2

Economic outlook

In brief

- GDP growth, projected at 2.1 per cent in the current year, is expected to rise to 3.5 per cent in 2016.
- Factors supporting an improved medium-term outlook include stronger growth among key developed-country trading partners, robust trade and investment in sub-Saharan Africa, the availability of new electricity supply by the end of 2014, and major investments in rail and bulk water supply.
- The National Development Plan provides a long-term framework for improved cooperation between the private sector, labour, government and civil society. Determined focus to bring about the reforms envisioned by the plan will increase the capacity of the economy to grow more rapidly, allowing South Africa to substantially reduce poverty and inequality.
- Government has a broad package of measures to promote job creation – from special economic zones to public employment programmes. Draft legislation has been introduced that will create a tax incentive intended to boost employment among young work seekers.

Introduction

The South African economy has continued to grow, despite weak global growth and domestic constraints

In the face of an uneven global economic recovery and continued domestic constraints, the South African economy has continued to grow at a moderate pace. The National Treasury projects gross domestic product (GDP) growth of 2.1 per cent in 2013, down from 2.5 per cent in 2012 and 3.5 per cent in 2011. The slowdown in economic growth reflects global conditions and domestic factors, including labour disputes and maintenance stoppages in major industries, binding constraints in electricity production and other areas, and declining business confidence.

GDP growth is expected to recover over the next three years, reaching 3.5 per cent in 2016. On this growth trajectory, employment is projected to expand by about 1.7 per cent a year – much lower than is necessary to reduce joblessness and bring millions of South Africans into the productive economy. A rapid expansion of employment requires a fast-growing economy capable of absorbing more labour. The National Development Plan (NDP) provides a framework for improved cooperation between government, business, labour and civil society to address pressing concerns and embark on long-term reforms.

A recovery in global growth is not enough – structural reforms to the South African economy are needed

After five years of financial and economic instability, world economic growth prospects remain subdued. While the National Treasury expects a gradual recovery in trade and development prospects, South Africa cannot rely on the global economy to be the main driver of domestic growth and development. Achieving sustainable growth and job creation is largely about structural reforms to:

- Improve education and productivity
- Increase product market competition and competitiveness of local firms
- Raise the level of savings and investment
- Enhance the role of black economic empowerment initiatives to broaden participation
- Strengthen the efficiency of state-owned enterprises.

Government remains committed to macroeconomic stability, supported by prudent fiscal management, inflation targeting and a flexible exchange rate. These policies ensure that the country's finances remain sustainable; that South Africa can attract domestic and international investment; that wages, social security benefits and savings are not eroded by high inflation; and that the economy can absorb external shocks.

Implementing the National Development Plan

Core NDP proposals are intended to lower the cost of doing business and the cost of living

The NDP is a framework to accelerate economic growth, eliminate poverty and reduce inequality. It was widely canvassed and endorsed by the South African public prior to its adoption by Cabinet, and is being implemented by government. The plan aims to reduce the costs of living and of doing business, resulting in improved consumer and business confidence, rising levels of private investment, and higher growth and employment.

The government is acting on key NDP proposals, including:

- Making sustainable investments in competitive economic infrastructure
- Increasing the pace of job creation, particularly for young job seekers
- Encouraging the expansion of businesses and the development of new enterprises, including small and medium-sized companies
- Transforming human settlements and developing a functioning public transport system
- Providing policy certainty to encourage long-term investment in mining and other sectors
- Increasing economic integration within sub-Saharan Africa in areas such as energy production, finance, tourism, communications, infrastructure building and customs administration.

New electricity generating capacity to come on line next year and a new coal-fired power plant is planned

A number of measures are under way to address short- and medium-term concerns in key economic sectors. In mining, there has been progress in resolving labour disputes. Government has taken steps to reduce freight costs, to improve access to finance and support services for small business, to bring private investment into renewable energy development, and to ensure that competition is not undermined by collusive practices. Over the medium term, these steps should increase South Africa's growth prospects. New electricity generating capacity scheduled to come on line next year will remove a key constraint in the economy. In July, Cabinet decided to build a new coal-fired power plant, which will contribute to adequate electricity supply over the longer term.

Global developments

Rebalancing of global growth is taking place

The International Monetary Fund (IMF) projects global GDP growth of 2.9 per cent in 2013, rising to 3.6 per cent in 2014. Economic growth is improving moderately in developed economies, and growth continues in emerging markets, though at a slower rate in 2013. Manufacturing sentiment in advanced economies points towards further recovery in the second half of the year.

