2

Macroeconomic challenges and adjustments

The South African economy is expected to grow more rapidly in the next three years than it has in the past two, driven by a strong export performance and accelerating investment.

Nonetheless, risks arising from the large economic and financial imbalances between the three main currency areas pose a threat to global and South African growth.

In the longer term, economic growth in South Africa depends on how well government policy contributes to the development of human capital – particularly through the provision of education and health services – and how state and society ensure that structural change benefits all.

Introduction

Medium term outlook

Improved outlook

In the face of adverse conditions – including floods, high oil prices, a depressed gold price, sluggish consumer demand and perceptions of regional instability – the economy has grown slower in the first half of the year than anticipated in the 2000 Budget. However, strong export performance, the favourable fiscal environment and accelerating investment are expected to contribute to growth of about 3,5 per cent a year over the next three years.

Encouraging current account performance

The balance of trade in goods and services has been positive this year, and despite rising income payments, the current account of the balance of payments is expected to record a deficit of less than 0,5 per cent of GDP.

Steady interest rates

Interest rates have declined from the high levels of 1998, while household consumption growth has been moderate and investment has improved.

Mixed employment performance

Despite these broader positive developments, employment in the formal sector has continued to decline, although overall employment has increased to an estimated 10 369 000 in October 1999.

Rising oil prices give rise to temporary inflationary pressures

Inflation rose this year due to flood-related increases in food prices and higher oil prices. The CPIX, which is used for the inflation target introduced in the Budget in February, rose from 6,8 per cent over the year to December 1999 to 8,1 per cent in September.

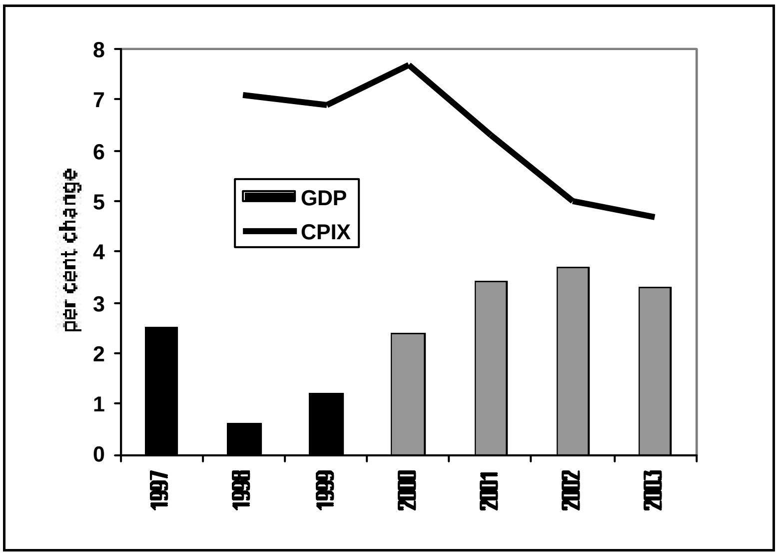
Recovery expected to accelerate

The high interest rates of 1998 and the consequent increase in household debt continue to affect household consumption spending. Debt levels have declined, however, from 59,6 per cent of disposable income at the beginning of 1999 to 56,8 per cent in the second quarter of 2000. The improvement in households' financial position will contribute to stronger consumer spending in due course.

Investment is forecast to accelerate in the second half of the year. Growth in real gross fixed capital formation is expected to average 6,7 per cent from 2001 to 2003.

Figure 2.1 shows GDP and CPIX from 1997 to 2003.

Figure 2.1: Change in GDP and CPIX, 1997 to 2003



Human development essential for future growth

The ultimate goals of South African economic policy are poverty reduction and human development. But human development also plays an important part in promoting further economic growth.

Embracing the knowledge economy

Social renewal and African renaissance will increasingly depend on Government's ability to enhance South Africa's knowledge and technological base, and by extension that of the continent.

Knowledge-driven economies are underpinned by human capital formation, lead by increased public and private sector engagement in research and development, both fundamental and applied, in critical sectors.

A country's level of innovation – defined as a combination of successful technology and conditions favouring business start-ups – provides an indicator of the degree to which a knowledge economy is being fostered. Measures of innovation, such as the World Economic Forum's Economic Creativity Index, indicate that South Africa ranks higher in providing the conditions that support innovation and growth of the knowledge economy than most other countries at similar levels of development.

Those countries that are most innovative tend to be among those that grew fastest over the past decade. This suggests that in order for South Africa to enhance, or even maintain, its competitive position, further steps will have to be taken to reduce impediments to innovation and knowledge diffusion. The report released by The National Research and Technology Foresight Project has unfolded a twenty-year vision for human resource and technology development.

