Quarterly Bulletin

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South African Reserve Bank

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Enquiries relating to this Bulletin should be addressed to:
The Head: Research Department
South African Reserve Bank
P O Box 427
Pretoria 0001
Tel. 27-12-3133668

http://www.reservebank.co.za/quarterlybulletin

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Introduction

The global economy, reflecting the impact of sustained fiscal and monetary stimulation on an unprecedented scale, displayed clear signs of revival in the third quarter of 2009. The improvement was widespread with strong growth in the emerging economies of Asia, in particular, a more moderate pick-up in activity in the United States of America (US) and key economies in Europe, and a recovery in many of the oil-exporting and other commodity-producing countries, buoyed by stronger international commodity prices. Some indicators of international trade volumes also started to edge higher.

At the same time, global inflation remained subdued, partly on account of the deflationary forces arising from exceptionally large output gaps and partly due to international commodity prices – despite a significant recovery – nevertheless remaining well below the peak levels recorded towards the middle of 2008. The vast majority of countries therefore maintained a stimulatory macroeconomic policy stance. In a handful of countries, however, the authorities felt that the recovery had progressed far enough to take the first steps towards normalisation of policy settings, and started to increase interest rates.

Following three consecutive quarters of contraction, South Africa's real gross domestic product resumed positive growth in the third quarter of 2009. Agricultural production declined further, reflecting somewhat smaller field crops, while mining output also receded in the third quarter, partly on account of strike action and temporary shaft closures following accidents. By contrast, real value added in manufacturing increased briskly, albeit from a low base, alongside rising electricity and construction output. Within manufacturing the production of basic iron and steel, vehicles, food, and petroleum recorded notable increases. The real production of services also expanded in the third quarter, as moderate contractions in the trade and finance sectors were more than fully compensated for by increases in the production of transport and communication, general government, and personal services.

Real domestic expenditure recorded a moderate decline in the third quarter of 2009. Whereas real final consumption expenditure by households contracted most forcefully at the height of the recessionary conditions and uncertainty in the first half of 2009, only a marginal decline was registered in the third quarter of the year. With inflation decelerating and monetary policy having been eased considerably, real expenditure on durable consumer goods, in fact, rose marginally in the third quarter of 2009 following five successive quarters of contraction. Real expenditure on services also rose somewhat in the third quarter. By contrast, purchases of semi-durable and non-durable goods by households declined slightly further in the quarter concerned.

Real final consumption expenditure by government rose strongly in the third quarter as the staff complement was expanded to improve service delivery, while military aircraft were acquired simultaneously.

By contrast, real fixed capital formation declined in the third quarter on account of lower capital spending by the private sector. The declines were widespread throughout the private sector, but were most pronounced in agriculture, mining and manufacturing. The contraction in the private sector overshadowed the increase in capital spending by the public corporations and general government, aligned with the programme to improve the country's infrastructure.

Inventories declined apace in the third quarter of 2009. This was the sixth successive quarterly reduction in stock levels, with the decline concentrated in the mining and manufacturing sectors.

The weakness in economic activity was reflected in employment levels, which contracted significantly during the year to the third quarter of 2009. Formal job losses were concentrated in the private sector, whereas employment in the public sector continued to rise, thereby moderating the impact of cyclical forces. The tempo of increase in average nominal remuneration per worker decelerated and wage settlements moderated, following earlier peak values in the second and third quarters of 2008. Industrial action intensified in 2009, despite the rising level of unemployment.

Price inflation slowed significantly against the background of an economy operating significantly below capacity, with greater price discipline further reinforced by subdued credit extension and a significant appreciation of the external value of the rand. In October 2009 the targeted rate of consumer price inflation slowed to 5,9 per cent – the first time it fell within the target range of 3 to 6 per cent after a period of 30 months in which it continuously exceeded the target. Inflation in the prices of consumer goods moderated significantly, whereas services price inflation was relatively sticky and largely retained its momentum. At the producer level, the year-on-year rate of goods price inflation has been negative for several months. Although the international prices of most commodities trended higher from early 2009, key prices were still lower than their peak levels recorded around mid-2008.

With the global economy showing signs of recovery, South African export volumes edged higher while the upward trend in the international prices of gold, platinum and other export commodities gave further support to export revenues in the third quarter of 2009. At the same time, the volume of merchandise imports declined slightly as real gross domestic expenditure inched lower. A moderate increase in net service, income and current transfer payments to the rest of the world and a marginal deterioration in the terms of trade were recorded simultaneously. Reflecting these offsetting forces, the deficit on the current account of the balance of payments remained broadly unchanged from the second to the third quarter of 2009 at levels slightly above 3 per cent of gross domestic product.

With international investors' appetite for investment in emerging-market economies improving further, the financial account of the balance of payments registered a further sizeable surplus in the third quarter of 2009. Foreign portfolio investors significantly raised their holdings of South African equities during the quarter concerned. Overall, the balance of payments recorded a further surplus in the third quarter, with the official gold and foreign-exchange holdings also benefiting when the International Monetary Fund (IMF) allocated Special Drawing Rights (SDRs) to all its member countries in August and September 2009 as part of the international response to the global economic crisis.

The overall size of the banking sector's balance sheet stagnated over the past year, reflecting subdued economic conditions, low business and consumer confidence, and increased caution on the side of the banks in the extension of loans. Over the twelve months to October 2009, bank loans and advances to the domestic private sector contracted slightly in nominal terms, while the twelve-month rate of growth in the M3 money supply was barely positive. However, in recent months a number of banks have adopted less stringent criteria than before in the evaluation of certain types of loan applications.

The Monetary Policy Committee (MPC) of the South African Reserve Bank (the Bank) started reducing the repurchase rate in December 2008 and by mid-2009 had reduced the policy rate by a cumulative total of 450 basis points. In August 2009 the MPC, mindful of the large output gap that reinforced the view that inflation would moderate further, reduced the repurchase rate by a further 50 basis points to 7 per cent per annum – the same level established at the trough of the previous interest rate cycle. Other money-market interest rates followed suit, while money-market liquidity conditions remained stable.

Capital market interest rates receded during most of the third quarter of 2009 in response to the appreciation in the exchange value of the rand and the decline in inflation. Yields picked up again from mid-September to the end of November as the issuance and projected future supply of bonds expanded further. Share prices fluctuated higher from a recent low on 3 March 2009 and, on balance, rose by 48 per cent over the subsequent period to the end of November. Positive wealth effects were reinforced by recent trends in the real-estate market, which suggested the start of a modest recovery in house prices.

Government's strong anti-cyclical fiscal stance was reconfirmed in the October 2009 *Medium Term Budget Policy Statement* with the announcement of a projected 2009/10 budget deficit of 7,6 per cent of gross domestic product, roughly double the estimate of the deficit contained in the February *Budget Review*. The intensity of the recession and resultant contraction in tax revenue gave rise to the larger deficit, which could be afforded for a while because the government had worked down its indebtedness during the preceding economic upswing, thereby creating fiscal room for manoeuvre to be used in difficult times. At the same time, government indicated its intention to reduce the deficit gradually over the course of the forthcoming three fiscal years as economic conditions and tax revenue improved, thereby containing the increase in the level of government debt and debt-service cost.

1 The analysis in this section of the review is based on an extensively revised set of national accounts estimates. These revisions are based on more detailed or more appropriate data that have become available. In addition, the national accounts estimates at constant prices have been rebased from 2000 prices to 2005 prices. The revisions are introduced in a note elsewhere in this *Bulletin*.

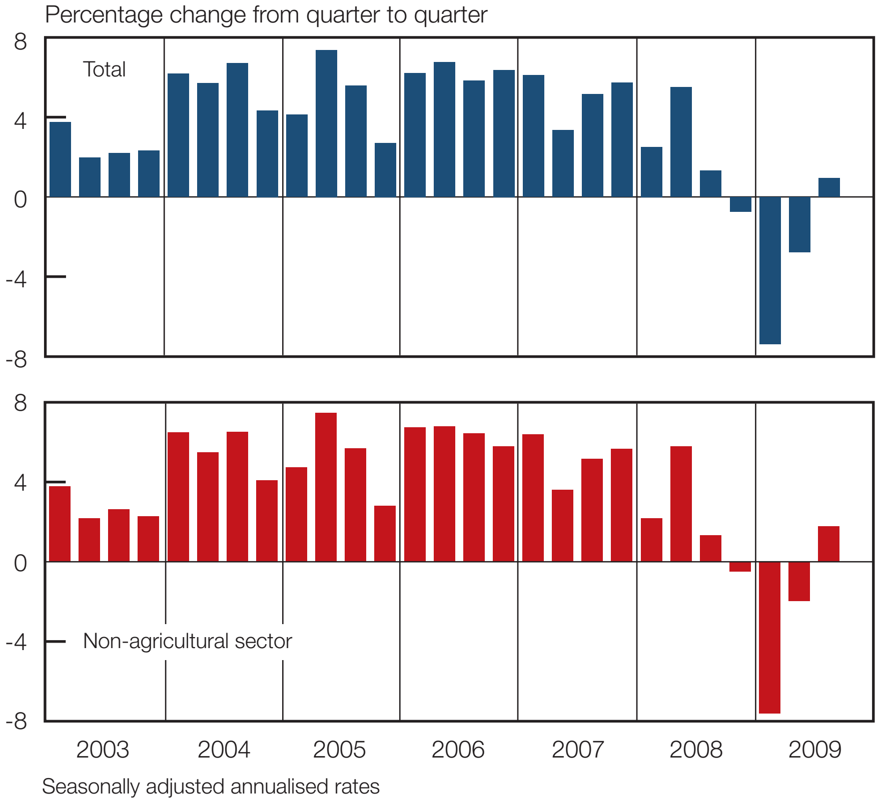
2 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Domestic economic developments[1, 2]

Domestic output

Subsequent to three quarters of negative growth, South Africa's *real gross domestic product* turned around in the third quarter of 2009 when an annualised increase of 0,9 per cent was recorded. This improvement can be attributed to a decisive recovery in the real value added by the secondary sector and a less prominent turnaround in the tertiary sector. By contrast, the real value added by the primary sector declined over the period, but this was more than fully offset by the expansion in the other two main sectors. Despite the uptick in activity in the third quarter, aggregate real gross domestic product for the first three quarters of 2009 was about 1,8 per cent lower compared with the corresponding period of the previous year, reflecting the negative impact of the recessionary conditions evident since the fourth quarter of 2008.

Real gross domestic product



If the climate-bound agricultural sector is excluded, real value added by the other sectors increased at an annualised rate of 1,8 per cent in the third quarter of 2009 compared with a decline of 2 per cent in the second quarter.

In the *primary sector* the quarter-to-quarter change in real value added reversed from an increase of 6 per cent in the second quarter of 2009 to a decrease of 7 per cent in the third quarter. This was the result of a decline in the volume of production in both the agricultural and the mining sectors.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

Sectors	2008					2009		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Primary sector	-8,7	9,3	-2,3	1,7	-1,2	-23,4	6,0	-7,0
Agriculture................	12,8	6,2	17,8	5,6	10,9	-3,7	-13,1	-9,8
Mining	-15,8	10,5	-9,5	0,1	-5,4	-30,7	15,8	-5,8
Secondary sector	0,2	14,0	-2,5	-12,9	3,4	-19,4	-6,9	7,0
Manufacturing	-0,1	17,4	-5,2	-17,4	2,7	-25,5	-11,1	7,6
Tertiary sector	4,8	2,6	3,8	4,2	4,7	-0,9	-1,7	0,8
Non-agricultural sector ..	*2,2*	*5,8*	*1,3*	*-0,5*	*3,7*	*-7,6*	*-2,0*	*1,8*
Total	**2,5**	**5,5**	**1,3**	**-0,7**	**3,7**	**-7,4**	**-2,8**	**0,9**

The further decline in the real output of the *agricultural sector* in the third quarter of 2009 can mainly be ascribed to declines in the real gross income of horticultural and livestock farmers. The latter can partly be attributed to a decrease in the number of animals slaughtered. In addition, alongside the decline in the volume of aggregate output, the real cost of intermediate inputs accelerated in the third quarter of 2009.

The erratic fluctuations in the real value added by the *mining sector* recorded since the first quarter of 2008 continued into the third quarter of 2009. Real output of the mining sector switched from an annualised rate of growth of 15,8 per cent in the second quarter of 2009 to a decline of 5,8 per cent in the third quarter.

Production activity in most of the mining subsectors receded again in the third quarter of 2009 as the production of platinum group metals (PGM) and gold, in particular, contracted over the period. PGM production was strongly affected by strikes and mine accidents during the third quarter. Apart from the strengthening in the exchange value of the rand which adversely affected the mining sector in general, the gold-mining sector was also affected by an increase in intermediate expenditure which more than neutralised the potential benefits of the higher dollar-denominated gold price. Mining output, however, benefited from firmer real output by coal mining and increased iron ore production in the third quarter of 2009. Growing demand from Eskom and the modernisation of transportation links contributed to the increase in the production of coal, while the production of iron ore was largely underpinned by strong demand from China.

In the case of the *secondary sector*, real value added registered a sharp reversal from negative growth at an annualised rate of 6,9 per cent in the second quarter of 2009 to an increase of 7 per cent in the third quarter. This turnaround was primarily brought about by the improved performance of the manufacturing sector. In addition, growth in real value added by the sector supplying electricity, gas and water accelerated, whereas growth in real value added by the construction sector moderated somewhat over the period.

Having contracted at a rate of 11,1 per cent in the second quarter of 2009, the real value added by the *manufacturing sector* turned around and increased at an annualised rate of 7,6 per cent in the third quarter. This improvement in production by the manufacturing sector was mainly driven by higher production of basic iron and steel products and of motor vehicles, trailers, parts and accessories. Other subsectors that held up well in the third quarter were food processing; chemicals; and plastic products. However, continued decreases were reported in the real output of the furniture and other manufacturing, as well as the wood and wood products, paper, publishing and printing subsectors. Despite the growth in real manufacturing production in the third quarter, output levels remained repressed and production capacity utilisation registered an average of 77,8 per cent in the first three quarters of 2009, having averaged 83,8 per cent in 2008.

Real value added by the sector supplying *electricity, gas and water* rose at an annualised rate of 4,2 per cent in the third quarter of 2009 following a subdued increase of 1,9 per cent in the second quarter. This marked increase probably reflected the recovery in the production activities of certain electricity intensive mining and manufacturing industries, as well as the stronger demand for electricity for heating purposes during a relatively long and cold winter.

The pace of growth in real value added by the *construction sector* slowed from an annualised rate of 8,7 per cent in the second quarter of 2009 to a rate of 6,1 per cent in the third quarter. The output of the construction industry continued to be adversely affected by the weakness in private-sector demand for residential and non-residential buildings. However, non-residential building activity was sustained at a relatively moderate pace in keeping with recreational services and offices built in preparation for the 2010 FIFA World Cup Soccer tournament. The somewhat slower growth performance of the civil construction sector reflected the completion of some activities related to infrastructural development.

After the real value added by the *tertiary sector* had declined at annualised rates of 0,9 per cent and 1,7 per cent in the first two quarters of 2009, it rose at an annualised rate of 0,8 per cent in the third quarter. Although the increase in real value added could mainly be attributed to the transport and communication and general government subsectors, the rate of decline in the real value added by the trade and financial services sectors also slowed somewhat in the third quarter.

In the subsector *commerce*, real value added contracted at annualised rates of 5,9 per cent in the second quarter and 1,1 per cent in the third quarter of 2009. Consistent with the lower disposable income of households, real output of the wholesale, retail and motor trade sector remained subdued. However, activity in the motor trade sector bottomed out in the third quarter of 2009. The real value added by the trade sector as a whole declined by 2,8 per cent in the first nine months of 2009, compared with the corresponding period in 2008.

The real value added by the *transport, storage and communication* sector increased at an annualised rate of 1,2 per cent in the third quarter of 2009 after contracting for two consecutive quarters. Real value added by the transport sector edged higher, consistent with the higher volume of exports during the third quarter of 2009, while the real output in the communication sector increased moderately.

Real value added by the *finance, insurance, real-estate and business services* sector contracted in each of the first three quarters of 2009. Subsequent to a contraction of 3,8 per cent in the second quarter of 2009, the annualised pace of decline slowed to 1,5 per cent in the third quarter. The continued subdued levels of activity related to credit extension to the private sector and the residential property market was symptomatic of the weak output performance in the financial services sector. As could be expected under the circumstances, liquidations continued to exhibit an upward trend.

By contrast, growth in the real value added by *general government* amounted to 4,9 per cent in the third quarter of 2009, notably higher than the rate of 3,1 per cent recorded in the second quarter. This increase can be attributed to rising employment levels by general government as part of countercyclical efforts to soften the impact of the economic recession on job creation alongside structural efforts to improve service delivery.

Domestic expenditure

Unlike the turnaround in the real gross domestic production, *real gross domestic expenditure* continued to deteriorate in the third quarter of 2009, albeit at a considerably lower rate than in the second quarter. This contraction in domestic expenditure in the third quarter of 2009 resulted from a perceivable decline in gross fixed capital formation and a markedly slower pace of decline in final consumption expenditure by households alongside a further contraction in the level of real inventories, which more than neutralised sustained increases in real final consumption expenditure by general government. Consequently, the level of real gross domestic expenditure for the first three quarters of 2009 was 2,1 per cent lower compared with the same period in 2008, significantly lower than the 3,3 per cent increase registered for 2008 as a whole.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Components	2008					2009		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Final consumption expenditure:								
Households	2,9	0,6	-1,5	-2,2	2,4	-5,8	-6,1	-2,0
General government	11,6	-2,3	10,1	3,5	4,9	6,4	0,8	7,5
Gross fixed capital formation	17,5	7,9	12,4	2,8	11,7	7,4	-0,9	-4,1
Domestic final demand	**7,2**	**1,4**	**3,3**	**-0,2**	**4,6**	**-1,0**	**-3,7**	**-0,7**
Change in inventories (R billions)*	9,9	-6,5	-7,6	-26,4	-7,7	-4,0	-38,7	-49,9
Gross domestic expenditure	**14,7**	**-2,5**	**0,7**	**-2,7**	**3,3**	**4,7**	**-12,1**	**-1,7**

* At constant 2005 prices

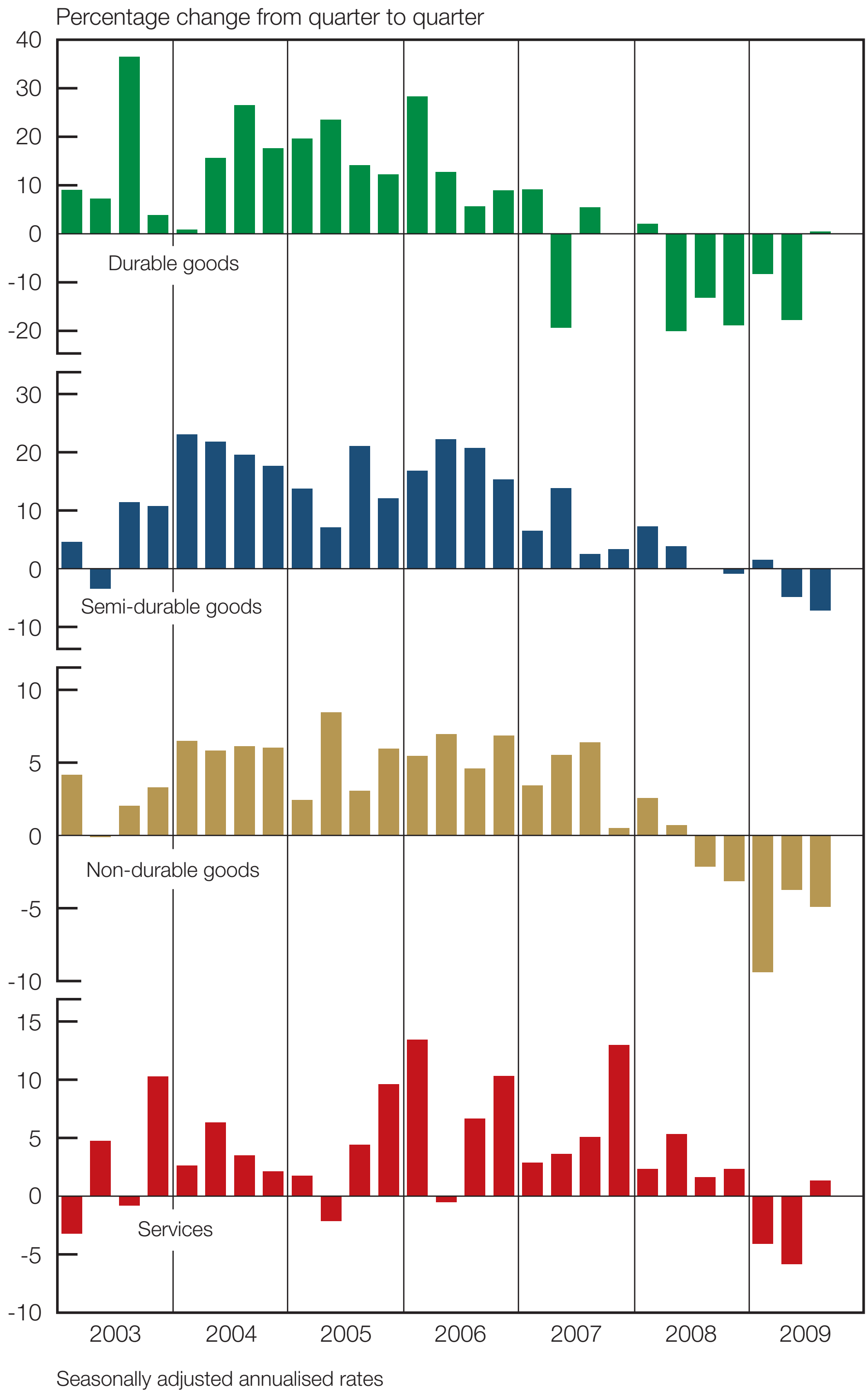
Real final consumption outlays by the *household sector*, which contracted most forcefully at the height of recessionary conditions and uncertainty earlier in 2009, declined moderately during the quarter under review. The further contraction in households' real final consumption expenditure in the third quarter of 2009 constituted the fifth consecutive quarterly decline since the middle of 2008, consistent with the contraction in households' real disposable income over the period. The level of real expenditure by households in the first three quarters of 2009 receded by 3,4 per cent, compared with the corresponding period in 2008. As a ratio of gross domestic product, total consumption expenditure by households amounted to 61 per cent in the third quarter of 2009 – the lowest ratio since the first quarter of 1994.

Real household expenditure on *durable goods* rose at an annualised rate of 0,5 per cent in the third quarter of 2009, subsequent to a decline of 17,8 per cent recorded in the preceding quarter. This quarter-to-quarter recovery in real spending on durable goods was mainly due to positive growth in household expenditure on personal transport equipment, and on durable recreational and entertainment goods. Real spending on all other durable components remained below the levels achieved a year earlier.

Nevertheless, for the first nine months of 2009 real outlays on durable goods contracted at a year-on-year rate of 14,4 per cent, reflecting the impact of the recession and prevailing low levels of consumer confidence. This was also evident in the decline of

22,2 per cent in spending on personal transport equipment for the first nine months of 2009 compared with the same period in 2008.

Real final consumption expenditure by households

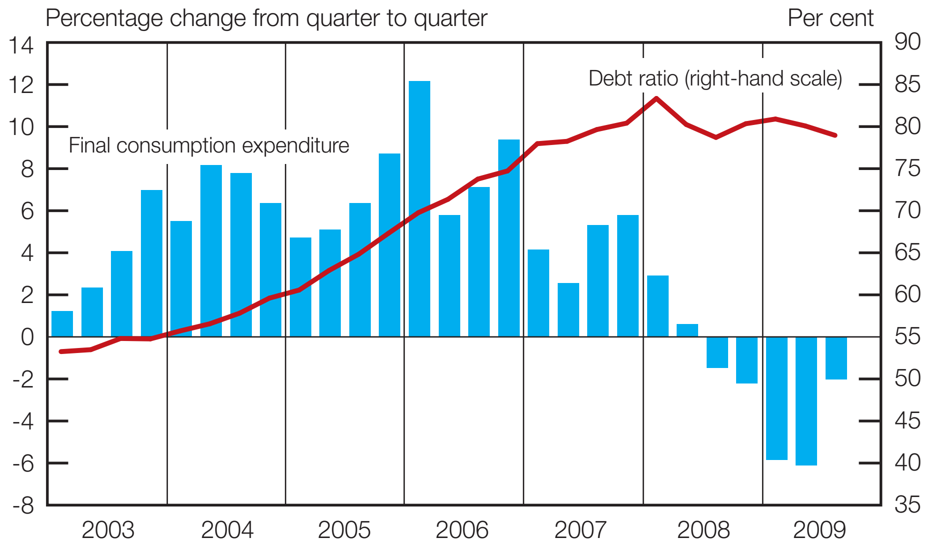


Real outlays by households on *semi-durable goods* declined at an annualised rate of 7,2 per cent in the third quarter of 2009, faster than the decline recorded in the previous quarter. Positive quarter-to-quarter growth rates were, in fact, posted by almost all the subcategories of semi-durable goods in the third quarter, but were negated by significantly lower real spending on clothing and footwear.

Real expenditure on *non-durable goods* declined further in the third quarter of 2009. Except for spending on household fuel and power and non-durable recreational goods, lower spending was recorded across all categories of non-durable goods in the third quarter of 2009. However, real expenditure by households on *services* inched higher by 1,4 per cent in the third quarter of 2009 following a decline of 5,9 per cent recorded in the previous quarter. During the first nine months of 2009, consumers in real terms spent 0,7 per cent less on services, compared with the same period in 2008.

The economic contraction and declining employment in the formal sectors of the economy contributed to a decline in *real disposable income of households* in the third quarter of 2009. Household disposable income declined at a rate of 1,1 per cent in the third quarter of 2009, slower than the decline recorded in the second quarter. Even though the level of aggregate household debt was lower in the third quarter than in the previous quarter, causing the ratio of household debt to disposable income to edge downwards from 80,1 per cent in the second quarter of 2009 to 79 per cent in the third quarter, the debt ratio remained at an elevated level. The ratio of debt-service cost to disposable income of households receded from 9,9 per cent in the second quarter of 2009 to 8,5 per cent in the third quarter as interest rates declined further. This was the lowest ratio recorded since the third quarter of 2006.

Household consumption expenditure and debt ratio



Seasonally adjusted annualised rates

The growth in real *consumption expenditure by general government* accelerated from annualised rates of increase of 6,4 per cent in the first quarter of 2009 and 0,8 per cent in the second quarter to 7,5 per cent in the third quarter. The stronger growth was evident in increased spending on compensation of employees. In addition to the purchase of two military aircraft, real expenditure by general government in the third quarter of 2009 also reflected spending on core focus areas relating to social services. Relative to spending during the first three quarters of 2008, real final consumption expenditure by general government increased by 4,7 per cent during the corresponding period in 2009.

Having increased at a robust pace since 2003, real *gross fixed capital formation* recorded a marginal decline of 0,9 per cent in the second quarter and then contracted more forcefully at an annualised rate of 4,1 per cent in the third quarter of 2009. The contraction in real fixed capital spending in the third quarter reflected a further decline in real capital formation by the private sector; this prevailed over investment activity by public corporations and general government, which continued to expand. Real outlays on fixed capital formation in the first nine months of 2009 were 4,8 per cent lower than in the corresponding period in 2008, also markedly lower than the average growth rate of 12,1 per cent per annum attained between 2003 and 2008 when investment activity in South Africa reached its recent peak. Consequently, the ratio of total fixed capital formation to gross domestic product declined from 23,2 per cent in the second quarter to 22,5 per cent in the third quarter of 2009.

Real gross fixed capital formation

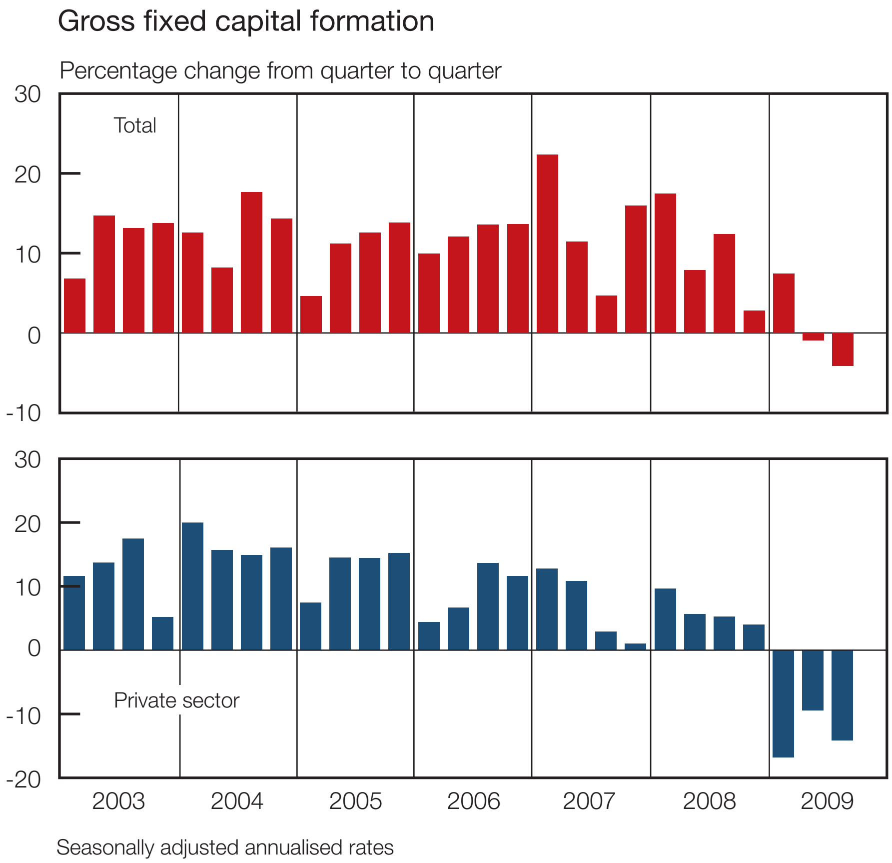
Percentage change at seasonally adjusted annualised rates

Components	2008					2009		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Private business enterprises	9,7	5,6	5,3	4,0	5,6	-16,8	-9,4	-14,1
Public corporations	58,1	17,3	46,1	-2,1	41,0	152,3	23,4	18,7
General government	16,3	7,9	10,0	3,4	13,4	1,6	2,0	4,4
Total	**17,5**	**7,9**	**12,4**	**2,8**	**11,7**	**7,4**	**-0,9**	**-4,1**

Comprising more than two-thirds of total gross fixed capital formation, real fixed capital outlays by *private business enterprises* declined for three quarters in succession. Subsequent to a decline of 9,4 per cent in the second quarter of 2009, the pace of contraction increased to 14,1 per cent in the third quarter. Apart from the construction industry and, to a lesser extent, the transport and communication industry where investment activity expanded somewhat, real gross fixed capital formation in the rest of the private sector declined in the third quarter of 2009. Declines in real fixed investment spending were particularly severe in the agricultural, mining and manufacturing sectors.

Fixed investment spending by most subsectors of the private sector was held back in the third quarter of 2009 due to weak domestic demand conditions and poor prospects for a rapid recovery in export demand. This was also reflected in the low imports of machinery and equipment by the mining and manufacturing sectors since the first quarter of the year. In addition, alongside falling business confidence levels, the under-utilisation of production capacity among business enterprises in the manufacturing sector increased markedly from a recent low of 13,8 per cent in the second quarter of 2007 to 22,8 per cent in the quarter under review.

Alongside relatively subdued domestic economic conditions and the declining trend in consumer confidence levels which negatively impacted on employment and real income of households, the net wealth of households deteriorated further. Consequently, real fixed investment outlays on private residential buildings continued to decline in the third quarter of 2009. Consistent with the moderation in growth in mortgage advances and the number of residential buildings completed over this



period, investment activity in private residential property in the third quarter of 2009 was about 25 per cent below its recent peak registered in the third quarter of 2006.

Real fixed capital expenditure by *public corporations* held up well in the first three quarters of 2009 and was specifically pronounced in the subsector providing electricity, gas and water. As a consequence of these and other capital programmes, real fixed capital formation by public corporations was more than 40 per cent higher in the first three quarters of 2009 compared with the same period in 2008. Investment activity of public corporations remained robust in the third quarter of 2009 and increased at an annualised rate of 18,7 per cent.

Growth in real fixed capital outlays by *general government* accelerated to an annualised rate of 4,4 per cent in the third quarter of 2009, notably higher than the average growth rate of 1,8 per cent in the previous two quarters. This increase in capital spending represented spending by the public works, roads and transport cluster combined with increased spending by the health sector. The marked improvement in capital spending by general government continued to reflect projects linked to the infrastructure development programme introduced earlier.

