

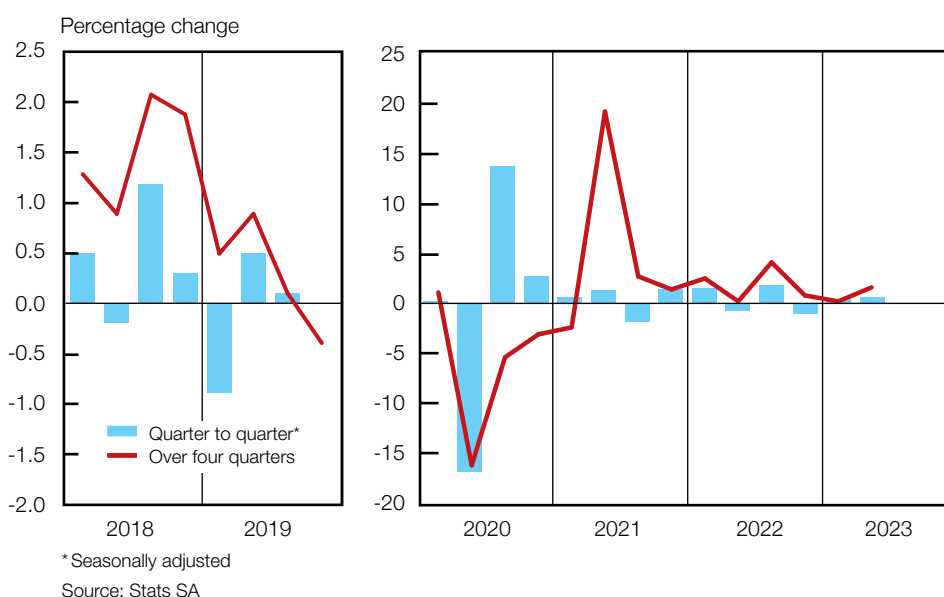
Domestic economic developments

Domestic output¹

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

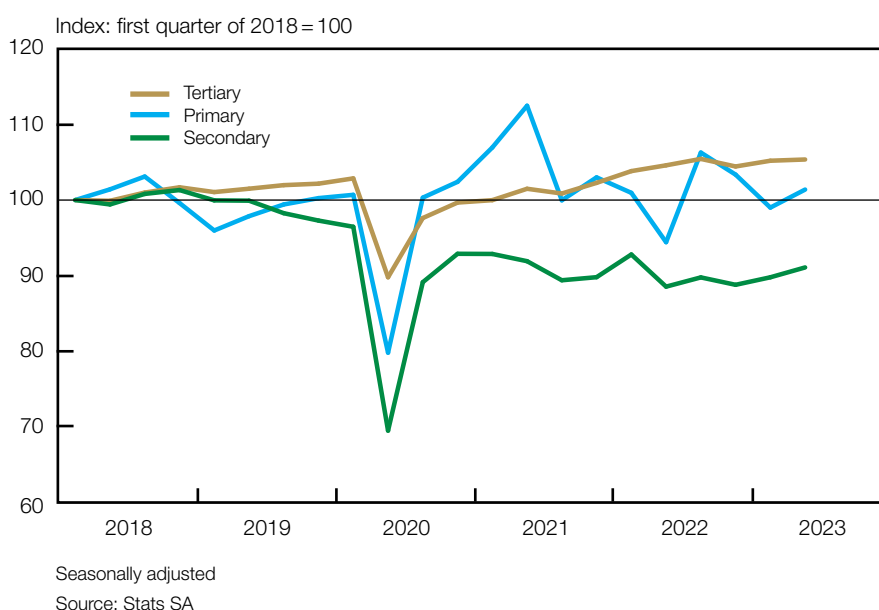
Economic activity in South Africa recovered further in the second quarter of 2023 as the impact of electricity load-shedding abated somewhat. Growth in real *gross domestic product* (GDP) accelerated to 0.6% in the second quarter of 2023 from 0.4% in the first quarter. The increase was broad-based as activity in the primary sector reverted from a contraction to an expansion and that in the secondary sector expanded at a faster pace, while the output of the tertiary sector expanded at a slower pace. The average level of real GDP in the first half of 2023 was 0.9% higher than in the corresponding period of 2022, and the level in the second quarter of 2023 surpassed the average level in 2019, before the onset of the coronavirus disease 2019 (COVID-19) pandemic, by 1.2%.

Real gross domestic product



The real output of the *non-agricultural sector* increased by 0.4% in the second quarter of 2023 following an increase of 0.8% in the first quarter.

Real gross value added by the main sectors



Real gross domestic product

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

Sector	2022					2023	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Primary sector	-2.0	-6.5	12.5	-2.7	-4.1	-4.2	2.4
Agriculture	-0.9	-11.8	31.4	-2.4	0.9	-11.9	4.2
Mining.....	-2.6	-3.1	1.9	-3.0	-7.1	1.4	1.3
Secondary sector	3.3	-4.6	1.4	-1.1	-1.1	1.1	1.5
Manufacturing.....	4.3	-5.6	1.6	-1.2	-0.4	1.5	2.2
Construction.....	-0.6	-2.6	4.1	0.4	-3.4	1.1	-0.4
Tertiary sector.....	1.5	0.7	0.8	-0.9	3.4	0.7	0.2
Wholesale and retail trade, catering and accommodation.....	2.9	-1.1	1.2	-2.2	3.5	0.7	-0.4
Finance, real estate and business services	1.9	2.1	1.1	-1.6	3.4	0.6	0.7
Non-primary sector**.....	1.9	-0.3	0.9	-1.0	2.5	0.8	0.4
Non-agricultural sector***	1.6	-0.5	1.0	-1.1	2.0	0.8	0.4
Total	1.5	-0.8	1.8	-1.1	1.9	0.4	0.6

* Percentage change over one year

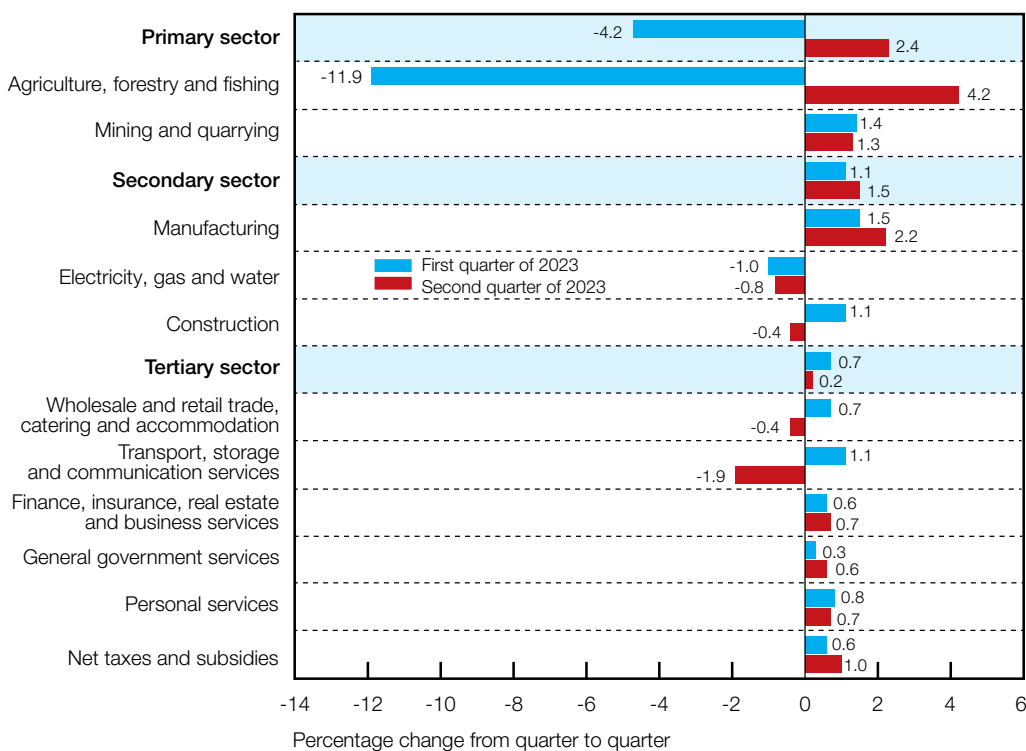
** The non-primary sector represents total GVA excluding agriculture and mining.

*** The non-agricultural sector represents total GVA excluding agriculture.

Source: Stats SA

Following two consecutive quarters of contraction, the real gross value added (GVA) by the *primary sector* expanded by 2.4% in the second quarter of 2023 and contributed 0.2 percentage points to overall real GDP growth. The turnaround was underpinned by an expansion in the real output of the agricultural sector following two successive quarterly contractions, and a further expansion in mining output.

Growth in the components of real gross domestic product



Source: Stats SA



The real GVA by the *agricultural sector* increased by 4.2% in the second quarter of 2023 following a significant decrease of 11.9% in the first quarter. The increase was primarily driven by the higher production of field crops and horticultural products. The average level of real output in the first half of 2023 was 7.8% higher than in the corresponding period of 2022, despite adversities such as sharply rising input costs, ongoing electricity load-shedding, geopolitical tensions and logistical inefficiencies.

With the expected commercial maize crop of 16.4 million tons for the 2022/23 season exceeding the final crop for the 2021/22 season by 6.1%, the harvest should exceed the estimated domestic demand of about 11.4 million tons per annum and the resultant surplus could be exported in the 2023/24 marketing year. The estimated higher crop will be harvested from a 1.4% smaller area planted in the 2022/23 season than in the previous season.

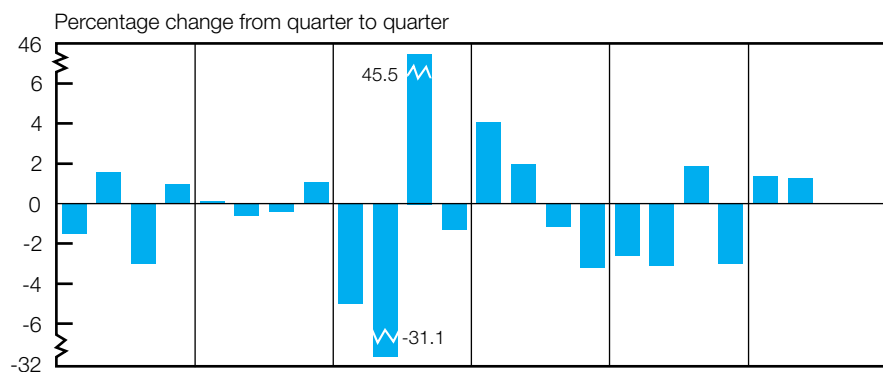
Commercial maize crop and area planted

	Crop (million tons)	Area planted (million hectares)
2021/22: final	15.5	2.62
2022/23: estimate.....	16.4	2.59

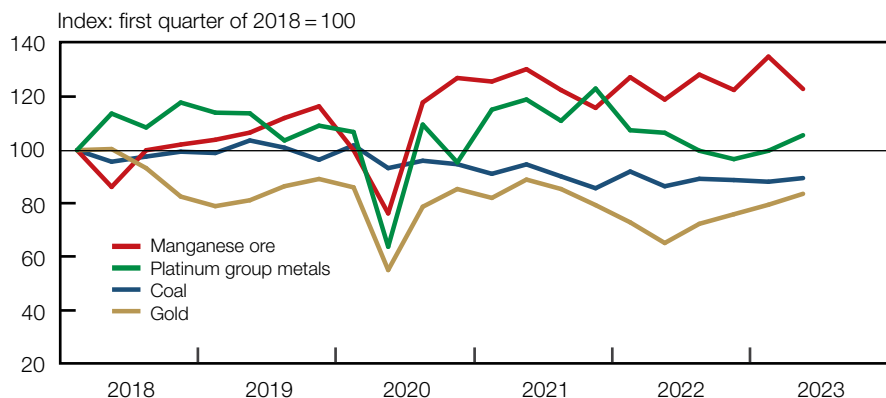
Source: Crop Estimates Committee of the Department of Agriculture, Land Reform and Rural Development

The real output of the *mining sector* increased further by 1.3% in the second quarter of 2023 and contributed 0.1 percentage points to overall real GDP growth after increasing by 1.4% in the first quarter. Mining production increased in half of the 12 mineral groups, particularly in platinum group metals (PGMs), gold, coal, other metallic minerals and nickel, while the production of manganese ore, diamonds and iron ore decreased in the second quarter.

Real gross value added by the mining sector



Physical volume of mining production: selected subsectors



Seasonally adjusted
Source: Stats SA

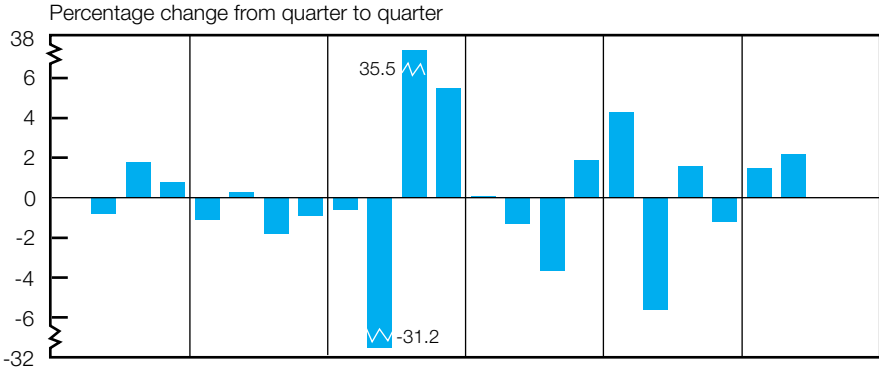
The increased production of PGMs was supported by a reduction in electricity load-shedding, while gold production continued to benefit from demand for this safe-haven asset and the higher United States (US) dollar price of gold. Conversely, the inefficient domestic rail infrastructure and lower demand for steel from China weighed on the production of iron ore.

Despite the increase in mining production, the average level of real output in the first half of 2023 was still 1.1% lower than in the corresponding period of 2022. Mining continued to be affected by generally lower commodity prices; weak economic activity in China; electricity-supply disruptions; high operating costs, including the securing of mining activities; and inefficiencies in rail and port infrastructure.

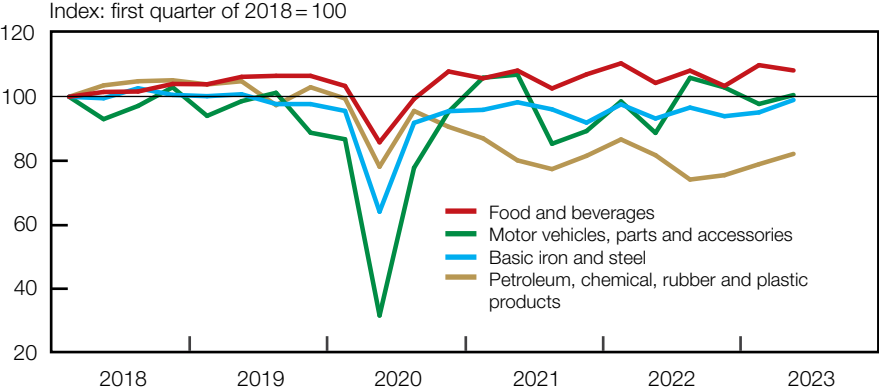
The real GVA by the *secondary sector* expanded further by 1.5% in the second quarter of 2023 following an increase of 1.1% in the first quarter. Real economic activity continued to expand in the manufacturing sector, while the real output of the construction and the electricity, gas and water sectors contracted.

The real output of the *manufacturing sector* increased further by 2.2% in the second quarter of 2023 after expanding by 1.5% in the first quarter and contributed 0.3 percentage points to overall GDP growth, despite electricity load-shedding, logistical constraints and difficult operating conditions. The increase was broad-based, with higher production volumes in 9 of the 10 subsectors, particularly in petroleum, chemical, rubber and plastic products; basic iron and steel, non-ferrous metal products, metal products and machinery; motor vehicles, parts and accessories and other transport equipment; as well as wood and wood products, paper, publishing and printing. These increases were somewhat offset by a decrease in the production of food and beverages after a notable increase in the previous quarter. Petroleum production in the second quarter of 2023 was likely boosted by the re-opening of a refinery, while the competitiveness of South Africa’s exports benefitted the production of motor vehicles, parts and accessories and other transport equipment.

Real gross value added by the manufacturing sector



Physical volume of manufacturing production: selected subsectors



Seasonally adjusted
Source: Stats SA



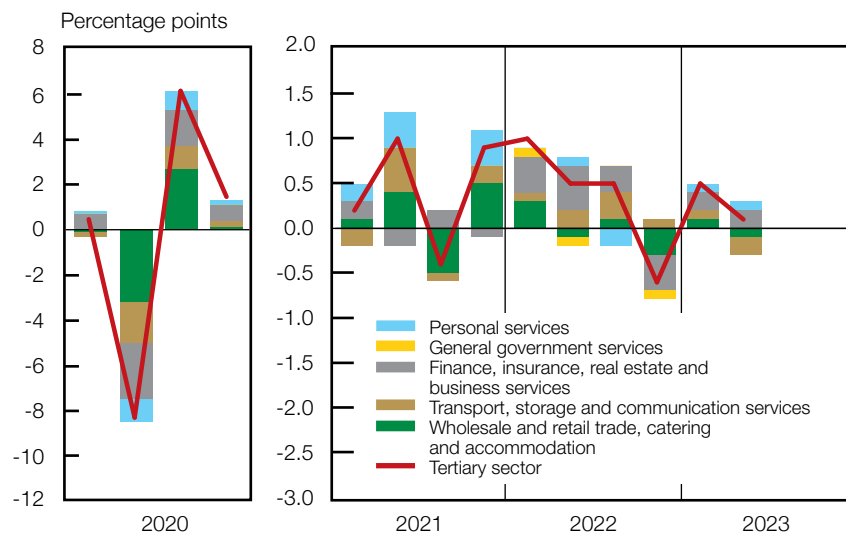
The average level of real manufacturing output in the first half of 2023 remained essentially unchanged compared with the corresponding period of 2022. Notwithstanding the increase in manufacturing production in the second quarter of 2023, the seasonally adjusted utilisation of production capacity in the manufacturing sector decreased from 78.2% in February 2023 to 77.8% in May as business confidence among manufacturers remained subdued. The overall outlook for the sector remains challenging despite the short-term increase in production, with the level of real manufacturing output in the second quarter of 2023 still 4.1% lower than the average level in 2019. Manufacturing production is anticipated to be constrained by subdued domestic and global demand.

The level of real economic activity in the sector supplying *electricity, gas and water* contracted further by 0.8% in the second quarter of 2023, marking a fifth consecutive quarterly contraction. The average level of real output in the electricity, gas and water sector in the first half of 2023 was 6.5% lower compared with the corresponding period of 2022. The decline in both electricity production and consumption reflected ongoing electricity load-shedding and challenges with infrastructure as well as lower electricity demand by both businesses and private households following investments in alternative electricity generation capabilities. Water supply to reservoirs and tower zones was severely impacted by a fire at one of the major substations during the quarter.

The real GVA by the *construction sector* decreased by 0.4% in the second quarter of 2023 following three quarters of expansion. This reflected reduced activity in residential and non-residential buildings, while civil construction activity increased over the period. Despite the decrease in the second quarter, the average level of real construction output in the first half of 2023 was 4.2% higher than in the corresponding period of 2022 but still 20.4% below the average level recorded prior to the pandemic in 2019.

The real GVA by the *tertiary sector* increased by 0.2% in the second quarter of 2023 and contributed 0.1 percentage points to overall GDP growth. Real output increased in the finance, insurance, real estate and business services sector as well as in the general government and personal services sectors. By contrast, the real output of the commerce and the transport, storage and communication services sectors contracted over the period.

Contributions to real gross value added by the tertiary sector



Source: Stats SA

The real output of the *commerce sector* contracted by 0.4% in the second quarter of 2023 following an expansion of 0.7% in the first quarter. Real economic activity decreased in the retail and wholesale trade subsectors but increased in the motor trade, catering and accommodation services subsectors. The decline in the retail trade subsector was broad-based and reflected lower sales by general dealers; retailers in food, beverages and tobacco in specialised stores; as well as in the ‘all other’ retailers category. Weaker wholesale trade activity reflected lower sales of agricultural raw materials and livestock as well as solid, liquid and gaseous fuels and related products.

Despite higher interest rates, activity levels in the motor trade subsector were maintained as new vehicle sales were supported by the launch of numerous new models. In addition, the GVA by the catering and accommodation subsector benefitted from increased domestic and international tourism. The overall decrease in the output of the commerce sector reflected the adverse impact of electricity load-shedding, constrained disposable income, rising input costs and high unemployment. Consequently, the average level of real output in the commerce sector in the first half of 2023 was 1.2% lower than in the corresponding period of 2022.

After expanding for six consecutive quarters, the real GVA by the *transport, storage and communication services sector* contracted by 1.9% in the second quarter of 2023 and deducted 0.2 percentage points from overall real GDP growth. The decline was largely driven by land transportation and transport support services, which were affected by truck torching incidents, while passenger journeys by rail increased from a very low base. Nonetheless, the average level of real output in the first two quarters of 2023 was 5.6% higher than in the corresponding period of 2022.

The real output in the *finance, insurance, real estate and business services sector* increased from 0.6% in the first quarter of 2023 to 0.7% in the second quarter. This growth was driven by increased activity in the financial intermediation and real estate subsectors. Banking activity expanded as rental and other income continued to grow in the second quarter of 2023. The sector’s average level of real GVA in the first half of 2023 was 1.5% higher than in the corresponding period of 2022.

The increase in real GVA by the *general government services sector* of 0.6% in the second quarter of 2023 reflected an increase in the number of government employees, specifically contract workers and those employed through the Presidential Youth Employment Initiative (PYEI).

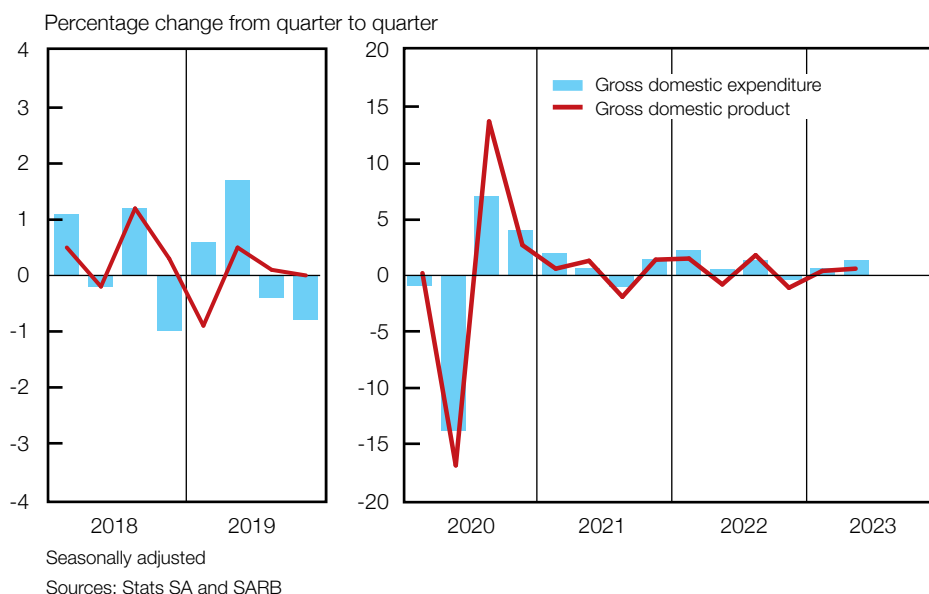
The real output of the *personal services sector* increased by 0.7% and contributed 0.1 percentage points to overall real GDP growth in the second quarter of 2023 as activity in health and education increased over the period.

Real gross domestic expenditure²

Following the increase in real GDP, growth in real *gross domestic expenditure* (GDE) accelerated to 1.3% in the second quarter of 2023 from 0.6% in the first quarter. Both real gross fixed capital formation and final consumption expenditure by general government expanded alongside a notably stronger accumulation of real inventory holdings. By contrast, real final consumption expenditure by households contracted in the second quarter of 2023, in line with a slowdown in real retail trade sales. The level of real GDE was 2.3% higher in the first half of 2023 compared with the corresponding period of 2022.

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

Real gross domestic product and expenditure



Real gross domestic expenditure

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

Component	2022				Year ¹	2023	
	Q1	Q2	Q3	Q4		Q1	Q2
Final consumption expenditure							
Households.....	1.2	0.1	-0.1	0.7	2.5	0.4	-0.3
General government.....	0.9	-0.9	0.5	-0.7	1.0	1.3	1.7
Gross fixed capital formation	2.9	0.4	0.4	1.5	4.8	1.8	3.9
Domestic final demand ²	1.4	-0.1	0.1	0.5	2.5	0.8	0.7
Change in inventories (R billions) ³	14.4	35.7	86.9	40.2	44.3	29.3	58.9
Residual ⁴	0.1	0.2	0.3	0.3	0.2	0.4	0.4
Gross domestic expenditure ⁵	2.2	0.5	1.3	-0.4	3.9	0.6	1.3

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

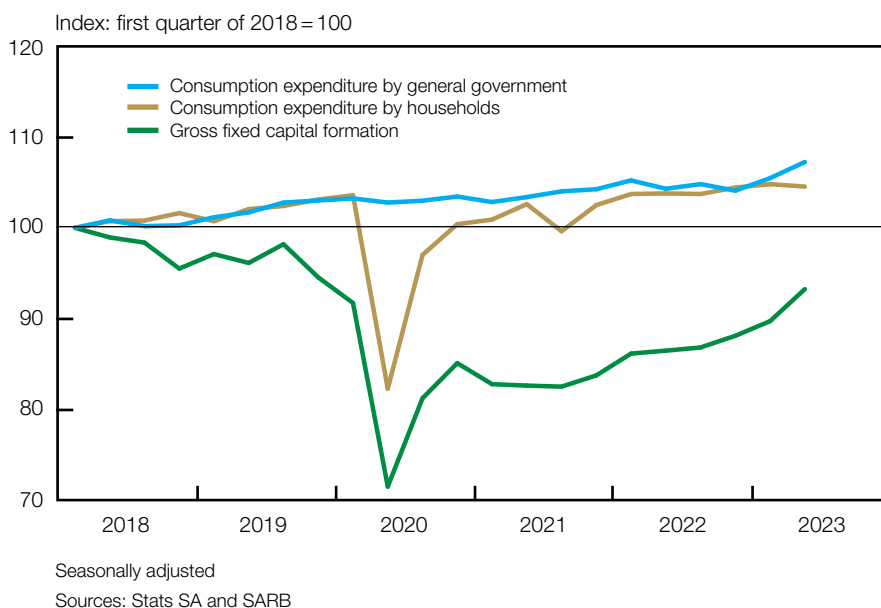
5 Including the residual

Sources: Stats SA and SARB

Real gross fixed capital formation and the increase in real inventory holdings each contributed 0.6 percentage points to growth in real GDP in the second quarter of 2023, with real final consumption expenditure by general government contributing a further 0.3 percentage points. By contrast, real net exports and final consumption expenditure by households deducted 0.8 and 0.2 percentage points respectively from growth in the second quarter of 2023.



Components of real gross domestic final demand



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

Percentage points

Component	2022					2023	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Final consumption expenditure							
Households.....	0.8	0.0	0.0	0.5	1.6	0.2	-0.2
General government.....	0.2	-0.2	0.1	-0.1	0.2	0.3	0.3
Gross fixed capital formation	0.4	0.1	0.1	0.2	0.7	0.3	0.6
Change in inventories	0.8	0.5	1.1	-1.0	1.3	-0.2	0.6
Residual	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Gross domestic expenditure	2.2	0.5	1.3	-0.4	3.9	0.7	1.4
Net exports	-0.7	-1.3	0.5	-0.7	-2.0	-0.3	-0.8
Gross domestic product	1.5	-0.8	1.8	-1.1	1.9	0.4	0.6

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

Sources: Stats SA and SARB

Growth in the real *exports* of goods and services moderated to 0.9% in the second quarter of 2023 following a notable increase of 4.3% in the first quarter. The real exports of mining products remained unchanged as the contraction in precious metals (including gold, PGMs and stones) as well as base metals and articles thereof was countered by an increase in the exports of mineral products. Higher real exports of vehicles and transport equipment; machinery and electrical equipment; chemical products; as well as prepared foodstuffs, beverages and tobacco supported a further increase in the real exports of manufactured goods. The volume of agricultural exports contracted due to the reduced exports of vegetable products, while services exports increased at a slower pace.

Real exports and imports of goods and services

Quarter-to-quarter percentage change*

Component	2023					
	Exports			Imports		
	Percentage of total**	Q1***	Q2***	Percentage of total**	Q1***	Q2***
Total	100.0	4.3	0.9	100.0	4.8	3.3
Mining	42.0	2.7	0.0	19.2	-3.1	-1.3
<i>Of which:</i>						
Mineral products.....	16.2	-5.4	1.7	13.7	-4.4	-4.8
Precious metals including gold, platinum group metals and stones	13.3	-6.4	-1.7	1.1	7.1	-3.5
Base metals and articles thereof.....	12.6	24.0	-0.3	4.4	-1.2	10.7
Manufacturing	36.7	3.6	2.5	62.9	9.9	3.3
<i>Of which:</i>						
Vehicles and transport equipment	10.8	-0.6	2.5	12.5	5.2	-11.5
Machinery and electrical equipment	7.8	5.2	3.1	23.5	19.1	18.1
Chemical products	6.5	3.8	5.2	11.8	7.6	-10.8
Prepared foodstuffs, beverages and tobacco.....	4.3	11.3	6.3	2.1	19.4	-2.3
Agriculture	9.7	8.5	-6.0	4.4	-2.7	21.1
<i>Of which:</i>						
Vegetable products	8.2	10.2	-8.7	2.1	1.4	23.6
Services	11.3	8.6	4.8	13.3	-5.2	4.4

* Based on seasonally adjusted and annualised data

** Expressed as a percentage of the total in 2022

*** Not annualised

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

Sources: SARS, Stats SA and SARB

Real *imports* of goods and services increased at a slower pace of 3.3% in the second quarter of 2023 as opposed to 4.8% in the first quarter. Real mining imports contracted further as the decline in mineral products and precious metals (including gold, PGMs and stones) outweighed the increase in base metals and articles thereof. The slower growth in real manufacturing import volumes reflected lower real imports of vehicles and transport equipment, chemical products as well as prepared foodstuffs, beverages and tobacco, which were countered by an increase in real imports of machinery and electrical equipment. Real imports of both agricultural products and services increased in the second quarter of 2023 after decreasing in the preceding quarter.

Real *net exports* subtracted 0.8 percentage points from real GDP growth in the second quarter of 2023, with manufactured and agricultural products each deducting 0.4 percentage points, while mining products contributed 0.1 percentage points. Real net exports of machinery and electrical equipment subtracted the most from real net manufacturing exports. Real net mining exports were largely supported by the positive contribution of mineral products.

Real *final consumption expenditure by households* contracted by 0.3% in the second quarter of 2023 following a modest increase of 0.4% in the first quarter. Real spending on durable goods declined further, while real outlays on semi-durable and non-durable goods reverted to contractions from expansions in the previous quarter. By contrast, real expenditure on services increased in the second quarter of 2023 after decreasing in the first quarter. Despite a deceleration in consumer price inflation, the contraction in real final household consumption expenditure aligned with the decline in the real disposable income of households, which was affected by higher interest rates and a further deterioration in consumer confidence in the second quarter. However, the level of real spending by households in the first half of 2023 was still 0.7% higher than in the corresponding period of 2022.



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

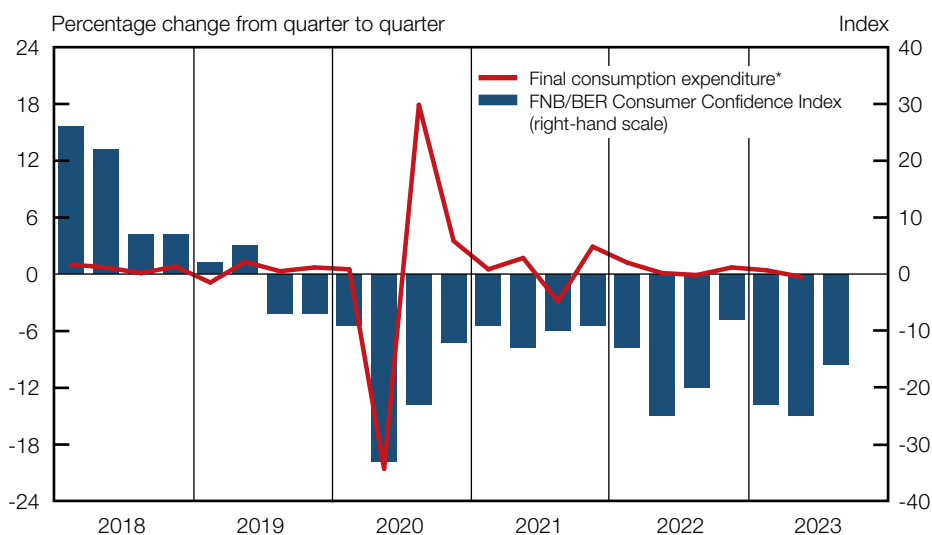
Percentage points

Component	2023					
	Exports		Imports*		Net exports	
	Q1	Q2	Q1	Q2	Q1	Q2
Total	1.2	0.2	1.4	1.0	-0.3	-0.8
Mining	0.3	0.0	-0.2	-0.1	0.5	0.1
<i>Of which:</i>						
Mineral products.....	-0.2	0.1	-0.2	-0.2	0.0	0.3
Precious metals, including gold, platinum group metals and stones.....	-0.2	-0.1	0.0	0.0	-0.2	0.0
Base metals and articles thereof.....	0.8	0.0	0.0	0.1	0.8	-0.1
Manufacturing	0.4	0.3	1.8	0.7	-1.5	-0.4
<i>Of which:</i>						
Vehicles and transport equipment	0.0	0.1	0.2	-0.5	-0.2	0.6
Machinery and electrical equipment	0.1	0.1	1.3	1.5	-1.2	-1.4
Chemical products	0.1	0.1	0.2	-0.4	-0.2	0.5
Prepared foodstuffs, beverages and tobacco.....	0.1	0.1	0.1	0.0	0.0	0.1
Agriculture	0.2	-0.2	0.0	0.2	0.3	-0.4
<i>Of which:</i>						
Vegetable products	0.2	-0.2	0.0	0.1	0.2	-0.4
Services	0.3	0.2	-0.2	0.2	0.5	0.0

* 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

Real final consumption expenditure by households and consumer confidence



* Seasonally adjusted

Sources: BER and Stats SA

Real household expenditure on *durable goods* decreased further by 1.1% in the second quarter of 2023 following a revised decrease of 0.1% in the first quarter. The contraction was broad-based across various subsectors, including furniture and household appliances, computers and related equipment, recreational and entertainment goods, and other durable goods. Real purchases of personal transport equipment contracted at a slower pace in the second quarter along with a moderation in supply chain constraints in the automotive industry.

Real final consumption expenditure by households

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

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

* Percentage change over one year

Source: Stats SA

Real spending by households on *semi-durable goods* declined by 1.2% in the second quarter of 2023 following an increase of 2.5% in the first quarter as real outlays on most categories contracted. This included lower spending on clothing and footwear; household textiles, furnishings and glassware; and semi-durable recreational and entertainment goods. However, real outlays on motorcar tyres, parts and accessories increased further, albeit at a slower pace.

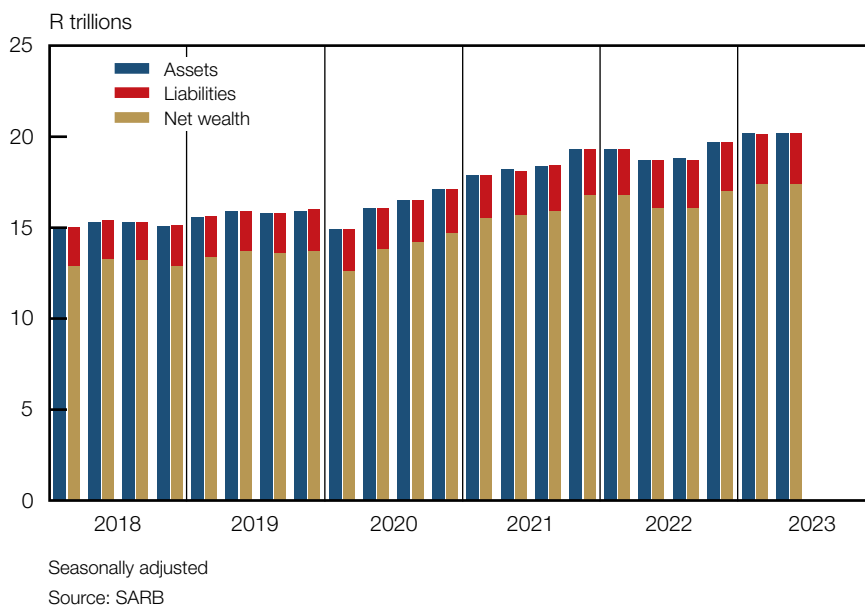
Real household spending on *non-durable goods* contracted by 1.3% in the second quarter of 2023 following an increase of 1.0% in the first quarter as real outlays on food, beverages and tobacco; household consumer goods; petroleum products and household fuel, power and water; as well as medical and pharmaceutical products declined. Higher fuel prices in the second quarter led to a decrease in passenger journeys, which affected household spending patterns on petroleum products in the quarter.

Real outlays on *services* rebounded by 0.7% in the second quarter of 2023 following a revised contraction of 0.3% in the preceding quarter. Growth in real expenditure on transport and communication services accelerated, while that on rent and medical services slowed. Expenditure on miscellaneous services reverted to an increase from a decrease in the first quarter of 2023. By contrast, real spending on household services as well as recreational, entertainment and educational services contracted in the second quarter.

Seasonally adjusted nominal *household debt* increased at the same pace in the first and second quarter of 2023. With the increase in household debt exceeding that in nominal disposable income, household debt as a percentage of nominal disposable income edged higher to 62.5% in the second quarter of 2023 from 62.3% in the first quarter. Accordingly, households' cost of servicing debt as a percentage of disposable income increased to 8.8% in the second quarter of 2023 from 8.4% in the first quarter, reflecting the combination of higher debt and the cumulative 475 basis point increase in the prime lending rate since November 2021.



Household balance sheet

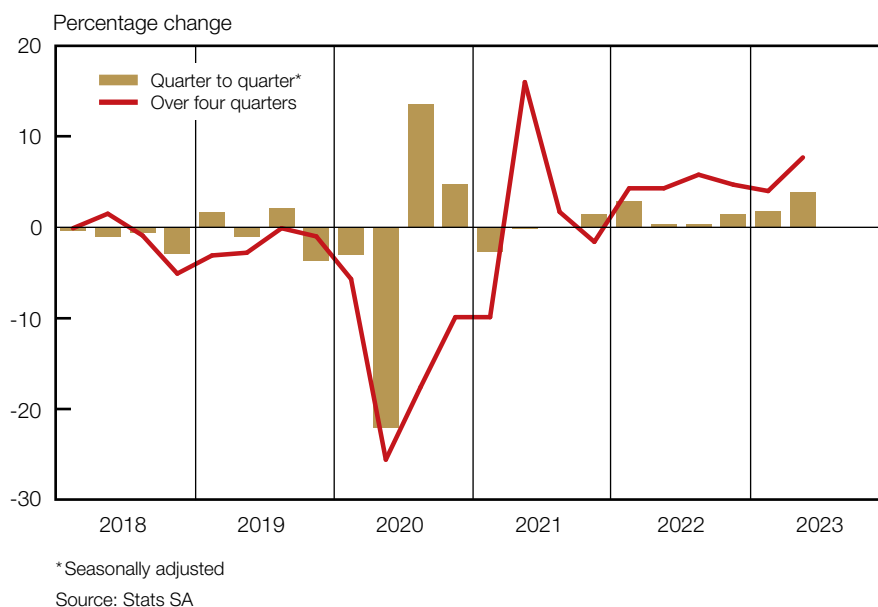


Households' net wealth increased further in the second quarter of 2023, albeit at a slower pace, as the increase in the market value of total assets outweighed that in total liabilities. Owing to the slower pace of increase in household net wealth compared to that in nominal disposable income, the ratio of net wealth to nominal disposable income decreased to 392% in the second quarter of 2023 from 397% in the first quarter.

