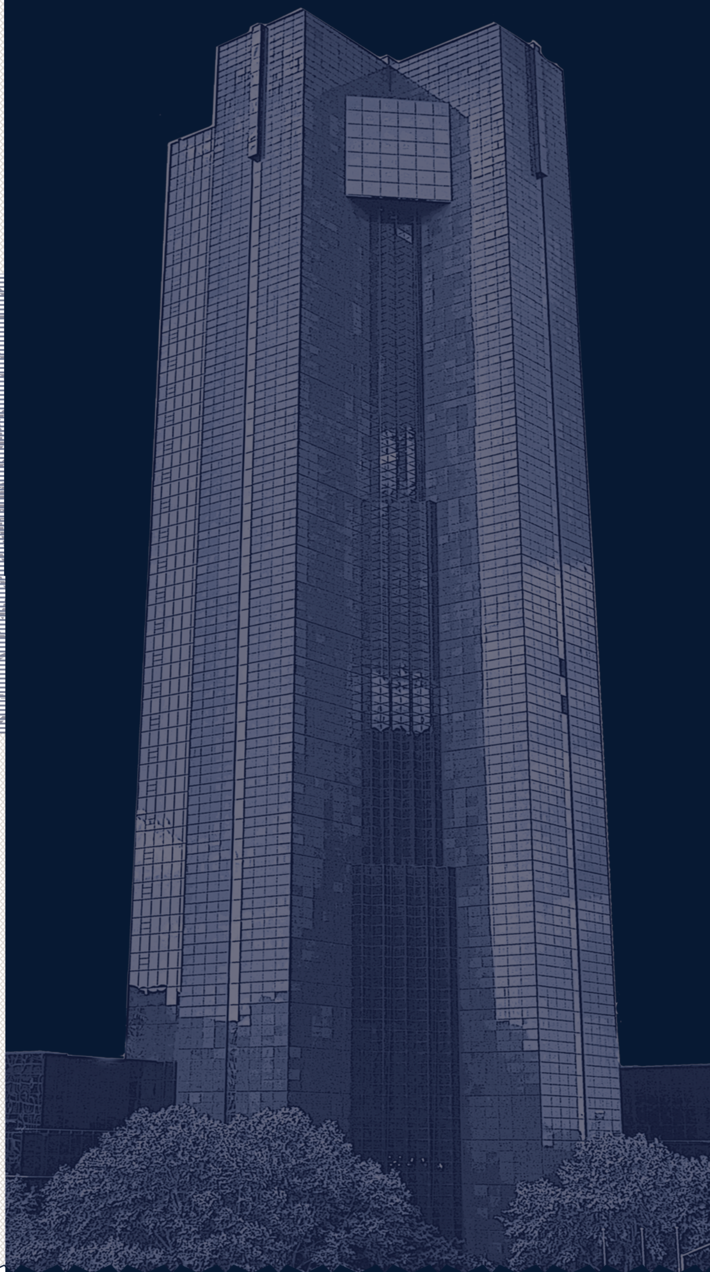


Quarterly Bulletin

June 2011

South African Reserve Bank

90th Anniversary

Quarterly Bulletin

June 2011

No. 260

South African Reserve Bank

90th

Anniversary

Enquiries relating to this *Bulletin* should be addressed to:
Adviser to the Governor and Chief Economist
South African Reserve Bank
P O Box 427
Pretoria 0001
Tel. +27 12 313-3668

http://www.reservebank.co.za

ISSN 0038-2620

Contents

Quarterly Economic Review

Introduction 1
Domestic economic developments 4
    Domestic output 4
    Real gross domestic expenditure 6
    Factor income 11
    Saving 11
    Employment 12
    Labour cost and productivity 15
    Prices 16
Foreign trade and payments 21
    International economic developments 21
    Current account 23
    Financial account 26
    Foreign debt 28
    International reserves and liquidity 28
    Exchange rates 29
Monetary developments, interest rates and financial markets 31
    Money supply 31
    Credit extension 33
    Interest rates and yields 35
    Money market 39
    Bond market 40
    Share market 41
    Market for exchange-traded derivatives 43
    Real-estate market 44
    Non-bank financial intermediaries 44
Public finance 46
    Non-financial public-sector borrowing requirement 46
    Budget comparable analysis of national government finance 48

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

Statement of the Monetary Policy Committee
24 March 2011 54

Statement of the Monetary Policy Commitee
12 May 2011 58

Article

Business cycles in South Africa during the period 2007 to 2009 61

Note

Note on the flow of funds in South Africa's national financial account for the year 2010 67

Notes to tables 82

Statistical tables

Contents S–0
Statistical tables S–2
Key information S–142

Quarterly Economic Review

Introduction

The global economic recovery continued in the first quarter of 2011, defying concerns of a double-dip pattern in activity. Nevertheless, the recovery remained uneven with emerging-market economies outpacing the developed economies; most of the latter group of economies continued to be characterised by stimulatory monetary policies alongside fiscal consolidation, fragile confidence and a lack of job creation. At the same time political turmoil and conflict continued in a number of countries in the Middle East and North Africa (MENA), disrupting economic activity and adding upward pressure on the international price of oil. Global supply chains were also impaired when a devastating earthquake and tsunami hit Japan on 11 March 2011 and disrupted production.

As strong demand from emerging-market economies continued to bolster international commodity prices, global inflation accelerated somewhat. Against this backdrop, monetary policy was tightened in several emerging-market countries, while the euro area was the first of the major mature economies to raise policy interest rates, albeit from a very low starting level.

Economic activity in South Africa gained further traction in the first quarter of 2011 when real gross domestic product expanded at an annualised rate of almost 5 per cent. Manufacturing output rose considerably over the period, led by higher production of petroleum and chemical products but with the expansion spread across most of the subsectors of manufacturing. Despite this improvement, aggregate production in manufacturing remained well below pre-crisis levels and capacity utilisation rose only marginally. Growth in the tertiary sectors accelerated somewhat as the commerce sector registered rising sales volumes while the finance sector facilitated more transactions. By contrast, growth in the primary sector lost momentum in the first quarter as lower field crop production due to flooding resulted in a moderate contraction in agricultural output. This was exacerbated by a slower pace of increase in mining activity as production of gold and coal contracted noticeably. Technical problems at some mines and lower grades of ore milled held back gold production, while excessive rainfall and logistical problems resulted in a reduction in coal output.

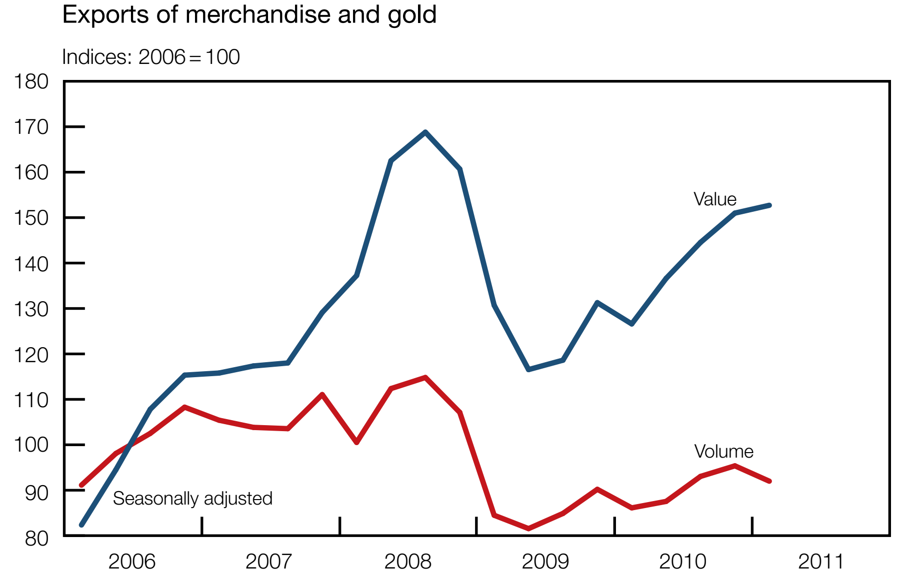
Strongly rising real consumption expenditure by the household sector continued to provide the main impetus to domestic final demand in the first quarter of 2011. The brisk consumption spending mirrored a further increase in real disposable income as property income and compensation of employees trended higher. Household debt rose moderately in the first quarter, but the increase in disposable income was strong enough to reduce the household indebtedness ratio. Among the broad types of consumer items, expenditure on durable goods recorded the strongest increase over the period.

At the same time, final consumption expenditure by government rebounded in the first quarter, mainly due to the acquisition of a number of military aircraft. Excluding these lumpy purchases, government maintained a fairly smooth path of expenditure increases.

Real fixed capital formation advanced at a stronger pace in the first quarter of 2011, with both the public corporations and the private sector contributing to this acceleration. Public corporations involved in the electricity and transport sectors increased their real capital outlays, while the private-sector producers of agricultural and mining products and transport and communication services stepped up their capital spending. The overall level of capital formation, however, still remained low, consistent with the surplus capacity prevailing in most sectors.

Inventory investment turned positive in the final quarter of 2010 and rose further in the period under review, supporting the rising volumes of sales and production in the economy. The increase in inventories in the first quarter of 2011 was mainly evident in the manufacturing sector.

Rising levels of domestic expenditure were reflected in an increase in the volume of imports in the first quarter of 2011. At the same time, export volumes were lustreless, influenced by the comparatively subdued growth performance of South Africa's traditional export destinations. A moderate deterioration in the terms of trade contributed further to a widening of the deficit on the current account to 3,1 per cent of gross domestic product in the first quarter of 2011.



The notably larger deficit on the current account was more than fully financed by capital inflows. Despite sizeable net secondary-market sales of portfolio assets by non-residents in South Africa, primary issues of international bonds ensured that overall portfolio investment into South Africa was positive during the first quarter of 2011. Along with inflows of direct and other investment capital, this allowed the South African Reserve Bank (the Bank) to step up its accumulation of foreign reserves in the quarter, for the first time lifting South Africa's official gold and foreign-exchange reserves to a level in excess of US$50 billion.

While the effective exchange rate of the rand depreciated in the first quarter of the year alongside a moderate deterioration in the terms of trade, the currency movements were well contained as were the price movements of most categories of imported goods. However, the prices of fuel and food picked up notably and contributed to an acceleration in inflation, although the twelve-month rate of consumer price inflation remained below the midpoint of the target range throughout the first four months of 2011.

Wage settlements remained fairly high in the first quarter of 2011, matching the average levels recorded in 2010. At the same time the unemployment rate rose to 25 per cent in the first quarter, although this was largely on account of seasonal factors. As the economic recovery progressed, formal-sector employment recorded its third successive quarterly increase in the final quarter of 2010 with employment increases in the public sector outpacing that in the private sector.

Banks' loans and advances to the private sector and the broadly defined money supply (M3) recorded pedestrian rates of growth in the first four months of 2011. Caution on the side of both borrowers and lenders restrained credit extension notwithstanding the low interest rate environment. Rising household consumption spending seemed to be supported by rising disposable income levels rather than by a recourse to credit. Mortgage credit extension continued to rise slowly while at the same time house prices remained subdued, housing construction activity slowed and property transaction volumes remained fairly weak.

Long-term bond yields rose somewhat in the first quarter of 2011, reflecting higher issuance of bonds, stronger economic growth and the impact of a depreciation in the exchange value of the rand on inflation expectations. Yields subsequently receded in April and May, influenced by favourable fiscal and inflation data.

On the JSE Limited (JSE) share prices, on balance, moved somewhat higher in the first five months of 2011, although concerns in the wake of the natural disasters that struck Japan and lower commodity prices temporarily interrupted the upward trend in March and April. Listed companies stepped up the amount of capital raised through new issues of shares in the early part of 2011.

The borrowing requirement of the non-financial public sector narrowed significantly in fiscal 2010/11 if compared with the previous fiscal year. This partly reflected an improvement in government revenue, led by strong increases in value-added tax and import duty collections as the economic upswing, which commenced in October 2009, gained some momentum. At the same time, the capital expenditure by public corporations was below earlier expectations, reducing their need to borrow funds. On a gross basis national government increased its issues of bonds in fiscal 2010/11, partly to finance expenditure but also, to some extent, to facilitate the orderly accumulation of official foreign reserves. The government raised the level of deposits with the Bank as one of the main means to sterilise the money-market effect of reserves purchases by the authorities.[1]

1 With this in mind, the level of government's *net* loan debt may be monitored in addition to its gross loan debt. Net loan debt has been added to statistical table S–51 from this edition of the *Quarterly Bulletin*.

Domestic economic developments

Domestic output[2]

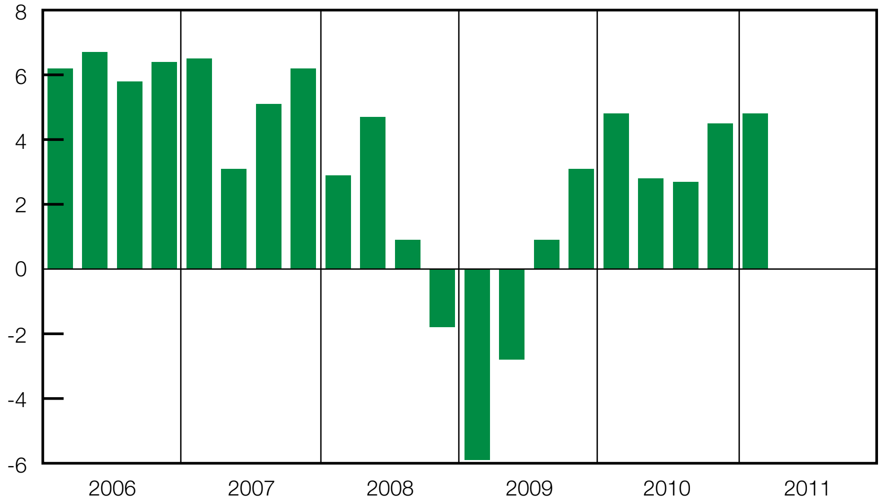
2 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Real growth in the South African economy accelerated further to an annualised rate of 4,8 per cent in the first quarter of 2011 – the seventh consecutive quarter of uninterrupted growth since the start of the recovery in the third quarter of 2009. This increase in economic activity could be attributed to a stronger pace of increase in the real value added by the secondary and tertiary sectors. By contrast, growth in the real value added by the primary sector decelerated in the first quarter of 2011.

If the more volatile primary sector is excluded, growth in real gross domestic product recorded a more pronounced acceleration to an annualised rate of 5,5 per cent in the first quarter of 2011.

Real gross domestic product

Percentage change from quarter to quarter



Seasonally adjusted annualised rates

After increasing at an annualised rate of 15,8 per cent in the fourth quarter of 2010, growth in the real value added by the *primary sector* slowed to an annualised rate of 0,5 per cent in the first quarter of 2011. The weaker performance of the primary sector was the net result of a contraction in the real value added by the agricultural sector which was exacerbated by markedly slower growth in the mining sector.

The real value added by the *agricultural sector* declined by 2,6 per cent in the first quarter of 2011 following an increase of 12,5 per cent in the fourth quarter of 2010. Field crop production was adversely affected by heavy rainfall and occasional flooding in the early months of 2011. By contrast, horticultural and livestock production held up fairly well over the period. Early indications are that field crop production is likely to be less buoyant in 2010/11 compared with the previous production season.

Commercial maize crop estimates

Period	Crop (Million tons)	Area planted (Million hectares)
2009/10: Final	12,8	2,7
2010/11: Fourth production forecast	11,0	2,4

Source: Crop Estimate Committee

Following strong increases of 33,7 per cent in the third and 17,1 per cent in the fourth quarter of 2010, growth in the real value added by the *mining sector* slowed markedly to 1,8 per cent in the first quarter of 2011. This slower pace of increase was primarily due to a contraction in the production of gold and coal, although production shrank in eight of the twelve main mineral groups. Gold production remained weak in the first quarter of 2011 due to technical problems experienced by some mines and lower grades of ore milled, while the production of coal decreased as a result of wet-pit conditions caused by excessive rainfall during the quarter. Platinum production, however, advanced further in the first quarter of 2011 as prices remained high and the global demand for motor vehicles remained strong.

The real value added by the *secondary sector* accelerated at a robust pace of 11,1 per cent in the first quarter of 2011. This improved performance largely resulted from a surge in manufacturing output. Activity in the construction sector remained subdued, while the value added by the electricity, gas and water subsector decelerated during the period.

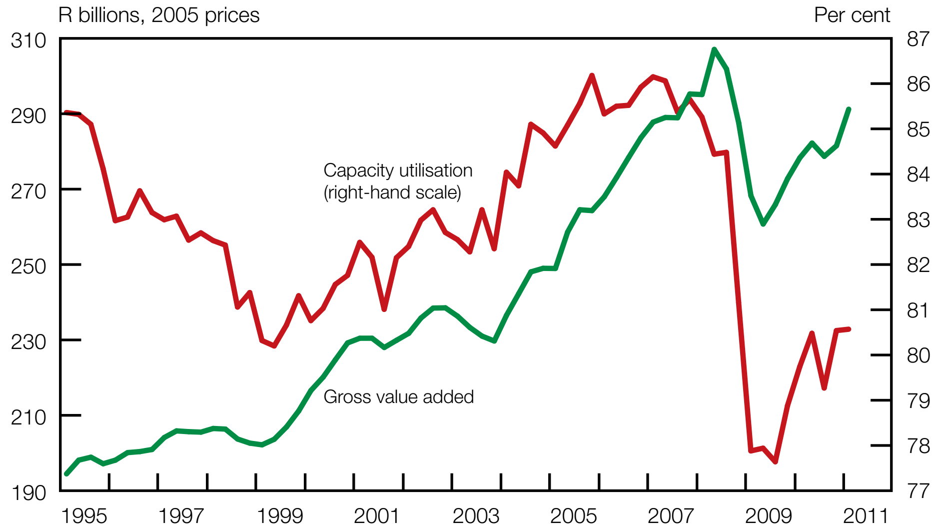
Real gross domestic product

Percentage change at seasonally adjusted annualised rates

Sectors	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	14,7	-15,0	28,3	15,8	4,3	0,5
Agriculture	4,9	13,6	16,3	12,5	0,9	-2,6
Mining	18,7	-24,5	33,7	17,1	5,8	1,8
Secondary sector	6,9	4,3	-3,8	3,6	4,1	11,1
Manufacturing	8,3	5,7	-4,9	4,1	5,0	14,5
Tertiary sector	2,6	4,6	2,0	3,5	2,2	3,7
Non-primary sector	*3,7*	*4,5*	*0,5*	*3,5*	*2,7*	*5,5*
Total	4,8	2,8	2,7	4,5	2,8	4,8

Growth in the real value added by the *manufacturing sector* accelerated to an annualised rate of 14,5 per cent in the first quarter of 2011, with positive growth rates recorded by seven of the ten subsectors. The faster pace of increase in production mainly reflected increased activity in the subsectors producing petroleum, chemical products, rubber and plastic products; basic iron and steel; non-ferrous metal products and machinery; and motor vehicles, parts and accessories and other transport equipment. While activity in the manufacturing sector continued recovering,

Manufacturing: Real gross value added and capacity utilisation



Seasonally adjusted

production levels remained well below their pre-recession highs. The real value added by the motor vehicles subsector continued to grow, although at a slower pace than in the fourth quarter of 2010. Although the earthquake and the subsequent tsunami in Japan did not adversely affect the domestic manufacturing of motor vehicles in the first quarter of 2011, some frictions could be encountered in the subsequent months. Total capacity utilisation in manufacturing increased marginally from 80,5 per cent in the fourth quarter of 2010 to 80,6 per cent in the first quarter of 2011, still well below the highs of around 86 per cent registered in 2007.

The real valued added by the sector supplying *electricity, gas and water* increased at a slower pace in the first quarter of 2011. Following an increase of 5,7 per cent in the fourth quarter of 2010, growth in the real value added by this sector slowed to a rate of 3,3 per cent in the first quarter of 2011 as higher domestic electricity consumption was partly offset by lower electricity exports to neighbouring countries.

Real economic activity in the *construction sector* remained muted in the first quarter of 2011. Having increased at an annualised rate of 15,6 per cent in the first quarter of 2009, growth in the real value added by the construction sector decelerated almost continually, with virtually no growth recorded in the fourth quarter of 2010 and the first quarter of 2011. Construction activity remained constrained by, among other factors, the lack of new construction projects. In addition, excessive rains impacted negatively on construction activity over the period.

Growth in the real value added by the *commerce sector* accelerated from an annualised rate of 3,5 per cent in the fourth quarter of 2010 to a rate of 4,4 per cent in the first quarter of 2011. All the subsectors in the commerce sector contributed to the increased growth in real value added over the period. Retailers and wholesalers continued to benefit from rising consumer demand and improved business conditions. The real value added by the motor trade subsector advanced strongly, supported by firm consumer demand in a low-interest rate environment. Measured over a year, new motor vehicle sales rose by almost 25 per cent in the first three months of 2011.

Following an increase at an annualised rate of 4,2 per cent in the fourth quarter of 2010, growth in the real value added by the *transport, storage and communication sector* decelerated to 3,6 per cent in the first quarter of 2011. This slowdown was mainly evident in passenger transport following a relatively high base set in the fourth quarter of 2010. Land freight transport volumes continued to increase in the first quarter of 2011, albeit at a somewhat slower rate than in the fourth quarter of 2010. However, growth in the communication subsector remained solid in the first quarter of 2011, partly on account of firm activity in the cellular telephone industry.

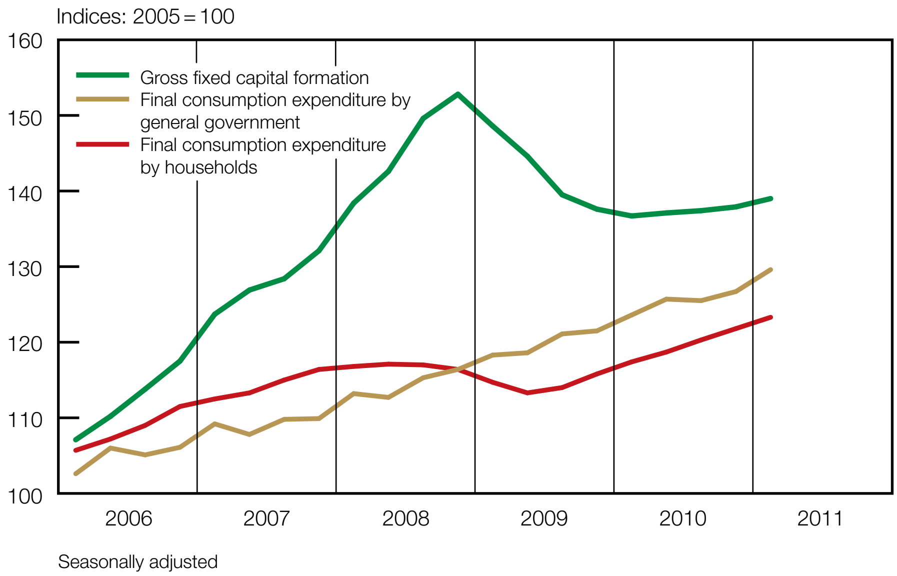
The real value added by the *finance, insurance, real-estate and business services sector* increased at a robust pace of 4,8 per cent, the highest in more than two years. This increase was mainly attributable to increased levels of activity in the equity, bond and other financial markets and the demand for financial services, supported by continued growth in the real value added by the banking sector.

Growth in the real value added by *general government* moderated from 5,7 per cent in the fourth quarter of 2010 to an annualised rate of 1,8 per cent in the first quarter of 2011. This moderation was partly due to the high base effect set by the return to normal output by government employees in the final quarter of 2010, following earlier strike activity.

Real gross domestic expenditure

Growth in *real gross domestic expenditure* accelerated significantly from an annualised rate of 2,4 per cent in the fourth quarter of 2010 to 8,3 per cent in the first quarter of 2011. This acceleration followed a further expansion in all the components of domestic demand. Real final consumption expenditure by households maintained its brisk pace of growth, while real final consumption expenditure by general government and real gross fixed capital formation accelerated alongside an acceleration in the pace of inventory accumulation.

Components of real gross domestic final demand



Having maintained brisk rates of expansion throughout 2010, growth in *final consumption expenditure by households* accelerated slightly from an annualised rate of 4,8 per cent in the fourth quarter of 2010 to 5,2 per cent in the first quarter of 2011. This increased pace of spending was primarily due to robust spending on the three major goods categories, which was partly offset by a moderation in household expenditure on services. Consequently, the ratio of household expenditure relative to gross domestic product remained at 58,2 per cent in both the fourth quarter of 2010 and the first quarter of 2011.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

Component	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	5,5	4,4	5,7	4,8	4,4	5,2
General government	7,1	7,1	-0,8	3,9	4,6	9,5
Gross fixed capital formation	-2,8	1,2	1,0	1,5	-3,7	3,1
Domestic final demand	**4,1**	**4,3**	**3,5**	**4,0**	**2,8**	**5,6**
Change in inventories (R billions)*	-7,9	-7,6	-0,9	1,1	-3,8	9,3
Gross domestic expenditure	**10,9**	**3,2**	**6,6**	**2,4**	**4,2**	**8,3**

* At constant 2005 prices

Real outlays by households on *durable goods* increased robustly in the opening months of 2011. Following a slower increase of 5,0 per cent in the fourth quarter of 2010, spending on durable goods advanced at an annualised rate of 21,5 per cent in the first quarter of 2011. This increase was notable in all subcategories of durable goods with the exception of computers and related equipment. The natural disaster in Japan did not materially affect spending on personal transport equipment over the period.

Having declined in the third quarter of 2010, real expenditure on *semi-durable goods* increased at an annualised rate of 4,6 per cent in the fourth quarter and 8,6 per cent in the first quarter of 2011. Increases were recorded in three of the five subcategories of semi-durable goods, with the strongest growth registered in clothing and footwear, whereas spending on vehicle tyres, parts and accessories as well as on recreational and entertainment goods receded somewhat in the first quarter of 2011.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Component	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	39,2	45,4	13,4	5,0	24,0	21,5
Semi-durable goods	30,2	9,8	-4,8	4,6	6,5	8,6
Non-durable goods	12,1	-2,3	2,9	0,2	2,1	3,4
Services	-10,3	0,7	9,3	8,8	1,9	1,9
Total	5,5	4,4	5,7	4,8	4,4	5,2

Growth in household spending on *non-durable goods* accelerated to an annualised rate of 3,4 per cent in the first quarter of 2011, from a low rate of 0,2 per cent in the final quarter of 2010. Spending on household fuel and power was primarily responsible for this increase, supported by higher real outlays on food, beverages and tobacco; and recreational and entertainment goods. Expenditure on petroleum products contracted somewhat over the period, prompted by the sharp increase in the price of petrol.

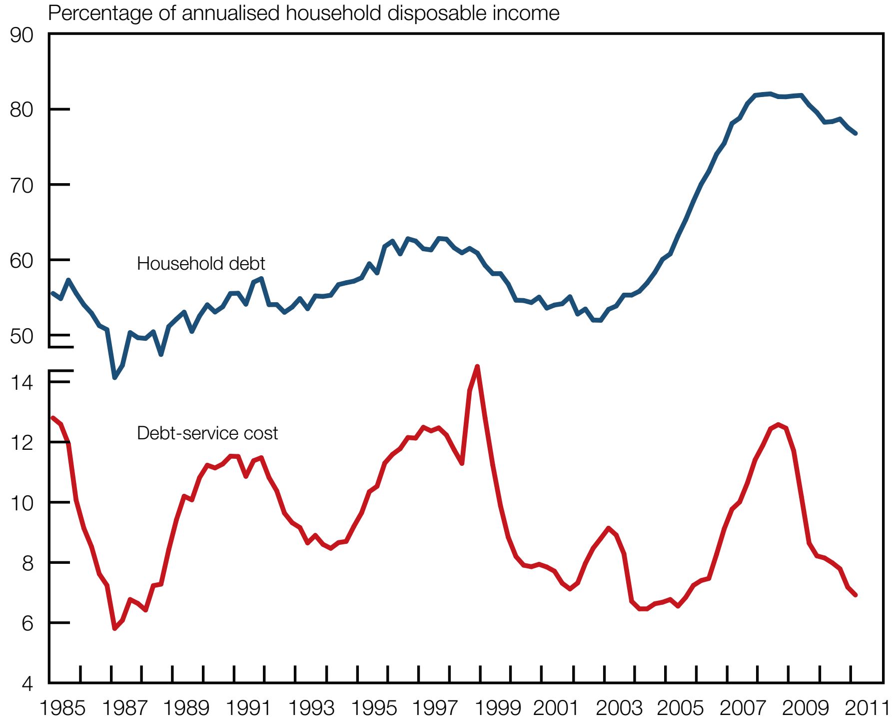
Real spending by households on *services* slowed from an annualised rate of 8,8 per cent in the fourth quarter of 2010 to 1,9 per cent in the first quarter of 2011. This slower growth was mainly due to lower expenditure on transport and communication services, while spending in most of the other subcategories of services continued to rise.

Following an increase at an annualised rate of 5 per cent in the fourth quarter of 2010, growth in real *disposable income of households* accelerated to 5,4 per cent in the first quarter of 2011, reflecting sturdy increases in net property income and compensation of employees.

The nominal level of household debt rose further in the first quarter of 2011. Owing to nominal disposable income increasing at a faster pace than household debt, the ratio of household debt to disposable income continued on its downward trajectory and inched lower to 76,8 per cent

Household debt and debt-service ratios

Percentage of annualised household disposable income



Seasonally adjusted

in the first quarter of 2011 from 77,6 per cent recorded in the fourth quarter of 2010. Consistent with a lower interest rate environment, the debt-service ratio of households edged marginally lower from 7,2 per cent in the fourth quarter of 2010 to 6,9 per cent in the first quarter of 2011, the lowest ratio since the third quarter of 2005.

Having risen continually from the third quarter of 2009, the *net wealth* of households continued to increase in the first quarter of 2011, although at a slower pace. The effect of higher share prices was countered by marginally lower house prices over the period.

Growth in real final consumption expenditure by *general government* accelerated from an annualised rate of 3,9 per cent in fourth quarter of 2010 to 9,5 per cent in the first quarter of 2011. The higher rate of spending by government primarily reflected the acquisition of five military aircraft and an increase in expenditure on other goods and services related to education and health. Excluding spending on armaments, real consumption expenditure by general government increased at a rate of 4,3 per cent in the first quarter of 2011, following an increase of 3,8 per cent in the fourth quarter of 2010.

Real compensation of government employees increased in the first quarter of 2011, albeit at a slower pace than in the fourth quarter of 2010. As far as nominal values are concerned, the ratio of final consumption expenditure by general government to gross domestic product declined from 21,6 per cent in the fourth quarter of 2010 to 21 per cent in the first quarter of 2011.

Real gross fixed capital formation advanced at an annualised rate of 3,1 per cent in the first quarter of 2011, following a subdued rate of growth of 1,5 per cent in the fourth quarter of 2010. This increase in capital investment could be attributed to a faster pace of increase in real capital outlays by private business enterprises and public corporations; fixed capital spending by general government continued to decline over the period. These developments were broadly consistent with the increase in domestic economic activity following the slowdown in economic growth since the second half of 2008. The ratio of total fixed capital formation relative to gross domestic product declined unabatedly from a recent high of 23,6 per cent in the first quarter of 2009 to 18,7 per cent in the first quarter of 2011.

Real gross fixed capital formation by institutional sector

Percentage change at seasonally adjusted annualised rates

Component	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	-2,9	2,2	2,0	1,6	-4,4	2,7
Public corporations	2,6	2,9	0,7	3,3	3,5	6,6
General government	-10,3	-5,3	-3,0	-1,9	-10,9	-0,5
Total	**-2,8**	**1,2**	**1,0**	**1,5**	**-3,7**	**3,1**

Real gross fixed capital formation by *private business enterprises* accelerated from an annualised rate of increase of 1,6 per cent in the fourth quarter of 2010 to 2,7 per cent in the first quarter of 2011. Increased capital outlays by the agricultural, mining, transport and communication sectors contributed significantly to the acceleration. Farmers raised their capital expenditure on agricultural equipment partly in response to an improved outlook for the prices of agricultural products, more affordable finance and continued rand strength, which helped to stabilise the prices of new agricultural equipment.

The steady improvement in global demand for base and precious metals had a positive impact on investment in trucks, with the mining sector gearing up to produce and deliver larger quantities of coal, chromium, iron ore and other metals. Logistics companies expanded and renewed their fleets, in response to a firm demand for transport services. In addition, the communication subsector maintained strong momentum by expanding network capacity through ongoing capital spending on a wider and faster data network, in order to augment quality and support growth in data traffic.

Increased real capital outlays on high-density residential buildings partly offset a decline in expenditure on other types of residential buildings, but overall residential construction activity contracted further during the first quarter of 2011. Owing to a lack of new investment projects, construction activity remained fairly subdued in the opening months of 2011, with the construction sector recording a further quarter of negative growth, albeit at a slower pace.

