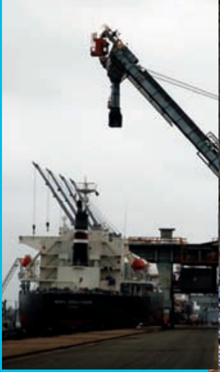

ECONOMY

The growth in real gross domestic product (GDP) slowed to 3,1% in 2008, which was notably lower than the annual growth rates that varied between 4,9% and 5,3% from 2004 to 2007. This was the result of the significant deterioration in global economic conditions and a tighter domestic policy environment. Annualised quarter-to-quarter real GDP at market prices figures contracted by -6,4% and -3% during the first and second quarters of 2009 respectively.

In November 2009, South Africa emerged from its first recession in 17 years by achieving 0,9% growth in the third quarter, primarily driven by a rebound in the manufacturing sector. The hosting of the 2010 FIFA World Cup™ in June and July 2010 will contribute to the country's economy.

In May 2009, President Jacob Zuma announced the establishment of the Ministry of Economic Development, which will promote economic policy development, coordination and coherence in alignment with national policy challenges and programmes.

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

AsgiSA, which was launched in February 2006, responds to binding constraints, such as the:

- deficiencies in government capacity
- volatility of the currency
- low levels of investment infrastructure and infrastructure services
- shortage of suitably skilled graduates, technicians and artisans
- insufficiently competitive industrial and services sectors and weak sector strategies
- inequality and marginalisation, resulting in many economically marginalised people being unable to contribute to and/or share in the benefits of growth and development (the "Second Economy").

AsgiSA has also identified particular sectors of the economy for accelerated growth, such as:

- chemicals
- metals beneficiation, including the capital-goods sector
- creative industries (crafts, film, content and music)

In August 2009, President Jacob Zuma announced that the Government would take steps to see the country through the global economic crisis. These include:

- a R2,4-billion worker layoff training scheme
- R6 billion in support for struggling firms
- measures to root out customs fraud
- debt-restructuring help for consumers.

- clothing and textiles
- durable consumer goods
- wood, pulp and paper.

Programmes put in place to eliminate these constraints include:

- infrastructure investment
- second-economy initiatives
- skills and education
- industrial policies and sector strategies
- macroeconomic policy
- governance interventions.

Infrastructure, which is one of AsgiSA's six priorities for intervention, has produced encouraging results, with meaningful growth in gross fixed capital formation, driven particularly by the public sector. According to the *AsgiSA 2008 Annual Report*, a R787-billion infrastructure development programme was in place.

Joint Initiative for Priority Skills Acquisition (Jipsa)

Jipsa is the skills empowerment arm of AsgiSA.

AsgiSA has identified six factors that constrain economic growth. One of these is the shortage of skilled labour.

On the basis of AsgiSA's priorities, Jipsa's work areas are:

- high-level world-class engineering and planning skills for the network, transport, communications and energy industries
- city, urban and regional planning and engineering skills

Gross domestic product

Source: *Development Indicators, 2009*

- artisan and technical skills
- management and planning skills in education, health and in municipalities
- teacher training in Mathematics, Science, information and communications technology (ICT) and language competence
- specific skills needed by priority AsgiSA sectors, starting with tourism- and business-process outsourcing and cross-cutting skills needed by all sectors, especially financial and project managers
- skills relevant to the local economic development needs of municipalities, especially developmental economists.

Successes of this initiative include the placement of 1 500 graduates in private companies and government departments, placement offers for 20 000 graduates, international placement of more than 700 mainly female graduates and the announcement by ICT companies to establish ICT training centres to support black-owned companies.

Domestic output

Real output growth in the South African economy remained weak in the second quarter of 2009. Having declined at annualised rates of 1,8% and 6,4% in the preceding two quarters, real GDP contracted at a rate of 3% in the second quarter of 2009. Production volumes continued to decline in all three major sectors of the economy.

Domestic expenditure

Aggregate real gross domestic expenditure declined at an annualised rate of 14,5% in the second quarter of 2009, following positive annualised growth of 2,2% recorded in the first quarter.

The decline in real gross domestic expenditure was a consequence of a contraction in real final consumption expenditure by households, alongside a deceleration in both final consumption expenditure by general government and real gross fixed capital formation.

Price inflation

Year-on-year inflation consumer price index less mortgage interest rate rose from 10,1% in March 2008 to a peak of 13,6% in August 2008 and moderated to 10,3% in December.

In February 2009, Statistics South Africa (Stats SA) introduced a revamped headline consumer price inflation (CPI) and inflation target measure, known as the CPI for all urban areas. This inflation target measure increased from 8,1% in January 2009 to 8,5% in March 2009.

