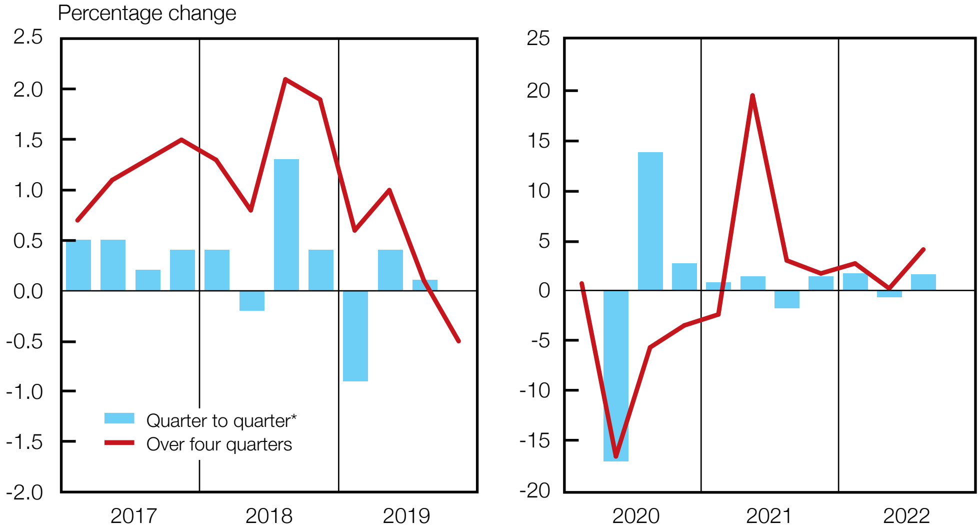
Domestic economic developments

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

Domestic output[1]

Economic activity in South Africa increased strongly in the third quarter of 2022, following a decrease in the second quarter due to flooding in KwaZulu-Natal (KZN) and electricity load-shedding. Real *gross domestic product* (GDP) expanded by 1.6% in the third quarter of 2022 following a contraction of 0.7% in the second quarter, as the real gross value added (GVA) by the primary, secondary and tertiary sectors increased. The level of real GDP was 4.1% higher in the third quarter of 2022 than a year earlier and the average level of real output in the first three quarters of 2022 was 2.3% higher than in the corresponding period of 2021.

Real gross domestic product



* Seasonally adjusted

Source: Stats SA

South Africa's economic growth outlook for 2022 was adjusted lower. In the October 2022 *World Economic Outlook (WEO)*, the International Monetary Fund (IMF) lowered its real economic growth outlook from 2.3% to 2.1% for 2022, while National Treasury lowered its outlook from 2.1% to 1.9% in the *2022 Medium Term Budget Policy Statement (MTBPS)*. In addition, the South African Reserve Bank (SARB) Monetary Policy Committee (MPC) lowered its expectation of real GDP growth from 1.9% to 1.8% for 2022 at its November 2022 meeting. These adjustments reflected the expected effects of both domestic and global challenges, including electricity load-shedding, inadequate rail capacity, flooding in KZN, weaker domestic and global demand, geopolitical risks and supply chain disruptions.

The real output of the *non-primary sector* expanded by 1.1% in the third quarter of 2022, following a contraction of 0.3% in the second quarter.

Real gross domestic product

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

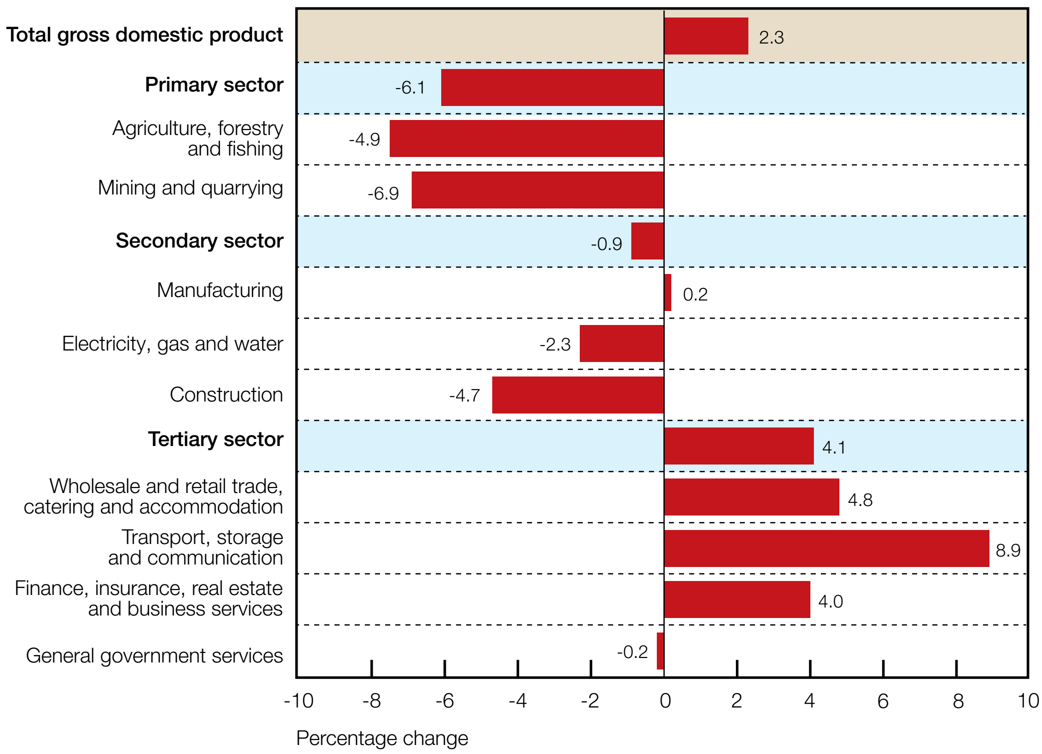
Sector	2021					2022		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Primary sector	4.9	5.5	-10.5	3.4	10.8	-2.3	-6.4	8.2
Agriculture	6.1	11.3	-24.7	16.4	8.8	-2.4	-11.1	19.2
Mining	4.1	2.0	-1.1	-3.2	12.0	-2.1	-3.5	2.1
Secondary sector	0.2	-1.4	-3.2	0.8	4.5	3.8	-4.6	1.2
Manufacturing	0.4	-1.8	-4.3	2.4	6.5	5.0	-5.7	1.5
Construction	0.2	-1.6	-1.1	-2.6	-2.2	-0.8	-2.0	3.1
Tertiary sector	0.4	1.7	-0.5	1.3	4.1	1.7	0.8	1.1
Wholesale and retail trade, catering and accommodation	0.9	3.2	-4.4	3.9	6.4	3.1	-1.0	1.3
Finance, real estate and business services	0.9	-0.5	1.2	-0.7	3.3	1.8	2.5	1.9
*Non-primary sector***	*0.4*	*1.0*	*-1.0*	*1.2*	*4.2*	*2.1*	*-0.3*	*1.1*
*Non-agricultural sector****	*0.6*	*1.1*	*-1.0*	*0.9*	*4.6*	*1.9*	*-0.4*	*1.2*
Total	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.7**	**-0.7**	**1.6**

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

Source: Stats SA

Real gross domestic product

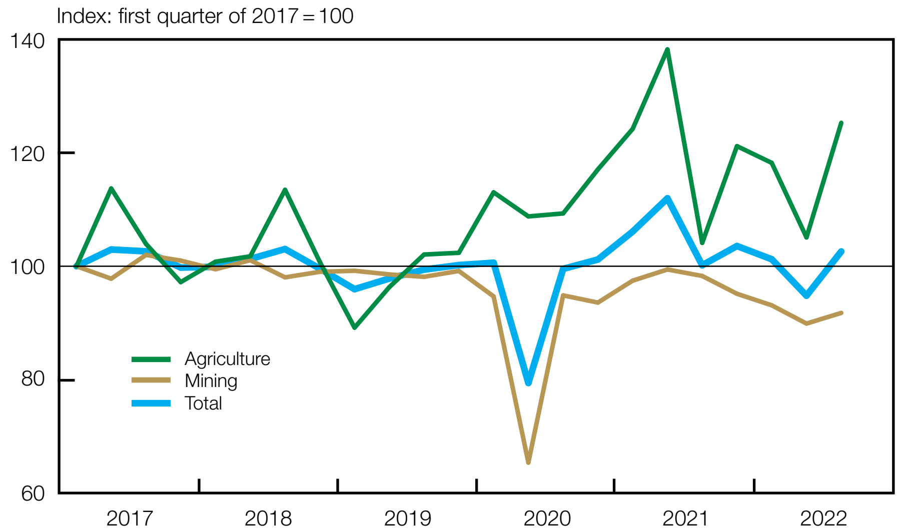
Average level: first three quarters of 2022 compared with the same period of 2021



Source: Stats SA

The real GVA by the *primary sector* increased by 8.2% in the third quarter of 2022 and contributed 0.6 percentage points to overall real GDP growth, following two successive quarterly contractions. The turnaround was underpinned by higher real output of both the mining and agricultural sectors.

Real gross value added by the primary sector



Seasonally adjusted

Source: Stats SA

The real output of the *agricultural sector* reverted from a revised sharp contraction of 11.1% in the second quarter of 2022 to a strong expansion of 19.2% in the third quarter, reflecting increased production of field crops and horticultural products. However, the level of real agricultural output in the first three quarters of 2022 was still 4.9% lower than in the corresponding period of 2021 due to constraints such as persistent foot and mouth disease, sharply rising input costs and supply chain disruptions related to geopolitical risks.

The expected commercial maize crop of 15.4 million tons for the 2021/22 season is 5.7% less than the final crop for the 2020/21 season but still far more than the estimated annual domestic consumption of about 11.4 million tons. Although the area intended for planting in the 2022/23 season (2.59 million hectares) is 1.2% less than the 2021/22 season's final area planted (2.62 million hectares), it is still more than the 10-year average of 2.5 million hectares.

Commercial maize crop estimates

	2020/21	2021/22
Final crop estimate (million tons)	16.3	15.4
Area planted (million hectares)	2.8	2.6

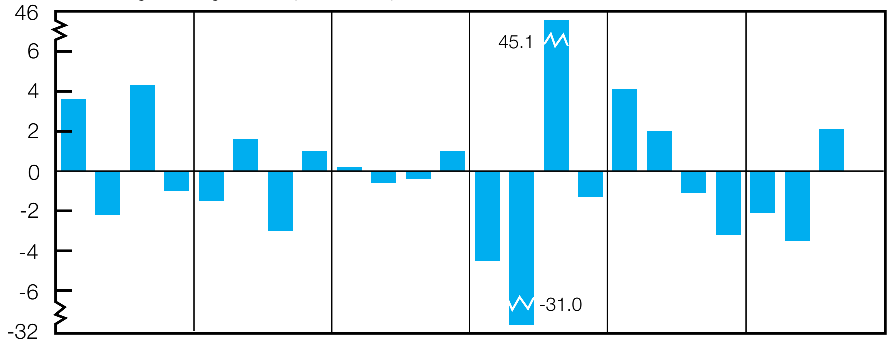
Source: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development

Following a fourth successive quarterly contraction in the second quarter of 2022, the real GVA by the *mining sector* increased by 2.1% in the third quarter. Production increased in 7 of the 12 mineral groups, with gold, diamonds, coal and manganese ore contributing the most. By contrast, the production of platinum group metals (PGMs), iron ore and copper decreased.

Gold production increased, reflecting the resumption of mining activities following prolonged industrial action at one of South Africa's largest gold mines, while coal production benefitted from elevated prices amid higher global demand due to soaring natural gas prices. By contrast, the lower production volumes of iron ore reflected the binding constraint of electricity load-shedding and insufficient rail capacity for exports, while material shortages to rebuild a smelter and maintenance closures adversely affected the production of PGMs. The average level of real mining output in the first three quarters of 2022 was 6.9% lower than in the corresponding period of 2021.

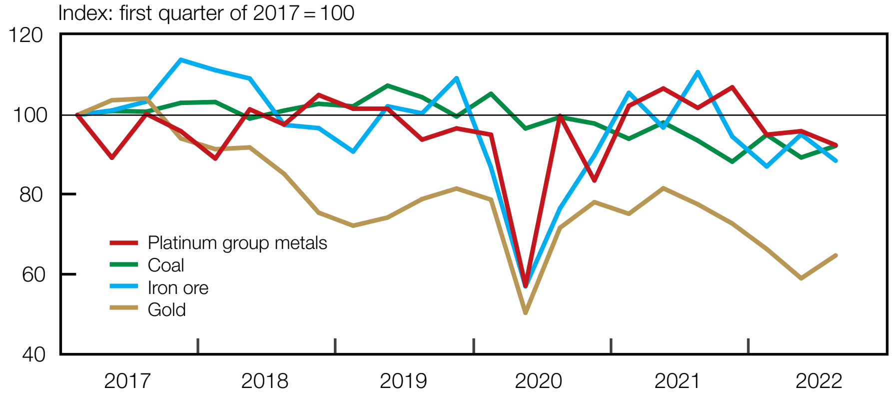
Real gross value added by the mining sector

Percentage change from quarter to quarter



Physical volume of mining production: selected subsectors

Index: first quarter of 2017 = 100



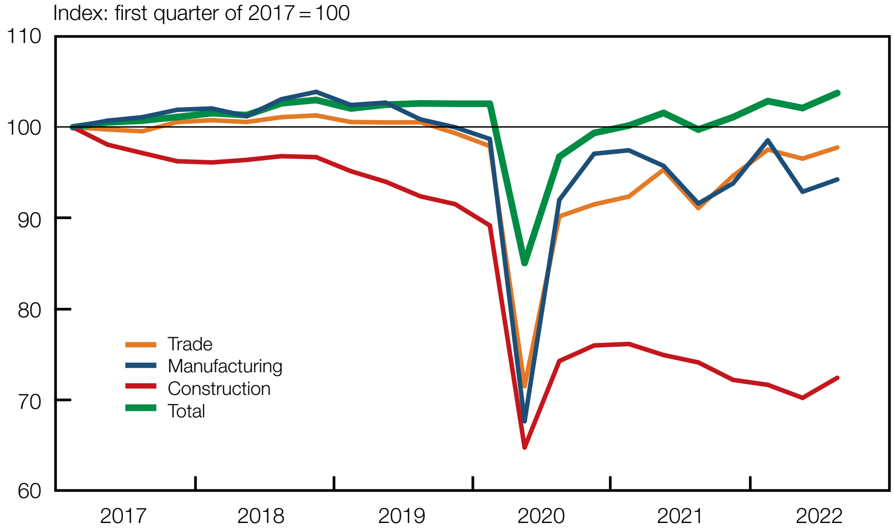
Seasonally adjusted

Source: Stats SA

The real GVA by the *secondary sector* expanded by 1.2% in the third quarter of 2022, contributing 0.2 percentage points to overall real GDP growth. Manufacturing and construction output increased, while that of the electricity, gas and water sector decreased further over the period.

Real gross domestic product and selected sectors

Index: first quarter of 2017 = 100

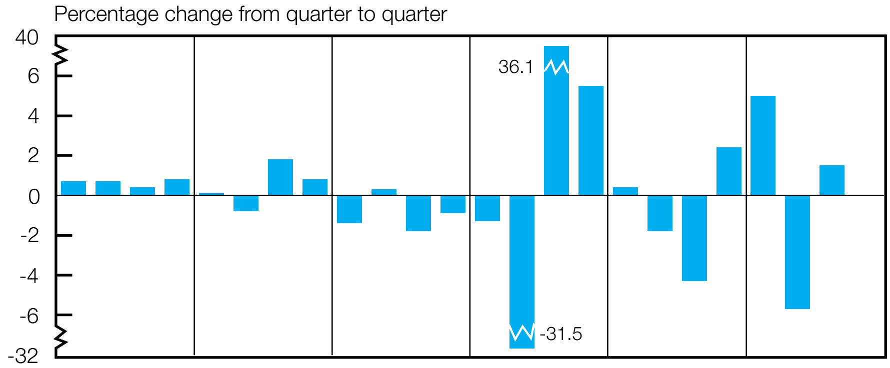


Seasonally adjusted

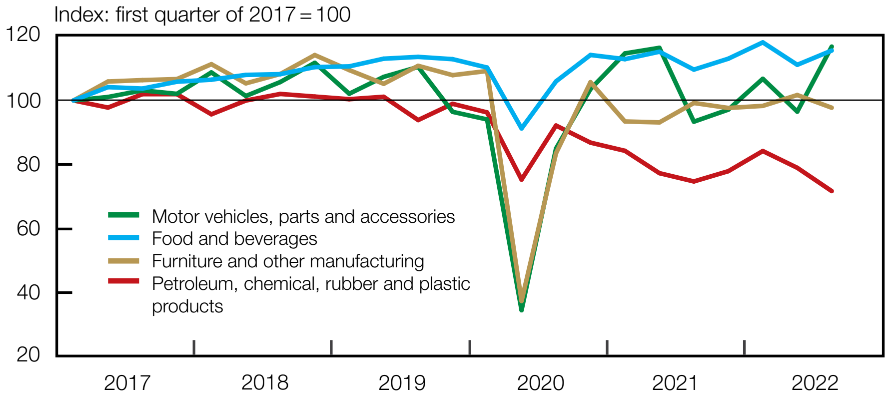
Source: Stats SA

The real output of the *manufacturing sector* increased by 1.5% in the third quarter of 2022 following a contraction of 5.7% in the second quarter. Production increased in 7 of the 10 manufacturing subsectors, particularly in the sectors supplying motor vehicles, parts and accessories and other transport equipment; food and beverages; basic iron and steel, non-ferrous metal products, metal products and machinery; as well as wood and wood products, paper, publishing and printing. These increases were partially offset by the lower production of petroleum, chemical, rubber and plastic products; electrical machinery; as well as furniture and other manufacturing products. The increased activity in the motor vehicles, parts and accessories and other transport equipment subsector partly reflected the further normalisation of operations at a major vehicle manufacturing plant following the severe flooding in KZN, while the closure of domestic oil refineries continued to weigh on petroleum production.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Seasonally adjusted

Source: Stats SA

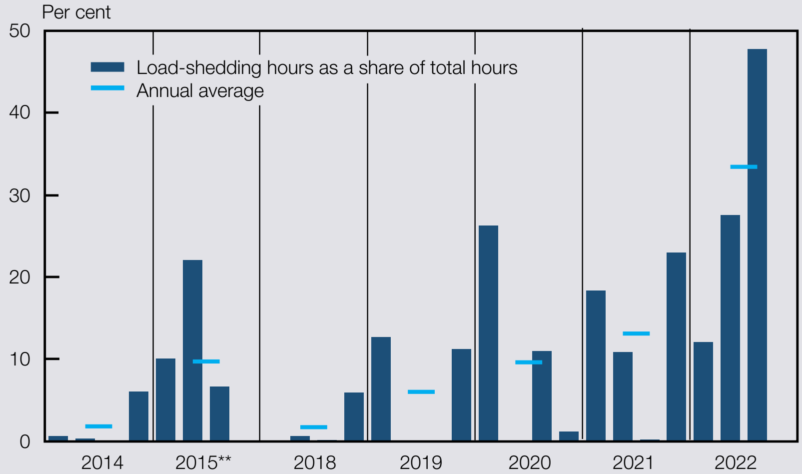
Consistent with the increase in manufacturing output, the seasonally adjusted utilisation of production capacity in the manufacturing sector increased to 78.8% in August 2022 from 77.6% in May. The average level of manufacturing output was 0.2% higher in the first nine months of 2022 than in the corresponding period of 2021.

Real economic activity in the sector supplying *electricity, gas and water* receded further by 2.1% in the third quarter of 2022. The volume of both electricity produced and consumed decreased sharply, following the most severe quarterly electricity load-shedding on record during the quarter. In addition, water consumption also decreased in the third quarter.

Box 1 Measures of electricity load-shedding

Electricity load-shedding in South Africa has been more frequent in recent years, increasing from 9.7% of the time (an average of 3 calendar days per month) in 2015 to 33.4% of the time (an average of 10.4 calendar days per month) in 2022 until the end of October. During the third quarter of 2022, load-shedding reached an all-time high of 1 054 hours, or 47.7% of the time (an average of 14.8 calendar days per month). This included a severe period of power outages when 187 hours of stages 5 and 6 load-shedding were implemented. By measuring the frequency (number of hours) and the intensity (number of gigawatt hours (GWh)) of load-shedding, this box presents an improved and refined electricity load-shedding intensity index, building on a previous *Quarterly Bulletin* box.[1]

Frequency of electricity load-shedding*



* The annual average for 2022 includes data up to 31 October

** No load-shedding occured during 2016 and 2017

Sources: Eskom and SARB

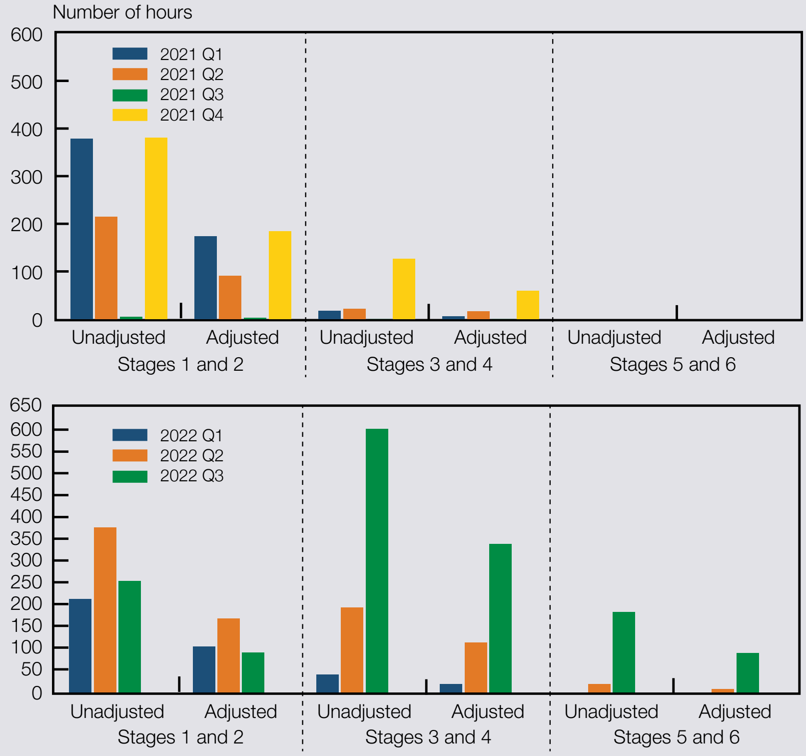
The previous intensity index measured load-shedding incidences to gauge the effect of load-shedding on total real gross domestic product (GDP) growth as well as on real gross value added (GVA) by subsector. The revised intensity index incorporates changes in both load-shedding stages and duration during the day, while also providing for the differentiation of the impact in terms of the type of day, for example, weekdays, weekends and public holidays as well as between the time of day with regard to conventional working and non-working hours (conventional hours are considered to be from 07:00 to 19:00). These refinements were possible with the incorporation of additional data sources[2] that provided information of load-shedding incidences per hour and per stage, thus allowing for an intensity measure in GWh.

An updated intensity index was compiled by harnessing the newly acquired information and was complemented with two additional versions that consider the type (weekend or public holiday) and time of day on which the load-shedding occurred. It is presumed that the impact of load-shedding may be less severe if it occurs on a weekend or a public holiday than on a conventional workday. Similarly, the time of day that load-shedding occurs was also considered, with the impact assumed to be less if it occurs outside of conventional working hours. In principle, the adjustment for working hours refines the measurement of the impact on real GDP growth, and in related subsectors.

1 See 'Box 1: Electricity load-shedding and economic activity' in the September 2019 edition of the *Quarterly Bulletin*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/boxes/2019/9517.

2 The sources include Eskom's media and Twitter accounts, various load-shedding reports on the *Council for Scientific and Industrial Research* (CSIR) website, the EskomSePush mobile application, and various media articles to cross-validate entries.

Frequency of electricity load-shedding* adjusted for working hours, by stage

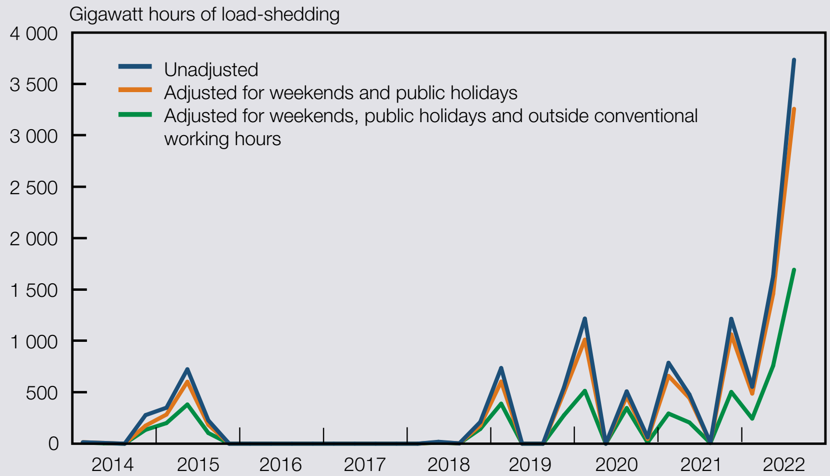


* Measured as the total number of load-shedding hours and adjusted for non-working hours

Sources: Eskom and SARB

Three measures of load-shedding intensity were derived. The first is a measure of the total GWh[3] of electricity taken off the grid, recorded at the specific time of day when the load-shedding occurred.[4] The second measure differentiates between load-shedding on conventional workdays, weekends and public holidays, with weekends and public holidays scaled down by allocating a half weight. The third measure is a further adjustment of the second, by excluding all load-shedding outside of conventional working hours (07:00 to 19:00).

Intensity measures of electricity load-shedding*



* This represents the total electricity taken off the grid, taking into account the different stages and duration
Daily data were summed to a quarterly frequency

Sources: Eskom and SARB

3 GWh is a unit of measure of energy used per hour and is different to gigawatts.

4 One hour of load-shedding at stage 1 is less severe than one hour at a higher stage. The number of hours of a stage per day is multiplied by the GWh of energy taken off the grid.

The number of load-shedding hours often more than halved following the working-hour adjustment, implying that load-shedding frequently occurred after conventional working hours. In the third quarter of 2022 there were 259 hours of stages 1 and 2 load-shedding, but when adjusted for conventional working hours, this reduced to 94 hours.

All three daily intensity measures of load-shedding were aggregated into quarterly frequencies to facilitate the estimation of the impact on quarterly real GDP growth and on the subsectors, based on data collected from the first quarter of 2014 to the second quarter of 2022.[5] The estimated equation frameworks are not exhaustive and hence the results are merely indicative and should be interpreted as such. It does not take other information into account, such as changes in the demand for electricity due to energy self-sufficiency.

The results show that load-shedding did have a statistically significant negative impact on total real GDP growth and on the subsectors. From the analysis, the subsectors most affected by electricity load-shedding were agriculture, forestry and fishing; manufacturing; mining; and transport, storage and communication. The unadjusted measure seems to overstate both the frequency, in terms of hours, and the intensity, in terms of GWh, specifically relevant for industries that operate only during conventional working hours, and hence the larger coefficients for the refined intensity index measures.

Estimated impact of load-shedding on quarterly growth in real gross domestic product

Percentage points

Economic sector	Unadjusted	Adjusted for weekends and public holidays	Adjusted for weekends, public holidays and outside conventional working hours	Previous estimate*
Total GDP	-0.00056	-0.00066	-0.00135	-0.00059
Agriculture, forestry and fishing	-0.00588	-0.00640	-0.01341	-0.00303
Mining	-0.00206	-0.00241	-0.00447	-0.00158
Manufacturing	-0.00252	-0.00301	-0.00566	-0.00092
Construction	-0.00114	-0.00134	-0.00240	-0.00191
Transport, storage and communication services	-0.00214	-0.00259	-0.00429	-0.00047
Trade, catering and accommodation services	-0.00084	-0.00099	-0.00193	-0.00026
Finance, insurance, real estate and business services	-0.00068	-0.00085	-0.00165	-0.00003
General government services	-0.00029	-0.00035	-0.00061	-0.00025
Personal services	-0.00019	-0.00023	-0.00043	-0.00021

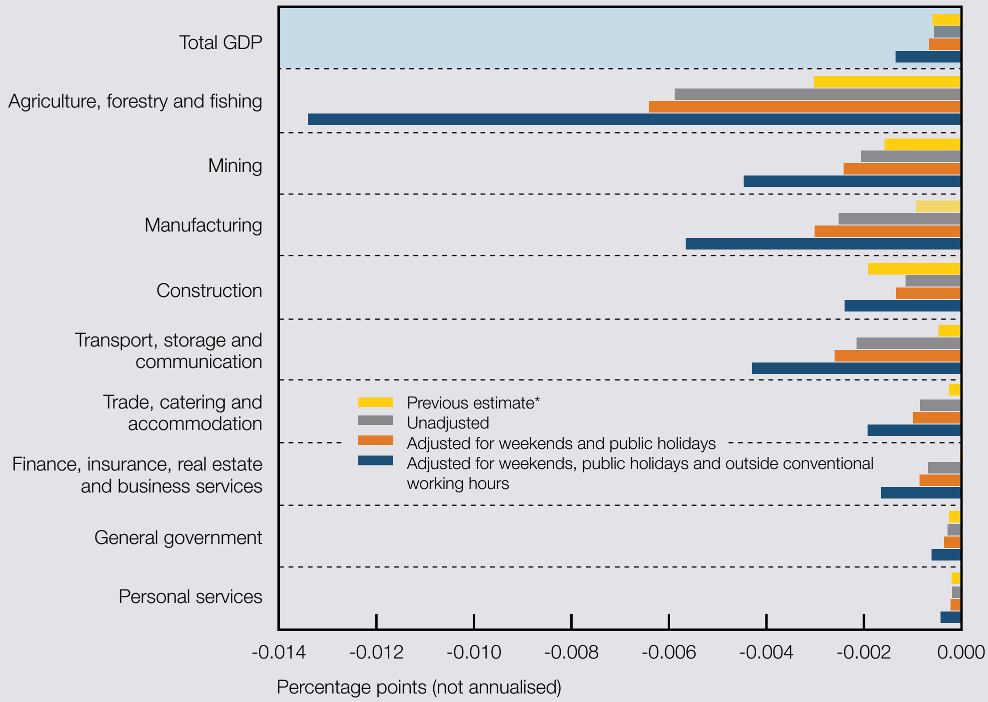
Shaded areas indicate results that were not statistically significant
* As published in the September 2019 edition of the *Quarterly Bulletin*.

Source: SARB

When adjusted for weekends, public holidays and non-conventional working hours, one additional GWh of load-shedding was estimated to lower quarterly growth in real GDP by -0.0014 percentage points, on average. Based on the unadjusted intensity index, the impact is lower at -0.00056 percentage points. During the third quarter of 2022, the unadjusted load-shedding intensity index was at a record high of 3 736 GWh, which implies that load-shedding likely lowered quarterly real GDP growth by 2.1 percentage points. When considering weekends, public holidays and non-conventional working hours, the load-shedding intensity index was at 1 692.5 GWh, implying a 2.3 percentage point reduction in quarterly real GDP growth for the third quarter of 2022.

5 This period differs from that used in a previous box on load-shedding (see ‘Box 1: Electricity load-shedding and economic activity’ in the September 2019 edition of the *Quarterly Bulletin)*, where annualised real GDP growth rates were used for the period from the first quarter of 2008 to the first quarter of 2019. No load-shedding occurred from the second quarter of 2008 to the fourth quarter of 2013, prompting the shortening of the sample in the current analysis.

The estimated impact of 1 GWh of **electricity** load-shedding on quarter-to-quarter seasonally adjusted not-annualised growth in real gross domestic product



* As published in the September 2019 *Quarterly Bulletin*

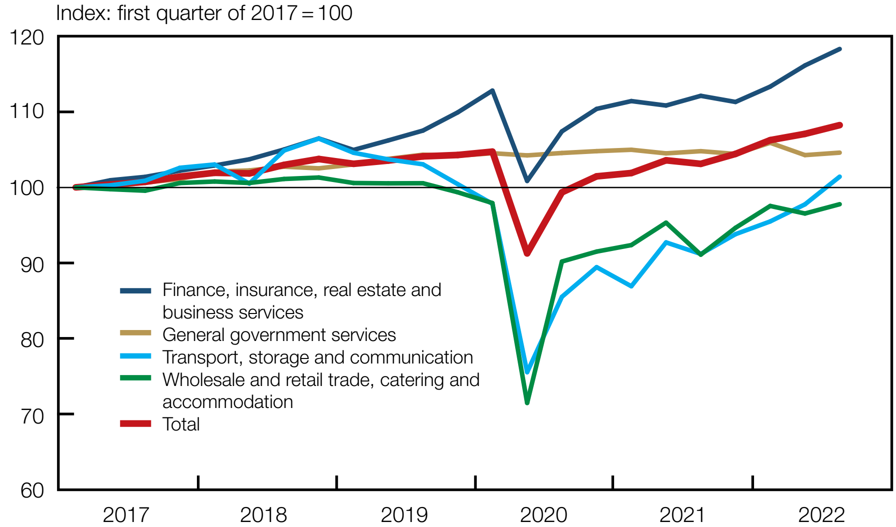
Source: SARB

Following five successive quarterly contractions, the real output of the *construction sector* increased by 3.1% in the third quarter of 2022. The turnaround reflected increased civil construction, residential and non-residential building activity. However, the average level of real output in the first three quarters of 2022 was still 4.7% lower than in the corresponding period of 2021.

The real GVA by the *tertiary sector* rose further by 1.1% and contributed 0.7 percentage points to overall GDP growth in the third quarter of 2022. Real economic activity increased further in the finance, insurance, real estate and business services as well as the transport, storage and communication services sectors, while the real output of the commerce and general government services sectors increased following decreases in the second quarter. Consequently, the level of real GVA by the tertiary sector in the first three quarters of 2022 was 4.1% higher compared with the corresponding period of 2021.

The real GVA by the *commerce sector* expanded by 1.3% in the third quarter of 2022 following a revised contraction of 1.0% in the second quarter. Real wholesale and motor trade activity increased, while the real output of the retail trade subsector decreased further in the third quarter. Higher sales of agricultural raw materials and livestock as well as of textiles, clothing and footwear supported activity in the wholesale trade subsector. Motor trade activity picked up further in the third quarter of 2022 as new and used vehicle sales increased, partly reflecting the recovery in production at a major vehicle manufacturing plant in KZN following the severe flooding and resultant inventory shortages earlier in the year. By contrast, the lower output of the retail trade subsector reflected subdued sales of specialised food, beverages and tobacco products; textiles, clothing, footwear and leather goods; as well as hardware, paint and glass. Real retail trade activity was also adversely impacted by constrained electricity supply, rising operating costs and subdued household demand associated with a decline in households' real disposable income.

Real gross value added by the tertiary sector



Seasonally adjusted

Source: Stats SA

The real output of the *transport, storage and communication services sector* expanded further by 3.7% in the third quarter of 2022 after an increase of 2.4% in the second quarter. This reflected increased activity in road transportation, transport support and communication services. However, rail transportation activity declined further as theft, vandalism and inadequate maintenance continued to reduce the efficiency of South Africa's rail network. Nevertheless, the average level of real output in the transport, storage and communication services sector in the first three quarters of 2022 was 8.9% higher compared with the corresponding period of 2021.

Following a revised increase of 2.5% in the second quarter of 2022, the real output of the *finance, insurance, real estate and business services sector* increased further by 1.9% in the third quarter and contributed 0.5 percentage points to overall real GDP growth. Equity market, insurance as well as real estate and business services activity increased over the period. Consequently, the average level of real GVA by the finance, insurance, real estate and business services sector in the first three quarters of 2022 was 4.0% higher than in the corresponding period of 2021.

Following a revised decrease of 1.5% in the second quarter of 2022, the real GVA by the *general government services sector* increased by 0.3% in the third quarter as the number of employees at national government and extra-budgetary institutions increased slightly.

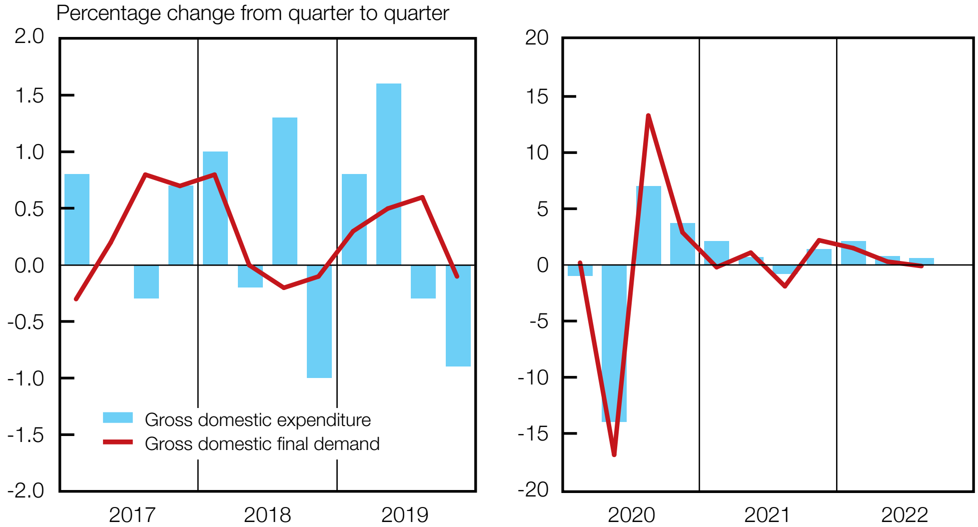
Real gross domestic expenditure[2]

Growth in real *gross domestic expenditure* (GDE) moderated slightly to 0.6% in the third quarter of 2022 from 0.8% in the second quarter. Real final consumption expenditure by households declined alongside a slower pace of increase in gross fixed capital formation. By contrast, real final consumption expenditure by general government expanded following a contraction in the second quarter of 2022 and real inventory holdings accumulated at a faster pace. Despite the moderation, the average level of real GDE was still 3.9% higher in the first three quarters of 2022 compared with the corresponding period of 2021.

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

Real gross domestic expenditure and final demand

Percentage change from quarter to quarter

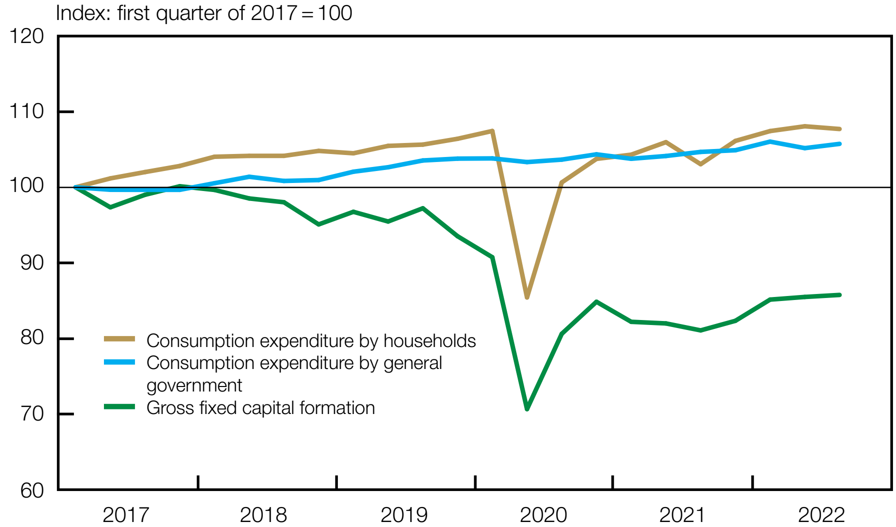


Seasonally adjusted

Sources: Stats SA and SARB

Components of real gross domestic final demand

Index: first quarter of 2017 = 100



Seasonally adjusted

Sources: Stats SA and SARB

Real gross domestic expenditure

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

Component	2021					2022		
	Q1	Q2	Q3	Q4	Year[1]	Q1	Q2	Q3
Final consumption expenditure								
Households	0.5	1.6	-2.8	3.0	5.6	1.2	0.6	-0.3
General government	-0.6	0.4	0.5	0.2	0.6	1.1	-0.8	0.5
Gross fixed capital formation	-3.1	-0.3	-1.1	1.6	0.2	3.4	0.4	0.3
Domestic final demand[2]	**-0.2**	**1.1**	**-1.9**	**2.2**	**3.8**	**1.5**	**0.3**	**-0.1**
Change in inventories (R billions)[3]	*-21.8*	*-41.6*	*6.0*	*-25.0*	*-20.6*	*4.8*	*31.4*	*62.9*
Residual[4]	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.1*	*0.1*	*0.1*
Gross domestic expenditure[5]	**2.1**	**0.7**	**-0.8**	**1.4**	**4.8**	**2.1**	**0.8**	**0.6**

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

Sources: Stats SA and SARB

Real net exports and the change in inventories contributed 1.0 and 0.7 percentage points respectively to growth in real GDP in the third quarter of 2022. By contrast, real final consumption expenditure by households subtracted 0.2 percentage points from overall economic growth over the period.

