Business Debt Index

Quarterly Summary - Q1 2025

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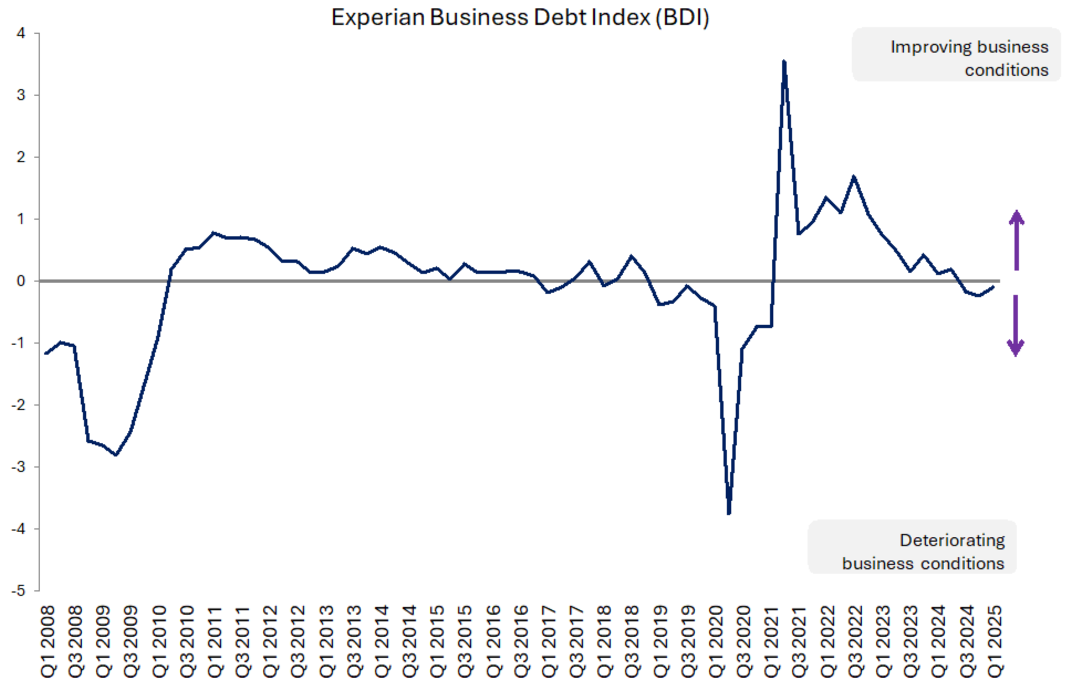
EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q1 2025

Marginal improvement in Experian BDI – however, negative reading indicates continued pressure on business conditions in Q1

The Experian Business Debt Index (BDI) improved marginally in Q1 of 2025 to a reading of -0.10, from a revised -0.23 in Q4 of 2024. However, this improvement was not particularly significant.

The ongoing negative readings (since Q3 2024) indicate continued deterioration in business debt conditions, but the small scale of negativity also implies that such a decline has been marginal.



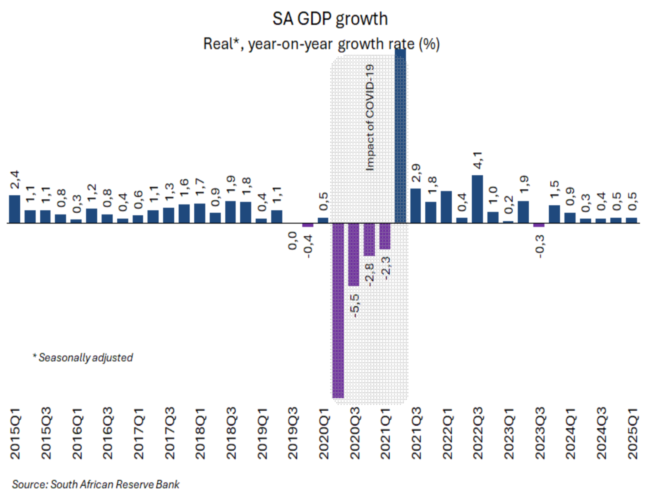
	Q1 2024*	Q2 2024*	Q3 2024*	Q4 2024*	Q1 2025
Index >0= Improving business conditions <0 = Deteriorating business conditions	0,12	0,19	-0,16	-0,23	**-0,10**