Growth in real *final consumption expenditure by general government* accelerated to 1.7% in the second quarter of 2023 from 1.3% in the first quarter as the rate of increase in real spending on the compensation of employees accelerated, while growth in the real outlays on non-wage goods and services moderated over the period. The level of real final consumption expenditure by general government in the first half of 2023 was 1.5% higher than in the corresponding period of 2022.

Real *gross fixed capital formation* expanded further by 3.9% in the second quarter of 2023 following an increase of 1.8% in the previous quarter. Capital outlays by private business enterprises and public corporations increased, while that by general government decreased. Despite the increase in the second quarter of 2023, the level of real gross fixed capital expenditure remained 3.4% lower than the average level in 2019. However, the level in the first half of 2023 was 5.9% higher than in the corresponding period of 2022.

Real gross fixed capital formation





Growth in real gross fixed capital formation by *private business enterprises* accelerated from 0.7% in the first quarter of 2023 to 5.7% in the second quarter. The acceleration was driven by increased capital outlays on construction works, non-residential buildings, and machinery and equipment. The private sector's share of total nominal gross fixed capital formation increased from 70.8% in the first quarter of 2023 to 71.9% in the second quarter.

Real gross fixed capital formation

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

Sector	2022					2023	
	Q1	Q2	Q3	Q4	Year*	Q1	Q2
Private business enterprises	2.8	0.2	-0.5	1.8	5.2	0.7	5.7
Public corporations.....	3.5	1.7	2.3	0.2	8.2	0.8	4.2
General government.....	2.6	0.1	3.1	1.0	1.0	7.2	-2.7
Total	2.9	0.4	0.4	1.5	4.8	1.8	3.9

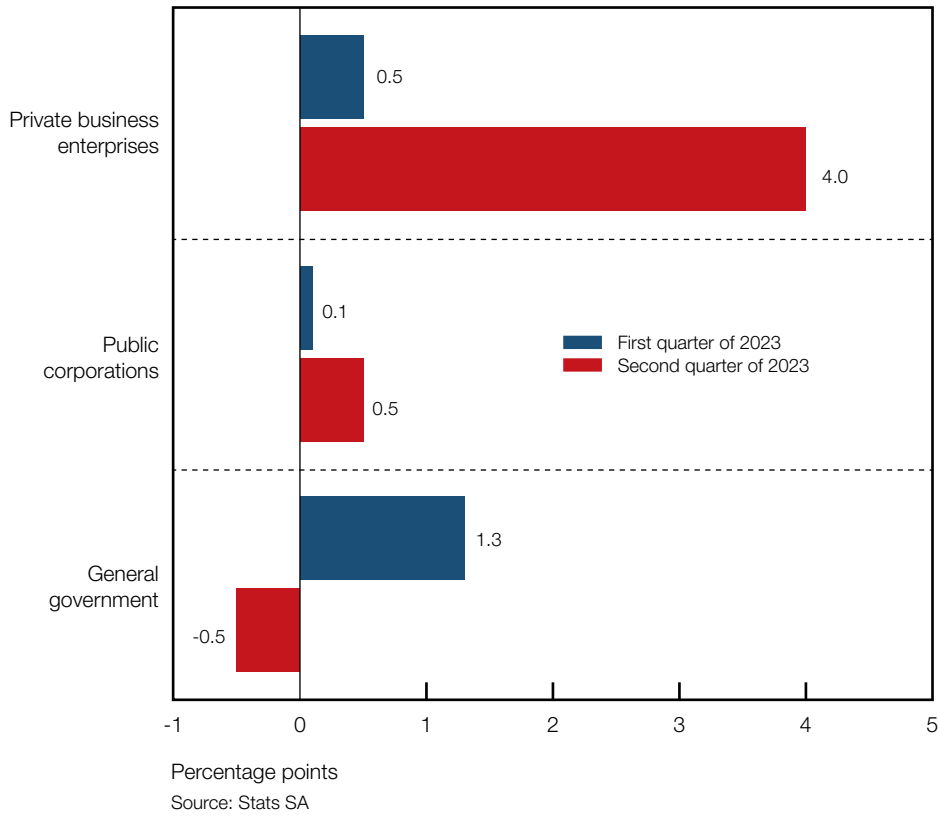
* Percentage change over one year

Source: Stats SA

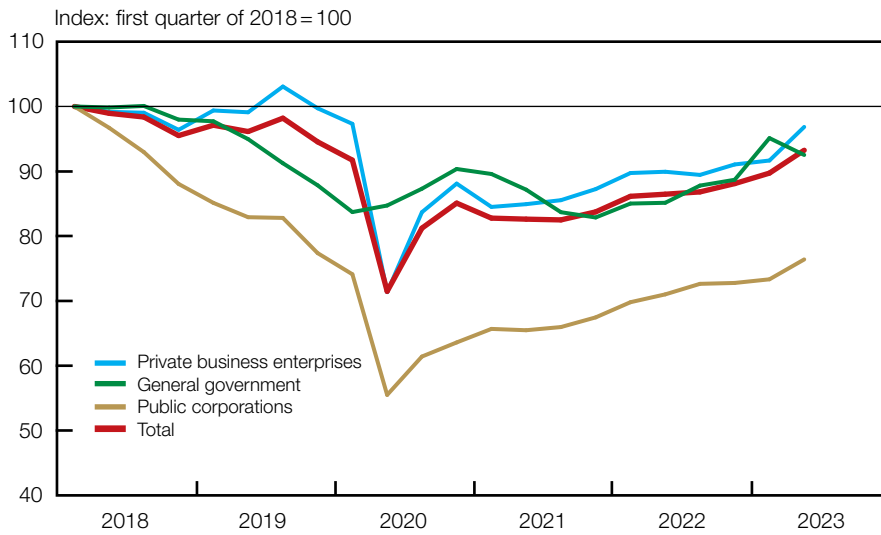
Real capital spending by the *public sector* decreased marginally by 0.1% in the second quarter of 2023 following an increase of 4.7% in the first quarter. Increased capital investment by public corporations was insufficient to offset the decrease in capital spending by general government. Real gross fixed capital outlays by *general government* decreased by 2.7% in the second quarter of 2023 and subtracted 0.5 percentage points from growth in total gross fixed capital formation, following a substantial increase of 7.2% in the preceding quarter. The marginal increase in capital outlays by local government was more than offset by reduced capital spending by both central and provincial government. As such, the share of general government in total nominal gross fixed capital expenditure decreased to 17.3% in the second quarter of 2023 from 18.4% in the first quarter.

Real gross fixed capital spending by *public corporations* increased by 4.2% in the second quarter of 2023, marking the eighth consecutive quarterly increase. The further expansion reflected increased capital outlays on residential buildings, computer equipment and transport equipment, and aided the slight increase in the share of public corporations in total nominal gross fixed capital formation from 10.8% in the first quarter of 2023 to 10.9% in the second quarter.

Contributions to growth in real gross fixed capital formation



Real gross fixed capital formation by type of organisation





Measured by asset type, real gross fixed capital outlays on machinery and equipment and on construction works increased in the second quarter of 2023, jointly contributing 4.2 percentage points to total growth in real gross fixed capital formation. Capital expenditure on all the other asset classes decreased in the second quarter of 2023.

Real *inventory holdings* increased by a further R58.9 billion (at seasonally adjusted and annualised 2015 prices) in the second quarter of 2023 following an accumulation of R29.3 billion in the first quarter. The increase in inventories contributed 0.6 percentage points to growth in real gross domestic expenditure in the second quarter of 2023. Inventory accumulation occurred mainly in the manufacturing, trade, mining and electricity sectors, which outweighed the deaccumulation in the transport sector. The re-stocking of inventories coincided with a slower pace of increase in the exports of goods relative to the imports of goods.

Gross nominal saving

The *national saving rate* (gross saving as a percentage of nominal GDP) increased from 14.3% in the first quarter of 2023 to 14.8% in the second quarter. The increase in the saving rate of corporate business enterprises outweighed the faster pace of dissaving by general government, while the saving rate of households remained unchanged. The share of total gross capital formation financed through foreign capital (the foreign financing ratio) increased from 6.1% in the first quarter of 2023 to 13.5% in the second quarter.

Gross saving as a percentage of gross domestic product

Ratio in per cent based on seasonally adjusted and annualised data

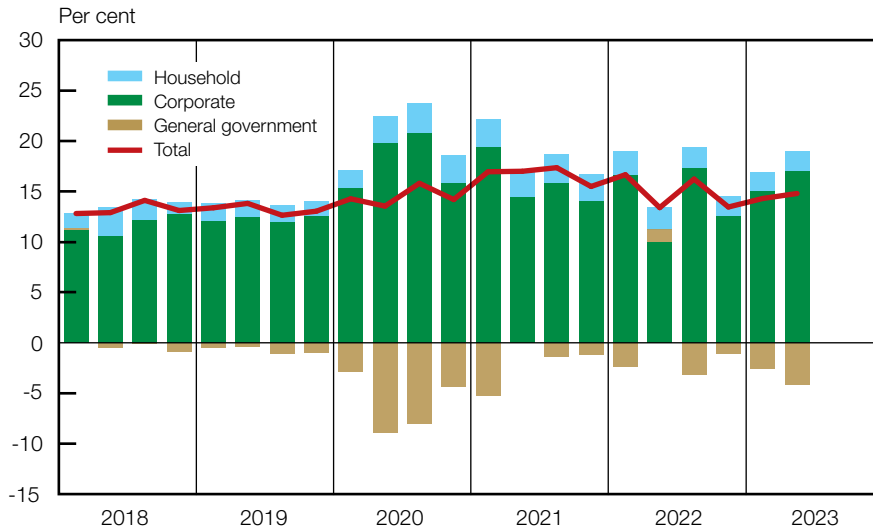
Sector	2022					2023	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Corporate.....	16.6	9.9	17.3	12.5	14.1	15.0	17.0
General government.....	-2.3	1.3	-3.2	-1.1	-1.3	-2.6	-4.1
Household.....	2.4	2.2	2.1	2.0	2.2	1.9	1.9
Total.....	16.7	13.4	16.2	13.5	14.9	14.3	14.8

Source: Stats SA and SARB

Gross saving by the *corporate sector* as a percentage of nominal GDP increased from 15.0% in the first quarter of 2023 to 17.0% in the second quarter, reflecting the increase in the seasonally adjusted operating surplus together with lower seasonally adjusted dividend and tax payments. Dissaving by *general government* as a percentage of nominal GDP increased from 2.6% in the first quarter to 4.1% in the second quarter. The quarterly increase in government's seasonally adjusted nominal expenditure exceeded that in its seasonally adjusted nominal revenue collection. The saving rate of the *household sector* remained unchanged at 1.9% in the second quarter as the increase in seasonally adjusted disposable income marginally outweighed that in seasonally adjusted nominal consumption expenditure.



Gross saving as a percentage of gross domestic product



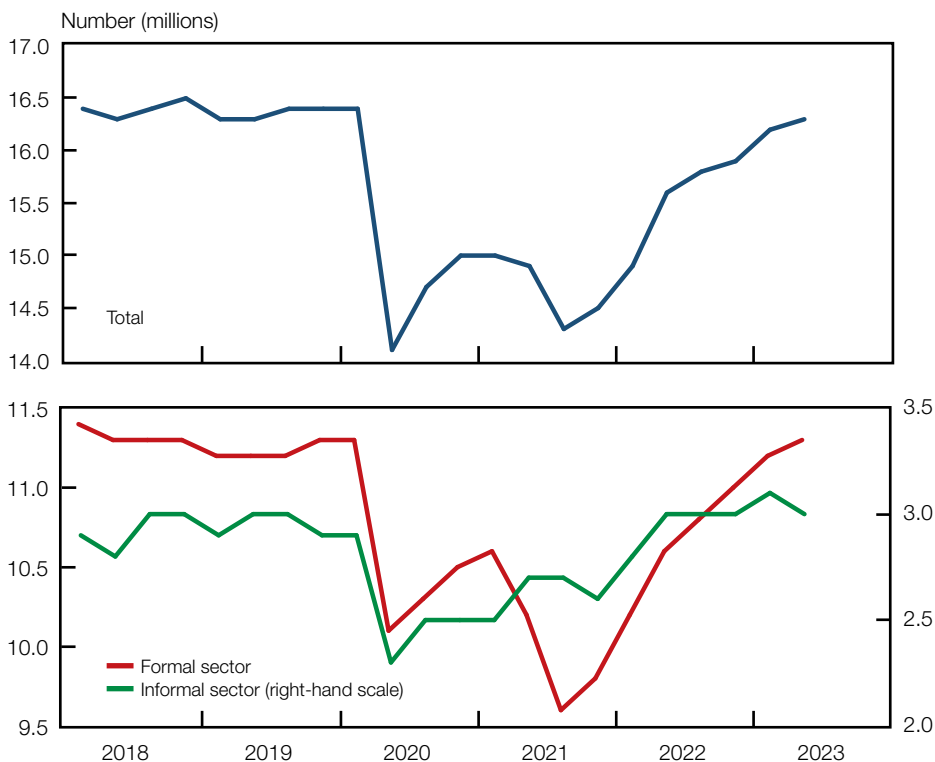
Source: SARB

Employment

Total household-surveyed employment increased by 154 000 (1.0%) in the second quarter of 2023, according to Statistics South Africa's (Stats SA) *Quarterly Labour Force Survey (QLFS)*,³ marginally surpassing its pre-COVID-19 level following a sustained increase since the fourth quarter of 2021. Formal sector employment increased by 143 000 (1.3%), while private household sector employment increased by 37 000 (3.5%) and agricultural sector employment increased by 7 000 (0.8%). By contrast, informal sector employment decreased by 33 000 (1.1%) in the second quarter.

³ Stats SA noted that the response rate of the QLFS was 89.3% in the second quarter of 2023, up from 88.6% in the first quarter (and 78.7% in the second quarter of 2022).

Household-surveyed employment



Source: Stats SA

Construction sector employment increased by 104 000 (8.6%) in the second quarter of 2023 followed by the wholesale and retail trade sector at 92 000 (2.8%); the community, social and personal services sector at 63 000 (1.6%); and the mining sector at 31 000 (7.5%). Nevertheless, the year-on-year pace of increase in total household-surveyed employment slowed in the second quarter of 2023, recording an increase of 784 000 (5.0%) compared with an increase of 1.28 million (8.6%) reported in the first quarter. The total number of new and renewed job postings on the PNet web platform increased by 3.1% in the second quarter of 2023, with total job postings 11.0% higher in August 2023 than in August 2019, before the onset of COVID-19. However, the employment outlook remains exposed to muted growth in economic activity as affected by, among other things, electricity load-shedding, weak business confidence and higher interest rates.

Employment contracts of limited duration increased by 9.1% on a quarter-to-quarter and seasonally adjusted basis in the second quarter of 2023, partly reflecting the second cohort of Phase IV of the PYEI that commenced in May 2023 in the basic education sector. Employment contracts of a permanent nature increased only marginally by 0.2%, while those of an unspecified duration decreased by 1.7% in the second quarter of 2023.

Household-surveyed labour market statistics

	Number (thousands)				Quarter-to-quarter change		Percentage change over four quarters
	2022		2023		2023 Q2		
	Q2	Q4	Q1	Q2	Number	Per cent	Per cent
a. Total employed	15 562	15 934	16 192	16 346	154	1.0	5.0
b. Total unemployed (official definition).....	7 994	7 753	7 933	7 921	-11	-0.1	-0.9
c. Total labour force (a+b).....	23 556	23 688	24 125	24 268	143	0.6	3.0
d. Total not economically active	16 621	16 774	16 479	16 478	-1	0	-0.9
e. Population 15–64 years (c+d)	40 177	40 462	40 604	40 746	142	0.3	1.4
f. Official unemployment rate* (b/c)*100	33.9%	32.7%	32.9%	32.6%	—	—	—
g. Discouraged	3 568	3 363	3 276	3 182	-94	-2.9	-10.8
h. Other reasons for not searching for work.....	1 146	1 136	1 259	1 252	-8	-0.6	9.2
i. Expanded unemployment rate**	44.1%	42.6%	42.4%	42.1%	—	—	—

* Stats SA follows the ILO definition of calculating the official unemployment rate, which is internationally comparable.

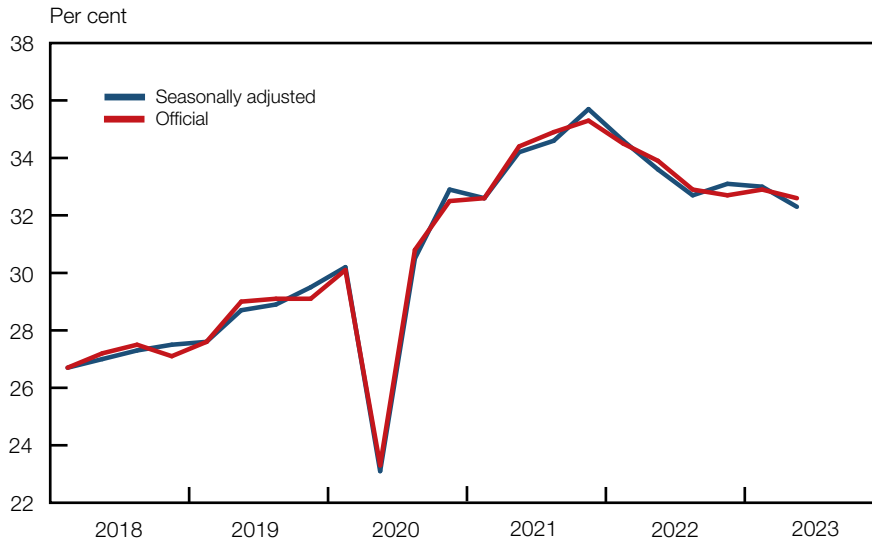
** The expanded unemployment rate is calculated by Stats SA's in-house formula and is not internationally comparable.

Source: Stats SA

The total labour force increased to 24.3 million in the second quarter of 2023 as, along with the increase in the total number of employed persons, the number of officially unemployed persons in South Africa decreased by 11 000 (0.1%) to 7.92 million. Consequently, South Africa's official unemployment rate decreased from 32.9% in the first quarter of 2023 to 32.6% in the second quarter. Similarly, the seasonally adjusted nominal unemployment rate decreased from 33.0% to 32.3% over the same period.



Unemployment rate

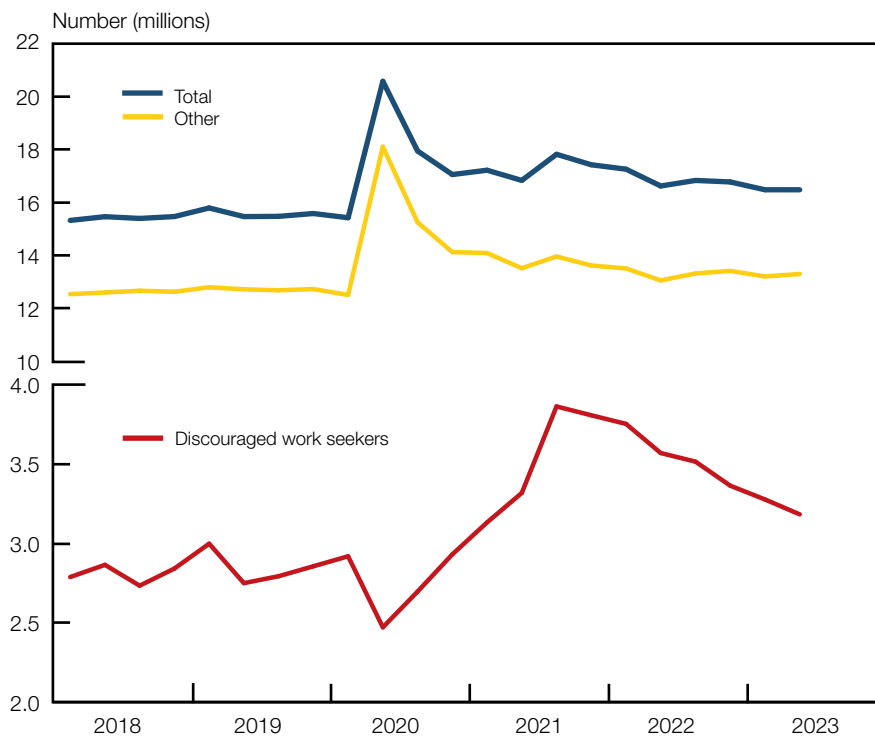


Sources: Stats SA and SARB

The total number of officially unemployed persons in the second quarter of 2023 comprised 44.5% new entrants, 26.7% job losers, 22.2% having last worked five years ago, 3.6% re-entrants and 3.0% job leavers. The proportion of long-term unemployment (being unemployed for one year or longer) to total unemployment remained elevated and has increased steadily over the past decade, from 66.7% in the second quarter of 2013 to 77.3% in the second quarter of 2023. The International Labour Organization (ILO) expects the global unemployment rate to decrease by 0.1 percentage points (about 1.0 million people) to 5.3% (191 million people) in 2023 as unemployment returns to pre-pandemic levels.⁴

4 International Labour Organization, 'A global employment divide: low-income countries will be left further behind without action on jobs and social protection', *ILO Monitor on the world of work*, eleventh edition, May 2023. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms_883341.pdf.

Not economically active population



Source: Stats SA

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

6 The jobs gap indicator is a novel indicator developed by the ILO, capturing all persons who would like to work but do not have a job. It incorporates all jobseekers or others who would work if they could and is a useful complement to the unemployment rate as it provides a more comprehensive view of labour underutilisation. See https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms_883341.pdf

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

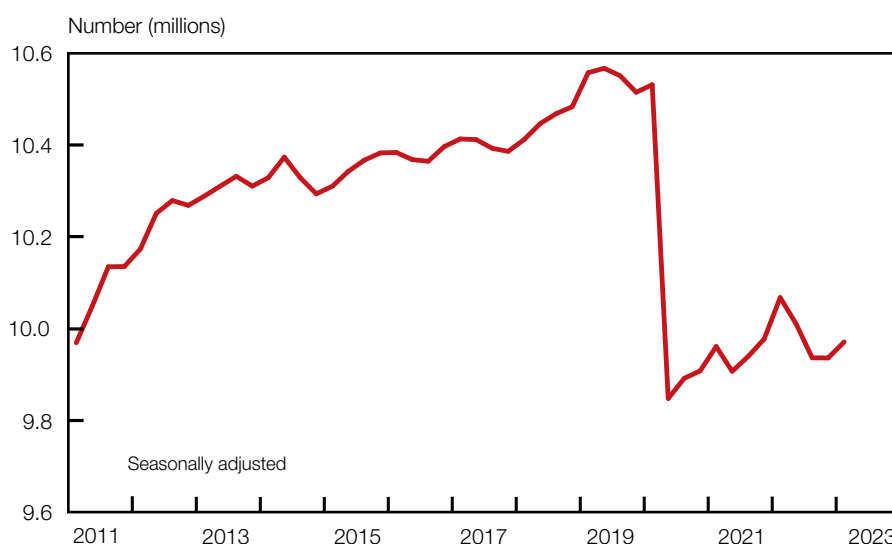
The youth unemployment rate (those aged 15–24 years and actively searching for work) decreased to 60.7% in the second quarter of 2023, with 34.1% (36.1% in the first quarter) or 3.5 million out of 10.2 million of these young persons not being in either employment, education or training. Similarly, the unemployment rate of those aged between 25 and 35 years decreased from 40.7% in the first quarter of 2023 to 39.8% in the second quarter. Furthermore, education levels seem to be an important catalyst for obtaining employment, since persons with education levels of 'only Matric' and 'less than Matric' experienced elevated rates of unemployment in South Africa at 35.2% (35.6% in the first quarter) and 38.3% (37.6% in the first quarter) respectively in the second quarter of 2023.

The not economically active population remained broadly unchanged from the first quarter of 2023 to the second quarter, with the decrease of 94 000 (2.9%) in discouraged work seekers almost matched by the increase of 93 000 (0.7%) in *other*⁵ not economically active persons. The expanded unemployment rate, which includes discouraged work seekers, decreased for two successive quarters to 42.1% in the second quarter of 2023 as the number of discouraged work seekers decreased further. According to the ILO, the global jobs gap indicator⁶ is expected to reach 11.7% (453 million people) in 2023 – more than double the number of unemployed persons globally.

Encouragingly, the labour force participation rate increased slightly further from 59.4% in the first quarter of 2023 to 59.6% in the second quarter, while the labour absorption rate (the percentage of the working age population (15–64 years) who are employed) increased from 39.9% to 40.1% over the same period, consistent with the rise in employment during the quarter.

*Enterprise-surveyed formal non-agricultural employment*⁷ increased by 1.4% in the first quarter of 2023 following three successive quarterly decreases. The 35 000 jobs gained in the first quarter raised the level of such employment to 10 million and reflected the resumption of temporary employment contracts in the public sector alongside marginal job shedding in the private sector.

Formal non-agricultural employment



Excluding election-related outliers

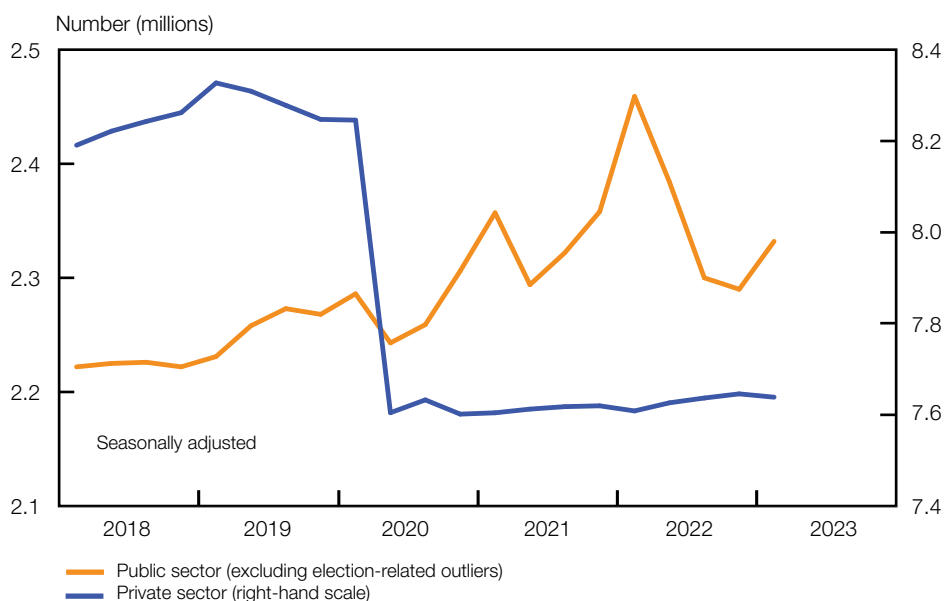
Sources: Stats SA and SARB

Public sector employment increased by 42 400 (7.6%) in the first quarter of 2023 after shedding 168 700 jobs in the three quarters up to the fourth quarter of 2022. This largely reflected the resumption of the PYEI at provincial level, of which the first cohort of Phase IV commenced



in February 2023, as well as the Expanded Public Works Programme, which supported employment at local government level. By contrast, the headcount was reduced in all other tiers of the public sector.

Public and private sector employment



Sources: Stats SA and SARB

Private sector employment remained muted and decreased by 7 400 (0.4%) in the first quarter of 2023, with job losses occurring in three of the eight subsectors. Labour paring was most pronounced in the finance, insurance, real estate and business services sector (13 700), followed by the construction sector (3 100) and the private transport, storage and communication services sector (600). This outweighed the job gains in the private community, social and personal services sector (3 400), the trade, catering and accommodation services sector (3 000), the mining sector (2 100) and the manufacturing sector (1 500).

Mining sector employment increased in the first quarter of 2023, albeit at a much slower pace than in the preceding quarter, supported by job gains in both the non-gold mining and gold-mining subsectors. The ongoing domestic electricity and logistical constraints weighed on investment and employment in the mining sector, alongside an uncertain global economic environment and lower international commodity prices.

Manufacturing sector employment increased further in the first quarter of 2023, albeit at a marginally slower pace, consistent with the increase in the real gross value added by the sector. However, manufacturing business confidence⁸ remained unchanged at a low 17 index points in the second quarter of 2023 as the survey period coincided with severe electricity load-shedding, which reduced the number of hours worked. The low business confidence constrained fixed investment outlays, with capital expenditure directed towards alternative energy.

Construction sector employment decreased for the sixth consecutive quarter in the first quarter of 2023 with a cumulative loss of 208 500 jobs, resulting in employment in this sector being 10.2% below the pandemic-induced low recorded in the second quarter of 2020. The First National Bank/Bureau for Economic Research (FNB/BER) Building Confidence Index fell from 33 index points in the first quarter of 2023 to 28 in the second quarter – the lowest level since late 2020 – with sentiment more pessimistic across most of the subsectors. Confidence among residential and non-residential builders declined in the second quarter of 2023 due to lower activity and renewed pressure on overall profitability, while a decline in orders placed affected the outlook for activity. Civil construction confidence⁹ edged one point lower to 41 in the second

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

9 As measured by the FNB/BER Civil Confidence Index.

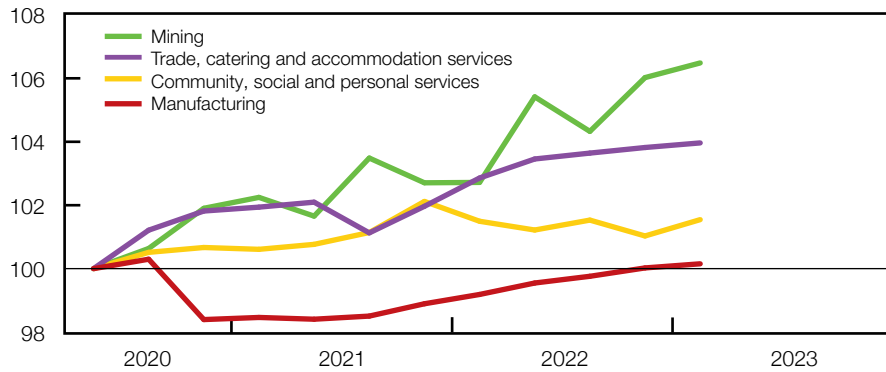


quarter of 2023 as overall profitability declined, while growth in construction activity accelerated to a multi-year high. The survey results suggested that the increase in civil construction work registered since late-2022 would likely continue into the second half of 2023.

Private sector employment

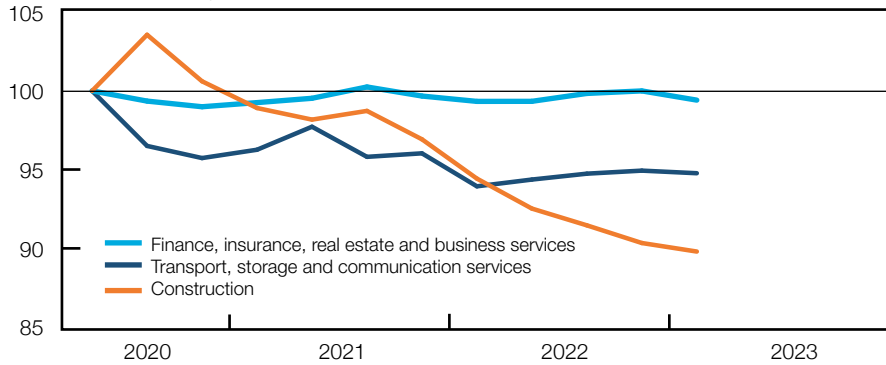
Post-pandemic gains

Index: second quarter of 2020 = 100



Post-pandemic losses

Index: second quarter of 2020 = 100



Seasonally adjusted

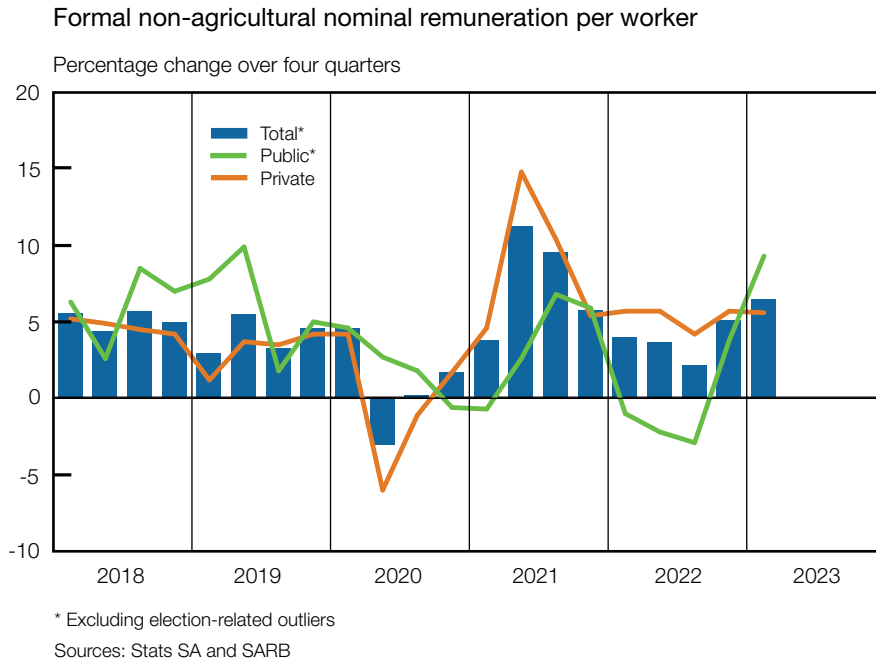
Sources: Stats SA and SARB

Employment in the trade, catering and accommodation services sector increased for the sixth successive quarter in the first quarter of 2023, with the pace of increase slowing somewhat. Despite these employment outcomes, the BER's *Retail Survey* for the second quarter of 2023 still suggested a sector under pressure as the retailer confidence index declined further to a three-year low of 20 points from 34 points in the first quarter. The substantial decline in retailer confidence mostly reflected a marked deterioration in profitability, largely due to the cost of mitigating severe electricity load-shedding. In addition, higher debt-service costs due to an increase in interest rates have eroded households' disposable income, amid below-inflation wage growth and the partial post-pandemic recovery in employment.

The *finance, insurance, real estate and business services sector* shed 13 700 jobs in the first quarter of 2023, partially reversing the cumulative 15 600 jobs gained in the previous three quarters. Likewise, *employment in the transport, storage and communication services sector* decreased marginally in the first quarter of 2023, following three consecutive quarters of job gains.

Labour cost and productivity

The year-on-year pace of increase in *formal non-agricultural nominal remuneration per worker* accelerated further from 5.3% in the fourth quarter of 2022 to 6.4% in the first quarter of 2023, with nominal remuneration growth per worker quickening in the public sector while slowing marginally in the private sector.



Nominal remuneration growth per private sector worker moderated slightly from 5.7% in the fourth quarter of 2022 to 5.6% in the first quarter of 2023 as nominal remuneration growth decelerated in three of the eight subsectors. In particular, nominal wages per worker contracted marginally in the trade, catering and accommodation services sector, largely due to substantially lower bonus payments as well as basic salaries and wages than a year earlier.

The rate of increase in *nominal remuneration per public sector worker* accelerated further from 5.1% in the fourth quarter of 2022 to 9.3% in the first quarter of 2023. This largely reflected a marked acceleration in nominal remuneration growth at national department level from the low base created by the significant number of low-earning temporary census workers employed by Stats SA a year earlier. Growth in nominal remuneration per worker at local government level and in the public transport, storage and communication services sector also accelerated.

The *average wage settlement rate in collective bargaining agreements* was 6.4% in the first half of 2023 compared with 6.1% in the corresponding period of 2022 and an overall annual average of 6.0% in 2022, according to Andrew Levy Employment Publications. Most of the respondents expect wage settlements to converge in the 6–8% range in 2023 and to moderate in line with consumer price inflation. The *number of working days lost due to industrial action* rose notably to 4.6 million in the first half of 2023 compared with 1.6 million in the same period of 2022, largely due to the nationwide public sector strike in March 2023.



Labour productivity and nominal unit labour cost



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

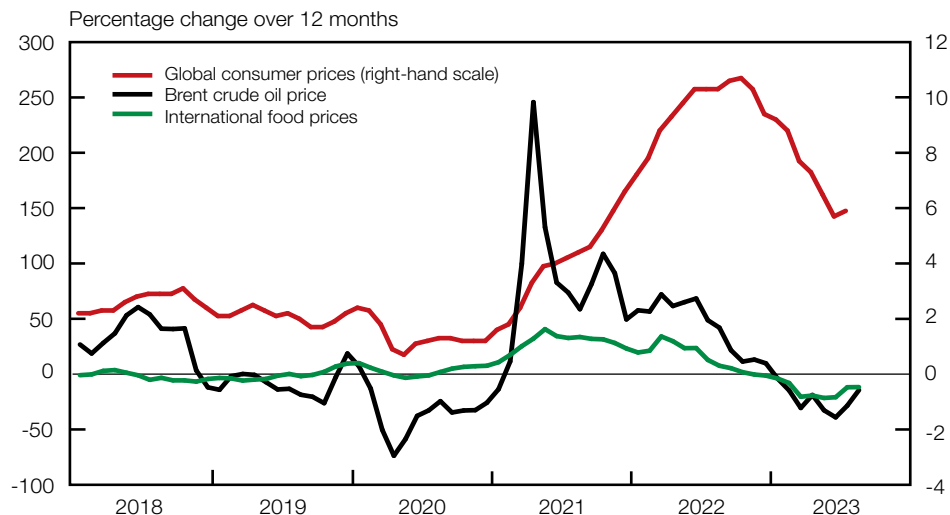
Labour productivity growth in the formal non-agricultural sector slowed further from 1.5% in the fourth quarter of 2022 to 1.2% in the first quarter of 2023 as year-on-year output growth moderated at a faster pace than that in employment. However, growth in *nominal unit labour cost* in the formal non-agricultural sector quickened from 3.5% in the fourth quarter of 2022 to 5.1% in the first quarter of 2023 as year-on-year growth in total remuneration accelerated, while that in output slowed. Growth in economy-wide nominal unit labour cost moderated from 4.0% in the first quarter of 2023 to 3.3% in the second quarter as year-on-year output growth quickened at a faster pace than that in the compensation of employees.

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

Prices¹⁰

Global consumer price inflation peaked at 10.7% in October 2022 and then slowed for eight consecutive months to 5.7% in June 2023 before accelerating somewhat to 5.9% in July. The general downward trend was largely due to lower international crude oil and food prices as well as the effect of tighter monetary policy. Domestic inflationary pressures also eased substantially at both the producer and consumer levels in July 2023.

Global consumer, food and crude oil prices



Sources: FAO, OECD and Stats SA

Domestic headline consumer price inflation moderated for a fourth successive month to 4.7% in July 2023 before quickening slightly to 4.8% in August. The moderation was largely due to notable disinflation in consumer food prices to 8.2% and deflation of 11.7% in domestic fuel prices in August. Food and fuel prices have weightings of 15.3% and 4.8% respectively in the overall consumer price index. Headline consumer price inflation of 5.4% in June 2023 signalled the return of inflation to the inflation target range of 3–6% for the first time since April 2022.

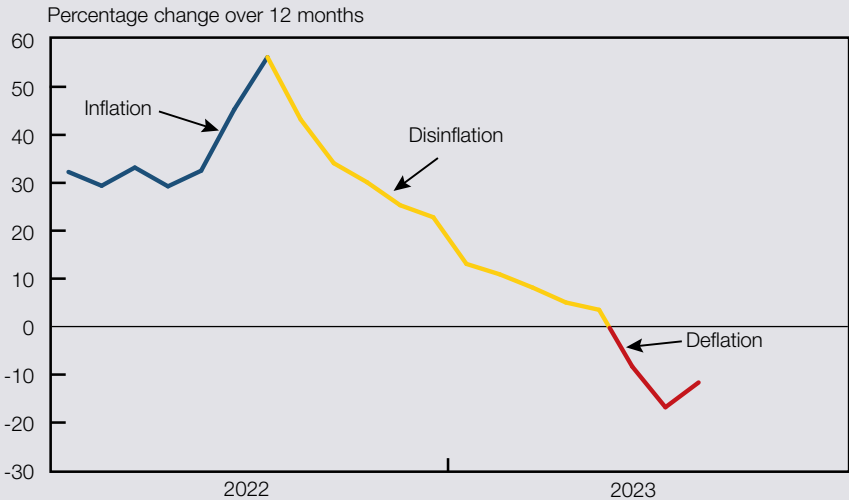
Box 1 Understanding the difference between inflation, disinflation and deflation

Changes in the level of the prices of goods and services in an economy over a specific period can be labelled as either inflation, disinflation or deflation, depending on the characteristics of the specific change.