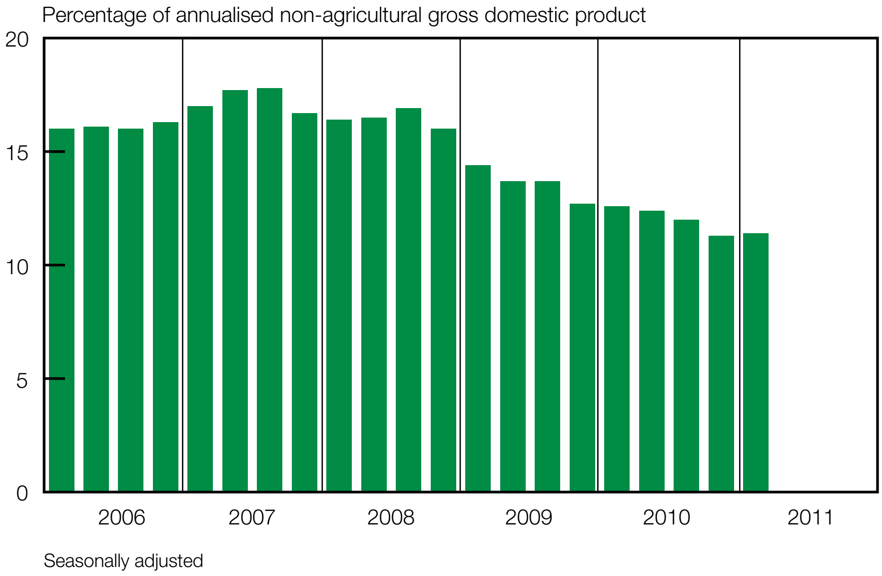
Real fixed capital expenditure by *public corporations* increased at an annualised rate of 6,6 per cent in the first quarter of 2011, following growth of 3,3 per cent in the fourth quarter of 2010. The accelerated pace of capital spending by public corporations reflected higher capital outlays by the electricity and transport subsectors. Capital expenditure, especially on vehicles and machinery and other equipment, was boosted by ongoing Eskom projects, including the construction of the Medupi, Kusile and Ingula power stations. In addition, substantial capital spending by Transnet on, in particular, a new multi-products pipeline, also gave rise to higher spending on machinery and equipment. Transnet also took ownership of two diesel-electric locomotives as part of the freight logistics group's fleet renewal plan.

The pace of contraction in real gross fixed capital expenditure by *general government* moderated from an annualised rate of 1,9 per cent in the final quarter of 2010 to 0,5 per cent in the first quarter of 2011. Spending in the areas of housing and water treatment facilities and outlays related to the near-completion of the Gautrain rail project provided some support to the capital expenditure by general government during the first quarter of 2011.

The level of *real inventories* increased by R9,3 billion in the first quarter of 2011 compared with an increase of R1,1 billion in the fourth quarter of 2010. The acceleration in the pace of inventory accumulation was consistent with higher volumes of production and sales in the economy, and contributed 1,7 percentage points to growth in real gross domestic expenditure in the first quarter of 2011, compared with the 0,4 percentage points added in the fourth quarter of 2010. The increase in inventories in the first quarter of 2011 was mainly evident in the manufacturing sector, with some accumulation also recorded in platinum mining.

Having declined uninterruptedly for nine consecutive quarters, the level of industrial and commercial inventories as a percentage of annualised non-agricultural gross domestic product increased from 11,3 per cent in the fourth quarter of 2010 to 11,4 per cent in the first quarter of 2011. Growth in inventory investment outpaced that of non-agricultural output in the first quarter of 2011 as manufacturers increased their inventory holdings. The relatively low interest cost of carrying inventories alongside an increase in manufacturing output and increased merchandise imports, resulted in the accumulation of industrial inventories during the period under review.

Industrial and commercial inventories

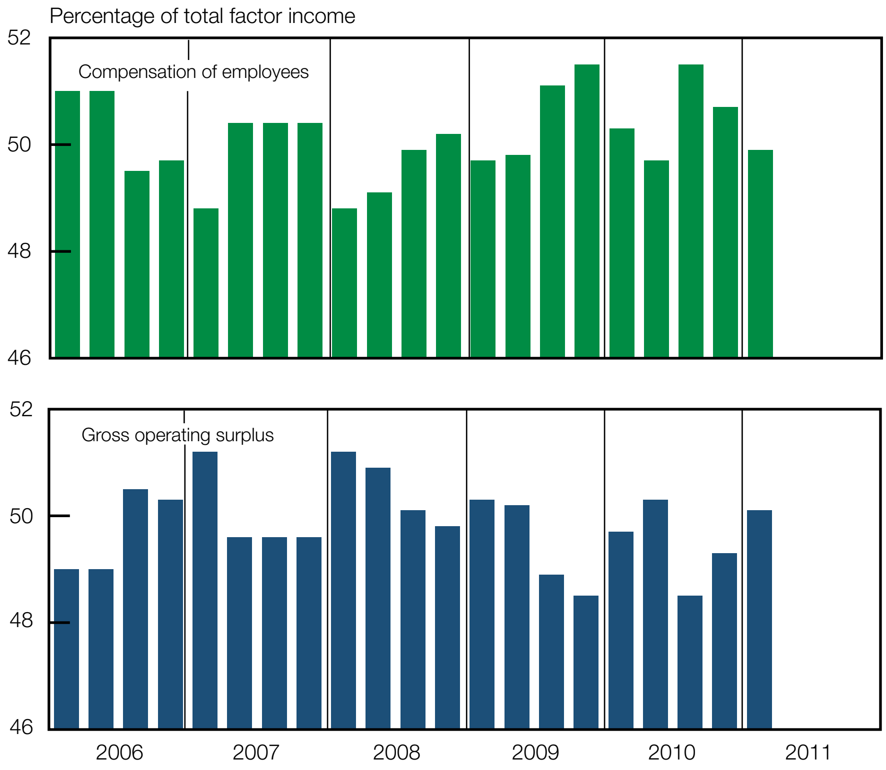


Factor income

Growth over one year in *total nominal factor income* slowed marginally from a rate of 11,1 per cent in the fourth quarter of 2010 to 11 per cent in the first quarter of 2011. The deceleration resulted mainly from slower growth in the gross operating surpluses of business enterprises over the period.

Measured over four quarters, the rate of increase in the *compensation of employees* accelerated from 8,7 per cent in the fourth quarter of 2010 to 10 per cent in the first quarter of 2011. Although firm growth in compensation was recorded in most sectors of the economy, it was most prominent in the general government sector. This was broadly consistent with the generally lucrative wage settlements during the period and relatively stable employment conditions in the formal economy. However, the ratio of compensation of employees to total factor income decreased from 50,7 per cent in the fourth quarter of 2010 to 49,9 per cent in the first quarter of 2011.

Compensation of employees and gross operating surplus



Seasonally adjusted

The year-on-year growth in total *gross operating surpluses* slowed from 14 per cent in the fourth quarter of 2010 to 12,1 per cent in the first quarter of 2011. Slower growth in gross operating surpluses was particularly evident in the transport, storage and communication and finance sectors. By contrast, gross operation surpluses in the mining and manufacturing sectors increased more briskly due to positive developments in the global economic environment and an improvement in business confidence. The sustained increase in commodity prices, more specifically in the prices of gold and coal, resulted in higher levels of sales in the mining sector. Across all sectors, the share of the operating surplus to total factor income increased from 49,3 per cent in the fourth quarter of 2010 to 50,1 per cent in the first quarter of 2011.

Saving

South Africa's *national savings ratio* (i.e., total saving as a ratio of total gross domestic product) decreased from 17,9 per cent in the fourth quarter of 2010 to 16,3 per cent in the first quarter of 2011. The lower saving in the first quarter resulted from a decline in corporate saving alongside an improved savings performance by general government, while households maintained their level of saving. As a result of the lower saving ratio in the first quarter of 2011, about 15,8 per cent of the country's gross capital formation was financed via foreign capital, higher than the 5,2 per cent share in the fourth quarter of 2010 and the 14,6 per cent share in 2010 as a whole.

Gross saving by the *corporate sector* declined from 16,9 per cent of gross domestic product in 2010 to 15 per cent in the first quarter of 2011. The decrease in corporate saving reflected weaker growth in the operating surpluses of incorporated business enterprises. In addition, dividend payments increased sharply in the first quarter of 2011.

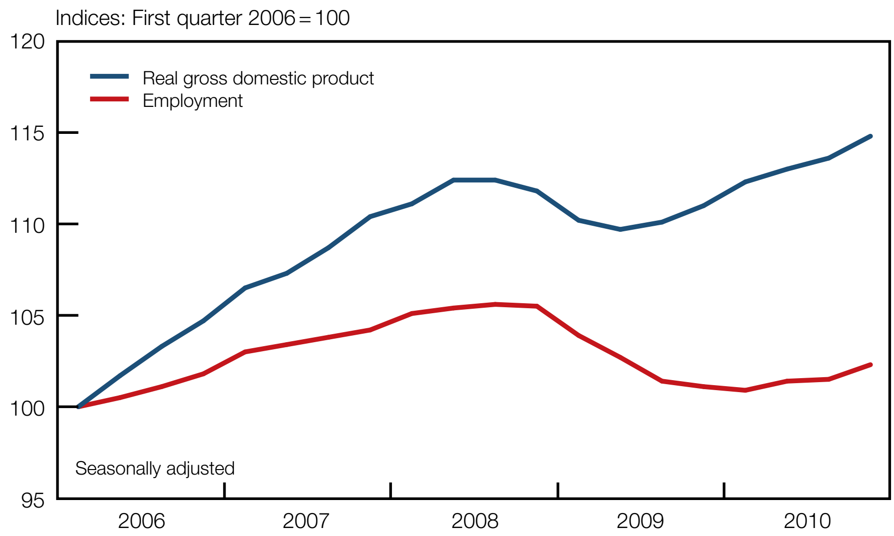
General government dissaved less in the first quarter of 2011. This improvement in the general government's saving can mainly be attributed to an increase in current income of general government resulting from strong increases in several tax categories, including personal income tax, value-added tax, and custom and excise duties. Gross dissaving by general government as a percentage of gross domestic product improved from 0,9 per cent in the fourth quarter of 2010 to 0,3 per cent in the first quarter of 2011.

Gross saving by the *household sector* as a percentage of gross domestic product remained at a level of 1,5 per cent in both the fourth quarter of 2010 and the first quarter of 2011. This was consistent with the broadly similar rates of increase of households' final consumption expenditure and disposable income.

Employment

Although in the wake of the international financial crisis real domestic output started recovering from the third quarter of 2009, formal non-agricultural employment only started rising from the second quarter of 2010. The late resumption of employment gains was indicative of the lagged relationship between economic growth and employment creation, as illustrated in the accompanying graph.

Output and employment



Enterprise-surveyed employment data obtained from the *Quarterly Employment Statistics* (*QES*) survey by Statistics South Africa (Stats SA) indicate that formal non-agricultural employment increased more substantially in the fourth quarter of 2010, following a marginal increase in the third quarter. Employment levels in both the private and public sectors increased meaningfully in the fourth quarter of 2010. Public-sector employment rose at an annualised rate of 5,3 per cent, outpacing the rate of increase of 2,6 per cent recorded in the private sector. The employment gains in the private sector were fairly widespread but were most pronounced in the community, social and personal services sector, as well as in the finance, insurance, real-estate and business services sector. Consequently, overall formal non-agricultural employment increased at a seasonally adjusted and annualised rate of 3,2 per cent in the fourth quarter of

2010, equal to roughly 64 700 new job opportunities. The bulk of the increase in employment numbers was in the private sector.

A disaggregation of year-on-year changes in employment levels at year-ends for the past three years is presented in the following table, as well as quarterly changes in employment numbers during 2010. From the table it is clear that employment losses were most pronounced during 2009. Compared with the almost 350 000 jobs lost during that year, only approximately 96 800 jobs were created in 2010.

Employment levels in the manufacturing sector increased at a seasonally adjusted and annualised rate of 3,5 per cent in the fourth quarter of 2010, following two consecutive quarters of contraction. Overall, employment in this sector declined marginally in 2010 since the expansion in production had not progressed far enough.

Change in enterprise-surveyed formal non-agricultural employment

	Year-on-year			Quarter-to-quarter changes in 2010*			
	Dec 2008	Dec 2009	Dec 2010	1st qr	2nd qr	3rd qr	4th qr
Mining	12 600	-30 900	15 400	6 300	3 100	4 800	1 200
Gold mining	-7 400	-5 100	-7 400	1 900	-2 000	-3 600	-3 600
Non-gold mining	20 000	-25 790	22 800	4 400	5 100	8 500	4 800
Manufacturing	-39 300	-90 000	-18 900	4 900	-19 300	-14 500	10 000
Electricity supply	3 000	-2 900	2 600	-400	1 400	700	1 000
Construction	8 400	-59 100	-14 700	4 000	-5 900	-5 100	-7 800
Trade, catering and accommodation	-25 500	-79 400	18 000	7 500	200	20 400	-10 000
Transport, storage and communication	4 800	-1 700	-1 000	-200	1 300	-4 000	2 000
Financial intermediation and insurance	43 400	-117 000	25 700	-44 200	30 700	4 600	34 600
Community, social and personal services	1 800	14 500	6 700	-2 800	2 300	-1 700	8 800
Total private sector	**9 200**	**-366 300**	**33 800**	**-24 800**	**13 700**	**5 200**	**39 700**
National, provincial and local government	68 900	45 100	55 000	2 700	27 800	6 300	18 100
Public-sector enterprises	27 600	-28 300	8 100	2 900	-500	-1 200	6 900
Total public sector	**96 500**	**16 800**	**63 000**	**5 500**	**27 300**	**5 100**	**25 000**
Grand total	**105 800**	**-349 500**	**96 800**	**-19 300**	**41 100**	**10 400**	**64 700**

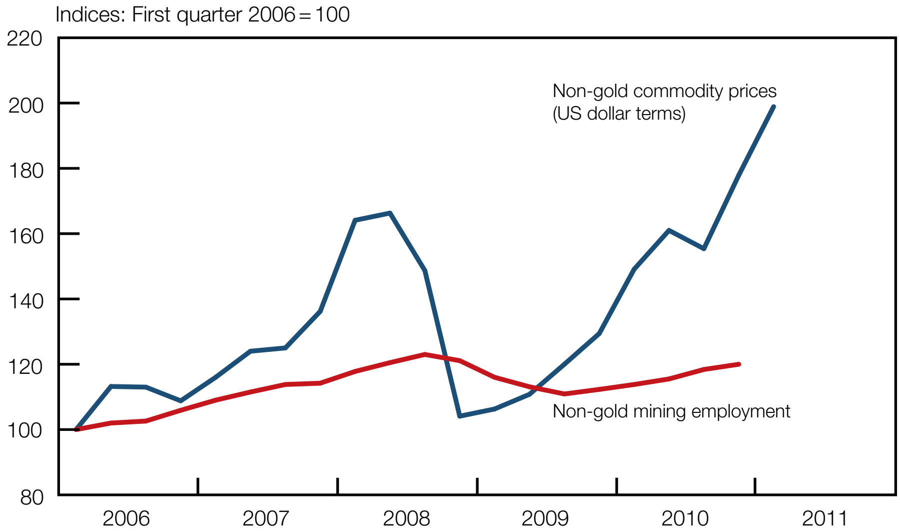
* Seasonally adjusted numbers
Numbers may not add up due to rounding

Despite employment gains in recent months, the level of manufacturing employment has not nearly recovered to that in previous years. Nevertheless, the Kagiso Purchasing Managers' Index (PMI) published by the Bureau for Economic Research (BER) depicted an overall improvement in the purchasing managers' views of the manufacturing sector, following the expansion of manufacturing activity in the past six months to April 2011. Government has also committed itself to developing and enhancing the manufacturing sector in order to stimulate job creation, as outlined in the Industrial Policy Action Plan 2, and further elaborated on in government's *New Growth Path*.

Employment growth in the mining sector partly reflected the sustained increase in commodity prices alongside relatively strong demand for South African commodities by the Asian and other emerging-market economies. In fact, employment gains in the non-gold mining sector accelerated consistently, from a seasonally adjusted and annualised rate of 5,1 per cent in the fourth quarter of 2009 to 10,4 per cent in the third quarter of 2010, before the rate of increase moderated somewhat to 5,7 per cent in the fourth quarter. Excluding gold production, which has been contracting largely due to geological challenges and related costs, production of the four highest-weighted metals which make up almost 65 per cent of total mining output increased by 50 per cent since January 2009, when the resurgence in commodity prices commenced following world recessionary conditions.

The need for the creation of additional capacity in the electricity-supply sector contributed to a steady increase in the pace of capital spending and a concomitant surge in job creation at an annualised rate of 6,8 per cent in the fourth quarter of 2010. In addition, the increase in employment levels in the sector was a result of improved mining and manufacturing output performance, being reliant on the electricity-supply sector. Of the total number of jobs created in 2010 as a whole, more than half occurred in the third quarter of the year. Interestingly, electricity consumption during March 2011 exceeded the peak reached in February 2008.

Commodity prices and non-gold mining employment



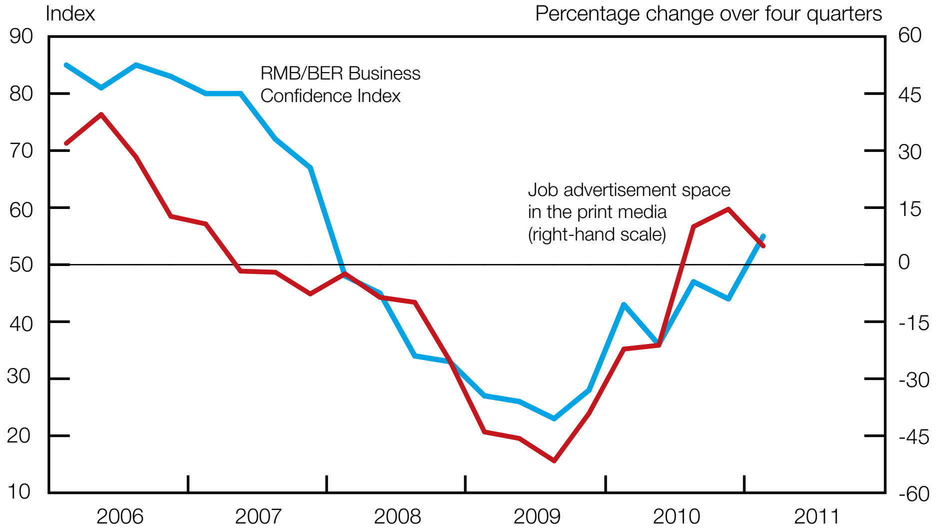
In the first three quarters of 2010 a cumulative number of 28 200 jobs were created in the trade, catering and accommodation services sector. Unfortunately, in the final quarter of 2010 some of these jobs were shed at a rate of 2,4 per cent. Job creation in the trade sector was bolstered by improved output and sales in the retail trade sector and new vehicles sector in the past year, following a contraction in the previous two years. On a year-on-year basis, employment levels in the sector increased by 1,1 per cent in the fourth quarter of 2010. According to the Fitch Ratings agency, it is expected that retail sales growth will continue to be driven by a sustained economic recovery in 2011. Employment levels in the finance, insurance, real-estate and business services sector – the largest employing sector, accounting for 22 per cent of total formal non-agricultural sector employment – increased at an annualised rate of 8,0 per cent in the fourth quarter of 2010, bringing the total number of employed in this sector to 1,8 million.

Job losses in the construction sector continued unabatedly during the three quarters to the fourth quarter of 2010, amounting to an annualised rate of 7,5 per cent in the final quarter of that year. The subdued state of construction activity is corroborated by the continued contraction in the real value of total buildings completed, the persistent recession in the real value of building plans passed, and the low volumes of national cement sales. Further confirmation of the lacklustre performance in construction activity was supplied by the outcome of the BER *Building and Construction* survey for the first quarter of 2011; it showed that confidence indices in the building and construction sectors had declined further during that period.

As noted, public-sector employment gains continued apace during the most recent economic recession. In 2010 as a whole, public-sector employment increased by 2,0 per cent on average, compared with the previous year. During 2008 and 2009 public-sector employment increased at rates of 4,5 per cent and 3,1 per cent respectively. During 2010, job creation in the public sector mainly occurred at the provincial and local government levels.

Results from a widely read newspaper's job advertisement survey (normally, a good correlation exists between employment growth and the growth in advertising space in the newspaper) confirmed that overall employment prospects improved in the third and fourth quarters of 2010. Furthermore, the improvement in the RMB/BER Business Confidence Index above the 50 per cent level in the first quarter of 2011 suggests that the growth momentum in the economy is spreading beyond the trade sectors in the economy, bar the building sector.

RMB/BER Business Confidence Index and job advertisement space



Labour cost and productivity

Notwithstanding a meaningful moderation in year-on-year headline consumer price inflation to 3,5 per cent in the year to December 2010, the year-on-year rate of increase in the nominal remuneration per worker in the formal non-agricultural sector of the economy remained high during that period, recording rates in excess of 10 per cent. This rate of increase, however, encouragingly slowed from 15,9 per cent in the first quarter of 2010 to 10,1 per cent in the final quarter of that year.

Double-digit year-on-year rates of increase in remuneration per worker in the private sector were fairly broad-based in the fourth quarter of 2010, amounting to 10,6 per cent for the sector as a whole. Increases in the gold-mining sector amounted to 17,7 per cent, with construction sector wages rising by 14,2 per cent, private transport, storage and communication services sector wages by 13,8 per cent, manufacturing sector wages by 11,0 per cent, trade, catering and accommodation services sector wages by 10,9 per cent and the finance, insurance, real-estate and business services sector wages by 10,2 per cent. Increases in the nominal remuneration per worker in the public sector, however, moderated from 13,6 per cent in the third quarter of 2010 to 8,2 per cent in the fourth quarter. According to the Wage Settlement Survey conducted by Andrew Levy Employment Publications, the average wage settlement rate amounted to 8,2 per cent in 2010, remaining at this relatively elevated level in the first quarter of 2011. At this rate, wage settlements have, however, moderated in comparison with previous years.

With formal-sector employment increasing at a faster pace than output over the year to the fourth quarter of 2010, labour productivity growth moderated from 3,1 per cent in the third quarter of 2010 to 2,2 per cent in the fourth quarter. The rate of increase in labour productivity in the manufacturing sector also moderated significantly from 8,7 per cent in the year to the third quarter of 2010 to 4,0 per cent in the year to the fourth quarter, as employment growth outpaced growth in manufacturing output.

Owing to the slower increases in nominal remuneration per worker and improved real output growth in the economy, the year-on-year rate of increase in total non-agricultural nominal unit labour cost decelerated meaningfully from 9,3 per cent in the third quarter of 2010 to 7,7 per cent in the fourth quarter. The acceleration in the rate of increase in nominal unit labour cost in the manufacturing sector to 6,8 per cent in the year to the fourth quarter of 2010 mainly resulted from a deceleration in the rate of increase in productivity in this sector. Nominal unit labour cost increases at these rates were still adding to inflation pressures in the economy during that period.

Remuneration per worker, labour productivity and unit labour cost in the formal non-agricultural sector

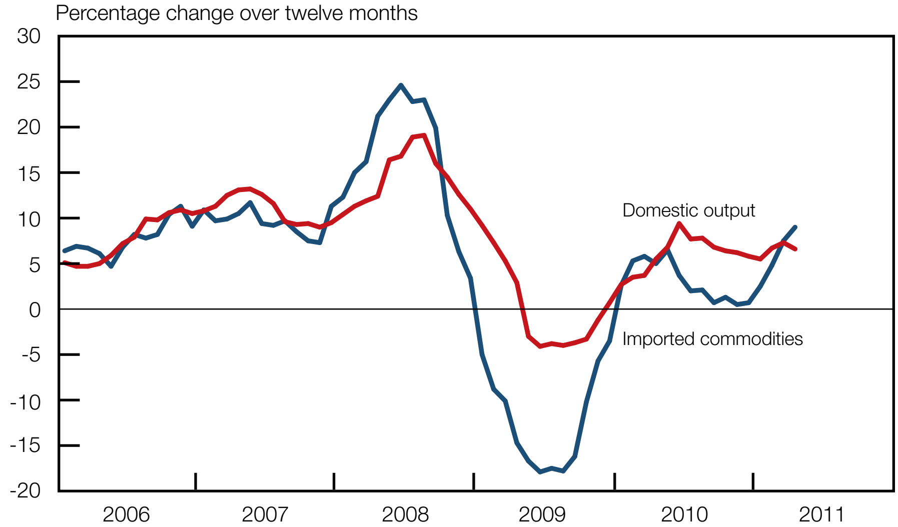
Percentage change over four quarters

Prices

The moderation in headline consumer price inflation since September 2008 came to an end in September 2010, whereafter the rate of increase started to accelerate again. Headline consumer price inflation, however, remained within the inflation target range of 3 to 6 per cent for the past 15 months to April 2011 – having reached a low of 3,2 per cent in September 2010, it accelerated steadily to 4,2 per cent in April 2011. Producer price increases for domestic output moderated in the second half of 2010 from a peak year-on-year rate of 9,4 per cent in June 2010 to a low of 5,5 per cent in the year to January 2011, before accelerating to 6,6 per cent in April 2011.

Producer price inflation

Percentage change over twelve months



The price formation process is a function of both imported and domestically generated inflation, with South Africa being no exception. Imported producer price inflation has been largely affected by increases in the prices of imported agricultural and mining commodities. Imported producer price inflation receded to a twelve-month rate of 0,7 per cent in December 2010, before accelerating to 9,0 per cent in April 2011.

Globally, agricultural commodity prices have risen sharply from the middle of 2010 and food prices in general have surged in both advanced and emerging-market economies. Furthermore, the earthquake in Japan and the broad-based global economic recovery contributed to the increased demand for commodities. Imported agricultural and mining commodity price inflation respectively amounted to 13,6 per cent and 30,8 per cent in the year to April 2011.

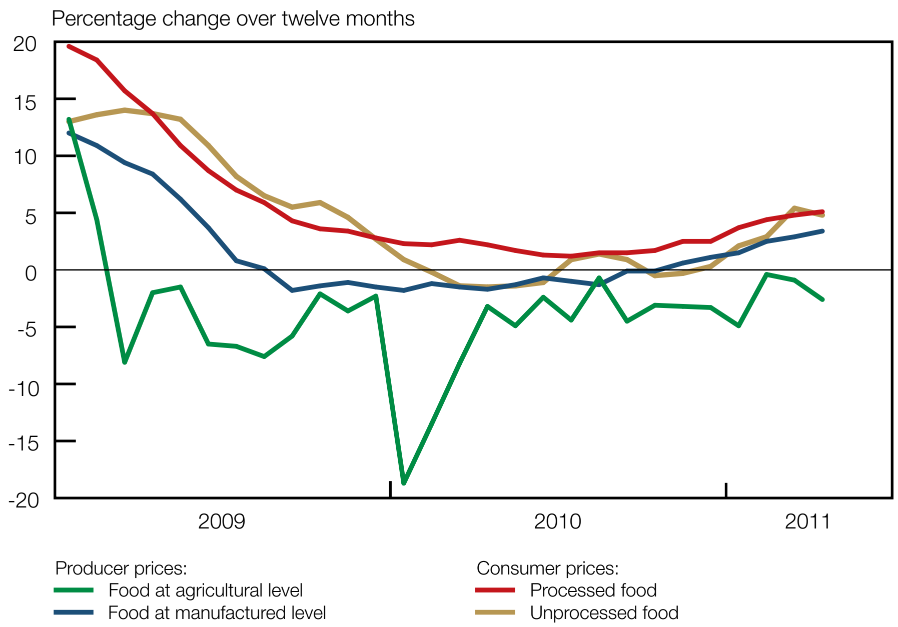
Although inflation in South Africa's trading-partner countries has edged higher over the past year, with inflation in some countries even breaching their official inflation target range, the strengthening of the external value of the rand assisted in cushioning the pass-through to domestic inflation. For instance, producer price inflation for imported manufactured commodities remained fairly benign with deflation persisting in some subcategories.

Year-on-year producer price changes reverted to rates of inflation towards the end of 2009, and accelerated steadily in ensuing months to 9,4 per cent in June 2010, before decelerating to 5,5 per cent in January 2011. In the first three months of 2011, changes in the price index for domestic output were driven by increases in the prices of electricity, gas and water, forestry, mining and manufactured goods. The twelve-month rate of increase in producer price inflation subsequently accelerated to 6,6 per cent in April 2011, as a result of fairly broad-based commodity price pressures.

As indicated earlier, international agricultural commodity prices recently soared, resulting in the SAFEX spot prices of commodities such as wheat and seed oils matching the import parity prices of the respective goods and feeding through to increases in the prices of food derived from these products. Local producers of agricultural food products accordingly benefited from internationally determined agricultural commodity prices.

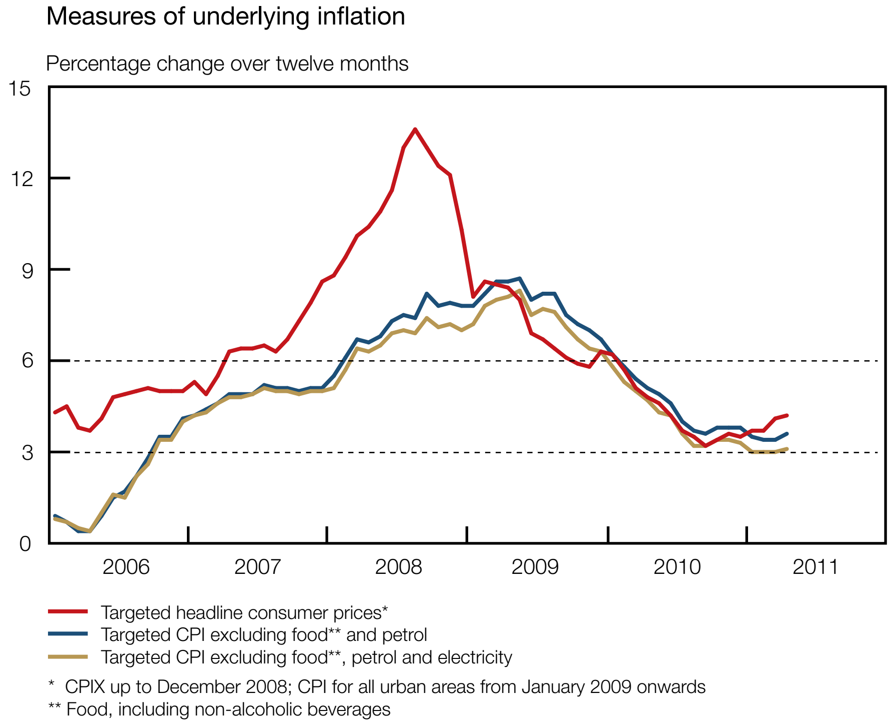
Producer price changes of food at the manufactured level reverted to inflation in November 2010 but continued to increase at a fairly subdued pace and amounted to 3,4 per cent in the year to April 2011. Year-on-year consumer food price inflation, having decelerated markedly to zero per cent in June 2010, picked up considerably and amounted to 4,8 per cent in April 2011.

Food prices



The strong moderation registered in headline consumer price inflation since September 2008 resulted mainly from significantly lower rates of increase in the prices of consumer goods, which benefited from the comparative strength of the rand. Consumer price changes for durable goods remained in deflation in the fifteen-month period to April 2011, while semi-durable goods price inflation had reverted to subdued levels of positive inflation since February 2011. Consumer price inflation for non-durable goods decelerated up to September 2010, but the pace of increase thereafter quickened to a year-on-year rate of 6,8 per cent in April 2011. Key contributors to the rise in the non-durable goods price category include petrol, electricity, liquid fuels, food and health.

Services price inflation has remained within the inflation target range since July 2010 amounting to 4,7 per cent in the year to April 2011. Within the services price basket some components, however, still increased at year-on-year rates in excess of the upper limit of the inflation target range – these categories include education, health, household contents, equipment and maintenance, as well as some subcomponents in the housing utilities category where the cost of services rendered by municipalities increased at double-digit rates.



Based on the classification of individual consumption by purpose (COICOP) categories, underlying inflationary pressure remained fairly moderate in the economy. Year-on-year increases in the prices of three of the twelve categories exceeded the upper limit of the inflation target range of 6 per cent in April 2011. Of the remaining categories, five recorded inflation rates within the inflation target range of 3 to 6 per cent, while four of the categories registered rates of increase below 3 per cent in April 2011. The three categories that increased at rates above 6 per cent in April 2011, with a combined weight of 26,2 per cent, include education, housing and utilities and health. When the impact of the more volatile food, non-alcoholic beverages and petrol prices are excluded from the headline consumer price index, underlying year-on-year inflation amounted to 3,6 per cent in April 2011. If electricity prices are also excluded from the calculation of headline CPI inflation, the rate of increase amounted to 3,1 per cent in April 2011.

As opposed to headline consumer price inflation which remained well within the inflation target range of 3 to 6 per cent, administered prices increased at rates well above the upper limit of the inflation target range in the first quarter of 2011, with some components even increasing at double-digit rates. Twelve-month administered price inflation accelerated from 7,1 per cent in September 2010 to 10,7 per cent in April 2011. Petrol prices increased by 218 cents per litre between September 2010 and May 2011, whereas electricity prices increased by 19,3 per cent in the year to April 2011. Within the administered price basket, four components, namely electricity, petrol, assessment rates and education, with a combined weight of around two-thirds of the total index, were responsible for 85 per cent of the increase in year-on-year administered prices in April 2011. Excluding the effect of petrol prices from the calculation, administered prices increased by 9,0 per cent in the year to April 2011. Should the contribution of electricity prices also be ignored, the rate of increase in administered prices amounted to 6,4 per cent in April 2011.

