National finances

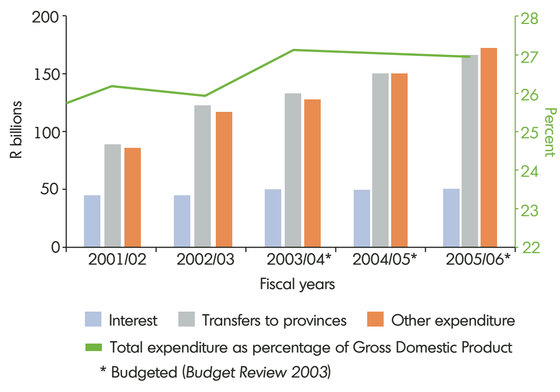
South Africa's debt, both domestic Rand-denominated bonds and foreign debt issues, enjoys increasing recognition on international capital markets.

This reflects:

- the country's macro-economic success
- sustainable fiscal and macro-economic policies
- a sound and transparent approach to debt management
- a healthy balance of payments position
- the maturity of South Africa's financial markets.

South African foreign debt continues to trade at tighter spreads than the Emerging Market Bond Index.

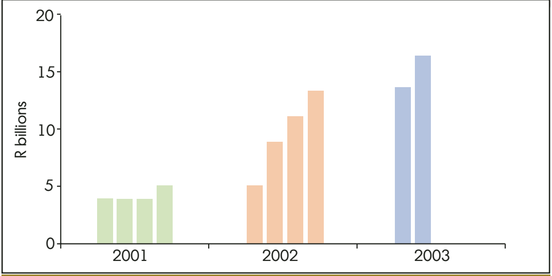
Total expenditure by government



Source: South African Reserve Bank

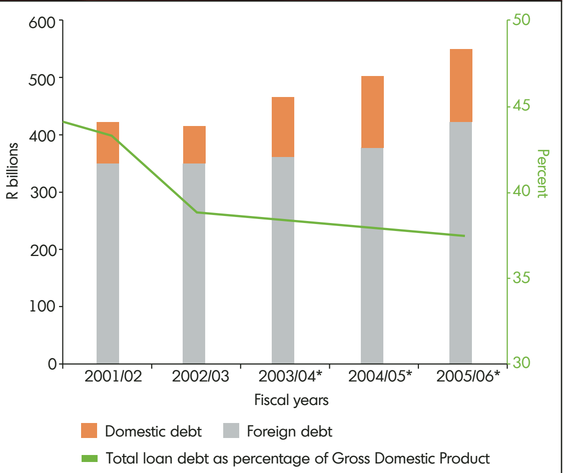
The primary objective of domestic debt management has in recent years shifted to reducing the cost of debt to within acceptable risk limits, with diversification of funding instruments and ensuring flexible government

Securitisation issues on the Bond Exchange of South Africa



Source: South African Reserve Bank

Government loan debt – local and foreign



* Budgeted loan debt (*Budget Review* 2003)

Source: South African Reserve Bank

access to markets as secondary goals. Recourse to foreign borrowing has been stepped up, allowing the fiscus to contribute to reducing the foreign currency exposure of the South African Reserve Bank in its forward market portfolio.

State debt costs continue to fall as a share of government expenditure. This share was projected to be 4,1% of Gross Domestic Product (GDP) in 2003/04 and is expected to decrease to 3,8% of GDP in 2005/06.

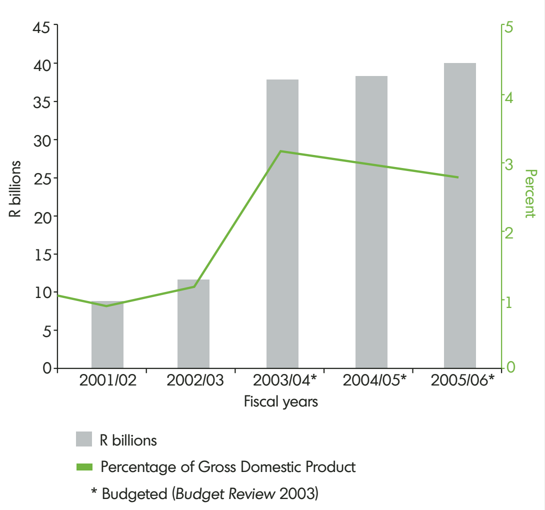
The liquidity in the domestic government bond market, measured by the increase in nominal trades, has improved substantially in recent years.