** Revised*

Macroeconomic factors influencing Q1 2025

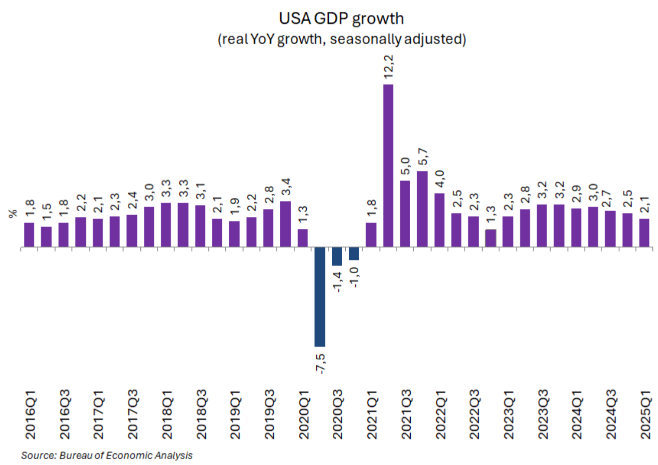
Most of the macroeconomic changes in the components making up the BDI in Q1 were small.

GDP growth in South Africa remained unchanged from Q4 2024 on a y-o-y basis in Q1, at 0.8%. On the negative side, there was a slight deterioration in the impact of US GDP as a surrogate for global economic growth.



It is clear that there has hardly been any impact yet on real GDP arising from the imposition of higher import tariffs on goods exported from the rest of the world to the US in Q1.

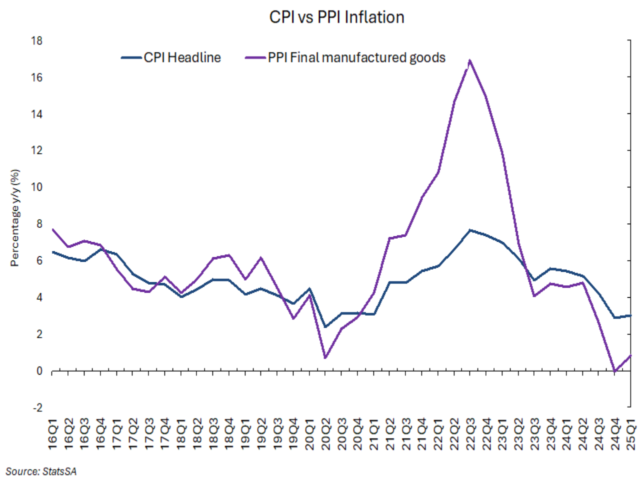
US GDP growth slowed to an annualised rate of 2.1% in Q1 2025, down from 2.5% in the previous quarter, reflecting a slight moderation in economic momentum.



There was not any meaningful change in the magnitude of domestic interest rate differentials between the 3-month NCD rate and the 6-month rate, and the same applies to the implied difference between domestic and international interest rates.

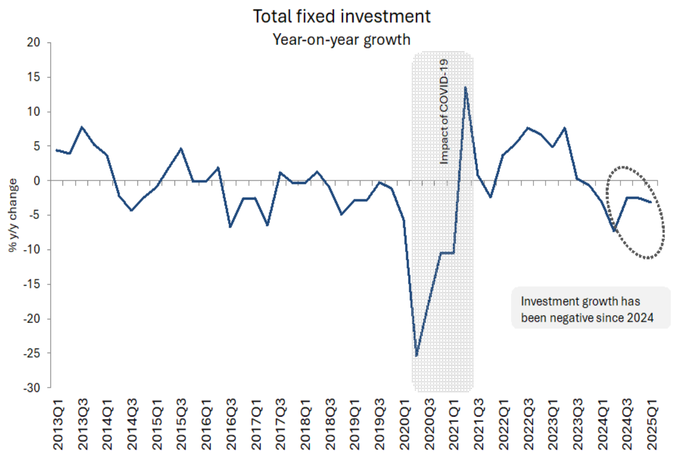
There was barely any change between South Africa's repo rate and its counterpart in the US, the Fed Funds rate. It should be recalled that the announcement by the Trump administration of its intention to impose reciprocal tariffs on most countries only occurred on April 2nd, after the end of Q1.

The most significant boost to the BDI from macroeconomic components in Q1 emanated from the less negative differential between the PPI and CPI inflation rates, which could be interpreted as signalling a slight improvement in business profit margins.



Essentially, South Africa's GDP growth disappointed in Q1. Following the dissipation of load-shedding nine months earlier and the formation of a Government of National Unity (GNU) in June last year, there were hopes of resultant structural reform to lift South Africa's economic growth rate.

