QUARTERLY BULLETIN

SEPTEMBER 2022

SOUTH AFRICAN RESERVE BANK

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South African Reserve Bank

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Introduction

Real economic activity in South Africa contracted by 0.7% in the second quarter of 2022 following two successive quarters of expansion. The contraction in real gross domestic product (GDP) was broad-based, with activity declining in both the primary and secondary sectors and increasing, albeit at a slower pace, in the tertiary sector. Despite the contraction, the level of real GDP was still 1.4% higher in the first half of 2022 than in the corresponding period a year earlier, but 0.3% lower than the average level in 2019 before the onset of the coronavirus disease 2019 (COVID-19) pandemic.

The real output of the primary sector contracted by a further 5.1% in the second quarter of 2022, along with lower production in both the agricultural and mining sectors. The decrease in output in the agricultural sector emanated mainly from the lower production of animal products on the back of the outbreak of foot and mouth disease, and the sharp increase in input costs. The real output of the mining sector contracted further by 3.5%, marking a fourth successive contraction as production decreased across a number of subsectors.

Real economic activity in the secondary sector contracted by 4.8% in the second quarter of 2022. Following two quarters of expansion, the real gross value added (GVA) by the manufacturing sector contracted sharply by 5.9% in the second quarter as production declined in 8 of the 10 subsectors, most notably in that producing petroleum, chemical, rubber and plastic products. Petroleum production was weighed down by the closure of some domestic refineries, while severe flooding in KwaZulu-Natal (KZN) in April 2022 adversely affected the production of motor vehicles, parts and accessories. Real economic activity in the sector supplying electricity, gas and water contracted by 1.2% in the second quarter, with the decline reflecting suppressed activity in the energy-intensive mining and manufacturing sectors as well as the impact of stage 6 load-shedding. Real GVA by the construction sector contracted further due to lower civil construction and residential building activity within an environment of rising interest rates and weak investor sentiment.

Real output of the tertiary sector increased further by 0.7% in the second quarter of 2022 as growth accelerated in both the transport, storage and communication as well as in the finance, insurance, real estate and business services sectors. The increase in real output in the finance, insurance, real estate and business services sector reflected increased monetary intermediation as well as increased insurance, pension funds and equity market activity over the period. The increase in monetary intermediation was corroborated by an increase in banking activity as the fee income of commercial banks expanded in the second quarter. However, consistent with subdued business and consumer confidence, the real GVA by the commerce sector contracted by 1.5% in the second quarter as real wholesale and retail trade activity declined. By contrast, motor trade activity increased as both new and used vehicle sales increased. In addition, the GVA by the catering and accommodation subsector was supported by an increase in domestic and international tourism.

Consistent with the contraction in real GDP, growth in real gross domestic expenditure (GDE) slowed notably to 0.8% in the second quarter of 2022. Both real final consumption expenditure by households and gross fixed capital formation expanded at a slower pace in the second quarter, while real final consumption expenditure by general government contracted. However, real inventory holdings accumulated at a faster pace over the same period.

Growth in real final consumption expenditure by households lost further momentum as it halved to 0.6% in the second quarter of 2022, consistent with a deterioration in consumer confidence and the slower pace of increase in the real disposable income of households alongside higher consumer price inflation. Real outlays on durable, semi-durable and non-durable goods declined, while real spending on services increased at a faster pace. Real outlays on personal transport equipment moderated and were adversely affected by the unavailability of some inventories following the flooding in KZN in April 2022. Outlays on computers and related equipment also slowed in the second quarter. Three large fuel price increases during the second quarter, which reflected the pass-through of higher international crude oil prices as a result of the war in Ukraine, severely affected household spending patterns.

The debt burden of households rose further in the second quarter of 2022 as their exposure to most categories of credit increased. The further increase in both household debt and debt-service cost as a percentage of nominal disposable income to 64.6% and 7.5% respectively in the second quarter reflected a combination of increased debt levels in a higher interest rate environment.

Households' net wealth declined in the second quarter of 2022 as total assets decreased while total liabilities increased. The lower market value of assets reflected a decrease in equity holdings along with a substantial decrease in share prices, while the value of housing stock increased. Consequently, the ratio of net wealth to nominal disposable income decreased to 359% in the second quarter of 2022.

Growth in real gross fixed capital formation moderated to 0.5% in the second quarter of 2022 from 3.4% in the first quarter as capital spending by private business enterprises increased at a slower pace, while fixed investment by general government and public corporations decreased. The higher capital outlays by private business enterprises reflected increased investment on computer equipment and non-residential buildings, which were partly offset by reduced outlays on residential buildings as well as machinery and equipment. The private sector's share of total nominal gross fixed capital formation remained unchanged at 72.1% in both the first and second quarter of 2022. Despite the moderation in growth, the level of real gross fixed capital formation was 3.7% higher in the first half of the year than in the corresponding period of 2021.

Total household-surveyed employment increased further by 648 000 jobs in the second quarter of 2022. The broad-based increase in employment was largely supported by higher employment in the formal sector, which was boosted by strong job growth in the community, social and personal services sector. The official unemployment rate declined from 34.5% in the first quarter to 33.9% in the second quarter as the increase in employment outpaced the increase in the number of unemployed South Africans.

Enterprise-surveyed formal non-agricultural employment increased further by 91 000 jobs to an estimated 10.1 million persons in the first quarter of 2022, mainly driven by public sector employment which increased to an all-time high of 2.46 million. Although broad-based, national departments recorded substantial employment gains with the appointment of temporary census workers by Statistics South Africa (Stats SA), while employment related to the Presidential Youth Employment Initiative lifted the number of provincial and local government employees. However, private sector employment increased only marginally in the first quarter of 2022 to slightly above the COVID-19-induced lows. Encouragingly, employment in the services sectors increased by 24 700, mostly in the trade, catering and accommodation services sector. However, about 6 400 jobs were lost in the goods-producing sectors, driven primarily by persistent job-shedding in the construction sector.

The pace of increase in formal non-agricultural nominal remuneration per worker moderated slightly to a year-on-year rate of 5.2% in the first quarter of 2022 as the acceleration in remuneration growth per worker in the private sector was offset by a slowdown in that of the public sector. Remuneration growth per worker in the public sector was weighed down by the significant number of low-earning temporary census workers employed by Stats SA, which resulted in a sharp contraction in remuneration per worker at national departments. The average wage settlement rate in collective bargaining agreements rose sharply to 6.1% in the first half of 2022.

Labour productivity growth in the formal non-agricultural sector of the economy accelerated to 1.5% in the first quarter of 2022 as year-on-year output growth exceeded that in employment. Consequently, the rate of increase in nominal unit labour cost in the formal non-agricultural sector moderated to 3.6% in the year to the first quarter of 2022.

The further acceleration in both headline consumer and producer price inflation in the second quarter of 2022 resulted primarily from higher energy and food prices, consistent with the surge in global inflationary pressures. The headline consumer price inflation rate accelerated to a 13-year high of 7.8% in July 2022 along with an increase in headline producer price inflation to a record high of 18.0%. The acceleration in producer price inflation reflected the impact of disruptions in global supply chains and the shortages of raw materials, which had been exacerbated by the war in Ukraine. Most measures of underlying inflationary pressures accelerated further in the second quarter of 2022, although they remained within the inflation target range. Inflation expectations also adjusted upwards closer to the upper limit of the inflation target range.

South Africa's trade surplus with the rest of the world decreased noticeably by R100 billion to R272 billion in the second quarter of 2022 as the value of merchandise imports increased at a faster pace than that of net gold and merchandise exports. The increase in the value of imports reflected higher prices and volumes, while the value of exports reflected only higher prices. South Africa's terms of trade deteriorated slightly in the second quarter as the rand price of the imports of goods and services increased slightly more than that of exports.

The value of merchandise exports increased further by 3.9% in the second quarter of 2022 as the exports of mining products surged. The exports of mineral products were underpinned by the higher prices of coal, manganese and chromium, which fully compensated for the lower volumes. The bulk of the coal exports was destined for Europe, mainly to replace imports from Russia. The slowdown in the pace of increase in the exports of manufactured goods reflected the impact of the April floods in KZN, which weighed down the exports of vehicles and transport equipment.

The value of merchandise imports increased for an eighth consecutive quarter, with the increase of 12.0% in the second quarter of 2022 mainly attributable to the increased values of mining and manufactured goods. The value of mining imports was buoyed by a substantial increase in the importation of mineral products, which continued to reflect the surge in the imports of refined petroleum products due to the earlier closure of some domestic refineries.

The narrowing in the trade surplus, combined with a substantially larger shortfall on the services, income and current transfer account, caused the balance on the current account of the balance of payments to switch from a surplus of 2.4% of GDP in the first quarter of 2022 to a deficit of 1.3% of GDP in the second quarter. The deficit on the income account widened markedly in the second quarter after narrowing for three consecutive quarters. Gross income receipts declined from a relatively high base in the first quarter of 2022, while gross income payments increased significantly due to extraordinary large gross dividend payments.

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an outflow of R1.4 billion in the second quarter of 2022 from a revised inflow of R31.3 billion in the first 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 switched to an outflow of 0.1% in the second quarter from an inflow of 2.0% in the first quarter.

South Africa's total external debt increased from US$160.5 billion at the end of December 2021 to US$173.8 billion at the end of March 2022. However, expressed in rand terms, South Africa's total external debt decreased from R2 551 billion to R2 516 billion over the same period as the rand appreciated against the United States (US) dollar over this period.

South Africa's positive net international investment position (IIP) decreased significantly from a revised R1 666 billion at the end of December 2021 to only R310 billion at the end of March 2022. The decrease reflected a substantial decline in foreign assets and an increase in foreign liabilities. The exchange value of the rand had a significant effect on foreign assets and, to a lesser extent, on foreign liabilities, as the nominal effective exchange rate (NEER) of the rand increased, on balance, by 10.8% in the first quarter of 2022.

The NEER of the rand then decreased by 6.2% in the second quarter of 2022 and by a further 3.6% from the end of June to 9 September. The decrease in the NEER resulted from renewed bouts of risk aversion by global financial markets as inflation concerns prompted monetary policy tightening. The NEER was also weighed down by the strengthening in the US dollar during this period. Currency volatility reflected uncertainty regarding global economic growth prospects in response to China's reimplementation of strict COVID-19 lockdown measures and the ongoing war in Ukraine. Domestically, severe bouts of electricity load-shedding from the end of June 2022 also weighed on the NEER as it negatively impacted investor sentiment and the domestic economic outlook.

South African bond yields have fluctuated along an upward trend thus far in 2022, tracking movements in the exchange value of the rand within an environment of persistently higher inflation outcomes. Global events were paramount in this outcome as bond yields increased globally following Russia's invasion of Ukraine in February 2022. Higher bond yields reflected the effect of the war on international energy and food prices which drove global inflation higher which, in turn, resulted in a tightening of monetary policy by most central banks.

Share prices of JSE Limited (JSE)-listed companies declined in the second quarter of 2022 following increases in the previous two quarters. The FTSE/JSE All-Share Index (Alsi) declined by 12.3% in the second quarter – its worst quarterly performance since the outbreak of COVID-19 in the first quarter of 2020. The decline was in line with the trend on international bourses.

Interest rates in the domestic money market continued to increase in the course of 2022 as monetary policy responded to domestic inflationary pressures. Increases in short-term rates were less pronounced than that in the longer-term rates. Rates on forward rate agreements (FRAs) continued to trend higher in recent months alongside higher-than-expected domestic inflation outcomes and fluctuations in the exchange value of the rand.

Growth in the broadly defined money supply (M3) fluctuated between 7.2% in May 2022 and 8.2% in July, following a post-COVID-19 high of 8.4% in March. At these rates, the growth in M3 was again more aligned with that in nominal GDP in the first two quarters of 2022. Stronger year-on-year growth in M3 in the early months of 2022 reflected the rebound in growth in the deposit holdings of financial companies from a low base in 2021, and later also dividend receipts. Growth in the deposit holdings of households slowed in the first half of 2022 as spending increased with the further relaxation of the COVID-19 restrictions but also because of higher food and fuel prices.

Growth in credit extension by monetary institutions to the domestic private sector quickened in the first half of 2022, with loans to companies increasing at a faster pace than those to households. Year-on-year growth in total loans and advances accelerated from 4.8% in January 2022 to 8.3% in both June and July – its fastest pace of increase since March 2016.

The preliminary non-financial public sector borrowing requirement reverted to a surplus in the first quarter of fiscal 2022/23 from a deficit in the same period of the preceding fiscal year. The turnaround emanated from significant surpluses recorded by national government, extra-budgetary institutions, social security funds and consolidated provincial government. National government's surplus could be attributed to significantly higher cash receipts from operating activities due to strong revenue collections along with a moderate increase in expenditure. By contrast, local governments and the non-financial public enterprises and corporations, or state-owned companies, recorded cash deficits for the period under review.

National government's cash book balance switched from a deficit of R22.7 billion in the first quarter of fiscal 2021/22 to a surplus of R11.5 billion in the first quarter of fiscal 2022/23, as revenue continued to increase at a much faster pace than expenditure. The year-on-year increase in revenue of 10.0% in the first quarter of fiscal 2022/23 reflected significant increases in all tax categories, except for the fuel levy. Revenue, expressed as a percentage of GDP, amounted to 25.6% in the first quarter of fiscal 2022/23 and exceeded that of 24.4% in the same period of the previous fiscal year. National government's net lending position of R30.4 billion in the first quarter of fiscal 2022/23 reflected a turnaround from a net borrowing requirement of R5.1 billion over the same period a year earlier. However, national government's gross loan debt still increased by 10.1%, or R410 billion, year on year to R4 461 billion as at 30 June 2022, representing 70.1% of GDP.

Domestic economic developments

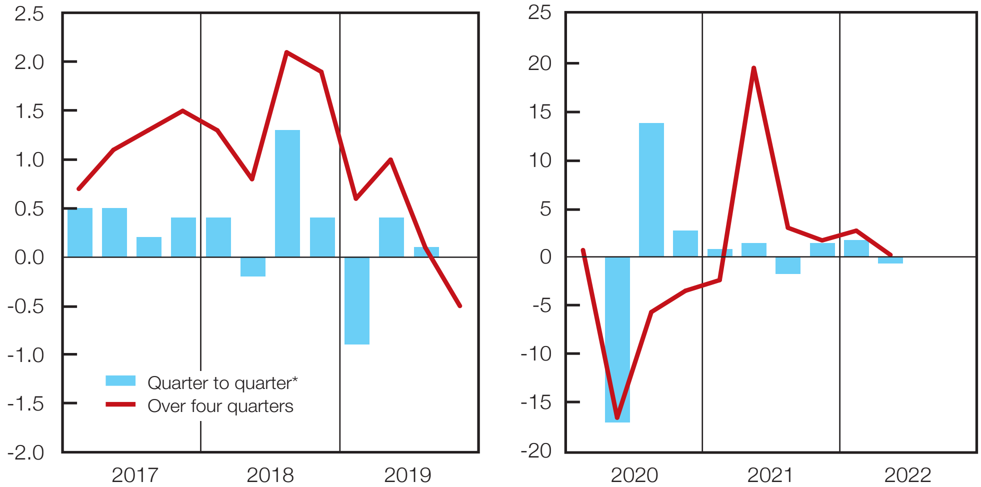
Domestic output[1]

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

Real economic activity in South Africa contracted in the second quarter of 2022, following two successive quarters of expansion. Real *gross domestic product* (GDP) contracted by 0.7% in the second quarter of 2022 following a revised increase of 1.7% in the first quarter. The decrease in output was broad-based, with activity declining in both the primary and secondary sectors, while the real gross value added (GVA) by the tertiary sector increased at a slower pace. Despite the decline, the level of real GDP was still 1.4% higher in the first half of 2022 than in the corresponding period a year earlier. However, the level of real GDP in the second quarter of 2022 was 0.3% lower than the average level in 2019 before the onset of the coronavirus disease 2019 (COVID-19) pandemic.

Real gross domestic product

Percentage change



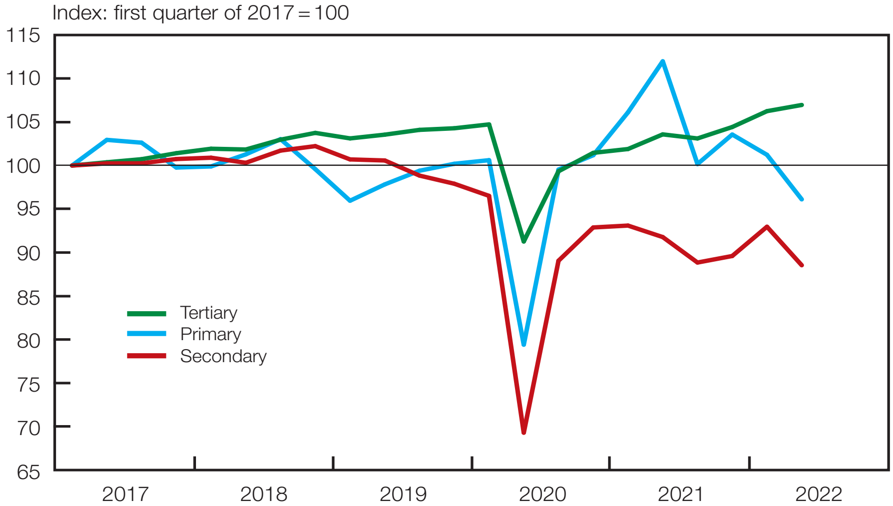
* Seasonally adjusted

Source: Stats SA

Growth in *nominal* GDP, on a quarter-to-quarter and seasonally adjusted basis, amounted to 2.1% in the second quarter of 2022 following an increase of 2.3% in the first quarter of 2022.

Real gross value added by main sectors

Index: first quarter of 2017 = 100



Seasonally adjusted

Source: Stats SA

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
Primary sector	4.9	5.5	-10.5	3.4	10.8	-2.3	-5.1
Agriculture	6.1	11.3	-24.7	16.4	8.8	-2.4	-7.7
Mining	4.1	2.0	-1.1	-3.2	12.0	-2.1	-3.5
Secondary sector	0.2	-1.4	-3.2	0.8	4.5	3.8	-4.8
Manufacturing	0.4	-1.8	-4.3	2.4	6.5	5.0	-5.9
Construction	0.2	-1.6	-1.1	-2.6	-2.2	-0.8	-2.4
Tertiary sector	0.4	1.7	-0.5	1.3	4.1	1.7	0.7
Wholesale and retail trade, catering and accommodation	0.9	3.2	-4.4	3.9	6.4	3.1	-1.5
Finance, insurance, real estate and business services	0.9	-0.5	1.2	-0.7	3.3	1.8	2.4
*Non-primary sector***	*0.4*	*1.0*	*-1.0*	*1.2*	*4.2*	*2.1*	*-0.4*
*Non-agricultural sector****	*0.6*	*1.1*	*-1.0*	*0.9*	*4.6*	*1.9*	*-0.6*
Total	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.7**	**-0.7**

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

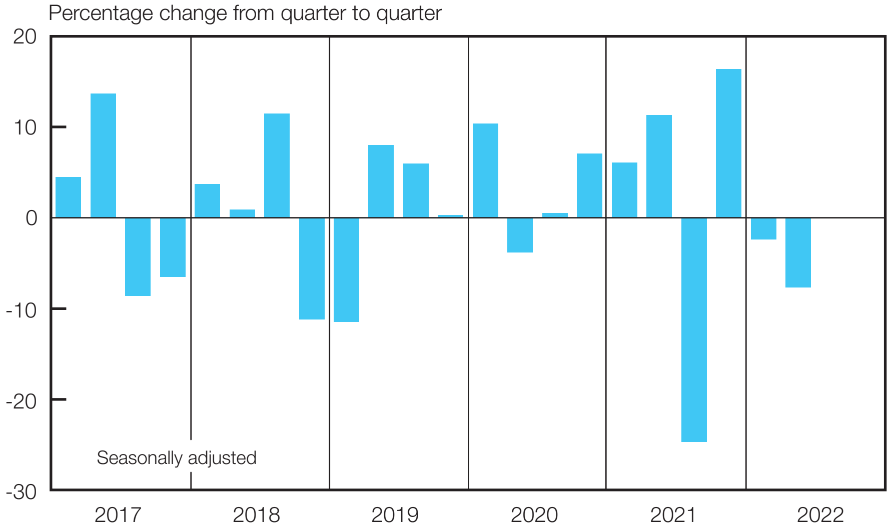
Source: Stats SA

The real output in the *non-agricultural sector* contracted by 0.6% in the second quarter of 2022, following an expansion of 1.9% in the first quarter.

The real GVA by the *primary sector* contracted by a further 5.1% in the second quarter of 2022, following a revised contraction of 2.3% in the first quarter. Real output in both the agricultural and mining sectors decreased for a second consecutive quarter.

Real gross value added by the agricultural sector

Percentage change from quarter to quarter



Source: Stats SA

The real GVA by the *agricultural sector* contracted markedly by 7.7% in the second quarter of 2022 following a revised contraction of 2.4% in the first quarter. The decrease in output emanated mainly from the lower production of animal products. The output of the agricultural sector was weighed down by the sharp rising input costs, the ongoing Russia and Ukraine war as well as the outbreak of foot and mouth disease that prohibited the movement of animals. Consequently, the level of real agricultural output in the first half of 2022 was 13.3% lower than in the corresponding period of 2021.

The expected commercial maize crop of 15.0 million tons for the 2021/22 season is 8.0% less than the final 2020/21 crop, along with a 4.8% reduction in the area planted compared with the previous season, according to the Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development.

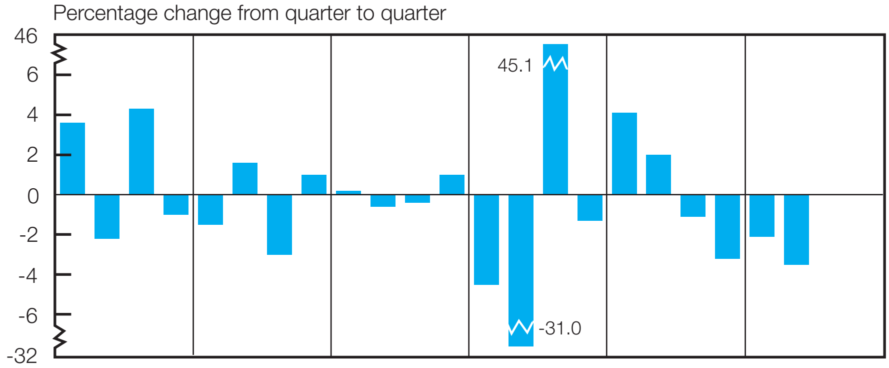
Commercial maize crop estimates

	Crop (million tons)	Area planted (million hectares)
2020/21: final production estimate	16.3	2.8
2021/22: seventh production forecast	15.0	2.6

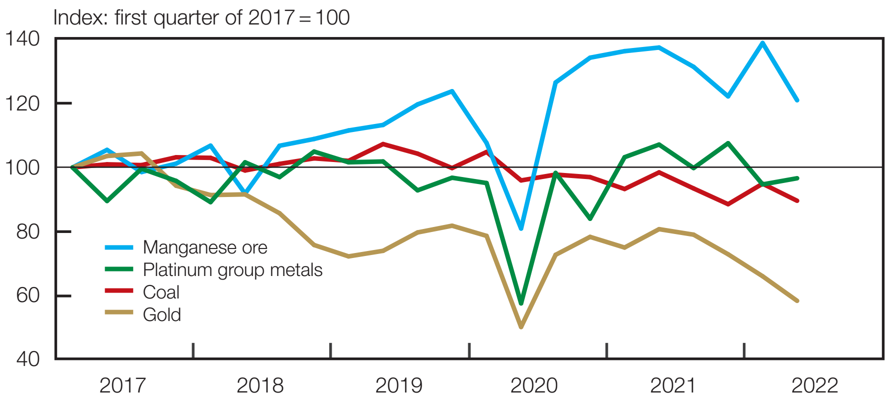
Source: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development

The real GVA by the *mining sector* contracted further by 3.5% in the second quarter of 2022, marking a fourth successive contraction. The lower mining output subtracted 0.2 percentage points from overall real GDP growth as production decreased in 6 of the 12 mining subsectors, notably gold, coal, manganese ore and diamonds. These decreases were partially offset by the higher production of iron ore, platinum group metals (PGMs) and other metallic minerals.

Real gross value added by the mining sector



Physical volume of mining production: selected subsectors



Seasonally adjusted

Source: Stats SA

The lower production volumes of coal, despite elevated coal prices, reflected the binding constraint of insufficient rail capacity on exports, while prolonged industrial action at one of South Africa's largest gold mines adversely affected the production of gold. By contrast, the increased production of PGMs was supported by the recovery in platinum production following maintenance closures alongside excessive rains in the first quarter of 2022.

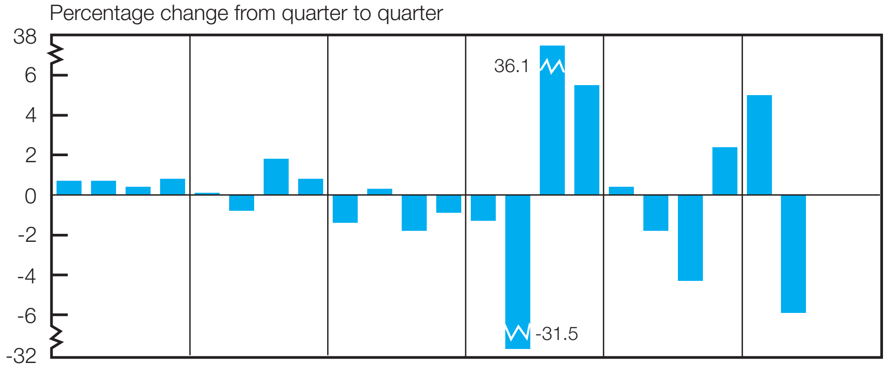
The level of real mining output was 7.3% lower in the first half of 2022 than in the corresponding period of 2021, hampered by factors such as electricity supply constraints, high operating costs, prolonged industrial action as well as rail and port inefficiencies.

Real economic activity in the *secondary sector* switched to a contraction of 4.8% in the second quarter of 2022 from an expansion of 3.8% in the first quarter, with decreases in the manufacturing, construction as well as electricity, gas and water sectors.

Following two quarters of expansion, the real GVA by the *manufacturing sector* contracted sharply by 5.9% in the second quarter of 2022, subtracting 0.7 percentage points from overall real GDP growth. The broad-based decrease in production volumes was evident in 8 of the 10 manufacturing subsectors, particularly in those producing petroleum, chemical, rubber and plastic products; food and beverages; motor vehicles, parts and accessories and other transport equipment; basic iron and steel, non-ferrous metal products, metal products and machinery; as well as textiles, clothing, leather and footwear. Petroleum production was weighed down by the closure of some domestic refineries, while severe flooding in KwaZulu-Natal (KZN) adversely affected the production of motor vehicles, parts and accessories.

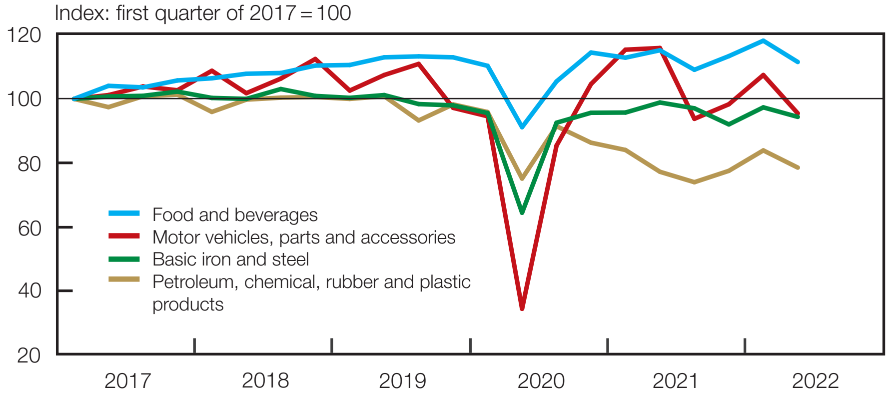
Real gross value added by the manufacturing sector

Percentage change from quarter to quarter



Physical volume of manufacturing production: selected subsectors

Index: first quarter of 2017 = 100



Seasonally adjusted

Source: Stats SA

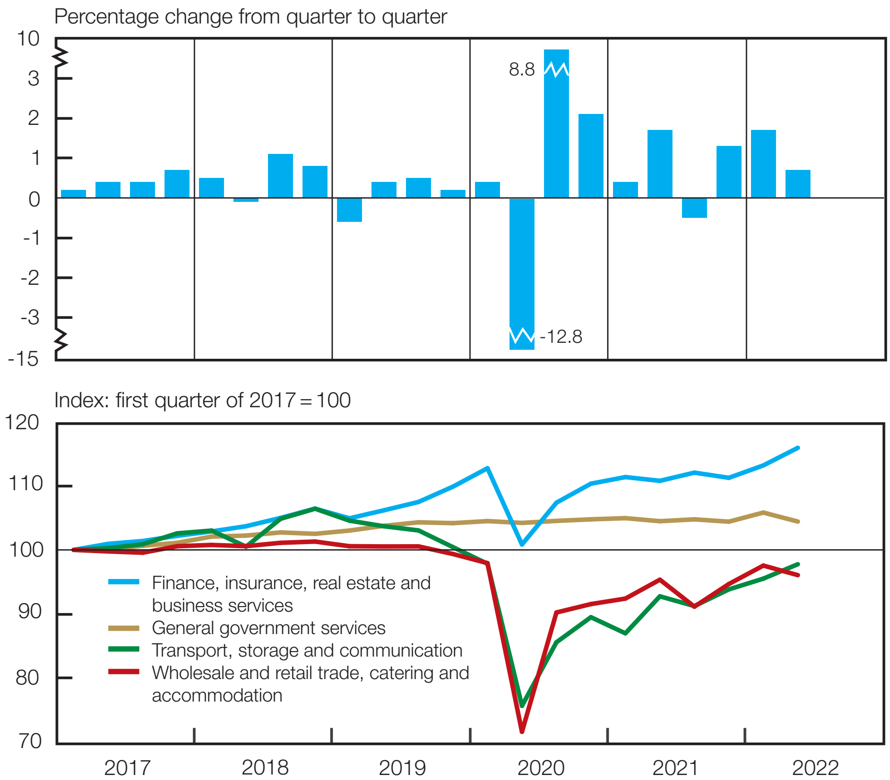
Apart from the floods in KZN, manufacturing production was also suppressed by idiosyncratic domestic factors, such as the intensified electricity load-shedding up to stage 6, sharply rising input costs, port disruptions as well as domestic and global supply chain disruptions and the ongoing war between Russia and Ukraine. The contraction in manufacturing production was also consistent with the decline in the seasonally adjusted utilisation of production capacity to 77.6% in May 2022 from 78.2% in February. The level of real manufacturing output in the first half of the year was 1.3% lower than in the corresponding period of 2021.

The real output of the sector supplying *electricity, gas and water* contracted by 1.2% in the second quarter of 2022, following an expansion of 2.0% in the first quarter. The decline in both electricity production and consumption reflected suppressed activity in the energy-intensive mining and manufacturing sectors in addition to the implementation of load-shedding up to stage 6, damage to electricity infrastructure due to the floods in KZN, and vandalism at some power stations. Apart from representing a loss in economic activity, these factors also erode investment and business confidence.

Real economic activity in the *construction sector* contracted further by 2.4% in the second quarter of 2022, marking the fifth successive quarterly contraction. Building activity in the residential subsector as well as civil construction activity declined as the sector was still negatively impacted by the lingering effects of the COVID-19 pandemic, the constrained fiscal position, rising interest rates and weak investor sentiment. The average level of real output in the first half of 2022 was 6.1% lower than in the corresponding period of 2021.

The real GVA by the *tertiary sector* expanded further by 0.7% in the second quarter of 2022 and contributed 0.4 percentage points to overall GDP growth, following an expansion of 1.7% in the first quarter. Growth accelerated in both the transport, storage and communication as well as in the finance, insurance, real estate and business services sectors. By contrast, the real output of the commerce and general government services sectors contracted over the period. The average level of real output in the first half of 2022 was 3.7% higher than in the corresponding period of 2021.

Real gross value added by the tertiary sector



Seasonally adjusted

Source: Stats SA

Consistent with subdued business and consumer confidence, the real GVA by the *commerce sector* contracted by 1.5% and subtracted 0.2 percentage points from overall GDP growth in the second quarter of 2022, after an expansion of 3.1% in the first quarter. Real wholesale and retail trade activity declined, while that in both the motor trade and the tourism and accommodation subsectors increased in the second quarter. The contraction in the wholesale trade subsector was broad-based and reflected lower sales of food, beverages and tobacco; textiles, clothing and footwear; machinery, equipment and supplies; as well as precious stones, jewellery and silverware. The real output of the retail subsector was suppressed by weak consumer demand for food, beverages and tobacco in specialised stores; household furniture, appliances and equipment; pharmaceuticals and medical goods; cosmetics and toiletries; as well as all other retailers. Real wholesale and retail trade activity were also impacted by the flooding in KZN in April 2022, along with rising operating costs, electricity supply constraints, domestic and global supply chain disruptions, high unemployment and the erosion of the purchasing power of disposable income due to rising consumer prices.

By contrast, motor trade activity increased in the second quarter of 2022 as new and used vehicle sales increased despite the higher interest rates. New models and increasing demand following inventory shortages in previous quarters likely supported the ongoing recovery in the motor trade subsector. In addition, the GVA by the catering and accommodation subsector was supported by an increase in domestic and international tourism. The average level of real output in the commerce sector in the first half of 2022 was 3.3% higher than in the corresponding period of 2021.

The real output of the *transport, storage and communication services sector* expanded further by 2.4% in the second quarter of 2022, contributing 0.2% percentage points to overall GDP growth. The expansion was underpinned by both the increased volume of goods and the number of passengers transported by road. However, reduced activity in rail freight transportation and fewer rail passenger journeys undertaken reflected the impact of the deterioration of South Africa's rail infrastructure due to vandalism, which also resulted in the suspension of some commuter routes. Nevertheless, the average level of real GVA by the transport, storage and communication services sector was 7.6% higher in the first half of 2022 than in the corresponding period in 2021.

Growth in the real GVA by the *finance, insurance, real estate and business services sector* accelerated from 1.8% in the first quarter of 2022 to 2.4% in the second quarter as activity in the monetary intermediation, insurance and pension funds as well the equity market increased over the period. The increase in monetary intermediation was corroborated by an increase in banking activity as the fee income of commercial banks expanded in the second quarter. The average level of real GVA by the finance, insurance, real estate and business services sector in the first half of 2022 was 3.2% higher than in the corresponding period of 2021.

The decline in the real GVA by the *general government services sector* by 1.4% in the second quarter of 2022 reflected a decline in the number of government employees over the period.

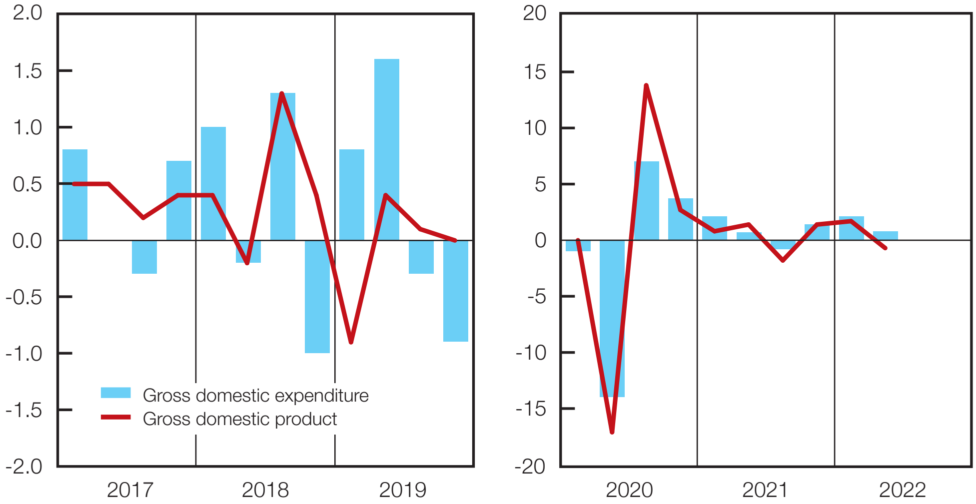
Real gross domestic expenditure[2]

In line with the decrease in real GDP, growth in real *gross domestic expenditure* (GDE) slowed notably to 0.8% in the second quarter of 2022 from 2.1% in the first quarter. Both the real final consumption expenditure by households and gross fixed capital formation expanded at a slower pace in the second quarter, while real final consumption expenditure by general government contracted. However, real inventory holdings accumulated at a faster pace over the period.

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

Real gross domestic product and expenditure

Percentage change from quarter to quarter



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
Final consumption expenditure							
Households	0.5	1.6	-2.8	3.0	5.6	1.2	0.6
General government	-0.6	0.4	0.5	0.2	0.6	1.1	-0.7
Gross fixed capital formation	-3.1	-0.3	-1.1	1.6	0.2	3.4	0.5
Domestic final demand[2]	**-0.2**	**1.1**	**-1.9**	**2.2**	**3.8**	**1.5**	**0.3**
Change in inventories (R billions)[3]	*-21.8*	*-41.6*	*6.0*	*-25.0*	*-20.6*	*4.8*	*27.3*
Residual[4]	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.1*	*0.1*
Gross domestic expenditure[5]	2.1	0.7	-0.8	1.4	4.8	2.1	0.8

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

Sources: Stats SA and SARB

Real net exports and final consumption expenditure by general government subtracted 1.5 and 0.1 percentage points respectively from growth in real GDP in the second quarter of 2022. By contrast, the change in inventories and real final consumption expenditure by households contributed 0.5 and 0.4 percentage points respectively to overall real GDP growth over the period.

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

Percentage points

Component	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021 Year	2022 Q1	2022 Q2
Final consumption expenditure							
Households	0.4	1.0	-1.8	2.0	3.7	0.8	0.4
General government	-0.1	0.1	0.1	0.0	0.1	0.2	-0.1
Gross fixed capital formation	-0.5	0.0	-0.2	0.2	0.0	0.5	0.1
Change in inventories	2.0	-0.4	1.0	-0.7	0.9	0.7	0.5
Residual	0.2	0.0	0.0	-0.1	0.1	-0.1	0.0
Gross domestic expenditure	**2.0**	**0.7**	**-0.8**	**1.4**	**4.8**	**2.1**	**0.8**
Net exports	-1.2	0.7	-1.0	-0.1	0.1	-0.4	-1.5
Gross domestic product	**0.8**	**1.4**	**-1.8**	**1.4**	**4.9**	**1.7**	**-0.7**

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

Sources: Stats SA and SARB

Nominal GDP at market prices (not seasonally adjusted and not annualised) of R1.66 trillion in the second quarter of 2022 was 5.1% higher than in the second quarter of 2021. The total nominal gross disposable income likewise increased to R1.61 trillion, or 4.1% year on year, in the second quarter of 2022. Consequently, all components of nominal domestic final demand increased over the period.

Growth in selected nominal production and expenditure aggregates

Percentage change over four quarters

Component	2021 Q1*	2021 Q2*	2021 Q3*	2021 Q4*	2021 Year**	2022 Q1*	2022 Q2*
Gross value added at basic prices	3.6	27.2	9.1	5.4	10.8	5.9	5.2
Gross domestic product at market prices	3.5	29.7	9.7	5.8	11.4	6.5	5.1
Gross operating surplus	6.9	43.8	9.8	6.1	15.4	5.8	5.4
Gross national income	4.5	29.1	8.2	5.6	11.2	6.0	3.9
Gross disposable income	4.2	29.2	8.5	6.3	11.4	6.3	4.1
Final consumption expenditure							
Households	0.0	27.9	6.9	8.3	9.9	9.1	8.1
General government	4.6	5.1	5.1	6.4	5.3	6.2	6.7
Gross fixed capital formation	-5.1	24.1	5.7	3.7	6.0	13.3	13.7

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

Sources: Stats SA and SARB

Growth in the real *exports* of goods and services moderated to 0.3% in the second quarter of 2022 following a notable increase of 3.8% in the first quarter. Mining exports reverted from a substantial contraction in the first quarter of 2022 to an expansion in the second quarter as higher export volumes, particularly for precious metals (including gold, PGMs and stones) as well as base metals and articles thereof, outweighed the lower export volumes of mineral products. Manufacturing export volumes contracted in the second quarter of 2022, impacted by the floods in KZN. The export volumes of vehicles and transport equipment as well as machinery and electrical equipment decreased, while those of chemical products and prepared foodstuffs, beverages and tobacco increased. Agricultural export volumes contracted notably, impacted by the floods in KZN which limited port activities in the quarter. By contrast, growth in the real exports of services accelerated in the second quarter of 2022.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2022					
	Exports			Imports		
	Percentage of total**	Q1***	Q2***	Percentage of total**	Q1***	Q2***
Total	**100.0**	**3.8**	**0.3**	**100.0**	**5.1**	**5.6**
Mining	**45.8**	**-7.1**	**3.0**	**19.4**	**4.5**	**9.1**
Of which:						
Mineral products	16.7	10.4	- 5.9	13.2	9.6	11.9
Precious metals including gold, platinum group metals and stones	16.6	-23.4	9.3	1.3	-4.6	3.2
Base metals and articles	12.5	-6.5	8.5	4.9	-6.0	2.3
Manufacturing	**37.1**	**14.1**	**-2.4**	**64.7**	**3.3**	**4.9**
Of which:						
Vehicles and transport equipment	10.7	27.6	-11.9	12.8	8.0	3.0
Machinery and electrical equipment	8.3	20.1	-8.4	23.1	3.1	1.2
Chemical products	6.8	10.5	14.3	12.1	1.9	16.9
Prepared foodstuffs, beverages and tobacco	4.2	3.7	2.0	2.5	-1.8	13.7
Agriculture	**8.5**	**16.2**	**-13.0**	**4.1**	**23.9**	**-4.5**
Of which:						
Vegetable products	7.1	17.9	-15.2	2.0	16.2	8.8
Services	**8.3**	**7.0**	**14.3**	**11.6**	**8.5**	**7.9**

* 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

Growth in the real *imports* of goods and services accelerated to 5.6% in the second quarter of 2022 from 5.1% in the first quarter. Growth in the real imports of mining and manufactured products as well as in services accelerated in the second quarter, while agricultural import volumes declined. The accelerated growth in mining import volumes was broad-based, with mineral import volumes in particular increasing meaningfully, reflecting the importation of refined petroleum products. Growth in the real imports of manufactured goods accelerated as the import volumes of chemical products and prepared foodstuffs, beverages and tobacco increased at a faster pace. By contrast, the importation of machinery and electrical equipment, and vehicles and transport equipment, slowed in the second quarter.

Real *net exports* subtracted 1.5 percentage points from real GDP growth in the second quarter of 2022, with net exports of manufactured and mining products detracting 1.1 and 0.1 percentage points respectively. Real net mining exports were largely weighed down by mineral products, which were partially offset by precious metals (including gold, PGMs and stones) as well as base metals and articles thereof. The lower real net exports of vehicles and transport equipment subtracted the most from overall net manufacturing exports, followed by machinery and electrical equipment and chemical products. Real net agricultural exports subtracted 0.3 percentage points from real GDP growth, largely due to a decrease in the net exports of vegetable products.

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

Percentage points

Component	2022					
	Exports		Imports*		Net exports	
	Q1	Q2	Q1	Q2	Q1	Q2
Total	**1.0**	**0.1**	**1.4**	**1.6**	**-0.4**	**-1.5**
Mining	**-0.9**	**0.4**	**0.2**	**0.5**	**-1.1**	**-0.1**
Of which:						
Mineral products	0.4	-0.3	0.3	0.4	0.1	-0.7
Precious metals, including gold, platinum group metals and stones	-1.1	0.3	0.0	0.0	-1.1	0.3
Base metals and articles	-0.2	0.3	-0.1	0.0	-0.1	0.3
Manufacturing	**1.3**	**-0.2**	**0.6**	**0.9**	**0.7**	**-1.1**
Of which:						
Vehicles and transport equipment	0.7	-0.4	0.3	0.1	0.5	-0.5
Machinery and electrical equipment	0.4	-0.2	0.2	0.1	0.2	-0.3
Chemical products	0.2	0.2	0.1	0.6	0.1	-0.3
Prepared foodstuffs, beverages and tobacco	0.0	0.0	0.0	0.1	0.1	-0.1
Agriculture	**0.4**	**-0.4**	**0.3**	**-0.1**	**0.1**	**-0.3**
Of which:						
Vegetable products	0.4	-0.4	0.1	0.1	0.3	-0.4
Services	**0.2**	**0.4**	**0.3**	**0.3**	**-0.1**	**0.1**

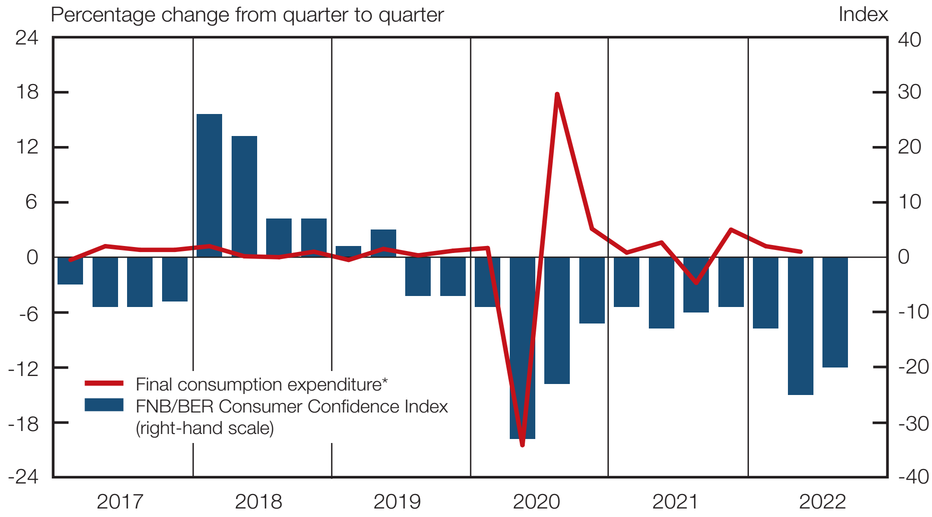
* A positive contribution by imports *subtracts from* growth and a negative contribution by imports *adds to* growth. Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Sources: SARS, Stats SA and SARB

Growth in the real *final consumption expenditure by households* lost further momentum with an increase of 0.6% in the second quarter of 2022 from 1.2% in the first quarter. Real outlays on durable goods, semi-durable goods and non-durable goods declined, while real spending on services increased at a faster pace. The moderation in household consumption expenditure growth was consistent with the slower pace of increase in the real disposable income of households alongside higher consumer price inflation and a deterioration in consumer confidence in the second quarter. However, the average level of real outlays was 2.4% higher in the first half of 2022 compared with the same period in 2021.

Real outlays by households on *durable goods* contracted by 1.2% in the second quarter of 2022 following a revised expansion of 3.6% in the first quarter. Real purchases of most durable goods subsectors decreased over the period, namely furniture and household appliances, recreational and entertainment goods, and other durable goods. Real outlays on personal transport equipment moderated and were adversely affected by the unavailability of inventory following the flooding in KZN in April 2022. Outlays on computers and related equipment also slowed in the second quarter.

Real final consumption expenditure by households and consumer confidence



* Seasonally adjusted

Sources: BER and Stats SA

Real outlays by households on *semi-durable goods* contracted by 1.4% in the second quarter of 2022 following an expansion of 1.2% in the first quarter. Real spending on almost all semi-durable goods categories declined in the second quarter of 2022, including clothing and footwear; motorcar tyres, parts and accessories as well as household textiles, furnishings and glassware. By contrast, real outlays on recreational and entertainment goods increased.

