% of GDP – marginally more than the average annual ratio of 0.7% during the previous five years.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) recorded an outflow of R58.9 billion in the fourth quarter of 2020, following an upwardly revised outflow of R56.5 billion in the third quarter. On a net basis, portfolio investment and other investment recorded outflows which were partially countered by direct investment and reserve asset inflows. Net financial account outflows as a ratio of GDP moderated from 4.5% in the third quarter of 2020 to 4.4% in the fourth quarter. The cumulative flows on the financial account switched from an inflow of R104.8 billion in 2019 to an outflow of R132.7 billion in 2020, and a switch from an inflow of 2.1% of GDP in 2019 to an outflow of 2.7% of GDP in 2020.

Net financial transactions

R billions

	2019	2020				
	Year	Q1	Q2	Q3	Q4	Year
Change in liabilities						
Direct investment	74.0	27.6	19.7	-12.2	16.0	51.1
Portfolio investment	87.5	-90.6	-53.3	-39.5	24.1	-159.3
Financial derivatives	-168.0	-73.7	-116.1	-76.1	-69.8	-335.7
Other investment	-31.6	50.0	-35.9	45.2	-42.4	16.9
Change in assets						
Direct investment	-45.4	-9.0	19.2	-10.9	33.2	32.5
Portfolio investment	42.2	79.6	41.7	-38.7	-36.0	46.6
Financial derivatives	162.5	69.0	107.2	78.7	69.8	324.7
Other investment	8.7	-98.8	-17.9	12.1	-58.9	-163.5
Reserve assets	-25.4	42.2	22.1	-15.2	5.1	54.2
Total identified financial transactions*	104.8	-3.8	-13.5	-56.5	-58.9	-132.7
As a percentage of gross domestic product	*2.1*	*-0.3*	*-1.3*	*-4.5*	*-4.4*	*-2.7*

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

Source: SARB

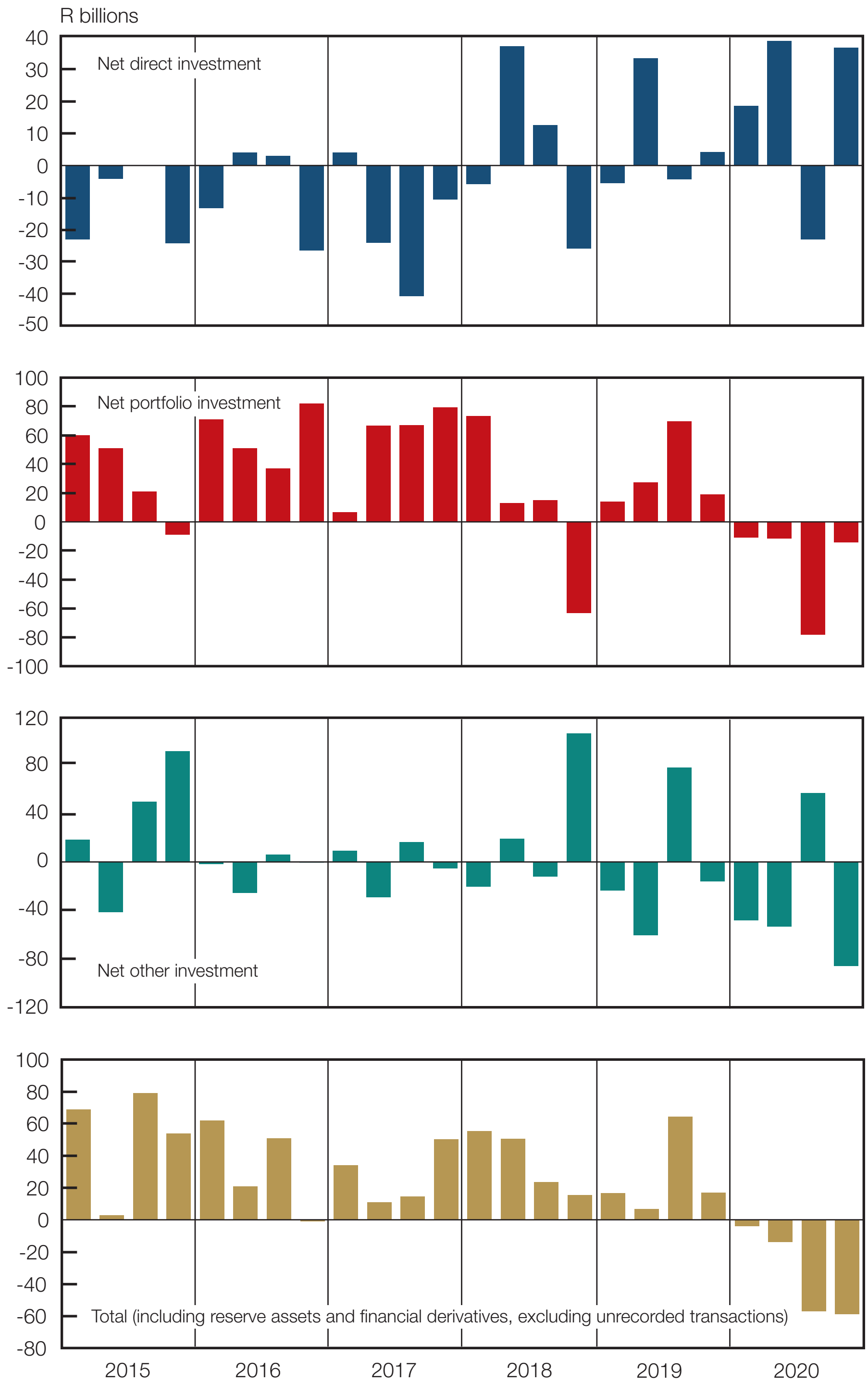
Foreign-owned assets in South Africa

South Africa's direct investment liabilities reverted from an outflow of R12.2 billion in the third quarter of 2020 to an inflow of R16.0 billion in the fourth quarter, as non-resident parent entities increased their equity investment and granted loans to domestic subsidiaries. Inward direct investment decreased to R51.1 billion in 2020, from R74.0 billion in 2019.

Portfolio investment liabilities reverted to an inflow of R24.1 billion in the fourth quarter of 2020, following an outflow of R39.5 billion in the third quarter as non-residents' net purchases of domestic debt securities outweighed net sales of domestic equity securities. Non-residents purchased debt securities to the value of R35.7 billion in the fourth quarter of 2020, following net sales of R2.6 billion in the preceding quarter, while net sales of equities decreased from R36.9 billion in the third quarter of 2020 to R11.6 billion in the fourth quarter. For 2020 as a whole, non-resident investors disposed of domestic portfolio assets of R159.3 billion compared with an acquisition of R87.5 billion in 2019.

Other investment liabilities reverted to an outflow of R42.4 billion in the fourth quarter of 2020, following an inflow of R45.2 billion in the third quarter. The outflow resulted from non-residents' withdrawal of deposits from the domestic banking sector and the repayment of loans by the domestic private non-banking sector. Cumulatively, other investment liabilities switched to an inflow of R16.9 billion in 2020, from an outflow of R31.6 billion in 2019.

Financial account of the balance of payments



Source: SARB

South African-owned assets abroad

South Africa's direct investment assets decreased by R33.2 billion in the fourth quarter of 2020, following an increase of R10.9 billion in the third quarter as domestic parent companies sold equity in non-resident subsidiaries. For 2020 as a whole, direct investment assets switched to an inflow of R32.5 billion, from an outflow of R45.4 billion in 2019.

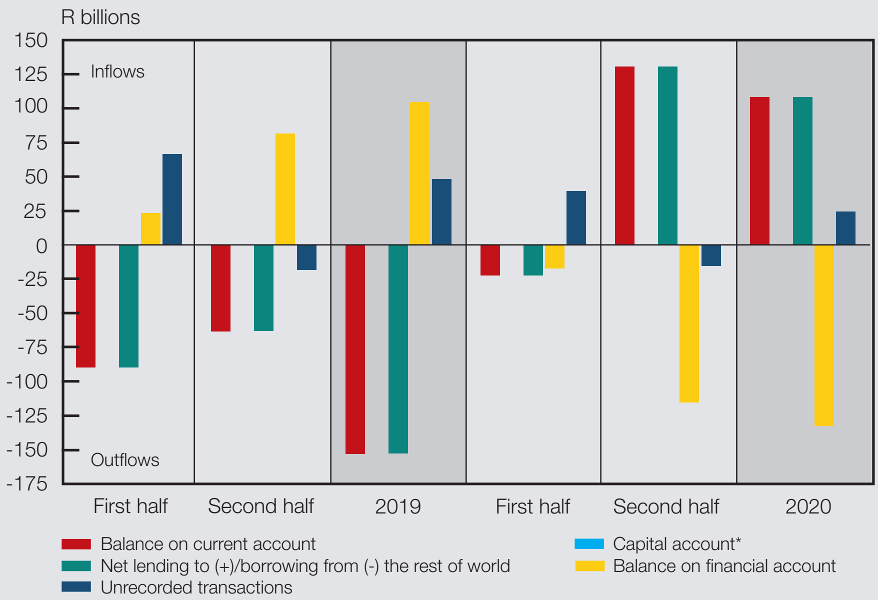
South African residents acquired foreign portfolio assets to the value of R36.0 billion in the fourth quarter of 2020 compared with an acquisition of R38.7 billion in the preceding quarter, mainly as a result of the domestic banking sector's purchases of foreign debt securities and the domestic private non-banking sector's purchases of foreign equity securities. Domestic investors disposed of portfolio investment assets of R46.6 billion in 2020, following a similar disposal of R42.2 billion in 2019.

Other investment assets switched to an outflow of R58.9 billion in the fourth quarter of 2020, following an inflow of R12.1 billion in the third quarter as the domestic banking sector increased deposits at non-resident banks. This was partly countered by non-residents' repayment of short-term loans to the domestic private non-banking sector. Cumulatively, other investment assets reverted to a sizeable outflow of R163.5 billion in 2020, from an inflow of R8.7 billion in 2019.

Box 3 The interaction between the current account and the financial account of the balance of payments[1, 2]

This box illustrates the relationship between the current and financial account of the balance of payments through highlighting the switch in South Africa's balance on the current account of the balance of payments from a deficit of R153.2 billion in 2019 or 3.0% of gross domestic product (GDP), to a surplus of R108.2 in 2020, at 2.2% of GDP.

Main components of the balance of payments



* Small values

Source: SARB

1 This box relates to the balance of payments statistics published in the tables on pages S–82 to S–83 and S–92 to S–93 in this edition of the *Quarterly Bulletin*.

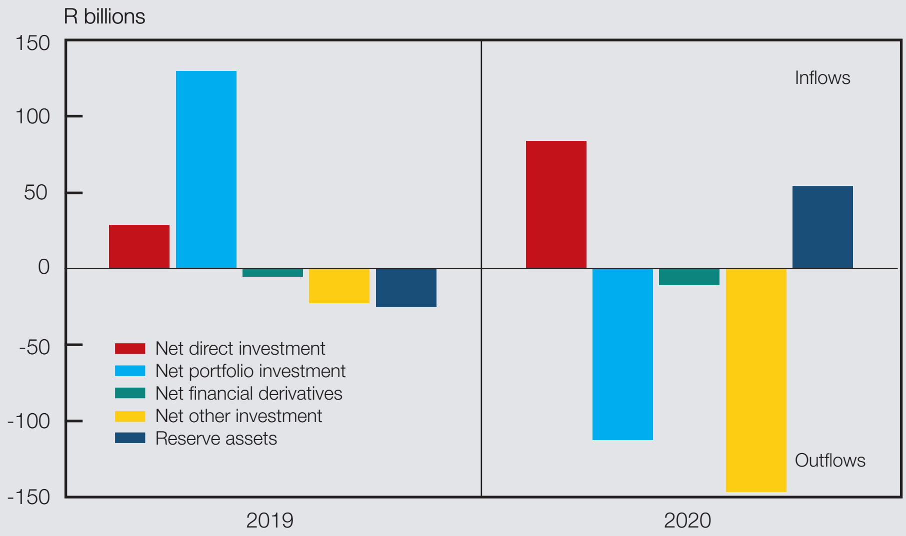
2 The methodology used to compile balance of payments statistics adheres to the guidelines of the Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6) of the International Monetary Fund (IMF), available at https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm

Conceptually, the balance of payments[3] consists of the current account,[4] the capital account[5] and the financial account.[6] The sum of the balances of the current and capital accounts renders the net lending (surplus) or net borrowing (deficit) position with the rest of the world, which is equal to the sum of the balance of the financial account and unrecorded transactions[7], but with an opposite sign. The financial account indicates how the net lending to, or net borrowing from, non-residents was financed, while the unrecorded transactions account for imbalances due to imperfect source data.

The significant change in South Africa's current account balance was reflected in a substantial change in the financial account transactions in the various functional categories.[8] The balance of the financial account transactions (flows) reverted from an inflow (net borrowing from the rest of the world) of R104.8 billion in 2019 to an outflow (net lending to the rest of the world) of R132.7 billion in 2020, or as a percentage of GDP from 2.1% to -2.7%. Outflows were already recorded from the first quarter of 2020, with a further substantial increase as from the third quarter when the current account switched to a large surplus which persisted into the fourth quarter.

The interaction between the current account and the financial account is acutely reflected by the changes in the transactions of the functional categories from 2019 to 2020. On a net basis, direct and portfolio investment recorded inflows in 2019, while financial derivatives and other investment as well as reserve assets recorded outflows. In 2020, on a net basis, direct investment still recorded an inflow and financial derivatives as well as other investment recorded an outflow, while reserve assets switched to an inflow and portfolio investment reverted to an outflow.

Financial account: functional categories



Source: SARB

Direct investment[9] was the only functional category that recorded inflows in both years, from R28.6 billion in 2019 to R83.6 billion in 2020. The increase in net direct investment inflows could be attributed to outward direct investment reverting to an inflow in 2020, from outflows in 2019 as South Africans disposed of more foreign assets than what they acquired, on a net basis, while inward direct investment inflows decreased from 2019 to 2020 as non-residents acquired less South African assets, on a net basis.

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3 The balance of payments is a statistical statement that summarises transactions between residents and non-residents during a specific period.

4 The current account records transactions of goods and services as well as primary and secondary income.

5 The capital account records credit and debit entries for non-produced, non-financial assets and capital transfers.

6 The financial account records the net acquisition and disposal of financial assets and liabilities.

7 Unrecorded transactions could originate from the current, capital and financial accounts.

8 Financial account transactions are classified into five functional categories, namely direct investment, portfolio investment, financial derivatives, other investment and reserve assets, to facilitate analysis of the drivers of the cross-border flows.

9 Direct investment relates to a relationship of control or significant influence between the counterparties and includes equity and investment fund shares as well as debt instruments.

Balance of payments transactions*

R billions

Half yearly and annually	2019 First half	2019 Second half	2019 Year	2020 First half	2020 Second half	2020 Year
Balance on current account	-89.9	-63.3	-153.2	-22.4	130.6	108.2
Balance on capital account	0.1	0.1	0.2	0.1	0.1	0.2
Net lending to, or borrowing from, the rest of the world**	**-89.7**	**-63.2**	**-152.9**	**-22.2**	**130.7**	**108.4**
Net direct investment	27.9	0.7	28.6	57.4	26.2	83.6
Net incurrence of liabilities	39.0	35.1	74.0	47.3	3.9	51.1
Net acquisition of financial assets	-11.0	-34.4	-45.4	10.1	22.4	32.5
Net portfolio investment	41.2	88.6	129.7	-22.6	-90.0	-112.7
Net incurrence of liabilities	41.6	46.0	87.5	-144.0	-15.4	-159.3
Equity securities	2.2	-65.1	-62.9	-36.2	-48.5	-84.7
Debt securities	39.4	111.0	150.4	-107.8	33.1	-74.6
Net acquisition of financial assets	-0.4	42.6	42.2	121.3	-74.7	46.6
Equity securities	4.5	75.8	80.2	120.0	16.1	136.1
Debt securities	-4.9	-33.1	-38.0	1.3	-90.8	-89.5
Net financial derivatives	-2.6	-2.9	-5.4	-13.7	2.6	-11.1
Net other investment	-85.2	62.4	-22.8	-102.6	-44.1	-146.6
Net incurrence of liabilities	14.3	-45.8	-31.6	14.1	2.8	16.9
Net acquisition of financial assets	-99.5	108.2	8.7	-116.7	-46.8	-163.5
Reserve assets	41.9	-67.3	-25.4	64.2	-10.1	54.2
Balance on financial account***	**23.3**	**81.5**	**104.8**	**-17.3**	**-115.4**	**-132.7**
Unrecorded transactions****	66.5	-18.3	48.2	39.5	-15.2	24.3

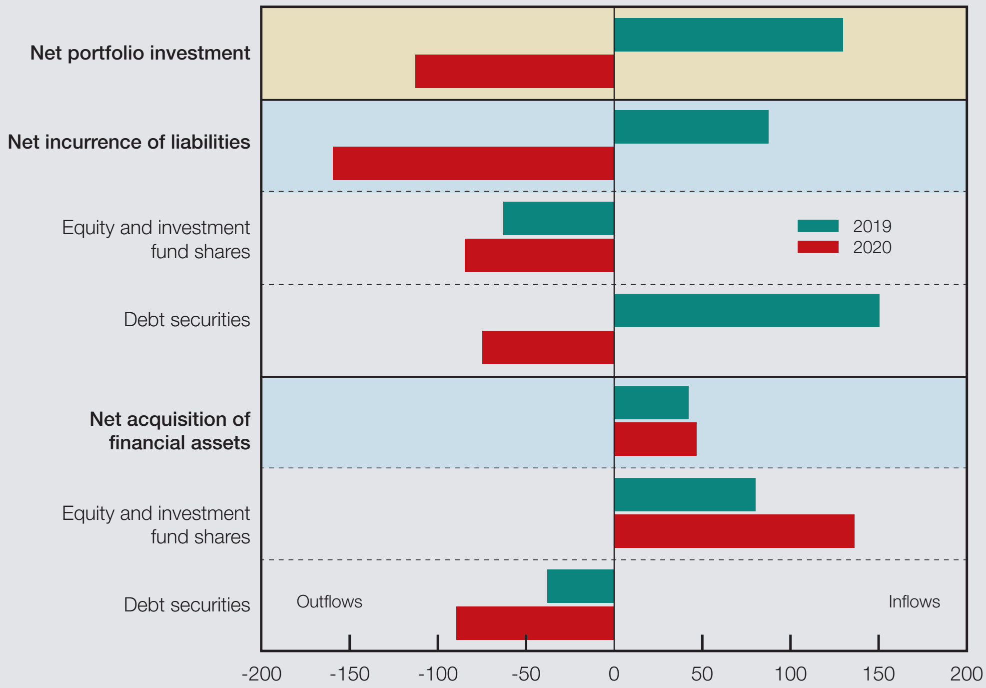
Components may not add up to totals due to rounding off.
* Not seasonally adjusted
** Balance on the current and capital accounts
*** Excluding unrecorded transactions.
**** These are transactions on the current, capital and financial accounts.
Inflow (+)/outflow (-)

Source: SARB

Portfolio investment[10] recorded the most significant change of all the functional categories as the net inflow of R129.7 billion in 2019 switched to a net outflow of R112.7 billion in 2020. While non-residents' disposal of domestic equity securities increased from 2019 to 2020, the largest change in the financial account came from their disposal of domestic debt securities of R74.6 billion in 2020, which contrasted an acquisition of R150.4 billion in 2019. The significant reversal in non-resident flows of domestic debt securities can be attributed to the increased risk attached to South African government debt as a result of the deterioration in government finances, which was reflected in the downgrade of South Africa's sovereign credit rating to below investment grade by all the major credit rating agencies. Within portfolio investment, the net outflow due to a decrease in South Africa's foreign liabilities was partly offset by a net inflow due to South Africans' disposal of foreign equity and investment fund shares.

10 Portfolio investment is related to liquid and flexible access to financial markets and includes equity and investment fund shares as well as debt instruments.

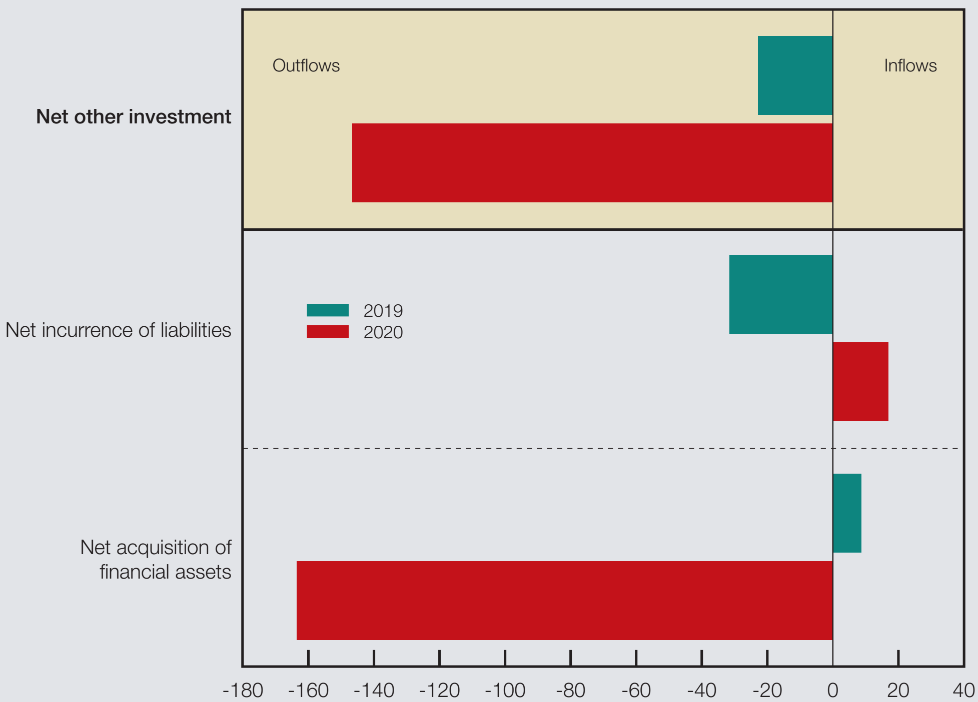
Portfolio investment



R billions

Source: SARB

Other investment



R billions

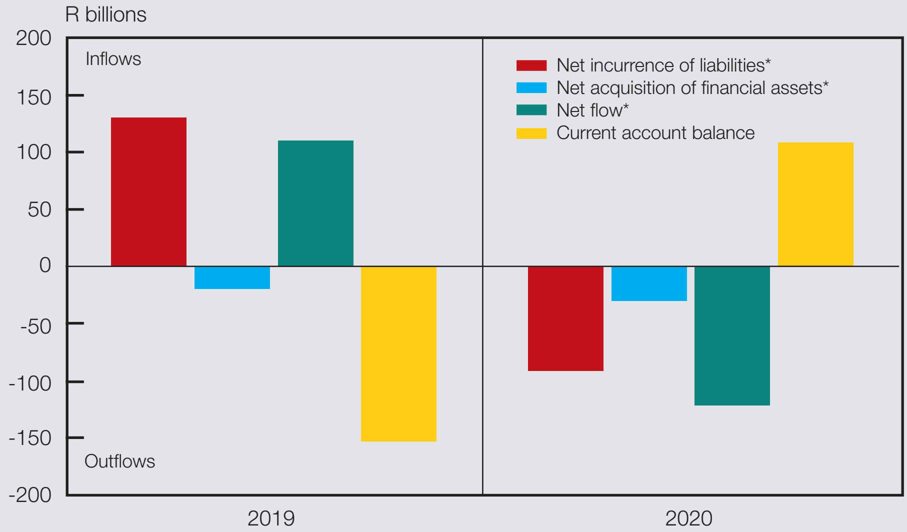
Source: SARB

Financial derivatives[11] contributed to net outflows of only 0.1% and 0.2% of GDP in 2019 and 2020 respectively, as banks mostly maintained a hedged position. Net other investment[12] outflows increased markedly from R22.8 billion in 2019 to R146.6 billion in 2020, mainly as a result of a substantial net other investment assets outflow of R163.5 billion in 2020. This mainly reflected loans granted by South African banks under resale agreements to non-residents as well as short-term financing. The volatility in net other investment liabilities reflects short-term financing provided to South African residents.

The South African Reserve Bank's transactions in reserve assets[13] changed from an outflow of R25.4 billion in 2019 to an inflow of R54.2 billion in 2020 – the only functional category which reverted from an outflow to an inflow over the period.