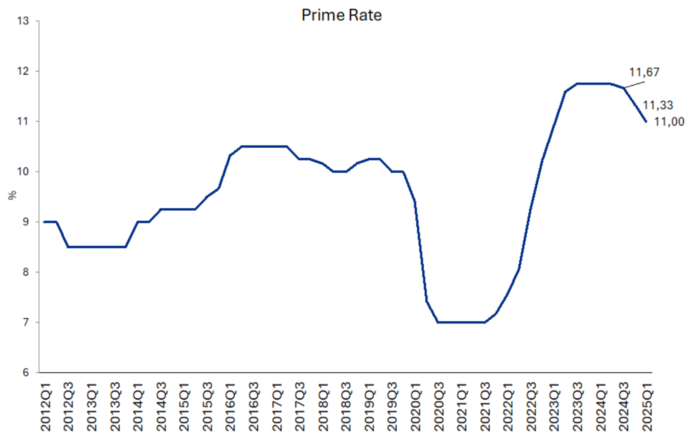
The economy, however, was conspicuous in not seeing a meaningful improvement in economic growth. In Q1, q-o-q seasonally adjusted growth was barely positive, at 0.1%. Had it not been for a marked 15% increase in agricultural output, the economy would have recorded negative q/q growth. Especially disappointing was the decline yet again in gross fixed capital formation (GFCF).



Source: Stats SA

Furthermore, the decrease in GFCF was fairly broadly based, with most of the areas of GFCF posting declines. Without any meaningful turnaround in the declining trend of investment into the South African economy, be it from domestic or international sources, it is difficult to see how South Africa's economic growth trajectory can lift off from levels of little more than 1% on a sustainable basis.

In contrast, consumption expenditure continued to grow, albeit more slowly than before. Without a doubt, consumption received some boost from the significant falloff in inflation and the associated -0.5% reduction in domestic interest rates in the middle of last year.

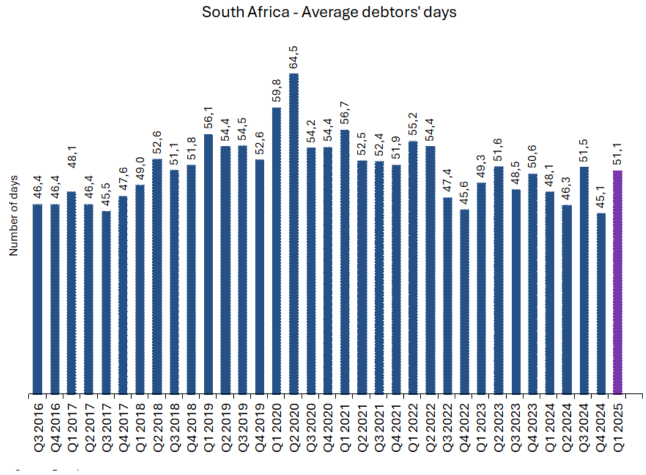


Source: South African Reserve Bank

The introduction of a two-pot retirement scheme that allowed persons with retirement funds to draw up to a third of their retirement capital prior to actual retirement also boosted spending. At the same time, it is important to emphasise that there was no boom in consumer spending, just mildly positive growth.

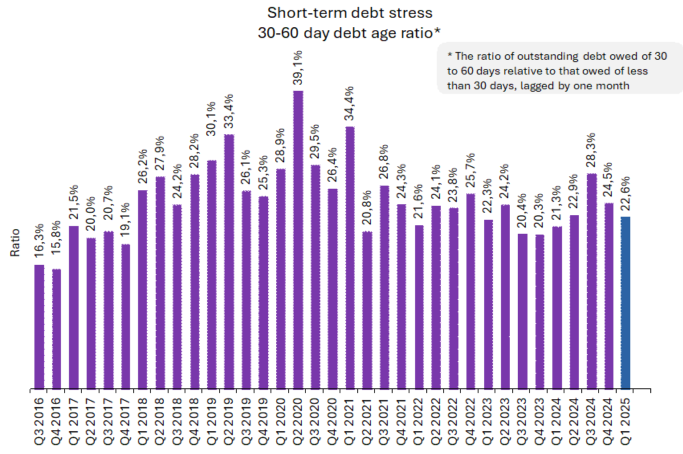
Business debt metrics in Q1 2025

The average number of outstanding debtors' days increased in Q1 to 51.1 from 45.1 in Q4 of 2024.



However, the specific metrics used to calculate the BDI showed improvements.

The **30 to 60 days ratio**[1]declined to 22.6% in Q1, from 24.6% in Q4.