Table 2.1 Annual percentage change in GDP and consumer prices in selected regions/countries, 2012 – 2014

Region / country	2012	2013	2014	2012	2013	2014
Percentage	GDP projections[1]			Consumer price index projections[1]		
World	**3.2**	**2.9**	**3.6**	**4.0**	**3.8**	**3.8**
Advanced economies	**1.5**	**1.2**	**2.0**	**2.0**	**1.4**	**1.8**
US	2.8	1.6	2.6	2.1	1.4	1.5
Euro area	-0.6	-0.4	1.0	2.5	1.5	1.5
UK	0.2	1.4	1.9	2.8	2.7	2.3
Japan	2.0	2.0	1.2	0.0	0.0	2.9
Emerging markets and developing countries	**4.9**	**4.5**	**5.1**	**6.1**	**6.2**	**5.7**
Brazil	0.9	2.5	2.5	5.4	6.3	5.8
Russia	3.4	1.5	3.0	5.1	6.7	5.7
India	3.2	3.8	5.1	10.4	10.9	8.9
China	7.7	7.6	7.3	2.6	2.7	3.0
Sub-Saharan Africa	**4.9**	**5.0**	**6.0**	**9.0**	**6.9**	**6.3**
South Africa[2]	2.5	2.1	3.0	5.7	5.9	5.6

1. IMF World Economic Outlook, October 2013
2. National Treasury forecasts

Commodity prices have declined, but should stabilise or increase over medium term

Subdued global economic conditions, particularly the slowdown in emerging markets, have led to a decline in commodity prices. Between January and September of this year the IMF Metals Price Index fell by 12.1 per cent. For the period ahead, gold prices, which have declined by about 19 per cent over the past two years, are expected to stabilise, while the prices of South Africa's other major export commodities are projected to rise moderately.

Advanced economies

During 2014, higher growth is expected in several advanced economies:

- US GDP growth is projected to fall from 2.8 per cent in 2012 to 1.6 per cent in 2013, but a slower pace of fiscal consolidation and low interest rates are expected to boost GDP growth to 2.6 per cent in 2014.
- Economic conditions are improving in the euro area, which recorded output growth in the second quarter of 2013 following six quarters without growth. GDP growth of 1.0 per cent is projected for 2014, up from an estimated contraction of 0.4 per cent for 2013. Despite improved growth trends, broad recessionary conditions persist in Europe.

- Japan's fiscal stimulus and monetary policy easing have led to an improved economic performance, with higher levels of private consumption and net exports. GDP growth in 2013 is expected to remain at 2 per cent, unchanged from 2012 levels, but to decline to 1.2 per cent next year due to a tapering of fiscal and monetary support, higher consumption taxes and lower construction spending.

Emerging markets

Outlook for emerging markets remains positive, despite vulnerability to capital flow volatility

Growth prospects in emerging markets remain generally positive. Recent events, however, have exposed vulnerability to fluctuations in capital inflows. Currency depreciation and market instability have been pronounced in countries with large current account deficits. The IMF has revised the 2013 growth outlook for developing countries from 5 per cent to 4.5 per cent, rising to 5.1 per cent in 2014.

- China's GDP growth slowed to 7.7 per cent in 2012 from 9.3 per cent in 2011, as exports weakened and the property market cooled. Growth of 7.6 per cent and 7.3 per cent is projected in 2013 and 2014, respectively. Policymakers are working to rebalance the economy towards higher household consumption to support long-term growth.
- India is expected to record GDP growth of 3.8 per cent in 2013 from 3.2 per cent in 2012, as a result of strong growth in agriculture. Economic activity is projected to expand by 5.1 per cent in 2014 as transport and energy bottlenecks are addressed and export growth gathers pace.
- After recording growth of 0.9 per cent in 2012, Brazil's economy is projected to expand by 2.5 per cent in both 2013 and 2014 in response to higher investment and export growth. Higher inflation will reduce the spending power of households, while ports, rail and road network bottlenecks constrain growth.
- Economic activity in sub-Saharan Africa remains robust, with growth projected to rise from an estimated 5 per cent this year to 6 per cent in 2014. Improved economic management and political stability support rising investment into the continent, particularly in Angola and Nigeria.

Global economic risks

Risks to outlook include US fiscal and monetary outcomes, European banking weakness

The improving outlook for the world economy is subject to a high degree of risk. There are several major concerns:

- The outcome of US fiscal policy debates and the timing of the Federal Reserve's decision to wind down its asset purchase programme will affect the global economic and financial environment, with the potential to lower US growth, reduce capital inflows into emerging markets and increase global borrowing costs.
- Volatility in global capital flows will expose many emerging markets to balance-of-payment risks.
- Undercapitalisation of major banks in Europe has the potential to destabilise the financial sector, undermining the fragile recovery in the euro area and lowering growth across the world economy.
- Lower commodity prices may pose challenges for many countries in sub-Saharan Africa.

