Quarterly Bulletin

June 2010

South African Reserve Bank

Quarterly Bulletin

June 2010

No. 256

South African Reserve Bank

Enquiries relating to this Bulletin should be addressed to:
Advisor to the Governor and Chief Economist
South African Reserve Bank
P O Box 427
Pretoria 0001
Tel. 27-12-3133668

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

ISSN 0038-2620

Contents

Quarterly Economic Review

Statements issued by Gill Marcus, Governor of the South African Reserve Bank

Note

Statistical tables

Quarterly Economic Review

Introduction

The global economy continued on its recovery path in the early part of 2010, supported by expansionary monetary and fiscal policy settings. However, the sustainability of these policies increasingly became a matter of concern, with the focus of attention starting to shift from bolstering global economic activity to addressing fiscal and sovereign debt extremes. In Europe the large underlying fiscal deficit and high public-sector debt in a number of countries fuelled a marked deterioration in investor confidence in these countries' debt instruments, with the worst fears applying to Greece. It was only after a very large financial support package was put together by European authorities and the International Monetary Fund (IMF) in May 2010 that financial markets regained some stability.

Strong growth in China and India continued to provide impetus to global economic activity, international trade and commodity prices. The world economy nevertheless still operated well below capacity and global inflation remained low. However, as inflationary forces intensified in some parts of the world, a number of countries started to raise interest rates, with the Bank of Canada becoming the first central bank among the Group of Seven (G-7) countries to increase its key policy rate since the onset of the global recession.

African economies continued to benefit from rising demand for exports and generally buoyant commodity prices, resulting in a notable acceleration in economic activity on the continent. The South African economy was no exception as its growth rate, which turned positive in the third quarter of 2009, increased further in the first quarter of 2010. The acceleration to a brisk annualised rate of 4,6 per cent was widespread among the major economic sectors, with manufacturing playing a strong role alongside mining and commerce. Capacity utilisation nevertheless remained at low levels.

Real gross domestic expenditure supported the stronger growth in the first quarter, with all the major expenditure components registering improvements. Real final consumption expenditure by households picked up strongly, with purchases of semi-durable and durable goods progressing at double-digit rates. This was facilitated by an acceleration in the growth rate of real disposable income, relatively low interest rates and inflation, positive wealth effects, and an improvement in household confidence. With the increase in consumption expenditure well aligned with the growth in personal disposable income, the ratio of household debt to disposable income declined in the first quarter of 2010.

The general government's real final consumption expenditure accelerated strongly in the first quarter, reflecting purchases of military aircraft and an increase in staff numbers in the public sector.

Real gross fixed capital formation by general government contracted somewhat in the first quarter of 2010 as decreases were recorded by all levels of government. In the private sector real capital outlays also edged lower, although at a slower pace than the contractions observed during 2009. Capital expenditure by the private sector increased in areas such as construction, telecommunications and accommodation, partly related to the expected influx of tourists during the 2010 FIFA World Cup™ tournament. However, this was offset by lower capital outlays in agriculture, mining and manufacturing.

Real fixed capital expenditure by public corporations rose further in the first quarter as the transport subsector geared itself for the expected influx of sports-loving tourists. Outlays on the electricity and telecommunications infrastructure also continued apace. The increase in capital expenditure by public corporations more than offset the declines recorded by the general government and private sectors, resulting in marginally higher real capital formation for the economy as a whole in the first quarter of 2010.

While real holdings of inventory declined further in the first quarter of 2010, the pace of depletion was much slower than in the final three quarters of 2009, suggesting that the downward cycle in inventories was approaching its end. This was consistent with the recovery in production and expenditure, and the less onerous interest cost of carrying inventories.

The recovery in economic activity had not yet been reflected in rising aggregate employment numbers and the unemployment rate in the first quarter of 2010 rose further to 25,2 per cent. Enterprise-surveyed employment data for the formal sector are available up to the final quarter of 2009 and indicate that the increase in public-sector employment in the fourth quarter of the year fell short of the reduction in private-sector employment over the period. This also holds for the year 2009 as a whole. Against the background of high unemployment, average wage settlements edged lower in the course of 2009 and in the first quarter of 2010, but remained above 8 per cent.

Consumer price inflation receded to within the target range, falling below 6 per cent at first only fleetingly in October and November 2009, but then on a more sustainable basis from February 2010. By April 2010 inflation amounted to 4,8 per cent, reflecting the impact, *inter alia*, of substantial surplus capacity in the economy, an appreciation in the exchange rate of the rand and lower food prices. Lower inflation outcomes also contributed to a moderation in inflation expectations.

Both the nominal and real effective exchange rate of the rand trended higher from around March 2009 alongside firm prices of South African export commodities, smaller deficits on the current account of the balance of payments and a return of investor interest in emerging markets. The appreciation of the rand against a basket of currencies continued in the first quarter of 2010.

The increase in gross domestic expenditure in the first quarter of 2010 was reflected in a notable increase in imports over the period. Export proceeds receded somewhat during the quarter from a high base set in the final quarter of 2009, resulting in a significantly wider deficit on the current account of the balance of payments. However, a strong inflow of portfolio investment into South Africa was recorded in the first quarter, mainly in the form of debt securities, enabling the overall balance of payments to remain in surplus. As risk aversion set in among international investors in the wake of concerns regarding fiscal sustainability in Greece and a number of other European countries, portfolio investment flows into South Africa weakened in May 2010.

While the recovery in real production and expenditure gained momentum in the early part of 2010, this was not reflected in banks' credit extension and monetary liabilities. The nominal level of bank loans and advances to the domestic private sector and the broadly defined money supply (M3) both moved broadly sideways over the twelve months to April 2010. Credit extension to companies contracted somewhat, while that to households expanded with mortgage advances registering a modest positive growth rate.

House prices trended moderately upwards, while activity in the financial markets picked up in the first five months of 2010. The prices of shares on the JSE Limited (JSE) reached a recent peak in mid-April, before subsiding somewhat in the subsequent period. Against a background of decelerating inflation bond yields, on balance, moved lower from a peak in mid-January 2010, despite a fairly large public-sector borrowing requirement.

Acting in a broadly countercyclical way, the government maintained its expenditure levels, allowing the budget deficit to widen further in fiscal 2009/10 as tax revenue receded on account of the comparatively subdued levels of economic activity. Most recently there were signs of a moderate increase in tax collections, consistent with the economic recovery starting to gain traction.

The progress made in combating inflation, an improved forecast for inflation and a reduction in the uncertainty regarding the inflation outlook were recognised by the Monetary Policy Committee (MPC) when it decided to reduce the repurchase rate by 50 basis points to 6,5 per cent at its March 2010 meeting. Other money-market interest rates followed the repurchase rate, with the banks, for example, reducing their prime overdraft rate to 10 per cent per annum – a rate that was last achieved in January 1981.

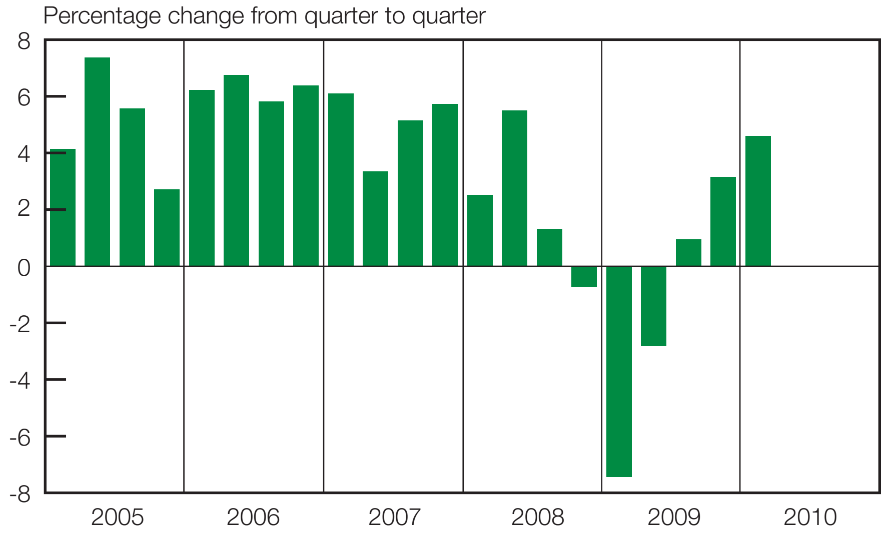
1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Domestic economic developments[1]

Domestic output

Growth in the South African economy gained further momentum in the opening months of 2010 as domestic activity became more closely aligned with improving global economic conditions. *Real gross domestic product* increased at an annualised rate of 4,6 per cent in the first quarter of 2010 following an increase of 3,2 per cent attained in the fourth quarter of 2009. The enhanced performance in the first quarter could be attributed to firmer increases observed in real output of the primary and tertiary sectors, alongside a further solid, albeit somewhat slower rate of increase in the real value added by the secondary sector. Growth in the real value added by the non-agricultural sectors accelerated from an annualised rate of 3,7 per cent in the fourth quarter of 2009 to 4,4 per cent in the first quarter of 2010.

Real gross domestic product



Seasonally adjusted annualised rates

Measured over four quarters, real economic activity posted positive growth in the first quarter of 2010 following four consecutive quarters of contraction. This improved economic performance was supported by higher consumer and business confidence levels during the period.

Having increased at an annualised rate of only 0,9 per cent in the fourth quarter of 2009, the real value added by the *primary sector* advanced at a rate of 11,8 per cent in the first quarter of 2010. The growth in the first quarter could be attributed to increases in the real value added by both the agricultural and the mining sectors.

Following contractions in all four quarters of 2009, the real value added by the *agricultural sector* increased at an annualised rate of 3,0 per cent in the first quarter of 2010. The improved conditions in the agricultural sector could be attributed largely to increased field crop production. In addition, the late summer rains that fell over most of the country improved prospects for the agricultural sector. Estimates of the 2009/10 maize crop were accordingly revised upwards to 13,3 million tons, which may be compared with a crop of 12,0 million tons in 2008/09.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

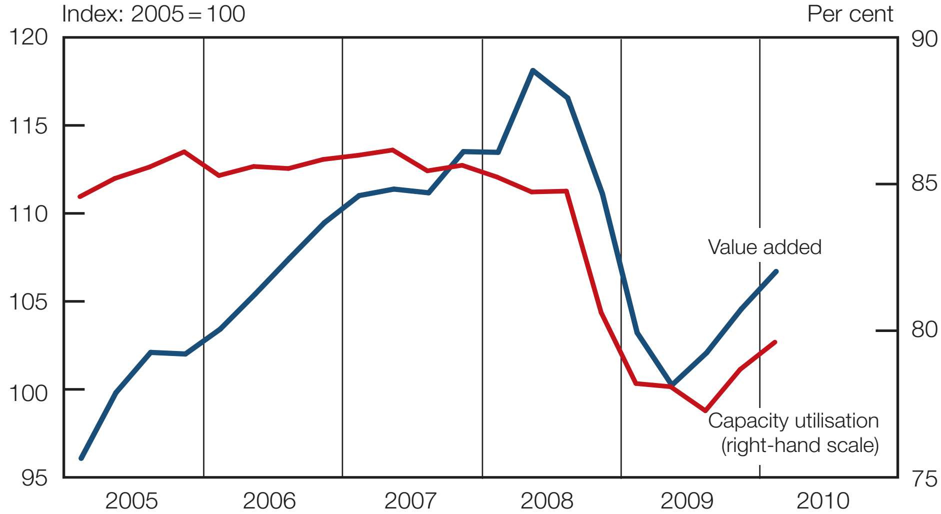
Sectors	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	-23,8	5,1	-7,6	0,9	-6,0	11,8
Agriculture	-5,6	-15,8	-11,8	-7,6	-3,2	3,0
Mining	-30,7	15,8	-5,8	4,6	-7,2	15,4
Secondary sector	-19,4	-6,9	7,0	8,1	-7,2	7,0
Manufacturing	-25,5	-11,1	7,6	10,1	-10,7	8,4
Tertiary sector	-0,9	-1,7	0,9	2,2	1,1	2,7
Non-agricultural sector	*-7,6*	*-1,9*	*1,8*	*3,7*	*-1,5*	*4,4*
Total	-7,4	-2,8	0,9	3,2	-1,8	4,6

The real output of the *mining sector,* which reverted to positive growth of 4,6 per cent in the fourth quarter of 2009, increased at a brisk annualised rate of 15,4 per cent in the first quarter of 2010. This faster growth stemmed primarily from increased production in the subsectors for diamonds, coal, nickel and non-metallic mineral mining as global markets recovered further. Subdued production conditions, however, continued to prevail in the gold mining sector where the temporary shutdown of shafts for safety reasons and ongoing industrial action adversely affected gold production during the first quarter of 2010. Over the same period, platinum production was curtailed somewhat by furnace-related problems. An appreciation of the exchange rate of the rand probably eroded some of the benefits of the favourable international commodity prices over the period.

Having increased at an annualised rate of 8,1 per cent in the fourth quarter of 2009, growth in the real value added by the *secondary sector* moderated to 7,0 per cent in the first quarter of 2010. This moderation resulted primarily from a somewhat slower rate of increase in the manufacturing and construction sectors, while growth in real value added by the sector supplying electricity, gas and water broadly maintained its momentum.

Growth in the real value added by the *manufacturing sector* slowed from an annualised rate of 10,1 per cent in the fourth quarter of 2009 to 8,4 per cent in the first quarter of

Gross value added and capacity utilisation in the manufacturing sector



Seasonally adjusted

2010. Firm domestic and foreign demand for new motor vehicles continued to boost the manufacturing of motor vehicles, parts and accessories and other transport equipment. Brisk activity was also recorded in other partly export-orientated subsectors manufacturing chemical products as well as basic iron and steel, consistent with the global recovery. The utilisation of capacity in the manufacturing sector increased marginally from 78,7 per cent in the final quarter of 2009 to 79,6 per cent in the first quarter of 2010.

Growth in the real value added by the sector supplying *electricity, gas and water* accelerated from an annualised rate of 0,9 per cent in the fourth quarter of 2009 to 4,9 per cent in the first quarter of 2010. The increase in real output could primarily be attributed to growth in the electricity subsector reflecting the stronger production in the manufacturing and mining sectors. In addition, measured over one year, South Africa also exported higher volumes of electricity to neighbouring countries.

Activity in the *construction sector* expanded further in the first quarter of 2010 but at a slower pace than before, as some momentum was lost due to the postponement of various projects, constraining the non-residential and the civil construction sectors. Building activity in the residential sector appeared to be bottoming out over the period. As a result of these developments, growth in the real value added by the construction sector decelerated from an annualised rate of 3,6 per cent in the fourth quarter of 2009 to 2,1 per cent in the first quarter of 2010.

Growth in the real value added by the *tertiary sector* accelerated from 2,2 per cent in the fourth quarter of 2009 to 2,7 per cent in the first quarter of 2010. The higher growth rate reflected increased activity in the trade, the transport and communication, and the finance, insurance, real-estate and business services sectors.

The real value added by the *trade sector* increased at an annualised rate of 3,3 per cent in the first quarter of 2010 following a marginal contraction of 0,7 per cent in the fourth quarter of 2009. The steady increase in the first quarter of 2010 reflected a robust expansion, especially in the retail and motor trade sectors, from fairly low levels in the final quarter of 2009. Demand for motor vehicles and other consumer goods gained momentum over the period as more favourable economic prospects, lower interest rates and relatively low inflation enticed consumers to acquire more durable goods. A survey conducted by the Bureau for Economic Research (BER) at Stellenbosch University indicated that the confidence level of retailers increased to its highest reading since the final quarter of 2007, signalling a more favourable outlook for the sector.

On a quarter-to-quarter basis the real value added by the *transport, storage and communication sector* increased at an annualised rate of 2,4 per cent in the first quarter of 2010, compared with an increase of 1,9 per cent in the preceding quarter. Higher imports of goods contributed materially to the increase in activity in the transport subsector. The real value added by the communication subsector also increased over the period.

Growth in the real production of the *finance, insurance, real-estate and business services sector* accelerated from an annualised rate of 2,1 per cent in the fourth quarter of 2009 to 2,5 per cent in the first quarter of 2010, mainly on account of a strong performance by the banking industry. The real value added by security dealers, however, slowed over this period.

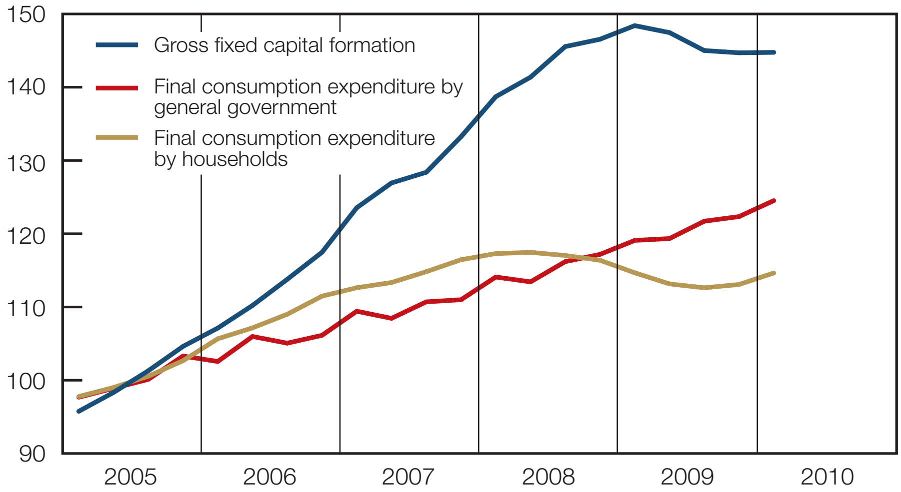
The real value added by *general government* slowed from an annualised growth rate of 5,1 per cent in the fourth quarter of 2009 to 2,8 per cent in the first quarter of 2010, as the pace of employment increases in general government moderated.

Real gross domestic expenditure

Growth in aggregate *real gross domestic expenditure* outpaced growth in real gross domestic production by a substantial margin in the first quarter of 2010 – growth in real gross domestic expenditure accelerated from an annualised rate of 4,9 per cent in the fourth quarter of 2009 to 12,1 per cent in the first quarter of 2010, as all major expenditure components registered improvements.

Components of real gross domestic expenditure

Indices: 2005 = 100



Seasonally adjusted

Following an increase of 1,6 per cent in the fourth quarter of 2009, growth in real *final consumption expenditure by households* accelerated markedly to an annualised rate of 5,7 per cent in the first quarter of 2010. The brisk expansion in real outlays by households was evident in all the spending categories, except for spending on services. Household expenditure appears to have been positively influenced by several factors, including an acceleration in the growth rate of real disposable income, the reduced cost of credit as a result of lower interest rates, relatively low inflation, rising confidence levels, and an improvement in households' net wealth as the prices of real estate and other assets continued to rise.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

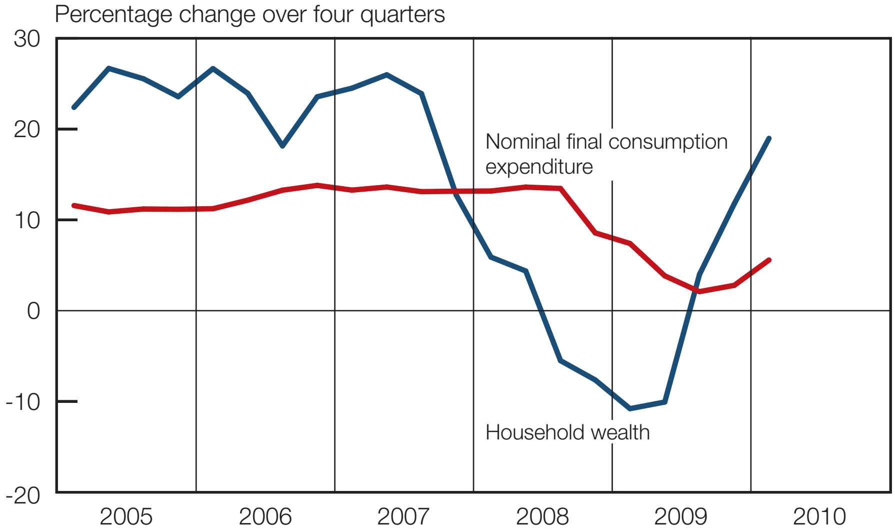
Components	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	-5,8	-5,2	-1,9	1,6	-3,1	5,7
General government	6,7	0,8	8,2	2,1	4,7	7,3
Gross fixed capital formation	5,2	-2,5	-6,5	-0,9	2,3	0,2
Domestic final demand	**-1,3**	**-3,5**	**-1,0**	**1,2**	**-0,6**	**4,9**
Change in inventories (R billions)*	-6,8	-48,5	-56,9	-38,4	-37,6	-8,7
Gross domestic expenditure	**3,3**	**-10,8**	**-1,6**	**4,9**	**-1,8**	**12,1**

* At constant 2005 prices

Growth in real expenditure on *durable goods* surged at annualised rates of 15,2 per cent in the fourth quarter of 2009 and 16,8 per cent in the first quarter of 2010. Increased outlays on durable goods could mainly be ascribed to buoyant expenditure on new motor vehicles, recreational and entertainment goods, and on furniture and household appliances. The appreciation of the exchange rate of the rand caused the prices of goods with a high import content to become more competitive, which probably also encouraged consumers to acquire durable goods.

Final consumption expenditure by households and household wealth

Percentage change over four quarters



Following three successive quarters of decline in real spending on *semi-durable goods*, this household expenditure component rebounded, rising at an annualised rate of 28,4 per cent in first quarter of 2010. The increase in real spending resulted primarily from increased outlays on clothing and footwear, and semi-durable recreational and entertainment goods. These increased outlays, although rising strongly, were from a low base. Year-on-year growth in spending on semi-durable goods amounted to 2,9 per cent in the first quarter of 2010.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Components	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	-8,4	-17,6	0,7	15,2	-11,3	16,8
Semi-durable goods	1,3	-4,8	-7,2	-0,6	-1,5	28,4
Non-durable goods	-9,9	-1,7	-5,4	-0,7	-4,4	9,5
Services	-3,4	-5,4	2,0	1,6	-0,6	-4,6
Total	**-5,8**	**-5,2**	**-1,9**	**1,6**	**-3,1**	**5,7**

Final consumption expenditure by households on *non-durable goods* increased at an annualised rate of 9,5 per cent in the first quarter of 2010 following six quarters of uninterrupted contraction. Along with rising spending by households on motor vehicles, notable increases were recorded in the sale of petroleum products. Real household expenditure on *services* declined at an annualised rate of 4,6 per cent in the first quarter of 2010, following an increase of 1,6 per cent in the fourth quarter of 2009. The decline was attributable to reduced spending on, *inter alia*, transport services.

The pace of increase in the real *disposable income of households* accelerated from an annualised rate of 2,3 per cent in the fourth quarter of 2009 to an annualised rate of 5,1 per cent in the first quarter of 2010. Real disposable income of the household sector was supported by, among other factors, higher employment levels at the provincial government level, increases in the remuneration of public servants and the steady decline in interest rates. The ratio of household debt to disposable income receded from 79,9 per cent in the fourth quarter of 2009 to 78,4 per cent in the first quarter of 2010. The ratio of debt-service cost to disposable income decreased marginally from 8,3 per cent in the fourth quarter of 2009 to 8,2 per cent in the first quarter of 2010.

Following an annualised rate of increase of 2,1 per cent in the fourth quarter of 2009, the pace of increase in real *final consumption expenditure by general government* accelerated to 7,3 per cent in the first quarter of 2010. The latter increase primarily reflected the acquisition of two military aircraft, while real salary outlays also edged higher. Excluding spending on armaments, growth in consumption expenditure by general government slowed marginally from an annualised rate of 5,2 per cent in the fourth quarter of 2009 to 5,0 per cent in the first quarter of 2010.

Real *gross fixed capital formation* increased at an annualised rate of 0,2 per cent in the first quarter of 2010 following three consecutive quarters of contraction in 2009. The marginally positive growth was brought about by a further increase in capital outlays by public corporations and a slower pace of decline in capital outlays by private business enterprises and general government.

Real gross fixed capital formation

Percentage change at seasonally adjusted annualised rates

Sectors	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	-18,1	-9,5	-14,5	-2,3	-7,0	-0,7
Public corporations	147,9	21,7	17,0	8,7	40,7	7,4
General government	-3,2	-6,2	-6,9	-10,0	-1,2	-8,0
Total	**5,2**	**-2,5**	**-6,5**	**-0,9**	**2,3**	**0,2**

Real fixed capital outlays by *private business enterprises* declined further at an annualised rate of 0,7 per cent in the first quarter of 2010 following quarterly contractions of between 18,1 per cent and 2,3 per cent during 2009. The rate of decline in real capital investment by the agricultural, mining and manufacturing sectors moderated in the first quarter of 2010. However, real capital outlays by the construction, commerce, transport and communication, and finance sectors picked up in the first quarter of 2010.

Real capital expenditure by the agricultural sector declined in the first quarter of 2010, consistent with the decline in the prices of agricultural output and lower production volumes in 2009. The pace of contraction in fixed investment by the manufacturing sector moderated. Capacity utilisation in the manufacturing sector at 79,6 per cent remained well below the most recent high of 84,8 per cent registered in the third quarter of 2008. Real capital outlays in the communication subsector increased in the first quarter of 2010, augmented by telecommunications operators that embarked on upgrading the network capacity, and increasing the national transmission capacity to ensure more efficient network systems and broader local bandwidth capacity during the 2010 FIFA World Cup™ tournament. In addition, real spending by the commerce sector, in particular the accommodation subsector, was boosted by additions and alterations related to the expected influx of tourists.

Real fixed capital expenditure by *public corporations* increased at an annualised rate of 7,4 per cent in the first quarter of 2010 following growth of 8,7 per cent in the fourth quarter of 2009. Owing to the acquisition of new buses, the building of new train stations and the upgrading of existing railway stations in preparation for the 2010 FIFA World Cup™ tournament, real capital investment by the transport subsector increased further in the first quarter of 2010. In addition, domestic airports were refurbished to meet modern international standards.

The pace of contraction in real gross fixed capital formation by *general government* slowed from an annualised rate of 10,0 per cent in the fourth quarter of 2009 to 8,0 per cent in the first quarter of 2010, as lower capital outlays were recorded by all levels of government.

On an annualised basis the level of *real inventory holdings* declined by R8,7 billion in the first quarter of 2010 following sizeable contractions averaging R47,9 billion in the last three quarters of 2009. The moderation in the pace of inventory depletion in the first quarter of 2010 contributed 6,7 percentage points to the growth in real gross domestic expenditure in this period. In the first quarter of 2010 de-stocking was mainly evident in the manufacturing sector, while inventories were accumulated in the mining, commerce and transport, storage and communication sectors. The coal mining subsector, in particular, accumulated coal inventories in anticipation of increased demand from energy-intensive sectors, amidst the recovery in the economy. In addition, coal inventories were also raised in anticipation of the estimated higher demand from consumers for heating purposes during the winter period and to ensure an adequate supply of power during the 2010 FIFA World Cup™ tournament.

Wheat inventories were accumulated in the first quarter of 2010, alongside low grain prices partly resulting from lower international prices. Consequently, there was a net addition to agricultural stocks-in-trade. Inventories in the communication subsector edged higher in the first quarter of 2010 as operators prepared for the influx of network users during the 2010 FIFA World Cup™ tournament. The ratio of industrial and commercial inventories to non-agricultural gross domestic product nevertheless declined from 13,0 per cent in the fourth quarter of 2009 to 12,5 per cent in the first quarter of 2010.

Factor income

The growth over four quarters in *total nominal factor income* accelerated from 6,6 per cent in the fourth quarter of 2009 to 8,2 per cent in the first quarter of 2010. The first-quarter 2010 acceleration in total nominal factor income could be attributed entirely to growth in the gross operating surpluses of business enterprises.

The rate of increase over four quarters in *compensation of employees* moderated from 10,3 per cent in the fourth quarter of 2009 to 9,0 per cent in the first quarter of 2010. The slower rate of increase in compensation of employees was evident in most subsectors of the economy with the exception of the mining and financial services sectors. Corroborating the slowdown in compensation of employees, the average wage settlement rate moderated from 9,3 per cent in the fourth quarter of 2009 to 8,4 per cent in the first quarter of 2010.

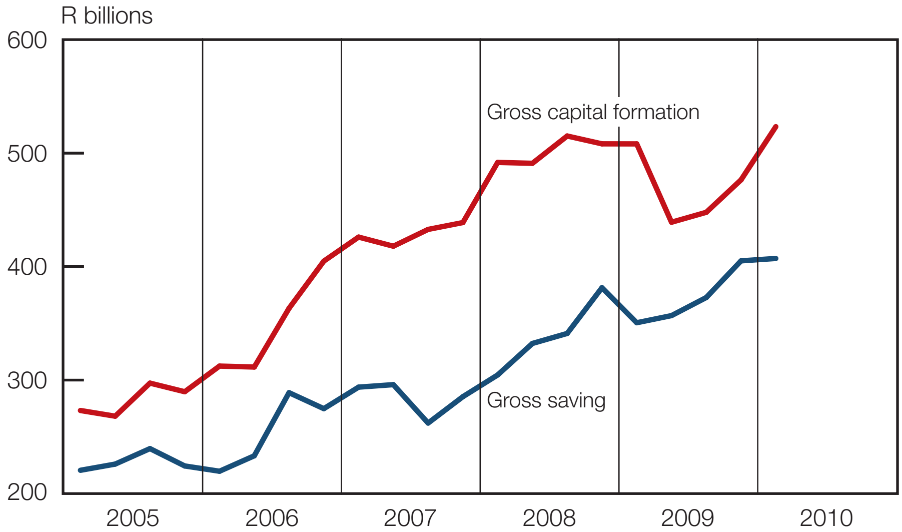
Growth in *total gross operating surpluses,* measured over four quarters, accelerated further from 2,5 per cent in the fourth quarter of 2009 to 7,5 per cent in the first quarter of 2010. This partly reflected higher business volumes due to higher domestic demand, alongside the continued process of lowering administrative and production costs. The higher growth in operating surpluses was most evident in the trade and the financial services sectors. In the mining sector, the operating surplus increased in the first quarter of 2010 following a contraction in the fourth quarter of 2009 as the platinum group metal subsector, in particular, benefited from higher demand for platinum jewellery and catalytic converters. Accordingly, the share of the operating surplus in total factor income increased from 48,3 per cent in the fourth quarter of 2009 to 50,1 per cent in the first quarter of 2010.