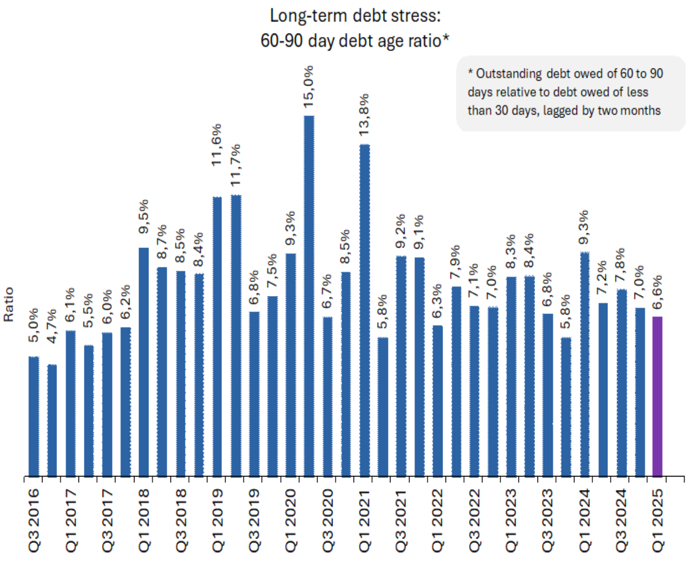


Source: Experian

Similarly, the **60 to 90 ratio**[2]also improved to 6.6% from 7.0%, respectively.

[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*

[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*

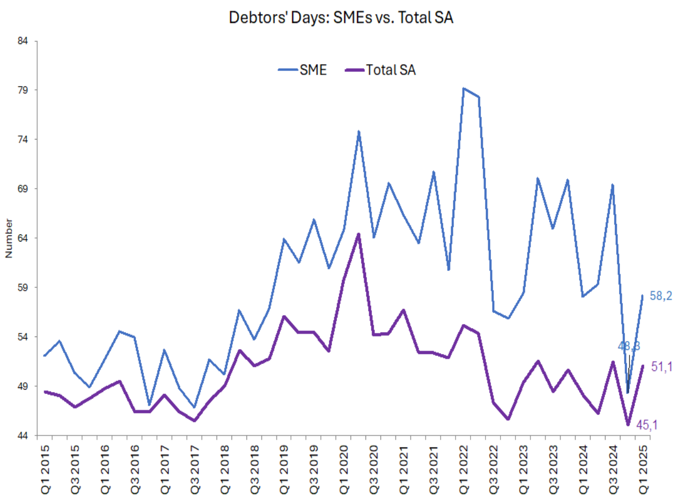


Source: Experian

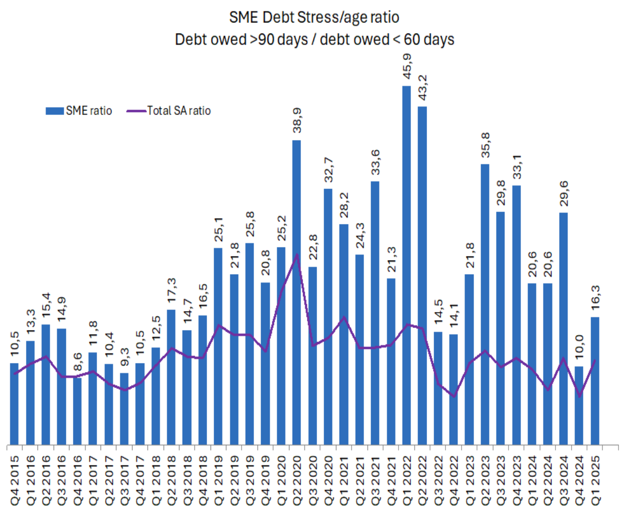
BDI by company size

The main contributor towards the fact that the overall number of debtors' days increased despite these improvements in the underlying debtor position was a marked increase in outstanding debtors' days amongst small and medium-sized enterprises to 58.2 days on average from 48.3 days in Q4.

It is clear that it is the small business sector that is taking the most strain in the current business environment, and this would appear to be a major contributor towards the marked increase in unemployment in Q1, to 32.9%, from 31.9% in the previous quarter.

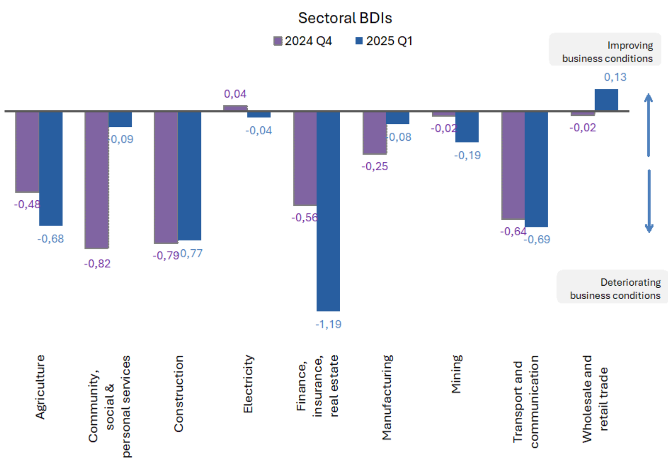


The SME debt stress ratio[3] deteriorated to 16.3% in Q1 from 10.0% in Q4 of 2024.