In this context, the price level is the weighted average price of a fixed basket of consumer goods and services of constant quality and similar characteristics over time, and the change in the general price level is usually expressed as the percentage change over 12 months in the consumer price index (CPI) as compiled by Statistics South Africa (Stats SA).

Inflation is a sustained year-on-year increase in the general price level in an economy which gradually reduces the purchasing power of money. *Disinflation* refers to a deceleration in the rate of inflation and occurs when the general price level is still increasing but at a slower pace than before. By contrast, *deflation* is a decrease in the general price level, as reflected by year-on-year declines in the CPI.

Fuel price inflation



Source: Stats SA

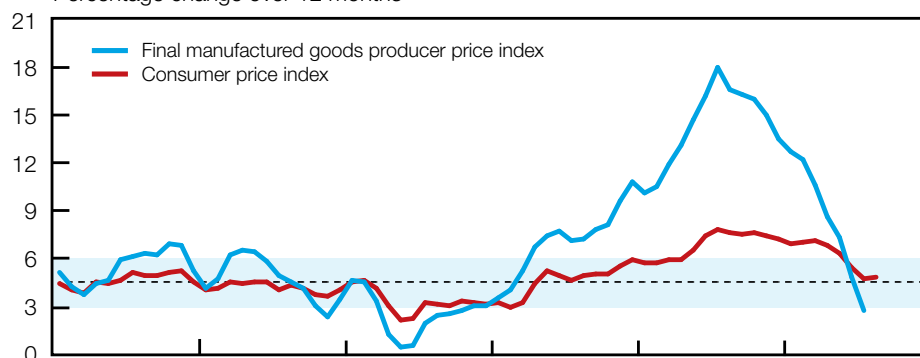
These concepts are also applicable to individual items in the consumer goods and services basket as illustrated by the recent year-on-year changes in domestic fuel prices. Fuel prices increased notably during 2021 and 2022, with the rate of inflation (i.e. the percentage change over 12 months in the consumer fuel price index) accelerating markedly from 29.2% in April 2022 to 56.2% in July. This was followed by disinflation as the year-on-year rate of increase in fuel prices slowed to 3.5% in May 2023. From June to August 2023, domestic fuel prices were in deflation as prices decreased compared to a year earlier.

Headline producer price inflation for final manufactured goods decelerated markedly to 2.7% in July 2023 – the lowest rate of increase since October 2020 – mainly due to a year-on-year decrease of 14.5% in the producer price index of coal and petroleum products. The disinflation in headline producer price inflation was also supported by that in producer price inflation for food products, beverages and tobacco, from 12.1% in September 2022 to 5.8% in July 2023.



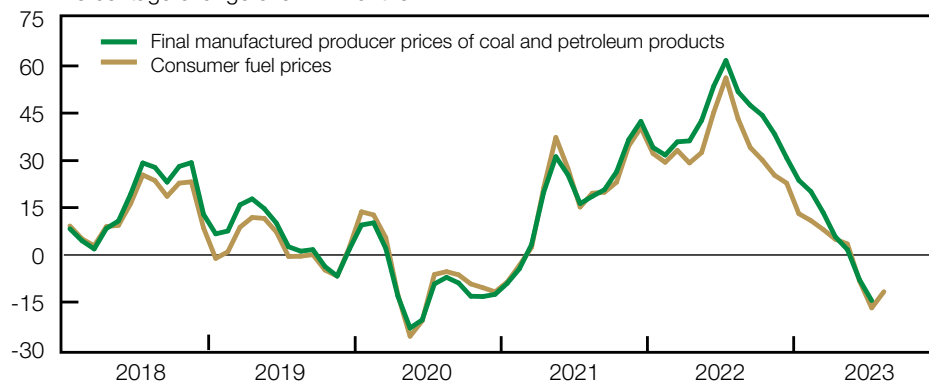
Headline producer and consumer prices

Percentage change over 12 months



Producer and consumer fuel prices

Percentage change over 12 months



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

Source: Stats SA

Domestic inflation pressures moderated amid better functioning global and domestic supply chains, notwithstanding production cost pressures from electricity load-shedding and a volatile exchange value of the rand. The producer prices of intermediate manufactured goods decreased by 0.1% on a year-on-year basis in July 2023 due to a fairly broad-based decrease among the subcomponents, most notably basic and fabricated metals as well as chemical, rubber and plastic products.

Producer price inflation for electricity and water accelerated to 18.3% in July 2023 following the implementation of the 18.45% increase in electricity prices for municipal customers. Eskom's tariff increase of 18.65% for direct customers was implemented in April 2023 and contributed to the acceleration in electricity price inflation from that month.

Producer price inflation for agriculture, forestry and fishing products accelerated slightly from 6.2% in June 2023 to 6.5% in July. Producer price inflation of mining products slowed markedly from 7.2% in May 2023 to -0.5% in July due to year-on-year decreases of 13.5% and 2.1% in the non-ferrous metal ores as well as the coal and gas categories respectively.



Producer price inflation

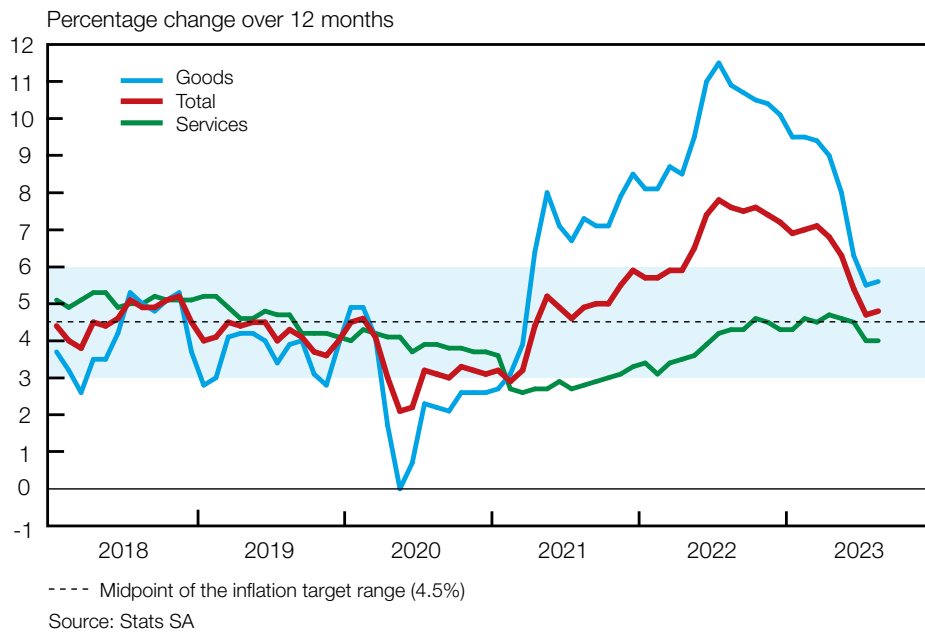
Percentage change over 12 months

	2023				
	March	April	May	June	July
Final manufactured goods.....	10.6	8.6	7.3	4.8	2.7
Intermediate manufactured goods.....	5.0	4.6	4.4	2.4	-0.1
Electricity and water	10.1	13.1	15.5	13.6	18.3
Mining	17.1	10.5	7.2	2.8	-0.5
Agriculture, forestry and fishing.....	7.5	6.0	4.5	6.2	6.5

Sources: Stats SA

The continued moderation in consumer price inflation in the four months to July 2023 was mainly due to marked decelerations in consumer goods price inflation, particularly of fuel and food, and a marginal moderation in consumer services price inflation as transport services price inflation slowed.

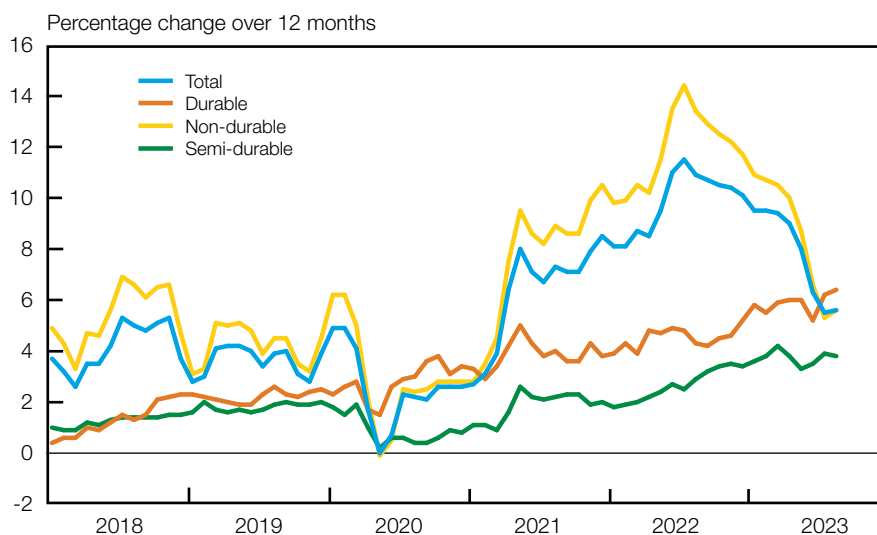
Headline consumer prices



The deceleration in *consumer goods price inflation* from 9.4% in March 2023 to 5.5% in July 2023 contributed significantly to the slowdown in headline consumer price inflation. The moderation in consumer goods price inflation was mainly due to a slowdown in non-durable goods price inflation, from 10.5% to 5.3% over the period, amid lower fuel prices in particular. Inflation for semi-durable goods also slowed from 4.2% to 3.9%, while durable goods price inflation accelerated somewhat from 5.9% to 6.2% over the same period. Consumer goods price inflation quickened slightly to 5.6% in August 2023 as both durable and non-durable goods price inflation accelerated somewhat.



Consumer goods prices



Consumer price inflation

Percentage change over 12 months

	Weight	2023				
		Apr	May	Jun	Jul	Aug
Headline CPI	100.00	6.8	6.3	5.4	4.7	4.8
Headline CPI, excluding food and non-alcoholic beverages, fuel and electricity.....	74.40	5.3	5.2	5.0	4.7	4.8
Goods	48.68	9.0	8.0	6.3	5.5	5.6
Non-durable	35.71	10.0	8.7	6.6	5.3	5.6
Semi-durable.....	5.38	3.8	3.3	3.5	3.9	3.8
Durable.....	7.59	6.0	6.0	5.2	6.2	6.4
Services	51.32	4.7	4.6	4.5	4.0	4.0

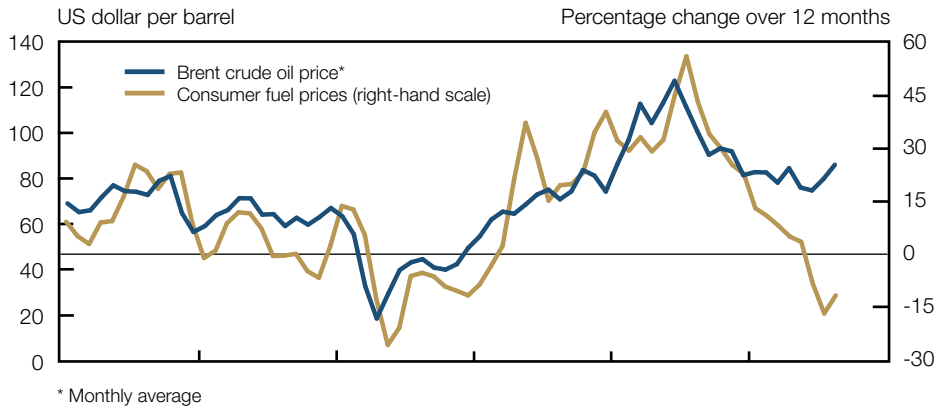
Source: Stats SA

The consumer fuel price index decreased further by 16.8% on a year-on-year basis in July 2023, supported by lower international crude oil prices. The average US dollar price per barrel of Brent crude oil decreased by 28.5% on a year-on-year basis in July 2023. However, the benefits of the lower international crude oil prices were partly offset by a year-on-year depreciation of 8.0% in the exchange value of the rand against the US dollar in July 2023. The rate of deflation in consumer fuel prices moderated to 11.7% in August 2023.

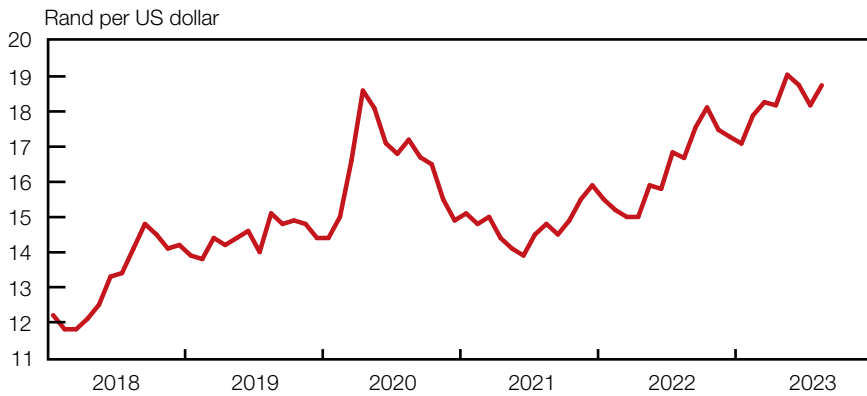
Consumer food price inflation decelerated from a recent peak of 14.4% in March 2023 to 8.2% in August. The disinflation was fairly broad-based as domestic food price inflation benefitted from lower international food prices, despite the inflationary effects of the depreciated exchange value of the rand and electricity load-shedding. Marked changes were noted in the oil and fats category, which decreased by 13.6% on a year-on-year basis in August 2023. This is indicative of an easing of supply chain pressures as well as base effects from 2022 when plant seed oil prices soared at the onset of the war in Ukraine.



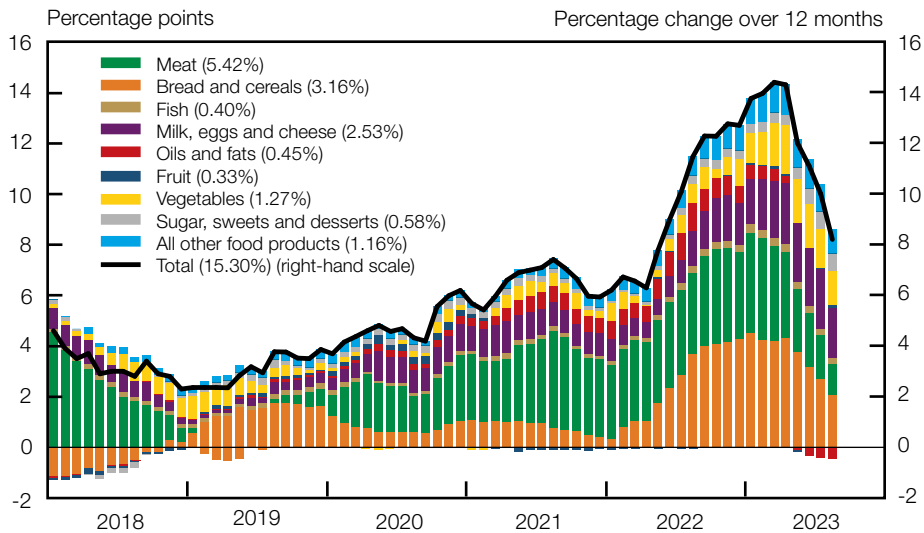
Brent crude oil and consumer fuel prices



Exchange value of the rand



Contributions to consumer food price inflation



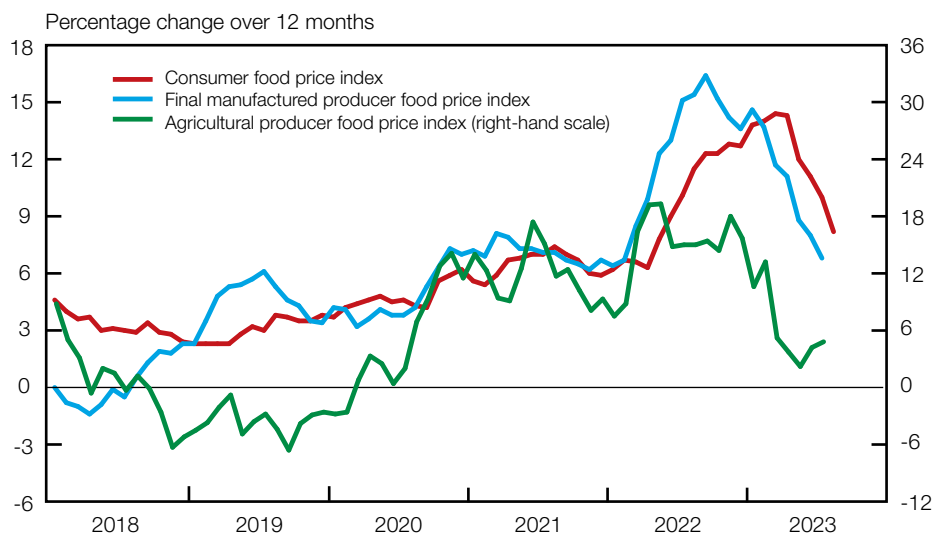
The numbers in brackets indicate weights in the overall consumer price index.

Source: Stats SA



According to stage of production, food price inflation has eased at the agricultural and manufactured level. Final manufactured producer food price inflation decelerated for the sixth consecutive month to 6.8% in July 2023. The deceleration was broad-based but was especially pronounced for oils and fats, which recorded year-on-year deflation of 20.0%. Food price inflation at the agricultural level has slowed notably since 2022 but accelerated somewhat to 4.8% in July 2023. Inflation for crops and horticultural products amounted to 7.0%, while that of live animals and animal products slowed to 3.2% in July 2023.

Producer and consumer food prices



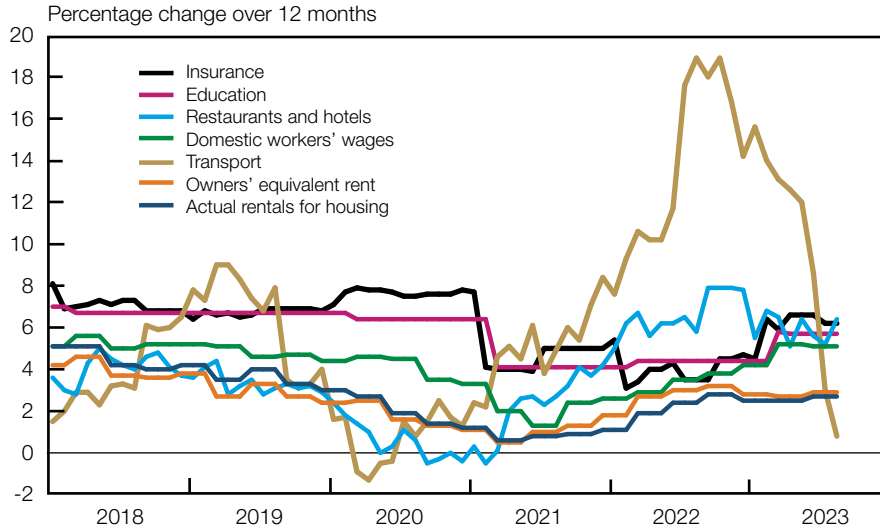
Source: Stats SA

Although still high, domestic food price inflation slowed in line with decreases in international food prices, despite the depreciation in the exchange value of the rand. The United Nations' Food and Agriculture Organization (FAO) US dollar-denominated food price index decreased by 11.8% on a year-on-year basis in August 2023 amid the lower international prices of meat, dairy products, cereals and vegetable oils. This trend was supported by lower crude oil prices, prospects of improved harvests, and the easing of global supply chain pressures. Russia's decision to terminate the Black Sea Grain Initiative has thus far only resulted in a marginal increase in international wheat prices, while maize prices have declined further due to ample supplies. When expressed in rand terms, the FAO food price index decreased only marginally due to the depreciation in the exchange value of the rand.

Consumer services price inflation has remained relatively contained at an average year-on-year rate of 4.4% since August 2022 – marginally below the midpoint of the inflation target range. Services price pressures emanated from domestic workers' wage inflation, which accelerated from 3.5% in August 2022 to 5.1% in August 2023, while price inflation of insurance services accelerated more noticeably from 3.5% to 6.2% and that of education services accelerated from 4.4% to 5.7% over this period. However, these accelerations were offset by a meaningful deceleration in transport services price inflation from 18.9% in October 2022 to 0.8% in August 2023 as public road and air transport price inflation slowed.

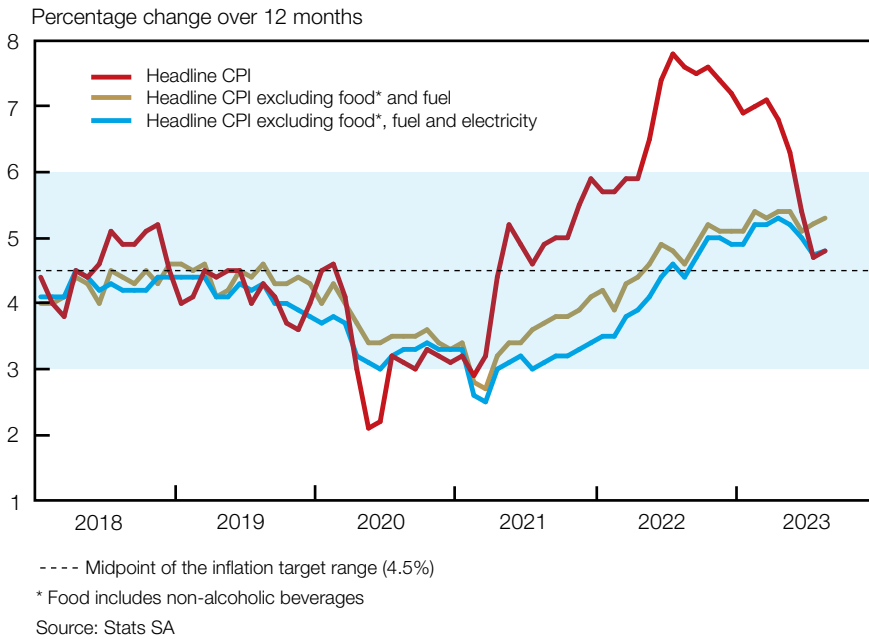


Consumer services prices



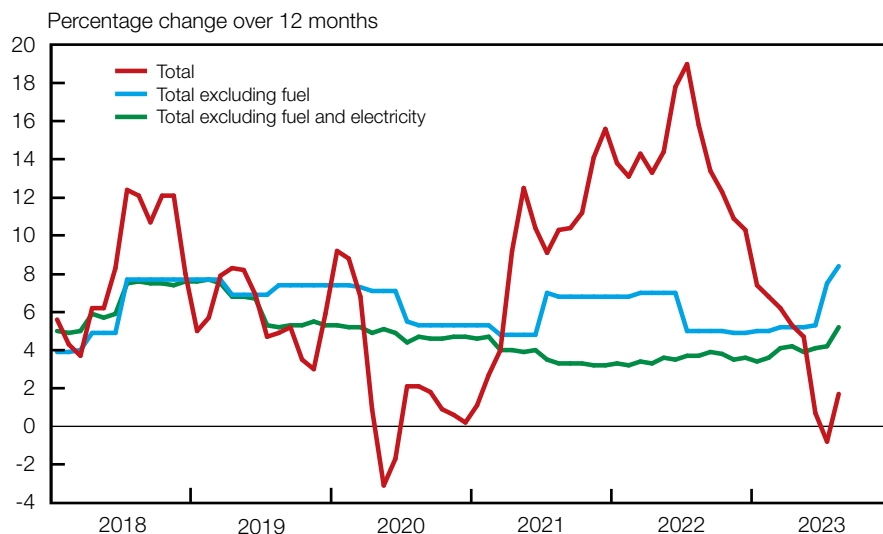
Underlying inflationary pressures have eased somewhat in recent months. Headline consumer price inflation, excluding food, non-alcoholic beverages and fuel prices, moderated slightly from 5.4% in April 2023 to 5.3% in August. Likewise, the South African Reserve Bank's (SARB) preferred measure of core inflation, which also excludes electricity prices, decelerated from 5.3% to 4.8% over the same period.

Headline and underlying measures of consumer prices





Administered prices



Source: Stats SA

Lower fuel price inflation also contributed to a marked deceleration in *administered price inflation*, from 19.0% in July 2022 to -0.8% in July 2023 – the lowest rate of change since June 2020 – before it accelerated to 1.7% in August. When excluding fuel prices, administered price inflation accelerated from 5.0% in July 2022 to 8.4% in July 2023. When also excluding electricity prices, underlying administered price inflation also accelerated from 3.5% to 5.2% over the same period.

11 As measured by the Survey of Inflation Expectations conducted by the BER in the first quarter of 2023.

*Average headline consumer price inflation expectations*¹¹ for 2023 declined from 6.5% in the survey conducted in the second quarter of 2023 to 6.1% in the third-quarter survey as the inflation expectations for business and trade union representatives declined, while that of financial analysts remained unchanged. On average, inflation expectations decreased for all the forecast horizons when compared with the previous survey.

Headline consumer price inflation expectations

Per cent, as surveyed in the third quarter of 2023

Average expected inflation	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2023.....	5.9	6.3	6.0	6.1
2024.....	5.0	6.0	5.6	5.5
2025.....	4.8	5.7	5.3	5.3
Five years ahead	4.8	5.5	5.0	5.1

Source: BER

Average five-years-ahead inflation expectations decreased from 5.2% in the second quarter of 2023 to 5.1% in the third quarter – the lowest level since the first quarter of 2021. Household inflation expectations for the coming 12 months also decreased from 8.1% as surveyed in the second quarter of 2023 to 7.0% in the survey conducted in the third quarter. Although still high, the inflation expectations of all household income groups adjusted lower, with the higher middle-income group adjusting its expectation the most, from 8.2% to 6.0%. Moreover, households' five-years-ahead inflation expectations decreased from 10.7% in the second quarter of 2023 to 9.8% in the third quarter.



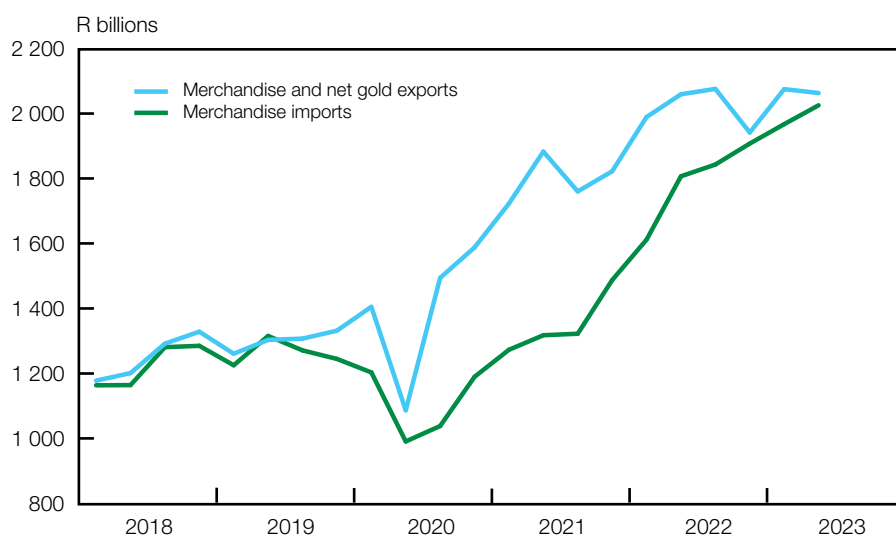
External economic accounts

Current account¹²

The value of South Africa's merchandise and net gold exports decreased in the second quarter of 2023, while the value of merchandise imports increased further to a new all-time high; hence the decrease in the trade surplus to R31.1 billion in the second quarter of 2023 from R111 billion in the first quarter. The decrease in the value of exports reflected lower prices, while the increase in the value of imports was due to higher volumes.

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

Value of South Africa's exports and imports



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The smaller trade surplus, together with a larger deficit on the services, income and current transfer account, resulted in a widening of the deficit on the current account of the balance of payments from R63.7 billion (0.9% of GDP) in the first quarter of 2023 to R161 billion (2.3% of GDP) in the second quarter – the largest deficit since the third quarter of 2019.

Current account of the balance of payments

R billions, seasonally adjusted and annualised

	2022				2023	
	Q2	Q3	Q4	Year	Q1	Q2
Merchandise exports	1 964	1 992	1 851	1 930	1 954	1 962
Net gold exports.....	95	83	90	86	120	94
Merchandise imports.....	-1 806	-1 843	-1 907	-1 792	-1 964	-2 025
Trade balance.....	252	233	34	224	111	31
Net services, income and current transfer payments	-367	-246	-190	-254	-174	-192
Balance on current account.....	-114	-13	-155	-30	-64	-161
<i>As a percentage of gross domestic product</i>						
Trade balance.....	3.8	3.5	0.5	3.4	1.6	0.4
Services balance	-1.3	-1.6	-1.3	-1.4	-1.0	-1.2
Income balance.....	-3.8	-1.8	-1.3	-2.1	-1.3	-1.1
Current transfer balance.....	-0.4	-0.3	-0.2	-0.4	-0.3	-0.5
Balance on current account.....	-1.7	-0.2	-2.3	-0.5	-0.9	-2.3

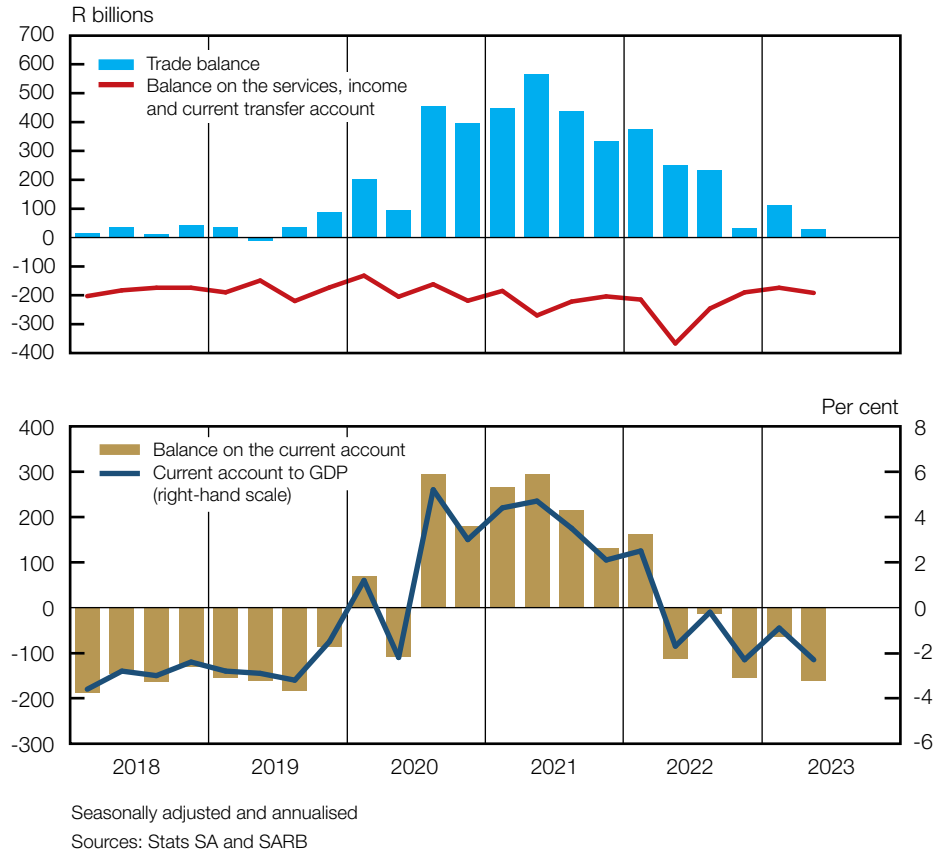
Components may not add up to totals due to rounding off.

Sources: Stats SA and SARB

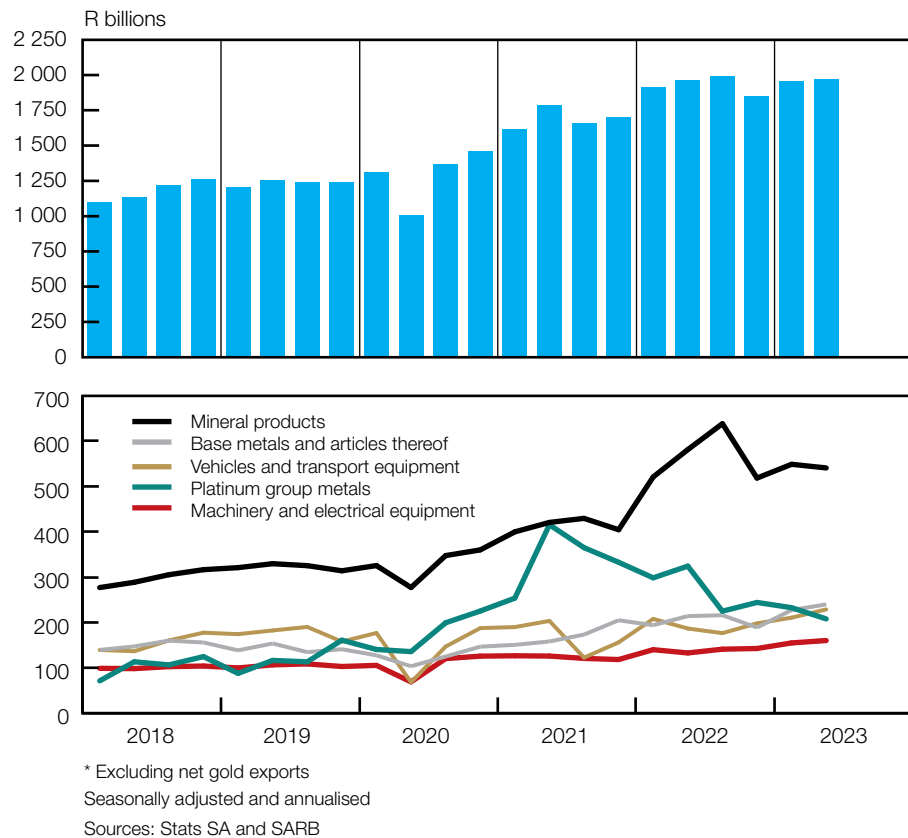




Current account of the balance of payments



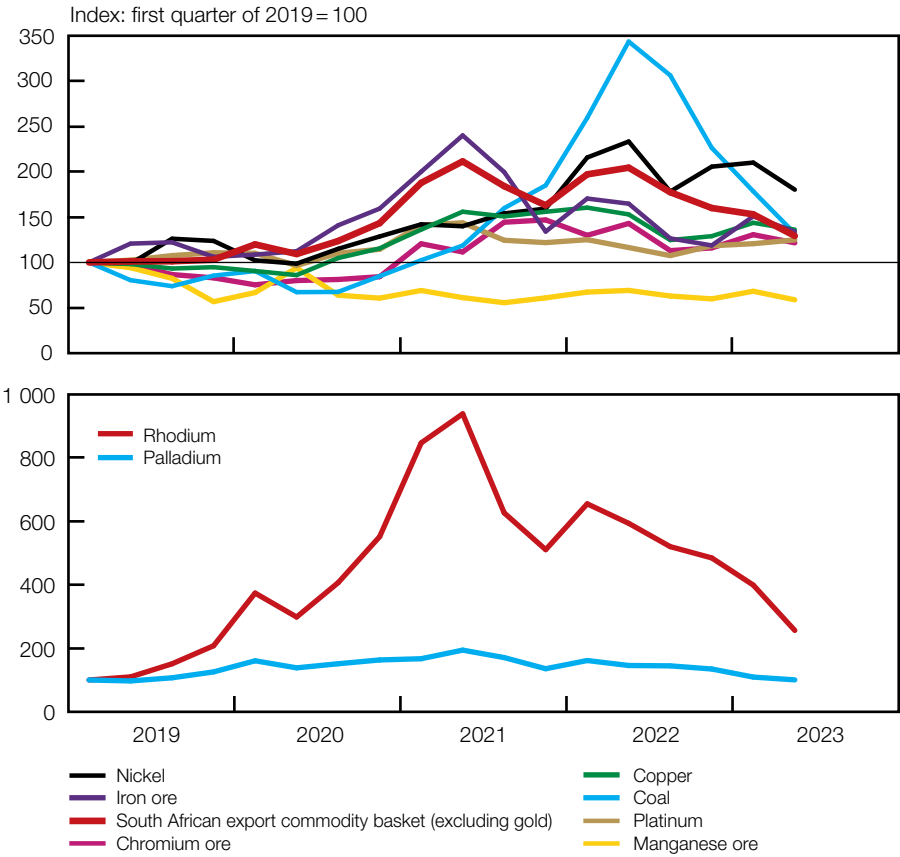
Value of merchandise exports*



The value of merchandise exports increased by only 0.4% in the second quarter of 2023 as increases in manufacturing and agricultural exports were partly offset by a decrease in mining exports, with the latter reflecting lower exports of pearls, precious metals and stones as well as mineral products. The lower export value of mineral products reflected a decrease in coal and manganese exports, with the former weighed down by a sharp decline in its realised rand price. These declines outweighed the higher export value of base metals and articles thereof, in particular nickel and aluminum and articles thereof.

The value of manufacturing exports increased further in the second quarter of 2023, boosted by exports of prepared foodstuffs, beverages and tobacco; machinery and electrical equipment; as well as vehicles and transport equipment, supported by the launch of new vehicle models. The increased value of exported machinery and electrical equipment mostly reflected the exports of pumps for liquids and self-propelled bulldozers. The value of agricultural exports increased slightly in the second quarter of 2023 as the increase in live animals and animal products as well as in animal and vegetable fats and oils more than offset the decline in exported vegetable products.

Selected South African export commodity prices in US dollar*



* Quarterly averages
Sources: Afriforesight, World Bank and SARB

The US dollar price of a basket of domestically produced non-gold export commodities decreased by 15.6% in the second quarter of 2023, marking a fourth consecutive quarterly decrease. The decrease was broad-based, with notable decreases in the prices of rhodium, coal, nickel, manganese and iron ore. The prices of rhodium and coal decreased the most, the latter largely due to lower-than-expected demand from the US and Europe as well as excess supply, particularly in Asia. By contrast, the price of platinum increased in the second quarter of 2023 as demand is expected to exceed supply in 2023.



The rand price of merchandise exports decreased by 1.2% in the second quarter of 2023 following an increase of 2.5% in the first quarter, while volumes increased by 1.6% in the second quarter.

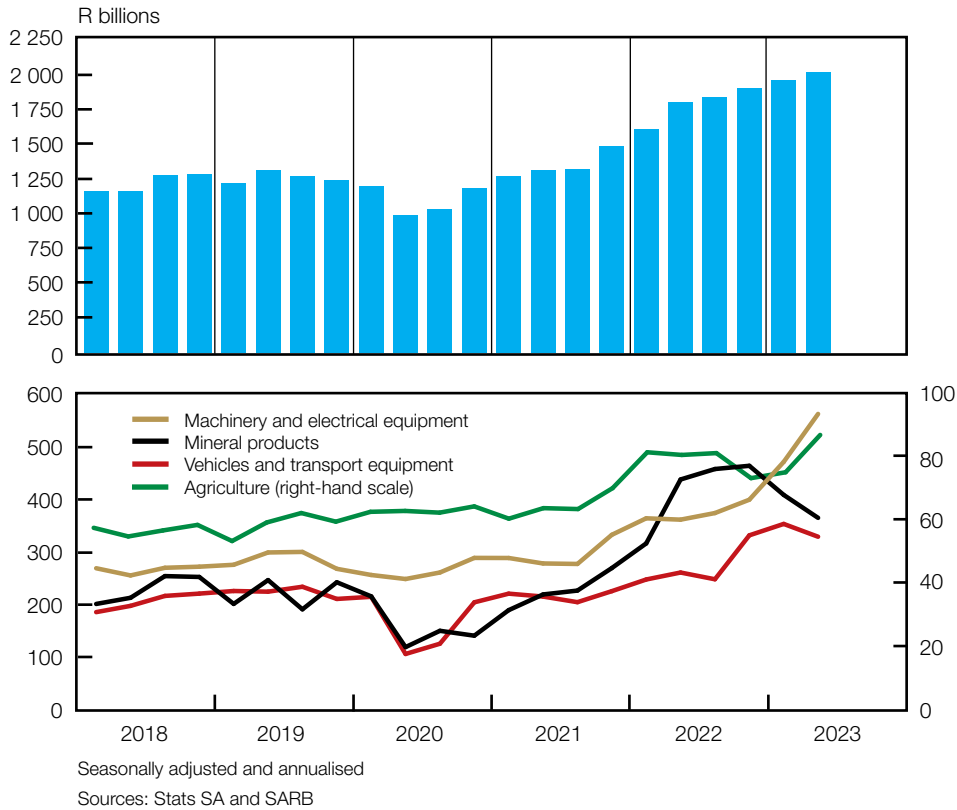
The monthly average US dollar price of gold on the London market increased to a record high of US\$2 000 per fine ounce in April 2023. This reflected, among other factors, a weaker US dollar and an expected smaller increase in interest rates by the US Federal Reserve (Fed) as well as renewed concerns over the US banking sector. Although the price of gold declined in May and June 2023, mainly due to a stronger US dollar, it still increased by 4.7% from a quarterly average of US\$1 888 per fine ounce in the first quarter of 2023 to US\$1 978 per fine ounce in the second quarter.