Gross saving

After increasing steadily from 14,9 per cent in the first quarter of 2009 to 16,3 per cent in the fourth quarter, the *ratio of gross saving* to *gross domestic product* declined slightly to 16,0 per cent in the first quarter of 2010. This deterioration was due to a decline in the savings ratio of both the corporate and household sectors, while the saving ratio of the general government remained broadly unchanged.

Whereas the national saving ratio declined marginally, the *utilisation of foreign capital* increased markedly from a low of 2,9 per cent of gross domestic product in the final quarter of 2009 to 4,6 per cent in the first quarter of 2010. The turnaround of fixed investment to positive growth and the much slower depletion of inventories in the first quarter of 2010 necessitated a greater reliance on foreign saving, given the inertia in domestic saving.

Nominal gross saving and gross capital formation



Seasonally adjusted

Gross saving by the *corporate sector* as a percentage of gross domestic product increased monotonically from a low of 11,9 per cent in the first quarter of 2009 to 16,3 per cent in the fourth quarter, but fell to 16,0 per cent in the first quarter of 2010.

Stronger growth in the gross operating surpluses of business enterprises in the first quarter of 2010 boosted the saving level of the corporate sector. At the same time, corporate tax and dividend payments declined in the first quarter of 2010, providing support to companies' retained earnings.

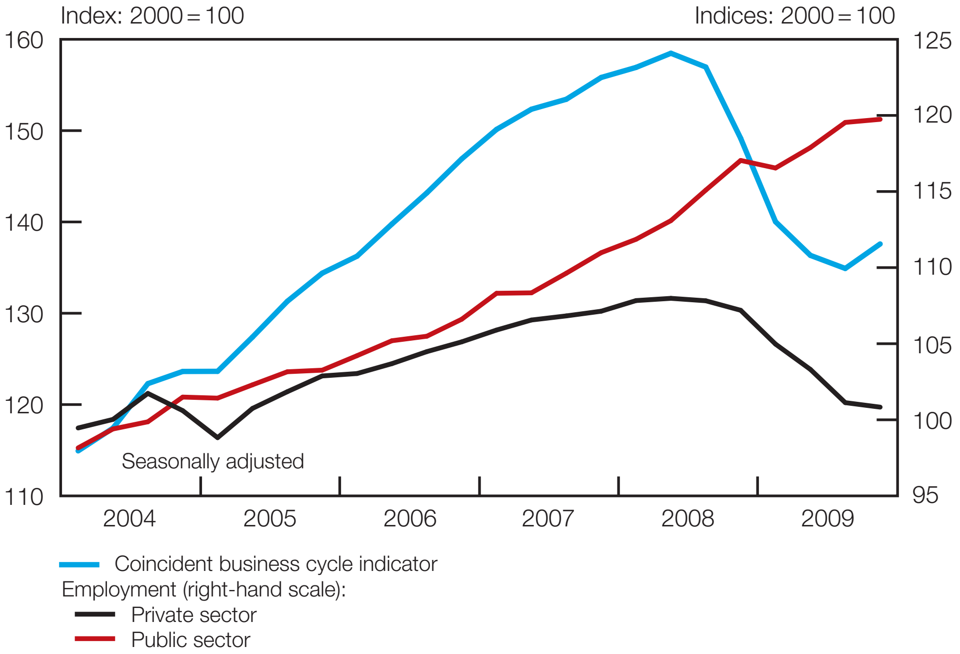
The saving ratio of *general government* declined to a negative 1,6 per cent of gross domestic product in the first quarter of 2010 compared with an average dissaving ratio of 0,5 per cent in calendar year 2009. This deterioration in the saving ratio was due to strong growth in current expenditure by general government that outstripped income from various tax sources. Taxes collected from companies as well as value added tax recorded negative annual growth rates.

The gross saving ratio of the *household sector* declined somewhat to 1,6 per cent in the first quarter of 2010, from 1,7 per cent in the fourth quarter of 2009. This decline was partly due to stronger final consumption expenditure by households in the first quarter of 2010. Household saving was, however, supported by a further improvement in disposable income in the first quarter of 2010 after it had started to improve in the fourth quarter of 2009.

Employment

Formal non-agricultural employment contracted at a rate of 3,0 per cent in 2009 following increases of 1,8 per cent and 2,9 per cent respectively in the two preceding years. Employment numbers in the private sector contracted by 4,8 per cent in 2009 while public-sector employment increased meaningfully by 3,7 per cent, partly mitigating the impact of the recession on the overall level of employment.

Coincident business cycle indicator and employment



According to the *Quarterly Employment Statistics* survey by Statistics South Africa (Stats SA), the pace of employment losses in the formal non-agricultural sector slowed considerably between the third and the fourth quarters of 2009, with employment decreasing at an annualised rate of 0,7 per cent in the fourth quarter. Accordingly, only

14 000 jobs were lost in the fourth quarter of 2009 compared with as many as 108 200 in the third quarter. The slowdown in employment losses was due to moderate labour paring in the private sector during that period compared with the first three quarters of 2009. Public-sector employment, however, continued to increase, but at a more moderate pace. Employment in the private sector decreased at a seasonally adjusted and annualised rate of 1,2 per cent in the fourth quarter of 2009, while public-sector employment numbers increased at a rate of 0,7 per cent. In the year to the fourth quarter of 2009, approximately 349 000 jobs were lost in the formal non-agricultural sector, with 392 500 jobs being lost in the private sector, countered by an increase in public-sector employment numbers.

Enterprise-surveyed formal non-agricultural employment

Change on preceding year, actual numbers

Sector	2008	2009
Mining	21 400	-28 600
Gold mining	-3 300	-6 100
Non-gold mining	24 700	-22 500
Manufacturing	-21 000	-87 300
Electricity supply	4 000	200
Construction	0	-38 700
Trade, catering and accommodation	-7 900	-66 900
Transport, storage and communication	5 600	-9 700
Finance and insurance	65 500	-90 200
Community, social and personal services	300	3 700
Total private sector	**68 100**	**-317 500**
National, provincial and local government	68 200	63 300
Public-sector enterprises	11 000	3 100
Total public sector	**79 100**	**66 400**
Grand total	**147 200**	**-251 000**

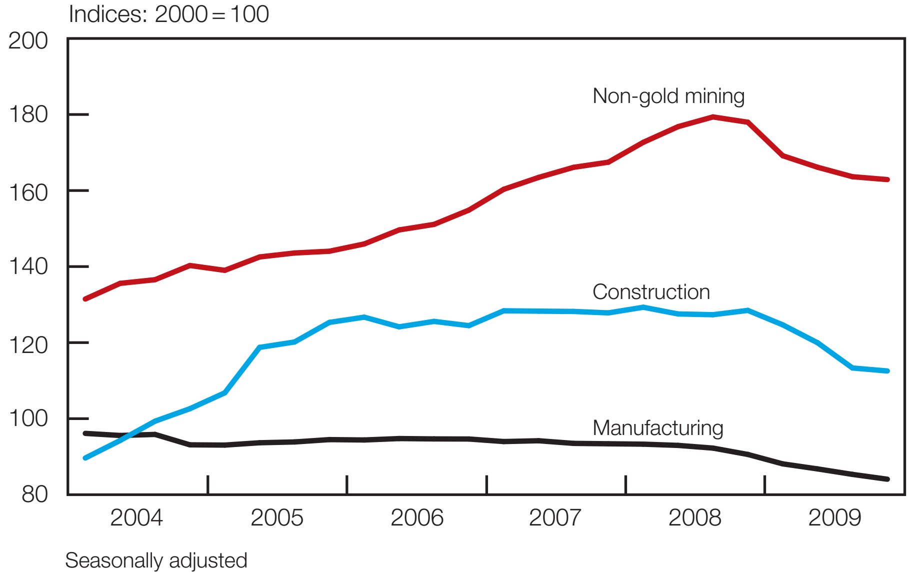
Components may not add up to totals due to rounding off of figures

Source: Statistics South Africa

During 2009 employment losses in the private sector were concentrated in the manufacturing, construction, non-gold mining, trade, catering and accommodation services, as well as finance, insurance and real-estate sectors. The pace of employment losses in the private sector decelerated to an annualised rate of 1,2 per cent in the fourth quarter of 2009 from a rate of decrease of 8,2 per cent in the third quarter. Only the electricity-supply sector and the finance, insurance, real-estate and business services, as well as the private transport services sectors registered employment gains in the fourth quarter of 2009. Despite these increases, private-sector employment still decreased by 5,9 per cent in the year to the fourth quarter of 2009.

Continuing the downward trend that has characterised the past decade, employment in the manufacturing sector decreased by 7,2 per cent in the year to the fourth quarter of 2009. Relatively subdued domestic and global demand conditions adversely affected manufacturing output over this period. On a quarter-to-quarter, seasonally adjusted and annualised basis, employment levels in the manufacturing sector accordingly decreased by 5,8 per cent in the fourth quarter of 2009. However, the Kagiso Purchasing Managers' Index for April 2010 showed an improvement in the seasonally adjusted employment sub-index to its highest level in more than two years, suggesting a possible improvement in employment conditions in the manufacturing sector in the course of 2010. Furthermore, the *Manufacturing Survey* for the first quarter of 2010 reported that business conditions continued to recover, with manufacturing business confidence rising to its highest level in a year.

Employment in selected sectors



Employment levels in the mining sector shrank in 2009, particularly due to the loss of 22 500 job opportunities in the non-gold mining sector. During the fourth quarter of 2009, mining employment decreased at an annualised rate of 1,7 per cent, which is considerably less than the decrease of 15,1 per cent recorded in the first quarter. Employment in the non-gold mining sector registered an annualised decline of 1,8 per cent in the final quarter of 2009.

Construction activity was largely supported by infrastructure-related work programmes during 2009, as the residential sector experienced a recession and activity in the non-residential building sector stalled. Employment in the construction sector decreased at an annualised rate of 2,7 per cent in the fourth quarter of 2009, following a decrease of 20,4 per cent in the third quarter. However, the FNB Building Confidence Index increased marginally in the first quarter of 2010 as the business mood lifted somewhat. The business confidence of residential building contractors rose for the third consecutive quarter, whereas the business confidence of non-residential building contractors declined over the period. Activity in the residential building sector showed signs of a gradual recovery from a low base, while business conditions in the non-residential sector continued to deteriorate due to the scarcity of new projects.

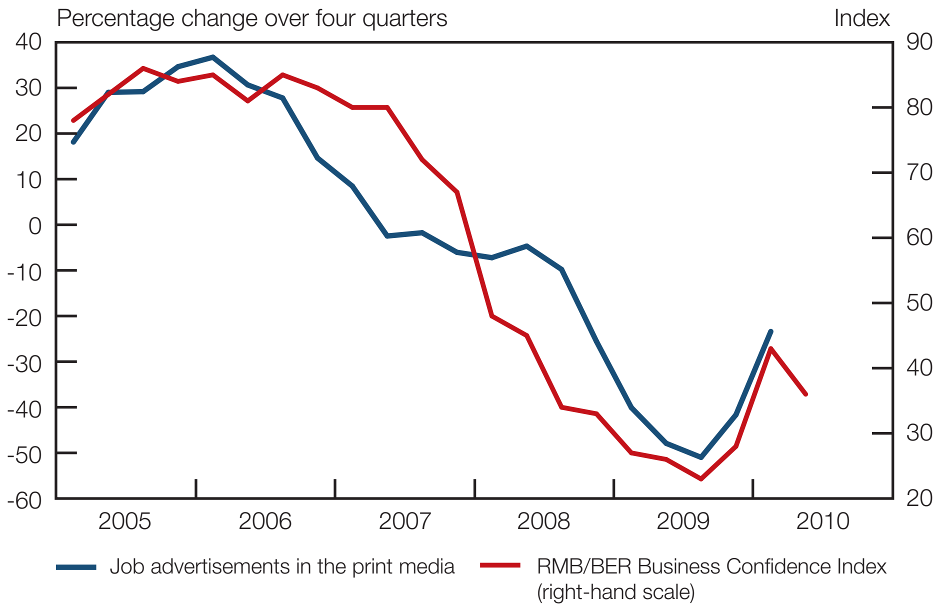
After four quarterly declines, employment numbers in the finance, insurance, real-estate and business services sector increased at an annualised rate of 2,1 per cent in the fourth quarter of 2009. Employment in the trade, catering and accommodation services sector decreased at a rate of 0,7 per cent over the period. Consumer confidence levels improved considerably during the first quarter of 2010 and were translated into higher consumption by households, but it usually takes some time before these developments are reflected in rising employment. *The Retail Survey* of the BER at Stellenbosch University indicates that job losses continued during the first quarter of 2010, albeit at a slower pace than before.

Acting in a contracyclical manner, public-sector employment expanded, although at a slower pace compared with preceding quarters. It rose at an annualised rate of 0,7 per cent in the fourth quarter of 2009, with the gains in employment mainly recorded at provincial level. Public-sector employment increased by 43 100 persons or 2,3 per cent in the year to the fourth quarter of 2009, contributing to an annual increase of 3,7 per cent in 2009 compared with an increase of 4,5 per cent in 2008.

The unemployment rate in South Africa increased to 25,2 per cent in the first quarter of 2010 from 24,3 per cent in the fourth quarter of 2009. In its *Quarterly Labour Force Survey* Stats SA reported that out of an economically active population of 17,1 million, unemployed persons numbered 4,3 million. In the first quarter of 2010, employment contracted in all industries except in the agriculture, private households, transport and community and social services sectors. Over the year to the first quarter of 2010, an estimated 474 000 jobs were lost in the formal non-agricultural sector. The pace of job losses in the domestic economy during the recent recession has been unparalleled in recent history. This has contributed to various efforts by government aimed at reviving the job-creating capacity of the economy. More recently, a loan facility of R2 billion was launched between the Industrial Development Corporation and the Unemployment Insurance Fund, aimed at creating and sustaining jobs.

Owing to the somewhat hesitant nature of the recovery in economic activity and also because employment conditions normally improve with a lag as economic growth gains momentum, conditions in the labour market remained subdued. The volume of job advertisements in the print media, a leading indicator of changes in non-agricultural employment, reached a trough in the third quarter of 2009 and rose in the following two quarters, thereafter retracing some of its gains in the first quarter of 2010. A further indication of an expected improvement in employment conditions in the near term came from the Rand Merchant Bank/Bureau for Economic Research (RMB/BER) Business Confidence Index which picked up after reaching a trough in the third quarter of 2009.

RMB/BER Business Confidence Index and job advertisements



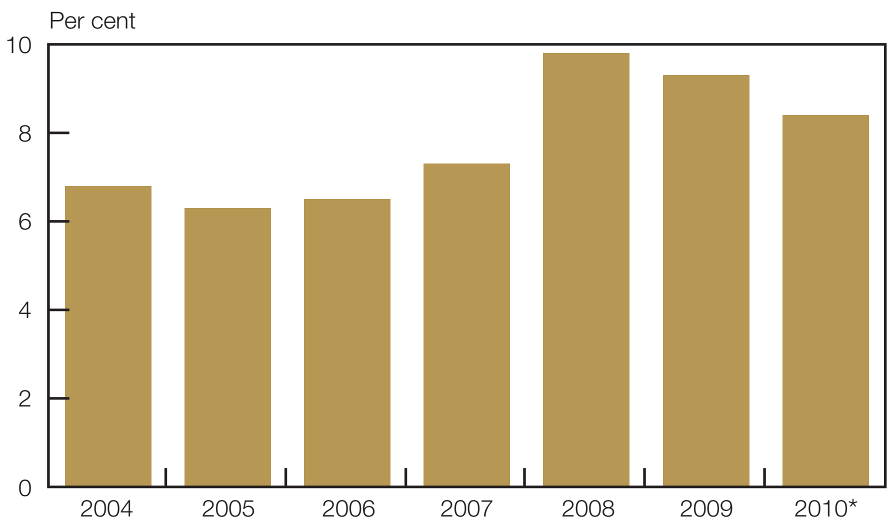
Labour cost and productivity

Consistent with the general moderation in inflation during 2009, the pace of increase in average nominal remuneration per worker in the formal non-agricultural sectors of the economy moderated steadily from an annual average of 10,1 per cent in 2008 to 7,8 per cent in the year to the third quarter of 2009. However, in the year to the fourth quarter of 2009, the rate of increase in nominal remuneration per worker accelerated to 12,3 per cent, mostly due to a 19,4 per cent increase in the average remuneration per worker in the public sector. This increase could be ascribed to one-off pay adjustments made in accordance with the occupation-specific dispensation and included an element of backpay. The intention of this dispensation is to improve government's ability to attract and retain appropriately skilled employees through improved remuneration by recognising improved skills and accumulated work experience.

Over the year to the fourth quarter of 2009, the rate of increase in average nominal remuneration per worker in the private sector slowed to 8,3 per cent. Despite widespread job losses in the private sector, year-on-year increases in average remuneration per worker in the private sector exceeded the upper limit of the inflation target range of 6 per cent in all subsectors, except for the finance, insurance, real-estate and business services sector and the community, social and personal services sector. In fact, double-digit rates of increase were registered in the construction sector (16,7 per cent); mining sector (13,4 per cent); electricity-generating sector (12,2 per cent); and non-government transport, storage and communication sector (11,4 per cent). Within the public sector, increases in remuneration per worker in public-sector enterprises amounted to as much as 26,6 per cent. At provincial level, remuneration per worker increased at a rate of 23,9 per cent and at national department level at a rate of 18,0 per cent. Adjusting the average nominal remuneration per worker in the non-agricultural sector of the economy for headline producer and consumer price inflation, and measured over four quarters, the real product wage and the real consumption wage increased by 5,2 per cent and 5,9 per cent respectively in the fourth quarter of 2009.

According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements amounted to 8,4 per cent in the first quarter of 2010 compared with a rate of 10,2 per cent in the corresponding period of 2009 and 9,3 per cent for 2009 as a whole.

Wage settlement rates



* January–March 2010

Source: Andrew Levy Employment Publications

With non-agricultural employment having decreased moderately in the fourth quarter of 2009 while output increased further, an improvement was registered in the year-on-year rate of increase in labour productivity from 0,3 per cent in the second quarter of 2009 to 3,1 per cent in the fourth quarter. Following decreases in labour productivity in the manufacturing sector during most of 2009, an increase of 3,6 per cent was recorded in the year to the fourth quarter of 2009, as production volumes rose alongside a contraction in the workforce.

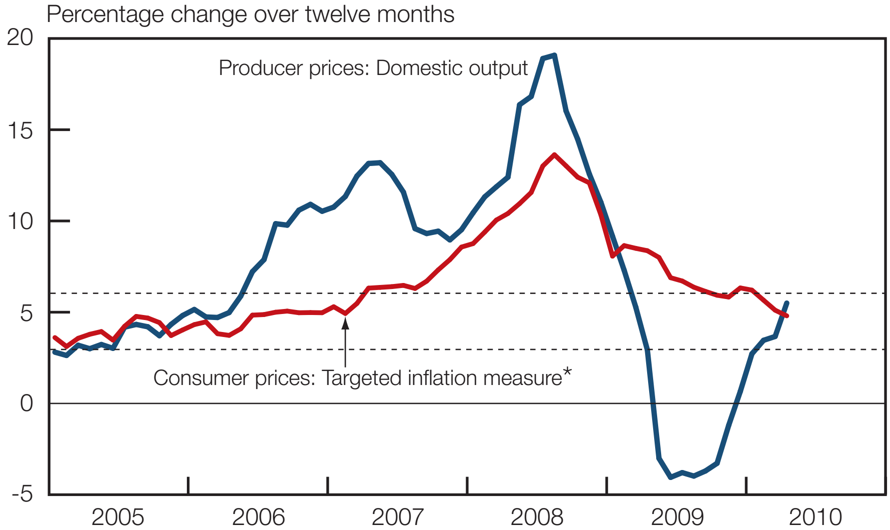
Given the acceleration in average nominal remuneration per worker at a faster pace than the rate of increase in economy-wide labour productivity in the year to the fourth quarter of 2009, nominal unit labour cost increases accelerated from 5,7 per cent in the third quarter of 2009 to 8,8 per cent in the fourth quarter. In manufacturing, however, the year-on-year rate of increase in the cost of labour per unit of manufacturing output moderated further from 15,9 per cent in the third quarter of 2009 to 7,3 per cent in the fourth quarter.

Prices

Low global inflation, the appreciation in the external value of the rand and progress made in containing production costs helped to restrain inflationary pressures in the domestic economy in the first quarter of 2010. Quarterly producer prices for domestic output increased at an annualised rate of 4,0 per cent in the first quarter of 2010 compared with an increase of 0,4 per cent in the fourth quarter of 2009. Headline consumer price inflation, however, decelerated from an annualised rate of 5,0 per cent to 3,3 per cent over the same period.

Prices

Percentage change over twelve months



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

Following a seven-month period of deflation, headline *producer prices* increased at a year-on-year rate of 0,7 per cent in December 2009. Thereafter, producer price inflation accelerated to a twelve-month rate of 5,5 per cent in April 2010, largely due to base effects, higher mineral product prices and higher electricity costs. Being pushed higher by increases in mineral product prices, accelerating producer price inflation seemed likely to have only a limited impact on consumer goods price inflation. Twelve-month inflation in the producer prices of domestically produced manufactured products amounted to only 0,6 per cent in April 2010, and over the same period agricultural product prices in fact declined by 0,5 per cent.

Producer price inflation of *imported commodities* accelerated from a year-on-year rate of 2,6 per cent in January 2010 to 5,0 per cent in April. Producer price inflation of imported mining products accelerated from a year-on-year rate of 14,3 per cent in January 2010 to 25,2 per cent in April as the international price of crude oil rose, supported by the global economic recovery. On the contrary, prices of imported agricultural and manufactured commodities remained subdued in the early months of 2010.

Significant decreases in the producer prices of food at both the agricultural and manufactured levels contributed to the moderation in consumer price inflation. In the year to January 2010 agricultural producers' food prices decreased by as much as 18,7 per cent. This rate of decrease, however, slowed to 3,2 per cent in the year to April 2010. Lower international agricultural commodity prices, the appreciation of the exchange rate of the rand and the generally subdued demand conditions assisted in containing inflationary pressures in the food supply chain. From September 2009, manufacturers' food prices were lower than in the corresponding period in the preceding year, decreasing at a rate of 1,7 per cent in April 2010. Food price inflation at the consumer level consequently decelerated meaningfully from 16,1 per cent in the year to January 2009 to 0,3 per cent in the year to April 2010.

Headline *consumer price inflation* briefly eased into the inflation target range during October and November 2009, but registered rates in excess of the target range in the subsequent two months. It re-entered the target range in February 2010 and receded further to a year-on-year rate of 4,8 per cent in April. The moderation in headline consumer price inflation resulted mainly from lower rates of increase in the prices of consumer goods. Year-on-year consumer goods price inflation fell to within the inflation target range in July 2009 and amounted to only 3,5 per cent in April 2010. In the goods category, durable goods price inflation registered twelve-month rates lower than the inflation target range from September 2009 and amounted to a rate of -1,3 per cent in April 2010. Semi-durable goods price inflation followed a similar trend to that of the durable goods category. However, non-durable goods price inflation consistently exceeded 6 per cent during the five-month period to April 2010. In the consumer goods basket, the highest price inflation stemmed from electricity, with price increases in excess of 25 per cent. Notably higher prices were also recorded for health services, new cars, tobacco and alcoholic beverages and, more recently, petrol.

Headline CPI: Goods and services prices

Percentage change over twelve months

	Goods				Services	Headline CPI
	Durable goods	Semi-durable goods	Non-durable goods	Total	Total	Total
2009: Jan	1,7	4,9	11,6	7,9	8,2	8,1
Feb	2,5	5,7	12,3	8,7	8,5	8,6
Mar	2,9	6,6	11,8	8,7	8,4	8,5
Apr	3,7	5,9	10,9	8,3	8,4	8,4
May	4,9	5,2	9,2	7,6	8,4	8,0
Jun	4,1	4,7	7,6	6,2	7,6	6,9
Jul	3,3	5,1	6,5	5,5	8,0	6,7
Aug	3,5	4,5	5,7	5,0	8,1	6,4
Sep	2,5	4,6	6,1	4,9	7,8	6,1
Oct	2,0	4,6	5,7	4,5	7,4	5,9
Nov	2,0	3,4	5,8	4,4	7,4	5,8
Dec	1,5	4,0	7,6	5,5	7,2	6,3
Year	**2,9**	**4,9**	**8,4**	**6,4**	**8,0**	**7,1**
2010: Jan	0,4	3,0	8,7	5,8	6,8	6,2
Feb	0,0	1,5	7,4	4,6	6,8	5,7
Mar	-0,3	1,4	6,4	4,0	6,5	5,1
Apr	-1,3	0,5	6,1	3,5	6,5	4,8

Unlike goods price inflation, headline consumer services price inflation remained above the upper limit of the inflation target range despite decelerating since August 2009 to a rate of 6,5 per cent in the year to April 2010. Within the services basket, elevated inflation rates were recorded in the prices of especially hospital and medical services, education services, municipal services (i.e., assessment rates, refuse removal and water supply) and insurance (i.e., dwelling, transport and health). Conversely, price increases in transport and communication services remained muted. The recent trend in headline CPI services price inflation marks the first period of meaningful deceleration since an upward spiral of services price inflation in the economy had started in the opening months of 2006.

Based on the classification of individual consumption by purpose (COICOP) categories, six of the twelve categories recorded inflation rates above 6 per cent in the year to April 2010. Alcoholic beverages and tobacco products recorded a double-digit rate of price increase in April 2010. Five categories recorded price inflation below 3 per cent, while the transport category increased at a rate that fell within the inflation target range.

Headline CPI inflation in COICOP categories

Percentage change over twelve months

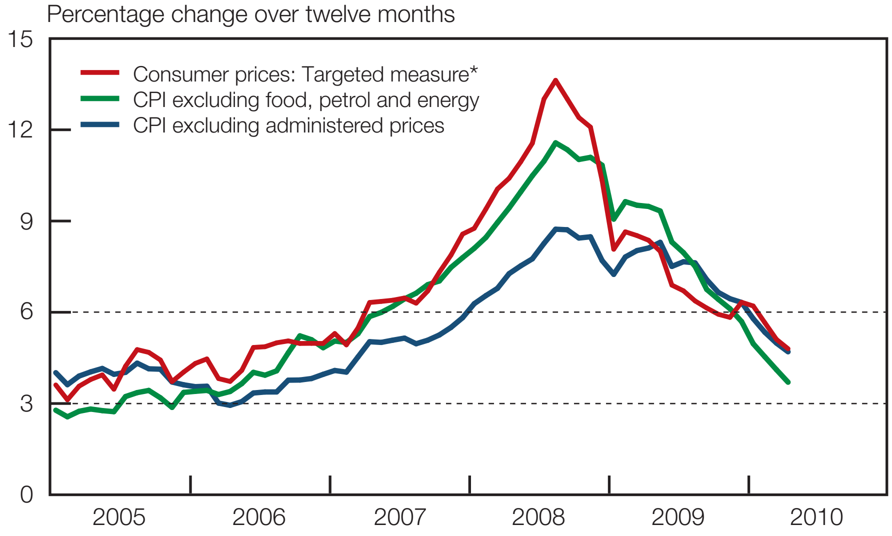
	Weights	April 2010
Alcoholic beverages and tobacco	5,58	10,9
Education	2,19	9,2
Miscellaneous goods and services	13,56	8,6
Restaurants and hotels	2,78	6,8
Housing and utilities	22,56	6,8
Health	1,47	6,5
Transport	*18,80*	*4,0*
Clothing and footwear	4,11	2,3
Recreation and culture	4,19	-0,5
Food and non-alcoholic beverages	15,68	0,9
Household contents, maintenance and equipment	5,86	0,6
Communication	3,22	-1,1
Total headline CPI	100,00	4,8

Italics denote values inside the inflation target range of between 3 and 6 per cent in April 2010

Excluding the impact of the volatile prices of food, non-alcoholic beverages and petrol from the consumer price index, the twelve-month inflation measure exceeded the upper limit of the inflation target range for the twenty-fourth consecutive month in January 2010, amounting to a rate of 6,2 per cent. Subsequently, this rate of increase receded to below the upper limit of the inflation target range in April 2010, amounting to 5,1 per cent. When electricity prices are further excluded, headline CPI inflation amounted to 4,7 per cent in the year to April 2010, suggesting that underlying inflationary pressures were also starting to abate.

Year-on-year inflation in the prices of administered goods and services accelerated markedly from 4,0 per cent in November 2009 to 11,5 per cent in April 2010. With the exception of the communications component, all other components in this basket registered double-digit price increases, and in the months to April 2010 significant petrol price increases also restrained a further deceleration in overall price inflation. Subtracting petrol price changes from the administered price index, a double-digit rate of increase of 10,4 per cent was still recorded in the year to April 2010.

CPI and underlying inflation



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

The survey of inflation expectations published by the BER shows a significant improvement in inflation expectations in the first quarter of 2010, despite such expectations remaining above the upper limit of the inflation target range. Average headline CPI inflation expectations for the year 2010 declined from 7,7 per cent during the final quarter of 2009 to 6,5 per cent during the first quarter of 2010. Headline inflation for 2011 was expected to average 6,7 per cent in 2011 and to amount to 6,8 per cent in 2012. While the inflation expectations of surveyed financial analysts remained unchanged in the recent survey, the improved outcome was due to a favourable change in the expectations of business sector and labour union respondents.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2010

	Financial analysts	Business representatives	Trade representatives	All surveyed participants
Average inflation expected for:				
2010	5,5	7,1	7,0	6,5
2011	5,9	7,2	6,9	6,7
2012	6,0	7,3	6,9	6,8

Source: Bureau for Economic Research at Stellenbosch University

Foreign trade and payments

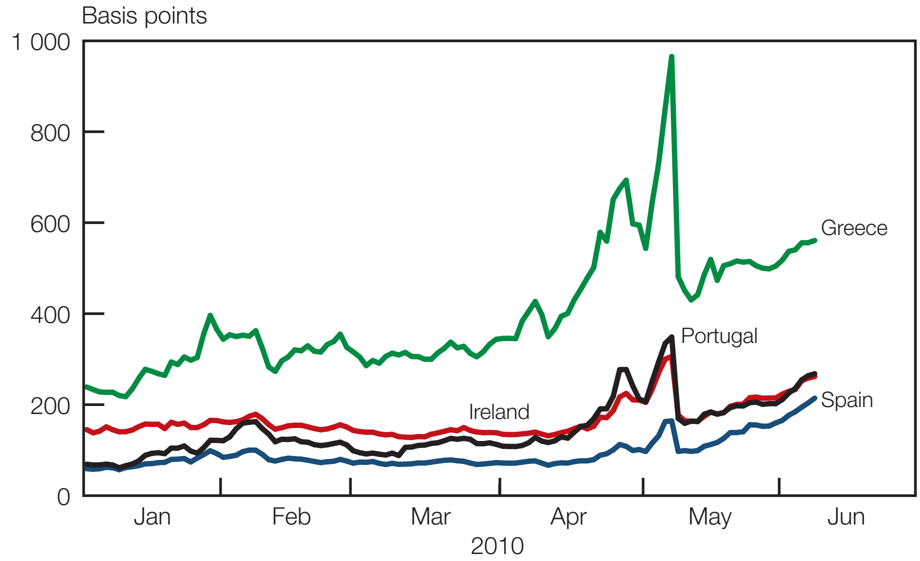
International economic developments

In the early months of 2010 the global economic recovery was stronger than initially expected. Underpinned by sustained monetary and fiscal policy support measures, global output growth is estimated to have accelerated modestly to about 5 per cent in the first quarter of 2010. The recovery is, however, currently proceeding fairly unevenly between regions and even between countries in the same region. The IMF revised its growth outlook upwards in the April 2010 *World Economic Outlook*, projecting increases in global output of 4,2 per cent in 2010 and 4,3 per cent in 2011.

