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Table of Contents

Boxes

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act no. 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the finance and appropriations committees.
The PBO provides quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

Authors: Rashaad Amra, Fatsani Banda, Seeraj Mohamed, Siphethelo Simelane
Editor: Fatsani Banda
Approved and edited by: Seeraj Mohamed
Enquiries: fbanda@parliament.gov.za
https://www.parliament.gov.za/parliamentary-budget-office

Introduction

The Parliamentary Budget Office (PBO) welcomes new and returning Members of Parliament. This eighteenth edition of the PBO's *Quarterly Economic Brief* (QEB) is the first edition for the Sixth Parliament. The QEBs form part of the regular outputs from the PBO based on its ongoing research and analysis that supports the oversight work of the Members of Parliament and their Committees. This first edition of the QEB for the Sixth Parliament is an expanded version, which includes a number of boxes that provide more insight into important economic indicators, such as household consumption and debt, unemployment and investment.

Global Outlook

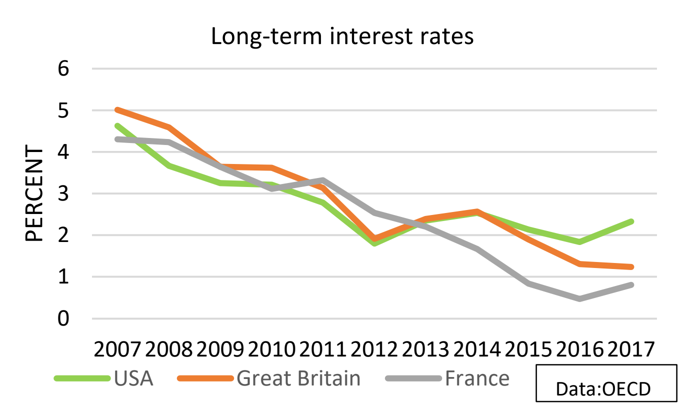
Growth projections for 2019 across developed and developing countries have been revised downwards. The global growth outlook has deteriorated in the midst of trade tensions, Brexit and increased international policy uncertainty. The International Monetary Fund (IMF) predicts that global growth will slow down from 3.6% in 2018 to 3.3% in 2019 and return to 3.6% in 2020. The Organisation for Economic Cooperation and Development (OECD) envisages that global growth will decrease to 3.2% this year and edge to 3.4% in 2020.

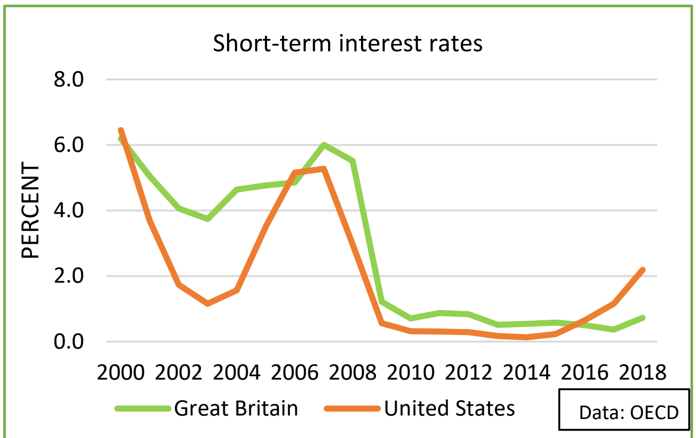
Trade and investment has slowed markedly in Asia and Europe. China, whose high growth rate over the recent past has been a driver of global growth, is experiencing declining growth. In general, lower global growth was a result of lower levels of global aggregate demand, lower levels of credit due to regulatory tightening in order to curb shadow banking, and the rise in trade tensions with the United States. Economies in the Euro area have fared worse than expected due to the poor global economy and lower levels of consumer and business confidence. There is a strong likelihood that the expected decline in global aggregate demand will have a deleterious impact on an already struggling South African economy.

Influential central banks such as the European Central Bank and United States Federal Reserve have signalled their intention to lower interest rates and to take accommodative monetary stances to deal with the great risks posed by deflation. They have resorted to unconventional monetary policy tools since the global financial crisis of 2008. Fiscal stimulus packages have also been utilised in a number of OECD countries. There is an important new macroeconomic consensus globally that fiscal policy should be used to respond to economic downturns.

In short, unprecedented policy support is still required to keep much of the global economy afloat more than a decade after the global financial crisis. This support has driven central bank balance sheets to extraordinary high levels while in some OECD countries both short- and long-term interest rates are historically low (see figures 1 & 2 below). Many governments have turned to fiscal policy to prevent a slide into recession and to support economic growth. The OECD is of the view that Governments across the world are playing a significant role in the restoration of global growth. The actions being taken around the world raises a pertinent question of whether the South African Government is doing enough to stimulate the economy.

