



South African Reserve Bank

**Office of the Governor**

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Dear Shareholder

**South African Reserve Bank (SARB or the Bank) Shareholder: Letter from the Governor**

May I wish you and your family everything of the best for 2012, in this my first letter to shareholders for 2012.

The new year promises to be as challenging, if not more so, than 2011. The Eurozone crisis is still unresolved despite a number of initiatives which have bought some time. It is still unclear whether the unfolding drama will have a relatively benign outcome or a disorderly one that has serious ramifications for the global economy. However, the economic outlook in the Eurozone has worsened against the backdrop of the continuing sovereign debt crisis which in turn has contributed to the fragility of a banking system faced with more stringent capital requirements. The resultant bank deleveraging has contributed to the slowdown in growth in the region. The recent World Economic Outlook Update of the IMF has revised down the forecasts for global growth for 2012 and 2013 by 0,7 and 0,6 percentage points respectively, with a recession in Europe now expected for this year. Downside risks are perceived to have risen sharply.

Most advanced and developing economies will be negatively affected to varying degrees by these developments. Already we have seen a slowdown in some of the emerging and developing economies. On the positive side, there has been a revival of growth in Japan and the US. However the recovery in the US may be undermined by the expected fiscal contraction. Growth in Africa is also expected to remain relatively robust.

The South African economy therefore faces a difficult environment within which to grow sufficiently to make appreciable inroads into the persistently high unemployment rate. It appears that growth in 2011 was around 3 per cent, but 2012 is expected to be less favourable, mainly as a result of the deteriorating global outlook. The most recent forecast of the Bank is for growth to average 2,8 per cent in 2012. While growth rates at these levels are not disastrous given the global context, they are not good enough. The domestic economy has been driven primarily by growth in private consumption expenditure, but a more sustainable growth trajectory would require faster growth in gross fixed capital formation.

From a monetary policy perspective, the Bank is facing the increasingly challenging combination of rising inflation and moderating growth. The inflation rate, at 6,1 per cent, is currently above the upper range of the inflation target of 3-6 per cent, and is expected to remain above the target range for the duration of 2012. The pressures on inflation are seen to be mainly of a cost-push factor, and are therefore insensitive to monetary policy actions. However, the Monetary Policy Committee (MPC) has to be mindful of the possible consequences of an acceleration in inflation expectations that could contribute to adverse inflation dynamics. At this stage inflation expectations appear to be relatively anchored, albeit around the upper end of the target range. At its recent meeting, the MPC felt that in the light of the weaker global and domestic economic growth outlook, it would be inappropriate to tighten monetary policy at this stage, but at the same time felt that the current stance of monetary policy was sufficiently accommodative to contribute to a stable environment for economic growth. Accordingly, the repurchase rate was kept unchanged at 5,5 per cent per annum.

## **Board matters**

I welcome Mr Francois Groepe as the newly appointed Deputy Governor, who joined the Bank in this role on 1 January 2012, and will hold office for a period of 5 years. Francois has been involved with the Bank for many years as a non-executive director appointed by Government and was first appointed to the Bank's Board in 2004. Until recently, Francois was the Group Managing Director and CEO of Media24 and prior to that the CEO: Newspaper Division and Financial Director of Media24. Before joining the Media24 group, Francois worked for Swiss Re, both in Switzerland and South Africa. I look forward to working with Francois and am certain that his skills and experience will be a valuable addition to our existing executive team. I am sure you all join me in wishing Francois well in his new career with the Bank.

Two new non-executive directors appointed by Government, joined the Board in October 2011 and I welcome Ms Maureen Manyama-Matome and Ms Tania Ajam, who bring a wealth of knowledge and experience to the Board, and wish them every success during their terms of office. Ms Manyama-Matome will serve on the Board Audit Committee, while Ms Ajam will serve on the Board Risk Committee.

## **Shareholder matters**

The Bank's AGM will be held on Friday, 27 July 2012. Road shows will be held in Pretoria, Durban and Cape Town during July 2012 to enable you to interact directly with the Bank's management and raise any issues that you would like to discuss. I encourage you to take advantage of these interactions and the dates will be communicated to you in due course.

As mentioned in my letter of 30 September 2011, a vacancy on the Board of Directors will arise at the AGM in 2012, when Mr Stephen Goodson's term of office as a shareholder-elected non-executive director will expire. Mr Goodson will have served nine years in this position. A notice inviting the public to nominate possible candidates with skills and knowledge in commerce or finance for consideration by the Panel, will be published during March 2012. I ask that you give due consideration to possible suitable candidates for this responsible position and to submit the nominations prior to the closing date.

I look forward to another challenging and exciting year ahead and further interaction with all of the Bank's stakeholders.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gill Marcus', with a stylized, cursive script.

**Gill Marcus**

**Governor**