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

Percentage points

Component	2021					2022		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Final consumption expenditure								
Households	0.4	1.0	-1.8	2.0	3.7	0.8	0.4	-0.2
General government	-0.1	0.1	0.1	0.0	0.1	0.2	-0.2	0.1
Gross fixed capital formation	-0.5	0.0	-0.2	0.2	0.0	0.5	0.1	0.0
Change in inventories	2.0	-0.4	1.0	-0.7	0.9	0.7	0.6	0.7
Residual	0.2	0.0	0.0	-0.1	0.1	-0.1	0.0	0.0
Gross domestic expenditure	**2.0**	**0.7**	**-0.8**	**1.4**	**4.8**	**2.1**	**0.8**	**0.7**
Net exports	-1.2	0.7	-1.0	-0.1	0.1	-0.4	-1.6	1.0
Gross domestic product	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.7**	**-0.7**	**1.6**

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

Sources: Stats SA and SARB

The real *exports* of goods and services increased by 4.2% in the third quarter of 2022 following a contraction of 0.2% in the second quarter. The real exports of manufactured products reverted from a decline in the second quarter of 2022 to an increase in the third quarter as higher export volumes of machinery and electrical equipment as well as prepared foodstuffs, beverages and tobacco outweighed the lower export volumes of vehicles and transport equipment and chemical products. Real mining exports increased further as the increase in mineral products (mostly coal) and base metals and articles thereof outweighed the decline in the export volumes of precious metals (including gold, PGMs and stones). The turnaround in agricultural export volumes was supported by a significant increase in the export volumes of vegetable products. The export volumes of services increased further in the third quarter of 2022, albeit at a slower pace.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2022					
	Exports			Imports		
	Percentage of total**	Q2***	Q3***	Percentage of total**	Q2***	Q3***
Total	100.0	-0.2	4.2	100.0	5.5	0.6
Mining	45.8	2.4	2.6	19.4	9.8	1.9
Of which:						
Mineral products	16.7	-7.2	11.8	13.2	13.0	3.6
Precious metals including gold, platinum group metals and stones	16.6	9.3	-13.3	1.3	3.4	-19.7
Base metals and articles	12.5	8.3	8.5	4.9	2.3	2.2
Manufacturing	37.1	-3.1	3.8	64.7	4.5	-1.9
Of which:						
Vehicles and transport equipment	10.7	-12.9	-1.4	12.8	2.8	-6.8
Machinery and electrical equipment	8.3	-7.1	2.7	23.1	0.2	0.6
Chemical products	6.8	12.0	-4.1	12.1	16.3	-8.3
Prepared foodstuffs, beverages and tobacco	4.2	2.0	5.0	2.5	13.7	-3.7
Agriculture	8.5	-13.1	9.0	4.1	-4.5	1.4
Of which:						
Vegetable products	7.1	-15.2	12.2	2.0	8.9	-12.5
Services	8.3	14.4	6.1	11.6	7.9	10.0

* Based on seasonally adjusted and annualised data
** Expressed as a percentage of the total in 2021
*** 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 increased at a slower pace of 0.6% in the third quarter of 2022 following an increase of 5.5% in the second quarter. The smaller increase in mining import volumes reflected a contraction in precious metals (including gold, PGMs and stones) and a moderation in the growth of mineral products and base metals and articles thereof. The import volumes of manufactured goods switched to a contraction in the third quarter of 2022 as vehicles and transport equipment; chemical products; and prepared foodstuffs, beverages and tobacco declined, while machinery and electrical equipment increased further. Growth in the real imports of services expanded further.

Real *net exports* contributed 1.0 percentage points to real GDP growth in the third quarter of 2022, with net exports of manufactured, agricultural and mining products contributing 0.7, 0.2 and 0.2 percentage points respectively. Net manufacturing exports were boosted by the higher real net exports of vehicles and transport equipment, chemical products as well as prepared foodstuffs, beverages and tobacco. The real net exports of mineral products and base metals and articles thereof contributed the most to net mining exports. Real net services exports subtracted 0.2 percentage points from real GDP growth in the third quarter of 2022.

Real *final consumption expenditure by households* declined by 0.3% in the third quarter of 2022 from an increase of 0.6% in the second quarter. Real spending on semi-durable goods and non-durable goods contracted further. In addition, real spending by households on services reverted to a marginal contraction. By contrast, real spending on durable goods switched to an increase in the third quarter. The decrease in household consumption expenditure was consistent with the decrease in the real disposable income of households, although credit extension to households increased slightly. When compared with the corresponding period in 2021, the average level of real outlays was 3.1% higher in the first three quarters of 2022.

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

Percentage points

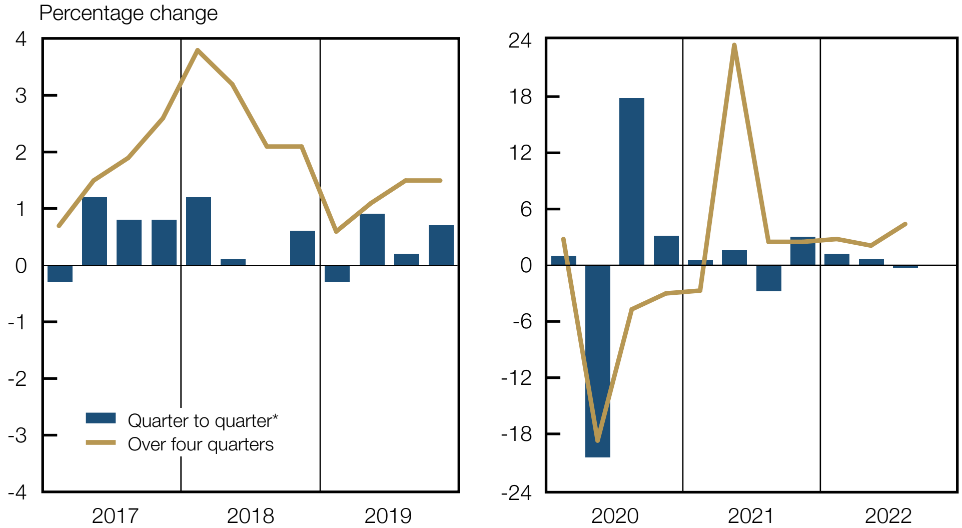
Component	2022					
	Exports		Imports*		Net exports	
	Q2	Q3	Q2	Q3	Q2	Q3
Total	-0.1	1.1	1.5	0.2	-1.6	1.0
Mining	0.3	0.3	0.5	0.1	-0.2	0.2
Of which:						
Mineral products	-0.3	0.5	0.5	0.2	-0.8	0.4
Precious metals including gold, platinum group metals and stones	0.3	-0.5	0.0	-0.1	0.3	-0.5
Base metals and articles	0.3	0.3	0.0	0.0	0.3	0.3
Manufacturing	-0.3	0.4	0.8	-0.3	-1.1	0.7
Of which:						
Vehicles and transport equipment	-0.4	0.0	0.1	-0.2	-0.5	0.2
Machinery and electrical equipment	-0.2	0.1	0.0	0.0	-0.2	0.0
Chemical products	0.2	-0.1	0.5	-0.3	-0.3	0.2
Prepared foodstuffs, beverages and tobacco	0.0	0.1	0.1	0.0	-0.1	0.1
Agriculture	-0.4	0.2	-0.1	0.0	-0.3	0.2
Of which:						
Vegetable products	-0.4	0.2	0.1	-0.1	-0.4	0.3
Services	0.4	0.2	0.3	0.4	0.1	-0.2

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

Sources: SARS, Stats SA and SARB

Real final consumption expenditure by households

Percentage change



Seasonally adjusted

Source: Stats SA

Real household expenditure on *durable goods* increased by 0.8% in the third quarter of 2022 following a decrease of 1.3% in the second quarter, mainly due to faster growth in the real purchases of personal transport equipment. Consumer spending on furniture and household appliances declined at a slower pace, while real outlays on computers and related equipment, recreational and entertainment goods and other durable goods contracted in the third quarter. Despite rising interest rates, the increased real outlays on personal transport equipment followed better stock availability and improved business confidence among new vehicle dealers.

Real final consumption expenditure by households

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

Category	2021					2022		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Durable goods..................	7.0	2.4	-10.2	2.2	11.5	3.6	-1.3	0.8
Semi-durable goods.........	1.9	0.4	-5.0	5.3	8.8	1.2	-0.9	-1.1
Non-durable goods	-0.1	1.1	-3.8	5.2	4.4	1.9	-0.9	-0.8
Services	-0.5	1.9	-0.2	1.5	4.7	0.4	2.1	-0.1
Total.................................	**0.5**	**1.6**	**-2.8**	**3.0**	**5.6**	**1.2**	**0.6**	**-0.3**

* Percentage change over one year

Source: Stats SA

Real outlays by households on *semi-durable goods* contracted further by 1.1% in the third quarter of 2022 following a contraction of 0.9% in the second quarter, as outlays on clothing and footwear, the largest semi-durable category, declined further. Real spending on household textiles, furnishings and glassware also shrank further, albeit at a marginally slower pace, whereas outlays on motorcar tyres, parts and accessories reverted to an increase following a contraction in the previous quarter.

Real household spending on *non-durable goods* contracted further by 0.8% in the third quarter of 2022 following a decline of 0.9% in the second quarter. Real purchases of food, beverages and tobacco; household consumer goods; and medical and pharmaceutical products declined in the third quarter. By contrast, real outlays on household fuel, power and water as well as petroleum products reverted to an increase. Domestic fuel prices continued to impact spending patterns of households, with petrol prices rising by 257 cents per litre to R26.74 per litre and diesel prices by 231 cents per litre to R25.40 per litre in July 2022, before both decreased somewhat in August and September.

Real outlays on *services* contracted slightly by 0.1% in the third quarter of 2022 from an increase of 2.1% in the previous quarter. This was the first contraction since the third quarter of 2021. Real consumption expenditure on household services, including domestic servants, contracted further, while expenditure on medical as well as transport and communication services increased at a slower pace. Consumer spending on rent and recreational, entertainment and educational services increased over the period.

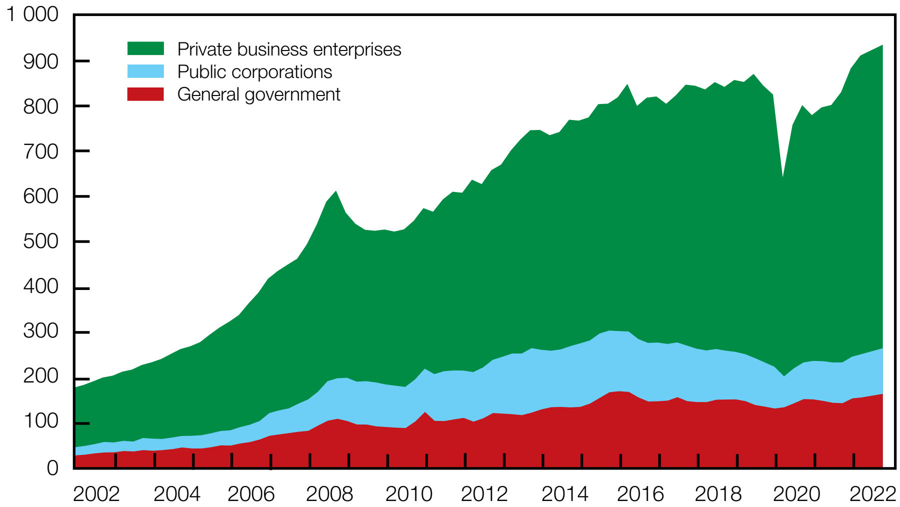
Seasonally adjusted *household debt* increased at a slower pace in the third quarter of 2022 as most categories of credit extended to households moderated. Household debt as a percentage of nominal disposable income edged lower to 62.8% in the third quarter of 2022 from 63.0% in the second quarter, as the increase in nominal disposable income exceeded that in household debt. Households' cost of servicing debt relative to disposable income increased to 7.5% in the third quarter of 2022 from 7.1% in the second quarter, reflecting a combination of higher debt and interest rates.

Households' net wealth declined further in the third quarter of 2022, as the increase in liabilities outweighed the slight increase in total assets. Consequently, the ratio of net wealth to nominal disposable income decreased from 339% in the second quarter of 2022 to 332% in the third quarter.

Real *final consumption expenditure by general government* reverted from a decline of 0.8% in the second quarter of 2022 to an increase of 0.5% in the third quarter. The expansion in real outlays on non-wage goods and services in the third quarter of 2022 reflected higher spending on health and education, while spending on the real compensation of employees declined as the number of employees decreased. The average level of real spending by general government in the first three quarters of 2022 was 1.3% more than in the corresponding period of 2021.

Real *gross fixed capital formation* increased by 0.3% in the third quarter of 2022 following an increase of 0.4% in the second quarter. Capital spending by public corporations and general government increased in the third quarter, while capital outlays by private business enterprises receded. The level of real gross fixed capital formation was 4.4% higher in the first three quarters of 2022 than in the same period of 2021.

Nominal gross fixed capital formation by type of organisation



Seasonally adjusted

Source: Stats SA

Real gross fixed capital outlays by *private business enterprises* declined by 1.0% in the third quarter of 2022, following three successive quarterly increases. Investment in machinery and equipment decreased, while capital outlays on transport equipment and residential buildings increased in the third quarter of 2022. As a result, the private sector's share of total nominal gross fixed capital formation decreased to 71.6% in the third quarter of 2022 from 72.3% in the second quarter.

Real gross fixed capital formation

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

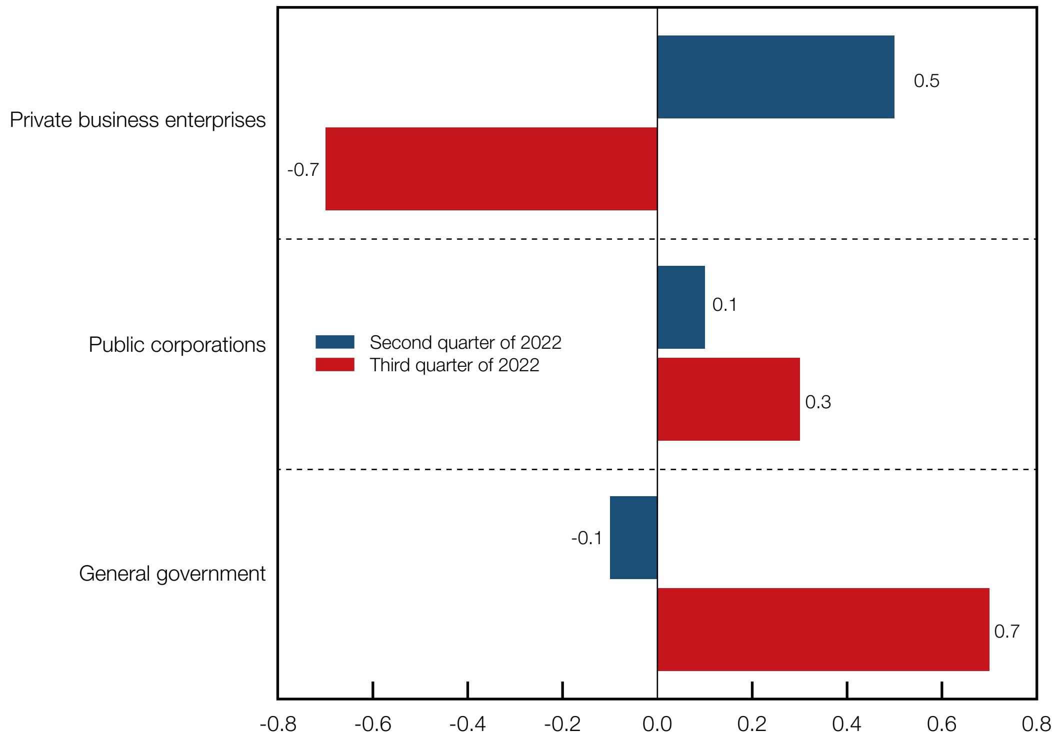
Sector	2021					2022		
	Q1	Q2	Q3	Q4	Year*	Q1	Q2	Q3
Private business enterprises....	-4.5	0.6	-0.3	2.8	0.1	3.9	0.7	-1.0
Public corporations.................	4.6	1.3	0.0	0.1	5.6	-0.6	0.7	3.2
General government...............	-2.2	-4.3	-4.9	-2.6	-2.5	4.0	-0.8	3.9
Total......................................	**-3.1**	**-0.3**	**-1.1**	**1.6**	**0.2**	**3.4**	**0.4**	**0.3**

* Percentage change over one year

Source: Stats SA

Real capital spending by the *public sector* increased by 3.6% in the third quarter of 2022, supported by an increase in capital outlays by both public corporations and the general government. Real gross fixed capital formation by *public corporations* increased further by 3.2% in the third quarter of 2022, mainly due to an increase in capital spending on machinery and equipment as well as on transport equipment.

Contributions to growth in real gross fixed capital formation



Percentage points
Source: Stats SA

Real gross fixed capital formation by *general government* increased by 3.9% in the third quarter of 2022 as provincial governments increased capital outlays. General government added 0.7 percentage points to growth in total gross fixed capital formation in the third quarter of 2022, which raised the general government's share of total nominal gross fixed capital formation to 17.8% from 17.4% in the second quarter.

Measured by type of asset, real gross fixed capital spending on residential buildings and transport equipment increased in the third quarter of 2022, while investment in machinery and other equipment decreased.

Real *inventory holdings* accumulated further by R62.9 billion on an annualised basis (at 2015 prices) in the third quarter, after increasing by R31.4 billion in the second quarter. This represented a third consecutive quarterly accumulation in inventories, mostly driven by the build-up of inventories in the trade, mining and transport sectors. By contrast, the electricity, manufacturing and agricultural sectors reduced their inventory holdings in the third quarter of 2022.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) increased to 15.6% in the third quarter of 2022 from 13.3% in the second quarter, led by higher saving of corporate business enterprises and, to a lesser extent, households. By contrast, general government reverted to dissaving in the third quarter. The share of total gross capital formation financed through foreign capital (the foreign financing ratio) decreased from 10.8% in the second quarter of 2022 to 1.7% in the third quarter.

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 10.0% in the second quarter of 2022 to 15.9% in the third quarter, as the seasonally adjusted gross operating surplus increased and seasonally adjusted tax payments decreased. Saving by *general government* as a percentage of nominal GDP switched from a saving rate of 0.8% in the second quarter of 2022 to a dissaving rate of 2.8% in the third quarter, as the seasonally adjusted nominal government expenditure increased and the seasonally adjusted revenue collection decreased. Gross saving by the *household sector* increased slightly to 2.6% of GDP in the third quarter of 2022 from 2.5% in the second quarter, as the increase in the seasonally adjusted nominal disposable income marginally outweighed that in the seasonally adjusted nominal consumption expenditure.

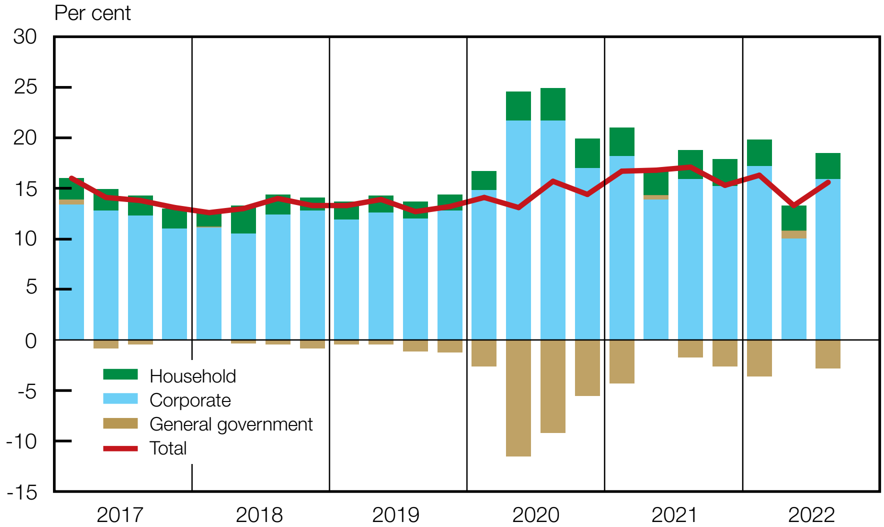
Gross saving as a percentage of gross domestic product

Ratio in per cent based on seasonally adjusted and annualised data

Sector	2021					2022		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Corporate........................	18.2	13.9	15.9	15.2	15.8	17.2	10.0	15.9
General government	-4.3	0.4	-1.7	-2.6	-2.1	-3.6	0.8	-2.8
Household	2.8	2.6	2.9	2.7	2.8	2.6	2.5	2.6
Total	**16.7**	**16.8**	**17.1**	**15.3**	**16.5**	**16.3**	**13.3**	**15.6**

Source: SARB

Nominal gross saving as a ratio of gross domestic product



Sources: Stats SA and SARB

Employment

Total household-surveyed employment increased further by 204 000 (1.3% quarter to quarter) in the third quarter of 2022, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS).* Formal sector employment increased by 235 000 (2.2%), while the informal sector gained 6 000 jobs (0.2%). By contrast, private households and the agricultural sector shed 36 000 and 1 000 jobs respectively in the third quarter of 2022. The International Labour Organization (ILO) noted that globally, informal employment fully recovered in 2021 from the COVID-19-induced employment losses in 2020, while formal and informal sector employment are increasing at the same pace in 2022.[3]

Encouragingly, total employment increased sharply by about 1.48 million (10.4%) in the year to the third quarter of 2022. The marked increase is likely in part related to the significant improvement in the response rate of the *QLFS* over this period, suggesting that employment was probably measured with more accuracy than a year earlier.[4]

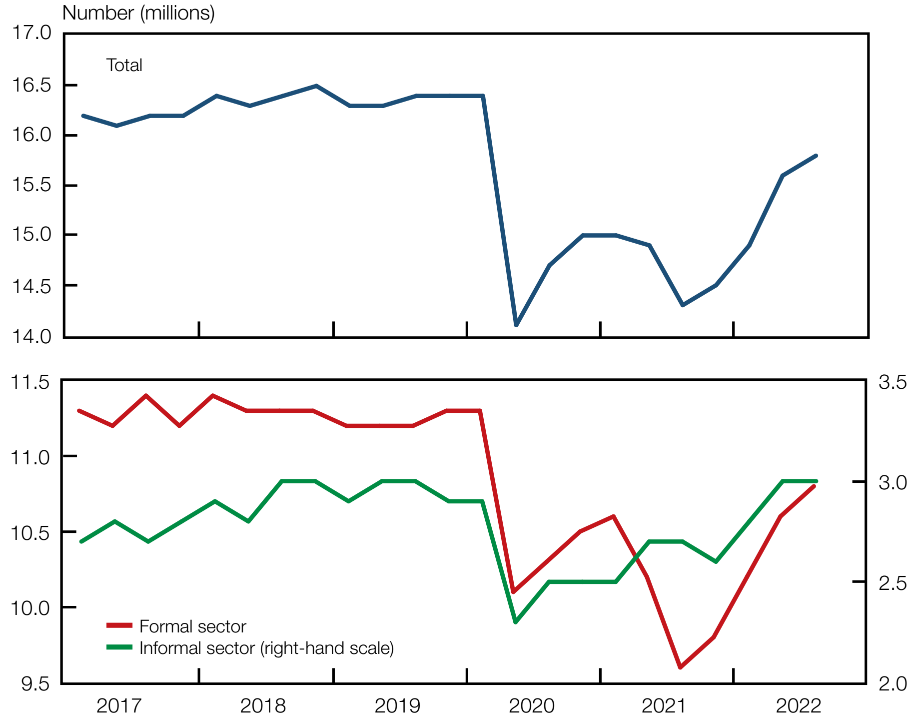
Employment contracts of a limited duration increased the most, by 28.2% year on year, while those of a permanent nature and those of an unspecified duration increased by 8.1% and 5.2%

3 International Labour Organization, *ILO Monitor on the world of work*. 10th edition. 'Multiple crises threaten the global labour market recovery'. October 2022. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms_859255.pdf

4 Stats SA noted that the response rate of the *QLFS* increased further to 85.4% in the third quarter of 2022 from 78.8% in the second quarter, and 53.7% in the third quarter of 2021.

respectively. The sharp increase in limited duration employment contracts could be related to temporary public sector jobs and training opportunities, among other factors.

Household-surveyed employment



Source: Stats SA

Household-surveyed labour market statistics

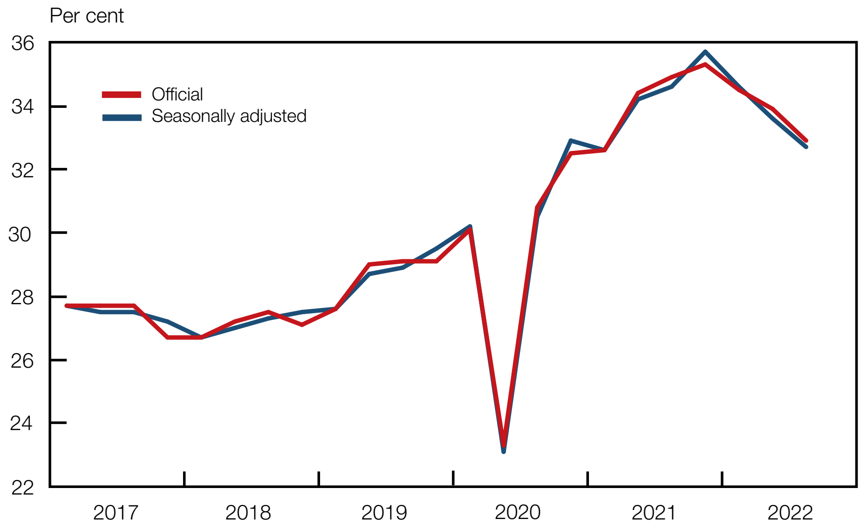
	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2021	2022			2022 Q3		
	Q3	Q1	Q2	Q3	Number	Per cent	Per cent
a. Total employed	14 282	14 914	15 562	15 765	203	1.3	10.4
b. Total unemployed (official definition)	7 643	7 862	7 994	7 725	-269	-3.4	1.1
c. Total labour force (a+b)	21 925	22 776	23 556	23 490	-66	-0.3	7.1
d. Total not economically active	17 820	17 257	16 621	16 831	210	1.3	-5.5
e. Population 15–64 years (c+d)	39 745	40 033	40 177	40 322	145	0.4	1.5
f. Official unemployment rate* (b/c)*100	34.9%	34.5%	33.9%	32.9%	–	–	–
g. Discouraged	3 862	3 752	3 568	3 514	-54	-1.5	-9.0
h. Other reasons for not searching for work	1 302	1 387	1 146	1 157	11	1.0	-11.1
i. Expanded unemployment rate**	46.6%	45.5%	44.1%	43.1%	–	–	–

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

Source: Stats SA

The number of unemployed South Africans decreased by 269 000 (3.4%) to 7.73 million in the third quarter of 2022, resulting in the official unemployment rate decreasing to 32.9% from 33.9% in the second quarter. Similarly, the seasonally adjusted unemployment rate decreased further from 33.6% in the second quarter of 2022 to 32.7% in the third quarter. In the third quarter of 2022, most unemployed persons were new entrants (45.7%) to the labour market followed by job losers (26.4%), while those who had previously worked five years ago represented 22.3% of the officially unemployed. Re-entrants and job leavers accounted for only 3.0% and 2.6% respectively of the total number of unemployed.

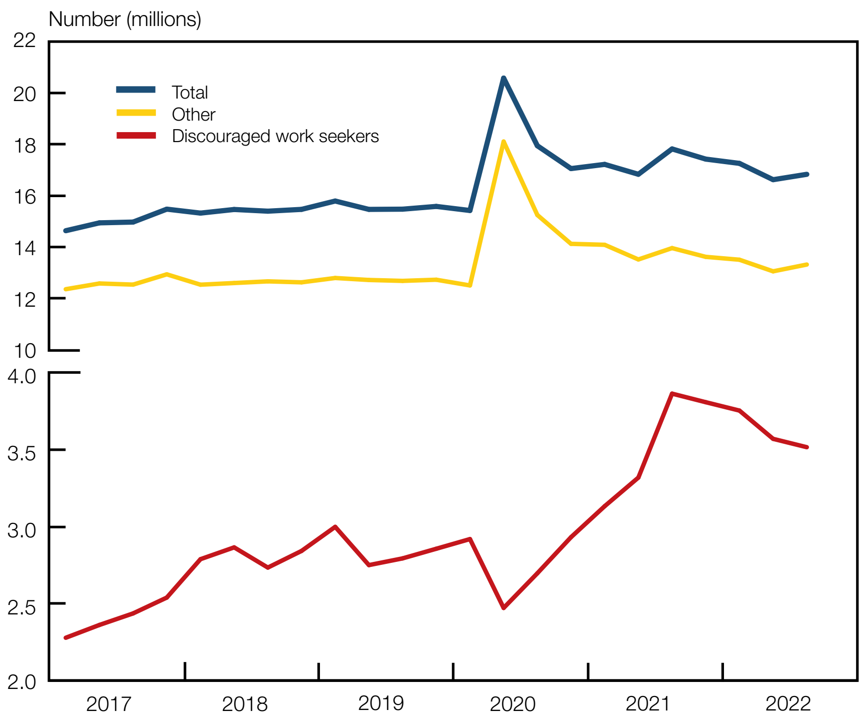
Unemployment rate



Sources: Stats SA and SARB

The youth unemployment rate (those aged 15–24 and actively searching for work) remained above 60% for eight consecutive quarters before it receded to 59.9% in the third quarter of 2022. Moreover, approximately 3.5 million of the 10.2 million of these young people, or 34.5%, were not in employment, education programmes or training in the third quarter. The unemployment rate of those aged 25–35 years decreased slightly from 41.2% in the second quarter of 2022 to 40.5% in the third quarter.

Not economically active population



Source: Stats SA

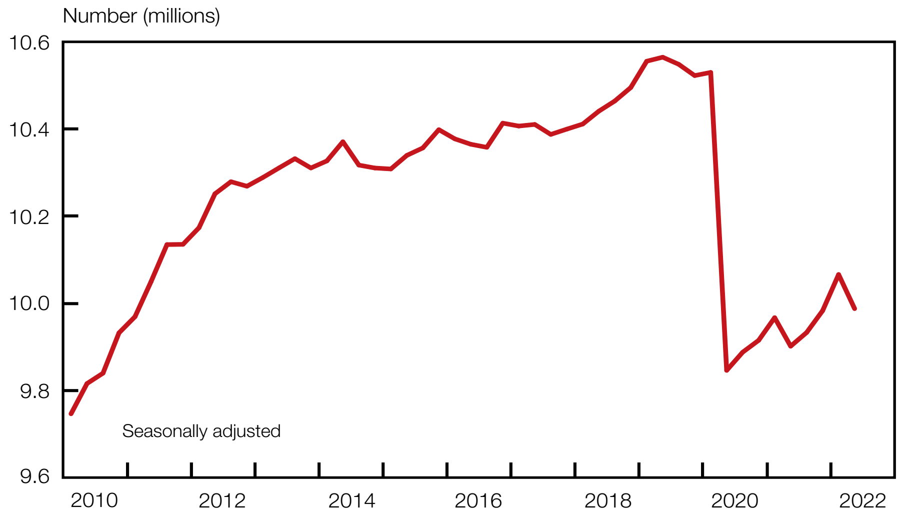
Even though the not economically active population increased by 210 000 (1.3%) in the third quarter of 2022, the number of discouraged work seekers decreased by a further 54 000 persons (1.5%). The expanded unemployment rate, which includes discouraged work seekers, thus decreased further from 44.1% in the second quarter of 2022 to 43.1% in the third quarter.

The number of new and renewed job postings on the PNet web platform increased by 3.7% from the second to the third quarter of 2022, with total job postings 4.2% higher in November 2022 than in November 2019, before the onset of COVID-19.

5 As measured by Stats SA's *Quarterly Employment Statistics (QES)* survey. The *QES* statistics analysed in this section were seasonally adjusted by the SARB.

Enterprise-surveyed formal non-agricultural employment[5] decreased by 78 400 (an annualised decrease of 3.1%) in the second quarter of 2022. This lowered the level of such employment to an estimated 10 million persons and mainly reflected a marked reduction in public sector employment, along with a marginal decrease in private sector employment.

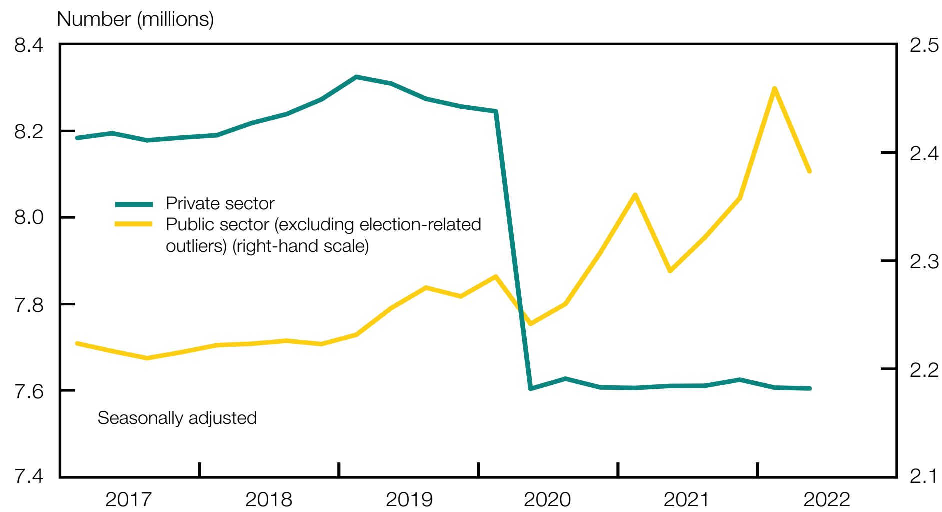
Formal non-agricultural employment



Sources: Stats SA and SARB

Public sector employment decreased markedly by 76 500 (an annualised decrease of 11.9%) in the second quarter of 2022, reversing the substantial gains of the previous quarter. This largely reflected the termination of the employment contracts of temporary staff, including census workers by Stats SA, with employment at national departments declining by 91 900. In addition, the end of some youth employment initiative contracts lowered employment at local governments.

Public and private sector employment



Sources: Stats SA and SARB

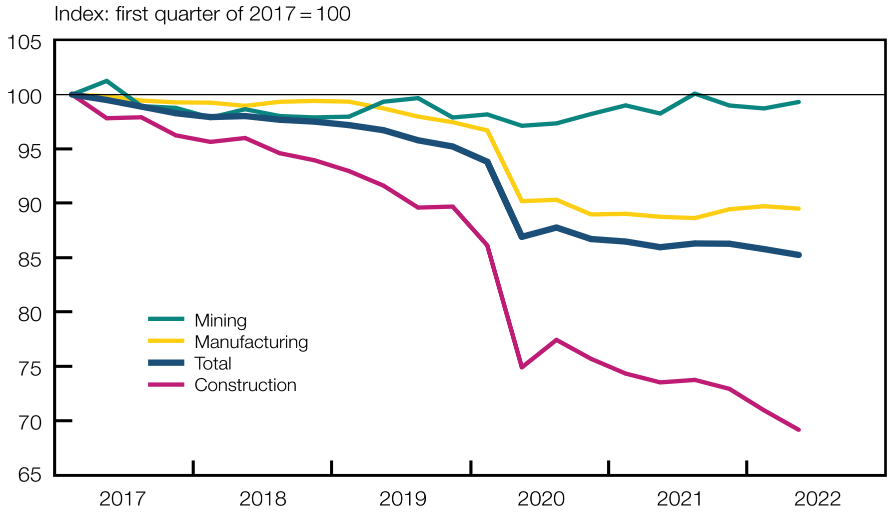
Private sector employment decreased marginally by a further 1 900 jobs in the second quarter of 2022, as employment losses in the goods-producing sectors outweighed gains in the services sectors. Notable job shedding continued in the construction sector, while substantial employment gains were once again recorded in the trade, catering and accommodation services sector. Private sector employment remained suppressed and close to the COVID-19-lockdown low recorded in the second quarter of 2020.

An increase in *mining sector employment* in the second quarter of 2022 more than countered the job losses in the first quarter. The increase resulted from job gains in the non-gold mining sector following two successive quarters of job losses. Conversely, gold-mining sector employment decreased over this period.

Manufacturing sector employment decreased marginally in the second quarter of 2022, following an increase in the first quarter, but remained below its pandemic-induced low for a seventh consecutive quarter. Business confidence among manufacturers[6] declined further to 26 index points in the third quarter of 2022 from 28 index points in the second quarter. Manufacturers cited the continued and more intense electricity load-shedding, persistent supply chain constraints, increasing cost pressures and the rising short-term interest rate as serious constraints.

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

Employment in the private goods-producing sectors



Seasonally adjusted

Sources: Stats SA and SARB

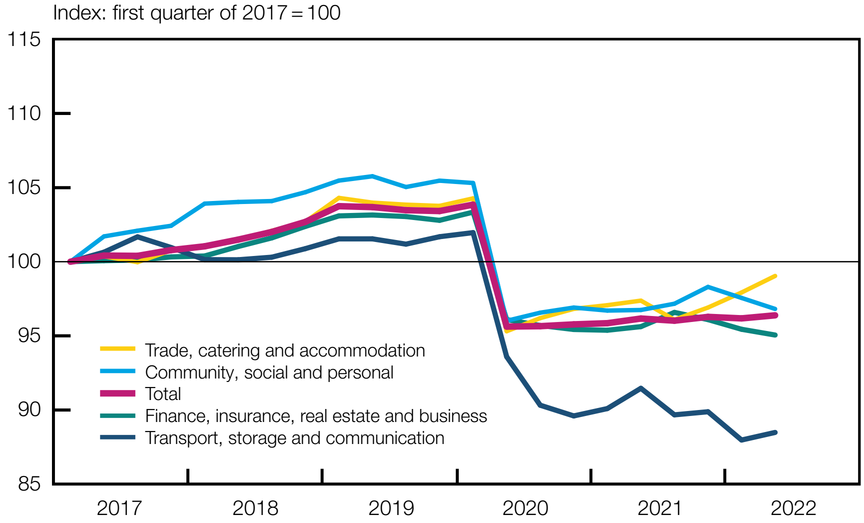
Construction sector employment decreased for a third successive quarter, resulting in the cumulative loss of around 34 600 jobs up to the second quarter of 2022. Encouragingly, the First National Bank (FNB)/BER Civil Confidence Index increased by 14 index points to 24 index points in the third quarter of 2022 – the highest level since the first quarter of 2020 – underpinned by improved construction activity, the easing of business constraints and a sharp decline in tendering price competition. Despite the increase, the high incidence of tender cancellations and time delays before a tender is awarded remained a concern. Conversely, building sector confidence[7] remained unchanged at 34 index points in the third quarter of 2022 as building activity deteriorated somewhat and business constraints remained above the long-term average. Activity by architects improved and may translate into economic activity across the building value chain over the next few quarters. However, activity by architects may also have been boosted by the legal requirement of late as stipulated in the Property Practitioners Act 22 of 2019 instituted in February 2022, which places the onus on the seller of a property to provide an architectural plan that is fully representative of the current state of the property to the buyer if requested by the financing institution that is to register a mortgage bond on the property.

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

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

The *trade, catering and accommodation services sector* is the only sector that has consistently created jobs in recent quarters. A cumulative 64 300 jobs were created in this sector in the three quarters up to the second quarter of 2022, with employment increasing at a slightly faster pace in each successive quarter. Retailer confidence[8] improved slightly to 51 index points in the third quarter of 2022, remaining surprisingly resilient amid high inflation and rising interest rates. This was driven by confidence among durable goods retailers and, to a lesser extent, among semi-durable goods retailers. Confidence among non-durable goods retailers appears to be more affected by constrained consumer spending. However, the extension of the social relief of distress (SRD) grant for another year could buffer non-durable goods sales somewhat against inflationary pressures.

Employment in the private services sectors



Seasonally adjusted

Sources: Stats SA and SARB

By contrast, the *finance, insurance, real estate and business services sector* shed jobs for a third successive quarter in the second quarter of 2022, resulting in the cumulative loss of around 37 200 jobs over this period. Disappointingly, the level of employment in this sector has now fallen below the pandemic-induced low in the second quarter of 2020, and to the lowest level since the first quarter of 2011. Despite increasing marginally in the second quarter of 2022, *employment in the transport, storage and communication sector* was still at a level similar to that recorded in 2004.

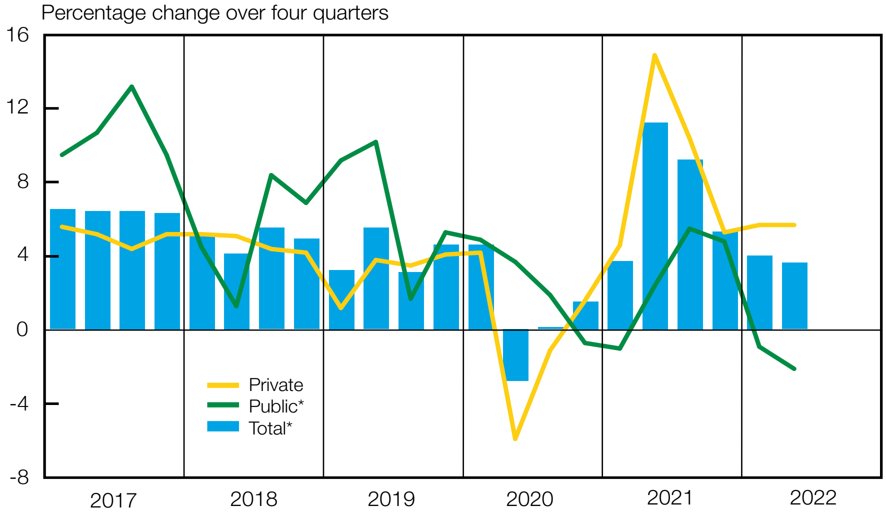
Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* moderated further for a fourth successive quarter from 4.0% in the first quarter of 2022 to 3.6% in the second quarter, as nominal remuneration growth per worker in the public sector contracted at a faster pace. The further deceleration in nominal remuneration growth per worker reflected the continued dissipation of base effects created by the COVID-19 lockdowns.

Growth in *nominal remuneration per worker in the private sector* remained unchanged at 5.7% in the second quarter of 2022. Nominal remuneration growth per worker slowed in half of the private subsectors, while accelerating in the other half. The construction sector recorded the largest increase in nominal remuneration per worker as fewer workers continued to elevate per-worker remuneration outcomes. Conversely, the gold-mining sector recorded a decline in remuneration per worker in the year to the second quarter of 2022, likely weighed down by the 'no work, no pay' principle enforced during a three-month long strike at a prominent gold mine.

By contrast, the year-on-year rate of decrease in *nominal remuneration per public sector worker* of 0.9% in the first quarter of 2022 became more pronounced at 2.1% in the second quarter. This partly reflected the delayed implementation of the 2022 public sector wage increase, following the expiry of the 2021 wage agreement in March 2022.

Formal non-agricultural nominal remuneration per worker

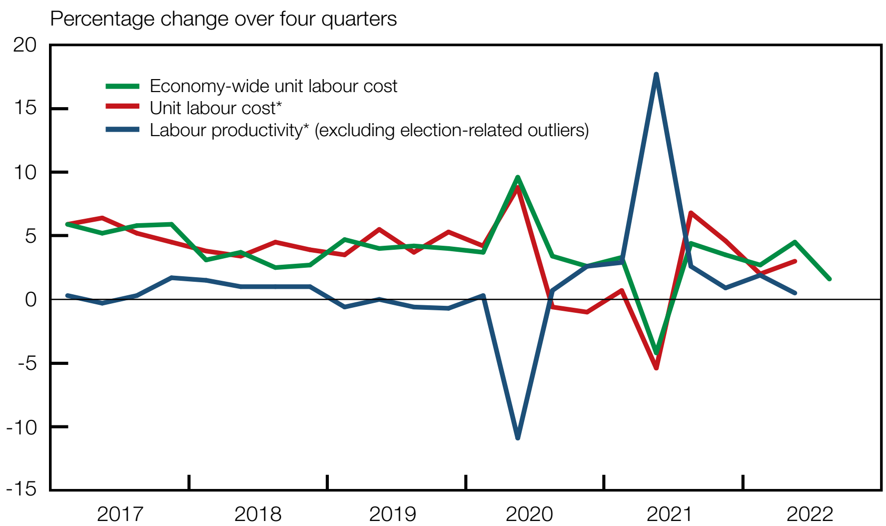


* Excluding election-related outliers
Sources: Stats SA and SARB

The *cumulative average wage settlement rate* in collective bargaining agreements rose to 6.0% in the first nine months of 2022, from 4.4% during the same period in 2021 and for 2021 as a whole, according to Andrew Levy Employment Publications. Wage settlement rates likely reflected the acceleration in consumer price inflation. This presented a difficult bargaining environment, as evidenced by the sharp increase in the *number of working days lost due to strike* action to 1.7 million during the first nine months of 2022 from only 50 000 over the same period in 2021, and an overall total of 1.5 million for 2021.

