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MACROECONOMIC RECOVERY AND IMPROVING GROWTH PROSPECTS

Introduction

Changes since the Budget

Since the Budget was announced in February, the global economy has stabilised and the pace of growth has improved in Europe and Japan. The South African economy has weathered the crisis well. Interest rates have fallen. New projections show an earlier recovery than the February Budget forecasts, with growth averaging some 3,4 per cent over the next three years.

New growth and inflation forecasts

The forecast of domestic growth remains 0,9 per cent for 1999. For 2000, it increases to 3,5 per cent, in effect bringing forward growth formerly projected for 2001, for which 3,4 per cent growth is now forecast. Growth of 3,2 per cent is projected for 2002.

Since mid-1998, consumer price index (CPI) inflation has steadily declined to 1,9 per cent for the year to September 1999. CPI inflation is expected to average 5,5 per cent in 1999, and to decline gradually in subsequent years. Core inflation, which excludes certain food products and mortgage rates from the index, is projected to remain above CPI inflation, with the gap narrowing over time.

Improved manufacturing prospects

A broad recovery of growth in manufacturing is expected over the next three years, as is a continuation of the strong financial and retail growth seen through most of the 1990s. Rising commodity prices will also benefit the economy. However, the low level of employment continues to be a concern – only the retail and wholesale trade sector has shown increases in employment.

Growth in trade

A moderate reversal in recent balance of payments improvements is expected as growth takes hold and imports expand. But this should readily be financed by strong capital inflows. Over time, exports will benefit from the recently signed trade agreement with the European

Union and further expansion of trade within the Southern African Development Community (SADC) region.

Strong increases in capital investment are forecast.

The rand is expected to remain steady in real terms over the period to 2003. Rising commodity prices will provide it with support, benefiting the local economy and boosting investor confidence.

Interest rates and inflation

Long term interest rates have declined less than short term rates, kept up by higher borrowing by public corporations and uncertainty over inflation and exchange rates.

The Government will introduce inflation targeting in 2000, to reduce uncertainty over the future level of inflation.

Recovery from the financial crisis

The capacity of well-managed economies to recover from severe international shocks has been amply demonstrated over the last six months by the performance of several emerging markets, including South Africa.

Effects of the crisis

The world financial crisis brought large reductions in global capital flows. During the second half of 1998, South Africa experienced a net outflow of portfolio funds of R10 billion, after net inflows of R31 billion in 1997 and over R30 billion in the first half of 1998.

This required an abrupt adjustment. Short term interest rates rose sharply and the exchange rate depreciated by almost 20 per cent against the dollar. These adjustments were largely successful in reducing domestic demand and the demand for imports. As a result, growth for 1998 was substantially below trend. Higher interest rates also constrained the increase in inflation following the depreciation of the rand.

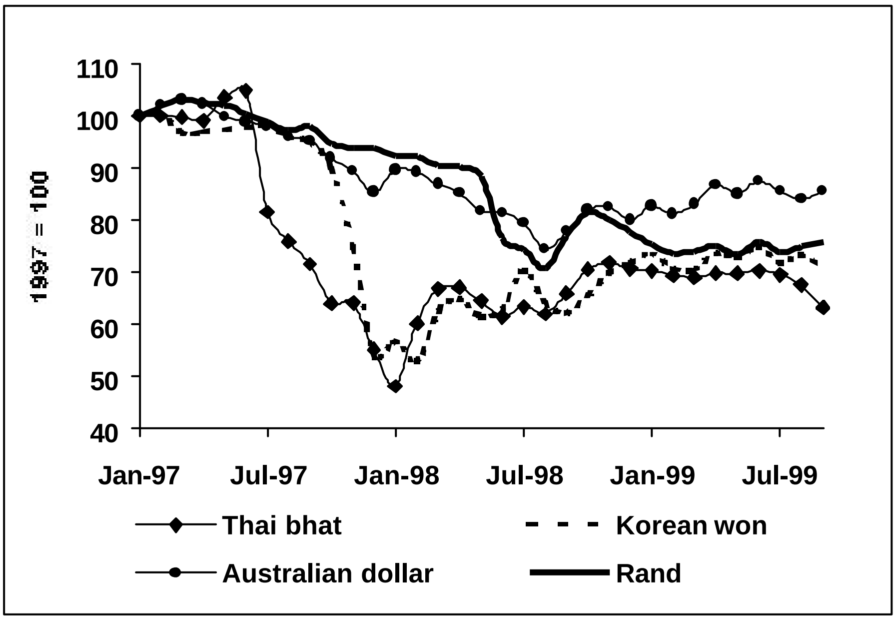
Recovery of capital flows

The impact of last year's financial crisis on capital flows appears to have been short-lived. Net inward portfolio investments during the first half of 1999 reached R22 billion, which compares to R20 billion received over 1998 as a whole. These increases reflect a significant improvement in investor sentiment towards South Africa, which should be reflected by further inflows in the second half of the year.