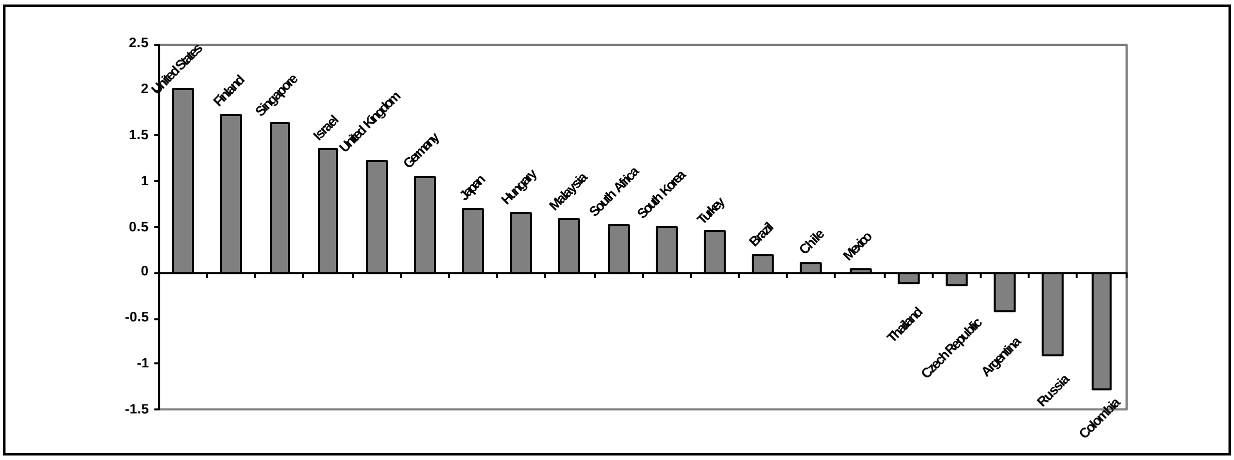
Various strategies can be adopted by the state and the private sector to take advantage of expected growth in areas such as health, clean energy, advanced information systems, genetic manipulation, new and 'smart' materials, bio-informatics, flexible production, and many others.

Infrastructure challenges include further enhancement of the telecommunications backbone and value-added services, an increased emphasis on computer literacy in schools, and a realignment of tertiary education to promote more science and technology graduates.

Regulatory challenges include addressing administrative and financial impediments to business start-ups and developing flexible regulatory regimes that can adapt to developments in fast-changing sectors such as e-commerce.

Institutional challenges include public-private initiatives to promote the spread of information and communication technologies, as well as research co-operation between higher education, industry and Government in focused areas of innovation. The Government's Innovation Fund is one mechanism designed to promote such networking.

Economic Creativity Index (World Economic Forum, Global Competitiveness Report)



Health, education and productivity

Improved health and nutrition have direct effects on labour productivity. Additional education increases not only productivity, but also the ability to create, adopt and attract technology. Government's expenditure on health and education is high by international standards – the challenge of education and health policy must now be to improve the efficiency and effectiveness of spending. At the same time, Government's Foresight Project has focused on identifying specific areas in which progress in knowledge and human capital formation will reap the highest returns.

Income equality and growth

Human development – in particular improved education and knowledge diffusion – can play an important role in reversing income inequalities. A more equal distribution of wealth favours higher rates of growth.

Improved levels of human development, therefore, are a central link in a virtuous growth cycle, in which higher savings, stronger demand for education, strengthened social capital, greater political and economic stability and growth in output are all mutually reinforcing.

International outlook

South Africa in the global economy

Deeper global integration

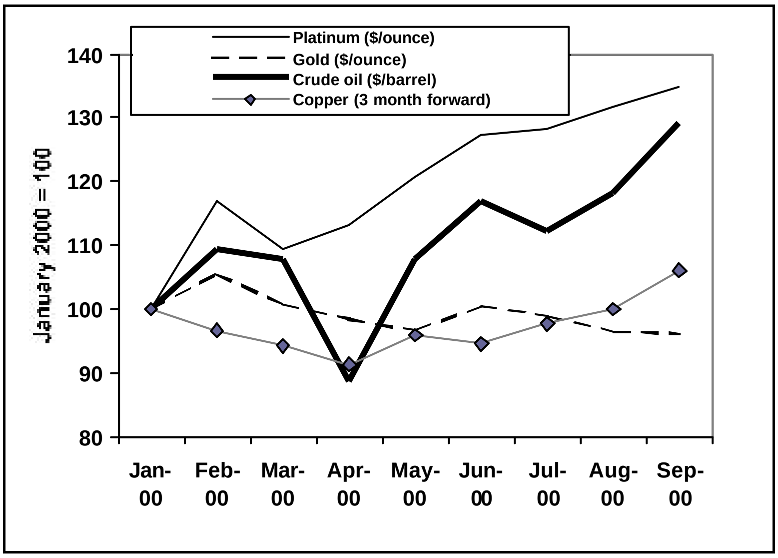
While the volatility that characterised the financial crises of the last two years has largely abated, the global environment continues to pose challenges.

Global growth – expected to exceed 4 per cent this year – has driven growth in South Africa's exports. But the economy has been constrained by the diminishing flow of private capital to emerging markets, rising oil prices, declining non-oil commodity prices, with the exception of platinum (as shown in figure 2.2), and perceptions of volatility in the region. These broader trends have significant effects on the real economy, primarily through domestic and international investor uncertainty.

Global structural imbalances

Among the most important risks to global and South African prosperity over the coming months are the large economic and financial imbalances between the three main currency areas. While the remarkable expansion of the US economy has continued to sustain world growth and trade, the current account deficit of the US balance of payments has become uncomfortably large. Furthermore, a potential correction in the prices of technology stocks remains a key concern of market participants. Uncertainty about the direction of interest rates has contributed to heightened volatility in US stock markets, with important knock-on effects for emerging markets and developing countries. The possibility that these imbalances might unwind in a disorderly fashion remains a risk to global growth.

Figure 2.2: Commodity prices in 2000



The recent increase in oil prices, if sustained, will hamper global growth, and will adversely affect oil-importing countries, particularly the poorest. By the beginning of September the oil price had soared to $35 a barrel, from about $10 a barrel in early 1999.

