Quarterly Economic Review

Introduction

Concerns about fiscal sustainability in Italy and Spain gave rise to a sharp increase in sovereign yields in the closing months of 2011. These fears and the concomitant loss of confidence were partly arrested by strong policy responses and a simultaneous commitment by European Union (EU) member countries to address the fiscal deficits and outstanding debt obligations of European economies. Furthermore, the provision of additional funding by the European Central Bank (ECB) helped to reduce the risk of a liquidity crisis, thereby raising market sentiment and contributing to the enhanced economic performance of advanced as well as developing countries in the opening months of 2012. The more optimistic outlook, however, deteriorated somewhat in May 2012 on renewed concerns and mounting speculation that Greece may leave the euro area and fading hopes of reaching a resolution on fiscal integration. This negative news unsettled global financial markets, causing stock markets to tumble while simultaneously increasing volatility in foreign-exchange markets. Although the outlook for growth in the United States (US) improved in the first quarter of 2012, activity in China, India and emerging Asia moderated alongside weaker growth prospects for the euro area, South Africa's most important trading partner.

Real economic growth in the domestic economy decelerated to 2,7 per cent in the first quarter of 2012, notwithstanding the sustained accommodative monetary policy stance and an improvement in business confidence levels. Production volumes in the mining sector contracted sharply in the first quarter of 2012 due to domestic supply constraints alongside relatively weaker demand from especially Asia. Growth in the real output in the manufacturing sector, however, accelerated in response to a more vibrant domestic economy; export volumes remained fairly subdued over the period. In addition to relatively weak demand from the euro area, domestic producers also experienced a decline in international price competitiveness due to an increase in the real effective exchange rate of the rand. Real value added by the construction sector rose moderately, largely underpinned by civil construction activity. By contrast, the real output of the trade sector displayed slower growth over the period. The finance sector recorded the strongest growth among the tertiary sectors in the first quarter of 2012.

Consistent with the slower growth in domestic production, real gross domestic expenditure also lost some momentum in the first quarter of 2012. Household consumption expenditure moderated in pace with a slower rate of increase in real disposable income, notwithstanding low interest rates and attractive prices of imported items. Government consumption expenditure increased at a slower pace in the first quarter of 2012, reflecting a decline in the procurement of military equipment and a much slower pace of increase in salaries and wages following the completion of the population census fieldwork conducted in the preceding quarter. Fixed capital formation was supported by the enhanced affordability of imported capital goods, low interest rates and the higher priority assigned to infrastructural development in public-sector investment programmes. Nevertheless, the ratio of fixed investment to gross domestic product in South Africa remained low relative to that of many other developing countries and to investment levels needed to obtain higher growth. Enhanced levels of capital formation, allocated to economically efficient and sustainable projects, would go a long way towards strengthening the job-creating capacity of the economy.

According to the *Quarterly Labour Force Survey* (*QLFS*) conducted by Statistics South Africa (Stats SA), South Africa's official unemployment rate rose from 25 per cent in the first quarter of 2011 to 25,2 per cent in the first quarter of 2012. Even though 304 000 job opportunities were created in the year to the first quarter of 2012, the pace of increase was not sufficient to prevent the number of unemployed people increasing by 164 000; the number of discouraged work-seekers also rose by 112 000 over the same period.

Owing to the sustained strong increases in real gross domestic expenditure, the deficit on the trade account of the balance of payments widened significantly in the first quarter of 2012 as import volumes continued to rise alongside declining export volumes. The size of the trade deficit was exacerbated by a further deterioration in South Africa's terms of trade, as declining commodity prices adversely affected South Africa's export earnings. Combined with a meaningfully larger shortfall on the services, income and current transfer account with the rest of the world, the current-account deficit widened further to 4,9 per cent of gross domestic product in the first quarter of 2012. This negative imbalance continued to be financed through a combination of net foreign direct investment, portfolio and other investment-related foreign capital inflows. In fact, the substantially larger net inward movement of capital in the first quarter of 2012 gave rise to an improvement in the overall balance-of-payments position. This contributed to an increase in the nominal effective exchange rate of the rand over the period, assisting in the moderation of inflationary pressures.

Global consumer price inflation remained well contained in early 2012, despite intensifying concerns regarding international oil prices resulting from geopolitical tensions over the period. Against the background of slowing global demand, crude oil prices, however, receded notably in May. In South Africa the acceleration in domestic inflation was arrested during the opening months of 2012 as twelve-month headline consumer price inflation moderated from 6,3 per cent in January 2012 to 6,0 per cent in March before picking up marginally to 6,1 per cent in April. This favourable development primarily resulted from a moderation in food price inflation.

Growth in credit extension picked up its pace during the first quarter of 2012, buoyed mainly by renewed appetite for credit by the corporate sector, which probably reflected the sector's continued fixed investment activity and inventory accumulation. Although all credit categories contributed towards the overall increase in total loans and advances, the general loans category remained the dominant form of new credit extension in the opening months of 2012, while the asset-backed categories maintained muted growth rates. General loans to the household sector – also referred to as unsecured lending – rose briskly although at a somewhat slower pace than before.

Short-term money-market rates continued to track the sideways movement in the repurchase rate during the first five months of 2012, while forward rate agreements most recently started discounting the possibility of policy easing towards the end of the year. The South African Reserve Bank's Monetary Policy Committee (MPC) kept the repurchase rate unchanged at its May 2012 meeting. While the inflation forecast appears to be more favourable, the committee emphasised the renewed risks from a possible further weakening of the exchange rate of the rand. However, the MPC noted that countervailing pressures could come from weaker demand and lower commodity prices, particularly those of oil. On balance, the risks to the inflation outlook appear to be somewhat on the upside. The MPC statements discussing developments underlying recent monetary policy decisions are reproduced in full on pages 60 to 67 of this *Quarterly Bulletin*.

Despite the change of South Africa's sovereign debt outlook to negative by the rating agency Standard & Poor's in March 2012, local bond yields continued to fluctuate downwards. This trend occurred alongside the appreciation in the exchange value of the rand up to March, the release of better-than-expected inflation data, strong demand for domestic bonds by non-residents and the announcement of the likely inclusion of South African government bonds in the Citigroup World Government Bond Index (WGBI) in the near future. Citigroup confirmed such inclusion early in June, indicating that it would take effect in October. Domestic share prices reached an all-time high in early May 2012.

National government recorded a smaller deficit in fiscal 2011/12 than originally budgeted, mainly on account of stronger revenue collections. Corporate income tax and customs duty collections exceeded the original projections by a considerable margin, more than offsetting weaker-than-budgeted value-added tax collections. The deficit of 4,9 per cent of gross domestic product was predominantly financed in the domestic bond market. Despite more than three years of significant fiscal stimulation, government's gross loan debt, while rising, still remained below 39 per cent of annual gross domestic product.

Domestic economic developments

Domestic output[1]

The steady acceleration in domestic economic activity since the second quarter of 2011 lost some momentum when growth in *real gross domestic product* moderated from an annualised rate of 3,2 per cent in the fourth quarter of 2011 to 2,7 per cent in the first quarter of 2012. The moderation in the first quarter could be attributed to a sharp contraction in real output of the primary sector and slower growth recorded by the tertiary sector. By contrast, the real value added by the secondary sector increased over the period, registering strong growth.

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

Real gross domestic product

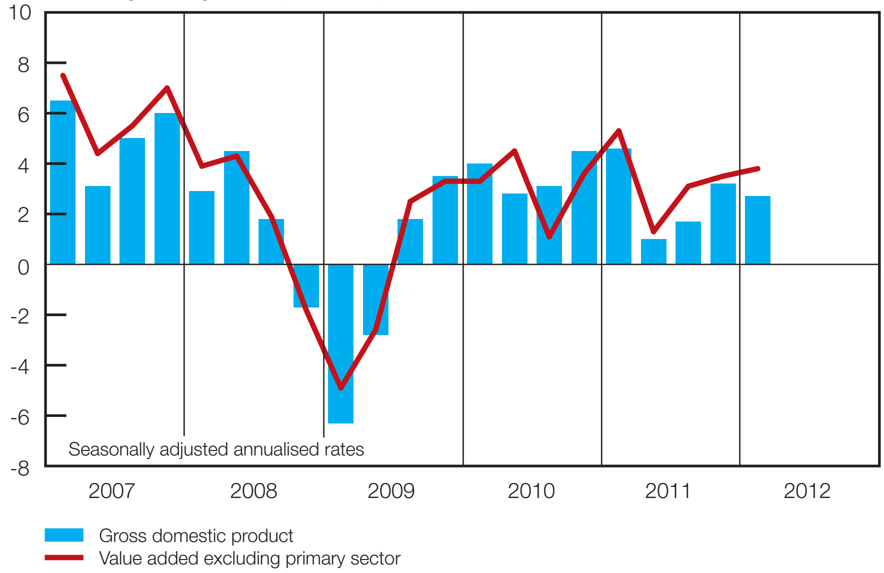
Percentage change at seasonally adjusted annualised rates

Sector	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	-4,7	-6,0	-14,7	-1,0	0,0	-11,2
Agriculture	-4,8	-9,5	-6,9	-5,0	-0,4	3,4
Mining	-4,6	-4,5	-17,8	0,7	0,2	-16,8
Secondary sector	10,1	-6,5	-0,5	3,5	2,1	6,4
Manufacturing	12,8	-8,8	-0,7	4,2	2,4	7,7
Tertiary sector	3,8	4,0	4,2	3,5	3,6	3,0
Non-primary sector	*5,3*	*1,3*	*3,1*	*3,5*	*3,3*	*3,8*
Total	**4,6**	**1,0**	**1,7**	**3,2**	**3,1**	**2,7**

Excluding the performance of the generally more volatile primary sector, growth in real gross domestic production picked up from an annualised rate of 3,5 per cent in the fourth quarter of 2011 to a more pronounced 3,8 per cent in the first quarter of 2012.

Real gross domestic product

Percentage change from quarter to quarter



The real value added by the *primary sector* declined for the fifth consecutive quarter in the first quarter of 2012 when output contracted at an annualised rate of 11,2 per cent. The weaker performance of the primary sector resulted mainly from a sharp decline in the real value added by the mining sector which was partly offset by a modest increase in agricultural output.

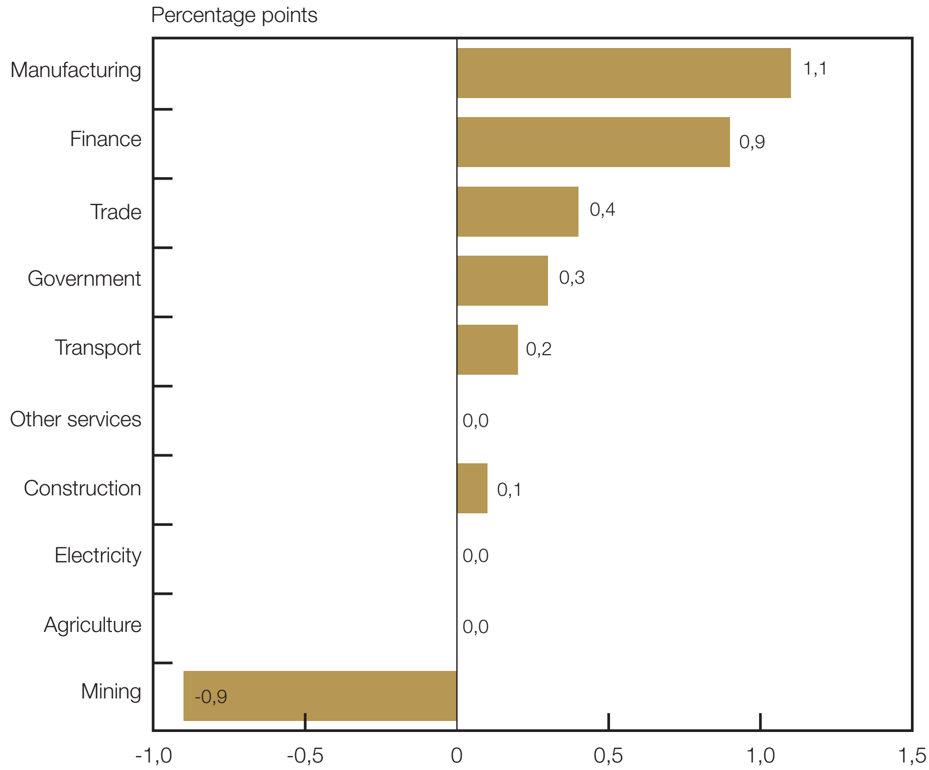
Following quarterly contractions throughout 2011, the real value added by the *agricultural sector* increased at an annualised rate of 3,4 per cent in the first quarter of 2012. Despite the adverse effects on field crop production of a dry mid-season spell in the opening months of 2012, the maize crop for the 2011/12 production season is estimated at 11 million tons, sufficient to more than fully cover domestic consumption. Animal and horticultural production increased in the first quarter of 2012, indicative of a possible recovery in agricultural production in 2012.

Having recorded a marginal annualised rate of increase of 0,7 per cent in the fourth quarter of 2011, the real value added by the *mining sector* contracted markedly at a rate of 16,8 per cent in the first quarter of 2012, subtracting 0,9 of a percentage point from overall economic growth. The contraction was mainly attributable to a decline in the production of platinum and gold, even though the production of other key export minerals such as diamonds also receded. The plunge in platinum production largely reflected the shutdown of operations at a major platinum mine due to a six-week long strike, while safety stoppages imposed over the period also curtailed output. Gold-mining operations remained subdued largely on account of continuous safety stoppages and the shutdown of operations at certain mines to allow infrastructure upgrades. By contrast, coal production inched higher in the opening months of 2012 partly as a result of a new mine coming into operation during the period.

In general, the weakness in mining production could be ascribed to domestic supply constraints relating to strike activity, infrastructure development, the regulatory environment especially Section 54[2] stoppages, and Eskom's demand management programmes. These factors in combination with the uncertain global economic environment largely prevented the mining sector from fully capitalising on elevated commodity prices in the opening months of 2012.

2 Section 54 of the Mine Health and Safety Act, 1996 (updated November 2011).

Contribution to growth in real gross domestic product in the first quarter

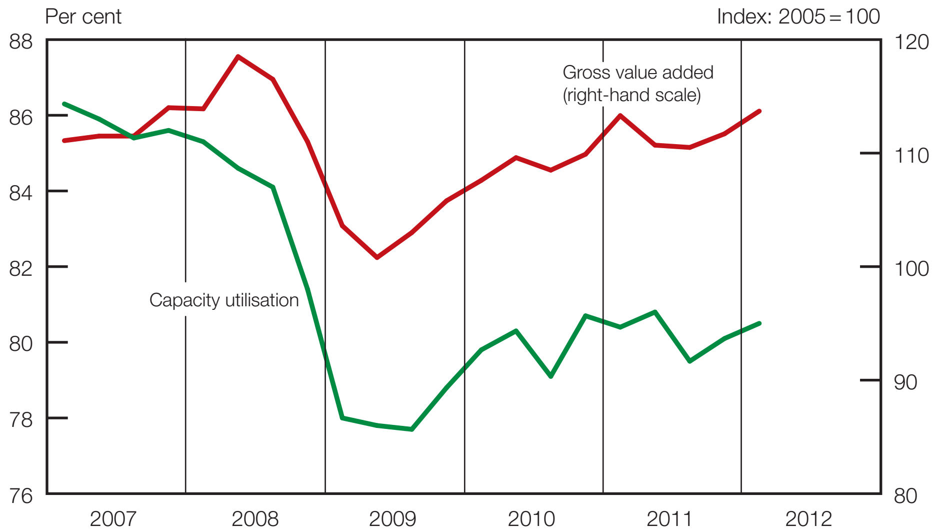


Contrary to the contraction in the real value added by the primary sector, the performance of the *secondary sector* improved notably as the real value added increased at an annualised rate of 6,4 per cent in the first quarter of 2012, up from 3,5 per cent in the final quarter of 2011. This improvement resulted from a noticeable increase in real output of manufacturing as well as stronger activity in the construction sector.

The recovery in the *manufacturing sector* that commenced in the third quarter of 2011 continued in the first quarter of 2012. Growth in real value added by the manufacturing sector accelerated significantly from an annualised rate of 4,2 per cent in the fourth quarter of 2011 to 7,7 per cent in the first quarter of 2012 – the highest rate of increase since the first quarter of 2011, adding 1,1 percentage points to the overall quarterly economic growth rate. This expansion was brought about by increased production of textiles, clothing, leather and footwear; petroleum, chemical products, rubber and plastic; basic iron and steel; as well as motor vehicles, parts and accessories. Manufacturing output at these levels, however, remained considerably below production levels attained prior to the economic recession.

The improved performance of the manufacturing sector notwithstanding the relatively weaker demand from Europe, South Africa's main trading partner for manufactured goods, in part reflected the recovery in confidence levels in the sector since the second half of 2011. Consistent with the higher level of production, the utilisation of production capacity in the manufacturing sector advanced marginally from 80,1 per cent in the fourth quarter of 2011 to 80,5 per cent in the first quarter of 2012.

Manufacturing: Capacity utilisation and real gross value added



Seasonally adjusted

Having increased at an annualised rate of 1,2 per cent in the fourth quarter of 2011, the real value added by the sector supplying *electricity, gas and water* contracted marginally at a rate of 0,1 per cent in the first quarter of 2012. The decline in electricity production partially reflected the outcome of agreements between the power utility and major users of electricity to reduce demand, alleviating strain on the electricity grid in order to undertake maintenance, refuelling at Koeberg, and inspection activity before the winter peak in demand. In addition, the almost complete shutdown of a platinum mine for a significant part of the quarter restrained electricity production. Recent increases in electricity tariffs continuously encouraged households and other users to conserve electricity.

Economic activity in the *construction sector* continued to increase at a steady pace in the first quarter of 2012. The government's renewed focus on infrastructure development caused civil construction activity to pick up noticeably while residential and non-residential building activity also improved, albeit from fairly subdued levels. As a result, the real value added by the construction sector accelerated from an annualised rate of 1,9 per cent in the fourth quarter of 2011 to 3,8 per cent in the first quarter of 2012.

Growth in the real value added by the *tertiary sector* slowed from an annualised rate of 3,5 per cent in the final quarter of 2011 to 3 per cent in the first quarter of 2012. The first-quarter performance resulted from slower growth in the real value added by the commerce and general government sectors, which fully offset an acceleration in real output growth of the finance, insurance, real-estate and business services sector.

Real output growth in the *commerce sector* moderated from an annualised rate of 5,2 per cent in the fourth quarter of 2011 to 3 per cent in the opening quarter of 2012. A decline in retail trade was neutralised by a pronounced increase registered in wholesale trade. Growth in the real value added by the motor trade subsector tapered off somewhat during the quarter, following a brisk increase in the fourth quarter of 2011. The moderation in new motor vehicle trade sales could probably in part be attributed to pre-emptive buying towards the end of 2011 following the depreciation in the external value of the rand, as well as statistical base effects.

Following an annualised rate of increase of 2,9 per cent in the fourth quarter of 2011, growth in the real value added by the *transport, storage and communication sector* decelerated to 2,5 per cent in the first quarter of 2012. This slightly slower pace of increase was mainly evident in land transport as freight volumes decelerated on account of a decline in export volumes alongside a slower pace of increase in import volumes. The communication subsector maintained its growth momentum in the opening months of 2012, benefiting from technological innovation.

Growth in the real value added by the *finance, insurance, real-estate and business services sector* accelerated from an annualised rate of 2,3 per cent in the fourth quarter of 2011 to 4,1 per cent in the first quarter of 2012. The faster pace of increase could be attributed to an increase in activity levels in the equity, bond and other financial markets. In addition, the banking sector's lending activity improved.

The real value added by the *general government* registered an annualised rate of increase of 2,3 per cent in the first quarter of 2012, following an increase of 4,4 per cent in the preceding quarter. This deceleration was primarily due to a moderation in employment gains following the previous quarter when Census 2011 activity raised the government staff complement.

Real gross domestic expenditure

Consistent with the moderation in domestic production, growth in aggregate *real gross domestic expenditure* decelerated from an annualised rate of 5,1 per cent in the fourth quarter of 2011 to 4,3 per cent in the first quarter of 2012. This moderation in the pace of spending could be attributed to slower growth in real domestic final demand which was partly offset by a further accumulation of real inventories.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

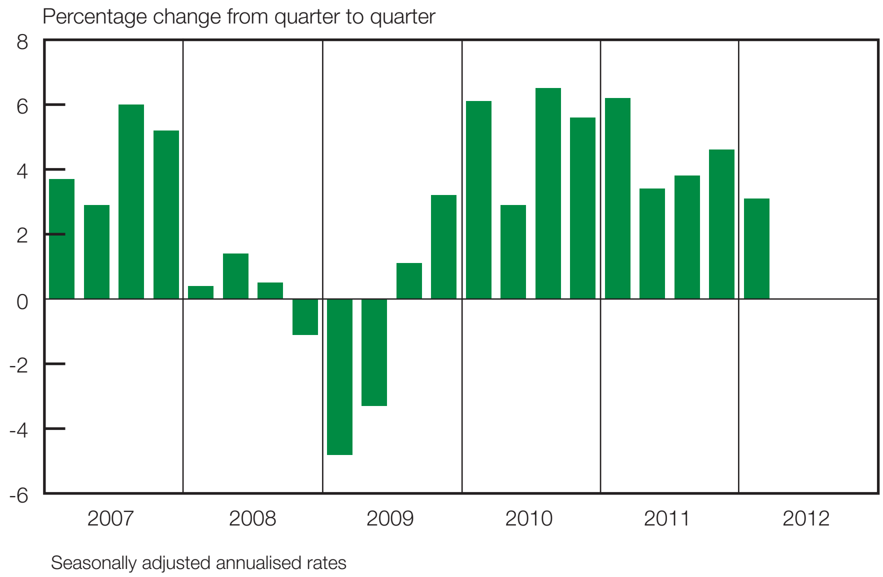
Component	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	6,2	3,4	3,8	4,6	5,0	3,1
General government	9,4	-0,4	4,8	7,3	4,5	2,2
Gross fixed capital formation	4,4	5,0	5,9	7,2	4,4	5,3
Domestic final demand	**6,5**	**2,9**	**4,4**	**5,6**	**4,8**	**3,3**
Change in inventories (R billions)*	7,1	3,1	4,0	4,9	4,8	5,9
Gross domestic expenditure	**4,6**	**1,4**	**4,8**	**5,1**	**4,3**	**4,3**

* At constant 2005 prices

Having increased at an annualised rate of 4,6 per cent in the fourth quarter of 2011 and 5 per cent for the year 2011 as a whole, i.e., at a much faster pace than growth in gross domestic product, growth in *real final consumption expenditure by households* slowed to an annualised rate of 3,1 per cent in the first quarter of 2012. The moderation in spending was particularly evident in the categories for durable and semi-durable goods and in the services component. Household expenditure on non-durable goods, however, increased at a somewhat faster pace over the period.

Although spending on *durable goods* lost some momentum, it still increased at a brisk annualised rate of 8,2 per cent in the first quarter of 2012. The moderation in spending on durable goods was broad-based but more pronounced in the categories for furniture and household appliances as well as personal transport equipment, notably new motor vehicles. The depreciation in the exchange rate of the rand in the latter part of 2011 appeared to have encouraged a spate of pre-emptive buying of motor vehicles in the final quarter of the year in order to avoid possible price increases in 2012. The somewhat slower pace of increase in spending on durable goods in the first quarter of 2012 was also consistent with the fairly neutral consumer confidence levels over the period.

Real final consumption expenditure by households



Real spending on *semi-durable goods* advanced at an annualised rate of 2,9 per cent in the first quarter of 2012, i.e., at a somewhat slower pace than in the fourth quarter of 2011. The slower growth reflected a deceleration in the pace of spending in all categories of semi-durable goods except for recreational and entertainment goods. Overall book sales were supported by the availability of electronic books at significantly cheaper prices compared to those of hard copies.

Having recorded growth rates of around 2 per cent in the last three quarters of 2011, spending on *non-durable goods* accelerated to an annualised rate of 3,5 per cent in the first quarter of 2012. The increase could mainly be attributed to spending on food, beverages and tobacco, and on petroleum products. Despite the noticeable price increases in these categories, the largely non-discretionary nature of expenditure on food ensured an increase in real outlays over this period. Higher spending on petroleum products was consistent with the steady pace of increase in spending on personal transport equipment in 2011.

Real spending on *services*, the largest component of household expenditure, increased at an annualised rate of 1,6 per cent in the first quarter of 2012, i.e., at a much slower pace than the rate of increase of 2,9 per cent recorded in the fourth quarter of 2011. This slowdown was concentrated in expenditure on household services and on transport and communication. Slower spending on transport services, specifically on air transport, was due to the sharp price increases in transportation, resulting from increases in the price of oil over the period.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Component	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	19,6	13,5	17,5	16,6	15,7	8,2
Semi-durable goods	12,5	7,8	6,7	7,3	7,0	2,9
Non-durable goods	5,0	2,1	2,0	2,2	2,9	3,5
Services	2,9	1,0	1,4	2,9	3,8	1,6
Total	6,2	3,4	3,8	4,6	5,0	3,1

Following an annualised increase of 4,7 per cent in the fourth quarter of 2011, growth in real *disposable income of households* moderated to 3,2 per cent in the first quarter of 2012. This slower pace of increase primarily reflected slower growth in compensation of employees. The ratio of household debt to disposable income inched lower to 74,7 per cent in the first quarter of 2012 from 74,8 per cent in the fourth quarter of 2011. Consistent with the unchanged interest rate environment, the debt-service cost of the household sector remained at 6,7 per cent of disposable income in both the fourth quarter of 2011 and first quarter of 2012. The lower ratio of indebtedness and trends in consumer spending and income suggest that many consumers continued to use their disposable income to reduce their outstanding financial commitments rather than increase their spending on final goods and services.

