2

Economic policy and outlook

Following growth of 3 per cent in 2002, the economy is set to expand by 3,3 per cent in 2003, rising to 3,7 per cent and 4 per cent in 2004 and 2005, respectively.

Over the medium term, growth and development are supported by intensive skills development programmes, renewed focus on small business development and stepped up investment in social and economic infrastructure.

Domestic demand is underpinned by healthy business and consumer confidence, rising disposable income and healthy household balance sheets.

Further liberalisation of exchange control is proposed to support the further integration of South Africa with the global economy.

CPIX inflation has fallen since November 2002 and is expected to come within the inflation target of 3 to 6 per cent by the end of 2003.

Introduction and overview

Domestic growth of 3 per cent in 2002

Against the backdrop of weak global growth, South Africa grew by 3 per cent in 2002. Building on the stable macroeconomic platform obtained over the past ten years, the impetus of growth and development is expected to gather momentum in the years ahead. This is supported by initiatives to encourage investment, raise skills levels and reduce constraints on business formation.

While the geopolitical and economic outlook remains uncertain, it is anticipated that the modest international recovery will support expansion in the domestic economy.

Investment up 6 per cent in 2002

Gross fixed capital formation has grown consistently for the past 3 years and is expected to continue over the medium term. Buoyant domestic demand and a more competitive cost structure contributed to investment growth of about 6 per cent in 2002. Going forward, investment growth will be supported by investment incentives, falling interest rates and rising demand.

Currency appreciates 39,6 per cent over 2002

In 2002, the value of the currency appreciated by 39,6 per cent, reversing much of the depreciation of the exchange rate that occurred in 2001. The real effective exchange rate remains at competitive levels, with a more stable outlook expected in 2003.

Personal disposable per capita up 5,7 per cent since 1993

Between 1994 and 2001, the South African economy grew at an annual average rate of 2,8 per cent. Over the same period, real personal disposable income per capita increased by 5,7 per cent. The past ten years has also seen marked improvements in access to social benefits such as housing, health care, education and social grants.

Employment creation turns positive

According to the *Survey of Employment and Earnings*, which focuses on older sectors of the economy, annual employment growth in the third quarter of 2002 was positive for the first time in 6 years. Unemployment nonetheless remains a critical challenge.

Reducing unemployment and ensuring that the benefits of economic growth and development are more evenly shared remain central policy challenges for Government. Key economic policy initiatives in support of growth and broad based development include:

- The skills development programme
- Stepped up infrastructure investment and tax incentives to boost industrial growth and employment
- Redistribution of land, backed by agricultural support programmes
- Widening access to financial services and the integration of small businesses into the formal economy
- Further easing of the tax burden on low and middle income households.

Black economic empowerment to support growth

Black economic empowerment also has a central role in sustaining South Africa's growth trajectory and improving the distribution of income and opportunities. Alongside sectoral initiatives to deepen participation in the ownership and management of South African companies and implementation of the preferential procurement policy framework, Government will support the funding of new ventures and business expansions that meet agreed empowerment criteria.

Together with other aspects of broadening economic participation, innovative approaches to black empowerment will be addressed in the forthcoming Growth and Development Summit.

Growth rising to 4,0 per cent in 2005

On the back of strong gross fixed capital formation and household consumption expenditure over the forecast period, growth of 3,3 per cent is anticipated for 2003, rising to 3,7 and 4,0 per cent in 2004 and 2005 respectively. Measures to ensure that broad based development accompanies this growth will be the subject of a national Summit in May 2003.

Annual CPIX in target in 2004

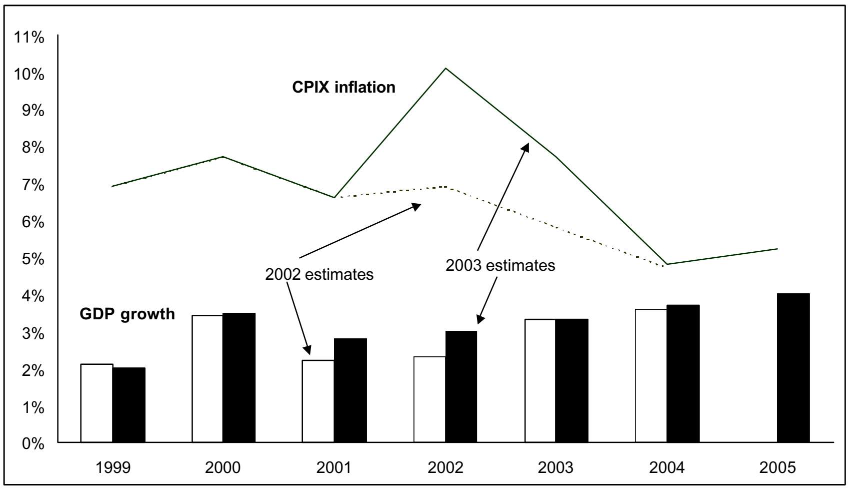
CPIX inflation peaked in November 2002 at 12,7 per cent, falling back to 11,8 per cent in January. Producer and consumer inflation is expected to moderate significantly in 2003, as the rate of increase in input costs slows. Average annual inflation is projected to decline to

7,7 per cent over the year, falling within the inflation target range of 3 to 6 per cent by 2004.

Both the CPIX and GDP forecasts have been adjusted to take account of changes in the macroeconomic environment over the course of 2002. This is reflected in figure 2.1.

This chapter examines macroeconomic and sectoral developments in the South African economy over the past year and prospects for the MTEF period.

Figure 2.1 Growth in real GDP and CPIX inflation, 1999-2005



Global developments

Economic growth and development over the past ten years has been adversely affected by volatility in commodity prices and financial markets. Emerging markets have been especially vulnerable to financial market turbulence, stemming from Mexico in 1994, Brazil and Russia in 1995, East Asia in 1997 and Argentina in 2000. Table 2.1 sets out the recent growth experience and forecasts for 2003 for selected countries.

Slower than expected US economic recovery

Despite brisk growth in the first quarter supported by exceptional investment expenditure, the American economic performance in 2002 has been much weaker than anticipated. Continued stock market weakness in the wake of soft profit growth and widespread corporate governance failures, job insecurity and relatively high debt levels all weighed heavily on economic activity.

Outlook for 2003 remains uncertain

The recovery in the US economy may gain momentum in 2003, though uncertainty over the impact of recent fiscal stimuli and the consequences of a war with Iraq impinge on the likely extent and speed of the recovery.

Europe grows less than 1 per cent in 2002

Growth in the European economies slowed further in 2002 following the global downturn in 2001. Given weak prospects in Germany and the institutional limits on monetary and fiscal policy, growth is forecast at less than 1 per cent for 2002.

Slightly better growth prospects in 2003

The growth outlook for Europe remains constrained by the need for structural reform in many economies. Despite this, it is anticipated that growth in Europe will improve slightly in 2003 on the back of recovering investment and household consumption expenditure, as well as higher exports to the US. Given the importance of Europe as a destination for South Africa's exports, this should support domestic growth in the coming period.

Japanese growth remains weak

Following three years of modest expansion, Japan's economy is forecast to contract in 2002, as business investment declined significantly. Growth prospects for 2003 remain subdued by record unemployment, weak consumer demand, persistent deflation and the strengthening of the exchange rate vis-à-vis the US dollar. In this context, Japan is unlikely to be an important source of global economic growth over the medium term.

Latin America growth weak in 2002

2002 remained a challenging year for most emerging markets. Latin America continued to decline in the wake of the collapse of the Argentine economy and a reduction of capital flows to the region.

7 per cent growth in China drives East Asian recovery

In contrast, despite moderating in the second half of the year, East Asia rebounded strongly in 2002 on the back of steady internal and external demand. This was underpinned by solid growth in China and recovery in the economies most affected by the 2001 slowdown in demand for high-tech goods.

Table 2.1 Annual percentage change in GDP, selected countries

Region / Country	2000	2001	2002*	2003*
USA[1]	3,8	0,3	2,4	2,7
Canada[1]	4,5	1,5	3,3	3,2
Euro-zone[1]	3,5	1,4	0,8	1,4
Germany[1]	2,9	0,6	0,2	0,9
Japan[1]	2,4	0,3	-0,3	0,4
Australia[2]	3,1	2,6	4,0	3,8
Latin America[2]	4,0	0,6	-0,6	3,0
Africa[2]	3,0	3,5	3,1	4,2
Emerging Asia[2]	7,0	5,0	5,9	6,1

Sources:
1. Consensus economics, February 2003.
2. IMF World Economic Outlook, September 2002.
** Forecast*

Eastern Europe remains robust, African experience mixed

Expansion in Russia and the prospect of admission to the EU for some countries in the region bolstered the economic performance of the Eastern European bloc. Economic performance in Africa was mixed. The region as a whole expanded by an estimated 3,1 per cent in 2002, with oil producing countries doing particularly well.

The outlook for emerging markets 2003 is upbeat, with Latin America set to rebound following recent financial turmoil, East Asia growth accelerating, and East European countries benefiting from accession to the European Union.

Corporate governance and financial regulation

Global stock markets have been rocked in the past few years by the collapse of a number of companies that were household names, trusted brands, large employers and custodians of the wealth of many investors. Included in this list are Barings Bank, Sumitomo Bank, Metallgesellschaft and Enron internationally; and Sechold, RAG (Retail Apparel Group) and Leisurenet locally. In all cases, these failures have been traced to weaknesses in corporate governance, including internal audit failures, poor risk management, and manipulation of accounting practices.

Sound corporate governance is the foundation upon which trade and enterprise rest, and is particularly important for South Africa in view of our reliance on foreign savings to sustain domestic investment. A recent survey found that 80 per cent of the 200 institutional investors surveyed indicated a willingness to pay a premium (ranging from 18 – 27 per cent) for the shares of well-governed companies.

The two King reports on corporate governance are substantial contributions to the ongoing development of sound corporate governance practices in South Africa, and serve as a framework for other countries seeking to augment their corporate governance standards. The reports emphasise the important responsibilities of the Board of Directors, including a majority of non-executive directors, to ensure managers pursue the goals of the company in an ethical, transparent and responsible manner.