BDI by sector

On a sectoral basis, there were significant variances in the BDIs, with four out of the nine sectors seeing an improvement in the index and five deteriorating. The majority of sectors, however, still carried negative indices, suggesting some decline in business debt conditions.

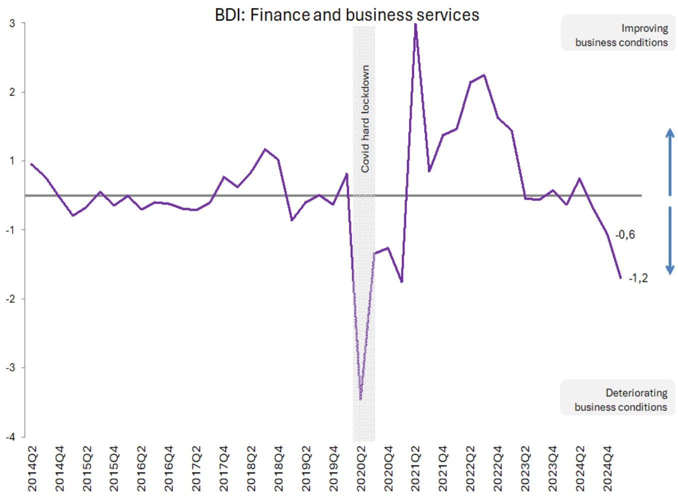


The only positive measurement was regarding Wholesale and retail trade. This, together with community and personal services and Manufacturing

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

were the sectors that recorded the most significant improvements.

In contrast, the biggest deterioration was in Finance and business services, a sector containing several small businesses.



The changes in the majority of other sectors were relatively small.

One can only surmise that the main influences on the changes in the BDI were related to the Experian data on outstanding debtors' days and the inflation spread, rather than on GDP growth and other variables used to measure business debt conditions.

Outlook

Unfortunately, there is little reason to believe that business debt conditions are about to improve markedly.

Although the incidence of load-shedding has faded, the economy remains hamstrung by several other structural impediments to growth. Logistical bottlenecks still abound, even if there is mild evidence to suggest that a bit of progress is being made to alleviate these.

However, there is still considerable crime, especially of a kind that inhibits large-scale infrastructural investment needed to improve service delivery. At least in part, this is one of the factors contributing to the continued decline in GFCF, which is inhibiting major economic improvement.

The other impediment to such improvement is the failure of municipal government to lift competence and efficiency, and its associated ability to make appropriate investment decisions.

A perennial lack of skilled manpower throughout much of the economy continues to hamstring its ability to grow faster. The relative dearth and weakness of small business activity put South Africa's economy at a disadvantage compared to its emerging market peers.

The concentration of power in the hands of government, organised labour and big businesses in many respects inhibits the emergence of a vibrant small business sector.

Since small firms generate far greater employment proportionately than large companies, this contributes to intransigence in tackling high unemployment. Onerous government regulation tends to stifle the private sector's economic innovation and resilience.

There are also emerging international constraints over and above these domestic impediments to growth. The change in leadership of the US has ushered in an era of increased political polarisation both within and between countries.

Geopolitically, the environment is fraught with vicious contests that inhibit the attainment of higher growth. The imposition of higher tariffs on imports around the world is raising the fear of increased inflation and sharply diminished economic growth.

South Africa's economy is caught in the crossfire of international contestation. Under such circumstances, one of the more promising areas of domestic economic success, namely the sustainability of a positive trade surplus, could be under threat.

With a fiscal situation that is not deteriorating unduly rapidly, an associated firmness in the exchange rate is contributing to a situation where inflation is coming in lower than expected.

Under the circumstances, domestic short-term interest rates could support economic activity and improve creditworthiness in the year ahead.

However, until international investors can be convinced of the economy's ability to grow faster and address the demands for social upliftment and aid without jeopardising the fiscus, longer-term interest rates are likely to remain elevated, contributing towards an escalating debt servicing burden on the part of the South African government.

Under the circumstances, one should not find it too surprising to see the BDI remaining on a marginally negative path in the foreseeable future. Our model sees the BDI remaining flat through Q2, declining marginally.

Such a situation does not reflect a major deterioration in business debt conditions. At the same time, the model does not foresee any meaningful improvement in business debt conditions any time soon.

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 principle 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.