Annual Report

2007/08

South African Reserve Bank

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Contents

Mr T T Mboweni
Governor

Governor's foreword

It gives me great pleasure to present the *Annual Report* of the South African Reserve Bank (the Bank) for the financial year ended 31 March 2008 to the shareholders and other stakeholders of the Bank. This *Annual Report* provides an overview of the operations of the Bank and an explanation of monetary policy, and includes a comprehensive economic report, which was published as a separate *Annual Economic Report* in previous years. This marks the first year in which the Bank presents to shareholders and stakeholders one comprehensive report on its activities and on economic developments.

Through the publication of its *Annual Report*, the Bank draws attention to its responsibilities and activities in the domestic economy and in the international arena. Although the conduct of monetary policy aimed at achieving the inflation target remains the overriding institutional objective, the Bank also has numerous other important responsibilities. These include the production of notes and coin; oversight of the national payment system; bank supervision; and the management of gold and foreign-exchange reserves. The discharge of these responsibilities is highlighted in this report for the benefit of shareholders and stakeholders.

The primary objective of the Bank is the achievement and maintenance of price stability, which is embodied in its inflation-targeting monetary policy framework. In terms of this framework, the South African Government has entrusted to the Bank the goal of keeping CPIX inflation (year-on-year increase in the consumer price index excluding mortgage interest cost for metropolitan and other urban areas) between 3 and 6 per cent.

The review period was again characterised by satisfactory domestic economic growth, but the inflation pressures recognised by the Bank some two years ago continued unabated. As early as the middle of 2006 the Bank noticed the possibility of CPIX inflation moving outside the target range and on 8 June 2006 increased the repurchase rate by 50 basis points from 7 to 7,5 per cent. This was subsequently followed by further increases of a similar magnitude, as a result of continued inflationary pressures. These increases brought the repurchase rate to 11,0 per cent at the end of the financial year under review, to 11,5 per cent after the rate increase announced on 11 April 2008 and to 12 per cent following a further announcement on 12 June 2008. These increases reconfirm our commitment to containing inflation.

The near-term expectations for domestic inflation remain somewhat discouraging, as the acceleration in CPIX inflation is caused, in the main, by rising commodity and food prices. The international crude oil price increased considerably during the period under review, pushing retail petroleum and diesel prices to record levels in nominal and real terms. Linked to the level of crude oil prices is an increased demand for biofuels sourced from agricultural commodities. This increased demand for agricultural produce at a time when adverse weather conditions in major production areas contributed to contained food supply resulted in local and international acceleration in food price inflation.

The Bank will continue to assess the level and trend of CPIX inflation in the months ahead. In the execution of its mandate to contain inflation, the Bank will consider the necessary steps to bring CPIX inflation to within the target range over a reasonable period. This is the main contribution that the Bank can make towards sustained economic growth in South Africa.

T T Mboweni — September 2008

Board of Directors as at 31 March 2008

Governor and Chairperson of the Board
Mr T T Mboweni

Deputy Governor
Dr X P Guma

Deputy Governor
Dr R D Mokate

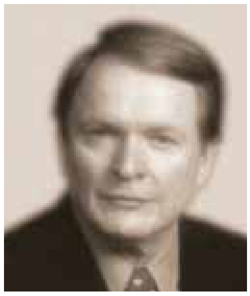
Representing
Commerce or Finance
Dr D Konar

Representing
Commerce or Finance
Ms F Jakoet

Representing
Commerce or Finance
Ms Z P Manase

Representing Industry
Ms N D Orleyn

Representing
Commerce or Finance
Mr S M Goodson



Representing Government
Prof R W K Parsons

Representing Government
Mr F E Groepe

Representing Industry
Ms T N Mgoduso

Representing Agriculture
Mr J F van der Merwe

Representing Government
Mr E Masilela

As at 31 March 2008 a vacancy existed for a deputy governor.

Composition of the Board of Directors as at 31 March 2008

Governor

Tito Titus Mboweni *

Deputy governors

Xolile Pallo Guma °

Renosi Denise Mokate °

Representing: Government

Raymond Whitmore Knighton Parsons ◆*
(Term of office expired on 20 July 2007 and he was reappointed on 18 March 2008)

Francois Engelbrecht Groepe ◆°
(Term of office expired on 20 July 2007 and he was reappointed on 18 March 2008)

Elias Masilela ◆
(Appointed on 18 March 2008)

Representing: Commerce or Finance

Deenadayalen Konar ◆ †
(Term of office expires on 19 September 2008)

Fatima Jakoet ◆°

Zodwa Penelope Manase ◆°
(Term of office expires on 19 September 2008 and she is available for re-election)

Stephen Mitford Goodson ◆*
(Appointed as a member of the Remuneration Committee on 21 February 2008)

Representing: Agriculture

Johannes Francois van der Merwe ◆
(Elected on 20 September 2007)

Representing: Industry

Noluthando Dorian Orleyn ▲*
(Appointed as Acting Chairperson of the Remuneration Committee on 22 November 2007. Term of office expires on 19 September 2008 and she is available for re-election)

Thandeka Nozipho Mgoduso ◆*

▲ Chairperson of the Non-executive Directors' Committee
† Chairperson of the Audit Committee
x Chairperson of the Remuneration Committee
◆ Member of the Non-executive Directors' Committee
° Member of the Audit Committee
* Member of the Remuneration Committee

Mission statement

Primary goal

The South African Reserve Bank (the Bank) is the central bank of the Republic of South Africa. It regards its primary goal in the South African economic system as

the achievement and maintenance of price stability.

The Bank maintains that South Africa has a growing economy based on the principles of a market system, private and social initiative, effective competition, and social fairness. It recognises, in the performance of its duties, the need to pursue balanced economic development and growth.

Functions

The Bank, in the pursuance of its primary goal, the realisation of its business philosophy and the fulfilment of its responsibilities, assumes responsibility for

1. formulating and implementing monetary policy in such a way that the primary goal of the Bank will be achieved in the interest of the whole community that it serves;

2. ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments;

3. assisting the South African government, as well as other members of the economic community of southern Africa, in the formulation and implementation of macroeconomic policy; and

4. informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

Business philosophy

The Bank accepts that the credibility of its policy and actions is a prerequisite for the attainment of its goals, and that such credibility can only be achieved and maintained through independent action, firmness of principle, resoluteness and fixed intent. Furthermore, the Bank is convinced that fairness is integral to its judgement and actions.

The Bank ensures, through the application of modern management practices and technology, that all its activities are conducted effectively and efficiently.

Personnel philosophy

The Bank believes that its employees should find working for the Bank a stimulating and personally enriching experience, and consequently accepts co-responsibility for the development of employees to their full potential. Career progress is based on the contribution made by the individual towards the fulfilment of the responsibilities of the Bank, and therefore initiative, innovative thinking and professional expertise are systematically developed and rewarded.

The Bank recognises that equal opportunities for all, irrespective of ethnicity, race, gender, disability or religion, should be pursued.

The Bank accepts that only through the loyalty and dedication of its employees will it be able to achieve its goal and fulfil its aims.

Executive management and Secretary as at 31 March 2008

Governor: Financial Stability and Research	T T Mboweni
Executive General Manager and Chief Economist Currency and Protection Services, Financial Stability and Research departments	M Mnyande
Executive General Manager and Registrar of Banks Bank Supervision Department	E M Kruger
Deputy Governor: Markets	X P Guma
Executive General Manager Exchange Control, Financial Markets, Financial Services and National Payment System departments	A D Mminele
Deputy Governor: Central Services	R D Mokate
Executive General Manager Business Systems and Technology, Corporate Services, Executive Management, Human Resources, Internal Audit and Legal Services departments, and SARB College	L van Zyl
Secretary of the Bank	T P Mongwe

Senior management as at 31 March 2008

Head: Bank Supervision	E M Kruger
Head: Currency and Protection Services	A Ismail
Head: Exchange Control	A M Bruce-Brand
Head: Research	J P van den Heever
Head: Financial Markets	R M du Plooy
Head: Financial Stability	A Bezuidenhout
Head: National Payment System	D C Mitchell
Head: Financial Services	G J Terblanche
Head: Legal Services	J J de Jager
Head: Internal Audit	H P Badenhorst
Head: Human Resources	Vacant*
Head: Business Systems and Technology	M S Ismail
Head: Corporate Services	R Z Nkwali
Principal: SARB College	G R Wesso
Executive Assistant: Executive Management	J N L Fourie
Secretary of the Bank	T P Mongwe

* The Executive General Manager: Central Services, Mr L van Zyl, acted in this capacity as at 31 March 2008.

Branch managers as at 31 March 2008

Bloemfontein	T L Mtoba
Cape Town	A R Chamberlain
Durban	M T Mzizi
East London	E H Jacob
Johannesburg	H T Gape
Port Elizabeth	B P Loving
Pretoria North	N I Mugumo

Organisational structure and Secretary as at 31 March 2008

Governor
T T Mboweni

Deputy Governor
Markets
Dr X P Guma

Executive General Manager
and Chief Economist
Dr M Mnyande

Executive General Manager,
Registrar of Banks and Head:
Bank Supervision
E M Kruger

Executive General Manager
Markets
A D Mminele

Deputy Governor
Central Services
Dr R D Mokate

Executive General Manager and
Acting Head: Human Resources
L van Zyl

Secretary of the Bank
T P Mongwe

Head
Currency and Protection Services
A Ismail

Head
Research
Dr J P van den Heever

Head
Financial Stability
A Bezuidenhout

Head
Exchange Control
A M Bruce-Brand

Head
Financial Markets
R M du Plooy

Head
National Payment System
D C Mitchell

Head
Financial Services
G J Terblanche

Head
Legal Services
Dr J J de Jager

Head
Business Systems and Technology
M S Ismail

Executive Assistant
Executive Management
J N L Fourie

Head
Internal Audit
H P Badenhorst

Head
Corporate Services
R Z Nkwali

Principal
SARB College
Dr G R Wesso

Corporate governance

The Bank is committed to the principles and complies to a significant degree with the requirements of the *King Report on Corporate Governance for South Africa*. The compliance of the Bank with these requirements is reflected below.

Board of Directors

In accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (the Act) the Board of fourteen directors must comprise:

Executive directors

The Governor and three deputy governors are appointed by the President of the Republic of South Africa. The Governor serves as Chairperson of the Board, as stipulated in the Act, and as Chief Executive Officer of the Bank. As at 31 March 2008 there was a vacancy for a deputy governor.

Non-executive directors

Three directors are appointed by the President of the Republic of South Africa and seven directors are elected by the private shareholders of the Bank.

The Act requires that of the directors elected by the shareholders, four shall be persons with experience in commerce or finance; one shall be a person with experience in agriculture; and two shall be persons with industrial experience.

The Board meets regularly (at least four times a year) and monitors the exercising of the functions that it has delegated to executive management through a structured framework. This structured framework includes receiving reports from the Governor's Executive Committee (GEC), which is responsible for the day-to-day activities of the Bank, and various Board committees and subcommittees, chaired by non-executive directors and management. Non-executive directors have no service contracts with the Bank and are appointed or elected for specific terms. There is a balance of both executive and non-executive directors to ensure independence and objectivity. The Board comprises people with integrity and a diversity of skills and knowledge to ensure effective governance.

Audit Committee

The composition of the Audit Committee, which is a subcommittee of the Board, appears on page 3. The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with management, the Internal Audit Department and the external auditors. The committee is chaired by a non-executive director, and reviews the financial statements and underlying accounting policies, the effectiveness of management information, other systems of internal control, and the internal audit function. The Audit Committee also reviews the risk management processes applicable to the operations of the Bank, and recommends areas that internal and external auditors should review.

Remuneration Committee

The composition of the Remuneration Committee, a subcommittee of the Board, appears on page 3. The committee meets regularly to review human resources matters, and remuneration practices and policies, as well as the appointment of directors. This committee also determines the remuneration packages of the Governor, deputy governors, executive general managers, non-executive directors, and the remuneration of, and incentives for, staff. The Remuneration Committee is chaired by a non-executive director.

Non-executive Directors' Committee

The Non-executive Directors' Committee comprises the non-executive directors of the Bank, one of whom chairs the committee. The primary function of this committee is to assist the Board in fulfilling its legal and fiduciary obligations and responsibilities, and to enhance corporate governance matters and practices. The committee meets at least four times a year.

Governor's Executive Committee

The Governor and deputy governors, in their capacity as executive directors of the Bank, are responsible for the day-to-day management and policy decisions of the Bank, except those reserved for the Board. The GEC meets fortnightly to consider policy issues and other executive management matters. These meetings are attended by the Governor as Chairperson, the deputy governors and executive general managers, and the general counsel attends by invitation.

Monetary Policy Committee

The Monetary Policy Committee (MPC) is responsible for deciding on the monetary policy stance in line with current international best practice. As at 31 March 2008 the committee comprised the Governor and deputy governors, as well as four senior officials of the Bank. The committee meets at regular intervals and a statement on the monetary policy stance of the Bank is issued after each meeting. Decisions are taken by consensus.

Budget Committee

The Bank ensures financial discipline through a Budget Committee comprising the Governor, who presides over meetings, the deputy governors, the Chairperson of the Budget Subcommittee and the Head: Financial Services Department. This committee meets regularly to oversee the preparation of the operational and capital budgets, and the monitoring and management of actual expenditure. Quarterly reports are submitted to the Board.

Reserves Management Committee

The primary responsibilities of the Reserves Management Committee are to set investment guidelines for portfolio managers; review and select benchmarks for foreign-exchange reserves of the Bank; allocate the risk budget; and set active risk parameters for individual portfolios. The committee meets approximately every second month and is chaired by the Deputy Governor: Markets. Two representatives of the National Treasury attend in an *ex officio* capacity.

Retirement Fund

The Board of Trustees of the Bank's Retirement Fund comprises four trustees (two executive directors, one non-executive director and the Head: Financial Services Department of the Bank) appointed by the Board of the Bank and four trustees elected by members of the Retirement Fund. The Governor, who is one of the executive directors appointed by the Board of the Bank, acts as Chairperson of the Board of Trustees of the Retirement Fund. The Retirement Fund is incorporated in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956) and is a separate entity from the Bank.

Pension Fund

The Board of Trustees of the Bank's Pension Fund comprises four trustees (two executive directors and two non-executive directors) appointed by the Board of the Bank and four trustees elected by members of the Pension Fund. The Governor, who is one of the executive directors appointed by the Board of the Bank, acts as Chairperson of the Board of Trustees of the Pension Fund. The fund is incorporated in terms of the Pension Funds Act and as such is a separate entity from the Bank.

Internal audit

The primary purpose of the Internal Audit Department is to evaluate independently the corporate business risks of the Bank and its subsidiaries, and to provide objective assurance and consulting services regarding the adequacy and effectiveness of the system of control, risk management and governance processes.

Acting on a direct mandate from the Governor and the Board of Directors of the Bank, the Internal Audit Department is functionally accountable to the Audit Committee of the Board of Directors, with direct access to the Chairperson of the Audit Committee. The department reports functionally to the Governor and administratively to a deputy governor via an executive general manager.

The department performs its functions in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The scope of internal audit work includes assessment of the various components of the system of control, focusing on the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; accomplishment of established objectives; and compliance with laws, regulations, contracts and procedures.

Internal control

To fulfil its responsibilities, the management of the Bank has established and maintains an adequate and effective system of internal control, and ensures compliance with this system. The system, which is designed to provide reasonable assurance about the integrity and reliability of financial and management information, is based on established written policies and procedures of the Bank.

Policies and procedures are implemented by trained and skilled staff, and duties are appropriately segregated. All staff members are required to maintain the highest level of ethics in ensuring that the business practices of the Bank are conducted in a manner that is beyond reproach.

Systems are in place to ensure the safeguarding of, and control over, assets; the economical and efficient use of resources allocated; and the effective performance of all functions.

Employment Equity Consultative Body and Management Steering Committee

In compliance with the Employment Equity Act, 1998 (Act No. 55 of 1998), the consultative mechanism of the Bank has effectively been engaged since 2000. The scope of consultation has been widened since 2006 to include consultation on skills development over and above consultation on employment equity matters. In pursuit of wider consultation and staff involvement, the Bank recognised the need to include an official of the trade union, SASBO, to serve on the executive of the Employment Equity Consultative Body. The Bank submitted its second five-year *Employment Equity Plan* to the *Department of Labour* during 2006. The stated intention of the Bank is to achieve a workforce that comprises 50 per cent blacks and 50 per cent females in all categories and at all levels of employment by 2011, which includes targets for people with disabilities. It also envisages that people with disabilities will make up at least 2 per cent of its total staff complement.

Code of Ethics and Business Conduct

A code of ethics and business conduct, which was developed in 2006 and 2007, was consulted with staff and other parties concerned. After approval by the Audit Committee, the code will be integrated into the staff policies of the Bank.

Human resources

The consultation process pertaining to the revised staff policies was concluded in the past financial year. The process now being undertaken by the Human Resources Department relates to the implementation of the new policies, as well as the monitoring of the process.

Employee relations with staff and unions are maintained, and the Wellness Management Division continues to provide the necessary support for disability and HIV/AIDS management. In addition, other preventative measures are taken, such as medical clinic and psychological well-being services.

Safety, health and environmental issues

The Bank and its subsidiaries continue to comply with health, safety and environmental legislation, and are committed to the interest and well-being of their employees as part of their broader social responsibilities. The strategy on life-threatening diseases, including HIV/AIDS, addresses various issues such as awareness, education, support, wellness, avoidance of discrimination and the impact in the work environment.

The specific requirements of the subsidiaries of the Bank in terms of effluent and other production waste disposal operations are adhered to stringently.

The Bank proactively ensures a healthy and safe working environment through regular commissioning of compliance assessments and environmental studies by external specialist organisations, accompanied by the implementation of corrective actions where required.

The Bank further ensures, as part of its obligations towards the safety of its staff and in terms of its business continuity management requirements, that evacuation exercises are held on a regular basis. The Bank acknowledges the importance of its responsibilities and is committed to ensuring that a healthy and safe working environment is maintained at all times.

Risk management

In common with most central banks, the Bank is a risk-averse institution, which basically reflects the view that satisfactory fulfilment of its role and responsibilities could be seriously jeopardised if it were to incur significant financial losses, disruption of its operations and/or damage to its reputation.

The executive management of the Bank is intensely aware of the high performance standards that all role-players outside the Bank expect of the central bank. The Bank views risk management as an essential element of good corporate governance and has established a Risk Management Committee to oversee the risk management process in the Bank. The committee is chaired by a deputy governor and includes the four executive general managers of the Bank.

Management structures

The organisational structure of the Bank is designed to ensure an appropriate allocation of responsibilities, which is supported by a formal delegation of authority and a proper segregation of duties to achieve sound systems of internal control. The management of exposure to international and local financial market risks is strengthened by separate middle-office functions to monitor exposures and to report independently to management.

Financial risk

The financial risk elements in the activities of the Bank are interest rate, market price, credit and liquidity. These risks are discussed in Note 30 to the financial statements on page 117.

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, ineffective internal controls, fraud and human error.

The Bank addresses these risks through comprehensive internal controls, back-up facilities, contingency planning and independent internal audit procedures. Assessments of operational risk are conducted on an ongoing basis by the appropriate organisational units. These risks are closely monitored by executive management, through the Risk Management Committee and the Board through both the Internal Audit Department and the Audit Committee. Specific elements of operational risk are as follows:

Human resources risk

The particular nature of the activities of the Bank necessitates specialised knowledge in many areas.

In order to ensure an adequate knowledge base at all times, the Bank invests significantly in staff training, maintains succession plans for key personnel and is committed to remunerating its staff on a market-related basis.

Legal risk

Legal risk arises from any uncertainty or lack of enforceability, whether through legal or judicial processes, of the obligations of the clients and counterparties of the Bank.

The Bank seeks to minimise such uncertainties through continuous consultation with internal and external legal advisers to improve understanding of the nature of such risks, and to improve the documentation and structure of transactions. In addition, the Bank has established legal procedures designed to ensure, as far as reasonably possible, compliance with all applicable internal policies, and statutory and regulatory requirements.

Reputational risk

The executive management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of fiduciary duties of good governance, and by ensuring a proper balance between accountability and the best interests of the Bank and its various stakeholders. Consequently, the management of the Bank follows, to the best of its ability, the principles and guidelines contained in the Code of Conduct of the *King Report on Corporate Governance for South Africa* in fulfilling its fiduciary duties.

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the national payment system and the issuing of notes and coin also expose it to significant reputational risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the Basel Core Principles for Effective Banking Supervision (Core Principles), as well as the core principles for systemically important payment systems.

Operational review

Primary function

As the central bank of the Republic of South Africa, the primary goal of the the Bank in the South African economy is the achievement and maintenance of price stability, embodied in the inflation-targeting monetary policy framework.

In the execution of its duties, the Bank recognises the need to pursue its primary goal of price stability in the interest of balanced economic development and growth. The ultimate objective is therefore not the pursuit of price stability for its own sake. Instead, it is the contribution that the Bank can make, in the interest and for the benefit of all South Africans, to sustained and balanced economic growth, and development in the long run by containing inflation.

Overall financial stability in South Africa is important for the maintenance of price stability. The Bank contributes to the stability of the domestic financial system through its banking regulation and supervision duties.

Operational functions

Monetary policy

The Bank recognises that credibility is a prerequisite for the attainment of its primary goal, which it pursues independently and with firm intent, while conducting the formulation and implementation of monetary policy within the inflation-targeting framework in the interest of all South Africans.

Since the announcement of the inflation target by the Minister of Finance in February 2000, its specification has been reviewed on a number of occasions. The Bank endeavours to maintain the year-on-year rate of increase in the CPIX within the set target range of between 3 and 6 per cent on a continuous basis.

The Bank does not have goal independence, but it has full operational autonomy. It therefore has instrumental independence regarding the choice of monetary policy instruments and their settings. In practice, the setting of the level of the repurchase rate is the most important instrument. The MPC is responsible for monetary policy decisions, which are taken on a consensus basis by the Governor and deputy governors, as well as four senior officials of the Bank.

The MPC meets every second month, the timetable of which is published in advance on the website of the Bank. Unscheduled meetings can be called when the need arises. During the financial year under review, no unscheduled meetings were held.

Accumulation and restructuring of reserves

The Bank increased the level of official gross gold and foreign-exchange reserves from approximately US$26,5 billion at the end of March 2007 to around US$34,4 billion at the end of March 2008 – an increase of close to US$8 billion. Over the same period, the international liquidity position (net reserves) increased by a larger US$9,1 billion, from some US$24,0 billion to approximately US$33,1 billion.

The relatively larger increase in net reserves was attributable to a reduction in the level of borrowed reserves from around US$2,7 billion at the end of March 2007 to approximately US$1,4 billion at the end of March 2008. This reduction is mainly related to the prepayment of the outstanding syndicated loans.

South Africa is one of a minority of emerging-market countries that have a relatively high current-account deficit, which accentuates the need for a healthy level of reserves.

Monetary operations

The purchase of foreign exchange by the Bank in the domestic market creates rand liquidity that has to be drained in order to maintain liquidity conditions that are consistent with the prevailing monetary policy stance. The main instruments through which liquidity was drained were issuing South African Reserve Bank (SARB) debentures, conducting longer-term reverse repurchase transactions and increasing the number of special deposits that the National Treasury holds with the Bank. In addition, increases of R4,9 billion in notes and coin in circulation, and R9,3 billion in the statutory cash reserves of commercial banks also drained liquidity. As a result, the liquidity shortage fluctuated between R8,8 billion and R14,7 billion during the year under review.

The Bank expanded the securities that qualify as eligible collateral in its refinancing operations with effect from 23 May 2007. In addition to the Category 1 assets that have always been accepted and that also qualify as statutory liquid assets, the Bank accepts a number of high-quality, non-government bonds as collateral. These bonds, which are referred to as ‘Category 2 assets’, are specified by the Bank and adjusted from time to time. Category 2 assets do not qualify as statutory liquid assets.

Reserves management

Enhancing the Bank’s reserves management processes has been a strategic focus area for a number of years, commensurate with the growing responsibility associated with higher levels of reserves. The primary focus during the period under review was the formulation and partial implementation of the strategic asset allocation, as well as the quantification of risk tolerance in the form of a target duration per currency and a risk budget to facilitate the active management of reserves. In line with these developments, internally managed portfolios were moved closer to the approved strategic asset allocation within defined risk parameters.

Administration of exchange controls

The Bank administers the exchange control function in terms of authority delegated by the Minister of Finance. In the annual Budget Speech on 20 February 2008, the Minister announced further reforms of exchange controls. Some of these changes heralded a shift in the regulatory regime from control measures to prudential regulation.

The most significant shift applies to South African institutional investors and companies. The pre-approval process for foreign direct investment for transactions totalling less than R50 million per company per annum was removed. Authorised Dealers now administer the directives and guidelines on these types of investments. The exchange control requirement that a shareholding of at least 25 per cent should be obtained when investing in a foreign entity was replaced with the requirement that at least 10 per cent of the foreign-target entity’s voting rights must be acquired. Where the total cost of foreign direct investment exceeds R50 million per company per calendar year, an application must be submitted before the investment is made.

The pre-application process for portfolio investments has been replaced with a system of quarterly reporting and monitoring of foreign exposure. Pension funds and underwritten policies of long-term insurers may increase their foreign exposure from 15 to 20 per cent. Collective investment schemes, investment managers and the investment-linked business of long-term insurers may increase their foreign exposure from 20 to 30 per cent of total retail assets. These institutional investors are allowed an additional exposure of 5 per cent for portfolio investments in Africa.

The restrictions on South African companies and other entities to participate in foreign inward-listed securities on the JSE Limited (JSE) and the Bond Exchange of South Africa (BESA), including participation in the rand futures market, were removed. These changes enable South African companies, trusts, partnerships and banks to manage their foreign exposure, since they are now permitted to participate without restriction in the rand futures market on the JSE. These changes enable companies to diversify and hedge their currency exposure, which support macroeconomic stability, reduce exchange-rate volatility and deepen domestic financial markets. This dispensation is also extended to investment in inward-listed (foreign) instruments on the JSE and BESA.

A single R500 000 per annum discretionary allowance for the purposes of travel, gifts, donations to missionaries and maintenance is now applicable in respect of private individuals.

The shift from exchange controls to prudential regulation changes the focus of activities from pre-approval of applications to monitoring of cross-border flows. Financial surveillance is expected to remain an important pillar of the financial stability framework.

Maintaining a sound regulatory framework and stable banking system

Ensuring a sound and stable domestic banking system is a key responsibility of the Bank. This is achieved by incorporating international best practice in the banking regulatory environment. In this regard, Basel II and the Core Principles issued by the Basel Committee on Banking Supervision (the Basel Committee) have remained the two key standards shaping the Bank's regulatory and supervisory framework.

Whereas the adoption and implementation of the revised 25 Core Principles in 2006 resulted in ongoing amendments to the supervisory framework, the implementation of Basel II was the basis for reviewing the regulatory framework. The Regulations relating to Banks (the Regulations) were amended in view of the technical prescriptions of Basel II, but prior amendments to the Banks Act, 1990 (Act No. 94 of 1990), as amended, were required to provide for these amendments to the Regulations.

Following the submission of the finalised draft Banks Amendment Bill to the Minister of Finance for parliamentary approval, the Bill was considered and approved by the Portfolio Committee on Finance in June 2007. The National Assembly approved the Bill in August 2007, and approval was obtained from the National Council of Provinces in September 2007. The Bill was promulgated into law by the President of the Republic of South Africa in November 2007, which enabled the Minister of Finance to promulgate the amended Regulations in December 2007. The amended Banks Act and Regulations became effective on 1 January 2008.

During the review period, exhaustive interaction with banks and other stakeholders continued, thereby ensuring the successful implementation of Basel II on 1 January 2008. The implementation of Basel II is viewed as an important milestone, although the Bank recognises that continuous monitoring and interaction with banks will be required to ensure that Basel II becomes "business as usual" for all parties concerned.

The Bank participated in the International Monetary Fund's (IMF) pilot project to review compliance with Basel II. The two-month project started in December 2007 and consisted of the offsite review of Basel II-related legislation, policies and processes, followed by a one-week onsite assessment. The compliance review report issued by the IMF was generally complimentary about the work done. It also provided recommendations that will be implemented by the Bank during 2008.

The compliance of the banking industry with anti-money laundering and the combating of terrorist-financing legislation remained a focus area. South Africa, being a member of the Financial Action Task Force, underwent a mutual evaluation (compliance assessment) during 2008. The Bank is classified as an 'accountable institution' and has been actively engaged in this process. The activities of unregistered persons whose conduct amounts to illegal deposit-taking from the general public and/or use of the term 'bank' in reference to their business continue to be addressed.

In view of the international financial market turmoil, the Bank has engaged with banks to determine their potential exposure to the United States (US) sub-prime mortgage market. Although South African banks had very limited exposure, the Bank will continue to engage regularly with banks on this matter and monitor any indirect impact of the financial market turmoil on the domestic banking system. Internally, the Bank has a contingency framework in place in the event of potential systemic risks threatening the domestic banking system.

Maintaining the integrity and supply of currency

Ongoing efforts are made to combat the counterfeiting of currency and to ensure that an acceptable quality of banknotes in circulation is maintained by

- improving relationships with the South African Police Service (SAPS) and the SAPS Forensics Laboratory;
- monitoring compliance of all cash recyclers with the minimum standards issued by the Bank to the operators of banknote recycling machines;
- improving processing capacity in the Bank and co-ordinating the distribution of currency within the cash industry to ensure an adequate supply of currency; and
- consulting with the 2010 South African Local Organising Committee in preparation for the 2010 FIFA World Cup.

Security of currency distribution

The implementation by the Bank of Phase 1 of the Integrated Cash Management System (ICMS) is scheduled for the fourth quarter of 2008. The ICMS initiative that is undertaken in collaboration with the commercial banks is designed to improve the efficiency and effectiveness of currency distribution, and aims to reduce the cost of cash to the public.

Business continuity management

Business continuity management in the Bank has matured to the level where extensive critical business and technology testing, and exercise of procedures and corrective alignment are conducted on an ongoing basis. The Bank contributes towards the establishment and maintenance of resilient business continuity capability within the broader financial sector, including the cash management industry.

The Bank will monitor closely and endeavour to minimise the impact of load shedding on its critical operations by increasing and enhancing its electricity back-up capability. The Bank also collaborates with various stakeholders to put arrangements in place to minimise possible disruption to the provision of clearing and settlement services as a result of load shedding.

Developing and maintaining the payment system

The Bank and stakeholders in the clearing and settlement community embarked jointly on initiatives to improve the effectiveness and integrity of the national payment system (NPS). In the retail payment environment, a new payment stream that enables clearing banks to settle retail payments at regular intervals during a settlement-cycle day has been implemented. During the review period, an upgrade of the South African Multiple Option Settlement (SAMOS) system was also initiated to facilitate implementation of delivery versus payment in the settlement of money-market securities.

A high standard is maintained in the provision of interbank settlement services in the SAMOS system. During March 2008 the tenth year of operations of the SAMOS system was celebrated. Although the SAMOS system has served the South African financial industry well, the Bank has initiated a project to review the settlement system infrastructure and applications, and to benchmark them against those used by other central banks. This exercise could result in recommendations aimed at ensuring that SAMOS develops in line with market needs and continues to adhere to best practice.

After extensive consultation, the Bank issued directives regulating conduct in the payment system for system operators and third-party service providers. The directives, which became effective on 6 December 2007, require non-banks to comply with basic operational risk-reduction measures. These include, *inter alia*, the requirements for disaster recovery and business continuity capability. These measures are aimed at ensuring the safety and efficiency of the NPS.

As the overseer of the NPS, the Bank identified the need to consult and act in collaboration with the various regulated stakeholders. To this end, the Bank established a payment system advisory body representative of all the regulated stakeholders within the NPS. The National Payment System Advisory Body (NPSAB) allows for regulated banks and non-bank participants to establish associations that can represent the interests of their members at the NPSAB. The focus of the NPSAB will be NPS-related matters, specifically issues that may impact on risk and those affecting participants in the NPS. Furthermore, the NPSAB will act in the interests of the NPS as a whole and not in those of individual participants.

The Executive Overview of the *Banking Enquiry Report to the Competition Commissioner by the Enquiry Panel* (Executive Overview) was released by the Competition Commission of South Africa. The Bank will carefully study both the Executive Overview, including its recommendations, and the full Competition Commission report when it becomes available. Subsequent to such comprehensive review and analysis, and after consultation with all stakeholders, the Bank, through its normal processes, will initiate any course of action it may deem appropriate.

International and regional contribution

The African continent and the Southern African Development Community (SADC) region remain the focal point of the Bank's programmes to maintain the momentum of regional integration. In the Bank's relations with multilateral institutions, considerable focus is placed on participation in key forums such as the Group of Twenty (G-20) and the Bretton Woods Institutions. Interaction with these institutions resulted in the Bank hosting seminars that contributed to dialogue on various financial and economic topics.

South Africa, under the theme of "Sharing – Influence, Responsibility, and Knowledge" held the chair of the G-20 for 2007. During the year the G-20 had reiterated its members' collective determination to achieve balanced and sustainable growth. It deliberated on the global economic and financial outlook; fiscal elements of growth and development in G-20 member countries; policy issues pertaining to commodity cycles and financial stability; and Bretton Woods reform.

As the host of the Secretariat of the Committee of Central Bank Governors (CCBG) in SADC, the Bank provides leadership and financial support for the implementation of CCBG projects. As a consequence, progress is visible in the legal, payment system, information technology, macroeconomic and banking supervision committees. This progress is shared with the parliamentary finance committees in SADC countries where the ratification of the Finance and Investment Protocol, a key instrument for the advancement of regional economic integration in SADC, is sought. The Common Monetary Area (CMA) governors made efforts to advance the idea of enhancing monetary co-operation through discussions about the establishment of a CMA central bank.

During November 2007 the Bank and the Bank for International Settlements (BIS) co-hosted, for the first time in South Africa, a Bimonthly Meeting of the BIS. On that occasion the Bank also hosted a number of governors at a roundtable discussion on "Financial Market Developments in Africa: New Challenges for Central Banks?" The proceedings of the discussion were published by the Bank.

Developments in the research environment

The Bank enhanced its monitoring of global and domestic economic conditions, and refined and updated its suite of forecasting models. The development of new models such as the Quarterly Projection Model (QPM) and the Dynamic Stochastic General Equilibrium (DSGE) Model is under consideration. These models have the potential to enhance the analysis of monetary policy.

Various other statistical improvements were also implemented, such as the automation of the compilation of derivatives data, the addition of new share price indices, a more accurate and detailed sector classification of bondholders, and the reduction of the publication lag of the national financial accounts by one quarter.

The Bank enhanced its capacity to monitor international economic developments and the analysis of commodity prices, in particular precious metals, oil and food. Research on various aspects of the international economy was also conducted.

Contribution to domestic financial stability

In support of its objective to achieve price stability, the Bank endeavours to contribute to a robust monetary, banking and financial system. To this end, the Bank identifies, analyses and researches potential threats to, and weaknesses in, the financial system, and encourages regulatory and structural reforms of the financial system environment whenever required.

The Bank stimulates debate and communicates its identification and assessment of potential risks to financial system stability through the publication of a biannual *Financial Stability Review*. The South African financial system has proved to be resilient in the face of turbulence in global financial and credit markets during the past year. The Bank also continued with its efforts to develop and maintain suitable crisis management and contingency plans to respond appropriately to systemic distress.

Infrastructural support

During the year under review the Bank undertook a number of projects to maintain and enhance its physical infrastructure, which forms an important component of its considerable portfolio of fixed assets. The upgrading of the back-up uninterrupted power supply for Head Office is in progress. This is being done to prevent interruptions in Bank operations as a result of unplanned power disruptions. A new cafeteria at the Pretoria North Branch has been practically completed. Design drawings for alterations and additions to the East London Branch building, aligned with its status as a heritage site, have been completed. Negotiations for an exchange of the existing Bloemfontein Branch building for a sub-divided portion of the Old Presidency property, where the Bank intends to build a new building for the Bloemfontein Branch, have been concluded. A feasibility study to establish the requirements for the energy efficiency and environmental friendliness of Bank buildings is at the procurement stage of appointing specialist consultants.

The development of a file plan for the Bank to ensure compliance with the National Archives and Records Services Act, 1996 (Act No. 43 of 1996), as amended, and to obtain exemption from complying with certain of its sections is in progress. Internal training for the implementation of this plan is also under way.

Training and development

Training and development offered by the Bank to its staff range from adult basic education and training to courses in core business, management and leadership. The Bank also finances the study requirements of its own staff and the dependants of staff members and pensioners.

The Bank participates in the national training and development opportunities provided by the Banking Sector Education and Training Authority (BANKSETA). In this regard, the second group of 20 Letsema learners successfully completed a year-long learnership at the Bank. This is a national learnership for matriculants and the Bank was able to employ 8 of these learners on completion of their training.