The King reports also consider accounting and auditing practices, emphasising the importance of independent external auditors that report honestly and openly to the board and shareholders about a company's financial state and performance.

Recognising the importance of accounting standards for sound corporate governance, the Minister of Finance established a Ministerial Panel for the review of the Accounting Professions Bill. By July 2003, the Panel must make recommendations to the Minister in respect of:

- An appropriate regulatory framework for the auditing and accounting professions
- The desirability of separating the consulting and statutory auditing function within a firm
- The introduction of term limits for auditors and audit rotation
- A system of accountability between auditor and client
- Disciplinary measures for failures to properly disclose the financial health of a company on the part of auditors and executive managers
- The appropriateness of regulating internal and external audit processes

The recommendations will be presented to Cabinet before the end of 2003.

Balance of payments

Financial account

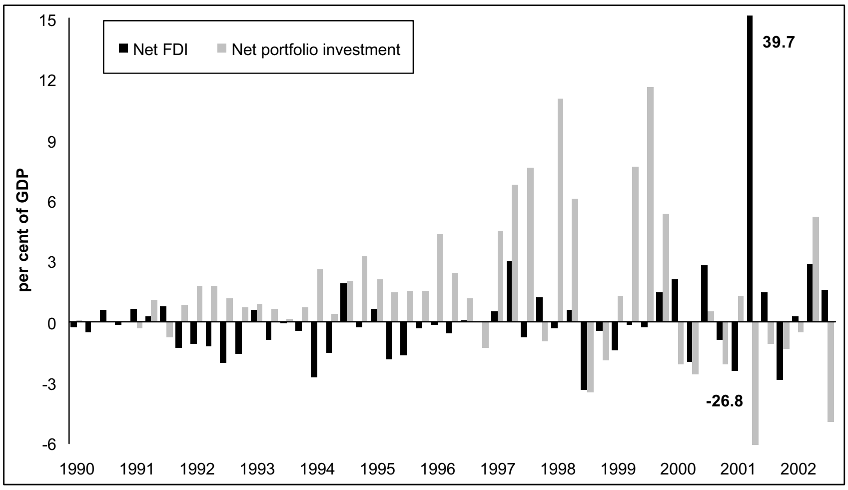
R15,4 billion capital inflows

Capital inflows totalled an impressive R32,9 billion in the first half of 2002, dominated by foreign investment in South African shares and bonds. Despite some reversal of inflows in the third quarter, net capital inflows for the first three quarters of the year totalled R15,4 billion, compared with a net capital outflow of R11,0 billion in 2001. Preliminary information suggests that net capital flows were positive in the fourth quarter.

Net FDI of R12,8 billion

Foreign direct investment remained healthy in 2002, totalling R5,8 billion in the first three quarters of the year. Reduction by certain South African companies of their capital holdings in offshore subsidiary companies also led to an inflow of funds and contributed to a substantial overall net foreign direct investment inflow of R12,8 billion.

Figure 2.2 Net foreign capital flows, 1990-2002, per cent of GDP

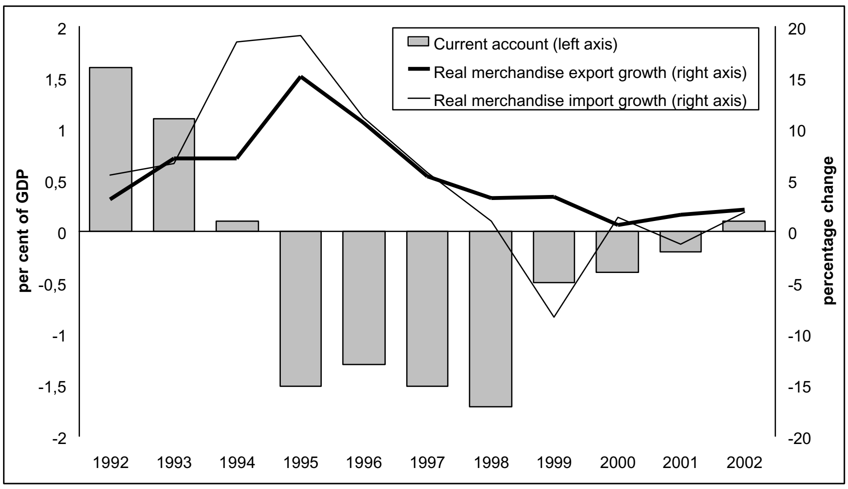


Current account

Mild current account surplus in 2002

South Africa is expected to record a current account surplus of 0,1 per cent of GDP in 2002, compared with a deficit of 0,2 per cent in 2001. This is the first annual surplus since 1993 and largely reflects increased competitiveness, higher world commodity prices, improvement in the terms of trade and rising tourism volumes. However, strong investment growth and increased import demand should see the current account return to a mild deficit position over the next few years.

Figure 2.3 Current account, real import and export growth, 1992–2002



Exports

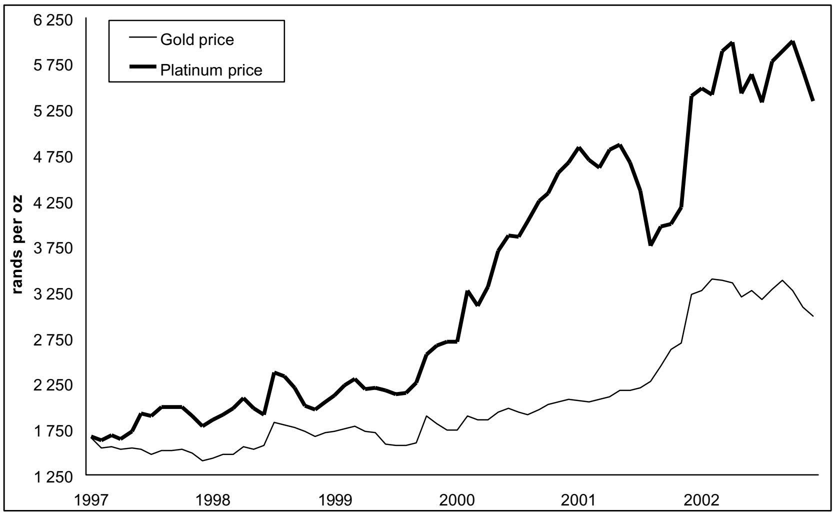
Export volumes down 2,0 per cent

Weak demand conditions in the OECD impacted negatively on world trade and South African export volumes subsequently declined by around 2,0 per cent in 2002. Export volumes grew strongly over the first half of 2002, helped by the recovery in international commodity prices and a competitive exchange rate. However, sluggish international demand led to a reversal in the second half of the year.

Manufacturing accounts for 38 per cent of total exports

Further shifts in the composition of exports are evident over the past few years. Manufacturing exports now account for around 38 per cent of total exports, up from about 35 per cent in 2000. While the share of primary sector exports has been declining, strong growth in platinum exports has seen its share of total exports increase from 7,7 per cent in 1998 to 11,7 per cent in 2001.

Figure 2.4 Platinum and Gold prices in rands per oz, 1997 - 2002



Strong manufacturing performance

Within the manufacturing sector, exports of automotive and non-electrical machinery products have grown particularly quickly over the last few years, with clothing products benefiting from increased access to the US market under the African Growth and Opportunity Act (AGOA). Continued growth in these sectors should contribute towards rising manufactured export volumes over the next few years.

Table 2.2 Share of total manufactured exports by industry

Industry	Value (R million)		Share (per cent)	
	1998	2001	1998	2001
Semi Manufactures	13 717	25 034	23	23
Iron & Steel	13 784	18 321	23	17
Automotive	4 639	16 778	8	15
Non Electrical Machinery	5 085	14 394	9	13
Chemicals	7 125	13 143	12	12
Consumer Goods	4 408	6 571	7	6
Power Machinery	3 537	5 464	6	5
Transport Equipment	2 777	3 010	5	3
Office Machinery	1 116	2 458	2	2
Electrical Machinery	1 443	2 382	2	2
Clothing	801	1 979	1	2
Textiles	1 063	1 802	2	2
Total	**59 494**	**111 339**	**100**	**100**

Industry classification according to SITC Revision 3 (Source: TIPS)

Further steps in exchange control liberalisation

As has been broadly recognised internationally, a gradual approach to capital account liberalisation is advisable and should occur late in the process of economic reform.

Institutional investors

Part of this process of gradual exchange control liberalisation and financial sector strengthening is the shift to a system of prudential regulation governing the foreign portfolio investment of institutional investors such as long term insurers and pension funds. Prudential regulations are applied internationally to protect policyholders and pensioners from excessive risk, and typically include restrictions on foreign asset holdings, set at a certain percentage of an institution's total assets or liabilities. As an interim step towards a prudential framework:

- Institutional investors will be allowed to invest, on approval, up to existing foreign asset limits. These foreign asset limits are 15 per cent of total assets for long term insurers, pension funds and fund managers, and 20 per cent of total assets for unit trust companies. The previous restriction based on 10 per cent of the prior year's net inflow of funds will no longer apply. The Exchange Control Department of the South African Reserve Bank reserves the right, however, to require a staggered transfer of such funds in some cases so as to maintain overall financial stability.
- Institutional investors will be required to submit additional information when making an application for a foreign investment allowance. The shift to prudential regulation requires improved data reporting on individual institutions' foreign investments and the foreign diversification levels of the industry as a whole. The new dispensation described above will become operational on 1 May 2003, once the National Treasury and Exchange Control Department of the South African Reserve Bank, in consultation with the Financial Services Board, have reached agreement with the respective industries on the appropriate revised reporting standards.

Corporates

The global expansion by South African firms holds significant benefits for the economy – expanded market access, increased exports and improved competitiveness. In October 2002, the exchange control allowance for foreign direct investment into Africa was increased from R750 million to R2 billion, in line with South Africa's commitment to NEPAD. In order to facilitate global expansion of South African companies from a domestic base, increased exchange control allowances for direct investment are now being extended to investment outside of Africa. The following new exchange control limits will apply with immediate effect:

- The allowance governing South African corporates' use of South African funds to finance new approved foreign direct investment outside of Africa is increased from R500 million to R1 billion.
- The allowance for the use of South African funds for investment outside of Africa is expanded from just the financing of *new* approved foreign direct investments to also include "top-up" funding for the financing of new approved *expansions* of existing foreign direct investments. This expanded dispensation is maintained in the case of investment in Africa.