The moderation in quarterly growth in debt and in total assets in the first quarter of 2012 resulted in slower growth in households' *net wealth* position relative to the previous quarter. This culminated in the ratio of households' net wealth to disposable income edging lower in the first quarter of 2012.

Growth in *real final consumption expenditure by general government* slowed from an annualised rate of 7,3 per cent in the fourth quarter of 2011 to 2,2 per cent in the first quarter of 2012. The deceleration could partly be attributed to statistical base effects brought about by spending on military equipment and the population census that was conducted in the final quarter of 2011.

Real spending on compensation of government employees increased at a slower pace in the first quarter of 2012 compared with the fourth quarter of 2011 as the contracts of the bulk of temporary census workers were terminated in the closing months of 2011. Spending on non-wage goods and services contracted in the first quarter of 2012, contributing to the slowdown in consumption expenditure by general government. Relative to gross domestic product, government consumption expenditure remained broadly unchanged at 22 per cent in the first quarter of 2012.

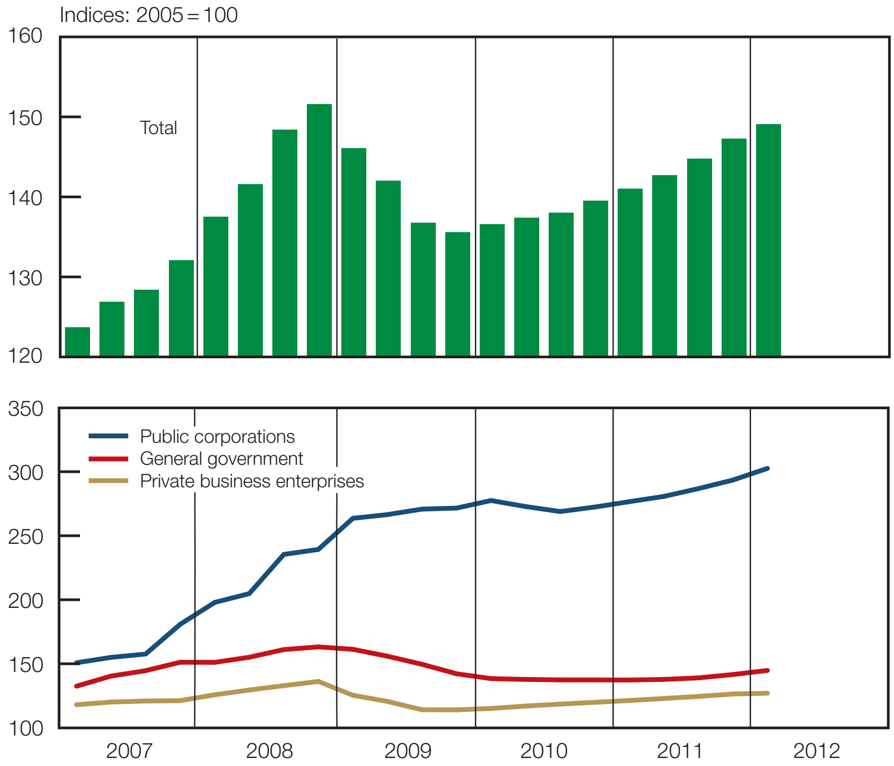
Having accelerated steadily on a quarter-to-quarter basis throughout 2011, growth in *real gross fixed capital formation* lost some momentum in the opening months of 2012, moderating from 7,2 per cent in the fourth quarter of 2011 to an annualised rate of 5,3 per cent in the first quarter. Slower growth in capital spending by private business enterprises primarily accounted for the deceleration in total investment spending over the period. Encouragingly, building and construction sentiment improved in the both the fourth quarter of 2011 and the first quarter of 2012.

Growth in real gross fixed capital spending by *private business enterprises* slowed from an annualised rate of 6,2 per cent in the fourth quarter of 2011 to 1,8 per cent in the first quarter of 2012. This more sedate pace of increase in capital outlays was particularly evident in the mining, manufacturing and trade sectors.

Alongside relatively weaker global economic growth, an expected deterioration in commodity markets, strike activity and energy supply constraints, mining companies lowered their pace of capital spending in the first quarter of 2012. In both the manufacturing and trade sectors, a number of new capital projects were delayed given the prevailing negative market sentiment.

At the same time farmers, however, raised their capital spending on both tractors and combined harvesters in response to favourable product prices and crop estimates. Buoyed by the growing number of subscribers and the increase in data traffic activity, the communications subsector continued to expand existing network capacity. South Africa's mobile network providers raised their capital outlays on infrastructure in order to enhance the growth in, and quality of, data traffic. Where delays in capital spending were experienced in 2011, network providers are committed to catching up in the first half of 2012.

Real gross fixed capital formation



Seasonally adjusted

Real fixed capital expenditure by *public corporations* increased at an annualised rate of 13,1 per cent in the first quarter of 2012 following an increase of 9,6 per cent in the fourth quarter of 2011. The accelerated pace of capital spending by public corporations largely reflected increased capital outlays by the electricity and transport subsectors. Capital outlays on vehicles, machinery and equipment accounted for the bulk of capital spending by the electricity sector during this period. In addition to the major new power stations being built, several smaller projects related to the generation, transmission and distribution of power also contributed to the acceleration in capital investment by the electricity sector.

Real gross fixed capital formation

Percentage change at seasonally adjusted annualised rates

Component	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	4,9	5,3	5,4	6,2	5,3	1,8
Public corporations	6,2	6,0	9,0	9,6	4,2	13,1
General government	-0,5	1,7	3,4	7,8	0,8	9,3
Total	**4,4**	**5,0**	**5,9**	**7,2**	**4,4**	**5,3**

Capital spending by Transnet, in particular on the new multi-product pipeline, gave rise to accelerated spending on machinery and equipment and construction works. In addition, Transnet expanded its fleet of diesel-electric locomotives as part of the freight logistics group's fleet renewal plan. The South African National Road Agency (SANRAL) continued with the upgrading of the country's road network, as public debate around the tolling of the freeway system in Gauteng intensified.

Furthermore, the telecommunications utility Telkom embarked on the final phase of its network transformation project. This installation of Africa's first multi-service access node unit will provide Telkom with an internet protocol network which will enable the integration between fixed and wireless telecommunication networks, and differentiate between the different broadband needs. Capital expenditure by the South African Post Office increased in the first quarter of 2012 with the aim to expand, refurbish and maintain its distribution centres across the country along with the upgrading of its information systems-related infrastructure.

Growth in real capital expenditure by *general government* accelerated from an annualised rate of 7,8 per cent in the fourth quarter of 2011 to 9,3 per cent in the first quarter of 2012. This brisk pace of increase could be attributed to capital spending by the provincial and local governments. Capital spending by general government has largely been focused on the improvement of water supply and water treatment facilities, the building and refurbishing of schools, hospitals and other healthcare facilities, electrical construction mainly at sub-stations, and the final section of the Gautrain line spanning from Rosebank to Park Station.

On an annualised basis, the level of real *inventory investment* increased to R5,9 billion in the first quarter of 2012, with an accumulation of inventories in the mining, manufacturing, electricity and commerce sectors. The accumulation of real inventories in total contributed 0,2 percentage points to growth in real gross domestic expenditure in the first quarter of 2012.

Inventory levels in the manufacturing sector showed an increase in the first quarter of 2012 consistent with increased production levels. In the commerce sector, levels of agricultural stock-in-trade receded partly on account of commitments to export maize.

The level of industrial and commercial inventories as a percentage of the annualised non-agricultural gross domestic product edged higher from 11,9 per cent in the fourth quarter of 2011 to 12,3 per cent in the first quarter of 2012. The relatively low cost of carrying inventories alongside an increase in manufacturing output supported this pick-up in the accumulation of commercial and industrial inventories.

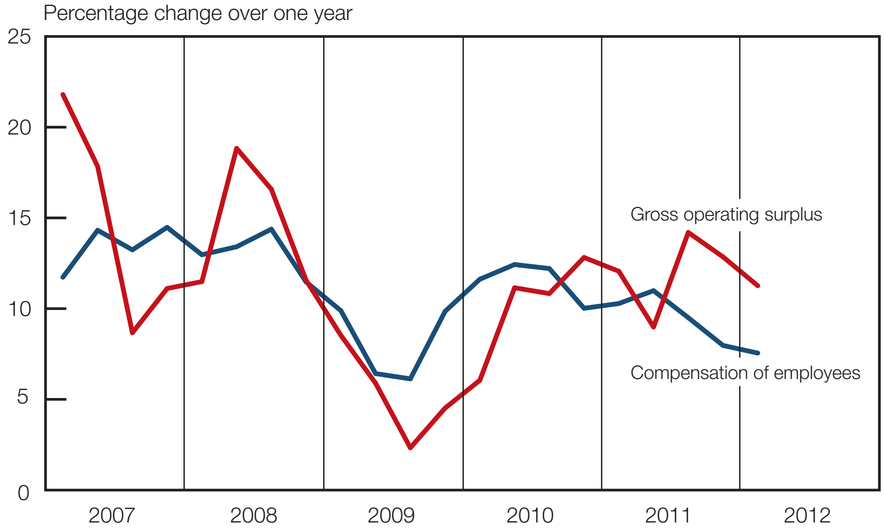
Factor income

Measured over four quarters, growth in *total nominal factor income* edged lower from a rate of 10,3 per cent in the fourth quarter of 2011 to 9,4 per cent in the first quarter of 2012. The deceleration in nominal factor income resulted from slower growth in both the compensation of employees and the gross operating surplus in the economy over the period.

The growth over four quarters in *compensation of employees* moderated from 8 per cent in the fourth quarter of 2011 to 7,6 per cent in the first quarter of 2012, broadly consistent with the lustreless employment performance of the economy. The pace of increase in compensation of employees slowed marginally in almost all sectors of the economy over the period. Consequently, the ratio of compensation of employees to total factor income decreased marginally from 49,9 per cent in the fourth quarter of 2011 to 49,5 per cent in the first quarter of 2012.

The year-on-year growth in total *gross operating surpluses* slowed from 12,8 per cent in the fourth quarter of 2011 to 11,3 per cent in the first quarter of 2012. Slower growth in gross operating surpluses was particularly evident in the agricultural, mining, manufacturing and construction sectors. Increasing transport costs, electricity constraints and exchange rate movements negatively affected the operating surpluses of business enterprises. However, the share of the operating surplus in total factor income increased from 50,1 per cent in the fourth quarter of 2011 to 50,5 per cent in the first quarter of 2012.

Gross operating surplus and compensation of employees



Gross saving

Gross saving as a percentage of gross domestic product decreased from 16,3 per cent in the fourth quarter of 2011 to 15,2 per cent in the first quarter of 2012. The weaker saving performance resulted from lower gross saving by corporate business enterprises alongside an increase in the pace of dissaving by general government. South Africa's savings ratio, on average, amounted to 16,5 per cent in 2010 and 2011, thereby containing the country's dependency on foreign capital at a rate of less than 17 per cent of total capital formation during the period. In the first quarter of 2012 this ratio, however, increased to 24,4 per cent.

Gross saving by the *corporate sector* as a percentage of gross domestic product receded from 15,9 per cent in the fourth quarter of 2011 to 15,5 per cent in the first quarter of 2012. This reflected slightly weaker annual growth in the operating surpluses of incorporated business enterprises, moderating from 12,6 per cent in the fourth quarter of 2011 to 11,2 per cent in the first quarter of 2012. Dividend and tax payments rose at rates of 16,1 per cent and 13,1 per cent respectively during the current quarter, accounting for the deterioration in the saving ratio of business enterprises over the period.

Dissaving by *general government* as a ratio of gross domestic product widened from 1,3 per cent in the fourth quarter of 2011 to 2 per cent in the first quarter of 2012. This deterioration in the saving ratio resulted from a moderation in government income from taxes on products alongside an increase in expenditure on subsidies and transfers to households.

Gross saving by the *household sector* edged higher from 1,6 per cent of gross domestic product in the fourth quarter of 2011 to a rate of 1,7 per cent in the first quarter of 2012. Continued growth in disposable income sustained the household sector's saving ratio over the period.

Employment

Against a background of global economic uncertainty and erratic domestic growth, employment in the formal non-agricultural sector of the South African economy edged lower in the fourth quarter of 2011. According to the *Quarterly Employment Statistics (QES)* survey of Stats SA, employment levels receded by 0,7 per cent in the final quarter of 2011, following six consecutive quarters of employment gains. The level of total formal non-agricultural employment consequently declined from 8,36 million at the end of September 2011 to an estimated 8,35 million at the end of December.[3]

3 The *QES* data reported in this section are seasonally adjusted, unless stated to the contrary.

The job losses in the formal non-agricultural sector of the economy in the fourth quarter of 2011 could mainly be attributed to a decrease of 20 900 employment opportunities in the private sector, since the public sector expanded its staff complement by 6 400 persons over the period. Notwithstanding the quarter-to-quarter drop in total formal-sector employment in the fourth quarter of 2011, the economy still managed to generate some 132 300 formal-sector jobs for the year as a whole, an improvement on the 92 500 jobs created in 2010. Encouragingly, in 2011 employment gains took place at a notably faster pace in the private sector than in the public sector.

Change in enterprise-surveyed formal non-agricultural employment*

Sector	Year-on-year			Quarter-to-quarter changes in 2011			
	Dec 2009	Dec 2010	Dec 2011	1st qr	2nd qr	3rd qr	4th qr
Mining	-31 400	16 100	14 000	10 600	2 800	-2 500	3 100
Gold mining	-5 300	-7 500	-8 100	500	-2 100	-7 600	1 100
Other mining	-26 100	23 700	22 100	10 100	5 000	5 100	1 900
Manufacturing	-89 500	-21 400	-8 500	-3 000	-10 100	400	4 200
Electricity supply	-2 900	2 600	1 300	100	1 400	-200	0
Construction	-58 100	-16 000	26 100	8 200	10 300	17 800	-10 200
Trade, catering and accommodation services	-81 000	23 100	15 000	-3 200	13 600	8 900	-300
Finance, insurance, real-estate and business services	-121 700	15 900	19 200	7 700	15 000	8 800	-12 300
Private transport, storage and communication services	-1 700	-800	8 300	-700	-700	8 400	1 300
Community, social and personal services	14 500	6 500	-5 000	2 000	-800	-3 500	-2 700
Total private sector	**-371 900**	**26 100**	**70 300**	**21 600**	**31 600**	**38 000**	**-20 900**
National, provincial and local government	47 700	54 900	65 800	14 300	34 200	11 900	5 400
Public-sector enterprises	-28 300	11 400	-3 800	55 400	-54 400	-5 800	1 000
Total public sector	**19 500**	**66 400**	**62 000**	**69 700**	**-20 200**	**6 100**	**6 400**
Grand total	**-352 400**	**92 500**	**132 300**	**91 300**	**11 300**	**44 200**	**-14 500**

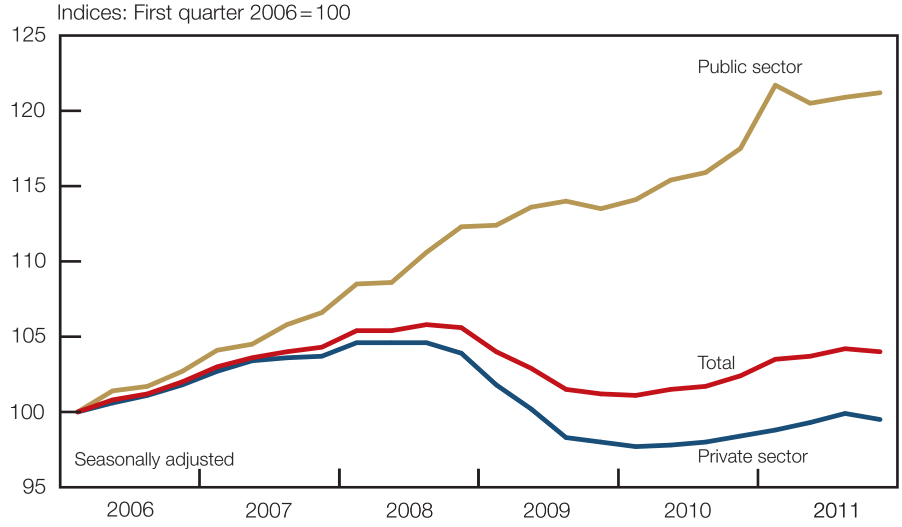
* Seasonally adjusted
Numbers may not add up due to rounding

Public-sector employment advanced at an annualised rate of 1,3 per cent in the fourth quarter of 2011 as national departments and provincial governments increased their staff complement by 3,5 per cent and 1,1 per cent respectively. These employment gains were partly countered by labour paring at the level of local authorities and certain public-sector enterprises.

Having gained momentum in the first three quarters of 2011, private-sector employment receded surprisingly at an annualised rate of 1,3 per cent in the fourth quarter of 2011, primarily due to employment losses in the construction sector (9,0 per cent) and in the finance, insurance, real-estate and business services sector (2,7 per cent). Job shedding also occurred in the community, social and personal services sector (2,5 per cent), as well as in the trade, catering and accommodation services sector (1,0 per cent) over the period. By contrast, employment levels increased in the mining sector (2,4 per cent), the private transport, storage and communication sector (2,1 per cent), and in the manufacturing sector (1,5 per cent).

Even though the increase in employment levels in the manufacturing sector in the final quarter of 2011 was comforting, the sector nevertheless still shed 8 500 jobs in the year to the fourth quarter of 2011, representing a decline of 0,7 per cent. The manufacturing sector has also failed to create employment on a sustainable basis since the 2008–09 recession. Developing remedies for the sluggish recovery in manufacturing employment and in the economy in general remains high on the government's priority list. In order to enhance growth and job creation in the South African manufacturing sector, the Department of Trade and Industry has recently

Employment in the formal non-agricultural sector



Source: Statistics South Africa, *Quarterly Employment Statistics* survey

launched its new Industrial Policy Action Plan (IPAP2). Apart from emphasising the importance of appropriate state intervention, the Minister of Trade and Industry acknowledged the adverse impact of economic conditions in Europe on the domestic manufacturing sector – South African exports to major developed countries remained largely stagnant while exports to distressed European countries contracted notably.

A key component of the new IPAP2, announced in the National Budget in February 2012, is a R5,8 billion Manufacturing Competitiveness Enhancement Programme (MCEP) to be rolled out over the next three years. The MCEP incentive scheme, supporting the strained domestic manufacturing sector with effect from May 2012, endeavours to improve the competitiveness of relatively labour-intensive and value-adding manufacturing sectors negatively affected by the global economic crisis, escalating electricity prices and volatility in the exchange value of the rand. Manufacturing sectors already benefiting from dedicated support (including the automotive industry), capital-intensive sectors, sectors with a high market concentration and firms with a history of anti-competitive behaviour will be excluded from the programme. Furthermore,

Volume of production and employment in the manufacturing sector

government will focus on key sectors, including green industries, agro-processing, metal fabrication and the manufacturing of capital and transport equipment, which are believed to be well placed for scaling up market growth. In addition, the IPAP2 also received a R2,3 billion budget allocation for special economic zones.

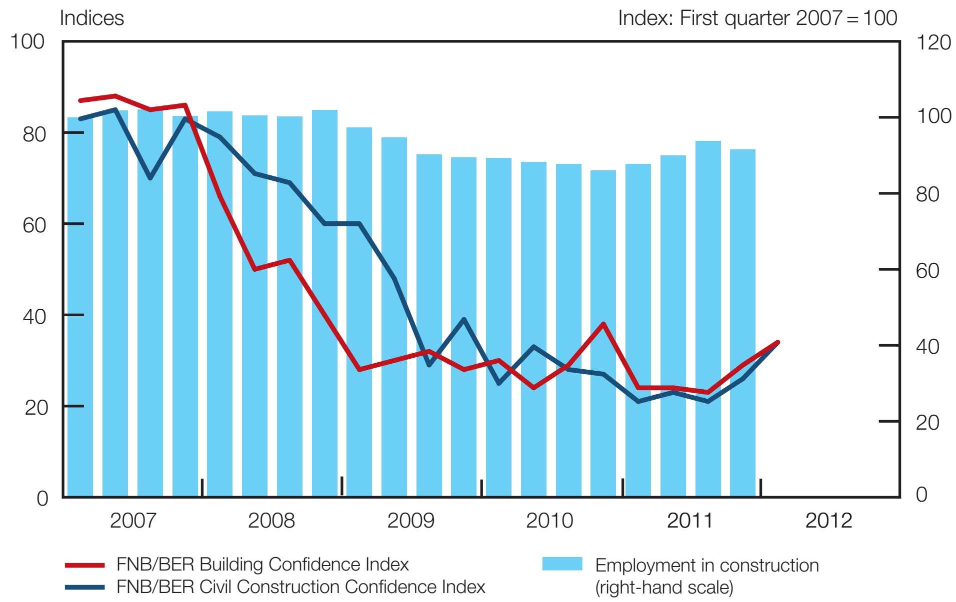
Employment in the mining sector increased by around 3 100 in the fourth quarter of 2011, as new job opportunities were created in the gold and non-gold mining sectors. The mining sector expanded its overall job complement by 3,4 per cent in 2011, following an increase of 1,6 per cent in the preceding year. Employment gains in 2011 could, however, be attributed entirely to the non-gold mining sector, since labour paring continued for a fourth consecutive year in the gold-mining industry which faces depletion of some of its more profitable ore bodies. Although employment levels in the mining sector advanced moderately in the final quarter of 2011, the sector continued to face soaring input costs and output disruptions in the form of safety-related stoppages and industrial action. In addition, as part of Eskom's demand management programme, a number of mining companies recently agreed to change their planned maintenance schedules in order to mitigate demand pressure on the national electricity grid. The expected lower mining output could possibly lead to a reduction in the employment of workers during the upcoming winter season.

Despite marginal decreases in employment in the third and fourth quarters of 2011, employment in the electricity sector nevertheless recorded a net increase of 4,1 per cent in 2011. The prolonged period of capacity-enhancing capital spending by Eskom has thus far supported job creation in the sector.

Despite the fairly robust growth in output in the trade, catering and accommodation services sector, employment levels in the sector decreased at an annualised rate of 1,0 per cent in the fourth quarter of 2011. Employment in this sector, however, grew by a marginal 0,9 per cent in the year to the final quarter of 2011, signifying labour productivity gains since real production expanded by 3 per cent over the period. The deceleration in households' real final consumption expenditure in the first quarter of 2012 may have a bearing on employment growth in this sector.

Employment levels in the construction sector picked up meaningfully in the first three quarters of 2011, before declining by roughly 10 200 or at an annualised rate of 9,0 per cent in the fourth quarter. Following two years of notable declines in employment, the construction sector expanded its employment numbers at an annual average rate of 3,4 per cent in 2011. Furthermore, the First National Bank (FNB)/Bureau for Economic Research (BER) Building Confidence and Civil

Building and civil construction confidence and employment in the construction sector



Construction Confidence indices both improved in the final quarter of 2011. Activity in civil construction benefited from Transnet's expenditure on its multiproduct pipeline, while expenditure by local government on road and water projects continued. Despite these positive developments, demand for new construction work remained scarce, resulting in fierce tendering competition which moderated profitability. Government's renewed commitment to infrastructure spending, however, bodes well for employment creation in the construction sector.

The FNB/BER Building Confidence Index improved somewhat in the fourth quarter of 2011 – confidence levels of residential building contractors improved marginally while those of non-residential building contractors declined. In addition, the real value of residential building plans passed and the volume of national cement sales increased in the fourth quarter of 2011. Notwithstanding these encouraging signs, the recovery in the residential property market remains sluggish, as evidenced by a decline in real house prices in the fourth quarter of 2011 reported by Absa. According to the BER, residential building activity has been constrained by an oversupply of stock at the upper end of the market and the still-relatively high indebtedness of the household sector.

The *Quarterly Labour Force Survey (QLFS)* conducted by Stats SA indicated that South Africa's official unemployment rate increased from 23,9 per cent in the fourth quarter of 2011 to 25,2 per cent in the first quarter of 2012. The seasonally adjusted number of unemployed people increased by about 49 000 in the first quarter, while the number of employed persons increased by around 11 000. The latter improvement was unfortunately somewhat obscured by the fact that the number of discouraged work-seekers (people who have given up actively searching for a job and are not included among the number of unemployed) increased by 20 000 in the first quarter. Despite the continued increase in the number of discouraged work-seekers, the year-on-year pace of increase in this number has moderated gradually from a recent high of 440 000 persons in the fourth quarter of 2010 to 112 000 persons in the first quarter of 2012.