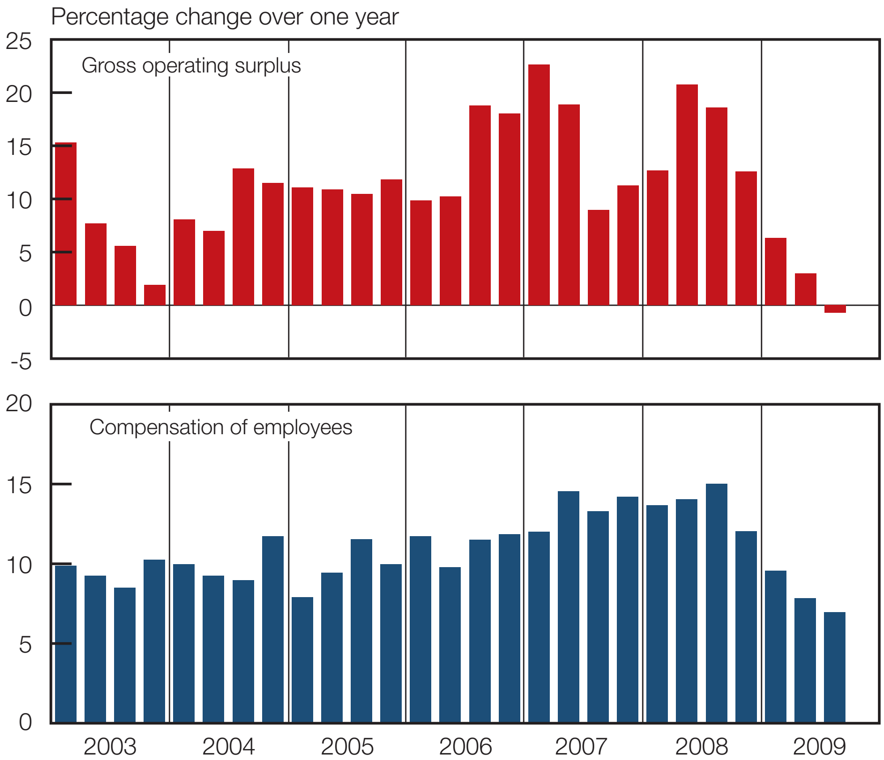
Inventory levels were reduced further in the third quarter of 2009. Following a decline of R38,7 billion in the second quarter of 2009, *real inventories* declined by R49,9 billion in the third quarter, thereby subtracting 2,4 percentage points from growth in gross domestic expenditure over the period. Inventory deaccumulation in the third quarter of 2009 was concentrated in the gold- and platinum-mining and manufacturing sectors, as well as in the construction sector.

Factor income

The rate of increase in total *nominal factor income*, measured over one year, decelerated progressively from 7,9 per cent in the first quarter to 5,3 per cent in the second and 3 per cent in the third quarter of 2009. Despite the slowdown in the third quarter of 2009, total nominal factor income rose by 5,3 per cent in the first nine months compared with the same period of 2008. The lower rate of increase in nominal factor income in the third quarter could be ascribed to a decline in the operating surpluses of private business enterprises and business enterprises of general government, which was only partly offset by an increase in total compensation of employees.

The year-on-year rate of increase in total *operating surpluses* in the economy receded from 6,3 per cent in the first quarter of 2009 to 3 per cent in the second quarter and turned into a contraction in the third quarter. Lower increases occurred in operating surpluses of almost all the major sectors of the economy, but were more pronounced in the manufacturing and finance sectors. This was due to a general slowdown in profits in all these sectors. The exception to this slowdown was the construction sector where increases in operating costs were well contained. In line with the lower rate of increase in total operating surpluses in the economy, the ratio of gross operating surpluses to total factor income inched lower from 49,9 per cent in the second quarter to 48,7 per cent in the third quarter.

Gross operating surplus and compensation of employees



Seasonally adjusted annualised rates

The rate of increase over four quarters in the compensation of employees edged lower from 7,8 per cent in the second quarter to 7 per cent in the third quarter of 2009. However, for the first three quarters of the year, the rate of increase in the compensation of employees amounted to 8,1 per cent compared with 14,3 per cent in the corresponding period of 2008, reflecting lower wage settlements and the effect of staff reductions.

Saving

South Africa's *gross saving as a percentage of gross domestic product* increased from 15,4 per cent in the second quarter of 2009 to 15,7 per cent in the third quarter. This improvement was the net outcome of an increase in saving by the corporate sector and the slightly better saving performance of households, which outweighed lower saving by general government over the period. Consequently, the national saving ratio for the first nine months of 2009 amounted to 15,4 per cent compared with a ratio of 14,9 per cent in 2008. On account of the higher saving ratio and lower pace of growth in gross capital formation, 16,9 per cent of South Africa's total gross capital formation accordingly had to be financed through an inflow of foreign capital into the economy, much lower than the ratio of 33,8 per cent recorded in the third quarter of 2008.

Gross saving by the *corporate sector* as a percentage of gross domestic product increased from 13 per cent in the second quarter of 2009 to 13,7 per cent in the third quarter. The average saving ratio for the first nine months of 2009 improved to 12,7 per cent from 11,1 per cent in 2008 as a whole. The improvement in the saving performance in the third quarter reflected a decline in dividend declarations, while tax payments also registered a decline in the third quarter of 2009. On a year-on-year basis, the gross operating surplus of business enterprises increased by 2,4 per cent in the first nine months of 2009, compared with an increase of 17,3 per cent recorded in 2008 as a whole.

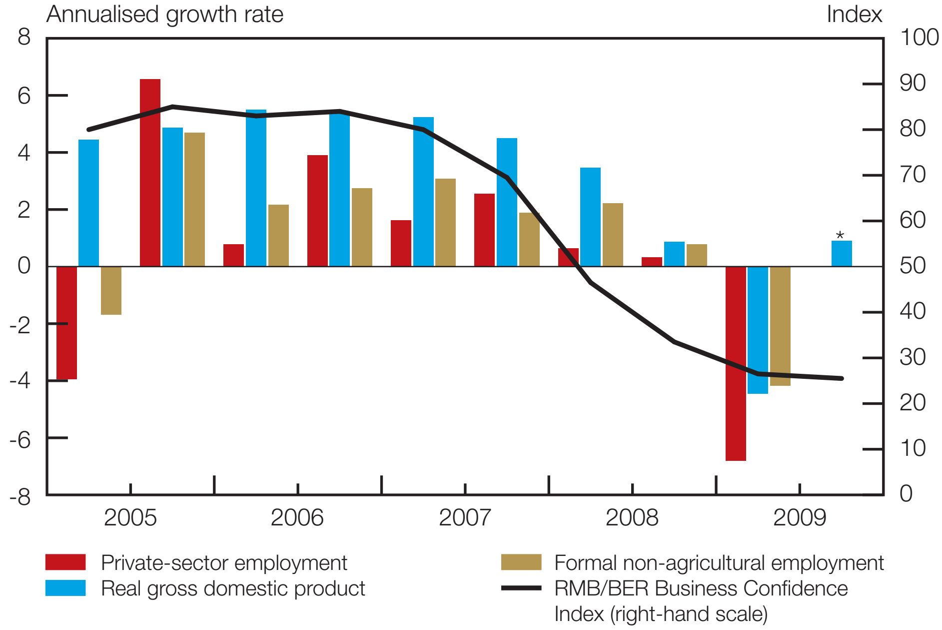
Gross saving by the *household* sector as a percentage of gross domestic product increased marginally from 1,4 per cent in the second quarter of 2009 to 1,5 per cent in the third quarter of 2009. Households attained their level of saving in an environment of tight economic conditions and stricter lending criteria on the part of banks.

Gross saving by *general government* as a ratio of gross domestic product weakened to a mere 0,5 per cent in the third quarter of 2009 from 1,0 per cent in the previous quarter. The saving performance by general government in the third quarter of 2009 was somewhat dampened as current expenditure rose at a much faster pace than current income. The sluggish income growth was the result of a moderation in current tax revenue over the period. Owing to an increase in the number of job losses, government expenditure on transfers to households, specifically unemployment insurance and other transfers, increased in the third quarter of 2009.

Employment

Consistent with the contraction in real gross domestic output and the steady decline in business confidence, employment levels shrank notably in the first half of 2009. Total formal non-agricultural employment contracted by no less than 1,7 per cent in the first six months of 2009 compared with the same period in the preceding year, following annual growth rates of between 1,1 per cent and 2,9 per cent during the five-year period to 2008. According to the most recent *Quarterly Labour Force Survey*, as many as 366 000 formal-sector jobs were lost in the year to September 2009. This is equal to 4 per cent of the 9,4 million members of the labour force formally employed at the height of the employment cycle in the third quarter of 2008. Job attrition in the private sector occurred at a much faster pace during the initial phase of the current recession when compared with previous recessions.

Output, employment and business confidence



* 3rd quarter on 2nd quarter

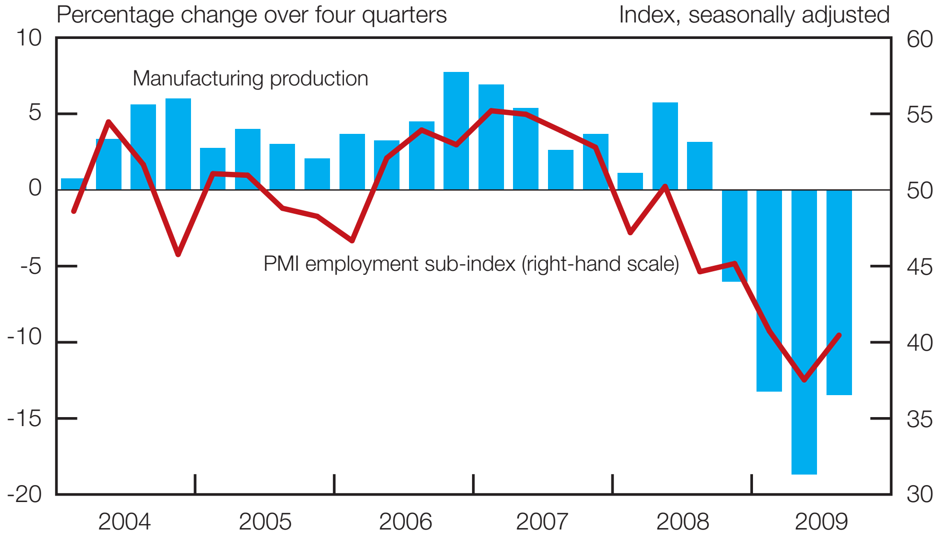
The level of enterprise-surveyed employment in the formal non-agricultural sectors of the economy shrank markedly in both the first and second quarters of 2009; approximately 205 000 employment opportunities were lost as employment levels decreased from a seasonally adjusted 8,5 million in the final quarter of 2008 to 8,3 million in the second quarter of 2009.[3] Measured at seasonally adjusted and annualised rates, the pace of job shedding, however, moderated from a rate of 6,7 per cent in the first quarter of 2009 to 2,9 per cent in the second quarter. Measured over four quarters, total formal non-agricultural employment decreased by 2,3 per cent in the second quarter of 2009; private-sector employment, which accounts for roughly 77 per cent of total formal non-agricultural employment, shrank by 4,0 per cent, whereas public-sector employment levels expanded at a rate of 4,2 per cent.

3 Enterprise-surveyed formal non-agricultural employment is a somewhat narrower concept than household-surveyed overall formal employment.

Private-sector employment contracted in each of the four quarters up to the second quarter of 2009. The quarter-to-quarter rate of decline, however, moderated from an annualised 8,0 per cent in the first quarter of 2009 to 5,0 per cent in the second quarter. Employment losses were fairly widespread and occurred in all sectors with the exception of the electricity supply sector. On a seasonally adjusted basis approximately 82 400 jobs were lost in the second quarter.

Measured from quarter to quarter and annualised, seasonally adjusted employment in the manufacturing sector decreased by 4,2 per cent in the second quarter of 2009 following a decline of 10,5 per cent in the first quarter. The successive decreases in employment reflected the recessionary conditions in both the global and domestic economy. While the pace of job losses in the manufacturing sector appeared to moderate, the *Kagiso Purchasing Managers Index* (PMI) employment sub-index also improved somewhat in the third quarter of 2009, although remaining below the neutral level of 50 index points. This less-negative outlook was corroborated by the *Manufacturing Survey* of the Bureau for Economic Research (BER) for the third quarter of 2009, which suggested that the retrenchment of workers might be levelling off as fewer factory workers were being dismissed and the average number of hours worked per worker stabilised. This suggested that, in general, conditions in the manufacturing sector could be expected to improve in the remainder of 2009.

Manufacturing sector



Pronounced employment losses were also registered in the construction and the non-gold mining sectors in the first half of 2009. However, as in the case of the manufacturing sector, the pace of job shedding in the construction sector also slowed from an annualised rate of 11,3 per cent in the first quarter of 2009 to 6,3 per cent in the second quarter. Construction activity continued to be primarily underpinned by the government's extensive infrastructure-related investment projects. However, the BER/FNB Civil Construction Confidence Index recorded a further decline in the third quarter of 2009 which, according to the compilers, largely demonstrates lacklustre private-sector demand adversely affecting future construction projects. In addition, the inability of local governments to expedite capital expenditure programmes also contributed to the moderation in civil construction works. At the same time, residential building activity remained under pressure, partly due to the sustained contraction in the real disposable income of the household sector.

Change in formal enterprise-surveyed non-agricultural employment: First and second quarters of 2009 (actual numbers)

Sector	1st qr	2nd qr
Mining	-20 900	-5 400
Gold mining	-3 300	-1 500
Non-gold mining	-17 600	-3 900
Manufacturing	-34 800	-13 300
Electricity supply	0	400
Construction	-13 900	-7 400
Trade, catering and accommodation	-23 000	-19 500
Transport, storage and communication	-2 100	-2 200
Financial intermediation and insurance	-43 000	-33 300
Community, social and personal services	1 100	-1 700
Total private sector	**-136 600**	**-82 400**
National, provincial and local government	3 800	26 800
Public-sector enterprises	-11 800	-5 400
Total public sector	**-8 000**	**21 400**
Grand total	**-144 600**	**-61 000**

Quarter-to-quarter seasonally adjusted

Employment prospects in the mining sector in the first half of 2009 continued to be affected by the contraction in global economic activity alongside a moderate increase in international commodity prices. Mainly due to the scaling down of mining operations, job attrition in gold mining and non-gold mining occurred at annualised rates of 3,6 per cent and 4,5 per cent, respectively, in the second quarter of 2009.

Real household consumption expenditure contracted further in the first half of 2009 despite the moderation in consumer price inflation, and the expansionary monetary and fiscal policy environment aimed at bolstering spending. Employment numbers in the trade, catering and accommodation services sector accordingly decreased at an annualised rate of 4,5 per cent, and in the financial services sector at 6,9 per cent in the second quarter of 2009.

While employment opportunities in the private sector continued to dwindle, public-sector employment increased at an annualised rate of 4,7 per cent in the second quarter of 2009, following a decrease of 1,7 per cent in the first quarter. During the second quarter of 2009, all tiers of government expanded their job complement, whereas employment levels in the public enterprises and public transport sectors decreased further. Over the year to the first and second quarters of 2009, growth in public-sector employment remained unchanged at a positive 4,2 per cent, thereby softening the impact of the recession and simultaneously creating capacity to improve service delivery.

During the first three quarters of 2009, industrial strike action intensified in the midst of an economic recession. The fairly widespread industrial action was mainly related to wage demands. According to Andrew Levy Employment Publications, the cumulative number of working days lost due to industrial action amounted to 2,8 million in the first nine months of 2009, compared with 607 000 in the corresponding period in 2008. This increase occurred despite a rise in the official unemployment rate from 23,2 per cent in the third quarter of 2008 to 24,5 per cent in the third quarter of 2009, according to the most recent *Quarterly Labour Force Survey* published by Statistics South Africa (Stats SA).

Labour cost and productivity

The year-on-year rate of increase in average nominal remuneration per worker in the formal non-agricultural sectors of the economy peaked at a rate of 13,4 per cent in both the second and third quarters of 2008 – the highest rate of increase in almost six years. In the subsequent three quarters, increases in nominal remuneration per worker moderated steadily from a year-on-year rate of 12,1 per cent in the fourth quarter of 2008 to 11,5 per cent in the first and 8,7 per cent in the second quarters of 2009. Over the year to the second quarter of 2009, increases in average remuneration per worker in the private sector amounted to 8,7 per cent, compared with 6,9 per cent in the public sector. According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements came to 9,4 per cent in the first nine months of 2009 compared with 9,8 per cent in the corresponding period of 2008.

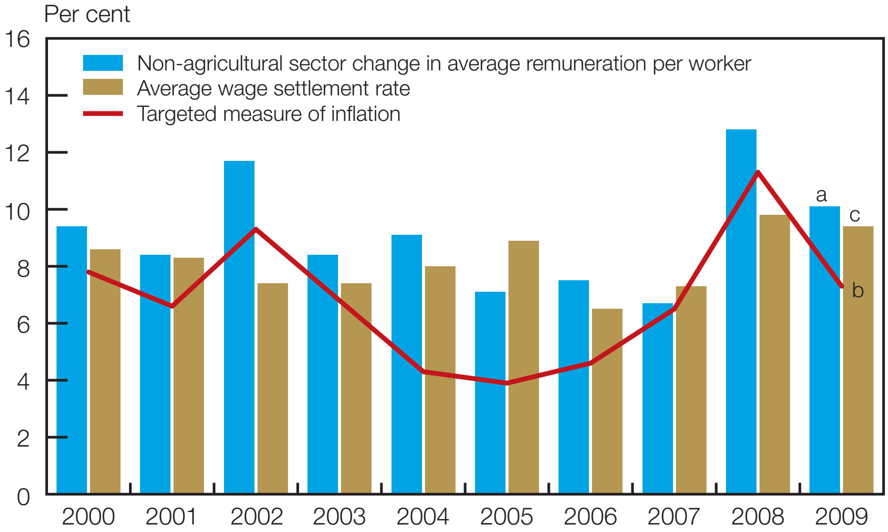
Year-on-year rates of increases in average nominal compensation per worker in the private sector decelerated from 13,4 per cent in the third quarter of 2008 to 8,7 per cent in the second quarter of 2009. In the year to the second quarter of 2009 average remuneration rates of increase exceeded 6 per cent in all subsectors, except for the private transport, storage and communication sector. In fact, the mining, the electricity and the community, social and personal services sectors recorded double-digit rates of increase. In the public sector average remuneration rose at year-on-year rates that were generally in excess of the upper limit of the inflation target range. The exception was the public transport, storage and communication sector. On average, wage inflation rates ranged from 6,4 per cent at the national government level to 15,2 per cent at the local government level.

Consistent with the economic recession in the domestic economy, particularly in the manufacturing sector, manufacturing production decreased at a year-on-year rate of 15,1 per cent in the first nine months of 2009. The rate of change in labour productivity in the manufacturing sector moved from an increase of 4,2 per cent in the third quarter of 2008 to a decrease of 12,7 per cent in the second quarter of 2009, suggesting some labour hoarding as output contracted sharply. Economy-wide labour productivity increased at a year-on-year rate of 0,9 per cent in the first quarter of 2009, and remained broadly unchanged in the second quarter.

The decrease in labour productivity in the manufacturing sector outweighed the moderation in the rate of increase in average nominal remuneration in the sector, resulting in an acceleration in the rate of increase in unit labour cost. Measured over a period of four quarters, the rate of increase in the cost of labour per unit of manufacturing output accelerated substantively from 5,4 per cent in the second quarter of 2008 to no less than 25,3 per cent in the second quarter of 2009. This high value may be compared with the all-time high of 32,0 per cent in this series, recorded in June 1982 when the economy also experienced a severe recession.

Despite the most recent high unit labour cost increases in manufacturing, the deceleration in average nominal remuneration per worker in the broader economy resulted in economy-wide nominal unit labour cost increases in the formal non-agricultural sector decelerating from 11,1 per cent in the fourth quarter of 2008 to 8,7 per cent in the second quarter of 2009 on a year-on-year basis.

Prices, wages and salaries



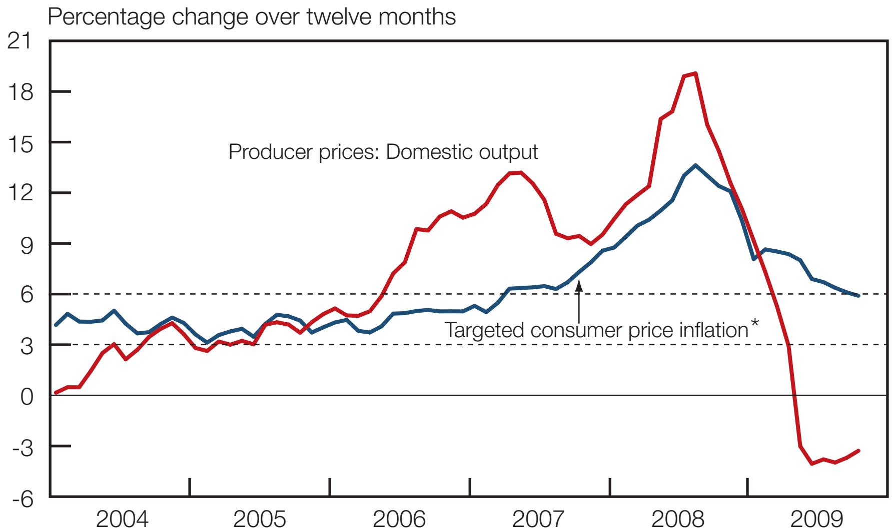
a First half of 2009 compared with the same period in 2008
b Average headline CPI inflation for the first ten months of 2009 compared with the same period in 2008
c Average wage settlement rate in the first nine months of 2009

Sources: Andrew Levy Employment Publications and Statistics South Africa

Prices

In the first ten months of 2009 producer and consumer price inflation moderated considerably. Producer price inflation fell much faster than consumer price inflation, to the extent that prices decreased in each of the six months to October 2009 when measured over twelve-month periods. In the year to October 2009 producer prices decreased by 3,3 per cent. The twelve-month rate of targeted consumer price inflation, which had first breached the 6 per cent upper limit of the inflation target range in April 2007 and rose to a high point of 13,6 per cent in August 2008, slowed to 6,1 per cent in September 2009 and then re-entered the target range as it moderated to 5,9 per cent in October.

Prices



* CPIX up to December 2008; CPI for all urban areas from January 2009

Producer price inflation for imported commodities has decelerated sharply since the collapse in global commodity prices in July 2008 and the commencement of the global economic recession. Year-on-year changes in producer prices of imported commodities have been negative since the beginning of 2009, declining at a rate of 10,2 per cent in October 2009. The decline in producer prices of imported commodities was mainly driven by the steep fall in the prices of imported mining goods, including crude oil, and more recently the decline in the prices of petroleum coal and furniture.

Producer price inflation for domestic output, that is, headline producer price inflation, broadly followed the trend of imported producer price inflation. Year-on-year headline producer price inflation amounted to a positive rate of 19,1 per cent in August 2008, but in subsequent months decelerated sharply to a rate of decrease of 3,7 per cent in September 2009 before increasing somewhat to a negative 3,3 per cent in October. Both mining and manufacturing experienced price deflation towards the end of the period under review. Within the manufacturing sector, the basic metal and steel and the petroleum and coal categories shaped the trend in manufacturing producer prices. In the year to October 2009 deflation in these two sub-categories amounted to 13,4 per cent and 26,2 per cent respectively. Electricity price changes represented a notable exception to the deflationary trend in producer prices amounting to a year-on-year rate of increase of 21,7 per cent in October 2009.

Food price inflation at both producer and consumer levels moderated significantly from the peaks reached in August 2008. Producer food price changes switched from a twelve-month increase of 12,5 per cent in January 2009 to a decrease of 1,6 per cent in October 2009. Since March 2009, agricultural food prices have decreased when measured over periods of twelve months, and in the year to October 2009 recorded a rate of deflation of 2,1 per cent. This reflected lower international prices of food commodities, the appreciation of the exchange value of the rand and demand conditions that were generally subdued. In the first nine months of 2009 manufactured food price inflation decelerated consistently from 12,0 per cent in the year to January 2009 to 0,1 per cent in August. Thereafter, manufactured food prices decreased at a rate of 1,4 per cent in the year to October 2009.

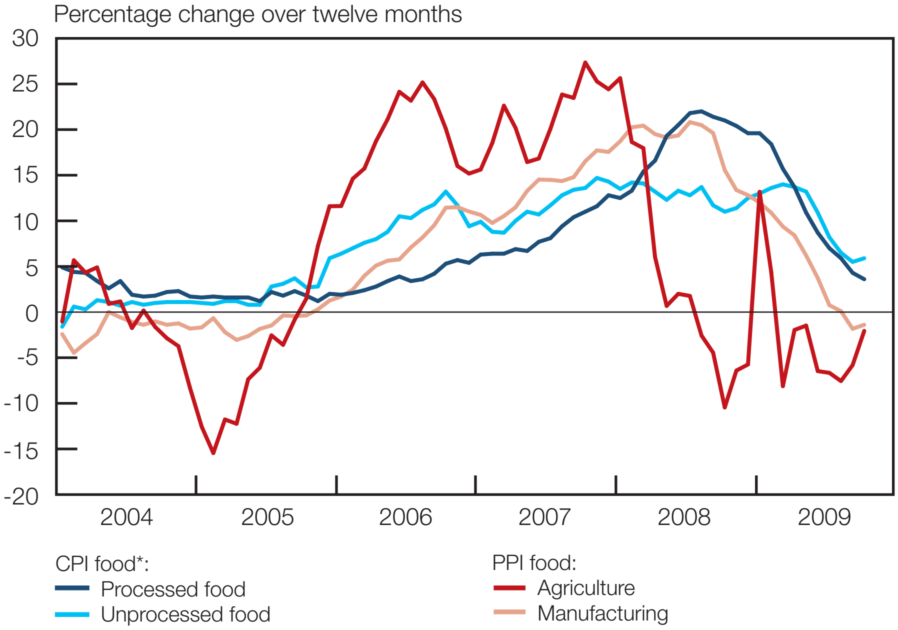
Food prices

Percentage change over twelve months

Period		Domestic producer prices of food			Headline consumer food prices		
		Agricultural food	Manufactured food	Total	Processed food	Unprocessed food	Total
2009:	Jan	13,2	12,0	12,5	19,6	13,0	16,1
	Feb	4,4	10,9	8,3	18,4	13,6	15,8
	Mar	-8,1	9,4	2,2	15,7	14,0	14,9
	Apr	-2,0	8,4	4,5	13,7	13,7	13,7
	May	-1,5	6,2	3,4	10,9	13,2	12,1
	Jun	-6,5	3,7	0,0	8,7	10,9	9,9
	Jul	-6,7	0,8	-2,0	7,0	8,2	7,6
	Aug	-7,6	0,1	-2,7	5,9	6,5	6,2
	Sep	-5,8	-1,8	-3,3	4,3	5,5	4,9
	Oct	-2,1	-1,4	-1,6	3,6	5,9	4,9

Food prices

Percentage change over twelve months



* CPIX up to December 2008; CPI for all urban areas from January 2009

The moderation in food price increases at the consumer level lagged the declining trend in producer prices of food. During the course of 2009, the twelve-month pace of overall consumer food price inflation decelerated considerably and reached a single-digit rate of increase in June and a rate of 4,9 per cent in October 2009. At the consumer level, processed food price inflation from January 2009 decelerated at a very fast pace and amounted to 3,6 per cent in the year to October, while unprocessed food price inflation amounted to 5,9 per cent over the same period. A stronger correlation can be observed between producers' manufactured food price changes and consumers' processed food price changes than between food prices at the agricultural producer level and consumers' unprocessed food prices.

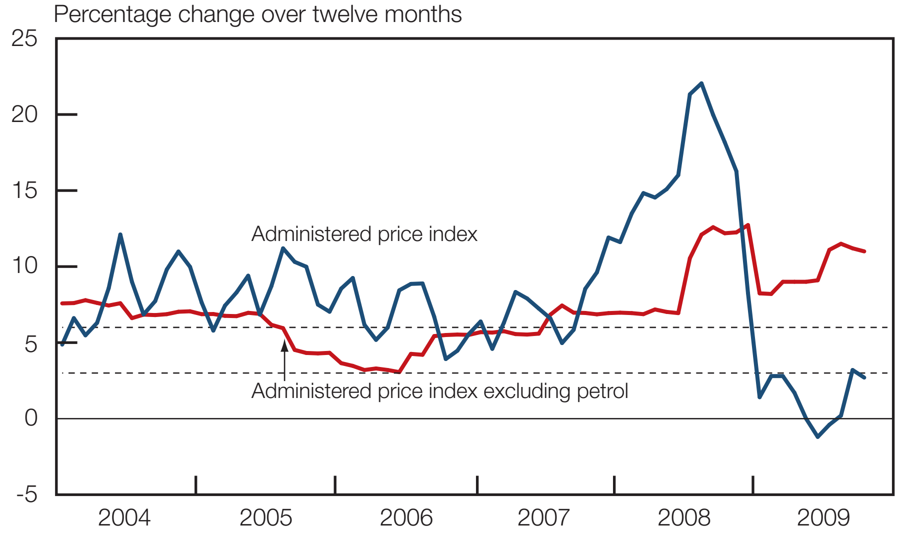
As already mentioned, headline consumer price inflation has remained above the 6 per cent level for 30 months. However, in October 2009 it edged into the inflation target range. At the same time, the differential between the rate of headline producer price deflation and headline consumer price inflation amounted to no less than -9,2 percentage points in October, with producer prices contributing to the containment of consumer price inflation.

Consumer goods price inflation entered single-digit territory in January 2009, amounting to a year-on-year rate of 7,9 per cent, and from July 2009 fell within the inflation target range. By October 2009 the year-on-year rates of inflation for durable, semi-durable and non-durable goods amounted to 2,0 per cent, 4,6 per cent and 5,7 per cent respectively. In the durable goods category transport prices consistently recorded decreases during the eleven months to October 2009, when measured over twelve-month periods. Among the non-durable goods items, housing and utilities price increases remained at elevated levels during the past year, driven by twelve-month increases in electricity prices of no less than 30 per cent.

Targeted *consumer services* price inflation remained in excess of the inflation target range during the period from March 2008 and recorded a twelve-month rate of 7,4 per cent in October 2009. Within the housing utilities category of the services basket, water supply, assessment rates and refuse removal prices increased at fairly similar year-on-year rates, amounting to 9,8 per cent, 9,3 per cent and 8,1 per cent respectively in the year to October. Inflation in all the sub-components of health services accelerated meaningfully in recent months, resulting in health services price inflation remaining at double-digit rates during the past nine months to October 2009. Similarly, year-on-year inflation in the education services category amounted to 10,5 per cent in October 2009. Furthermore, price inflation in the recreation and culture category has remained fairly elevated since March 2009, recording a twelve-month rate of 20,1 per cent in October. Price inflation in miscellaneous services was driven largely by increases in housing and health insurance, and funeral services costs. Communication and transport services inflation, by contrast, remained very low during the first ten months of 2009.

Administered price inflation remained subdued, amounting to a twelve-month rate of 2,9 per cent in March 2009 and straddling nil per cent in the subsequent six months. The downward pressure on administered price inflation mainly emanated from the lower prices of petrol and communication services, which was only partly countered by upward pressure originating from housing and education costs. When the effect of petrol prices (which declined strongly over the period) is excluded from the calculation of administered prices, the year-on-year rate of increase amounted to 11,0 per cent in October 2009.

Administered prices



Based on the classification of individual consumption by purpose (COICOP) categories, inflation in seven of the twelve categories recorded rates above the upper limit of the inflation target range in October 2009. In fact, five categories registered inflation above 10,0 per cent, as shown in the accompanying table. At the other extreme, year-on-year changes in the prices of transport goods and services were actually negative at a rate of 1,8 per cent in October 2009, following decreases in the prices of petrol by 19,0 per cent and paraffin by 17,2 per cent. The clothing and footwear category was the only category where price increases have remained within the inflation target range since January 2009 and more recently, food and non-alcoholic beverages as well as household contents, maintenance and equipment stock into inflation target range.