Figures 1 & 2: Trends in long-term and short-term interest rates for some OECD countries





Gross domestic product[1]

Table 1: Sector annual performance

% change q/q	Agriculture	Mining	Manufacturing	Utilities	Construction	Trade	Logistics	Business services	Government	Personal services	GDP
2017 - Q4	44.9	-5.5	6.0	3.7	-2.0	5.5	2.4	2.1	2.4	0.8	**3.4**
2018 - Q1	-33.7	-9.1	-8.4	1.0	-2.3	-3.0	1.4	1.0	2.1	1.2	**-2.7**
2018 - Q2	-42.3	8.1	1.4	0.7	1.5	-1.2	-3.8	1.7	0.2	0.8	**-0.5**
2018 - Q3	13.7	-8.9	7.5	0.8	-1.7	3.4	6.8	2.1	1.9	0.6	**2.6**
2018 - Q4	7.9	-3.8	4.5	0.2	-0.7	-0.7	7.7	2.7	-0.6	1.7	**1.4**
2019 - Q1	-13.2	-10.8	-8.8	-6.9	-2.2	-3.6	-4.4	1.1	1.2	1.1	**-3.2**
									Data: Stats SA		

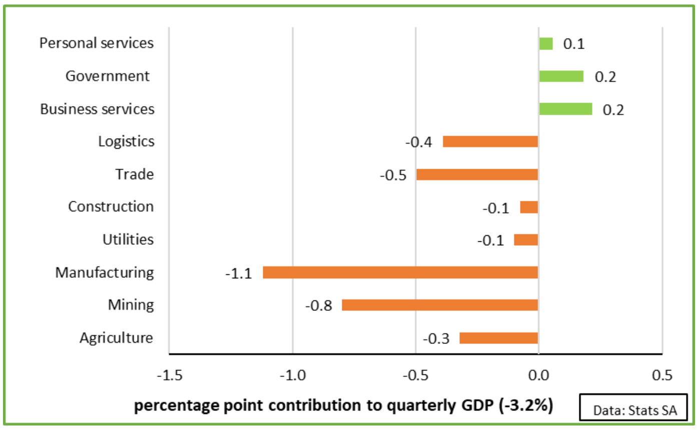
Table 1 shows that the South African real gross domestic product (GDP) declined by 3.2% from the fourth quarter of 2018 to the first quarter of 2019. The real gross domestic product (GDP) grew by 1.4% from the third quarter of 2018 to the fourth quarter of 2018. An overview of GDP performance over the last six quarters demonstrates how volatile growth has been. GDP declined in the first two quarters of 2018 putting the country in a technical recession, but marginally increased in the last two quarters of that same year.

The three main contributors to the decline in GDP in the first quarter of 2019, in terms of value added, were manufacturing, mining and trade industries.

The value added of the manufacturing sector dropped by 8.8% from the previous quarter. This relatively large quarter on quarter decline in manufacturing value added amounted to a reduction of 1.1% points from GDP growth during the first quarter of 2019. The value added of the mining sector decreased by 10.8% trimming 0.8% from GDP growth in the first quarter of 2019. First quarter 2019 value added of the trade sector declined by 3.6% and contributed -0.5% to the lower GDP in that quarter.

Small positive value added contributions to GDP came from the business services (0.2%), government (0.2%) and personal services industries (0.1%).

Figure 3: Sector percentage contribution to the first quarter GDP decline



Seven of the ten manufacturing subsectors had negative growth. The three largest subsectors contributing to the decrease were petroleum and chemical products, rubber and plastic products; motor vehicles, parts and accessories and other transport equipment; and wood and wood products, paper, publishing and printing.

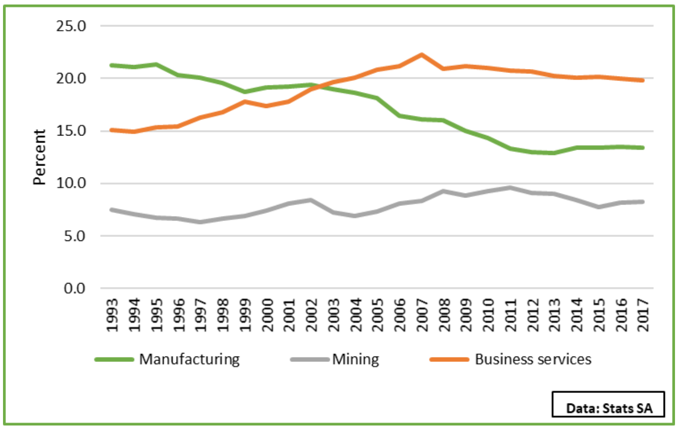
The mining industry struggled to lift itself out of recession, registering its third consecutive quarter of

[1] All quarterly expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

negative growth. A fall in diamond, iron ore and coal production pulled the industry's value addition down by 10.8%. This is the sector's largest decline in value addition since the first quarter of 2018, where it decreased by 9.9%.

The annual contribution of manufacturing and mining value added to GDP has steadily declined since the 1980s (21.8% in 1980 to 13.2% at the end of 2018 for manufacturing and 20% in 1980 to 8.1% in 2018 for mining). Figure 4 shows that as value added to GDP from the primary and secondary sectors have declined, the largest industry contributor of value added to GDP in South Africa has been business services and the tertiary sector as a whole.