The Bank's training and development extend beyond its own employees. Through the SARB College (the College) a number of high-level workshops and seminars were presented for specific niche markets. These included an Exchange Control Seminar for

Authorised Foreign Exchange Dealers in South Africa, an Advanced Economic Modelling for Central Banks Workshop, a Central Bank Risk Management Workshop and an X-12 ARIMA Seasonal Adjustment of Economic Data Seminar.

The College is regarded as a key partner for international training institutions to offer capacity-building interventions on the African continent. The College co-operates with central banks in the SADC region and international training institutions such as those of the IMF and World Bank. In 2007 the College also presented a course on monetary policy in collaboration with the Bank of Tanzania Training Institute.

Compensation and benefits

The performance management system of the Bank was identified as an area of concern. A project team reviewed the system, and recommendations on its improvement served at the GEC and the Remuneration Committee. The recommendations were accepted and will be implemented in 2008.

Enterprise Resource Planning business solution

The Bank has embarked on the implementation of an Enterprise Resource Planning (ERP) business solution system. An ERP is an information and communications technology system that integrates the data and processes of various business units into a unified and automated system. Once implemented, the Bank's support functions will be able to share common information in a standardised manner, thereby eliminating multiple systems, reducing time and cost, and improving productivity.

Strategic management

The Bank has a well-established strategic management system in place. This system links strategic decision-making, assessment of organisational capabilities, strategy implementation and feedback. Through it the strategic goals, the priorities for the Bank as a whole and for individual departments are set, and progress towards these goals is tracked.

Employment equity consultative structure

Consultation on employment equity and skills development matters has become enshrined as part of the Bank's business activities. The Skills Development Committee functions as part of the employment equity consultative structure in the Bank. Through the consultation process, barriers to training and development have been brought to this forum and have been resolved satisfactorily. In the period under review the Bank received R2,2 million in the form of mandatory grants for complying with the reporting regulations of the Skills Development Act.

In October 2007 the Bank submitted its *Seventh Annual Report on the Employment Equity Plan to the Department of Labour*. The only remaining employment equity barrier cited in the report is the performance management system. Possible revisions of this system are receiving the necessary attention as stated above.

Shareholding

The Bank facilitates a live, over-the-counter market for the trading of its shares. During the financial year under review 42 transactions were concluded successfully in respect of 69 516 shares. A final dividend of 5 cents per share was paid on 4 May 2007 in respect of the 2006/07 financial year, while an interim dividend of 5 cents per share for the 2007/08 financial year was paid to shareholders on 26 October 2007. A final dividend of 5 cents per share for the 2007/08 financial year was declared on 1 April 2008 and paid on 9 May 2008.

Personnel report

At the beginning of the 2007/08 financial year, the Bank had a total permanent staff complement of 1 934, which had declined to 1 896 by the end of the year. The reduction of 38 in staff numbers resulted from 133 terminations and only 95 new appointments.

The overall staff turnover for the period was 6,9 per cent.

The Bank's racial equity representation at management level declined by 2 percentage points at the senior professional and management level, while the professional and vocational management level increased by 1 percentage point. The general management level remained unchanged during this period. This is indicated in Table 1.

Table 1: Breakdown per broad band: Racial equity representation
Per cent

Broad band	Actual 31-03-07	Actual 31-03-08	2008 Bank target
General management	50	50	50
Senior professional and management	42	40	50
Professional and vocational management	43	44	50
Junior professional and supervisory	51	50	50
Trainee professional and clerical	64	68	50
General worker	89	90	50
Total	**57**	**58**	**50**

The Bank's gender equity representation at management level declined by 2 percentage points at the general management level, while both the senior professional management and professional and vocational management levels each increased by 1 percentage point. Improvement in gender representation will remain a focus area in the new financial year.

Table 2: Breakdown per broad band: Female representation
Per cent

Broad band	Actual 31-03-07	Actual 31-03-08	2008 Bank target
General management	21	19	38
Senior professional and management	29	30	38
Professional and vocational management	45	46	38
Junior professional and supervisory	64	62	38
Trainee professional and clerical	49	48	38
General worker	34	37	38
Total	**47**	**47**	**38**

Table 3: Workforce profile by gender and race as at 31 March 2008

Number

Broad band	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General management	23	4	6	43	10	2	2	4	94
Senior professional and management	28	6	10	78	18	5	3	27	175
Professional and vocational management	53	11	9	110	56	8	12	79	338
Junior professional and supervisory	79	11	12	67	83	20	13	155	440
Trainee professional and clerical	201	43	15	86	120	50	21	128	664
General worker	97	4	2	14	56	7	1	4	185
Total permanent	**481**	**79**	**54**	**398**	**343**	**92**	**52**	**397**	**1 896**
Non-permanent	15	3	0	12	10	0	2	6	48
Total	**496**	**82**	**54**	**410**	**353**	**92**	**54**	**403**	**1 944**

Table 4: Staff complement as at 31 March 2008

Number

Department	Permanent staff	Contract workers	Total
Executive Management	40	4	44
Bank Supervision	94	2	96
Business Systems and Technology	155	9	164
Corporate Services	198	1	199
Currency and Protection Services (including branches)	749	11	760
Exchange Control	160	1	161
Financial Markets	97	0	97
Financial Services	73	0	73
Financial Stability	19	0	19
Human Resources	50	1	51
Internal Audit	45	1	46
Legal Services	22	1	23
National Payment System	23	0	23
Research	140	0	140
SARB College (including cadets)	10	17	27
Total staff complement	**1 875**	**48**	**1 923**
Staff members receiving disability benefits	21	0	21
Total	**1 896**	**48**	**1 944**

Report on monetary policy

The period under review has been a challenging one for monetary policy. A succession of supply-side shocks emanating from international food and energy markets has dominated the inflation environment in South Africa and in a number of other countries. From an international perspective, the response to these shocks has been complicated by the simultaneous effects of the banking and credit turmoil that originated in the United States (US) sub-prime mortgage market. Domestically, the policy environment has also been negatively impacted by developments in electricity provision and prices. Collectively, these shocks, and more specifically the serial nature of the shocks, have posed a number of problems for monetary policy-makers in South Africa. While accepting that monetary policy cannot do much to prevent these shocks from having first-round effects on inflation, the MPC has had to be mindful of their impact on inflation expectations and also of the need to act against the emergence of generalised inflation pressures. In response, the MPC has had to continuously assess whether the changes to the monetary policy stance are sufficient to bring inflation back to within the inflation target range of 3 to 6 per cent in the medium term.

At the time of the June 2007 MPC meeting, despite a cumulative increase of 200 basis points in the repurchase rate in the preceding year, the targeted inflation rate had breached the upper end of the inflation target range for the first time since August 2003. The most recent data, for April 2007, showed that the year-on-year change in the consumer price index for metropolitan and other urban areas excluding the interest cost on mortgage bonds (CPIX) had risen to 6,3 per cent after recording 4,9 per cent in February and 5,5 per cent in March. Although food and petrol prices were the main drivers of the increase in inflation, with petrol prices increasing at a rate of 15,5 per cent in April compared with 7,9 per cent in March, more broad-based pressures were also becoming evident. Excluding food and energy prices, the inflation rate for the remaining items in the CPIX measured 4,6 per cent in April compared with 3,9 per cent in January, revealing an upward trend that was indicative of more broadly-based price pressures.

Inflation expectations, which provide an important indication of possible future inflation trends because of their impact on wage and price-setting processes, remained anchored at this stage. According to the inflation expectations survey conducted in May on behalf of the Bank by the Bureau for Economic Research (BER) at the University of Stellenbosch, inflation expectations remained within the inflation target range for all forecast years. CPIX inflation was expected to average 5,5 per cent in 2007, and to moderate to 5,3 per cent and 5,2 per cent in 2008 and 2009 respectively.

The central forecast of the Bank’s models presented to the June 2007 MPC meeting indicated a deteriorating inflation outlook. The forecast projected that CPIX inflation would peak at an average rate of 6,3 per cent in the first quarter of 2008 before declining to average 5,3 per cent in the fourth quarter of 2008. The risks to the outlook were viewed as being strongly skewed towards an overshooting of the central projection. Given this deterioration in the outlook, it was decided that the repurchase rate should be raised by 50 basis points to 9,5 per cent per annum.

By the August 2007 MPC meeting, the data showed that the CPIX had increased at a year-on-year rate of 6,4 per cent in both May and June 2007, with food and energy prices again contributing strongly. Food prices increased at rates of 9,0 per cent in May and 9,4 per cent in June 2007, and petrol prices at rates of 13,7 and 11,1 per cent in the corresponding months. Broader underlying pressures also continued to emerge, with the inflation rate for the CPIX excluding food and energy prices recording 4,6 per cent in May and 4,7 per cent in June. Internationally, there was some uncertainty about the potential impact of international financial market developments and a number of central banks injected significant amounts of liquidity into their banking systems to ensure an orderly adjustment to the tight liquidity conditions that were being experienced.

There was little evidence of a sustained slowdown in South African household consumption expenditure growth at that stage. The upward trend in wage settlements was noted with some concern by the MPC, and the outlook for CPIX inflation showed a further slight deterioration at this time. In view of these developments, it was decided that a further adjustment to the monetary policy stance was required in order to ensure the return of CPIX inflation to within the target range, and the repurchase rate was adjusted by 50 basis points to 10,0 per cent per annum.

When the MPC met in October 2007, the turbulence in the international financial markets had subsided somewhat, and it was evident that South Africa's financial markets had emerged from the episode relatively unscathed. Inflation remained above the upper limit of the inflation target range, increasing to 6,5 per cent in July before moderating to 6,3 per cent in August, and broader underlying pressures remained evident even once food and energy prices were excluded. Significantly, there were some signs that the economy was responding to the tighter monetary policy stance. One of the key inflation risks identified in previous meetings – the strong growth of real household consumption expenditure – slowed from an annualised rate of 7,4 per cent in the first quarter of 2007 to 5,5 per cent in the second quarter. This was the lowest quarterly increase since the second quarter of 2003.

However, inflation expectations measured by the survey conducted by the BER had increased in the third quarter of 2007. CPIX inflation was now expected to average 5,9 per cent in 2007, and 5,8 in 2008 and 5,6 per cent in 2009. These expectations were 0,5 percentage points higher for 2007 and 2008, and 0,4 percentage points higher for 2009 than those measured in the survey of the previous quarter. The central forecast of the Bank also indicated that the inflation outlook had deteriorated, with CPIX inflation now peaking in the first quarter of 2008 at an average rate of 6,8 per cent, before declining to the upper end of the inflation target range in the following quarter. The risks to this outlook from exogenous factors were judged to be on the upside. Having considered these developments, the MPC decided to increase the repurchase rate by 50 basis points to 10,5 per cent per annum.

At the December 2007 meeting food and energy prices were maintaining pressure on inflation. The CPIX inflation rate had reached 7,3 per cent in October, with food price inflation measuring 12,4 per cent and petrol prices increasing at a rate of 12,0 per cent. Although there was only a slight deterioration in CPIX inflation expectations as measured by the BER survey in the fourth quarter of 2007, expectations measured by break-even inflation rates – as the yield differential between conventional and inflation-linked bonds – had increased over all maturities since the October MPC meeting.

The central forecast of the Bank indicated a further deterioration in the inflation outlook, particularly in the short term, with CPIX inflation expected to peak at around 7,8 per cent in the first quarter of 2008 before declining to below the upper end of the target range by the final quarter of the year. Although previous monetary policy actions were beginning to impact on household consumption expenditure and helping moderate inflation pressures, the MPC noted the need to ensure that the short-term impact of higher inflation did not allow inflation expectations to become entrenched at higher levels, and decided to adjust the repurchase rate by 50 basis points to 11,0 per cent per annum.

When the first MPC meeting of 2008 was held in January, the international environment had become increasingly uncertain and volatile. The continued fall-out from the US sub-prime mortgage crisis had not been confined to financial markets and there had been a general downward revision to forecasts of global growth. The possibility existed that this could have spillover effects on the South African economy, which was also being affected adversely by electricity supply constraints at this time. The economy had also continued to respond to the tighter monetary policy stance. The moderation of household consumption expenditure continued and real retail sales extended the downward trend, which began in the middle of 2007. However, the short-term inflation outlook had deteriorated further, with CPIX inflation expected to peak in the first quarter of 2008 at an average rate of around 8,5 per cent, and there were still significant risks to this outlook. The heightened economic uncertainties, both domestically and globally, and some evidence of moderation in domestic consumption expenditure, were deemed significant enough to leave the repurchase rate unchanged at 11 per cent per annum.

By the time the April 2008 MPC meeting was held, the most recent data showed that the CPIX inflation rate had risen to 9,4 per cent in February 2008. Petrol and food prices had increased at rates of 29,5 and 14,3 per cent, respectively. There was further evidence of generalised price pressures and the prospect of additional substantial electricity price increases that would delay the return to within the inflation target range. Excluding food and energy prices, the inflation rate for the remaining items in the CPIX was 5,6 per cent in February. The change in the methodology for calculating clothing and footwear prices was also adding a transitional upward bias to the CPIX inflation rate, which would continue for the period from January to December 2008. In February the extent of this upward bias was approximately 0,18 percentage points.

These developments were having a significant impact on inflation expectations. According to the quarterly inflation expectations survey conducted in the first quarter of 2008 by the BER, average CPIX inflation expectations for 2008 had increased from 5,9 per cent at the time of the previous survey to 7,8 per cent, and from 5,6 to 7,0 per cent for 2009. There was also evidence that nominal wage settlements had been trending higher. According to Andrew Levy Employment Publications, wage settlements in the first quarter of 2008 had averaged 7,8 per cent compared with 7,3 per cent in 2007 and 6,5 per cent in 2006.

The central forecast of the Bank also indicated a further deterioration in the inflation outlook when compared with the previous forecast, with inflation expected to peak at an average of around 9,3 per cent in the first quarter of 2008 and to return to within the inflation target range by the fourth quarter of 2009. Although this forecast did not allow for the possibility of an electricity price increase in excess of that already granted to Eskom, the MPC did consider various alternative scenarios in its deliberations. Given the deteriorating inflation outlook and especially the evidence of more generalised inflationary pressures, the MPC decided to increase the repurchase rate by 50 basis points to 11,5 per cent per annum in April.

At the June 2008 MPC meeting the outlook for inflation remained bleak in an environment of sustained increases in international oil and food prices. The acceleration in international oil prices continued to surprise on the upside, with North Sea Brent crude oil prices reaching levels of almost US$140 per barrel in the days preceding the MPC meeting. The risk to both global and domestic inflation was seen to be firmly on the upside against the backdrop of a slowing international and domestic economy. Domestically, CPIX inflation measured 10,4 per cent in April 2008, compared with 10,1 per cent in March, with petrol prices increasing at a rate of 30,5 per cent and food prices by 15,9 per cent. Domestic petrol prices increased by 55 cents per litre in May and 50 cents per litre in June, resulting in a cumulative increase in the petrol price since January 2008 of around R2,50 per litre. Price increases continued to become more broad-based: if food and energy were excluded, CPIX inflation would have measured 6,1 per cent in April.

Inflation expectations had also deteriorated further. According to the BER survey undertaken during the second quarter of 2008, CPIX inflation expectations had increased at all forecast horizons. CPIX inflation was now expected to average 8,9 per cent in 2008, and then to moderate to average 7,9 per cent in 2009 and 7,2 per cent in 2010. The Bank's central forecast expected CPIX inflation to peak at around 12 per cent in the third quarter of 2008 and to return to within the inflation target range by the third quarter of 2010.

Adding to the inflation uncertainty was the impending announcement of the electricity price increases to be granted to Eskom. While mindful that the economy was responding to a less accommodative monetary policy stance, the MPC decided that further tightening of monetary policy was warranted. The repurchase rate was duly increased by 50 basis points to 12 per cent per annum.

Most recently, at the time of the August 2008 MPC meeting, the CPIX data showed that the inflation rate had risen from 10,9 per cent in May to 11,6 per cent in June. Food price inflation had accelerated from 16,9 per cent to 18,2 per cent over the same period, and petrol prices had increased by almost 36 per cent in June. Excluding food and petrol, the prices of the remaining items in the CPIX increased by 6,3 per cent in June.

The task of the MPC was once more to assess whether recent monetary policy actions have been sufficient to bring inflation back to within the inflation target range over the medium term. The central forecast of the Bank was complicated at this time by the rebasing and reweighting of the CPI basket that is to be implemented by Statistics South Africa from January 2009. Accepting that a number of assumptions have to be made in order to allow for these changes, which subject the forecast to additional uncertainty, the central projection is for the CPIX inflation rate to peak at an average rate of around 13 per cent in the third quarter of 2008. Inflation is then expected to decline significantly in the first quarter of 2009, partly as a result of the effects of the technical adjustments to the CPIX, and then to decline gradually to below the upper end of the inflation target range in the second quarter of 2010. The forecast incorporates as far as possible the additional electricity price increases granted to Eskom in June.

At the August meeting there was clear evidence that the economy was responding to the less accommodative monetary policy stance implemented since June 2006. Growth in household consumption expenditure appeared to have remained subdued, and real retail sales declined on a year-on-year basis in each of the four months to June 2008. Developments in GDP growth also indicated a widening output gap. There were also tentative signs that some of the risk factors may have moderated. The price of Brent crude oil, for example, was around US$112 per barrel at the time of this meeting, well below the US$140 per barrel at the time of the June MPC meeting, although it was noted that it was still too early to tell whether this decline was a temporary phenomenon. The trade-weighted exchange rate of the rand, which had experienced some volatility since the June meeting, had appreciated by about 4 per cent over the period.

Having considered these economic developments and the outlook for inflation, the MPC concluded that the prevailing monetary policy stance was appropriate. While the risks to the inflation outlook remain, some of these appear to have moderated somewhat. The future stance of monetary policy will be determined by the expected evolution of the determinants of inflation. The guiding principle for the MPC remains to bring inflation to within the target range within a reasonable time frame, and it will act appropriately to achieve its mandate.

Annual economic report[1]

Introduction

The past year presented significant challenges to economic policy-makers in most parts of the world as inflationary pressures intensified, while simultaneously the strong global growth of the preceding four years started to peter out. Inflationary forces were unleashed as the prices of crude oil and other commodities continued to soar, supported by the extraordinary growth momentum in China and India. At the same time, food price inflation picked up strongly as the rapidly rising standard of living in the most populous countries continued to add to global food demand, while supplies of some key agricultural commodities were diverted from food to biofuels production. Tentative signs of moderation in commodity prices only came to the fore from mid-2008.

1 This report provides the broader economic context within which the South African Reserve Bank operates.

Matters were further complicated by the turmoil in the developed financial markets related to the implosion of sub-prime mortgage lending in the United States (US) and dislocations in the structured credit markets. Not only did risk premiums rise considerably from previously very low levels, but liquidity in the interbank markets suffered considerably as confidence in counterparties deteriorated. To ameliorate systemic concerns, authorities in some of the directly affected financial markets bolstered liquidity, among other measures by broadening the range of instruments and counterparties allowed when extending central bank credit.

Central banks responded in different ways to this troublesome environment. For instance, among the G-20 group of economies which consists of larger, systemically important countries, five central banks on balance lowered their policy interest rates from the end of 2006 to the end of July 2008 – in the case of the US, which reacted most forcefully, by as much as 3,25 percentage points. Two central banks left their interest rates unchanged, while ten raised interest rates, including South Africa.[2] Moving beyond the G-20 the same pattern holds: with inflation accelerating, the number of central banks raising policy interest rates exceeded the number reducing rates.

2 Those central banks that raised rates included the European Central Bank (ECB), which represents several countries including three countries that are G-20 members in their own right.

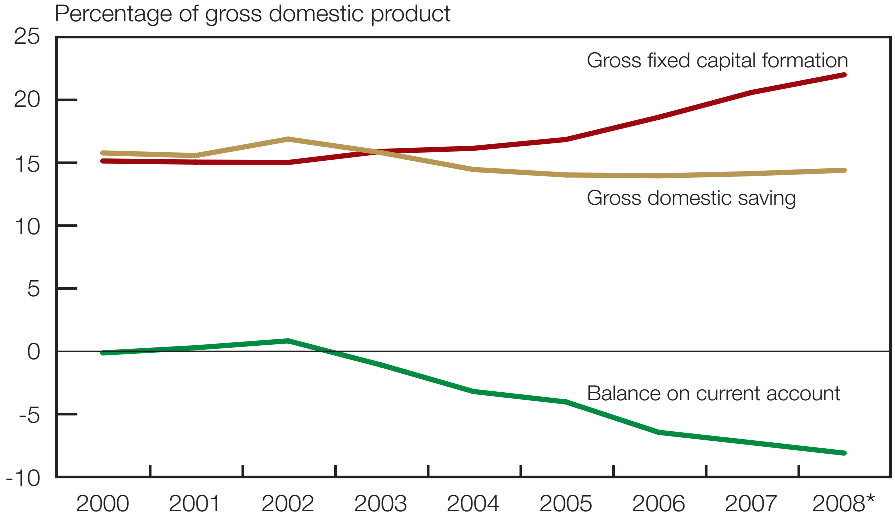
In South Africa economic growth retained robust momentum throughout 2007. However, severe logistical and capacity problems with the generation and transmission of electricity were experienced in the beginning months of 2008. This severely hampered production in electricity-intensive sectors such as mining and manufacturing, culminating in a significantly slower rate of economic growth, particularly in the first quarter of the year.

The tighter monetary policy stance and erosion of purchasing power through inflation contributed to a further slowing of growth in real final consumption expenditure by households during 2007 and the first half of 2008. Among the durable goods categories, new motor vehicle sales, for instance, contracted quite considerably over this period. Real final consumption expenditure by government trended higher as the authorities pursued improved service delivery, but short-term swings were superimposed on this trend by an uneven delivery schedule for military items.

Despite tightening economic conditions, real gross fixed capital formation continued expanding robustly over the past year-and-a-half. This buoyancy was fairly widespread across the various institutional and economic sectors, and partly reflected the drive to improve South Africa's infrastructure. Residential construction activity, however, ran out of steam from 2007 following several boom years. Inventory accumulation continued alongside rising domestic expenditure.

Supported by the robust growth in capital outlays, domestic expenditure continued to exceed domestic production by a considerable margin, which was reflected in ongoing deficits on the current account of the balance of payments. In 2007 as a whole this deficit rose to 7,3 per cent of gross domestic product – a level previously observed in the early 1980s. The electricity-induced production setbacks in the early part of 2008 had a negative impact on export volumes, but this was countered by the concurrent buoyancy of commodity prices. Rising net service and income payments to the rest of the world – reflecting increasing foreign liabilities and higher interest and dividend outflows – contributed to the magnitude of the deficit.

Saving, capital formation and balance on current account



* First half of 2008

During 2007 and the first half of 2008 South Africa continued to finance the deficit on the current account successfully. The form in which foreign saving found its way into the domestic market nevertheless changed considerably over time, with portfolio inflows for instance making way for foreign direct investment and “other investment” inflows in the first half of 2008. The higher level of interest rates in the domestic market may have contributed to the “other investment” inflows.

The South African Reserve Bank (the Bank) continued to add to its foreign exchange reserve holdings. As it purchased foreign currency in the market it injected rand liquidity, but neutralised this effect using various mechanisms. In 2007 the main mechanism for sterilisation was the increases in government deposits with the Bank, while in the first half of 2008 the emphasis shifted to the issuance of the Bank’s own securities.

The exchange value of the rand fluctuated broadly sideways during 2007, but depreciated significantly in the first few months of 2008 as sentiment was clouded by the problems with electricity supply against the background of unfamiliarly large deficits on the current account and a rising oil price. This depreciation contributed to import price increases and indirectly to domestic price pressures, alongside the impact of energy and food prices. CPIX inflation accelerated considerably during the period under review and came to 11,6 per cent in June and 13,0 per cent in July 2008. An additional concern was that CPIX inflation excluding the volatile food and petrol categories not only trended higher, but also breached the 6-per-cent mark in recent months. Wage settlements simultaneously edged higher over time.

Mindful of the need to stem and eventually reverse the build-up of inflationary momentum, the Monetary Policy Committee (MPC) raised the repurchase rate on four occasions in 2007 and two occasions in the first half of 2008, on each occasion by 50 basis points. Monetary policy is discussed in detail in a dedicated section of this *Annual Report*.

An important milestone was reached with the full implementation of the Basel II capital framework from 1 January 2008. Growth in money supply and in banks' credit extension moderated somewhat over the past 18 months, but nevertheless remained at high levels. While increases in real income moderated, the levels of consumer and producer prices rose briskly and simultaneously capital formation gained strong momentum, lending support to credit extension. Growth in M3 was bolstered by higher nominal interest returns on M3 deposits, rising nominal income and expenditure, and precautionary action by some investors who felt that it was time to realise the profits arising from positions in other asset markets and deposit the proceeds with banks for the time being.

Capital market turnover remained brisk, while long-term interest rates increased alongside deteriorating inflation expectations. During the past year, overall share prices were supported by high commodity and resources share prices, while financial, industrial and commercial shares registered a poor performance against the background of higher interest rates. From around mid-2008, however, the scales seemed to be reversed with declining prices of resources shares and renewed interest in financial, industrial and commercial shares.

Fiscal policy remained prudent. National government revenue exceeded expenditure in 2007/08 and was projected to do so again in each of the three fiscal years to 2010/11. Introduced in the 2007 *Medium Term Budget Policy Statement,* the structural (or cyclically adjusted) national government balance recorded a modest deficit in 2007/08, implying that cyclical forces temporarily bolstered government revenue and moderated expenditure. Modest structural deficits were also projected over the medium-term planning horizon.

Domestic economic developments

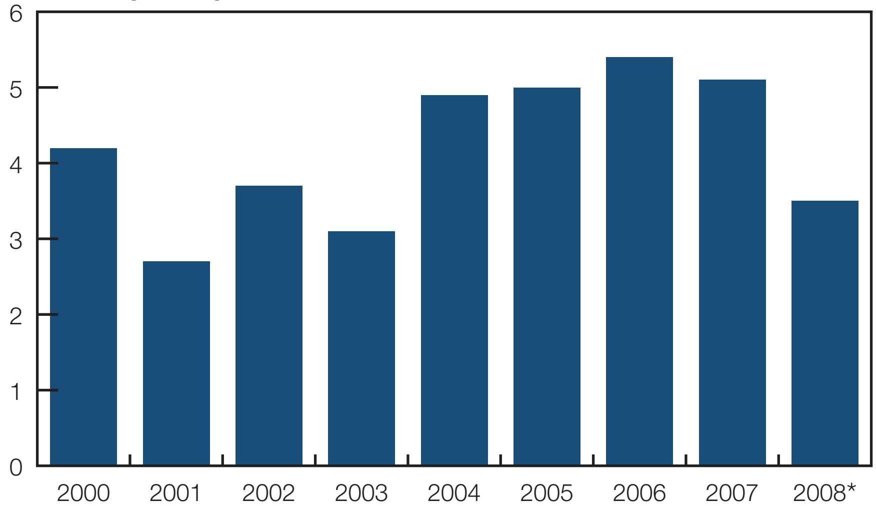
Domestic output[3]

Following four years of robust economic growth fluctuating around 5 per cent per annum, real economic activity expanded at a notably slower pace in the first half of 2008. The moderation in growth to below the country's estimated potential rate of output growth could mainly be attributed to severe electricity supply constraints in an environment of softening global and domestic demand.

3 Unless stated to the contrary, quarterly and half-yearly growth rates referred to in this section are based on seasonally adjusted data.

Real gross domestic product

Percentage change



* First half of 2008 compared with second half of 2007 (annualised)

Real output growth in the domestic economy decelerated from an annualised rate of 4,6 per cent in the second half of 2007 to 3,5 per cent in the first half of 2008. The slower pace of growth in the first half of 2008 resulted primarily from a decline in real value added by the primary sector and a moderation in growth in real value added by the tertiary sector, the latter sector having been the mainstay of the country's economic performance in recent years. By contrast, growth in real output of the secondary sector accelerated over the period.

Following an annualised decline in *real agricultural output* in 2006 and a marginal increase in 2007, growth in real value added by the agricultural sector recovered in the first half of 2008 on account of favourable weather conditions and larger areas planted, probably in response to increased demand and the steady rise in agricultural product prices. Adding further to an expected bumper commercial maize crop of 11,6 million tons in 2008, real horticulture and livestock production remained solid over the period. The contribution of the agricultural sector to gross domestic product nevertheless remained modest and amounted to 2,6 per cent in the first half of 2008.

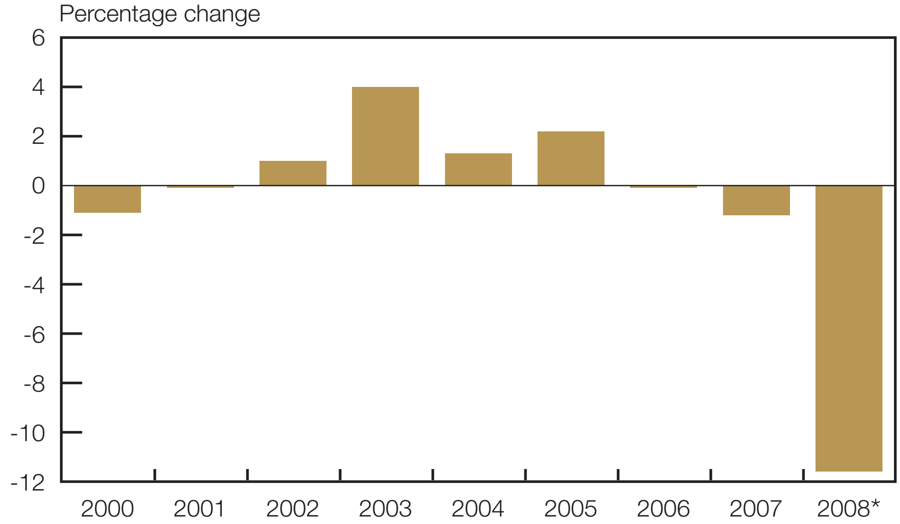
Real gross domestic product
Percentage change at seasonally adjusted annualised rates

	2006	2007			2008
Sectors	Year	1st half	2nd half	Year	1st half
Primary sector	-2,5	-0,5	-0,5	-0,6	-3,8
Agriculture	-7,9	4,3	7,0	0,9	16,3
Mining	-0,1	-2,3	-3,4	-1,2	-11,6
Secondary sector	6,2	6,4	2,8	5,8	5,5
Manufacturing	5,2	4,1	0,7	3,9	5,0
Electricity, gas and water	3,0	3,4	1,7	3,2	-3,9
Construction	14,7	20,9	13,8	18,1	13,6
Tertiary sector	6,1	5,6	6,1	5,7	3,7
Commerce	7,0	5,1	3,9	5,0	1,7
Transport and communication	5,0	5,7	4,6	5,2	3,7
Financial and other services	8,6	7,9	10,8	8,3	5,1
Non-agricultural sector	*5,7*	*5,3*	*4,7*	*5,3*	*3,2*
Total	5,4	5,3	4,6	5,1	3,5

Having already declined somewhat in both 2006 and 2007, real value added by the *mining sector* contracted at a rate of no less than 11,6 per cent in the first half of 2008 despite record-high international commodity prices. The sizeable decline in real output by the mining sector occurred predominantly in the subsectors for platinum, gold and diamond mining. Production volumes were directly affected by rolling electricity blackouts and rationing in the opening months of 2008, which gave rise to a one-week shutdown of mining operations in the first quarter of the year. Moreover, the mining sector was exposed to rising input costs, occasional flooding, industrial action and skills shortages which were exacerbated by the demand for skilled labour arising from other capital projects, including those geared towards the 2010 FIFA World Cup soccer tournament. In addition, certain gold mines were subject to sporadic shutdowns due to safety audits.

By contrast, real value added by the coal mining industry advanced partly due to increased demand from power stations to replenish severely depleted coal stockpiles. The coal mining industry is also less electricity-intensive compared with other subsectors in the mining industry.

Real value added by the mining sector



* First half of 2008 compared with second half of 2007 (annualised)

Real value added by the *secondary sector* accelerated in the first half of 2008. Growth in the real output of the sector was underpinned by increases in real value added by the manufacturing and construction sectors. By contrast, growth in real value added by the sector supplying *electricity, gas and water* contracted over the period.

Activity in the *manufacturing sector* expanded on average by 4,5 per cent per annum over the past three years, but this rate slowed to 3,0 per cent in the first half of 2008 compared with the same period in 2007. Production was primarily affected by the weaker growth in domestic demand and the moderation in global economic activity. In addition, the sector was exposed to increasing input costs, the rationing of electricity supplies and declining business confidence levels. As a result, the utilisation of production capacity eased somewhat and labour retrenchments occurred in certain subsectors.

Real value added by the sector supplying *electricity, gas and water* contracted in the first half of 2008, mainly on account of lower production in the electricity subsector. Production in this subsector was adversely affected by unscheduled plant maintenance and logistical problems exacerbated by high rainfall, which had a negative effect on the quantity and quality of coal stockpiles at the power plants operated by Eskom, the country's power utility.

Having increased at a robust pace in 2007, growth in real value added by the *construction sector* maintained a brisk annualised rate of 13,6 per cent in the first half of 2008, primarily due to increased activity in civil construction works. Infrastructure development and non-residential building activity maintained their upward momentum, whereas activity in the subsector for residential buildings levelled off over the period. The relative contribution of the construction sector to gross domestic production accordingly increased marginally in the first half of 2008.

In the *tertiary sector* growth in real value added maintained sturdy momentum in both 2006 and 2007, but moderated in the first half of 2008 to an annualised rate of 3,7 per cent. The slower growth momentum was broad-based, affecting all the subsectors as business confidence dropped to five-year lows alongside decelerating domestic final demand. Growth in the tertiary sector averaged 5,6 per cent per annum during the period 2003 to 2007, contributing substantially to rising real gross domestic production.

Growth in *real gross national income* slowed from 6,7 per cent in 2006 to 5,2 per cent in 2007 before reaccelerating to an annualised rate of 6,6 per cent in the first half of

2008. The increase in real gross national income mainly reflected an improvement in the country's terms of trade and lower net primary income payments to the rest of the world. Real national income per capita increased at an annualised rate of 5,4 per cent in the first half of 2008, significantly more than the average increase of 4,6 per cent per annum during the period 2005 to 2007.