Reduced capital flows to emerging markets

While capital flows to emerging economies resumed in 1999, the scale of these flows has been smaller than before the crisis. Net private capital flows to emerging markets in 1999 amounted to $80,5 billion, just over a third of their pre-crisis level. Africa's share amounted to $14,8 billion.

Table 2.1 illustrates the divergent growth, inflation, balance of payments and fiscal positions of the three major global economies and a selection of developing countries in 1999.

Noteworthy are the large current account deficits of several faster growing counties, and the substantial fiscal shortfalls of many countries that experienced severe adjustments after the financial crises of the late 1990s.

Table 2.1: International comparison (figures are for calendar 1999)

	Real GDP growth (% increase)	Current account (% of GDP)	Consumer inflation (CPI) (% increase)	Fiscal balance (% of GDP)
United States	4,2	-3,7	2,2	0,7
Euroland	2,3	0,4	1,1	-1,2
Japan	0,3	2,5	-0,3	-7,6
Turkey	-6,3	-0,7	63,0	-11,6
South Africa	**1,2**	**-0,4**	**5,2**	**-2,4**
Mexico	3,7	-2,9	12,3	-1,1
Argentina	-3,0	-4,1	-1,8	-2,5
Brazil	0,8	-4,8	8,9	-10,0
Chile	-1,1	-3,0	3,3	-2,5
Indonesia	0,2	3,6	20,8	-3,8
Malaysia	5,4	-1,2	2,8	-5,5
Philippines	1,1	10,2	6,7	-4,5
Thailand	4,2	9,2	0,3	-7,5
Australia	4,4	-5,3	1,5	0,8
New Zealand	3,4	-8,0	-0,1	0,0

South Africa in the developing world

South Africa's growth prospects are closely tied to those of other middle income economies, and the rest of the continent. The economy will continue to be influenced by factors which impact on developing countries.

African vulnerability to commodity price fluctuations

Almost all of Africa remains vulnerable to fluctuations in commodity prices which force countries to adopt restrictive demand management policies and complicate the servicing of their external debt. Reducing domestic absorption exacerbates poverty by reducing growth rates. Countries most affected by falling commodity prices also suffered declines in average output growth from 1998 to 2000.

Political uncertainty in some countries has played a role in undermining regional growth prospects, highlighting the importance of stable political institutions for economic development.

Economic reforms in Africa

Diversification of output and ensuring macroeconomic stability have been part of the economic reform process throughout Africa:

- Fiscal deficits are on average far lower than they were a decade ago, falling from almost 7 per cent of GDP in 1992 to about 2,6 per cent in 2000

- Inflation has been significantly subdued, with the average inflation rate for sub-Saharan African countries forecast at about 6 per cent for the year
- Market-friendly investment environments have been established in more African economies than at any time in the past
- Trade liberalisation has progressed strongly in Africa and significant progress has been achieved in several key areas conducive to improved investment and trade, including tariff reduction, elimination of non-tariff barriers to trade, and improvement in the regulatory environment for foreign investors.

Debt and OECD protectionism

Unsustainable debt burdens and OECD protectionism continue to place constraints on the engagement of developing countries with the profound changes going on elsewhere in the world economy. OECD subsidies to agriculture in 1996 totalled about US$ 300 billion – roughly the total GDP of Africa. International debt relief initiatives have failed to make significant progress over the past year.

Global governance

Greater institutionalised participation in multilateral institutions – including the World Bank, IMF, and the World Trade Organisation – must be a key part of the strategy to increase developing country participation in the global economy. South Africa – in partnership with other middle income countries – is playing an increasingly prominent role in efforts to democratise these institutions of global governance.

Balance of payments

Healthy current account balances

International developments are reflected in the current and financial accounts of the balance of payments, illustrated in figure 2.3. The value of imports declined during 1999 due to the strengthened rand, and the current account deficit fell to R2,9 billion, or 0,4 per cent of GDP, compared with an average deficit of 1,5 per cent of GDP from 1995 to 1998. In the first half of 2000, the recovery in import demand was more than matched by strong export performance, resulting in a seasonally adjusted and annualised current account surplus of R0,5 billion (0,1 per cent of GDP).

Imports weak but rising

This surplus position is unlikely to be sustained over the second half of 2000, with rising import demand forecast to exceed export growth in both the third and fourth quarters. Imports in the first half of 2000 grew by 5 per cent, compared with a real decline of 8 per cent in 1999 as a whole.

Continued strength in exports

From mid-1999 South African exports responded well to higher world platinum prices and the depreciation of the rand. Despite lower agricultural output, merchandise export volumes grew by 6,8 per cent in the first half of 2000, compared with 2,5 per cent for 1999.

Booming platinum exports

Platinum exports performed particularly well, lifting the proportion of mining exports from 45 per cent of total merchandise exports in the first half of 1999, to 50 per cent in the first half of 2000. The platinum price has risen to above $600 an ounce, and the value of platinum exports in 1999 was equivalent to one-half of net gold export revenues, compared to around one-tenth in 1995.

Trade initiatives

The SADC Trade Protocol, the EU Free Trade Agreement and the United States AGOA initiative are expected to play an important part in enhancing South Africa's export performance.