Labour cost and productivity

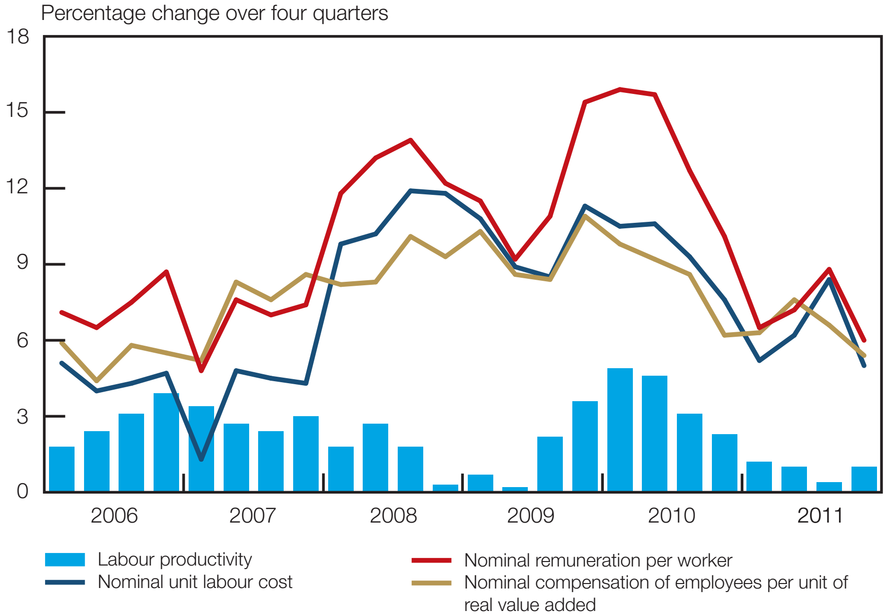
The year-on-year rate of increase in the nominal remuneration per worker in the formal non-agricultural sector of the economy moderated from 8,8 per cent in the third quarter of 2011 to 6,0 per cent in the fourth quarter. This moderation resulted from a marked deceleration in public-sector wage growth to 3,8 per cent, while private-sector wage growth accelerated marginally to 6,8 per cent. However, on an annual basis, average nominal remuneration growth per worker almost halved from 13,5 per cent in 2010 to 7,1 per cent in 2011, with the slowdown being equally pronounced in the private and public sectors.

Notwithstanding the fact that nominal remuneration growth per worker in the formal non-agricultural sector moderated to within the inflation target range for the first time since the first quarter of 2007, remuneration increases remained above the upper limit of the inflation target range in the non-gold mining sector (24,5 per cent, influenced by special bonus payments); the gold-mining sector (12,6 per cent); the community, social and personal services sector (6,9 per cent); the private transport, storage and communication sector (6,9 per cent); the electricity sector (6,8 per cent); and the manufacturing sector (6,2 per cent). The mining sector continued to experience relatively high commodity prices alongside restructuring of some operations requiring more skilled and better-paid workers. In the public sector nominal remuneration growth per worker moderated meaningfully in the fourth quarter of 2011 to year-on-year rates of 6,1 per cent and 0,5 per cent at national department and provincial levels respectively. Conversely, the nominal remuneration per worker in local government accelerated notably to 7,3 per cent in the fourth quarter of 2011.

According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements moderated from 7,7 per cent in 2011 to 7,3 per cent in the first quarter of 2012. The number of working days lost to industrial action rose to 700 000 in the first quarter of 2012, compared with 237 000 for the corresponding period in 2011.

Year-on-year growth in employment in the formal non-agricultural sector of the economy moderated more than growth in output in the fourth quarter of 2011, resulting in an acceleration in productivity growth from 0,4 per cent in the third quarter of 2011 to 1,0 per cent in the fourth quarter. Labour productivity growth in the manufacturing sector also accelerated from 3,2 per cent in the year to the third quarter of 2011 to 3,3 per cent in the year to the fourth quarter, as employment edged lower while real output expanded.

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



The deceleration in nominal remuneration growth per worker occurred at a faster pace than the slowdown in output growth in the fourth quarter of 2011, resulting in a deceleration in the pace of nominal unit labour cost increases from 8,4 per cent in the year to the third quarter of 2011 to 5,0 per cent in the year to the fourth quarter. When considering the broader national accounts measure of compensation of employees per unit of output (i.e., also including the agricultural sector and the informal sector), growth in unit labour cost decelerated from 6,6 per cent to 5,4 per cent over the same period. Owing to the acceleration in productivity growth and the deceleration in nominal remuneration growth per worker in the manufacturing sector in the fourth quarter of 2011, growth in nominal unit labour cost in this sector slowed from 4,1 per cent in the year to the third quarter of 2011 to 2,8 per cent in the year to the fourth quarter.

Prices

The acceleration in domestic inflation was tentatively arrested during the opening months of 2012, as twelve-month headline consumer price inflation moderated from 6,3 per cent in January 2012 to 6,1 per cent in April. This favourable development primarily resulted from a moderation in food price inflation. Likewise, year-on-year producer price inflation for domestic output decelerated for six consecutive months, from a recent high of 10,6 per cent in October 2011 to 6,6 per cent in April 2012.

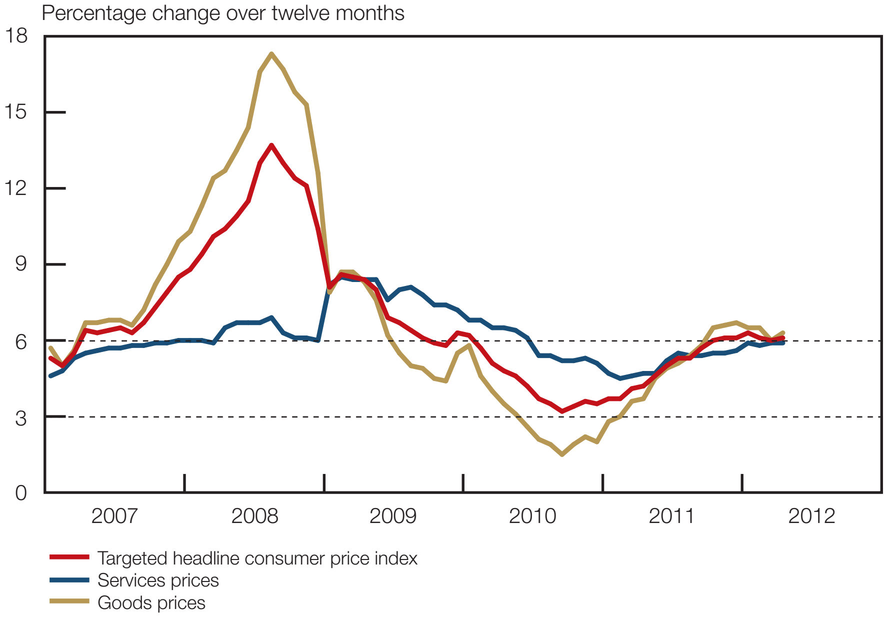
The peak of 10,6 per cent in producer price inflation largely arose due to sharp increases in the producer prices of mining output on account of rising international commodity prices and the depreciation in the exchange rate of the rand towards the latter part of 2011. As the global economic outlook deteriorated in the closing months of 2011, international commodity prices softened and the exchange rate of the rand appreciated somewhat, resulting in a deceleration in producer price inflation to a year-on-year rate of 6,6 per cent in April 2012. The moderation in headline producer price inflation occurred in most categories; producer price inflation of agricultural output decelerated from a recent high of 12,9 per cent in the year to October 2011 to 4,7 per cent in the year to April 2012 and producer price inflation of mining output decelerated from 17,7 per cent in the year to September 2011 to 6,6 per cent in the year to March 2012, while producer price inflation of manufactured goods decelerated from 7,7 per cent in the year to December 2011 to 4,6 per cent in the year to April 2012.

Notwithstanding the general slowdown in producer price inflation, brisk price increases continued in the categories for food, mining, electricity, and products of petroleum and coal. Despite moderating from a year-on-year rate of 33,1 per cent in November 2011, price increases in the products of petroleum and coal category nevertheless amounted to 12,9 per cent in the year to April 2012. In the electricity, gas and steam category price increases accelerated at 18,7 per cent in the year to April 2012.

Year-on-year headline consumer price inflation remained within the inflation target range for 21 consecutive months up to October 2011 and then breached the upper limit of the inflation target range for four months, before moderating again to 6,0 per cent in March 2012 – the upper limit of the inflation target range. The slackening in headline consumer price inflation in the year to March 2012 resulted mainly from a deceleration in the rate of increase in the prices of consumer goods. Headline inflation thereafter reaccelerated marginally to 6,1 per cent in April 2012.

Moving broadly in conjunction with headline consumer price inflation, twelve-month consumer goods price inflation breached the upper limit of the inflation target range in October 2011 and accelerated to 6,7 per cent in December, before moderating to 6,0 per cent in March 2012. Year-on-year consumer goods price inflation subsequently accelerated to 6,3 per cent in April. The moderation in consumer goods price inflation was primarily driven by a deceleration in the food and non-alcoholic beverages category, from a year-on-year rate of 11,1 per cent in December 2011 to 8,7 per cent in April 2012. In addition, the year-on-year rate of increase in the transport category moderated from 6,4 per cent in November 2011 to 5,2 per cent in March 2012. The moderation in consumer goods price inflation was, however, curtailed somewhat by a notable acceleration in price inflation in the alcoholic beverages and tobacco category to a rate of 7,3 per cent in the year to April 2012, largely due to a marked increase in excise duties on these goods.

Consumer price inflation



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

Prices of communication, recreation and cultural goods decreased in the year to April 2012, assisting in the moderation of consumer goods price inflation. Consumer price inflation for both non-durable and semi-durable goods moderated to 9,6 per cent and 1,8 per cent respectively in the year to April 2012. Sensitive to technological advances and subject to strong competitive forces, consumer price inflation for durable goods entered a 26-month period of deflation in April 2010 and registered a year-on-year decrease of 0,8 per cent in April 2012.

Contrary to the deceleration in consumer goods price inflation, twelve-month consumer services price inflation accelerated throughout 2011 and into the opening months of 2012, amounting to 5,9 per cent in both March and April 2012. Services price inflation nevertheless remained within the inflation target range for 22 consecutive months up to April 2012. Within the consumer services basket, price increases of transport services accelerated notably to 12,8 per cent in April 2012 on account of marked increases in the prices of public road and air transport. In addition, the prices of education, health and miscellaneous services increased at rates in excess of the upper limit of the inflation target range in the year to April 2012. Conversely, prices of communication services decreased at a year-on-year rate of 0,3 per cent over the same period.

The easing of domestic inflation pressures during the opening months of 2012 resulted largely from a slowdown in food price inflation. From a recent high of 10,0 per cent in October 2011 the twelve-month rate of increase in producer prices of food moderated to 8,0 per cent in March 2012. The recent downward trajectory in producer food price inflation resulted mainly from a deceleration in agricultural food price inflation; agricultural producer food price inflation more than halved from a recent peak of 11,9 per cent in the year to October 2011 to 5,0 per cent in the year to March 2012. Most pronounced within this moderation in food price inflation at the agricultural level were declining year-on-year rates of change in the prices of grain as well as fruit and nuts. Producer food price inflation at the manufactured level, however, remained elevated due to persistently high annual rates of increase in the prices of grain mill and bakery products, meat and meat products, and other food products in the first two months of 2012. Nevertheless, manufactured food price inflation decelerated noticeably in March 2012, driven almost exclusively by a marked decline in the prices of processed meat in the month due to an oversupply of meat.

Following the moderation in producer food price inflation, year-on-year consumer food price inflation slowed from a peak of 11,6 per cent in December 2011 to 9,1 per cent in April 2012, largely due to a notable deceleration in the price inflation of unprocessed food to a twelve-month rate of 8,9 per cent in April 2012. Despite slowing marginally to an annual rate of 9,2 per cent in April 2012, price inflation of processed food remains elevated.

Food price inflation

Rising international grain prices, coupled with a depreciation in the exchange value of the rand during the latter part of 2011, caused grain prices at the producer level to increase by 36,3 per cent in the year to December 2011. However, grain price increases moderated to a year-on-year rate of 9,2 per cent in April 2012, as the external value of the rand strengthened somewhat in the opening months of the year. Since changes in grain prices are usually passed on to the consumer with a lag, bread and cereals inflation at the consumer level (representing almost 22 per cent of the total consumer food basket) kept accelerating and amounted to a year-on-year rate of 11,5 per cent in February 2012, before moderating to 10,6 per cent in April. Some momentum may continue to be reflected in local bread and cereal prices due to the lags involved, apart from the impact of the exchange rate and other forces shaping inflation.

Consumer and producer food price inflation

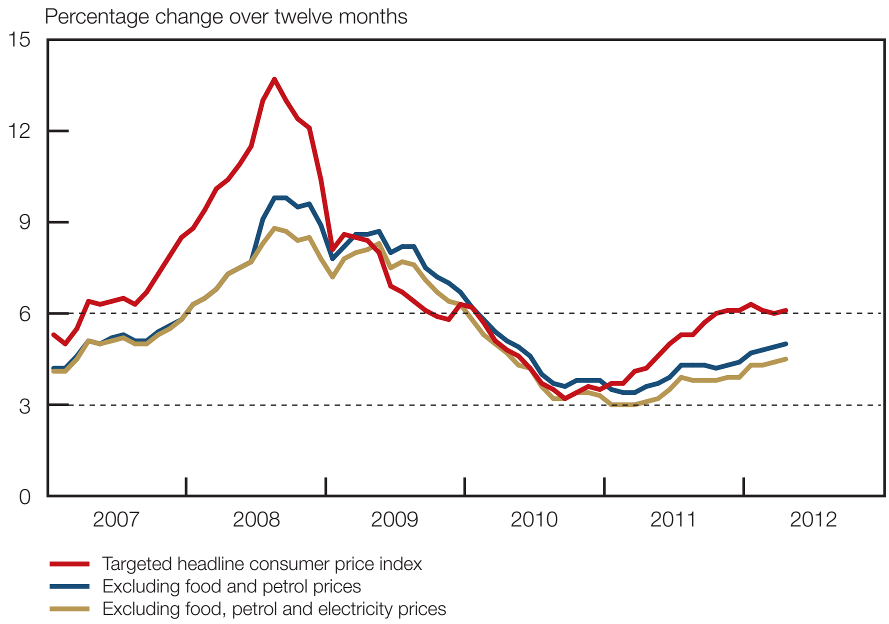
Year-on-year percentage changes

Category	Weights	2011	2012			
		Dec	Jan	Feb	Mar	Apr
Producer food prices						
Food at the agricultural level						
Grain	0,87	36,3	29,4	22,3	18,5	9,2
Oil seeds	0,13	0,6	1,7	5,4	20,7	29,5
Fruits and nuts	1,43	-16,0	-13,9	-15,4	-9,5	-1,0
Vegetables	1,13	18,4	5,1	4,8	2,9	7,6
Sugar cane	0,30	5,0	6,1	4,3	6,2	10,8
Other foods	0,04	14,5	15,6	17,3	17,6	22,0
Total	3,89	8,0	5,4	3,1	5,0	7,3
Food at the manufactured level						
Grain mill and bakery products	0,84	15,0	16,8	17,0	14,6	10,4
Meat and meat products	0,56	22,9	22,5	22,8	10,1	10,5
Prepared and preserved fish	0,18	1,5	0,5	0,4	3,3	-2,8
Dairy products	0,98	3,8	4,5	7,7	9,9	12,2
Fats and oil	0,43	0,6	-0,1	-2,3	-3,0	3,5
Fruits and vegetable products	0,56	6,7	6,9	5,4	5,4	6,9
Sugar	0,44	9,0	7,5	3,2	3,7	6,2
Coffee and tea	0,16	5,0	5,0	5,2	5,7	2,9
Other food products	1,72	12,3	14,4	14,5	14,2	12,7
Total	5,87	10,2	10,9	10,9	9,6	9,7
Total producer food prices	**9,76**	**9,4**	**9,0**	**8,2**	**8,0**	**8,9**
Consumer food prices						
Bread and cereals	3,08	9,7	10,0	11,5	11,3	10,6
Meat	4,59	16,7	14,2	12,4	9,1	8,8
Fish	0,66	6,5	8,0	9,3	8,7	10,7
Milk, cheese and eggs	1,79	4,0	4,3	6,4	8,4	9,1
Oils and fats	0,53	19,3	15,2	12,6	8,6	6,4
Fruit	0,47	7,4	4,9	5,9	0,6	6,3
Vegetables	1,63	11,9	10,5	6,7	5,9	7,3
Sugar, sweets and desserts	0,77	13,8	14,1	10,6	12,5	11,5
Other food	0,75	6,3	7,4	7,7	8,3	8,3
Total consumer food prices	**14,27**	**11,6**	**10,7**	**10,1**	**8,9**	**9,1**

Domestic consumer food price inflation moderated for the third successive month to a year-on-year rate of 8,9 per cent in March 2012, mainly due to the already-mentioned recent decline in meat prices. Meat price inflation – representing almost 33 per cent of the total consumer food basket – decelerated from a year-on-year rate of 16,7 per cent in December 2011 to 8,8 per cent in April 2012. After registering rates of increase in excess of 20 per cent throughout most of 2011, the price inflation of oils and fats has moderated to 6,4 per cent in the year to April 2012. Four of the consumer food categories have most recently registered decelerating price inflation, four categories displayed rising inflation in the year to April 2012 and one category increased at the same annual rate in April 2012 as in the previous month.

Subtracting the impact of the more volatile food, non-alcoholic beverages and petrol prices from the calculation of targeted headline consumer price inflation, underlying inflation accelerated gradually from a year-on-year rate of 4,2 per cent in October 2011 to 5,0 per cent in April 2012. When excluding the impact of electricity prices from the calculation of headline consumer price inflation as well, year-on-year consumer price inflation accelerated marginally from 4,3 per cent in January and February 2012 to 4,5 per cent in April, suggesting that underlying domestic inflation pressures remained relatively benign.

Underlying measures of consumer price inflation



When analysing price changes based on the short-term pace of increase – expressed as the quarter-to-quarter seasonally adjusted and annualised percentage change – in the classification of individual consumption by purpose (COICOP) categories, underlying inflation pressures remained reasonably muted in the economy in the first quarter of 2012. The short-term pace of increase in six of the twelve categories accelerated from the fourth quarter of 2011 to the first quarter of 2012 and decelerated in the remaining six categories. However, whereas the quarter-to-quarter seasonally adjusted and annualised rate of change in three of the twelve categories was below the lower limit of the inflation target range in the fourth quarter of 2011, this rate of change was below 3 per cent in five of the twelve categories in the first quarter of 2012. In both the fourth quarter of 2011 and the first quarter of 2012, six categories recorded short-term annualised rates of increase above the upper limit of the inflation target range, while the number of categories recording rates of increase between 3 and 6 per cent contracted from three in the fourth quarter of 2011 to one in the first quarter of 2012.

The year-on-year rate of increase in six of the twelve COICOP categories, with a combined weight of almost 68 per cent in the consumer price index, exceeded the upper limit of the inflation target range in April 2012. In addition, from March 2012 to April, the year-on-year rates

Headline consumer price inflation in COICOP categories

Quarter-to-quarter percentage changes at annualised rates

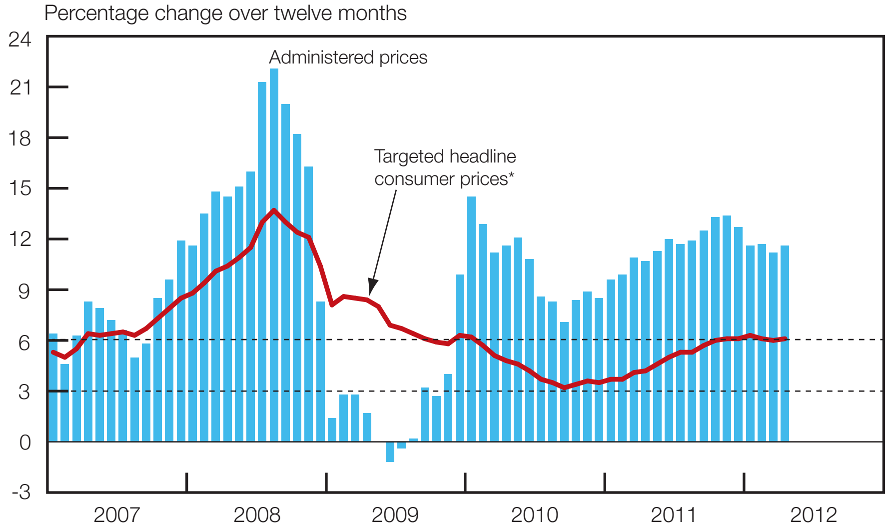
Category	Weights	Fourth quarter of 2011	First quarter of 2012	April 2012
Education	2,19	8,9	9,4	9,0
Food and non-alcoholic beverages	15,68	13,4	6,1	8,7
Alcoholic beverages and tobacco	5,58	7,2	8,6	7,3
Transport	18,80	13,9	8,7	6,9
Housing and utilities	22,56	5,0	6,4	6,7
Restaurants and hotels	2,78	5,8	4,8	6,2
Miscellaneous goods and services	13,56	5,0	6,1	5,6
Health	1,47	8,1	2,0	5,2
Clothing and footwear	4,11	7,1	-2,2	3,6
Household content and services	5,86	1,7	1,5	2,5
Recreation and culture	4,19	0,0	0,9	-0,4
Communication	3,22	-1,7	-0,8	-1,2
All items	100,00	7,7	5,8	6,1

of change in nine of the twelve categories accelerated, while the rates of change in two categories decelerated and stayed the same in the remaining category.

Despite remaining at elevated levels, administered price inflation nevertheless moderated from 13,4 per cent in November 2011 to 11,6 per cent in April 2012. The slowdown in administered price inflation could be attributed entirely to a deceleration in petrol price inflation, from a recent peak of 30,0 per cent in the year to October 2011 to a still-high 20,0 per cent in April 2012. Although moderating somewhat, administered price inflation nonetheless contributed significantly to consumer price inflation, remaining above the upper limit of the inflation target range for 29 consecutive months up to April 2012. With the exception of the prices of communication and television licences, all other administered prices increased at rates in excess of the upper limit of the inflation target range in April 2012. The pace of price increases of education and university boarding fees actually accelerated to 9,0 per cent and 9,6 per cent respectively in April 2012.

Targeted inflation and administered prices

Percentage change over twelve months



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

When excluding the effect of petrol prices from the calculation of administered prices, this twelve-month rate of change slowed marginally to 8,8 per cent in August 2011 and remained broadly at this level up to April 2012, indicating the persistent nature of administered price inflation. From September 2010 to May 2012, the inland price of 95 octane petrol increased by a cumulative 415 cents per litre. Despite an appreciation in the exchange rate of the rand in recent months, the surge in international crude oil prices, coupled with a notable increase in the fuel levy, resulted in increases of 71 cents per litre and 28 cents per litre in the inland price of 95 octane petrol in April and May 2012 respectively. Excluding electricity prices from the above-mentioned calculation as well, the rate of increase in administered prices amounted to 6,6 per cent in the year to April 2012. The recent decision by the National Energy Regulator of South Africa (NERSA) to revise the average electricity price increase from 25,9 per cent to 16,0 per cent for the period 1 April 2012 to 31 March 2013 should assist in lowering administered price inflation somewhat over that period.

Inflation expectations for 2012, as measured by the Survey of Inflation Expectations conducted by the BER at Stellenbosch University, remained at 6,1 per cent in the first quarter of 2012. Respondents expected inflation to average 6,1 per cent in 2013, before moderating slightly to 6,0 per cent in 2014. Business executives were the most pessimistic, with expectations of 6,5 per cent for both 2013 and 2014, while financial analysts were the most optimistic, expecting inflation to average 5,6 per in 2013 and 5,5 per cent in 2014. Similar to financial analysts and business representatives, households expected inflation to average 6,2 per cent in 2012. On balance, inflation expectations appear to have remained relatively well anchored around the upper limit of the inflation target range.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2012

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2012	6,2	6,2	6,0	6,1
2013	5,6	6,5	6,2	6,1
2014	5,5	6,5	6,0	6,0

Source: Bureau for Economic Research, Stellenbosch University

Foreign trade and payments

International economic developments

After moderating sharply in the fourth quarter of 2011, global economic growth accelerated to around 4 per cent in the first quarter of 2012. This improvement in global economic activity was mainly underpinned by faster economic growth in emerging Asian economies. In addition, the contribution of advanced economies to global economic growth also increased somewhat as a result of a recovery in Japan, and strong growth in some newly industrialised Asian economies such as South Korea and Singapore.

The International Monetary Fund (IMF) revised its global growth projections marginally upwards in the April 2012 *World Economic Outlook* to 3,5 per cent in 2012 and 4,7 per cent in 2013. These upward revisions were mainly due to higher-than-expected economic growth in the US in the second half of 2011, and encouraging policy responses in the euro area, which mitigated the risk of a sharp global slowdown. The euro area is, however, still expected to experience a mild recession in 2012; in fact, renewed doubt about prospects for the area that came to the fore most recently suggest significant downside risk to that prognosis. Growth prospects for developing and emerging-market economies in 2012 and 2013 have improved slightly as these economies stand to benefit from the implementation of strong macroeconomic and structural policies.

The projection for real output growth in the sub-Saharan African region was revised downwards by 0,1 percentage point to 5,4 per cent for 2012. Lower capital inflows and relatively weaker global demand are expected to affect economic growth in the countries of the Southern African Development Community (SADC) adversely.

Real economic growth in the US, having advanced at an accelerated pace since the second quarter of 2011, moderated from 3,0 per cent in the fourth quarter of 2011 to 1,9 per cent in the first quarter of 2012. Positive contributions to growth in the first quarter of 2012 came from personal consumption expenditure, exports and private inventory investment. These contributions were partly offset by lower government expenditure.