The global expansion by South African firms also holds potential benefits in the form of future foreign income streams. These potential benefits may not have been fully realised to date due to tax and exchange control disincentives to the repatriation of foreign dividends. As part of easing the exchange control impediments, the following system will now apply:

- Dividends repatriated from foreign subsidiaries will be eligible for an exchange control credit, which will allow them to be re-exported, upon application, for approved foreign direct investments. Details of the tax changes in this regard can be found in Chapter 4.

Foreign exchange control amnesty with accommodating tax dispensation

Exchange controls are a precautionary element of overall growth and development policy. As such, contravention of exchange control regulations by individuals at the expense of society as a whole cannot be condoned. However, Government also recognises that exchange control contravention may have taken place in the past for a variety of reasons. Many individuals with funds illegally held offshore wish to bring these funds back to South Africa, as investment prospects in South Africa are increasingly attractive relative to those that exist abroad. However, they are unable to do so without risk of prosecution. To assist individuals in repatriating these funds and regularising their tax affairs in respect of foreign assets. A joint amnesty will be offered with respect to foreign assets in terms of both the Exchange Control Regulations and the Income Tax Act:

- The window period for filing for amnesty relief will run from 1 May 2003 to 31 October 2003.
- Individuals filing for Exchange Control amnesty relief are released from all civil penalties and criminal liabilities stemming from the illegal shifting of funds offshore in contravention of exchange controls on or before 28 February 2002.
- Individuals filing for Income Tax amnesty relief are released from all income taxes, interest, civil penalty and criminal penalties stemming from the failure to disclose gross income or capital gains from foreign sources arising on or before 28 February 2002.
- In return, individuals filing for exchange control amnesty are subject to a 5 per cent Exchange Control charge on funds repatriated back to South Africa, or a 10 per cent charge on any foreign assets remaining offshore. A zero per cent charge will apply for all assets that can be held legally offshore under the normal Exchange Control limits.

Any individual can apply for relief unless that individual is aware of an enforcement investigation directed against them at or before the date of filing. Further details are contained in the statement of general principles in Chapter 4.

The amnesty offers individuals an opportunity to regularise their affairs. Individuals in contravention of exchange controls or taxation on foreign income and assets who have not availed themselves of the amnesty opportunity will subject to prosecution.

Government has taken a number of initiatives, both internationally and domestically, to further improve the efficiency of enforcement. Internationally, the legal environment has become less favourable for illegally held offshore funds through increased possibilities for information exchange. The recent introduction of the Financial Intelligence Centre Act has also increased the risk of holding assets offshore illegally. In recent years, the enforcement efficiency of SARS has increased significantly, and it is proposed that this be strengthened further through a free-flow of information between SARS and the Exchange Control Department of the SARB.

Emigrants' funds

A system of exchange control allowances for the export of funds when persons emigrate has been in place in South Africa for a number of decades. Emigrants' funds in excess of the emigration allowance were placed in "emigrants' blocked accounts" in order to preserve foreign reserves. Reflecting the improved strength and resilience of the South African economy, these blocked assets will now be unwound. The imminent elimination of the net open forward position (NOFP) and an increasingly diversified and growing export sector create an environment conducive to dealing with the foreign reserve problems of the past. As such, the following new dispensation will apply with immediate effect:

- The distinction between the settling-in allowance for emigrants and the private individual foreign investment allowance for residents is to fall away and there will now be a common foreign allowance for both residents and emigrants of R750,000 per individual (or R1,5 million in respect of family units).
- Emigrant blocked assets are to be unwound. Amounts up to R750,000 (inclusive of amounts already exited) will be eligible for exiting without charge. Holders of blocked assets wishing to exit more than R750,000 (inclusive of amounts already exited) must apply to the Exchange Control Department of the South African Reserve Bank to do so. Approval will be subject to an exiting schedule and an exit charge of 10 per cent of the amount.
- New emigrants wishing to exit more than R750,000 (inclusive of amounts already exited) can similarly apply to the Exchange Control Department of the South African Reserve Bank to do so, with approval subject to an exiting schedule and an exit charge of 10 per cent of the amount.

Details on all exchange control reforms will be provided by the South African Reserve Bank. Various other limits pertaining to travel, study, gift, maintenance and alimony allowances will be adjusted by the South African Reserve Bank.

Imports

Import volumes up 2,5 per cent in 2002

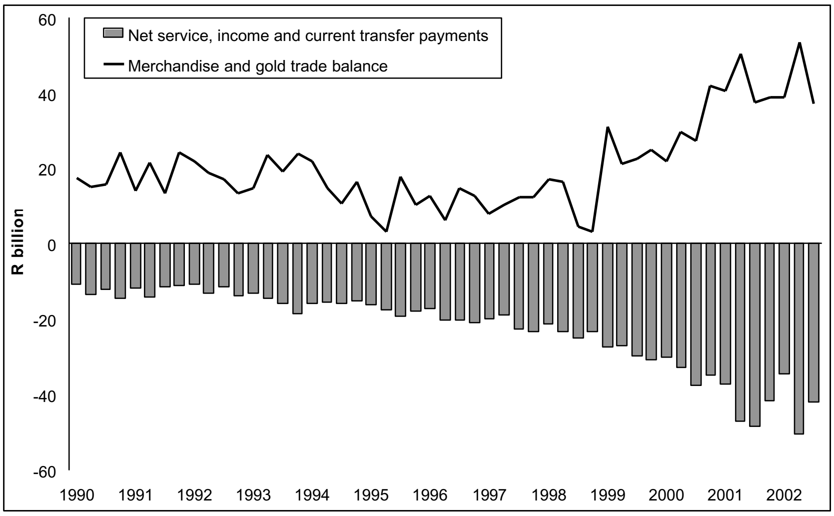
Despite the higher import prices that followed the depreciation of the currency in 2001, import volumes expanded by 2,5 per cent in 2002 having fallen 1,2 per cent in 2001. This reflects the strength of the domestic economy in 2002, particularly the demand for investment goods, since over 75 per cent of imports comprise manufactured goods, of which 36 per cent are machinery and electrical equipment. It is also indicative of an economy gearing for higher production and deeper penetration of global markets.

Services and income account

Continued net deficit on services account

Against the improved trade balance of recent years, the services account has recorded a widening deficit, with factor income a key element of the net outflow. This trend is consistent with the increased international diversification of ownership of companies operating in South Africa.

Figure 2.5 Balance of trade and services account, 1990 - 2002



Service trade risen to 13,2 per cent of total trade in 2001

The growing significance of South African merchandise trade has been accompanied by even stronger growth in the services sector. Service exports as a share of total exports rose from 12,5 per cent in 1994 to 13,2 per cent in 2001.

World Trade Organisation negotiations on services have begun and aim to reduce remaining obstacles to world trade in services. This should increase export opportunities for South African service providers and contribute to increased competition in those sectors.

Tourism continues to drive growth in service exports

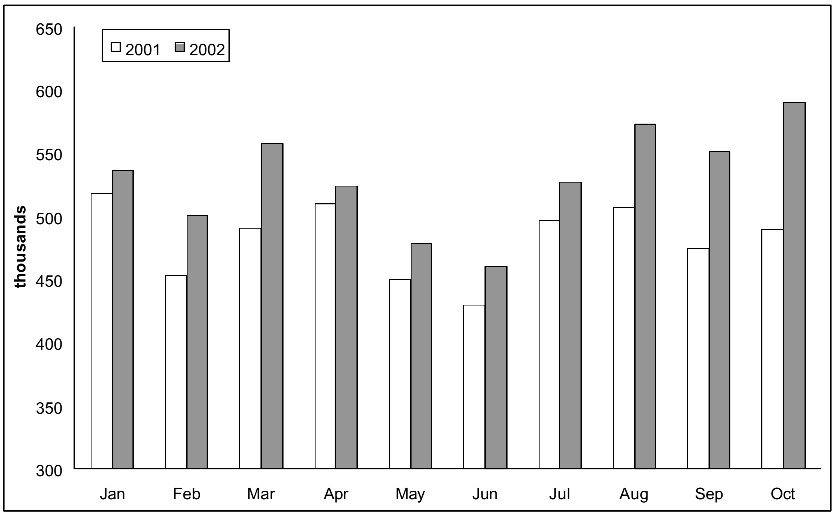
Travel accounts for over 50 per cent of South Africa's service exports. Despite the recent downturn in the world tourism industry, South Africa continues to experience rising tourism volumes, due to its world-class facilities, competitive pricing, stable political environment and abundant tourism resources. The hosting of international events such as the World Summit on Sustainable

Development in 2002 and the ICC Cricket World Cup also contribute to this trend.

Travel income grew 5,7 per cent a year since 1993

Travel income grew by an annual average of 5,7 per cent in real terms between 1993 and 2001. Over the first 10 months of 2002, tourist arrivals were about 10 per cent higher than over the same period in 2001. These numbers can be expected to rise further as global economic conditions improve.

Figure 2.6 Monthly foreign traveller arrivals 2001 and 2002



Exchange rate developments

First nominal appreciation in 15 years

The currency rebounded strongly in 2002, following the temporary weakness of 2001. Gaining 39,6 per cent, the rand experienced its first annual nominal appreciation against the US$ in 15 years, following annual average declines of 12 per cent a year since 1988. The rand also appreciated against other major currencies in 2002, rising 26 per cent against sterling, 18 per cent against the euro and 26,2 per cent against the Japanese yen.

South Africa was not alone in experiencing rapid appreciation in exchange rates over 2002, with the Botswana pula, Norewegian Krone, Iceland Krona, and New Zealand Dollar all gaining in excess of 25 per cent against the US$ in 2002.

Real value of currency remains competitive

Figure 2.7 illustrates the movements in the monthly average real effective exchange rate of the rand since January 1994. Despite strengthening by about 22 per cent over the year, the real effective exchange remains competitive, which bodes well for further expansion of domestic economic activity, especially in the export sectors and import-replacing manufacturing.

