Quarterly Bulletin

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South African Reserve Bank

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Quarterly Economic Review

Introduction

Global economic growth continued to slow in the early part of 2008 against the backdrop of ongoing financial market turmoil and rising prices of energy and food. The moderation in growth appeared to be more pronounced among the advanced economies, with emerging-market and developing economies displaying more resilience and continuing to grow at a brisk pace amid the current commodity price boom. In sub-Saharan Africa economic activity remained strong, supported by favourable commodity prices and high capital formation, which were encouraged by, and simultaneously contributed to, a lengthy period of economic expansion. However, growth in the emerging-market economies is unlikely to completely escape the global slowdown, suggesting some downward risk to the growth outlook.

Global inflationary pressures increased during the past year due to rising food and energy prices. Consumer price inflation in many emerging-market countries exceeded those in developed countries, not least due to the larger weight of food in the consumer price basket of the former group of countries.

In the first half of 2008 policy-makers in many countries faced the challenge of weaker growth and intensifying inflationary pressures. Monetary policy reactions were not uniform, ranging from the aggressive lowering of interest rates in countries such as the United States, to the tightening of policy in several other countries.

After approximately four years of above-trend economic expansion in South Africa, growth in real gross domestic product (GDP) slowed abruptly to an annualised rate of only 2,1 per cent in the first quarter of 2008. This slowdown was widespread and reflected both frictions from the supply side and a moderation in some elements of aggregate demand. Real output in the primary sector contracted as the mining sector had to cope with electricity rationing. At the same time, the secondary sector expanded at a slower pace, with the real value added by the manufacturing subsector contracting due to the adverse impact of power shedding, weaker global demand, slower growth in real incomes, relatively high interest rates and high input costs. The strong growth in the real value added by the tertiary sector, which underpinned much of the growth momentum in the domestic economy over the past eight years, also slackened somewhat as retailers' confidence levels fell to a five-year low in the first quarter of 2008. This signalled a tougher business environment with subdued consumer confidence originating from higher indebtedness of the household sector, partly due to higher interest rates.

In contrast to the slowdown in real GDP, annualised growth in aggregate real gross domestic expenditure accelerated considerably in the first quarter of 2008 from virtually no growth in the preceding quarter. This increase could be attributed to a rebound in inventory accumulation and stronger growth in final consumption expenditure by the government and in fixed capital formation.

Among the main expenditure components, only real final consumption expenditure by households exhibited slower growth in the first quarter of 2008, reflecting higher debt financing cost and a slowdown in households' real disposable income due to higher inflation. Real final consumption expenditure by general government accelerated in the first quarter of 2008 as a result of increased spending on final goods and services as the South African Navy took delivery of the third and last submarine under the Strategic Defence Procurement Programme.

Real gross fixed capital formation accelerated moderately, led mainly by an increase in capital spending by general government. Real capital outlays by public corporations and the private sector moderated somewhat in the first quarter of 2008 on account of subdued capital spending in the manufacturing, transport and communication as well as finance sectors.

From depletion in the fourth quarter of 2007, real inventory investment made a sudden reversal to a rebuilding of stocks in the first quarter of 2008. Steps were taken to replenish inventories in areas, such as coal, where stocks had fallen too low. Slower consumption expenditure, high import volumes and a decline in export volumes probably contributed to some involuntary accumulation of inventories.

The volume of merchandise exports shrank in the first quarter of 2008 alongside the general slowdown in global growth, although the demand for mining products remained strong. Mining output and exports were adversely affected by sporadic power shedding and electricity quotas, and the sector could not fully exploit the continued brisk demand for mining products. Simultaneously, the volume of imported goods rose, supported by lively domestic demand and the above-mentioned acquisition of a submarine.

The terms of trade improved considerably in the first quarter of 2008. The depreciation in the value of the rand and further increases in international crude oil prices pushed up the rand price of merchandise imports, but the renewed increase in international commodity prices – partly due to fears that South Africa's production of mining commodities would decline – caused export prices to accelerate at a much faster pace. Nevertheless, the movements in import and export volumes and J-curve effects of the depreciation of the rand more than offset the improvement in the terms of trade, resulting in a widening of the trade deficit. Net service and income payments to the rest of the world also rose further. Consequently, the deficit on the current account of the balance of payments widened to 9,0 per cent of GDP in the first quarter of 2008 – a level previously observed in the first quarter of 1982.

On the financial account a net outflow of capital was noted in the category for portfolio investment in the first quarter of 2008, partly in view of increased risk aversion by international investors in the wake of the financial market turbulence. In the categories for direct and other investment, net inflows of capital were registered, partly as a result of the acquisition of a 20-per-cent shareholding in a domestic bank by a non-resident bank.

Net capital inflows on the financial account of the balance of payments exceeded the absolute value of the external current-account deficit and, therefore, resulted in a further surplus on South Africa's overall balance of payments in the first quarter of 2008, although the surplus was smaller than in the preceding quarter. During the first quarter of 2008 the nominal effective exchange rate of the rand declined by approximately 20 per cent, partly due to increased risk aversion by international investors towards emerging markets and negative investor perceptions regarding South Africa's growth prospects following electricity supply outages. During April and May 2008 the exchange rate of the rand strengthened, supported by the increase in domestic interest rates, which was effected against the background of low short-term interest rates in the United States.

Growth in employment did not match the robust growth in economic activity in recent years and decelerated notably during the second half of 2007. The slower pace of employment gains was mainly caused by a slowdown in employment growth in the private sector, where job losses were recorded in a number of sectors. By contrast, robust employment growth was maintained in the public sector. Wage settlements continued to edge higher in 2007 and early 2008, but sustained increases in productivity helped to moderate the rate of increase in nominal unit labour cost.

Inflationary pressures continued to rise throughout 2007 and the first four months of 2008. Soaring food prices, increasing petrol prices on account of further surges in the price of crude oil, and domestic supply constraints in certain sectors kept inflationary pressures high. Both producer and consumer prices maintained double-digit rates of inflation in April 2008.

Growth in the broad money supply, M3, remained robust, buoyed by medium to longer-term deposits as uncertainty in the financial markets and relatively attractive domestic interest rates supported the precautionary demand for such deposits. A moderation in the growth in total loans and advances extended to the private sector by the banking sector was recorded as the impact of rising interest rates became evident. A main contributor to the growth in loans and advances was the corporate sector, reflecting robust fixed investment and infrastructural spending.

Having left the repurchase rate unchanged at its January 2008 meeting, the Monetary Policy Committee (MPC) increased the repurchase rate to 12,0 per cent by raising the rate by 50 basis points on each occasion at its April and June 2008 meetings. This emanated from the deteriorating inflation outlook partly due to a series of supply-side shocks of extended duration which started to evolve into generalised domestic inflation pressures. Since the beginning of the monetary policy tightening cycle in June 2006, the repurchase rate had been raised by a cumulative 500 basis points, with other money-market interest rates broadly mirroring these increases.

The rate of increase in residential real-estate prices decelerated further in 2008, in response to reduced affordability due to higher financing costs and lower personal disposable income.

Companies listed on the JSE Limited (JSE) raised equity capital in the domestic and international primary share markets amounting to R29,3 billion in the first four months of 2008. This was 37 per cent less than the amount raised during the same period in 2007, possibly due to higher volatility in global share markets and the subsequent repricing of risk. Non-resident investors' interest in the South African share market waned substantially in the first two months of 2008, as equity markets declined in response to continued fears of a slowdown in global growth. From March 2008 sentiment improved and, coupled with high commodity prices and the depreciation of the rand, record-high domestic share prices were recorded.

Fiscal policy remained supportive of monetary policy. The activities of the non-financial public sector resulted in a cash surplus in fiscal 2007/08, as significant increases in expenditure were more than fully matched by increases in revenue. National government tax revenue was buoyed by the considerable increase in both company and personal income tax collections.

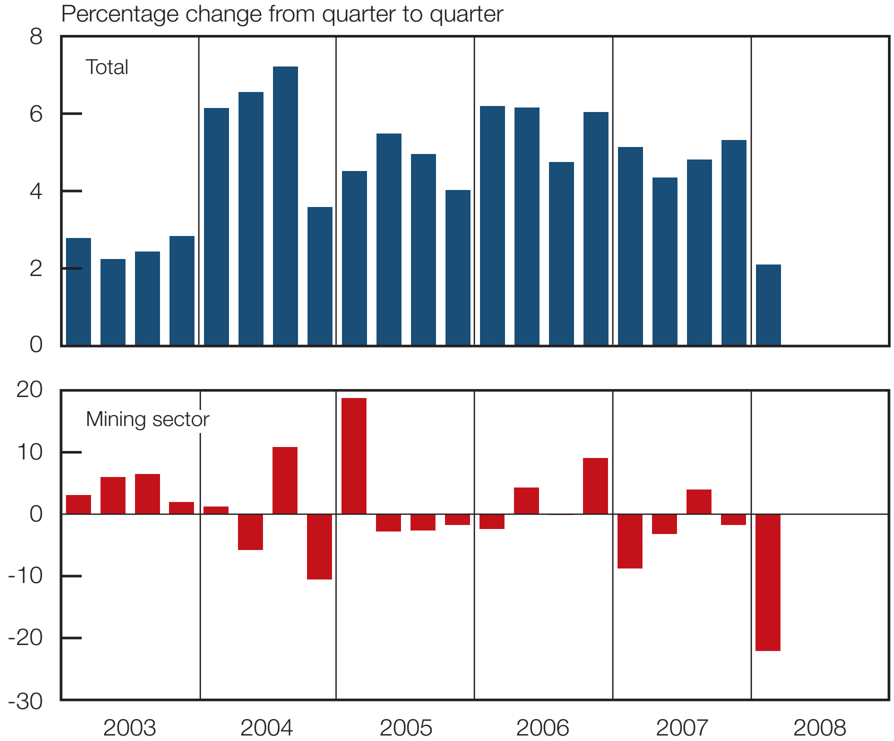
Domestic economic developments

Domestic output[1]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Growth in South Africa's *real gross domestic product* slowed markedly from 5,3 per cent in the fourth quarter of 2007 to 2,1 per cent in the first quarter of 2008. Domestic supply-side constraints and frictions played a significant role in this slowdown, which also coincided with more subdued growth in the international economy in the wake of the financial market turmoil. The slower pace of growth in the domestic economy in the first quarter of 2008 was widespread. In addition to a decline in real output by the primary sector, growth in real value added by the secondary and tertiary sectors lost considerable momentum over the period.

Real gross domestic product



Seasonally adjusted annualised rates

Following a slowdown in the fourth quarter of 2007, real value added by the *primary sector* contracted at an annualised rate of 13,0 per cent in the first quarter of 2008. Even though the real output in the agricultural sector continued growing apace, it could only partly counter the impact of the sharp decline in the real value added by the mining sector.

Growth in real value added by the *agricultural sector* accelerated from an annualised rate of 10,5 per cent in the fourth quarter of 2007 to 12,5 per cent in the first quarter of 2008. Higher livestock production and an increase in the output of field crops provided impetus to this further expansion.

Subsequent to a decline of 1,7 per cent in the fourth quarter of 2007, real value added by the *mining sector* contracted by 22,1 per cent in the first quarter of 2008. This further sizeable decline in growth in real value added by the mining sector occurred predominantly in the subsectors for platinum, gold and diamond mining. Lower production volumes were directly related to Eskom's sporadic power shedding in the opening months of 2008 and the subsequent restricted supply of electricity to the mining sector. In addition, in the first quarter of 2008 production at certain mines was further constrained by flooding and temporary shaft closures in the wake of accidents. By contrast, the real value added by the coal-mining industry increased over the same period because coal mines were affected to a lesser extent by power outages and furthermore experienced heightened demand from power stations to replenish their coal stockpiles.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

	2007					2008
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	-5,4	0,2	4,5	1,6	-0,4	-13,0
Agriculture	3,9	9,0	5,8	10,5	0,3	12,5
Mining	-8,8	- 3,1	4,0	-1,7	-0,6	-22,1
Secondary sector	7,8	2,0	0,6	8,1	5,8	1,0
Manufacturing	4,5	-0,1	-2,5	8,2	3,9	-1,0
Tertiary sector	5,6	5,9	6,8	5,1	5,7	4,2
Non-agricultural sector	*5,1*	*4,3*	*5,1*	*5,4*	*5,3*	*1,7*
Total	5,1	4,4	4,8	5,3	5,1	2,1

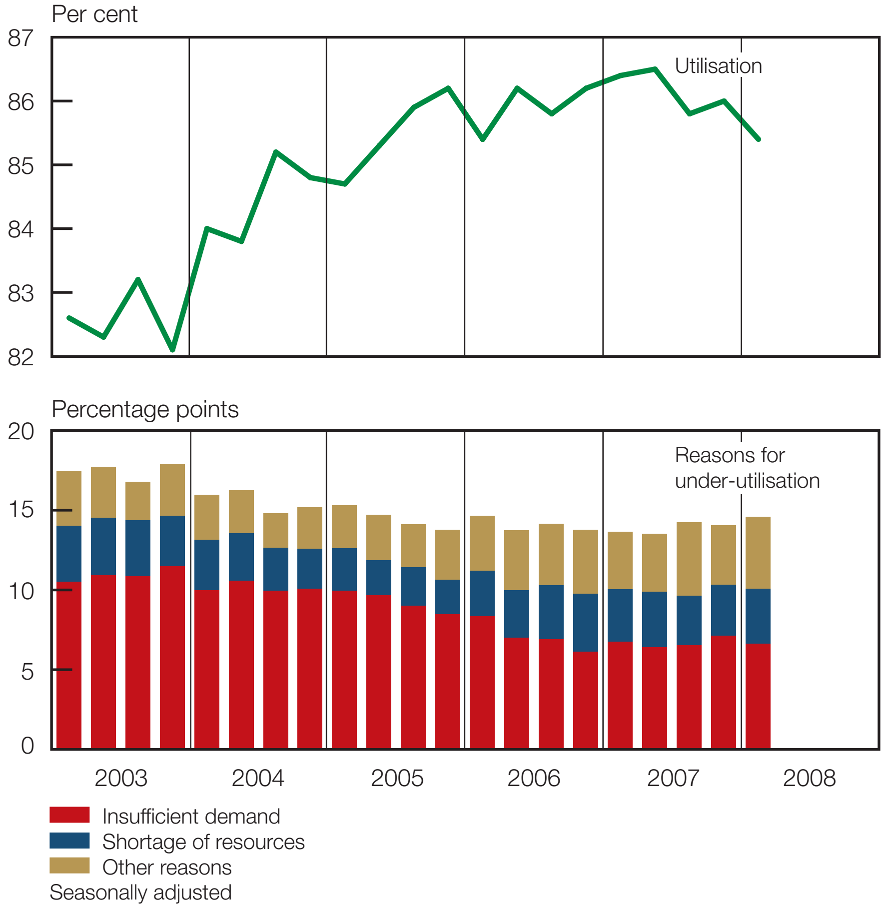
Declines in real output by the manufacturing sector and the sector that supplies electricity, gas and water underpinned a deceleration in growth in real value added by the *secondary sector,* from an annualised rate of 8,1 per cent in the fourth quarter of 2007 to only 1,0 per cent in the first quarter of 2008.

The quarter-to-quarter pace of change in real *manufacturing* production reversed from a strong positive growth rate of 8,2 per cent in the fourth quarter of 2007 to a rate of contraction of 1,0 per cent in the first quarter of 2008. Power shedding, weaker global demand, slower domestic real income growth, relatively high interest rates and high input costs weighed on this sector. This decline was fairly broad-based and occurred in the subsectors responsible for the production of textiles, clothing and footwear, petroleum, chemical products, rubber and plastic products, and motor vehicles, parts and accessories. Contrary to this, growth in real value added by the subsectors producing glass and non-metallic mineral products, and electrical machinery and equipment continued to accelerate. However, capacity constraints in the manufacturing sector eased somewhat as the utilisation of production capacity declined from 86,0 per cent in the final quarter of 2007 to 85,4 per cent in the first quarter of 2008, with respondents indicating that a slowdown in demand had contributed significantly to this decline.

Growth in real value added by the *construction sector* accelerated from an annualised rate of 14,2 per cent in the fourth quarter of 2007 to 14,9 per cent in the first quarter of 2008 mainly due to increased activity in civil construction works, while growth in the demand for new residential buildings petered out.

In the *sector supplying electricity, gas and water*, real value added contracted further at a rate of 6,2 per cent in the first quarter of 2008, following an annualised decline of 1,8 per cent recorded in the preceding quarter. The decline in electricity generated in the first quarter of 2008, as mentioned by Eskom, was due to unplanned plant maintenance and not only

Utilisation of production capacity in manufacturing and reasons for under-utilisation



insufficient, but also soggy coal reserves due to high rainfall. Muddied coal tends to clog conveyor systems and weigh down power generation.

The pace of growth in the real value added by the *tertiary sector* continued to slow from its most recent peak of 6,8 per cent in the third quarter of 2007 to 4,2 per cent in the first quarter of 2008. Strong growth in the real value added by the tertiary sector, which accounts for about 66 per cent of economic activity in South Africa, has underpinned the growth momentum in the domestic economy since 2000. The growth rate in the tertiary sector averaged 4,9 per cent per annum during the period 2000 to 2007.

Growth in the real value added by the *trade sector* accelerated from an annualised rate of 2,1 per cent in the fourth quarter of 2007 to 3,6 per cent in the first quarter of 2008, reflecting higher output in retail and wholesale trade. Activity in the wholesale trade sector in particular was fairly strong. Confidence levels among retailers nevertheless dropped to a five-year low in the first quarter of 2008, indicating that a tougher business environment is expected in this subsector. Real value added by the motor trade declined due to the extended holidays, low consumer confidence and higher indebtedness of the household sector.

The real value added by the *transport, storage and communication sector* broadly maintained its growth momentum, rising at annualised rates of 3,6 per cent in the fourth quarter of 2007 and 3,5 per cent in the first quarter of 2008.

Growth in the real value added by the *finance, insurance, real-estate and business services sector* decelerated from 8,5 per cent in the fourth quarter of 2007 to 4,9 per cent in the first quarter of 2008. This slowdown was fairly broad-based, being evident in the banking sector, insurance, real-estate and in most of the business services sectors.

The real value added by *general government* increased at an annualised rate of 4,6 per cent in the first quarter of 2008, higher than the rate of 4,4 per cent attained in the fourth quarter of 2007.

Despite the slowdown in gross domestic production, the rate of growth in *real gross national income* picked up considerably, accelerating from 1,5 per cent in the fourth quarter of 2007 to 10,7 per cent in the first quarter of 2008. A strong improvement in the terms of trade as well as lower primary income payments to the rest of the world contributed to this improvement.

Domestic expenditure

In contrast to domestic production, which lost some momentum, aggregate *real gross domestic expenditure* accelerated from virtually no growth in the fourth quarter of 2007 to an annualised rate of 14,2 per cent in the first quarter of 2008. This increase could first and foremost be attributed to a strong rebound in the pace of inventory accumulation, but was supported by increased growth in final consumption expenditure by general government and fixed capital formation.

Real gross domestic expenditure

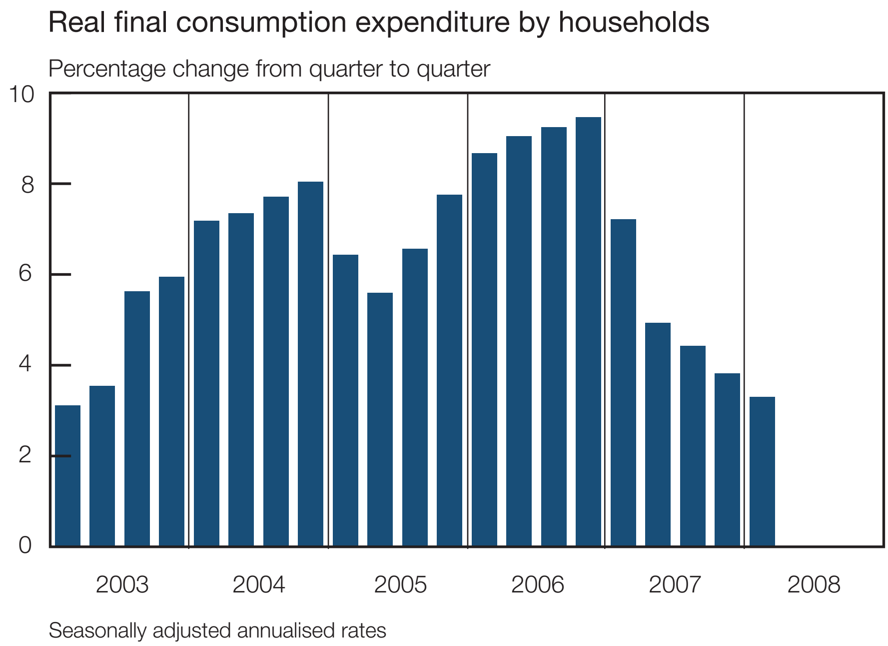
Percentage change at seasonally adjusted annualised rates

	2007					2008
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure:						
Households	7,2	4,9	4,4	3,8	7,0	3,3
General government	14,0	-3,8	8,7	1,2	5,0	12,8
Gross fixed capital formation	17,2	11,2	12,9	14,1	14,8	14,7
Domestic final demand	**10,2**	**4,4**	**6,7**	**5,3**	**8,0**	**7,1**
Change in inventories (R billions)*	12,9	9,1	6,5	-8,7	4,9	9,8
Gross domestic expenditure	**6,4**	**3,2**	**5,4**	**0,2**	**6,0**	**14,2**

* At constant 2000 prices

Growth in *real final consumption expenditure by households* decelerated from an annualised rate of 3,8 per cent in the fourth quarter of 2007 to 3,3 per cent in the first quarter of 2008. This moderation in growth was due to a contraction in spending on durable goods while expenditure on semi-durable and non-durable goods, and on services accelerated over the period. Year-on-year growth in final consumption expenditure moderated to 3,9 per cent in the first quarter of 2008, similar to growth rates previously observed in 2003.

Having increased at a sluggish pace in the final quarter of 2007, real final consumption expenditure by households on *durable goods* declined at a rate of 8,1 per cent in the first quarter of 2008 reflecting, in part, the impact of higher debt financing cost. Household spending on motor vehicles and durable recreational and entertainment goods declined over the period. Increased outlays on furniture and household appliances could not compensate for the lower spending in the other categories of durable expenditure.



Real spending on *semi-durable goods* increased at rates of 8,4 per cent in the fourth quarter of 2007 and 10,5 per cent in the first quarter of 2008, mainly on account of higher real outlays on household textiles and furnishings, and recreational goods. The growth was also underpinned by increased expenditure on clothing and footwear, although with much less upward momentum than in 2007.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

	2007					2008
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	10,7	-15,7	8,9	2,5	5,2	-8,1
Semi-durable goods	11,9	22,7	3,5	8,4	16,0	10,5
Non-durable goods	6,4	3,9	5,2	1,9	5,5	3,0
Services	5,0	6,0	2,9	4,0	5,4	4,3
Total	**7,2**	**4,9**	**4,4**	**3,8**	**7,0**	**3,3**

After growth in real expenditure by households on *non-durable goods* slowed from 5,2 per cent in the third quarter of 2007 to 1,9 per cent in the fourth quarter, it accelerated to 3,0 per cent in the first quarter of 2008. Household consumption of non-durable household and recreational goods gained some momentum, while spending on food, beverages and tobacco, household fuel and power, and medical and pharmaceutical products decelerated in the first quarter. Prices of many of these items increased substantially and households seemed to be reducing their purchases in response. Growth in households' real expenditure on *services* accelerated marginally in the first quarter of 2008.