Labour productivity growth in the formal non-agricultural sector of the economy slowed from 1.9% in the first quarter of 2022 to 0.5% in the second quarter as year-on-year output growth slowed faster than that in employment. By contrast, the rate of increase in *nominal unit labour cost* in the formal non-agricultural sector accelerated from 2.0% to 3.0% over this period as the slowdown in output outweighed that in total remuneration on a year-on-year basis. Growth in economy-wide nominal unit labour cost moderated from 4.5% in the second quarter of 2022 to 1.6% in the third quarter, as year-on-year output growth accelerated more than growth in the compensation of employees.

Labour productivity and nominal unit labour cost



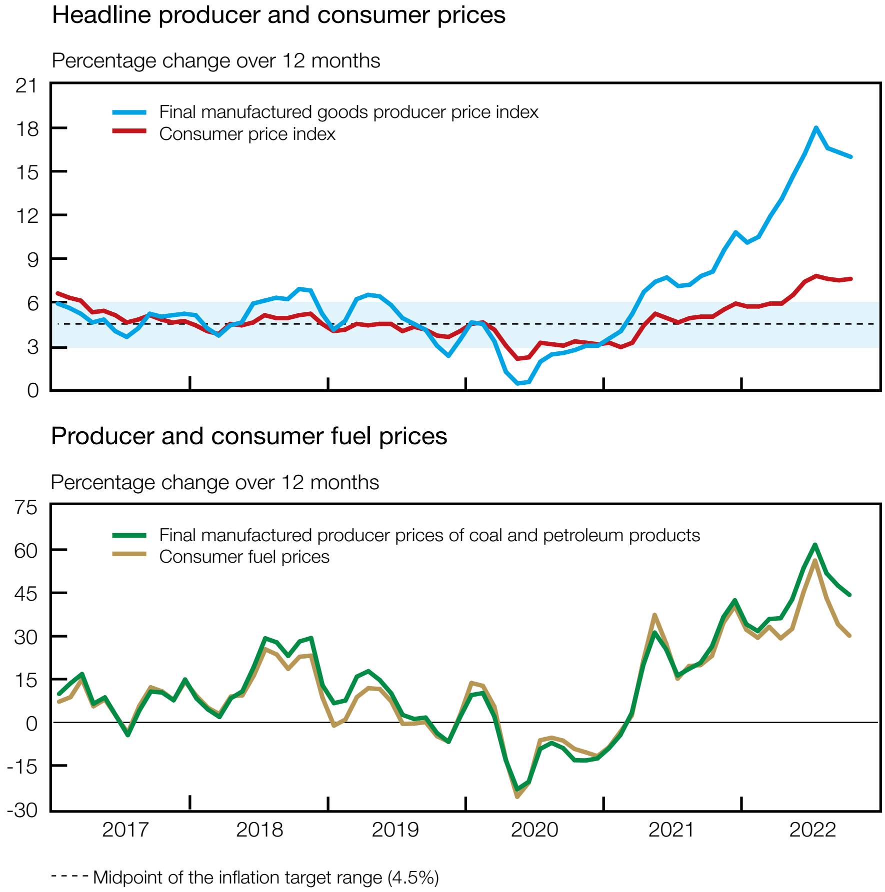
* Formal non-agricultural sector
Sources: Stats SA and SARB

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

Prices[9]

Despite slowing somewhat in recent months, both headline consumer and producer price inflation remained elevated above the 6.0% upper limit of the inflation target range. Similar to the rise in global inflation, domestic inflationary pressures largely reflect the pass-through of higher international energy and food prices due to supply and demand imbalances, exacerbated by the war in Ukraine.

The slowdown in global economic growth and the sustained monetary policy tightening by most central banks contributed to the recent moderation in consumer and producer price inflation for final manufactured goods, which resulted from lower fuel prices amid a reduced global demand for crude oil.



Source: Stats SA

The acceleration in producer price inflation of final manufactured goods to a record high of 18.0% in July 2022 mainly reflected higher energy prices – as both international crude oil and coal prices increased markedly – and, to a lesser extent, higher food prices. The acceleration was mainly due to the higher prices of coke, petroleum, chemical, rubber and plastic products, which contributed 10.5 percentage points to the headline rate in July 2022 as the prices of coal and petroleum products increased by 61.7% year on year. Food, beverages and tobacco products contributed 3.0 percentage points, while metals, machinery and equipment as well as computing equipment added 1.7 percentage points. Producer price inflation for final manufactured goods subsequently moderated to 16.0% in October, following the lower fuel prices. Nonetheless, producer price inflation remained elevated as food price inflation accelerated further due to disrupted global supply chains and as shortages of raw materials persisted.

Following a peak of 23.1% in December 2021, producer price inflation of intermediate manufactured goods moderated to 11.2% in October 2022 as the prices of basic and fabricated metals, chemicals, rubber and plastic products as well as textile and leather products decelerated.

Producer price inflation of agriculture, forestry and fishing products also accelerated from 14.9% in June 2022 to 16.0% in September as the global supply chain disruptions and higher prices of fuel, fertilisers and agrochemicals raised input costs. This measure of producer price inflation then decelerated to 14.7% in October.

Producer price inflation of mining products almost doubled, from 17.3% in August 2022 to 30.1% in September, mainly due to sharp increases in the prices of coal and gas and, to a lesser extent, non-ferrous metal ores. The significant increase in coal prices reflected higher global demand to supplement the gas shortages in Europe. In October 2022, producer price inflation of mining products decelerated somewhat to a still elevated 27.2%.

By contrast, changes in producer prices for electricity and water switched from an increase of 8.6% in August 2022 to a decrease of 1.0% in September, with the deceleration in electricity price inflation subtracting 1.7 percentage points. This was the first year-on-year decrease in electricity producer prices since the inception of this index in January 2008. The switch from winter to summer tariffs for Eskom's direct customers usually occurs in September every year. The weighted average tariff declined more than usual this year because of lower electricity usage given the severe load-shedding in September. In October 2022, producer price inflation for electricity and water reverted to an increase of 10.1%, in part due to increased usage.

Producer prices in 2022

Percentage change over 12 months

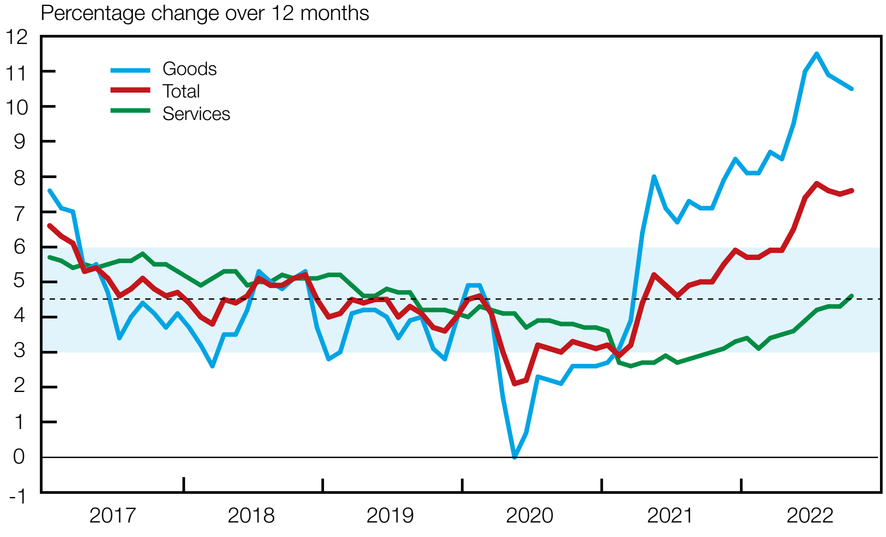
	Jul	Aug	Sep	Oct
Final manufactured goods	18.0	16.6	16.3	16.0
Intermediate manufactured goods	14.7	13.4	13.7	11.2
Electricity and water	8.0	8.6	-1.0	10.1
Mining	21.2	17.3	30.1	27.2
Agriculture, forestry and fishing	15.0	15.1	16.0	14.7

Source: Stats SA

Headline consumer price inflation accelerated to a high of 7.8% in July 2022 and remained above the upper limit of the inflation target range for six consecutive months up to October. The acceleration in consumer price inflation primarily reflected higher consumer goods price inflation and slightly higher consumer services price inflation, which has remained below the 4.5% midpoint of the inflation target range up to September 2022, before accelerating to 4.6% in October.

Headline consumer prices

Percentage change over 12 months



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

Source: Stats SA

Headline consumer price inflation slowed slightly to 7.5% in September 2022 before surprising to the upside in October when it accelerated to 7.6% as inflation in 6 of the 12 classification of individual consumption by purpose (COICOP) categories accelerated in that month, while moderating in 2 categories and remaining unchanged in 4 categories.

Consumer price inflation in 2022 by COICOP category

Percentage change over 12 months

	Weight	Jul	Aug	Sep	Oct*
Food and non-alcoholic beverages	17.14	9.7	11.3	11.9	12.0
Alcoholic beverages and tobacco	6.26	5.5	5.1	5.9	6.2
Clothing and footwear	3.65	2.3	2.5	2.8	2.8
Housing and utilities	24.49	4.0	4.0	4.2	4.3
Household content and services	4.37	4.9	5.1	5.1	5.5
Health	1.44	4.5	4.6	4.3	4.6
Transport	14.35	25.0	21.2	17.9	17.1
Communication	2.42	-0.6	-0.3	-0.4	-0.4
Recreation and culture	5.20	3.0	2.8	2.9	2.9
Education	2.62	4.4	4.4	4.4	4.4
Restaurants and hotels	3.25	6.5	5.8	7.9	7.8
Miscellaneous goods and services	14.81	3.6	3.7	4.0	4.8
Total	100.00	7.8	7.6	7.5	7.6

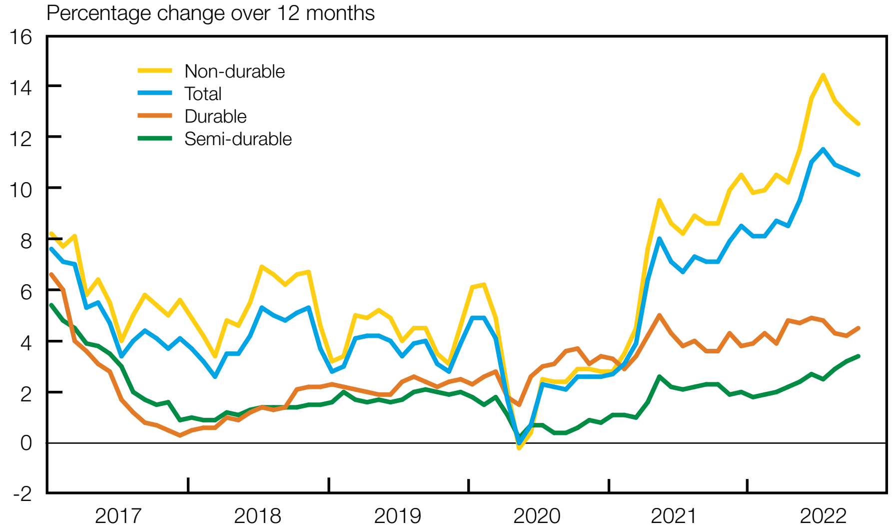
* Red = acceleration; green = deceleration

Source: Stats SA

Consumer goods price inflation moderated slightly to 10.5% in October, after accelerating from 8.1% in January 2022 to 11.5% in July. A moderation in non-durable goods price inflation from 14.4% in July 2022 to 12.5% in October primarily reflected the decrease in fuel prices. Durable goods price inflation accelerated somewhat in the first half of 2022 before slowing to 4.2% in September as vehicle price inflation moderated, after which it accelerated again to 4.5% in October. Semi-durable goods price inflation accelerated somewhat to 3.4% in October 2022 as the prices of clothing and footwear increased at a slightly faster pace.

Consumer goods prices

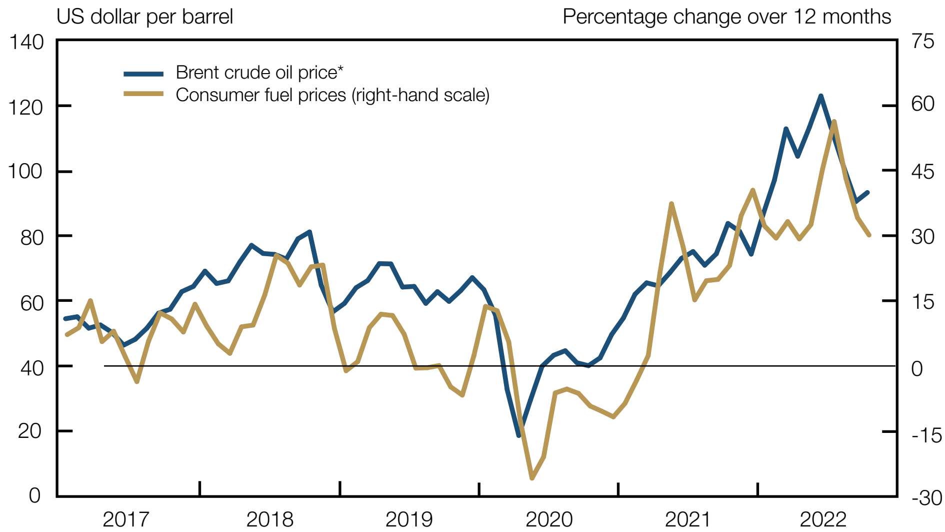
Percentage change over 12 months



Source: Stats SA

Following a significant acceleration during the first half of the year, fuel price inflation decelerated from 56.2% in July 2022 to 30.1% in October. Domestic consumer fuel price outcomes largely mirrored changes in the international price of Brent crude oil, which reached a monthly average high of US$122.78 per barrel in June 2022. The elevated level of crude oil prices on international markets reflected supply and demand imbalances, which were exacerbated by the war in Ukraine. Subsequently, the possibility of a global recession resulted in a decrease in the price of Brent crude oil to a monthly average of US$93.19 per barrel in October and a significant decrease in consumer fuel prices.

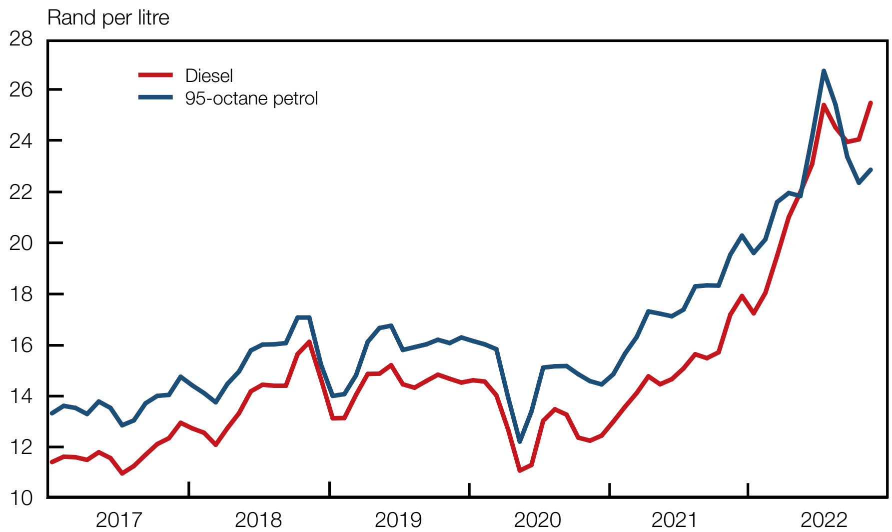
Brent crude oil and consumer fuel prices



* Monthly average
Sources: Refinitiv, Stats SA and SARB

The sharp deceleration in consumer fuel price inflation resulted from a slower rate of increase in the prices of both domestic petrol and, to a lesser extent, diesel to 22.1% and 50.9% respectively in October 2022. The price of inland 95-octane petrol decreased from a record high of R26.74 per litre in July 2022 to R22.87 per litre in November, while that of diesel increased slightly further in recent months to a record high of R25.49 per litre in November 2022. The divergence between the monthly changes in the price of diesel and petrol reflected increased global demand for diesel following gas shortages in Europe. This added to inflationary pressures, as transport and production processes reliant on diesel became more costly.

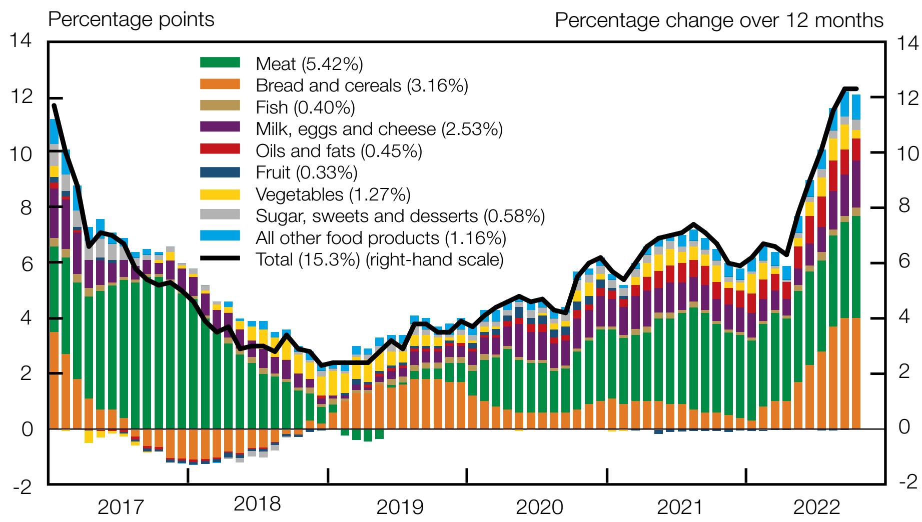
Domestic inland petrol and diesel prices



Source: Department of Mineral Resources and Energy

Consumer food price inflation accelerated notably from 6.2% in January 2022 to 12.3% in October, with seven of the nine food price categories quickening, adding to domestic inflationary pressures. The upward pressure on food price inflation emanated mainly from the higher prices of bread and cereals, meat and fish, as well as milk, cheese and eggs, which together account for about 77% of the total consumer food price basket. In October 2022, bread and cereals price inflation amounted to 19.5%, while that of fish and meat was 10.3% and 10.5% respectively. Milk, cheese and egg prices increased by 10.5% in October 2022, while price inflation of oils and fats was significantly higher at 25.7%. The acceleration in consumer food price inflation follows the broad-based increase in final manufactured producer food prices, which increased for the eighth consecutive month by a record-high rate of 16.4% in September 2022 before moderating to 15.2% in October.

Contributions to consumer food price inflation

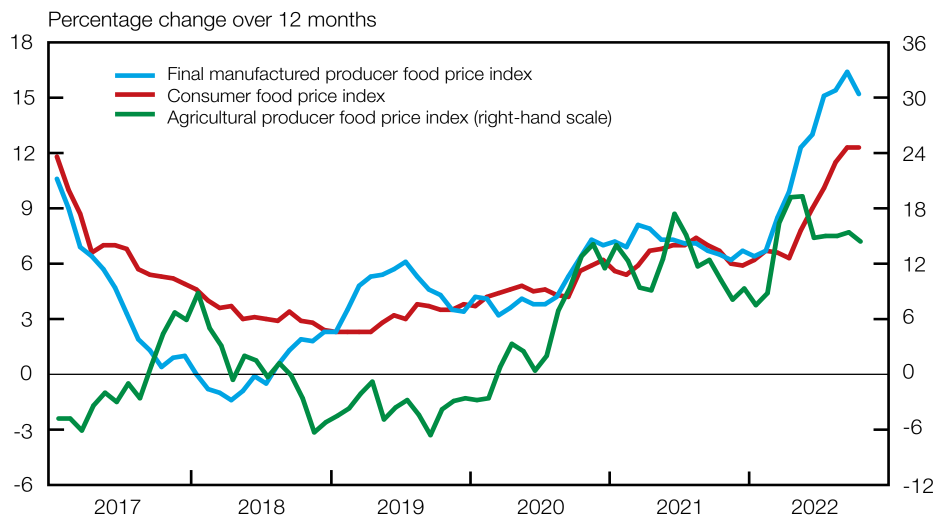


Numbers in brackets indicate weights in the consumer price index

Source: Stats SA

Agricultural producer price inflation accelerated to a five-year high of 19.3% in May 2022, impacted by the elevated prices of cereals and other crops following the war-induced surge in international grain prices as well as high live animal prices. Subsequently, agricultural producer food price inflation moderated to a still high of 14.4% in October because of lower fruit and vegetable price inflation.

Producer and consumer food prices

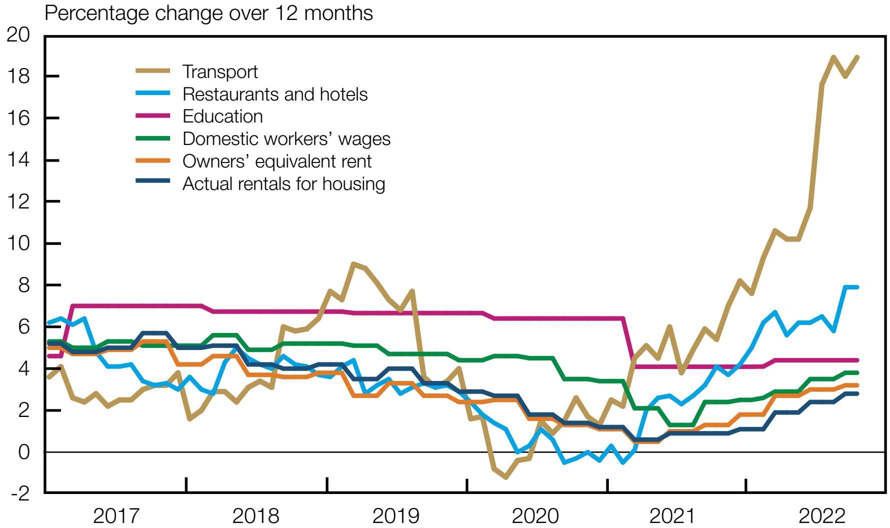


Source: Stats SA

The international food price index of the United Nations' Food and Agriculture Organization (FAO) decreased for a seventh successive month in October 2022. The year-on-year rate of increase decelerated sharply from 34.0% in March 2022 to 2.0% in October – the lowest rate since August 2020. The downward trend in international food price inflation was supported by lower prices in all food categories, most notably of vegetable oils, of which the rate of change decelerated significantly from 124.9% in May 2022 to -18.8% in October. The year-on-year rate of change in the rand-denominated international food price index slowed from a high of 39.9% in June 2022 to 21.3% in August, before quickening again to 24.4% in October as the exchange value of the rand depreciated anew.

Consumer services price inflation accelerated gradually from 3.4% in January 2022 to 4.6% in October. Owing to higher fuel prices, transport services price inflation has accelerated significantly thus far in 2022 as it quickened from a low of 7.6% in January 2022 to 18.9% in October. Actual and owner-occupied housing rental price inflation (with the largest weight of 13.06% in the consumer services price basket) accelerated from only 1.1% and 1.8% in January 2022 to 2.8% and 3.2% respectively in September. Restaurant and hotel services price inflation quickened from 5.8% in August 2022 to 7.9% in October, likely impacted by higher food prices, while that in domestic workers' wages accelerated somewhat from 3.5% to 3.8% over the same period.

Consumer services prices

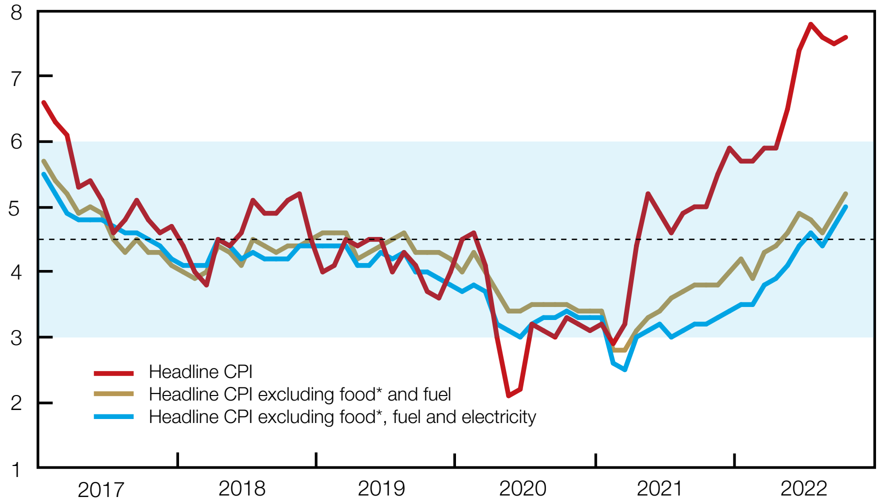


Source: Stats SA

Most measures of *underlying inflationary pressures* accelerated gradually during 2022 and surpassed the midpoint of the inflation target range in recent months. When excluding the impact of food, non-alcoholic beverages and fuel prices from headline consumer price inflation, the resultant inflation measure accelerated steadily from 3.9% in February 2022 to 5.2% in October. Similarly, the SARB's preferred measure of core inflation, which in addition excludes electricity prices, gathered some pace as it accelerated from 3.5% to 5.0% over the same period, breaching the midpoint of the inflation target range in July 2022. The acceleration in underlying inflation reflects a broadening in domestic inflationary pressures after the initial rise in fuel and food prices.

Headline and underlying measures of consumer prices

Percentage change over 12 months



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

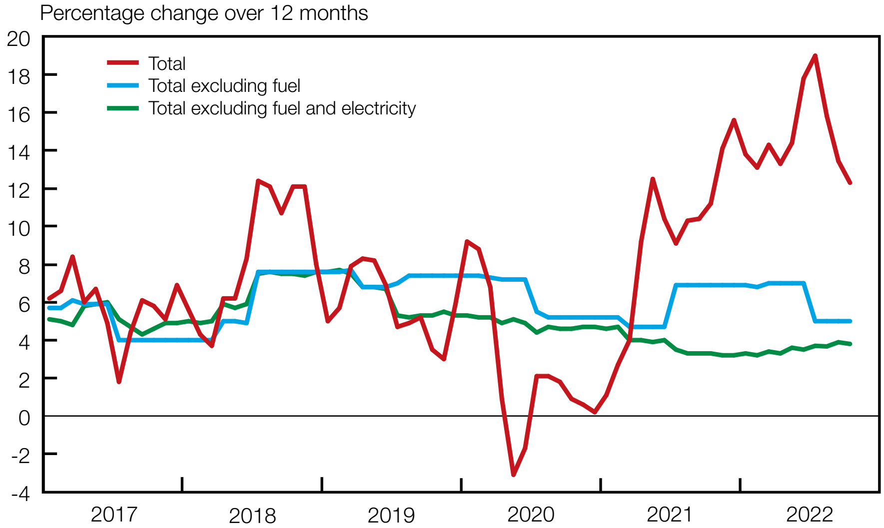
* Food includes non-alcoholic beverages

Source: Stats SA

Movements in *administered price inflation* have mirrored that in domestic fuel prices since the start of 2022, accelerating notably to 18.9% in July before moderating to 12.3% in October following the decrease in fuel prices. When excluding fuel prices, administered price inflation moderated from 7.0% in June 2022 to 5.0% in October. When electricity prices are also excluded, underlying administered price inflation accelerated gradually further from 3.5% in June 2022 to 3.8% in October.

Administered prices

Percentage change over 12 months

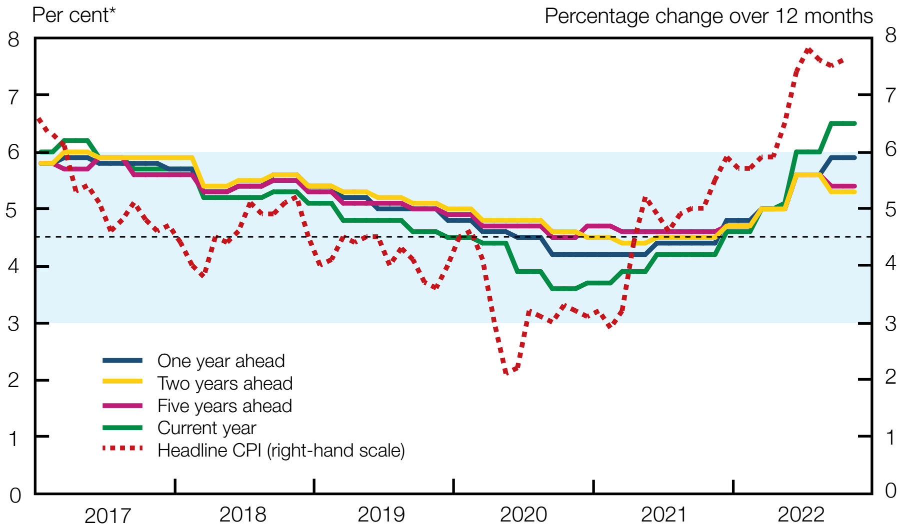


Source: Stats SA

10 As measured by the Survey of Inflation Expectations conducted by the *Bureau for Economic Research (BER)* in the third quarter of 2022.

Average headline consumer price inflation expectations[10] for 2022 were revised higher to above the upper limit of the inflation target range but inflation is expected to moderate over the longer forecast horizons. Headline inflation is expected to average 6.5% in 2022 (6.0% previously), before slowing to 5.9% in 2023 (5.6% previously) and 5.3% in 2024 (5.5% previously).

Inflation expectations and headline consumer prices



---- Midpoint of the inflation target range (4.5%)
* Annual average expectations measured quarterly
Sources: BER and Stats SA

Average five-year-ahead inflation expectations declined to 5.4% in the third-quarter 2022 survey from 5.6% in the previous survey. *Household inflation expectations* for the coming 12 months eased from 6.7% in the second quarter of 2022 to 6.0% in the third quarter as the high, higher-middle and lower-middle income groups all adjusted their inflation expectations downwards. By contrast, the low-income group adjusted their inflation expectations upwards.

Headline consumer price inflation expectations

Per cent, as surveyed in the third quarter of 2022

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2022...	6.7	6.5	6.3	6.5
2023...	5.6	6.3	5.8	5.9
2024...	4.7	5.7	5.4	5.3
Five years ahead	5.0	5.6	5.6	5.4

Source: BER

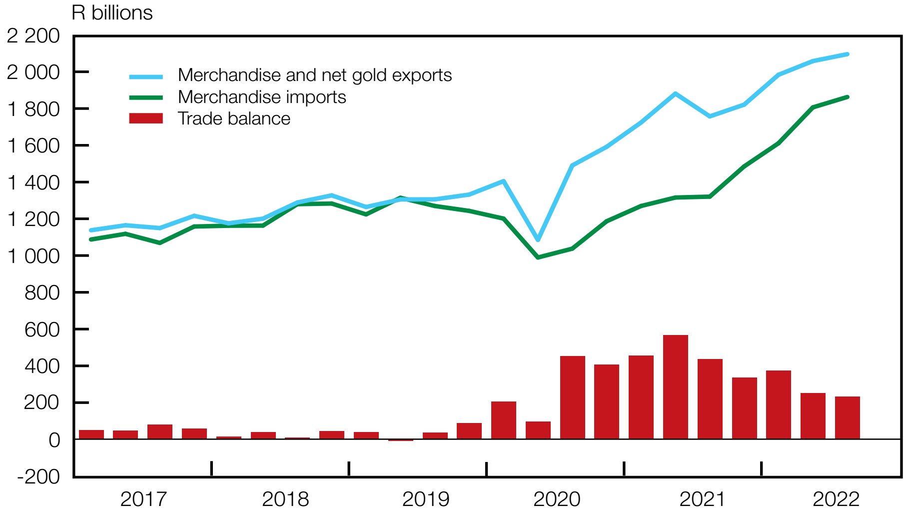
External economic accounts

Current account[11]

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

The value of both South Africa's exports and imports of goods increased to all-time highs in the third quarter of 2022, with imports increasing at a faster pace than exports from the second quarter. The increase in the value of exports reflected higher volumes, while that of imports reflected higher prices.

Value of South Africa's exports and imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

South Africa's trade surplus narrowed further from R252 billion in the second quarter of 2022 to R233 billion in the third quarter as the value of merchandise imports increased at a faster pace than that of net gold and merchandise exports. This extended the narrowing of the trade surplus from a peak in the second quarter of 2021. At the same time, the shortfall on the

Current account of the balance of payments

R billions, seasonally adjusted and annualised

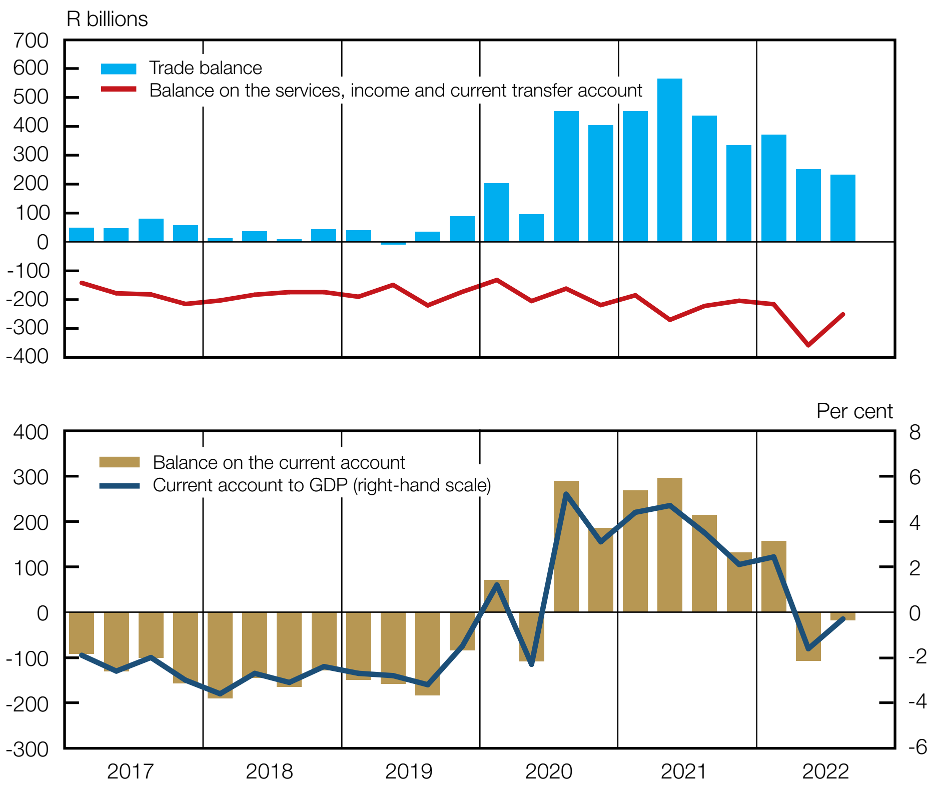
	2021			2022		
	Q3	Q4	Year	Q1	Q2	Q3
Merchandise exports	1 653	1 702	1 689	1 908	1 964	2 014
Net gold exports	105	120	108	76	95	83
Merchandise imports	-1 321	-1 486	-1 349	-1 612	-1 807	-1 864
Trade balance	**437**	**336**	**448**	**372**	**252**	**233**
Net service, income and current transfer payments	-222	-204	-220	-216	-358	-251
Balance on current account	**214**	**132**	**228**	**157**	**-107**	**-18**
As a percentage of gross domestic product						
Trade balance	7.1	5.3	7.2	5.8	3.8	3.5
Services balance	-1.0	-1.1	-1.1	-1.2	-1.2	-1.6
Income balance	-2.1	-1.8	-1.9	-1.5	-3.8	-1.9
Current transfer balance	-0.5	-0.3	-0.6	-0.6	-0.4	-0.3
Balance on current account	**3.5**	**2.1**	**3.7**	**2.4**	**-1.6**	**-0.3**

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

Sources: Stats SA and SARB

services, income and current transfer account narrowed significantly from an all-time high in the second quarter of 2022. The much larger decrease in the deficit on the services, income and current transfer account than the decrease in the trade surplus resulted in a narrowing of the deficit on the current account of the balance of payments from R107 billion (1.6% of GDP) in the second quarter of 2022 to R18.1 billion (0.3% of GDP) in the third quarter.

Current account of the balance of payments

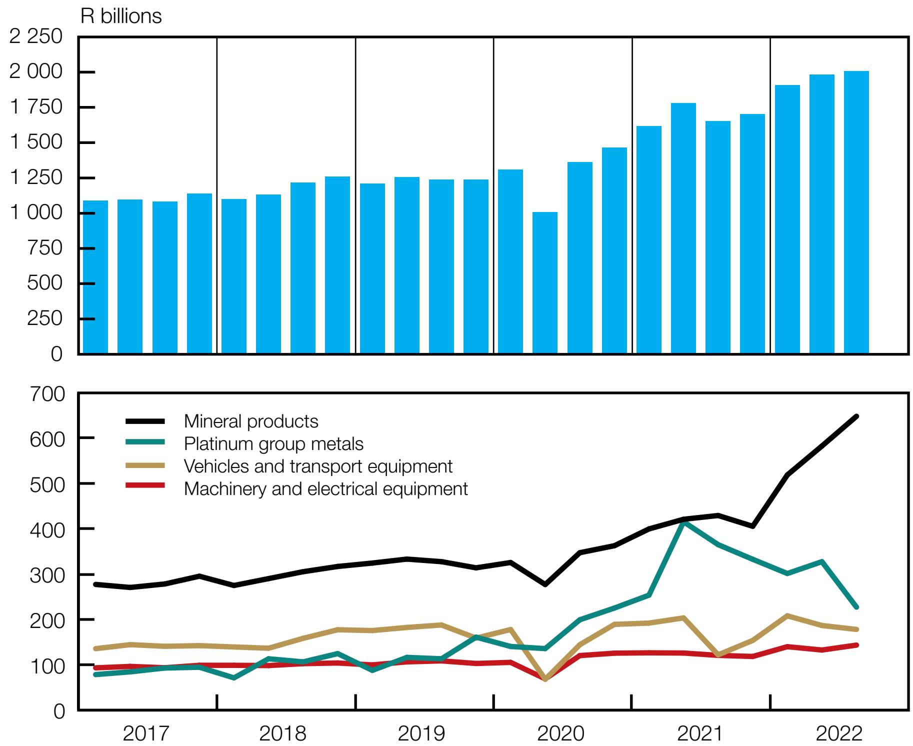


Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of merchandise exports increased by 2.5% in the third quarter of 2022 as both agricultural and manufacturing exports increased, while that of mining remained broadly unchanged. Exports of citrus, paper and paper products as well as machinery and electrical equipment increased, with the latter subcategory largely reflecting an increased demand for plant and laboratory equipment, centrifuges and machinery. Exports of paper and paper products were boosted by a sharp increase in the value of exported chemical wood pulp. Increases were also reported for other manufacturing exports, such as plastics, rubber and articles thereof, while that of vehicles and transport equipment and chemical products declined.

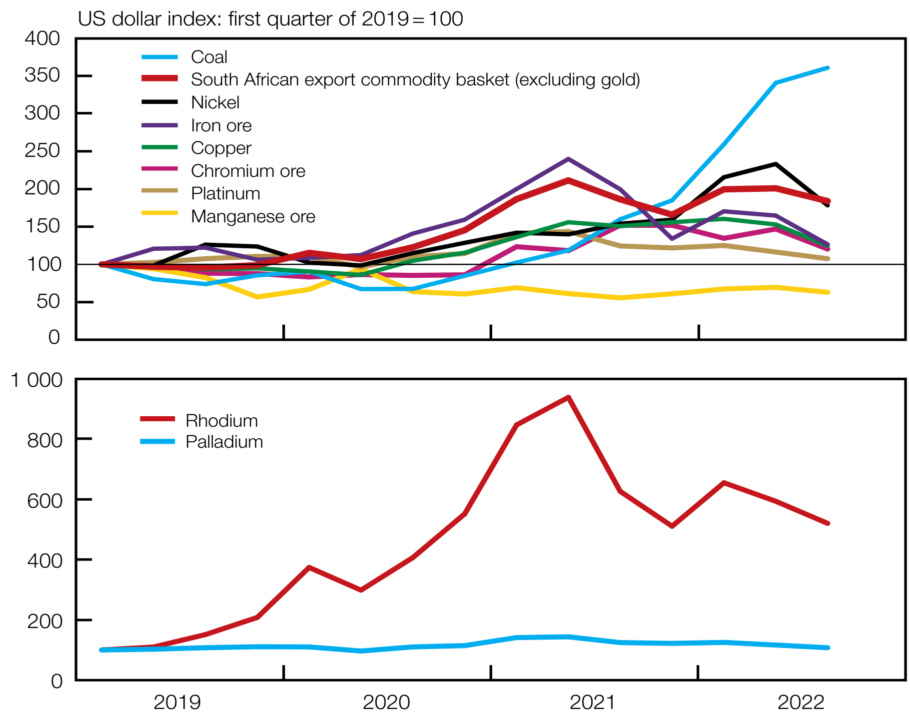
Increases in the value of mining exports in the previous two quarters were followed by a marginal increase in the third quarter of 2022. This reflected a substantial contraction in the value of exports of PGMs as both prices and physical quantities declined. The lower volumes reflected reduced production during the quarter due to, among other factors, more severe electricity load-shedding, especially in September, and a planned shutdown for the rebuilding of a smelter at a production facility. These decreases in PGMs in the third quarter of 2022 were fully neutralised by increases in the export values of mineral products as well as the export values of pearls and precious and semi-precious stones. The higher value of mineral products was buoyed by exports of coal, chromium ore and concentrates as well as manganese ore. The share of South Africa's coal exports destined for Europe surged from 29.8% of total coal exports in the second quarter of 2022 to 42.7% in the third quarter amid a switch from expensive natural gas to coal and as Russian coal supplies were substituted with South African coal, among others.