Towards more rapid regional integration in sub-Saharan Africa

Continued economic growth in sub-Saharan Africa is supported by growing investment and rising household incomes. Expanded agricultural production and retail services, rising oil production and increased mining activity will underpin strong growth over the medium term.

South African firms have invested heavily in mining, telecommunications, banking, construction and retail in the region, which absorbs one-quarter of South Africa's manufactured exports and 14 per cent of its total exports. South African assets in the region (including foreign direct investment, equities and bonds) grew from R157 billion in 2009 to R251 billion in 2011. Over the same period, the assets of African countries in South Africa increased from R99 billion to R110 billion.

Several complementary steps could support faster integration, boosting regional growth and development. These include expanded transport links and infrastructure networks, and the reduction of tariff and non-tariff barriers to trade and investment. Enhanced regional cooperation will enable African producers to have increased access to the continent's largest economy, while boosting South Africa's exports.

The 2013 *Budget Review* (Annexure W-3) announced several reforms to help local firms expand into the rest of Africa, and companies have begun to take up opportunities under these provisions.

Sub-Saharan Africa: Real GDP growth

Percentage change	2004-08	2010	2011	2012	2013[1]	2014[1]
Sub-Saharan Africa (total)[2]	**6.4**	**5.4**	**5.3**	**4.9**	**5.0**	**6.0**
of which						
Oil-exporting countries[2]	8.5	6.6	6.1	6.3	5.8	7.0
Middle-income countries[3]	5.0	4.0	4.7	3.8	3.3	3.9
of which : South Africa	4.9	3.1	3.5	2.5	2.1	3.0
Low-income countries[3]	7.3	6.4	5.6	4.9	6.5	8.1
Fragile countries	2.5	4.2	2.4	7.0	6.8	6.5
World	**4.6**	**5.2**	**3.9**	**3.2**	**2.9**	**3.6**

1. IMF forecast for the year except for South Africa which uses National Treasury forecasts
2. 2004 to 2011 excludes South Sudan
3. Excluding fragile states
Source: IMF World Economic Outlook and National Treasury

Domestic economic trends and outlook

The South African economy is projected to grow by 2.1 per cent this year, with GDP growth reaching 3.5 per cent in 2016. Labour disputes, electricity shortages and other supply-side disruptions have weighed down business and consumer confidence, and lowered demand for goods and services. Effective resolution of these problems will boost confidence and economic performance.

South African economic growth is expected to rise to 3.5 per cent by 2016

Table 2.2 Macroeconomic performance and projections, 2010 – 2016

Calendar year	2010	2011	2012	2013	2014	2015	2016
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Final household consumption	4.4	4.8	3.5	2.5	2.9	3.2	3.4
Final government consumption	5.0	4.6	4.2	3.4	3.4	3.0	3.3
Gross fixed capital formation	-2.0	4.5	5.7	4.1	5.0	5.5	6.3
Gross domestic expenditure	4.4	4.6	4.1	2.7	3.2	3.4	3.8
Exports	4.5	5.9	0.1	6.1	5.0	6.7	7.0
Imports	9.6	9.7	6.3	7.3	5.2	6.4	7.0
Real GDP growth	**3.1**	**3.5**	**2.5**	**2.1**	**3.0**	**3.2**	**3.5**
GDP inflation	7.2	6.0	5.5	5.9	5.9	5.7	5.7
GDP at current prices (R billion)	**2 659.4**	**2 917.5**	**3 155.2**	**3 411.7**	**3 720.2**	**4 061.7**	**4 443.7**
Headline CPI inflation (Dec 2012 = 100)	4.3	5.0	5.7	5.9	5.6	5.4	5.4
Current account balance (% of GDP)	-2.8	-3.4	-6.3	-6.5	-6.4	-6.2	-6.1

Source: Reserve Bank and National Treasury

Table 2.3 Macroeconomic performance and projections, 2010/11 – 2016/17

Fiscal year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Real GDP growth	3.4	3.1	2.4	2.3	3.0	3.3	3.5
GDP inflation	7.8	5.4	5.5	6.0	5.9	5.8	5.7
Headline CPI inflation (Dec 2012 = 100)	3.8	5.6	5.6	6.0	5.5	5.4	5.4
GDP at current prices (R billion)	**2 735.3**	**2 973.3**	**3 213.4**	**3 483.6**	**3 799.8**	**4 153.3**	**4 545.7**

Source: National Treasury

Trends in the real economy

All sectors of the economy have shown a slowdown in economic activity in response to still-sluggish global economic growth and supply-side disruptions. Production stoppages have been most pronounced in mining and manufacturing. This has created considerable volatility in GDP, as declines in one quarter are followed by growth in the next – a pattern that prevents the economy from sustaining higher growth momentum.