Financial markets

Primary capital market

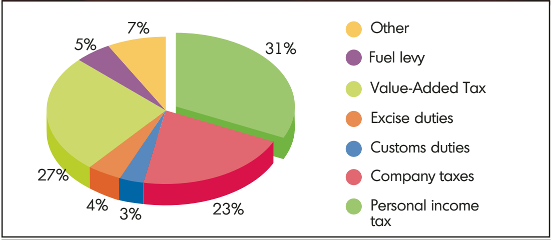
By 31 March 2003, the Bond Exchange of South Africa

Non-financial public sector borrowing



Source: South African Reserve Bank

Government revenue



Source: National Treasury

(BESA) had granted listings to 272 bonds issued by 43 borrowers, with a total nominal value of R442 billion. Approximately 60% of this debt was issued by central government.

Public-sector borrowers reduced their outstanding domestic marketable bond debt in the first 11 months of the 2002/03 financial year. Net redemptions of fixed-interest securities amounted to R4,2 billion from April 2002 to February 2003, compared with net redemptions of R15,2 billion in the same period of 2001/02.

In contrast, the outstanding nominal value of private-sector loan stock listed on BESA increased rapidly in 2002, from R28,9 billion in June 2002 to R40,9 billion in March 2003.

Government raised R10,7 billion through foreign-currency denominated debt issues in the international bond markets in 2002/03, compared with R12,4 billion in 2001/02.

Secondary capital-market activity

The monthly average yield on long-term government bonds increased from 10,3% in November 2001 to 12,6% in March 2002. By the end of March 2002, the market settled down and the monthly average yield on long-term government bonds declined to 9,9% in February 2003, its lowest level since 1980. The decline in bond yields was the result of, among others, the appreciation of the Rand and

FACT
The Auditor-General has the resources to implement its wide-ranging brief – it has 1 448 staff and a budget of R589,7 million.

the improved near-term outlook for inflation. However, the bond market rally lost momentum from the beginning of March 2003.

Trading activity on BESA declined by almost 2% from a record R12,4 trillion in 2001 to R12,2 trillion in 2002.

Managing public finances

The Public Finance Management Act, 1999, holds heads of departments accountable for the use of resources and emphasises regular financial reporting, independent auditing and measuring output and performance.

State departments are closely monitored by the National Treasury and any deviations are referred to the Auditor-General for investigation.

Taxation

In the 2003/04 financial year, the South African Revenue Service met its revised revenue target of R303,3 billion.

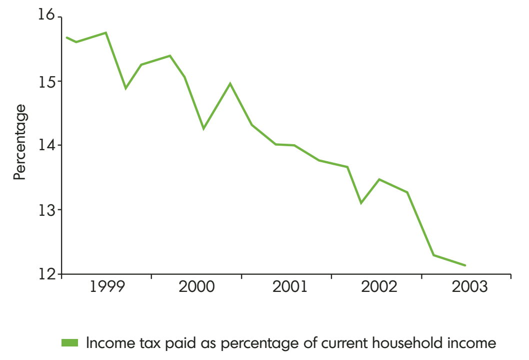
South African residents are (subject to certain exclusions) taxed on their worldwide income. Companies are taxed at a rate of 30%. Capital Gains Tax was introduced in 2001.

Value-Added Tax is levied at a standard rate of 14%. Transfer duty, estate duty, stamp duty, marketable securities tax, customs duty and excise duty are also levied. Local governments levy rates on the value of fixed property.

A skills development levy applies at the rate of 1% of payroll, for employers with an annual payroll of more than R250 000.

The 2004 tax proposals provided for, among others, personal income-tax relief of R4 billion, and eliminated stamp duties on mortgage loans and *ad valorem* duties on recorded music, print film and some cosmetic products.