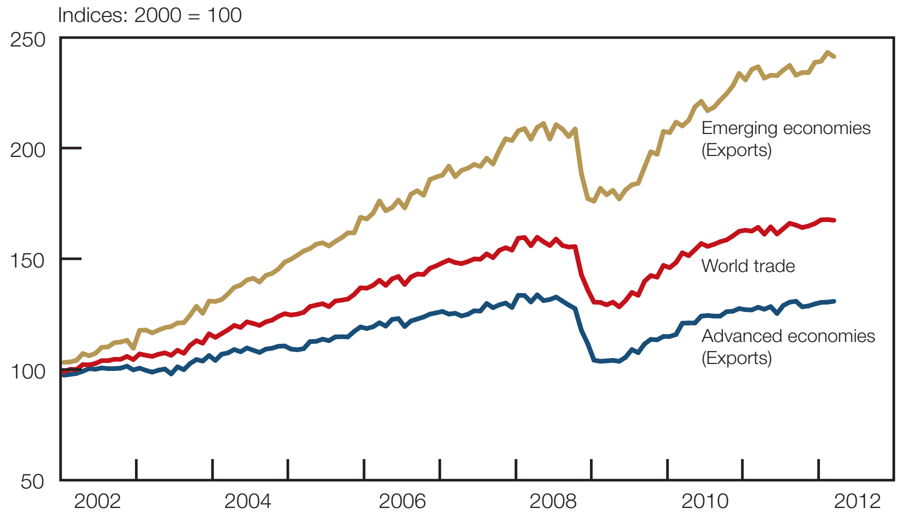
The Japanese economy recovered more strongly than expected in the first quarter of 2012, following subdued growth in the final quarter of 2011. Real output accelerated by 4,7 per cent in the first quarter of 2012, underpinned by personal consumption expenditure, exports and private inventory investment. The increase in consumption partly reflected the higher demand for motor vehicles, which received a boost from government subsidies for fuel-efficient vehicles.

The euro area narrowly avoided a technical recession in the first quarter of 2012. Growth remained subdued as fiscal austerity, bank and household deleveraging, and low consumer and business confidence weighed on domestic demand. Real output was at zero per cent in the first quarter of 2012, following a contraction of 1,3 per cent in the previous quarter.

Economic activity in emerging-market economies, and more specifically emerging Asia, recovered in the first quarter of 2012. Output growth improved significantly in countries such as India and Thailand, but decelerated further in China. Economic growth in the region benefited from robust domestic demand against the background of a fragile global economic recovery. Lower economic growth in China has further fuelled the debate and concern surrounding a hard or soft landing for China; despite the slowdown, Chinese growth continued to outstrip that in almost all other countries. Economic growth in emerging Europe deteriorated in the first quarter of 2012 due to a moderation of growth in Russia, and a contraction of economic activity in Hungary and Romania. The growth outlook for export-reliant economies, however, remains tainted by downside risks associated with the turmoil in peripheral European countries. Economic activity in Latin America rebounded somewhat in the first quarter of 2012, with economic growth accelerating in Brazil, Mexico and Venezuela. Economic activity in Brazil picked up somewhat after a slight contraction in the preceding quarter.

The volume of world trade increased in the first quarter of 2012 due to increased trade volumes in both advanced and emerging-market economies.

World trade volume

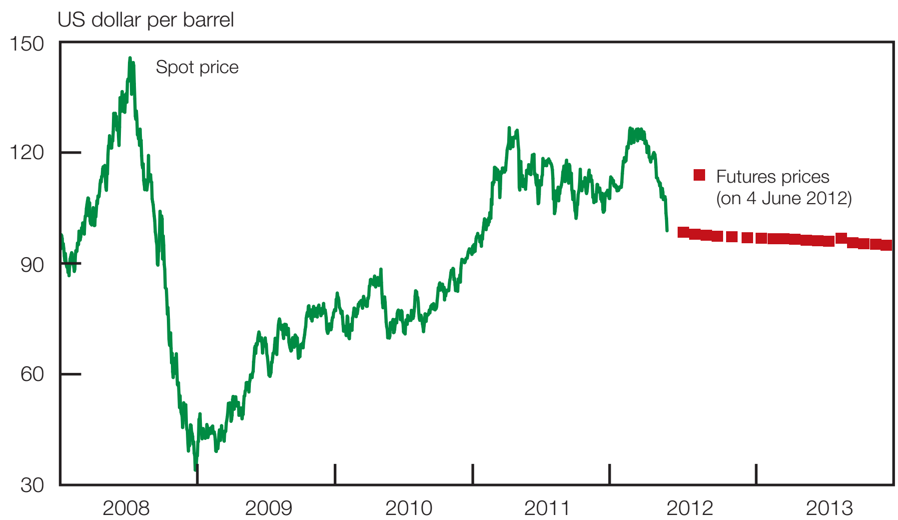


Source: CPB Netherlands Bureau for Economic Policy Analysis

Having remained stable at around US$125 per barrel between mid-February 2012 and April, Brent crude oil prices receded to a three-month low in early May 2012 due to concerns about the slow recovery of the global economy, the euro area debt crisis and reduced fears of supply disruptions. In addition, US crude oil stocks have increased strongly in the recent past.

During the first quarter of 2012, global oil demand fell to 89,5 million barrels per day, down from 89,8 million barrels per day in the preceding quarter. Oil demand declined in the US, Europe, Russia, Brazil, Saudi Arabia and Canada, while demand increased in China, Japan and India. Organization of the Petroleum Exporting Countries (OPEC) oil supply rose to 37,4 million barrels per day in the first quarter of 2012 driven by higher output in Libya, Saudi Arabia, Iraq, the United Arab Emirates and Venezuela, while output declined in Iran. Oil supply in non-OPEC countries rose to 53,3 million barrels per day in the first quarter of 2012, unchanged from the previous quarter. In early June 2012 Brent crude oil futures prices hovered around US$98 per barrel for the second half of 2012, before declining to about US$97 per barrel for the first half of 2013.

Brent crude oil prices



Source: Bloomberg

Global consumer price inflation is expected to moderate to 4,0 per cent and 3,7 per cent in 2012 and 2013 respectively. Consumer price inflation is projected to remain subdued in advanced economies and to decelerate from 2,7 per cent in 2011 to 1,9 per cent in 2012. Consumer price inflation in developing and emerging-market economies is expected to average 6,2 per cent in 2012. In the first four months of 2012 inflation rates decelerated in most parts of the world as food and energy price increases continued to moderate.

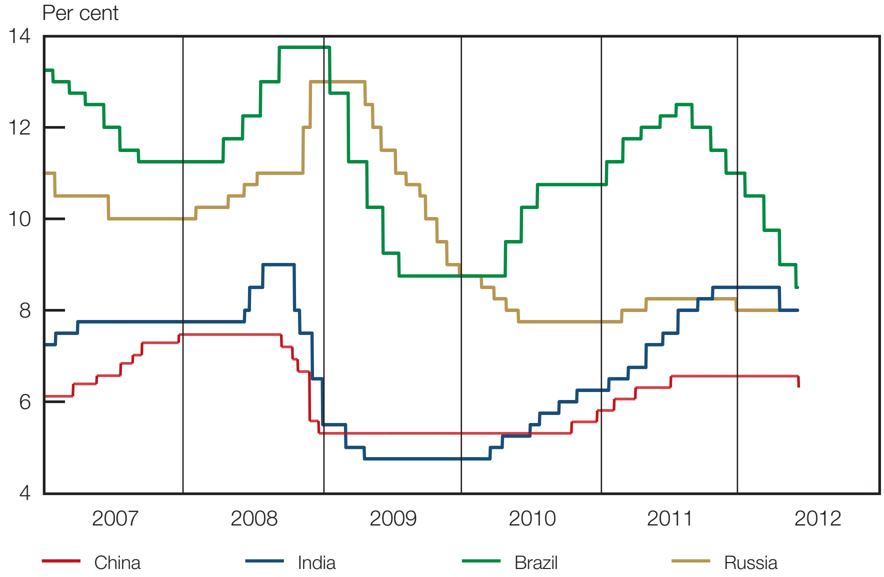
Global monetary policy remains accommodative with only a few central banks having adjusted their policy rates since the beginning of 2012. Among advanced economies, only Australia, Israel and Sweden have lowered their interest rates in recent months. In May and June the Reserve Bank of Australia – acting within the context of a favourable inflationary outlook, coupled with weaker-than-expected growth – lowered its policy rate in two steps by a total of 75 basis points to 3,50 per cent, following a reduction of 50 basis points in the fourth quarter of 2011.

The spread between the three-month Euro Interbank Offered Rate and rate on overnight index swaps (Euribor-OIS spread) was trending upwards in the second half of 2011 as some analysts speculated that the euro area interbank market was heading for a credit crunch. European banks became increasingly reluctant to lend to one another and the ECB announced in December 2011 that it would supply the banks with unlimited three-year euro-denominated funding in two Longer-Term Refinancing Operations (LTROs) at an interest rate of 1 per cent per annum on 21 December 2011 and 29 February 2012. The ECB allotted €489 billion to 523 bidders with the first LTRO and a record amount of €530 billion to a total of 800 bidders with the second LTRO. After the first LTRO, the Euribor-OIS spread peaked at almost 100 basis points before starting to decline significantly. The spread continued to decline before and after the second tranche on 29 February 2012 as the LTROs have proved to be a major success in providing funding to the banking system.

The Bank of England maintained both the official Bank Rate at 0,50 per cent and the stock of asset purchases financed by the issuance of central bank reserves at £325 billion in May 2012. The Bank of England is expected to maintain policy rates at their current level for the next 18 months, while additional quantitative easing is expected in 2012.

Monetary policy rates in emerging Europe were kept unchanged across the region, except in Poland, which tightened its policy rate in May 2012 due to concerns about inflation. Policy action in Latin America during the first quarter of 2012 has been relatively mixed with the central banks of Mexico, Chile and Peru opting for a neutral stance, leaving their policy rates steady. The central bank of Colombia, in two consecutive 25 basis point moves, raised its policy rate to 5,25 per cent.

Central bank policy rates in BRIC countries



Sources: National central banks and Bloomberg

Meanwhile, given the favourable inflationary environment coupled with relatively weak economic growth, the Brazilian central bank aggressively lowered its policy rate in three consecutive moves, by a cumulative 200 basis points. All SADC country members kept their main policy rates unchanged over the first quarter of 2012. In emerging Asia India lowered its policy rate by 50 basis points to 8 per cent, while China in a surprise move in early June 2012, lowered its lending rate by 25 basis points to 6,31 per cent.

Current account [4]

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

In the first quarter of 2012 economic growth slowed in a number of South Africa's key trading partners, notably the euro area, United Kingdom and China. These global developments coincided with domestic supply constraints and an appreciation in the external value of the rand, leading to a contraction in export proceeds over the period. By contrast, the value of merchandise imports edged higher in the first quarter of 2012, off the high base set when it surged markedly in the final quarter of 2011. As a result, the deficit on the trade account of the balance of payments widened substantially from R17,1 billion in the fourth quarter of 2011 to R42,1 billion in the first quarter of 2012, equal to roughly 1,4 per cent of gross domestic product.

Along with a simultaneous increase in the shortfall on the service, income and current transfer account with the rest of the world, which was mainly induced by higher net dividend payments to non-resident investors, the deficit on the current account of the balance of payments widened from 3,6 per cent of gross domestic product in the fourth quarter of 2011 to 4,9 per cent in the first quarter of 2012.

Balance of payments on current account

R billions, seasonally adjusted and annualised

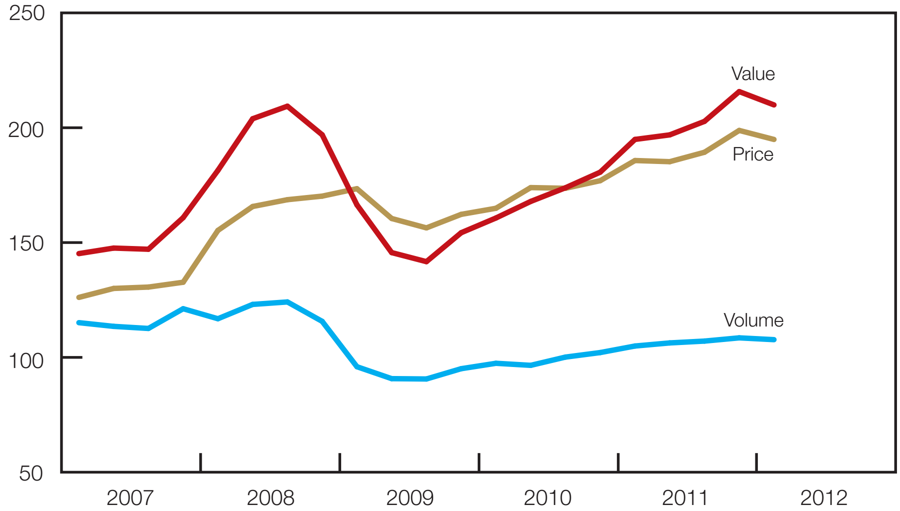
	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	645,8	652,4	671,8	714,8	671,2	697,7
Net gold exports	62,3	70,4	83,5	85,0	75,3	79,3
Merchandise imports	-667,6	-696,9	-739,0	-816,9	-730,1	-819,1
Trade balance	**40,5**	**25,9**	**16,3**	**-17,1**	**16,4**	**-42,1**
Net service, income and current transfer payments	-115,3	-114,4	-137,8	-93,1	-115,2	-110,5
Balance on current account	**-74,8**	**-88,5**	**-121,5**	**-110,2**	**-98,8**	**-152,6**
As a percentage of gross domestic product	*-2,6*	*-3,0*	*-4,1*	*-3,6*	*-3,3*	*-4,9*

Having increased unabatedly since the fourth quarter of 2009, the value of merchandise exports contracted by 2,4 per cent in the first quarter of 2012, largely reflecting a decrease in export prices alongside a marginal contraction in merchandise export volumes.

The volume of merchandise exports contracted by 0,4 per cent in the first quarter of 2012 largely due to relatively weaker global demand and domestic supply constraints. The slowdown in industrial production in some of South Africa's key export markets dampened the demand for especially South African-produced mining commodities. Simultaneously, domestic mining production receded notably over the period influenced by, among other factors, prolonged industrial action in the platinum group metals industry and government imposed safety-related stoppages in those instances where safety regulations were contravened. Owing to the fairly broad-based decline in mining production in the first quarter of 2012, a number of subsectors in the mining industry had to partly deplete their inventory holdings to meet external commitments. By contrast the volume of manufactured products exported rose over the period, but this was not sufficient to offset the contraction in mining and agricultural exports.

Merchandise exports

Indices: 2005 = 100

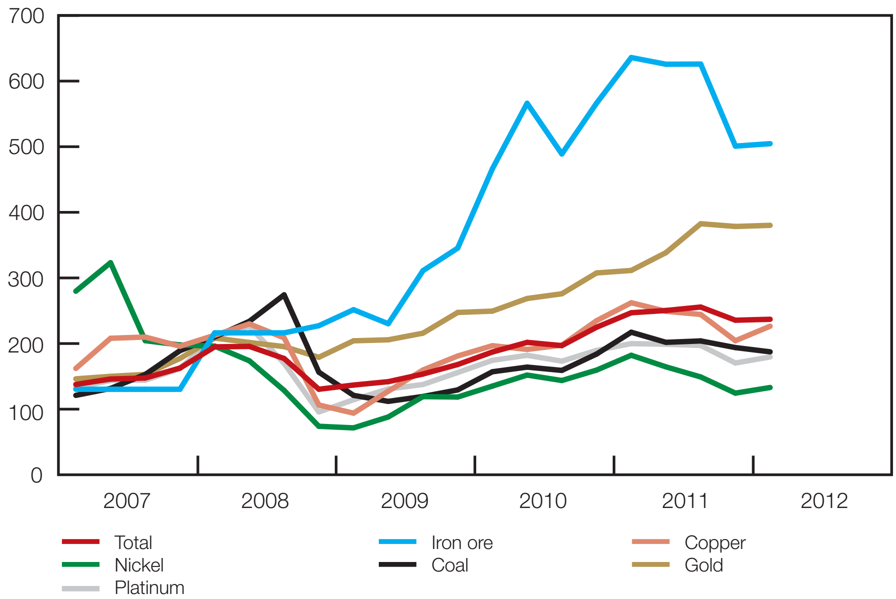


Seasonally adjusted and annualised

The international price of South African-produced export commodities increased marginally in the first quarter of 2012, following a steep decline in the fourth quarter of 2011. The slightly higher US dollar price of domestically produced commodities could primarily be ascribed to more positive market sentiment towards global economic growth that prevailed in the opening months of 2012. In rand terms, merchandise export prices, however, declined by 2,0 per cent in the first quarter of 2012 following the strengthening in the external value of the rand. This decline was off a high base, since export prices had advanced by 5,0 per cent in the final quarter of 2011.

International prices of selected South African export commodities

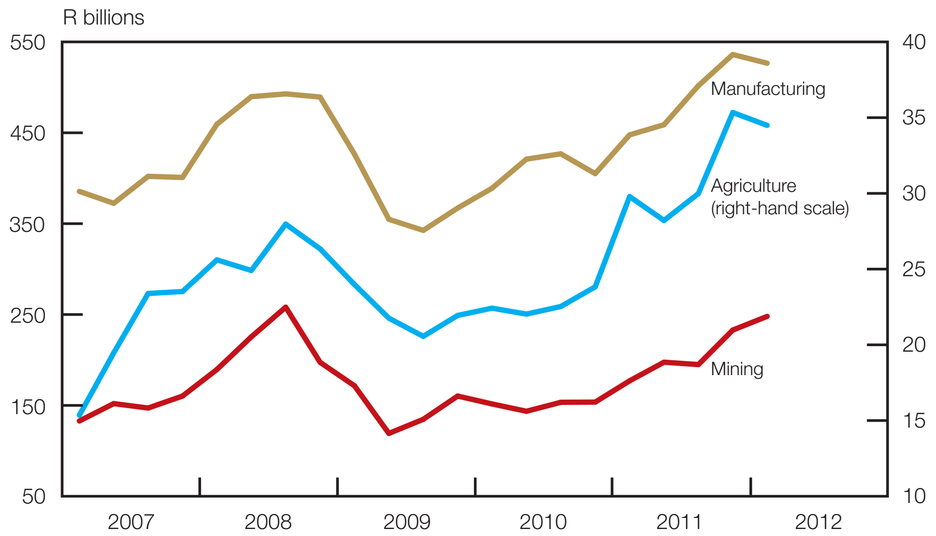
US dollar indices: 2005 = 100



The volume of net *gold exports* contracted further by 2 per cent in the first quarter of 2012. Apart from the long-term structural factors constraining the production of gold, the market for gold was also negatively affected by a drawn-out strike by Indian jewellery manufacturers concerning the doubling of duty payable on the importation of gold. In addition, the demand for gold coins as well as private-sector holdings of the metal also subsided. The contraction in the volume of net gold exports marked the third consecutive decline since the third quarter of 2011 and the first, over the period, to coincide with a decrease in the rand price of gold. The realised rand price of gold declined by 4,9 per cent in the first quarter of 2012 as the appreciation in the exchange rate of the rand fully offset the marginal increase in the US dollar price of gold. Consequently, the revenue of gold producers shrank by 6,8 per cent over the period.

Following a sharp increase of 10,5 per cent in the fourth quarter of 2011, the value of *merchandise imports* advanced by only 0,3 per cent in the first quarter of 2012. The marginal increase in the value of imports in the opening months of 2012 followed an exceptionally strong increase in all major import categories in the preceding quarter. The pace of increase in the volume of imported goods moderated over the period whereas the rand price of merchandise imports declined due to relatively subdued inflation in South Africa's main trading-partner countries coupled with the appreciation in the exchange value of the rand. Notwithstanding the high base in the fourth quarter of 2011, the value of mining imports, boosted by higher crude oil prices, increased by 6,1 per cent in the first quarter of 2012. The value of imported manufactured goods, on the contrary, receded by 2,1 per cent over the period as the decline in the value of imported machinery and electrical equipment more than offset an increase in the value of imported vehicles and transport equipment.

Value of merchandise imports



Seasonally adjusted and annualised

Consistent with the underlying firm domestic demand for imported goods, import volumes rose by 5,2 per cent and 8,6 per cent respectively in the first and second halves of 2011, while the volume of merchandise imports advanced by only 0,8 per cent in the first quarter of 2012. This increase involved the category for non-oil imports since imports of crude oil decreased. As a ratio of gross domestic expenditure, the volume of merchandise imports remained unchanged at 24,7 per cent in the first quarter of 2012.

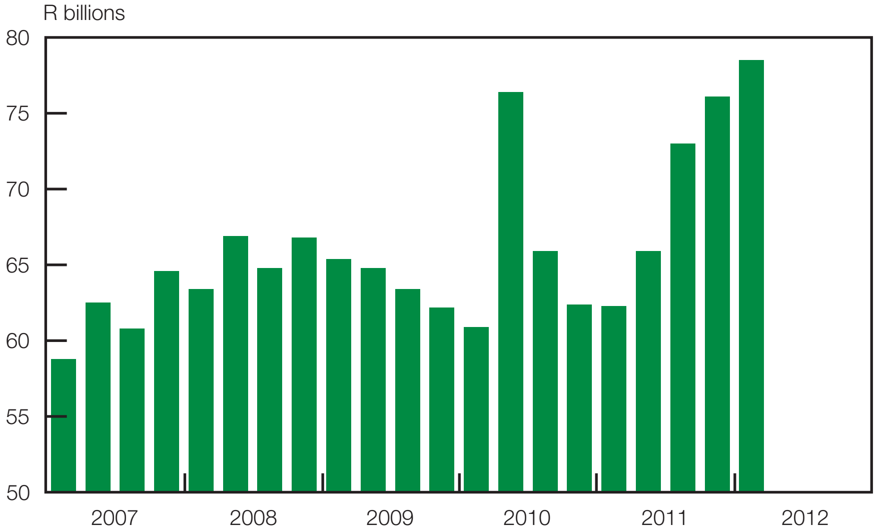
The rand price of imported goods declined by 0,5 per cent in the first quarter of 2012 as the appreciation in the value of the domestic currency more than neutralised the negative impact of higher international crude oil prices.

The shortfall on the services, income and current transfer account with the rest of the world widened by about R17 billion in the first quarter of 2012, culminating in a deficit of R110,5 billion. Despite this elevated level, the ratio of the deficit relative to the country's gross domestic product amounted to 3,6 per cent, considerably lower than the average ratio of almost 4 per cent attained during the calendar year 2011. The larger deficit in the first quarter of 2012 mainly reflected an increase of almost 40 per cent in gross dividend payments to non-resident investors, originating predominantly from companies listed on the JSE Limited (JSE). These dividend declarations were preceded by a gust of exceptionally good profit announcements, in particular by the banking sector, in the recent past. In addition, the dividend payments might have been temporarily boosted by the higher effective tax rate on dividend distributions set to come into effect from 1 April 2012, and also came from an exceptionally low base in the fourth quarter of 2011.

In the first quarter of 2012 travel receipts increased for the fourth consecutive quarter, and even exceeded the level of tourism spending in the second quarter of 2010 during the hosting of the 2010 FIFA football tournament.

Since the soccer tournament took place in the "middle" of the global recession, spending by non-residents during that period did not fully meet the expectations resulting in that level now being exceeded. Despite the continuation of a relatively stringent economic climate worldwide, the recent improved performance of tourism spending could, *inter alia,* be attributed to an increased awareness being created by the 2010 football tournament which amplified the exposure of South Africa to a global audience.

Travel receipts

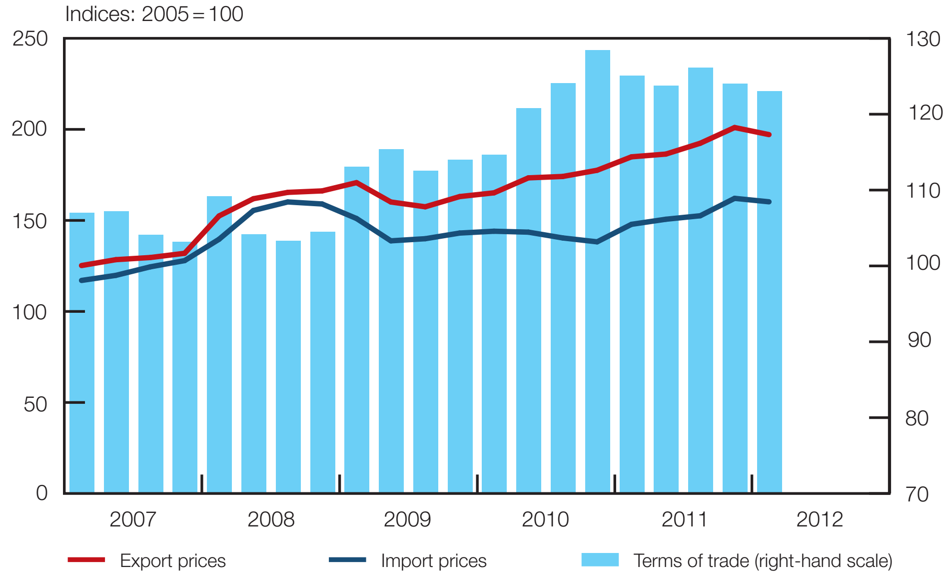


Seasonally adjusted and annualised

Despite an increase in royalty payments to non-resident parties, which might be reflective of a somewhat improved turnover base of businesses amid an improved economic environment, payments in the overall category for "other services" decreased marginally. Service receipts for this category also decreased marginally but were held up mainly due to higher receipts for financial services rendered to non-resident investors on account of increased activity in the domestic securities market.

South Africa's terms of trade deteriorated in the first quarter of 2012 as the rand price of exported goods and services decreased at a faster pace than that of imports of goods and services. This partly reflected the strong increase in international crude oil prices compared with the prices of the set of non-oil commodities produced by South Africa.