Financial account weakens

Of the $14,8 billion net private capital flows to Africa in 1999, South Africa received a total of $4,1 billion. This was an increase of over $1 billion from 1998, and as a share of GDP (3,1 per cent), was significantly higher than the emerging market average of 1,1 per cent for 1999. However, this trend has been reversed in the first half of the year, with the capital account recording a net outflow of $1 billion, or 0,9 per cent of GDP.

Decrease in portfolio investment

This is a result primarily of decreases in portfolio investment into South Africa. After the surge in inward portfolio investment of R82,4 billion in 1999, these flows slowed to R1,9 billion for the first half of 2000.

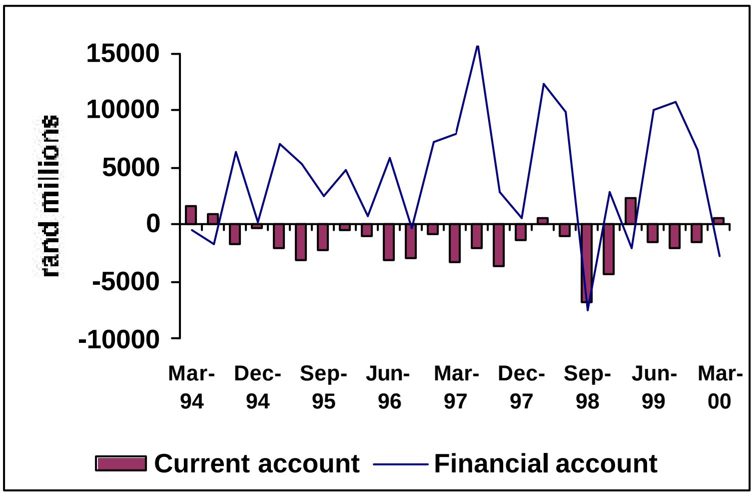
FDI and outward investment stable

Foreign direct investment into South Africa remained relatively stable, from a total of R8,4 billion in 1999 to R4,8 billion in the first half of 2000. Other foreign investment into South Africa, mainly in the form of bank deposits and foreign loans, totalled R7,4 billion in the first half of 2000.

Despite uncertainty in international financial markets, outward investment remained stable at R21 billion in the first half of 2000, compared with R46,3 billion in 1999.

The net deficit on the financial account was thus R6,8 billion in the first half of the year, compared to a net surplus of R25,1 billion in 1999.

Figure 2.3: Balance of payments



Foreign reserves

Total gross international reserves grew rapidly in the second half of 1999, to end the year at R45,4 billion. The overall surplus on South Africa's balance of payments in the first quarter of 2000 (R3,6 billion), resulted in a net increase in gross reserves, which rose to R51,7 billion by the end of September.

Expressed as the number of weeks of import payments, reserves increased to 15 weeks by the end of March, but declined to 14,6 weeks by the end of June 2000. This remains a marked improvement on the 12,6 weeks recorded at the same time last year.

Exchange rates

The real effective exchange rate of the rand appreciated by 3,0 percent from December 1998 to December 1999. The currency has since weakened against the dollar, but has held its ground against most other currencies. The real effective exchange rate depreciated by about 4,6 per cent between January and September.

Currency movements

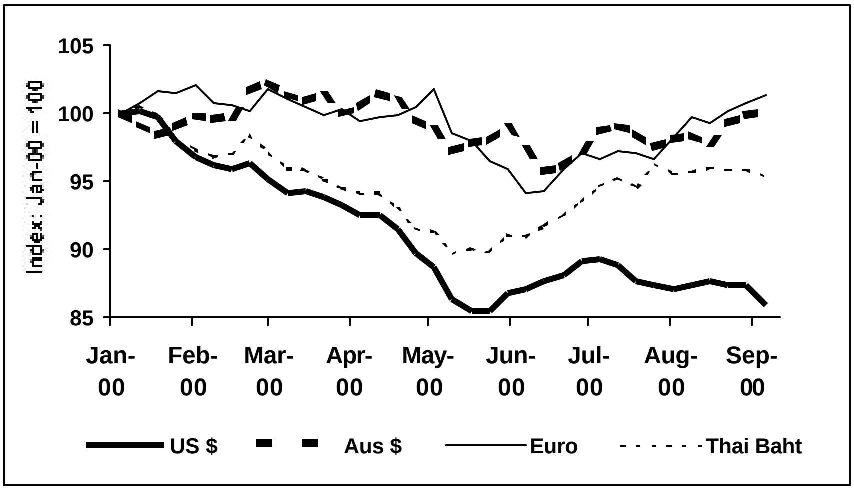
Although the rand fell by about 11,6 per cent against the US dollar over the first nine months of 2000, this was more a reflection of dollar strength than rand weakness, and was accompanied by significant volatility. The rand has strengthened marginally over this period against other major currencies, such as the euro and Australian dollar (see figure 2.4). The rand depreciated in real terms by about 4,6 per cent against a trade weighted basket of currencies.

Approximately 50 per cent of South Africa's exports are mining goods, most of which are priced in US dollar as are many of South Africa's agricultural exports and some manufacturing goods. Add to this that around 13 per cent of South Africa's total exports are destined for the US market, and it is clear that a large proportion of the country's exporters benefit from a depreciation of the rand against the US dollar.

On the other hand, most of South Africa's imports are manufactured capital goods, of which less than 15 per cent is sourced from the US, almost 50 per cent from Europe, and 20 per cent from East Asia. Currencies in these regions have remained relatively stable, or in some cases, weakened against the rand.