Domestic expenditure

Although growth in aggregate *real gross domestic expenditure* slowed significantly between 2006, and 2007, the pace of growth in each calendar year continued to surpass that of the gross domestic product. Growth in real gross domestic expenditure accelerated again in the first half of 2008, underpinned by strong growth in fixed capital formation, final consumption expenditure by general government and a rebound in the accumulation of inventories.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

	2006	2007			2008
Components	Year	1st half	2nd half	Year	1st half
Final consumption expenditure:					
Households	8,2	7,2	4,4	7,0	2,9
General government	5,2	6,9	3,6	5,0	6,2
Gross fixed capital formation	13,8	15,5	12,8	14,8	14,2
Change in inventories (R billions)*	16,5	11,0	-1,1	4,9	1,5
Gross domestic expenditure	**9,2**	**7,2**	**3,3**	**6,0**	**5,7**

* At constant 2000 prices

Real final consumption expenditure by households

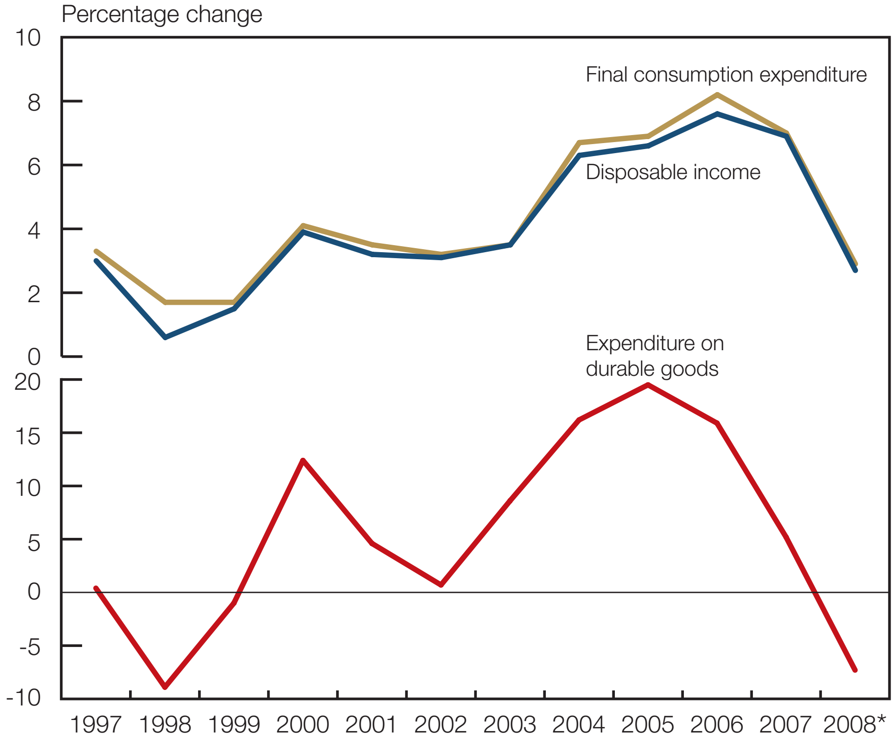
Growth in *real final consumption expenditure by households* maintained an exuberant pace in 2006, but gradually lost momentum in 2007 and the first half of 2008. A contraction in real expenditure on durable goods – more specifically motor vehicles, recreational and entertainment goods – and a marked slowdown in real purchases of non-durable goods held back growth in real final consumption expenditure in the first half of 2008. The moderation in consumer spending reflected a slowdown in real disposable income as broad-based inflationary pressures eroded the purchasing power of households. This was exacerbated by the steady rise in debt-service costs and a deterioration in households' net wealth accumulation due to increasingly sluggish asset prices.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

	2006	2007			2008
Components	Year	1st half	2nd half	Year	1st half
Durable goods	15,9	4,3	0,6	5,2	-7,3
Semi-durable goods	19,9	16,5	9,2	16,0	7,9
Non-durable goods	5,4	6,0	4,0	5,5	2,0
Services	4,9	5,5	3,9	5,4	4,8
Total	**8,2**	**7,2**	**4,4**	**7,0**	**2,9**

Household real final consumption expenditure and disposable income



* First half of 2008 compared with second half of 2007 (annualised)

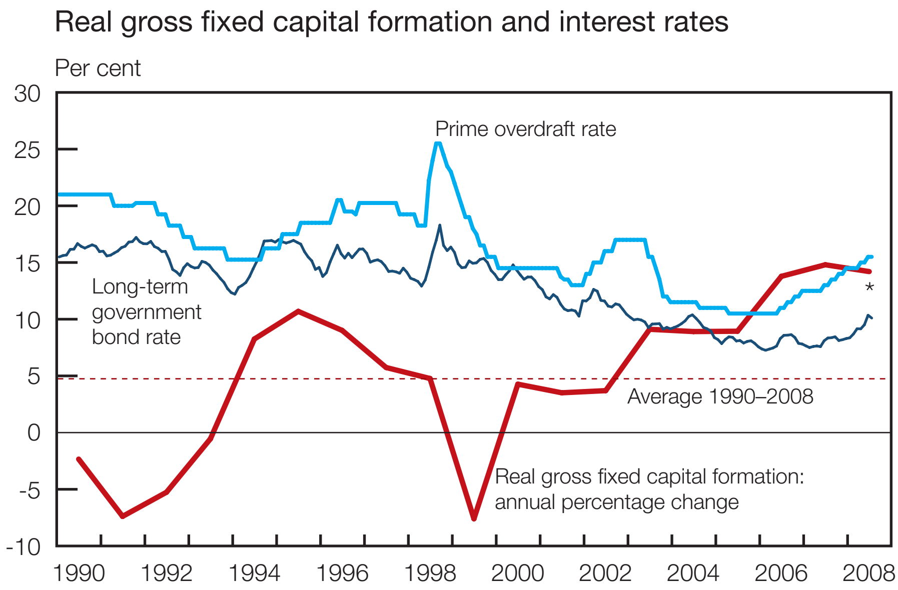
Alongside the tightening of monetary policy, the previously rapidly rising ratio of household debt to annualised disposable income levelled off, amounting to 77,4 per cent in the first half of 2008. However, debt service cost relative to the disposable income of households advanced to 11,4 per cent over the period, reflecting the higher level of interest rates.

Real final consumption expenditure by general government

Growth in real final consumption expenditure by *general government* remained firm in 2007 and the first half of 2008, supported by increased spending on goods and services, which included deliveries associated with the defence procurement programme. At the same time, compensation of employees continued to increase; however, the share of compensation of government employees in total consumption expenditure decreased. Final consumption expenditure by general government as a percentage of gross domestic product remained broadly unchanged during the 18-month period to June 2008.

Real gross fixed capital formation

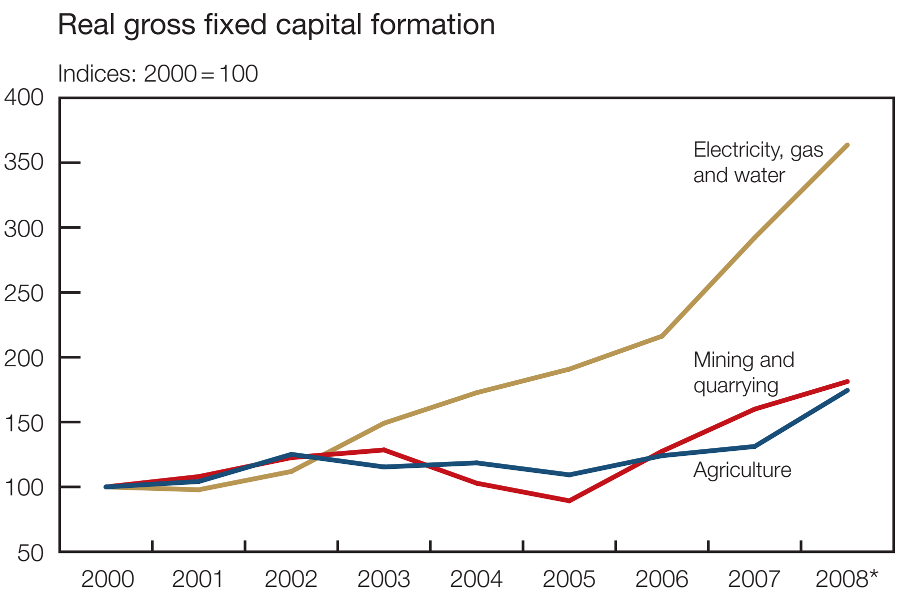
Real gross fixed capital formation has remained strong since the beginning of 2006 and increased at an annualised rate of 14,2 per cent in the first half of 2008. This rate of growth in real capital outlays was well above the long-term average of 4,8 per cent recorded between 1990 and 2008. The recent increase in capital spending predominantly reflected the buoyant investment activities of public corporations, which are not sensitive to changes in interest rates. As a result, the ratio of gross domestic fixed capital formation to gross domestic product increased from 20,5 per cent in 2007 to 22,0 per cent in the first half of 2008.



* First half of 2008 compared with second half of 2007 (annualised)

Growth in gross fixed capital formation by the *private sector* proceeded at a robust rate of 14,8 per cent in 2007 before moderating to a still brisk annualised rate of 11,4 per cent in the first half of 2008. Investment activity levelled off in all major sectors of the economy, except for the agricultural and mining sectors which responded to favourable commodity prices. Projects to expand gold, platinum and iron ore mining production regained momentum. Ongoing capital outlays on the Gautrain project underpinned growth in capital expenditure by the private sector.

Public corporations stepped up capital spending on electricity and transport infrastructure. Fixed capital formation by public corporations accordingly increased at robust rates of more than 30 per cent in 2007 and in the first half of 2008. Increased real capital outlays by the electricity sector since the beginning of 2007 reflected spending on the refurbishment of existing power stations as well as the construction of new power stations, including Medupi, situated on the Waterberg coal seam. Investment by the transport sector was boosted by the expansion of rail and ports capacity by Transnet.



* First half of 2008

Capital expenditure by *general government* recovered from the low rate of growth of 0,6 per cent recorded in 2007 to an annualised rate of 6,5 per cent in the first half of 2008, reflecting increased spending by provincial governments on the upgrading and expansion of existing infrastructure.

Growth in real investment in residential buildings decelerated from a rate in excess of 18 per cent in 2006 to 10,5 per cent in 2007 and then to an annualised rate of 2,9 per cent in the first half of 2008. This moderation in growth could mainly be ascribed to tighter credit conditions and the reduced affordability of housing in general. Simultaneously, growth in real capital outlays on non-residential buildings started to lose momentum as shortages in electricity supply, higher interest rates and increased uncertainty took effect. However, investment in *construction works* and *transport equipment* continued to underpin investment activity related to the Gautrain project and the 2010 FIFA World Cup soccer tournament.

Change in inventories

Real inventory accumulation, which occurred almost uninterruptedly during the past nine years, reversed in the second half of 2007 when inventory holdings declined by R1,1 billion, led by oil and mining stocks. The accumulation of inventories resumed in the first half of 2008 when inventories to the value of R1,5 billion, at 2000 prices, were added to stock levels notwithstanding the slowdown in supply in an environment of higher interest rates.

An analysis of inventory accumulation by economic sector in the first half of 2008 indicated that the accumulation of inventories was fairly broad-based, with the exception of the mining and commerce sectors where declines were recorded. The commerce sector responded to the perceived slowing demand for its products in conjunction with the higher costs of keeping large inventory holdings.

Factor income

Growth in aggregate *nominal factor income* increased from a year-on-year rate of 13,9 per cent in the second half of 2007 to 16,3 per cent in the first half of 2008 due to stronger growth in the gross operating surpluses of business enterprises. Growth in the *gross operating surpluses* of business enterprises accelerated from 15,6 per cent in the second half of 2007 to 21,1 per cent in the first half of 2008 as most of the major sectors of the economy registered stronger growth in operating surpluses. The primary sector, in particular, benefited from booming commodity prices alongside a depreciation of the external value of the rand.

On a year-on-year basis, increases in the *compensation of employees* decelerated from an annualised rate of 12,1 per cent in the second half of 2007 to 11,1 per cent in the first half of 2008. The containment of costs by business enterprises through the rationalisation of staff was in part neutralised by higher wage settlement rates. The share of compensation of employees in total factor income consequently decreased from 48,6 per cent in the second half of 2007 to 46,0 per cent in the first half of 2008.

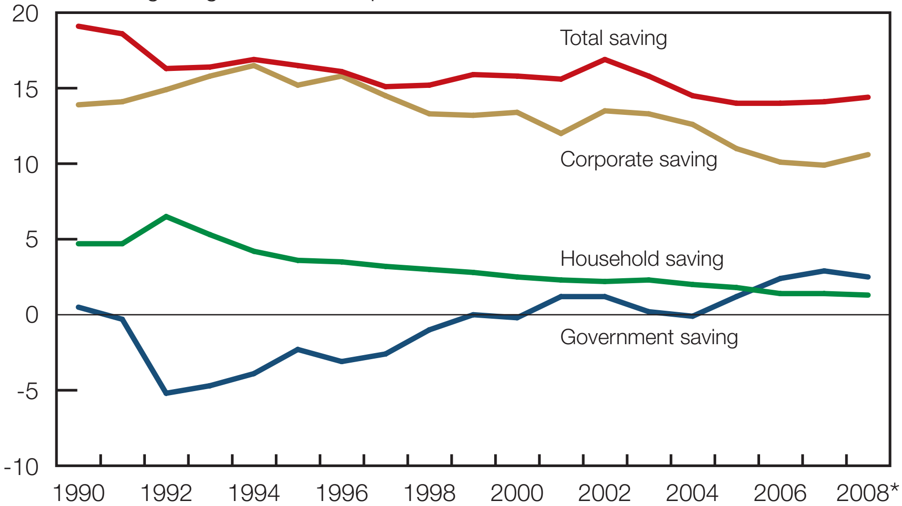
Gross saving

The *national saving ratio* declined from its most recent peak of 16,9 per cent in 2002 to a low of 13,5 per cent in the second half of 2007 before recovering to 14,4 per cent in the first half of 2008. This recovery reflected the improved saving performance by the corporate sector and general government, while the saving ratio of the household sector remained unchanged at the level recorded in 2007. Notwithstanding the improved saving ratio, the contribution of foreign capital towards the financing of the country’s capital formation increased from 34,0 per cent in 2007 to a new high of 35,9 per cent in the first half of 2008.

Gross saving by the *corporate sector* relative to gross domestic product increased from 9,7 per cent in the second half of 2007 to 10,5 per cent in the first half of 2008. This increase mainly reflected the higher gross operating surpluses of the corporate sector and a moderation in dividends declared over the period.

Gross domestic saving

Percentage of gross domestic product



* First half of 2008

The saving ratio of *general government* continued its upward trend which commenced in 1992. The saving ratio advanced from a negative 6,3 per cent in the second half of 1992 to a most recent high of 3,4 per cent in the first half of 2007 before declining somewhat to 2,6 per cent in the first half of 2008. The lower saving ratio in the first half of 2008 reflected slower growth in tax collections by general government, while current expenditure increased mainly on account of higher wages and social grants paid.

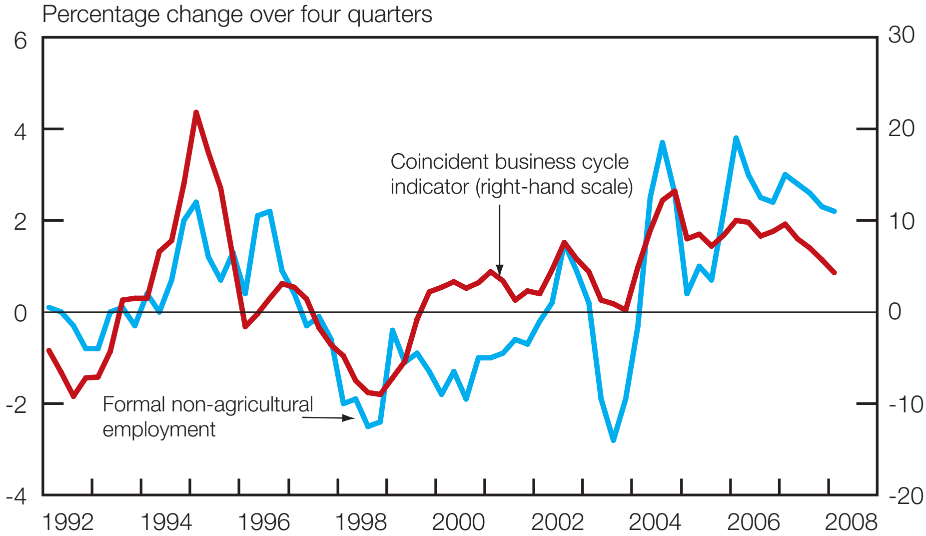
In contrast to the saving performance of general government, the saving ratio of the *household sector* declined from 6,5 per cent in the second half of 1992 and maintained a low of about 1,3 per cent in both the second half of 2007 and the first half of 2008. The protracted consumption boom by the household sector that started in 1993 and peaked in 2006 before tapering off somewhat more recently, had a counterpart in the poor saving performance of the household sector.

Employment

Following an extended period of contraction in the South African labour market, a significant expansion in the number of gainfully employed persons in the economy resulted from meaningful advances in the level of economic activity during the past four years. According to the biannual *Labour Force Survey* conducted by Statistics South Africa (Stats SA), overall employment in the economy increased by approximately 1,6 million persons, or by around 14 per cent, during the four-year period to September 2007. These favourable employment conditions led to a reduction in the unemployment rate from 28 per cent in September 2003 to 23 per cent in September 2007. During this period overall employment rose at an average annual rate of around 3,5 per cent, but still fell short of overall economic growth of around 5 per cent annually. Despite this, South Africa's labour absorption rates have increased. However, during the first half of 2008 employment prospects regrettably deteriorated substantially in conjunction with a slowdown in economic growth.

Economic activity and formal non-agricultural employment

Percentage change over four quarters



The deterioration in employment prospects so far in 2008 is corroborated, among others, by the Investec Purchasing Managers Index, a survey conducted by the Bureau for Economic Research indicating that constraints such as the shortage of skilled labour, the insufficient supply of electricity as well as weakening domestic and global demand will suppress activity in the manufacturing sector during the coming months. As a consequence, further employment losses are foreseen in the manufacturing sector. In support of conclusive indications from sector-specific surveys, anecdotal evidence suggests that some job-shedding in the months ahead is also expected, particularly in those sectors that are most reliant on domestic demand.

The expectation of deteriorating employment prospects in the domestic economy during 2008 is consistent with findings by the International Labour Organisation that global unemployment will increase materially during this year, within an environment of slowing world growth.

When employment growth in the *formal non-agricultural sector* of the economy is measured over periods of four quarters, the pace of increase slowed from 3,0 per cent in the first quarter of 2007 to 2,2 per cent in the first quarter of 2008, as employment growth in especially the private sector subsided. A slower pace of employment growth was evident in all but three of the main subsectors of the *private non-agricultural sector of the economy* in the course of 2007 and into 2008. In two of these three subsectors (the community, social and personal services sector and the transport, storage and communication sector), further employment losses were halted in the first quarter of 2008, when compared with the same period in the preceding year. Employment losses in the manufacturing sector, however, continued apace.

Despite a less vigorous expansion in employment numbers in the non-gold mining sector, a fairly sizeable increase in excess of 6 per cent still occurred in the year to the first quarter of 2008. If there had been no electricity supply disruptions during that quarter, employment gains could arguably have been more in line with the continued international commodity price boom. The level of employment in the gold-mining sector, however, remained broadly unchanged over this period. The robust pace of employment growth in the construction sector at a rate in excess of 20 per cent in 2005 slowed markedly to a barely positive rate over the most recent four quarters. This is in accordance with the contraction in activity in the residential construction sector during the early part of 2008.

The depreciation in the exchange rate of the rand during the past year may, however, entice higher exports of goods and services, thereby counteracting the expected slowdown in employment creation during the coming period. With a number of large projects in the electricity generation sector currently being undertaken by Eskom, in an effort to boost existing electricity generation capacity, the sector is expected to contribute meaningfully towards employment creation in coming years. The civil construction sector is also expected to remain buoyant, supported by large infrastructure investments in preparation for the 2010 FIFA World Cup soccer tournament and other infrastructural initiatives such as the Gautrain rapid rail link.

Change in enterprise-surveyed formal non-agricultural employment: March 2008

Sector	Over four quarters	
	Number	Percentage change
Mining	20 000	4,1
Gold mining	300	0,2
Non-gold mining	19 600	6,1
Manufacturing	-11 100	-0,8
Electricity supply	900	1,7
Construction	3 100	0,7
Trade, catering and accommodation	32 800	1,9
Transport, storage and communication	1 000	0,4
Finance, insurance and real estate	77 700	4,3
Community, social and personal services	700	0,2
Total private sector	**125 100**	**1,9**
National, provincial and local government	55 400	3,7
Public-sector enterprises	2 600	1,1
Total public sector	**58 000**	**3,4**
Grand total	**183 200**	**2,2**

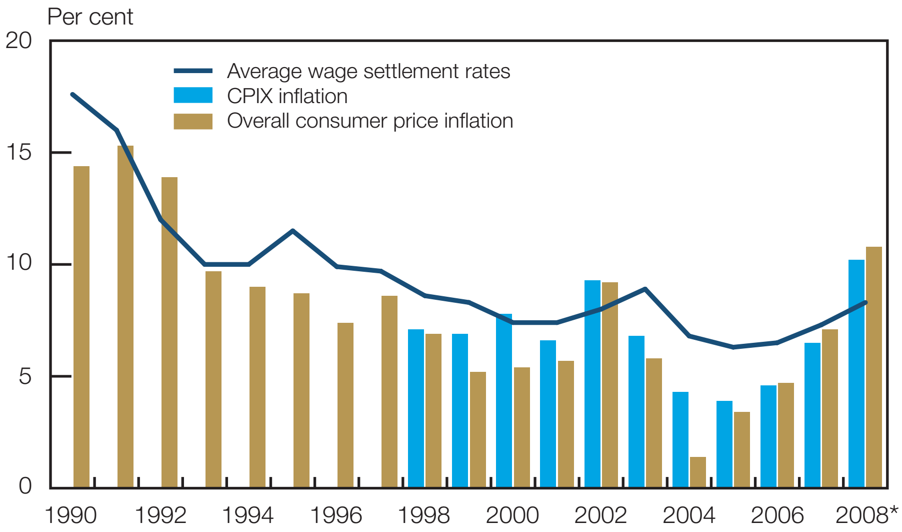
Meaningful increases in *public-sector* employment numbers during 2007 and the opening months of 2008 have to some extent compensated for sluggish employment growth in the remainder of the economy during a period of slowing growth. Remaining at a fairly elevated rate of increase, public-sector employment numbers rose by 3,4 per cent in the year to the first quarter of 2008, mainly driven by increases at provincial government level.

Labour cost and productivity

The pace of increase in *nominal remuneration per worker* in the formal non-agricultural sector of the economy in 2007 decelerated to a rate slightly in excess of the upper limit of the inflation target range as a result of decelerating private-sector wage growth. Despite showing some acceleration from the preceding year, nominal remuneration growth in the public sector at an average annual rate of 6,8 per cent in 2007 was roughly on a par with that in the private sector. Wage demands increased in tandem with inflationary pressures in the economy during the first half of 2008, leading to a marked acceleration in the rate of increase in nominal remuneration per worker to 12,3 per cent in the year to the first quarter of 2008 – the highest rate of increase in the past ten years. An acceleration in nominal remuneration growth to double-digit rates occurred in both the private and public sector over this period.

The acceleration in wage growth during the first half of 2008 is corroborated by the findings from the *Wage Settlement Survey* conducted by Andrew Levy Employment Publications, a private-sector labour consultancy, indicating that the average wage settlement rate in collective bargaining agreements rose consistently from 6,5 per cent in 2006 to 7,3 per cent in 2007 and further to 8,3 per cent in the first half of 2008. At this rate, average settlements were still below the general rise in consumer prices during that period, leading to decreases in workers' real take-home pay.

Wage settlement rates and consumer price inflation



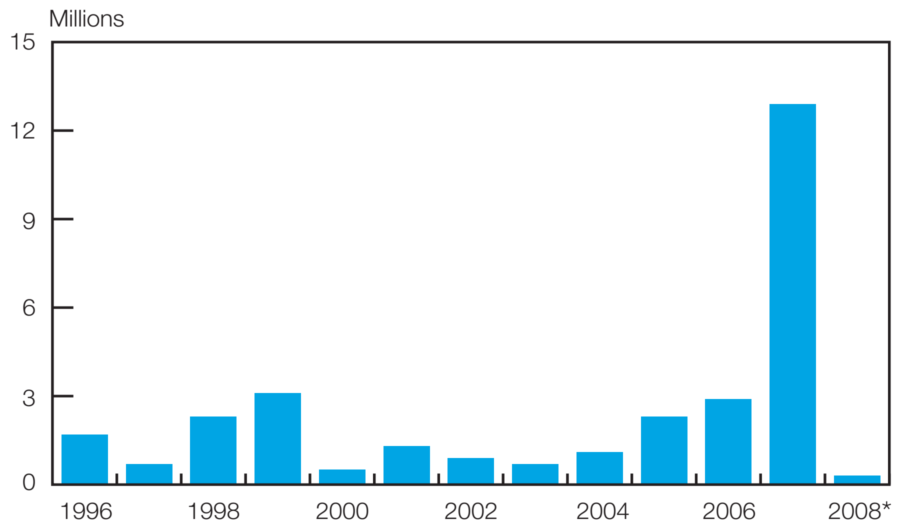
* First half of 2008

Sources: Andrew Levy Employment Publications and Statistics South Africa

Labour productivity growth in the formal non-agricultural sector remained more or less at 2,5 per cent per annum in both 2006 and 2007. Following sluggish output and a spurt in employment numbers in the first quarter of 2008, labour productivity growth decelerated in that quarter. Despite being at a somewhat higher rate than in the non-agricultural sector as a whole, labour productivity growth in the *manufacturing sector* also decelerated. In fact, the pace of increase halved to 3,8 per cent in the year to the first quarter of 2008, compared with five quarters earlier.

According to Andrew Levy Employment Publications, the number of man-days lost through industrial action fell back meaningfully from 12,9 million in 2007 – related to the

Number of man-days lost through industrial action



* First half of 2008

Source: Andrew Levy Employment Publications protracted strike by public-sector workers – to only 265 000 in the first half of 2008, auguring well for improved productivity outcomes during the latter period.

Average annual increases in the *cost of labour per unit of production* expressed in nominal terms comfortably remained within the inflation target range during the three-year period to 2007, contributing to the containment of production costs in the economy. Following the surge in nominal remuneration increases in the first quarter of 2008, coupled with a further slowdown in labour productivity growth, the year-on-year rate of increase in nominal unit labour cost accelerated rapidly to above 10 per cent in that quarter.

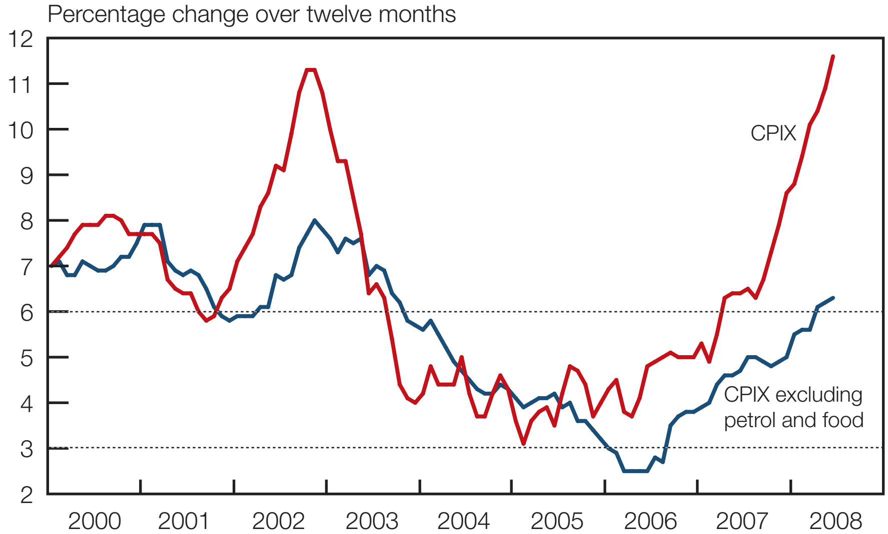
Increases in nominal unit labour cost in the *manufacturing sector* assisted in the containment of domestically generated inflationary pressures in the economy as they consistently fell below the lower limit of the inflation target range during the three-year period to 2007. However, consistent with the marked increase in unit labour cost pressures in the overall economy during the opening months of 2008, increases in nominal unit labour cost in the manufacturing sector in the year to the first quarter of 2008 also exceeded the upper limit of the inflation target range – the first such occurrence in four years. Accelerating nominal unit labour cost increases, coupled with the surge in energy costs (higher petrol and diesel prices as well as elevated electricity tariffs) are discouraging elements of the inflation picture.

Prices

Most inflation-targeting countries across the world have exceeded their inflation targets during the past year or so, following rapid advances in especially fuel and food prices. In South Africa the rate of change over twelve months in CPIX, the monetary policy inflation target measure, had remained within the target range for three-and-a-half years but began to breach the upper limit of the inflation target range of 3 to 6 per cent from April 2007. CPIX inflation thereafter accelerated unabatedly to 11,6 per cent in June and 13,0 per cent in July 2008, defying the slowdown in domestic economic activity. Inflation became more broad-based in recent months. In an effort to address second-round inflationary pressures, the monetary authorities continued to pursue a more restrictive monetary policy stance as their policy direction from the middle of 2006.

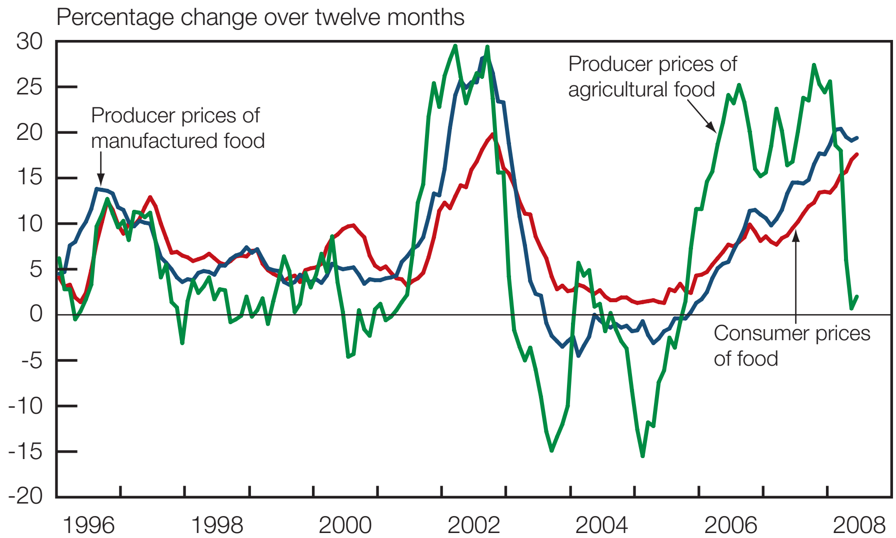
CPIX

Percentage change over twelve months



The substantial increase in international crude oil prices that has unleashed a wave of inflationary pressures across the globe also had a profound impact on price developments in the domestic economy. As a consequence of these higher crude oil prices, the inland pump price of 95 octane petrol rose by no less than 98 per cent in the 19 months to July 2008. Higher international food prices, another main driver of global inflation, had an adverse impact on the domestic economy through import parity pricing practices. Coupled with steep increases in production costs, producer prices of food at the agricultural level rose at twelve-month rates which fluctuated around 20 per cent in both 2006 and 2007. This propelled inflation in the producer prices of manufactured food products to five-year highs most recently, as reflected in the accompanying graph. At the retail level, twelve-month food price increases rose above 10 per cent in the course of 2007, picking up further momentum so that by June 2008, retail prices of food had risen by no less than 18,2 per cent from a year earlier. Most recently a sharp deceleration in agricultural food price inflation was recorded as price levels, although high, stopped rising further and as quantities supplied in some instances started to respond to price signals. This probably augurs well for future food price developments.

Food prices



The depreciation in the exchange rate of the rand during the first half of 2008, within an environment of relatively high turbulence in international financial markets, has compounded inflationary pressures in the domestic economy through price rises of imported goods. This marked acceleration in inflation in the *producer prices of imported commodities* during the 18-month period to June 2008 was due to sizeable increases in the prices of crude oil, agricultural products, manufactured food products, products of petroleum and coal, and chemical and chemical products. In the aggregate, imported goods prices rose by around 25 per cent in the twelve months to June 2008, from single-digit levels a year earlier.

Producer price inflation for *domestically produced goods*, be they consumed in the domestic market or exported, progressively accelerated from early 2004 and exceeded 10 per cent during most of 2007. Overall, producer prices increased by as much as 16,8 per cent in the year to June 2008. The main drivers of this acceleration in producer price inflation, apart from the already mentioned food and oil-related price increases, were higher prices of wood and wood products, rubber and plastic products, basic iron and steel as well as non-electrical machinery and equipment.

As higher producer prices filtered through to the retail level, *CPIX goods price* inflation during 2007 accelerated beyond 6 per cent for the first time in four years. As price pressures became more broad-based, the pace of increase in consumer goods prices picked up further, reaching 14,4 per cent in the year to June 2008. Apart from the higher food and petrol prices, inflation in the prices of alcoholic beverages and tobacco, clothing and footwear, water, fuel and power, and household consumables and personal care goods accelerated at a faster pace in recent months.

Unlike goods price inflation that is directly influenced by supply-side shocks, *CPIX services price inflation* remained comfortably within the inflation target range during the three-year period to 2007. From the second half of 2007, the year-on-year rate of increase in CPIX services prices accelerated gradually and breached the upper boundary of the inflation target range in April 2008, recording a rate of 6,5 per cent. The pickup in CPIX services price inflation during the period resulted primarily from increased housing services prices, in particular, domestic workers' wages and homeowners' costs. Higher rates of increase in the prices of education services, dry cleaning, hairdressing, and licence and registration fees added further to increased services price pressures during the first half of 2008. Looking ahead, further electricity price increases – necessitated by the need to maintain and further expand Eskom's electricity-generation capacity during coming years – are bound to put more upward pressure on services price inflation and administered price inflation.

Inflation in the components of CPIX

Percentage change over one year

	Weights	2007	June 2008
Transport running costs	5,7	10,0	33,8
Food and soft drinks	26,9	10,1	17,8
Clothing and footwear	4,1	-8,1	10,2
Housing services	13,4	6,3	8,4
Other goods	17,5	5,5	7,6
Alcoholic beverages and tobacco	3,1	8,4	6,6
Services excluding housing and transport	16,5	5,3	*5,7*
Transport services	3,9	3,9	*4,8*
Vehicles	5,7	0,4	0,5
Furniture and equipment	3,2	-0,2	0,2
Total CPIX	100,0	6,5	11,6

Italics denote year-on-year values inside the inflation target range of between 3 and 6 per cent for the latest available observations

Inflation in *administered goods and services prices excluding petrol*, accounting for around 15 per cent of the CPIX basket, remained fairly well contained at rates below 6 per cent during the two-year period to June 2007. Subsequently, administered goods and services price inflation gained further momentum over a broad front, led by higher municipal assessment rates, sanitary fees, water and electricity prices, as well as telephone rent and installation costs. Of note is the marked increase in paraffin prices at a rate in excess of 30 per cent in the twelve months to June 2008 – this increase being directly related to the general rise in oil prices over the period, further compounding the hardship of the poor.

Notwithstanding indications that the economy is responding to the more restrictive monetary policy stance, the more or less continuous worsening of exogenous drivers of inflation and the endogenous momentum that seemed to have built up, resulted in a substantial deterioration in inflation expectations from the beginning of 2008. Higher inflation expectations have a bearing on wage demands and consequently contributed to wage settlement rates rising further in the first half of 2008.

Stats SA has embarked on an intensive process of reviewing existing price index compilation practices. The introduction in the consumer price index (CPI) of clothing and footwear prices, which from January 2008 no longer include items on sale at reduced prices, has temporarily introduced a slight upward bias in the measured level of consumer price inflation which will remain effective during the whole of 2008. The data source for the calculation of domestic workers' wage inflation was changed from the biannual *Labour Force Survey* to the Unemployment Insurance Fund from April 2008. Furthermore, to comply with international best practice, the compilation of the producer price index (PPI) was revised in terms of its weighting structure, classification approach and item coverage, and published from January 2008. These changes have resulted in the new PPI not being fully comparable with the previously published time series. In addition, in February 2009 Stats SA will introduce a new CPI with various methodological and other changes. The new time series will be reweighted, reclassified and rebased. In preparation for the change-over, Stats SA is busy with parallel price collection on both the existing and new CPI. The consumer price indices published for 2008 are, and will remain, the official price indices for 2008. The new weights, *inter alia,* provide for a smaller weight for food and larger weight for vehicles in the future CPI; the rates of inflation in these components relative to other components in January 2009 will therefore have a bearing on the official inflation rate at that time.

Foreign trade and payments

International economic developments

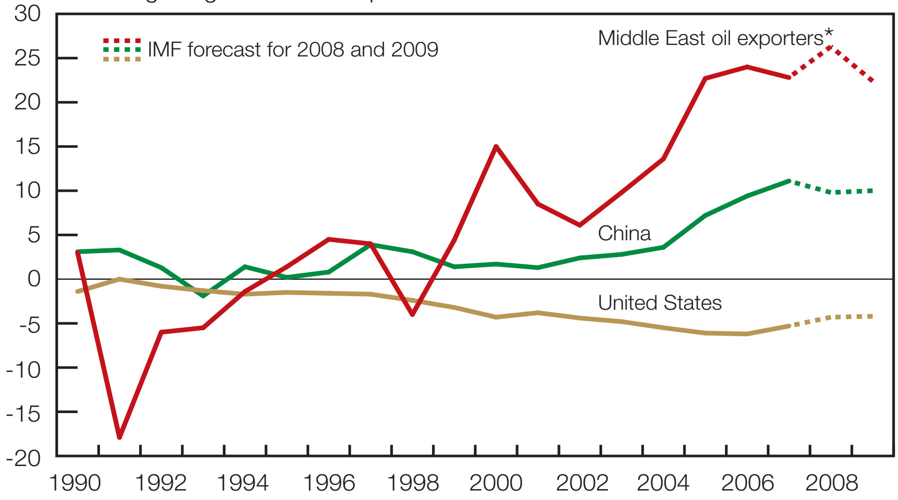
The global economy continued to grow at a pace exceeding the long-term average growth rate for the fifth consecutive year in 2007. While in the advanced countries economic activity moderated somewhat in 2007, it remained strong in emerging-market and developing economies as a group, particularly in China and India. The financial market disruptions that began in August 2007 following the sub-prime mortgage market turmoil in the US, however, had a profound effect on consumer and investment sentiment across the globe. Consequently, in most parts of the world economic activity started to moderate towards the end of 2007, with the recent International Monetary Fund's (IMF) *World Economic Outlook Update* expecting global growth to slow further from 5,0 per cent in 2007 to 4,1 per cent in 2008 and 3,9 per cent in 2009. Nevertheless, economic growth outcomes and prospects for the African continent remained relatively favourable, buoyed by firm export proceeds, strong investment and improved policies.