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
Durable goods	7.0	2.4	-10.2	2.2	11.5	3.6	-1.2
Semi-durable goods	1.9	0.4	-5.0	5.3	8.8	1.2	-1.4
Non-durable goods	-0.1	1.1	-3.8	5.2	4.4	1.9	-0.9
Services	-0.5	1.9	-0.2	1.5	4.7	0.4	2.1
Total	**0.5**	**1.6**	**-2.8**	**3.0**	**5.6**	**1.2**	**0.6**

* Percentage change over one year

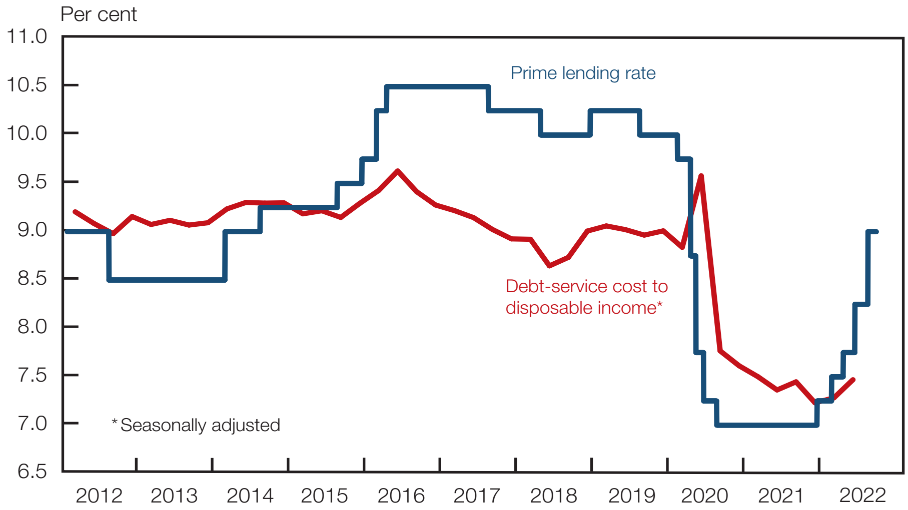
Source: Stats SA

Real household spending on *non-durable goods* declined by 0.9% in the second quarter of 2022 after increasing by 1.9% in the first quarter. Real purchases of food, beverages and tobacco; household fuel, power and water; household consumer goods; medical and pharmaceutical products; as well as petroleum products declined. Three large fuel price increases during the second quarter of 2022, spurred on by the war in Ukraine, severely affected household spending patterns.

Growth in real consumption expenditure on *services* accelerated to 2.1% in the second quarter of 2022. Real outlays on medical services increased at a faster pace, while spending on rent and transport and communication services moderated in the second quarter of 2022. By contrast, real outlays on household services contracted.

Household debt increased further in the second quarter of 2022 as most categories of credit extended to households increased. Household debt as a percentage of nominal disposable income edged higher to 64.6% in the second quarter of 2022 from 64.3% in the first quarter, as the increase in household debt exceeded that in nominal disposable income. Households' cost of servicing debt relative to disposable income increased further to 7.5% in the second quarter of 2022 from 7.3% in the first quarter, reflecting the combination of the higher debt level and the cumulative 100 basis points increase in the prime lending rate in the first two quarters of 2022.

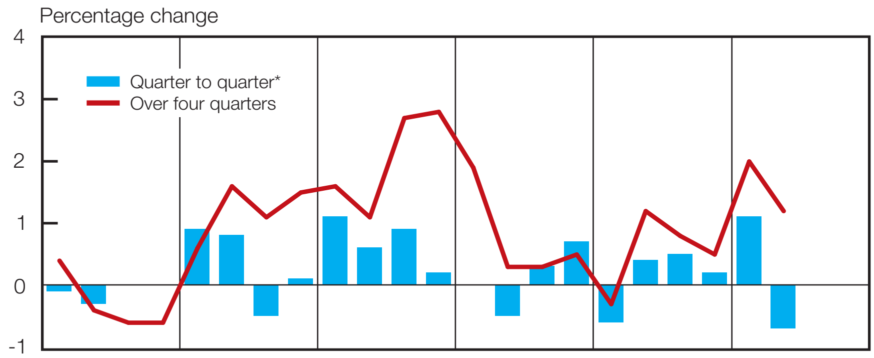
Household debt-service cost and the prime lending rate



Source: SARB

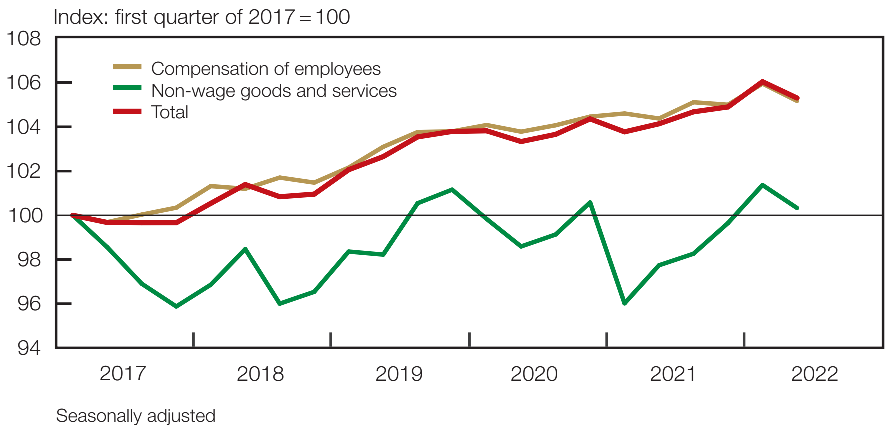
Households' net wealth declined in the second quarter of 2022 as total assets decreased while total liabilities increased. The lower market value of assets reflected a decrease in equity holdings along with a substantial decrease in share prices, while the value of housing stock increased. Consequently, the ratio of net wealth to nominal disposable income decreased to 359% in the second quarter of 2022 from 379% in the first quarter.

Real final consumption expenditure by general government



* Seasonally adjusted

Components of real final consumption expenditure by general government



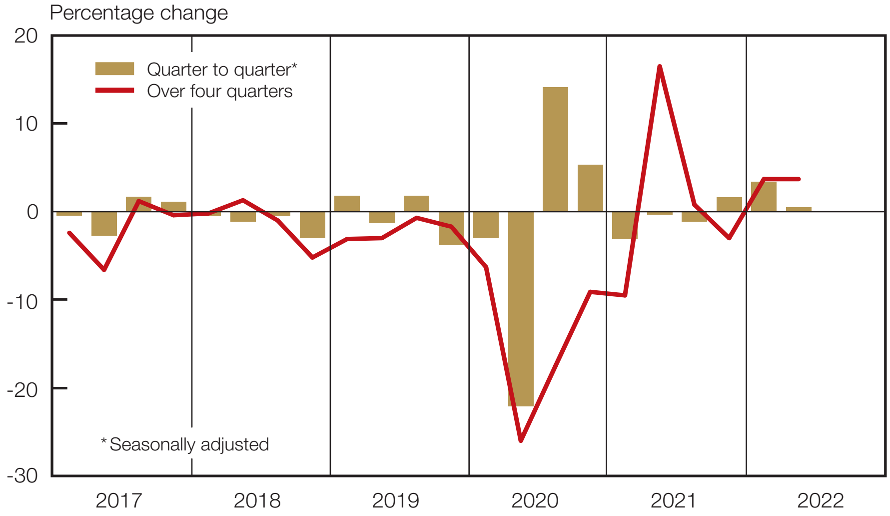
Seasonally adjusted

Source: Stats SA

Real *final consumption expenditure by general government* declined by 0.7% in the second quarter of 2022 from an increase of 1.1% in the first quarter, as real payments of both the compensation of employees and non-wage goods and services declined. The decreased real spending reflected the normalisation of wages related to the conducting of the 2022 population census that was paid in the first quarter of 2022. The level of total real government expenditure in the first half of 2022 was 1.6% higher compared with the corresponding period in 2021.

Growth in real *gross fixed capital formation* moderated to 0.5% in the second quarter of 2022 from 3.4% in the first quarter. Capital spending by private business enterprises increased at a slower pace, while fixed investment by general government and public corporations decreased in the second quarter. The level of real gross fixed capital formation was 3.7% higher in the first half of 2022 than in the corresponding period of 2021.

Real gross fixed capital formation



Source: Stats SA

Real gross fixed capital formation by *private business enterprises* increased by 0.8% in the second quarter of 2022 following an increase of 3.9% in the previous quarter, adding 0.6 percentage points to growth in total gross fixed capital formation. Increased capital outlays on computer equipment and non-residential buildings were partly offset by reduced outlays on residential buildings as well as machinery and equipment in the second quarter. As a result, the private sector's share of total nominal gross fixed capital formation remained unchanged at 72.1% in both the first and second quarter of 2022.

Real gross fixed capital formation

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

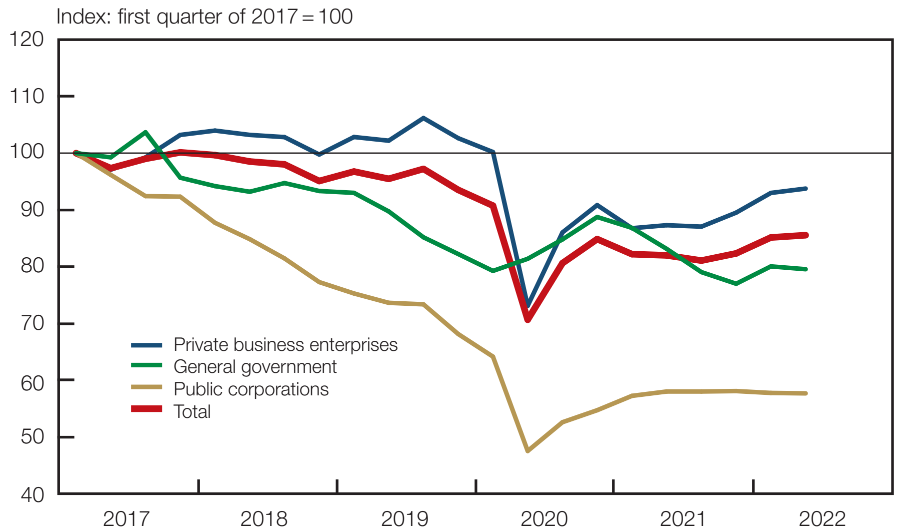
Sector	2021					2022	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	-4.5	0.6	-0.3	2.8	0.1	3.9	0.8
Public corporations.......................	4.6	1.3	0.0	0.1	5.6	-0.6	-0.1
General government.....................	-2.2	-4.3	-4.9	-2.6	-2.5	4.0	-0.6
Total	**-3.1**	**-0.3**	**-1.1**	**1.6**	**0.2**	**3.4**	**0.5**

* Percentage change over one year

Source: Stats SA

Capital spending by the *public sector* receded to 0.4% in the second quarter of 2022 as both general government and public corporations reduced capital outlays. Real gross fixed capital formation by *public corporations* contracted further by 0.1% in the second quarter of 2022 following a contraction of 0.6% in the first quarter, weighed down by real capital investment in non-residential buildings and transport equipment.

Real gross fixed capital formation by type of organisation



Seasonally adjusted

Source: Stats SA

Real capital investment by *general government* decreased by 0.6% in the second quarter of 2022 following an increase of 4.0% in the first quarter. The decrease reflected lower capital outlays by all three levels of general government and subtracted 0.1 percentage points from growth in total gross fixed capital formation in the second quarter of 2022.

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

Real *inventory* holdings increased further by R27.3 billion (at seasonally adjusted and annualised 2015 prices) in the second quarter of 2022 following a revised increase of R4.8 billion in the first quarter. The accumulation of inventories occurred mainly in the trade sector, while the manufacturing, electricity and mining sectors reduced their inventory holdings.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) declined to 13.3% in the second quarter of 2022, from 16.3% in the first quarter. Declines in the saving rate of households and especially corporate business enterprises outweighed the smaller rate of dissaving by the general government. The share of total gross capital formation financed through foreign capital (the foreign financing ratio) increased to 9.0% in the second quarter of 2022.

Gross saving as a percentage of gross domestic product

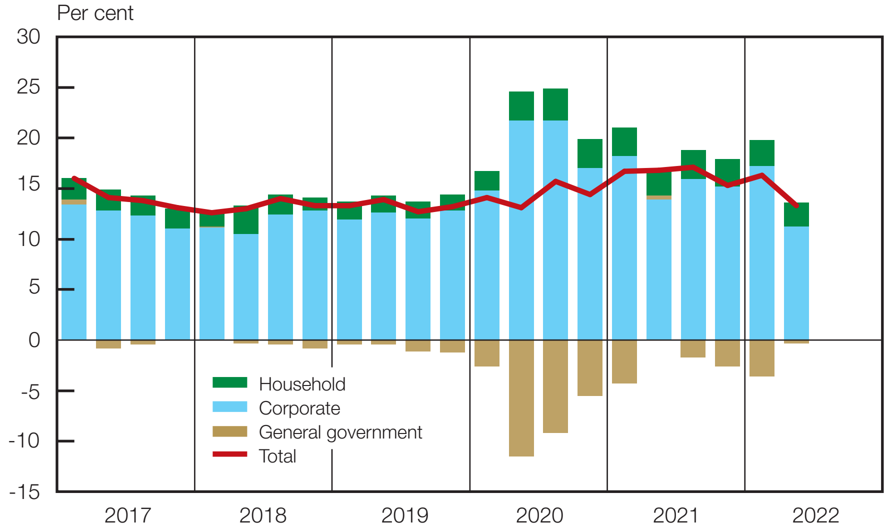
Ratio in per cent at seasonally adjusted annualised rates

Sector	2021					2022	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Corporate	18.2	13.9	15.9	15.2	15.8	17.2	11.2
General government	-4.3	0.4	-1.7	-2.6	-2.1	-3.6	-0.3
Household	2.8	2.6	2.9	2.7	2.8	2.6	2.4
Total	**16.7**	**16.8**	**17.1**	**15.3**	**16.5**	**16.3**	**13.3**

Source: SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP declined significantly to 11.2% in the second quarter of 2022 from 17.2% in the first quarter, as the increase in the seasonally adjusted operating surplus was insufficient to offset the increase in the seasonally adjusted tax and dividend payments. Dissaving by *general government* as a percentage of GDP decreased to 0.3% in the second quarter of 2022 from 3.6% in the first quarter. The increase in seasonally adjusted government revenue, mainly from higher income tax collections, exceeded that in seasonally adjusted nominal expenditure. Meanwhile, the saving rate of the *household sector* declined slightly to 2.4% in the second quarter of 2022 from 2.6% in the first quarter, as the increase in seasonally adjusted nominal consumption expenditure marginally outweighed that in nominal disposable income, which resulted in lower gross saving.

Nominal gross saving as a ratio of gross domestic product



Sources: Stats SA and SARB

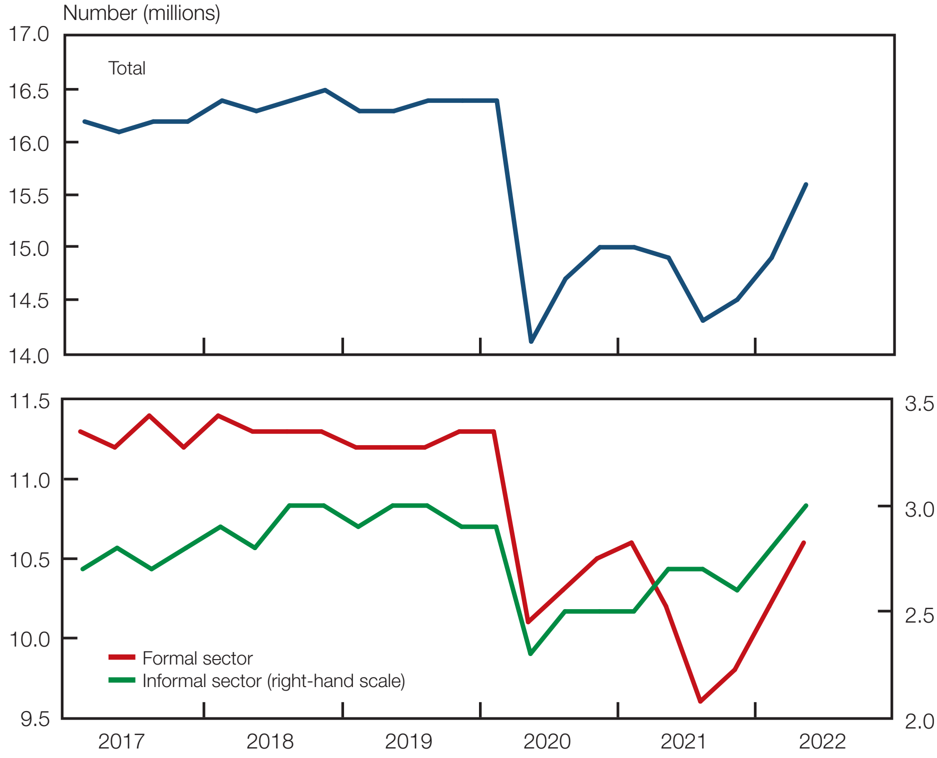
Employment

3 Stats SA noted that the response rate of the *QLFS* increased to 78.8% in the second quarter of 2022 from 64.7% in the first quarter (and 60.0% in the second quarter of 2021).

Total household-surveyed employment increased further by 648 000 jobs (4.3% quarter to quarter) in the second quarter of 2022, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS).*[3] The broad-based increase in employment across the four main sectors was largely supported by an increase of 420 000 jobs (4.1%) in the formal sector. This increase was boosted by strong job growth in the community, social and personal services sector, particularly temporary public sector employment related to the Presidential Youth Employment Initiative and census workers employed by Stats SA. Informal sector employment increased by 146 000 jobs (5.2%) in the second quarter of 2022, while further job gains of 29 000 (3.5%) and 52 000 (4.8%) were recorded in the agricultural sector and in the private household sector respectively. The notable improvement in the response rate of the *QLFS* arguably supported the positive outcome as the level of employment could be measured with a much higher degree of confidence compared to that of recent quarters.

The number of unemployed South Africans increased by 133 000 (1.7%) to 7.99 million in the second quarter of 2022. However, the official unemployment rate decreased further from 34.5% in the first quarter of 2022 to 33.9% in the second quarter as total employment increased much more than unemployment. Similarly, the seasonally adjusted unemployment rate decreased further from 34.6% to 33.6% over the same period. In the second quarter of 2022, most unemployed persons were new entrants (46.3%) to the labour market followed by job losers (26.1%), while those who had previously worked five years ago represented 22.1% of the officially unemployed. Re-entrants and job leavers accounted for only 3.2% and 2.3% respectively.

Household-surveyed employment



Source: Stats SA

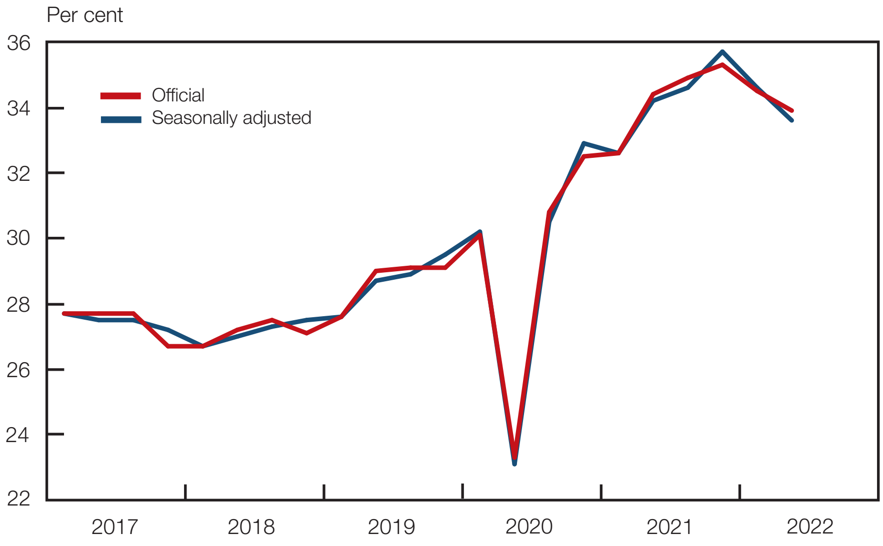
Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2021		2022		2022 Q2		
	Q2	Q4	Q1	Q2	Number	Per cent	Per cent
a. Total employed	14 941	14 544	14 914	15 562	648	4.3	4.2
b. Total unemployed (official definition)	7 826	7 921	7 862	7 994	132	1.7	2.1
c. Total labour force (a+b)	22 768	22 466	22 776	23 556	780	3.4	3.5
d. Total not economically active	16 832	17 423	17 257	16 621	-636	-3.7	-1.3
e. Population 15–64 years (c+d)	39 599	39 888	40 033	40 177	144	0.4	1.5
f. Official unemployment rate* (b/c)*100	34.4%	35.3%	34.5%	33.9%	–	–	–
g. Discouraged	3 317	3 806	3 752	3 568	-184	-4.9	7.6
h. Other reasons for not searching for work	1 119	956	1 387	1 146	-241	-17.4	2.4
i. Expanded unemployment rate**	44.4%	46.2%	45.5%	44.1%	–	–	–

* 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

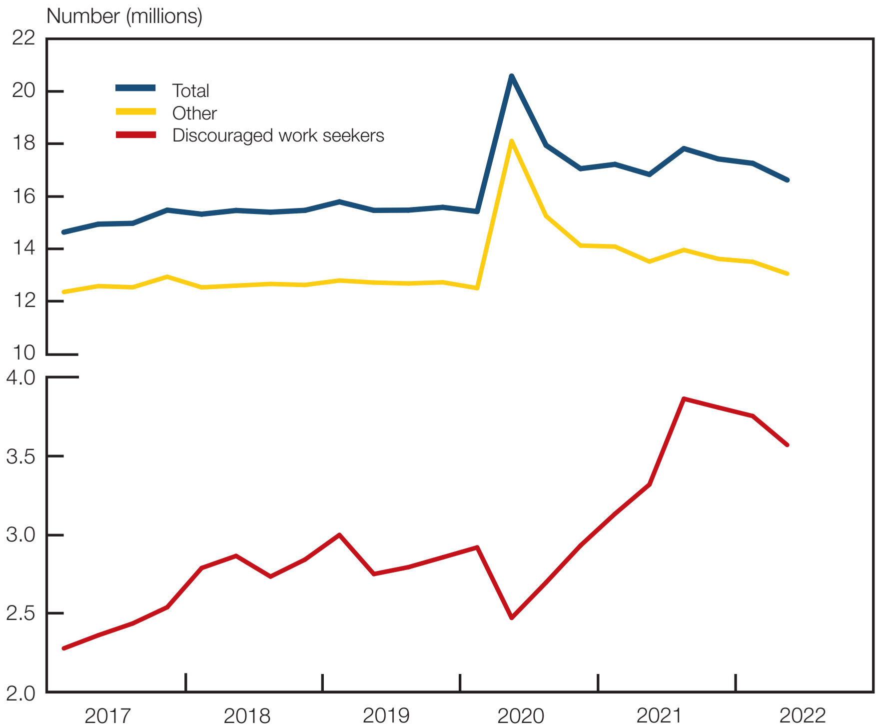
Unemployment rate



Sources: Stats SA and SARB

The youth unemployment rate (those aged 15–24 and actively searching for work) decreased slightly to 61.4% in the second quarter of 2022 but has remained above 60% for eight consecutive quarters. Moreover, approximately 3.7 million of the 10.2 million of these young people, or 35.7%, were not in employment, education programmes or training in the second quarter of 2022.

Not economically active population



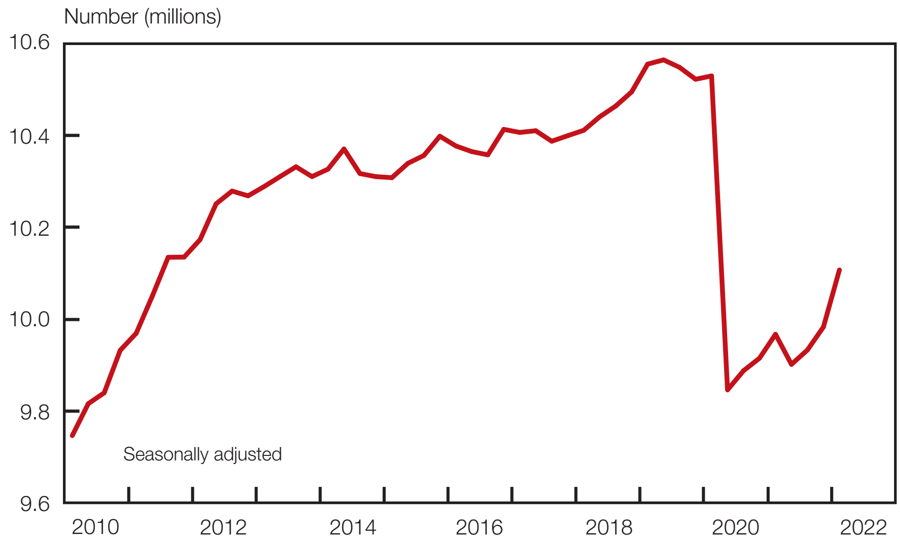
Source: Stats SA

The number of discouraged work seekers decreased by a further 184 000 (4.9%) in the second quarter of 2022. The expanded unemployment rate, which includes discouraged work seekers, thus decreased further from 45.5% in the first quarter of 2022 to 44.1% in the second quarter.

Encouragingly, the number of new and renewed job postings by the PNet web platform increased by 7.4% from the first to the second quarter of 2022, with total job postings up by 13.8% in August compared with the corresponding pre-COVID-19 period in August 2019.

Enterprise-surveyed formal non-agricultural employment increased by a further 91 000 jobs (an annualised 3.7%) in the first quarter of 2022, raising the total level of such employment to an estimated 10.1 million persons. The increase was mainly driven by public sector employment, while private sector employment increased marginally to only slightly above the COVID-19-induced lows.

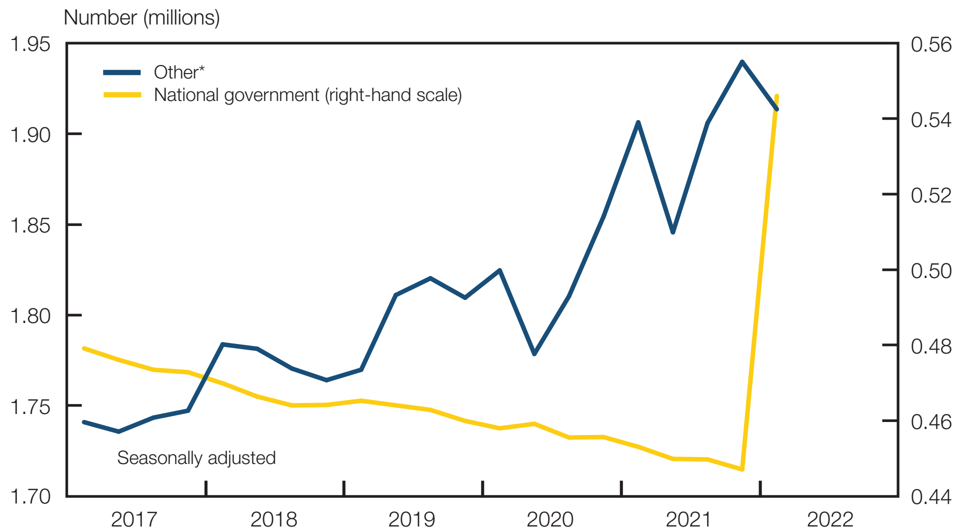
Formal non-agricultural employment



Sources: Stats SA and SARB

Public sector employment increased markedly by 72 700 employees (an annualised 12.8%) in the first quarter of 2022 to an all-time high of 2.46 million. Although broad-based, national departments recorded substantial employment gains with the appointment of temporary census workers by Stats SA, while employment related to the Presidential Youth Employment Initiative lifted the number of provincial and local government employees.

Public sector employment

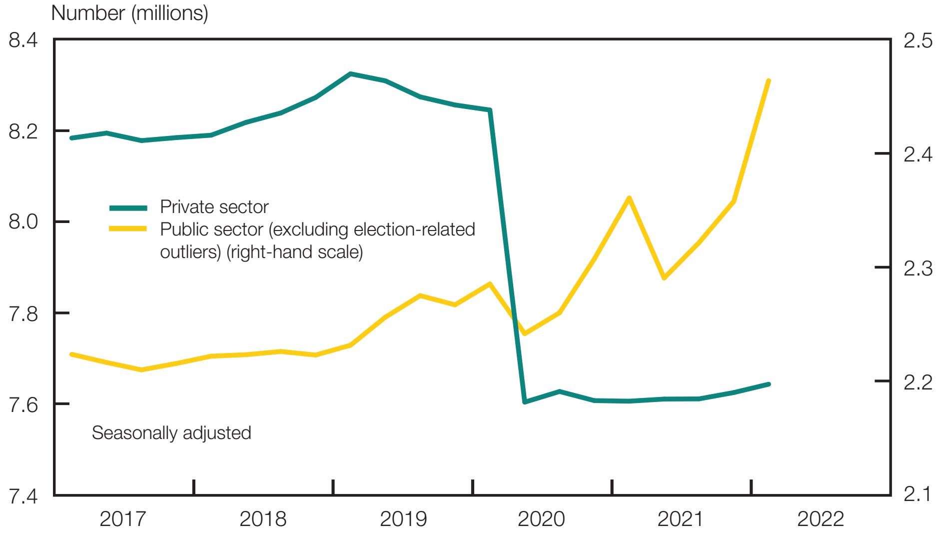


* Comprises provinces, local government, other public sector enterprises and public sector transport, storage and communication services

Sources: Stats SA and SARB

Despite remaining well below pre-COVID-19 levels, *private sector employment* increased by 18 300 jobs in the first quarter of 2022 – slightly more than in the fourth quarter of 2021. Encouragingly, employment in the services sectors increased by 24 700 in the first quarter of 2022, mostly in the trade, catering and accommodation services sector. However, about 6 400 jobs were lost in the goods-producing sectors, driven by persistent job-shedding in the construction sector.

Public and private sector employment



Sources: Stats SA and SARB

Employment in the mining sector increased marginally in the first quarter of 2022 after contracting in the previous quarter, supported by employment gains in the gold-mining sector, while non-gold mining employment decreased slightly. The gold-mining sector benefitted from the higher gold price in the first quarter of 2022, as the surge in global inflation amid increased uncertainty following the war in Ukraine increased safe-haven demand. Mining sector employment was 2.1% higher in the first quarter of 2022 than its COVID-19-induced low in the second quarter of 2020.

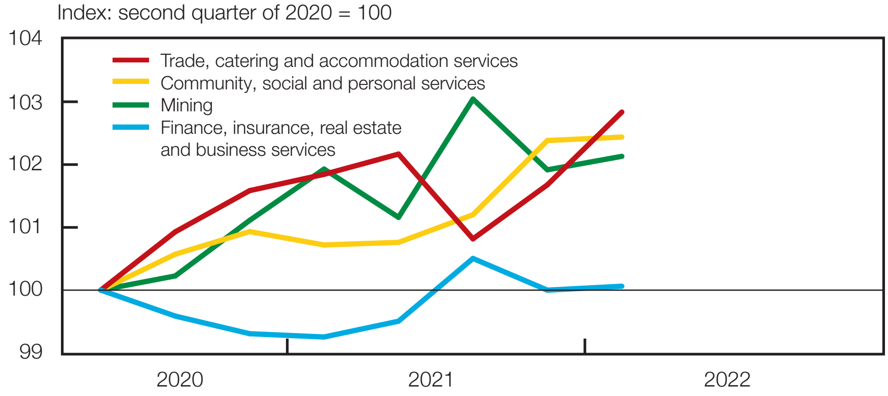
4 As measured by the BER's *Retail Survey*.

Employment in the trade, catering and accommodation services sector increased by 24 100 jobs in the first quarter of 2022 to well above its COVID-19-induced low. According to the Bureau for Economic Research (BER),[4] retailer confidence remained unchanged at 49 index points in the second quarter of 2022, as most retailers reported an improvement in sales volumes despite the current environment of rising consumer price inflation which erodes the purchasing power of households' disposable income.

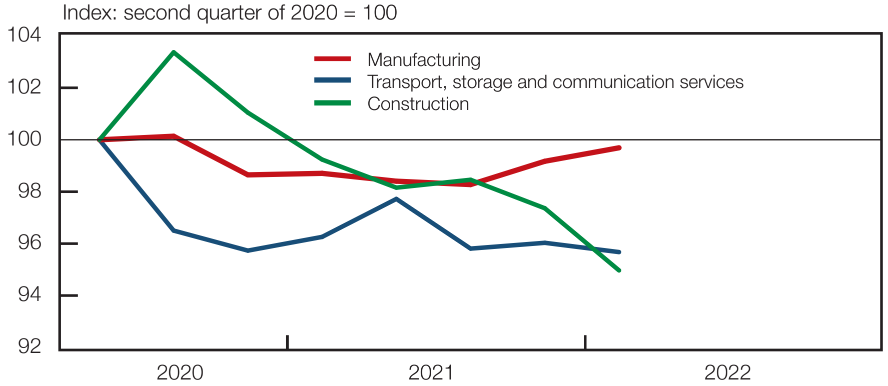
The *finance, insurance, real estate and business services sector* regained only 1 500 jobs in the first quarter of 2022, after shedding 22 400 jobs in the fourth quarter of 2021. Disappointingly, the employment level in this sector was the same as in the second quarter of 2020. Employment in the transport, storage and communication sector decreased by 1 200 jobs in the first quarter of 2022 and was still 4.3% below the pandemic-induced low in the second quarter of 2020.

Private sector employment

Post-lockdown gains



Post-lockdown losses



Seasonally adjusted

Sources: Stats SA and SARB

Manufacturing sector employment increased further by 6 200 jobs in the first quarter of 2022. Despite two consecutive quarters of job gains, the level of employment in this sector had still not exceeded its pandemic-induced low in the second quarter of 2020. Manufacturing business confidence[5] declined by 14 index points to 29 in the second quarter of 2022 – the lowest level since the first quarter of 2021. The BER noted that manufacturing production had come under significant pressure from slowing demand, more intense electricity load-shedding and the effects of the devastating floods in KZN which had damaged business infrastructure and halted operations at several manufacturing facilities and the Durban port.

5 As measured by the BER's *Absa Manufacturing Survey.*

Construction sector employment decreased by a further 13 500 jobs in the first quarter of 2022. Employment in the construction sector had been on a downward trajectory even before the COVID-19 pandemic, with the sector shedding a cumulative 113 000 jobs since the beginning of the pandemic. The First National Bank (FNB)/BER Civil Confidence Index remained suppressed at 9 and 10 index points in the first and second quarter of 2022 respectively. The BER noted that contractors' profit margins had come under renewed pressure as firms attempted to remain competitive. Building sector confidence[6] declined from a four-year high of 40 index points in the first quarter of 2022 to 34 in the second quarter, suppressed mainly by lower confidence among building material manufacturers.

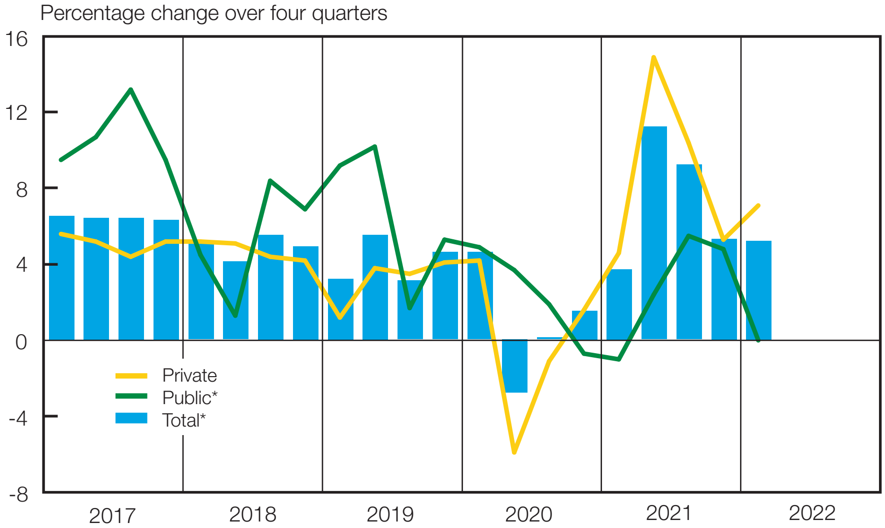
6 As measured by the FNB/BER Building Confidence Index.

Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* moderated slightly from 5.3% in the fourth quarter of 2021 to 5.2% in the first quarter of 2022, as the acceleration in remuneration growth per worker in the private sector was offset by a slowdown in the public sector.

The rate of increase in *nominal remuneration per worker* in the private sector accelerated from 5.3% in the fourth quarter of 2021 to 7.1% in the first quarter of 2022, reflecting higher nominal wage increases. Significant increases in nominal remuneration per worker were recorded in the transport, storage and communication; the construction; the trade, catering and accommodation services; and the finance, insurance, real estate and business services sectors.

Formal non-agricultural nominal remuneration per worker



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

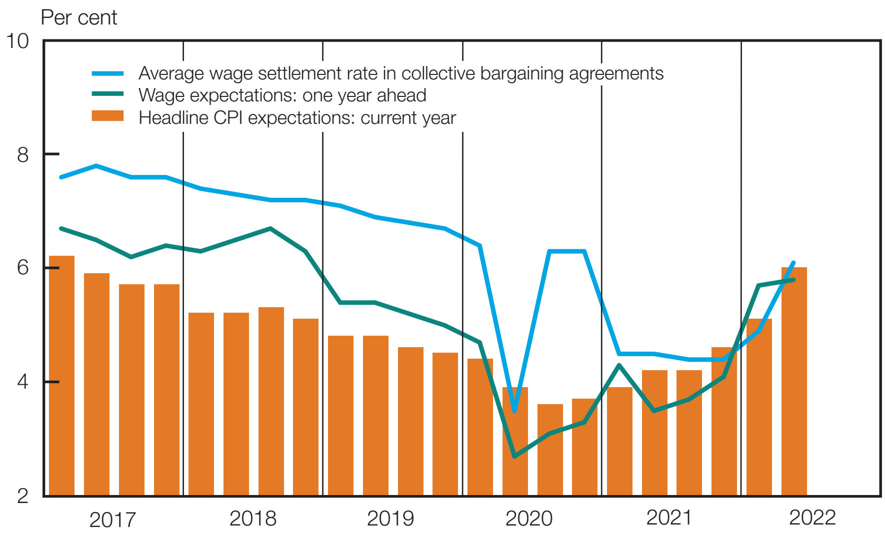
By contrast, *nominal remuneration per public sector worker* remained unchanged in the first quarter of 2022, compared with a year earlier. Remuneration growth per worker was weighed down by the significant number of low-earning temporary census workers employed by Stats SA, which resulted in a sharp contraction in remuneration per worker at national departments.

The average wage settlement rate in collective bargaining agreements[7] rose sharply to 6.1% in the first half of 2022, from 4.9% in the first quarter and 4.5% in the first half of 2021. The average wage settlement rate for 2021 as a whole was 4.4%. Despite the increase, the average wage settlement rate was still below the average headline consumer price inflation rate of 6.2% in the first half of 2022.

7 As measured by Andrew Levy Employment Publications.

Similarly, the number of working days lost due to strike action rose significantly from 432 000 in the first quarter of 2022 to 1.6 million in the first half of the year. The number of working days lost during the first half of 2021 was only 45 000. The increase in working days lost in the second quarter was mainly due to the prolonged wage strike at a large gold-mining company. According to Andrew Levy Employment Publications, the major cause of industrial action in the second quarter of 2022 was wages, accounting for 99% of working days lost and 85% of the number of strikes.

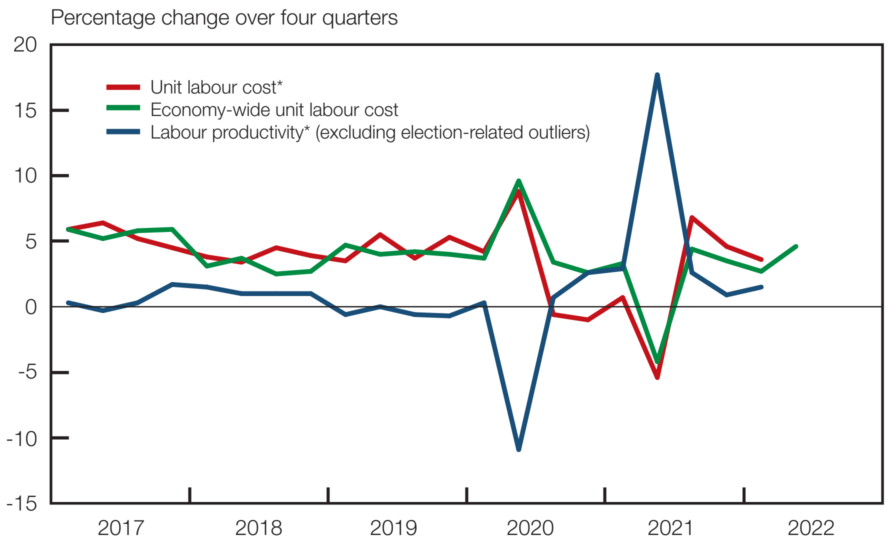
Average wage settlement rate, consumer price inflation and wage expectations



Sources: Andrew Levy Employment Publications, BER and Stats SA

Labour productivity growth in the formal non-agricultural sector of the economy accelerated from 0.9% in the fourth quarter of 2021 to 1.5% in the first quarter of 2022, as year-on-year output growth exceeded that in employment. This outcome moderated the rate of increase in nominal unit labour cost in the formal non-agricultural sector, from 4.6% in the year to the fourth quarter of 2021 to 3.6% in the year to the first quarter of 2022. Growth in economy-wide nominal unit labour cost also slowed further, from 3.5% in the fourth quarter of 2021 to 2.7% in the first quarter of 2022, while it accelerated to 4.6% in the second quarter, as year-on-year output growth slowed faster than growth in the compensation of employees.

Labour productivity and nominal unit labour cost



* Formal non-agricultural sector

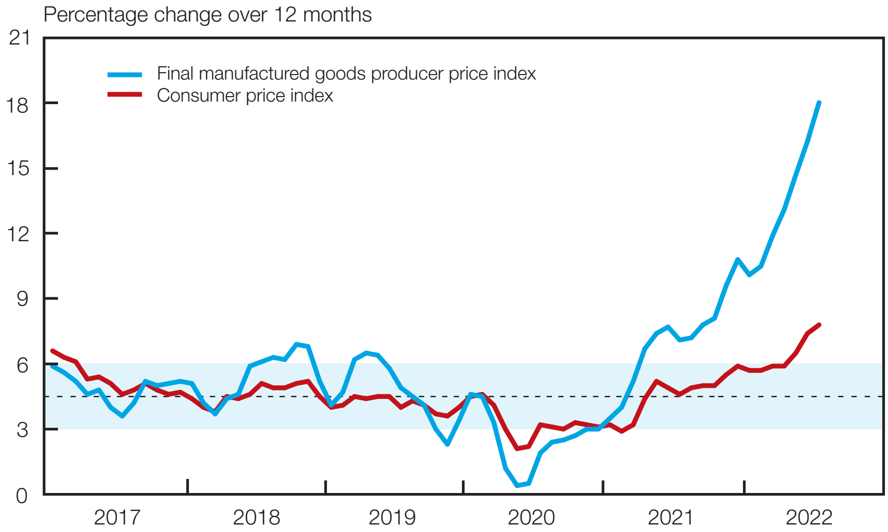
Sources: Stats SA and SARB

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

Prices[8]

Both domestic consumer and producer price inflation increased further in the second quarter of 2022, mostly because of higher energy and food prices. The headline consumer price inflation rate breached the upper limit of the 3–6% inflation target range for the first time in four years when it accelerated to 6.5% in May 2022. It then increased further to a 13-year high of 7.8% in July. As a forerunner of consumer price inflation outcomes, the producer price inflation rate for final manufactured goods increased to a record high of 18.0% in July 2022.

Headline producer and consumer prices



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

Source: Stats SA

The acceleration in producer price inflation for final manufactured goods was mainly due to the higher prices of coke, petroleum, chemical, rubber and plastic products, with this category contributing 10.5 percentage points to the headline rate in July 2022, while the food products, beverages and tobacco products category contributed 3.0 percentage points, and the metals, machinery, equipment and computing equipment category added 1.7 percentage points. The acceleration in these producer price categories continued to reflect the impact of disruptions in global supply chains and the shortages of raw materials, which had been exacerbated by the war in Ukraine.

Although decelerating somewhat, other measures of producer price inflation remained elevated in the second quarter of 2022. Producer price inflation for intermediate manufactured goods decelerated for the seventh consecutive month to 14.7% in July 2022, largely due to lower price inflation in the chemical, rubber and plastic products category, which outweighed upward trends in textiles and leather goods, saw-milling and wood, and basic precious and non-ferrous metals. Producer price inflation for agriculture, forestry and fishing products registered a broad-based deceleration from 18.9% in May 2022 to a still elevated 14.9% in June before accelerating somewhat to 15.0% in July.

Producer price inflation for electricity and water slowed markedly from 15.2% in June 2022 to 8.0% in July as electricity price inflation decelerated from 17.4% to 9.1%. An annual increase in electricity prices of 9.61% for Eskom's direct customers came into effect on 1 April 2022, while an increase of 8.61% was implemented for municipal customers from 1 July.

Producer price inflation for mining products remained unchanged at 21.1% in July 2022 after accelerating for four consecutive months, from a recent low of 6.4% in February 2022. The prices of coal, gas and non-ferrous metals increased strongly over this period. Coal prices have increased significantly thus far in 2022 due to higher global demand as the war in Ukraine resulted in supply shortages.

High input costs continued to weigh on the profit margins of manufacturers, who absorbed some of the cost increases amid weak consumer demand. Between December 2020 and July 2022, headline producer price inflation increased by 15.0 percentage points, while consumer price inflation only increased by 4.7 percentage points. As a result, the differential between headline consumer and producer price inflation increased to an all-time high of 10.2 percentage points in July 2022.

Producer prices in 2022

Percentage change over 12 months

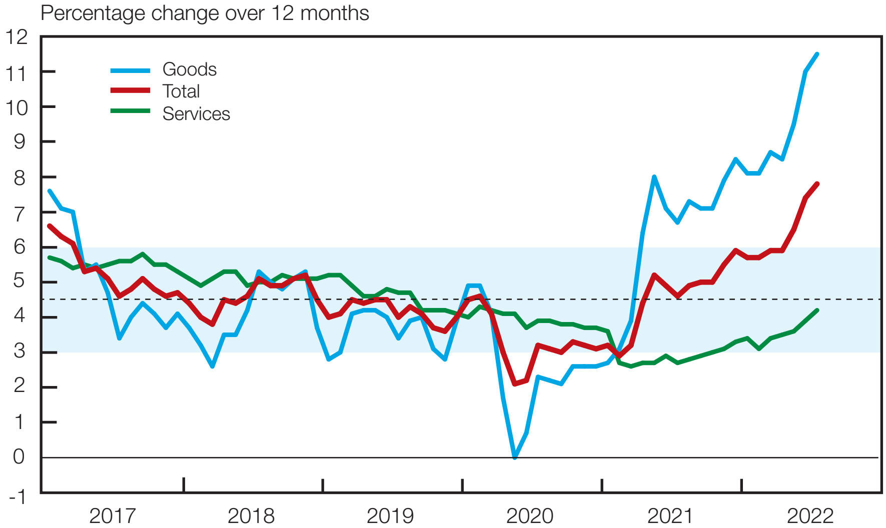
	April	May	June	July
Final manufactured goods	13.1	14.7	16.2	18.0
Intermediate manufactured goods	17.6	15.6	15.2	14.7
Electricity and water	12.8	12.9	15.2	8.0
Mining	10.9	17.7	21.2	21.2
Agriculture, forestry and fishing	17.8	18.9	14.9	15.0

Source: Stats SA

Headline consumer price inflation accelerated to 7.8% in July 2022 – the highest rate since 2009. This was mainly due to higher consumer goods prices and, to a lesser extent, consumer services prices.