World outlook and its implications

Outside South Africa, while output and employment in East Asian economies have been damaged by the international financial crisis, some strong positive signs are emerging as currencies have recovered or stabilised (figure 2.1). Investor confidence in these economies is increasing, and domestic financial and asset prices have recovered from the lows of last year.

Figure 2.1: Comparative currency adjustments



The growth of capital inflows and a broadly favourable international economic outlook have supported a substantial decline in South Africa's interest rates, and contributed strongly to the prospects for recovery in the year ahead.

Improved growth prospects

The prospects for the world economy continue to improve. Recovery in the crisis economies was helped by the continued strength of American consumer spending, which despite almost full employment was not associated with rising inflationary pressures.

The revival of the Japanese economy during the first half of 1999 and concerns over the sustainability of the United States current account deficit have prompted a decline in demand for US dollar assets and contributed to the appreciation of the Yen and the Euro against the dollar.

Risk of slowdown in USA economy

The possibility of an unduly rapid slowdown in United States demand is now the main risk to the world economic outlook. However, the revival of growth prospects in Europe and Japan offsets the potential threat to international trade.

Growth in the main industrial economies for 1999 and 2000 is expected to average 2,8 per cent and 2,7 per cent, respectively.

Implications for SA growth

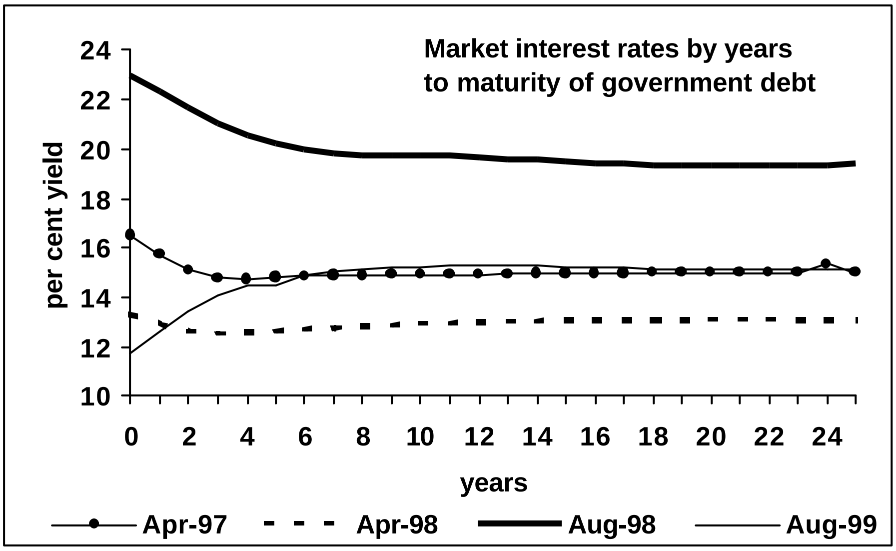
With a cyclical rise in commodity prices presently underway, prospects for sustained growth in South Africa remain healthy, even allowing for the possibility of a slowdown in the United States economy. Rising commodity prices will benefit the local economy and improve investors' perception of the underlying strength of the rand. The recent recovery in the gold price is also a considerable boost to the economy.

Falling interest rates

Short term rates

Increasing liquidity in the economy caused by a renewal of capital inflows has enabled the Reserve Bank to lower the repo rate. The consequent rapid decline in short term interest rates has now brought relief to households and improved investment prospects.

Figure 2.2: SA yield curves



Long term rates

However, figure 2.2 shows that interest rates on longer term government debt have not declined as quickly as short term rates. Compared to US rates, South African long term rates include a risk premium, explained in the text box below. The level of the premium is associated with an increase in the demand for funds in the local capital markets, uncertainty over the future exchange rate, and uncertainty over the future inflation trend.

Demand for capital market funds

Although the demand for funds to meet the national budget deficit has declined, there has recently been an increase in borrowing by public corporations and other public bodies (see chapter 3). Given the low level of domestic savings, this has contributed to comparatively high long-term interest rates. Government aims to bring the overall public sector borrowing requirement down as a share of GDP over the next three years.

Determinants of long term interest rates

Foreign investors are increasingly important holders of South African long term debt. As a consequence, long term interest rates largely reflect international capital market rates adjusted for the perceived risks associated with the rand market.

Long term interest rates on SA domestic debt can accordingly be decomposed into three elements: the interest on US debt (the best approximation to a "risk free" rate); the premium SA has to pay on its foreign currency denominated debt compared to US debt (credit risk); and the difference in the rate of inflation between the US and SA which approximates the anticipated decline in the value of the local currency relative to the dollar.