While in some instances current-account imbalances have begun to narrow, the surpluses recorded by oil exporters continued their upward trajectory. Although currently overshadowed by the global financial market turbulence, the risks associated with a possible disruptive unwinding of large imbalances remain a concern, underlining the importance of the *IMF's Multilateral Consultation on Global Imbalances*.

The upward trend in international commodity prices continued in 2007 and the first half of 2008, reflecting persistent demand growth which was not fully met by increases in supply. The pace of increase in food prices accelerated unabatedly in 2007, while metals and energy prices recorded smaller gains compared with the preceding year. After surging by almost 60 per cent in the course of 2007, crude oil prices increased by a

Current-account balance

Percentage of gross domestic product



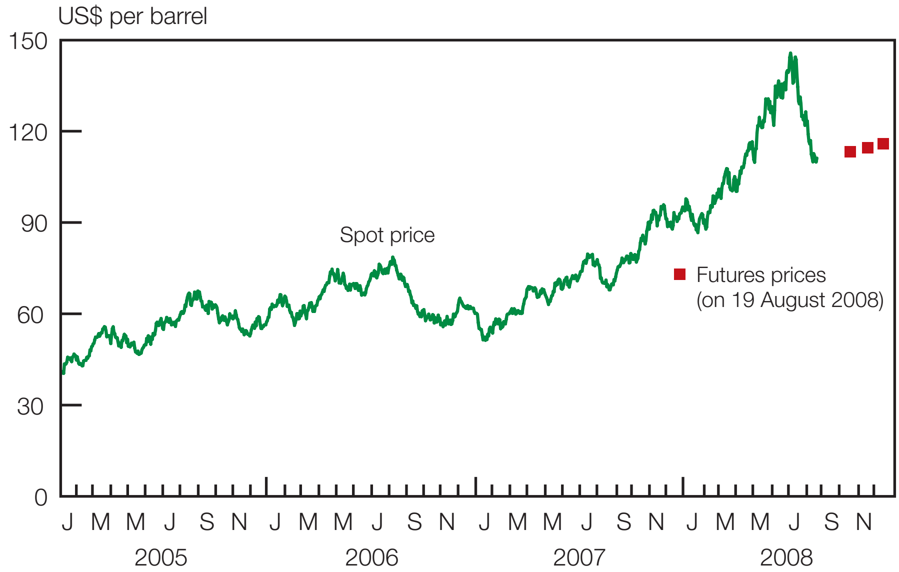
* Middle East oil exporters include Bahrain, Iran, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen

Source: IMF *World Economic Outlook Database*, April 2008

further 50 per cent during the first half of 2008 with the price of Brent crude oil reaching a new record of US$146 per barrel in early July. Subsequently, crude oil prices declined by almost US$40 to levels of around US$110 per barrel in mid-August 2008 following increasing concerns about slower global economic growth.

Brent crude oil prices

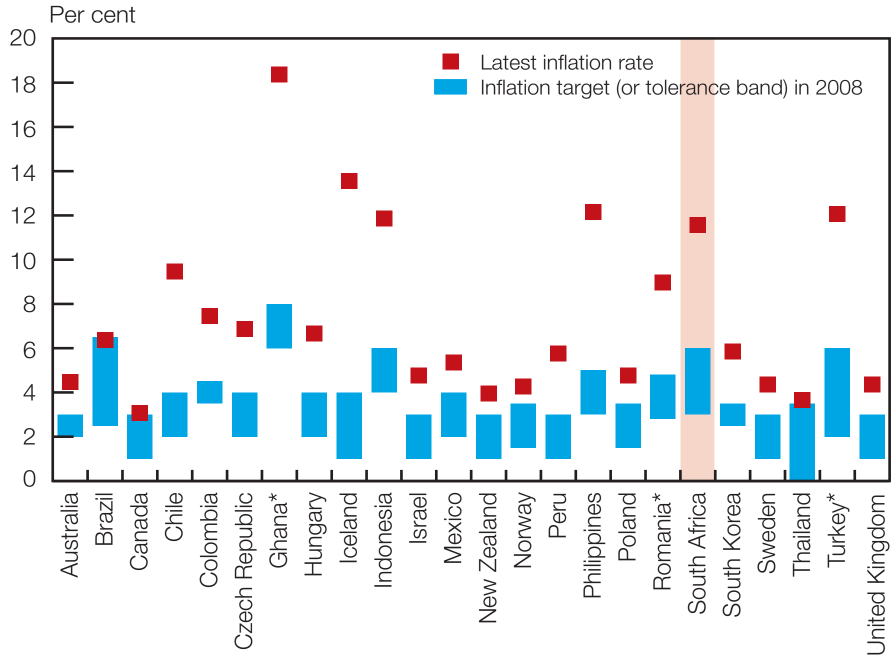
US$ per barrel



Source: Bloomberg

Inflationary pressures increased markedly in both advanced and emerging-market economies fuelled by the continued surge in the prices of energy and food. Annual headline inflation in advanced countries accelerated significantly during the past 18 months and in July 2008 reached 5,6 per cent in the US and 4 per cent in the euro area. Consumer price inflation also accelerated notably in emerging-market and developing countries in the 18-month period to June 2008, exacerbated by the relatively high weight of food in these countries' consumption baskets. The acceleration in annual consumer price inflation was more pronounced in the emerging Asian region where Chinese inflation more than tripled in 2007 as food inflation increased fivefold. Rising worldwide inflationary pressures have also recently caused a number of inflation-targeting countries in both advanced and emerging-market regions to exceed their targets, as illustrated in the accompanying graph.

Inflation targets and outcomes in selected inflation-targeting countries



* Year-end target

Source: Various national central banks and statistical offices

Central banks worldwide are currently faced with the challenge of finding a balance between addressing the risks of weaker economic growth and higher inflationary pressures.

Selected key central bank policy interest rates

Country	1 Jan 2008	19 Aug 2008	Latest real policy interest rate*	Latest change (percentage points)
United States	4,25	2,00	-3,60	30 Apr 2008 (-0,25)
Japan	0,50	0,50	-1,50	21 Feb 2007 (+0,25)
Euro area	4,00	4,25	0,25	9 Jul 2008 (+0,25)
United Kingdom	5,50	5,00	0,60	10 Apr 2008 (-0,25)
Canada	4,25	3,00	-0,10	22 Apr 2008 (-0,50)
Australia	6,75	7,25	2,75	5 Mar 2008 (+0,25)
New Zealand	8,25	8,00	4,00	24 Jul 2008 (-0,25)
China	7,47	7,47	1,17	21 Dec 2007 (+0,18)
India	7,75	9,00	1,30	29 Jul 2008 (+0,50)
South Korea	5,00	5,25	-0,65	7 Aug 2008 (+0,25)
Brazil	11,25	13,00	6,60	23 Jul 2008 (+0,75)
Mexico	7,50	8,25	2,85	15 Aug 2008 (+0,25)
Chile	6,00	7,75	-1,75	14 Aug 2008 (+0,50)
Czech Republic	3,50	3,50	-3,40	8 Aug 2008 (-0,25)
Poland	5,00	6,00	1,20	26 Jun 2008 (+0,25)
Russia	10,00	11,00	-3,70	14 Jul 2008 (+0,25)

* Calculated as nominal policy interest rate *minus* latest headline inflation rate

Source: Various national central banks

More central banks have tightened rather than relaxed monetary policy since the beginning of 2008. The manifestation of the two conflicting challenges varied across countries and explains in part the different monetary policy reactions.

Current account

The robust expansion in the South African economy during the past four years was mirrored by a substantial deterioration in the country's trade balance with the rest of the world, within an environment of vibrant world growth. As a result of higher imports associated with infrastructural spending (such as those related to the electricity infrastructure, the hosting of the 2010 FIFA World Cup soccer tournament and other infrastructural initiatives such as the Gautrain rapid rail link), the deficit on the current account of the balance of payments as a percentage of gross domestic product widened significantly in 2007.

Balance of payments on current account

Seasonally adjusted and annualised
R billions

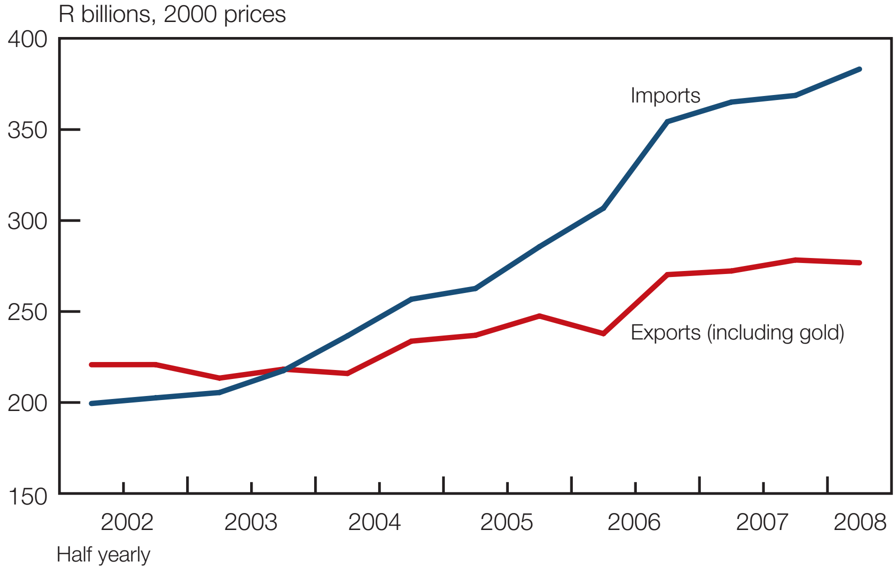
	2006	2007			2008
	Year	1st half	2nd half	Year	1st half
Merchandise exports	399,0	480,6	511,1	495,8	625,2
Net gold exports	35,5	36,8	43,0	39,9	46,8
Merchandise imports	-476,5	-558,4	-593,5	-576,0	-718,4
Trade balance	**-42,0**	**-41,0**	**-39,4**	**-40,3**	**-46,4**
Net services, income and current transfers	-70,3	-88,5	-121,1	-104,7	-133,2
Balance on current account	**-112,3**	**-129,5**	**-160,5**	**-145,0**	**-179,6**
As a percentage of gross domestic product	*-6,4*	*-6,7*	*-7,8*	*-7,3*	*-8,1*

In the first half of 2008, the ratio of the current-account deficit to gross domestic product leaped to 8,1 per cent, despite a slowdown in domestic economic activity – the highest half-yearly rate recorded since 1982. The widening of the current-account deficit followed a substantial increase in the value of merchandise imports, which was exacerbated by the surge in international crude oil prices and a decline in the external value of the rand. At the same time, a somewhat larger shortfall on the services, income and current transfer account added to the growing imbalance on the current account.

Within an environment of healthy world growth, the value of merchandise exports advanced by 24 per cent in 2007 compared with the preceding year. The marked depreciation in the exchange value of the rand, together with the further rally in international commodity prices in the first half of 2008, gave rise to an increase of about 21 per cent in the prices of exported goods over the period. The value of merchandise exports consequently increased by no less than 22½ per cent from the second half of 2007 to the first half of 2008; export volumes increased marginally over the period.

The country-wide electricity shortages from January 2008 that led to a one-week shutdown of mining activity and a subsequent rationing of electricity supply to industry, negatively affected the production and exports of mining products in the first three months of 2008. The more stable supply of electricity in the second quarter of 2008, however, afforded South African producers the opportunity to step up the production and exports of mining products. Export earnings in the first half of 2008 were also supported by a rise in the volume of manufactured exports such as chemical products, machinery and electrical equipment, and vehicles and transport equipment.

Real imports and exports of goods



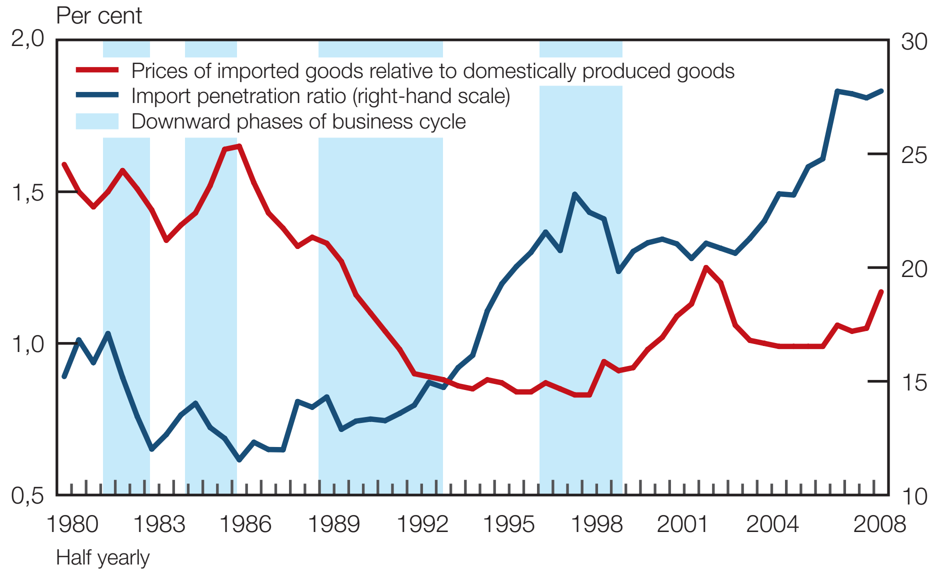
Following an increase of 17 per cent in the second half of 2007, the value of net gold exports rose by 9 per cent in the first half of 2008. The realised rand price of gold advanced by no less than 37 per cent over the same period. The rand price of gold was buoyed by a higher international dollar price and a depreciated exchange value of the rand, offsetting a large decline in the volume of gold exports. The increase in the gold price to an all-time high of US$1 019 per fine ounce on 17 March 2008 reflected gold's appeal as a hedge against inflation, general economic uncertainty and geopolitical risks. The further decline in gold production in South Africa during the first half of 2008 resulted from the already mentioned rationing of electricity supply, flooding at certain mine shafts, mine closures due to safety inspections and a decline in the average grade of ore milled.

Despite a slowdown in domestic economic growth in the first half of 2008, imports continued to grow as a direct result of ongoing infrastructural investment. The increase in the importation of manufactured goods such as machinery and electrical equipment during the period was partly due to the rush by industry and households alike to obtain electricity generation units. Higher vehicle exports also attracted more imported intermediate inputs during that period. South Africa's import penetration ratio (the volume of merchandise imports relative to gross domestic expenditure), which peaked at 29,1 per cent in the final quarter of 2006, pulled back to a somewhat lower level of 28,0 per cent in the first half of 2008, in part due to the steady increase in the prices of imported goods relative to those of domestically produced goods.

Over and above the general rise in commodity prices during the first half of 2008, acute shortages developed internationally in the supply of especially grain products due to adverse weather conditions, growing demand by Asian countries and the increased use of biofuels, pushing agricultural commodity prices higher. The unparalleled increase in the international price of crude oil further inflated the cost of imports. Furthermore, due to refining capacity constraints being encountered in South Africa, the importation of crude oil had to be supplemented by the direct importation of petrol and diesel.

The upward trend in South Africa's terms of trade continued in the first half of 2008 as higher import prices were offset by rising export prices associated with the rise in commodity prices.

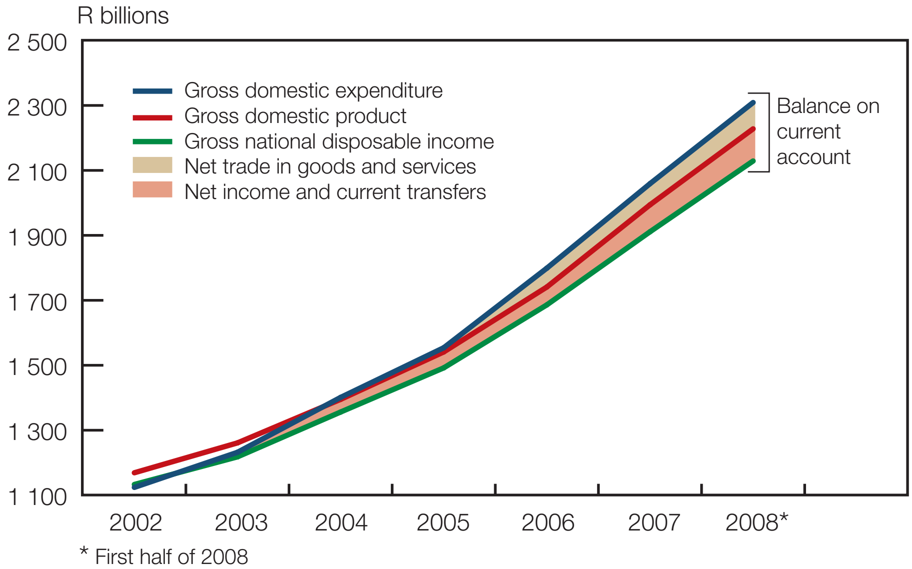
Import penetration ratio



International investors continued to show interest in South African-issued portfolio assets. As a result, the negative imbalance on the services, income and current transfer account widened by almost 50 per cent in 2007 as these investors were compensated for their participation. Relative to gross domestic product, the deficit on this account continued to deteriorate. The size of the deficit in the first half of 2008 was almost double the long-term average since 1990, mainly due to a noticeable increase in net dividend payments to the rest of the world.

The accompanying graph illustrates how, from 2004, a growing share of gross domestic product was allocated to the net remuneration of foreign production factors and current transfers to the international community. In particular, dividend payments to non-resident investors were primarily responsible for the growing differential between gross domestic product and gross national disposable income during 2007 and the first half of 2008.

Gross domestic expenditure, product and national disposable income



* First half of 2008

Despite subsiding somewhat, dividend payment flows remained at comparatively high levels during the first half of 2008 and accounted for about 27 per cent of total service, income and current transfer payments compared with an average ratio of 23 per cent between 2004 and 2006. Sizeable portfolio investment flows into South Africa since 2004 were paramount in financing the deficit on the current account of the balance of payments (which is also by definition the difference between gross domestic expenditure and gross national disposable income).

While net dividend payments expressed as a ratio of gross domestic product increased substantially in the 18-month period to June 2008, *net* interest payments relative to gross domestic product moved broadly sideways. This occurred despite a steady increase in gross interest payments to non-resident creditors as South Africa's foreign debt exposure rose during 2007 and the first half of 2008. Higher gross interest receipts on a growing stock of foreign short-term assets to some extent offset rising interest payments made to non-resident parties during the first half of 2008.

Balances: Components of services, income and current transfer account

Percentage of gross domestic product

	2006	2007	2008*	Long-term average since 1990
Net services payments	-0,9	-1,1	-1,6	-0,6
Net interest payments	-0,3	-0,2	-0,6	-1,2
Net dividend payments	-1,6	-2,9	-2,6	-0,9
Net other income payments	-0,1	-0,1	-0,1	-0,3
Net current transfer payments	-1,1	-1,0	-1,1	-0,6
Total deficit	**-4,0**	**-5,3**	**-6,0**	**-3,6**
Memo items (see accompanying graph)				
Net trade in goods and services	-3,3	-3,1	-3,8	1,9
Net income and current transfers	-3,1	-4,2	-4,4	-3,1

Deficit - surplus +

* First half of 2008

As a ratio of gross domestic product, net service payments to non-resident parties also moved to a higher level in 2007 and the first half of 2008. In addition, payments for travel-related expenditure included in the services category advanced at a sturdy pace of 21 per cent in 2007 and by a further 18 per cent in the first half of 2008.

Financial account

A prolonged period of abundant international liquidity came to an abrupt end in the second half of 2007 when heightened financial market turbulence, associated with the unravelling in the US sub-prime mortgage market resulted in severe credit risk aversion in world financial markets. Emerging markets, however, escaped largely unscathed and despite composition changes South Africa recorded its eleventh consecutive half-yearly inflow of capital on the financial account of the balance of payments in the first half of 2008.

Over the past 18 months vibrant economic conditions and prospects resulted in large *direct investment* inflows into South Africa as local companies in a wide range of sectors, including glass manufacturing, clothing retail, accommodation, financial services and platinum mining, were in part acquired by non-resident investors. Private equity investors were also actively involved in a number of these transactions. During the first half of 2008 the largest half-yearly inflow of direct investment capital since the first half of 2001 was recorded when a Chinese bank acquired a 20-per-cent stake in a major South African bank.

Net financial transactions not related to reserves
R billions

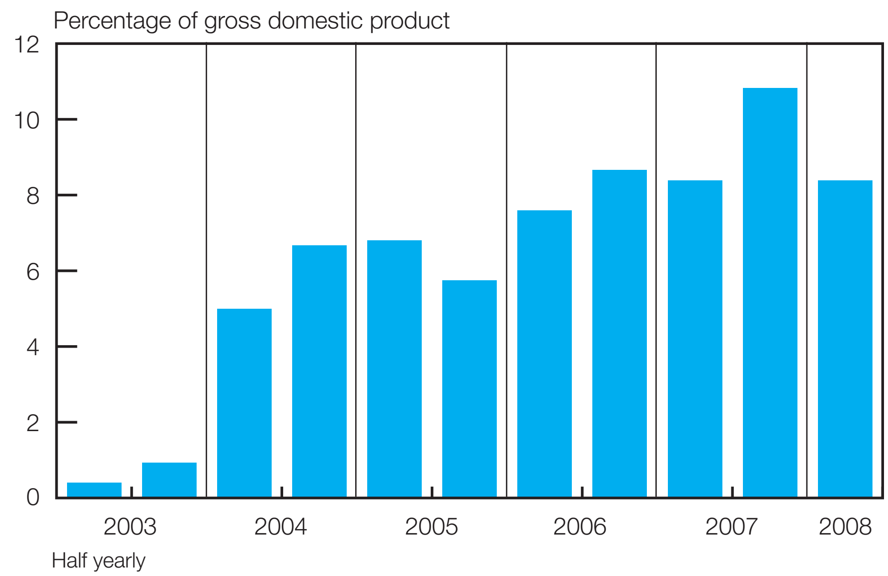
	2007			2008
	1st half	2nd half	Year	1st half
Liabilities				
Direct investment	13,8	26,5	40,3	48,0
Portfolio investment	70,8	36,6	107,4	8,2
Other investment	22,6	35,6	58,2	37,2
Assets				
Direct investment	-16,2	-10,0	-26,2	-11,9
Portfolio investment	-10,8	-13,4	-24,2	-6,2
Other investment	-7,8	15,3	7,5	11,7
Financial transactions*	**80,5**	**112,1**	**192,6**	**92,5**

* Including unrecorded transactions

South Africa's highly developed and sophisticated capital markets, supported by a sound macroeconomic environment, contributed materially in attracting *portfolio investment* capital into the country from 2004 onwards. These capital inflows also reflected non-resident investors' search for higher yields as a result of lower interest rate environments in developed countries. However, the turmoil in global credit markets and the unwinding of the sub-prime market negatively affected sentiment, and weighed on portfolio inflows from the second half of 2007.

On a net basis, *other investment* capital recorded noteworthy inflows since the start of 2007. These inflows were broad-based and comprised both long- and short-term loans extended to mainly the private and banking sectors and, to a lesser extent, non-resident rand and foreign-currency-denominated deposits with the South African banking sector.

Balance on financial account



Foreign debt

Both South Africa's outstanding rand and foreign-currency-denominated debt increased significantly during 2007, thereby contributing to the financing of the current-account deficit. *Foreign-currency-denominated debt* rose primarily due to a number of international bond issues by South African entities prior to the international credit market turmoil in 2007, augmented by an increase in foreign loans extended to the domestic banking sector.

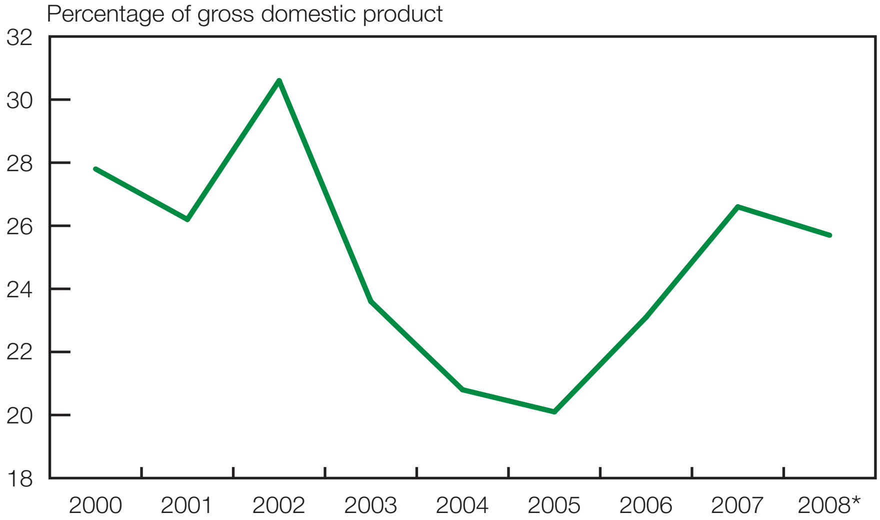
Foreign debt of South Africa
US$ billions at end of period

	2003	2004	2005	2006	2007	2008*
Foreign-currency-denominated debt....	**27,4**	**27,9**	**28,1**	**35,8**	**43,6**	**44,7**
Bearer bonds	9,7	9,7	9,1	10,5	15,2	16,0
Public sector	4,9	4,9	4,6	5,2	5,6	5,9
Monetary sector	5,9	7,0	7,9	10,3	12,7	12,5
Non-monetary private sector	6,9	6,3	6,5	9,8	10,1	10,3
Rand-denominated debt	**11,9**	**17,1**	**20,5**	**23,6**	**31,7**	**29,3**
Bonds	4,2	5,8	6,3	7,5	7,9	5,9
Other...	7,7	11,3	14,2	16,1	23,8	23,4
Total foreign debt	**39,3**	**45,0**	**48,6**	**59,4**	**75,3**	**74,0**

* First quarter of 2008

Rand-denominated debt rose due to drawings on mainly long-term loans by the non-bank private sector and, to a lesser extent, short-term borrowing by the banking sector. As a ratio of gross domestic product, total external debt increased from 20,1 per cent at the end of 2005 to 26,6 per cent at the end of 2007 before moderating somewhat to 25,7 per cent at the end of the first quarter of 2008.

Total external debt



* First quarter of 2008

International reserves and liquidity position

Summarising all balance-of-payments transactions, South Africa's net international reserve position improved by R47,8 billion in 2007 and increased further by R12,4 billion during the first half of 2008. The financial account of the balance of payments therefore continued to finance the growing deficit on the current account more than fully and continued to allow for a degree of reserve accumulation.

The gross international reserve position of the Bank improved materially from US$25,6 billion at the end of 2006 to US$33,0 billion at the end of 2007 and further to US$34,9 billion at the end of June 2008. The international liquidity position of the Bank also continued its gradual improvement, rising from US$23,0 billion at the end of December 2006 to US$33,8 billion at the end of June 2008.

Exchange rates

The weighted average exchange rate of the rand fell sharply around the middle months of 2006, but held up fairly well during 2007 despite an international reassessment and general re-pricing of risk in financial markets, which also extended to emerging-market economies. While negative sentiment towards the size of South Africa's current-account deficit continued to exert downward pressure on the exchange value of the rand, increases in international commodity prices and positive sentiment around possible sizeable direct investment flows into the country supported the domestic currency during 2007.

Exchange rates of the rand

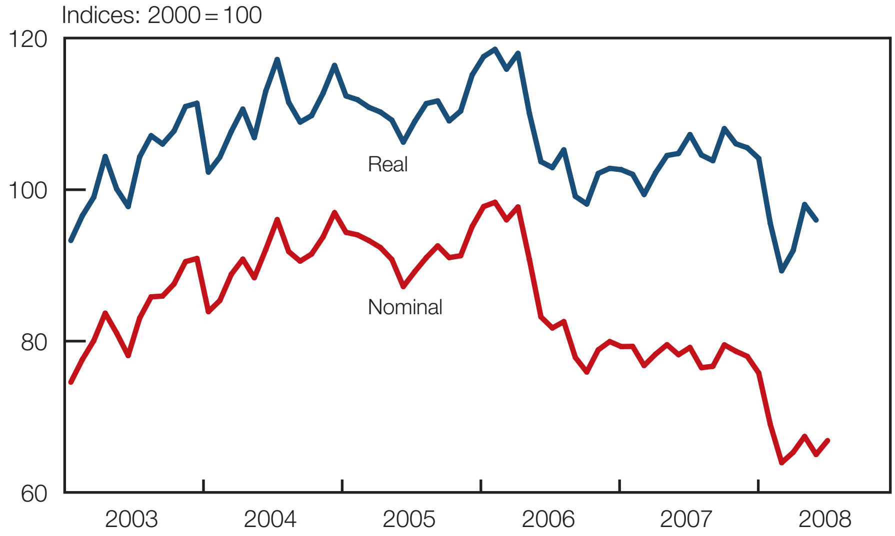
Percentage change

	30 Dec 2006 to 29 Jun 2007	29 Jun 2007 to 31 Dec 2007	31Dec 2007 to 30 Jun 2008	30 Jun 2008 to 31 Jul 2008
Weighted average*	-2,7	-0,8	-17,3	7,8
Euro	-3,8	-4,4	-19,9	8,0
US dollar	-1,7	4,6	-13,9	6,6
British pound	-3,6	4,8	-13,7	7,5
Japanese yen	2,0	-5,1	-19,2	9,7

* Against a basket of 13 currencies

During the first half of 2008, the nominal effective exchange rate of the rand initially declined sharply as the risk premium demanded by non-residents to hold the rand increased. This decline was possibly also related to factors such as the electricity supply disruptions during this period, slowing growth and negative perceptions arising from attacks on foreigners. Subsequently, the nominal effective exchange rate of the rand

Effective exchange rates of the rand



recovered some of its earlier losses following an aggressive reduction in interest rates by the US Federal Reserve in conjunction with higher South African interest rates, buoyant international prices of precious metals and expectations of significant direct investment inflows arising from corporate deals.

The real effective exchange rate of the rand increased marginally in the course of 2007, but subsequently declined by 9 per cent from December 2007 to June 2008.

As South Africa's equity and debt securities attracted significant inflows during 2007, this was reflected in an increase in the net average daily turnover in the domestic market for foreign exchange from US$14,2 billion in 2006 to US$16,5 billion in 2007. Even though investment by non-resident investors in the stock and bond exchange declined initially during the first half of 2008, the daily turnover increased further to US$17,2 billion during this period. The share of non-residents in total activity on the domestic market for foreign exchange increased progressively from 73,1 per cent in 2006 to 77,0 per cent in the first half of 2008.

Monetary developments and interest rates

Structural and regulatory issues in the banking sector

In the year to June 2008 the South African banking sector remained sound, profitable and well capitalised despite a slowdown in demand for credit at a time of higher debt-service cost arising from the tighter monetary policy stance. The banking sector also had to contend with a global re-pricing of risk in financial markets following the contagious turmoil that started in the market for sub-prime mortgage advances in the US in August 2007. The resilience of the South African banking sector benefited from prudent supervision with the speedy implementation of the Basel II capital-adequacy framework in January 2008, the strength of banks' balance sheets following a prolonged cycle of robust economic growth, and the fact that the banks had virtually no exposure to the troublesome sub-prime mortgage market.

At the end of June 2008, the size and broad structure of the banking sector was unchanged from the previous year with 35 registered banks in South Africa and 46 representative offices of foreign banks. The dominance of the four major banking groups and their control of 84 per cent of the total sector assets remained unaltered.

Size of the South African private banking sector

	June 2007		June 2008	
	Number of institutions	Total assets R billions	Number of institutions	Total assets R billions
Locally controlled banks	14	2 126	14	2 715
Foreign controlled banks	5	9	5	10
Mutual banks	2	1	2	1
South African branches of foreign branches	14	173	14	227
Total registered banks	**35**	**2 309**	**35**	**2 953**

The value embedded in South African banks continue to be viewed as attractive by non-resident banks. Such a view was demonstrated by the acquisition, announced in October 2007, of a 20-per-cent shareholding in Standard Bank Group Limited by Industrial and Commercial Bank of China, the largest bank in China by capitalisation.

Despite the turmoil in global financial markets, banks were able to raise sufficient funding in domestic and offshore markets and recorded sizeable increases in deposits. However, securitisation slowed during the twelve months to June 2008 and only R15,8 billion in assets were securitised, compared with R34,5 billion in the preceding twelve months.

The implementation of the Financial Sector Charter continued as the banking sector expanded its branch network, rolled out new Automated Teller Machines throughout the country and formed partnerships with some non-bank institutions to offer banking products and services. Discussions continue to more closely align the Charter with stakeholders' expectations and capacities.

The banking sector made significant progress in the provision of low-cost housing. By the end of 2007, such housing loans totalling R38,0 billion were disbursed and it is envisaged that by the end of 2008, the sector will be about 20 per cent ahead of its Financial Services Charter housing finance origination commitment of R42 billion.

The Co-operative Banks Act, 2007 (Act No. 40 of 2007) was promulgated by Parliament during September 2007 and provides for the registration of deposit-taking financial services co-operatives as co-operative banks.

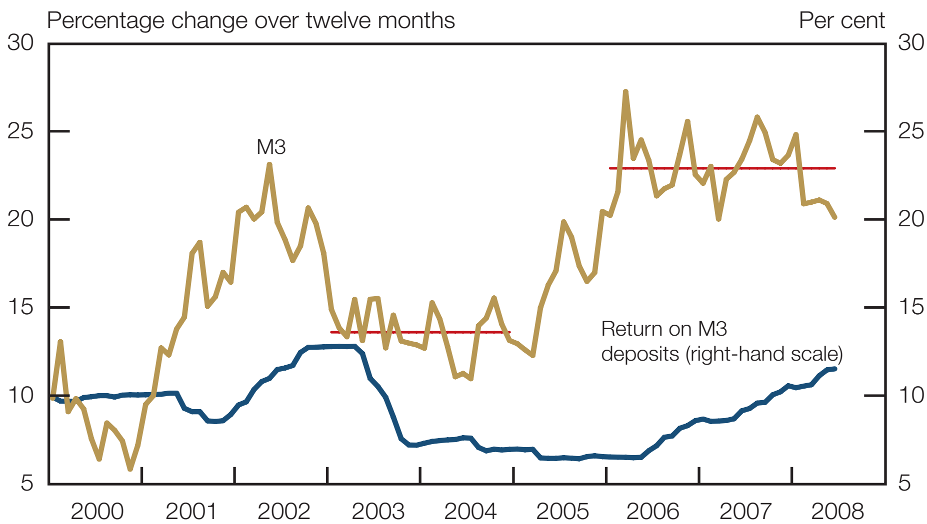
In June 2008, the Competition Commission released an executive overview report containing the findings and recommendations flowing from its investigation into banking charges in the retail banking sector in South Africa and access to the national payment system. The recommendations can only be fully considered once the full report of the inquiry is published.

The Basel II capital-adequacy framework and the accompanying new regulatory forms were implemented in January 2008. In the lead time to the implementation date, banks refined their information and technology systems for the classification and reporting of balance sheet items. Improved classification brought about some discontinuities in a few subcategories of the monetary and credit aggregates released by the Bank in its monthly monetary survey, although the magnitudes were limited.

Money supply

Growth in the broadly defined money supply (M3) has remained above the 20 per cent mark since December 2005. Robust growth in monetary aggregates was aligned, in the main, with strong growth in economic activity and rising price levels. Elevated levels of risk aversion in financial markets and attractive returns on monetary assets relative to other assets also induced some re-intermediation. However, the prolonged tightening

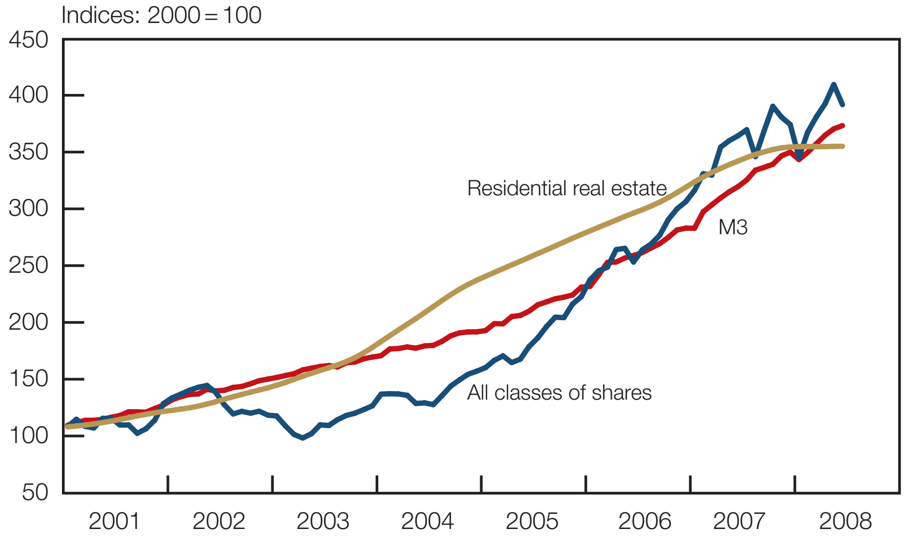
Money supply and return on monetary assets



phase in monetary policy from June 2006 already played a moderating role in the growth rate of the monetary aggregates, partly through the wealth effects of a slowdown in asset prices.