From mid-April 2010 international financial markets experienced renewed turmoil following the downgrading of Greek sovereign debt by the international rating agencies. The yield spread between the Greek ten-year benchmark government bonds and German government bonds of similar maturity increased sharply in April 2010 and amounted to more than 950 basis points in early May 2010. The rating agencies also lowered the sovereign debt ratings of Portugal and Spain, fuelling concerns that contagion effects could spill over to other euro area countries with large fiscal deficits.

The immediate risk that Greece could default on its sovereign debt was initially mitigated in early May 2010 after an agreement had been reached with the IMF and the European Commission on an emergency loan package amounting to €110 billion. Greece in return committed itself to a multi-year economic and financial adjustment programme in order to reduce government spending. Although the agreement calmed financial markets to some extent, concerns over possible contagion and the sustainability of global economic growth later resulted in further financial market turbulence. Financial markets only regained some stability after an additional €750 billion comprehensive package was approved by the IMF and the European Union (EU) for member countries experiencing solvency problems.

Sovereign yield spreads of selected countries vis-à-vis German government bonds



Source: Bloomberg

Real output growth in most advanced economies turned positive in the first quarter of 2010, although the pace of increase remained moderate in some instances. In the United States (US) economic activity expanded further in the first quarter of 2010, underpinned by increases in personal consumption expenditure, inventory investment and exports.

Economic activity in Japan rose sharply in the first quarter of 2010, driven largely by exports due to the improvement in the external environment. Despite adverse weather conditions affecting economic activity, real output growth in the euro area accelerated marginally in the first quarter of 2010. Germany, France and Italy registered moderate economic growth. In Spain economic activity rebounded modestly in the first quarter after contracting for almost two years; subsequently the country announced severe austerity measures to lower its debt and budget deficit. Economic activity in Greece, however, contracted further by 3,2 per cent in the first quarter of 2010 following a similar decline in the previous quarter. According to the latest IMF projections, real output in advanced economies is expected to increase by 2,3 per cent and 2,4 per cent in 2010 and 2011 respectively.

The recovery in most emerging-market and developing economies appears to be more robust than in advanced economies. The outlook for Africa seems generally positive, supported by firm commodity prices, improving export markets and expansionary policies. Recent data confirm robust growth in the first quarter of 2010 in emerging Asia, especially in China, India, Thailand and Singapore. Real output growth in Latin America slowed over the same period, largely reflecting the contraction in economic activity in Mexico and Chile. In emerging Europe economic activity slowed sharply due to a deceleration in growth in Russia, Turkey, Poland and the Czech Republic. Economic growth in emerging-market and developing economies is expected to continue to support the global economic recovery in the medium term. The IMF revised its projections for growth in emerging-market and developing economies upwards to 6,3 per cent and 6,5 per cent in 2010 and 2011 respectively.

Crude oil prices increased gradually in the first four months of 2010 as optimism about the global economic recovery outweighed the impact of factors such as high US crude oil inventories and a volcanic eruption in Iceland. Prices of Brent crude oil have, however, recently retracted to levels of around US$70 per barrel on account of a firmer US dollar,

Brent crude oil prices

Source: Bloomberg

sovereign debt concerns in the euro area derailing the global recovery and oil production by the Organization of the Petroleum Exporting Countries (OPEC) exceeding OPEC's target by 2,2 million barrels per day in May 2010.

While inflation remains generally subdued, the recent fluctuations in oil and other commodity prices are expected to feed through to inflation trends. Year-on-year consumer price inflation in the US has increased sharply since mid-2009, driven mainly by energy costs, but decelerated from the beginning of 2010. Core inflation also moderated in the same period. By contrast, Japan still experienced deflation in the first four months of 2010. Following deflation since June 2009, HICP inflation resumed in the euro area since November 2009 and continued to accelerate in April 2010, with increases mainly related to the energy and food components.

In recent months, year-on-year consumer price inflation remained relatively subdued in most of the major emerging-market and developing economies. However, inflationary pressures seemed to be gathering momentum in emerging Asia and Latin America, more especially in India, China and Argentina. The nascent global economic recovery and recent increase in commodity prices are beginning to put upward pressure on inflation in these countries. Inflation in emerging-market and developing economies is expected to accelerate to 6,2 per cent in 2010, before decelerating again to 4,7 per cent in 2011.

Monetary policy responses have varied between countries in recent months. The Reserve Bank of Australia has increased the cash rate by a cumulative 150 basis points since October 2009 to 4,50 per cent due to a stronger-than-expected increase in economic activity. Following robust economic activity, the Bank of Canada and the Reserve Bank of New Zealand raised their policy rates in June 2010. Concerns over rising inflation, however, prompted the central banks of Brazil, Israel, India, Norway and Peru to raise their key interest rates. Conversely, the central banks of the Czech Republic, Hungary and Russia have recently reduced interest rates in an effort to support economic activity.

Current account[2]

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

Notwithstanding a further increase in economic activity in most of South Africa's main trading partner countries, the balance on the trade account of the balance of payments turned around from a surplus in the final quarter of 2009 to a deficit in the first quarter of 2010. Consistent with the improvement in business and consumer confidence in the

Balance of payments on current account

Seasonally adjusted and annualised
R billions

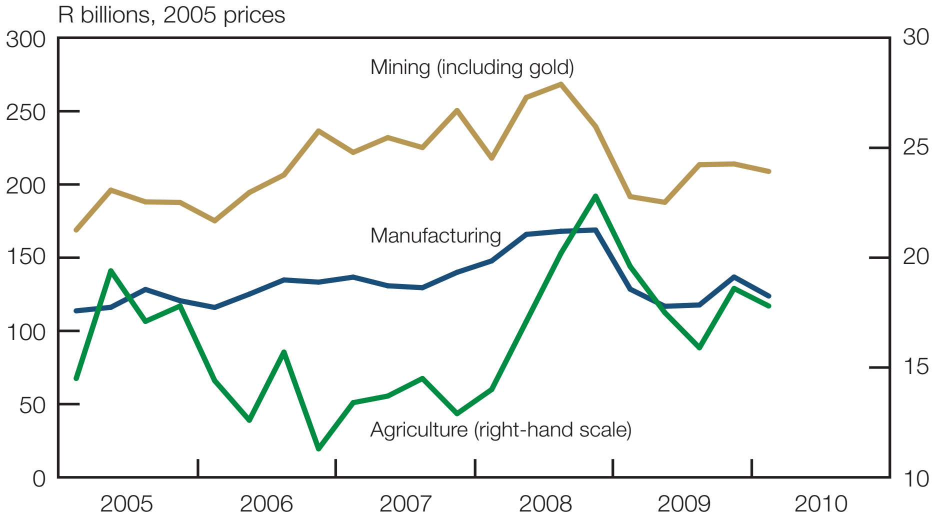
	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	534,2	474,3	477,6	528,5	503,7	518,6
Net gold exports	51,0	47,5	53,4	59,2	52,8	49,5
Merchandise imports	-637,0	-508,1	-508,7	-562,8	-554,2	-581,0
Trade balance	**-51,8**	**13,7**	**22,3**	**24,9**	**2,3**	**-12,9**
Net service, income and current transfer payments	-105,8	-96,0	-97,4	-96,3	-98,9	-103,2
Balance on current account	**-157,6**	**-82,3**	**-75,1**	**-71,4**	**-96,6**	**-116,1**
As a percentage of gross domestic product	*-6,7*	*-3,5*	*-3,1*	*-2,9*	*-4,0*	*-4,6*

country, expenditure on foreign-produced goods advanced further in the opening months of 2010 following a marked increase in the final quarter of 2009. At the same time, however, merchandise exports receded somewhat in both value and volume terms following an exceptionally strong increase in exports of vehicles and transport equipment in the final quarter of 2009. Consequently, the country's trade balance reverted to a deficit of R12,9 billion in the first quarter of 2010 from a surplus of R24,9 billion in the fourth quarter of 2009.

The deficit on the services, income and current transfer account with the rest of the world remained broadly unchanged in the last three quarters of 2009, but widened somewhat in the first quarter of 2010, raising the current-account deficit to 4,6 per cent of gross domestic product compared with a ratio of 2,9 per cent in the fourth quarter of 2009.

The value of *merchandise exports*, which had increased markedly in the fourth quarter of 2009, receded by 1,9 per cent in the first quarter of 2010. The lower export earnings emanated from a decrease in the volume of exported goods. Owing to a sustained increase in international commodity prices, which more than neutralised the adverse effect of the steady appreciation in the exchange value of the rand, export prices in rand terms increased by 1,5 per cent over the period.

Volume of merchandise exports

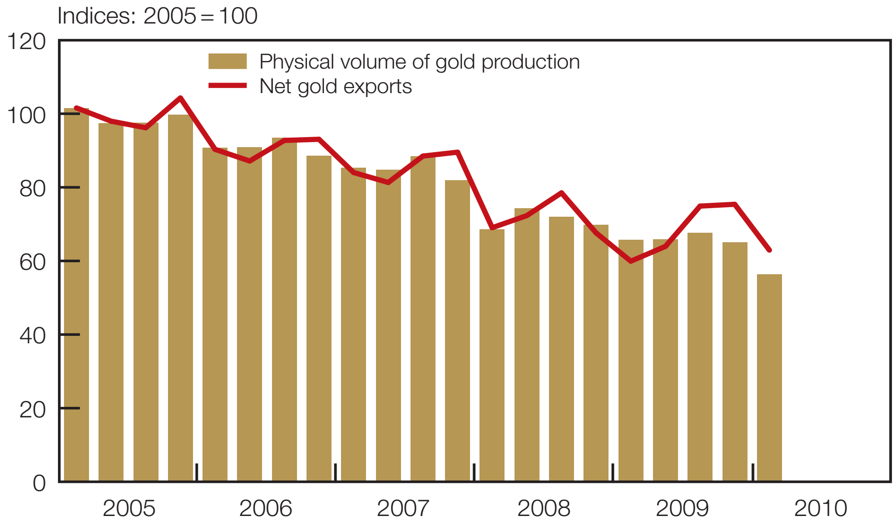


Seasonally adjusted and annualised

Although the recent recovery in global economic activity supported the revival in international trade volumes, somewhat weaker macroeconomic conditions in certain euro member countries impeded export volumes. An appreciation in the real effective exchange rate of the rand probably also inhibited the international competitiveness of South African producers. Merchandise export volumes accordingly shrank by 3,3 per cent in the first quarter of 2010, while the utilisation of production capacity in the manufacturing sector remained fairly subdued over the period. The physical quantity of especially machinery and electrical equipment, agricultural products, as well as transport equipment destined for the EU area and US contracted over the period; in the fourth quarter of 2009 the exportation of vehicles and transport equipment had surged. As a ratio of real gross domestic product, the volume of merchandise exports declined from 18,2 per cent in the fourth quarter of 2009 to 17,4 per cent in the first quarter of 2010.

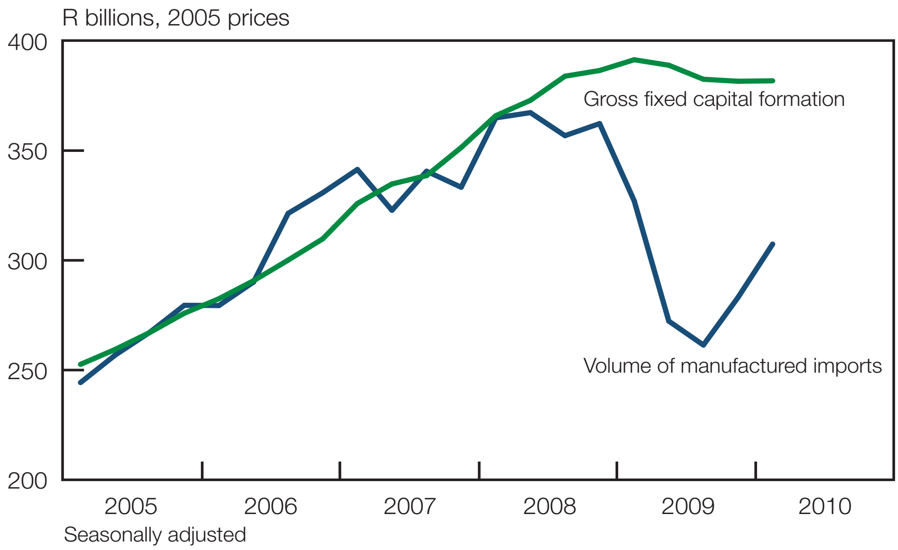
Net gold export proceeds contracted from R59,2 billion in the fourth quarter of 2009 to R49,5 billion in the first quarter of 2010 or by 16,4 per cent. Although gold production in South Africa has been declining gradually due to structural problems faced by the sector, the pronounced decrease in the first quarter of 2010 partly reflected the delayed resumption of operations at the start of the year following the Christmas break. The decline in gold production together with fairly low inventory levels caused the volume of gold exports to recede by 16,5 per cent in the first quarter of 2010. Simultaneously, the average fixing price of gold on the London market rose only marginally from US$1 101 per fine ounce in the fourth quarter of 2009 to US$1 110 per fine ounce in the first quarter of 2010. The increase in the international price of gold was, however, not sufficient to counter the appreciation in the exchange value of the rand.

Domestic gold production and volume of net gold exports



Increases in fixed capital formation and in household spending on goods caused the volume of *merchandise imports* to advance by 2,7 per cent in the first quarter of 2010, having risen by 8 per cent in the final quarter of 2009. The gradual pick-up in global economic activity and the concomitant increase in foreign demand for domestically manufactured products furthermore positively affected business confidence levels of especially South African manufacturers of motor vehicles, parts and accessories. The increased appetite to expand future production capacity was further encouraged by the improvement in domestic consumers' confidence levels. Owing primarily to the higher volume of imported machinery

Real gross fixed capital formation and manufactured imports

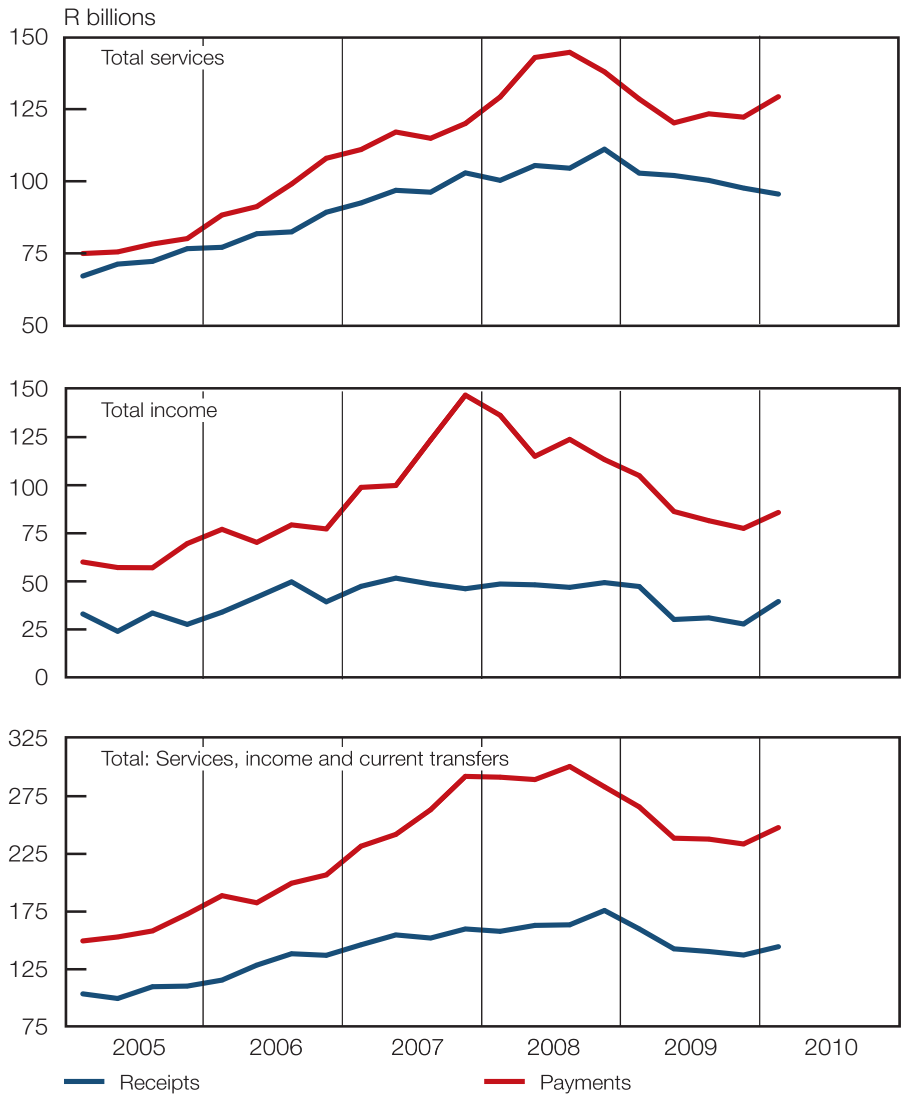


and electrical equipment, as well as vehicles and transport equipment, the volume of manufactured imports rose by 8,3 per cent in the fourth quarter of 2009 and 8,6 per cent in the first quarter of 2010. The imports of transport equipment included four aircraft acquired by national government and the private sector, whereas the subcategory for machinery and electrical equipment mainly reflected the importation of turbines and boilers for the energy industry. The volume of mining products imported shrank in the first quarter of 2010 largely on account of lower crude oil quantities imported over the period.

The rand price of imported goods rose by 0,5 per cent in the first quarter of 2010 as the rise in global prices more than neutralised the impact of the appreciation in the exchange value of the rand on domestic prices. The combined effect of increases in the volume and the price of merchandise imports caused the value of merchandise imports to increase by 3,2 per cent in the first quarter of 2010.

Having fluctuated around R96,5 billion during the last three quarters of 2009, the shortfall on the *services, income and current transfer account* with the rest of the world widened again in the first quarter of 2010. Notwithstanding this deterioration, the deficit on the services account was still about 2,5 per cent lower than in the first quarter of 2009. As shown in the accompanying graph, the larger deficit could primarily be attributed to the imbalance in international trade in services, as the deficit on the income account remained broadly unchanged.

Components of the services, income and current transfer account



Seasonally adjusted and annualised

The payments for freight-related services, which were fairly muted during the last three quarters of 2009, increased in the first quarter of 2010 in accordance with the higher volume of imported goods. Net travel receipts contracted further as tourism expenditure by South African residents travelling abroad increased along with a further marginal decline in travel receipts from non-resident visitors to South Africa. In addition, gross dividend payments also rose in the first quarter of 2010 mainly driven by larger dividend declarations by private companies.

South Africa's terms of trade improved in the first quarter of 2010 as export prices increased at a faster pace than import prices.

Financial account

The strong economic recovery in most emerging-market economies, coupled with the prolonged low interest rate environment in developed countries, led to increased capital flows to developing economies in the first quarter of 2010. In South Africa the inward movement of capital more than doubled from R21,3 billion in the fourth quarter of 2009 to R48,6 billion or 7,8 per cent of gross domestic product in the first quarter of 2010. The stable economic environment in the country alongside well-developed and liquid financial markets facilitated a further strong net inflow of portfolio capital in the first quarter of 2010. By contrast, flows of direct and other investment capital remained fairly subdued over the period.

Net financial transactions not related to reserves

R billions

	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	11,1	24,9	8,3	4,0	48,3	3,7
Portfolio investment	10,0	29,7	26,3	41,2	107,2	44,1
Other investment	-6,9	-27,5	-6,6	-1,3	-42,3	-11,7
Change in assets						
Direct investment	2,5	-3,7	-2,7	-9,6	-13,5	0,9
Portfolio investment	-0,9	-0,4	-3,6	-9,7	-14,6	-5,5
Other investment	-2,2	4,6	20,1	-1,8	20,7	-1,7
Total financial transactions*	**34,8**	**27,8**	**29,5**	**21,3**	**113,4**	**48,6**
Financial transactions as a ratio of gross domestic product	*6,0*	*4,7*	*4,8*	*3,4*	*4,7*	*7,8*

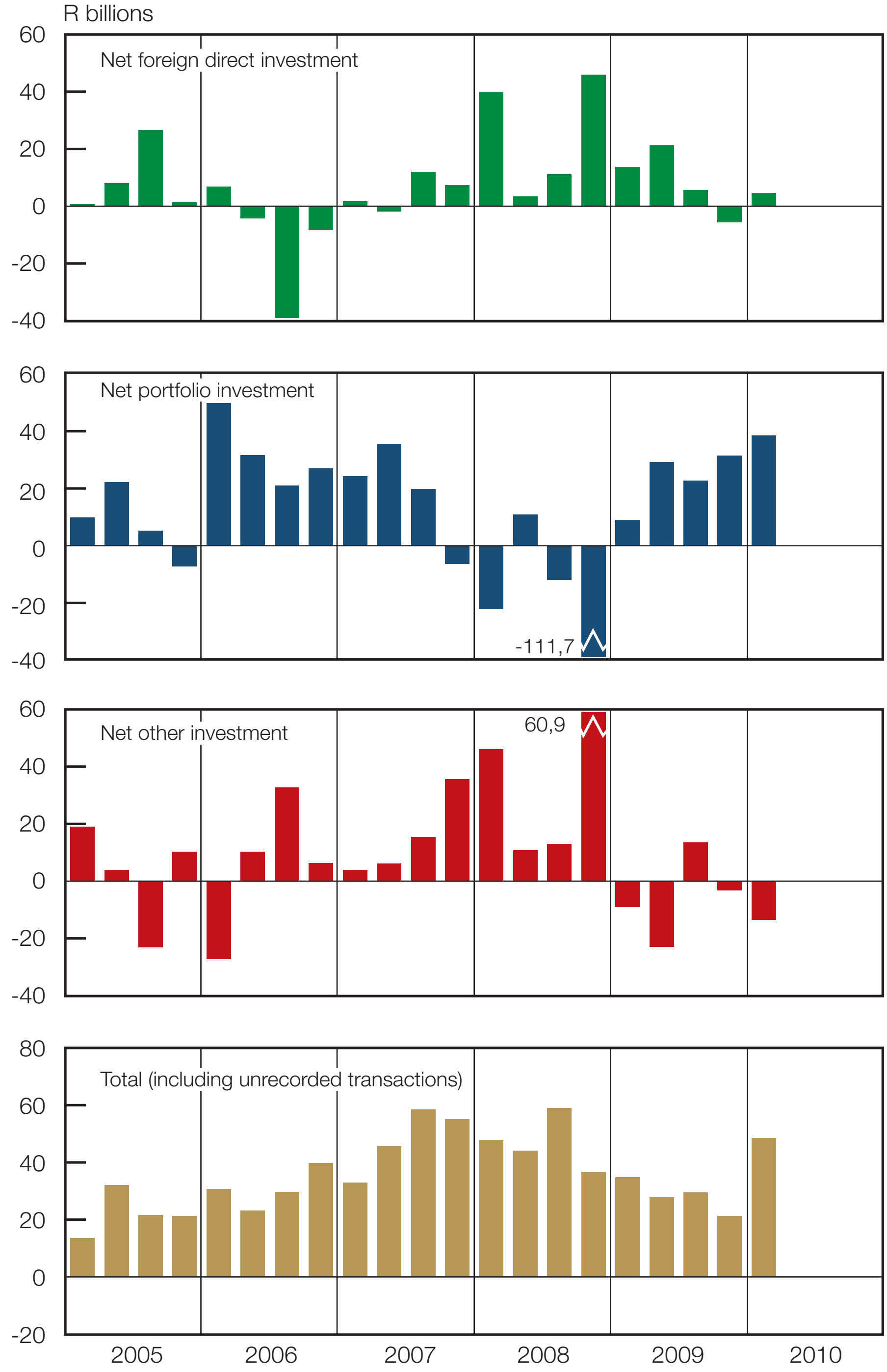
* Including unrecorded transactions

Foreign-owned assets in South Africa

Foreign direct investment into South Africa shrank further in the first quarter of 2010 when the inward movement of direct investment capital amounted to R3,7 billion compared with an inflow of R4,0 billion in the fourth quarter of 2009. Non-resident investors continued to expand their direct equity holdings in South African investment enterprises. Foreign parent companies also increased their loan exposure to South African subsidiaries over the same period.

Foreign portfolio investors continued to increase their holdings of both South African equity and debt securities during the first quarter of 2010. On a net basis, inward portfolio investment amounted to R44,1 billion in the first quarter of 2010 compared with an inflow of R41,2 billion in the fourth quarter of 2009. Net purchases of South African debt securities constituted about 73 per cent of the increase in portfolio investment liabilities over the period. Apart from transactions through the Bond Exchange of South Africa, the increase in portfolio liabilities also reflected the issuance of a US$2,0 billion bond in the international capital markets by the National Treasury.

Financial account



Other foreign investment into South Africa recorded an outflow of R11,7 billion in the first quarter of 2010 following an outflow of R1,3 billion in the fourth quarter of 2009. The outward movement of capital in the first quarter of 2010 could mainly be ascribed to the partial redemption of short-term loan finance extended to the South African banking sector as well as a simultaneous decline in non-resident rand and foreign-currency deposits with the South African banking system.

South African-owned assets abroad

Outward direct investment registered an inflow of capital (i.e., a decrease in direct investment assets) of R0,9 billion in the first quarter of 2010 compared to an outflow of R9,6 billion in the fourth quarter of 2009. The outward investment in the first quarter of 2010 reflected new foreign acquisitions by South African companies as well as further investments into companies previously acquired, but was more than neutralised by the loan repayments by foreign subsidiaries of domestic parent companies.

Portfolio investment abroad by South African entities recorded an outflow of capital of R5,5 billion in the first quarter of 2010 compared with an outflow of R9,7 billion in the fourth quarter of 2009. This outflow of capital reflected improved prospects for international financial markets which, together with the strength of the South African rand, afforded South African investors the opportunity to further diversify their investments abroad.

Other outward investment from South Africa recorded an outflow of R1,7 billion in the first quarter of 2010; in the fourth quarter of 2009 an outflow of R1,8 billion was recorded. The outflow of capital mainly reflected an increase in other short-term foreign assets of the South African banking sector with foreign banks, as well as an increase in short-term foreign assets of the private non-banking sector.

Foreign debt

A further increase in the country's outstanding rand-denominated debt raised South Africa's total foreign debt from US$76,5 billion at the end of the third quarter to US$79,0 billion at the end of the fourth quarter of 2009. The country's foreign currency-denominated debt increased only marginally over the same period.

Foreign debt of South Africa

US$ billions at end of period

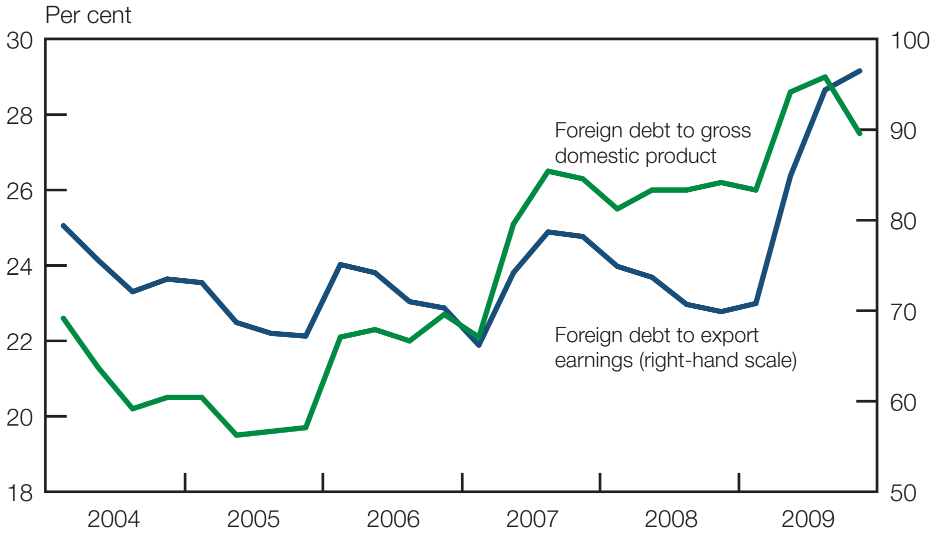
	2008	2009			
	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt	**43,9**	**41,3**	**41,7**	**42,0**	**42,1**
Bearer bonds	14,0	13,3	14,8	15,6	15,4
Public sector	5,3	5,3	5,3	5,7	5,7
Monetary sector	12,5	11,0	9,9	9,2	10,4
Non-monetary private sector	12,1	11,7	11,7	11,5	10,6
Rand-denominated debt	**28,7**	**26,9**	**32,9**	**34,5**	**36,9**
Bonds	8,0	6,6	9,2	9,5	11,5
Other	20,7	20,3	23,7	25,0	25,4
Total foreign debt	**72,6**	**68,2**	**74,6**	**76,5**	**79,0**
As a percentage of gross domestic product	*26,2*	*26,0*	*28,7*	*29,2*	*27,7*

The increase in rand-denominated foreign debt in the fourth quarter of 2009 mainly reflected an increase in long-term loans extended to the private sector following the restructuring of a foreign-controlled company for black economic empowerment purposes. Non-resident investors also expanded their holdings of rand-denominated domestic bonds over this period, while South African banks repaid loans received under repurchase agreements.

Measured in rand, South Africa's foreign debt increased from R567 billion at the end of September 2009 to R583 billion at the end of December. The marginal increase in rand terms to an important extent reflected the appreciation of the exchange rate of the rand against the US dollar over this period.