Headline CPI inflation in COICOP categories

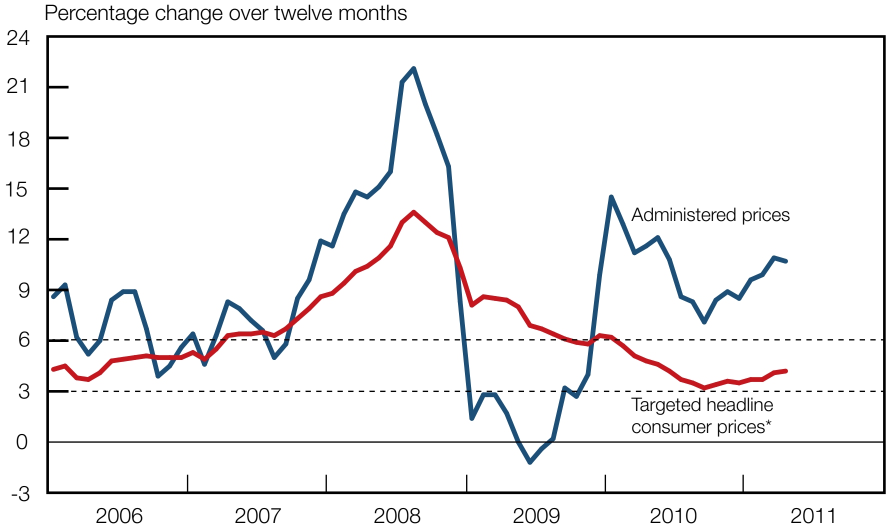
Percentage changes over twelve months

	Weights	Apr 2011
Education	2,19	8,6
Housing and utilities	22,56	6,6
Health	1,47	6,2
Alcoholic beverages and tobacco	5,58	5,6
Restaurants and hotels	2,78	5,2
Food and non-alcoholic beverages	15,68	4,8
Transport	18,80	3,4
Miscellaneous goods and services	13,56	3,2
Clothing and footwear	4,11	1,6
Household contents, equipment and maintenance	5,86	0,8
Recreation and culture	4,19	0,2
Communication	3,22	-1,4
Total headline CPI	100,00	4,2

Inflation expectations, as measured through the inflation expectations survey conducted by the BER, continued to moderate in the first quarter of 2011. Inflation for 2012 is expected to decelerate to within the inflation target range. Financial analysts expect inflation to remain within the target range over the entire forecast period, while business executives and trade union representatives expect inflation to exceed the 6 per cent upper limit of the inflation target range in 2013.

Targeted inflation and administered prices

Percentage change over twelve months



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

All surveyed participants expect inflation to increase over the forecast period. On average, targeted inflation is expected to accelerate from 4,3 per cent in 2010 to 5,3 per cent in 2011, 5,7 per cent in 2012 and to 6 per cent in 2013. Households expect inflation to average 5,8 per cent in the calendar year 2011.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2011

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2011..	4,7	5,4	5,6	5,3
2012..	5,5	6,0	5,8	5,7
2013..	5,6	6,2	6,2	6,0

Source: Bureau for Economic Research, Stellenbosch University

Foreign trade and payments

International economic developments

The world economy experienced a number of shocks in the opening months of 2011. An earthquake and tsunami in Japan disrupted the country's production and global supply chains; the political turmoil in the MENA countries resulted in higher oil prices; and the European sovereign debt crisis intensified and led to higher bond yield spreads in Greece, Portugal and Ireland. Nevertheless, preliminary estimates indicate that the global economic recovery is continuing with the annualised rate of output growth remaining at around 4 per cent in the first quarter of 2011, broadly similar to the growth rates registered in the second half of 2010 but below the brisk growth rates of above 5 per cent registered in the second half of 2009 and the first half of 2010.

The latest growth projections of the International Monetary Fund (IMF) released in the April 2011 *World Economic Outlook* remained broadly unchanged from previous forecasts released in January. The IMF projects that the world economy will expand by around 4,4 per cent in 2011 and 4,5 per cent in 2012, with growth in the advanced economies hovering around 2,5 per cent and that in emerging-market and developing economies around 6,5 per cent. Real growth in sub-Saharan Africa is expected to register rates of around 5,5 per cent in 2011 and 5,9 per cent in 2012, supported by high prices of export commodities and the recovery in global activity.

Earlier concerns about a potential double-dip recession in advanced economies never materialised (with the exception of Japan) and output growth accelerated in the first quarter of 2011, mainly due to the stronger growth of 3,4 per cent registered in the euro area. Economic growth was underpinned by exports and gross fixed capital formation as monetary policy remained accommodative and business confidence improved, despite fiscal consolidation. However, conditions still remained vulnerable in the highly indebted peripheral countries of the euro area such as Greece, Ireland and Portugal which received financial assistance from the European Union and the IMF. The €110 billion rescue package received by Greece in 2010 has failed to restore the country's financial health. This has led to new discussions on a second bailout package which could also include a deal with private bondholders to roll over maturing Greek bonds.

Real output growth in the United States (US) moderated from 3,1 per cent in the fourth quarter of 2010 to 1,8 per cent in the first quarter of 2011. This deceleration primarily reflected a sharp increase in imports, a deceleration in private consumption expenditure, a decrease in federal government spending, and decelerations in non-residential fixed investment and exports.

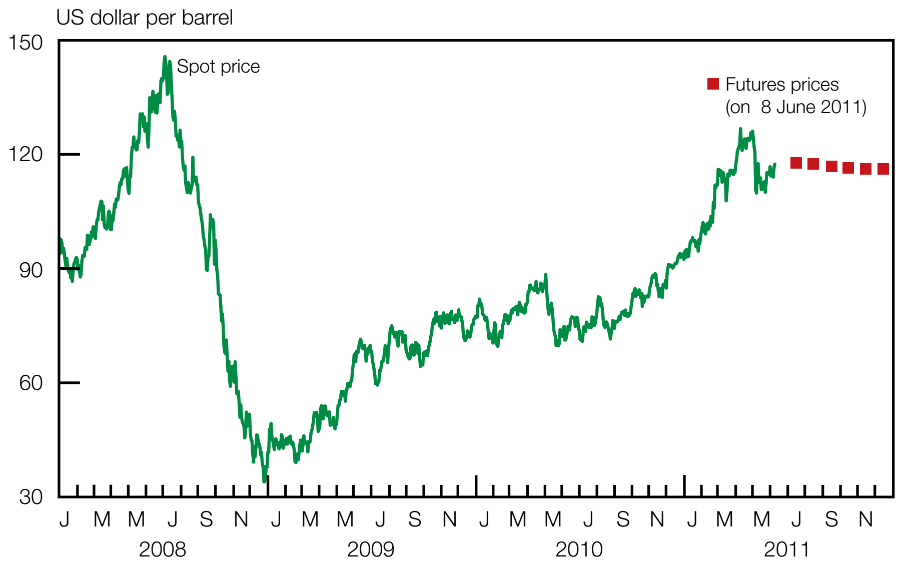
The Japanese government has estimated that the damage to the country's capital stock due to the earthquake and tsunami amounts to between 3 and 5 per cent of Japan's annual gross domestic product. Japan has moved into a recession after four quarters of positive economic growth. Real output contracted by 3,5 per cent in the first quarter of 2011, but the economy is expected to recover in the second half of 2011 due to spending on reconstruction.

While remaining strong, indications are that real output growth in emerging-market economies moderated somewhat in the first quarter of 2011. This extends to most emerging-market regions, with countries as far apart as Russia and Mexico recording slower growth and even China experiencing a slight moderation in growth. The People's Bank of China tightened monetary policy by raising its benchmark lending rate and increasing the reserve requirement ratio of banks.

Commodity prices have risen notably since the fourth quarter of 2010 and have recently reached record- or near-record-high levels. Oil prices have surged by almost 35 per cent since the end of 2010 and Brent crude reached a two-and-a-half year high level of US$127 per barrel in early April 2011. A combination of factors supported oil prices, including the weaker US dollar, continuing unrest in the MENA countries (including an attack on the natural gas pipeline from Egypt to Israel and Jordan), electricity shortages in China and a tight global supply-demand balance. Libya has discontinued most of its 1,2 million barrels per day of crude oil exports, while concerns about production disruptions in other MENA countries which are not part of the Organization of the Petroleum Exporting Countries (OPEC) have also intensified.

In early May 2011 Brent crude oil prices fell to around US$110 per barrel as global oil demand slowed, while faster-than-expected growth in US crude oil stockpiles and disappointing business surveys and employment data added to the decline. Efforts to control inflation in China and India also fuelled concerns that global economic growth would be slower in subsequent months, while speculative trading exacerbated bearish selling activity. However, OPEC's decision not to increase oil production subsequently resulted in higher oil prices, with levels around US$117 per barrel registered in early June 2011.

Brent crude oil price



Source: Bloomberg

Inflation pressures have increased significantly in the past few months, mainly due to the rise in commodity prices. The natural disasters in the Asia Pacific region, combined with the current political unrest in the MENA countries, have exacerbated the problem. According to the April 2011 IMF *World Economic Outlook*, inflation projections have been revised upwards and global consumer inflation is expected to average 4,5 per cent in 2011 and 3,4 per cent in 2012. The IMF has noted the high oil prices as a potential risk to the global inflation outlook.

Headline inflation measures picked up further in a number of advanced economies during the first quarter of 2011, mainly reflecting higher oil and commodity prices. In the Organisation for Economic Co-operation and Development (OECD) area, headline inflation accelerated to 2,7 per cent in March 2011 as a result of higher food and especially energy prices. In the US year-on-year inflation accelerated in recent months, reaching 3,2 per cent in April 2011, while measures of underlying inflation continue to remain relatively subdued. The US Federal Reserve indicated that longer-term inflation expectations have remained stable. Inflation has been trending upwards in the euro area since early 2010 and continued to rise, reaching 2,7 per cent in March 2011 amid higher energy prices. According to the European Central Bank, risks to the inflation outlook have intensified due to higher-than-expected energy prices, while increases in indirect taxes and administered prices will also add to inflation pressures.

Consumer price pressures remain high in most emerging-market economies, particularly in emerging Europe and Latin America. Despite the tentative signs that inflation pressures may be abating in some of these economies, this situation is not expected to last due to rising commodity prices and overheating pressures in major emerging-market economies such as China. Inflation pressures continue to persist in Russia, India and Argentina, while there are signs of a moderation in China and Mexico.

As the global economy is recovering from the economic recession, central banks have responded differently to inflationary pressures. Most countries have maintained accommodative monetary policy stances by keeping interest rates low, while others have started to tighten monetary policies in an attempt to curb accelerating inflation pressures and inflation expectations. Among the advanced economies, the central banks of Denmark, the euro area, Israel, Norway, South Korea, Sweden and Taiwan have increased key interest rates since the beginning of 2011. Brazil, Chile, China, Hungary, India, Poland, Russia and Thailand were among the emerging-market economies that have raised interest rates over the same period.

Current account[3]

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

The significant narrowing of South Africa's current-account deficit in the fourth quarter of 2010 was mainly attributable to a sharp increase in the value of merchandise exports. In the first quarter of 2011 the value of exports levelled off in response to weaker international demand for domestically produced goods, whereas an expansion in gross domestic expenditure contributed to an increase in the value of merchandise imports. These developments compressed the surplus on the trade account from 2,7 per cent of gross domestic product in the fourth quarter of 2010 to 0,8 per cent in the first quarter of 2011. The smaller trade surplus coincided with an increase in net income payments to the rest of the world and, as a result, the current-account deficit widened from 1,0 per cent of gross domestic product in the fourth quarter of 2010 to 3,1 per cent in the first quarter of 2011.

Balance of payments on current account

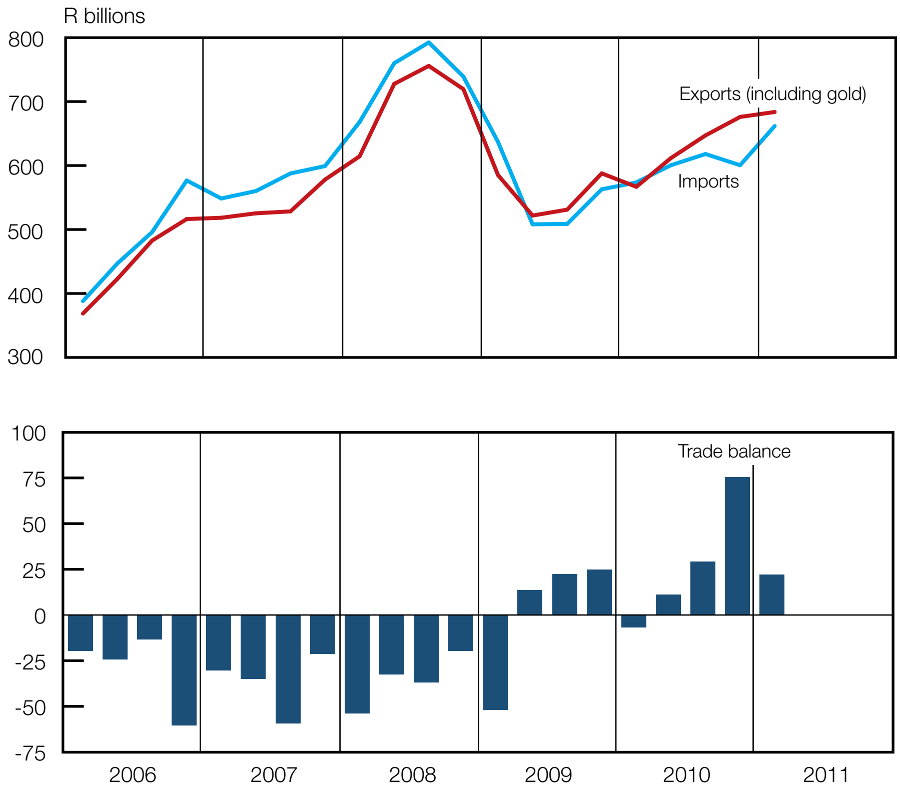
Seasonally adjusted and annualised
R billions

	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	515,1	549,7	585,5	613,1	565,9	620,4
Net gold exports	51,6	61,9	61,5	62,9	59,5	63,3
Merchandise imports	-573,6	-600,5	-618,0	-600,5	-598,2	-661,7
Trade balance	-6,9	11,1	29,0	75,5	27,2	22,0
Net service, income and current transfer payments	-106,1	-85,9	-113,5	-103,0	-102,2	-109,8
Balance on current account	-113,0	-74,8	-84,5	-27,5	-75,0	-87,8
As a percentage of gross domestic product	*-4,4*	*-2,9*	*-3,1*	*-1,0*	*-2,8*	*-3,1*

The global economic recovery continued in the opening months of 2011, although adversely affected by renewed concerns about sovereign debt risk in certain peripheral eurozone countries, the need to further sustain austerity measures in affected economies and the slowdown in external demand from certain Asian economies, France and the US. Collectively, these developments contributed to a contraction of around 3,6 per cent in the volume of merchandise exports. This decline was preceded by consecutive increases in the last three quarters of 2010. The decrease in the volume of merchandise exports in the first quarter of 2011 was pronounced in the category for mining products, led by precious stones and coal. At the same time the volume of manufactured exports also receded as a decline in the volume of vehicles and transport equipment fully countered the increases in the export volumes of most other manufactured products. The drop in exports of vehicles and transport equipment partially reflected the high base set in the preceding quarter and a return to more normal export quantities.

Notwithstanding the contraction in export volumes, export proceeds advanced by 1,2 per cent in the first quarter of 2011 as the international price of South African export commodities increased alongside the depreciation in the exchange rate of the rand. Owing to the sustained increase in the international prices of exported goods, the rand price of merchandise exports advanced by 5,0 per cent in the first quarter of 2011 compared with an increase of 1,9 per cent in the preceding quarter.

Merchandise trade



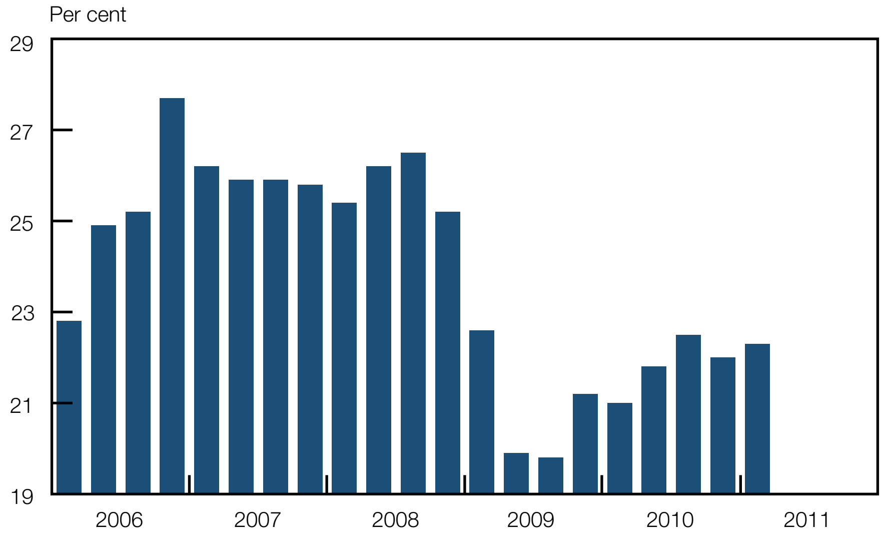
Seasonally adjusted and annualised

The export earnings of South African gold producers increased by 0,7 per cent in the first quarter of 2011, continuing the broad upward trend of 2010. A contraction in export volumes almost neutralised an increase in the average realised rand price of gold over the period with the volume of net gold exports falling by 2,5 per cent in the first quarter of 2011. Political tension in the Middle East and in some parts of North Africa, ongoing concern about unsustainable economic policy settings and inflation, and jewellery demand, especially from India and China, caused the fixing price of gold on the London market to rise from US$1 368 per fine ounce in the fourth quarter of 2010 to US$1 385 per fine ounce in the first quarter of 2011 and further to US$1 512 per fine ounce in May. In rand terms, the fixing price of gold advanced at a somewhat faster pace due to the decline in the exchange value of the rand over the period.

Consistent with the expansion in real gross domestic expenditure, which usually creates additional demand for imported goods, the volume of merchandise imports advanced by 3,1 per cent in the first quarter of 2011 after receding by 1,6 per cent in the final quarter of 2010. Apart from the importation of consumer goods, South African manufacturers also raised the importation of intermediary and capital goods in order to step up production and replenish inventory levels. The volume of manufactured imports increased markedly, especially in the subcategories for vehicles and transport equipment (bolstered by the five aircraft acquired by government), as well as machinery and electrical equipment. As an increased portion of aggregate domestic demand was satisfied by imports, the country's import penetration ratio (i.e., the ratio of real imports to real gross domestic expenditure) increased from 22,0 per cent in the fourth quarter of 2010 to 22,3 per cent in the first quarter of 2011.

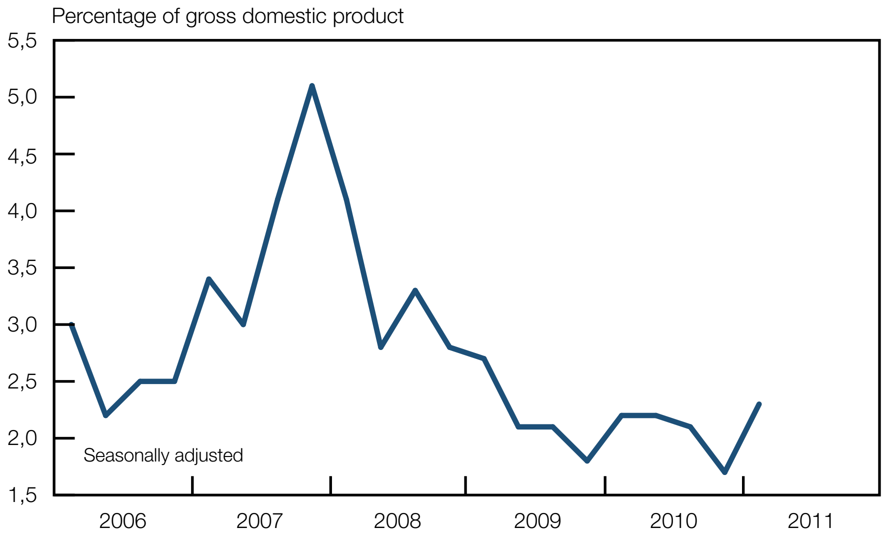
The rand price of merchandise imports increased by about 7 per cent in the first quarter of 2011, buoyed by the depreciation of the rand and higher international crude oil prices. The combination of higher import prices and a rise in import volumes resulted in a noticeable increase in the value of merchandise imports, which rose by 10,2 per cent from the fourth quarter of 2010 to the first quarter of 2011.

Import penetration ratio



The deficit on the services, income and current transfer account of the balance of payments widened by R6,8 billion to R109,8 billion in the first quarter of 2011. This larger deficit resulted mainly from increased net investment-income payments to non-resident investors which, due to its relative size, materially affect the balance on the "services account". Dividend payments to non-resident investors were approximately 20 per cent higher in the first quarter of 2011 when compared with the corresponding period in 2010. This firm growth largely reflected positive profit announcements by domestic companies as the economic recovery proceeded. Gross dividend payments in the first quarter of 2011 nevertheless remained well below their level recorded in the fourth quarter of 2007, when dividend payments to non-resident shareholders amounted to 5,1 per cent of gross domestic product amid exceptional economic growth attained during that period.

Gross dividend payments to non-residents



Higher payments for freight- and transport-related services rendered by non-resident parties also contributed to the larger deficit during the first quarter of 2011. Travel receipts from non-residents visiting South Africa receded marginally in the first quarter of 2011. However, tourism spending by South Africans outside the borders of the country contracted notably over the period, thereby restricting the further escalation of the deficit on the services account. The lower level of tourism spending abroad followed the relatively high base set in 2010 and can, *inter alia*, be attributed to the reduced attractiveness of a range of destinations following turmoil in MENA countries and natural disasters in Japan and New Zealand.

The depreciation of the exchange rate of the rand elevated the rand prices of both merchandise exports and imports in the first quarter of 2011. Nonetheless, the rand price of exported goods accelerated at a somewhat slower pace than that of imported goods, partially due to the steep increase in international crude oil prices. Consequently, South Africa's terms of trade decreased in the first quarter of 2011, having followed an upward trend since the third quarter of 2009.

Financial account

While the inflow of capital into South Africa in the fourth quarter of 2010 was negatively affected by the sovereign and banking-sector risk of countries in the euro area periphery, the first quarter of 2011 was characterised by unexpected shocks including political tension in the MENA region and a steep increase in the international price of oil, which further dampened investors' appetite for, *inter alia*, emerging-market assets. Although the net sales by non-residents of domestically issued equity and debt securities continued from the fourth quarter of 2010 to the first quarter of 2011, it was more than neutralised by the issuance of international bonds to non-resident investors, resulting in an overall net increase of portfolio liabilities over the period. In addition, the inflow of capital was supplemented by the repatriation of foreign-exchange deposits previously held abroad with foreign banks. Consequently, the country recorded a surplus on the financial account of the balance of payments (including unrecorded transactions) amounting to no less than R55,1 billion in the first quarter of 2011, compared with a surplus of R2,6 billion in the fourth quarter of 2010.

Foreign-owned assets in South Africa

Foreign direct investment into South Africa recorded an inflow of R5,0 billion in the first quarter of 2011 compared with an inflow of R4,3 billion in the fourth quarter of 2010. The inflow of direct investment capital in the first quarter of 2011 primarily reflected equity investment by a non-resident investor in a South African resource company as well as loan and trade finance extended by non-resident parent companies.

Foreign portfolio investors continued to dispose of domestically issued South African equity and debt securities in the first quarter of 2011 following the prevailing uncertainty in the global financial markets. The concerns of global investors included the impact of rising oil prices on growth prospects for oil-importing countries such as South Africa, the risk of higher inflation,

Net financial transactions not related to reserves

R billions

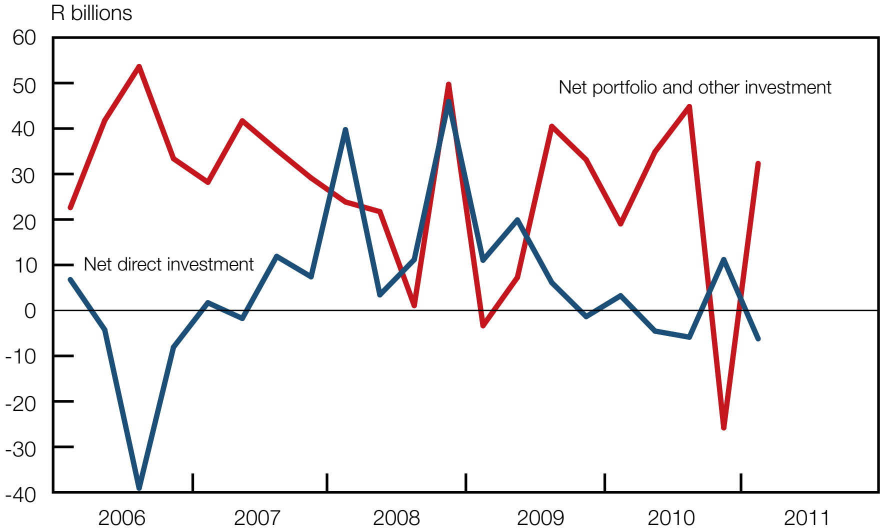
	2010					2011
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	3,1	2,9	1,1	4,3	11,4	5,0
Portfolio investment	44,1	28,4	45,8	-10,4	107,9	20,8
Other investment	-16,0	-1,5	15,1	13,3	10,9	1,9
Change in assets						
Direct investment	0,1	-3,3	-7,0	6,9	-3,3	-11,2
Portfolio investment	-5,6	-2,2	-9,7	-10,8	-28,3	-22,1
Other investment	-3,4	10,2	-6,5	-18,0	-17,7	31,7
Total financial transactions*	**49,9**	**24,0**	**29,5**	**2,6**	**106,0**	**55,1**
Financial transactions as a percentage of gross domestic product	*8,0*	*3,6*	*4,3*	*0,4*	*4,0*	*7,8*

* Including unrecorded transactions

the subsequent tightening of policy rates by central banks, and the likely consequences for bond and share prices. The net sales of domestically issued equity and debt securities by non-residents amounted to R3,1 billion and R7,0 billion respectively in the first quarter of 2011. These outflows were, however, countered by the issuance of foreign currency-denominated bonds by the National Treasury, parastatals and private-sector entities in the international capital market. On a net basis, an inflow of R20,8 billion was recorded for portfolio capital in the first quarter of 2011 compared with an outflow of R10,4 billion in the fourth quarter of 2010.

Other investment into South Africa declined from a capital inflow of R13,3 billion in the final quarter of 2010 to an inflow of R1,9 billion in the first quarter of 2011 as the South African banking sector redeemed part of its foreign short-term loans. This inflow of capital resulted from an increase in non-resident rand- and foreign currency-denominated deposits with South African banks and an increase in trade finance. Non-residents' appetite for deposits with the South African banking sector probably followed the stability and soundness associated with the sector compared with those in many other countries, and with relatively high interest rates offered on investments in the domestic market.

Net identified financial flows



South African-owned assets abroad

Outward direct investment recorded an outflow (i.e., an increase in direct investment assets) of R11,2 billion in the first quarter of 2011 compared with an inflow of R6,9 billion registered in the preceding quarter of 2010. The outflow of capital in the first quarter of 2011 resulted from new foreign acquisitions made by South African companies and, in some instances, the expansion of their existing interest in foreign companies. The reduction in foreign direct investment assets in the final quarter of 2010 mainly reflected the sale of a South African company's interest in a foreign information technology firm.

Portfolio investment abroad by South African entities increased notably (signifying an outflow of capital) by R22,1 billion in the first quarter of 2011. The further diversification of foreign portfolio assets by South African institutional investors was probably also partly encouraged by the relative strength of the exchange value of the rand.

Other outward investment from South Africa changed to an inflow of R31,7 billion in the first quarter of 2011 following an outflow of R18,0 billion in the fourth quarter of 2010. This sizeable inflow of capital could mainly be attributed to the repatriation of part of South African banks' foreign currency deposits previously held with foreign banks.

Foreign debt

South Africa's total outstanding foreign debt rose from US$93,9 billion at the end of the third quarter of 2010 to US$99,0 billion at the end of the fourth quarter – the highest level ever recorded. Measured in US dollars, both rand- and foreign currency-denominated debt increased over the period. On balance, the country's foreign debt rose by US$20,4 billion or 26,0 per cent from the end of December 2009 to the end of December 2010.

The increase in foreign currency-denominated debt in the fourth quarter of 2010 was fairly widespread among the public, monetary and non-monetary private sectors. The increased borrowings primarily reflected the need to finance infrastructural projects.

Foreign debt of South Africa

US$ billions at end of period

	2009	2010			
	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt	42,1	42,1	40,9	43,5	45,2
Bearer bonds	15,4	16,8	16,0	17,0	16,5
Public sector	5,7	5,4	5,5	6,1	6,5
Monetary sector	10,6	9,2	8,3	9,1	10,3
Non-monetary private sector	10,4	10,7	11,1	11,3	11,9
Rand-denominated debt	36,5	39,0	39,0	50,4	53,8
Bonds	11,6	13,5	15,2	22,7	24,6
Other	24,9	25,5	23,8	27,7	29,2
Total foreign debt	78,6	81,1	79,9	93,9	99,0
As a percentage of gross domestic product	*27,7*	*26,0*	*24,1*	*27,1*	*27,2*
As a percentage of total export earnings	*95,9*	*93,0*	*85,8*	*95,0*	*95,2*

The higher level of rand-denominated foreign debt in the fourth quarter of 2010 could largely be attributed to foreign long-term loans extended by non-resident parent companies to their South African subsidiaries.

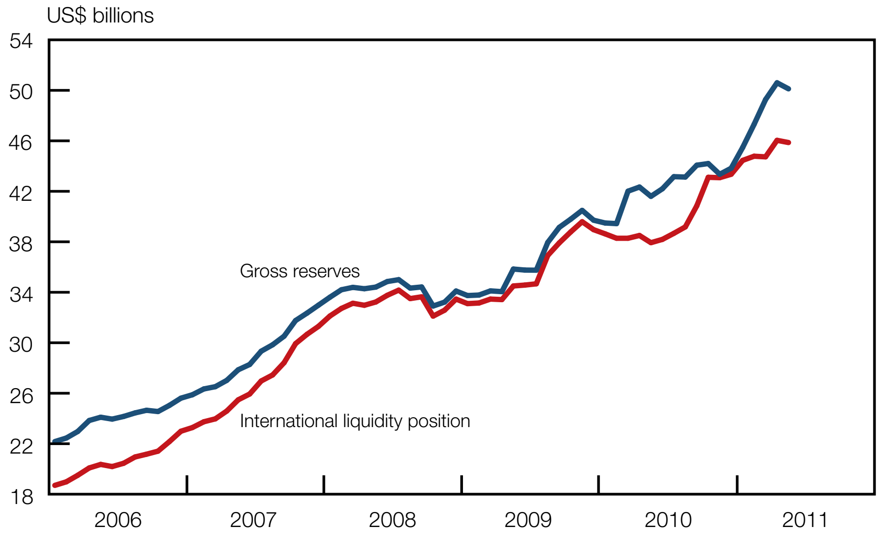
As a result of the appreciation in the external value of the rand against the US dollar, South Africa's foreign debt, measured in rand terms, increased marginally from R654 billion at the end of September 2010 to R656 billion at the end of December. The ratio of total external debt to gross domestic product increased marginally from 27,1 per cent at the end of September 2010 to 27,2 per cent at the end of December.

International reserves and liquidity

The pace of reserve accumulation accelerated considerably in the first quarter of 2011. Consequently, the country's net international reserves increased by R32,2 billion in the first quarter of 2011 following a decline of R2,1 billion in the fourth quarter of 2010. The surplus on the overall balance of payments in the first quarter of 2011 is the highest quarterly surplus on record and can mainly be attributed to foreign-exchange purchases by the Bank on behalf of National Treasury.

Measured in US dollars, the value of the country's gross gold and other foreign reserves (i.e., the international reserves before accounting for reserve-related liabilities) increased from US$43,8 billion at the end of December 2010 to US$49,3 billion at the end of March 2011 and US$50,1 billion at the end of May. Relative to the value of imports of goods, services and income, the value of gross international reserves increased from 18,3 weeks at the end of December 2010 to 19,4 weeks at the end of March 2011.

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



The country's international liquidity position increased from US$43,4 billion at the end of December 2010 to US$44,7 billion the end of March 2011 and to US$45,9 billion at the end of May, signifying rising robustness.

Exchange rates

On balance, the nominal effective exchange rate of the rand declined by 5,0 per cent in the first quarter of 2011, compared with an increase of 5,4 per cent in the fourth quarter of 2010. The weighted average exchange rate of the rand declined, on balance, by 8,4 per cent in January 2011, but increased by 1,9 per cent in February and 1,8 per cent in March. The decline in the exchange value of the rand in the opening months of 2011 could be ascribed to, among other factors, the lingering uncertainty regarding the sovereign debt crisis in peripheral European countries, political turmoil in MENA and the economic impact of the natural disaster in Japan. Volatility in international currency markets was still evident in the divergence in the performance of the rand against the major currencies, with the second round of quantitive easing conducted by the US Federal Reserve having a negative effect on the US dollar.

Exchange rates of the rand

Percentage change

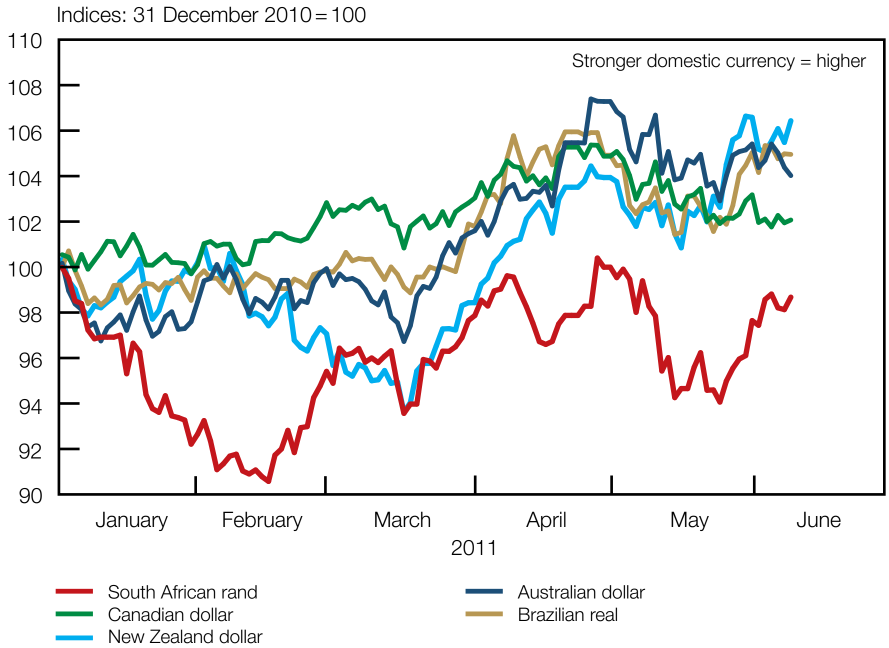
	30 Jun 2010 to 30 Sep 2010	30 Sep 2010 to 31 Dec 2010	31 Dec 2010 to 31 Mar 2011	31 Mar 2011 to 31 May 2011
Weighted average*	3,0	5,4	-5,0	-3,0
Euro	-1,3	7,3	-8,2	-3,1
US dollar	9,9	5,1	-2,4	-1,6
Chinese yuan	8,2	3,6	-3,0	-2,6
British pound	4,1	7,8	-6,2	-3,9
Japanese yen	3,2	2,8	-0,7	-3,0

* Against a basket of 15 currencies

The nominal effective exchange rate of the rand decreased by 3,0 per cent from the end of March to the end of May 2011. This was partly a result of further risk aversion following weakness in the US dollar due to the change in Standard & Poor's outlook for the sovereign debt of the US to negative, and despite the gold price reaching a new nominal high.