Figure 4: Gross value added as percentages of GDP for manufacturing, mining and business services



Expenditure on GDP

Figure 5 shows expenditure contributions to GDP over the period 2010 to 2018. Household consumption expenditure was the largest component of GDP. It contributed more than 60% towards the country's annual expenditure on GDP since 2011. Government consumption and investment expenditure have both contributed around 20% to GDP annually over the period under discussion.

Figure 5: Sectors of GDP and their contributions, real terms (2010 -2018)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
HH Consumption	59,0%	60,3%	61,0%	60,5%	60,0%	60,4%	60,6%	60,9%	61,6%
Gov't Consumption	20,2%	20,2%	20,4%	20,4%	20,4%	20,0%	20,4%	20,2%	20,4%
Investment	19,3%	19,8%	19,8%	20,6%	20,4%	20,7%	19,9%	19,8%	19,4%
Net exports	1,2%	-1,0%	-2,0%	-2,3%	-1,1%	-1,8%	-0,5%	-1,0%	-1,2%

First quarter expenditure on GDP declined over the last three years (2016-2018). Figure 6 shows that expenditure on GDP contracted by a significant 3.4% in the first quarter of 2019 from a 1.6% expansion in the fourth quarter of 2018. Changes in quarterly household consumption over the past year shows that growth for 2017 was higher in each corresponding quarter. Household consumption for the first quarter of 2019 was lower than the previous quarter. Since the first quarter of 2017, investment declined in almost every quarter except for two quarters. Government consumption, influenced by the fiscal policy choice to continue fiscal consolidation, had low quarter on quarter growth.

Figure 6: Quarterly sector performance

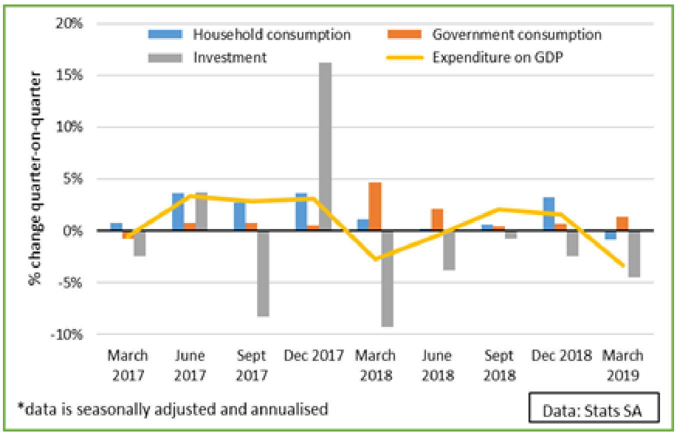
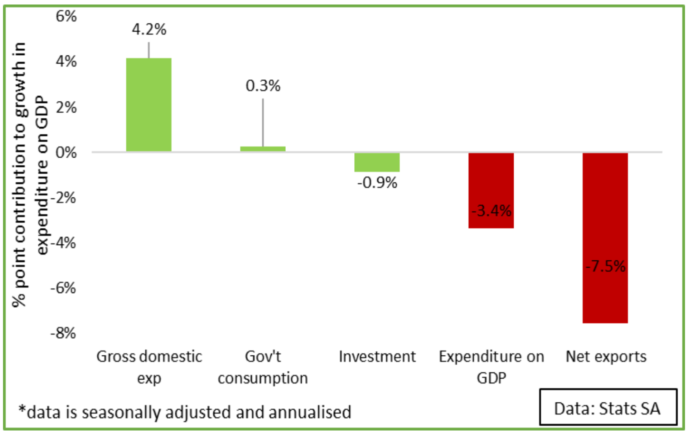


Figure 7 below shows the percentage contribution of different expenditure categories to the 3.4% decline in GDP for the first quarter of 2019. The first quarter contraction is made up of household final consumption expenditure (-0.5%), investment (-0.9%), and net exports (-7.5%).

Figure 7: Sector contribution to negative first quarter GDP growth



The decline in net exports was mainly driven by a 26.4% fall in exports in the first quarter of 2019. The largest drop in goods and services exports were

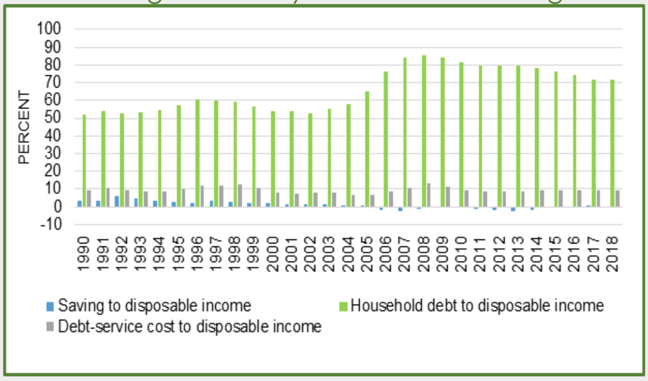
Box 1: Household consumption and debt

Household consumption expenditure accounts for approximately 60 per cent of GDP in South Africa. Therefore, household consumption is an important contributor to overall levels of domestic demand for goods and services in the economy. Observing changes in household consumption and household debt over time gives one a sense of how they might progress in the medium term, and the possible implications for GDP growth.