Structural changes in mining see prominence of iron ore increase

Structural changes are under way in the mining sector, with rising demand for coal and iron ore. The share of iron ore in total mining increased from 3.1 per cent in 2000 to 14.4 in 2010 (the last year for which data is available), supported by expanded rail and port capacity as well as strong demand from China. In contrast, platinum production is under pressure due to escalating costs and labour unrest.

Table 2.4 Commodity prices, 2007 – 2013

	2007	2008	2009	2010	2011	2012	2013[1]
Gold (US$/troy oz)	697	873	973	1 226	1 572	1 669	1 460
Platinum (US$/troy oz)	1 306	1 582	1 206	1 612	1 725	1 553	1 520
Coal (US$/tonne)	63	121	64	92	116	93	79
Iron ore (US$/tonne)	37	62	80	147	168	129	136

1. First nine months of 2013
Source: Bloomberg

The performance of the gold sector reflects the impact of strikes and lower prices, as well as longer-term trends, such as declining ore grades and deeper shafts. Real value added in the sector decreased by an annualised 5.6 per cent in the second quarter of 2013 after increasing by 14.6 per cent in the first.

Support for small-scale farmers through market access will help boost agricultural output

Agricultural output grew by 3.6 per cent in the first half of 2013 in comparison with the same period last year. Over the medium term, agriculture will be supported by continued growth in African markets, improved management of water resources, better integration of small-scale farmers through market access and financial support, and resolution of outstanding land claims.

Fortunes of the manufacturing sector expected to improve

The manufacturing sector contracted by an annualised 7.9 per cent in the first quarter of 2013 following large-scale maintenance stoppages, but rebounded to an annualised 11.5 per cent growth in the second quarter. Investment is rising in the food, paper products, fuel and motor vehicle subsectors. Manufacturing growth should increase as labour disputes are resolved, domestic supply constraints are addressed and improving global conditions boost demand for South African exports.

An unplanned outage at the Koeberg nuclear power plant near Cape Town, and Eskom's increased summer maintenance programme, contributed to a decline of 0.2 per cent in the electricity sector over the first eight months of

2013 compared to the same period a year earlier. A tight electricity demand-supply balance is expected to persist until Medupi's first 800-MW unit comes on line during the second half of 2014.

Growth in services sector remains subdued

Growth in the rest of the economy remains subdued, with the services sector recording growth of 2.2 per cent in the first half of the year relative to the same period last year. Finance, real estate and business services growth slowed from 3.8 per cent in the first half of 2012 to 2.7 per cent over the same period in 2013. Transport, storage and communication, wholesale and retail trade, and personal services recorded growth rates of between 1.8 and 2 per cent.

Factors supporting an improved economic outlook

China's transition towards more balanced growth should open opportunities for South African exports

Over the medium term, improving global conditions and strong regional growth will support moderately higher demand for South African exports. Continued investment in infrastructure will reduce supply constraints, help to crowd-in private investment, and allow for more production and employment. The rand's weaker real effective exchange rate is expected to support the profitability of mining and competitiveness in the manufacturing sector, provided that domestic cost pressures remain moderate. China's transition from investment-led growth, with a larger role for household consumption, should open up new opportunities for competitively priced South African manufactured exports.

New capacity, lower tariffs to increase competitiveness of ports

During the course of 2013, progress has been made in addressing binding constraints to growth in several economic sectors. These steps include:

- Improving the efficiency, pricing and capacity of local ports to reduce transport costs and enhance competitiveness. The Ports Regulator maintained 2013/14 port tariffs at their 2012/13 levels and sharply decreased a range of export and import tariffs. A new tariff structure will be phased in from 2014 to 2018. Handling capacity at the Durban container terminal is being expanded.
- Investing in freight capacity to help alleviate supply bottlenecks. Transnet's R2.3 billion upgrade of the rail network servicing the port of Coega will raise annual manganese export capacity from 5 million to 21 million tons. Coal export capacity will increase by 30 per cent with the introduction of a 200-wagon rail service from the Mpumalanga coalfields to the Richards Bay Coal Terminal.
- Improving access to finance and support services for small businesses. The Small Enterprise Development Agency established 10 business incubators during 2012/13, bringing the total to 42. These facilities offer access to financial and technical advice. In 2012/13, the programme supported 2 282 small and medium-sized firms, and the Small Enterprise Finance Agency approved loans of R560 million.