As a result of the increase in the total external debt during 2009, the ratio of external debt to annualised gross domestic product increased from 26,2 per cent at the end of 2008 to 27,7 per cent at the end of 2009. Over the same period, the ratio of external debt to annualised total export earnings increased sharply from 69,9 per cent to 96,5 per cent as export earnings declined due to the global economic slowdown.

Foreign debt ratios



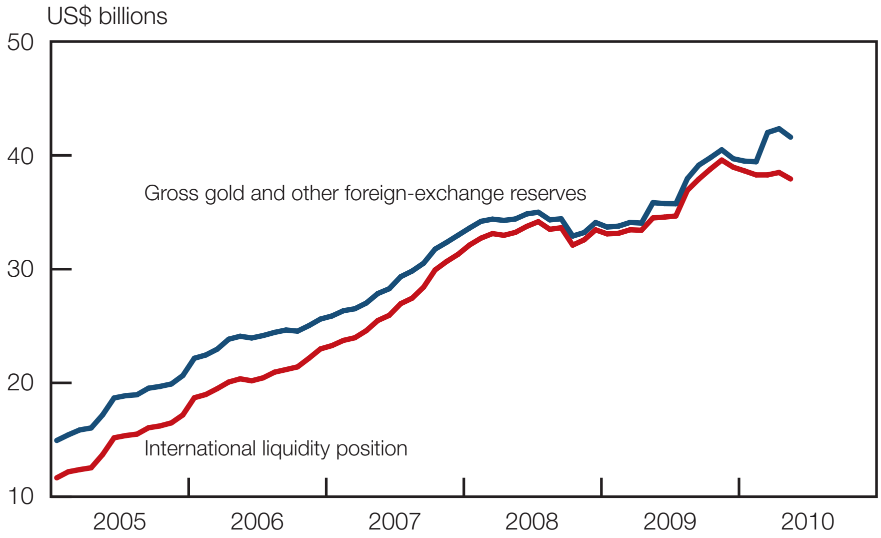
International reserves and liquidity

South Africa's net international reserves rose by R23,8 billion in the first quarter of 2010 due to balance-of-payments transactions, primarily as a result of the foreign-currency proceeds of an international bond issue by the general government. Government deposited the foreign-currency proceeds of the bond with the South African Reserve Bank (the Bank).

Measured in US dollars, the value of the gross gold and other foreign reserves of the Bank (i.e., the international reserves before accounting for reserve-related liabilities) increased from US$39,7 billion from the end of December 2009 to US$42,0 billion at the end of March 2010, but declined to US$41,6 billion at the end of May. The utilisation of the Bank's short-term foreign credit facilities remained broadly unchanged at US$0,4 billion over the period.

The country's international liquidity position declined from US$39,0 billion at the end of December 2009 to US$38,3 billion at the end of March 2010, before decreasing marginally to US$37,9 billion at the end of May.

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



Exchange rates

The exchange value of the rand remained remarkably resilient in the opening months of 2010 and, on balance, increased by 3,9 per cent in the first quarter of 2010 against a basket of fifteen currencies of South Africa's most important trading-partner countries. Small declines in January and February 2010 were followed by a notable increase in March. The increase in the first quarter of 2010 reflected, among other factors, a sustained increase in international commodity prices and a generally more positive outlook for economic growth in emerging-market economies. The sovereign debt problems in Greece and their potential effect on peripheral economies negatively affected the euro, while the political uncertainty regarding the outcome of the elections in the United Kingdom had put strain on the pound. The exchange rate of the rand appreciated by 7,8 per cent and 7,5 per cent against the euro and pound respectively in the first quarter of 2010.

Exchange rates of the rand

Percentage change

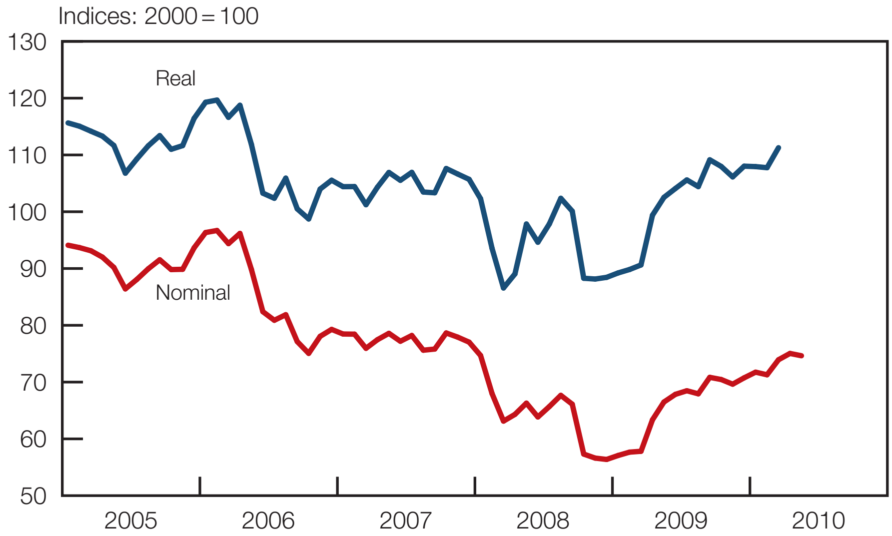
	30 Jun 2009 to 30 Sep 2009	30 Sep 2009 to 31 Dec 2009	31 Dec 2009 to 31 Mar 2010	31 Mar 2010 to 31 May 2010
Weighted average*	**2,5**	**1,2**	**3,9**	**0,1**
Euro	1,2	2,0	7,8	4,8
US dollar	5,0	0,5	0,6	-4,0
Chinese yuan	4,9	0,5	0,6	-4,0
British pound	8,6	0,1	7,5	0,0
Japanese yen	-1,5	3,5	1,7	-5,9

* Against a basket of 15 currencies

The nominal effective exchange rate of the rand increased, on balance, by a further 0,2 per cent in April 2010. The increase in the exchange rate of the rand reflected, among other reasons, the gradual depreciation of the euro against the US dollar due to fears that the sovereign debt problems in Greece may spread to other member countries in the euro area. In May 2010, the weighted average exchange rate of the rand, however, weakened again in response to the decline in international commodity prices.

The real effective exchange rate of the rand increased by 22,8 per cent in the year to March 2010, signifying a deterioration in the competitiveness of South African exporters in international markets over the period.

Effective exchange rates of the rand



The average net daily turnover in the domestic market for foreign exchange moderated from US$15,4 billion in the fourth quarter of 2009 to US$14,9 billion in the first quarter of 2010 despite non-resident investors' continued net purchases of South African equity and debt securities. The value of transactions in which non-residents participated, however, decreased from US$11,9 billion per day to US$11,4 billion per day over the period.

Monetary developments, interest rates and financial markets

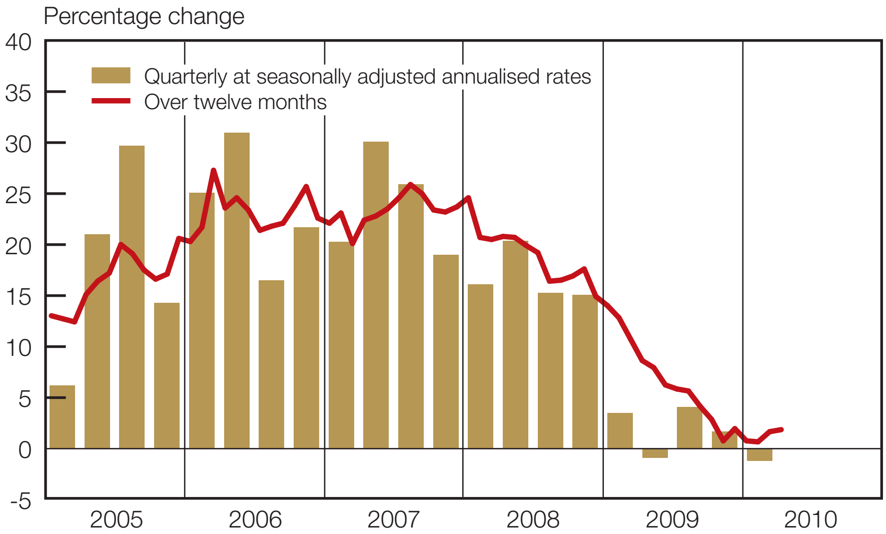
Money supply

The progressive economic recovery which gained momentum in the two quarters to March 2010 is yet to be mirrored in the monetary statistics. The recent recession curtailed the growth of banking-sector assets by elevating impaired advances, reinforcing the use of more stringent lending criteria and bringing about a cautious stance by the public towards the use of credit. The current subdued behaviour of the monetary and credit aggregates suggests that the observed economic recovery may have relied on greater synchronisation of income and expenditure, and funding mechanisms outside the banking sector.

The declining trend in the growth rate of the M3 levelled out in early 2010. Twelve-month growth in M3 reached a record low of 0,5 per cent in February 2010 before recovering to 1,5 per cent and 1,7 per cent in March and April, respectively. However, on a quarter-to-quarter[3] basis growth in M3 decelerated from 4,1 per cent in the third quarter of 2009 to 1,7 per cent in the fourth quarter, and the money supply subsequently contracted at a rate of 1,2 per cent in the first quarter of 2010. The growth in M3 continued to be constrained by subdued confidence levels of the household and corporate sectors, associated with lingering doubt about the health of household, corporate and sovereign balance sheets and finances.

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

Growth in M3



Following strong growth in long-term deposits during the last two quarters of 2009, there was some rebalancing during the first quarter of 2010 wherein call, overnight and other demand deposits were favoured over long-term deposits. The growth rate of notes and coin in circulation gained further momentum in the first quarter of 2010, mirroring income and expenditure.

Deposits of the household sector declined by R4,5 billion during the first quarter of 2010, while those of the corporate sector increased by R13,7 billion. The deposits of financial companies dominated growth in corporate deposits during the first quarter of 2010.

Maturity analysis of growth in M3

Per cent at seasonally adjusted annualised rates

	2009			2010
	2nd qr	3rd qr	4th qr	1st qr
Notes and coin	-1,1	0,5	11,0	17,3
Cheque and transmission deposits	1,4	10,5	0,2	-7,0
Call and overnight deposits	28,7	12,6	5,5	38,5
Other short- and medium-term deposits*	-11,4	-20,7	-6,0	5,4
Long-term deposits**	-13,1	71,6	23,5	-35,3
M3	-0,9	4,1	1,7	-1,2

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

Statistically, the increase in M3 during the first quarter of 2010 can be explained by a significant increase in net foreign assets, backed by an increase in claims on the private sector. Net claims on the government sector and net other assets and liabilities declined during this period. The increase in net foreign assets could be attributed to an increase in foreign assets and a decline in foreign liabilities, coupled with the steady appreciation in the exchange value of the rand. Claims on the private sector had increased for the first time since the first quarter of 2009, largely as a result of a gradual recovery in loans and advances extended to the private sector. The decline in net claims on the government sector resulted from a significant increase in government deposits due to higher tax collections and the proceeds of an international government bond issue, which counteracted bond interest payments falling due during the period under review.

Statistical counterparts of change in M3

R billions

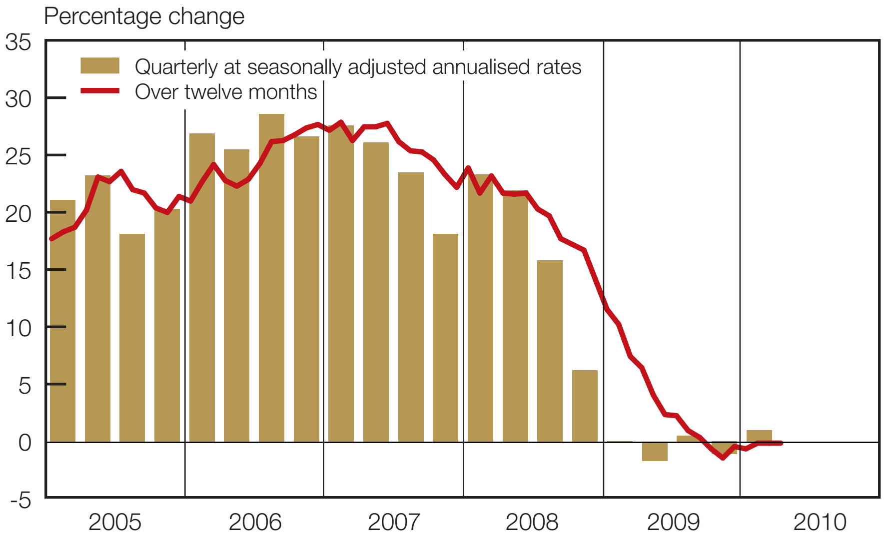
	2009			2010
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	20,6	-0,8	5,0	43,2
Net claims on the government sector	-5,0	21,0	19,4	-24,5
Claims on the private sector	-21,4	-7,6	-0,8	15,9
Net other assets and liabilities	14,6	-7,6	-16,9	-25,3
Total change in M3	**8,8**	**5,1**	**6,6**	**9,2**

The income velocity of circulation of M3 increased further to 1,31 in the first quarter of 2010, after reaching a low of 1,22 in the first quarter of 2009, as the growth in nominal gross domestic product gained further momentum while M3 deposits edged lower on a quarterly average basis.

Credit extension

Banks' total loans and advances extended to the private sector picked up marginally during the first quarter of 2010, trailing the improvement in nominal gross domestic expenditure. Great caution continued to characterise the collective psyche of both lenders and borrowers, with the recession having left a trail of impaired advances, increased vigilance regarding credit quality and reduced confidence among borrowers, whose finances needed further consolidation.

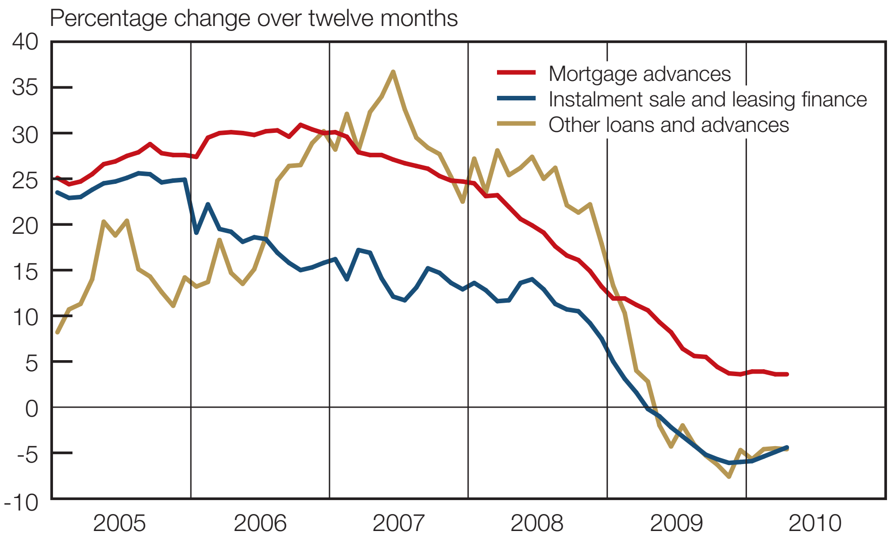
Total loans and advances to the private sector



Growth over twelve months in banks' total loans and advances extended to the private sector, which has been in negative territory since October 2009, improved somewhat from an all-time low of minus 1,6 per cent in November 2009 to a still negative 0,3 per cent in April 2010. On a quarterly[4] basis, total loans and advances recorded a positive growth rate of 1,0 per cent in the first quarter of 2010 – the largest increase observed since the fourth quarter of 2008.

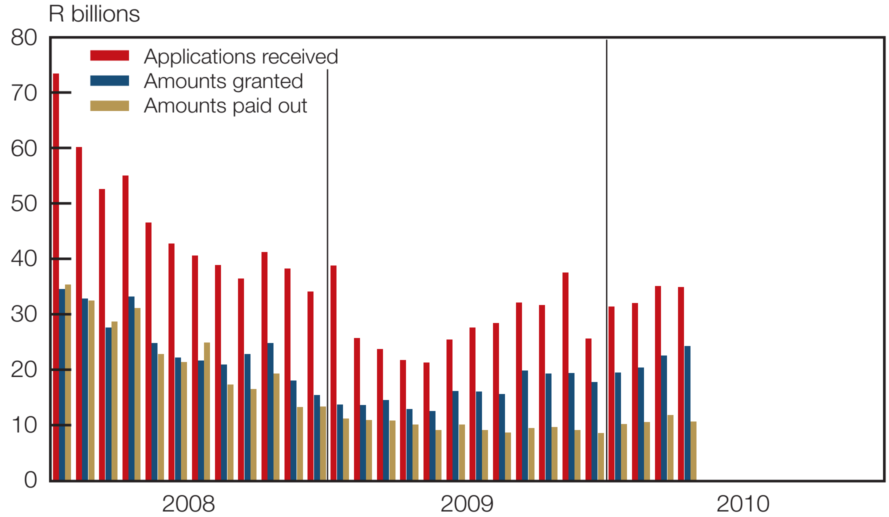
4 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted and annualised data.

Loans and advances to the private sector by type of credit



Tentative signs of improvement in credit growth slowly emerged within the various categories of loans and advances during the first quarter of 2010. Growth in *mortgage advances*, which represents the largest category of total loans and advances, recovered slightly from a low year-on-year rate of 3,6 per cent in December 2009 to 3,9 per cent in January 2010, and remained relatively stable thereafter. In April, growth in mortgage advances again amounted to 3,6 per cent. The recovery in the real-estate market, rising property values and low interest rates served to uphold the growth in mortgage advances. This was also evident in the increasing number of new applications received, granted and paid out in recent months. The rise in the differential between amounts granted and amounts paid out during the past year is partly a reflection of clients being more cost sensitive, as they apply for finance with multiple institutions in order to determine the best interest rate and repayment options available. Subsequently, the eventual amount paid out is significantly less than the initial amounts applied for or granted.

Mortgage advances



Seasonally adjusted

Twelve-month growth in *instalment sale credit and leasing finance* turned negative in April 2009 and reached a trough of minus 6,1 per cent in November 2009 before improving to a still negative rate of 4,4 per cent in April 2010. New business payouts in this combined credit category recovered from R30,6 billion in the first four months of 2009 to R34,2 billion in the same period in 2010, confirming the higher demand for motor vehicles and other durables.

Other loans and advances, which consists of *general loans, credit card advances* and *bank overdrafts*, also improved to a negative growth rate of 4,6 per cent in April 2010, up from its low of minus 7,6 per cent recorded in November 2009.

Quarterly changes in banks' total loans and advances by type

R billions

	2009		2010
	3rd qr	4th qr	1st qr
Mortgage advances	10,3	8,3	14,7
Instalment sale credit and leasing finance	-4,3	-1,9	-0,8
Other loans and advances	-4,8	-5,9	0,6
Overdrafts	-4,8	-5,7	1,9
Credit card advances	0,5	-1,2	0,2
General advances	-0,5	1,0	-1,5
Total loans and advances	**1,2**	**0,5**	**14,4**
Of which: To household sector	13,5	5,7	19,1
To corporate sector	-12,3	-5,2	-4,7

The household sector continued to expand its reliance on bank credit during the first quarter of 2010. Of the overall R14,4 billion increase in total loans and advances extended to the private sector in the first quarter of 2010, some R19,1 billion was extended to the household sector, while the corporate sector's usage shrank by R4,7 billion during this period. However, the corporate sector's reliance on bank credit gradually improved from a contraction of R20,5 billion in the second quarter of 2009 to a contraction of only R4,7 billion in the first quarter of 2010. Twelve-month growth in total loans and advances extended to the household sector accelerated from a recent low of 2,6 per cent in November 2009 to 3,8 per cent in April 2010. Correspondingly, growth over twelve months in credit extended to the corporate sector improved from a negative 6,3 per cent to a negative 5,1 per cent over the same period.

Interest rates and yields

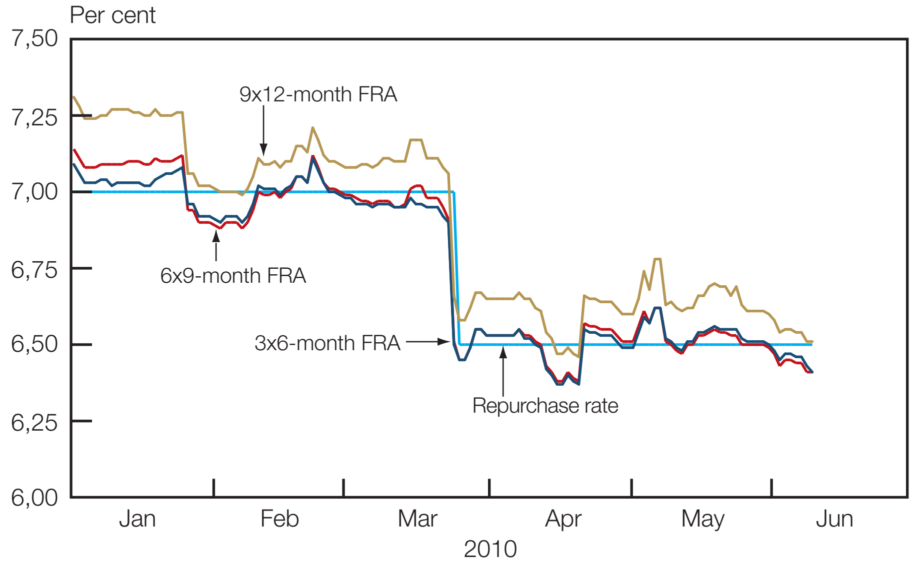
At its March 2010 meeting, the MPC decided to reduce the repurchase rate by 50 basis points to 6,5 per cent. At that point the inflation outlook and risks perceived by the MPC had improved significantly compared with the situation at the previous four meetings, providing scope for a moderate reduction in the repurchase rate to reinforce the sustainability of the domestic economic upswing. A large output gap, fairly modest pace of growth in domestic expenditure, reduced uncertainty associated with electricity tariff increases, together with an appreciation in the exchange value of the rand and relatively stable international oil prices were some of the factors contributing to the improved inflation outlook. Since the first reduction in the policy rate in December 2008, the repurchase rate has been lowered by a cumulative total of 550 basis points. Subsequently at the May 2010 MPC meeting it was decided to keep the policy rate at 6,5 per cent, since the inflation outlook had remained broadly unchanged. The MPC statements discussing developments underlying recent monetary policy decisions are reproduced in full from pages 59 to 66 in this *Bulletin*.

Money-market rates remained fairly stable during the first quarter of 2010 before declining on 26 March 2010, following the 50 basis-point reduction in the repurchase rate. The three-month Johannesburg Interbank Agreed Rate (Jibar) followed a mild downward trend from 7,23 per cent to 7,11 per cent from the beginning of January 2010 to 25 March 2010, before receding by 44 basis points to reach 6,67 per cent on 26 March 2010. Subsequent to the MPC's decision to keep the policy stance unchanged in May 2010, the Jibar remained relatively stable and stood at 6,61 per cent on 10 June.

The 91-day Treasury bill rate moved in tandem with other money-market rates as it also adjusted to the repurchase rate change in March. The rate displayed a moderate downward trend from 7,14 per cent to 7,04 per cent between 1 January and 25 March 2010, before also declining by 44 basis points to 6,60 per cent on 26 March 2010. On 10 June 2010 the rate amounted to 6,55 per cent.

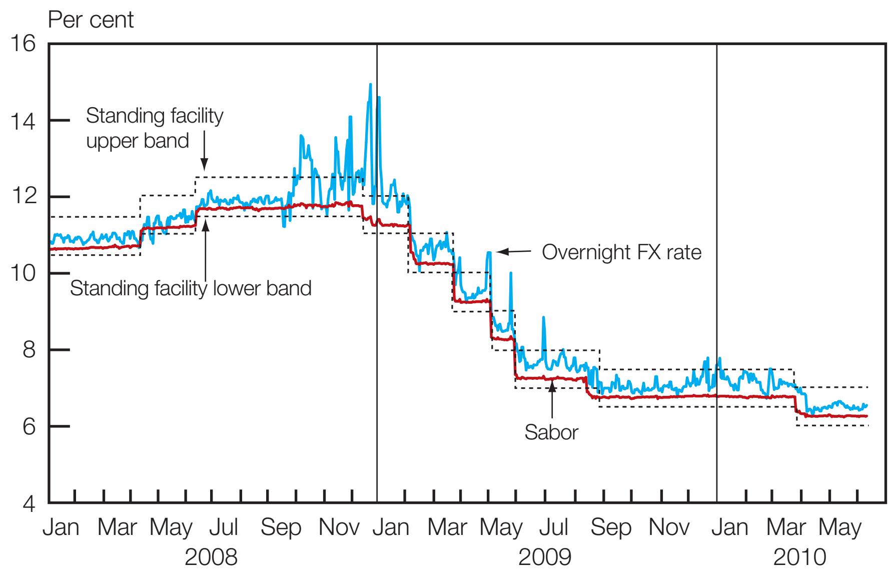
Rates on forward rate agreements (FRAs) initially displayed some volatility during the first two months of 2010 before stabilising somewhat nearly a month before the March repurchase rate reduction, an indication that market participants did not anticipate any change in the monetary policy stance. FRAs also declined significantly between 24 March and 26 March 2010, in response to the repurchase rate reduction. The most noteworthy movement was recorded by 9x12 FRAs which declined by 48 basis points to 6,58 per cent on 26 March. From mid-April, FRAs increased as expectations of further interest rate reductions faded and market participants became concerned about the possible widespread global impact of the poor fiscal health of certain countries in the euro area. FRA rates again declined towards the end of May and the 9x12 FRA stood at 6,51 per cent on 10 June 2010.

Repurchase rate and forward rate agreements



Consistent with the orderly conditions that prevailed in the interbank market, the South African Benchmark Overnight Rate on Deposits (Sabor) remained fairly stable and fluctuated well within the standing facility limits during the first quarter of 2010. The Sabor rate fluctuated around the 6,75 per cent level from the beginning of 2010 to 25 March 2010, and then adjusted lower by approximately 50 basis points in response to the change in the repurchase rate. The Sabor rate amounted to 6,27 per cent on 10 June 2010. The implied rate on one-day rand funding in the foreign-exchange swap market (overnight FX rate) fluctuated between 6,32 per cent and 7,78 per cent during the same period, occasionally breaching the upper standing facility limit due to short-term liquidity pressures. On 10 June 2010 the rate stood at 6,55 per cent.

Benchmark overnight rates



The March 2009 lowering of the repurchase rate was fully passed on by private-sector banks, and subsequently the prime overdraft rate and the predominant rate on mortgage loans declined to 10 per cent. This was the first time since January 1981 that the prime overdraft rate had stood as low as 10 per cent.

On 26 March 2010 most of the *prescribed interest rates*, as stipulated in the National Credit Act, decreased as indicated in the following table:

National Credit Act maximum interest rates: Changes on 26 March 2010

Category	Maximum rate per annum	
	From 14 Aug 2009 to 25 Mar 2010 Per cent	As from 26 Mar 2010 Per cent
Mortgage agreements	20,4	19,3
Credit facilities	25,4	24,3
Unsecured credit transactions	35,4	34,3
Developmental credit agreements		
For the development of a small business	35,4	34,3
For low-income housing (unsecured)	35,4	34,3
Short-term credit transactions	60,0	60,0
Other credit agreements	25,4	24,3
Incidental credit agreements	24,0	24,0

Similarly, on 2 April 2010 the *maximum annual finance charge rates* on money loans, credit and leasing transactions – as determined by the Usury Act – declined by one percentage point to 19,0 per cent for amounts below R10 000 and to 16,0 per cent for amounts above R10 000, but not exceeding R500 000.

The *standard interest rate* on loans granted by government from the State Revenue Fund, as defined by the Public Finance Management Act, declined from 10,5 per cent to 9,5 per cent on 1 May 2010.

Interest rates on the *RSA government fixed-rate and inflation-linked retail bonds* are updated on a monthly and semi-annual basis respectively, as depicted in the following table:

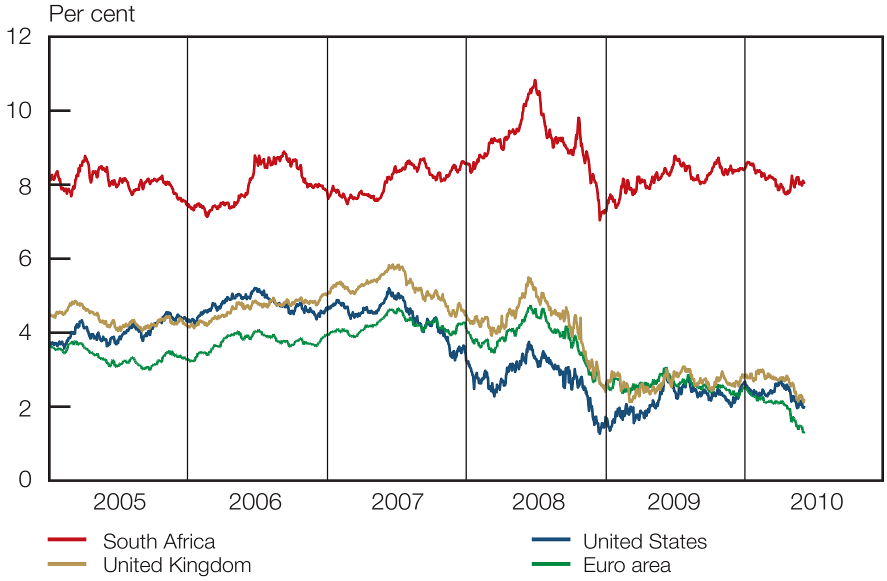
Interest rates on South African government retail bonds

Per cent

Effective from	2-year bond	3-year bond	5-year bond
Fixed rate:			
1 Jun 2009	9,00	9,25	9,75
1 Jul 2009	9,25	9,50	9,75
1 Oct 2009	8,75	9,00	9,25
1 May 2010	8,50	8,75	9,00
	3-year bond	5-year bond	10-year bond
Inflation linked:			
1 Jun 2009	2,25	2,50	2,75
1 Dec 2009	2,25	2,50	3,00

The *daily average yield on the R157 government bond* (maturing in 2014/15/16) fluctuated broadly sideways in a 76 basis points range during the second half of 2009. Subsequently, the bond yield declined to 8,05 per cent on 9 June 2010, from a recent high of 8,61 per cent on 12 January 2010. This was alongside the appreciation in the exchange value of the rand, the lowering of the repurchase rate and the release of lower-than-expected inflation data. International bond yields also demonstrated volatility in the past year, informed by shifts in risk aversion and exchange rate movements. The daily closing yield on the US 5-year bond declined from a recent high of 2,93 per cent on 8 June 2009 to 2,00 per cent on 30 November, before closing at 2,72 per cent on 5 April 2010. Subsequently this yield declined to 1,99 per cent on 9 June. Accordingly, the resultant 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 606 basis points on 9 June 2010.

