Weekly Economic Newsletter

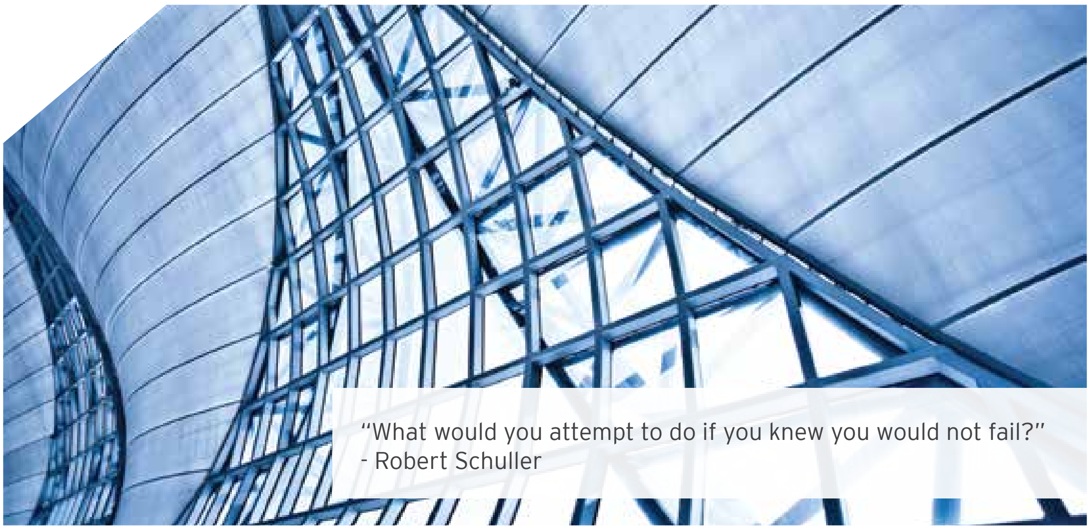
Contact Us

81 Dely Road
Hazelwood
Pretoria
0081

+27 (12) 460 9580

info@efgroup.co.za

www.efgroup.co.za



ECONOMIC COMMENTARY - By Francois Stofberg

As expected, South Africa's current account deficit widened. The South African Reserve Bank (SARB) announced that compared to last year's average of 4.3% of GDP, the current account deficit rose to 5.0%, as a percentage of GDP. The reason for this abrupt increase is partially as a result of a smaller first quarter GDP, and partially due to a weaker currency. A smaller economy inflates the relative size of rations expressed as a percentage of GDP and a weaker currency inflates the relative price of imported goods and services. In theory, a weaker currency should aid exports and deter imports. However, this is not the case in SA; we only export a little more, whilst imports continue to soar.

Imports "soar", because most of these goods, and more importantly services, are "essential" for our country's progression. We therefore, continue to import these goods and services, even though they become relatively more expensive. Some of the goods we import include: oil, fertilizer, machinery, and technology. More important to the deterioration of our CAD (current account deficit) however, is the "importing" of certain services. These services include the payments we make towards foreigners for the services they deliver in SA. On the other end, most of our exporting sectors (agriculture, mining and manufacturing) have gone through recessions in the last year, and are struggling to bring products to market. The result is that our trade balance (exports – imports), and services accounts, has slowly started to increase since the 3rd quarter of 2015.

What does all this mean? A larger current account deficit implies that SA has to borrow from the rest of the world, to fund our deficit; this means that we are more dependent on foreign capital, resulting in a depreciation of the Rand.