The exchange rate of the rand did not move in tandem with the exchange rates of other commodity-producing countries during the first five months of 2011. As shown in the accompanying graph, the rand declined by 3,9 per cent against the US dollar from the end of December 2010 to the end of May 2011.

US dollar per domestic currency unit



The real effective exchange rate of the rand increased by 2,5 per cent from March 2010 to March 2011, signifying a marginal loss in the external competitiveness of South African manufacturers active in international markets.

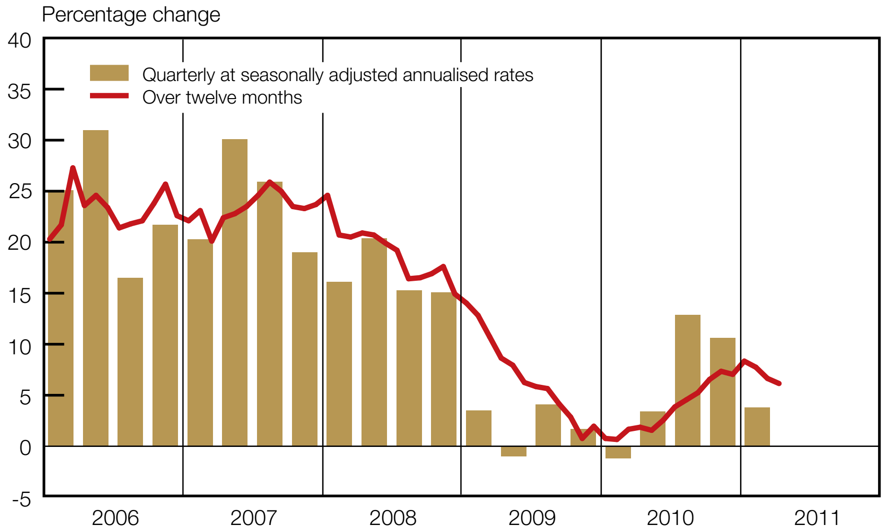
The average net daily turnover in the domestic market for foreign exchange increased from US$19,8 billion in the fourth quarter of 2010 to an all-time high quarterly average of US$23,3 billion in the first quarter of 2011. The increase in average daily turnover in the domestic market for foreign exchange primarily reflected a 32,4 per cent increase in swap transactions due to especially non-resident investors who increasingly hedged themselves in the domestic foreign-exchange market. The value of transactions in which non-residents participated consequently increased from US$14,3 billion per day to US$17,5 billion per day over the period.

Monetary developments, interest rates and financial markets

Money supply

Growth in M3 rebounded strongly in the second half of 2010, but partly lost its momentum in early 2011. While firm growth in income and expenditure continued to support the transactions demand for money in early 2011, technical factors simultaneously weighed down monetary growth. Firstly, banks issued a substantial amount in bonds in the first quarter of 2011, thereby replacing monetary deposit funding with non-monetary liabilities, while more generally there was a surge in issues of shares and bonds by private-sector parties over this period. Secondly, government raised its deposits with the monetary sector (which are not included in M3), and this subtracted from M3 deposits of the domestic private sector as the private sector made tax payments to government or purchased government debt securities.

Growth in M3



The loss in momentum of monetary growth in the beginning months of 2011 was more pronounced in the quarterly than in the twelve-month changes. Twelve-month growth in M3 increased from 6,9 per cent in December 2010 to a twenty-one-month high of 8,2 per cent in January 2011, before easing to 6,5 per cent in March and 6,0 per cent in April. The quarter-to-quarter[4] growth rate of 3,8 per cent in the first quarter of 2011 was notably slower than the growth rates of 12,9 per cent in the third and 10,6 per cent in the fourth quarter of 2010.

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

Alongside the decline in the interest return on monetary assets and the comparatively high yields offered by alternative investment vehicles, long-term deposits gradually lost their attractiveness from the fourth quarter of 2010. Market participants favoured the liquidity of call and overnight monetary deposits during the first quarter of 2011, while the transactional accounts for cheque and transmission deposits were simultaneously drawn down during this period. Growth in notes and coin in circulation and other short- and medium-term deposits remained firm during the first quarter of 2011.

The moderation in M3 growth during the first quarter of 2011 primarily reflected a slower rate of increase in deposit holdings of the corporate sector. Growth in corporate deposit holdings declined from R34,9 billion in the fourth quarter of 2010 to only R4,2 billion in the first quarter of 2011. Simultaneously, deposit holdings of the household sector contracted by R2,4 billion in the first quarter of 2011, after increasing by R8,3 billion in the fourth quarter of 2010. Year-on-year growth in M3 deposit holdings of the household sector edged slightly higher from around 2 per cent in early 2010 to 3,2 per cent in April 2011. Growth over twelve months in the M3 deposit

Maturity analysis of growth in M3

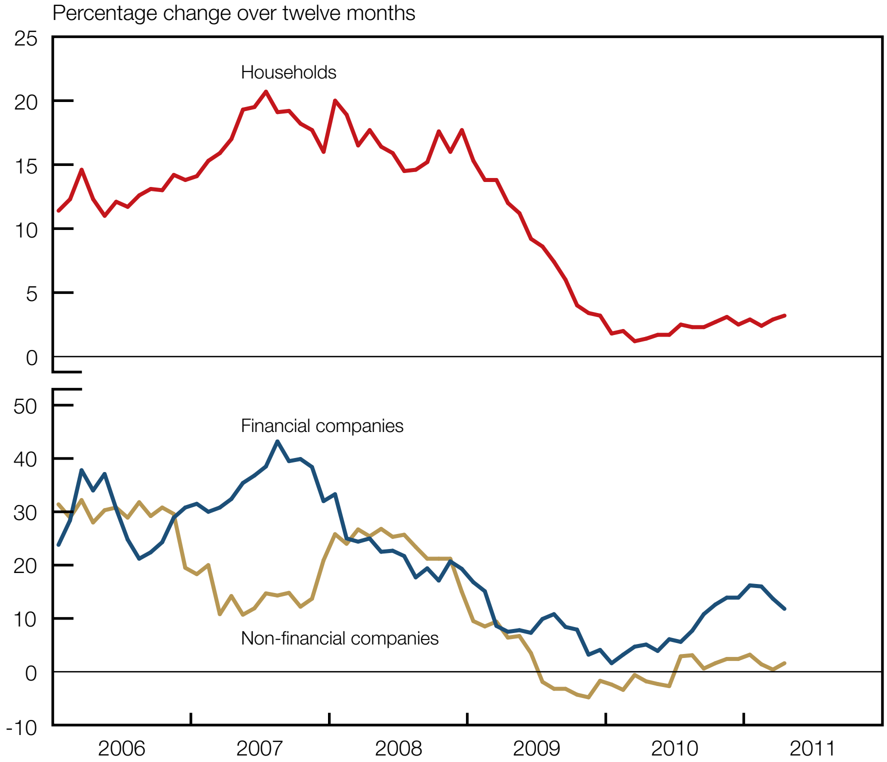
Per cent at seasonally adjusted annualised rates

	2010			2011
	2nd qr	3rd qr	4th qr	1st qr
Notes and coin	-7,7	4,9	6,9	6,2
Cheque and transmission deposits	19,6	15,0	24,4	-15,2
Call and overnight deposits	-3,7	4,2	-1,0	32,0
Other short- and medium-term deposits*	-8,9	-1,8	8,8	13,1
Long-term deposits**	16,6	61,2	17,7	-15,7
M3	3,4	12,9	10,6	3,8

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

holdings of the corporate sector, which gathered pace in 2010, decelerated from a high of 10,3 per cent in January 2011 to 7,1 per cent in April, with growth for both financial and non-financial companies moderating. Financial companies have been the main drivers of growth in M3 during the recovery phase since the recent great recession, holding deposits rather than other asset classes.

M3 holdings of households and companies



In a statistical sense the increase in M3 during the first quarter of 2011 was dampened by significant declines in the monetary sector's net claims on the government sector and net other assets and liabilities, while net foreign assets and claims on the private sector increased during this period. The decline in net claims on the government sector was the result of a significant increase in government deposits, largely related to the sterilisation of foreign-exchange reserves accumulation and facilitated by an international government bond issue in early March 2011, elevated tax receipts and enhanced issuance of domestic bonds. These transactions more than offset coupon interest payments which fell due during the period under review. Net foreign assets rose significantly as foreign liabilities contracted, while foreign assets, adjusted for valuation effects, continued to expand. The increase in claims on the private sector during the first quarter of 2011 was significantly slower than that recorded during the previous three quarters due to a moderation in the uptake of credit, particularly by the corporate sector.

Statistical counterparts of change in M3

R billions

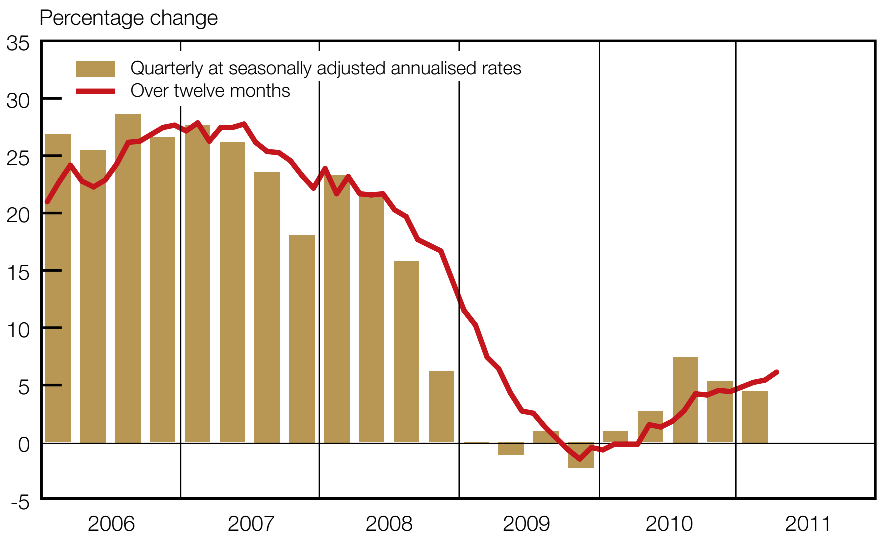
	2010			2011
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	0,5	4,6	10,9	31,4
Net claims on the government sector	-14,1	9,6	13,3	-36,8
Claims on the private sector	16,1	55,0	20,9	10,3
Net other assets and liabilities	23,0	-12,0	-2,0	-3,1
Total change in M3	25,5	57,3	43,2	1,8

The income velocity of circulation of M3 increased further to 1,37 in the first quarter of 2011, as the growth in nominal gross domestic product gained further momentum compared with the slower growth in M3 deposits. Velocity is currently well above its lower turning point of 1,22 reached in early 2009.

Credit extension

In spite of a lagged response to the overall economic recovery, growth in banks' total loans and advances extended to the private sector recorded consistent positive growth rates in the early months of 2011. Twelve-month growth in banks' total loans and advances picked up from growth rates of around 4 per cent in the fourth quarter of 2010 to just above 5 per cent from February 2011. In April growth in total loans and advances came to 6,0 per cent. The slow pace of credit growth continued to reflect prevailing fragility in both consumer and business confidence and hesitant lending activity by the banking sector.

Total loans and advances to the private sector



The quarter-to-quarter[5] growth in total loans and advances decelerated from a recent high of 7,5 per cent in the third quarter of 2010 to 4,5 per cent in the first quarter of 2011.

Although all credit categories contributed positively towards the increase in total loans and advances, *other loans and advances* and, to a lesser extent, *instalment sale credit and leasing*

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

finance dominated growth in the first quarter of 2011. The once dominant growth in *mortgage advances* has progressively diminished since the third quarter of 2010.

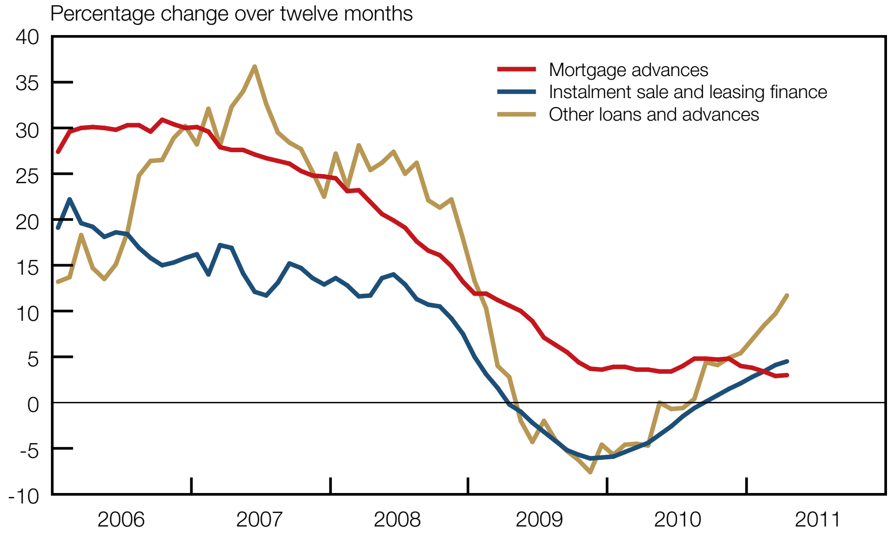
Quarterly changes in banks' total loans and advances by type

R billions

	2010			2011
	2nd qr	3rd qr	4th qr	1st qr
Mortgage advances	6,8	18,4	0,6	3,6
Instalment sale credit and leasing finance	0,6	2,2	2,9	3,9
Other loans and advances	5,7	27,7	-0,1	27,3
Overdrafts	-3,8	1,2	-1,6	3,6
Credit card advances	0,0	0,5	0,2	1,1
General advances	9,5	26,1	1,4	22,6
Total loans and advances	**13,1**	**48,3**	**3,4**	**34,8**
Of which: To household sector	11,2	28,6	11,8	22,4
To corporate sector	1,9	19,7	-8,4	12,4

Twelve-month growth in *mortgage advances* accelerated from a trough of 3,4 per cent in May 2010 to 4,8 per cent in September, before receding to a new record low of 2,9 per cent in March 2011. Growth in mortgage advances increased moderately to 3,0 per cent in April. Moderation in the year-on-year growth in mortgage advances in the first quarter of 2011 was largely the result of a significant decline in mortgage advances extended to the corporate sector, while those to the household sector increased at a slower pace when compared with the same period in the preceding year.

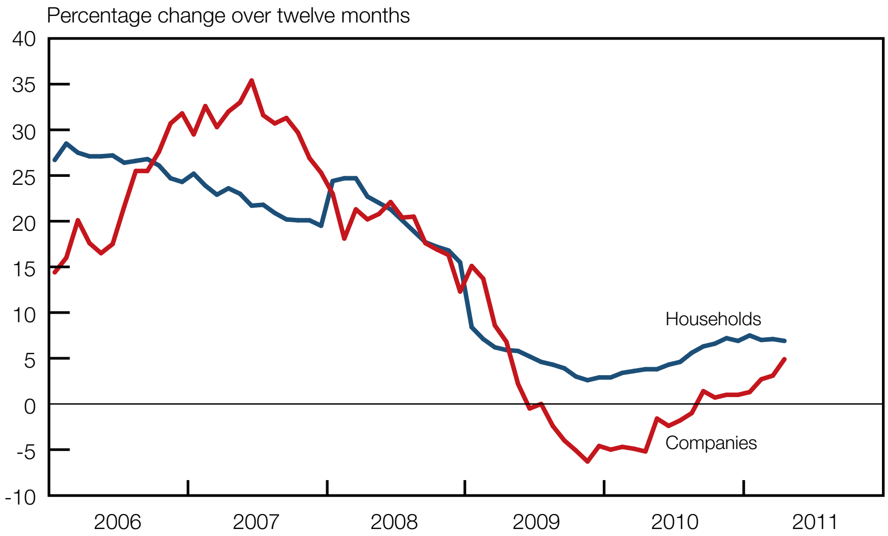
Credit extension to the private sector by type of credit



In line with the robust recovery in the new and second-hand motor vehicle industry, growth in *instalment sale credit and leasing finance* continued to gain momentum in the first four months of 2011. Twelve-month growth in this credit category accelerated from 2,1 per cent in December 2010 to 4,1 per cent in March and 4,5 per cent in April 2011. Growth in instalment sale credit and leasing finance, which became more prominent from the second half of 2010, benefited from improved affordability stemming from low interest rates and from a gradual improvement in finance approval rates.

Other loans and advances, which consist of *bank overdrafts*, *general loans* and *credit card advances*, was the main contributor towards the overall growth in total loans and advances during the first quarter of 2011. Growth in other loans and advances continued to gain traction throughout 2010 and the early months of 2011. Measured over twelve months, growth in this credit category accelerated from 4,4 per cent in September 2010 to 11,7 per cent in April 2011, equalling growth rates previously recorded more than two years earlier. The increase in *other loans and advances* resulted from a significant increase in the utilisation of general loans, which accounted for R22,6 billion or 64,8 per cent of the total increase in total loans and advances during the first quarter of 2011.

Loans and advances extended to households and companies

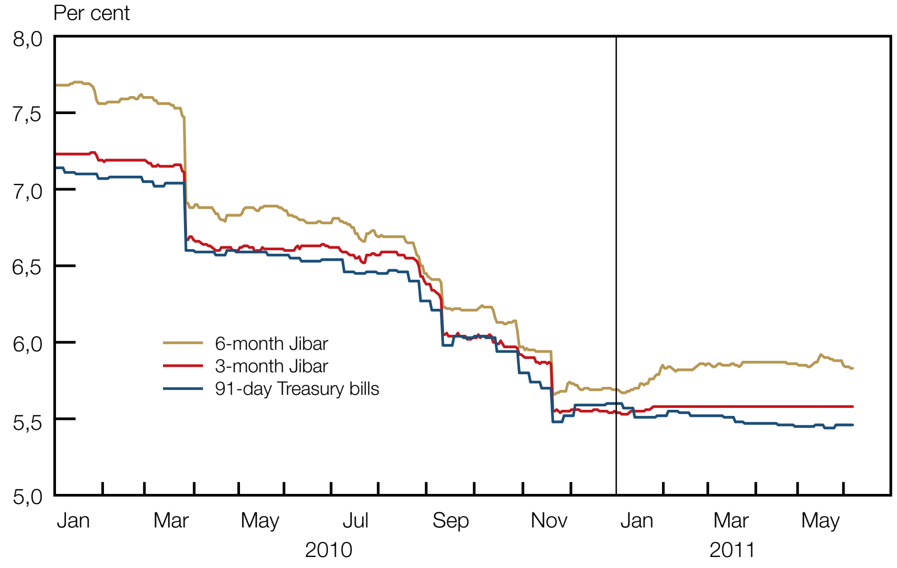


As was the case throughout 2010, bank credit extended to the corporate sector continued to lag behind that to the household sector in the first quarter of 2011. Nonetheless, the corporate sector's reliance on bank-intermediated funding bounced back from a contraction of R8,4 billion in the fourth quarter of 2010 to an increase of R12,4 billion in the first quarter of 2011, while the household sector contributed R22,4 billion towards the growth in total loans and advances for the quarter ending March 2011. While still comparatively low, twelve-month growth in total loans and advances extended to the corporate sector accelerated from 1,0 per cent in December 2010 to 4,9 per cent in April 2011. Growth over twelve months in credit extended to the household sector has been fluctuating at around 7 per cent since November 2010 and decreased moderately to 6,9 per cent in April 2011.

Interest rates and yields

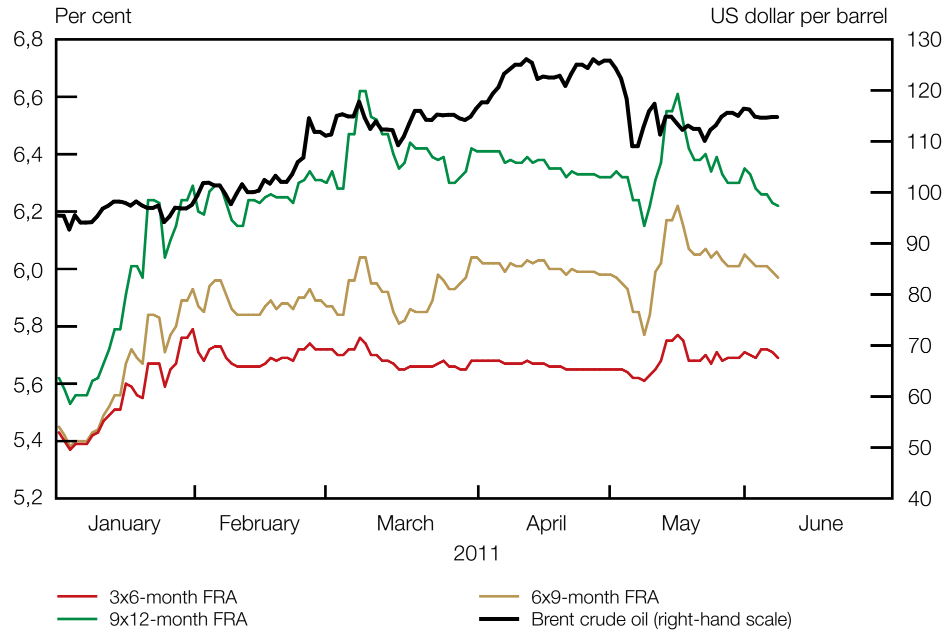
At successive meetings in January, March and May 2011, the Monetary Policy Committee (MPC) decided to keep the repurchase rate unchanged at 5,5 per cent, against the backdrop of the improving economic growth outlook and expectations that inflation would remain contained. While the inflation outlook had been adversely affected by continuing pressures emanating from international oil prices, rising food and administered prices, a number of positive factors kept inflation within the target range, such as the absence of discernible pressure from the demand side of the economy, the relatively firm level of the exchange value of the rand and signs that nominal wage settlements may be moderating. The MPC statements discussing developments underlying recent monetary policy decisions are reproduced in full on pages 54 to 60 of this *Bulletin*.

Money-market rates



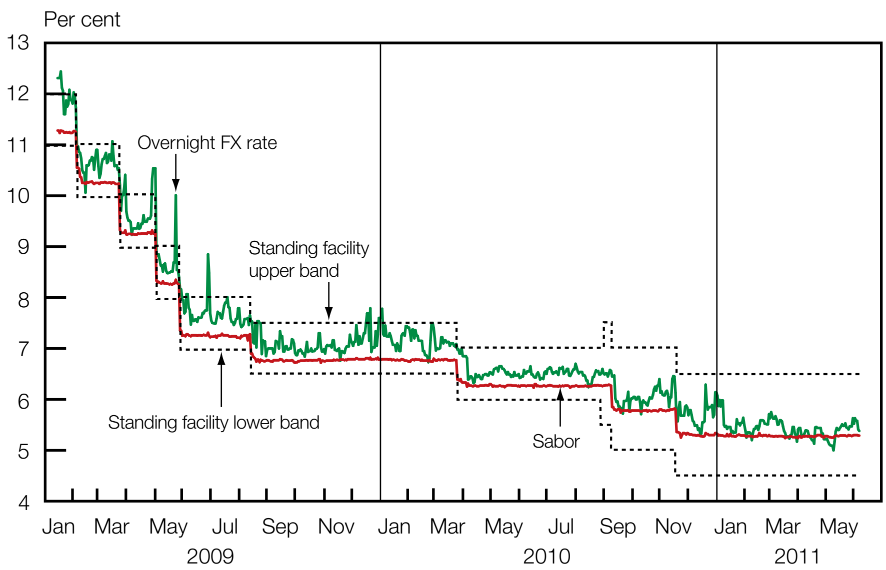
Despite the volatility in global risk sentiment in the first five months of 2011, domestic money-market rates remained relatively stable and close to 30-year-low levels. However, during this period, more pronounced movements were recorded in longer-term interest rates. For example, the 3-month Johannesburg Interbank Agreed Rate (Jibar) remained unchanged at 5,58 per cent from 26 January 2011 up to 9 June 2011. By comparison, the 6-month Jibar rate, which touched a low of 5,67 per cent on 6 January 2011, increased to 5,92 per cent on 17 May 2011 before declining to 5,82 per cent on 9 June 2011. Consequently, the widening spread between these two rates reflected higher uncertainty with an increased risk premium placed on the possibility of a future increase in interest rates. During the same period, the rate on 91-day Treasury bills trended downwards from 6 January 2011 and shed a total of 14 basis points to 5,46 per cent on 9 June, as market participants increased their preference for risk-free, liquid government paper.

Forward rate agreements and the oil price



Rising inflationary pressures, exacerbated by surging international oil prices on fears of prolonged conflicts in the MENA countries added upward pressure on forward rate agreements (FRAs) in the early months of 2011. However, expectations of a tightening monetary policy stance were scaled back somewhat from May, as the appreciating exchange rate of the rand served to contain some of the pressures emanating from rising international oil prices. Subsequently, the 9x12-month FRA rate, for instance, declined from a nine-month high of 6,62 per cent on 7 March 2011 to 6,24 per cent on 9 June when the oil price moderated. Nevertheless, the medium- to longer-term FRA rates continued to indicate market expectations that monetary policy would be tightened towards the latter part of 2011.

Benchmark overnight rates



Owing to the availability of ample liquidity in the interbank money market, both the South African Benchmark Overnight Rate on Deposits (Sabor) and the implied rate on the one-day rand funding in the foreign-exchange swap market (overnight FX rate) were at historically low levels, while remaining stable and well within the standing facility limits in the first five months of 2011. During this period the Sabor declined moderately from 5,32 per cent at the beginning of January 2011 to 5,29 per cent on 9 June 2011. The overnight FX rate fell below the repurchase rate when it reached 5,47 per cent on 15 March 2011 and declined further to 5,39 per cent on 9 June 2011.

The prime overdraft rate and the predominant rate on mortgage loans remained at 9,0 per cent in the first five months of 2011, aligned with the unchanged repurchase rate.

Interest rates on *RSA government fixed-rate and inflation-linked retail bonds* have remained above most deposit rates, providing an attractive investment alternative for citizens. Changes since December 2010 are depicted in the accompanying 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 December 2010	7,50	7,75	8,00
1 March 2011	7,25	7,50	8,00
	3-year bond	5-year bond	10-year bond
Inflation linked:			
1 December 2010	2,00	2,25	2,75
1 June 2011	1,75	2,00	2,50

The daily average *yield on the R206 government bond* (maturing in the year 2014) increased from an all-time low of 6,49 per cent on 5 November 2010 to 7,45 per cent on 4 February 2011 as a result of, among other things, the depreciation in the exchange value of the rand, brisk issuance of bonds and risk aversion following the political unrest in the MENA countries. The bond yield then fluctuated around a declining trend to reach 6,81 per cent on 8 June, following lower-than-

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

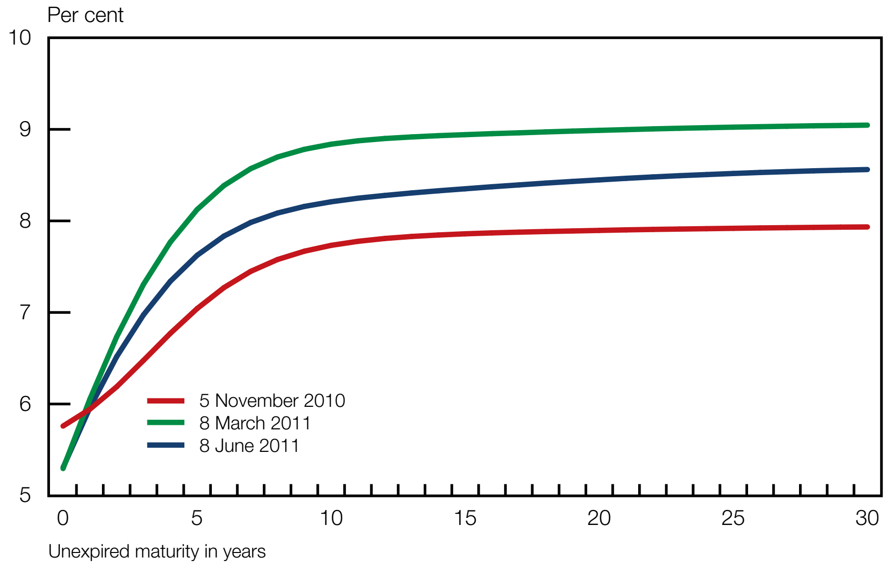
expected inflation and budget deficit outcomes, and the appreciation in the exchange value of the rand. As a result of these movements in the nominal yield, the *break-even inflation rate*[6] fluctuated higher from a recent low of 4,90 per cent on 5 November 2010 to 5,94 per cent on 7 February 2011, before edging lower to 5,43 per cent on 8 June, while the real yield on the R189 inflation-linked government bond declined slightly over the whole period.

Similarly, the daily closing *yield on five-year US government dollar-denominated bonds* increased from a low of 1,02 per cent on 4 November 2010 to 2,37 per cent on 15 February 2011, before fluctuating lower to 1,54 per cent on 8 June. This decline followed as the release of poor economic data, concern over European debt issues and smaller-than-expected US government borrowing projections probably encouraged investors to readjust their portfolios, thus contributing to repricing in US bond yields. Consequently, the spread between the South African R206 bond yield and the US five-year bond yield narrowed from 540 basis points on 5 November 2010 to 527 basis points on 8 June 2011.

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

From November 2010 to March 2011, the short end of the South African *yield curve* first moved lower in November following the decline in the repurchase rate, before remaining broadly anchored to the unchanged repurchase rate. In the meantime the medium- to long-end portion of the curve moved upwards in response to the projected larger-than-expected budget deficit for the 2011/12 fiscal year, and to the depreciation in the exchange value of the rand. Subsequently, the level of the yield curve moved downwards as bond yields declined alongside the stronger exchange value of the rand. The increase in yields at the long end against a decline at the short end of the curve resulted in the *yield gap*[7] widening from 217 basis points on 5 November 2010 to 326 basis points on 8 June 2011. The unusually flat yield curve from the middle area of the curve to the long end steepened somewhat from March 2011 to June, as the issuance of longer-term bonds increased.

Yield curve



8 The differential between South African government bond yields on rand-denominated debt issued in the domestic market and on dollar-denominated debt issued in the US in the three-year maturity range.

Yields on domestic rand-denominated bonds declined more than those on the comparable dollar-denominated bonds. As a result, the *currency risk premium*[8] on South African government bonds narrowed from 470 basis points in January 2011 to 432 basis points in April. Subsequently, the currency risk premium reverted to January 2011 levels as it widened to 467 basis points in May, following the more pronounced decline in the yield on the dollar-denominated bond.

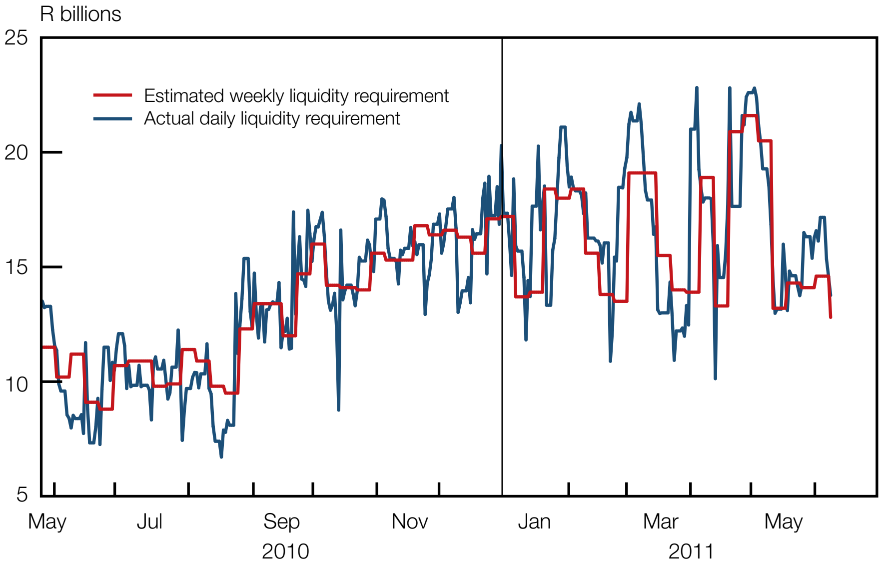
9 EMBI+ measures total returns on US dollar-denominated debt instruments of emerging markets.

The JPMorgan Emerging Markets Bond Index Plus (EMBI+)[9] yield spread widened from 245 basis points in October 2010 to 288 basis points in May 2011, mainly due to continued risk aversion towards emerging markets. Similarly, the *sovereign risk premium* on the South African government US dollar-denominated bonds in the three-year maturity range trading in international markets widened from 131 basis points in November 2010 to 145 basis points in March 2011, before narrowing to 130 basis points in May.