Yields on government bonds in the five-year maturity range



While yields at the short end of the *yield curve* tracked the reductions in the repurchase rate from December 2008 to March 2010, the medium-to-long end of the curve first moved higher from December 2008 to January 2010, before declining to May, following the appreciation in the exchange value of the rand and the decline in measured inflation. The *yield gap*[5] widened marginally from 228 basis points on 12 January 2010 to 253 basis points on 9 June.

Consistent with improved inflation expectations, the *break-even inflation rate*[6] fluctuated lower from a recent high of 6,82 per cent on 27 October 2009 to 5,83 per cent on 9 June 2010, as the nominal yield declined more pronouncedly than the real yield.

The *currency risk premium*[7] on South African government bonds widened from 34 basis points in January 2009 to 428 basis points in November, as the yield on domestic rand-denominated bonds increased and the corresponding yield on dollar-denominated bonds declined. Although the dollar-denominated yield trended lower, the spread subsequently narrowed to 404 basis points in April 2010, as the rand-denominated yield changed course and declined by more than the dollar-denominated yield. The spread widened to 431 basis points in May as the rand-denominated yield once again increased somewhat.

The JPMorgan Emerging Markets Bond Index Plus (EMBI+) yield spread continued to narrow from a high of 718 basis points recorded in November 2008 to 265 basis points in April 2010, as investors maintained positive sentiment towards emerging markets' financial assets. This was also evident in the *sovereign risk premium* on the South African government US dollar-denominated bond in the four-year maturity range trading in international markets, which narrowed significantly from a recent high of 720 basis points

5 The differential between the yields at the extreme long and short ends of the curve.

6 The differential between the nominal yield on conventional government bonds and the real yield on inflation-linked government bonds within the three-year maturity range.

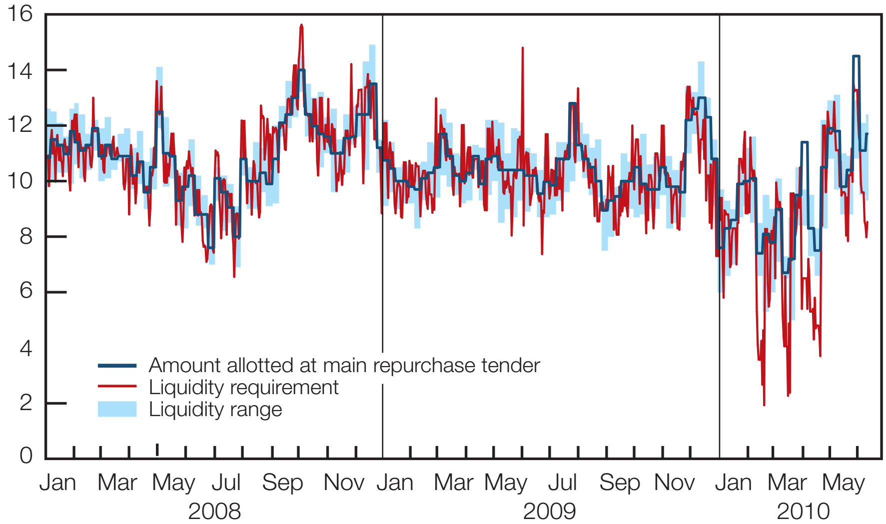
7 The differential between South African government bond yields on rand-denominated debt in the four-to-five-year maturity range issued in the domestic market and on dollar-denominated debt issued in the United States.

in November 2008 to a low of 102 basis points in April 2010. In May the EMBI+ spread widened to 325 basis points and the sovereign risk premium to 157 basis points, responding to renewed risk aversion as concerns over Europe's debt problems intensified.

Money market

During the first quarter of 2010 and the ensuing two months to May, the daily liquidity requirement of private-sector banks fluctuated within a broad range of between R13,5 billion and R1,9 billion compared with a somewhat narrower range of between R13,4 billion and R7,3 billion recorded in the fourth quarter of 2009. The liquidity provided by the Bank at the weekly main refinancing tender also oscillated between R6,7 billion and R14,5 billion over the same period.

Liquidity requirement, range and amount allotted



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

Money-market liquidity flows

R billions (easing+ tightening-)

	2009	2010	
	4th qr	1st qr	Apr and May
Notes and coin in circulation	-8,6	2,1	1,1
Required cash reserve deposits	-0,1	-0,3	-1,1
Money-market effect of SARB* foreign-exchange transactions	7,3	8,2	3,8
Government deposits with the SARB	3,6	-22,1	-1,1
Use of liquidity management instruments	12,1	-3,8	-5,2
Reverse repurchase transactions	3,3	-1,7	3,7
SARB debentures*	8,8	-2,1	-8,9
Other items net**	-11,4	12,1	-0,6
Banks' liquidity requirement (decrease+ increase-)	2,9	-3,8	-3,1

* SARB: South African Reserve Bank
** Mainly comprising public deposits

During the first quarter of 2010, notes and coin in circulation and banks' required cash reserve deposits with the Bank cumulatively injected liquidity to the net value of R1,8 billion. Liquidity was further injected through foreign-exchange transactions which added a further R8,2 billion. The injection was offset by the use of liquidity management instruments (through reverse repurchase transactions and the issuance of SARB debentures), which together drained R5,5 billion worth of liquidity from the money market, while the significant increase in government deposits with the Bank also assisted in draining liquidity.

Coupon interest payments on various government bonds amounting to R14,6 billion were effected from the government tax and loan account during the first quarter and the ensuing two months to May 2010.

Bond market

The increased borrowing requirements and capital expenditure programmes continued to buoy activity in the domestic primary bond market. Demand for funds by *public-sector* borrowers remained robust, as reflected by net issues of fixed-interest securities amounting to R75,9 billion in the first five months of 2010, compared with net issues of R30,1 billion in the same period of 2009. The amount of government bonds – both conventional and inflation-linked – made available on auction remained unchanged at a high R2,7 billion per week from November 2009 to May 2010. National government further supplemented its funding by raising R690 million through the retail bond market in the first four months of 2010. Public corporations' appetite for funding continued unabated with net issues of R18,3 billion in the first five months of 2010, compared with net issues of R17,0 billion in the corresponding period of 2009. Local governments raised R2,0 billion in the primary bond market in March 2010 – their first bond issuances since the R1,2 billion raised in June 2009.

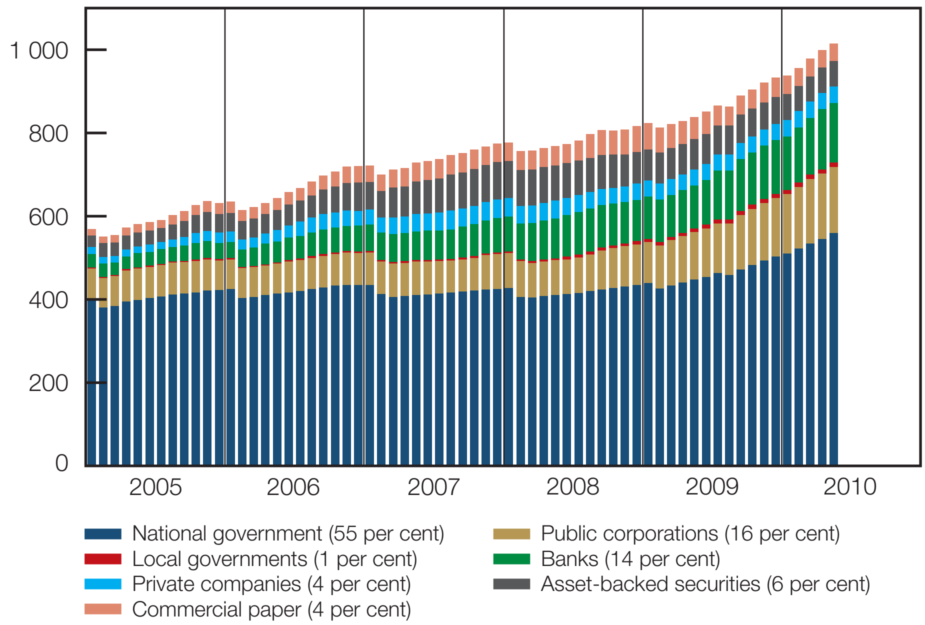
The National Treasury listed four new government bonds on the JSE during May/June 2010 as had been foreseen by the Minister of Finance in the *Budget Review* 2010, spreading issuance over the medium to long term. The four new bonds listed are:

Fixed income bonds:
– R213 maturing on 28 February 2031
– R214 maturing on 28 February 2041
Inflation-linked bonds:
– R211 maturing on 31 January 2017
– R212 maturing on 31 January 2022.

After its previous foreign bond issue in May 2009, the National Treasury utilised the international bond market in March 2010 to help finance the budgeted fiscal deficit. A total of R14,8 billion was raised through the issuance of a US$2 billion ten-year bond with a coupon rate of 5,5 per cent at a spread of 197 basis points over equivalent US Treasuries.

Funding by *private-sector* borrowers accelerated in line with improved market conditions. Net issues of R10,6 billion were recorded for the year to May 2010, compared with net issues of R0,3 billion in the same period of 2009. Funding activity was dominated by banks which registered net issues of R12,1 billion over the year to May 2010. The outstanding nominal value of private-sector loan stock – including banks, private companies and asset-backed securities – listed on the JSE reached R244 billion at the end of May 2010.

Outstanding nominal amount of debt issued on the JSE Limited



Although activity in the *commercial paper market* rebounded slightly from March to April 2010, net redemptions of R5,5 billion were recorded in the first five months of 2010, contributing to an outstanding amount of R41,4 billion at the end of May – the lowest level since February 2007.

The concurrent market capitalisation of all debt securities listed on the JSE increased by 11 per cent from December 2009 to R1,1 trillion in May 2010, while the *total outstanding nominal value issued* increased by 9 per cent to R1,0 trillion over the same period – breaching the R1 trillion level for the first time in April 2010. Total debt issued almost doubled in the five years to 2010.

Non-residents' participation in rand-denominated bond issuance in foreign markets increased alongside the improvement in global economic activity. In the five months to May 2010, foreign borrowers' interest was particularly evident in the *Japanese Uridashi bond markets* where the nominal value of bonds issued was more than that issued in the *European bond markets*. The increase in issuances was, however, offset by higher redemptions, which resulted in net redemptions of bonds traded in these markets to the value of R3,8 billion, compared with net issues of R1,4 billion recorded in the same period of 2009, as shown in the table below.

Rand-denominated bonds issued in international bond markets, January to May

R millions

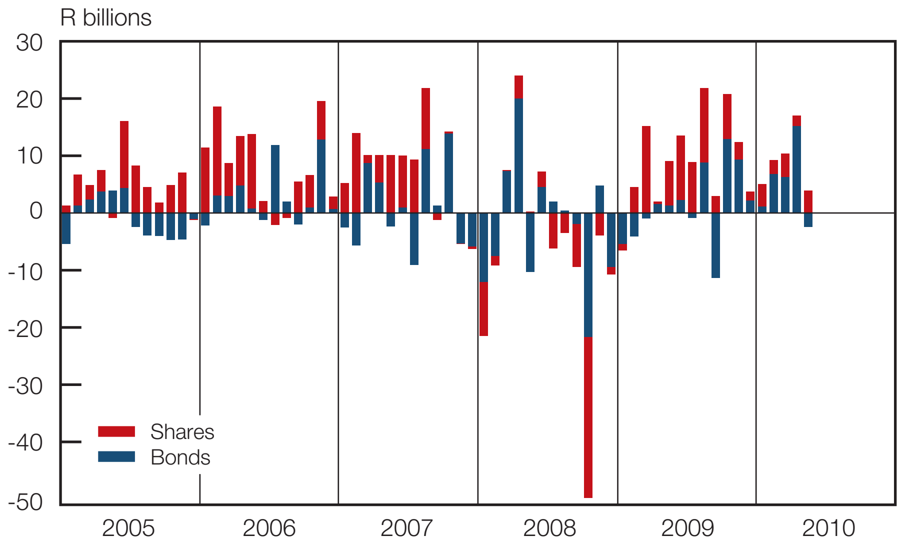
	Eurorand		Uridashi		Total	
	2009	2010	2009	2010	2009	2010
Issues	479	3 396	8 738	8 598	9 217	11 994
Redemptions	5 070	3 550	2 779	12 196	7 849	15 746
Net	-4 591	-154	5 959	-3 598	1 368	-3 752

8 The nominal value of bonds traded relative to the nominal amount in issue.

Amid volatile bond yields, *turnover* in the secondary bond market picked up from February 2010, contributing to turnover of R6,4 trillion in the first five months of the year. This was, however, still some 3 per cent lower than the value traded in the corresponding period of 2009. Repurchase and standard transactions accounted for 68 per cent and 29 per cent of total turnover thus far in 2010. Liquidity[8] in the bond market declined from 23 in 2008 to 14 in 2009 and remained at an annualised ratio of 14 in the five months to May 2010.

Non-residents continued to increase their exposure to the domestic secondary bond market despite the decline in domestic bond yields and movements in the exchange value of the rand. Subsequent to quarterly record-high net purchases of R24,3 billion in the fourth quarter of 2009, non-residents' holdings of domestic debt securities increased by R14,1 billion in the first quarter of 2010 and a further R15,1 billion in April demonstrating non-residents' preference for local debt securities. Non-residents, however, reverted to net sales of R2,4 billion in May in reaction to renewed risk aversion. Non-residents' cumulative net purchases of domestic debt securities amounted to R26,8 billion in the first five months of 2010, while their participation rate averaged 10 per cent over the same period, compared with net sales of R7,7 billion and a participation rate of 11 per cent in the corresponding period of 2009.

Net purchases of shares and bonds by non-residents



Transactions on the JSE Limited

Share market

Companies listed on the JSE raised *equity capital in the domestic and international primary share markets* amounting to R22,8 billion in the first four months of 2010, which was 25 per cent lower than the amount raised during the corresponding period of 2009. Companies with primary listings on the JSE contributed 79 per cent of the total capital-raising activity over this period. The resources sector accounted for 79 per cent of total funds raised, followed by the financial sector and the industrial sector with 8 per cent and 6 per cent, respectively. Capital was mainly raised through rights issues and the acquisition of assets to respective amounts of R14,9 billion and R4,0 billion in the first four months of 2010.

In the first four months of 2010, three new listings and seven delistings were recorded on the JSE. Two companies transferred from Alt^X to the main board while one company transferred from the main board to Alt^X over the same period. The total number of companies listed on the JSE amounted to 406 at the end of April 2010, consisting of 317 companies on the main board, 76 companies on the Alt^X exchange and 11 companies on the development and venture capital boards. The second listing on the JSE Africa Board occurred in April 2010, following the first listing in February 2009.

The total *value of turnover* in the secondary share market amounted to R1,3 trillion in the first five months of 2010, some 20 per cent more than the turnover recorded in the corresponding period of 2009. Turnover was boosted by high trading volumes due to increased uncertainty and volatility. The daily average turnover reached a peak value of R14,2 billion per day in May 2010, contributing to a daily average turnover of R12,1 billion in the first five months of 2010, which was 19 per cent higher than the R10,1 billion recorded in the first five months of 2009.

The total *market capitalisation* of the JSE increased in 2010 from R5,8 trillion in January to R6,1 trillion at the end of March – breaching the R6 trillion level for the first time since the all-time high reached in May 2008 – before returning to the R5,8 trillion level in May alongside lower share prices. The combined market capitalisation of all companies listed on Alt^X increased from R11,8 billion in February 2010 – its lowest level since January 2007 – to R12,2 billion in May. Total market liquidity[9] declined from 72 per cent in 2008 to 47 per cent in 2009, before picking up to 53 per cent in the first five months of 2010.

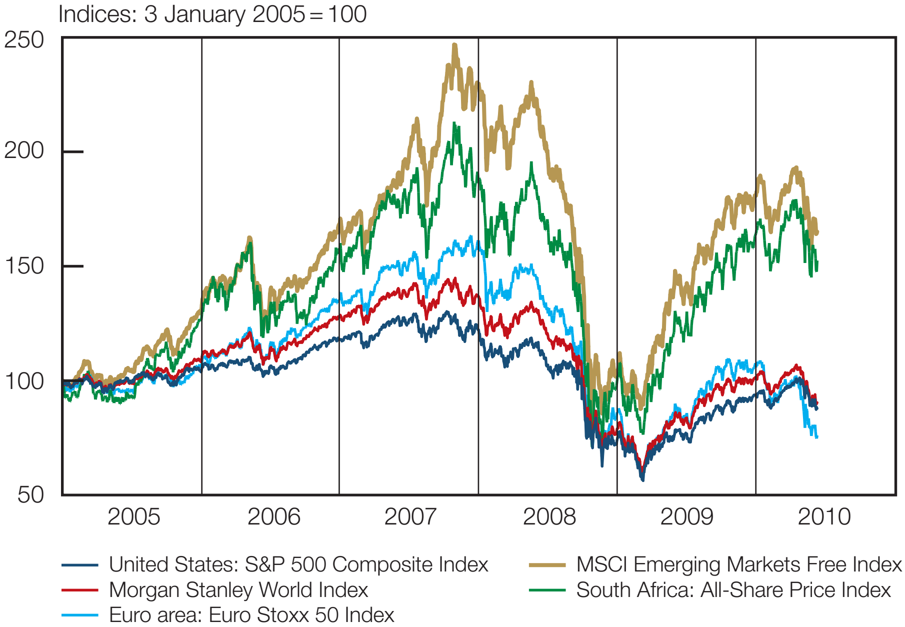
9 The annualised turnover as a percentage of total market capitalisation.

Non-residents' activity in the domestic share market slowed during 2010 amid uncertainties and volatile share prices following concerns regarding possible financial contagion from Greece. After recording net purchases of R4,0 billion in March 2010, non-residents increased their holdings of domestic shares by only R5,8 billion in April and May 2010. Non-residents' cumulative net purchases of shares listed on the JSE amounted to R16,4 billion in the first five months of 2010, compared with net purchases of R26,8 billion in the corresponding period of 2009. This was reflected in non-residents' participation rate which averaged 15 per cent over the same period, compared with 19 per cent in the corresponding period of 2009.

Although domestic share prices have exhibited a general upward trend since 3 March 2009, expected price volatility has increased recently as shown by the South African Volatility Index which increased from 19 per cent on 15 April 2010 to 30 per cent on 9 June. This was evident as the *FTSE/JSE All-Share Price Index* (Alsi) first increased by 63 per cent from a recent low on 3 March 2009 to reach an index value of 29 565 on 15 April 2010 along with stronger global equity markets, higher commodity prices and the reduction in the repurchase rate, before declining by 10 per cent to an index value of 26 651 on 9 June. Although the EU and IMF agreed on stabilisation funds for Greece, nervousness remained in equity markets amid concerns that the problems could spread to other European countries and possibly lead to another global contagion.

While the US Federal Reserve kept interest rates unchanged at low levels, the Standard & Poor's (S&P) 500 Composite Index moved higher in early 2010. It then receded by 13 per cent from 15 April 2010 to 9 June, compared with the Alsi which in US dollar terms declined by 14 per cent over the same period. European share markets remained volatile as indicated by the Euro Stoxx 50 Index which declined by 15 per cent from 15 April 2010 to 9 June. The Morgan Stanley World Index also declined by 15 per cent over the same period.

Share prices in US dollar



The historical *dividend yield* on all classes of shares on the JSE trended downwards from 4,8 per cent in November 2008 to a low of 1,9 per cent in April 2010 – its lowest level in a decade – before increasing somewhat to 2,1 per cent in May. The *earnings yield* on all classes of shares also reached a record low of 4,8 per cent in February 2010, before increasing to 5,6 per cent in May. Conversely, the *price-earnings ratio* for all classes of shares reached an all-time high level of 20,7 in February 2010, before decreasing to 17,9 in May. All the above extreme outcomes were related to the high levels of share prices as this market recovered from the international financial crisis, while the recovery in real economic activity was still lagging as reflected by low earnings and dividend payments.

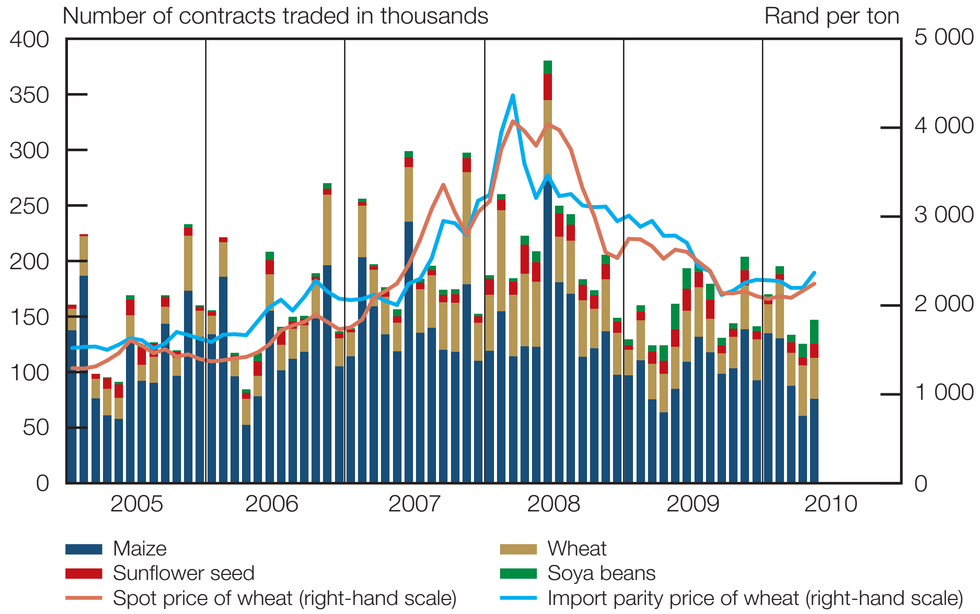
Market for exchange-traded derivatives

During the first five months of 2010, the volume traded in the *equity derivatives* market on the JSE improved noticeably to 59,7 million contracts, reflecting an increase of 2 per cent when compared with the corresponding period of 2009. This increase, together with developments in the underlying share market, supported turnover in the market.

Grain South Africa applied to the International Trade Administration Commission of South Africa (ITAC) for an increase in the domestic US dollar-based reference price of wheat products to protect local farmers against market competition arising from cheaper imports from major external wheat-producing countries. Demand has suffered following the global financial crisis which has led to lower prices. This, together with higher input costs, has discouraged local producers from planting wheat, as reflected by the reduced estimate of wheat planted in the 2010 season published by the Crop Estimates Committee. ITAC recommended a higher reference price, and an import duty of R140,70 per ton on wheat products was implemented by the South African Revenue Service on 30 April 2010 following approval by the Minister of Trade and Industry.

Although trading activity in agricultural *commodity futures and options contracts* on the Commodity Derivatives Division of the JSE was 11 per cent higher in the first five months of 2010 when compared with the corresponding period of 2009, turnover was more subdued than in 2008 along with lower commodity prices. Over the past year domestic commodity prices came under downward pressure on account of lower international grain prices and the appreciation in the exchange value of the rand.

JSE Commodity Derivatives Division: Commodities traded



Facing increased demand from market participants to hedge against currency risk, *Yield-X* extended its product range to include Canadian dollar/rand futures contracts in March 2010, following the introduction of Japanese yen/rand futures contracts in January 2010.

Trading activity on *Yield-X* remained robust in the first five months of 2010, as the total number of contracts traded registered an increase of 6 per cent when compared with the corresponding period of 2009. Currency futures and options contracts continued to dominate trade, accounting for 87 per cent of the total number of contracts traded in the first five months of 2010, while trade in interest rate futures and options contracts remained relatively subdued during the period under review. Turnover on *Yield-X* was buoyant in the first five months of 2010.

Trading activity in the *warrants market* continued to resemble a downward trajectory in 2010, as the total number of warrants listed declined to its lowest level since January 2000. Warrants traded on the JSE totalled 3,9 billion in the five months to May 2010, some 40 per cent lower than the number of warrants traded during the same period of 2009. Warrants listed over constituents of the underlying resources sector contributed the most at 67 per cent of total trading activity in the first five months of 2010. Turnover in all derivatives traded on the JSE during the first five months of 2010 is indicated in the accompanying table.

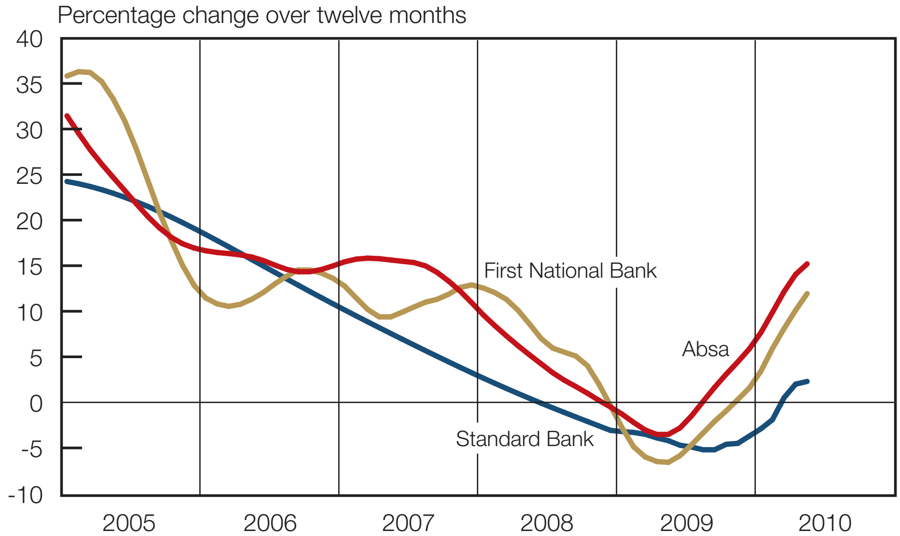
Derivatives turnover on the JSE, January to May 2010

	Value R billions	Change over one year Per cent
Financial futures and options on futures	1 375	26
Warrants	0,9	-38
Agricultural commodity futures and options.......................	78	-15
Interest rate derivatives...	81	30

Real-estate market

The recovery in the South African housing market continued on a gradual path, supported by lower interest rates and banks' eased lending criteria. Although still modest, property demand gradually improved as evidenced by the continued reduction in the average length of time that residential properties remain on the 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 May 2009 to a positive 15,2 per cent in May 2010. A similar trend was observed in the year-on-year rate of change in the average house price as measured by First National Bank, which improved from a deflation rate of 6,6 per cent to a positive 11,9 per cent over the same period. The year-on-year rate of change in the Standard Bank median house price improved from a negative 5,2 per cent in September 2009 to a positive 2,3 per cent in May 2010.

House prices



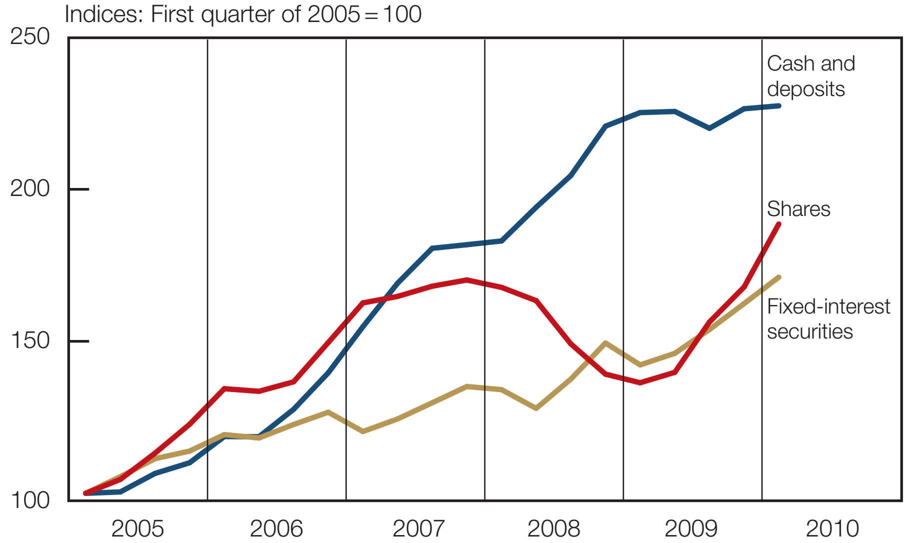
Non-bank financial intermediaries

The balance sheets of non-bank financial intermediaries[10] continued to strengthen in the first quarter of 2010, in line with the general economic recovery. These institutions' total assets rose by 6 per cent from the final quarter of 2009 to R4,0 trillion in the first quarter of 2010, spurred by the positive performance in asset prices. Share holdings were supported by the increase in share prices and increased by 12 per cent to R2,0 trillion over the same period. As a share of total assets, this represented an increase of 3 percentage points from the fourth quarter of 2009 to 50 per cent in the first quarter of 2010. Holdings of fixed-interest securities increased by 5 per cent to R875 billion during this period. However, as a ratio of total assets, the fixed-interest securities' exposure remained unchanged at 22 per cent.

By contrast, holdings of cash and deposits declined by 1 per cent to R710 billion in the first quarter of 2010, accounting for a 18 per cent share of total assets. This suggested an improving risk appetite, improving capital markets and relatively lower returns in an environment of continued low interest rates.

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

Asset holdings of selected non-bank financial intermediaries



The gross flow of longer-term contractual saving in the form of employee and employer contributions to private and public-sector retirement funds and premiums paid to long-term insurers amounted to 14 per cent of gross domestic product in 2009. This may be compared with a ratio of 16 per cent in 2008, when flows to long-term insurers were somewhat stronger.

Public finance

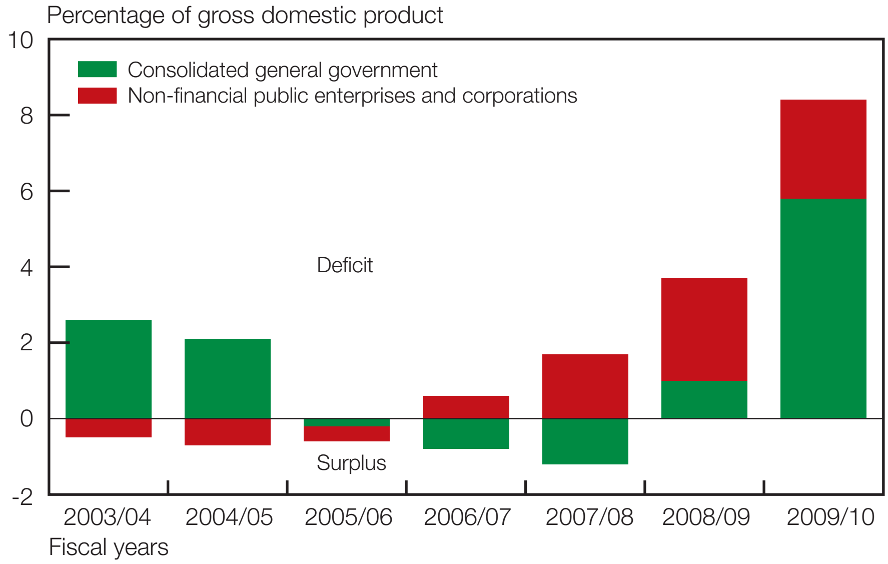
Non-financial public-sector borrowing requirement[11]

The fiscal accounts for the year ending March 2010 encapsulate a period during which South Africa adopted a decidedly expansionary fiscal stance in response to the deep and synchronised global economic recession. Facing lower tax revenue collections, the fiscal space created in earlier fiscal years allowed the fiscal authorities to support domestic demand by sustaining key social spending priorities and stepping up infrastructure investment. The infrastructure investment programme mainly involved the major non-financial public enterprises and corporations, adding substantially to the borrowing requirement of the non-financial public sector in fiscal 2009/10.