The average leverage (debt as a portion of assets) of South African households increased significantly during the period before the 2008 global financial crisis. Understanding leverage in the context of households is important because household consumption is affected by the stock of debt of a household and how much they have to spend on servicing that debt. Households that took on a lot of debt before the 2008 global financial crisis would take a long time paying off that debt. They would have to reduce their consumption to pay off their debt for that period.

Over the same period, consumption expenditure was more than disposable income. Easy access to credit for richer households allowed them to spend more than they had as income. The growth in household consumption before the recession was driven by large increases in household debt.

Box 1 Figure 1: Households debt and debt service costs are high and may affect future GDP growth



Recovery in household consumption and its contribution to GDP may take some time after a period when there was rapid growth in consumption followed by a crisis or recession. This problem is exacerbated by the change in composition of household debt after the global financial crisis. Mortgage lending declined and credit extension through credit cards and other unsecured loans with higher interest rates increased. As a result, household debt to disposable income has decreased but their debt-service costs as a percentage of disposable income has not decreased.

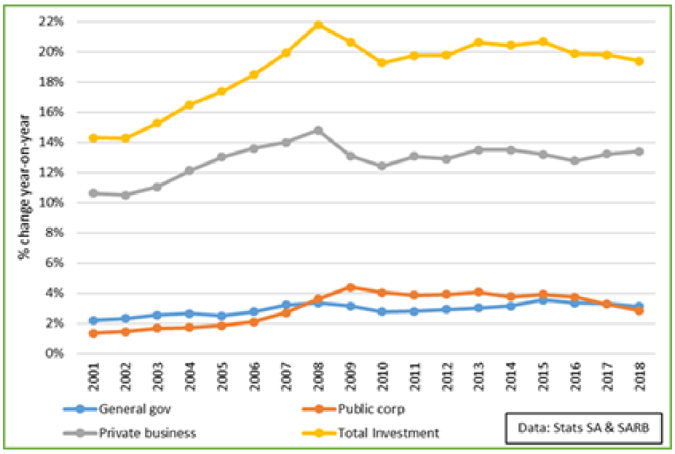
Therefore, while more affluent households may for some time contribute less to aggregate household demand, efforts by government to improve grants, food security and service delivery to poorer households could raise aggregate demand and economic growth.

precious metals, base metals, and vehicle and transport equipment. This poor performance may have been the result of lower levels of global trade, which could have arisen from trade tensions and higher tariffs.

Investment

Investment, reported in terms of gross fixed capital formation (GFCF) by private business enterprises and public corporations, is an important influence on long term economic growth. The progress of gross fixed capital formation is analysed from two perspectives, as a ratio of expenditure on GDP and by sector.

Figure 8: Gross Fixed Capital Formation (GFCF) as a share of Expenditure on GDP by sector



As a percentage of GDP, GFCF generally expanded (from 14.3% to 21.8%) in the period before the global financial crisis (2001 to 2008). Between those years the average annual real growth was 9.2% per annum. Also during this period, public sector investment as a percentage of GDP increased by 1.9% from 1.7 % of GDP in 2003 to 3.6% in 2008. Following the financial crisis, the ratio of GFCF to expenditure of GDP stagnated at an average rate of around 20% per annum until 2018.

As a percentage of gross fixed capital formation, private business enterprises, the largest of all sectors to contribute to total investment, accounted for an annual average share of 72.5 % of GFCF from 2001 to 2008, while public corporations' annual average share was 11.7 % of GFCF over the same period. After the global financial crises, the contribution of private business enterprise to total GFCF declined to an average share of 65.5 % per annum from 2009 to 2018, while public corporation annual average contribution increased to 18.9 % over the same period.

Employment

According to the Quarterly Labour Force Survey, which measures formal and informal employment, the estimated official unemployment rate rose to 27.6% in the first quarter of 2019 – a 0.9% increase from the first quarter of 2018. The labour force grew by 0.6% (137 297) over 2018 and the number of people employed fell by 0.5% (86 088) resulting in an increase in the unemployment rate. The broad unemployment rate, which includes discouraged job-seekers, increased by 1.3% from 36.7% in the first quarter of 2018 to 38% in the same quarter of 2019.

The unemployment rate for females remains higher than that of males. (29.3% to 26.1% of males). The unemployment rate for males increased by 1% to 26.1% from the first quarter of 2018 to the first quarter of 2019. The female unemployment rate increased by 0.5% to 29.3% over the same period.

