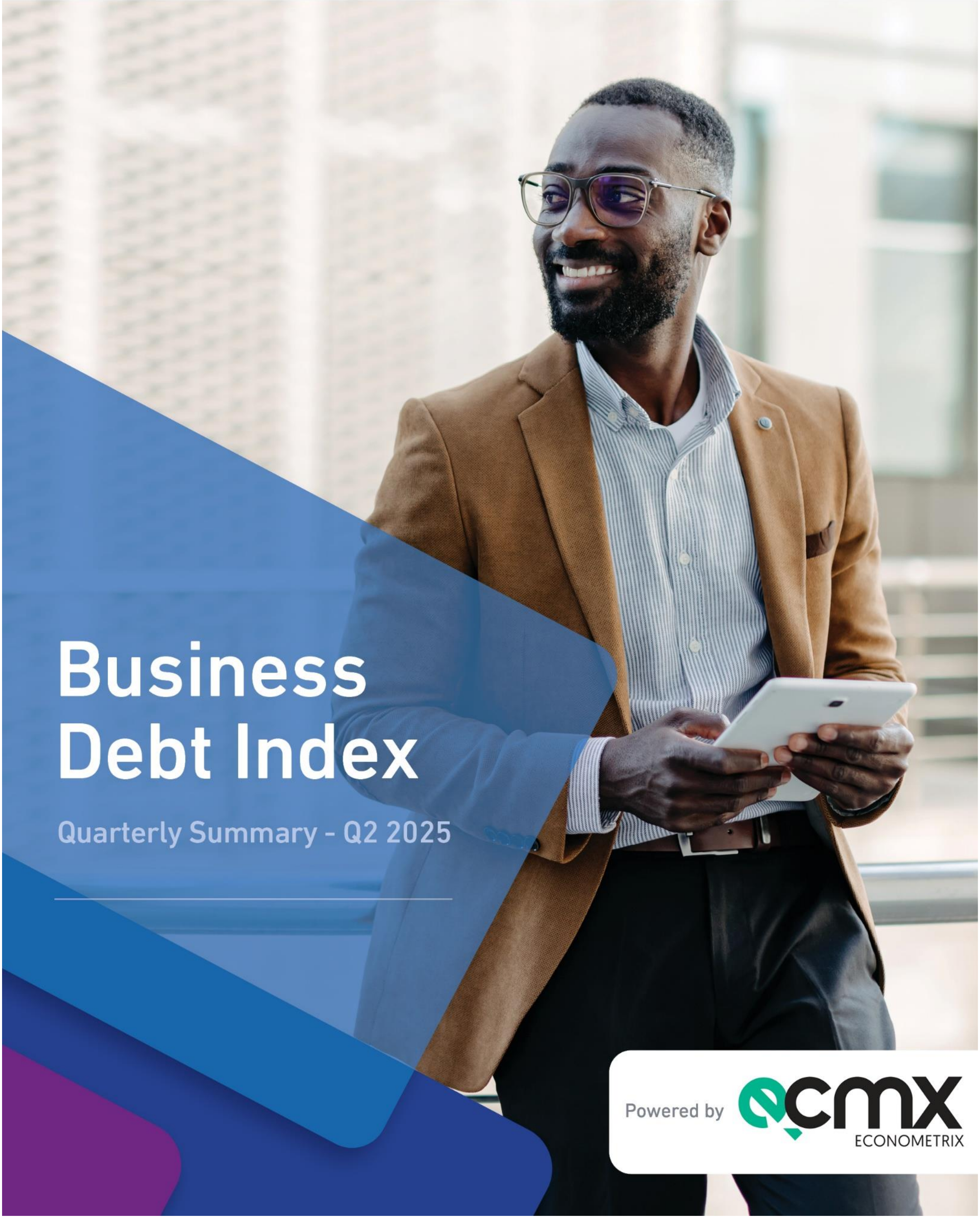

Business Debt Index

Quarterly Summary - Q2 2025

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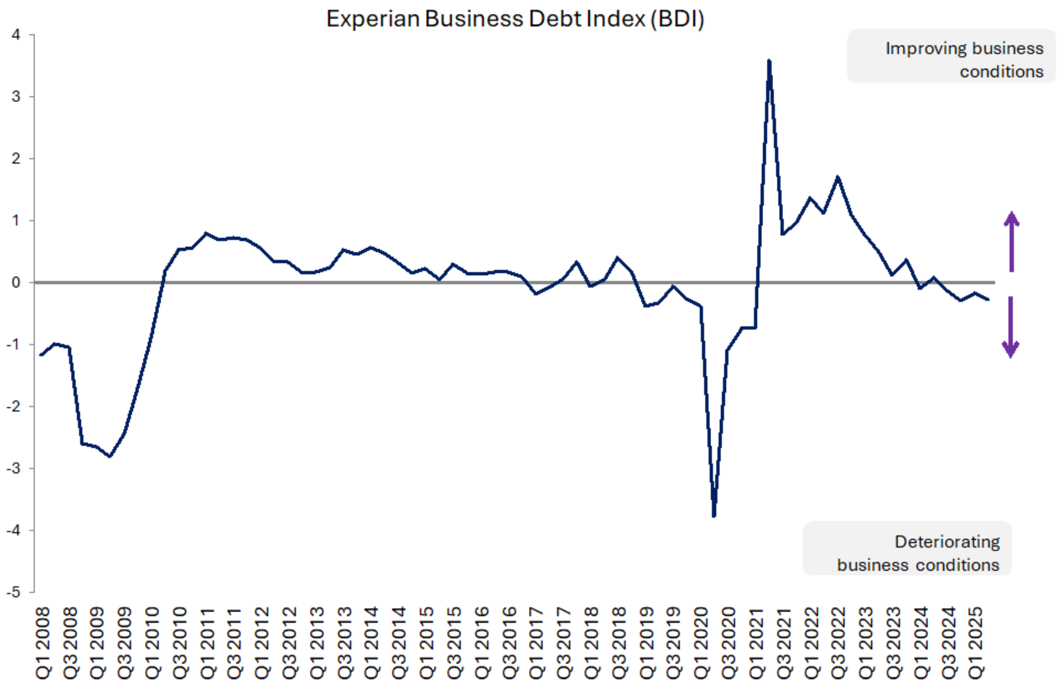
EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q2 2025

Marginal deterioration in Experian BDI despite improvement in GDP in Q2

The Experian Business Debt Index (BDI) deteriorated moderately in Q2, to a reading of -0.27 from a downwardly revised -0.15 in Q1. The latest data suggest that business debt conditions deteriorated in Q2, albeit relatively modestly.