The *non-financial public-sector borrowing requirement* amounted to R205,7 billion in fiscal 2009/10 – more than double the amount recorded in the preceding fiscal year. The main contributor to the larger borrowing requirement was national government, recording both a shortfall in revenue collected and higher expenditure. Financial activities of provincial governments and local authorities yielded lower cash deficits.

11 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



As a ratio of gross domestic product, the non-financial public-sector borrowing requirement amounted to 8,4 per cent in fiscal 2009/10. This was lower than the ratio of 11,8 per cent estimated in the February 2010 *Budget Review*. Previously the all-time high borrowing requirement amounted to 9,5 per cent of gross domestic product, recorded in fiscal 1993/94 when the economy was exceptionally weak.

The accompanying table summarises the financial activities of the non-financial public sector at various levels of government.

Non-financial public-sector borrowing requirement

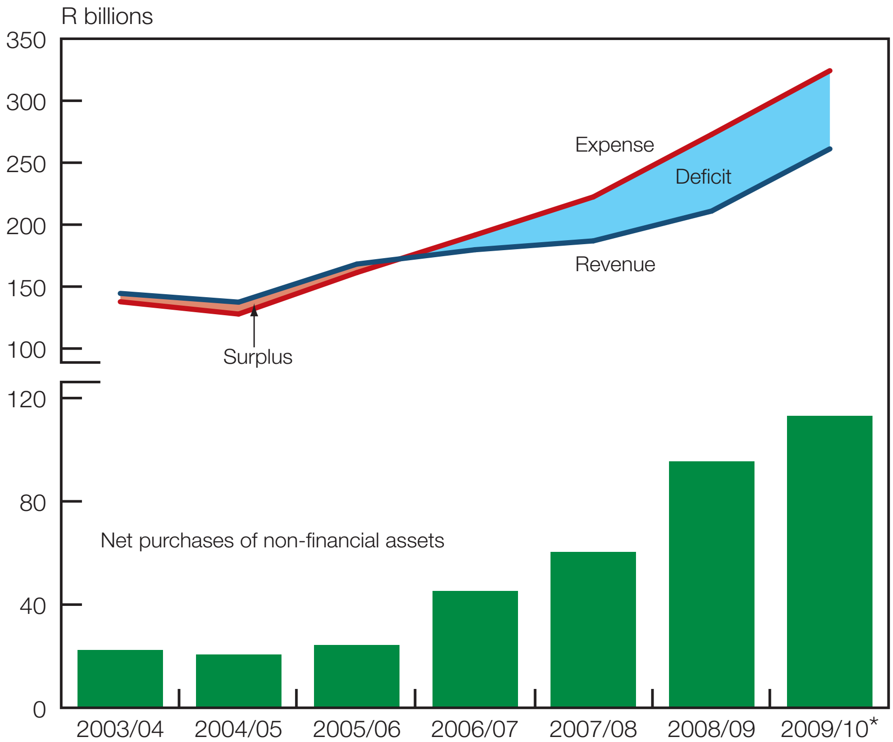
R billions

Level of government	2008/09*	2009/10*
Consolidated general government	24,1	142,6
National government	13,1	132,2
Extra-budgetary institutions	-5,3	-8,8
Social security funds	-12,3	-5,1
Provincial governments	8,7	8,3
Local governments	20,0	15,9
Non-financial public enterprises and corporations	61,8	63,1
Total	85,9**	205,7**
As a percentage of gross domestic product	*3,7*	*8,4*

* Deficit + surplus –
** Components may not add up to the totals due to rounding

Non-financial public enterprises and corporations recorded a preliminary cash deficit of R63,1 billion in fiscal 2009/10, higher than the R61,8 billion cash deficit recorded in fiscal 2008/09. Net investment in non-financial assets by non-financial public enterprises and corporations amounted to R113,0 billion in fiscal 2009/10, an increase of 18,3 per cent when compared with the previous fiscal year. *The Budget Review 2010* projected investment in non-financial assets to total R125,5 billion in fiscal 2009/10.

Finances of non-financial public enterprises



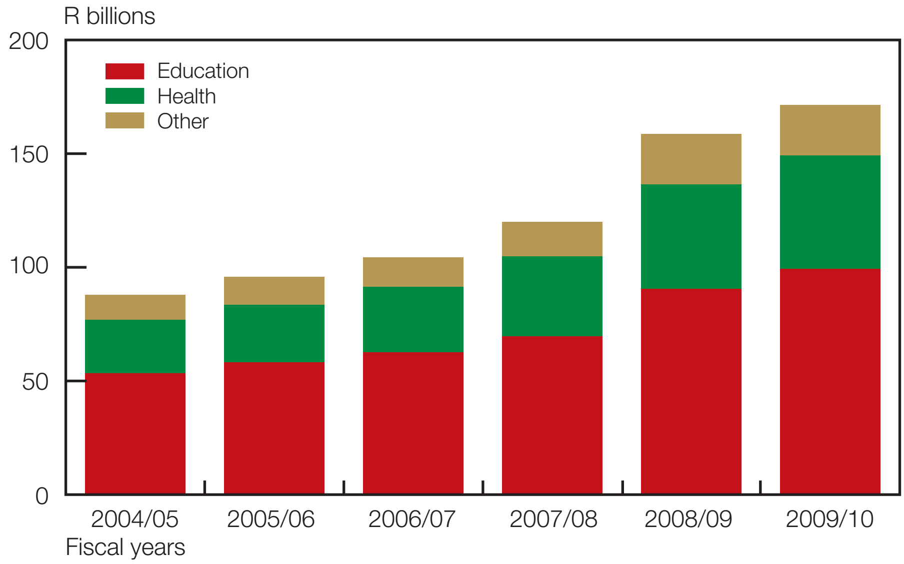
* Preliminary estimate

In fiscal 2009/10 cash receipts from operating activities of *national government* decreased by 4,6 per cent to R610 billion when compared with the previous fiscal year, as tax revenue collections were below the originally budgeted projections. Cash payments for operating activities increased by 14,1 per cent year on year to amount to R734 billion in fiscal 2009/10. Netting cash flow from operating activities and net investment in non-financial assets resulted in a cash deficit of R132,2 billion in fiscal 2009/10. This was significantly higher than the cash deficit recorded in the previous fiscal year.

An analysis of *Provincial Revenue Fund Statements* indicated that *provincial governments* recorded a cash deficit of R8,3 billion in fiscal 2009/10, slightly less than the cash deficit recorded in the preceding fiscal year. The deficit narrowed as cash receipts from operating activities grew faster than the combined cash payments for operating activities and net investment in non-financial assets. In the *Budget Review 2009*, it was originally stated that the deficit would amount to R0,9 billion, but this was subsequently revised upwards to an estimated amount of R1,9 billion in the *Budget Review 2010.*

Grants from national government – equitable shares and conditional grants earmarked for specific purposes – amounted to R286,5 billion in fiscal 2009/10, representing a year-on-year rate of increase of 16,8 per cent. Equitable share transfers to provincial governments increased strongly, in order to enable provinces to implement the occupation-specific dispensation and general salary increases for education and health practitioners. Compensation of employees for these functions increased by 17,7 per cent year on year, while the consumer price inflation rate averaged 6,4 per cent over this period. Conditional grants were revised upwards to make provision for funding further education and training colleges, which had previously been funded through the provincial equitable share. For fiscal 2009/10, net investment in non-financial assets amounted to R27,4 billion, slightly less when compared with the previous fiscal year.

Provincial governments' compensation of employees



The contract for the Gautrain Rapid Rail Link project was signed on 28 September 2006. Although it was originally budgeted to cost R21,8 billion, the actual expenditure to date amounted to R22,7 billion. The government financed R19,5 billion of this amount and the remainder was financed by the private sector.

The financial activities of provincial governments resulted in an increase in their deposits with private-sector banks from R6,5 billion at the end of March 2009 to R8,6 billion at the end of March 2010. Their overall indebtedness to banks rose slightly from R1,7 billion to R2,1 billion between these respective dates. Provincial governments' deposits with the Corporation for Public Deposits amounted to R0,2 billion at the end of March 2010.

Extra-budgetary institutions recorded a cash surplus of R8,8 billion in fiscal 2009/10, higher than the cash surplus of R5,3 billion recorded in the previous fiscal year.

Local governments pursued the new Local Government Turnaround Strategy ushered in by the restructured Department of Cooperative Governance and Traditional Affairs in November 2009. The strategy includes measures to combat inefficient expenditure and raise service delivery. Amid these developments, the financial activities of local government resulted in an estimated cash deficit of R15,9 billion in fiscal 2009/10. This was well above the revised cash deficit of R12,5 billion stated in the *Budget Review 2010*, but R4,0 billion lower than the cash deficit recorded in the previous fiscal year.

Continued growth in municipal cash receipts was buoyed by, among other things, intergovernmental transfers intended to supplement municipal own revenue and to assist in the implementation of the Municipal Finance Management Act. In fiscal 2009/10 national government transferred a total of R6,8 billion from the general fuel levy to metropolitan municipalities. A low revenue base, a dependency-prone demographic structure and a subdued level of economic activity in poorer municipalities exerted continuous pressure on local government finances. However, expenditure by municipalities remained robust in response to the demand for basic services and provision of infrastructure related to the 2010 FIFA World Cup™ tournament.

Budget comparable analysis of national government finance

In fiscal 2009/10 growth in national government expenditure and revenue collections fell short of budgetary expectations. However, growth in national spending far outpaced national government receipts; hence, a sizeable deficit was recorded.

Unaudited data indicate that national government spending amounted to R713 billion in fiscal 2009/10. This preliminary outcome was R25,9 billion less than the original budgetary provision anticipated in the *Budget Review 2009* and R36,2 billion less than the revised estimate presented by the Minister of Finance to Parliament in February 2010. This resulted in a year-on-year rate of increase in national government expenditure of 13,9 per cent in fiscal 2009/10, lower than both the original budgetary provision and the growth rate recorded in fiscal 2008/09. As a ratio of gross domestic product, national government expenditure amounted to 29,0 per cent in fiscal 2009/10 compared with 27,0 per cent in the previous fiscal year.

Growth in voted expenditure, mainly current payments and also transfers and subsidies, underpinned a strong increase in expenditure. In the *Budget Review 2008*, provision was made for an amount of R60,0 billion to be paid over three fiscal years as financial support for Eskom's capital investment programme. For fiscal 2009/10, an amount of R30,0 billion was transferred as the second tranche of the subordinated loan. To date, Eskom has received R40,0 billion and the third tranche of R20,0 billion would be paid during fiscal 2010/11. Further contributions were from the Social Services cluster, driven by the departments of Health and Social Development. The bulk of the spending by the Department of Social Development was transfers to households, which increased by 13,2 per cent in fiscal 2009/10 when compared with the previous fiscal year. Higher national government spending also stemmed from an increase in current payments by the Justice and Protection Services cluster, mainly from the Department of Police (formerly Safety and Security). This allocation was for security requirements for the 2009 elections and the 2010 FIFA World Cup™ tournament; revamping the criminal justice sector; and inflation-related adjustments, essentially to cover the higher fuel price and salary increases granted in the public sector.

During fiscal 2009/10, interest paid on national government debt equalled R56,9 billion – an increase of 4,7 per cent when compared with the previous fiscal year. Higher interest payments emanated from increased issuances of debt instruments to finance the higher-than-anticipated deficit. Payments for capital assets amounted to R8,3 billion – about 13 per cent less than in the previous fiscal year.

Equitable share transfers to provinces rose 17,7 per cent year on year in fiscal 2009/10, higher than the originally budgeted projections. This growth followed the implementation of the occupation-specific dispensation and general salary increases for provincial education and health practitioners. In fiscal 2009/10 national government transferred R6,8 billion to local government as part of the general fuel levy sharing agreement with metropolitan municipalities. This followed the abolishment of Regional Services Council levies.

After taking into account cash-flow adjustments,[12] national government cash-flow expenditure in fiscal 2009/10 totalled R724 billion – or 14,3 per cent more than in the same period a year earlier.

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

National government revenue in fiscal 2009/10 amounted to R580 billion – some 4,7 per cent less than in the previous fiscal year and in contrast to the originally budgeted *increase* of 5,6 per cent. The decline in receipts permeated most major tax categories, mirroring sluggish domestic economic conditions. Taxes on income, profits and capital gains were influenced by a steep drop of 18,6 per cent in corporate income taxes, signalling the decreased profitability of companies alongside weak domestic economic performance. This was consistent with the trend in corporate dividend payments. Falling corporate income tax collections far outweighed the modest positive growth in personal income tax receipts. Collections from taxes on goods and services recorded a moderate growth rate of only 1,1 per cent in fiscal 2009/10.

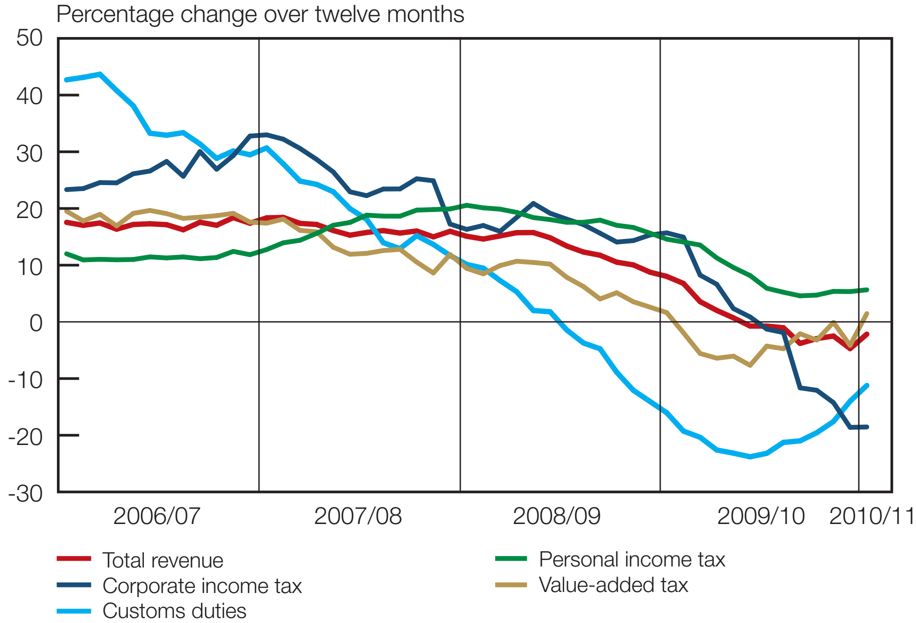
National government revenue in fiscal 2009/10

Revenue source	Originally budgeted Full year		Actual Full year	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	389,0	1,4	359,1	-6,4
Income tax on individuals	*208,3*	*6,3*	*206,5*	*5,3*
Income tax on companies	*180,7*	*-3,6*	*152,5*	*-18,6*
Payroll taxes	7,8	5,8	7,8	6,1
Taxes on property	10,4	9,9	8,8	-6,9
Taxes on goods and services	226,5	12,6	203,5	1,1
Value-added tax	*168,8*	*9,4*	*147,9*	*-4,1*
Taxes on international trade and transactions	25,3	10,9	19,4	-15,2
Other revenue	11,9	-11,3	9,4	-29,5
Less: SACU** payments	27,9	-3,5	27,9	-3,5
Total revenue	643,0	5,6	580,0	-4,7

* Fiscal 2008/09 to fiscal 2009/10
** Southern African Customs Union

Viewed on a short-term basis, there were indications of an improvement in tax collections in the final quarter of the fiscal year, indicating a turnaround in economic activity. Consistent with benign developments in the domestic real-estate and capital market activity, the decline in taxes on property slowed as signs of recovery emerged in recent months. Furthermore, value-added tax collections recovered significantly to yield a much improved growth rate since May 2009, reflecting better consumer sentiment as the economy continued to recover. Proceeds from taxes on international trade and transactions improved due to the slowdown in the contraction of customs duties alongside better global trading conditions.

National government rolling twelve-month revenue



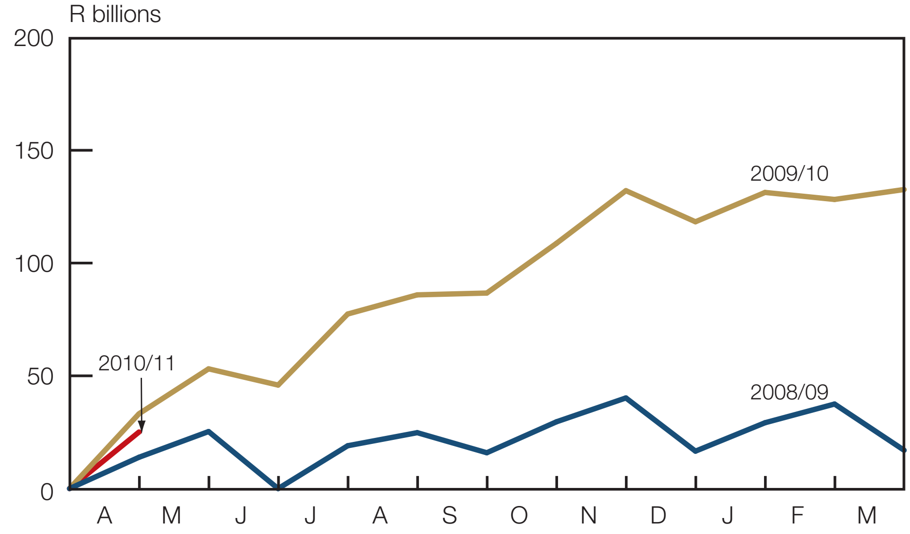
Netting national government revenue and expenditure resulted in a cash-book deficit of R133 billion in fiscal 2009/10 – almost eight times the cash-book deficit recorded in fiscal 2008/09. The cash-book deficit exceeded the originally budgeted deficit for fiscal 2009/10 by R37,0 billion. The actual outcome for fiscal 2009/10 was less than the revised cash-book deficit of R143 billion envisaged in the *Budget Review 2010*, owing to better-than-expected revenue collections in March 2010. During the period under review, the deficit as a ratio of gross domestic product amounted to 5,4 per cent compared with a deficit ratio of 0,7 per cent a year earlier.

The primary balance[13] reversed from a primary *surplus* of R37,3 billion or 1,6 per cent of gross domestic product in fiscal 2008/09, to a primary *deficit* of R75,7 billion or 3,1 per cent of gross domestic product in fiscal 2009/10.

13 The deficit recalculated by excluding interest payments from expenditure.

The net outcome of national government cash-flow revenue and expenditure was a cash-flow deficit before borrowing and debt repayment of R144 billion. This was considerably higher than the cash-flow deficit recorded in the previous fiscal year. Extraordinary receipts comprised R3,9 billion in proceeds from the sale of Telkom shares in Vodacom, a profit on the conversion of foreign-currency transactions of R0,2 billion, R0,5 billion in special dividends from Telkom and proceeds from the liquidation of a South African Special Risk Insurance Agency (Sasria) investment amounting to R0,1 billion.

Cumulative deficit of national government



Included in extraordinary payments were losses on conversion of foreign-exchange transactions of R0,4 billion, losses on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) of R0,2 billion and an amount of R55 *million* as a final payment of government's liability in respect of Saambou Bank. After accounting for extraordinary transactions and the cost on revaluation of foreign debt at redemption, the net borrowing requirement amounted to R141 billion in fiscal 2009/10, significantly higher than the net borrowing requirement of R26,7 billion recorded in fiscal 2008/09.

As indicated in the accompanying table, the net borrowing requirement was financed through issuances of debt instruments in domestic and foreign capital markets. Given the deep and liquid South African capital market, most of the borrowing requirement was financed domestically. In fiscal 2009/10, national government raised R49,8 billion in Treasury bills, outstripping the original budget by more than three times – largely owing to the unanticipated higher deficit. Furthermore, government's higher borrowing needs meant that more domestic marketable bonds were issued in fiscal 2009/10, substantially exceeding the originally budgeted projections. For fiscal 2009/10, net issues of RSA Government Retail Savings Bonds amounted to R2,7 billion, bringing the total balance outstanding to R4,2 billion at the end of March 2010.

Domestic funding from Treasury bills was obtained at an average rate of 7,3 per cent per annum, while domestic long-term nominal yield instruments were sold at an average rate of 8,8 per cent. As a component of domestic long-term bonds, funding from inflation-linked bonds was obtained at an average real rate of 2,7 per cent in fiscal 2009/10. The average outstanding maturity of domestic marketable bonds of national government decreased slightly from 123 months at the end of March 2009 to 122 months at the end of March 2010.

National government financing in fiscal 2009/10

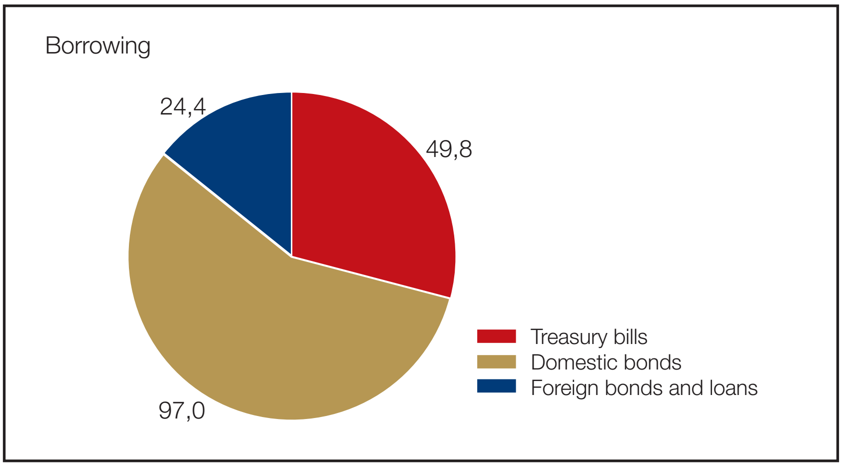
R billions

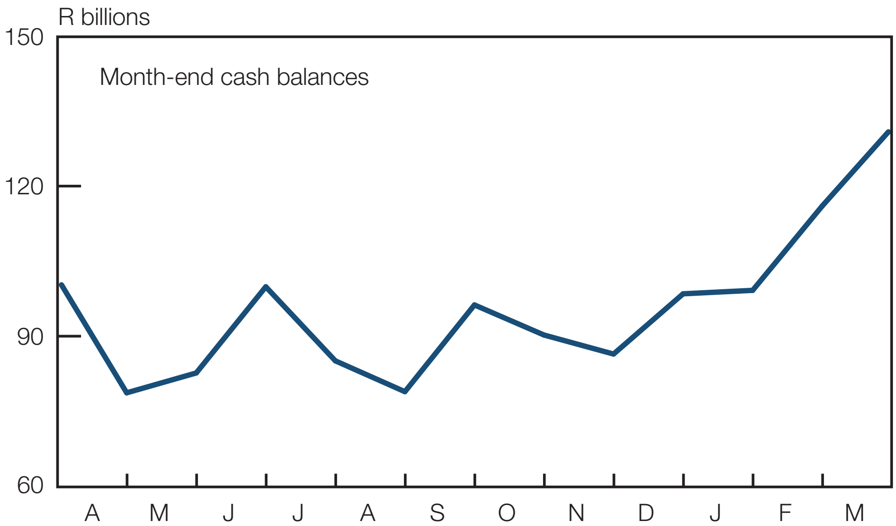
Item or instrument	Originally budgeted 2009/10	Revised estimate 2009/10*	Actual 2009/10	Actual 2008/09
Deficit	95,6	177,3	144,0**	23,0**
Plus: Extraordinary payments	0,9	0,7	0,7	4,3
Cost on revaluation of foreign debt at redemption	2,3	0,9	0,8	2,7
Less: Extraordinary receipts	4,0	6,5	4,8	3,3
Net borrowing requirement	**94,8**	**172,3**	**140,7**	**26,7**
Treasury bills	15,4	49,7	49,8	13,2
Domestic government bonds	63,7	114,0	97,0	23,0
Foreign bonds and loans	6,1	9,9	24,4	-1,3
Change in available cash balances***	9,6	-1,3	-30,4	-7,5
Total net financing	**94,8**	**172,3**	**140,7**	**26,7**

* *Budget Review 2010*
** Cash-flow deficit
*** Increase – decrease +

National government financing in fiscal 2009/10

R billions





National government increased its foreign bond holdings by raising R14,8 billion through the issuance of a US$2 billion global ten-year bond in March 2010, at a coupon rate of 5,5 per cent and a US dollar yield of 5,3 per cent per annum. On a net basis, issues of foreign bonds and loans amounted to R24,4 billion in fiscal 2009/10. Accordingly, the average outstanding maturity of the foreign marketable bonds of national government increased from 77 months to 97 months between March 2009 and March 2010.

Funding activities of national government increased national government's available cash balances by R30,4 billion during fiscal 2009/10, bringing these balances to R132 billion at the end of March 2010. During this period, deposits with the Bank increased by R23,2 billion to a level of R93,3 billion as at 31 March 2010.

Between March 2009 and March 2010 domestic debt of national government, as a component of total loan debt, rose from R519 billion to R696 billion. The sharp increase in domestic debt resulted from more issues of Treasury bills and long-term domestic bonds in order to finance the higher-than-anticipated budget deficit.

Despite government recording sizeable net issues of foreign bonds and loans, foreign debt of national government increased marginally from R97,3 billion to R99,7 billion between March 2009 and March 2010. This was predominantly due to revaluation effects arising from the strengthening exchange value of the rand.

Reflecting the expansionary fiscal stance adopted in the light of the international economic crisis, total loan debt of national government rose from R616 billion as at 31 March 2009 to R796 billion as at 31 March 2010. As a ratio of gross domestic product, total loan debt increased from 26,6 per cent to 32,4 per cent between these respective dates.

National government finances in fiscal 2010/11

National government expenditure and revenue in the first month of fiscal 2010/11 resulted in a cash-book deficit of R25,0 billion – some R8,2 billion less than in the same period of the previous fiscal year. Tax revenue seemed to be recovering.

National government finances in fiscal 2010/11

R billions

	Originally budgeted Full year	Actual April 2010
Revenue	643,2	37,0
Expenditure	818,1	62,0
Budget deficit	174,9	25,0

Statement of the Monetary Policy Committee

25 March 2010

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

Introduction

The domestic economy has shown signs of moderate improvement since the previous meeting of the MPC. Inflation expectations have moderated. Inflation has returned to within the target range and is expected to remain there for the remainder of the forecast period. The risks to the inflation outlook have declined somewhat as a result of the continued appreciation of the exchange rate of the rand and greater certainty with respect to future electricity tariff increases. Household consumption expenditure is growing at positive, albeit low rates, but growth in private sector fixed capital formation remains negative.

Recent developments in inflation

The year-on-year inflation rate as measured by the consumer price index for all urban areas (CPI) returned to within the inflation target range sooner than expected, in February 2010, when it measured 5,7 per cent. The moderation in inflation was fairly broad-based. The main contributors to the inflation outcome were the categories of housing and utilities, and miscellaneous goods and services. The former category was driven mainly by electricity price increases of 26,8 per cent, while the latter category was driven by insurance costs relating to housing, health and transport. Food price inflation declined to 1,0 per cent, while communication costs declined by 22,0 per cent. Administered prices excluding petrol and paraffin increased by 10,8 per cent.

Producer price inflation increased to 3,5 per cent in February 2010, compared with 2,7 per cent in the previous month. Food price inflation at the producer level remained well contained. Agricultural food prices declined at a year-on-year rate of 13,5 per cent, while manufactured food prices declined by 1,2 per cent.

The outlook for inflation

The CPI forecast of the South African Reserve Bank (the Bank) indicates an improved inflation outlook during 2010 and a relatively unchanged outlook for 2011. Inflation is expected to average 5,3 per cent and 5,4 per cent in 2010 and 2011 respectively, and to reach a low point at an average of 4,9 per cent during the third quarter of 2010. There is now greater certainty with respect to electricity tariff increases following the decision by the National Energy Regulator of South Africa (NERSA) to grant price increases to Eskom in the order of 25 per cent per annum, which was in line with the Bank's previous assumptions. However, because lower increases were granted to municipalities, the current forecast makes provision for electricity tariff increases of 20 per cent during the third quarters of 2010 and 2011. Other factors contributing to the improved expected inflation trajectory include favourable food price developments and lower-than-expected inflation outcomes.

The Survey of Inflation Expectations published by the Bureau for Economic Research (BER) at Stellenbosch University shows a significant improvement in the first quarter of 2010, although expectations on average remain above the upper end of the target range. Average headline CPI inflation expectations in respect of 2010 declined from

7,7 per cent during the final quarter of 2009 to 6,5 per cent during the first quarter of 2010. Inflation expectations in respect of 2011 declined from 7,7 per cent to 6,7 per cent, and the expectation for 2012 is 6,8 per cent. The improved outlook was mainly due to the favourable change in the expectations of business sector and labour union respondents. The expectations of analysts remained more or less unchanged.

Inflation expectations in the financial markets also reflected a more favourable inflation outlook. The Reuters survey of financial analysts shows some improvement relative to the previous month. Inflation expectations as measured by the yield differential between conventional government bonds and inflation-linked bonds across all maturities have declined since January, and reflect expectations within the target range over longer maturities.

Growth in domestic expenditure appears to be recovering at a modest pace but does not currently pose an upside risk to the inflation outlook. Following five consecutive quarters of negative growth, real household consumption expenditure increased at an annualised rate of 1,4 per cent in the fourth quarter of 2009. While expenditure growth on non-durable and semi-durable goods contracted, expenditure on durable goods, particularly motor vehicles, increased. Wholesale and retail trade sales in January appear to confirm this trend as positive month-on-month growth was experienced. Consumer confidence, as reflected in the First National Bank/BER Consumer Confidence Index, showed a significant recovery.