The average realised rand price of net gold exports increased by 9.5% in the second quarter of 2023 due to the higher international gold price as well as the depreciation in the exchange value of the rand. However, the price increase was more than offset by a contraction in the volume of net gold exports, and thus translated into the lower value in the second quarter of 2023.



The value of merchandise imports increased by 3.1% in the second quarter of 2023 on account of both manufactured and agricultural products. The value of manufacturing imports continued to reflect strong demand for machinery and electrical equipment, in particular energy-related products such as electric accumulators, photovoltaic cells and static converters, as well as for rubber and articles thereof, and optical and professional equipment. These increases more than offset the decreases in the value of imported vehicles and transport equipment as well as chemical products in the second quarter of 2023. The higher value of agricultural imports in the second quarter of 2023 reflected the importation of animal and vegetable fats and oils as well as grain products, buoyed by rice imports, mainly from Thailand and India, as well as wheat imports from Australia and Poland.

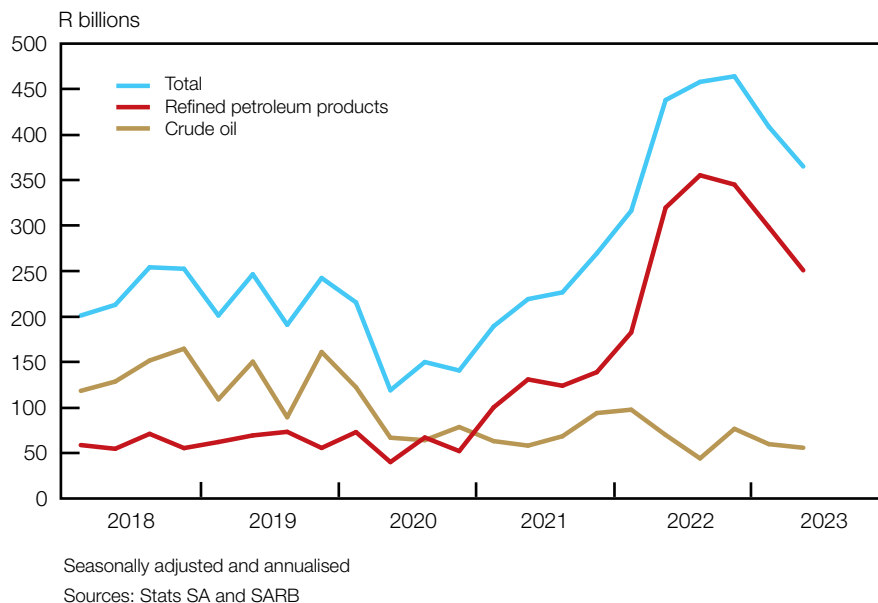
Value of merchandise imports



The value of mining imports declined in the second quarter of 2023, along with a notable decrease in mineral products. The lower value of imported mineral products reflected a further contraction in the value of both imported crude oil and refined petroleum products, in particular distillate fuel, petrol and residual fuel,¹³ given sufficient inventory. The value of imported crude oil decreased by 6.7% in the second quarter of 2023 due to a reduction in the physical quantity imported due to a planned maintenance shutdown at a local refinery. The lower volumes imported outweighed the 5.7% increase in the average realised rand price of crude oil, from R1 534 in the first quarter of 2023 to R1 621 in the second quarter.

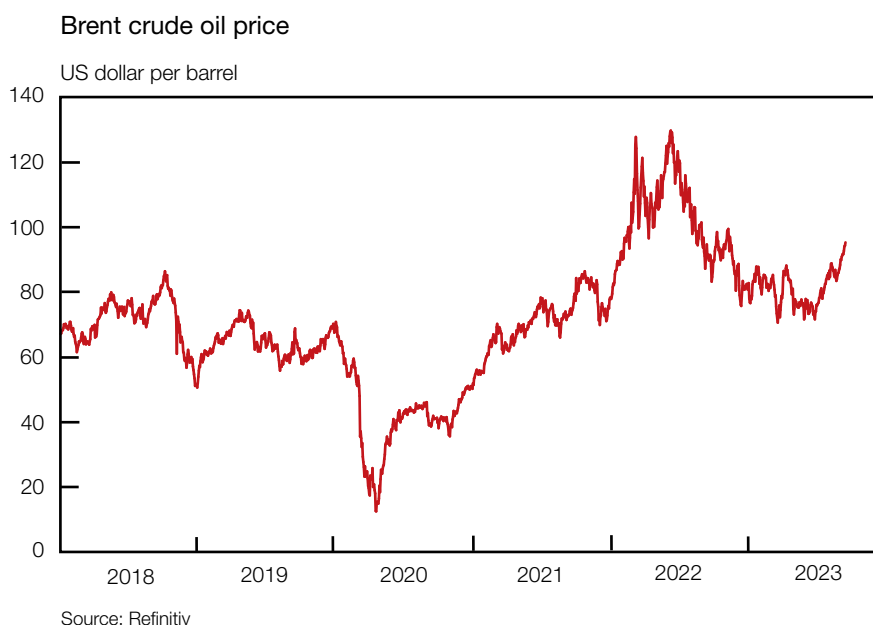
13 Residual fuel oils are products intended for use, advertised for use, put for use, or otherwise marketed or disposed of for use in furnaces, boilers, ships and boats.

Value of mineral imports



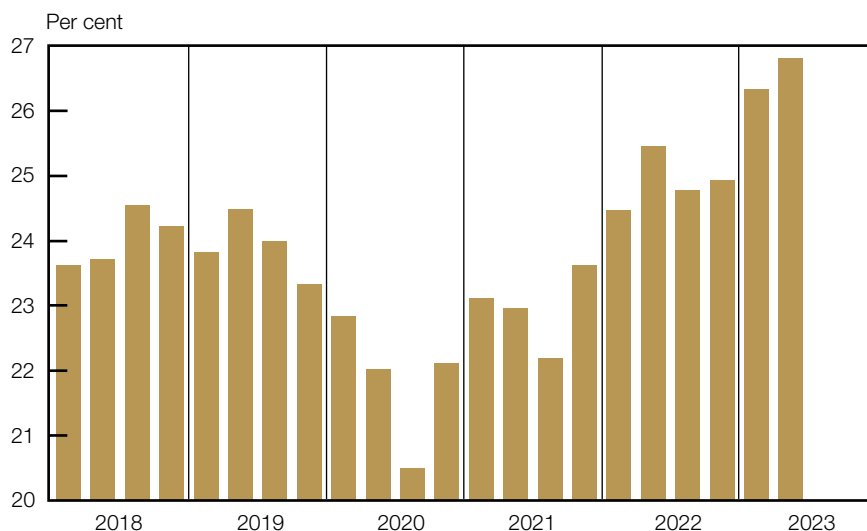


The increase in the spot price of Brent crude oil in April 2023, which mostly reflected expectations of higher Chinese demand and tightening oil supplies, was followed by declines in May and June as the US dollar strengthened and as concerns mounted that sluggish global economic activity could reduce oil demand. On average, the spot price of Brent crude oil decreased for a fourth consecutive quarter, by 3.4%, from US\$81.22 per barrel in the first quarter of 2023 to US\$78.47 per barrel in the second quarter. In July 2023, the spot price of Brent crude oil rebounded as the US dollar weakened and as Saudi Arabia, the world's largest exporter of crude oil, was expected to extend a voluntary reduction in oil output of 1 million barrels per day for another month to September. The spot price of Brent crude oil increased further from US\$79.81 per barrel in July 2023 to US\$86.02 per barrel in August, supported by expectations that production cuts would continue to the end of 2023.



The rand price of merchandise imports remained broadly unchanged in the second quarter of 2023 as the lower prices of goods in some of South Africa's trading partners were offset by the effect of the depreciation in the exchange value of the rand in the same period. By contrast, the volume of merchandise imports increased by 3.1% in the second quarter of 2023. As a result, the import penetration ratio (i.e. real merchandise imports as a ratio of GDE) increased from 26.3% in the first quarter of 2023 to a record high of 26.8% in the second quarter.

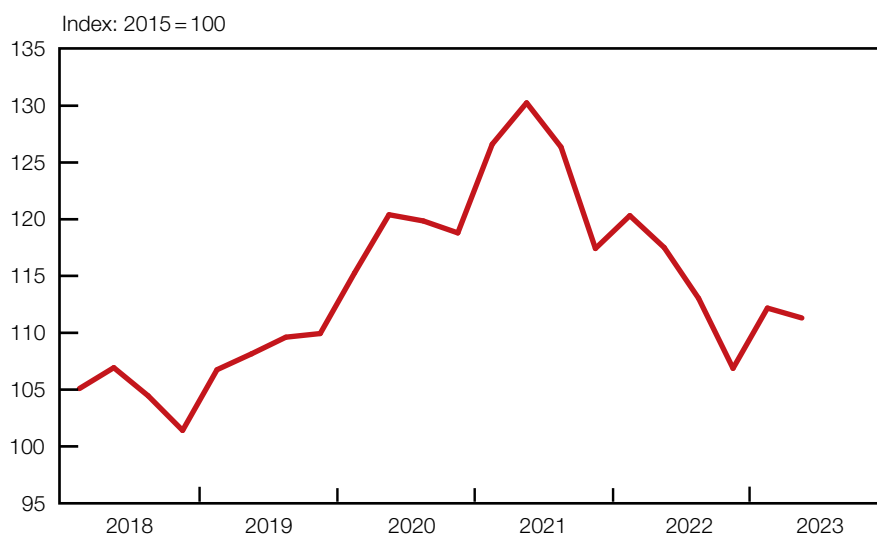
Import penetration ratio



Sources: Stats SA and SARB

South Africa's terms of trade deteriorated in the second quarter of 2023 as the rand price of imported goods and services increased while that of exports decreased.

Terms of trade*



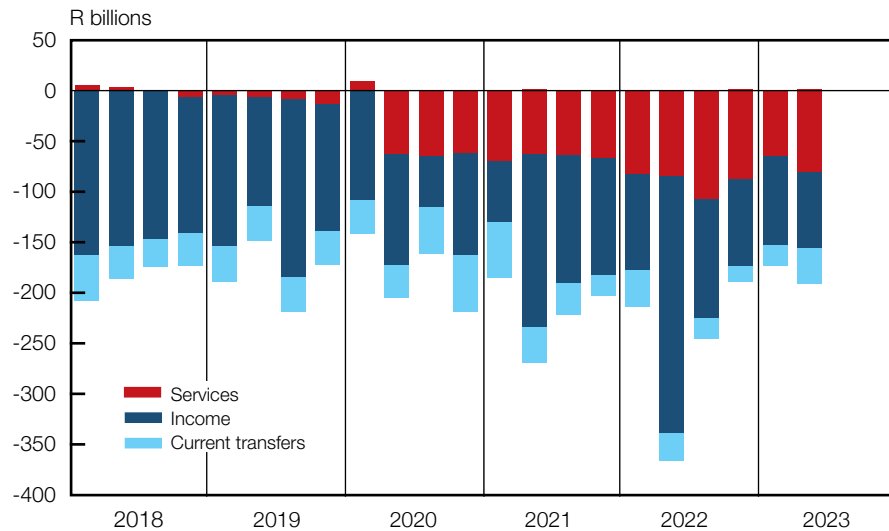
* Including gold

Sources: Stats SA and SARB

After narrowing for three consecutive quarters, the shortfall on the services, income and current transfer account increased to R192 billion (2.8% of GDP) in the second quarter of 2023 from R174 billion (2.6% of GDP) in the first quarter. The wider deficit stemmed from larger deficits on the services and secondary income accounts, along with a smaller deficit on the primary income account.



Net services, income and current transfer payments



Seasonally adjusted and annualised
Sources: Stats SA and SARB

The deficit on the services account increased in the second quarter of 2023 as the increase in gross services payments outweighed the increase in gross services receipts. The increase in gross services payments was due to, among other factors, higher payments for travel services, including an increase in passenger fares as the number of South African residents visiting other countries increased, as well as higher freight-related transportation costs. On a net basis, the shortfall on the services subaccount increased from 1.0% of GDP in the first quarter of 2023 to 1.2% in the second quarter.

The deficit on the income account narrowed in the second quarter of 2023 as gross income receipts increased more than gross income payments. Gross dividend payments and gross dividend receipts increased by 15.2% and 23.6% respectively in the second quarter of 2023. Gross interest payments increased further in the second quarter of 2023 as, among other factors, higher debt levels and interest rates as well as the depreciation in the exchange value of the rand increased debt-service costs. On balance, the income deficit as a percentage of GDP decreased from 1.3% in the first quarter of 2023 to 1.1% in the second quarter.

Net current transfer payments increased noticeably in the second quarter of 2023 as gross current transfer payments increased at a faster pace than gross current transfer receipts. Gross current transfer payments mainly reflected higher payments to the Southern African Customs Union (SACU) at the start of the 2023/24 financial year. Net current transfer payments as a percentage of GDP increased from 0.3% in the first quarter of 2023 to 0.5% in the second quarter – the highest ratio since the first quarter of 2022.

Financial account

The net flow of capital on South Africa's financial account of the balance of payments (excluding unrecorded transactions) recorded a smaller inflow of R2.3 billion in the second quarter of 2023 following an inflow of R47.7 billion in the first quarter. On a net basis, portfolio investment, other investment and reserve assets recorded outflows, while direct investment and financial derivatives registered inflows. Net financial account flows as a ratio of GDP registered an inflow of 0.1% in the second quarter of 2023 following an inflow of 2.9% in the first quarter.



Net financial transactions

R billions

	2022				2023	
	Q2	Q3	Q4	Year	Q1	Q2
Change in liabilities						
Direct investment	30.0	15.6	64.0	151.0	0.5	53.8
Portfolio investment	39.2	-32.0	-25.6	42.6	-32.0	-4.6
Financial derivatives.....	-65.1	-97.6	-75.8	-285.1	-69.1	-43.6
Other investment	49.3	9.9	47.5	186.3	13.1	-52.9
Change in assets						
Direct investment	5.3	-4.3	-16.1	-35.4	12.3	11.6
Portfolio investment	-48.8	2.9	-17.6	-115.1	39.5	-21.3
Financial derivatives.....	60.1	79.1	65.9	251.9	72.7	73.9
Other investment	-44.4	80.9	-23.5	-61.0	9.2	-12.2
Reserve assets	-35.2	-26.5	0.4	-68.2	1.6	-2.4
Total identified financial transactions*	-9.6	28.0	19.2	67.0	47.7	2.3
<i>As a percentage of gross domestic product.....</i>	<i>-0.6</i>	<i>1.6</i>	<i>1.1</i>	<i>1.0</i>	<i>2.9</i>	<i>0.1</i>

* Excluding unrecorded transactions

Inflow (+)/outflow (-)

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

Source: SARB

Foreign-owned assets in South Africa

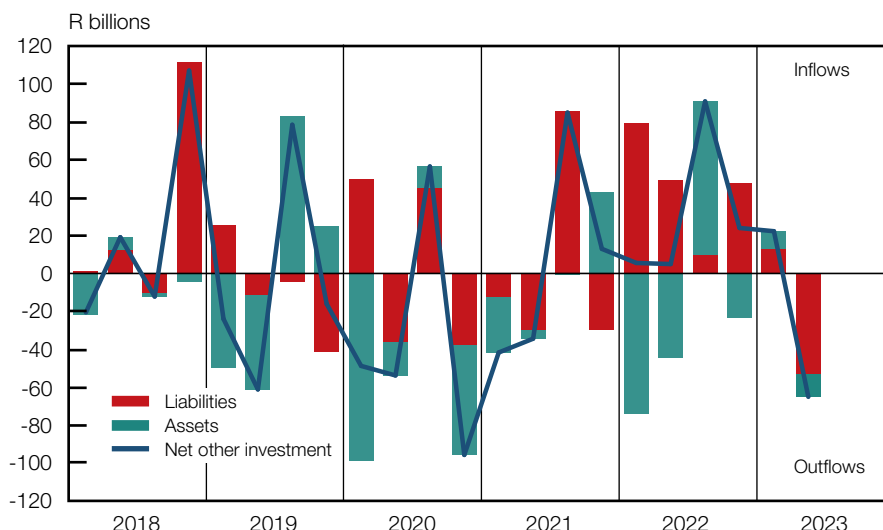
South Africa's direct investment liabilities recorded a significantly larger inflow of R53.8 billion in the second quarter of 2023 following an inflow of R0.5 billion in the first quarter as a non-resident company acquired a domestic entity in the beverage manufacturing sector. In addition, non-resident parent entities granted loans to domestic subsidiaries.

Portfolio investment liabilities recorded a smaller outflow of R4.6 billion in the second quarter of 2023 following an outflow of R32.0 billion in the first quarter. Non-residents' net sales of domestic debt securities of R18.7 billion in the first quarter of 2023 switched to net purchases of R23.2 billion in the second quarter, while non-residents' net sales of domestic equity securities increased from R13.3 billion to R27.8 billion over the same period.

Other investment liabilities switched to an outflow of R52.9 billion in the second quarter of 2023 from an inflow of R13.1 billion in the first quarter as the domestic private non-banking sector's repayment of loans to non-residents outweighed non-residents' deposits in the domestic banking sector as well as national government's receipt of a US\$500 million South African National Roads Agency (SANRAL) Sustainability Loan.



Other investment flows



Source: SARB

South African-owned assets abroad

South Africa’s direct investment assets recorded an inflow of R11.6 billion in the second quarter of 2023 following an inflow of R12.3 billion in the first quarter as domestic parent companies received loan repayments from their non-resident subsidiaries.

South Africa’s foreign portfolio investment assets reverted to an outflow of R21.3 billion in the second quarter of 2023 following an inflow of R39.5 billion in the first quarter as the domestic banking sector purchased foreign debt securities. This was partly countered by the domestic private non-banking sector’s net sales of foreign equity securities.

Other investment assets switched from an inflow of R9.2 billion in the first quarter of 2023 to an outflow of R12.2 billion in the second quarter as loans granted by the domestic banking sector to non-residents exceeded the repatriation of deposits from non-resident banks.

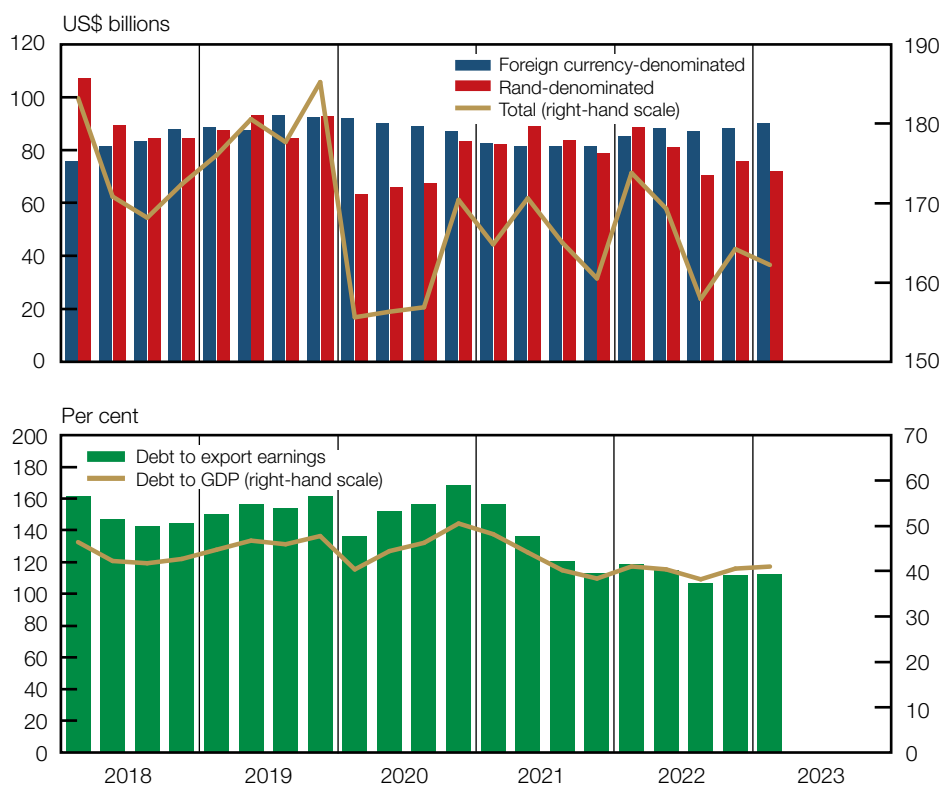
Foreign debt

South Africa’s total external debt decreased from US\$164.3 billion at the end of December 2022 to US\$162.2 billion at the end of March 2023. However, expressed in rand terms, South Africa’s total external debt increased from R2 790 billion at the end of December 2022 to R2 889 billion at the end of March 2023 as the exchange value of the rand depreciated against the US dollar.

Foreign currency-denominated external debt increased from US\$88.3 billion at the end of December 2022 to US\$90.1 billion at the end of March 2023. The increase was due to increased loans extended to public corporations, a €300 million loan to national government to finance climate change-related projects, and an international bond issue to the value of US\$1 billion by a public corporation.



Foreign debt



Source: SARB

Foreign debt of South Africa

US\$ billions at end of period

	2021		2022		2023	
	Q4	Q1	Q2	Q3	Q4	Q1
Foreign currency-denominated debt.....	81.5	85.1	88.3	87.2	88.3	90.1
Debt securities	27.8	28.7	31.0	30.0	29.3	30.1
Other	53.7	56.4	57.3	57.2	59.0	60.0
Public sector	16.3	16.9	16.8	17.7	17.2	18.3
Monetary sector	14.6	15.1	15.8	14.9	16.8	16.2
Non-monetary private sector	22.8	24.4	24.7	24.6	25.2	25.5
Rand-denominated debt.....	79.0	88.7	81.0	70.7	76.0	72.1
Debt securities	51.9	57.6	50.5	43.3	46.5	43.4
Other	27.1	31.1	30.5	27.4	29.5	28.7
Total foreign debt	160.6	173.8	169.3	157.9	164.3	162.2
As a percentage of gross domestic product....	38.2	40.9	40.3	38.2	40.5	41.0
As a percentage of total export earnings	113.0	118.5	114.6	106.7	111.5	112.3

Source: SARB



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

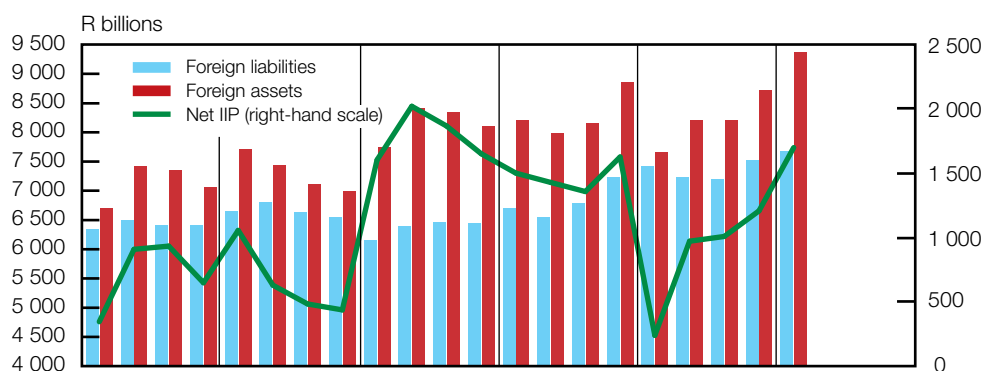
Rand-denominated external debt, expressed in US dollar terms, decreased from US\$76.0 billion at the end of December 2022 to US\$72.1 billion at the end of March 2023. The decrease can mainly be attributed to the decrease in the US dollar value of rand-denominated external debt due to the depreciation in the exchange value of the rand and a decline in the loan liabilities of the domestic banking sector, which was only partly countered by an increase in short-term loans of the private non-banking sector.

South Africa's total external debt as a ratio of annual GDP¹⁴ increased from 40.5% at the end of December 2022 to 41.0% at the end of March 2023. The ratio of external debt to export earnings increased from 111.5% to 112.3% over the same period.

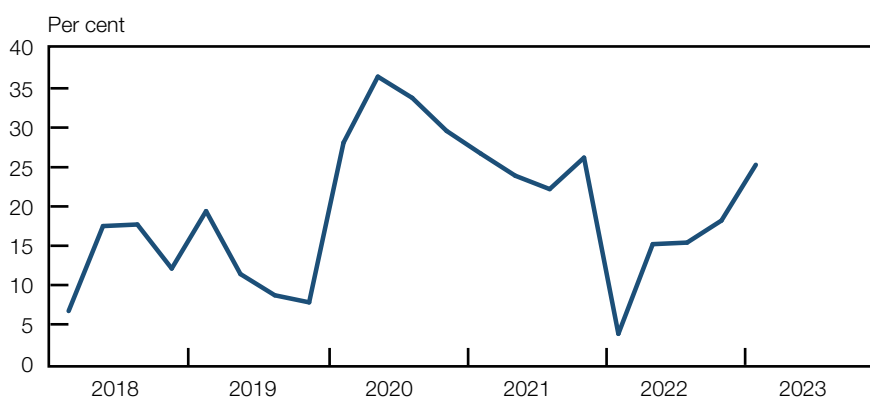
International investment position

South Africa's positive net international investment position (IIP) increased from R1 209 billion at the end of December 2022 to R1 699 billion at the end of March 2023. This reflected a larger increase in foreign assets than in foreign liabilities. In addition to the increase in both domestic and foreign share market indices in the first quarter of 2023, the exchange value of the rand impacted on both foreign assets and, to a lesser extent, foreign liabilities as the nominal effective exchange rate (NEER) of the rand decreased, on balance, by 5.3%.

South Africa's international investment position



Net international investment position to GDP



Source: SARB

The market value of South Africa's foreign assets (outward investment) increased by 7.4% from R8 721 billion at the end of December 2022 to R9 370 billion at the end of March 2023. This reflected an increase in all functional categories, except financial derivatives. Direct investment assets increased as a result of valuation effects from the higher share price of a large dual-listed company with a primary listing abroad. In addition, portfolio investment assets increased owing to an increase of 7.0% in the US Standard & Poor's (S&P) 500 Index as well as in other foreign share market indices, while reserve assets increased due to the valuation effects resulting from the depreciation in the exchange value of the rand.



The market value of South Africa’s foreign liabilities (inward investment) increased by 2.1%, from R7 512 billion at the end of December 2022 to R7 671 billion at the end of March 2023. The increase in foreign liabilities reflected an increase in all functional categories, except financial derivatives. Owing to an increase of 4.2% in the FTSE/JSE All-share Index in the first quarter of 2023, valuation effects contributed to the increase in both direct and portfolio investment liabilities. The issuance of an international bond to the value of US\$1 billion by a public corporation also boosted portfolio investment liabilities in the first quarter. Other investment liabilities increased due to drawdowns on long-term loans by public corporations and short-term loans by the private non-banking sector as well as national government receiving a €300 million loan in support of funding for climate change initiatives.

As a ratio of South Africa’s annual GDP,¹⁵ foreign assets increased from 131.6% at the end of December 2022 to 139.5% at the end of March 2023, while foreign liabilities increased from 113.3% to 114.2% over the same period. This resulted in an increase in the positive net IIP from 18.2% of GDP at the end of December 2022 to 25.3% at the end of March 2023.

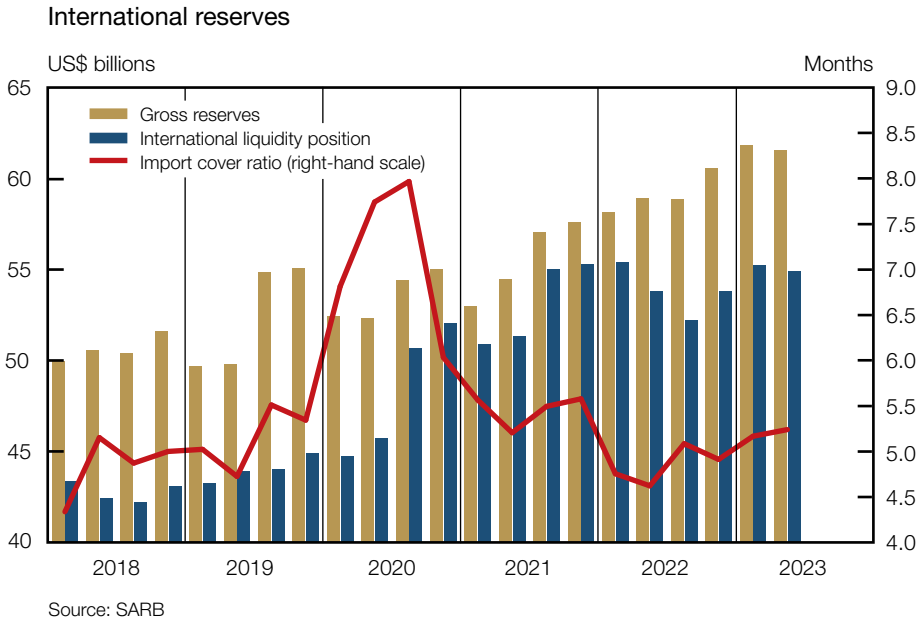
15 Annual GDP is calculated as the sum of the most recent four quarters’ nominal GDP.

International reserves and liquidity

South Africa’s international reserves increased by R2.4 billion in the second quarter of 2023 following a decrease of R1.6 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), measured in US dollar terms, decreased from US\$61.9 billion at the end of March 2023 to US\$61.5 billion at the end of June as the proceeds from a foreign loan received by national government were more than offset by payments in foreign exchange (FX). The country’s gross gold and other foreign reserves subsequently increased to US\$62.0 billion at the end of August 2023. South Africa’s international liquidity position¹⁶ decreased from US\$55.2 billion at the end of March 2023 to US\$54.9 billion at the end of June, before increasing to US\$55.4 billion at the end of August.

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



The level of import cover (i.e. the value of gross international reserves relative to the value of merchandise imports as well as services and income payments) remained roughly unchanged at 5.2 months from the end of March 2023 to the end of June.



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

Exchange rates¹⁷

The NEER of the rand decreased by 4.3% in the second quarter of 2023 following a decrease of 5.3% in the first quarter. The NEER decreased by 3.6% and 4.8% in April and May 2023 respectively before increasing by 4.3% in June. During most of the second quarter, the exchange value of the rand was weighed down by the effect of severe electricity load-shedding on the domestic economic growth outlook, uncertainty about possible capital flows amid South Africa's stance on the Russia-Ukraine war, and expectations of further interest rate increases in the advanced economies. The NEER increased by 0.5% from 30 June to 15 September 2023.

Exchange values of the rand

Percentage change

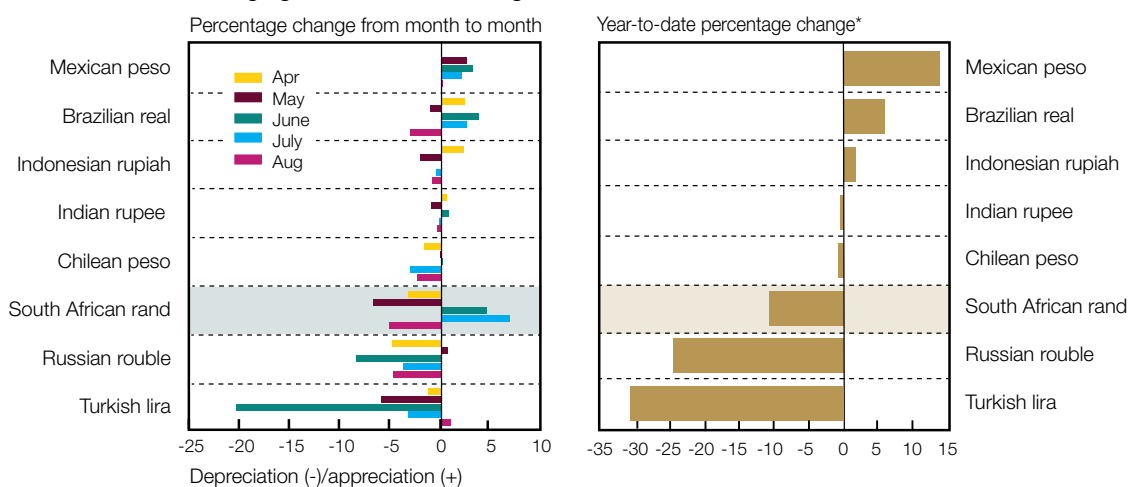
	30 Sep 2022 to 31 Dec 2022	31 Dec 2022 to 31 Mar 2023	31 Mar 2023 to 30 Jun 2023	30 Jun 2023 to 15 Sep 2023
Nominal effective exchange rate*	0.8	-5.3	-4.3	0.5
Euro	-2.8	-6.5	-5.6	1.0
US dollar	5.4	-4.7	-5.9	-0.7
Chinese yuan.....	3.3	-5.8	-0.5	-0.6
British pound.....	-2.0	-7.0	-7.9	0.9
Japanese yen.....	-3.8	-3.6	2.3	1.3

* The nominal effective exchange rate of the rand is a trade-weighted exchange rate against a basket of 20 currencies. Depreciation (-)/appreciation (+)

Source: SARB

The rand was among the worst-performing currencies during April 2023 as, in addition to the factors already mentioned, sentiment was also affected by an increase in international oil prices as major oil producers reduced supply at the beginning of the month. In the week following the SARB's Monetary Policy Committee (MPC) decision on 25 May 2023 to increase the repurchase (repo) rate by a further 50 basis points, the exchange value of the rand traded at its weakest level ever recorded against the US dollar as currency markets digested the committee's stance about future repo rate increases and the expected impact on domestic economic activity. The uncertainty on capital flows also came into play in May 2023.

Emerging market currencies against the US dollar in 2023



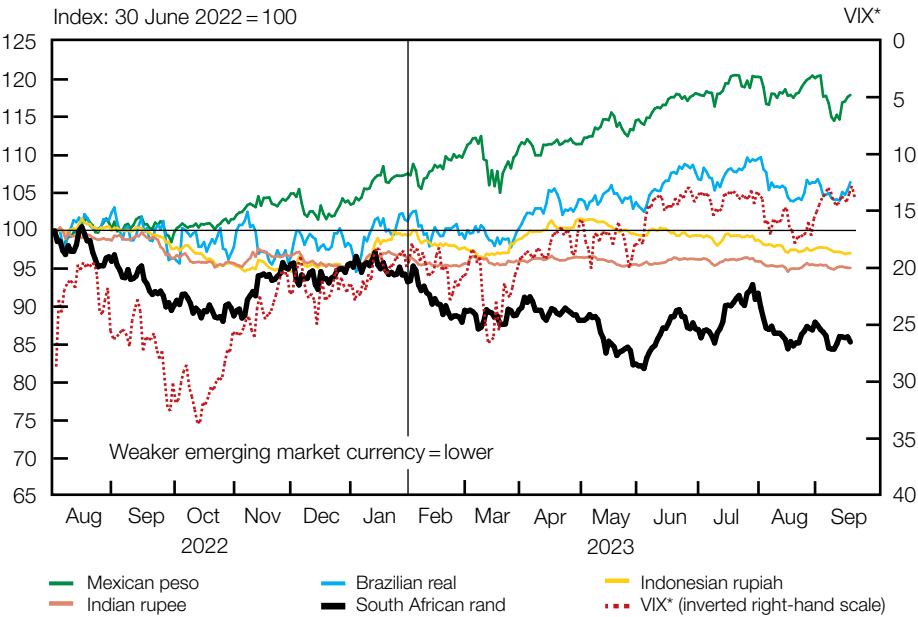
* From 31 December 2022 to 15 September 2023

Sources: Refinitiv and SARB



The exchange value of the rand appreciated by 4.5% against the US dollar in June 2023 as the severity of electricity load-shedding decreased and as geopolitical tensions eased, with sentiment also improving in the lead up to the 2023 BRICS Summit in August.

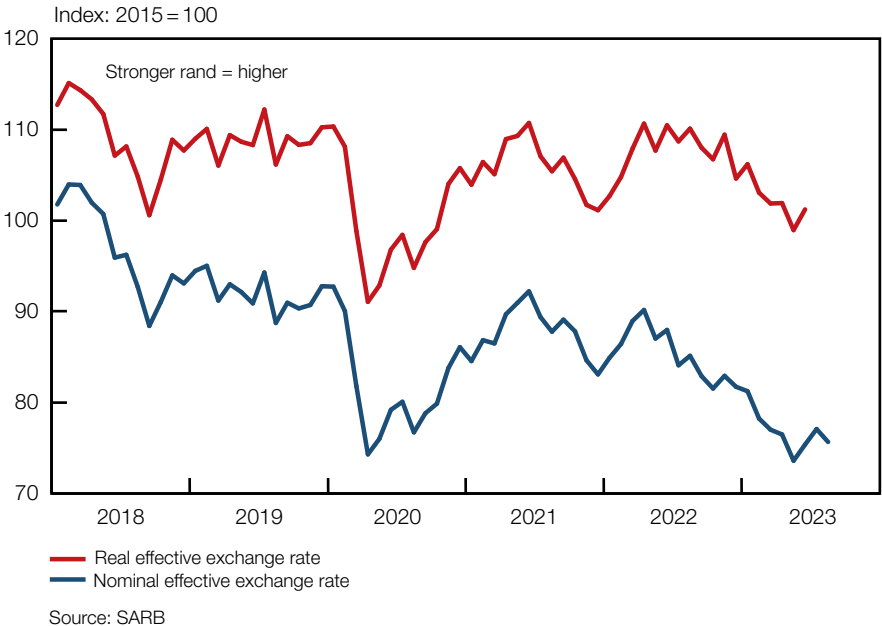
Emerging market currencies against the US dollar



* The Volatility Index (VIX), developed by the Chicago Board Options Exchange (CBOE), 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. The VIX provides a measure of market risk and investor sentiment.
Sources: Refinitiv and SARB

The rand was one of the strongest-performing emerging market currencies in July 2023, appreciating by 6.8% against the US dollar as inflation expectations improved in several major economies. However, these gains were reversed in August as the rand depreciated by 5.2% against the US dollar in August following concerns about global economic growth and a credit rating downgrade of the US by Fitch Ratings from AAA to AA+. The rand continued to depreciate by 1.9% against the US dollar between the end of August and 15 September 2023.

Effective exchange rates of the rand



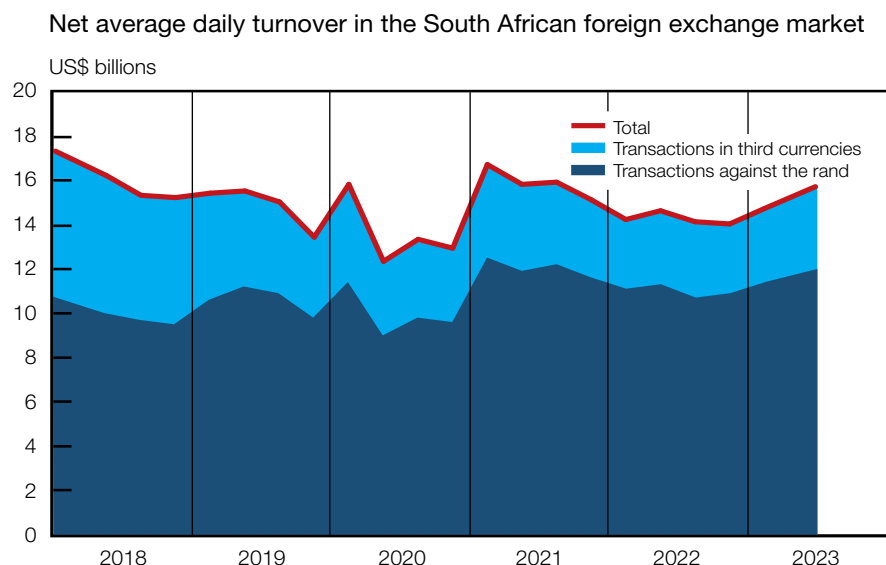


The real effective exchange rate (REER) of the rand decreased by 6.9% in the year to June 2023, increasing the competitiveness of domestic producers in foreign markets.