Headline consumer prices

Percentage change over 12 months

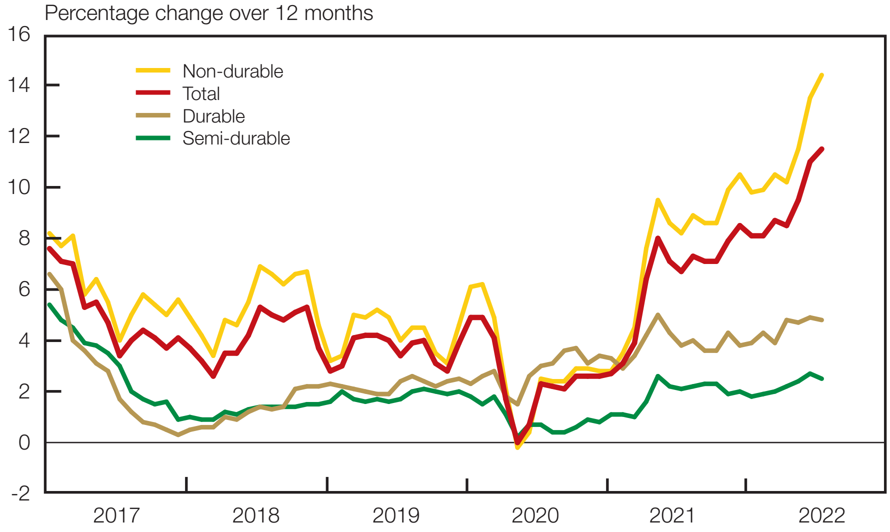


---- Midpoint of the inflation target range (4.5%)

Source: Stats SA

The increase in headline consumer price inflation emanated mainly from *consumer goods price inflation*, which accelerated from 8.1% in January 2022 to 11.5% in July. Non-durable goods price inflation accelerated from 9.8% to 14.4% over this period as supply-side pressures related to the war in Ukraine resulted in sharp increases in fuel and food prices. Both durable and semi-durable goods price inflation were more subdued at 4.8% and 2.5% respectively in July 2022.

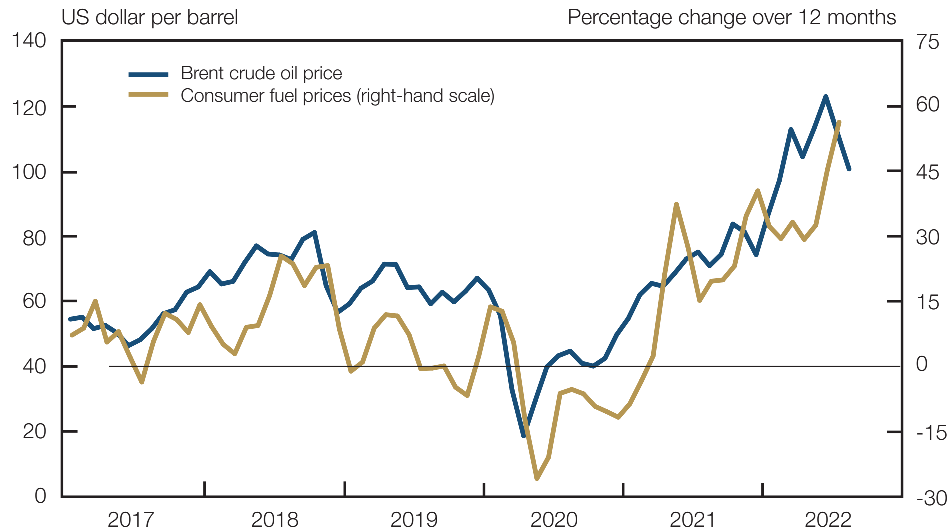
Consumer goods prices



Source: Stats SA

Consumer fuel prices reverted from a year-on-year decrease of 25.8% in May 2020 during the COVID-19 restrictions to an increase of 56.2% in July 2022 – the highest since 2008. Consumer fuel price inflation was primarily impacted by the increase in the international price of Brent crude oil, from an average of US$29.5 per barrel in May 2020 to an average of US$122.8 per barrel in June 2022. This reflected higher global demand following the easing of COVID-19 lockdown restrictions, and later supply constraints following the sanctions on Russian petroleum products. Subsequently, the price of Brent crude oil decreased to an average of US$100.6 per barrel in August 2022 amid growing concerns of a possible global economic recession.

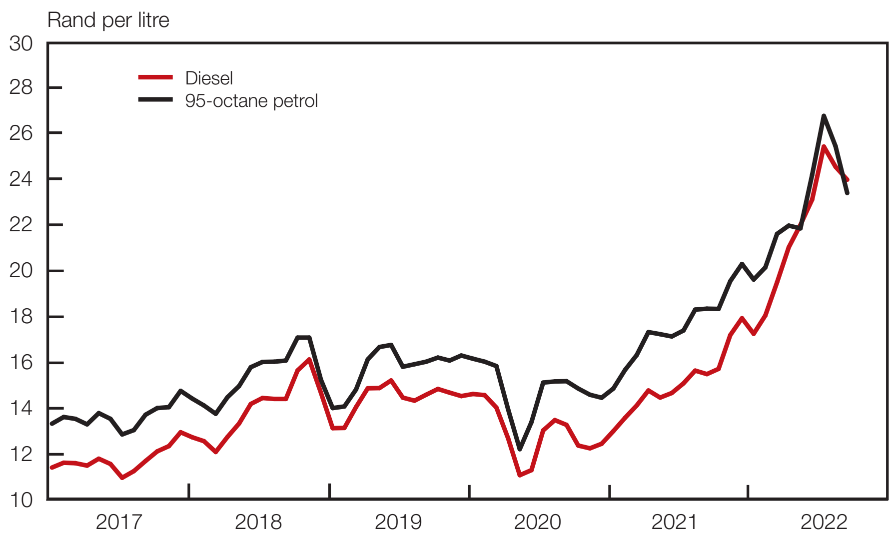
Brent crude oil and consumer fuel prices



Sources: Refinitiv, Stats SA and SARB

The sharp acceleration in consumer fuel price inflation was reflected in both domestic diesel and petrol prices, which increased by 62.3% and 53.9% respectively in July 2022 compared to a year earlier. The price of both diesel and inland 95-octane petrol increased to record highs of R25.40 per litre and R26.74 per litre respectively in that month, before receding somewhat in August and September 2022.

Domestic inland petrol and diesel prices



Source: Department of Mineral Resources and Energy

Consumer prices in 2022

Percentage change over 12 months

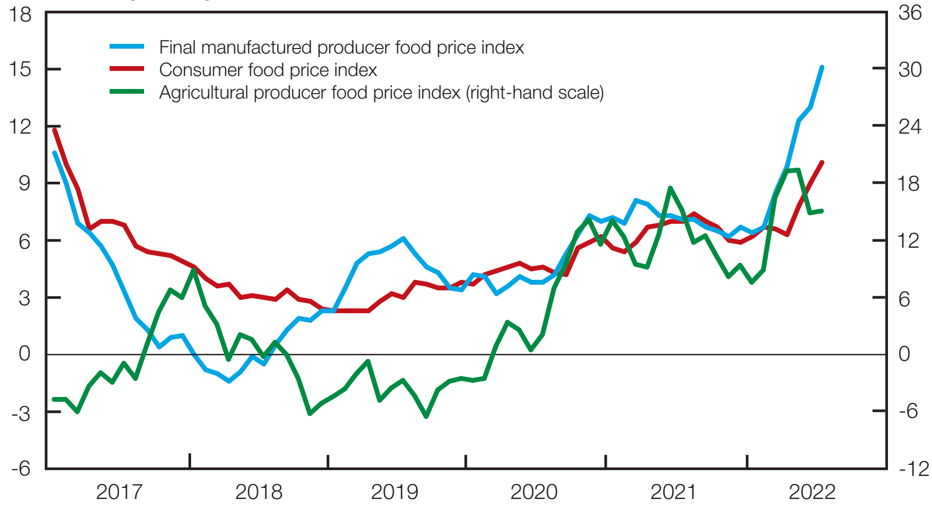
	Weight	April	May	June	July
Headline CPI	100.00	5.9	6.5	7.4	7.8
Headline CPI, excluding food and non-alcoholic beverages, fuel and electricity	74.40	3.9	4.1	4.4	4.6
Goods	48.68	8.5	9.5	11.0	11.5
Non-durable	35.71	10.2	11.5	13.5	14.4
Semi-durable	5.38	2.2	2.4	2.7	2.5
Durable	7.59	4.8	4.7	4.9	4.8
Services	51.32	3.5	3.6	3.9	4.2

Source: Stats SA

Consumer food price inflation accelerated notably from 6.3% in April 2022 to 10.1% in July. In July 2022, meat prices were 9.4% higher, bread and cereals were up 13.7%, and oils and fats increased by 36.2% year on year. This follows broad-based higher final manufactured producer food price inflation, which accelerated for the sixth consecutive month to 15.1% in July 2022. The acceleration in final manufactured producer price inflation for oils and fats to a record high of 73.0% in June 2022 was directly related to the war in Ukraine, as that country was a dominant exporter of oil seeds before the Russian invasion.

Producer and consumer food prices

Percentage change over 12 months



Source: Stats SA

Agricultural producer price inflation rose considerably to a five-year high of 19.3% in May 2022, largely because of the impact from the elevated prices of cereals and other crops following the war-induced surge in international grain prices. Live animal prices also increased notably, largely reflecting the surge in animal feed prices. Agricultural producer food price inflation then slowed to 14.8% in June 2022 and 15.0% in July, mainly due to lower fruit and vegetable as well as live animal price inflation.

Food prices in 2022

Percentage change over 12 months

	April	May	June	July
Agricultural producer food prices	19.2	19.3	14.8	15.0
Manufactured producer food prices	9.9	12.3	13.0	15.1
Consumer food prices	6.3	7.8	9.0	10.1
FAO international food prices (rand-denominated)	34.8	39.6	39.6	30.9

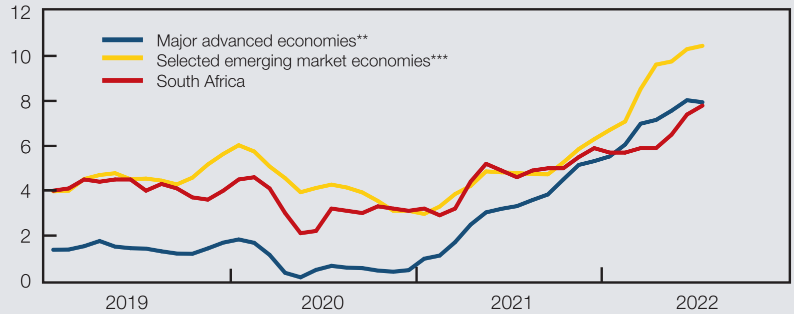
Sources: FAO and Stats SA

After reaching a record high in March 2022, the international food price index of the Food and Agriculture Organization (FAO) of the United Nations decreased for five consecutive months to August 2022, with the 12-month percentage change slowing from 29.7% in April 2022 to 7.8% in August. The decline was likely supported by prospects of easing global supply chain bottlenecks and expectations of improved supplies in anticipation of an agreement between Russia and Ukraine to resume grain exports. However, the year-on-year rate of change in the rand-denominated international food price index decelerated to a lesser extent, to 21.6% in August 2022, as the exchange value of the rand depreciated, on balance, over this period.

Box 1 Drivers of domestic food price inflation

Global inflationary pressures have increased sharply since early 2021, following the easing of the initial strict coronavirus disease 2019 (COVID-19) lockdowns in the second half of 2020. Consumer price inflation in most countries, including South Africa, was initially driven largely by the significant increase in both international crude oil prices[1] and, to a lesser extent, food prices as well as persistent global supply chain disruptions after the COVID-19 lockdowns. Inflationary pressures were recently exacerbated by Russia's invasion of Ukraine in February 2022, which elevated agricultural commodity prices while adding a substantial risk premium to already high energy prices. Encouragingly, international grain prices have recently receded somewhat, following an agreement between Russia and Ukraine to resume exports.

Consumer prices*



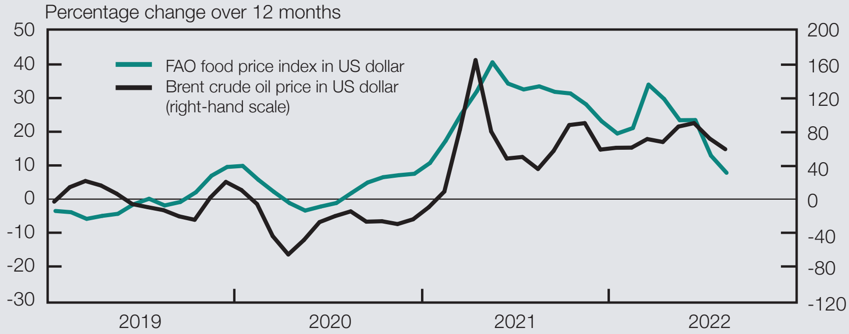
* The advanced and emerging market economy inflation rates were weighted according to purchasing power parity

** Canada, France, Germany, Italy, United Kingdom, United States

*** Chile, China, Egypt, Brazil, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Sri Lanka, Thailand, Turkey

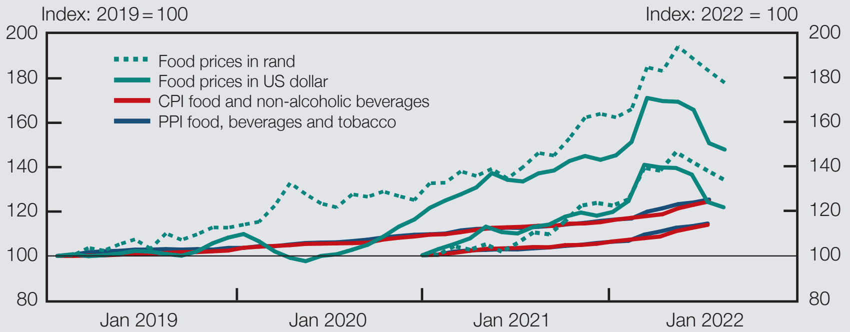
Sources: Haver Analytics, IMF, Stats SA and SARB

Commodity prices



Sources: FAO and Refinitiv

Domestic and global food prices



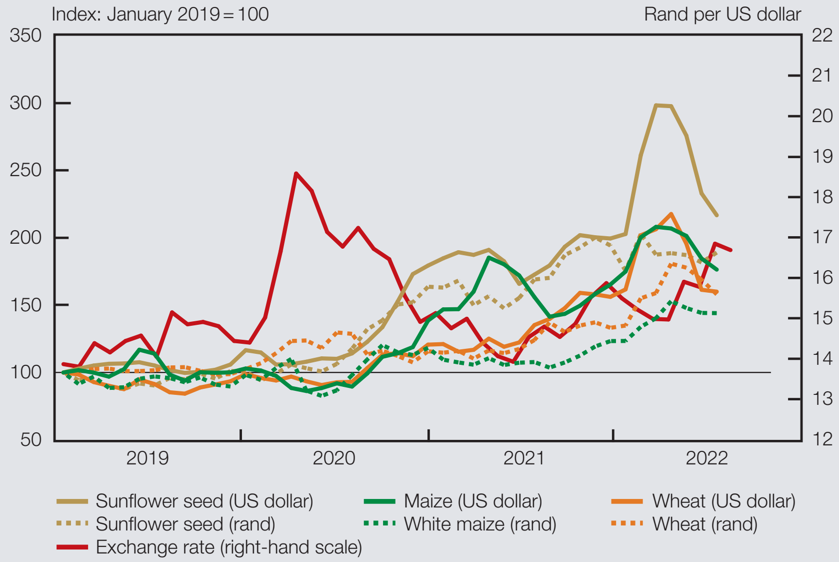
Sources: FAO, Stats SA and SARB

1 See 'Box 1: International crude oil prices as a driver of domestic consumer price inflation' on page 29 of the June 2022 edition of the *Quarterly Bulletin*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/boxes/2022/June/june-2022---international-crude-oil-prices-as-a-driver-of-domest

Consumer price inflation in South Africa increased at a slower pace than global inflation, measured on a purchasing power parity (PPP) basis.[2] This reflected the faster pace of increase in inflation in major advanced economies and an even faster pace of increase in selected emerging markets.

This box focuses on the drivers of food price inflation in South Africa, tracking the price formation process from international agricultural commodity prices and the exchange value of the rand through to domestic producer and consumer food prices, as well as its impact on headline consumer price inflation. Despite the significant increase in global food prices, in particular grains and vegetable oils,[3] most of the explanation for the acceleration in South Africa's consumer price inflation rate is to be found in international crude oil prices, as is evident from the different measures of underlying inflation. South Africa's consumer price inflation has so far seemed to be less affected than that of some emerging market peers and advanced economies. However, it has still eroded the purchasing power of the low-income households in particular, given the prominence of food in their consumer baskets.

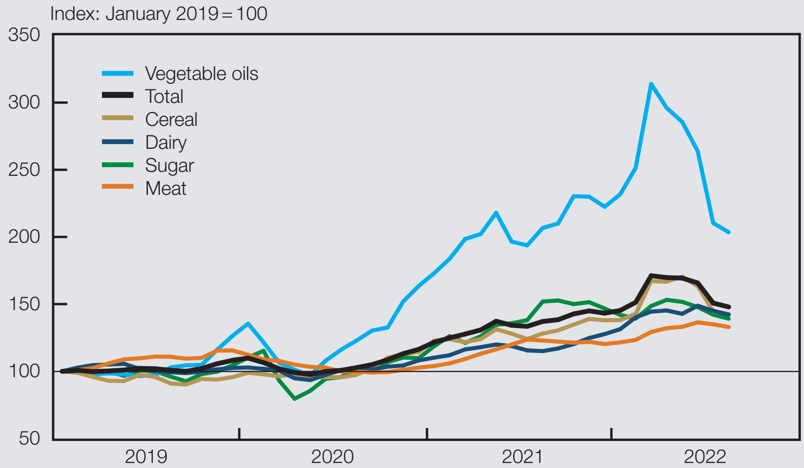
Grain prices



Sources: International Grains Council, JSE and SARB

International food prices have increased notably since mid-2020, as economic activity resumed in most countries following the easing of COVID-19-related lockdown restrictions. Most recently, the international food price index of the United Nations' Food and Agriculture Organization (FAO) increased by 40.6% in May 2021, compared with a year earlier.

International food prices



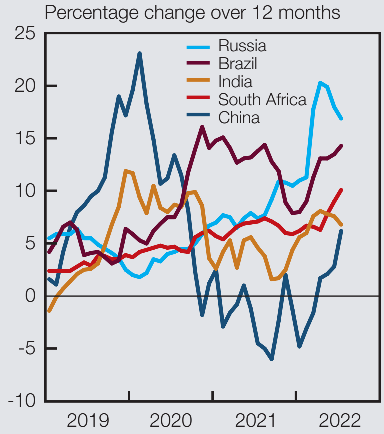
Source: FAO

2 PPP is the measurement of prices in different countries that use the prices of specific goods to compare the absolute purchasing power of the countries' currencies. The advanced and emerging market inflation rates were calculated by weighting the different countries' inflation rates according to their PPP-adjusted gross domestic product.

3 The Food and Agriculture Organization's (FAO) vegetable oil price index is the average of 10 different oils, weighted with the average export trade shares of each oil product for the 2014–2016 period.

Consumer food* price inflation in selected emerging market economies

Percentage change over 12 months

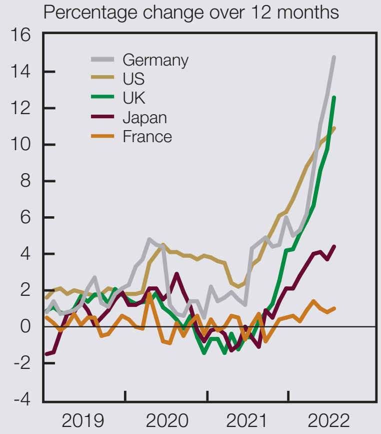


* Food includes non-alcoholic beverages for all countries

Sources: Haver Analytics and Stats SA

Consumer food* price inflation in selected advanced economies

Percentage change over 12 months



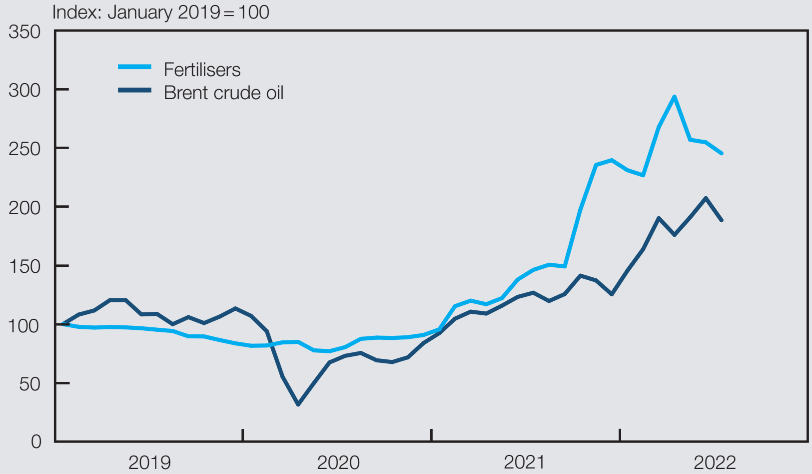
* Food includes non-alcoholic beverages for all countries

Source: Haver Analytics

A return of demand caused supply chain bottlenecks and the shortages of many goods, with the war in Ukraine exacerbating the situation. The sharp rise in key agricultural input prices, notably fuel and fertilisers, as well as the marked increase in global shipping costs exerted further upward pressure on agricultural commodity prices.

Selected input costs driving agricultural commodity prices*

Index: January 2019 = 100



* US dollar prices

Sources: Bloomberg, Refinitiv and World Bank

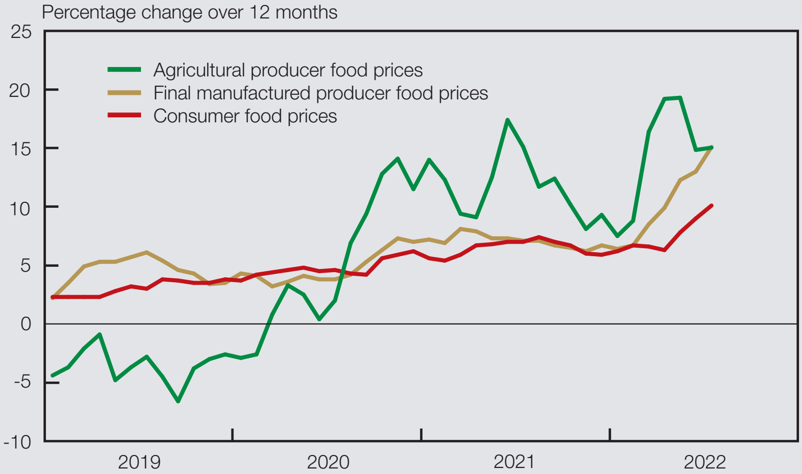
Although the increase in international food prices was broad-based, it has largely been driven by higher cereals prices, especially wheat and maize, which are staple foods in many countries. International vegetable oil prices have also increased significantly over the past two years. With Russia and Ukraine both being major global producers of wheat, maize and sunflower seed, and with the blockage of Ukraine's Black Sea ports, the prices of these commodities have increased significantly. Fears of global shortages in certain oil seeds have led to export bans by some countries, which caused a further surge in vegetable oil prices. International food price inflation has since slowed to pre-war rates as it decelerated to 7.8% in August 2022 following improved production prospects and the resumption of grain exports from Ukraine.

The sharp increases in the international prices of maize, wheat and sunflower seed spilled over to the domestic producer prices of these commodities, which is reflective of export and import parity pricing and the movements in the exchange value of the rand. Although South Africa's expected maize harvest of 15.0 million tons for 2022 is less than the record crop of 2021, it should still be well above domestic consumption, enabling net exports of maize. However, since South Africa's wheat consumption exceeds domestic production, the country should remain a net importer of wheat, despite domestic wheat farmers' intentions to plant 7.0% more hectares of wheat in 2022 than in the 2021 record-production season. The domestic spot price of wheat increased by 55.4% to a high average of R8 023 per ton in May 2022, from R5 163 per ton a year earlier.

Similarly, the spot price of white maize increased by 47.6% from September 2021 to May 2022, while that of sunflower seed surged by a further 37.4% from June 2021 to a recent high of R11 487 per ton in March 2022. Both domestic maize and wheat prices have since receded somewhat following lower international prices.

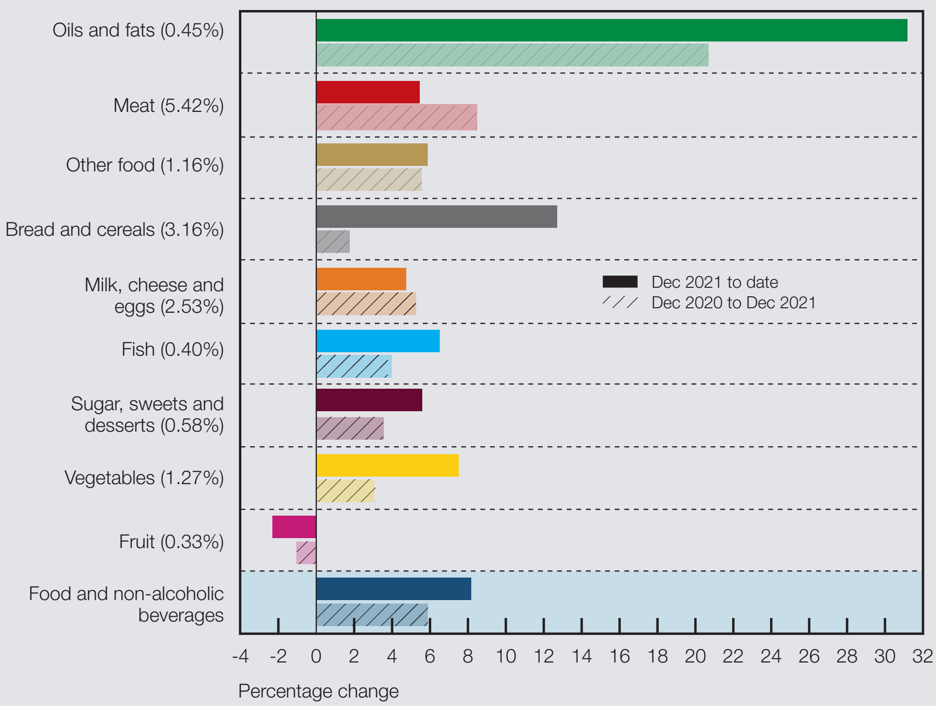
The increases in international and domestic grain prices were reflected in the agricultural producer price index (PPI), which increased at double-digit rates for most of 2021, and accelerated sharply to 19.3% in May 2022. The contribution of grain prices to agricultural producer price inflation has increased significantly from November 2021, as price inflation of cereals and other crops accelerated sharply from 0.6% in October 2021 to 33.4% in June 2022, before moderating to 27% in July. The increase in grain prices also impacted live animal prices as grain is used as animal feed, particularly for poultry. Similarly, broad-based price increases resulted in an acceleration in final manufactured producer food price inflation, from 6.4% in January 2022 to 15.1% in July.

Domestic food prices



Source: Stats SA

Consumer food price categories

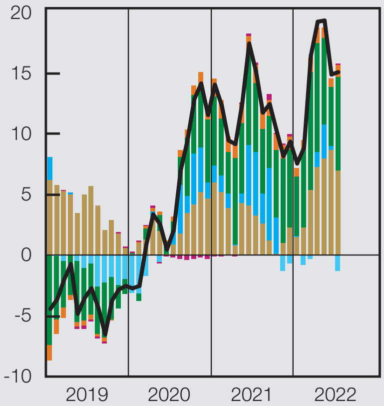


Numbers in brackets indicate weights in the consumer price index

Source: Stats SA

Contributions to the domestic agricultural producer price index

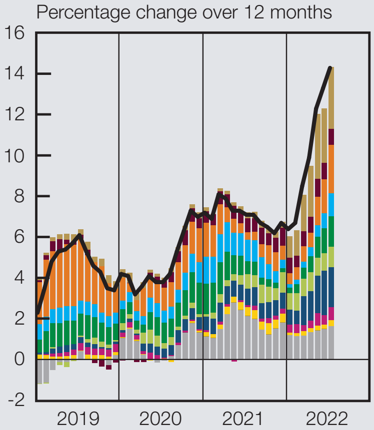
Percentage change over 12 months



Cereals and other crops
Live animals
Other animal products
Fruit and vegetables
Milk and eggs
Total

Contributions to the domestic manufactured producer food price index

Percentage change over 12 months

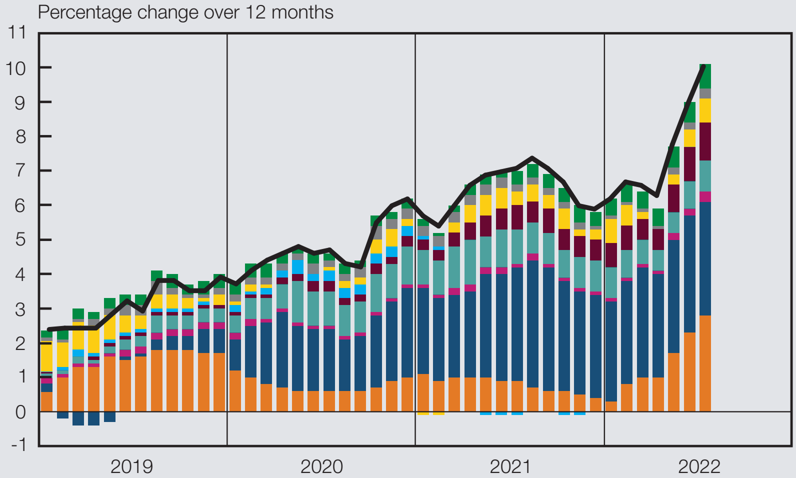


Meat and meat products
Fish and fish products
Fruit and vegetables
Oils and fats
Dairy products
Grain mill products
Starches, starch products and animal feeds
Bakery products
Sugar and other food products
Other food products
Total

Source: Stats SA

Contributions to domestic consumer food prices

Percentage change over 12 months



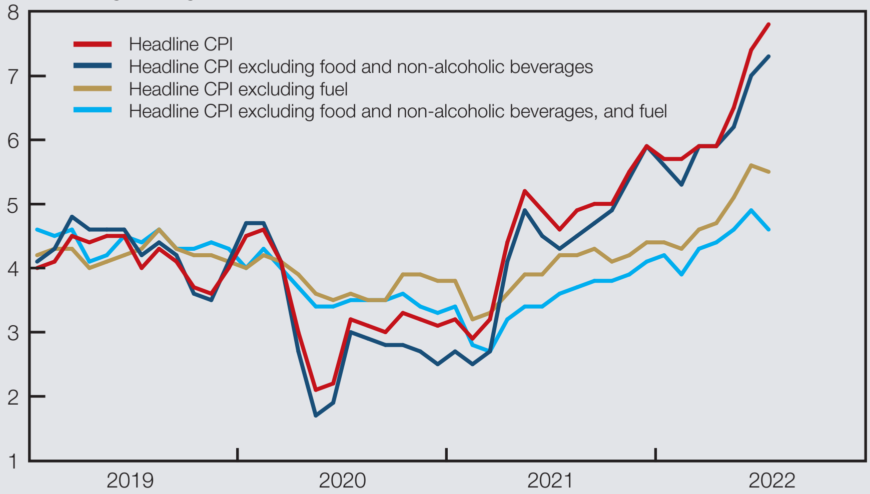
Bread and cereals (3.16%)
Fish (0.40%)
Oils and fats (0.45%)
Vegetables (1.27%)
Other food (1.16%)
Meat (5.4%)
Milk, cheese and eggs (2.53%)
Fruit (0.33%)
Sugar, sweets and desserts (0.58%)
Total (15.3%)

Numbers in brackets indicate weights in the consumer price index

Source: Stats SA

Headline and underlying measures of consumer prices

Percentage change over 12 months



Source: Stats SA

The acceleration in producer food price inflation is also reflected in the rise in consumer food price inflation from 6.3% in April 2022 to 10.1% in July, with the increase in food prices continuing to outpace the increase in the overall consumer price index (CPI). The price increases in the consumer food categories since December 2020 were broad-based, with much of it already evident in 2021. In the case of bread and cereals, the increase in 2022 to date was larger than in 2021, with oils and fats increasing the most and almost to the same extent over the two periods.

Consumer food price inflation in 2022

	Weight in total CPI (per cent)	Weight in food price index (per cent)	Jan	Feb	Mar	Apr	May	Jun	Jul
Bread and cereals	3.16	20.65	1.5	3.7	4.7	4.8	8.4	11.2	13.7
Meat	5.42	35.42	8.2	8.6	9.0	8.5	9.4	9.5	9.4
Fish	0.40	2.61	4.6	5.3	4.6	4.8	6.2	6.7	9.7
Milk, cheese and eggs	2.53	16.54	5.2	4.7	4.1	3.7	3.8	4.7	5.5
Oils and fats	0.45	2.94	22.9	22.7	19.8	21.2	26.9	32.5	36.2
Fruit	0.33	2.16	-2.0	-1.6	-0.7	-0.7	2.1	0.3	-1.4
Vegetables	1.27	8.30	8.6	7.7	2.8	0.2	3.5	5.6	8.3
Sugar, sweets and desserts	0.58	3.79	2.9	1.8	3.4	3.5	4.0	5.7	7.5
Other food	1.16	7.58	6.1	7.2	6.5	7.1	8.2	7.7	9.0
All food products	**15.30**	**100.00**	**6.2**	**6.7**	**6.6**	**6.3**	**7.8**	**9.0**	**10.1**

Red = acceleration Green = deceleration

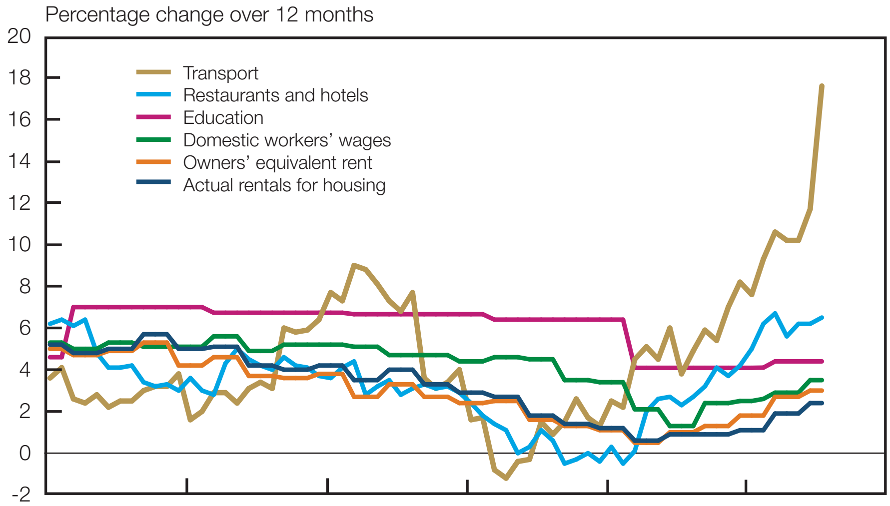
Although the consumer prices of oils and fats increased markedly at a year-on-year rate of 36.2% in July 2022, this component only comprises 2.9% of the consumer food price basket. The sharp increases in grain prices resulted in a significant acceleration in bread and cereals price inflation, from a mere 1.5% in January 2022 to 13.7% in July. Meat price inflation has accelerated since 2020, and remained elevated, quickening from 8.2% in January 2022 to 9.5% in June, before moderating slightly to 9.4% in July. Bread and cereals as well as meat have a combined weight of 56.1% in the consumer food basket and thus contributed the most to the recent acceleration in consumer food price inflation. These two components contributed 61% to the year-on-year increase in overall food prices in July 2022, almost double their contribution of 35% in January 2019.

The recent acceleration in consumer bread and cereals price inflation was driven largely by bread, pasta, cakes and other cereals, reflecting the notable increases in wheat and maize prices. By contrast, rice price inflation has slowed over the past year. Meat price inflation has remained elevated, as beef, lamb and especially poultry prices (with the largest weight in the meat price basket) increased notably, reflecting the impact of the higher grain prices on animal feeds.

Given food's weight of 15.3% in the total CPI, it has been one of the main contributors, along with fuel prices, to the recent acceleration in headline CPI inflation. When excluding the impact of food and non-alcoholic beverages from headline CPI inflation, the resultant inflation measure accelerated to 7.3% in July 2022, compared with 7.8% for headline CPI inflation. When only excluding fuel prices from headline CPI, it increased at a much lower year-on-year rate of 5.5% in July 2022, indicating that fuel prices have been the main driver of the recent surge in headline CPI inflation. However, when excluding both food and non-alcoholic beverages and fuel from headline CPI, the resultant measure of underlying inflation accelerated from 3.9% in February 2022 to 4.6% in July, suggesting that inflationary pressures have recently become somewhat more broad-based.

Consumer services price inflation accelerated gradually in most services price categories. Although increasing from 3.1% in February 2022 to 4.2% in July, it remained below the midpoint of the inflation target range for 35 months. Owing to rising fuel prices, transport services price inflation accelerated the most, to 17.6% in July. Restaurant and hotel price inflation accelerated to 6.5% in July 2022 owing to higher food prices. Actual and owner-occupied rental price inflation (with the largest weight of 13.06% in the consumer services price basket), which accelerated steadily since the start of 2021, has remained below most of the other services price categories.

Consumer services prices

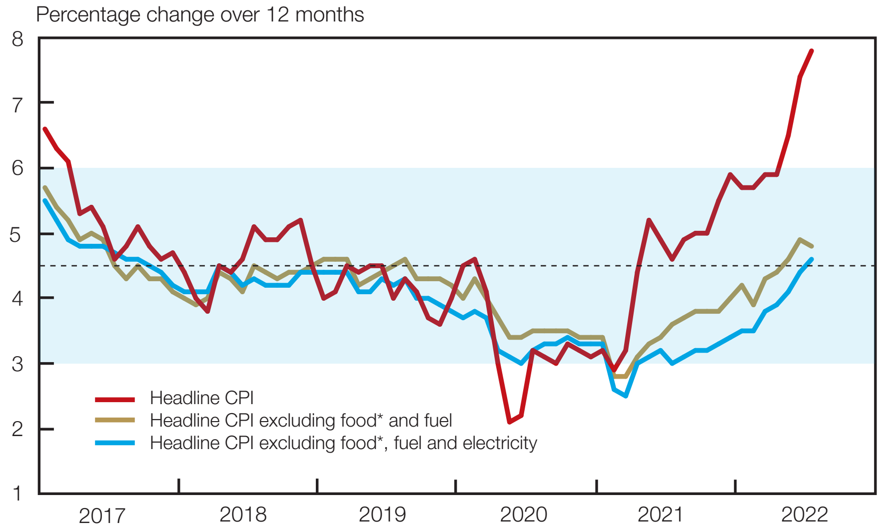


Source: Stats SA

Most measures of *underlying inflationary pressures* accelerated further in the second quarter of 2022, although remaining within the inflation target range. When excluding food, non-alcoholic beverages and fuel prices from the headline consumer price index (CPI), inflation accelerated to 4.8% in July 2022. The South African Reserve Bank's (SARB) preferred measure of core inflation, which also excludes electricity from headline CPI, accelerated to 4.6% in July 2022. The upward trajectory in the measures of underlying inflation resulted mainly from the higher prices of transport services, housing and utilities, household content and services as well as restaurant and hotel services.

Price changes based on the classification of individual consumption by purpose (COICOP) categories confirmed the supply-side driven acceleration in headline CPI inflation in recent months. Only 2 of the 12 categories outpaced headline CPI inflation during the second quarter of 2022, namely transport and food and non-alcoholic beverages. The latter accelerated from 6.1% in the first quarter of 2022 to 7.4% in the second quarter, mainly due to higher prices for bread and cereals, meat, and oils and fats.

Headline and underlying measures of consumer prices



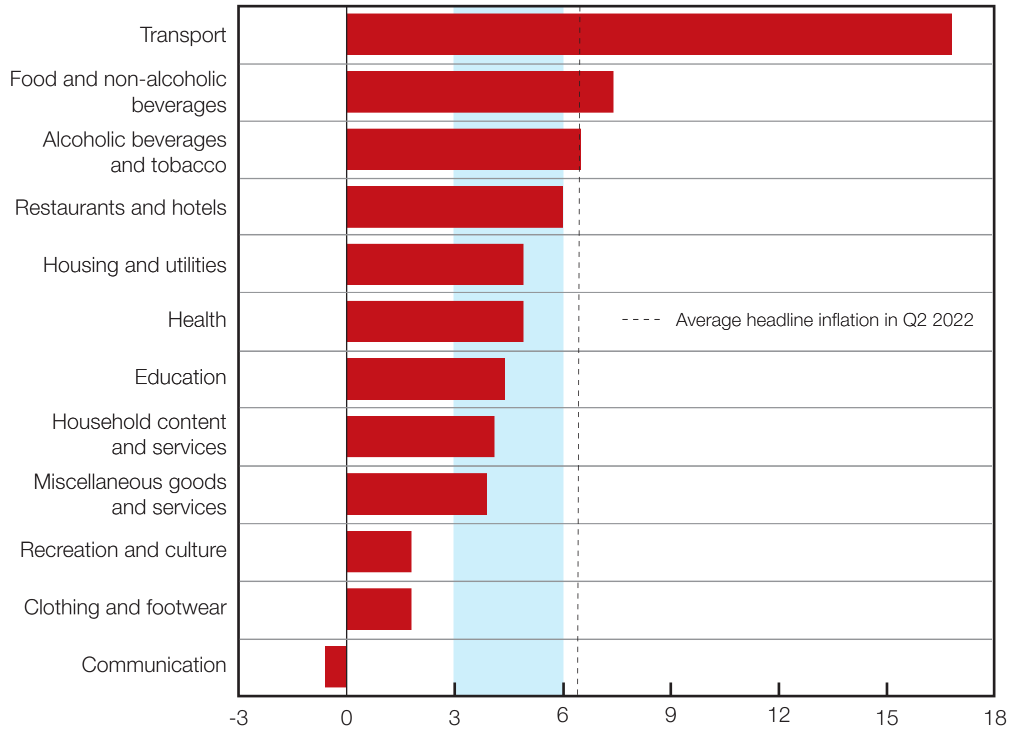
---- Midpoint of the inflation target range (4.5%)

* Food includes non-alcoholic beverages

Source: Stats SA

Transport price inflation accelerated from 14.8% in the first quarter of 2022 to 16.8% in the second quarter due to the surge in fuel prices. Although price inflation of most COICOP categories accelerated in the second quarter of 2022, it remained within the inflation target range in six categories and below the target range in three categories.

Average consumer price inflation in the second quarter of 2022, by COICOP category



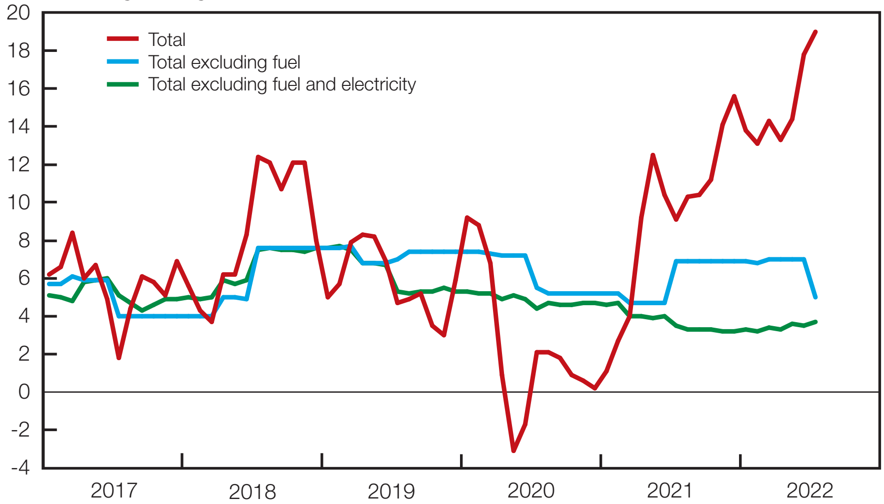
Per cent

Source: Stats SA

Administered price inflation accelerated notably to 19.0% in July 2022, almost double the annual average of 9.2% in 2021, mostly due to the surge in fuel prices. When excluding fuel prices, administered price inflation decelerated to 5.0% in July 2022, lower than the annual averages of 6.3% and 5.9% recorded in 2020 and 2021 respectively. When excluding the impact of both fuel and electricity prices, administered price inflation stood at 3.7% in July 2022, the same as the annual average in 2021.

Administered prices

Percentage change over 12 months



Source: Stats SA

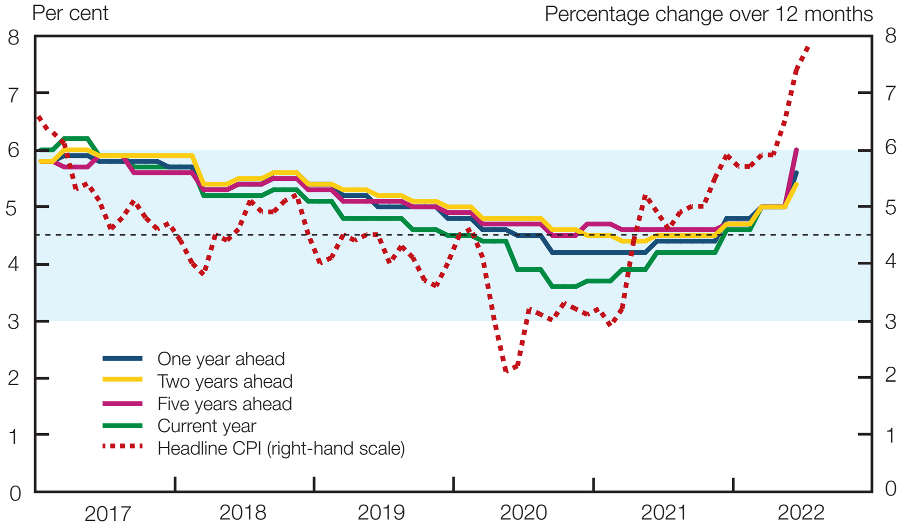
Average headline CPI inflation expectations[9] were adjusted upwards and closer to the upper limit of the inflation target range over all forecasting horizons. Headline CPI inflation is expected to average 6.0% in 2022 (5.1% previously), before slowing to 5.6% in 2023 (5.0% previously) and 5.4% in 2024 (5.0% previously).