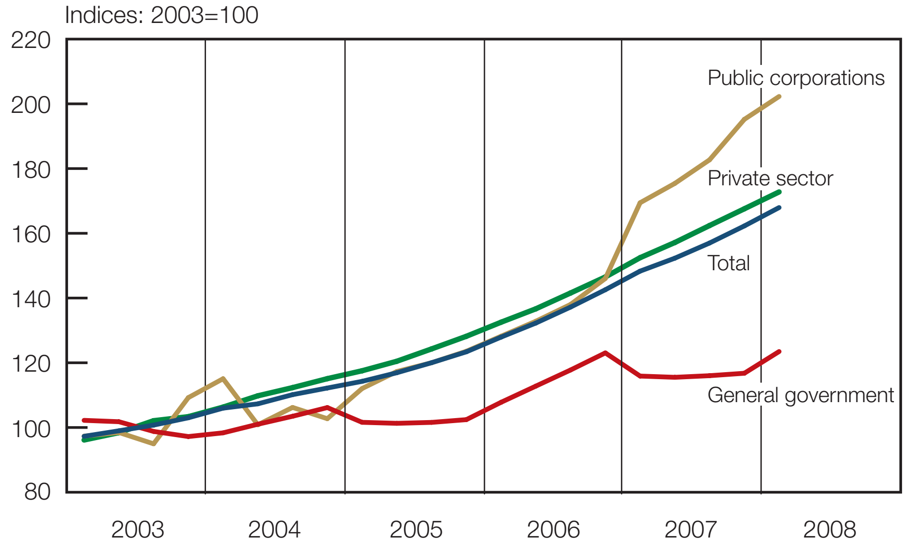
Slower growth in real consumer spending by households was the result of a slowdown in the *real disposable income* of households due to higher inflation and the higher interest rate environment. Growth in real disposable income of households tapered off throughout 2007 from an annualised rate of 7,5 per cent in the first quarter of 2007 to 3,3 per cent in the fourth quarter and even further to 2,7 per cent in the first quarter of 2008.

After recording an annualised increase of 1,2 per cent in the fourth quarter of 2007, growth in *real final consumption expenditure by general government* accelerated to 12,8 per cent in the first quarter of 2008. The higher level of expenditure in the first quarter of 2008 resulted from increased spending on final goods and services and included an arms procurement delivery.

Annualised growth in *real gross fixed capital formation* accelerated moderately from 14,1 per cent in the fourth quarter of 2007 to 14,7 per cent in the first quarter of 2008, reflecting increased capital spending by all three institutional groupings – the private sector, public corporations and general government. Consequently, the ratio of gross fixed capital formation to gross domestic product rose from 21,0 per cent in the fourth quarter of 2007 to 21,5 per cent in the first quarter of 2008.

Real capital outlays by the *private sector* rose briskly at rates of 13,4 per cent in the fourth quarter of 2007 and 13,0 per cent in the first quarter of 2008. While subdued capital spending was recorded in the manufacturing, transport and communication as well as in the finance sectors in the first quarter, private contractors increased their capital outlays on the Gautrain project despite heavy rainfalls which partly hampered operations over the period. Farmers raised their capital expenditure in response to favourable agricultural product prices and crop expectations, alongside fears of future price increases of agricultural machinery in the wake of the depreciation in the external value of the rand.

Real gross fixed capital formation



Even though the growth in real fixed capital formation by *public corporations* continued at a robust annualised rate of 15,3 per cent in the first quarter of 2008, it was considerably lower than the brisk expansion of more than 30 per cent in 2007. Growth in real capital outlays in the sector supplying electricity, gas and water slowed substantially from 63,6 per cent in the fourth quarter of 2007 to 10,3 per cent in the first quarter of 2008 as a high base for expenditure had already been reached. The de-mothballing and upgrading of existing power stations and expansion of capacity continued.

The notable increase in real capital outlays by *general government* from the fourth quarter of 2007 to the first quarter of 2008 was attributable to capital expenditure by all three tiers of government, but in particular provincial government. The upgrading and expansion of provincial infrastructure gained further momentum.

Real inventory investment made a sudden reversal from significant inventory depletion in the fourth quarter of 2007 to substantial inventory accumulation in the first quarter of 2008. This inventory accumulation was particularly evident in the manufacturing sector. Slower consumption expenditure and high import volumes partly explain this involuntary accumulation of total inventories.

Factor income

The growth over one year in *total nominal factor income* decelerated from 14,2 per cent in the fourth quarter of 2007 to 13,8 per cent in the first quarter of 2008. This was the result of slower growth in compensation of employees, while growth in operating surpluses of business enterprises increased moderately over the period.

The year-on-year growth in *compensation of employees* slowed from 12,3 per cent in the fourth quarter of 2007 to 10,9 per cent in the first quarter of 2008. A moderation in growth in compensation of employees was evident in all sectors of the economy with the exception of the sector providing financial, insurance, real-estate and business services.

Although domestic consumer demand conditions as well as global demand were subdued, the growth over one year in the *gross operating surpluses of business enterprises* increased slightly from 16,2 per cent in the fourth quarter of 2007 to 16,6 per cent in the first quarter of 2008. The favourable terms of trade experienced by South Africa in the first quarter of 2008 enhanced the gross operating surpluses of business enterprises in the primary sector. The gross operating surpluses in the manufacturing, electricity and trade sectors also inched higher. This more than neutralised the slower growth in the gross operating surpluses of the other sectors of the economy.

Gross saving

Gross saving as a percentage of gross domestic product recovered to 13,7 per cent in the first quarter of 2008, following the downward trend from 15,1 per cent in the second quarter of 2007 to 13,5 per cent in the fourth quarter of the same year. The improved saving performance was mainly attributable to the corporate sector and general government, whereas the saving ratio of the household sector declined somewhat. Notwithstanding the improvement in the national saving ratio, South Africa's dependency on foreign capital increased to a new record high of 39,5 per cent in the first quarter of 2008 on account of continued strong expansion of fixed capital investment.

Expressed as a ratio of gross domestic product, gross saving by the *corporate sector* increased from 9,7 per cent in the fourth quarter of 2007 to 9,8 per cent in the first quarter of 2008. This could be ascribed to somewhat faster growth in the gross operating surpluses of business enterprises relative to dividend payments in the latter period.

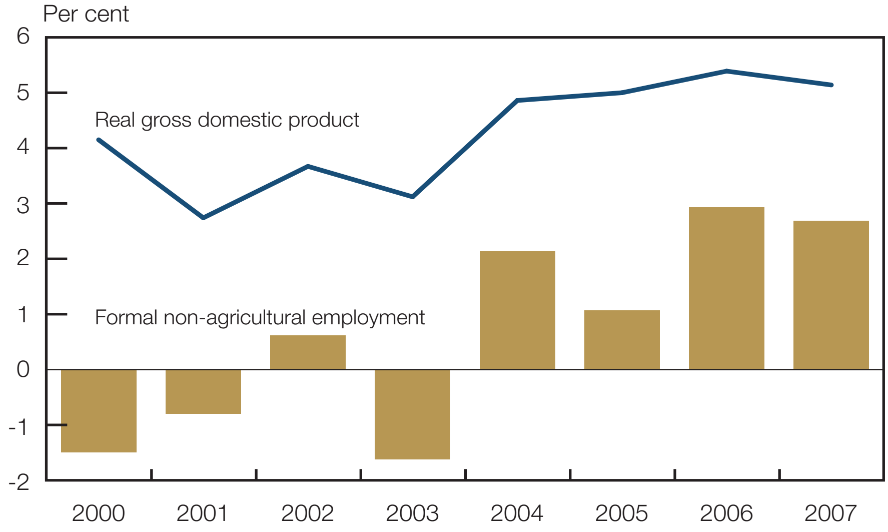
Gross saving by *general government* as a percentage of gross domestic product improved to 2,7 per cent in the first quarter of 2008 from 2,5 per cent in the fourth quarter of 2007. Despite the moderation in real economic growth, strong increases in several tax categories buoyed the current income of government, and more than neutralised increased spending on consumable goods and services by general government, which was boosted by arms procurement deliveries in the first quarter of 2008.

The gross saving ratio of the *household sector* declined marginally from 1,3 per cent in the fourth quarter of 2007 to 1,2 per cent in the first quarter of 2008. The moderation in the household's consumption expenditure was more than offset by slower growth in the disposable income of households, inhibiting their ability to accumulate savings.

Employment

Despite having followed a similar trend, growth in employment did not match the robust growth in economic activity during recent years. The *average level* of formal non-agricultural employment rose by 2,7 per cent in 2007, following increases of 2,9 per cent in 2006 and 1,1 per cent in 2005. However, in the second half of 2007, employment growth decelerated considerably according to the enterprise-based *Quarterly Employment Statistics* (QES) survey by Statistics South Africa (Stats SA).

Growth in real gross domestic product and formal non-agricultural employment



Employment in the formal non-agricultural sector of the economy increased at a seasonally adjusted and annualised rate of 1,7 per cent in the third quarter of 2007 followed by 1,2 per cent in the fourth quarter – the lowest rate of increase in almost three years. The slower pace of employment gains in the third and fourth quarter of 2007 was mainly caused by a slowdown in employment growth in the private sector, as employment growth in the public sector remained relatively strong.

Enterprise-surveyed formal non-agricultural employment: Changes in 2007

Quarter-to-quarter seasonally adjusted and annualised rates

Sector	1st qr	2nd qr	3rd qr	4th qr
Mining	7,1	9,5	8,2	0,6
Gold mining	0,4	6,4	3,8	2,0
Non-gold mining	10,8	11,2	10,5	0,0
Manufacturing	-2,7	0,8	-3,4	-1,2
Electricity supply	10,5	-4,5	5,6	10,8
Construction	16,4	1,9	-2,0	-3,1
Trade, catering and accommodation	5,1	5,0	1,9	-2,6
Transport, storage and communication	-6,0	-3,7	-0,2	-1,1
Financial intermediation and insurance	5,7	2,1	4,4	4,2
Community, social and personal services	-8,0	5,3	-9,9	-0,8
Total private sector	**3,3**	**3,0**	**0,9**	**0,0**
National, provincial and local government	7,3	-1,0	5,2	6,1
Public-sector enterprises	6,1	-0,6	2,9	1,5
Total public sector	**7,1**	**-1,0**	**4,9**	**5,5**
Grand total	**4,0**	**2,2**	**1,7**	**1,2**

In the formal non-agricultural private sector, the average number of jobs rose by 2,4 per cent in 2007 compared with an increase of 3,0 per cent in 2006. In 2007 employment losses occurred in the manufacturing and the community, social and personal services sectors, while significant employment gains were registered in the mining and electricity supply sectors. However, measured over one quarter, the pace of private-sector employment growth decelerated markedly from an annualised 3,3 per cent in the first quarter of 2007 to no change in the fourth quarter. Employment losses were registered in the manufacturing, construction, community, social and personal services, and transport, storage and communication services sectors in the third and fourth quarter of 2007. There were also job losses in the trade, catering and accommodation services sector in the final quarter of 2007.

Public-sector employment growth advanced steadily over the past three years, namely, by 2,8 per cent in both 2005 and 2006 and by 3,7 per cent in 2007. In particular, local governments experienced robust growth in their staff complement in 2007, while employment growth in the public transport, storage and communication sector lagged somewhat. When measured over a period of one quarter and expressed at an annualised rate, public-sector employment growth picked up significantly from a rate of decrease of 1,0 per cent in the second quarter of 2007 to an increase of 5,5 per cent in the fourth quarter. The increase in public-sector employment opportunities occurred primarily at the level of local government, provinces as well as government enterprises. Employment in the public transport, storage and communication sector decreased at an annualised rate of 3,4 per cent in the final quarter of 2007, reflecting a contraction for the third consecutive quarter.

According to the September 2007 *Labour Force Survey* (LFS), a biannual household survey conducted by Stats SA, the total number of employed people increased by 434 000 in the year to September 2007. The unemployment rate, that is, the number of unemployed people relative to the economically active population, declined from 25,5 per cent in September 2006 to 23,0 per cent in September 2007 – significantly lower than the most recent high of 30,4 per cent recorded in 2002. As an early indication of employment trends in the opening months of 2008, the volume of job advertisement space in the print media, which is generally closely correlated with developments in formal non-agricultural employment, decreased by 10,0 per cent in the first quarter of 2008. Retailers, wholesalers and manufacturers surveyed in the first quarter also indicated that employment prospects deteriorated in the first quarter of 2008, signalling pressure on future employment growth.

Economically active and employed persons

Actual numbers (millions)

	September					
	2002	2003	2004	2005	2006	2007
Formal non-agricultural employment*	7,8	7,6	7,9	7,9	8,1	8,3
Total employed persons	11,2	11,4	11,6	12,3	12,8	13,2
Economically active population	16,2	15,6	15,8	16,8	17,2	17,2
Unemployment rate (per cent)	30,4	28,0	26,2	26,7	25,5	23,0

* *Quarterly Employment Statistics* numbers, average for the year

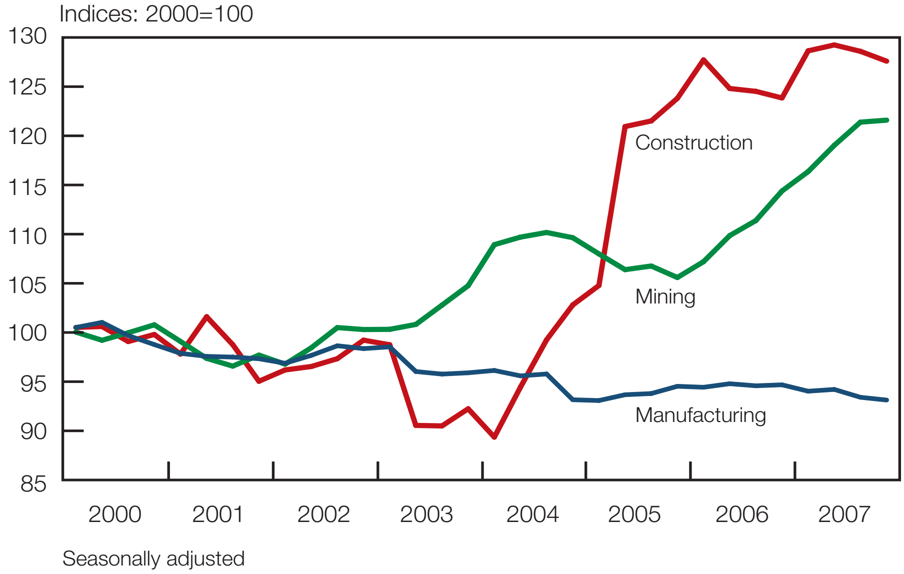
Sources: Statistics South Africa, *Labour Force Survey*, September 2007 and *Quarterly Employment Statistics*, December 2007

The Investec/Bureau for Economic Research (BER) *Purchasing Managers Index* (PMI) fell to well below the neutral level in February 2008, and came close to the lowest level which was recorded in March 2003. In the subsequent three months it regained some ground to settle at 49,1 in May. The deterioration in employment conditions in the manufacturing sector was confirmed by the PMI sub-index for employment, which remained, on balance, below the neutral level during the four months to May 2008. The BER *Manufacturing Survey*, covering the first quarter of 2008, also indicated deteriorating employment conditions in this sector as the majority of manufacturers reported a decrease in the number of factory workers employed.

Furthermore, in the first quarter of 2008 the FNB/BER *Consumer Confidence Index* receded to its lowest level in four years. The low level of consumer confidence, together with a dramatic decline in retailers' confidence as reported in the latest BER *Retail Survey*, most likely adversely affected employment growth in the first quarter of 2008. The decline in consumer confidence, the biggest decline between consecutive quarters in four years, was fuelled by higher interest rates, petrol and food prices, and rolling electricity blackouts since January 2008. These factors also contributed indirectly to the deterioration in employment growth in the *trade, catering and accommodation services sector* in the second half of 2007.

Employment growth in the *construction sector* contracted for the second consecutive quarter in the fourth quarter of 2007. Although the overall level of confidence in the residential and non-residential building sectors, surveyed by the *FNB/BER Building Confidence Index,* remained high in the fourth quarter of 2007, it decreased sharply across all sub-categories in the first quarter of 2008. Reasons cited included the electricity disruptions, weaker demand conditions and increasing competition in tendering in especially the residential building sectors which, in turn, continued to exert pressure on profit margins of contractors.

Construction, manufacturing and mining employment



The sustained high levels of electricity demand in the country and increased activity to de-mothball and expand capacity in the sector caused employment numbers in the *electricity sector* to increase at an annualised rate of 10,8 per cent in the fourth quarter of 2007. Despite the prolonged upswing in international commodity prices, employment growth in the fourth quarter slowed markedly in the *gold and non-gold mining sectors*.

Labour cost and productivity

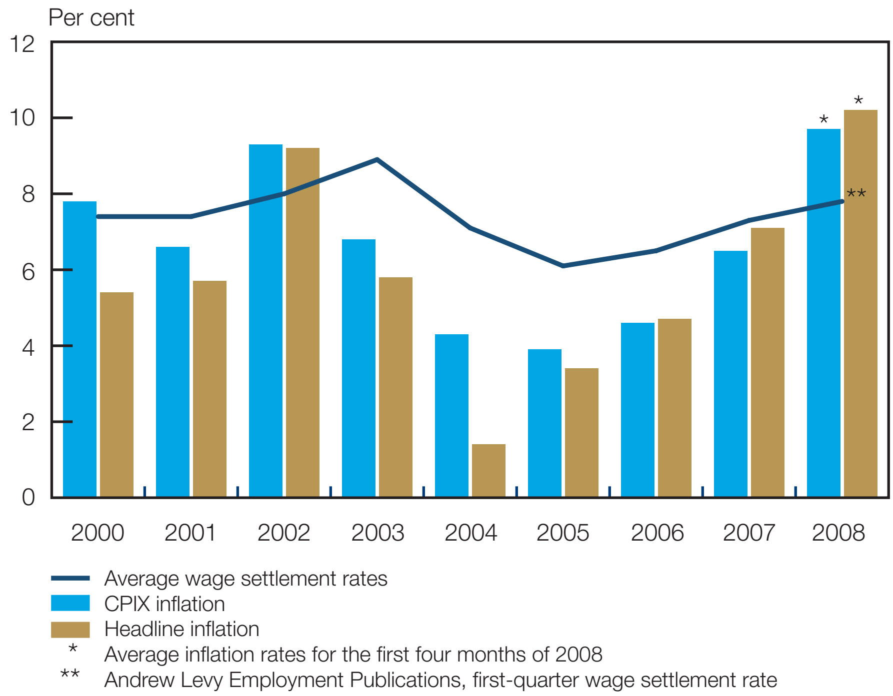
The rate of increase over four quarters in the *average nominal remuneration per worker* in the formal non-agricultural sector of the economy accelerated from 5,0 per cent in the first quarter of 2007 to 7,1 per cent in the third quarter, and remained at this rate in the fourth quarter. The levelling off in nominal wage growth in the fourth quarter of 2007 was partly confirmed by the decline in the Automated Clearing Bureau's figures for average salaries, wages and pensions per recipient deposited into the bank accounts of almost six million salaried and retired workers.

Annual average *private-sector remuneration* growth per worker amounted to 6,5 per cent in 2007, compared with a rate of 6,8 per cent recorded in the public sector. Measured over four quarters, the rate of increase in nominal remuneration per worker in the public sector accelerated from 7,0 per cent in the third quarter of 2007 to 9,8 per cent in the fourth quarter, outpacing that in the private sector. In the fourth quarter pronounced increases were registered in the provinces (12,4 per cent) and national departments (11,7 per cent).

Increases in remuneration per worker in excess of 10 per cent were also recorded in the construction, electricity, non-gold mining, transport, storage and communication sectors as well as in the community, social and personal services sector in the fourth quarter of 2007. By contrast, nominal wage growth per worker at a rate below the lower band (3 per cent) of the inflation target range occurred in the local government, manufacturing as well as the finance, insurance, real-estate and business services sectors.

According to the private-sector labour consultancy, Andrew Levy Employment Publications, the average rate of wage settlements amounted to 7,8 per cent in the first quarter of 2008, compared with the annual rate of 7,5 per cent in 2007.

Wage settlement rates and consumer prices

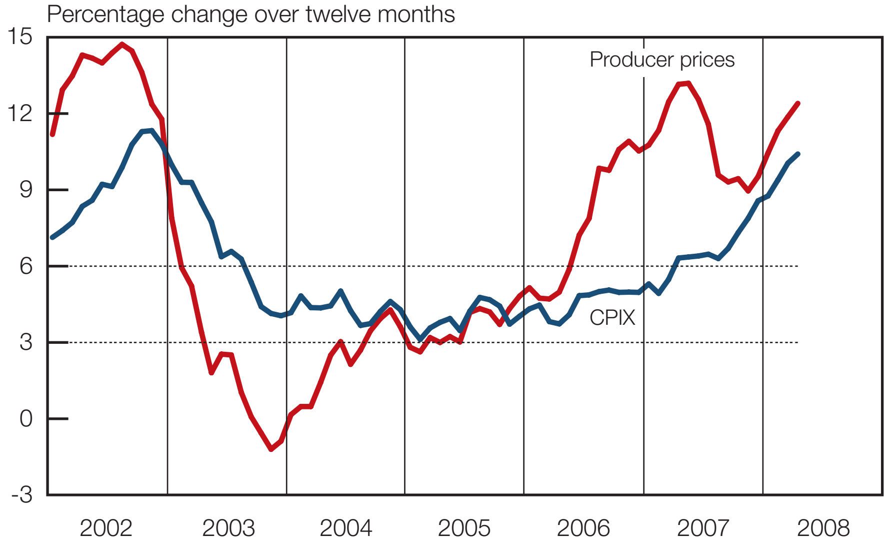


Output growth in excess of employment gains in the economy caused economy-wide labour productivity growth to accelerate from a year-on-year rate of 2,5 per cent in the third quarter of 2007 to 2,7 per cent in the fourth quarter. Owing to nominal remuneration growth, which remained broadly unchanged relative to the acceleration in output volumes of the formal non-agricultural sector, the year-on-year rate of increase in nominal unit labour cost decelerated marginally from 4,5 per cent in the third quarter of 2007 to 4,3 per cent in the fourth quarter.

Prices

Inflationary pressures continued to rise throughout 2007 and the first four months of 2008. Year-on-year headline producer price inflation returned to double-digit territory towards the end of 2007 and amounted to 12,4 per cent in April 2008, whereas CPIX inflation moved progressively higher above the upper band of the inflation target range, having first breached 6 per cent in April 2007. Year-on-year CPIX inflation amounted to 10,4 per cent in April 2008. Soaring food prices, a further surge in international prices of crude oil, the depreciation of the external value of the rand and domestic supply constraints in certain sectors, in particular, kept inflationary pressures high.

Prices



Producer price inflation moderated to a year-on-year rate of 9,3 per cent in August 2007 due to a slowdown in the rate of increase in the prices of especially base metals and imported agricultural food products in preceding months, but accelerated to 12,4 per cent in April 2008. The steady increase in producer price inflation reflected substantial increases in the prices of metal products, electrical machinery and apparatus as well as electricity.

Producer price inflation for imported commodities accelerated to 21,2 per cent in the year to April 2008, driven mainly by higher prices of food at both the agricultural and manufactured level, as well as higher prices of crude oil and other mining products, products of petroleum and coal, and basic chemical products. Movements in the exchange value of the rand also added some momentum to inflation in the prices of imported commodities.

Food price inflation at the producer level accelerated markedly from a twelve-month rate of 12,1 per cent in January 2007 to 20,2 per cent in March 2008 as both agricultural and manufactured food prices rose substantially. However, in the twelve months to April 2008 it slowed to 14,5 per cent. In fact, when measured over twelve months, the rate of increase in the prices of food at the agricultural level at its recent high amounted to 27,4 per cent in October 2007, mainly due to increases in the prices of grain, particularly wheat. In subsequent months it decelerated and amounted to a mere 6,1 per cent in April 2008. Manufactured food price inflation also accelerated markedly over the past year.