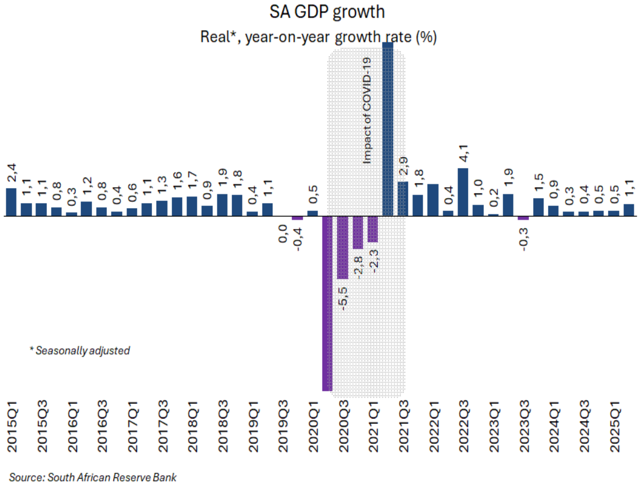


	Q2 2024*	Q3 2024*	Q4 2024*	Q1 2025*	Q2 2025
Index >0= Improving business conditions <0 = Deteriorating business conditions	0,10	-0,12	-0,28	-0,15	**-0,27**

** Revised*

Macroeconomic factors influencing Q2 2025

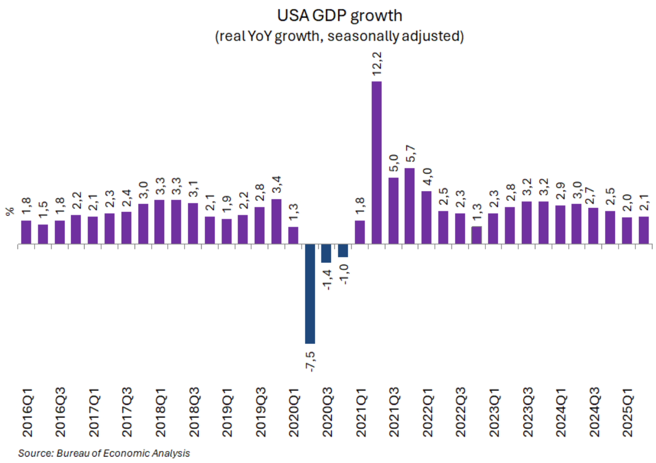
The downward trend of the BDI in Q2 occurred notwithstanding an improvement in domestic GDP growth on a q-o-q basis, from 0.1% in Q1 to 0.8% in Q2, the best such q-o-q growth in two years. On a y-o-y basis, GDP rose to 1.1% in Q2.