Terms of trade and prices of goods and services



Financial account

Sentiment in global financial markets turned more positive in the first quarter of 2012 due to favourable economic data releases in certain developed economies. In addition, the conclusion of the second bailout arrangement for Greece reinforced stability in the peripheral euro countries and supported investors' overall risk appetite. As a result, international investors selectively substituted their holdings of emerging-market equity securities in favour of those in developed economies but at the same time held on to government debt securities. Despite these developments, South Africa managed to attract foreign portfolio capital inflows at a faster pace in the first quarter of 2012 than in the previous quarter. In addition, the category for other investment capital also managed to record net capital inflows over the period. The net inflow of capital on the financial account of the balance of payments (including unrecorded transactions) amounted to R50,5 billion in the first quarter of 2012 compared with an inflow of R19,9 billion in the fourth quarter of 2011.

Net financial transactions not related to reserves

R billions

	2011					2012
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	5,2	15,4	2,8	18,7	42,1	7,7
Portfolio investment	20,8	35,1	-21,4	12,5	47,0	28,9
Other investment	-0,9	13,9	11,5	7,2	31,7	-3,7
Change in assets						
Direct investment	-12,7	-1,6	12,9	6,0	4,6	-5,0
Portfolio investment	-21,1	-10,5	-9,9	-3,0	-44,5	-13,8
Other investment	33,5	-17,0	8,7	-28,8	-3,6	13,4
Total financial transactions*	53,5	23,4	34,5	19,9	131,3	50,5
As a percentage of gross domestic product	*7,5*	*3,2*	*4,6*	*2,6*	*4,4*	*6,6*

* Including unrecorded transactions

Foreign-owned assets in South Africa

Foreign direct investment into South Africa registered a smaller inflow of R7,7 billion in the first quarter of 2012 compared with an inflow of R18,7 billion in the fourth quarter of 2011. The sustained inflow of direct investment could largely be attributed to the continuous strengthening of economic ties between China and South Africa and the concomitant increase in long-term inward investment.

Foreign portfolio investment into South Africa increased by R28,9 billion in the first quarter of 2012 following an increase of R12,5 billion in the final quarter of 2011. Attractive domestic yields on South African government bonds probably encouraged foreign investors to remain buyers of domestically issued debt securities over the period. The increase in portfolio investment liabilities was further boosted by the proceeds from a US$1,5 billion international bond issue by the South African government during the first quarter of 2012.

Other investment liabilities recorded net capital outflow of R3,7 billion in the first quarter of 2012, following inflows in the three previous quarters of 2010. The outflow of capital during the first quarter of 2012 can largely be ascribed to repayments of long-term loans by domestic companies.

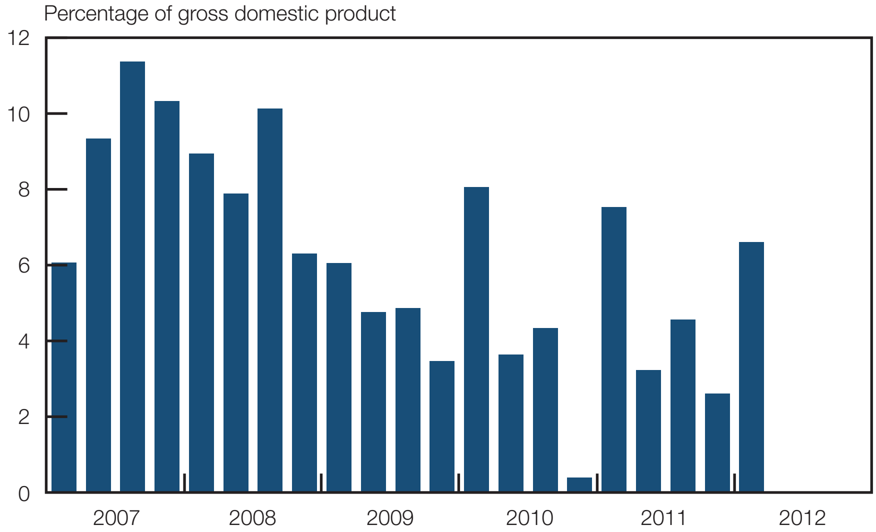
South African-owned assets abroad

Outward direct investment amounted to R5,0 billion in the first quarter of 2012 – a complete turnaround from an inflow of R6,0 billion in the fourth quarter of 2011. The acquisition of direct investment assets abroad was largely dominated by activities of local mining companies abroad.

Outward foreign portfolio investment by South African institutional and individual investors increased further in the first quarter of 2012. The acquisition of foreign-issued equity and debt securities amounted to R13,8 billion in the first quarter of 2012 compared with an outflow of R3,0 billion in the fourth quarter of 2011, partly indicative of renewed confidence in global financial markets.

*Other outward investmen*t from South Africa switched abruptly from an outflow of R28,8 billion in the fourth quarter of 2011 to an inflow of R13,4 billion in the first quarter of 2012. This inflow was largely a result of a substantial withdrawal of foreign currency- and rand-denominated deposits with non-resident banks by the South African banking sector. A withdrawal of this magnitude was last observed in the first quarter of 2011.

Balance of payments: Balance on financial account



Including unrecorded transactions

Foreign debt

South Africa's total external debt which had declined from an all-time high of US$114,7 billion at the end of the second quarter of 2011 to US$107,8 billion at the end of the third quarter, advanced again to US$111,5 billion at the end of the fourth quarter. This increase could mainly be attributed to increased investor appetite for domestically issued rand-denominated debt securities. Owing mainly to the relatively high yields offered on South African government bonds compared to other developed economies, the foreign holdings of South African government rand-denominated bonds have more than doubled between the end of 2009 and the end of 2011. Outstanding rand-denominated debt accordingly rose from US$56,2 billion at the end of the third quarter of 2011 to US$60,6 billion at the end of the fourth quarter, whereas foreign currency-denominated debt declined from US$51,6 billion to US$50,9 billion over the same period. Expressed in rand terms, South Africa's external debt increased by R41 billion from R865 billion at the end of the third quarter of 2011 to R906 billion at the end of the fourth quarter.

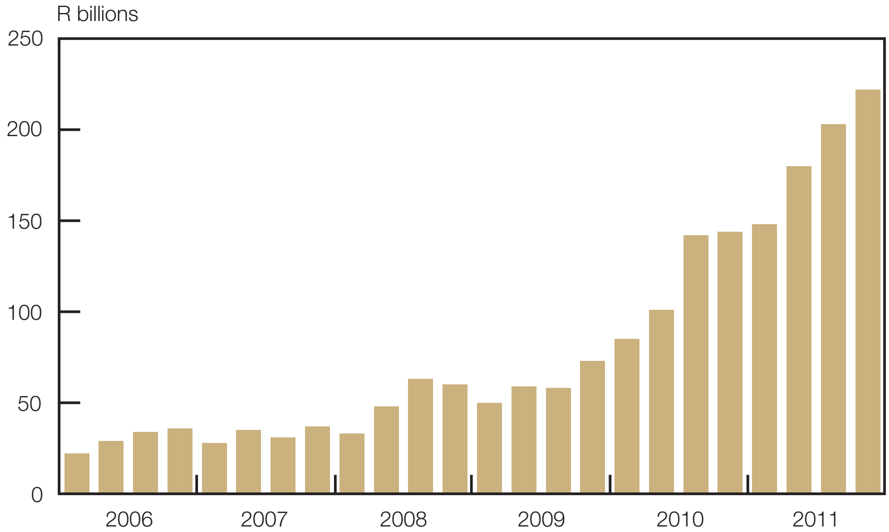
South Africa's external debt

US$ billions at end of period

	2010	2011			
	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt	45,2	49,8	53,5	51,6	50,9
Bearer bonds	16,5	21,1	22,2	21,3	20,9
Other	28,7	28,7	31,3	30,3	30,0
Public sector	6,5	7,1	7,8	7,8	7,6
Monetary sector	10,3	9,0	11,0	10,0	9,9
Non-monetary private sector	11,9	12,6	12,5	12,5	12,5
Rand-denominated debt	59,2	58,5	61,2	56,2	60,6
Bonds	24,6	24,6	29,7	27,9	30,3
Other	34,6	33,9	31,5	28,3	30,3
Total foreign debt	104,4	108,3	114,7	107,8	111,5
As a percentage of gross domestic product	*28,7*	*28,3*	*28,5*	*25,9*	*27,3*
As a percentage of total export earnings	*100,3*	*98,4*	*98,4*	*88,0*	*90,6*

At US$50,9 billion the country's foreign currency-denominated debt represented about 46 per cent of total external debt at the end of 2011 compared with 60 per cent at the end of December 2006.

Rand-denominated government bonds held by non-residents



The repayment of both long- and short-term loans by the domestic banking sector and the appreciation of the dollar against the euro largely contributed to the lower level of the country's foreign currency-denominated debt. Nonetheless, the foreign funding received by parastatals for infrastructure projects continued to increase over the period.

The increase in rand-denominated debt was augmented by direct investors in both the telecommunication and motor industries, as they increased long-term loan finance extended to their subsidiaries.

International reserves and liquidity

Having declined by R1,4 billion in the fourth quarter of 2011, South Africa's overall balance-of-payments position (i.e., the change in the country's net international reserves due to balance-of- payments transactions) increased by R7,7 billion in the first quarter of 2012.

The US dollar equivalent of the country's gross gold and other foreign reserves (i.e., the official international reserves of the Bank before accounting for reserves related liabilities) increased by US$1,8 billion to $50,7 billion at the end of March 2012; this was the largest quarterly increase since the first quarter of 2011. The gross gold and other foreign reserves decreased to US$49,9 billion at the end of April 2012 and further to US$48,9 billion at the end of May.

Owing to an increase of US$1,2 billion from the end of December 2011 to the end of January 2012, the international liquidity position remained broadly unchanged at US$48,9 billion at the end of March before declining to US$47,7 at the end of May. The international reserve cover ratio declined marginally from 20 weeks' worth of imports at the end of December 2011 to 19 weeks at the end of March 2012.

Exchange rates

The nominal effective exchange rate of the rand increased by 4,4 per cent in the first quarter of 2012 after strengthening by 0,7 per cent in the fourth quarter of 2011. The appreciation in the external value of the rand in the first quarter of 2012 was supported by an improvement in international investor sentiment and risk appetite following the approval of Greece's second bailout package of 130 billion euro, alongside sustained low interest rates in developed economies. In the first quarter of 2012, the domestic currency recovered most notably against the US dollar and the Japanese yen.

Exchange rates of the rand

Percentage change

	30 Jun 2011 to 30 Sep 2011	30 Sep 2011 to 31 Dec 2011	31 Dec 2011 to 31 Mar 2012	31 Mar 2012 to 31 May 2012
Weighted average*	-12,5	0,7	4,4	-6,6
Euro	-9,5	3,3	2,5	-3,1
US dollar	-15,5	-1,3	5,9	-9,8
Chinese yuan	-16,6	-2,6	5,9	-8,8
British pound	-13,2	-0,2	2,0	-7,1
Japanese yen	-19,3	-0,3	12,0	-13,4

* Against a basket of 15 currencies

From the end of March 2012 to the end of May, the nominal effective exchange rate of the rand lost momentum and declined by 6,6 per cent. The depreciation in the exchange value of the rand over this period could largely be ascribed to risk aversion following inconclusive Greek elections and renewed uncertainty in the global financial markets.

Subsequent to a 2,4 per cent increase in December 2011, the real effective exchange rate of the rand rose by a further 0,8 per cent up to March 2012, dampening the price competitiveness of local exporters. However, this trend has been reversed on account of the decline in the exchange rate of the rand in April and May.

Effective exchange rates of the rand

The average net daily turnover in the domestic market for foreign exchange decreased by 4,5 per cent from US$20,4 billion in the fourth quarter of 2011 to US$19,5 billion in the first quarter of 2012. The lower turnover could largely be attributed to a decline in the value of non-resident swap transactions, which decreased from US$7,4 billion per day in the fourth quarter of 2011 to US$7,0 billion per day in the first quarter of 2012. The value of transactions in which non-residents participated decreased from US$13,9 billion per day to US$13,7 billion per day over the same period.

Monetary developments, interest rates and financial markets

Money supply

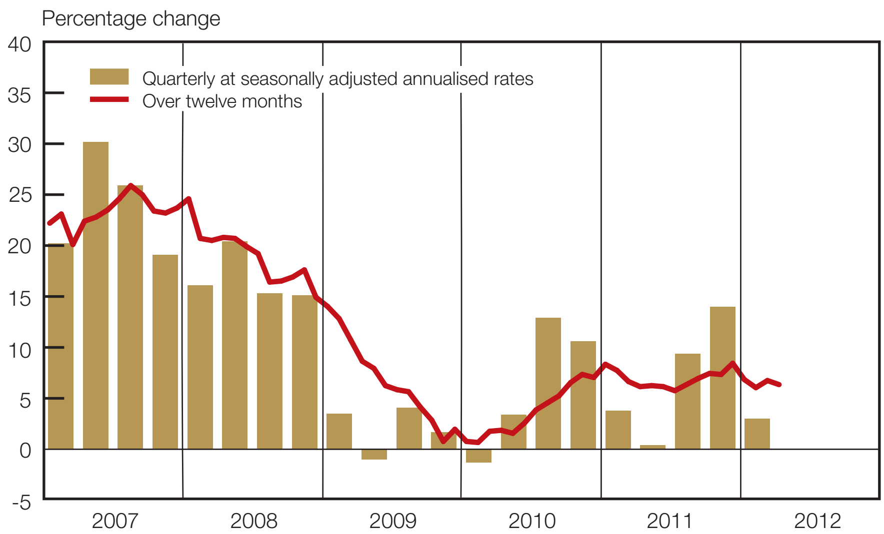
Money supply contracted in the first quarter of 2012, especially in the deposit categories with longer-term maturities. Part of the contraction was explained by technical factors: minor amendments to the banks' BA 900 balance sheet survey from January 2012 notably affected the reported deposits of the corporate sector.[5] However, the deposit holdings of the household sector continued to expand, alongside further increases in households' nominal income and expenditure.

Following buoyant growth of 9,3 per cent and 14,0 per cent in the third and fourth quarters of 2011, the quarter-to-quarter[6] growth rate in M3 decelerated sharply to 3,0 per cent in the first quarter of 2012. The moderation in M3 growth during the first quarter of 2012 was primarily the result of a significant decline in the reported deposit holdings of the corporate sector. Corporate-sector deposits, which account for more than 70 per cent of private-sector deposits, had shown robust accumulation in the second half of 2011 but dwindled during the first quarter of 2012, largely due to the technical reporting changes referred to above. Measured over twelve months, growth in the M3 money supply decelerated from 8,3 per cent in December 2011 to 6,6 per cent in March 2012, and further to 6,2 per cent in April.

5 Amendments to the BA 900 survey became effective in January 2012 with a moderate impact on the historical comparability of data. However, the essential underlying trends in the data remain unchanged. The changes included improvements in the reporting of some deposit categories when financial instruments, not traditionally regarded as deposit instruments, were reclassified to debt securities. This resulted in a reduction of 0,6 per cent in the level of M3.

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

Growth in M3



The maturity analysis of deposit categories show marked divergence in growth during the first quarter of 2012. The *notes* and *coin* in circulation grew at a subdued rate, while *cheque and transmission deposits*, and *call and overnight deposits* maintained positive growth rates during the first quarter as the private sector showed a preference for liquid monetary assets, possibly to support a transactions motive. The categories of *other short- and medium-term deposits*, and of *long-term deposits* contracted during the first quarter of 2012, affected by the amendments to the BA 900 survey from January 2012 already referred to.

On balance, the broad M3 money supply contracted by R31,7 billion in the first quarter of 2012, in sharp contrast to the expansion of R76,9 billion recorded in the fourth quarter of 2011. An expansion of R5,6 billion in deposit holdings of the household sector was neutralised by a R37,4 billion contraction in corporate-sector deposits during the first quarter of 2012. The year-on-year growth in M3 deposit holdings of the household sector has been outperforming that of the corporate sector since September 2011. Twelve-month growth in the M3 deposit holdings of the household sector accelerated to 12,3 per cent in April 2012, up from 10,6 per cent in December 2011. Simultaneously, growth in deposit holdings of the corporate sector moderated to 3,9 per cent in April, down from 7,4 per cent in December.

Maturity analysis of growth in M3

Per cent at seasonally adjusted annualised rates

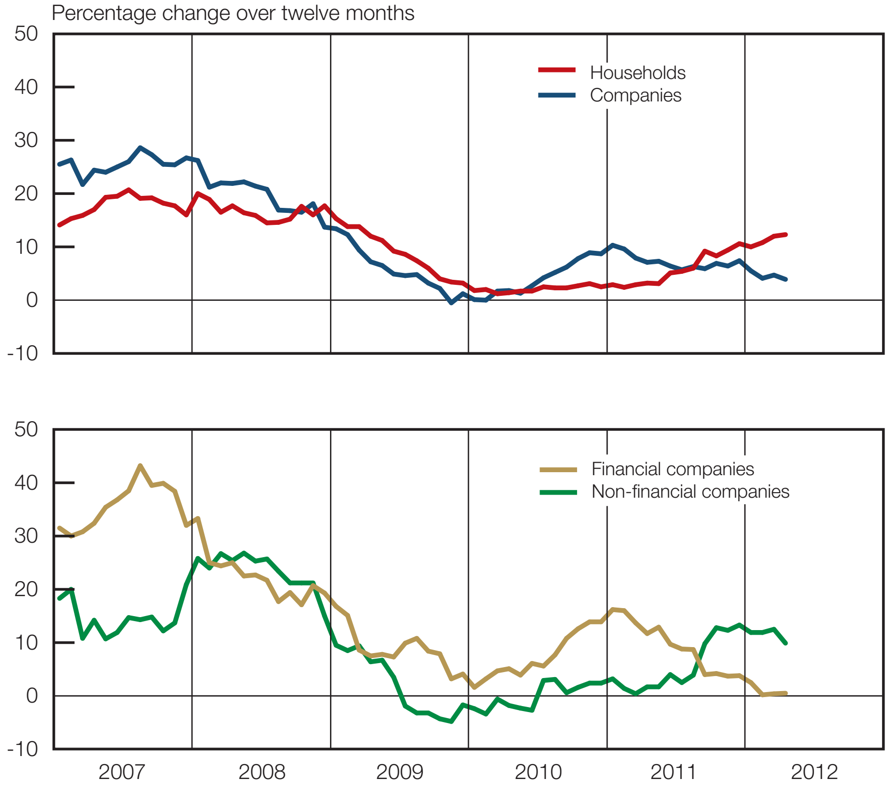
	2011			2012
	2nd qr	3rd qr	4th qr	1st qr
Notes and coin	12,4	20,4	14,1	1,1
Cheque and transmission deposits	3,4	10,5	18,8	10,1
Call and overnight deposits	10,0	3,3	14,9	7,1
Other short- and medium-term deposits*	-7,3	14,1	12,8	-1,9
Long-term deposits**	2,1	2,8	22,1	-6,4
M3	0,4	9,3	14,0	3,0

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

Subsequent to robust expansion in the latter part of 2010 and early part of 2011, growth in the deposit holdings of financial companies dwindled from the second half of 2011. Year-on-year growth in the deposit holdings of financial companies declined from 16,2 per cent in January 2011 to 0,5 per cent in April 2012. By contrast, the year-on-year growth in deposit holdings of non-financial companies accelerated from 3,2 per cent to 12,5 per cent in March, with some moderation to 9,9 per cent in April.

M3 deposit holdings of households and companies

Percentage change over twelve months



In an accounting sense, the contraction in M3 during the first quarter of 2012 could be linked to declines in most of its statistical counterparts. Banks' claims on the domestic private sector were the exception, mainly reflecting strong growth in credit extension, notably the category for other loans and advances. The large decline in net other assets and liabilities resulted from a considerable decline in other assets, mainly driven by a reduction in derivative instruments. Other liabilities recorded a small increase resulting from debt securities issued by banks. The decline in net foreign assets resulted from a notable decrease in foreign currency deposits with, and advances to, foreign banks. Net claims on the government sector declined, primarily as a result of an increase in government deposits aided, among other things, by corporate income tax collections that fell due during the period.

Statistical counterparts of change in M3

R billions

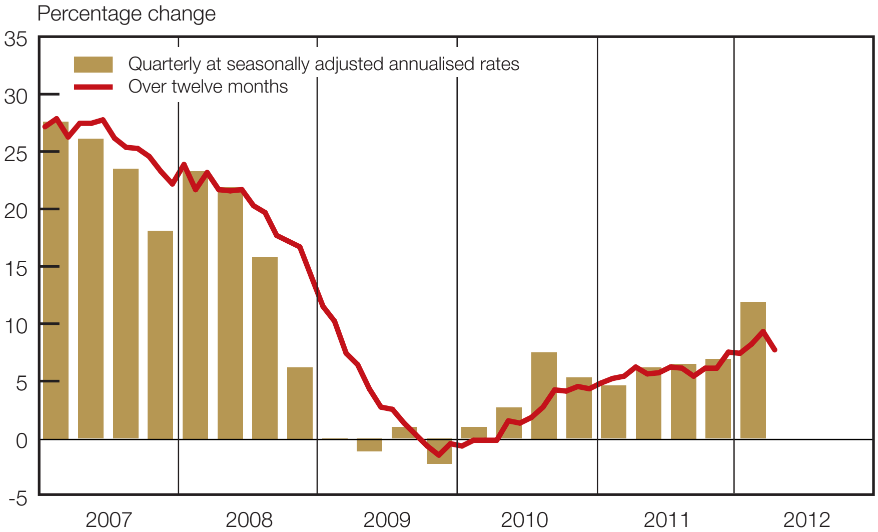
	2011			2012
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	8,7	16,9	25,3	-23,4
Net claims on the government sector	-3,7	26,8	-12,9	-5,6
Claims on the private sector	20,4	60,6	37,0	74,1
Net other assets and liabilities	-8,2	-28,1	27,4	-76,8
Total change in M3	17,2	76,3	76,9	-31,7

The income velocity of circulation of M3 has remained constant at 1,39 from the third quarter of 2011 to the first quarter of 2012 as the growth in M3 kept pace with the increase in nominal gross domestic product.

Credit extension

Growth in credit extension accelerated during the first quarter of 2012, buoyed by renewed appetite for credit by the corporate sector, possibly reflecting the sector's continued fixed investment activity and inventory accumulation. Although all credit categories contributed towards the overall increase in total loans and advances, general loans maintained its role as the dominant form of funding in the opening months of 2012, while the asset-backed categories maintained muted growth rates.

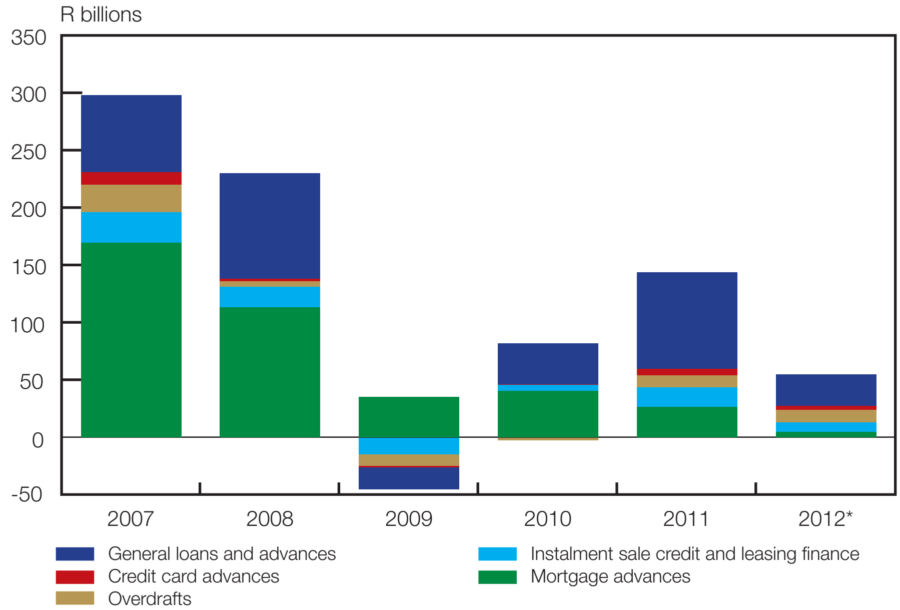
Total loans and advances to the private sector



The year-on-year growth in banks' total loans and advances extended to the private sector amounted to 9,2 per cent in March 2012 and 7,6 per cent in April, considerably higher than the average growth rate of less than 6 per cent recorded during the previous year. The recovery in total loans and advances was also reflected in a significant acceleration in the quarter-to-quarter seasonally adjusted and annualised growth rate to 11,9 per cent in the first quarter of 2012, compared with 6,9 per cent in the fourth quarter of 2011. Quarterly growth rates in excess of 10 per cent were last recorded in the third quarter of 2008.

Other loans and advances, which consist of bank overdrafts, general loans and credit card advances, grew by R42,1 billion over the first four months of 2012. Year-on-year growth in the category for other loans and advances accelerated from 6,9 per cent in January 2011 to approach the 20 per cent mark in March 2012 when it reached 19,6 per cent. In April 2012 growth moderated somewhat to 15,3 per cent.