Turnover in the South African foreign exchange market

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

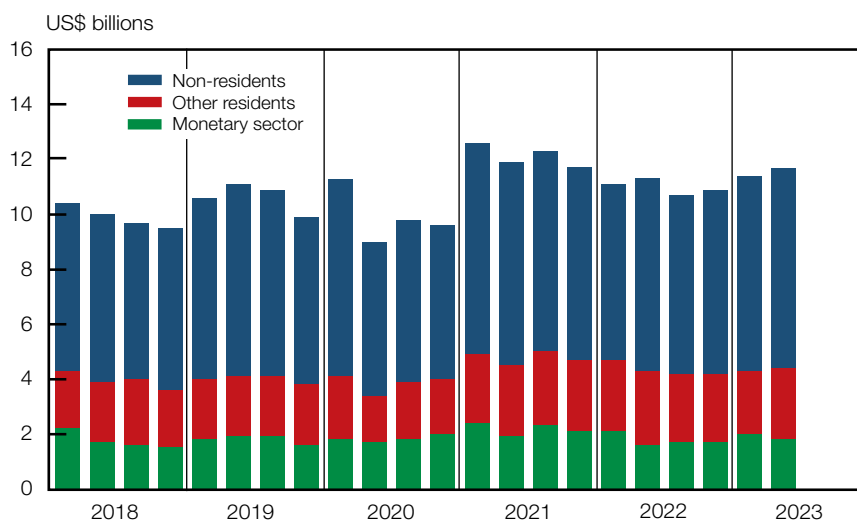
The net average daily turnover¹⁸ in the South African FX market increased by 4.0%, from US\$14.7 billion in the first quarter of 2023 to US\$15.3 billion in the second quarter, following an increase of 5.1% in the previous quarter. The increase in net turnover in the second quarter of 2023 can mainly be attributed to fluctuations in the exchange value of the rand. FX transactions against the rand increased from US\$11.4 billion in the first quarter of 2023 to US\$11.7 billion in the second quarter. Transactions in third currencies increased from US\$3.3 billion to US\$3.7 billion over the same period.



Source: SARB

Net average daily counterparty participation by non-residents in the rand market increased for a third consecutive quarter, from US\$7.1 billion in the first quarter of 2023 to US\$7.3 billion in the second quarter. Participation in the rand market by the monetary sector decreased from US\$2.0 billion to US\$1.8 billion, while resident participation increased from US\$2.3 billion to US\$2.6 billion over the same period.

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

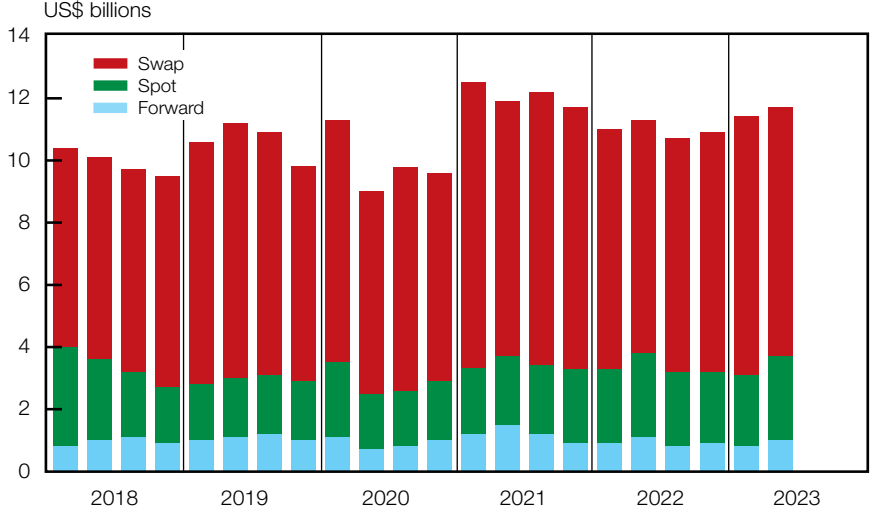


Source: SARB



Net average daily swap transactions in the rand market decreased from US\$8.3 billion in the first quarter of 2023 to US\$8.0 billion in the second quarter. Forward transactions increased from US\$0.8 billion in the first quarter of 2023 to US\$1.0 billion in the second quarter. Similarly, spot transactions increased from US\$2.3 billion to US\$2.7 billion over the same period.

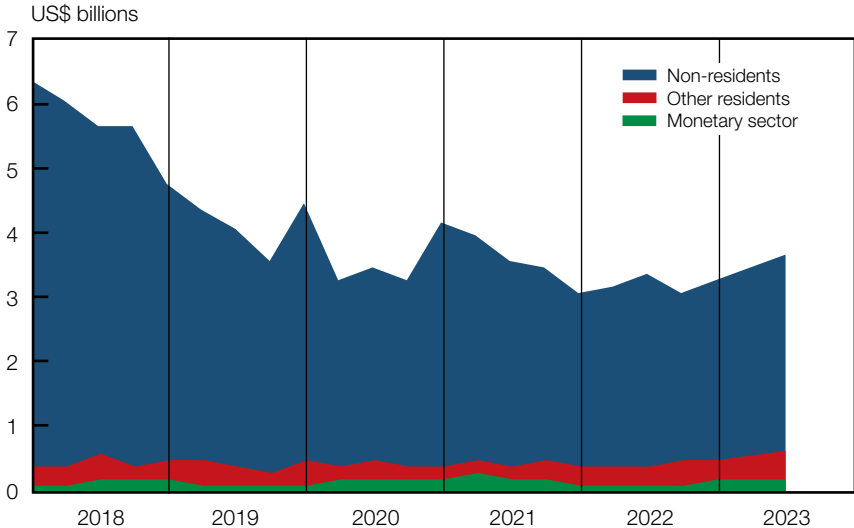
Composition of net average daily turnover in the South African foreign exchange market against the rand, by instrument



Source: SARB

The increase in net average daily turnover in third currencies could be attributed to the participation by non-residents, which increased from US\$2.8 billion in the first quarter of 2023 to US\$3.1 billion in the second quarter, while that of the monetary sector and residents averaged US\$0.2 billion and US\$0.4 billion respectively.

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



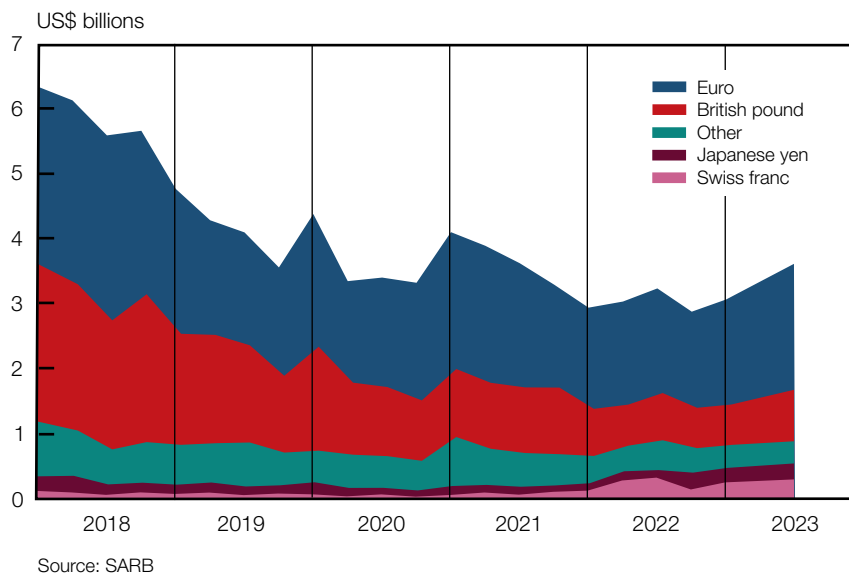
Source: SARB





In the market for third currencies, US dollar against euro transactions increased from US\$1.6 billion in the first quarter of 2023 to US\$1.8 billion in the second quarter. US dollar against Japanese yen transactions remained unchanged at an average of US\$0.2 billion from the first to the second quarter of 2023, while transactions of the US dollar against the Swiss franc decreased from US\$0.3 billion to US\$0.2 billion over the same period. Transactions of the US dollar against the British pound increased from US\$0.6 billion in first quarter of 2023 to US\$0.8 billion in the second quarter. US dollar transactions against other currencies decreased slightly from US\$0.4 billion to US\$0.3 billion over the same period.

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

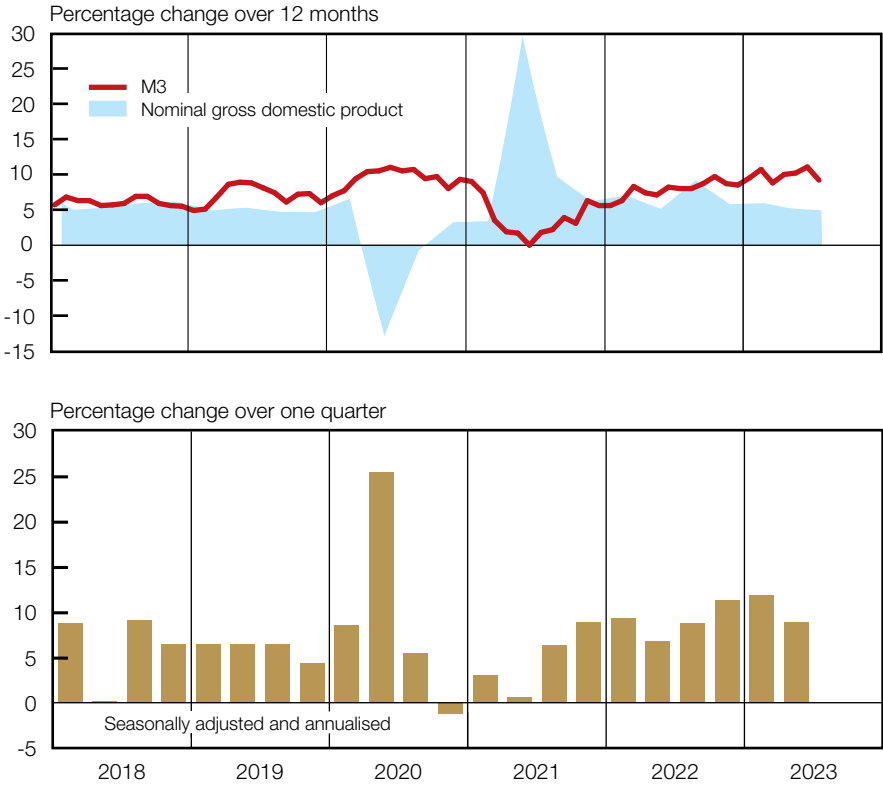


Monetary developments, interest rates and financial markets

Money supply

Year-on-year growth in the broadly defined money supply (M3) accelerated further to a post-COVID-19 high of 11.2% in June 2023 before moderating to 9.3% in July. However, the quarter-to-quarter seasonally adjusted and annualised growth in M3 moderated from a three-year high of 11.8% in the first quarter of 2023 to 8.8% in the second quarter. The income velocity of circulation of M3 declined slightly further from 1.42 in the first quarter of 2023 to 1.41 in the second quarter as the rates of increase in M3 and nominal growth in GDP diverged further.

Money supply and gross domestic product



Sources: Stats SA and SARB

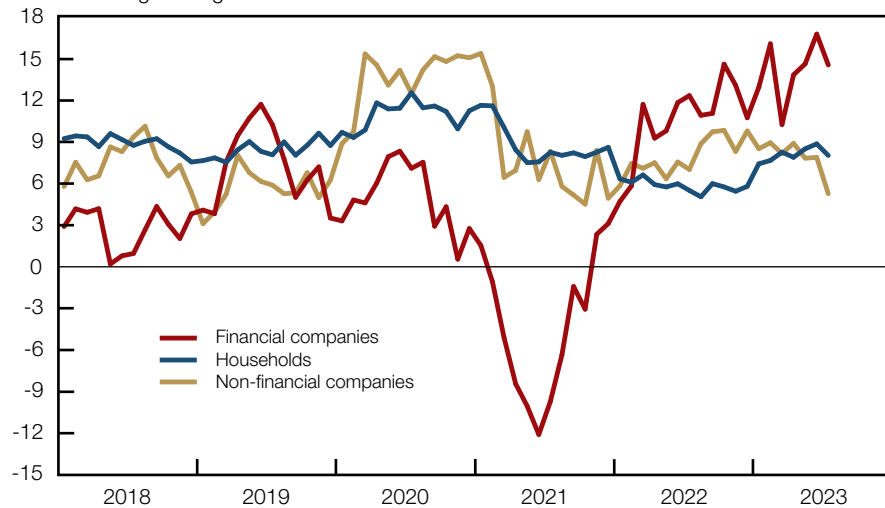
The quicker pace of increase in M3 in the first half of 2023 reflected year-on-year growth in the deposit holdings of financial companies to a recent high of 16.8% in June 2023 on account of, among other things, deposits by the Public Investment Corporation (PIC), fund managers, investment management companies and the occasional placement of funds earmarked for dividend distribution. In July, the deposit growth of financial companies moderated somewhat to 14.6%. Year-on-year growth in the deposit holdings of non-financial companies moderated from 8.9% in February 2023 to 5.3% in July. The rate of increase in the deposit holdings of households (inclusive of non-profit institutions serving households) accelerated from a low of 5.8% in December 2022 to 8.0% in July 2023 amid higher interest rates.





Deposit holdings of households and companies

Percentage change over 12 months

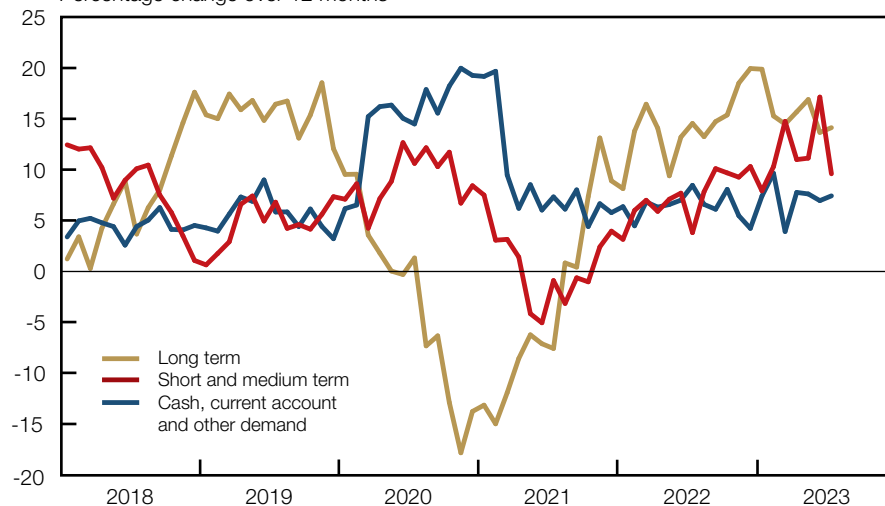


Source: SARB

Growth in long-term deposits accelerated from 8.1% in January 2022 to a recent high of 20.0% in December following increases in the repo rate from November 2021, before moderating to a still high 14.2% in July 2023. Growth in short- and medium-term deposits followed a similar trajectory to a recent high of 17.2% in June 2023 – the highest rate of increase since March 2009 – before decelerating to 9.6% in July. Growth in liquid cash, current account and other demand deposits remained more subdued, fluctuating between a high of 9.7% in February 2023 and a low of 3.9% in March, before averaging 7.5% in the subsequent months to July. Recent changes in the monetary base and its implications for the monetary aggregates are explained in more detail in Box 2.

Deposits by maturity

Percentage change over 12 months



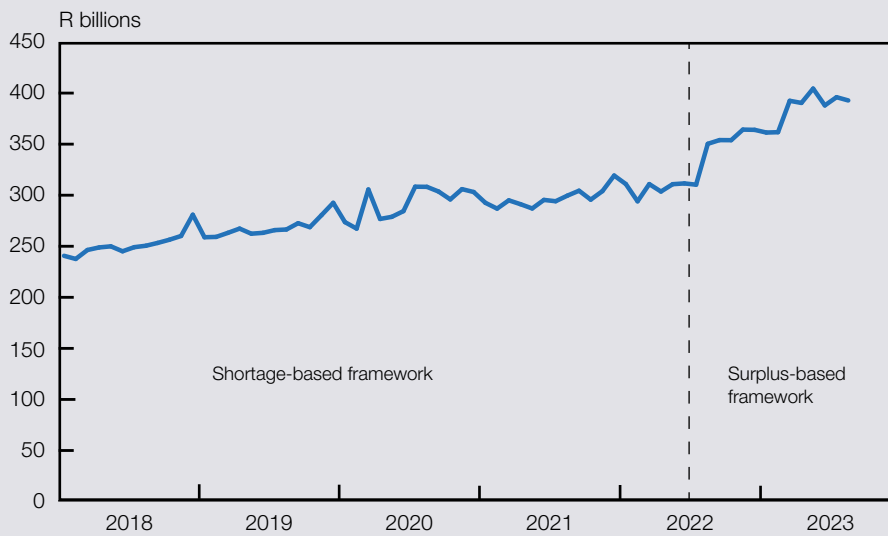
Source: SARB

Box 2 The recent expansion of the monetary base¹

South Africa's monetary base² expanded with the change to a surplus-based monetary policy implementation framework (MPIF)³ that was introduced by the South African Reserve Bank (SARB) from June 2022. This box unpacks the increase in the components of the monetary base and indicates how the composition has changed following the changeover and also refers to the link with money supply and credit extension.

The implementation of the surplus-based framework increased the monetary base from R310.1 billion in May 2022 to R392.1 billion in August 2023 as some of the liquidity provided by the SARB to banks circulated back as deposits in the South African Multiple Option Settlement (SAMOS) system.⁴ The component of the monetary base that increased the most was banks' SAMOS system balances at the SARB within the quota limit,⁵ while required reserves remained stable as a percentage of banks' total liabilities. The growth in interest-bearing⁶ deposits within the quota limit resulted partly from the effect of the higher repurchase (repo) rate.

Monetary base



Source: SARB

1 This box relates to the monetary statistics on pages S–2, S–3, S–23, S–28 and S–29 in this edition of the *Quarterly Bulletin (QB)*.

2 The monetary base (M0) comprises total banknotes and coin in issue and in circulation outside of the South African Reserve Bank (SARB), net of issuance and removal from circulation, *plus* banks' required cash reserves as well as their excess cash reserves and other deposits at the SARB in rand. See 'Note on banknotes and coin in South Africa' in the September 2021 edition of the *QB*, available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/articles-and-notes/2021/september-2021---note-on-banknotes-and-coin-in-south-africa>; and 'Note on recent developments in money creation in South Africa' in the September 2020 edition of the *QB*, available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/articles-and-notes/2020/10269>.

For the international methodological guidelines, see pages 197–200 in the *Monetary and Financial Statistics Manual and Compilation Guide*, 2017, published by the International Monetary Fund (IMF), available at <https://www.elibrary.imf.org/display/book/9781513579191/9781513579191.xml?rskey=orsW97&result=5>

3 The SARB's surplus-based MPIF, which was phased in over 12 weeks as from 8 June 2022, replaced the classical cash reserve or shortage-based framework that had been in place since March 1998. In the surplus-based framework, the SARB provides ample daily liquidity, with banks lending and borrowing in the interbank market with no obligation to participate in the SARB's weekly auctions. Subject to quota limits, banks earn the repurchase (repo) rate on qualifying excess reserves in the South African Multiple Option Settlement (SAMOS) system deposited overnight at the SARB. Funds within the quota limit are reimbursed at the repo rate, while those in excess of the quota are reimbursed at 100 basis points below the repo rate. The framework accommodates excess liquidity, with the quotas determined by banks' relative sizes as well as the total amount of liquidity in the market, as set by the SARB. The cash reserve requirement of 2.5% of banks' total liabilities remains applicable and does not attract interest. In the shortage-based framework, the SARB maintained a liquidity shortage in the money market which ensured that banks had to refinance their daily liquidity requirements at the SARB.

4 The SAMOS system is a real-time gross settlement system (RTGS) owned and operated by the SARB that facilitates the settlement of domestic high-value payments and retail batches as well as settlement in the bond and equity markets. Quota-related deposits are also placed in the SAMOS system.

5 Deposits within the quota limit have accounted for about 97% of total quota-related deposits, on average, thus far in 2023. Deposits exceeding the quota limit reflect excess funds after end-of-day square-off.

6 Within the quota, deposits earn interest at the repo rate, while deposits in excess of the quota earn interest at the repo rate *minus* 100 basis points. The required reserve balances of banks at the SARB do not earn any interest.

The monetary base comprises the following central bank liabilities: banknotes and coin in circulation, private sector banks' holdings of required cash reserves, any excess reserves, and other deposits. Therefore, changes in the level and composition of the monetary base can only result either from changes in the public's demand for banknotes and coin or banks' deposits at the SARB. Changes in the latter, among other factors, reflect regulatory changes to the cash reserve requirement and the impact of the MPIF on SAMOS deposit balances.

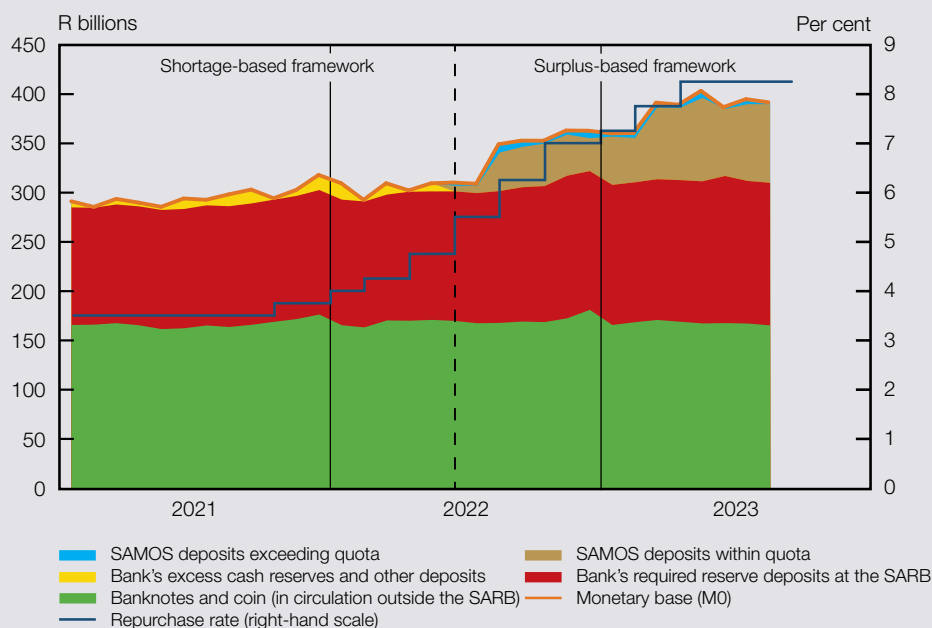
Composition of the monetary base

R millions

	Dec 2020	Dec 2021	Dec 2022	Aug 2023
Banknotes and coin in circulation outside the SARB	177 573	177 098	181 820	166 089
Private bank deposits at the SARB.....	124 891	141 498	181 530	226 056
Required cash reserve balances.....	118 832	126 345	140 886	144 746
Excess cash reserves and other deposits ¹	6 059	15 153	40 644	81 310
<i>Of which: SAMOS balances</i>				
Deposits (shortage-based framework)	3 700	10 850	–	–
Deposits (surplus-based framework) within quota	–	–	31 402	79 254
Deposits (surplus-based framework) exceeding quota	–	–	7 247	1 281
Monetary base	302 464	318 596	363 350	392 145

¹ Excluding foreign currency-denominated deposits

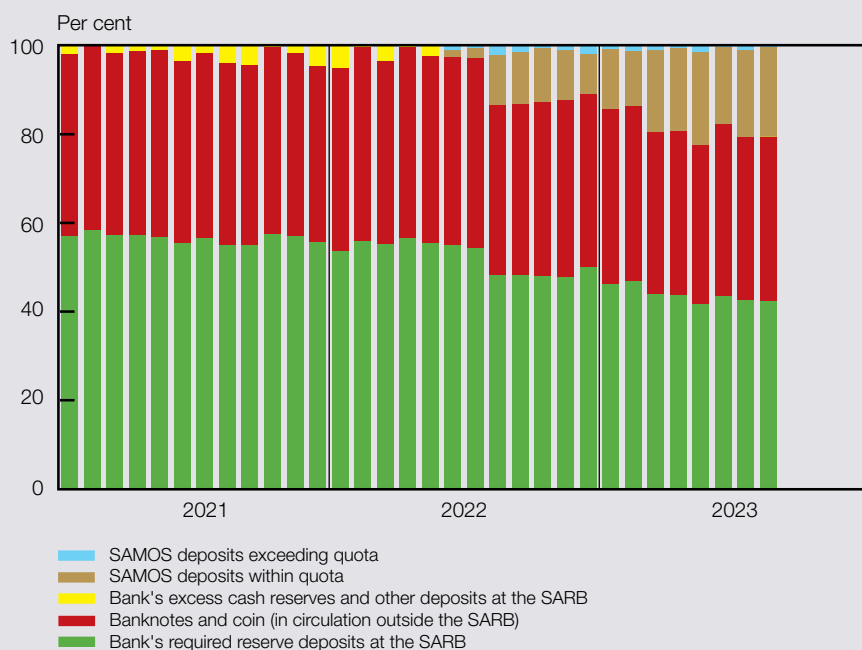
Total SAMOS deposits of banks at the SARB and the repo rate



The effect of the change to a surplus-based framework is evident from the changing composition of the monetary base. The contribution of banks' excess cash reserves and other deposits at the SARB, in particular quota-related deposit balances within the SAMOS system, increased substantially. In December 2021, the monetary base comprised banks' total deposits at the SARB of 44.4%, and notes and coin in circulation outside the SARB of 55.6%. Following the change in the framework, the contribution of bank deposits at the SARB increased to 57.6% in August 2023.



Composition of the monetary base



An increase in the monetary base supports an increase in banks' assets through credit extension and the acquisition of high-quality liquid assets (HQLAs),⁷ while also supporting an increase in banks' liabilities, as banknotes and coin in circulation outside of the monetary sector are part of the broad money supply (M3). However, the monetary base also affects money supply through the money multiplier.

⁷ HQLAs are convertible into cash with no significant loss of value.

Deposit holdings of the household sector increased by R41.9 billion in the second quarter of 2023 compared with an increase of R29.5 billion during the same period of 2022. The corporate sector's deposits increased by R38.3 billion in the second quarter of 2023 – a significant change from the R48.3 billion contraction recorded during the same period a year earlier. This change is reflected in the R59.3 billion increase in the deposits of financial companies in the second quarter of 2023, following a contraction of R31.5 billion in the second quarter of 2022. By contrast, the deposits of non-financial companies decreased by R21.0 billion in the second quarter of 2023 compared with a contraction of R16.9 billion in the second quarter of 2022.

M3 holdings of households and companies

	Quarter-on-quarter change (R billions)					Percentage of total M3 deposit holdings*
	2022		2023			
	Q2	Q3	Q4	Q1	Q2	
Households	29.5	56.6	25.0	22.2	41.9	36.2
Companies: Total.....	-48.3	160.3	37.2	115.0	38.3	63.8
Of which: Financial	-31.5	95.3	-9.4	98.6	59.3	34.3
Non-financial.....	-16.9	65.0	46.6	16.4	-21.0	29.6
Total M3 deposits.....	-18.8	216.9	62.2	137.2	80.2	100.0

* Expressed as a percentage of the total outstanding balance as at June 2023

Source: SARB



Statistically, the increase of R80.2 billion in M3 in the second quarter of 2023 comprised a large increase of R186.1 billion in net foreign assets of monetary institutions and an increase of R35.4 billion in claims on the domestic private sector. The increase in net foreign assets largely reflected an increase in loans granted under resale agreements to the foreign sector in the interbank market as some domestic banks invested surplus liquidity, coupled with increases in both the value of foreign assets of the SARB and derivative instruments issued by the foreign sector that are held by the domestic monetary sector. More than half of these increases were offset by decreases in net other assets of the monetary sector of R76.2 billion and net claims of monetary institutions on the government sector of R65.1 billion.

Counterparts of change in M3

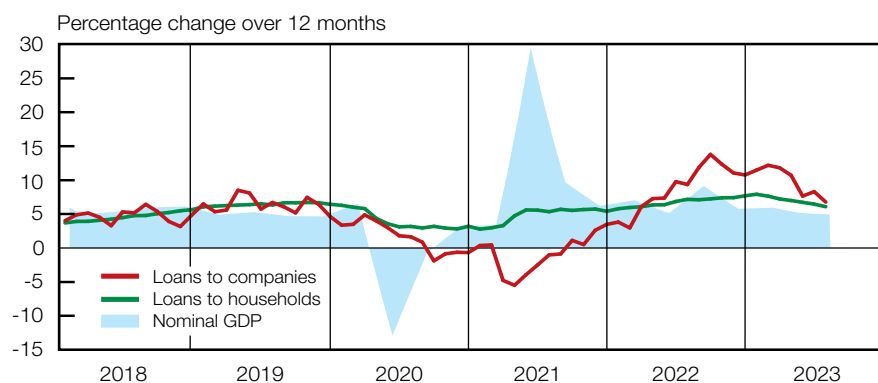
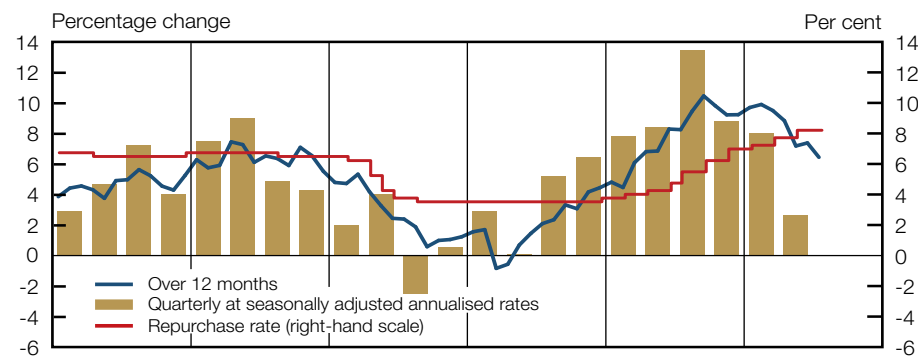
	Quarterly change (R billions)				
	2022		2023		
	Q2	Q3	Q4	Q1	Q2
Claims on the private sector	71.9	133.4	6.6	92.2	35.4
Net claims on the government sector	-113.6	140.1	9.5	87.7	-65.1
Net foreign assets	91.3	12.3	-44.2	65.3	186.1
Net other assets	-68.5	-69.0	90.3	-107.9	-76.2
Change in M3	-18.8	216.9	62.2	137.2	80.2

Source: SARB

Credit extension

Year-on-year growth in total loans and advances extended to the domestic private sector moderated from a 13-year high of 10.5% in September 2022 to 6.4% in July 2023. The slowdown was specifically marked between March 2023 and July, with loans to companies slowing at a faster pace than loans to households over this period.

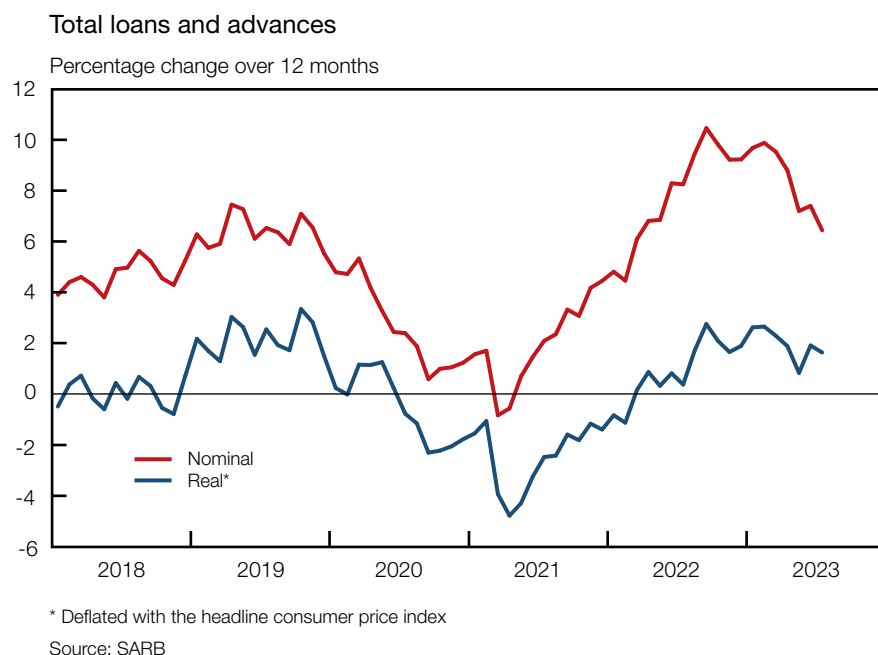
Total loans and advances to the private sector and gross domestic product



Sources: Stats SA and SARB



The quarter-to-quarter seasonally adjusted and annualised growth in total loans and advances to the domestic private sector decelerated rapidly from 8.0% in the first quarter of 2023 to only 2.6% in the second quarter. Although growth in credit extension continued to exceed that in GDP, the gap narrowed slightly in the second quarter of 2023.



Growth in real (inflation adjusted) total loans and advances also decelerated from a post-pandemic high of 2.8% in September 2022 to only 0.8% in May 2023, before accelerating somewhat to 1.6% in July.

The amount of credit extended to the household sector increased by R16.1 billion in the second quarter of 2023, the smallest quarterly increase since the second quarter of 2021 and substantially less than the increase of R37.3 billion recorded in the first quarter of the year. The corporate sector exhibited a similar trend, with a mere R3.0 billion increase in credit in the second quarter of 2023, significantly less than the increase of R48.8 billion in the first quarter. These outcomes reflected a clear reduction in the demand for loans by both households and corporates.

Credit extended to households and companies

	Quarter-on-quarter change (R billions)						Year to date	Percentage of total loans and advances*
	2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2		
Households	40.0	29.6	35.3	37.2	37.3	16.1	53.3	49.7
Companies: Total.....	28.2	64.4	96.6	13.5	48.8	3.0	51.8	50.3
<i>Of which:</i> Financial	-6.5	14.1	43.2	-20.2	46.0	0.5	46.5	12.5
Non-financial.....	34.8	50.3	53.4	33.7	2.8	2.5	5.3	37.8
Total bank loans and advances	68.3	94.0	131.9	50.7	86.1	19.1	105.2	100.0

* Expressed as a percentage of the total outstanding balance as at June 2023

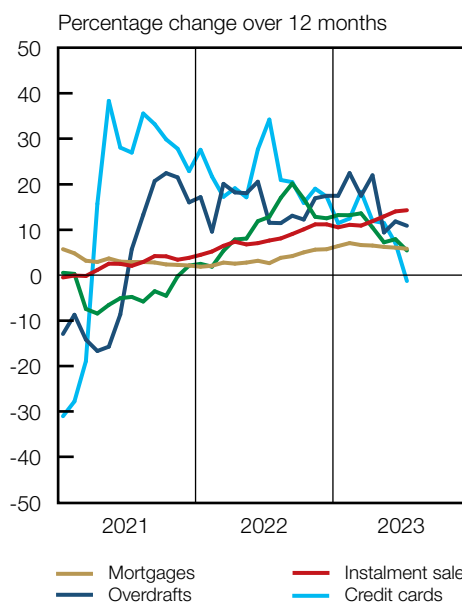
Source: SARB



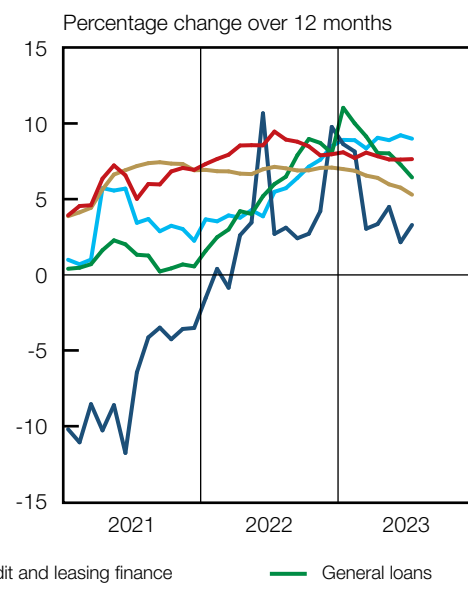
Year-on-year growth in *loans and advances extended to the corporate sector* decelerated from a recent high of 13.8% in September 2022 to 6.8% in July 2023, following double-digit growth from August 2022 to April 2023. General loans and overdrafts contributed the most to the recent slowdown, with growth in general loans (53% of corporate loans) decelerating from a post-pandemic high of 20.2% in September 2022 to 5.4% in July 2023 as demand by both financial and non-financial companies declined. The recent moderation reflected the settlement of intergroup loans, mining companies repaying short-term debt and the settlement of a related loan from a securitisation top-up, among other factors. Growth in corporate overdrafts (11% of corporate loans) decelerated from a high of 22.5% in February 2023 to 9.4% in May. This reflected, among other factors, repayments by companies in the agricultural sector following a bumper summer crop harvest and the reduction of overdraft balances by some mineral resource companies, retailers, insurance companies and companies delivering treasury services for corporate groups. Subsequently, growth in corporate overdrafts accelerated again to 10.9% in July 2023, partly reflecting provisional tax payments. Growth in instalment sale credit and leasing finance to companies (9% of corporate loans) gradually accelerated to a post-pandemic high of 14.3% in July 2023 as corporate purchases of commercial vehicles increased. Growth in credit card advances (only 0.4% of corporate loans) decelerated sharply from a recent high of 18.4% in March 2023 to -1.3% in July.

Selected loans and advances

Corporate sector



Household sector

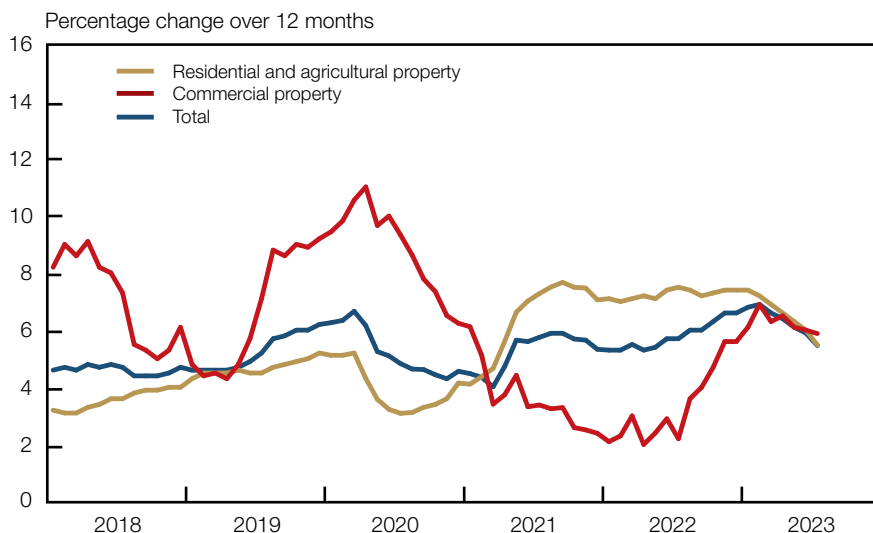


19 Unsecured loans comprise general loans, credit card advances and overdrafts.

Growth in *credit extension to the household sector* moderated gradually from 7.9% in January 2023 to 6.1% in July, matching the growth last recorded in March 2022. The slowdown was broad-based across the various types of credit, particularly within the unsecured¹⁹ categories (23% of household loans). Growth in general loans to households (14% of household loans) decelerated from 11.0% in January 2023 to 6.4% in July. The moderation in the growth in overdrafts (2% of household loans) was especially pronounced as it decelerated from 8.6% in January 2023 to 3.3% in July. By contrast, growth in credit card advances (7% of household loans) remained high at close to 9%, on average, in the first seven months of 2023. The overall moderation in credit extension to households was also noticeable in the asset-backed credit categories, with growth in mortgage advances (59% of household loans) decelerating from 7.0% in January 2023 to 5.3% in July, while growth in instalment sale credit and leasing finance (18% of household loans) decelerated from 8.1% to 7.7% over the same period. The moderation in household demand for most types of credit likely reflected a hesitance to incur more debt as well as the tightening of bank lending standards as impaired advances have increased amid the successive interest rate increases since November 2021.