Consumer price inflation in COICOP categories

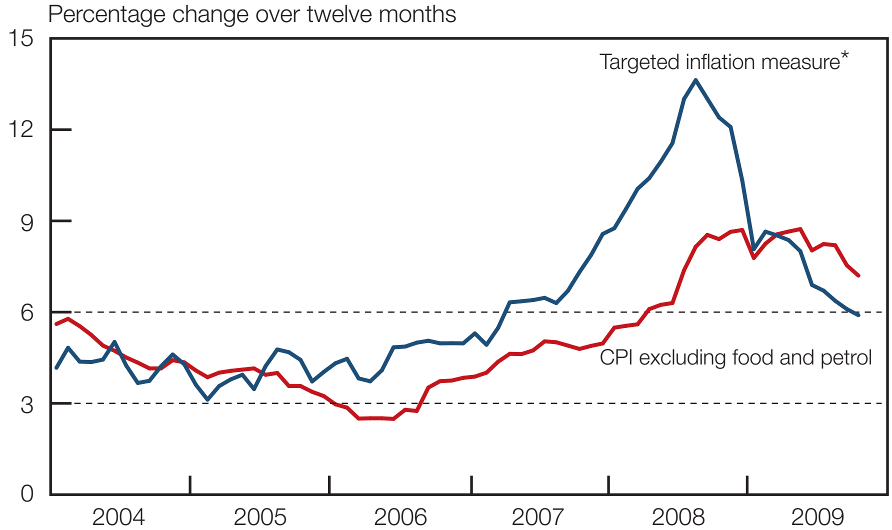
Twelve-month percentage changes

	Weights	October 2009
Alcoholic beverages and tobacco	5,58	11,6
Health	1,47	11,2
Miscellaneous goods and services	13,56	11,0
Education	2,19	10,5
Recreation and culture	4,19	10,4
Restaurants and hotels	2,78	7,8
Housing and utilities	22,56	7,4
Food and non-alcoholic beverages	*15,68*	*5,3*
Clothing and footwear	*4,11*	*5,0*
Household contents, maintenance and equipment	*5,86*	*4,8*
Communication	3,22	0,5
Transport	18,80	-1,8
Total headline consumer prices	*100,0*	*5,9*

Italics denote values inside the inflation target range of between 3 and 6 per cent in October 2009

Underlying inflationary pressures remained prevalent in the economy as indicated by the disaggregated analysis of the COICOP categories within the headline price index. Furthermore, when the impact of the more volatile food, non-alcoholic beverages and petrol categories is omitted from the calculation of headline consumer price inflation, underlying inflation – while moderating to 7,2 per cent in October – still exceeded the upper limit of the inflation target range for twenty-two consecutive months and by as much as 1,2 percentage points in October.

Measures of underlying inflation



* CPIX up to December 2008; CPI for all urban areas from January 2009

The BER's *Inflation Expectations Survey*, conducted in the third quarter of 2009, showed a moderation in inflation expectations in the three years to 2011. Inflation is expected to decelerate from 8,2 per cent in 2009 to 7,5 per cent in 2010 and 2011. Among the three groups surveyed, financial analysts expect headline CPI to move into the inflation target range in 2010 and to remain within the band in 2011, while business people and trade unions expect inflation to remain above the upper limit of the inflation target in 2009, 2010 and 2011.

Headline consumer price inflation expectations

Per cent, as surveyed in the third quarter of 2009

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2009	9,1	9,1	8,3	8,2
2010	5,6	8,7	8,2	7,5
2011	5,5	8,5	8,3	7,5

Source: Bureau for Economic Research, Stellenbosch University

Foreign trade and payments

International economic developments

Global economic activity gained further momentum in the third quarter of 2009 despite prevailing fragile consumer confidence in many parts of the world. The momentum was underpinned by higher levels of manufacturing production following faster growth experienced by emerging-market economies, especially in Asia. At the same time, global current-account imbalances narrowed considerably during the course of 2009. Current-account deficits shrank in the case of advanced economies such as the United States, Greece, Ireland, Portugal, Spain, the United Kingdom and several emerging European economies, whereas current-account surpluses receded in Japan, Germany and most oil-exporting countries.

Following the Pittsburgh Summit in September 2009, the Group of Twenty (G-20) countries agreed to maintain a stimulatory policy stance until the recovery is secure and to start constructing a credible process for the gradual withdrawal of the extraordinary fiscal, monetary and financial policy support measures, once economic activity had gained sufficient momentum. The G-20 countries also undertook to implement policy measures to support sustained and balanced economic growth that bolsters employment.

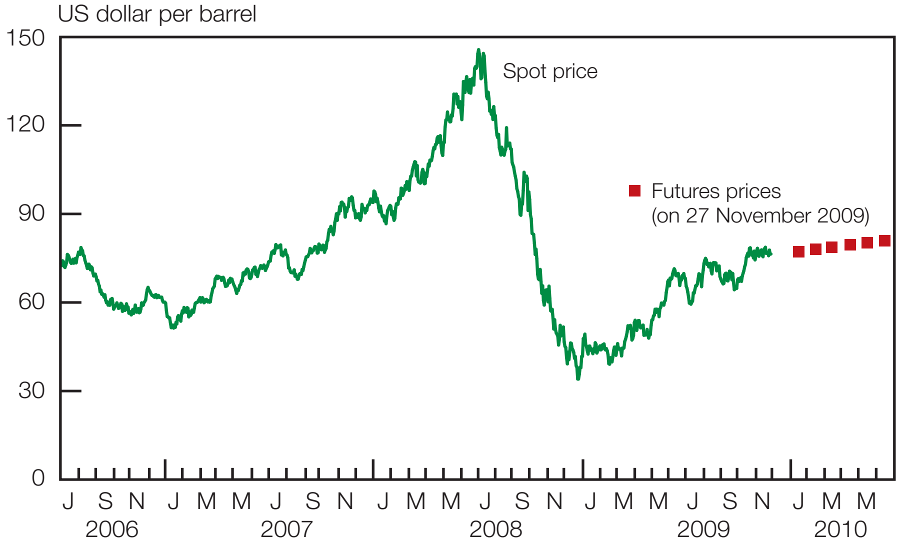
Real output growth in most advanced economies rebounded somewhat in the third quarter of 2009. Economic activity has started to recover in the United States with growth turning positive in the third quarter of 2009. This improvement was underpinned by positive contributions from personal consumption expenditure, exports, private inventory investment and residential fixed investment, but was partly offset by an increase in imports. Real output growth in Japan accelerated further during the same period, driven by external demand together with stronger private consumption and investment, while government consumption and investment remained weak. The euro area emerged from the recession in the third quarter of 2009, led by strong export growth in Germany and France mainly due to the significant macroeconomic stimulus measures.

The improvement in the global economy was, however, mainly driven by the strong rebound in emerging Asia, especially China, during the second and third quarters of 2009. Economic growth in emerging Europe and Latin America also accelerated in the third quarter of 2009. The composite leading indicator of the Organisation for Economic Co-operation and Development (OECD) increased for the first time in almost two years in August and September 2009, suggesting an expansion in economic activity in the OECD area.

The International Monetary Fund upgraded its outlook for global growth in October 2009 and now expects economic activity to contract at a rate of 1,1 per cent in 2009, before returning to positive growth at a pace of 3,1 per cent in 2010. Real output in the advanced economies as a group is projected to contract by 3,4 per cent in 2009, while economic growth in emerging-market and developing economies is expected to decelerate to a sluggish but positive rate of 1,7 per cent. Economic growth in Africa is expected to moderate sharply to 1,7 per cent in 2009 owing mainly to weak external demand and lower commodity prices.

Brent crude oil prices advanced further during the third quarter of 2009 from earlier lows reached in the first quarter and fluctuated between US$65 and US$73 per barrel, mainly due to a weaker US dollar and expectations of a global economic recovery. In response, Organization of the Petroleum Exporting Countries (OPEC) left its production quotas unchanged at 24,8 million barrels at its September 2009 meeting, with OPEC officials recently indicating that production increases would be reconsidered once inventory levels have declined to more normal levels.

Brent crude oil prices



Source: Bloomberg

Headline inflationary pressures moderated significantly in most advanced and emerging-market economies since mid-2008 following lower commodity prices and subdued global economic conditions. The downward pressure on prices due to widening output gaps resulted in deflation in a number of advanced economies such as the United States, Japan, Canada and the euro area. This deflationary trend in most advanced countries has, however, started to dissipate in recent months, while consumer price inflation in most emerging-market economies continued to moderate. Subdued energy and food prices continue to put downward pressures on overall consumer price inflation, especially in Latin America and emerging Europe. There was, however, a moderate increase in consumer price inflation in emerging Asia, mainly due to dissipating deflationary pressures in China.

Monetary and fiscal policy measures played an important part in many countries to address the adverse impact of the global financial crisis. In general, central banks responded by significantly reducing official interest rates and by adopting unconventional monetary policy measures. Since July 2009 policy rates were reduced further by central banks in Brazil, Chile, the Czech Republic, Denmark, Hungary, Indonesia, Mexico, Russia, Sweden and Turkey. The major challenge confronting central banks in the near future relates to the eventual unwinding of monetary policy accommodation as soon as the recovery becomes more sustainable. The Bank of Israel has increased its policy rate in August 2009, followed by the Reserve Bank of Australia and the Norges Bank in October. The stronger-than-expected economic conditions in Australia and Israel prompted the central banks in both countries to increase policy rates further in November 2009.

Current account[4]

The positive impact of the largely synchronised economic stimulus packages introduced during the past eighteen months became noticeable in the second and especially third quarter of 2009, with many economies showing tentative signs of recovery. Many of these support packages combined a strong infrastructure investment dimension with measures to stimulate consumption, and were reflected in a moderate pick-up in international trade activity following strong contractions since the final quarter of 2008. This reversal led to a moderate increase in the volume of merchandise exports and had a positive impact on South Africa's trade account, resulting in the country recording its second consecutive trade surplus of R21,1 billion in the third quarter of 2009.

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

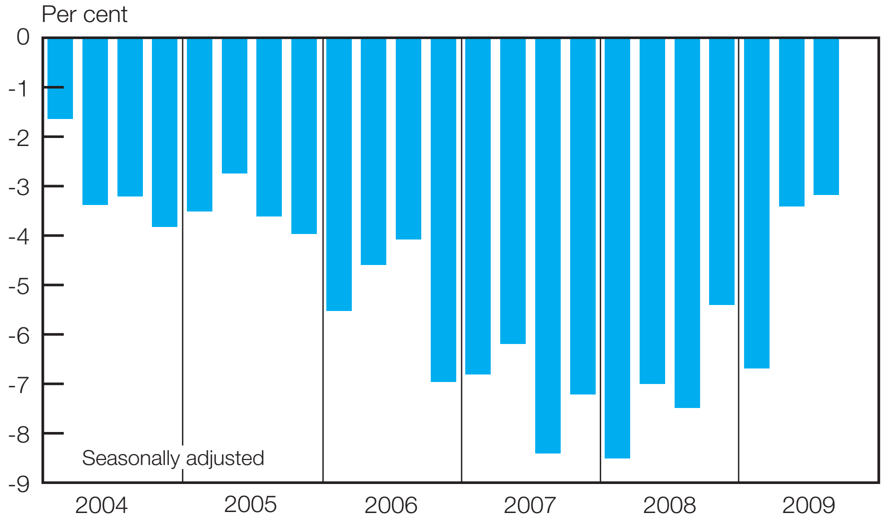
Balance of payments on current account

Seasonally adjusted and annualised
R billions

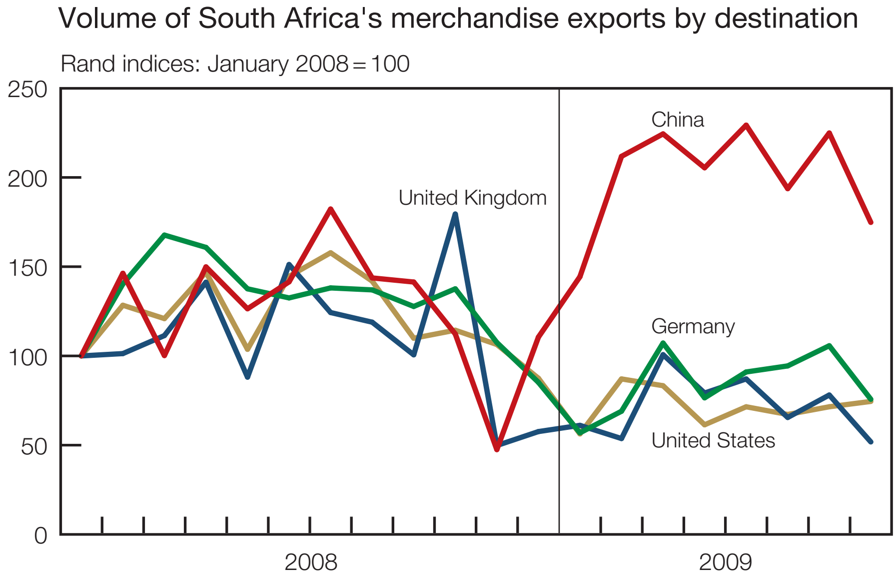
	2008			2009		
	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Merchandise exports	706,3	668,2	655,8	535,1	475,1	478,3
Net gold exports	49,4	51,2	48,5	51,0	47,5	53,4
Merchandise imports	-792,4	-739,0	-739,9	-639,4	-510,1	-510,6
Trade balance	-36,7	-19,6	-35,6	-53,3	12,5	21,1
Net service, income and current transfer payments	-137,3	-107,2	-126,1	-104,0	-93,5	-98,5
Balance on current account	-174,0	-126,8	-161,7	-157,3	-81,0	-77,4
As a percentage of gross domestic product	*-7,5*	*-5,4*	*-7,1*	*-6,7*	*-3,4*	*-3,2*

The larger trade surplus was partly neutralised by an increase in net service, income and current transfer payments to the rest of the world, causing the deficit on the current account of the balance of payments to narrow slightly further to R77,4 billion in the third quarter of 2009. As a percentage of the country's gross domestic product the deficit remained broadly unchanged.

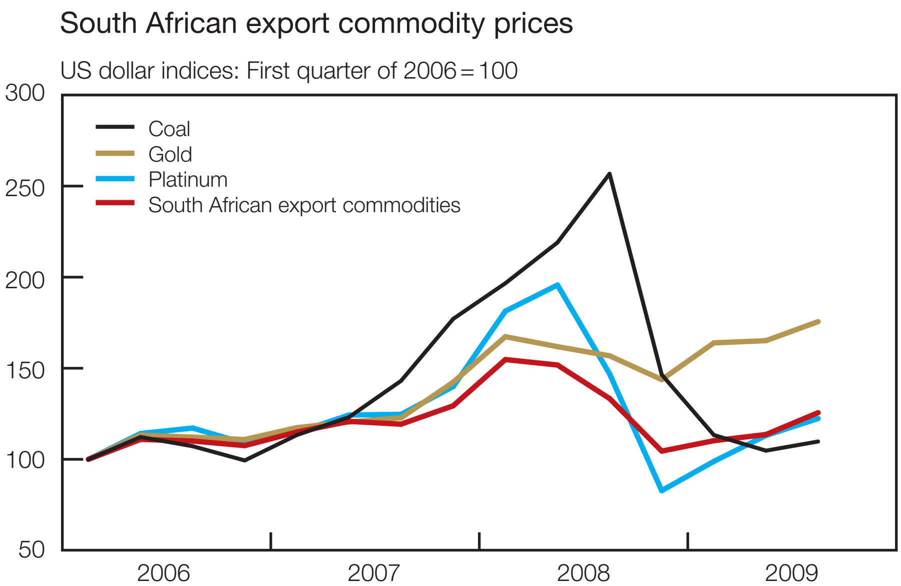
Ratio of current-account balance to gross domestic product



The declining trend in the value of *merchandise exports* was reversed in the third quarter of 2009 when an increase in the volume of goods more than countered a decrease in the rand price of such goods. The volume of merchandise exports, which had been contracting since the fourth quarter of 2008, advanced by approximately 3 per cent in the third quarter. Consistent with an increase in steel production in China, the volume of iron ore exports for example advanced visibly in the first three quarters of 2009. Over the period, the volume of coal exports rose substantially ahead of the winter season in the northern hemisphere.



Although international commodity prices advanced by a further 7,4 per cent in US dollar terms in the third quarter of 2009, the strengthening in the exchange value of the rand countered this trend and contributed to a reduction of 2,6 per cent in the rand price of merchandise exports over the period. International commodity prices in US dollar rose by 20 per cent in the first nine months of 2009 partially due to the depreciation of the American currency. Pronounced increases were noted in the prices of a number of minerals and industrial commodities; the price of platinum, in particular, rose by 35,6 per cent over the nine-month period.



Largely on account of the weaker US dollar, the fixing price of gold on the London market advanced by almost 5 per cent from US$915 per fine ounce in the second quarter of 2009 to US$960 per fine ounce in the third quarter. However, due to the strengthening of the exchange value of the rand from the second to the third quarter of 2009 the average realised rand price of gold declined by 4 per cent over the period. The increased demand for gold bullion by international investors seeking safe custody for their wealth further bolstered the physical volume of net gold exports by 17,1 per cent in the third quarter. The value of net gold exports accordingly increased from R47,5 billion in the second quarter of 2009 to R53,4 billion in the third quarter, or by 12,5 per cent.

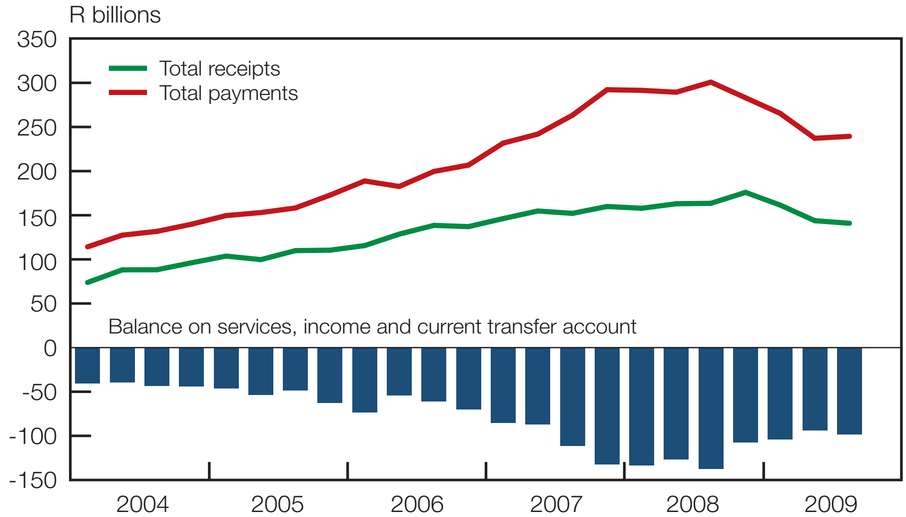
The value of *merchandise imports* inched slightly higher in the third quarter of 2009, rising by less than 0,5 per cent during the period. While a substantially lower volume of crude oil imports was recorded in the third quarter, this was partially offset by increases in the volume of other imports which included the acquisition of military aircraft by government. On balance, the volume of merchandise imports declined marginally from the second to the third quarter of 2009. The import penetration ratio edged down from 20,0 per cent in the second quarter of 2009 to 19,9 per cent in the third quarter.

There was a slight increase of 1 per cent in the rand price of imports in the third quarter of 2009, despite the strengthening of the exchange value of the rand over the period. Sizeable increases in the international price of crude oil underpinned the increase in the rand price of merchandise imports.

Having narrowed for three consecutive quarters, the negative imbalance on the service, income and current transfer account widened moderately from the second to the third quarter of 2009. Despite this widening, the shortfall on this account in the third quarter of 2009 was still about 28 per cent less than in the corresponding period of 2008.

The higher shortfall during the third quarter of 2009 can mainly be attributed to an increase in net dividend payments to non-resident investors, marginally higher payments for freight-related activities and a further contraction in net travel receipts. Cumulatively, gross dividend payments declined by about 30 per cent in the first three quarters of 2009 compared with the corresponding period of 2008, reflecting the subdued economic environment and lower profit levels of the recent past. As conditions started

Services, income and current transfer account



Seasonally adjusted and annualised

to stabilise, a slight recovery in dividend payments to non-residents was nevertheless recorded in the third quarter.

An increase in gross payments for freight-related activities was recorded in the third quarter of 2009. By contrast, there was a further reduction in interest payments on outstanding foreign debt as well as a decline in travel-related receipts, reflecting the lacklustre international economic conditions. As a ratio of gross domestic product, the deficit on the services, income and current transfer account deteriorated marginally from 3,9 per cent in the second quarter of 2009 to 4,1 per cent in the third quarter.

South Africa's terms of trade deteriorated marginally in the third quarter of 2009 as the prices of exported goods and services did not keep up with those of imported goods and services, the latter having been bolstered by significantly higher crude oil prices.

Financial account

The rising trend in prices of securities and international commodities underpinned international investors' appetite towards investment in emerging-market economies during the third quarter of 2009. In South Africa, the financial account of the balance of payments registered a net inflow of capital of R30,4 billion during the third quarter of 2009 compared with an inflow of R27,8 billion in the second quarter. The capital inflows on the financial account during the third quarter of 2009 mainly emanated from the net purchases of South African equity and debt securities by non-resident investors. Cumulatively the net inflow of capital during the first three quarters of 2009 came to R93,0 billion compared with an inflow of R150,9 billion during the corresponding period of 2008.

Net financial transactions not related to reserves

R billions

	2008			2009		
	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Change in liabilities						
Direct investment	16,0	3,7	74,4	11,1	24,9	8,3
Portfolio investment	-7,6	-60,6	-71,5	10,0	29,7	26,3
Other investment	13,9	-3,4	47,7	-6,8	-27,0	-6,8
Change in assets						
Direct investment	-4,8	42,3	26,0	2,5	-3,7	-3,5
Portfolio investment	-4,3	-51,1	-63,4	-0,9	-0,4	-3,6
Other investment	-0,9	64,3	83,0	-2,2	4,1	20,1
Total financial transactions*	**59,0**	**36,6**	**187,5**	**34,8**	**27,8**	**30,4**

* Including unrecorded transactions

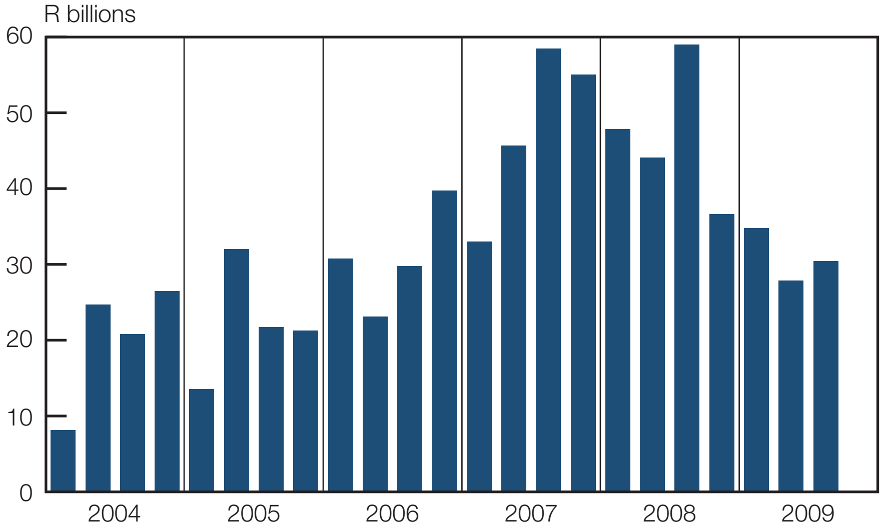
Foreign-owned assets in South Africa

Foreign direct investment into South Africa amounted to an inflow of R8,3 billion in the third quarter of 2009. This inflow of capital was, however, substantially lower than the inflow of R24,9 billion recorded in the second quarter when a large investment in the domestic telecommunication sector was registered. The inflow of capital in the third quarter mainly took the form of an increase in loan finance extended to domestic subsidiaries by non-resident holding companies.

Foreign portfolio investors continued to increase their holdings of South African equity securities in the third quarter of 2009 as risk aversion towards emerging-market assets subsided further on account of an improvement in liquidity in global credit markets. Inward portfolio investment remained brisk for the third consecutive quarter and amounted to R26,3 billion in the third quarter of 2009 following an inflow of R29,7 billion in the second quarter. Over the same period, the decline in domestic bond yields encouraged non-resident investors to dispose of part of their rand-denominated debt securities; these outflows were, however, fully countered by inflows emanating from the issuance of a US$500 million international bond by the South African government. The cumulative inflow of portfolio investment during the first three quarters of 2009 amounted to R66,0 billion, compared with an outflow of R71,5 billion recorded in 2008 as a whole.

Other investment flows into South Africa registered an outflow of R6,8 billion in the third quarter of 2009 partly due to the redemption of foreign short-term credit facilities extended by non-resident creditors. At the same time, non-resident investors reduced their foreign-currency deposits with the South African banking sector by R5,0 billion, that is, at a slower pace than the outflow of R6,3 billion recorded in the second quarter of 2009.

Balance on financial account



Including unrecorded transactions

South African-owned assets abroad

Outward direct investment showed an outflow of R3,5 billion in the third quarter of 2009 compared with an outflow of R3,7 billion recorded in the second quarter. South African companies continued to diversify their businesses abroad through the acquisition of companies, albeit at a slower pace than recorded before.

Outward portfolio investment by South African entities registered an outflow of R3,6 billion in the third quarter of 2009 compared with an outflow of R0,4 billion recorded in the second quarter as South African institutional and individual investors probably made use of the relative strength of the rand to further diversify their portfolio assets abroad.

Other outward investment from South Africa recorded a further inflow of R20,1 billion in the third quarter of 2009 following an inflow of R4,1 billion in the second quarter.

Although South African banks continued to increase their deposits abroad, these outflows were more than offset by a decline in the foreign assets of the non-bank private sector which was mainly used to finance the settlement of debt security purchases from non-resident investors.

Foreign debt

An increase of US$6 billion in the rand-denominated debt raised South Africa's total outstanding foreign debt from US$67,4 billion at the end of the first quarter of 2009 to US$74,0 billion at the end of the second quarter. The increase in the dollar value of rand-denominated debt could mainly be attributed to the appreciation of the rand against the US dollar during the second quarter of 2009. Although non-resident investors increased their holdings of rand-denominated domestic bonds over the period, these inflows were partly neutralised by a decline in the loan and deposit liabilities of the South African banking sector.

Foreign debt of South Africa

US$ billions at end of period

	2008			2009	
	2nd qr	3rd qr	4th qr	1st qr	2nd qr
Foreign currency-denominated debt...	**43,0**	**42,1**	**42,0**	**39,4**	**39,8**
Bearer bonds.......................................	15,0	14,1	14,0	13,3	14,8
Public sector..................................	5,6	5,4	5,3	5,3	5,3
Monetary sector.............................	12,0	11,5	12,1	10,5	9,5
Non-monetary private sector..........	10,4	11,1	10,6	10,3	10,2
Rand-denominated debt	**33,1**	**35,0**	**29,8**	**28,0**	**34,2**
Bonds...	7,9	9,4	8,0	6,6	9,2
Other	25,2	25,6	21,8	21,4	25,0
Total foreign debt................................	**76,1**	**77,1**	**71,8**	**67,4**	**74,0**
As a percentage of gross domestic product..	*25,8*	*25,8*	*25,9*	*25,7*	*28,5*

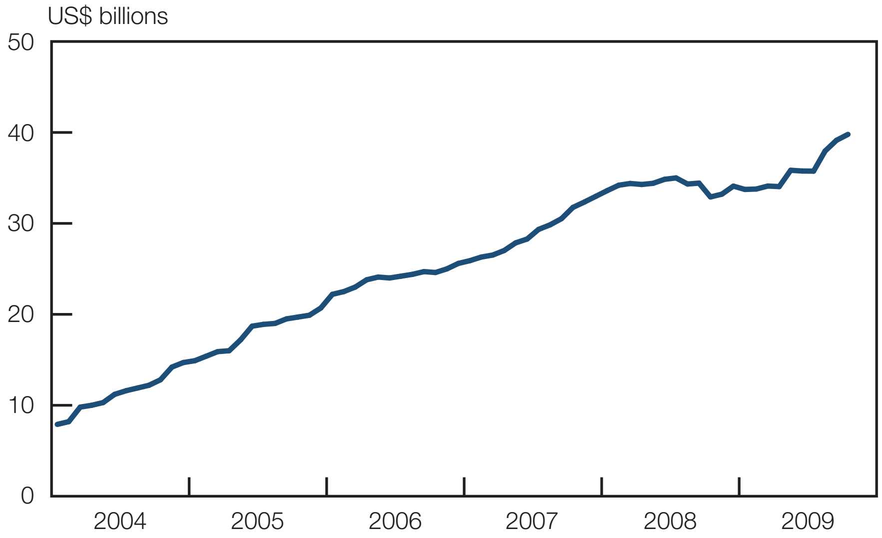
The country's foreign-currency denominated debt rose marginally in the second quarter of 2009 when the proceeds from an international US dollar-denominated bond issue by the national government were partly neutralised by the redemption of maturing international bonds of the national government. Simultaneously, the loan and deposit liabilities of the South African banking sector declined. As the result of the strengthening of the exchange rate of the rand, the country's foreign-currency denominated debt as a ratio of total foreign debt, measured in US dollars, declined from 56,5 per cent at the end of June 2008 to 53,8 per cent at the end of June 2009. Outstanding foreign-currency denominated debt as a ratio of gross gold and other foreign reserves declined from 123,5 per cent to 111,3 per cent over the same period.

As a result of the continued appreciation of the exchange rate of the rand against the US dollar in the second quarter of 2009, South Africa's foreign debt shrank in rand terms from R649 billion at the end of March 2009 to R574 billion at the end of June. Relative to the country's gross domestic product, the country's external debt deteriorated from 25,7 per cent at the end of March 2009 to 28,5 per cent at the end of June.

International reserves and liquidity

The narrowing of the current-account deficit alongside increasing capital inflows on the financial account of the balance of payments resulted in a further surplus on South Africa's overall balance-of-payments position. The country's net international reserves consequently increased by R6,3 billion in the third quarter of 2009 compared with a surplus of R7,1 billion recorded in the second quarter.

Gross international reserves of the South African Reserve Bank



Measured in US dollar, the value of the gross gold and other foreign reserves of the South African Reserve Bank (i.e. the international reserves before accounting for reserve-related loans) increased from US$35,8 billion at the end of June 2009 to US$39,1 billion at the end of September and further to US$40,5 billion at the end of November. The increase in the gross gold and other foreign reserves of the South African Reserve Bank during the third quarter of 2009 was mainly due to the general allocation of Special Drawing Rights (SDRs) by the International Monetary Fund to member countries. The one-off SDR allocations made at the end of August and in early September 2009 in total amounted to US$2,4 billion. The Bank's short-term credit facilities utilised declined from approximately US$650 million at the end of June 2009 to US$350 million at the end of September and remained roughly unchanged at this level up to the end of November.

The international liquidity position increased from US$34,6 billion at the end of June 2009 to US$37,9 billion at the end of September and further to US$39,6 billion at the end of November.

Special Drawing Rights

The Special Drawing Right (SDR) is an international reserve asset first created by the International Monetary Fund (IMF) in 1969 to supplement existing reserve assets of IMF member countries. SDRs are mainly held by the monetary authorities of IMF member countries, and represent an unconditional right of a member country to obtain foreign exchange or other reserve assets from other IMF members in order to deal with situations involving inadequate international liquidity.

Exchange rates

The nominal effective exchange rate of the rand increased, on balance, by 21,4 per cent during the first nine months of 2009. The weighted average exchange rate of the rand, on balance, declined by 0,6 per cent and 0,3 per cent in July and August 2009 respectively, but increased by 3,4 per cent in September. The appreciation of the exchange rate of the rand during the third quarter of 2009 can largely be attributed to the improvement in South Africa's current-account deficit, an increase in the risk appetite of international investors and the subsequent acquisition of domestic securities, a further surge in commodity prices, the weakness of the US dollar as well as positive sentiment concerning a sizeable foreign direct investment transaction into the domestic telecommunications sector.

Exchange rates of the rand

Percentage change

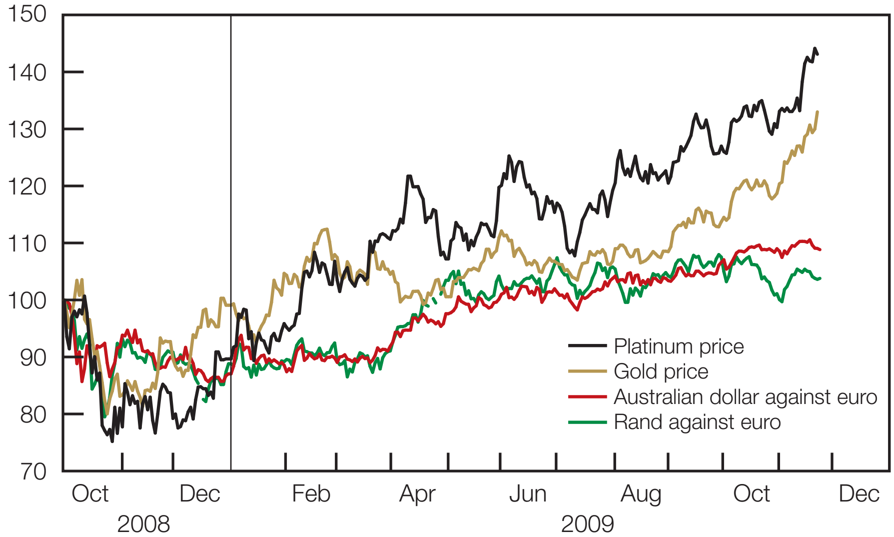
	31 Dec 2008 to 31 Mar 2009	31 Mar 2009 to 30 Jun 2009	30 Jun 2009 to 30 Sep 2009	30 Sep 2009 to 30 Nov 2009
Weighted average*	**0,8**	**17,5**	**2,5**	**-1,8**
Euro	2,5	16,7	1,2	-2,7
US dollar	-3,4	23,8	5,0	0,1
Chinese yuan	-3,2	23,7	4,9	0,1
British pound	-2,1	6,2	8,6	-2,3
Japanese yen	5,2	20,3	-1,5	-4,0

* Against a basket of 15 currencies

The strengthening in the average weighted exchange rate of the rand was interrupted from the end of September 2009 to the first week of October by the announcement of the abandonment of the potential foreign direct investment transaction into the telecommunications sector. The exchange rate of the rand consequently depreciated by 4,2 per cent over the period. However, the nominal effective exchange rate of the rand

Exchange rates and US dollar commodity prices

Indices: 1 October 2008 = 100



recovered thereafter on account of, among other things, the higher international price of gold. This reflected the continuation of the close relationship between international commodity prices and the exchange rates of commodity currencies such as the rand and the Australian dollar.