The turnaround in household consumption expenditure is expected to continue at a slow pace. The improvements in the domestic equity markets appear to have reversed the negative wealth effects on consumption. Nevertheless, the recovery in household consumption expenditure is expected to be constrained by the levels of household indebtedness, which increased to 79,8 per cent of disposable income of households in the fourth quarter of 2009. Other constraining factors include the strict credit criteria applied by banks and persistently high levels of unemployment.

Growth in total loans and advances to the private sector has been negative since September 2009 and declined further at a 12-month rate of 1,2 per cent in January. Mortgage credit extension was again the only category that showed positive growth, while loans to companies declined further. The subdued credit extension data are a function of both demand and supply-side effects. The strict credit criteria applied by banks have been partly a result of the rising levels of impaired advances, which now appear to be levelling off. In January 2010 impaired advances as a percentage of total gross loans and advances declined slightly to 5,9 per cent. A significant proportion of these impairments relate to retail loans, reflecting continued pressure on the consumer.

There are indications that the decline in employment in the formal non-agricultural sector appears to have slowed. According to the *Quarterly Employment Survey*, 18 000 jobs were created in the final quarter of 2009. However, on a seasonally adjusted basis, employment declined by 0,7 per cent, following the 5,1 per cent decline in the previous quarter. Cyclical employment trends tend to lag the upturn in the economy and the impact of the recession on employment will take some time to be reversed.

A countercyclical fiscal policy stance has been maintained. The national government deficit is projected to equal 7,2 per cent of gross domestic product (GDP) in the 2009/10 fiscal year, then to narrow over the next three years as the economy recovers and to measure 4,7 per cent in the 2012/13 fiscal year. The public sector borrowing requirement is expected to reach 11,8 per cent of GDP, and the overall government debt-to-GDP ratio is expected to peak at 43 per cent in the medium term. Should this fiscal trajectory be maintained, the MPC does not foresee a possible conflict with monetary policy objectives.

The economic growth outlook has improved somewhat over the past few months, although the output gap is expected to remain positive for some time. The 3,2 per cent annualised growth rate recorded in the fourth quarter of 2009 confirmed that the economy has emerged from the recession and the latest forecast of the Bank is that growth is likely to average 2,6 per cent in the current year. Although this compares favourably with the growth experienced in 2009, it is nevertheless still low.

The manufacturing sector in particular grew relatively strongly in the last two quarters of 2009, although off a low base, following four consecutive quarters of negative growth. The Kagiso/BER Purchasing Managers Index indicates that this trend is likely to continue. Business confidence, as measured by the Rand Merchant Bank/BER Business Confidence Index also showed an improvement, but remains negative.

The sustainability of the recovery in domestic growth will be influenced to a significant degree by the global growth trends. The pattern of the global economic recovery has remained unchanged, with strong growth being recorded in Asia in particular, and more moderate growth in a number of countries in Latin America and Africa. The outlook for the United States (US) and Europe is less positive, with increased concerns about the sustainability of burgeoning fiscal deficits and government debt ratios. In the US the weak housing market also remains a constraint on household consumption expenditure. Although a number of countries have begun to normalise their policy rates, monetary and fiscal stimuli still remain in place in most industrialised economies, and indications are that there will not be an early reversal of these accommodative policies. Against this backdrop, the benign global inflation environment is expected to persist and the risk of imported inflation is relatively low.

While an appreciated rand exchange rate is a positive factor in the inflation outlook, an excessively strong exchange rate is a cause for concern from the perspective of overall macroeconomic balance. It is difficult to determine with precision an appropriate level of the exchange rate, but at recent levels the exchange rate may contribute to constraints in the recovery of export- and import-competing sectors of the economy.

Since the previous meeting of the MPC, the rand has appreciated from levels of around R7,60 against the US dollar to current levels of around R7,35. On a trade-weighted basis, the rand has appreciated by about 6 per cent since the previous meeting and by 3 per cent since the beginning of the year. The trade-weighted exchange rate was also influenced by the recent weakness in the euro and pound sterling against the US dollar. Since the previous meeting, the rand has appreciated by about 8 per cent and 11 per cent against the euro and pound sterling respectively.

A number of factors continue to impact on the exchange rate of the rand. These include the sustained capital inflows into emerging markets, in general, in response to abnormally low interest rates in advanced economies, investor sentiment and the recovery in commodity prices. The recovery in commodity prices contributed to the narrowing of the deficit on the current account of the balance of payments in the final quarter of 2009 to 2,8 per cent of GDP.

Other supply-side or exogenous factors are not expected to impart a significant upside risk to the inflation forecast. International oil prices have remained relatively stable in the

US$70 to US$80 dollar range, and moderate increases over the forecast period have been incorporated into the inflation forecast. Nevertheless, an increase in the order of 50 cents per litre has been assumed for April; about half of which is due to increased fuel levies announced in the budget.

Domestic food prices, which for most of last year were one of the main sources of upside risk to the inflation outlook, have recently contributed favourably to the inflation outlook. In the past few weeks maize prices have declined significantly, despite an upward trend in other food prices globally. While it is not clear at this stage to what extent these price declines will be passed on to the consumer, these developments should at least constrain food price increases for some time.

Wage settlements continue to indicate some moderation, but remain positive in real terms. The ratio of total compensation of employees to real GDP declined from 10,1 per cent in the year to the third quarter of 2009 to 9,2 per cent in the year to the fourth quarter. Nominal unit labour costs increased from 5,7 per cent in the third quarter to 8,8 per cent in the fourth quarter of 2009, but this figure was distorted by significant one-off adjustments to some public-sector pay scales.

Despite the reduced uncertainty associated with the electricity tariff increases, electricity and other administered price increases remain a threat to the inflation outlook. Of concern is the apparent trend towards greater reliance on high tariff increases to finance long-term infrastructural expenditure projects. These increases are, in effect, relative price changes or implicit tax increases. However, they contribute to the general inflation environment and remain a challenge for monetary policy.

Monetary policy stance

The assessment of the MPC is that despite clear signs that the economy has emerged from the recession, the pace of recovery is expected to remain slow. The improved inflation environment has provided some space for an additional monetary stimulus to reinforce the sustainability of the upswing without jeopardising the achievement of the inflation target. The MPC has therefore decided to reduce the repurchase rate by 50 basis points to 6,5 per cent per annum with effect from 26 March 2010. The MPC will continue to assess developments and will adjust the monetary policy stance when necessary in order to achieve the inflation target.

Statement of the Monetary Policy Committee

13 May 2010

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

Introduction

Since the previous meeting of the MPC, the outlook for domestic inflation has remained favourable, with inflation still being expected to remain within the target range over the forecast period. Domestic economic growth prospects appear to have improved and most growth forecasts have been revised upwards, despite only a modest recovery in household consumption expenditure.

The risks to this relatively favourable growth outlook have changed somewhat in the past few days as a result of recent global developments. The uncertainty related to the sustainability of fiscal deficits in a number of euro area countries, and the reaction of the financial markets to these events, has renewed fears of possible contagion that could affect the tentative recovery that has been taking place in most regions, including in South Africa. The concerted efforts by European governments, the European Central Bank (ECB) and the International Monetary Fund (IMF) have had some effect on calming the markets. However, significant risks to the global and domestic recovery remain.

Recent developments in inflation

The year-on-year inflation rate as measured by the consumer price index for all urban areas (CPI) declined to 5,1 per cent in March 2010 from 5,7 per cent in the previous month. The category of housing and utilities remained the single biggest driver of inflation, having contributed 1,6 percentage points, mainly as a result of the impact of a 26,8 per cent year-on-year increase in electricity prices. Food price inflation continued to contribute favourably to the average inflation outcome, having increased by 0,5 per cent. Administered prices excluding petrol and paraffin increased by 10,4 per cent, compared with 10,8 per cent in the previous month.

Producer price inflation increased to 3,7 per cent in March 2010, compared with 3,5 per cent in February. This upward trend was driven mainly by primary commodity price increases that do not impact directly on the CPI. Food price inflation at the producer level remained well contained and should constrain food price inflation at the consumer price level in the coming months. Agricultural food prices declined at a year-on-year rate of 6,2 per cent, while manufactured food prices declined by 1,5 per cent.

The outlook for inflation

The CPI forecast of the South African Reserve Bank (the Bank) indicates a slightly improved outlook compared with that presented at the previous meeting of the MPC, with a lower projected inflation for 2010 and 2011. CPI inflation is still expected to reach a low point in the third quarter of 2010 when it is forecast to average 4,7 per cent. Inflation is then expected to increase moderately and remain within the inflation target range until the end of the forecast period, which has been extended to the end of 2012, at 5,3 per cent.

Recent surveys indicate that analysts' inflation expectations are within the inflation target range for most of the forecast period. According to the Reuters CPI survey, respondents expect inflation to average 5,3 per cent in 2010, and 5,8 per cent and 6,0 per cent in the following two years. Inflation expectations as indicated by inflation-linked bonds also reflect an improvement since the previous meeting of the MPC and are within the inflation target range.

According to the *World Economic Outlook* published by the IMF in April 2010, global growth is now expected to average 4,2 per cent in 2010, compared with the October 2009 forecast of 3,1 per cent. However, the recent developments in Europe have raised the possibility of a renewed crisis that could threaten the global recovery. The reaction of the financial markets to the downgrading by the rating agencies of some euro area countries was reminiscent of the aftermath of the collapse of Lehman Brothers in September 2008. Apprehension about a possible default on Greek sovereign debt sparked concerns of a contagion effect on other European economies with high fiscal deficits and debt ratios. There were also fears of a spillover to the European banking sector, which has significant exposures to the sovereign debt of these countries.

The financial markets initially reacted positively to the concerted and significant policy interventions announced on 8 May by the euro area governments and the ECB. However, the markets were subsequently less convinced that the measures taken would be sufficient to resolve the underlying solvency problem of these countries, or that the required fiscal consolidations would be politically and socially feasible. These developments demonstrate the fragility of the global environment and the related uncertainties pose a downside risk to the global recovery. The global inflation outlook, however, is expected to remain benign and is not expected to pose an upside risk to domestic inflation.

For much of the period since the previous MPC meeting, the exchange rate of the rand had remained relatively stable within a range of around R7,23 and R7,48 against the US dollar. The turbulence in the global financial markets resulted in a brief but significant depreciation of the rand against the US dollar, as risk aversion returned to the markets. Following the announcement of the proposed government interventions in Europe, the rand appreciated to current rates of around R7,50 against the US dollar.

On a trade-weighted basis, the rand has remained relatively unchanged since the beginning of the year. Over the same period the rand has depreciated by over 1 per cent against the US dollar, but has appreciated by around 11 per cent against the euro. At current levels, the rand remains a positive factor in the inflation outlook, but this is contingent on developments in the euro area and general risk aversion.

The global developments also highlight the current focus of the financial markets on the sustainability of fiscal deficits and debt ratios. The South African national government deficit measured an estimated 6,7 per cent of GDP in the 2009/10 fiscal year, compared with the projected 7,2 per cent announced in the February budget. The deficit is expected to narrow over the next three years as the economy recovers and to measure 4,7 per cent in the 2012/13 fiscal year. The overall government debt-to-GDP ratio is expected to peak at 43 per cent in the medium term. This fiscal trajectory is consistent with fiscal sustainability and the MPC does not foresee a possible conflict with monetary policy objectives should this trend be maintained.

The moderate recovery in domestic economic growth appears to be sustained. Both the composite leading and coincident business cycle indicators of the Bank continued their upward trend in the first two months of 2010, confirming the positive short-term outlook for domestic economic activity. The various business confidence indices are also relatively favourable. The most recent GDP forecast of the Bank is for growth of 2,7 per cent in 2010 and 3,6 in 2011. At these rates of growth, the output gap is not viewed as an upside risk to the inflation outlook. The main risks to the growth outlook are seen to emanate from possible adverse global economic developments.

The growth outlook is underpinned by the continued recovery in the manufacturing sector, which grew at a broad-based year-on-year rate of 6,3 per cent in March. The Kagiso/BER Purchasing Managers Index declined in April, but still reflects a continued expansion of this sector. Total mining production increased at a year-on-year rate of 11,0 per cent in March.

Private-sector demand pressures remain benign from an inflation perspective. There is some evidence of an improvement in household consumption expenditure. Real retail sales declined on a year-on-year basis in February, but the shorter-term trends were more positive. When the three months to February are compared with the previous three months, an increase of around 3 per cent was recorded. New vehicle sales also maintained their favourable trends, increasing at a year-on-year rate of 36 per cent in April.

Domestic bank credit extension to the private sector continues to reflect weak demand conditions despite evidence of some loosening of credit supply constraints. Twelve-month growth in loans and advances contracted by 0,3 per cent in March 2010. Growth in mortgage advances declined from 3,9 per cent in February to 3,6 per cent in March, but nevertheless remained the only category of credit extension to register positive growth. The most recent Ernst & Young/BER Financial Services Index shows that the banks have moved to a more neutral position with respect to credit standards applied to new loans.

Consumption is also determined to some extent by the wealth effects in the economy. House prices appear to have recovered somewhat, and the various indices now all reflect positive house price growth. The equity markets have also improved significantly since their lows in March 2009. However, in the five trading days to 7 May, the JSE All-Share Index declined by almost 10 per cent, demonstrating the vulnerability of the market to changes in sentiment.

Despite the more favourable growth outlook, employment trends appear to be lagging the domestic recovery. The *Quarterly Labour Force Survey* indicates that 171 000 jobs were lost in the first quarter of 2010. These adverse trends are expected to constrain household consumption expenditure somewhat and offset, to some extent, the positive impact on consumption of higher real wage increases.

Notwithstanding these job losses, there is a concern about the possible impact of the level of wage increases in the economy. According to Andrew Levy Employment Publications, the average wage settlement rate in the first quarter of 2010 moderated to 8,4 per cent, compared with the 9,3 per cent increase measured in 2009. However, the MPC noted that a number of wage negotiations are at significantly higher levels, and well above the current and expected inflation rate. Should a general upward trend in wage settlement rates transpire, in the absence of compensating increases in productivity, it could pose an upside risk to the inflation outlook.

Other factors that have a significant impact on the inflation outlook include food and petrol prices. As noted earlier, food price inflation is expected to remain subdued as a result of the recent decline in the domestic maize price. The international oil price, having remained in the range of US$70 to US$80 per barrel for some time, appeared to have resumed its upward trend since late April. However the recent uncertainty in the financial markets, which cast doubts about the sustainability of the global recovery, resulted in a decline in the international price of Brent crude oil to below the US$80 per barrel level.

Monetary policy stance

The assessment of the MPC is that inflation is likely to remain within the inflation target range over the forecast period, and that the economy is expected to continue on a recovery path. The risks to the inflation forecast are seen to be more evenly balanced than at the previous meeting of the MPC. The main risks to the inflation outlook emanate from administered price developments and from the risks emanating from the global economy. The domestic growth outlook will continue to be affected by the global developments. The MPC will continue to monitor these developments closely.

For these reasons, the MPC deems it appropriate to maintain the current stance of monetary policy. Accordingly, the repurchase rate remains unchanged at 6,5 per cent per annum.

Note on flows of funds in South Africa's national financial accounts for the year 2009

by Z Nhleko and C Monyela[1]

Introduction

The flow-of-funds framework in South Africa integrates real and financial transaction flows to summarise the inter-linkages in the macroeconomic activity. The compilation of the flow-of-funds accounts relies on data collected through surveys and other sources of information available to the Research Department of the South African Reserve Bank (the Bank), in order to outline flows of funds among the main sectors of the economy. The quarterly accounts for 2009 are appended to this note and the annual summary appears on pages S–44 to S–45 in this issue of the *Quarterly Bulletin*.

In 2009 economic and financial conditions were exceptional, since the South African economy had contracted following the global financial crisis, the associated setbacks to confidence, the resultant deterioration in global economic activity and significant decline in international trade volumes. These conditions made themselves felt throughout the economy and were reflected in the national financial accounts.

Financing balances

Individual economic sectors consume more or less than their incomes, thereby creating a saving–investment gap in relation to others. This gap necessitates interrelations among sectors as net saving sectors provide lending, while net investing sectors require borrowing. Similarly, the combined gap of all the individual sectors represents the net lending or borrowing position of the total domestic economy in relation to the rest of the world, mirroring the balance on the current account of the balance of payments. Table 1 shows that in 2009 the domestic economy continued to finance its capital formation activities through a combination of saving and foreign funding. Capital formation was 7 per cent lower than in 2008 due to the subdued economic conditions.

As in 2008, the private non-financial business enterprises sector was both the largest saver and investor in 2009. As a share of total flows, this sector recorded 39 per cent of gross capital formation and 49 per cent of gross saving. The importance of the private non-financial business enterprises sector was further underscored by the magnitude of gross saving and investment, which respectively accounted for 9 per cent and 8 per cent of gross domestic product in 2009.

Owing to the 2010 FIFA World Cup™ tournament and related activities, non-financial public business enterprises accelerated their capital spending in 2009, resulting in a net borrowing position of R62,9 billion. Similarly, general government reported a deficit of R145,5 billion as revenue collection slowed and infrastructure needs remained high. In contrast, financial intermediaries had a net lending position of R73,8 billion.

1 The views expressed are those of the authors and do not necessarily reflect the views of the South African Reserve Bank (the Bank). The Bank wishes to express its sincere appreciation to all the reporting organisations – government departments, financial market and other public- and private-sector institutions – for their co-operation in furnishing the data used for the compilation of South Africa's financial accounts.

Table 1 Financing balances,[1,2] 2008 and 2009

R millions Surplus units (+)/deficit units (-)

	2008			2009		
	Gross saving	Gross capital formation	Net lending (+)/ net borrowing (-)	Gross saving	Gross capital formation	Net lending (+)/ net borrowing (-)
Foreign sector[3]	161 467	–	161 467	96 357	–	96 357
Financial intermediaries	87 130	12 264	74 866	87 574	13 816	73 758
General government	20 272	85 160	-64 888	-59 763	85 698	-145 461
Non-financial business enterprises						
Public	19 002	65 092	-46 089	66 812	129 763	-62 951
Private	173 410	277 599	-104 190	227 766	180 700	47 066
Households[4]	40 233	61 399	-21 166	49 132	57 901	-8 769
Total	501 514	501 514	–	467 878	467 878	–

1 Gross saving plus net capital transfers less gross capital formation. Gross capital formation consists of fixed capital formation and changes in inventories, before providing for consumption (depreciation) of fixed capital
2 A positive amount reflects a net lending position and, by implication, the net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and, by implication, the net incurrence of financial liabilities
3 A positive amount reflects a surplus for the rest of the world and is therefore a deficit on South Africa's current account. A negative amount represents a deficit for the rest of the world and is a surplus on South Africa's current account
4 Including unincorporated business enterprises and non-profit institutions serving households

The diagram below summarises the net flows of funds and the financial relationships among the main sectors of the South African economy and the rest of the world.[2] The net lending position of R96 billion recorded by the foreign sector mirrored an equivalent domestic shortage during 2009. The bulk of foreign funds to the domestic economy was absorbed by non-financial business enterprises, which received R63 billion. Non-financial business enterprises also recorded a net inflow of R59 billion from financial intermediaries, making this the largest recipient of funds in the economy during the period analysed.

2 Numbers may not balance perfectly due to rounding. The numbers inside the boxes represent the net lending (+) or borrowing (-) positions of the sectors and those outside the boxes illustrate inter-sectoral flow of funds and the direction of flows. To calculate the net lending or borrowing position of each sector, inflows are treated as negatives and outflows as positives.

Figure 1 Net intersectoral flows of funds, 2009

R billions

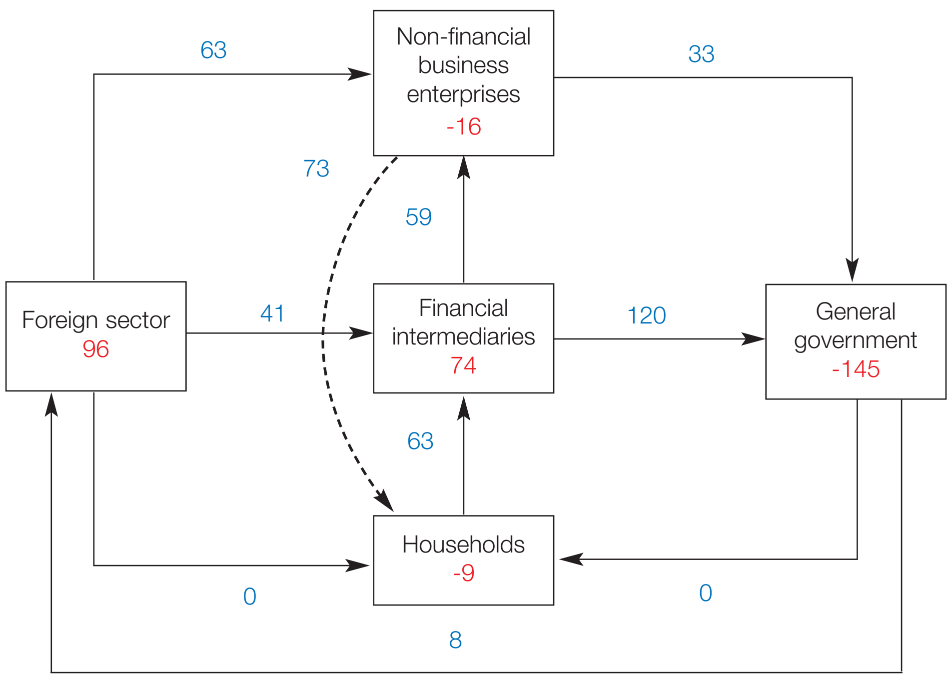


Table 2 illustrates some of the changes to economic agents' financing and investment patterns encountered in an environment of financial crisis and recession. While most of these agents preferred banking intermediation in the form of cash and deposits, and credit extension in 2008, the pattern reversed in 2009 as fixed interest securities of economic agents accounted for 14 per cent of total flows, while shareholdings accounted for 12 per cent.

Table 2 Flow of funds: Use of selected financial instruments,* 2009

R millions

	Percentage of total flows	
	2008	2009
Cash and deposits	22	8
Credit extension	28	3
Fixed-interest securities	7	14
Ordinary shares	2	12

* Do not sum to 100 as not all activities are covered

Sectoral analysis

The individual economic units with surplus funds need appropriate investment channels, while those with deficit positions need funds to finance their spending shortfalls. This section briefly reviews the way in which each of the sectors invested its surplus or sourced funds to meet its financing needs in 2009 by effecting changes in its holdings of the various financial market instruments.

Foreign sector

The foreign sector represents all non-resident economic agents that transact with South African resident units. During 2009, South African resident units were net recipients of funds from the rest of the world as they collectively borrowed a net amount of R96,4 billion from abroad. Non-resident units funded domestic units through their acquisition of shares, extending long-term loans and other assets. Although the domestic financing shortfall was relatively small, 2009 was the seventh consecutive year in which a current-account deficit was recorded in the balance of payments. The Bank also increased its holdings of gold and foreign-exchange reserves.

Table 3 Flow of funds: Foreign sector and combined domestic sectors, 2009

R millions

	Domestic institutional sectors	Rest of the world	Total
Gross saving	371 521	96 357	467 878
Gross capital formation	467 878	–	467 878
Net lending (+)/net borrowing (-)	-96 357	96 357	–
Net acquisition of financial assets	707 446	118 139	825 585
Net incurrence of financial liabilities	803 803	21 782	825 585

Financial intermediaries

Financial intermediaries include the monetary authority, other monetary institutions, the Public Investment Corporation, insurers and retirement funds, and other financial institutions. Their intermediation role plays a major role in ensuring the exchange of goods and services among economic agents. They attract funds from surplus units and lend these funds to deficit units, thereby ensuring continuity in the process of transacting in the economy. Each of these intermediaries is briefly discussed below.

Monetary authority

3 Excluding special drawings rights.

This sector, consisting of the Bank and the Corporation for Public Deposits, incurred liabilities amounting to R16,2 billion in 2009. The monetary authority sector interacts mainly with other monetary institutions, the central government and the foreign sector. It increased its holdings of foreign-exchange reserves by R14,3 billion[3] thereby increasing its international liquidity position further in 2009.

Other monetary institutions

Other monetary institutions, comprising banks, mutual banks, the Land Bank and the Postbank, recorded a net incurrence of liabilities amounting to R92,3 billion in 2009. The role of this sector was significantly curtailed during 2009. As presented in Table 4, the amount of bank loans and advances extended declined by R26,5 billion, along with a contraction in real output in the economy. The sector recorded mortgage loan issuances amounting to R39,0 billion in 2009, signifying the indebtedness of households and

Table 4 Flow of funds: Other monetary institutions, 2009

Transaction items	Sources/ liabilities R millions	Uses/ assets R millions
Gross saving	60 746	
Gross capital formation		8 873
Net lending (+)/net borrowing (-)	51 873	
Net financial investment (+/-)		51 873
Net incurrence of financial liabilities	-92 386	
Net acquisition of financial assets		-40 513
Monetary deposits	-3 060	-1 123
Deposits with other institutions	–	-32 616
Foreign	–	- 20 970
Domestic	–	-11 646
Bank loans and advances	-6 367	-26 496
Bills, bonds and loan stock	-1 305	67 743
Mortgage loans	–	39 030
Other assets/liabilities	-81 654	-87 051
Total sources/liabilities and uses/assets	**-31 640**	**-31 640**

	Per cent
Percentage of total sources used for gross capital formation	-28,0
Percentage of total sources used to acquire financial assets	128,0
Percentage of total asset flows	-2,0
Percentage of total financial intermediary asset flows	-9,0
Total asset/liability flows as a percentage of gross domestic product	-1,0

their inability to take up more loans, compared with R116,7 billion in 2008. Other monetary institutions decreased their deposits with foreign institutions by R20,9 billion in 2009. Normally this sector plays a key role facilitating expansion in the economy. However, banking intermediation was negatively affected as it accounted for a negative 9 per cent of the total financial-intermediary asset flows. Its total assets and liabilities flows contracted, partly due to a reduction in financial derivatives included in "other" assets and liabilities.

Public Investment Corporation

Given its open mandate to invest funds on behalf of public-sector entities, the Public Investment Corporation invested R24,1 billion in long-term government bonds and R2,4 billion in shares, while reducing its holdings of liquid instruments by R23,0 billion. The corporation received funds, 90 per cent of which were from the government employees' pension and provident funds, amounting to R33,4 billion in 2009, compared with R62,0 billion in 2008. Recently the government employees' pension and provident funds board has strengthened its oversight role and its strategic investment guideline to the corporation. The intermediation activities of the corporation represented 10 per cent of total financial intermediary asset flows in 2009.

Insurers and retirement funds

Insurers and retirement funds recorded a financing surplus of R8,8 billion, mainly as the sector remained cautious amid adverse financial developments in 2009. The sector acquired net financial assets amounting to R173,6 billion, which included deposits amounting to R25,1 billion with non-bank financial institutions.

Table 5 Flow of funds: Insurers and retirement funds, 2009

	R millions
Financing balance	**8 824**
Net incurrence of financial liabilities	**164 733**
Members' interest in the reserves of retirement and insurance funds	70 061
Other liabilities	94 672
Net acquisition of financial assets	**173 557**
Monetary deposits	**-41 497**
Other deposits	**25 072**
Public Investment Corporation	21 874
Foreign deposits	-358
Other	3 556
Bills and bonds	**39 383**
Short-term government bonds	-20 507
Long-term government bonds	38 354
Other	21 536
Other loan stock and preference shares	**-25 428**
Domestic	-9 336
Foreign	-16 092
Shares	**-12 356**
Domestic	-15 061
Foreign	2 705
Other assets	**188 383**
	Per cent
Percentage of total asset flows	13,0
Percentage of total financial intermediary asset flows	52,0
Total asset/liability flows as a percentage of gross domestic product	7,0

On the liability side, insurers and retirement funds incurred a total of R164,7 billion, including contributions by members amounting to R70,1 billion. In an environment of subdued intermediation by banks, the insurers and retirement funds sector increased its intermediation role, accounting for 52 per cent of the total financial intermediary asset flows in 2009 and helped to counter the shortfall from other financial intermediaries.

Other financial institutions

Other financial institutions, including collective investment schemes, finance companies and public financial enterprises, collectively recorded a surplus of R11,7 billion in 2009. They received a total of R165,9 billion from investors in 2009, and funds were mainly channelled to monetary deposits, government bonds, and other loan stock and shares. This sector is dominated by the unit trust business, which acquires funds through the sale of units to investors and, in turn, invests these funds by purchasing financial securities. The total asset/liability flows of the other financial institutions sector amounted to 7 per cent of gross domestic product in 2009. Its share of total financial intermediary asset flows was 52 per cent, signalling an increased intermediation role during the review period, while helping to counter the shortfall from other financial intermediaries.

Table 6 Flow of funds: Other financial institutions, 2009

	R millions
Financing balance	**11 705**
Net incurrence of financial liabilities	**165 947**
Deposits received	72 009
Long-term loans	12 236
Other liabilities	81 702
Net acquisition of financial assets	**177 652**
Monetary deposits	**60 930**
Other deposits	**7 910**
Foreign deposits	7 939
Other	-29
Bills and bonds	**52 327**
Short-term government bonds	2 830
Long-term government bonds	919
Other bills	48 578
Trade credit and short-term loans	**-11 121**
Other loan stock and preference shares	**5 868**
Domestic	7 144
Foreign	-1 276
Shares	**93 300**
Domestic	89 811
Foreign	3 489
Other assets	**-31 562**
	Per cent
Percentage of total asset flows	13,0
Percentage of total financial intermediary asset flows	52,0
Total asset/liability flows as a percentage of gross domestic product	7,0

Central and provincial governments

The central and provincial government sector recorded a financing deficit amounting to R75,0 billion in 2009, after recording a surplus in 2008. This net borrowing position was caused by, among other things, low revenue collection and increased capital spending. Central government issued mainly long-term bonds amounting to R106,1 billion and Treasury bills amounting to R42,6 billion to finance its deficit.

Table 7 Flow of funds: Central and provincial governments, 2009

	R millions
Financing balance	-75 043
Net acquisition of financial assets	26 802*
Net incurrence of financial liabilities by financial instrument	101 845
Treasury bills	42 622
Short-term government bonds	-44 745
Long-term government bonds	106 064
Non-marketable government bonds	7 133
Other	-9 229
Financing by sector	101 845
Other monetary institutions	54 273
Public Investment Corporation	16 285
Insurers and retirement funds	27 968
Other financial institutions	15 311
Foreign sector	-9 201

* Excluding R11,7 billion reclassified in June 2010 from capital transfers to public non-financial corporations to loans in the central government accounts

Local governments

Local governments recorded a financing deficit of R70,4 billion in 2009. This sector financed its shortfall by reducing its net acquisition of financial assets, issuing local government securities, incurring short-term loans and trade credit.