Value of merchandise exports*



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

International prices of selected South African export commodities*



* Quarterly averages
Sources: Afriforesight, World Bank and SARB

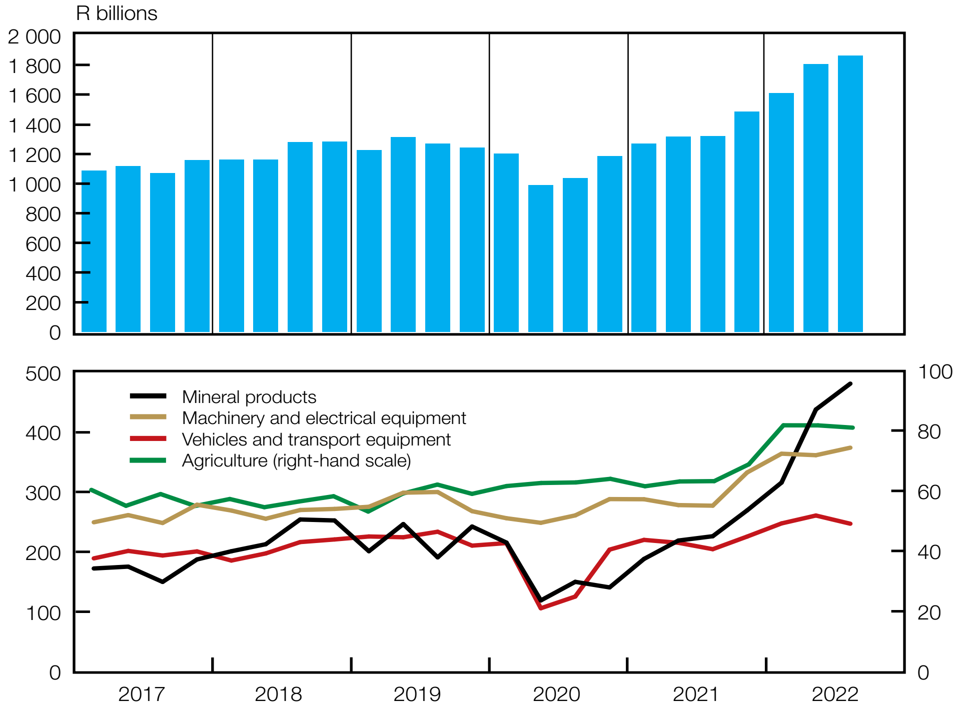
The US dollar price of a basket of domestically produced non-gold export commodities declined by 8.4% in the third quarter of 2022 as a result of lower prices for PGMs, nickel, copper, iron ore, chromium ore and manganese ore. Platinum and palladium prices reflected the weak demand for autocatalysts amid the global economic slowdown, while weak industrial activity in especially China weighed on the prices of copper, nickel and iron ore. The latter also reflected the impact of the property crisis in China and its zero-tolerance COVID-19 policy and associated lockdowns. By contrast, the price of coal increased further in the third quarter of 2022 as global coal demand increased in response to high natural gas prices.

The rand price of merchandise exports decreased by 2.1% in the third quarter of 2022. Over the same period, the volume of merchandise exports increased by 4.7%.

The average US dollar price of gold on the London market decreased by 7.7% from US$1 873 per fine ounce in the second quarter of 2022 to US$1 729 per fine ounce in the third quarter. This reflected the stronger US dollar and higher interest rates over the period. In rand terms, the average realised price of net gold exports increased by 1.8% over the same period due to the depreciation in the exchange value of the rand. Nonetheless, the value of net gold exports decreased by 12.6% in the third quarter of 2022 as the contraction in the physical quantity of gold exported outweighed the increase in the average price of net gold exports.

The value of merchandise imports increased further by 3.1% in the third quarter of 2022, extending the rising trend since the third quarter of 2020. Increases were noted in the major categories of mining and manufacturing.

Value of merchandise imports

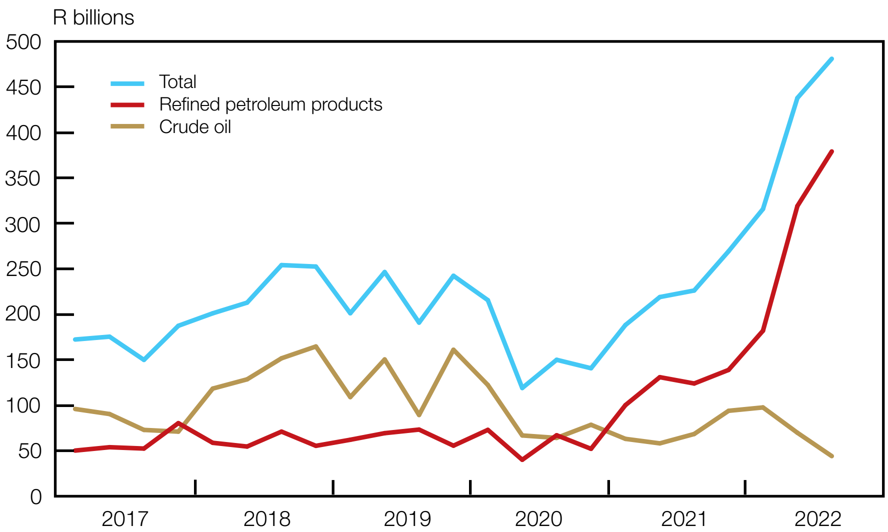


Seasonally adjusted and annualised

Sources: Stats SA and SARB

The increase in the value of mining imports was dominated by refined petroleum products, which increased from 17.7% of total merchandise imports in the second quarter of 2022 to 20.3% in the third quarter due to reduced domestic oil refining capacity. At the same time, the value of crude oil imports contracted by 36.9% despite the 12.4% increase in the average realised rand price of imported crude oil from R1 652 per barrel in the second quarter of 2022 to R1 856 per barrel in the third quarter.

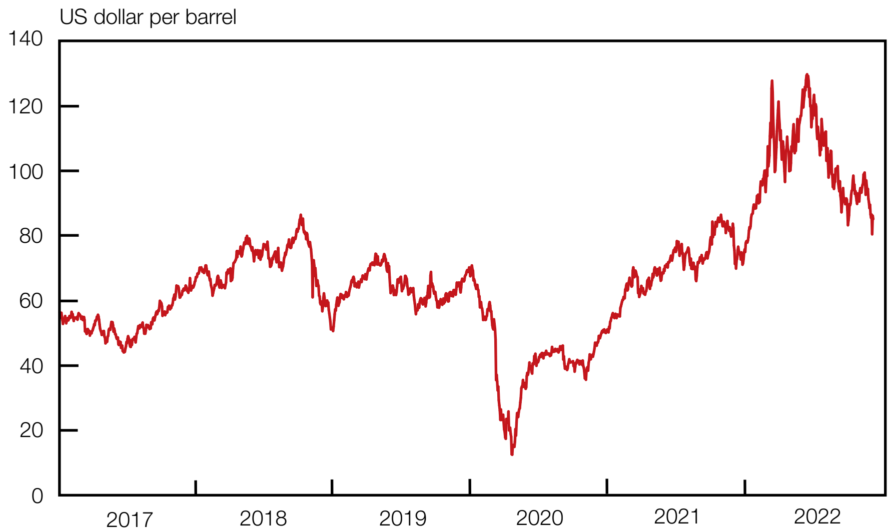
Value of mineral imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The spot price of Brent crude oil declined by 11.0% from an average of US$113.40 per barrel in the second quarter of 2022 to US$100.88 per barrel in the third quarter. The decline reflected expectations of weaker global economic activity and consequently lower demand for crude oil. Crude oil prices were also weighed down by subdued demand from European and Chinese refineries ahead of planned maintenance shutdowns that were expected to occur in October and November 2022. However, the spot price of Brent crude oil increased from a monthly average of US$90.43 per barrel in September 2022 to US$93.19 per barrel in October, supported by supply concerns following a decision by the Organization of the Petroleum Exporting Countries and its allies (OPEC+) to reduce crude oil output by 2.0 million barrels per day from November.

Brent crude oil price

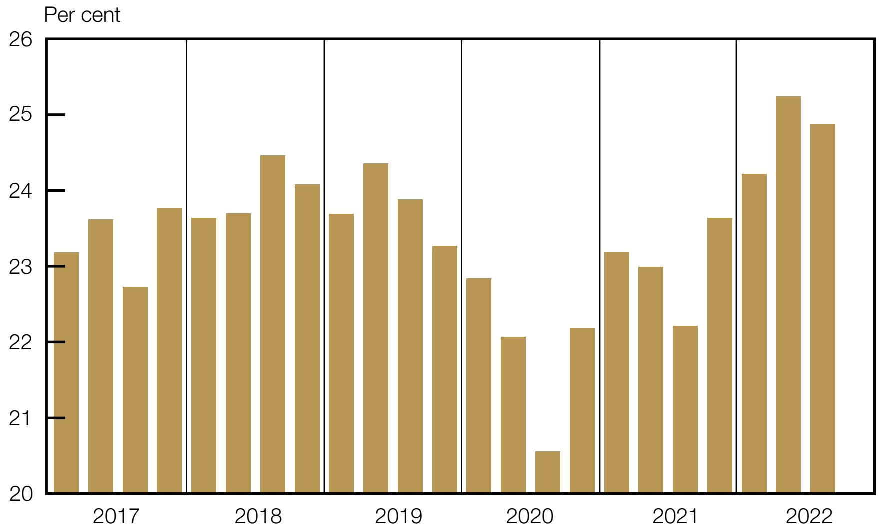


Source: Refinitiv

The further increase in the value of imported manufactured goods in the third quarter of 2022 was due to machinery and electrical equipment, plastics, rubber and articles thereof as well as textiles and textile articles. The higher value of machinery and electrical equipment reflected increased imports of steam generators for the Koeberg nuclear power station as well as imported electric accumulators and static converters. These increases outweighed the decline in vehicles and transport equipment, which could be attributed to lower imports of automotive parts and components due to a two-week shutdown at an automotive plant as well as the temporary discontinuation of production following the floods in KZN in April 2022.

The volume of merchandise imports decreased in the third quarter of 2022. Consequently, the import penetration ratio (i.e. real merchandise imports as a ratio of GDE) declined from 25.2% in the second quarter of 2022 to 24.9% in the third quarter.

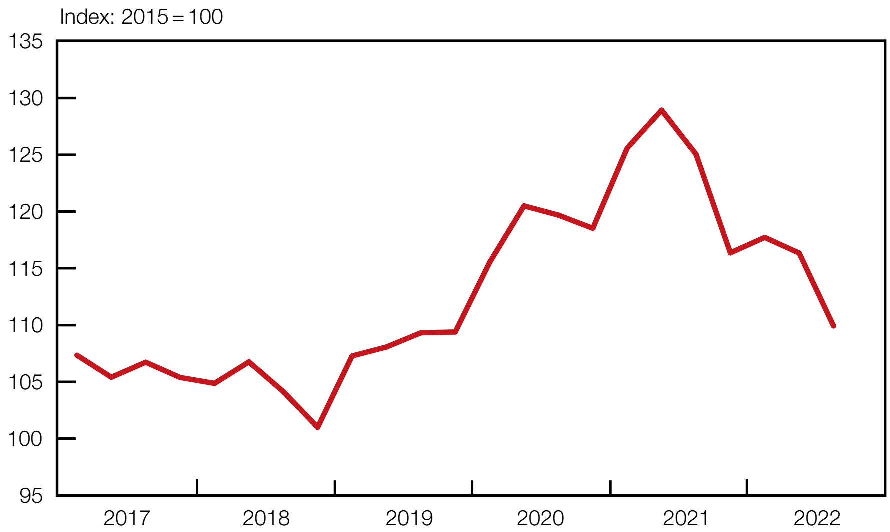
Import penetration ratio



Sources: Stats SA and SARB

The depreciation in the exchange value of the rand, together with higher prices of goods in some of South Africa's trading partner countries, caused the rand price of merchandise imports to increase by 4.0% in the third quarter of 2022. With the rand price of imports of goods and services increasing while that of exports decreased, South Africa's terms of trade deteriorated further in the third quarter of 2022.

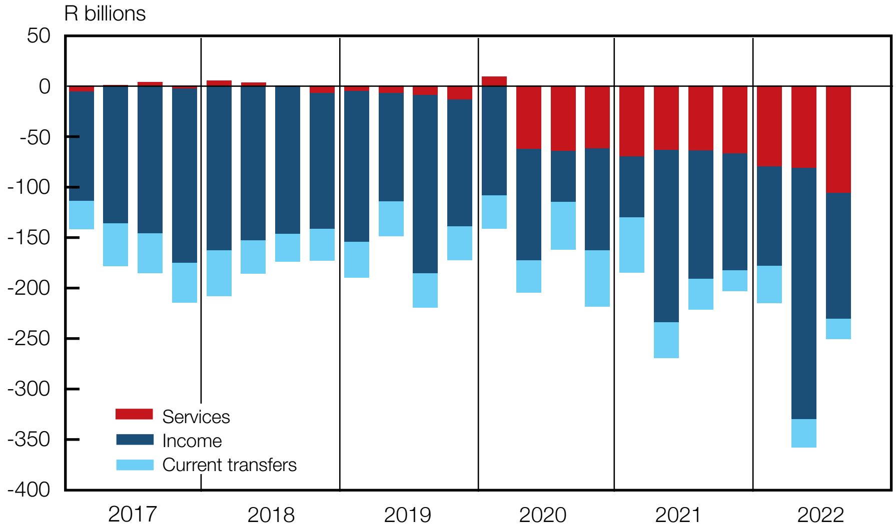
Terms of trade*



* Including gold
Sources: Stats SA and SARB

Following a historical high of R358 billion in the second quarter of 2022, the shortfall on the services, income and current transfer account decreased significantly to R251 billion in the third quarter. The narrower deficit reflected a much smaller shortfall on the income account and, to a lesser extent, on the current transfer account, while the deficit on the services account increased. The overall deficit on the services, income and current transfer account as a ratio of GDP narrowed to 3.7% in the third quarter of 2022 from 5.4% in the second quarter – somewhat higher than the annual average of 3.6% recorded in 2021.

Net services, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

Gross services receipts and payments both increased steadily further in the third quarter of 2022 as economic activity continued to normalise post COVID-19. Net services payments increased in the third quarter as gross services payments increased more than gross services receipts. The continued gradual increase in the number of foreign tourists visiting South Africa and South Africans traveling abroad additionally bolstered travel receipts and payments in the third quarter. Although still far below pre-pandemic levels, net travel receipts increased further in the third quarter of 2022. During the period preceding the pandemic, South Africa usually recorded a substantial net travel surplus, which contributed to containing the deficit on the services account. Gross payments for freight-related transportation services extended their increase in the third quarter of 2022, in line with the further increase in merchandise imports.

The income deficit relative to GDP narrowed from 3.8% in the second quarter of 2022 to 1.9% in the third quarter. The deficit on the income account decreased by 49.8% in the third quarter due to a combination of higher gross income receipts and lower gross income payments. The lower gross income payments resulted mainly from smaller gross dividend payments, which declined from an extraordinary high level in the second quarter of 2022, as discussed in Box 2. Gross dividend payments as a ratio of GDP declined to 2.6% in the third quarter of 2022 from 3.8% in the previous quarter, while the level of net dividend payments declined by 23.9%. Following three consecutive quarterly increases, gross interest payments declined slightly from a high base in the second quarter of 2022. However, when compared with the corresponding quarter of the previous year, gross interest payments still increased by 6.0%. Higher gross interest receipts further supported the narrower income deficit in the third quarter of 2022.

Box 2 Unpacking the balance on the current account of the balance of payments[1, 2] and the influence of dividend payments

Dividend payments at times have a significant impact on the outcome of the balance on the *current account* of the balance of payments. This box focuses on such an occurrence in South Africa in the second quarter of 2022 when the current account balance (seasonally adjusted and annualised) unexpectedly switched from a surplus to a deficit, mainly on account of an extraordinary large level of dividend payments. It also highlights the difference between not seasonally adjusted and not annualised balance of payments statistics and seasonally adjusted[3] and annualised statistics in the context of the balance of payments as a whole.[4, 5]

Main components of the balance of payments

R billions

	Not seasonally adjusted and not annualised *							Seasonally adjusted and annualised **						
	2021				2022			2021				2022		
	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q2	Q3	Q4	Year	Q1	Q2	Q3
Trade balance	154	110	91	448	70	76	58	565	437	336	448	372	252	233
Balance on service, income and current transfers	-53	-73	-37	-220	-63	-77	-84	-270	-222	-204	-220	-216	-358	-251
Service receipts	31	33	41	135	45	48	54	129	133	159	135	176	204	221
Income receipts	25	66	29	167	52	34	56	114	244	141	167	171	155	200
Payments for services	48	50	58	201	61	71	83	193	197	226	201	256	286	327
Income payments	52	114	44	286	89	80	105	285	371	257	286	269	404	325
*of which: direct dividend payments ****								*97*	*159*	*81*	*97*	*69*	*187*	*92*
*of which: portfolio dividend payments ****								*46*	*71*	*35*	*48*	*53*	*62*	*84*
Current transfers (net payments -)	-9	-8	-5	-36	-9	-7	-5	-36	-31	-21	-36	-37	-28	-20
Balance on the current account	101	36	54	228	7	-0.3	-26	295	214	132	228	157	-107	-18
Capital account (net receipts +)	0.1	0.1	0.1	0.2	-29	0.1	0.1	0.2	0.2	0.2	0.2	-116	0.2	0.2
Net lending to (+)/borrowing from (-) the rest of the world	101	36	54	228	-22	-0.2	-26							
Balance on financial account	-109	-21	-55	-244	31	-1	15							
Unrecorded transactions	8	-15	1	17	-9	2	11							

Components may not add up to totals due to rounding off.
* See page S–85 of *Quarterly Bulletin*
** See page S–86 of *Quarterly Bulletin*
*** See page S–92 and S–93 of *Quarterly Bulletin*

Sources: Stats SA and SARB

1 The balance of payments is a statistical summary of transactions between residents and non-residents during a specific period and consists of the current, capital and financial accounts.

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*, available at www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf

3 Seasonal adjustment identifies and removes recurring seasonal fluctuations and calendar effects from economic time series to obtain the underlying movements, such as turning points, the trend cycle and the irregular component.

4 This box relates to the statistics published in the tables on pages S–85, S–86, S–92 and S–93 in this edition of the *Quarterly Bulletin* and in the quarterly release of the current account, available at https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/current-account/2022/Current%20account%20release%20-%20December%202022.pdf

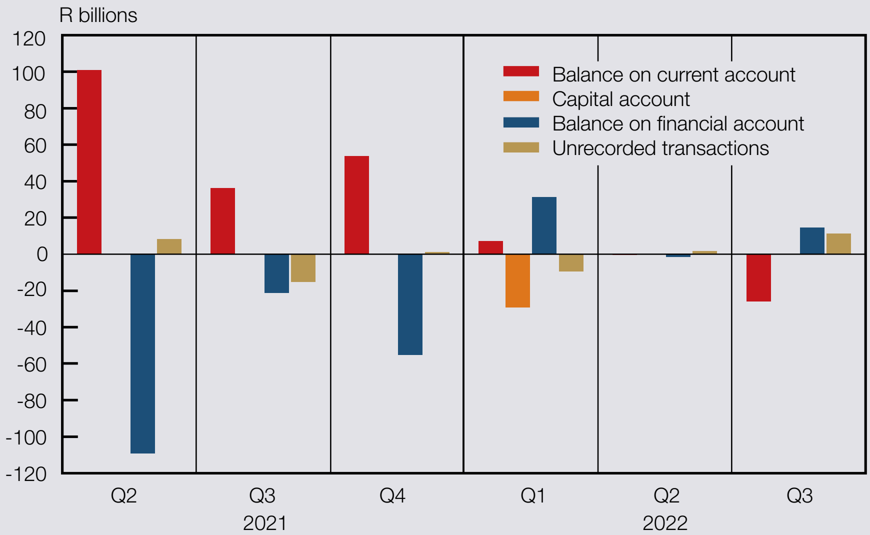
5 The not seasonally adjusted and not annualised current account statistics, together with the not seasonally adjusted and not annualised statistics of the capital account and the financial account, render the complete balance of payments. The financial account represents transactions (flows) in financial assets and liabilities, and comprises the following functional categories: direct investment, portfolio investment, financial derivatives, other investment and reserves.

The balance on the current account[6] consists of the trade balance[7] and the balance on services[8], income[9] and current transfers[10] (SICT). In South Africa, the trade balance varies between a deficit and a surplus, whereas the SICT balance has always been in a deficit position, similar to many other emerging economies, mainly due to a primary income deficit which is largely affected by dividend payments.

The seasonally adjusted and annualised balance on the current account switched from a surplus of R157 billion in the first quarter of 2022 to a deficit of R107 billion in the second quarter, followed by a deficit of R18.1 billion in the third quarter. The quarterly balance on the current account and its components is expressed on a seasonally adjusted and annualised basis to align with the level of the official nominal gross domestic product (GDP)[11] and related ratios. The balance on the current account as a ratio of GDP switched from a surplus of 2.4% in the first quarter of 2022 to a deficit of 1.6% in the second quarter, followed by a deficit of 0.3% in the third quarter.

The seasonally adjusted and annualised current account statistics differ from the not seasonally adjusted and not annualised version in terms of magnitude and, at times, also the direction of change. The dominance of both the current and financial accounts in the outcome of the balance of payments (on a not seasonally adjusted and not annualised basis) is indicated in the accompanying graph.

Main components of the balance of payments*



* Not seasonally adjusted and not annualised

Sources: Stats SA and SARB

In the second quarter of 2022, on a seasonally adjusted and annualised basis, a further narrowing of the trade surplus coincided with record-high dividend payments and a contraction in dividend receipts.

The switch in the current account balance from a surplus to a deficit in the second quarter of 2022, due to the large increase in dividend payments, was unexpected as such large increases are usually associated with strong economic growth and a broad-based increase in corporate profits, which were absent in that quarter. Gross dividend payments relative to GDP of 3.8% in the second quarter of 2022 exceeded the annual all-time high of 3.4% in 2007, when annual growth in real GDP was elevated at 5.4%. More recently, the ratio of gross dividend payments to GDP fell to only 1.6% in 2020 when the impact of the coronavirus disease 2019 (COVID-19) was most severe, alongside a contraction in real GDP of 6.3% and a decrease of 31.8% in dividend payments.

6 The current account comprises the trade balance (transactions in goods) and the balance on the services, income (primary income, such as dividends and interest) and current transfer account (secondary income).

7 The trade balance is the value of merchandise and net gold exports *minus* merchandise imports.

8 Services transactions arise from production activities and generally cannot be separated from consumption, and where ownership rights cannot be separately established.

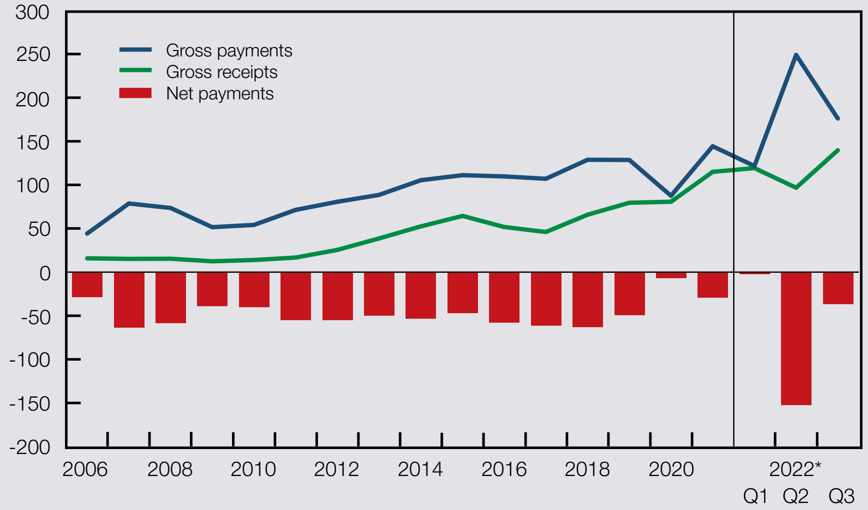
9 Income (primary income) transactions include investment income, such as dividends and interest as the return on financial assets, and the compensation of employees for the contribution of labour to production activities.

10 Current transfers consist of transactions without a quid pro quo.

11 Seasonally adjusted and annualised trade in goods and services is part of the GDP estimate. Statistics South Africa seasonally adjusts goods and services. For an explanation of the methodology, see https://www.statssa.gov.za/publications/Report%2004-04-04/Report%2004-04-042021.pdf. The South African Reserve Bank (SARB) seasonally adjusts primary and secondary income. The SARB follows the Eurostat guidelines on seasonal adjustment and uses the X-13-ARIMA-SEATS procedure in the JDemetra+ software.

Dividends

R billions



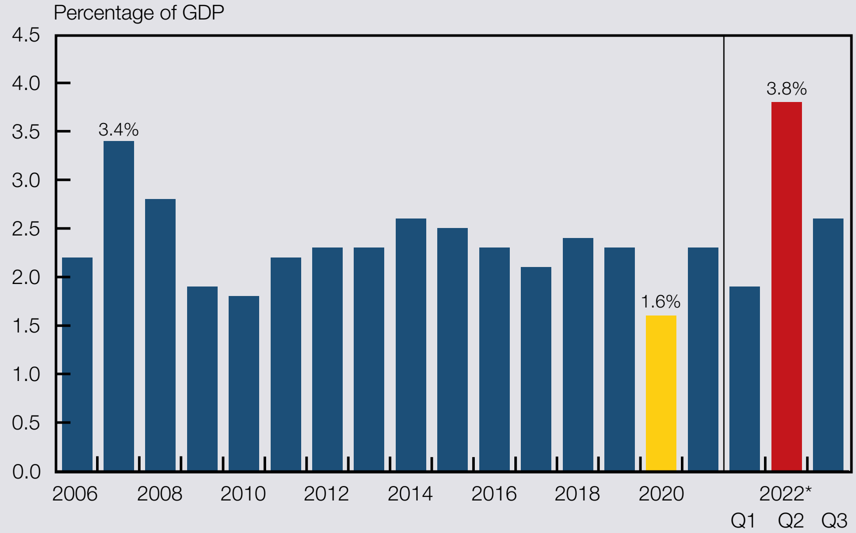
* Quarterly, seasonally adjusted and annualised

Source: SARB

Both the third quarter of 2020 and the first quarter of 2021 were marked by an unusual dividend surplus (net dividend receipts) – the first such quarterly surpluses in 25 years – which almost repeated itself in the first quarter of 2022. Amid these abnormal outcomes and volatility, the value of total dividend payments reached an all-time high in the second quarter of 2022, although only constituting 3.8% of GDP – lower than the all-time high of 4.4% in the fourth quarter of 2007.

Gross dividend payments

Percentage of GDP



* Quarterly, seasonally adjusted and annualised

Source: SARB

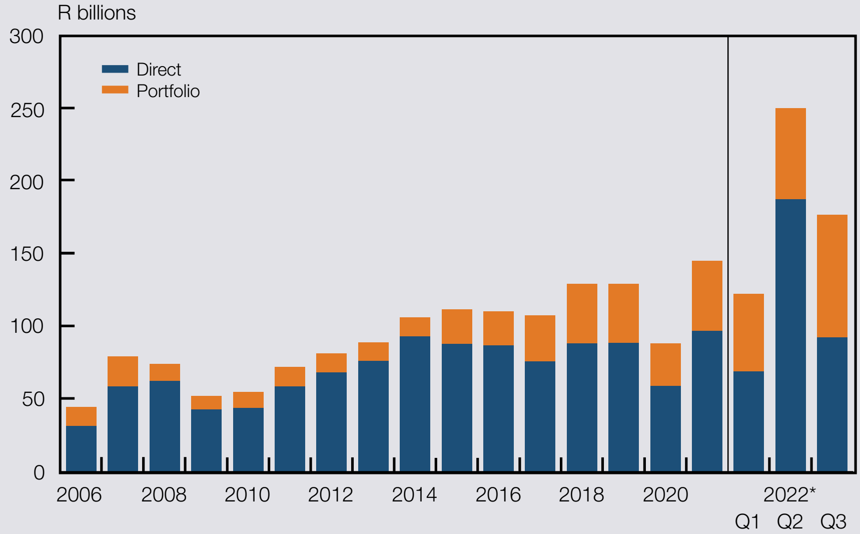
The composition of South Africa's dividend payments also affected the magnitude thereof in the second quarter of 2022, with the value of dividend payments by companies with a direct investment relationship[12] historically being markedly larger than portfolio investment-related dividend payments. Dividend payments on direct investments increased notably in the second quarter of 2022, reflecting their unpredictability in the absence of a scheduled dividend declaration policy, which generally applies to dividend payments on portfolio investments.[13] The large dividend payments on direct investments in the second quarter of 2022 emanated mostly from the mining sector and reflected profits from higher commodity prices. Generally, the

12 Investment by non-residents in undertakings in South Africa in which they have individually or collectively, in the case of affiliated organisations or persons, at least 10% of the voting rights.

13 Dividends on portfolio investments are generally declared by companies listed on the JSE Limited, with fixed dividend declaration patterns.

repatriation of these profits through dividends implies larger liquidity requirements of parent companies or major shareholders abroad.

Gross dividend payments

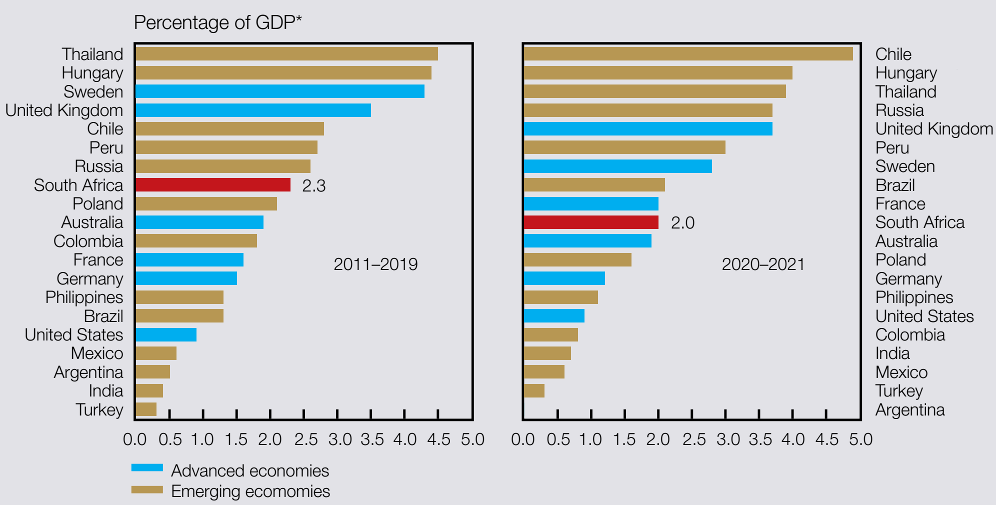


* Quarterly, seasonally adjusted and annualised

Source: SARB

Expressed as a ratio of GDP, the size of South Africa's dividend payments does not qualify as an outlier when compared with that in both advanced and emerging market economies. When comparing average annual total gross dividend payments for the 2011–2019 period with the 2020–2021 period, South Africa remained more or less in the middle within the same group of countries, implying that most other countries were similarly impacted by the onset of the COVID-19 pandemic in 2020.

Annual average dividend payments by selected countries



* Ratios calculated using nominal US dollar-denominated aggregates

Sources: IMF and SARB

Sudden and large changes in dividend payments to non-residents impact the income account and therefore the overall size of the balance on the current account of the balance of payments. Some of these dividend payments, in particular those related to direct investments, could be random and do not always reflect broad economic activity and, depending on their magnitude, can significantly change the outcome of the current account balance as experienced in the second quarter of 2022.

Net current transfer payments decreased further in the third quarter of 2022 as gross current transfer payments declined by 12.0% when compared with the previous quarter. The net current transfer deficit as a percentage of GDP narrowed slightly from 0.4% in the second quarter of 2022 to 0.3% in the third quarter – a ratio last recorded in the fourth quarter of 2021.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an inflow of R14.6 billion in the third quarter of 2022 following an outflow of R1.4 billion in the second quarter. On a net basis, direct and other investment recorded inflows while portfolio investment, financial derivatives and reserve assets registered outflows. Net financial account flows as a ratio of GDP reverted to an inflow of 0.9% in the third quarter of 2022 from an outflow of 0.1% in the second quarter.

Net financial transactions

R billions

	2021			2022		
	Q3	Q4	Year	Q1	Q2	Q3
Change in liabilities						
Direct investment	557.9	22.7	604.4	39.9	26.2	11.9
Portfolio investment	-362.1	-40.0	-408.2	60.7	39.8	-32.0
Financial derivatives	-58.1	-54.8	-245.8	-46.6	-55.4	-98.0
Other investment	85.5	-29.6	13.7	79.8	48.3	9.5
Change in assets						
Direct investment	-3.7	-10.5	-0.3	-19.8	6.1	-6.2
Portfolio investment	-244.4	-40.0	-395.2	-53.4	-44.4	3.1
Financial derivatives	55.3	60.2	249.3	46.7	51.9	80.0
Other investment	-1.3	40.3	5.0	-69.2	-38.7	72.9
Reserve assets	-50.4	-3.3	-67.3	-6.8	-35.2	-26.5
Total identified financial transactions*	-21.3	-55.2	-244.5	31.3	-1.4	14.6
As a percentage of gross domestic product	*-1.4*	*-3.4*	*-3.9*	*2.0*	*-0.1*	*0.9*

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

Source: SARB

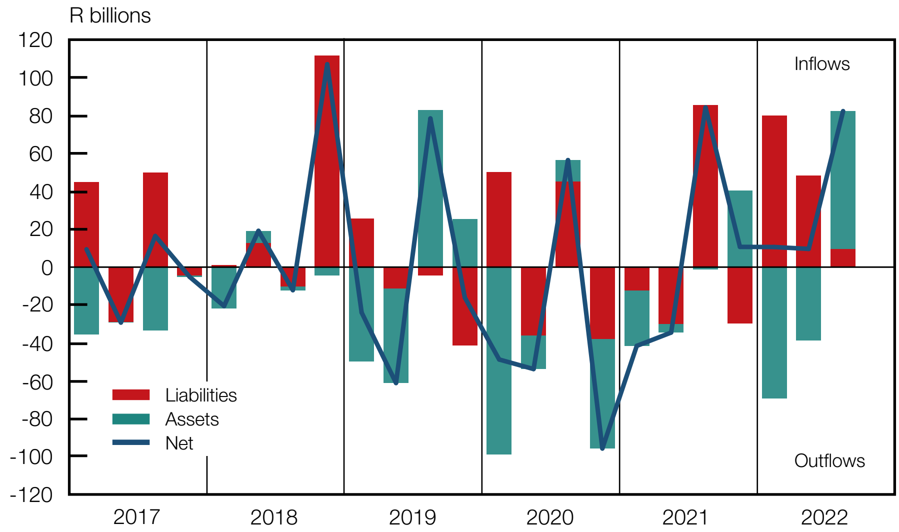
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded a smaller inflow of R11.9 billion in the third quarter of 2022 following an inflow of R26.2 billion in the second quarter as non-resident parent entities further increased equity and debt securities investments in domestic subsidiaries.

Portfolio investment liabilities switched to an outflow of R32.0 billion in the third quarter of 2022 from an inflow of R39.8 billion in the second quarter as non-residents sold domestic equities and, to a lesser extent, debt securities. Non-residents' net sales of equities increased to R22.4 billion in the third quarter of 2022 following net sales of R12.9 billion in the second quarter, while the net sales of debt securities of R9.6 billion in the third quarter of 2022 represented a substantial reversal from net purchases of R52.6 billion in the second quarter. The debt securities outflow in the third quarter of 2022 also reflected the redemption of a US$1 billion international bond by a public corporation.

Other investment liabilities recorded a smaller inflow of R9.5 billion in the third quarter of 2022 following an inflow of R48.3 billion in the preceding quarter as non-residents further increased deposits with the domestic private banking sector. Furthermore, the national government received a €391 million loan from the World Bank. These inflows were partly countered by the repayment of short-term loans by the private banking sector.

Other investment flows



Source: SARB

South African-owned assets abroad

South Africa's direct investment assets switched from an inflow of R6.1 billion in the second quarter of 2022 to an outflow of R6.2 billion in the third quarter as domestic parent companies increased equity investment in non-resident subsidiaries.

South Africa's foreign portfolio investment assets reverted to an inflow of R3.1 billion in the third quarter of 2022 from an outflow of R44.4 billion in the second quarter. The domestic private banking sector's sales of foreign debt securities outweighed the purchases of foreign equity securities by the private non-banking sector.

Other investment assets switched to a significant inflow of R72.9 billion in the third quarter of 2022 from an outflow of R38.7 billion in the second quarter, mainly as a result of non-residents' repayment of short-term loans to the domestic banking sector as well as the repatriation of foreign deposits by the private banking sector from non-resident banks.

Foreign debt

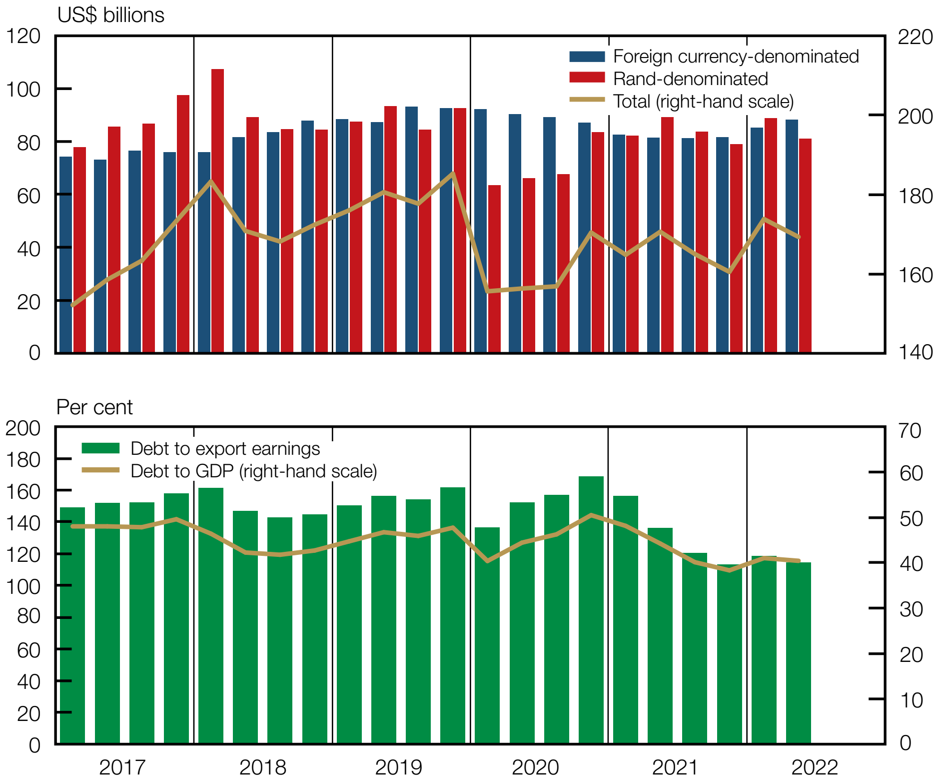
South Africa's total external debt decreased from US$173.8 billion at the end of March 2022 to US$169.3 billion at the end of June. However, expressed in rand terms, South Africa's total external debt increased from R2 516 billion at the end of March 2022 to R2 752 billion at the end of June as the exchange value of the rand depreciated against the US dollar over this period.

Rand-denominated external debt, expressed in US dollars, decreased from US$88.7 billion in March 2022 to US$81.0 billion in June. This decrease can mainly be attributed to the lower US dollar value of rand-denominated external debt due to the depreciation in the exchange value of the rand over the period. The net purchases of domestic rand-denominated bonds by non-residents were also more than offset by the decrease in the market value of these bonds.

Foreign currency-denominated external debt increased from US$85.1 billion at the end of March 2022 to US$88.3 billion at the end of June. The increase was due to international bond issuances by the national government to the value of US$3 billion, which were partially countered by the redemption of an international bond of US$1 billion. An increase in short-term financing of the domestic banking sector further contributed to the increase in foreign currency-denominated external debt.

South Africa's total external debt as a ratio of annual GDP[12] decreased from 41.0% at the end of March 2022 to 40.4% at the end of June. Similarly, the ratio of external debt to export earnings decreased from 118.6% to 114.6% over the same period.

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



Source: SARB

Foreign debt of South Africa

US$ billions at end of period

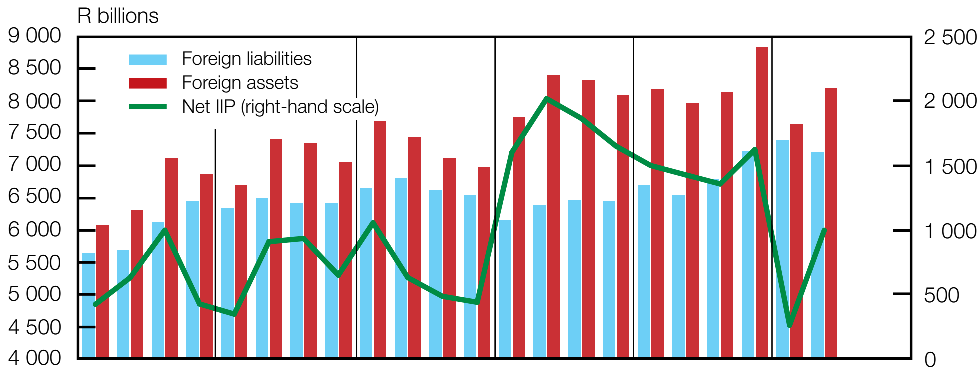
	2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2
Foreign currency-denominated debt	82.6	81.4	81.3	81.5	85.1	88.3
Debt securities	27.6	27.6	27.8	27.8	28.7	31.0
Other	55.0	53.8	53.5	53.7	56.4	57.3
Public sector	16.0	17.1	16.1	16.3	16.9	16.8
Monetary sector	15.4	14.4	14.7	14.6	15.1	15.8
Non-monetary private sector	23.6	22.3	22.7	22.8	24.4	24.7
Rand-denominated debt	82.1	89.2	83.7	79.0	88.7	81.0
Debt securities	52.3	59.2	53.3	51.9	57.6	50.5
Other	29.8	30.0	30.4	27.1	31.1	30.5
Total foreign debt	164.7	170.6	165.0	160.6	173.8	169.3
As a percentage of gross domestic product	*48.1*	*44.0*	*40.1*	*38.3*	*41.0*	*40.4*
As a percentage of total export earnings	*156.3*	*136.2*	*120.3*	*113.0*	*118.6*	*114.6*

Source: SARB

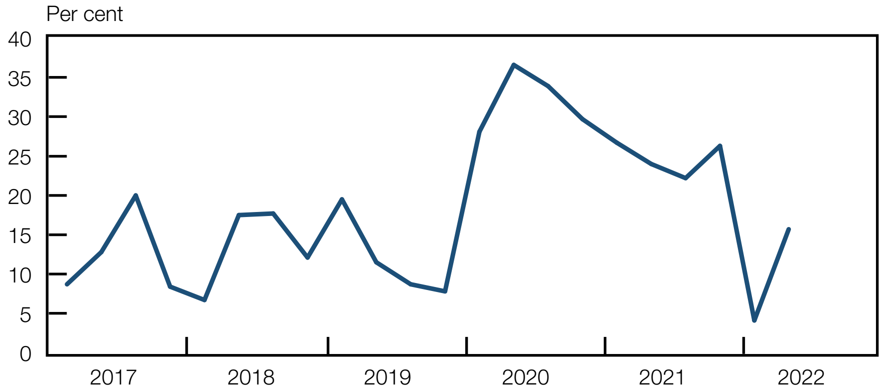
International investment position

South Africa's positive net international investment position (IIP) increased noticeably from a revised R257 billion at the end of March 2022 to R998 billion at the end of June. This reflected a significant increase in foreign assets together with a slight decrease in foreign liabilities. The exchange value of the rand had a notable effect on foreign assets and, to a lesser extent, on foreign liabilities as the nominal effective exchange rate (NEER) of the rand decreased by, on balance, 6.2% in the second quarter of 2022.