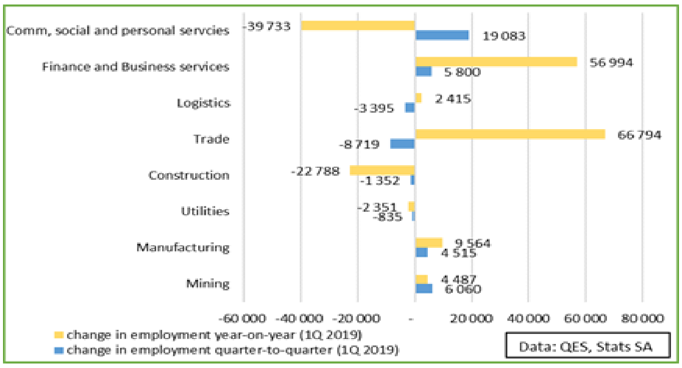
With respect to classification by race, Black Africans have the largest share of unemployed individuals (31.1%), followed by Coloureds (22. 2%). Whites (6.6%) had the lowest share of unemployed individuals. The year-on-year unemployment rate, from the last quarter of 2018 to the first quarter of 2019, fell in all race groups except for those people classified Black African. The increased Black African unemployment rate over the year was in part the result of an increase in the size of the Black African labour force (232 855) while the size of the labour force reported for all other race categories declined.

Table 2: Key labour statistics – Quarterly Labour Force Survey

	1Q 2018	4Q 2018	1Q 2019
Labour force ('000s)	**22 358**	**22 668**	**22 492**
Employed	**16 378**	**16 529**	**16 291**
Formal sector	*11 355*	*11 346*	*11 220*
Informal sector	*2 901*	*3 001*	*2 933*
Agriculture	*847*	*849*	*837*
*Private households****	*1 275*	*1 332*	*1 301*
Unemployed - official	**5 980**	**6 139**	**6 201**
Unemployed - broad*	**9 481**	**9 706**	**9 994**
Not economically active ('000s)	**15 320**	**15 466**	**15 791**
Discouraged job-seekers	2 787	2 841	2 997
Other (not economically active)	12 533	12 625	12 793
Unemployment rates			
Official unemployment rate (narrow)	26.7%	27.1%	27.6%
Broad unemployment rate*	36.7%	37.0%	38.0%
Unemployment Rates - Gender			
Male - official	25.1%	25.1%	26.1%
Female - official	28.8%	29.5%	29.3%
Unemployment Rates - Race			
Black African - official	30.1%	30.4%	31.1%
Coloured - official	22.7%	21.6%	22.2%
Indian/Asian - official	11.8%	12.4%	11.4%
White - official	6.9%	7.6%	6.6%
Youth**			
Unemployment rate - official	38.2%	38.7%	39.6%
Unemployment rate - broad*	49.7%	50.1%	51.5%

* The broad unemployment rate includes discouraged job seekers
** Youth is defined as age 15 - 34
***Private households refers to domestic workers
Data: Quarterly Labour Force Survey, Stats SA

Figure 9: sectors contribution to employment – Quarterly Employment Survey (QES)

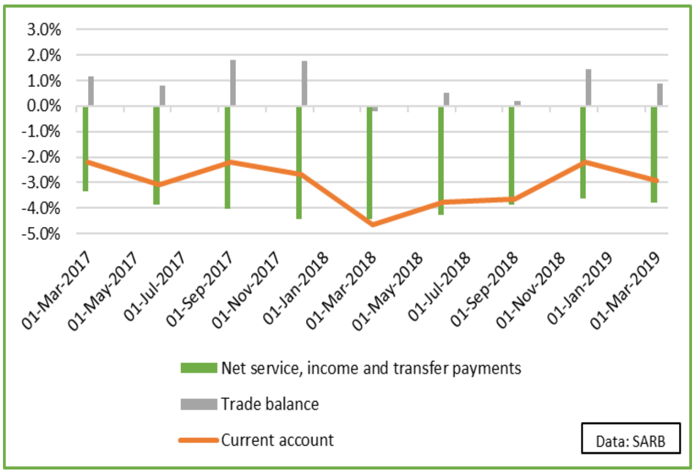


According to the Quarterly Employment Survey, which reports formal non-agricultural sector employment, employment increased by 75 381 jobs (a 0.8% increase in employment) in first quarter of 2019 compared to the same quarter in 2018. Trade (66 794), and Finance and Business services (56 994) were the largest contributors to job creation whereas Community, social and personal services (39 733) and Construction (22 783) made the largest negative contribution to employment growth.

Current Account

The deficit on the current account of the balance of payments increased to R110 billion in the first quarter of 2019. It increased from 2.2% to 2.9% of GDP from the fourth quarter of 2018 to the first quarter of 2019. The current account consists of the trade balance (which is the difference between exports and imports) and financial transfers, including net service, income and transfers payments. The trade balance was positive so the cause of the negative current account was net financial transfers account out of the country on the current. South Africa's trade surplus while remaining positive narrowed from R71.8 billion in the fourth quarter of 2018 to R43.0 billion in the first quarter of 2019.

