

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.

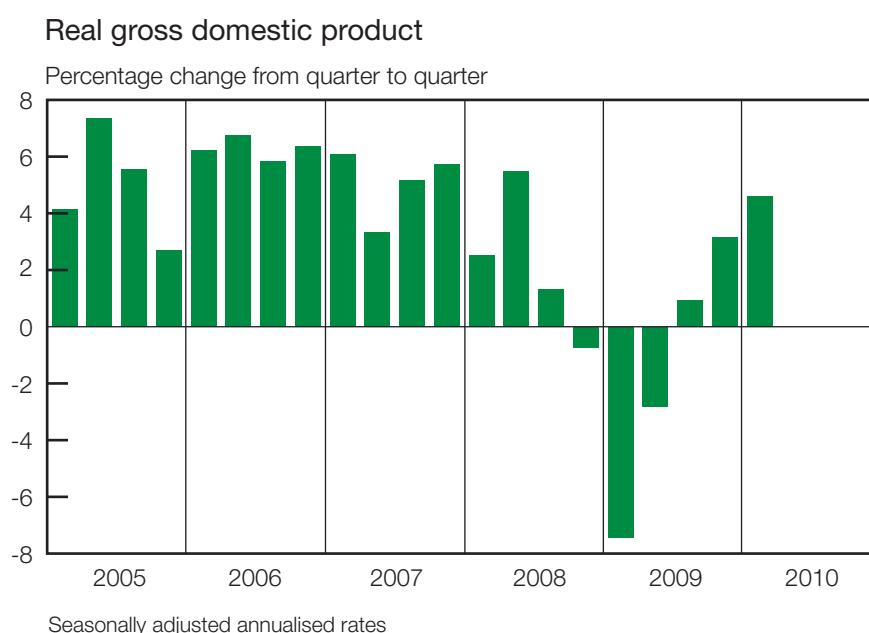
The progress made in combating inflation, an improved forecast for inflation and a reduction in the uncertainty regarding the inflation outlook were recognised by the Monetary Policy Committee (MPC) when it decided to reduce the repurchase rate by 50 basis points to 6,5 per cent at its March 2010 meeting. 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 developments¹

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.



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

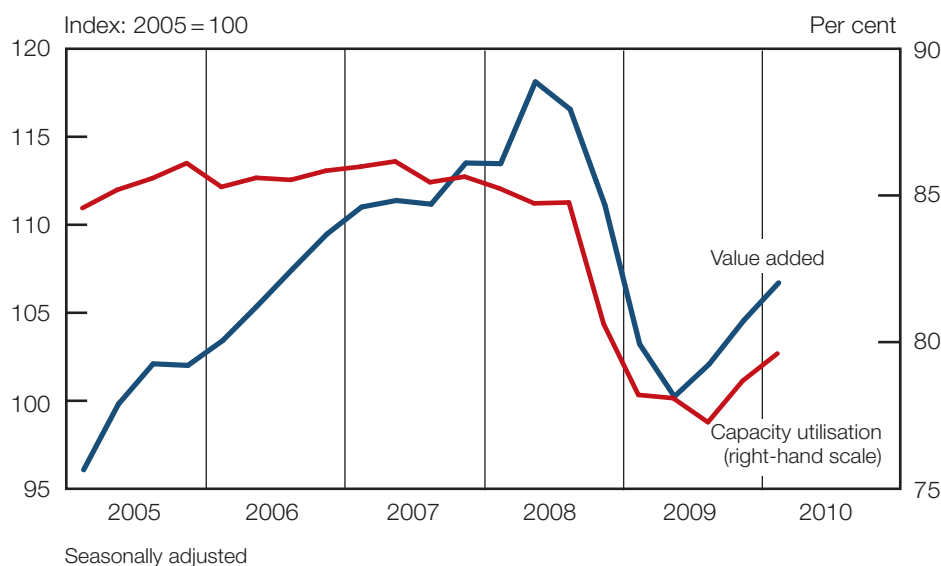
Sectors	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	-23,8	5,1	-7,6	0,9	-6,0	11,8
Agriculture.....	-5,6	-15,8	-11,8	-7,6	-3,2	3,0
Mining	-30,7	15,8	-5,8	4,6	-7,2	15,4
Secondary sector	-19,4	-6,9	7,0	8,1	-7,2	7,0
Manufacturing	-25,5	-11,1	7,6	10,1	-10,7	8,4
Tertiary sector	-0,9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



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.

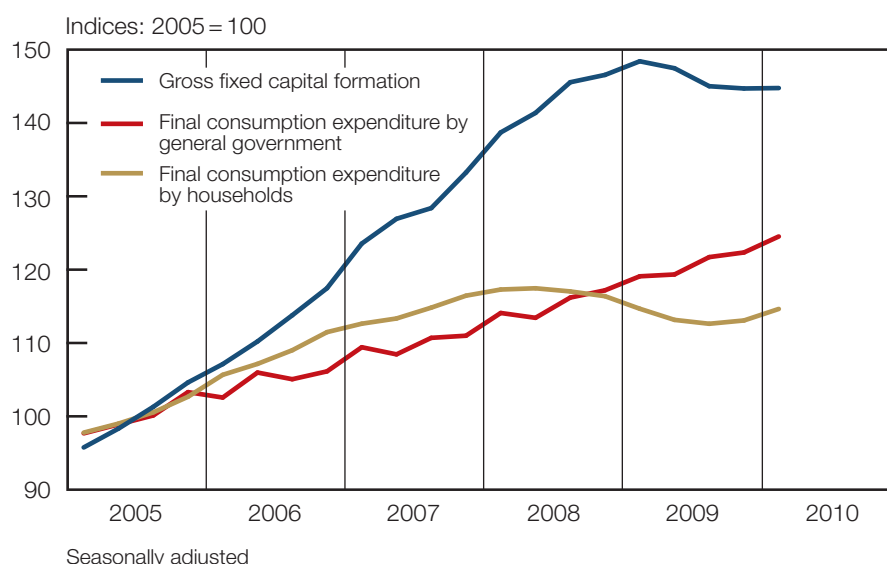
Growth in the real production of the *finance, insurance, real-estate and business services sector* accelerated from an annualised rate of 2,1 per cent in the fourth quarter of 2009 to 2,5 per cent in the first quarter of 2010, mainly on account of a strong performance by the banking industry. The real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



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

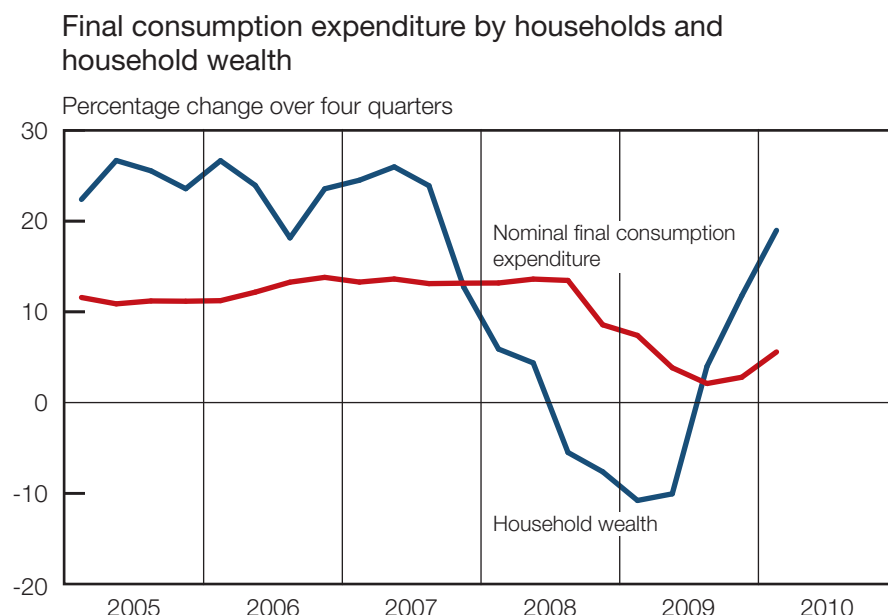
Percentage change at seasonally adjusted annualised rates

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.



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

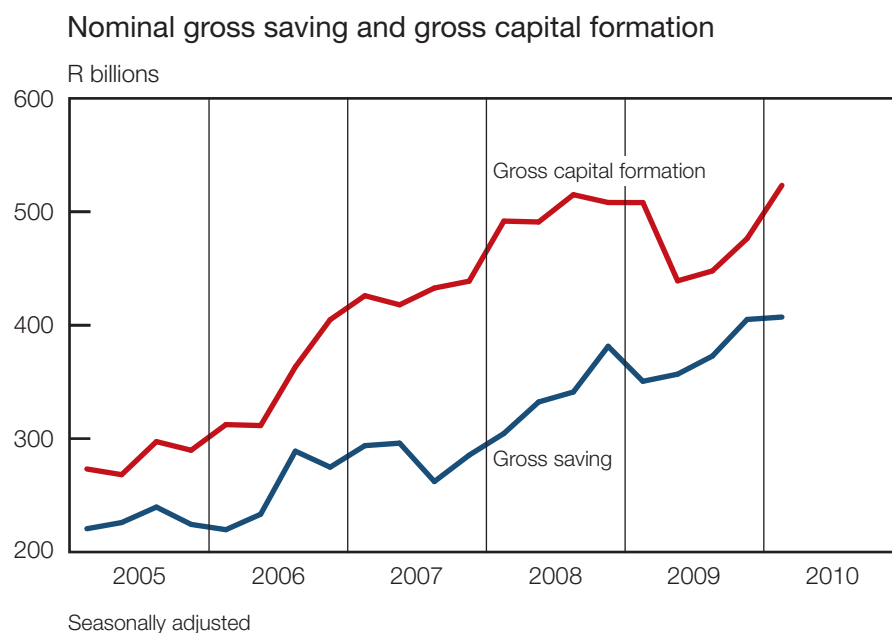
subsectors of the economy with the exception of the mining and financial services sectors. Corroborating the slowdown in compensation of employees, the average wage settlement rate moderated from 9,3 per cent in the fourth quarter of 2009 to 8,4 per cent in the first quarter of 2010.

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.



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.