South Africa's international investment position



Net international investment position to GDP



Source: SARB

The market value of South Africa's foreign assets (outward investment) increased by 7.2% from a revised R7 650 billion at the end of March 2022 to R8 202 billion at the end of June as all functional categories except portfolio investment increased. The increase in direct investment mainly resulted from the valuation effects of an increase in the share price of a large dual-listed company that has a primary listing abroad. Portfolio investment assets decreased as the US Standard & Poor's (S&P) 500 Index decreased by 16.4%, along with other major global share price indices. Other investment assets increased mainly because the domestic banking sector increased their deposits at non-resident banks, while reserve assets increased mainly as a result of the depreciation in the exchange value of the rand.

The market value of South Africa's foreign liabilities (inward investment) decreased by 2.6% from a revised R7 393 billion at the end of March 2022 to R7 204 billion at the end of June. This reflected decreases in direct and portfolio investment, which more than countered increases in financial derivatives and other investment. Direct investment decreased as a result of valuation effects as the FTSE/JSE All-Share Index (Alsi) declined by 12.3% in the second quarter of 2022, which also contributed to the lower value of portfolio investment liabilities. This was partly countered by the issuance of two international bonds to the combined value of US$3 billion by the national government in the second quarter of 2022, which was partially offset by the redemption of an international bond of US$1 billion by the national government. The increase in other investment liabilities was mainly due to non-residents granting short-term loans to the domestic private banking and non-banking sectors and, to a lesser extent, increased deposits with the domestic banking sector.

Foreign assets as a ratio of South Africa's annual GDP[13] increased from 121.7% at the end of March 2022 to 128.8% at the end of June, while foreign liabilities decreased from 117.6% to 113.1% over the same period. This resulted in an increase in the positive net IIP from 4.1% of GDP at the end of March 2022 to 15.7% of GDP at the end of June.

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

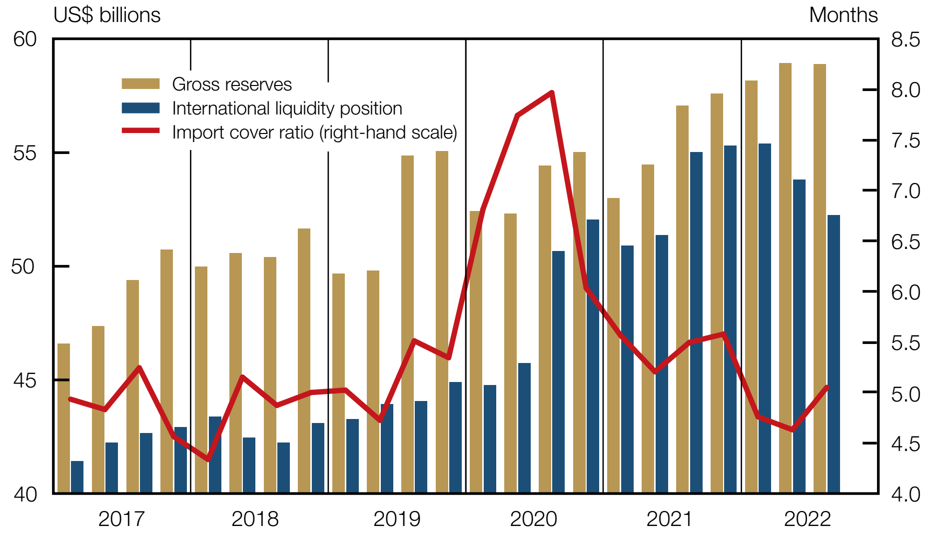
International reserves and liquidity

South Africa's international reserves increased further by R26.5 billion in the third quarter of 2022 following an increase of R35.2 billion in the second quarter.

The value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the SARB before accounting for reserves-related liabilities), expressed in US dollar terms, remained unchanged at US$58.9 billion from the end of June 2022 to the end of September as the decline in the US dollar gold price, together with foreign exchange payments, were offset by a national government loan from the World Bank. The country's gross gold and other foreign reserves increased to US$59.9 billion at the end of November 2022. South Africa's international liquidity position[14] decreased from US$53.8 billion at the end of June 2022 to US$52.2 billion at the end of September, before increasing to US$53.4 billion at the end of November.

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

International reserves



Source: SARB

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) increased from 4.6 months at the end of June 2022 to 5.1 months at the end of September.

Exchange rates[15]

The NEER of the rand decreased further by 4.6% in the third quarter of 2022 following a decrease of 6.2% in the second quarter. The NEER increased by 3.0% from the end of September 2022 to November. The exchange value of the rand was impacted by the effect of the increased incidence of electricity load-shedding in the third quarter of 2022 and into the fourth quarter on the domestic economic growth outlook and investor sentiment. In addition, global monetary policy tightening, especially by the US Federal Reserve (Fed) and a stronger US dollar, impacted the NEER.

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

Exchange rates of the rand

Percentage change

	31 Dec 2021 to 31 Mar 2022	31 Mar 2022 to 30 Jun 2022	30 Jun 2022 to 30 Sep 2022	30 Sep 2022 to 30 Nov 2022
Weighted average*	10.8	-6.2	-4.6	3.0
Euro	11.6	-5.1	-3.6	0.3
US dollar	9.8	-11.0	-9.2	5.4
Chinese yuan	9.3	-6.0	-3.8	6.2
British pound	13.1	-3.8	-1.7	-1.2
Japanese yen	16.2	-0.5	-3.8	1.3

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

Source: SARB

The NEER decreased by 0.8% in July 2022 as high global inflation resulted in monetary policy tightening in several major economies, with the US Fed implementing a second consecutive 75 basis point increase in the federal funds rate.

The rand was among some of the worst performing emerging market currencies against the US dollar in August 2022, depreciating by 3.0% during the month. This reflected global risk aversion due to geopolitical tensions, monetary policy tightening in several major economies and increasing expectations of a weak global economy. As a result, the NEER decreased by a further 1.3% in August 2022.

Emerging market currencies against the US dollar in 2022*

Percentage change from month to month

Depreciation (-)/appreciation (+)

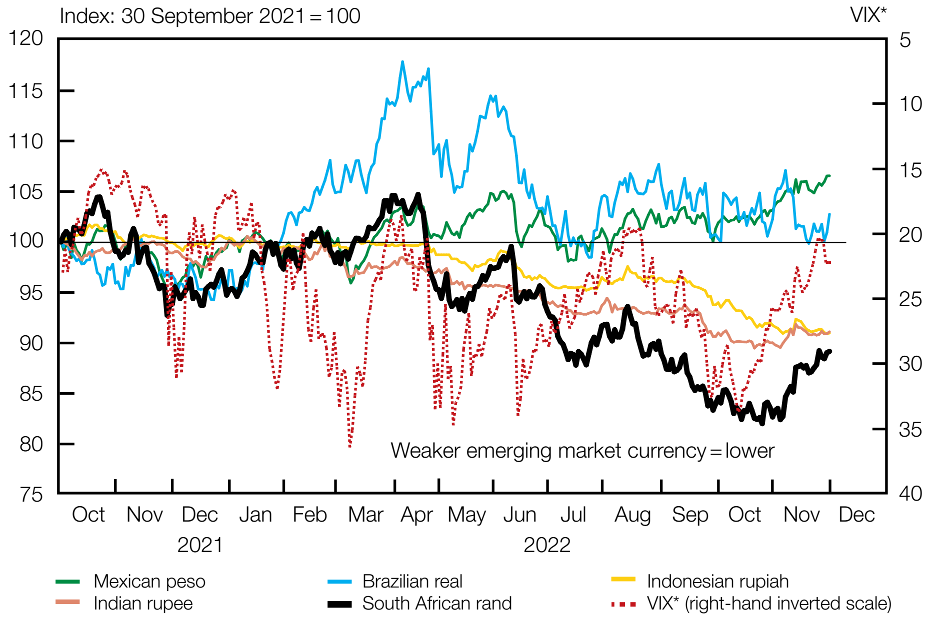
* End of period

Sources: Refinitiv and SARB

The US dollar strengthened against several emerging market currencies in September 2022, with the rand depreciating by a further 4.9% against the US dollar. The US Fed's restrictive monetary policy stance in response to persistent high inflation continued to support the US dollar. As a result, the NEER decreased further by 2.6% in September 2022, despite the second consecutive 75 basis point increase in the repurchase (repo) rate in September.

The rand depreciated by 9.2% against the US dollar in the third quarter of 2022. By contrast, several other emerging market currencies lost less than 4% in value against the US dollar over the same period, with the exception of the Turkish lira and the Russian rouble. While the Chilean peso and the Brazilian real strengthened against the US dollar during October 2022, the rand depreciated further because of, among other factors, the effect of continued electricity load-shedding on investor sentiment and despite the generally positive *2022 MTBPS*. The rand then appreciated against the US dollar in November 2022 as US consumer price inflation surprised to the downside, which somewhat tempered expectations of further interest rate increases in the US. Domestically, the repo rate increased by another 75 basis points in November 2022 as the SARB assessed risks to the inflation outlook to the upside.

Emerging market currencies against the US dollar

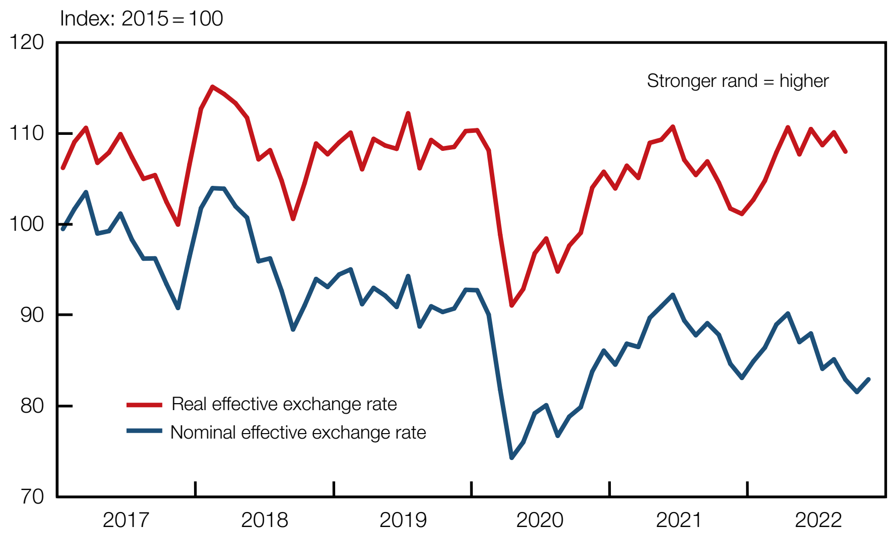


* The Volatility Index (VIX) is a real-time index that represents the market's expectation of 30-day forward-looking volatility derived from the S&P 500 Index options and it was developed by the Chicago Board Options Exchange (CBOE). The VIX provides a measure of market risk and investor sentiment.

Sources: Refinitiv and SARB

The increase of 6.8% in the real effective exchange rate (REER) of the rand between December 2021 and September 2022 reduced the competitiveness of domestic producers in foreign markets.

Effective exchange rates of the rand



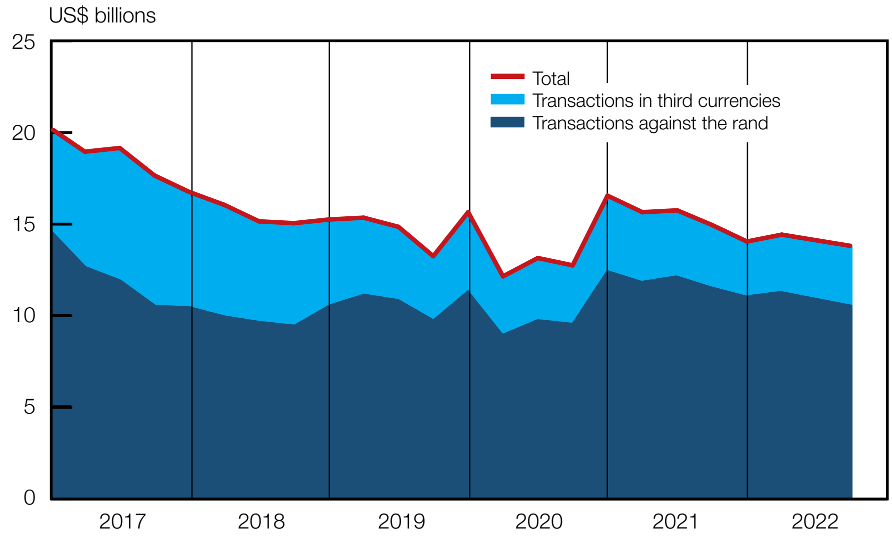
Source: SARB

Turnover in the South African foreign exchange market

The net average daily turnover[16] in the South African foreign exchange (FX) market decreased by 3.0% from US$14.6 billion in the second quarter of 2022 to US$14.1 billion in the third quarter, following an increase of 2.4% in the second quarter. The decrease was influenced by rising interest rates and fluctuations in the exchange value of the rand over this period. FX transactions against the rand decreased from US$11.3 billion in the second quarter of 2022 to US$10.7 billion in the third quarter. By contrast, transactions in third currencies increased from US$3.2 billion to US$3.4 billion over the same period.

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

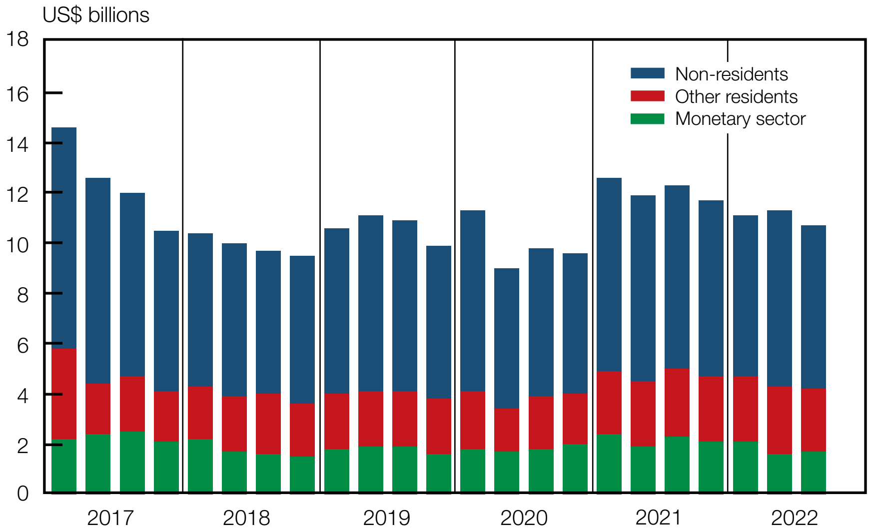
Net average daily turnover in the South African foreign exchange market



Source: SARB

Following an increase in the second quarter of 2022, non-resident participation in the rand market decreased to US$6.5 billion in the third quarter from US$7.0 billion in the previous quarter. Monetary sector participation in the rand market increased from US$1.6 billion in the second quarter of 2022 to US$1.7 billion in the third quarter, while resident participation decreased from US$2.7 billion to US$2.5 billion over the same period.

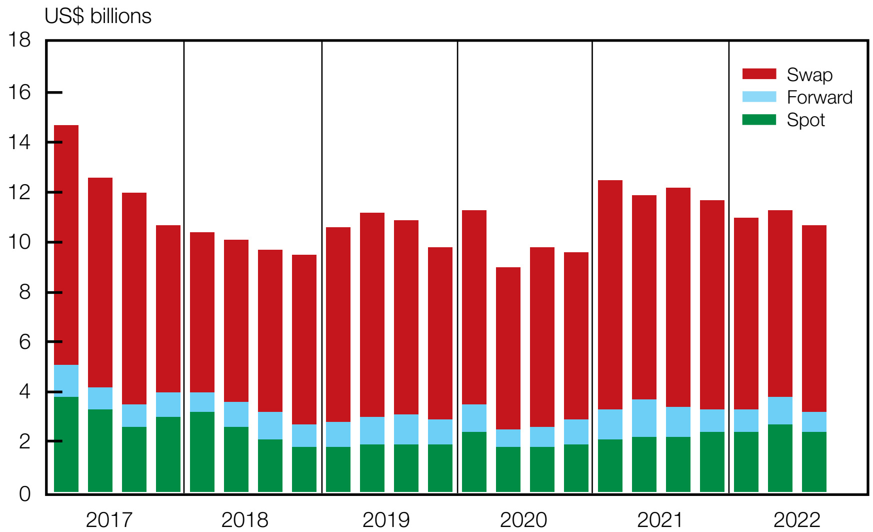
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

Swap transactions remained unchanged at US$7.5 billion from the second to the third quarter of 2022. However, forward transactions declined from US$1.1 billion to US$0.8 billion and spot transactions from US$2.7 billion to US$2.4 billion over the same period.

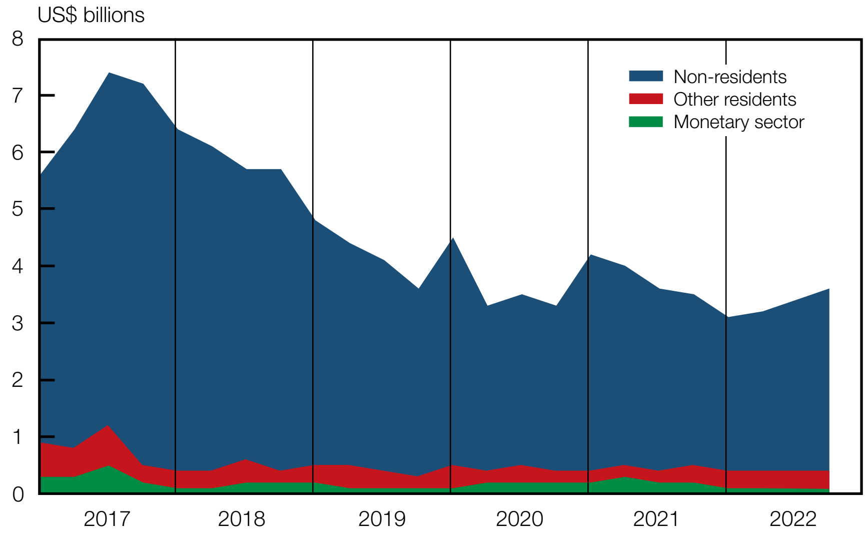
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

Participation by non-residents in the third currency market increased for a second consecutive quarter from US$2.8 billion in the second quarter of 2022 to US$3.0 billion in the third quarter, while participation by the monetary sector and residents averaged US$0.1 billion and US$0.3 billion respectively.

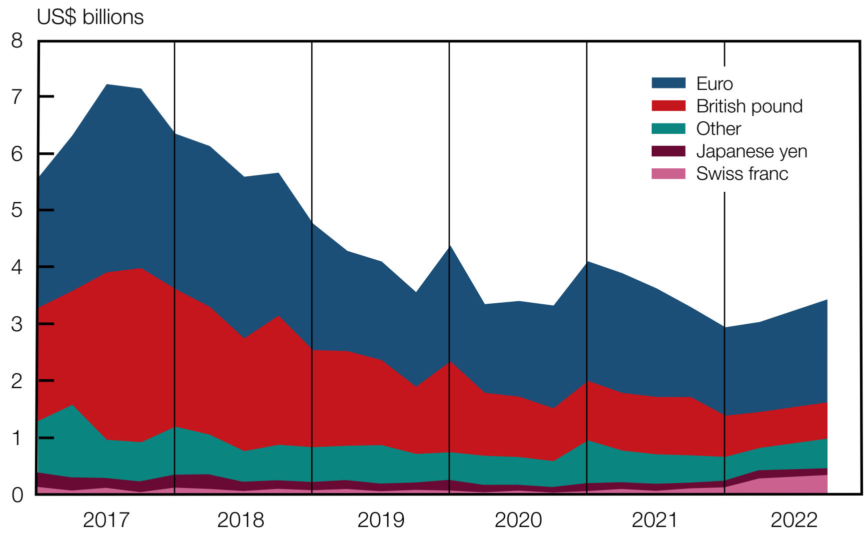
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

In the market for third currencies, US dollar transactions against the euro have remained unchanged at US$1.6 billion since the fourth quarter of 2021. Transactions of the US dollar against the British pound decreased for a third consecutive quarter and averaged US$0.7 billion in the third quarter of 2022. US dollar transactions against the Japanese yen remained below US$0.1 billion in the third quarter of 2022 and transactions of the US dollar against the Swiss franc remained unchanged at US$0.3 billion from the second to the third quarter of 2022. US dollar transactions against other currencies increased from US$0.4 billion in the second quarter of 2022 to US$0.5 billion in the third quarter.

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



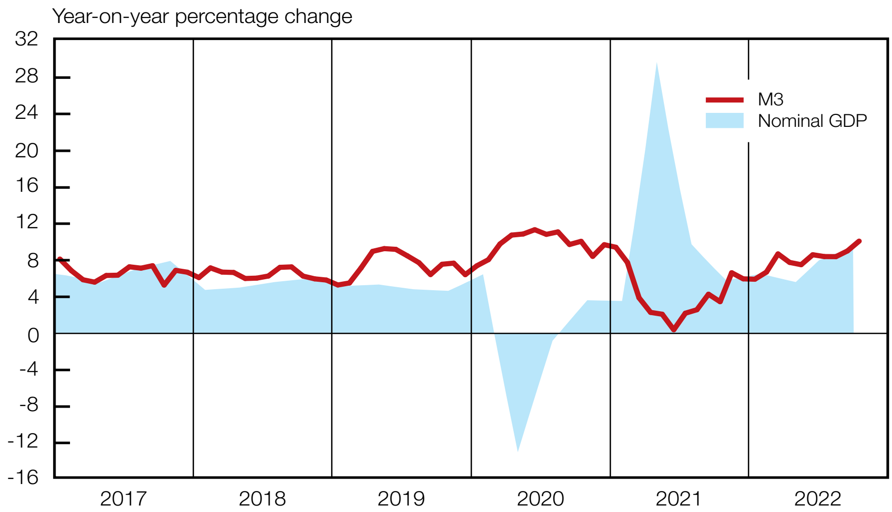
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

The year-on-year growth in the broadly defined money supply (M3) accelerated from 5.7% in January 2022 to 9.8% in October. On a quarter-to-quarter seasonally adjusted and annualised basis, growth in M3 accelerated from 5.8% in the second quarter of 2022 to 9.0% in the third quarter. The rate of increase in M3 matched that in nominal GDP in the third quarter of 2022. As a result, the income velocity of M3 remained unchanged at 1.48 in the third quarter.

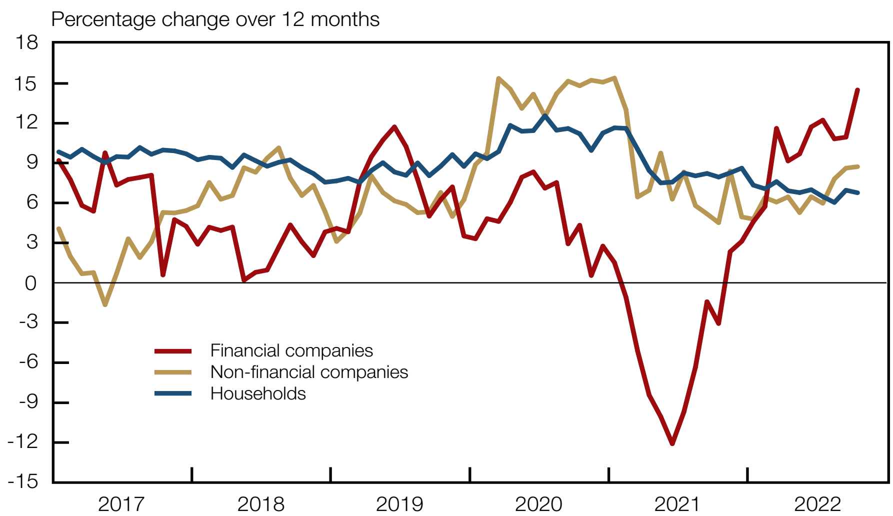
Money supply and gross domestic product



Sources: Stats SA and SARB

The persistent acceleration in M3 growth in the first 10 months of 2022 reflected increases in the deposit holdings of financial companies, partly boosted by dividend receipts and interest receipts on government bonds. Growth in the deposit holdings of non-financial companies fluctuated around 6.1% from February 2022 to July before accelerating to 8.7% in October. By contrast, somewhat slower growth in the deposit holdings of households in the first 10 months of 2022 partly reflected higher food and fuel prices as well as increasing debt repayments following the rise in interest rates.

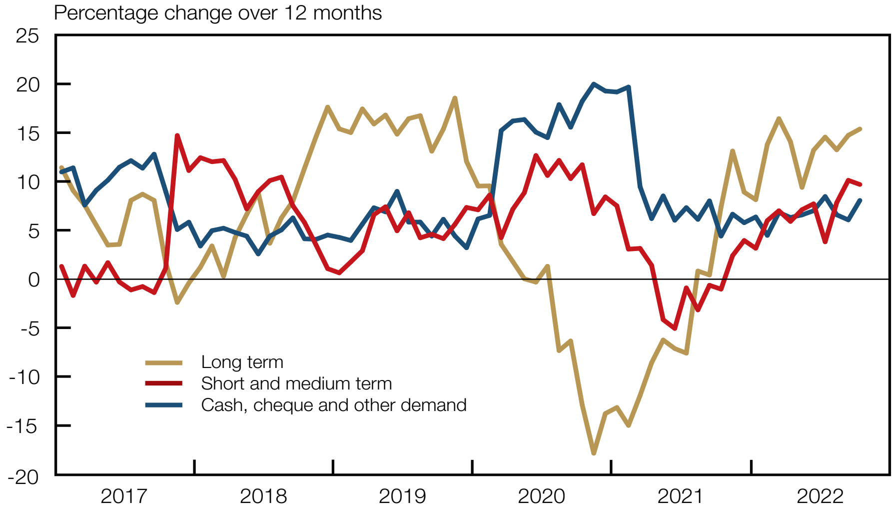
Deposit holdings of households and companies



Source: SARB

Long-term deposits recorded double-digit growth in 8 of the first 10 months of 2022, supported by rising interest rates, peaking at 16.5% in March 2022 before moderating to 15.4% in October. Growth in short- and medium-term deposits gained momentum, accelerating from 3.2% in January 2022 to 9.7% in October. The trend in short-, medium- and long-term deposits likely reflected the effect of higher interest rates. By contrast, growth in cash, cheque and other demand deposits levelled off at around 6.5% between January and September 2022 before it accelerated to 8.1% in October.

Deposits by maturity



Source: SARB

The deposit holdings of the corporate sector increased by R159.6 billion in the third quarter of 2022 following a contraction of R49.0 billion in the second quarter. The deposit holdings of both financial and non-financial companies increased over the period, with the former increasing more as fund managers, securities trading companies and money market funds, among other entities, increased their holdings of deposits. The increase in non-financial corporate deposits reflected the funds received by local governments from the equitable share transfers from national government and the increased deposit holdings by retail as well as mining and resource companies. These increases were partially countered by the provisional tax payments made in August and September 2022. The deposit holdings of the household sector increased by R56.3 billion in the third quarter of 2022 following an increase of R30.2 billion in the second quarter.

M3 holdings of households and companies

	Year-on-year change (R billions)					Percentage of total M3 deposit holdings*
	2021		2022			
	Q3	Q4	Q1	Q2	Q3	
Households	53.2	26.8	-1.7	30.2	56.3	36.8
Companies: Total	129.1	37.2	116.1	-49.0	159.6	63.2
Of which: Financial	94.9	-4.5	93.2	-31.6	95.4	33.1
Non-financial	34.2	41.8	23.0	-17.4	64.2	30.1
Total M3 deposits	182.3	64.0	114.5	-18.8	215.9	100.0

* Expressed as a percentage of the total outstanding balance as at September 2022

Source: SARB

Statistically, the counterparts to the R215.9 billion increase in M3 in the third quarter of 2022 were increases in net claims on the government sector of R140.1 billion, claims on the domestic private sector of R133.4 billion and an increase of R14.5 billion in net foreign assets. Net other assets of the monetary sector declined by R72.2 billion.

Counterparts of change in M3

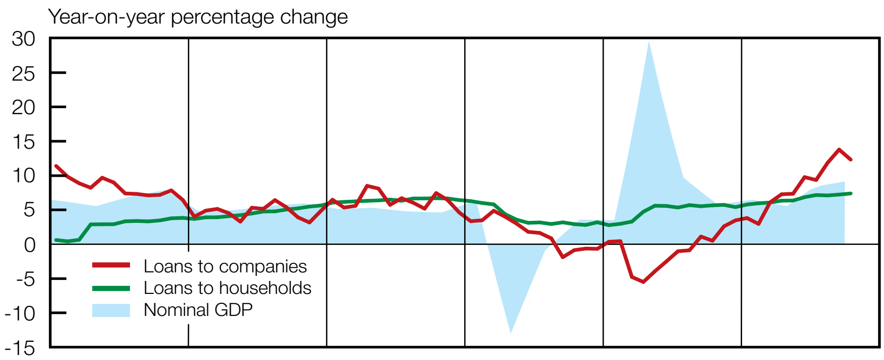
	Quarterly change (R billions)				
	2021		2022		
	Q3	Q4	Q1	Q2	Q3
Claims on the private sector	42.1	82.5	103.7	71.9	133.4
Net claims on the government sector	102.4	3.8	76.7	-113.6	140.1
Net foreign assets	110.3	16.6	-128.4	91.3	14.5
Net other assets	-72.4	-38.9	62.4	-68.5	-72.2
Change in M3	**182.3**	**64.0**	**114.5**	**-18.8**	**215.9**

Source: SARB

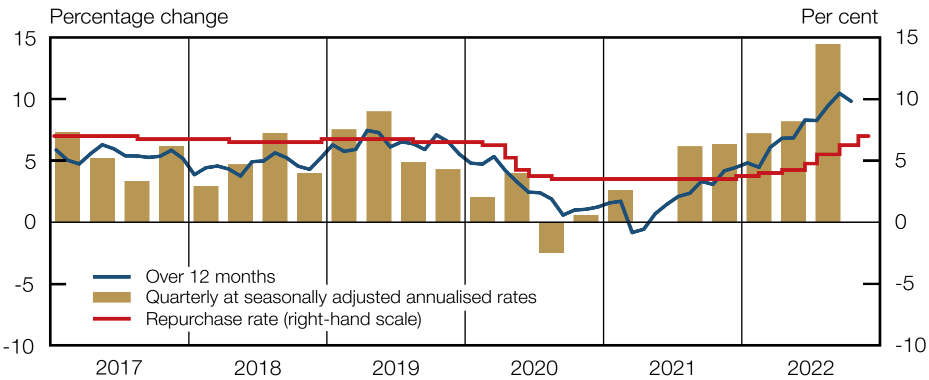
Credit extension

Growth in credit extended by monetary institutions to the domestic private sector accelerated to a recent high of 10.5% in September 2022, with double-digit growth rates last recorded in December 2012. This was boosted by strong growth in loans to companies and steady growth in loans to households, as banks grew their loan books. In addition, the quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances accelerated noticeably to 14.5% in the third quarter of 2022 from 8.2% in the previous quarter. Moreover,

Bank loans and gross domestic product



Total loans and advances to the private sector



Sources: Stats SA and SARB

the credit-to-GDP ratio increased to 58.9% in the third quarter of 2022 – edging closer to the ratios that existed prior to the COVID-19 pandemic. In October 2022 the year-on-year growth in total loans and advances decelerated slightly to 9.8%.

The rate of increase in credit extension to the corporate sector has been accelerating for more than a year, as corporates' demand for loans gradually normalised post-COVID-19. Corporate demand for credit originated primarily from non-financial companies, with financial companies also contributing somewhat in the third quarter of 2022, due to demand by financial auxiliaries and financial services providers. Total loans and advances to the corporate sector expanded by R96.6 billion in the third quarter of 2022, the largest quarterly increase on record, driven largely by strong growth in general loans. Credit extension to the household sector increased by R35.4 billion in the third quarter of 2022, up from R29.6 billion in the previous quarter, and more than the R26.5 billion increase during the same period in 2021.

Credit extended to households and companies

	Quarter-on-quarter change (R billions)						Year to date	Percentage of total loans and advances*
	2021		Year	2022				
	Q3	Q4		Q1	Q2	Q3		
Households	26.5	29.4	96.9	40.0	29.6	35.4	105.0	49.4
Companies: Total............................	22.3	58.2	62.2	28.2	64.4	96.6	189.2	50.6
Of which: Financial	5.7	8.4	-3.0	-6.5	14.1	43.2	50.7	12.3
Non-financial...............	16.6	49.8	65.2	34.8	50.3	53.4	138.4	38.3
Total bank loans and advances	48.8	87.6	159.1	68.3	94.0	131.9	294.2	100.0

* Expressed as a percentage of the total outstanding balance as at September 2022

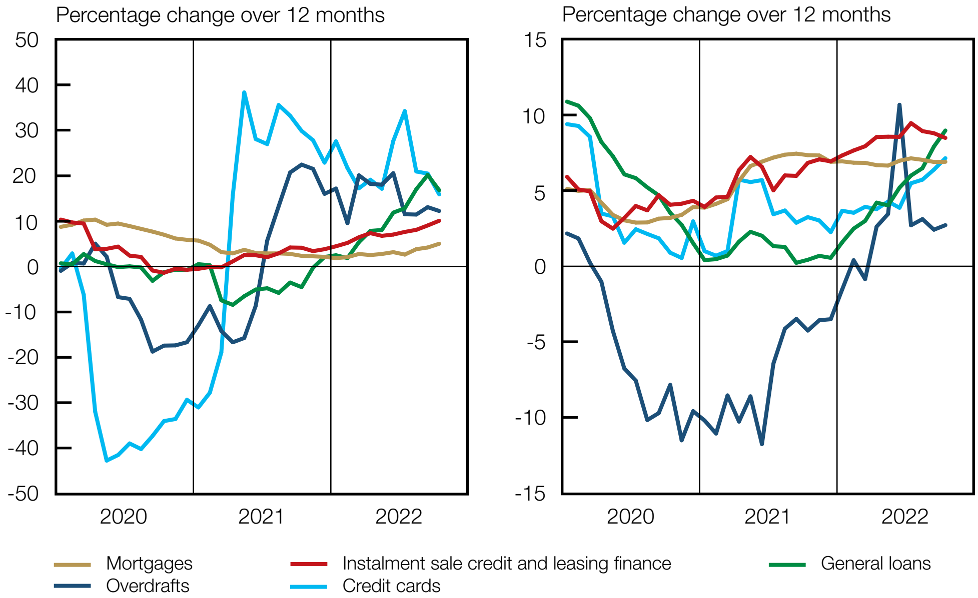
Source: SARB

Growth in *credit extension to companies* was supported by faster growth in nearly all credit categories. General loans, the largest category with a weight of 53.8% of corporate loans, increased by 20.2% year on year in September 2022 – the highest rate since July 2014 – before moderating somewhat to 16.8% in October. Non-financial companies involved in consumer goods manufacturing, mining and resources, renewable energy, agriculture and retail trade were among those that utilised general loans for operational purposes in the third quarter of 2022. At the same time, the rate of increase in the utilisation of overdrafts (with a weight of 10.3%) by companies moderated somewhat from a recent high of 20.6% in June 2022 to 12.2% in October. Likewise, growth in credit card advances (with a weight of 0.4%) also decelerated from a notable 34.3% in July 2022 to 15.9% in October. Demand for especially delivery vehicles amid growing online retail sales supported the gradual acceleration in the uptake of instalment sale credit to a post-pandemic high of 10.1% in October 2022.

Selected loans and advances

Corporate sector

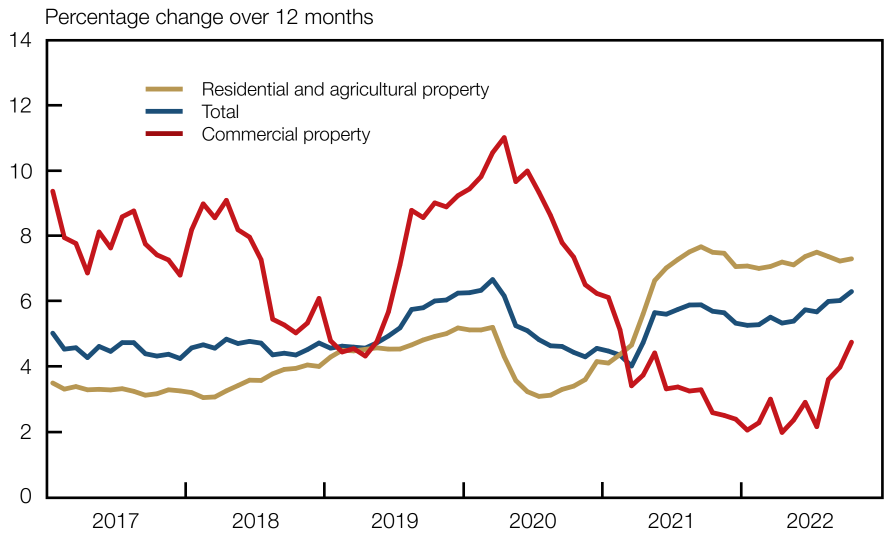
Household sector



Source: SARB

Credit extension to the household sector remained fairly robust across the various types of credit in 2022, with mortgage advances, instalment sale credit and general (mostly unsecured) loans and advances growing the fastest. Year-on-year growth in mortgage advances to households (which has a weight of 59.2% of loans to households) fluctuated around 7% in the first 10 months of 2022, slowing only marginally in recent months, as interest rates continued to rise. Growth in instalment sale credit to households (with a weight of 17.6%) also remained fairly strong, edging higher from 7.3% in January 2022 to a post-pandemic high of 9.5% in July, before receding to 8.5% in October. Growth in credit card advances to households (with a weight of 7.0%) increased steadily from 3.7% in January 2022 to 7.1% in October. Similarly, growth in general loans to households (with a weight of 14.2%) accelerated from 1.6% to 9.0% over the same period. Households' utilisation of overdrafts peaked at 10.7% in June 2022 before decelerating rapidly to 2.7% in October.

Mortgage advances



Source: SARB

Growth in mortgage advances on commercial property, which has been fairly weak since the start of 2022, accelerated from 2.0% in April 2022 to 4.7% in October. Growth in mortgage advances on residential and agricultural property was slightly more robust at around 7% thus far in 2022 as demand for residential property remained fairly resilient despite the impact of the rising interest rates on monthly instalments. On aggregate, growth in total mortgage advances accelerated from 5.3% in January 2022 to 6.3% in October.

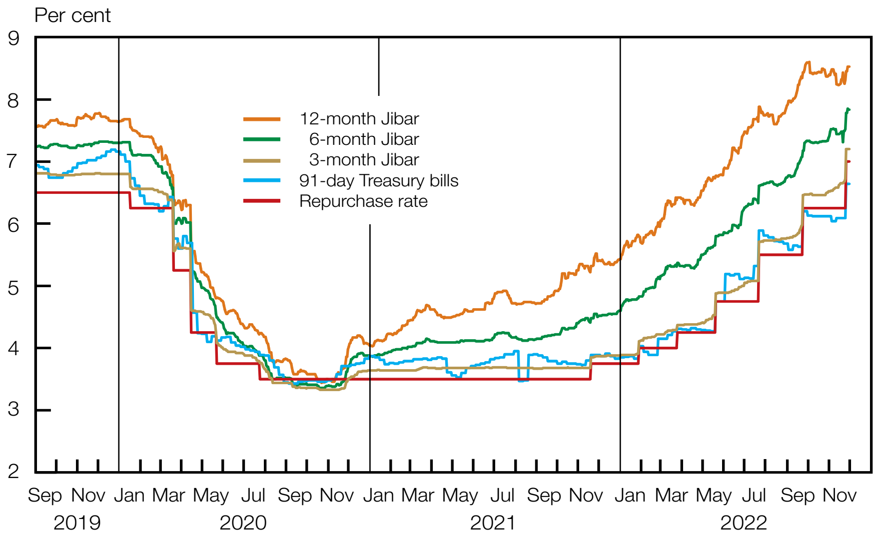
Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB increased the repurchase (repo) rate by a further 75 basis points to 7.00% per annum in November 2022. The MPC assessed risks to the inflation outlook to be on the upside, given the ongoing war in Ukraine and its adverse effects on global inflation, while domestic risk factors include electricity and other administered prices as well as higher than expected wage growth.

Domestic short-term money market interest rates increased in tandem with the repo rate during the course of 2022, while also reflecting a sensitivity to movements in the exchange value of the rand. The three-month Johannesburg Interbank Average Rate (Jibar) increased by 72 basis points from 5.80% on 12 September 2022 to 6.52% on 31 October as it followed the 75 basis point increase in the repo rate at the September MPC meeting. Subsequently, the rate increased further during the course of November to 7.20% at month-end following the latest increase in the repo rate. The six-month Jibar followed a similar trend but increased by a lesser 57 basis points from 6.81% on 12 September 2022 to 7.38% on 31 October. After the November MPC meeting, the six-month Jibar increased further to 7.83% on 30 November. Changes in the 12-month Jibar were even less pronounced as the rate increased from 8.03% on 12 September 2022 to 8.38% at the end of October, and further to 8.53% on 30 November.