Figure 10: Change in the balance of the current account (as a percentage of GDP)



Box 2: Unemployment and looming retrenchments

StatsSA's QLFS data for the first quarter of 2019 estimated the country's official (narrow) unemployment rate to be 27.6% and unemployment of youth to be more than 39.6%.

Box 2 Figure 1: Annual unemployment rate (official)

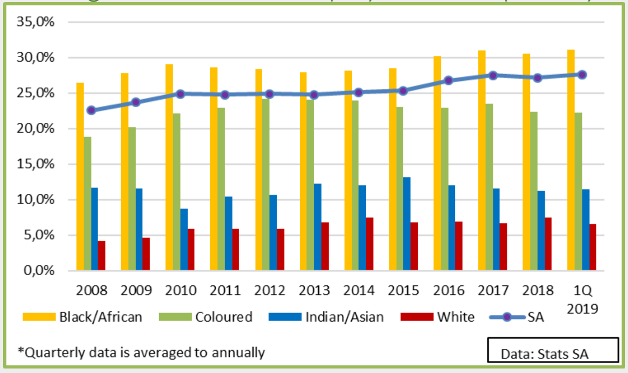


Figure 1 shows that the unemployment rate rose from 22.5% in 2008 to 27.1% in 2019. Over the past four years (2015 – 2018), the race category Black/African has been most affected by the increasing unemployment rate) while the unemployment rate declined for all other race groups.

Over the past few months, 20 companies have reported plans to retrench workers as a result of plans to restructure, sell off and/or close down business units. Announcements of retrenchments have been made by industry stalwarts, such as Tongaat-Hulett (5 000 jobs), Sibanye-Stillwater (3 450 jobs), Multi-choice (2 000 jobs), IBM Global (2 000 jobs), and Standard Bank (1200 jobs) to name a few. Many other big businesses (such as Group five and PPC cement) have not disclosed the estimated number of jobs to be lost through their intended restructuring.

Mining and quarrying

The mining and quarrying industry contributes about 2.6 per cent (417 000) to total formal and informal employment (16 291 000). It is the industry where the largest number of companies have announced their intention to retrench part of their labour force. Five mining companies (*Hulamin, Murray & Roberts, Lomnin, Sibanye Stillwater, and Alexkor*) have stated their intention to cut staff. There are an estimated 8 000 jobs at stake. The timing of the retrenchments was not announced.

Financial and business services

The financial intermediation, insurance, real estate and business services sector contributed 15% to total employment (2 356 925). The sector has the most jobs and contributed the most to employment after the 2008 global financial crises. It must however, be noted that this sector has three subsectors namely, financial services, real estate activities, and business services. Of the three sectors, Business services accounts for more than 70 per cent of the total sector employment statistics (1 735 617) while real estate activities accounts for just over 5 per cent (129 308). Financial services employment increased from 353 297 in 2010 to 502 971 in 2018 (29.8% annual average growth).

Box 3: The current account and the balance of payments

The current account is one component of South Africa's international economic relations with other countries and informs our balance of payments position. The other side of the balance of payments is the financial account.

These financial flows (both inflows and outflows) with the rest of the world include foreign direct investments, which are usually longer term commitments of foreign financial inflows into the economy. They also include portfolio financial flows, which are shorter term inflows. For example, if foreigners want to buy bonds and shares of South African companies (that make up less than 10% of the equity of that company) these purchases of financial assets are seen as short-term. There is also a category labelled "other flows" that is also short-term and includes flows that are not classified as portfolio or direct investment, such as short-term extension of credit from a foreign financial institution.

Box 3 Figure 1: Net financial flows as percentages of GDP

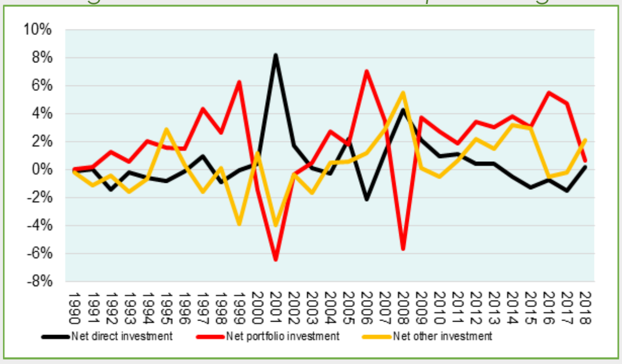


Figure 1 shows net financial flows (inflows less outflows) as percentages of GDP for direct investment, portfolio investment and other investments for the period 1990 to 2018. During that period, we see that net short-term flows were much larger than net direct investment flows and that the flows are quite volatile. The experience with financial crises across many different time periods and countries has been that countries that are exposed to volatile large foreign financial inflows become vulnerable to currency and financial crises and vulnerable to contagion from financial problems elsewhere. They become particularly vulnerable to financial crises when there is a surge of short-term financial inflows. Surges in short-term inflows often lead to abrupt strengthening of the domestic exchange rate and increases in domestic financial assets, real estate assets prices. It is also associated with large increases in the amount of debt in households and firms. People who took on debt could easily get into financial problems, the exchange rate can weaken and financial and real estate asset prices could drop rapidly when net short-term financial flows turn negative (see how this occurred in South Africa net portfolio flows in 2000/1 and 2007/8 in figure 1 above).