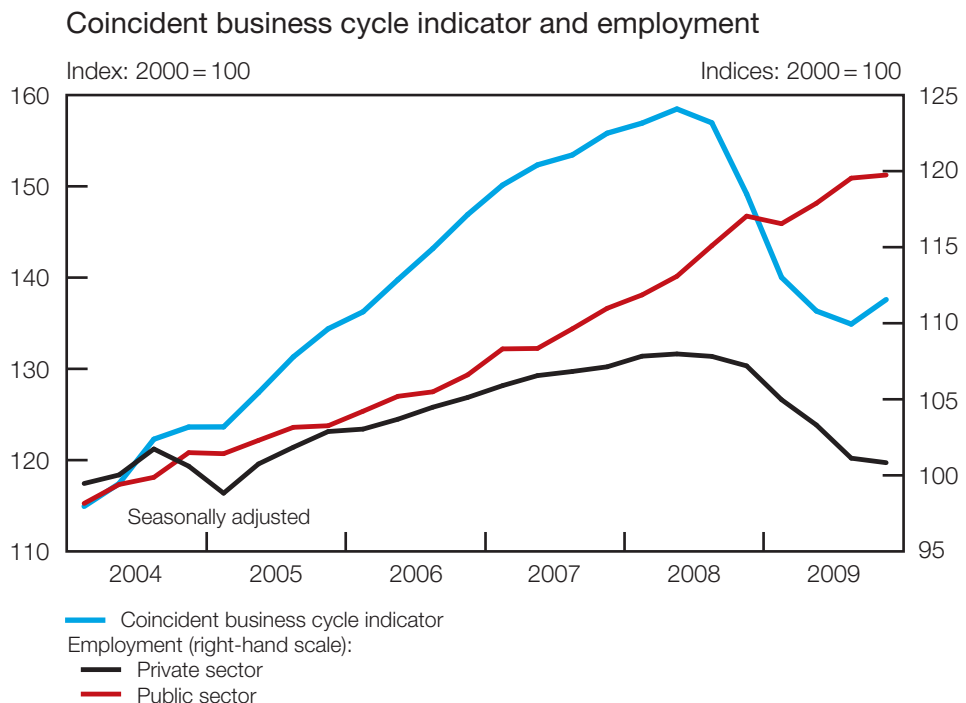
Stronger growth in the gross operating surpluses of business enterprises in the first quarter of 2010 boosted the saving level of the corporate sector. At the same time, corporate tax and dividend payments declined in the first quarter of 2010, providing support to companies' retained earnings.

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.



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

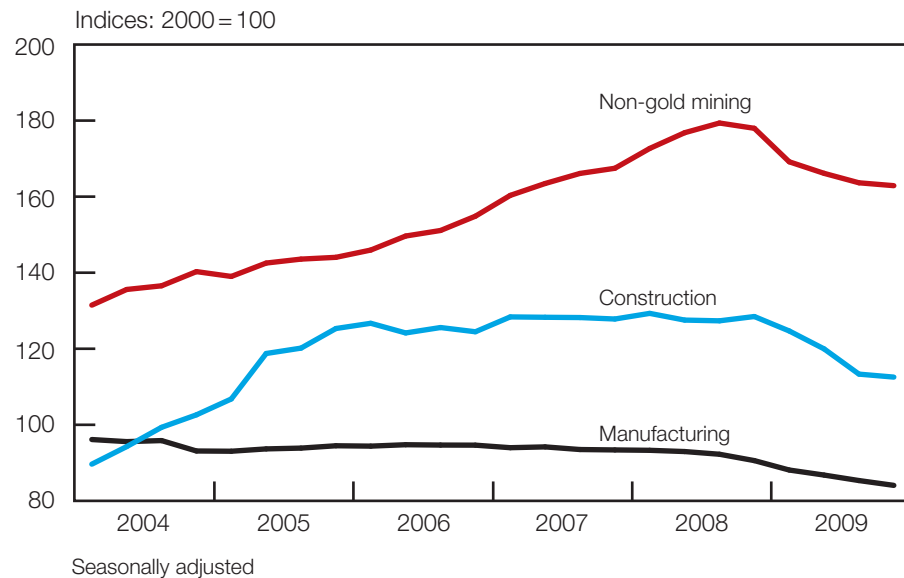
Components may not add up to totals due to rounding off of figures

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.

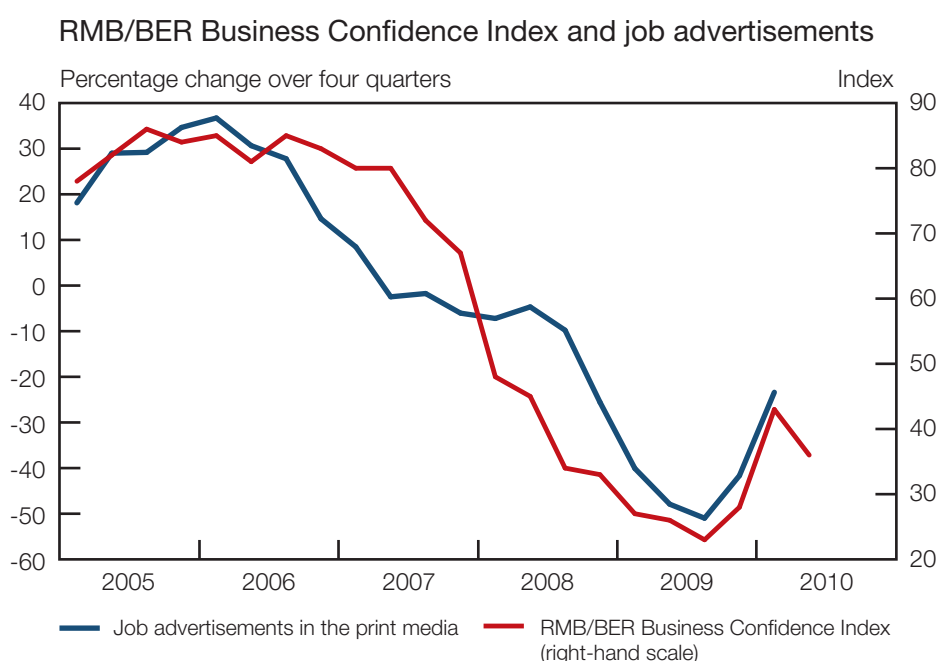
Construction activity was largely supported by infrastructure-related work programmes during 2009, as the residential sector experienced a recession and activity in the non-residential building sector stalled. Employment in the construction sector decreased at an annualised rate of 2,7 per cent in the 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.



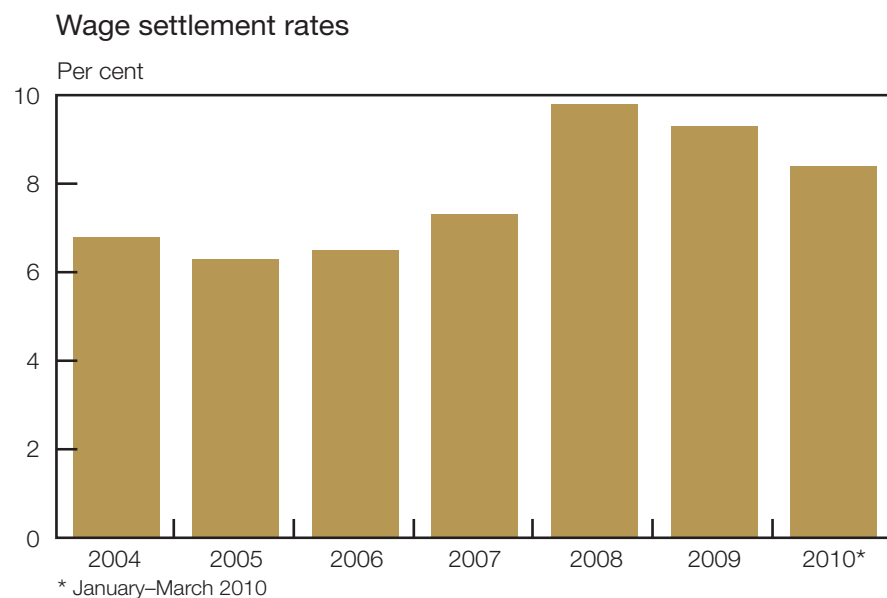
Labour cost and productivity

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.



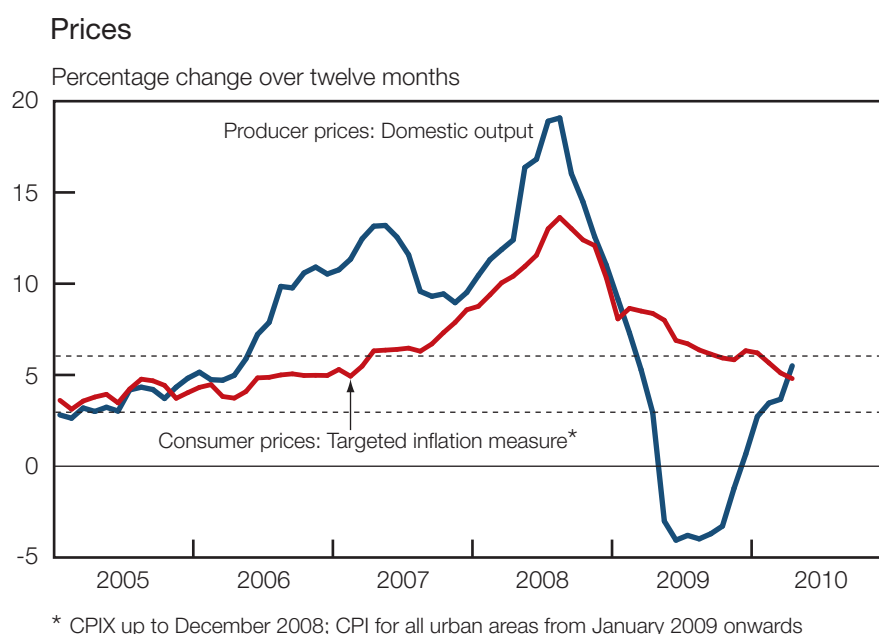
Source: Andrew Levy Employment Publications

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.