9 As measured by the Survey of Inflation Expectations conducted by the BER in the second quarter of 2022.

Inflation expectations and headline consumer prices

Per cent

Percentage change over 12 months



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

Sources: BER and Stats SA

All three respondent groups adjusted their five-year-ahead inflation expectation upwards from an average of 5.0% in the first quarter of 2022 to 5.6% in the second quarter. Household inflation expectations for the coming 12 months increased notably from 5.6% in the first quarter of 2022 to 6.8% in the second quarter as both higher- and lower middle-income groups adjusted their inflation expectations upwards, likely in response to the recent sharp increases in food and fuel prices.

Headline consumer price inflation expectations

Per cent, as surveyed in the second quarter of 2022

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2022	6.1	5.9	5.9	6.0
2023	5.1	6.1	5.7	5.6
2024	4.6	5.9	5.7	5.4
Five years ahead	4.7	5.9	6.0	5.6

Source: BER

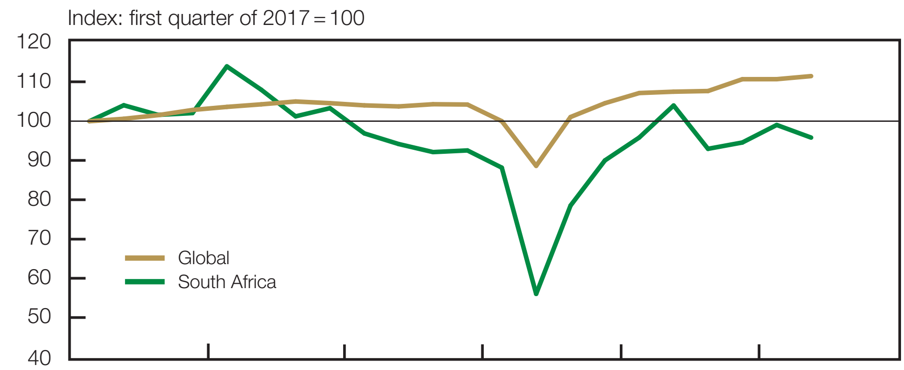
External economic accounts

Current account[10]

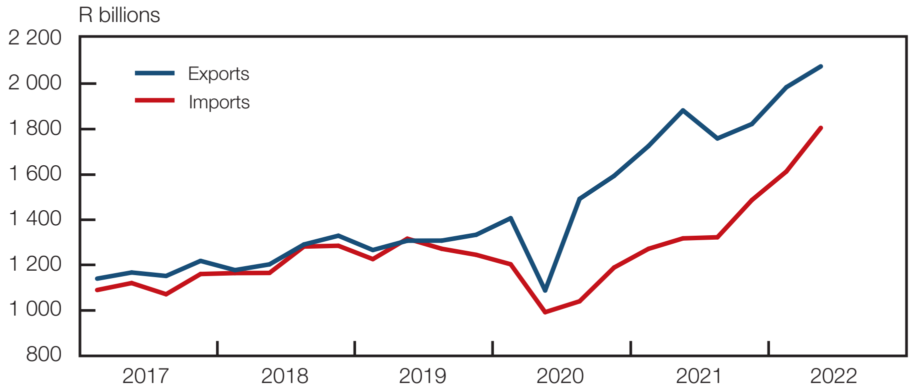
In volume terms, the decrease in South Africa's goods exports in the second quarter of 2022 contrasted a further slight increase in global trade. However, the value of both South Africa's exports and imports of goods increased further to new all-time highs in the second quarter of 2022. The increase in the value of imports reflected higher prices and volumes, while the value of exports reflected only higher prices.

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

Volume of goods exports



Value of South Africa's exports and imports of goods



Seasonally adjusted and annualised

Sources: CPB Netherlands Bureau for Economic Policy Analysis, Stats SA and SARB

With the value of merchandise imports increasing at a faster pace than that of net gold and merchandise exports, South Africa's trade surplus decreased noticeably from R372 billion in the first quarter of 2022 to R272 billion in the second quarter. The narrowing in the trade surplus, together with a substantially larger shortfall on the services, income and current transfer account, caused the balance of the current account of the balance of payments to switch from a surplus of R157 billion (2.4% of GDP) in the first quarter of 2022 to a deficit of R87 billion (-1.3% of GDP) in the second quarter. The previous current account deficit was in the second quarter of 2020.

The value of merchandise exports increased for a third consecutive quarter. The increase of 3.9% in the second quarter of 2022 reflected a surge in mining products, buoyed by mineral products, PGMs and base metals and articles thereof. Exports of mineral products were underpinned by the higher prices of coal, manganese and chromium, which fully compensated for the lower volumes. The bulk of coal exports was destined for Europe in the second quarter of 2022, mainly to replace imports from Russia. On the contrary, the contraction in the export value of pearls, and precious and semi-precious stones in the second quarter of 2022 reflected base effects relative to the high volumes in the first quarter.

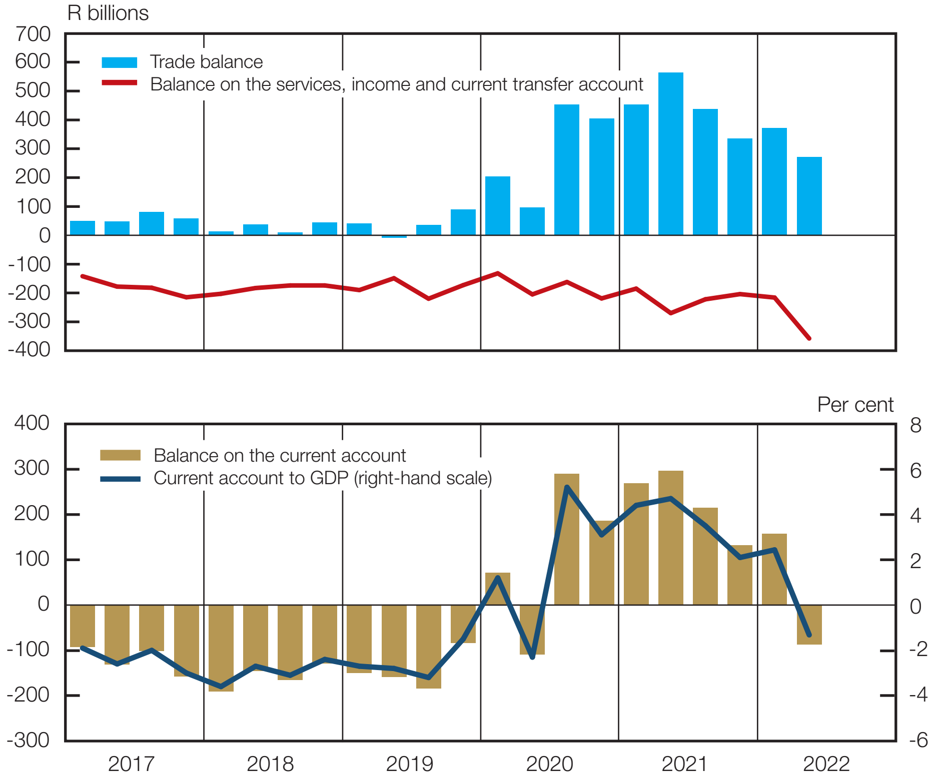
Current account of the balance of payments

R billions, seasonally adjusted and annualised

	2021				2022	
	Q2	Q3	Q4	Year	Q1	Q2
Merchandise exports	1 782	1 653	1 702	1 689	1 908	1 982
Net gold exports	100	105	120	108	76	95
Merchandise imports	-1 317	-1 321	-1 486	-1 349	-1 612	-1 805
Trade balance	565	437	336	448	372	272
Net service, income and current transfer payments	-270	-222	-204	-220	-216	-358
Balance on current account	296	214	132	228	157	-87
As a percentage of gross domestic product						
Trade balance	9.1	7.1	5.3	7.2	5.8	4.1
Services balance	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2
Income balance	-2.7	-2.1	-1.8	-1.9	-1.5	-3.8
Current transfer balance	-0.6	-0.5	-0.3	-0.6	-0.6	-0.4
Balance on current account	4.7	3.5	2.1	3.7	2.4	-1.3

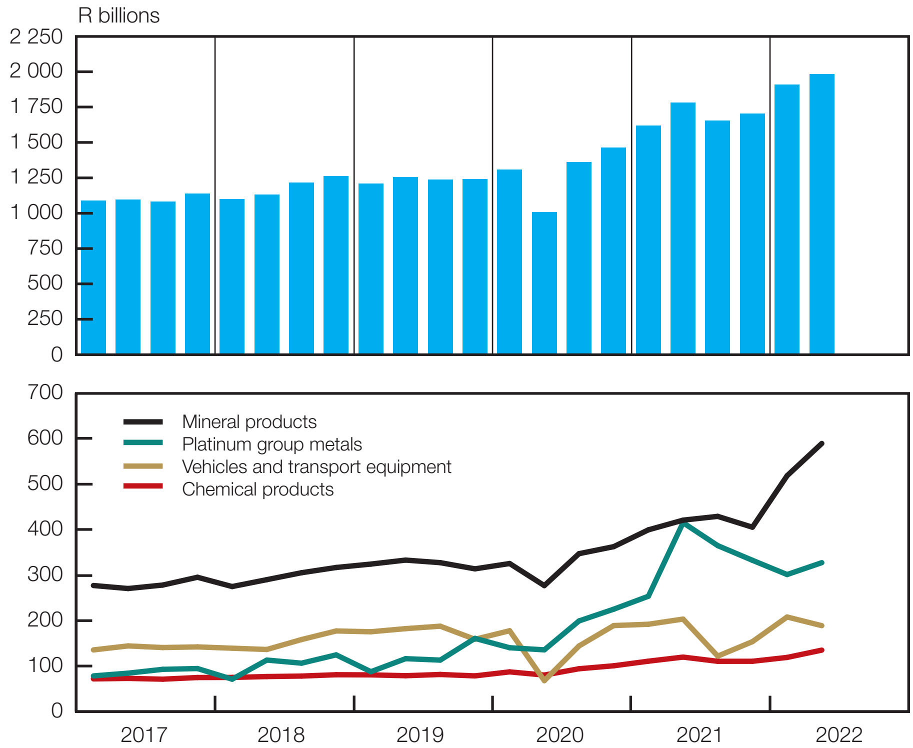
Components may not add up to totals due to rounding off.
Sources: Stats SA and SARB

Current account of the balance of payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

Value of merchandise exports*

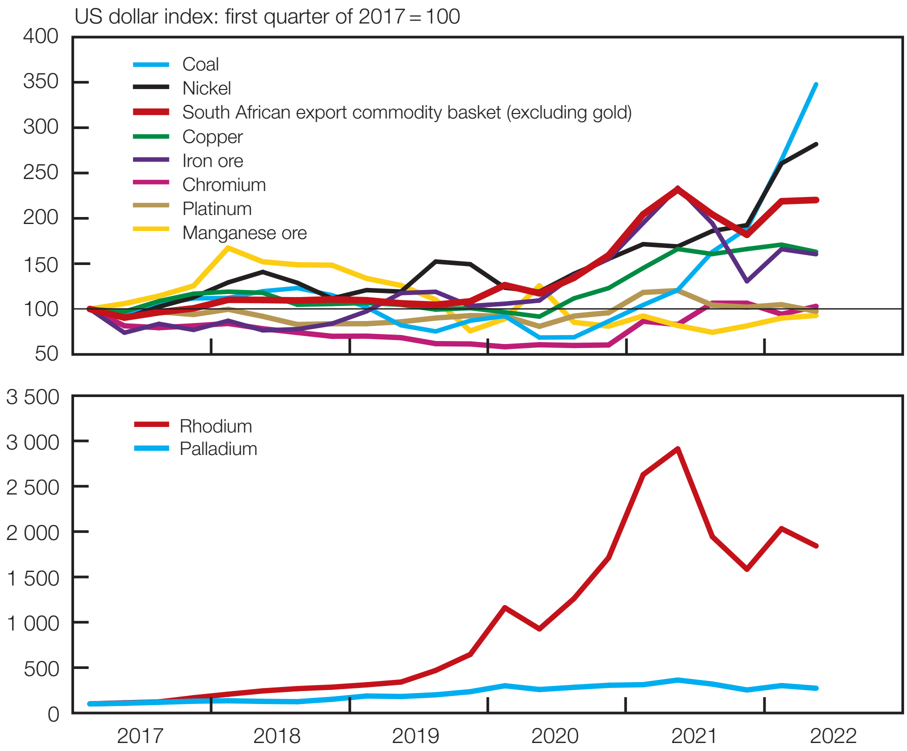


* Excluding net gold exports
Seasonally adjusted and annualised
Sources: Stats SA and SARB

The value of exported manufactured goods increased at a slower pace in the second quarter of 2022, held back by contractions in the exports of vehicles and transport equipment, machinery and electrical equipment as well as textiles and articles thereof. Exports of vehicles and transport equipment were weighed down by the disruptions caused by the floods in KZN in April 2022 and the ongoing shortage of semiconductors which affected domestic production. These decreases were more than offset by marked increases in the exports of chemical products and other manufactured goods. Chemical products reflected increased exports of iron oxides and hydroxides to Mozambique. The value of agricultural exports decreased in the second quarter of 2022.

The US dollar price of a basket of domestically produced non-gold export commodities increased further by a modest 0.7% in the second quarter of 2022 compared with a 20.3% surge in the first quarter. This slowdown reflected declines in the prices of PGMs, iron ore and copper. The lower PGM prices reflected a large decline in the price of rhodium due to a decrease in automotive production, while the decline in the price of palladium could largely be attributed to global supply chain uncertainty as well as efforts by automotive manufacturers to substitute platinum for palladium following supply risks from Russia, the world's largest palladium producer. Expected slower global economic growth and lower demand for automobiles also affected the price of platinum in the second quarter. The decrease in the international prices of iron ore and copper mainly reflected the impact of renewed COVID-19 lockdowns and a deepening property market crisis in China as well as concerns about a slowdown in global industrial activity leading to lower demand for base metals and steel. Nonetheless, these declines were outweighed by increases in the prices of coal and nickel due to supply constraints emanating from the Russia–Ukraine war.

International prices of selected South African export commodities*

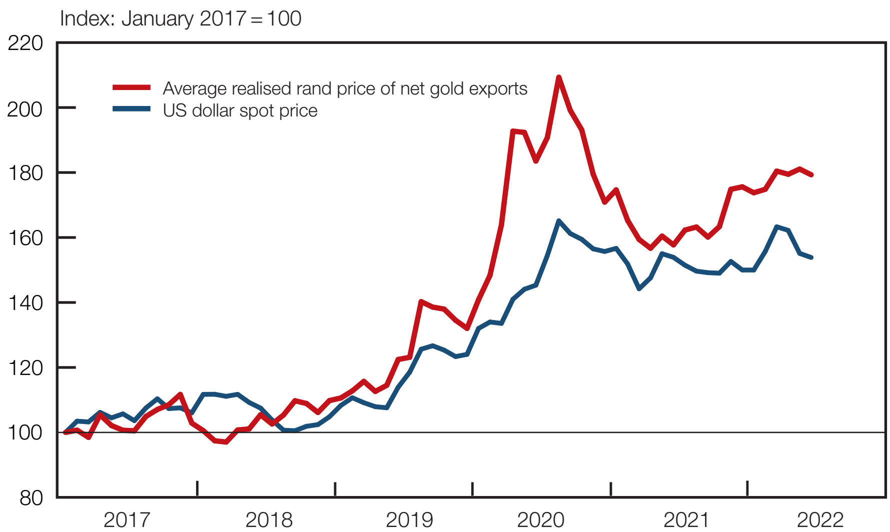


* Quarterly averages

Sources: Afriforesight, World Bank and SARB

The rand price of merchandise exports increased further by 6.0%, while the volume of exports declined by 2.0% in the second quarter of 2022.

Gold price



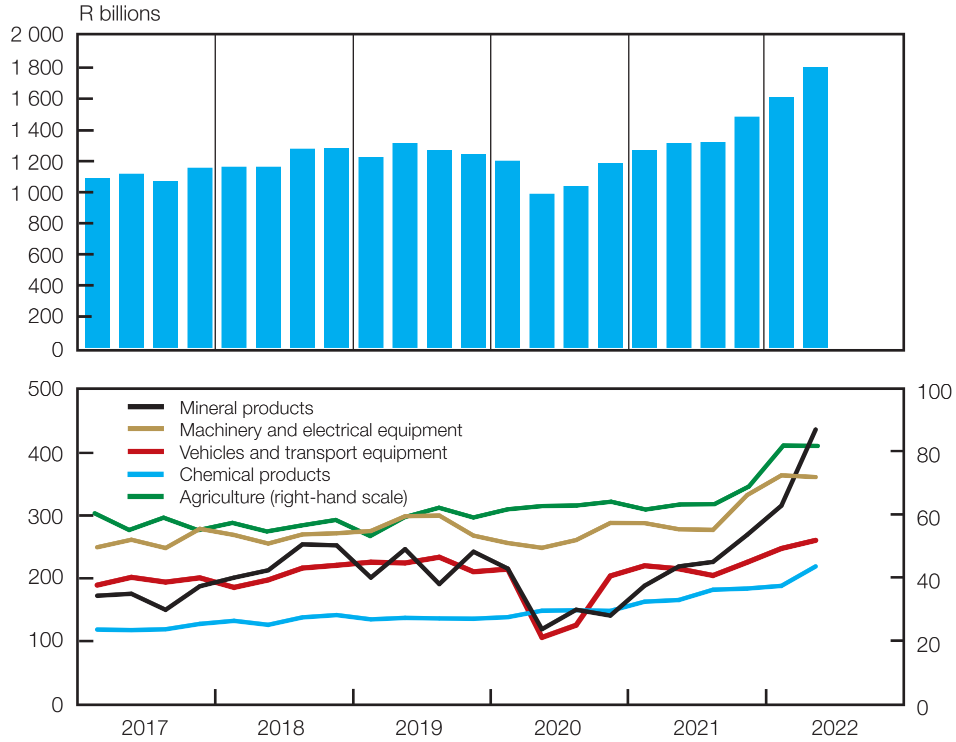
Sources: Refinitiv and SARB

The average US dollar price of gold on the London market remained almost unchanged at about US$1 873 per fine ounce in the second quarter of 2022. The value of South Africa's net gold exports increased by 24.5% in the second quarter of 2022 as the average realised price of net gold exports, in rand terms, increased by 2.1% along with an increase in the physical quantity exported. Global demand for gold increased by 28.9%, from 1 164 tons in the first quarter of 2022 to 1 193 tons in the second quarter, according to the World Gold Council. This reflected purchases by central banks, which surged from about 90 tons in the first quarter of 2022 to almost 180 tons in the second quarter as well as strong over the counter (OTC)[11] trades and Indian jewellery demand.

The value of merchandise imports increased further for an eighth consecutive quarter, with the increase of 12.0% in the second quarter of 2022 mainly attributable to increased values of mining and manufactured goods.

11 OTC transactions (also referred to as 'off exchange' trading) take place directly between two parties, unlike exchange trading, which is conducted via an exchange.

Value of merchandise imports



Seasonally adjusted and annualised

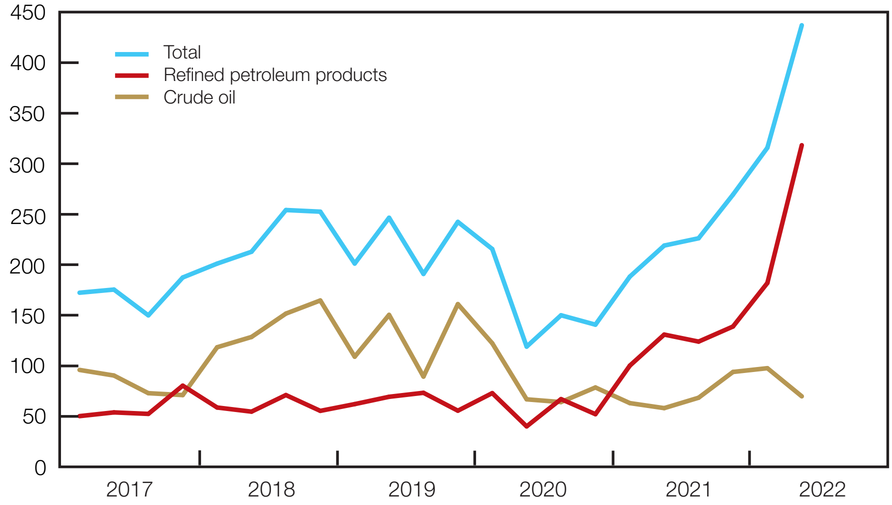
Sources: Stats SA and SARB

The value of mining imports was buoyed by a substantial increase in mineral products, which continued to reflect the surge in the imports of refined petroleum products due to the closure of some domestic refineries. The significant increase in the value of refined petroleum products as a ratio of total merchandise imports, from 11.3% in the first quarter of 2022 to 17.6% in the second quarter, reflected higher import values of both diesel and petrol. Diesel imports more than doubled from the first to the second quarter of 2022.

The value of imported crude oil decreased by 28.5% in the second quarter of 2022, with the shutdown in March of the largest domestic refinery, South African Petroleum Refineries (SAPREF), a *joint venture between Shell SA Refining and BP Southern Africa*, contributing to the sharp contraction in volumes imported. On average, the realised rand price of imported crude oil surged by 24.9%, from R1 322 per barrel in the first quarter of 2022 to R1 652 per barrel in the second quarter.

Value of mineral imports

R billions



Seasonally adjusted and annualised

Sources: Stats SA and SARB

On average, the spot price of Brent crude oil increased by 15.0% from US$98.64 per barrel in the first quarter of 2022 to US$113.40 per barrel in the second quarter. The monthly average spot price of Brent crude oil decreased in April 2022, followed by an increase in May in response to prospects of a recovery in demand after Chinese authorities gradually eased lockdown restrictions in several cities and as oil supply risks remained elevated due to the geopolitical tensions in Europe. The Brent crude oil price increased further in June due to robust demand by European refineries amid the supply disruptions as well as concerns of a planned strike in Norway's oil and gas sector. The price then declined to a monthly average of US$111.63 per barrel in July 2022 and further to US$100.59 per barrel in August, mainly in response to a deteriorating global economic outlook.

Brent crude oil price

US dollar per barrel

Source: Refinitiv

The value of imported manufactured goods advanced further in the second quarter of 2022, boosted by a pronounced increase in chemical products, vehicles and transport equipment as well as resins, plastics and articles thereof. Vehicle imports were underpinned by, among other factors, the importation of fully assembled units to complement the shortage of domestically manufactured vehicles due to the temporary discontinuation of production following the KZN floods in April. The value of imported machinery and equipment receded somewhat in the second quarter of 2022 after increasing notably in the previous two quarters. The value of imported agricultural products also decreased slightly in the second quarter of 2022.

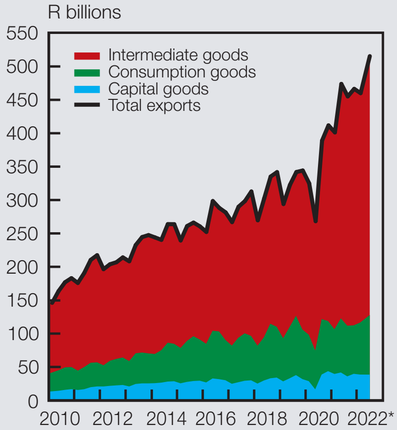
Box 2 South Africa's trade statistics[1] according to the stage of production

This box introduces South Africa's trade statistics by stage of production, based on the fifth revision of the *Classification by Broad Economic Categories* (BEC Rev.5)[2] of the United Nations Statistical Commission (UNSC). Published in 2016, BEC Rev.5 provides for, among other things, changes in technology, trade patterns and value chains which partially affect the treatment of intermediate goods.

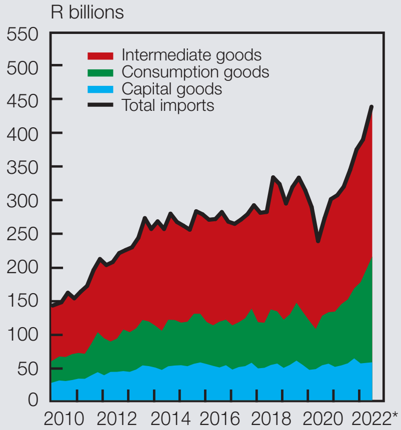
The BEC classification is a high-level aggregation of the existing and detailed product classifications in the Standard International Trade Classification (SITC),[3] the Harmonized Commodity Description and Coding System (HS)[4] and the Central Product Classification (CPC).[5] The BEC classification, which categorises products according to end use, facilitates aggregation into capital, intermediate and consumption goods[6] according to the System of National Accounts (SNA).[7] This facilitates trade analysis in relation to economic activity as measured by gross domestic product.

South Africa's trade data are sourced from the South African Revenue Service (SARS) and are recorded at an HS eight-digit level. BEC Rev.5 includes all previous changes to the HS codes and ensures that all goods are accounted for and allocated to the appropriate broad economic category. The trade statistics discussed in this box also include the data of the BELN[8] countries. The South African Reserve Bank (SARB) has compiled trade data classified into capital, intermediate and consumption goods for both imports and exports as from the first quarter of 2010, based on the SARS trade data. As from this edition of the *Quarterly Bulletin*, these statistics are published in table KB536 in the experimental tables section on page E–15.

Exports according to stage of production (including gold)



Imports according to stage of production



* First and second quarter of 2022
Not seasonally adjusted or annualised

Source: SARB

1 This box relates to trade statistics in the balance of payments on pages S–85 and S–88 in this edition of the *Quarterly Bulletin*.

2 The latest version of BEC Rev.5 developed by the UNSC is available at https://unstats.un.org/unsd/trade/classifications/SeriesM_53_Rev.5_17-01722-E-Classification-by-Broad-Economic-Categories_PRINT.pdf

3 The SITC is available at https://unstats.un.org/unsd/trade/sitcrev4.htm

4 The HS classification of the World Customs Organization (WCO) is available at http://www.wcoomd.org/en/topics/nomenclature/overview/what-is-the-harmonized-system.aspx#:~:text=The%20Harmonized%20Commodity%20Description%20and,World%20Customs%20Organization%20(WCO

5 The CPC is available at https://unstats.un.org/unsd/classifications/Econ/cpc#:~:text=The%20Central%20Product%20Classification%20(CPC,definitions%2C%20principles%20and%20classification%20rules

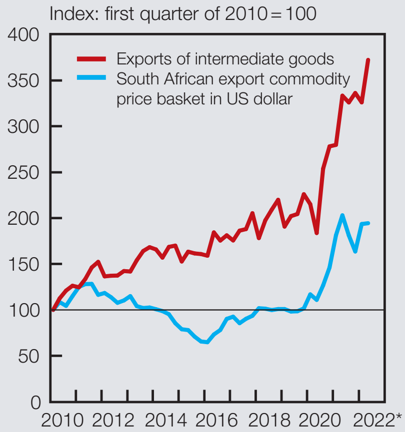
6 Capital goods are restricted to institutional units in their capacity as producers, whereas intermediate goods consist of goods used during the production process within the accounting period. Consumption goods consist of goods used by either individual households or the community to satisfy their individual or collective needs or wants.

7 The SNA is available at https://unstats.un.org/unsd/nationalaccount/sna.asp

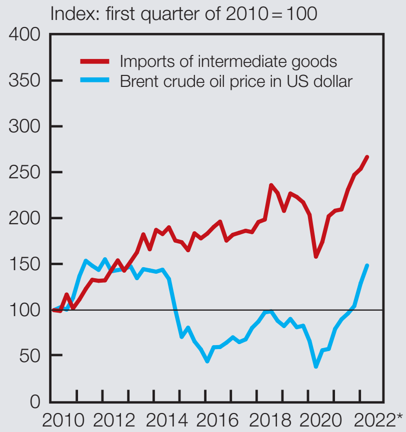
8 The BELN countries are Botswana, Eswatini, Lesotho and Namibia.

An analysis of imported and exported capital, intermediate and consumption goods in value terms shows that, according to the stage of production, intermediate goods have remained dominant, while the contribution of exported intermediate goods to total exports has averaged 69.7% since 2010, and that of imported intermediate goods to total imports has averaged 56.3% over the same period.

Exports of intermediate goods and commodity prices



Imports of intermediate goods and Brent crude oil price

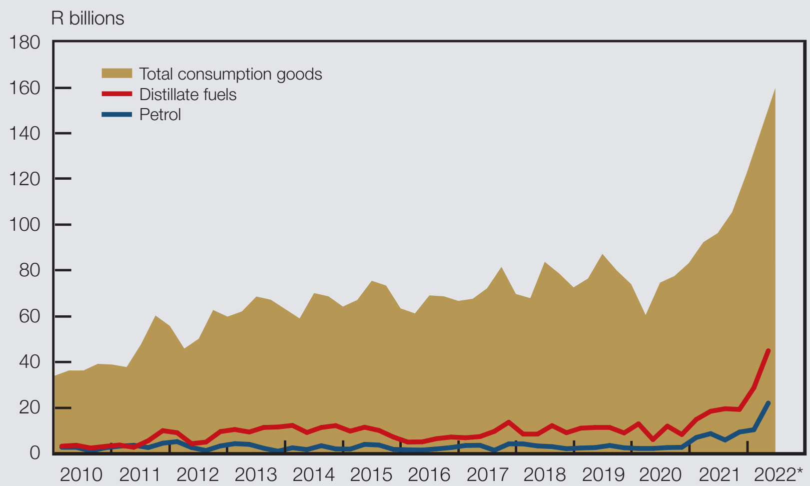


* First and second quarter of 2022

Sources: Refinitiv and SARB

The value of both exported and imported intermediate goods tends to be more volatile than the other two categories, as it is affected by the movements in international commodity prices. The value of consumption goods imports as a share of total imports remained relatively stable at about 25% from 2010 to 2019. Consumption goods imports then rose sharply from mid-2020 as the value of imported mineral products, in particular petrol and diesel, increased due to the closure of most of South Africa's refineries and also due to the increased reliance on Eskom's diesel-powered open cycle gas turbines to meet electricity demand.

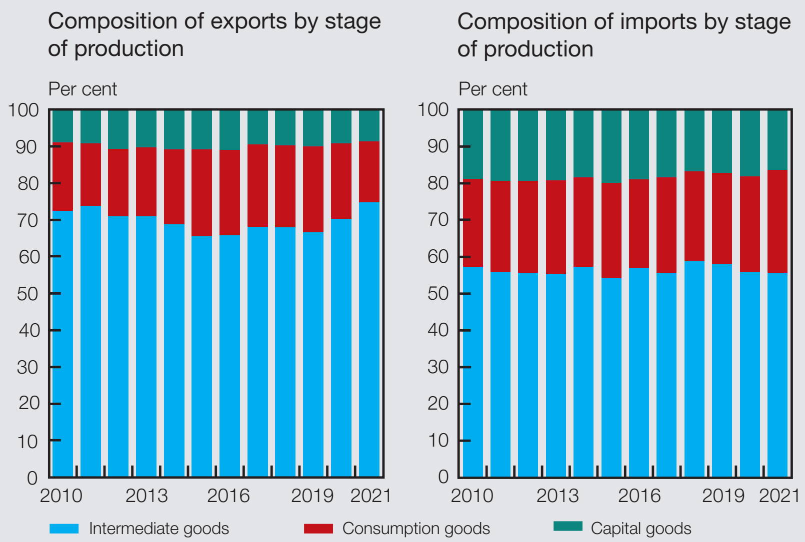
Imports of consumption goods



* First and second quarter of 2022

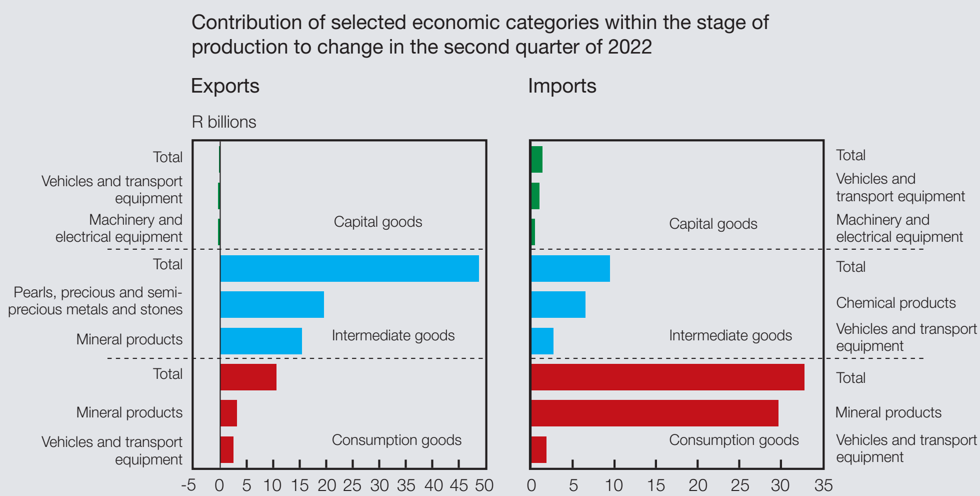
Source: SARB

The contribution of exported intermediate goods to total exports, in value terms, increased in 2020 and peaked at 75.9% in the fourth quarter of 2021, mainly due to base metals that benefitted from higher prices due to the surge in the global demand for these products. By contrast, the contribution of imported intermediate goods to total imports has decreased from 2020 to a low of 50.7% in the second quarter of 2022. Exported consumption goods relative to total exports decreased in 2021, while imported consumption goods relative to total imports increased due to the higher imports of refined petroleum products. Over the same period, the contribution of both exported and imported capital goods declined relative to the total trade in goods.



Source: SARB

A further breakdown of both exports and imports by stage of production into BEC is even more insightful. This shows that the increase in the value of exported intermediate goods in the second quarter of 2022 was largely due to a substantial increase in the value of precious metals and stones as well as mineral products, with the latter mainly boosted by coal. The increase in the exports of consumption goods mainly reflected an increase in the value of vehicles and transport equipment as well as mineral products. Capital goods exports were dragged down by a noticeable decrease in vehicles and transport equipment, in particular commercial vehicles, impacted by the flooding in KwaZulu-Natal in April 2022, which affected vehicle production.



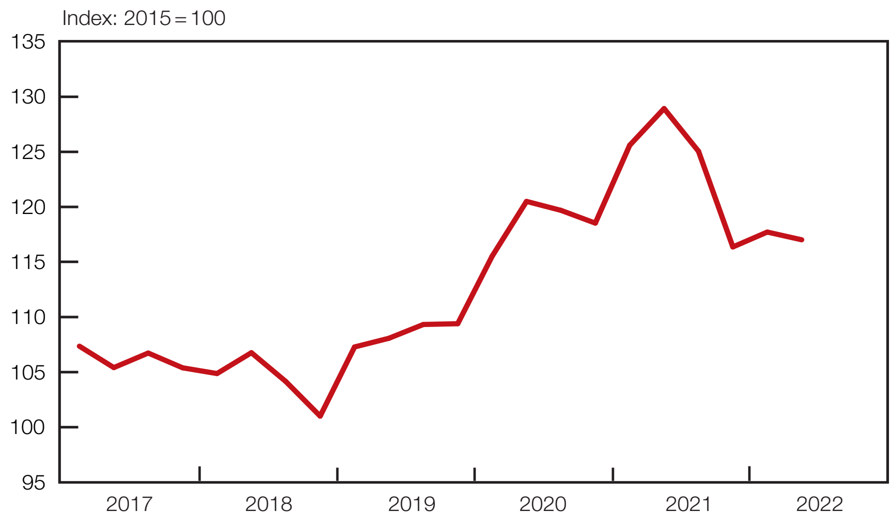
Source: SARB

The value of imported intermediate, consumption and capital goods increased in the second quarter of 2022. Consumption goods imports were primarily supported by noticeable increases in the value of mineral products and, to a lesser extent, vehicles and transport equipment. The former was mainly boosted by petroleum products due to increased imports of distillate fuel and petrol. The increase in imported intermediate goods was largely due to an increase in chemical products as well as vehicles and transport equipment. Higher imports of vehicles and transport equipment were primarily supported by an increase in the imports of original equipment components used in the manufacturing of vehicles for the export market. Capital goods imports increased as the value of vehicles and transport equipment increased, specifically tractors.

The volume of merchandise imports increased further by 5.3% in the second quarter of 2022. As a result, the import penetration ratio (i.e. real merchandise imports as a ratio of GDE) rose from 24.2% in the first quarter of 2022 to 25.3% in the second quarter. At the same time, the higher prices of goods in some of South Africa's trading partners caused the rand price of merchandise imports to increase by 6.4% in the second quarter of 2022.

After increasing slightly in the first quarter of 2022, South Africa's terms of trade deteriorated slightly in the second quarter as the rand price of the imports of goods and services increased slightly more than that of exports.

Terms of trade*



* Including gold

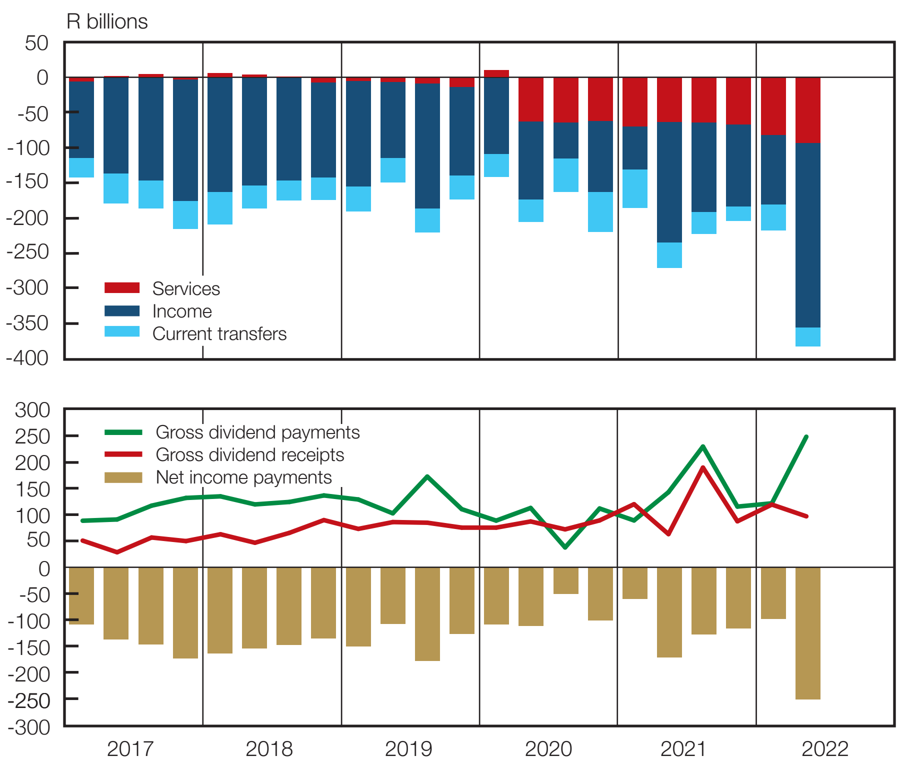
Sources: Stats SA and SARB

The shortfall on the services, income and current transfer account widened substantially to R358 billion in the second quarter of 2022, from a deficit of R216 billion in the first quarter. The larger deficit stemmed from a significantly larger shortfall on the income account, while the deficit on the services account also increased but to a much lesser extent. By contrast, a smaller deficit was recorded on the current transfer account in the second quarter of 2022. Consequently, the deficit as a ratio of GDP increased from 3.4% in the first quarter of 2022 to 5.5% in the second quarter – the largest ratio since the first quarter of 1986.

Following three consecutive quarterly increases, the services deficit widened further in the second quarter of 2022 as gross services payments rose more than receipts. Travel and transportation services (both receipts and payments) continued to increase from the subdued levels of the past two years. The value of net travel receipts continued to increase along with steady growth in the number of both foreign tourists visiting South Africa and South Africans travelling abroad as international travel began to normalise, although the numbers were still far below the pre-COVID-19 levels. The further increase in gross payments for freight-related transportation services continued to reflect the growth in merchandise imports and remained elevated due to, inter alia, high input costs. A decline in net payments for other services prevented the overall services deficit from widening even further in the second quarter of 2022.

The deficit on the income account widened markedly in the second quarter of 2022 after narrowing for three consecutive quarters. Gross income receipts declined from a relatively high base in the first quarter of 2022, while gross income payments increased significantly due to extraordinary large gross dividend payments. Gross dividend payments doubled from the first to the second quarter and were even more than that recorded in the third quarter of 2021. The large quarterly gross dividend payments in the third quarter of 2021 and the second quarter of 2022 reflected, inter alia, the impact of high commodity prices on the profits of mining companies.

Net services, income and current transfer payments



Seasonally adjusted and annualised

Sources: Stats SA and SARB

The large gross dividend payments in the second quarter of 2022 were mainly related to companies with a direct investment relationship. Gross dividend payments amounted to 3.8% of GDP in the second quarter of 2022, slightly higher than the 3.7% recorded in the third quarter of 2021. The average gross dividend payments to GDP in the first half of 2022 amounted to 2.9% of GDP, which is higher than the average of 2.2% over the past five years. Nonetheless, the largest quarterly gross dividend payment level relative to GDP of 4.4% was recorded in the final quarter of 2007, when growth in real GDP was more than 5% per annum. Both gross interest receipts and payments increased in the second quarter of 2022. When compared with the corresponding quarter of 2021, gross interest receipts and payments increased by 16.6% and 10.3% respectively, consistent with higher global and domestic interest rates.

Net current transfer payments decreased in the second quarter of 2022. The lower net current transfer payments in the second quarter resulted from higher gross current transfer receipts alongside smaller payments, particularly to the Southern African Customs Union (SACU) at the start of the 2022/23 financial year.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) reverted to an outflow of R1.4 billion in the second quarter of 2022 following a revised inflow of R31.3 billion in the first 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 switched to an outflow of 0.1% in the second quarter of 2022 from an inflow of 2.0% in the first quarter.

Net financial transactions

R billions

	2021				2022	
	Q2	Q3	Q4	Year	Q1	Q2
Change in liabilities						
Direct investment	17.3	557.9	22.7	604.4	39.9	26.2
Portfolio investment	0.3	-362.1	-40.0	-408.2	60.7	39.8
Financial derivatives	-55.0	-58.1	-54.8	-245.8	-46.6	-55.4
Other investment	-29.9	85.5	-29.6	13.7	79.8	48.3
Change in assets						
Direct investment	2.6	-3.7	-10.5	-0.3	-19.8	6.1
Portfolio investment	-71.0	-244.4	-40.0	-395.2	-53.4	-44.4
Financial derivatives	54.9	55.3	60.2	249.3	46.7	51.9
Other investment	-4.7	-1.3	40.3	5.0	-69.2	-38.7
Reserve assets	-23.9	-50.4	-3.3	-67.3	-6.8	-35.2
Total identified financial transactions*	-109.3	-21.3	-55.2	-244.5	31.3	-1.4
As a percentage of gross domestic product	*-6.9*	*-1.4*	*-3.4*	*-3.9*	*-2.0*	*-0.1*

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

Source: SARB

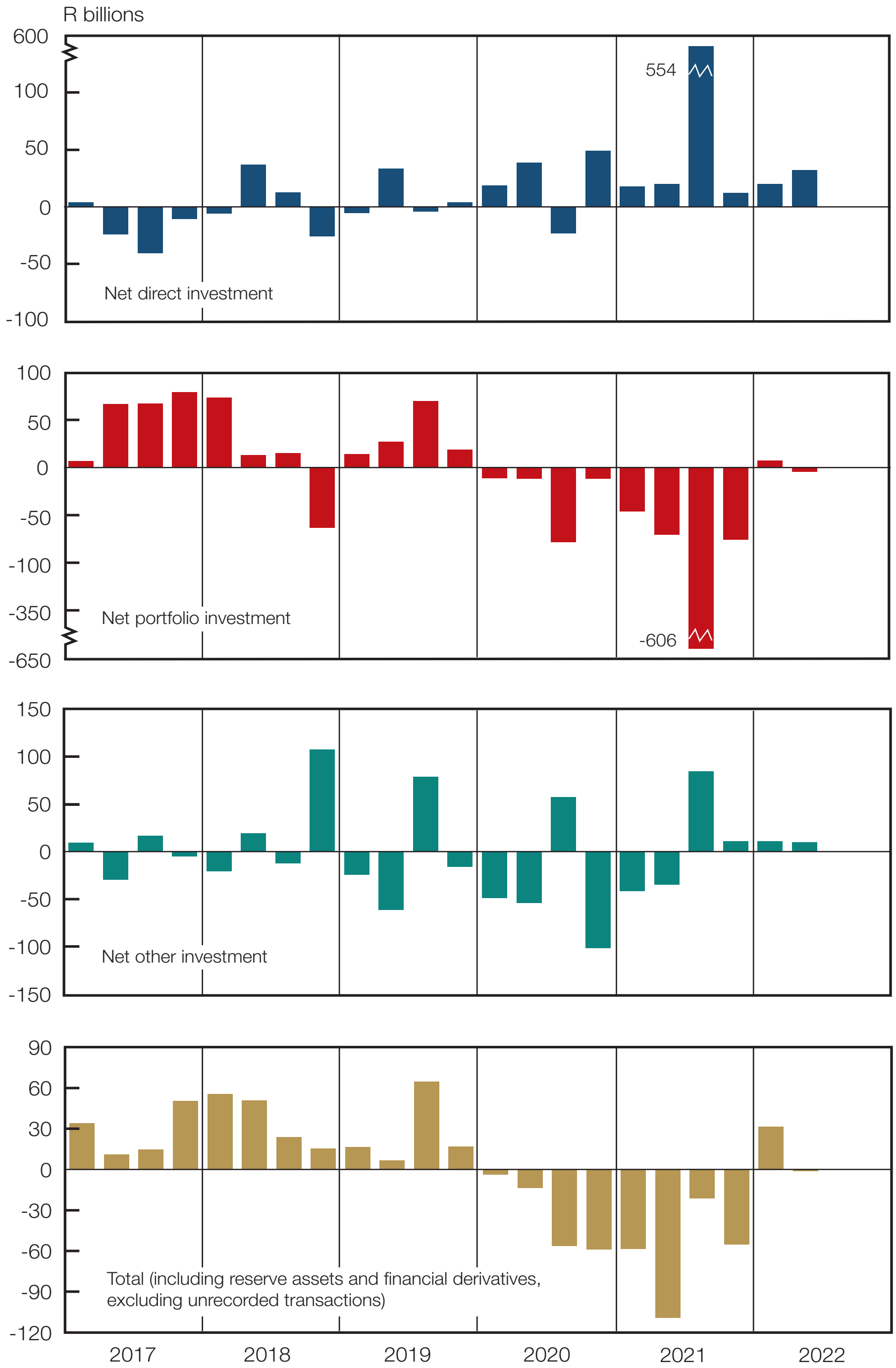
Foreign-owned assets in South Africa

South Africa's direct investment liabilities recorded an inflow of R26.2 billion in the second quarter of 2022 following a revised inflow of R39.9 billion in the first quarter as non-resident parent entities granted loans to and, to a lesser extent, increased equity investments in domestic subsidiaries.

Portfolio investment liabilities recorded an inflow of R39.8 billion in the second quarter of 2022 following a revised inflow of R60.7 billion in the first quarter as non-residents' net acquisition of debt securities outweighed their disposal of domestic equity securities. National government's issuance of two international bonds to the combined value of US$3 billion in the second quarter of 2022 contributed significantly to the debt securities inflow, which was partly countered by the redemption of an international bond of US$1 billion. Non-residents' net acquisition of debt securities of R52.6 billion in the second quarter of 2022 was preceded by purchases of R12.3 billion in the first quarter, while the net disposal of equities of R12.9 billion in the second quarter was a reversal from the net acquisition of R48.5 billion in the first quarter.

Other investment liabilities recorded an inflow of R48.3 billion in the second quarter of 2022 following a revised inflow of R79.8 billion in the first quarter as non-residents granted short-term loans to the domestic private banking and non-banking sectors and, to a lesser extent, increased their deposits in the domestic banking sector.