Domestic expenditure

Real gross domestic expenditure slowed during first half of 2013

Real gross domestic expenditure growth slowed to 2.6 per cent in the first half of 2013 from 3.8 per cent in the second half of 2012, due to softer growth in household consumption expenditure and investment.

Table 2.5 Contribution to gross domestic expenditure growth, 2008 – 2013

Percentage points	2008	2009	2010	2011	2012	2013[1]
Household consumption expenditure	1.4	-1.0	2.7	3.0	2.1	1.6
Government consumption expenditure	0.8	0.9	1.0	0.9	0.8	0.7
Gross fixed capital formation	2.4	-0.9	-0.4	0.8	1.0	0.8
Change in inventories	-1.6	-0.9	1.2	0.3	-0.1	-0.1
Total (per cent)[2]	**3.5**	**-1.6**	**4.4**	**4.6**	**4.1**	**2.6**

1. First half of 2013 compared with first half of 2012

2. Totals may not add up due to residual items that represent unallocated gross domestic expenditure

Source: Reserve Bank

Household consumption expenditure

Household consumption growth is expected to slow to 2.5 per cent in 2013 from 3.5 per cent in 2012 as a result of decelerating disposable income growth, a high debt burden, tightening lending conditions and rising inflation. Growth in this indicator is expected to rise to 3.4 per cent by 2016 in line with improved economic conditions and employment gains.

Growth in private credit extension slows somewhat and growth in unsecured personal loans falls sharply

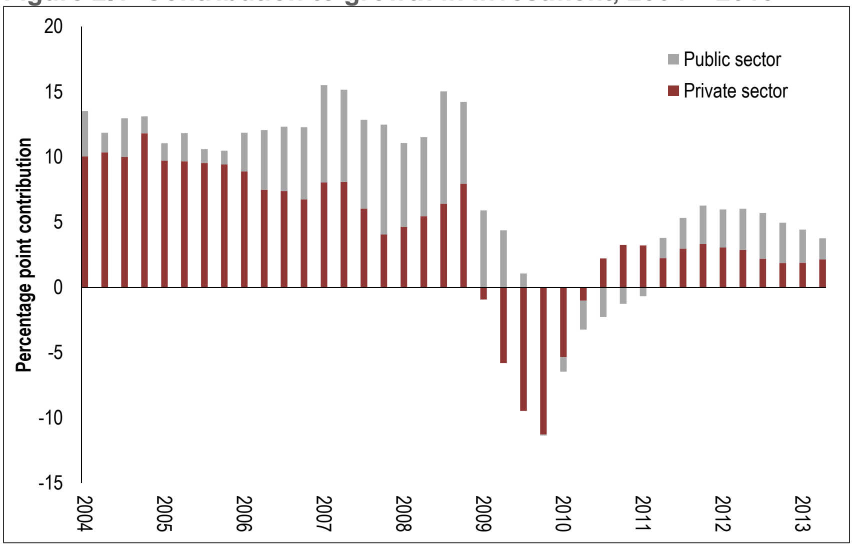
Growth in household credit extension slowed to 8.2 per cent in August from 8.7 per cent a year earlier. Growth in unsecured personal loans fell from 30.1 per cent in December 2012 to a more sustainable level of 17 per cent in August. Household disposable income growth declined to 2.6 per cent in the first half of 2013 from 4 per cent a year earlier.

Public and private investment

Slower growth in fixed capital formation due to unplanned delays

Growth in real gross fixed capital formation slowed to 4.1 per cent in the first half of 2013, compared with 6.0 per cent in the corresponding period of 2012. Unplanned delays and sluggish uptake of new projects slowed investment spending by public corporations.

Figure 2.1 Contribution to growth in investment, 2004 – 2013



Source: Reserve Bank

Public-sector investment growth fell to 5.7 per cent in the first half of the year from 8.5 per cent in the first half of 2012. Industrial action at the Medupi power plant in the first quarter, and delays in capital spending by Transnet and the South African National Roads Agency Limited, caused investment growth in the electricity and transport sectors to slow.

Private-sector investment has fallen, but is expected to improve over period ahead

Growth in private investment, which accounts for over two-thirds of total gross fixed capital formation, totalled 3.2 per cent in the first half of 2013. Private investment growth is projected at 3.5 per cent in 2013, rising to 5.3 per cent by 2016, supported by higher levels of domestic and global demand, relatively low borrowing costs, improvements to infrastructure (particularly electricity) and improved business confidence. Total capital investment is projected to increase by 4.1 per cent in 2013 and 6.3 per cent in 2014.