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	Total	Total
2009: Jan.....	1,7	4,9	11,6	7,9	8,1
Feb	2,5	5,7	12,3	8,7	8,6
Mar	2,9	6,6	11,8	8,7	8,5
Apr.....	3,7	5,9	10,9	8,3	8,4
May	4,9	5,2	9,2	7,6	8,0
Jun	4,1	4,7	7,6	6,2	6,9
Jul.....	3,3	5,1	6,5	5,5	6,7
Aug.....	3,5	4,5	5,7	5,0	6,4
Sep.....	2,5	4,6	6,1	4,9	6,1
Oct.....	2,0	4,6	5,7	4,5	5,9
Nov.....	2,0	3,4	5,8	4,4	5,8
Dec.....	1,5	4,0	7,6	5,5	6,3
Year	2,9	4,9	8,4	6,4	7,1
2010: Jan.....	0,4	3,0	8,7	5,8	6,2
Feb	0,0	1,5	7,4	4,6	5,7
Mar	-0,3	1,4	6,4	4,0	5,1
Apr.....	-1,3	0,5	6,1	3,5	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

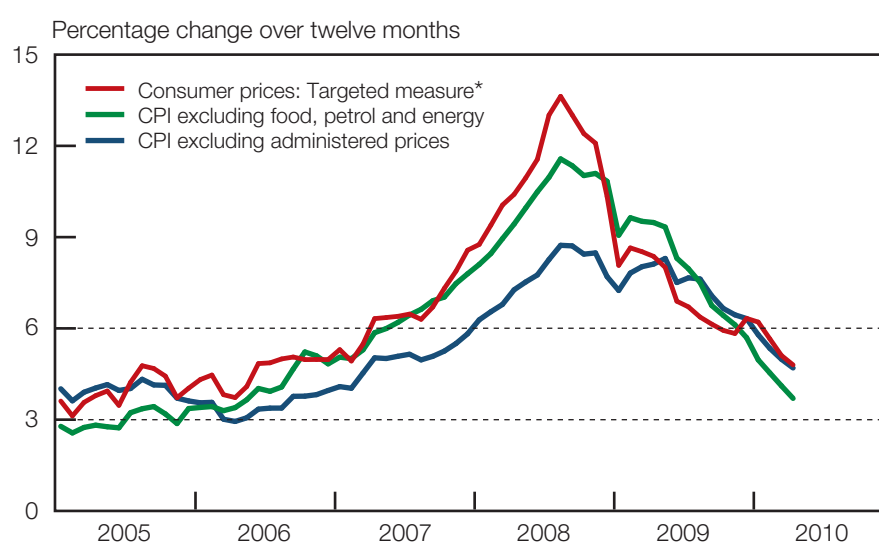
	Weights	April 2010
Alcoholic beverages and tobacco	5,58	10,9
Education	2,19	9,2
Miscellaneous goods and services	13,56	8,6
Restaurants and hotels	2,78	6,8
Housing and utilities	22,56	6,8
Health	1,47	6,5
<i>Transport</i>	<i>18,80</i>	<i>4,0</i>
Clothing and footwear	4,11	2,3
Recreation and culture	4,19	-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

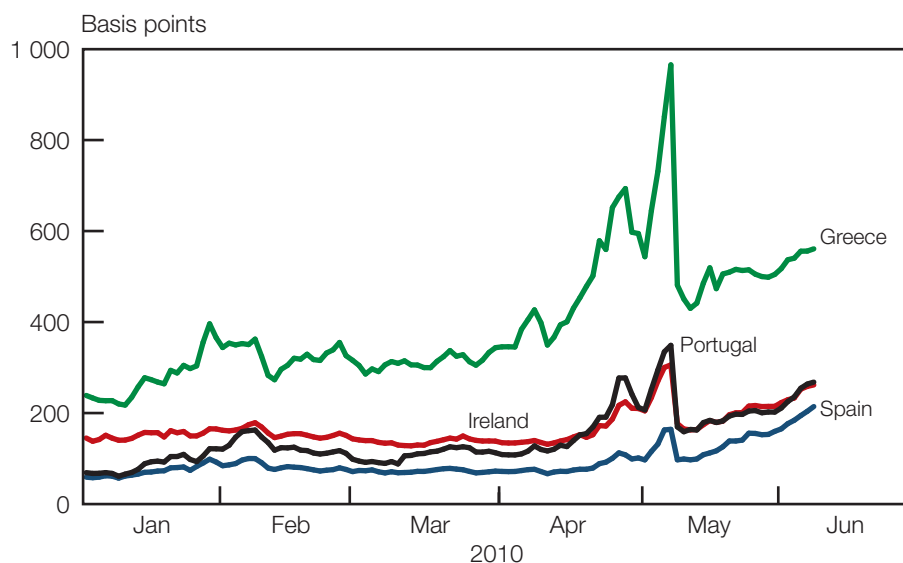
International economic developments

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

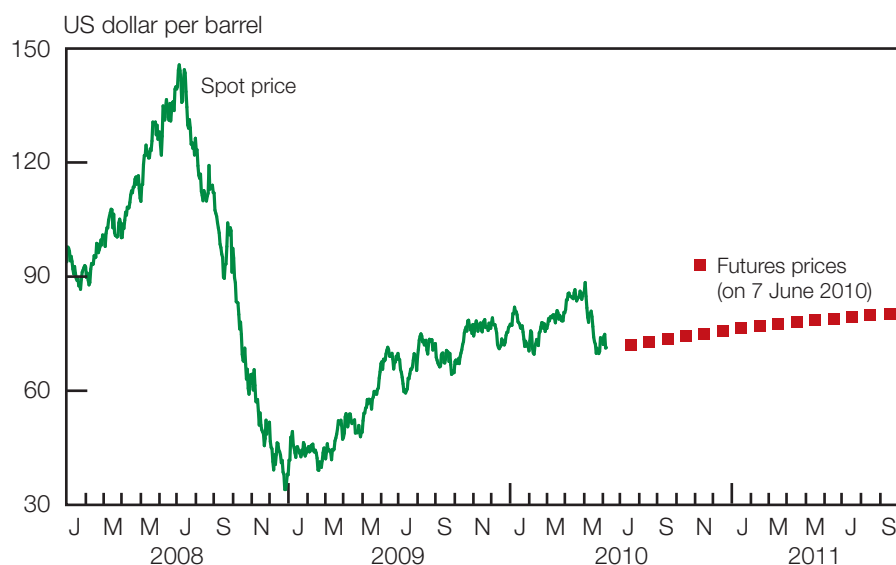
Real output growth in most advanced economies turned positive in the first quarter of 2010, although the pace of increase remained moderate in some instances. In the United States (US) economic activity expanded further in the first quarter of 2010, underpinned by increases in personal consumption expenditure, 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 account²

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

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

Balance of payments on current account

Seasonally adjusted and annualised
R billions

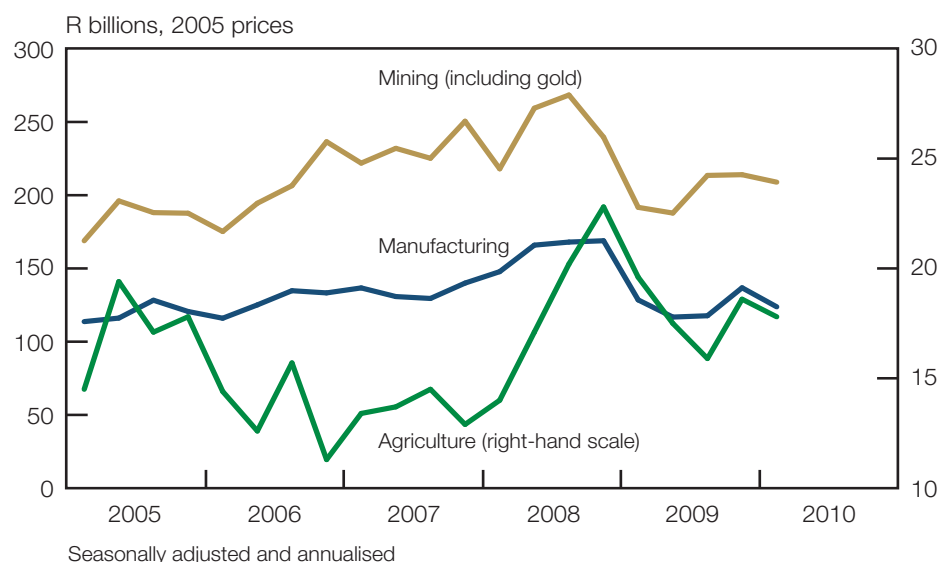
	2009					2010
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	534,2	474,3	477,6	528,5	503,7	518,6
Net gold exports	51,0	47,5	53,4	59,2	52,8	49,5
Merchandise imports	-637,0	-508,1	-508,7	-562,8	-554,2	-581,0
Trade balance	-51,8	13,7	22,3	24,9	2,3	-12,9
Net service, income and current transfer 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
<i>As a percentage of gross domestic product</i>	<i>-6,7</i>	<i>-3,5</i>	<i>-3,1</i>	<i>-2,9</i>	<i>-4,0</i>	<i>-4,6</i>

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

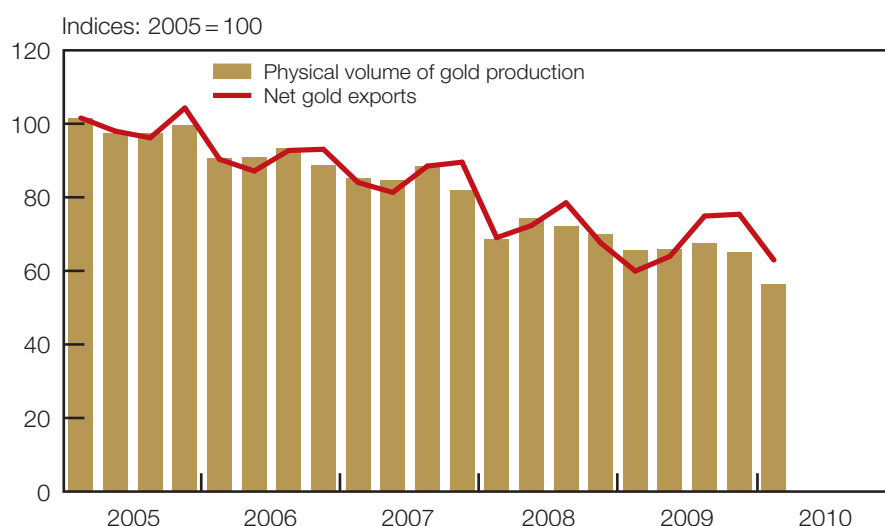


Although the recent recovery in global economic activity supported the revival in international trade volumes, somewhat weaker macroeconomic conditions in certain euro member countries impeded export volumes. An appreciation in the real effective exchange rate of the rand probably also inhibited the 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,

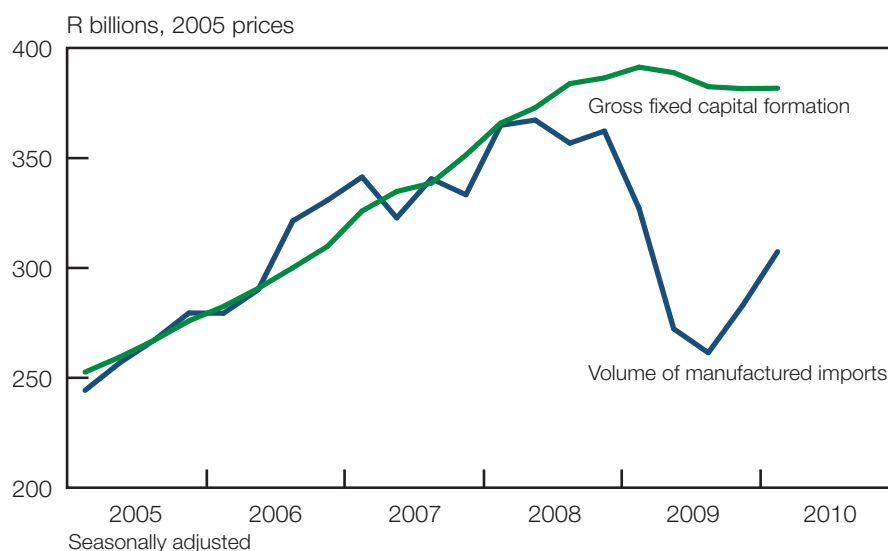
the pronounced decrease in the first quarter of 2010 partly reflected the delayed resumption of operations at the start of the year following the Christmas break. The decline in gold production together with fairly low inventory levels caused the volume of gold exports to recede by 16,5 per cent in the 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