The direct, portfolio and other investment as well as reserve asset functional categories as a whole switched from a net inflow in 2019 to a net outflow in 2020 as the net incurrence of liabilities changed from a net inflow to a net outflow, while the net acquisition of foreign assets recorded only a marginally larger net outflow. From the accompanying graph, the relationship between the financial account flows and current account balance is clearly evident.

Selected net financial account transactions and the current account balance



* Excluding financial derivatives
Source: SARB

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11 Financial derivatives provide for the trading of risks with inflows representing net profits and outflows representing net losses.

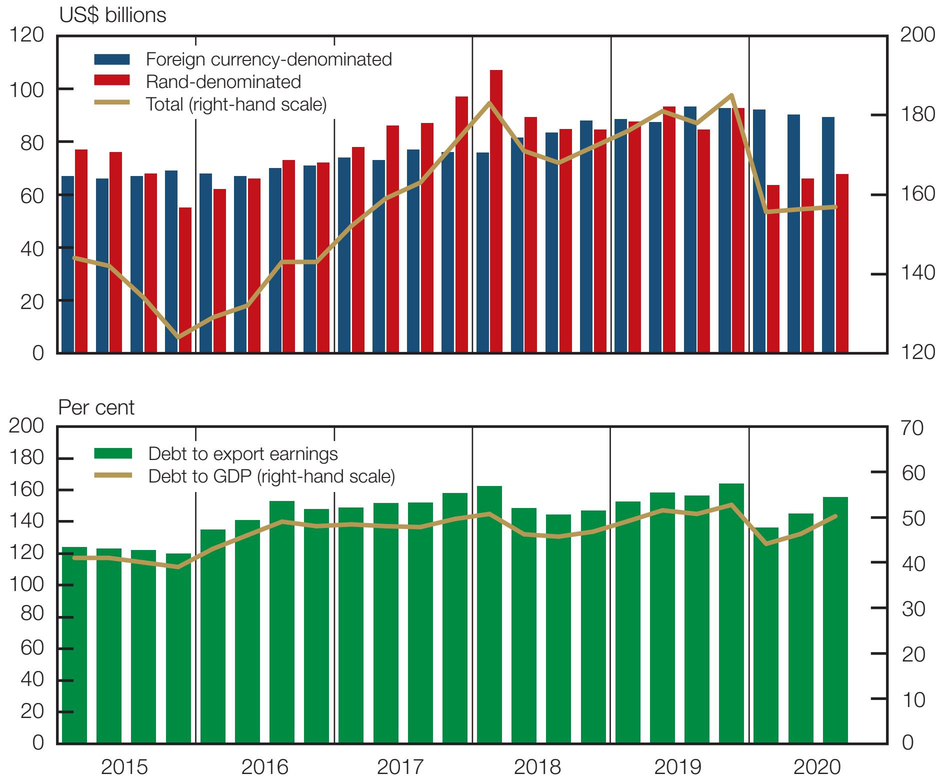
12 Other investment provides for other financial instruments and includes deposits, short- and long-term loans as well as trade finance.

13 Reserve assets include monetary gold, Special Drawing Rights and other reserve assets.

Foreign debt

South Africa's total external debt increased marginally from US$156.3 billion at the end of June 2020 to US$156.9 billion at the end of September. However, in rand terms, South Africa's total external debt decreased from R2 710 billion to R2 655 billion over the same period as the exchange value of the rand appreciated against the US dollar.

Foreign debt



Source: SARB

Foreign currency-denominated external debt decreased from US$90.3 billion at the end of June 2020 to US$89.2 billion at the end of September. This decrease occurred as the increase in the South African government's long-term borrowing was more than offset by a decrease in short- and long-term loans by all other sectors.

Rand-denominated external debt, expressed in US dollars, increased from US$66.0 billion at the end of June 2020 to US$67.7 billion at the end of September. The increase was mainly due to net purchases of domestic rand-denominated bonds by non-residents, an increase in the market value of non-resident bond holdings as well as the increase in the US dollar value of rand-denominated external debt due to the appreciation in the exchange value of the rand over the period.

South Africa's total external debt as a ratio of GDP increased from 46.3% at the end of June 2020 to 50.3% at the end of September. The ratio of external debt to export earnings increased from 145.0% to 155.3% over the same period.

Foreign debt of South Africa

US$ billions at end of period

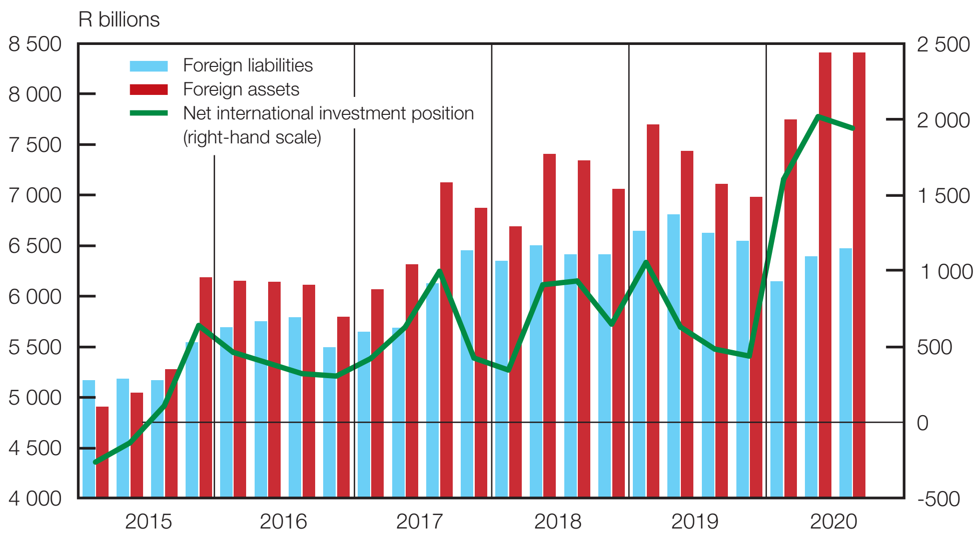
	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Foreign currency-denominated debt	87.4	93.2	92.6	92.1	90.3	89.2
Debt securities	29.0	33.5	33.5	32.2	31.4	30.2
Other	58.4	59.7	59.1	59.9	58.9	59.0
Public sector	10.4	10.9	10.3	10.5	10.9	15.8
Monetary sector	18.0	17.8	18.7	19.7	17.5	16.4
Non-monetary private sector	30.0	31.0	30.0	29.7	30.5	26.8
Rand-denominated debt	93.2	84.5	92.8	63.5	66.0	67.7
Debt securities	55.1	50.0	57.6	36.9	38.9	40.8
Other	38.1	34.5	35.2	26.6	27.1	26.9
Total foreign debt	180.6	177.7	185.4	155.6	156.3	156.9
As a percentage of gross domestic product	*51.5*	*50.7*	*52.7*	*44.1*	*46.3*	*50.3*
As a percentage of total export earnings	*158.5*	*156.4*	*164.0*	*136.4*	*145.0*	*155.3*

Source: SARB

International investment position

South Africa's positive net international investment position (IIP) decreased marginally from a revised R2 018 billion in June 2020 to R1 943 billion at the end of September. The decrease reflected a slight increase in foreign liabilities, while foreign assets remained broadly unchanged.

South Africa's international investment position



Source: SARB

The market value of South Africa's foreign assets (outward investment) remained almost unchanged at R8 414 billion at the end of September 2020 compared with a revised R8 411 billion at the end of June, following an increase of 8.6% in the second quarter. In the third quarter of 2020, foreign assets decreased in all functional categories, except for portfolio investment and reserve assets. Direct investment decreased mainly as a result of the valuation effect of a decrease in the share price of a large dual-listed company with a primary listing abroad. By contrast, foreign portfolio investment assets increased as a result of an increase of 8.5% in the US Standard & Poor's (S&P) 500 Index. Other investment assets decreased mainly due to the domestic banking sector repatriating deposits from non-resident banks, while the increase in reserve assets reflected the proceeds from foreign borrowings by government.

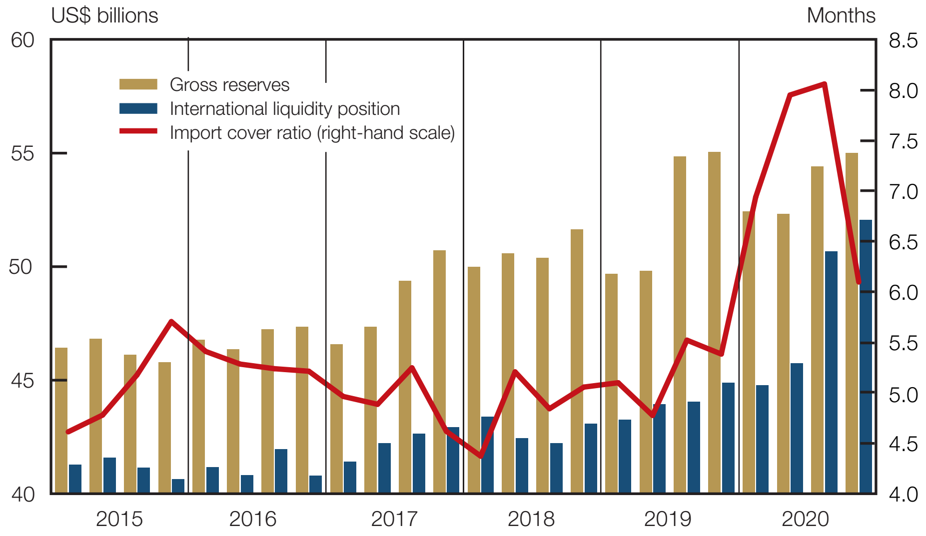
The market value of South Africa's foreign liabilities (inward investment) increased by 1.2%, from R6 393 billion at the end of June 2020 to R6 471 billion at the end of September, following an increase of 4.1% in the second quarter. The increase in foreign liabilities in the third quarter of 2020 reflected an increase in all functional categories, except financial derivatives. The value of direct investment liabilities increased significantly as the net asset values of non-listed companies were buoyed in the third quarter of 2020 after the devastating effect of the COVID-19 lockdown in the second quarter. Portfolio investment liabilities increased slightly, despite a marginal decline in the FTSE/JSE All-share index. The increase in other investment liabilities was mainly due to non-residents extending long-term loans to the general government to combat the effects of COVID-19. These were in the form of an XDR3.1 billion loan from the International Monetary Fund (IMF) and a US$1 billion loan from the New Development Bank.

As a ratio of South Africa's annual GDP, foreign assets increased from 169.5% at the end of June 2020 to 170.4% at the end of September, while foreign liabilities increased from 128.9% to 131.0% over the same period. This resulted in a decline of the positive net IIP to 39.3% of GDP at the end of September 2020.

International reserves and liquidity

South Africa's international reserves decreased by R5.1 billion in the fourth quarter of 2020, following an increase of R15.2 billion in the third quarter.

International reserves



Source: SARB

Measured in US dollar terms, 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) increased from US$54.4 billion at the end of September 2020 to US$55.0 billion at the end of December, largely due to foreign exchange swaps conducted for sterilisation and liquidity management. The country's gross gold and other foreign reserves then decreased to US$53.8 billion at the end of February 2021. South Africa's international liquidity position[16] increased from US$50.7 billion at the end of September 2020 to US$52.1 billion at the end of December, before decreasing to US$51.6 billion at the end of February 2021.

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

The 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 8.1 months at the end September 2020 to 6.1 months at the end of December.

Exchange rates[17]

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

The exchange rates of most currencies have been fairly volatile since the onset of COVID-19, as economic activity and financial markets were contending with the adverse effects of the global health pandemic. The nominal effective exchange rate (NEER) of the rand increased significantly by 11.6% in the fourth quarter of 2020, following a marginal decrease of 0.3% in the third quarter. The NEER then decreased by 0.9% from the end of December 2020 up to 12 March 2021.

Exchange rates of the rand

Percentage change

	31 Mar 2020 to 30 Jun 2020	30 Jun 2020 to 30 Sep 2020	30 Sep 2020 to 31 Dec 2020	31 Dec 2020 to 12 Mar 2021
Weighted average*	**2.7**	**-0.3**	**11.6**	**-0.9**
Euro	1.7	-2.0	10.3	0.6
US dollar	3.8	2.4	15.7	-2.3
Chinese yuan	3.5	-1.4	11.0	-2.8
British pound	4.2	-1.9	8.7	-4.3
Japanese yen	3.2	0.5	13.0	3.3

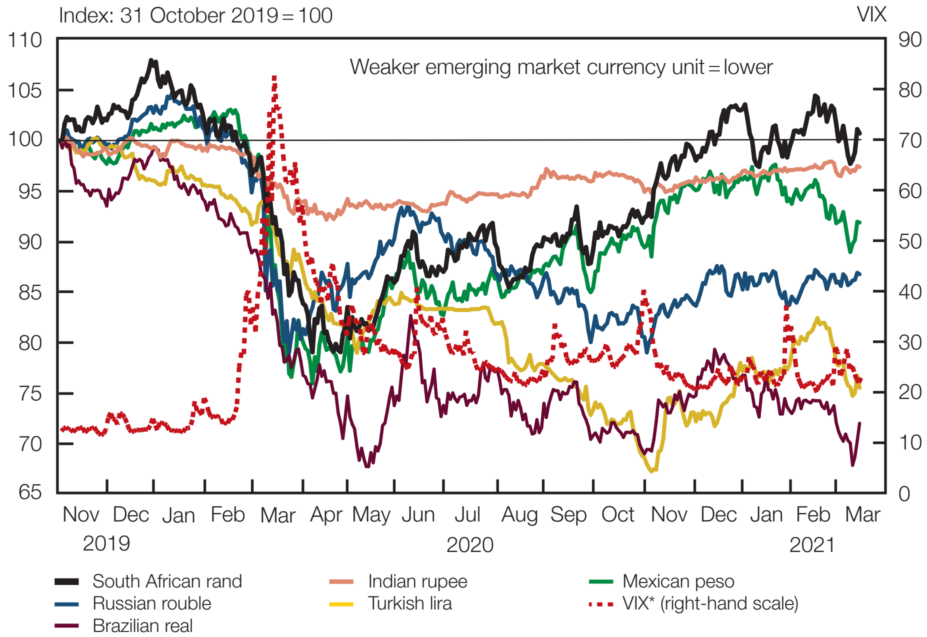
* Trade-weighted exchange rate against a basket of 20 currencies (nominal effective exchange rate)
Depreciation (–)/appreciation (+)

Source: SARB

Following a number of interventions by most governments and central banks, volatility in foreign exchange markets subsided somewhat during the second half of 2020. Although volatility briefly increased again towards the end of October, in the lead-up to the US presidential elections, global sentiment towards emerging market currencies generally improved for most of the month. Consequently, the NEER increased by 3.3% in October 2020 despite renewed concerns about South Africa's fiscal position following the *2020 Medium Term Budget Policy Statement (MTBPS)*. Several emerging market currencies, including the rand, strengthened against the US dollar during November 2020, following the US presidential elections. News of notable advances in the development of COVID-19 vaccines also led to a further increase in global risk appetite. Mixed outcomes of domestic economic indicators, such as the record trade surplus, the widening budget deficit and further sovereign credit rating downgrades by Fitch and Moody's credit rating agencies had a limited effect on investor sentiment towards the rand. As such, the NEER of the rand increased further by 4.8% in November 2020.

Global sentiment towards emerging markets continued to improve in December 2020 amid continued progress with the global COVID-19 vaccine rollout and as the US grappled with policy uncertainty while trade negotiations between the European Union and Britain progressed. In addition, improved economic growth in China supported global sentiment following the initial COVID-19 shock to the world's second largest economy at the beginning of 2020. Several emerging market currencies thus appreciated against the US dollar in December 2020, and the NEER increased by 3.0% during the month.

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 was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

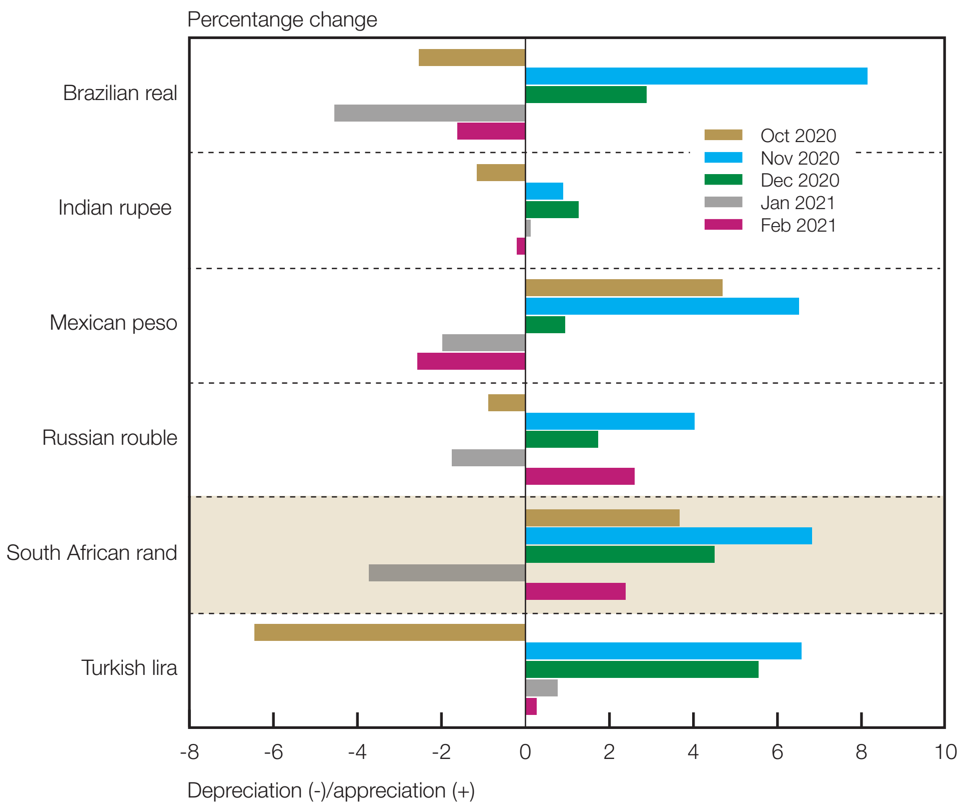
Sources: Bloomberg, Reuters and SARB

However, the rand depreciated by 3.7% against the US dollar in January 2021 as the US dollar started to recover after seven months of depreciation. Sentiment towards the rand also deteriorated amid further lockdown restrictions brought about by a second wave of COVID-19 cases. The NEER's gains in December 2020 were thus reversed in January 2021 as it declined by 3.2% during the month.

The rand appreciated by 2.8% against the US dollar in February 2021 as investors' risk appetite towards some emerging market currencies increased. The release of some positive domestic economic statistics and a weaker economic outlook in the US further buoyed the rand's strength against the US dollar in the month. Thus, the NEER increased by 2.3% in February 2021, reversing most of the losses incurred in the beginning of the year.

Although the volatility in global financial markets has subsided somewhat and many emerging market currencies strengthened during the second half of 2020, it is noteworthy that the rand has performed relatively well compared to other emerging market currencies, despite South Africa's non-investment grade sovereign credit rating. From a low of R19.08 against the US dollar in early April 2020, the rand appreciated by 30.4% to R14.62 against the US dollar by the end of December and outperformed several emerging market currencies, such as the Indian rupee, Mexican peso, Brazilian real, Russian rouble and Turkish lira.

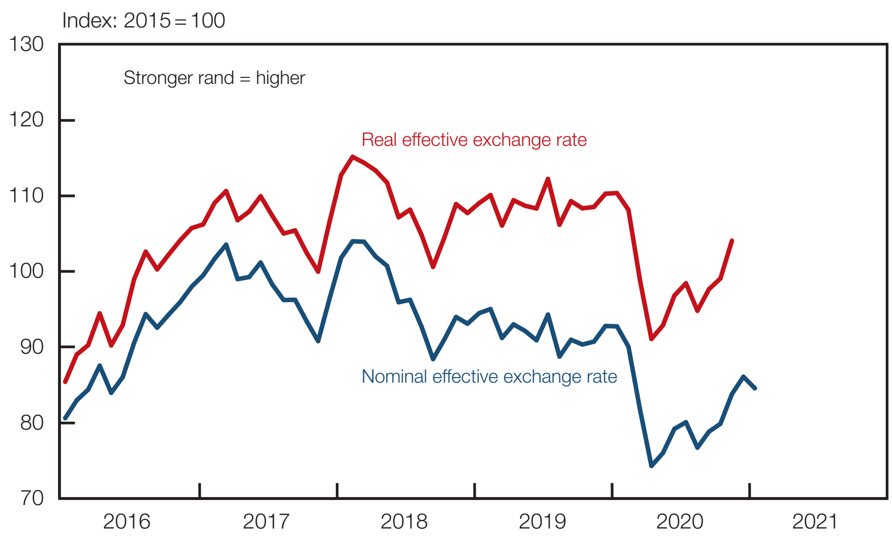
Emerging market currencies against the US dollar



Sources: Reuters and SARB

The real effective exchange rate (REER) of the rand decreased by a notable 16.4% from January 2019 to April 2020, reflecting improved competitiveness for domestic producers in foreign markets over this period. This decrease resulted mainly from the sharp depreciation in the exchange value of the rand at the onset of the COVID-19 pandemic at the end of March 2020. Subsequently, the REER increased by 14.3% between April and November 2020, along with the gradual easing of domestic COVID-19 lockdown restrictions and the appreciation in the exchange value of the rand.

Effective exchange rates of the rand



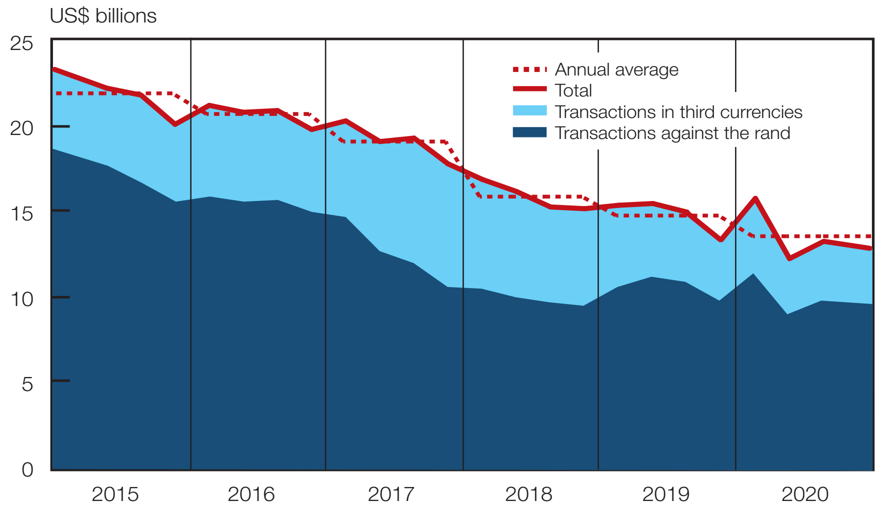
Source: SARB

Turnover in the South African foreign exchange market

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

The net average daily turnover[18] in the South African foreign exchange (FX) market decreased from US$13.3 billion in the third quarter of 2020 to US$12.9 billion in the fourth quarter, or by 2.5%, following an increase of 7.5% in the third quarter of 2020. The decrease in the fourth quarter resulted from a number of domestic and global factors, including continued concerns regarding South Africa's fiscal situation, further credit rating downgrades, fluctuations in the exchange value of the rand against the US dollar, uncertainty around the US presidential elections and COVID-19-related developments. FX transactions against the rand decreased slightly from US$9.8 billion in the third quarter of 2020 to US$9.6 billion in the fourth quarter, or by 2.5%. At the same time, transactions in third currencies remained unchanged at US$3.4 billion for the third consecutive quarter.