Inflation

Inflation expected to remain within target band over medium term, but weaker rand is a risk

In July 2013, consumer price inflation rose to 6.3 per cent, breaching the 3-6 per cent target band for the first time since April 2012. Higher transport costs, administered and food prices, and miscellaneous goods and services were the main contributors to higher inflation. Price pressures are expected to moderate over the medium term, supported by slower growth in food, petrol and electricity prices. Inflation is projected at 5.9 per cent in 2013 and should remain within the target band over the medium term. The weaker rand, however, poses a risk to the inflation forecast.

Employment

Statistics show low levels of formal-sector hiring, but higher levels in informal sector and agriculture

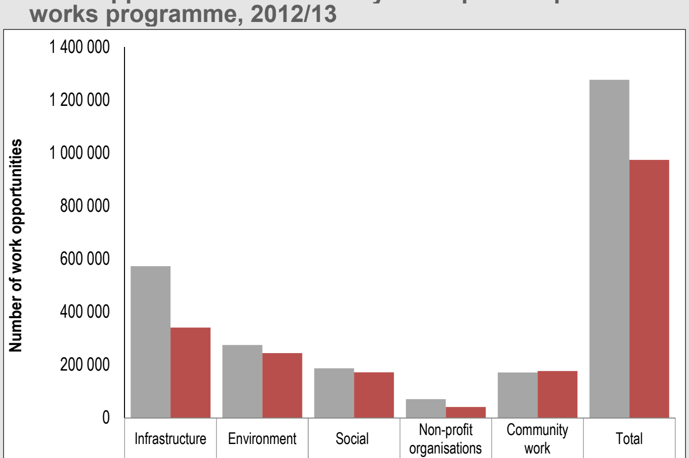
Employment increased by 274 229 jobs in the year to July, according to the *Quarterly Labour Force Survey*, which includes estimates of hiring in agriculture and the informal sector. Growth in the formal non-agricultural sector, however, remained muted as gains in the public and financial sectors were offset by employment losses in mining, manufacturing and construction.

Promoting economic participation and job creation

Initiatives are under way to strengthen further education colleges, expand access to student finance, and refocus the activities of sector education authorities and the National Skills Fund. Tax allowances for learnerships aim to increase skills levels. The Industrial Policy Action Plan, the proposed framework for special economic zones and tourism promotion efforts aim to boost employment and income generation.

The expanded public works programme continues to prioritise young people and women – and more than 60 per cent of jobs created last year were filled by youths, well above the 40 per cent target. The Jobs Fund has approved allocations of R3.4 billion to some 64 projects, expected to create over 90 000 permanent jobs and about 100 000 training opportunities over the period ahead. An employment incentive proposal has been tabled to encourage youth employment and share the costs of job creation in special economic zones and targeted industries. This measure is expected to support about 200 000 jobs over the next three years.

Work opportunities* created by the expanded public works programme, 2012/13



	Infrastructure	Environment	Social	Non-profit organisations	Community work	Total
Annual target	572 000	275 000	187 000	70 400	171 500	1 275 900
Reported	340 676	244 112	171 668	40 599	176 690	973 745

* *The Department of Public Works defines a work opportunity as paid work created for an individual for any period of time. Each period of employment counts as a work opportunity. The average duration of a work opportunity across the expanded public works programme in 2012/13 was 70 days, against a target of 100 days.(Source: Department of Public Works)*

The growth in private-sector employment is far below the rate required to absorb new entrants into the labour market and reduce the unemployment rate. Settlements in the first half of 2013 raised wages by 7.9 per cent on average, up from 7.6 per cent in 2012. Real wage growth exceeded productivity growth, leading to a 6.7 per cent increase in unit labour costs in the first quarter of 2013 relative to the same period in 2012.

Measures have been tabled to reduce costs of hiring younger workers

Unemployment remains stubbornly high, in particular for those between the ages of 19 and 29. Government has a multi-pronged approach to promoting economic participation and job creation. Improving education and skills development is the central challenge.

Balance of payments

Trade balance

South Africa's terms of trade declined during the first half of 2013

Growth in export volumes in the first half of the year was outpaced by continued import growth. Along with a decline in the terms of trade (the price of exports relative to imports), this led to a trade deficit of 2.6 per cent of GDP in the first half of 2013. The value of exports increased by 14.2 per cent over the first half of 2013, led by manufactured goods. Over the same period, the value of imports increased by 15.8 per cent due to strong growth in capital goods procurement.