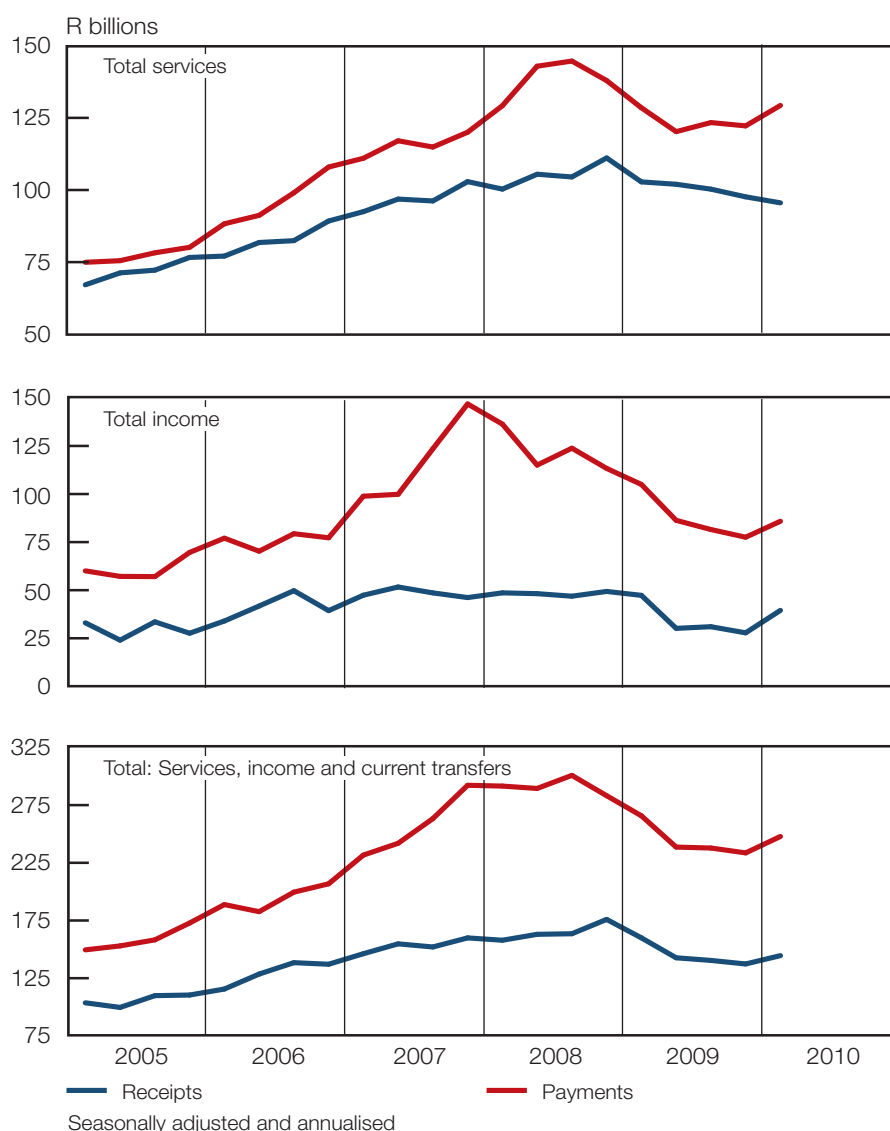


and electrical equipment, as well as vehicles and transport equipment, the volume of manufactured imports rose by 8,3 per cent in the fourth quarter of 2009 and 8,6 per cent in the first quarter of 2010. The imports of transport equipment included four aircraft acquired by national government and the 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



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
<i>Financial transactions as a ratio of gross domestic product</i>	<i>6,0</i>	<i>4,7</i>	<i>4,8</i>	<i>3,4</i>	<i>4,7</i>	<i>7,8</i>

* Including unrecorded transactions

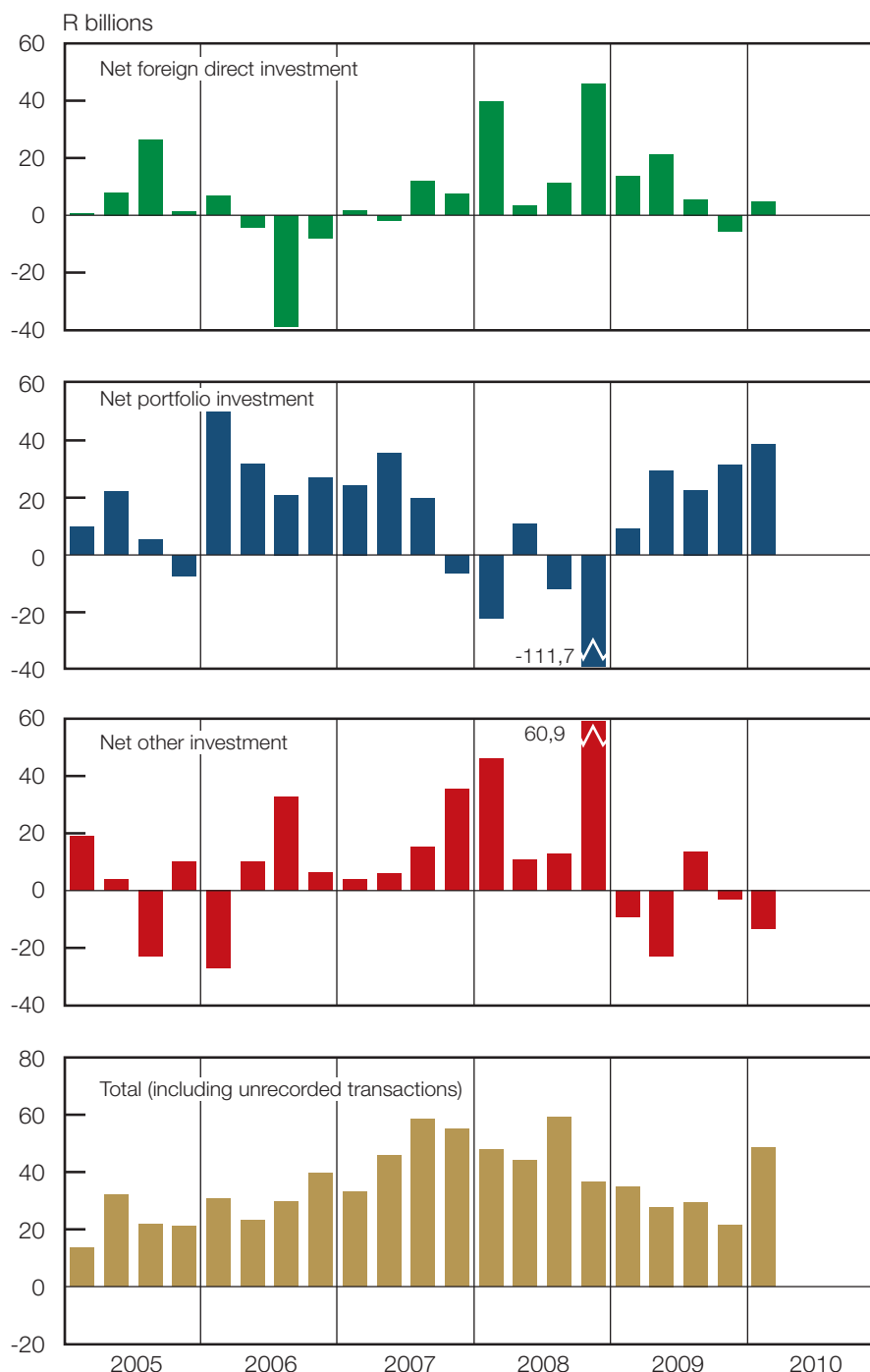
Foreign-owned assets in South Africa

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

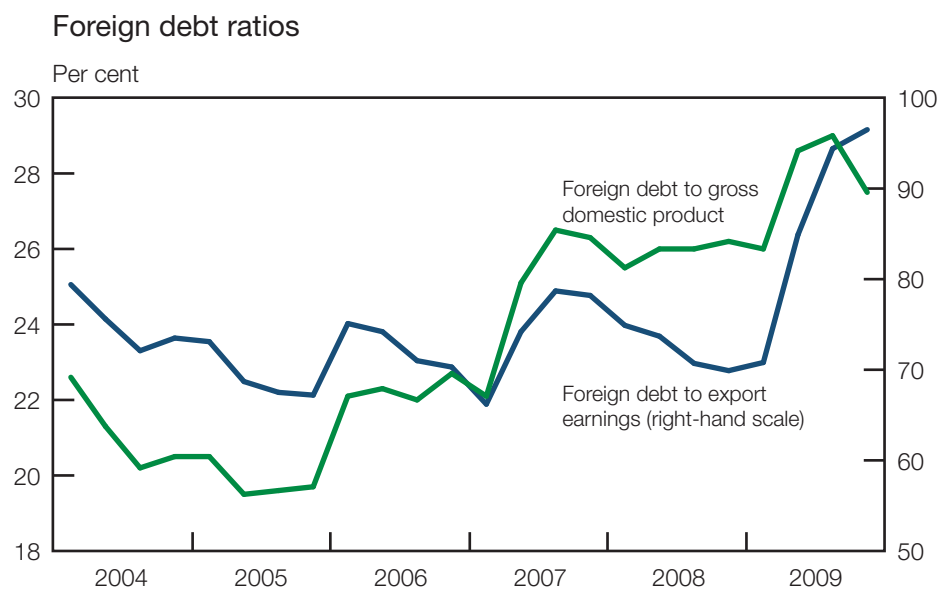
	2008		2009		
	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt.....	43,9	41,3	41,7	42,0	42,1
Bearer bonds	14,0	13,3	14,8	15,6	15,4
Public sector	5,3	5,3	5,3	5,7	5,7
Monetary sector	12,5	11,0	9,9	9,2	10,4
Non-monetary private sector.....	12,1	11,7	11,7	11,5	10,6
Rand-denominated debt	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
<i>As a percentage of gross domestic product.....</i>	<i>26,2</i>	<i>26,0</i>	<i>28,7</i>	<i>29,2</i>	<i>27,7</i>

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.