The net effect of all these factors on the South African current account and economy should be positive. Exports of dollar denominated goods should gain in terms of both competitiveness and rand income, generating additional export growth and foreign reserves. Moreover, except for rising oil costs, import prices should remain relatively stable and are unlikely to impact adversely on the balance of payments.

Figure 2.4: Exchange rates to the US dollar in 2000



Real output and expenditure trends

Output trends

The structure of the South African economy has changed significantly over the last ten years. This is a consequence of several trends and economic reforms, including industrial restructuring, public sector reform, the transformation of state enterprises, trade liberalisation and agricultural marketing reform.

Finance, transport and telecommunications underpin growth

Since 1995, the finance and telecommunications sectors have grown at annual average rates of 4,2 and 7,8 per cent respectively. This marked growth was associated with substantial investment, significant technology changes and a shift in consumption expenditure toward services.

Positive prospects for tourism

The tourism industry, which contributes to growth in the hospitality and transport sectors of the economy, has also performed well, growing significantly over the past 5 years, and creating an estimated 187 000 jobs. Foreign travel generated 51 per cent of total non-factor services income in 1999, up from 46 per cent in 1995.

Declines in primary sector

In the primary sector, by contrast, growth remains sluggish. Overall, the share of the primary sector in GDP decreased from 12,4 per cent in 1991 to 10,9 per cent in 1999. In the first half of 2000, it contracted further to 10,3 per cent.

From 1994 to 1997, agriculture growth was volatile, but grew by an annual average of 8,1 per cent. The agricultural sector grew by 4,3 per cent in 1999, and shrunk by 0,4 per cent in the first half of 2000.

Construction sector still recovering from high interest rates

The construction sector is recovering from the impact of high interest rates in 1998 and low demand from the public sector, with the rate of contraction of the industry slowing from a year-on-year decline of 1,6 per cent in 1999 to 0,1 per cent in the second quarter of 2000. Lower interest rates in the coming years should see a further improvement in the sector.

Manufacturing growth strengthens

The manufacturing sector has grown at an annual average rate of 1,7 per cent since 1995, with significant weakness in the first three quarters of 1999 followed by a strong rebound of 7,0 per cent in the fourth quarter. In the first two quarters of 2000, the manufacturing sector grew by year on year annualised rates of 3,3 and 2,9 per cent, respectively. This decline in manufacturing growth is due in part to knock-on effects of the floods on industry, in the form of severe disruptions in the supply of agricultural inputs. The contribution of the manufacturing sector to GDP has declined from 21,2 percent in 1995 to 19,9 percent in 1999.

Expenditure in the economy

Positive expenditure outlook

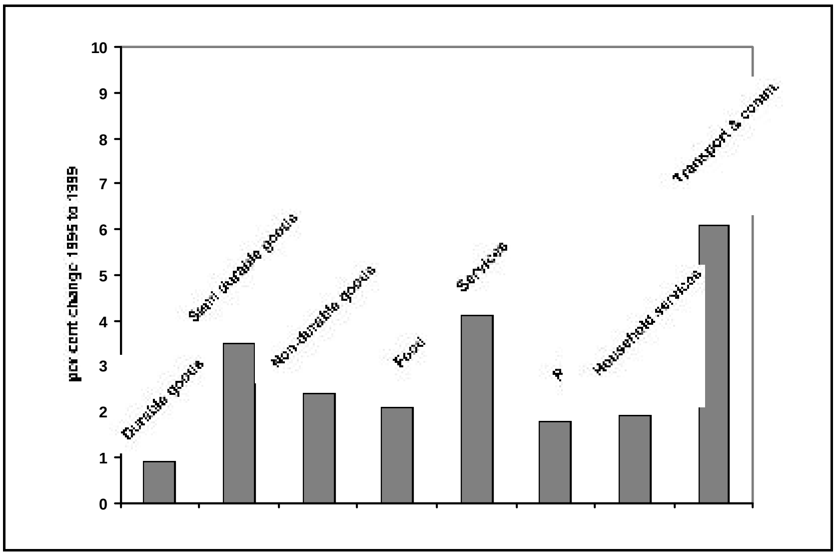
While expenditure growth by households, firms and government has been moderate, improved government savings and the declining public sector borrowing requirement bode well for sustainable increases in government expenditure over the MTEF period.

Household consumption moderate but increasing

Real expenditure by households in the first half of 2000 grew by 2,9 per cent compared with the first half of 1999. Household spending increased particularly strongly in the purchases of cars and furniture in the durable goods category. This was mainly the result of lower interest and personal income tax rates, and the consequent rise in household disposable income.

As figure 2.5 shows, final consumption of services has increased as a proportion of total consumption from 37 per cent in 1995 to 39,7 percent in 2000, and has grown by an annual average of 4,1 per cent since 1995.

Figure 2.5: Growth in consumption, 1995 to 1999



Turnaround in private investment spending

A decline in gross fixed capital formation in 1999 was followed by growth in the first and second quarters of 2000 of 1,6 per cent and 2,0 per cent, respectively. Private sector investment has grown strongly, except in the mining industry.

Investment by public corporations declined in the first and second quarters of 2000, reflecting a tapering off of the infrastructure rollout in the communications sector. However, a renewed upswing in public sector investment is expected as state asset restructuring picks up pace in 2001.

Inventories continue to rise

Inventories held by firms rose in the fourth quarter of 1999 and the first quarter of 2000, before weak demand induced business to reduce the rate of stock build-up in the second quarter. In the first half of 2000, inventories remained at 14,0 per cent of GDP compared with 13,3 per cent in 1999.