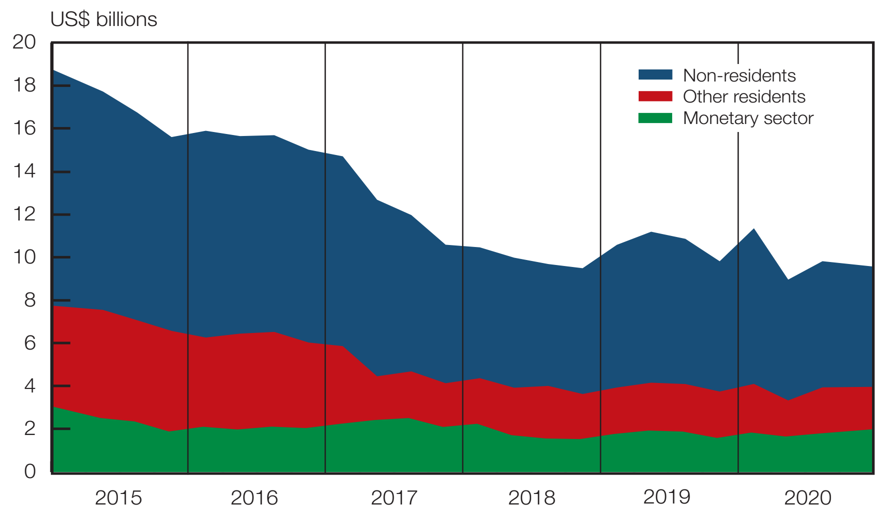
Net average daily turnover in the South African foreign exchange market



Source: SARB

Counterparty participation in the domestic FX market displayed significant fluctuations throughout 2020. In the first quarter of the year, transactions against the rand averaged US$11.4 billion before declining to US$9.0 billion in the second quarter. Turnover then recovered somewhat to US$9.8 billion in the third quarter, only to recede again to US$9.6 billion in the fourth quarter. Average participation by non-residents declined from US$5.9 billion in the third quarter of 2020 to US$5.6 billion in the fourth quarter. Likewise, participation by residents

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

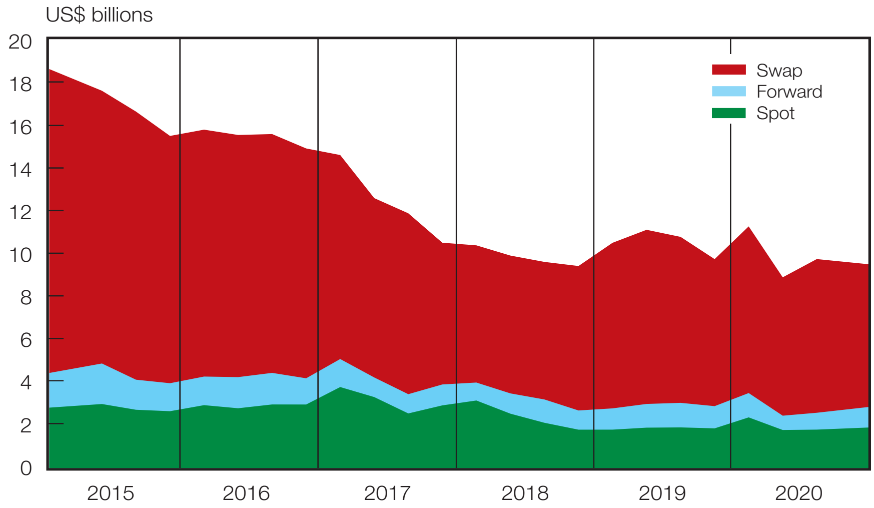


Source: SARB

decreased slightly from US$2.1 billion to US$2.0 billion over the same period. However, monetary sector participation in the rand market increased from US$1.7 billion in the second quarter of 2020 to US$1.8 billion in the third quarter, and further to US$2.0 billion in the final quarter of the year.

The composition of the net average daily turnover in the South African FX market against the rand is dominated by swap transactions, which exceed the contribution of both spots and forwards. Swap transactions decreased from US$7.2 billion in the third quarter of 2020 to US$6.7 billion in the fourth quarter, or by 7.2%. In contrast, both spot and forward transactions increased for a second consecutive quarter, from US$1.8 billion and US$0.8 billion respectively in the third quarter of 2020 to US$1.9 billion and US$1.0 billion respectively in the fourth quarter. The appreciation in the exchange value of the rand and increased global trade likely contributed to these increases.

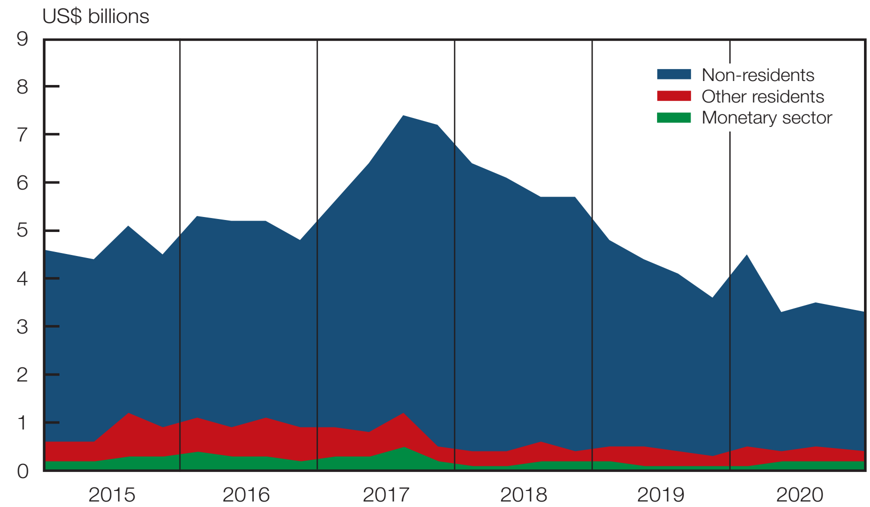
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

Transactions in third currencies hovered around an average of US$3.7 billion throughout 2020, but remained unchanged from the third to the fourth quarter of the year at US$3.4 billion. The bulk of third currency transactions stemmed from participation by non-residents, which declined slightly from US$3.0 billion in the third quarter of 2020 to US$2.9 billion in the fourth quarter, or 1.6%. Similarly, participation by residents declined from US$0.3 billion to US$0.2 billion, while monetary sector participation remained unchanged at US$0.2 billion over the same period.

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



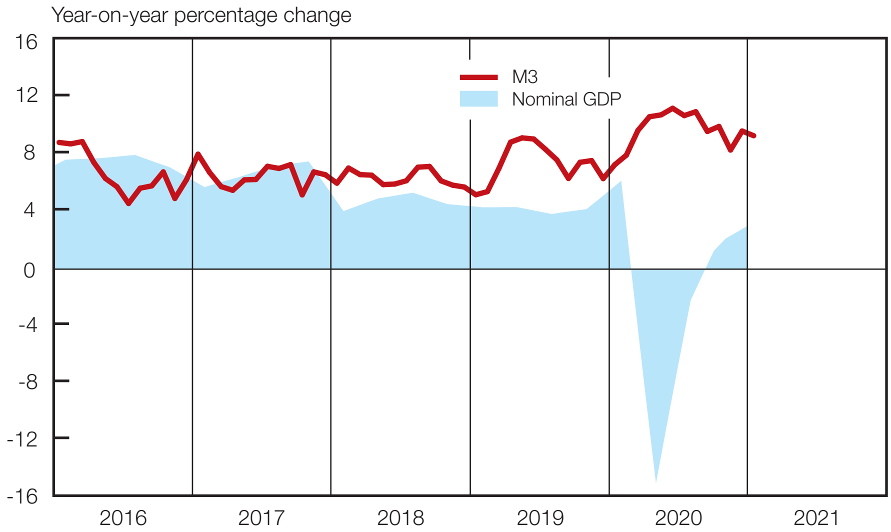
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

The moderation in growth in the broadly defined money supply (M3) during the second half of 2020 ended with a slight acceleration in December, to a similar rate as in September. The gap between the pace of increase in M3 and nominal GDP narrowed significantly in the second half of 2020. The quarter-to-quarter seasonally adjusted and annualised growth in M3 decelerated even more notably, from 6.2% in the third quarter of 2020 to -0.1% in the fourth quarter, and resulted in an increase in the income velocity of the circulation of money to 1.30 in the fourth quarter. The impact of continued COVID-19-related restrictions of varying degrees as the pandemic evolves is likely to affect households and corporates for some time to come.

Money supply and gross domestic product



Sources: Stats SA and SARB

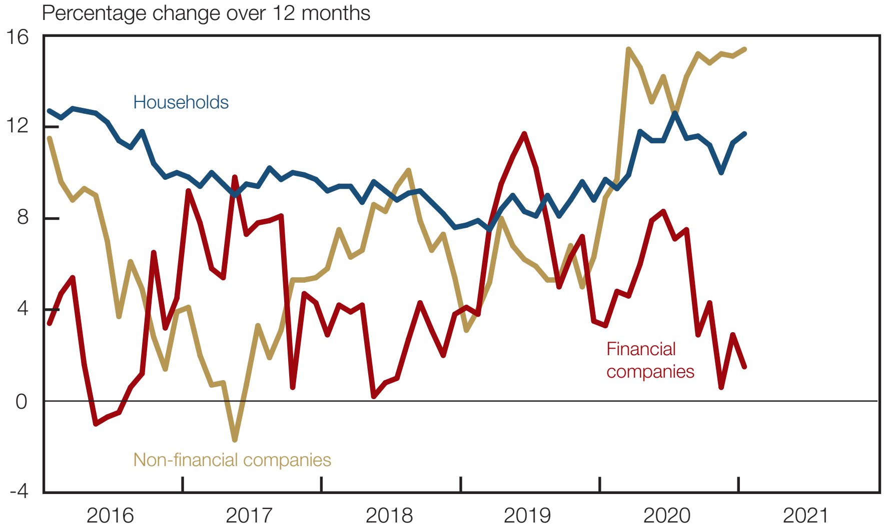
The average annual growth in M3 accelerated from 7.2% in 2019 to 9.6% in 2020. This was boosted by high 12-month growth which peaked at 11.1% in June 2020 during the initial strict phase of the national lockdown. Subsequently, growth in M3 moderated to 9.4% in December and 9.2% in January 2021. Growth in the deposit holdings of the corporate sector, which accelerated sharply from a low of 5.7% at the beginning of 2020 to 10.9% in June, subsequently moderated to 8.4% in December and 7.8% in January 2021. The elevated growth in the deposit holdings of the household sector also moderated somewhat from 12.6% in July 2020 to a still high 11.3% in December, partly reflective of the extended Black Friday promotions in November, followed by provision for the seasonal rise in spending during the festive period. In January 2021, growth in household deposit holdings again accelerated to 11.7%.

The strong year-on-year increase in the deposit holdings of non-financial companies throughout 2020 reflected, among others, national government's equitable share transfers, the distribution of the general fuel levy and the rand value of foreign currency-denominated deposits. The fuel levy boosted the deposit holdings of local authorities, which accounts for around 5.5% of total non-financial company deposits. In the final two months of 2020, the rand value of foreign currency-denominated deposits also propped up growth in non-financial companies' deposits, despite the appreciation in the exchange value of the rand. Year-on-year growth in the deposits of non-financial companies accelerated further from 15.1% in December 2020 to 15.4% in January 2021.

By contrast, growth in the deposit holdings of financial companies decelerated from a recent high of 8.3% in June 2020 to a low of only 0.6% in November, before accelerating marginally to 1.5% in January 2021. The slowdown since mid-2020 was largely related to the reduced holdings of Negotiable Certificates of Deposits (NCDs)[19] issued by banks, as fund managers sought out alternative investments in higher yielding financial assets such as Treasury Bills (TBs).

19 As highly liquid instruments, NCDs are regarded as close substitutes for deposits and are therefore included in the broadly defined money supply.

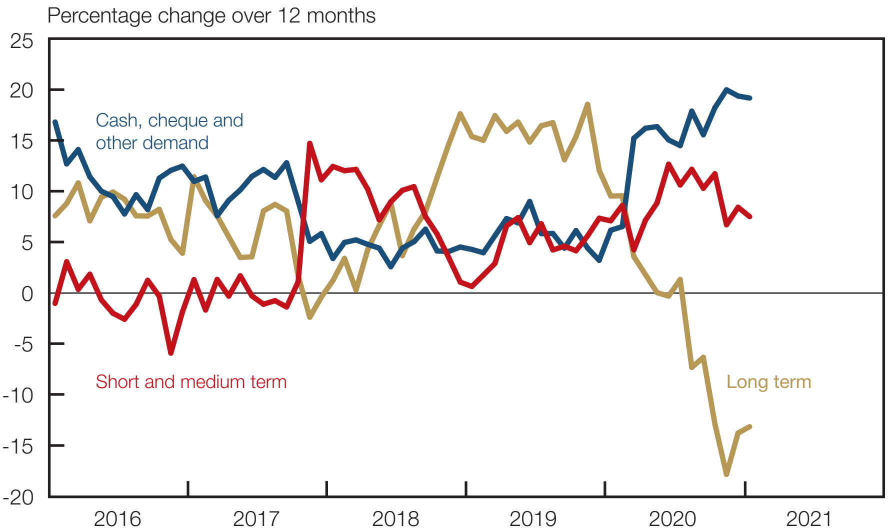
Deposit holdings of households and companies



Source: SARB

The preference for cash, cheque and other demand deposits remained strong throughout 2020 as depositors favoured liquidity amid the uncertain economic environment. This deposit category has grown at double-digit rates since March 2020 and accelerated to a high of 20.0% in November 2020, before moderating to a still elevated 19.3% in December and 19.2% in January 2021. Growth in short- and medium-term deposits moderated from a high of 12.7% in June 2020 to 7.5% in January 2021. Growth in long-term deposits reverted from double-digit rates in 2019 to a contraction in the second half of 2020. In 2020, growth in the deposit category slowed from 9.5% in January 2020 to a significant contraction of 17.8% in November and 13.2% in January 2021. Following the significant easing of monetary policy during the course of 2020 – aimed at alleviating the impact of the pandemic – depositors became reluctant to enter into new fixed long-term deposits at the prevailing low interest rates.

Deposits by maturity



Source: SARB

Total M3 deposit holdings increased by R355 billion in 2020, notably more than the increase of R218 billion in 2019, with companies contributing the most. On a quarterly basis, an increase of R22.1 billion in the third quarter of 2020 in total M3 deposit holdings was followed by a decrease of R5.0 billion in the fourth quarter, which was aligned with the decrease of R3.7 billion in the fourth quarter of 2019. The decrease in the fourth quarter of 2020 resulted primarily from a decline of R24.2 billion in corporate sector deposits, possibly affected by seasonal provisional tax payments. The sizeable increase of R152 billion in household deposits during 2020 compared with R109 billion in 2019 and reflected the prohibition of non-essential spending during the initial hard lockdown, payment holidays and the subsequent effect of widespread job losses and income uncertainty on spending and saving.

M3 holdings of households and companies

	Year-on-year change R billions				Percentage of total M3 deposit holdings*			
	2017	2018	2019	2020	2017	2018	2019	2020
Households	102.0	87.1	108.5	151.9	34.3	35.0	35.8	36.4
Companies: Total.................	100.6	99.5	109.5	203.0	65.7	65.0	64.2	63.6
Of which: Financial	49.7	46.5	44.5	36.1	36.3	35.7	34.8	32.7
Non-financial.....	50.9	53.0	65.0	166.9	29.4	29.4	29.4	30.9
Total M3 deposits...............	202.6	186.6	218.0	354.9	100.0	100.0	100.0	100.0

* Expressed as a percentage of the total outstanding balance in December

Source: SARB

20 This is the difference between government deposits and banks' claims on government (mainly holdings of government securities).

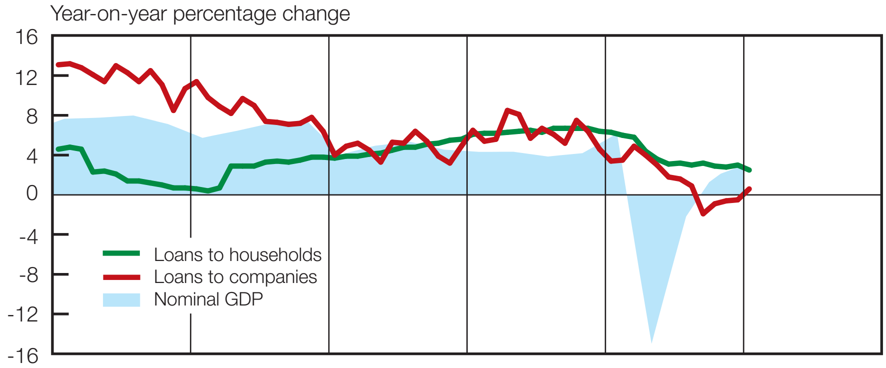
The decrease of R5.0 billion in M3 in the fourth quarter of 2020 could be explained by relatively large and contrasting movements in its statistical counterparts. A decrease in the net foreign assets of the monetary sector of R74.9 billion, together with a decrease of R49.8 billion in credit extended to the government sector,[20] was almost entirely offset by an increase of R67.9 billion in net other assets (a contra-entry which absorbs changes in foreign assets, among other factors) and an increase of R51.8 billion in claims against the domestic private sector, which are discussed in the credit extension section.

Credit extension

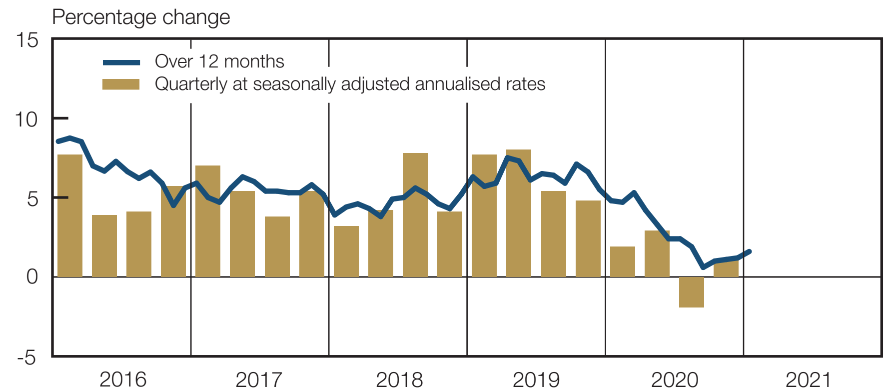
Growth in total loans and advances extended by monetary institutions to the domestic private sector decelerated notably throughout 2020, indicative of the disruptive impact of the COVID-19 pandemic on economic activity. In the household sector, high unemployment and weak job prospects, together with low consumer confidence, contributed to the slowdown in credit demand. In the corporate sector, the restrictions to curb the spread of the pandemic amid the already challenging economic conditions added even more strain which manifested in a dearth in the demand for loans, especially in the latter half of the year. Nonetheless, the quarter-to-quarter seasonally adjusted and annualised contraction in total loans and advances to the domestic private sector of 1.9% in the third quarter of 2020 switched to an increase of 1.1% in the fourth quarter.

The increase in total loans and advances of R45.3 billion in the fourth quarter of 2020 followed declines of R68.0 billion and R17.2 billion in the previous two quarters. On balance, the demand for bank funding of only R42.9 billion for 2020 as a whole was less than a quarter of the R185 billion in 2019. The marked rebound in nominal GDP from the third quarter of 2020, which exceeded growth in credit extension, resulted in a decline in the ratio of loans and advances to GDP from a recent high of 83.3% in the second quarter of 2020 to 70.9% in the third quarter and 66.6% in the fourth quarter.

Bank loans and gross domestic product



Total loans and advances to the private sector



Sources: Stats SA and SARB

Credit extended to households and companies

	Year-on-year change (R billions)							Percentage of total loans and advances*
	2019		2020					
	Q4	Year	Q1	Q2	Q3	Q4	Year	
Households	28.8	105.0	24.0	-24.1	25.8	25.9	51.5	49.8
Companies: Total	-6.0	79.8	58.8	-43.8	-42.9	19.4	-8.6	50.1
Of which: Financial	8.7	25.6	-12.0	12.3	35.2	27.3	62.8	12.6
Non-financial	-14.7	54.2	70.8	-56.2	-78.1	-7.9	-71.4	37.5
Total bank loans and advances	22.7	184.8	82.8	-68.0	-17.2	45.3	42.9	100.0

* Expressed as a percentage of the total outstanding balance as at December 2020

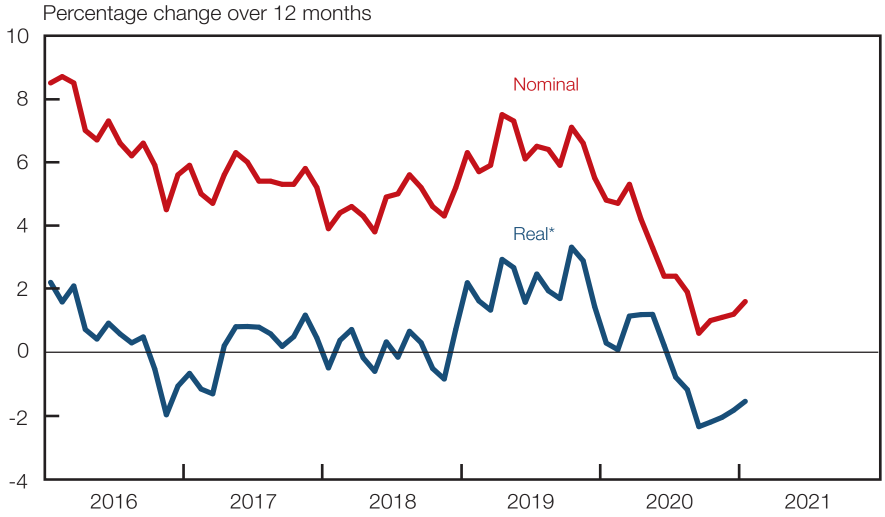
Source: SARB

The increase in bank loans to the corporate sector of R19.4 billion in the fourth quarter of 2020 contrasted the declines in the second and third quarter of R43.8 billion and R42.9 billion respectively. The increase in the fourth quarter of 2020 was mainly due to general loans to financial companies in particular, while demand from non-financial companies remained muted. In addition, companies continued to make repayments on overdraft facilities and credit card debt. The uptake of the government loan guarantee scheme by small and/or medium-sized businesses affected by the COVID-19 pandemic remained less than anticipated.

By contrast, the demand for credit by households remained relatively steady at around R26 billion in both the third and fourth quarter of 2020, and was mostly concentrated in mortgage loans and instalment sale credit, which were probably buoyed by the favourable interest rate environment.

Twelve-month growth in total loans and advances decelerated from 5.3% in March 2020 to a low of 0.6% in September, before accelerating somewhat to 1.6% in January 2021. When adjusted for inflation, credit extension contracted in real terms from mid-2020 to date, similar to the period of extended contraction from late 2016 to early 2017.

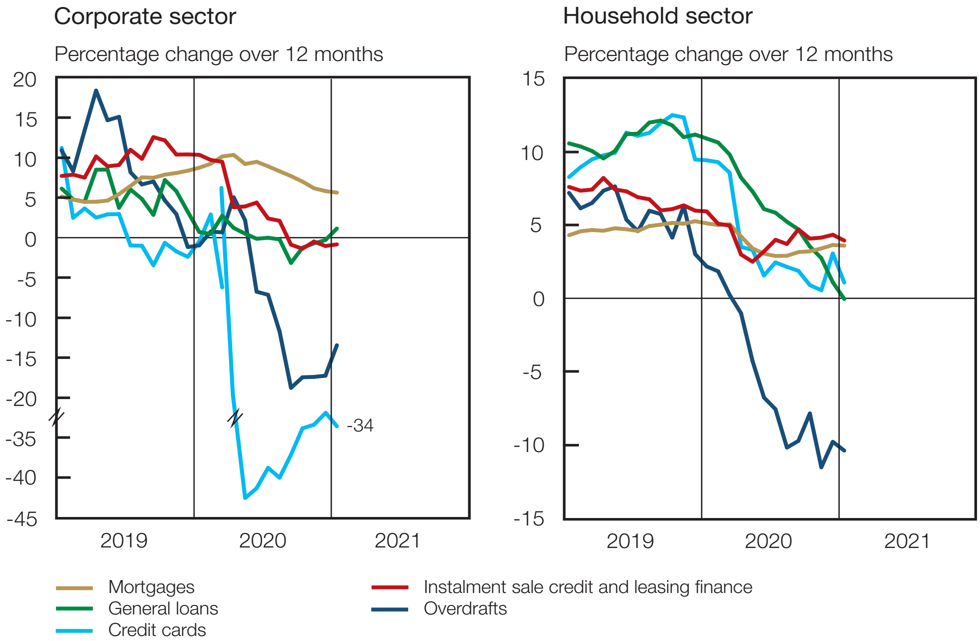
Total loans and advances



* Deflated with the consumer price index
Source: SARB

Credit extension to the corporate sector contracted from September 2020 with the pace moderating from 1.9% to 0.5% in December, before expanding by 0.6% in January 2021. The contraction was largely driven by six consecutive months of declining credit extension to non-financial companies, with the largest contraction of 5.8% occurring in November, before moderating somewhat to 4.4% in January 2021. By contrast, the rate of change in credit extension to financial companies accelerated from a low of -3.7% in May 2020 to brisk increases of 18.7% in November and 19.3% in January 2021. This acceleration was supported by higher demand from, among others, insurance companies, investment holding and management companies, stockbroking firms as well as a variety of other companies involved in the financing of commercial trucks and mining activity.