In addition, it seems that when South Africa received large inflows on the financial account, the current account became negative because there had to be financial transfer outflows, such as dividend payments to foreigners. The trade balance (exports less imports) was a small contributor the current account deficit from 2003 to 2018. During the period 2016 to 2018 the trade balance was positive and the reason for the deficit was financial transfers on the current account. Therefore, the assertion that South Africa needs financial inflows from other countries because we import more than we export has not been true for the economy for a long time.

Exchange rate

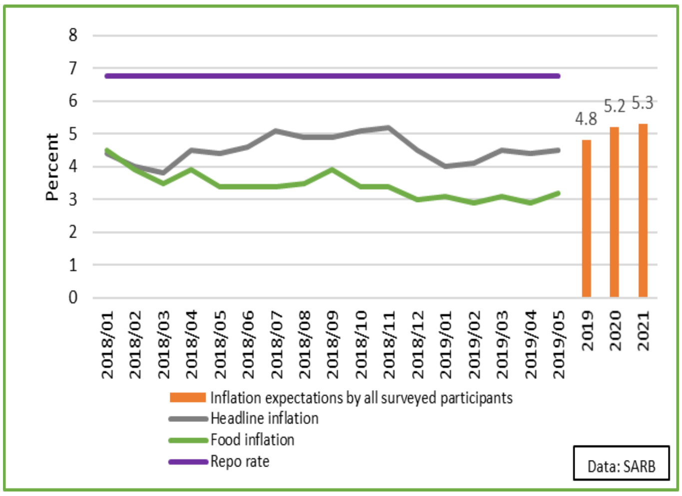
The rand-US dollar exchange rate strengthened at the end of 2017 after the election of Cyril Ramaphosa as ANC President. The South African Rand remains quite volatile. It was trading below R12 to the US dollar at the beginning of 2018. The rand later weakened by 14.2 % against the US dollar by the end of the second quarter as it traded at R13.74 to the US dollar. This weakening of the rand could be associated with US trade policy and the sell-off of emerging market financial assets. In the third quarter of 2018, the rand further weakened to its lowest level against the US dollar in two years at the time of the Turkish meltdown. The rand lost 14.6% against the US dollar and was trading at R15.60. Eventually, it regained its strength against the US dollar to trade at R14 to the US dollar by the end of the year, and continued to strengthen after the results of South Africa's national elections in May 2019.

Figure 11: The rand-dollar exchange rate

Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas, increased from 4% in January 2019 to 4.5% in May. CPI has remained within the Reserve Bank's inflation target band of 3% to 6% for 26 consecutive months. Inflationary pressures have increased gradually since the beginning of the year in the wake of higher crude oil prices and the depreciation of the rand. However, underlying inflationary pressures remained fairly subdued. Domestic demand remains weak. Inflation on food and non-alcoholic beverages increased from 3.1% in January 2019 to 3.2% in May, leaving food inflation largely unchanged. According to a second quarter survey conducted by the Bureau for Economic Research (BER) inflation expectations for the first quarter of 2019 declined significantly for 2019 from 5.4% to 4.8%. Inflation expectations for 2020 and 2021 declined slightly to 5.0% and 5.2% respectively.

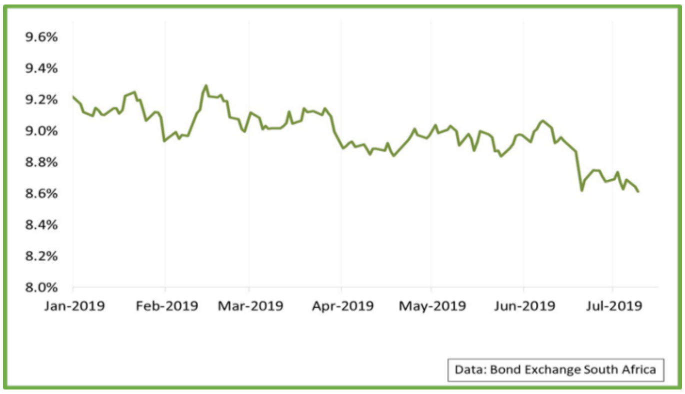
Figure 12: Inflation beneath mid-point of the target range



In their press statement released on the 18th of July 2019, the Monetary Policy Committee (MPC) of the South African Reserve Bank said that they are generally pleased with the present trend in inflation outcomes. The MPC further expressed that they would like to see inflation remain close to the mid-point of the inflation target band of 3% to 6% on a sustained basis. The Committee believes that upside risk to the inflation outlook could arise from global financial conditions and changing market sentiments. They also said that state owned enterprises need for additional financing could place upward pressure on the long-term market interest rate for all borrowers. They added that potential food, electricity and water price increases may pose a high risk to the inflation outlook. In this context, the MPC reduced the repo rate by 0.25% to 6.5% with effect from the 19th of July 2019.