Financial account of the balance of payments



Source: SARB

South African-owned assets abroad

South Africa's direct investment assets reverted from an outflow of R19.8 billion in the first quarter of 2022 to an inflow of R6.1 billion in the second quarter as non-resident subsidiaries repaid loans to their domestic parent entities. This was partially offset by domestic parent companies increasing equity investment in subsidiaries abroad.

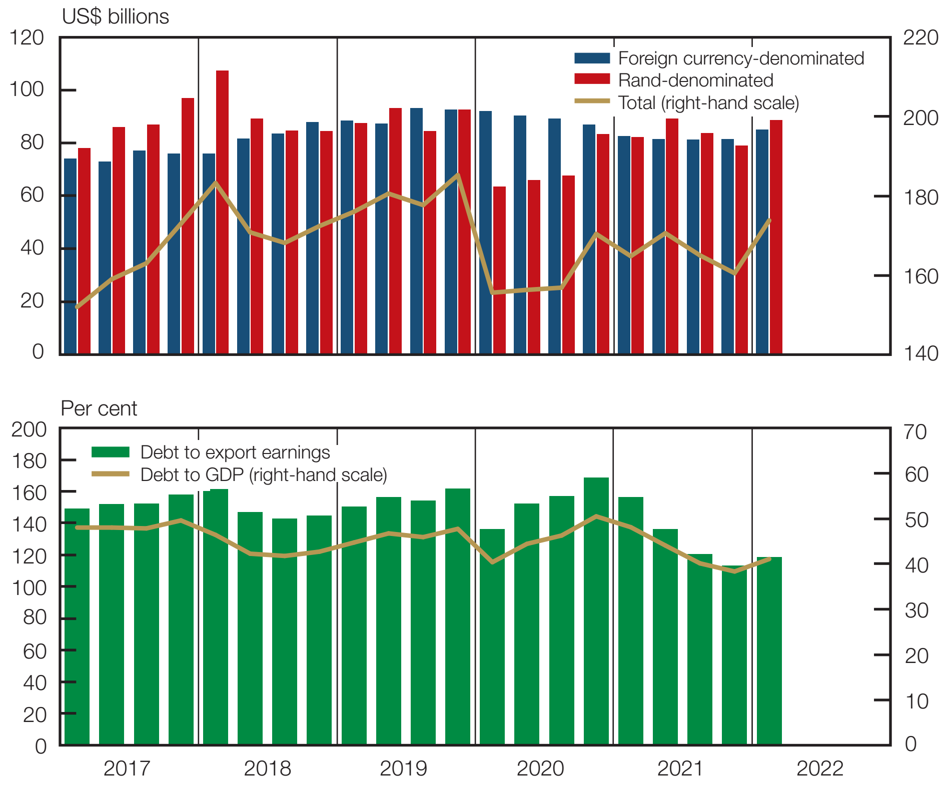
South African residents acquired foreign portfolio assets of a further R44.4 billion in the second quarter of 2022 following the acquisition of R53.4 billion in the first quarter, mainly due to the domestic private non-banking sector's purchases of foreign equity securities.

Other investment assets recorded an outflow of R38.7 billion in the second quarter of 2022 following an outflow of R69.2 billion in the previous quarter as the domestic banking sector increased its deposits at non-resident banks.

Foreign debt

South Africa's total external debt increased from US$160.5 billion at the end of December 2021 to US$173.8 billion at the end of March 2022. However, expressed in rand terms, South Africa's total external debt decreased from R2 551 billion to R2 516 billion over the same period as the rand appreciated against the US dollar over this period.

Foreign debt



Source: SARB

Foreign currency-denominated external debt increased from US$81.5 billion at the end of December 2021 to US$85.1 billion at the end of March 2022. This was due to an increase in long-terms loans of the private non-banking sector, an increase in short-term financing of the domestic banking sector, and government loan finance obtained from the World Bank.

Rand-denominated external debt, in US dollars, increased from US$79.0 billion at the end of December 2021 to US$88.7 billion at the end of March 2022. This can mainly be attributed to the higher US dollar value of rand-denominated external debt due to the appreciation in the exchange value of the rand over this period as well as net purchases of domestic rand-denominated bonds by non-residents and an increase in short-term loans by, and deposits with, the domestic banking sector.

South Africa's total external debt as a ratio of GDP increased from 38.3% at the end of December 2021 to 41.0% at the end of March 2022. Similarly, the ratio of external debt to export earnings increased from 113.0% to 118.6% over the same period.

Foreign debt of South Africa

US$ billions at end of period

	2020	2021				2022
	Q4	Q1	Q2	Q3	Q4	Q1
Foreign currency-denominated debt	87.1	82.6	81.4	81.3	81.5	85.1
Debt securities	29.2	27.6	27.6	27.8	27.8	28.7
Other	57.9	55.0	53.8	53.5	53.7	56.4
Public sector	15.9	16.0	17.1	16.1	16.3	16.9
Monetary sector	16.3	15.4	14.4	14.7	14.6	15.1
Non-monetary private sector	25.7	23.6	22.3	22.7	22.8	24.4
Rand-denominated debt	83.3	82.1	89.2	83.7	79.0	88.7
Debt securities	54.3	52.3	59.2	53.3	51.9	57.6
Other	29.0	29.8	30.0	30.4	27.1	31.1
Total foreign debt	170.4	164.7	170.6	165.0	160.6	173.8
As a percentage of gross domestic product	*50.5*	*48.1*	*44.0*	*40.1*	*38.3*	*41.0*
As a percentage of total export earnings	*168.7*	*156.3*	*136.2*	*120.3*	*113.0*	*118.6*

Source: SARB

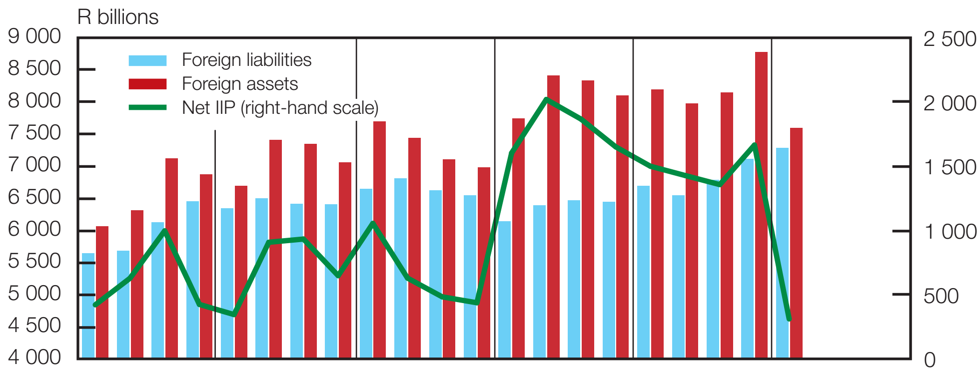
International investment position

South Africa's positive net international investment position (IIP) decreased significantly from a revised R1 666 billion at the end of December 2021 to only R310 billion at the end of March 2022. The decrease reflected a substantial decline of R1 185 billion in foreign assets and an increase of R170 billion in foreign liabilities. The exchange value of the rand had a significant effect on foreign assets and, to a lesser extent, on foreign liabilities as the nominal effective exchange rate (NEER) of the rand increased, on balance, by 10.8% in the first quarter of 2022.

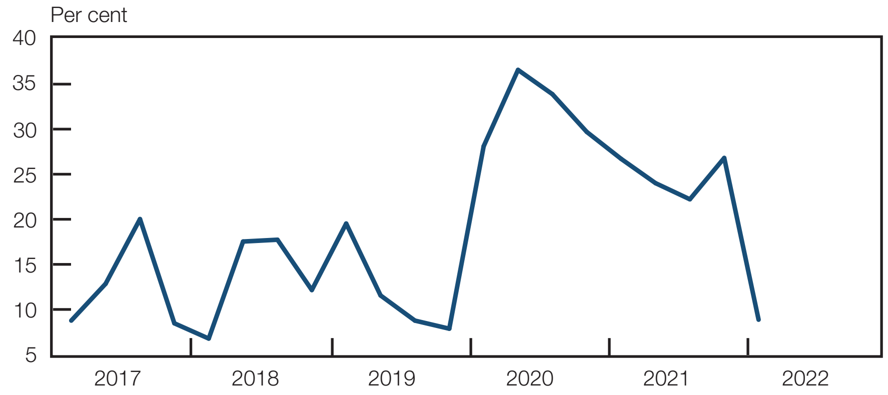
The market value of South Africa's foreign assets (outward investment) decreased by 13.5% from a revised R8 782 billion at the end of December 2021 to R7 597 billion at the end of March 2022 as all functional categories decreased. Direct investment decreased substantially, mainly as a result of valuation effects due to the decline in the share price of a large dual-listed company with a primary listing abroad. Portfolio investment assets also decreased following declines in most international equities market indices, with the US Standard & Poor's (S&P) 500 Index decreasing by 4.9% in the first quarter of 2022, as well as exchange rate revaluations. The decline was further exacerbated by the decrease in share prices of dual-listed companies with a primary listing abroad. Other investment assets decreased marginally in the first quarter of 2022, mainly due to the decline in foreign assets of the banking sector, while reserve assets decreased mainly as a result of the appreciation in the exchange value of the rand.

The market value of South Africa's foreign liabilities (inward investment) increased by 2.4% from a revised R7 116 billion at the end of December 2021 to R7 286 billion at the end of March 2022. The increase in foreign liabilities reflected an increase in all functional categories except direct investment. Direct investment decreased as a result of valuation effects as the share price of a large South African company declined. The increase in the FTSE/JSE All-Share Index (Alsi) of 2.4% in the first quarter of 2022 contributed to the higher value of portfolio investment liabilities, together with non-resident net purchases of South African equity securities. Other investment liabilities increased mainly because of non-residents extending loans to the domestic banking and private non-banking sectors as well as national government borrowing US$750 million from the World Bank. Loans extended to the private non-banking sector included loans incurred as a result of the settlement of global claims by a South African company.

South Africa's international investment position



Net international investment position to GDP



Source: SARB

As a ratio of South Africa's annual GDP,[12] foreign assets decreased from 141.1% at the end of December 2021 to 119.7% at the end of March 2022, while foreign liabilities increased from 114.3% to 114.8% over the same period. This resulted in a decrease in the positive net IIP from 26.8% of GDP at the end of December 2021 to 4.9% at the end of March 2022.

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

International reserves and liquidity

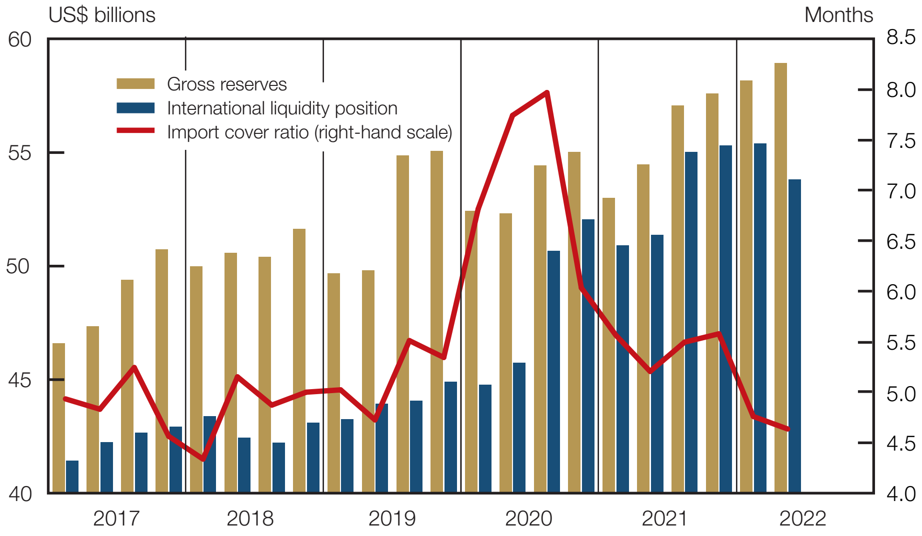
South Africa's international reserves increased further by R35.2 billion in the second quarter of 2022 following an increase of R6.8 billion in the first quarter.

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, increased from US$58.2 billion at the end of March 2022 to US$58.9 billion at the end of June, reflecting proceeds received by national government from the issuance of foreign bonds to the value of US$3 billion. This was partially offset by foreign payments made by national government, most notably the redemption of foreign borrowing of US$1 billion. The country's gross gold and other foreign reserves increased further to US$59.8 billion at the end of August. South Africa's international liquidity position[13] decreased from US$55.4 billion at the end of March 2022 to US$53.8 billion at the end of June, and further to US$53.1 billion at the end of August.

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

The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) decreased from 4.8 months at the end March 2022 to 4.6 months at the end of June.

International reserves



Source: SARB

Exchange rates[14]

Following an increase of 10.8% in the first quarter of the year, the NEER of the rand decreased by 6.2% in the second quarter of 2022, and by a further 3.6% from the end of June to 9 September.

14 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

	30 Sep 2021 to 31 Dec 2021	31 Dec 2021 to 31 Mar 2022	31 Mar 2022 to 30 Jun 2022	30 Jun 2022 to 9 Sep 2022
Weighted average*	-4.1	10.8	-6.2	-3.6
Euro	-2.3	11.6	-5.1	-2.8
US dollar	-4.7	9.8	-11.0	-6.0
Chinese yuan	-6.1	9.3	-6.0	-2.8
British pound	-5.3	13.1	-3.8	-1.9
Japanese yen	-2.0	16.2	-0.5	-1.8

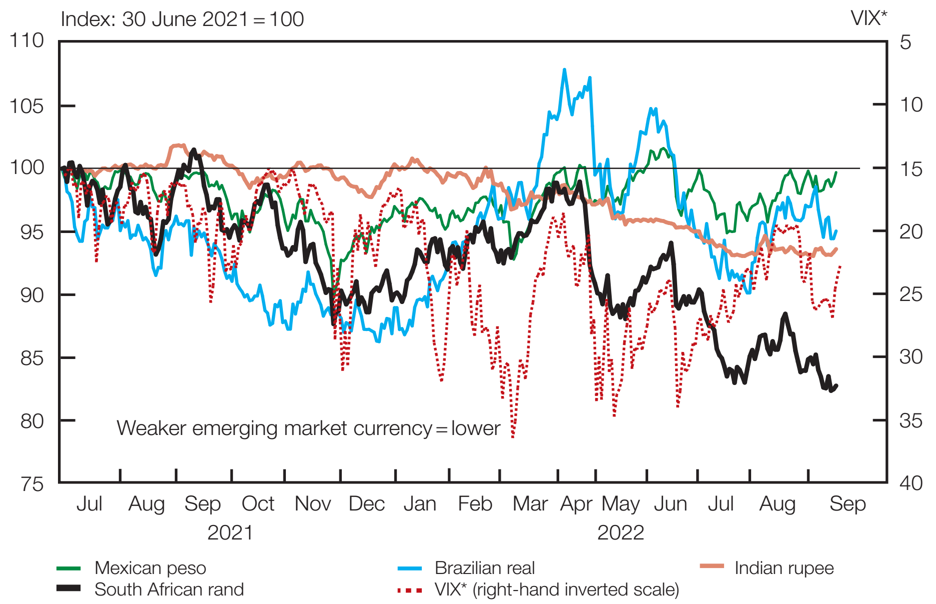
* Trade-weighted exchange rate against a basket of 20 currencies (nominal effective exchange rate)
Depreciation (-)/appreciation (+)

Source: SARB

The NEER declined by 5.6% in April 2022, largely due to the strength of the US dollar when global financial markets experienced a renewed bout of risk aversion as inflation concerns resulted in a 50 basis point increase in the federal funds rate in the US in May 2022. Currency volatility reflected uncertainty regarding global economic growth prospects in response to China's reimplementation of strict COVID-19 lockdown measures and the ongoing Russia–Ukraine war as well as the subsequent sanctions imposed on Russia. Despite the revision of South Africa's sovereign credit rating outlook from stable to positive by S&P in May 2022, the NEER only increased by 1.8% in that month.

The NEER then declined by 2.3% in June 2022 and by a further 0.8% in July as global risk aversion persisted due to geopolitical tensions, increasing concerns of a possible economic recession in South Africa's main trading partners and monetary policy tightening in several major economies. The NEER was also weighed down by the strengthening in the US dollar as growing inflation concerns in the US prompted two consecutive 75 basis point increases in the federal funds rate in June and July 2022. Domestically, severe bouts of electricity load-shedding from the end of June 2022 also weighed on the NEER as it negatively impacted investor sentiment and the domestic economic outlook. In addition, global investors reduced their holdings of emerging market assets, including South Africa. By mid-July, the rand had depreciated to R17.24 against the US dollar, while the US dollar traded around a 20-year high against the euro. As the US dollar breached parity against the euro towards the end of August, the rand depreciated further to R17.28 against the US dollar by 9 September.

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.

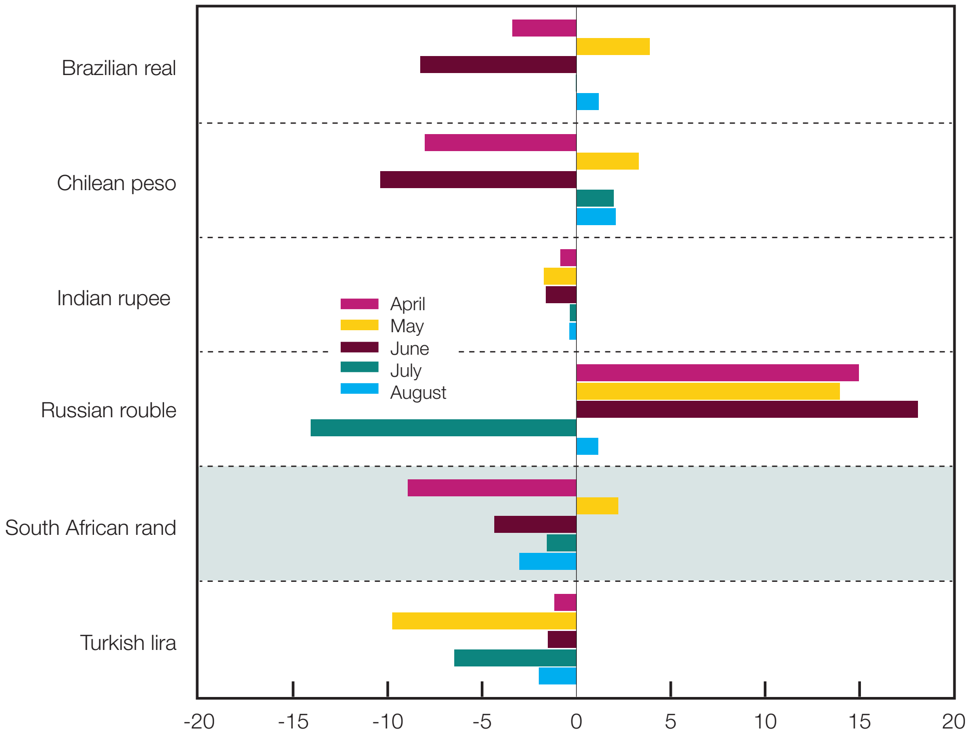
Sources: Refinitiv and SARB

Emerging market currencies have remained volatile, with large fluctuations against the US dollar thus far in 2022. Most emerging market currencies depreciated against the US dollar in June and July 2022, affected by global inflationary concerns and higher interest rates in most advanced economies.

The increase of 9.3% in the real effective exchange rate (REER) of the rand between December 2021 and June 2022 reduced the competitiveness of domestic producers in foreign markets.

Emerging market currencies against the US dollar in 2022

Percentage change from month to month

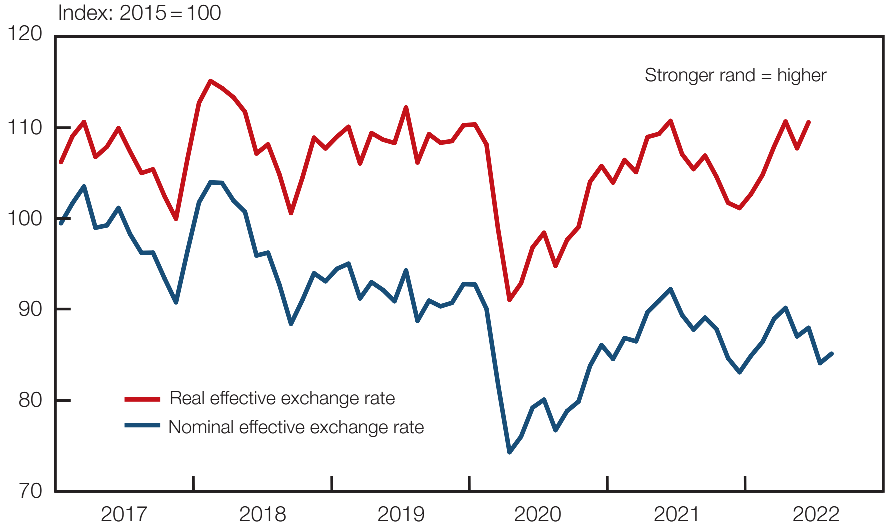


Depreciation (-)/appreciation (+)

Sources: Refinitiv and SARB

Effective exchange rates of the rand

Index: 2015 = 100



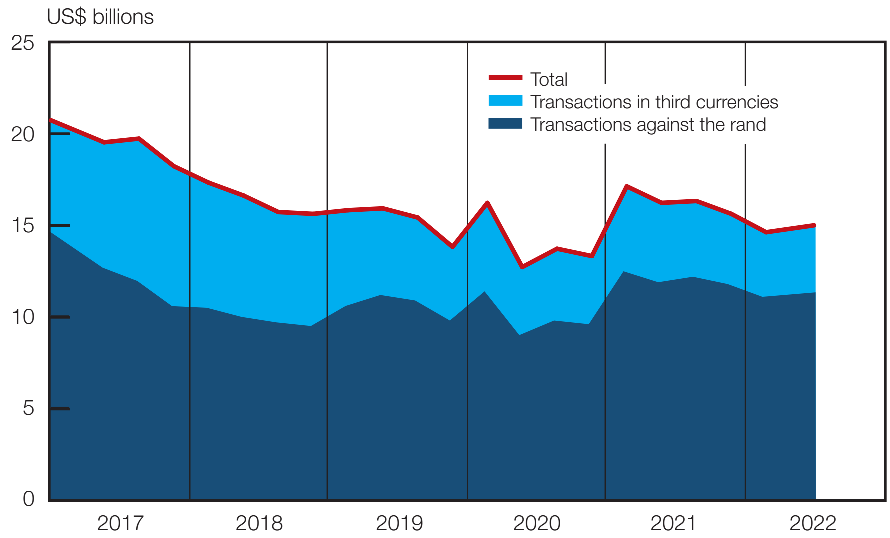
Source: SARB

Turnover in the South African foreign exchange market

The net average daily turnover[15] in the South African foreign exchange (FX) market increased by 2.4% from US$14.2 billion in the first quarter of 2022 to US$14.6 billion in the second quarter, following a decrease of 6.4% in the fourth quarter of 2021. FX transactions against the rand increased from US$11.1 billion in the first quarter of 2022 to US$11.3 billion in the second quarter, while transactions in third currencies remained unchanged over this period.

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

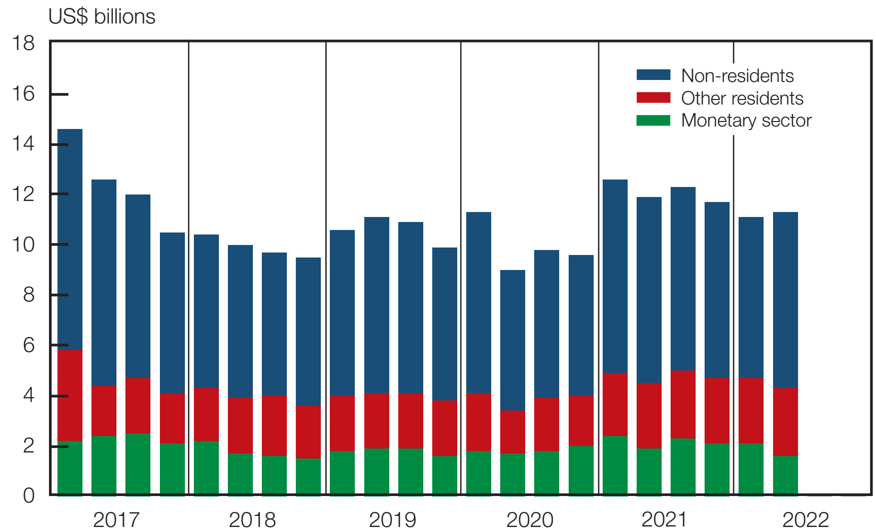
Net average daily turnover in the South African foreign exchange market



Source: SARB

Non-resident participation in the rand market increased for the first time since the first quarter of 2021, when it increased from US$6.4 billion in the first quarter of 2022 to US$7.0 billion in the second quarter. Resident participation increased from US$2.6 billion to US$2.7 billion over the same period. By contrast, monetary sector participation decreased from US$2.1 billion in the first quarter of 2022 to US$1.6 billion in the second quarter.

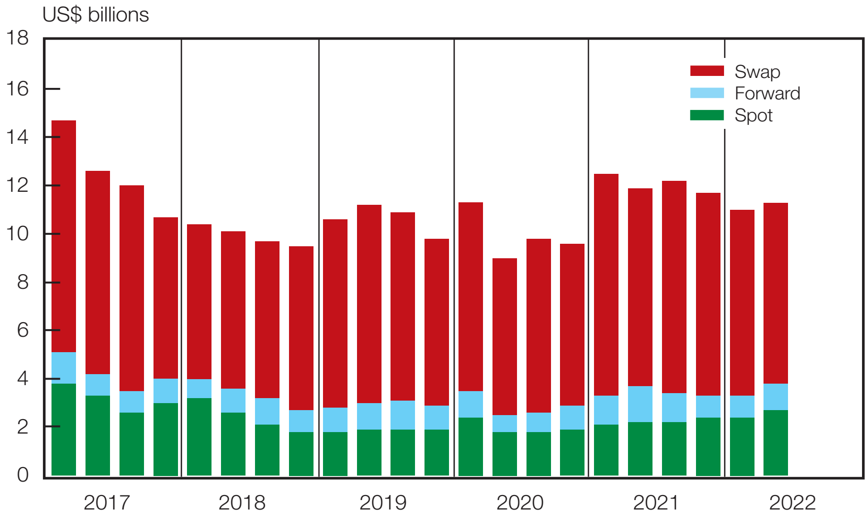
Composition of net average daily turnover in the South African foreign exchange market against the rand, by counterparty



Source: SARB

The value of swap transactions decreased for a third consecutive quarter from US$7.7 billion in the first quarter of 2022 to US$7.5 billion in the second quarter. By contrast, the value of forward transactions increased from US$0.9 billion to US$1.1 billion, while the value of spot transactions increased from US$2.4 billion to US$2.7 billion over the same period.

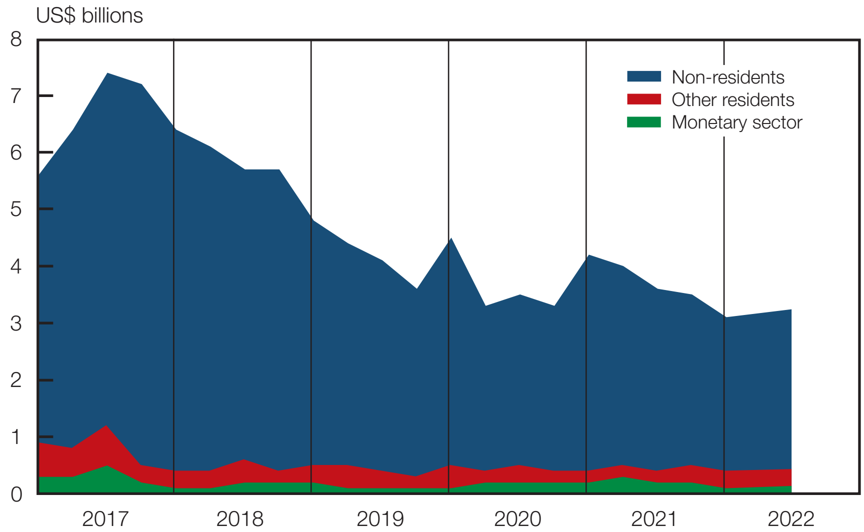
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

Transactions in third currencies remained unchanged from the first to the second quarter of 2022 at US$3.2 billion. Participation by non-residents increased marginally for the first time since early 2021, from US$2.7 billion in the first quarter of 2022 to US$2.8 billion in the second quarter. Transactions by both the monetary sector and residents remained small and averaged US$0.3 billion and US$0.1 billion respectively in the second quarter of 2022.

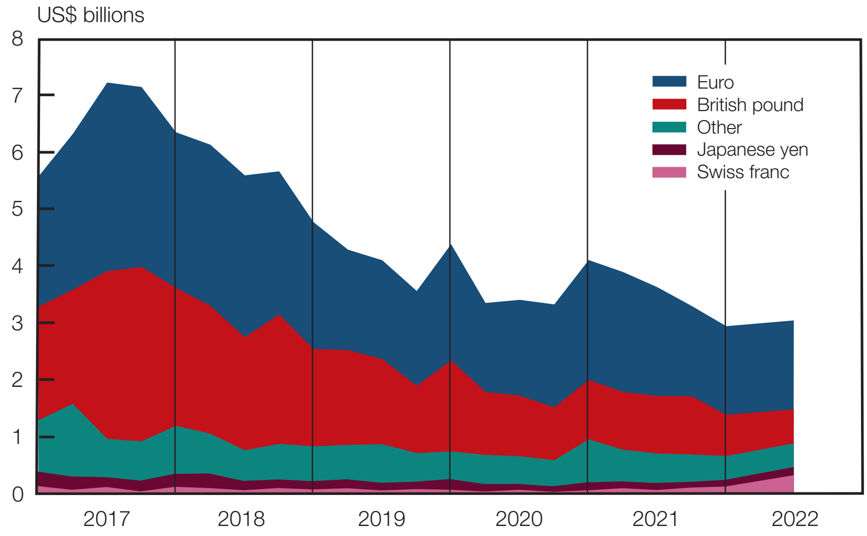
Composition of net average daily turnover in the South African foreign exchange market in third currencies, by counterparty



Source: SARB

US dollar transactions against the euro remained unchanged at US$1.6 billion in the second quarter of 2022, while the US dollar transactions against the Swiss franc increased from US$0.1 billion in the first quarter of 2022 to US$0.3 billion in the second quarter. Transactions of the US dollar against the Japanese yen remained below US$0.1 billion over this period, while decreasing for a second consecutive quarter against the British pound, from US$0.7 billion in the first quarter of 2022 to US$0.6 billion in the second quarter. US dollar transactions against other currencies remained unchanged at US$0.4 billion in the second quarter of 2022.

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



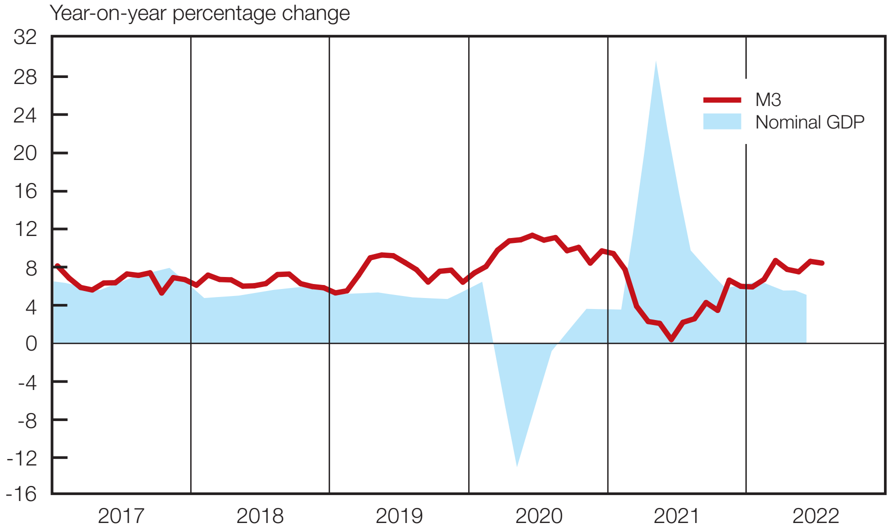
Source: SARB

Monetary developments, interest rates and financial markets

Money supply

Year-on-year growth in the broadly defined money supply (M3) fluctuated between 7.2% in May 2022 and 8.2% in July, following a post-COVID-19 high of 8.4% in March. At these rates, the growth in M3 was again more aligned with that in nominal GDP in the first two quarters of 2022. However, the quarter-to-quarter seasonally adjusted and annualised growth in M3 decelerated from 8.7% in the first quarter of 2022 to 5.8% in the second quarter. The income velocity of M3 increased slightly from 1.46 in the first quarter of 2022 to 1.47 in the second quarter as quarterly growth in nominal GDP moderated more than that in M3.

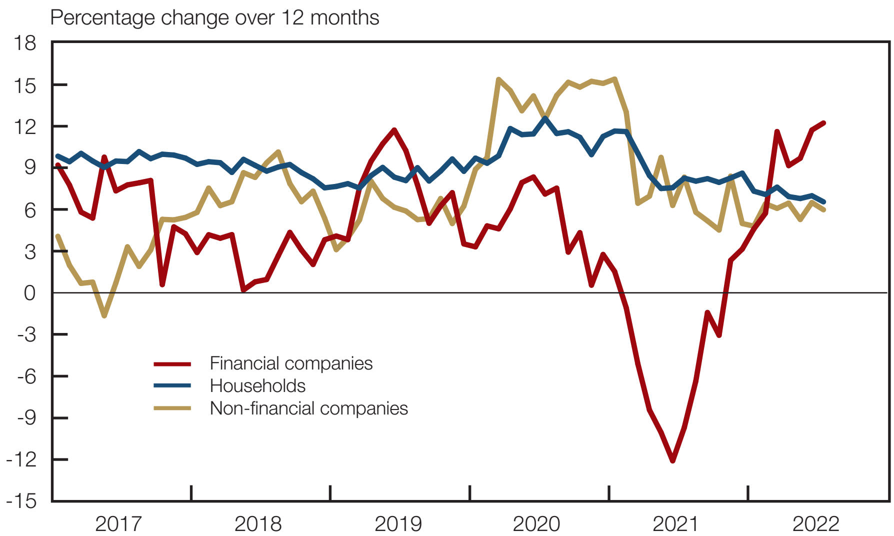
Money supply and gross domestic product



Sources: Stats SA and SARB

Stronger year-on-year growth in M3 in the early months of 2022 reflected the rebound in growth in the deposit holdings of financial companies from a low base in 2021, and later also dividend receipts. Growth in the deposit holdings of financial companies remained robust at 12.2% in July 2022.

Deposit holdings of households and companies

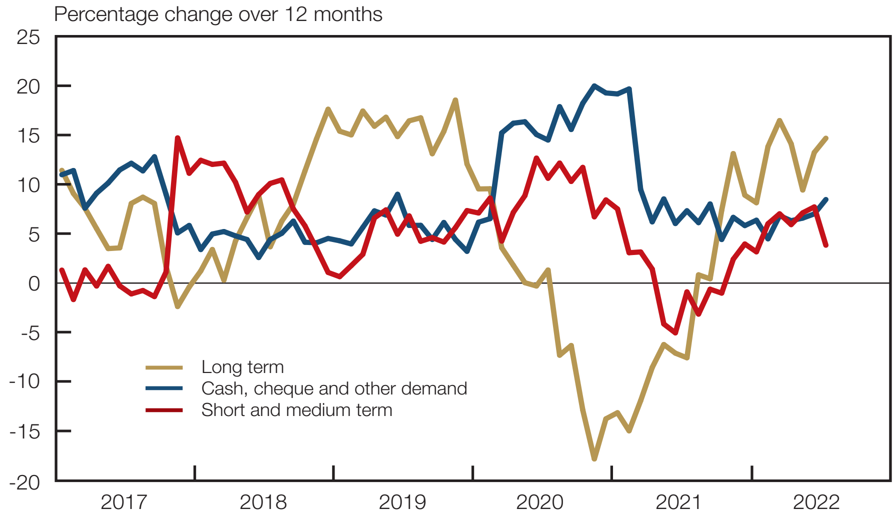


Source: SARB

After moderating sharply in early 2021, growth in the deposit holdings of non-financial companies continued to fluctuate broadly sideways, before increasing from 4.8% in January 2022 to 6.0% in July. Growth in the deposit holdings of households slowed from 8.6% in December 2021 to 6.5% in July 2022 as spending increased with the further relaxation of the COVID-19 restrictions and higher food and fuel prices.

Long-term deposits mostly recorded double-digit year-on-year growth in the first half of 2022, with a peak of 16.5% in March followed by a still high 14.7% in July, amid the consecutive increases in interest rates. Growth in short- and medium-term deposits also continued apace, accelerating from 3.2% in January 2022 to 7.7% in June before slowing to 3.8% in July. By contrast, growth in cash, cheque and other demand deposits has fluctuated relatively sideways since January 2022, as the preference for liquidity waned following the discontinuation of pandemic-related restrictions and rising interest rates.

Deposits by maturity



Source: SARB

The deposit holdings of the corporate sector contracted by R48.9 billion in the second quarter of 2022 compared with the sizeable increase of R116.4 billion in the first quarter. The deposit holdings of financial and non-financial companies both decreased over the period. The decline in corporate deposits coincided with provisional tax payments which were due in June 2022, while withdrawals were also made for operational purposes by, among others, securities trading and fund management companies. By contrast, the deposit holdings of the household sector increased by R30.0 billion in the second quarter of 2022 compared with a slight decrease of R1.6 billion in the first quarter.

M3 holdings of households and companies

	Year-on-year change (R billions)					Percentage of total M3 deposit holdings*
	2021			2022		
	Q2	Q3	Q4	Q1	Q2	
Households	36.9	53.2	26.8	-1.6	30.0	37.3
Companies: Total	-50.8	129.1	37.2	116.4	-48.9	62.7
Of which: Financial	-29.6	94.9	-4.5	93.3	-31.8	32.6
Non-financial	-21.1	34.2	41.8	23.1	-17.1	30.2
Total M3 deposits	-13.9	182.3	64.0	114.7	-18.9	100.0

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

Source: SARB

In a statistical context, the counterparts to the R18.9 billion decline in M3 in the second quarter of 2022 were a decrease in net claims on the government sector of R113.6 billion and a decrease in net other assets of the monetary sector of R67.8 billion, which exceeded increases in the net foreign assets of banks of R91.3 billion and claims on the domestic private sector of R71.2 billion.

Counterparts of change in M3

	Quarterly change (R billions)				
	2021			2022	
	Q2	Q3	Q4	Q1	Q2
Claims on the private sector	4.3	42.1	82.5	103.7	71.2
Net claims on the government sector	-26.3	102.4	3.8	76.7	-113.6
Net foreign assets	27.7	110.3	16.6	-128.2	91.3
Net other assets	-19.7	-72.4	-38.9	62.4	-67.8
Change in M3	-13.9	182.3	64.0	114.7	-18.9

Source: SARB

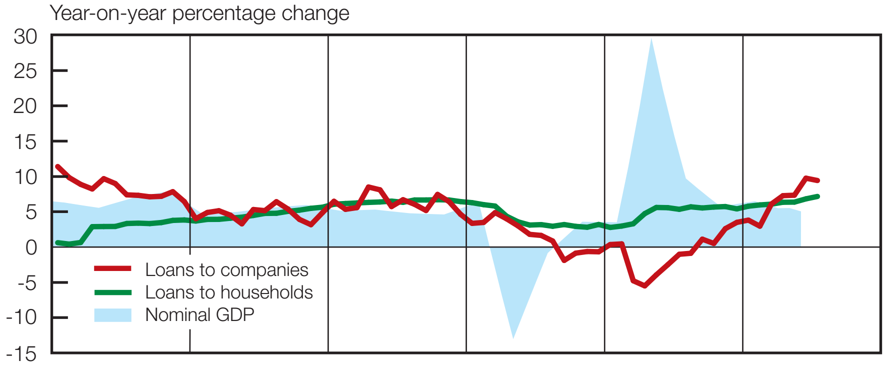
Credit extension

Growth in credit extension by monetary institutions to the domestic private sector quickened in the first half of 2022, with loans to companies increasing at a faster pace than those to households in recent months. Year-on-year growth in total loans and advances accelerated from 4.8% in January 2022 to 8.3% in both June and July – its fastest pace of increase since March 2016. The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector also accelerated further, from 7.2% in the first quarter of 2022 to 8.2% in the second quarter. With quarterly growth in credit extension nearly equalling that in nominal GDP, the credit-to-GDP ratio remained at 58.5% in both the first and second quarter of 2022.

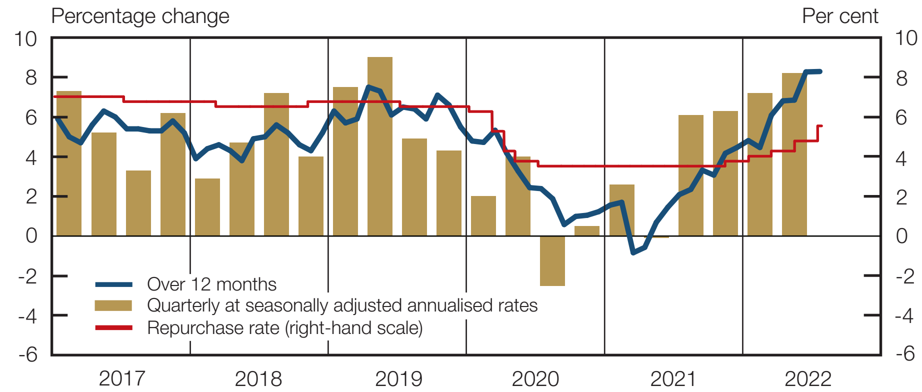
Growth in loans and advances to companies accelerated briskly from 3.8% in January 2022 to 9.4% in July, underpinned by increased demand for especially general loans by non-financial companies. Growth in loans and advances to households fluctuated at around a pre-COVID-19 average of 6.2% in the first half of 2022 before accelerating to 7.2% in July.

The increase in credit extension to the corporate sector more than doubled from R28.2 billion in the first quarter of 2022 to R64.2 billion in the second quarter – the largest increase since the outbreak of COVID-19. The strong increase in bank credit to corporates reflected demand for general loans by non-financial companies and the increased utilisation of overdraft facilities, which coincided with provisional tax payments that were due in June. This was further supported by increased demand for credit by financial companies over this period. Credit extension to the household sector increased by R29.1 billion in the second quarter of 2022, almost double the increase of R14.5 billion during the same period in 2021, but well below the R40.1 billion increase recorded in the first quarter of 2022. Although households' demand for credit was fairly broad-based across the various types of credit, mortgage advances and instalment sale credit contributed the most.

Bank loans and gross domestic product



Total loans and advances to the private sector



Sources: Stats SA and SARB

Credit extended to households and companies

	Quarter-on-quarter change (R billions)					Year to date	Percentage of total loans and advances*
	2021			2022			
	Q2	Q3	Q4	Q1	Q2		
Households	14.5	26.5	29.4	40.1	29.1	69.1	50.2
Companies: Total............................	-0.6	22.3	58.2	28.2	64.2	92.4	49.8
Of which: Financial	4.0	5.7	8.4	-6.5	14.1	7.6	11.6
Non-financial...............	-4.6	16.6	49.8	34.8	50.1	84.8	38.2
Total bank loans and advances	13.9	48.8	87.6	68.3	93.2	161.5	100.0

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

Source: SARB

Growth in *credit extension to companies* was supported by an expansion in nearly all the credit categories. General loans to companies (with a weight of 53%) expanded by 11.5% year on year in June 2022 and 12.8% in July – these rates were last recorded in 2017. Non-financial companies in the consumer goods production and energy-related sectors, such as petrochemicals and renewable energy, were among those that utilised general loans the most in the second quarter of 2022. In addition, companies involved in, among other things, agricultural processing and trade required operational seasonal funding. The utilisation of overdrafts also continued to increase, with growth fluctuating at around 18% in the first seven months of 2022. Likewise, credit card advances have continued to increase at double-digit rates thus far in 2022, although moderating somewhat since 2021. Demand for delivery vehicles amid growing online purchases supported the gradual acceleration in growth in instalment sale credit to companies to a post-COVID-19 lockdown high of 7.6% in July 2022.

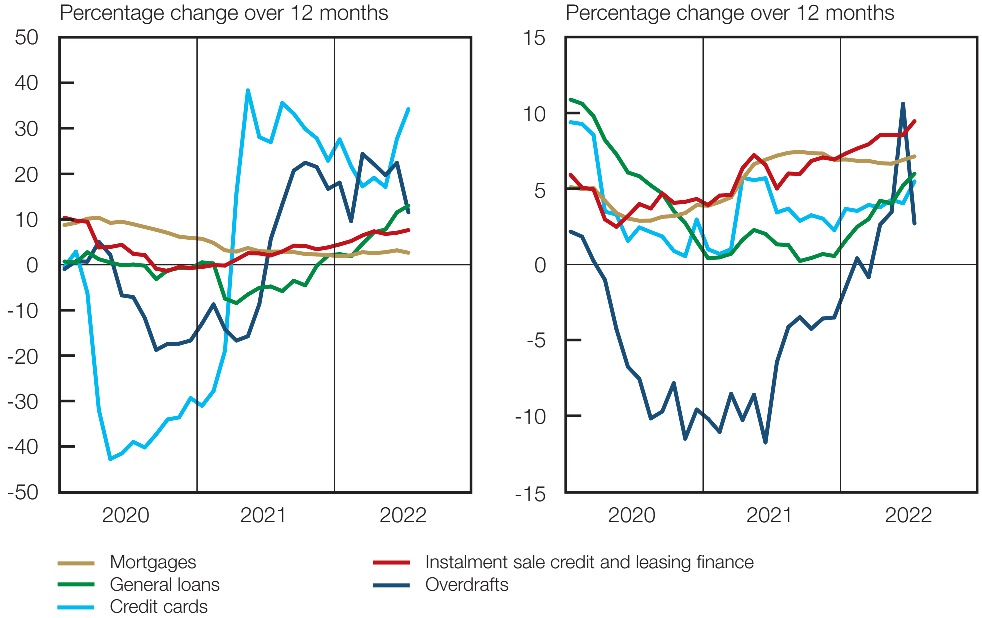
Selected loans and advances

Corporate sector

Percentage change over 12 months

Household sector

Percentage change over 12 months

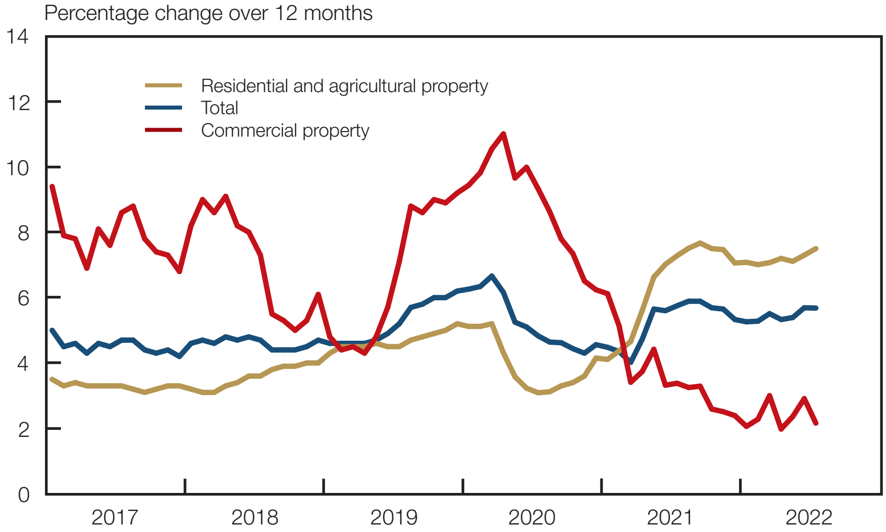


Source: SARB

Broad-based growth in *credit extension to the household sector* across the various types of credit continued apace in 2022. However, growth in mortgage advances to households moderated somewhat from a 12-year high of 7.4% in August 2021 to an average of 6.9% in the first seven months of 2022. Growth in instalment sale credit to households edged higher from 7.3% in January 2022 to a post-lockdown high of 9.5% in July. Growth in credit card advances to households remained steady at around 4.1% in the first seven months of 2022. By contrast, growth in general (mostly unsecured) loans to households accelerated from 1.6% in January 2022 to 6.0% in July. Households' utilisation of overdrafts (with a weight of only 2%) remained volatile and briefly rebounded strongly to 10.6% in June 2022, mostly reflecting base effects following the sharp contraction in 2021, before decelerating to 2.7% in July.