Selected loans and advances



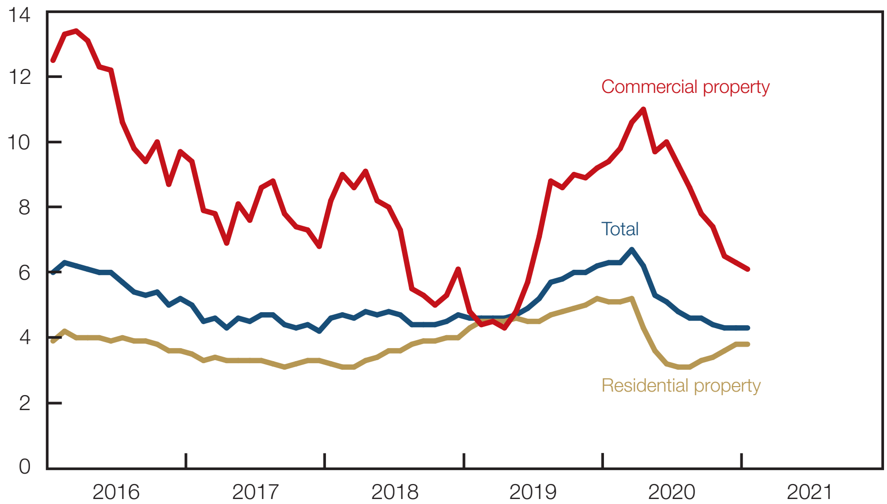
Source: SARB

Year-on-year growth in *credit extension to households* slowed from 6.3% in January 2020 to a low of 2.8% in November and then bottomed out to 2.5% in January 2021. Households' utilisation of overdrafts has contracted since April 2020, reaching a year-on-year low of -11.5% in November, before improving slightly to -10.4% in January 2021. General loans and credit card advances to households also decreased sharply during 2020. Growth in mortgage advances to households decelerated from an average of 4.8% in 2019 to 3.7% in 2020, with growth being particularly weak in the second and third quarter of 2020 when strict lockdown measures were in place. Once the restrictions were lifted, growth in mortgage advances improved as consumers took advantage of the prevailing low interest rate environment. For similar reasons, growth in instalment sale credit and leasing finance accelerated from 2.5% in May 2020 to 4.3% in December and 3.9% in January 2021.

Growth in total mortgage advances decelerated from 6.3% in January 2020 to 4.3% in December as the lockdown restrictions resulted in a period of reduced activity by the deeds office, which negatively impacted the ability to process property transactions. Nonetheless, mortgage advances on residential property have started to gradually recover after interest rates were reduced to their lowest level in almost 50 years. Such low interest rates are probably enticing first-time home buyers to enter the property market and existing home owners to consider upgrading their properties. However, the low interest rate environment also potentially promotes the early repayment of existing mortgage advances, partly dampening the overall expansion in banks' mortgage books. Growth in mortgage advances on commercial property also decelerated, from 11.0% in April 2020 to 6.1% in January 2021.

Mortgage advances

Percentage change over 12 months



Source: SARB

Credit demand by the various domestic economic sectors displayed some contrasting trends in the fourth quarter of 2020. Growth in credit extension to the finance and insurance, as well as the electricity, gas and water sectors accelerated, despite the weak economic environment which was exacerbated by sporadic bouts of load-shedding. Credit demand by the household, construction, real estate, agriculture, community and social, as well as the transport and communication services sectors slowed in the fourth quarter of 2020. Credit extension to the wholesale and retail trade, manufacturing, business services and mining sectors contracted over the period as the effect of the COVID-19 restrictions impacted negatively on most of these sectors. Renewed lockdown restrictions following the second wave of infections reduced the number of clients visiting stores, while weaker than anticipated Black Friday sales also impacted retail trade and transport services negatively. Mining companies benefitted from the surge in international commodity prices, likely reducing the need for bank credit.

Growth in bank credit by economic sector

Percentage change over four quarters

Economic sector	2019	2020				Percentage of total credit extension*
	Q4	Q1	Q2	Q3	Q4	
Households	7.6	6.6	3.7	2.5	2.3	35.7
Finance and insurance	-7.2	8.7	2.8	3.7	14.0	17.3
Real estate	8.0	12.6	9.9	6.1	5.9	11.8
Wholesale and retail trade	-7.3	-0.1	4.1	-3.1	-6.0	4.6
Manufacturing	0.1	10.7	7.6	-2.7	-4.4	3.9
Business services	-4.1	11.1	6.7	10.2	-2.2	3.1
Transport, storage and communication	3.1	5.7	3.9	3.0	1.9	3.0
Electricity, gas and water	10.4	3.5	1.2	2.3	6.3	2.4
Agriculture, forestry and fishing	-7.5	12.4	8.8	20.8	18.7	2.3
Mining and quarrying	-6.5	4.2	33.2	-6.1	-8.5	1.4
Construction	5.7	6.4	10.5	12.0	8.1	0.9
Community, social, personal services and other	7.6	-3.0	12.3	16.2	12.5	13.7
Total	2.8	6.4	6.2	4.9	5.3	100.0

* Expressed as a percentage of the total outstanding balance as at December 2020

Source: SARB

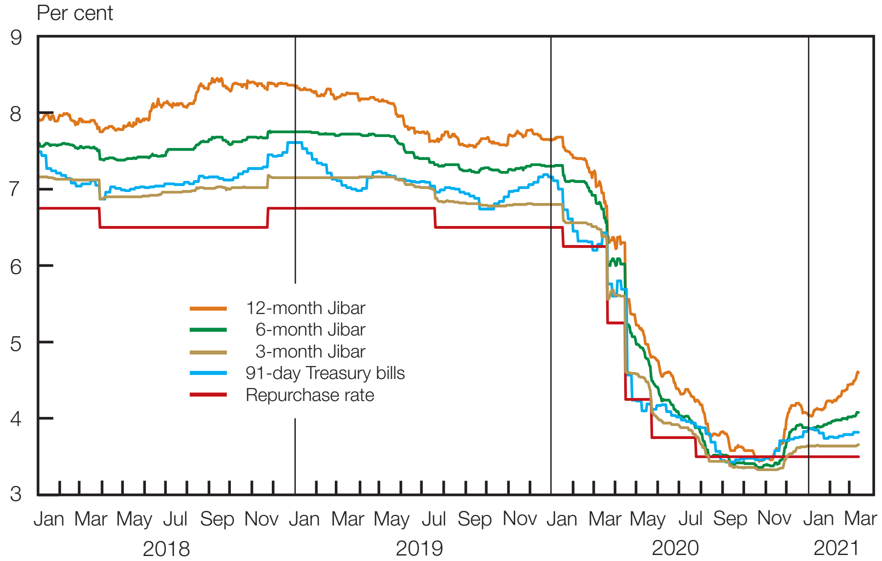
Interest rates and yields

The repurchase (repo) rate was kept unchanged at a historically low 3.50% in January and March 2021. The SARB's Monetary Policy Committee (MPC) cited a number of key challenges facing the domestic economy, including the continued negative impact of COVID-19, while the overall risks to the inflation and domestic growth outlook were viewed to be balanced.

Domestic short-term money market rates, which declined substantially throughout 2020 until November, increased somewhat following South Africa's sovereign credit rating downgrade to sub-investment status by both Moody's and Fitch credit rating agencies at the time of global risk aversion amid a resurgence in COVID-19 infections. Between August and November 2020, the 3-month Johannesburg Interbank Average Rate (Jibar) fell below the repo rate as excess liquidity in the private banking sector led to lower interest rates on NCDs. During this period, the spread between the tender rate on TBs and the 3-month Jibar increased by 36 basis points as market participants shifted funds from NCDs to TBs. Subsequently, the 3-month Jibar again moved moderately higher than the policy rate from early December 2020, when the SARB discontinued longer-term refinancing operations implemented in March 2020 to alleviate COVID-19-induced liquidity constraints. The 3-month Jibar increased from 3.33% on 17 November 2020 to 3.65% on 12 January 2021, before fluctuating in a narrow range up to 12 March.

The 6-month Jibar also followed an upward trajectory from 3.38% on 11 November 2020 to 4.08% on 12 March 2021. The increase in the 12-month Jibar of 62 basis points from 3.58% on 19 November 2020 to 4.20% on 14 December was briefly interrupted in January, before the upward trend resumed to 4.60% in mid-March 2021. The tender rate on 91-day TBs increased by 29 basis points, from a low of 3.58% on 19 November 2020 to 3.87% on 7 January 2021, but trended lower to 3.74% on 22 January following the announcement by the MPC of the unchanged repo rate. Heightened demand for TBs then lifted the rate to 3.82% on 12 March 2021.

Money market rates

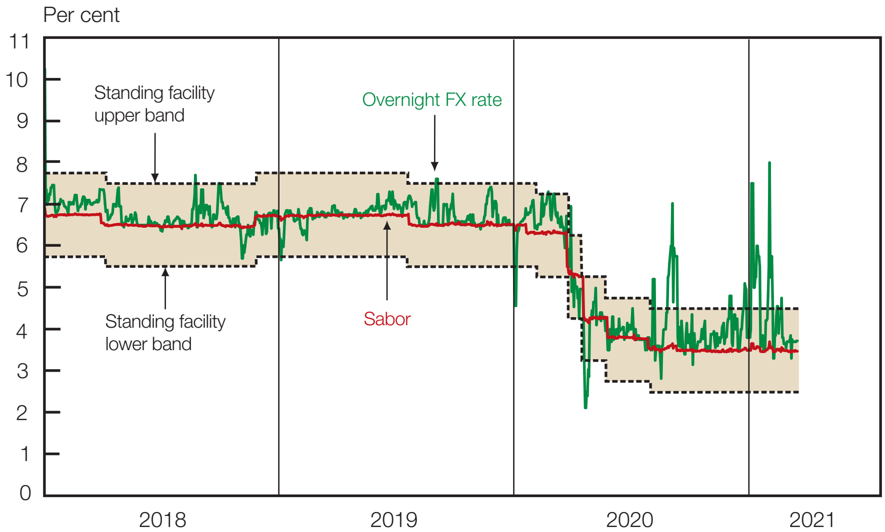


Source: SARB

The South African Benchmark Overnight Rate (Sabor) remained well within the standing facility bands, increasing from 3.45% on 11 November 2020 to 3.70% on 28 January 2021 due to banks' increased liquidity requirements at month-end. The Sabor then fluctuated lower to 3.47% in mid-March.

By contrast, the overnight FX rate occasionally exceeded the upper standing facility limit between November 2020 and March 2021, signalling sporadic intervals of liquidity shortage in the FX forward market, especially to meet month- and year-end obligations. Movements in the overnight FX rate were volatile, as it fluctuated between a low of 3.55% on 5 November 2020 and a high of 8.00% on 28 January 2021, and then lower again to 3.72% on 12 March. The overnight FX rate averaged around 4.01% in February 2021, down from 5.02% in January.

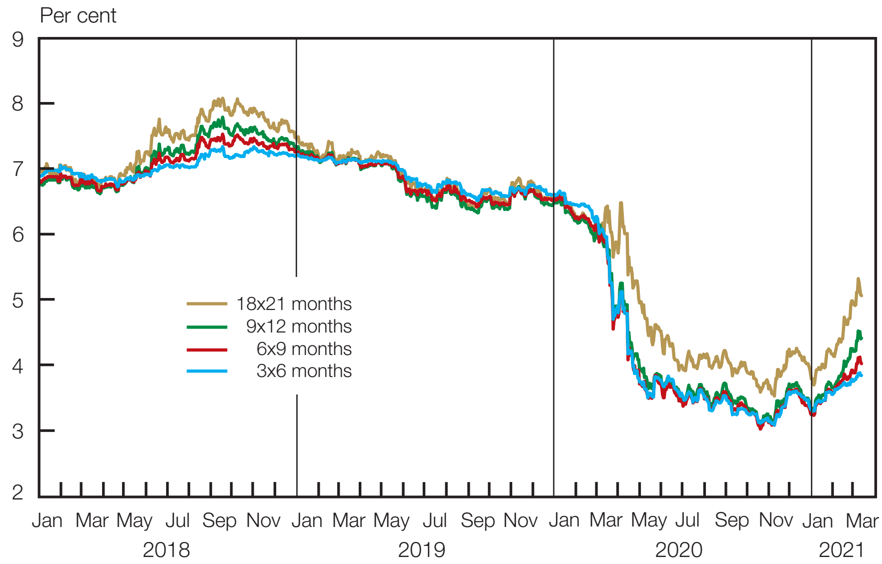
Benchmark overnight rates



Source: SARB

After trending lower in December 2020, rates on forward rate agreements (FRAs) across the maturity spectrum moved higher from January 2021, mostly affected by the movements in the exchange value of the rand. For example, the 3x6-month FRA increased from 3.30% on 5 January 2021 to 3.84% in early March. The longer-term 6x9-month and 9x12-month FRAs displayed similar increases over this period.

Forward rate agreements

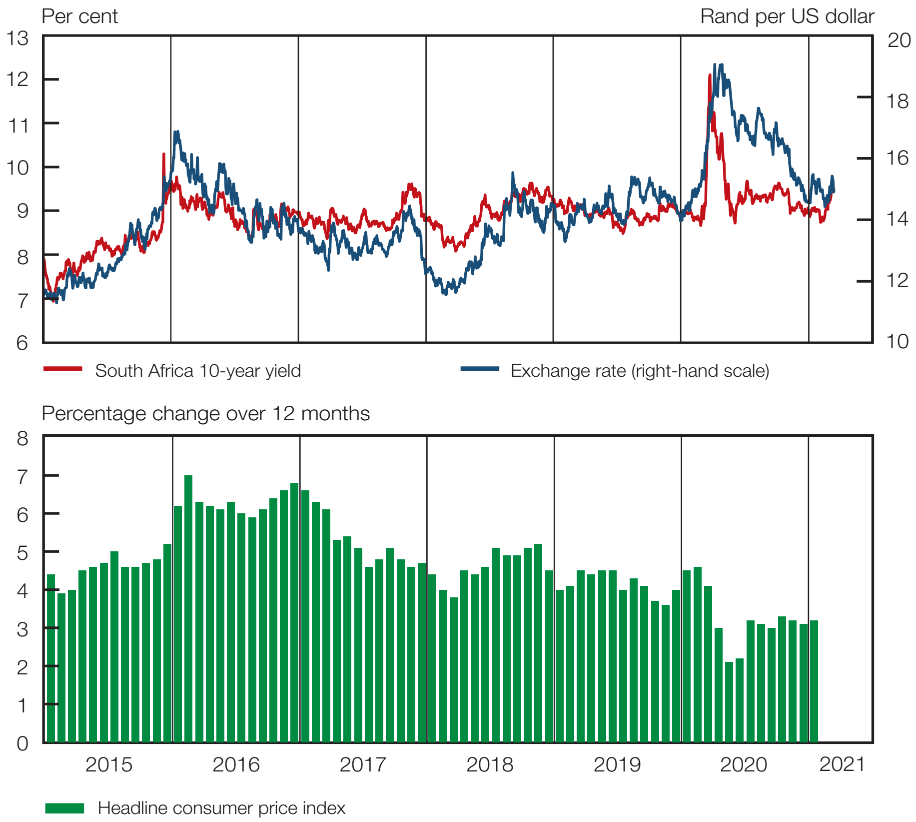


Source: SARB

In the final quarter of 2020, deposit rates offered by private sector banks adjusted lower, with the weighted average interest rate on call deposits decreasing from 3.62% in October 2020 to 3.51% in December, before stabilising somewhat at 3.49% in January 2021. Interest rates on 12-month fixed deposits decreased from 5.06% to 4.77% over the same period. The lending rates offered by private sector banks diverged somewhat as the weighted average interest rate charged on credit card advances decreased from 13.63% in October 2020 to 13.46% in January 2021, while the weighted average interest rate charged on overdrafts increased from 7.86% to 8.07% over the same period. Interest rates on asset-backed loans were more stable, with the flexible interest rate on instalment sale credit fluctuating between 9.26% and 9.27%, and that on mortgage advances between 6.63% and 6.65%, from October 2020 to January 2021.

The yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market increased from 8.94% on 9 November 2020 to 9.20% on 3 December. This reflected the onset of the second wave of COVID-19 infections globally, and a repeat of lockdown restrictions as well as the downgrade of South Africa's sovereign credit rating further below investment grade by two international rating agencies. The increase in domestic bond yields was then interrupted by a decrease of 47 basis points to 8.73% on 3 February 2021, as non-resident demand for domestic bonds firmed and as the exchange value of the rand appreciated along with continued subdued consumer price inflation. This was further supported by a large fiscal stimulus package in the US and optimism around the rollout of COVID-19 vaccines. Subsequently, bond yields increased notably again to 9.52% on 12 March 2021, along with concerns about South Africa's sovereign debt burden and the depreciation in the exchange value of the rand.

Government bond yield, the exchange rate and inflation



Sources: IRESS, JSE, Stats SA and SARB

Box 4 Explaining bond yield and bond price statistics[1]

Yields and price indices[2] are important indicators of developments in the bond market. The direction and magnitude of changes in the yield on bonds of different maturities[3] reflect market participants' responses to, among other factors, global developments and expectations about domestic inflation, the exchange value of the rand, the fiscal position, credit ratings and the repurchase rate. The effect of which is transmitted throughout the maturity spectrum, as reflected by changes in the shape of the yield curve.[4] This box discusses the sources and methodology applied in the calculation of bond yields and price indices published in the *Quarterly Bulletin*, and highlights how these statistics form part of the analysis in the *Quarterly Economic Review.*

The daily data of all listed bonds traded, which are used to compile both the nominal and real yield statistics for the different maturity ranges for government bonds[5] and for Eskom bonds, are sourced from the JSE Limited (JSE). The monthly average yield of the different maturity ranges is calculated from the daily average yield[6] of each listed bond.[7] The maturity categories reflect the remaining time to maturity and therefore, as time progresses, the respective bonds migrate across the different groupings with the selections per group adjusted and the time series linked.

1 This box relates to the statistics on yields and price indices on bonds traded on the JSE Limited on page S–31 in this edition of the *Quarterly Bulletin* and the discussion in the *Quarterly Economic Review* in the Interest rates and yields section.

2 Bonds are interest bearing debt instruments which, among others, could be compared in terms of price or yield-to-maturity. The price reflects the present value of the bonds' future cash flow, which consists of coupon interest cash flows and the repayment of the principal amount. The yield-to-maturity is the discount rate that equates the present value of the bonds' future cash flow to its current price.

3 The maturity date of a bond is the specific future date on which the issuer has to repay the principal amount borrowed to the bondholder.

4 The yield curve, or term structure of interest rates, is a snapshot as at a specific point in time of the relationship between the yield and remaining, or unexpired maturity of a series of different bonds.

5 For more detail on the domestic marketable bonds of national government, see page S–58 in this edition of the *Quarterly Bulletin*.

6 The daily average yield is calculated as the sum of the yields of all trades divided by the number of trades.

7 The monthly average yield of a maturity category is the average of the daily average yields of the bond in the category.

Constituent bond codes of the monthly average yields

Government bonds					Eskom bonds
Nominal yields				Real yield	
0 to 3 years	3 to 5 years	5 to 10 years	10 years and over	10 years and over	
R2023	R186	R2030	R2032	R202	ES33

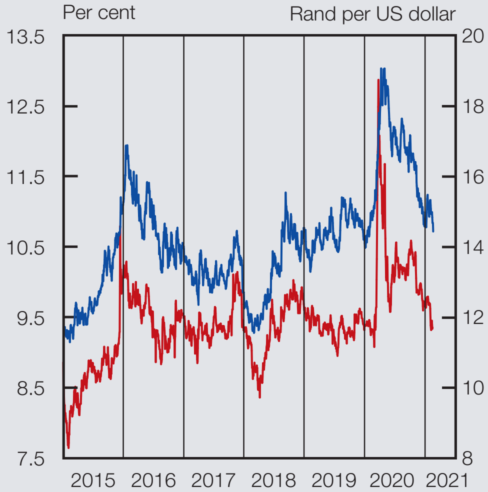
Source: SARB

The price index statistics of bonds facilitate the measurement of the performance of the bonds traded on the JSE and include time series of the All Bond, Government Bond and Other Bond Indices from the FTSE/JSE Fixed Income Series.[8]

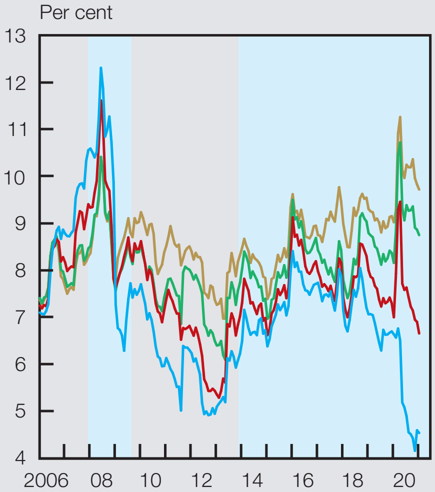
The yield curve discussed in the *Interest rates and yields* section of the *Quarterly Economic Review* represents the nominal bond curve, with the data sourced from IRESS as compiled by the JSE and based on the JSE's methodology.[9] The JSE's suite of yield curves also includes a nominal swap curve and a real bond curve for inflation-linked bonds. The nominal bond curve renders the nominal zero-coupon yields[10] at which government obtains funding and is based on Treasury bills (TBs)[11] and government bonds.[12]

The statistics of the daily or monthly average yield of a specific South African rand-denominated bond, or for a specific maturity range over time, facilitate time series analysis of movements in bond yields and their co-movement with other variables, such as the exchange value of the rand. Bond yields can also be analysed over time in relation to the upward and downward phases of the business cycle.[13] The break-even inflation rate, which represents a measure of expected inflation, can be derived from the difference between the nominal and real yields of government bonds of similar maturity. The yield gap, which is measured as the difference between yields at the extreme long and short end of the yield curve, can be derived from the yield curve statistics and is an indicator of changes in the shape of the yield curve over time.

Nominal government bond yield and the exchange rate



Nominal government bond yields of different maturity ranges and the business cycle



Sources: IRESS, JSE and SARB

The yield gap is a point in time analyses which shows progression, from an extremely inverted or negatively sloping curve, where yields at the short end exceeded those at the long end by 520 basis points on 18 December 2008, at the time of the global financial crisis, to a steeply upward sloping positive curve on 2 November 2020 during the coronavirus disease 2019 (COVID-19) pandemic, when yields at the long end exceeded that at the short end by 834 basis points.

8 For the ground rules of the FTSE/JSE Fixed Income Index Series, see https://www.jse.co.za/services/indices/ftsejse-fixed-income-index-series

9 For the detail methodology, see 'The JSE Zero-Coupon Yield Curves. Methodology Document', September 2012 http://docplayer.net/32913027-The-jse-zero-coupon-yield-curves-methodology-document.html

10 The difference in zero-coupon rates reflects differences in the term to maturity.

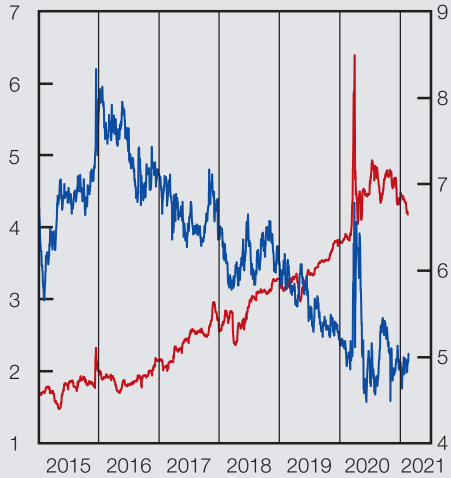
11 There are 91-, 182-, 273- and 365-day TBs.