A decomposition of long term interest rates

	%
Yield on US long bonds	**5,5**
Premium on SA foreign bonds over US bonds of equivalent maturity	3,0
Yield on SA Yankee Bond	**8,5**
Inflation differential between expected SA and US inflation	3,0
Residual premium	3,0
Yield on SA domestic long bonds	**14,5**

The premium over US interest rates that SA has to pay on its foreign currency denominated debt (about 3 percentage points) is a measure of the country risk premium, or the perceived risk of SA defaulting on its debt, after taking account of limited liquidity of SA bonds and other factors. This is significantly below the peak in September 1998, at the height of last year's financial crisis (when the SA Yankee bond traded at a yield of some 7 percentage points above the US bond rate), signalling a rapid recovery in confidence in the South African economy.

The difference between the yield on SA domestic debt (14,5 per cent) and foreign currency debt (8,5 per cent) is currently about 6 percentage points. This can in part be explained by the difference in expected inflation between SA and the US, as the inflation differential underlies expected depreciation of the rand. The residual premium can be attributed to uncertainty over the exchange rate, uncertainty related to future inflation and other currency risk factors.

Exchange rate uncertainty

Uncertainty over the exchange rate also contributes to the premium paid on long term borrowing. In the context of considerable pressure on the rand in 1998, the Reserve Bank intervened in forward currency markets to protect the rand. The resulting net open position on the Reserve Bank's forward book and South Africa's low level of foreign reserves contribute to the prevailing uncertainty regarding the future value of the rand.

The Reserve Bank is in the process of reducing the size of the forward book and has made significant progress in recent months. Further progress is anticipated given the current strength of inflows and the impact of a higher gold price on the balance of payments, all of which should contribute to greater exchange rate stability.

Inflation expectations

Uncertainty in inflation increases the risk premium faced by long term borrowers. Over the course of the 1970s and 1980s, many governments found that lowering inflation was best accomplished by reducing the expectations of inflation held by the public. Any mismatch between inflation expectations and actual inflation interferes with investment, pricing and wage-setting decisions, which all contribute to rising inflation, or declining capacity utilisation.

To address these factors, Government has decided to introduce an explicit inflation target during 2000, which is intended to reduce inflation uncertainty. This should contribute over time to lower long term interest rates.

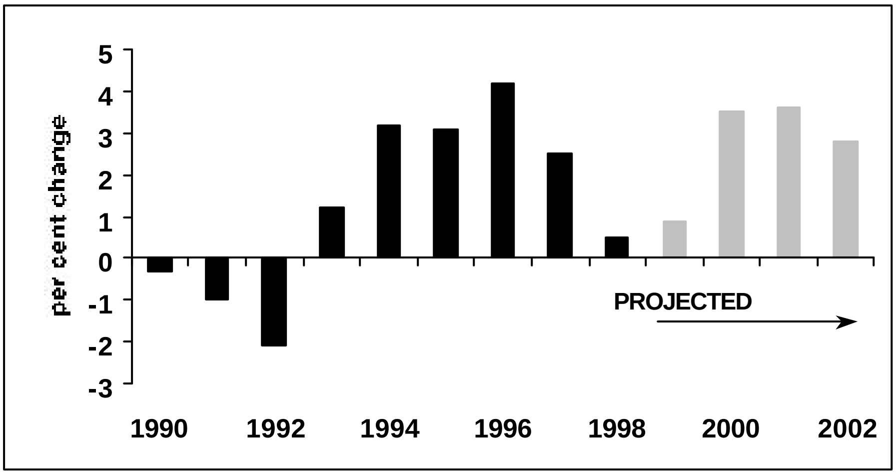
The domestic economy

Gross domestic product

Growth in GDP in 1999 has been weak, but represents a substantial improvement over the fourth quarter of 1998. The economy grew at annualised rates of 0,6 and 1,7 per cent in the first and second quarters of 1999, respectively, after declining at a rate of 2,3 per cent in the third quarter of 1998.

The recovery of economic activity is expected to continue during 1999, and to gather momentum in 2000 and 2001, as shown in figure 2.3.

Figure 2.3: GDP growth 1990 to 2002 (projections for 1999 to 2002)



Revised national accounts estimates

In June 1999, Statistics SA and the Reserve Bank re-based the National Accounts in line with the System of National Accounts 1993 (SNA93) standards. The base year was changed from 1990 to 1995.

New areas of economic activity have also been included and new data sources utilised. The revisions incorporated newly available data from the 1993 and 1996 Censuses of Mining, and the 1996 Population Census and Census of Manufacturing, together with new estimates from the taxi industry, cellular network firms, micro lenders and the security industry. Figures relating to the internet industry were also included for the first time.

Improvements in the methodology were introduced, including the calculation of annual GDP estimates from annual surveys. Previously, GDP estimates were derived from the sum of the GDP estimates for the four quarters of the relevant year, which were short term and incomplete.

The new GDP level at current prices is approximately 14 per cent higher than the previous GDP estimates, increasing from R484,6 billion to R548,1 billion in 1995. From 1994 to 1998, the economy grew on average by 2,7 per cent a year, compared to the pre-revision average of 2,2 per cent. The primary sector's share of GDP (agriculture plus mining) declined from 15 per cent to 10,9 per cent in the new data. Manufacturing's share of GDP also declined, from 25,5 to 21,2 per cent. The financial services share increased from 14,5 to 16,4 per cent. The share of government services increased from 13,8 to 16,2 per cent. The transport, storage and communications share increased from 7,4 to 8,9 per cent. The contribution of financial services and communications to GDP was also revised upwards, to 4,3 and 6,8 per cent, respectively.