Furthermore, year-on-year CPIX consumer food price inflation accelerated from 7,8 per cent in March 2007 to 15,9 per cent in April 2008 as the prices of especially grain products, fruit, vegetables, milk, milk products and eggs, and fats and oils increased apace. Consumer price inflation is less volatile than producer price inflation, as the retail services cost element incorporated in the end price to the consumer tends to be stabilising.

The quarter-to-quarter pace of increase in CPIX inflation accelerated from a seasonally adjusted and annualised rate of 4,8 per cent in the first quarter of 2007 to 10,7 per cent in the first quarter of 2008. In the first quarter of 2008, CPIX goods price inflation accelerated considerably faster than services price inflation, that is, 14,9 per cent compared with 3,7 per cent.

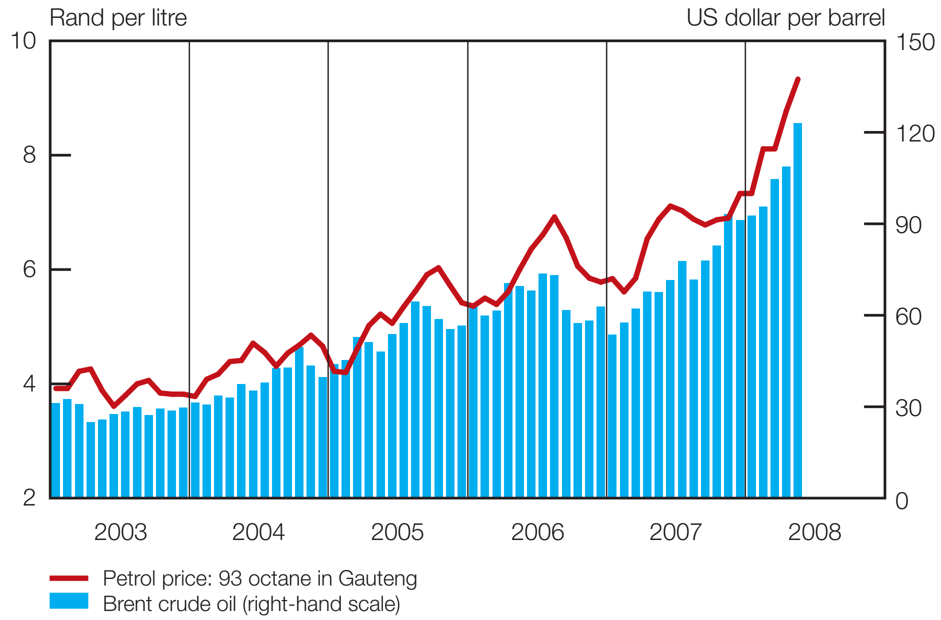
Food prices

Percentage change over twelve months

Period		Domestic producer prices of food			CPIX consumer food prices
		Agricultural food	Manufactured food	Total	
2006:	**Year**	**19,0**	**7,0**	**11,8**	**6,7**
2007:	Jan	15,6	10,7	12,1	8,3
	Feb	18,5	9,8	12,4	7,9
	Mar	22,6	10,5	14,2	7,8
	Apr	20,2	11,5	14,1	8,6
	May	16,4	13,3	14,2	9,0
	Jun	16,8	14,5	15,2	9,4
	Jul	20,1	14,5	16,2	10,2
	Aug	23,8	14,4	17,3	11,3
	Sep	23,5	14,8	17,5	12,0
	Oct	27,3	16,5	19,9	12,4
	Nov	25,3	17,7	20,1	13,3
	Dec	24,4	17,5	19,7	13,9
	Year	**21,4**	**13,9**	**16,2**	**10,4**
2008:	Jan	25,6	18,7	21,4	13,6
	Feb	18,6	20,3	20,0	14,3
	Mar	18,0	20,4	20,2	15,6
	Apr	6,1	19,5	14,5	15,9

Similar to the overall CPIX inflation, year-on-year *CPIX goods price inflation* has remained above the upper limit of the inflation target range of 6 per cent since April 2007 and amounted to 12,7 per cent in April 2008. Petrol price increases, together with the rapid acceleration in consumer food prices, were the main drivers of the acceleration in CPIX goods price inflation. In addition, large price increases were registered in transport running cost, water and household consumables. In the three months to April 2008, the inland pump price of 93 octane petrol increased by a cumulative R1,45 per litre, followed by increases of 55 cents per litre and 50 cents per litre in May and June, respectively. Moreover, the Gauteng price of illuminating paraffin, which is primarily consumed by poorer households, increased by R2,43 per litre from December 2007 to May 2008.

Brent crude oil and inland petrol pump price



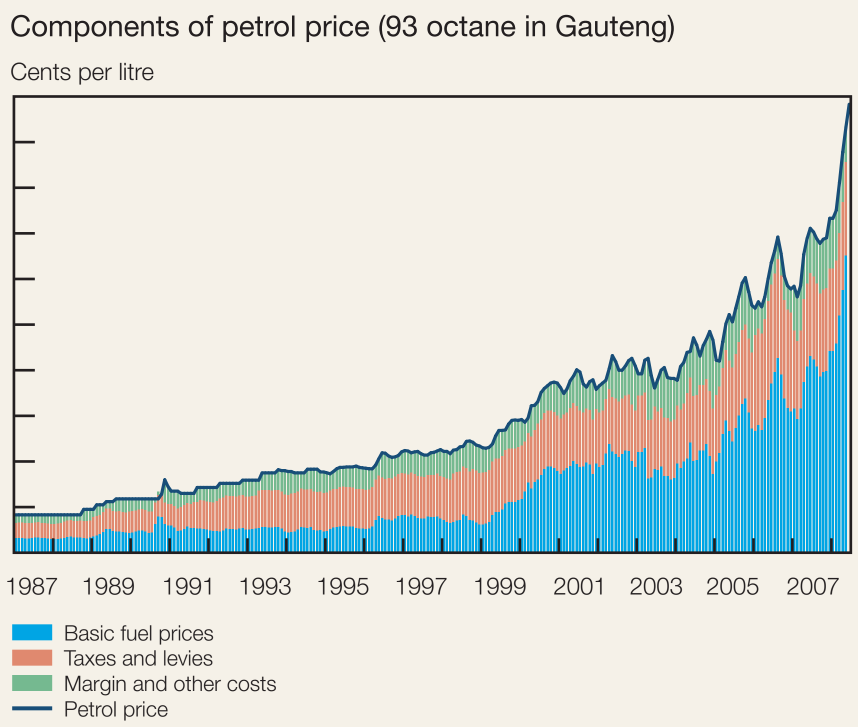
CPIX services price inflation accelerated from a year-on-year rate of 4,6 per cent in January 2007 to 6,5 per cent in April 2008. Services price inflation fluctuated around the upper band of the inflation target range during the first quarter of 2008 and in April it edged above the 6-per-cent level. Housing costs, in particular, had an adverse effect on services price inflation while transport costs moderated over the period. Higher rates of increase in CPIX services price inflation were pervasive, led by increases in homeowners' cost, domestic workers' wages, education and dry cleaning services.

Changing composition of the petrol price

Three types of petrol are sold domestically, namely 93 octane lead replacement petrol, 93 octane unleaded petrol, which was introduced in May 2000, and 95 octane unleaded petrol. The prices of the two 93 octane variants are identical in Gauteng and the 95 octane unleaded petrol is available inland at a premium to the price of 93 octane.

The domestic petrol pump price is made up of the basic fuel price, dealer and oil company margin, transport costs, service differential, taxes and levies including customs and excise. The basic fuel price replaced the in-bond landed cost component of the pump price from April 2003. In essence, the basic fuel price is an import parity price that is equal to the estimated actual cost to import substantial volumes of refined fuel. Its value is based on the spot prices quoted daily in international markets, taking the prices quoted in the Mediterranean Sea area and in Singapore with equal weight. This component is reviewed once a month, based on the average over the previous month of the daily internationally quoted prices of petrol in United States dollars, converted into local prices using the relevant exchange rate.

The basic fuel price in South Africa is influenced by developments in international crude oil prices, global refining margins, which reflect the supply of, and demand for, petroleum products, and developments in the exchange rate of the rand. Other components of the pump price, namely taxes and levies, as well as production and distribution costs and margins tend to be relatively stable, while the basic fuel price is usually the prime driver of changes in the petrol price. The accompanying graph shows how the level and composition of the pump price of petrol have changed over the past two decades. Before 1999 international oil prices were relatively subdued and the basic fuel price barely constituted a third of the pump price.



Subsequently, rising international prices of oil and petroleum products have bolstered the basic fuel price, while taxes and levies as well as margin and other costs have recorded much smaller changes. Most recently, the basic fuel component accordingly accounted for around two-thirds of the petrol price. For instance, in May 2008 the composition of the cost of a litre of 93 octane petrol in Gauteng could be decomposed as follows: Basic fuel price: 70 per cent; retail and wholesale margins: 8 per cent; and taxes and levies: 22 per cent.

N Maphalala

As indicated in the table on page 19, half of the ten main components, constituting over 66 per cent of the overall CPIX index, increased at year-on-year rates in excess of six per cent in April 2008. Year-on-year inflation in the prices of only three components, namely vehicles, clothing and footwear, and furniture and equipment – with a combined weight of 13 per cent – fell below the lower boundary of the inflation target range in April 2008, while the transport services and services not related to either the housing or transport component remained within the target range. Year-on-year inflation in the prices of food and soft drinks, with the highest weight of 26,9 per cent for any individual category, advanced from 7,6 per cent in March 2007 to 15,6 per cent in April 2008.

Inflation in CPIX components

Percentage change over twelve months

	Weights	April 2008
Transport running cost	5,7	30,1
Food and soft drinks	26,9	15,6
Total housing services	13,4	8,2
Alcoholic beverages and tobacco	3,1	7,7
Total other goods (not included elsewhere)	17,5	7,3
Services excluding housing and transport	16,5	*5,6*
Total transport services	3,9	*4,5*
Vehicles	5,7	-0,9
Furniture and equipment	3,2	-1,1
Clothing and footwear – non-discounted index*	4,1	0,2
Total CPIX	100,0	10,4

Italics denote values inside the inflation target range of between 3 and 6 per cent in April 2008

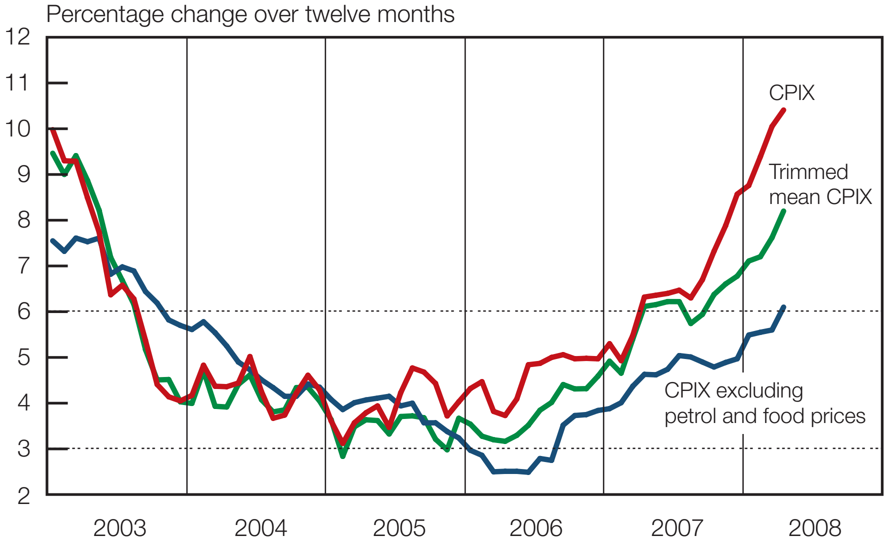
* The introduction of a new methodology from January 2008 resulted in a temporary upward bias in this component. The inflation rate shown compares prices excluding goods on sale over a twelve-month period and avoids the upward bias

Inflationary pressures in the prices of both goods and services contributed to the acceleration in regulated and administered CPIX inflation. Inflation in the prices of administered goods and services accordingly accelerated from a year-on-year rate of 5,0 per cent in August 2007 to 14,5 per cent in April 2008, driven primarily by higher petrol and paraffin prices. Since petrol was the main cause of the acceleration in the administered price index, subtracting petrol from this index would have yielded a year-on-year rate of increase of 7,2 per cent in April 2008. In addition, significant price increases were registered in the categories for telephone rent and installation, education and housing.

As noted earlier, higher food and petrol prices have been the prime drivers of domestic inflation. In fact, if food and petrol prices were to be individually omitted from the price index, CPIX inflation would have amounted to 8,4 per cent and 9,0 per cent, respectively, in the year to April 2008. Excluding both food and energy prices, CPIX

Measures of underlying CPIX inflation

Percentage change over twelve months



inflation rose to 6,1 per cent in April 2008, having trended higher over the past two years. Trimmed CPIX inflation (the inflation rate calculated after discarding the 20 per cent of items in the CPIX basket with the highest price increases and the 20 per cent of items with the lowest price increases) also trended higher from early 2005.

According to the BER *Inflation Expectations Survey*, conducted between 25 April and 26 May 2008, inflation expectations increased in respect of the surveyed years 2008 through 2010. CPIX inflation expectations for 2008 rose from 5,9 per cent in the fourth quarter of 2007 to 8,9 per cent in the second quarter of 2008. Second-quarter 2008 expectations were that overall CPIX inflation would accelerate to 8,9 per cent in 2008 and then decelerate to 7,9 per cent in 2009 and 7,2 per cent in 2010. The Reuters inflation expectations of financial analysts surveyed in May 2008 indicated that inflation expectations for CPIX inflation rose to 10,4 per cent in 2008, confirming the sensitivity of inflation expectations to the most recent measured inflation outcomes.

CPIX inflation expectations

Per cent, as surveyed in the second quarter of 2008

	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
Average inflation expected for:				
2008	9,6	8,8	8,4	**8,9**
2009	7,0	8,7	8,1	**7,9**
2010	5,8	8,3	7,4	**7,2**

Source: Bureau for Economic Research, University of Stellenbosch

Household inflation expectations for headline inflation as recorded in the BER *Inflation Expectations Survey* increased significantly from 5,7 per cent in the fourth quarter of 2007 to 9,9 per cent in the second quarter of 2008 in respect of households' expectations for 2008. This rise in household inflation expectations reflected an increase in the expectations of all income groups.

A number of other factors continue to pose a risk of further overshooting the inflation outlook. The most serious risk emanates from the possibility of additional electricity price increases. If granted, the price of electricity will double by the middle of 2009. A final determination will be made by the National Energy Regulator of South Africa in June 2008. Further, the Property Rates Act of 2004 will be implemented on 1 July 2008. This legislation will have a profound impact on the valuation of properties which previously only took account of the value of the land and excluded developments on the land. The proposed valuation changes are expected to raise assessment rates, leading to a rise in administered price inflation.

Foreign trade and payments

International economic developments

Global economic growth has started to slow, with the International Monetary Fund (IMF) recently revising its projections downwards and expecting global output growth to decelerate further from 4,9 per cent in 2007 to 3,7 per cent in 2008. The moderation in growth is expected to be more pronounced among advanced economies, especially the United States (US). However, emerging-market and developing economies have shown more resilience to the financial market disruptions following the crisis in US sub-prime mortgages and have continued to grow at a brisk pace amid the current commodity price boom. Despite tentative indications that economic activity was beginning to moderate in some emerging-market and developing economies, the IMF expected growth to remain robust in 2008.

Real output growth in the US accelerated somewhat in the first quarter of 2008, supported by an upturn in inventory investment. Growth in real output in the euro area rebounded unexpectedly in the first quarter of 2008, mainly due to increases in gross fixed capital formation and inventories. Economic activity in Japan accelerated further in the first quarter of 2008, but moderated in recent months due to higher prices of energy and imported resources.

Real output growth continued to be much stronger in emerging-market economies as a group when compared with the advanced economies and still remained above trend, pointing to a divergence between the advanced and emerging-market economies. Resilient economic growth, especially in China, continues to support global economic activity, with real output growth rebounding to double-digit levels in the first quarter of 2008, despite the disruption to productive activities caused by snowstorms early this year.

In Africa, robust economic conditions, especially in oil-exporting countries, continued to support the continent's growth momentum. However, it is unlikely that emerging-market economies will decouple from the advanced economies and escape the global slowdown completely. Therefore, the global growth outlook has weakened with clear downward risk.

The global oil market remained tight with supply uncertainties, rising world consumption and low surplus production capacity. These factors have relentlessly put upward

Brent crude oil prices

pressure on crude oil prices, resulting in more than a doubling of prices since the beginning of 2007. In March 2008, oil prices became increasingly volatile as a result of financial market uncertainties. Geopolitical tensions exerted further upward pressure on oil prices and faltering US equity markets and US dollar weakness diverted investment into oil and other commodities. After retreating to levels of around US$100 per barrel at the end of March 2008, Brent crude oil prices subsequently rallied to levels of around US$117 per barrel towards the end of April following the unwillingness of the Organization of the Petroleum Exporting Countries (OPEC) to increase the supply of oil, a sharp fall in US energy stocks ahead of the summer driving season and production disruptions. A confluence of factors, including further concerns about supply due to geopolitical tensions, US dollar weakness and OPEC's reluctance to increase quotas, drove oil prices higher towards the end of May 2008. The oil price briefly decreased below US$122 per barrel at the beginning of June 2008, before rebounding to new record-high levels of around US$135 per barrel underpinned by a further weakening of the US dollar following the sharp increase in the US unemployment rate.

Global inflationary pressures have increased since mid-2007 due to rising food and energy prices. After increasing notably towards the end of 2007, annual headline consumer price inflation in the US moderated somewhat in recent months. Excluding food and energy, prices also moderated slightly. Inflationary pressures in the euro area intensified significantly in the first quarter of 2008. Annual headline inflation accelerated to a record of 3,6 per cent towards the end of the first quarter of 2008, before edging down somewhat in April 2008. After returning to positive territory, the annual rate of change in Japan's core consumer price index (consumer prices excluding fresh food) reached its highest level in eight years in March 2008 before edging down in April. The rise in inflation was mainly due to higher energy prices.

Consumer price inflation figures in many emerging-market countries exceeded those in developed countries, mainly due to the larger weight of food in their consumer price baskets. With respect to different regions, annual consumer price inflation in the emerging European region continued to exceed that in the emerging Asian and Latin American regions. The gap between the weighted-average emerging European and Latin American consumer price inflation rates widened in the twelve months to March 2008 compared with the previous twelve months, while the gap between the weighted-average emerging European and Asian consumer price inflation rates narrowed notably over the same period.

Policy-makers in many countries are currently faced with the challenge of weaker growth and intensifying inflationary pressures. Since January 2008, monetary policy has been tightened in countries such as Australia, Brazil, Chile, the Czech Republic, Hungary, Indonesia, Israel, Poland, Russia, Sweden, Taiwan and Turkey. By contrast, Canada, Hong Kong, the United Kingdom and the United States have lowered policy rates. The US Federal Open Market Committee reduced the target for the federal funds rate further by 25 basis points to 2,0 per cent in April 2008, a cumulative 325 basis point reduction since September 2007.

Current account[2]

Despite the moderation in domestic economic activity, the deficit on the current account of the South African balance of payments widened from R157,7 billion in the fourth quarter of 2007 to R194,6 billion in the first quarter of 2008. Relative to gross domestic product, the current-account deficit weakened from 7,5 per cent to 9,0 per cent over the period – a magnitude previously observed in the first quarter of 1982.

2 Unless stated to the contrary, the current-account transactions referred to in this section are all seasonally adjusted and annualised.

Balance of payments on current account

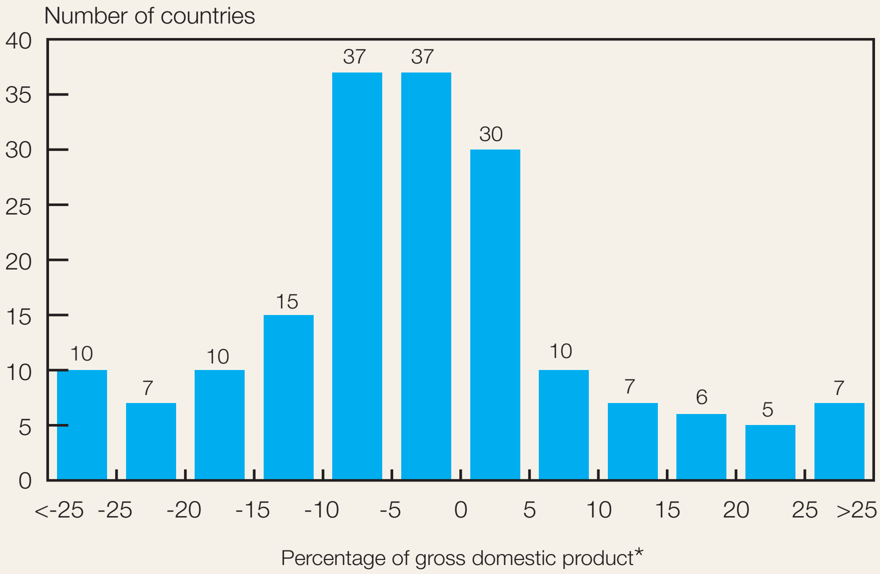
Seasonally adjusted and annualised
R billions

	2007					2008
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	466,5	494,6	494,3	527,9	495,8	568,3
Net gold exports	37,3	36,3	41,0	45,1	39,9	46,1
Merchandise imports	-554,6	-562,3	-587,3	-599,7	-576,0	-675,8
Trade balance	**-50,8**	**-31,4**	**-52,0**	**-26,7**	**-40,3**	**-61,4**
Net service, income and current transfer payments	-82,2	-94,7	-111,3	-131,0	-104,7	-133,2
Balance on current account	**-133,0**	**-126,1**	**-163,3**	**-157,7**	**-145,0**	**-194,6**
As percentage of gross domestic product	*-6,9*	*-6,5*	*-8,1*	*-7,5*	*-7,3*	*-9,0*

Individual countries' current-account balances

Individual countries' current-account balances cover a wide range, from large deficits to large surpluses. The International Monetary Fund's estimates for 2007 of such balances, expressed relative to gross domestic product, are depicted in the accompanying graph.

Current-account balances in 2007



* A country whose current-account balance coincides exactly with the boundary between two intervals is included in the higher interval.

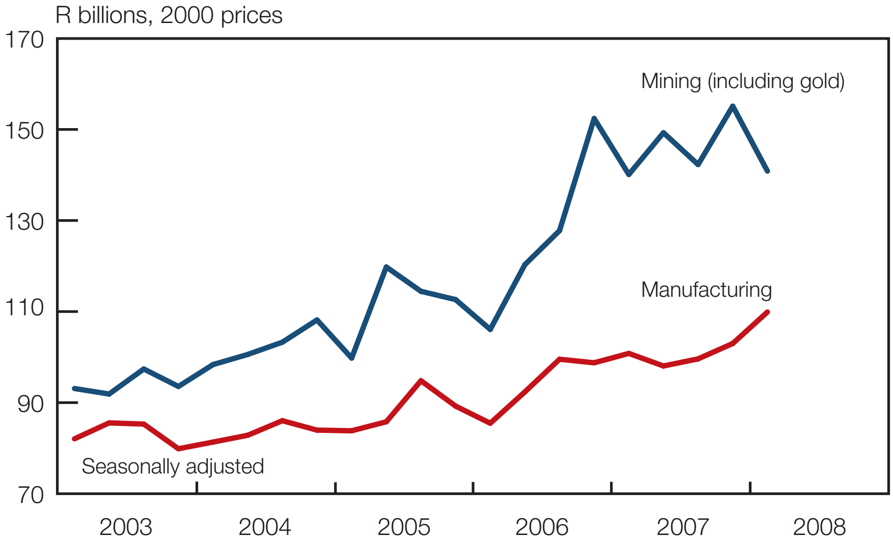
Source: IMF *World Economic Outlook Database*, April 2008 and own calculations

Individual countries' current-account balances in 2007 were concentrated between minus 10 per cent and plus 5 per cent of gross domestic product, with 104 of the 181 countries in the analysis falling within this range. South Africa, with 36 other countries, fell in the 5 to 10 per cent deficit interval. Countries with very large deficits or surpluses tend to be smaller, very open economies.