The real effective exchange rate of the rand increased by 23,5 per cent from December 2008 to September 2009 and by 9,1 per cent over the twelve months to September 2009, weakening South African exporters' price competitiveness in international markets.

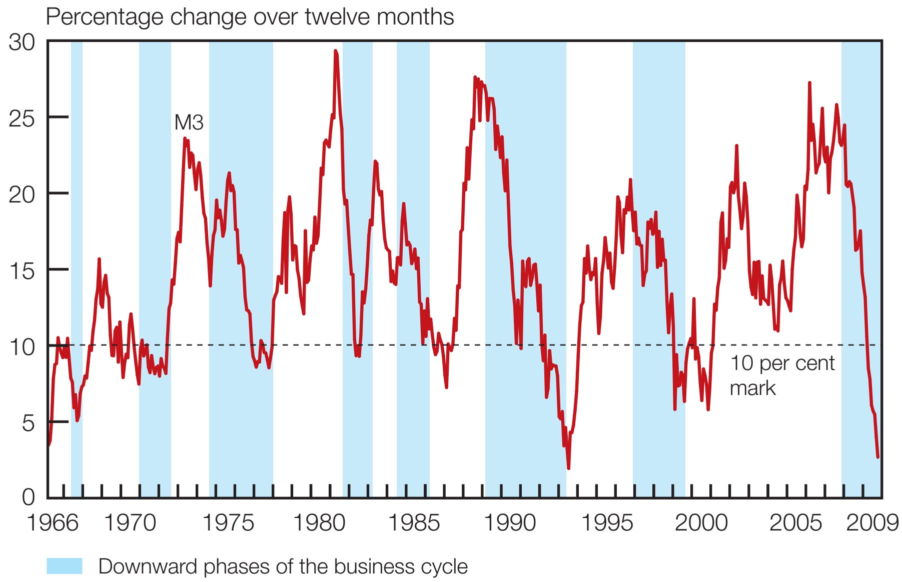
The average net daily turnover in the domestic market for foreign exchange which increased to US$14,6 billion in the second quarter of 2009, decreased marginally to US$14,5 billion in the third quarter. The elevated activity on the domestic market for foreign exchange during the second and third quarters of 2009 coincided with higher levels of portfolio investment inflows and further improvement in the exchange rate of the rand. The value of transactions in which non-residents participated also decreased marginally from US$11,0 billion per day to US$10,9 billion over the same period.

Monetary developments, interest rates and financial markets

Money supply

Money supply growth continued to reflect the recessionary conditions in the economy. Calculated over twelve-month periods, the broadly defined money supply (M3) recorded seven consecutive single-digit growth rates to October 2009, having started to slow shortly after the onset of a downturn in the country's business cycle in December 2007. The accompanying graph illustrates the history of M3 growth in a business cycle context, and shows that during the downward phase of the business cycle in the early 1990s, M3 growth remained below 10 per cent for about two years. The longest record of persistent single-digit growth rates in M3 was from 1970 to 1972 – a period during which credit ceilings were in force which partly preceded the January 1971 start of a downturn in the business cycle. Developments in M3 during 2000 could partly be associated with the unwinding of increased cash holdings around the millennium date change.

M3 and business cycle



Low single-digit quarterly M3 growth rates were registered in the first three quarters of 2009, including a negative growth rate in the second quarter. On a quarter-to-quarter[5] basis, growth in M3 declined sharply to 4,1 per cent in the first quarter of 2009 and changed to a negative 1,4 per cent in the second quarter, before switching to a positive 4,1 per cent in the third quarter. Twelve-month growth decelerated to single digits in April 2009, declining further to a recent low of 2,7 per cent in October. The slowdown in M3 growth reflected the subdued level of aggregate income, the relative low return on M3 deposits, lower inflation, and the deterioration in corporate and household balance sheets.

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

Growth in the narrower monetary aggregates was subdued in the first three quarters of 2009, while growth in term deposits was volatile. Long-term deposits dominated growth in M3 deposits during the third quarter of 2009, rebounding from two consecutive negative growth rates in the first half of the year. Other short- and medium-term deposits balances were reduced markedly in the third quarter, while growth in notes and coin stagnated after a contraction in the second quarter.

Maturity analysis of growth in M3

Per cent at seasonally adjusted annualised rates

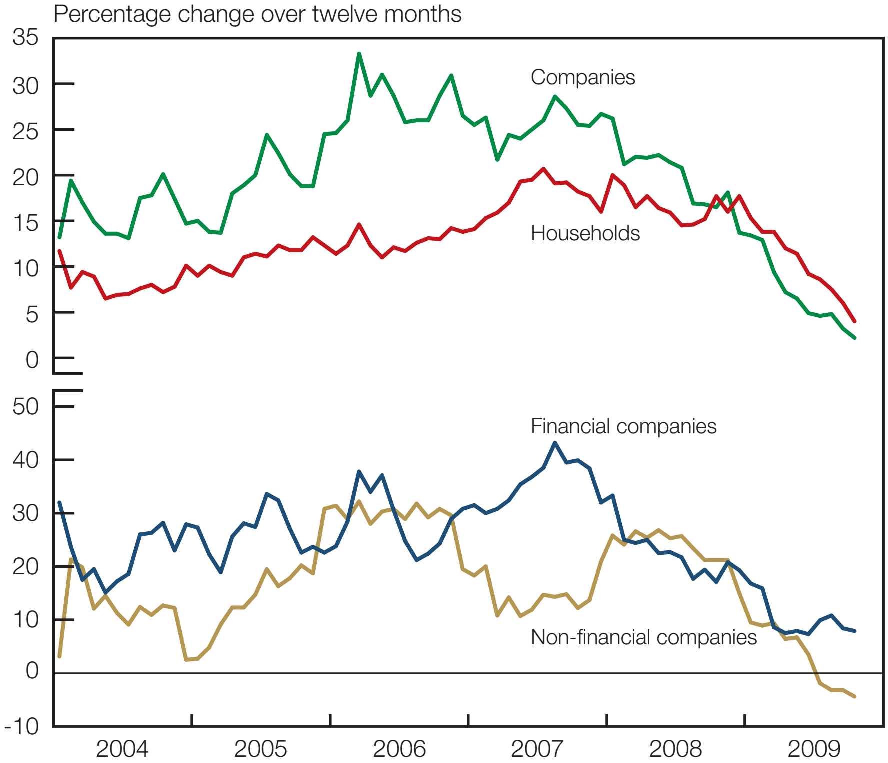
	2008	2009		
	4th qr	1st qr	2nd qr	3rd qr
Notes and coin	16,3	13,7	-1,0	0,5
Cheque and transmission deposits	12,8	-4,2	1,4	10,5
Call and overnight deposits	-3,7	-23,3	25,9	12,6
Other short- and medium-term deposits*	16,3	42,1	-11,7	-20,7
Long-term deposits**	43,5	-25,0	-12,9	71,6
M3	15,1	4,1	-1,5	4,1

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

At the sectoral level, the overall increase of R5,1 billion in M3 deposits during the third quarter of 2009 was solely accounted for by the corporate sector, while household-sector deposits decreased marginally by R0,3 billion. Year-on-year growth in M3 deposit holdings of the corporate sector decelerated from 4,9 per cent in June 2009 to 2,2 per cent in September. The deceleration was more pronounced in the deposit holdings of non-financial companies which recorded negative growth rates from July 2009, whereas those of financial companies accelerated. However, a severe contraction in the deposit holdings of non-financial companies persisted, as real-sector economic conditions continued to favour disintermediation. Measured over twelve months, M3 deposit holdings of the household sector grew by 6,0 per cent in October 2009, compared with 9,2 per cent recorded in June.

M3 holdings of households and companies

Percentage change over twelve months



The statistical counterparts of the increase in M3 during the third quarter of 2009 were, firstly, an increase in net claims on the government sector, largely due to a decline in government deposits arising from the redemption and coupon interest payments on various bonds during the period under review and, secondly, an increase in net foreign assets. Thirdly, banks' claims on the private sector declined for the second consecutive quarter.

Statistical counterparts of change in M3

R billions

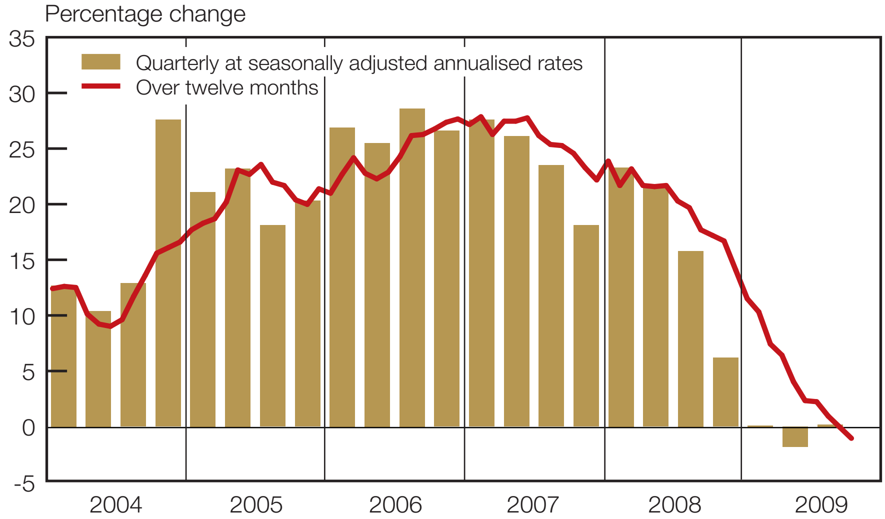
	2008	2009		
	4th qr	1st qr	2nd qr	3rd qr
Net foreign assets	-14,5	7,6	20,6	7,8
Net claims on the government sector	17,3	5,6	-5,0	21,0
Claims on the private sector	38,3	27,1	-21,4	-15,0
Net other assets and liabilities	6,6	-27,1	14,6	-8,8
Total change in M3	47,6	13,1	8,8	5,1

The income velocity of circulation of M3 increased slightly to 1,25 in the third quarter of 2009, as M3 growth was outpaced by that of nominal gross domestic product.

Credit extension

Growth over twelve months in banks' total loans and advances extended to the private sector decelerated markedly from mid-2007, receding to single-digit levels from February 2009 and turning negative in September – an occurrence only observed once before in the 1960s. It is evident that the conventional response of credit extension to the marked reduction in the repurchase rate in the first half of 2009 was still in the pipeline, outweighed by the stricter lending standards of private-sector banks, and deleveraging of balance sheets by households and companies, as the twelve-month rate of growth in total loans and advances recorded an all-time-low negative 1,2 per cent

Total loans and advances to the private sector



in October 2009. The quarterly average levels of loans and advances moved broadly sideways in 2009, its seasonally adjusted annualised growth reversing from a negative rate of 1,9 per cent in the second quarter of 2009 to a positive rate of 0,2 per cent in the third quarter.

Most categories of loans and advances continued to contract in the third quarter of 2009, although at a more moderate pace than in the previous quarter. *Mortgage advances* was an exception: growth over twelve months in mortgage advances, which accounts for about 52 per cent of total loans and advances, remained positive and amounted to 3,6 per cent in October 2009. The growth in mortgage advances was supported, in part, by a slight improvement in housing affordability stemming from lower interest rates, and by the easing of lending criteria by banks through lower deposit requirements. Early indications that house prices were edging higher after a period of deflation also improved sentiment in this market.

Quarterly changes in banks' total loans and advances by type

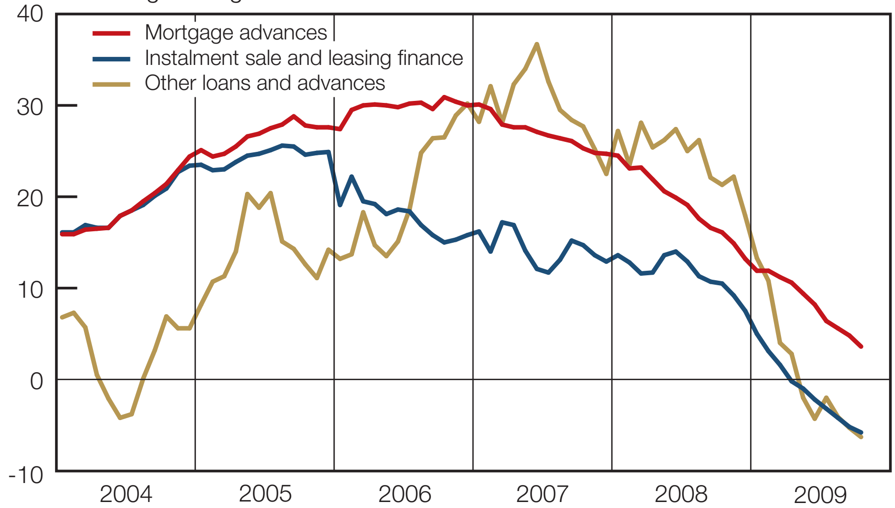
R billions

	2009	
	2nd qr	3rd qr
Mortgage advances	2,2	3,4
Instalment sale credit and leasing finance	-5,2	-4,3
Other loans and advances	-19,0	-4,7
Overdrafts	-1,6	-3,4
Credit card advances	-0,7	0,5
General advances	-16,7	-1,7
Total loans and advances	**-22,0**	**-5,6**
Of which: To household sector	-1,6	5,7
To corporate sector	-20,5	-11,3

Twelve-month growth in *instalment sale and leasing finance*, accounting for about 13 per cent of total loans and advances, turned negative in April 2009 and recorded rates of contraction of 2,2 per cent in June and 5,8 per cent in October, consistent with the subdued demand for motor vehicles and other durable goods.

Loans and advances to the private sector by type of credit

Percentage change over twelve months



Other loans and advances continued to contract, and registered a negative twelve-month growth rate of 6,3 per cent in October. The contraction in other loans and advances continued to reflect the diminishing demand for general loans by the corporate sector.

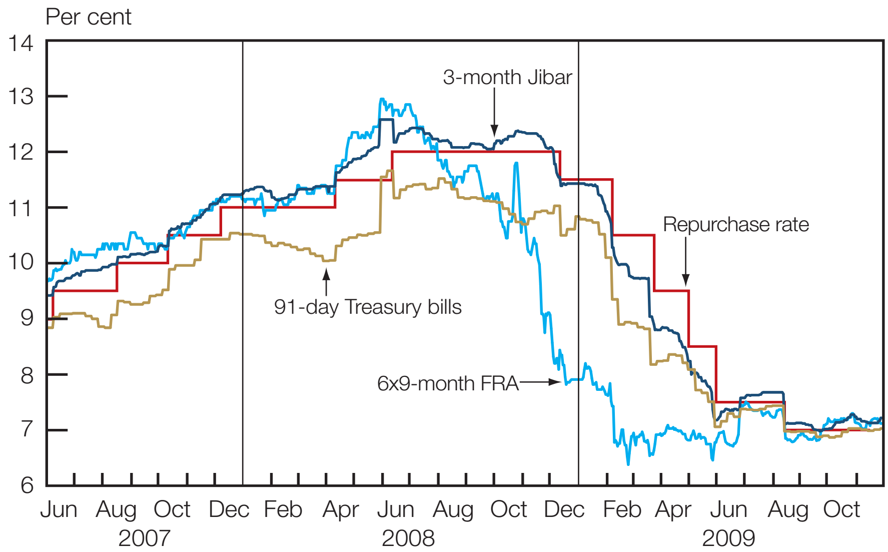
The weak economic conditions dampened the use of loans and advances by the household, and especially the corporate sector in the second quarter of 2009. For the household sector, conditions improved somewhat in the third quarter, resulting in a slight increase in loans and advances, while loans to the corporate sector declined. The decline in credit extended to the corporate sector can mainly be attributable to the recessionary conditions and accompanying cautious outlook for business investment, lower working capital requirements and relatively tight credit conditions.

Interest rates and yields

Against the backdrop of receding inflationary pressures and subdued economic activity, the Monetary Policy Committee (MPC) extended its accommodative monetary policy stance into the third quarter of 2009. After reducing the repurchase (repo) rate by 100 basis points in May, the MPC left this rate unchanged at its July meeting. The repurchase rate was subsequently lowered by 50 basis points to 7,0 per cent in August 2009, but was then kept at that level in the ensuing three MPC meetings to November 2009. Although cost-push pressures in the economy continued to cloud the inflation outlook, the MPC decided to keep the monetary policy stance unchanged as the risks to the inflation outlook appeared to be fairly evenly balanced. The MPC statements discussing developments underlying recent monetary policy decisions are reproduced in full elsewhere in this *Bulletin*.

Other money-market interest rates drifted further downwards in the third quarter of 2009 and returned to near-record lows that prevailed before the onset of the tightening phase of the monetary policy in June 2006. The three-month Johannesburg Interbank Agreed Rate (Jibar), for example, decreased from 7,68 per cent on 12 August 2009 to 6,98 per cent on 22 September – a level last observed in October 2005. With the repurchase rate kept unchanged at the post-August meetings of the MPC, the Jibar then adjusted higher and reached 7,22 per cent on 27 November. Similarly, the 91-day Treasury bill rate remained in line with other money-market interest rates, and reflected demand and supply for short-term government instruments.

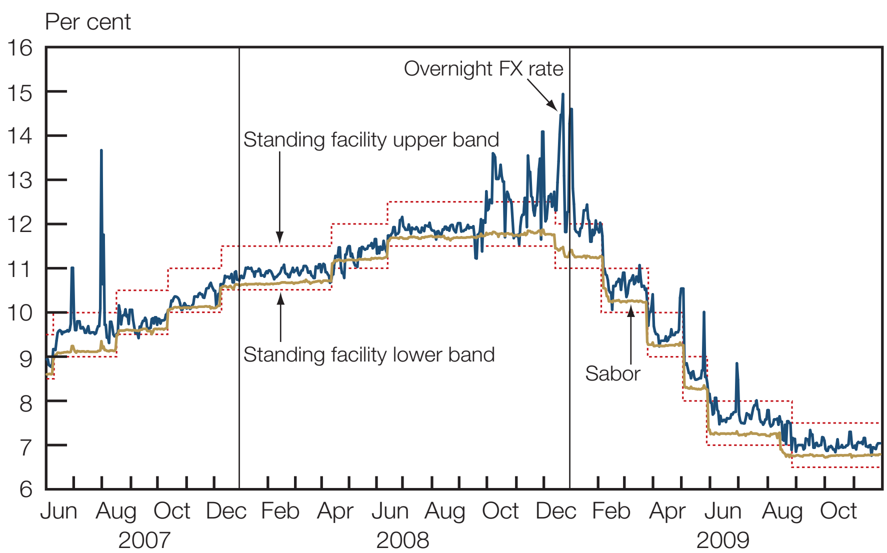
Money-market rates



After the 50 basis points reduction in the repurchase rate in August, rates on forward rate agreements (FRAs) remained relatively stable from mid-August to early September, before trending upwards following the unchanged monetary policy stance. The increase was fairly generalised across the maturity spectrum of the FRA yield curve. In particular, the 9x12-month FRA rate recorded the largest increase of 57 basis points to 7,54 per cent on 26 October 2009. The FRA rate declined to 7,28 per cent on 27 November 2009. More recently, the slope of the FRA curve indicated that market participants expected the unchanged monetary policy stance to continue at the forthcoming MPC meetings.

The South African Benchmark Overnight Rate on Deposits (Sabor) remained fairly stable and well within the standing facility limits. The rate declined from 7,26 per cent on 12 August 2009 to 6,79 per cent on 27 November. The implied rate on one-day rand funding in the foreign-exchange swap market (overnight FX rate) exhibited some stability, in relation to the extreme volatility that characterised this market at the height of the global financial crisis in the third quarter of 2008.

Benchmark overnight rates



Developments in both the *prime overdraft rate* and the *predominant rate on mortgage loans* of the private-sector banks were consistent with the movements in the repurchase rate and remained unchanged at 10,50 per cent since August 2009.

The *official rate of interest* applicable to fringe benefit taxation, as defined in the Income Tax Act, declined from 8,5 per cent to 8,0 per cent on 1 September 2009.

Interest rates on the RSA *government fixed-rate retail bonds* are priced off the government bond yield curve on a monthly basis. The following table depicts how rates on fixed-rate bonds have changed since March 2009:

Interest rates on RSA fixed-rate retail bonds in 2009

Per cent

	2-year bond	3-year bond	5-year bond
Effective from:			
1 Mar	9,50	9,75	10,25
1 Jun	9,00	9,25	9,75
1 Jul	9,25	9,50	9,75
1 Oct	8,75	9,00	9,25

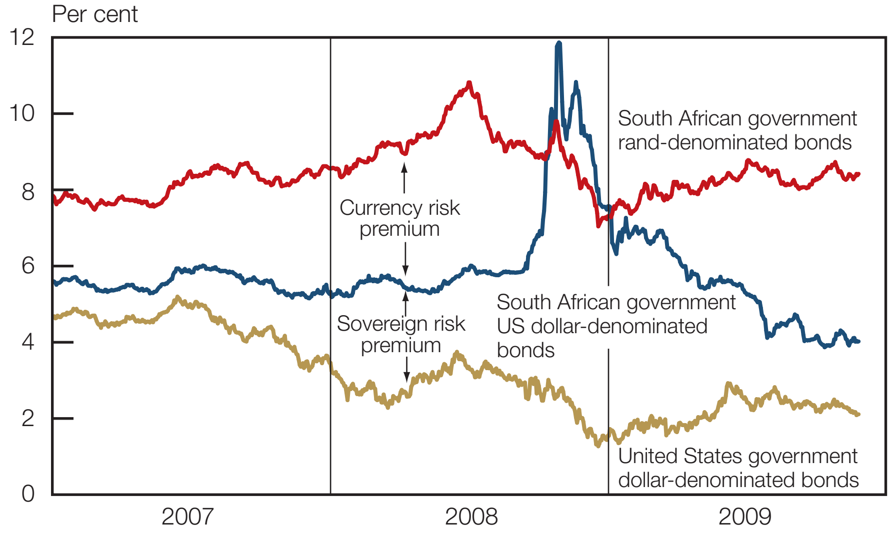
The daily average *yield on the R157 government bond* (maturing in 2014/15/16) fluctuated lower from a recent high of 8,78 per cent on 3 July 2009 to 8,02 per cent on 9 September in response to the appreciation in the exchange value of the rand and the decline in measured inflation. Subsequently, the yield rose to 8,42 per cent on 26 November in the wake of increased issuance and an expected further increase in the supply of government bonds, and inflation concerns related to Eskom's tariff application. The daily closing yield on the US 5-year bond declined from a recent high of 2,92 per cent on 10 June 2009 to 2,11 per cent on 26 November. The spread between the South African R157 bond yield and the US 5-year bond yield narrowed from 636 basis points on 3 July 2009 to 565 basis points on 9 September, before widening again to 631 basis points on 26 November.

From July 2009 to September the *yield curve* moved downwards across all maturities. Thereafter, the yield curve shifted upwards with the exception of the short end, which remained anchored to the unchanged repurchase rate after the August MPC meeting. As a result, the *yield gap* (differential between yields at the extreme long and short ends of the curve) widened from 129 basis points on 8 September 2009 to 218 basis points on 26 November.

The gap between the nominal yield on conventional bonds and the real yield on inflation-linked government bonds increased in recent months, regardless of the appreciation in the exchange value of the rand and lower-than-expected measured inflation. The *break-even inflation rate* in the four-year maturity range progressively moved higher from a recent low of 3,88 per cent on 10 February 2009 to above the 6 per cent level in early June 2009, and came to 6,12 per cent on 26 November as the conventional government bond yield increased while the real yield on inflation-linked government bonds declined.

The *currency risk premium* on South African government bonds (the differential between South African government bond yields on rand-denominated debt in the five-to-six-year maturity range issued in the domestic market and on dollar-denominated debt issued in the United States) widened from 34 basis points in January 2009 to 424 basis points in October, as a general increase in the yield on domestic rand-denominated bonds and a decline in the corresponding yield on dollar-denominated bonds were observed.

Yields on government bonds

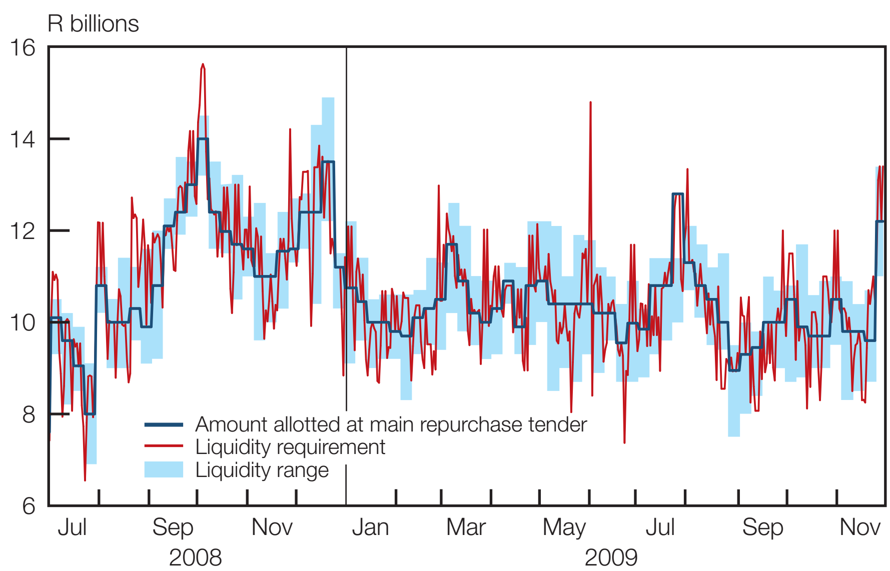


The yield differential, as measured by the JP Morgan Emerging Markets Bond Index Plus (EMBI+), narrowed from 718 basis points in November 2008 to 323 basis points in October 2009 as investors reassessed exposure to emerging-market sovereign debt in line with improved global conditions. Tracking the narrowing emerging-market bond spreads, the *sovereign risk premium* on South African government US dollar-denominated bonds in the five-year maturity range trading in international markets narrowed from 720 basis points in November 2008 to 202 basis points in October 2009.

Money market

Money-market conditions remained normal in the third quarter of 2009. The average daily liquidity requirement of the private-sector banks varied within a narrower range of between R8,1 billion and R13,3 billion in the third quarter, compared with a range of between R7,4 billion and R14,8 billion during the second quarter of 2009, as fluctuations in liquidity moderated further. The weekly main refinancing auctions oscillated between R9,0 billion and R12,8 billion over the same period. In October 2009 the average daily liquidity requirement of the private-sector banks fluctuated downwards to R8,1 billion.

Liquidity requirement, range and amount allotted



Daily liquidity disparities were intermittently accommodated through banks' utilisation of their cash reserve accounts, over and above the use of standing facilities and supplementary repurchase transactions. The statistical counterparts of recent money-market liquidity flows are depicted in the table on page 42.

During the third quarter of 2009, notes and coin in circulation, and banks' cash reserve deposits with the South African Reserve Bank (SARB) cumulatively drained liquidity to the net value of R0,8 billion. Further tightening in liquidity conditions emanated from an increase in government deposits of R3,1 billion and the use of liquidity management instruments (reverse repurchase transactions and SARB debentures) to the net value of R1,2 billion. These transactions together largely offset the purchases of foreign exchange by the Bank, which injected R3,2 billion worth of liquidity into the money market.

Money-market liquidity flows

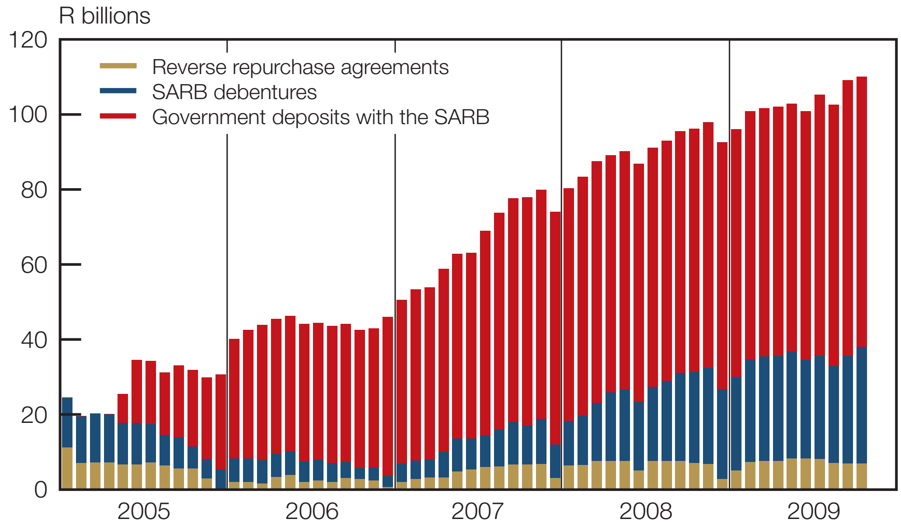
R billions (easing + tightening –)

	2009		
	2nd qr	3rd qr	Oct
Notes and coin in circulation	0,4	-0,7	-2,1
Required cash reserve deposits	-2,1	-0,1	0,0
Money-market effect of SARB* foreign-exchange transactions	3,0	3,2	3,2
Government deposits with the SARB	0,0	-3,1	1,4
Use of liquidity management instruments	0,9	-1,2	-2,3
Reverse repurchase transactions	-0,7	1,2	0,0
SARB debentures	1,6	-2,4	-2,3
Other items net	-2,2	1,4	-0,2
Banks' liquidity requirement (decrease + increase –)	**0,0**	**-0,5**	**0,0**

* SARB: South African Reserve Bank

Redemption and coupon interest payments on various government bonds amounting to R24,7 billion were effected from the tax and loan account during the third quarter of 2009. Of this amount R11,1 billion was for the redemption of a portion of the R153 government bond, which matured on 31 August 2009.

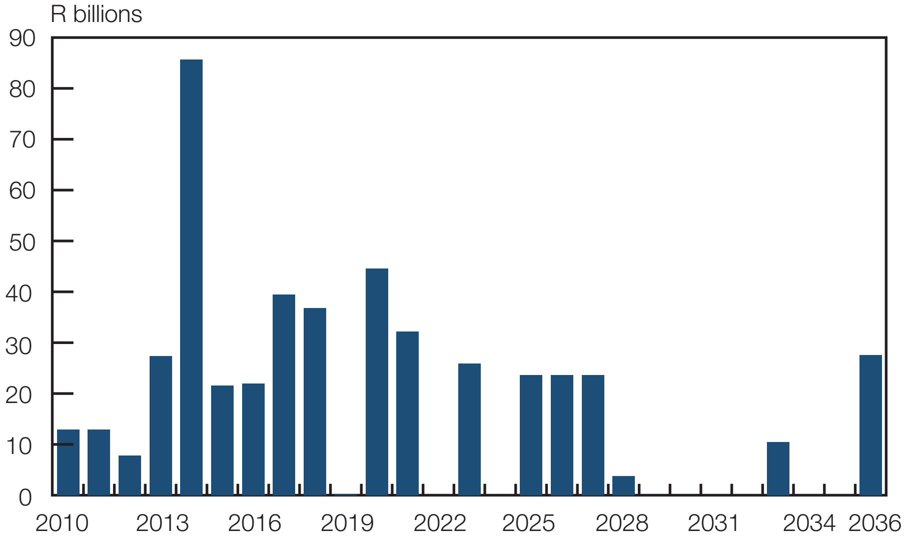
Liquidity-draining operations: Outstanding balances



Bond market

Activity in the primary bond market accelerated from the second quarter of 2009, reflecting increased demand for funding by especially the *public sector*. Net issues of bonds by the national government amounted to a record high of R12,3 billion in September 2009, contributing towards net issues of R47,9 billion in the ten months to October 2009, compared with net issues of only R2,7 billion in the corresponding period of 2008. Net redemptions of R4,0 billion were recorded in August 2009, as the first tranche of the R153 bond, namely the R008 bond, was redeemed, with the balance being split between the remaining two tranches, namely, the R154 (2010) and R155 (2011) government bonds. In the wake of an expected shortfall in revenue collection, following the deterioration in domestic economic activity, the weekly government bond auction increased from an average R1,1 billion per week in April 2009 to R2,0 billion per week in October. According to the *Medium Term Budget Policy Statement 2009*, the domestic issuance of bonds is projected to increase further in fiscal 2009/10. The increase in net issues of bonds by state-owned enterprises contributed R38,0 billion thus far in 2009, while local governments raised R3,3 billion.