Mortgage advances



Source: SARB

Growth in mortgage advances on commercial property decelerated somewhat from 6.9% in February 2023 to 5.9% in July. Similarly, growth in mortgage advances on residential and agricultural property decelerated from 7.4% in January 2023 to 5.5% in July. Recently, growth in mortgage advances on commercial property reflected weak economic activity, while that in mortgage advances on residential and agricultural property reflected the effect of higher interest rates on debt-service costs and a lower demand for residential property.

Interest rates and yields

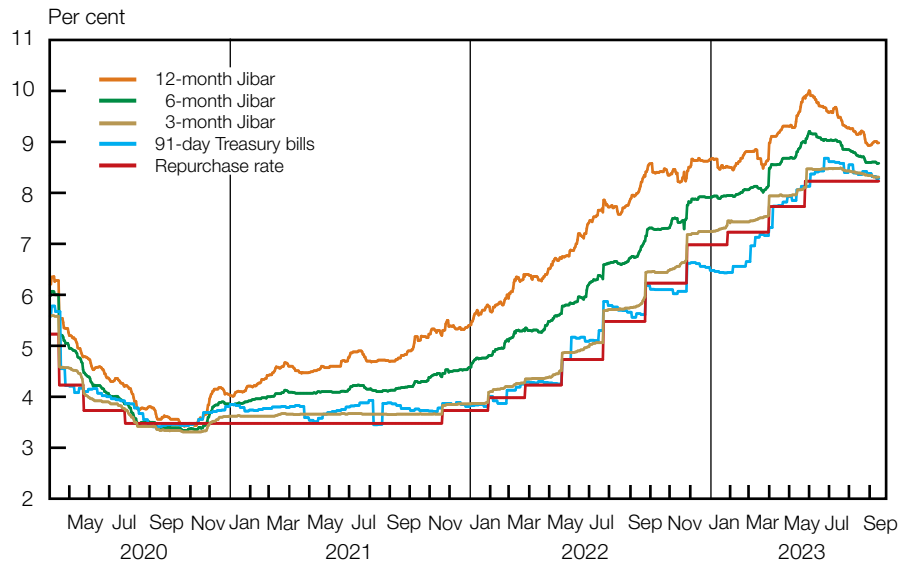
The MPC of the SARB kept the repo rate unchanged at 8.25% at the July and September 2023 meetings. The July 2023 monetary policy decision marked the first pause in the interest rate tightening cycle after 10 consecutive interest rate increases. The MPC acknowledged that policy is currently restrictive but consistent with elevated inflation expectations, while upside risks to the inflation outlook remain.

Movements in domestic short-term money market interest rates initially varied somewhat following the MPC decision in July 2023 to keep the repo rate unchanged, before generally adjusting lower amid the lower expected and actual consumer price inflation outcomes. The three-month Johannesburg Interbank Average Rate (Jibar), which usually follows movements in the repo rate quite closely, initially remained fairly unchanged as it decreased by only 10 basis points from 8.49% on 1 June 2023 to 8.39% on 21 August before it declined further to 8.33% on 15 September. The longer-term six-month Jibar recorded a pronounced decline of 63 basis points from 9.23% on 1 June to 8.60% on 15 September. The 12-month Jibar similarly decreased from 10.02% on 1 June to 9.02% on 15 September amid market participants' growing anticipation of lower interest rates along with gradually lower inflation outcomes.

The tender rate on 91-day Treasury bills (TBs) initially increased by 55 basis points from 8.15% on 1 June 2023 to 8.70% on 23 June amid less demand for short-term high-quality liquid assets. The tender rate then fluctuated lower to 8.38% by mid-August as demand increased somewhat, whereafter it remained relatively stable and amounted to 8.30% on 15 September.



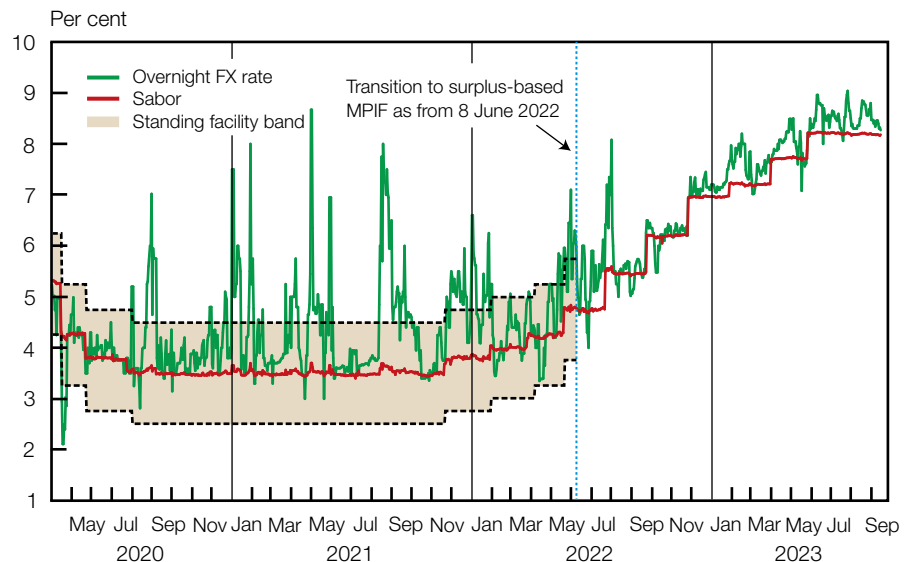
Money market rates



Source: SARB

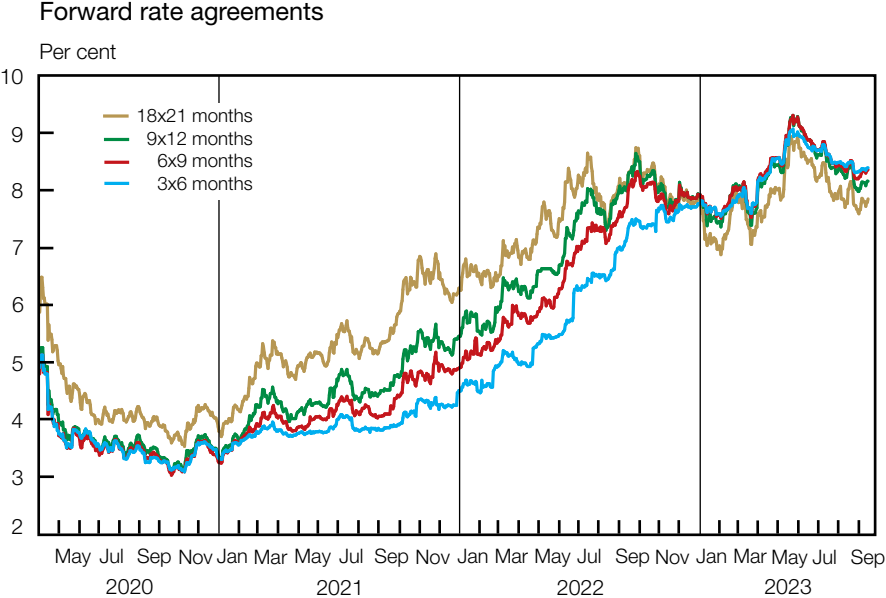
The South African Benchmark Overnight Rate (Sabor) remained closely aligned to the repo rate, averaging 8.19% since the pause in the repo rate on 20 July 2023, and continued to reflect relatively stable funding conditions in the interbank lending market. By contrast, movements in the overnight FX rate were more volatile, fluctuating between a recent low of 8.00% on 19 June 2023 and a high of 9.04% on 26 July, as demand for rand liquidity usually tightens in the overnight FX forward market when foreign banks require funding to meet month-end liquidity obligations. The overnight FX rate usually decreases when demand stabilises, and the rate subsequently declined to 8.29% on 15 September from 8.80% in late August. The overnight FX rate averaged 8.19% in the second quarter of 2023 before increasing to average 8.53% in July and 8.54% in August.

Benchmark overnight rates



Source: SARB

Rates on forward rate agreements (FRAs) declined across the maturity spectrum in response to the repo rate remaining unchanged in July 2023 and consumer price inflation recording lower outcomes, while remaining sensitive to fluctuations in the exchange value of the rand. The 3x6-month FRA decreased by 55 basis points from 8.97% on 1 June 2023 to 8.42% on 10 August but then increased slightly to 8.50% on 18 August as the exchange value of the rand depreciated, before decreasing again to 8.45% on 15 September despite some volatility in the exchange value of the rand. Similarly, the 6x9-month FRA decreased by 79 basis points from 9.13% on 1 June to 8.34% on 10 August and then fluctuated between 8.52% on 18 August and 8.41% on 15 September. The 9x12-month FRA also decreased from 9.13% on 1 June to 8.21% on 10 August before settling at 8.21% on 15 September. Both the short- and long-dated FRAs displayed expectations of lower interest rates in the coming months.



Source: SARB

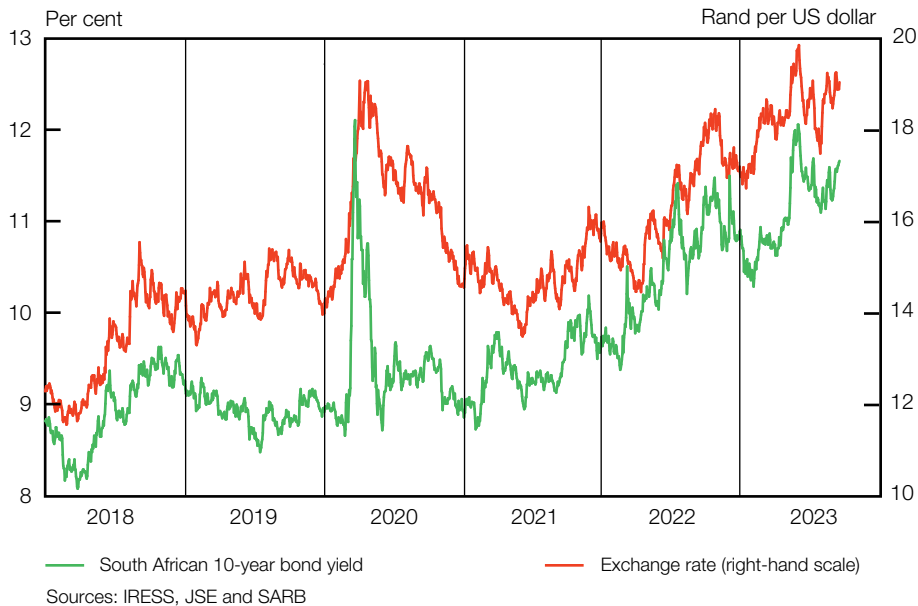
The weighted average deposit and lending rates offered by private sector banks trended higher during 2023, in line with successive increases in the repo rate and more recently the pause in July. Between April 2023 and July, the interest rate on mortgage advances increased from 10.85% to 11.41%; that on instalment sale credit increased from 11.41% to 11.99%; the rate on overdrafts increased from 11.53% to 12.01%; and that on credit card advances increased from 17.21% to 17.97%. Similarly, from April 2023 to July, the interest rate on call deposits increased by 49 basis points from 7.45% to 7.94%; the rate on 12-month fixed deposits increased from 7.98% to 8.57%; and that on current account deposits increased from 3.87% to 4.23%.

The yield on 10-year South African rand-denominated government bonds issued and traded in the domestic market decreased from a recent high of 12.06% on 30 May 2023 to 11.10% on 28 July. The decline reflected a moderation in domestic consumer price inflation, an appreciation in the exchange value of the rand as well as the affirmation of South Africa’s long-term local and foreign currency debt ratings at BB- with a stable outlook by an international rating agency. Subsequently, the yield increased to 11.66% on 15 September as the exchange value of the rand depreciated and international bond yields increased following market reactions to the downgrading of the US’s long-term foreign currency issuer default rating from AAA to AA+, along with a change from a negative to a stable outlook.





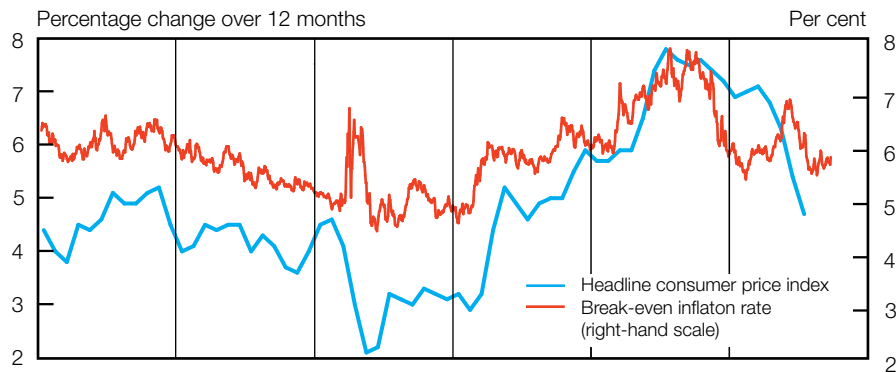
Government bond yield and the exchange rate



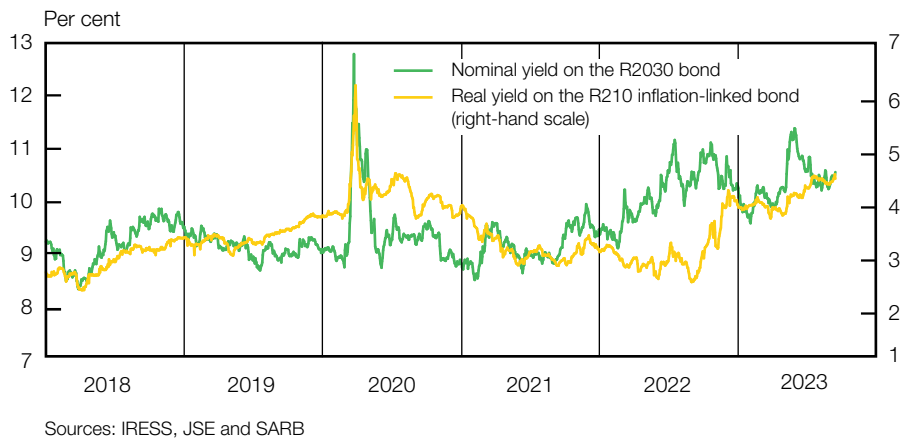
20 The break-even inflation rate in the five- to seven-year maturity range is calculated as the difference between the nominal yield on the R2030 conventional bond (maturing on 31 January 2030) and the real yield on the R210 inflation-linked bond (maturing on 31 March 2028).

The *break-even inflation rate*²⁰ in the five- to seven-year maturity range declined to below 6% from 13 July 2023, in line with the slowdown in headline consumer price inflation. The decrease in the break-even inflation rate from a recent high of 6.95% on 31 May 2023 to 5.87% on 15 September reflected the combined effect of a decline in the nominal yield on the conventional bond and an increase in the real yield on the inflation-linked bond.

Inflation rates



Government bond yields



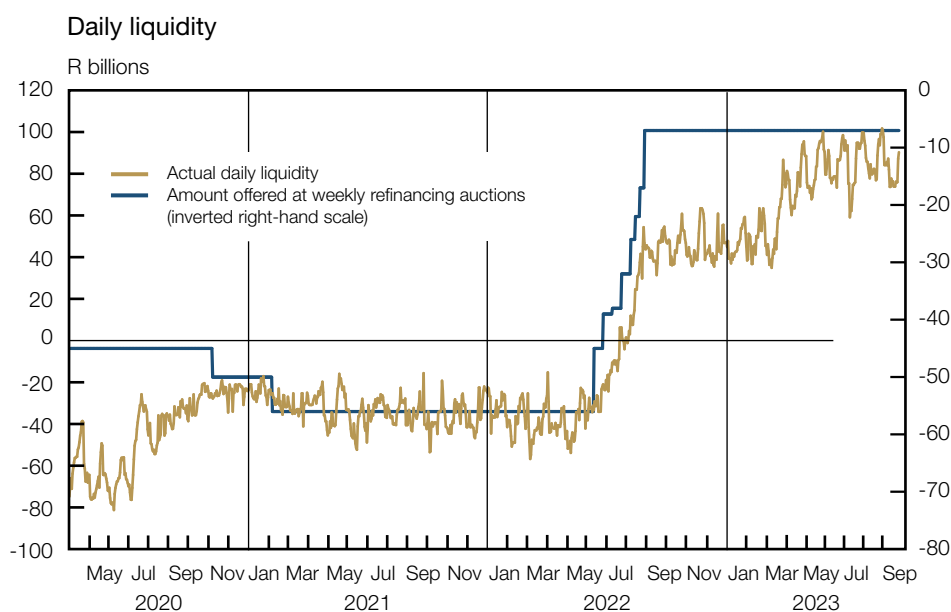
The yield spread of emerging market US dollar-denominated bonds relative to US government bonds, as measured by the JPMorgan Emerging Markets Bond Index Plus (EMBI+),²¹ widened from 374 basis points in January 2023 to 420 basis points in May as emerging market bond yields increased more than US bond yields. Subsequently, the yield spread narrowed to 376 basis points in August as US bond yields continued to increase while yields on emerging market bonds broadly declined. Similarly, South Africa's *sovereign risk premium*²² on US dollar-denominated government bonds in the seven-year maturity range widened from a monthly average of 306 basis points in January 2023 to 384 basis points in May, before decreasing to 332 basis points in August.

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

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

Money market

Private sector banks' average daily surplus liquidity position of R82.6 billion in the second quarter of 2023 varied between a low of R60.2 billion and a high of R100.2 billion. The high of R100.2 billion on 23 May 2023 occurred due to a withdrawal of deposits from the SARB for placement with private sector banks as part of liquidity management activities, marginally breaching the upper limit of the targeted range of R80 billion plus the R20 billion safety buffer. The amount on offer at the weekly refinancing auctions remained stable at R7.0 billion, while the amount allotted decreased as banks' requirement for additional funds dwindled after the implementation of the surplus-based monetary policy implementation framework (MPIF). In July and August 2023, the average daily surplus liquidity position of private sector banks amounted to R84.8 billion and R87.6 billion respectively as banks reduced their deposits at the SARB at the end-of-day square-off to cater for daily and monthly liquidity obligations.



Source: SARB

The total accommodation provided to banks at the weekly main refinancing auctions increased marginally from R1.3 billion in May 2023 to R1.4 billion in June, before decreasing to R1.2 billion and R0.2 billion in July and August respectively as the demand for liquidity decreased.

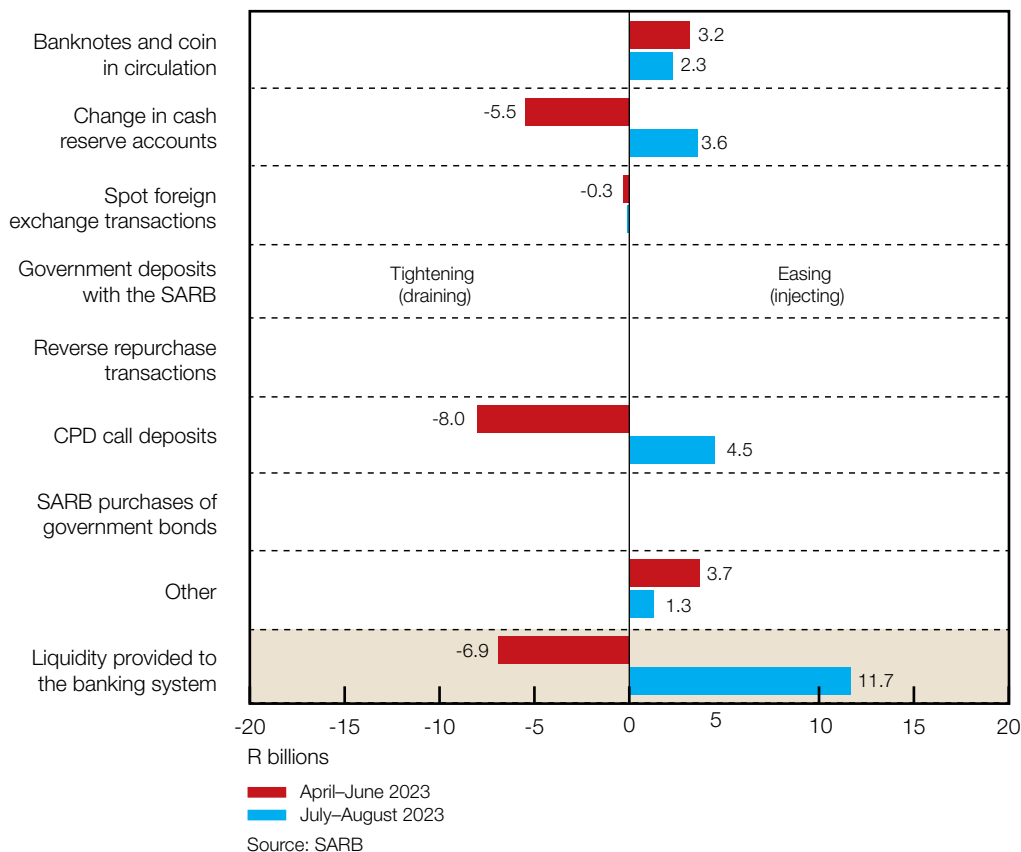
Money market liquidity contracted by a net amount of R6.9 billion in the second quarter of 2023, in contrast to an expansion of R39.2 billion in the first quarter when National Treasury withdrew funds from the Sterilisation Account at the SARB. The main contributors to the second-quarter tightening in liquidity conditions included the placement of R8.0 billion in Corporation for Public Deposits (CPD) funds with the SARB and an increase of R5.5 billion in private sector banks' required cash reserve deposits with the SARB. The contraction was partially offset by a decrease of R3.2 billion in banknotes and coin in circulation²³ outside of the SARB as well as 'other factors' of R3.7 billion, which mostly included accommodation provided to banks.

23 For a more detailed analysis on developments in money in circulation, see 'Box 2: The recent expansion of the monetary base' in this edition of the QB.



Money market liquidity expanded by R11.7 billion in July and August 2023, mainly due to the placement of R4.5 billion in CPD deposits at private banks, a decrease in banks' required cash reserve deposits of R3.6 billion as well as a decrease in banknotes and coin in circulation of R2.3 billion.

Factors influencing money market liquidity flows



Bond market

The total *nominal value of outstanding listed²⁴ and unlisted²⁵ rand-denominated debt securities* issued by residents and non-residents in the domestic primary debt market increased by 9.7% year on year to R6.1 trillion at the end of July 2023. The net issuance of debt securities by general government²⁶ of R190 billion in the seven months to July 2023 was 0.8% more than in the corresponding period of 2022 and accounted for 65.3% of total net issuance in the domestic primary debt market. The funding activity reflected government's larger borrowing requirement as projected in the *2023 Budget Review* due to, among other factors, debt relief to Eskom.

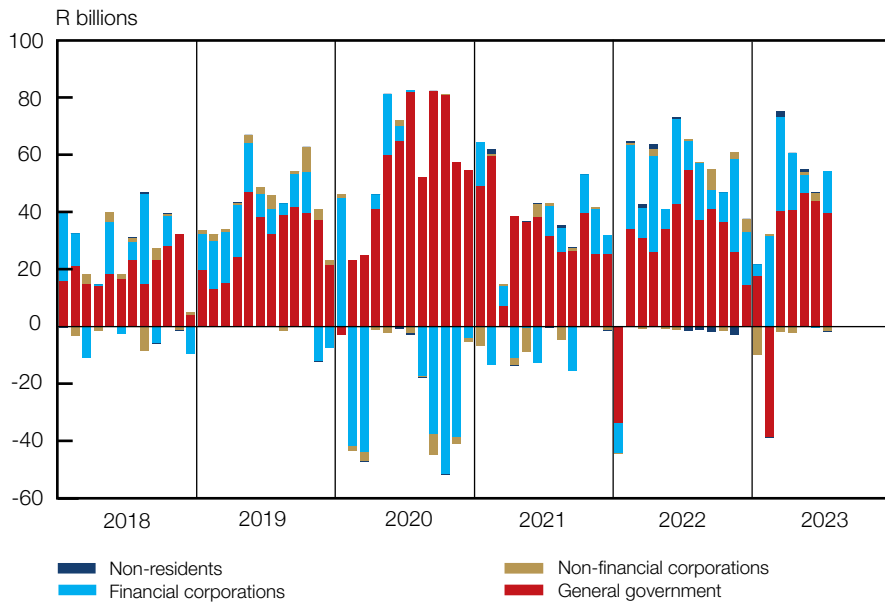
24 These are debt securities listed on the JSE Limited (JSE) and on the Cape Town Stock Exchange (CTSE).

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

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



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

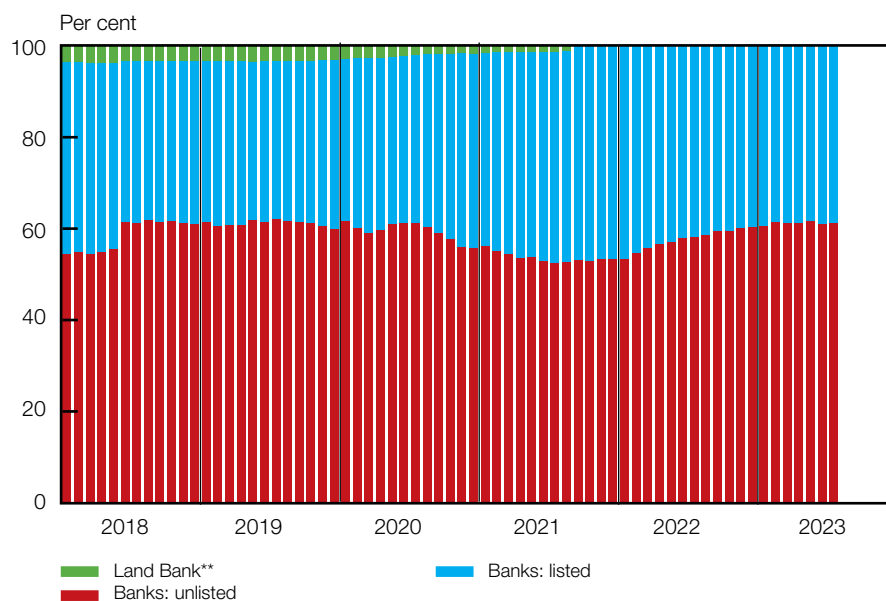


* Nominal value

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

By contrast, net issuance in the domestic primary debt market by resident financial and non-financial corporations decreased somewhat from R111 billion in the first seven months of 2022 to R97.8 billion over the same period of 2023. This reflected a change from net issuance of R0.8 billion by non-financial corporations to net redemptions of R11.2 billion, and a decline of R1.3 billion in net issuance by financial corporations in the first seven months of 2023 compared with the same period of 2022. The decline in net issuance by financial corporations reflected, in particular, net redemptions of unlisted debt securities of banks in June 2023. However, banks continued to account for 87.1% of the total outstanding nominal value of debt securities of financial corporations in issue at the end of July 2023.

Composition of banks' listed and unlisted debt securities in issue in the domestic primary debt market*



* Nominal value

** Listed and unlisted debt securities

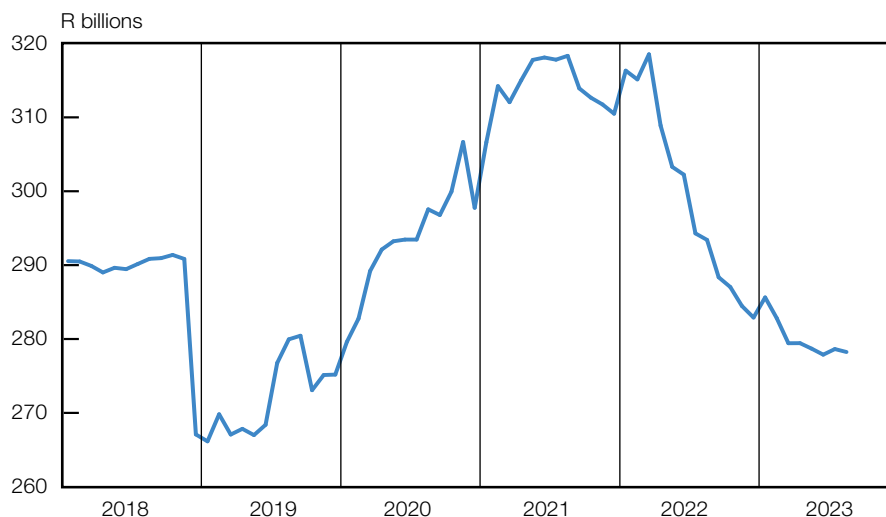
Sources: Banks and JSE



The daily average *value of turnover* in the domestic secondary bond market of R168 billion in the first eight months of 2023 was 11.7% higher than in the corresponding period of 2022, while the daily average number of trades was broadly the same over the corresponding period.

The total outstanding amount of rand-denominated debt securities in issue in the *European and Japanese bond markets* declined markedly from a high of R318 billion in March 2022 to R278 billion in August 2023, with resident issuers, mostly non-financial corporations, accounting for only 9.9% of the total amount in issue. The decline in the outstanding amount in issue reflected, among other factors, the effect of both the volatility in the exchange value of the rand and higher interest rates.

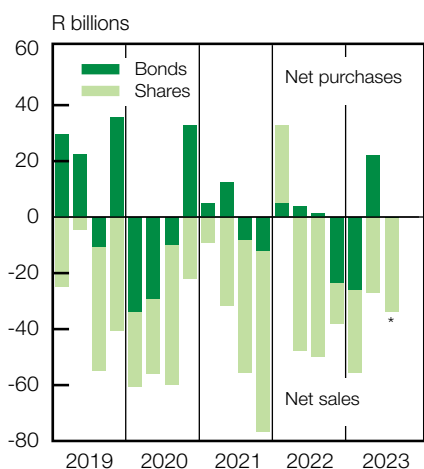
Outstanding amount of rand-denominated bonds in issue in international markets



Source: Bloomberg

Non-residents' net purchases of bonds listed on the JSE Limited (JSE) of R22.1 billion in the second quarter of 2023 followed net sales in the previous two quarters, according to JSE data. Subsequently, non-residents recorded subdued net sales of R0.3 billion in July and August. The cumulative net sales of R4.2 billion in the eight months to August 2023 followed cumulative net purchases of R10.6 billion in the same period of 2022.

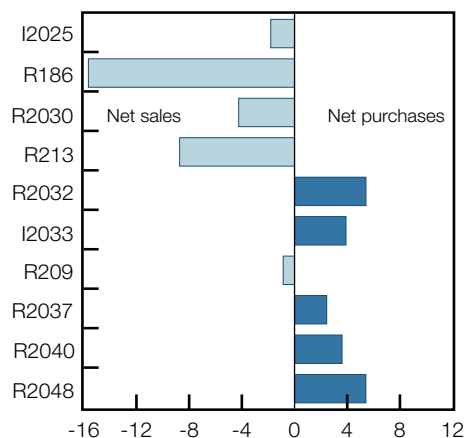
Non-resident net transactions in the domestic bond and share market



* July and August

Source: JSE

Largest net transactions by non-residents in government bonds by instrument and maturity in the first eight months of 2023*



R billions

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

The cumulative net purchases from April 2023 mainly reflected, among other factors, increased interest in emerging market debt securities amid expectations that lower global inflation will eventually tame further increases in central bank interest rates. In South Africa, headline consumer price inflation has slowed, and the SARB kept the repo rate unchanged in July 2023. Thus far in 2023, non-residents have mostly transacted in government bonds and, on a net basis, have sold shorter-dated instruments and purchased longer-dated instruments.

Share market

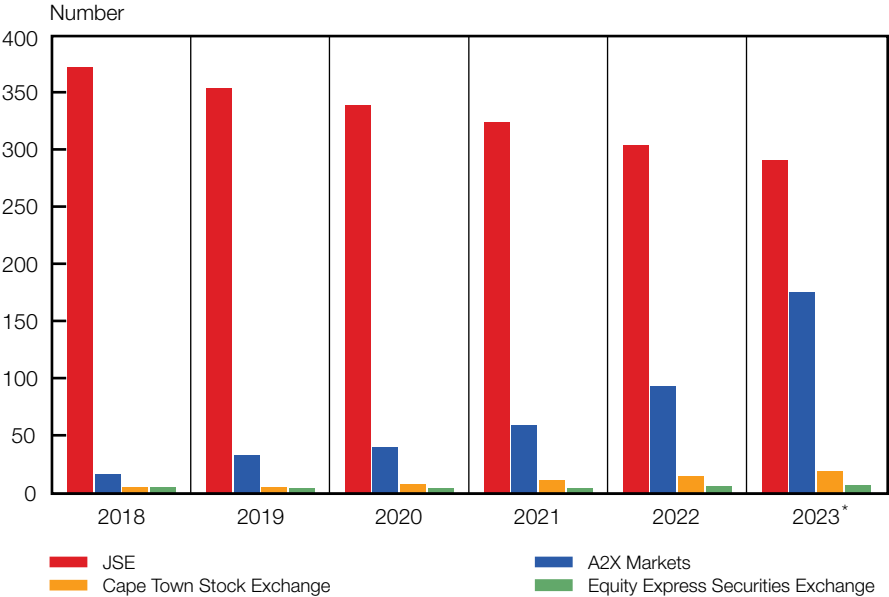
The value of secondary equity capital raised²⁷ in the domestic and international primary share markets by companies listed on the JSE, which remained subdued in the first eight months of 2023 at R4.2 billion, was 40.5% less than in the corresponding period of 2022 and reflected subdued domestic and global economic growth. Thus far in 2023, the bulk of the secondary equity capital has been raised by primary listed companies on the JSE at 76.5%, with 36.3% raised through rights issues and 35.5% through shares issued for cash.

27 This excludes primary equity capital raised through new listings.

Numerous delistings and a few new listings on the JSE thus far in 2023 reduced the number of listings to 291 at the end of August 2023, of which 44 companies are secondary listed on the JSE and primary listed on a foreign exchange. Meanwhile, the secondary exchange²⁸ A2X Markets (A2X) had a remarkable increase in the number of listings from 39 in March 2021 to 176 at the end of August 2023. The number of listings on the Cape Town Stock Exchange (CTSE) and the Equity Express Securities Exchange (EESE) reached 19 and 7 respectively at the end of August 2023.

28 This comprises secondary listings of companies listed on the JSE.

Number of listings on South African stock exchanges



* As at 31 August 2023
Sources: A2X, CTSE, EESE and JSE

The combined value of turnover in the secondary share market of the South African stock exchanges of R3.8 trillion in the first eight months of 2023 was 4.9% less than in the same period of 2022. The combined market capitalisation of all the listed shares on these exchanges decreased from R23.0 trillion in January 2023 to R20.9 trillion in August, along with the decline in share prices. Companies with secondary listings on the JSE and primary listings on foreign exchanges accounted for 65.9% of the total market capitalisation at the end of August 2023.

Non-residents' cumulative net sales of JSE-listed shares of R89.4 billion in the first eight months of 2023 exceeded the net sales R50.7 billion in the corresponding period of 2022, according to JSE data. Non-residents' net sales of R29.6 billion in the first quarter of 2023 were followed

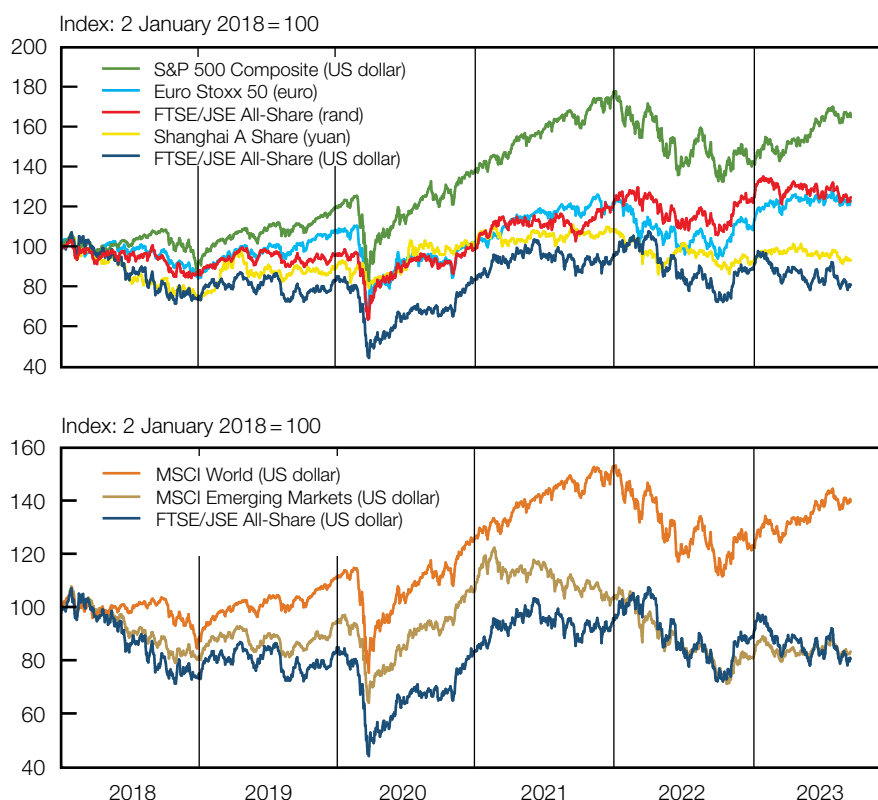




by a further R27.0 billion in the second quarter and R32.8 billion in July and August, reflecting concerns over domestic and global economic growth, especially the impact of domestic electricity load-shedding and weak economic activity in China.

In rand terms, the *FTSE/JSE All-share Index (Alsi)* declined by, on balance, 0.1% in the second quarter of 2023 following increases of 4.2% and 14.6% respectively in the previous two quarters. Subsequently, the Alsi increased by 3.9% in July 2023 along with higher share prices on international bourses before declining by 5.6% to 74 590 index points on 15 September – similar to the levels recorded at the end of December 2022 – on account of, among other factors, domestic and global economic growth concerns. The decline in the Alsi, in US dollar terms, of 12.2% from 31 July 2023 to 15 September was more than the decline in the MSCI Emerging Markets Index of 5.9% and the MSCI World Index of 3.4% over the same period.

Share prices



Sources: IRESS and JSE

The decline in the overall *price-earnings ratio* of ordinary shares listed on the JSE from a recent high of 14.3 in January 2023 to 11.8 in May was followed by an increase to 12.9 in August as earnings decreased. By contrast, the *dividend yield* decreased from 2.9% in January 2023 to 2.5% in August as dividends declared decreased.

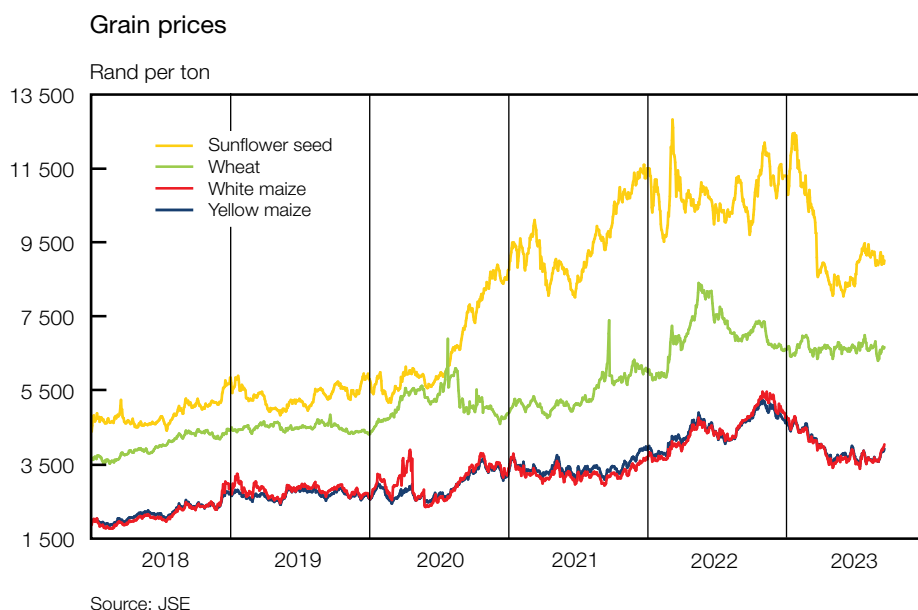
Market for exchange-traded derivatives

The *spot prices of white and yellow maize contracts* traded on the JSE have tracked one another closely in recent years, with that of white maize declining notably by 38.1% from an all-time high of R5 471 per ton on 31 October 2022 to R3 387 per ton on 13 July 2023. The decline reflected the impact of an appreciation in the exchange value of the rand and lower international maize prices, alongside higher production forecasts for the US, Brazil, Argentina, China and European Union (EU) regions. Subsequently, the spot price of white maize increased somewhat to R4 049 per ton on 15 September in response to Russia's suspension of the Black Sea Grain Initiative in July 2023 and a weaker exchange value of the rand.