The further deterioration in the current-account deficit was mainly attributable to continued strong import demand, which coincided with relatively weak growth of merchandise exports. The trade deficit consequently widened from R26,7 billion in the fourth quarter of 2007 to R61,4 billion or 2,8 per cent of gross domestic product in the first quarter of 2008. In the preceding two quarters, this ratio amounted to 2,6 per cent and 1,3 per cent, respectively. In addition, net service, income and current transfer payments to the rest of the world continued to grow in the first quarter of 2008, albeit at a much slower pace than in the preceding quarter.

Having increased by 4,8 per cent in the fourth quarter of 2007, the *volume of merchandise exports* shrank by 7,2 per cent in the first quarter of 2008. Despite the general slowdown in the global economic activity, the international demand for South African mining products such as coal, platinum, base metals and gold remained strong. Export volumes were, however, adversely affected by a decline in domestic production, especially in the mining sector. Mining output dropped following the introduction of power shedding measures, the temporary closure of certain mining shafts due to safety audits after accidents and the slow resumption of operations following the festive and Easter holidays. Subsequently, international demand could not be fully met and the overall volume of exported mining products contracted by 9 per cent, more than fully offsetting an increase in the volume of exported manufactured goods. The volume of manufactured exports advanced further in the first quarter of 2008, mainly due to the exportation of motor vehicles made possible by ongoing investment spending in the motor manufacturing industry.

Volume of merchandise exports



Notable increases in the international prices of certain South African export commodities, alongside the depreciation of the rand, raised the rand prices of merchandise exports by 16 per cent from the fourth quarter of 2007 to the first quarter of 2008. The turmoil in global financial markets and lower production volumes led to an increase of almost 20 per cent in international commodity prices. This was sufficient to neutralise the reduction in export volumes, and was amplified by the increase in the rand price of merchandise exports due to the more competitive level of the external value of the rand. The value of merchandise exports consequently advanced by 7,7 per cent in the first quarter of 2008, following an increase of 6,8 per cent in the final quarter of 2007.

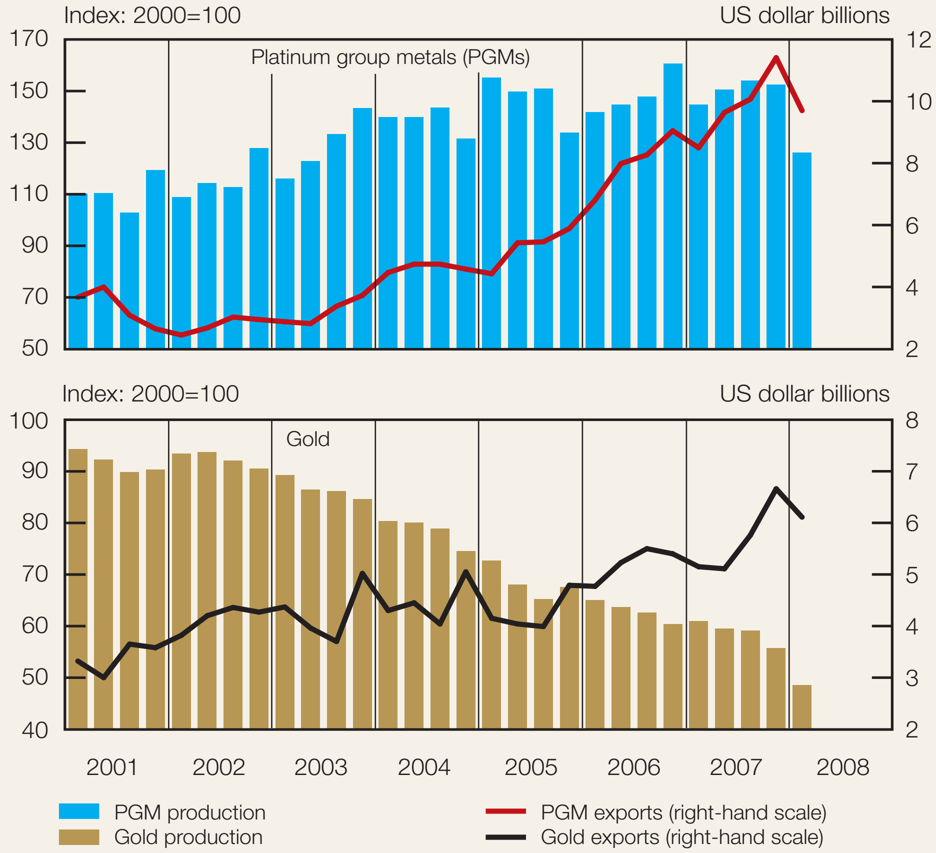
Production and exports of precious metals

South Africa's mining sector is an important supplier of gold, platinum, coal and diamonds to the rest of the world. Its contribution to economic activity and employment is significant; currently, the mining sector's share in gross value added amounts to almost 8 per cent, and the sector employs about 3 per cent of the economically active population. Mining products contributed approximately 56 per cent to total South African exports of goods in 2007.

In the longer run, South African gold production has trended downwards as the shallower, high-yielding ore bodies have increasingly been depleted. This trend has remained intact, notwithstanding an international gold price which has recently been very favourable from a producer point of view. By contrast, the production of platinum group metals has trended upwards, reflecting significant investment in this subsector. South Africa is responsible for the bulk of the world's platinum production, and exports the precious metal as such or in catalytic converters used in vehicle emission control systems. Revenue from platinum group metal exports has exceeded gold export proceeds since 2004.

However, in the first quarter of 2008 both platinum and gold export volumes fell considerably despite international prices, which soared to new peaks. The mining sector had to deal with electricity rationing, and in January 2008 gold and platinum mining companies were forced to halt production for five days. Subsequently, a quota of 90 per cent of the mining companies' normal power requirements was imposed before it was raised to 95 per cent in March 2008. In addition, significant cost pressures associated with the rising costs of key inputs also affected production. Furthermore, production was held back by higher fatalities in the industry, which resulted in the intermittent closure of certain mines.

Platinum and gold: Production volume and export proceeds

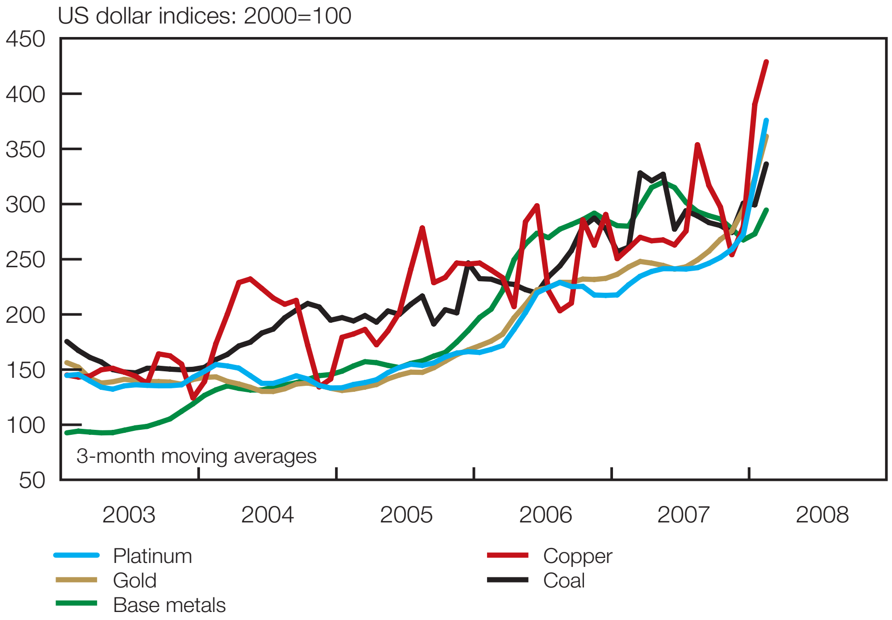


While the volume of exported precious metals declined significantly in the first quarter of 2008, this was partly offset by higher international prices of these commodities.

L Motsumi and L Chiloane

The export proceeds of South African gold producers edged higher by 2,2 per cent in the first quarter of 2008, primarily due to a 32,6 per cent increase in the average realised rand price of gold which more than offset a contraction of almost 23 per cent in the physical quantity of net gold exports over the period. The sharp contraction in the volume of gold exports went beyond the steady decline in gold production in recent years – the contraction in the first quarter reflected some interruptions of operations following power rationing and outages. On the London market, the fixing price of gold rose by 17,5 per cent from US$789 per fine ounce in the fourth quarter of 2007 to US$927 per fine ounce in the first quarter of 2008. In mid-March 2008, the gold price momentarily rose above US$1 000 per fine ounce before receding to marginally below US$900 per fine ounce by the end of May. The gold price was buoyed by US dollar weakness and rising energy prices, among other factors.

Prices of selected commodities

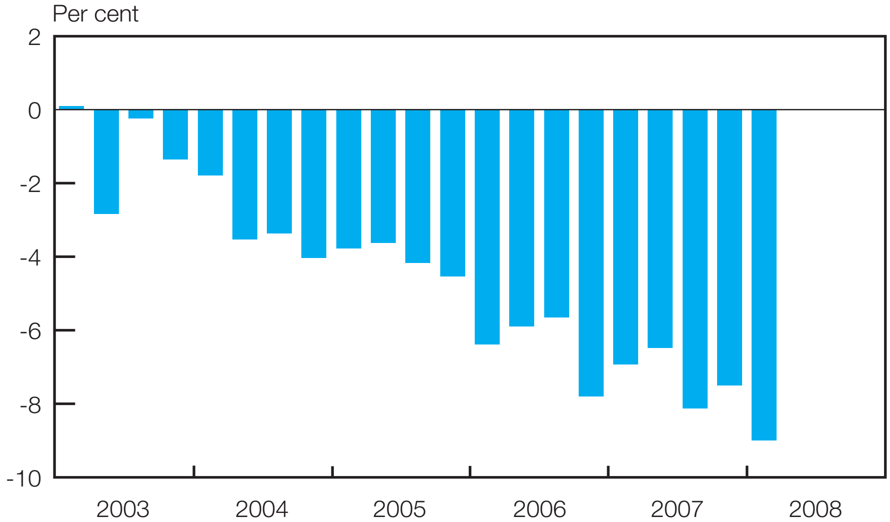


Vibrant domestic demand continued to support growth in import volumes. The physical quantity of goods imported advanced by 3,4 per cent in the first quarter of 2008, after virtually no growth in the preceding quarter. Despite the higher growth, the country's import penetration ratio, which had fluctuated around 27,5 per cent in the final three quarters of 2007, remained unchanged in the first quarter of 2008. The increased demand for imported goods in the first quarter of 2008 was mainly evident in the subcategory for mineral products, which was, apart from the crude oil imports, lifted by the importation of refined petroleum and diesel products. Increases were also registered in the subcategories for machinery and electrical equipment, chemical products and vehicles and transport equipment. The latter partly increased on account of the acquisition of a third submarine by the South African Navy – the last one under the arms procurement programme.

Alongside the depreciation of the rand, the average price level of imported goods rose by 9 per cent in the first quarter of 2008. The outcome of the rise in import prices and import volumes culminated in a relatively sharp increase of 12,7 per cent in the *value of merchandise imports* in the first quarter of 2008.

The negative imbalance on the service, income and current transfer account with the rest of the world widened further in the first quarter of 2008, albeit at a slower pace, to record a deficit of R133,2 billion. Strong inward investment in South African equity and debt securities in recent years has led to higher interest and dividend payments, which more than offset the rise in receipts from foreign tourist expenditure in South Africa and investment income earned abroad. Interest and dividend payments in 2007 and the first quarter of 2008 accounted for more than 40 per cent of total service, income and current transfer payments compared with an average ratio of 34 per cent during the period 2004 to 2006.

Ratio of current-account balance to gross domestic product



South Africa's terms of trade improved considerably in the first quarter of 2008 after deteriorating somewhat in the previous quarter. Although the depreciation in the exchange value of the rand inflated the rand price of merchandise imports, the renewed increase in international commodity prices caused export prices to accelerate at a considerably faster pace.

Financial account

Even with initially tighter global liquidity conditions in global financial markets, the financial account of the balance of payments recorded net inflows of capital to the value of R47,8 billion in the first quarter of 2008 compared with capital inflows of R54,1 billion registered in the fourth quarter of 2007. While a net outflow of capital was noted in the category for portfolio investment, probably largely due to increased risk aversion by international investors, the categories for direct and other investment registered net inflows of capital.

Net financial transactions not related to reserves

R billions

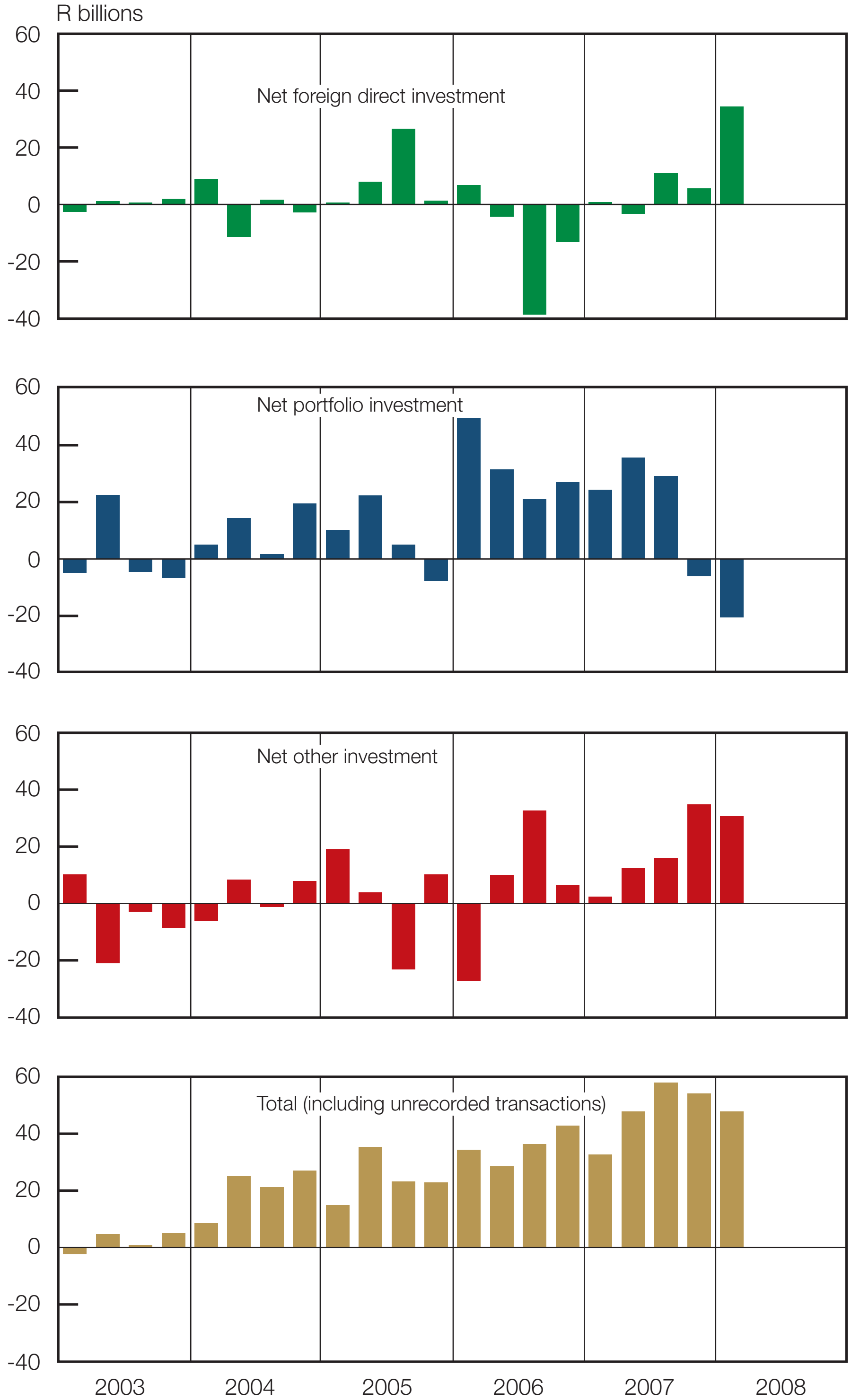
	2007					2008
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	2,6	11,2	13,1	13,4	40,3	40,6
Portfolio investment	28,8	42,0	33,7	2,9	107,4	-19,1
Other investment	2,8	19,8	30,5	5,1	58,2	34,3
Change in assets						
Direct investment	-1,8	-14,4	-2,2	-7,8	-26,2	-6,1
Portfolio investment	-4,4	-6,4	-4,5	-8,9	-24,2	-1,5
Other investment	-0,4	-7,4	-14,5	29,8	7,5	-3,7
*Total financial transactions**	*32,7*	*47,8*	*58,0*	*54,1*	*192,6*	*47,8*

* Including unrecorded transactions

Foreign-owned assets in South Africa

Foreign direct investment into South Africa recorded an inflow of R40,6 billion in the first quarter of 2008 compared with an inflow of R13,4 billion in the fourth quarter of 2007. The inflow of direct investment capital in the first quarter of 2008 resulted mainly from the acquisition of 20 per cent of the shareholding in a domestic bank by a non-resident bank – the largest inflow of direct investment capital since the second quarter of 2001.

Financial account



Foreign portfolio investment into South Africa changed to an outflow of R19,1 billion in the first quarter of 2008 as non-resident investors continued to reduce their holdings of South African equity and debt securities – a net outward movement of portfolio-related capital was previously registered in the fourth quarter of 2005. During the first two months of 2008 the net sales of equity and debt securities by non-resident investors amounted to R29,5 billion before reverting to net purchases of R7,5 billion in March. The outflow of capital in the first quarter of 2008 followed a subdued inflow of portfolio capital in the fourth quarter of 2007, providing an indication of the impact of the turbulence in international financial markets and uncertainties regarding global liquidity shortages. Concerns about the country's growth prospects in view of electricity shortages could also have contributed to non-resident investors' decision to dispose of domestic securities.

Other investment inflows into South Africa increased from R5,1 billion in the fourth quarter of 2007 to R34,3 billion in the first quarter of 2008, mainly due to increases in non-resident rand and foreign-currency deposits with South African banks, as well as short-term foreign loans drawn by these banks. The increased deposit holdings of non-resident investors could partly be ascribed to the prevailing interest rate differentials in favour of South Africa.

South African-owned assets abroad

Outward direct investment was reduced to an outflow of R6,1 billion in the first quarter of 2008 compared with an outflow of R7,8 billion in the fourth quarter of 2007. The outflow of capital in the first quarter of 2008 primarily reflected the acquisition of a foreign company by a South African media company – these capital outflows were partly offset by the repatriation of loan finance previously extended by a South African mobile phone company to its foreign subsidiary.

Portfolio investment abroad by South African entities continued to increase, albeit at a slower pace, as private individuals diversified their investment portfolios abroad. An outflow of R1,5 billion was recorded in the first quarter of 2008 following outward investment of R8,9 billion in the fourth quarter of 2007.

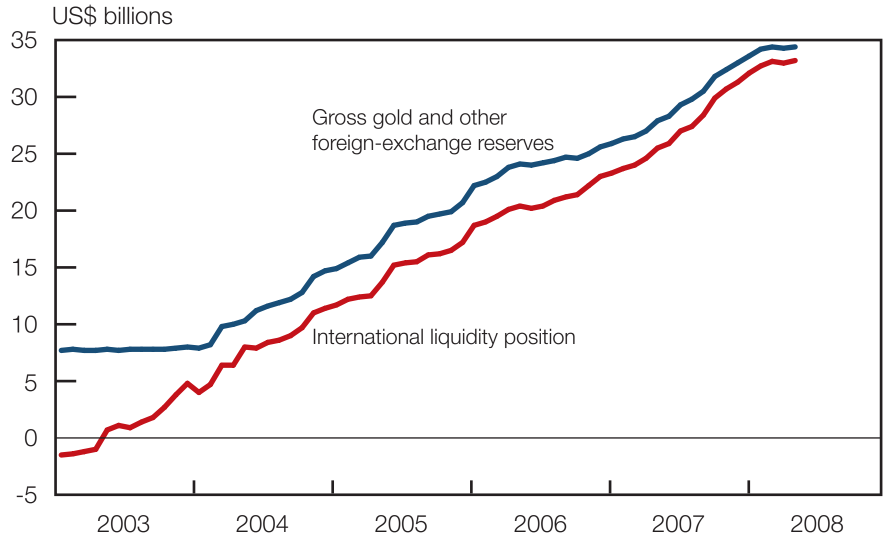
Other outward investment from South Africa switched from an inflow of capital of R29,8 billion in the fourth quarter of 2007 to an outflow of R3,7 billion in the first quarter of 2008. The outflow of capital mainly reflected an increase in loans granted by the South African banking sector to foreign banks, which more than offset a decline in foreign-currency deposits of the banking sector abroad.

International reserves and liquidity

Net capital inflows on the financial account of the balance of payments exceeded the absolute value of the external current-account deficit and subsequently resulted in a further improvement in South Africa's overall balance-of-payments position (the change in the country's net international reserves due to balance-of-payments transactions). Partly as a result of the sizeable deficit on the current account of the balance of payments in the first quarter of 2008, a smaller surplus of R6,8 billion was recorded over the period compared with a surplus of R16,1 billion in the fourth quarter of 2007.

Measured in US dollars, the value of the gross gold and other foreign reserves of the South African Reserve Bank (the international reserves before accounting for reserve-related loans) increased from US$33,0 billion at the end of December 2007 to US$34,4 billion at the end of March 2008 and thereafter remained broadly unchanged up to the end of May.

Gross reserves and international liquidity position of the South African Reserve Bank



The Bank's short-term credit facilities utilised declined from US$1,8 billion at the end of December 2007 to US$1,1 billion at the end of May 2008.

The country's international liquidity position increased from US$31,3 billion at the end of December 2007 to US$33,1 billion at the end of March 2008 and remained broadly unchanged at the end of May.

Foreign debt

South Africa's total foreign debt increased by US$3,2 billion to US$75,3 billion from the end of the third quarter to the end of the fourth quarter of 2007, mainly as a result of an increase in rand-denominated debt while foreign-currency denominated debt increased only marginally over the period.

Foreign debt of South Africa

US$ billions at end of period

	2007			
	1st qr	2nd qr	3rd qr	4th qr
Foreign-currency denominated debt ..	**34,9**	**39,6**	**42,8**	**43,6**
Bearer bonds	10,3	13,9	14,8	15,2
Public sector	5,2	5,5	5,6	5,6
Monetary sector	10,7	11,2	13,2	12,7
Non-monetary sector	8,7	9,0	9,2	10,1
Rand-denominated debt	**22,7**	**26,6**	**29,2**	**31,7**
Bonds	6,1	7,1	6,8	7,9
Other	16,6	19,5	22,4	23,8
Total foreign debt	**57,6**	**66,2**	**72,0**	**75,3**

The increase in outstanding foreign-currency denominated debt was relatively subdued in the fourth quarter of 2007 following gradual increases from the end of 2006 up to the end of the third quarter of 2007. The further increase in debt obligations in the fourth quarter of 2007 primarily reflected an increase in short-term debt and trade finance utilised by the private sector. The Bank redeemed part of its foreign credit facilities over the period.

The increase in rand-denominated foreign debt in the final quarter of 2007 mainly reflected additional foreign loan financing extended by a foreign company to a domestic subsidiary in order to finance the acquisition of a South African platinum mining company. At the same time, non-resident investors also increased their holdings of rand-denominated domestic bonds as well as their holdings of rand-denominated deposits with South African banks.