Domestic government bonds outstanding on 31 October 2009 by expiry date

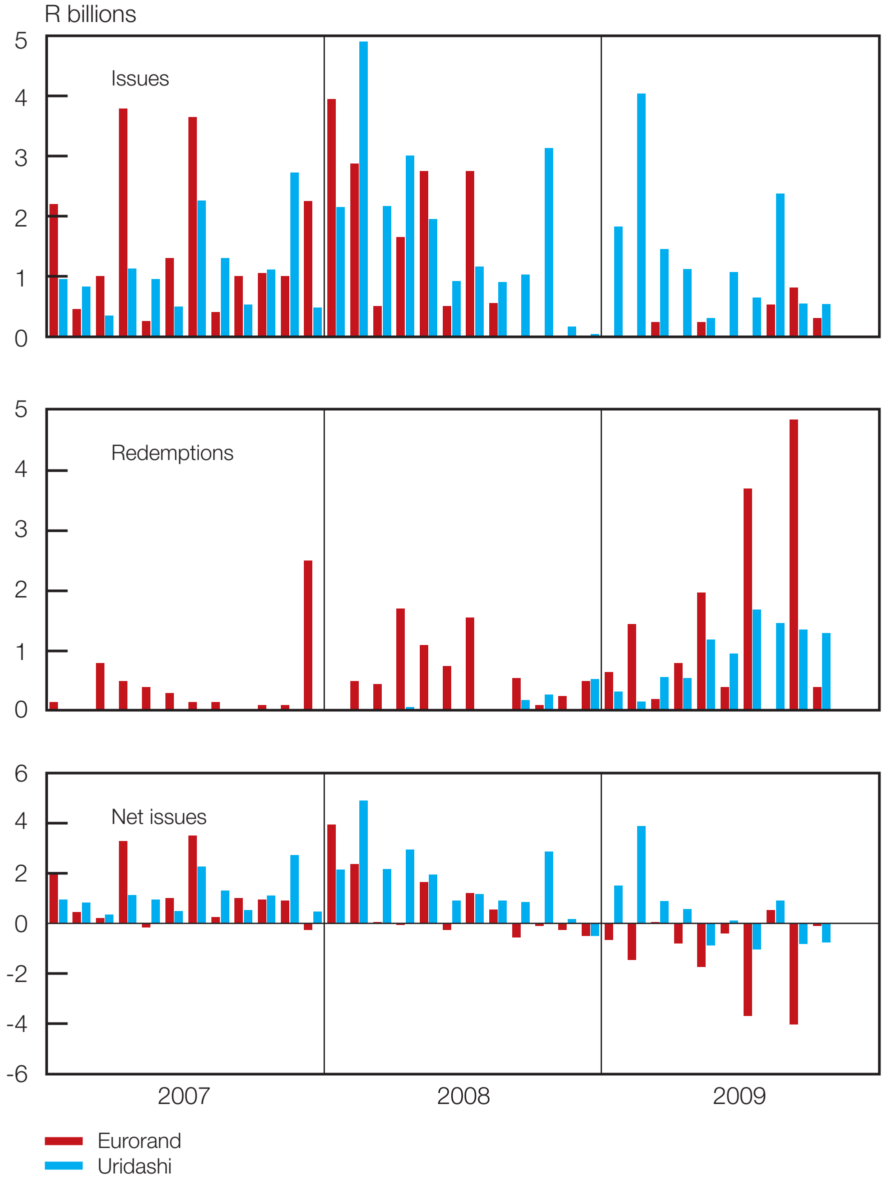


Net issuance by the *private sector* amounted to R13,5 billion in the third quarter of 2009 – the highest quarterly net issuance since the first quarter of 2007 – with activity largely driven by banks. Net issues of fixed-interest securities by banks increased from R6,5 billion in the second quarter of 2009 to R17,3 billion in the third quarter. In August 2009, the first credit card securitisation since March 2007 was concluded, amounting to R1,2 billion. The outstanding nominal value of private-sector loan stock listed on the JSE Limited (JSE) increased by R16,6 billion to R231,6 billion in the ten months to October 2009. Short-term funding in the form of *commercial paper* remained subdued, with net redemptions amounting to R18,5 billion thus far in 2009, compared with net issues of R13,1 billion in the same period of 2008.

Despite generally higher yields offered by South African bonds, issuer interest in rand-denominated bonds in the *European bond markets* waned, registering net redemptions of R12,3 billion in the ten months to October 2009, compared with net issues of R8,8 billion in the corresponding period of 2008. However, non-resident issuers in the *Japanese Uridashi market* took advantage of the high-yield environment and net issues of rand-denominated bonds amounted to R4,4 billion in the first ten months of 2009. This was, however, 79 per cent less than in the same period of 2008, as redemptions became noticeable in 2009.

Turnover in the secondary bond market remained subdued thus far in 2009, against the backdrop of generally rising bond yields and lower trading volumes – partly on account of increased issues in the primary market. Despite the increase from R3,4 trillion in the second quarter of 2009 to R3,7 trillion in the third quarter due to higher volumes and some increase in non-resident participation, turnover on the JSE of R12,7 trillion recorded in the first ten months of 2009 was 31 per cent lower than the value traded in the corresponding period of 2008. Meanwhile, the daily average value of turnover declined by 25 per cent from R86,6 billion to R65,4 billion over the same period.

Rand-denominated bond issues in the European and Japanese Uridashi bond markets



Non-residents switched from net purchases of domestic bonds of R5,0 billion in the second quarter of 2009 to net sales of R3,4 billion in the third quarter. As domestic bond yields increased, non-residents returned in October 2009 as reflected by net purchases of R12,9 billion. Non-residents' cumulative net purchases of domestic debt securities amounted to R4,1 billion in the first ten months of 2009, compared with net sales of R19,2 billion in the corresponding period of 2008. On average, non-resident participation in the JSE has accounted for 12 per cent of the value of all bonds traded thus far in 2009, compared with an average participation rate of 14 per cent in the corresponding period of 2008.

Share market

In conjunction with the more positive sentiment in the share market, the total value of *equity capital raised in the domestic and international primary share markets* by companies listed on the JSE amounted to R97,0 billion in the first ten months of 2009, about 54 per cent more than the R63,2 billion raised in the corresponding period of 2008. The quarterly value of capital raised, however, declined from R46,5 billion in the second quarter of 2009 to R16,2 billion in the third quarter. Of the total amount raised in the first ten months of 2009, companies constituting the industrial sector were predominant contributors at 53 per cent, followed by the financial and resources sectors with 27 per cent and 17 per cent respectively. Capital was mainly raised through the acquisition of assets and the waiver of pre-emptive rights to the amounts of R51,1 billion and R26,7 billion over the same period. Companies with primary listings on the JSE and those with secondary listings on the JSE contributed nearly equally to the total capital raised thus far in 2009.

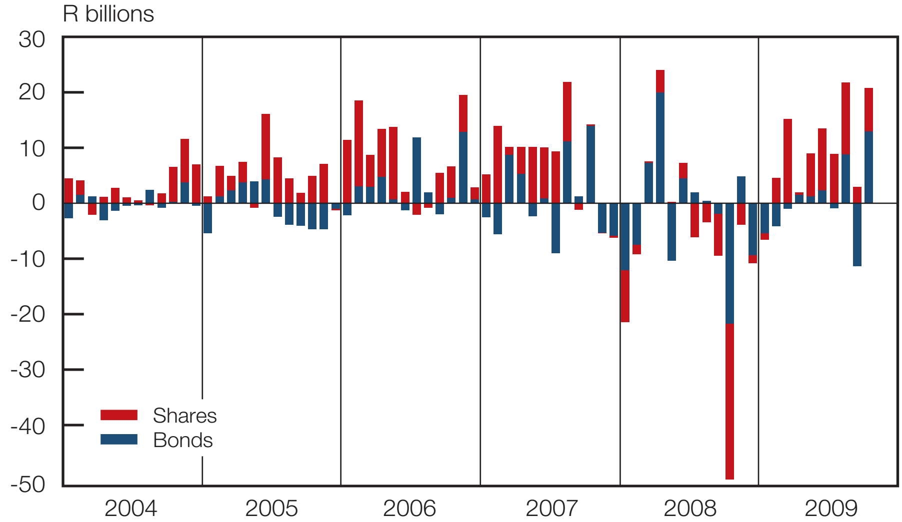
The total number of *listings* came to 412 at the end of October 2009, with 9 new listings and 22 delistings recorded in the first ten months of 2009, compared with 23 new listings and 17 delistings recorded in the same period of 2008. Four new listings – one company transferred from the venture capital board – and four delistings – two companies transferred to the main board – on Alt^{X} thus far in 2009 brought the total listings on this exchange to 77 at the end of October. The Alt^{X} listings, together with the 323 companies listed on the main board and 12 companies listed on the venture and development capital boards, represent all listings on the JSE.

The volatility in global equity markets and the cautiousness of market participants were reflected in the total *value of shares traded* on the JSE of R2,3 trillion during the ten months to October 2009. Turnover was 18 per cent less than the R2,9 trillion recorded in the corresponding period in 2008. The recovery in share prices from March 2009, however, buoyed trading activity and turnover increased from R664,5 billion in the second quarter of 2009 to R740,4 billion in the third quarter. Alt^{X} recorded only a fraction of total turnover to the amount of R2,1 billion in the first ten months of 2009 – a decrease of 56 per cent compared with the corresponding period of 2008. Although the daily average total turnover increased in the three months to October 2009, the daily average turnover of R10,7 billion in the first ten months of 2009 was lower than the R13,0 billion recorded in the corresponding period of 2008.

As share prices recovered, the total *market capitalisation* of the JSE increased by 44 per cent from R4,0 trillion in February 2009 to R5,8 trillion in October. The JSE's market capitalisation, expressed in US dollar terms, placed it at number 18 in the world ranking of the World Federation of Exchanges, an international association comprising more than 50 of the world's leading bourses. At the end of October 2009, the ten largest companies by market capitalisation represented approximately 47 per cent of total market capitalisation of the JSE. The combined market capitalisation of all companies listed on Alt^{X} declined from R20,0 billion in November 2008 to R13,1 billion in July 2009, before increasing to R14,1 billion in October – accounting for only 0,2 per cent of total market capitalisation. Total market liquidity, measured by annualised turnover as a percentage of market capitalisation, declined from 75 per cent in March 2009 to 59 per cent in October.

Non-residents' interest in South African shares confirmed an improvement and recovery in the domestic and global equity markets. Net purchases of domestic shares amounting to R24,8 billion in the third quarter of 2009 followed net purchases of R19,4 billion recorded in the second quarter of 2009. Non-residents' cumulative net purchases of shares amounted to R70,6 billion in the first ten months of 2009, compared with net sales of R49,2 billion in the corresponding period of 2008. Non-residents' participation in the secondary share market, measured as their purchases and sales as a percentage of the value of total purchases and sales, averaged 18 per cent in the first ten months of 2009.

Net purchases of shares and bonds by non-residents



Transactions on the JSE Limited

Global share prices rose sturdily in recent months as risk aversion subsided. The *All-Share Price Index* (Alsi) increased by 49 per cent from a recent low on 3 March 2009 to reach an index value of 27 026 on 26 November, supported by stronger international equity markets, higher commodity prices, lower interest rates, and ample international liquidity. Adjusted for the exchange value of the rand, the South African Alsi, in US dollar terms, increased by 111 per cent from a recent low on 9 March 2009 to 26 November, outperforming the Standard & Poor's (S&P) 500 Composite Index, which increased by 64 per cent over the same period.

In a world ranking by the World Federation of Exchanges the performance of the JSE's Alsi, in local currency terms, was placed at number five at the end of 2008. As shown in the table on page 47, the best performance in 2008 was recorded by the Tehran Stock Exchange of Iran and exchanges of developed countries started featuring from position eight on the ranking. However, movements in these indices from the end of December 2008 to the end of October 2009 resulted in a significant change in these ten positions although the Tehran Stock Exchange was still at number one and the JSE at number five.

The historical *dividend yield* on all classes of shares decreased from 4,5 per cent in February 2009 to a low of 2,3 per cent in October – a level similar to those previously recorded in 2007 and the first half of 2008. The *earnings yield* also decreased from 11,8 per cent to 6,3 per cent in the period under review, and these decreases can mainly be ascribed to lower earnings and dividends declared in the past twelve months and higher share prices. Conversely, the *price-earnings ratio* for all classes of shares increased from 8,4 in February 2009 to 15,9 in October. The recent levels of the price-earnings ratio were higher than the average of 13,1 in 2008 and its long-term average of 13,7, measured from 1990 to date, and partly reflected investors' positive expectations regarding the growth in future earnings of companies.

Price performance of top ten share markets, in local currency

Ranking	Exchange	Percentage change: End Dec 2007 to end Dec 2008	Percentage change: End Dec 2008 to end Oct 2009
1.	Tehran Stock Exchange	-11,1	44,2
2.	Santiago Stock Exchange	-22,1	39,5
3.	Mexican Exchange	-24,2	28,0
4.	Amman Stock Exchange	-24,9	-5,2
5.	*JSE Limited*	*-25,7*	*22,6*
6.	Colombia Stock Exchange	-29,3	42,1
7.	Bermuda Stock Exchange	-30,4	-38,1
8.	London Stock Exchange	-31,3	15,2
9.	Jasdaq	-33,2	0,8
10.	New Zealand Exchange	-37,4	13,3

Source: I-Net Bridge and Bloomberg, using broad share price indices

Market for exchange-traded derivatives

In July 2009 the JSE's Equity Derivatives Division introduced futures and options on the FTSE/JSE African Banks Index. Such futures started trading in September, providing investors an opportunity to trade and gain exposure to shares constituting the African Banks' Index.

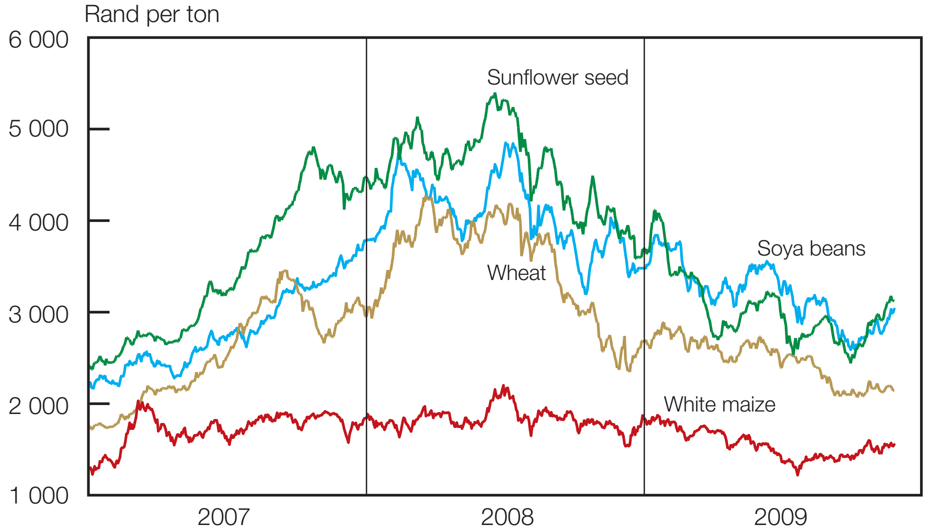
Although activity in *equity derivatives* on the JSE increased somewhat in the third quarter of 2009, turnover has remained much lower thus far in 2009 when compared with the corresponding period of 2008. In replacing the old dividend futures contracts, the JSE listed new dividend futures contracts from 24 August 2009, partly in an effort to allow clients more possibilities and efficiency in their trades. Single-stock futures continued to dominate trading activity, accounting for 62 per cent; equity index contracts accounted for 26 per cent and dividend futures products for 10 per cent of the total number of contracts traded in the first ten months of 2009.

In August 2009 the Commodity Derivatives Division of the JSE extended its current agreement with the CME Group to diversify its product range by including foreign-referenced energy and precious metal commodities, namely crude oil, gold and platinum products in addition to the cash-settled maize futures and options contracts. Trading in these products started in October 2009.

Trading activity in *commodity futures and options contracts* has generally displayed a slowdown thus far in 2009, prompted by lower domestic and international agricultural commodity prices and the appreciation in the exchange value of the rand. In the first ten months of 2009 the total number of contracts traded amounted to 1,6 million, some 32 per cent lower than the number of contracts traded in the corresponding period of 2008.

Trading activity on the *Yield-X* derivatives market soared as volumes traded reached an all-time high of 1,7 million in September 2009, contributing to an increase of 40 per cent in the first ten months of 2009 compared with the same period of 2008. Alongside the movements and developments in the exchange value of the rand, currency futures and options contracts continued to dominate trade, accounting for 94 per cent of the total number of contracts traded in the ten months to October 2009 – with US dollar/rand contracts being the most favoured. Notwithstanding the introduction of futures contracts on the R155 instrument in September 2009, trade in interest rate futures and options contracts remained subdued in the first ten months of 2009 compared with the same period in 2008, reflecting an increase of only 6 per cent in the number of contracts traded.

Agricultural commodity prices



Along with a decline in the number of *warrants* traded in the ten months to October 2009 when compared with the corresponding period in 2008, turnover was lower. Turnover in all derivatives traded on the JSE for the first ten months of 2009 is indicated in the table below.

Derivatives turnover on the JSE, January to October 2009

	Value	Change over one year
	R billions	Per cent
Equity futures and options on futures	2 541	-42
Warrants	2	-11
Commodity futures and options	191	-39
Interest rate derivatives	121	24

Real-estate market

The improvement in property demand, although sluggish, provided an indication of the effect of the cumulative 500 basis points reduction in interest rates since December 2008, combined with recent relaxation in the tight credit conditions in the mortgage bond market. The year-on-year rate of change in the average price of residential property in the middle segment of the market, as measured by Absa, improved from a negative 3,5 per cent in April 2009 to a positive 2,6 per cent in October. Similarly, the year-on-year rate of change in the average house price, as measured by First National Bank, slowed from a negative 8,7 per cent in June 2009 to a negative 1,0 per cent in October. The Standard Bank median house price improved from a negative 5,2 per cent year-on-year rate of change in August and September 2009, to a negative 4,6 per cent in October.

An analysis by price category indicates that the year-on-year rate of change of residential property prices in the luxury market segment, as measured by Absa, switched from an increase of 1,9 per cent in the second quarter of 2009 to a decline of 4,0 per cent in the third quarter. By contrast, the corresponding rate of change of house prices in the affordable houses category increased from 1,9 per cent to 2,1 per cent over the same period.

House price changes in different price classes

	Percentage change over four quarters	
	2nd qr 2009	3rd qr 2009
Affordable (40 m² to 79 m², up to R430 000)	1,9	2,1
Middle segment (80 m² to 400 m², up to R3,1 million)	-3,2	-1,1
Small (80 m² to 140 m², up to R3,1 million)	-4,2	-4,4
Medium (141 m² to 220 m², up to R3,1 million)	-3,1	-4,7
Large (221 m² to 400 m², up to R3,1 million)	-1,0	1,9
Luxury segment (between R3,1 million and R11,5 million)	1,9	-4,0

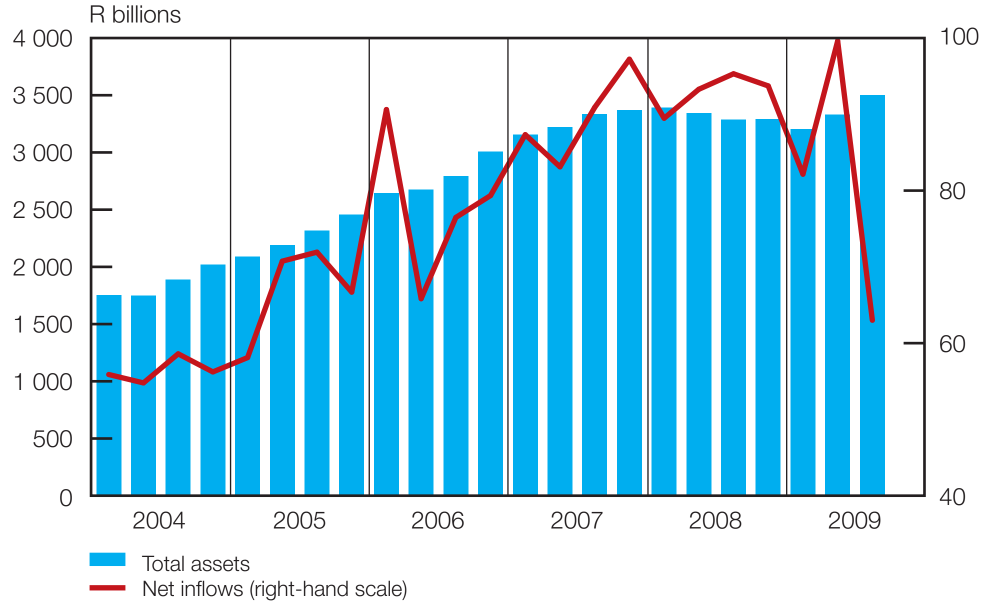
Source: Absa

Non-bank financial intermediaries

A more optimistic outlook for activity in the financial sector during the third quarter of 2009 was evidenced by improvements in the balance sheets of non-bank financial intermediaries.[6] After contracting by 3 per cent to R3,2 trillion in the first quarter of 2009, the total assets of non-bank financial intermediaries increased to R3,5 trillion in the third quarter. The intermediaries benefited, in part, from the recovery in the equity prices during the quarter ending September. Relatively lower bond prices, however, weighed on the institutions' holdings of fixed-interest securities amid concerns of increased

6 Defined as unit trusts, pension and provident funds and insurers.

Total assets of selected non-bank financial institutions



supply of government paper. The combined equity holdings of these intermediaries as a percentage of total assets increased from 43 per cent in the second quarter of 2009 to 46 per cent in the third quarter. Holdings of fixed-interest securities increased from 21 per cent to 22 per cent, while cash and deposits declined to 18 per cent over the same period.

However, net inflows to non-bank financial intermediaries declined by 37 per cent from R99,6 billion in the second quarter of 2009 to R63,0 billion in the third quarter against the backdrop of low investor confidence levels. Cumulatively, the net inflow of funds amounted to R244,8 billion in the first three quarters of 2009, compared with R278,1 billion in the corresponding period of 2008.

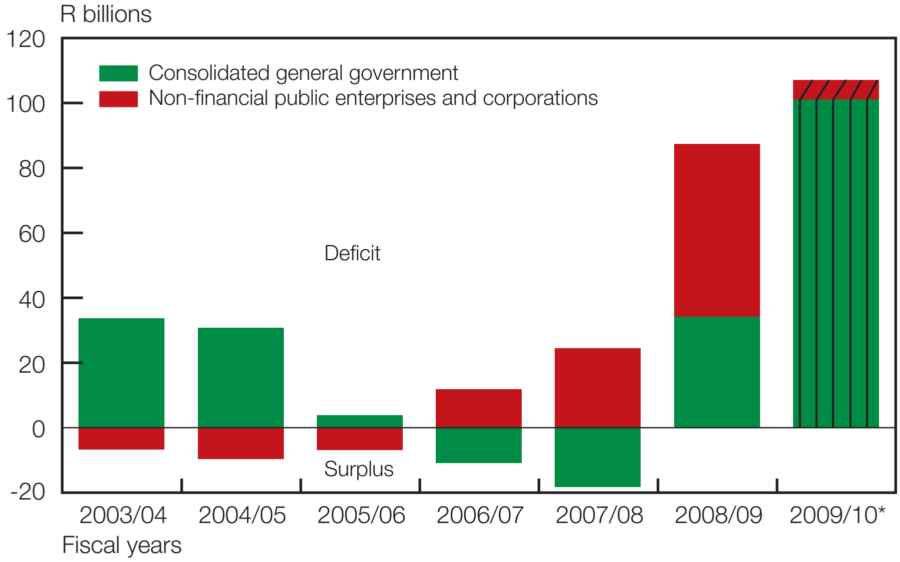
Public finance

Non-financial public-sector borrowing requirement[7]

The consolidated general government continued with robust spending on infrastructure in the July–September quarter of fiscal 2009/10. As a result of the economic slowdown, tax revenue collections at the same time underperformed, while higher capital spending by non-financial public enterprises and corporations further widened the non-financial public-sector borrowing requirement. The non-financial public-sector cash deficit reached R54,3 billion in the July–September quarter and R107,1 billion in the period April–September 2009. The latter number may be compared with a cash deficit of R35,1 billion recorded in the same six-month period a year earlier.

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

Non-financial public-sector borrowing requirement



* April–September 2009

In the first half of fiscal 2009/10 the non-financial public-sector borrowing requirement relative to gross domestic product amounted to 8,8 per cent, compared with a deficit of 3,0 per cent recorded in the same period a year earlier.

Financial activities of the non-financial public sector at various levels of government are summarised in the table on page 52.

Non-financial public enterprises and corporations recorded a cash deficit of R6,0 billion in April–September 2009, compared with a cash deficit of R17,0 billion recorded in the corresponding period a year earlier. The much smaller cash deficit resulted from significant revenue received by major non-financial public enterprises and corporations. This included the sale of Telkom's 15 per cent stake in Vodacom for R22,5 billion. Net investment in non-financial assets by non-financial public enterprises and corporations totalled R44,8 billion during the period under review, representing a year-on-year rate of increase of 17,0 per cent. Eskom received a further amount of R7,5 billion as part of the second tranche of a subordinated loan from National Treasury in September 2009.

Non-financial public-sector borrowing requirement

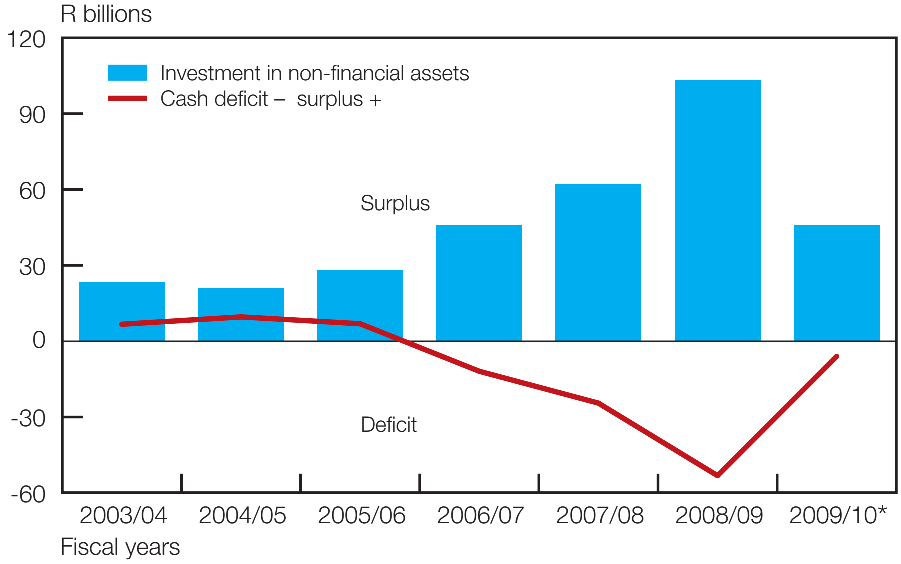
R billions

Level of government	Apr–Sep 2008*	Apr–Sep 2009*
Consolidated general government	18,1	101,1
National government	15,7	102,6
Extra-budgetary institutions	-6,1	-4,2
Social security funds	-6,3	-3,7
Provincial governments	3,8	-3,1
Local governments	11,1	9,6
Non-financial public enterprises and corporations	17,0	6,0
Total	35,1**	107,1**
As a percentage of gross domestic product	*3,0*	*8,8*

* Deficit + surplus –
** Components may not add up to totals due to rounding off of figures

The fiscal performance of *national government* was characterised by negative growth in tax revenue, resulting in cash receipts from operating activities decreasing by 7,1 per cent in April–September 2009, compared with the same period of the previous fiscal year. Cash payments for operating activities simultaneously rose 21,0 per cent year on year to total R378,5 billion in the first two quarters of fiscal 2009/10. During April–September 2009, net cash flow from operating activities, together with firm net investment in non-financial assets resulted in a cash deficit of R102,6 billion. This was substantially higher than the cash deficit recorded in the corresponding period a year earlier.

Finances of non-financial public enterprises and corporations



* April–September 2009

An analysis of *Provincial Revenue Fund Statements* indicates that *provincial governments* recorded a cash surplus of R1,0 billion in July–September 2009. This brought the cash *surplus* for the first half of fiscal 2009/10 to R3,1 billion. This is a turnaround from the R3,8 billion cash *deficit* recorded in the same period a year earlier. The *Provincial Budgets and Expenditure Review 2005/06–2011/12*, published by National Treasury in September 2009, projected a cash deficit of R0,7 billion for fiscal 2009/10 as a whole.

Grants from national government comprised the equitable share transfers and conditional grants earmarked for specific purposes. These grants remained the principal source of provincial governments' cash receipts and equalled R144,1 billion in the first six months of fiscal 2009/10. Equitable share transfers are used to provide basic services such as school education, health and social welfare, alongside other functions in terms of government's strategic objectives.

Cash payments for operating activities by provincial governments amounted to R131,9 billion in April–September 2009, representing a year-on-year rate of increase of 12,0 per cent. Net investment in non-financial assets reached R13,3 billion in the first six months of fiscal 2009/10, which was 22,9 per cent more than in the same period a year earlier. Capital expenditure continues to be one of the fastest-growing items in provincial expenditure. With this, there has been a distinct increase in capital expenditure by provinces, which is largely attributable to the Infrastructure Development Improvement Programme (IDIP).

Provincial governments increased their deposits with private-sector banks from R6,5 billion at the end of March 2009 to R7,6 billion at the end of September. Their overall indebtedness to banks decreased from R1,7 billion to R0,8 billion between these respective dates.

For the first six months of fiscal 2009/10, *local governments* recorded an estimated cash deficit of R9,6 billion, compared with a deficit of R11,1 billion recorded in the corresponding period a year earlier. This could be ascribed to an improvement in the net operating activities of local governments during the period under review. However, given the still unfavourable domestic economic conditions, municipal own revenue remained under pressure as consumer debt soared. In supporting municipal revenue, national government transferred the first tranche of R0,2 billion to Category A (metropolitan) municipalities as a portion of revenue generated from the general fuel levy. In fiscal 2009/10 the tax-sharing agreement was implemented, which replaced the Regional Services Council and Joint Services Board levies. To this end, national government budgeted for an amount of R6,8 billion to be transferred to local governments for fiscal 2009/10 as a whole.

During the period under review, net investment in non-financial assets by municipalities trended higher and reached R21,7 billion – or 4,1 per cent higher compared with the same period a year earlier. Government continued its commitment to infrastructure-related spending, and in so doing, partly cushioned the domestic economy from the financial crisis, thereby promoting sustainable long-term economic growth and development.

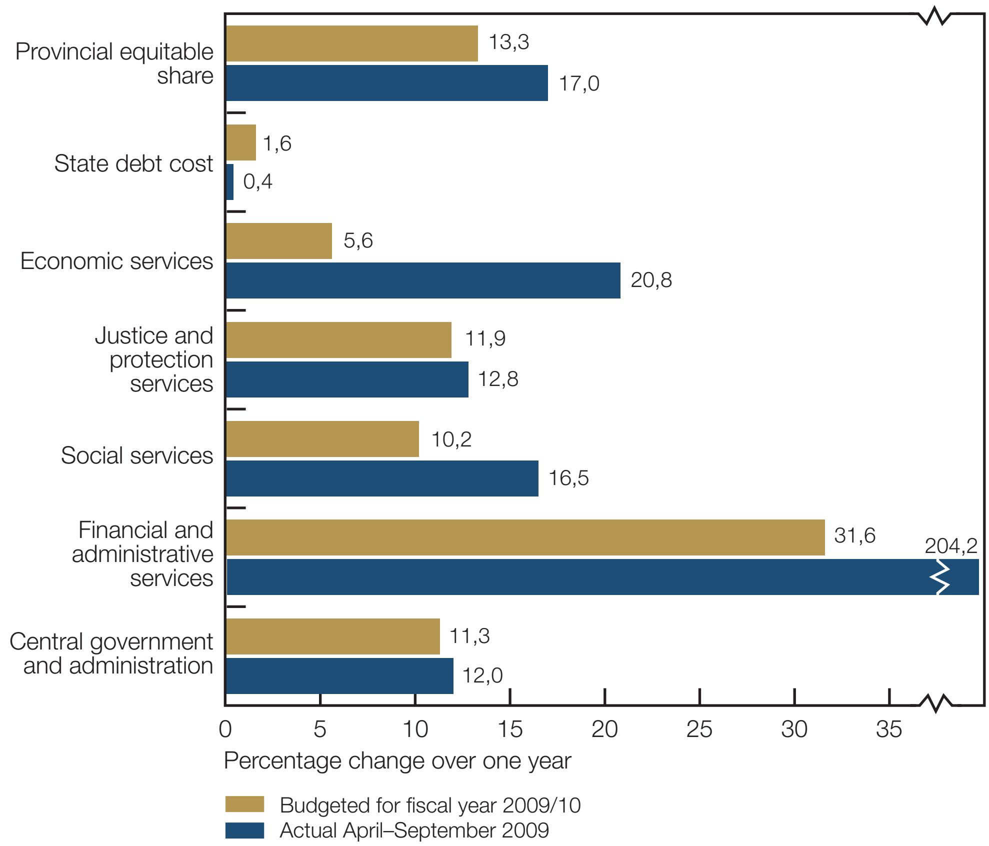
In the July–September quarter of 2009, *extra-budgetary institutions* recorded an estimated cash surplus of R2,2 billion, bringing the cash surplus to R4,2 billion in the first half of fiscal 2009/10. Preliminary estimates indicated that *social security funds* recorded a cash surplus of R3,7 billion in the first six months of fiscal 2009/10 – significantly lower than the cash surplus of R6,3 billion recorded in the corresponding period of fiscal 2008/09.