Figure 2.7 Real effective exchange rate, 1994 – 2002 (1995 = 100)

Foreign reserves and net open forward position (NOFP)

Gross and net reserves continue to rise

Gross official reserves continued to rise in 2002, from US$7,5 billion in January to US$7,7 billion at the end of January 2003. Likewise, net official reserves increased from US$ 4,99 billion in January 2002 to US$5,22 billion in January 2003.

In rand terms, the value of gross official reserves fell from R85,3 billion in January 2002 to R66,2 billion at the end of January 2003, on the back of an appreciating exchange rate.

NOFP declines to US$1,5 billion

At the end of December 2001, the NOFP stood at US$4,8 billion. This has been reduced significantly through the National Treasury's drawing down of a syndicated loan of US$1,5 billion in January and through the proceeds of foreign-denominated sovereign debt issue in April 2002. Combined with the gradual increase in net official reserves, this has contributed to a much-reduced NOFP of US$1,5 billion in January 2003.

International economic relations

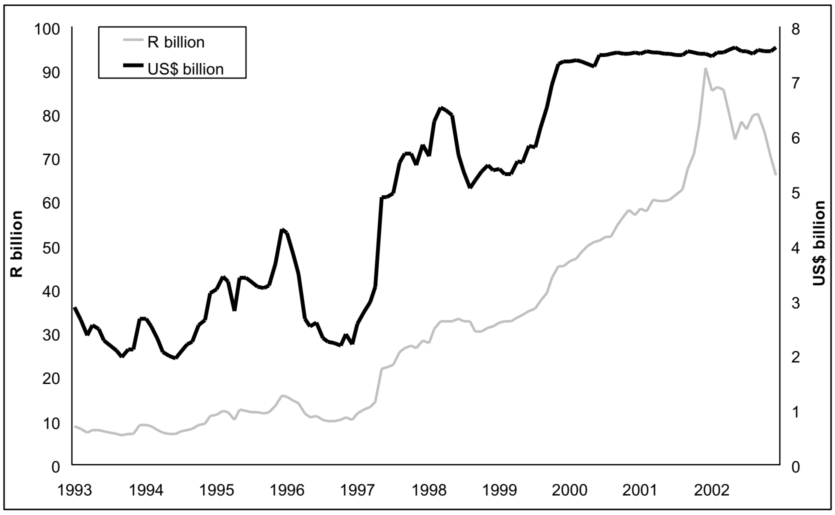
South Africa's external economic environment plays an important role in the development of the domestic economy. Factors affecting the current and capital accounts include the condition of the world economy, growth in the rest of Africa and stability in the international financial environment. These impact on the growth and development of the South African economy through trade, sales and purchases of financial assets, investment and migration, and have a direct impact on the rate of growth and levels of employment in the economy.

The Ministry of Finance and National Treasury engage with regional, continental and global institutions, as well as other governments in efforts to ensure that the international developmental and financial architectures are conducive to rising economic development around the world and in Africa. In 2002, the World Bank's Development Committee, which is chaired by Minister Manuel, focused on exploring how the Bretton Woods Institutions contribute to the socio-economic development of poorer countries, many of which are in Africa. Discussions are in progress to secure increases in funding for the Highly Indebted Poor Countries (HIPC) initiative and reforms to HIPC are being pursued to ensure that countries receiving debt relief become economically sustainable. The Development Committee has also mandated the World Bank to promote improved coordination and harmonisation of development assistance, with a greater focus on technical capacity to increase the ability of developing states to implement, monitor, and control expenditure. Harmonised and effective donor aid is a key step in the attainment of the Millennium Development Goals. The World Summit on Sustainable Development and the Monterrey Consensus set out additional challenges to which South Africa is responding on behalf of developing countries.

The current fragile international financial and economic environment raises the importance of sound governance and regulatory frameworks for stabilising global financial and capital markets, and the need for appropriate financial instruments to deal with international financial uncertainty. South African interaction with the IMF and the G20 group of countries has also paid dividends in 2002. South Africa has sought to defend developing country concerns in the protracted international debate over the utility of a sovereign debt restructuring mechanism. Instruments to assist countries with financial instability are in the process of being made operational. Strengthening crisis prevention and assisting countries to manage the periodic volatility associated with globalisation and contagion will be the focus of the G20 in 2003.

Regionally, in 2002, South Africa advanced programmes for macroeconomic convergence, and investment and tax coordination in the Southern African Development Community (SADC). A memorandum of understanding on investment in SADC is expected to be completed this year. The macroeconomic convergence programme is currently developing a system through which SADC member countries will set out their convergence programmes. The development of NEPAD continues to progress rapidly, with active policy advice flowing from the National Treasury to the Secretariat on the economic and peer review aspects of the initiative.

Figure 2.8 Gross reserves, 1993 – 2002



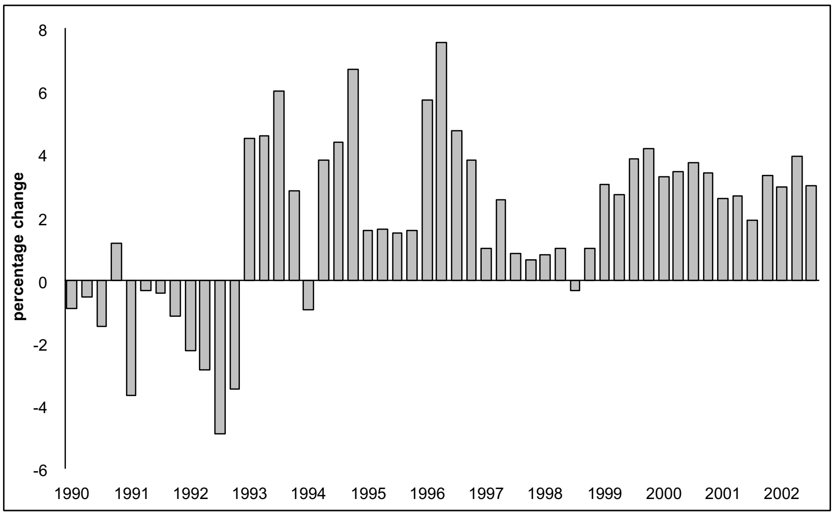
Real output trends

Structure and output of the economy

16 quarters of uninterrupted expansion

Figure 2.9 illustrates the quarterly changes in gross value added at basic prices since 1990. Following the East Asian crisis in 1998, the growth momentum of the economy has been firmly positive, reflected in 16 quarters of uninterrupted expansion. Robust growth in productivity, a competitive exchange rate and stable domestic demand have given impetus to broad based expansion in economic activity.

Figure 2.9 GDP at basic prices, 1990 – 2002, percentage change, q-o-q saar



Stable and sustainable growth

The boom-bust economic cycles that characterised the growth performance of the past have been supplanted by more robust and broad-based growth. The development of a more diversified and export oriented manufacturing sector has been matched by consistent expansion of tertiary sector activities.

Human capital investment accelerated in 2003

In 2003, investment in human capital development is accelerated, with a particular focus on the learnership programme, supporting productivity and employment growth. A comprehensive and transparent approach to economic empowerment underpins government efforts to broaden participation in the economy.

Broadening economic participation through black economic empowerment raises economic capacity by ensuring the effective utilisation of all resources, reducing dependency, entrenching democratic participation, and fostering entrepreneurship. Intensive skills development, preferential procurement and improving access to financial capital are among the measures government envisages supporting empowerment.

Globalisation of trade improves competition

Through tariff reform, South Africa has embraced the challenges of global trade, encouraging firms to reorganise their operations and improve efficiency in order to maintain their competitive positions. Further engagement in World Trade Organisation negotiations will create opportunities for expansion of domestic production to take advantage of easier access to world markets, while fostering competition in the domestic market.

Infrastructure upgrade to support trade

Stepped up investment in transport infrastructure, particularly roads, ports and harbours, creates an enabling environment for South African firms to take advantage of rising global trade. Among other prospects, the South African Ports Authority envisages raising capacity at the Durban Harbour by 35 per cent by 2005, investing R500 million at Richard's Bay and R600 million at Saldanha Bay.

Investment incentives support business expansion

Small business development is a key channel for increasing investment, growth and employment. Further easing of the tax and regulatory burden on small businesses, coupled with intensified efforts to provide capital to entrepreneurs, underpin growth and development of this vital sector.

Table 2.3 The shares of value added at basic prices by kind of economic activity

Averages	1980-89	1990-94	1995-1999	2000 - 2001
Primary	**18,3**	**12,3**	**10,4**	**10,5**
Agriculture	5,4	4,3	3,8	3,4
Mining	12,8	7,9	6,6	7,2
Secondary	**30,1**	**28,8**	**26,1**	**24,1**
Manufacturing	22,8	21,9	19,7	18,6
Electricity	3,8	3,7	3,2	2,7
Construction	3,4	3,2	3,1	2,9
Tertiary	**51,6**	**58,9**	**63,5**	**65,3**
Wholesale and retail	12,3	14,2	13,6	13,3
Transport	8,7	8,7	9,3	9,9
Financial	12,8	15,4	17,9	19,9
Community	17,8	20,6	22,7	22,3

The primary sector

Primary sector expands 3,7 per cent in 2002

Output of the primary sector continues to decline as a percentage of total output, as the structure of the South African economy changes. Nonetheless, parts of both the mining and agricultural sectors remain profitable and attract considerable investment. Real growth in the primary sector averaged a healthy 3,7 per cent in the first three quarters of 2002 on a seasonally adjusted and annualised basis, following six quarters of continuous decline.