Money market

The first quarter of 2011 was characterised by heightened volatility in the actual daily liquidity requirement of private-sector banks, compared with the fourth quarter of 2010. The daily liquidity requirement fluctuated within a broad range of between R10,1 billion and R22,8 billion during the first five months of 2011, compared to a range of R8,8 billion and R20,3 billion observed during the fourth quarter of 2010, and occasionally breached the estimated liquidity requirement which ranged between R21,6 billion and R13,2 billion. Despite these developments, effective operational procedures ensured a well-functioning money market during this period.

Liquidity requirement



During the first quarter of 2011, notes and coin in circulation and the Bank's foreign-exchange transactions cumulatively injected liquidity to the value of R32,8 billion into the money market. Favourable exchange rate movements allowed the Bank to accumulate foreign-exchange reserves and these transactions expanded money-market liquidity by R28,6 billion. The excess liquidity in the money market during this period was mainly sterilised through an increase in governments deposits with the Bank to the value of R27,9 billion, and the issue of liquidity management instruments amounting to R8,5 billion. The net result was an injection of liquidity to the amount of R2,1 billion.

Money-market liquidity flows

R billions (easing + tightening –)

	2010	2011
	4th qr	1st qr
Notes and coin in circulation	-7,4	4,2
Required cash reserve deposits	-0,3	-1,0
Money-market effect of SARB* foreign-exchange transactions	1,4	28,6
Government deposits with the SARB	0,1	-27,9
Use of liquidity management instruments	5,8	-8,5
Reverse repurchase transactions	1,9	-2,7
SARB debentures	3,9	-5,8
Other items net	-0,9	6,8
Banks' liquidity requirement (decrease + increase –)	-1,3	2,1

* SARB: South African Reserve Bank

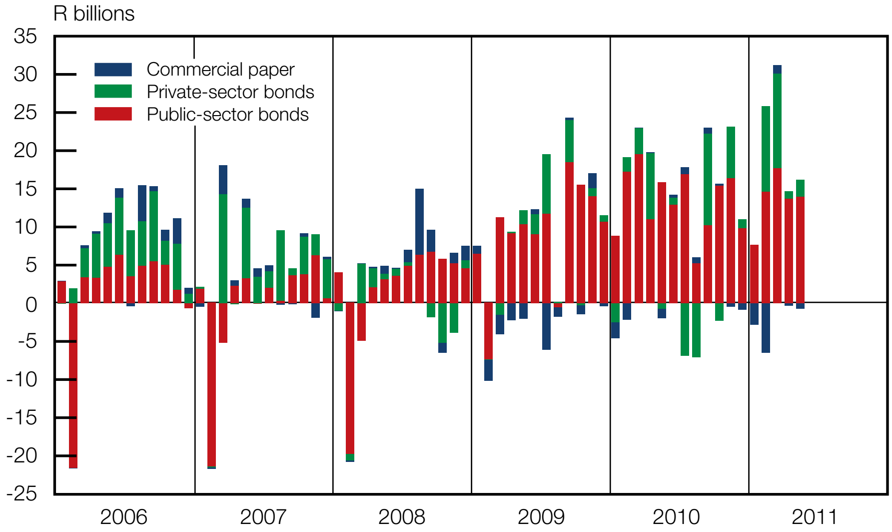
The increase in the money-market effect of the Bank's foreign-exchange transactions coincided with a significant increase of R44,0 billion in the Bank's foreign-exchange reserves in the first quarter of 2011. The increase of R27,9 billion in government deposits with the Bank essentially consisted of a R27,7 billion increase in foreign-currency deposits. After decreasing in April 2011 government deposits with the Bank again increased in May.

Coupon interest payments on various government bonds amounting to R12,3 billion were effected from the government tax and loan account during the opening quarter of 2011, with only R0,3 billion of this amount accruing to the Bank.

Bond market

Net issuances by the public and private sectors in the South African *primary bond market* were brisk in the first five months of 2011. The public sector recorded net issues of R67,5 billion, while net issues by the private sector amounted to R26,9 billion. Net issues by national government accounted for 82 per cent of total net issues by the public sector in the first five months of 2011, while net issues by banks accounted for 74 per cent of total net issues by the private sector over the same period. Funding through commercial paper declined by R9,6 billion in the five months to May 2011. The nominal value of debt securities listed on the JSE increased by R84,8 billion in the first five months of 2011, compared with net issues of R77,8 billion in the corresponding period of 2010, bringing the outstanding nominal amount to R1,2 trillion at the end of May 2011.

Net issues in the domestic primary bond market



Despite concerns over sovereign debt issues in peripheral European countries, rand-denominated bond issuances in the *European bond markets* gained favour and amounted to R8,2 billion in the first five months of 2011, which exceeded issuances in 2010 as a whole, as shown in the accompanying table. This contributed to net issues of R5,5 billion in the five months to May 2011, compared with net redemptions of R0,2 billion in the corresponding period of 2010. However, as the issuance by non-residents of rand-denominated bonds in the *Japanese Uridashi bond market* lost momentum, net redemptions of Uridashi bonds amounted to R1,6 billion in the five months to May 2011, compared with net redemptions of R3,6 billion in the same period of 2010.

Rand-denominated bonds issued in international bond markets

R millions

	Eurorand		Uridashi		Total	
	2010	Jan–May 2011	2010	Jan–May 2011	2010	Jan–May 2011
Issues	7 151	8 175	17 643	4 269	24 794	12 444
Redemptions	21 503	2 670	26 326	5 885	47 829	8 555
Net	-14 352	5 505	-8 683	-1 616	-23 035	3 889

Sturdy trading activity was noticeable in the domestic secondary bond market in the first five months of 2011 and contributed to *turnover* of R8,9 trillion, which was 40 per cent higher than the value traded in the corresponding period of 2010. The daily average value traded of R87,6 billion in the five months to May 2011 was 19 and 39 per cent higher than the daily average turnover in 2010 and 2009 respectively.

After a half-year interlude, *non-residents* resumed net purchases of domestic debt securities from April 2011 as nominal yield differentials continued to favour South African bonds alongside revised expectations of lustreless growth and a continuation of low interest rate policies in most mature economics. Subsequent to reducing their holdings of domestic bonds by a cumulative R32,9 billion during the six months to March 2011, non-residents registered net purchases of local debt securities amounting to R9,9 billion in April and a further R14,1 billion in May. Non-residents' net accumulation of domestic listed bonds amounted to R14,5 billion during the first five months of 2011, while their trading activity, measured as their purchases and sales as a percentage of total value of bonds traded on the JSE, averaged 13 per cent. Non-residents' holdings of domestic debt securities were predominantly in the medium-term maturity spectrum.

Share market

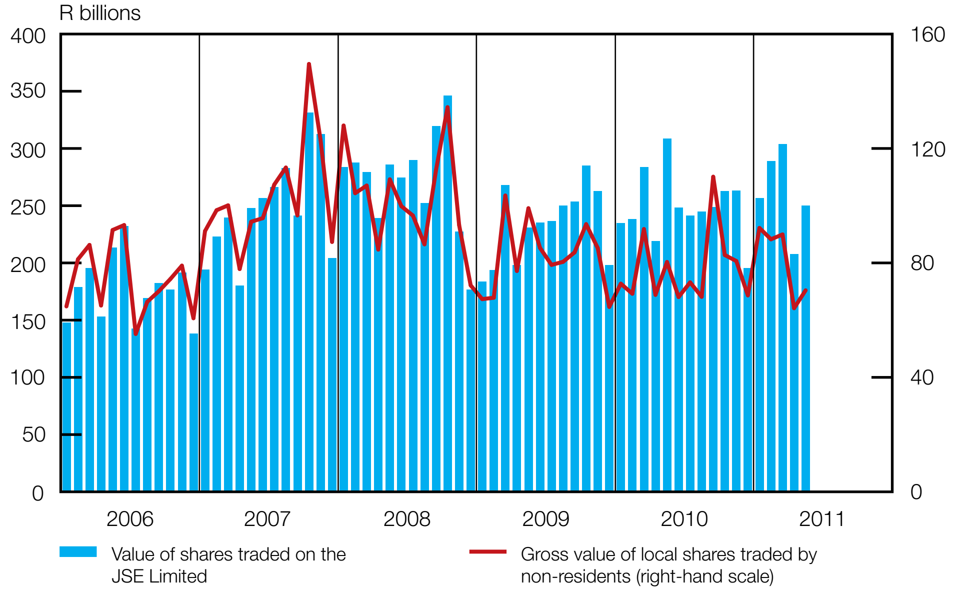
Despite the benign interest rate environment, companies listed on the JSE raised *equity capital* in the domestic and international primary share markets to the value of R44,3 billion in the first five months of 2011, which was 48 per cent more than the amount raised during the corresponding period of 2010. Companies with primary listings on the JSE raised the bulk at 76 per cent of the total capital attracted during this period.

Contrary to bull market conditions, new listings on the JSE remained subdued at 4 new listings in the first five months of 2011, while 5 delistings were recorded. One company transferred from the main board to Alt^X in March 2011, whereafter another company transferred from the venture capital board to Alt^X in May. The total *number of companies listed* on the JSE amounted to 406 in May 2011, consisting of 326 companies on the main board, 71 companies on Alt^X, 7 companies on the development and venture capital boards, and 2 listings on the Africa board. In April 2011 the JSE announced the launch of a new advisory committee to promote its Africa board. The number of securities listed also remained subdued and fell below the 800 level in March 2011 for the first time since January 2004, before increasing to 822 in May.

The total *turnover* in the secondary share market amounted to R1,3 trillion in the first five months of 2011, 2 per cent higher than the turnover recorded in the corresponding period of 2010. This followed share prices which were, on average, 17 per cent higher over the same period. Daily average turnover reached a high of R14,5 billion in February 2011 and came to R12,9 billion in the first five months of 2011, which was 7 per cent higher than the average of R12,1 billion recorded in the first five months of 2010. As share prices soared, the total *market capitalisation* of the JSE increased by 4 per cent from R6,6 trillion in January 2011 to a high level of R6,9 trillion in May. Total market liquidity[10] was 46 per cent in the first five months of 2011, a level similar to that observed in 2010.

10 The liquidity ratio on the JSE is calculated as annualised turnover of shares as a percentage of market capitalisation.

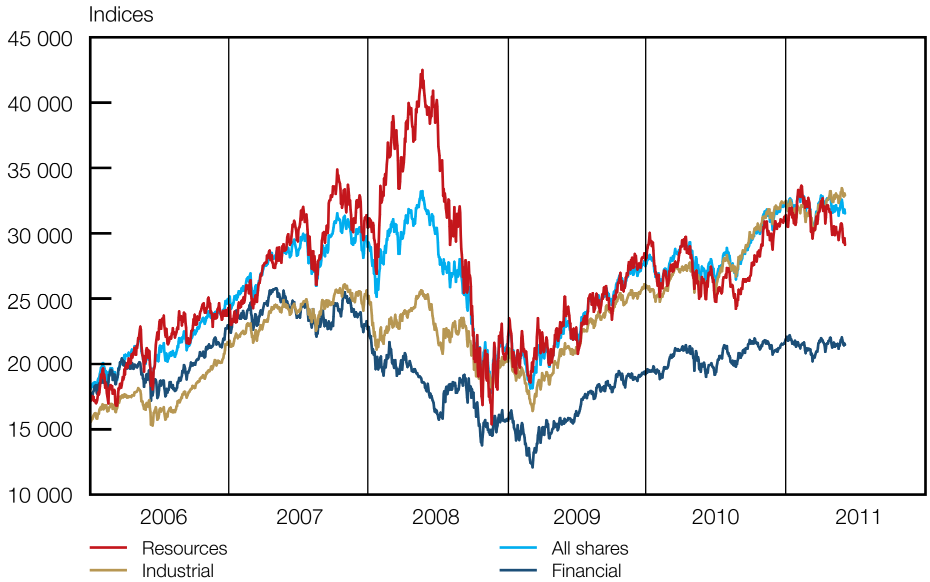
Turnover in the secondary share market



After reducing their holdings of domestic shares by R3,1 billion in the first quarter of 2011, *non-residents* briefly recorded net purchases of shares which amounted to R6,0 billion in April, before reverting to net sales of R0,6 billion in May. Non-residents accumulated R2,3 billion worth of shares during the first five months of 2011, while their participation rate, measured as their purchases and sales as a percentage of the total value of shares traded on the JSE, averaged 16 per cent, a percentage point higher than the average participation rate recorded during the corresponding period of 2010.

The *FTSE/JSE All-Share Price Index* (Alsi) rose by 21 per cent from 1 July 2010 to reach an index value of 31 521 on 8 June 2011, alongside stronger global equity markets. The upward trend was, however, interrupted briefly in March 2011, following concerns regarding the possible impact of the natural disasters that struck Japan and thereafter as a result of lower commodity prices. The industrial sector recorded the strongest gain from 1 July 2010 to 8 June 2011 with an increase of 30 per cent, followed by the resources sector which increased by 17 per cent and the financial sector which rose by 12 per cent over the same period.

FTSE/JSE share price indices



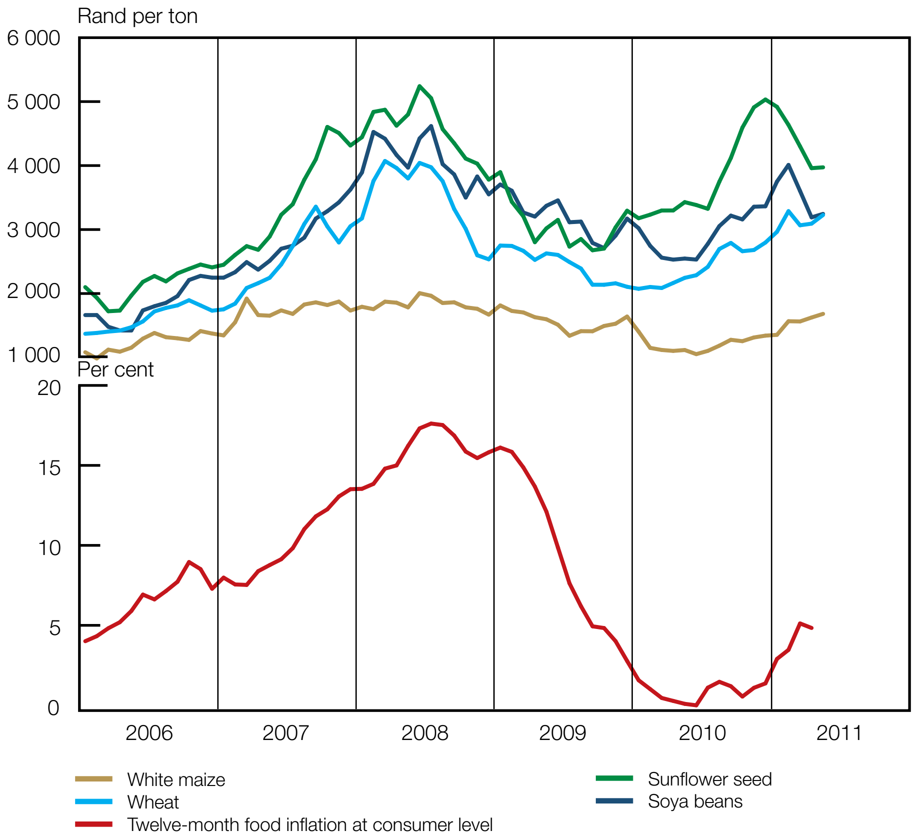
The historical *dividend yield* on all classes of shares increased from 2,1 per cent in January 2011 to 2,5 per cent in May, while the *earnings yield* also increased from 5,6 per cent to 6,3 per cent over the same period, as the increase in earnings and dividends declared in the past twelve months exceeded the increase in share prices. Conversely, the *price-earnings ratio* for all classes of shares declined from 17,9 in January 2011 to 16,0 in May. The recent levels of the price-earnings ratio were less than the average of 18,1 in 2010, but higher than its long-term average of 14,0 measured from 1990 to date.

Market for exchange-traded derivatives

Notwithstanding the slight decrease in the number of contracts traded in the *equity derivatives* market during the first five months of 2011 when compared with the corresponding period of 2010, turnover in the Equity Derivatives Division of the JSE continued to increase as the underlying share market reflected improvements.

Trading activity in *commodity futures and options contracts* on the Commodity Derivatives Division of the JSE was 17 per cent higher at 920 thousand contracts in the first five months of 2011, when compared with the corresponding period of 2010. Thus far in 2011, maize contracts accounted for the largest share at 56 per cent of total trade. Domestic maize and wheat prices increased in tandem with problematic international weather conditions, rising global demand, subdued production estimates, and higher international prices of grain and oil. The rising agricultural commodity prices were expected to continue to impact adversely on domestic consumer food price inflation.

Agricultural commodity prices and food inflation



Following the introduction of Can-Do Dollar/Rand Currency Futures and Options Contracts on the *interest rate derivatives market* of the JSE, Yield-X, in February 2011, the JSE continued to extend its currency segment, adding the new Can-Do Euro/Rand Currency Futures Contracts in March. Consequently, trading activity on Yield-X soared to 5,2 million contracts in the first five months of 2011, which was 78 per cent higher than in the corresponding period of 2010. Trade was mainly dominated by currency futures and options contracts. Trade in US dollar/rand futures and options contracts accounted for no less than 87 per cent of total currency contracts traded in the first five months of 2011, with the newly added any-day expiry currency contracts accounting for 25 per cent, as increased flexibility was offered to investors alongside movements in the exchange value of rand. Similarly, turnover on Yield-X registered robust growth over the same period of 2011.

Although the value and volume of JSE-listed *warrants* traded were lower in the first five months of 2011 when compared with the same period of 2010, a slow recovery was evident during 2011, corresponding to the positive trend in the underlying share market. Turnover in all derivatives traded on the JSE during the first five months of 2011 is indicated in the accompanying table.

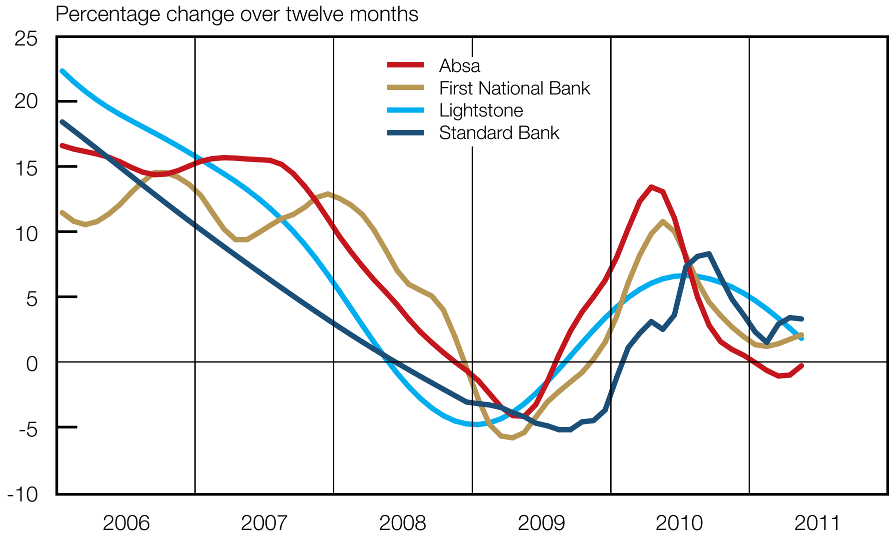
Derivatives turnover on the JSE, January to May 2011

	Value (R billions)	Change over one year (Per cent)
Equity futures and options on futures	1 501	9
Warrants	0,4	-45
Commodity futures and options	122	57
Interest rate derivatives	130	60

Real-estate market

During early 2011, the domestic residential property market remained weak, although there were signs of a moderate increase in the number of mortgage bonds paid out. As the threshold for transfer duty exemption was raised on 1 March 2011, transfer duty collections edged lower. On average, properties remained in the market for a relatively long period before being sold. Most house price barometers, however, have on a year-on-year basis picked up moderately since March 2011, and the level of interest rates remained supportive of the real-estate market.

House prices



Non-bank financial intermediaries

The improved economic outlook, increase in household disposable income and lower interest rates impacted positively on gross inflows[11] to non-bank financial institutions[12] in 2010. Gross inflows to these intermediaries rose from R821 billion in 2009 to R1 075 billion in 2010, despite subdued growth in employment levels, notably in the private sector. Supported by salary and

11 Consisting of insurance premiums, pension and provident fund contributions, and sales of units by unit trusts.

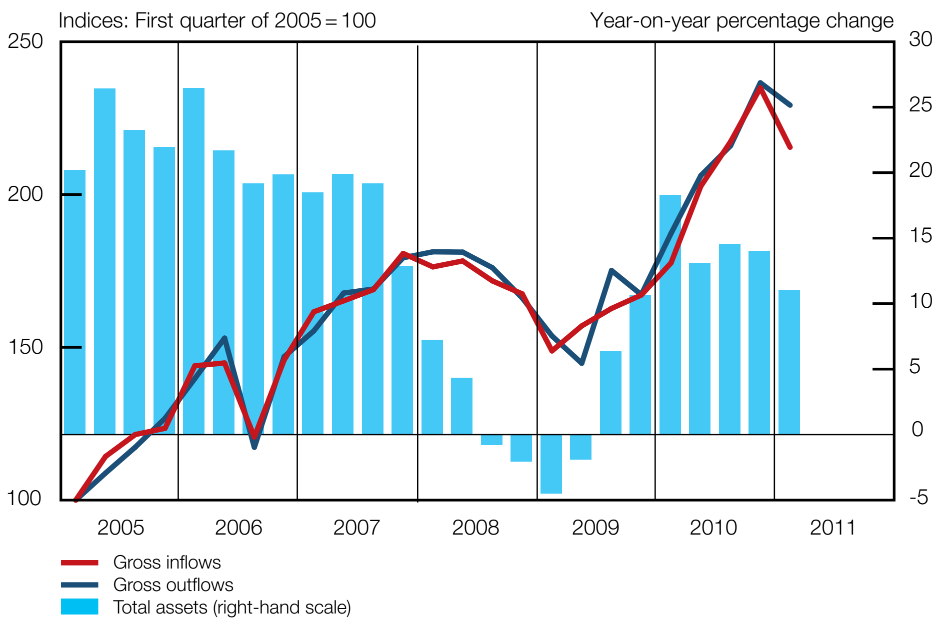
12 Include insurers, pension and provident funds and unit trusts.

wage increases, premiums received on retirement annuity policies increased by 18 per cent, and contributions to official pension and provident funds by 16 per cent over the same period, spurring inflows to the longer-term contractual saving vehicles, such as insurers, pension and provident funds. Gross contractual savings flows as a percentage of gross domestic product amounted to 13 per cent in the last quarter of 2010.

The unit trust industry attracted a record-high gross inflow of R719 billion in 2010, compared with R489 billion in 2009, supported by a rebound in consumer interest in these funds. The bulk of these inflows were invested in low-risk portfolios, such as money-market funds, indicating that many investors did not benefit from the rally of 16 per cent in share market prices from the final quarter of 2009 to the final quarter of 2010. The industry is likely to benefit from National Treasury's proposal[13] to broaden competition in the provision of living annuities by increasing the list of eligible financial services providers to include collective investment schemes.

13 Released in the discussion paper entitled "A Safer Financial Sector to Serve South Africa Better".

Flow of funds: Non-bank financial institutions



Gross outflows[14] from these institutions rose by 32 per cent from 2009 to R994 billion in 2010, against an increase in benefits paid by the retirement funds industry – which continued to be characterised by higher pension withdrawals and lower preservation of pension income. Repurchases of units by the unit trust industry increased by 51 per cent to R631 billion in 2010. Surrender levels and claims paid by insurers stabilised to a degree over the period.

14 Consisting of benefits and claims paid, surrenders and repurchases of units.

The rate of growth in inflows to the non-bank financial intermediaries continued to be exceeded by outflows in 2010. Subsequently, net inflows[15] to these institutions declined from R25,2 billion in the final quarter of 2010 to R8,7 billion in the first quarter of 2011 – the lowest since the third quarter of 2009. National Treasury proposed to boost and safeguard household savings through the introduction of mandatory preservation of the pension benefit and to subject the lump sum paid on retirement by provident funds to a one-third withdrawal limit. This would have a positive effect on savings, if accepted.

15 Measured as the difference between gross inflows and outflows.

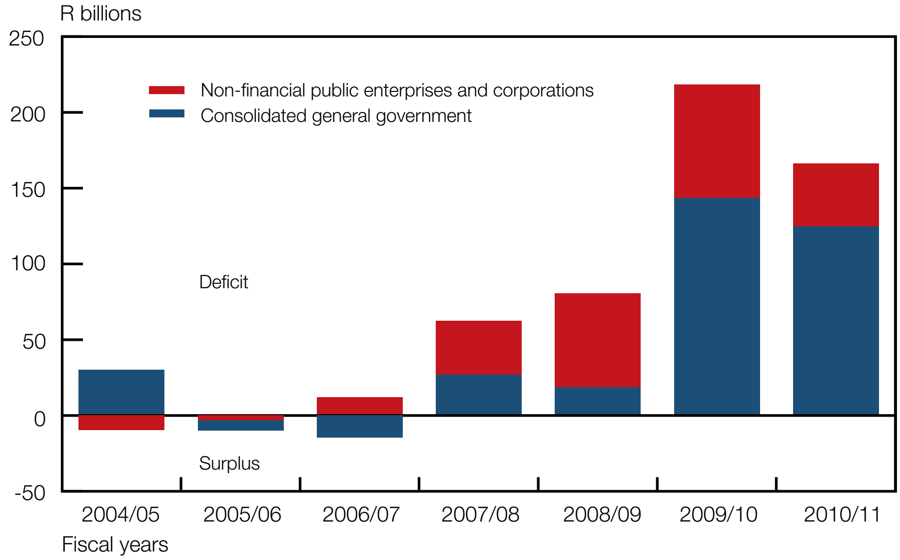
Public finance

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

Non-financial public-sector borrowing requirement[16]

The *non-financial public-sector borrowing requirement* levelled out in 2010/11 and fell short of budgetary projections, reflecting smaller cash deficits of national government and non-financial public enterprises and corporations, together with a cash surplus of provincial governments. The borrowing requirement was R51,7 billion less than in the previous fiscal year. Tax revenue overruns by national government, together with lower capital outlays on infrastructural development by non-financial public enterprises and corporations, were mainly responsible for the smaller cash deficit. Higher grants from national government and under-spending largely contributed to the provincial government surplus.

Non-financial public-sector borrowing requirement



As a ratio of gross domestic product, the non-financial public-sector borrowing requirement amounted to 6,1 per cent in fiscal 2010/11, relative to 8,9 per cent recorded in the preceding fiscal year. The ratio recorded in fiscal 2010/11 was lower than the revised ratio of 10,5 per cent estimated in the February 2011 *Budget Review*. This ratio was anticipated to decline over time and reach 6,3 per cent of gross domestic product by fiscal 2013/14, largely as a result of an improvement in the consolidated government budget balance. Financial activities at various levels of the non-financial public sector are summarised in the accompanying table.

Non-financial public-sector borrowing requirement

R billions

Level of government	2009/2010*	2010/2011*
Consolidated general government	143,6	124,8
National government	132,2	125,1
Extra-budgetary institutions	-8,7	0,5
Social security funds	-10,7	-9,3
Provincial governments	8,3	-4,4
Local governments	22,4	12,9
Non-financial public enterprises and corporations	74,6	41,6
Total	218,1**	166,4**
As a percentage of gross domestic product	*8,9*	*6,1*

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

Non-financial public enterprises and corporations recorded an estimated cash deficit of R41,6 billion in fiscal 2010/11, lower than the R74,6 billion recorded in fiscal 2009/10. The lower deficit can be attributed to buoyant growth in revenue by major non-financial public enterprises and corporations. Net investment in non-financial assets by non-financial public enterprises and corporations amounted to R98,3 billion in fiscal 2010/11; this was an increase of 1,6 per cent when compared with the previous fiscal year.

In fiscal 2010/11 cash receipts from operating activities of *national government* increased by 12,8 per cent, to amount to R687 billion when compared with the previous fiscal year. Cash payments for operating activities increased by 9,4 per cent year on year to amount to R802 billion in fiscal 2010/11. Netting cash flow from operating activities and net investment in non-financial assets resulted in a cash deficit of R125 billion in fiscal 2010/11. This was moderately lower than the cash deficit recorded a year earlier.

Provincial governments recorded a cash deficit of R5,5 billion in the January–March quarter of 2011, bringing the cash *surplus* for the full fiscal year 2010/11 to R4,4 billion. This was a turnaround from the cash *deficit* of R8,3 billion recorded in the previous fiscal year. During fiscal 2010/11, total revenue amounted to R335 billion and was predominantly boosted by grants from national government. The equitable share and conditional grants increased at a year-on-year rate of 13,4 per cent to amount to R325 billion in fiscal 2010/11.

Expenditure[17] by provincial governments amounted to R330 billion in fiscal 2010/11, or 8,7 per cent more than in fiscal 2009/10. The bulk of provincial government expenditure consisted of personnel costs, which amounted to R194 billion, or 58,6 per cent of total expenditure. Provinces overspent their original budget allocation for this category by R10,4 billion in fiscal 2010/11. Higher personnel spending provided for salary adjustments and housing allowances for non-senior management officials together with the 2010 public-sector wage negotiations which resulted in a 7,5 per cent wage increase.

17 Calculated as cash payments for operating activities and net investment in non-financial assets.

By March 2011 it had been 54 months since construction on the Gautrain project had commenced, and all sections of the new rail system were nearing completion. During fiscal 2010/11, R3,8 billion was disbursed to this project, bringing the total amount spent since its inception to R30,0 billion. Provincial net investment in non-financial assets, including spending on the Gautrain project, amounted to R24,9 billion in fiscal 2010/11, or 9,0 per cent lower when compared with the previous fiscal year.

The provincial cash surplus resulted in an increase in provincial governments' deposits with the Corporation for Public Deposits from R0,2 billion at the end of March 2010 to R3,4 billion at the end of March 2011. At the same time, provincial deposits with private-sector banks increased from R8,6 billion to R9,7 billion, whereas their overall indebtedness to banks decreased from R2,1 billion to R0,7 billion between these respective dates.

Financial activities of *local governments* resulted in a preliminary estimated cash deficit of R3,1 billion during the first quarter of 2011, resulting in a cumulative cash deficit of R12,9 billion for fiscal 2010/11 as a whole. This was significantly below the cash deficit of R22,4 billion recorded in the previous fiscal year and remained R5,4 billion higher than the revised budget cash deficit of R7,5 billion as envisaged in the *Budget Review 2011*.

The narrowing of the cash deficit could be attributed to brisk growth in total cash receipts, alongside a deceleration in infrastructure-related spending. Municipal cash receipts were buoyed by, among other things, inter-governmental transfers intended to supplement municipal own-revenue spending to achieve universal access to basic public services and support infrastructure-related spending by municipalities. Metropolitan municipalities also received a total amount of R7,5 billion from the general fuel levy-sharing agreement with national government, which was 10,9 per cent more than in the previous fiscal year.

In many municipalities high levels of poverty, a low level of economic activity, a low revenue base, a demographic structure with high dependency rates and other developmental challenges continued to put pressure on the local government's financial sustainability and service delivery. These factors contributed significantly to the non-payment for basic services such as water supply, electricity and refuse collection.

During fiscal 2010/11, municipal net investment in non-financial assets amounted to R46,8 billion representing a year-on-year rate of decrease of 2,7 per cent. As the municipal bond market activity continued to gather momentum, supported by strong investor confidence, municipalities continued to diversify their sources of funding for capital expenditure backlogs. This has been evidenced by additional bond issuances by both the City of Johannesburg and Ekurhuleni metropolitan municipalities, who issued bonds amounting to R0,9 billion and R0,8 billion respectively during March 2011. This brought total cumulative outstanding municipal marketable bond debt to a level of R13,3 billion at the end of March 2011.

Extra-budgetary institutions' cash deficit amounted to R0,5 billion in fiscal 2010/11 – in stark contrast to a *cash surplus* of R8,7 billion recorded in the previous fiscal year. Preliminary estimates indicated that the financial position of *social security funds* deteriorated slightly in fiscal 2010/11. This level of government recorded a cash surplus of R9,3 billion compared with a cash surplus of R10,7 billion in the preceding fiscal year.

Budget comparable analysis of national government finance

In fiscal 2010/11 national government expenditure fell below budgeted projections, whereas revenue collections exceeded budgetary expectations; hence a lower deficit was recorded.

Unaudited data indicated that national government spending amounted to R785 billion in fiscal 2010/11. The preliminary outcome was R12,6 billion less than the original budgetary provision in the *Budget Review 2010* and R4,4 billion less than the revised estimate presented to Parliament by the Minister of Finance in February 2011. This resulted in a year-on-year rate of increase in national government expenditure of 10,0 per cent in fiscal 2010/11. As a ratio of gross domestic product, national government expenditure amounted to 28,6 per cent in fiscal 2010/11, compared with 29,2 per cent recorded in the previous fiscal year.

Growth in national government spending was underpinned by increased voted expenditure, mainly consisting of transfers and subsidies earmarked for social spending and current payments by some departments. Spending on transfers and subsidies by the Department of Cooperative Governance and Traditional Affairs increased by 22,3 per cent during the period under review. This increase was due to the Municipal Infrastructure Grant of R12,5 billion paid in fiscal 2010/11.

Transfers and subsidies paid by the Departments of Basic Education and of Higher Education and Training increased by 37,7 per cent year on year, while that of the Department of Social Development increased by 10,4 per cent when compared with the previous fiscal year. Spending by the last-mentioned department comprised mainly social security payments for old-age and child support grants.

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 2010/11, Eskom received an amount of R20 billion, which was the third and final tranche of the subordinated loan. However, this amount is excluded from expenditure in the Government Finance Statistics (GFS) analysis on the grounds that it is a loan.