Budget comparable analysis of national government finance

Despite the current economic slowdown, national government spending continued to grow according to budgeted projections. Spending by national government in the first half of fiscal 2009/10 was almost half the budgetary projections and amounted to R368,0 billion, representing a year-on-year rate of increase of 22,1 per cent. Although this growth rate was noticeably higher compared with the 14,9 per cent recorded in April–September 2008 and exceeded the average growth rate recorded in the first six months of the preceding five fiscal years, it was budgeted as such. The *Budget Review 2009* projected main budget expenditure to increase by 16,2 per cent to equal R739 billion for the fiscal year 2009/10 as a whole.

National government expenditure relative to gross domestic product amounted to 30,3 per cent in April–September 2009, markedly higher than the ratio of 26,0 per cent recorded in April–September 2008.

National government expenditure



Increased spending by national government was primarily driven by transfers and subsidies paid by the Financial and Administrative cluster – mainly National Treasury – together with the Social Services cluster. In the six-month period under review, transfers and subsidies increased by 39,8 per cent year on year and included extraordinary transfer payments by National Treasury and the departments of Health and Social Development. This increase included a one-off loan of R4,2 billion paid to the Gauteng Province for the Gautrain project, and a grant of R1,7 billion to provinces and municipalities for integrated housing and human settlement development. The *Budget Review 2008* made provision for financial support for Eskom's capital investment programme. To date, Eskom received R25,0 billion in the form of a subordinated loan from National Treasury. The first tranche of R10 billion was paid in fiscal 2008/09. Furthermore, a portion of the second tranche was paid in equal amounts in June and September 2009, amounting to R15,0 billion.

During April–September 2009, interest paid on national government debt totalled R28,2 billion, representing an increase of 2,0 per cent compared with the corresponding period in the previous fiscal year. The modest increase in interest payments was to some extent influenced by the switch programme of domestic government bonds in fiscal 2008/09, combined with higher issuance of domestic and foreign bonds in the current fiscal year. To date, interest payments exceeded the half-yearly projections by a paltry R0,6 billion. Relative to gross domestic product, interest paid on national government debt equalled 2,3 per cent in April–September 2009, broadly the same as the ratio recorded in the same period a year earlier. Payments for capital assets amounted to R3,4 billion during April–September 2009; 2,2 per cent less than in the same period in the previous fiscal year. The original budget projected that payments for capital assets would amount to R8,5 billion in fiscal 2009/10 as a whole.

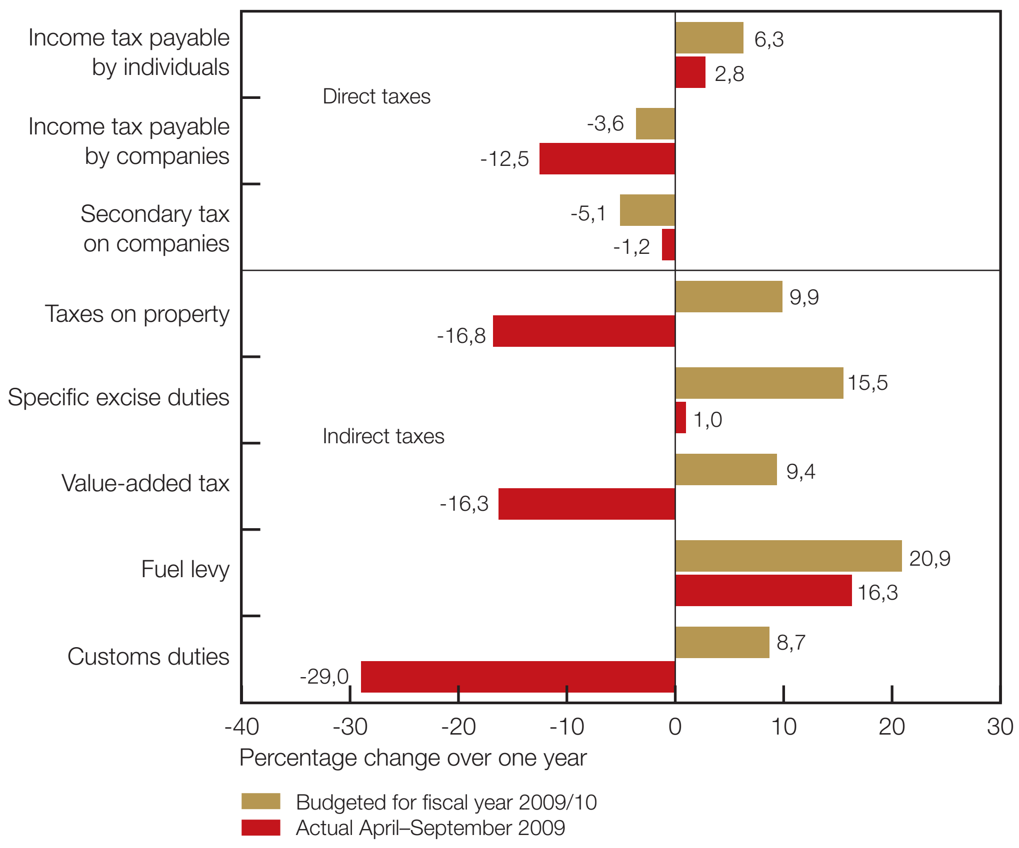
After taking into account cash-flow adjustments,[8] national government's cash-flow expenditure in the first half of fiscal 2009/10 equalled R359,3 billion – or 19,8 per cent more than in the corresponding period a year earlier.

8 Transactions arising from timing differences between the recording of transactions and bank clearances, and late departmental requests for funds.

National government revenue collections continued to weaken in the first six months of fiscal 2009/10 and amounted to R261,4 billion. Revenue collections were well below originally budgeted projections and decreased year on year by 8,4 per cent compared with the same period a year earlier. The *Budget Review 2009* estimated that national government revenue would grow by 5,6 per cent to total R643 billion for the fiscal year as a whole.

As a ratio of gross domestic product, national government revenue amounted to 21,6 per cent in the period under review, lower than the ratio of 24,7 per cent recorded in the corresponding period in the previous fiscal year.

National government revenue



Revenue underperformance in April–September 2009 was broad-based as it resulted from declines in almost all the major tax categories, which mirrored the weak domestic economic conditions. Taxes on income, profits and capital gains decreased moderately, influenced by a steep decline in corporate income tax collections, which signalled the decreased profitability of companies following the ongoing sluggish economic activity. The decrease outweighed modest but positive growth in collections from personal income taxes.

Taxes on property continued to reflect the contraction in activity in the real-estate market by registering a negative growth rate as receipts from transfer duties declined further. However, signs of growth in collections from securities transfer taxes negated this slightly. Major components of taxes on goods and services recorded negative growth rates. The decline in value-added tax collections was consistent with the contraction in final consumption expenditure by households. Taxes on international trade and transactions declined strongly in the first six months of fiscal 2009/10 as lower customs duties were collected, reflecting both declining import volumes and a stronger exchange value of the rand, which suppressed the rand value of imports.

National government revenue in fiscal 2009/10

Revenue source	Originally budgeted		Actual Apr–Sep 2009	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	389,0	1,4	170,7	-4,4
Payroll taxes	7,8	5,8	3,8	7,7
Taxes on property	10,4	9,9	4,2	-16,8
Taxes on goods and services	226,5	12,6	84,9	-9,3
Taxes on international trade and transactions	25,3	10,9	8,3	-30,8
Other revenue	11,9	-11,3	3,6	-49,7
Less: SACU** payments	27,9	-3,5	14,0	-3,5
Total revenue	**643,0**	**5,6**	**261,4**	**-8,4**

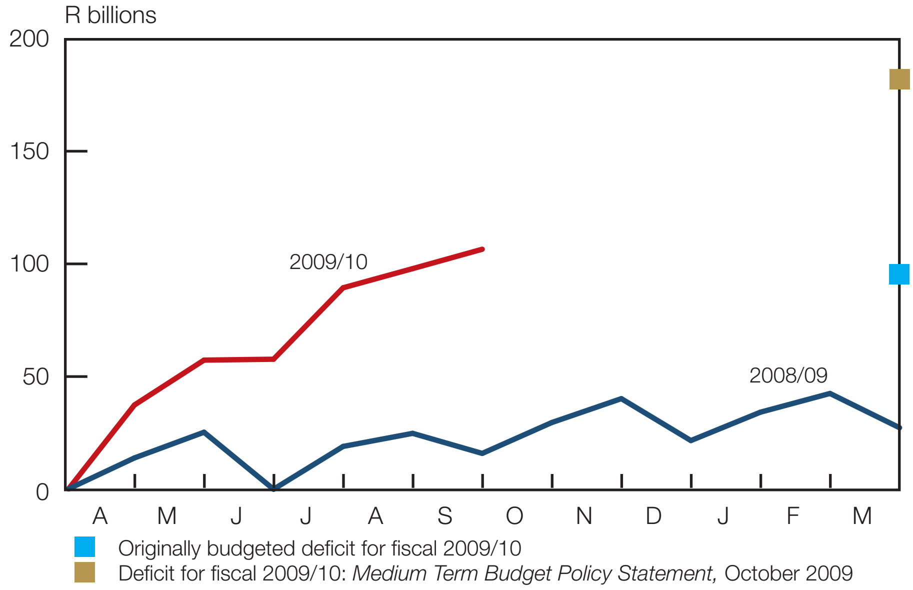
* April–September 2008 to April–September 2009
** Southern African Customs Union

After taking into account cash-flow adjustments, national government cash-flow revenue in the first six months of fiscal 2009/10 equalled R261,2 billion, representing a year-on-year rate of decrease of 8,8 per cent.

Netting national government revenue and expenditure in the first two quarters of fiscal 2009/10 resulted in a cash-book deficit of R106,5 billion – almost seven times the cash-book deficit recorded in the corresponding period a year earlier. The cash-book deficit in April–September 2009 already exceeded the originally budgeted deficit of R95,6 billion for the current fiscal year as a whole by about R11 billion. As a ratio of gross domestic product, the deficit amounted to 8,8 per cent in the first six months of the current fiscal year, compared with 1,4 per cent recorded in the same six-month period a year earlier.

The net result of national government cash-flow revenue and cash-flow expenditure for April–September 2009 was a cash-flow deficit of R98,0 billion. This was considerably higher than the cash-flow deficit recorded in April–September 2008. Extraordinary receipts included R3,9 billion as proceeds from the sale of Telkom shares in Vodacom and special dividends from Telkom of R0,5 billion. After taking into account extraordinary

Cumulative deficit of national government



transactions and the cost on revaluation of foreign debt at redemption, the net borrowing requirement amounted to R93,9 billion in the first six months of fiscal 2009/10, markedly higher than the R14,9 billion recorded in April–September 2008.

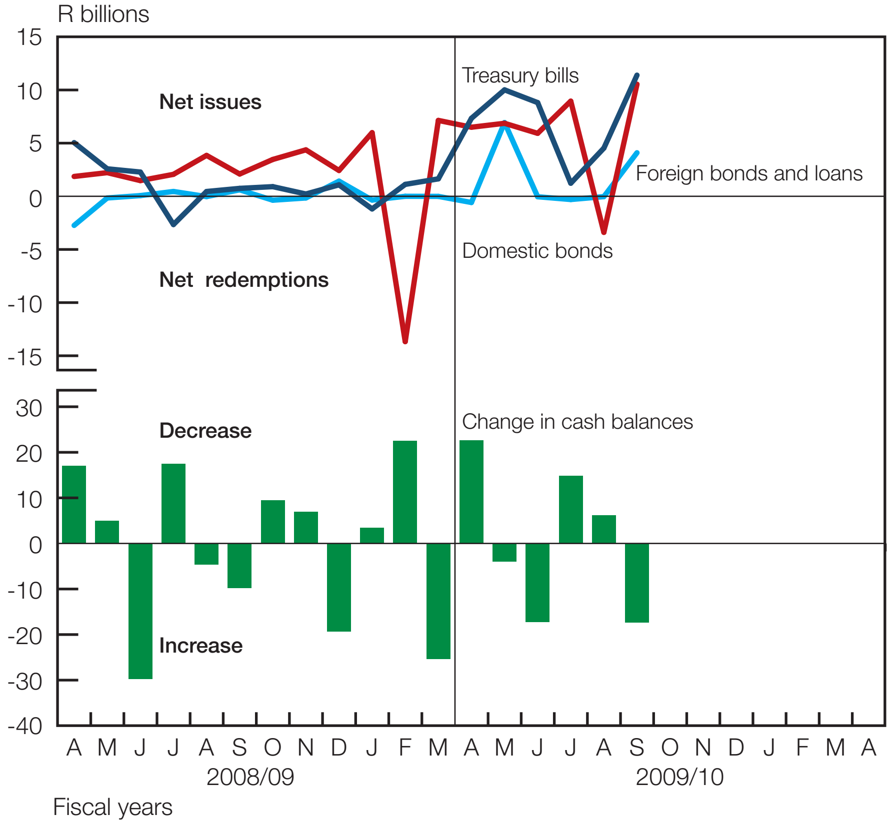
National government financing in fiscal 2009/10
R billions

Item or instrument	Originally budgeted 2009/10	Actual Apr–Sep 2009	Actual Apr–Sep 2008
Deficit	95,6	98,0*	13,7*
Plus: Extraordinary payments	0,9	0,1	1,0
Cost on revaluation of foreign debt at redemption*	2,3	0,5	2,1
Less: Extraordinary receipts	4,0	4,7	1,8
Net borrowing requirement	**94,8**	**93,9**	**14,9**
Treasury bills	15,4	43,3	8,5
Domestic government bonds	63,7	35,4	13,6
Foreign bonds and loans	6,1	10,1	-1,8
Change in available cash balances**	9,6	5,1	-5,3
Total net financing	**94,8**	**93,9**	**14,9**

* Cash-flow deficit
** Increase – decrease +

As indicated in the table above, the net borrowing requirement was financed through the issuance of debt instruments in the domestic and foreign capital markets. The *2009 Budget Review* projected that net issues of domestic Treasury bills would amount to R15,4 billion in fiscal 2009/10. However, actual issues to date have been almost three times the budgeted amount. In February 2009, the maturities of the current Treasury bills were expanded with the introduction of 364-day bills. Thus far, a total amount of R5,6 billion was sourced from the issuance of this instrument in the first half of fiscal 2009/10. During April–September 2009, net issues of RSA Retail Savings Bonds amounted to R1,8 billion, bringing the total balance outstanding to R3,3 billion at the end of September 2009. Net redemptions of R0,1 billion were recorded in the same period a year earlier. National government redeemed the first tranche of the R153 bond to the amount of R12,6 billion in August 2009.

National government financing



Domestic long-term funding was obtained at an average rate of 8,7 per cent per annum, while domestic short-term instruments were sold at an average of 7,4 per cent. The average maturity of domestic marketable bonds of national government remained unchanged at 123 months between March and September 2009.

In addition to the R12,3 billion raised in May 2009, national government raised a further R4,1 billion during September 2009 through the issuance of a US$500 million ten-year bond. The average maturity of foreign marketable bonds of national government accordingly increased from 77 months at the end of March 2009 to 96 months at the end of September.

Financial activities of national government resulted in a decrease in government's cash balances during the first half of fiscal 2009/10, bringing these balances to R96,2 billion at the end of September 2009. Deposits with the Bank increased by R2,9 billion and totalled R73,0 billion at the end of September 2009. At the same time, government deposits with commercial banks decreased by R8,0 billion between March and September 2009.

Domestic debt as a proportion of total loan debt increased from 84,2 per cent at the end of March 2009 to 87,2 per cent at the end of September. During this period national government did not conduct any switch transactions.

Foreign debt as a portion of total loan debt decreased from 15,8 per cent to 12,8 per cent between the above-mentioned dates. The revaluation effects arising from the strengthening exchange value of the rand contributed to this decrease.

Total loan debt of national government increased from R616 billion at the end of March 2009 to R702 billion at the end of September. As a ratio of gross domestic product, total national government loan debt amounted to 29,6 per cent at the end of September 2009, compared with 26,6 per cent at the end of March.

The *Medium Term Budget Policy Statement 2009*

The Minister of Finance tabled the *2009 Medium Term Budget Policy Statement* (MTBPS) before Parliament on 27 October against the backdrop of a global financial crisis and the first South African economic recession since 1994. South Africa, along with other G-20 economies, responded collectively to support and reform the global financial system. To this end, governments and central banks injected funds into the financial system, thus assisting in restoring credit flows and rebuilding investor confidence. Despite these measures, the Minister noted that considerable uncertainty still existed regarding the pace and sustainability of the global economic recovery. The recession prompted the South African government to alter fiscal projections and plans, with investment in job creation to be expanded and embedded fully in government's rural development strategy, social services and local infrastructure programmes. Government recognised the restoration of growth and improving financial regulation as its immediate challenges.

Despite some tentative signs that South Africa could be emerging from the recession, government recognised that the eventual recovery could be slow and uneven, with job creation lagging the return to growth and many households continuing to face hardship. Healthy public finances and strong partnerships with business and labour enabled government to reduce the impact of the crisis. The framework of government's response to the economic crisis included, *inter alia*, a countercyclical fiscal and monetary policy stance; continued public infrastructure investment and support for investment in industrial capacity and competitiveness; re-skilling of workers; and support for industries in distress or undergoing restructuring.

Over the past seven years, strong economic growth, improvements in tax administration and compliance, and the broadening of the tax base resulted in strong growth in tax revenue. However, as the economy contracted, tax revenue declined and it was expected that gross tax revenue in fiscal 2009/10 would be R70,3 billion, or 10,7 per cent below the forecast presented in the February 2009 Budget.

As economic growth picks up, tax revenue is expected to recover gradually. Tax revenue was projected to reach 26,2 per cent of estimated gross domestic product by 2012/13, driven by a recovery in household consumption and corporate profits, and supported by measures to broaden the tax base.

The 2009 MTBPS reflected a moderation in spending growth, accompanied by significant reprioritisation of public spending phased in over the next three years. The first and second phases include reducing unnecessary and wasteful expenditure; rationalising public entities and agencies; shifting resources from back-office operations to frontline services; and reforming the procurement process to reduce unit costs and corruption. The last phase would include a comprehensive expenditure review, where government would look at reshaping the way public services are delivered and resources allocated.

Fiscal projections

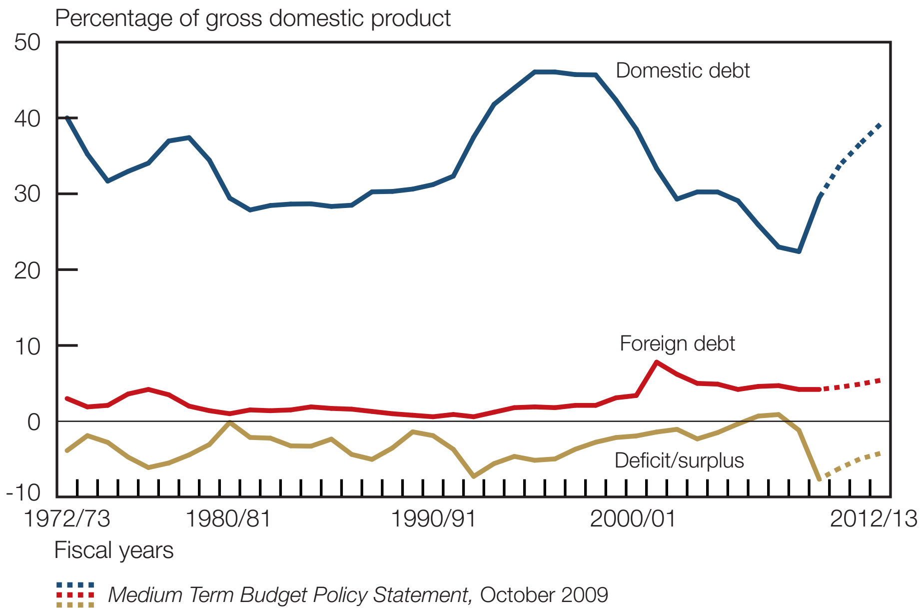
Percentage of gross domestic product

Components	2009/10		2010/11		2011/12		2012/13
	Feb*	Oct**	Feb*	Oct**	Feb*	Oct**	Oct**
Consolidated government							
Revenue	29,9	27,3	30,3	28,4	30,3	29,1	29,6
Expenditure	33,7	35,0	33,5	34,6	32,3	34,0	33,8
Balance***	-3,8	-7,6	-3,2	-6,2	-1,9	-5,0	-4,2
General government borrowing requirement	3,8	7,8	3,1	6,6	2,3	5,4	4,7
Public-sector borrowing requirement	7,5	11,8	6,5	11,2	5,3	9,4	8,4
Gross loan debt	29,8	33,7	31,0	38,2	31,1	41,5	44,6

* *Budget Review 2009*
** *Medium Term Budget Policy Statement*, October 2009
*** Deficit – surplus +

Taking into account projected underspending, savings declared by departments and the adjusted state debt cost estimate, the 2009/10 MTBPS provided for total expenditure in 2009/10 to amount to R752,5 billion or 1,9 per cent more compared with the February estimates. Consolidated government capital expenditure had been growing at an average real growth rate of 15,6 per cent annually since 2004/05. With existing capital budgets substantially higher, capital spending was expected to reach 7,8 per cent of non-interest consolidated government spending in 2009/10.

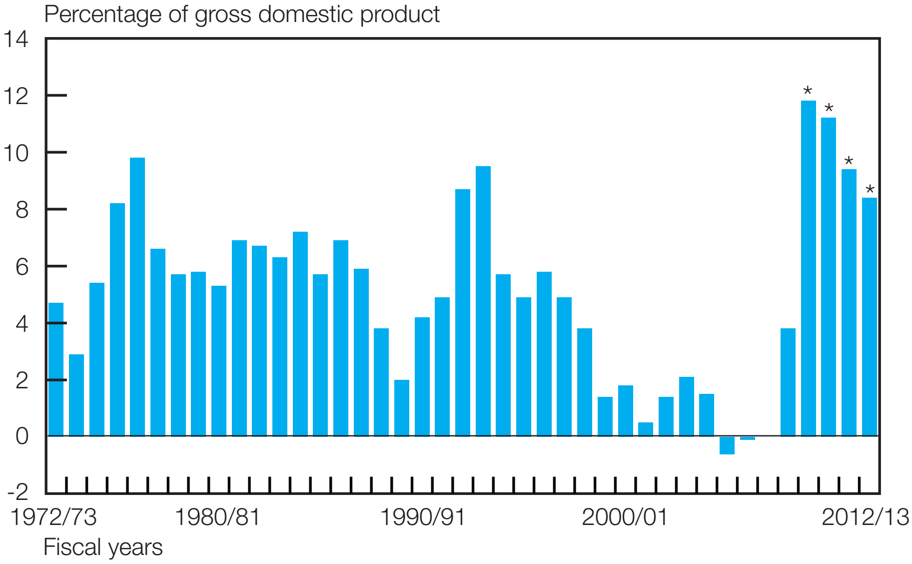
National government finances



Rising expenditure, combined with a largely cyclical downturn in tax revenue, resulted in the consolidated government budget deficit increasing substantially to 7,6 per cent as a ratio of gross domestic product in fiscal 2009/10. Over the medium term expectations were that the stabilisation in expenditure growth and the recovery in budget revenue would result in the deficit declining to 4,2 per cent as a ratio of gross domestic product by 2012/13.

Major funding needs of government were related to further investment in school buildings, public transport, housing, water and sanitation. The non-financial public enterprises – principally Transnet and Eskom – were expected to continue the strong expansion of their capital infrastructure programmes. Hence, capital expenditure by the public sector was expected to reach 9,8 per cent of estimated gross domestic product by 2012/13. Infrastructure projects of government departments and their agencies were budgeted for, while projects of the non-financial public enterprises would be financed through their own revenue, borrowing and other capital-raising activities.

Non-financial public-sector borrowing requirement



* *Medium Term Budget Policy Statement,* October 2009

Owing to the higher financing requirement of general government and the non-financial public enterprises, the public-sector borrowing requirement was expected to widen to 11,8 per cent of gross domestic product in 2009/10 – well above the originally budgeted ratio of 8,0 per cent. While general government borrowing would moderate somewhat over the medium term, the infrastructure programme of the non-financial public enterprises would take the public-sector borrowing requirement to an average of 9,7 per cent of gross domestic product over the three years to 2012/13.

Statement of the Monetary Policy Committee

22 September 2009

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

Introduction

There are signs that the global economic recovery is under way, but the indications are that the pace of recovery is likely to be slow and uneven, particularly in the industrialised economies where banking sector concerns still persist. Domestic economic growth, which has been negative in each of the past three quarters, is expected to improve in the coming quarters. However, the domestic recovery is likely to be influenced by global growth developments and is subject to a relatively high degree of uncertainty. Domestic inflation has continued its downward trend, but some risks to the outlook remain.

Recent developments in inflation

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas declined to 6,4 per cent in August, compared with 6,7 per cent in July. The main contributors to the inflation outcome were the categories of housing and utilities, and miscellaneous goods and services. Food price inflation moderated further, with food and alcoholic beverages increasing at a year-on-year rate of 6,8 per cent; down from 8,3 per cent in July.

Producer prices have continued their negative trend and declined at a year-on-year rate of 3,8 per cent in July, compared with a decline of 4,1 per cent in June. Food price inflation at the consumer level can be expected to abate as agricultural product prices declined at a year-on-year rate of 1,7 per cent, while manufactured food product prices increased at a rate of 0,8 per cent. Upside pressure on producer prices came from electricity prices which increased by 27,4 per cent.

The outlook for inflation

The CPI inflation forecast by the South African Reserve Bank staff continues to indicate that inflation is likely to return on a sustained basis to within the inflation target range by the second quarter of 2010. CPI inflation is then expected to remain within the inflation target range for the remainder of the forecast period until the end of 2011. Compared with the previous forecast, the outlook is unchanged for 2009 and 2010, although there is a slight improvement for 2011. The exchange rate of the rand has provided downside pressure, which has more or less offset higher oil price assumptions and higher unit labour costs over the period.

The most recent study of inflation expectations undertaken on behalf of the Bank by the Bureau for Economic Research (BER) at Stellenbosch University indicates that inflation expectations have improved somewhat, but remain, on average, above the upper end of the inflation target range. Inflation is expected to average 7,5 per cent in both 2010 and 2011. This represents declines of 0,6 per cent and 0,4 per cent in these years respectively, compared with the previous survey. Only the financial analysts expect inflation to be within the target range in the coming two years. Since the previous meeting of the MPC, the break-even inflation rates, as measured by the yield differential between conventional government bonds and inflation-linked bonds, declined across all maturities to within the inflation target range.

Overall, the risks to the inflation outlook appear to be fairly evenly balanced. The main upside risks continue to emanate from high increases in some administered prices, particularly electricity prices, and increases in nominal unit labour costs well in excess of the current inflation rate. Nominal unit labour cost increased over four quarters by 9,3 per cent in the second quarter of 2009, compared with 11,3 per cent in the previous quarter.

International oil prices, which remain an upside inflation risk factor, have moderated slightly since the previous meeting of the MPC and appear to have stabilised around current levels of about US$70 per barrel. Domestic petrol prices increased by 36 cents per litre in September, but the current over-recovery indicates that this increase may be offset, to a large extent, in October, as a result of lower product prices and the recent appreciation of the rand.

Growth in domestic final demand declined at an annualised rate of 3,5 per cent in the second quarter of 2009. Household consumption expenditure contracted by 5,8 per cent, compared with a decline of 4,8 per cent in the previous quarter. Durable goods consumption was the most affected sub-category, declining by 18,8 per cent. New vehicle sales declined at a year-on-year rate of 23 per cent in August, but there are signs that the decline is levelling out. In July real retail and wholesale trade sales contracted at year-on-year rates of 3,8 per cent and 13,8 per cent respectively, although retail sales increased on a month-on-month basis.

Consumption expenditure is expected to remain constrained by negative wealth effects, although there has been a marked recovery in the equity markets, which may relieve these effects somewhat. Since the beginning of the year, the all-share index on the JSE Limited has increased by about 20 per cent. House prices, however, have continued their downward trend. The various house price indices, while still indicating negative price trends, show that prices are declining at a slower rate.

Credit extension to the private sector continued to reflect both the weak household consumption expenditure and the prevailing tighter credit criteria. Twelve-month growth in banks' total loans and advances declined to 2,1 per cent in July. Mortgage advances declined to a year-on-year rate of growth of 6,4 per cent in July, while instalment sale credit and leasing finance contracted by 3,2 per cent over the same period, as a result of subdued demand for motor vehicles and other durable goods. Other loans and advances, comprising credit card advances, bank overdrafts and general loans, declined by 2,0 per cent. Lower levels of credit extension have resulted in a slight decline in household debt as a percentage of household disposable income to 76,3 per cent in the second quarter of 2009. The ratio of debt-service cost to household disposable income declined from 10,9 per cent in the first quarter to 9,5 per cent in the second quarter.

Domestic output contracted by 3,0 per cent in the second quarter of 2009, but there are early indications that the lower turning point may have been reached. However the recovery is expected to be slow. The South African Reserve Bank composite leading indicator increased for the third consecutive month in June and continues to predict a recovery by the end of the year.

The rate of contraction in the manufacturing sector also shows signs of slowing down. On a year-on-year basis, manufacturing output declined by 13,7 per cent in July, but it increased at an annualised month-on-month rate of 3,0 per cent. The Kagiso/BER Purchasing Managers Index (PMI) increased in July, although still at levels that indicate negative growth. Mining production increased at a year-on-year rate of 4,8 per cent in July. However, the real value of all building plans passed declined by 43,2 per cent in July, with the slowdown in residential building plans being the main contributor.

The exchange rate of the rand continues to provide downside pressure on inflation and has appreciated further since the previous meeting of the MPC when it was at a level of around R8,10 to the US dollar. Since the beginning of the year, the rand has appreciated by 26 per cent against the US dollar, and by 20 per cent on a trade-weighted basis.

The global economy appears to be recovering in response to concerted fiscal and monetary packages that have been put in place. A number of industrialised economies have experienced positive growth rates in the second quarter, while others have shown a moderation in the rate of contraction. Many forecasts for the second half of the year and for 2010 have been revised upward, but remain well below pre-crisis levels. However, there are risks that the recovery may be short-lived should consumer demand not improve further in the industrialised economies. While there have been some improvements in financial market conditions, more still remains to be done. Global inflation remains relatively subdued and poses no immediate risk to the domestic inflation outlook.

Monetary policy stance

The MPC is of the view that the risks to the inflation outlook appear to be fairly evenly balanced. Given the current policy stance, inflation is expected to continue moderating and return to within the inflation target range during the forecast period. Accordingly, the MPC has decided to leave the repurchase rate unchanged at 7 per cent per annum.

Statement of the Monetary Policy Committee
22 October 2009

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

Introduction

The prospects for inflation returning to within the inflation target range by the second quarter of 2010 remain promising. Domestic demand conditions continue to be subdued and currently do not pose a significant threat to the inflation outlook. Economic growth is expected to improve in the coming months, but is likely to remain below potential for some time. Domestic growth prospects are dependent to an extent on the global recovery, which appears to be uneven across countries and regions. However, the medium-term inflation outlook has been affected adversely by possible further significant adjustments to electricity tariffs.

Recent developments in inflation

There has been no publication of consumer price index (CPI) data since the previous meeting of the MPC. The most recent data showed that the year-on-year inflation rate as measured by the CPI for all urban areas declined to 6,4 per cent in August, compared with 6,7 per cent in July. The main contributors to the inflation outcome were the categories of housing and utilities, and miscellaneous goods and services.

Producer prices declined at a year-on-year rate of 4,0 per cent in August, compared with a decline of 3,8 per cent in July. Food price inflation at the producer price level continues to signal dissipating pressures on food prices at the consumer price level. Agricultural product prices declined at a year-on-year rate of 2,0 per cent, while manufactured food product prices increased at a rate of 0,1 per cent. Upside pressure on producer prices came from electricity prices, which increased by 28,6 per cent.