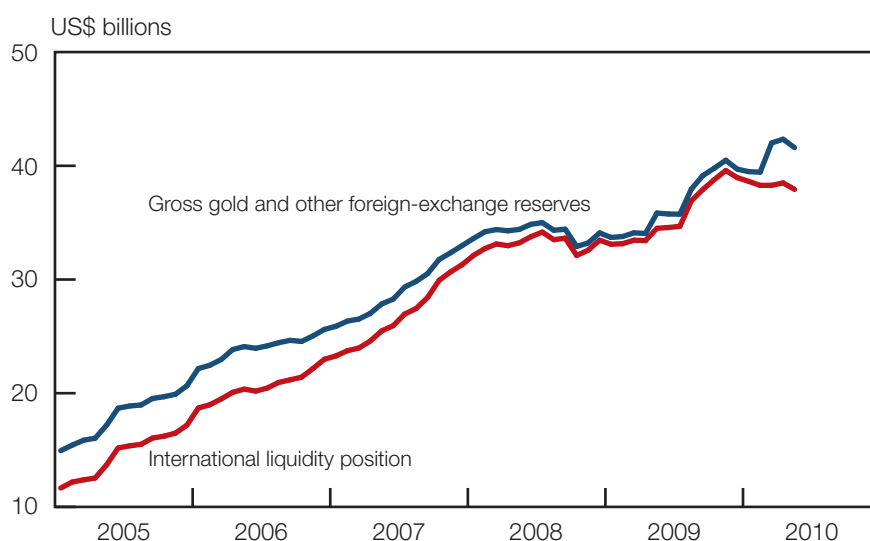
International reserves and liquidity

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

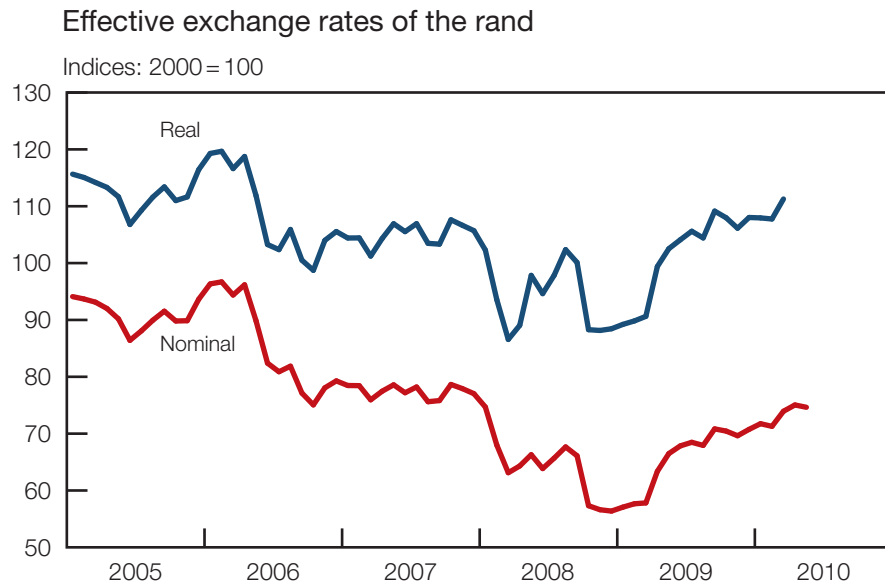
	30 Jun 2009 to 30 Sep 2009	30 Sep 2009 to 31 Dec 2009	31 Dec 2009 to 31 Mar 2010	31 Mar 2010 to 31 May 2010
Weighted average*	2,5	1,2	3,9	0,1
Euro	1,2	2,0	7,8	4,8
US dollar	5,0	0,5	0,6	-4,0
Chinese yuan	4,9	0,5	0,6	-4,0
British pound	8,6	0,1	7,5	0,0
Japanese yen	-1,5	3,5	1,7	-5,9

* 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.



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.

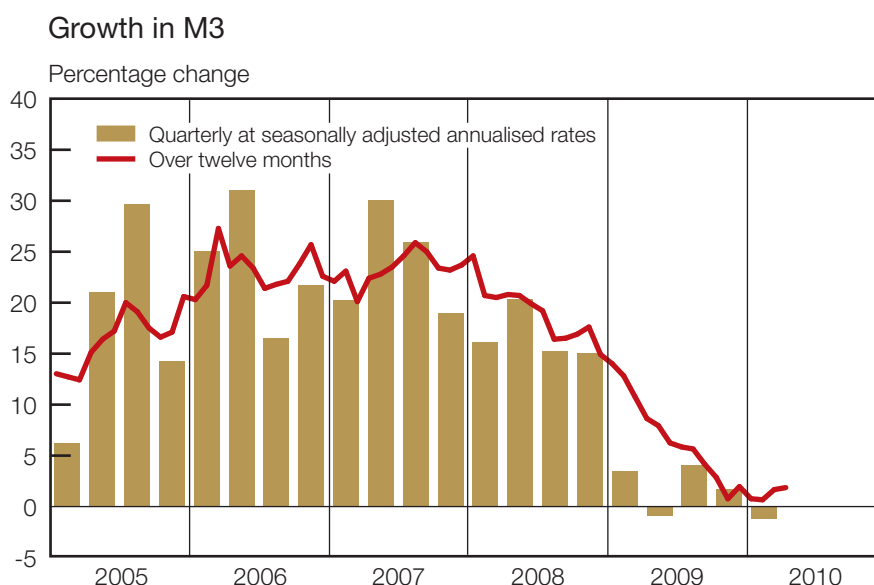
Monetary developments, interest rates and financial markets

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-quarter³ 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.



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

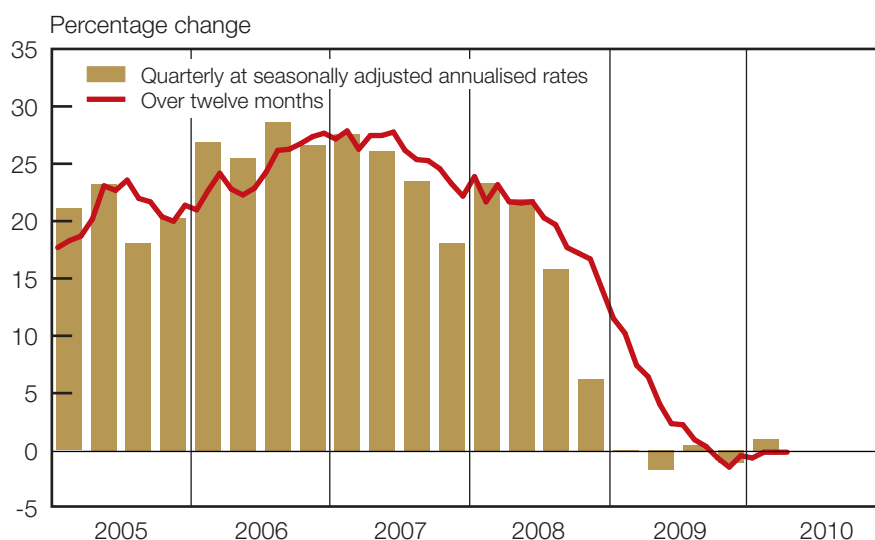
The income velocity of circulation of M3 increased further to 1,31 in the first quarter of 2010, after reaching a low of 1,22 in the first quarter of 2009, as the growth in nominal gross domestic product gained further momentum while M3 deposits edged lower on a quarterly average basis.

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.

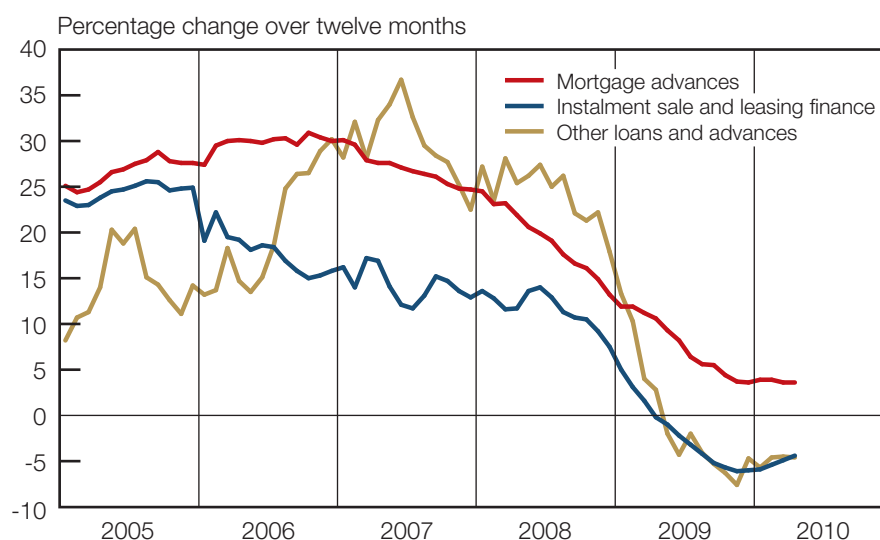
Total loans and advances to the private sector



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 quarterly⁴ 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.

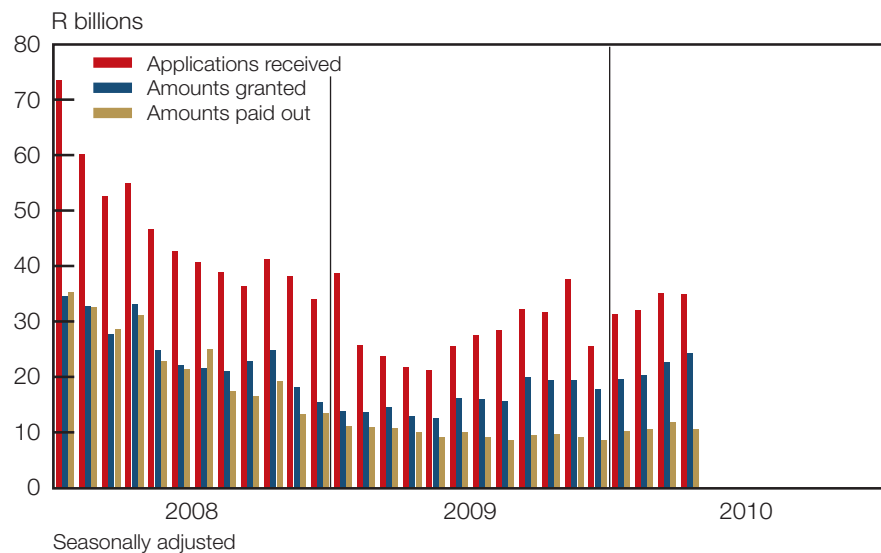
Loans and advances to the private sector by type of credit



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



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
<i>Of which: To household sector.....</i>	<i>13,5</i>	<i>5,7</i>	<i>19,1</i>
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