Interest paid on national government debt equalled R66,2 billion, or 16,1 per cent more than a year earlier. This increase in interest payments could be attributed to higher issuances of domestic government bonds. Interest payments were originally budgeted to amount to R71,3 billion in fiscal 2010/11. However, this amount was revised downwards to R67,5 billion in the *Budget Review 2011* as a result of anticipated net redemptions of foreign debt.

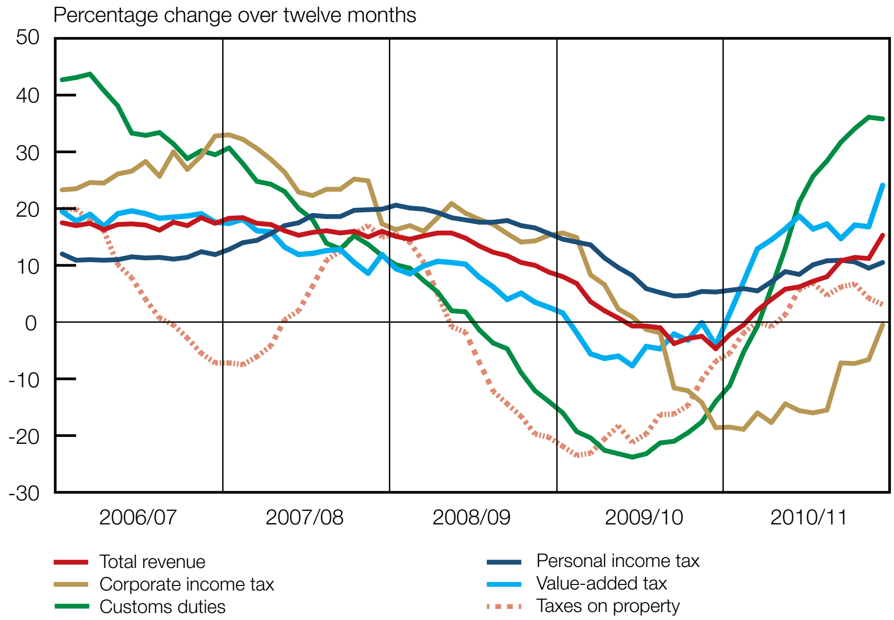
During April 2010 to March 2011, equitable share transfers to provinces increased by 10,5 per cent when compared with the same period a year earlier. These higher transfers to provinces were to extend and improve service delivery outcomes in the health and education sectors.

After taking into account cash-flow adjustments[18], national government's cash-flow expenditure equalled R796 billion in fiscal 2010/11 – or 10,0 per cent more than in the same period a year earlier.

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

Total national government revenue amounted to R669 billion in fiscal 2010/11 – a year-on-year rate of increase of 15,4 per cent when compared with the previous fiscal year. Revenue collections were higher than the budgetary expectations as the economy regained growth momentum. National government revenue was revised upwards by R23,3 billion to amount to R667 billion in the *Budget Review 2011*.

National government rolling twelve-month revenue



Taxes on income, profits and capital gains increased at a moderate rate of 5,8 per cent when compared with a year earlier. This increase was driven by growth in personal income tax, offsetting a small decline of 0,5 per cent in corporate income tax collections. Lower assessment and provisional payments, together with significantly higher refunds, resulted in lower corporate income tax collections.

Proceeds from taxes on property increased marginally during the period under review, reflecting a slow recovery in real-estate market activity.

National government revenue in fiscal 2010/11

Revenue source	Originally budgeted Full year		Actual Full year	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	377,7	5,2	379,9	5,8
Income tax on individuals	*225,8*	*9,3*	*228,1*	*10,5*
Income tax on companies	*152,0*	*-0,4*	*151,9*	*-0,5*
Payroll taxes	8,4	7,9	8,7	10,9
Taxes on property	10,0	12,8	9,1	3,1
Taxes on goods and services	230,6	13,4	249,3	22,5
Value-added tax	*164,0*	*10,9*	*183,6*	*24,1*
Taxes on international trade and transactions...	20,9	7,9	27,0	39,5
Other revenue	10,7	16,2	13,0	41,6
Less: SACU** payments	15,0	-46,3	17,9	-35,9
Total revenue	643,2	11,0	669,0	15,4

* Fiscal 2009/10 to fiscal 2010/11
** Southern African Customs Union

Taxes on goods and services recorded a significant increase, stemming from strong value-added tax (VAT) and fuel levy collections. Domestic VAT increased by 5,1 per cent, while VAT on imports increased by 17,3 per cent in the period under review. The increase in VAT stemmed from improved consumer demand, alongside a slowdown in VAT refunds. The steep decrease in VAT refunds was on account of lower capital investment, and thus lower claims from local authorities and corporations. Furthermore, the introduction of additional verification measures contributed to the savings against the revised estimates made in the *Budget Review 2011*.

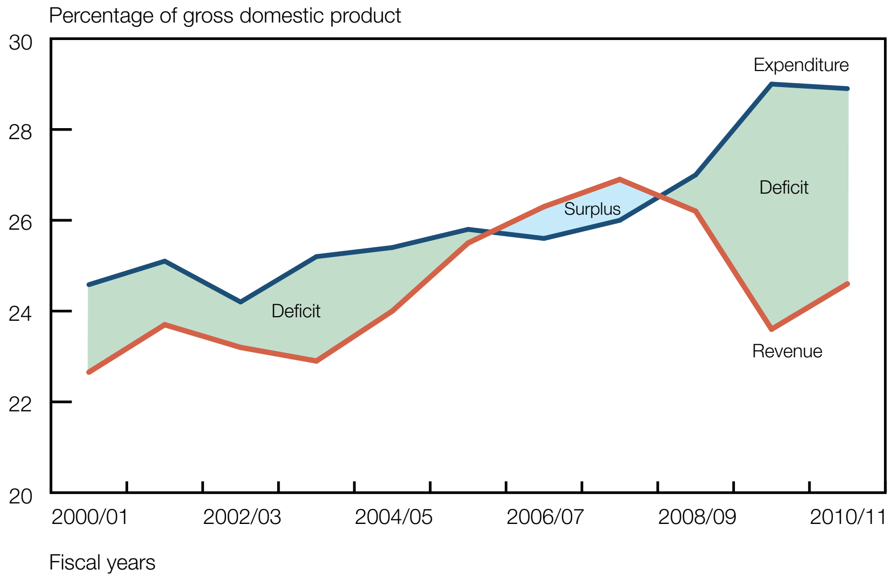
Collections from taxes on international trade and transactions accelerated sharply, and were boosted by a solid rise in customs duties as vehicle imports, among other things, recorded a buoyant year-on-year rate of increase.

Transfers to Southern African Customs Union (SACU) partners declined by 35,9 per cent year on year and amounted to R17,9 billion in fiscal 2010/11. Included in this total was an additional payment of R2,9 billion for adjustments made in respect of the fiscal years 2006/07 and 2007/08, raising the originally budgeted payments to SACU partners of R15,0 billion to R17,9 billion.

After taking into account cash-flow adjustments, national government's cash-flow revenue almost equalled the cash-book revenue in fiscal 2010/11 and was R89,5 billion more than the previous fiscal year.

Netting national government revenue and expenditure yielded a cash-book deficit before borrowing and debt repayment of R116 billion in fiscal 2010/11. This was R17,7 billion lower than the cash-book deficit recorded in the previous fiscal year. The lower deficit resulted from higher-than-expected revenue collections, alongside slower growth in national government expenditure. The cash-book deficit was originally budgeted to amount to R154 billion in fiscal 2010/11. In the *Budget Review 2011*, the cash-book deficit was adjusted downwards to total R122 billion in fiscal 2010/11. As a ratio of gross domestic product, the cash-book deficit amounted to 4,2 per cent in fiscal 2010/11, compared with 5,5 per cent recorded in the previous fiscal year.

National government finance



19 The deficit/surplus recalculated by excluding interest payments from total expenditure.

The primary balance[19] – a key indicator of fiscal sustainability – reached a deficit of R49,5 billion, or 1,8 per cent of gross domestic product, in fiscal 2010/11. This can be compared with a primary deficit of R76,4 billion, or 3,1 per cent as a proportion of gross domestic product, recorded in fiscal 2009/10.

Netting national government cash-flow revenue and expenditure yielded a cash-flow deficit before borrowing and debt repayment of R127 billion in fiscal 2010/11, some R17,2 billion lower than the cash-flow deficit recorded in the previous fiscal year. Extraordinary receipts included the equalisation fund account transfer of R0,7 billion, special dividends from Telkom of R0,4 billion and the liquidation of SASRIA investment to the value of R0,2 billion. Extraordinary transfers comprised losses on the conversion of foreign currency transactions of R0,4 billion, losses on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), and a premium of R0,2 billion on debt portfolio restructuring. After taking into account extraordinary transactions and the cost on revaluation of foreign debt at maturity, the net borrowing requirement equalled the cash-flow deficit in fiscal 2010/11. This was significantly lower than the net borrowing requirement of R141 billion recorded a year earlier.

National government financing in fiscal 2010/11

R billions

Item or instrument	Originally budgeted 2010/11	Revised estimate 2010/11[1]	Actual 2010/11	Actual 2009/10
Deficit	**174,9[1]**	**143,4[2]**	**126,9[3]**	**144,1[3]**
Plus: Extraordinary payments	-	0,8	0,8	0,7
Cost on revaluation of foreign debt at redemption	0,8	0,3	0,3	0,8
Less: Extraordinary receipts	-	3,1	1,3	4,8
Net borrowing requirement	**175,7**	**141,4**	**126,8**	**140,8**
Treasury bills	22,0	35,1	34,9	49,8
Domestic government bonds	137,7	139,2	130,5	97,1
Foreign bonds and loans	12,4	-1,9	3,2	24,4
Change in available cash balances[4]	3,6	-31,0	-41,8	-30,4
Total net financing[5]	**175,7**	**141,4**	**126,8**	**140,8**

1. Source: *Budget Review 2011*
2. Includes the subordinated loan to Eskom
3. Cash-flow deficit
4. Increase – decrease +
5. Components may not add up to totals due to rounding

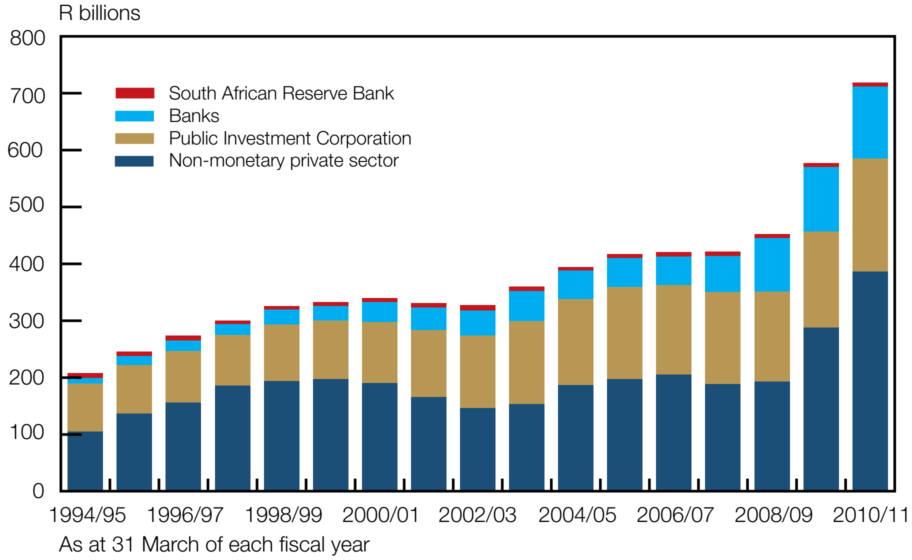
The largest part of the net borrowing requirement was funded domestically through the issuance of Treasury bills and long-term government bonds, as indicated in the accompanying table. This mirrored the depth and dependability of the South African money and capital markets. In fiscal 2010/11 the *R189* inflation-linked bond was partly redeemed and switched to the *R202, R210, R211* and *R212* inflation-linked bonds to satisfy the market demand for these bonds. Net issues of RSA Government Retail Savings Bonds in fiscal 2010/11 amounted to R5,0 billion, bringing the total balance outstanding to R9,5 billion as at 31 March 2011.

Domestic funding from Treasury bills was obtained at an average rate of 6,0 per cent, while domestic long-term nominal yield instruments were sold at an average interest rate of 8,4 per cent per annum during fiscal 2010/11. The average outstanding maturity of national government's domestic marketable bonds rose from 122 months to 126 months between March 2010 and March 2011.

National government raised R5,2 billion at a coupon rate of 6,25 per cent through the issuance of a US$750 *million* 30-year bond in March 2011, bringing the net issues of foreign bonds and loans to R3,2 billion in fiscal 2010/11. The average outstanding maturity of the foreign marketable bonds of national government lengthened from 97 months at the end of March 2010 to 102 months at the end of March 2011.

Funding activities of national government increased national government's available cash balances by R41,8 billion during fiscal 2010/11, bringing these balances to R174 billion at the end of March 2011. Between March 2010 and March 2011, deposits with the Bank rose by R35,8 billion to R129 billion, partly due to the government helping to sterilise the money-market effects of the accumulation of foreign currency reserves.

Ownership distribution of domestic marketable bonds of national government



Domestic debt of national government as a ratio of total loan debt amounted to 90,0 per cent, reflecting the continued dominance of the domestic capital market over the foreign capital market as a source of government funding. Total domestic debt increased significantly from R697 billion to R878 billion between March 2010 and March 2011. This sharp rise in domestic debt stemmed from higher issues of Treasury bills and domestic long-term bonds in order to finance the budget deficit.

Foreign debt of national government declined slightly from R99,7 billion to R97,9 billion over the fiscal year ending March 2011, on account of the stronger exchange value of the domestic currency.

Total loan debt of national government picked up notably from R796 billion on 31 March 2010 to R976 billion on 31 March 2011. As a proportion of gross domestic product, total loan debt of national government rose from 32,6 per cent to 35,5 per cent during the period under review.

Box 1: Gross loan debt compared to net loan debt of national government

In 2000 National Treasury decided to disclose national government debt not only on a gross, but also on a net basis in its annual *Budget Review*. This approach is followed by other countries and is consistent with the disclosure recommendations of the International Monetary Fund (IMF) released in its publication *Public Debt Statistics: Guide for Compilers and Users*. This approach highlights the importance of monitoring not only one side of an institutional unit's balance sheet, but both sides in order to gauge true net exposures, net worth, and other indicators where relevant asset and liability items are combined or netted.

National gross loan debt consists of all outstanding debt instruments. A 'debt instrument' is defined as a financial claim that requires payment of interest and/or principal by the debtor to the creditor.

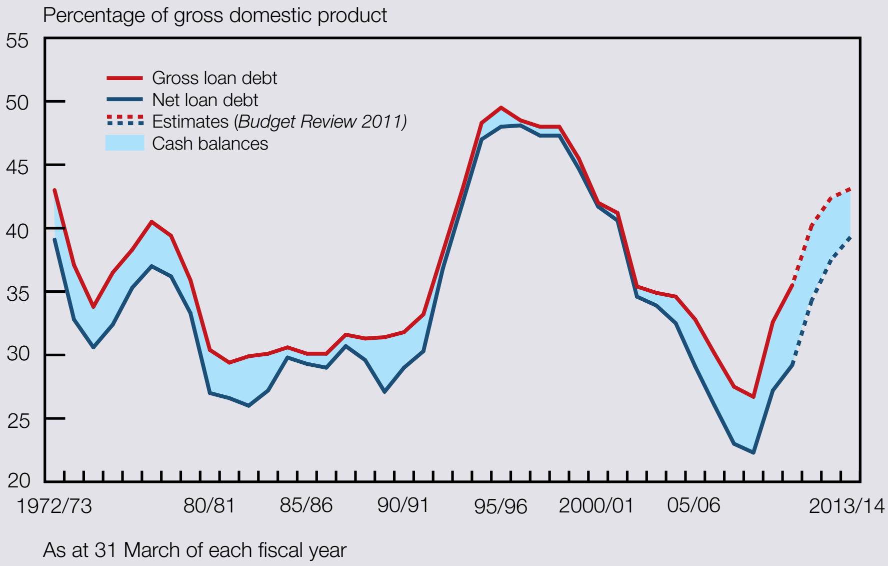
Gross loan debt includes total outstanding domestic and foreign debt instruments. Outstanding domestic debt consists of domestic short- and long-term loans, and debt securities, but excludes shares and other equity, financial derivatives, and accounts payable. Allocations of Special Drawing Rights (SDRs) by the IMF are also excluded but are shown separately, given their unique characteristics. Domestic debt includes inflation-linked bonds, which are adjusted in line with inflation, while foreign debt is valued at the appropriate end-of-period foreign-exchange rates.

Government's net debt is calculated as gross debt minus the stock of government deposits. Net loan debt therefore includes total domestic and foreign debt, less the cash balances of the National Revenue Fund (i.e., deposit balances on government's accounts with the South African Reserve Bank (the Bank) and private-sector banks). Government incurred debt to raise cash and therefore its cash balances should be deducted from gross loan debt at a given point to determine government's net exposure.

Government deposits are needed for a variety of reasons, including for the conduct of the ordinary operations of government which require expenditure to be incurred. Changes in government deposits may also impact on money supply[1] and money-market liquidity. For instance, M3 deposits are reduced when the private sector pays taxes to government, all other things being equal. Government deposits at the Bank are often utilised in the money-market operations of the Bank, for example, to drain excess liquidity resulting from foreign-exchange transactions.

The accompanying graph compares the data for national government's gross loan debt with its net loan debt. While the graph shows these aggregates as a percentage of gross domestic product, in absolute terms, gross loan debt at the end of March 2011 amounted to R976 billion, with net loan debt of R802 billion given the R174 billion in government deposits at that time.

Gross loan debt compared to net loan debt



1 Government deposits are excluded from M3 and the narrower monetary aggregates because the financial constraints faced by government and its principles of conduct and motives for holding deposits differ from those of private-sector entities.

Statement of the Monetary Policy Committee

24 March 2011

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

The domestic growth prognosis has improved, and the recovery is expected to be sustained, although not at rates sufficient to make appreciable inroads into the unemployment situation in South Africa. Household consumption expenditure has been the main driver of growth, whereas growth in fixed capital formation has remained weak. At this stage, there are no discernible inflationary pressures coming from the demand side of the economy.

The global recovery appears to have remained on track, but the unresolved European sovereign debt crisis, rising international oil prices, partly a result of geo-political events, and the tragic events in Japan may moderate the pace of recovery in the near term. Global inflation risks have also increased, particularly in emerging-market economies, a number of which have tightened their monetary policy stances in recent months.

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 3,7 per cent in January and February. Food price inflation, while still low, has been increasing. In February it measured 3,5 per cent and contributed 0,6 percentage points to the overall inflation outcome. On a month-on-month basis, food prices declined by 0,1 per cent. Housing and utilities, primarily electricity, contributed 1,5 percentage points to the outcome. Petrol prices increased at a year-on-year rate of 12,3 per cent, while administered prices excluding petrol increased by 9,1 per cent. CPI inflation excluding administered prices was unchanged at 2,7 per cent, while CPI inflation excluding food and petrol measured 3,4 per cent.

Year-on-year producer price inflation continued its recent downward trend in January when it measured 5,5 per cent, compared with 5,8 per cent in December 2010. Food price pressures remained relatively subdued in January despite marked increases in global food prices. Manufactured food and agricultural prices increased by 1,5 per cent and 0,5 per cent respectively. This suggests that food price increases at the consumer price level may be moderated in the near term.

The trajectory of the Bank's CPI forecast has changed somewhat since the MPC's previous meeting. Nevertheless, inflation is still expected to remain within the target range over the entire forecast period. Inflation is now expected to average 4,7 per cent in 2011 and 5,7 per cent in 2012. This represents an upward adjustment of approximately half a percentage point in 2012. Inflation is expected to peak at 5,8 per cent in the first quarter of 2012 before declining to 5,6 per cent in the fourth quarter. The upward adjustment is mainly due to revised assumptions regarding the international oil price over the forecast period.

The survey conducted by Reuters also reflects a moderate upward adjustment in the inflation forecasts. In the February survey the mean forecast of CPI inflation increased by 0,2 percentage points to 4,7 for 2011, and by 0,4 percentage points to 6,0 per cent for 2012. Inflation expectations for 2013 remained more or less unchanged at around 5,7 per cent. Break-even inflation rates have increased to above the 6 per cent level over the longer-term maturities.

Inflation expectations as reflected in the survey conducted by the Bureau for Economic Research (BER) at Stellenbosch University in the first quarter of 2011 also indicate a slight deterioration in financial analysts' expectations. However, there was some improvement in the expectations of business executives and trade unionists. Inflation is now expected to average 5,3 per cent in 2011 and 5,7 per cent in 2012, compared with 5,5 per cent and 6,2 per cent in the previous survey. Inflation is expected to average 6,0 per cent in 2013. While all categories of respondents expect inflation to remain within the target range in 2011 and 2012, business and trade union expectations average 6,2 per cent in 2013, compared with 5,6 per cent for financial analysts.

The global economic recovery, although uneven, is expected to continue, led by a strong performance in global manufacturing. However, significant downside risks remain, due to the confluence of shocks that have the potential to stall the nascent recovery. These shocks include higher international oil prices, driven in part by events in the Middle East and North Africa, and the recent disasters in Japan, which could have a negative impact on the global manufacturing supply chain. The sovereign debt crisis in the euro area remains a concern, with credit default swap (CDS) spreads signalling increased risks of sovereign debt defaults. The United States' (US) outlook appears favourable, but the weak housing market and the ability of the economy to sustain growth once the fiscal stimuli dissipate during the year are some of the risks that persist.

Growth in emerging markets remains robust, but Asian economies in particular may be negatively impacted by the recent developments in Japan. The global growth outlook may also be dependent on the extent to which the authorities in China manage to slow their economy down.

The global inflation outlook has also deteriorated somewhat in the face of higher oil and food prices, although in some of the advanced economies there is a marked divergence between core and headline inflation. This reflects the relatively weak underlying demand conditions, and the generally accommodative monetary policies in these countries. In the faster-growing emerging markets, inflation pressures are more pronounced and monetary policy tightening has become more widespread.

The strong capital inflows to emerging markets that were a feature of most of 2010 have slowed down and in some instances reversed. South Africa has also experienced net sales of bonds since November, and in the year to date, net sales of bonds and equities by non-residents have amounted to R19,2 billion. Despite these net sales and the continued purchase of foreign exchange by the Bank, the rand exchange rate has remained firm but volatile.

The rand exchange rate has remained relatively unchanged since the previous meeting of the MPC, but has fluctuated between R6,80 and R7,33 per US dollar during this period. Part of the recent strength of the rand can be ascribed to US dollar weakness. During this period, the US dollar depreciated by almost 5 per cent against the euro, despite rating downgrades in a number of euro area countries. Since the previous meeting, the rand has depreciated by over 3,0 per cent against the euro and by about 1,0 per cent on a trade-weighted basis.

Domestic growth prospects appear to have improved moderately. Real gross domestic product (GDP) grew by 2,8 per cent in 2010, and at an annualised rate of 4,4 per cent in the fourth quarter. The Bank's forecast has increased somewhat since the previous MPC meeting, with GDP growth now expected to average 3,7 per cent and 3,9 per cent in 2011 and 2012 respectively. These growth rates, while an improvement, are still too low to have a significant impact on the unemployment rate, which measured 24,0 per cent in the fourth quarter of 2010. According to Statistics South Africa, formal non-agricultural employment increased by approximately 65 000 jobs in that quarter. The more favourable growth performance was driven mainly by the mining and manufacturing sectors.

A number of high-frequency indicators suggest that the growth momentum will be sustained. The composite leading business cycle indicator has maintained its positive trend, and the Kagiso/BER Purchasing Managers Index has remained above the neutral level since November 2010, suggesting a favourable outlook for the manufacturing sector. The physical volume of manufacturing production increased at a moderate year-on-year rate of 1,3 per cent in January, but the three-month-on-three-month rate increased by 2,8 per cent. However, output levels are still below those achieved before the crisis and the sector remains characterised by underutilised capacity. The utilisation of production capacity increased from 79,2 per cent in the third quarter of 2010 to 80,7 per cent in the fourth quarter compared with a pre-crisis average of around 85 per cent.

Output in the mining sector has maintained its general upward trend, notwithstanding the 1,9 per cent month-on-month decline in January. Reflecting these developments, the Rand Merchant Bank/BER business confidence index increased significantly in the first quarter of 2011 to reach a level above neutral for the first time in three years. The building sector was the only sector in which negative sentiment was recorded. This is consistent with the quarter-on-quarter decline in the real value of new building plans passed in the fourth quarter of 2010, and the persistently low level of the First National Bank (FNB) civil construction index.

Domestic growth prospects will also be dependent on developments in gross fixed capital formation, which declined by 3,7 per cent in 2010 and made a negative contribution to GDP in that year. In the fourth quarter of 2010 an annualised increase of 1,5 per cent was recorded. Capital expenditure by public corporations increased by 3,3 per cent in the fourth quarter of 2010, while private-sector investment, which declined by 4,4 per cent over the year, grew at an annualised rate of 1,6 per cent in the same quarter.

The relatively weak capital expenditure growth contributed to the decline in imports which, along with improved commodity prices, allowed for a marked decline in the deficit on the current account of the balance of payments to 0,6 per cent of GDP in the fourth quarter of 2010. However, should capital expenditure pick up, as envisaged by the public corporations, the current-account deficit is likely to widen.

Real final consumption expenditure by households increased by 5,1 per cent in the final quarter of 2010, indicative of continued positive consumer sentiment and positive disposable income growth. This category of expenditure made the largest contribution – 2,8 percentage points – to growth in GDP during the year. There are indications that although consumption expenditure growth will remain relatively robust, it is unlikely to accelerate to excessive levels in the short term.

The FNB/BER consumer confidence index declined in the first quarter of 2011, but still remains at a relatively high level. This was consistent with the decline in confidence, albeit from high levels, evident among retailers in the business confidence index, and the retail trade sales growth in January, which was below market expectations. Expenditure on durable goods, in particular new motor vehicles, has been strong.

Consumption expenditure is expected to be constrained to some extent by the continued high levels of household indebtedness, which declined marginally to 77,6 per cent of disposable income in the fourth quarter, and the further increase in the number of consumers with impaired credit records since the implementation of the National Credit Act. Banks' ratio of impaired advances to gross loans and advances has remained relatively unchanged at around 5,8 per cent for some time.

Bank credit extension to the private sector has remained subdued. Total loans and advances by banks to the private sector have been growing at an annual rate of around 4 per cent since September 2010, driven largely by mortgage loans and general loans, mainly to the household sector. Growth in mortgage advances, however, declined from 4,8 per cent in November 2010, to 3,8 per cent in January 2011, reflecting the subdued state of the property market.

The various house price indices all indicate that house prices are either falling or increasing at very low nominal rates. This, combined with the recent decline in equity prices, may contribute to a moderation of the impact of wealth effects on consumption.

The recent national government budget tabled before parliament indicates a moderately looser fiscal policy stance through a slower pace of fiscal deficit reduction compared with that in the October 2010 Medium Term Budget Policy Statement (MTBPS). The fiscal deficit is now estimated to decline to 3,8 per cent of GDP by the 2013/14 fiscal year compared with 3,2 per cent in the MTBPS. The government debt-to-GDP ratio is expected to peak at 43,1 per cent in 2013/14, which is much lower than the internationally acceptable norm of around 60 per cent.

High real wage settlements have been a significant upside risk to the inflation outlook. However, there are indications that nominal wage settlement rates may be moderating. According to Andrew Levy Employment Publications, the overall average wage settlement rate in collective bargaining agreements amounted to 8,2 per cent in 2010, compared with a rate of 9,3 per cent in 2009. Similarly, the downward trend in year-on-year growth in unit labour costs continued into the fourth quarter of 2010 when it measured 7,7 per cent, compared with 9,3 per cent in the previous quarter. This positive trend, if continued, may contribute meaningfully to attaining an environment of low inflation and employment creation.

The biggest risks to the inflation outlook remain food and administered prices, in particular oil prices. International oil prices had already accelerated in the latter part of 2010 in response to strong global demand and this upward trend has been reinforced by the geopolitical events in the Middle East and North Africa, which have raised concerns about the security of oil supplies. Should these political issues be resolved soon, the underlying demand pressures are likely to still keep oil prices at relatively elevated levels. Since the previous MPC meeting, Brent crude oil prices have increased by almost US$20 per barrel. Domestic petrol prices have increased by just under R1 per litre since January 2011, and a further upward adjustment is expected in April, in addition to the increased fuel levy.

The MPC is of the view that the risks to the inflation outlook are on the upside. However, these risks and underlying pressures are mainly of a cost–push nature. In the light of the above, the MPC has decided to keep the repurchase rate unchanged at 5,5 per cent per annum for the time being. Given the significant upside risks to the inflation outlook, the MPC will closely monitor any indications of second-round effects on inflation emanating from these cost pressures.

Statement of the Monetary Policy Committee

12 May 2011

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

Since the previous meeting of the MPC, the inflation outlook has deteriorated further, mainly as a result of external cost–push factors. Underlying demand conditions remain relatively restrained, and are not seen to pose a significant risk to the inflation outlook at this stage. However, there are elevated risks that these external price shocks could ultimately feed through to more generalised inflation.

The domestic economic recovery has been sustained, although still at relatively moderate rates, and there are no signs of a significant increase in employment. Moreover, the international outlook remains uncertain, and the economic recovery has become more hesitant in the past weeks, in the wake of renewed concerns about peripheral Europe, the earthquake in Japan and higher commodity prices.

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas increased to a higher-than-expected level of 4,1 per cent in March 2011, from 3,7 per cent in February. The main contributions to the inflation outcome came from food, housing and utilities, and transport which, together, accounted for 2,9 percentage points. Food price inflation increased markedly to a year-on-year rate of 5,1 per cent from 3,5 per cent in February, while petrol and electricity prices increased at rates of 16,9 per cent and 19,3 per cent respectively. Administered price inflation excluding petrol remained unchanged at 9,1 per cent. Underlying inflation pressures remained relatively stable, and in February and March CPI inflation excluding food and petrol measured 3,4 per cent; the lowest rate since September 2006.

Year-on-year producer price inflation reversed its recent downward trend and measured 6,7 per cent and 7,3 per cent in February and March respectively. Electricity, mining and quarrying, and products of petroleum and coal were the main contributors to this upward trend. In contrast to developments at the CPI level, food price pressures remained relatively subdued in February and March. Agricultural and manufactured food prices increased by 2,7 per cent and 2,9 per cent respectively in March.

Since the previous meeting of the MPC, there has been a further upward revision to the Bank's CPI forecast. Inflation is now expected to reach the upper limit of the inflation target range during the final quarter of 2011 and to peak at 6,3 per cent in the first quarter of 2012, before returning to within the target range by the second quarter of 2012 and remaining close to the upper limit of the range for the rest of that year. Inflation is expected to average 5,1 per cent in 2011 and 6,0 per cent in 2012, compared with averages of 4,7 per cent and 5,7 per cent forecast at the time of the previous meeting. The upward adjustment is mainly due to revised assumptions regarding administered price increases over the forecast period.

The survey of market analysts conducted by Reuters also reflects a further upward adjustment in the inflation forecasts. In the April survey the mean forecast of CPI inflation measured 5,0 per cent for 2011, and 5,8 per cent for 2012; up from 4,8 per cent and 5,7 per cent respectively in the March survey. Expectations for 2013 were unchanged at 5,7 per cent. The break-even inflation rates, as reflected in the yield differential between conventional government bonds and inflation-linked bonds have also exhibited an upward trend.

The global economic environment continues to be characterised by uneven recoveries within and across regions. Growth prospects in a number of the advanced economies, including the United States (US), the United Kingdom and some European economies remain uncertain in the face of the need for fiscal consolidation and risks posed by higher commodity prices, which have the potential to destabilise inflation and growth. Unemployment has also remained persistently high in a number of industrialised countries, notably in the US and Spain. Spending in Europe, in particular, has been constrained in part by the undercapitalisation of a significant portion of the banking sector. There are heightened concerns about the ability of some of the peripheral European countries, particularly Greece, Ireland and Portugal, to meet their debt obligations and this poses a systemic risk to the region. Lower growth in Japan and the disruption to the global supply chain caused by the earthquake and its aftermath are also likely to impact negatively on near-term global growth prospects.

By contrast, growth in emerging markets has generally remained strong, with evidence of overheating in some countries, particularly in Asia and Latin America.

Global headline inflation has increased, driven primarily by higher food and other commodity prices, particularly oil. In advanced economies core inflation appears to be generally subdued against the backdrop of persistent output gaps. However, in a number of emerging market economies, supply-side pressures have been accompanied by strong aggregate demand pressures and above-trend growth, resulting in a generally tighter monetary policy environment.

Since the MPC's previous meeting, the exchange rate of the rand against the US dollar has been relatively volatile. During this period, the rand fluctuated in a range of R6,95 and R6,54 against the US dollar, and on a trade-weighted basis the rand depreciated by 0,9 per cent. These developments were affected to a significant extent by the depreciation of the US dollar against other currencies, driven in part by the expected continuation of the accommodative stance of monetary policy in the US. The relatively strong rand exchange rate persisted despite continued purchases of foreign exchange by the Bank.

Other factors underpinning rand strength during this period included strong commodity prices, the narrower current-account deficit and a resumption of portfolio flows to South Africa. Since the beginning of April, non-residents have purchased around R27,1 billion worth of domestic bonds and equities, and net purchases year to date stand at R14,5 billion. This marked a reversal of the negative trend in portfolio capital flows experienced by South Africa and some other emerging markets since the final quarter of 2010.