Government's share of GDP increased largely because the treatment in the accounts of the depreciation of fixed capital assets was changed, infrastructural assets were included in capital formation, and some expenditure was reallocated between compensation of employees and intermediate consumption. (The new SNA distinguishes between final consumption by general government and intermediate government expenditures that contribute to the final consumption of households).

Agriculture and mining variable

The primary sector (agriculture and mining) has continued to be a variable contributor to growth in the economy. While agriculture fell in 1998, its growth in the second quarter of 1999 (an annualised 19,5 per cent), brought primary sector growth to 7,0 per cent on an annualised basis. The mining sector has remained weak, partly as a result of the depressed gold price in the first half of 1999.

As noted above, the present cyclical rise in commodity prices will benefit the mining industry and the wider economy.

Manufacturing expected to grow

Manufacturing output remains flat. The overall year-on-year decline in secondary sector output of 0,5 per cent in the second quarter of 1999 is attributed to decreases in the output of the electricity, gas and water and construction sectors.

However, there are early signs of increased activity from the motor vehicle industry. The longer term trend in manufacturing suggests that as economic growth picks up momentum over the second half of 1999 and through 2000, sectoral output should increase strongly.

Financial services and retail trade

The tertiary sector, composed of financial and community services, and wholesale and retail trade, catering and accommodation, continued to grow moderately through the first half of 1999 (by 1,5 and 2,0 per cent year a year in the first two quarters of 1999, respectively). As household consumption increases with faster growth, and consumers reach more sustainable debt levels, it is expected that the strong growth that these sectors experienced for most of the 1990s will again emerge.

Private consumption expenditure decline in 1999

Consumption spending by households grew strongly from 1994 to 1997, increasing by an annual average of 4,2 per cent. In 1998, growth in household consumption fell to 1,3 per cent. The full brunt of the economic slowdown, however, became evident in 1999, when spending fell for the first time since 1992 – by annualised rates of 1,0 and 0,1 per cent in the first two quarters.

Private consumption expenditure is expected to grow in the second half of 1999, contributing to the economic recovery.

General government consumption spending

Real consumption expenditure by general government, comprising personnel remuneration and purchases of goods and services, has grown moderately, by an annual average of 1per cent from 1994 to 1998, despite an apparent decline in 1996. In the first half of 1999, consumption spending fell by an annualised 1,1 per cent. The decline reflected improved controls over spending by Government departments, and is in line with Government's policy to reduce dissaving.

Investment growth

Gross fixed capital formation (GFCF) grew by an annual average of 7,3 per cent from 1994 to 1998. In 1998, investment growth slowed to 4,8 per cent, followed by a substantial reduction in investment spending in the first half of 1999 (falls of 24,4 and 9,3 per cent in the first two quarters, respectively).

Most of the increase in investment in 1998 resulted from large-scale public infrastructure investment in the energy, transport and telecommunications sectors. A pause in the rollout of infrastructure contributed to the sharp drop in investment in the first half of 1999. It is expected that as the economy recovers, private investment will increase strongly, complementing further increases in capital formation by public enterprises.

As a percentage of GDP, gross fixed capital formation increased to 16,5 per cent in 1998 from 16,4 per cent 1997. In the first two quarters of 1999, GFCF was 15,5 per cent and 15,0 per cent of GDP, its lowest level since 1993.

Saving

In the first half of 1999, saving as a percentage of GDP increased, albeit marginally, from the poor levels seen in 1997 and 1998. Saving grew to 14,4 per cent and 15,1 per cent in the first two quarters of 1999, after reaching a low of 12,9 per cent in the fourth quarter of 1998. This remains far lower than required to finance a rate of investment consistent with rapid economic growth.

The main contributions to the marginally improved saving performance in 1999 came from a decline in government dissaving, and an increase in the financial surpluses of corporations. Household saving continued to weaken, falling to 1,4 per cent of households' disposable income.

Change in inventories

In the first half of 1999, industrial and commercial inventories continued their long term decline, falling to 12,5 per cent of GDP. There was some increase in the second quarter of 1999, and further inventory re-stocking is expected as the economic recovery continues through 1999 and 2000.

Balance of payments

The slowdown in economic activity in 1998 resulted in an improved balance of payments, particularly in the first half of 1999. As growth increases through the second half of 1999 and 2000, it is expected that the current account balance will deteriorate moderately, but will be financed by strong capital inflows.