The corporate sector and the household sector both increased their holdings of monetary assets, partly due to the increased risk aversion. Returns on holding monetary assets surpassed those of residential real estate in the first quarter of 2008, an occurrence previously observed in the middle of 2003.

Asset prices and M3



As reflected in the accompanying table, the main counterpart of change in the broad money supply was banks' claims on the private sector, largely on account of higher demand for credit. In recent months such demand increasingly shifted to the corporate sector.

Counterparts of change in M3

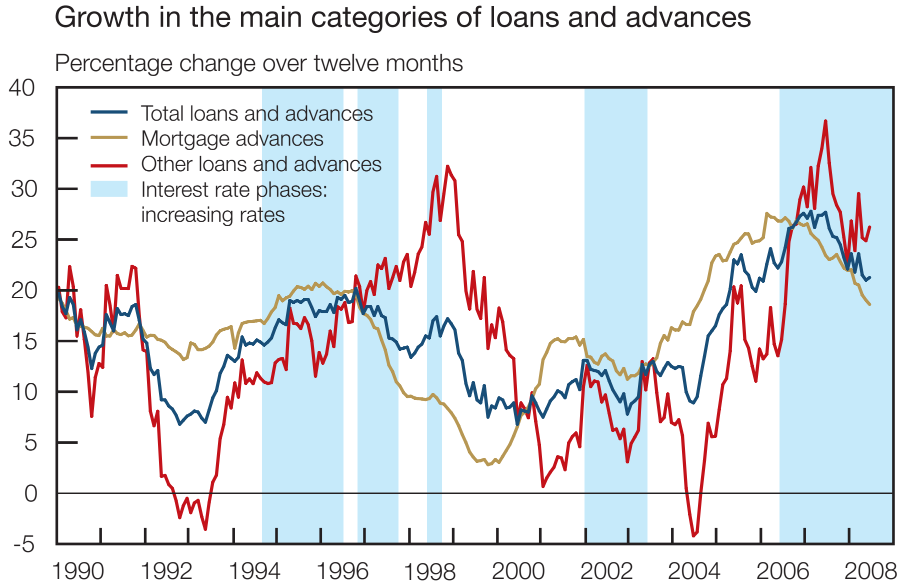
R billions

	2006	2007	Six months to June 2008
Net foreign assets	58	12	-1
Net claims on the government sector	-30	-3	51
Claims on the private sector	295	308	157
Net other assets and liabilities	-74	2	-46
Total change in M3	248	319	161

Credit extension

Growth in total loans and advances extended to the private sector slowed in the twelve months to June 2008 as lending and borrowing conditions became unfavourable. Tightening in monetary policy increased the debt-service costs for an already indebted private sector. Lending standards for the household sector were raised in accordance with the National Credit Act, while more recently household balance sheets started to be undermined by stagnant house prices and increasingly volatile financial markets. The consumers' purchasing power was also eroded by inflation. The deteriorating economic climate was evident in weakening business and consumer confidence.

Asset-backed credit usually contributes more than 60 per cent to the overall level of private-sector loans and advances, and is dominated by the household sector. Growth in total loans and advances moderated somewhat from very high levels earlier on, despite the strong increase in corporate sector demand for bank credit. As could be expected after two years of monetary policy tightening, non-performing loans as a percentage of total loans and advances started rising from previously muted levels.



A breakdown of total loans and advances by category and sector is presented in the accompanying table:

Credit aggregates

Component	June 2007 R billions	June 2008 R billions	Change Per cent
Asset-backed credit	1 075	1 304	21,3
Instalment sale and leasing	250	284	13,6
Of which: New passenger cars	*66*	*72*	*9,1*
Used passenger cars	*48*	*56*	*16,7*
Other means of transport	136	156	14,7
Mortgage advances	824	1 020	23,8
Other loans and advances	551	698	26,7
Overdrafts	134	170	26,9
Credit card advances	364	462	26,9
General advances	53	66	24,5
Total loans and advances	**1 626**	**2 002**	**23,1**
Of which: To household sector	883	1 075	21,7
To corporate sector	743	927	24,8

Mortgage advances contributed R151 billion to the overall increase in total loans and advances over the twelve months to June 2008. Of this amount R129 billion was to the household sector.

Although the broad category of *instalment sale credit* and *leasing finance* increased, the *leasing finance* component contracted significantly as consumers opted for longer and flexible repayment terms offered by *instalment sale* agreements. The National Credit Act allows for longer repayment terms for instalment sales, contributing to this shift.

Other loans and advances contributed R136 billion to the overall increase in total loans and advances over the same period. The acceleration in corporate sector demand for bank credit was related to a wave of re-intermediation following the re-pricing of risk. The higher risk premiums raised the cost of alternative sources of funding for the corporate sector such as bond issues relative to the cost of bank funding. The robust corporate sector demand also reflected the ongoing infrastructural and other fixed investment spending and working capital requirements.

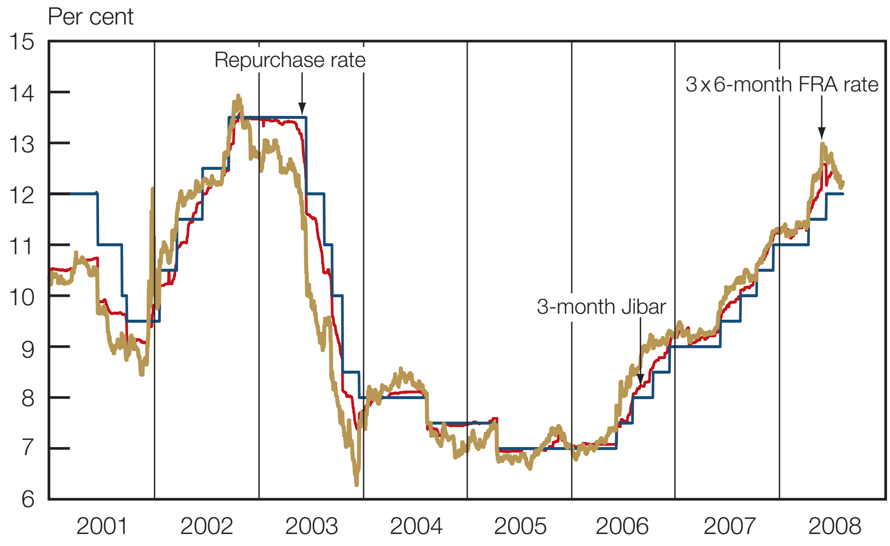
Interest rates and yields

The Monetary Policy Committee (MPC) increased the repurchase rate by a cumulative 500 basis points starting in June 2006, making the current tightening cycle the longest since South Africa adopted an inflation-targeting framework. The repurchase rate was increased by 300 basis points between 1 June 2007 and mid-June 2008. This was in an effort to contain second-round inflationary pressures and anchor expectations which were fuelled by record increases in the prices of petrol and diesel, food and electricity. In August 2008, the repurchase rate was left unchanged at 12,0 per cent.

Lending rates generally increased in line with the repurchase rate to levels last recorded five years ago but still slightly lower than the previous peak. The South African Benchmark Overnight Rate (Sabor) on deposits and the overnight FX rates, introduced during March 2007, fluctuated within the standing facility rate limits. Since the introduction of these rates, a few spikes in the overnight FX rates have occurred during June and July 2007, but these are now infrequent and short-lived, reflecting a better functioning and more efficient overnight funding market.

During the period under review, other money-market interest rates also followed adjustments to the repurchase rate. Forward rate agreements (FRAs) increased in accordance with market participants' expectations of increases in interest rates due to heightened inflationary pressures.

Money-market rates

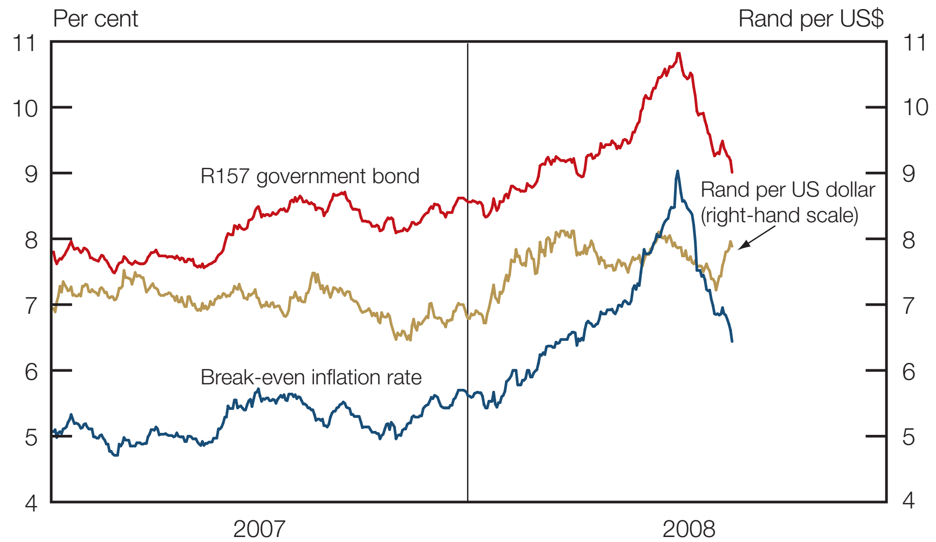


4 RSA government retail bonds are priced off government bonds.

Nominal fixed interest rates on RSA government retail bonds[4] of two-, three- and five-year maturities fell below average twelve-month deposit rates at banks – as from respectively, November and December 2006 and March 2008 to date – to a margin of as much as 165 basis points in August 2007. Real returns on inflation-linked RSA government retail bonds ranged from 3,0 per cent to 2,5 per cent for 3- and 10-year maturities following the latest reset in June 2008.

Notwithstanding the continued dearth in the supply of bonds, the nominal yield on conventional government bonds as reflected by the R157 bond increased from a most recent low 7,48 per cent on 23 February 2007 to a high of 10,82 per cent on 1 July 2008. This upward trend resulted from a depreciated currency, the high international price of crude oil and agricultural commodity prices, which contributed to the deterioration in inflation expectations as reflected by the break-even inflation rate, which breached the 9 per cent level in July 2008. Subsequently, both bond yields and the break-even inflation rate fell back sharply to 9,01 per cent and 6,44 per cent on 18 August, respectively.

Long-term bond yield, exchange value of the rand and break-even inflation



5 The nominal yield gap is calculated as the difference between the R157 bond yield and the yield on 91-day Treasury bills.

6 The inflation/currency risk premium on South African government bonds is calculated as the difference between the yields on domestic rand- and offshore US dollar-denominated debt in the seven-to-nine-year maturity range.

7 The sovereign risk premium is calculated as the difference in yields between South African government offshore US dollar-denominated bonds with an outstanding maturity of nine years and US government dollar-denominated bonds of broadly similar maturity.

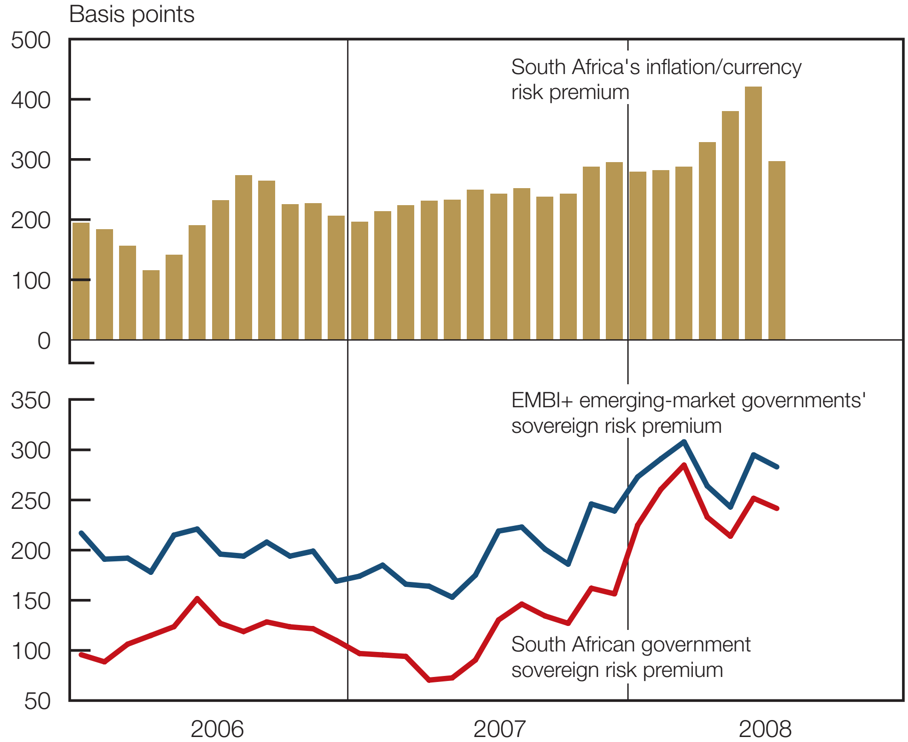
Changes in the shape of the yield curve are mirrored by the nominal yield gap[5] and this turned negative in November 2006, indicative of an inverted yield curve. The negative gap averaged 94 basis points in the first nine months of 2007, before widening to 229 basis points in December 2007 as it incorporated the impact of further increases in the repurchase rate on the short end of the yield curve. The subsequent strong response in bond yields to inflationary pressures narrowed the negative gap to 160 basis points in July 2008.

As inflation accelerated and inflation expectations deteriorated, the yield on domestic rand-denominated bonds issued by the South African government increased markedly more than the yield on offshore US dollar-denominated bonds. Accordingly, the inflation/currency risk premium[6] increased from 197 basis points in January 2007 to 421 basis points in June 2008, before narrowing to 297 basis points in July.

The sovereign risk premium[7] on dollar-denominated South African government bonds increased significantly from a low 70 basis points in April 2007 to 285 basis points in March 2008. These developments were explained by the significant decline in yields on United States Treasuries along with a muted increase in yields on offshore dollar-denominated South African government bonds. The decline in yields on US Treasuries was a direct response to the sub-prime mortgage problems and the re-pricing of risk in global financial markets. Over this period the yield on emerging-market government dollar-denominated bonds as measured by the EMBI+[8] fluctuated slightly higher and the gap between the sovereign risk premiums of South African and emerging market government bonds narrowed significantly – South Africa therefore lost ground in relative terms. A ratings agency also revised the outlook for both South Africa's long-term foreign and local currency ratings from positive to stable.

8 EMBI+ is a measure of the yield on external US dollar-denominated bonds of emerging-market governments as measured by the JPMorgan Emerging Markets Bond Index Plus.

Yield spreads



Financial markets

Structural and regulatory changes in financial markets

The continued revision of the legislative and regulatory framework for non-bank financial intermediaries was aimed at fostering confidence, providing consumer protection and enforcing compliance with capital adequacy requirements. New corporate structures and innovative products more closely aligned South African bourses with investor requirements and enhanced their international profile.

In October 2007 the seat holders of the Bond Exchange of South Africa voted for demutualisation and conversion from a mutual association to a public company. In the process, the exchange was renamed the Bond Exchange of South Africa Limited (BESA) in December 2007.

The JSE Limited (JSE) launched four indices in 2007: (1) the FTSE/JSE International Benchmark Index, designed for South Africans to get exposure to international markets excluding all dual-listed South African companies; (2) the FTSE/JSE Rafi 40, based on company fundamentals to weight constituents as opposed to market capitalisation; (3) the FTSE/JSE Alt^{X} 15, incorporating the 15 top companies on Alt^{X} ranked by market capitalisation; and (4) the FTSE/JSE Shariah all-share index created for the Islamic community.

In 2007 the JSE operated the twelfth largest equity derivatives exchange in the world in terms of volume and remained the largest global participant in single-stock futures based on the number of contracts traded. The JSE's transaction-specific and custom-built Can-Do option contracts also received first place in the New Contract of the Year Category at the second annual Futures and Options Awards event held in London in April 2008.

Legislative changes in the 2008/09 Budget affecting financial markets included the introduction of higher tax-exemption thresholds. Secondary tax on companies was converted to a dividend tax on domestic shareholders. Corporations and investment managers were authorised to trade in currency futures on Yield-X subject to prudential limits; and the authorities changed the regulatory exchange control system to a prudential system with higher foreign exposure limits for certain financial intermediaries.

Money market

During the 13 months ending in July 2008, the liquidity provided at the weekly main repurchase auctions fluctuated between R7,6 billion and R13,7 billion, while the average daily liquidity requirement of private-sector banks varied between R6,6 billion and R14,6 billion during this period – occasionally drifting outside the liquidity range due to volatile movements in the daily amount of notes and coin in circulation outside the Bank.

To supplement funds from the Bank for liquidity needs, banks mainly used their cash reserve accounts with the Bank, but also occasionally utilised the standing facilities to square off their end-of-day positions. The statistical counterparts influencing money-market liquidity over the period under review are shown in the table below.

Money-market liquidity flows

R billions (easing + tightening -)

	Jul–Dec 2007	Jan–Jul 2008
Notes and coin in circulation	-8,8	4,5
Redemption of foreign loans by National Treasury	-2,0	-6,0
Cash reserve balances	-4,2	-3,3
Money-market effect of SARB's foreign-exchange transactions	28,2	18,0
Government deposits with SARB	-12,5	-1,8
SARB holdings of government bonds	0,0	0,1
Use of liquidity management instruments	1,6	-15,3
Reverse repurchase transactions	2,3	-4,5
SARB debentures	-0,7	-10,8
Other items net	-3,3	3,7
Change in banks' liquidity requirement	-1,0	-0,1

SARB: South African Reserve Bank

In the 13 months to July 2008, the Bank continued to purchase foreign currency from the market, thereby creating additional rand liquidity amounting to R46,2 billion, as reserves were accumulated. The proceeds from the creaming-off operations were also used to repay foreign loan facilities; for instance, the authorities cumulatively prepaid a five-year US$1,5 billion dual-currency syndicated loan entered into in July 2005, with the final US$0,25 billion outstanding on this loan being redeemed at the end of June 2008.

The outstanding amount of interest-bearing liquidity-draining instruments utilised by the Bank (reverse repurchase agreements and SARB debentures), increased during the period under review. This increase, alongside an increase in government deposits with the Bank, largely neutralised the substantial easing in liquidity conditions stemming from foreign exchange transactions.

From early 2008 the emphasis in the draining of liquidity shifted from raising government deposits with the Bank to issuing SARB debentures and using reverse repurchase agreements.

The accumulation of substantial cash balances by government in its tax and loan accounts with private banks, and in some instances the issuance of special Treasury bills to bridge temporary cash shortfalls, were used to effect coupon interest payments and capital redemption payments on government bonds. A major redemption payment involved the second tranche of the R194 government bond – the R195 – with a redemption amount of R24,1 billion which flowed to private-sector parties at the end of February 2008.

Bond market

The total outstanding nominal value of debt listed on BESA at the end of December 2007 amounted to R777 billion or 37 per cent of gross domestic product. It comprised 94 per cent loan stock and 6 per cent commercial paper. A notable structural change in the domestic market for listed debt securities since the turn of the century was the dilution of the share of the public sector from almost complete dominance in 2000 to 65 per cent of the value of listed securities by July 2008 as buoyant private-sector issues raised the share of the private sector to 35 per cent. Foreign issuers continued to have only a marginal presence on BESA. Bonds created through securitisation at its peak in August 2007 constituted 52 per cent of private-sector listed bonds in issue, before receding to 43 per cent in July 2008. The share of mortgages in total securitisation continued to rise and reached 38 per cent in July 2008. The South African credit market was not unduly affected by the global financial market turmoil of the past year, as total securitisation and mortgage-backed securitisation respectively only amounted to 6,3 per cent and 2,2 per cent of gross domestic product in December 2007.

On balance, the total outstanding nominal value of listed debt displayed almost no change in the first seven months of 2008 as net redemptions of fixed-interest securities by public-sector borrowers of R9,8 billion were broadly offset by net issues by private-sector borrowers of R7,8 billion in loan stock and R3,1 billion in commercial paper. Net redemptions of fixed-interest securities by public-sector borrowers as from calendar year 2007 to date reflected the structural change in government's fiscal position to a financial surplus. Private-sector issuers stepped into this void, but their net issuance also fell back sharply in 2008 to date.

The value of transactions in the secondary bond market on BESA amounted to a record-high R16,2 trillion in 2007, or 19 per cent more than in 2006. It increased by a further 26 per cent in the first seven months of 2008 compared with the corresponding period in 2007 as the number of deals remained static, while the average value per transaction[9] increased to approximately R57 million. Daily average turnover peaked at R92,3 billion in June 2008. High turnover levels could be ascribed to investor responses to changes in the drivers of bond prices and the search for yield by non-residents in the wake of the turmoil in international debt markets. Along with the increase in turnover and the levelling-off in the stock of bonds in issue, the annualised liquidity ratio[10] increased from 18 in 2007 to 23 in the first seven months of 2008.

9 The average value per transaction is calculated as total turnover divided by the number of trades.

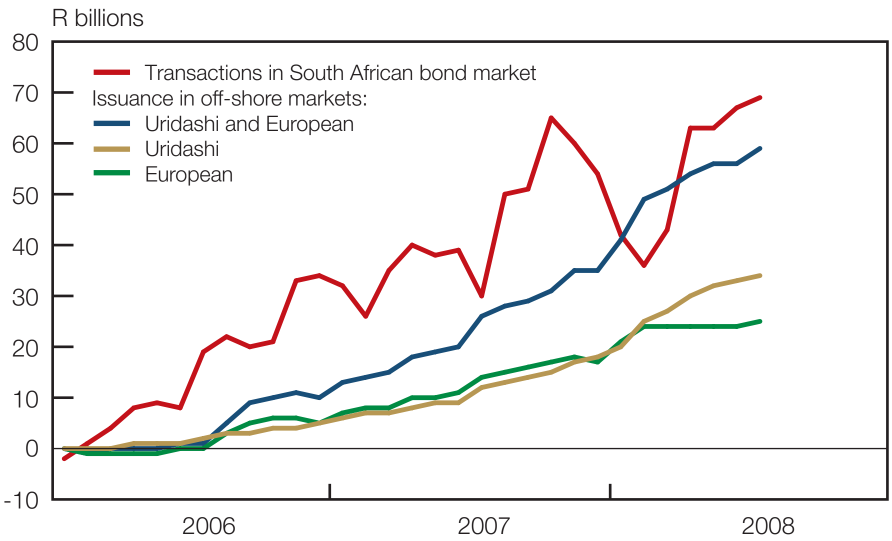
10 The liquidity ratio is calculated as the nominal value of bonds traded divided by the nominal value of bonds listed.

11 Non-resident participation is calculated as their purchases and sales as a percentage of total purchases and sales.

Non-resident participation[11] in the secondary bond market receded slightly from just more than 19 per cent in the 18 months to June 2007 to 15 per cent in the first seven months of 2008. Despite short-term fluctuations non-residents, on balance, were net purchasers of bonds to an amount of R20,0 billion in 2007. In early 2008 non-residents were net sellers, but this turned around and, on balance, their net purchases eventually amounted to R14,9 billion in the first seven months of the year. The fluctuations between net purchases and sales reflected changes in investor sentiment, which were partly shaped by a generally positive interest differential in favour of South African bonds.

Both non-resident participation and the level of net purchases of bonds in the secondary market are probably related to the hedging of the issuance of rand-denominated bonds in the European and Japanese Uridashi markets by non-resident issuers. Consequently, non-resident net purchases of rand-denominated bonds in the South African bond market, inclusive of free-of-value trades, were buoyed by their increased issuance of rand-denominated bonds in both the European and Japanese Uridashi bond markets. Such net issues by non-residents in offshore markets amounted to R25,4 billion in 2007 and R23,6 billion in the first seven months of 2008 – with the Uridashi and Euro bonds respectively accounting for 64 per cent and 36 per cent of net issuance from July 2007 to July 2008.

Cumulative net non-resident interest in rand-denominated bonds



Share market

The total value of equity capital raised in the primary share market by companies listed on the JSE amounted to R125 billion in 2007 – of which R67 billion was raised in the second half of the year – followed by R55 billion in the first seven months of 2008. The contribution of companies with primary listings on the JSE to total equity raised increased from 39 per cent in the third quarter of 2007 to 82 per cent in the second quarter of 2008. This suggests that as of late most of these funds have been destined to finance growth in the South African economy. The share of financial companies in total issues amounted to 35 per cent in the first seven months of 2008 and that of resources companies to 42 per cent.

The total number of listed companies on all the boards of the JSE increased from 400 in December 2006 to 424 in July 2008, with those on the main and development/venture capital boards respectively decreasing by 5 and 10, while those on Alt^x increased by 39. This indicates a change in the structure of listed corporate South Africa.

Though still small, this change also manifested itself in terms of turnover of listed shares in the secondary share market on the JSE with turnover on Alt^x as a percentage of total turnover increasing from 0,05 per cent in 2006 to 0,2 per cent in the seven-month period to July 2008. The value of turnover on the JSE as a whole increased by 40 per cent from 2006 to R3,0 trillion in 2007. Turnover amounted to R1,9 trillion in the first seven months of 2008, or on average R277,3 billion per month. The high level of trading activity was related to developments on international share markets, commodity prices and domestic interest rates, leading to divergent trends in sectoral share prices.

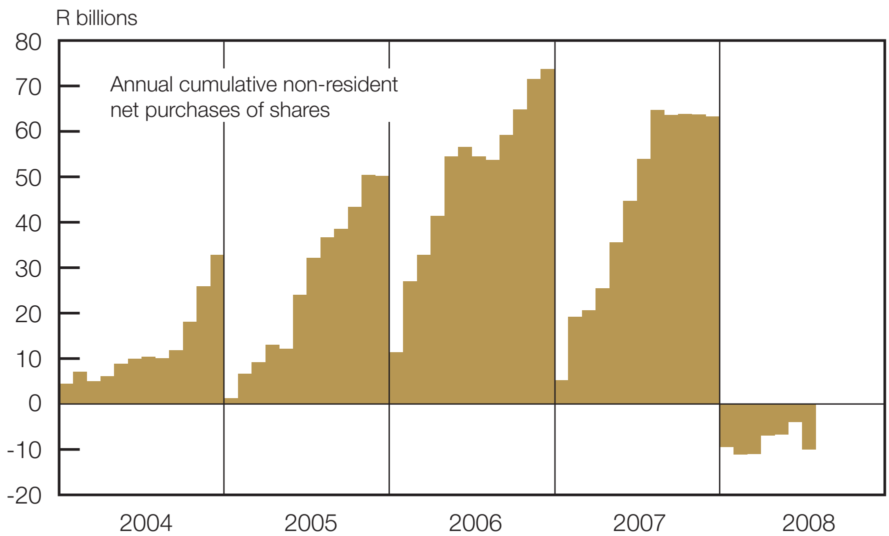
Rising share prices accounted for the bulk of the 24 per cent increase in the market capitalisation of the JSE from December 2006 to an all-time high of R6,3 trillion in May 2008 – or almost three times the value of annual gross domestic product. The net result of changes in market capitalisation and turnover is portrayed by the market liquidity ratio,[12] which almost doubled from 33 per cent in December 2006 to a high of 65 per cent in July 2008.

12 The market liquidity ratio is calculated as annualised secondary market turnover of shares on the JSE as a percentage of the JSE's market capitalisation.

Non-resident investors continued to contribute to turnover and price formation as their participation rate[13] averaged almost 21 per cent in 2006 and 2007, and 19 per cent in the first seven months of 2008. Non-residents recorded buoyant net purchases to a cumulative value of R64,7 billion in 2007 to August. This was arrested and a small part of the earlier net purchases was reversed in the period to December. The year 2008 started with net sales which increased to a cumulative value of R10,0 billion in July. Similar to bonds, there seemed to have been a change in investor sentiment from October 2007.

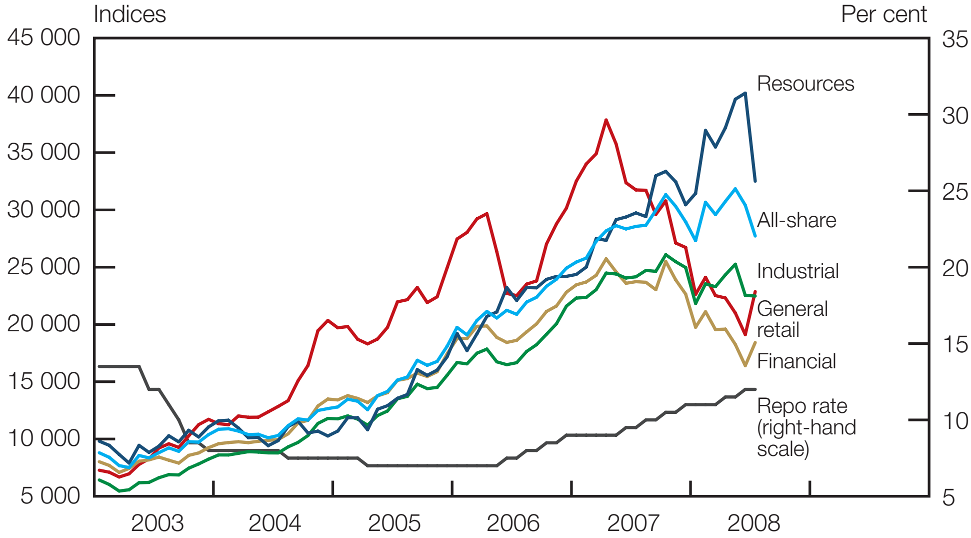
13 Non-resident participation in the secondary share market is calculated as their purchases and sales as a percentage of total purchases and sales.

Non-resident net purchases of shares



The all-share price index of the JSE followed international bourses. The Standard & Poor's (S&P) 500 peaked in October 2007, while the JSE reached a high level on 11 October 2007, before shedding 20 per cent to 23 January 2008 as international markets corrected in response to the credit market problems and expectations of a slowdown in global economic growth. The South African market then recovered by 32 per cent to an all-time high on 22 May 2008, supported by high commodity prices and a depreciated exchange value of the rand, which buoyed the increase of 58 per cent in resources shares from a most recent low in January 2008 to 22 May 2008. The JSE all-share index then fell back by 17 per cent to the end of July in step with resources shares and the S&P 500, which responded to a slump in profits and global inflation concerns.

Share prices and interest rates



In terms of month-end indices, shares in the industrial and financial sectors both peaked in October 2007, but with the further tightening of monetary policy, industrials and financials pulled back and were at similar levels in July 2008 as in February 2007 and June 2006, respectively. The share price of general retailers already responded to tighter conditions from May 2007, declining to a three-year low by mid-2008. Retailers and banks may also have been negatively impacted by the National Credit Act as from June 2007. In July 2008, resources share prices fell by 19 per cent, partly due to declining commodity prices.

Market for exchange-traded derivatives

On the JSE, changes in sentiment and trends in underlying equity prices reverberated in the derivatives market in 2007 and the first seven months of 2008. The total number of futures and options on futures contracts traded on the Financial Derivatives Division of the JSE increased almost 3,2 times from 2006 to 327 million in 2007, and by 58 per cent in the first seven months of 2008, compared with the same period in 2007. By contrast, the number of warrants traded on the JSE fell back by 60 per cent from 2006 to 9,7 billion in 2007, but rebounded and already amounted to 7,8 billion in the first seven months of 2008.

Movements in interest rates, yields, relative currency values and changes in sentiment impacted on derivatives trading in related instruments on the JSE's Yield-X. The number of contracts traded on Yield-X increased 12,3 times from 2006 to 262 000 in 2007, and amounted to 1,73 million in the first seven months of 2008 – with currency contracts accounting for 86 per cent in 2008.

As international agricultural product prices continued to scale new heights as a result of increased demand for food and biofuel applications, the number of agricultural commodity futures and options contracts traded on the Agricultural Products Division of the JSE increased by 24 per cent from 2006 to 2,4 million in 2007, and amounted to 1,7 million in the first seven months of 2008.

In value terms the market for exchange-traded derivatives was dominated by equity-related financial instruments, followed by agricultural products and with the others still in their infancy.

Turnover in exchange-traded derivatives

	2007		Jan–Jul 2008	
	Contribution Per cent	R billions	Percentage change compared with Jan–Jul 2007	R billions
Financial derivatives: JSE	93,66	4 826,1	36,3	3 260,6
Warrants: JSE	0,05	2,7	32,8	2,1
Agricultural derivatives: JSE	5,48	282,6	49,4	229,6
Currency derivatives: Yield-X	0,03	1,4	–	12,8
Interest rate and index derivatives: Yield-X	0,76	39,0	89,4	38,3
Interest rate derivatives: BESA	0,02	0,9	56,0	0,9
Total	100,00	5 152,7	–	3 544,3

Real-estate market

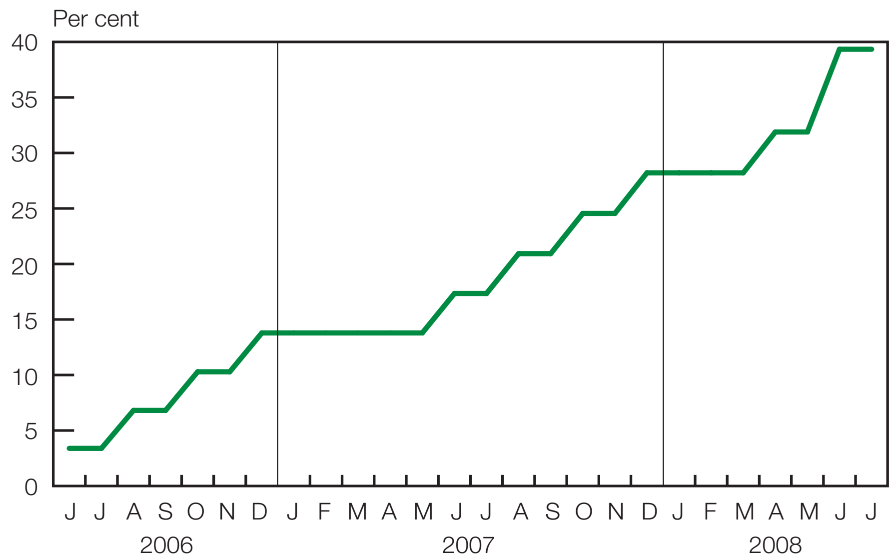
In the real-estate market, the year-on-year rate of increase in nominal monthly average house prices, as measured by Absa, already peaked in October 2004 at 35,7 per cent – long before the onset of the latest monetary policy tightening cycle in June 2006. This slowdown could be attributed to the affordability ratio,[14] which increased from an average of 0,47 from 1998 to 2002 to 0,69 in October 2004. This deterioration in affordability resulted from the significant increase in house prices, which outweighed the substantial reduction in interest rates since October 1998. Affordability deteriorated further to an average ratio of 0,75 in 2007 and the first quarter of 2008. The increase in mortgage rates since the start of the monetary policy tightening in June 2006 translated to an increase of 39 per cent in borrowers' mortgage instalments[15] and this acts as a barrier for new entrants, exerts stress on current homeowners to maintain mortgage payments and could lead to forced sales. For the first time since August 1999, homeowners experienced real[16] declines in house prices over twelve months as from February 2008, pulling down growth in their net wealth.

14 The housing affordability ratio is calculated as the nominal monthly average house prices, as measured by Absa, divided by annualised household disposable income at current prices, as measured by the Bank.

15 The increase in the instalment is based on a 20-year mortgage at the predominant mortgage interest rate relative to May 2006.

16 Real house prices are calculated as Absa's monthly average nominal house prices deflated by CPI inflation for metropolitan and other urban areas.