The tender rate on 91-day Treasury bills (TBs) increased by 55 basis points from 5.65% in mid-September 2022 to 6.20% on 23 September, as it increased alongside the change in the repo rate. The increase in TB rates occurred despite National Treasury reducing the issuance of TBs by R1.4 billion on 26 August 2022 across the full range of maturities.[17] High demand relative to the supply of these short-term instruments saw the tender rate moderate to 6.12% on 30 September, and slightly further to 6.04% on 4 November. The tender rate on 91-day TBs then increased to 6.64% at month-end following the increase in the repo rate.

Money market rates

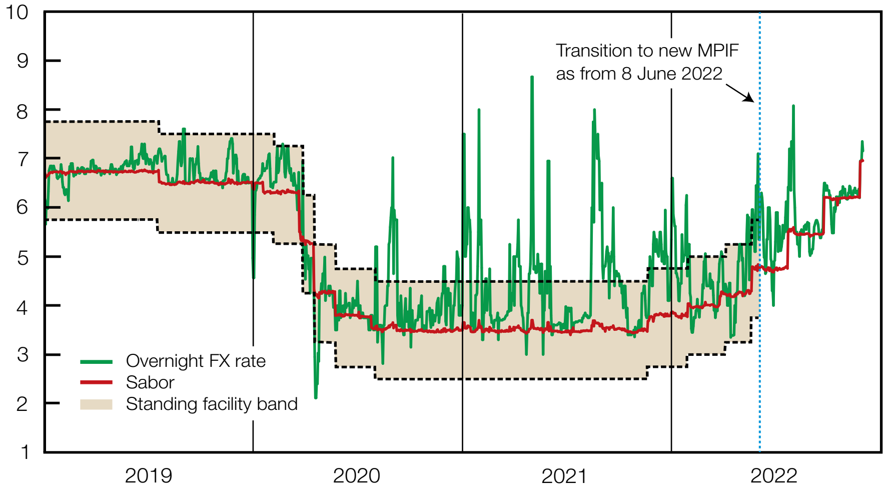


Source: SARB

Funding conditions in the interbank lending market have been relatively stable in recent months following the introduction of the surplus-based monetary policy implementation framework (MPIF) in early June 2022. The interest rate on the South African Benchmark Overnight Rate

(Sabor) increased from 5.46% on 12 September 2022 to 6.20% in late October, and further to 6.96% on 30 November, in alignment with the increases in the repo rate. The more volatile overnight FX rate initially increased from 5.45% in mid-September 2022 to 6.25% on 4 October following the increase in the repo rate. The overnight FX rate subsequently traded below the repo rate around mid-October before increasing to 6.43% on 26 October when demand for liquidity rose towards month-end. Increased month-end demand, along with the further increase in the repo rate, lifted the overnight FX rate to 7.15% on 30 November. The overnight FX rate averaged 5.76% in the third quarter of 2022, up from 4.96% in the second quarter.

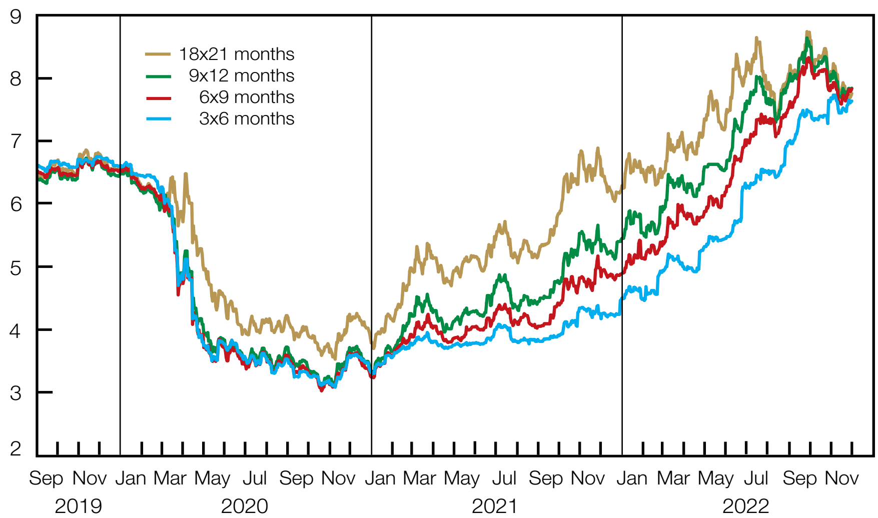
Benchmark overnight rates



Source: SARB

The rates on forward rate agreements (FRAs) reflect market expectations regarding the repo rate, the exchange value of the rand and consumer price inflation, among other factors. These forward-looking rates diverged somewhat in recent months when the shorter-dated FRA rates continued to edge higher while the rates on longer-dated FRAs fluctuated lower from late September 2022 when the exchange value of the rand appreciated. The 3x6-month FRA increased by 68 basis points from 7.01% on 1 September 2022 to 7.69% on 30 November. By contrast, the 6x9-month FRA decreased by 74 basis points from 8.33% on 28 September to 7.59% on 15 November, before increasing to 7.94% on 30 November. Similarly, the 9x12-month FRA decreased by 97 basis points from 8.65% on 26 September 2022 to 7.68% on 15 November, before increasing slightly to 7.98% on 30 November.

Forward rate agreements

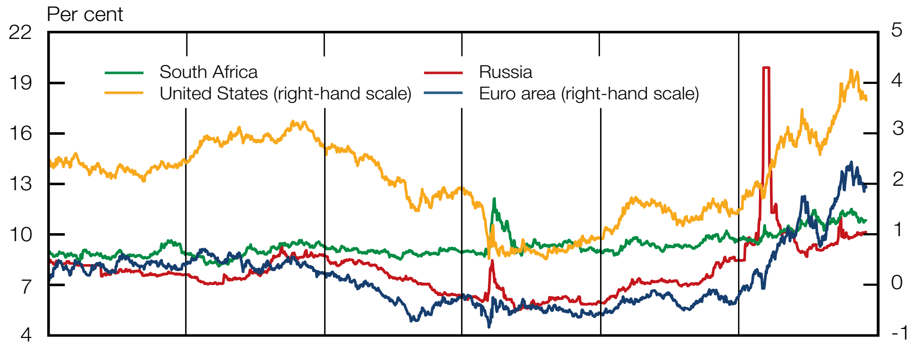


Source: SARB

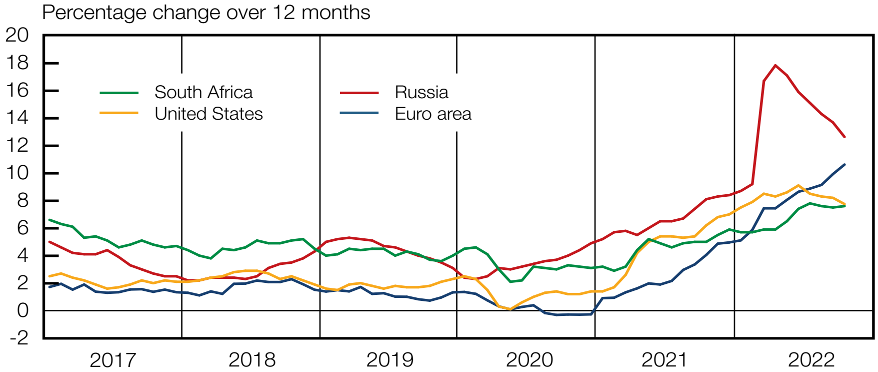
The weighted average deposit and lending rates offered by private sector banks generally followed the repo rate. The rate charged by banks on mortgage advances increased from 8.39% in August 2022 to 9.04% in October. Similarly, the rate on instalment sale credit increased from 10.43% to 10.85% between August and October, while the rate on overdrafts increased from 9.16% to 9.90%. The rate on credit card advances increased by 38 basis points from 14.72% in August 2022 to 15.10% in October, while the interest rate on call deposits increased from 4.85% to 5.42% over the same period. At the same time, banks offered a weighted average interest rate of 6.64% on 12-month fixed deposits, slightly up from 6.20% in August, while the rate on current accounts increased from 2.25% to 2.52% between August 2022 and October.

The upward trend in both global and domestic bond yields during 2022 reflected the impact of the war in Ukraine which contributed to heightened global inflationary pressures that prompted monetary policy tightening by most central banks. The increase in the *yield on 10-year South African rand-denominated government bonds* issued and traded in the domestic market of 210 basis points from a low of 9.38% on 17 February 2022 to 11.48% on 24 October also reflected the depreciation in the exchange value of the rand over the period, among other factors. Likewise, the yield on 10-year United States (US) government bonds increased by 229 basis points and European government bonds by 211 basis points to 4.25% and 2.34% respectively over the same period. However, domestic bond yields declined somewhat after the release of the *MTBPS* on 26 October 2022 to 10.82% on 30 November along with the appreciation in the exchange value of the rand.

Ten-year government bond yields



Consumer price inflation

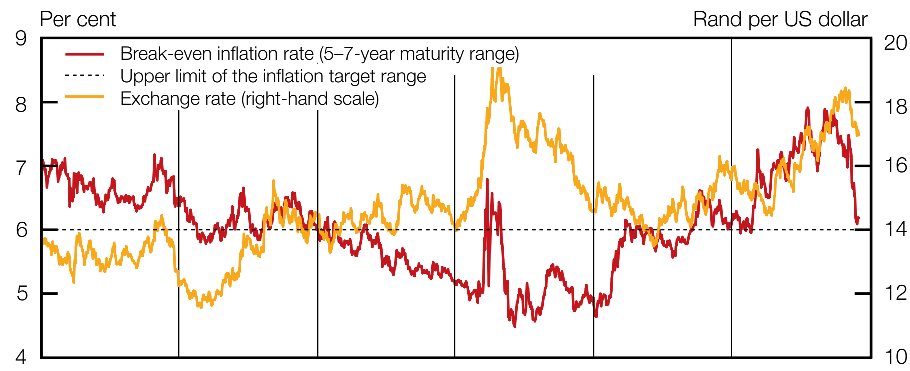


Sources: IRESS, JSE and Stats SA

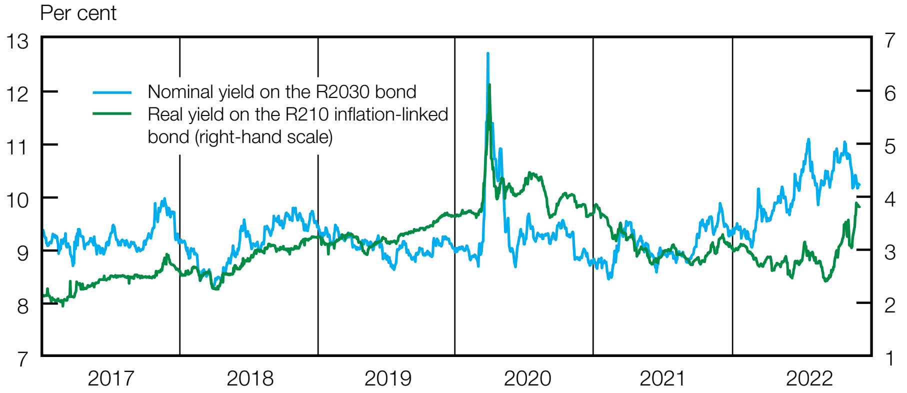
18 The break-even inflation rate in the five- to seven-year maturity range was calculated as the difference between the nominal yield on the R2030 conventional bond (maturing on 31 January 2030) and the real yield on the R210 inflation-linked bond (maturing on 31 March 2028).

The *break-even inflation rate*[18] in the five- to seven-year maturity range has mostly exceeded the 6% upper limit of the inflation target range thus far in 2022. The rate increased from 5.95% on 17 February 2022 to 7.91% on 19 July following a spike in the nominal yield on conventional bonds and a marginal increase in the real yield on inflation-linked bonds. This reflected expectations of higher domestic inflation in the near-term in line with the International Monetary Fund's (IMF) forecast of higher global inflation in 2022. However, South Africa's break-even inflation rate then declined significantly to 6.18% on 30 November as the real yield increased along with a lower nominal yield.

Break-even inflation rate and the exchange rate



Government bond yields



Sources: IRESS, JSE and SARB

The yield spread of emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),[19] widened from 368 basis points in March 2022 to 467 basis points in October, alongside increased risk aversion amid higher global inflation and monetary policy tightening, before narrowing to 386 basis points in November. Similarly, South Africa's *sovereign risk premium*[20] on US dollar-denominated government bonds in the eight-year maturity range widened from an average of 272 basis points in April 2022 to 440 basis points in July, before narrowing to 330 basis points in November as South Africa's fiscal outlook improved.

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

20 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.

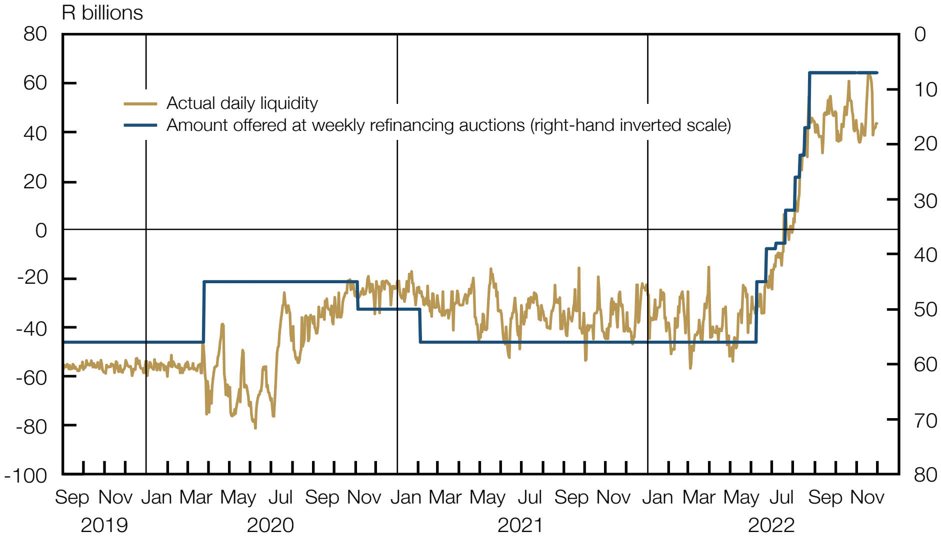
Money market

The daily liquidity position of private sector banks fluctuated around an average of R22.2 billion in the third quarter of 2022 as the SARB transitioned to a surplus-based MPIF. The daily liquidity position reached a shortage of R16.3 billion on 1 July 2022 when some banks accessed the supplementary reverse repo facility to square off their positions in the end-of-day South African Multiple Option Settlement (SAMOS) accounts at the SARB. Conversely, a surplus of R54.6 billion was recorded on 23 September 2022 when the Corporation for Public Deposits (CPD) funds were placed on deposit with private sector banks.

The SARB continued to reduce the amount on offer at the weekly main refinancing auctions (which will remain in place to provide liquidity when required) from R36.0 billion in July 2022 to R7.0 billion in August during the transition to the new MPIF. In October and November 2022, the average daily liquidity surplus increased to R45.5 billion and R46.3 billion respectively, as the SARB continued to inject liquidity into the market. The amount on offer by the SARB at the weekly main refinancing auction remained at R7.0 billion in October and November 2022, whereas banks' total accommodation[21] only amounted to R2.3 billion and R2.8 billion respectively.

21 The total accommodation to banks is the aggregate liquidity provided by the SARB to banks through the weekly main refinancing auctions plus any other supplementary repo auctions, if applicable.

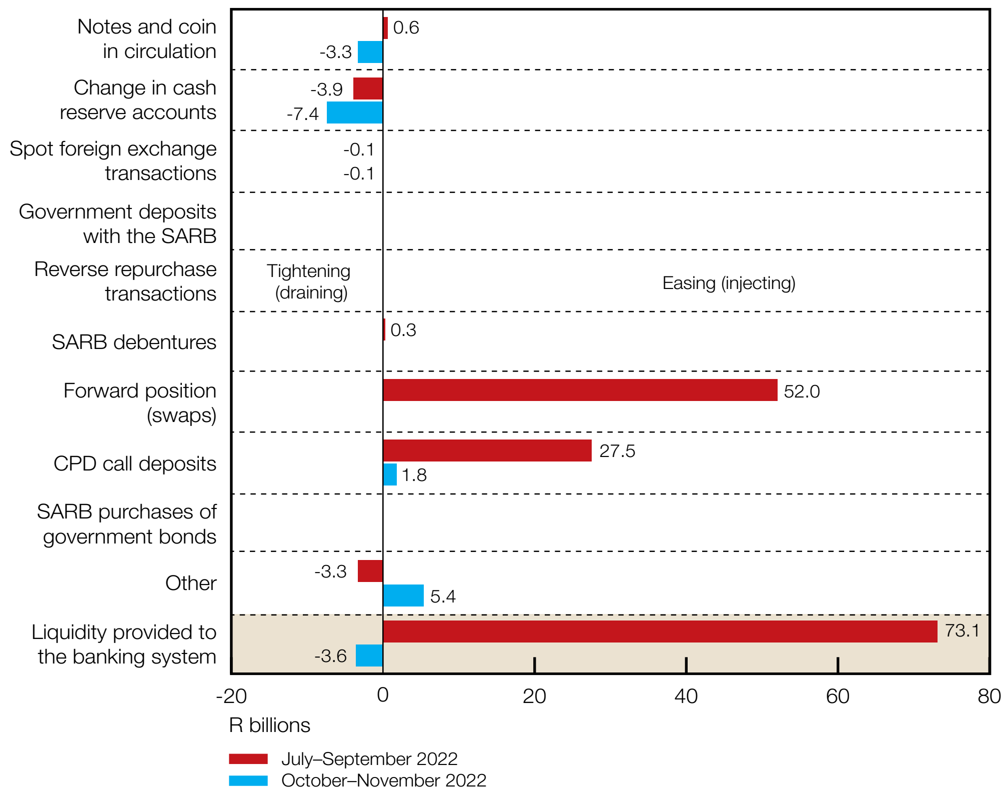
Daily liquidity



Source: SARB

Money market liquidity expanded by a net amount of R73.1 billion in the third quarter of 2022, compared with an expansion of only R3.7 billion in the second quarter. The main contributors to the expansion in liquidity were FX swaps to the value of R52.0 billion that were allowed to mature, and the placement of R27.5 billion in CPD funds on deposit at private sector banks. Notes and coin in circulation outside of the SARB to the value of R0.6 billion and maturing SARB debentures to the value of R0.3 billion added slightly to the increase in money market liquidity. The overall surplus was partially offset by an increase of R3.9 billion in the required cash reserve deposits of private sector banks and FX transactions by the SARB in the spot market that drained R0.1 billion. No transactions were settled in long-term reverse repo agreements in the third quarter of 2022 as they were phased out from 15 June 2022.

Factors influencing money market liquidity flows



Source: SARB

In October and November 2022, money market liquidity contracted by R3.6 billion mainly due to increases of R7.4 billion in banks' required cash reserve deposits and R3.3 billion in notes and coin in circulation. The placement of R1.8 billion in CPD funds on deposit at banks moderated the overall contraction somewhat.

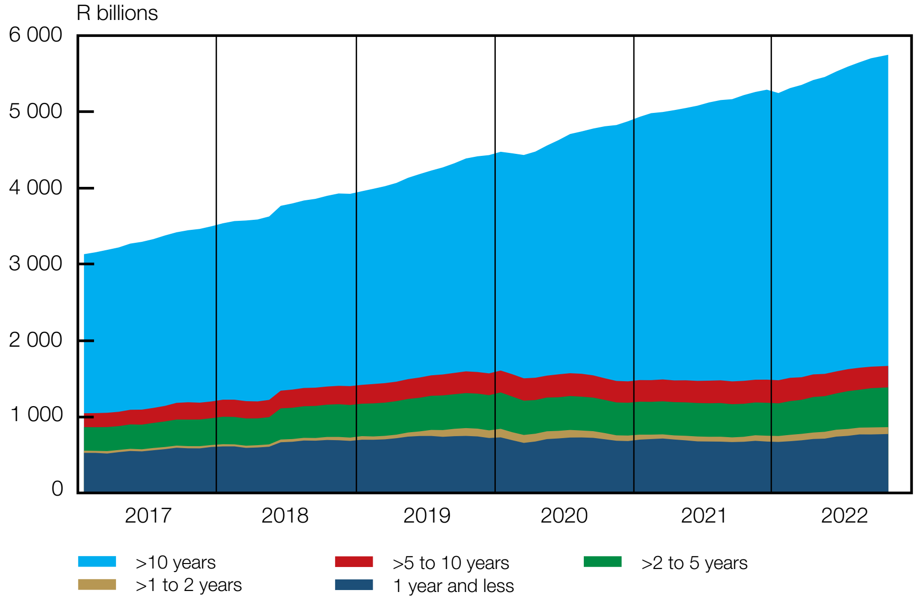
Bond market

The total *nominal amount of outstanding rand-denominated listed*[22] *and unlisted*[23] *debt securities* issued by residents and non-residents in the domestic bond market increased by 10.1% year on year to R5.7 trillion at the end of October 2022. Fixed-rate debt securities and securities with long-term original maturities of more than 10 years accounted for 67.8% and 71.0% respectively of the total amount outstanding at the end of October 2022.

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

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

Outstanding value of rand-denominated debt securites in issue in the domestic bond market*



* Nominal value

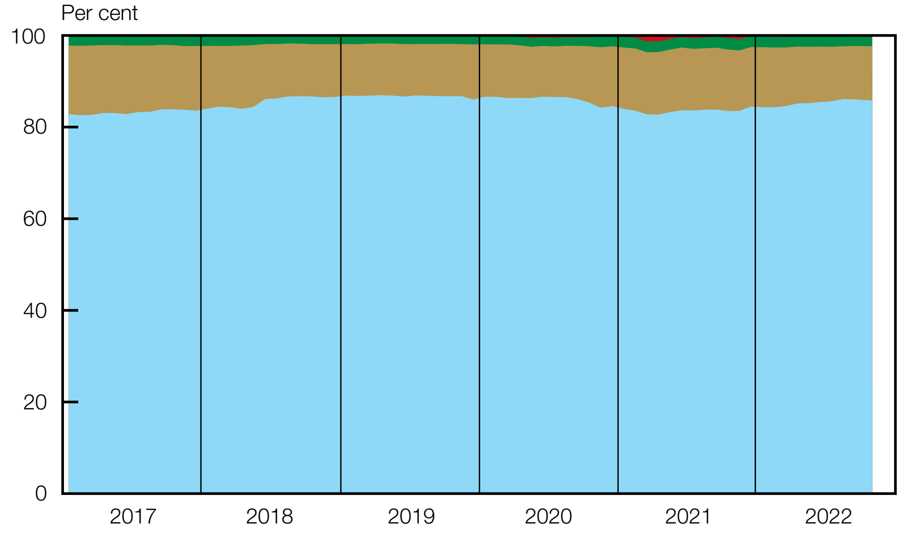
Sources: CTSE, JSE, National Treasury, banks and SARB

The net bond issuance by general government[24] of R304 billion in the 10 months to October 2022 continued to dominate funding activity at 66.4% of the total net issuance in the domestic primary bond market. However, this was 13.9% lower than in the corresponding period of 2021, due to their markedly lower borrowing requirement, reflective of a vastly improved fiscal position. By contrast, net issuance of rand-denominated debt securities in the domestic primary bond market by financial corporations[25] increased from only R2.1 billion in the first 10 months of 2021 to R148 billion during the same period in 2022. Banks accounted for 85.8% of the R1.3 trillion total debt securities issued by financial corporations at the end of October 2022, while other financial and insurance corporations only contributed 11.8% and 2.4% respectively.

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

25 Financial corporations include both public and private corporations.

Composition of financial corporations' debt securities in issue in the domestic primary bond market*



* Nominal value

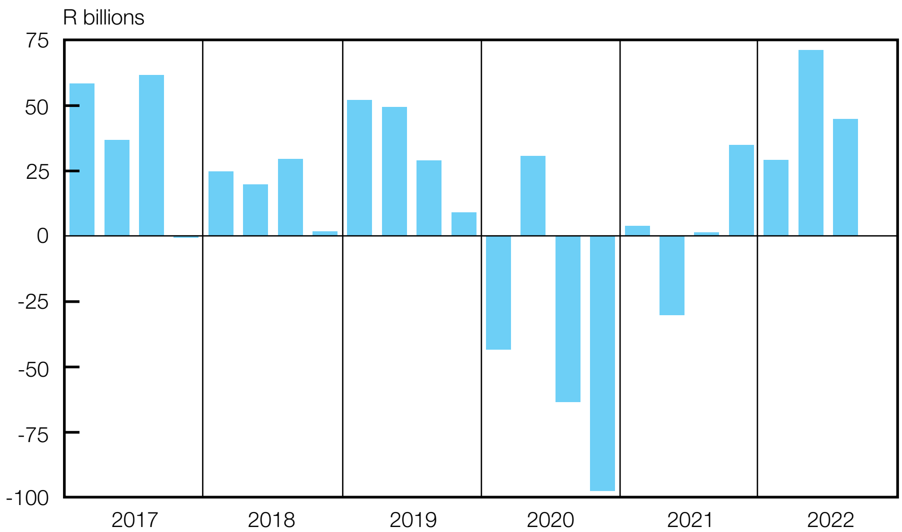
** Includes state-owned companies, real estate companies, special purpose vehicles and other financial corporations

Sources: CTSE, JSE, banks and SARB

26 Corporates include financial and non-financial as well as public and private corporations.

In the domestic primary corporate[26] bond market net redemptions of R174 billion in 2020 was followed by net issuance of R9.7 billion in 2021 and a marked R145 billion in the first three quarters of 2022. This was aligned to the higher level of real gross fixed capital formation in the first three quarters of 2022 compared with the same period of 2021.

Corporate net issuance in the domestic primary bond market*



* Nominal value

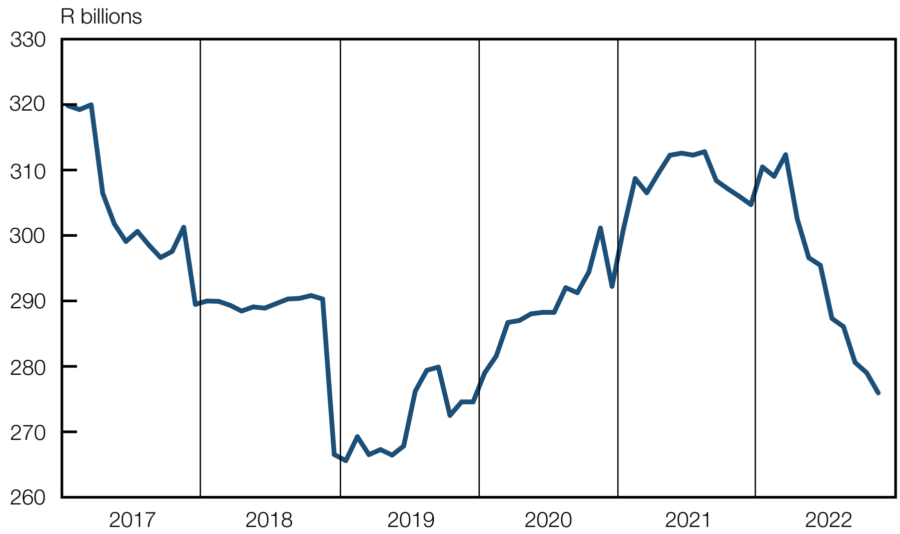
Sources: CTSE, JSE, banks and SARB

Notably, Africa's first Shariah-compliant sustainability-linked Sukuk bond was listed on the JSE Limited (JSE) in its Sustainability Segment in October 2022 and will provide additional funding for the agricultural sector. The Sustainability Segment aims to assist companies to raise funds for green, social and sustainable investment projects.

The daily average *value of turnover* in the domestic secondary bond market of R144 billion in the first 11 months of 2022 was 1.3% higher than in the corresponding period of 2021, despite a decline of 1.0% in the daily average number of trades over the same period. Non-residents' contribution to the total value of turnover declined from an average of 8.4% in the 11 months to November 2021 to 8.1% in the corresponding period of 2022.

The outstanding amount of rand-denominated debt securities in issue in the *European and Japanese bond markets* continued to decline due to consecutive net redemptions from April 2022 to November. Net redemptions of R36.4 billion lowered the outstanding amount in issue from a recent high of R312 billion in March 2022 to R276 billion in November. Investor sentiment in these markets continues to be influenced by movements in the exchange value of the rand and interest rates.

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

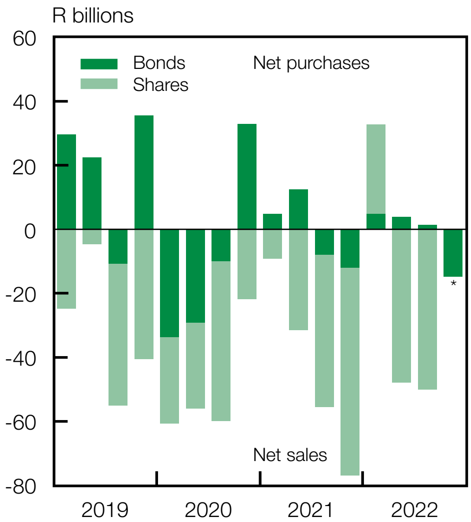


Source: Bloomberg

Net purchases of JSE-listed bonds by *non-residents* declined from R4.9 billion in the first quarter of 2022 to R3.9 billion on the second quarter and dwindled to only R1.4 billion in the third quarter, before switching to net sales of R14.7 billion in October and November.[27] Cumulative non-resident net sales of R4.6 billion in the first 11 months of 2022 exceeded the R1.9 billion in the corresponding period of 2021. The non-resident net sales of JSE-listed bonds reflected the impact of monetary policy tightening by most central banks to contain inflation, among other factors. Non-residents predominantly transacted government bonds, mostly purchasing the *R186* government bond with a remaining maturity of four years and selling the *R2023* bond with a remaining maturity of less than one year.

27 Source: JSE

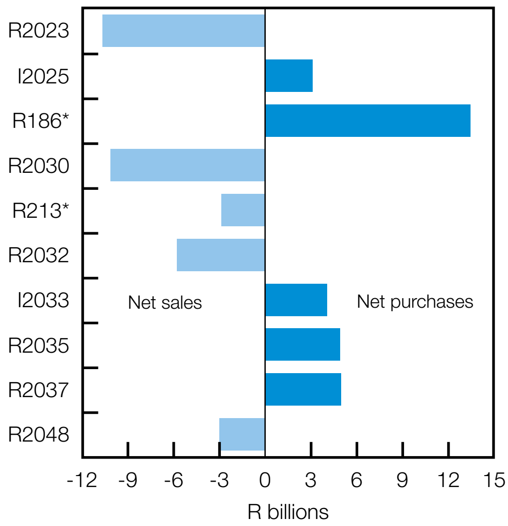
Non-resident net transactions in the domestic bond and share market



* October and November

Source: JSE

Non-resident net transactions in government bonds by instrument and maturity in the first 11 months of 2022



* R186 bond matures in 2026 and R213 bond matures in 2031

Share market

The value of *equity capital raised* in the domestic and international primary share markets by companies listed on the JSE of only R12.2 billion in the first 11 months of 2022 was 40.0% less than in the corresponding period of 2021. The largest amounts raised in the first 11 months of 2022 were R1.3 billion in September by an investment management company which issued shares for cash to pursue growth opportunities, and R1.5 billion in October by an integrated energy and chemical company through a share incentive scheme. In the year to date, companies in the financial sector have contributed the most to the total value of shares issued at 51.7%.

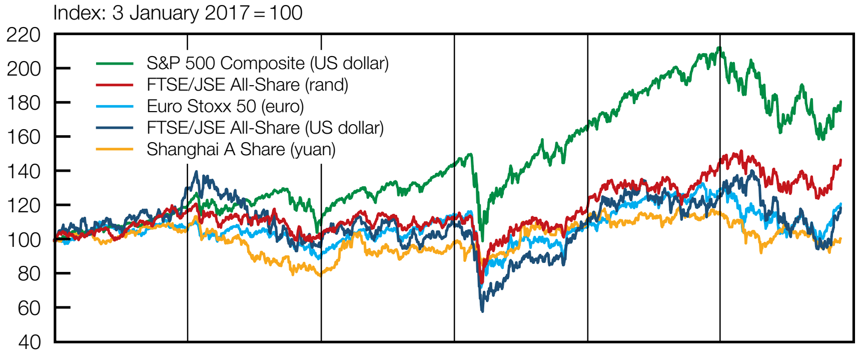
The combined *value of turnover* in the secondary share market of the five South African stock exchanges of R5.5 trillion in the first 11 months of 2022 was only 0.9% more than in the same period of 2021. However, the ZAR X halted trading in August 2021 after its exchange licence had been suspended. The combined market capitalisation of all shares listed on these exchanges declined from an all-time high of R23.2 trillion in January 2022 to R18.5 trillion in September, alongside a decline in share prices, before increasing to R21.5 trillion in November.

Cumulative net sales of JSE-listed shares by *non-residents* of R70.0 billion in the first 11 months of 2022 were much lower than the R127 billion in the corresponding period of 2021.[28] Non-residents' net sales of JSE-listed shares of R47.8 billion in the second quarter of 2022 was followed by further net sales of R49.9 billion in the third quarter and R94 *million* in October and November. This reflected the ongoing uncertainty about the outlook for domestic and global economic growth following renewed COVID-19 lockdowns in China and as central banks continued to increase interest rates to contain inflation, which has been exacerbated by the war in Ukraine and the energy crisis in Europe.

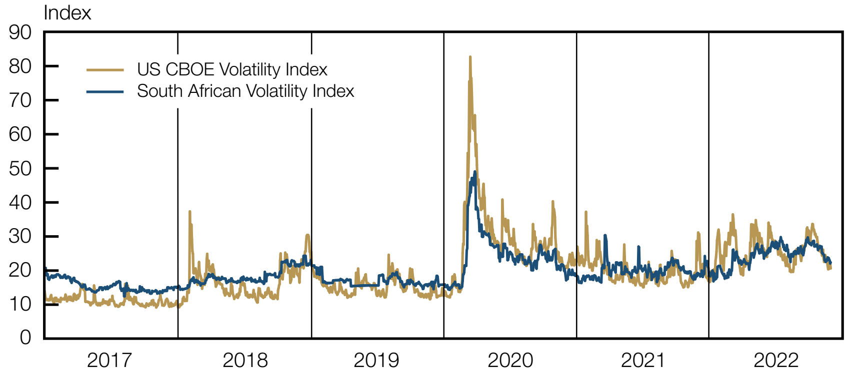
28 Source: JSE

The decline, in rand terms, in the *FTSE/JSE Alsi* of 3.8% in the third quarter of 2022 reflected the concern about the impact of electricity load-shedding on domestic economic growth and the increase in domestic interest rates, among other factors. The decline in the Alsi, in rand terms, was moderated by the depreciation in the exchange value of the rand as the decline in US dollar terms amounted to 12.6% in the third quarter of 2022. This mirrored a decline in the S&P 500 Composite Index of 5.3% alongside a weakness on other international bourses as well as the slowdown in global economic growth amid monetary policy tightening. The declines occurred alongside heightened risk as reflected by both the South African VIX and the US CBOE Volatility Index. The third-quarter decline in the Alsi, in rand terms, was concentrated in the financial and resources sectors which recorded decreases of 5.6% and 4.7% respectively. The Alsi, on balance, declined by 18.4% from the all-time high of 77 536 index points on 2 March 2022 to a low of 63 264 index points on 29 September, before increasing to 74 828 index points on 30 November.

Share prices



Volatility indices



Sources: IRESS and JSE

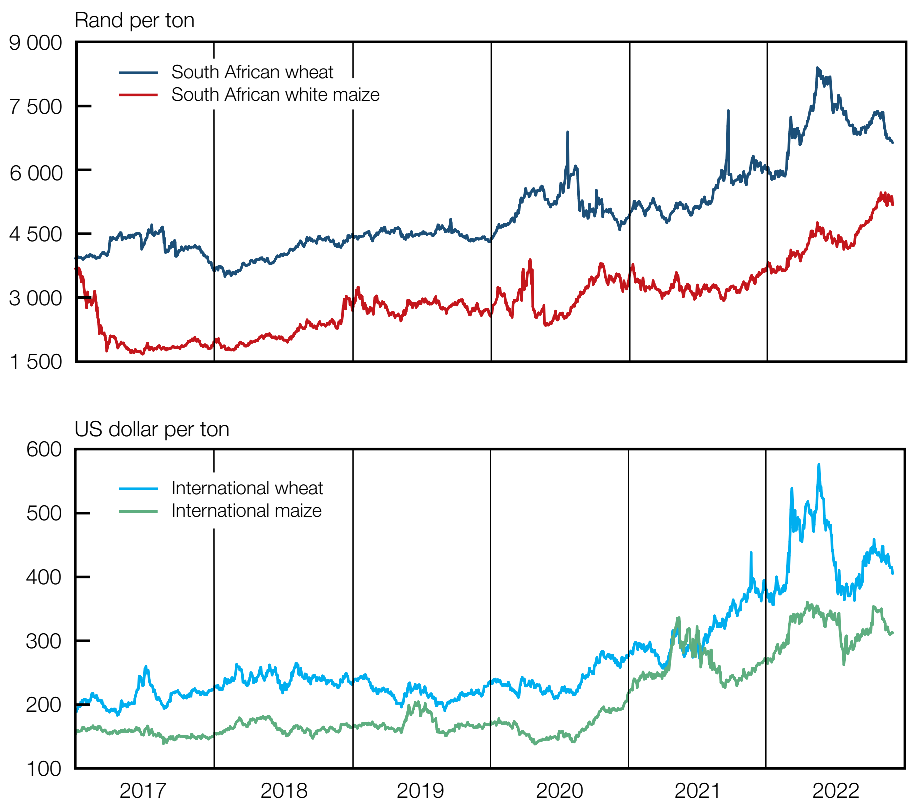
The overall *price-earnings ratio* of ordinary shares listed on the JSE declined from a recent high of 17.4 in January 2022 to a low of 11.3 in October, as earnings increased and share prices declined, before increasing to 12.8 in November along with higher share prices. By contrast, the *dividend yield* increased from 1.8% in January 2022 to 3.3% in October as dividends declared increased and share prices declined, before declining to 3.0% in November.

Market for exchange-traded derivatives

The *spot prices of maize contracts* traded on the JSE fluctuated higher in the first 11 months of 2022. White maize, in particular, increased by a significant 32.1% from R4 142 per ton on 25 July 2022 to an all-time high of R5 471 per ton on 31 October. The upward trend in domestic maize prices reflected the depreciation in the exchange value of the rand and higher international maize prices as the United States Department of Agriculture (USDA) forecasted a decline in the 2022/23 season's global production along with a lower estimated maize harvest, in particular in the US, Ukraine, the European Union (EU) and China by the International Grains Council (IGC). These lower estimates were largely related to poor weather conditions, continued supply chain disruptions from the war in Ukraine despite the resumption of grain exports, and rising demand for grain in China. The higher domestic maize prices were also consistent with the expected 5.7% decrease in the domestic maize harvest in the 2021/22 season compared to the previous season, as estimated by the Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development. Subsequently, the domestic price of white maize declined slightly by 5.3% to R5 183 per ton on 30 November together with the appreciation in the exchange value of the rand and lower international maize prices.

The *spot price of domestic wheat contracts* was fairly volatile during the first 11 months of 2022, decreasing from an all-time high of R8 409 per ton on 16 May 2022 to R6 837 per ton on 6 September, before increasing again to R7 381 per ton on 21 October. As a net importer, South African wheat prices tracked higher international wheat prices alongside the depreciation in the exchange value of the rand. The USDA's estimated lower global production for the 2022/23 season reflected the continued disruptions to wheat exports from the Black Sea region and lower stock levels due to drought in some Northern Hemisphere countries. Subsequently, the domestic price of wheat declined to R6 646 per ton on 30 November in line with the stronger rand and lower international wheat prices.

Grain prices

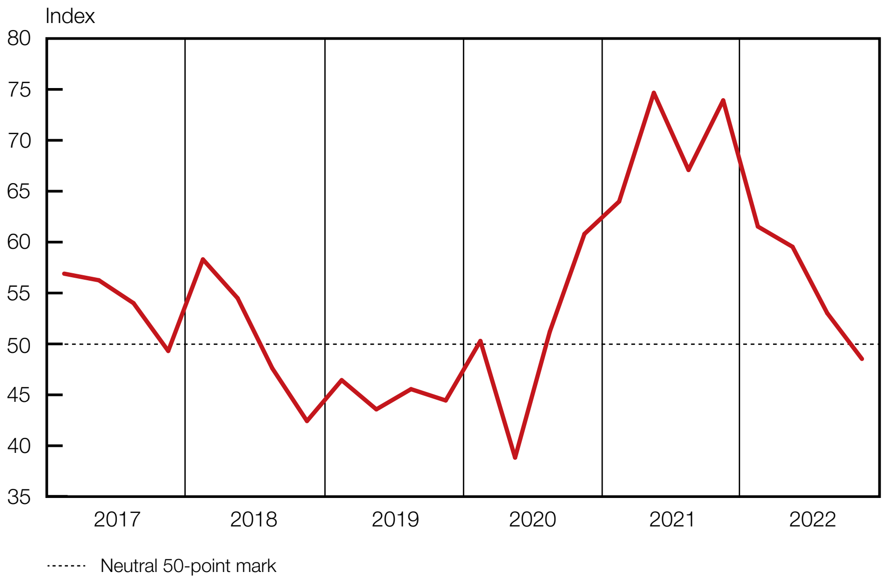


Sources: International Grains Council and JSE

29 The index is constructed quarterly by the Agricultural Business Chamber of South Africa (Agbiz), with support from the Industrial Development Corporation (IDC) and reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects that influence a business in the agricultural sector.

The Agbiz/IDC Agribusiness Confidence Index[29] (ACI) declined from a recent high of 75 index points in the second quarter of 2021 to 49 index points in the fourth quarter of 2022 – below the neutral 50-point mark for the first time since the second quarter of 2020. In the fourth quarter of 2022, 7 of the 10 sub-indices declined, including the general agricultural conditions sub-index, which declined to its lowest level since the fourth quarter of 2019. This partly reflected higher input costs, especially of agrochemicals, fertilisers and fuel, following global supply chain disruptions from the war in Ukraine. The high input costs of fuel and fertilisers remain an upside risk for South African grain prices.

Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz

Turnover in commodity derivates on the JSE increased by 32.7% in the first 11 months of 2022 compared with the corresponding period of 2021, reflecting hedging amid continued volatility in agricultural commodity prices. By contrast, turnover in equity derivatives increased by only 1.6% but continued to dominate the overall derivatives turnover on the JSE, while turnover in currency derivatives increased by 12.7%.