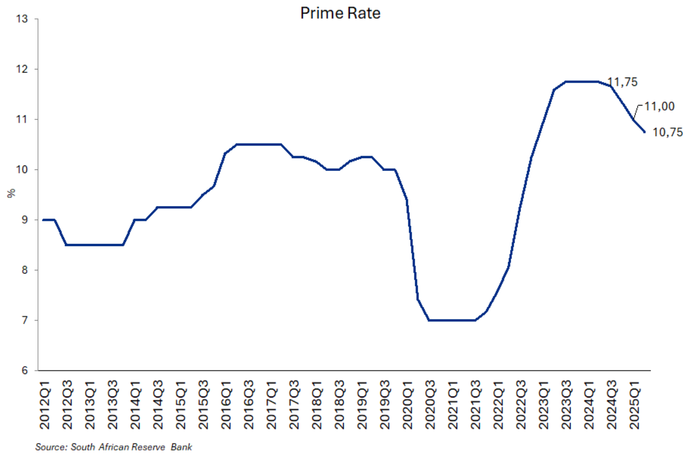
There were relatively strong performances for mining and manufacturing production in Q2, but these should be seen as coming off a low base.

While the overall BDI deteriorated in Q2, the macroeconomic elements posted a slight improvement on the back of the higher domestic GDP growth figure.

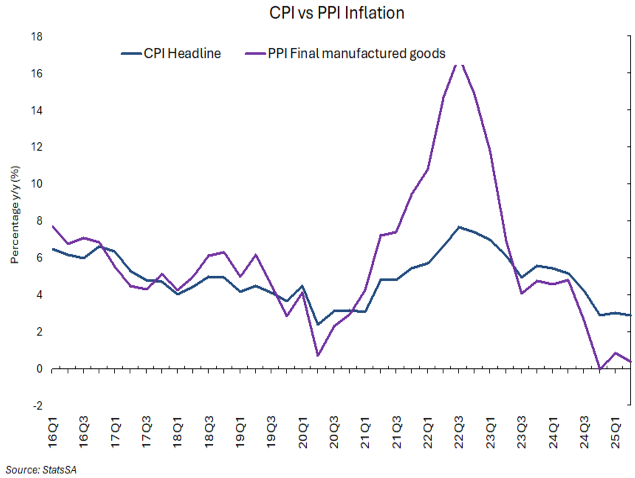
In addition, US GDP growth improved marginally from 2.0% y-o-y in Q1 to 2.1% in Q2.



There was also a reduction in the difference between domestic and US interest rates, as well as between short- and long-term interest rates at home.



There was, however, a slight expansion in the difference between the PPI and CPI inflation rates, from -2.1% to -2.5%, indicative of a slight contraction in profit margins.



Probably the most sobering aspect of the Q2 GDP data was the fact that even though overall GDP improved, and growth in consumer spending remained relatively brisk, there has been a further decline in gross fixed capital formation in seven of the last eight quarters. If capital investment continuously erodes as it has in recent years, it is difficult to foresee how the economy can supply the necessary goods and services and grow at a faster pace.

There are a few positive developments in the economy that offer hope for some relative improvement in months and quarters to come.

Inflation has come in lower than expected, partly due to a continuing low level of fuel prices and partly as a result of a relative strengthening of the Rand, especially against the Dollar. The latter has helped to subdue import costs.

The lower-than-expected inflation outcome, in turn, can assist in accommodating further declines in interest rates. These have already fallen by 1.25% since early last year, and the benefits there are for economic activity are yet to be felt in full.