Change in mortgage repayment relative to May 2006

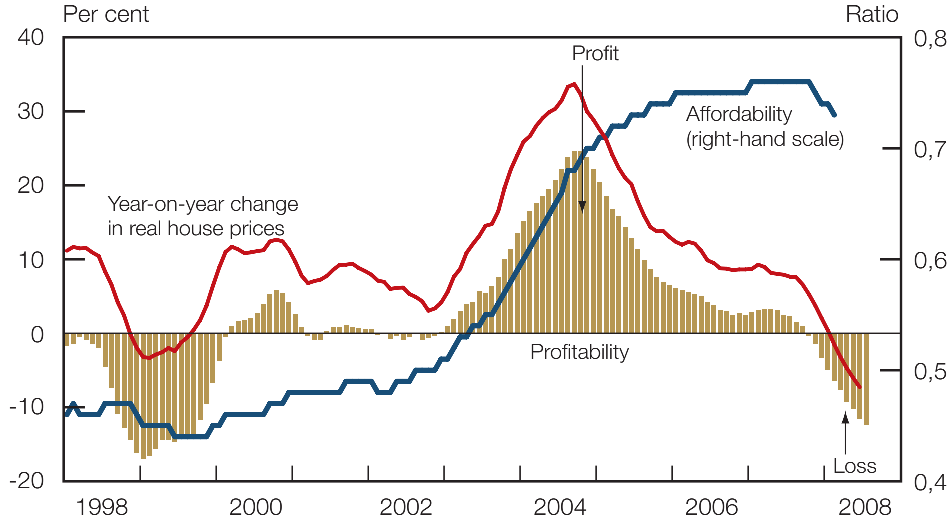


Profitability[17] in the buy-to-let and speculative markets turned negative as the rate of increase in house prices fell below the mortgage interest rate from October 2007, for the first time since November 2002. However, exposures in these markets are also stressed and could lead to forced sales as well as deterring new entrants. Developments in the

17 Profitability is measured as the difference between the rate of increase over twelve months in average nominal house prices, as measured by Absa, and the nominal predominant mortgage bond interest rate.

residential real-estate market have already led to a slowdown in property development and an increase in write-offs by banks and other mortgage lenders.

House prices, affordability and profitability



Source: Absa and own calculations

Non-bank financial intermediaries

18 The domestic current income surplus is calculated as investment income plus the net of current receipts and expenditure.

Long-term insurers' domestic current income surplus[18] inclusive of surrenders averaged R24 billion from 1990 to 2007. During this period, however, a structural change has occurred: previously, current receipts exceeded current expenditure, but this was reversed in 1998 to a situation where current expenditure increasingly exceeded current receipts. This change-around occurred mainly due to an increase in surrenders. In 2007, current expenditure exceeded receipts by R31 billion, with investment income at R71 billion, resulting in a domestic current income surplus of R40 billion – available to grow the asset base. Accordingly, the importance of investment income to sustain growth has increased. Without surrenders of R128 billion in 2007, the domestic current income surplus would have amounted to R168 billion. On balance, surrenders amounted to R928 billion from 1990 to 2007, while a net inflow of R402 billion to unit trusts was recorded – this probably represented some substitution of one for the other.

Over the past few years, markets have been boosting investment income. Premium income has also increased as the industry, among other things, addressed investors' expectations regarding net return after charges and minimum fund values in the case of early premium cessation in the light of the "Statement of Intent" of 12 December 2005 between the long-term insurance industry and the Minister of Finance. However, as current higher inflation and interest rates exert pressure on household disposable income, savings flows to non-bank financial intermediaries could be affected.

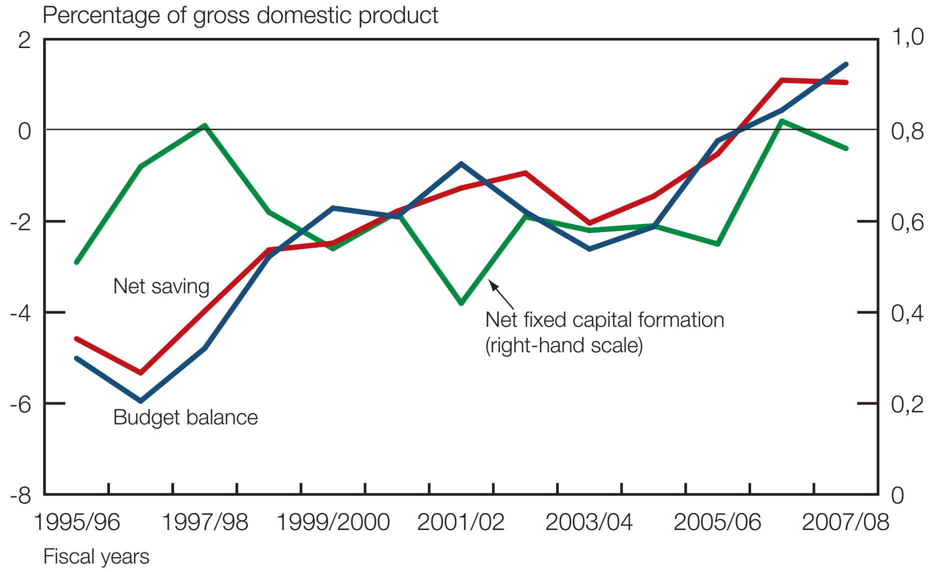
Public finance

Fiscal policy

The 2008 Budget, tabled in Parliament on 20 February by the Minister of Finance, again demonstrated fiscal prudence and commitment to sustainable government finances. The fiscal stance was reflected in projected budget surpluses, which would contribute to national savings and help to moderate demand pressures on inflation and the current-account deficit. This, together with the continued steady accumulation of foreign exchange reserves, would enable South Africa to better withstand the ongoing global financial market turbulence.

Gross fixed capital formation was set to remain robust, contributing to the economy's competitiveness while reducing constraints in key areas, such as electricity supply. The projected increases in capital formation were not confined to national government but would extend to all levels of general government and to public enterprises, thereby supporting sustainable long-term economic growth.

General government budget balance, net saving and fixed capital formation



It was projected that strong revenue collections would continue, although diminishing somewhat under the impact of cyclical influences, thereby funding expenditure without exerting an undue burden on the economy. National government's accumulation of bank deposits and fairly low debt levels suggested a comparatively robust fiscal situation.

Tax measures introduced in the 2008 Budget included lowering the company tax rate, broadening the internship allowance, and improving the medium- to long-term tax incentives in support of industrial investment, all of which should be positive for employment creation. Future expenditure would be influenced by South Africa's contribution to peacekeeping in Africa and the promotion of investment and economic co-operation in the region. It was envisaged that over the forthcoming three years the Budget would, through the African Renaissance Fund, support the attainment of the Millennium Development Goals for the African continent.

National government expenditure

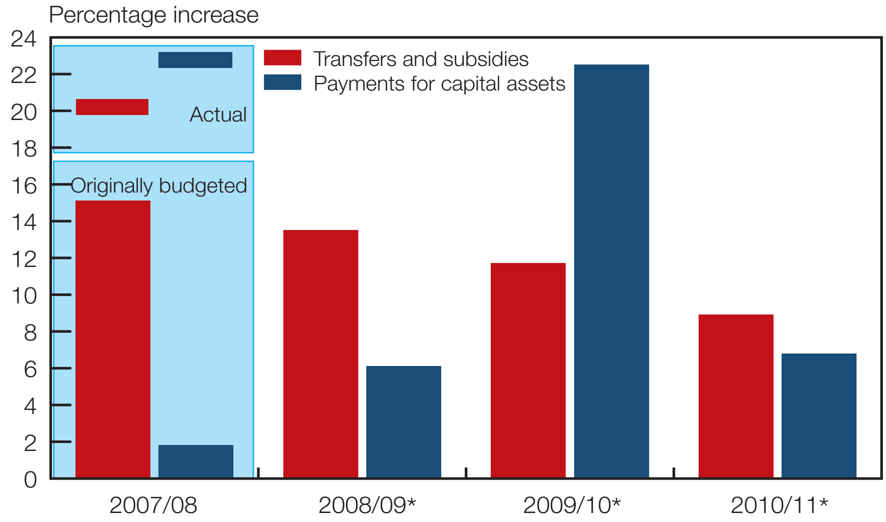
National government expenditure of R542 billion in fiscal 2007/08 represented year-on-year increases of 15,2 per cent and 7,2 per cent in nominal and *real*[19] terms, respectively. Real growth in non-interest expenditure was well above the economy's real growth rate. The increase in nominal terms was marginally higher than originally budgeted – the first such occurrence since fiscal 2002/03 – but remained well contained. It was projected that expenditure would increase at an average annual rate of 11,2 per cent over the three-year budget period. Expenditure relative to gross domestic product averaged 26,2 per cent during the past three fiscal years to 2007/08 and was projected to increase to 27,0 per cent over the three-year budget period.

19 Nominal value adjusted with CPI inflation for metropolitan and other urban areas.

20 It is mainly transfers to provinces, municipalities, other levels of government and social grants to households, as well as subsidies to businesses and public corporations for infrastructure projects.

Spending on *transfers and subsidies*[20] and payments for capital assets accounted for 40,6 per cent of total expenditure in fiscal 2007/08. For both these expenditure categories, the actual year-on-year increases exceeded the budgeted estimates – in particular, payments for capital assets. It was projected that these expenditure categories would continue to increase over the three-year budget period in support of poverty alleviation, infrastructural development and real economic growth.

National government expenditure

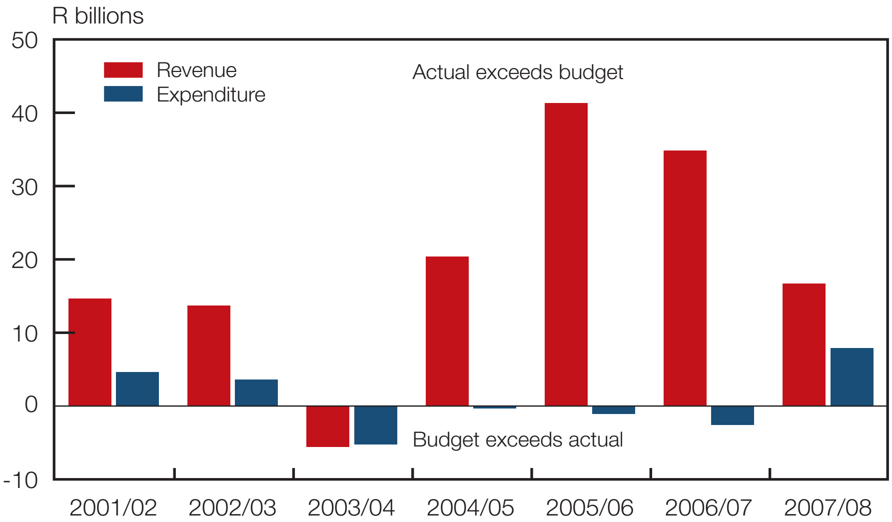


Fiscal years
* *Budget Review 2008*

National government revenue

National government revenue of R561 billion in fiscal 2007/08 represented a year-on-year increase of 16,6 per cent compared with an originally budgeted increase of 13,6 per cent. In real terms, revenue rose by 8,6 per cent over this period. Fiscal 2007/08 was the fourth consecutive year in which the main budget tax receipts exceeded budgetary expectations, but the extent of the budget overshoot narrowed from 2006/07.

Differences between actual and budgeted national government revenue and expenditure



Fiscal years

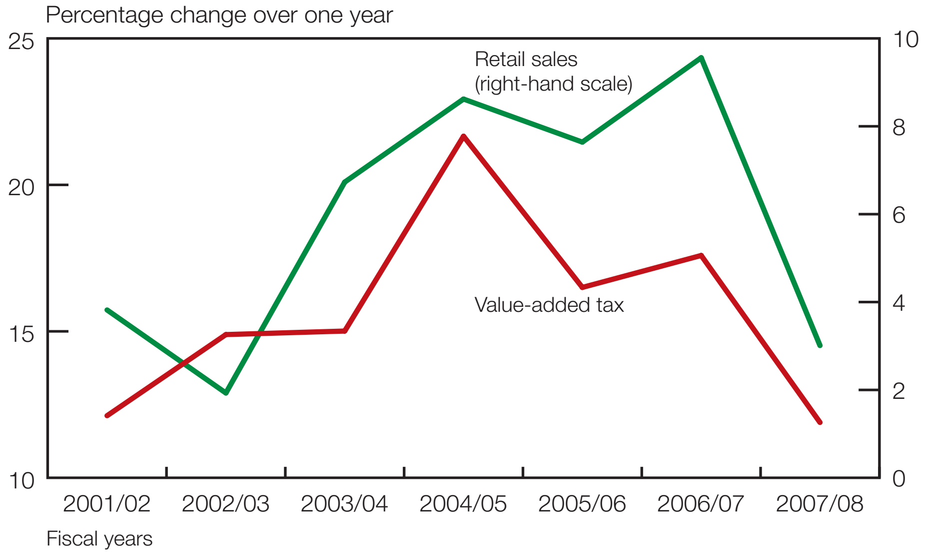
It was projected that revenue would increase at an average annual rate of 10,6 per cent over the three-year budget period. *Total revenue*[21] relative to gross domestic product reached 27,2 per cent in fiscal 2007/08, having increased from 23,2 per cent in 2003/04, and was projected to average 27,5 per cent over the medium term.

21 Total revenue includes both tax and non-tax revenue.

In fiscal 2007/08, taxes on income, profits and capital gains accounted for no less than 59,2 per cent of total revenue. The sustainability of revenue is dependent upon buoyant income tax proceeds which are, in turn, reliant upon brisk real economic activity – in particular the operating surpluses of companies and the compensation of employees – to grow the tax base. However, the growth in income tax collected receded from fiscal 2006/07 to 2007/08 as the increase in the net operating surplus slowed, offsetting the somewhat stronger pace of increase in compensation of employees.

National government revenue is similarly dependent upon value-added tax which accounted for almost 27 per cent of total revenue. This is, in turn, largely driven by household consumption expenditure which is, in turn, influenced by factors such as household income, consumer confidence and the interest cost of debt. The year-on-year rate of increase in value-added tax collected slowed sharply from a recent peak in fiscal 2004/05 as the growth in retail sales (as a proxy for household consumption expenditure) ran out of steam.

Consumer spending and value-added tax collections



National government deficit

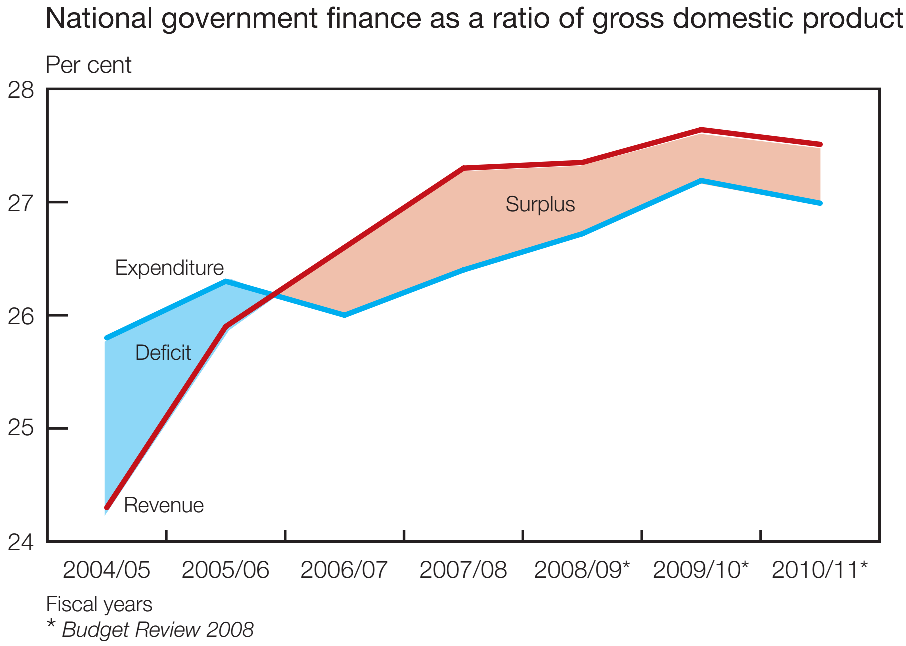
Strong economic growth boosted national government revenue and it exceeded expenditure for the second consecutive year in fiscal 2007/08, resulting in a *cash-book surplus*[22] before borrowing of R19,5 billion.

22 The cash-book surplus before borrowing is the result of revenue less expenditure.

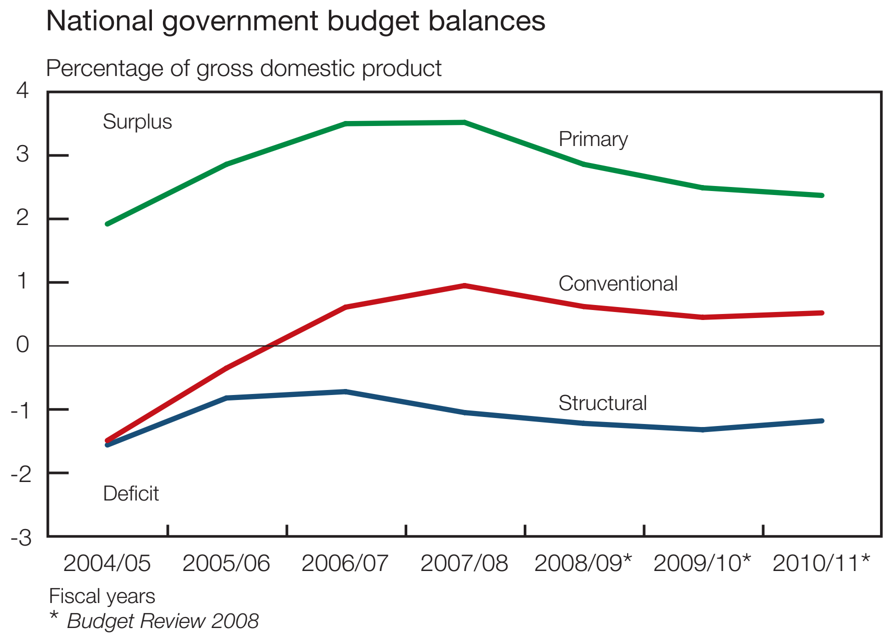
The sustainability of the national government finances may be studied by analysing the *conventional balance*[23] and the *primary balance*.[24] As a ratio of gross domestic product, these balances amounted to 0,9 per cent and 3,5 per cent in fiscal 2007/08, respectively. In the *Budget Review 2008*, these balances were projected to remain in surplus though narrowing somewhat over the three years to 2010/11. The budget surplus indicates national government's contribution to national saving and the increased availability of domestic funding to both the public and private sector, while the primary surplus indicates the extent to which revenue exceeds non-interest expenditure.

23 The conventional balance is also known as the cash-book deficit or surplus before borrowing and debt repayment of national government.

24 The primary balance is the deficit or surplus excluding the interest component of state debt cost. State debt cost includes interest, management cost and the cost of raising loans.



In recent years, positive cyclical factors such as buoyant commodity prices and low interest rates bolstered tax revenues. Some of these factors may be reversed, for instance due to an economic slowdown in major trading partner countries. The structural or cyclically adjusted budget balance is an estimate of the budget balance adjusted for cyclical revenue and expenditure, and was introduced in the October 2007 *Medium Term Budget Policy Statement* (*MTBPS*). Estimates of the structural balance indicate a modest deficit of 1,2 per cent of gross domestic product over the medium term, suggesting that the fiscal stance would still be sustainable after providing for cyclical under- or over-performance of tax revenue and cyclical deviations from expenditure trends. The analysis confirms that there is adequate fiscal space to accommodate possible new expenditure policy priorities and provide agility in the event of changes in economic conditions.



Financing of national government deficit

National government recorded a surplus adjusted for *cash flows*[25] of R19,7 billion in fiscal 2007/08 – R5,7 billion more than in the previous fiscal year. After adjusting for extraordinary receipts and payments and the cost on revaluation of foreign debt at redemption, a surplus of R19,3 billion was recorded in fiscal 2007/08, compared with a surplus of R10,5 billion in the previous year.

25 The cash-flow adjustment accounts for timing differences between transactions recorded and bank clearances, as well as late departmental requests for funds.

National government's net surplus in fiscal 2007/08 together with the issuance of Treasury bills to the value of R5,7 billion funded net redemptions of bonds and loans in both the domestic and foreign capital markets of R2,3 billion and R3,5 billion, respectively. Cash balances increased by R19,2 billion to an amount of R94,5 billion at the end of March 2008, held on deposit by national government with the monetary sector.

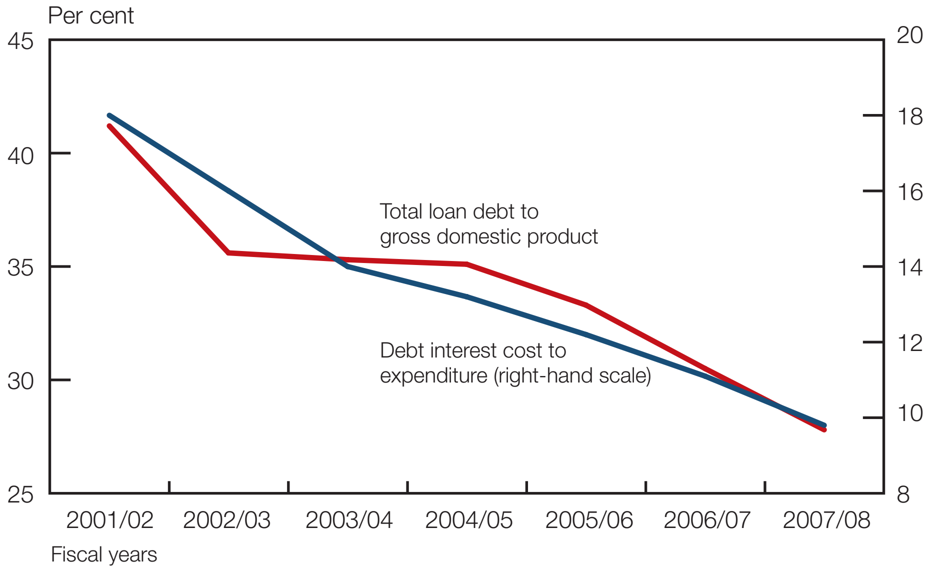
Of this increase in national government's bank deposits during fiscal 2007/08, deposits with the Bank increased by R18,4 billion to R64,0 billion at the end of March 2008. As one of the major liabilities of the Bank, these government deposits partly financed the Bank's acquisition of foreign assets. On balance, there was an increase of only R0,8 billion in deposits with private-sector banks to a level of R30,5 billion during the fiscal year.

Active management of national government debt in support of its borrowing and debt sustainability strategy was reflected by the continued steady decline in the interest cost of *total debt*[26] as a ratio of gross domestic product and national government expenditure, thereby releasing resources for other spending priorities. The ratio of total debt to gross domestic product also declined to only 25,4 per cent as revenue overruns curtailed borrowing and facilitated redemptions – creating space for borrowers in other sectors. *Total loan debt*[27] of national government increased by R19,8 billion in the fiscal year to R572 billion at the end of March 2008. This could be explained by, among other things, the issuance of new debt instruments and accounting for discounts and premiums, revaluation and, in particular, the impact of the exchange value of the rand on foreign debt.

26 Total debt of national government includes both domestic and foreign debt as well as the balance on the Gold and Foreign Exchange Contingency Reserve Account.

27 Total loan debt of national government includes both domestic and foreign loan debt, but excludes the balance on the Gold and Foreign Exchange Contingency Reserve Account.

National government debt sustainability ratios



Despite the impact of changes in the exchange value of the rand, foreign debt amounted to only 4,7 per cent of gross domestic product and 18,4 per cent of total debt in fiscal 2007/08. These well-contained levels were supportive of solid sovereign credit ratings.

General government finance

For the second consecutive year, the *consolidated general government*[28] recorded a cash surplus. This surplus amounted to R16,3 billion in fiscal 2007/08, compared with R10,9 billion the previous year. Over the medium term, the *Budget Review 2008* projected an average consolidated general government surplus of 0,5 per cent to gross domestic product.

28 The consolidated general government comprises the consolidated central provincial and local governments. The consolidated central government, in turn, consists of national government, extra-budgetary institutions and social security funds.

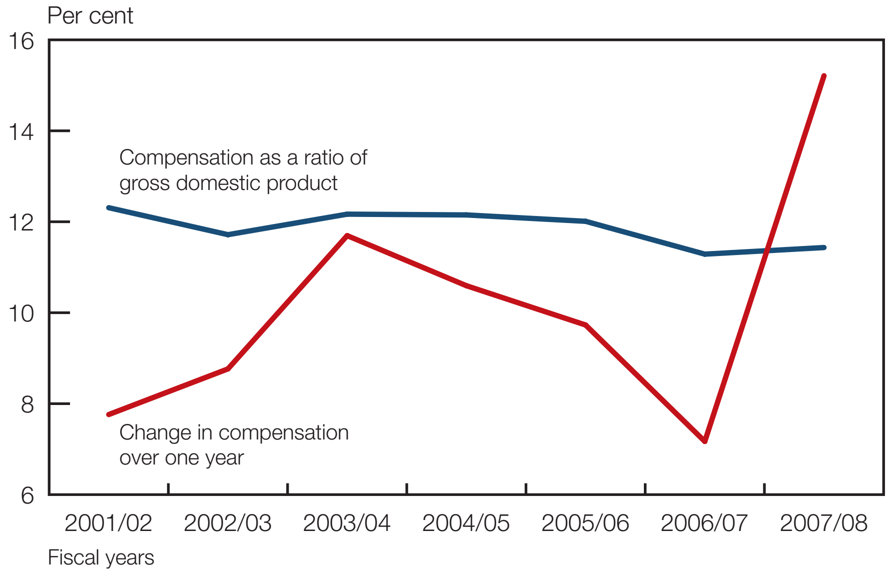
The main drivers of the cash surplus were the strengthening of the main budget balance and the cash surpluses of the extra-budgetary institutions and social security funds. The *Provincial Revenue Fund Statements* indicated that provincial governments recorded cash surpluses since fiscal 2004/05 which decreased to an almost balanced budget in 2006/07, followed by a surplus of R0,3 billion in 2007/08. By contrast, local governments recorded a cash deficit of R15,3 billion in fiscal 2007/08, more than double the deficit of R7,4 billion in the previous year.

This strong fiscal position afforded public entities space to fund capital expenditure on infrastructure through borrowing. The close-to-balanced budget of provincial governments provided for an increase in capital expenditure and a reduction in under-spending. The widening of the cash deficit of local governments can be attributed to rising infrastructural spending.

The *cash surplus*[29] of consolidated general government, as regards current expenditures, is mostly influenced by compensation of employees, which accounted for 32,5 per cent of total spending. The year-on-year rate of increase in compensation accelerated significantly from 7,5 per cent in fiscal 2006/07 to 14,9 per cent in 2007/08 – a level far above the upper limit of the inflation target range. However, compensation as a ratio of gross domestic product remained broadly unchanged at a level of 11 per cent over the same period.

29 The cash surplus is the difference between net cash flow from operating activities and net investment in non-financial assets.

Compensation of consolidated general government employees



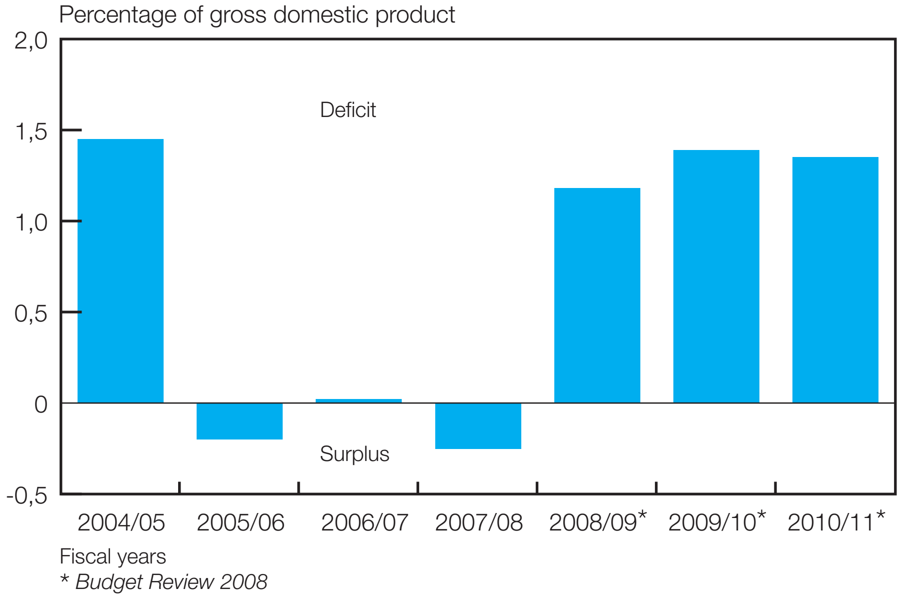
Expenditure by consolidated national and provincial government and social security funds was dominated by spending on community and social services, which accounted for just more than half of total spending. Such spending was expected to increase at an average rate of 11,6 per cent over the three-year budget period. The contingency reserve account is estimated to amount to R6 billion in fiscal 2008/09, R12 billion in fiscal 2009/10 and R20 billion in fiscal 2010/11. These reserves allow for the possibility of unforeseen and unavoidable expenditure, and were later augmented in an announcement in July 2008 of further financial support for Eskom's capital investment programme. Funding of up to R60 billion was anticipated.

Non-financial public-sector borrowing requirement

The *non-financial public sector*[30] recorded a cash surplus of R5,2 billion in fiscal 2007/08, compared with a cash deficit of R0,4 billion in the previous year. This came about as surpluses recorded by national government, extra-budgetary institutions, social security funds and provincial governments together more than offset the deficits of, in particular, local governments and non-financial public enterprises. The non-financial public-sector surplus as a ratio of gross domestic product amounted to 0,3 per cent in fiscal 2007/08 – higher than the revised ratio of 0,1 per cent estimated in the *Budget Review 2008,* and a turnaround from a cash deficit ratio in the previous year. The *Budget Review 2008*, projected an average public-sector borrowing requirement of 1,3 per cent of gross domestic product over the three-year period as capital expenditure was expected to accelerate. Non-financial public enterprises would account for most of the borrowing requirement at an average of R44 billion per year over the medium term. The bulk of this amount would be required to finance the revised capital expenditure plans of public corporations such as Eskom and Transnet.

30 The non-financial public sector consists of the consolidated general government and non-financial public enterprises.

Non-financial public-sector borrowing requirement



National government finance in the April–June quarter of fiscal 2008/09

In the first quarter of fiscal 2008/09, national government expenditure and revenue resulted in an almost balanced budget in stark contrast with a cash-book deficit of R4,9 billion in the same period of the previous fiscal year. After adjusting for extraordinary receipts and payments and the revaluation of foreign bonds and loans the net borrowing requirement amounted to R5,0 billion in the period April to June 2008. The net borrowing requirement was financed as shown in the accompanying table.

Financing of national government in fiscal 2008/09
R billions

	Originally budgeted	Actual Apr–Jun 2008
Budget balance*	-14,3	3,0**
Plus: Extraordinary payments	0,0	0,0
Cost on revaluation of foreign debt at redemption	1,8	1,9
Less: Extraordinary receipts	0,3	0,0
Net borrowing requirement*	-12,7	5,0
Treasury bills	5,8	9,9
Domestic government bonds	5,9	5,6
Foreign bonds and loans	-1,7	-2,8
Changes in available cash balances ***	-22,7	-7,7
Total net financing	-12,7	5,0

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

Financial framework

Reporting framework

These consolidated financial statements have been prepared in accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (the Act), and the accounting policies set out in Note 1 to the financial statements.

The Act is not prescriptive regarding the accounting framework that the Bank should adopt, except for sections 25 and 28, which deal with the accounting treatment of gold and foreign-exchange transactions. These sections are in conflict with International Financial Reporting Standards (IFRSs). The Bank has chosen to use IFRSs as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its financial statements.

However, the Act takes precedence over IFRSs in the areas noted above and, as a result, the recognition and measurement criteria as set out in the IFRSs have not been followed in these instances. In addition, the Bank considers certain disclosures inappropriate to its functions. Therefore, the financial statements of the Bank disclose less detail than would be required under IFRSs.

The significant departures from IFRSs as a consequence of the above may be summarised as follows:

Recognition and measurement

According to the Act,

1 realised and unrealised valuation gains and losses on gold and foreign-denominated assets and liabilities are for the account of Government, and have therefore not been accounted for in the income statement of the Bank, as required by International Accounting Standard (IAS) 21: *The Effects of Changes in Foreign Exchange Rates*; and

2 all gold of the Bank is valued in terms of section 25 of the Act, at the statutory gold price as published in the *Government Gazette*. Gold is recognised as a financial asset of the Bank.

Presentation

In the financial statements

1 not all information as requested by IFRS 7: *Financial Instruments Disclosure* is disclosed. This relates specifically to a sensitivity analysis for each type of market risk to which the entity is exposed at reporting date, showing how profit, loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; and

2 the terms of certain related party transactions were not disclosed as required by IAS 24: *Related Party Disclosures*, where such disclosure was considered by the Bank to be inappropriate.

Budget for 2007/08

Certain expenditure items, such as depreciation of fixed assets, are not included in the figures in the table below, because they are not managed as part of the operational budget process.

	Budget 2008/09 R'000	Actual 2007/08 R'000	Budget 2007/08 R'000
Personnel costs	838 500	940 507	755 414
Operating costs	294 785	266 878	262 922
Cost of new currency	1 008 358	869 955	861 513

The actual performance of the 2007/08 operational costs was slightly above the budget due to a substantial rise in the number of consignment deliveries made to meet an increased demand for new banknotes. This resulted in the distribution costs being higher. The numerous increases in the fuel prices also contributed to the higher costs.

The 2007/08 personnel and operational costs were over the budget. This was mainly as a result of the following exceptional items:

1 A special transfer to the Retirement Fund to enhance the retirement benefits of contributing members.

2 The actuarial shortage on post-retirement benefits was higher than budgeted, as the discount rate applied to determine the net present value of the liability as at 31 March 2008 was adversely affected by the current market conditions.

The significant increase in the budget for new currency in 2008/09 is a result of an increase in demand, building of buffer stock of currency and an increase in production costs.

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the accompanying annual financial statements and group annual financial statements of the South African Reserve Bank, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 March 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 81 to 127.

Directors' responsibility for the financial statements

The South African Reserve Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 1 and in the manner required by the South African Reserve Bank Act,1989 (Act No. 90 of 1989). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditors' opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the basis of accounting described in Note 1 and in the manner required by the South African Reserve Bank Act,1989 (Act No. 90 of 1989).

Without qualifying our opinion, we emphasise that the basis of accounting, and the presentation and disclosures contained in the financial statements of the South African Reserve Bank and of the group are not intended to, and do not, comply with certain requirements of International Financial Reporting Standards.

PricewaterhouseCoopers Inc.
Director: J Grosskopf
Registered Auditor

SizweNtsaluba VSP
Partner: S Sono
Registered Auditor

Pretoria
25 July 2008

PricewaterhouseCoopers Inc. Reg. no. 1998/012055/21 Private Bag X36 Sunninghill 2157 Tel: (011) 797 4000 Fax: (011) 797 5800
C Beggs: Chief Executive Officer F Tonelli: Chief Operating Officer ER MacKeown: Director – Managing Johannesburg office
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.
SizweNtsaluba PO Box 2939 Saxonwold 2132 Tel: (011) 231 0600 Fax: (011) 234 0933 Chief Executive Officer: VM Sekese
Partners: AM Mthimunye AW Mashifane A van den Heever A Rooplal C Jugnarayan HL Qangula J Strauss LD Saunders LC Dudumashe M Thimkhulu N Arendse P Harilall R Bhika SE Sono S Lockhat TR Josias Z Bashir

Directors' report for the year ended 31 March 2008

Introduction

The directors present the Bank's eighty-eighth annual report for the year ended 31 March 2008.

This report, issued in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (the Act), addresses the performance of the South African Reserve Bank (the Bank), its subsidiaries and relevant statutory information requirements.

It is the directors' responsibility to prepare annual financial statements and related financial information that fairly present the state of affairs and the financial results of the group. These financial statements have been prepared on a going-concern basis, taking cognisance of certain unique aspects relating to the Bank's ability to create and withdraw domestic currency, its role as lender of last resort and its responsibilities in the area of financial stability, as well as its relationship with Government concerning foreign-exchange and gold transactions.

Management prepared the annual financial statements set out in this report. The statements include appropriate and responsible disclosure, and are based on appropriate accounting policies that have been applied consistently, and that are supported by reasonable and prudent judgements and estimates.

In exceptional circumstances, as part of its central banking functions, the Bank may provide emergency assistance to banks experiencing difficulty, in order to prevent loss of confidence spreading through the entire financial system. Confidence in the banking system can best be sustained if the support of the Bank is only disclosed when conditions giving rise to potentially systemic disturbances have improved. Accordingly, the financial statements of the Bank may not explicitly identify such support the moment it is provided.

The financial statements have been audited by independent auditors, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board, committees of the Board and management meetings.

The requirements of the *King Report on Corporate Governance for South Africa* are dealt with in the corporate governance statement which appears on pages 10 to 13.

Nature of business

The Bank is the central bank of the Republic of South Africa and is regulated in terms of an Act of Parliament. The primary objective of the Bank is the achievement and maintenance of price stability. In pursuance of its primary objective, the Bank assumes responsibility for the functions as set out in its mission statement on pages 4 and 5.

The subsidiaries of the Bank are involved in the following activities:

1. Corporation for Public Deposits receives call deposits from public entities;
2. South African Bank Note Company (Proprietary) Limited produces banknotes;
3. South African Mint Company (Proprietary) Limited produces coin; and
4. South African Reserve Bank Captive Insurance Company Limited manages certain insurable risks of the Bank and its subsidiaries.

