



South African Reserve Bank

Office of the Governor

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Dear Shareholder

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

My last communication with you was towards the end of 2012 and I trust that you and your loved ones had a safe and happy festive season. The New Year looks set to bring many challenges, and we will also consider how the roles and expectations of central banks are being expanded.

Economic Outlook

There has recently been increasing optimism that the global economic outlook may be improving. However, while the tail risks of negative outcomes in the Eurozone and the US have dissipated or been postponed, the growth outlook remains weak. In the Eurozone it appears that decisive interventions by the ECB have for now reduced the possibility of an exit of certain countries from or complete break-up of the monetary union, but the recent growth outcomes indicate that the weakness prevails. The Eurozone contracted by 0,6 per cent in the final quarter of 2012, weaker than expected, and by 0,9 per cent for the year. The US has avoided the full impact of the fiscal cliff, but some of the contentious issues have been postponed, and still pose a downside risk to US growth despite an improving housing market.

The Japanese economy remains weak and the impact of recently announced monetary and fiscal stimuli are uncertain, given the unresponsiveness of that economy to two decades of quantitative easing. The Chinese economy appears to have avoided a hard landing, although a return to the high growth rate of recent years is not expected.

The domestic economy remains under pressure as it tries to recover from the labour disputes that characterised the final two quarters of last year. Growth in 2012 is estimated to have been in the region of 2,5 per cent and a similar growth rate is expected this year. The latest retail trade sales confirm a further slowdown in the growth of household consumption expenditure, and while government and state owned enterprise investment expenditure is expected to increase further, private sector investment growth is likely to lag somewhat, given the low levels of business confidence and continued spare capacity in manufacturing. Mining sector output is expected to increase in the first quarter, as the worst of the stoppages are behind us, but total output is likely to remain well below levels reached in recent years. The widening deficit on the current account of the balance of payments - a consequence of increased imports and declining exports - has contributed to further currency depreciation, along with an increased political risk premium. Although the depreciated exchange rate poses a risk to the inflation outlook, it is expected to contribute to the adjustment to a narrower current account deficit. Nevertheless the financing of the deficit could prove to be a challenge should domestic issues impact negatively on foreign investor sentiment.

Monetary policy remains in the uncomfortable position of having to contend rising headline inflation at a time of slow growth. Inflation, which measured 5,7 per cent in December 2012, is now expected to breach moderately the upper end of the inflation target range during the third quarter of 2013, but to return to within the target range by the following quarter. However, the MPC assessed the risks to the inflation outlook to be on the upside – with food prices and the exchange rate posing the main upside risks - and the prevailing combination of factors led the Committee to conclude that there was no room for further monetary accommodation at this stage. Accordingly, the repo rate remained unchanged at the January meeting of the MPC.

Recent senior internal appointments promotions

We are pleased to have welcomed Mr Pradeep Maharaj as the Bank's Chief Operating Officer on 1 November 2012. Mr Maharaj has assumed responsibility for the Human Resources, Business Systems and Technology, Corporate Services and Financial Services departments and the SARB Renewal Project team.

We also welcomed Dr Daniel Bradlow who joined the Bank on 1 February 2013 as the Head: International Economic Relations and Policy Department, a new department which will fall into Deputy Governor Mminele's area of responsibility. This new department will address all international relations and economic coordination work and cooperate with the relevant specialist areas in the Bank to support the work of the executive in this regard. We wish both Danny and Pradeep all the best for their new careers at the Bank.

On 1 March 2013 Mr Leon Myburgh will join the Bank as the Head: Financial Markets Department and on 1 April 2013 we will welcome Mr Kuben Naidoo as Adviser to the Governors and as a member of both the MPC and Financial Stability Committee. We look forward to both Leon and Kuben joining the Bank.

In line with our stated objective to align the Bank and its subsidiaries in a group structure, we are pleased to confirm that Ms Naidene Ford-Hoon has been promoted to Group Chief Financial Officer and we congratulate Naidene on her promotion, which reflects her dedication and contribution to the Bank.

During 2012, the Head: Human Resources Department and the Chief Internal Auditor left the employ of the Bank and we expect to make appointments for these positions shortly.

Implementing Twin Peaks Regulation in South Africa

On 1 February 2013, the National Treasury published a document entitled "Implementing a twin peaks model of financial regulation in South Africa", for public comment by 8 March 2013. The "Twin Peaks" approach entails creating a prudential

regulator housed within the Bank and transforming the Financial Services Board into a dedicated market conduct regulator. Underlying this approach will be the strengthening of the macro prudential supervision system by enhancing the Reserve Bank's powers to promote financial system stability and empowering it to become the systemic regulator, supervising and monitoring the system-wide risks caused by the financial system. You are encouraged to view the document on the SARB website, at www.resbank.co.za under the heading: Publications and Notices.

Monetary Policy Committee (MPC) Schools Challenge

We are pleased to confirm that the inaugural MPC Challenge took place in 2012 and was very well received. The MPC Challenge is a schools project being run by the Bank in partnership with the Gauteng Department of Education, to offer an exciting opportunity for Grade 12 Economics learners to become a member of their own "MPC" for a few weeks. The invited schools are required to nominate a maximum of four Economics learners to form an MPC of their own and to analyse data and make a recommendation on what the country's repo rate should be. Last year's winner was Krugersdorp High School and we congratulate their team on their achievement. This year, schools were invited to participate based on their Grade 12 Economics results in 2012 and sixty nine schools have accepted the challenge and confirmed their team members. We wish all the schools who are participating this year, the best of luck!

Cadet Graduate Programme

The Bank is once again running a Cadet Graduate Programme to give young graduates the opportunity to learn more about the operations of a central bank and to equip them for the world of work. This year we have fourteen cadets registered for the programme, the same number as in 2012, when we were pleased to offer 11 of the 14 cadets who completed the programme permanent employment in the Bank. Invitations for applications to apply for the programme are published in the national press and on the Bank's website annually.

Shareholder matters

The Bank's AGM will be held on 26 July 2013. Shareholder road shows will again be held in Pretoria, Durban and Cape Town on 10, 11 and 12 July 2013, respectively, to afford shareholders an opportunity to interact more closely with the Bank's executive management. We encourage you to attend and take advantage of this opportunity.

Three non-executive directors' terms of office will expire this year, namely: Ms Thandeka Mgoduso (Industry), Mr Hans van der Merwe (Agriculture) and Prof Ben Smit (Industry). All three directors are eligible for re-election as they have not yet served the maximum of three terms on the Board.

We will shortly be calling for nominations of candidates to fill the three vacancies for consideration by the Panel, so keep an eye on the national press for that notice.

In my last letter I called on all shareholders to forward an email address/electronic contact details for ease of communication to the Transfer Secretary, Mr Arrie Jooste on arrie.jooste@resbank.co.za . Please do contact Mr Jooste if you have not yet already done so.

I hope that these letters are informative and of value to you, and I invite you to give us feedback as to how the SARB can improve communication with shareholders.

Yours sincerely



Gill Marcus

Governor