The rand equivalent of South Africa's total outstanding foreign debt increased from R483 billion at the end of September 2007 to R498 billion at the end of December. This increase in rand terms occurred despite the appreciation of the exchange value of the rand against the US dollar over the period.

As a result of the increase in the total external debt during 2007, the ratio of external debt to gross domestic product increased from 23,1 per cent at the end of 2006 to 26,6 per cent at the end of 2007. Over the same period the ratio of total external debt to total export earnings increased from 72,3 per cent to 78,4 per cent.

Exchange rates

Despite the further weakening of the US dollar following aggressive monetary easing by the US Federal Reserve, the nominal effective exchange rate of the rand declined, on balance, by 20,2 per cent in the first quarter of 2008. This decline was preceded by a mild depreciation of 0,4 per cent in the fourth quarter of 2007.

Exchange rates of the rand

Percentage change

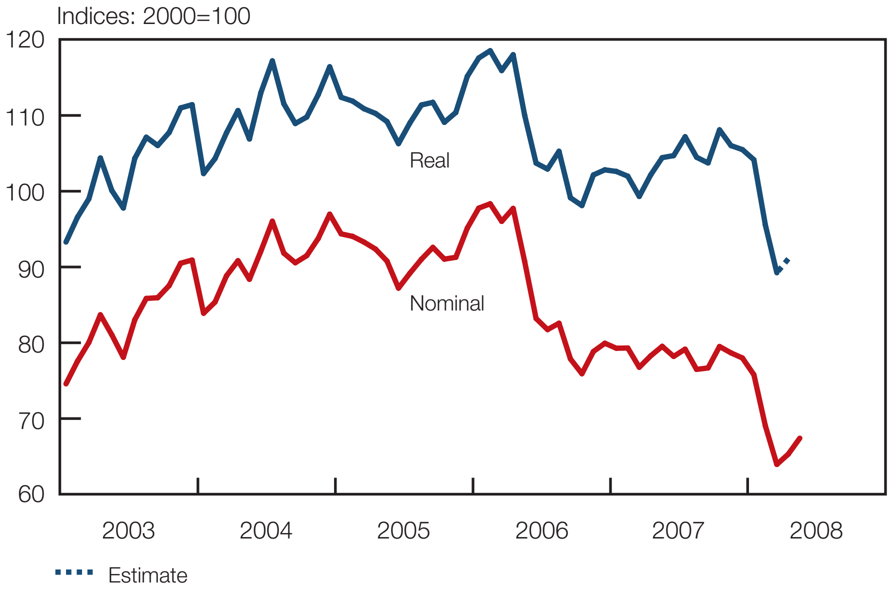
	29 Jun 2007 to 28 Sep 2007	28 Sep 2007 to 29 Dec 2007	29 Dec 2007 to 31 Mar 2008	31 Mar 2008 to 30 May 2008
Weighted average*	**-0,5**	**-0,4**	**-20,2**	**8,9**
Euro	-2,1	-2,3	-22,2	9,3
US dollar	3,1	1,4	-16,4	7,0
British pound	1,8	2,9	-15,9	7,8
Japanese yen	-3,7	-1,4	-25,9	13,6

* Against a basket of 13 currencies

The decline in the weighted-average exchange rate of the rand in part reflected increased risk aversion by international investors towards emerging markets in the wake of the US sub-prime crisis and negative investor perceptions regarding South Africa's growth prospects following electricity supply outages. In addition, the decline incorporated the increased risk premium that investors seemed to require for holding the rand, given its volatility and some concerns about the sustainability of the South African current-account deficit, despite the fact that the deficit has so far been comfortably financed through capital inflows. During April and May 2008, the strengthening in the exchange rate of the rand was assisted by the increase in domestic interest rates and corporate negotiations regarding possible large inward direct investment transactions.

The real effective exchange rate of the rand increased by 2,6 per cent from December 2006 to December 2007, before declining by 15,5 per cent in the first quarter of 2008. On average, the level of the real effective exchange rate of the rand was 3,4 per cent lower in 2007 than the average rate for 2006.

Effective exchange rates of the rand



Even though non-resident investors' interest in the South African equity and debt securities waned, the average daily turnover in the domestic market for foreign exchange increased from US$17,1 billion in the fourth quarter of 2007 to US$17,3 billion in the first quarter of 2008. The value of transactions in which non-residents participated increased from US$13,3 billion per day to US$13,6 billion per day over the same period.

Monetary developments, interest rates and financial markets

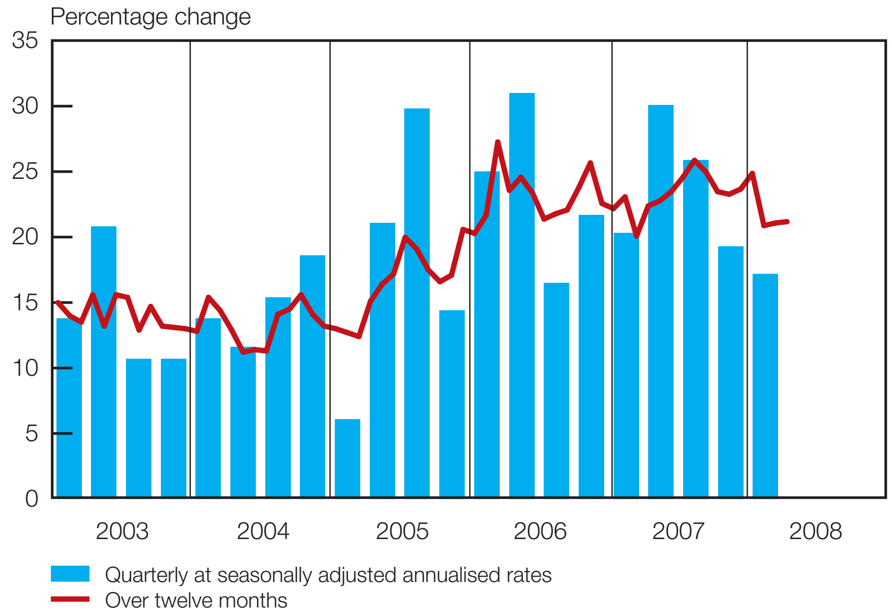
Money supply

Growth in the broadly defined money supply (M3) decelerated from the second half of 2007 and eased further during the first four months of 2008. Despite the mild slowdown, growth in M3 remained high, buoyed by medium to longer-term deposits as uncertainty in the financial markets and relatively attractive deposit interest rates supported the precautionary demand for such deposits. Attractive interest rates on bank deposits emanated from the cumulative increases in domestic interest rates since June 2006, when the current cycle of monetary policy tightening began. Bank deposits also increased temporarily due to the capital redemption and coupon interest payments on government bonds at the end of February 2008. Likewise, the proceeds received from the sale by resident shareholders of a large number of shares in a domestic bank to a Chinese bank also added liquidity in March 2008.

The quarter-to-quarter growth[3] in M3 decelerated from 19,3 per cent in the fourth quarter of 2007 to 17,2 per cent in the first quarter of 2008. This slowdown is further confirmed by the year-on-year growth in M3 which moderated to 21,1 per cent in April from 24,8 per cent in January 2008.

3 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted and annualised data.

Growth in M3



In the fourth quarter of 2007 and the first quarter of 2008 the maturity structure of the monetary aggregates revealed a strong preference by the public for holding long-term deposits. This was largely a result of the significant rise in money-market interest rates, alongside greater risk aversion, that is, a greater demand for low-risk investments in an environment of elevated financial markets turbulence. Annualised growth in notes and coin in circulation, a component that predominantly reflects the transactions demand for money, accelerated to 7,3 per cent in the first quarter of 2008 from a relatively low 4,9 per cent in the fourth quarter of 2007. These relatively low growth rates are a sign of the higher opportunity cost associated with holding currency.

Maturity analysis of growth in M3
Per cent at seasonally adjusted annualised rates

Component	2007			2008
	2nd qr	3rd qr	4th qr	1st qr
Notes and coin	17,0	6,1	4,9	7,3
Cheque and transmission deposits	27,8	14,5	12,4	8,5
Call and overnight deposits	31,3	50,2	14,6	55,2
Other short and medium-term deposits*	16,2	47,5	16,3	-8,8
Long-term deposits**	42,9	-11,0	52,4	65,3
M3	30,1	25,9	19,3	17,2

* Unexpired maturities of more than one day and up to six months, and savings deposits
** Unexpired maturities of more than six months

The overall increase in M3 in the first quarter of 2008 amounted to R82,3 billion. The corporate sector contributed R61,0 billion, or about three quarters to this increase boosted by, among other things, the capital redemption and coupon interest payments on government bonds. Most of the increase involved deposit holdings of the financial corporate sector. Household-sector depositors contributed the remaining R21,3 billion to the overall increase in M3 in the first quarter of 2008 as they rebalanced portfolios towards less risky time deposits.

The slight moderation in the growth in nominal gross domestic product, coupled with fairly strong growth in M3, resulted in the income velocity of circulation of M3 declining from 1,28 in the fourth quarter of 2007 to an all-time low of 1,27 in the first quarter of 2008.

The statistical counterparts of the change in M3 are presented in the accompanying table.

Counterparts of change in M3
R billions

	2007			2008
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	20,0	0,9	2,0	6,6
Net claims on the government sector	-14,1	2,6	-17,9	33,8
Claims on the private sector	69,9	88,0	76,7	106,8
Net other assets and liabilities	0,1	-10,7	3,2	-64,9
Total change in M3	76,0	80,8	64,1	82,3

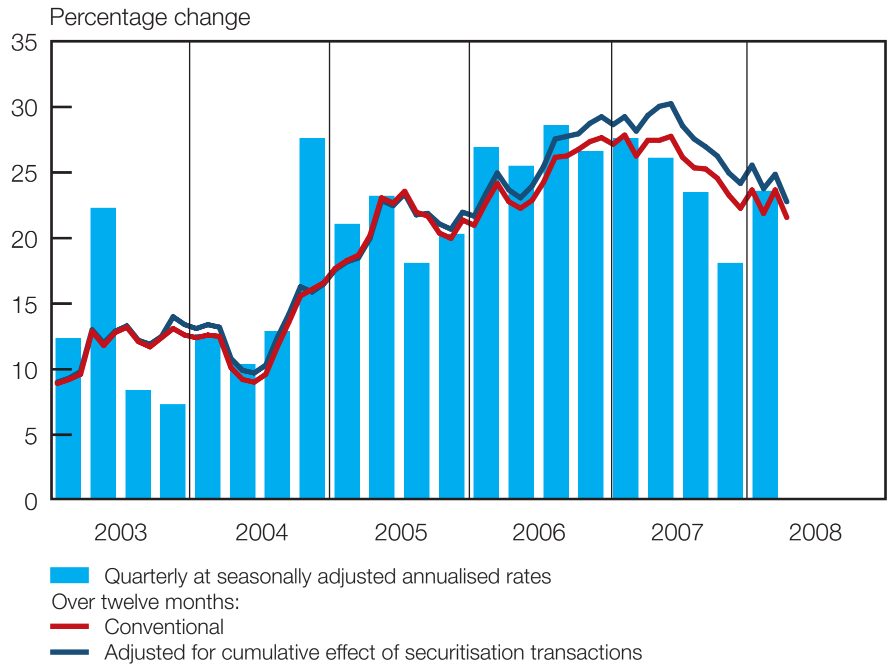
As in recent quarters, the increase in M3 during the first quarter of 2008 was statistically more than fully explained by the increase in banks' claims on the private sector, mainly reflecting strong growth in the category for loans and advances. Net claims on the government sector increased considerably in the first quarter of 2008, as government deposits declined as a result of the redemption of the R195 and R198 government bonds and coupon interest payments on various bonds during this period.

Credit extension

A moderation in the growth in *total loans and advances* by the banking sector to the private sector commenced during the second half of 2007, assisted by rising interest rates and prudent credit approval policies applied by private-sector banks as reinforced by the National Credit Act.

The year-on-year growth in banks' total loans and advances reached 21,5 per cent in April 2008, the slowest growth rate since February 2006. However, growth in total loans and advances accelerated from 18,1 per cent in the fourth quarter of 2007 to 23,6 per cent in the first quarter of 2008. Adjusted for securitisation transactions, growth over twelve months decelerated from 24,0 per cent in December 2007 to 22,7 per cent in April 2008. Investor appetite for securitised assets may have dwindled in the wake of the recent international credit market turmoil, and the securitisation of asset-backed debt by banks rose by only R2,7 billion in the first quarter of 2008, compared with R11,5 billion in the fourth quarter of 2007.

Total loans and advances to the private sector



Asset-backed credit, which constitutes the bulk of banks' total loans and advances, moderated somewhat in all categories. For instance, growth over twelve months in *mortgage advances* decelerated from 24,7 per cent in December 2007 to 21,9 per cent in April 2008. Mortgage business continued to be adversely affected by the downturn in the real-estate market as growth in property prices moderated and sales softened in response to tighter credit conditions.

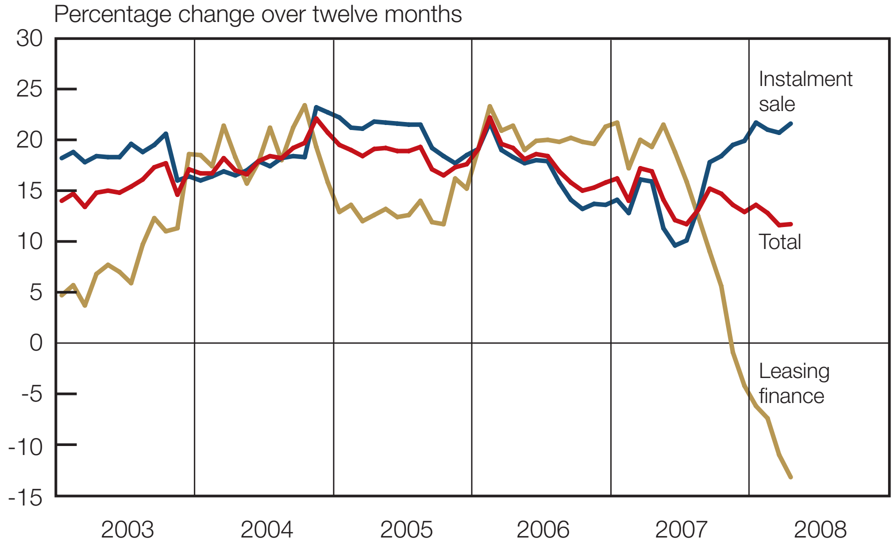
Growth over twelve months in *leasing finance* remained in negative territory in the first quarter of 2008, as banks no longer actively promote this type of credit in the wake of increased flexible repayment terms allowed for instalment sales by the National Credit

Quarterly changes in banks' total loans and advances by type
R billions

	4th qr 2007	1st qr 2008
Mortgage advances	46,3	28,2
Instalment sale credit and leasing finance	6,8	10,0
Other loans and advances	10,4	79,9
Overdrafts	-1,0	25,7
Credit card advances	0,9	1,4
General advances	10,5	52,8
Total loans and advances	**63,5**	**118,2**
Of which: To household sector	29,2	84,4
To corporate sector	34,3	33,8

Act. By contrast, growth in *instalment sale credit* continued to advance at a brisk pace during the first quarter of 2008, reflecting relatively strong growth in sales of new commercial motor vehicles. Consequently, credit extension in the combined category for *instalment sale credit and leasing finance* increased moderately during the first quarter of 2008. The moderate pace of growth was maintained in April.

Instalment sale credit and leasing finance extended to the private sector



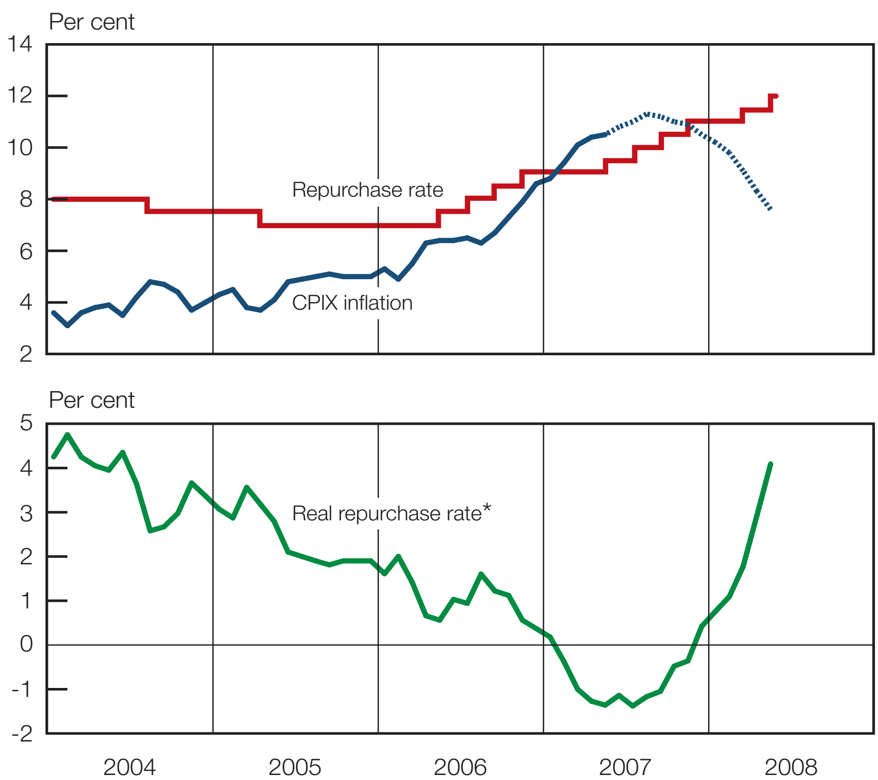
Growth over twelve months in *other loans and advances* accelerated from 22,5 per cent in December 2007 to 29,5 per cent in March 2008, but then decelerated to 25,2 per cent in April. The faster pace of growth in *other loans and advances* could partly be ascribed to the improved classification of items, brought about by the implementation of new regulatory forms by the banking sector from January 2008. These classification changes resulted in, for example, redeemable preference shares being moved from investments to other loans and advances. Discounting these classification changes, the main contributor to the growth in other loans and advances in the first four months of 2008 was the corporate sector, probably reflecting robust infrastructural and other fixed investment spending as well as working capital requirements. It is also plausible that part of the increase in other loans and advances was due to distress borrowing.

The share of the household sector in total credit extension by monetary institutions declined to a recent low in the fourth quarter of 2007, when it temporarily fell below the share attributed to the corporate sector, only to be reversed in the first quarter of 2008. It should, however, be noted that the split between households and companies may have been influenced, to some extent, by improved identification systems utilised by banks after the implementation of new regulatory returns from January 2008. For example, some reporting institutions were previously unable to distinguish private trusts and as a result most trust funds were classified under companies, but due to improved data identification systems, the private trusts serving households are now identified and classified appropriately.

Interest rates and yields

After leaving the repurchase rate unchanged at its January 2008 meeting, the Monetary Policy Committee (MPC) increased the repurchase rate to 12,0 per cent by raising the rate by 50 basis points on each occasion at its April and June 2008 meetings. This emanated from the deteriorating inflation outlook due to a series of supply-side shocks of extended duration, particularly in the form of rising oil and food prices which, in turn, have evolved into generalised domestic inflation pressures. From the beginning of the monetary policy tightening cycle in June 2006, the repurchase rate has been raised by a cumulative 500 basis points. Accordingly, the repurchase rate adjusted for forward-looking twelve-month CPIX inflation initially declined before increasing sharply from the second half of 2007 as analysts expected future inflation to moderate in the wake of the progressive monetary policy tightening. The MPC statement discussing developments underlying the April and June decisions are reproduced from pages 57 to 62 in this *Bulletin*.

CPIX inflation and the repurchase rate



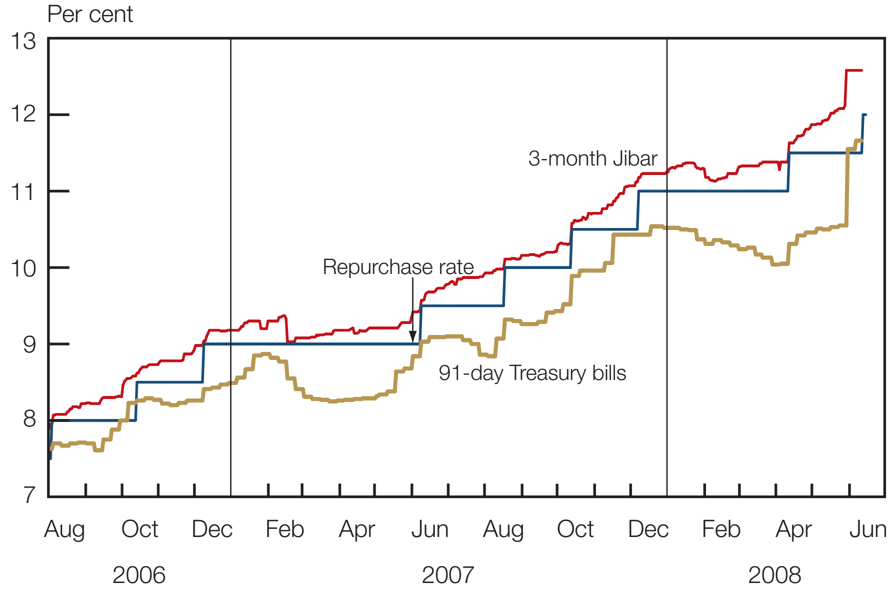
CPIX inflation for the past 12 months linked to one-year-ahead estimates as derived from the Reuters poll of analysts

* Real repurchase rate calculated using expected CPIX inflation

Private-sector banks' prime overdraft and benchmark mortgage lending rates immediately followed the increases in the repurchase rate in April and June, both rising by 50 basis points on each occasion to 15,5 per cent.

Other money-market interest rates also responded to the adjustment in the repurchase rate. The three-month Johannesburg Interbank Agreed Rate (Jibar) initially inched lower to 11,13 per cent on 9 February 2008 after the repurchase rate was kept unchanged in January, but then rose to reach 12,58 per cent on 11 June. By contrast, the tender rate on 91-day Treasury bills initially trended downwards as demand for liquid assets remained relatively strong following the redemption of the R195 and R198 government bonds during the first quarter of 2008. Subsequent to the repurchase rate increases in April and June, the Treasury bill rate responded accordingly and moved to a higher level.

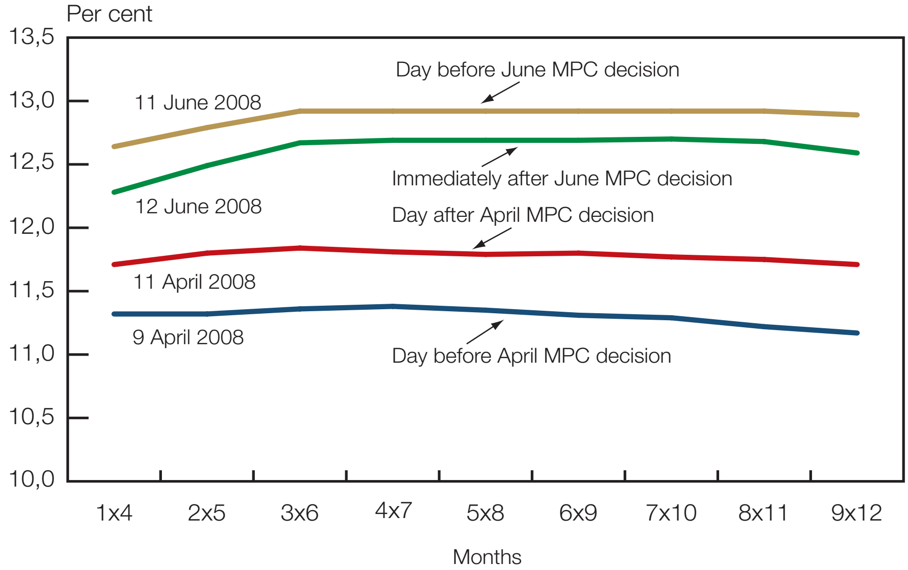
Money-market rates



Uncertainties about economic prospects and the inflationary consequences of the depreciating exchange value of the rand coupled with rising oil and food prices were largely embedded in the forward rate agreements (FRAs) during the first five months of 2008. For instance, the 9x12 FRA rate increased by 59 basis points from 10,57 per cent at the end of January 2008 to 11,16 per cent on 9 April. As the market fully adjusted to the April repurchase rate increase, this FRA rate increased to 11,67 per cent on 11 April as shown in the graph on the FRA yield curve on page 39. After escalating further to 12,85 per cent on 11 June, the FRA rate moderated to 12,68 per cent immediately after the June MPC decision to increase the repurchase rate by 50 basis points.