Achievement of objectives

The achievements of the Bank in respect of its objectives, including its main objective, namely the maintenance of price stability, will be addressed by the Governor at the annual general meeting of shareholders to be held on 18 September 2008. The Governor's address receives extensive media coverage, and is made available to shareholders and other interested parties.

Financial results

The income statement appears on page 87.

All remaining profits of the Bank, after provisions normally provided for by bankers and payment of dividends, are paid to Government in terms of the Act. Amounts paid and due in terms of the Act over the past two years were as follows:

	Group R'000	Bank R'000
31 March 2008	153 152	119 005
31 March 2007	132 693	115 800

Dividends

The final dividend of 5 cents per share for the 2007 financial year was paid on 4 May 2007 and an interim dividend of 5 cents per share for the 2008 financial year was paid to shareholders on 26 October 2007.

A final dividend of 5 cents per share for the 2008 financial year was declared on 1 April 2008 and paid on 9 May 2008.

Financial position

The balance sheet appears on page 86.

The total assets of the Bank increased by R81 billion during the year: an increase of R86 billion in gross gold and foreign assets, and a decrease of R5 billion in domestic assets. The increase in total assets was funded mainly by increases in deposit accounts (R30 billion), notes and coin in circulation (R5 billion), and an increase in the Gold and Foreign Exchange Contingency Reserve Account (R44 billion). The last-mentioned increase was mainly due to revaluation profits on the gold and foreign-exchange holdings of the Bank, which are for the account of Government.

Directors

The composition of the Board of Directors is set out on page 3.

The term of office of Ms Mgoduso as shareholders' representative representing industry expired on 21 September 2007 and she was re-elected at the annual general meeting held on 20 September 2007.

The term of office of Mr J W Raath as shareholders' representative representing agriculture expired on 21 September 2007 and he was not available for re-election.

Mr J F van der Merwe was elected as shareholders' representative representing agriculture on 20 September 2007.

The term of office of Ms F Jakoet as shareholders' representative representing commerce or finance expired on 21 September 2007 and she was re-elected at the ordinary general meeting held on 20 September 2007.

The terms of office of Mr F E Groepe, and Profs M Padayachee and R W K Parsons representing Government expired on 20 July 2007. Mr Groepe and Prof Parsons were reappointed on 18 March 2008. On 18 March 2008 Mr E Masilela was appointed as a Government representative.

There is currently one vacancy for a deputy governor.

Meetings attended by directors: 1 April 2007 – 31 March 2008

	Board	Nedcom	Remco	Audit	Pension Fund	Retirement Fund
Number of meetings	5	3	5	3	4	4
T T Mboweni	4		4		3	3
X P Guma	5			3		4
R D Mokate	4			2	4	
D Konar	5	1		3	3	3
F Jakoet	5	2		3		
Z P Manase	4	2		3		
N D Orleyn	4	3	5			
S M Goodson[1]	5	3	1		4	
R W K Parsons[2]	1	1				
F E Groepe[3]	1	0		1		
T N Mgoduso	4	2	4			
J F van der Merwe[4]	2	2				
E Masilela[5]						
M Padayachee[6]	1	1	2	1		
J W Raath[7]	3	1	3			

Notes:

1 S M Goodson became a member of Remco on 21 February 2008.
2 R W K Parsons's term of office ended on 20 July 2007. He was reappointed to the Board on 18 March 2008.
3 F E Groepe's term of office ended on 20 July 2007. He was reappointed to the Board on 18 March 2008.
4 J F van der Merwe's term of office began on 21 September 2007.
5 No meetings have been held since the appointment date of Mr E Masilela.
6 M Padayachee's term of office ended on 20 July 2007.
7 J W Raath's term of office ended on 21 September 2007.

Nedcom: Non-executive Directors' Committee
Remco: Remuneration Committee

Direct and indirect shareholding of directors on 31 March 2008

During the year, members of the Board held the following shares in the Bank:

Number of shares

S M Goodson	10 000
D Konar	10 000
T T Mboweni	10 000
X P Guma	5 932
F Jakoet	500
N D Orleyn	10 000
R W K Parsons	1 000
	47 432

Subsidiaries

The following information relates to the financial interest of the Bank in its subsidiaries:

	Authorised and issued share capital					
	Number of shares	Percentage held	Shares at cost		Net indebtedness to/(by) Bank	
	’000	Per cent	2008 R’000	2007 R’000	2008 R’000	2007 R’000
Corporation for Public Deposits	2 000	100	2 000	2 000	(6 632 380)	(10 057 847)
South African Mint Company (Proprietary) Limited	60 000	100	206 000	206 000	0	0
South African Bank Note Company (Proprietary) Limited	61 000	100	61 000	61 000	30 451	25 663
South African Reserve Bank Captive Insurance Company Limited	10 000	100	10 000	10 000	0	0
Total			279 000	279 000	(6 601 929)	(10 032 184)

The interest of the Bank in the aggregate attributable net profits in subsidiaries is as follows:

	Bank	
	2008 R million	2007 R million
Aggregate profits	163	45

Contracts

No contracts were entered into during the year in which directors or officers of the Bank had interests that significantly affected the affairs or business of the Bank or any of its subsidiaries.

Post-balance sheet events

There was no event subsequent to the balance sheet date that had a significant effect on the financial statements.

Secretary

Mr T P Mongwe

Business address:	Postal address:
370 Church Street	PO Box 427
Pretoria	Pretoria
Republic of South Africa	Republic of South Africa
0002	0001

The financial statements were approved by the Board of Directors on 25 July 2008 and signed on its behalf by:

T T Mboweni
Governor

R D Mokate
Deputy Governor

T N Mgoduso
Director

Z P Manase
Director

G J Terblanche
Chief Financial Officer

In my capacity as Secretary of the Bank, I certify that all the returns required to be submitted in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), for the year ended 31 March 2008, have been correctly completed and are up to date.

T P Mongwe
Secretary

Pretoria
25 July 2008

Balance sheet at 31 March 2008

	Notes	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Assets					
Cash and cash equivalents	2	77 137	23 609	0	0
Accommodation to banks	3	10 935 444	15 053 447	10 935 444	15 053 447
South African Government bonds	4	8 280 044	8 918 142	8 280 044	8 918 142
Loans and advances	5	72 259	73 219	72 259	73 219
Current taxation prepaid		1 747	6 171	0	0
Amounts due by subsidiaries	6	0	0	170 030	225 476
Gold and foreign exchange	7	277 887 718	192 421 801	277 887 718	192 421 801
Inventories	8	375 333	291 767	6 340	9 358
Investments	9	6 835 797	2 881 632	0	0
Amounts due by the South African Government	10	984 019	1 035 115	984 019	1 035 115
Property, plant and equipment	11	1 087 668	1 047 336	628 727	630 652
Investment in subsidiaries	6	0	0	279 000	279 000
Equity investment in Bank for International Settlements	12	348 413	287 337	348 413	287 337
Deferred taxation assets	13	282 776	242 387	258 187	220 365
Forward exchange contract assets	14	16 059	37 088	13 563	37 088
Other assets	15	491 794	405 954	383 773	354 856
Total assets		307 676 208	222 725 005	300 247 517	219 545 856
Liabilities					
Deposit accounts	16	131 278 274	100 471 185	118 480 302	88 234 688
Amounts due to subsidiaries	6	0	0	6 771 959	10 257 660
SARB debentures	17	16 928 734	5 478 530	16 928 734	5 478 530
Foreign loans	18	11 311 522	19 585 938	11 311 522	19 585 938
Current taxation liabilities		214 477	3 090	203 919	3 090
Notes and coin in circulation	19	63 371 971	58 468 958	63 371 971	58 468 958
Provisions	20	100 196	84 005	88 025	75 813
Gold and Foreign Exchange Contingency Reserve Account	21	72 189 474	28 482 310	72 189 474	28 482 310
Deferred taxation liabilities	13	121 425	110 727	42 332	34 789
Forward exchange contract liabilities	14	9 873	69 021	9 873	69 021
Other financial liabilities	22	407 908	356 394	211 458	209 008
Post-retirement medical benefits	23	804 951	682 254	733 332	617 862
Total liabilities		296 738 805	213 792 412	290 342 901	211 517 667
Capital and reserves					
Share capital	24	2 000	2 000	2 000	2 000
Accumulated profit		953 097	824 482	0	0
Statutory reserve		390 822	377 599	390 822	377 599
Contingency reserve		9 390 975	7 071 207	9 311 285	6 991 285
Bond revaluation reserve		200 509	657 305	200 509	657 305
Total capital and reserves		10 937 403	8 932 593	9 904 616	8 028 189
Total liabilities, capital and reserves		307 676 208	222 725 005	300 247 517	219 545 856

Income statement for the year ended 31 March 2008

		Group		Bank	
	Notes	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Interest income		12 920 307	9 330 931	12 098 728	8 946 989
Interest expense		7 495 629	4 872 324	6 767 711	4 565 996
Net interest income		5 424 678	4 458 607	5 331 017	4 380 993
Dividend income		23 608	21 957	23 676	80 141
Operating income		469 792	298 724	273 347	171 793
Total income	25.1	5 918 078	4 779 288	5 628 040	4 632 927
Operating costs	25.2	2 227 645	1 793 598	2 153 072	1 726 209
Profit before taxation	25	3 690 433	2 985 690	3 474 968	2 906 718
Taxation	26	1 075 475	862 002	1 022 540	827 851
Profit for the year		2 614 958	2 123 688	2 452 428	2 078 867
Dividend per share (cents)	27	10	10	10	10

Cash flow statement for the year ended 31 March 2008

		Group		Bank	
	Notes	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Cash flow from operating activities					
Cash generated from/(utilised by) operating activities	28	5 028 246	(316 977)	867 056	587 890
Taxation paid		(698 855)	(795 256)	(661 490)	(754 286)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to Government		(132 693)	(28 469)	(115 800)	(15 926)
Net cash flow generated from/(utilised by) operating activities		4 196 498	(1 140 902)	89 566	(182 522)
Cash flow (utilised by)/generated from investing activities		(4 142 970)	1 139 414	(89 566)	182 522
Purchase of property, plant and equipment		(175 233)	(157 434)	(80 497)	(129 500)
Disposal of property, plant and equipment		129	2 083	129	470
Disposal of investments		(3 958 668)	983 213	0	0
Net investment (in)/from Government bonds		(9 198)	311 552	(9 198)	311 552
Net increase/(decrease) in cash and cash equivalents		53 528	(1 488)	0	0
Cash and cash equivalents at beginning of the year		23 609	25 097	0	0
Cash and cash equivalents at end of the year	2	77 137	23 609	0	0

Statement of changes in equity: Group*

For the year ended 31 March 2008

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Total R'000
Balance at 31 March 2006	2 000	796 720	364 732	5 121 041	863 915	7 148 408
Profit for the year	0	2 123 688	0	0	0	2 123 688
Transfer to Government	0	(132 693)	0	0	0	(132 693)
Transfer to reserves	0	(1 963 033)	12 867	1 950 166	(0	0
Realised gains on available-for-sale financial assets	0	0	0	0	(1 258)	(1 258)
Gross realised gains					(1 772)	(1 772)
Taxation thereon					514	514
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(205 352)	(205 352)
Gross adjustments					(289 228)	(289 228)
Taxation thereon					83 876	83 876
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2007	2 000	824 482	377 599	7 071 207	657 305	8 932 593
Profit for the year	0	2 614 958	0	0	0	2 614 958
Transfer to Government	0	(153 152)	0	0	0	(153 152)
Transfer to reserves	0	(2 332 991)	13 223	2 319 768	0	0
Realised gains on available-for-sale financial assets	0	0	0	0	0	0
Gross realised gains					0	0
Taxation thereon					0	0
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(456 796)	(456 796)
Gross adjustments					(647 296)	(647 296)
Taxation thereon					190 500	190 500
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2008	2 000	953 097	390 822	9 390 975	200 509	10 937 403

*Notes

Statutory reserve
The statutory reserve is maintained in terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), which stipulates that one-tenth of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

Contingency reserve
Contingency reserves are maintained to provide against risks to which the Bank, the Corporation for Public Deposits and the South African Reserve Bank Captive Insurance Company Limited are exposed.

Bond revaluation reserve
Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised directly in equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Transfer to Government
In terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to Government. In terms of section 15 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984), the balance of net profits after transfers to reserves and payment of dividends has to be paid to Government.

Statement of changes in equity: Bank*

For the year ended 31 March 2008

	Share capital R'000	Accumu-lated profit R'000	Statutory reserve R'000	Contin-gency reserve R'000	Bond re-valuation reserve R'000	Total R'000
Balance at 31 March 2006	**2 000**	**0**	**364 732**	**5 041 285**	**863 915**	**6 271 932**
Profit for the year	0	2 078 867	0	0	0	2 078 867
Transfer to Government	0	(115 800)	0	0	0	(115 800)
Transfer to reserves	0	(1 962 867)	12 867	1 950 000	0	0
Realised gains on available-for-sale financial assets	0	0	0	0	(1 258)	(1 258)
Gross realised gains					(1 772)	(1 772)
Taxation thereon					514	514
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(205 352)	(205 352)
Gross adjustments					(289 228)	(289 228)
Taxation thereon					83 876	83 876
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2007	**2 000**	**0**	**377 599**	**6 991 285**	**657 305**	**8 028 189**
Profit for the year	0	2 452 428	0	0	0	2 452 428
Transfer to Government	0	(119 005)	0	0	0	(119 005)
Transfer to reserves	0	(2 333 223)	13 223	2 320 000	0	0
Realised gains on available-for-sale financial assets	0	0	0	0	0	0
Gross realised gains					0	0
Taxation thereon					0	0
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(456 796)	(456 796)
Gross adjustments					(647 296)	(647 296)
Taxation thereon					190 500	190 500
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2008	**2 000**	**0**	**390 822**	**9 311 285**	**200 509**	**9 904 616**

*Notes

Statutory reserve
The statutory reserve is maintained in terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), which stipulates that one-tenth of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

Contingency reserve
A contingency reserve is maintained to provide against risks to which the Bank is exposed.

Bond revaluation reserve
Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised directly in equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Transfer to Government
In terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), nine-tenths of the surplus of the Bank after provisions normally provided for by bankers and payment of dividends, has to be paid to Government.

Notes to the financial statements

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently with those adopted in the previous year.

1.1 Basis of presentation

These consolidated annual financial statements have been prepared in accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (the Act), and the accounting policies set out in this note.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Bank. The areas of a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the relevant notes.

1.2 Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of the subsidiaries are included from the effective dates on which control is transferred to the Bank until the effective dates of disposal. Control is achieved where the Bank has the power to govern the financial and operational policies of an investee enterprise so as to obtain benefits from its activities. All inter-company balances, transactions, and unrealised gains and losses on transactions within the group have been eliminated.

Investments in subsidiaries

The Bank uses the purchase method of accounting as the basis for recording an acquisition. Investments in subsidiaries are stated at cost less provision for losses where appropriate. No goodwill has arisen on the acquisition of the subsidiaries.

1.3 Financial instruments

Classification

Financial instruments as reflected on the balance sheet include all financial assets and financial liabilities, including derivative instruments, but excluding investments in subsidiaries, employee benefit plans, provisions, property, plant and equipment, deferred taxation, inventories, and taxation payable or prepaid. Financial instruments are classified as follows:

Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this classification at every reporting date.

All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

The purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the Bank commits to purchasing or selling the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or where they have been transferred and the Bank has also transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, the fair values of financial assets are based on quoted bid prices, excluding transaction costs. If the market for a financial asset is not active or an instrument is an unlisted instrument, the fair value is estimated using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option-pricing models.

When a discounted cash flow analysis is used to determine the value of financial assets, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate, at the balance sheet date, for a financial asset with similar terms and conditions. Where option-pricing models are used, inputs based on observable market indicators at the balance sheet date are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

a *Financial assets at fair value through profit or loss*

This category has two sub-categories: (1) financial assets held for trading and (2) those designated at fair value through profit or loss at inception.

A financial asset is classified as 'held for trading' if it is acquired principally for the purpose of selling in the short term, it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if it is so designated by management. Derivatives are also classified as held for trading, unless they are designated as hedges at inception.

A financial asset is designated as 'fair value through profit or loss' because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel. If these criteria are used, the main classes of financial assets designated by the Bank are debt securities.

Subsequent to initial recognition, these assets are measured at fair value. All related, realised and unrealised gains and losses arising from changes in fair value are recognised as investment income in the income statement.

b *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale.

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

A provision for impairment is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that receivables are impaired includes observable data that come to the attention of the Bank about the following events:

- Significant financial difficulty of the debtor
- A breach of contract, such as default or delinquency in payments
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The amount of a provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised as a charge in the income statement.

c *Held-to-maturity financial assets*

No financial assets have been classified as ‘held to maturity’.

d *Available-for-sale financial assets*

Available-for-sale financial assets are those intended to be held for an indefinite period and may be sold in response to liquidity needs or changes in interest rate, exchange rates or equity prices. Financial assets that are either designated in this category or not classified in any of the other categories are classified as ‘available-for-sale’ financial assets. The main classes of financial assets classified as available for sale are South African Government bonds.

Subsequent to initial recognition, available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from the change in fair value are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest and dividend income received on available-for-sale financial assets are recognised in the income statement.

Impairment of financial assets

An asset is impaired if its carrying amount is greater than its estimated recoverable amount.

a *Financial assets carried at amortised cost*

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset, which can be estimated reliably.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment had been recognised, such as improved credit rating, the previously recognised impairment loss is reversed and is recognised in the income statement.

b *Financial assets carried at fair value*

The Bank assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each balance sheet date. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss had been recognised in profit or loss, the impairment loss is reversed through the income statement.

Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities at initial recognition and re-evaluates this classification at every reporting date.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred.

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

a *Fair value through profit and loss financial liabilities*

Derivatives with negative fair values have been classified at fair value through profit and loss financial liabilities.

b *Other financial liabilities*

The following financial liabilities have been classified as 'other financial liabilities': notes and coin issued; foreign loans; SARB debentures; deposit accounts; amounts due to subsidiaries; and creditors. Other financial liabilities are measured at amortised cost.

Recognition and derecognition

Financial assets and financial liabilities are recognised on the date on which the group becomes party to the contractual provisions and trade date accounting is applied for 'regular way' purchases and sales. From this date, any gains or losses arising from changes in the fair value of assets and liabilities are recognised. Loans and receivables, and other financial liabilities are recognised on the day on which they are transferred to the group or the day the funds are advanced.

Measurement

a *Initial measurement*

A financial asset or financial liability is initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs directly attributed to the acquisition of the financial asset or liability.

b *Subsequent measurement*

Fair value through profit or loss financial assets and liabilities and available-for-sale financial assets are carried at fair value. Fair values are established as follows:

(i) Derivatives

A derivative is a financial instrument whose value changes in response to an underlying variable that requires little or no initial investment and is settled at a future date. Fair values are obtained from quoted market prices (excluding transaction costs), dealer price quotations, discounted cash flow models and option-pricing models, which consider current market and contractual prices for the underlying instruments as well as the time value of money.

(ii) Foreign marketable money-market investments

The fair value of foreign marketable money-market investments is based on quoted bid rates, excluding transaction costs.

(iii) Local and foreign portfolio investments

The fair values of portfolio investments are valued using the quoted fair values as obtained from portfolio managers. Where these instruments are bank deposits, they are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.

(iv) South African Government bonds

Listed bonds are valued using the quoted fair values at year-end as supplied by the Bond Exchange of South Africa (BESA).

Loans and receivables, and other liabilities

Loans and receivables, and other liabilities are measured at amortised cost, which approximates fair value, and are re-measured for impairment losses, except as set out below:

a Non-interest-bearing deposit accounts, the Gold and Foreign Exchange Contingency Reserve Account and loans to subsidiaries are accounted for at cost, as these accounts do not have fixed maturity dates.

b Notes and coin issued are measured at cost, as this liability does not have a fixed maturity date. The banknotes and coin in circulation represent the nominal value of all banknotes held by the public and the banks, including recalled, still exchangeable banknotes from previous series.

c Accounts payable are stated at cost, which approximates fair value due to their short-term nature.

Amortised cost is calculated on the effective interest rate method that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement of the period in which it arises.

Gains and losses arising from a change in the fair value of financial assets and liabilities designated at fair value through profit and loss are recognised in the income statement of the period in which they arise, except for gold and foreign-exchange activities, as explained in Note 1.4.

Hedge accounting

Hedge accounting has not been applied on any transactions for the year under review.

Offsetting

Financial assets and financial liabilities are offset, and the net amount reported on the balance sheet where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.4 Foreign currency activities

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements of the Bank are presented in South African rand, which is the functional currency of the Bank.

Foreign-exchange gains and losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Gains and losses of the subsidiaries arising on translation are recognised in the income statement. Foreign-exchange profits and losses of the Bank, insofar as they arise from changes in the value of the rand compared with other currencies, are for the account of Government and, consequently, all these profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account in terms of sections 25 to 28 of the Act. Investment returns on foreign-exchange reserves and interest paid on foreign loans are for the account of the Bank and are accounted for in the income statement.

1.5 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined separately for each significant part of an item of property, plant and equipment, and is charged so as to write off the cost or valuation of the assets (other than land and items under construction) to their residual value over their estimated useful life, using the straight line method. The estimated useful life of the assets has been disclosed in Note 11.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the income statement when incurred.

The residual values and useful life of assets are reviewed at each balance sheet date and adjusted if appropriate. If the carrying amount of the asset is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Intangible assets

Computer software

Computer software and the direct costs associated with its customisation and installation are capitalised and amortised over two to three years.

1.6 Impairment of other assets

The carrying amount of the group's assets other than financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment, in which case the recoverable amount is estimated.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. A previously expensed impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

1.7 Gold

Gold is held by the Bank as part of its foreign reserves. In terms of section 25 of the Act, gold is initially recorded at the prevailing prices at initial recognition date, including transaction costs. Subsequent to initial measurement, it is measured as follows: physical gold held by the Bank is valued at the statutory price. The statutory price is the quoted spot price at year-end. Gold loans are measured at the quoted spot price at year-end. Physical gold held by the subsidiaries is also measured at the quoted spot price as at year-end.

In terms of section 25 of the Act, all gains and losses on gold achieved by the Bank are for the account of the South African Government and, consequently, all profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account. Profits and losses on gold of the subsidiaries are charged to the income statement in the period in which they arise.

1.8 Taxation

The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed for taxation purposes. It is calculated using taxation rates that have been enacted or substantially enacted by the balance sheet date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amount of assets and liabilities for financial reporting purposes and their taxation base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted at the balance sheet date. Deferred taxation is charged to the income statements, except to the extent that it relates to a transaction that is recognised directly in equity. The effect on deferred taxation of any changes in taxation rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profit will be available, against which the unutilised taxation losses and deductible temporary differences can be used. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

1.9 Employee benefits

Pension and retirement funds

The expected costs of post-retirement defined benefits are charged to income over the expected service life of the employees entitled to these benefits according to the projected unit credit method. Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees.

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The defined benefit obligation is calculated triennially by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement when they arise. Past-service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period). In this case, the past-service costs are amortised on a straight line basis over the vesting period.

A defined contribution plan is a pension plan in terms of which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

Post-retirement medical benefits

In terms of certain employment contracts, the Bank provides post-retirement medical benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions.

The entitlement to these benefits is based on employment prior to a certain date and is conditional on employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that used for defined benefit pension plans. Past-service costs, and actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service.

For active employees, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the current year. The liability is provided for in an actuarially determined on-balance sheet provision.

1.10 Sale and repurchase agreements

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading "Accommodation to banks" as loans and receivables. Securities sold under agreement to repurchase are disclosed as repurchase agreements included in deposit accounts.

The underlying securities purchased under repurchase agreements are not recorded by the Bank. Likewise, underlying securities sold under repurchase agreements are not derecognised by the Bank.

The differences between the purchase and sale prices are treated as interest and accrued using the effective rate of interest method.

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the cost of completion and selling expenses.

Redundant and slow-moving stocks are identified and written down to their estimated economic or realisable values. Subsidiaries value raw materials at cost according to the first-in, first-out basis. Some raw material is valued at standard cost, which closely approximates the actual cost on a first-in, first-out basis.

Consumable stores are valued at the weighted-average cost price.

Maintenance spares are valued at average cost.

Finished goods and work in progress are valued at direct costs of conversion and production overheads on a first-in, first-out basis. Production overheads are included in the cost of manufactured goods, based on normal operating capacity.

Note-printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as part of work-in-progress stock for the South African Bank Note Company (Proprietary) Limited and the South African Mint Company (Proprietary) Limited, and are released to the income statement when the currency is sold to the Bank.

1.12 Cash flow

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and bank overdrafts of the subsidiaries. As far as the Bank is concerned, no cash and cash equivalents are shown because of the role of the Bank as central bank in the creation of money.

1.13 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for leave pay and bonus

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees.

The provision for leave pay represents the present obligation to employees as a result of employees' services provided at the balance sheet date. The provision is measured as the amount that is expected to be paid as a result of the unutilised leave entitlement that has accumulated at the balance sheet date.

Provision for professional fees

A provision for professional fees was raised by the South African Mint Company (Proprietary) Limited in respect of certain legal and actuarial fees.

Provision for staff disability

A provision for staff disability was raised by the South African Bank Note Company (Proprietary) Limited to cover payments to disabled staff.

1.14 Revenue recognition

Interest income and expenses are recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective rate of interest method. Where financial assets have been impaired, interest income continues to be recognised on the impaired value, based on the original effective interest rate. Interest income and expenses include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective rate of interest basis.

Dividends are recognised when the right to receive payment is established.

Other revenue arising from the provision of services to clients is recognised on the accrual basis in accordance with the substance of the relevant transaction.

1.15 Use of estimates

The preparation of financial statements requires the use of certain critical accounting estimates. These estimates are based on assumptions and judgements, which depend on available information.

Estimates have been made primarily in the following areas: residual values and useful life of property, plant and equipment; provisions; and post-retirement benefits.

The estimates made have been disclosed in Notes 11, 20 and 23.

1.16 Changes in accounting policies and accounting estimates

Change in accounting policies

Changes in accounting policies are accounted for retrospectively by applying the new policies to transactions, other events and conditions, as if the new accounting policies had always been applied.

Changes in accounting estimates

Changes in accounting estimates are accounted for prospectively by recognising the effect of the change in accounting estimates in the current and future periods affected by the change.

2. Cash and cash equivalents

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Bank and cash balances	77 137	23 609	0	0

Owing to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet. All other financial instruments maturing in less than three months are shown on the face of the balance sheet under appropriate headings.

3. Accommodation to banks

Repurchase agreements	10 900 000	13 900 000	10 900 000	13 900 000
Application of cash reserve balances	15 734	1 139 737	15 734	1 139 737
Accrued interest	19 710	13 710	19 710	13 710
	10 935 444	15 053 447	10 935 444	15 053 447

The repurchase agreements yield interest at the repurchase rate of the Bank. The following table represents details of the South African Government bonds received as collateral:

Fair value of collateral received	10 965 653	13 947 965	10 965 653	13 947 965
Fair value of collateral permitted to sell or repledge in absence of default	10 965 653	13 947 965	10 965 653	13 947 965
Fair value of collateral sold or repledged at reporting date	0	0	0	0
Collateral cover	100,60%	100,35%	100,60%	100,35%
Maturity date	2 April 2008	4 April 2007	2 April 2008	4 April 2007

As at balance sheet date, none of the collateralised advances was past due or impaired.

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000

4. South African Government bonds

Listed Government bonds:				
Interest bearing	8 168 789	8 809 218	8 168 789	8 809 218
Accrued interest	111 255	108 924	111 255	108 924
	8 280 044	8 918 142	8 280 044	8 918 142
Effective interest rate:	8,91%	8,39%	8,91%	8,39%
South African Government bonds that do not qualify for derecognition:				
Listed Government bonds pledged	7 578 483	3 111 571	7 578 483	3 111 571
Associated liability	7 533 613	3 114 361	7 533 613	3 114 361

The Bank is exposed to interest rate risk on the listed Government bonds pledged as security. Government bonds are pledged as collateral for repurchase agreements. In terms of these transactions, legal ownership of the bonds is transferred to the counterparty. As a result, the counterparty has the ability to sell or repledge these bonds.

5. Loans and advances

Secured foreign loans	72 259	73 219	72 259	73 219

The loan facility of R75 million expires on 31 December 2008, if not renegotiated.

The following table represents details of collateral held:

Fair value of collateral received	81 503	82 500	81 503	82 500
Fair value of collateral permitted to sell or repledge in absence of default	0	–	0	–
Fair value of collateral sold or repledged at reporting date	0	–	0	–
Collateral cover	112,79%	100,13%	112,79%	100,13%
Maturity date	5 June 2008	7 June 2007	5 June 2008	7 June 2007

Land Bank bills have been pledged as collateral against the foreign loans. Legal ownership of these Land Bank bills has not been transferred to the Bank. As a result, the Bank does not have the ability to sell or repledge these Land Bank bills. As the bills mature, they are replaced with new bills.

As at balance sheet date, none of the collateralised advances was past due or impaired.

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000

6. Investment in and amounts due by/(to) subsidiaries

	Bank 2008 R'000	Bank 2007 R'000
Unlisted shares at cost	279 000	279 000
Corporation for Public Deposits	2 000	2 000
South African Mint Company (Proprietary) Limited	206 000	206 000
South African Bank Note Company (Proprietary) Limited	61 000	61 000
South African Reserve Bank Captive Insurance Company Limited	10 000	10 000
Amounts due by subsidiaries	170 030	225 476
South African Bank Note Company (Proprietary) Limited: Loan	30 451	25 664
Corporation for Public Deposits: Current account	139 579	199 812
Amounts due to subsidiaries	(6 771 959)	(10 257 660)
South African Bank Note Company (Proprietary) Limited: Current account	0	(1)
Corporation for Public Deposits: Call deposit	(6 771 959)	(10 257 659)
Net investment in subsidiaries	(6 322 929)	(9 753 184)

The loan to the South African Bank Note Company (Proprietary) Limited bears interest at the repurchase rate (2007: interest free) and is unsecured with no fixed repayment term.

The call deposit placed with the Bank by the Corporation for Public Deposits earns interest at South African money-market rates.

The subsidiaries are all wholly owned and incorporated in the Republic of South Africa.

7. Gold and foreign exchange

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Gold coin and bullion	30 334 353	19 224 235	30 334 353	19 224 235
Money and capital market instruments and deposits	93 046 597	140 121 689	93 046 597	140 121 689
Medium-term notes	120 214 250	4 067 175	120 214 250	4 067 175
Portfolio investments	34 158 946	28 281 525	34 158 946	28 281 525
Accrued interest	133 572	727 177	133 572	727 177
	277 887 718	192 421 801	277 887 718	192 421 801

Gold coin and bullion consist of 3 996 992 fine ounces of gold at the statutory price of R7 589,30 per ounce (2007: 3 990 195 fine ounces at R4 817,87 per ounce).

The foreign-exchange balances yield the investment returns achievable in the various currencies they are invested in. It is not practicable to calculate effective yields on the portfolios due to the volatility caused by exchange rate fluctuations.

8. Inventories

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Raw materials	148 664	126 557	0	0
Work in progress	171 352	123 864	0	0
Consumable stores	17 777	19 412	6 340	9 358
Maintenance spares	6 702	6 153	0	0
Finished goods	30 838	15 781	0	0
	375 333	291 767	6 340	9 358

9. Investments

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Local registered bonds	5 227	110 682	0	0
Short-term South African money-market investments	6 818 618	2 770 747	0	0
Local equities	11 952	0	0	0
Preference shares	0	203	0	0
	6 835 797	2 881 632	0	0
Maturity structure				
Repayable within 30 days	6 830 570	2 770 747	0	0
Repayable in more than 12 months	5 227	110 885	0	0
	6 835 797	2 881 632	0	0
For investments that meet the definition of loans and advances received designated at fair value:				
Maximum exposure to credit risk	6 818 618	2 770 747	0	0
Amount by which credit mitigation or derivatives offset credit risk	0	0	0	0
The cumulative change in fair value arising from changes in credit risk(1)	0	0	0	0
The cumulative change in fair value arising from changes in credit risk associated with mitigating instrument(2)	0	0	0	0

(1) Credit risk policies are formulated by the Governor's Executive Committee, in terms of which counterparty limits and security arrangements are set. These policies require that no uncollateralised loans may be made and that investment funds may only be placed with institutions accredited with ratings of at least A- by Standard & Poor's. The change in fair value due to changes in credit quality or spreads is not material and has therefore not been disclosed separately.

(2) The investments have remaining maturities of less than one month. As a result, changes in fair value due to credit risk are regarded as immaterial.

10. Amounts due by the South African Government

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
International Monetary Fund accounts administered on behalf of the South African Government	794 570	795 644	794 570	795 644
Government of Namibia debt taken over by the South African Government	189 449	239 471	189 449	239 471
Gross amount due	220 211	298 711	220 211	298 711
Impairment loss	(30 762)	(59 240)	(30 762)	(59 240)
Net amount due by the South African Government	984 019	1 035 115	984 019	1 035 115

No settlement terms have been agreed to in respect of the IMF balances administered on behalf of the South African Government. The amount is interest free. The Namibian debt taken over by the South African Government is being settled over the next three financial years in terms of an agreement with Government. The outstanding balance yields a return of 17 per cent per annum.

11. Property, plant and equipment

11.1 Group: 2008

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2007	39 528	508 052	1 391 495	50 991	1 990 066
Additions	367	867	155 228	18 771	175 233
Transfers (out)/in	0	74	56 018	(56 092)	0
Disposals	0	0	(62 380)	0	(62 380)
Cost at 31 March 2008	39 895	508 993	1 540 361	13 670	2 102 919
Accumulated depreciation					
Accumulated depreciation at 31 March 2007	0	175 431	767 299	0	942 730
Charge for the year	0	10 792	117 346	0	128 138
Disposals	0	0	(55 617)	0	(55 617)
Accumulated depreciation at 31 March 2008	0	186 223	829 028	0	1 015 251
Net book value at 31 March 2008	**39 895**	**322 770**	**711 333**	**13 670**	**1 087 668**
Estimated useful life (years)		**50**	**5 to 15**		

Insurance value of fixed assets (on a 'future replacement basis' which takes into account the expected construction times)	7 453 799

Group: 2007

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2006	39 528	506 953	1 269 235	27 477	1 843 193
Additions	0	692	88 271	68 472	157 435
Transfers in/(out)	0	809	44 149	(44 958)	0
Disposals	0	(402)	(10 160)	0	(10 562)
Cost at 31 March 2007	39 528	508 052	1 391 495	50 991	1 990 066
Accumulated depreciation					
Accumulated depreciation at 31 March 2006	0	165 384	671 282	0	836 666
Charge for the year	0	10 448	105 707	0	116 155
Disposals	0	(401)	(9 690)	0	(10 091)
Accumulated depreciation at 31 March 2007	0	175 431	767 299	0	942 730
Net book value at 31 March 2007	**39 528**	**332 621**	**624 196**	**50 991**	**1 047 336**

Insurance value of fixed assets (on a 'future replacement basis' which takes into account the expected construction times)	6 646 742

Registers containing details of land and buildings are available for inspection by members at the registered offices of the Bank and its subsidiaries.

11.2 Bank: 2008

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2007	29 833	375 244	807 648	49 662	1 262 387
Additions	367	245	66 783	13 102	80 497
Transfers in/(out)	0	0	55 857	(55 857)	0
Disposals	0	0	(58 684)	0	(58 684)
Cost at 31 March 2008	30 200	375 489	871 604	6 907	1 284 200
Accumulated depreciation					
Accumulated depreciation at 31 March 2007	0	129 710	502 025	0	631 735
Charge for the year	0	7 765	68 287	0	76 052
Disposals	0	0	(52 314)	0	(52 314)
Accumulated depreciation at 31 March 2008	0	137 475	517 998	0	655 473
Net book value at 31 March 2008	**30 200**	**238 014**	**353 606**	**6 907**	**628 727**
Estimated useful life (years)		50	5 to 15		
Insurance value of fixed assets (on a 'future replacement basis' that takes into account the expected construction times)					3 814 651

Bank: 2007

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2006	29 833	374 765	711 339	24 291	1 140 228
Additions	0	72	61 262	68 166	129 500
Transfers in/(out)	0	809	41 986	(42 795)	0
Disposals	0	(402)	(6 939)	0	(7 341)
Cost at 31 March 2007	29 833	375 244	807 648	49 662	1 262 387
Accumulated depreciation					
Accumulated depreciation at 31 March 2006	0	122 433	447 711	0	570 144
Charge for the year	0	7 678	60 904	0	68 582
Disposals	0	(401)	(6 590)	0	(6 991)
Accumulated depreciation at 31 March 2007	0	129 710	502 025	0	631 735
Net book value at 31 March 2007	**29 833**	**245 534**	**305 623**	**49 662**	**630 652**
Insurance value of fixed assets (on a 'future replacement basis' that takes into account the expected construction times)					3 468 873

Registers containing details of land and buildings are available for inspection by members at the registered offices of the Bank.