12 These are the constituents of the GOVI index, that is, the 10 most liquid South African government bonds over time.

13 See page S–161 in this edition of the *Quarterly Bulletin* for the business cycle phases of South Africa since 1945.

Real government inflation-linked bond yield and the break-even inflation rate

Per cent



Real yield: 10 years and over
Break-even inflation rate in the 7–9 year maturity range* (right-hand scale)

* Difference between the nominal yield on the R2030 bond and the real yield on the R210 inflation-linked bond

Sources: IRESS, JSE and SARB

Yield gap and the business cycle

Basis points

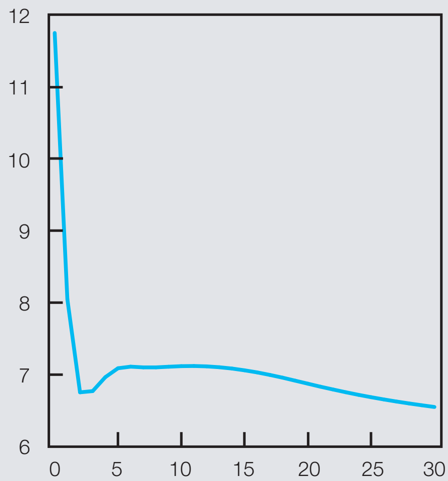
Yield gap*
Downward phases of the business cycle

* Difference between yields at the extreme long and short end of the yield curve

The yield curve can also be flat when short- and long-term yields are the same, or humped, when yields at a specific maturity interval are higher than the others. Over the long term, yield curves tend to be positively sloped, which reflects liquidity and marketability preferences over the maturity spectrum.

Inverted yield curve

Per cent



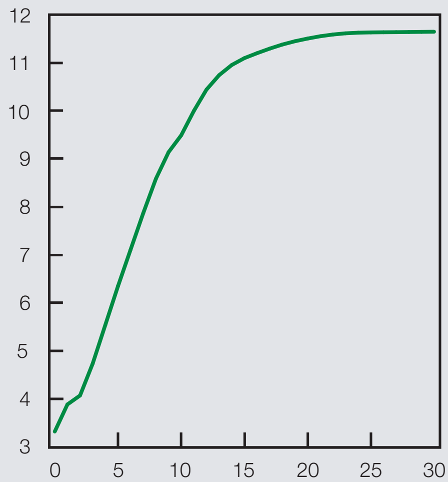
Unexpired maturity in years

18 December 2008

Sources: IRESS and JSE

Upward sloping yield curve

Per cent



Unexpired maturity in years

2 November 2020

The interest rate and bond yield statistics are also used to derive the interest rate spread[14] or yield gap, which is one of the component time series of the South African Reserve Bank's (SARB) composite leading business cycle indicator. For a more detailed analysis of the impact of COVID-19 on the interest rate spread and the composite leading business cycle indicator, see '*Box 1: Did the national lockdown distort the composite leading business cycle indicator?*' in the December 2020 edition of the *Quarterly Bulletin.*[15]

14 The interest rate spread is the difference between the yield on 10-year South African rand-denominated government bonds traded in the domestic bond market and the tender rate on 91-day TBs.

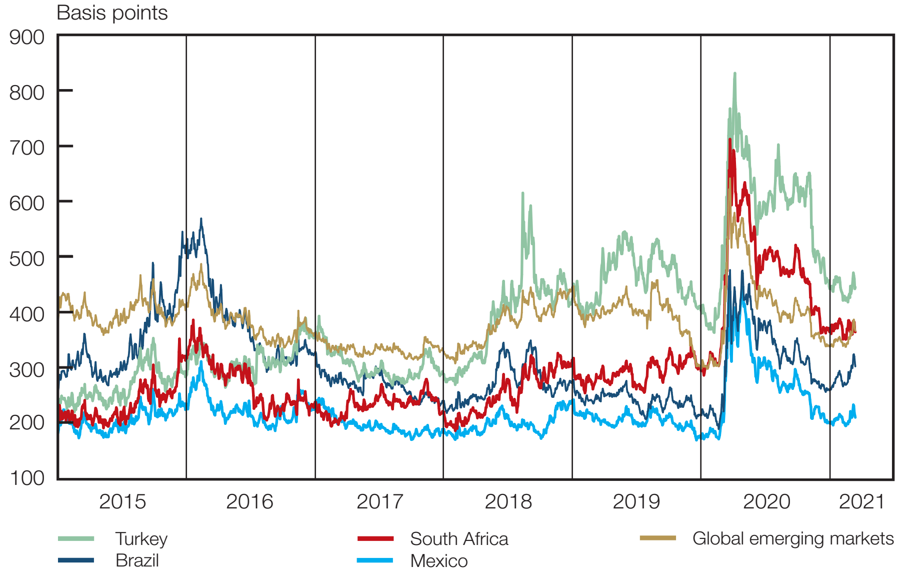
15 https://www.resbank.co.za/en/home/publications/publication-detail-pages/boxes/2020/December2020Didthenationallockdowndistortthecompositeleadingbusinesscycleindicator

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

22 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 JP Morgan Emerging Markets Bond Index Plus (EMBI+),[21] narrowed noticeably from 412 basis points in September 2020 to 338 basis points in December, following improved investor sentiment after the favourably perceived presidential election results in the US and news around the development of viable COVID-19 vaccines. Subsequently, the yield spread widened slightly to 365 basis points in February 2021, as lockdown restrictions were tightened following the emergence of new, more infectious variants of the virus, which contributed to currency volatility. South Africa's *sovereign risk premium*[22] in the four-year maturity range narrowed significantly from an average of 380 basis points in September 2020 to 230 basis points in February 2021.

Sovereign spreads*



* JP Morgan Emerging Markets Bond Index Plus

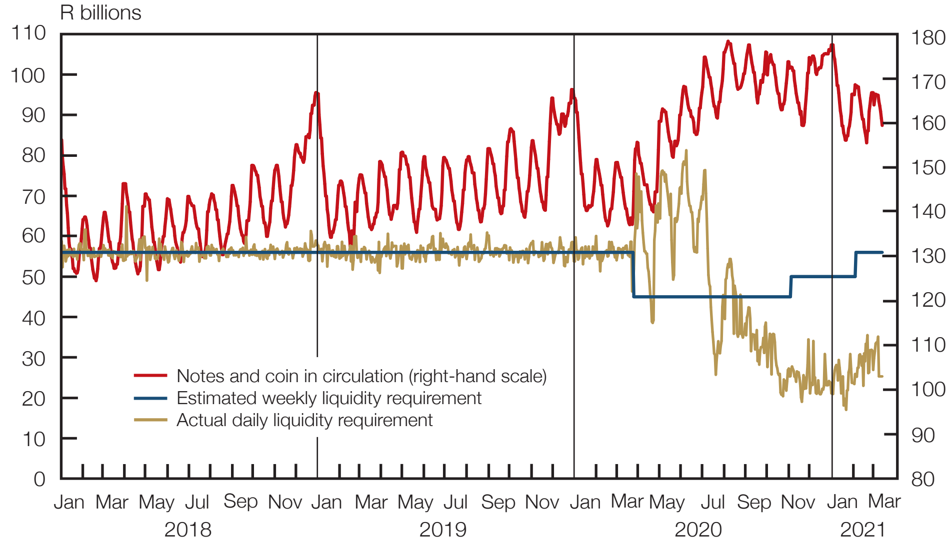
Source: Bloomberg

Money market

Private sector banks' actual liquidity requirement declined from a daily average of R41.1 billion in the third quarter of 2020 to R25.6 billion in the fourth quarter as the daily level fluctuated between a low of R19.0 billion and a high of R36.3 billion. This reflected a considerable decline in private sector banks' demand for funding at the weekly main refinancing auctions amid surplus liquidity, despite the increase on 4 November 2020 in the available weekly main refinancing amount from R45.0 billion to R50.0 billion. Subsequently, despite the discontinuation of longer-term refinancing operations in December 2020, the weekly main refinancing auctions remained under-subscribed. On 3 February 2021, the daily supplementary repurchase auction was also discontinued when the SARB reverted to the regular pre-COVID-19 end-of-day supplementary repurchase auction square-off process. In addition, the SARB also increased the weekly refinancing amount from R50.0 billion back to its customary level of R56.0 billion. With these changes, the SARB has now ended the COVID-19-related liquidity measures implemented since March 2020, with the exception of government bond purchases.

The total accommodation to banks decreased from R33.2 billion in October 2020 to R24.7 billion in December as demand for liquidity at the weekly main refinancing auctions declined and longer-term refinancing entered into in July 2020 matured. In January and February 2021, the actual daily liquidity requirement averaged R26.5 billion, fluctuating between a low of R17.0 billion and a high of R35.6 billion as the under-subscription of the weekly main refinancing auctions continued.

Liquidity requirement



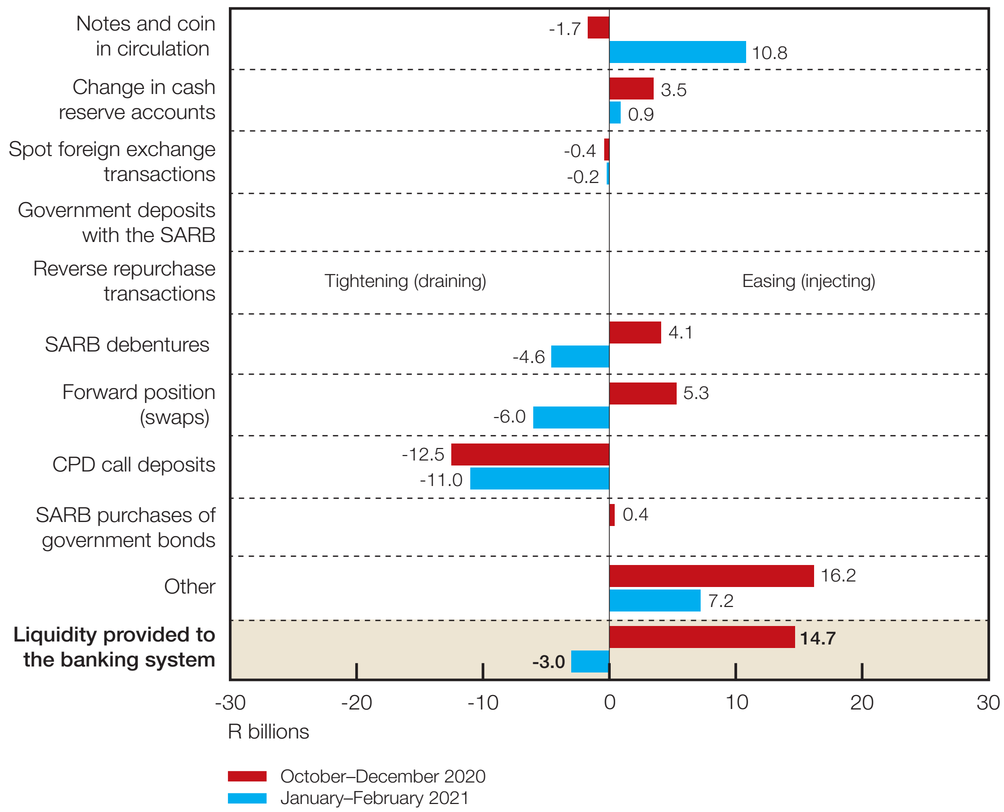
Source: SARB

Money market liquidity expanded by R14.7 billion in the fourth quarter of 2020 compared with R28.3 billion in the third quarter. During the fourth quarter, a decrease in the required cash reserve deposits of private sector banks expanded money market liquidity by R3.5 billion, while maturing foreign exchange swaps of R5.3 billion as well as SARB debentures of R4.1 billion also had an expansionary impact on money market liquidity. This was partially offset by an increase in notes and coin in circulation outside of the SARB of R1.7 billion as well as an increase in the deposit holdings of the Corporation for Public Deposits (CPD) at the SARB of R12.5 billion. The increase in CPD call deposits at the SARB was mainly to manage liquidity by draining excess liquidity from the market. The SARB's FX transactions in the spot market resulted in a slight tightening of R0.4 billion in overall money market liquidity. No transactions were settled in long-term reverse repurchase agreements in the fourth quarter of 2020 as market participants preferred the returns offered by other higher-yielding instruments.

The daily movements in notes and coin in circulation in December 2020 were somewhat different compared to previous years due to the implementation of renewed lockdown measures which curtailed consumers' demand for cash. Usually, notes and coin in circulation rise substantially during December due to high seasonal demand as private sector banks increase their orders from the SARB, in preparation for the festive period. However, the increase in notes and coin in circulation of R2.8 billion in December 2020 was significantly lower than in previous years when more normal circumstances prevailed.

In January and February 2021, overall money market liquidity contracted by R3.0 billion as the decrease of R10.8 billion in notes and coin in circulation was partly offset by an increase of R11.0 billion in CPD call deposits with the SARB.

Factors influencing money market liquidity conditions



Source: SARB

Capital redemption payments and scheduled coupon interest payments on various government bonds amounting to R67.6 billion were made from government's tax and loan accounts between October 2020 and February 2021, with only R1.3 billion accruing to the SARB's government bond portfolio.

Bond market

National government dominated net bond issuance in the *domestic primary bond market* by raising an annual all-time high of R548 billion in 2020, which was 68.5% more than in 2019. A further R90.6 billion was raised during the first two months of 2021. This reflected the precarious fiscal situation which was exacerbated by the effects of the pandemic. By contrast, public corporations redeemed bonds to the net amount of R13.8 billion in 2020. Similarly, the private sector also redeemed bonds to the net amount of R15.4 billion in 2020. This was followed by net issuance of R5.9 billion in the first two months of 2021.

The *value of turnover in the domestic secondary bond market* remained fairly subdued in 2020, alongside lower volumes traded in the second half of 2020 and volatility in bond yields. The daily average value of turnover decreased by 7.5% to R135 billion in 2020, and remained on a similar level at R136 billion in the first two months of 2021.

Funding in the domestic primary bond market

R billions

	Net issues		Nominal amount in issue	
	2019	2020	As at 31 December 2020	As at 28 February 2021
Public sector	343	535	3 304	3 393
National government	325	548	2 980	3 070
Public corporations Financial	2	-3	51	50
Non-financial	16	-11	255	255
Local governments	0	0	18	18
Private sector	81	-15	607	613
Banks	48	-5	400	405
Non-bank private companies Financial	17	-2	80	87
Non-financial	12	-6	73	67
Securitisation	4	-2	54	54
Non-residents	0	-3	6	8
Total	424	517	3 917	4 014

Source: JSE

Despite high net redemptions of R8.9 billion in December 2020, the net issuance of rand-denominated debt securities in the *European and Japanese bond markets* more than doubled to R16.1 billion in 2020. Further net issuance of R16.4 billion was recorded in the first two months of 2021, supported by the favourable yield differential offered by rand-denominated bonds.

Rand-denominated bonds issued in international bond markets

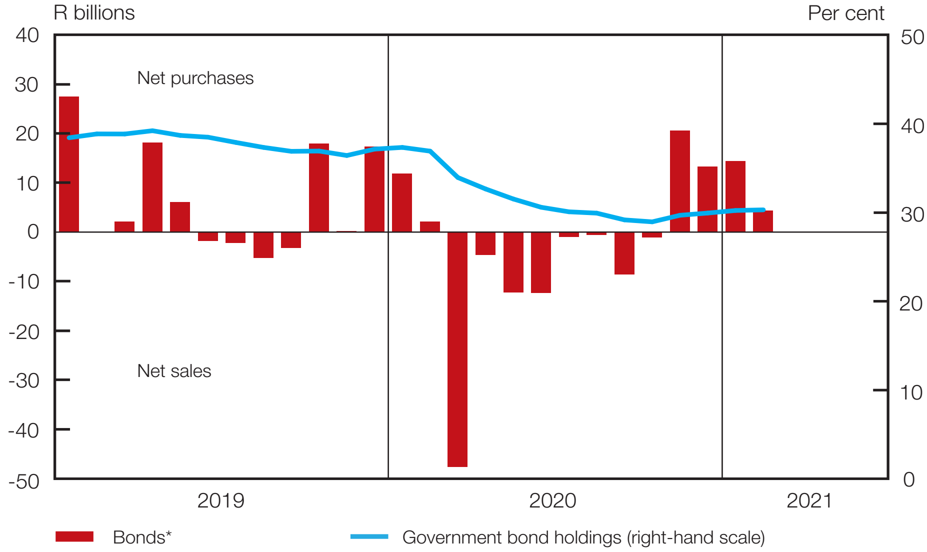
R millions

	Eurorand		Uridashi		Total	
	2019	2020	2019	2020	2019	2020
Issues	40 998	42 738	1 082	464	42 080	43 202
Redemptions	25 075	23 225	8 957	3 837	34 032	27 063
Net	15 923	19 512	-7 875	-3 373	8 048	16 139

Source: Bloomberg

Non-resident net purchases of domestic bonds of R32.8 billion in the fourth quarter of 2020 followed net sales in the previous three quarters, according to JSE data. On a cumulative basis, this resulted in net sales of R39.9 billion in 2020, compared with net purchases of R76.8 billion in 2019. Subsequently, non-residents' net purchases of domestic bonds amounted to R18.7 billion in the first two months of 2021. Recent net purchases reflected positive global sentiment following the US presidential election, the commencement of the rollout of COVID-19 vaccines globally, continued global monetary and fiscal policy stimulus, and the finalisation of the Brexit trade deal. With the return of non-residents as net purchasers of domestic bonds, the share of their holdings of South African government bonds increased from 29.0% in October 2020 to 30.3% at the end of February 2021.

Non-residents' net transactions in the domestic bond market



* JSE non-resident data are based on settled trades from 2019

Sources: JSE and National Treasury

Share market

Equity capital raised by companies listed on the JSE in the domestic and international primary share markets increased sharply by 86.6%, from a low base of R35.8 billion in 2019 to R66.9 billion in 2020 – the first increase in the annual amount raised since 2015. The increase in the value of equity capital raised, despite de-listings exceeding new listings and an all-time low of only five new JSE listings in 2020, reflected a need for equity funding to reduce debt and increase liquidity in response to the sharp contraction in economic activity amid COVID-19. Primary listed companies in the financial sector contributed the most to the total value of capital raised in 2020, at 39.0%, followed by resource companies, at 33.0%. The value of shares issued in the first two months of 2021 amounted to R1.4 billion.

Number of listings on the various exchanges

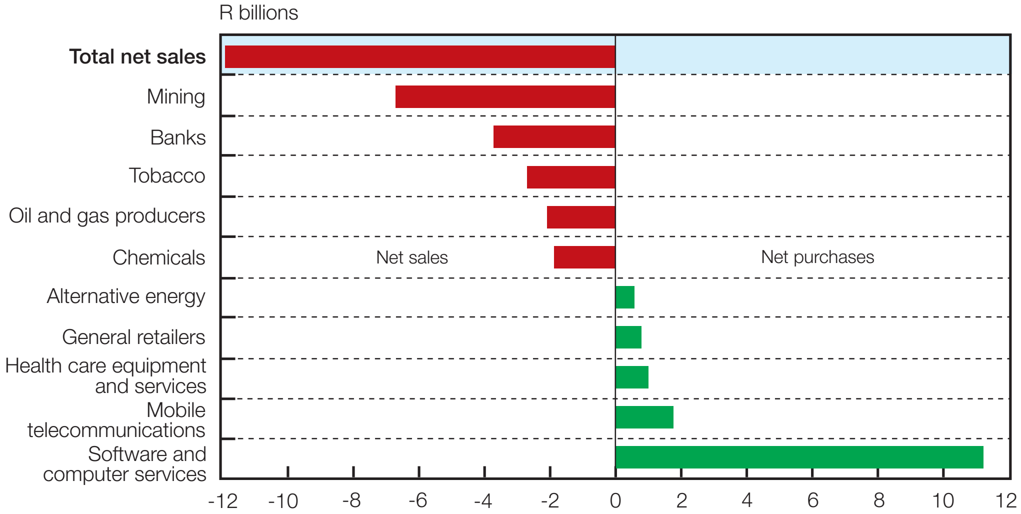
As at 31 December	JSE	A2X Markets	4 Africa Exchange	ZAR X	Equity Express Securities Exchange
2018	372	16	5	4	5
2019	354	33	5	5	4
2020	339	40	8	7	4
28 February 2021	330	39	8	7	4

Sources: the various exchanges

The total *value of turnover* of all five domestic exchanges increased by 12.8%, from R5.1 trillion in 2019 to R5.8 trillion in 2020, along with increased volumes and higher share prices, and amounted to R921 billion in the first two months of 2021. Consistent with share price movements, the market capitalisation of shares listed on these exchanges decreased from R17.3 trillion in August 2020 to R15.8 trillion in October, before increasing to an all-time high of R19.1 trillion in February 2021.

Non-residents continued to be net sellers of JSE-listed shares of R21.8 billion in the final quarter of 2020, marking the 11th consecutive quarter of net sales, according to JSE data. On a cumulative basis, non-resident net sales of shares of R126 billion in 2020 exceeded net sales of R114 billion in 2019. Non-residents returned as net purchasers of R11.7 billion in December 2020 and R5.4 billion in January 2021, with the advent of COVID-19 vaccines and the easing of domestic lockdown restrictions. However, non-residents were again net sellers of JSE-listed shares in February 2021 of R15.9 billion. Non-residents, on a net basis, mostly purchased domestic listed shares of software and computer services companies, followed by mobile telecommunications in the first two months of 2021, while selling mining company shares.

Selected non-resident net transactions in listed shares across sectors in January and February 2021

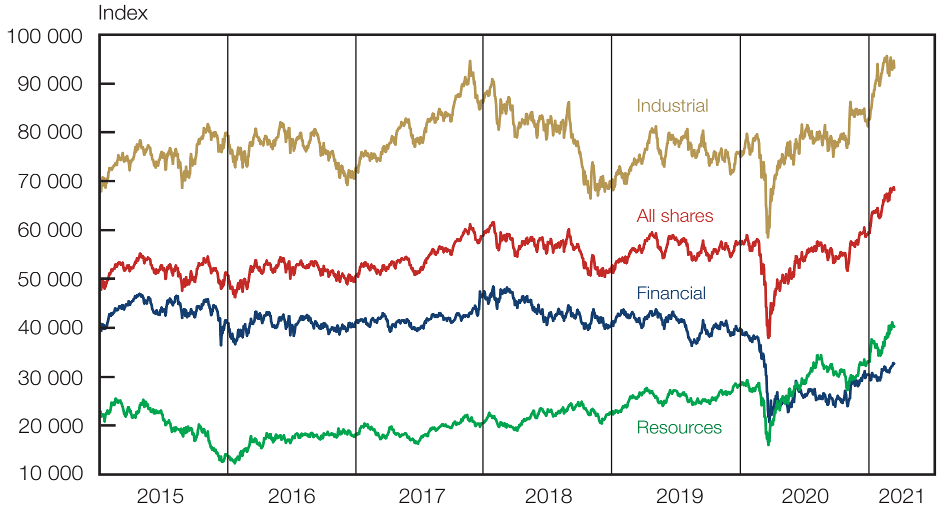


Source: JSE

Despite the global COVID-19 pandemic, 2020 proved to be a remarkably positive year for both domestic and global *share prices*, especially in the closing months of the year. Share prices of JSE-listed companies ended the fourth quarter of 2020 on a high note, shrugging off the second wave of COVID-19 infections, with the FTSE/JSE All-Share Price Index (Alsi) increasing by 9.5% in the fourth quarter, and by 4.1% for the year as a whole. The domestic share market continued to rise for a fourth consecutive month and increased by 5.9% in February 2021, supported by higher international share prices along with optimism regarding vaccine rollouts, the approval of a huge fiscal stimulus relief package in the US, and historically low domestic interest rates. The Alsi remained robust, recording an all-time high of 68 775 index points on 11 March.

During 2020, uncertainty caused by the pandemic also resulted in a sharp increase in international commodity prices, especially that of gold, which buoyed share prices of companies in the resources sector to increase by 16.9%, followed by industrial shares with an increase of 10.2%. By contrast, the share prices of financial shares declined by 23.0% in 2020.