Government spending eases in the first half of 2000

Preliminary estimates indicate a continued easing in government consumption expenditure this year, reflecting restraint in expenditure on intermediate goods and in personnel remuneration.

The public sector borrowing requirement has declined from R29,5 billion in 1998 to R9,6 billion annualised in the first half of 2000.

Gross saving improves

Gross saving increased marginally in 1999 to 14,8 per cent of GDP, after declining from 19,1 per cent of GDP in 1990 to 14,3 per cent in 1998. In the first half of 2000, gross saving increased again to 15,3 per cent of GDP. This was due to improved saving performance by Government. Household saving as a percentage of disposable income continued to decline, reaching 0,4 per cent in the first half of 2000 from 0,8 per cent in 1999.

Employment and remuneration trends

Total employment increased from 1996 to 1999

The 1999 October Household Survey showed an increase in employment in the economy as a whole from 9 287 000 in 1996 to 10 369 000 in 1999. As illustrated in table 2.2, formal sector employment declined by 402 000, while informal employment increased by 911 000. The formal sector not covered by the Survey of Total Employment and Earnings increased by 174 000.

The 17 per cent increase in the economically active population (about 2 million people) indicates a large flow of people into the labour market between 1996 and 1999, swelling the numbers of young work-seekers without past work experience.

Table 2.2: Employment and unemployment, 1996 and 1999

	Thousands	**1996**	**1999**
A	**Total employed**	**9 287**	**10 369**
	Composition of the employed:		
	Employed in the formal sector STEE survey (excluding agriculture and certain formal sector activities not covered by the STEE)	5 242	4 840
	Employed in agriculture	759	1 099
	Employed in the formal sector in activities not covered by the STEE	1 550	1 724
	Employed in the informal sector	996	1 907
B	Total unemployed (official definition)	2 224	3 158
C	Total economically active (= A + B)	11 511	13 527
D	Total not economically active	13 146	12 753
E	Total working age population (= C + D)	24 657	26 280
F	Official unemployment rate (= B * 100/C)	19,3%	23,3%

Labour demand and skills

Increased capacity for skills development

Industrial restructuring and the changing nature of the work process have substantially raised the skills content of many jobs in the formal economy. Accelerated growth and job creation pose critical challenges for the education and training systems through which skills development and productivity enhancement are secured.

Shortages of professional skills

Private sector surveys of skills shortages routinely indicate the difficulties faced by firms (76 per cent of respondents in one study) in hiring qualified and experienced workers, especially in the information technology, medical and engineering fields. The skills shortage places a supply constraint on the rate of growth of the economy.

Skill shortages may become an even greater challenge than at present unless skills enhancement is increased, the education system responds adequately to the labour demands of the private sector and measures are taken to address the loss of skills through emigration. Government's skills development strategy, in co-operation with the private sector, will assist in adequately re-skilling the current labour force. More active linkages between the education system and industry can identify likely future skills requirements and pass them on to younger generations.

Wages and unit labour costs

Moderate growth in wages…

The skills shortage results in increasing wages and salaries for more highly-skilled workers, and contributes to wider income disparities. Nevertheless, wage growth has been moderate in 1999 and 2000. Following strong growth in 1998, the rate of growth of nominal remuneration in the formal sector continued to slow in 2000. Real wages increased by 0,4 per cent in the first quarter of 2000, after remaining stable in 1999.

…and unit labour costs

The rate of increase in nominal unit labour costs declined from 3,5 per cent in 1999 to 0,5 per cent in the first half of 2000. This improvement in the trend in unit labour costs is a result of a favourable combination of moderate nominal wage growth and strong labour productivity increases in 1999 and the first half of 2000.

Money supply and inflation

Stable monetary growth

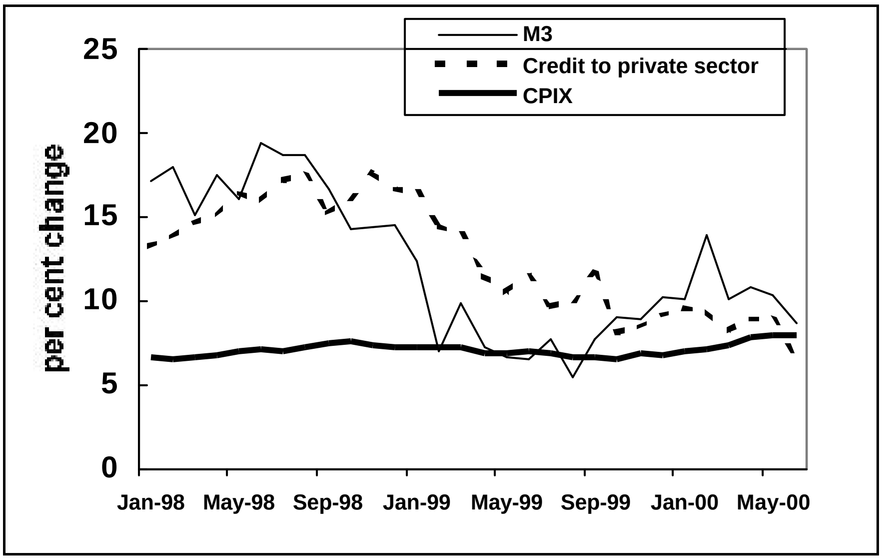
Despite stable trends in the growth rates of the money supply and of private sector credit extension, inflation has risen through the year. This is shown in figure 2.6.