Public non-financial corporate business enterprises

In 2009 public non-financial corporate business enterprises recorded a financing deficit of R63,0 billion after spending R129,7 billion on gross capital formation mostly related to providing infrastructure for the 2010 FIFA World Cup™ tournament. The enterprises sourced funds primarily by issuing bills, bonds and loan stock; taking up bank loans and advances; increasing trade credit and short-term loans; and issuing shares.

Private non-financial corporate business enterprises

After recording a financing deficit of R105,1 billion in 2008, this sector recorded a financing surplus amounting to R47,1 billion in 2009. Private non-corporate businesses invested their excess funds in liquid instruments, shares and other assets. They also increased trade credit and short-term loans. The sector continued to play a crucial role in gross capital formation as it contributed R180,7 billion in 2009. The gross capital formation of private non-financial corporate business enterprises was funded through a mix of saving and issuance of various financial instruments such as bills, bonds and loan stock, long-term and mortgage loans, trade credit and short-term loans, and the sale of shares. Total asset/liability flows equivalent to 18 per cent of gross domestic product were recorded by this sector during the year under review.

Table 8 Flow of funds: Private non-financial corporate business enterprises, 2009

Transaction items	Sources/ liabilities R millions	Uses/ assets R millions
Gross saving	222 472	
Capital transfers	5 337	43
Gross capital formation		180 700
Net lending (+)/net borrowing (-)	47 066	
Net financial investment (+/-)		47 066
Net incurrence of financial liabilities	211 191	
Net acquisition of financial assets		258 257
Monetary deposits	–	24 185
Other deposits	64	50 711
Bank loans and advances	-17 916	–
Trade credit and short-term loans	13 806	59 446
Bills, bonds and loan stock	39 483	9 881
Shares	93 119	-23 139
Domestic	4 683	-45 418
Foreign	88 436	22 279
Long-term and mortgage loans	25 827	5 020
Other assets/liabilities	56 808	132 153
Total sources/liabilities and uses/assets	439 000	439 000
	Per cent	
Percentage of total sources used for gross capital formation	41,0	
Percentage of total sources used to acquire financial assets	59,0	
Percentage of total asset flows	32,0	
Gross capital formation as a percentage of gross domestic product	8,0	
Total asset/liability flows as a percentage of gross domestic product	18,0	

Households

Despite their incurrence of liabilities through bank loans and advances, long-term and mortgage loans and other liabilities, households increased their financial investments through deposits and contributions at other monetary institutions, insurers and pension funds and other financial institutions such as unit trusts. The sector recorded a financing deficit of R8,8 billion in 2009, roughly half the amount recorded in 2008.

Summary and conclusion

Contraction in economic activity during 2009 restricted trade volumes and dampened financial flows among the major sectors of the economy. The financing pattern of borrowers switched to longer-term funds since money-market instruments and banking intermediation were not easily accessible. An analysis of South Africa's national financial accounts for the year 2009 highlights the following:

- The domestic economy continued to expand its infrastructure development by using a combination of domestic saving and inflows from the rest of the world.
- Non-financial private business enterprises continued to play a key role in the capital formation activity of the economy.
- The financial crisis in 2009 adversely affected financial intermediation by the banking sector, while that of non-bank financial institutions increased significantly.

- The households sector's incurrence of debt slowed and was partly offset by increases in households' interest in retirement and life funds.
- The monetary authority continued to increase its gold and foreign-currency holdings.
- The central and provincial governments registered a deficit position, accompanied by an acceleration in the supply of government bonds in the domestic financial markets.

References

Nhleko, Z and Meyer, D H. 2002. "A note on flow of funds in South Africa's national financial account for the year 2002." *Quarterly Bulletin*, No. 223, March. Pretoria: South African Reserve Bank.

______. 2003. "A note on flow of funds in South Africa's national financial account for the year 2003." *Quarterly Bulletin,* No. 227, March. Pretoria: South African Reserve Bank.

National financial account

Flow of funds for the first quarter 2009[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	33 058		276		9 697				2 589		3 076	
2. Consumption of fixed capital[4]			6		1 792				120		52	
3. Capital transfers	28	84										
4. Gross capital formation[4]				13		1 291				200		500
5. Net lending (+)/net borrowing (-) (S)	33 002		269		10 198				2 509		2 628	
6. Net financial investment (+) or (-) (U)		33 002		269		10 198				2 509		2 628
7. Net incurrence of financial liabilities (Total S 9 - 32)	2 379		6 594		- 13 305		- 19 589		29 929		7 659	
8. Net acquisition of financial assets (Total U 9 - 32)		35 381		6 863		- 3 107		- 19 589		32 438		10 287
9. Gold and other foreign reserves	1 814			1 814								
10. Cash and demand monetary[5] deposits		- 12 314	- 4 574	- 185	- 11 474	- 3 407		1 320		7 938		- 3 019
11. Short/medium-term monetary[5] deposits		- 4 682	- 154	5	13 713			- 2 936		- 1 503		8 220
12. Long-term monetary[5] deposits		- 2 592	57	757	- 4 152			- 3 011		- 996		3 513
13. Deposits with other financial institutions		3				1 584		- 3 019		- 592	16 075	
14. Deposits with other institutions	- 964					- 6 657	- 19 589	78	78	- 22 893		- 1 936
15. Treasury bills				- 98		4 816				8		1 287
16. Other bills	266			3 807	567	- 746		4 664		- 974	- 38	8 711
17. Bank loans and advances	4 345		5 199	1 739	1 730	15 725					- 12 304	
18. Trade credit and short-term loans	- 6 344	16 598	- 38	855	5 798	- 14 205			741	7 779	- 1 573	- 15 149
19. Short-term government bonds				- 2 295		- 8 951		- 6 796		- 10 756		- 1 365
20. Long-term government bonds		- 629		1 815		19 256		9 691		396		- 3 883
21. Non-marketable government bonds[6]		- 363		- 723								
22. Securities of local governments						- 98		- 150		- 421		- 99
23. Securities of public enterprises	- 36	- 528	876			4 278		7 478		4 676	3 951	138
24. Other loan stock and preference shares	499	797	677		293	- 523		- 1 841	- 2 209	- 58	214	2 132
25. Ordinary shares	6 317	34 474			3 308	- 9		- 32 956	- 2 958	- 7 796		- 17 146
26. Foreign branch/head office balances												
27. Long-term loans	1 062	1 287	4 642	- 32	- 1 794				2	- 9 756	- 977	6 552
28. Mortgage loans	1 643					18 382				598	14	163
29. Interest in retirement and life funds[7]		- 130				- 203			22 384			
30. Amounts receivable/payable	- 5 001	11 732	- 415	- 3	- 19 170	- 17 043		- 268	- 451	36 540	- 49	- 1 170
31. Other assets/liabilities	- 1 222	- 8 272	324	- 593	- 2 093	- 15 230		8 157	12 256	29 936	2 260	23 253
32. Balancing item					- 31	- 76			86	312	86	85

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)

Flow of funds for the first quarter 2009[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
30 598		- 15 329		- 237		- 4 138		- 16 122		43 468		1. Net saving[4]
6 909		4 903		7 060		50 605		10 399		81 846		2. Consumption of fixed capital[4]
	15 614	8 900		2 325		2 663	10	1 810	18	15 726	15 726	3. Capital transfers
	10 759		11 152		32 957		53 234		15 208		125 314	4. Gross capital formation[4]
11 134		- 12 678		- 23 809		- 4 114		- 19 139		-		5. Net lending (+)/net borrowing (-) (S)
	11 134		- 12 678		- 23 809		- 4 114		- 19 139		-	6. Net financial investment (+) or (-) (U)
439		6 279		37 890		24 529		45 963		128 767		7. Net incurrence of financial liabilities (Total S 9 - 32)
	11 573		- 6 399		14 081		20 415		26 824		128 767	8. Net acquisition of financial assets (Total U 9 - 32)
										1 814	1 814	9. Gold and other foreign reserves
	21 648		523		648		- 28 075		- 1 125	- 16 048	- 16 048	10. Cash and demand monetary[5] deposits
	- 15 392		4 039		10 783		2 872		12 153	13 559	13 559	11. Short/medium-term monetary[5] deposits
	- 3 564		- 207		842		5 761		- 4 598	- 4 095	- 4 095	12. Long-term monetary[5] deposits
			2	- 2	1 047		7 624		9 424	16 073	16 073	13. Deposits with other financial institutions
	2 353		7			- 43	8 160		370	- 20 518	- 20 518	14. Deposits with other institutions
2 293							- 3 720			2 293	2 293	15. Treasury bills
	793			2 112	- 762	14 332	1 746			17 239	17 239	16. Other bills
- 644		- 910		2 841		15 332		1 875		17 464	17 464	17. Bank loans and advances
3 030	2 054	2 999	76	6 933	525	19 356	28 797	- 4 624	- 1 052	26 278	26 278	18. Trade credit and short-term loans
- 30 011					154				- 2	- 30 011	- 30 011	19. Short-term government bonds
28 428					1 782					28 428	28 428	20. Long-term government bonds
- 676									410	- 676	- 676	21. Non-marketable government bonds[6]
		- 100					668			- 100	- 100	22. Securities of local governments
	1 018		- 23	11 949			- 134		- 163	16 740	16 740	23. Securities of public enterprises
	- 85	1		1 427	1 698	1 415	196		1	2 317	2 317	24. Other loan stock and preference shares
	714			689	2 743	- 56 729	- 29 402		5	- 49 373	- 49 373	25. Ordinary shares
												26. Foreign branch/head office balances
- 618	3 935	263		4 436	7 857	- 4 811	- 8 824	- 903	283	1 302	1 302	27. Long-term loans
			1	51		7 493		9 943		19 144	19 144	28. Mortgage loans
	- 533				- 448		12 806		10 892	22 384	22 384	29. Interest in retirement and life funds[7]
22 075	- 1 368	- 158	- 51	2 880	- 14 740	8 306	- 5 913	- 75	226	7 942	7 942	30. Amounts receivable/payable
- 23 328		4 138	- 10 574	4 430	1 714	19 511	27 632	39 747		56 023	56 023	31. Other assets/liabilities
- 110		46	- 192	144	238	367	221			588	588	32. Balancing item

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account
Flow of funds for the second quarter 2009[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries									
			Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	20 797		232		15 008				4 433		3 330	
2. Consumption of fixed capital[4]			6		1 823				121		52	
3. Capital transfers	25	82										
4. Gross capital formation[4]				2		2 277				2 852		252
5. Net lending (+)/net borrowing (-) (S)	20 740		236		14 554				1 702		3 130	
6. Net financial investment (+) or (-) (U)		20 740		236		14 554				1 702		3 130
7. Net incurrence of financial liabilities (Total S 9 - 32)	6 122		- 46 134		- 59 393		28 490		67 666		44 664	
8. Net acquisition of financial assets (Total U 9 - 32)		26 862		- 45 898		- 44 839		28 490		69 368		47 794
9. Gold and other foreign reserves	6 650			6 650								
10. Cash and demand monetary[5] deposits		- 13 134	8 166	843	6 902	1 651		- 1 735		5 806		- 4 566
11. Short/medium-term monetary[5] deposits		- 18 175	90	547	- 50 044			- 1 200		- 32 037		- 13 292
12. Long-term monetary[5] deposits		- 3 626	22	- 859	41 174			- 5 316		- 7 655		40 905
13. Deposits with other financial institutions		- 1				1 052		4 053		4 164	25 799	
14. Deposits with other institutions	- 4 429					- 28 294	28 490	479	479	26 155		176
15. Treasury bills				73		13 118				439		1 701
16. Other bills	- 27 117			- 26 152	- 1 441	655		- 11 125		- 147	148	23 003
17. Bank loans and advances	1 535		272	1 681	1 645	- 19 127					1 487	
18. Trade credit and short-term loans	- 378	- 10 115	- 812	- 292	- 4 025	- 3 231			- 564	17 457	- 180	- 1 468
19. Short-term government bonds				- 165		- 6 279		- 7		2 217		3 339
20. Long-term government bonds		- 4 507				6 314		6 872		8 863		- 2 519
21. Non-marketable government bonds[6]		- 703		126				51				
22. Securities of local governments						- 309		102		786		119
23. Securities of public enterprises	23	1 314	- 4 918			- 6 789		7 207		- 2 474	136	16
24. Other loan stock and preference shares	1 117	- 2 501	- 798		- 1 059	1 739		- 476	- 85	- 22 118	- 178	4 568
25. Ordinary shares	2 758	23 957			4 156	1 997		30 607	- 6 073	17 817		21 107
26. Foreign branch/head office balances												
27. Long-term loans	413	- 4 100	- 53 119	- 113	- 2 018				- 12	5 307	7 175	- 6 629
28. Mortgage loans	1 848					6 016				- 432	989	398
29. Interest in retirement and life funds[7]		- 300				- 139			22 808			
30. Amounts receivable/payable	10 517	21 367	- 57	- 14 989	- 30 533	- 4 103		- 13	16 251	14 026	- 5 202	- 20 190
31. Other assets/liabilities	13 185	37 386	5 020	- 13 248	- 24 112	- 9 083		- 1 009	34 646	31 146	14 367	844
32. Balancing item					- 38	- 27			216	48	123	282

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the second quarter 2009[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
- 10 669		- 17 017		1 430		8 446		18 579		44 569		1. Net saving[4]
6 881		4 903		7 287		50 903		10 543		82 519		2. Consumption of fixed capital[4]
	17 800	4 154		9 125		1 451	**9**	3 152	**16**	17 907	**17 907**	3. Capital transfers
	9 604		**11 761**		**34 498**		**51 541**		**14 301**		**127 088**	4. Gross capital formation[4]
- 31 192		- 19 721		- 16 656		9 250		17 957		-		5. Net lending (+)/net borrowing (-) (S)
	- 31 192		**- 19 721**		**- 16 656**		**9 250**		**17 957**		**-**	6. Net financial investment (+) or (-) (U)
34 351		18 495		7 789		125 279		24 671		252 000		7. Net incurrence of financial liabilities (Total S 9 - 32)
	3 159		**- 1 226**		**- 8 867**		**134 529**		**42 628**		**252 000**	8. Net acquisition of financial assets (Total U 9 - 32)
										6 650	**6 650**	9. Gold and other foreign reserves
	- 14 590		**- 437**		**- 791**		**38 543**		**3 478**	15 068	**15 068**	10. Cash and demand monetary[5] deposits
	35 714		**- 7 619**		**- 5 653**		**- 7 509**		**- 730**	- 49 954	**- 49 954**	11. Short/medium-term monetary[5] deposits
	9 164		**96**		**2 711**		**4 928**		**848**	41 196	**41 196**	12. Long-term monetary[5] deposits
			10	2	**725**		**11 227**		**4 571**	25 801	**25 801**	13. Deposits with other financial institutions
	2 447					7	**23 472**		**112**	24 547	**24 547**	14. Deposits with other institutions
25 910							**10 579**			25 910	**25 910**	15. Treasury bills
	511			- 1 752	**14**	6 772	**- 10 149**			- 23 390	**- 23 390**	16. Other bills
- 653		1 412		480		- 21 238		- 2 386		- 17 446	**- 17 446**	17. Bank loans and advances
1 406	**18**	3 945	**1 280**	3 184	**1 470**	6 429	**- 3 509**	- 2 495	**4 900**	6 510	**6 510**	18. Trade credit and short-term loans
- 890					**6**				**- 1**	- 890	**- 890**	19. Short-term government bonds
15 093					**69**				**1**	15 093	**15 093**	20. Long-term government bonds
51									**577**	51	**51**	21. Non-marketable government bonds[6]
		698								698	**698**	22. Securities of local governments
	626		**33**	4 692						- 67	**- 67**	23. Securities of public enterprises
	- 126	1 119	**1**	- 7 272	**- 873**	8 848	**21 477**		**1**	1 692	**1 692**	24. Other loan stock and preference shares
	- 764			- 801	**- 2 423**	126 338	**34 088**		**- 8**	126 378	**126 378**	25. Ordinary shares
												26. Foreign branch/head office balances
- 1 225	**- 52 976**	1 325	**- 1**	- 1 889	**- 79**	- 1 467	**7 847**	- 244	**- 317**	- 51 061	**- 51 061**	27. Long-term loans
			- 3	74		2 477		591		5 979	**5 979**	28. Mortgage loans
	- 354				**203**		**- 6 429**		**29 827**	22 808	**22 808**	29. Interest in retirement and life funds[7]
- 5 341	**- 636**	- 242	**2**	7 665	**- 2 712**	1 581	**2 550**	32	**- 631**	- 5 329	**- 5 329**	30. Amounts receivable/payable
	24 125	9 929	**5 309**	3 305	**- 1 400**	- 4 740	**6 703**	29 173		80 773	**80 773**	31. Other assets/liabilities
		309	**103**	101	**- 134**	272	**711**			983	**983**	32. Balancing item

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account
Flow of funds for the third quarter 2009[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	23 657		628		12 595				1 100		2 160	
2. Consumption of fixed capital[4]			6		1 857				122		52	
3. Capital transfers	33	85										
4. Gross capital formation[4]				1		2 866				291		313
5. Net lending (+)/net borrowing (-) (S)	23 605		633		11 586				931		1 899	
6. Net financial investment (+) or (-) (U)		23 605		633		11 586				931		1 899
7. Net incurrence of financial liabilities (Total S 9 - 32)	- 10 179		16 194		- 10 638		17 032		29 449		53 835	
8. Net acquisition of financial assets (Total U 9 - 32)		13 426		16 827		948		17 032		30 380		55 734
9. Gold and other foreign reserves	3 571			3 571								
10. Cash and demand monetary[5] deposits		- 5 947	1 523	- 2 369	- 7 618	230		1 807		- 15 949		1 428
11. Short/medium-term monetary[5] deposits		- 7 532	28	- 1 358	- 12 801			- 6 430		4 782		25 754
12. Long-term monetary[5] deposits		1 421	21	1 126	12 068			1 031		- 375		5 002
13. Deposits with other financial institutions		19				367		1 370		- 4 669	8 432	
14. Deposits with other institutions	- 17 937					2 766	17 032	1 054	1 054	13 859		2 464
15. Treasury bills				76		3 275				5 850		1 228
16. Other bills	6 741	2 228		5 078	- 1 313	- 857		- 62		- 335	- 795	7 963
17. Bank loans and advances	- 2 549		- 2 200	- 2 227	- 2 184	- 18 038			- 1		1 268	
18. Trade credit and short-term loans	- 2 088	- 10 354	15 931	- 79	1 039	2 763		20	9 368	- 56	1 429	5 239
19. Short-term government bonds		- 8		40		- 3 192		1 043		- 11 036		- 400
20. Long-term government bonds		1 598				7 779		762		15 480		3 122
21. Non-marketable government bonds[6]		- 299		12 225								
22. Securities of local governments						- 22		- 4		124		3
23. Securities of public enterprises	20	362	6 893			6 799		6 626		5 880	3 116	4 020
24. Other loan stock and preference shares	1 309	139	- 47		189	6 139		513	592	- 600	115	282
25. Ordinary shares	4 266	28 642			1 016	- 4 252		4 695	- 531	- 37 466		33 980
26. Foreign branch/head office balances												
27. Long-term loans	698	453	- 5 696	- 6				- 1	- 36	- 137	6 945	2 259
28. Mortgage loans	- 6 105					4 157			2	- 111	23	461
29. Interest in retirement and life funds[7]		- 419				122			15 715			
30. Amounts receivable/payable	- 12 997	- 5 654	- 26	9	- 9 236	- 10 510		24	- 1 028	15 657	10 264	- 11 129
31. Other assets/liabilities	14 892	8 777	- 233	741	8 151	3 316		4 584	4 235	39 362	22 778	- 25 706
32. Balancing item					51	106			79	120	260	- 236

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the third quarter 2009[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
- 5 831		- 14 810		3 312		5 047		- 5 162		22 696		1. Net saving[4]
6 940		4 981		7 563		51 429		10 687		83 637		2. Consumption of fixed capital[4]
	17 537	3 504		9 588		1 171	12	3 359	21	17 655	17 655	3. Capital transfers
	8 931		11 955		31 218		36 442		14 316		106 333	4. Gross capital formation[4]
- 25 359		- 18 280		- 10 755		21 193		- 5 453		-		5. Net lending (+)/net borrowing (-) (S)
	- 25 359		- 18 280		- 10 755		21 193		- 5 453		-	6. Net financial investment (+) or (-) (U)
37 685		13 311		40 153		- 31 516		17 489		172 815		7. Net incurrence of financial liabilities (Total S 9 - 32)
	12 326		- 4 969		29 398		- 10 323		12 036		172 815	8. Net acquisition of financial assets (Total U 9 - 32)
										3 571	3 571	9. Gold and other foreign reserves
	12 397		- 3 205		65		3 729		1 719	- 6 095	- 6 095	10. Cash and demand monetary[5] deposits
	- 11 738		3 885		- 770		- 10 200		- 9 166	- 12 773	- 12 773	11. Short/medium-term monetary[5] deposits
	1 846		- 112		- 624		- 4 245		7 019	12 089	12 089	12. Long-term monetary[5] deposits
			- 1 417	- 6	204		14 135		- 1 583	8 426	8 426	13. Deposits with other financial institutions
	2 707		42			60	- 22 872		189	209	209	14. Deposits with other institutions
4 940							- 5 489			4 940	4 940	15. Treasury bills
	1 123			1 108	1 015	9 925	- 487			15 666	15 666	16. Other bills
- 911		- 1 203		591		- 18 371		5 295		- 20 265	- 20 265	17. Bank loans and advances
- 2 709	12 696	7 122	2 289	- 98	- 1 537	- 1 164	18 725	- 209	- 1 085	28 621	28 621	18. Trade credit and short-term loans
- 13 231					344		- 1		- 21	- 13 231	- 13 231	19. Short-term government bonds
30 886			- 23		2 168					30 886	30 886	20. Long-term government bonds
13 113			- 57						1 244	13 113	13 113	21. Non-marketable government bonds[6]
		3 503			- 24		3 426			3 503	3 503	22. Securities of local governments
	323			13 986					5	24 015	24 015	23. Securities of public enterprises
	- 114	- 288	243	216	- 1 673	- 1 141	- 3 930		- 54	945	945	24. Other loan stock and preference shares
	50			35 040	- 4	- 54 112	- 39 975		9	- 14 321	- 14 321	25. Ordinary shares
												26. Foreign branch/head office balances
- 482	- 8 725	3 991	- 34	623	- 197	- 6 585	5 523	- 248	75	- 790	- 790	27. Long-term loans
		2	- 70	13		201		10 301		4 437	4 437	28. Mortgage loans
	- 279				2 384		63		13 844	15 715	15 715	29. Interest in retirement and life funds[7]
6 079	602	- 130		- 12 096	- 2 077	14 163	8 138	- 92	- 159	- 5 099	- 5 099	30. Amounts receivable/payable
	1 438	236	- 6 383	582	29 843	25 364	22 475	2 442		78 447	78 447	31. Other assets/liabilities
		78	- 127	194	281	144	662			806	806	32. Balancing item

S = **Sources**, i.e. net increase in liabilities at transaction value.
U = **Uses**, i.e. net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account
Flow of funds for the fourth quarter 2009[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	**U**	S	**U**	S	**U**	S	**U**	S	**U**	S	**U**
1. Net saving[4]	19 061		214		16 094				3 738		4 335	
2. Consumption of fixed capital[4]			6		1 880				122		52	
3. Capital transfers	34	**85**										
4. Gross capital formation[4]				**2**		**2 439**				**178**		**339**
5. Net lending (+)/net borrowing (-) (S)	19 010		218		15 535				3 682		4 048	
6. Net financial investment (+) or (-) (U)		**19 010**		**218**		**15 535**				**3 682**		**4 048**
7. Net incurrence of financial liabilities (Total S 9 - 32)	23 460		7 167		- 9 050		7 515		37 689		59 789	
8. Net acquisition of financial assets (Total U 9 - 32)		**42 470**		**7 385**		**6 485**		**7 515**		**41 371**		**63 837**
9. Gold and other foreign reserves	2 291			**2 291**								
10. Cash and demand monetary[5] deposits		**6 611**	12 231	**308**	5 670	**403**		**- 472**		**36 786**		**- 4 678**
11. Short/medium-term monetary[5] deposits		**7 348**	- 462	**- 50**	50 164			**515**		**- 50 147**		**31 220**
12. Long-term monetary[5] deposits		**338**	18	**- 1 126**	- 46 662			**- 6 540**		**11 853**		**- 29 557**
13. Deposits with other financial institutions		**86**				**- 921**		**2 010**		**4 560**	21 703	
14. Deposits with other institutions	2 360					**- 431**	7 515	**6 916**	6 916	**4 488**		**7 206**
15. Treasury bills				**- 75**		**7 254**				**3 871**		**7 346**
16. Other bills	28 727	**- 2 228**		**28 103**	650	**- 690**		**- 2 552**	- 207	**138**	- 1 440	**- 2 661**
17. Bank loans and advances	- 480		- 2 353	**- 7 548**	- 7 558	**- 5 056**			- 1		- 11 475	
18. Trade credit and short-term loans	- 2 965	**- 21 416**	- 383	**19**	- 503	**- 5 886**			2 572	**7 873**	18 593	**257**
19. Short-term government bonds				**- 83**		**1 310**		**- 2 090**		**- 932**		**1 256**
20. Long-term government bonds		**- 943**				**8 310**		**6 772**		**13 615**		**4 199**
21. Non-marketable government bonds[6]		**- 812**		**- 6 315**		**1 259**		**- 2**				
22. Securities of local governments						**1 224**		**36**		**- 647**		**- 235**
23. Securities of public enterprises	641	**2 632**	- 3 632			**- 3 098**		**2 630**		**4 762**	2 464	**- 3 340**
24. Other loan stock and preference shares	1 968	**645**			809	**5 772**		**- 1 393**	185	**- 2 652**	- 186	**- 1 114**
25. Ordinary shares	17 222	**10 801**			26	**2 548**		**12**	955	**15 089**		**55 359**
26. Foreign branch/head office balances												
27. Long-term loans	1 746	**20 716**	260	**2**	9 728				79	**970**	- 907	**520**
28. Mortgage loans	210					**10 475**				**- 160**	- 12 151	**258**
29. Interest in retirement and life funds[7]		**- 26**				**118**			9 154			
30. Amounts receivable/payable	- 8 632	**- 7 418**	- 33	**- 3**	- 6 292	**- 12 034**		**- 337**	- 106	**- 7 782**	12 134	**- 37**
31. Other assets/liabilities	- 19 628	**26 136**	1 521	**- 8 138**	- 15 062	**- 3 804**		**2 010**	18 106	**- 235**	30 791	**- 1 871**
32. Balancing item					- 20	**- 268**			36	**- 79**	263	**- 291**

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the fourth quarter 2009[1]

R millions

Transaction items	General government: Central and provincial governments S	General government: Central and provincial governments U	General government: Local governments S	General government: Local governments U	Corporate business enterprises: Public sector S	Corporate business enterprises: Public sector U	Corporate business enterprises: Private sector S	Corporate business enterprises: Private sector U	Households, etc. S	Households, etc. U	Total S	Total U
1. Net saving[4]	- 10 064		- 16 835		1 201		8 244		- 1 667		24 321	
2. Consumption of fixed capital[4]	6 997		5 057		7 954		51 936		10 818		84 822	
3. Capital transfers		17 669	4 685		10 204		52	12	2 813	22	17 788	17 788
4. Gross capital formation[4]		8 890		12 646		31 090		39 483		14 076		109 143
5. Net lending (+)/net borrowing (-) (S)	- 29 626		- 19 739		- 11 731		20 737		- 2 134		-	
6. Net financial investment (+) or (-) (U)		- 29 626		- 19 739		- 11 731		20 737		- 2 134		-
7. Net incurrence of financial liabilities (Total S 9 - 32)	29 370		10 056		6 163		92 899		6 945		272 003	
8. Net acquisition of financial assets (Total U 9 - 32)		- 256		- 9 683		- 5 568		113 636		4 811		272 003
9. Gold and other foreign reserves											2 291	2 291
10. Cash and demand monetary[5] deposits		- 33 616		905		1 101		2 877		7 676	17 901	17 901
11. Short/medium-term monetary[5] deposits		41 801		- 1 977		- 721		24 705		- 2 992	49 702	49 702
12. Long-term monetary[5] deposits		- 7 707		- 1 873		- 3 099		- 9 201		268	- 46 644	- 46 644
13. Deposits with other financial institutions				2		- 180		13 661		2 485	21 703	21 703
14. Deposits with other institutions		3 245		12			40	- 4 696		91	16 831	16 831
15. Treasury bills	9 479							- 8 917			9 479	9 479
16. Other bills		2 210			- 4 090	- 426	- 703	1 043			22 937	22 937
17. Bank loans and advances	1 917		1 130		1 045		6 361		- 1 190		- 12 604	- 12 604
18. Trade credit and short-term loans	- 9 936	- 1 428	- 1 036	- 561	- 2 498	511	- 10 815	15 433	- 17	- 1 790	- 6 988	- 6 988
19. Short-term government bonds	- 613					- 73				- 1	- 613	- 613
20. Long-term government bonds	31 657					- 297				1	31 657	31 657
21. Non-marketable government bonds[6]	- 5 355									515	- 5 355	- 5 355
22. Securities of local governments			341					- 37			341	341
23. Securities of public enterprises		- 229			3 886					2	3 359	3 359
24. Other loan stock and preference shares		77	- 50	68	- 96	- 2 351	35	3 610		3	2 665	2 665
25. Ordinary shares					- 87	- 223	77 622	12 150		2	95 738	95 738
26. Foreign branch/head office balances												
27. Long-term loans	- 406	927	538	49	808	1 250	13 193	474	- 30	101	25 009	25 009
28. Mortgage loans				- 14	173		15 326		7 001		10 559	10 559
29. Interest in retirement and life funds[7]		- 279				- 1 947		12 905		- 1 617	9 154	9 154
30. Amounts receivable/payable	2 627	- 442	- 539		- 2 284	883	- 4 945	18 964	- 69	67	- 8 139	- 8 139
31. Other assets/liabilities		- 4 815	9 504	- 5 971	9 229	3	- 2 255	30 141	1 250		33 456	33 456
32. Balancing item			168	- 323	77	1	- 960	524			- 436	- 436

S = Sources, i.e. net increase in liabilities at transaction value.
U = Uses, i.e. net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.