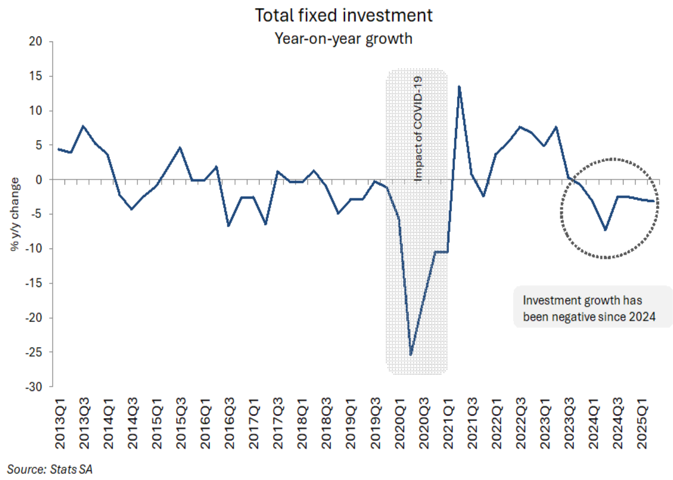
In recent months, the Reserve Bank has committed itself to pursuing a lower inflation target of 3% compared with the 4.5% that has been the target over the last eight years. This change holds the potential to bring about a still lower inflation rate and interest rate declines beyond what had previously been anticipated.

This could significantly help improve the debt situation of many businesses and consumers. Unfortunately, it is not a foregone conclusion that such a change in strategy will necessarily succeed. It will require the buy-in of businesses, trade unions, municipalities, and other government utilities to demand and implement smaller price increases and wage demands than has been the case.

Household consumption expenditure did receive a boost late last year and early this year from the introduction of the two-pot retirement scheme that enabled workers to access up to R30,000 on their retirement funds. This is estimated to have added R60bn to their spending power, but the impact is likely to fade soon. In addition, there is evidence to suggest that workers in the formal sector managed to attain fairly substantial wage increases in relation to a falling inflation rate.

Again, this factor is likely to dissipate over time; therefore, one anticipates that the growth in consumer spending will slow down.

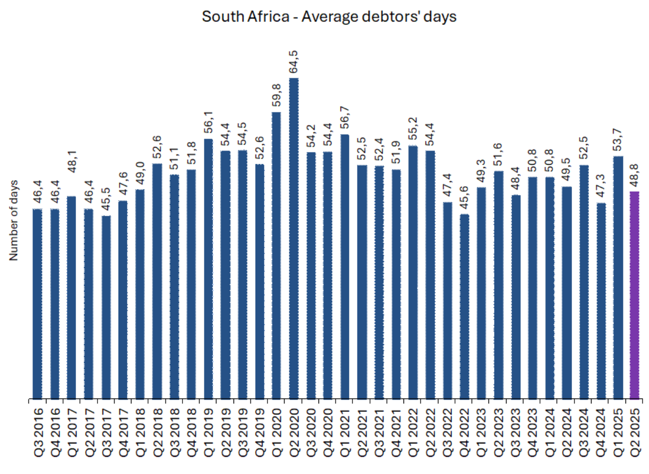
As a result, the relative dearth of capital investment is likely to weigh increasingly negatively on economic growth.



Business debt metrics in Q2 2025

The main reason for the further deterioration in business debt conditions in Q2 appears to have been related to a worsening of the debtors' situation confronting companies.

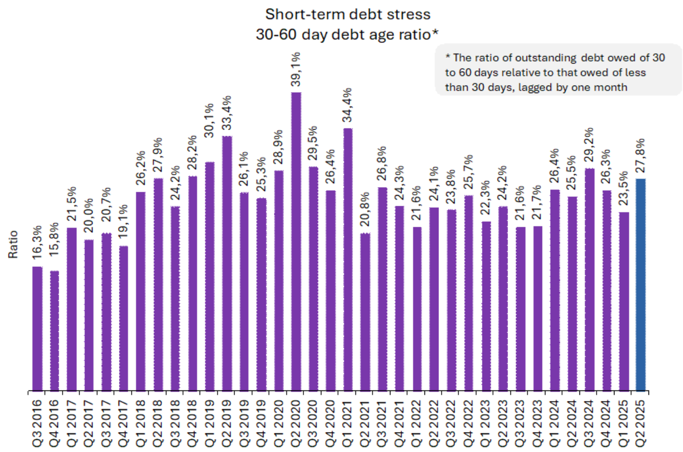
Although there was a considerable reduction in the number of outstanding debtors' days, from 53.7 in Q1 to 46.8 Q2, the ratios upon which the BDI is calculated saw a marked deterioration.