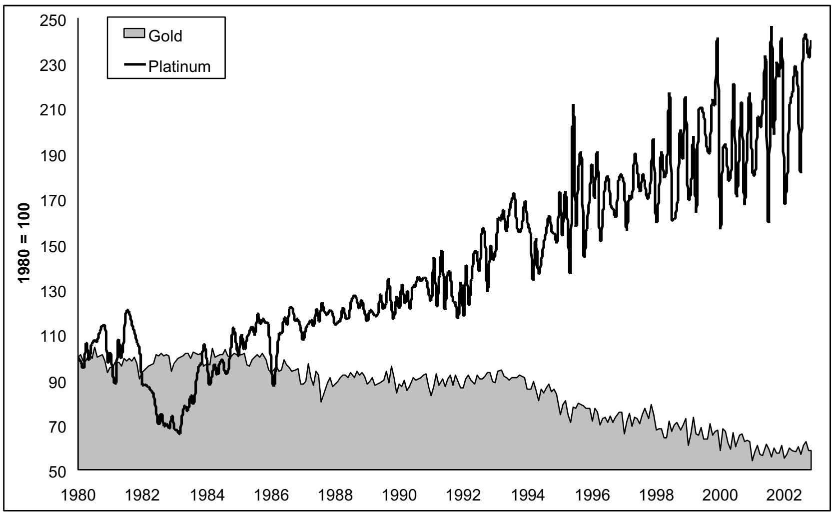
Platinum output to rise 30 per cent in 2005

South Africa accounts for 76 per cent of global platinum production, with further expansion planned, as mines gear up for anticipated increases in global demand. Firms in this sector plan to invest over R35 billion up to 2005, raising output by around 30 per cent, with associated increases in employment. This will enable the mines to meet rising demand from the automotive sector in response to worldwide changes to environmental regulations. As set out in figure 2.10, platinum now accounts for the major share of mining output and exports in South Africa.

Stakeholders work together to achieve mining charter objectives

Following the finalisation of the mining charter, stakeholders have been proactive in broadening participation and opportunity in the mining sector. Already, Harmony Gold has announced the development of a 330 000 ounce a year gold mine over the next five years, with an empowerment company owning a 26 per cent stake.

Figure 2.10 Gold and platinum production, 1980 – 2002



Continued buoyancy in agriculture

Over the past ten years, the deregulation of agricultural marketing, and the abolition of subsidies and subsidised finance have contributed to the creation of a competitive world-class agricultural sector. Over the first nine months of 2002, real value added in the sector increased 3,7 per cent compared to the same period in 2001, with the maize crop increasing by 21 per cent in the 2002-harvesting season.

Future growth of the sector will benefit from increased access to foreign markets and the empowerment of emerging farmers through land redistribution and the finalisation of the Communal Land Bill, supported by provincial agricultural support services.

The secondary sector

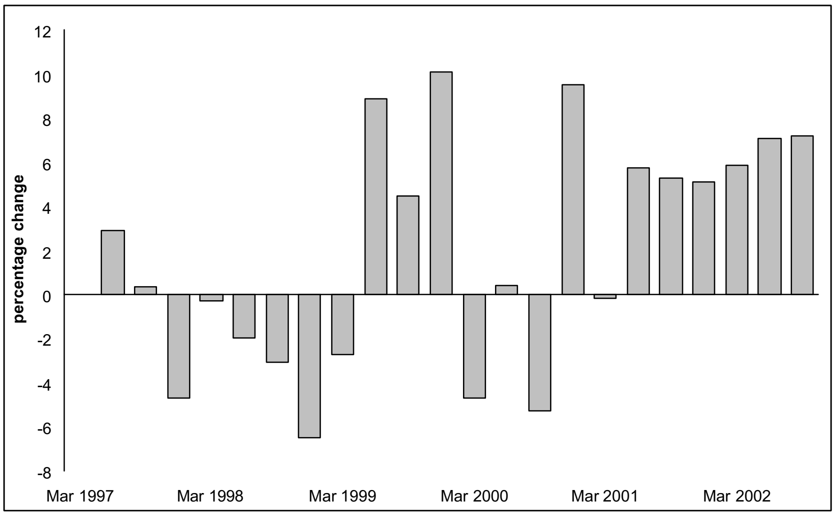
Secondary sector expands 3,7 per cent to September 2002

The secondary sector's real value added has expanded at an average quarterly rate of 3,3 per cent since 1999 on a seasonally adjusted and annualised basis, almost doubling the rate over the period 1994 to 1999. Buoyed by investment in manufacturing and steady demand for building and other construction works, the sector expanded real output by an average of 3,7 per cent in the first three quarters of 2002 on a seasonally adjusted and annualised basis, up from 1,5 per cent over the same period in 2001.

Microeconomic reform to support growth

Responding to enhanced competition and tariff liberalisation, and encouraged by a range of fiscal measures, investment in the sector has enabled South African producers to gain important footholds in international markets. Tax and expenditure incentives, such as the strategic investment programme, accelerated depreciation allowances and industrial development zones continue to attract capacity in the sector. The development of sustainable backward and forward linkages with small businesses is central to Government policy to extend participation and economic opportunity.

Figure 2.11 Gross fixed capital formation in manufacturing, 1997 – 2002, percentage change, q-o-q, saar.



MIDP contributes to strong growth in automotive sector

Much of the strength of the domestic automotive sector is ascribed to the success of the Motor Industry Development Plan (MIDP). In particular, 15 local producers of catalytic converters produce about 12 per cent of world demand for this product, employing 3 500 people mainly in the Eastern Cape. Further expansion is likely in the wake of the extension of the MIDP from 2007 to 2012, with Toyota following major German automakers in committing R1 billion of new investment, doubling its output and raising employment by10 per cent.

The tertiary sector

Tertiary sector contributes 63,5 per cent to value added

Since 1995, the tertiary sector has grown at an average quarterly rate of 3,4 per cent on a seasonally adjusted and annualised basis, compared with 1,2 per cent between 1990 and 1994. As a consequence, the share of value added attributable to the sector has risen to 63,9 per cent in 2002 from 55,3 per cent in 1990.

Solid growth in transport and communications

The transport and communications subsector has expanded strongly, averaging nearly 7,5 per cent a quarter since 1995. Increased tourism numbers following the hosting of key international events such as the United Nations World Summit on Sustainable Development and strength in the domestic cellular industry were important drivers behind this.

Further expansion of tourism infrastructure envisaged

A range of initiatives support the building of capacity to attract foreign tourists, including small business support and spatial development initiatives at the Wild Coast and elsewhere.

Other subsectors contributed strongly to growth in the tertiary sector in 2002, with the wholesale and retail trade sector averaging growth of 2,1 per cent over the three quarters of 2002, while the financial sector grew by 3,2 per cent on average over the period.

Employment and remuneration

Employment trends

Intense restructuring of industrial processes led to rapid productivity advances between 1994 and 2000. This was accompanied by declines in formal employment in older industries. Combined with growth in the economically active population, this has contributed to increases in the unemployment rate. The labour market has been particularly affected by shifts in labour demand toward higher skilled employees and falling labour intensity of production.

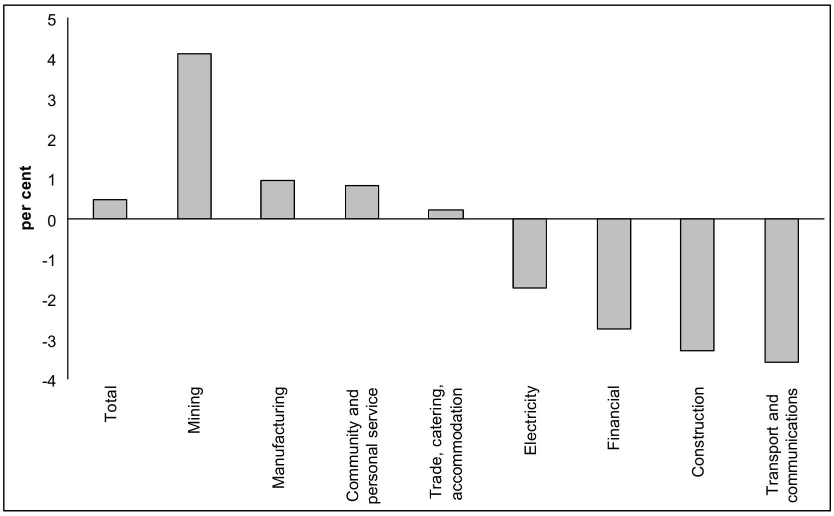
Turnaround in formal sector job creation

Evidence is emerging that this trend has slowed in recent years and that the economy is again creating formal sector jobs in older sectors. The improved competitiveness of the rand has also contributed to improved prospects for more labour intensive sectors.

Broad employment expansion in older economic sectors

The *Survey of Employment and Earnings* indicates that between September 2001 and September 2002, employment in the measured component of the formal economy expanded by about ½ per cent, with particularly strong gains in non-gold mining employment. Expansion was evident in the manufacturing sector and public sector, the latter raising employment by almost 1 per cent over the year.

Figure 2.12 Formal sector employment, y-o-y percentage change, September 2002



R3,6 billion skills levy

Skills enhancement is a central pillar of Government's efforts to reduce unemployment in South Africa. The skills development levy will contribute R3,6 billion to skills formation in South Africa in 2003/04. This effort is supported by the learnership programme, which seeks to combine formal training with practical experience. With Government support through grants and tax incentives, the learnership programme has aided 22 884 learners to join the formal labour market up to September 2002.

Improving the small business environment, further streamlining the dispute resolution and regulatory institutions and promoting skills development are among the measures Government is pursuing to encourage more rapid employment creation. In addition, several expenditure programmes with employment potential are being stepped up, notably investment in municipal infrastructure and expansion of provincial social services.

Labour law amendments

In 2002, following extensive negotiations with social partners at NEDLAC, a series of amendments were introduced to the labour legislation, which help to align the legislation with changing labour market conditions and sensitise the legal framework to the need for employment creation. These include the following:

- Conditions of employment:
  - Notice periods were reduced to one week during the first six months of employment
  - Under certain circumstances, ordinary working hours can now be extended beyond 45 hours and weekly overtime limits were extended
- Dispute resolution:
  - Streamlined dispute resolution mechanisms were introduced
  - The CCMA Director is empowered to make arbitration awards orders of the labour court
  - A lower burden of proof is introduced for "substantive fairness" of dismissal during probationary periods
- Rights and responsibilities of employers and employees:
  - Improvements are introduced to the consultation process around retrenchment
  - When a business is transferred as a going concern, employees must be transferred with substantially the same conditions of employment and the transferring employer is obliged to ensure this is the case
  - Employees are now entitled to severance pay if their employment is terminated due to insolvency
- Collective Bargaining and Bargaining Councils:
  - The extension of collective bargaining agreements is further regulated, particularly to take account of the potential impact on small businesses.