Percentage of household income paid in tax



Source: South African Reserve Bank

Auditor-General

The Constitution guarantees the independence of the Auditor-General. The office audits national, provincial and local government. The Auditor-General has the power to audit the activities of public entities without the approval of the CEO or directors.

South African Reserve Bank

The Bank, which is independent, formulates and implements monetary policy and regulates the supply of money by influencing its cost.

An important responsibility of the Bank is to ensure that the banking system as a whole is sound and meets the requirements of the community.

The Bank acts as a banker to other banking institutions. It is also the custodian of the statutory cash reserves and provides facilities for the clearing and settlement of interbank obligations.

Monetary policy

The main objective of monetary policy is to secure a stable financial environment. Policy is therefore not applied to address short-term cyclical events.

The National Treasury and the Reserve Bank have set a target of 3% to 6% for the Consumer Price Index excluding mortgage costs (CPIX) for 2002 and 2003. A lower target range of 3% to 5% has been set for 2004 and 2005. In September 2003, inflation fell to within the target range.

The banking industry

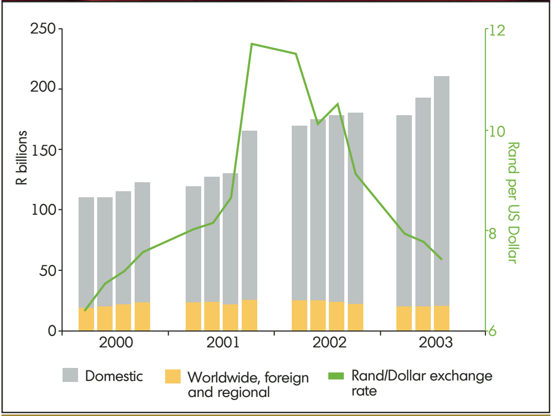
At the end of December 2002, 42 banks, including 14 branches of foreign banks, were registered with the Office of the Registrar of Banks. Another 52 foreign banks had representative offices in South Africa. The banking institutions collectively employed 115 734 workers at 8 438 branches and agencies.

Banks' loans and advances by industry

	June 2002 R billion	June 2003 R billion	Percentage change
Agriculture, forestry & fishing	14,3	16,7	17
Mining	12,5	13,4	17
Manufacturing	47,8	41,9	−12
Construction	7,7	8,5	10
Electricity, gas & water	10,4	14,6	40
Trade & accommodation	24,5	26,7	9
Transport & communication	14,3	15,9	11
Finance & insurance (including interbank)	282,8	310,3	10
Real estate & business services	65,4	71,2	9
Community, social & personal services	41,5	31,4	-24
Individuals	281,0	333,7	19
Other	62,2	75,8	22
Total	**864,3**	**960,1**	**11**

Source: South African Reserve Bank

Unit trust: Market value of net assets



Source: *Quarterly Review*

Four major groups dominate the South African banking sector, holding 82% of its assets:

- Amalgamated Banks of South Africa (Absa) Group Limited
- Standard Bank Investment Corporation Limited
- FirstRand Holdings Limited
- Nedcor Limited.

Industry-wide net income after tax declined to 0,4% of total assets in 2002. As a percentage of equity, industry-wide net income after tax decreased from 9,2% in 2001 to 5,4% in 2002.

Insurance companies

On 31 March 2003 there were:

- 96 short-term insurers with total gross premiums for 2002 of R31,5 billion and total assets of R38,6 billion
- 75 long-term insurers with 2002 net premium income of R184,5 billion and total assets of R802,8 billion
- 29 management companies managing the assets of 466 separate unit trusts.

Development Bank of Southern Africa (DBSA)

The primary purpose of the Bank is to promote economic development and growth, human resource development and institutional capacity-building. The Bank's mandate is focused on infrastructure.

DBSA co-funded projects created 42 000 jobs in 2002/03. Its bank-financed projects added R8,4 billion to GDP in 2002/03.

About 14 organisations act as managers of participation mortgage-bond schemes in South Africa. Investments totalled R3,8 billion on 31 December 2002.

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THE DEPARTMENT
OF TRADE AND INDUSTRY
SOUTH AFRICA

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Perhaps list our achievements.But time is money and that is our interest.

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