FTSE/JSE share price indices



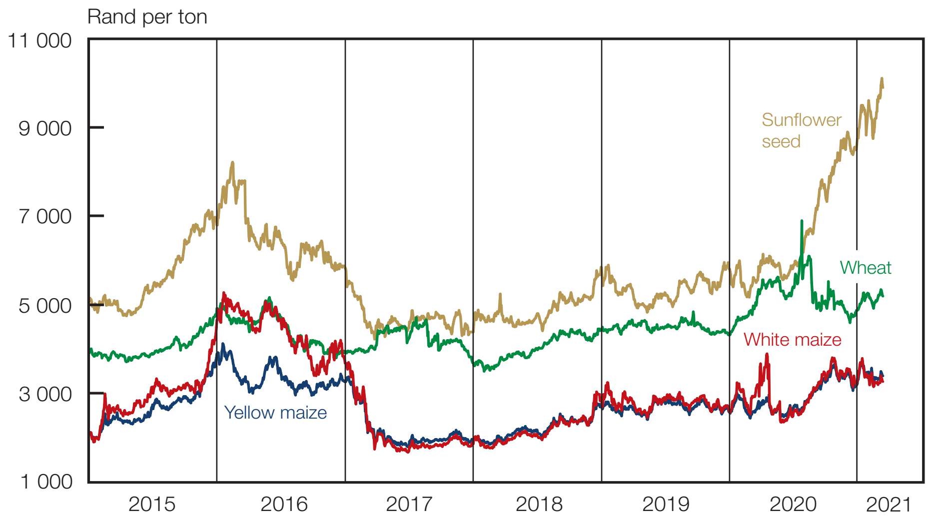
Sources: IRESS and JSE

The overall historical *price-earnings ratio* of ordinary shares listed on the JSE increased from a recent low of 13.8 in March 2020 to 42.2 in November as total earnings continued to decline sharply while share prices increased. This compares with only 8.4 in February 2009 at the time of the global financial crisis. Subsequently, the price-earnings ratio declined to 29.1 in February 2021, as earnings started to recover.

Market for exchange-traded derivatives

The *spot price of white and yellow maize contracts* traded on the JSE increased, on balance, by 61.1% and 51.5% respectively from 27 May 2020 to 13 January 2021. These increases were largely driven by higher international maize prices, following increasing demand from China and other Southern African countries. Subsequently, these spot prices decreased to R3 273 per ton and R3 400 per ton respectively on 12 March 2021 as a result of significant rainfall brought about by Cyclone Eloise. The favourable local weather conditions led to expectations of a larger crop for the 2020/21 season. However, the damage caused by the cyclone to agricultural output in neighbouring countries contributed to renewed risks to the supply outlook for Southern Africa. Consequently, regional factors could play a role in domestic maize price movements in the period ahead.

South African grain prices



Source: JSE

Following higher prices of wheat in the first half of 2020, the *spot price of domestic wheat contracts* decreased by 33.3% from 24 July 2020 to 9 December in the wake of optimism about global wheat production and expectations of the largest domestic wheat harvest in nearly two decades, which was accompanied by an appreciation in the exchange value of the rand. Despite the favourable domestic wheat harvest, the spot price of wheat increased again to R5 198 per ton on 12 March 2021, largely reflecting higher international prices following increased demand from China. China is searching the globe for feed grains as it rebuilds its hog herd after the earlier outbreak of African swine fever. The wheat import tariff was lowered again from R544.2 per ton to R102.7 per ton in February 2021, where after the tariff was scrapped altogether from 10 March, following the increase in international wheat prices.

With South Africa being a net importer of sunflower seed, similar to wheat, the domestic market tends to be sensitive to global developments. The *spot price of domestic sunflower seed contracts* increased considerably by 95.4%, from R5 175 per ton on 26 February 2020 to an all-time high R10 110 per ton on 10 March 2021, supported by higher international sunflower seed prices following lower global production estimates and increased demand from especially China. Sunflower seed area plantings for 2020/2021 declined to its smallest size in nine years, largely due to an expected partial shift to white maize plantings.

Turnover in equity derivatives on the JSE decreased in 2020 compared with 2019, amid volatility in the underlying share market. Meanwhile, activity in commodity and interest rate derivatives increased in 2020. Turnover in commodity derivatives reached an all-time high of R122 billion in November 2020, which contributed to an annual increase of 13.0%. This reflected increased hedging activity against adverse commodity prices alongside higher trading volumes.

Derivatives turnover on the JSE

Type of derivative	Value (R billions)		Change over one year (Per cent)	
	2020	Jan–Feb 2021	2020	Jan–Feb 2021
Equity	5 799	707	-12	8
Warrants	2	0.2	58	10
Commodity	915	162	13	29
Interest rate	1 339	296	7	-12
Currency	1 068	76	-0.4	-25

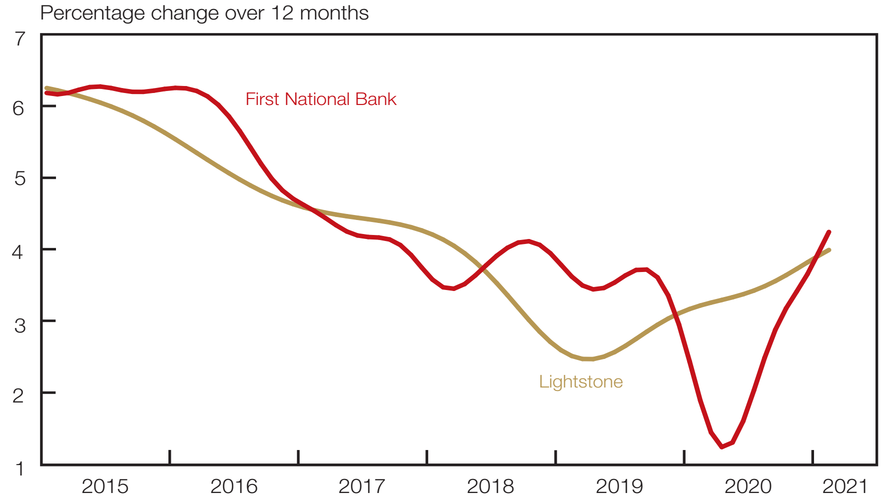
Source: JSE

Real estate market

Growth in domestic residential property prices remained subdued in 2020, but started to reflect some resilience towards the end of the year, likely supported by the low interest rate environment. The year-on-year rate of increase in the two available nominal house price indicators accelerated to 4.0% and 4.2% respectively in February 2021. Nominal house price growth continued to reflect the weak economic conditions and high unemployment, exacerbated by the significant uncertainty surrounding the outlook for the South African economy due to the effect of COVID-19.

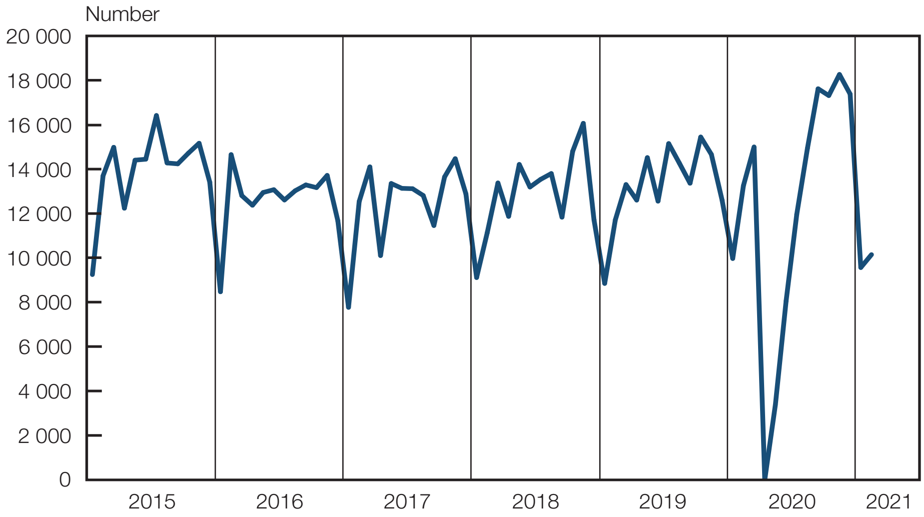
Encouragingly, the average time that residential properties remained on the market, according to First National Bank, declined from 14.1 weeks in the second quarter of 2020 to 10.6 weeks in the third quarter, and further to 9.4 weeks in the fourth quarter – the lowest since the first quarter of 2007. The decline in this indicator could mainly be attributed to the historically low interest rates, which improved affordability and gave rise to an increase in the number of mortgage bonds registered, which is indicative of more robust home-buying activity. The number of mortgage bonds registered increased from zero in April 2020, when the deeds office was closed due to lockdown restrictions, to 18 264 in November – levels last seen in 2008 – with this also including the clearing of the backlog.

Nominal house prices



Sources: First National Bank and Lightstone

Number of mortgage bonds registered



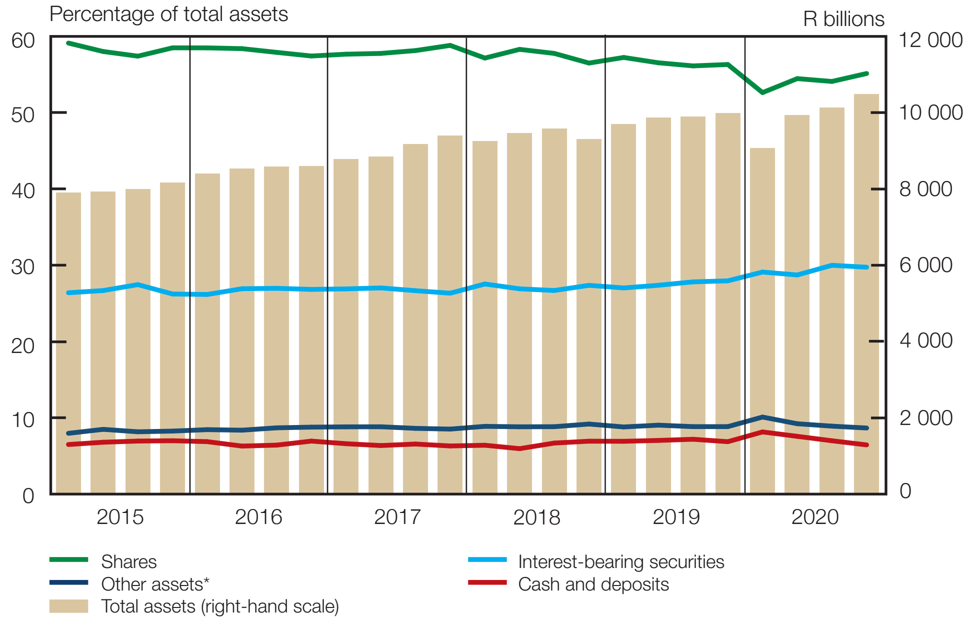
Source: Lightstone

Non-bank financial intermediaries[23]

The increase in share and bond prices during the final quarter of 2020 supported the balance sheets of the non-bank financial institutions. The consolidated total assets of these institutions increased by 3.5% from the third quarter of 2020 to R10.5 trillion in the fourth quarter. The assets of these institutions grew by 5.0% for the year as a whole, compared with an increase of 7.4% in 2019. The total assets of funds under management by the Public Investment Corporation (PIC) and unit trusts increased the most, by 4.9% and 4.6% respectively, from the third to the fourth quarter of 2020, while that of insurance companies increased by 3.2% over the same period. The weak economic environment and low consumer confidence affected the balance sheet of finance companies, with assets increasing by only 1.1% in the final quarter of 2020.

23 These consist of unit trusts, the Public Investment Corporation, long- and short-term insurance companies, public and private pension funds, participation bond schemes, finance companies and non-monetary public financial corporations.

Total assets of non-bank financial institutions



* Other assets include non-financial assets, accounts receivable, financial derivatives, loans and insurance technical reserves

Source: SARB

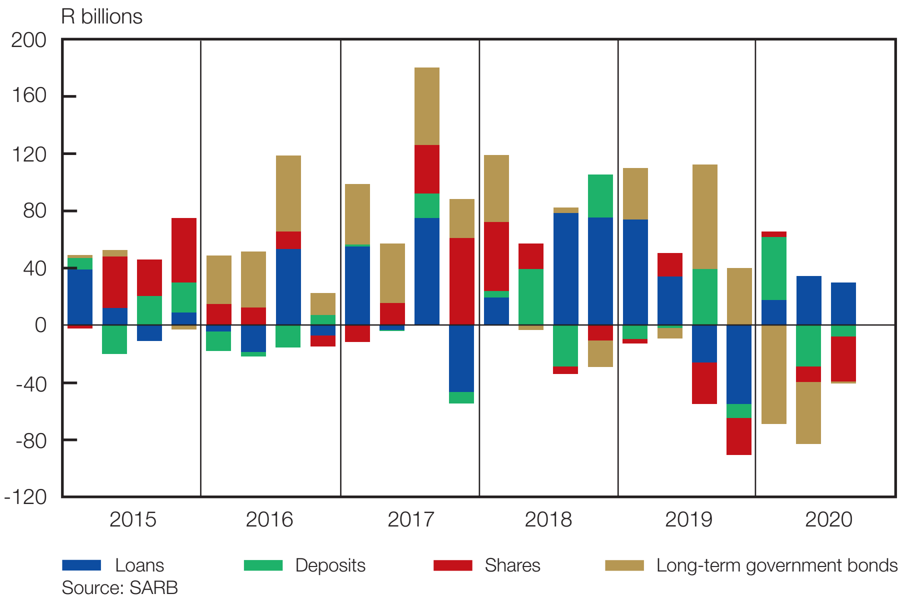
Non-bank financial institutions' holding of shares increased by 1.0 percentage points from the third quarter of 2020 to 55.1% of total assets in the fourth quarter. However, for the year as a whole, shareholding declined by 1.2 percentage points, despite the 4.1% increase in the Alsi in 2020. Investment in interest-bearing securities declined by 0.3 percentage points from the third quarter of 2020 to 29.7% of total assets in the final quarter. Reflecting a combination of higher bond prices and new inflows, assets allocated to interest-bearing securities increased by 1.8 percentage points in 2020, following an increase of 0.6 percentage points in 2019.

Holdings of cash and deposits declined by 0.5 percentage points from the third quarter of 2020 to 6.5% of total assets in the fourth quarter. Exposure to cash and deposits declined by 0.4 percentage points in 2020, against the backdrop of the historically low interest rate environment. In contrast, investment into money-market unit trusts increased by R4.7 billion and amounted to R450 billion over the period under review. The contribution of loans extended by non-bank financial institutions declined by 0.1 percentage points from the third quarter of 2020 to 5.3% of total assets in the final quarter. Impacted by the general recessionary conditions and later also the COVID-19 lockdown restrictions, the year-on-year rate of increase in credit extended by finance companies slowed continuously from 2.7% in the final quarter of 2019 to -0.3% in the final quarter of 2020.

Flow of funds

The global economy started to recover in the third quarter of 2020, but COVID-19 is expected to remain a threat to the recovery until the successful rollout of vaccines. *Non-residents'* net borrowing position of R64.6 billion in the third quarter of 2020 mirrored the domestic institutional sectors' increased exposure to foreign assets. In turn, non-residents' reduced exposure to domestic financial assets reflected an outflow of funds through a decline in deposits with the domestic banking sector of R8.0 billion and a reduction of R37.4 billion in trade credit and short-term loans. The latter reflected repayments by especially non-financial corporate business enterprises.

Net acquisition of financial assets through selected instruments by non-residents



Source: SARB

In addition, non-residents continued to sell domestic shares to the value of R10.6 billion in the second quarter of 2020 and R31.2 billion in the third quarter following, among other factors, concerns over the sustainability of the recovery in domestic economic activity. Non-residents' net sales of long-term government bonds of R1.5 billion in the third quarter of 2020 followed notable net sales of R43.5 billion in the preceding quarter. In contrast, mainly the national government[24] borrowed R67.1 billion through long-term loans from international institutions in

24 This is reflected in the central and provincial governments column in the flow of funds table on page S–49 in this edition of the *Quarterly Bulletin*.

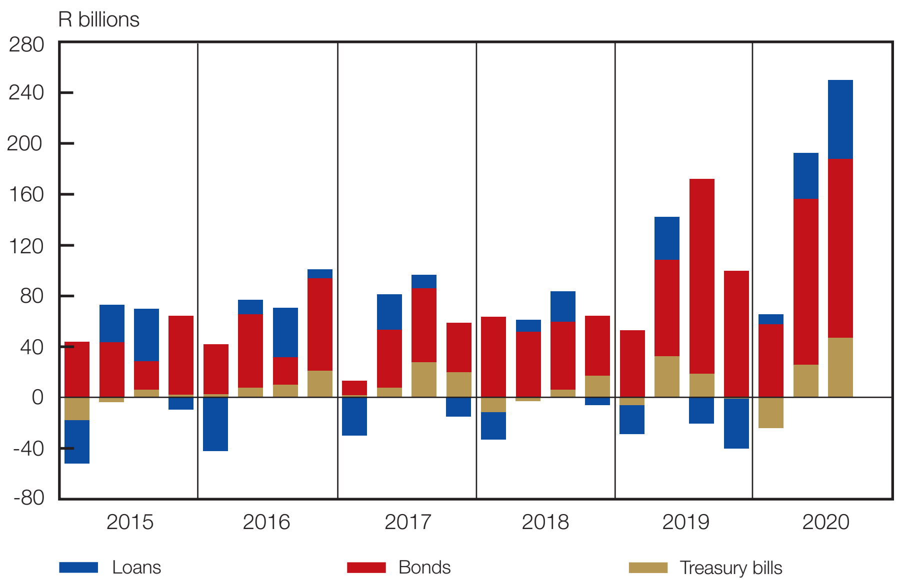
the third quarter, some of which to respond to the effects of COVID-19. Global financial markets remained volatile in the third quarter of 2020 as investors continued to be concerned that the economic recovery was probably going to be uneven.

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

Financial intermediation[25] flows increased in the third quarter of 2020 as lockdown restrictions were eased, contributing to the resumption of most economic activities. The robust increase of R139 billion in bank deposits during the second quarter of 2020 receded to an increase of R70.0 billion in the third quarter. In addition, funds placed with financial institutions and through interest in retirement and life funds collectively amounted to R64.3 billion. Financial intermediaries' net purchases of fixed-interest securities remained high at R241 billion in the third quarter of 2020, as lower bond yields reflected benign inflation. Net purchases of shares amounted to R24.5 billion, while loans extended by financial intermediaries amounted to a marginal R19.2 billion. Credit extension remained subdued as job and income losses as well as concerns over job security affected credit worthiness and discouraged the uptake of credit. Loans to especially non-financial corporate business enterprises declined, reflecting the recessionary conditions and reduced capital spending. However, following the easing of lockdown restrictions and the reduction in interest rates, mortgage loans increased by R19.7 billion in the third quarter of 2020, from R6.7 billion in the preceding quarter.

The *general government sector's* net borrowing requirement increased significantly to R213 billion in the third quarter of 2020 due to the decline in tax revenue and the unexpected spending commitments brought about by the pandemic. The shortfall was mainly financed in the domestic financial markets through the net issuance of R141 billion in government bonds and R47.1 billion in TBs. Insurers and retirement funds were the main counterparties to the government bond transactions. In addition, government sourced R62.1 billion in loans, mainly from the non-resident sector, to combat the effects of COVID-19. The general government sector channelled R23.8 billion in deposits to the banking sector.

General government's main sources of funding



Source: SARB

Prospects of a strong and sustained recovery in capital spending remain slim as capital spending by *non-financial corporate business enterprises* declined by a further 20.6% in the third quarter of 2020. South Africa's economic growth prospects and lingering structural constraints continue to deter capital investment. The gross saving of non-financial corporate business enterprises increased further in the third quarter of 2020 and resulted in a net lending position of R186 billion, which was channelled to the banking sector through deposits of R38.5 billion and R13.9 billion in funds placed with financial institutions. On the other hand, the sector's source of funding through loans declined by R90.3 billion in the third quarter of 2020, while R3.4 billion of public sector securities was redeemed. By contrast, non-financial corporate business enterprises recorded net issuance of shares of R24.9 billion in the third quarter of 2020 which, among other factors, reflected the need for funding due to the impact of COVID-19 on economic activity as well as to reduce debt and increase liquidity.

Household finances improved somewhat in the third quarter of 2020 due to the gradual resumption of economic activity. Households' increased savings, however, continued to display an element of caution, which resulted in the sector recording an increased net lending position of R58.6 billion in the third quarter of 2020, from R34.3 billion in the second quarter. The surplus funds were channelled to deposits of R40.8 billion and interest in retirement and life funds of R15.1 billion, while funds placed with financial institutions declined by R36.0 billion in the third quarter of 2020, from an increase of R40.7 billion in second quarter. Households' demand for credit amounted to R18.1 billion as spending increased in the third quarter of 2020.

26 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–December 2020 to April–December 2019. Data for both periods are unaudited and preliminary.

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

Public finance[26]

Non-financial public sector borrowing requirement[27]

The preliminary *non-financial public sector borrowing requirement* of R76.3 billion in the third quarter of fiscal 2020/21 (October–December 2020) contributed to an overall cumulative cash deficit of R445 billion in the first nine months (April–December 2020) of fiscal 2020/21. The cash deficit was almost double that of the previous fiscal year and reflected the significantly larger borrowing requirement of the consolidated general government, owing to the higher deficits of national government and the social security funds. The larger deficit of national government could be attributed to higher intergovernmental transfers to other levels of general government of R724 billion (53.5% of total expenditure, inclusive of COVID-19-related expenditure.) All other spheres of general government recorded cash surpluses in the first three quarters of fiscal 2020/21.

Non-financial public sector borrowing requirement

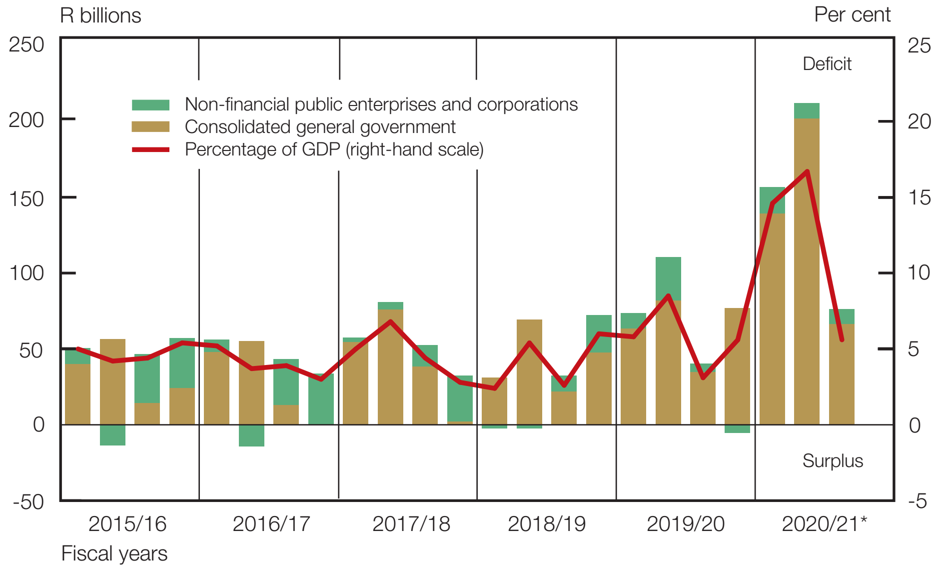
R billions

Level of government	Apr–Dec 2019*	Apr–Dec 2020*
Consolidated general government	180.1	407.7
National government	257.0	440.1
Extra-budgetary institutions	-31.2	-24.8
Social security funds	-20.5	50.6
Provincial governments	-9.9	-21.8
Local governments	-15.3	-36.4
Non-financial public enterprises and corporations	44.6	37.4
Total**	224.7	445.2
As a percentage of gross domestic product	*5.8*	*12.1*

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

Sources: National Treasury, Stats SA and SARB

Non-financial public sector borrowing requirement



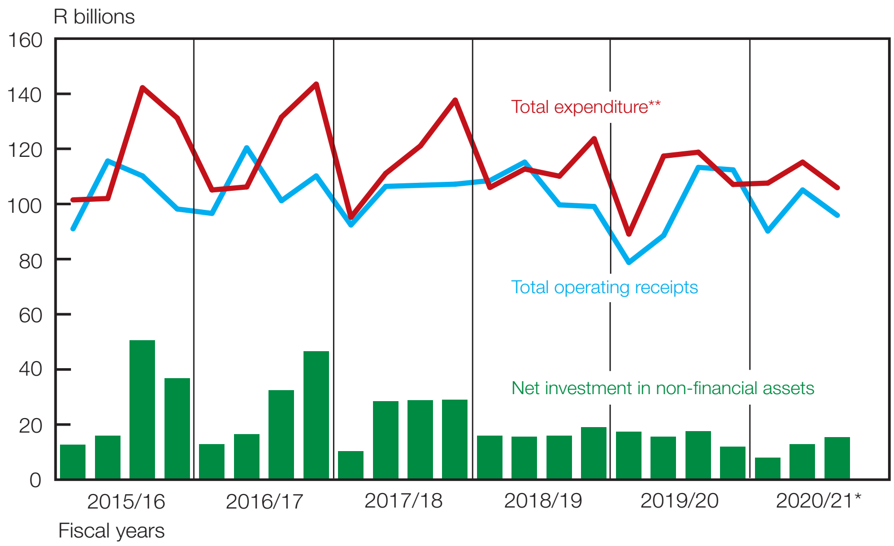
* April–December 2020

Sources: National Treasury, Stats SA and SARB

The preliminary cash deficit of the non-financial state-owned companies (SOCs) narrowed by R7.2 billion to R37.4 billion in April–December 2020 compared with the same period a year earlier. The lower cash deficit resulted from moderately faster growth in cash receipts from operating activities together with slower growth in total expenditure.[28] Cash receipts from operating activities increased by 3.8% year on year to R291 billion in April–December 2020 and included, among others, cash injections from national government. Total expenditure by non-financial SOCs increased by only 1.1% year on year to R329 billion in April–December 2020. This reflected lower net investment in non-financial assets, marked by a contraction in infrastructure spending by major non-financial SOCs amid the constrained borrowing capacity alongside the COVID-19 pandemic and related lockdown measures. Net investment in non-financial assets declined to R36.2 billion in April–December 2020, some R14.1 billion less than a year earlier.