Overnight money-market rates published by the Bank remained responsive to tighter conditions in the money market. The South African Benchmark Overnight Rate on deposits (Sabor) stood at 11,25 per cent on 11 June 2008, which was 64 basis points higher than at the beginning of the year. The implied rate on one-day rand funding in the foreign-exchange swap market (overnight FX rate) remained generally within the standing facility limits and stood at 11,41 per cent on 11 June.

Forward rate agreement yield curves



On 11 April 2008, the *prescribed interest rates* as stipulated in the National Credit Act increased as indicated in the accompanying table.

National Credit Act maximum interest rates: Changes, 11 April 2008

Category	Maximum rate per annum Per cent
Mortgage agreements	29,2 to 30,3
Credit facilities	34,2 to 35,3
Unsecured credit transactions	44,2 to 45,3
Developmental credit agreements:	
For the development of a small business	44,2 to 45,3
For low-income housing (unsecured)	44,2 to 45,3
Short-term credit transactions	60 (unchanged)
Other credit agreements	34,2 to 35,3
Incidental credit agreements	24 (unchanged)

Similarly, on 18 April 2008 the *maximum annual finance charge rates* on money loans, credit and leasing transactions, as stipulated by the Usury Act, were increased by one percentage point to 26 per cent for amounts less than R10 000 and to 23 per cent for amounts above R10 000, but not exceeding R500 000.

Retail bonds can be purchased from government outlets and selected private retailers for amounts ranging between R1 000 and R1 million. Since the introduction of RSA fixed-rate retail savings bonds in May 2004, more than 18 400 investors have invested in these bonds, to a cumulative amount of some R2,5 billion up to April 2008.

Interest rates on the *RSA government fixed-rate and inflation-linked retail bonds* are priced off the government bond yield curves. The table on page 40 depicts how rates on fixed-rate bonds have changed from September 2007 and inflation-linked bonds from June 2007.

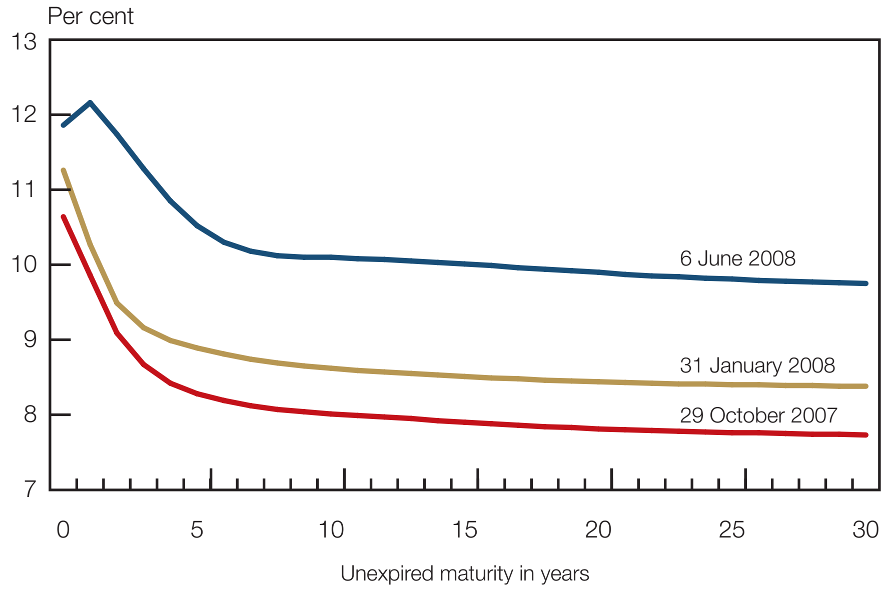
Interest rates on RSA fixed-rate and inflation-linked retail bonds
Per cent

Effective from	2-year bond	3-year bond	5-year bond
Fixed rate:			
1 Sep 2007	9,25	9,25	8,75
1 Oct 2007	9,50	9,75	10,00
1 Mar 2008	9,50	9,75	10,25
1 May 2008	9,75	10,00	10,50
1 Jun 2008	10,00	10,25	10,75
	3-year bond	5-year bond	10-year bond
Inflation linked:			
1 Jun 2007	2,75	2,75	2,75
1 Dec 2007	3,25	3,00	2,75
1 Jun 2008	3,00	2,75	2,50

The *daily average yield on the R157 government bond* (maturing in 2015) increased significantly from 8,09 per cent on 29 October 2007 to 10,13 per cent on 6 June 2008. This increase was in response to, among other things, the recent depreciation in the exchange value of the rand coupled with the unrelenting increase in the international price of oil and the consequent higher rates of inflation. By contrast, the daily closing yield on the US 10-year bond continued on a downward trend from 5,28 per cent on 13 June 2007 to 3,34 per cent on 20 March 2008, before increasing to 3,92 per cent on 6 June. Consequently, the spread between the South African R157 bond yield and the US 10-year bond yield widened from 293 basis points on 13 June 2007 to 621 basis points on 6 June 2008.

From the end of October 2007, the level of the *yield curve* shifted upwards across all maturities as bond yields continued to rise in response to the depreciation in the exchange value of the rand, higher inflation expectations and, for shorter maturities,

Yield curves



increases in the repurchase rate. The *yield gap*, measured as the difference between yields at the extreme long and short ends of the curve, narrowed from a negative 341 basis points on 15 January 2008 to a negative 211 basis points on 6 June 2008.

The *break-even inflation rate* in the five-year maturity range fluctuated higher from a recent low of 4,96 per cent on 29 October 2007 to 7,79 per cent on 6 June 2008. This was due to a general increase in nominal yields on conventional government bonds and declining real yields on inflation-linked government bonds, as inflation expectations continued to deteriorate.

The *currency risk premium*[4] on South African government bonds narrowed from 296 basis points in December 2007 to 280 basis points in January 2008, before widening to 380 basis points in May as a result of a pronounced increase in yields on the South African domestic rand-denominated bonds compared with yields on dollar-denominated South African bonds.

Over the past year the turmoil in international financial markets was accompanied by the repricing of risk. From a low of 153 basis points in May 2007, the JPMorgan Emerging Markets Bond Index Plus (EMBI+)[5] spread widened to 308 basis points in March 2008, before narrowing to 243 basis points in May. Similarly, the *sovereign risk premium* on South African US dollar-denominated bonds in the six-year maturity range trading in international markets widened from an average of 67 basis points in May 2007 to 286 basis points in March 2008, before narrowing to 196 basis points in May.

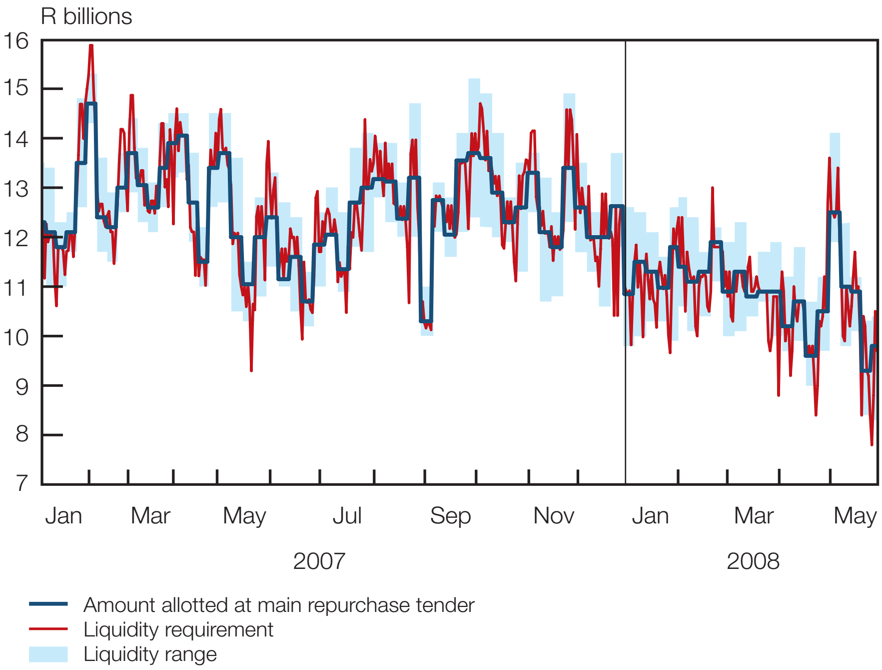
4 Measured as the differential between South African government bond yields on rand-denominated debt in the seven-year maturity range issued in the domestic market and South African dollar-denominated debt in the nine-year maturity range issued in the United States market.

5 EMBI+ measures total returns for US dollar-denominated debt instruments of emerging markets.

Money market

During the first quarter of 2008 and the ensuing two months to May 2008, the daily liquidity requirement of the private-sector banks fluctuated between R7,8 billion and R13,6 billion, occasionally breaching the range within which the liquidity requirement was expected to move. This was largely due to fluctuations experienced in note flows and unexpected transactions recorded in the accounts of other financial institutions held with

Liquidity requirement, ranges and amount allotted



the South African Reserve Bank. The liquidity provided by the Bank at the weekly main refinancing tender varied between R9,3 billion and R12,5 billion over the same period.

Banks continued to utilise their cash reserve accounts with the South African Reserve Bank as the main mechanism to square off their end-of-day liquidity positions. Standing and supplementary reverse repurchase facilities were also used on some occasions.

The accompanying table depicts the statistical counterparts of money-market liquidity flows from January to May 2008.

Money-market liquidity flows

R billions (easing +; tightening -)

	Jan – Mar 2008	Apr – May 2008
Notes and coin in circulation	4,8	0,0
Required cash reserve deposits	-2,7	0,7
Money-market effect of SARB foreign-exchange transactions	3,3	12,8
Government deposits with SARB	-2,4	1,0
Use of liquidity management instruments	-11,1	8,9
Reverse repurchase transactions	-4,5	0,0
SARB debentures	-6,6	8,9
Other items net	8,0	-22,3
Banks' liquidity requirement (decrease +; increase -)	-0,1	1,1

The Bank's purchases of foreign-exchange injected liquidity amounting to only R3,3 billion during the first quarter of 2008 compared with an injection of R14,2 billion during the fourth quarter of 2007. The fifth early repayment on a 5-year US$1,5 billion dual-currency-syndicated term loan, entered into in July 2005, was effected on 29 May 2008. This prepayment amounted to US$250 million, and reduced the outstanding balance on this loan to US$0,25 billion. It is envisaged that the outstanding amount will have been fully redeemed by mid-July 2008. Occasions when the exchange value of the rand was relatively strong were utilised to acquire foreign currency.

Further easing in liquidity conditions was mainly related to a reduction in notes and coin in circulation to the amount of R4,8 billion due to lower demand for cash during the first quarter of 2008 compared with the preceding year-end.

Strong tightening effects resulted from increases in reverse repurchase agreements and SARB debentures. A significant proportion of the increase of R11,1 billion in the total amount outstanding of these interest-bearing liquidity-draining instruments during the quarter under review occurred in January 2008 to mitigate lower demand for cash during this period. At the end of May 2008, the total outstanding balances on these instruments were R19,2 billion for SARB debentures and R7,5 billion for reverse repurchase agreements.

An increase in required cash reserve balances held with the Bank tightened the money-market conditions further by R2,7 billion. This increase in required cash reserve balances was mainly brought about by the implementation of the Basel II regulatory requirements by the banking sector in January 2008, which included changes to the definition of qualifying liabilities[6] on which the calculation of the cash reserve requirement is based.

6 As before, banks are required to keep 2,5 per cent of their liabilities as cash reserve balances with the South African Reserve Bank. However, from January 2008 new regulatory prescriptions led to an increase in the base amount of qualifying liabilities. This required, among other things, the inclusion of debt instruments which were previously deductible, as well as stricter accounting rules that allow less netting, while daily average balances were replaced by averages of the previous three month-ends.

Special Treasury bills with a maturity of four days amounting to R7,0 billion were issued during February 2008, which further assisted the Bank in draining additional liquidity from the market. The nominal value of government bonds in the Bank's monetary policy portfolio remained around R7,6 billion in the first quarter of 2008.

Bond market

Public-sector borrowers' demand for funds in the domestic primary bond market declined in early 2008. Net redemptions of central government bonds in issue amounted to R14,5 billion in the first five months of 2008 – including the redemption of the R195 and R198 bonds – and net redemptions of public corporation bonds in issue amounted to R0,5 billion over the same period. *Private-sector funding* activity in the domestic bond market continued at a slower pace in early 2008. The outstanding nominal value of private-sector loan stock listed on the Bond Exchange of South Africa Limited (BESA) increased by R6,4 billion in the first five months of 2008, compared with the R23,5 billion raised in the corresponding period of 2007. The outstanding nominal value reached R223,7 billion at the end of May 2008.

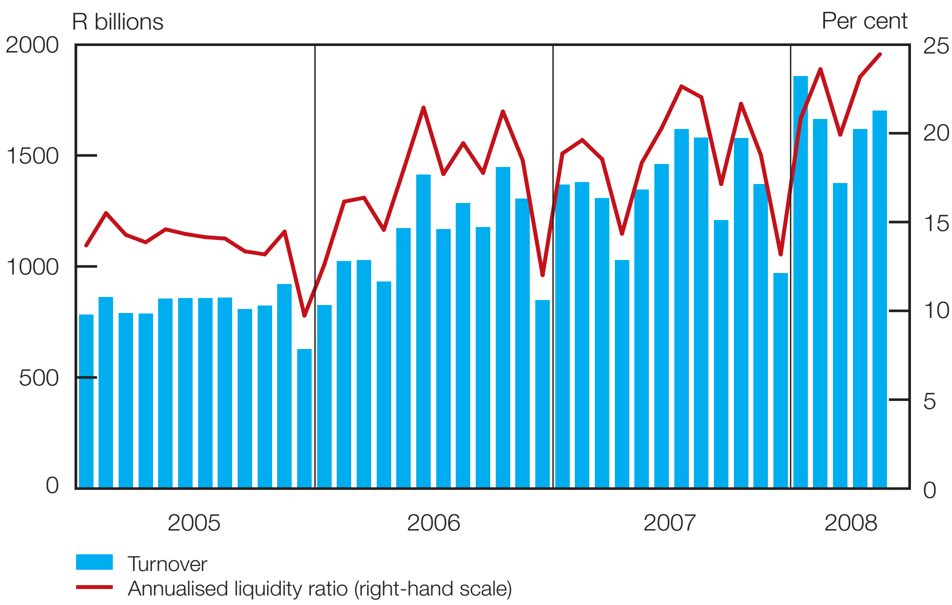
Funding through *commercial paper* (unsecured short-term debt instruments) lost some momentum in early 2008. The outstanding nominal value of commercial paper listed on BESA increased by only R1,2 billion in the first five months of 2008 to reach R46,5 billion in May. The total outstanding nominal value of all debt listed on BESA declined by R4,7 billion during the same period, bringing the total outstanding nominal amount to R772,5 billion at the end of May. This amount included rand-denominated debt issued by four African entities outside South Africa amounting to R4,1 billion, having increased from R0,4 billion at the end of 2006.

The increased issuance of rand-denominated bonds by foreign borrowers in the international bond markets thus far in 2008 could be indicative of attractive nominal rand yields and favourable medium-term inflation expectations given the monetary authority's resolve to constrain inflation. In the first five months of 2008 gross issuance of rand-denominated bonds in the *European bond markets* amounted to R11,7 billion and redemptions to R3,7 billion, resulting in a net issuance of R8,0 billion. This net issuance was 37 per cent higher than the R5,8 billion recorded in the same period of 2007. The type of debt issued remained predominantly AAA-rated and the term to maturity was concentrated around seven years or less.

In addition to issuances of eurorand bonds, rand-denominated bonds have also been issued by foreign borrowers in the *Japanese Uridashi market* to Japanese retail investors since July 2004. These bonds typically offer more attractive yields than those earned on similar bonds issued in Japanese yen. The total nominal value of issues increased significantly by 173 per cent from R4,8 billion in 2006 to R13,1 billion in 2007 and amounted to no less than R14,1 billion in the first five months of 2008 compared with the R4,2 billion issued in the first five months of 2007.

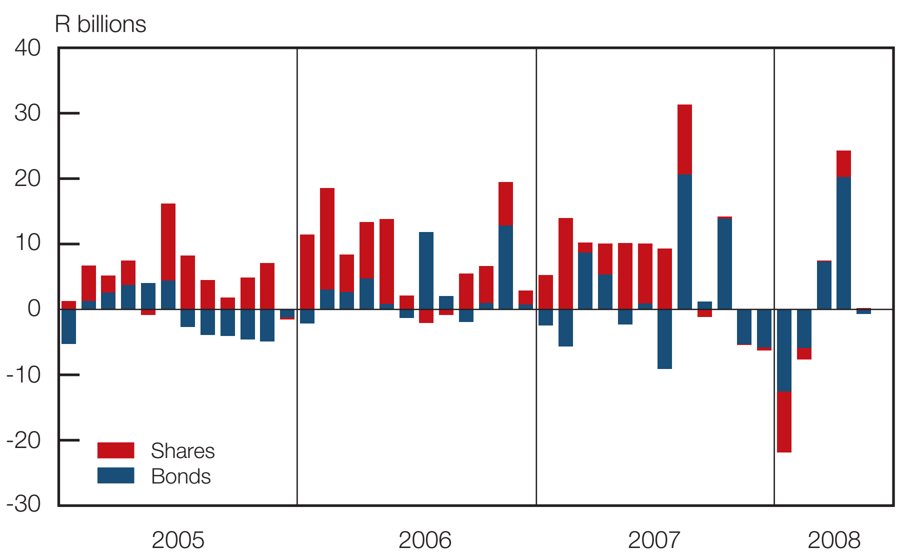
Turnover in the domestic *secondary bond market* remained high in the first part of 2008. The value of turnover on BESA reached an all-time monthly high of R1,9 trillion in January 2008, contributing towards turnover of R8,2 trillion in the first five months of 2008, some 28 per cent higher than the value traded in the corresponding period of 2007. The liquidity ratio of all bonds (annualised turnover relative to amount in issue) increased from 17,8 times in 2007 to 22,2 times in May 2008.

Secondary bond market



Non-residents reduced their holdings of domestic rand-denominated bonds aggressively from November 2007 to February 2008. Net sales of bonds worth R18,3 billion in the first two months of 2008 were followed by net purchases of R7,3 billion in March, resulting in net sales of R11,1 billion in the first quarter of 2008. Heightened uncertainty and rising inflation expectations could have contributed to the net selling of bonds. Thereafter, non-residents' holdings of bonds increased by R20,3 billion in April. In the first five months of 2008 the cumulative net purchases of bonds by non-residents amounted to R8,4 billion compared with R3,6 billion recorded in the same period of 2007. Non-residents' participation on BESA declined from an average of 19 per cent in 2007 to 15 per cent in the first five months of 2008.

Net purchases of shares and bonds by non-residents

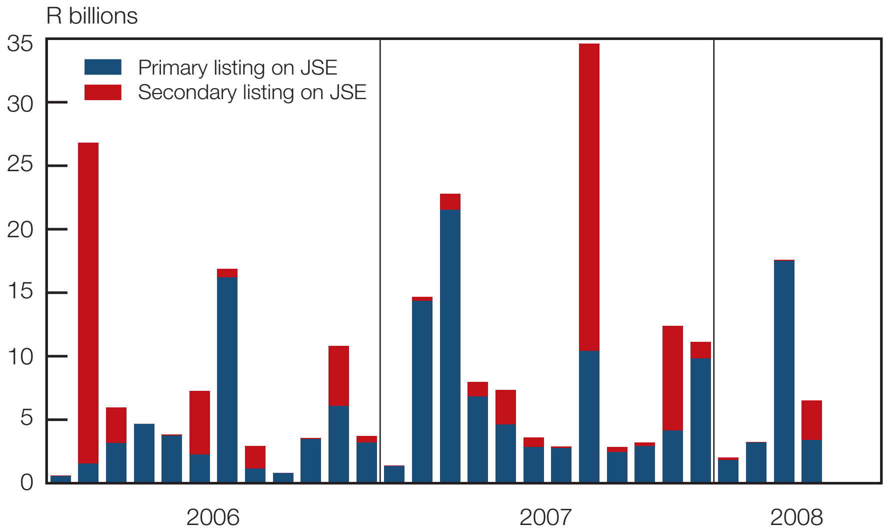


Transactions on JSE and BESA

Share market

Companies listed on the JSE Limited (JSE) raised *equity capital in the domestic and international primary share markets* amounting to R29,3 billion in the first four months of 2008. This was 37 per cent less than the amount raised during the corresponding period in 2007, possibly due to higher volatility in global share markets and the subsequent repricing of risk. Companies with primary listings on the JSE were responsible for 89 per cent of the capital-raising activity in 2008. The financial sector accounted for 62 per cent of total funds raised, while the industrial sector accounted for 18 per cent and the resources sector for 16 per cent. Higher share prices encouraged company listings on the JSE and 9 new listings and 6 delistings occurred in the first four months of 2008, compared with 8 new listings and 21 delistings over the same period in 2007.

Total capital raised by companies listed on the JSE



High share prices boosted trading volumes and *secondary share market* turnover in the first five months of 2008 reached R1,4 trillion, 27 per cent higher than the turnover recorded in the corresponding period in 2007. The daily average turnover reached a record high of R14,1 billion per day in March 2008, contributing to a daily average turnover of R12,8 billion in the first five months of 2008 – 26 per cent higher than the R10,1 billion recorded in the first five months of 2007.

Total *market capitalisation* on the JSE decreased from R6,2 trillion at the end of October 2007 to R5,8 trillion at the end of March 2008, before rebounding to a record high of R6,3 trillion at the end of May. Market liquidity, measured by the annualised turnover as a percentage of market capitalisation, increased from an average of 52 per cent in 2007 to 56 per cent in the first five months of 2008.

Non-resident investors' interest in the South African share market waned substantially in the first two months of 2008, as equity markets declined in response to continued fears of a slowdown in global growth. Non-residents' net sales of shares of R11,2 billion in the first two months of 2008 were followed by net purchases totalling R4,5 billion from March 2008 to May. This change in sentiment was coupled with record-high domestic share prices due to high commodity prices. In the first five months of 2008, non-residents' cumulative net sales of shares amounted to R6,7 billion compared with net purchases of R35,5 billion recorded in the same period in 2007. Non-residents' participation in the domestic share market simultaneously declined from an average of 21 per cent in 2007 to 19 per cent in the first five months of 2008.

Greater caution among investors on account of the global financial market turmoil and tighter domestic monetary policy and business conditions prompted a decline of 20 per cent in the *all-share price index* of the JSE from a high on 11 October 2007 to 23 January 2008. Despite tight policies and electricity supply disruptions, the all-share price index trended upwards from 23 January by 32 per cent to an all-time high of 33 233 on 22 May before declining by 5 per cent to 6 June. The upward trend was supported by high commodity prices, the depreciation in the exchange value of the rand as well as stronger global equity markets from April. In US dollar terms, the all-share price index of the JSE increased by 14 per cent from 23 January 2008 to 6 June, outperforming Standard & Poor's 500 composite index which increased by 2 per cent.