Change in outstanding balance per credit extension category



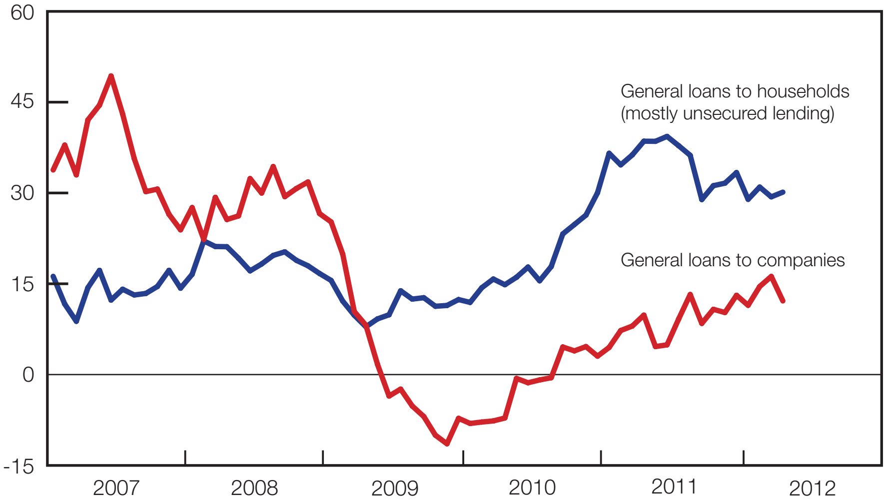
* Four months up to end of April 2012

General loans and advances, which became the key source of growth in credit extension during the past two years, constituted 50 per cent of the growth in total loans and advances during the first four months of 2012. This credit category also gained popularity with the corporate sector from the second half of 2011, with twelve-month growth rates accelerating from 4,6 per cent in May 2011 to 12,2 per cent in April 2012. Although growth in general loans extended to the household sector remained relatively high, twelve-month growth rates have decelerated from a post-2009-recession peak of 39,3 per cent in June 2011 to 30,1 per cent in April 2012 post the 2009 recession.

The *instalment sale credit and leasing finance credit* category maintained an upward growth trend during the first four months of 2012 as motor vehicle sales continued to benefit from the low interest rate environment. The year-on-year growth in the *instalment sale credit* category accelerated from 10,7 per cent in December 2011 to 12,5 per cent in April 2012 – its highest growth rate since December 2008 – while *leasing finance* continued to contract at an accelerating pace. Year-on-year growth in leasing finance stood at a negative rate of 26,5 per cent in April 2012, down from a negative 20,5 per cent in December 2011. Two unrelated, but equally important, administrative measures contributed to the steady decline in use of *leasing finance* over the past four years. The first measure was the more lenient and longer repayment terms allowed on substitute credit categories since the introduction of the National Credit Act in the second half of 2007. This was exacerbated by the second measure, the progressive tightening of tax legislation related to vehicle benefits and claims.

General loans and advances

Percentage change over twelve months



The revival in *mortgage advances* continued to lag behind that of other categories of credit extension and growth rates remain far below pre-2009 recession levels. Twelve-month growth in the total value of outstanding mortgage advances, which includes both commercial and residential mortgage loans, maintained a virtually flat trajectory and stagnated around the 2 per cent level in the first four months of 2012. Affordability constraints, coupled with low levels of consumer confidence and a subdued real-estate market, continued to dampen growth in mortgage advances.

Quarterly changes in banks' total loans and advances by type

R billions

	2011			2012
	2nd qr	3rd qr	4th qr	1st qr
Mortgage advances	11,3	7,3	4,1	4,6
Instalment sale credit and leasing finance	3,2	1,8	8,0	6,6
Other loans and advances	5,1	35,2	32,6	61,1
Overdrafts	0,7	0,4	6,0	23,8
Credit card advances	1,5	1,1	1,8	2,5
General advances	2,9	33,7	24,9	34,9
Total loans and advances	**19,6**	**44,3**	**44,7**	**72,2**
Of which: To household sector	12,4	9,0	27,6	28,2
To corporate sector	7,2	35,3	17,1	44,1

Alongside a rebound in business confidence, total loans and advances extended to the corporate sector expanded strongly in the first quarter of 2012, overshadowing the increase in loans and advances to the household sector. Measured over twelve months, growth in credit extension to the private corporate sector continued to gain ground as it accelerated from 8,6 per cent in December 2011 to 12,2 per cent in March 2012. However, in April growth moderated to 8,3 per cent. Credit extension to the corporate sector was mainly driven by significant increases in general loans and overdrafts, predominantly extended to non-financial companies.

The moderation in growth in total loans and advances to the household sector came from the slower pace of increase in other loans and advances, as this component accounted for about 50 per cent of overall household credit in the first quarter of 2012, compared to 61 per cent registered during the last quarter of 2011. Twelve-month growth in credit extension to the household sector accelerated only moderately from 6,5 per cent in December 2011 to 7,2 per cent in April 2012.

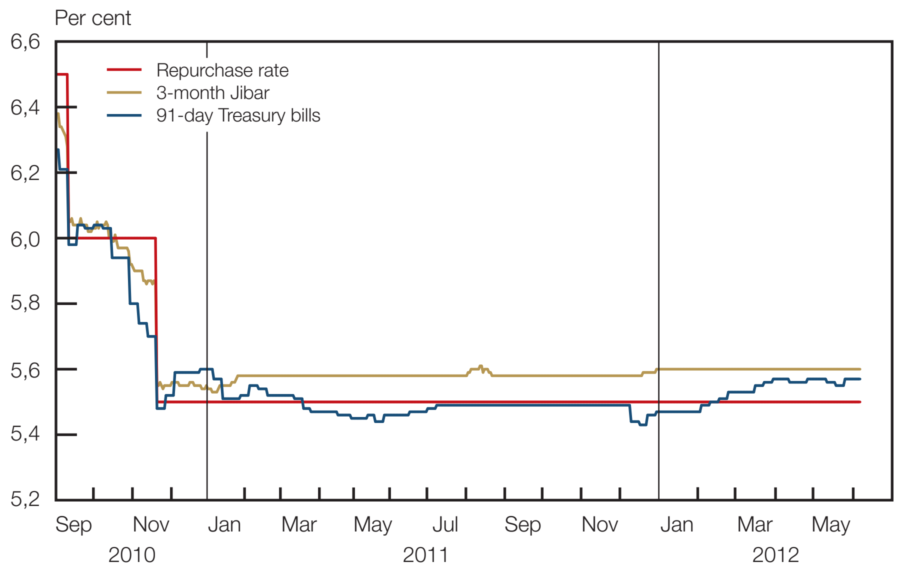
Interest rates and yields

In the nine meetings of the MPC from January 2011 to May 2012, the repurchase rate was kept unchanged at 5,50 per cent per annum. The latest decision was reached against the backdrop of a slightly more favourable inflation forecast, but with renewed upside risks to inflation arising from a possible further weakening of the exchange rate. While the MPC recognised the countervailing pressures which could come from weaker demand and lower oil and other commodity prices, the committee viewed the balance of risks to the inflation outlook to be somewhat on the upside. The MPC statements discussing developments underlying recent monetary policy decisions are reproduced in full on pages 60 to 67 of this *Quarterly Bulletin*.

Short-term money market rates tracked the sideways movement in the repurchase rate during the first five months of 2012, while longer-dated instruments discounted the possibility of policy tightening towards the end of the year. For example, the three-month Johannesburg Interbank Agreed Rate (Jibar), which stood at 5,60 per cent towards the end of December 2011, trended sideways during the first quarter of 2012 and the ensuing two months to May. By contrast, the twelve-month Jibar rate increased by 20 basis points from 6,12 per cent on 31 December 2011 to 6,32 per cent on 22 March before receding to 6,01 per cent on 7 June following better-than-expected inflation outcomes.

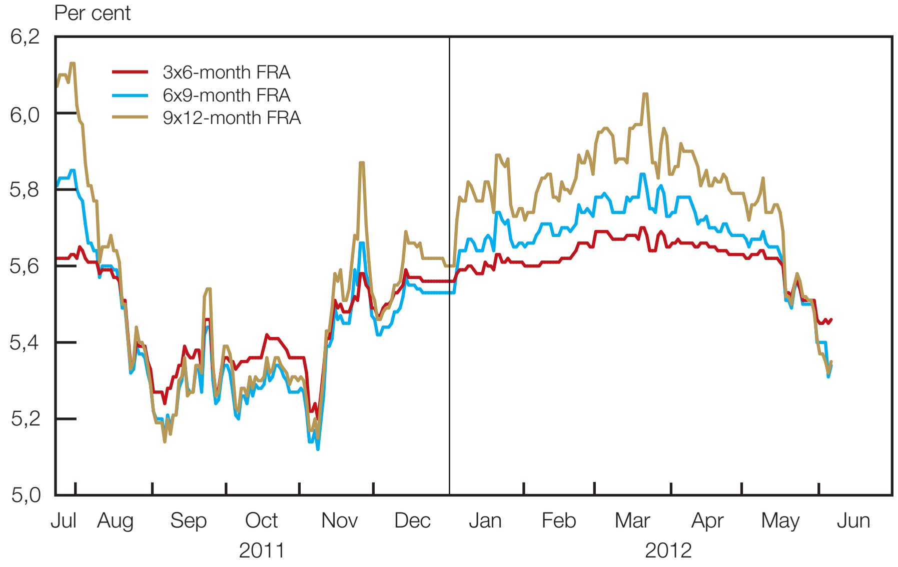
Generally improved risk appetite for higher-yielding asset classes moderated demand for government paper. Consequently, the tender rate on 91-day Treasury bills followed an upward trend during the first quarter of 2012, increasing by ten basis points from 5,47 per cent at the beginning of January to 5,57 per cent on 30 March 2012, and fluctuating around that level in the ensuing two months to early June.

Money-market rates



The upward trend in rates on forward rate agreements (FRAs) that extended into the early months of 2012 subsided somewhat towards the end of March when domestic inflation showed signs of receding. In May this was followed by a significant decrease in FRA rates, acknowledging the weaker euro area economy and commodity price prospects. The most notable decline related to the 9x12-month FRA rate which decreased, on balance, from an eight-month peak of 6,05 per cent on 20 March 2012 to 5,35 per cent on 7 June 2012.

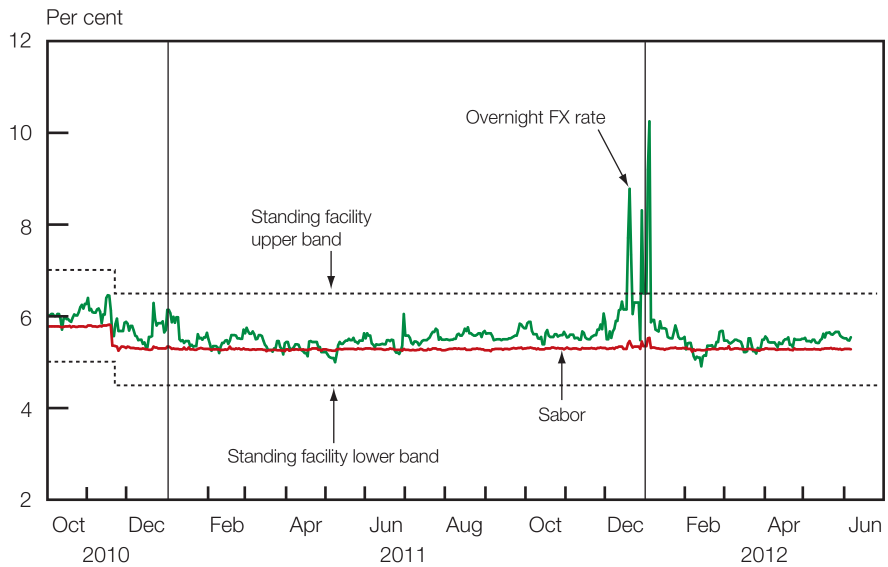
Forward rate agreements



Owing to favourable conditions in the overnight interbank market, both the South African Benchmark Overnight Rate on Deposits (Sabor) and the implied rate on one-day rand funding in the foreign-exchange market (overnight FX rate) remained relatively stable and well within the standing facility limits during most of the first five months of 2012. After reaching a historical low of 4,91 per cent on 13 February 2012, the overnight FX rate fluctuated higher to 5,58 per cent on 7 June. The Sabor rate initially increased, on balance, from a recent low of 5,23 per cent on 6 February 2012 to 5,35 per cent on 5 March, before fluctuating lower to 5,29 per cent on 7 June.

The prime overdraft rate and the predominant rate on mortgage loans have been maintained at 9,0 per cent since the 50 basis point reduction effected in November 2010.

Benchmark overnight rates



In line with lower government bond yields, interest rates on the *RSA government fixed-rate retail bonds* were lowered by 50 basis points across the 2-, 3- and 5-year maturities to 6,75, 7,0 and 7,5 per cent respectively in May 2012. The amount in issue for all retail bonds increased by R0,7 billion in the first four months of 2012 to reach R11,6 billion at the end of April.

Despite the downgrade of South Africa's sovereign debt outlook to negative by the S&P rating agency in March 2012, local bond yields continued to trend downwards. For instance, the daily average *yield on the R157 government bond* (maturing in 2014/15/16) declined from a high of 7,09 per cent on 25 November 2011 to 6,24 per cent on 7 June 2012. The firming trend was amid the appreciation in the exchange value of the rand in the earlier months of 2012, the release of better-than-expected inflation data, strong demand for domestic bonds by non-residents as well as the announcement of the possible inclusion of domestic bonds in the Citigroup World Government Bond Index (WGBI). Such inclusion was subsequently confirmed in early June, to take effect from October 2012, with a pro forma weight of 0,41 per cent assigned to South African government bonds.

Box 1: Global fixed-income index for government bonds

The Citigroup World Government Bond Index (WGBI) for domestic currency government bond issues was introduced in 1987 and is a market capitalisation weighted bond index covering the government bond markets of 22 countries. Country eligibility is determined based on bond issue size, credit quality and ease of entry. The index includes fixed-rate bonds with a remaining maturity of one year or longer and with amounts outstanding of at least US$25 billion at any point.

A further index often quoted in connection with international bonds is the Emerging Markets Bond Index Plus (EMBI+) compiled by JPMorgan.

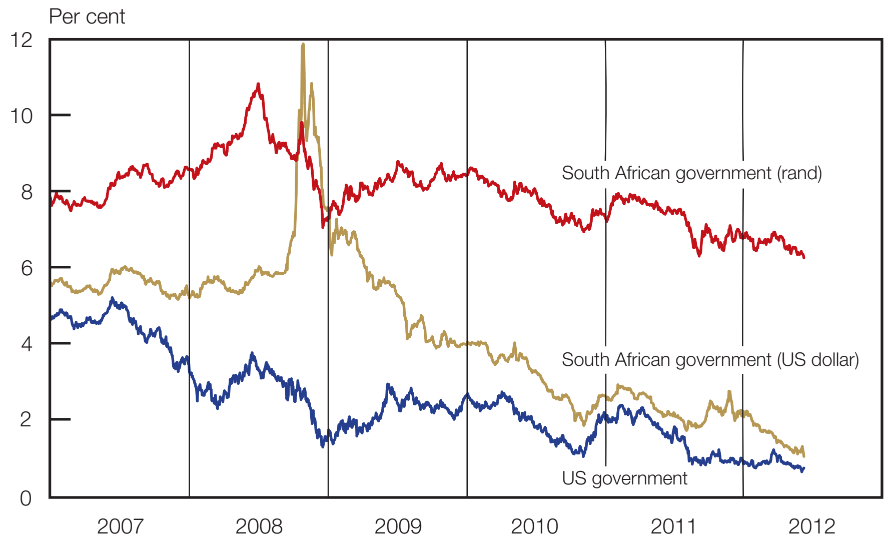
The main differences between the WGBI and EMBI+ are:

- WGBI includes local currency-denominated bond issues, whereas the EMBI+ includes US dollar-denominated bond issues; and
- EMBI+ includes only debt issues of emerging markets, while the WGBI includes debt issues of emerging and developed markets.

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

Despite the generally downward trend of the nominal yield on domestic rand-denominated bonds, the *currency risk premium*[7] on South African government bonds widened from 441 basis points in November 2011 to 514 basis points in May 2012. This reflected the more pronounced decrease in the yield on dollar-denominated South African bonds to record-low levels in line with remarkably low US government bond yields.

Government bond yields



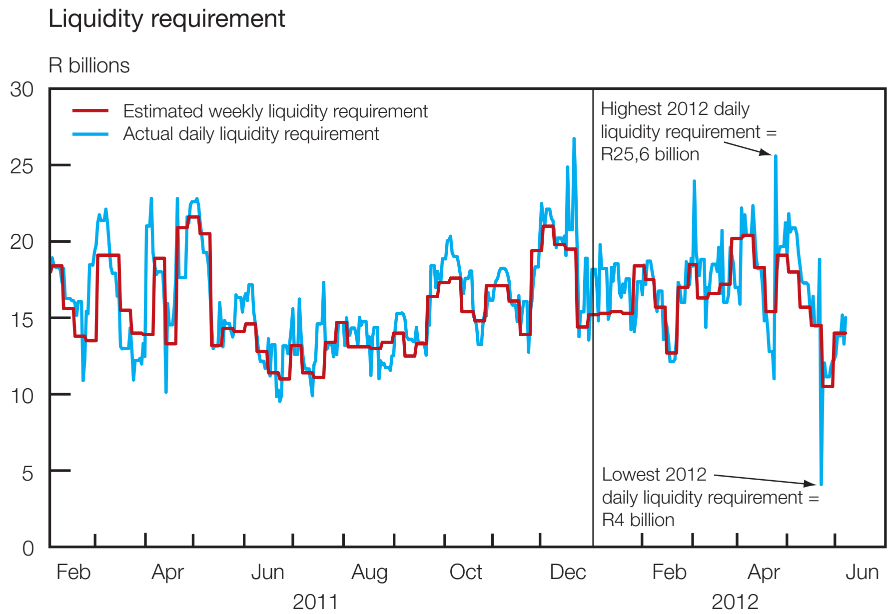
The level of the *yield curve* moved lower during 2012, with the exception of the short end of the curve, which remained broadly anchored to the unchanged repurchase rate. The downward movement in the yield curve occurred mainly as bond yields benefited from the appreciation in the exchange value of the rand in the former months of 2012 and the release of better-than-expected inflation data, which supported a contained inflation outlook that could probably delay the resumption of an upward cycle in interest rates. As a result, the *yield gap*, computed as the difference between the yields at the extreme long and short ends of the curve, narrowed from 379 basis points on 14 December 2011 to 346 basis points on 7 June 2012.

Investors' sentiment towards debt instruments of emerging markets continued to improve in early 2012, as indicated by the JPMorgan Emerging Markets Bond Index Plus (EMBI+)[8] yield spread above US government bonds, which narrowed to 319 basis points in March 2012 from a high of 422 basis points in September 2011. Subsequently, the EMBI+ yield spread widened to 419 basis points in May. The *sovereign risk premium* on South African government US dollar-denominated bonds in the two-year maturity range trading in international markets narrowed noticeably from an average of 182 basis points in November 2011 to only 74 basis points in May 2012.

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

Money market

Money-market liquidity showed discernible variation during the first five months of 2012 but the underlying liquidity conditions nonetheless remained stable. The actual daily liquidity requirement of private-sector banks fluctuated within a limited range between R13,6 billion and R19,8 billion during January and February 2012, the range subsequently widening to between R4,0 billion and R25,6 billion from March to May 2012.



The money market experienced a net drainage of liquidity to the value of R3,1 billion in the first quarter of 2012. Banks' required cash reserve deposits and government deposits with the South African Reserve Bank (the Bank) jointly drained liquidity to the value of R7,5 billion. The increase of R5,5 billion in government deposits with the Bank was mainly attributable to an increase of R6,3 billion in foreign currency-denominated deposits, which was partially neutralised by a decrease of R0,9 billion in domestic currency-denominated deposits.

Foreign-exchange transactions by the Bank drained a further R4,1 billion worth of liquidity from the money market. Notes and coin in circulation, on balance, increased by R11,2 billion during the quarter, counter-balancing some of the money-market drainage from the other sources.

Money-market liquidity flows

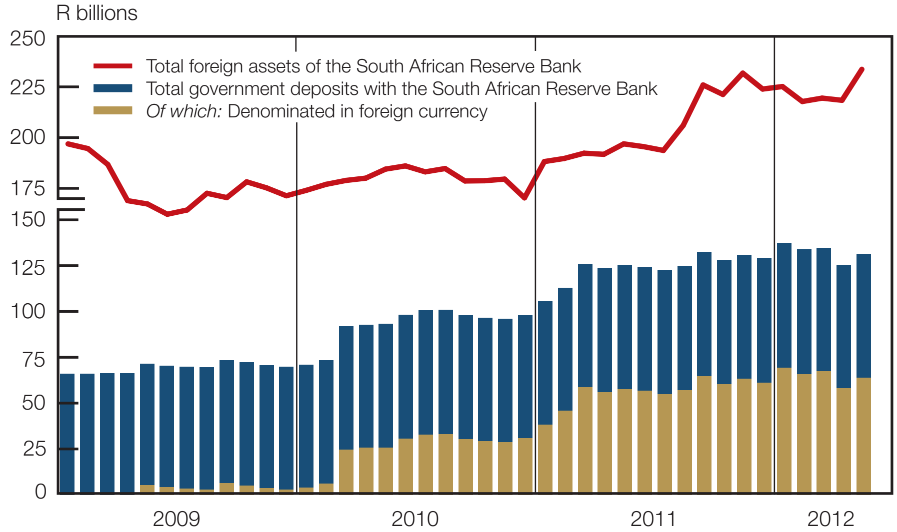
R billions (easing + tightening –)

	2011			2012
	2nd qr	3rd qr	4th qr	1st qr
Notes and coin in circulation	-2,6	-5,0	-15,4	11,2
Required cash reserve deposits......................	-1,3	-1,9	-0,5	-2,0
Money-market effect of SARB* foreign-exchange transactions..................................	28,0	1,8	0,1	-4,1
Government deposits with the SARB*	-24,4	-8,3	3,1	-5,5
Use of liquidity management instruments	3,4	1,3	9,9	2,4
Reverse repurchase transactions................	2,0	-0,7	-1,6	0,4
SARB* debentures....................................	1,4	1,9	11,4	2,0
Other items net	-1,8	9,4	3,3	-5,2
Banks' liquidity requirement (decrease + increase –)...............................	**1,3**	**-2,7**	**0,5**	**-3,1**

* South African Reserve Bank

Coupon interest payments on various government bonds amounting to R11,9 billion were paid out from the government tax and loan account during the first quarter of 2012. No redemption payments fell due during this period.

Foreign reserves and government deposits



Bond market

National government continued to auction bonds to a value of around R2,9 billion per week in the face of firm demand for these securities. The amount of bids received was, on average, 2,8 times the amount allotted for all government bond auctions thus far in 2012. Government contributed the lion's share to net issues of R54,6 billion in the *primary bond market* by the public sector in the first four months of 2012. This issuance, together with the R38,3 billion and R3,4 billion raised by the private sector and through commercial paper issuances in the first four months of 2012, moved the total outstanding nominal value of debt securities listed on the JSE higher to R1,5 trillion at the end of April 2012.

Turnover in the secondary bond market in 2012 benefited from the decline in domestic bond yields. The value of bonds traded of R10,1 trillion in the five months to May 2012 was 13 per cent higher than the value traded in the corresponding period of 2011. Similarly, the daily average turnover of R97,9 billion recorded in 2012 overshadowed the daily value traded in the same period of the previous year. Thus far in 2012 the All-Bond Index recorded a gain of 4 per cent, reaching an all-time-high level in April. This can be attributed to, among other things, strong demand for local bonds by non-residents and a positive sentiment on the probable inclusion of domestic government bonds in the WGBI.

Although rand-denominated bond issuances in the *European bond markets* continued in 2012, they were at a lower level than in the same period of 2011. Turmoil continued in Europe with markets remaining fragile on fears that public resistance to envisaged fiscal austerity measures might fuel political turmoil, and this subdued issuances to some degree. Non-residents' issuance of rand-denominated bonds in the *Japanese Uridashi bond market* continued steadily in 2012 as issuers consistently used these instruments to diversify their investment base. Net redemptions of rand-denominated bonds in both the European and Uridashi bond markets of R0,7 billion were recorded during the first five months of 2012, compared with net issues of R3,9 billion in the corresponding period of 2011, as indicated in the accompanying table.