Table 2.6 Composition of South Africa's trade and trade performance, 2012 – 2013

	Share of total trade		Percentage change		Contribution to growth			
	Exports	Imports	Exports	Imports	Exports		Imports	
	2013[1]		2013[2]		2012	2013[2]	2012	2013[2]
Precious metals and stones	21.9	0.7	8.3	-19.8	-2.9	1.9	0.0	-0.2
Mineral products	25.7	22.2	5.1	12.1	1.9	1.4	4.6	2.8
Base metals and steel	12.4	5.2	6.9	26.4	-0.7	0.9	0.6	1.3
Raw and processed food products	9.7	5.9	29.9	10.4	0.6	2.5	1.4	0.7
Transport equipment (incl. vehicles)	9.9	10.3	28.4	14.4	1.0	2.4	0.9	1.5
Machinery and appliances	8.0	24.9	10.8	21.9	0.6	0.9	3.0	5.2
Chemicals, plastics, rubber	7.5	12.9	5.3	19.0	0.7	0.4	1.8	2.4
Pulp and paper products	1.7	1.4	19.1	25.5	0.0	0.3	0.2	0.3
Other[3]	1.8	4.3	19.3	17.9	0.2	0.3	0.4	0.8
Miscellaneous manufactures	0.5	1.5	5.6	17.3	0.0	0.0	0.4	0.3
Textiles, clothing and footwear	0.9	4.0	20.7	21.0	0.1	0.2	0.5	0.8
Vehicle components	0.0	6.7	241.7	21.0	0.0	0.0	1.0	1.4
Total	**100.0**	**100.0**	**11.2**	**17.3**	**1.4**	**11.2**	**14.7**	**17.3**

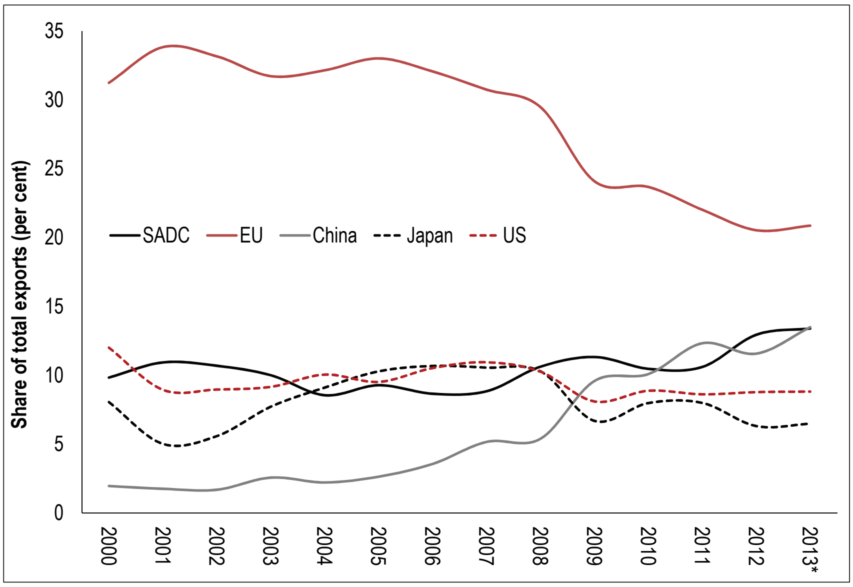
1. First eight months of 2013
2. First eight months compared to the same period in 2012
3. Other includes optical and photographic equipment, stone, plaster, wood, hides, leather and skin and articles thereof, works of art and unclassified products
Source: Quantec

Table 2.6 shows that the main contributors to import growth have been mineral products (mainly petroleum), chemicals, plastic, rubber, machinery and appliances (capital equipment) and transport equipment.

Exports to China, SADC remain strong

Moderately higher economic growth in advanced economies over the first six months of the year has increased demand for South African products. Exports to China increased by 19.7 per cent in the first half of the year, supported by mineral product exports and a five-fold increase in vehicle exports. The Southern African Development Community (SADC) region is South Africa's second-largest market after the European Union, accounting for 22.3 per cent of manufactured exports.

Figure 2.2 South Africa's major trading partners by share of exports



Source: Quantec

** First half of 2013*

Import growth is expected to remain resilient as investment in infrastructure and capital equipment accelerates. Alongside efforts to raise their levels of innovation and competitiveness, exporters can benefit from a favourable exchange rate, stronger global growth and improved domestic supply conditions. Export prospects to the US could be enhanced by extension of South Africa's trade access under the African Growth and Opportunity Act beyond 2015.