Productivity and earnings

Productivity rises 4,8 per cent a year between 1995 and 2002

Figure 2.13 shows the trends in real wages, productivity and employment in the formal sector from March 1994 to September 2002. The 1990s have been a period of unprecedented growth in labour productivity in South Africa, especially in the mining, manufacturing, construction and services sectors. With the year-on-year rate of increase peaking at 7 per cent in the third quarter of 1995, the average annual rate of productivity growth from 1995 to June 2002 was 4,8 per cent. Over the same period, real wages grew at an average year-on-year rate of 2,5 per cent, contributing to declining unit labour costs and improved industrial competitiveness.

Figure 2.13 Real remuneration, productivity and employment, real growth, 1994 – 2002 (1995=100)

Competitive real unit labour costs to encourage employment growth

While productivity growth has slowed, it remains comfortably above real wage growth. Continued moderation in unit labour costs will contribute positively to investment and employment creation, while rising real wages will support further expansion of consumption expenditure and levels of household saving.

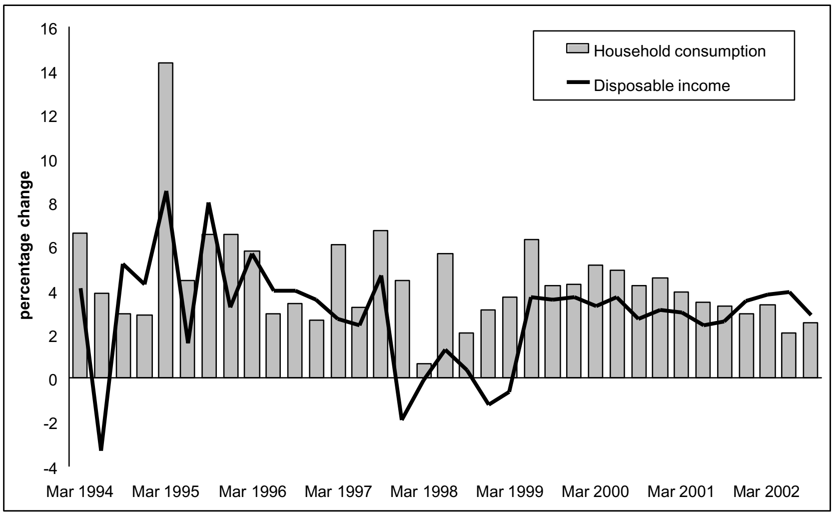
Domestic expenditure

Household consumption

Rising disposable income supports household consumption

Real household consumption expenditure has grown robustly since 1993, with quarterly average growth rates of 3,4 per cent on a seasonally adjusted and annualised basis. In the first three quarters of 2002, household consumption expenditure expanded by an average of 3,2 per cent, supported by rising real incomes, modest employment gains and personal income tax cuts.

Figure 2.14 Household consumption expenditure and disposable income, 1994 – 2002, q-o-q, saar

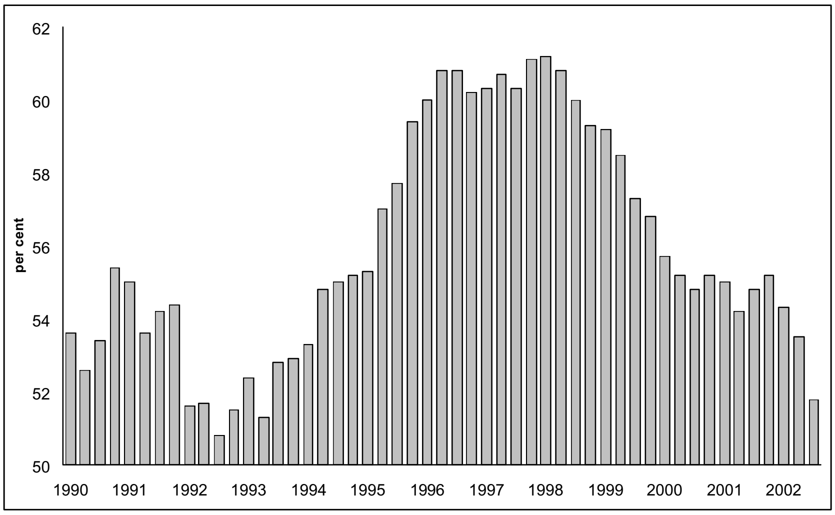


Despite the inflationary spike in 2002, disposable income in the first three quarters increased by about 3,3 per cent, in contrast to the experience of 1998 when rising prices were accompanied by a sharp slowdown in income growth.

Household debt: income at 10 year low

The steady increase in disposable income slowed the pace of growth of household debt in 2002, reducing debt as a percentage of disposable income to its lowest level since 1993. This has strengthened the financial position of South African households, reducing their vulnerability to changes in interest rates and asset prices, and will support consistent growth in consumption in the next few years.

Figure 2.15 Household debt as a percentage of disposable income



Government consumption

Government consumption supports rising domestic demand

Reductions in state debt costs, coupled with steady improvements in fiscal management, have enabled general government to increase real consumption expenditure on public services in 2002/03 by 3,4 per cent over the 2001/02 level. The implementation of the Public Finance Management Act and a renewed focus of departments on policy outcomes have improved expenditure planning and the efficiency of public expenditure. Over the medium term, general government consumption expenditure is set to rise by about 3,7 per cent a year in real terms, contributing positively to further increases in social incomes and economic development.

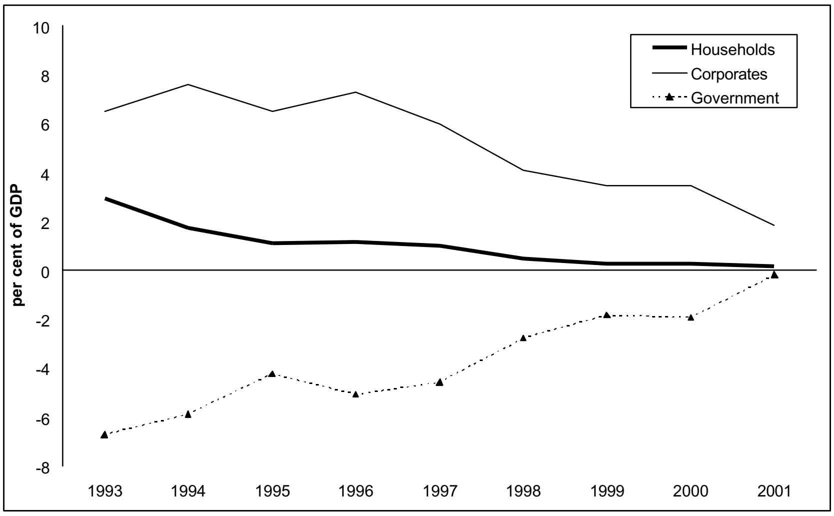
Finance, saving and investment

Saving

Gross saving exceeds 15,5 per cent of GDP

In the first three quarters of 2002, average gross saving as a percentage of GDP rose above 15,5 per cent for the first time since 1999. This is mainly due to the marked improvement in government saving since 1994, which has compensated for the general decline in private sector saving.

Figure 2.16 Composition of net savings, 1993 - 2001



Raising savings to fund sustainable investment

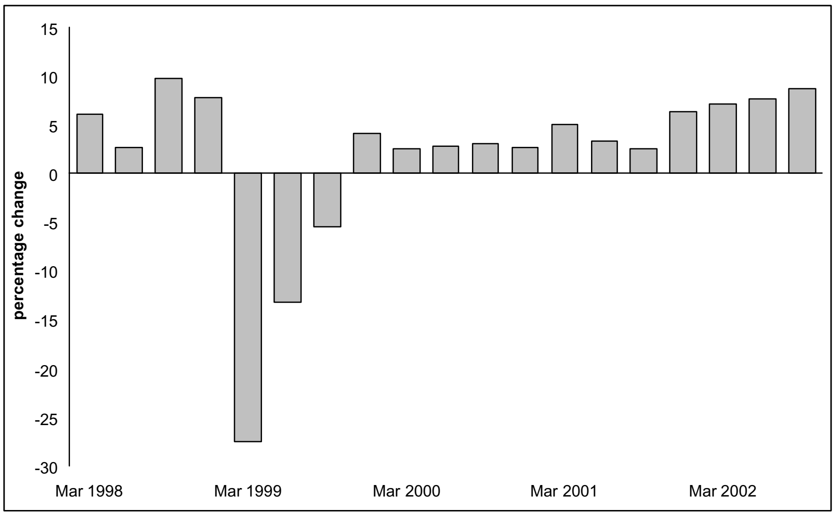
Sustained economic growth and development in South Africa requires significantly higher levels of investment than currently experienced, which in turn requires sustainable increases in domestic saving. At the Financial Sector Summit in August 2002, social partners agreed to work together to develop strategies to ensure the financial sector is more efficient in the delivery of financial services, which will enhance national savings and direct them to developmental purposes. Government is exploring mechanisms to give effect to these commitments, particularly in respect of raising household savings.

Investment trends

6,3 per cent investment growth in 2002

Investment growth has been strong across the economy in 2002, rising by an estimated 6,3 per cent over the year supported by rising business confidence, steady growth in consumer demand and a moderate cost of capital.