The annual rate of increase in headline food prices stood at 14,9% in March 2009 compared to a peak of 19,2% in August 2008. During the course of 2008, food prices increased on average by 16,8%. Processed food prices remained at high levels reflecting higher cost of transport, wages and general production.

Exchange rates

After strengthening marginally by 0,8% during the first quarter of 2009, the nominal effective exchange rate of the Rand increased by 17,5% from the end of March 2009 to the end of June 2009. Although the weighted average exchange rate of the Rand strengthened throughout the second quarter of 2009, a particularly sharp increase of 12,8% was recorded during April. The domestic currency benefited mainly from substantial capital inflows into the country, following the improvement in investors' sentiment towards emerging-market assets, an increase in commodity prices, and expectations of an improvement in the country's deficit on current account after the release of better-than-expected foreign trade data.

The weighted average exchange rate of the Rand declined by 0,6% from the end of June 2009 to the end of July, partly in response to the downgrading of the International Monetary Fund's forecast for global economic growth and a concomitant decline in international commodity prices.

The real effective exchange rate of the Rand increased by 17,6% during the first half of 2009, following a decline of 16,5% during 2008. As in the past, the volatility in the real effective exchange rate of the Rand adversely affected the competitiveness of South African exporters.

The average net daily turnover in the domestic market for foreign exchange amounted to US$12,5 billion in the first quarter of 2009 and increased to US$15,0 billion in the second quarter.

The increase in the average net daily turnover in the domestic market for foreign exchange was partly due to the increased participation of non-resident parties in the markets for debt and equity securities. The share of transactions in which non-residents participated consequently increased from 72,1% in the first quarter of 2009 to 75,1% in the second quarter.

Foreign trade and payments

The contraction in real gross domestic production and the almost simultaneous steep decline in the volume of merchandise imports in the first half of 2009 led to a turnaround in the deficit on the trade account in the second quarter of 2009 despite the relatively subdued external demand for domestically produced goods. South Africa's trade balance, which had registered deficits since the third quarter of 2005, consequently switched from a deficit of R53,4 billion in the first quarter of 2009 to a surplus of R26,6 billion in the second quarter.

The contraction in domestic economic activity since the middle of 2008 also had a profound positive impact on the shortfall on the country's services, income and current transfer account with the rest of the world. Owing to a combination of continued lower net income and other service-related payments to non-residents, the deficit on this account narrowed considerably. As a result, the negative imbalance on the current account of the balance of payments improved from 7% of GDP in the first quarter of 2009 to 3,2% in the second quarter.

Africa's economic development

South Africa's global economic strategy focuses on Africa and a strong development agenda. South Africa's economy is inextricably connected to that of the southern African region, and its success is linked to the economic recovery of the continent through the New Partnership for Africa's Development (Nepad).

At continental level, South African investment and trade with African countries has increased dramatically since 1994. Africa is now South Africa's fourth-largest export destination. Trade with the rest of Africa totalled about R50 billion in 2001 and increased to R108 billion in 2007, with exports amounting to R68 billion and imports to about R40 billion. In the same year, South Africa's trade in the Southern African Development Community (SADC) region totalled some R68 billion, with exports reaching R44 billion and imports R24 billion.

New Partnership for Africa's Development

The Department of Trade and Industry provides supportive services to Nepad, which has a critical role in accelerating trade and economic development on the continent to realise its primary objectives, namely alleviating poverty.

Southern African Development Community

The SADC comprises Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

South Africa has reviewed its trade relationship with other SADC members, adopted the SADC Trade Protocol, promoted investment by South African firms in the SADC and helped to facilitate greater volumes of trade by South Africa and other SADC members.

The SADC Free Trade Agreement (FTA) was launched in South Africa in August 2008.

The FTA provides preferential space towards regional business and its citizens by opening up opportunities for investment through reducing market risk and transaction costs, and creating a network of regional businesses interconnection.

The FTA is a vital stepping stone towards a SADC Common Market, where the movement of people would be unrestricted and free. It will also involve the setting of a common external tariff among countries with mostly differing profiles.

Europe

Trade relations with Europe, particularly with the European Union (EU), are pivotal to South Africa's economic development. The Trade, Development and Cooperation Agreement with the EU forms a substantial element of South Africa's reconstruction and development efforts.

In September 2009, the European Commission and the United Kingdom's Department for International Development allocated about R1,3 billion for South Africa's economic-support and employment-creation programme. It was announced at the South Africa-European Union Summit held in Kleinmond.

The purpose of the programme is to assist the economic sector departments of the South African Government to accelerate South Africa's economic growth rate and provide more and better jobs for poor people.