Domestic economic growth is lower than that of our emerging-market peers. The Bank's forecast for economic growth is 3,6 per cent (previously 3,7 per cent) and 3,9 per cent for 2011 and 2012 respectively. The composite leading business cycle indicator of the Bank is suggestive of the continued recovery in the economy. Manufacturing sector output growth has improved somewhat against the backdrop of positive business confidence. In March the year-on-year increase in the physical volume of manufacturing output measured 4,6 per cent, compared with 5,7 per cent in February. On a three-month on three-month basis, the increase was 4,0 per cent.

Consistent with this recovery, the Kagiso Purchasing Managers Index has remained above the neutral level since November 2010, although the positive trajectory seen in the past few months was reversed marginally in April. Despite these positive developments, the level of output remains below that attained before the global crisis and the sector remains characterised by underutilised capacity. The utilisation of production capacity measured 79,4 per cent in February 2011, compared with 81,6 per cent in November 2010 and 78,4 per cent in February 2010.

Mining output has been more subdued in the past months. Mining production declined by 1,4 per cent on a year-on-year basis in March, but when comparing the three months to March with the preceding three months, an increase of 0,4 per cent was recorded. The construction sector also remains under pressure, with the real value of building plans passed declining by 18,2 per cent on a month-to-month basis in February, and by 13,1 per cent on a year-on-year basis. The First National Bank (FNB) Civil Construction Index continued the downward trend that has been evident since 2008.

The positive momentum observed in the past few quarters in the growth in household consumption expenditure appears to have been sustained. However, these levels are not giving rise to any obvious inflationary pressures and there are tentative signs that this momentum may be levelling off. Year-on-year real retail sales growth moderated from 6,3 per cent in January to 5,6 per cent in February. On a month-on-month basis, real retail sales declined by 1,0 per cent in February, but increased by 2,2 per cent when comparing the three months to February 2011 with the previous three months. Year-on-year growth in new vehicle sales declined to 8,0 per cent in April, from

22,8 per cent in March. This slowdown has been ascribed to the high number of public holidays in that month and to the impact of the disaster in Japan on the sector.

Growth in credit extension to the private sector remains relatively subdued. The twelve-month growth rate of total loans and advances to the private sector measured 5,3 per cent in March, but annualised growth in the first quarter of 2011 declined to 4,5 per cent, from 5,4 per cent in the previous quarter. Growth was driven mainly by other loans and advances, particularly general loans, and by a recovery in instalment sale and leasing finance, reflecting strong motor vehicle sales. Twelve-month growth in mortgage advances declined from a recent high of 4,8 per cent in November 2010 to 2,9 per cent in March 2011, consistent with the continued weakness in the housing market.

Credit extended to the corporate sector increased at a year-on-year rate of 2,3 per in March 2011, compared with 1,3 per cent in January, amid tentative indications that banks may have relaxed their risk premiums somewhat. Demand for credit by the household sector remains constrained by high debt levels and the high number of consumers with impaired debt records. The ratio of impaired advances to gross loans and advances has remained at around 5,8 per cent since December 2010, mainly attributable to retail debt. The fact that this ratio has not declined further over the past six months is cause for concern.

According to the Quarterly Labour Force Survey published by Statistics South Africa, the unemployment rate in the first quarter of 2011 stood at 25,0 per cent, marginally lower than the 25,2 per cent measured in the first quarter of 2010. Despite the unfavourable employment environment, wage settlements and unit labour cost increases remain at levels in excess of inflation. According to Andrew Levy Employment Publications, the overall average wage settlement rate in collective bargaining agreements amounted to 8,2 per cent in the first quarter of 2011. Unit labour costs increased by 7,7 per cent in the fourth quarter of 2010, with labour productivity growth declining from 3,1 per cent in the third quarter to 2,2 per cent in the fourth quarter.

The main risks to the inflation outlook continue to emanate from cost–push pressures, including administered prices. The acceleration in food price inflation is expected to persist for some time, despite indications that global food price inflation may have peaked.

The international oil price has also displayed a marked degree of volatility in the past week, when prices fell by as much as US$13 in one day. Having risen sharply over recent weeks, the price of oil reached a peak of around US$126 per barrel. The price of Brent crude oil today, 12 May, has fallen and is about US$3 per barrel lower than that prevailing at the time of the previous MPC meeting. While international oil prices are not expected to decline further in the near term, it is unclear if prices will consolidate at current levels, or if they will continue on their upward path. In the past two months the domestic petrol price has increased by 8,8 per cent, and by 17,4 per cent since the beginning of the year.

The MPC continues to be of the view that the underlying inflation pressures are mainly of a cost–push nature. These developments are expected to result in a temporary breach of the upper limit of the target band during the first quarter of 2012. It is recognised that these pressures have the real potential to generate second-round effects, which can result in more generalised inflation.

In the light of the above, the MPC has decided to keep the repurchase rate unchanged at 5,5 per cent per annum, for the time being. Given the upside risks to the inflation outlook, the MPC will monitor closely any indications of second-round effects on inflation emanating from these cost pressures. The MPC will not hesitate to respond in a timely manner to signs that threaten to move inflation out of the target range on a sustained basis. In addition, the MPC will remain vigilant with respect to any inflation risks that could emanate from domestic demand developments.

Business cycles in South Africa during the period 2007 to 2009

by J C Venter[1]

Introduction

In previous studies of the business cycle in South Africa, as published in earlier issues of the *Quarterly Bulletin* of the South African Reserve Bank (the Bank), reference turning points in the cyclical movement of the economy were identified for the period 1946 to 2007. The most recently identified peak in the business cycle occurred in November 2007[2], ending a 99-month upswing, the longest upward phase of the South African business cycle on record.

This article addresses the identification of a lower reference turning point in the business cycle, following the peak in November 2007. The methods employed by the Bank in determining a reference turning point in the business cycle are discussed, followed by the statistical results obtained once these methods were applied to time series data. A brief synopsis of macroeconomic events and developments between 2007 and 2009 is then presented. In conclusion, the date of the lower reference turning point in the business cycle is identified.

Methods used to determine the reference trough in the business cycle[3]

Before describing the various statistical techniques used, it should be noted that the Bank analyses cyclical changes in the South African economy in terms of the growth cycle definition of business cycles. Growth cycles are defined as the fluctuations of aggregate economic activity around its long-term growth trend, that is, trend-adjusted business cycles. Therefore, the Bank's business cycle chronology represents a set of reference turning point dates that distinguish between upward phases – when the pace of growth in aggregate economic activity equalled or exceeded its long-term growth trend – and downward phases – when aggregate economic activity either contracted or increased at a slower rate than its long-term growth trend. This reference chronology is published regularly in the Bank's *Quarterly Bulletin*.

Continual monitoring of the three *composite business cycle indicators* provided initial indications that a reference turning point in the business cycle may have occurred. A composite business cycle indicator is compiled by integrating various individual economic indicators into a single time series. The composite *leading* business cycle indicator usually changes direction six to twelve months before a turning point in the business cycle. Changes in the direction of the composite *coincident* business cycle indicator have historically *coincided* more or less with turning points in the business cycle. The composite *lagging* business cycle indicator usually changes direction only after a turning point in the business cycle has been reached. Similar to the composite leading business cycle indicator, in the past the ratio of the composite coincident business cycle indicator to the composite lagging business cycle indicator has consistently changed direction ahead of turning points in the business cycle. This ratio then serves as an additional leading indicator, as its turning points have historically correlated well with turning points in the composite leading business cycle indicator.[4]

Once the composite business cycle indicators signalled the possibility that a reference turning point in the business cycle may have been reached, two comprehensive diffusion indices were compiled. They were constructed from a total of roughly 200 seasonally adjusted time series covering economic processes such as production, sales, employment, income, investment, monetary aggregates and international trade, in the different sectors of the economy. The *current diffusion index* was compiled from the actual month-to-month symmetrical percentage changes in each of the total number of time series considered. The methodology is similar to that of the composite business cycle indicators. The deviation of the current diffusion index from its long-term trend provides a quantitative indication of the cyclical movement in aggregate economic activity.

1 The author wishes to thank N Maphalala, N Mahlo and A Bosch for valuable assistance in applying the statistical methods employed in this analysis.

2 J C Venter, "Business Cycles in South Africa During the Period 1999 to 2007", *Quarterly Bulletin* 253, Pretoria: South African Reserve Bank (September 2009): 61–69.

3 A more detailed discussion of the methodology is found in D J Smit and B E van der Walt, "Growth Trends and Business Cycles in the South African Economy, 1972 to 1981", *Quarterly Bulletin* 144, Pretoria: South African Reserve Bank (June 1982): 41–55.

4 J C Venter, "Note on the Revision and Significance of the Composite Lagging Business Cycle Indicator", *Quarterly Bulletin* 134, Pretoria: South African Reserve Bank (December 2004): 70–76.

The *historical diffusion index* is defined as a measure of the dispersion of the changes in a number of economic time series in a specific period, usually a calendar month. This index reflects the percentage of time series that are in an increasing phase (relative to each one's long-term trend) in any specific month. Thus, an index value exceeding 50 indicates that, relative to their long-term trends, the majority of time series considered is increasing in that particular month, implying that the economy is in an upward phase of the business cycle. Similarly, an index value below 50 indicates that the economy is in a downward phase of the business cycle. The historical diffusion index provides an indication of how widely a particular business cycle movement is dispersed throughout the economy. In the construction of both the current and historical diffusion indices, the sectoral contributions were weighted according to each sector's contribution to gross value added.

Statistical results

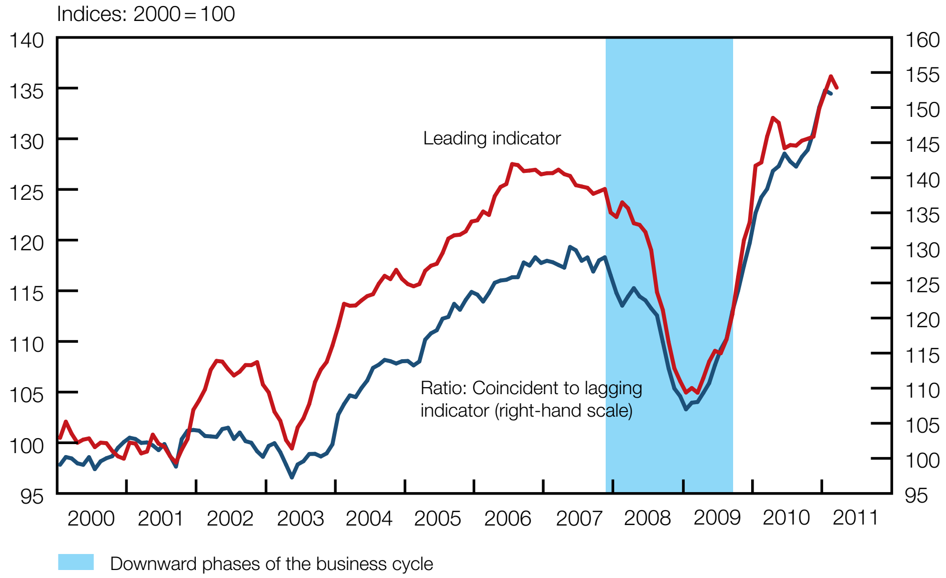
In applying the statistical methods described above, the results confirmed that a definite downward phase of the business cycle commenced after November 2007 – the most recently identified reference peak. The analysis also revealed that a reference trough in the business cycle had already been reached.

The composite business cycle indicators

The composite leading business cycle indicator reached a peak in July 2006, 16 months before the most recent upper turning point in the business cycle. Initially, the leading indicator decreased only moderately, with the downward trend becoming more pronounced towards the end of 2007 and throughout 2008. Subsequent to reaching a lower turning point in March 2009, the indicator rose significantly during the remainder of that year and surpassed its previous peak value in February 2010.

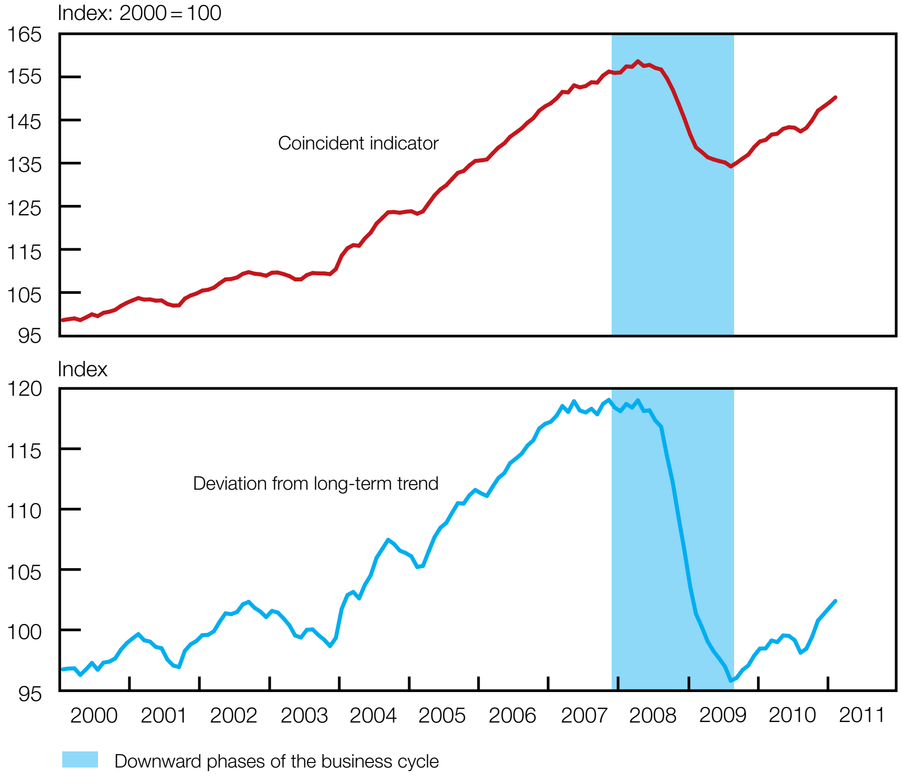
The ratio of the composite coincident business cycle indicator to the composite lagging business cycle indicator reached a peak in May 2007, six months before the latest reference peak in the business cycle. As depicted in Graph 1, the ratio then embarked on a downward trend similar to that in the composite leading business cycle indicator. The ratio reached a lower turning point in January 2009 – two months prior to the leading indicator – before increasing notably throughout 2009 and 2010. Based on their respective historical relationships with the business cycle, both the composite leading business cycle indicator and the ratio of the composite coincident business cycle indicator to the composite lagging business cycle indicator predicted a possible trough in the business cycle towards the second half of 2009 or in the first half of 2010.

Graph 1 Composite leading business cycle indicators



After moving broadly sideways in 2007, the composite coincident business cycle indicator – expressed as the deviation from its long-term trend – reached a peak in November 2007. At first, the indicator continued its horizontal time path for a few months, but receded markedly after April 2008 and reached a trough in August 2009. The composite coincident business cycle indicator and the deviation from its long-term trend are portrayed in Graph 2.

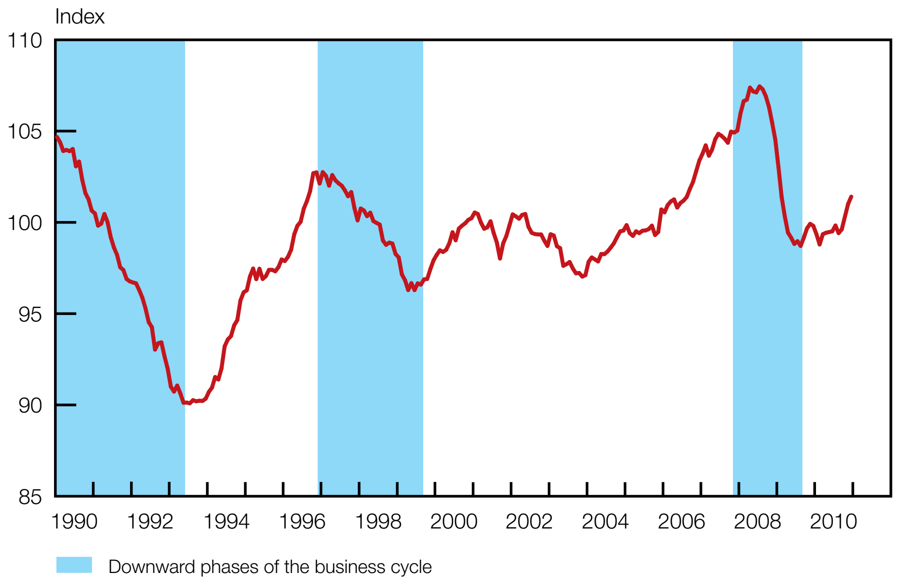
Graph 2 Composite coincident business cycle indicator



The current diffusion index

Graph 3 shows that the deviation of the current diffusion index from its long-term trend displayed a decline in the first half of 2001, as well as another more pronounced decline in 2002 and 2003. These declines in the deviation-from-trend indicator, particularly the one in 2003, were

Graph 3 Current diffusion index: Deviation from long-term trend

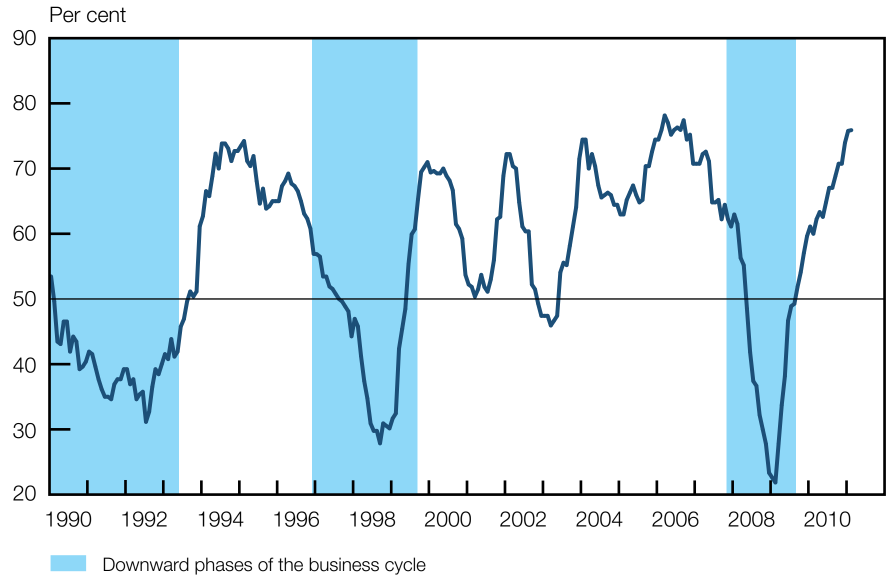


exaggerated by the pronounced rise in the index from 2004 onwards, thus raising the long-term trend throughout most of the upward phase. The resultant overestimation of the trend rate of growth during the first half of the upward phase resulted in overstatement of the downward movement in the current diffusion index's deviation from its long-term trend during the periods mentioned. The trend-adjusted current diffusion index reached a peak in July 2008, before dropping markedly and reaching a lower turning point in August 2009.

The historical diffusion index

The number of economic time series decreasing (relative to their respective long-term trends) outnumbered those increasing from May 2008, indicating that a downward phase in the business cycle had commenced. Subsequently, the historical diffusion index – shown in Graph 4 – declined to a level of around 22 per cent, before increasing rapidly to surpass the 50 per cent mark in September 2009, which implies that a trough in the business cycle had been reached in August 2009.

Graph 4 Historical diffusion index



Macroeconomic events and developments

The latter half of the upward phase of the business cycle that commenced in September 1999 was characterised by, among other things, exceptional growth in new vehicle and retail trade sales, high capacity utilisation, rapidly rising residential property prices, and strong growth in credit extension and, consequently, a marked increase in household debt levels. Throughout 2006 and 2007, domestic price pressures steadily mounted, as energy and food price increases were exacerbated by the exchange rate depreciation that occurred from April 2006. In this environment of robust demand growth and rising inflationary pressures, monetary policy was gradually tightened from June 2006 onwards. The sharp increase in consumer price inflation, coupled with consumers' high debt levels and rising debt-servicing costs, resulted in a slowdown in household consumption expenditure throughout 2007, particularly on durable goods. Against the backdrop of these developments, the upward phase in the business cycle came to an end and the South African economy eventually entered a downward phase of the business cycle in December 2007.

In 2007 and 2008, as the domestic economy lost its growth momentum, a number of extraordinary international economic developments resulted in a severe global financial crisis. Once the United States (US) housing market peaked in 2006, US mortgage bond defaults increased quickly, particularly in the riskier subprime segment of the market. Many global financial institutions, particularly in the developed economies, were holding significant amounts of US mortgage-backed assets. These assets became increasingly difficult to trade in the financial markets, resulting in a loss of confidence in counterparties which, in turn, led to liquidity constraints in global credit markets and a decline in global share prices. Liquidity in the interbank markets suffered considerably and many financial institutions failed, some were taken over by other financial institutions, while others were bailed out by central banks and governments. Economic growth in developed economies had already been moderating throughout 2007, but these developments in global financial markets brought it to an abrupt halt. Output contracted notably towards the end of 2008 and into 2009, and a severe, synchronised global economic contraction ensued, often referred to in advanced economies as “the great recession”, implying that it was the most severe global economic contraction since the depression of the early 1930s.

In South Africa a slowdown in consumer demand was registered during 2007 and in the first half of 2008, but output nevertheless kept growing at a fairly brisk pace throughout this period, in part due to robust demand for South African exports towards the end of 2007 and in the first half of 2008. In the first quarter of 2008, however, electricity supply interruptions led to a marked slowdown in output growth, as production in the electricity-intensive mining and manufacturing sectors contracted sharply. These production losses were partly recouped in the second quarter of 2008, resulting in a somewhat higher economic growth rate being recorded in that quarter.

The global recession that originated in the developed economies in the second half of 2008, amplified by the failure of Lehman Brothers in September of that year, spread rapidly to emerging-market economies. Most economies experienced outright contractions in output, while a slowdown in the rate of output growth was visible in others, notably India and China. The global recession was transmitted to developing countries, mainly through plummeting demand for their exports, resulting in sharp output contractions, falling commodity prices and confidence levels, and in employment losses. As a commodity-exporting country, South Africa was no exception.

Real gross value added by the non-agricultural sectors of the economy remained virtually unchanged from the second to the third quarter of 2008, before contracting for three consecutive quarters, starting in the fourth quarter of 2008. The decline in real value added was most pronounced in the mining and manufacturing sectors, as a result of the sharp drop in export and domestic demand. Real value added by the trade, transport and financial services sectors also declined, due to weak consumer demand. Final consumption expenditure by households still increased moderately in the first half of 2008, before contracting notably up to the second quarter of 2009, as heavily indebted consumers strained under rising debt-servicing costs. The contraction in household consumption expenditure was further exacerbated by sizable job losses that occurred in virtually all the sectors of the economy.

Although growth in real value added by the construction sector moderated notably in 2008, it remained positive, as real gross fixed capital formation continued to expand briskly. The moderation in output growth of the construction sector was primarily due to a loss of momentum in residential construction activity, as high building costs and rising interest rates caught up with developers. The pace of increase in residential property prices moderated throughout 2007 and such prices declined from the second half of 2008, after several years of exceptional growth. The decline in spending on residential property was more than compensated for by infrastructure expenditure by public corporations and general government. These infrastructure projects had been planned many years before the contraction in economic activity – many of them in preparation for the hosting of the 2010 FIFA World Cup™ tournament – and their completion aided the government in maintaining a countercyclical fiscal policy stance throughout the economic recession. In fact, real consumption expenditure by government rose apace throughout the downturn in economic activity, with the public sector expanding its employment complement throughout this period.

From rather excessive levels reached during the latter part of the previous upward phase of the business cycle, growth in money supply and credit extension by banks moderated somewhat in 2007, before slowing more meaningfully in 2008 and 2009. While impaired advances increased notably and domestic banks’ profits came under pressure, banks remained well capitalised and the domestic money market kept functioning normally without any liquidity flow disruptions. The South African financial system held up remarkably well throughout the global financial crises, not least due to prudent banking supervision and exchange control regulations. Nevertheless, although the global financial crises did not specifically cause the downturn in the domestic economy, the resultant global economic recession most certainly affected the severity thereof.

Domestic consumer price inflation accelerated notably up to August 2008, before trending downwards during the subsequent two years. To combat the steep rise in inflation and inflation expectations, monetary policy was tightened further in the first half of 2008. As the global economic recession commenced, international commodity prices tumbled in the second half of 2008, with the primary drivers of high consumer price inflation – international oil and food prices – receding sharply. Inflation rates came down globally and central banks around the world reacted swiftly to the contraction in output by lowering policy rates to historically low levels, particularly in developed countries. In many advanced economies, notably the US, fears of deflation emerged and monetary policy became even more accommodating, with some central banks injecting huge amounts of liquidity into their financial markets – so-called quantitative-easing measures. In South Africa, the monetary authorities responded similarly by lowering the repurchase rate by 500 basis points between December 2008 and August 2009.

Throughout the global economic recession, economic growth in emerging-market and developing economies outperformed that in developed economies. This helped to facilitate an uneven and somewhat uncertain recovery in the global economy from the second half of 2009 onwards. China and India, in particular, maintained strong growth momentum. Robust demand from these countries led to a partial recovery in South African mining and manufacturing production early in 2009, with exports subsequently picking up notably in the second half of 2009.

In response to the sizeable monetary policy easing, improved business and consumer confidence, and notable increases in real salaries and wages, real final consumption expenditure by households rose again for the first time in the third quarter of 2009. Share prices have risen briskly since April 2009, bolstered by increased investor confidence and strong capital flows into South Africa. Although house prices declined further in the first half of 2009, they began to increase in the second half of that year and into the opening months of 2010. After remaining fairly flat throughout most of 2009, real retail trade sales grew briskly from December 2009 onwards and surpassed its previous peak level a year later, as consumers took advantage of benign inflation and relatively large increases in remuneration.

With the exception of the construction sector, economic activity picked up gradually in most sectors of the South African economy throughout 2010, and it became evident that a lower turning point in the business cycle had probably already been reached.

Conclusion

The marked reduction in interest rates, coupled with subdued consumer price inflation and above-inflation wage increases, led to a recovery in consumer demand in the second half of 2009. Apart from the pick-up in domestic demand, robust demand from, among others, China and India, aided the recovery in output growth, particularly in the mining and manufacturing sectors.

The composite leading business cycle indicator reached a lower turning point in March 2009, before trending strongly upwards. The deviation of the composite coincident business cycle indicator from its long-term trend decreased considerably up to August 2009, before embarking on a gradual upward trend. In addition, the deviation of the current diffusion index from its long-term trend, and the historical diffusion index both indicated a trough in the business cycle in August 2009.

The available information was taken into consideration and the final reference date for the lower turning point in the South African business cycle was established as August 2009, with the most recent downward phase of the business cycle lasting 21 months. This is very similar to the average duration of all the previous downward phases in the Bank's business cycle chronology, which amounted to 20½ months. It should be noted, however, that the downward phases occurring before 1970 were generally shorter in duration than those occurring after 1970. The average duration of the pre-1970 downward phases was only 12½ months, while the post-1970 downward phases lasted 30½ months, on average. Thus, the duration of the latest downward phase of the South African business cycle compares quite favourably to the post-1970 average.

Note on the flow of funds in South Africa's national financial account for the year 2010

by Z Nhleko and C Monyela[1]

Introduction

The 2010 analysis shows that the aggregate and consolidated flow of funds in the South African economy increased from 2009 to 2010, alongside a recovery in global and domestic economic growth, and an increase in the general level of domestic prices. The recovery of the domestic economy started in September 2009 and increasingly made itself felt in the course of 2010. Funds circulating in the domestic economy were augmented by injections from the foreign sector.

This note reviews both the flow of funds among the domestic sectors, and between the domestic sectors and the foreign sector. The quarterly accounts for 2010 are appended to this note, while the annual summary is shown on pages S-44 to S-45 of this issue of the *Quarterly Bulletin*.

Financing balances

Financing balances of the broad institutional groupings in the private sector were generally positive in 2010. The domestic economy continued to finance its gross capital formation activities through a combination of gross domestic saving and foreign funding. In 2010 this funding proportion was in the ratio of 9:1. Contrary to prior speculations, there were no huge flows during the 2010 FIFA World Cup™ tournament. Demand for funds increased by less than 1 per cent during the tournament.[2]

As has been the case during the past decade, the private non-financial business enterprises sector was both the largest saver and investor in 2010. As a share of total flows, this sector recorded 45 per cent of gross capital formation and 66 per cent of gross saving. General government reported a deficit of R159,4 billion in 2010 despite revenue collection surprising on the up-side. Financial intermediaries were net lenders of funds during the period under review.

Table 1 Financing balances,[1, 2] 2009 and 2010

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

	2009			2010		
	Gross saving	Gross capital formation	Net lending (+)/net borrowing (-)	Gross saving	Gross capital formation	Net lending (+)/net borrowing (-)
Foreign sector[3]	96 846	-	96 846	74 733	-	74 733
Financial intermediaries	81 405	12 762	68 643	65 743	20 153	45 590
General government	-42 346	88 470	-130 816	-79 965	79 467	-159 432
Non-financial business enterprises						
Public	-34 046	70 395	-104 431	55 583	126 750	-71 167
Private	318 059	239 980	78 079	339 749	230 371	109 378
Households[4]	49 650	58 281	-8 321	57 209	56 311	898
Total	**469 888**	**469 888**	-	**513 052**	**513 052**	-

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

Figure 1 summarises the net inter-sectoral flows of funds, and the financial relationships among the main sectors of the economy and the rest of the world. The bulk of foreign funds to the domestic economy was absorbed by non-financial business enterprises, which received R69 billion. This was despite a reduction of inflows amounting to R61 billion from financial

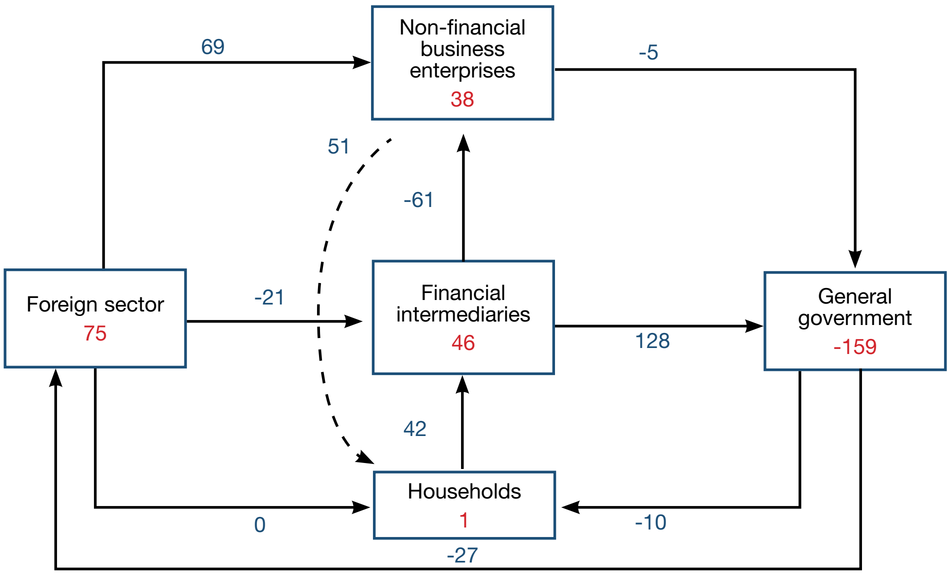
1 The views expressed are those of the authors and do not necessarily reflect the views of the South African Reserve Bank (the Bank). The Bank wishes to express its sincere appreciation to all the reporting organisations – government departments, financial market, and other public- and private-sector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

2 See V V Mamba, "Note on Cash Holdings and Card Payments During the 2010 FIFA World Cup™ Tournament", *Quarterly Bulletin* 257, Pretoria: South African Reserve Bank (September 2010): 76.

intermediaries. General government was the largest recipient of funds in the economy, mainly from financial intermediaries through the acquisition of bonds during 2010.

Figure 1 Net intersectoral flows of funds, 2010

R billions



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

In an environment of benign economic growth, most sectors preferred intermediation in the form of safer financial instruments, such as cash and deposits, and fixed-interest securities, as shown in Table 2.

Table 2 Flow of funds: Selected issuer and investor activities,* 2010

	Percentage of total flows	
	2009	2010
Cash and deposits	8	22
Credit extension	2	13
Fixed-interest securities	15	14
Ordinary shares	12	5

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

Sectoral analysis

As reviewed briefly in the paragraphs below, individual economic units invested their surplus funds or sourced funds to meet their financing needs in 2010. These activities were mainly effected through changes in the holdings of various financial market instruments.

Foreign sector

During 2010, South African resident units collectively borrowed a net amount of R74,7 billion from abroad. Non-resident units acquired shares and government bonds, and extended long-term loans and other assets domestically. Non-residents' participation in the domestic share and bond markets averaged 16 per cent and 13 per cent in 2010. However, the level of the domestic current-account deficit is still lower than in many advanced economies and in peripheral Europe.

Table 3 Flow of funds: Foreign sector and combined domestic sectors, 2010

R millions

	Domestic institutional sectors	Rest of the world	Total
Gross saving	438 319	74 733	513 052
Gross capital formation	513 052	-	513 052
Net lending (+)/net borrowing (-)	-74 733	74 733	-
Net acquisition of financial assets	879 467	151 659	1 031 126
Net incurrence of financial liabilities	954 200	76 926	1 031 126

Financial intermediaries

Financial intermediaries attract funds from surplus units and lend these funds to deficit units, thereby sustaining the flow of funds through the economy. The activities of these intermediaries are briefly discussed below.

Other monetary institutions

Other monetary institutions recorded a net incurrence of liabilities amounting to R172,3 billion in 2010. The intermediation role of this sector rebounded from the levels of 2009 and, as shown in Table 4, the amount of bank loans and advances recorded an increase of R57,0 billion.

