



South African Reserve Bank

Office of the Governor

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Dear Shareholder

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

I trust that you and your loved ones had a safe and happy festive season. The New Year has shown that this will again be a challenging year in the global and domestic economic environment and for the Bank.

Economic Outlook

The global growth outlook has improved somewhat, but we still expect the growth outcomes to be uneven across regions. The recovery appears to be most sustained in the US and the UK, and the Japanese economy appears to be responding to stimulus measures. The Eurozone, by contrast, is expected to grow well below potential, amid continued banking sector deleveraging and tight fiscal consolidation paths, particularly in the Southern periphery.

While the recovery in the US is good news in the longer run, it is creating short to medium-term challenges for emerging markets in particular. As the US outlook has improved, there has been a slowdown in the pace of quantitative easing, with a negative impact on capital flows to emerging markets. Countries with wide current account deficits have borne the brunt of the adjustments, as concerns about the financing of these deficits have increased. The uncertain outlook for emerging

economies is clouded further by concerns about a possible slowdown in China, with possible implications for commodity prices.

Partly in response to these developments, the rand depreciated on a trade-weighted basis by 18 per cent during 2013 and by a further 5 per cent since the beginning of the year. Since December 2013 in particular, non-residents have been large net sellers of domestic government bonds and equities. Domestic factors, including protracted strikes in the motor industry and mining sector in 2013, and ongoing labour disputes so far this year, has also contributed to rand weakness.

The domestic growth outlook remains relatively subdued, although we expect an improved performance in 2014, when growth is forecast to measure about 2,8 per cent, compared with around 1,9 per cent in 2013. Although growth in gross fixed capital formation has increased, private sector investment growth remains weak amid low business confidence. Household consumption expenditure has moderated in the past year, while growth in credit extension to households in particular has also been on a declining trend.

Despite the depreciation of the rand, the inflation rate has remained within the target range of between 3 and 6 per cent, having measured 5,4 per cent in December 2013, and an average of 5,7 per cent for the year. Despite these relatively benign outcomes, the inflation outlook has deteriorated markedly, mainly in response to expected lagged effects of the depreciation. We have already seen marked increases in petrol prices, and we also expect the favourable trend in food prices to reverse in the coming months. The Bank's forecast shows that, in the absence of a monetary policy response, inflation is expected to breach the upper end of the target range during the second quarter of this year, and remain outside the target for an extended period.

The Bank's Monetary Policy Committee has for some time faced the conflicting pressures of heightened risks to the inflation outlook on the one hand, and a subdued growth outlook on the other. In January, as the risks to the inflation outlook became more elevated, the MPC decided to increase the repurchase rate by 50 basis points. Despite this increase, the real repurchase rate remains negative, and monetary policy is still assessed to be accommodative. The Bank will continue to

implement its inflation targeting mandate within a flexible framework, cognisant of the impact on its actions on the domestic economy.

Recent senior internal appointments & promotions

During 2013, Mr Gerdus Lewis was appointed as the Chief Internal Auditor and Head: Internal Audit Department, Ms Ntebo Kgoroba was appointed Group Head: Human Resources Department and Mr Sandile Mthiyane was appointed Head: Corporate Services Department. We congratulate them on their appointments and welcome their contributions to the on-going successful operations of the Bank.

Implementing Twin Peaks Regulation in South Africa

On 11 December 2013, the National Treasury published the Financial Sector Regulation Bill for public comment. The deadline for comment is 7 March 2014. This legislation will establish the “Twin Peaks” approach to financial regulation in South Africa and will increase the Bank’s mandate to include prudential regulation.

The Bank has in the interim been making preparations for the inclusion of the additional specialist and support staff from the Insurance Department at the Financial Services Board, who will be incorporated into the Bank’s staff compliment as part of the Prudential Authority, to ensure a seamless transition for the staff involved and the financial sector overall.

Launch of the Union Buildings Commemorative R2 coin

In celebration of the 100 year anniversary of the Union Buildings, the Bank launched a commemorative R2 coin and a limited edition R2 “crown size” sterling silver coin, which reflect an image of the Union Buildings on the reverse side of the coin. The coins, minted by the Bank’s subsidiary, the South African Mint Company (RF) (Pty) Limited (SA Mint), was an instant success and sold out in a matter of weeks. The SA Mint has minted a number of commemorative and collectable coins over the years and you are encouraged to review the beautiful designs on the SA Mint website at www.samint.co.za .

Shareholder matters

The Bank's AGM will be held on Friday 25 July 2014. At the 2013 Annual General Meeting we announced that we would no longer be holding shareholder road shows in Durban and Cape Town and will only hold a road show in Pretoria. We hope to establish electronic communication channels with the branches in Durban and Cape Town to allow any shareholder to participate and be part of the road show from those venues. Further details and information will be communicated closer to the date.

Three shareholder-elected non-executive directors' terms of office will expire this year, namely; Prof Rochelle le Roux (Labour), Mr Rob Barrow (Commerce or Finance) and Mr Gary Ralfe (Mining). All three directors are eligible for re-election as they have only served one term on the Board.

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

Appointment of a new Transfer Secretary for the Bank

After many years as a valued employee of the Bank, Mr Arrie Jooste will be retiring from the Bank with effect from 31 May 2014, and we wish him all the best in his retirement. We are pleased to advise that Ms Ephy Motlhamme has joined the Bank and will take over the Transfer Secretary roles and responsibilities from Mr Jooste on 1 June 2014. We welcome Ms Motlhamme to the Bank and wish her all the best in her new position.

I once again call on all shareholders to forward an email address/electronic contact details for ease of communication to the Transfer Secretary, Mr Arrie Jooste on arrie.jooste@resbank.co.za or Bertus Brand on bertus.brand@resbank.co.za. Please contact Mr Jooste or Mr Brand, if you have not yet already done so.

I look forward to interacting with the shareholders once again at the road show during July 2014.

Yours sincerely

A handwritten signature in blue ink that reads "Gill Marcus" with a stylized flourish at the end.

Gill Marcus
Governor