	Group		Bank	
	2008	2007	**2008**	2007
	R'000	R'000	**R'000**	R'000

12. Equity investment in Bank for International Settlements

	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
Unlisted shares at valuation	**348 413**	287 337	**348 413**	287 337

The equity of the Bank for International Settlements (BIS) is held by the central banks of the world and the value of each central bank's share is calculated annually by the BIS on a net asset value basis. The shares cannot be sold at the discretion of the Bank.

13. Deferred taxation assets and liabilities

	Group 2008 R'000	Group 2007 R'000	**Bank 2008 R'000**	Bank 2007 R'000
Balance at beginning of the year	**131 660**	116 521	**185 576**	175 106
Income statement credit (Note 26)	**29 691**	15 139	**30 279**	10 470
Balance at end of the year	**161 351**	131 660	**215 855**	185 576
Comprising:				
Deferred taxation asset	**282 776**	242 387	**258 187**	220 365
Deferred taxation liability	**(121 425)**	(110 727)	**(42 332)**	(34 789)
Net deferred taxation asset	**161 351**	131 660	**215 855**	185 576

Deferred taxation assets and liabilities are attributed as set out in Notes 13.1 and 13.2.

13.1 Group

	2008 R'000	Credit/(debit) to income statement R'000	2007 R'000
Property, plant and equipment	(117 895)	(9 133)	(108 762)
Post-retirement medical costs	205 333	26 153	179 180
Provisions	44 922	19 588	25 334
Deferred retirement fund contributions	20 838	1 661	19 177
Deferred software development costs	3 069	1 657	1 412
Fair value adjustment to impaired assets	5 293	(9 921)	15 214
Prepaid expenditure and other items	(209)	(314)	105
Total	161 351	29 691	131 660

13.2 Bank

	2008 R'000	Credit/(debit) to income statement R'000	2007 R'000
Property, plant and equipment	(42 123)	(7 334)	(34 789)
Deferred retirement fund contributions	17 112	16 609	503
Fair value adjustment to impaired assets	8 614	(8 565)	17 179
Post-retirement medical costs	205 333	26 153	179 180
Deferred software development costs	2 481	1 069	1 412
Provisions	24 647	2 661	21 986
Prepaid expenditure and other items	(209)	(314)	105
Total	215 855	30 279	185 576

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000

14. Forward exchange contracts

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Unrealised gain on forward exchange contracts	16 059	37 088	13 563	37 088
Unrealised loss on forward exchange contracts	(9 873)	(69 021)	(9 873)	(69 021)
Net gain (loss)	6 186	(31 933)	3 690	(31 933)
Net (loss debited)/gain credited to Gold and Foreign Exchange Contingency Reserve Account (Note 21)*	3 690	(31 933)	3 690	(31 933)
Net (loss debited)/gain credited to income statement	2 496	0	0	0

* These amounts represent unrealised gains and losses on forward exchange contracts, which will be for the account of Government as and when they are realised.

15. Other assets

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Financial assets	324 645	238 759	224 278	191 648
Non-financial assets	167 149	167 195	159 495	163 208
	491 794	405 954	383 773	354 856
Maturity structure of financial assets				
Repayable within 30 days	324 645	238 759	224 278	191 648

16. Deposit accounts

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Non-interest bearing	48 763 317	39 434 214	47 811 072	39 434 214
Banks' reserve accounts	44 524 420	36 747 203	44 524 420	36 747 203
Government accounts	4 173 454	2 614 810	3 221 209	2 614 810
Other current accounts	65 443	72 201	65 443	72 201
Interest bearing	82 514 957	61 036 971	70 699 230	48 800 474
Repurchase agreements	7 533 613	3 114 361	7 533 613	3 114 361
Government special deposit	63 108 965	45 667 333	63 108 965	45 667 333
Margin calls: Repurchase transactions	26 652	18 780	26 652	18 780
Call deposits	11 845 727	12 236 497	0	0
	131 278 274	100 471 185	118 480 302	88 234 688
Maturity structure of deposit accounts				
Repayable on demand	16 084 624	14 923 508	3 286 652	2 687 011
Repayment terms subject to negotiation with National Treasury	63 108 965	45 667 333	63 108 965	45 667 333
Repayable within 30 days	52 084 685	39 880 344	52 084 685	38 323 163
Repayable within 34 days	0	0	0	1 557 181
	131 278 274	100 471 185	118 480 302	88 234 688
The repurchase agreements are secured by Government bonds as follows:				
Market value	7 578 483	3 111 571	7 578 483	3 111 571
Collateral cover (per cent)	100,60%	99,91%	100,60%	99,91%

The repurchase agreements bear interest at market-related rates approximately 60 to 80 basis points below the repurchase rate of the Bank.

Government's special deposit bears interest at a rate equivalent to the overall return earned on foreign investments made by the Bank.

17. South African Reserve Bank debentures

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Capital	16 807 000	5 464 000	16 807 000	5 464 000
Accrued interest	121 734	14 530	121 734	14 530
	16 928 734	5 478 530	16 928 734	5 478 530

SARB debentures are issued to the market on tender, normally on a 28- or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2008 are as follows:

Maturity date	Interest rate Per cent	Capital R million
1 April 2008	11,00	1 250
2 April 2008	10,52	1 102
2 April 2008	10,95	1 535
9 April 2008	10,50	543
9 April 2008	10,90	1 143
16 April 2008	10,43	1 290
16 April 2008	10,83	1 039
23 April 2008	10,36	600
23 April 2008	10,74	1 340
30 April 2008	10,59	1 898
7 May 2008	10,61	2 457
14 May 2008	10,53	1 210
21 May 2008	10,44	1 400
		16 807

18. Foreign loans

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Foreign loans	11 311 522	19 585 938	11 311 522	19 585 938

Foreign loans represent unsecured credit lines utilised and bear interest at market-related rates.

Analyses of the currency composition and maturity structure of these loans are set out in Note 30.

19. Notes and coin in circulation

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Notes	60 078 082	55 435 333	60 078 082	55 435 333
Coin	3 293 889	3 033 625	3 293 889	3 033 625
	63 371 971	58 468 958	63 371 971	58 468 958

The liability for notes and coin issued is the net liability after offsetting notes and coin held by the Bank as cash on hand because cash held by the central bank does not represent currency in circulation.

20. Provisions

Group	Provident fund contributions R'000	Leave pay and bonuses R'000	Staff disability R'000	Professional fees R'000	Total R'000
Balance at 1 April 2006	0	44 153	0	139	44 292
Increase in provision	0	52 461	0	0	52 461
Utilised during the year	0	(12 609)	0	(139)	(12 748)
Balance at 31 March 2007	**0**	**84 005**	**0**	**0**	**84 005**
Transfer from post-retirement benefit liability	0	0	500	0	500
Increase in provision	460	26 223	1 600	0	28 283
Utilised during the year	0	(12 592)	0	0	(12 592)
Balance at 31 March 2008	**460**	**97 636**	**2 100**	**0**	**100 196**

Bank	Leave pay and bonuses R'000	Staff disability R'000	Professional fees R'000	Total R'000
Balance at 1 April 2006	38 727	0	0	38 727
Increase in provision	41 445	0	0	41 445
Utilised during the year	(4 359)	0	0	(4 359)
Balance at 31 March 2007	**75 813**	**0**	**0**	**75 813**
Increase in provision	17 911	0	0	17 911
Utilised during the year	(5 699)	0	0	(5 699)
Balance at 31 March 2008	**88 025**	**0**	**0**	**88 025**

Leave pay is based on assumptions regarding the probability that staff members will be in the employ of the group at the time that the various leave types vest.

21. Gold and Foreign Exchange Contingency Reserve Account

	Group		Bank	
	2008 R'000	2007 R'000	**2008 R'000**	2007 R'000
Opening balance	**28 482 310**	1 824 430	**28 482 310**	1 824 430
Profit on gold price adjustment account	**11 136 623**	4 739 645	**11 136 623**	4 739 645
Loss on forward-exchange contract adjustment account	**(1 949 208)**	(4 437 236)	**(1 949 208)**	(4 437 236)
Profit on foreign-exchange adjustment account	**34 700 184**	26 460 905	**34 700 184**	26 460 905
Movement in unrealised gains and losses on forward exchange contracts	**35 623**	(105 434)	**35 623**	(105 434)
	72 405 532	28 482 310	**72 405 532**	28 482 310
Net payments	**(216 058)**	0	**(216 058)**	0
Amount due to Government	**72 189 474**	28 482 310	**72 189 474**	28 482 310
Balance composition				
Balance currently due to Government	**72 185 784**	28 514 243	**72 185 784**	28 514 243
Unrealised losses and (gains) on forward exchange contracts (Note 14)	**3 690**	(31 933)	**3 690**	(31 933)
	72 189 474	28 482 310	**72 189 474**	28 482 310

The Gold and Foreign Exchange Contingency Reserve Account, which is operated in terms of section 28 of the Act, represents the net revaluation of profits and losses incurred on gold and foreign-exchange transactions, which are for the account of the South African Government. Settlement of this account is subject to agreement from time to time between the Bank and Government. The current arrangement is that only transactions that have affected liquidity in the South African money market will be settled. The remainder of the transactions are in respect of the revaluation of gold and foreign exchange, and do not represent cash flow. In terms of this agreement, the balance to be settled by Government in respect of the financial year amounts to R305,7 million.

22. Other financial liabilities

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Accounts payable and sundry balances	407 908	356 394	211 458	209 008

23. Retirement benefit information

Retirement funds

The group has made provision for pension and provident plans substantially covering all employees. With the exception of three individuals, all employees are members of defined contribution plans administered by the group or are members of funds within the various industries in which they are employed. The assets of these plans are held in administered trust funds separate from the group's assets and the funds are governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

The Bank also has a defined benefit fund, which has been closed to new members since 1 July 1995. The fund currently has three active members and 460 pensioners. Contributions to the defined benefit pension fund are charged against income based on actuarial advice. The benefits provided are based on the years of membership and salary levels. These benefits are provided from contributions made by employees and the employer, as well as income from the assets of the plan. Current contribution levels are considered to be adequate to meet future obligations. The actuarial risk in respect of current pension commitments has been fully transferred to Sanlam through an insurance policy. In view of the transfer of the pension liability to Sanlam and the insignificant number of active members, no further financial disclosures are regarded necessary in respect of the defined benefit fund, as required by IAS 19 (AC 116). The last actuarial valuation of the fund was done as at 31 March 2005, at which date it was determined to be fully funded. The following key assumptions were applied:

Discount rate	7,53%
Salary inflation	5,61%
Post-retirement interest rate	3,50%

Post-retirement medical benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical aid premiums. A provision for the liability has been created. The provision covers the total liability, that is, the accumulated post-retirement medical benefits liability at fair value as at 31 March 2008.

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Net liability at beginning of the year	682 254	634 126	617 862	578 274
Annual cost				
Interest cost	55 078	48 061	49 849	43 801
Service cost	13 397	14 065	14 995	15 371
Actuarial losses	79 744	10 092	77 888	6 609
Net cost	148 219	72 218	142 732	65 781
Transfer to provision for staff disability	(500)	0	0	0
Total benefit payments	(25 022)	(24 090)	(27 262)	(26 193)
Net liability at end of the year	804 951	682 254	733 332	617 862

	2008	2007
Key assumptions:		
Discount rate	9,00%	8,25%
Medical inflation	7,25%	5,85%
Net discount rate	1,63%	2,26%
Valuation date	31 March 2008	31 March 2007

The effect of a 1 per cent increase and decrease in the health-care cost inflation rate is as follows:

	1% increase	Valuation basis	1% decrease
Group			
Employer's accrued liability	939 107	804 951	697 147
Employer's service and interest cost	101 152	159 066	83 334
Bank			
Employer's accrued liability	860 506	733 332	631 665
Employer's service and interest cost	105 152	87 447	73 566

24. Share capital

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Authorised and issued				
2 000 000 shares (2007: 2 000 000 shares) of R1 each	2 000	2 000	2 000	2 000

These shares qualify for a maximum dividend of 10 cents per share per annum.

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
25. Profit before taxation				
25.1 Total income is stated after crediting				
Income from investments	23 457	21 969	23 476	21 941
Dividends	23 608	21 957	23 476	21 941
Realised and unrealised (loss)/profit on investments	(151)	12	0	0
Income from subsidiaries			17 091	69 893
Dividends			200	58 200
Interest			16 011	10 912
Administration fees			880	781
Realised gains on available-for-sale financial assets	0	1 772	0	1 772
Fair value adjustments to financial instruments	836	3 897	0	0
Commission on banking services	243 394	142 583	243 394	142 583
25.2 Operating costs include				
Directors' remuneration (Note 31)			11 371	8 090
From the Bank for services as directors			1 962	1 150
From the Bank for other services			9 409	6 940
Depreciation	128 138	116 155	76 052	68 582
Buildings	10 792	10 448	7 765	7 678
Plant, vehicles, furniture and equipment	117 346	105 707	68 287	60 904
Net (profit)/loss on disposal of:	6 634	(1 613)	6 241	(120)
Land	0	0	0	0
Buildings	0	1	0	1
Plant and equipment, furniture and vehicles	6 634	(1 614)	6 241	(121)
Auditors' remuneration	6 790	5 884	4 960	4 586
Audit fees	6 353	5 462	4 917	4 567
Underprovision for previous year	437	309	43	0
Fees for other services	0	113		19
Consulting fees	50 031	37 534	46 350	36 182
Net transfers to provisions	15 691	39 713	12 212	37 086
Provision for leave pay and bonuses	13 631	39 852	12 212	37 086
Provision for staff disability	1 600	0	0	0
Provision for providend fund contributions	460	(139)	0	0
Retirement benefit costs	326 018	154 379	298 062	127 034
Normal contributions to funds	74 459	68 712	64 831	59 897
Additional contributions to funds	90 604	2 139	90 604	2 139
Provision for post-retirement medical cost (Note 23)	123 197	48 128	115 470	39 588
Medical aid premiums paid	37 758	35 400	27 157	25 410
Remuneration and recurring staff costs	782 443	707 971	630 233	580 411
Cost of new currency	107 526	83 749	869 955	680 571
Other operating costs	804 374	649 826	197 636	183 787

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000

26. Taxation

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
South African normal taxation				
Current taxation	1 102 004	878 753	1 050 034	838 454
Adjustment in respect of prior year	377	(1 612)	0	(133)
Rate adjustment: Unrealised profits on available-for-sale financial assets	2 785		2 785	
Deferred taxation	(29 691)	(15 139)	(30 279)	(10 470)
Current year timing differences	(37 379)	(15 236)	(37 988)	(10 470)
Rate adjustment	6 553	0	7 709	0
Adjustment in respect of prior year	1 135	97	0	0
	1 075 475	862 002	1 022 540	827 851
Reconciliation of taxation rate				
South African normal taxation rate	29,00%	29,00%	29,00%	29,00%
Adjusted for:				
Disallowable expenses	0,12%	0,10%	0,13%	0,08%
Exempt income and special deductions	(0,27%)	(0,19%)	0,00%	(0,59%)
Adjustment in respect of prior years	0,04%	(0,04%)	0,00%	(0,01%)
Tax rate change	0,25%	0,00%	0,30%	
Effective taxation rate	29,14%	28,87%	29,43%	28,48%

27. Dividends per share (cents)

	Group 2008	Group 2007	Bank 2008	Bank 2007
Dividends per share (cents)	10	10	10	10
Dividends were paid as follows:				
Final dividend of 5 cents per share for the 2007 financial year	100	100	100	100
Interim dividend of 5 cents per share for the 2008 financial year	100	100	100	100
	200	200	200	200

Earnings per share have not been calculated because the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

28. Cash (utilised by)/ generated from operating activities

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Reconciliation of profit before taxation to cash generated from operating activities:				
Profit for the year	3 690 433	2 985 690	3 474 968	2 906 718
Adjustments for:				
Depreciation	128 138	116 155	76 052	68 582
Net (profit)/loss on disposal of fixed assets	6 634	(1 613)	6 241	(120)
Unrealised foreign-exchange loss/gain	(2 930)	628	0	0
Notional interest on interest-free loan	(28 477)	(35 745)	(28 477)	(35 745)
Fair value adjustments to financial instruments	836	3 897	0	0
Movement in provisions	15 691	39 713	12 212	37 086
Increase in post-retirement benefits liability	123 197	48 128	115 470	39 588
Realised gain on available-for-sale financial assets	0	(1 772)	0	(1 772)
Net cash generated from operating activities	3 933 522	3 155 081	3 656 466	3 014 337
Changes in working capital:				
Decrease/(increase) in accommodation to banks	4 118 003	(1 820 296)	4 118 003	(1 820 296)
Decrease/(increase) in loans and advances	960	(665)	960	(665)
Decrease/(increase) in amounts due by subsidiaries	0	0	55 446	(52 584)
Increase in gold and foreign exchange	(85 465 917)	(50 303 117)	(85 465 917)	(50 303 117)
(Increase)/decrease in inventories	(83 565)	(73 825)	3 018	(1 935)
Decrease in amounts due by the South African Government	79 573	79 371	79 573	79 371
Increase in Gold and Foreign Exchange Contingency Reserve Account	43 671 541	26 763 314	43 671 541	26 763 314
Increase in equity investment in Bank for International Settlements	(61 076)	(54 048)	(61 076)	(54 048)
Increase in other assets	(81 740)	(57 278)	(28 917)	(28 241)
Increase in deposit accounts	30 807 089	19 307 068	30 245 614	20 631 119
Decrease)/increase in amounts due to subsidiaries	0	0	(3 485 701)	(271 539)
Increase/(decrease) in SARB debentures	11 450 204	(889 399)	11 450 204	(889 399)
Decrease in foreign loans	(8 274 416)	(2 153 721)	(8 274 416)	(2 153 721)
Increase in notes and coin in circulation	4 903 013	5 646 045	4 903 013	5 646 045
Increase/(decrease) in other financial liabilities	31 055	84 493	(755)	29 249
Cash generated from/(utilised by) changes in working capital	1 094 724	(3 472 058)	(2 789 410)	2 426 447
Cash generated from/(utilised by) operating activities	5 028 246	(316 977)	867 056	587 890

29. Capital commitments

	Group 2008 R'000	Group 2007 R'000	Bank 2008 R'000	Bank 2007 R'000
Contracted	99 237	108 124	51 544	20 961
Not contracted	566 602	247 347	296 810	247 347
Total	665 839	355 471	348 354	268 308

These capital commitments are in respect of property, plant and equipment and will be funded from internal resources.

30. Risk management in respect of financial instruments

The policies and procedures of the Bank regarding risk management are dealt with in the risk management statement, which appears on pages 14 and 15. Certain aspects of risk management specific to financial instruments are described in more detail below.

Interest rate risk

With the exception of South African Government bonds and amounts due by the South African Government, the rand-denominated financial assets and liabilities of the Bank, respectively, earn and bear interest at rates linked to South African money-market rates. The level of these rates is managed by the Bank through its monetary policy operations. The re-pricing of these assets and liabilities therefore occurs at approximately the same time. Accordingly, the Bank is not subject to significant interest-rate risk in respect of these instruments.

The Bank is exposed to interest-rate risk in respect of certain foreign investments. The risk tolerance and return expectations in respect of these financial instruments are embodied in the target duration set by the Governor's Executive Committee.

Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks that would not be fully compatible with pure commercial practice. The Bank nevertheless manages its market risks responsibly, utilising modern technology, and appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a daily basis and, when circumstances require, throughout the day. The exposure of the Bank to market price risk is limited by the fact that gold and foreign-exchange price risks are for the account of Government in terms of the Act.

Assets used as collateral and those used in the Monetary Policy Portfolio are subject to a daily mark-to-market valuation. In order to protect the Bank against credit and market risks, participants in the repurchase transactions have to provide securities with market values in excess of the exposures ('haircut valuations'). This means that the value of the securities divided by an appropriate ratio, as set out by the Bank, must at least be equal to the total repurchase price.

The Bank is exposed to market price risk in respect of investments in dollar, pound and euro bonds. The total amount invested in these bonds is R149 billion.

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Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from activities of the Bank such as advances to, and deposits made with, other institutions, and the settlement of financial markets transactions.

Credit risk with respect to monetary policy operations is sufficiently mitigated, since all repurchase transactions are fully collateralised. Furthermore, in terms of the Act, no unsecured lending is allowed. The list of eligible securities is split between Category 1 and Category 2 instruments in terms of the Operational Notice. Category 1 assets consist of rand-denominated government bonds, Treasury bills, SARB debentures and Land Bank bills. Category 2 securities consist of a selection of bonds included in the All Bond Index, as determined by BESA, and are published on the website of the Bank. Furthermore, operations in the foreign-exchange market can only be conducted with Authorised Dealers.

The minimum counterparty credit rating for placing foreign-exchange deposits is 'A-' by Standard & Poor's or its Moody's or Fitch's rating equivalents, while the minimum rating for investment in securities is 'A'.

Concentration analysis

	Group		Bank	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Assets				
South African rand	29 426 451	30 015 867	22 011 386	26 836 718
Gold	30 347 979	19 224 235	30 334 353	19 224 235
United States dollar	163 014 553	123 670 846	163 014 553	123 670 846
Euro	59 780 490	40 778 718	59 780 490	40 778 718
Pound sterling	22 126 934	6 601 396	22 126 934	6 601 396
Other	2 979 801	2 433 943	2 979 801	2 433 943
	307 676 208	222 725 005	300 247 517	219 545 856
Liabilities				
South African rand	285 427 205	194 206 474	279 031 379	191 931 729
United States dollar	3 851 793	11 577 673	3 851 715	11 577 673
Euro	6 575 219	7 382 087	6 575 219	7 382 087
Pound sterling	884 588	626 178	884 588	626 178
	296 738 805	213 792 412	290 342 901	211 517 667
Credit quality of performing financial assets				
Investment grade	297 465 245	216 680 727	297 451 619	216 680 727
Sub-investment grade	586 353	550 489	485 986	503 378
High-yield debt	0	0	0	0
	298 051 598	217 231 216	297 937 605	217 184 105

Liquidity risk

Liquidity risk is the risk that an entity may not be able to repay a liability or to fund increases in assets at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the ability of the Bank to create rands when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.

The Bank manages its foreign liquidity risks through the appropriate structuring of its foreign investment portfolios to ensure that the maturity profiles of foreign assets sufficiently match those of foreign commitments. This is monitored and managed on a daily basis. In addition, the foreign investment portfolio of the Bank includes sufficient short-term, highly liquid investment instruments.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

Liabilities (R'000)[1]	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Group						
31 March 2008						
Foreign loans	11 311 522	0	0	0	0	11 311 522
Forward-exchange contract liabilities[2]	9 873	0	0	0	0	9 873
Notes and coin in circulation	63 371 971	0	0	0	0	63 371 971
Gold and Foreign Exchange Contingency Reserve Account	72 189 474	0	0	0	0	72 189 474
SARB debentures	11 861 734	5 067 000	0	0	0	16 928 734
Deposit accounts	131 278 274	0	0	0	0	131 278 274
Other financial liabilities	407 908	0	0	0	0	407 908
Total financial liabilities	218 241 282	5 067 000	0	0	0	223 308 282
Group						
31 March 2007						
Foreign loans[1]	7 723 019	11 862 919	0	0	0	19 585 938
Forward-exchange contract liabilities[2]	69 021	0	0	0	0	69 021
Notes and coin in circulation	58 468 958	0	0	0	0	58 468 958
Gold and Foreign Exchange Contingency Reserve Account	28 482 310	0	0	0	0	28 482 310
SARB debentures	5 458 530	20 000	0	0	0	5 478 530
Deposit accounts	100 471 185	0	0	0	0	100 471 185
Other financial liabilities	356 394	0	0	0	0	356 394
Total financial liabilities	172 547 107	11 882 919	0	0	0	184 430 026

(1) Amounts reflected at fair value. Undiscounted cash flows approximate fair value due to the short-term nature of instruments.
(2) Derivative instruments are reflected at fair value in the shortest maturity bucket.

Liabilities (R'000)[1]	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Bank 31 March 2008						
Foreign loans	11 311 522	0	0	0	0	11 311 522
Forward exchange contract liabilities[2]	9 873	0	0	0	0	9 873
Notes and coin in circulation	63 371 971	0	0	0	0	63 371 971
Gold and Foreign Exchange Contingency Reserve Account	72 189 474	0	0	0	0	72 189 474
SARB debentures	11 861 734	5 067 000	0	0	0	16 928 734
Deposit accounts	118 480 302	0	0	0	0	118 480 302
Other financial liabilities	211 458	0	0	0	0	211 458
Total financial liabilities	205 246 860	5 067 000	0	0	0	210 313 860
Bank 31 March 2007						
Foreign loans[1]	7 723 018	11 862 919	0	0	0	19 585 937
Forward exchange contract liabilities[2]	69 021	0	0	0	0	69 021
Notes and coin in circulation	58 468 958	0	0	0	0	58 468 958
Gold and Foreign Exchange Contingency Reserve Account	28 482 310	0	0	0	0	28 482 310
SARB debentures	5 458 530	20 000	0	0	0	5 478 530
Deposit accounts	88 234 688	0	0	0	0	88 234 688
Other financial liabilities	209 008	0	0	0	0	209 008
Total financial liabilities	160 163 224	11 882 919	0	0	0	172 046 143

(1) Amounts reflected at fair value. Undiscounted cash flows approximate fair value due to the short-term nature of instruments.
(2) Derivative instruments are reflected at fair value in the shortest maturity bucket.

Foreign-exchange operations

The framework of control regarding market operations in foreign exchange, that is, in spot and forward foreign-exchange and gold transactions, is rigorous. Trading limits exist for these instruments, and compliance is monitored and reported daily. In terms of the Act, all profits or losses on the gold price, foreign-exchange adjustments on assets and liabilities and on any current or future forward exchange contract shall be for the account of Government.

Settlement risk

Settlement risk (i.e., the risk that the counterparty may not be able to complete the deal) is mitigated in a number of ways. The Bank will only transfer the funds after sufficient collateral has been secured.

For outright transactions in securities, settlement risk is eliminated by the use of systems that are based on delivery versus payment, that is, the simultaneous exchange of securities and cash. In addition to restricting foreign-exchange transactions to highly rated counterparties, a transaction limit is imposed on the total value of foreign currency transactions settling with a counterparty on a given day. Furthermore, the Bank is a participant in Continuous Link Settlement, a clearing house that eliminates settlement risk in foreign exchange, allowing payment versus payment in a number of major currencies. It eliminates 'temporal' settlement risk, making same-day settlement both possible and final.

Risk reporting in the Financial Markets Department

A monthly risk report is compiled and distributed to senior management of the Financial Markets Department, the Executive General Manager: Markets, the deputy governor responsible for markets and the chief internal auditor. The objective of the report is to inform management of risk exposures that occurred during a month under review and their impact on the key functions of the Bank. The report, furthermore, attempts to highlight future risks that might adversely impact on the activities of the department. Key risk types discussed in the report are market, credit and operational risk in relation to market and investment operations. Detailed reporting by the department is continuously being improved and formalised.

31. Related party information

Transactions between the Bank and its subsidiaries, which are related parties to the Bank, have been eliminated on consolidation. The following transactions took place between these entities:

	2008 R'000	2007 R'000
Interest received	16 011	10 912
Interest paid	1 261 510	1 020 664
Insurance premiums paid	11 234	14 318
Rent paid	1 700	0
Management fees received	880	781
Cost of currency	762 429	596 822

Balances as at 31 March 2008 are shown in Note 6.

The Bank, as a state corporation, could be regarded as related to other state corporations. However, the only transactions that the Bank has with such related entities are on purely commercial terms.

The Bank provides banking services to the National Treasury at no cost. This is in line with central banking practice in many countries across the globe. Certain terms and conditions of transactions with Government for the purpose of assisting the Bank to perform its core business better have not been disclosed.

The executive directors of the Bank are regarded to be the only key management personnel because they are involved in all key management decisions. Remuneration of the directors is as follows:

	Remuneration including fringe benefits R'000	Retirement and medical benefit contributions R'000	2008 Total R'000	2007 Total R'000
Executive directors: Remuneration for other services				
T T Mboweni	3 387	409	3 796	2 976
X P Guma	2 458	316	2 774	1 667
I Plenderleith	0	0	0	653
R D Mokate	2 516	323	2 839	1 644
	8 361	1 048	9 409	6 940

No other benefits accrued to the executive directors.

	2008 Total R'000	2007 Total R'000
Non-executive directors: for services rendered as directors		
D Konar	318	156
M Padayachee	95	163
N D Orleyn	275	117
J W Raath	128	119
F Jakoet	229	103
A M Mokgabudi	0	18
Z P Manase	214	101
S M Goodson	242	93
R W K Parsons	78	117
F E Groepe	68	94
T N Mgoduso	221	69
J F van der Merwe	94	0
	1 962	1 150
Paid by subsidiaries		
Non-executive directors: for services rendered as directors		
D Konar	0	38
F Jakoet	274	216

32. Segment reporting

Owing to the integrated nature of the activities of the Bank and its subsidiaries, the presentation of segmental information is not considered informative.

33. Gains and losses per category of financial assets and financial liabilities

	Total	Held for trading R'000	Designated at fair value R'000	Available for sale R'000	Loans and receivables R'000	Other liabilities R'000
Group						
31 March 2008						
Interest income	12 920 307		9 959 057	749 709	2 211 541	
Interest expense	(7 495 629)					(7 495 629)
Dividend income	23 608		23 608			
Operating income	469 792	469 792				
Bond revaluation reserve	(647 296)			(647 296)		
Group						
31 March 2007						
Interest income	9 330 931		7 054 501	771 080	1 505 350	
Interest expense	4 872 324					4 872 324
Dividend income	21 957		21 957			
Operating income	298 724	298 724				
Bond revaluation reserve	(289 228)			(289 228)		
Bank						
31 March 2008						
Interest income	12 098 728		9 959 057	749 709	1 389 962	
Interest expense	(6 767 711)					(6 767 711)
Dividend income	23 476		23 676			
Operating income	273 347	273 347				
Bond revaluation reserve	(647 296)			(647 296)		
Bank						
31 March 2007						
Interest income	8 946 989		7 054 501	771 080	1 121 408	
Interest expense	(4 565 996)					(4 565 996)
Dividend income	21 941		80 141			
Operating income	171 793	171 793				
Bond revaluation reserve	(289 228)			(289 228)		

34. Classification of financial assets and liabilities

	Total	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Fair value[1] R'000
Group							
31 March 2008							
Financial assets							
Cash and cash equivalents	77 137			77 137			77 137
Accommodation to banks	10 935 444			10 935 444			10 935 444
South African Government bonds	8 280 044				8 280 044		
Loans and advances	72 259			72 259			72 259
Gold and foreign exchange	277 887 718		277 887 718				
Investments	6 835 797		6 835 797				
Amounts due by the South African Government[2]	984 019			984 019			
Equity investment in Bank for International Settlements	348 413		348 413				
Forward-exchange contracts asset	16 059	16 059					
Other assets	491 794			491 794			491 794
Financial liabilities							
Deposit accounts[3]	131 278 274					131 278 274	131 278 274
SARB debentures	16 928 734					16 928 734	16 928 734
Foreign loans	11 311 522					11 311 522	11 311 522
Notes and coin in circulation	63 371 971					63 371 971	63 371 971
Gold and Foreign Exchange Contingency Reserve Account	72 189 474					72 189 474	72 189 474
Forward-exchange contract liabilities	9 873	9 873					
Other financial liabilities	407 908					407 908	407 908

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[3] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Fair value[1] R'000
Group 31 March 2007							
Financial assets							
Cash and cash equivalents	23 609			23 609			23 609
Accommodation to banks	15 053 447			15 053 447			15 053 447
South African Government bonds	8 918 142				8 918 142		
Loans and advances	73 219			73 219			73 219
Gold and foreign exchange	192 421 801		192 421 801				
Investments	2 881 632		2 881 632				
Amounts due by the South African Government[2]	1 035 115			1 035 115			1 035 115
Equity investment in Bank for International Settlements	287 337		287 337				
Forward-exchange contracts asset	37 088	37 088					
Other assets	238 759			238 759			238 759
Financial liabilities							
Deposit accounts[3]	100 471 185					100 471 185	100 471 185
SARB debentures	5 478 530					5 478 530	5 478 530
Foreign loans	19 585 938					19 585 938	19 585 938
Notes and coin in circulation	58 468 958					58 468 958	58 468 958
Gold and Foreign Exchange Contingency Reserve Account	28 482 310					28 482 310	28 482 310
Forward-exchange contract liabilities	69 021	69 021					
Other financial liabilities	356 394					356 394	356 394

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[3] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Fair value[1] R'000
Bank							
31 March 2008							
Financial assets							
Accommodation to banks	10 935 444			10 935 444			10 935 444
South African Government bonds	8 280 044				8 280 044		
Loans and advances	72 259			72 259			72 259
Amounts due by subsidiaries	170 030			170 030			170 030
Gold and foreign exchange	277 887 718		218 419 746	59 467 972			59 467 972
Amounts due by the South African Government[2]	984 019			984 019			984 019
Equity investment in Bank for International Settlements	348 413		348 413				
Forward-exchange contracts asset	13 563	13 563					
Other financial assets	224 278			224 278			224 278
Financial liabilities							
Deposit accounts[3]	118 480 302					118 480 302	118 480 302
Amounts due to subsidiaries	6 771 959					6 771 959	6 771 959
SARB debentures	16 928 734					16 928 734	16 928 734
Foreign loans	11 311 522					11 311 522	11 311 522
Notes and coin in circulation	63 371 971					63 371 971	63 371 971
Gold and Foreign Exchange Contingency Reserve Account	72 189 474					72 189 474	72 189 474
Forward-exchange contract liabilities	9 873	9 873					
Other financial liabilities	211 458					211 458	211 458

(1) Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
(2) Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
(3) Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held for trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available for sale R'000	Other liabilities R'000	Fair value[1] R'000
Bank							
31 March 2007							
Financial assets							
Accommodation to banks	15 053 447			15 053 447			15 053 447
South African Government bonds	8 918 142				8 918 142		
Loans and advances	72 259			72 259			72 259
Amounts due by subsidiaries	170 030			170 030			170 030
Gold and foreign exchange	192 421 801		62 751 767	129 670 034			129 670 034
Amounts due by the South African Government[2]	1 035 115			1 035 115			1 035 115
Equity investment in Bank for International Settlements	287 337		287 337				
Forward-exchange contracts asset	37 088	37 088					
Other assets	191 648			191 648			191 648
Financial liabilities							
Deposit accounts[3]	88 234 688					88 234 688	88 234 688
Amounts due to subsidiaries	10 257 660					10 257 660	10 257 660
SARB debentures	5 478 530					5 478 530	5 478 530
Foreign loans	19 585 938					19 585 938	19 585 938
Notes and coin in circulation	58 468 958					58 468 958	58 468 958
Gold and Foreign Exchange Contingency Reserve Account	28 482 310					28 482 310	28 482 310
Forward-exchange contract liabilities	69 021	69 021					
Other financial liabilities	209 008					209 008	209 008

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[3] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

Notice of ordinary general meeting 2008

Notice is hereby given that the eighty-eighth ordinary general meeting of shareholders will be held at the Head Office of the South African Reserve Bank, 370 Church Street, Pretoria on Thursday, 18 September 2008 at 10:30.

Agenda

1 **To approve minutes of the ordinary general meeting** of shareholders held on 20 September 2007 (distributed previously).

2 **To receive the annual financial statements** and reports of the Board of Directors and the auditors for the year ended 31 March 2008 (*Annual Report 2007/08* to be distributed).

3 **To elect three shareholders' representatives**, two representing commerce or finance and one representing industry, to the Board of Directors (details appear in the *Annual Report 2007/08*).

4 **To determine the remuneration of the auditors** for the past audit.

5 **To appoint auditors** for the 2008/09 financial year.

6 **To transact any other business** to be transacted at an ordinary general meeting.

In terms of section 23(1) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), no shareholder is entitled to vote at an ordinary general meeting unless the shareholder has been the registered holder of shares for not less than six months prior to the date of the meeting and is ordinarily resident in the Republic.

Shareholders who are unable to attend the meeting in person may use the proxy form. All proxy forms must be deposited at the Head Office of the Bank in Pretoria at least twenty-four hours prior to the meeting.

By order of the Board

T P Mongwe
Secretary of the Bank

Pretoria
August 2008

Shareholders' calendar

Dividends

	Declared	Paid
Interim	1 October 2007	26 October 2007
Final	1 April 2008	9 May 2008

Date and time of the ordinary general meeting in Pretoria: 18 September 2008 at 10:30.