The outlook for inflation

The CPI inflation forecast by the South African Reserve Bank staff continues to indicate that inflation is likely to return to within the inflation target range, on a sustained basis, by the second quarter of 2010. CPI inflation is then expected to stay within the inflation target range for the rest of the forecast period until the end of 2011. Compared with the previous forecast, the outlook showed a slight improvement for 2010 and 2011, mainly as a result of the changed assumption regarding the rand exchange rate. No adjustment has been made at this stage to the central forecast for possible further increases in electricity tariffs over and above those that are already assumed in the baseline forecast.

A number of domestic and global factors have contributed to the persistent downward pressure on inflation. The global economy shows continued signs of improvement, but the recovery is not uniform across regions. The pace of recovery of most of the Asian economies has been higher than that achieved in the main industrialised economies. The timing and speed of the withdrawal of the fiscal and monetary policy stimuli may have a bearing on the nature of the recovery in these economies. Global inflation is expected to be constrained by the relatively weak demand from the industrialised countries, although the US dollar movements may provide some upward pressure to commodity prices.

There are some positive indications that the rate of contraction of the domestic economy has declined and that the economy may emerge from the recession by the end of 2009. However, the mixed picture from the published data shows that the recovery is likely to be tentative, and the output gap is likely to remain positive for some time. The physical volume of manufacturing output declined at a year-on-year rate of 15,0 per cent in August and by 2,8 per cent on a month-on-month basis. However, in the three months to August, compared with the previous three months, an increase of 0,8 per cent was recorded. The Kagiso/Bureau for Economic Research (BER) Purchasing Managers Index (PMI) increased markedly from 39,3 index points in August to 48,0 index points in September. The index shows that new sales orders have increased significantly, while manufacturers' expectations of business conditions six months ahead improved to the highest level since early 2007.

Other sectoral developments indicate that the physical volume of total mining production increased in the three months to August, but contracted on a month-on-month basis, while the real value of building plans passed continued to decline. The Rand Merchant Bank (RMB)/BER Business Confidence Indicator (BCI) declined to a ten-year low in the third quarter of 2009. The tentative nature of the domestic recovery is also reflected in the composite leading business cycle indicator compiled by the South African Reserve Bank, which declined marginally in July, following three consecutive monthly increases.

Consumption expenditure by households also remains subdued, with real retail trade sales declining at a year-on-year rate of 7,0 per cent in August. In the three months to August, there was a 1,0 per cent decline, compared with the previous three months. Wholesale trade sales also declined further in August. Total new vehicle sales are also well below their levels of a year ago. However, there are indications that the negative trend may have reached its lower turning point with zero or slightly positive rates of change being recorded on a month-on-month and quarter-on-quarter basis. The First National Bank (FNB)/BER consumer confidence index declined in the third quarter of 2009 to a relatively neutral confidence level.

Credit extension to the private sector continued to reflect both the weak household consumption expenditure and the prevailing tighter credit criteria. The Ernst & Young Financial Services Index indicates that credit standards applied by retail banks to loan applications continued to tighten in the third quarter of 2009, but at significantly lower levels. Twelve-month growth in banks' total loans and advances declined to 0,8 per cent in August 2009. Mortgage advances increased by 5,6 per cent in August, while instalment sale credit and leasing finance contracted by 4,2 per cent. Negative year-on-year growth rates were also recorded in credit card advances, bank overdrafts and general loans.

There has been some recovery in asset prices in recent months, but wealth effects do not appear to be posing an immediate threat to the inflation outlook. Domestic equity prices have increased markedly since March, but are still significantly below the levels reached in May 2008. The various house price indices indicate a moderation in the rate of decline in house prices.

The exchange rate of the rand continues to provide downside pressure on inflation and is currently trading at levels against the US dollar, similar to those prevailing at the time of the previous MPC meeting. During the past month the rand traded in a range of around R7,20 and R7,79 against the US dollar. The exchange rate of the rand has appreciated by 28 per cent against the US dollar since the beginning of 2009 and by 20 per cent on a trade-weighted basis.

The international oil price has increased in the past week, but does not pose an immediate threat to the inflation outlook. Having averaged around US$70 per barrel for a number of weeks, the price of North Sea Brent crude oil increased to current levels of around US$76 per barrel, mainly as a result of the weaker US dollar and improved global growth prospects. In October the domestic price of 95 octane petrol was reduced by 40 cents per litre as a result of both lower product prices and an appreciated rand exchange rate.

The main risks to the inflation outlook emanate from cost pressures in the economy. The trend of wage settlements still poses an upside risk to the inflation outlook. However, there appears to be some evidence that nominal wage increases are moderating, although increases have generally been above the inflation rate. According to Andrew Levy Employment Publications, the average level of wage settlements amounted to 9,4 per cent in the first nine months of 2009 compared with 9,6 per cent in the corresponding period of 2008. These increases are consistent with the Quarterly Employment Survey (QES) of Statistics South Africa, which reported that growth in average nominal remuneration per worker in the formal non-agricultural sector of the economy moderated from 11,5 per cent in the first quarter of 2009 to 8,7 per cent in the second quarter. Unit labour cost increases declined from 11,3 per cent in the first quarter to 9,3 per cent in the second quarter.

The substantial electricity tariff increases requested by Eskom are seen to be the main longer-term threat to the inflation outlook. Eskom has requested a trebling of the current electricity tariffs over the next three years, and the National Energy Regulator of South Africa (NERSA) is expected to make a decision in February 2010.

Monetary policy stance

The MPC is of the view that overall the risks to the inflation outlook have not changed markedly since the previous meeting. Accordingly, the MPC has decided to leave the repurchase rate unchanged at 7,0 per cent per annum. The MPC will continue to monitor economic and financial developments, and will not hesitate to adjust the monetary policy stance should the risks to the inflation outlook change materially.

Statement of the Monetary Policy Committee

17 November 2009

Issued by Ms G Marcus, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee (MPC) in Pretoria

Introduction

There are signs that the domestic economy will continue on its recovery path, but economic growth is expected to remain below potential for some time and dependent to some extent on the pace of the global recovery, which still appears to be fragile and uneven across regions. Economic growth is also expected to be constrained by subdued domestic consumption expenditure. The domestic outlook for inflation remains favourable as a result of weak demand pressures and the main threat to the inflation outlook emanates from possible electricity price increases.

Recent developments in inflation

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas declined from 6,4 per cent in August 2009 to 6,1 per cent in September. The single biggest contributor to the inflation outcome was the category of housing and utilities which accounted for 1,7 percentage points. This was mainly due to the electricity component which increased at a year-on-year rate of 29,1 per cent. Food price inflation continued to moderate and at 4,9 per cent is now exerting downward pressure on overall inflation. Goods price inflation measured 4,9 per cent, compared with services price inflation of 7,8 per cent.

Producer prices declined for the fifth successive month in September, with the headline producer price inflation measuring -3,7 per cent. Most categories in the index exhibited low or negative year-on-year rates of inflation, apart from electricity, gas and water, and tobacco products.

The outlook for inflation

The CPI inflation forecast by the South African Reserve Bank (the Bank) continues to indicate that inflation is likely to return to within the inflation target range, on a sustained basis, by the second quarter of 2010. There may, however, be temporary declines to within the target range before then. CPI inflation is expected to remain within the inflation target range until the end of the forecast period in the final quarter of 2011, when it is forecast to average 5,5 per cent. Given the current uncertainty related to Eskom's tariff application to the National Energy Regulator of South Africa (NERSA), the forecast does not make provision for the higher increases requested by Eskom, and electricity price increases of 25 per cent in 2010 and 2011 are assumed. The Bank's forecast is in line with those of private-sector analysts. According to the latest Reuters consensus forecast, inflation is expected to average 5,7 per cent in 2010 and 5,85 per cent in 2011.

There are no major demand-side pressures on inflation, and the assessment of the Monetary Policy Committee (MPC) is that there are no significant upside risks to the inflation outlook emanating from this source.

Household consumption expenditure remains subdued. Real retail sales growth has been negative, but there is further evidence that motor vehicle sales may have reached their lower turning point. Although total vehicle sales in October were 12,5 per cent lower than a year ago, when the three months to October 2009 are compared with the preceding three months, an increase of 1,4 per cent was recorded. The recovery has been in passenger vehicle sales and exports. Commercial vehicle sales are still declining. Consumption expenditure is expected to remain subdued, despite the lower interest rate environment, as a result of tighter lending conditions by banks, high levels of consumer indebtedness, negative wealth effects or impaired household balance sheets, and higher levels of unemployment.

Credit extension to the private sector reflects weak demand by households and the corporate sector, and tight lending conditions by banks in response to higher perceived risk and rising impaired advances. Twelve-month growth in banks' total loans and advances declined to -0,2 per cent in September 2009. Growth in mortgage advances to the private sector declined further in September, measuring 4,8 per cent. The other main categories of loans and advances, namely instalment sale and leasing finance, credit card advances, bank overdrafts and general loans, all contracted.

Consumption expenditure is also constrained by high debt levels and negative wealth effects, although asset values have recovered somewhat from their lows earlier in the year. The all-share index on the JSE Limited is currently about 50 per cent higher than the most recent lowest point in March of 2009. House prices also appear to be recovering, with the various house price indices reflecting either small positive growth or moderate declines in October.

Labour market developments are also likely to constrain household consumption expenditure. According to the Quarterly Labour Force Survey, approximately 800 000 jobs have been lost since the beginning of the fourth quarter of 2008. The Quarterly Employment Statistics show a decline of over 200 000 formal-sector jobs between the beginning of the fourth quarter of 2008 and the end of the second quarter of 2009.

Domestic output appears to be recovering and the leading business cycle indicator of the Bank has continued its positive trend. There are still some doubts about the speed of recovery, and the output gap remains relatively wide. Most forecasts suggest that positive growth will have resumed by the fourth quarter of 2009, but there is less unanimity about the third quarter outcome.

The outlook is also not even across sectors. The monthly data suggests that the mining sector contracted further in the third quarter, but the manufacturing sector performance on a quarter-on-quarter basis was relatively robust. According to Statistics South Africa, the physical volume of mining production declined by 7,5 per cent in the three months to September compared with the previous three months. However, a more positive trend may be expected in the fourth quarter.

The physical volume of manufacturing production increased by 2,6 per cent over the same period. This outcome is consistent with the Kagiso/Bureau for Economic Research Purchasing Managers Index which, although still reflecting a contraction in manufacturing, has rebounded significantly and the forward-looking indicators in the index are generally positive. There is a risk, however, that this recovery could be affected by low consumption expenditure growth. The outlook for the construction sector appears to be less favourable. The real value of building plans passed declined by 18,5 per cent on a year-on-year basis in August, while in the three months to August, compared with the previous three months, a decrease of 27,7 per cent was recorded. The First National Bank Civil Construction Index also declined significantly in the third quarter of 2009.

Fiscal policy developments are not seen to be a threat to the inflation outlook. The revised budgeted deficit of 7,6 per cent of gross domestic product announced in the Medium Term Budget Policy Statement is to a significant extent due to lower tax revenues – a result of low economic growth – and is therefore part of the workings of the automatic stabilisers. The previous fiscal prudence has provided sufficient space for increased borrowing to fund the shortfall. The deficit is expected to narrow as growth gains momentum.

No significant upside risks to the inflation outlook are expected from food prices. Food price inflation has declined to below 5 per cent, and this favourable trend is expected to continue. Consumer food prices tend to lag food price developments at the producer price level, and the latter have been either declining or rising marginally over the past months. In October, manufactured food prices declined at a year-on-year rate of 1,8 per cent, while agricultural product prices declined by 2,4 per cent. The current spot and future prices of agricultural commodities indicate that no significant upward pressures are expected in the near future.

For the past year petrol prices have exerted downward pressure on inflation as a result of the appreciation of the rand and relatively low international product prices compared to the previous year. However, these favourable base effects are not expected to continue. Over the past few months the international oil prices have remained relatively stable, but some account is taken in the forecast of possible increases in the international oil price should the global recovery accelerate. In November the domestic petrol price remained unchanged and, should current trends continue, a modest increase in the petrol price is possible in December.

The rand has remained a positive factor in the inflation outlook, notwithstanding some volatility during the month. Since the previous MPC meeting, the rand has traded in a range of between R7,30 and R7,90 against the US dollar. The rand's movements have been influenced, to a large extent, by exogenous factors, in particular movements in the dollar, a resumption in global capital flows to emerging markets and a recovery in commodity prices. Since the beginning of the year the rand has appreciated by 20 per cent on a trade-weighted basis.

The global economic recovery has been led by the emerging Asian economies. However, the turnaround in the advanced economies is less certain. While there are positive signs, the recent higher growth rates have been driven by a turn in the inventory cycle, and the continued weakness in consumption expenditure in the United States in particular, and rising levels of unemployment pose risks to the recovery. The nature and speed of exit strategies from the previous stimulus packages also remain a risk to the outlook.

The global environment remains benign from an inflation perspective. Despite moderately higher commodity prices, there are no significant risks to the global inflation outlook.

As in the past few meetings, the main risks to the inflation outlook are seen to emanate from electricity price increases and the possible second-round effects thereof. In addition, the trend of wage settlements continues to pose an upside risk to the inflation outlook.

Monetary policy stance

The MPC, having reviewed the global and domestic economic and financial developments, has decided to maintain the current stance of monetary policy and to leave the repurchase rate unchanged at 7 per cent per annum.

Note on the benchmark revisions and rebasing of South Africa's national accounts

by H Wagner[1]

Introduction

In this issue of the *Quarterly Bulletin*, the South African Reserve Bank, in co-operation with Statistics South Africa, presents the results of the eighth comprehensive, or benchmark, revision of the national accounts for South Africa. The previous comprehensive revision was released in December 2004.

Traditionally, benchmark revisions of the national accounts differ from the annual national accounts revisions because of the scope of the changes and the number of years subject to revision. Comprehensive revisions to the national accounts were required in order to incorporate four major types of improvements: (1) changes in definitions and classifications to portray the evolving South African economy more accurately, (2) statistical changes to reflect the introduction of new and improved methodologies, and the incorporation of newly available and revised source data, (3) changes in presentation to reflect the changes in definitions and the statistical changes, and (4) to rebase the estimates at constant prices, moving the base period to a more recent year so that volume indicators are more reflective of the current structure of the economy.

Currently, the South African Reserve Bank (the Bank) and Statistics South Africa compile and disseminate the national accounts broadly according to the recommendations of the 1993 System of National Accounts (SNA), published by the United Nations in co-operation with other international organisations comprising the Organisation for Economic Co-operation and Development, the Statistical Office of the European Communities, the International Monetary Fund and the World Bank.

As economies and societies change over time, past conventions become inappropriate, methodological and theoretical developments take place, and users' needs change. The national accounts standards therefore require regular updating to ensure that the system does not become obsolete. A comprehensive update of the 1993 SNA was recently completed and volumes 1 and 2 of the 2008 SNA were released in August 2008 and February 2009 respectively. Reasons for changes to the 1993 SNA included the need to deal with economic issues that arose or became more prominent since the completion of the 1993 SNA more than 15 years ago, to remove inconsistencies in the 1993 SNA and to harmonise the 1993 SNA with other manuals in the field of macroeconomic statistics. The majority of new recommendations in the 2008 SNA relates to units and transactions that represent characteristics of an increasingly globalised economy, innovation in financial instruments, and greater interest in the wealth and debt of the private and public sectors. The new features and recommendations fall into four main groups, dealing with assets; the financial sector; globalisation and related issues; and the general government and public sector.

The extent to which countries will be able to introduce the recommendations of the 2008 SNA will mainly depend on the level of implementation of the 1993 SNA and country-specific research capacity. For South Africa, preliminary indications are that a strategy and action plan for the implementation of the 2008 SNA would be in place in the foreseeable future.

1 The author wishes to express his sincere appreciation to J P van den Heever, M M Smal, J W Prinsloo and E Botes for their valuable contributions in preparing this note, and to N N Molemoeng, K Kuhn, R Willemse, S Motaung, S Knox, K P Muneri, T Morakile, J Ramatete and B Sampson for their sterling effort with statistical research and compilation.

The current revisions draw on information from all relevant source data released between 2004 and 2008. The Research Department of the Bank co-operated closely with Stats SA and the National Department of Agriculture during the completion of the revision process. The annual supply and use tables for 2002 to 2008, as compiled by Stats SA, were used extensively to reconcile the data and ensure consistency between the various aggregates as estimated through the independent calculations of the gross domestic product of South Africa according to the production, expenditure and income approaches.

Whereas the National Department of Agriculture was mainly responsible for estimating output and intermediate expenditure in the agricultural sector, Stats SA and the Bank jointly concentrated on estimating the overall gross domestic product at current and constant prices. Stats SA was responsible for the revisions related to the production and income approaches, while the Bank was responsible for the revision of the components of gross domestic expenditure as well as imports and exports of goods and services at current and constant prices, and for the compilation of a set of integrated production, distribution and accumulation accounts for the main institutional sectors in South Africa.

Volume measures and rebasing

The changes in the values of flows of goods and services stemmed from two components, one reflecting changes in the prices of the goods and services concerned and the other changes in their volumes. Consequently, national accounts data at constant prices are compiled to measure changes in the volume or quantity of goods and services produced or utilised. The statistical procedure for measuring volume changes in a macroeconomic aggregate between a chosen base period and the current period, consists of revaluing the aggregate in question in the current period at the prices of the base period and then calculating the change between these two periods. This procedure eliminates the effect of price changes from the base period to the current period, by recalculating the value of aggregate output and expenditure in terms of the prices of goods and services in the base period. The prices in the selected base period are therefore a factor in determining the real values of the different goods and services that are included in total output and expenditure in the other periods.

Relative values change over time because prices generally do not rise or decline at the same rate from one period to another. Reasons for shifts in relative prices include changes in supply and demand, different rates of change in productivity in different industries, changes in the quality of products, technological advances, tax changes, international price movements and exchange rate adjustments. To ensure that relative values, and therefore weighted average volume changes, approximate the current structure of the economy as closely as possible, base periods and weights have to be changed from time to time.

The 1993 SNA suggests that constant price series should not be allowed to run for longer than five or, at most, ten years without changing the base year. It recommends, however, that the base year should be changed every five years. For this reason, South Africa’s national accounts data at constant prices have been rebased, using 2005 instead of 2000 as the new base year.

The new constant price series, with 2005 as the base year, have been calculated for the period from 2003 onwards. This allows for changes in the growth rates on account of changes in the weighting structure, while ensuring that the weights used in the measurement of changes in real national accounts aggregates between 2000 and 2005 reflect reasonably closely the relevant price and quantity structure for this period.

The previously estimated series expressed in terms of constant 2000 prices have been retained for the period up to 2002 and have been linked to the new series without being reweighted. However, owing to the magnitude of some revisions, it was necessary to allow for a gradual phasing-in period prior to 2003 to accommodate the underlying revision for certain aggregates. This implies that in those cases, the growth rates at constant prices before 2003 could also change.

So as not to disturb the previously existing rates of change in volume series, up to 2002 subtotals and totals have been converted to 2005 prices independently of their components. As a result, these converted subtotals and totals for periods before 2003 are not equal to the sums of their components. This means that constant price figures do not "add up" in an accounting sense.

Relevant data sources, and changes to data and tables published in the *Quarterly Bulletin*

The new benchmark and related revisions of the gross domestic product and the components of gross expenditure at current prices used the statistical input that became available from various large sample surveys and other surveys, specific sectoral surveys and technical reports. Particularly important sources included the 2007 census of agriculture and the 2006 large-scale agricultural survey; the 2005/06 income and expenditure survey of households; the 2005 general household survey; the 2004/05 economic activity survey; the 2006, 2007 and 2008 annual financial surveys; and the 2006 electricity, gas and water supply report. In addition, large sample surveys of the following industries were also used: the 2004 survey of the mining industry; 2005 survey of the manufacturing industry; 2007 survey of the construction industry; 2005 survey of the wholesale and retail trade; 2004 and 2007 surveys of the accommodation industry; 2006 survey of transport, post and telecommunication; 2006 survey of real estate and business services; and 2004 survey of personal services.

In addition to revisions that stemmed from the more up-to-date source data mentioned above, the following methodology and technical changes related to the data and tables published in the *Quarterly Bulletin* were also implemented:

– Final expenditure per product by households on durable goods was expanded to show expenditure on privately owned computers and related equipment separately. In addition, households' expenditure on security services was separately identified and explicitly estimated, and is now shown separately in expenditure on services, that is, an identified part of miscellaneous services.

– Gross fixed capital formation on machinery and equipment was disaggregated to show capital expenditure on computers and related equipment separately. Consequently, the classification of gross fixed capital formation by type of asset was brought in line with the recommendations of the 1993 SNA.

– The value added by the finance subsector was adjusted to include estimates of output by services auxiliary to financial intermediation, primarily brokers active in the bond and derivatives markets. This service was not explicitly included in previous estimates.

– Value added by the banking sector, particularly the component "other" income, was revised as more detail on income items became available following more comprehensive reporting by banks after the adoption of the Basel II guidelines.

– New price indices reflecting the results of the revision of the consumer and production price indices were used from 2002 for the deflation of nominal values. Furthermore, where appropriate, deflating of components of household consumption expenditure was introduced at a more disaggregated level, which enhanced the reliability of the series on real final consumption expenditure by households.

– The scope to estimate financial intermediation services indirectly measured (FISIM) was broadened with the incorporation of data on interest paid and received from the Land and Agricultural Bank of South Africa. In addition, the classification of FISIM paid and received by the institutional sectors and the distribution of FISIM to industries were refined, in keeping with revised data obtained from banks since the banking sectors' adoption of the Basel II guidelines.

Revision of gross domestic product

The nominal value of gross domestic product at market prices in the benchmark year 2005 was revised upwards by an amount of R32,1 billion or by 2,1 per cent and the contributions of the various economic subsectors to total gross value added at basic prices changed notably from 2000 to 2005 (see Table 1).

Table 1 Contribution of gross value added by kind of economic activity to total value added at basic prices

Per cent

Sectors	2000	2005
Primary sector	**10,9**	**10,3**
Agriculture, forestry and fishing	3,3	2,7
Mining and quarrying	7,6	7,6
Secondary sector	**24,2**	**23,0**
Manufacturing	19,0	18,2
Electricity, gas and water	2,7	2,4
Construction	2,5	2,4
Tertiary sector	**64,9**	**66,7**
Wholesale, retail and motor trade, catering and accommodation	14,6	13,9
Transport, storage and communication	9,6	9,7
Finance, insurance, real-estate and business services	18,6	21,9
General government	15,9	14,9
Other	6,1	6,3
Gross value added at basic prices	**100,0**	**100,0**

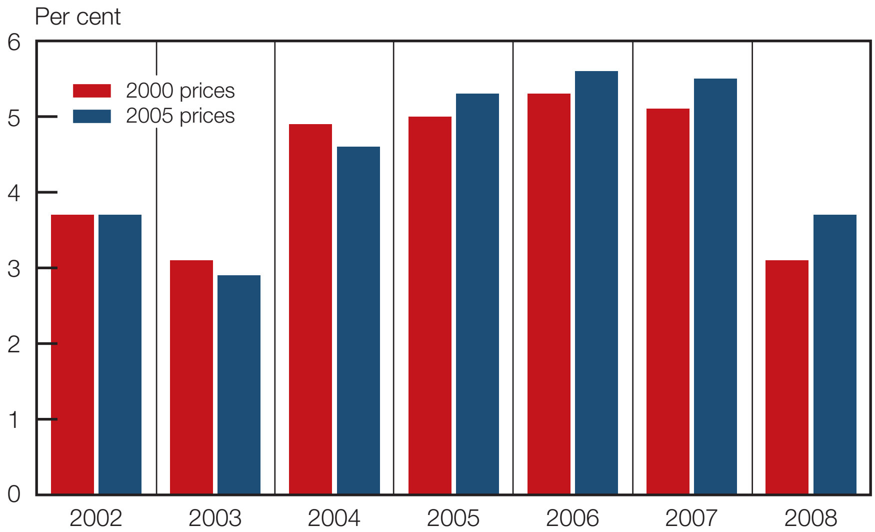
As shown in the table, the primary sector's contribution to nominal gross value added at basic prices declined from 10,8 per cent in 2000 to 10,3 per cent in 2005. This was due to a decline in the contribution of the agricultural sector, while the relative size of the mining sector remained unchanged at 7,6 per cent. The decline in value added by the agricultural sector in 2005 could partly be attributed to the fact that the net income came under pressure as the term of trade index for agriculture declined significantly in 2005. This was due to a reduction in producer prices, while input costs kept rising. In the case of the mining sector the relatively stable contribution to total value added at basic prices was mainly caused by the increase in value added by the platinum group metals industry, which almost offset the decline in value added by the gold-mining industry.

The secondary sector's share of total value added shrank from 24,2 per cent in 2000 to 23,0 per cent in 2005, reflecting relative declines in the contribution of value added by all three subsectors (i.e., manufacturing; the sector supplying electricity, gas and water; and the construction sector). The manufacturing sector's relative importance declined from 19,0 per cent in 2000 to 18,2 per cent in 2005. This decline implies that in 2005 manufacturing forfeited its status as the most important contributor to gross value added in the economy, to the finance, insurance, real-estate and business services sector. The weaker output of the manufacturing sector in 2005 can partly be ascribed to moderate growth in output prices, coupled with a strengthening in the exchange value of the rand which put manufacturers' export proceeds under pressure.

By contrast, the contribution of the tertiary sector to total value added at basic prices increased from 64,9 per cent in 2000 to 66,7 per cent in 2005. The main contributor to this change was the finance, insurance, real-estate and business services sector, as its share in gross value added rose from 16,6 per cent in 2002 to 21,9 per cent in 2005. This increase stemmed mainly from higher levels of output recorded by the finance, insurance, real-estate and business services sector. These developments reflected the positive impact of an increase in real personal disposable income and a rising number of wealthy middle-class citizens with an increasing demand on business services, the drive to reduce the unbanked portion of the South African population as well as the property boom that boosted the value added by the real-estate subsector.

Growth in the revised estimates of real gross domestic product for 2002 and subsequent years deviates somewhat from the previously published growth rates.

Growth in real gross domestic product at market prices



Growth in real gross domestic product was revised downwards in 2003 and 2004, but from 2005 the annual growth was revised upwards by an average of half-a-percentage point per year. This increased the average real annual growth rate for the period 2002 to 2008 to 4,6 per cent at 2005 prices, from 4,4 per cent at 2000 prices.

Compound annual rates of growth in the primary sectors was revised downwards from 1,0 per cent to 0,5 per cent for the period 2002 to 2008. The compound growth for both the agricultural and mining sectors was revised downwards.

The average annual growth rate in the secondary sector was revised upwards to 4,7 per cent, compared with the growth rate of 4,2 per cent registered in the corresponding period prior to the revisions. Stronger average growth in the manufacturing sector and the sector supplying electricity, gas and water more than neutralised lower growth recorded in the construction sector. The last-mentioned moderation stemmed from a revised methodology and new weights used in the calculation of real value added by the construction sector.

Table 2 Percentage change in gross value added by kind of economic activity, 2002 to 2008

Per cent

Sectors	Compound annual rates at 2000 prices	Compound annual rates at 2005 prices
Primary sector	**1,0**	**0,5**
Agriculture, forestry and fishing	2,9	2,1
Mining and quarrying	0,1	-0,1
Secondary sector	**4,2**	**4,7**
Manufacturing	3,1	3,9
Electricity, gas and water	1,9	3,8
Construction	12,4	10,4
Tertiary sector	**5,0**	**6,0**
Wholesale, retail and motor trade, catering and accommodation	5,4	4,6
Transport, storage and communication	5,3	5,3
Finance, insurance, real-estate and business services	6,0	7,1
General government	3,2	3,4
Personal services	3,6	4,2
Gross value added at market prices	**4,4**	**4,6**

The average growth for the tertiary sector was revised upwards from 5,0 per in 2002 to 2008 to 6,0 per cent. This was due to a strong increase in the growth rate of real value added by the finance and business services sector, supported by increases in the growth rates of the sectors providing personal services and general government services. By contrast, the compound annual growth rate in the trade sector decreased, while the growth in the transport and communication sector remained unchanged between 2002 and 2008.

Revisions of the components of gross domestic expenditure

Aggregate final consumption expenditure contributed 82,4 per cent to gross domestic product in the 2005 base year, compared to 81,1 per cent in 2000. This increase was due to higher contributions by final consumption expenditure by households and by general government (see Table 3).

Likewise the contribution of gross capital formation rose from 15,9 per cent in 2000 to 18,1 per cent in 2005, reflecting increases in both fixed capital formation and the change in inventories relative to total gross domestic product.

By contrast, the contribution of exports of goods and services to gross domestic product declined slightly from 27,9 per cent in 2000 to 27,4 per cent in 2005. However, imports of goods and services rose from 24,9 per cent to 27,9 per cent in the corresponding period. This increase in imports in the base year mainly resulted from the strengthening of the exchange value of the rand and the increase in the consumption and investment demand of the South African economy in the advanced stages of the 1999 to 2007 upward phase of the business cycle.

Table 3 The contributions of the components of gross domestic expenditure to gross domestic product at market prices

Per cent

Components	2000	2005
Final consumption expenditure	81,1	82,4
Households	63,0	63,3
General government	18,1	19,1
Gross capital formation	15,9	18,1
Fixed capital formation	15,1	16,8
Change in inventories	0,8	1,3
Gross domestic expenditure	97,0	100,5
Exports of goods and services	27,9	27,4
Imports of goods and services	-24,9	-27,9
Gross domestic product at market prices	100,0	100,0

Revisions of the components of gross domestic expenditure were benchmarked individually in accordance with the relevant sources mentioned. The revised estimates of consumption expenditure by households were based on data obtained from

- the 2005/06 Income and Expenditure Survey of Households and the 2005 General Household Survey, both conducted by Stats SA;
- a study by the Bureau for Market Research at the University of South Africa, namely *Total Household Expenditure in South Africa by Province, Population Group and Product, 2005*; and
- the findings of special research projects such as those for the security industry, the imputed rent for owner-occupied dwellings and expenditure on narcotics and personal care services, including service provided by sex workers.

Although final consumption expenditure by households as a percentage of gross domestic product increased only slightly from 63,0 per cent in 2000 to 63,1 per cent in 2005, within aggregate consumption expenditure there were significant shifts between components. Final expenditure on durable goods relative to total final expenditure increased from 8,6 per cent in 2000 to 10,4 per cent in 2005. This increase was primarily driven by the surge in outlays on new motor vehicles. Final expenditure on semi-durable goods relative to total expenditure by households declined from 9,8 per cent in 2000 to 9,4 per cent in 2005 due to lower outlays on clothing and footwear. The share of non-durable goods declined from 39,2 per cent to 38,1 per cent, brought about by relatively lower outlays mainly on food, beverages and tobacco. Expenditure on services relative to total expenditure declined from 42,4 per cent to 42,0 per cent. Relatively stronger increases in expenditure on rent and communication services were more than neutralised by declines in expenditure on domestic services, medical services and miscellaneous services.

Final consumption expenditure by general government was revised in accordance with changes made by the Public Finance Division of the Research Department as obtained from financial reports released by the Auditor-General from 2002/03 onwards. In addition, up-to-date information on national, provincial and local government as published by Stats SA was also incorporated.

Estimates of final consumption expenditure by general government as a ratio of gross domestic product rose from 18,1 per cent in 2000 to 19,5 per cent in 2005 as government expenditure on goods and services, and on salaries and wages rose relative to total gross domestic product. These increases were mainly the result of substantial outlays related to the defence procurement programme on destructive military equipment and the gradual increase in the employment levels of general government between 2000 and 2005.

Revisions to gross fixed capital formation and the book value of inventories were based on the data obtained from the large sample surveys for the different industries in the base year, while the Stats SA *Annual Financial Surveys* for the appropriate industries were used for the other years.

Gross fixed capital formation as a percentage of gross domestic product increased from 15,1 per cent in 2000 to 16,8 per cent in 2005. Rising capital formation by the private sector and public corporations more than offset the subdued performance of investment expenditure by general government on new infrastructure developments between the two base year periods. The last-mentioned type of capital expenditure was especially held back at the local authority level. In the private sector the contribution to fixed capital formation was boosted by capital outlays made by the sector commerce, transport and communication and the financial services sector. In the case of public corporations, increases in gross fixed capital formation stemmed mainly from the sector supplying electricity, gas and water, transport and the subsector communication.

Although compound annual growth in aggregate real gross domestic expenditure remained unchanged at 6,2 per cent for the period 2002 to 2008, the growth rates registered by the components of gross domestic expenditure changed markedly.

Estimates of real final consumption expenditure by households and general government were revised slightly downwards and in the period 2002 to 2008 the average annual growth in real outlays on final consumption expenditure by households declined from 5,7 per cent to 5,2 per cent. Likewise, in the case of general government the average annual growth in real final consumption expenditure declined from 5,4 per cent to 5,2 per cent.