Current account deficit

The underlying performance of the current account of the balance of payments has been distorted by large imports associated with the investment programmes of public corporations. Despite the sharp increase in interest rates and the depreciation of the currency during the second half of 1998, imports continued to increase and the current account deficit reached R19,6 billion (2,6 per cent of GDP) in the last two quarters of 1998. After recording a modest surplus of R3,9 billion in the first quarter of 1999, the current account fell into a deficit of R4,9 billion in the second quarter of 1999. The initial improvement reflected a slowdown in public corporation investment spending and a modest increase in export activity, while the subsequent deficit was caused by a deterioration in the trade balance.

As economic growth and private consumption expenditure recover, it is expected that imports will rise during the second half of 1999. Overall, the current account deficit is anticipated to average a relatively modest 0,5 per cent of GDP over the calendar year.

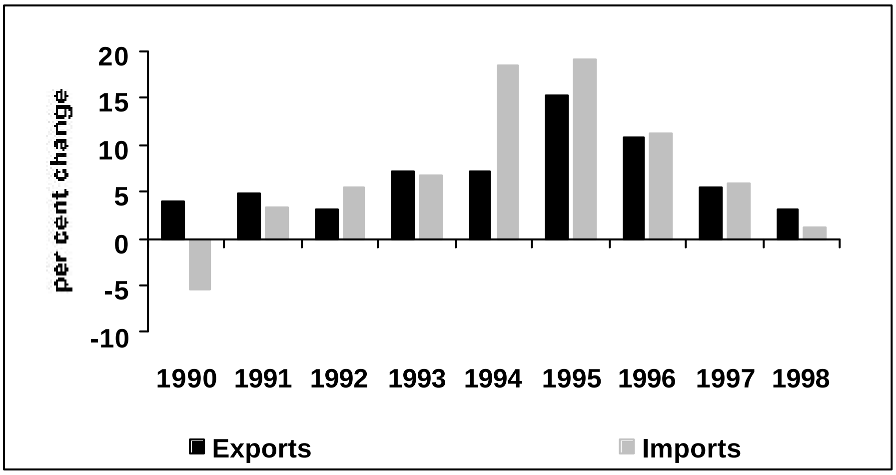
Trade with the EU

On 11 October, South Africa signed a Trade, Development and Co-operation Agreement with the European Union (EU), which aims to consolidate strategic links with South Africa's largest trade and investment partner. The agreement provides for the establishment of a free trade area between South Africa and the European Union over a period of twelve years, liberalising 95 per cent of SA exports into the EU over a ten-year period and 86 per cent of EU imports into SA over a twelve-year period.

SADC trade protocol

The SADC Protocol on Trade is expected to enter into force on 1 January 2000. This will lead to the creation of a duty-free area in SADC over a period of 8 years.

Figure 2.4: Real merchandise imports and exports



As shown in figure 2.5, growth in real merchandise exports has slowed since 1995 to 5,4 and 3,1 per cent in 1997 and 1998, respectively. In the first two quarters of 1999, the annualised rate of growth in exports swung from 7,7 per cent in the first quarter to negative 4,5 per cent in the second quarter. These trends include the impact of the lower gold price on gold exports. The recent recovery in the gold price should contribute to stronger export performance in the second half of 1999 and beyond.

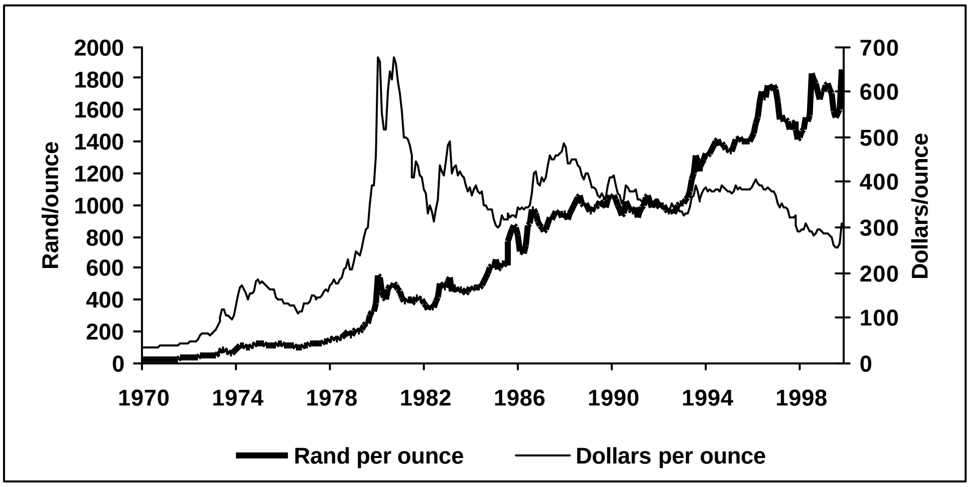
The gold price and exports

When Government announced its macroeconomic strategy in June 1996, gold was trading at approximately $400 per ounce. At the time, it was generally expected that gold would continue to trade in the $380 to $400 range. The sharp fall in the US dollar gold price over the last four years, from $388 in 1996 to a low of $256 in mid-1999, had a serious impact on the country's export earnings and employment, although this has been somewhat offset by the depreciation of the rand and the resulting increase in the rand gold price.