The **30 to 60 days ratio**[1], which had fallen from 26.3%

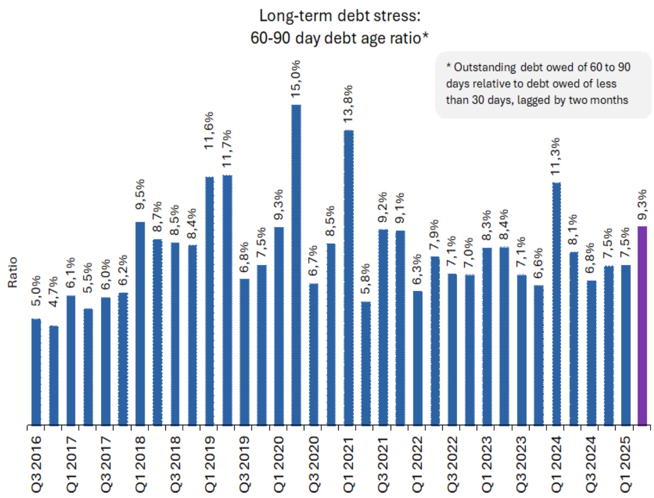
[1] *The ratio of outstanding debt owed of 30 to 60 days relative to that owed of less than 30 days, lagged by one month*

in Q4 of 2024 to 23.5% in Q1, rose quite sharply to 27.8% in Q2.



Source: Experian

Similarly, the **60 to 90 ratio**[2] rose to 9.3% in Q2, from 7.5% in Q1 and Q4 of 2024.



Source: Experian

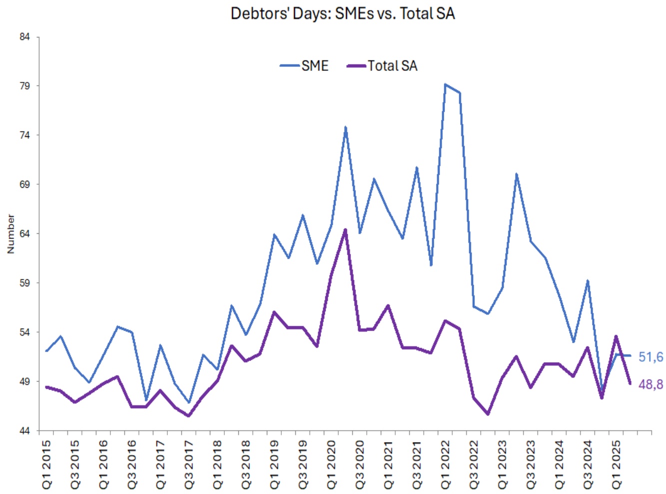
This suggests that while overall business debt conditions are not deteriorating too badly, there is a section of the business community that is taking considerable strain and is finding it unable to repay its debts in a hurry. This may relate to the retail sector.

Although retail sales growth has been surprisingly strong, averaging almost 4% y-o-y in Q2, the spread of retail activity may well be confined to larger dealerships rather than smaller ones, which are suffering under difficult competitive conditions.

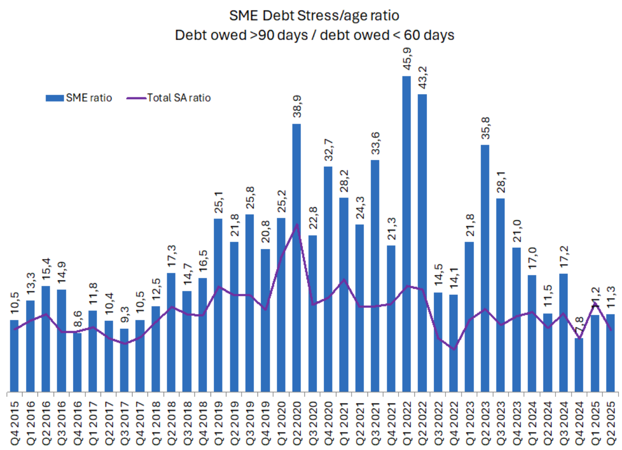
BDI by company size

Access to finance for smaller companies has been notoriously more difficult, and it is conceivable that they face significantly higher interest rates on borrowings than their larger counterparts.

One can see this to some extent in the sharp deterioration of the debt profile of SMEs, where the SME debt stress ratio[3] increased sharply from 7.8% in Q4 of 2024, to 11.2% in Q1 of 2025 and 11.3% in Q2.