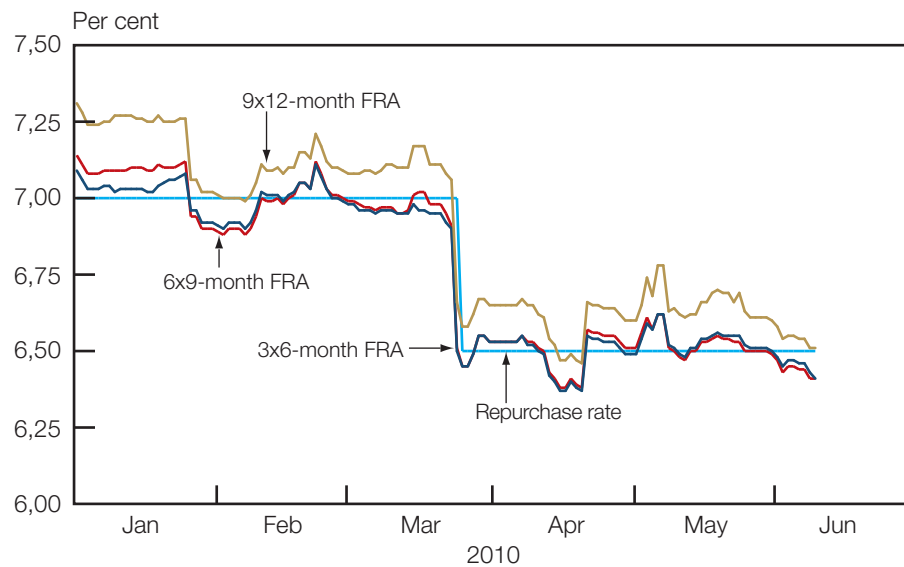
At its March 2010 meeting, the MPC decided to reduce the repurchase rate by 50 basis points to 6,5 per cent. At that point the inflation outlook and risks perceived by the MPC had improved significantly compared with the situation at the previous four meetings, providing scope for a moderate reduction 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.

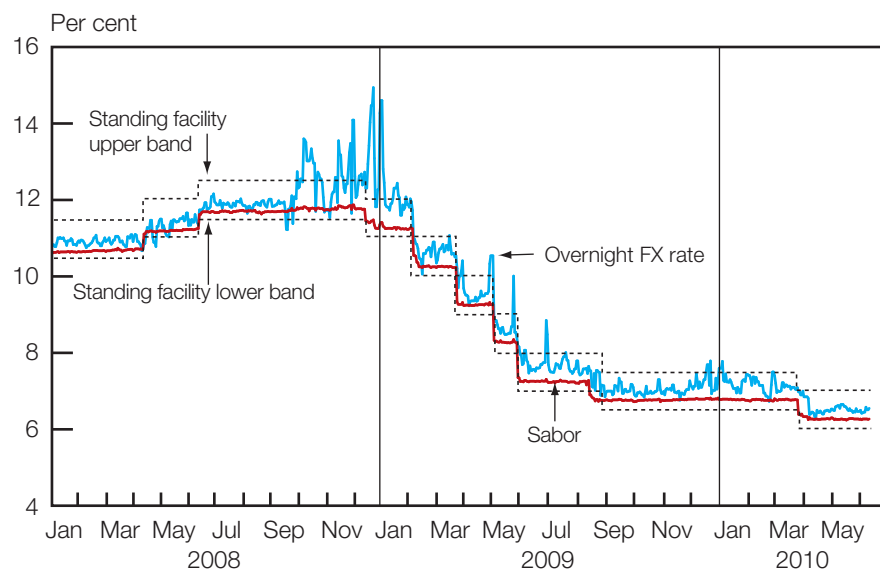
Rates on forward rate agreements (FRAs) initially displayed some volatility during the first two months of 2010 before stabilising somewhat nearly a month before the March repurchase rate reduction, an indication that market participants did not anticipate any change in the monetary policy stance. FRAs 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	As from 26 Mar 2010
	Per cent	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

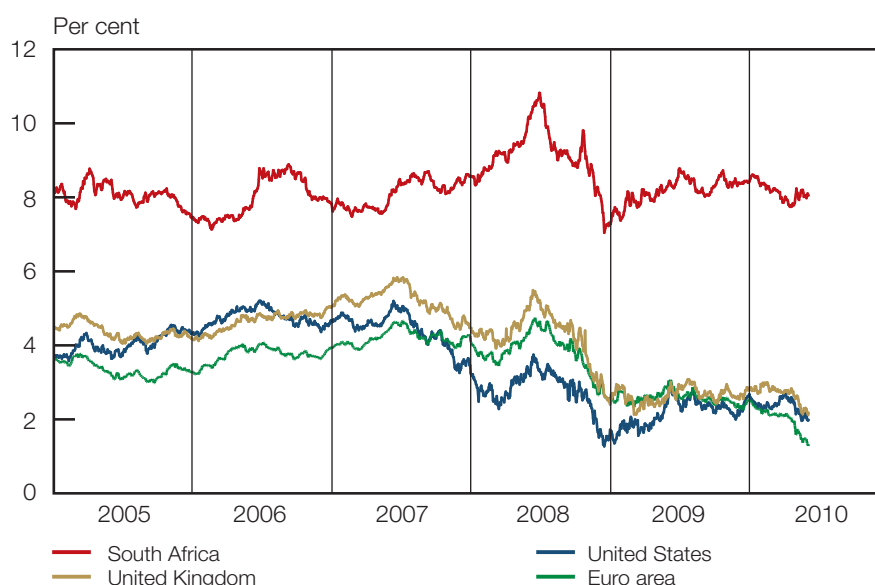
Per cent

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



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.

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.

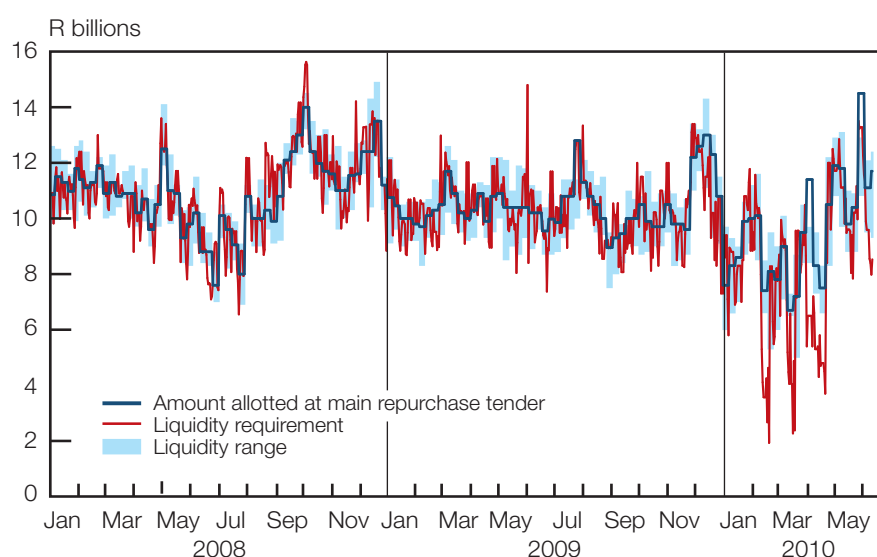
The JPMorgan Emerging Markets Bond Index Plus (EMBI+) yield spread continued to narrow from a high of 718 basis points recorded in November 2008 to 265 basis points in April 2010, as investors maintained positive sentiment towards emerging markets' financial assets. This was also evident in the *sovereign 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

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

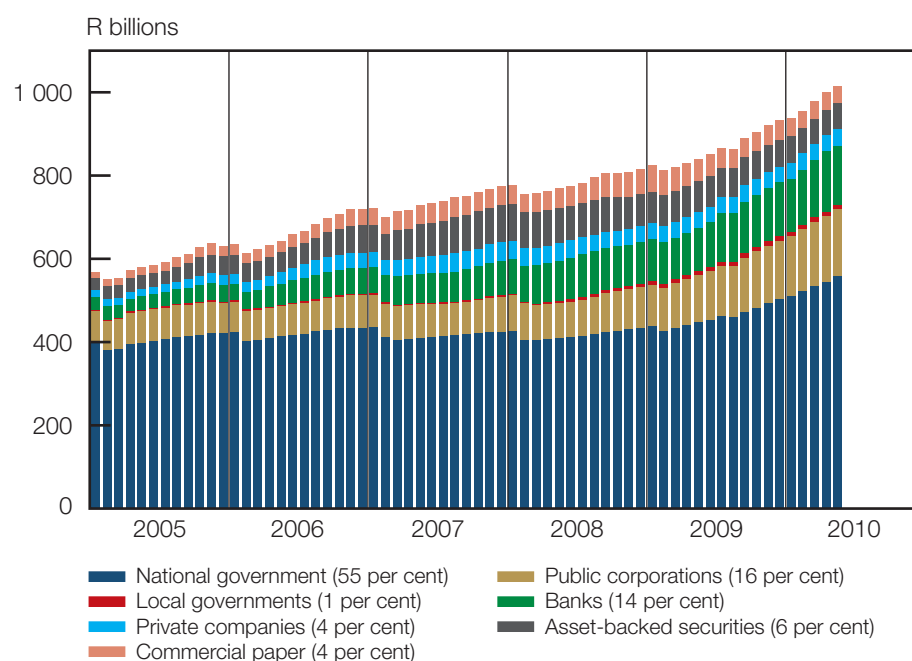
Inflation-linked bonds:

- 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

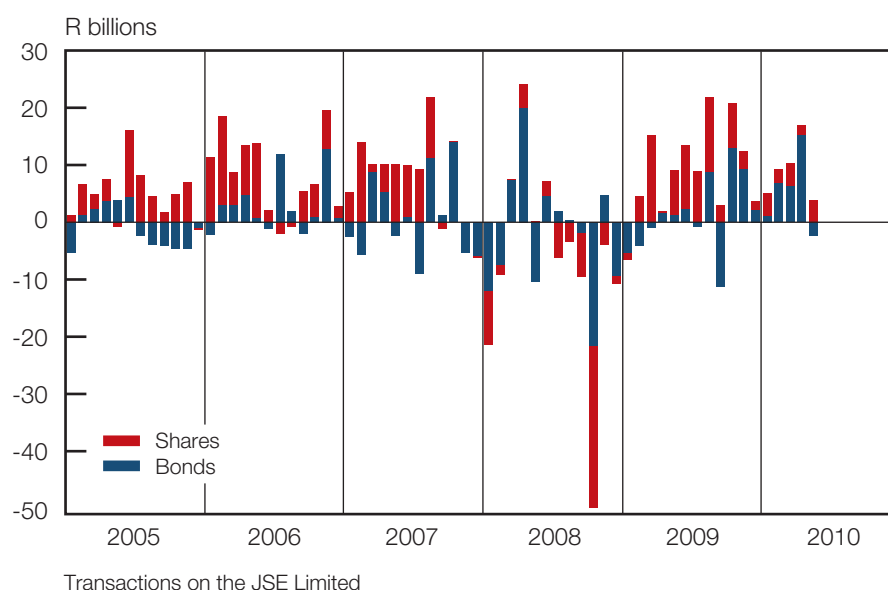
	Eurorand		Uridashi		Total	
	2009	2010	2009	2010	2009	2010
Issues.....	479	3 396	8 738	8 598	9 217	11 994
Redemptions.....	5 070	3 550	2 779	12 196	7 849	15 746
Net.....	-4 591	-154	5 959	-3 598	1 368	-3 752

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. Liquidity⁸ 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



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 AltX to the main board while one company transferred from the main board to AltX 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 AltX 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 AltX increased from R11,8 billion in February 2010 – its lowest level since January 2007 – to R12,2 billion in May. Total market liquidity⁹ 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.