28 Total expenditure includes cash payments for operating activities and net investment in non-financial assets.

Financial activities of non-financial public enterprises and corporations



* April–December 2020
** Including both operating cash payments and net investment in non-financial assets
Source: SARB

As a ratio of GDP, the non-financial public sector borrowing requirement increased notably from 5.8% in the first nine months of fiscal 2019/20 to 12.1% in April–December 2020.

Box 5 The *2021 Budget Review*[1]

The 2021 Budget occurred within a constrained fiscal environment, characterised by both a record-high fiscal deficit and rapidly rising national government debt. Fiscal policy prioritised the rollout of a free COVID-19 vaccination programme, spending restraint, without unduly increasing the tax burden. The recovery in economic activity will be aided by short-term economic support and structural reforms through the advancement of Operation Vulindlela, focusing on the alleviation of electricity-supply constraints, accelerating the release of digital spectrum and improving the effectiveness of ports. These measures aim to attain a primary surplus in fiscal 2024/25 and to stabilise debt by fiscal 2025/26.

The projected contraction in real gross domestic product (GDP) for 2020 was revised slightly lower to 7.2%, from 7.8% in the *2020 Medium-Term Budget Policy Statement (MTBPS)*. These projections contrast an expansion of 0.9% initially expected in the February 2020 Budget. Growth in real GDP was now expected to improve to 3.3% in 2021, before slowing to 2.2% in 2022 and 1.6% in 2023. Consumer price inflation was expected to decelerate to 3.3% in 2020, due to a decline in both goods and services prices following weak demand and lower oil prices. Average inflation of 4.2% over the medium term reflects an improved outlook compared with an average of 4.4% estimated in the *2020 MTBPS*. The current account surplus in 2020 is expected to again change to a slight deficit over the medium term.

1 The *2021 Budget Review* was presented to Parliament by the Minister of Finance on 24 February 2021.

Macroeconomic projections*

Percentage	2018	2019	2020			2021	2022	2023
	Outcome		2020 Budget	*2020 MTBPS*	2021 Budget	Medium-term estimates**		
Real GDP growth	0.8	0.2	0.9	-7.8	-7.2	3.3	2.2	1.6
Consumer price inflation.......	4.6	4.1	4.5	3.2	3.3	3.9	4.2	4.4
Current account balance*** ..	-3.5	-3.0	-3.4	-0.8	1.7	-0.1	-1.0	-1.4

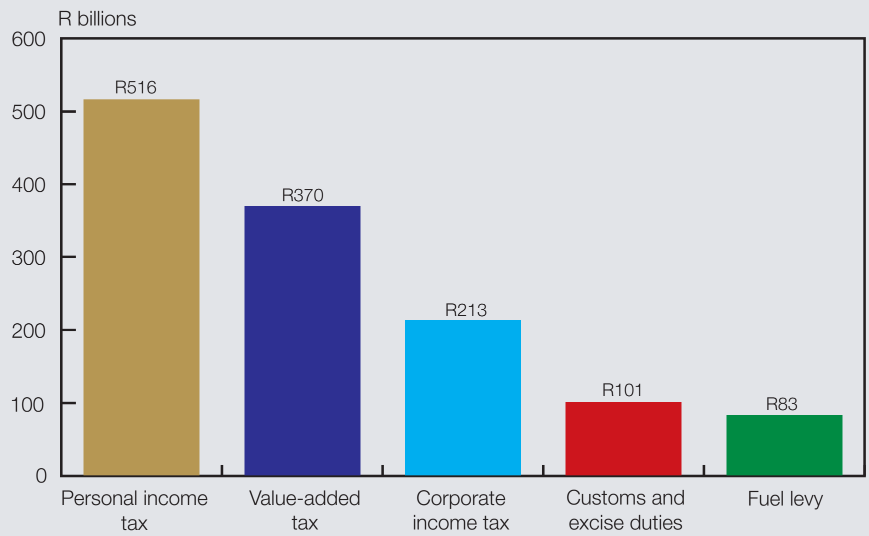
* Calendar years
** *2021 Budget Review*
*** As a percentage of GDP

Source: National Treasury

Revenue underperformed, relative to expectations along with the much weaker than expected economic growth, due to the impact of the COVID-19 pandemic, as reflected by business closures and job losses. Consolidated government revenue for fiscal 2020/21 was revised lower by R221 billion, primarily due to an expected year-on-year decline of 10.6% in gross tax revenue compared with the original estimate in the February 2020 Budget. However, with better-than-expected revenue collections in the second half of fiscal 2020/21, revenue is now expected to be R86 billion more than the *2020 MTBPS* estimate. A revenue-to-GDP ratio of 27.7% is expected for 2020/21, while a return to the pre-COVID-19 level of almost 30% will require strong and sustained economic growth.

In fiscal 2021/22, personal income tax (PIT), value-added tax (VAT) and corporate income tax (CIT) are expected to remain the main sources of government revenue, contributing 72.3% to total revenue of consolidated government. No measures were introduced to increase taxes in an effort to assist households and businesses, and given the smaller revenue shortfall, R40 billion in previously proposed taxes was withdrawn.

Major sources of government revenue: fiscal 2021/22



Sources: National Treasury, SARS and SARB

However, some tax changes were proposed, such as PIT relief through above-inflation adjustments of tax brackets and an increase in the fuel and Road Accident Fund (RAF) levies, along with changes to excise duties on alcohol and tobacco products as well as to environmental taxes, as summarised below:

- PIT: an above-inflation adjustment of 5% in personal income tax brackets.
- Fuel levy: an increase of 27 cents per litre, of which 15 cents per litre are allocated for the general fuel levy, 11 cents per litre for the RAF levy and 1 cent per litre for the carbon fuel levy, with effect from 7 April 2021.
- Excise duties: an increase of 8% on alcohol and tobacco products, effective from 25 February 2021.
- Plastic bag levy: a reduction from 25 cents per bag to 12.5 cents per bag.
- Carbon tax: the levy will increase by 1 cent to 8 cents per litre for petrol and 9 cents per litre for diesel, effective from 7 April 2021.

Consolidated fiscal framework indicators*

R billions	2018/19	2019/20	2020/21			2021/22	2022/23	2023/24
	Outcome		2020 Budget	*2020 MTBPS*	2021 Budget	Medium-term estimates**		
Consolidated revenue	1 448	1 531	1 584	1 277	1 363	1 520	1 635	1 717
Percentage of GDP	*29.4*	*29.7*	*29.2*	*26.3*	*27.7*	*28.4*	*28.9*	*28.6*
Consolidated expenditure	1 644	1 822	1 954	2 038	2 052	2 020	2 050	2 095
Percentage of GDP	*33.4*	*35.4*	*36.0*	*41.9*	*41.7*	*37.7*	*36.2*	*34.9*
Consolidated budget deficit	-195.7	-291.8	-370.5	-761.1	-689.8	-500.0	-414.1	-377.9
Percentage of GDP	*-4.0*	*-5.7*	*-6.8*	*-15.7*	*-14.0*	*-9.3*	*-7.3*	*-6.3*
Primary balance	-3.7	-78.0	-138.7	-474.8	-448.1	-222.6	-97.6	-30.6
Percentage of GDP	*-0.1*	*-1.5*	*-2.6*	*-9.8*	*-9.1*	*-4.1*	*-1.7*	*-0.5*
Gross loan debt***	2 788	3 261	3 562	3 974	3 950	4 383	4 820	5 234
Percentage of GDP	*56.6*	*63.3*	*65.6*	*81.8*	*80.3*	*81.9*	*85.1*	*87.3*
Net loan debt***	2 545	2 998	3 340	3 770	3 658	4 202	4 658	5 092
Percentage of GDP	*51.7*	*58.2*	*61.5*	*77.6*	*74.3*	*78.5*	*82.2*	*84.9*

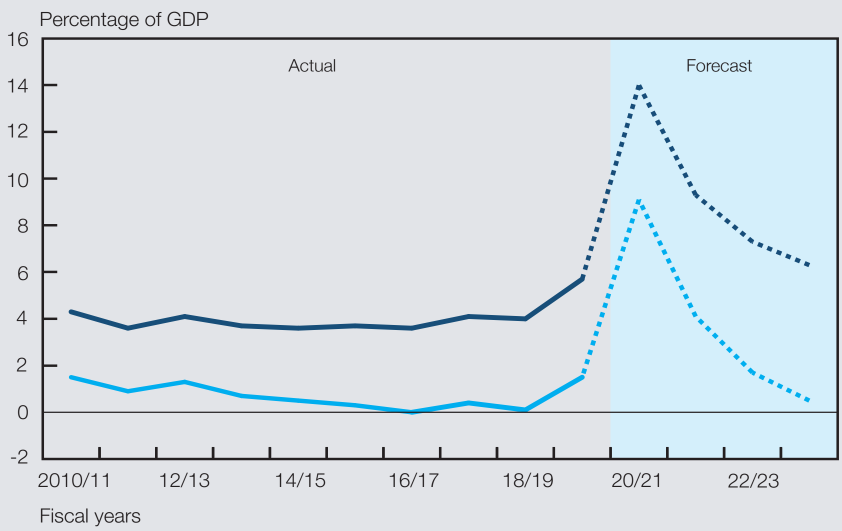
* Fiscal years. This is the consolidated budget framework of national and provincial government as well as social security funds and selected public entities. Budget data are therefore not strictly comparable with the data published in the SARB's *Quarterly Bulletin*.
** *2021 Budget Review*
*** Refers to national government or main budget

Source: National Treasury

Consolidated government expenditure is expected to reach a historic high of 41.7% of GDP in fiscal 2020/21. The 2021 Budget proposed total consolidated expenditure of R2 020 billion for fiscal 2021/22, with the largest portion directed towards socio-economic programmes focused on learning and culture (R403 billion), health (R249 billion) and social development (R335 billion). In the interest of fiscal consolidation and sustainability, a further reduction in expenditure relative to GDP was proposed over the medium term. The public-sector wage bill, which absorbed 40.8% of government revenue in fiscal 2019/20, is expected to grow only marginally by, on average, 1.2% over the medium term.

The proposed reduction in government spending was partially offset by reallocations and additional financial support of R183 billion to state-owned companies (SOCs), of which R42.8 billion was earmarked for Eskom over the next three years. Over the medium term, R6.5 billion was reprioritised to the Department of Health to procure and distribute COVID-19 vaccines for the national vaccine rollout.

Fiscal balances



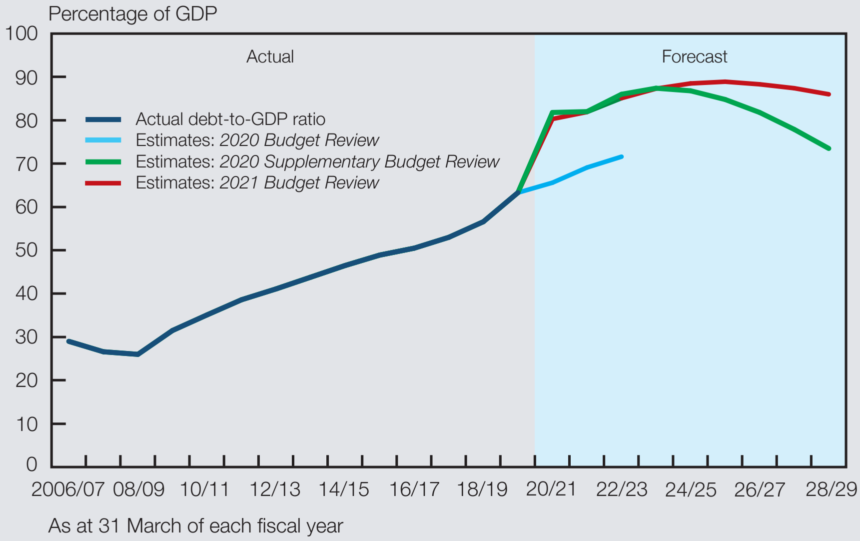
Sources: National Treasury and SARB

Debt-service cost was expected to increase from R233 billion in fiscal 2020/21 to R270 billion (13.4% of total expenditure) in fiscal 2021/22, and further to R339 billion in fiscal 2023/24.

The revised revenue and expenditure projections significantly increased the consolidated budget deficit, from 5.7% of GDP in fiscal 2019/20 to 14.0% in fiscal 2020/21, before narrowing to 6.3% in fiscal 2023/24. The primary balance[2] of consolidated government is expected to revert from a deficit of 9.1% of GDP in fiscal 2020/21 to a primary surplus in fiscal 2024/25. The larger budget deficit contributed to a significant increase in the borrowing requirement, from R353 billion in fiscal 2019/20 to R749 billion in 2020/21, or from 6.9% to 15.2% of GDP. The borrowing requirement will be funded by short- and long-term borrowing in the domestic market and foreign-currency loans, while government will continue its bond-switch programme over the medium term.

The gross loan debt of national government was estimated at R3.95 trillion (80.3% of GDP) for fiscal 2020/21, which was a notable upward revision from the original estimate of 65.6% of GDP in the 2020 Budget. The debt-to-GDP ratio is now projected to stabilise at 88.9% in 2025/26, as opposed to 95.3% as projected in the *2020 MTBPS*.

National government gross loan debt



Sources: National Treasury and SARB

Government's total contingent liabilities (including guarantees to SOCs, independent power producers (IPPs) and public-private partnerships) were projected to increase from R1.11 *trillion* in fiscal 2020/21 to R1.23 *trillion* in fiscal 2023/24. The RAF is the largest contingent liability, followed by Eskom.

Major risks to the fiscal outlook include uncertainty about the pace of the post-pandemic economic recovery, increasing contingent liabilities and the financial position of SOCs and municipalities. The public sector wage negotiations that will commence later in 2021, together with high debt levels, could affect the country's sovereign credit rating.

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

Budget comparable analysis of national government finance

National government's cash book deficit of R433 billion in the first nine months of fiscal 2020/21 (April–December 2020) was R183 billion more than in the same period of the previous fiscal year. This larger deficit reflected a contraction in revenue and an increase in expenditure. Government financed this deficit largely in the local financial markets mostly through the net issuance of government bonds in the domestic market, which contributed to the further significant increase in national government's gross loan debt to R3 833 billion as at 31 December 2020.

National government finances

	Actual Apr–Dec 2019		Actual Apr–Dec 2020		Originally budgeted[1] Fiscal 2020/21		Revised estimates[2] Fiscal 2020/21	
	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Revenue	967	4.7	869	-10.1	1 398	4.1	1 098	-18.3
Percentage of GDP	*25.0*		*23.5*		*25.8*		*22.6*	
Expenditure	1 217	12.0	1 302	7.0	1 766	4.5	1 806	6.9
Percentage of GDP	*31.4*		*35.3*		*32.5*		*37.2*	
Cash book balance[6]	-250		-433		-368		-708	
Percentage of GDP	*-6.5*		*-11.7*		*-6.8*		*-14.6*	
Primary balance[7]	-122		-288		-139		-475	
Percentage of GDP	*-3.2*		*-7.8*		*-2.6*		*-9.8*	
Gross loan debt[8]	3 156	14.2	3 833	21.5	3 562	9.2	3 974	21.9
Percentage of GDP	*62.2*		*77.1*		*65.6*		*81.8*	

1 *2020 Budget Review*
2 *2020 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

Sources: National Treasury, SARS and Stats SA

National government revenue contracted by 10.1% year on year to R869 billion in April–December 2020 as revenue collection across all tax categories shrunk, while other revenue increased. The revenue underperformance continued to reflect the adverse impact of the COVID-19 lockdown restrictions and related job and income losses. However, the pace of contraction across most of the tax categories in the first nine months of fiscal 2020/21 has been much slower than projected in the *2020 MTBPS*, in which revenue for the fiscal year as a whole was revised lower to R1 098 billion from an originally projected R1 398 billion in the February 2020 Budget. Revenue as a ratio of GDP at 23.5% from April to December 2020 was lower than the 25.0% in the same period a year earlier.

Revenue from taxes on income, profits and capital gains of R505 billion in the first nine months of fiscal 2020/21 was 10.0% less compared with the same period of the previous fiscal year. This contraction stemmed largely from a 9.1% contraction in personal income tax (PIT) collections to R341 billion and a 10.3% contraction in corporate income tax (CIT) receipts to R147 billion. Lower PIT collections were underpinned by subdued pay-as-you-earn (PAYE) receipts due to lower bonus pay-outs by large businesses as well as notable job losses in all sectors of the economy. The CIT underperformance could largely be attributed to lower provisional tax collections, mainly from the finance, manufacturing as well as the wholesale and retail trade sectors, together with higher CIT refunds. The projected revenue from taxes on income, profits and capital gains of R814 billion for fiscal 2020/21 in the February *2020 Budget Review* was revised lower to R640 billion in the *2020 MTBPS*. Encouragingly, the contraction in both PIT and CIT has thus far been much less than anticipated in the *2020 MTBPS*.

National government revenue in fiscal 2020/21[1]

Revenue source	Originally budgeted[2] Fiscal 2020/21		Revised estimates[3] Fiscal 2020/21		Actual Apr–Sep 2020	
	R billions	Percentage change[4]	R billions	Percentage change[5]	R billions	Percentage change[6]
Taxes on income, profits and capital gains	813.6	5.3	640.3	-17.1	504.8	-10.0
Of which: Income tax on individuals	546.8	3.3	454.2	-14.2	341.4	-9.1
Income tax on companies	230.2	7.1	159.6	-25.8	146.5	-10.3
Payroll taxes	19.4	5.0	10.2	-45.0	7.5	-44.1
Taxes on property..	17.5	9.6	14.5	-9.5	11.4	-7.7
Taxes on goods and services	514.0	4.5	406.8	-17.3	319.8	-9.0
Of which: Value-added tax (VAT) net	360.6	4.0	287.7	-17.0	233.3	-5.4
Domestic	421.7	5.6	365.1	-8.6	287.7	-3.0
Imports	193.0	7.2	138.0	-23.3	112.4	-14.0
Refunds................................	-254.1	9.3	-215.4	-7.4	-166.8	-7.7
General fuel levy.........................	85.2	6.3	70.1	-12.5	55.1	-6.7
Excise duties..............................	56.0	4.9	39.1	-26.9	23.1	-37.5
Taxes on international trade and transactions.	60.6	7.7	40.7	-27.7	31.9	-22.0
Of which: Import duties	59.5	7.2	40.3	-27.4	31.7	-21.0
Other revenue[7]	36.2	-5.5	48.9	27.7	41.0	61.0
Less: SACU[8] payments	63.4	26.1	63.4	26.1	47.5	26.1
Total revenue	**1 398.0**	**4.1**	**1 097.9**	**-18.3**	**869.0**	**-10.1**

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.
2 *2020 Budget Review*
3 *2020 MTBPS*
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 Year-on-year percentage change: actual outcome on previous year's actual outcome
7 Including non-tax revenue and extraordinary receipts
8 Southern African Customs Union

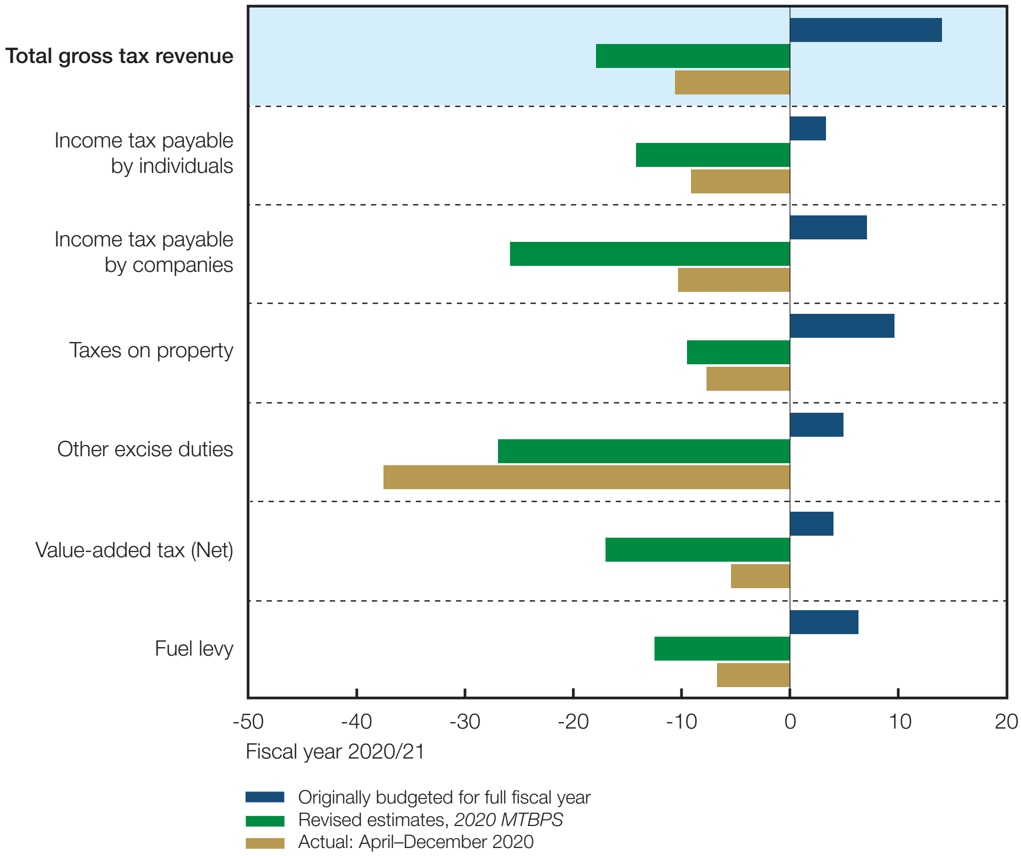
Sources: National Treasury and SARS

Revenue collections from taxes on goods and services of R320 billion, from April to December 2020, were 9.0% less than in the same period a year earlier. Lower collections from excise duties of R23.1 billion, the general fuel levy of R55.1 billion as well as net value-added tax (VAT) receipts of R233 billion were mainly responsible for the contraction in this tax category, decreasing by 37.5%, 6.7% and 5.4% respectively year on year. The pronounced contraction in excise duties reflected tax relief deferrals as well as the prohibition, at times, of trade in alcoholic beverages and tobacco during the national lockdown. The projected revenue from taxes on goods and services of R514 billion for fiscal 2020/21 as indicated in the February 2020 Budget was revised lower to R407 billion in the *2020 MTBPS*.

Income from taxes on international trade and transactions decreased significantly by 22.0% year on year to R31.9 billion in the first nine months of fiscal 2020/21. This reflected lower collections from the importation of key products such as vehicles as well as electrical and other machinery.