Although the importance of gold has declined over the last few decades, it still contributes about 16 per cent of South Africa's merchandise exports. The recent sharp increase in the gold price, if sustained, will provide a significant boost to the South African economy.

South Africa currently produces just over one million ounces of gold per month. Assuming the gold price remains at $300, or approximately $30/oz above the average price for the year to date, an additional $30 million (approximately R200 million) in export earnings would be achieved every month.

US $ and rand price of gold: 1970 to 1999



The current account deficit is expected to remain between 1 and 2 per cent of GDP over the next three years. Recent financial flows indicate that this can be readily financed, and the rising gold price helps to offset the impact of the substantially higher oil price on the balance of payments.

Foreign reserves

Total gross international reserves fell sharply in the second half of 1998, to end the year at R42,2 billion. The overall surplus on South Africa's balance of payments in the first half of 1999 generated a net increase in gross reserves, which rose to R47,2 billion by the end of June.

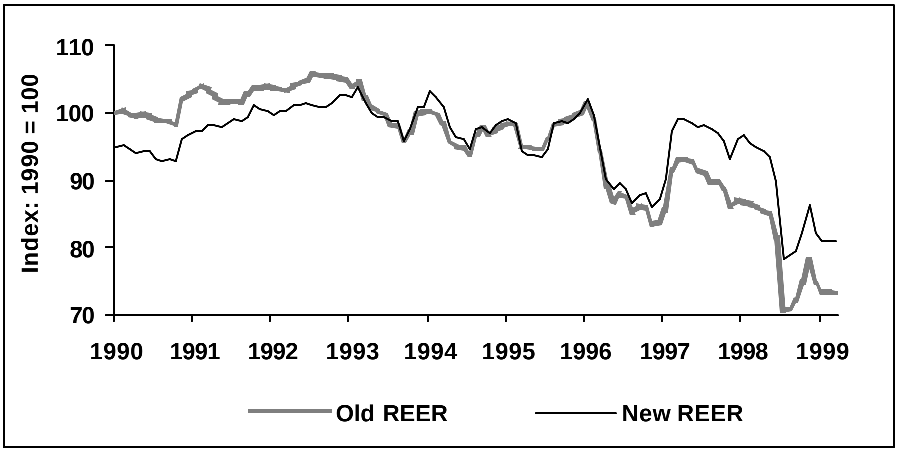
The real effective exchange rate

The real effective exchange rate takes account of the difference between price trends in South Africa and major trading partners, to provide an estimate of the relative price competitiveness of South African goods in international markets.

In September 1999, the South African Reserve Bank increased the number of currencies used in the compilation of the real effective exchange rate, from four to fourteen. The graph shows the competitive gains to exporters implied by the depreciation of the real effective exchange rate over the last few years using the new and old indices.

The new estimates show that the Rand is about 15 per cent below its 1990 real value, whereas the former index implied a real depreciation of more than 20 per cent.

Real effective exchange rates (REER): 1990 to 1999



Import cover, which measures the number of weeks' worth of imports of goods and services accounted for by the country's gross international reserves, has increased from 10 to 12 weeks over this period.

Exchange rate trends

The real effective exchange rate of the rand declined by 14,6 per cent from December 1997 to December 1998. The currency has since stabilised and even strengthened in the first 9 months of 1999. South African exporters are nonetheless expected to benefit from the overall depreciation of the rand during the past year and a half.

Labour market developments

Employment

Labour absorption in the economy has been weak since 1990, and the trend in formal employment since 1994 has not improved, despite the resumption of economic growth.

While the available data on employment do not cover all economic sectors, the Survey of Total Employment and Earnings does include activity in most of the formal, non-agricultural economy. These series indicate persistent declines in employment. The June 1999 release shows employment falling by 1,5 per cent year-on-year, and by 1,1 per cent from March to June 1999. Quarterly employment reductions were largest in the public sector, construction and manufacturing, while increases occurred in financial services. From June 1998 to June 1999, only the wholesale and retail trade sector showed an increase in employment. The average decline for the year to June was 4,0 per cent for all other sectors combined.