Sovereign risk

Figure 13: Yield on SA 10-year bond



Emerging markets, have become attractive locations for global investors over the last decade. The search for greater yields has taken a share of dollar investments from low interest rate developed markets into relatively riskier emerging markets, with hopes of obtaining better returns.

The yield on South Africa's 10-year benchmark bond – an indicator of market sentiment about the riskiness of government bonds – improved modestly since the beginning of the year from above 9.2% in January to about 8.6% in July. In part, this change reflects the sustained appetite for emerging market assets. It may be that short-term investors are searching for higher yields given the accommodative stance of the US Federal Reserve, which is expected to continue over the medium term. South Africa specific factors, including slow economic growth and the financial woes of several SOEs warranting sovereign support, are likely to place additional pressure on the performance of South Africa's bonds, and the cost of new debt issued by government.

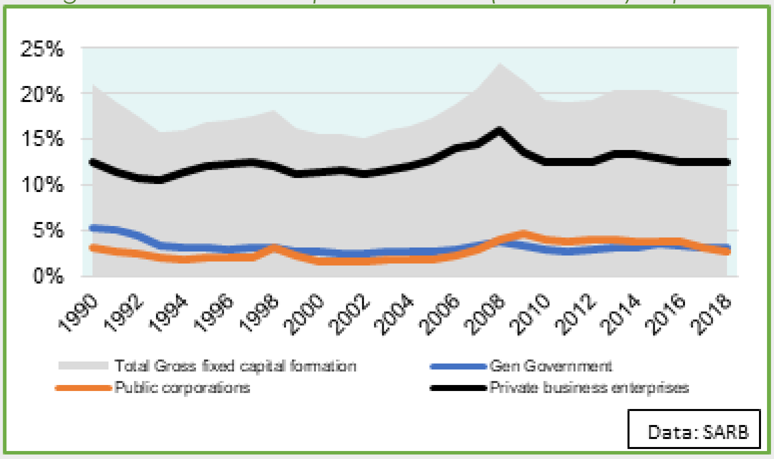
Conclusion

Countries across the globe are responding to the continued expectation of poor economic performance by stimulating their economies. South Africa also faces the possibility of continued disappointing economic outcomes given the gloomy global economic outlook and the expectation of continued weak economic performance. Government's spending choices with regard to its consumption and investment affect not only public finances but the economy as a whole. In addition, it is also responsible for ensuring the viability of state owned enterprises and further expanding infrastructure and services. Therefore, the role of Government's contribution to economic activity and growth in the South African economy is important.

Box 4: The current trajectory of fixed investment

Gross fixed capital formation (GFCF) is a measure of investment in property, plant and equipment in the economy unadjusted for depreciation. Figure 1 shows changes in GFCF by private business enterprises, general government and public corporations as percentages of gross domestic product (GDP). Total GFCF in the South African economy has generally remained below 20% of GDP during the period 1990 to 2018. This level of investment to GDP is relatively low compared to the average of middle income countries.

Box 4 Figure 1: Gross fixed capital formation (investment) as percentage of GDP



There was a relatively sharp increase in investment during the period leading up to the global financial crisis but it declined after the crisis. After the crisis, average annual GFCF as a percentage of GDP for the period 2010 to 2018 was 19.5%. Private business enterprise annual average GFCF as a percentage of GDP was 12.7% while that of general government was 3.0% and public corporations was 3.7%. One area of poor GFCF performance that poses an important structural problem for South Africa's future growth path is the long-term decline in manufacturing GFCF as a percentage of GDP. Manufacturing is widely recognized as an important engine of growth for an economy. Value-added output and employment in the services sectors of the economy may be higher than manufacturing but manufacturing sectors generally have stronger linkages with other economics sectors. These linkages promote further economic activity and catalyse development of other sectors.

Low levels of private business enterprise GFCF as a percentage of GDP were not due to low levels of credit extended to the private sector. During the period before the global financial crisis total credit extended to the private sector increased from 58% of the size of GDP in 2002 to 84% of the size of GDP in 2008. However, the increase in GFCF as a percentage of GDP from 11% in 2002 to 16% in 2008 was relatively small. After the crisis, credit extended to the private sector declined to 75% in 2018. During that period, GFCF as a percentage of GDP declined to 13% in 2018.

Poor levels of fixed investment in the South African economy were not due to poor levels of profits in the economy. A 2018 study of the Top 50 companies by market capitalization on the Johannesburg Stock Exchange (JSE) showed that returns on assets and equities of these top 50 corporations were relatively high. The study linked these high returns to the high levels of concentration (i.e., market dominance by large firms) in most markets in South Africa.

So if most of the credit extended to the private sector did not go into GFCF where did it go? One answer to this question is that the credit was used for acquisition of financial assets. Another answer is that the credit extended to the private sector was used by affluent households for debt-driven consumption.