Real outlays on gross fixed capital formation were revised substantially upwards and in the period 2002 to 2008 the average annual rate of increase rose from 11,3 per cent to 12,1 per cent. The annual growth in real capital expenditure was revised higher in all the years from 2002 to 2008 except in 2006. The average annual growth for real exports and imports of goods and services remained virtually unchanged.

Table 4 Average real growth: Components of gross domestic expenditure and gross domestic product aggregates, 2002 to 2008

Per cent

Components	Compound annual rates at 2000 prices	Compound annual rates at 2005 prices
Final consumption expenditure by households	5,7	5,2
Final consumption expenditure by general government	5,4	5,2
Gross fixed capital formation	11,3	12,1
Gross domestic expenditure	**6,2**	**6,2**
Exports of goods and services	4,3	4,3
Imports of goods and services	10,6	10,5
Expenditure on gross domestic product		
GDP(E) at market prices	**4,7**	**4,5**
GDP(P) at market prices	4,4	4,6
GDP(I) at market prices	4,6	4,6
GDP(A) at market prices	4,6	4,6

GDP(E) is gross domestic product estimated from the expenditure components
GDP(P) is gross domestic product estimated from the production base
GDP(I) is gross domestic product estimated from the income components
GDP(A) is the average measure of GDP(E), GDP(P) and GDP(I)

Revision of gross saving

Changes to the level of gross saving was made in response to new benchmarked data on output, intermediate consumption and compensation of employees. The primary and secondary income levels (i.e., property income, social contributions and benefits, current taxes on income and wealth and current transfers for all institutional sectors) were also revised according to more complete data sources. The main sources to benchmark non-financial corporation were the *Annual Financial Surveys* of various industries published by Stats SA, while the financial sector's revisions were based on data obtained from the consolidated income statements of the banking sector and up-to-date information from the surveys conducted by the Capital Market and Flow of Funds Division of the Research Department. The McGregor BFA database, the various exchanges and the general government financial statistics provided additional inputs.

Gross saving as a percentage of gross domestic product declined from 15,8 per cent in 2000 to a new benchmarked ratio of 14,5 per cent in 2005. However, this is slightly higher than the original estimate for 2005, namely 14,3 per cent. This improvement was due to the general government's gross saving ratio that increased from 1,1 per cent in 2005 to 1,5 per cent after benchmarking. Households' gross saving ratio deteriorated from 1,8 per cent to 1,7 per cent, while the saving ratio of the corporate sector remained at 11,3 per cent.

Table 5 Gross saving as a percentage of gross domestic product

Sector	2000	2005	
		Before revision	After revision
Household saving	2,5	1,8	1,7
Corporate saving	13,4	11,3	11,3
Non-financial corporate sector	10,7	9,5	9,3
Financial corporate sector	2,7	1,8	2,0
General government	-0,2	1,1	1,5
Total saving	**15,8**	**14,3**	**14,5**

Conclusion

The compilation of a country's national accounts involves a continuous examination of existing data sources and the development of new information sources. The recognition and capturing of new developments in technology and products, and the changed behaviour of consumers and businesses, together with improved and new methodologies of compiling a set of national accounts as proposed by international guidelines, formed the basis of this set of national accounts portraying a slightly evolved structure of the South African economy. This should lead to improved and more relevant macroeconomic analyses.

The data contained in the statistical tables of the *Quarterly Bulletin* include the official estimates of South Africa's national accounts benchmarked according to the latest and most comprehensive data sources available and rebased to 2005 prices. Along with the supply and use tables, and the flow of funds accounts, they present a reliable and comprehensive statistical overview of the South African economy.

Note on the separate identification of computer equipment in the analysis of gross fixed capital formation

by N N Molemoeng[1]

1 The author wishes to thank J P van den Heever, J W Prinsloo and H Wagner for their valuable assistance and inputs.

Introduction

This issue of the *Quarterly Bulletin* introduces estimates of expenditure on computer equipment as a separate category in the national accounts. Computer equipment is separately identified in the household final consumption expenditure tables and in the tables dealing with gross fixed capital formation by type of asset. In this note the focus is on the latter.

Computers[2] were invented as early as the 1930s, and South Africa has imported computers and related equipment from, *inter alia,* Europe, the United States (US) and Japan for more than half a century. With the industrialisation and advancement of economies, investment in computers as a factor of production became progressively more important. It has been noted[3] that a substantial part of the very strong economic growth in the US in the 1990s could be attributed to the spectacular expansion of information technology.

2 By definition, a computer is a device that accepts data and converts it based on a program or sequence of instructions on how the data are to be processed.

3 See Magnien (2001).

The System of National Accounts 1993 (1993 SNA) includes under machinery and equipment, fixed assets[4] such as transport equipment, furniture, computers, office equipment, and other machinery and equipment. In South Africa, computers and related equipment have always implicitly been included in gross fixed capital formation as part of machinery and other equipment. However, capital spending on computers has grown in importance over the years. Furthermore, the difference in the service life of computers relative to other machinery and equipment implies that separate identification of computers will have a significant effect on the capital stock and productivity analysis. It consequently became imperative to estimate this type of assets individually.

4 According to the 1993 SNA, fixed assets are tangible or intangible assets produced as outputs from processes of production that are themselves used continuously in other processes of production for more than one year.

This note firstly outlines how nominal capital expenditure on computer equipment was estimated from 1960. Secondly, the methodology used to estimate an appropriate deflator for computer equipment is discussed. Thirdly, the real capital formation data in respect of computer equipment are presented, followed by the capital stock of computer equipment. The note ends with some concluding observations.

Estimating capital expenditure on computer equipment

Since 2000 the *Economic Activity Survey* (EAS) of Statistics South Africa (Stats SA), which, among other things, surveys capital formation and provides for computer equipment as a separate asset type, was used to get a breakdown between computer equipment and machinery and other equipment. Prior to 2000, enterprise-surveyed data on capital formation obtained from official sources did not identify computers and related equipment as a separate type of asset. Accordingly, from 1960 to 1999 the imports of computers and related equipment, such as typing machines, calculating machines, statistical machines and parts, obtained from the foreign trade statistics published by government, were used in order to estimate the historical investment in computers. Prior to 1960 it was assumed that capital expenditure on computer equipment was negligible.

Figure 1 shows the estimated series for nominal capital expenditure on computer equipment. It should be noted that a semi-log scale is used and that inflation, relative price changes and structural developments all had a bearing on this nominal expenditure series.

Figure 1 Nominal capital expenditure on computer equipment

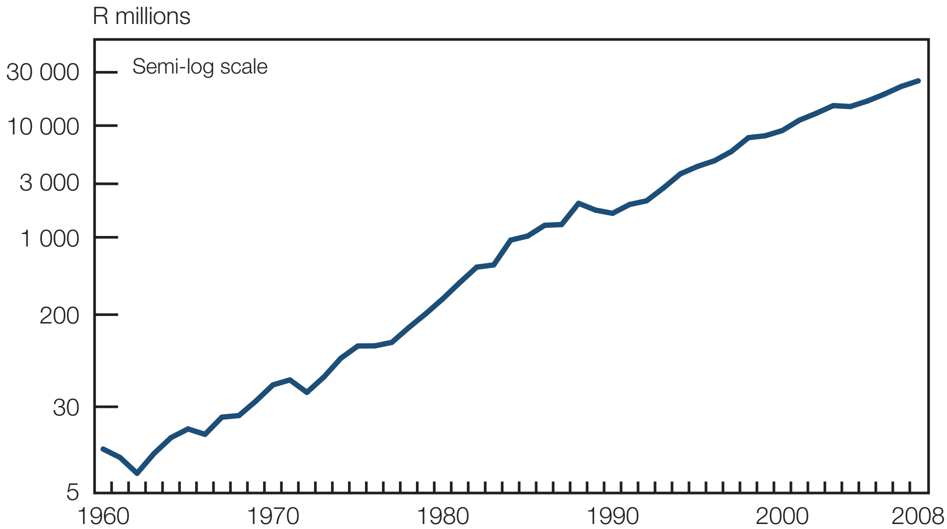


Table 1 illustrates the growing importance of expenditure on computer equipment in the economy. In the 1960s computers were relatively expensive, had limited capacity and were used by a very limited group of institutions. During the ensuing decades their usefulness and popularity rose at a stellar pace as their prices declined, and their capacity and range of applications expanded.

Table 1 Share of computer equipment in nominal gross fixed capital formation

Per cent

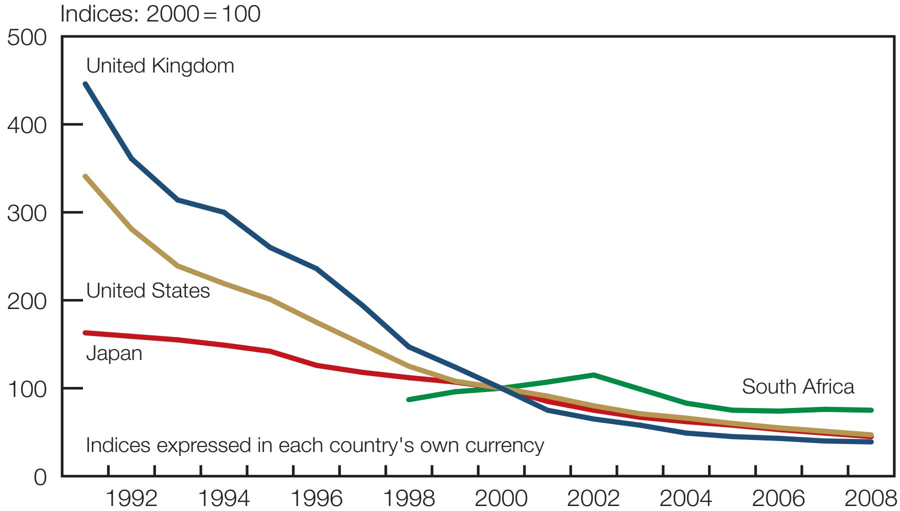
	Share of computer equipment in:	
	Total machinery and equipment*	Overall fixed capital formation
1960s	3,2	1,0
1970s	4,0	1,3
1980s	8,6	3,2
1990s	11,8	4,7
2000–2008	16,0	6,6

* Total of computer equipment and machinery and other equipment

Methodology used to derive a price index for computers

In the absence of an official price index for computer equipment in South Africa that could be used historically, relevant price indices from selected countries were used to compile a price index to deflate computer equipment for the years prior to 2000.

Figure 2 Price indices for computers in selected countries



Sources: Office for National Statistics (UK), Bureau of Labor Statistics (US), Bank of Japan and Statistics South Africa

As illustrated in Figure 2, the United Kingdom's (UK) price index for computer equipment shows a relatively fast decline, with less rapid declines in the price indices compiled by the US and Japan. Both the US and Japan use hedonic methods[5] to derive a price index. The UK's statistical office uses other methods to calculate quality change in computer models, such as option pricing or expert opinions where a manufacturer gives an assessment of the cost of adding the improvement that reflects the additional cost of the change in specification.[6] As noted by Schreyer (2002), methodologies to derive price indices for information technology products vary between national statistics offices. The methodology used in South Africa's national accounts to compile a price index from 1960 was to combine different price indices from different sources.

For the period 2000 to date the price index for computer equipment as published by Stats SA was used. Between 1991 and 1999, an unweighted average of the price indices for computer equipment in the UK, US and Japan were used, while the price index of the US Bureau of Economic Analysis (BEA) was used for the period 1960 to 1990. In order to have comparable indices, all the foreign price indices were converted to rand using the rand exchange rate against each currency. The international price indices (in rand) were linked to Stats SA's price index, to obtain a comparable time series for the deflation of gross fixed capital formation on computer equipment from 1960.

It may be noted that the rand price index of computer equipment rose by less than 2 per cent per annum from 1960 to 2008 whereas consumer prices, for instance, rose by almost 9 per cent per annum, illustrating the magnitude of the relative price decline recorded by computer equipment.

Using the deflator as constructed for South Africa, the series for nominal gross fixed capital expenditure on computers was adjusted to obtain a real fixed capital formation series. The results are shown in Figure 3.

5 Hedonic methods are regression-based methods that may be applied to goods, such as computers, for which quality and characteristics are changing rapidly, in order to develop unit prices. In this way technological changes such as improvements on memory and speed are excluded from the index so as to include underlying price changes. See Triplett (2004).

6 See Schreyer (2002).

Figure 3 Real capital expenditure on computer equipment

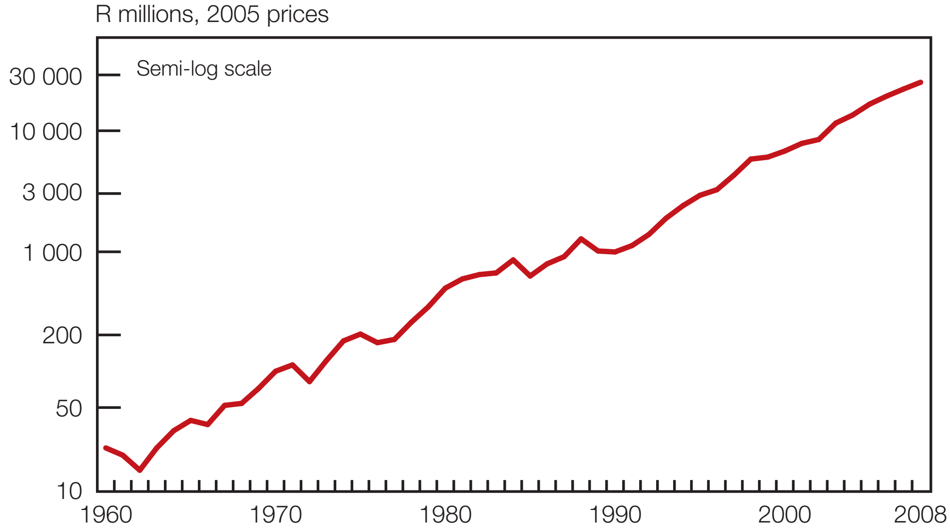
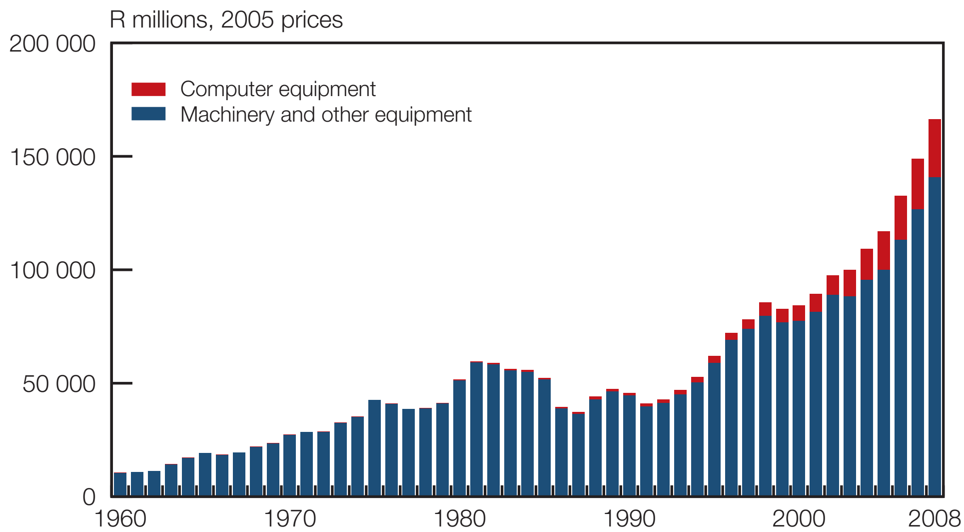


Figure 4 indicates the real investment in computer equipment together with that in machinery and other equipment. While both components started picking up in the 1990s, there has been a noticeable increase in the contribution of investment in computer equipment since the turn of the century. Along with trade liberalisation and increasing globalisation, South Africa had to forcefully expand its use of computer-related technologies and internationally competitive computer software packages.

Figure 4 Real fixed capital expenditure on computer equipment and on machinery and other equipment



Consumption of fixed capital and the capital stock of computer equipment

The consumption of fixed capital, often referred to as 'depreciation', relates to the decline in the current value of the stock of fixed assets owned by a producer as a result of physical deterioration, technological obsolescence or normal accidental damage in the course of time. Different asset types have a different service life and in South Africa's national accounts the assumed service life ranges from 80 years for construction works in the agricultural sector to 8 years for transport equipment. In the case of computer equipment, the service life was estimated to be 5 years. The time span was chosen mainly based on expert opinions, but also mindful that the average service life as measured by some other countries[7] such as the US and Japan is somewhat longer, while in the UK it is shorter (Nomura, University and Momose, 2008).

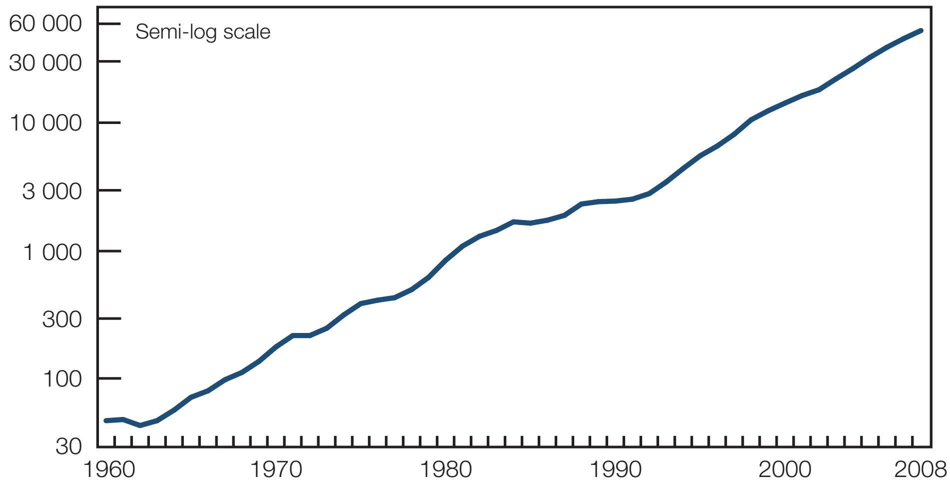
7 The service life of computers in the US (BLS) is 6 years, for Japan it is 7,8 years and for the UK it is 3,2 years.

The standard or traditional procedure to calculate capital stock values is the Perpetual Inventory Method (PIM). Estimates of the net capital stock (as published in the *Quarterly Bulletin* of the South African Reserve Bank) are obtained by applying a capital consumption function based on the expected economic life of the various asset types. In South Africa, estimates of net capital stock are based on a straight-line retirement function.

Figure 5 shows the real fixed capital stock of computer equipment. As may be expected, it increased rapidly over time as the use of computer equipment became widespread. The fixed capital stock of machinery and equipment, including computer equipment, according to the old methodology and the capital stock obtained if computer equipment is treated separately differ in terms of level.

Figure 5 Fixed capital stock: Computer equipment

R millions, 2005 prices



The difference can be ascribed to the fact that the service life that was used for depreciation of computer equipment when it was included in the machinery and equipment was 10 years instead of 5 years. The capital stock of machinery and other equipment that includes the computer equipment separately calculated shows stock levels that are lower. This can be attributed to the computer investment portion of capital formation that depreciates at a rate of 20 per cent per year instead of the 10 per cent previously used.

Conclusion

Since the 1990s there has been a noticeable increase in nominal investment in computer equipment in South Africa, as elsewhere in the world. At the same time, the prices of computer equipment have declined significantly. International price indices for computers, adjusted for exchange rate changes, were combined and linked to the computer equipment price index for South Africa to obtain a deflator series going back to 1960.

Applying the deflator series to nominal capital formation, a rapidly increasing series for real capital expenditure on computer equipment is obtained. These estimates are also used to refine the South African Reserve Bank's capital stock series. Since computer equipment has an assumed life-span of only 5 years – significantly shorter than that of other capital goods – the separation of computer equipment from machinery and other equipment has improved the estimates of the capital stock by type of asset.

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Note on the profile of repurchase transactions on the JSE Limited

by H Coetzer and M Tlali[1]

1 The views expressed are those of the authors and do not necessarily reflect the views of the South African Reserve Bank. The authors wish to thank J P van den Heever, M Kock and Z Nhleko for their comments and inputs.

Introduction

Repurchase transactions, loosely referred to as 'repos', are widely used in the financial markets. They constitute one of several types of transactions catered for in the secondary bond market on the JSE Limited (JSE). While it is well known that large amounts of funds flow through the repurchase market on a daily basis, the detailed information on the bond market obtained by the South African Reserve Bank (the Bank) makes it possible to measure and analyse numerous dimensions of the formal market in repurchase agreements. The purpose of this note is to explain the profile of repurchase transactions, including the definition and working of repurchase agreements; the underlying instruments used; the active sectors and countries in this trade type; and the maturity spectrum of, and the average interest rates on repurchase transactions.

Definition and working of repurchase transactions

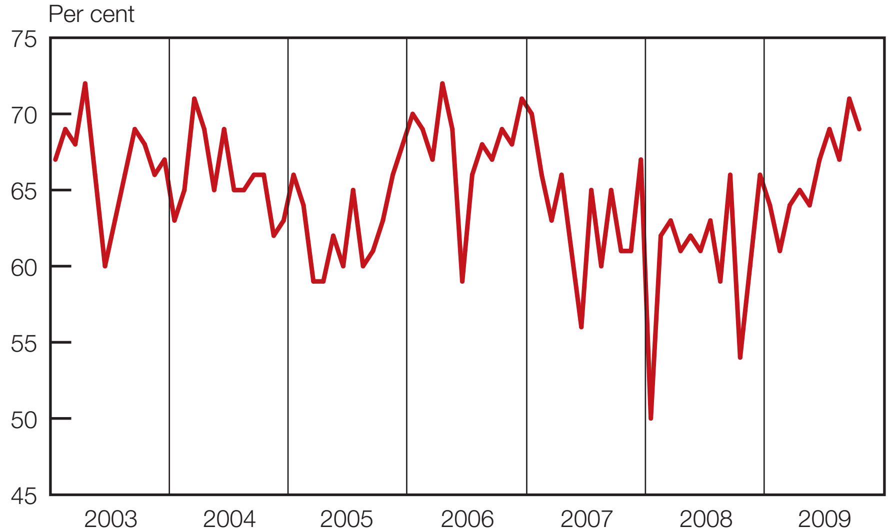
A repurchase agreement is an agreement between two parties whereby one party sells a security to the other at a specified price with a commitment to buy the security back at a later date. The second price (determined at the time of the first leg) is the price of the first leg plus the repurchase interest, often called the 'carry rate'. The difference between the first and second price is the cost of carry. Any repurchase transaction therefore has two trade legs; (1) the near leg and (2) the far leg. For the party buying the security and agreeing to sell it later (buyer), the agreement is referred to as a 'reverse repurchase agreement'.

In a repurchase transaction the original owner retains or is entitled to any proceeds that accrue to that security while it is temporarily sold, as the risk and return on the collateral are retained by the temporary seller. The legal transfer of ownership and use of funds are temporary, since a repurchase agreement is economically similar to a secured, collateralised loan, with the difference being that in the case of a loan the collateral is only pledged to the party providing finance, with no legal change in ownership. Repurchase agreements are also not the same as securities (scrip) lending as in scrip lending the party obtaining the assets is the borrower and not the buyer, while the party providing the assets is the lender not the seller, with a fee paid to the lender and not interest as in a repurchase transaction. A distinction can also be drawn between classical repurchase transactions and buy/sell-backs; the main difference being the treatment of the coupon payment. In a classic repurchase transaction the coupon is paid by the buyer to the original owner on the coupon payment date, whereas in the case of buy/sell-backs the coupon payment is included as part of the price of the second leg of the trade.

By contrast, 'outright transactions' (all trades excluding repurchase transactions) refer to the purchasing or selling of securities and, unlike repurchase transactions, do not involve the obligation or agreement to re-sell or repurchase those securities. With outright transactions, the ownership of securities is transferred to the buyer and remains with the buyer until maturity of the security or until the choice to trade the security is exercised.

The significance of repurchase trades in the secondary bond market on the JSE is reflected in the considerable contribution they made towards total turnover as indicated in Figure 1. On a monthly basis, repurchase agreements constituted between 50 and 72 per cent of total turnover.

Figure 1 Repurchase turnover as a percentage of total turnover



Underlying instruments in repurchase trades

Although repurchase trades are conducted across a wide spectrum of securities, government bonds dominate. For instance, in October 2009, 96 per cent of repurchase turnover in the secondary bond market involved government bonds – mainly conventional, but also inflation-linked bonds (Table 1). Of the total repurchase turnover in inflation-linked bonds the R189 (maturing in 2013) accounted for 70 per cent and within conventional government bonds the R157 (maturing in 2014/2015/2016) and the R186 (maturing in 2025/2026/2027) accounted for 57 per cent.

Table 1 Repurchase turnover by type of instrument, October 2009

Issuer and type	Percentage contribution to total repurchase turnover
National government	96
Conventional bonds	*92*
Inflation-linked bonds	*4*
State-owned enterprises	3
Private sector	1
Total	100

Main sectors and countries participating in repurchase agreements

The domestic banking sector accounted for half of the trading activity in October 2009, with the other participants mainly being non-residents and the rest of the domestic financial sector, which includes finance companies, financial controlling companies and private-sector financial auxiliaries. The non-resident and other domestic financial sectors jointly accounted for around 38 per cent of trading activity. The monetary authority and public non-financial corporate sectors contributed to a lesser extent to total turnover as specified in Table 2. Repurchase transactions are used by the Bank to manage and control liquidity in the money market.

Table 2 Repurchase turnover by type of participant, October 2009

Institutional sectors	Percentage contribution to total repurchase turnover
Banks	52
Other financial institutions	26
Public non-financial corporate sector	5
Monetary authority	2
Public-sector pension and provident funds	1
Unit trusts	1
Public-sector financial intermediaries	1
Non-residents	12
Total	100

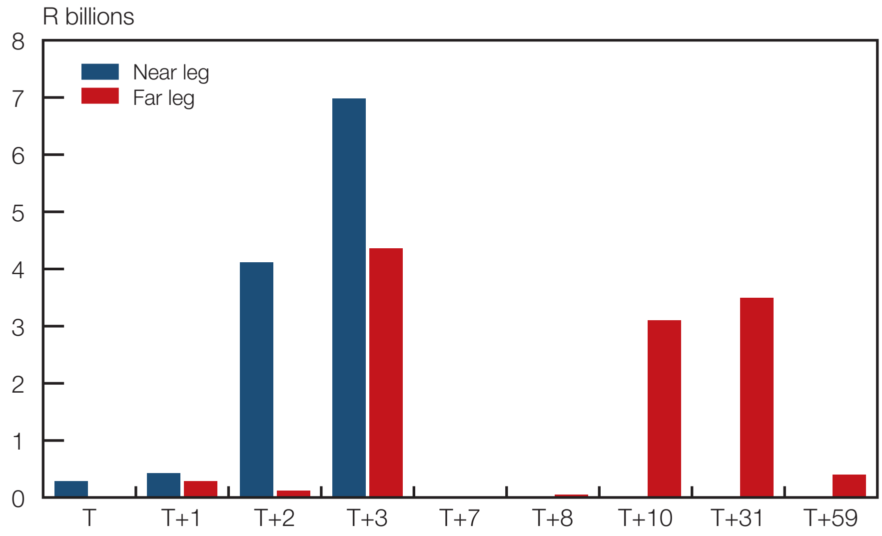
About 99,6 per cent of the repurchase transactions conducted by non-residents are by parties domiciled in the United Kingdom, with Namibia and the United States the only other countries involved in repurchase trades in South Africa in the first ten months of 2009.

Maturity spectrum of, and interest rates on repurchase transactions

The flexible maturity structure of repurchase trades is entirely independent of the maturity of the underlying security. Considering all repurchase trades on a normal[2] day, the repurchase turnover for every settlement is depicted in Figure 2. Settlement on a T+3 basis dominated trade as it accounted for nearly half of the number of repurchase trades and turnover on this day.

2 A normal trading day has an average number of repo trades, and is not an auction day or the day before a major announcement, for example, the Monetary Policy Committee's announcement of the repurchase rate.

Figure 2 Turnover of repurchase transactions across settlement dates



T = 19 October 2009

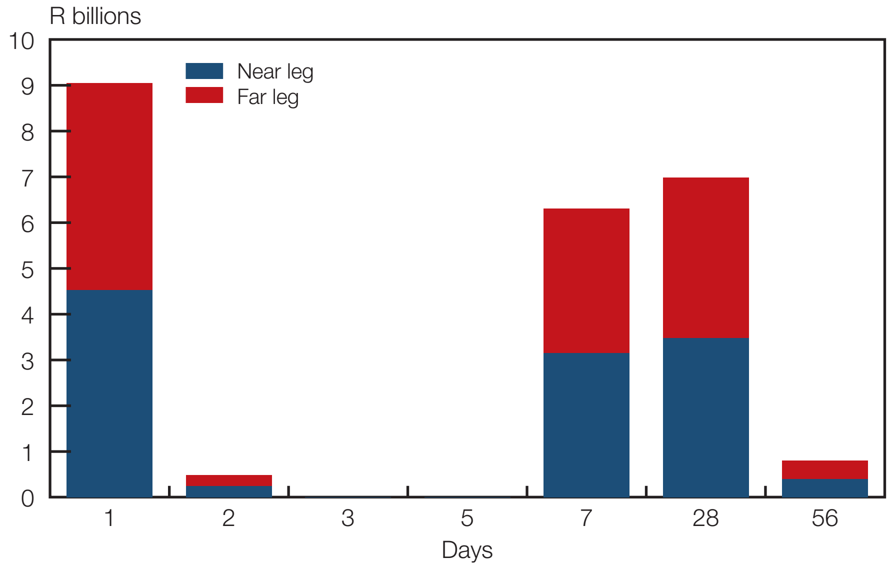
Table 3 shows that the near leg settlement date of 22 October 2009 and the far leg settlement date of 17 December 2009 – with a difference of 56 days – generated the highest average value per transaction.

Table 3 Repurchase trades entered into on 19 October 2009

Near leg settlement date	Far leg settlement date	Difference in settlement (Days)	Number of transactions	Value of transactions (R millions)	Average value per transaction (R millions)
19 October 2009	20 October 2009	1	4	574	144
19 October 2009	22 October 2009	3	4	5	1
20 October 2009	21 October 2009	1	8	251	31
20 October 2009	22 October 2009	2	16	489	31
20 October 2009	27 October 2009	7	10	110	11
21 October 2009	22 October 2009	1	200	8 226	41
21 October 2009	26 October 2009	5	2	3	1
22 October 2009	29 October 2009	7	26	6 198	238
22 October 2009	19 November 2009	28	26	6 981	269
22 October 2009	17 December 2009	56	2	804	402

In 71 per cent of the trades the difference in settlement between the near leg and the far leg was one single day and accounted for 38 per cent of total repurchase turnover (Figure 3 and Table 4).

Figure 3 Turnover per difference (in days) in settlement between the near leg and far leg of repurchase trades



Annualised interest rates were calculated for each repurchase trade on 19 October 2009. Table 4 shows the average annualised interest rates calculated from each difference in settlement. These rates are similar to the Johannesburg Interbank Agreed Rates (Jibar) for October 2009, namely 6,95 per cent (1 month), 7,16 per cent (3 months) and 7,63 per cent (6 months). This confirms the point that repurchase agreements are essentially collateralised lending over money-market time horizons and at money-market interest rates.

Table 4 Interest rates per difference in settlement, 19 October 2009

Average interest rates per difference per annum (Per cent)	Difference in settlement between near leg and far leg (Days)	Percentage of the number of trades in each difference category to total trades (Per cent)
7,05	1	71
7,02	2	5
6,72	3	1
6,87	5	1
7,12	7	12
7,76	28	9
6,95	56	1

Conclusion

Repurchase transactions are well developed and this trade type forms an integral part of the secondary bond market on the JSE with regard to turnover and market liquidity – especially in respect of liquidity in the government bond sector – and therefore help to attract investors. Repurchase trades are settled mostly over a very short period, and the difference between selling and repurchase prices translates to annualised interest rates similar to those in the money market, such as the Jibar rates.

Notes to tables

Yields and stock exchange activity – Table S–33

The column containing the unit selling prices of unit trusts has been discontinued since this indicator has lost its relevance. This is as a result of the flexibility of investing by unit trusts, resulting in the indicator reflecting returns on continuously changing combinations of asset classes. This column was replaced with the price-earnings ratio for all classes of shares previously published in Table S–143.

Final consumption expenditure by households – Tables S–110 and S–111

Following the outcome of the benchmarking and rebasing project by the National Accounts Division, the durable goods expenditure categories have been expanded to separately show expenditure on computers and related equipment. Expenditure on miscellaneous services has also been expanded to separately provide for spending on security services.

Gross fixed capital formation by type of asset – Tables S–118 and S–119

Previously included under machinery and equipment, computers and related equipment have been added as a separately identified asset category in the analysis of gross fixed capital formation.

Capital market (Selected data) – Table S–143

The column containing the price-earnings ratio for all classes of shares was replaced with the 12-month percentage change in the total value of share capital raised. The column for the underlying value of futures contracts was replaced with the total value of derivatives contracts traded.

Statistical tables