This can be attributed primarily to cost-push factors, especially the increase of the price of crude oil and the impact of floods on agricultural production.

M3 – the broad money supply – increased by 8,7 per cent in the year to August 2000, compared with 10,2 per cent in calendar year 1999.

Private sector credit extension, which remained strong in 1998, weakened significantly in 1999 and into the first quarter of 2000. In the second quarter of 2000, private credit demand increased due to rising demand for mortgages and 'other loans,' accelerating from 7,1 per cent growth in the year to June, to 8,6 per cent in August.

Figure 2.6: Growth in the money supply, credit to the private sector and inflation, 1996 to 2000



Oil and agriculture drive prices in 2000

The rise in oil prices has had a marked impact on producer price inflation, which rose from 8,2 per cent over the year to January 2000 to 9,3 per cent in August. Consumer price inflation (measured by CPIX, the consumer price index excluding mortgage interest) increased from 7,7 per cent in the year to January 2000 to 8,1 per cent in September. The oil price increases will continue to filter through the economy in the second half of 2000 and first half of 2001.

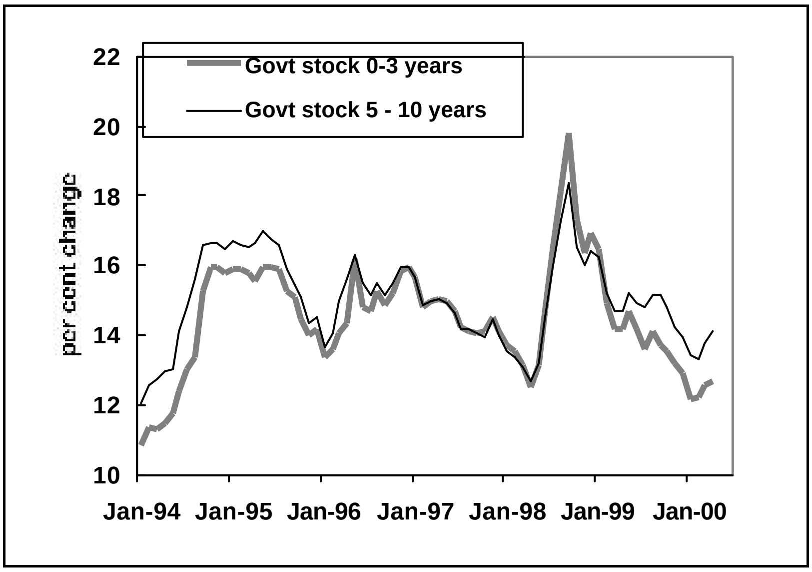
Interest rates remain steady

Reflecting the cost-push nature of the increases in the rate of inflation, nominal interest rates have remained steady in

2000. The repo rate remained stable at 11,75 per cent for most of this year, increasing to 12,0 per cent in October, while nominal yields on government bonds reached their lowest level since July 1994 – fluctuating around 12,8 per cent. This is illustrated in figure 2.7.

The predominant prime interest rate charged by commercial banks decreased from 18,0 per cent in 1999 to 14,5 per cent in 2000, year to date. The real cost of borrowing – measured by the prime rate minus CPIX – declined from 11,1 per cent in 1999 to 6,8 per cent in the year to August 2000.

Figure 2.7: Nominal bond yields, 1994 to 1999 (monthly data)



Domestic economic outlook

Improved GDP growth over MTEF period

Sound structural fundamentals, a continued strong export performance, accelerating investment spending, complemented by buoyant domestic consumption should underpin strong GDP growth through to 2003. The economic forecast is summarised in tables 2.4 and 2.5.

Employment forecast remains mixed

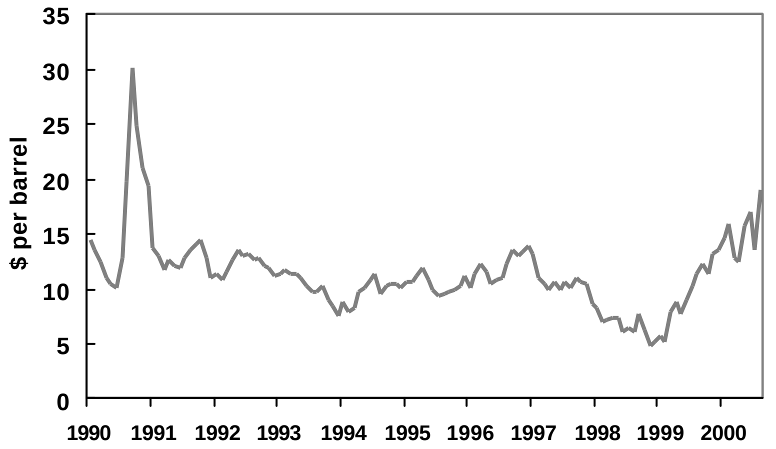
Employment is expected to increase in new formal sector industries, especially services, and in the informal sectors. Although job losses are likely to continue in mining and manufacturing as industrial restructuring proceeds, positive growth in overall formal employment should emerge as economic growth strengthens.

Oil prices and domestic inflation

Crude oil prices rose from a low of US$9,68 in February 1999 to levels above US$35 in early September. The domestic price of petrol increased from R2,29/litre to R3,66/litre over the same period. Measured in constant dollars, current oil prices are substantially above their ten-year average level, with the only comparable prices experienced during the Gulf war in 1990/91 (see figure 2.8).