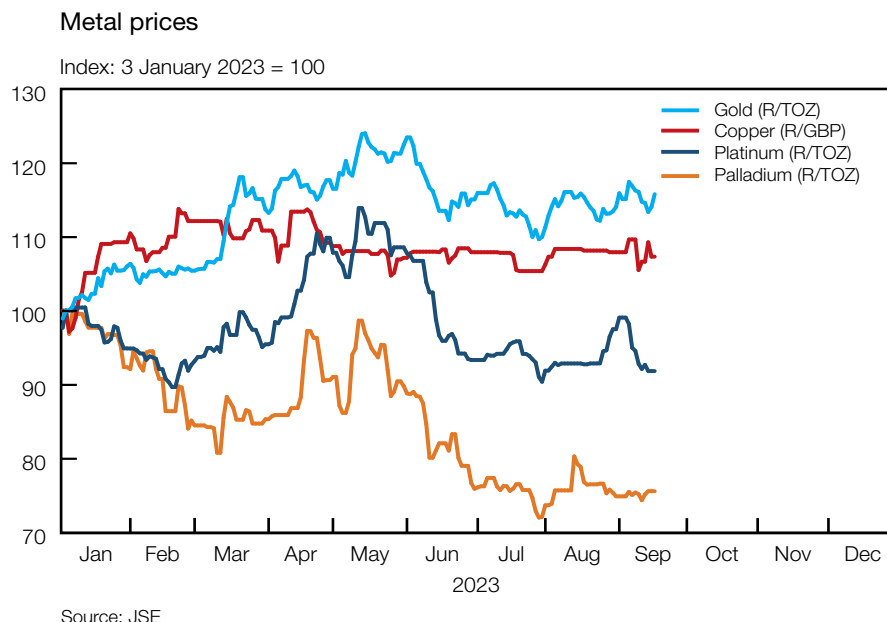


Similarly, the *spot price of wheat contracts* traded on the JSE declined by 9.2% from a recent high of R7 001 per ton on 22 February 2023 to R6 357 per ton on 3 May, in line with lower international wheat prices, before increasing to R6 999 per ton on 26 July along with higher international wheat prices. The increase in the spot price of wheat also reflected the suspension of the Black Sea Grain Initiative as well as a decrease in the actual domestic area planted relative to initial intensions, especially in the Free State and North West provinces. Subsequently, the domestic wheat price declined slightly to R6 675 per ton on 15 September.

Following the sharp decline in the *spot price of sunflower seed contracts* traded on the JSE from a recent high of R12 460 per ton on 23 January 2023 to R8 048 per ton on 31 May, the spot price of sunflower seed fluctuated higher to R9 016 per ton on 15 September. This reflected an increase in international sunflower seed prices and the suspension of the Black Sea Grain Initiative. The recent downward revision of production estimates of sunflower seed in the Free State and Limpopo provinces by the Department of Agriculture, Land Reform and Rural Development's Crop Estimates Committee also contributed to the increase in sunflower seed prices.



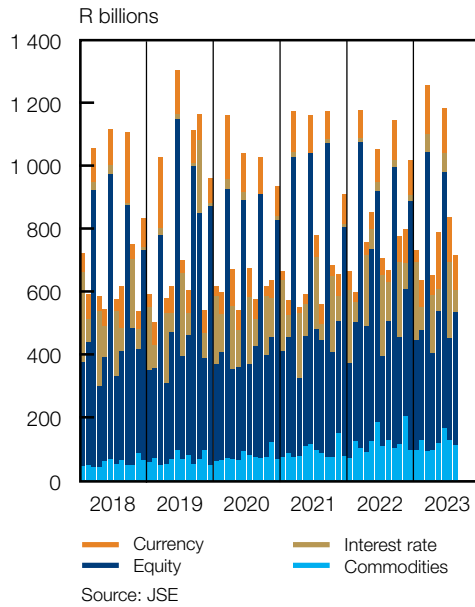
The *spot prices of platinum, gold and palladium derivatives contracts* traded on the JSE declined from recent highs in May 2023 to the end of July, before increasing slightly to 15 September, along with weaker economic growth in China, among other factors. The spot price of palladium decreased the most, by 27.0%, from R30 456 per troy ounce on 11 May 2023 to R22 225 per troy ounce on 27 July, before increasing to R23 328 per troy ounce on 15 September.



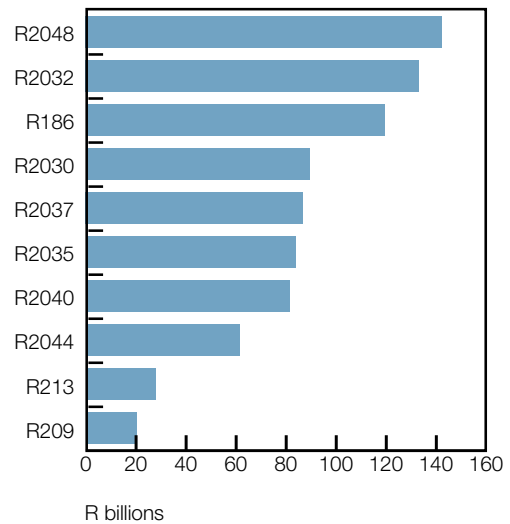
29 This includes warrants as well as the equity, commodity, interest rate and currency derivatives markets.

The total value of turnover in the derivatives markets of the JSE²⁹ increased by 5.0% in the first eight months of 2023 compared with the corresponding period of 2022. The value of transactions in currency derivatives increased the most, by 97.0%, over this period, especially due to options to hedge against volatility in the exchange value of the rand. By contrast, the value of transactions in interest rate derivatives declined slightly by 0.5% over the same period, with futures and options on longer-dated government bonds contributing the most to the value of transactions.

Value of derivatives turnover on the JSE



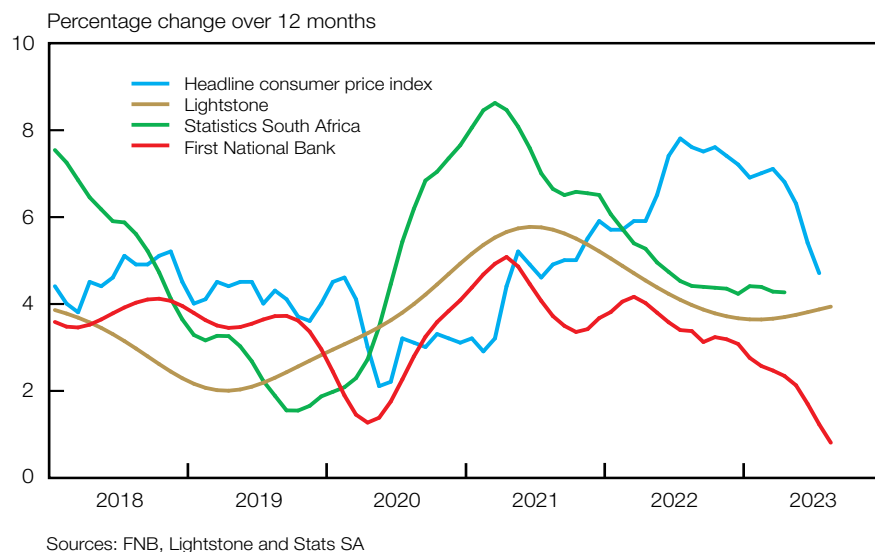
Value of interest rate derivatives turnover of selected government bonds in the first eight months of 2023



Real estate market

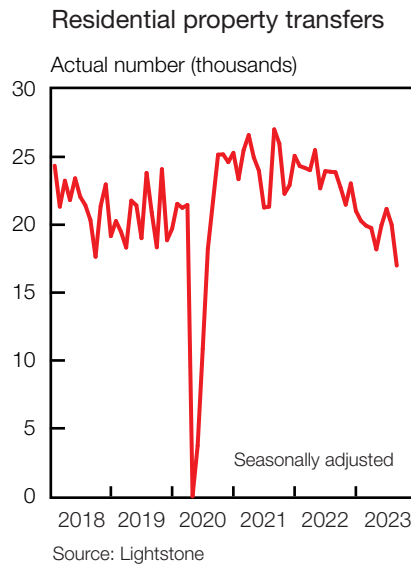
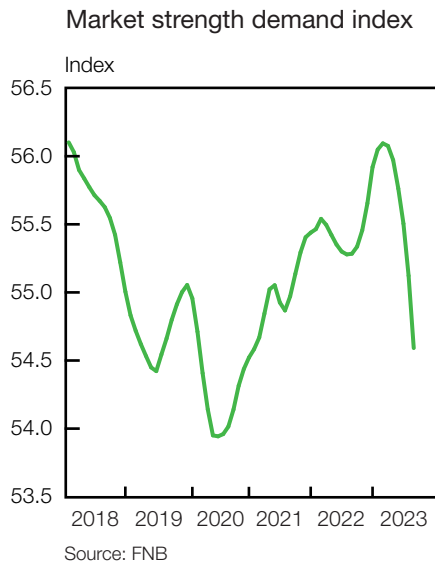
Growth in nominal residential property prices remained subdued in the first eight months of 2023 at levels below headline consumer price inflation amid higher interest rates and weak domestic economic activity. The year-on-year rate of increase in Stats SA's residential property price index continued to moderate from 8.6% in March 2021 to 4.3% in April 2023, while that of FNB decelerated to a low 0.8% in August 2023. By contrast, growth in the Lightstone residential property price index accelerated slightly to 3.9% in the same month.

Residential property and consumer prices



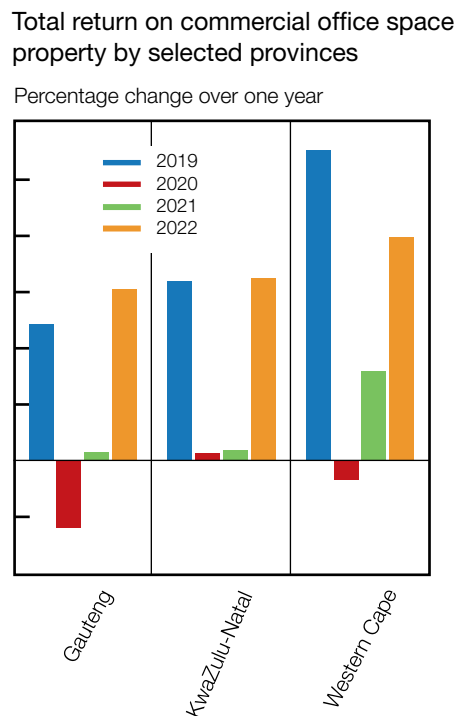
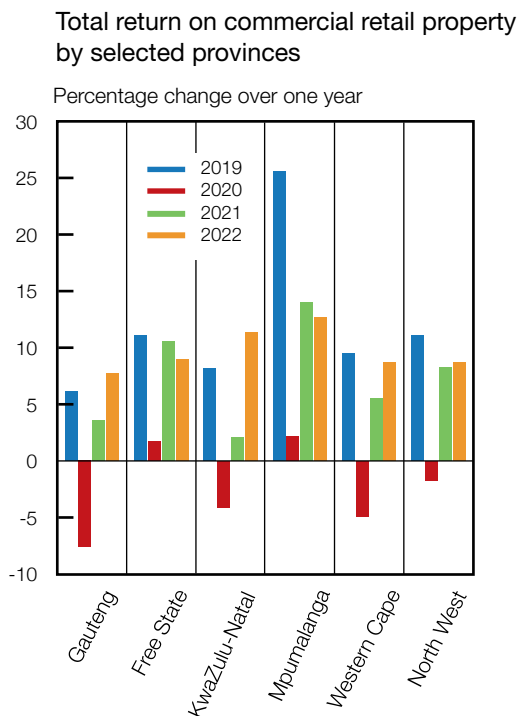
Property market activity indicators,³⁰ as derived from FNB's property valuers' database, have shown weaker demand thus far in 2023. Consistent with muted growth in nominal house prices, the seasonally adjusted number of residential property transfers at the Deeds Office declined by 18.8% in the eight months to August 2023 compared with the same period of 2022.

30 For more information on these indicators, see <https://www.fnb.co.za/blog/investments/articles/PropertyBarometerAugust/>.



The total return³¹ on commercial property declined in most provinces in 2020 at the height of the COVID-19 pandemic, with Gauteng recording the largest negative total return for both retail property and offices at 7.6% and 2.4% respectively, according to annual MSCI data. Yields subsequently recovered, with retail property in Mpumalanga and offices in the Western Cape recording the highest total returns of 12.7% and 7.9% respectively in 2022.

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



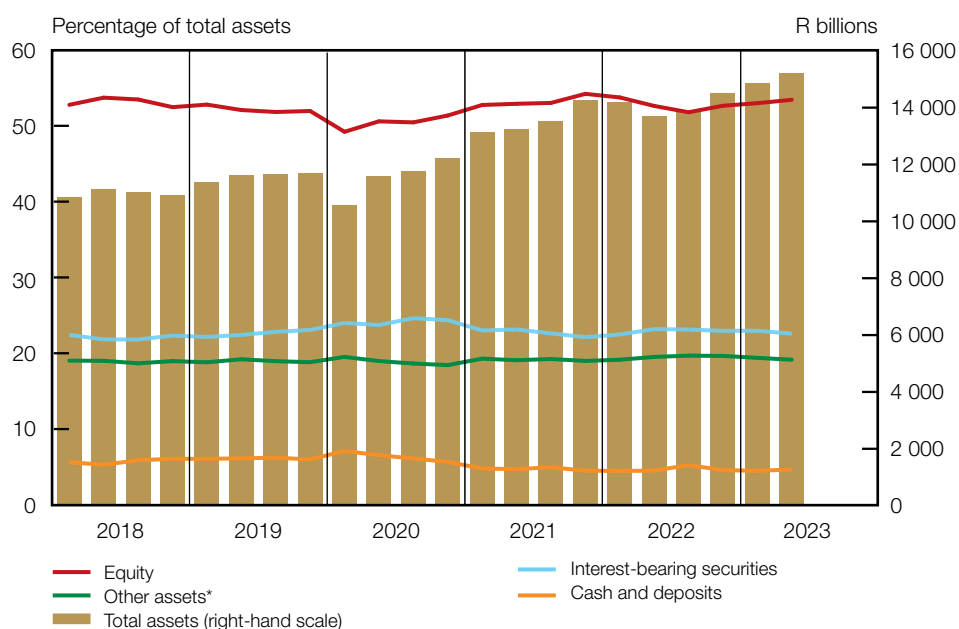
Non-bank financial intermediaries

32 The assets are not consolidated for investment among sectors.

33 These consist of unit trusts, the PIC, life and non-life insurance companies, official and private retirement funds, participation bond schemes, other financial intermediaries as well as non-monetary public financial corporations.

The market value of the total assets³² of non-bank financial intermediaries³³ increased by 1.6% from the first quarter of 2023 to R15.2 trillion in the second quarter, alongside increased economic activity. On a year-on-year basis, the rate of increase accelerated from 2.1% in the fourth quarter of 2022 to 11.1% in the second quarter of 2023.

Total assets of non-bank financial intermediaries



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

Source: SARB

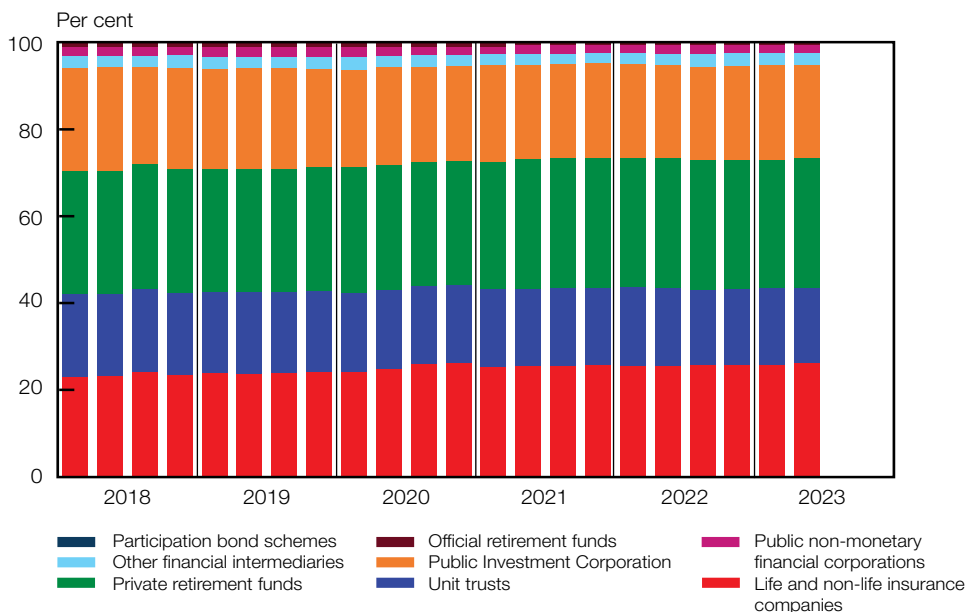
34 Equity includes investment fund shares/units.

35 These comprise finance companies, securitisation vehicles and central clearing counterparties.

The market value of the assets of life and non-life insurance companies increased the most, by 2.9% from the first quarter of 2023 to R4.6 trillion in the second quarter. The market value of the assets of unit trusts increased by 2.6% from the first quarter of 2023 to R3.9 trillion in the second quarter as that of non-money market unit trusts increased by 2.9% to R3.6 trillion over the same period, mainly due to an increase in equity³⁴ holdings. The market value of assets managed by the PIC increased by 0.6% from the first quarter of 2023 to R2.6 trillion in the second quarter, whereas that of other financial intermediaries³⁵ decreased by 0.2% to R426 billion over the same period.

Holdings of equity by non-bank financial institutions increased by 0.4 percentage points from the first quarter of 2023 to 53.5% of total assets in the second quarter and by 0.8 percentage points in the first half of the year, in line with higher domestic and foreign share prices. Investment in interest-bearing securities decreased by 0.4 percentage points from the first quarter of 2023 to 22.6% of total assets in the second quarter. However, the recent slowdown in consumer price inflation and lower bond yields might boost demand for interest-bearing securities in the near term.

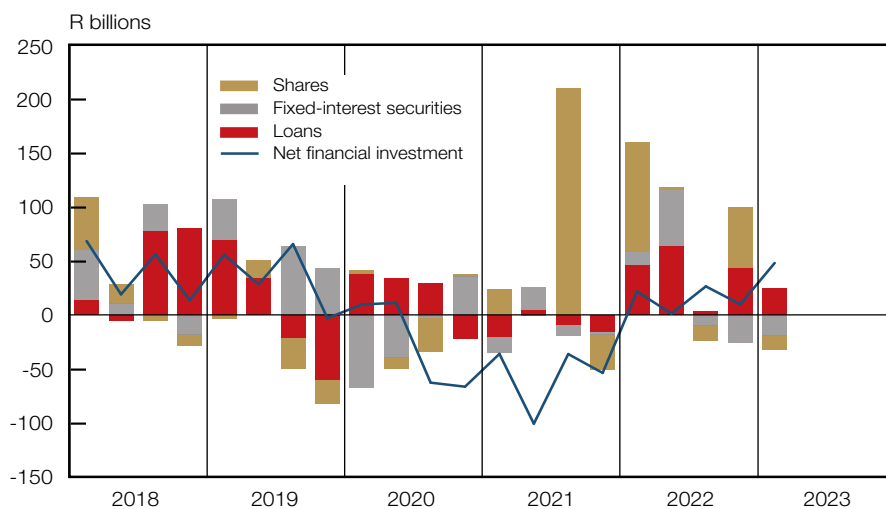
Contribution to total assets by institutional sector



Flow of funds

Global economic activity increased in the first quarter of 2023, along with the termination of COVID-19-related restrictions in China, and despite some international bank failures. The net inflow of capital from the *rest of the world* to South Africa of R48.0 billion in the first quarter of 2023 – the highest since the third quarter of 2019 – followed a net inflow of R9.7 billion in the fourth quarter of 2022. The decrease in non-residents’ net acquisition of domestic assets from R57.4 billion in the fourth quarter of 2022 to R27.6 billion in the first quarter of 2023 reflected, among other things, the extension of total loans of R24.1 billion to especially non-financial corporate business enterprises – less than the R42.7 billion extended in the fourth quarter of 2022. Total loans in the first quarter of 2023 included a R5.6 billion climate change and just transition loan to general government. On a net basis, non-residents purchased non-financial public sector securities to the amount of R17.5 billion in the first quarter of 2023, while government bonds to the amount of R38.7 billion were sold in the first quarter of 2023 following net sales of R7.4 billion in the fourth quarter of 2022. Non-residents’ net purchases of shares of R56.6 billion in the fourth quarter of 2022 were followed by net sales of R13.4 billion in the first quarter of 2023.

Non-residents’ net transactions in selected domestic financial assets





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

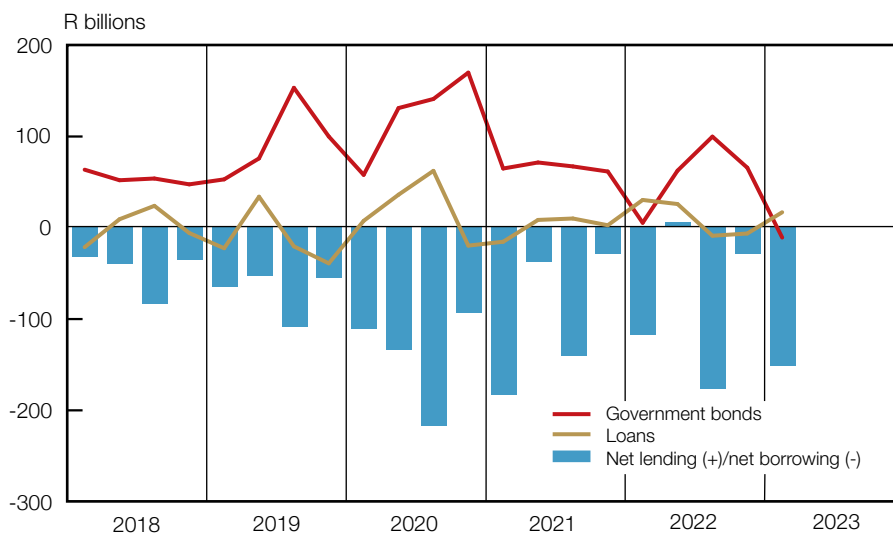
Residents switched to net sales of foreign assets to the amount of R20.4 billion in the first quarter of 2023, with net sales of foreign shares of R49.4 billion. Residents extended foreign loans to the value of R51.8 billion in the first quarter of 2023, while their exposure to foreign financial derivatives decreased by R72.7 billion.

Domestic economic activity increased somewhat in the first quarter of 2023, despite severe electricity load-shedding as alternative sources of energy were to some extent secured. *Financial intermediaries*³⁶ net incurrence of financial liabilities amounted to R62.5 billion in the first quarter of 2023 from a net reduction of R64.1 billion in the fourth quarter of 2022. The net inflow to cash and deposits of R72.7 billion in the first quarter of 2023 was less than the R90.8 billion recorded in the fourth quarter of 2022. The switch in funds placed with other financial institutions (collective investment schemes) from a net outflow of R3.5 billion in the fourth quarter of 2022 to a net inflow of R13.2 billion in the first quarter of 2023 was mostly related to the household sector. In addition, flows to insurers and retirement funds amounted to R34.9 billion over the same period.

Net transactions in financial assets by financial intermediaries switched from net sales of R21.0 billion in the fourth quarter of 2022 to net purchases of R101 billion in the first quarter of 2023. Financial intermediaries extended loans of R99.9 billion, mainly to private non-financial corporate business enterprises for the funding of renewable-energy projects, among other things. Net sales of shares of R145 billion in the first quarter of 2023 were somewhat offset by net purchases of fixed-interest securities of R103 billion.

General government's larger net borrowing position of R153 billion in the first quarter of 2023 reflected an increase in gross capital formation and a switch to gross dissaving from gross saving in the fourth quarter of 2022. The net financing shortfall was mainly financed through loans of R16.7 billion in the first quarter of 2023, inclusive of the climate change and just transition foreign loan of R5.6 billion. Net redemptions of government bonds (including the R2023 bond) amounted to R11.0 billion in the first quarter of 2023, along with the net issuance of TBs of only R0.2 billion. General government's deposit holdings with the banking sector decreased by R31.9 billion in the first quarter of 2023.

General government's net funding position and selected net incurrence of financial liabilities



Source: SARB

The net lending position of *public and private non-financial corporate business enterprises* of R94.8 billion in the first quarter of 2023 was more than the R35.6 billion recorded in the fourth quarter of 2022. This reflected a decrease in gross fixed capital formation from R160 billion in the fourth quarter of 2022 to R151 billion in the first quarter of 2023, amid ongoing concerns about the effect of electricity load-shedding on economic growth and an increase in gross saving. Non-financial corporate business enterprises used the surplus funds to extend credit of R35.2 billion to, among others, the foreign sector in the first quarter of 2023, while withdrawing R5.6 billion from other financial institutions (collective investment schemes) and reducing their shareholding by R65.5 billion. The sector recorded a net reduction in financial liabilities of R38.8 billion in the first quarter of 2023, mainly through net redemptions of shares of R132 billion, while reducing financial derivative exposure by R12.4 billion.

The *household sector's* net borrowing requirement of R28.0 billion in the first quarter of 2023 was less than the R58.2 billion in the fourth quarter of 2022. This reflected the net outcome of a decline in gross capital formation and a switch to gross saving of R11.5 billion in the first quarter of 2023 compared with a gross dissaving of R16.0 billion in the fourth quarter of 2022. Households continued to be adversely affected by the effect of higher interest rates on disposable income as well as the cost-of-living impact of inflation. Households financed the shortfall through the net incurrence of financial liabilities of R69.8 billion with loans of R34.3 billion in the first quarter of 2023 compared with R40.4 billion in the fourth quarter of 2022. Households' net acquisition of financial assets of R41.8 billion in the first quarter of 2023 included cash and deposits of R24.8 billion, units in unit trusts with collective investment schemes of R17.2 billion, and flows to insurers and retirement funds of R11.4 billion.

37 Unless stated to the contrary, the year-on-year rates of increase in this section compare April–June 2023 with April–June 2022. Data for both periods are unaudited and preliminary.

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

Public finance³⁷

Non-financial public sector borrowing requirement³⁸

The preliminary *non-financial public sector borrowing requirement* of R78.8 billion in the first quarter of fiscal 2023/24 (April–June 2023) reflected a switch to a *deficit* from a *surplus* of R38.6 billion in the same period of the preceding fiscal year. The reversal from a *surplus* to a *deficit* reflected cash deficits of consolidated general government, in particular national and local governments, as well as non-financial public enterprises and corporations, or state-owned companies (SOCs). The national government deficit largely reflected lower corporate income tax (CIT) collections, along with an increase in expenditure. In addition, extra-budgetary institutions, social security funds and the consolidated provincial government recorded smaller cash surpluses.

Non-financial public sector borrowing requirement

R billions

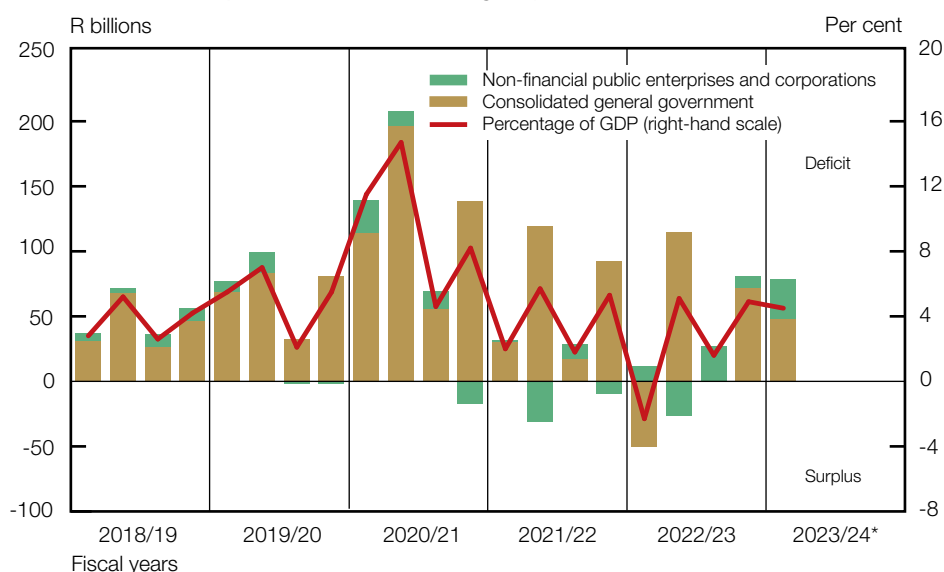
Level of government	Apr–Jun 2022*	Apr–Jun 2023*
Consolidated general government	-50.5	48.1
National government.....	-15.1	45.4
Extra-budgetary institutions	-40.1	-25.4
Social security funds.....	-16.8	-10.5
Consolidated provincial government	-8.8	-5.9
Local governments	30.4	44.3
Non-financial public enterprises and corporations	11.9	30.7
Total	-38.6	78.8
<i>As a percentage of gross domestic product.....</i>	<i>-2.3</i>	<i>4.5</i>

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

Sources: National Treasury, Stats SA and SARB

The non-financial public sector borrowing requirement, as a ratio of GDP, switched to a *deficit* of 4.5% in the first quarter of fiscal 2023/24 from a *surplus* of 2.3% in the first quarter of the previous fiscal year.

Non-financial public sector borrowing requirement



* April–June 2023

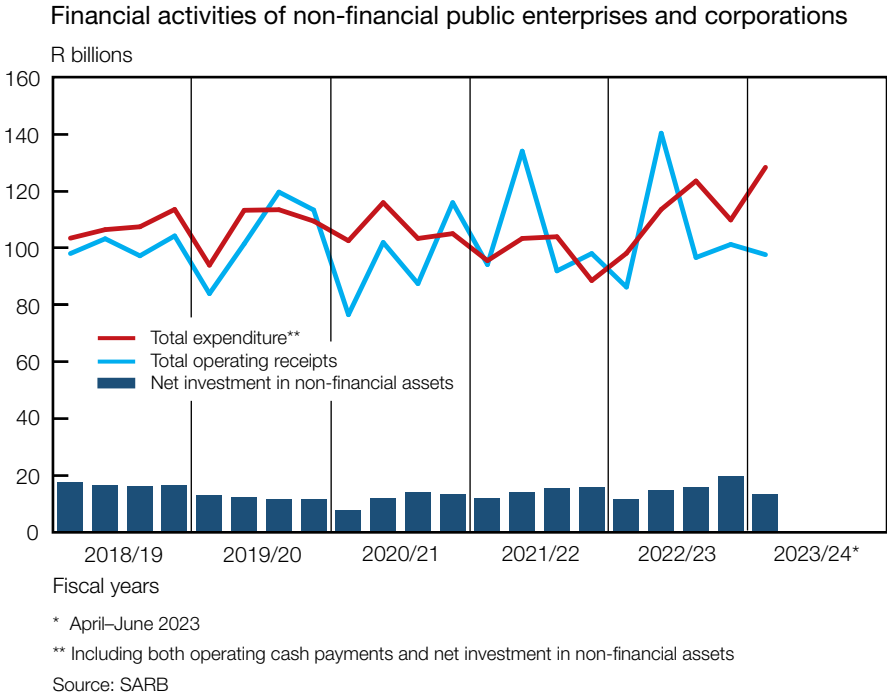
Sources: National Treasury, Stats SA and SARB



The preliminary cash deficit of the non-financial SOCs of R30.7 billion in the first quarter of fiscal 2023/24 (April–June 2023) was R18.9 billion more than in the same period a year earlier. This reflected an increase in total cash payments for operating activities, mostly driven by a significant increase of 68.8% year on year in the purchases of goods and services, which outpaced the increase in cash receipts from operating activities.

Cash receipts from the operating activities of non-financial SOCs increased by 13.2% in the year to the first quarter of fiscal 2023/24, mostly from the sales of goods and services, while financial support from government through equity injections declined over the period.

The total expenditure of non-financial SOCs, which includes cash payments for operating activities and net investment in non-financial assets, increased significantly by 30.8% year on year to R128.3 billion in the first quarter of fiscal 2023/24. Net investment in non-financial assets increased by 16.0% year on year to R13.5 billion in the first quarter of fiscal 2023/24.



Budget comparable analysis of national government finance

National government recorded a cash book deficit of R47.1 billion in the first quarter of fiscal 2023/24 (April–June 2023) as expenditure exceeded revenue. Owing to a year-on-year decline in revenue and a much faster pace of increase in expenditure, this reflected a significant switch from the cash book surplus of R11.5 billion recorded in the first quarter of fiscal 2022/23 (April–June 2022). The net borrowing requirement was primarily financed in the domestic financial markets through the net issuance of long-term government bonds. Similarly, the primary balance³⁹ switched from a *surplus* of R47.3 billion in the first quarter of fiscal 2022/23 to a *deficit* of R2.5 billion in the first quarter of fiscal 2023/24.

National government revenue decreased by 4.2% year on year to R406.3 billion in April–June 2023. Total revenue underperformed budget projections in the first quarter of fiscal 2023/24, primarily on account of lower CIT collections in the manufacturing, transport and mining sectors, along with a decline in commodity prices. Total revenue as a ratio of GDP of 23.2% in the first quarter of fiscal 2023/24 was lower than the 25.4% recorded in the same period of the previous fiscal year.

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

National government finances

	Actual Apr–Jun 2022		Actual Apr–Jun 2023		Originally budgeted ¹ Fiscal 2023/24	
	R billions	Percentage change ²	R billions	Percentage change ²	R billions	Percentage change ³
Revenue	424.0	10.0	406.3	-4.2	1 759.2	3.6
<i>Percentage of GDP...</i>	<i>25.4</i>		<i>23.2</i>		<i>25.1</i>	
Expenditure	412.5	1.1	453.4	9.9	2 034.6	1.3
<i>Percentage of GDP...</i>	<i>24.8</i>		<i>25.9</i>		<i>29.0</i>	
Cash book balance ⁴ ...	11.5		-47.1		-275.4	
<i>Percentage of GDP...</i>	<i>0.7</i>		<i>-2.7</i>		<i>-3.9</i>	
Primary balance ⁵	47.3		-2.5		65.1	
<i>Percentage of GDP...</i>	<i>2.8</i>		<i>-0.1</i>		<i>0.9</i>	
Gross loan debt ⁶	4 461.2	10.1	4 948.1	10.9	5 060.2	6.2
<i>Percentage of GDP...</i>	<i>69.8</i>		<i>72.7</i>		<i>72.2</i>	

1 2023 Budget Review

2 Year-on-year percentage change: actual outcome on previous year's actual outcome

3 Year-on-year percentage change: budgeted estimates on previous year's actual outcome

4 Cash book deficit (-)/surplus (+)

5 Cash book balance excluding interest payments: deficit (-)/surplus (+)

6 As at 30 June for rand values

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

Sources: National Treasury, SARS and Stats SA

National government revenue in fiscal 2023/24

Revenue source	Originally budgeted ¹ Fiscal 2023/24		Actual Apr–Jun 2023	
	R billions	Percentage change ²	R billions	Percentage change ³
Taxes on income, profits and capital gains	1 021.2	3.3	254.3	-4.5
<i>Of which: Income tax on individuals</i>	<i>640.3</i>	<i>6.4</i>	<i>156.1</i>	<i>9.5</i>
Income tax on companies	336.1	-3.3	87.5	-22.1
Payroll taxes	23.0	10.2	5.5	11.7
Taxes on property	23.9	12.4	5.0	-10.6
Taxes on goods and services	642.7	10.8	133.6	4.1
<i>Of which: Value-added tax (VAT) net</i>	<i>471.5</i>	<i>11.6</i>	<i>94.4</i>	<i>0.3</i>
Domestic	522.9	7.5	123.3	5.7
Import	251.2	-1.5	53.9	19.6
Refunds	-302.6	-5.1	-82.9	22.5
Fuel levy	90.4	12.3	22.1	27.4
Other excise duties	66.1	5.2	14.2	2.0
Taxes on international trade and transactions	76.6	0.7	14.3	8.1
<i>Of which: Import duties</i>	<i>74.2</i>	<i>0.2</i>	<i>13.9</i>	<i>9.2</i>
Other revenue ⁴	51.7	-5.3	13.4	-18.0
Less: SACU ⁵ payments	79.8	82.7	20.0	82.7
Total revenue	1 759.2	3.6	406.3	-4.2

1 2023 Budget Review

2 Year-on-year percentage change: budgeted estimates 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

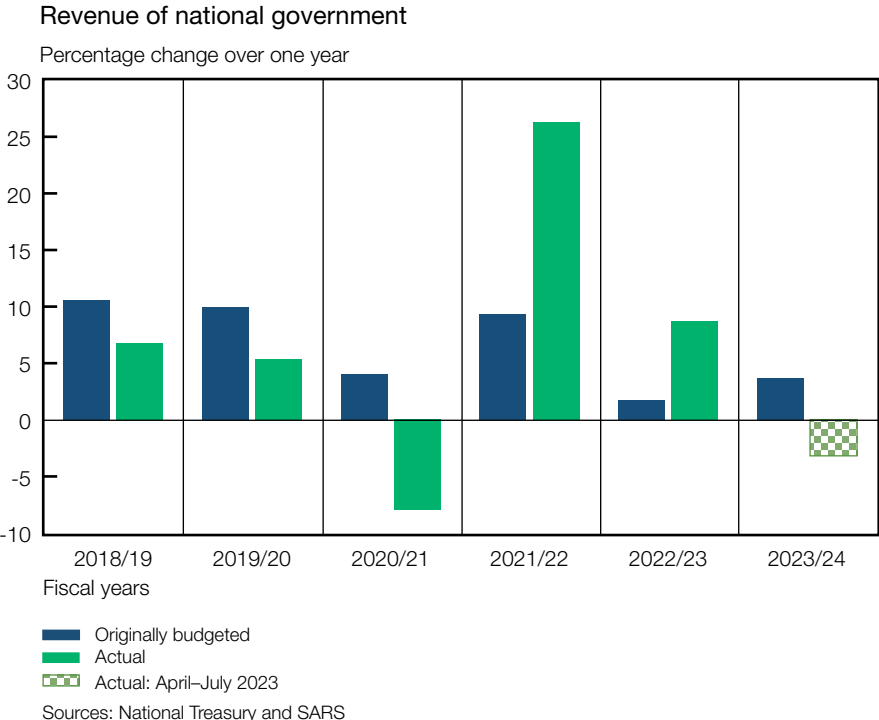
5 Southern African Customs Union

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

Sources: National Treasury and SARS



Collections from taxes on income, profits and capital gains (62.6% of total revenue collected) decreased at a year-on-year rate of 4.5% to R254.3 billion in the first quarter of fiscal 2023/24 as CIT collections declined by 22.1%, while personal income tax (PIT) receipts increased by 9.5%. The *2023 Budget Review* projected revenue collections of R1 021.2 billion (R32.7 billion more than the preliminary outcome of fiscal 2022/23) from this tax category for fiscal 2023/24.



Revenue from taxes on goods and services (32.9% of total revenue collected) increased at a year-on-year rate of 4.1% to R133.6 billion in April–June 2023. Net value-added tax (VAT) receipts increased by only 0.3% year on year to R94.4 billion in the period under review due to significantly higher VAT refunds. Fuel levy receipts increased at a year-on-year rate of 27.4% to R22.1 billion in April–June 2023 as such collections recovered following the termination of the temporary relief measure implemented during 2022. The *2023 Budget Review* projected revenue from taxes on goods and services of R642.7 billion in fiscal 2023/24, some R62.8 billion more than the preliminary outcome of the previous fiscal year.