Figure 2.17 Gross fixed capital formation, 1998 – 2002, percentage change q-o-q, saar



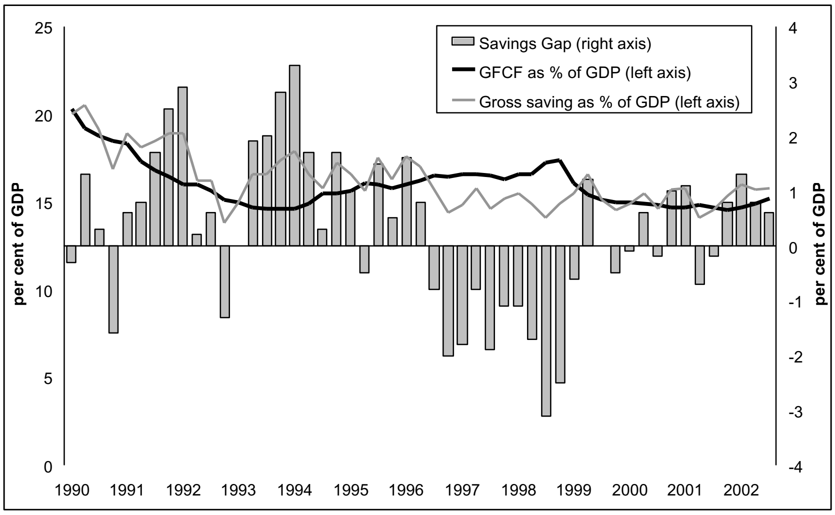
Gross fixed capital formation has recovered steadily following the steep decline in 1998 in the wake of the East Asian crisis, and the subsequent sharp increase in domestic interest rates. However, as indicated in figure 2.18, investment of 15 per cent of GDP remains below the 1996-1998 rates and is now lower than domestic saving. Rising investment over the next few years will raise the productive capacity of the economy, create jobs and expand national wealth.

Investment falls to 15 per cent of GDP

The outlook for investment spending remains positive. The anticipated expansion of global demand, moderation of nominal interest rates as inflation falls, further income tax relief boosting domestic demand and stepped up infrastructure investment by Government all give added impetus to investment growth over the medium term.

Positive outlook for higher capital formation

Figure 2.18 Savings, investment and savings gap, 1990 - 2002



Prices and money market developments

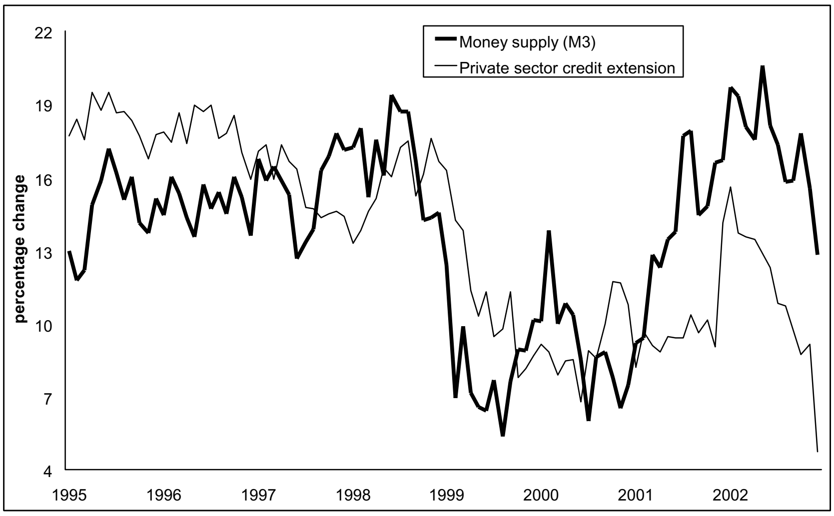
Money supply

Rapid money growth in first half moderates in second half of 2002

After expanding rapidly in the first half of 2002, annual growth in broad money supply (M3) moderated from the high of 20,6 per cent in May, falling to 12,8 per cent in December. Demand for money in the early part of the year was mainly driven by uncertainty regarding financial markets, robust growth in nominal output and some repatriation of export proceeds to take advantage of the weaker currency.

Money growth slowed in the latter half of 2002 due to a tighter monetary policy environment and as confidence increased in respect of the commitment of the authorities to curbing inflation.

Figure 2.19 Money supply and private credit extension, 1995 – 2002, y-o-y, percentage change



Annual private sector credit growth slows to 4,8 per cent in December

Growth in credit extension to the private sector slowed considerably over the course of 2002, falling from a peak annual growth rate of 15,6 per cent in January, to 4,8 per cent in December. Growth in mortgage lending remained strong over the period, with annual growth averaging 12 per cent over the period, on the back of a resilient real estate market.

Interest rates

400 basis point increase in repurchase rate

Following the sharp depreciation of the currency in 2001, rising food prices and the increase in money demand in the early part of 2002, the Reserve Bank raised the repurchase rate by 400 basis points in the first nine months of the year in an effort to stem second round inflationary pressures.

Inverse yield curve reflects confidence in declining inflation

Confidence in the inflation-targeting framework, and in the commitment of the Reserve Bank to meeting the target over the medium term have contributed to moderating inflation expectations. This is captured in the inverted yield curves on Government bonds, as the market anticipates quite rapid reductions in the inflation rate over the course of 2003.

Modest real yields

Modest increases in nominal interest rates relative to the increase in inflation have resulted in lower, but positive, real interest rates over 2002. This moderation in the user cost of capital has also contributed to the positive trend in investment expenditure.

Inflation

CPIX inflation peaked at 12,7 per cent in November2002

Inflation increased sharply over 2002, with particularly rapid increases in the food, housing and medical categories of the CPIX. Year-on-year CPIX inflation increased to a high of 12,7 per cent in November 2002, with headline CPI inflation rising to 14,5 per cent in the same month. CPIX inflation has fallen to 11,8 per cent in January.

Table 2.4 Contributions to annual CPIX inflation

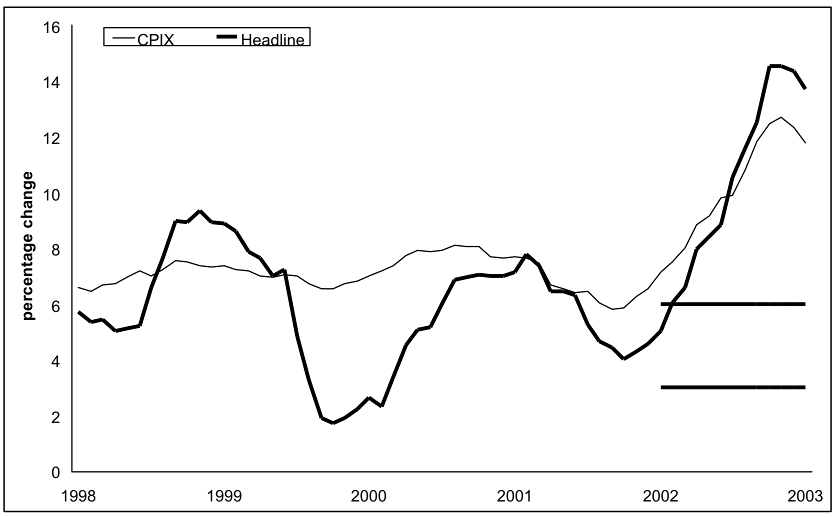
Category[1]	2000	2001	2002
Food (25,6%)	1,9	2,4	4,3
Housing (11,6%)	1,2	1,2	1,8
Medical care and health expenses (7,7%)	0,7	1,0	0,9
Transport (15,3%)	1,6	1,0	1,1
Education (3,8%)	0,5	0,4	0,4
Other (29%)	1,8	1,7	1,5
Total CPIX	**7,7**	**6,6**	**10,0**

1. Weight in overall CPIX in brackets.

CPIX inflation target of 3 to 6 per cent maintained

In the 2002 MTBPS, the inflation target for CPIX in 2004 was adjusted to 3 to 6 per cent. Given Government's commitment to reducing inflation, the Minister of Finance and the Governor of the Reserve Bank have agreed that the CPIX target of 3 to 6 per cent is retained for 2005 and that the target range for 2006 will be reconsidered at the time of the 2003 MTBPS.

Figure 2.20 Consumer price inflation, 1998 – 2002, y-o-y, percentage change



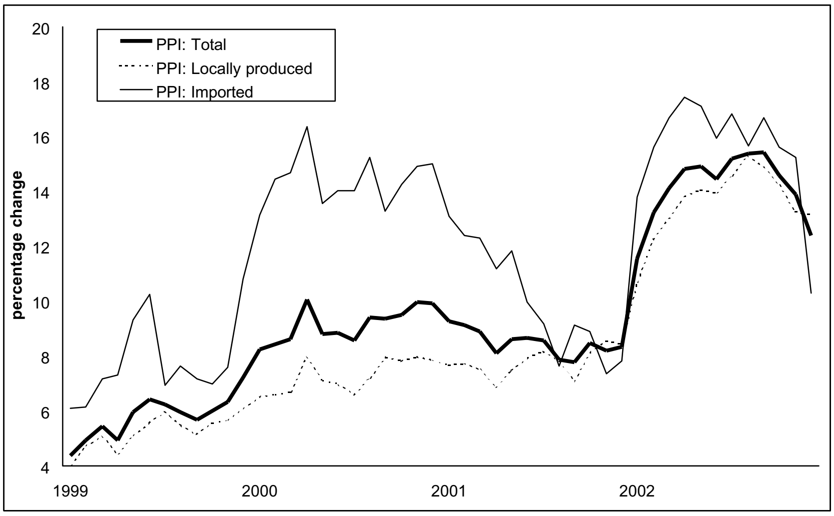
CPIX inflation to fall sharply in 2003

On the back of the stronger exchange rate and modest increases in input costs, the CPIX inflation rate is expected fall below 6 per cent by the end of 2003, averaging 7,7 per cent for the year.

Producer price inflation advances 14,2 per cent in 2002

Annual average producer price inflation has risen from a low of 3,5 per cent in 1998 to 14,2 per cent in 2002. Currency weakness, rapidly rising oil prices (to almost double their early 1998 levels) and solid domestic demand all contributed to rising PPI. By December 2002, PPI had fallen back to 12,4 per cent.

Figure 2.21 Producer price inflation, 1999 – 2002, y-o-y, percentage change



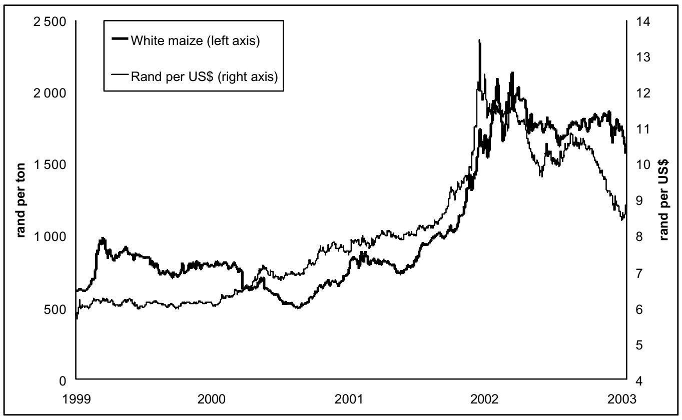
PPI pressure lessens in 2003

Strengthening currency, further productivity improvements and OPEC's commitment to expand production and maintain oil prices within their target range of US$22 to US$28 a barrel, should continue to moderate PPI and, indirectly, consumer prices.