Wage trends

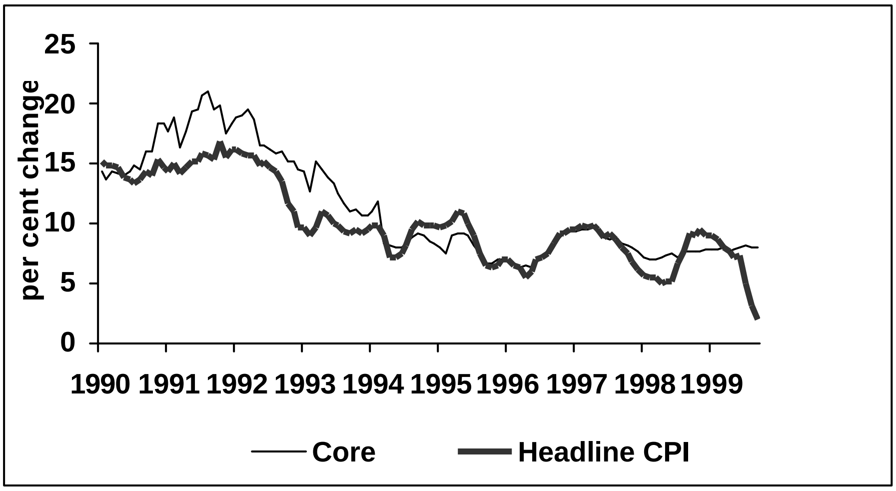
Nominal unit labour costs rose by 9,9 per cent in 1998. Largely reflecting the economy's weakness over 1998, nominal unit labour costs subsided in the first half of 1999, increasing by 6,0 per cent from a year earlier.

Inflation and money supply

Inflation trends

Although consumer price inflation rose sharply with the increase in nominal interest rates in mid-1998, it has subsequently declined to 1,9 per cent for the year to September 1999.

Figure 2.5: Core and headline consumer price inflation (year on year increase in the indices)

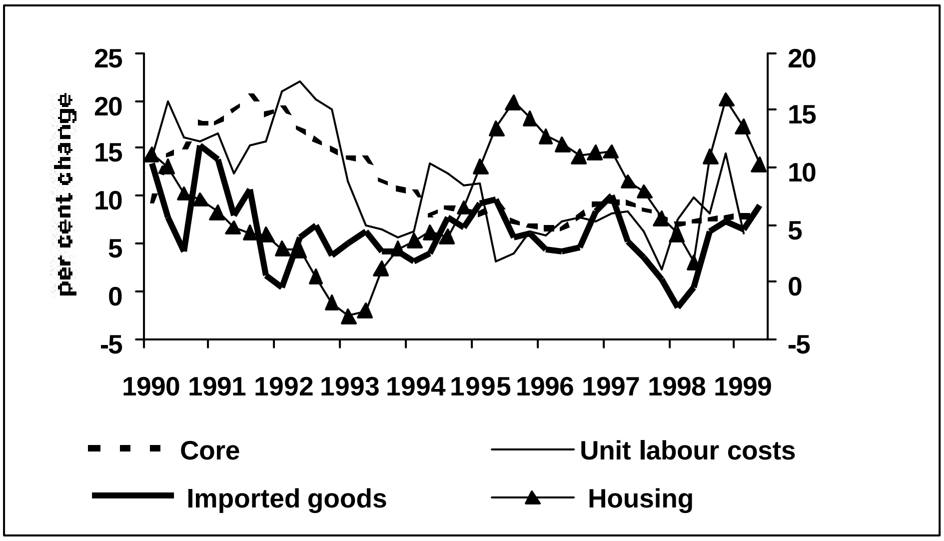


Determinants of core and headline CPI inflation

The consumer price index (CPI) is composed of a weighted basket of prices of commodities and services, including the cost of housing, transport, and other items. As several components of the "headline" CPI are affected by changes in policies (such as taxes or interest rates) or by extraneous factors (such as the weather), the underlying inflation trend is better measured by "core" CPI. Core inflation is similar to headline CPI inflation, except that certain items in the basket of commodities and services have been stripped out. These include mortgage costs, indirect taxes and certain food products.

In 1999, headline and core CPI inflation have diverged. The decline in mortgage interest costs (about 10 percentage points) since the fourth quarter of 1998 has pulled CPI down through 1999. Core, however, has remained high, at around 8,0 per cent. Mortgage interest costs are excluded from the core inflation measure. As a result, oil and other imported goods prices have a larger impact in core than in CPI inflation. In 1998, unit labour costs kept core high, while in 1999, oil price increases as reflected in the rising cost of imported goods prevented a decline in core.

Core inflation, unit labour costs and imported goods prices (quarterly data)



Consumer price inflation is expected to average 5,5 per cent in 1999. However, core CPI inflation has remained above 7,5 per cent since 1996. In 1999, CPI and core inflation have diverged. The decline in mortgage interest costs (about 10 percentage points) since the fourth quarter of 1998 has been the main contributor to the decline in headline inflation.

Money supply and credit

Declining GDP growth in the third quarter of 1998 and lower demand for credit from the private sector contributed to a sharp deceleration in the M3 measure of money supply over the past year.

Inflation prospects for the coming year will be influenced by developments in the oil price, wage settlements, and price-setting by parastatals. OPEC supply restraints have given a firm upward momentum to crude oil prices, which have doubled in recent months and remain the single most important threat to stability in all measures of inflation.

Challenges

Structural changes

Since 1994 the South African economy has undergone a process of structural transformation. The economy is now considerably more open. Exchange controls have been substantively removed, and trade barriers have been reduced through the EU trade agreement, a more open environment in the SADC region, and other measures. Fiscal policy has been reformed and the level of borrowing significantly reduced. These policies contribute to falling inflation, higher investment of improved quality, and stronger growth.