Share prices

From a recent low on 23 January 2008, the resources share price index recorded an increase of 47 per cent to 6 June, mainly driven by higher commodity prices as fears of reduced supply on account of electricity disruptions took effect. Over this period the general-mining and platinum-mining indices rose by 56 per cent and 42 per cent, respectively. Industrial share prices increased by 19 per cent while financial share prices fell by 9 per cent over this period as interest-rate sensitive sectors responded to the release of unfavourable inflation data and expectations of further increases in interest rates.

The *price-earnings ratio* of all classes of shares fell from 16,1 in October 2007 to 13,9 in January 2008, before increasing to 16,3 in May, alongside the renewed increase in share prices. However, the *dividend yield* on all classes of shares increased from 2,2 per cent to 2,6 per cent before declining to 2,3 per cent. The *earnings yield* on all classes of shares increased from 6,2 per cent to a high of 7,2 per cent before retreating to 6,1 per cent over the same period.

The number of companies listed on *Alt*^{x} reached 78 at the end of May 2008, compared with 41 in May 2007. The combined market capitalisation of all companies listed on Alt^x declined from a record high of R31,2 billion in December 2007 to R27,4 billion in May 2008. Turnover on Alt^x amounted to R2,5 billion in the first five months of 2008 – an increase of 29 per cent over the R1,9 billion traded in the comparable period of 2007.

Market for exchange-traded derivatives

Turnover in *financial derivatives* trading on the JSE was bolstered by the buoyant conditions in the underlying share market during 2007 and the first five months of 2008, and increased volatility and uncertainty in global markets. In the first five months of 2008, single-stock futures (including dividend futures) remained the dominant instrument and accounted for 89 per cent of the total *number* of contracts traded. However, in *value* terms, equity index products accounted for 93 per cent of trade.

Trading activity in *commodities futures* and options was strong in 2007 and the first five months of 2008. Prices of agricultural products soared as booming demand from fast-developing nations with growing populations and rising income, together with adverse weather conditions in some countries, exerted pressure on global supplies. Prices also came under pressure as fuel prices and input costs continued to soar. Food riots occurred in countries facing severe basic food shortages and possible starvation. Some 21 countries have introduced price controls on staple items such as bread, milk and cooking oil, while several countries have introduced export curbs to protect dwindling supplies.

Turnover in *warrants* weakened in 2007, but recovered somewhat in the first five months of 2008. Turnover in derivatives during the first five months of 2008 is indicated in the accompanying table.

Derivatives turnover on the JSE, January to May 2008

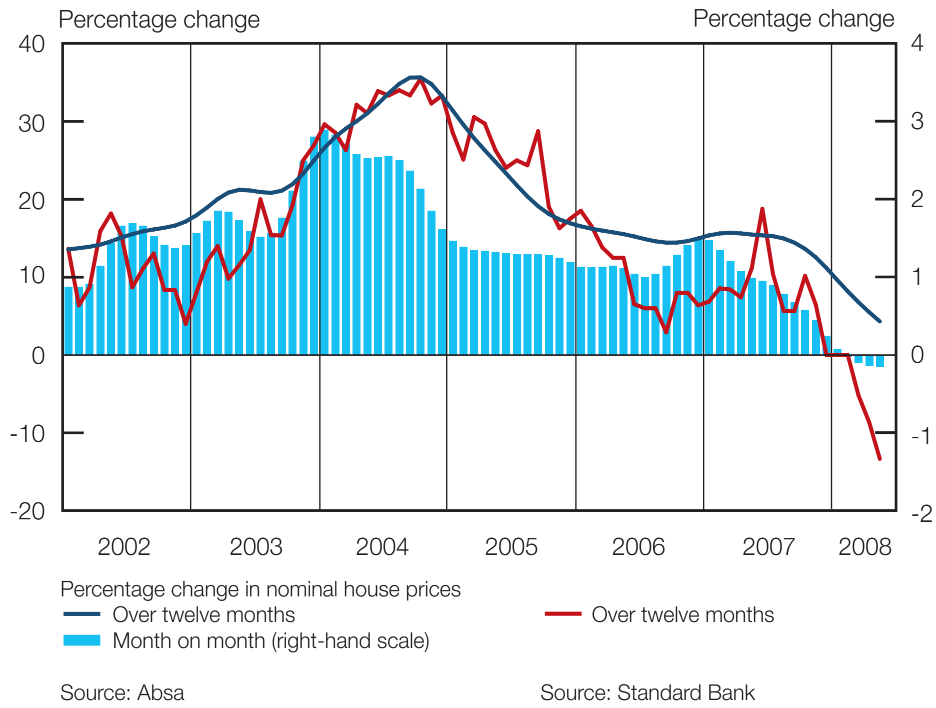
	Value R billions	Change over one year Per cent
Financial futures and options on futures	2 102	48
Warrants	2	22
Agricultural commodity futures and options	139	43
Interest rate derivatives	37	159

Trading activity on *Yield-X* continued apace in the first five months of 2008. The total *value* of turnover increased by 159 per cent in the first five months of 2008 compared with the same period in 2007, while the total *number* of contracts traded amounted to 919 000 – an increase of 10 815 per cent. Currency futures, introduced in June 2007, continued to perform well and accounted for 79 per cent of the total number of contracts traded in the first five months of 2008. Dollar/rand futures contracts remained the most-traded contracts. Australian dollar/rand futures contracts were issued for the first time in May 2008.

Real-estate market

The tempo at which residential real-estate prices rose decelerated further in 2008. The year-on-year rate of increase in average residential property prices in the middle segment of the market, as measured by Absa, slowed from 15,7 per cent in March 2007 to 4,3 per cent in May 2008, in response to reduced affordability due to a simultaneous rise in house prices and financing costs. At these levels, the average house price amounted to around R960 700. In real terms, the twelve-month rate of increase in the average house price decelerated from 7,8 per cent in August 2007 to 0,4 per cent in January 2008, before declining for the first time since 1999 by 1,5 per cent in February and 5,0 per cent in April as consumer prices rose faster than house prices.

House prices



The year-on-year rate of change in the median price of houses, as measured by Standard Bank amounted to zero from December 2007 to February 2008. The median house price then declined by 5,2 per cent over the twelve months to March – the first decline since 2000 – and by 13,3 per cent over the twelve months to May.

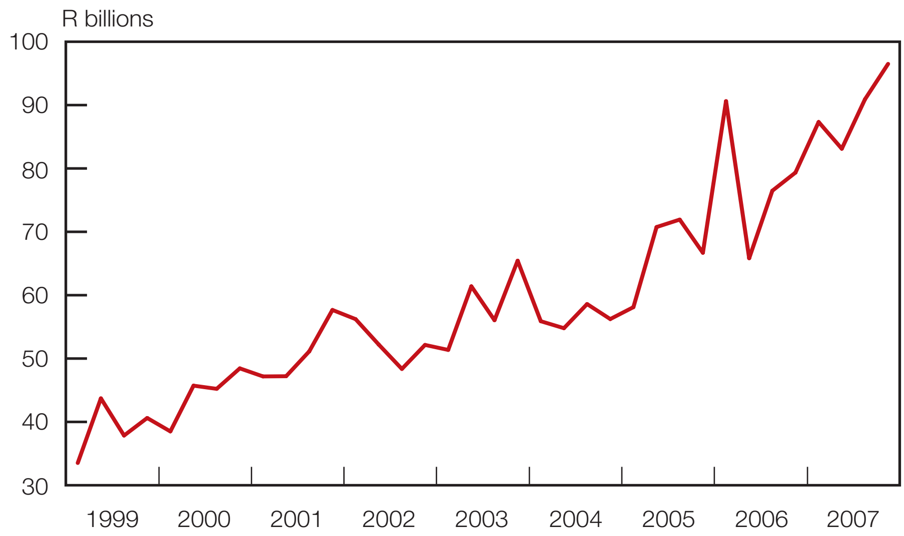
Non-bank financial intermediaries

Despite increased volatility and uncertainty in global financial markets during the second half of 2007, non-bank financial intermediaries[7] recorded an increase in their net financial inflows[8]. Net inflows increased by 6 per cent from the third to the fourth quarter of 2007.

7 Defined as unit trusts, private pension and provident funds, official pension and provident funds and insurers.

8 Total premiums received plus net sales of units minus administrative expenses.

Net inflow of funds into selected non-bank financial intermediaries



As far as the composition of the inflows is concerned, increasing inflows to money-market unit trusts indicate a preference for liquid assets among local investors.

The increasing cash component of the asset portfolios of non-bank financial intermediaries is a further indication of the risk aversion in recent investment decisions. The total net assets of non-bank financial intermediaries recorded remarkable growth in 2007, largely due to an increase in asset prices. However, inflows to non-bank financial intermediaries are likely to be subject to increased pressure on the growth in real disposable income of households amid tighter domestic economic conditions.

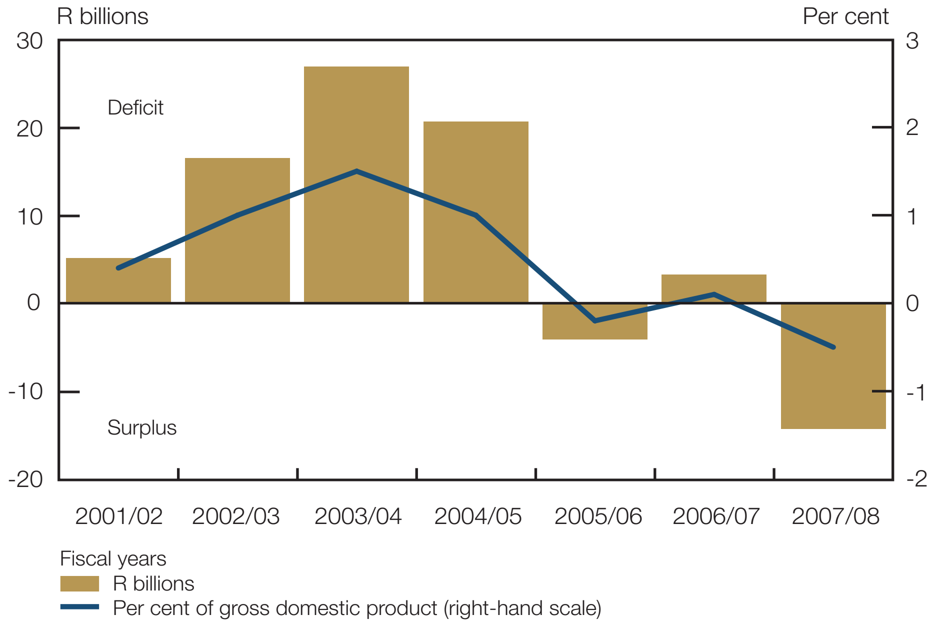
Public finance

Non-financial public-sector borrowing requirement [9]

9 Calculated as the cash deficit/surplus of the consolidated central, provincial and local governments and non-financial public enterprises and corporations.

The activities of the non-financial public sector resulted in a cash *surplus* of R14,2 billion in fiscal 2007/08, compared with a cash *deficit* of R3,3 billion recorded in the previous fiscal year. This overall surplus could be attributed to surpluses recorded by national government, extra-budgetary accounts, social security funds and provincial governments. As a ratio of gross domestic product, the non-financial public-sector cash surplus amounted to 0,7 per cent in fiscal 2007/08 compared with a cash deficit of 0,2 per cent in the previous fiscal year. The ratio recorded in fiscal 2007/08 was higher than the revised ratio of 0,1 per cent estimated in the February 2008 Budget Review.

Non-financial public-sector borrowing requirement



The financial balances of the non-financial public sector are disaggregated in the accompanying table.

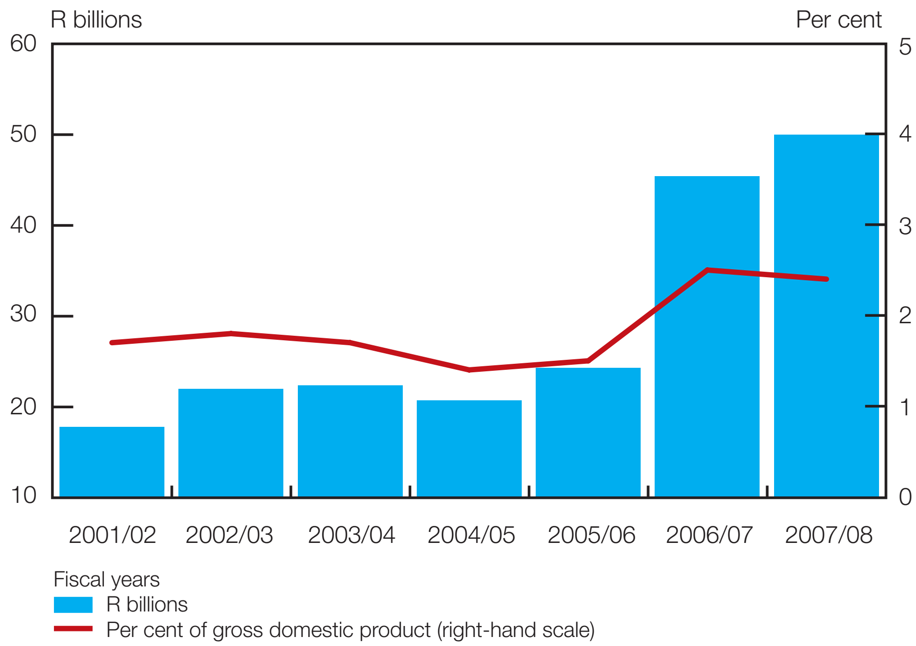
Non-financial public-sector borrowing requirement
R billions

Level of government	2006/07*	2007/08*
National government	-6,0	-18,5
Extra-budgetary institutions	-3,7	-7,4
Social security funds	-5,8	-6,2
Provincial governments	-0,0	-0,3
Local governments	7,6	2,9
Non-financial public enterprises	11,3	15,4
Total	3,3**	-14,2**

* Deficit+, surplus-
** Individual amounts may not add up to the totals due to rounding

Non-financial public enterprises and corporations recorded a cash deficit of R15,4 billion in fiscal 2007/08, higher than the cash deficit recorded in fiscal 2006/07. In the most recent of these two fiscal years, net investment in non-financial assets by the major non-financial public enterprises amounted to R50 billion, which represented a year-on-year rate of increase of 10,1 per cent when compared with the previous fiscal year.

Net investment in non-financial assets by non-financial public enterprises and corporations



In comparison to fiscal 2006/07, the national government's tax revenue for fiscal 2007/08 was higher by a substantial margin, and also surpassed the originally budgeted projections. The tax revenues were buoyed by the considerable increase in company and personal income tax collections. An analysis of *national government finance statistics* indicated that cash receipts from operating activities increased by 16,0 per cent in fiscal 2007/08 when compared with the previous fiscal year. During the period under review, cash payments for operating activities increased by 13,6 per cent. Net cash flows from operating activities of national government, together with net investment in non-financial assets, resulted in a cash surplus of R18,5 billion in fiscal 2007/08, or approximately three times the cash surplus recorded a year earlier.

A breakdown of the *Provincial Revenue Fund Statements* shows that provincial governments recorded a cash deficit of R6,4 billion in the first quarter of 2008, compared with a cash deficit of R8,4 billion recorded in the same period a year earlier. After taking into account net investment in non-financial assets, the cash surplus amounted to R0,3 billion for the full fiscal year 2007/08. This modest surplus followed an almost balanced budget figure recorded in the previous fiscal year.

Grants from national government remained the principal source of provincial governments' cash receipts, representing 96,0 per cent of the total. Total cash receipts from operating activities amounted to R213,6 billion in fiscal 2007/08, or 15,2 per cent more than in the previous fiscal year. Cash payments for operating activities amounted to R196,6 billion in fiscal 2007/08 and represented an increase of 15,7 per cent when compared with the previous fiscal year. Net investment in non-financial assets amounted to R16,7 billion, or 7,7 per cent more than in fiscal 2006/07.

The financial activities of provincial governments resulted in an increase in their deposits with private-sector banks from R7,0 billion at the end of March 2007 to R8,4 billion at the end of March 2008, while their overall indebtedness to banks decreased from R1,2 billion to R0,4 billion between these respective dates. Provincial governments' deposits with the Corporation for Public Deposits decreased slightly from R2,7 billion to R2,4 billion over the same period.

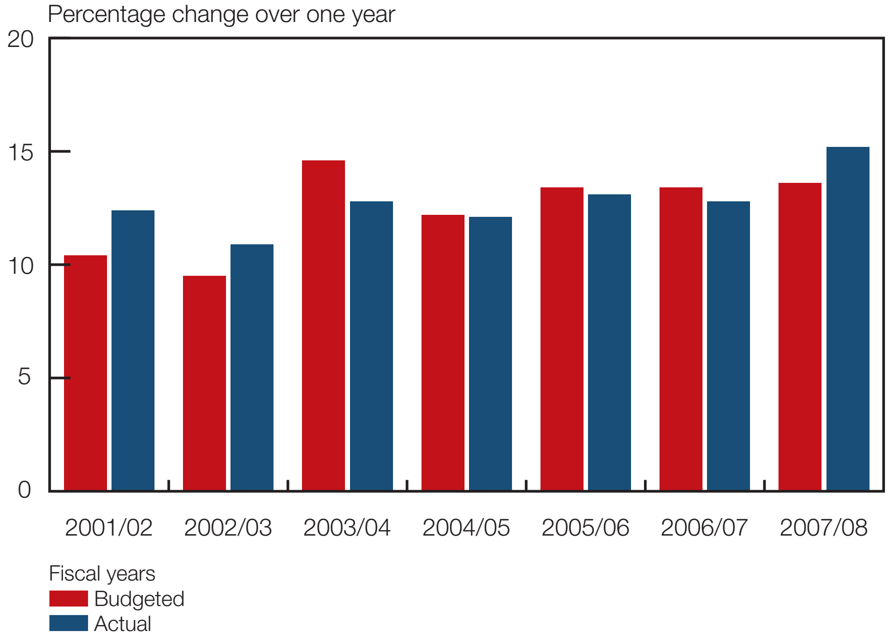
Preliminary *local government statistics* reflected an improvement from a cash deficit of R7,6 billion recorded in fiscal 2006/07 to a cash deficit of R2,9 billion in fiscal 2007/08. The improvement in the cash deficit of local government can be attributed to cash receipts, including conditional grants from national government earmarked for specific infrastructural spending, rising faster than expenditure.

In fiscal 2007/08, preliminary data showed that the financial position of *extra-budgetary institutions* improved significantly when compared with the previous fiscal year. This sphere of government recorded a cash surplus of R7,4 billion compared with a cash surplus of R3,7 billion a year earlier. *Social security funds* recorded a cash surplus of R6,2 billion in fiscal 2007/08, higher than the cash surplus recorded in the preceding fiscal year.

Budget comparable analysis of national government finance

Unaudited accounts indicate that national government expenditure amounted to R541,8 billion in fiscal 2007/08 – some R7,9 billion more than the originally budgeted provision. However, the preliminary outcome almost equalled the revised estimate presented to Parliament by the Minister of Finance in February 2008. National government expenditure increased at a year-on-year rate of 15,2 per cent in fiscal 2007/08, exceeding the previous fiscal year's growth rate by 2,4 percentage points.

Expenditure by national government



National government expenditure as a ratio of gross domestic product amounted to 26,4 per cent in fiscal 2007/08 – moderately higher than the ratio of 26,0 per cent recorded in the preceding fiscal year.

Interest paid on national government debt was well contained and amounted to R52,8 billion in fiscal 2007/08, or 1,3 per cent more than that reported in the previous fiscal year. This was also equivalent to the original budgetary provision. The containment of interest payments could be attributed to a combination of appropriate borrowing strategies, the steady decline in borrowing requirements recorded in past years and a turnaround to surpluses in the latest two fiscal years.

After taking cash-flow adjustments into account (transactions arising from timing differences between the recording of transactions and bank clearances, and late departmental requests for funds) national government cash-flow expenditure amounted to R539,2 billion in fiscal 2007/08. Surrenders totalled R4,8 billion and contributed predominantly to the difference between cash-book and cash-flow expenditure.

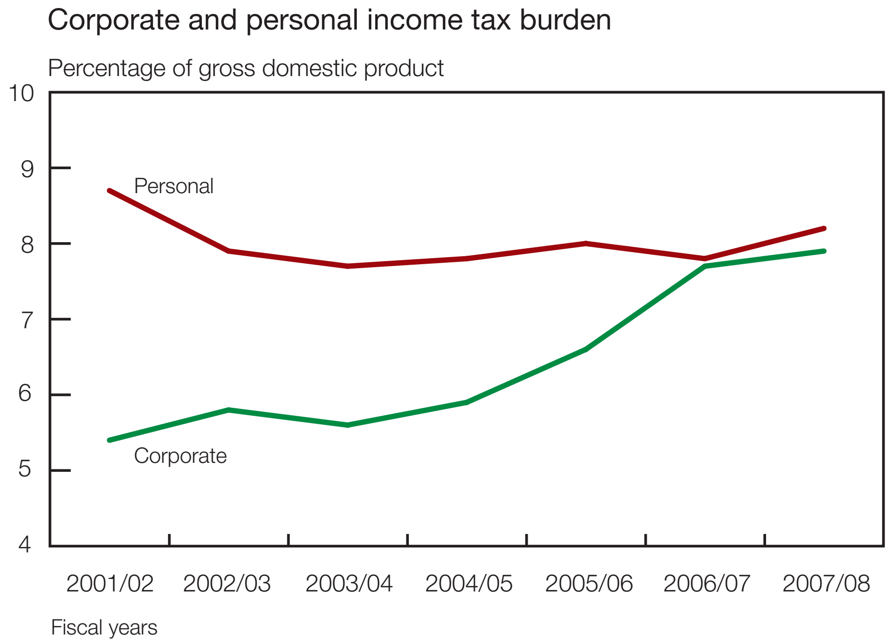
The robustness of the South African economy and the efficiency gains of fiscal institutions were reflected in strong tax collections for fiscal 2007/08. The *Statement of the National Revenue, Expenditure and Borrowing* indicated that unaudited national government revenue in fiscal 2007/08 increased by 16,6 per cent to R561,3 billion – R16,7 billion or roughly 3 per cent above the originally budgeted estimate. The pace of increase outperformed the increase originally envisaged for fiscal 2007/08 in the 2007 Budget, but was slightly below the 17,0 per cent recorded in fiscal 2006/07. As a ratio of gross domestic product, national government revenue amounted to 27,3 per cent in fiscal 2007/08, compared with 26,6 per cent in the preceding fiscal year.

National government revenue in fiscal 2007/08

Revenue source	Originally budgeted Full year		Actual Full year	
	R billions	Percentage change	R billions	Percentage change*
Taxes on income, profits and capital gains	312,2	11,5	332,1	18,6
Payroll taxes	6,5	16,1	6,3	13,3
Taxes on property	11,0	6,4	11,9	15,0
Domestic taxes on goods and services	199,0	14,0	194,6	11,5
Taxes on international trade and transactions	27,5	14,5	27,1	12,8
Other revenue	11,5	-3,7	14,0	17,0
Less: SACU** payments	23,1	-8,5	24,7	-1,9
Total revenue	**544,6**	**13,2**	**561,3**	**16,6**

* Fiscal 2006/07 to fiscal 2007/08
** Southern African Customs Union

The solid growth in national government revenue was primarily due to high collections of taxes on income, profits and capital gains. Personal income tax collections exceeded the original estimate for fiscal 2007/08 by a substantial margin, but nonetheless fell slightly below the revised target of R169,3 billion stated in the *Budget Review 2008*. Rising personal income tax collections were largely a result of an expanded tax register reflecting employment growth and improved compliance, complemented by increases in salary and wage levels. Corporate income tax collections also exceeded the original budget estimate. Higher collections of corporate income tax emanated from all economic sectors, with the mining sector in particular bolstered by high commodity prices. Robust growth in fixed capital spending also supported economic activity.