Mortgage advances

Percentage change over 12 months



Source: SARB

Growth in mortgage advances on commercial property seems to have bottomed out at around 2–3% in the period from March 2021 to July 2022 – far below pre-pandemic levels and the peak of 11.0% in April 2020. Growth in mortgage advances on residential and agricultural property averaged around 7% in the first seven months of 2022. On aggregate, growth in total mortgage advances decelerated from a recent high of 5.9% in September 2021 to 5.3% in January 2022, before accelerating slightly to 5.7% in July.

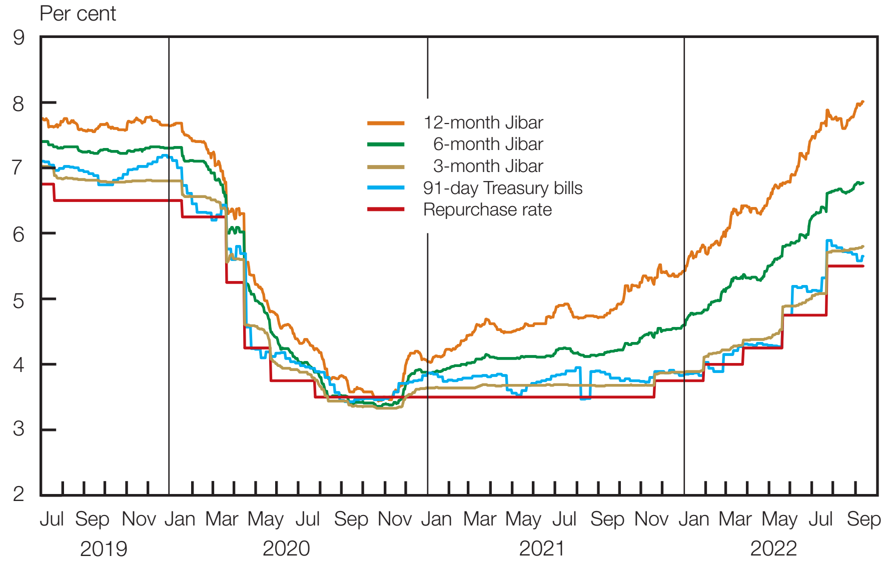
Interest rates and yields

The Monetary Policy Committee (MPC) of the SARB continued to tighten monetary policy by increasing the repurchase (repo) rate by 75 basis points in both July 2022 and September. The risks to the domestic inflation outlook were assessed to be on the upside, primarily impacted by higher food and fuel prices as well as the emergence of second-round effects following the sharp increases in these prices. Nonetheless, the MPC still regarded the level of the repo rate as supportive of credit demand.

Domestic short-term money market interest rates increased further in 2022, tracking the cumulative 275 basis point increase in the repo rate at six consecutive MPC meetings since November 2021. Money market rates were also affected by the acceleration in consumer price inflation and changes in global risk sentiment, while the appreciation in the exchange value of the rand since the second half of July 2022 to mid-August moderated the upward trend of these rates somewhat. On balance, the 3-month Johannesburg Interbank Average Rate (Jibar) increased by 91 basis points from 4.89% on 1 June 2022 to 5.80% on 9 September. Increases in the longer-term rates were sometimes even more pronounced, with the benchmark 12-month Jibar increasing by 113 basis points from 6.88% on 1 June 2022 to 8.01% on 9 September.

The tender rate on 91-day Treasury bills (TBs) increased by 114 basis points from 4.75% on 1 June 2022 to 5.89% on 22 July, broadly following the increases in the repo rate. The increase in the tender rate was further fuelled by lower demand from private sector banks that preferred to retain surplus liquidity to provide for coupon payments on government bonds. Subsequently, the tender rate on 91-day TBs declined to 5.65% on 9 September when demand increased.

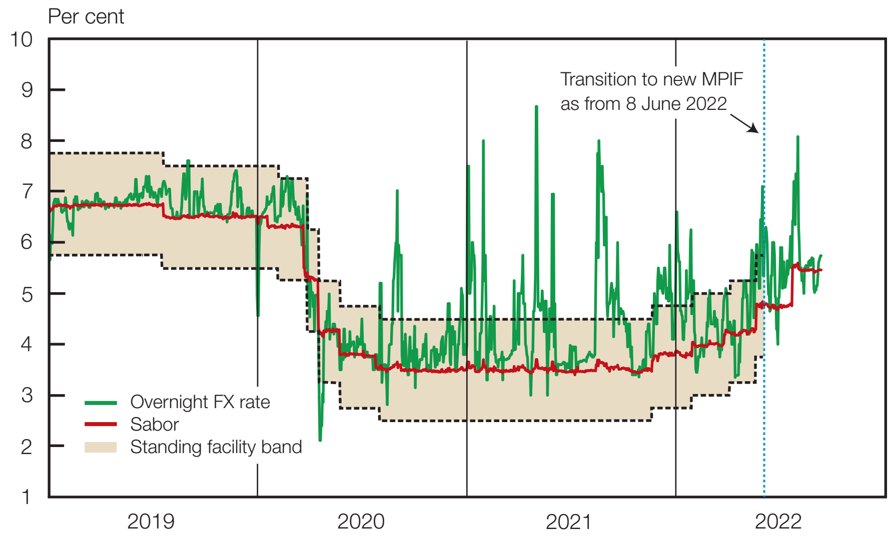
Money market rates



Source: SARB

The South African Benchmark Overnight Rate (Sabor) remained closely aligned with the repo rate, increasing from 4.75% on 1 June 2022 to 5.56% in late July, before fluctuating broadly sideways to 5.46% on 9 September. The volatile overnight FX rate reflected demand and supply dynamics and mostly exceeded the repo rate. However, the FX rate fell below the repo rate on occasion, for example, decreasing to 4.00% on 27 June when the SARB allowed FX swaps to mature as part of the transition phase to a new surplus-based monetary policy implementation framework (MPIF). Subsequently, the overnight FX rate increased to a high of 8.08% on 1 August 2022 amid strong demand for liquidity to fund month-end obligations, before once again fluctuating lower to 5.74% on 9 September.

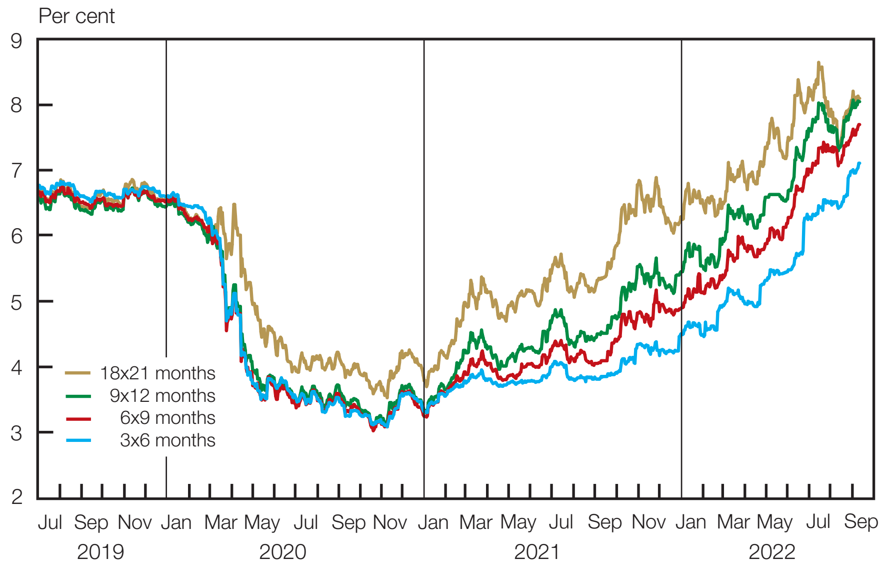
Benchmark overnight rates



Source: SARB

Rates on forward rate agreements (FRAs) continued to trend higher in recent months alongside higher-than-expected domestic inflation outcomes and fluctuations in the exchange value of the rand. The 3x6-month FRA increased by 151 basis points from 5.48% on 1 June 2022 to 6.99%

Forward rate agreements



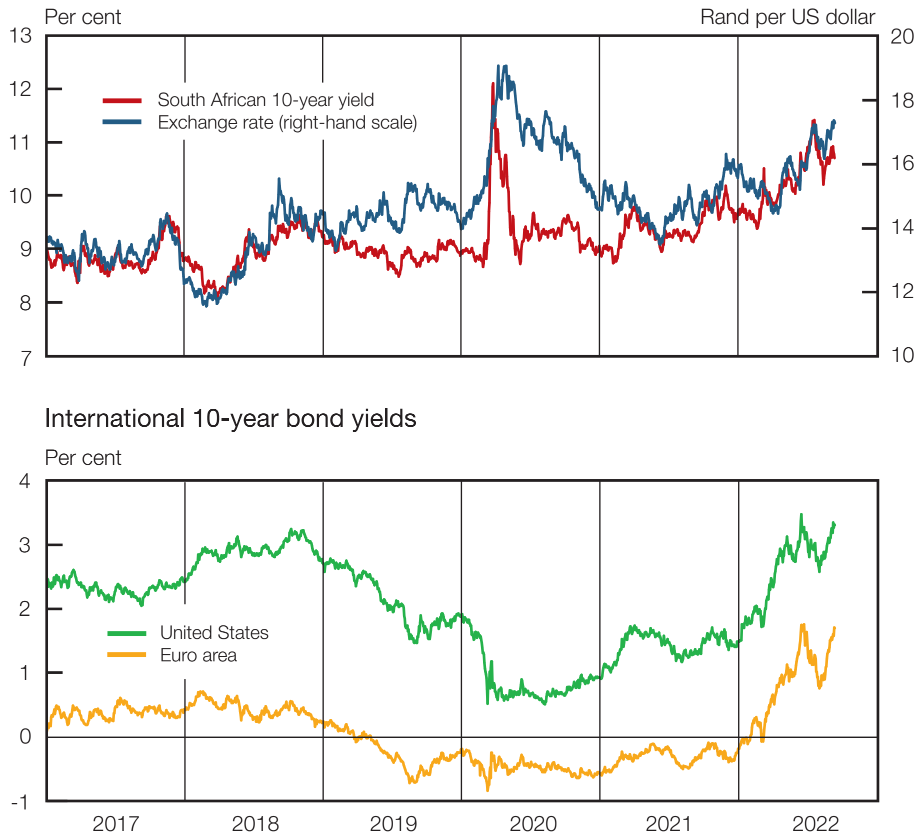
Source: SARB

on 31 August, before rising further to 7.11% on 9 September. The 9x12-month FRA displayed a similar upward trend between June and August 2022, reaching 8.05% on 9 September. The current levels of the short-term FRAs reflect expectations of further increases in the policy rate in the near term. However, the longer-term FRAs seem to be reflecting market expectations of nearing the end of the interest rate hiking cycle.

The weighted average monthly flexible deposit and lending rates offered by private sector banks reflected the increase in the repo and prime lending rates. The rate charged by banks on mortgage advances increased from 7.56% in May 2022 to 8.08% in July. Over the same period, the rate on instalment sale credit increased from 10.01% to 10.42%, while the rate on overdrafts increased from 8.96% to 9.05%. The rate on credit card advances rose by 37 basis points from 13.88% in May 2022 to 14.25% in July. The weighted average interest rate on deposits offered by banks also increased in recent months, with the rate on call deposits increasing from 4.38% in May 2022 to 4.94% in July. The rate offered by banks on 12-month fixed deposits increased from 5.42% to 5.95% over the same period, while the rate on current accounts increased marginally from 1.75% to 1.86%.

Bond yields increased globally after Russia invaded Ukraine in February 2022, while the associated uncertainty contributed to heightened volatility. Higher bond yields reflected the effect of the war on international energy and food prices, which caused unprecedented global inflation and led to an interest rate response that is expected to slow global economic activity.

Government bond yield and the exchange rate



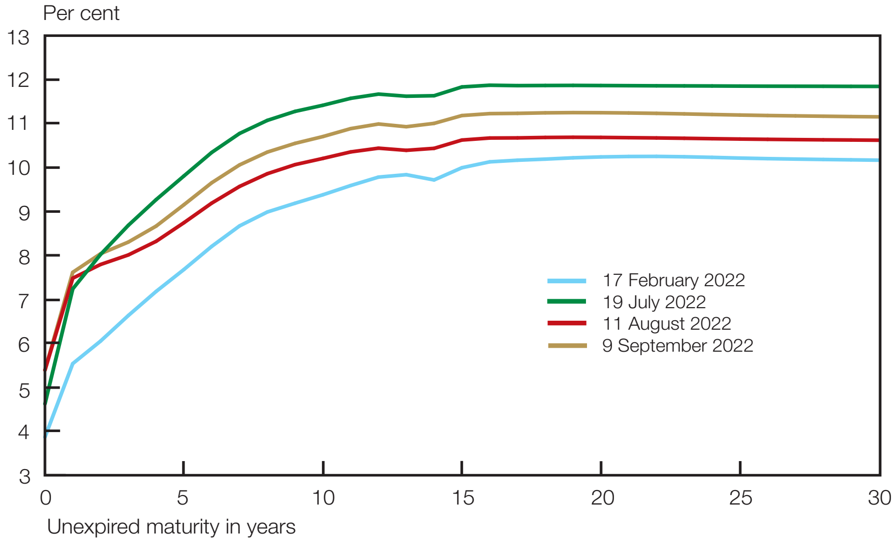
Sources: IRESS, JSE and SARB

Likewise, the *yield on 10-year South African rand-denominated government bonds* issued and traded in the domestic market also became more volatile and increased by 132 basis points from 9.38% on 17 February 2022 to 10.70% on 9 September. This also reflected volatility in the exchange value of the rand along a depreciating trend and persistently higher domestic inflation outcomes, which prompted increases in the repo rate.

Movements in the level of the *yield curve* for longer maturities have reflected increased volatility amid heightened uncertainty thus far in 2022. The slope of the yield curve steepened somewhat and shifted higher across all maturities from 17 February 2022 to 19 July before flattening to 11 August as yields at the short end increased alongside the increase in the repo rate, while the rest of the curve moved lower. The slope of the yield curve then steepened again to 9 September along with the further depreciation in the exchange value of the rand. The yield gap,[16] which had initially widened from 630 basis points on 17 February 2022 to 722 basis points on 19 July, narrowed to 523 basis points on 11 August before increasing to 576 basis points on 9 September.

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

Yield curve



Sources: IRESS and JSE

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+),[17] briefly narrowed from 556 basis points in February 2022 to 368 basis points in March. Subsequently, the spread widened to 433 basis points in August, alongside heightened geopolitical tensions and increased risk aversion due to a worsening global economic outlook. Despite the revision of South Africa's credit rating outlook from stable to positive by S&P in May 2022, South Africa's *sovereign risk premium*[18] on US dollar-denominated government bonds in the eight-year maturity range widened notably from an average of 272 basis points in April 2022 to 440 basis points in July, following severe electricity load-shedding and persistent structural impediments. Thereafter, the sovereign risk premium narrowed somewhat to 341 basis points in August.

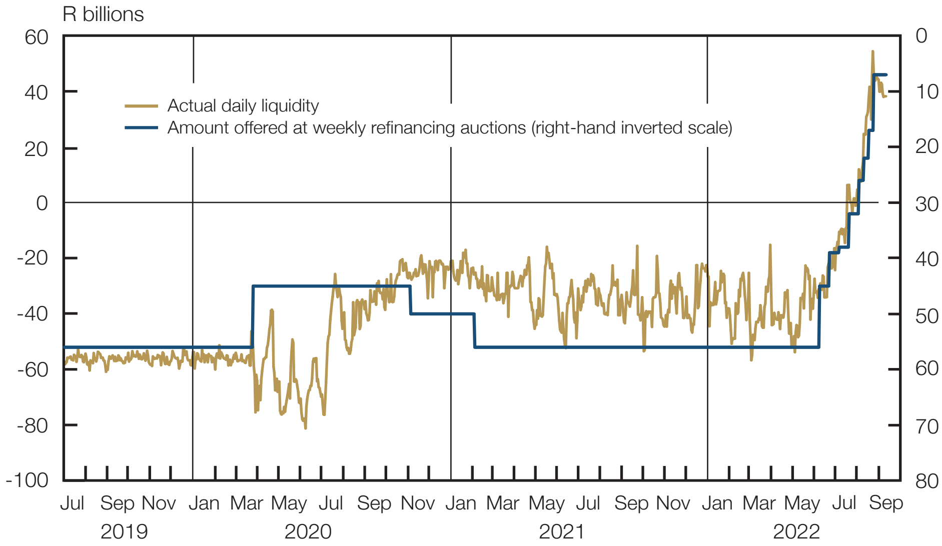
17 The EMBI+ measures the total returns on US dollar-denominated debt instruments of emerging market economies.

18 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

On 8 June 2022, the SARB commenced with the transition from a shortage- to a surplus-based MPIF. Prior to the new framework, the SARB offered R56.0 billion at the weekly main refinancing auctions. With the implementation of the MPIF, the actual daily liquidity requirement of private sector banks fluctuated around an average of R35.9 billion in the second quarter of 2022. The actual daily liquidity requirement varied between a low of R16.5 billion on 29 June when banks deposited surplus funds in the end-of-day South African Multiple Option Settlement (SAMOS) position accounts and utilised the supplementary reverse repo auction to deposit additional funds at the SARB, and a high of R53.8 billion on 4 May 2022 when banks utilised both the supplementary repo auction and cash reserves to cover end-of-day liquidity needs.

Daily liquidity



Source: SARB

While transitioning to the new MPIF, the SARB gradually reduced the amount on offer at the weekly main refinancing auctions and started to inject liquidity into the money market. This was done by unwinding existing sterilisation operations, with the main sources of liquidity emanating from the placement of Corporation for Public Deposits (CPD) funds at banks as well as maturing FX swaps and debentures. At the same time, the interest rates that private sector banks earn on surplus liquidity placed on deposit in the SAMOS payment system have changed and become subject to quota limits. Box 3 provides more detail on the new MPIF.

Box 3 The impact of the new monetary policy implementation framework on money and banking statistics[1]

This box discusses the impact of the South African Reserve Bank's (SARB) new monetary policy implementation framework (MPIF)[2] on money and banking statistics. As from 8 June 2022, the transition from a shortage- to a surplus-based framework for the transmission of monetary policy affected a range of statistics and analysis published in the *Quarterly Bulletin*.

The shortage, or classical cash reserve, system[3] required of banks to borrow funds from the SARB to fund the money market liquidity shortage against eligible collateral.[4] In the classical system, the statistics reflected money market liquidity management practices, both draining operations by the SARB to create a shortage and providing liquidity to fund that shortage.[5]

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1 This box elucidates the impact of the MPIF on money and banking statistics disseminated in the *Quarterly Bulletin*. This is reflected in the changes to the 'Selected money market and related indicators' table on page S–28 and the 'Liquidity management operations' table on page S–29, with spillover to the content and interpretation of the related time series in the balance sheets of the SARB on pages S–2 and S–3.

2 The SARB reviewed the MPIF from April to October 2021 and, after consultation, replaced the classical cash reserve system, or money market shortage-based framework, with a tiered floor surplus-based liquidity framework. For the consultation paper on the new MPIF, see https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2021/Monetary-Policy-Implementation-Framework-Consultation-Paper. Detail on the implemented new MPIF is available at https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2022/mpif-may-2022/A%20new%20framework%20for%20implementing%20Monetary%20Policy%20in%20South%20Africa.pdf

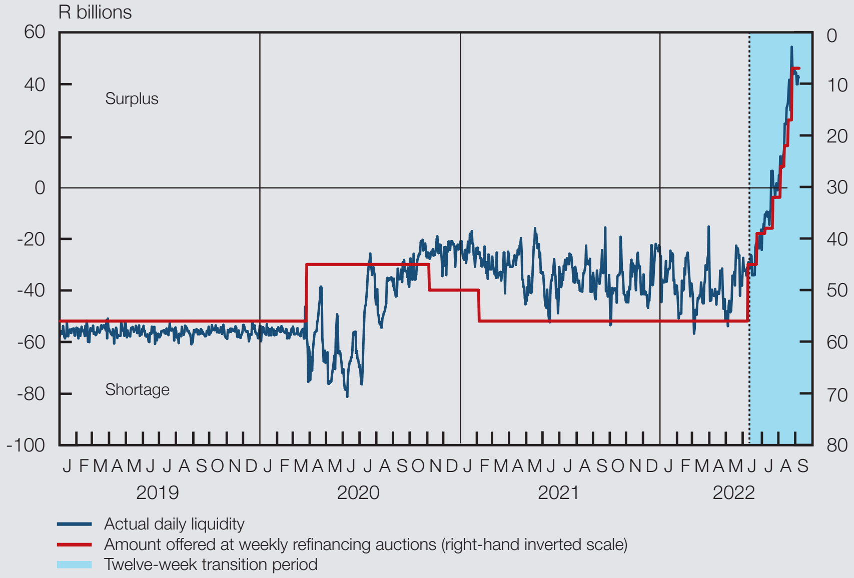
3 In the classical cash reserve system, the SARB created a money market liquidity shortage on a weekly basis, which banks could refinance at the repurchase (repo) rate while also lending and borrowing against each other in the interbank market. In addition, banks utilised standing facilities, borrowing from and depositing with the SARB, at punitive rates.

4 In the classical cash reserve system, banks obtained liquidity from the SARB against eligible collateral for seven days at the weekly main refinancing auctions, at the repo rate. The collateral that qualified to be pledged by participating banks is stipulated in a money market operational notice, available at https://www.resbank.co.za/content/dam/sarb/publications/financial-markets/notices/operational-notices/2022/Operational-notice-Money-Market-Operations-July-2022.pdf.

5 The liquidity management operations to create a liquidity requirement are recorded in the *Quarterly Bulletin's* statistical tables. The 'Liquidity management operations' table on page S–29 reflects the main refinancing auctions, standing facility reverse repo and repo transactions as well as supplementary facilities, whereas the 'Selected money market and related indicators' table on page S–28 reflects liquidity provided and the SARB's liquidity draining operations through foreign currency swaps, reverse repo transactions, SARB debentures and deposits by the Corporation for Public Deposits (CPD) with the SARB. The format of these statistical tables changed as from the September 2022 edition of the *Quarterly Bulletin* to provide for the changes brought about by the new MPIF.

The shortage-based framework was in place since 1998. With the onset of the coronavirus disease 2019 (COVID-19) pandemic, the SARB amended some aspects of the money market liquidity management strategy to ease the strain in various funding markets.[6, 7] Post COVID-19, the demand for SARB debentures was weak and there was a lack of interest in long-term reverse repurchase (repo) transactions.[8] The movement of funds to the Corporation for Public Deposits' (CPD) call account at the SARB from commercial banks was the primary tool used to drain liquidity.[9] Until early 2020, the daily liquidity requirement of banks of R56 billion fluctuated in line with the amount on offer at the weekly repo auctions, and therefore the South African Multiple Option Settlement (SAMOS)[10] system's end-of-day standing facility fluctuated close to zero.

Daily liquidity



Source: SARB

Subsequently, the daily liquidity requirement of banks declined to around R37 billion along with a reduced demand for funding – which included a low of R15.2 billion on 30 March 2022. In the event where a bank might have ended up with surplus liquidity on any given day, it could have been deposited in the SAMOS standing facilities at the SARB, at a punitive rate.[11, 12]

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6 For the SARB press releases, see https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2020/9791 and https://www.resbank.co.za/en/home/publications/publication-detail-pages/media-releases/2020/9805

7 For a discussion of these changes, see 'Box 3: Unpacking special liquidity measures in response to the COVID-19 pandemic' on page 75 in the March 2022 edition of the *Quarterly Bulletin*, available at https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/boxes/2022/march/Box%203%20Unpacking%20special%20liquidity%20measures%20in%20response%20to%20the%20COVID-19%20pandemic.pdf

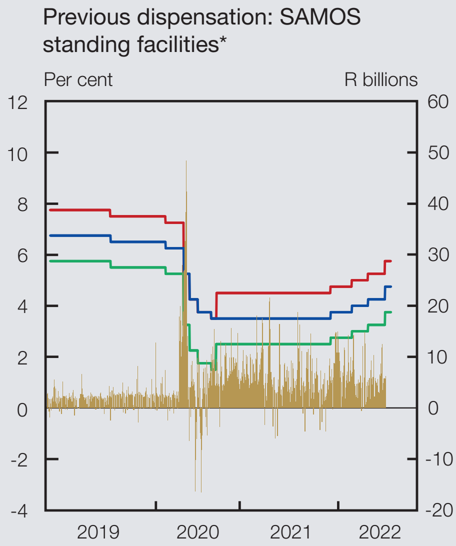
8 Reverse repo transactions constitute the selling of securities under repo contracts by the SARB to drain surplus liquidity from the market. The SARB's reverse repo auctions have maturities of 7, 14, 28 and 56 days.

9 National Treasury can at any time draw down deposit balances in the Inter-Governmental Cash Coordination (IGCC) accounts at the CPD.

10 The SAMOS system is a real-time gross settlement system (RTGS) owned and operated by the SARB. The SAMOS system facilitates the settlement of domestic high-value payments, retail batches as well as bond and equity market settlements. The automated system settles obligations in real time or via delayed settlement arrangements. Each settlement participant has a settlement account with the SARB and has to provide sufficient funds to ensure the smooth functioning of the settlement system. In the event of insufficient funds, the SAMOS system automatically grants a loan against acceptable collateral.

11 The SARB provided overnight liquidity to banks at the repo rate plus 100 basis points and banks deposited surplus funds at the SARB at 100 basis points below the repo rate. During the height of the COVID-19 lockdown in 2020, the lending rate at which the SARB provided overnight liquidity to banks was lowered to the repo rate as part of the measures to assist banks with liquidity.

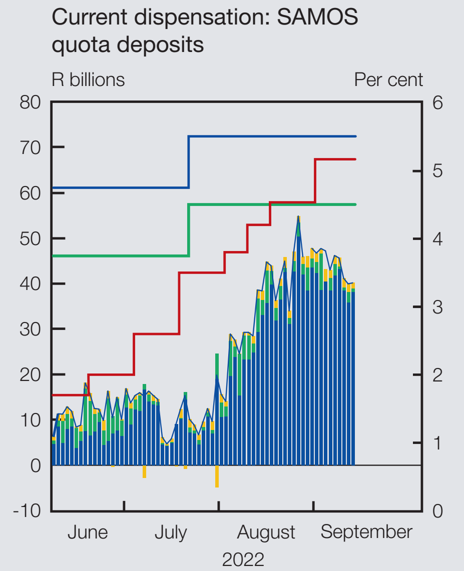
12 See 'other balances' as part of bank deposits in table KB101 on page S–2 and SAMOS account standing facilities in table KB131 on page S–29 in this edition of the *Quarterly Bulletin*.



- Penalty rate (upper band)**
- Repurchase rate
- Penalty rate (lower band)***
- Utilisation of standing facilities (right-hand scale)

* Daily
** Upper band: from 1 January 2019 to 19 March 2020, repo rate plus 100 basis points; from 20 March to 19 August 2020, equal to repo rate; and from 20 August to February 2022, repo rate plus 100 basis points
*** Lower band: from 1 January 2019 to 19 March 2020, repo rate less 100 basis points; from 20 March 2020 to 17 August 2020, repo rate less 200 basis points; and from 18 August 2020 to February 2022, repo rate less 100 basis points

Source: SARB



- Deposits within quota
- RTGS deposits*
- Total quota
- SAMOS in excess of quota (right-hand scale)***
- Deposits in excess of quota
- Total excess deposits
- Repurchase rate (right-hand scale)**

* Deposits of central banks in the regional cross-border real-time gross settlement system (RTGS) of the Southern African Development Community (SADC) do not attract interest.
** Deposits within quota earn the repo rate.
*** Deposits in excess of quota earn the repo rate less 100 basis points.

The new MPIF[13] was phased in over a 12-week period, starting on 8 June 2022. In the new framework, the SARB supplies ample liquidity, while banks earn the repo rate on qualifying excess reserves deposited overnight at the SARB as reflected in the SAMOS[14] system, subject to quotas.[15] The cash reserve requirement of 2.5% of banks' total liabilities remains applicable and is reflected in their cash reserve[16] accounts at the SARB. Banks do not receive any interest on these required reserves.

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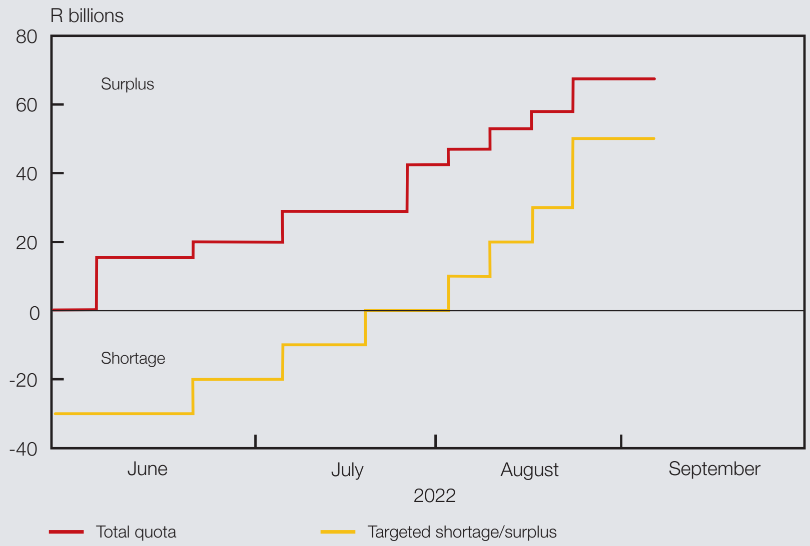
13 In the surplus-based framework, the SARB provides daily liquidity while banks lend and borrow in the interbank market with no obligation to participate in the SARB's weekly auctions.

14 See table KB131 on page S–29 for the SAMOS account standing facilities regarding 'within quota' and 'in excess of quota' amounts as well as total liquidity, which changed from a shortage (-) to a surplus (+).

15 The SARB sets quotas at its desired level of surplus liquidity, with the size of each bank's quota based on the relative size of its balance sheet. Amounts within quota represent surplus liquidity deposited by banks at the SARB at the end-of-day square-off and these funds earn interest at the repo rate. Amounts deposited at the SARB 'in excess of quota' at the end-of-day square-off earn interest at 100 basis points below the repo rate. For more detail, refer to: https://www.resbank.co.za/en/home/what-we-do/financial-markets/monetary-policy-implementation-framework#accordion-b837cc8dc8-item-e00bb21ada

16 Banks could use cash reserve accounts to clear daily positions within the SAMOS system, subject to maintaining an average balance that complies with prudential guidelines.

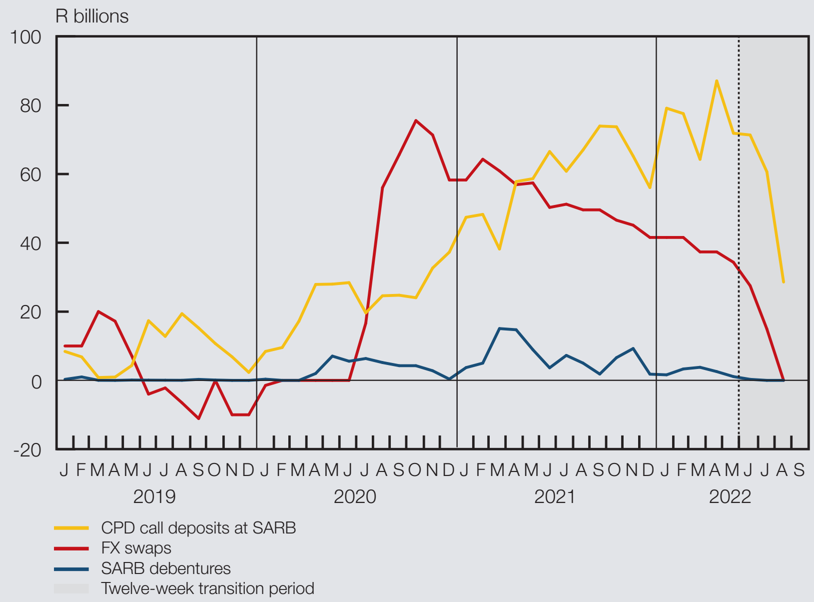
Changes during transition



Source: SARB

During the transition period, the SARB gradually reduced the weekly main refinancing auction from a starting amount of R56.0 billion on 1 June 2022 to R7.0 billion from 24 August 2022. Banks' total quotas increased from R15.4 billion on 8 June to R67.4 billion from 24 August. The shortage was eliminated on 20 July 2022, with the SARB targeting a surplus of R50 billion since the week of 24 August.[17]

Unwinding of SARB liquidity draining operations



Source: SARB

The switch to a surplus liquidity-based framework required the unwinding of liquidity-draining operations through maturing SARB debentures and foreign exchange (FX) swaps as well as the injection of liquidity through switching CPD call deposits from the SARB to banks.

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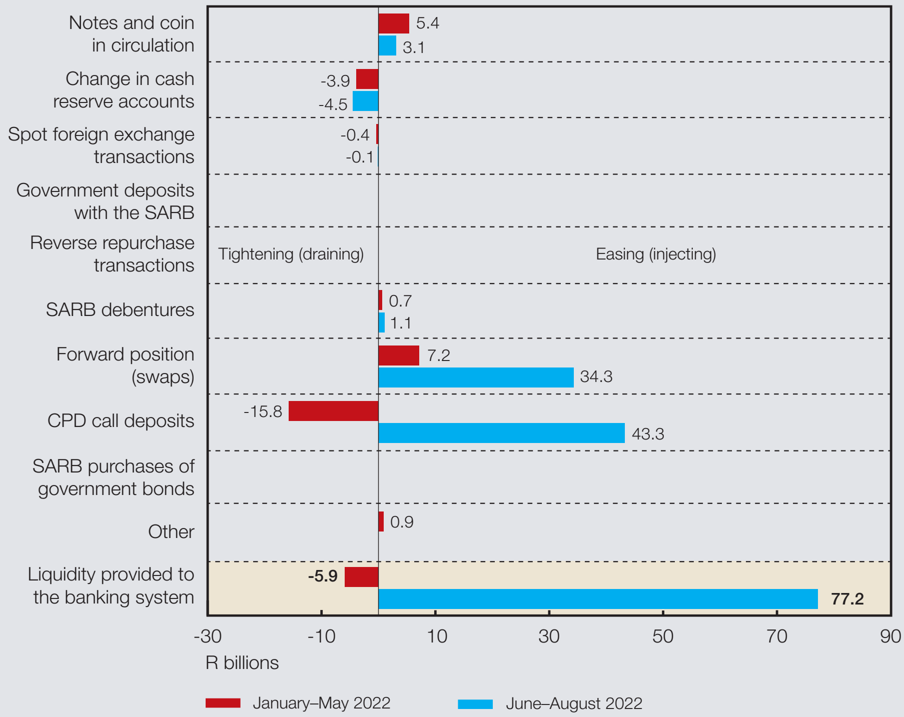
17 The total daily liquidity of banks is determined through their end-of-day square-off transactions within the SAMOS system, movements in banks' cash reserve accounts and any other funding provided to banks through supplementary auctions conducted by the SARB. See table KB131 on page S–29 in this edition of the *Quarterly Bulletin*.

Reverse repo transactions and SARB debenture auctions have now been discontinued but could be reintroduced when required, while FX swaps would be used less frequently. These changes show up in the factors influencing money market liquidity flows.

Factors influencing money market liquidity flows



Source: SARB

Banks' surplus funds deposited at the SARB, which show up in the end-of-day settlement balances in the SAMOS system, are part of the monetary base.[18]

Composition of South Africa's monetary base

R millions

	Dec 2019	Dec 2020	Dec 2021	Aug 2022
Banknotes and coin in circulation outside the SARB	165 574	177 573	177 098	168 579
Private bank deposits at the SARB......................................	126 306	124 891	141 498	181 087
Required reserve balances	114 320	118 832	126 345	133 860
Excess cash reserves and other deposits[1]	11 986	6 059	15 153	47 227
Of which:				
SAMOS deposits (previous dispensation)[2]..................	12 722	5 684	10 850	
SAMOS deposits within quota[3]				38 531
SAMOS deposits exceeding quota[4]............................				8 142
Monetary base	291 880	302 464	318 596	349 666

1 Excluding deposits denominated in foreign currency
2 Received interest at a penalty rate of the repo rate less 100 basis points
3 Received interest at the repo rate
4 Received interest at a punitive rate of the repo rate less 100 basis points

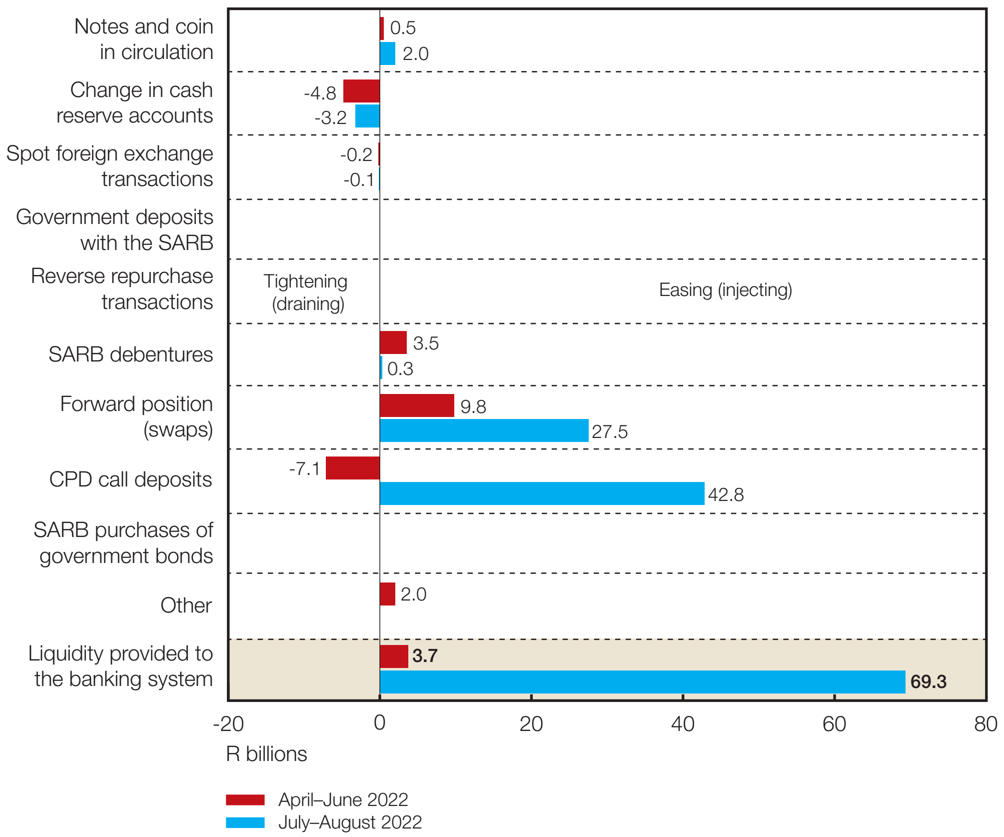
The new MPIF necessitated changes to the statistical tables on pages S–28 and S–29 as from this edition of the *Quarterly Bulletin*. The 'Selected money market and related indicators' table now reflects the change from 'draining liquidity operations' to 'liquidity operations', and the 'Liquidity management operations' table now provides for SAMOS deposit quotas, with total liquidity now in a surplus position.

18 For more detail on the monetary base, see 'Note on recent developments in money creation in South Africa' on page 101 in the September 2020 edition of the *Quarterly Bulletin*, available at https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins-articles-and-notes/2020/10269

In July and August 2022, the average actual daily liquidity in the money market amounted to a surplus of R6.9 billion and R28.6 billion respectively, as the amount on offer initially decreased to R38 billion and then further to R7 billion on 24 August, in line with the transition to the new framework. The total accommodation provided by the SARB to banks also decreased gradually, as the demand for liquidity at the weekly main refinancing auctions decreased in line with the decline in the weekly offer amount. The total accommodation provided decreased to R11.0 billion in July 2022 and further to R3.2 billion at the end of August.

Money market liquidity expanded by a net amount of R3.7 billion in the second quarter of 2022, in contrast to a contraction of R1.8 billion in the first quarter. During the second quarter, maturing FX swaps of R9.8 billion and SARB debentures of R3.5 billion were utilised to transition to a surplus position. A decrease in notes and coin in circulation outside of the SARB expanded money market liquidity by a further R0.5 billion. This was partially offset by an increase of R7.1 billion in deposit holdings of the CPD at the SARB and an increase in the required cash reserve deposits of private sector banks of R4.8 billion. FX transactions by the SARB in the spot market drained a further R0.2 billion. No transactions were settled in long-term reverse repo agreements in the second quarter of 2022 as market participants preferred the returns offered by higher-yielding instruments. As part of the transition to the new framework, the issuance of long-term reverse repo agreements and SARB debentures was phased out from 8 June and 15 June 2022 respectively.

Factors influencing money market liquidity flows



Source: SARB

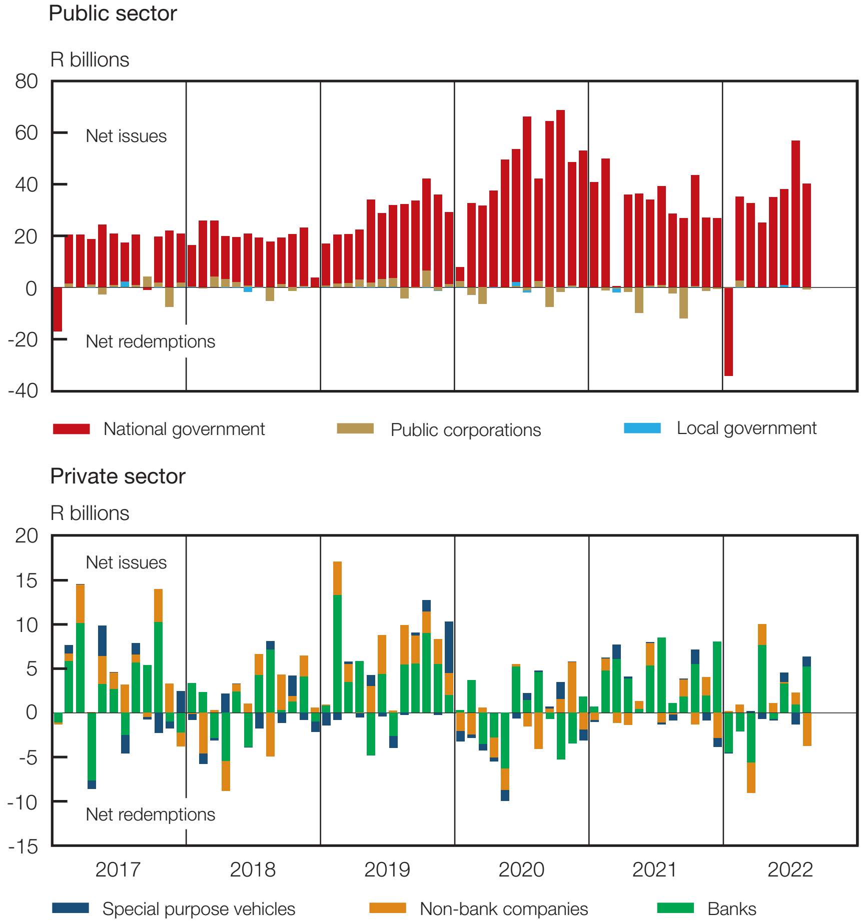
In July and August 2022, money market liquidity expanded by a further R69.3 billion, mainly due to the placement of R42.8 billion in CPD deposits at private banks, the maturing of FX swaps to the value of R27.5 billion as well as a decrease in notes and coin in circulation of R2.0 billion. This was marginally offset by an increase in banks' required cash reserve deposits of R3.2 billion.

Bond market

Lower borrowing requirements led to less funding in the *domestic primary bond market*, which decreased to R230 billion in the first eight months of 2022 compared with R282 billion in the same period of 2021. National government continued to account for most of the public sector's[19] cumulative net issuance of listed bonds at R226 billion in the first eight months of 2022, which was 14.5% less than in the corresponding period of 2021, despite substantial net issues in July 2022. Local governments recorded cumulative net issues of only R0.5 billion in the first eight months of 2022, while public corporations recorded cumulative net issues of R1.6 billion. Together with the cumulative net issues of R3.5 billion by the private sector over the same period, the total amount of outstanding listed debt securities in issue on the JSE Limited (JSE) increased to R4.6 trillion at the end of August 2022.

19 Public sector bond issuance includes issuance by national government, extra-budgetary institutions, local governments as well as public corporations.

Nominal value of net issuance in the domestic primary bond market



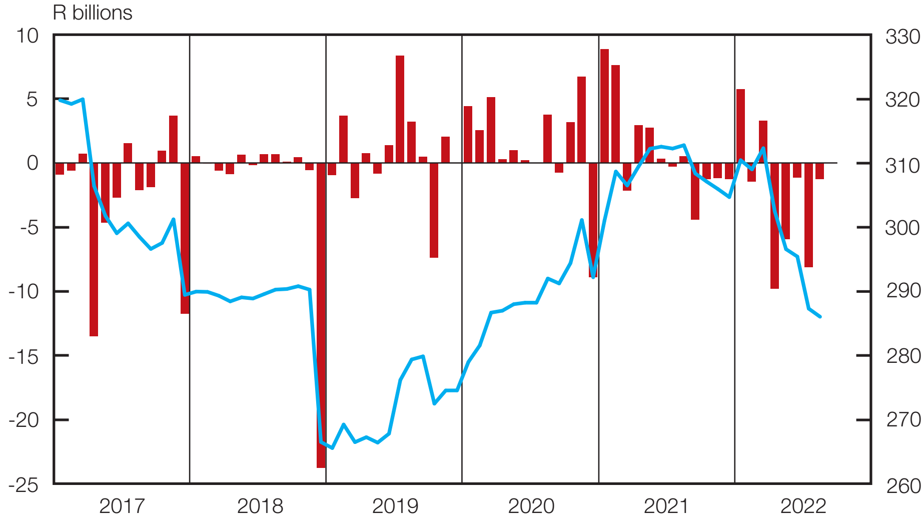
Source: JSE

In addition to the JSE, private financial companies' outstanding nominal amount in issue on the Cape Town Stock Exchange (CTSE) increased from R0.9 billion at inception in December 2021 to R2.3 billion in August 2022.