Again, as in the case of the overall sample, the deterioration in the ratio relating to longer-standing debt occurred notwithstanding a marginal reduction in the overall level of outstanding debtors' days, from 51.8% in Q1 to 51.6% in Q2.

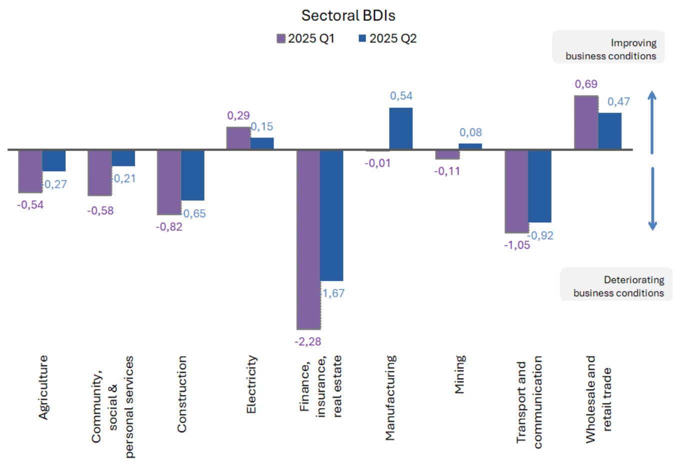


[2] *The ratio of outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months*

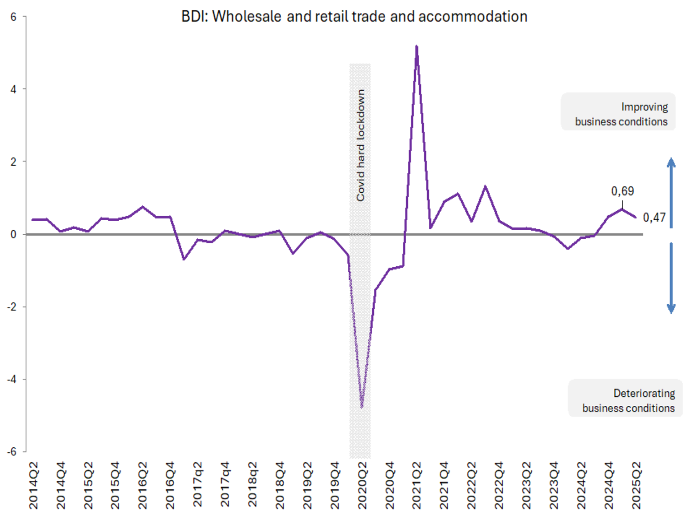
[3] *The ratio of outstanding debt owed by SMEs of 90 to 120+ days relative to that owed of less than 60 days*

BDI by sector

At a sectoral level, there was actually an improvement in the BDI of seven of the nine sectors. The only sectors to see a decline in their BDI were the retail, wholesale trade, accommodation and restaurants sector and the electricity sector.



However, the BDI of five of the sectors remained negative, notwithstanding their relative improvements. The reason why the overall BDI deteriorated, despite many sectors witnessing an improvement in the BDI, is that the sector accounts for the largest number of companies that report their outstanding debtors' data – the retail, wholesale trade, accommodation, and restaurants sector – recorded a deterioration in its business debt conditions.



As mentioned above, one suspects that this has a lot to do with the preponderance of smaller companies in that sector, which will have faced difficult trading conditions relative to the large dealers.

This is an example of how the concentration of power in the South African economy is hampering economic growth and employment creation.

Outlook

Fortunately, there is another dynamic that is helping to drive growth at present, and that is the rise in commodity prices, especially those of precious metals.

This is helping to support the country's export revenues, despite the imposition of tariffs on some of its exports to the US.

Furthermore, given the public debt problems faced by the world economy and the pressure being put on central banks by political leaders to cut interest rates, the benefit of rising commodity prices is likely to be sustained in the medium term.

On the whole, there is an expectation that South Africa's economic growth will pick up slightly from current dismal levels. Much depends on the success or otherwise of the government in sparking an investment drive.

Many pronouncements have been made of intentions to do so, but these have thus far not translated into accelerated economic activity.

Instead, the opposite has occurred, mainly because of the proliferation of criminal syndicates that are impeding efforts to undertake projects that could have a massive payback in terms of improved service delivery.

Forecasts for the BDI into Q3 have it improving somewhat. In other words, relatively speaking, business debt conditions are set to lighten slightly, but are not forecast to move into a phase of significant improvement.