Derivatives turnover on the JSE, January to November 2022

Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	5 701	1.6
Warrants	1	-51.3
Commodity	1 368	32.7
Interest rate	1 350	8.1
Currency	794	12.7

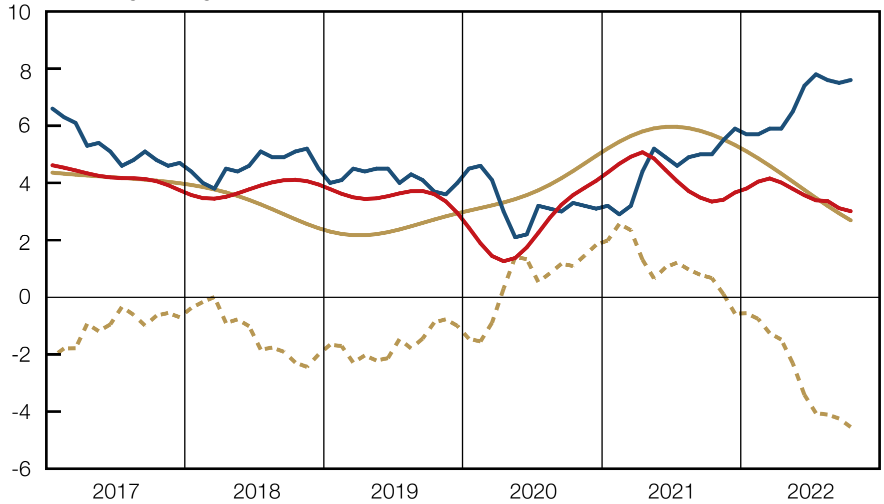
Source: JSE

Real estate market

Growth in nominal *residential property prices* continued to slow, with the year-on-year rate of increase in the two available house price indices moderating to 2.7% and 3.0% respectively in October 2022. Consequently, the year-on-year rate of *decrease* in real house prices accelerated from 0.6% in December 2021 to 4.5% in October 2022. The slowdown in nominal house price growth reflected a moderation in property demand alongside higher interest rates and high consumer price inflation.

Residential property and consumer prices

Percentage change over 12 months

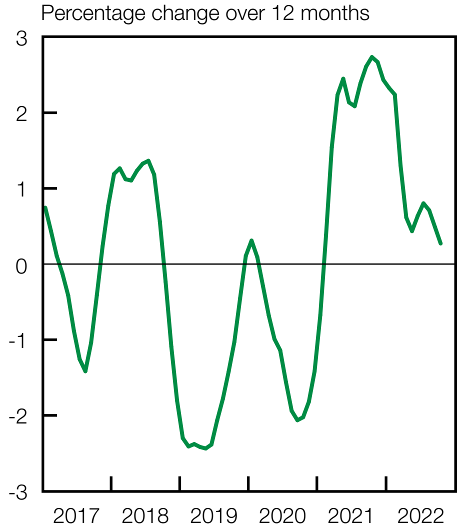


Sources: FNB, Lightstone and Stats SA

Market strength indicators, as derived from FNB's property valuers' database, continued to show moderating demand. The weak growth in nominal house prices was consistent with the decline in the number of residential property transfers at the Deeds Office and was noticeable across all value categories, with the low value segment slowing the most although still recording the highest rate of increase. The slowdown in property price increases was also in line with a further increase in the average time that residential properties remained on the market, from 9.4 weeks in the second quarter of 2022 to 10.1 weeks in the third quarter.

Market strength demand index

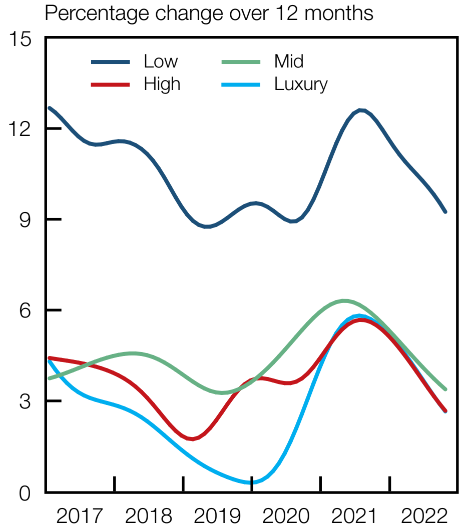
Percentage change over 12 months



Source: FNB

Nominal house prices by value category

Percentage change over 12 months



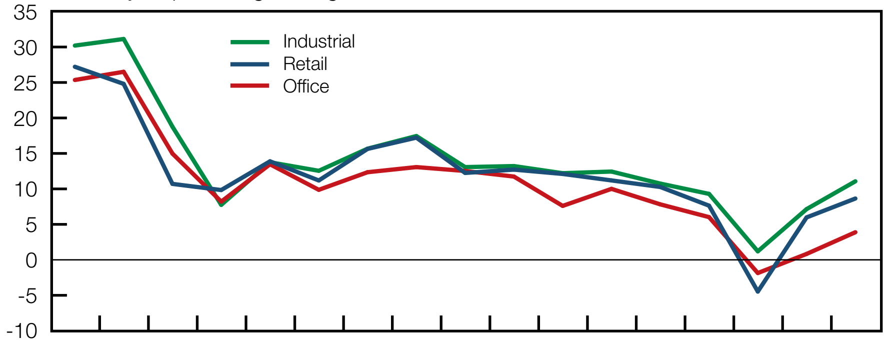
Source: Lightstone

The decline in total return[30] on *commercial property* in 2020 for office, retail and industrial properties reflected the effect of the COVID-19 pandemic. Subsequently, total return on retail property recorded the strongest recovery to June 2022, with a more subdued recovery in the total return on offices. This was in an environment of increased working from home, which contributed to a steep rise in the office vacancy rate.

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

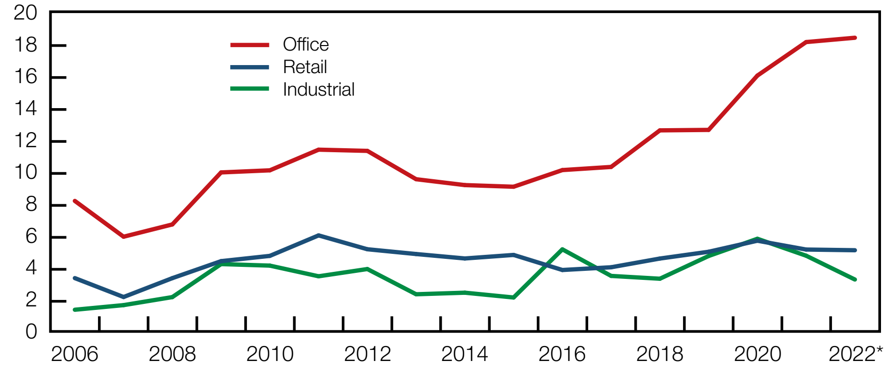
Total return of commercial property by sector

Year-on-year percentage change



Vacancy rate of commercial property by sector

Per cent



* June 2022

Source: MSCI

Non-bank financial intermediaries

The total assets[31] of the non-bank financial institutions[32] increased marginally by 0.2% from the second quarter of 2022 to R13.6 trillion in the third quarter. On a year-on-year basis, the rate of increase decelerated from 16.4% in the fourth quarter of 2021 to 0.7% in the third quarter of 2022.

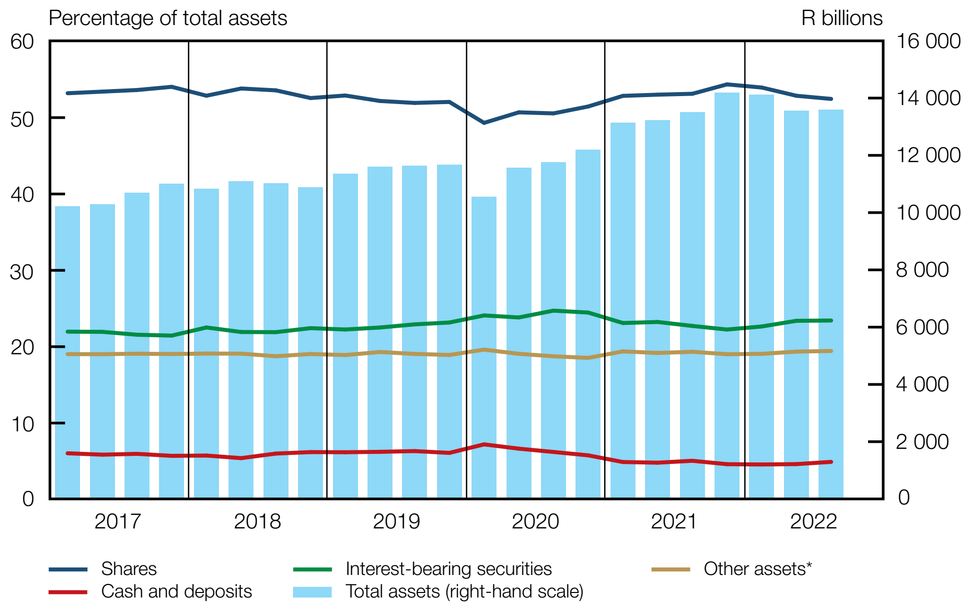
Insurance companies and the Public Investment Corporation (PIC) were affected by a high exposure to the domestic share market in the third quarter of 2022. The total assets of insurance companies increased marginally by 0.6% to R4.1 trillion in the third quarter of 2022, while assets managed by the PIC fell by 1.3% to R2.4 trillion. Unit trusts' total assets increased by 1.0% to R3.5 trillion, with money market funds increasing notably by 6.0% to R384 billion over the same period. Total assets of other financial intermediaries[33] increased moderately by 1.0% from the second quarter of 2022 to R342 billion in the third quarter.

31 Assets are not consolidated for cross investment between sectors.

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

33 Comprising finance companies and securitisation vehicles.

Total assets of non-bank financial institutions



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

Source: SARB

Non-bank financial institutions' holding of shares relative to total assets declined by 0.4 percentage points from the second quarter of 2022 to 52.4% in the third quarter. The contribution of shareholding fell by 1.9 percentage points in the first three quarters of the year, alongside the decline in share prices. Holdings of interest-bearing securities relative to total assets increased slightly by 0.04 percentage points from the second quarter of 2022 to 23.4% in the third quarter. High inflation and rising interest rates affected the demand for interest-bearing securities.

Holdings of cash and deposits as a percentage of total assets increased by 0.3 percentage points from the second quarter of 2022 to 4.9% in the third quarter, alongside the higher interest rates. The contribution of loans extended by non-bank financial intermediaries increased slightly from 4.2% to 4.4% of total assets over this period. Meanwhile, quarter-to-quarter growth in credit extended by other financial intermediaries remained broadly the same at 1.2% in the second quarter of 2022 and 1.1% in the third quarter.

Flow of funds

Global economic activity remained subdued in the second quarter of 2022 on account of renewed COVID-19-related restrictions in China and soaring inflation following the war in Ukraine, which led to rising interest rates. Net capital inflows from *non-residents* decreased to R0.2 billion in the second quarter of 2022 from R21.8 billion in the first quarter. This reflected a decline of R55.4 billion in financial derivatives exposure, net purchases of R52.6 billion in fixed-interest securities and R2.5 billion in shares, inflows through deposits of R22.0 billion, and the extension of loans, mainly short-term loans, of R50.3 billion largely to banks and private non-financial corporate business enterprises. Domestic investors' holdings of foreign assets continued to increase through, among others, shareholding, funds placed with other foreign institutions and foreign reserves.

The contraction in domestic economic activity in the second quarter of 2022 reflected the persistent electricity load-shedding, severe flooding in KZN, industrial action in several sectors as well as global developments. *Financial intermediation*[34] through the net incurrence of financial liabilities increased as deposits with the monetary sector[35] rose by R186 billion in the second quarter of 2022, mainly from central and provincial governments and the household sector, compared with an increase of R31.3 billion in the first quarter.

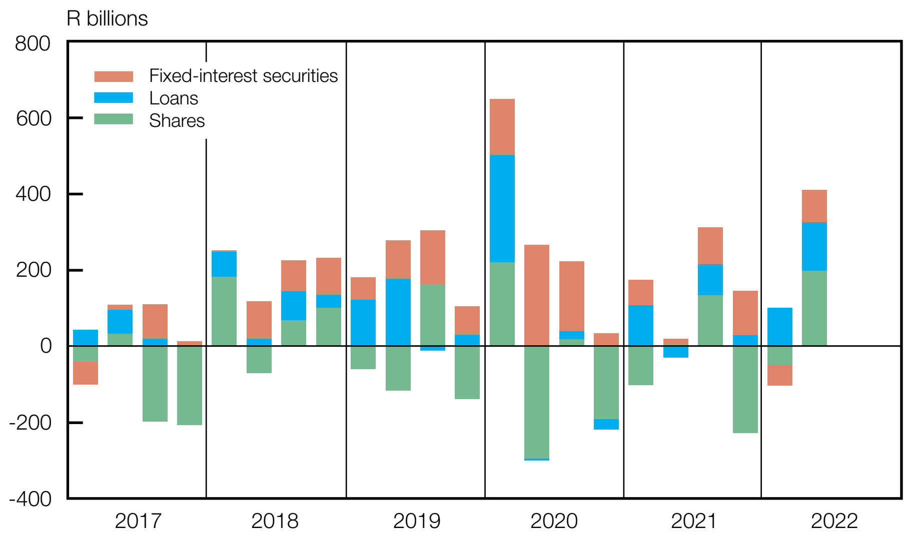
34 Financial intermediaries comprise the monetary authority, banks and non-bank financial institutions (excluding the PIC).

35 The monetary sector comprises the monetary authority (SARB and CPD) and other monetary institutions (banks).

Furthermore, funds placed with financial and other institutions collectively amounted to R37.6 billion in the second quarter of 2022, more than the R22.4 billion in the first quarter. By contrast, placements with insurers and retirement funds were lower at R23.3 billion in the second quarter of 2022 compared with R27.9 billion in the first quarter.

Financial intermediaries' net acquisition of financial assets also increased in the second quarter of 2022, with net purchases of fixed-interest securities of R85.2 billion compared with net sales of R53.8 billion in the first quarter. Shareholding by financial intermediaries increased by R198 billion in the second quarter of 2022, mainly by insurers and retirement funds. In addition, credit extension to other sectors in the economy increased to R127 billion, mainly to private non-financial corporate business enterprises.

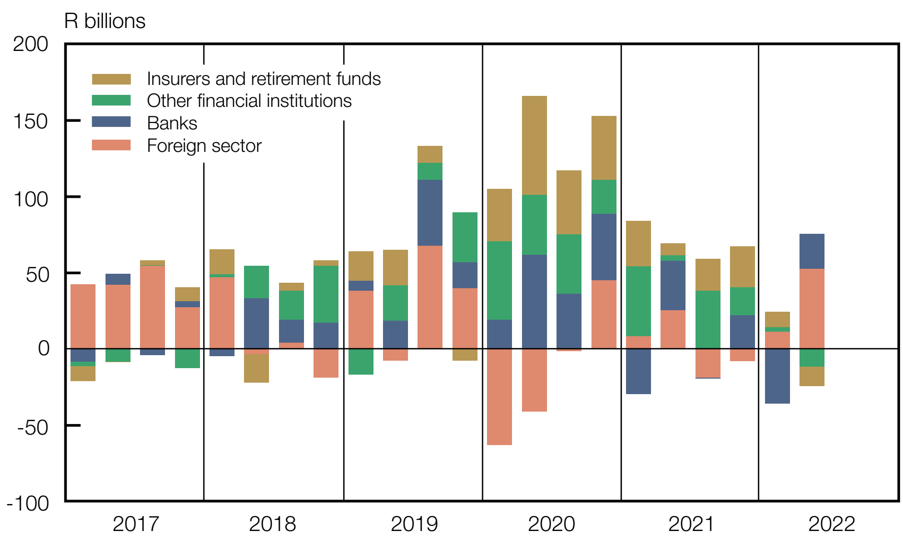
Net acquisition of selected financial assets by financial intermediaries



Source: SARB

General government expenditure contracted in the second quarter of 2022 as the wage bill partly normalised after the increased payments in the first quarter due to the 2022 population census. Higher gross saving by general government in the second quarter of 2022 resulted in a lower borrowing requirement of R17.8 billion from R129 billion in the first quarter.

Government bond holdings by selected institutional sectors



Source: SARB

The shortfall in the second quarter of 2022 was mainly financed through the net issuance of bonds of R62.3 billion, of which R45.1 billion was issued in the international capital market through two bond issues, while R4.5 billion was sourced through loans and R3.8 billion through the issuance of TBs. The proceeds from the net issuance of bonds and provisional tax payments by the corporate sector increased deposit holdings of the general government sector by R163 billion in the second quarter of 2022.

Business confidence decreased somewhat in the second quarter of 2022, following concerns of weaker global demand due to higher interest rates and the possibility of a global recession. Gross saving by *public and private non-financial corporate business enterprises* declined by 34.8% in the second quarter of 2022 due to, among other factors, provisional tax payments which increased by 29.2% from the first quarter. The recovery in gross capital formation continued in the second quarter of 2022, with private non-financial corporate business enterprises' capital spending increasing to R150 billion, mainly on machinery and equipment, compared with R109 billion in the first quarter. Public non-financial corporate business enterprises' gross capital formation was marginally lower at R20.5 billion in the second quarter of 2022 compared with R22.1 billion in the first quarter. This contributed to a net borrowing position of R13.8 billion in the second quarter of 2022 for public and private non-financial corporate business enterprises, from net lending of R87.4 billion in the first quarter. Their exposure to financial derivatives increased by R105 billion and their net purchases of fixed-interest securities amounted to R4.7 billion in the second quarter of 2022. The demand for credit by non-financial corporate business enterprises was R70.3 billion in the second quarter of 2022 compared with R52.2 billion in the first quarter.

Gross capital formation by *households* decreased, reducing their net borrowing requirement to R9.3 billion in the second quarter of 2022 from R44.4 billion in the first quarter. The shortfall was financed through loans of R29.4 billion, underpinned by strong demand for mortgage loans in the second quarter of 2022. Households' cash and deposit holdings increased by R34.1 billion in the second quarter of 2022 compared with a decline of R0.6 billion in the first quarter. Net purchases of units with other financial institutions (known as collective investment schemes) amounted to R4.4 billion in the second quarter of 2022, while their interest in insurers and retirement funds amounted to R16.3 billion.

Public finance[36]

Non-financial public sector borrowing requirement[37]

The preliminary *non-financial public sector borrowing requirement* decreased significantly by R55.3 billion year on year to R61.6 billion in the first six months (April–September 2022) of fiscal 2022/23. The lower borrowing requirement reflected the significantly smaller cash deficit of the consolidated general government, in particular national government. National government's smaller deficit could be attributed to significantly higher cash receipts from operating activities related to higher revenue collections in most tax categories. In addition, all other levels of general government and the non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded cash surpluses for the period under review.

36 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–September 2022 to April–September 2021. Data for both periods are unaudited and preliminary.

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

Non-financial public sector borrowing requirement

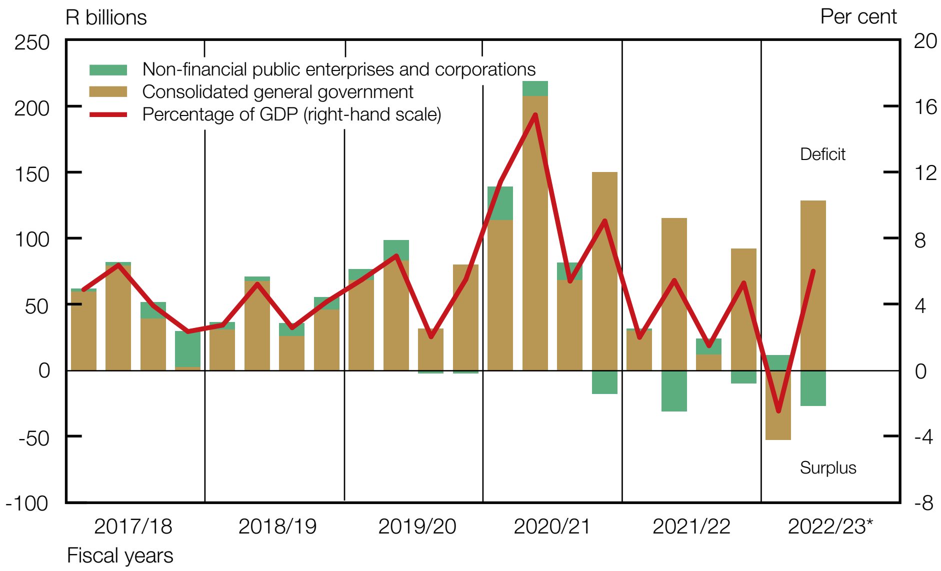
R billions

Level of government	Apr–Sep* 2021	Apr–Sep* 2022
Consolidated general government	146.2	76.5
National government	197.3	152.9
Extra-budgetary institutions	-30.9	-42.2
Social security funds	3.1	-19.5
Consolidated provincial governments	-12.4	-13.6
Local governments	-11.0	-1.2
Non-financial public enterprises and corporations	-29.3	-14.9
Total	**116.8**	**61.6**
As a percentage of gross domestic product	*3.7*	*1.8*

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

The non-financial public sector borrowing requirement as a ratio of GDP decreased notably to 1.8% in the first six months of fiscal 2022/23 compared with 3.7% over the same period of the previous fiscal year.

Non-financial public sector borrowing requirement

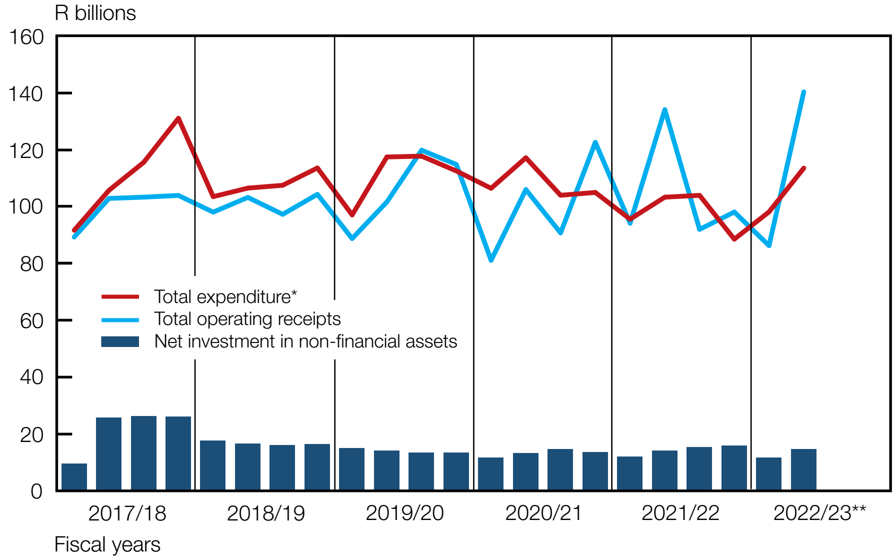


* April–September 2022
Sources: National Treasury, Stats SA and SARB

The preliminary financial activities of the non-financial SOCs resulted in a cash surplus of R14.9 billion in the first half of fiscal 2022/23, about half of the surplus of R29.3 billion recorded in the same period of the previous year. Total cash receipts from operating activities decreased by 0.7% year on year to R226.5 billion, while total expenditure, inclusive of cash payments for operating activities and net investment in non-financial assets, increased by 6.4% year on year to R211.6 billion.

The smaller cash receipts from operating activities of the non-financial SOCs resulted largely from less financial support received from national government in the first half of fiscal 2022/23. The increase in total expenditure was due to higher purchases of goods and services of R105.3 billion. Net investment in non-financial assets increased only marginally by 0.8% to R26.3 billion in the first half of fiscal 2022/23.

Financial activities of non-financial public enterprises and corporations



* Including both operating cash payments and net investment in non-financial assets
** April–September 2022

Source: SARB

Box 3 The *2022 Medium Term Budget Policy Statement*[1]

The recently presented *2022 Medium Term Budget Policy Statement (2022 MTBPS)* sets out the government's strategy to improve the state of public finances and rebuild fiscal space by narrowing the budget deficit and stabilising debt, while mitigating the risks posed by state-owned enterprises (SOEs) and introducing structural reforms to support economic growth. The main expected outcomes of the *2022 MTBPS* are to achieve a primary budget surplus[2] of 0.7% of gross domestic product (GDP) by fiscal 2023/24 and to stabilise national government's gross loan debt at 71.4% of GDP in fiscal 2022/23, which is sooner than previously anticipated.

In the wake of the coronavirus disease 2019 (COVID-19) pandemic, South Africa's public finances and economic growth prospects are also being influenced by the effects of the continuing war in Ukraine on food and energy prices, slower global economic growth and higher inflation as well as weaker emerging market currencies. In addition, electricity constraints, flooding and industrial action further hampered domestic economic growth prospects. Amid these factors, the *2022 MTBPS* revised annual growth in real GDP lower from 2.1% to 1.9% for 2022, with a projected average of 1.6% from 2023 to 2025. Consumer price inflation is expected to reach an annual average high of 6.7% in 2022 due to elevated energy and food prices in particular. However, inflation is expected to slow to within the inflation target range of between 3–6% over the medium term. In addition to these global and domestic developments, the decline in commodity prices could reduce revenue collection, while the public sector wage bill could present an expenditure risk.

1 The *2022 Medium Term Budget Policy Statement* was presented to Parliament by the Minister of Finance on 26 October 2022.

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

Macroeconomic projections*

Percentage

	2021**	2022		2023		2024		2025
		Medium-term estimates***						
	Actual outcome	Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Real GDP growth	4.9	2.1	1.9	1.6	1.4	1.7	1.7	1.8
CPI	4.5	4.8	6.7	4.4	5.1	4.5	4.6	4.6
Current account balance (as a percentage of GDP)......................	3.7	0.3	0.2	-1.2	-0.9	-1.5	-1.1	-1.2
GDP at current prices (R billions)	6 192	6 395	6 572	6 712	6 956	7 127	7 406	7 884

* Calendar years
** *2022 MTBPS*
*** *2022 Budget Review, 2022 MTBPS*

Source: National Treasury

The *2022 MTBPS* revised consolidated government revenue higher by 6.3% to R1 882 billion for fiscal 2022/23 compared with the *2022 Budget Review* estimate of R1 771 billion. The higher-than-expected revenue collection in the current fiscal year will be used to reduce the gross borrowing requirement. In the first half of fiscal 2022/23, higher-than-anticipated revenue collections have occurred in most tax categories. Consolidated government revenue is expected to average 27.6% of GDP over the medium term. The estimated gross tax revenue for fiscal 2022/23 of R1 682 billion is R83.5 billion more than that estimated in the *2022 Budget Review*.

Fiscal framework*

R billions/percentage of GDP

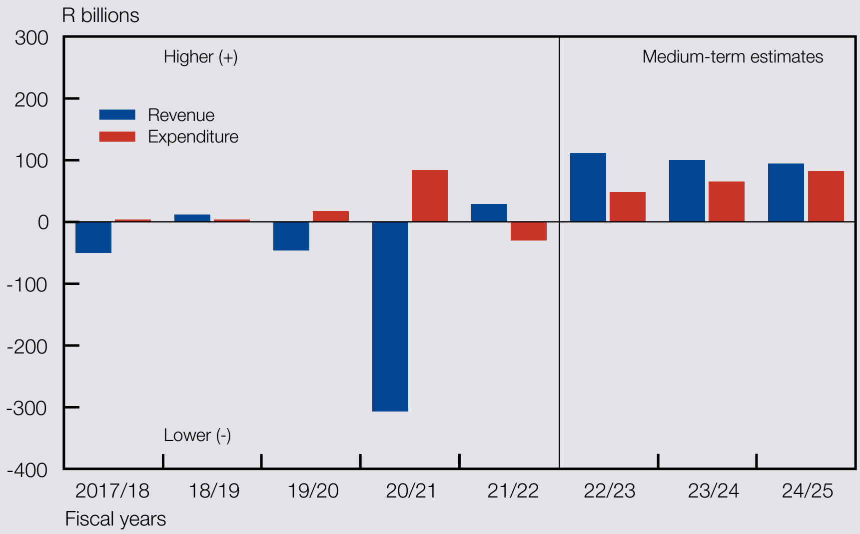
	2021/22**	2022/23		2023/24		2024/25		2025/26
	Outcome	Medium-term estimates***						
		Budget	*MTBPS*	Budget	*MTBPS*	Budget	*MTBPS*	*MTBPS*
Total consolidated revenue	1 750	1 771	1 882	1 853	1 953	1 978	2 072	2 219
Total consolidated expenditure	2 047	2 157	2 205	2 177	2 242	2 282	2 364	2 478
Of which: debt-service cost..........	*268.1*	*301.8*	*307.7*	*335.0*	*332.3*	*363.5*	*352.9*	*380.7*
Primary budget balance	*-55.1*	*-85.4*	*-16*	*3.2*	*46.1*	*41.1*	*75.2*	*119.9*
*Percentage of GDP**** ....*	*-0.9*	*-1.3*	*-0.2*	*0.0*	*0.7*	*0.6*	*1.0*	*1.5*
Consolidated budget deficit	-296.7	-387	-323.1	-324	-288.9	-304	-291.9	-259
Percentage of GDP	*-4.7*	*-6.0*	*-4.9*	*-4.8*	*-4.1*	*-4.2*	*-3.9*	*-3.2*
Gross loan debt of national government	4 278	4 692	4 752	5 065	5 002	5 429	5 296	5 608
*Percentage of GDP**** ....*	*68.0*	*72.8*	*71.4*	*74.4*	*70.8*	*75.1*	*70.4*	*70.0*

* Fiscal years
** *2022 MTBPS*
*** *2022 Budget Review* and *2021 MTBPS*
**** Main Budget

Source: National Treasury

The fiscal framework provides room for additional allocations to SOEs to ensure their financial viability, with R23.7 billion allocated to the South African National Roads Agency Limited (SANRAL) to repay government-guaranteed debt; R5.8 billion to Transnet to repair flood-damaged infrastructure and to increase locomotive capacity; and R204.7 million to Denel to reduce contingent liabilities and a further R3.4 billion to complete its turnaround plan.

Revisions to consolidated government revenue and expenditure*

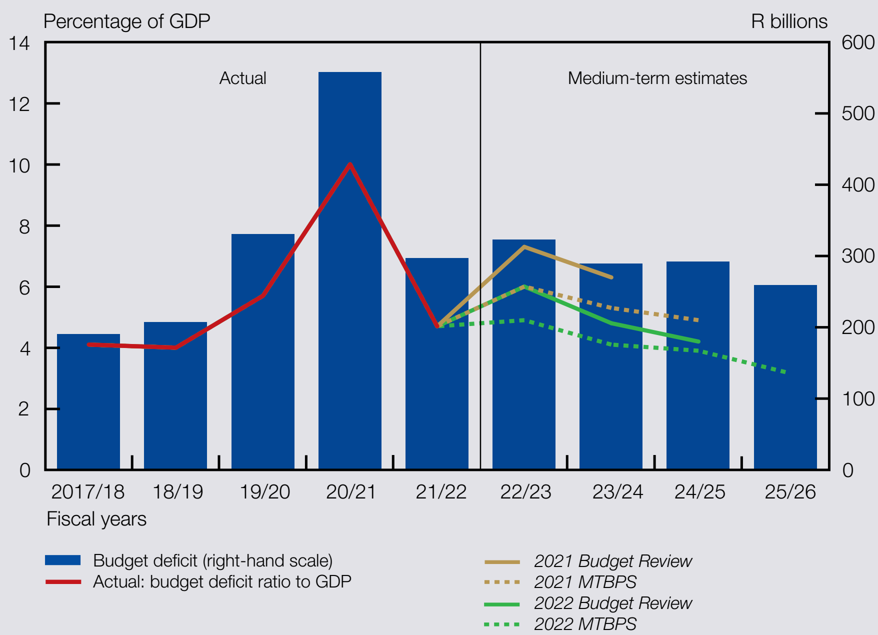


* Budget Review to MTBPS
Source: National Treasury

The *2022 MTBPS* revised consolidated government expenditure higher over the medium term. For fiscal 2022/23, it was revised marginally higher to R2 205 billion from R2 157 billion estimated in the *2022 Budget Review*. These revisions, with an expected peak of R2 478 billion in fiscal 2025/26, reflect wage bill adjustments, the extension of the R350 *special COVID-19 social relief of distress grant* until 31 March 2024, the increase in the contingency reserve to mitigate possible fiscal risks, and an increase in infrastructure spending, among other things. Total consolidated government expenditure by function (non-interest spending) is expected to increase at an annual average rate of 2.5%, while debt-service costs are expected to increase at an average rate of 7.3% over the medium term. Debt-service costs – the fastest growing component of spending given the increase in national government debt – are expected to increase from R308 billion (4.6% of GDP) in the current fiscal year to R381 billion, or 4.8% of GDP, in fiscal 2025/26.

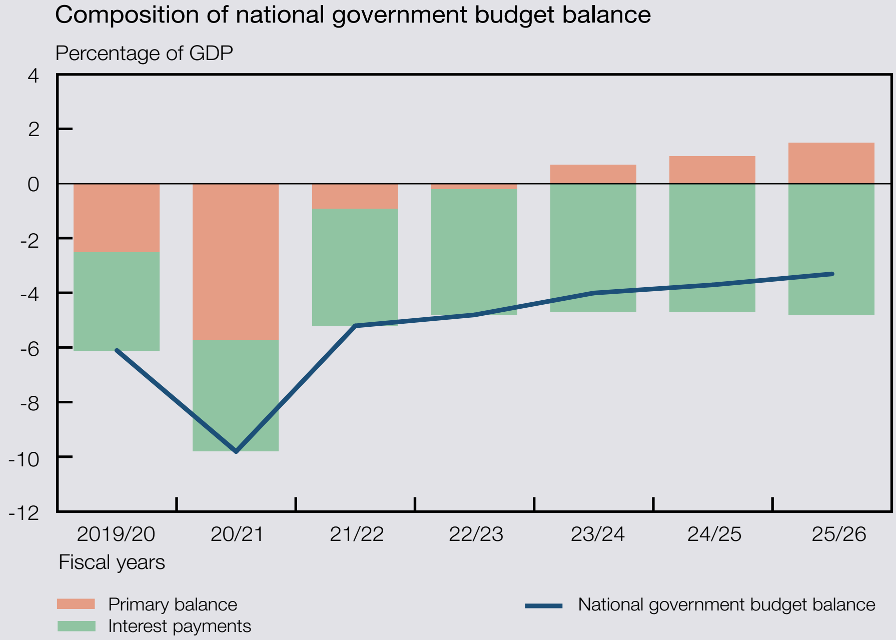
The consolidated government budget deficit was revised lower to 4.9% of GDP for fiscal 2022/23, compared with the originally projected 6.0% in the *2022 Budget Review*, and is expected to decline even further to an average of 3.7% over the medium term.

Consolidated government budget deficit



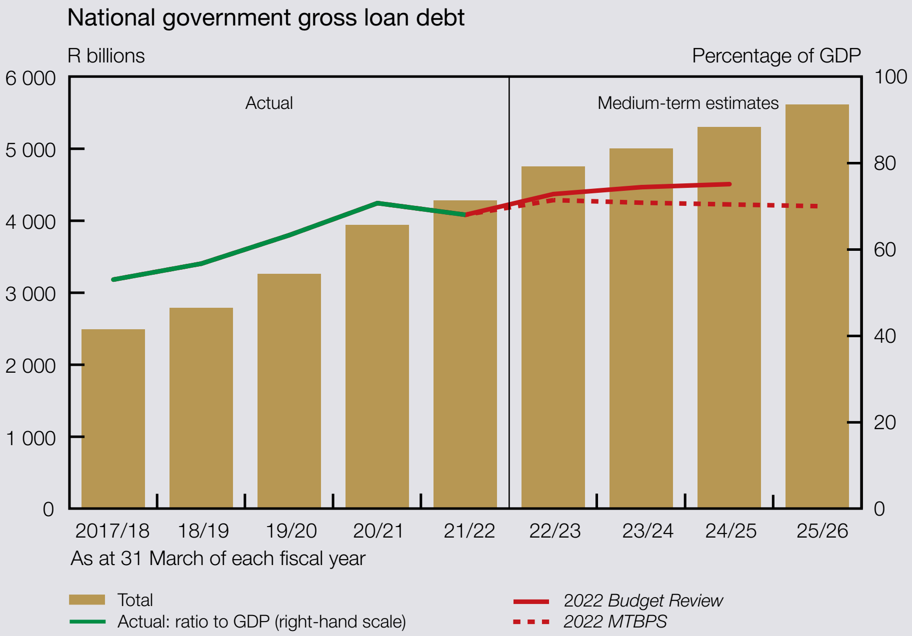
Source: National Treasury

The primary balance is expected to revert from a deficit of 0.2% of GDP in fiscal 2022/23 to a surplus of 0.7% of GDP in fiscal 2023/24, with the surplus expected to increase further over the medium term.



Sources: National Treasury and SARB

Government's gross borrowing requirement (both the budget deficit and maturing loans) was revised lower to R411 billion for fiscal 2022/23 compared with R484 billion projected in the *2022 Budget Review*. Over the medium term, the gross borrowing requirement is expected to be back at pre-COVID-19 levels and to average R446 billion. Government's financing strategy does not include any new short-term borrowing for the current fiscal year, while long-term borrowing in the domestic bond market is expected to decline from R330 billion estimated in the *2022 Budget Review* to R299 billion. In fiscal 2022/23, the government also raised US$3 billion in the foreign financial markets and an additional US$1.7 billion through concessional funding from international financial institutions to meet its foreign currency commitments.



Source: National Treasury

The gross loan debt of national government is expected to increase from R4 752 billion in fiscal 2022/23 to R5 608 billion in fiscal 2025/26 and is mainly driven by the budget balance, fluctuations in interest rates, and the exchange value of the rand. The government intends to take over a portion of Eskom's R400 billion debt liability to ensure its long-term financial viability, the details of which will be published in the *2023 Budget Review*.

Budget comparable analysis of national government finance

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

National government's cash book deficit of R164.0 billion in the first half of fiscal 2022/23 (April–September 2022) was R38.5 billion less than in the same period a year earlier and reflected faster growth in revenue relative to the growth in expenditure. The smaller cash book deficit was mostly financed in the domestic financial markets through the issuance of long-term government bonds. National government's primary deficit[38] was also significantly smaller than in the same period of the previous fiscal year.

National government finances

	Actual Apr–Sep 2021		Actual Apr–Sep 2022		Originally budgeted[1] Fiscal 2022/23		Revised estimates[2] Fiscal 2022/23	
	R billions	Percentage change[3]	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Revenue	721.5	41.4	784.6	8.7	1 588.0	*1.7*	1 694.5	*8.5*
Percentage of GDP	*23.1*		*23.3*		*24.7*		*25.5*	
Expenditure	924.0	5.4	948.6	2.7	1 975.3	4.7	2 018.2	7.0
Percentage of GDP	*29.5*		*28.2*		*30.7*		*30.3*	
Cash book balance[6]	-202.5		-164.0		-387.2		-323.7	
Percentage of GDP	*-6.5*		*-4.9*		*-6.0*		*-4.9*	
Primary balance[7]	-72.3		-16.3		-85.5		-16.0	
Percentage of GDP	*-2.3*		*-0.5*		*-1.3*		*-0.2*	
Gross loan debt[8]	4 157.5	11.9	4 651.7	11.9	4 692.2	9.7	4 752.0	11.1
Percentage of GDP	*68.1*		*71.4*		*72.8*		*71.4*	

1 *2022 Budget Review*
2 *2022 MTBPS*
3 Year-on-year percentage change: actual outcome on previous year's actual outcome
4 Year-on-year percentage change: budgeted on previous year's actual outcome
5 Year-on-year percentage change: revised estimates on previous year's actual outcome
6 Cash book deficit (-)/surplus (+)
7 Cash book deficit (-)/surplus (+) excluding interest payments
8 As at 30 September for rand values

Sources: National Treasury, SARS and Stats SA

National government's total revenue increased by 8.7% year on year to R784.6 billion in the first half of fiscal 2022/23 as all tax categories increased, except for a decline in the fuel levy. The *2022 Budget Review's* projected national government revenue of R1 588.0 billion for fiscal 2022/23 was revised upwards to R1 694.5 billion in the *2022 MTBPS*. Revenue as a ratio of GDP of 23.3% in the first half of fiscal 2022/23 was slightly higher than the 23.1% recorded in the same period of the previous fiscal year.

The collection of taxes on income, profits and capital gains increased by 8.9% year on year to R465.8 billion in April–September 2022 and contributed 59.4% to total revenue. The increase was attributable to higher receipts from personal income tax (PIT) of R278.8 billion and corporate income tax (CIT) of R168.5 billion, which increased by 7.7% and 9.7% year on year respectively. The higher PIT receipts were largely due to higher pay-as-you-earn (PAYE) collections, particularly from the finance, manufacturing and community services sectors, while CIT was underpinned by higher collections from the manufacturing, finance and transport sectors. The *2022 Budget Review's* projected revenue of R894.3 billion from taxes on income, profits and capital gains for fiscal 2022/23 was revised higher to R970.4 billion in the *2022 MTBPS*.

Taxes on goods and services increased by 6.5% year on year to R264.5 billion in the first half of fiscal 2022/23 and contributed 33.7% to total revenue. The main component of this tax category – net value-added tax (VAT) receipts – increased by 11.4% year on year to R195.7 billion, notwithstanding significantly higher VAT refunds. Other excise duties increased by 22.6% year on year to R26.5 billion in the period under review. Revenue from taxes on goods and services of R600.5 billion as projected for fiscal 2022/23 in the *2022 Budget Review* was revised slightly lower to R592.6 billion in the *2022 MTBPS*.