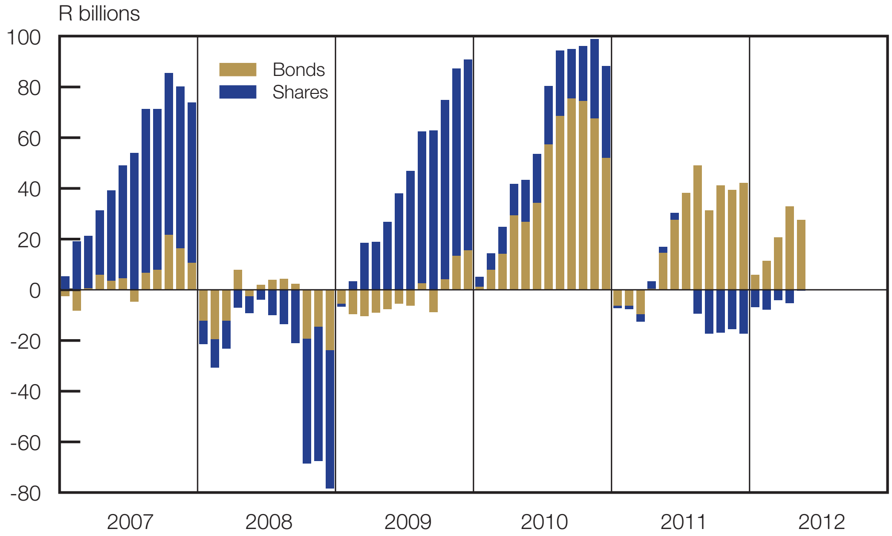
Rand-denominated bonds issued in international bond markets, January to May

R millions

	Eurorand		Uridashi		Total	
	2011	2012	2011	2012	2011	2012
Issues	8 175	5 265	4 269	5 125	12 444	10 390
Redemptions	2 670	6 275	5 885	4 863	8 555	11 138
Net	5 505	-1 010	-1 616	263	3 889	-747

The local bond market continued to benefit from large net purchases by *non-residents* during the first four months of 2012, with some net selling of R5,5 billion recorded in May. A key factor contributing to the generally strong net purchases of local bonds remained, among other things, a search for higher yields. As some emerging-market economies continued to lower their

Annual cumulative non-resident net transactions in local securities



Transactions on the JSE Limited

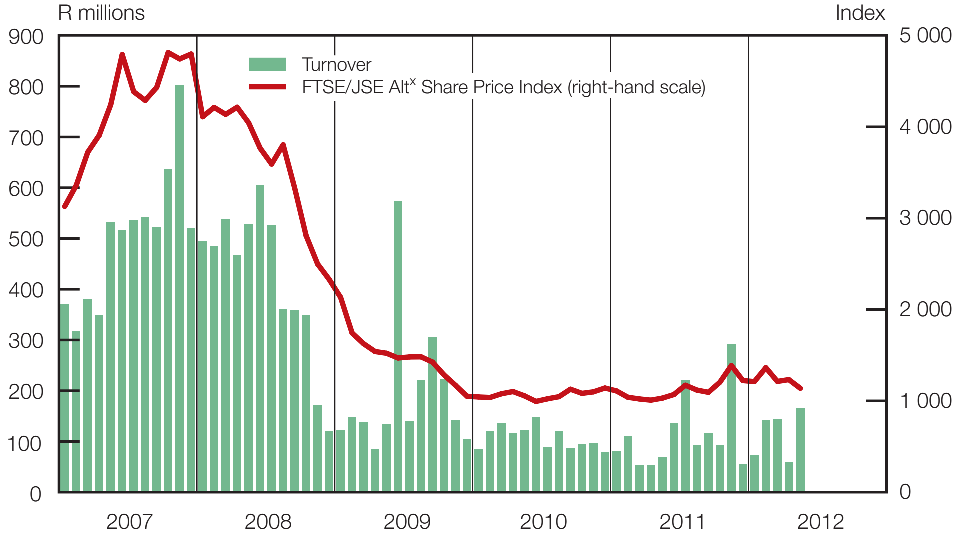
interest rates, the yield differential remained in favour of the domestic bond market. Citigroup's announcement of the inclusion of South African government bonds in the WGBI bodes well for the local bond market and could stimulate further foreign inflows. Thus far in 2012 non-residents have increased their local bond exposure by R27,5 billion, while their trading activity – measured as their purchases and sales as a percentage of the total value of bonds traded on the JSE – averaged 10 per cent during the same period.

Share market

Companies listed on the JSE raised *equity capital* in the domestic and international primary share markets to the subdued value of R24,9 billion in the first five months of 2012 – 44 per cent lower than the amount raised during the corresponding period of 2011. Despite the JSE's reputation as a capital-raising hub for foreign-domiciled companies with assets or operations in Africa, companies with primary listings on the JSE contributed 91 per cent of the total capital-raising activity in the five months to May 2012, compared with 76 per cent in the same period of 2011. Capital was mainly raised through the waiver of pre-emptive rights and acquisition of assets to the amounts of R10,7 billion and R8,4 billion respectively in the period under review.

A lower appetite for raising capital due to market conditions could have prompted a fall in the *number of listings* on the JSE thus far in 2012. In the first five months of 2012 only 1 new listing was recorded as opposed to 8 delistings. Two companies transferred from Alt^X to the Main Board over the same period. Consequently, the total number of companies listed on the JSE dropped below the 400 level – for the first time since August 2007 – at 399 in May 2012. This consisted of 331 companies on the Main Board, 62 companies on Alt^X and 3 companies each on the Development and Venture Capital Boards. The JSE closed its Africa Board in May 2012 when the two listings were incorporated into the Main Board.

Activity on Alt^X



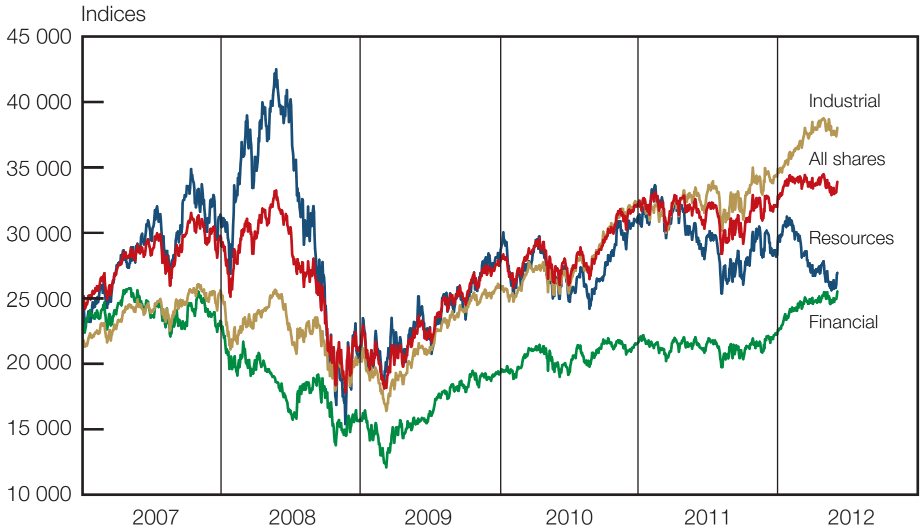
The JSE's alternative exchange for small- to medium-sized companies, *Alt^X*, recorded its first listing in January 2004. Since then, the number of companies listed soared to a record total of 78 listings in April 2009. Thereafter, many companies either transferred to the Main Board or delisted, and new listing activity became subdued. At the end of May 2012 62 companies were listed on Alt^X. Share prices dropped significantly following the financial crisis in 2008/09, but as the economic recovery gained traction, the FTSE/JSE All-Share Price Index (Alsi) of the Main Board recovered and soared to a new all-time-high level in 2012. However, the performance of the price index of Alt^X has remained at low levels since the recession, as negative sentiment towards the more risky small companies listed on Alt^X continued. Given this lower price level, market capitalisation and turnover on Alt^X also dwindled. From the all-time high of R31,2 billion in December 2007, market capitalisation on Alt^X decreased to R14,1 billion in May 2012. Turnover on Alt^X fell from an annual high of R6,0 billion in 2007 to R1,3 and R1,4 billion in 2010 and 2011 respectively.

The daily average *turnover* in the secondary share market of the JSE amounted to R14,0 billion in the first five months of 2012, surpassing the R12,9 billion recorded in the corresponding period of 2011, and contributed to higher monthly turnover thus far in 2012. Boosted by elevated share prices, the total *market capitalisation* of the JSE increased by 8 per cent from December 2011 to an all-time high of R7,5 trillion in April 2012. The market capitalisation then declined to R7,2 trillion in May as share prices dwindled.

Notwithstanding the continued rally in local share prices in 2012, *non-residents* were net sellers of local shares. Their net sales of local shares amounted to R4,1 billion in the first quarter of 2012, with a further reduction in their share portfolio of R1,2 billion in April. The confirmation that some European countries have gone into recession possibly had a dampening effect on non-residents' net purchases of domestic shares. However, non-residents recorded net purchases of R4,9 billion in May and their trading activity in the domestic secondary share market averaged 15 per cent of total activity during the first five months of 2012, compared with an average participation rate of 16 per cent during the corresponding period of 2011.

Domestic share prices continued higher during 2012, tracking positive investor sentiment. The Alsi rose by 21 per cent from 8 August 2011 to an all-time high of 34 482 index points on 2 May 2012. In 2012 the Alsi was bolstered by the more domestic-orientated industrial and financial sectors, while the export-orientated resources sector tapered off, following the decline in commodity prices. The shares with a domestic market focus benefited from the appreciated exchange value of the rand, low interest rates and the fall in consumer and producer price inflation. Subsequently, the Alsi subsided marginally by 2 per cent to 7 June. The Alsi, in US dollar terms, remained, on balance, broadly on the same level from 8 August 2011 to 7 June 2012, while the S&P 500 Composite Index increased by 17 per cent over the same period. The Euro Stoxx 50 Index, however, recorded a loss of 6 per cent from 8 August 2011 to 7 June 2012 as the eurozone remained under pressure.

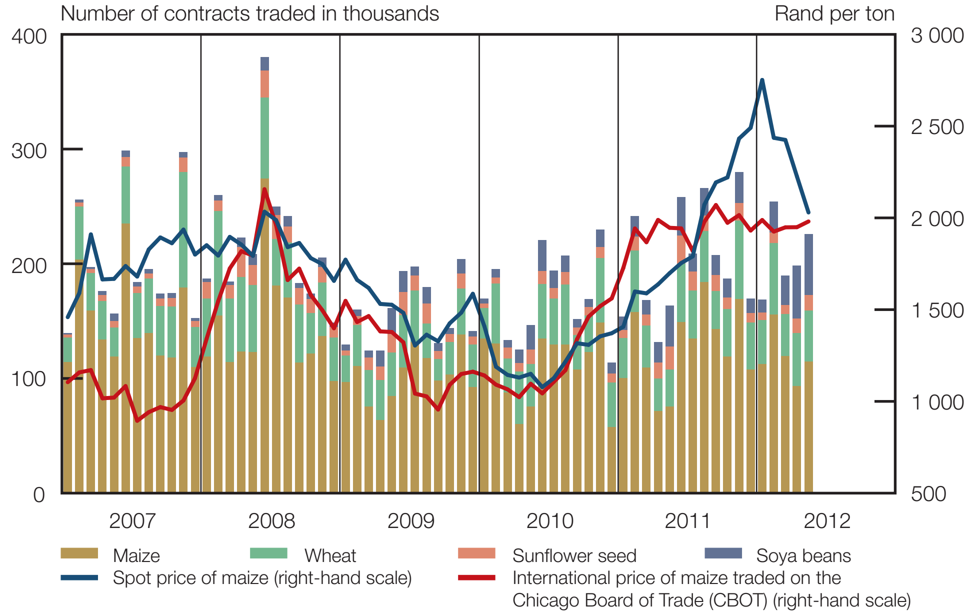
FTSE/JSE share price indices



Market for exchange-traded derivatives

Trading activity in *commodity futures and options contracts* on the Commodity Derivatives Division (CDD) of the JSE was 22 per cent higher at 1,1 million contracts in the five months to May 2012, when compared with the same period of 2011. Except for maize prices, which declined after reaching all-time-high levels in January 2012, all other agricultural commodity prices increased during 2012. Upward pressure on agricultural commodity prices was alongside supply concerns on account of weather conditions. This was further amplified by consistently high international grain and oil prices and, on average, lower production forecasts of local summer crops and intentions to plant a smaller winter crop area, as reflected by the Crop Estimates Committee.

Agricultural commodity derivatives traded on the JSE



To increase flexibility and enable investors to diversify their portfolios while trading in the volatile foreign-exchange market, *Yield-X*, the interest rate and currency derivatives market of the JSE, introduced new Can-Do Australian dollar and New Zealand dollar/rand currency contracts from March 2012. The number of contracts traded on Yield-X of 6,0 million contracts in the first five months of 2012 was 15 per cent higher than the number of contracts traded in the corresponding period of 2011, as activity recently also intensified in the interest rate market with the number of contracts traded rising by 78 per cent over the same period. Turnover in all derivatives traded on the JSE during the first five months of 2012 is indicated in the accompanying table.

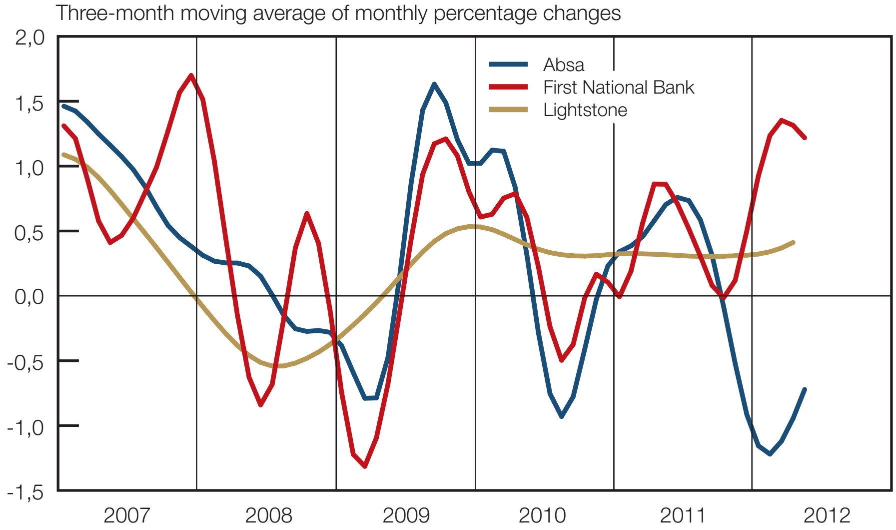
Derivatives turnover on the JSE, January to May 2012

Type of derivative	Value (R billions)	Change over one year (Per cent)
Equity futures and options on futures	1 570	5
Warrants	0,3	-34
Commodity futures and options	171	41
Interest rate and currency derivatives	170	31

Real-estate market

According to Absa Bank, the outlook for the domestic residential property market remained bleak during the early months of 2012. The month-to-month increases in residential property prices came to a standstill and prices declined in recent months as far as medium-sized and large houses are concerned. In the segment for small houses substantial price declines have characterised the past year. This remained reflective of macroeconomic developments, including subdued job creation, a high percentage of households with impaired credit records, and a still-fairly-high debt-to-income ratio, which continued to impede consumers' ability to take advantage of the improved affordability trends in the housing market. Other measures of house prices, such as those compiled by FNB and Lightstone, however, recently gave somewhat more positive readings.

House prices



Non-bank financial intermediaries

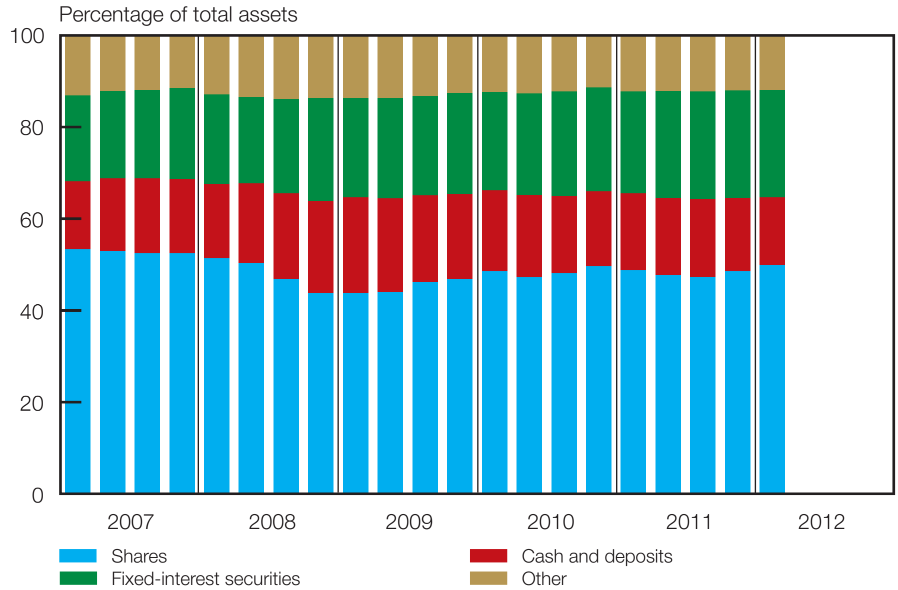
Non-bank financial institutions[9] play an important intermediation role in the financial system. Their balance sheets grew by 4 per cent from the end of 2011 to R4,8 trillion in the first quarter of 2012 – an increase of 9 per cent from the first quarter of 2011. The asset holdings of these intermediaries were dominated by equities and fixed-interest securities, reflecting risk/return considerations, prudential requirements and the need for their investments to match their liabilities reasonably.

9 Consisting of insurers, pension and provident funds and unit trusts.

Underpinned by an increase in share prices, the share of holdings of equities by these institutional investors grew from a recent low of 47 per cent of total assets in the third quarter of 2011 to 50 per cent in the first quarter of 2012 – still lower than the average of 53 per cent recorded in 2007. Moreover, uncertainty regarding international financial conditions, the fragile economic recovery and regulatory changes, such as Solvency Assessment and Management (SAM) and Regulation 28, which place more stringent capital-adequacy requirements and investment limits on risky assets for insurers and retirement funds, are likely to impact on the ability of these intermediaries to increase their equity exposure in the future. Holdings of fixed-interest securities have remained at 23 per cent of total assets since the second quarter of 2011.

Reflecting moderation in risk aversion, holdings of cash and cash equivalent instruments by these intermediaries fell by 2 per cent of total assets from the first quarter of 2011 to 15 per cent in the first quarter of 2012. The reallocation of funds from this asset class was pronounced in the unit trust industry, in which holdings of money-market funds fell by 7 per cent of assets under management to 24 per cent in the same period, as corporate and retail investors rebalanced their portfolios. The recent inclusion of all short-term debt instruments and Islamic-compliant portfolios in the money-market instrument class, as per amendment Notice 1503 under the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), might support inflows to this asset class.

Asset allocation of non-bank financial institutions



Public finance[10]

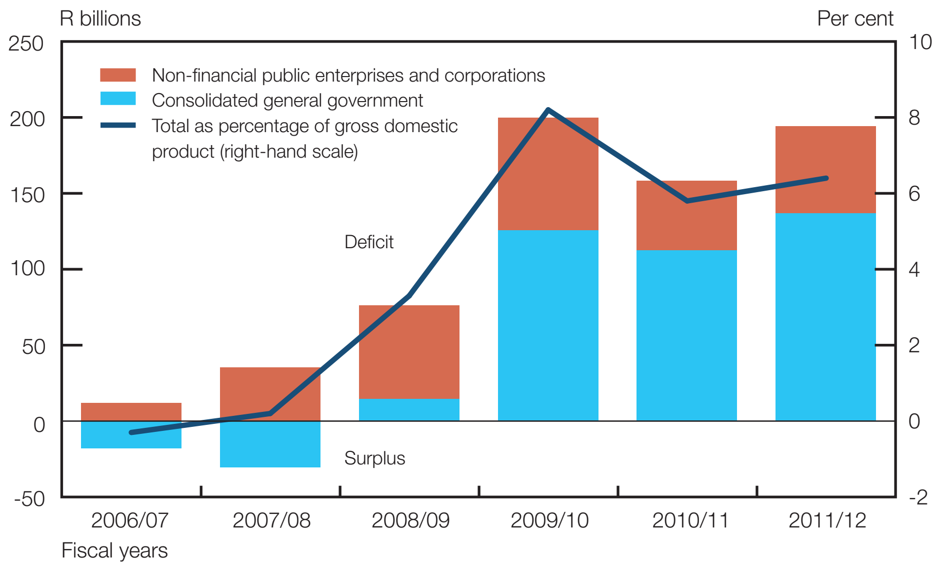
Non-financial public-sector borrowing requirement[11]

The *non-financial public-sector borrowing requirement* amounted to R194 billion in fiscal 2011/12, or R36,1 billion more than a year earlier. The higher borrowing requirement was brought about by an increase in transfers and subsidies paid by national government to other levels of government, together with a significant increase in net purchases of non-financial assets by non-financial public enterprises and corporations.

10 Unless otherwise stated, year-on-year rates of increase compare fiscal 2011/12 to fiscal 2010/11.

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

Non-financial public-sector borrowing requirement



As a ratio of gross domestic product, the non-financial public-sector borrowing requirement amounted to 6,4 per cent in fiscal 2011/12, somewhat higher than the ratio of 5,8 per cent recorded in the preceding fiscal year. The ratio recorded in fiscal 2011/12 was nevertheless lower than the revised ratio of 7,1 per cent estimated in the *Budget Review 2012*. Financial activities at various levels of the non-financial public sector are summarised in the accompanying table.

Non-financial public-sector borrowing requirement

R billions

Level of government	2010/11*	2011/12*
Consolidated general government	112,5	136,8
National government	117,6	143,1
Extra-budgetary institutions	0,5	1,1
Social security funds	-12,3	-11,5
Provincial governments	-4,4	-5,9
Local governments	11,1	10,0
Non-financial public enterprises and corporations	45,8	57,6
Total**	158,3 **	194,4 **
As a percentage of gross domestic product	*5,8*	*6,4*

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

12 A legal entity that is created by the government in order to partake in commercial activities on the government's behalf. A state-owned enterprise (SOE) can be either wholly or partially owned by government and is typically earmarked to participate in commercial activities. Examples are Transnet, Eskom and Denel.

During January–March 2012, *non-financial public enterprises and corporations* including major *State Owned Enterprises*[12] *(SOEs)* recorded a preliminary cash deficit of R18,0 billion, bringing the cash deficit to R57,6 billion for the full fiscal 2011/12. The cash deficit was R11,7 billion higher when compared with the cash deficit recorded in fiscal 2010/11. This can be attributed to the sterling progress made by major SOEs in accelerating infrastructure spending. The cash deficit contributed 29,6 per cent to the total non-financial public-sector borrowing requirement during the period under review. This contribution was slightly higher than the ratio recorded in the previous fiscal year.

Strong growth in the total cash receipts of SOEs continued, surpassing the growth rate in operating expenses. However, substantial growth in infrastructure-related capital spending boosted total expenditure; hence a sizeable deficit was recorded. Increased infrastructure spending in areas such as transport, telecommunications, water and electricity reflected the closer alignment of SOEs' vision with the development agenda of the general government. The medium- to long-term infrastructure spending programmes aimed at increasing capacity to meet growing market demand, achieve greater financial stability, improve productivity and general efficiency, unlock economic growth potential, and boost job creation and skills development.

Preliminary estimates indicated that net investment in non-financial assets by non-financial SOEs amounted to R122 billion in fiscal 2011/12, or 34,9 per cent higher than in the previous year. South Africa's infrastructure remained noticeably under strain, and without money derived from increased tariffs, service charges and profits to develop new projects, the prospect of alleviating pressure on infrastructure is dependent on finding alternative forms of capital for investment.

In fiscal 2011/12, an analysis of *national government finance* statistics showed that cash receipts from operating activities increased by 10,8 per cent year on year. Cash payments for operating activities increased by 12,3 per cent year on year to amount to R896 billion in fiscal 2011/12. Grants to other levels of government remained the main contributor to higher total expenses. Netting cash flow from operating activities and net investment in non-financial assets resulted in a cash deficit of R143 billion in fiscal 2011/12. This was significantly higher than the cash deficit recorded a year earlier.

Provincial governments recorded a cash deficit of R0,7 billion in the January–March quarter of 2012, bringing the cash surplus to R5,9 billion in fiscal 2011/12. This was a modest increase from the cash surplus of R4,4 billion recorded in the previous fiscal year. An 11,2 per cent underspending on capital assets contributed to the higher-than-normal cash surplus.

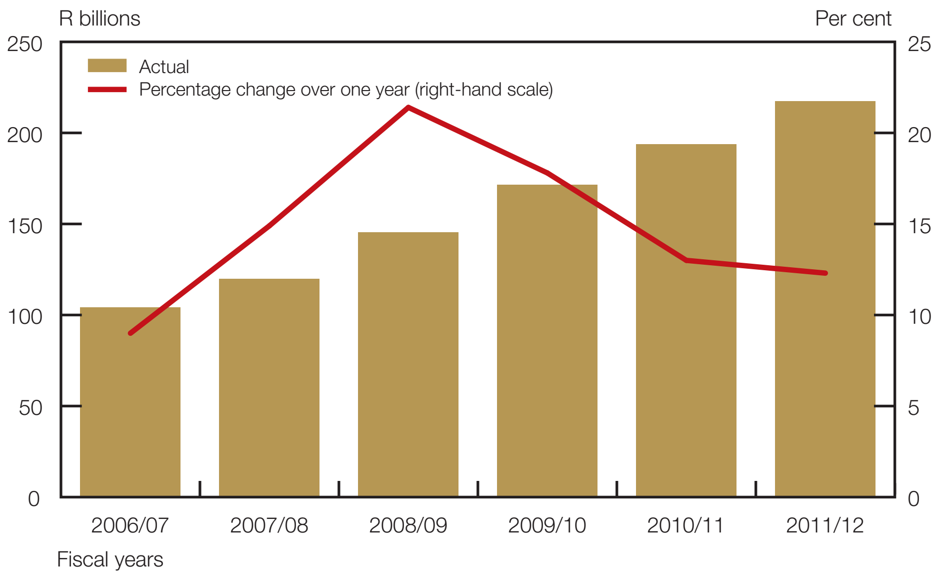
Provincial revenue amounted to R374 billion during fiscal 2011/12 and was predominantly boosted by grants from national government. These grants – equitable share transfers and conditional grants – increased at a year-on-year rate of 11,5 per cent to amount to R362 billion in fiscal 2011/12.

Provincial government expenditure increased by 11,3 per cent to amount to R368 billion in fiscal 2011/12. The bulk of provincial government expenditure was on personnel costs, which amounted to R217 billion, or 59,1 per cent of total expenditure. This represented a year-on-year rate of increase of 12,3 per cent. Provinces overspent their original budget allocation on this category by R5,2 billion as a result of the above-budgeted wage settlement agreement in fiscal 2011/12.