Inflation prospects

Macroeconomic forecasts cannot take account of all the benefits these changes bring for the economy's long term growth path. The current outlook for the economy reflects a significantly improved long run outlook by comparison with economic performance in the early 1990s. Further structural reforms will in due course improve growth prospects further.

Economic reform

In his opening of Parliament address, the President indicated that steps would be taken to accelerate the restructuring of state assets and revisit labour market regulation. Restructuring could significantly strengthen the financial account of the balance of payments, reduce the level of government borrowing, support a lower level of interest rates, and contribute to faster economic growth.

Inflation

The successful implementation of inflation targeting should also reduce wage inflation, and contribute to a further reduction of interest rates. However, rising oil prices and continued wage pressures remain significant factors underlying inflation expectations.

Global markets more steady

Although global financial markets are more stable than they were at this time last year, considerable volatility remains and there is a relatively low level of demand for emerging markets assets. While the net open forward position and the low level of external reserves still leave South Africa vulnerable to a general loss of confidence in global financial markets, there has been a substantial improvement in the external position over the last nine months.

The current forecasts assume that long term interest rates decline steadily. A more rapid inflow of foreign funds, or other developments that improved the foreign reserve position, would reduce the risk premium on South African assets and contribute further to an improved financial environment.

Outlook

The economic outlook for the next three years is summarised in table 2.1.

Table 2.1: Macroeconomic projections: 1999 to 2002

Calendar year:	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Gross domestic product (R billion)	**548,1**	**614,9**	**680,2**	**737,8**	**793,2**	**862,6**	**940,0**	**1 014,1**
Real GDP growth	3,1%	4,2%	2,5%	0,5%	0,9%	3,5%	3,4%	3,2%
GDP inflation	10,3%	7,7%	7,9%	7,9%	6,4%	5,3%	5,0%	4,8%
Real growth in demand:								
Final consumption growth	**2,6%**	**5,3%**	**2,9%**	**1,1%**	**0,8%**	**2,7%**	**2,8%**	**2,8%**
Gross fixed capital formation growth	10,7%	7,5%	5,2%	4,8%	-5,7%	6,3%	7,7%	4,9%
Gross domestic expenditure	**4,3%**	**4,0%**	**2,4%**	**0,5%**	**-0,4%**	**4,3%**	**4,2%**	**2,8%**
Exports	10,4%	9,3%	5,5%	2,3%	0,0%	5,0%	6,6%	5,3%
Imports	16,9%	8,7%	5,4%	2,1%	-5,9%	9,6%	8,5%	5,0%
CPI inflation:								
Headline	8,7%	7,4%	8,6%	6,9%	5,5%	5,2%	5,1%	4,8%
Core	7,9%	7,2%	8,8%	7,5%	7,9%	6,9%	5,5%	5,0%
Balance of payments:								
Current account balance (% of GDP)	1,5%	1,3%	1,5%	1,6%	-0,5%	-1,3%	-2,1%	-1,9%

Growth recovers

A modest recovery in economic growth is expected during 1999, which will gather momentum in 2000 and 2001. Investment and consumption expenditure are projected to recover strongly in 2000 to 2001, before stabilising during the subsequent two years.

Exports recover, but gold price effect only felt in 2000

Export prospects have improved as a result of the recovery of the global economy, a more competitive rand, and the recent improvement in the gold price. The current account of the balance of payments is expected to deteriorate somewhat as economic growth increases, but this will be moderated by increased exports.

Inflation and currency stable

Consumer price inflation is projected to decline steadily from about 5,5 per cent in 1999. The rand is expected to remain at current levels in real terms, depreciating by between 3 and 4per cent per year in nominal terms.

Fiscal year projections

Table 2.2 summarises revised GDP growth and inflation projections for the fiscal years 1998/99 to 2002/03, shown alongside the February 1999 Budget estimates.

Table 2.2: Macroeconomic projections: 1999/00 to 2002/03

Fiscal year:	**1998/99**	**1999/00**		**2000/01**		**2001/02**		**2002/03**
	Outcome	1999 Budget	Revised	1999 Budget	Revised	1999 Budget	Revised	
Gross domestic product (R bill)[1]	**751,4**	**813,9**	**809,2**	**881,1**	**881,9**	**952,1**	**957,5**	**1 034,6**
Real GDP growth	0,2	1,8	1,7	3,2	3,6	3,8	3,4	3,2
GDP inflation	7,7	6,4	5,9	4,9	5,2	4,1	5,0	4,7
CPI inflation:								
Headline	7,7	5,5	4,4	4,5	5,3	4,0	5,0	4,7
Core	7,6	-	7,7	-	6,6	-	5,3	4,8

1. The 1999 Budget projections of GDP growth and inflation are applied to the new estimate of 1998/99 GDP, to obtain the adjusted 1999 Budget GDP projections shown here for comparative purposes.