The weight of fuel and power in the CPI is 4,0 per cent, while transport has a weighting of 15,4 per cent. However, the increase in international crude oil prices also impacts on inflation through the indirect cost increases in other goods and services.

Figure 2.8: Real oil prices, 1990 to 2000 (US dollars per barrel)



Inflation to decline

The upturn in inflation caused by the increase in international crude oil prices and the disruption to agricultural production caused by the floods earlier in the year, is expected to be reversed by the end of this year. Modest growth in money supply, excess production capacity and slower growth in labour costs will contribute to an easing of inflation in 2001 and beyond.

Consequently, CPIX inflation is expected to decline to 6,3 per cent in 2001 and to 5,0 per cent in 2002. Headline inflation is expected to follow more or less the same trend, with both CPIX and headline inflation falling to about 4,5 per cent by 2003.

Positive export growth

The real depreciation in the value of the rand, upward momentum in the commodity cycle, a relatively strong global economic environment and a further liberalised world trade environment are likely to provide a further impetus for strong export growth over the forecast period, albeit at slightly lower rates. Exports are set to rise by nearly 9 per cent this year and are expected to grow by about 7 per cent per year from 2001 to 2003.

Imports attuned to demand

Growth in merchandise import volumes slowed down in the second quarter of the year, largely owing to relatively weak domestic demand conditions. This trend is expected to turn around as domestic economic activity gains momentum and the demand for imported goods accelerates.

Minimal current account constraints

In light of the favourable first half current account data and the downward revision to domestic demand for this year, the projected deficit on the current account has been revised downwards to 0,4 per cent of GDP for this year. Although the deficit on the current account is expected to increase again as demand picks up, it is not expected to rise much above 1,5 per cent of GDP over the forecast period.

Consumption expected to rise

Higher disposable incomes due to the 2000 Budget tax changes should underpin renewed growth in consumption expenditure. Final consumption expenditure by households is expected to grow by 2,9 per cent in 2000 and 3,0 per cent in 2001.

Solid private sector investment growth

Private sector investment is expected to gain momentum in the forecast period as growth picks up and the benefits of lower interest rates filter through. Consequently, total private sector fixed capital formation will be the driving force of gross capital formation throughout the forecast period with an average growth rate of 6,3 per cent over the period 2000-2003.

Government consumption increasing

Government consumption expenditure is expected to grow by an average of 2,7 per cent over the next three years, following several years of restraint.

Fiscal year projections adjusted

Compared to the figures published in February's Budget Review, the new fiscal year projections for 2000/01 show a downward adjustment in GDP growth and higher inflation.

Growth is expected to increase more rapidly in 2001/02 and 2002/03 than was previously anticipated, while inflation will decelerate somewhat more slowly, due to the oil price increases.

Table 2.3: Macroeconomic indicators: 1997 to 2003

Calendar year:	1997	1998	1999	2000	2001	2002	2003
		Outcome			Projected		
Real growth in demand:							
Final household consumption	2,7%	1,3%	0,7%	2,9%	3,0%	3,3%	2,9%
Final government consumption	4,5%	-0,5%	-1,9%	-1,7%	2,4%	2,9%	2,7%
Gross fixed capital formation	5,2%	4,8%	-6,9%	0,9%	6,3%	7,4%	6,5%
Gross domestic expenditure	2,5%	0,6%	-0,5%	2,1%	3,6%	3,9%	3,4%
Exports	5,5%	2,3%	0,0%	8,9%	6,8%	7,1%	6,7%
Imports	5,4%	2,1%	-7,0%	8,0%	8,0%	8,5%	7,2%
Real GDP growth	**2,5%**	**0,6%**	**1,2%**	**2,4%**	**3,4%**	**3,7%**	**3,3%**
GDP inflation	7,8%	7,7%	6,8%	6,2%	6,1%	5,0%	4,7%
Gross domestic product at market prices (R billion)	**683,7**	**740,6**	**801,1**	**871,8**	**956,9**	**1 041,0**	**1 126,8**
Consumer price inflation:							
Headline CPI	8,6%	6,9%	5,2%	5,2%	6,4%	5,2%	4,8%
CPIX (Metropolitan and urban areas)		7,1%	6,9%	7,7%	6,3%	5,0%	4,7%
Balance of payments:							
Current account balance (% of GDP)	-1,5%	-1,6%	-0,4%	-0,4%	-1,1%	-1,5%	-1,2%

Table 2.4: Macroeconomic projections: 1999/00 to 2003/04

	1999/00	2000/01		2001/02		2002/03		2003/04
Fiscal year:	**Outcome**	**February 2000 projection**	**Revised projection**	**February 2000 projection**	**Revised projection**	**February 2000 projection**	**Revised projection**	
Gross domestic product (R bn)	**816,7**	**885,2**	**892,5**	**958,2**	**976,7**	**1 036,7**	**1063,3**	**1148,7**
Real GDP growth	1,8%	3,6%	2,6%	3,2%	3,7%	3,3%	3,5%	3,3%
GDP inflation	6,1%	5,5%	6,5%	4,9%	5,6%	4,8%	5,2%	4,6%
CPI inflation:								
Headline	3,8%	5,5%	6,3%	5,2%	5,7%	4,7%	5,5%	4,5%
CPIX	6,9%	6,6%	7,6%	5,3%	5,8%	4,5%	5,0%	4,6%