Import growth expected to be resilient over the next several years

Current and financial accounts

The current account deficit remains elevated at 6.5 per cent of GDP. The trade deficit remains high, while the net income and service receipts are unchanged from 2012. The current account deficit is projected to remain at about 6 per cent over the medium term as investment growth continues to outpace increases in domestic savings.

Transfers to Botswana, Lesotho, Namibia and Swaziland based on the Southern African Customs Union revenue-sharing agreement are projected to account for just over 1 per cent of GDP per year over the medium term.

Total net foreign capital inflows into South Africa declined by 4.0 per cent in the first half of 2013 relative to the same period in 2012. Net purchases of bonds by international investors declined from R76 billion over the first nine months of 2012 to R37 billion over the same period in 2013. Net purchases of equities reversed, from an outflow of R5 billion to an inflow of R26 billion. Weaker inflows reflect a pullback from emerging markets and concerns about the domestic economy.

Weaker capital inflows reflect pullback from emerging markets

Table 2.7 Balance of payments, 2007 – 2013

Percentage of GDP	2007	2008	2009	2010	2011	2012	2013[1]
Total current account	**-7.0**	**-7.2**	**-4.0**	**-2.8**	**-3.4**	**-6.3**	**-6.1**
Trade balance	-1.8	-1.6	0.1	1.0	0.6	-2.4	-2.6
Net services, income and transfer receipts	-5.2	-5.6	-4.1	-3.8	-3.9	-3.9	-3.5
Net service receipts	-0.9	-1.5	-1.0	-1.2	-1.2	-0.7	-0.7
Net income receipts	-3.4	-3.3	-2.2	-2.0	-2.3	-2.2	-1.8
Net dividend receipts	*-3.1*	*-2.6*	*-1.6*	*-1.5*	*-1.9*	*-1.7*	*-1.2*
Net transfer payments (mainly SACU)	-0.8	-0.8	-0.9	-0.6	-0.5	-1.0	-1.0
Current account excluding SACU transfers	-6.1	-6.3	-3.1	-2.2	-2.9	-5.3	-5.2
Financial account balance[2]	**9.3**	**8.3**	**4.7**	**4.0**	**4.5**	**6.5**	**5.8**
Net portfolio investment	3.6	-6.0	3.9	2.8	-0.6	1.7	-1.0
Net foreign direct investment	1.2	4.5	2.2	1.0	1.1	0.1	1.0
Net other investment	3.0	5.8	-0.7	-0.5	1.0	3.4	1.0
Unrecorded transactions	1.4	4.0	-0.7	0.7	2.9	1.4	4.7
Change in net reserves due to balance of payments	**2.4**	**1.2**	**0.7**	**1.2**	**1.1**	**0.3**	**-0.8**

1. Includes data for the first two quarters of 2013, seasonally adjusted and annualised
2. Including unrecorded transactions first half 2013
Source: Reserve Bank

Global Competitiveness Report ranks South Africa the second-most competitive African country

South Africa recorded R16.9 billion worth of net foreign direct investment in the first half of 2013, consisting largely of long-term loan financing extended by international firms to their domestic subsidiaries. The most recent *Global Competitiveness Report*, which evaluates the business operating environment and competitiveness of 148 countries, ranks South Africa 53rd, making it the second-most competitive country in sub-Saharan Africa (after Mauritius, ranked 45th).

Rand exchange rate

Real effective exchange rate depreciated by 11.7 per cent over year to July

The rand's exchange value declined from R8.79 to the US dollar in January 2013 to R9.98 in September 2013. During the third quarter of 2013, uncertainty surrounding the timing and pace of the reduction in the US monetary stimulus took a toll on the rand and other emerging-market currencies. The real effective exchange rate has depreciated by 11.7 per cent over the year up to July. The weaker real value is expected to support mining and manufacturing exports, provided that the depreciation is sustained. This requires low and stable levels of inflation.

Conclusion

Government is working to implement the NDP, reduce the costs of living and doing business, and build a more capable state

Government is implementing the NDP, working to reduce the cost of living and the cost of doing business, taking steps to build a more capable state, and investing in the capacity and welfare of households. This broad approach is complemented by recent initiatives to reduce freight costs, to improve access to finance for small businesses, to increase competition and to build new electricity generating capacity.

The NDP provides a platform for increased collaboration between government, business, labour and civil society. Such cooperation on South Africa's common goals will boost consumer and business confidence, and translate into higher levels of investment, employment and growth.