The daily average *value of turnover* in the domestic secondary bond market of R150 billion during the first eight months of 2022 was 10.1% higher than in the corresponding period of 2021. This was alongside a marginal increase of only 1.7% in the daily average number of trades over the same period. However, non-residents' contribution to total turnover declined from an average of 8.8% in the first eight months of 2021 to 8.0% in the same period of 2022.

Cumulative net redemptions of R18.7 billion in rand-denominated debt securities issued in the *European and Japanese bond markets* during the eight months to August 2022 reduced the outstanding amount in issue from R305 billion in December 2021 to R286 billion at the end of August 2022 – a level last recorded in February 2020. Despite competitive yields, the outstanding amount in issue is likely to decline further with sizeable redemptions scheduled for the coming months.

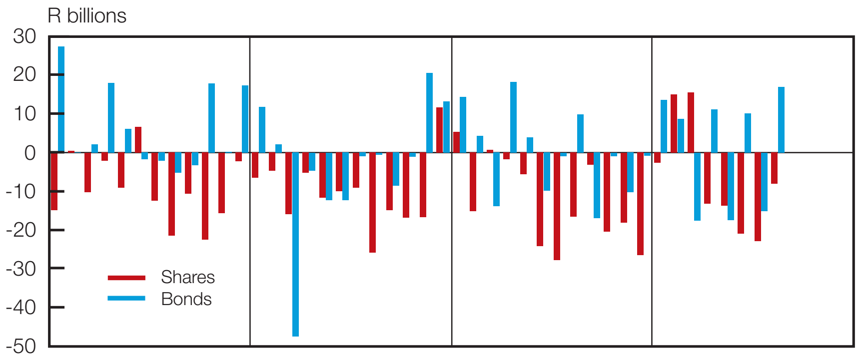
Rand-denominated bonds issued in international markets



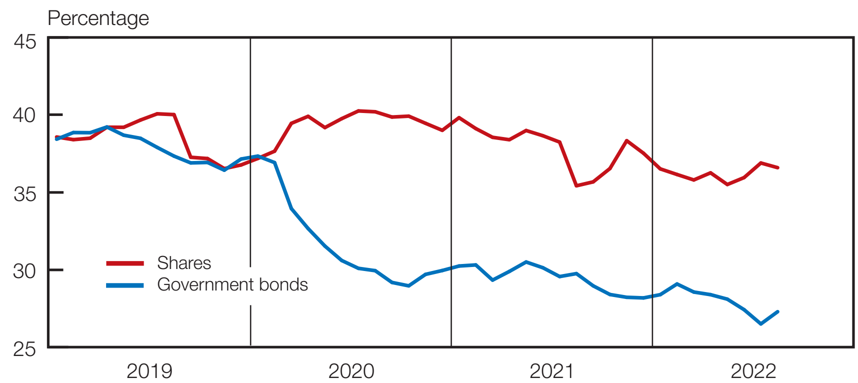
Source: Bloomberg

Cumulative net purchases of JSE-listed bonds by *non-residents* of R10.6 billion in the first eight months of 2022 were less than the net purchases of R26.2 billion in the corresponding period of 2021, according to JSE data. Non-residents' net purchases of R4.9 billion and R3.9 billion in the first and second quarter of 2022 respectively were followed by further net purchases of R1.8 billion in July and August.

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



Non-resident holdings of domestic securities



Sources: JSE, National Treasury and Strate

Non-resident net purchases reflected the weaker exchange value of the rand, while the low level could be attributed to concerns over high domestic and global inflation alongside global monetary policy tightening. Non-resident holdings as a share of total domestic government bonds in issue decreased to a low of 26.5% in July 2022 from 29.1% in February, and a recent high of 30.5% in May 2021, before increasing slightly to 27.3% in August.

Share market

The value of *equity capital raised* in the domestic and international primary share markets by JSE-listed companies declined by 40.0% to R6.6 billion in the first eight months of 2022 compared with the corresponding period of 2021. Companies in the financial and industrial sectors contributed the most to the total value of equity capital raised during the period, at 50.4% and 20.6% respectively. Primary listed companies on the JSE accounted for 88.3% (of which 23.1% also had secondary listings on other bourses) of equity capital raised thus far in 2022, with 63.0% raised through shares issued for cash and 34.7% through share incentive schemes.

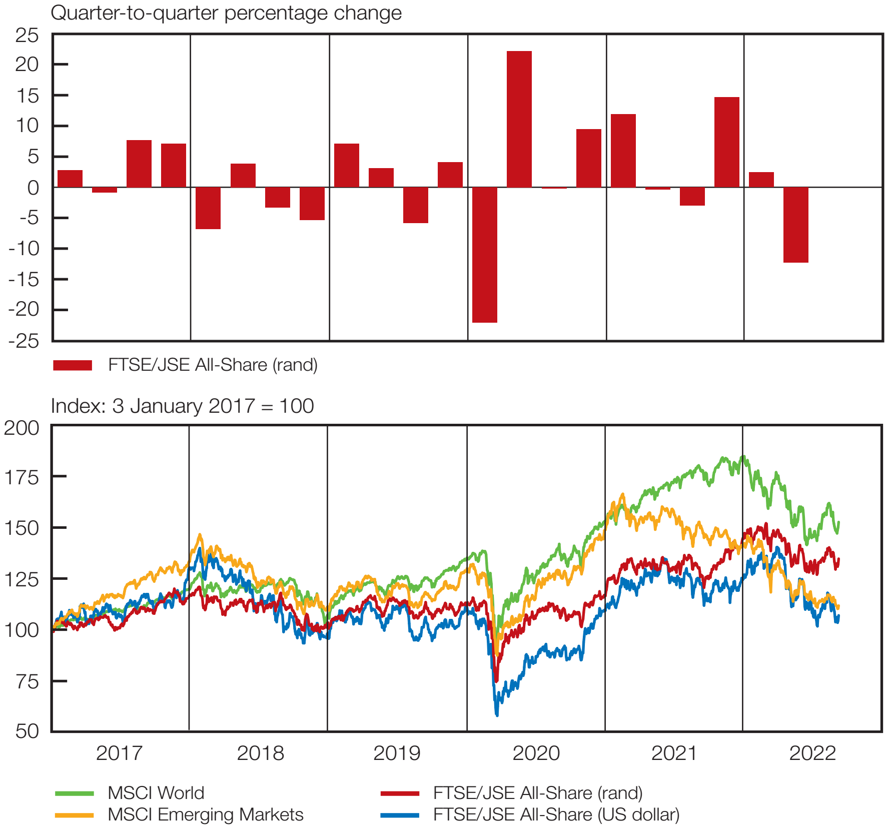
Despite lower volumes traded, the combined *value of turnover* in the secondary share market of the five South African stock exchanges amounted to a similar R4.0 trillion in the first eight months of 2022 compared with the same period of 2021, along with heightened volatility in share prices. The combined market capitalisation of all shares listed on these exchanges declined from an all-time high of R23.2 trillion in January 2022 to R19.4 trillion in August as both the number of shares in issue and share prices decreased.

Cumulative net sales of JSE-listed shares by *non-residents* of R50.9 billion in the first eight months of 2022 were just more than half the R85.0 billion sold in the corresponding period of 2021, according to JSE data. After briefly recording net purchases of R27.9 billion in the first quarter of 2022, non-residents became net sellers to the amount of R47.8 billion in the second quarter and R31.0 billion in July and August, reflecting increased risk aversion on concerns of slowing global economic growth amid higher inflation and further monetary policy tightening. Non-residents' share of JSE market capitalisation decreased to 36.2%, on average, in the eight months to August 2022 compared with 38.4% in the same period of 2021.

Share prices of JSE-listed companies declined in the second quarter of 2022 following increases in the previous two quarters. The FTSE/JSE All-Share Index (Alsi) declined by 12.3% in the second quarter of 2022 – its worst quarterly performance since the outbreak of COVID-19 in the first quarter of 2020. The decline was in line with the trend on international bourses. These declines in share prices globally reflected uncertainty caused by the war in Ukraine which led to much higher inflation and monetary policy tightening by most central banks, along with heightened recession concerns. In US dollar terms, the Alsi underperformed global counterparts with a decline of 21.9% in the second quarter of 2022, while the MSCI World Index and MSCI Emerging Markets Index declined by 16.6% and 12.4% respectively over the same period. Subsequently, the Alsi rebounded by 6.2% from a low of 64 713 index points on 14 July 2022 to 68 708 index points on 9 September. During this period, the share prices of resources companies increased the most at 10.2% followed by industrial companies at 4.9%, with the former buoyed by the high international commodity prices. Sentiment was also buoyed by the South African government's announcement of plans to earnestly address the domestic electricity crisis.

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 11.7 in May, before increasing somewhat to 12.0 in August. By contrast, the *dividend yield* increased from 1.8% in January 2022 to 2.9% in August as dividends declared increased and share prices declined.

Share prices

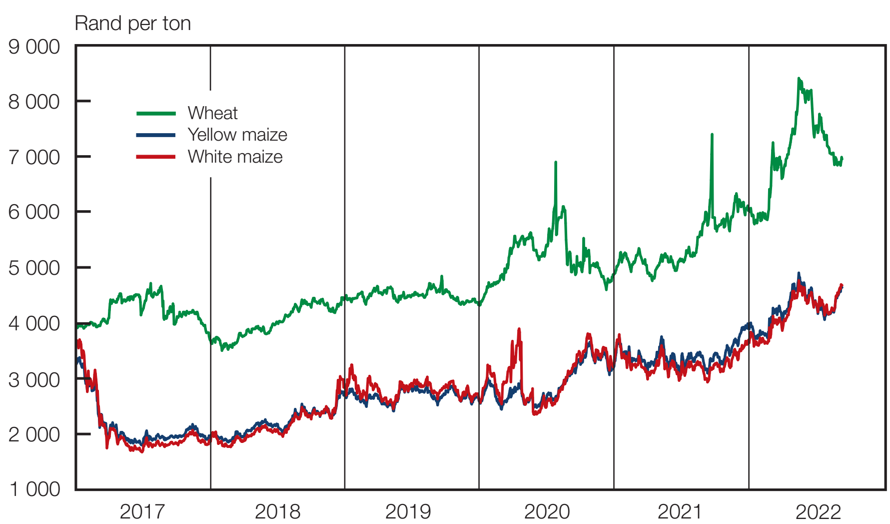


Sources: IRESS and JSE

Market for exchange-traded derivatives

The *spot prices of white and yellow maize contracts* traded on the JSE were volatile in recent months after increasing notably in the first four months of 2022. The spot price of yellow maize initially increased to an all-time high of R4 905 per ton on 16 May 2022 due to increased global demand and the exacerbation of supply constraints by the Russia–Ukraine war. Subsequently, white and yellow maize prices declined by 13.1% to R4 142 per ton and 17.2% to R4 062 per ton respectively on 25 July, along with lower international maize prices, as Ukrainian maize exports resumed for the first time in August since the Russian invasion in February. Thereafter, white and yellow maize prices increased to R4 681 per ton and R4 642 per ton respectively on 9 September.

South African grain prices



Source: JSE

Similarly, the *spot price of domestic wheat contracts* increased to an all-time high of R8 409 per ton on 16 May 2022 before decreasing by 17.4% to R6 950 per ton on 9 September following lower international wheat prices. Domestic wheat prices were also impacted by an increase in the wheat area planted, especially in the Free State province which now accounts for 17.9% of intended wheat plantings in the 2022/23 production season, with the Western Cape province still accounting for the largest share. Wheat prices also declined following an agreement between Russia and Ukraine to resume Ukrainian grain exports.

Turnover in commodity derivates on the JSE increased by 29.2% in the first eight months of 2022 compared with the corresponding period of 2021, reflective of hedging amid significant commodity price movements. Equity derivatives increased marginally, while still dominating overall derivatives turnover on the JSE. By contrast, turnover in currency derivatives decreased by 7.7% over the same period.

Derivatives turnover on the JSE, January to August 2022

Type of derivative	Value (R billions)	Change over one year (per cent)
Equity	4 065	3.5
Warrants	0.7	-56.4
Commodity	941	29.2
Interest rate	1 011	10.8
Currency	471	-7.7

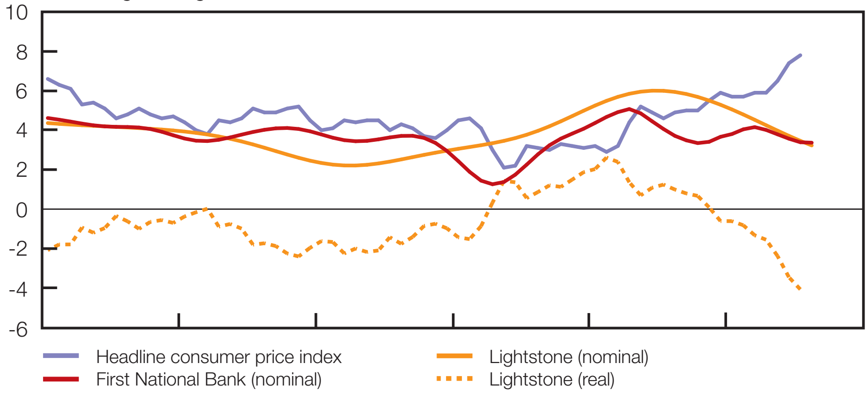
Source: JSE

Real estate market

Growth in nominal residential property prices has slowed since the second quarter of 2021, with the year-on-year rate of increase in the two available house price indices moderating to 3.2% and 3.4% respectively in August 2022 – well below consumer price inflation. Consequently, real house prices have declined on a year-on-year basis since December 2021, and by as much as 4.1% in July 2022. Despite improved domestic economic activity over the past year, the lacklustre growth in house prices reflected slowing property demand due to rising interest rates, high unemployment, low consumer confidence and the effect of higher consumer price inflation on households' purchasing power. Subdued growth in nominal house prices was also evident in the increase in the average time that residential properties remained on the market – from 7.6 weeks in the first quarter of 2022 to 9.4 weeks in the second quarter – with properties in KZN and Gauteng recording the longest time on the market.

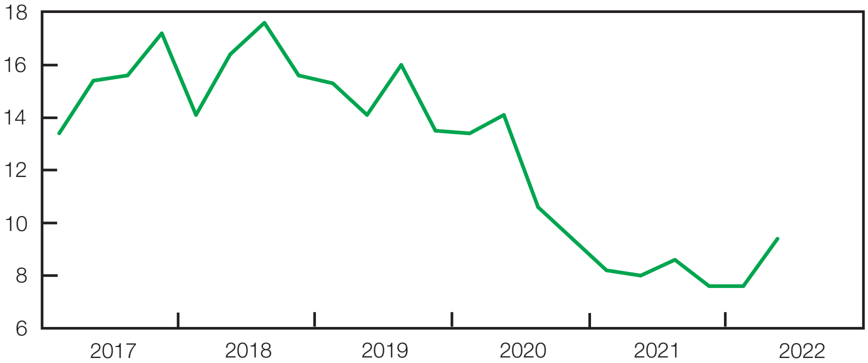
Residential property and consumer prices

Percentage change over 12 months



Average time that residential properties remain on the market

Number of weeks



Sources: FNB, Lightstone and Stats SA

Non-bank financial intermediaries

Net financial flows of non-bank financial institutions[20] declined in the second quarter of 2022, amid a contraction in economic activity. Gross inflows[21] to these institutions increased by 7.8% from the first quarter of 2022 to R1.2 trillion in the second quarter and declined by 1.9% in the first half of 2022 compared with the first half of 2021. Gross inflows to unit trusts increased by 11.3% from the first quarter of 2022 to R752 billion in the second quarter, with inflows from linked investment service providers and the household sector increasing the most, to R195 billion and R292 billion respectively. For insurance companies, gross inflows rose by 5.2% to R278 billion in the second quarter of 2022 due to higher premium receipts. Gross inflows to private and official retirement funds fell slightly by 2.8% to R151 billion over the same period. Expressed as a percentage of GDP, gross inflows to non-bank financial institutions increased by 1.0 percentage points from the first quarter of 2022 to 71.2% in the second quarter.

Gross outflows[22] from non-bank financial institutions increased by 8.6% from the first quarter of 2022 to R1.2 trillion in the second quarter. Gross outflows from unit trusts increased by 10.7% to R749 billion in the second quarter of 2022, with gross outflows from money market unit trusts increasing by 6.2% to R479 billion. Gross outflows from insurers increased by 7.7% from the first quarter of 2022 to R264 billion in the second quarter following an increase in claims paid, other expenditure and policy surrenders by life insurers.

Non-bank financial institutions' net flows[23] declined from R32.9 billion in the first quarter of 2022 to R27.8 billion in the second quarter. Cumulative net flows amounted to R60.7 billion in the first half of 2022, significantly higher than the R9.7 billion recorded in the same period of 2021.

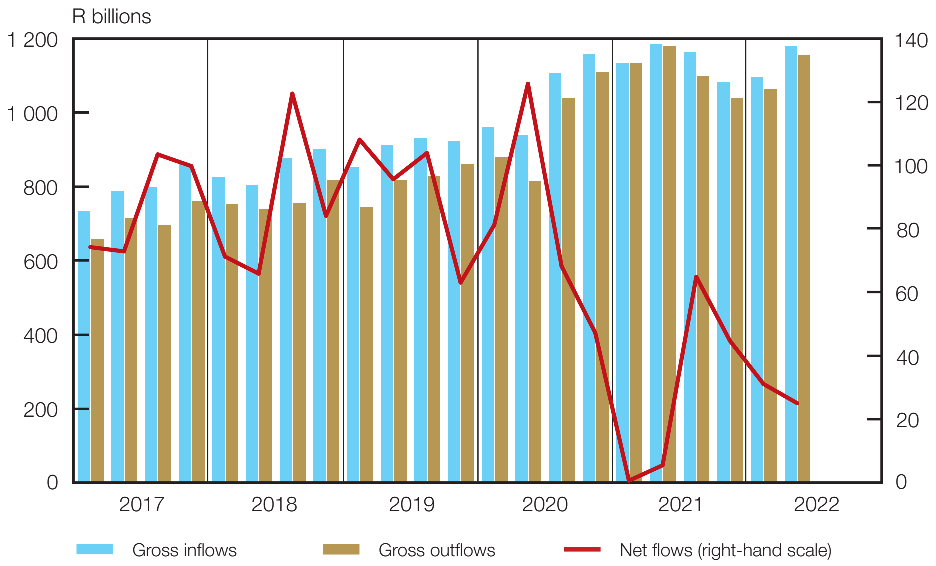
20 These consist of unit trusts, insurance companies as well as private and official retirement funds.

21 These comprise investment and other income, contributions and premiums received as well as sales of units, including switches.

22 These comprise benefits and claims paid, premiums paid on reinsurance outwards, surrenders, repurchases of units, administrative expenses and other expenditure.

23 This is measured as the difference between gross inflows and outflows.

Non-bank financial institution flows

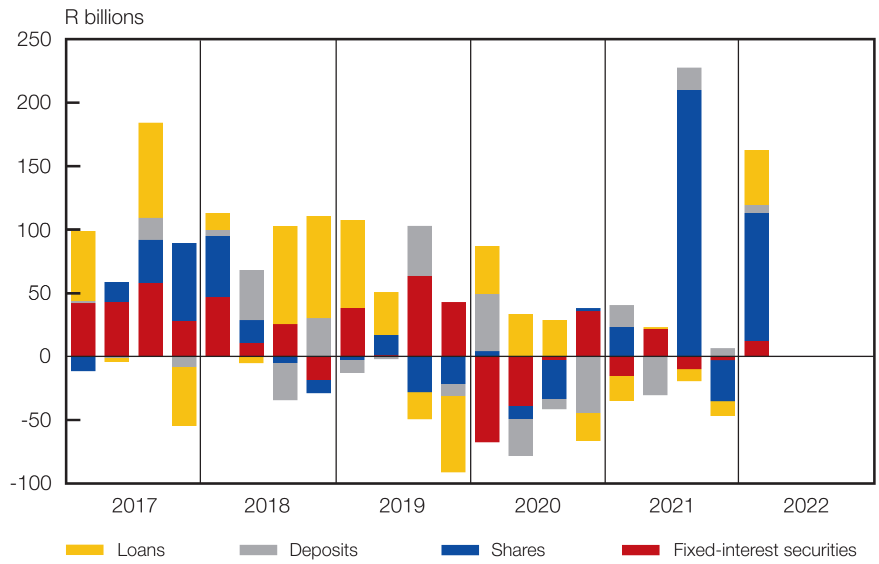


Source: SARB

Flow of funds

Global economic activity lost momentum in the first quarter of 2022, weighed down by heightened inflationary pressures, reimposed lockdown restrictions in parts of Europe and China in response to surging COVID-19 infections, and sanctions following Russia's invasion of Ukraine. *Non-residents'* capital flows switched to net inflows of R21.8 billion to the domestic economy in the first quarter of 2022 following six consecutive quarters of outflows. Non-residents' net purchases of fixed-interest securities of R12.3 billion in the first quarter of 2022 contrast net sales of R3.0 billion in the final quarter of 2021. Similarly, non-residents' net purchases of shares of R101 billion in the first quarter of 2022 contrast net sales of R32.5 billion in the fourth quarter of 2021.

Net acquisition of selected domestic financial assets by non-residents



Source: SARB

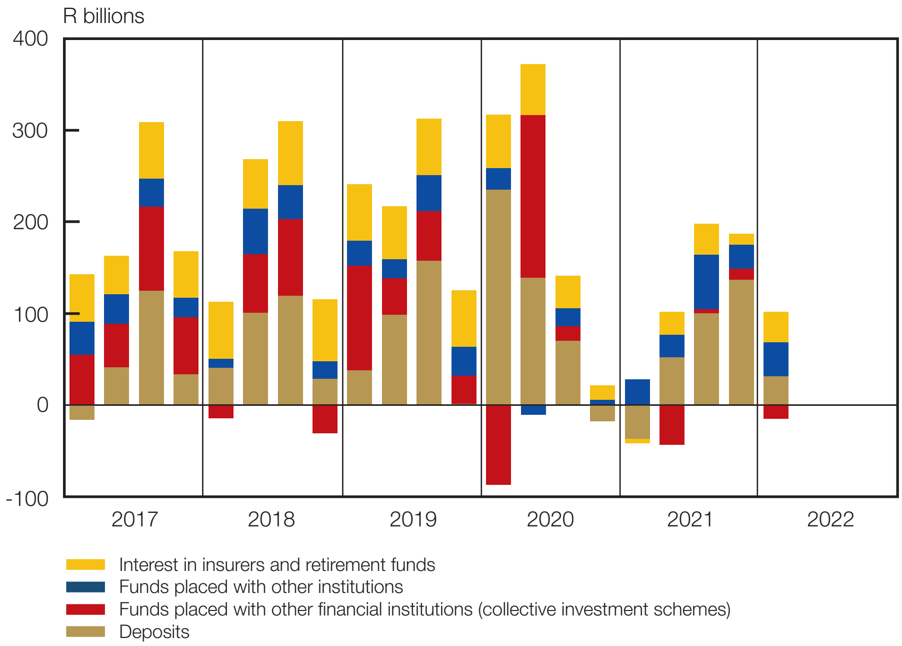
Capital inflows to the domestic economy were also supported by an increase of R6.2 billion in non-residents' deposits with the domestic banking sector. Non-residents extended loans (mainly trade credit and short-term loans) of R43.4 billion to especially the non-financial private sector and the general government, of which R11.1 billion originated from the World Bank.

Although the domestic economy benefitted from global demand for South African goods and services as well as financial assets, total intermediated flows[24] decreased in the first quarter of 2022. *Financial intermediation* through the net incurrence of financial liabilities decreased as deposit holdings increased by only R31.3 billion in the first quarter of 2022 compared with R137 billion in the fourth quarter of 2021, mainly due to withdrawals by central and provincial governments. Funds placed with other financial institutions (collective investment schemes) decreased from an inflow of R12.1 billion in the fourth quarter of 2021 to an outflow of R14.9 billion in the first quarter of 2022, mainly due to the household sector withdrawing funds. By contrast, interest in insurers and retirement funds increased noticeably from R12.0 billion in the fourth quarter of 2021 to R33.2 billion in the first quarter of 2022, mainly due to a significant increase in the net income of life insurers. Financial intermediaries'[25] net acquisition of financial assets also declined in the first quarter of 2022, with net sales of fixed-interest securities of R51.4 billion triggered by the inflationary effect of Russia's invasion of Ukraine and higher global interest rates. Intermediation through shares reflected net sales of R31.4 billion, mostly by insurers and retirement funds as well as other financial institutions. Credit extension by financial intermediaries amounted to an increased R100 billion in the first quarter of 2022 compared with R28.6 billion in the fourth quarter of 2021.

24 Total flows reflect the net acquisition of financial assets plus gross capital formation.

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

Net incurrence of selected financial liabilities by financial intermediaries



Source: SARB

Dissaving by *general government* was higher in the first quarter of 2022 as expenditure increased due to an increase in the number of employees, higher debt-service costs, the extension of the special COVID-19 social relief of distress grants, and increased spending on goods and services. The general government sector's net borrowing requirement increased significantly from R43.2 billion in the fourth quarter of 2021 to R129 billion in the first quarter of 2022. This was mainly financed in the domestic financial markets through the net issuance of R5.2 billion in bonds, which includes the redemption of the *R212* bond. In addition, R12.1 billion was sourced through loans, while deposit holdings decreased by R91.2 billion in the first quarter of 2022 compared with an increase of R64.4 billion in the fourth quarter of 2021.

Gross saving by *public and private non-financial corporate business enterprises* increased by 29.2% in the first quarter of 2022 due to lower seasonally adjusted tax and dividend payments, following a decline of 14.6% in the fourth quarter of 2021. Gross capital formation also gained traction in the first quarter of 2022 as private non-financial corporate business enterprises recorded investment of R109 billion, mainly in machinery and equipment as well as transport equipment. By contrast, capital spending by public non-financial corporate business enterprises decreased marginally to R22.1 billion over the same period. As the increase in corporate saving was more than the increase in gross capital formation, the net lending position of non-financial corporate business enterprises increased from R70.8 billion to R87.4 billion from the fourth quarter of 2021 to the first quarter of 2022. This was channelled to financial derivative exposure of R21.7 billion and shareholding of R79.1 billion in the first quarter of 2022. The demand for credit by non-financial corporate business enterprises increased slightly as they received loans of R52.2 billion in the first quarter of 2022 compared with R51.2 billion in the fourth quarter of 2021, likely indicating an expansion in operations.

The *household sector's* net borrowing position increased from R13.9 billion in the fourth quarter of 2021 to R44.4 billion in the first quarter of 2022 as savings were used to finance gross capital formation. Loans extended to households amounted to R46.5 billion in the first quarter of 2022 compared with R31.9 billion in the fourth quarter of 2021. Households' cash and deposit holdings declined by R0.6 billion in the first quarter of 2022, with interest in insurers and retirement funds edging higher from R8.4 billion in the fourth quarter of 2021 to R24.7 billion in the first quarter of 2022. Increased employment and higher wage settlements could support household finances going forward, despite the hesitant recovery in economic activity and higher consumer price inflation.

Public finance[26]

Non-financial public sector borrowing requirement[27]

The preliminary *non-financial public sector borrowing requirement* reverted to a surplus of R38.4 billion in the first quarter of fiscal 2022/23 from a deficit of R32.4 billion in the same period of the preceding fiscal year. The turnaround emanated from significant surpluses recorded by national government, extra-budgetary institutions, social security funds and consolidated provincial government. National government's surplus could be attributed to significantly higher cash receipts from operating activities due to strong revenue collections along with a moderate increase in expenditure. By contrast, local governments and the non-financial public enterprises and corporations, or state-owned companies (SOCs), recorded cash deficits for the period under review.

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

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

Non-financial public sector borrowing requirement

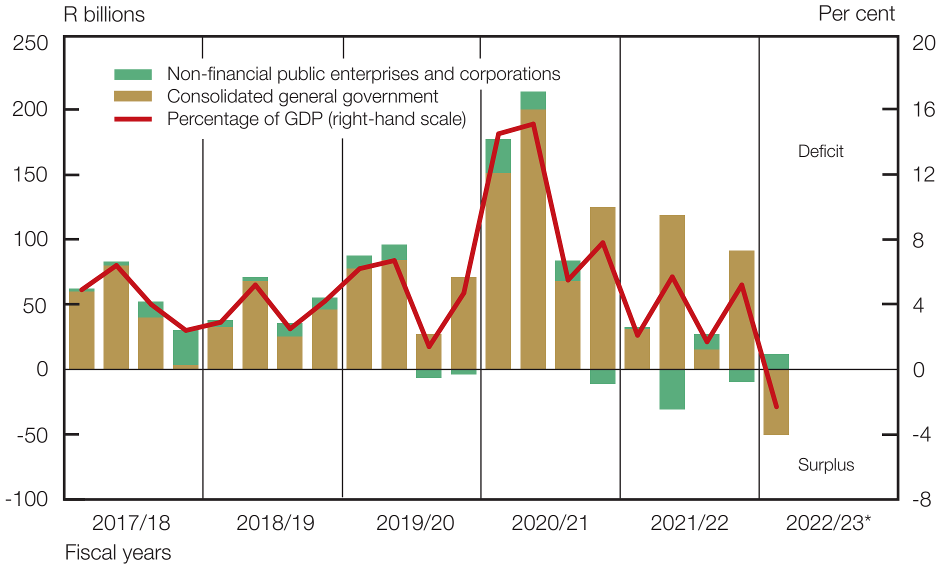
R billions

Level of government	Apr–Jun 2021*	Apr–Jun 2022*
Consolidated general government	31.0	-50.3
National government	21.1	-15.0
Extra-budgetary institutions	-22.4	-40.1
Social security funds	3.2	-16.8
Consolidated provincial government	-4.5	-9.1
Local governments	33.6	30.7
Non-financial public enterprises and corporations	1.4	11.9
Total**	**32.4**	**-38.4**
As a percentage of gross domestic product	*2.1*	*-2.3*

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

As a ratio of GDP, the non-financial public sector borrowing requirement switched to a surplus of 2.3% in the first quarter of fiscal 2022/23 from a deficit of 2.1% in the first quarter of the previous fiscal year.

Non-financial public sector borrowing requirement

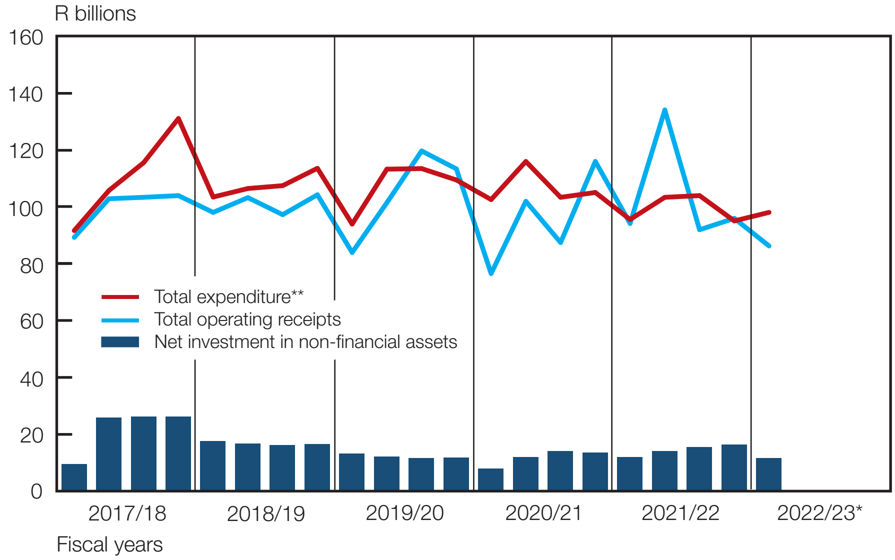


* April–June 2022
Sources: National Treasury, Stats SA and SARB

The non-financial SOCs reported a preliminary cash deficit of R11.9 billion in the first quarter of fiscal 2022/23. This was R10.5 billion more than in the same period a year earlier and reflected lower cash receipts from operating activities and an increase in cash payments for operating activities. Total cash receipts from operating activities decreased by 8.4% year on year to R86.2 billion in the first quarter of fiscal 2022/23, mainly because of less financial support from national government.

Total expenditure of non-financial SOCs, which includes cash payments for operating activities and net investment in non-financial assets, increased marginally by 2.7% year on year to R98.1 billion in the first quarter of fiscal 2022/23. Cash payments for operating activities increased by 3.5% year on year to R86.4 billion, while net investment in non-financial assets decreased by 3.4% year on year to R11.6 billion over the same period.

Financial activities of non-financial public enterprises and corporations



* April–June 2022

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

Source: SARB

Budget comparable analysis of national government finance

National government's cash book balance switched from a *deficit* of R22.7 billion in the first quarter (April–June) of fiscal 2021/22 to a *surplus* of R11.5 billion in the first quarter (April–June) of fiscal 2022/23, as revenue continued to increase at a much faster pace than expenditure. In contrast to an expected primary *deficit*[28] of R85.5 billion for fiscal 2022/23 in the *2022 Budget Review*, a primary *surplus* of R47.3 billion was recorded in the first quarter of the fiscal year.

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

National government revenue increased at a year-on-year rate of 10.0% to R424.0 billion in the first quarter of fiscal 2022/23. This reflected significant increases in all tax categories, except for the fuel levy. Revenue, at 25.6% of GDP in the first quarter of fiscal 2022/23, exceeded the 24.4% recorded in the same period of the previous fiscal year.

National government finances

	Actual Apr–Jun 2021		Actual Apr–Jun 2022		Originally budgeted[1] Fiscal 2022/23	
	R billions	Percentage change[2]	R billions	Percentage change[2]	R billions	Percentage change[3]
Revenue	385.5	60.8	424.0	10.0	1 588.0	1.7
Percentage of GDP	*24.4*		*25.8*		*24.7*	
Expenditure	408.2	11.7	412.5	1.1	1 975.3	4.7
Percentage of GDP	*25.9*		*24.9*		*30.7*	
Cash book balance[4]	-22.7		11.5		-387.2	
Percentage of GDP	*-1.4*		*0.7*		*-6.0*	
Primary balance[5]	9.8		47.3		-85.5	
Percentage of GDP	*0.6*		*2.9*		*-1.3*	
Gross loan debt[6]	4 051.5	17.7	4 461.2	10.1	4 692.2	9.7
Percentage of GDP	*67.9*		*70.1*		*72.8*	

1 *2022 Budget Review*
2 Year-on-year percentage change: actual outcome on previous year's actual outcome
3 Year-on-year percentage change: budgeted on previous year's actual outcome
4 Cash book deficit (-)/surplus (+)
5 Primary deficit (-)/surplus (+)
6 As at 30 June for rand values

Sources: National Treasury, SARS and Stats SA

National government revenue in fiscal 2022/23

Revenue source	Originally budgeted[1] Fiscal 2022/23		Actual Apr–Jun 2022	
	R billions	Percentage change[2]	R billions	Percentage change[3]
Taxes on income, profits and capital gains	894.3	-2.0	266.3	13.0
Of which: Income tax on individuals	587.9	5.8	142.5	11.0
Income tax on companies	269.9	-16.5	112.3	13.8
Payroll taxes	20.6	6.6	4.9	10.2
Taxes on property	20.3	-7.9	5.6	14.6
Taxes on goods and services	600.5	9.3	128.4	3.9
Of which: Value-added tax (VAT) net	439.7	12.5	94.1	12.1
Domestic	475.9	6.0	116.6	8.3
Import	215.5	5.4	45.1	26.1
Refunds	-251.8	-4.0	-67.7	13.7
Fuel levy	89.1	0.3	17.3	-24.6
Other excise duties	58.6	3.8	14.0	1.2
Taxes on international trade and transactions	62.5	4.3	13.2	33.5
Of which: Import duties	61.1	5.2	12.7	33.2
Other revenue[4]	33.6	-23.3	16.4	-11.7
Less: SACU[5] payments	43.7	-5.0	10.9	-5.0
Total revenue	1 588.0	1.7	424.0	10.0

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

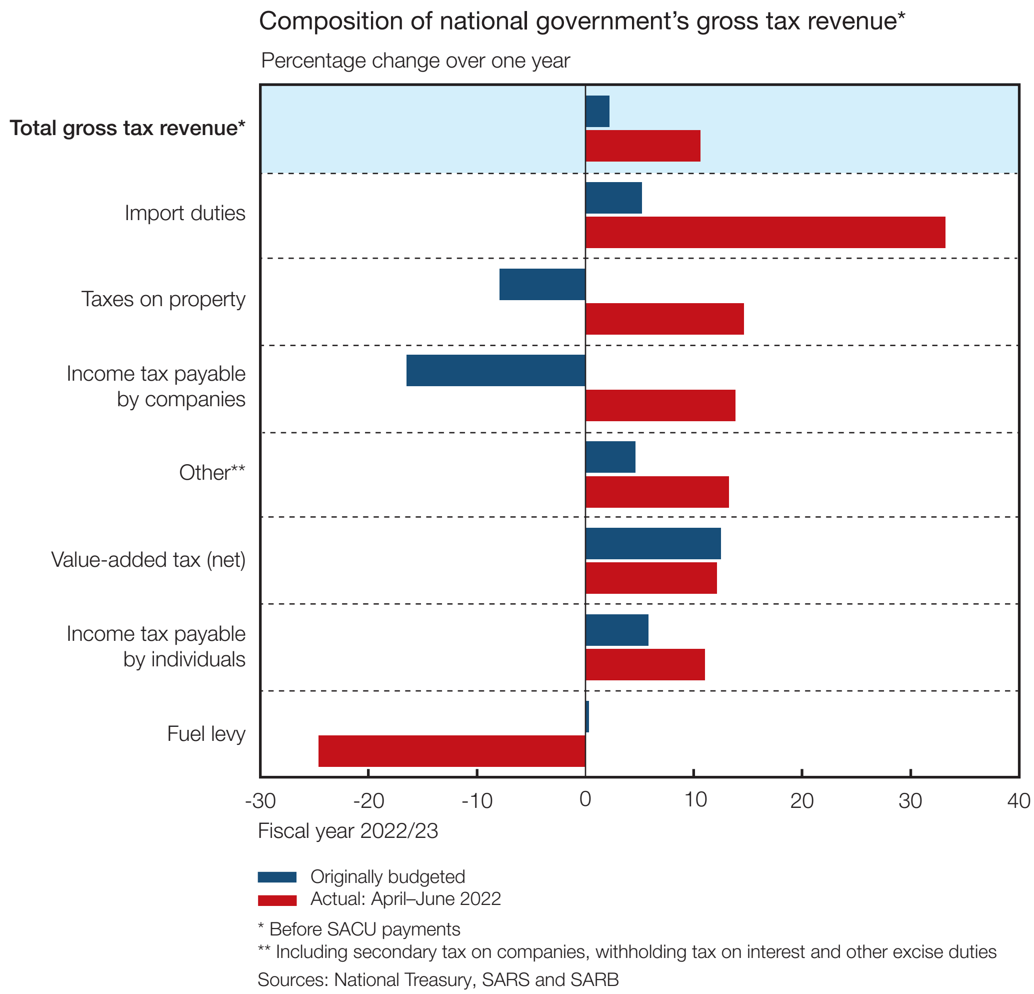
Sources: National Treasury and SARS

Revenue from taxes on income, profits and capital gains (62.8% of the total revenue collected) increased by 13.0% year on year to R266.3 billion in April–June 2022. Personal income tax (PIT) collections of R142.5 billion – the major component of this tax category – increased by 11.0% year on year, largely because of higher pay-as-you-earn (PAYE) receipts. Corporate income tax (CIT) receipts increased by 13.8% year on year to R112.3 billion and reflected higher collections from the finance, manufacturing and transport sectors, which offset lower collections from the mining sector. The *2022 Budget Review* projected slightly lower revenue collections of R894.3 billion from taxes on income, profits and capital gains for full fiscal 2022/23.

29 See http://www.treasury.gov.za/comm_media/press/2022/2022053101%20Joint%20statement-extension%20of%20the%20temporary%20reduction%20in%20the%20general%20fuel%20levy.pdf.

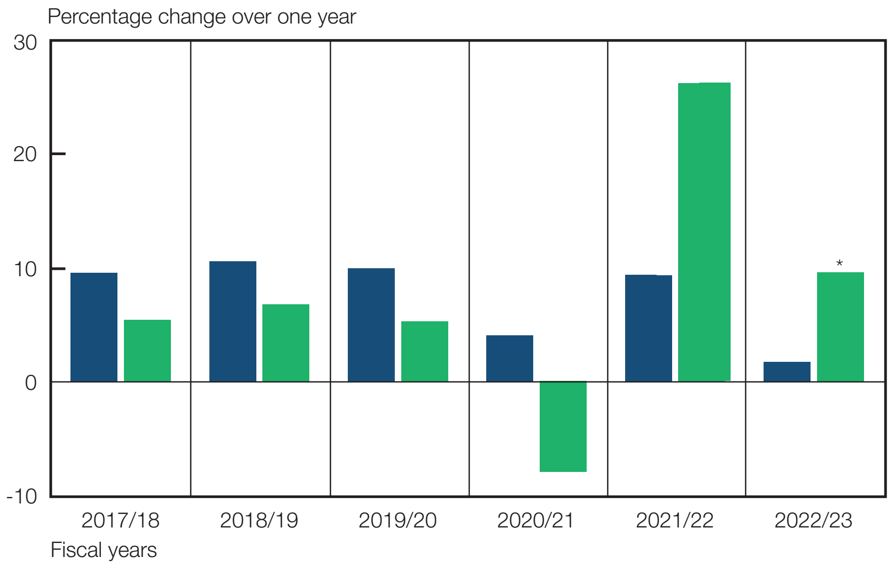
Revenue from taxes on goods and services (30.3% of total revenue collected) increased by 3.9% year on year to R128.4 billion in April–June 2022. This reflected a year-on-year increase of 12.1% in net value-added tax (VAT) receipts, notwithstanding a notable increase in VAT refunds. The fuel levy declined by 24.6% year on year due to temporary relief measures[29] to soften the impact of higher domestic fuel prices on consumers.

Taxes on international trade and transactions of R13.2 billion in April–June 2022 were 33.5% more compared with the same period a year earlier. This reflected higher collections from the importation of electrical machinery, vehicles, machinery and original equipment components, among others.



Other revenue, comprising non-tax revenue and extraordinary receipts, declined by 11.7% year on year to R16.4 billion in April–June 2022 – mainly due to lower receipts from rent on land. The *2022 Budget Review* earmarked a transfer of R43.7 billion for SACU for full fiscal 2022/23 – slightly less than the R46.0 billion in fiscal 2021/22. The first tranche of R10.9 billion was transferred in April 2022, with the second tranche paid in July.

Revenue of national government



* April–July 2022

Sources: National Treasury, SARS and SARB

The *2022 Budget Review* projected an increase of 1.7% in national government revenue to R1 588.0 billion for fiscal 2022/23. In the first four months of the fiscal year (April–July 2022), total revenue collections increased by 9.6% year on year to R510.1 billion.

National government expenditure of R412.5 billion in April–June 2022 was only 1.1% more than in the first quarter of the previous fiscal year, despite higher equitable share transfers to provinces and higher interest payments on national government debt (debt-service cost). Expenditure, at 24.9% of GDP in the first quarter of fiscal 2022/23, was lower than the 25.9% recorded in the same period of the previous fiscal year.

National government expenditure in fiscal 2022/23

Expenditure item	Originally budgeted[1] Fiscal 2022/23		Actual Apr–Jun 2022	
	R billions	Percentage change[2]	R billions	Percentage change[3]
Voted expenditure	1 057.0	2.2	231.6	-2.8
Of which: Transfers and subsidies	755.0	8.9	167.9	5.8
Current payments	261.0	1.9	57.0	-1.4
Payments for capital assets	15.5	17.4	2.1	72.7
Payments for financial assets	25.6	-64.3	4.7	-77.2
Statutory amounts[4]	918.2	7.7	180.9	6.4
Of which: Provincial equitable shares	560.8	2.9	140.2	7.1
Interest on debt	301.7	12.6	35.8	10.4
General fuel levy	15.3	4.9	0.0	0.0
Total expenditure	1 975.3	4.7	412.5	1.1

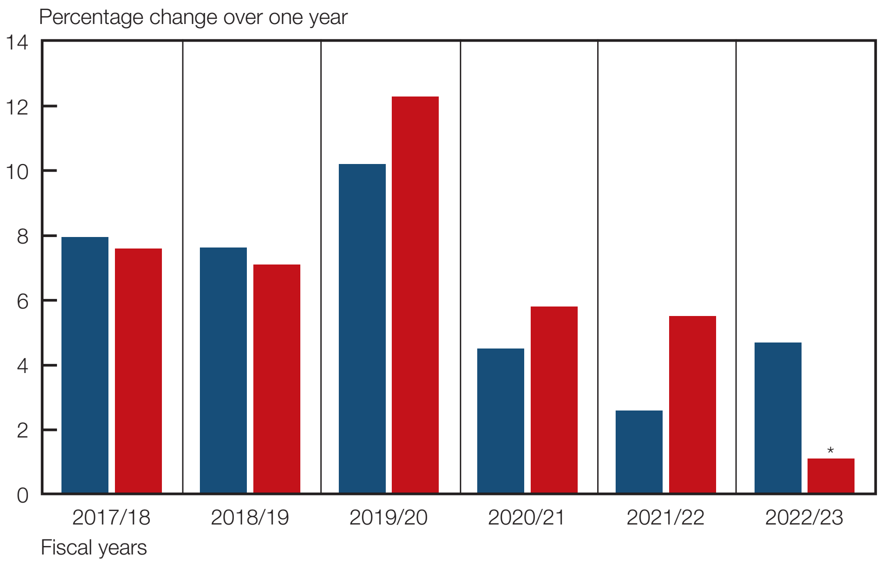
1 *2022 Budget Review*
2 Year-on-year percentage change: budgeted on previous year's actual outcome
3 Year-on-year percentage change: actual outcome on previous year's actual outcome
4 Including extraordinary payments
Components may not add up to totals due to rounding off and the exclusion of unclassified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

Source: National Treasury

Total voted expenditure by national government departments decreased by 2.8% year on year to R231.6 billion in April–June 2022 on account of the decrease in both current payments and payments for financial assets. The latter included a payment of R4.0 billion to Eskom.

Total equitable share transfers to provinces – the main source of provincial government revenue – increased by 7.1% year on year to R140.2 billion in April–June 2022. The *2022 Budget Review* earmarked R15.3 billion for metropolitan municipalities as their share of the general fuel levy in fiscal 2022/23, with the first of three equal tranches only paid in August 2022. Interest paid on national government debt – the fastest-growing spending category – increased notably by 10.4% year on year to R35.8 billion in the first quarter of fiscal 2022/23.