Food inflation

With a weight of 25,6 per cent in the CPIX basket, food inflation was one of the main factors behind the rapid rise in the overall CPIX in 2002. In 2002, food inflation accounted for an average of 42,8 per cent of the rise in CPIX, compared with 20,5 per cent in 2001. Given household expenditure patterns, food inflation reduces the real incomes of lower income households more than others. These concerns prompted Government to commission an interdepartmental investigation into pricing behaviour in agricultural and food markets. This study identified grain price increases, illustrated in the figure below, as a main driver of overall food inflation.

Maize prices and exchange rate, 1999 - 2003

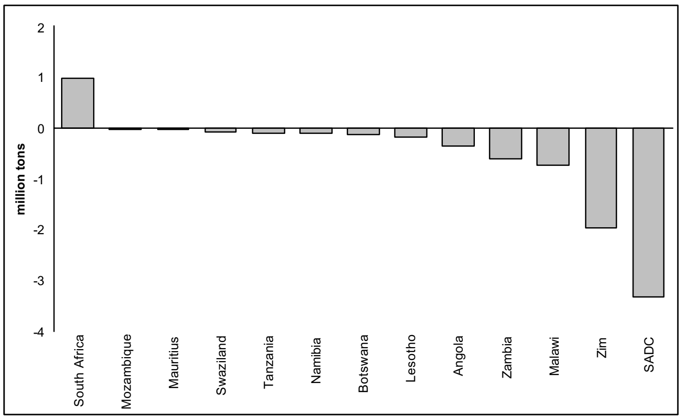


Grain price rises in 2002 were mainly attributable to:

- The depreciation in the value of the rand
- A lack of competition in the supply chain, especially at the retail level
- A shortage of maize in SADC, brought about in part by political uncertainty in Zimbabwe, conflict in other parts of the region and poor climatic conditions
- Rules of origin criteria that limited maize traded on the South African Futures Exchange (SAFEX) to maize of "African origin". This rule has since been abolished.

In the *Medium Term Budget Policy Statement*, Government announced increases in targeted welfare grants, with a further R400 million a year set aside for the next three years for emergency food relief. Furthermore, the Department of Agriculture has established a Food Pricing Monitoring Committee to monitor movements in food prices and propose interventions, where appropriate.

Anticipated maize shortfall in SADC, 2003



Looking ahead, maize supply conditions are expected to improve marginally in 2003, though all SADC countries outside of South Africa, are still expecting maize deficits. The stronger exchange rate could exert downward pressure on food prices, particularly if food prices respond to the appreciating currency by the same magnitude as they did to a depreciating currency. Already, the rate of increase in food prices has declined since November, both due to the strengthening of the rand and to improved supply prospects.

Domestic outlook

South Africa has continued to record stable and sustainable economic growth, despite the global uncertainty that characterised much of 2002. Over the medium term, solid growth and job creation will contribute to rising standards of living for all South Africans, ensuring that the benefits of economic restructuring are broadly shared. Against the backdrop of steady real economic growth, wide-ranging government initiatives contribute to reducing the marked inequality and poverty that still challenges policymakers.

Growth of 3,3 per cent in 2003, rising to 4 per cent in 2005

GDP growth of 3,3 per cent is forecast for 2003, and is projected to accelerate to 3,7 per cent in 2004 and 4,0 per cent in 2005. Taking into account continued uncertainty about the political situation in the Middle East, the 2003 forecast is slightly lower than at the time of the *Medium Term Budget Policy Statement*.

Falling interest rates and tax cuts support consumption growth

Final consumption by households will remain robust and is forecast to grow by 2,9 per cent in 2003, as interest rates fall and tax relief supports consumer spending. Consumption should also benefit from higher employment and disposable income, as GDP growth accelerates over the medium term.

Buoyant investment growth of 5,8 per cent

Investment grew strongly in 2002. It is expected to maintain its momentum and is forecast to grow by 5,8 per cent in real terms during 2003. This performance will be as a result of buoyant economic conditions and the lower cost of capital over the medium term.

Government consumption up 3,6 per cent over medium term

Government spending will remain strong over the medium term, as government continues its commitment to improving South African socio-economic conditions. Final government consumption is forecast to rise in real terms by 3,1 per cent in 2003. Average real growth in government consumption is forecast at 3,6 per cent over the medium term.

Exports to rise on back of global recovery

Exports are expected to rise 3,0 per cent in real terms during 2003, with higher commodity prices (particularly for gold and platinum) further enhancing South Africa's export earnings. Over the medium term, export growth is also expected to benefit from recovering international demand.

Rising domestic demand stimulates imports

With the level of domestic economic activity rising over the forecast period, the demand for imported goods is expected to accelerate. Real import volumes are expected to increase by about 5,2 per cent during 2003 and to average growth of 6,3 per cent over the medium term. As a result, the current account is expected to ease slightly over the medium term, though the deficit is not expected to exceed 2 per cent of GDP.

The encouraging gains by the rand in 2002 should exert downward pressure on the inflation rate. CPIX inflation is forecast to fall from 10 per cent in 2002 to 7,7 per cent and 4,8 per cent in 2003 and 2004, respectively.

Table 2.5 Macroeconomic projections: 2002 to 2005

	Actual			Estimate	Forecast		
Calendar Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Percentage change unless otherwise indicated							
Final Household consumption	1,4	3,5	3,1	3,1	2,9	3,3	3,7
Final Government consumption	0,1	3,1	3,3	3,5	3,1	3,7	4,2
Gross fixed capital formation	-8,1	0,8	3,6	6,3	5,8	6,4	6,9
Gross domestic expenditure	-0,1	3,0	2,4	4,3	3,8	3,7	4,0
Exports	1,4	8,4	2,5	-2,0	3,0	6,3	6,7
Imports	-7,4	7,1	0,4	2,5	5,2	6,5	7,2
Real GDP growth	**2,0**	**3,5**	**2,8**	**3,0**	**3,3**	**3,7**	**4,0**
GDP deflator	6,2	7,2	7,6	8,0	6,9	5,2	4,9
GDP at current prices (R billion)	**800,7**	**888,1**	**982,9**	**1 093,3**	**1 207,1**	**1 316,5**	**1 435,3**
CPIX (Metropolitan & urban, average for year)	6,9	7,7	6,6	10,0	7,7	4,8	5,2
Current account balance (% of GDP)	-0,5	-0,4	-0,2	0,1	-0,5	-1,1	-1,6

Table 2.6 Macroeconomic projections: 2002/03 to 2005/06

	Actual	Estimate	Forecast		
Fiscal Year	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**
GDP at current prices (R billion)	**1 007,8**	**1 120,1**	**1 234,6**	**1 344,3**	**1 466,6**
Real GDP growth	2,7	3,2	3,4	3,8	4,0
GDP inflation	7,5	7,7	6,6	4,9	4,9
CPIX (metropolitan & urban, average for year	6,6	10,9	6,1	5,1	5,1

GDP revisions

In the first quarter of each year, StatsSA issues preliminary estimates of the annual GDP for the previous year, based on the sum of the GDP estimates for the four quarters of that year. These figures are revised later in the year on the basis of independent annual estimates. On 21 November 2002, revised 2001 GDP data were released, as reflected below, with the revised annual growth rates in GDP at market prices set out in the first table.

Annual growth rates in the real GDP at market prices as from 1994

per cent	1994	1995	1996	1997	1998	1999	2000	2001
Previous growth rate	3,2	3,1	4,3	2,6	0,8	2,1	3,4	2,2
Revised growth rate	3,2	3,1	4,3	2,6	0,8	2,0	3,5	2,8

The most significant data revisions in percentage terms occurred in the residual item (change of 125 per cent) and change in inventories (change of 43 per cent). Final government consumption (change of 0,8 per cent) was the major contributor to the overall change in the GDP level. The downward adjustment in the residual item reflects a wider discrepancy between the GDP data measured from the production side (as compiled by StatsSA) and GDP data estimated from the expenditure side (estimated by the SA Reserve Bank).

Breakdown of GDP revisions for 2001

	Previous data	Revised data	Difference		Contribution to overall change
	R million	R million	R millions	per cent	per cent
Final household consumption	403 853	405 994	2 141	0,5	0,3
Final government consumption	105 655	111 062	5 407	5,1	0,8
Gross fixed capital formation	100 660	100 777	117	0,1	0,0
Change in inventories	2 963	1 688	-1 275	-43,0	-0,2
Residual item	-2 097	-4 714	-2 617	124,8	-0,4
Gross Domestic Expenditure	611 034	614 807	3 773	0,6	0,6
Exports	166 740	167 461	721	0,4	0,1
Imports	139 764	140 230	466	0,3	0,1
GDP	638 010	642 038	4 028	0,6	0,6

In the 2002 MTBPS, the National Treasury forecasted GDP growth of 2,6 per cent for 2002. Following the November 2002 revision of GDP figures by Stats SA, both the MTBPS GDP growth and level forecasts will be comfortably exceeded. Given the upward adjustment in the GDP level, the overall size of the economy (as measured by the real GDP level) will also be higher in 2003 than estimated at the time of the MTBPS. Even though the growth rate for 2003 is revised marginally downwards from 3,5 per cent to 3,3 per cent, overall economic activity (as measured by real GDP levels) will be higher than forecasted at the time of the MTBPS, as reflected below.

Impact of GDP revisions on macroeconomic forecasts

	MTBPS – Oct 02	Budget – Feb 03	Difference
Calendar 2002 (estimates)			
Real GDP levels	654 297	661 502	7 205
Growth	2,6%	3,0%	0,4%
Calendar 2003 (forecast)			
Real GDP levels	676 901	683 038	6 137
Growth	3,5%	3,3%	-0,2%