Composition of national government gross tax revenue

Percentage change over one year



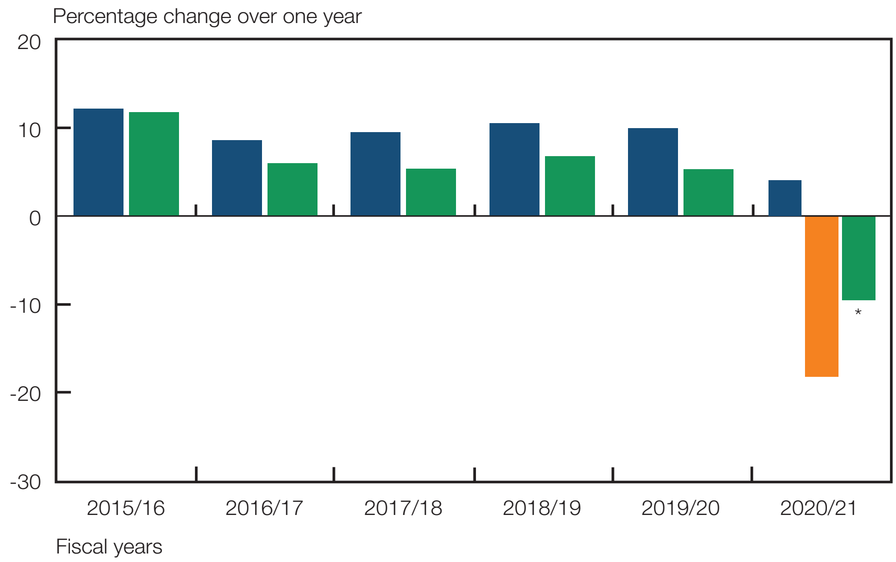
Sources: National Treasury, SARS and SARB

Other revenue, comprising non-tax revenue and extraordinary receipts, increased significantly from R25.5 billion in April–December 2019 to R41.0 billion in April–December 2020, mainly due to increased receipts of R22.2 billion by the National Revenue Fund and increased rent of R13.4 billion on land. The February 2020 Budget earmarked R63.4 billion as transfers to the Southern African Customs Union (SACU) for fiscal 2020/21. Of this, R47.5 billion was already transferred in three equal instalments during April, July and October 2020.

In the first 10 months of fiscal 2020/21, total revenue collection contracted at a year-on-year rate of 9.6% to R956 billion, as all tax categories continued to underperform following renewed restrictions on economic activity that were implemented at the end of 2020 to mitigate the second wave of the COVID-19 pandemic.

National government's expenditure of R1 302 billion in the first nine months of fiscal 2020/21 was 7.0% more than in the same period of the previous fiscal year. Growth resulted largely from higher voted expenditure which accounted for 56.3% of total expenditure. Statutory amounts, largely equitable share transfers to provinces accounted for the difference. National government expenditure as a ratio of GDP of 35.3% from April to December 2020 was slightly higher than the 31.4% in the same period a year earlier. Total envisaged expenditure of R1 766 billion for fiscal 2020/21 in the *2020 Budget Review* was subsequently revised higher to R1 806 billion in the *2020 MTBPS*, largely on account of COVID-19-related stimulus measures.

Revenue of national government



Originally budgeted
Revised estimate, *2020 MTBPS*
Actual

* April 2020–January 2021

Sources: National Treasury, SARS and SARB

National government expenditure in fiscal 2020/21[1]

Expenditure item	Originally budgeted[2] Fiscal 2020/21		Revised estimates[3] Fiscal 2020/21		Actual Apr–Dec 2020	
	R billions	Percentage change[4]	R billions	Percentage change[5]	R billions	Percentage change[6]
Voted expenditure	963.1	2.0	1 025.3	8.6	732.4	7.0
Of which: Transfers and subsidies	644.0	2.8	668.4	6.7	516.1	11.4
Current payments	261.3	8.3	254.5	5.5	173.9	0.1
Payments for capital assets	15.3	30.8	14.8	26.8	6.4	-6.8
Payments for financial assets	42.5	…	87.6	36.5	36.0	-11.2
Statutory amounts[7]	802.9	7.6	780.4	4.7	569.5	7.0
Of which: Provincial equitable share	538.5	6.5	520.7	3.0	403.9	6.5
Interest on debt	229.2	12.0	233.0	13.8	145.2	14.0
General fuel levy	14.0	6.5	14.0	6.5	9.4	6.5
Total expenditure	1 766.0	4.5	1 805.8	6.9	1 301.9	7.0

1 Components may not add up to totals due to rounding off and the exclusion of unclassified items.
2 *2020 Budget Review*
3 *2020 MTBPS*
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 Year-on-year percentage change: actual outcome on previous year's actual outcome
7 Including extraordinary payments
… Not available

Source: National Treasury

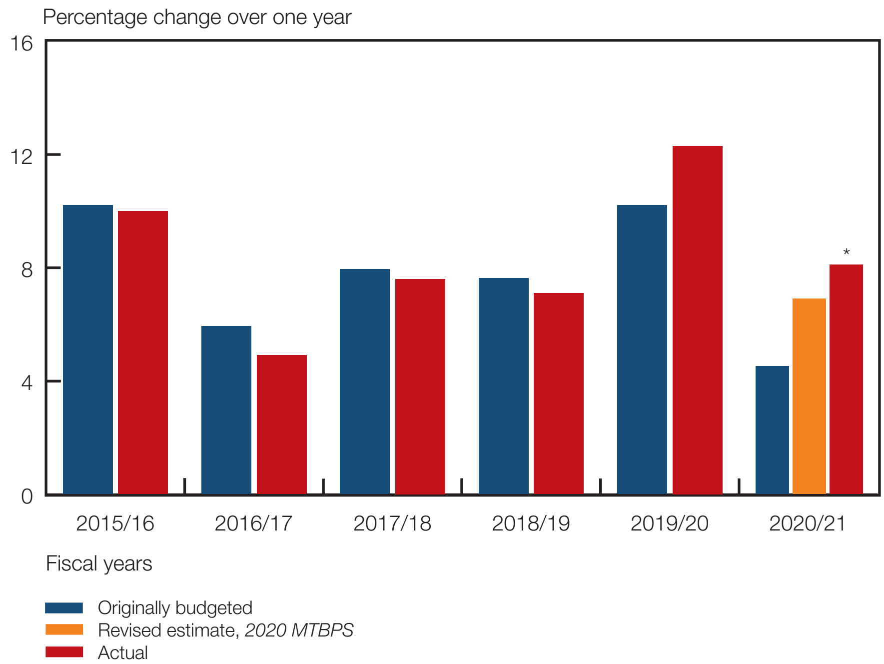
Total voted expenditure by national government departments, consisting of transfers and subsidies, current payments as well as payments for capital and financial assets, increased by 7.0% year on year to R732 billion in April–December 2020. Transfers and subsidies of R516 billion were the main drivers of this increase and represented transfers to the departments of Social Development, Higher Education and Training, Cooperative Governance, Transport and Health, among others. Payments for financial assets included the recapitalisation of some SOCs in financial distress, such as South African Airways (SAA) (R10.2 billion), Eskom (R16.8 billion) and the Land and Agricultural Development Bank of South Africa (R3.0 billion).

Interest payments on government debt (debt-service cost) increased notably by 14.0% year on year to R145 billion in the first nine months of fiscal 2020/21. The higher interest cost reflected the continued rise in the outstanding balance of national government debt. The originally projected debt-service costs of R229 billion for fiscal 2020/21 in the February 2020 Budget were revised slightly higher to R233 billion in the *2020 MTBPS*.

Equitable share transfers to provinces increased by 6.5% to R404 billion in April–December 2020. The February 2020 Budget allocated R538 billion as equitable share transfers to provinces, but this amount was revised lower to R521 billion in the *2020 MTBPS*. Proceeds of R9.4 billion from the general fuel levy were transferred to metropolitan municipalities in two equal instalments in August and December 2020, with the final payment of R4.7 billion for fiscal 2020/21 expected in March 2021.

In the first 10 months of fiscal 2020/21, total expenditure of R1 466 billion represented a year-on-year increase of 8.1%. This could largely be attributed to COVID-19-related spending, financial support provided to some SOCs as well as higher debt-service cost.

Expenditure by national government



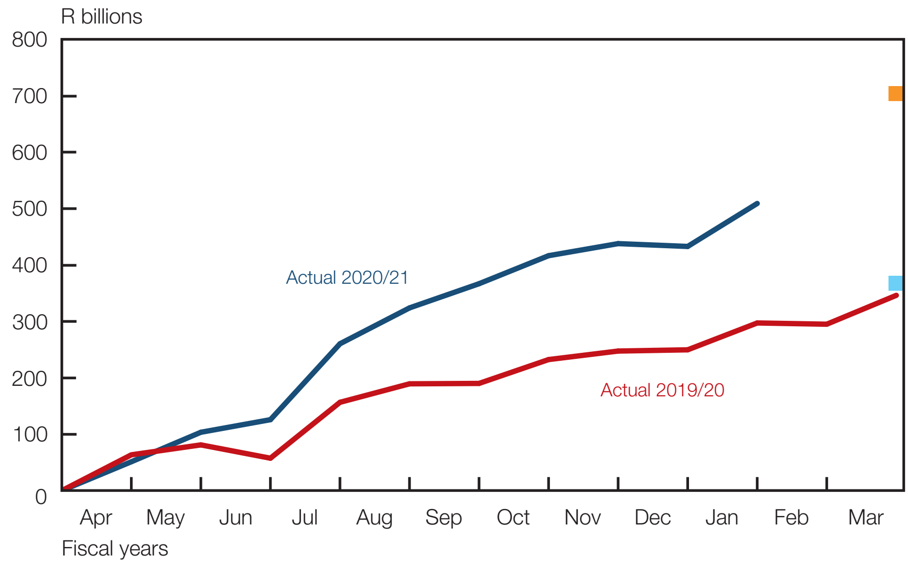
* April 2020–January 2021

Sources: National Treasury, SARS and SARB

Developments in national government revenue and expenditure in the first nine months of fiscal 2020/21 resulted in a cash book deficit of R433 billion, which was R183 billion more than in the same period of the previous fiscal year. The cash book deficit of R368 billion originally envisaged in the *2020 Budget Review* for fiscal 2020/21 almost doubled to R708 billion in the *2020 MTBPS*. This significant revision reflected the projected shortfall in tax revenue due to the sharp contraction in economic activity, along with higher and protracted COVID-19-related spending.

In the first 10 months of fiscal 2020/21, the net outcome of national government's revenue and expenditure yielded a cash book deficit of R509 billion, which was R212 billion more than a year earlier.

Cumulative deficit of national government



Originally budgeted deficit of R368 billion for fiscal 2020/21, *2020 Budget Review*
Revised budget deficit of R708 billion for fiscal 2020/21, *2020 MTBPS*

Sources: National Treasury, SARS and SARB

29 The primary balance is the cash book surplus/deficit excluding interest payments.

National government's primary balance[29] was a deficit of R288 billion in April–December 2020, more than double the deficit of R122 billion in the same period a year earlier. The primary deficit as a ratio of GDP increased from 3.2% in the first nine months of fiscal 2019/20 to 7.8% in the corresponding period of fiscal 2020/21. The February 2020 Budget projected a national government primary deficit of only R139 billion (2.6% of GDP) for fiscal 2020/21 as a whole. However, this was revised significantly higher in the *2020 MTBPS* to R475 billion (9.8% of GDP).

National government financing

R billions

Item or instrument	Actual Apr–Dec 2019	Actual Apr–Dec 2020	Originally budgeted[1] Fiscal 2020/21	Revised estimates[2] Fiscal 2020/21
Cash book deficit	249.7	366.9	368.0	709.8
Cash flow deficit[3]	287.3	433.0	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[4]	11.6	6.5	4.3	6.5
Accrual adjustments	49.1	76.4	...	...
Net borrowing requirement	249.9	394.8	372.3	714.3
Treasury bills and short-term loans[5]	61.2	85.3	48.0	143.0
Domestic bonds[5]	199.1	367.8	285.2	410.0
Foreign bonds and loans[5]	61.1	84.0	21.3	113.4
Change in available cash balances[6]	-71.6	-142.3	17.7	47.8
Total net financing[7]	249.9	394.8	372.3	714.3

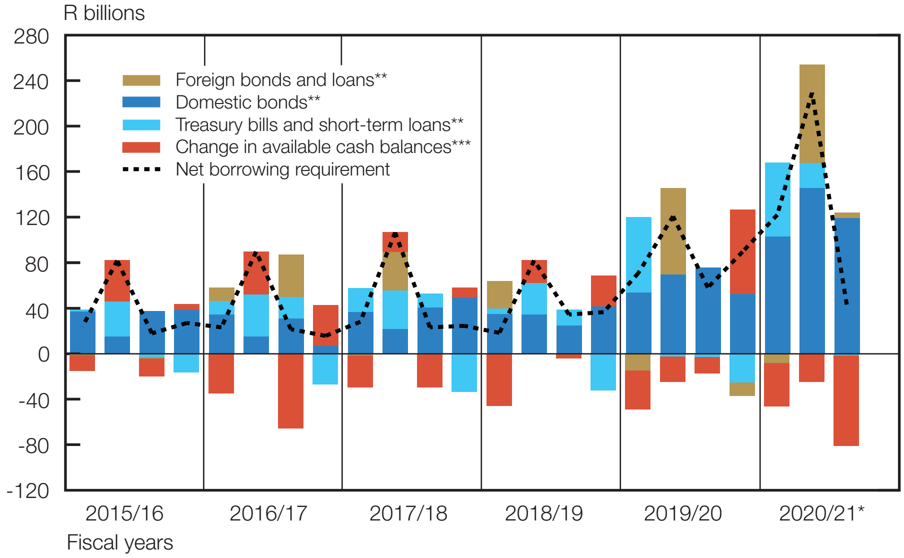
1 *2020 Budget Review*
2 *2020 MTBPS*
3 The cash flow deficit includes extraordinary receipts and payments, and differs from the cash book deficit.
4 Cost (+)/profit (–)
5 Net issuance (+)/net redemption (–)
6 Increase (–)/decrease (+)
7 Components may not add up to totals due to rounding off.
... denotes not available

Sources: National Treasury and SARB

National government's cash flow deficit increased significantly from R287 billion in April–December 2019 to R465 billion in April–December 2020. After taking the cost of revaluation of foreign debt at redemption and accrual adjustments into account, the net borrowing requirement[30] soared from R250 billion in April–December 2019 to R395 billion a year later – an increase of R145 billion.

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

National government financing



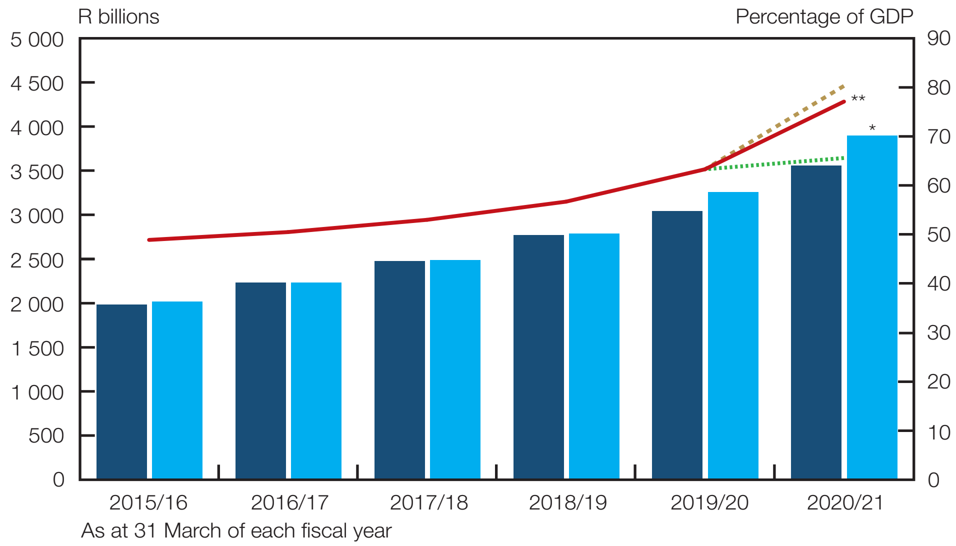
* April–December 2020
** Net issuance (+)/net redemption (-)
*** Increase (-)/decrease (+)

Sources: National Treasury and SARB

The higher net borrowing requirement of national government in the first three quarters of fiscal 2020/21 was financed primarily in the local financial markets through the net issuance of domestic long-term government bonds to the value of R368 billion. The net issuance of TBs and short-term loans from the CPD amounted to R85.3 billion, some R24.1 billion more than in the same period a year earlier as government took advantage of the lower short-term interest rates. The net issuance of foreign bonds and loans of R84.0 billion over this period (only loans) was R22.8 billion more than a year earlier. Consequently, the funding activities of national government increased overall available cash balances by R142 billion in the first nine months of fiscal 2020/21, much more than the R71.6 billion in the first nine months of the previous fiscal year.

The financing of the higher net borrowing requirement resulted in a sharp rise in national government's gross loan debt (domestic and foreign) to R3 833 billion as at 31 December 2020 – 21.5% more compared with 31 December 2019. This upsurge can be ascribed to a large increase in the outstanding balance of domestic debt, which outpaced the increase in foreign debt. As a share of total gross loan debt, domestic debt continued to account for 89.8%. As a percentage of GDP, gross loan debt increased from 62.2% to 77.1% from 31 December 2019 to 31 December 2020. The total gross loan debt of R3 562 billion (65.6% of GDP) for fiscal 2020/21 estimated in the February *2020 Budget Review* was revised significantly higher to R3 974 billion (81.8% of GDP) in the *2020 MTBPS*. The upward revision resulted mainly from the persistent widening of the budget deficit which was exacerbated by the COVID-19-related expenditure.

Gross loan debt of national government

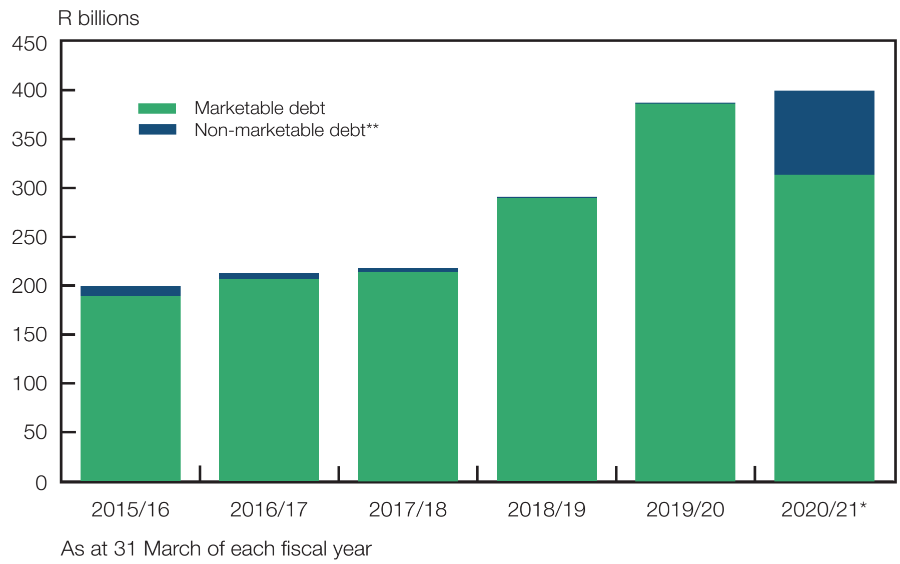


* As at 31 January 2021
** As at 31 December 2020

Sources: National Treasury, Stats SA and SARB

The domestic debt of national government (marketable and non-marketable) of R3 442 billion as at 31 December 2020 was R613 billion more compared with a year earlier. The marketable debt (bonds and TBs) accounted for 99.0% of domestic debt, with the remainder being non-marketable debt. The marked increase in the total outstanding value of domestic debt reflected higher net issuance of domestic marketable debt, which recorded a year-on-year increase of 22.2% to R3 408 billion as at 31 December 2020. Domestic non-marketable debt, comprising short-term loans from the CPD, other debt and outstanding domestic non-marketable bonds decreased by 16.0% year on year to R33.7 billion. The *2020 MTBPS* indicated a higher revised estimate of R3 498 billion for domestic debt for fiscal 2020/21 compared with the original estimate of R3 598 billion.

National government foreign debt

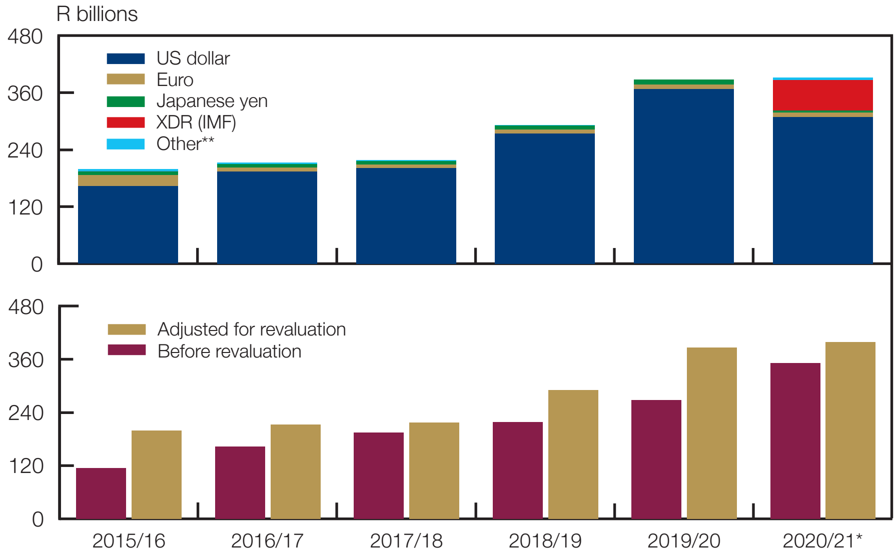


* As at 31 December 2020
** Including IMF loan in XDR

Sources: National Treasury and SARB

National government's foreign debt (marketable and non-marketable) of R391 billion as at 31 December 2020 represented a R64.8 billion increase compared with 31 December 2019. This increase primarily reflected higher non-marketable debt, along with revaluation effects following the weaker exchange value of the rand. Non-marketable debt increased significantly from R649 *million* (only 0.2% of total foreign debt) as at 31 December 2019 to R84.2 billion (21.5% of total foreign debt) as at 31 December 2020. This reflected foreign borrowing in July and October 2020 to the combined value of R82.4 billion (US$1.0 billion, R5.0 billion and XDR3.1 billion) in response to the COVID-19 pandemic. By contrast, marketable debt decreased from R326 billion (99.8% of total foreign debt) as at 31 December 2019 to R307 billion (78.5% of total foreign debt) a year later. The October *2020 MTBPS* revised foreign debt higher to R476 billion compared with the original estimate of R334 billion in the *2020 Budget Review*.

Currency composition of national government foreign debt



As at 31 March of each fiscal year

* As at 31 December 2020
** Including British pound, Swedish krona and RSA rand

Sources: National Treasury and SARB

After accounting for exchange rate revaluation effects, foreign debt amounted to R391 billion as at 31 December 2020 compared with R352 billion prior to revaluation adjustments. National government's foreign debt is denominated in five currencies – the US dollar, euro, Japanese yen, IMF Special Drawing Rights (XDR) and the South African rand. US dollar-denominated debt accounted for the largest share of the total outstanding balance of foreign debt, at R308 billion (78.8% of total foreign debt), followed by the IMF's XDR at R64.5 billion (16.5% of total foreign debt), with the balance shared between the remaining currencies. The average outstanding maturity of foreign marketable bonds increased from 159 months as at 31 December 2019 to 164 months as at 31 December 2020.

The total gross loan debt of national government surged by a significant R703 billion year on year (22.0%) to R3 898 billion as at 31 January 2021. This reflected a rise in the outstanding balance of both domestic and foreign debt, which accounted for 89.7% and 10.3% of total gross loan debt respectively.

Abbreviations

Alsi	All-Share Price Index
BER	Bureau for Economic Research
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
EMBI+	Emerging Markets Bond Index Plus
EPWP	Expanded Public Works Programme
FAO	Food and Agriculture Organization
FRA	forward rate agreement
FX	foreign exchange
GDE	gross domestic expenditure
GDP	gross domestic product
GFC	global financial crisis
GVA	gross value added
ICT	information and communications technology
IIP	international investment position
ILO	International Labour Organization
IMF	International Monetary Fund
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
MPC	Monetary Policy Committee
MTBPS	*Medium Term Budget Policy Statement*
NEER	nominal effective exchange rate
NCD	negotiable certificate of deposit
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PGM	platinum group metal
PIC	Public Investment Corporation
PIT	personal income tax
PPI	producer price index
QES	*Quarterly Employment Statistics*
QLFS	*Quarterly Labour Force Survey*
REER	real effective exchange rate
repo	repurchase (rate)
RMB	Rand Merchant Bank
S&P	Standard & Poor's
Sabor	South African Benchmark Overnight Rate
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SARS	South African Revenue Service
SNA	*System of National Accounts*
SOC	state-owned company
Stats SA	Statistics South Africa
TB	Treasury bill
US	United States
XDR	Special Drawing Rights
VAT	value-added tax
VIX	Volatility Index