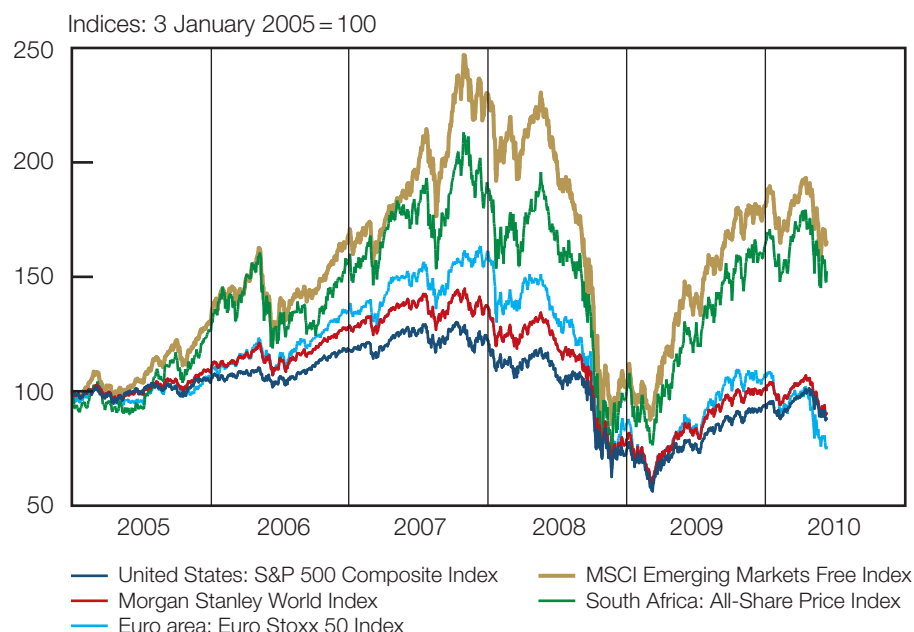
9 The annualised turnover as a percentage of total market capitalisation.

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

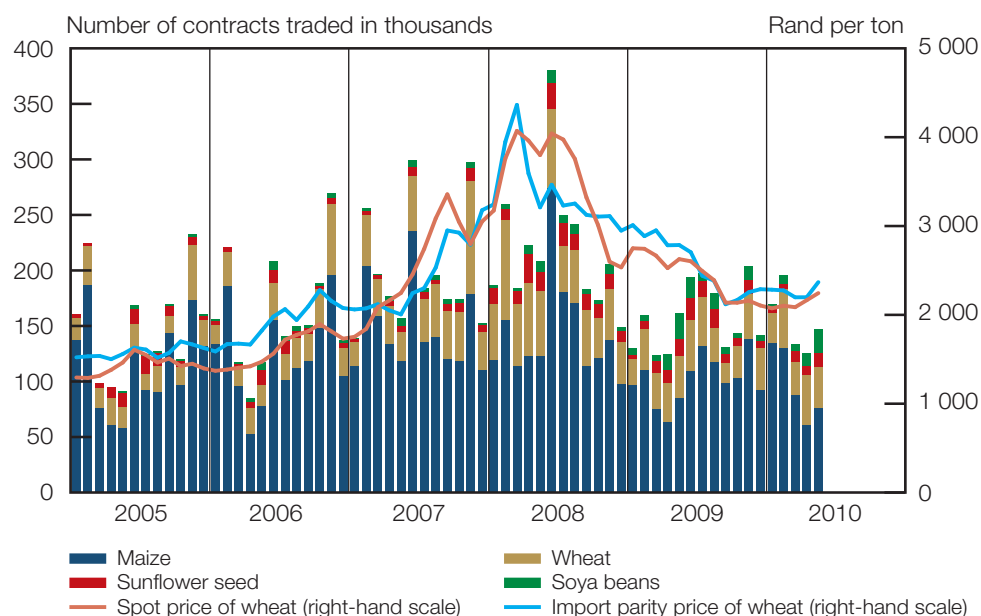
During the first five months of 2010, the volume traded in the *equity derivatives* market on the JSE improved noticeably to 59,7 million contracts, reflecting an increase of 2 per cent when compared with the corresponding period of 2009. This increase, together with developments in the underlying share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

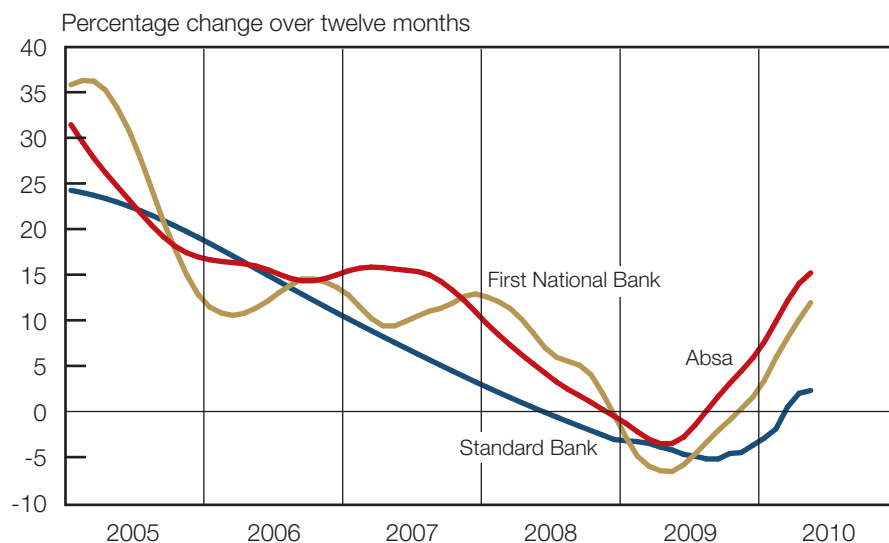
Derivatives turnover on the JSE, January to May 2010

	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



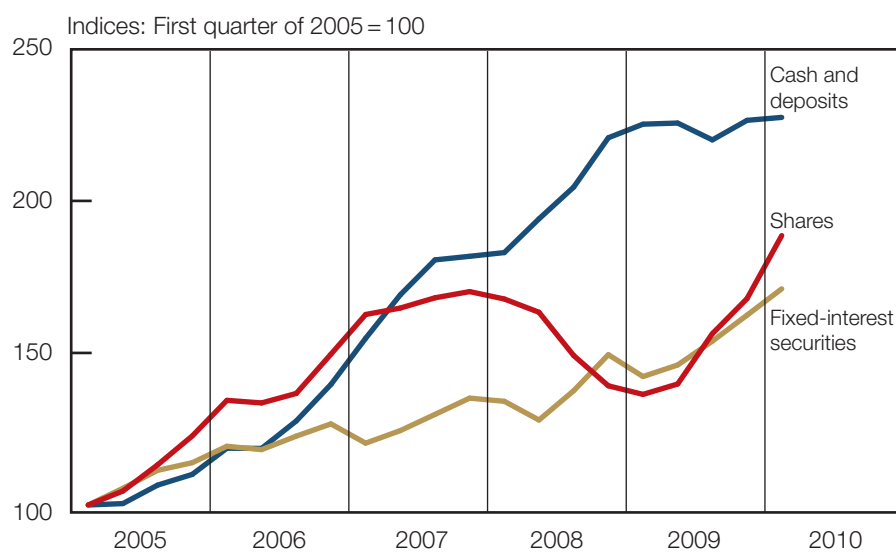
Non-bank financial intermediaries

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

The balance sheets of non-bank financial intermediaries¹⁰ 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.

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

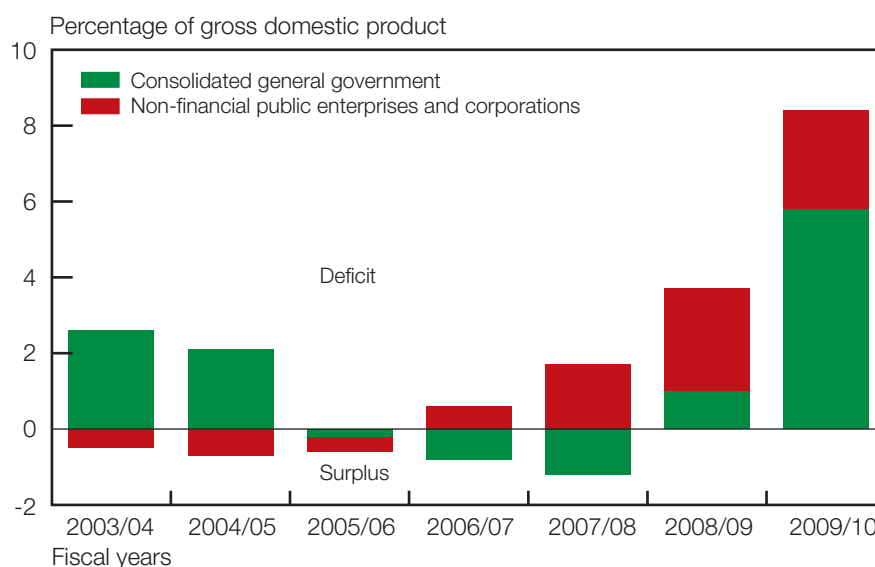
11 Calculated as the cash deficit/surplus of the consolidated central government, provincial and local governments, and the non-financial public enterprises and corporations.

Non-financial public-sector borrowing requirement¹¹

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.