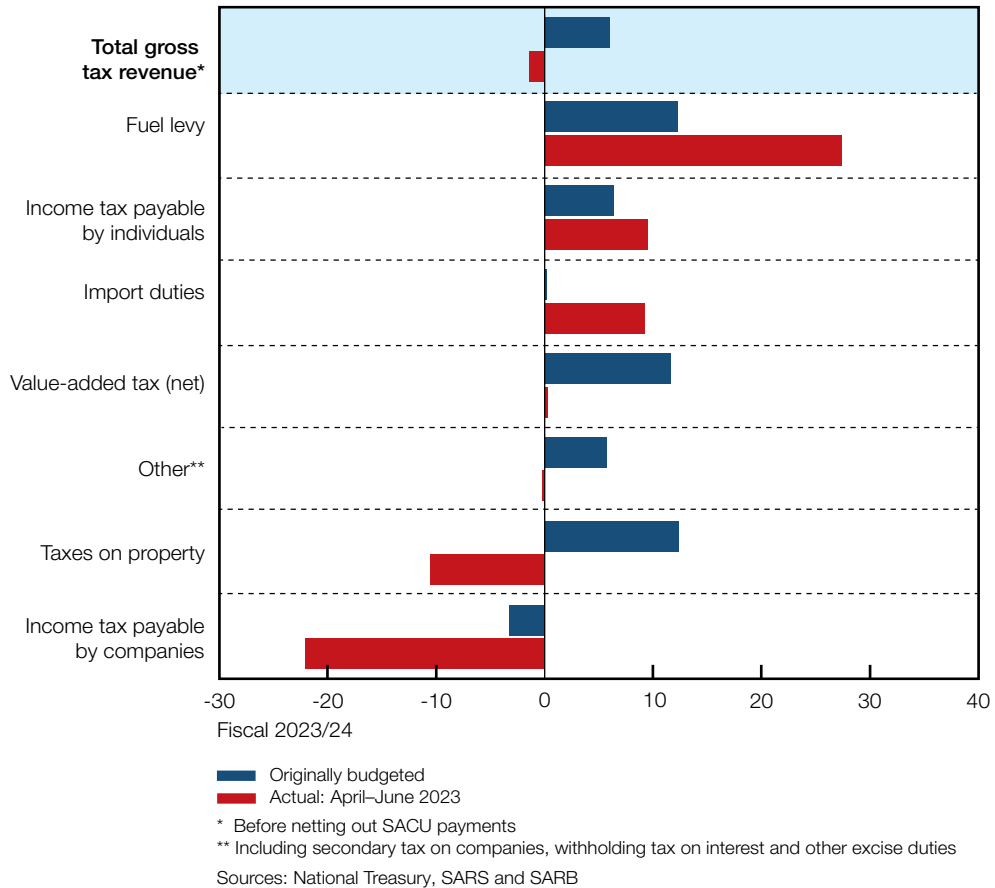
Taxes on international trade and transactions, which increased at a year-on-year rate of 8.1% to R14.3 billion in April–June 2023, largely reflected the importation of articles of rubber, vehicles and electrical machinery, among other things. Revenue from taxes on international trade and transactions was projected to increase by only 0.7% year on year to R76.6 billion for fiscal 2023/24, according to the *2023 Budget Review*.

Other revenue, largely comprising non-tax revenue, decreased by 18.0% year on year to R13.4 billion in the period under review due to lower receipts of rent on land. The *2023 Budget Review* projected R79.8 billion for payment to the SACU in fiscal 2023/24 – 82.7% more than the preliminary outcome of the previous fiscal year. The first instalment of R20.0 billion was transferred in April 2023.



Growth in national government's gross tax revenue*

Percentage change over one year



The 2023 Budget Review projected an increase of 3.6% year on year in national government revenue to R1 759.2 billion for fiscal 2023/24. In the first four months of fiscal 2023/24, total revenue decreased by 3.2% year on year to R493.8 billion. This included the second instalment of R20.0 billion of SACU payments transferred in July 2023.

National government expenditure in fiscal 2023/24

Expenditure item	Originally budgeted ¹ Fiscal 2023/24		Actual Apr-Jun 2023	
	R billions	Percentage change ²	R billions	Percentage change ³
Voted expenditure	1 077.4	-0.9	253.1	9.3
Transfers and subsidies.....	793.9	6.9	184.6	10.0
Current payments	263.3	0.2	65.0	14.2
Payments for capital assets.....	18.4	16.2	2.6	20.4
Payments for financial assets.....	1.9	-97.1	0.9	-80.7
Statutory amounts ⁴	957.1	4.1	200.3	10.8
Of which: Provincial equitable shares	567.5	-0.6	148.9	6.2
Interest on debt	340.2	10.4	44.7	24.6
General fuel levy	15.4	0.6	0.0	0.0
Total expenditure.....	2 034.6	1.3	453.4	9.9

1 2023 Budget Review

2 Year-on-year percentage change: budgeted estimates on previous year's actual outcome

3 Year-on-year percentage change: actual outcome on previous year's actual outcome

4 Including extraordinary payments

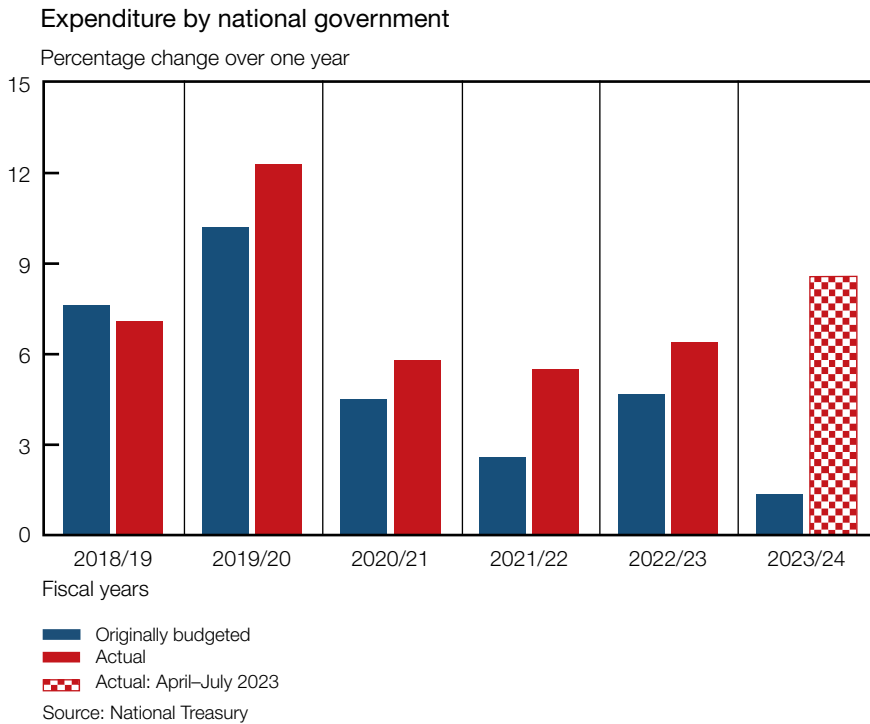
Components may not add up to totals due to rounding off and the exclusion of unclassified items.

Source: National Treasury



National government expenditure increased by 9.9% year on year to R453.4 billion in the first quarter of fiscal 2023/24, largely on account of higher voted expenditure by national government departments, higher equitable share transfers to provinces and significantly higher interest payments on debt. Total expenditure as a ratio of GDP increased from 24.8% in the first quarter of fiscal 2022/23 to 25.9% in the same period of the current fiscal year.

Total voted expenditure (55.8% of total expenditure) increased by 9.3% year on year to R253.1 billion in April–June 2023. This reflected higher transfers and subsidies, current payments and payments for capital assets. By contrast, payments for financial assets declined sharply by 80.7% year on year to R0.9 billion. For fiscal 2023/24, the *2023 Budget Review* projected voted expenditure of R1 077.4 billion compared with the preliminary outcome of R1 087.8 billion of the previous fiscal year.



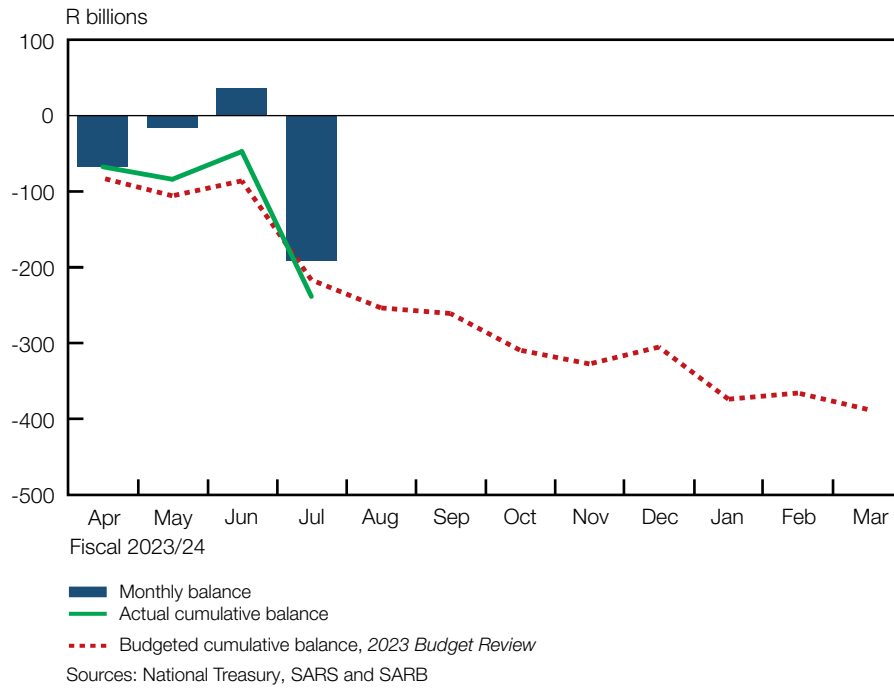
Interest payments (debt-service cost) on national government debt increased markedly by 24.6% year on year to R44.7 billion in the first quarter of fiscal 2023/24, consistent with the further increase in the stock of outstanding debt and higher interest rates on variable-rate bonds. In addition, the increase in debt-service cost could also be attributed to the effect of the depreciation in the exchange value of the rand on interest payments on foreign bonds and loans. Government envisaged total debt-service cost of R340.2 billion (16.7% of total expenditure) for fiscal 2023/24, according to the *2023 Budget Review*.

Total equitable share transfers to provinces increased at a year-on-year rate of 6.2% to R148.9 billion in April–June 2023, while the *2023 Budget Review* projected a slight decline of 0.6% year on year to R567.5 billion for fiscal 2023/24. By contrast, the amount of the general fuel levy for sharing with metropolitan municipalities was projected to increase by only 0.6% year on year to R15.4 billion in fiscal 2023/24.

The *2023 Budget Review* projected a 1.3% year-on-year increase in national government expenditure to R2 034.6 billion for fiscal 2023/24. In the first four months of fiscal 2023/24, total expenditure increased by 9.0% year on year to R684.9 billion.



Cash book balance of national government



The outcome of national government revenue and expenditure in the first quarter of fiscal 2023/24 rendered a cash book *deficit* of R47.1 billion – a switch from the cash book *surplus* of R11.5 billion in the corresponding period of fiscal 2022/23. The cash book *deficit* as a ratio of GDP of 2.7% in April–June 2023 compares with a cash book *surplus* of 0.7% of GDP in the corresponding period of the previous fiscal year.

The 2023 Budget Review projected a national government cash book deficit of R275.4 billion for fiscal 2023/24. In the first four months of fiscal 2023/24, the net outcome of national government revenue and expenditure yielded a cash book deficit of R191.1 billion.

National government’s primary *deficit* of R2.5 billion in the first quarter of fiscal 2023/24 compares with a *surplus* of R47.3 billion over the same period a year earlier. The primary *deficit* as a ratio of GDP of 0.1% in the first quarter of fiscal 2023/24 represented a switch from a primary *surplus* of 2.8% of GDP in the same period of the previous fiscal year. The 2023 Budget Review projected a national government primary surplus of R65.1 billion (0.9% of GDP) for fiscal 2023/24.

The cash flow deficit of national government of R55.7 billion in April–June 2023 was R32.5 billion more than in April–June 2022. After accounting for the cost of revaluation of foreign debt at redemption and accrual adjustments, the net borrowing requirement of national government amounted to R43.8 billion in the first quarter of fiscal 2023/24 – a marked reversal from the net lending position of R30.4 billion in the same period a year earlier.

The net borrowing requirement of national government in the first quarter of fiscal 2023/24 was mostly financed in the domestic financial markets through the net issuance of long-term government bonds to the value of R63.9 billion, along with TBs and short-term loans from the CPD to the value of R19.5 billion. Additionally, government’s net issuance of foreign bonds and loans amounted to R9.5 billion in April–June 2023. Over the same period, the funding activities of national government increased its available cash balances by R49.0 billion.



National government financing

R billions

Item or instrument	Actual	Actual	Originally budgeted ¹
	Apr–Jun 2022	Apr–Jun 2023	Fiscal 2023/24
Cash book balance ²	11.5	-47.1	-275.4
Cash flow balance ³	-23.3	-55.7	...
Plus: Cost/profit on revaluation of foreign debt at redemption ⁴	-8.6	0.0	-14.1
Accrual adjustments	62.3	11.9	...
Eskom debt relief.....	-78.0
Net lending/borrowing requirement⁵	30.4	-43.8	-367.5
Treasury bills and short-term loans ⁶	3.8	19.5	48.0
Domestic bonds ⁶	48.1	63.9	212.0
Foreign bonds and loans ⁶	39.5	9.5	14.1
Change in available cash balances ⁷	-121.8	-49.0	93.3
Total net financing	-30.4	43.8	367.5

1 2023 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 (+)

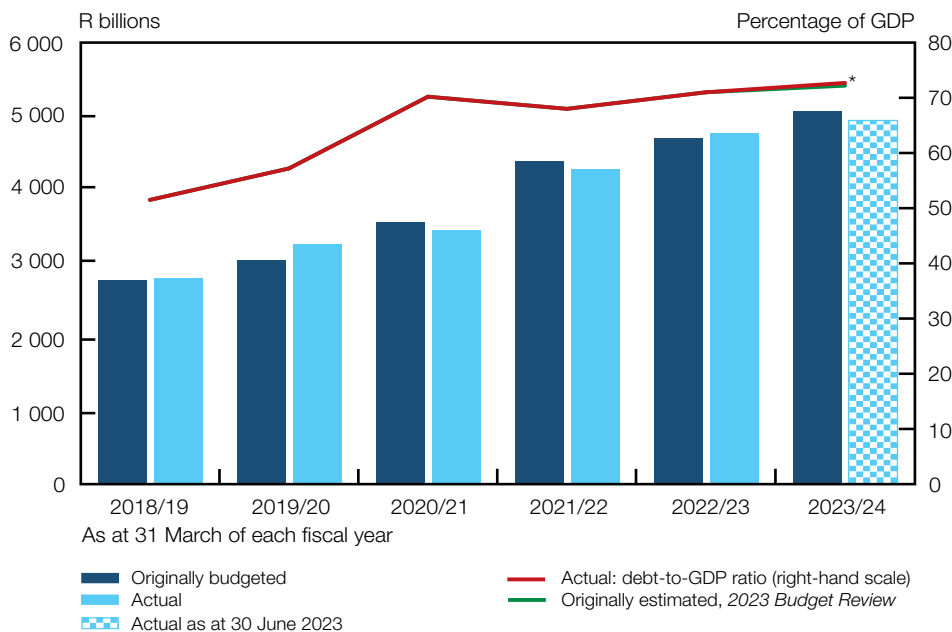
Components may not add up to totals due to rounding off.

... Not available

Sources: National Treasury and SARB

National government's total gross loan debt (domestic and foreign) increased by 10.9% year on year to R4 948 billion as at 30 June 2023. The increase resulted from the net issuance of both domestic and foreign debt as well as revaluation due to the depreciation in the exchange value of the rand. The outstanding stock of gross domestic debt (87.9% of gross loan debt) amounted to R4 347 billion as at 30 June 2023. By 30 June 2023, gross loan debt had already reached 97.8% of the original budget estimate of R5 060 billion as at the end of fiscal 2023/24.

Gross loan debt of national government



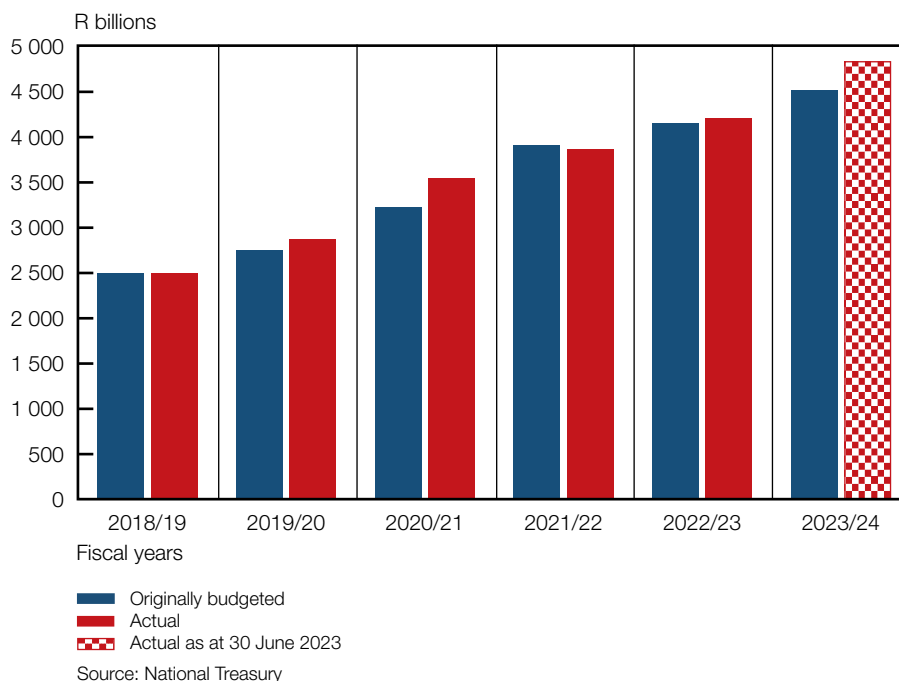
* Actual as at 30 June 2023

Sources: National Treasury, Stats SA and SARB



National government’s gross domestic debt (marketable and non-marketable) of R4 347 billion as at 30 June 2023 was 9.6% more than in the same period a year earlier. The increase could largely be attributed to higher net borrowing through marketable debt, comprising both bonds and TBs. Domestic marketable bonds (89.2% of the total outstanding stock of domestic debt) increased by 11.0% year on year to R3 880 billion as at 30 June 2023. By contrast, the outstanding stock of TBs (10.2% of total domestic marketable debt) decreased by 2.2% year on year to R442 billion on account of net redemptions of R9.8 billion. Total domestic non-marketable debt increased by 27.5% year on year to R25.9 billion as at 30 June 2023, mainly due to the net issuance of R5.6 billion between June 2022 and June 2023. Total gross domestic debt had already reached 96.2% of the original budget estimate of R4 517 billion for fiscal 2023/24 by 30 June 2023.

Domestic debt of national government

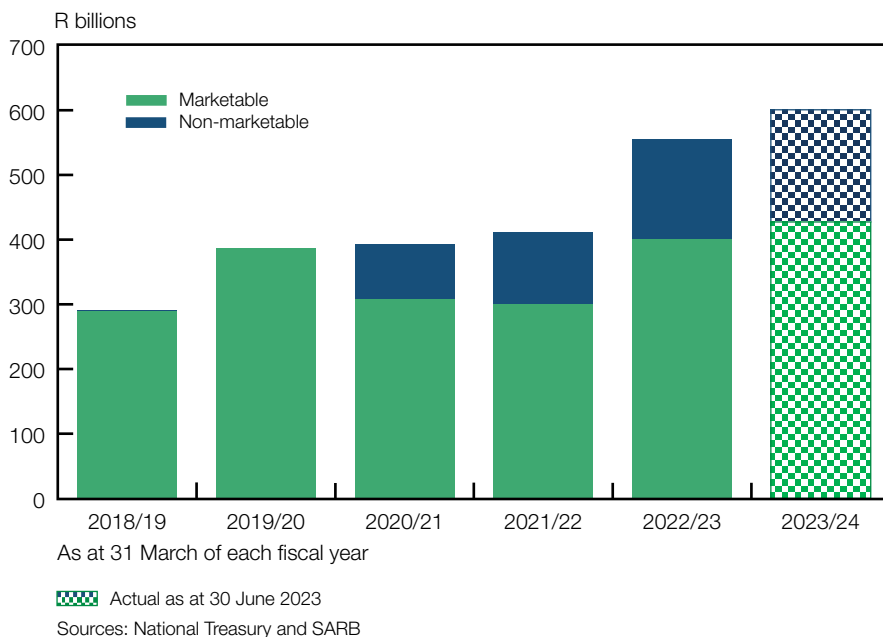


National government’s gross foreign debt (marketable and non-marketable) of R601 billion as at 30 June 2023 was 21.8% more than a year earlier, and already 10.6% more than estimated for the full fiscal year. This reflected both increased borrowing in international financial markets and exchange rate revaluation effects. The outstanding balance of foreign marketable bonds increased by R58.9 billion year on year to R427 billion as at 30 June 2023 due to exchange rate revaluation effects. The average outstanding maturity of foreign marketable bonds decreased to 156 months as at 30 June 2023 from 169 months a year earlier.

Non-marketable foreign debt increased by R48.7 billion year on year to R173 billion as at 30 June 2023. This reflected borrowing from international financial institutions, primarily through four loans between June 2022 and June 2023, namely the COVID-19 Emergency Response Project Loan of R6.8 billion (€391 million); the French Development Agency Climate Change and Just Transition Loan of R5.5 billion (€300 million); the KfW Development Bank Climate Change and Just Transition Loan of R5.6 billion (€300 million); and the third tranche of the SANRAL Sustainability Loan of R9.5 billion (US\$500 million).

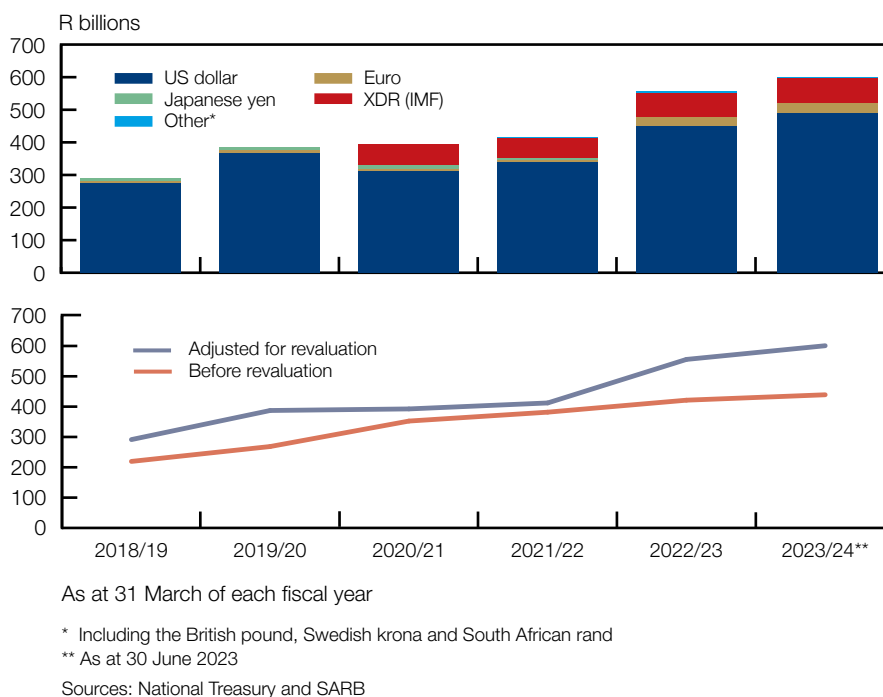


Foreign debt of national government



As at 30 June 2023, foreign debt after accounting for exchange rate revaluation effects was R162 billion more than the R439 billion before the revaluation adjustment, with US dollar-denominated debt and the International Monetary Fund’s (IMF) SDR-denominated debt together accounting for 94.1% of total foreign debt.

Currency composition of national government's foreign debt



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

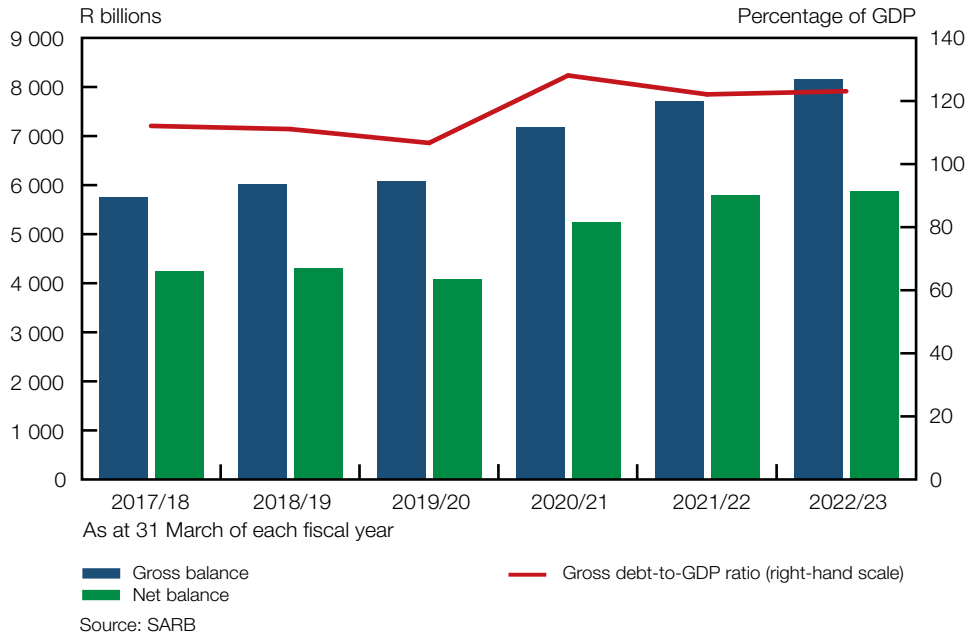
41 Gross public sector debt comprises financial debt instruments such as special drawing rights (SDRs); currency and deposits; debt securities; loans; insurance, pension and standardised guarantees schemes; and other accounts payable – before netting the individual debt instrument against its corresponding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

42 Net public sector debt comprises SDRs; currency and deposits; debt securities; loans; insurance, pension and standardised guarantees schemes; and other accounts payable – after netting the individual debt instrument against its corresponding financial assets.

Total public sector debt⁴⁰

South Africa's preliminary consolidated total gross⁴¹ public sector debt (both domestic and foreign) amounted to R8 518 billion (121.4% of GDP) as at 31 March 2023 compared with R7 707 billion (122.1% of GDP) as at 31 March 2022. Similarly, consolidated net⁴² public sector debt of R5 803 billion (91.9% of GDP) as at 31 March 2023 compared with R5 887 billion (87.6% of GDP) as at 31 March 2022.

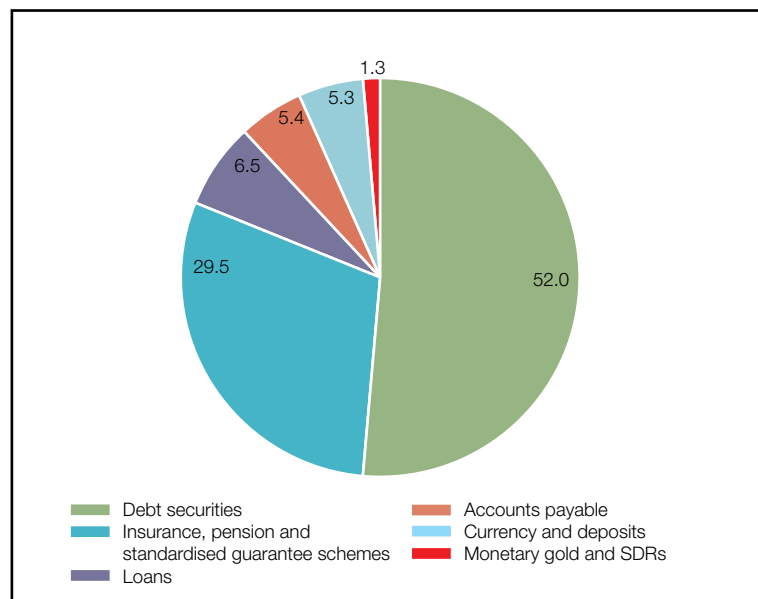
Total consolidated public sector debt



As at 31 March 2023, debt securities of R4 242 billion remained the largest contributor to consolidated gross public sector debt at 52.0%, while monetary gold and SDRs of R106 billion accounted for only 1.3%.

Composition of consolidated gross public sector debt as at 31 March 2023

Per cent



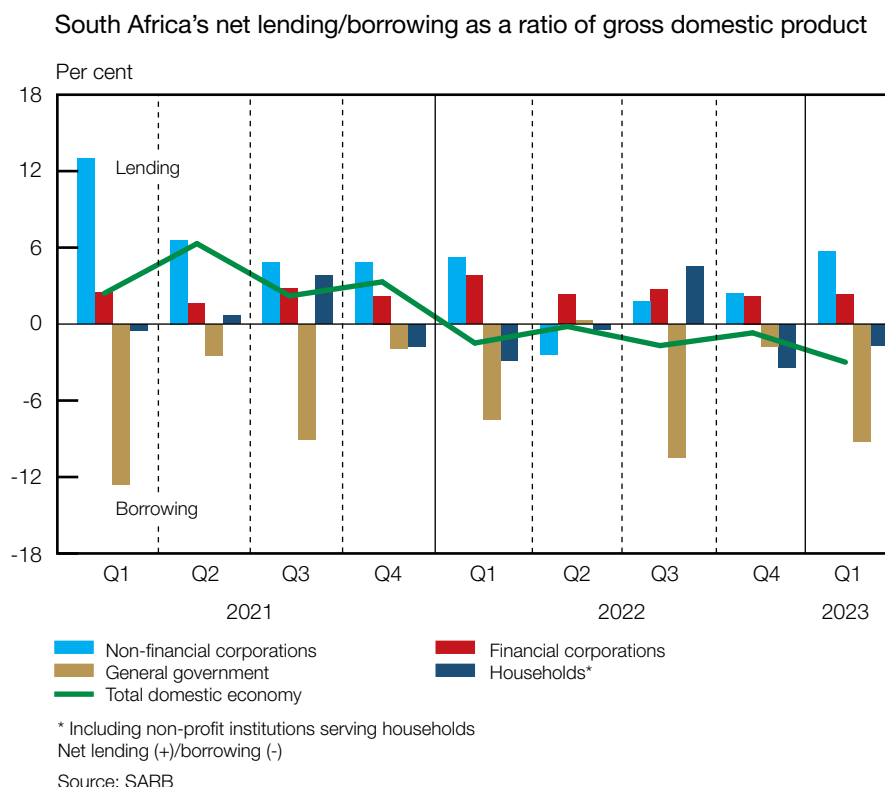
Integrated economic accounts⁴³

Current and capital account

South Africa's net borrowing position increased from R9.7 billion (0.6% of GDP) in the fourth quarter of 2022 to R48.0 billion in the first quarter of 2023 (2.9% of GDP) – more than double the R21.6 billion recorded in the corresponding period a year earlier. The larger net borrowing position reflected a notably larger decline in gross saving than in gross capital formation.⁴⁴

43 The analysis in this section is based on the experimental statistics compiled for South Africa's integrated economic accounts (IEA) and is subject to further revision. See pages E-2 to E-12 in the experimental tables section in this edition of the QB.

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



Both non-financial and financial corporations remained net lenders in the first quarter of 2023, while the smaller household net borrowing position reflected the switch in the household sector's gross saving from dissaving to saving. By contrast, general government's net borrowing increased substantially in the first quarter of 2023 as this sector reverted to gross dissaving.

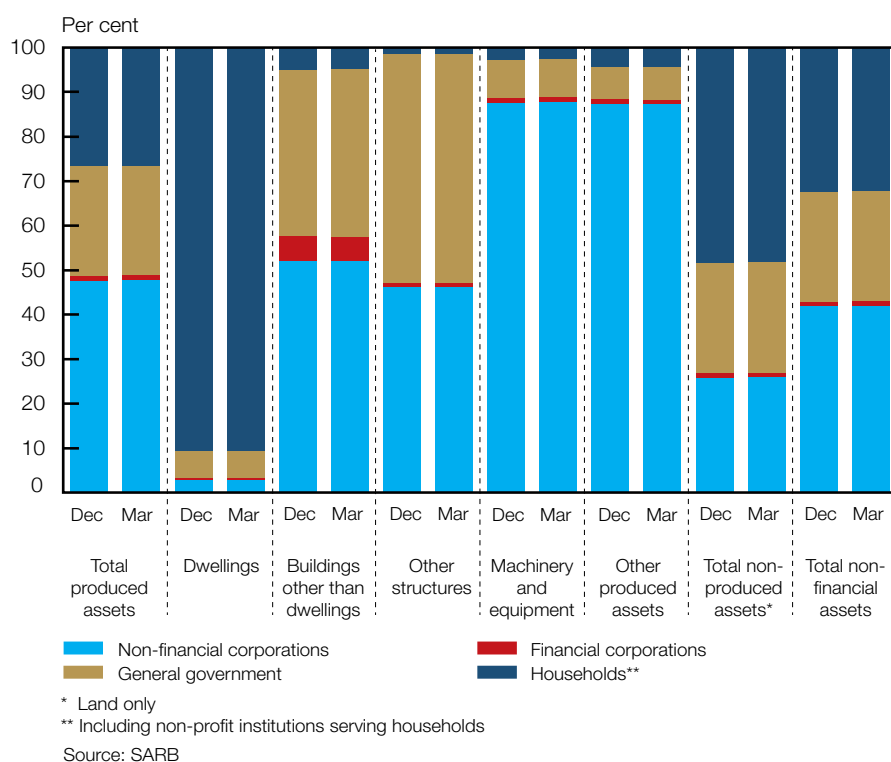
Non-financial balance sheet and accumulation account

The market value of total non-financial assets amounted to R18.0 trillion as at 31 March 2023, with non-financial corporations accounting for 41.9%, households 32.4%, general government 24.7%, and financial corporations 1.1%. As at 31 March 2023, households owned 90.7% of all dwellings, while general government and non-financial corporations accounted for 51.6% and 46.2% respectively of other structures such as roads, bridges and harbours. Machinery and equipment were predominantly owned by non-financial corporations.

The market value of total produced fixed assets increased by 1.4% to R12.3 trillion in the three months to 31 March 2023 on account of net capital formation of R11.8 billion, which reflected total gross fixed capital formation of R252.5 billion and consumption of fixed capital of R240.7 billion as well as revaluations of R155.5 billion. Machinery and equipment as well as other structures contributed the most at R66.1 billion and R48.0 billion respectively to the increase in the market value of total produced fixed assets in the first quarter of 2023, with each adding 0.4 percentage points to the growth in the stock of non-financial assets.

Households owned 48.4% of non-produced assets (land only) as at 31 March 2023, with the remainder held in almost equal portions by non-financial corporations and general government.

Institutional sector non-financial asset holdings as at 31 December 2022 and 31 March 2023



Financial balance sheet and accumulation account

The market value of both financial assets and liabilities of the total domestic economy increased by R1.5 trillion and R1.0 trillion to R48.5 trillion and R46.4 trillion respectively in the three months to 31 March 2023. The holdings of equity and investment fund shares/units contributed the most to the increase in the value of financial assets and liabilities, largely due to higher share prices globally. This was followed by debt securities due to the net effect of increased net bond issuances and the impact of lower bond yields.

Financial corporations' share of total financial assets declined marginally from 51.0% as at 31 December 2022 to 50.8% as at 31 March 2023, despite growth in the value of foreign equity and investment fund shares/units as well as holdings of other private sector bonds and preference shares issued by banks. Over the same period, financial corporations' share of total liabilities remained unchanged at 57.7%, despite inflows to non-money market unit trusts in the investment funds sector as well as insurance and pension entitlement commitments to households.

Despite moderate growth in households' deposit holdings, their share of total financial assets remained steady at 29.9% as at 31 March 2023 following increases in the value of life insurance and pension entitlement claims as well as equity and investment fund shares/units holdings. Households' share of total liabilities also remained unchanged at 5.9% over the same period, consisting mostly of loans. Non-financial corporations' contribution to total financial assets increased from 12.6% to 13.0% over this period due to an increase in the value of unlisted shareholding in the rest of the world (ROW), while their contribution to total liabilities remained unchanged at 25.1% as their funding, mostly foreign equity, increased only moderately.

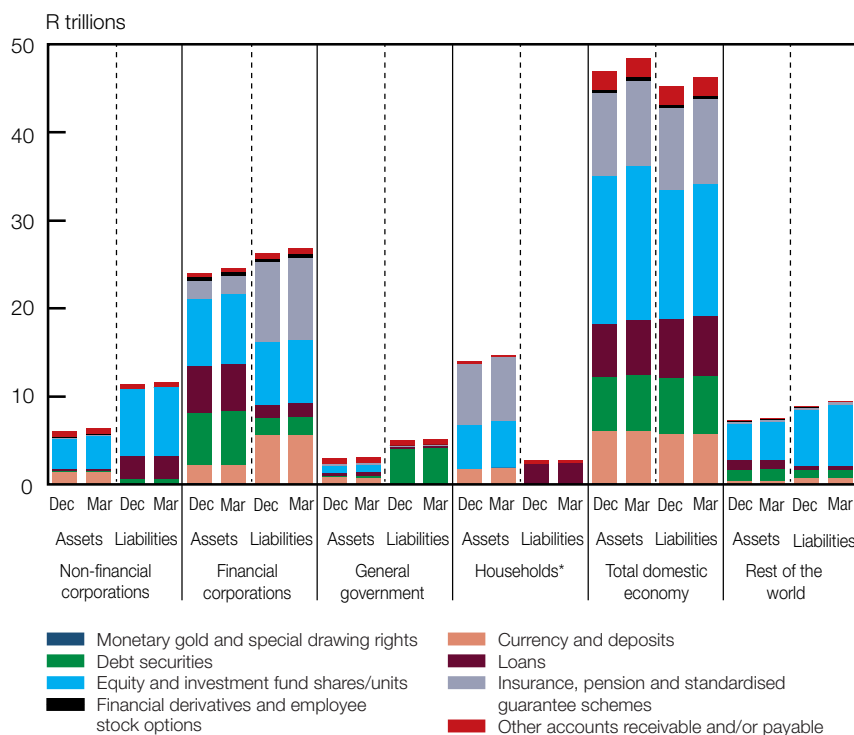
The decrease in general government's share of total financial assets from 6.5% as at 31 December 2022 to 6.3% as at 31 March 2023 mostly reflected the drawdown of government



deposits placed with the central bank and the CPD, despite valuation effects attributable to the increase in the outstanding balance on the gold and foreign exchange contingency reserve account (GFECRA).⁴⁵ The lower net bond issuances by general government contributed to a smaller share of only 11.2% of total liabilities as at 31 March 2023.

45 See page E-11 in the experimental tables section in this edition of the QB.

Market value of total financial assets and liabilities by institutional sector and financial instrument as at 31 December 2022 and 31 March 2023



* Including non-profit institutions serving households

Source: SARB

The market value of the ROW's holdings of South African financial assets increased marginally from R7.4 trillion as at 31 December 2022 to R7.6 trillion as at 31 March 2023 as non-residents granted loans to public and private non-financial corporations. National government also received concessional financing to support the country's just energy transition requirements. Valuation effects due to the increase in share prices globally and offshore unit trust holdings contributed to the increase in South Africa's total foreign assets from R8.9 trillion to R9.6 trillion over the same period.

Except for currency and deposits as well as loans, changes in both total financial assets and total liabilities in the domestic economy in the first quarter of 2023 reflected revaluations, which accounted for R0.8 trillion of the increase in the value of the various financial instruments. The balance of the change in the market value reflected net transactions of R0.7 trillion, with net purchases of these financial instruments by residents contributing to the increase in financial flows during the quarter.

The analysis of the from-whom-to-whom market value of financial asset and liability stock positions between the domestic institutional sectors and the ROW as at 31 March 2023⁴⁶ shows that households was the only institutional sector with a positive net financial wealth (assets) position due to claims of R2.6 trillion and R11.2 trillion against non-financial and financial corporations respectively. Non-financial corporations had the largest negative net financial wealth (liability) position in the domestic economy, mainly against financial corporations at R4.3 trillion and the ROW at R3.8 trillion. The negative net financial wealth (liability position) of the general government mainly represented claims by financial corporations of R2.9 trillion and the ROW of R1.4 trillion.

46 See page E-11 in the experimental tables section in this edition of the QB.