Expenditure by national government



* April–July 2022

Sources: National Treasury, SARS and SARB

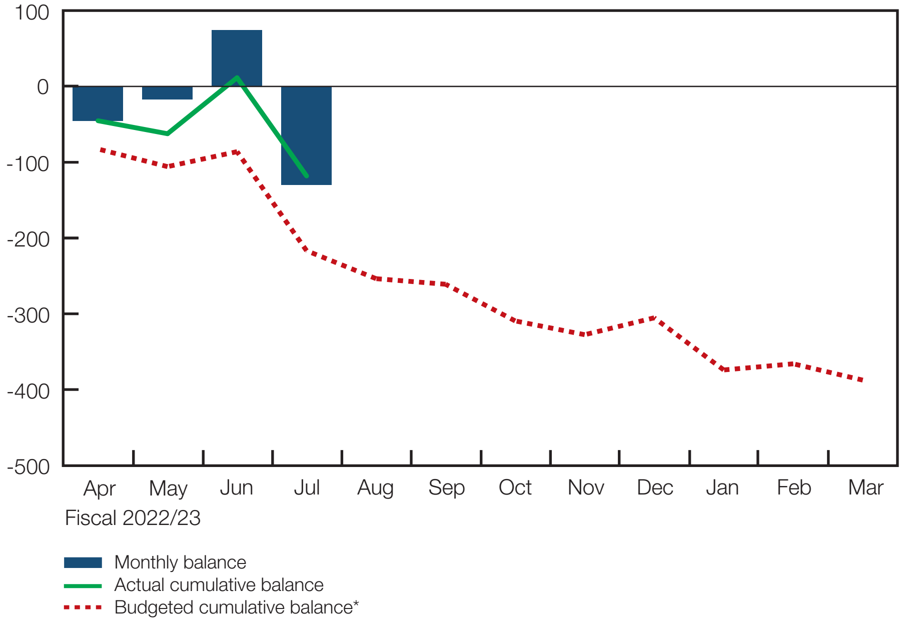
The *2022 Budget Review* projected total expenditure of R1 975.3 billion for fiscal 2022/23, representing an increase of 4.7% compared with the preliminary outcome of the previous fiscal year. In the first four months of fiscal 2022/23, total expenditure increased by 1.1% year on year to R628.1 billion.

Developments in national government revenue and expenditure in the first quarter of fiscal 2022/23 yielded a cash book *surplus* of R11.5 billion – a marked change from a *deficit* of R22.7 billion in the corresponding period of fiscal 2021/22. This outcome resulted from a meaningful *surplus* of R73.8 billion in June 2022 following *deficits* in April and May.

In April–July 2022, the net outcome of national government revenue and expenditure was a cash book deficit of R118.0 billion, which was R37.9 billion lower compared with a year earlier. The *2022 Budget Review* envisaged a national government cash book deficit of R387.2 billion for fiscal 2022/23 – R61.5 billion more than the preliminary outcome of fiscal 2021/22.

National government's primary surplus of R47.3 billion in April–June 2022 was almost five times more than the R9.8 billion recorded in April–June 2021. The primary surplus as a ratio of GDP of 2.9% in the first quarter of fiscal 2022/23 was much higher than the 0.6% in the same period of the previous fiscal year. The *2022 Budget Review* projected a national government primary deficit of R85.5 billion (1.3% of GDP) for full fiscal 2022/23.

Cash book balance of national government



* *2022 Budget Review*

Sources: National Treasury, SARS and SARB

National government financing

R billions

Item or instrument	Actual Apr–Jun 2021	Actual Apr–Jun 2022	Originally budgeted[1] Fiscal 2022/23
Cash book balance[2]	-22.7	11.5	-387.2
Cash flow balance[3]	-26.0	-23.3	...
Plus: Cost/profit on revaluation of foreign debt at redemption[4]	0.0	-8.6	-8.8
Accrual adjustments	20.9	62.3	...
Net lending/borrowing requirement[5]	-5.1	30.4	-396.1
Treasury bills and short-term loans[6]	7.9	3.8	0.0
Domestic bonds[6]	58.4	48.1	249.1
Foreign bonds and loans[6]	14.1	39.5	40.8
Change in available cash balances[7]	-75.3	-121.8	106.2
Total net financing	5.1	-30.4	396.1

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

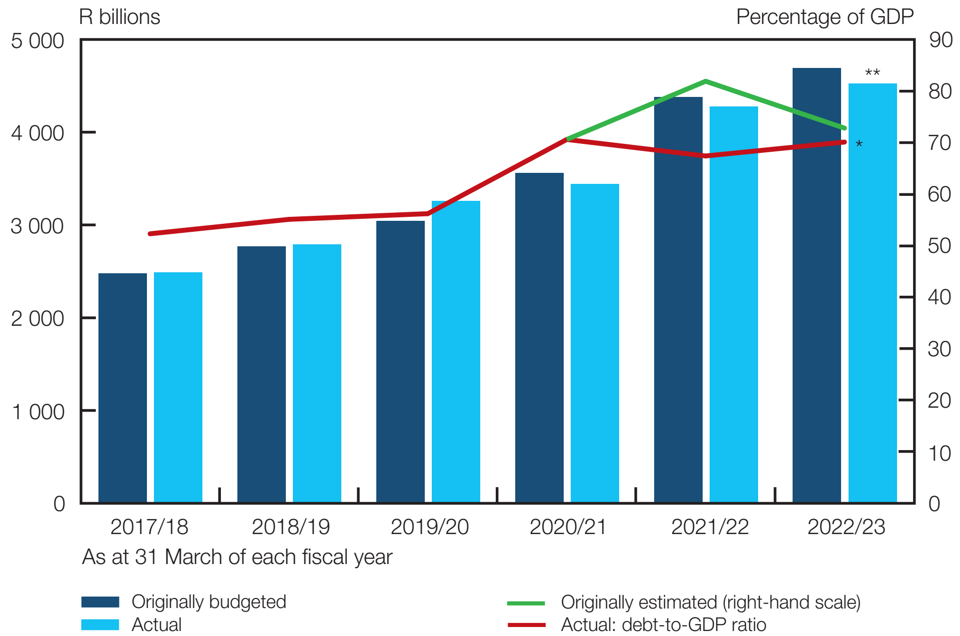
Sources: National Treasury and SARB

National government's cash flow deficit of R23.3 billion in April–June 2022 was R2.8 billion lower than in April–June 2021. After accounting for the cost of revaluation of foreign debt at maturity and accrual adjustments, the net lending position of national government amounted to R30.4 billion, a turnaround from a net borrowing requirement of R5.1 billion over the same period a year earlier.

The financing activities of national government in the first quarter of fiscal 2022/23 comprised net issuances of long-term government bonds of R48.1 billion, TBs and short-term loans from the CPD of R3.8 billion, and foreign bonds and loans of R39.5 billion. Over the same period, national government's available cash balances increased by R121.8 billion.

National government's gross loan debt (domestic and foreign) increased by 10.1%, or R410 billion, year on year to R4 461 billion as at 30 June 2022. The outstanding balance of both domestic and foreign debt increased, with the latter rising much faster at 25.2% year on year. Domestic debt continued to account for the largest share of total gross loan debt, at 88.9%. Gross loan debt as a ratio of GDP of 70.1% as at 30 June 2022 remained below the estimate of 72.8% for full fiscal 2022/23 in the *2022 Budget Review*.

Gross loan debt of national government



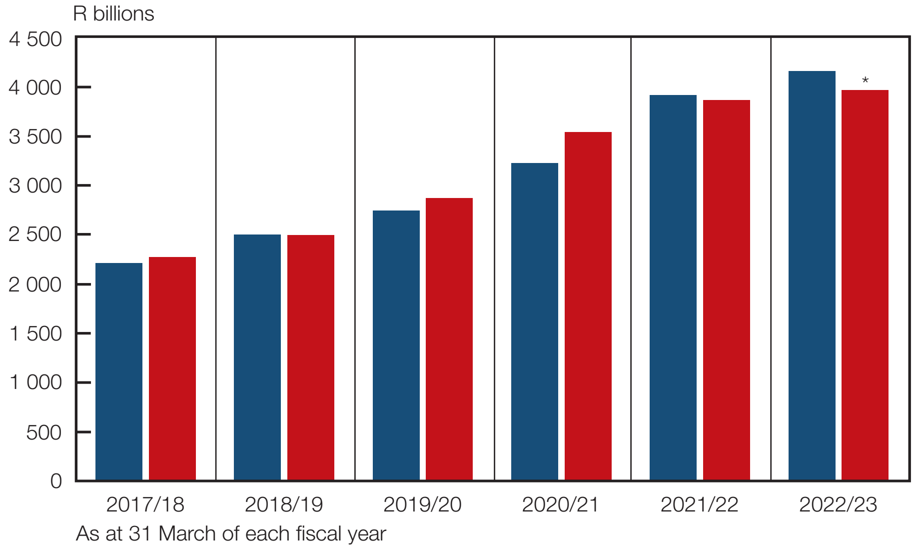
* As at 30 June 2022
** As at 31 July 2022

Sources: National Treasury, Stats SA and SARB

National government's total domestic debt (marketable and non-marketable) increased by R311 billion year on year to R3 968 billion as at 30 June 2022. The increase in the outstanding balance of domestic debt mostly reflected a higher net issuance of total domestic marketable debt. The outstanding balance of domestic marketable debt increased by R307 billion year on year to R3 948 billion as at 30 June 2022, and accounted for 99.5% of total domestic debt. The non-marketable domestic debt, which comprised short-term loans from the CPD, non-marketable bonds as well as other debt, increased significantly by 20.1% year on year to R20.3 billion over the same period.

National government's total outstanding balance of foreign debt (marketable and non-marketable) of R493 billion as at 30 June 2022 was R99.2 billion more than a year earlier. This sharp increase was largely due to net borrowing from the foreign sector in response to the COVID-19 pandemic and exchange rate revaluation effects of R72.0 billion.

Domestic debt of national government

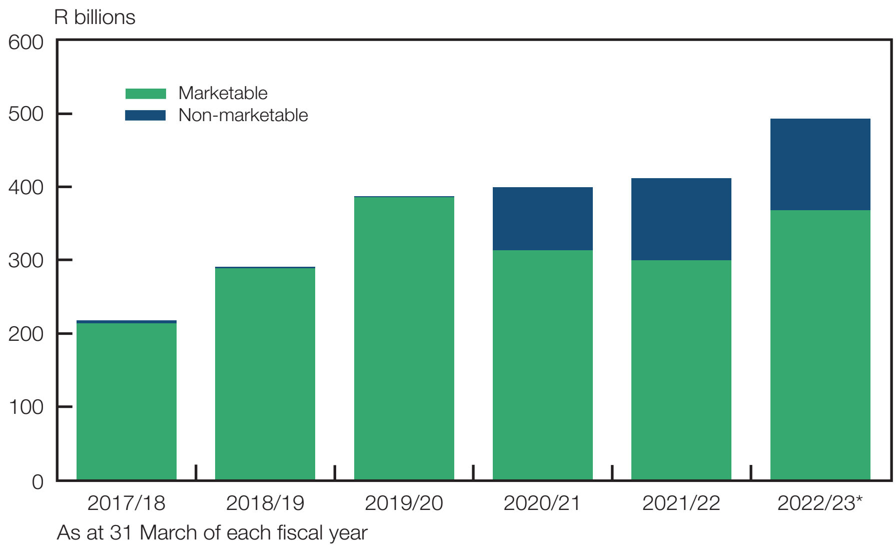


* As at 30 June 2022

Sources: National Treasury and SARB

Non-marketable foreign debt, mainly foreign loans, increased by 30.2% year on year to R125 billion as at 30 June 2022. Between July 2021 and June 2022, national government raised R32.8 billion (US$2.3 billion) through three foreign loans. Foreign marketable bonds increased by 23.6% year on year to R368 billion as at 30 June 2022 and accounted for the largest share of total foreign debt at 74.7%. This increase resulted from the issuances of two foreign bonds with a combined value of R45.1 billion (US$3 billion) in April 2022.

Foreign debt of national government

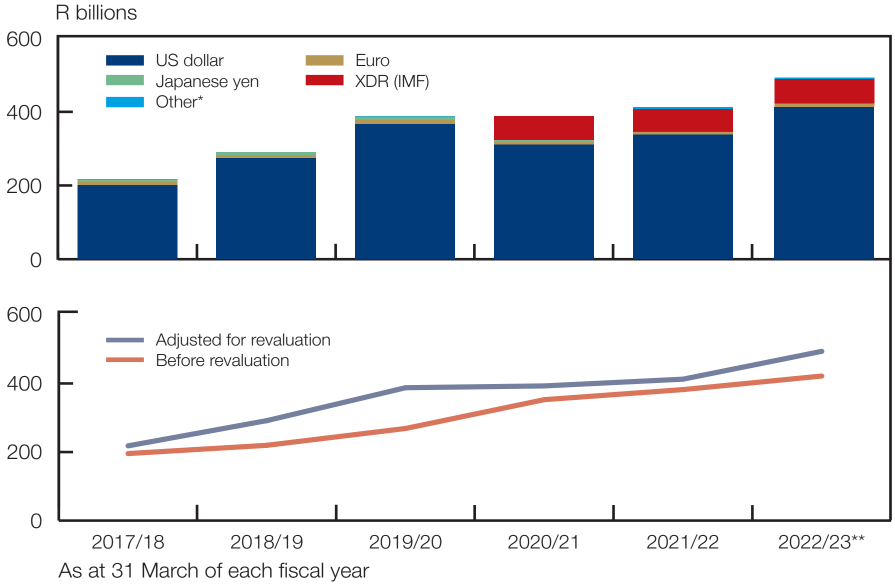


* As at 30 June 2022

Sources: National Treasury and SARB

National government's foreign debt is denominated in US dollar, the euro, the International Monetary Fund's (IMF) special drawing rights (SDR) and the rand. As at 30 June 2022, US dollar-denominated debt accounted for 83.8% of the total outstanding balance, followed by SDR at 13.5%. The average outstanding maturity of foreign marketable bonds increased from 159 months as at 30 June 2021 to 169 months a year later.

Currency composition of national government's foreign debt



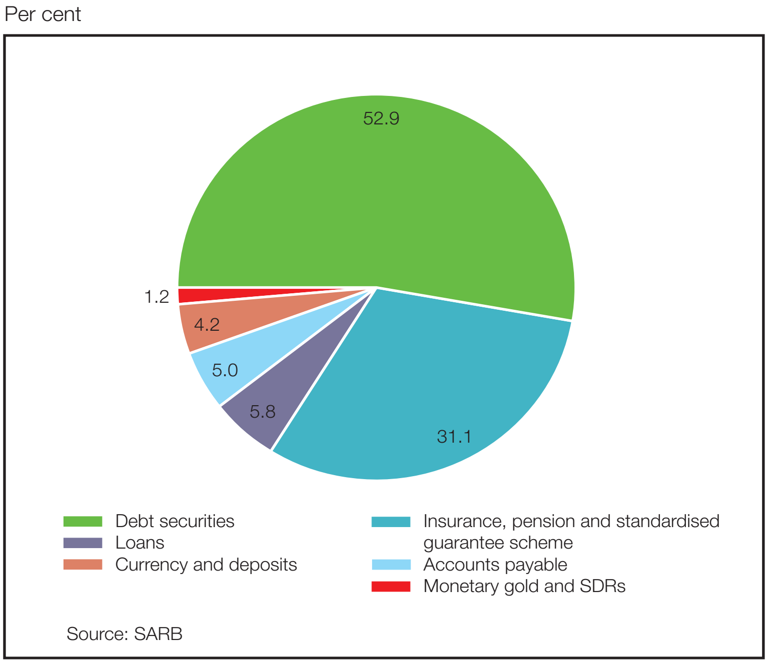
* Including the British pound, Swedish krona and South African rand
** As at 30 June 2022
Sources: National Treasury and SARB

Total public sector debt[30]

30 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 amounted to R7 723 billion as at 31 March 2022, and at 122.8% of GDP was slightly lower than the 128.6% recorded a year earlier. After netting the individual debt instruments against corresponding financial assets, the consolidated net public sector debt was R6 952 billion as at 31 March 2022, or 110.6% of GDP. Debt securities were the largest contributor at 52.9%, while the pension liabilities accounted for 31.1% of total public sector debt as at 31 March 2022.

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



Source: SARB

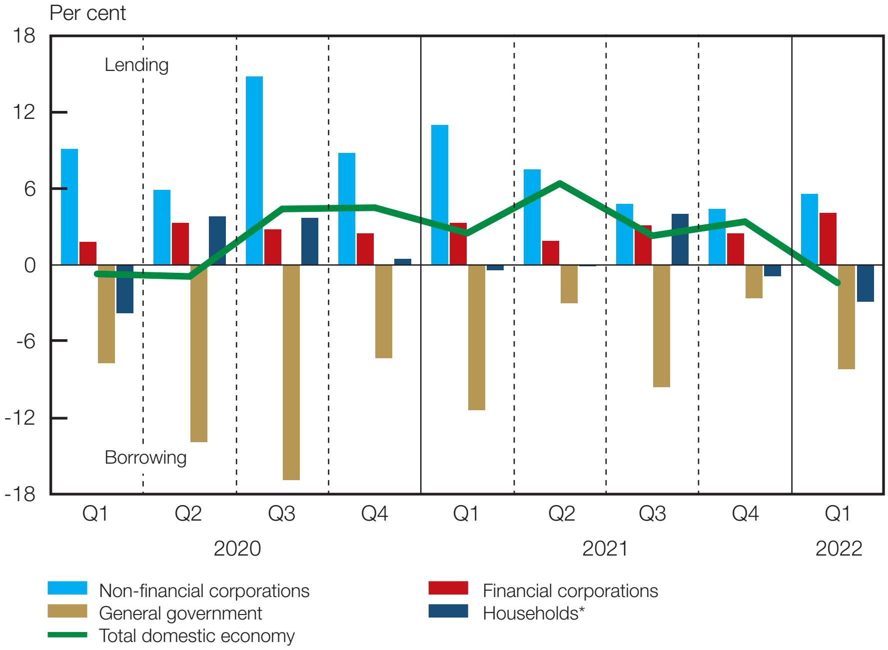
Integrated economic accounts[31]

Current and capital account

South Africa's net lending position of R53.9 billion in the fourth quarter of 2021 reverted to a net borrowing position of R21.8 billion in the first quarter of 2022 following a decrease in gross saving and an increase in gross capital formation. The net lending/borrowing position of the country, expressed as a percentage of GDP, consequently switched from a net lending position of 3.4% to a net borrowing position of 1.4% over this period. The net borrowing position in the first quarter of 2022 followed six consecutive quarters of net lending positions.

31 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 Initiative (DGI-2) and are subject to further revision. See pages E–2 to E–5 in the experimental tables section in this edition of the *Quarterly Bulletin.*

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



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

However, both the non-financial and financial corporation sectors maintained net lending positions in the first quarter of 2022, despite the lower level of total gross saving. By contrast, the general government and household sectors were net borrowers in the first quarter of 2022, as general government reverted to a gross dissaving position and households recorded lower gross saving over the period.

Non-financial balance sheet and accumulation account

The market value of total non-financial assets amounted to R17.4 trillion as at 31 March 2022. Non-financial corporations (public and private) held 41.6% of total non-financial assets, while households owned 31.8% and general government 25.5%. As at 31 March 2022, the household sector owned as much as 90.3% of all dwellings. In turn, non-financial corporations and general government dominated the holdings of other structures, such as roads, bridges and harbours. Machinery and equipment as well as other produced assets, such as intellectual property, were largely held by non-financial corporations. Financial corporations only held 1.2% of South Africa's non-financial assets, mainly in the form of buildings other than dwellings.

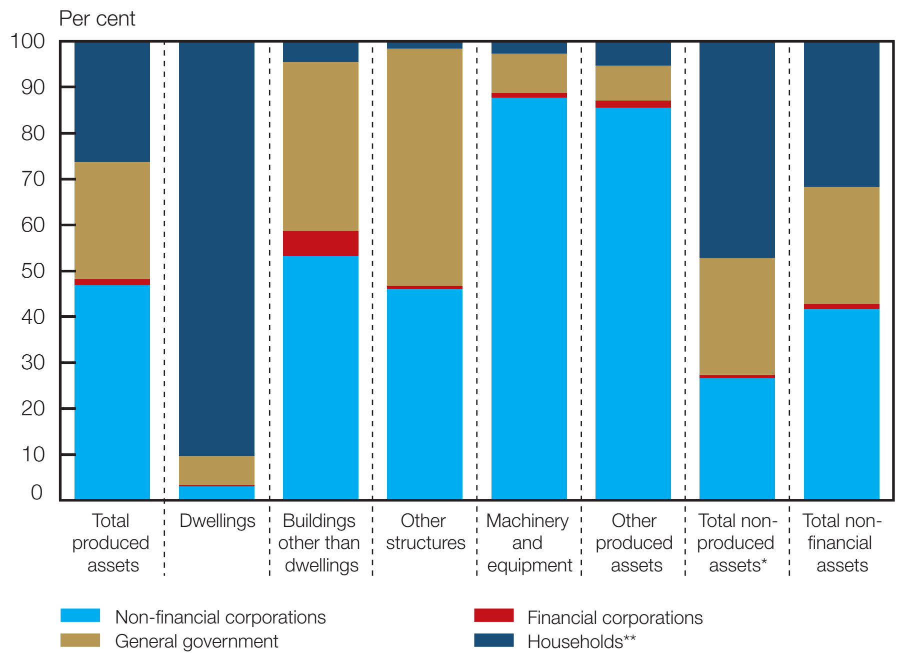
The market value of total produced fixed assets increased by 2.3% or R273 billion to R12.0 trillion in the three months to 31 March 2022. Total gross fixed capital formation amounted to R222.6 billion compared with the consumption of fixed capital[32] of R221.1 billion for the same period, rendering net capital formation of only R1.4 billion. Revaluation amounted to

32 Consumption of fixed capital is defined as the decrease in the current value of the stock of fixed assets as a result of physical deterioration, normal obsolescence or normal accidental damage.

R271.6 billion in the first quarter, with the market value of other structures as well as machinery and equipment increasing by R135.1 billion and R70.7 billion respectively in the three months to 31 March 2022. The market value of machinery and equipment grew by 3.0% over the period, supported by the market valuation effect and a marginal increase in net capital formation.

Households owned 47.0% of all non-produced assets, which currently consist only of land. The remainder was almost equally distributed among non-financial corporations and general government.

Institutional sector non-financial asset holdings as at 31 March 2022

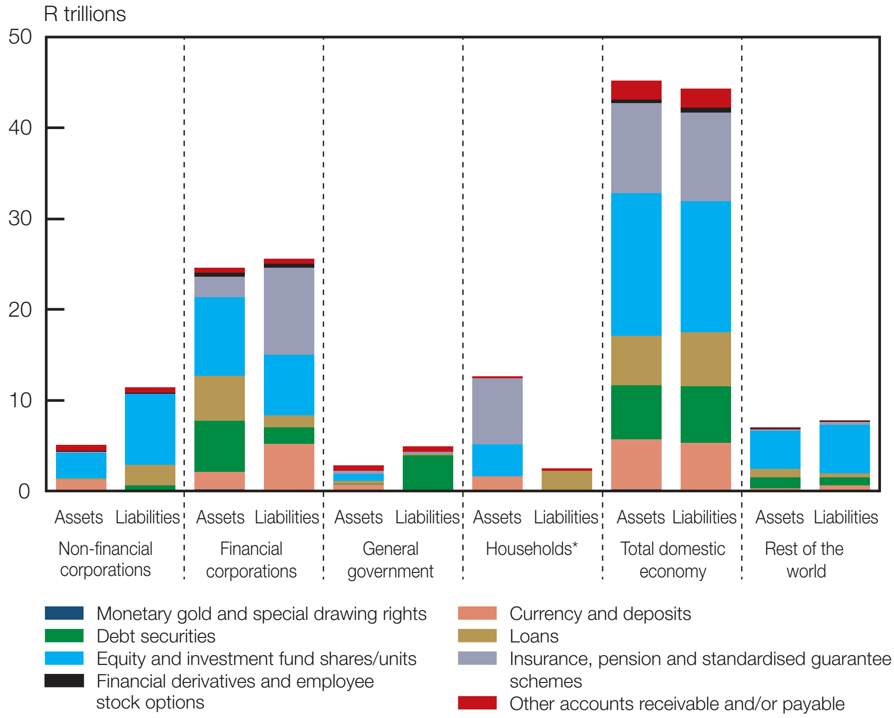


* Only land
** Including non-profit institutions serving households
Source: SARB

Financial balance sheet and accumulation account

Following seven successive quarters of increase, the market value of financial assets held by all the domestic institutional sectors decreased to R45.1 trillion as at 31 March 2022. By contrast, the market value of total liabilities held by all the domestic institutional sectors increased marginally to R44.3 trillion as at 31 March 2022. The decrease in the market value of financial assets was broad-based across the financial instruments, most notably in equity and investment fund shares/units, debt securities, loans, and monetary gold and SDRs. The change in the market value of listed and unlisted equity held between South African non-financial and financial corporations and the rest of the world (ROW), along with the decline in share prices globally, contributed the most to the overall decrease in financial assets over the period. Consequently, the contribution of non-financial corporations to total financial assets declined from 12.8% to 11.3%, while that of total liabilities increased from 25.3% to 25.6% from 31 December 2021 to 31 March 2022. Over the same period, financial corporations' contributions to total financial assets increased from 53.5% to 54.5% due to the higher value of their currency and deposits holdings, loans extended and other accounts receivable. These large increases far outweighed the decrease in the value of equity and investment fund shares/units of the non-monetary financial institutions. Financial corporations' contributions to total liabilities remained unchanged at 57.6% from 31 December 2021 to 31 March 2022. An increase in the value of insurance, pension and standardised guarantee schemes of households as well as in their holdings of equity and investment fund shares/units grew their share of total financial assets from 27.3% to 28.0% from 31 December 2021 to 31 March 2022, while their share of total liabilities, dominated by loans, increased from 5.7% to 5.8% over the same period.

Market value of total financial assets and liabilities by institutional sector and financial instrument as at 31 March 2022



* Including non-profit institutions serving households

Source: SARB

The share of financial assets held by general government decreased from 6.4% to 6.2% from 31 December 2021 to 31 March 2022, primarily due to decreases in the value of currency and deposits held with the monetary financial institutions, and loans extended. The decline in the general government's share of total liabilities from 11.3% to 11.0% resulted from decreases in the value of both debt securities and loans granted. The substantial fall in the market value of the ROW's equity and investment fund shares/units reduced its liabilities in relation to the domestic institutional sectors, from R9.1 trillion to R7.9 trillion, while their financial assets increased marginally from R7.1 trillion to R7.2 trillion from 31 December 2021 to 31 March 2022.

The main drivers of change in the market value of financial assets and liabilities in the first quarter of 2022 were a combination of transactions, which increased by R2.4 trillion, and revaluations, recording a decline of R3.3 trillion, for the various financial instruments, most notably in equity and investment fund shares/units, debt securities, and financial derivatives and employee stock options, while other volume changes declined only marginally.

Note on South Africa's rand-denominated debt securities issuance statistics

By N Mushanganyisi[1]

Introduction

The compilation of statistics pertaining to South Africa's rand-denominated debt issued in the domestic financial markets was extended to close data gaps identified by the Group of Twenty (G20)[2] Data Gaps Initiatives (DGI-1 and DGI-2) following the 2008 global financial crisis, as reflected in Recommendation 7.

This note presents rand-denominated debt securities issuance statistics at both nominal and market value, delineated by resident and non-resident issuers, with further breakdowns into, among other things, original maturity, type of interest rate as well as resident issuers by institutional sector. The compilation is based on the methodology as set out in the *Handbook on Securities Statistics (HSS)*.[3] These statistics, with a selection published on pages E–13 and E–14 in the experimental tables section as from this edition of the *Quarterly Bulletin*, are based on a comprehensive monthly dataset that captures borrowing in the domestic financial markets.

This note introduces the extension of rand-denominated debt securities issuance statistics in South Africa by reflecting on the underlying methodology of compilation and data sources, discussing the different data dimensions and making some general observations.

Methodology and data sources

The compilation of debt securities issuance statistics follows the *HSS* guidelines, with the data structure based on the G20 Recommendation 7 framework.[4] This approach enables the South African Reserve Bank (SARB) to disseminate monthly statistics, as from 2001, to the Bank for International Settlements (BIS)[5] in adherence to the core and most of the advanced requirements, such as residency and institutional sector of issuance, type of interest rate and maturity – in both nominal and market value – as well as net transactions at market value.

The underlying data for listed debt securities[6] are sourced from the JSE Limited (JSE) (from 2001) and the Cape Town Stock Exchange (CTSE) (from December 2021). The underlying data for unlisted securities[7] are sourced from the SARB's Financial Markets Department (FMD) (from 2001), the Land and Agricultural Development Bank of South Africa (Land Bank) (from April 2017) and commercial banks (from April 2005). The statistics include the following financial instruments: general government-issued bonds[8] and Treasury bills[9] (TBs) as well as public and private sector corporate securities, such as corporate bonds,[10] bills,[11] promissory notes,[12]

1 The views expressed in this note are those of the author and do not necessarily reflect those of the SARB.

2 The G20 is an international forum for ministers of finance and central bank governors of the 19 largest advanced and emerging market economies as well as the European Union.

3 The methodology used to compile South Africa's debt securities statistics adheres to the guidelines published in the Bank for International Settlements, European Central Bank and International Monetary Fund's *Handbook on Securities Statistics*, available at https://www.imf.org/external/np/sta/wgsd/pdf/hss.pdf

4 See the IMF for the reporting templates, available at https://www.imf.org/en/News/Seminars/Conferences/DGI/g20-dgi-recommendations-and-data#rec7

5 See the BIS for debt securities statistics of South Africa and other countries, available at https://www.bis.org/statistics/secstats.htm.

6 These are debt securities listed and issued on the JSE and CTSE.

7 These are debt securities not listed on a stock exchange and traded in the over-the-counter (OTC) market. The data for unlisted securities are only those of the entities indicated and are therefore incomplete.

8 These are long-term marketable interest-bearing securities with an original maturity of more than one year, issued by general government institutions.

9 This is short-term marketable debt issued by national government with maturities of up to one year.

10 These are bonds issued by commercial banks, public companies (state-owned companies) and other private companies.

11 These are short-term discount interest-bearing securities (usually quoted on a yield basis) issued by the Land Bank.

12 A promissory note is an unconditional promise by a commercial bank or the Land Bank to pay a payee on demand or at a specified future date, quoted on a yield basis and traded on a discount basis.

floating rate notes,[13] callable bonds,[14] negotiable certificates of deposit[15] (NCDs), commercial paper[16] and debentures.[17]

The underlying data of listed debt securities from the JSE and CTSE are indicated at both nominal and market value. Unlisted debt securities data reflect different valuations. Banks' held-for-trading debt securities are at nominal and market value and their held-to-maturity securities are at nominal value and amortised cost. The Land Bank statistics reflect all funding liabilities[18] (held-to-maturity) at nominal value and amortised cost as from 1 April 2015 in adherence to International Financial Reporting Standard (IFRS) 9. SARB debentures are issued on an interest add-on basis, with the securities issued at par and redeemed at par plus interest at maturity.

Data dimensions

The data dimensions of the rand-denominated debt securities issued in the South African bond market are shown in the accompanying tables. The rand-denominated domestic bond market is dominated by fixed-rate securities with a long-term original maturity. The exception is financial corporations' preference for variable rate debt.

Nominal value of outstanding rand-denominated debt securities issued in the South African market

By original maturity

R billions

	Short term*		Long term**		Total	
As at 31 December	2020	2021	2020	2021	2020	2021
Residents	681	673	4 189	4 610	4 870	5 283
General government	430	448	2 998	3422	3 428	3 870
Financial corporations	245	222	869	916	1 114	1 138
Non-financial corporations	6	3	322	272	328	275
Non-residents	0	2	6	6	6	7
Total	681	674	4 195	4616	4 876	5 290

* Short term is one year and less
** Long term is more than one year
Components may not add up to totals due to rounding off.

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

13 These are listed and unlisted (Land Bank and commercial banks) debt obligations with a variable coupon rate linked to a money market reference rate, such as the Johannesburg Interbank Average Rate (Jibar), plus a constant spread (or margin).

14 These bonds represent short-term funding by the Land Bank for an indeterminate period but not less than one day. The rate is agreed on daily, at a margin to the rand overnight deposit rate.

15 These are issued by commercial banks at face value and traded in the secondary market on an interest add-on basis.

16 These are listed and unlisted (commercial banks) unsecured interest-bearing securities issued to finance accounts receivable, inventories or short-term liabilities and are traded on a discount basis.

17 These include debentures issued by commercial banks and fixed-rate SARB debentures used to drain excess money market liquidity. Following the transition to the new monetary policy implementation framework, SARB debentures will only be used if a need arises again. See https://www.resbank.co.za/content/dam/sarb/publications/media-releases/2022/mpif-may-2022/A%20new%20framework%20for%20implementing%20Monetary%20Policy%20in%20South%20Africa.pdf

18 Land Bank, Annual Financial Statements, 2019. https://landbank.co.za/Shared%20Documents/Annual-Financial-Statements-2019.pdf

By interest rate type

R billions

As at 31 December	Fixed 2020	Fixed 2021	Variable 2020	Variable 2021	Inflation-linked 2020	Inflation-linked 2021
Residents	3 339	3606	700	726	831	951
General government	2 668	2 977	1	5	760	888
Financial corporations	468	461	616	649	30	28
Non-financial corporations	203	168	83	72	42	35
Non-residents	4	3	3	4	0	0
Total	3 343	3 609	702	730	831	951

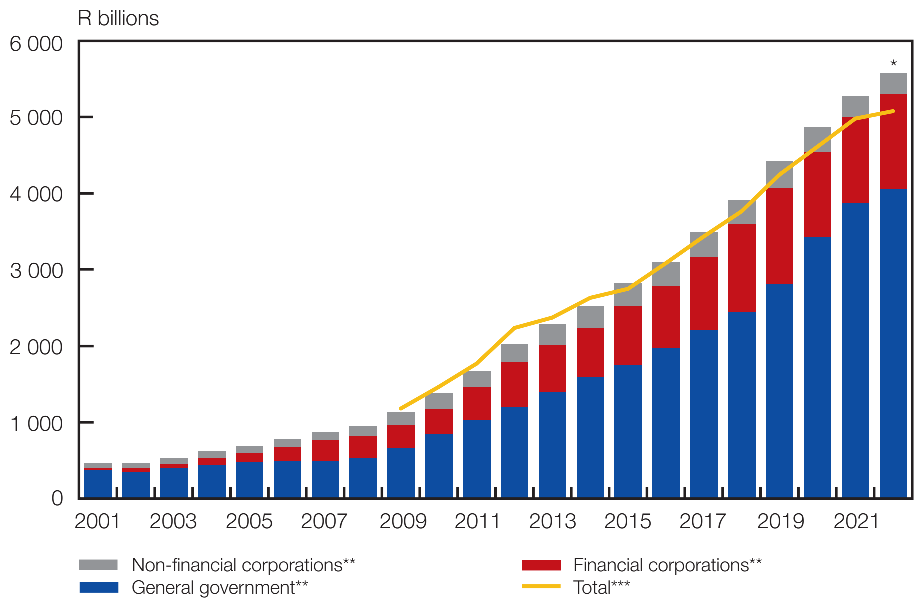
Components may not add up to totals due to rounding off.

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

Observations from resident-issued domestic debt securities

The nominal value of outstanding rand-denominated debt securities issued by residents in the domestic South African financial markets almost tripled from 2001 to 2010. Thereafter, it increased almost fourfold to R5.6 trillion in July 2022. General government's[19] dominance of debt securities issued increased from 61.4% of the total in 2010 to 72.6% in July 2022, while that of non-financial corporations[20] declined from 14.7% to 4.9% over the same period. Debt securities issued by financial corporations[21] averaged 23.2% over the whole period. The changes over time in the difference between the total nominal and market value of debt securities also clearly reflect the impact of global and domestic economic developments on bond yields.

Value of outstanding rand-denominated debt securities issued by residents in South Africa



* As at 31 July 2022
** At nominal value
*** At market value

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

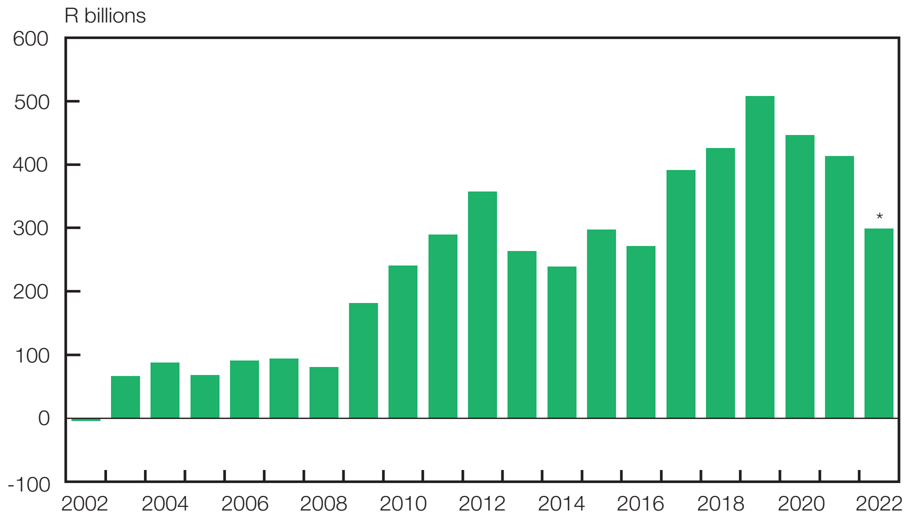
19 This includes national government, extra-budgetary institutions and local governments.

20 These include both public and private corporations.

21 These include the SARB, commercial banks, insurance corporations and other financial corporations.

The nominal value of the net issuance of rand-denominated debt securities by residents in the domestic financial markets increased after the 2008–09 global financial crisis and again from 2017, to a record amount of R508 billion in 2019. Thereafter, it remained relatively elevated with the onset of the coronavirus disease 2019 (COVID-19) pandemic in 2020 and into 2021, before receding to R299 billion in the first seven months of 2022 in the wake of the international commodity price boom, which supported revenue collection and fiscal consolidation.

Nominal value of net issuance of rand-denominated debt securities by residents in South Africa

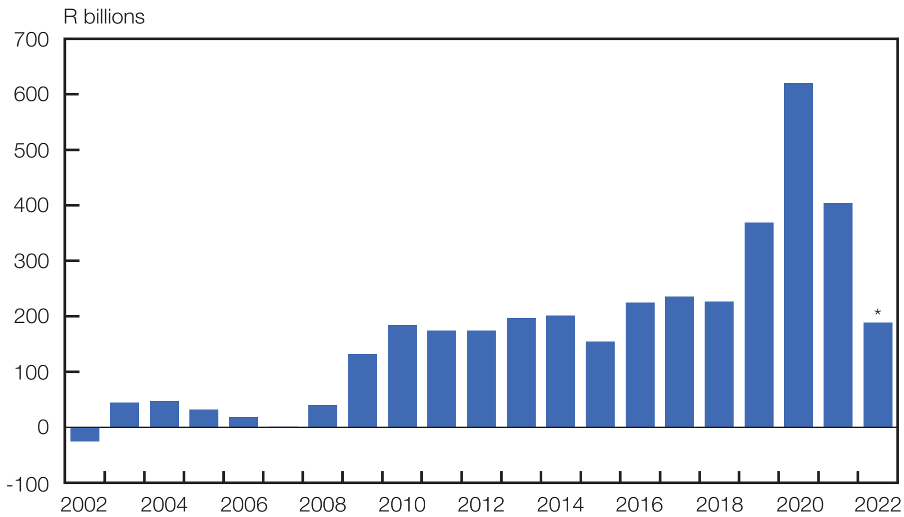


* First seven months

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

The nominal value of general government's net issuance of rand-denominated debt securities in the domestic market stayed in a narrow range from 2010 to 2018 and was dominated by national government. Subsequently, national government's net issuance of bonds and TBs increased significantly to an all-time high of R620 billion in 2020. This reflected revenue shortfalls along with weak economic growth, COVID-19-related spending, and the financing of distressed state-owned companies (SOCs). The net issuance by national government then declined to R406 billion in 2021 and R191 billion in the first seven months of 2022, as the improved fiscal position significantly reduced the borrowing requirement.

Nominal value of net issuance of rand-denominated debt securities by general government in South Africa

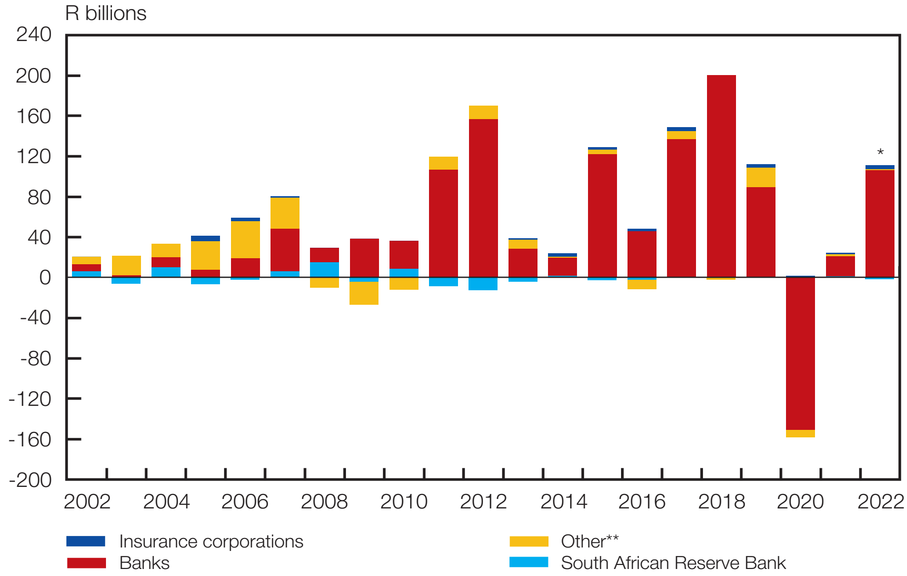


* First seven months

Sources: JSE and National Treasury

The net issuance of rand-denominated debt securities in the domestic market by financial corporations switched from a high of R198 billion in 2018 to net redemptions of R157 billion in 2020, as banks in particular deleveraged during the COVID-19 pandemic. Since then, financial corporations, in particular banks, have again accessed funding. The banking sector accounted for 85.6% of the outstanding amount in issue of financial corporations at the end of July 2022.

Nominal value of net issuance of rand-denominated debt securities by financial corporations in South Africa

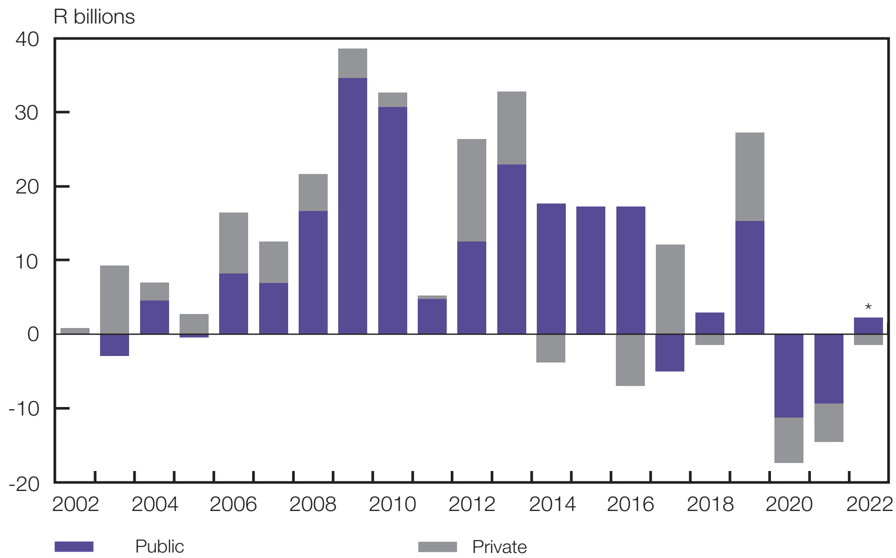


* First seven months
** Includes state-owned companies, real estate companies, special purpose vehicles and other financial corporations

Sources: CTSE, JSE, banks and SARB

The net issuance of rand-denominated debt securities in the domestic market by non-financial corporations trended lower after reaching a high of R38.6 billion in 2009, before briefly increasing strongly to R27.2 billion in 2019 prior to the COVID-19 pandemic.

Nominal value of net issuance of rand-denominated debt securities by non-financial corporations in South Africa



* First seven months

Source: JSE

Non-financial companies include both private and public corporations (SOCs), with the latter dominating issuance and redemptions. Since the onset of the COVID-19 pandemic in 2020, non-financial companies have recorded net redemptions of R31.1 billion.

Conclusion

Both the nominal and market values of rand-denominated debt securities in issue in South Africa have increased markedly over the past two decades, and the timely availability of granular statistics should assist policymakers and other users of such statistics.

References

Bank for International Settlements, European Central Bank and International Monetary Fund. 2016. *Explanatory Note on the Reporting Templates on Recommendation 7 of the Second Phase of the G20 Data Gaps Initiative (GDI-2).* Basel: Bank for International Settlements.

Van Wyk, K, Ziets, B and Goodspeed, I. 2012. *Understanding South African Financial Markets.* 4th ed. Pretoria: Van Schaik Publishers.

Notes to tables

Money and banking statistics

On 8 June 2022, the South African Reserve Bank (SARB) started to transition from a shortage- to a surplus-based framework for the transmission of monetary policy. This affected a range of statistics and analysis published in the *Quarterly Bulletin*.

Selected money market and related indicators – table on S–28

The change in the SARB's liquidity operations from 'liquidity draining operations' to 'liquidity operations' accommodating the change to a surplus-based framework is reflected in table KB128.

Liquidity management operations – table on S–29

The liquidity management operations in table KB131 now provide for South African Multiple Option Settlement (SAMOS) deposit quotas, with total liquidity now in a surplus position.

Money market and related interest rates – table on S–32

Owing to the implementation of the new monetary policy implementation framework, SARB debentures in table KB130 were phased out from 8 June 2022, although they can be reintroduced when required.

Outstanding rand-denominated debt securities issued in the domestic market – experimental tables on E–13 and E–14

A section on outstanding rand-denominated debt securities issued in the domestic market has been added to the experimental statistics as from this edition of the *Quarterly Bulletin*. These statistics, at nominal value in table KB256 and at market value in table KB257, are delineated by resident and institutional sector as well as non-resident issuers, along with further breakdowns into original maturity and type of interest rate.

Abbreviations

Alsi	All-Share Index
BEC	Broad Economic Category
BER	Bureau for Economic Research (Stellenbosch University)
BIS	Bank for International Settlements
CBOE	Chicago Board Options Exchange
CIT	corporate income tax
COICOP	classification of individual consumption by purpose
COVID-19	coronavirus disease 2019
CPC	Central Product Classification
CPD	Corporation for Public Deposits
CPI	consumer price index
CTSE	Cape Town Stock Exchange
DGI	Data Gaps Initiative
EMBI+	Emerging Markets Bond Index Plus (JPMorgan)
FAO	Food and Agriculture Organization (United Nations)
FNB	First National Bank
FRA	forward rate agreement
FX	foreign exchange
G20	Group of Twenty
GDE	gross domestic expenditure
GDP	gross domestic product
GVA	gross value added
HS	Harmonized Commodity Description and Coding System
HSS	*Handbook on Securities Statistics*
IEA	integrated economic accounts
IIP	international investment position
ILO	International Labour Organization
IMF	International Monetary Fund
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
KZN	KwaZulu-Natal
Land Bank	Land and Agricultural Development Bank of South Africa
MPC	Monetary Policy Committee (South African Reserve Bank)
MPIF	monetary policy implementation framework
NEER	nominal effective exchange rate
OTC	over the counter
PGM	platinum group metal
PIC	Public Investment Corporation

PIT	personal income tax
PPI	producer price index
PPP	purchasing power parity
QLFS	*Quarterly Labour Force Survey*
REER	real effective exchange rate
repo (rate)	repurchase (rate)
ROW	rest of the world
RTGS	real-time gross settlement
S&P	Standard & Poor's
Sabor	South African Benchmark Overnight Rate
SACU	Southern African Customs Union
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDR	special drawing right
SNA	System of National Accounts
SOC	state-owned company
Stats SA	Statistics South Africa
STIC	Standard International Trade Classification
TB	Treasury bill
UK	United Kingdom
UNSC	United Nations Statistical Commission
US	United States
VAT	value-added tax
VIX	Volatility Index