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

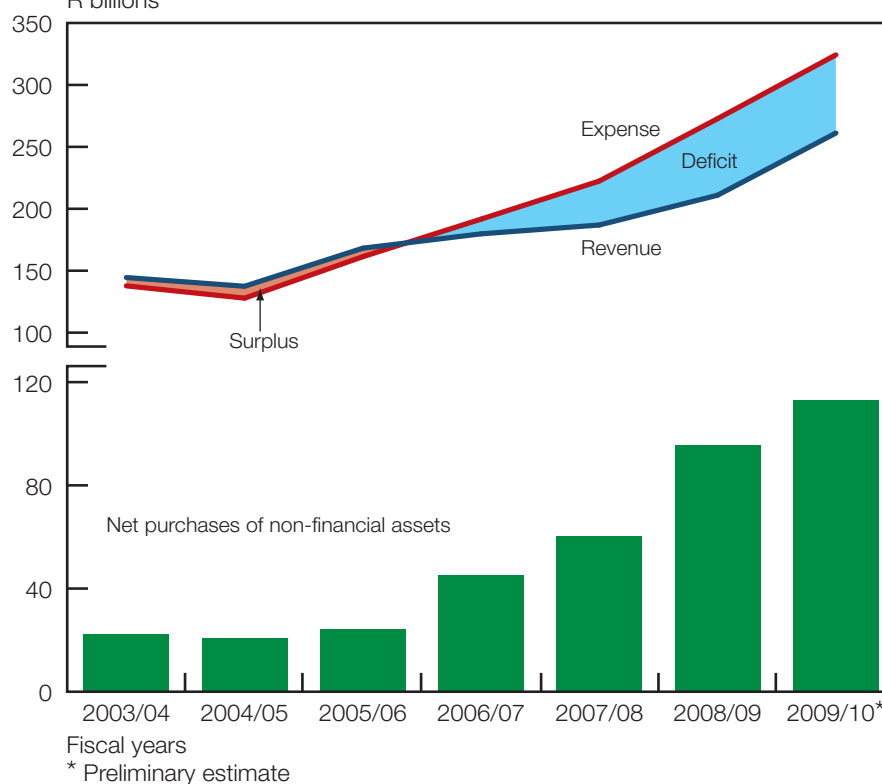
* Deficit + surplus –

** 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

R billions

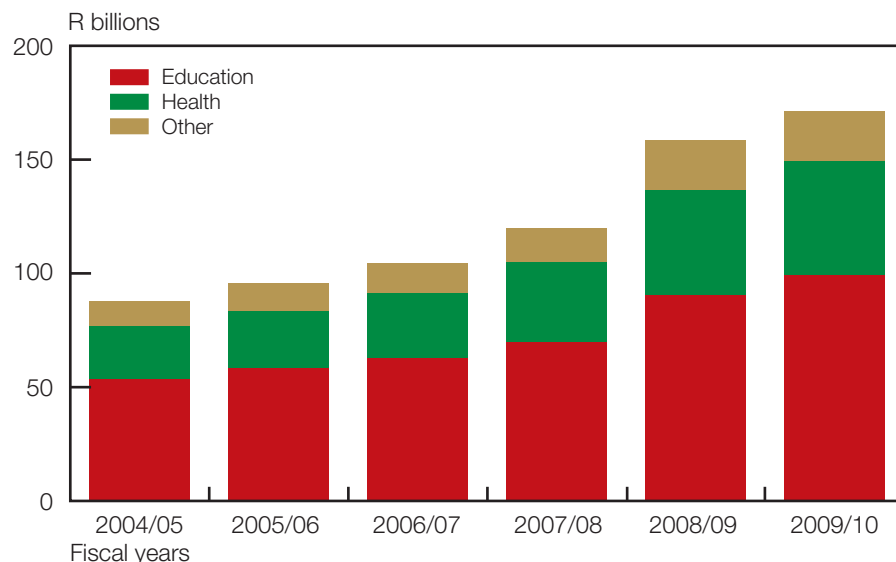


In fiscal 2009/10 cash receipts from operating activities of *national government* decreased by 4,6 per cent to R610 billion when compared with the previous fiscal year, as tax revenue collections were below the originally budgeted projections. Cash payments for operating activities increased by 14,1 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, inter-governmental 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.

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
<i>Income tax on individuals</i>	208,3	6,3	206,5	5,3
<i>Income tax on companies</i>	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
<i>Value-added tax</i>	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

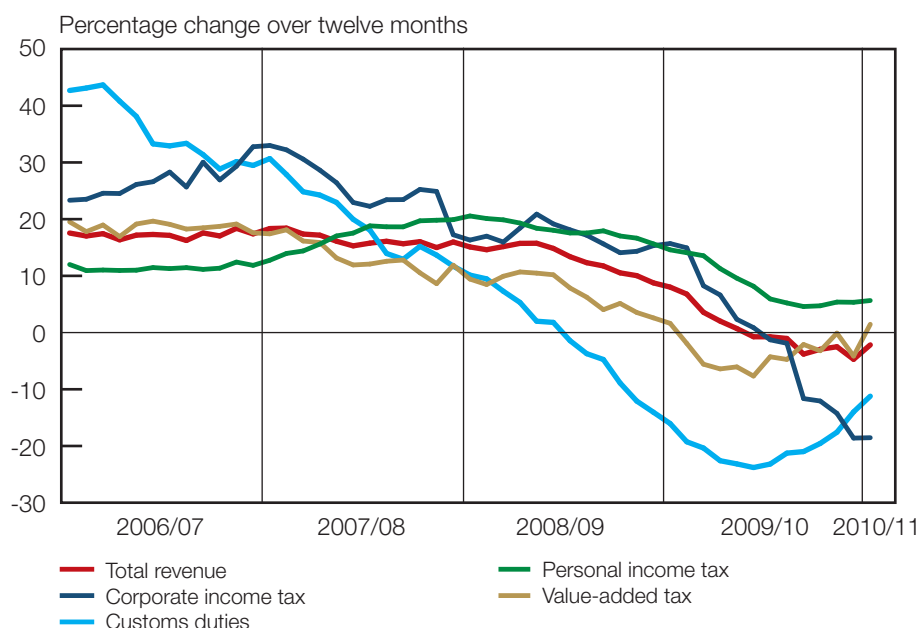
* Fiscal 2008/09 to fiscal 2009/10

** Southern African Customs Union

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

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

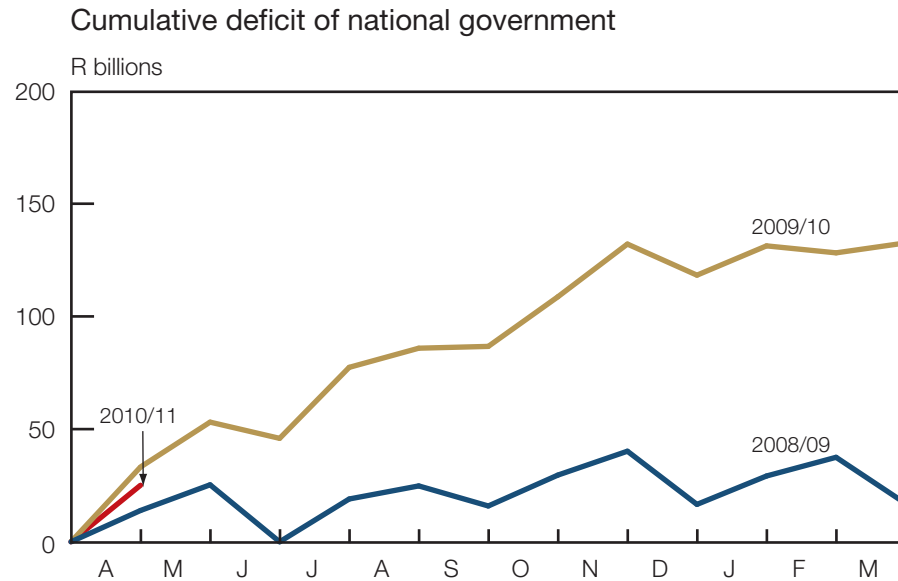


Netting national government revenue and expenditure resulted in a cash-book deficit of R133 billion in fiscal 2009/10 – almost eight times the cash-book deficit recorded in fiscal 2008/09. The cash-book deficit exceeded the originally budgeted deficit for fiscal 2009/10 by R37,0 billion. The actual outcome 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 balance¹³ 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.



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

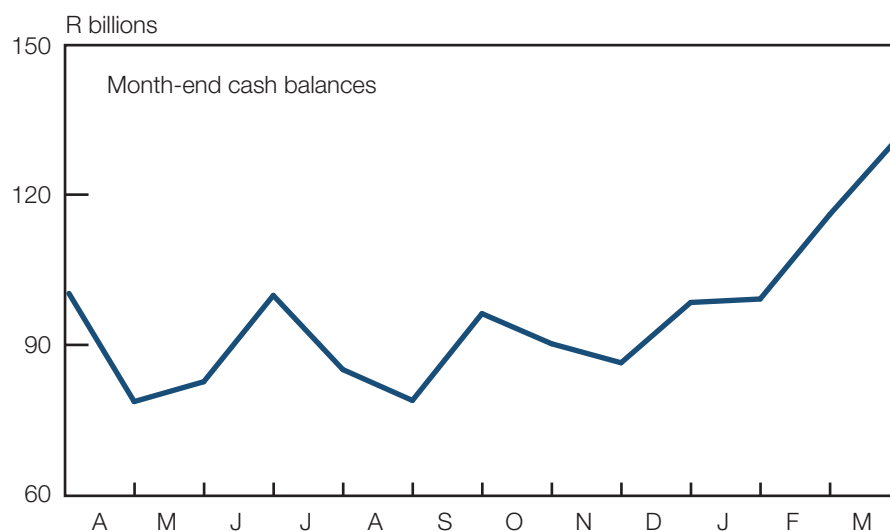
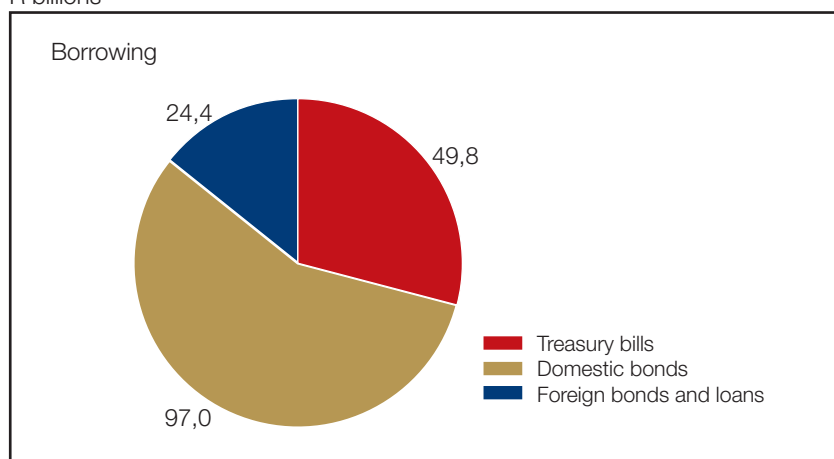
* Budget Review 2010

** 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