In March 2012 the Gautrain project reached its sixty-sixth month since inception, indicating that the project had overrun the estimated development period by twelve months. During fiscal 2011/12, R1,7 billion was spent on the project, bringing the total expenditure since inception to R31,7 billion. Provincial net investment in non-financial assets including the Gautrain spending amounted to R27,8 billion in fiscal 2011/12, or 11,4 per cent higher when compared with the previous fiscal year.

The provincial cash surplus resulted in an increase in provincial governments' deposits with the Corporation for Public Deposits from R3,4 billion at the end of March 2011 to R6,4 billion at the end of March 2012. At the same time their deposits with private banks increased from R9,7 billion to R14,5 billion between these dates, while their overall indebtedness to banks rose from R0,7 billion to R1,1 billion.

Provincial government compensation of employees



Local governments' cash deficit amounted to R1,4 billion in the January–March quarter of 2012, leading to a collective estimated cash deficit of R10,0 billion in fiscal 2011/12. This was R1,0 billion less than the cash deficit recorded in the previous fiscal year and R2,7 billion higher than the revised cash deficit presented in the *Budget Review 2012*. The small improvement in the cash deficit may be associated with prominent growth in total cash receipts, alongside relatively slower growth in total cash expenditure.

The continued growth in municipal cash receipts was due to own revenue that amounted to R152 billion – or 6,5 per cent higher than in the corresponding period a year earlier. Property rates and service charges, which grew by 16,4 per cent and 19,5 per cent respectively, were the major sources of increased municipal own revenue. During the period under review metropolitan municipalities received a total amount of R8,6 billion from the general fuel levy – some R1,0 billion higher than the total amount received during the preceding year.

Total expenditure by municipalities, which amounted to R232 billion, remained robust in response to the demand for basic services and the need for infrastructure-related spending. Purchases of bulk water and electricity alone amounted to R55,8 billion during 2011/12. Net investment in non-financial assets amounted to R48,1 billion, representing a year-on-year rate of increase of 17,6 per cent.

In fiscal 2011/12 *extra-budgetary institutions* recorded a cash deficit of R1,1 billion compared with a cash deficit of R0,5 billion recorded in the preceding fiscal year. The financial surplus of *social security funds* remained substantial but recorded a slight decrease and amounted to R11,5 billion in the period under review.

Budget comparable analysis of national government finance

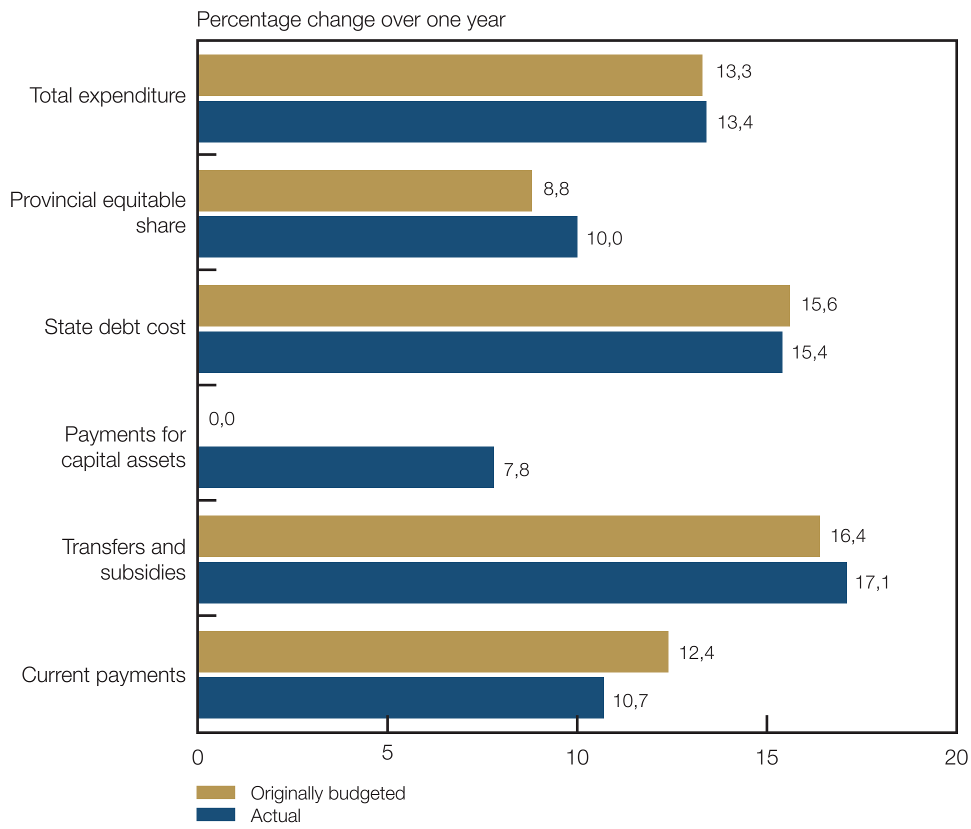
During fiscal 2011/12, government maintained its countercyclical fiscal policy stance as national government expenditure increased strongly and amounted to R889 billion, a year-on-year rate of increase of 13,4 per cent. The preliminary spending outcome was broadly the same as the originally budgeted provision and was better than the slight upward revision made in the *Budget Review 2012*. As a ratio of gross domestic product, national government spending amounted to 29,4 per cent compared with 28,5 per cent recorded a year earlier.

Higher national government spending was mainly driven by current payments, as well as transfers and subsidies. The increase in current payments stemmed from higher payments by the Justice, Crime Prevention and Security cluster, together with the Financial and Administrative Services cluster, mainly Stats SA. Higher current payments by Stats SA were mainly for the Census 2011, which had a total budget allocation of R1,7 billion. The Justice, Crime Prevention and Security cluster constituted the largest share in total current payments by national government, with the Department of Police contributing the most. Increased spending by this department was to improve overall capacity through the employment of additional personnel to enhance visible policing.

In fiscal 2011/12 transfers and subsidies recorded an increase of 17,1 per cent year on year, with the Social Services cluster accounting for about half of these payments. The increase in spending by this cluster accrued to the Departments of Education, Health, Social Development and Transport. Transfers by the Department of Basic Education were more than double the 2010/11 level during fiscal 2011/12. Higher spending in the area of education was mostly for school buildings in order to eradicate inappropriate infrastructure.

Strong increases in transfers and subsidies by the Department of Health were meant to support prevention programmes through the HIV/AIDS conditional grants to provinces. Further grants to provinces were earmarked for health infrastructure and to strengthen tertiary hospital services. Transfers and subsidies by the Department of Social Development increased by 11,3 per cent year on year, and accounted for 61,1 per cent of total transfers and subsidies by the Social Services cluster. This increase resulted from higher transfer payments to households, helping to alleviate poverty and countering the increases in the cost of living.

National government expenditure for fiscal 2011/12



Payments for capital assets recorded a noticeable increase, which emanated mostly from infrastructure spending by the Department of Police.

Interest paid on national government debt totalled R76,4 billion, or 15,4 per cent more than in fiscal 2010/11. Higher issuances of Treasury bills, domestic and foreign government bonds to finance the higher deficit contributed to higher interest payments. The increase in interest payments was broadly in line with both the original and revised budgeted projections.

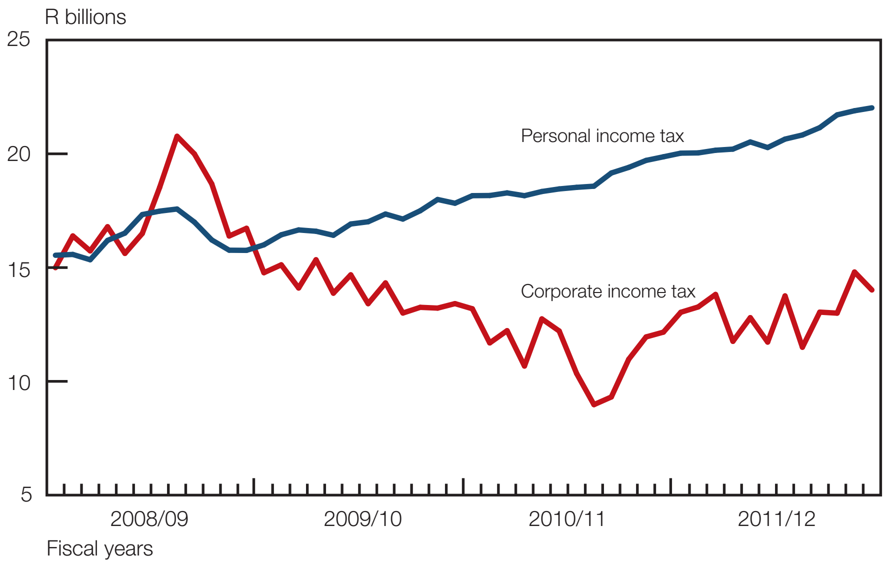
Equitable share transfers to provinces were higher than the budgeted projections and increased by 10,0 per cent year on year, aimed at extending and improving service delivery outcomes in the health and education sectors.

For fiscal 2011/12, payments to metropolitan municipalities in terms of the general fuel levy sharing formula amounted to R8,6 billion or an increase of 13,7 per cent year on year. Since the inception of the revenue-sharing formula with these authorities in fiscal 2009/10, payments in terms of this agreement increased at an average rate of 12,3 per cent per annum.

Total national government revenue amounted to R740 billion during fiscal 2011/12, representing a year-on-year rate of increase of 10,5 per cent. Almost all components of revenue outperformed the originally budgeted and revised projections, not least due to the recovery in income tax payable by companies. Revenue was originally budgeted to increase at a rate of 9,1 per cent and total R730 billion. However, it was revised upwards in the *Budget Review 2012* to amount to R735 billion, or a year-on-year rate of increase of 9,8 per cent.

As a ratio of gross domestic product, national government revenue amounted to 24,5 per cent in fiscal 2011/12, compared with 24,3 per cent recorded in the previous fiscal year.

Personal and corporate income tax collections



Seasonally adjusted three-month moving averages

Better-than-expected corporate income tax receipts accounted for much of the positive outcome in taxes on income, profits and capital gains. Provisional tax payments by the coal mining and financial services sectors rose significantly. High dividend payments towards the end of the fiscal year (to pay secondary tax at a rate of 10 per cent rather than the withholding tax at a rate of 15 per cent introduced from 1 April 2012) resulted in a surge in collections of secondary tax on companies.

Personal income tax collections were supported by higher employment, above-inflation wage settlements in most sectors of the economy and higher bonus payouts, notwithstanding an increase in refunds. Nevertheless, collections in this category fell short of the originally budgeted amount.

Taxes on property continued to decline, reflecting the higher exemption thresholds on property values from February 2011. Sluggish activity in the real-estate market also contributed to the contraction in taxes on property.

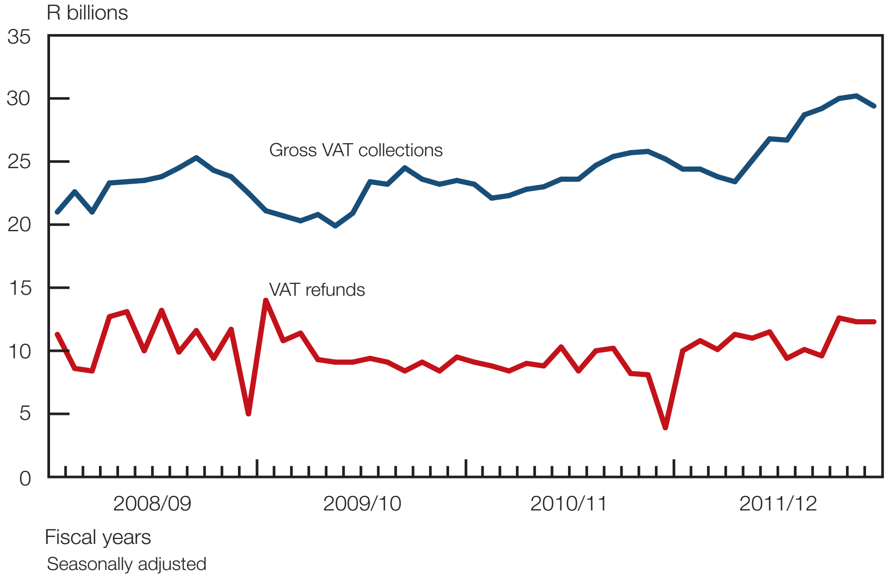
National government revenue in fiscal 2011/12

Revenue source	Originally budgeted Full year		Actual Full year	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	418,3	10,1	426,6	12,3
Income tax on individuals	*254,2*	*11,4*	*251,3*	*10,2*
Income tax on companies	*164,2*	*8,1*	*175,2*	*15,4*
Payroll taxes	9,2	5,8	10,2	17,6
Taxes on property	9,6	5,4	7,8	-14,1
Taxes on goods and services	273,9	9,9	263,9	5,9
Value-added tax	*200,9*	*9,4*	*191,0*	*4,1*
Taxes on international trade and transactions	30,3	12,4	34,1	26,4
Other revenue	10,3	-20,9	19,0	38,3
Less: SACU** payments	21,8	21,5	21,8	21,5
Total revenue	729,9	9,0	739,8	10,5

* Fiscal 2010/11 to fiscal 2011/12
** Southern African Customs Union

Until January 2012, taxes on goods and services increased significantly as higher consumption expenditure boosted value-added tax (VAT) collections. Total gross VAT collections were R34,8 billion higher than the previous fiscal year, recording a year-on-year increase of 12,1 per cent during the period under review. This was driven by import VAT which grew strongly owing to higher imports of machinery, vehicles and aircraft parts. Domestic VAT receipts only recorded a moderate increase, influenced by higher VAT payments by especially the finance, electricity and energy sectors. However, the higher VAT collections were offset by VAT refunds which, as a result of increased economic activity and higher expenditure on capital equipment, rose substantially by 26,4 per cent year on year. This resulted in VAT collections falling below the initial budget.

Value-added tax collections and refunds



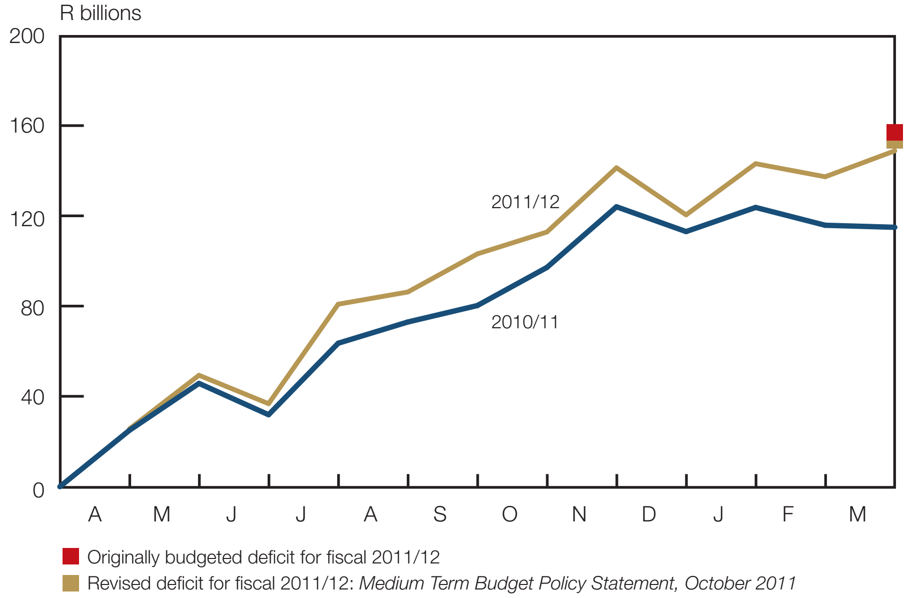
High demand for imported items such as vehicles and clothing resulted in a robust year-on-year increase in taxes on international trade and transactions. This rate of increase was higher than both the originally budgeted and the revised increase of 19,8 per cent stated in the *Budget Review 2012*. The substantial increase in "other" revenue was mainly brought about by a strong increase in collections from mineral and petroleum royalties, which are included in non-tax revenue as land rent. Resource rent is not classified as a tax.

Transfers to Southern African Customs Union (SACU) partners amounted to R21,8 billion in fiscal 2011/12. The substantial increase in SACU payments resulted from an improvement in domestic economic activity and considerably higher imports.

After taking cash-flow adjustments into account, national government's cash-flow revenue equalled R741 billion in fiscal 2011/12, or R71,5 billion more than in the previous fiscal year.

Reflecting these trends in revenue and expenditure, national government recorded a preliminary cash-book deficit before borrowing and debt repayment of R149 billion in fiscal 2011/12. This was R34,6 billion higher than the cash-book deficit recorded in fiscal 2010/11. Following strong revenue collections in December 2011, the deficit narrowed substantially. The preliminary outcome was lower than the originally budgeted deficit of R158 billion and the revised cash-book deficit of R156 billion as stated in the *Budget Review 2012*.

Cumulative deficit of national government



As a ratio of gross domestic product, the cash-book deficit amounted to 4,9 per cent in fiscal 2011/12, compared with 4,2 per cent in fiscal 2010/11.

The primary balance[13] – one of the indicators of fiscal sustainability – amounted to a deficit of R72,5 billion, or 2,4 per cent of gross domestic product in fiscal 2011/12. This can be compared with a primary deficit of R48,1 billion, or 1,7 per cent as a ratio of gross domestic product in fiscal 2010/11.

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

In fiscal 2011/12, after netting cash-flow revenue and expenditure, national government recorded a cash-flow deficit of R145 billion, or R18,3 billion more than the deficit recorded in fiscal 2010/11. Included in extraordinary payments and receipts were mainly the losses and profits on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). After accounting for extraordinary transactions and the cost on revaluation of foreign debt at maturity, the net borrowing requirement almost equalled the cash-flow deficit. This can be compared with a borrowing requirement of R127 billion recorded in the previous fiscal year.

As reflected in the table on page 58, the bulk of the net borrowing requirement was financed in the domestic financial market. The liquidity of the South African financial market ensured a strong appetite for Treasury bills and government bonds. Net issues of inflation-linked bonds amounted to R45,1 billion in fiscal 2011/12, bringing the total outstanding balance of such bonds to R207 billion on 31 March 2012. During fiscal 2011/12, national government managed to raise R2,7 billion from RSA Government Retail Savings Bonds, bringing the outstanding balance of these bonds to R12,2 billion at the end of March 2012.

National government financing in fiscal 2011/12

R billions

Item or instrument	2011/12			2010/11
	Originally budgeted	Revised estimate[1]	Actual	Actual
Deficit	158,3	155,9	145,5[2]	127,2[2]
Plus: Extraordinary payments	0,2	0,5	1,4	0,8
Cost on revaluation of foreign debt at redemption	0,2	0,5	0,5	0,3
Less: Extraordinary receipts	-	0,9	1,7	1,3
Net borrowing requirement	158,6	156,0	145,6	127,1
Treasury bills	22,0	20,8	18,7	34,9
Domestic government bonds	135,9	142,7	133,2	136,2
Foreign bonds and loans	5,2	10,0	9,6	3,2
Change in available cash balances[3]	-4,5	-17,6	-15,9	-47,2
Total net financing[4]	158,6	156,0	145,6	127,1

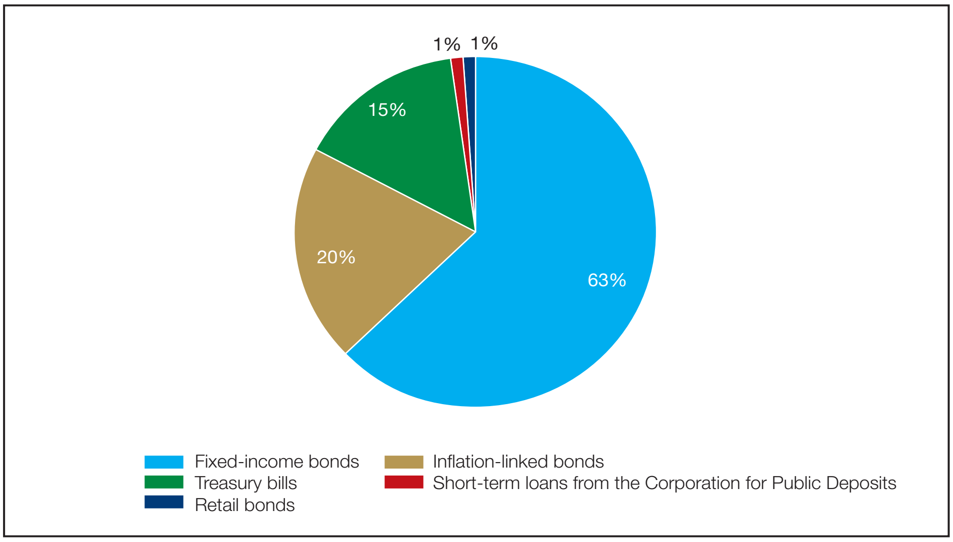
1 *Budget Review 2012*
2 Cash-flow deficit
3 Increase – decrease +
4 Components may not add up to totals due to rounding

Domestic funding through Treasury bills attracted an average interest rate of 5,5 per cent, while domestic long-term government bond funding was obtained at an average interest rate of 8,3 per cent per annum. In March 2012 government redeemed the outstanding balance of R270 *million* on the *R205* variable rate bond. The average outstanding maturity of national government's domestic marketable bonds increased from 126 months to 130 months between March 2011 and March 2012.

National government issued a new US$1,5 billion 12-year bond in January 2012 and raised R12,0 billion at a coupon rate of 4,665 per cent. The average outstanding maturity of foreign marketable bonds of national government decreased marginally from 94 months at the end of March 2011 to 90 months as at 31 March 2012.

Funding activities of national government increased its available cash balances by R15,9 billion in fiscal 2011/12, bringing these balances to a level of R195 billion at the end of March 2012. Included in these balances, deposits with the Bank declined by R3 billion over the year to R131 billion at the end of March 2012.

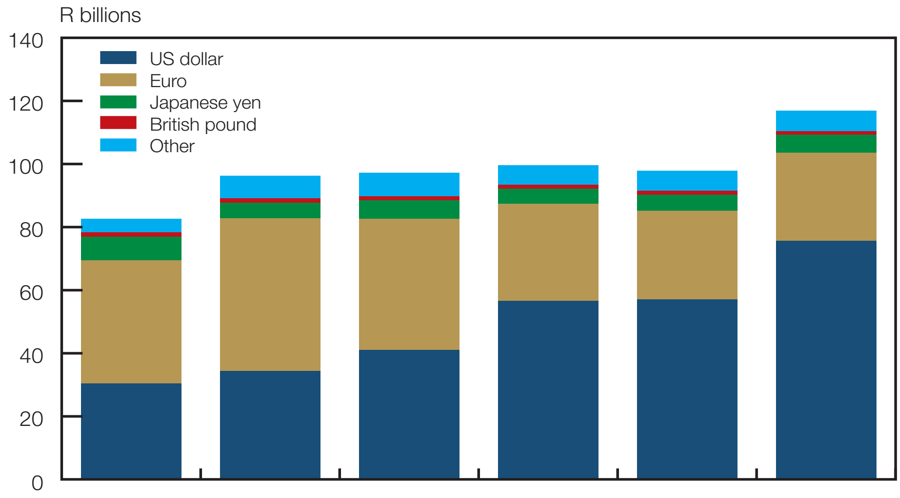
Composition of domestic government debt as at 31 March 2012



Domestic debt of national government accounted for 90 per cent of total gross loan debt and increased substantially from R884 billion to R1 057 billion between March 2011 and March 2012. This sharp acceleration in domestic debt was underpinned by higher issuances of Treasury bills and domestic long-term bonds, which enabled the government to finance the budget deficit quite adequately.

During the period under review, national government's foreign debt increased from R97,9 billion to R117 billion. This rise in foreign debt stemmed largely from the new US dollar bond issued in January 2012, together with revaluation effects owing to the depreciation in the exchange value of the rand against other major currencies.

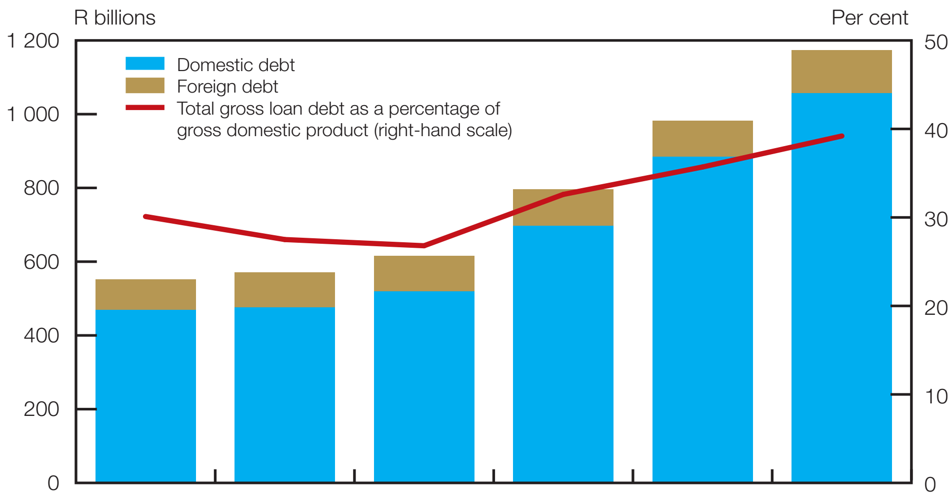
Currency composition of national government foreign debt



As at 31 March of each fiscal year

Total gross loan debt of national government, which includes domestic and foreign debt, increased considerably from R982 billion on 31 March 2011 to R1 174 billion on 31 March 2012. As a ratio of gross domestic product, total gross loan debt increased from 35,7 per cent to 38,9 per cent during the period under review.

Total gross loan debt of national government



As at 31 March of each fiscal year