National government revenue in fiscal 2022/23

Revenue source	Originally budgeted[1] Fiscal 2022/23		Revised estimates[2] Fiscal 2022/23		Actual Apr–Sep 2022	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Taxes on income, profits and capital gains	894.3	-2.0	970.4	6.3	465.8	8.9
Of which: Income tax on individuals	587.9	5.8	596.1	7.3	278.8	7.7
Income tax on companies	269.9	-16.5	332.7	2.9	168.5	9.7
Payroll taxes	20.6	6.6	21.2	9.8	10.0	8.8
Taxes on property	20.3	-7.9	23.0	4.2	11.4	0.9
Taxes on goods and services	600.5	9.3	592.6	7.9	264.5	6.5
Of which: Value-added tax (VAT) net	439.7	12.5	434.9	11.3	195.7	11.4
Domestic	475.9	6.0	488.2	8.8	236.7	9.3
Imports	215.5	5.4	246.6	20.6	109.6	31.2
Refunds	-251.8	-4.0	-300.0	14.3	-150.6	21.1
Fuel levy	89.1	0.3	80.6	-9.3	34.4	-21.4
Other excise duties	58.6	3.8	62.6	10.9	26.5	22.6
Taxes on international trade and transactions	62.5	4.3	74.5	24.3	33.0	41.3
Of which: Import duties	61.1	5.2	72.6	25.0	31.9	41.6
Other revenue[6]	33.6	-23.3	56.5	29.3	21.7	-11.4
Less: SACU[7] payments	43.7	-5.0	43.7	-5.0	21.8	-5.0
Total revenue	1 588.0	1.7	1 694.5	8.5	784.6	8.7

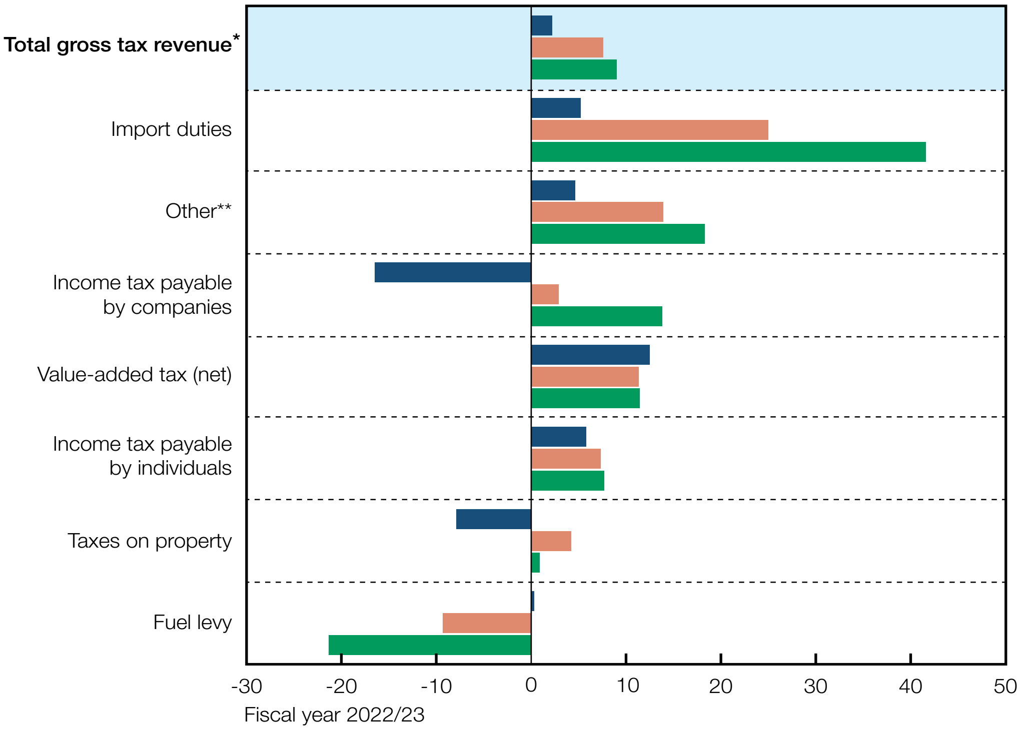
1 *2022 Budget Review*
2 *2022 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including non-tax revenue and extraordinary receipts
7 Southern African Customs Union
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: National Treasury and SARS

Revenue from taxes on international trade and transactions increased sharply by 41.3% year on year to R33.0 billion in April–September 2022, largely reflecting higher imports of goods such as mineral fuels, electrical machinery, vehicles and machinery. The *2022 Budget Review* projected revenue from taxes on international trade and transactions of R62.5 billion for fiscal 2022/23, which was revised higher to R74.5 billion in the *2022 MTBPS*.

Composition of national government's gross tax revenue*

Percentage change over one year



Originally budgeted, *2022 Budget Review*
Revised estimate, *2022 MTBPS*
Actual, April–September 2022

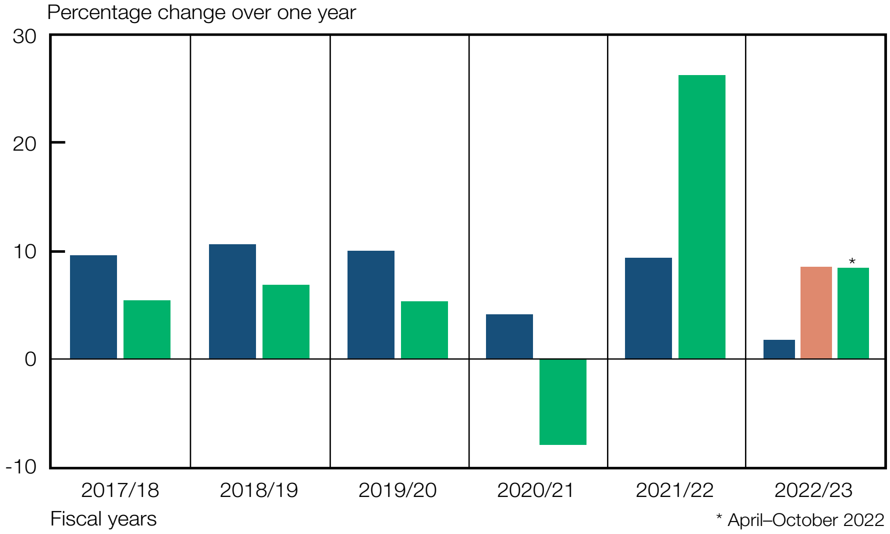
* Before SACU payments
** Including secondary tax on companies, withholding tax on interest and other excise duties

Sources: National Treasury, SARS and SARB

Other revenue, largely comprising non-tax revenue, decreased by 11.4% year on year to R21.7 billion in April–September 2022 due to lower receipts from rent on land. The *2022 Budget Review* earmarked R43.7 billion for Southern African Customs Union (SACU) payments for fiscal 2022/23 – a slight decline from the R46.0 billion in fiscal 2021/22. Of the allocated amount, R21.8 billion was transferred in two equal tranches in April and July 2022, followed by the third tranche of R10.9 billion in October.

Revenue of national government

Percentage change over one year



Originally budgeted
Revised estimate, *2022 MTBPS*
Actual

Sources: National Treasury, SARS and SARB

Total revenue of national government of R889.7 billion in the first seven months of fiscal 2022/23 reflected a year-on-year increase of 8.4% as most tax categories continued to record strong growth.

National government's total expenditure increased by 2.7% year on year to R948.6 billion in the first half of fiscal 2022/23, largely on account of higher equitable share transfers to provinces as well as higher interest payments on national government debt (debt-service cost). The *2022 MTBPS* revised total expenditure notably higher to R2 018.2 billion for fiscal 2022/23, from R1 975.3 billion projected in the *2022 Budget Review*. Expenditure as a ratio of GDP decreased slightly from 29.5% in the first half of fiscal 2021/22 to 28.2% in the same period of the current fiscal year.

National government expenditure in fiscal 2022/23

Expenditure item	Originally budgeted[1] Fiscal 2022/23		Revised estimates[2] Fiscal 2022/23		Actual Apr–Sep 2022	
	R billions	Percentage change[3]	R billions	Percentage change[4]	R billions	Percentage change[5]
Voted expenditure	1 057.0	2.2	1 094.5	5.8	502.8	-0.9
Of which: Transfers and subsidies	755.0	8.9	755.4	8.9	369.8	7.5
Current payments	261.0	1.9	263.1	2.8	121.4	0.8
Payments for capital assets	15.5	17.4	16.9	27.8	5.0	31.3
Payments for financial assets	25.6	-64.3	59.2	-17.4	6.6	-83.0
Statutory amounts[6]	918.2	7.7	923.7	8.3	445.7	6.9
Of which: Provincial equitable share	560.8	2.9	560.8	2.9	280.4	4.2
Interest on debt	301.7	12.6	307.5	14.8	147.7	13.4
General fuel levy	15.3	4.9	15.3	4.9	5.1	4.9
Total expenditure	1 975.3	4.7	2 018.2	7.0	948.6	2.7

1 *2022 Budget Review*
2 *2022 MTBPS*
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Year-on-year percentage change: revised estimates on previous year's actual outcome
5 Year-on-year percentage change: actual outcome on previous year's actual outcome
6 Including extraordinary payments
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Source: National Treasury

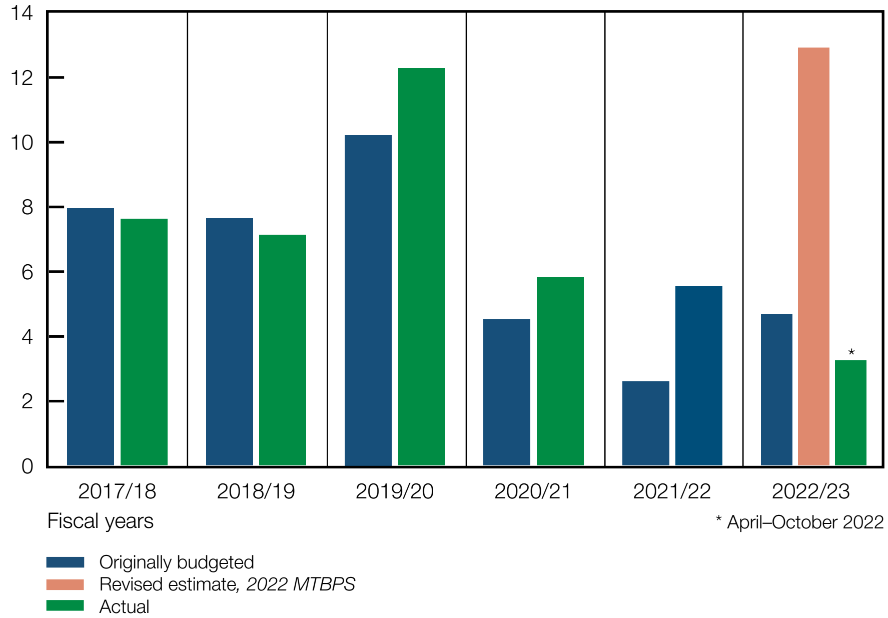
Total voted expenditure by national government departments (53.0% of total expenditure) contracted marginally by 0.9% year on year to R502.8 billion in April–September 2022. The decrease largely reflected a substantial decline of 83.0% in payments for financial assets to R6.6 billion. Payments for financial assets comprised, among other things, payments to Eskom (R4.0 billion), South African Airways (R1.6 billion) and Denel (R201 million). The *2022 Budget Review*'s projected voted expenditure of R1 057.0 billion for fiscal 2022/23 was revised higher to R1 094.5 billion in the *2022 MTBPS*.

Total equitable share transfers to provinces increased at a year-on-year rate of 4.2% to R280.4 billion in April–September 2022. Both the *2022 Budget Review* and the *2022 MTBPS* projected total equitable share transfers to provinces of R560.8 billion for fiscal 2022/23. In addition, R15.3 billion was earmarked for metropolitan municipalities as their share of the general fuel levy for the current fiscal year, of which R5.1 billion was transferred in August 2022.

Higher interest payments on government debt of R147.7 billion in the first half of fiscal 2022/23 mirrored the increase in national government debt. Debt-service cost was revised slightly higher in the *2022 MTBPS* to R307.5 billion for fiscal 2022/23 from R301.7 billion envisaged in the *2022 Budget Review*.

Expenditure by national government

Percentage change over one year



Sources: National Treasury, SARS and SARB

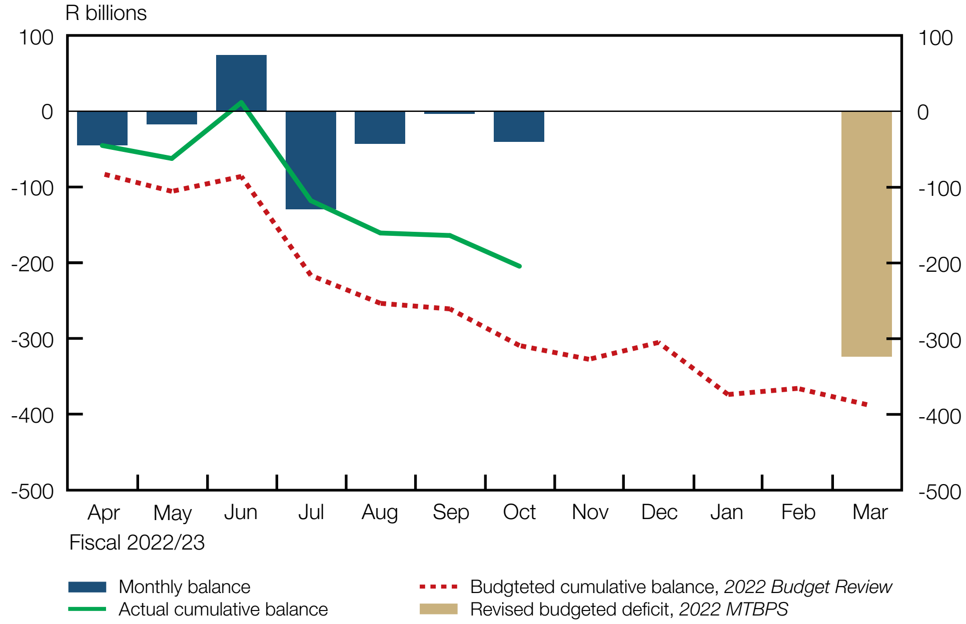
In the first seven months of fiscal 2022/23, total expenditure increased by 3.2% year on year to R1 094.2 billion.

Developments in national government revenue and expenditure in the first half of fiscal 2022/23 resulted in a cash book deficit of R164.0 billion, which was R38.5 billion less than in the same period of fiscal 2021/22, as the growth in revenue continued to outpace the growth in expenditure. The *2022 Budget Review*'s projected cash book deficit of R387.2 billion for fiscal 2022/23 was revised lower to R323.7 billion in the *2022 MTBPS*.

National government's cash book deficit of R204.5 billion in the first seven months of fiscal 2022/23 was notably smaller than the R239.2 billion deficit recorded in the same period of the previous fiscal year.

Cash book balance of national government

R billions



Sources: National Treasury, SARS and SARB

National government's primary deficit of R16.3 billion in April–September 2022 was significantly less than the deficit of R72.3 billion in the same period of the previous fiscal year. The primary deficit as a ratio of GDP of 0.5% in the first half of fiscal 2022/23 was much smaller than the deficit of 2.3% in the same period of the previous fiscal year. The *2022 Budget Review*'s projected primary deficit of R85.5 billion (1.3% of GDP) for fiscal 2022/23 was revised markedly lower to R16.0 billion, or only 0.2% of GDP, in the *2022 MTBPS*.

National government financing

R billions

Item or instrument	Actual Apr–Sep 2021	Actual Apr–Sep 2022	Originally budgeted[1] Fiscal 2022/23	Revised estimates[2] Fiscal 2022/23
Cash book balance[3]	-202.5	202.5	482.6	409.9
Cash flow balance[4]	-206.2	-201.9	...	...
Plus: Cost/profit on revaluation of foreign debt at redemption[5]	-1.9	-8.6	-8.8	-8.6
Accrual adjustments	30.5	93.8	...	...
Net lending/borrowing requirement[6]	-177.6	-116.8	-396.1	-332.4
Treasury bills and short-term loans[7]	1.0	-3.7	0.0	-3.4
Domestic bonds[7]	117.4	128.3	249.1	227.8
Foreign bonds and loans[7]	12.1	46.3	40.8	66.7
Change in available cash balances[8]	47.2	-54.0	106.2	41.3
Total net financing	177.6	116.8	396.1	332.4

1 *2022 Budget Review*
2 *2022 MTBPS*
3 *Deficit (-)/surplus (+)*
4 *The cash flow balance includes extraordinary receipts and payments and differs from the cash book balance.*
5 *Cost (+)/profit (-)*
6 *Net lending (+)/net borrowing (-)*
7 *Net issuance (+)/net redemption (-)*
8 *Increase (-)/decrease (+)*
Components may not add up to totals due to rounding off.
... Not available

Sources: National Treasury and SARB

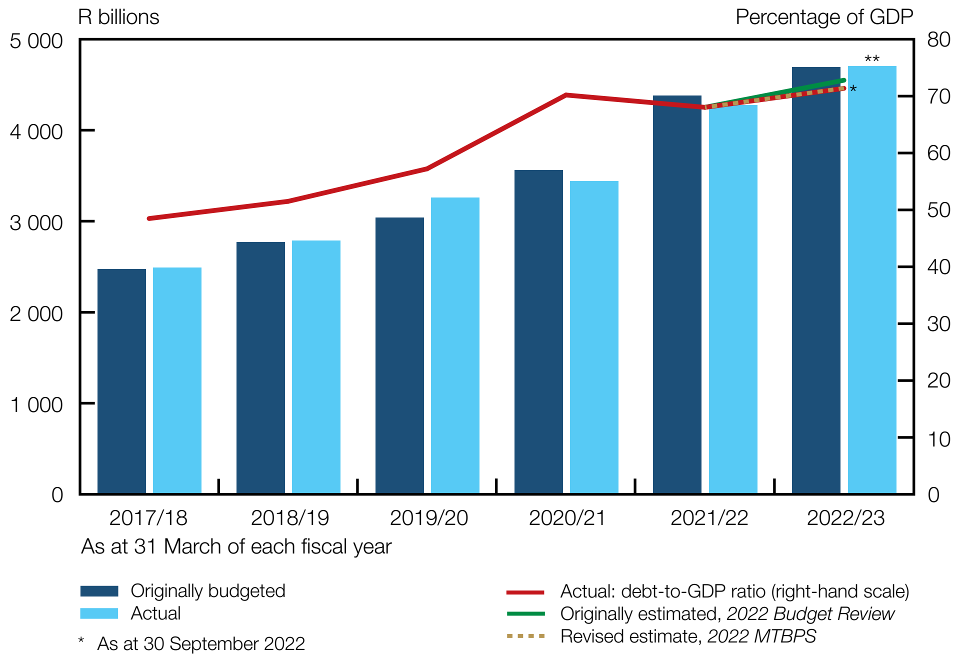
The cash flow deficit of national government of R201.9 billion in April–September 2022 was R4.2 billion less than in April–September 2021. After accounting for the cost of revaluation of foreign debt at maturity and accrual adjustments, the net borrowing requirement of national government was R116.8 billion in the period under review.

The net borrowing requirement of national government in the first half of fiscal 2022/23 was mostly financed in the domestic financial markets through the net issuances of long-term government bonds to the value of R128.3 billion. Government's net issuance of foreign bonds and loans was R46.3 billion, while TBs and short-term loans from the CPD recorded a net redemption of R3.7 billion. Over the same period, national government's available cash balances increased by R54.0 billion.

National government's gross loan debt of R4 652 billion as at 30 September 2022 was 11.9% higher compared with a year earlier. This reflected a rapid increase in the net issuance of both domestic and foreign debt. The total stock of domestic debt, which accounted for 88.3% of total gross loan debt, increased by 9.7% year on year to R4 107 billion. Foreign debt increased sharply by 32.1% year on year to R545 billion and contributed significantly to the overall increase in total gross loan debt in the period under review. Total gross loan debt as a ratio of GDP increased to 71.4% as at 30 September 2022, notably higher than the 68.1% a year earlier. The *2022 Budget Review*'s projected gross loan debt of R4 692 billion (72.8% of GDP) for the current fiscal year was revised upwards to R4 752 billion (71.4% of GDP)[39] in the *2022 MTBPS*.

39 Gross loan debt as a percentage of GDP was revised lower due to the upward revision of nominal GDP in the *2022 MTBPS*.

Gross loan debt of national government

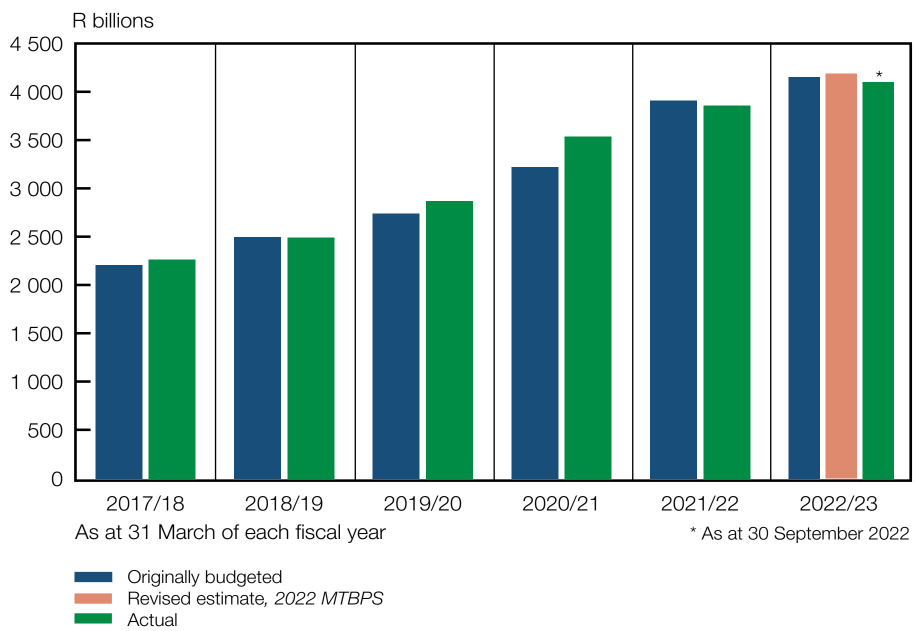


* As at 30 September 2022
** As at 31 October 2022

Sources: National Treasury, Stats SA and SARB

National government's domestic debt (marketable and non-marketable) increased by R362 billion year on year to R4 107 billion as at 30 September 2022. The increase in domestic debt was primarily due to an increase in the net issuance of total domestic marketable debt, particularly bonds. Domestic marketable debt increased by R360 billion to R4 085 billion and accounted for 99.5% of the total increase in domestic debt in the year to 30 September 2022. In July 2022, national government issued a new floating rate bond (RN2027) to the value of R22.6 billion that would be maturing in 2027. Domestic non-marketable debt, which comprises short-term loans from the CPD, non-marketable bonds and other debt, increased by R1.7 billion over the same period to R22.2 billion. The *2022 MTBPS* revised the gross domestic debt estimate slightly higher to R4 193 billion from the original estimate of R4 159 billion in the *2022 Budget Review*.

Domestic debt of national government



* As at 30 September 2022

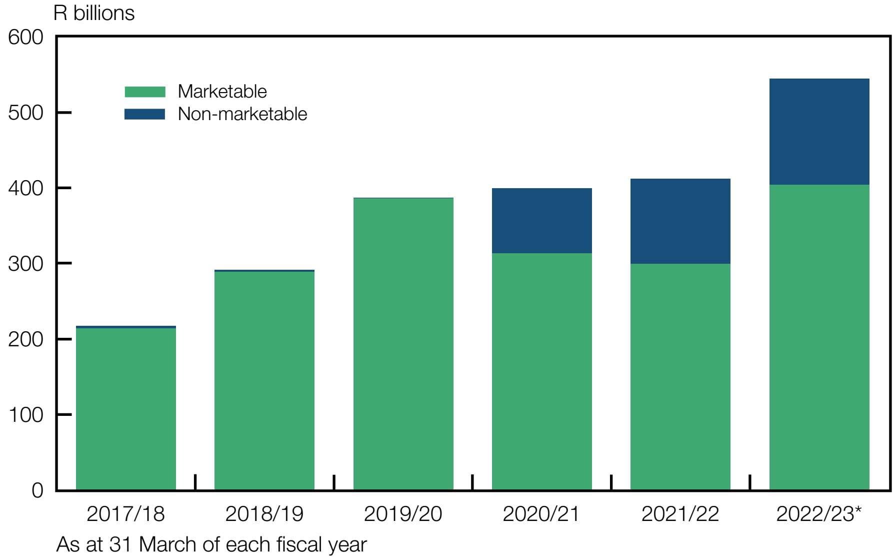
Sources: National Treasury and SARB

The total outstanding balance of national government's foreign debt (marketable and non-marketable) amounted to R545 billion as at 30 September 2022 – an increase of R132 billion (or 32.1%) from a year earlier. The significant increase could be attributed to net borrowing in foreign markets through a combination of bonds and loans as well as currency revaluation.

Foreign marketable bonds, which accounted for 74.2% of total foreign debt, increased from R312 billion as at 30 September 2021 to R404 billion a year later. This reflected the issuance of two new bonds (TY2/110 and TY2/111) in the international capital market totalling R45.1 billion (US$3 billion) in April 2022. As at 30 September 2022, R62.9 billion (or 15.6%) of the total stock of marketable bonds will mature over the medium term (exceeding one but not three years), with the remainder maturing over the long term (exceeding three years).

Non-marketable foreign debt, which includes foreign loans, increased significantly by 39.8% year on year to R141 billion as at 30 September 2022. National government raised R25.5 billion (US$1.6 billion) through three foreign loans, including two tranches of the South African National Roads Agency Limited (SANRAL) sustainability loan, a World Bank loan, and two tranches of the COVID-19 emergency response project loan. The average outstanding maturity of foreign marketable bonds increased to 166 months as at 30 September 2022, from 158 months a year earlier. Total foreign debt of R545 billion as at 30 September 2022 exceeded the originally budgeted estimate of R533 billion for fiscal 2022/23, while still remaining within the revised estimate of R559 billion in the *2022 MTBPS*.

Foreign debt of national government

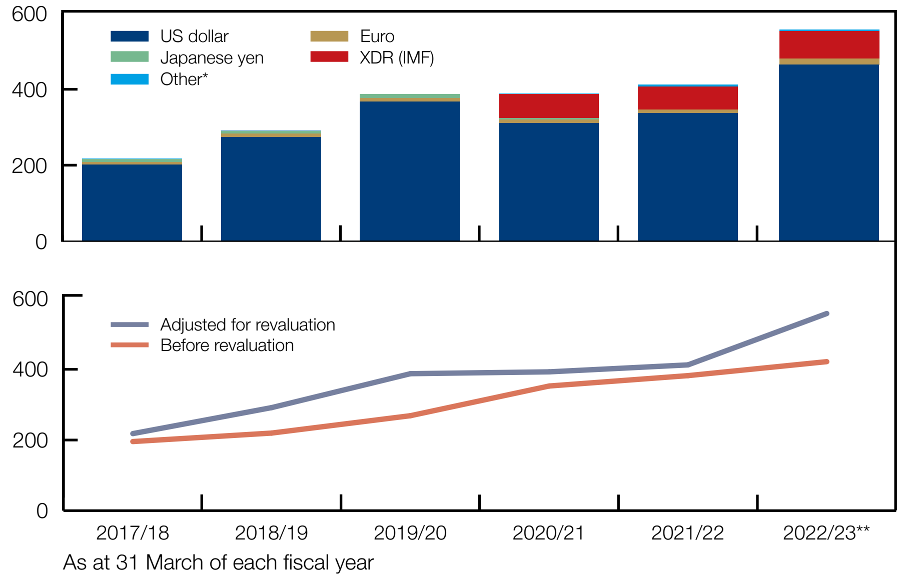


* As at 30 September 2022

Sources: National Treasury and SARB

As at 30 September 2022, national government's total outstanding balance of foreign debt was R421 billion before accounting for exchange rate revaluation effects, compared with R545 billion after exchange rate revaluation adjustments. The foreign debt is denominated in US dollar, the euro, the IMF's special drawing rights (SDRs) and the rand. The US dollar-denominated debt accounted for 83.3% of total outstanding foreign debt as at 30 September 2022, followed by SDRs at 12.9%.

Currency composition of national government's foreign debt



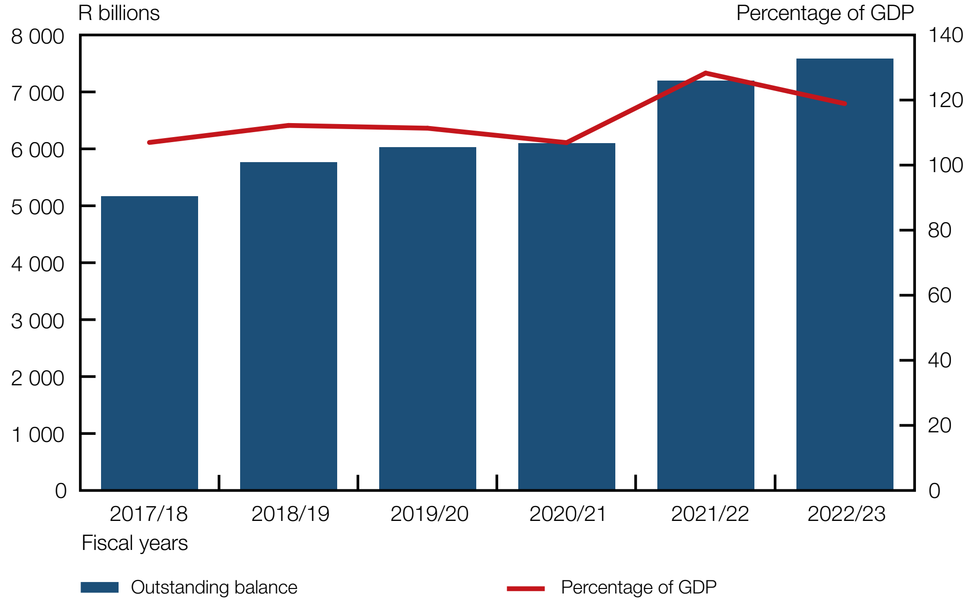
* Including the British pound, Swedish krona and South African rand
** As at 31 October 2022
Sources: National Treasury and SARB

Total public sector debt[40]

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

The preliminary consolidated gross public sector debt of South Africa as at 30 June 2022 of R7 581 billion (118.9% of GDP), was R129.1 billion higher than a year earlier. After netting the individual debt instruments against corresponding financial assets, the consolidated net public sector debt as a ratio of GDP declined to 105.3% from 111.9% a year earlier.

Total consolidated public sector debt

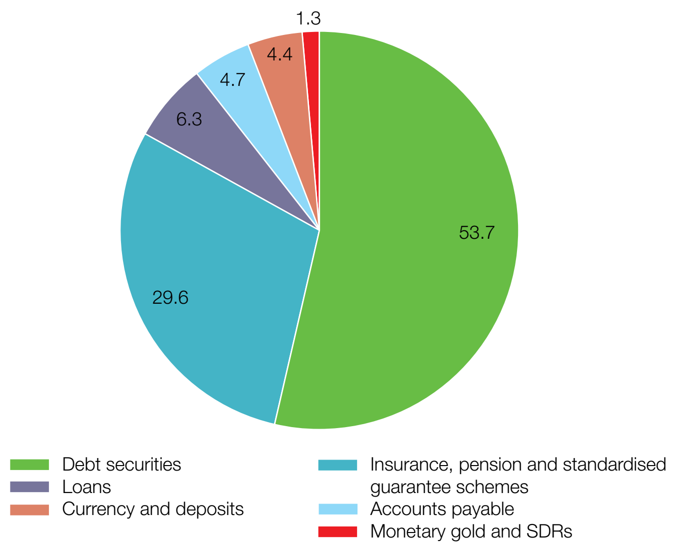


* As at 30 June 2022
Source: SARB

The total amount of outstanding public sector debt securities in issue in domestic and international markets of R4 069.2 billion as at 30 June 2022 was R13.5 billion more than a year earlier and reflected an increase in public sector borrowing. Debt securities were the largest contributor to total public sector debt at 53.7% as at 30 June 2022, followed by pension liabilities at 29.6%.

Composition of consolidated gross public sector debt as at 30 June 2022

Per cent



Source: SARB

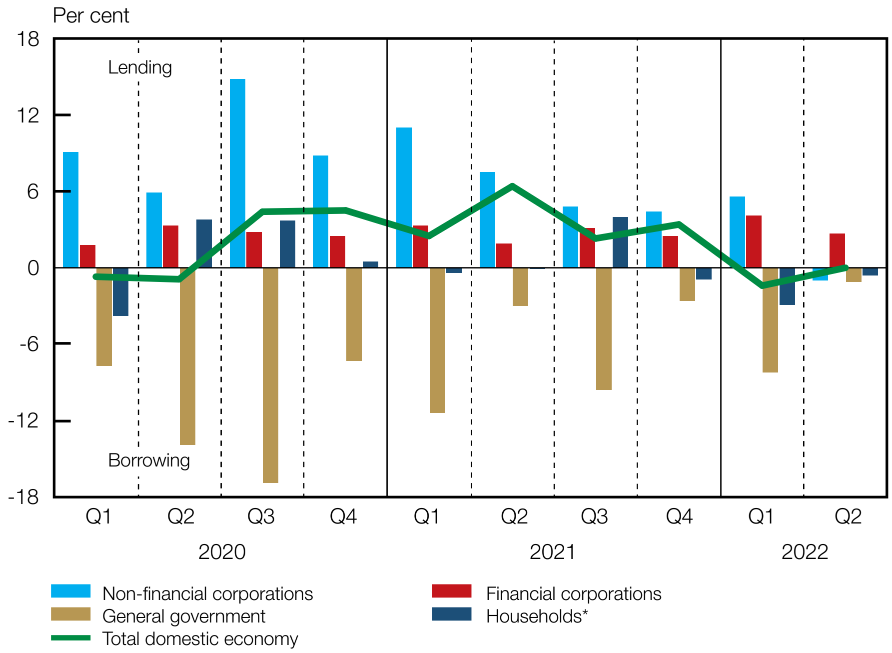
41 The analysis in this section is based on the experimental statistics compiled for South Africa's integrated economic accounts (IEA) as part of the Group of Twenty (G20) Data Gaps Initiatives (DGI-2) and is subject to further revision. See pages E–2 to E–10 in the experimental tables section in this edition of the *Quarterly Bulletin.*

Integrated economic accounts[41]

Current and capital account

South Africa's net borrowing of R21.8 billion (1.4% of GDP) in the first quarter of 2022 decreased to R227.3 *million* in the second quarter as gross saving improved. However, for the first half of 2022 South Africa recorded net borrowing of R22.1 billion compared with net lending of R137.6 billion in the corresponding period of 2021.

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



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

Source: SARB

The financial corporations maintained a net lending position in the second quarter of 2022 despite lower gross saving, whereas non-financial corporations switched to net borrowing as gross saving also declined. Although general government and households were net borrowers in the second quarter of 2022, gross saving by households increased and general government reverted from gross dissaving to gross saving.

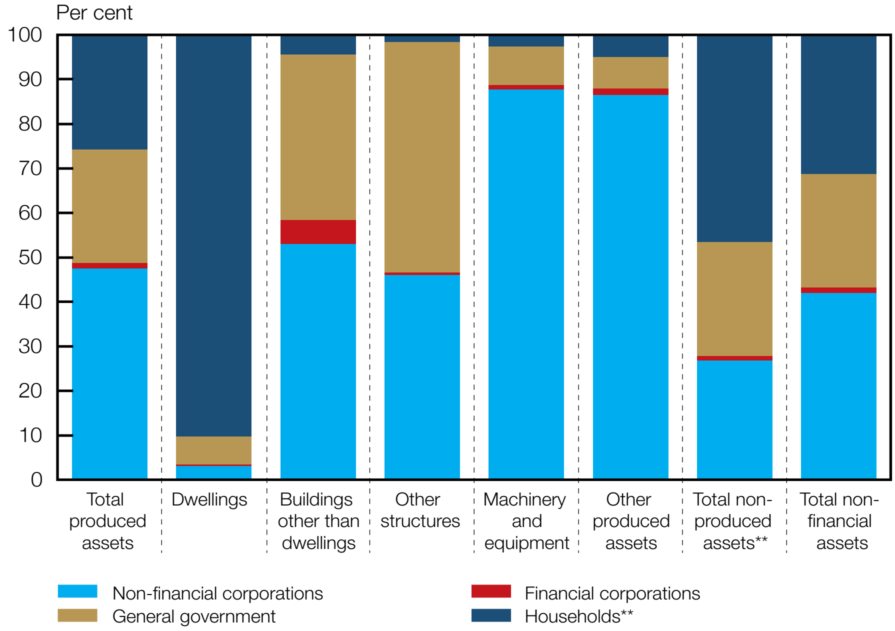
Non-financial balance sheet and accumulation account

The market value of total non-financial assets amounted to R17.9 trillion as at 30 June 2022. Non-financial corporations remained the largest holder of South Africa's non-financial assets at 42.0% of the total followed by households at 31.3% and general government at 25.5%. Financial corporations held only 1.2% of all non-financial assets, primarily in the form of buildings other than dwellings. As at 30 June 2022, households held 90.3% of all dwellings. General government and non-financial corporations dominated the holding of other structures, such as roads, bridges and harbours, at 51.8% and 46.0% respectively, while machinery and equipment were predominantly held by non-financial corporations.

The market value of total produced fixed assets increased by 2.2% to R12.3 trillion in the three months to 30 June 2022. Gross fixed capital formation of R222.3 billion and the consumption of fixed capital of R227.4 billion resulted in a decline in net capital formation of R5.1 billion in the three months to 30 June 2022. This was countered by a revaluation increase of R274.1 billion, which increased the stock of produced fixed assets by R269.0 billion in the second quarter of 2022. The increase in the market value of other structures of 3.7% in the three months to 30 June 2022 reflected a revaluation of R148.3 billion.

Households owned 46.6% of non-produced assets (only land) as at 30 June 2022. The remainder was almost equally held by non-financial corporations and general government.

Institutional sector non-financial asset holdings as at 30 June 2022



* Land only
** Including non-profit institutions serving households

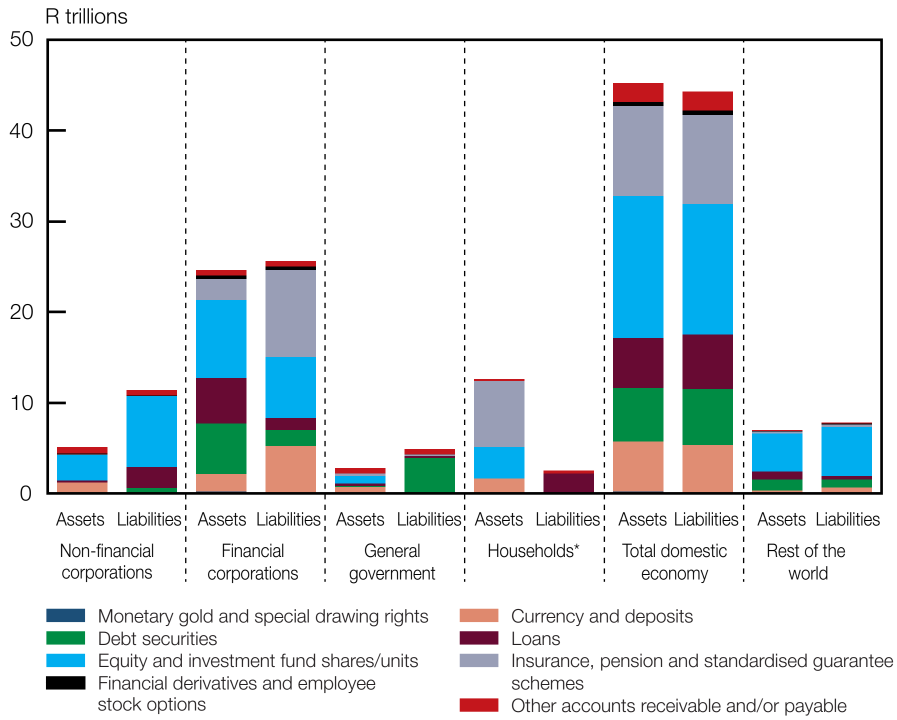
Source: SARB

Financial balance sheet and accumulation account

The market value of both financial assets and liabilities held by the domestic institutional sectors declined by R0.3 trillion and R1.1 trillion to R44.1 trillion and R42.6 trillion respectively as at 30 June 2022. The lower market value of both financial assets and liabilities reflected a decrease in the value of equity and investment fund shares/units due to lower domestic and global share prices. The value of insurance, pension and standardised guarantee schemes also decreased in the three months to 30 June 2022. Consequently, households' contribution to total financial assets declined from 27.1% to 25.5%, while their share of total liabilities increased from 5.8% to 6.1% from 31 March to 30 June 2022, consistent with a modest increase in the value of loans, especially mortgage loans.

Over the same period, financial corporations' contribution to total financial assets increased marginally from 54.9% to 55.3%, supported by increases in the value of holdings of debt securities and loans extended, despite a substantial decline in the value of equity and investment fund shares/units. Similarly, the higher uptake of loans and the increase in the value of currency and deposits lifted their share of total liabilities from 57.0% on 31 March 2022 to 57.5% on 30 June. Following non-financial corporations' disposal of foreign equity securities in the first quarter of 2022, their share of total financial assets increased from 11.6% as at 31 March to 12.6% as at 30 June 2022 as these domestic entities increased their equity investments and granted loans to foreign subsidiaries. By contrast, non-financial corporations' share of total liabilities decreased from 26.0% to 24.9% over the same period, as the decline in the value of equity and investment fund shares/units outweighed the increase in loans granted and debt securities issued.

Market value of total financial assets and liabilities by institutional sector and financial instrument as at 30 June 2022



* Including non-profit institutions serving households

Source: SARB

The general government's share of total financial assets increased from 6.4% to 6.7% from 31 March to 30 June 2022, primarily due to increases in deposits held with monetary financial institutions and loans extended to the monetary authority. The financing activities of general government comprised long-term loans received from the rest of the world (ROW) and an increase in the outstanding value of the IMF's SDRs, which increased its share of total liabilities from 11.2% to 11.5% from 31 March to 30 June 2022.

The market value of the ROW's holdings of South African financial assets decreased marginally from R7.3 trillion to R7.1 trillion from 31 March to 30 June 2022, due to a decrease in the value of equity and investment fund shares/units. By contrast, the ROW's share of total South African liabilities increased from R7.8 trillion to R8.5 trillion over the period, as the value of South African holdings of unlisted shares and currency and deposits increased.

Revaluations were the main driver of the overall decrease in the market value of total financial assets and liabilities in the three months to 30 June 2022. The decline of R1.5 trillion mostly reflected revaluations of equity and investment fund shares/units. However, this was partly offset by transactions to the value of R1.1 trillion.

The analysis of from-whom-to-whom market value of financial asset and liability stock positions between the domestic institutional sectors and the ROW as at 30 June 2022[42] shows that households were the only institutional sector with a net asset position in the second quarter of 2022, due to claims of R2.3 trillion and R8.4 trillion against non-financial and financial corporations respectively. Non-financial corporations had the largest net liability position in the economy, mainly against financial corporations at R4.1 trillion and the ROW at R3.4 trillion.

42 See page E–10 in the experimental tables section in this edition of the *Quarterly Bulletin.*