Taxes on property increased by 15,0 per cent in fiscal 2007/08. This reflected buoyant activity in the financial markets leading to better-than-expected collections from taxes on financial and capital transactions. Collections of domestic taxes on goods and services fell below the originally budgeted amount as a result of slower-than-originally-expected growth in domestic demand in fiscal 2007/08. Collections from taxes on international trade and transactions showed signs of slowing due to a levelling off of imports of consumer goods, possibly on account of a relatively weaker rand and higher interest rates.

After taking cash-flow adjustments into account, national government's cash-flow revenue in fiscal 2007/08 amounted to R558,9 billion, representing a year-on-year rate of increase of 16,1 per cent.

The net result of national government revenue and expenditure in fiscal 2007/08 was a cash-book surplus of R19,5 billion, which substantially exceeded the surplus of R11,0 billion recorded a year earlier. As a ratio of gross domestic product, the surplus amounted to 0,9 per cent in 2007/08, higher than the surplus of 0,6 per cent recorded in fiscal 2006/07.

The difference between national government cash-flow revenue and cash-flow expenditure in fiscal 2007/08 was a cash-flow surplus before borrowing and debt repayment of R19,7 billion – some R5,7 billion above the cash-flow surplus reported in the previous fiscal year. After effecting adjustments for extraordinary transactions and the cost on revaluation of foreign debt at redemption, the surplus amounted to R19,3 billion in fiscal 2007/08, higher than the previous fiscal year's surplus.

As indicated in the accompanying table, national government recorded net redemptions of bonds and loans in the domestic and foreign capital markets. In January 2008 the R198 bond was partly redeemed and switched to the R202 and R210 inflation-linked bonds in an effort to satisfy market appetite amid rising inflation. On 28 February 2008 government redeemed the R195 bond to an amount of about R24 billion. The outstanding balance on the R198 bond was redeemed fully in March 2008. These debt management strategies led to net redemptions of domestic government bonds of R2,3 billion during fiscal 2007/08. For the period under review, the cash-book surplus increased national government's cash balances by R19,2 billion.

Financing of national government in fiscal 2007/08

R billions

Item or instrument	Originally budgeted	Revised estimate	Actual 2007/08	Actual 2006/07
Budget balance*	-10,7	-15,8	-19,7**	-14,0**
Plus: Extraordinary payments	0,4	0,8	0,8	4,2
Cost on revaluation of foreign debt at redemption	0,5	1,9	1,2	1,8
Less: Extraordinary receipts	0,3	1,6	1,6	2,5
Net borrowing requirement*	**-10,1**	**-14,7**	**-19,3**	**-10,5**
Treasury bills	5,7	5,8	5,7	5,3
Domestic government bonds	-8,0	-3,8	-2,3	-0,6
Foreign bonds and loans	-2,1	-1,5	-3,5	1,9
Change in available cash balances***	-5,7	-15,2	-19,2	-17,1
Total net financing	**-10,1**	**-14,7**	**-19,3**	**-10,5**

* Deficit +, surplus -
** Cash-flow deficit/surplus
*** Increase -, decrease +

During fiscal 2007/08, national government entered into loan agreements to the value of R2,4 billion for the Strategic Defence Procurement Programme. This was R1,3 billion below the amount issued in fiscal 2006/07.

Cumulative financing of national government

* Net issues (gross issues minus redemptions)

Domestic short-term funding was obtained at an average rate of 9,7 per cent per annum, while domestic long-term instruments were sold at an average rate of 8,1 per cent per annum in fiscal 2007/08.

The average outstanding maturity of national government's domestic marketable bonds increased from 102 months at the end of March 2007 to 104 months at the end of March 2008. Furthermore, the average maturity of foreign marketable bonds of national government increased from 67 to 81 months during the same period.

Although total loan debt increased from R552 billion at the end of March 2007 to R572 billion at the end of March 2008, it is encouraging to note that, as a ratio of gross domestic product, national government total loan debt decreased from 30,5 per cent to 27,8 per cent between these dates.

Foreign debt as a component of total loan debt increased from R82,6 billion at the end of March 2007 to R96,2 billion at the end of March 2008. Foreign debt as a proportion of total loan debt increased from 15,0 per cent to 16,8 per cent between these two dates.

The unaudited realised profits on the Gold and Foreign Exchange Contingency Reserve Account amounted to R47,4 billion at the end of March 2008 compared with R28,5 billion at the end of March 2007, partly reflecting the higher gold price.

Financial guarantees by national government amounted to R69,8 billion at the end of December 2007, slightly up from R67,8 billion at the end of March 2007.

National government finance in fiscal 2008/09

National government expenditure and revenue in April 2008 – the first month of fiscal 2008/09 – resulted in a cash book deficit of R13,9 billion compared with a cash book deficit of R18,7 billion in the same period of the previous fiscal year. Seasonal factors underpinned the deficit recorded in April.

National government finances in fiscal 2008/09
R billions

	Originally budgeted Full year	Actual April 2008
Revenue	625,4	27,2
Expenditure	611,1	41,1
Budget balance*	**-14,3**	**13,9**

* Deficit +, surplus -

Statement of the Monetary Policy Committee

10 April 2008

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

Introduction

The South African economy continues to respond to the less accommodative monetary policy stance. Domestic expenditure is responding to our current policy settings. Various high frequency and survey data point to the economy growing at a rate below potential, but nevertheless underpinned to some extent by strong investment expenditure by the private sector and public corporations.

The inflation outlook is being influenced by a series of supply-side shocks emanating from the international oil and food prices which are posing challenges for inflation-targeting countries in general. Domestically, there is evidence of generalised price pressures and the prospect of further substantial electricity price increases will also delay the return to within the inflation target range. In the light of these developments, inflation expectations have deteriorated.

Recent developments in inflation

CPIX inflation has maintained its upward trend, reaching 9,4 per cent in February 2008. Petrol and food prices were again the main drivers of inflation and increased at year-on-year rates of 29,5 per cent and 14,3 per cent, respectively. If food and energy prices were excluded, CPIX inflation would have measured 5,6 per cent. Further impetus to inflation came from the change in methodology for calculating clothing and footwear prices. Whereas clothing and footwear prices were previously shown to have declined persistently since October 2003, these prices increased at year-on-year rates of 7,9 per cent and 8,4 per cent in January and February 2008, respectively.

Year-on-year producer price inflation measured 11,3 per cent in February compared to 10,4 per cent in January. Agricultural food prices increased at a year-on-year rate of 23,5 per cent in February, while manufactured food prices increased by 20,9 per cent.

The outlook for inflation

The most recent central forecast of the Bank indicates a further deterioration in the inflation outlook when compared to the previous forecast. Inflation is now expected to peak at an average of around 9,3 per cent in the first quarter of this year, and thereafter to follow a downward trajectory. However, CPIX inflation is now expected to return to within the inflation target range by the fourth quarter of 2009. The deterioration in the outlook is a result of higher-than-expected recent quarterly inflation outcomes, and further upward revisions of oil and administered price assumptions for 2008 and 2009. The possibility of an electricity price increase in excess of that recently granted to Eskom has not been factored into the central forecast, although the Monetary Policy Committee (MPC) has considered various alternative scenarios.

Most private-sector forecasts have also been revised upwards in recent weeks, although the majority predict inflation will return to within the target range before the final quarter of next year. The Reuters consensus forecast also expects inflation to peak in the first quarter of this year, and to return to within the target range during the second quarter of 2009.

The current inflation trends are having a significant impact on inflation expectations, particularly those of business executives and trade union officials. According to the inflation expectations survey conducted on behalf of the Bank by the Bureau for Economic Research (BER) at the University of Stellenbosch, average CPIX inflation expectations for 2008 have increased from 5,9 per cent at the time of the previous survey to 7,8 per cent, and for 2009 from 5,6 per cent to 7,0 per cent. CPIX inflation is expected to average 6,7 per cent in 2010. Whereas financial analysts expect inflation to moderate to 5,9 per cent in 2009 and 5,4 per cent in 2010, business executives and trade union officials expect inflation to average 7,5 per cent and 7,4 per cent in those years respectively.

Break-even inflation rates, measured as the yield differential between conventional government bonds and inflation-linked bonds, also indicate a deterioration of inflation expectations.

The trend of wage settlements is a critical variable in determining whether inflation expectations do in fact translate into higher inflation. There is evidence that nominal wage settlements have been trending higher. According to Andrew Levy Employment Publications, wage settlements in the first quarter of 2008 averaged 7,8 per cent compared to 7,3 per cent in 2007 and 6,5 per cent in 2006.

A number of factors continue to pose an upside risk to the inflation outlook. The most serious risk emanates from the possibility of additional electricity price increases. If granted, the electricity price will have doubled by the middle of 2009. A final determination will be made by the National Energy Regulator of South Africa in June.

International oil prices have remained at elevated levels. The price of North Sea Brent crude oil was US$92 per barrel at the time of the previous MPC meeting and is currently trading at around US$107 per barrel. The impact on CPIX has been aggravated by the depreciation of the rand against the dollar, and in the past 2 months, the rand price of 95 octane petrol has increased by a total of R1,27 per litre. Of this increase, 43 cents was due to international product price increases and 69 cents was due to exchange rate changes. The remainder was accounted for by tax and other levy adjustments. Despite the slowdown in the global economy, international oil price developments continue to pose an upside risk to the inflation outlook.

Since the previous meeting of the MPC, the rand exchange rate has depreciated further. On a trade-weighted basis, the rand has now depreciated by around 16 per cent since the beginning of 2008. In March the rand depreciated to almost R8,26 against the US dollar, but is currently trading at around R7,90. The currency has been affected by various factors including movements in the dollar, perceptions that the current-account deficit on the balance of payments could widen, and increased risk aversion in global financial markets since the previous MPC meeting. Firm international commodity prices, however, continue to provide some support to the currency.

Food price inflation has shown few signs of moderating and trends at the producer level indicate further pipeline pressures. International food price developments are particularly worrisome with a number of food-producing countries restricting exports in recent weeks. International wheat prices have also reached new highs. Domestic spot prices of maize have been volatile around an upward trend, partly as a result of the depreciated exchange rate. Futures prices suggest that maize prices are expected to remain high in the coming months despite the improved crop forecast for this year.

There are a number of factors that are expected to have a moderating effect on the inflation outlook.

Household consumption expenditure has continued to respond to the tighter monetary policy stance. Real final consumption expenditure growth declined consistently during

2007, and grew at an annualised rate of 3,8 per cent in the fourth quarter. This softer trend appears to have continued in the first quarter of 2008 as evidenced by the negative retail sales trends in the past few months. Motor vehicle sales have declined further, with new passenger vehicle sales being particularly affected. When comparing the first three months of 2008 with the same period last year, a decrease of 19,1 per cent was recorded. The latest FNB/BER Consumer Confidence Index shows a distinct break with recent trends. Although still at relatively high levels, the index declined to its lowest level in 3,5 years in the first quarter of this year.

This slower household consumption expenditure growth is reflected to some extent in the declining trend of bank credit extension to the private sector. Twelve-month growth in banks' total loans and advances extended to the private sector, which has exhibited a downward trend, slowed to 21,8 per cent in February. Growth in all categories of credit extension declined in February. The ratio of household debt to disposable income increased marginally to 77,6 per cent in the fourth quarter of 2007. The cost of servicing this debt has increased significantly, in line with higher interest rates.

The domestic economy has shown signs of moderation following a robust annual growth rate of 5,1 per cent in 2007. A number of indicators suggest that output growth will be below potential in the coming quarters, although infrastructural investment programmes are likely to underpin the overall growth rate. At this stage it is still unclear what the impact of electricity supply disruptions will be on output growth. The composite leading business cycle indicator has been declining significantly since November 2007, while in the first quarter of this year the RMB/BER Business Confidence Index declined to its lowest level in seven years. The significant decline in the Investec/BER Purchasing Managers Index in March may be pointing to a marked slowdown in the manufacturing sector despite the improved performance in February when real output increased at a month-on-month rate of 2,4 per cent. Mining output declined by 5,2 per cent during the three months ended February 2008.

Asset prices have also been subdued since the previous meeting of the MPC. The Absa house price index shows that year-on-year growth in prices of residential property in the middle segment of the market declined to 8,7 per cent in February 2007, while the median house price, as measured by Standard Bank, declined by 5,2 per cent in March. The all-share index on the JSE Limited has increased by about 15 per cent since the end of January, driven primarily by the impact of strong commodity prices on the resources sector.

The international economic and financial environment remains uncertain and volatile. The sustained weakness in the US housing market has resulted in downward revisions of US growth forecasts, while the IMF has revised downwards its forecast for global growth in 2008 to 3,7 per cent from 4,1 per cent forecast in January. Global inflation forecasts have been revised upwards in the wake of higher food and energy prices. Nevertheless global inflation appears to be relatively contained. The turmoil in financial markets is expected to persist for some time as banks keep writing down more financial assets and experience losses. As a consequence, global foreign exchange and financial markets are likely to remain volatile.

Monetary policy stance

In view of the deteriorating inflation outlook, and especially evidence of more generalised inflation pressures, the MPC has decided to increase the repo rate by 50 basis points to 11,5 per cent per annum with effect from 11 April 2008. The MPC remains committed to bringing CPIX inflation back to within the inflation target range.

Statement of the Monetary Policy Committee
12 June 2008

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

Introduction

The outlook for inflation remains bleak in an environment of sustained increases in international oil and food prices. An increasing number of countries are experiencing intensified inflation pressures and the risk to both global and domestic inflation is seen to be firmly on the upside against the backdrop of a slowing international and domestic economy. Domestically, price increases have become more broad-based, and inflation expectations have deteriorated further. Adding to the inflation uncertainty is the impending announcement of the electricity price increases to be granted to Eskom.

Recent developments in inflation

CPIX inflation measured 10,4 per cent in April 2008, compared with 10,1 per cent in the previous month. Sustained food and petrol price pressures were primarily – but not only – responsible for this trend. Petrol prices increased at a year-on-year rate of 30,5 per cent, while food prices increased by 15,9 per cent. Together these two categories accounted for over half of the increase in CPIX. Broad-based pressures are also intensifying. If food and energy were excluded, CPIX inflation would have measured 6,1 per cent. The stronger underlying inflation trend has been driven by price increases in a range of categories, notably clothing and footwear, water, household consumables, and fuel and power.

Year-on-year producer price inflation measured 12,4 per cent in April, compared with 11,9 per cent in March. Agricultural food output price increases declined to a year-on-year rate of 6 per cent in April, compared with a recent peak of 27 per cent in October 2007. Manufactured food price increases remained elevated at around recent highs of around 20 per cent.

The outlook for inflation

The most recent central forecast of the South African Reserve Bank (Bank) indicates a further deterioration in the inflation outlook when compared with the previous forecast. CPIX inflation is now expected to peak at around 12 per cent in the third quarter of 2008 and to return to within the inflation target range by the third quarter of 2010. The previous forecast was for a peak of 9,3 per cent in the first quarter of 2008. The deterioration in the forecast is a result of higher-than-expected inflation outcomes, a more depreciated exchange rate of the rand, as well as further upward revisions in international oil price projections over the forecast period. As with the previous forecast, the possibility of an electricity price increase in excess of that granted to Eskom in December 2007 has not been factored into the central forecast.

The forecasts made by private-sector analysts have also deteriorated since the previous MPC meeting. According to the May 2008 Reuters consensus forecast, CPIX inflation is expected to peak at 11,3 per cent in the third quarter of 2008. Most respondents see inflation back within the target range during 2010. Break-even inflation rates, measured as the yield differential between conventional government bonds and inflation-linked bonds, also indicate a deterioration of inflation expectations and are now firmly above the upper end of the target range.

Deteriorating inflation expectations are also evident in the survey conducted on behalf of the Bank by the Bureau for Economic Research (BER) at the University of Stellenbosch. During the second quarter of 2008, CPIX inflation expectations in respect of all forecast years increased further. CPIX inflation is now expected to average 8,9 per cent in 2008, up from 7,8 per cent in the previous survey. Some moderation is then forecast for 2009 and 2010 when CPIX inflation is expected to average 7,9 per cent and 7,2 per cent, respectively.

The main risks to the inflation outlook emanate from the possibility of further electricity price increases, which will be announced next week by the National Energy Regulator of South Africa (Nersa); petrol and food price increases; and the exchange rate.

There has been no respite from the acceleration in the international oil prices which has continued to surprise on the upside. In recent days North Sea Brent crude oil prices reached levels of almost US$140 per barrel, compared with US$107 per barrel at the time of the previous MPC meeting. Domestic petrol prices increased by 55 cents and 50 cents per litre in May and June, respectively, bringing the cumulative increase in the petrol price since January 2008 to about R2,50 per litre. A further increase is possible in July.

Food prices still pose an upside risk to the inflation outlook although some positive domestic developments may partially offset the global trends. Despite higher international maize prices, the domestic spot price of maize declined in response to the release of the domestic crop estimates. Nevertheless, the depreciation of the rand exchange rate in recent weeks limited this decline. International wheat and rice prices are still high, but wheat prices have declined from their recent record levels. As noted earlier, agricultural producer price inflation declined significantly in April, but it is still too early to know if this trend will be sustained.

The exchange rate of the rand against the US dollar is little changed from the levels prevailing at the time of the previous MPC meeting, when it was trading at around R7,90 to the US dollar. However, the rand has been relatively volatile and the related uncertainty poses a risk to the inflation outlook. In May the rand appreciated to around R7,50 to the US dollar, to a large extent as a result of speculation relating to a sizeable FDI transaction which did not subsequently materialise.

The volatility of the rand is also explained by fluctuations of the US dollar against other major currencies, commodity price movements, domestic growth concerns and expectations regarding any further monetary policy actions in South Africa. The rand also remains vulnerable to possible negative perceptions related to the further widening of the current-account deficit of the balance of payments in the first quarter of 2008. This development was a result of higher crude oil prices and strong demand for capital goods imports related to infrastructural investment projects. The volume of mining exports declined as a result of electricity load-shedding to the mines. To date, the current-account deficit, including that in the first quarter, has been adequately financed.

Despite these upside risks, there are a number of offsetting effects which confirm the responsiveness of the economy to the less accommodative monetary policy stance of the Bank.

Growth in household consumption expenditure has continued to decline in response to higher interest rates and slower growth in households' real disposable income. Real final consumption expenditure by households grew at an annualised rate of 3,3 per cent in the first quarter of 2008 compared with 3,8 per cent in the previous quarter, having peaked at around 9 per cent in the final quarter of 2006. The recent quarter-on-quarter moderation was due to an 8,1 per cent contraction in spending on durable goods. The total number of new vehicles sold in May 2008 was 24,6 per cent lower than in May 2007. Both commercial and passenger vehicle sales registered significant declines.

Retail sales growth has also continued to moderate. On a year-on-year basis, real retail sales declined by 1,7 per cent in March, while growth in the first quarter of 2008 compared with the same quarter in 2007 measured 0,6 per cent.

Reflecting these expenditure trends, growth in credit extension to the private sector also showed some signs of moderation, although still at relatively high levels. Twelve-month growth in banks' total loans and advances extended to the private sector declined to 21,5 per cent in April 2008, compared with 23,6 per cent in March. Year-on-year growth in mortgage advances declined to 21,9 per cent in April, while growth over the same period in instalment sale credit and leasing finance declined to 11,8 per cent, reflecting the downward trend in motor vehicle and other durable goods consumption. Household debt as a ratio of disposable income increased to 78,2 per cent from 77,6 per cent, while the ratio of debt service cost to disposable income increased from 10,9 per cent to 11,3 per cent.

The economy has shown signs of slowing down following a number of years of growth above the estimated potential growth rate. In the first quarter of 2008, growth in real gross domestic product was an annualised rate of 2,1 per cent compared with 5,3 per cent in the previous quarter. Despite a strong performance by the agricultural sub-sector, the primary sector contracted by 13,0 per cent, mainly as a result of electricity supply constraints. The slowdown was fairly broad-based, with growth in the secondary sector declining to 1 per cent. The utilisation of production capacity in manufacturing declined in the first quarter of 2008, while the Investec/BER Purchasing Managers Index (PMI) shows that the manufacturing sector continues to face low growth in new sales orders and strong pressure on input costs, despite an improvement in manufacturing output growth in April. Overall business confidence, as measured by the RMB/BER Business Confidence Index declined further in the second quarter of 2008. Gross fixed capital formation, however, has remained relatively robust.

The all-share index on the JSE Limited reached new highs in recent weeks, but has moderated since then. However, while the all-share index has increased by about 6 per cent since the beginning of 2008, this has been due primarily to the resources sector which has increased by about 26 per cent as a result of high commodity prices. The industrial index is almost unchanged while the financial index has declined by over 23 per cent over the same period. There is evidence that house prices are beginning to decline. According to the Absa House Price Index, house prices in the middle segment of the market have been declining marginally in nominal terms on a month-on-month basis since February 2008. The Standard Bank index shows that the median house price declined by 13,3 per cent in May on a year-on-year basis.

The outlook for the global economy remains uncertain although there is some tentative evidence that the worst of the banking and credit crisis may be over. Global growth is also expected to remain subdued, but there is uncertainty regarding the extent and duration of the slowdown. Many countries are experiencing increasing inflationary pressures and are facing the challenge of dealing with higher inflation and slowing growth. As the inflation pressures have intensified, monetary policy is becoming more focused on this threat, and an increasing number of central banks have adopted a tighter monetary policy stance.

Monetary policy stance

In the light of the further deterioration in the inflation outlook, but mindful that the economy is responding to a less accommodative monetary policy stance, the Monetary Policy Committee has decided that at this stage further tightening of monetary policy is warranted. Accordingly the repurchase rate will be increased by 50 basis points to 12 per cent per annum with effect from 13 June 2008. The MPC remains committed to bringing inflation back to within the target range over a reasonable time period.

Notes to tables

Banks and the monetary sector – Tables on pages S–6 to S–28

The format of a number of the published tables ranging from pages S–6 to S–28, relating to banks and the monetary sector, was amended due to the implementation of new statistical returns from January 2008. The adoption of the Basel II regulatory framework necessitated a revision of the returns submitted by the banks to the Bank Supervision Department. It was also necessary to include the returns capturing economic statistical information in the review process, due to their interrelationship with the risk returns.

As a result of the development process undertaken for the new reporting requirements, banks improved their data identification systems. This resulted in improved reporting on some items which were previously lumped together, with more detail becoming available. In a few instances the new returns required items to be reported differently, or introduced new line items. It is important to note that the resultant reclassification and reallocation of items from January 2008 may have influenced the comparability with historical data, although care was taken to maintain as much comparability as possible in publishing the series.

Capital market interest rates and yields – Table on page S–29

The headings and content of the fixed-deposit interest rate series on page S–29 changed as a result of the implementation of new returns from January 2008. Average rates are now published as opposed to predominant rates.

Exchange rates, trade financing rates and commodity prices – Table on page S–103

An additional column was added on page S–103 to indicate a series for the rand price of platinum.

Producer prices – Tables on pages S–140 and S–152

The new producer price index which was released early in 2008 by Statistics South Africa replaced the production price index on pages S–140 and S–152. The focus has shifted from the prices of goods for domestic use to the prices of goods produced in South Africa, both for domestic use and for export. On page S–140 the columns were changed and rearranged to reflect the most important price series. Producer prices of exported goods were also added. Key information from the amended table has been reflected on page S–152.

National government debt denominated in foreign currencies – Table on page S–58

Redundant columns for marketable foreign debt denominated in German mark and in “other” currencies were removed. As far as the non-marketable foreign debt is concerned, the redundant Special Drawing Rights column was removed and three additional columns were added to provide for debt denominated in British pound, in euro and in Japanese yen.