Table 4 Flow of funds: Other monetary institutions, 2010

Transaction items	Sources/ Liabilities R millions	Uses/ Assets R millions
Gross saving	55 821	
Gross capital formation		16 917
Net lending (+)/net borrowing (-)	38 904	
Net financial investment (+/-)		38 904
Net incurrence of financial liabilities	172 325	
Net acquisition of financial assets		211 229
Monetary deposits	159 608	8 903
Deposits with other institutions	-	16 065
Foreign	-	3 498
Domestic	-	12 567
Bank loans and advances	16 248	57 016
Bills, bonds and loan stock	-6 176	39 252
Mortgage loans	-	47 819
Other assets/liabilities	2 645	42 174
Total sources/liabilities and uses/assets	228 146	228 146
	Per cent	
Gross capital formation to total sources	7,0	
Net acquisition of financial assets to total sources	93,0	
Sectoral asset/liability flows to total flows	14,0	
Sectoral flows to total financial intermediary flows	42,0	
Sectoral flows to gross domestic product	9,0	

Their total flows as a percentage of total financial intermediary asset flows rebounded from a negative 9 per cent in 2009 to a positive 42 per cent in 2010. Similarly, their holdings of government bonds increased. Monetary deposits increased by R159,6 billion in the period under review.

Monetary authority

In 2010 the monetary authority received deposits amounting to R34,4 billion, mostly from central government and other monetary institutions. Its holdings of gold and foreign-exchange reserves increased by R28,6 billion,[3] thereby increasing the international liquidity position to about R287,5 billion in 2010.

3 After adjusting for Special Drawings Rights and the monetisation/demonetisation of gold.

Public Investment Corporation

This institution received inflows of R61,7 billion in 2010, mainly from the government employees' pension and provident funds. The Public Investment Corporation reallocated its asset portfolio in 2010 and invested R25,1 billion in securities of public enterprises, R9,1 billion in government bills and bonds and R28,8 billion in cash, while it reduced its shareholdings by R7,0 billion. The total flows of the corporation represented 11 per cent of total financial intermediary asset flows in 2010.

Insurers and retirement funds

In 2010 members contributed R52,7 billion towards the long-term contractual saving sector. A financing surplus of R13,6 billion was recorded as the recovery from the financial crisis continued. The total flows of insurers and retirement funds contributed 19 per cent to the total financial intermediary asset flows in 2010, as shown in Table 5.

Table 5 Flow of funds: Insurers and retirement funds, 2010

	R millions
Financing balance	13 636
Net incurrence of financial liabilities	88 833
Members' interest in the reserves of retirement and insurance funds	52 691
Other liabilities	36 142
Net acquisition of financial assets	102 469
Monetary deposits	21 095
Other deposits	53 509
Public Investment Corporation	48 720
Foreign deposits	-392
Other	5 181
Bills and bonds	49 593
Short-term government bonds	-14 183
Long-term government bonds	91 097
Other	-27 321
Other loan stock and preference shares	31 547
Domestic	26 639
Foreign	4 908
Shares	-55 934
Domestic	-66 596
Foreign	10 662
Other assets	2 659
	Per cent
Sectoral asset/liability flows to total flows	6,0
Sectoral flows to total financial intermediary flows	19,0
Sectoral flows to gross domestic product	4,0

Other financial institutions

Other financial institutions received a total of R150,1 billion from investors and lenders in 2010, and these funds were mainly invested in monetary deposits, bills and bonds, other loan stock and in shares. Other financial institutions recorded a deficit of R7,6 billion in 2010, as Table 6 illustrates. The total flows of this sector amounted to 5 per cent of gross domestic product in 2010, while its share of total financial intermediary flows was 27 per cent.

Table 6 Flow of funds: Other financial institutions, 2010

	R millions
Financing balance	-7 631
Net incurrence of financial liabilities	150 164
Deposits received	87 127
Long-term loans	-2 419
Other liabilities	65 456
Net acquisition of financial assets	142 533
Monetary deposits	40 164
Other deposits	5 920
Foreign deposits	5 962
Other	-42
Bills and bonds	29 867
Short-term government bonds	7 751
Long-term government bonds	6 682
Other bills	15 434
Trade credit and short-term loans	-21 673
Other loan stock and preference shares	11 964
Domestic	11 608
Foreign	356
Shares	93 940
Domestic	90 538
Foreign	3 402
Other assets	-17 649
	Per cent
Sectoral asset/liability flows to total flows	9,0
Sectoral flows to total financial intermediary flows	27,0
Sectoral flows to gross domestic product	5,0

Central and provincial governments

In 2010 central and provincial governments recorded a financing deficit amounting to R104,0 billion. The net borrowing position resulted from, among other things, increased expenditure and relatively lower revenue levels. Long-term bonds amounting to R131,4 billion, non-marketable bonds amounting to R15,6 billion and Treasury bills amounting to R29,3 billion where issued, mainly in the domestic capital market, to finance the deficit. Other monetary institutions, and insurers and retirement funds were the main financiers of the government deficit.

Local governments

Local governments recorded a net borrowing position of R55,4 billion in 2010. This is somewhat less than the deficit of R63,5 billion recorded in 2009 following the completion of major projects related to the 2010 FIFA World Cup™ soccer tournament. The deficit was financed by reducing the net acquisition of financial assets, issuing local government securities, and by incurring short-term loans and trade credit.

Public non-financial corporate business enterprises

In 2010 public non-financial corporate business enterprises recorded a financing deficit of R71,2 billion. Capital expenditure for infrastructure continued to underpin the financial spending of this sector. Among others, public non-financial corporate business enterprises issued long-term securities in the domestic and foreign capital markets, and acquired loans in order to finance the deficit.

Private non-financial corporate business enterprises

Private non-financial corporate business enterprises continued to play an important investment role in the economy by contributing R230,4 billion in gross capital formation for 2010. The financing surplus amounting to R109,4 billion in 2010 was augmented by the issuance of bills, bonds and loan stock, shares and the take-up of long-term and mortgage loans to fund gross capital formation. The total flows of private non-financial business enterprises amounted to 13 per cent of gross domestic product during the review period, as indicated in Table 7.

Table 7 Flow of funds: Private non-financial corporate business enterprises, 2010

R millions

Transaction items	Sources/ Liabilities R millions	Uses/ Assets R millions
Gross saving	336 483	
Capital transfers	3 316	50
Gross capital formation		230 371
Net lending (+)/net borrowing (-)	109 378	
Net financial investment (+/-)		109 378
Net incurrence of financial liabilities	-2 052	
Net acquisition of financial assets		107 326
Monetary deposits	-	16 581
Other deposits	-114	4 854
Bank loans and advances	-5 768	-
Trade credit and short-term loans	-32 399	29 507
Bills, bonds and loan stock	55 243	-3 504
Shares	28 627	-6 222
Domestic	-14 795	-5 263
Foreign	43 422	-959
Long-term and mortgage loans	22 151	12 224
Other assets/liabilities	-69 792	53 886
Total sources/liabilities and uses/assets	337 747	337 747
	Per cent	
Gross capital formation to total sources	68,0	
Net acquisition of financial assets to total sources	32,0	
Sectoral flows to total asset flows	21,0	
Gross capital formation to gross domestic product	9,0	
Sectoral flows to gross domestic product	13,0	

Households

Households recorded a small surplus of R0,9 billion in 2010. Thus, they were able to increase their monetary and other deposits holdings, exposure to non-marketable government bonds and bills, and their interest in retirement and life funds. Other deposits mainly represented funds invested with unit trusts, and retirement and life funds.

Summary and conclusion

The aggregate level of flow of funds increased in 2010, despite the fragile global and domestic economic recovery. The following are the main highlights from the analysis of South Africa's national financial accounts for the year 2010:

- Augmentation of domestic saving by the foreign sector to finance capital formation
- Intermediation through other monetary institutions returned to a more normal level after a decline in 2009
- The household sector recorded a small surplus and deposited some of the proceeds with banks, and increased its investment with unit trusts and retirement and life funds
- Gold and foreign currency holdings of the monetary authority increased significantly
- Central and provincial governments recorded a deficit position, which was financed through the issuance of bonds in the domestic capital markets.

Bibliography

Mamba, V V. "Note on Cash Holdings and Card Payments During the 2010 FIFA World Cup™ Tournament". *Quarterly Bulletin* 257. Pretoria: South African Reserve Bank, September 2010: 74—77.

South African Reserve Bank. *Bank Supervision Department Annual Report 2010.* Pretoria: South African Reserve Bank, 2011.

____. *Quarterly Bulletin,* various issues.

National financial account
Flow of funds for the first quarter 2010[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	26 187		277		11 541				3 509		78	
2. Consumption of fixed capital[4]			7		1 922				123		54	
3. Capital transfers	30	89										
4. Gross capital formation[4]				154		1 645				113		784
5. Net lending (+)/net borrowing (-) (S)	26 128		130		11 818				3 519		-652	
6. Net financial investment (+) or (-) (U)		26 128		130		11 818				3 519		-652
7. Net incurrence of financial liabilities (Total S 9 - 32)	32 655		17 140		20 986		-7 419		-16 823		16 152	
8. Net acquisition of financial assets (Total U 9 - 32)		58 783		17 270		32 804		-7 419		-13 304		15 500
9. Gold and other foreign reserves	23 766			23 766								
10. Cash and demand monetary[5] deposits		1 209	24 590	2 547	21 120	7 354		763		6 575		-391
11. Short/medium-term monetary[5] deposits		-3 218	169	197	-19 292			200		-2 313		-12 091
12. Long-term monetary[5] deposits		1 988	42		26 708			- 541		- 544		10 290
13. Deposits with other financial institutions	7	17				823		2 431		-1 237	11 499	
14. Deposits with other institutions	-673					-19 790	-7 419	395	395	-11 420		24 250
15. Treasury bills				-73		545				-3 248		-2 147
16. Other bills	-4 744		-393	-5 988	550	-1 141		1 113		-487	-179	-4 290
17. Bank loans and advances	27		1 656	7 681	7 624	3 413					561	
18. Trade credit and short-term loans	4 765	18 088	-676	-46	-20 334	1 408			6 959	1 794	616	-8 758
19. Short-term government bonds				132		10 461		11 816				11 229
20. Long-term government bonds		13 083				-3 493		-10 622		12 045		-3 656
21. Non-marketable government bonds[6]		-355		-37		-6 470						
22. Securities of local governments						-45				3 987		640
23. Securities of public enterprises	-524	2 311	5 799			5 739		7 310		400	-778	464
24. Other loan stock and preference shares	-830	1 871	34		-800	2 427		605	-202	3 248	402	2 334
25. Ordinary shares	11 770	13 306			-821	730		-21 275	-52	-36 258		18 097
26. Foreign branch/head office balances												
27. Long-term loans	- 6 145	- 3 085	-7 306	-11					-87	3 188	-153	-215
28. Mortgage loans	21					17 071				346	104	688
29. Interest in retirement and life funds[7]		-29				25			6 128			
30. Amounts receivable/payable	5 373	12 860	-4 229	-3 977	8 701	6 815		5	-12 846	-1 666	1 610	-9 938
31. Other assets/liabilities	-158	737	-2 546	-6 921	-2 353	6 699		381	-17 089	11 965	2 352	-10 755
32. Balancing item					-117	233			-29	321	118	-251

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

KB230

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

National financial account (continued)
Flow of funds for the first quarter 2010[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
-14 229		-15 669		1 130		25 016		-2 084		35 756		1. Net saving[4]
7 085		5 203		8 026		52 823		11 278		86 521		2. Consumption of fixed capital[4]
	12 164	6 596		2 323		1 513	11	1 821	19	12 283	12 283	3. Capital transfers
	8 621		10 582		31 031		55 431		13 916		122 277	4. Gross capital formation[4]
-27 929		-14 452		-19 552		23 910		-2 920		-		5. Net lending (+)/net borrowing (-) (S)
	-27 929		-14 452		-19 552		23 910		-2 920		-	6. Net financial investment (+) or (-) (U)
90 244		7 524		51 675		-24 196		31 115		219 053		7. Net incurrence of financial liabilities (Total S 9 - 32)
	62 315		-6 928		32 123		-286		28 195		219 053	8. Net acquisition of financial assets (Total U 9 - 32)
										23 766	23 766	9. Gold and other foreign reserves
	25 187		5 537		576		-5 438		1 791	45 710	45 710	10. Cash and demand monetary[5] deposits
	4 464		1 619		5 751		-10 995		-2 737	-19 123	-19 123	11. Short/medium-term monetary[5] deposits
	4 663		-104		-928		14 725		-2 799	26 750	26 750	12. Long-term monetary[5] deposits
			5	127	-2 895		4 766		7 723	11 633	11 633	13. Deposits with other financial institutions
	3 664		-2			-6	-5 175		375	-7 703	-7 703	14. Deposits with other institutions
9 211							14 134			9 211	9 211	15. Treasury bills
	2 018			4	72	-18 067	-14 126			-22 829	-22 829	16. Other bills
-218		-1 010		-2 209		-3 377		8 040		11 094	11 094	17. Bank loans and advances
7 048	1 642	1 763	2 587	5 420	2 199	19 760	3 255	799	3 951	26 120	26 120	18. Trade credit and short-term loans
33 861					223					33 861	33 861	19. Short-term government bonds
9 522					2 160				5	9 522	9 522	20. Long-term government bonds
-6 396									466	-6 396	-6 396	21. Non-marketable government bonds[6]
		2 000					-2 582			2 000	2 000	22. Securities of local governments
	1 399		-32	13 099					5	17 596	17 596	23. Securities of public enterprises
	-71	2 115	-46	-506	-621	-755	-10 290		1	-542	-542	24. Other loan stock and preference shares
	3 599			3 453	505	-5 147	30 498		1	9 203	9 203	25. Ordinary shares
												26. Foreign branch/head office balances
-570	15 767	380	-52	26 979	-3 156	477	914	-309	-84	13 266	13 266	27. Long-term loans
			-5	22		5 573		12 380		18 100	18 100	28. Mortgage loans
	-559				-8 359		-1 066		16 116	6 128	6 128	29. Interest in retirement and life funds[7]
18 496	542	258	-9 857	-5 964	20 066	-14 326	-10 839	10 319	3 381	7 392	7 392	30. Amounts receivable/payable
18 967		2 014	-6 434	11 187	16 398	-8 619	-8 429	-114		3 641	3 641	31. Other assets/liabilities
323		4	-144	63	132	291	362			653	653	32. Balancing item

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

KB231

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

National financial account
Flow of funds for the second quarter 2010[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	17 596		385		11 107				3 541		795	
2. Consumption of fixed capital[4]			7		1 946				125		56	
3. Capital transfers	33	88										
4. Gross capital formation[4]						4 225				150		717
5. Net lending (+)/net borrowing (-) (S)	17 541		392		8 828				3 516		134	
6. Net financial investment (+) or (-) (U)		17 541		392		8 828				3 516		134
7. Net incurrence of financial liabilities (Total S 9 - 32)	-836		13 314		44 099		20 119		14 893		28 045	
8. Net acquisition of financial assets (Total U 9 - 32)		16 705		13 706		52 927		20 119		18 409		28 179
9. Gold and other foreign reserves	3 744			3 744								
10. Cash and demand monetary[5] deposits		1 411	2 116	-806	28 470	-2 233		14 342		7 727		-10 729
11. Short/medium-term monetary[5] deposits		-225	-74	-495	-41 406					2 096		-28 991
12. Long-term monetary[5] deposits		-3 757	20		47 948			-3 238		1 547		44 502
13. Deposits with other financial institutions	-7	8				-3 177		8 261		2 624	22 125	
14. Deposits with other institutions	-16 290					5 117	20 119	-3 863	-3 863	17 407		-21 473
15. Treasury bills				73		12 265				1 103		3 459
16. Other bills	4 904		456	5 695	2 502	1 539		306		555	205	6 774
17. Bank loans and advances	350		-5 274	-341	-357	54			20		4 527	
18. Trade credit and short-term loans	6 764	-15 190	-2 310	25	13 160	8 266		1	4 793	604	-748	6 659
19. Short-term government bonds		-1		-78		8 132				-11 394		-1 348
20. Long-term government bonds		1 349				-5 735		-2 924		43 545		4 811
21. Non-marketable government bonds[6]		-727		-210		8 861						
22. Securities of local governments						-90				-2 144		-266
23. Securities of public enterprises	817	1 013	4 902			4 753		5 673		-21 478	-1 926	343
24. Other loan stock and preference shares	2 497	-800	-33		-1 040	6 746		1 913	544	-1 721	-20	405
25. Ordinary shares	1 241	11 102			1 181	-3 791		2 970	46	-17 497		4 067
26. Foreign branch/head office balances												
27. Long-term loans	1 210	3 418	9 012	-63					49	5 483	4 995	-196
28. Mortgage loans	169					7 602				-135	162	-115
29. Interest in retirement and life funds[7]		-75				531			12 321			
30. Amounts receivable/payable	-10 295	11 106	-2	9	9 955	4 943		-31	6 391	-9 037	-1 033	6 395
31. Other assets/liabilities	4 060	8 073	4 501	6 153	-16 235	-642		-3 291	-5 306	-657	-181	13 662
32. Balancing item					-79	-214			-102	-219	-61	220

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

KB230

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

National financial account (continued)
Flow of funds for the second quarter 2010[1]

R millions

General government: Central and provincial governments S	General government: Central and provincial governments U	General government: Local governments S	General government: Local governments U	Corporate business enterprises: Public sector S	Corporate business enterprises: Public sector U	Corporate business enterprises: Private sector S	Corporate business enterprises: Private sector U	Households, etc. S	Households, etc. U	Total S	Total U	Sectors / Transaction items
-27 269		-12 732		3 084		33 674		9 873		40 054		1. Net saving[4]
7 195		5 284		8 153		53 636		11 485		87 887		2. Consumption of fixed capital[4]
	8 774	2 723		1 651		823	12	3 665	21	8 895	8 895	3. Capital transfers
	8 086		11 627		30 914		58 152		14 070		127 941	4. Gross capital formation[4]
- 36 934		- 16 352		- 18 026		29 969		10 932		-		5. Net lending (+)/net borrowing (-) (S)
	-36 934		-16 352		-18 026		29 969		10 932		-	6. Net financial investment (+) or (-) (U)
51 853		8 598		23 075		805		6 731		210 696		7. Net incurrence of financial liabilities (Total S 9 - 32)
	14 919		-7 754		5 049		30 774		17 663		210 696	8. Net acquisition of financial assets (Total U 9 - 32)
										3 744	3 744	9. Gold and other foreign reserves
	24 934		-5 642		-138		-5 102		6 822	30 586	30 586	10. Cash and demand monetary[5] deposits
	-6 735		-5 408		-12 442		8 767		1 953	-41 480	-41 480	11. Short/medium-term monetary[5] deposits
	-504		84		5 651		5 345		-1 662	47 968	47 968	12. Long-term monetary[5] deposits
			1	137	603		7 473		6 462	22 255	22 255	13. Deposits with other financial institutions
	2 139		1			-7	477		154	-41	-41	14. Deposits with other institutions
10 250							-6 650			10 250	10 250	15. Treasury bills
	-2 297			8	1 732	17 800	11 571			25 875	25 875	16. Other bills
-1 362		2 468		1 410		-6 636		4 567		-287	-287	17. Bank loans and advances
-243	616	-1 267	2 357	2 691	16	-17 687	2 856	-193	-1 250	4 960	4 960	18. Trade credit and short-term loans
-4 689										-4 689	-4 689	19. Short-term government bonds
40 844					-202					40 844	40 844	20. Long-term government bonds
8 422									498	8 422	8 422	21. Non-marketable government bonds[6]
		-1 005					1 495			-1 005	-1 005	22. Securities of local governments
	1 130		41	-12 315					3	-8 522	-8 522	23. Securities of public enterprises
	181	97	746	-98	1 049	4 658	-1 914			6 605	6 605	24. Other loan stock and preference shares
	-2 381			-2 331	-670	-4 480	1 856		1	-4 343	-4 343	25. Ordinary shares
												26. Foreign branch/head office balances
-994	11 065	7 177	-2	24 304	2 690	-10 857	12 365	-28	108	34 868	34 868	27. Long-term loans
		93	4	4		500		6 428		7 356	7 356	28. Mortgage loans
	-413				8 329		-4 478		8 427	12 321	12 321	29. Interest in retirement and life funds[7]
-375	-12 816	-115	-4	-3 867	2 039	5 569	3 538	-3 939	-3 853	2 289	2 289	30. Amounts receivable/payable
		1 112	51	12 849	-3 456	12 293	-6 904	-104		12 989	12 989	31. Other assets/liabilities
		38	17	283	-152	- 348	79			-269	-269	32. Balancing item

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

KB231

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

National financial account
Flow of funds for the third quarter 2010[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	26 374		386		10 924				1 711		-347	
2. Consumption of fixed capital[4]			7		1 983				127		58	
3. Capital transfers	36	**91**										
4. Gross capital formation[4]						**6 848**				**196**		**464**
5. Net lending (+)/net borrowing (-) (S)	26 319		393		6 059				1 642		-753	
6. Net financial investment (+) or (-) (U)		**26 319**		**393**		**6 059**				**1 642**		**-753**
7. Net incurrence of financial liabilities (Total S 9 - 32)	26 297		-1 802		61 649		26 017		45 160		64 585	
8. Net acquisition of financial assets (Total U 9 - 32)		**52 616**		**-1 409**		**67 708**		**26 017**		**46 802**		**63 832**
9. Gold and other foreign reserves	3 217			**3 217**								
10. Cash and demand monetary[5] deposits		**-1 603**	8 612	**-1 649**	7 566	**2 359**		**-597**		**2 902**		**7 145**
11. Short/medium-term monetary[5] deposits		**6 462**	22	**811**	24 078			**10 898**		**2 703**		**753**
12. Long-term monetary[5] deposits		**-1 740**	20	**2 745**	21 900			**684**		**4 892**		**22 173**
13. Deposits with other financial institutions		**9**				**-517**		**-4 663**		**1 471**	26 122	
14. Deposits with other institutions	8 167					**17 314**	26 017	**-3 364**	-3 364	**23 012**		**-470**
15. Treasury bills				**1 200**		**-5 074**		**1 478**		**2 165**		**-1 859**
16. Other bills	-10 009		334	**-6 120**	-372	**478**		**25**	-362	**-3 050**	-3 583	**8 561**
17. Bank loans and advances	5 269		5 024	**11 661**	11 681	**41 524**			-12		1 087	
18. Trade credit and short-term loans	-2 812	**-7 363**	-806	**-187**	-14 500	**-4 071**			7 223	**-19 096**	-217	**-14 103**
19. Short-term government bonds		**-4**		**280**		**-15 065**		**-2 678**		**-971**		**-291**
20. Long-term government bonds		**35 758**		**47**		**8 330**		**-226**		**3 439**		**-764**
21. Non-marketable government bonds[6]		**-310**		**1 221**		**-187**						
22. Securities of local governments						**30**		**122**		**72**		**560**
23. Securities of public enterprises	-599	**5 879**	-1 101			**-2 392**		**6 958**		**-10 059**	-45	**125**
24. Other loan stock and preference shares	3 799	**-505**	2 062		-1 082	**-1 436**		**551**	-458	**30 007**	-158	**6 536**
25. Ordinary shares	10 936	**5 178**			6 533	**-864**		**16 047**	-380	**-14 002**		**36 378**
26. Foreign branch/head office balances												
27. Long-term loans	2 990	**8 909**	-14 320		4 465				-69	**12 858**	680	**-84**
28. Mortgage loans	37					**21 238**				**392**	105	**297**
29. Interest in retirement and life funds[7]		**161**				**284**			17 244			
30. Amounts receivable/payable	11 935	**2 693**	-1 629	**-7 051**	1 216	**2 491**		**-9**	17 064	**16 413**	29 520	**7 061**
31. Other assets/liabilities	-6 633	**-908**	-20	**-7 584**	123	**3 200**		**791**	7 955	**-6 260**	10 806	**-8 139**
32. Balancing item					41	**66**			319	**-86**	268	**-47**

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

KB230

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

National financial account (continued)

Flow of funds for the third quarter 2010[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
-11 010		-15 361		5 164		35 715		-11 475		42 081		1. Net saving[4]
7 312		5 215		8 269		53 659		11 605		88 235		2. Consumption of fixed capital[4]
	10 538	5 003		1 186		416	13	4 024	23	10 665	10 665	3. Capital transfers
	8 372		11 537		33 522		55 192		14 185		130 316	4. Gross capital formation[4]
-22 608		-16 680		-18 903		34 585		-10 054		-		5. Net lending (+)/net borrowing (-) (S)
	-22 608		-16 680		-18 903		34 585		-10 054		-	6. Net financial investment (+) or (-) (U)
13 819		19 894		28 930		12 107		43 524		340 180		7. Net incurrence of financial liabilities (Total S 9 - 32)
	-8 789		3 214		10 027		46 692		33 470		340 180	8. Net acquisition of financial assets (Total U 9 - 32)
										3 217	3 217	9. Gold and other foreign reserves
	-7 078		1 388		-91		8 024		5 378	16 178	16 178	10. Cash and demand monetary[5] deposits
	2 862		1 399		12 156		-8 714		-5 230	24 100	24 100	11. Short/medium-term monetary[5] deposits
	1 747		-406		1 365		-12 271		2 731	21 920	21 920	12. Long-term monetary[5] deposits
			-107	196	4 410		10 491		15 224	26 318	26 318	13. Deposits with other financial institutions
	3 087					32	- 8 902		175	30 852	30 852	14. Deposits with other institutions
6 185							8 275			6 185	6 185	15. Treasury bills
	- 1 091			7	2 056	8 548	- 6 296			- 5 437	- 5 437	16. Other bills
-96		1 920		1 820		12 485		14 007		53 185	53 185	17. Bank loans and advances
-187	349	3 332	717	1 472	943	-17 087	12 481	-4 622	2 126	-28 204	-28 204	18. Trade credit and short-term loans
-18 749							-1		-19	-18 749	-18 749	19. Short-term government bonds
40 190					-6 394					40 190	40 190	20. Long-term government bonds
2 424									1 700	2 424	2 424	21. Non-marketable government bonds[6]
		815					31			815	815	22. Securities of local governments
	1 451		-33	3 679					5	1 934	1 934	23. Securities of public enterprises
	-79	-164	-37	184	1 163	30 830	-1 178		-9	35 013	35 013	24. Other loan stock and preference shares
				18 290	40	10 181	3 169		-386	45 560	45 560	25. Ordinary shares
												26. Foreign branch/head office balances
-281	-10 544	4 706	-4	10 091	-711	9 315	7 122	-33	-2	17 544	17 544	27. Long-term loans
		11	-186	3		5 736		15 849		21 741	21 741	28. Mortgage loans
	-98				-87		5 558		11 426	17 244	17 244	29. Interest in retirement and life funds[7]
-15 667	605	-196	-151	-8 578	-723	-31 086	-1 138	17 963	351	20 542	20 542	30. Amounts receivable/payable
		9 352	476	1 575	-4 075	- 16 913	29 104	360		6 605	6 605	31. Other assets/liabilities
		118	158	191	-25	66	937			1 003	1 003	32. Balancing item

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

KB231

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

National financial account

Flow of funds for the fourth quarter 2010[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	4 801		-241		14 394				5 021		-5 954	
2. Consumption of fixed capital[4]			7		2 004				130		60	
3. Capital transfers	39	95										
4. Gross capital formation[4]						4 199				192		466
5. Net lending (+)/net borrowing (-) (S)	4 745		-234		12 199				4 959		-6 360	
6. Net financial investment (+) or (-) (U)		4 745		-234		12 199				4 959		-6 360
7. Net incurrence of financial liabilities (Total S 9 - 32)	18 810		-22 009		45 591		22 982		45 603		41 382	
8. Net acquisition of financial assets (Total U 9 - 32)		23 555		-22 243		57 790		22 982		50 562		35 022
9. Gold and other foreign reserves	-2 104			-2 104								
10. Cash and demand monetary[5] deposits		605	-1 141	979	18 208	1 423		555		-6 551		-3 497
11. Short/medium-term monetary[5] deposits		-6 088	-13	1 244	67 118			5 783		1 903		41 225
12. Long-term monetary[5] deposits		170	18	-838	-42 810					158		-30 225
13. Deposits with other financial institutions	2 379	-73				924		12 999		2 395	27 381	2 379
14. Deposits with other institutions	12 294					13 424	22 982	8 436	8 436	19 257		1 234
15. Treasury bills				-802		6 052		-1 478		3 350		1 355
16. Other bills	-10 054		-1 645	-16 031	-1 322	-1 948		902		-13	-271	3 581
17. Bank loans and advances	6 252		-1 908	-2 724	-2 700	12 025					46	
18. Trade credit and short-term loans	4 271	26 150	-1 162	72	31 391	-637			-3 370	-1 043	2 300	-5 471
19. Short-term government bonds				-80		-2 268				-1 818		-1 839
20. Long-term government bonds		-20 992		-50		10 086		11 378		32 068		6 291
21. Non-marketable government bonds[6]		-543		-823								
22. Securities of local governments						-1 310				136		329
23. Securities of public enterprises	-85	-3 171	-888			-842		5 137		1 390	-1 786	77
24. Other loan stock and preference shares	3 868	-2 932	-2 108		-4 612	304		-1 446	1 414	13	-151	2 689
25. Ordinary shares	-1 752	17 537			437	8 236		-4 702	-42	11 823		35 398
26. Foreign branch/head office balances												
27. Long-term loans	3 132	10 737	-12 100	-2	1 891				52	8 816	-7 941	-114
28. Mortgage loans	11					1 908				-271	87	457
29. Interest in retirement and life funds[7]		91				253			16 998			
30. Amounts receivable/payable	-4 235	11 224	57	4 903	-9 100	-4 072		-6	9 975	-6 341	16 185	-14 923
31. Other assets/liabilities	4 833	-9 160	-1 119	-5 987	-12 683	13 924		-14 576	12 105	-14 532	5 399	-3 693
32. Balancing item					- 227	308			35	-178	133	-231

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

KB230

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

National financial account (continued)
Flow of funds for the fourth quarter 2010[1]

R millions

General government				Corporate business enterprises								Sectors
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	Transaction items
-1 807		-7 196		6 962		27 408		-386		43 002		1. Net saving[4]
7 381		5 262		8 357		54 552		11 763		89 516		2. Consumption of fixed capital[4]
	13 519	6 044		1 278		564	**14**	5 728	**25**	13 653	**13 653**	3. Capital transfers
	8 609		**12 033**		**31 283**		**61 596**		**14 140**		**132 518**	4. Gross capital formation[4]
-16 554		-7 923		-14 686		20 914		2 940		-		5. Net lending (+)/net borrowing (-) (S)
	-16 554		**-7 923**		**-14 686**		**20 914**		**2 940**		**-**	6. Net financial investment (+) or (-) (U)
30 185		13 305		16 783		9 232		39 333		261 197		7. Net incurrence of financial liabilities (Total S 9 - 32)
	13 631		**5 382**		**2 097**		**30 146**		**42 273**		**261 197**	8. Net acquisition of financial assets (Total U 9 - 32)
										-2 104	**-2 104**	9. Gold and other foreign reserves
	-1 625		**747**		**-554**		**18 162**		**6 823**	17 067	**17 067**	10. Cash and demand monetary[5] deposits
	-1 214		**4 629**		**1 341**		**19 602**		**-1 320**	67 105	**67 105**	11. Short/medium-term monetary[5] deposits
	3 544		**-443**		**-21**		**-15 524**		**387**	-42 792	**-42 792**	12. Long-term monetary[5] deposits
			18	-22	**-1 760**		**-2 118**		**14 974**	29 738	**29 738**	13. Deposits with other financial institutions
	3 276					-133	**-2 158**		**110**	43 579	**43 579**	14. Deposits with other institutions
3 676							**-4 801**			3 676	**3 676**	15. Treasury bills
	-948			5	**7 876**	16 138	**9 432**			2 851	**2 851**	16. Other bills
3		-7		3 041		-8 240		12 814		9 301	**9 301**	17. Bank loans and advances
72	**-702**	991	**283**	-405	**-9 860**	-17 385	**10 915**	2 461	**-543**	19 164	**19 164**	18. Trade credit and short-term loans
-6 005										-6 005	**-6 005**	19. Short-term government bonds
40 868					**2 087**					40 868	**40 868**	20. Long-term government bonds
11 118									**12 484**	11 118	**11 118**	21. Non-marketable government bonds[6]
		-30					**815**			-30	**-30**	22. Securities of local governments
	973		**32**	6 360					**5**	3 601	**3 601**	23. Securities of public enterprises
	-88	-786	**28**	-221	**-3 653**	-3 909	**-1 419**		**-1**	-6 505	**-6 505**	24. Other loan stock and preference shares
	1 315			1 218	**72**	28 073	**-41 745**			27 934	**27 934**	25. Ordinary shares
												26. Foreign branch/head office balances
-617	**-9 886**	1 107	**-1**	6 644	**684**	9 844	**-8 177**	46	**1**	2 058	**2 058**	27. Long-term loans
			-7	10		1 563		416		2 087	**2 087**	28. Mortgage loans
	-98				**-955**		**4 457**		**13 250**	16 998	**16 998**	29. Interest in retirement and life funds[7]
-18 930	**19 084**	-72	**-34**	-2 613	**-82**	4 063	**13 138**	23 664	**-3 897**	18 994	**18 994**	30. Amounts receivable/payable
		12 076	**97**	2 575	**6 692**	-20 944	**29 409**	-68		2 174	**2 174**	31. Other assets/liabilities
		26	**33**	191	**230**	162	**158**			320	**320**	32. Balancing item

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

KB231

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

Notes to tables

The statistical tables for public finance have been reconfigured according to international standards.

National government debt – Tables S–50 and S–51

The presentation has been amended to indicate the debt instruments involved, add the net loan debt of government and show national government debt as a percentage of gross domestic product.

Ownership distribution of domestic marketable debt – Tables S–52 and S–53

The presentation has been amended to include the holders of the debt.

Public finance: Selected data – Table S–145

An additional category, namely 'Taxes on property' has been added.