Explanatory notes regarding the Experian Business Debt Index

What is the Experian Business Debt Index?

The Experian Business Debt Index (BDI) is an indicator of the overall health of businesses, as well as the South African economy. It measures the relative ability for business to pay its outstanding suppliers/creditors (i.e. amounts owed to other businesses) on time and tracks macro-economic indicators that can impact on the ability of companies to pay their creditors.

A number of debtors and macro-economic variables are combined into a single indicator of business debt stress. In other words, the BDI is a reflection of the overall health of businesses and the position of debt settlement between businesses in the economy.

How to interpret the index

The Experian BDI, as an indicator of the overall health of businesses, measures the relative ability of businesses to pay their outstanding creditors on time. It also incorporates trends in macroeconomic indicators, insofar as these impact on the ability of companies to pay their creditors. The index is constructed around a mean value of zero.

Values above zero indicate less business debt stress and values below zero indicate business debt stress.

Given the underlying data of the index, relative higher levels of debt indicate a weakening in the ability to pay outstanding creditors. Higher interest rates result in higher borrowing costs and an increase in business stress. Relatively higher production costs vs consumer costs decrease operating margins of business, while higher domestic and international growth could result in a better trading environment for businesses.

Measured by using principal components

The Experian Business Debt Index (BDI) is constructed using principal components analysis. This is similar to the St. Louis Fed's Financial Stress Index (STLFSI) and the Kansas City Fed's FSI (KCFSI) in the USA. The principal components analysis is a statistical method that is used to extract factors responsible for the co-movement of a group of variables. As such, it is assumed that business stress is the primary factor influencing the co-movement and by extracting the principal components, it is possible to build an index with a useful economic interpretation.

Variables included

The Experian Business Debt Index is made up of Experian business debtors' data and public domain data. Variables include the following:

- 30 – 60 debtor days' ratio (debt compared to initial amount invoiced 30 days ago);
- 60 – 90 debtor days' ratio (debt compared to initial amount invoiced 60 days ago);
- South Africa consumer inflation and producer inflation spread;
- Interest rate spread (Repo vs US Federal Fund rates);
- Interest rate spread (R157 vs Repo);
- Real SA GDP (year-on-year percentage change);
- Real US GDP (year-on-year percentage change).

No provision is made for any leads or lags in any of the variables.

Methodology used to construct the index

The index is constructed by first demeaning the individual indices - subtracting the index value from the index average and dividing it by the sample standard deviation (SD). The indices can now be expressed in the same units. Next, the method of principal components is used to calculate the coefficients of the variables in the EBSI. These coefficients are scaled so that the standard deviation of the index is 1. Lastly, each of the indices is multiplied by its respective adjusted coefficient.

When the index is updated quarterly, the values of the Experian Business Debt Index can change. This can occur either through a change in the coefficients (an updated re-estimation) or because of a change in the actual values of the variables in the sample. Because the data are demeaned and standardised, the value of the original sample will change as the sample mean and sample standard deviation of the underlying variables change.

About Experian

We are the leading global information services company, providing data and analytical tools to our clients around the world. We help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision-making. We also help people to check their credit report and credit score and protect against identity theft. In 2016, for the third year running, we were named one of the "World's Most Innovative Companies" by Forbes magazine.

We employ approximately 17,000 people in 37 countries and our corporate headquarters are in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended March 31, 2016, was US$4.6 billion.

To find out more about our company, please visit http://www.experianplc.com or watch our documentary, 'Inside Experian'.

About Econometrix

Econometrix is South Africa's largest independent macro-economic consultancy based in Johannesburg. We are privately owned and, therefore totally independent of any official organisation or pressure groups. Econometrix – which has a successful track record of more than 42 years - is committed to ongoing research and analysis of economic fundamentals thereby ensuring a sound basis for future business decisions. These services are provided through a range of complementary products to more than 150 South African and international organisations.

Our approach is to empower our clients with quality decision support intelligence and assistance regarding the economic and financial environment and assist them in their strategic and financial planning processes. Our in-depth analysis of economic fundamentals aims to assist our clients in commanding the economic environment and identifying opportunities and risks.

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Next release date for the BDI: September 2025

For more detailed analysis on the debt stress by sector, Experian publishes the *Business Debt Sectoral Overview* report, please contact Taryn Stanojevic at Experian for more information.