The EU is the world's largest trading bloc and generates about 30% of global GDP and 20% of global trade flows. It is the world's biggest aid donor to poor countries, contributing about half of global aid.

Implementation of the SA-EU Trade, Development and Co-operation Agreement trade provisions have been underway since 2000 with the aim of establishing an FTA between South Africa and the EU by 2012. Total trade increased from R56,5 billion in 1994 to R313 billion in 2007.

In 2007, South Africa's exports to the EU-27 totalled R152,6 billion. The EU also ranked as South Africa's number one export region in 2007.

Europe remains the principal source of foreign direct investment (FDI) in South Africa, accounting for around 80% of total FDI in 2005. Additionally, the EU accounted for about 66% of net foreign investment in South Africa in 2003 and 2004 and in 2005, the EU's share of the total assets held by foreigners in South Africa amounted to about 60%.

The EU is South Africa's largest development partner representing about 70% of all overseas development assistance (ODA), with South Africa earmarked to receive €980 million from 2007 to 2013. The European Investment Bank has also approved a loan mandate of €900 million to South Africa.

United States of America (USA)

The trade and investment relationship between the two countries has significantly increased, resulting in total trade approaching almost R100 billion with South Africa enjoying a trade surplus of approximately R20 billion in 2008. In addition, South Africa is one of the major beneficiaries under the African Growth and Opportunity Act, ranking third after Nigeria and Angola, respectively, with South African exports to the USA being the most diversified when compared to other sub-Saharan African countries' exports.

Canada

Since the lifting of sanctions in 1994, bilateral trade between South Africa and Canada increased from R904 million in 1993 to R6,6 billion in 2006. South Africa is a beneficiary of Canada's General Preferential Tariff (GPT). GPT rates range from duty-free to reductions in the Most Favoured Nation rates.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Chile, Mexico, Colombia and Peru. Most trade is with Brazil and Argentina, which are members of the Mercosur (Common Market of the South) trade bloc.

A framework agreement, committing South Africa and Mercosur to an FTA, was signed in 2000.

South and south-east Asia and Australasia

The trade deficit with Asia increased from R8,3 billion to R9 billion in 2008/09. Exports to Asia increased by R1,3 billion to R17,9 billion and imports increased by R1,9 billion to R26,9 billion.

Bilateral trade with south-east Asia, particularly the Association of South-East Asian Nations (Asean) members, increased rapidly from a low base in 1990. Asean presents South Africa with a potential market in excess of 520 million people.

Within the region, key partners for South Africa include Singapore, Thailand, Indonesia, Malaysia, Vietnam and the Philippines.

South Africa cooperates with India in areas of common interest in the World Trade Organisation and other forums, and works closely in the India-Brazil-South Africa (IBSA) Forum. In 2008, during the IBSA Summit in South Africa, the three countries committed to increase trade among themselves to R142 billion by 2010. They also agreed that there was a need for more cooperation to reform the international financial architecture to better serve the developing countries' interests.

South Africa and India cooperate in the G20, a grouping of developing countries that seeks to address developmental challenges in the global economic system.

Australia has always featured as a well-known partner for South Africa in the region.

North-east Asia

In the first half of 2009, China was South Africa's number one export destination, with annual growth of 53,9%.

South Africa's trade balance with China in the first half of 2009 was minus R8,8 billion, down from minus R19,2 billion in 2008. In the last three years, Africa's trade with China has doubled, reaching US$106,7 billion in 2008. China is Africa's second-largest single trading partner and reconfirmed commitments made at the

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In the first half of 2009, China was South Africa's number one export destination with annual growth of 53,9%, while the United States of America (USA) saw an annual decrease of 42,6% in exports. China took 11,9% of the total market, the USA 8,3% and Japan 7,5%.

In 2008, according to customs data, Japan, the USA and Germany were the country's top export markets, while Germany, China and the USA were the top import markets.

During the recession, exports were down by 19,2%. However, data in 2009 showed that South Africa recorded a surplus of R446,758 million for its trade with non-Southern African Customs Union trading partners following a R3,221-billion surplus for June.

In the first half of 2009, the largest growth (relative to 2008) for significant export sectors, apart from unclassified goods, was for fruit and nuts (11%), but the number one sector was precious or semi-precious stones at 24% of the cumulative total.

The largest import growth among major goods took place for pharmaceutical products (6,3%), with the biggest sector being mineral fuels and oil at 20,3% of the total.

2006 China-Africa Summit in Beijing to double aid to Africa and reduce barriers to its imports.

Japan is South Africa's largest trading partner in Asia and is among South Africa's top overall trading partners. The South Africa-Japan Partnership Forum is designed to strengthen bilateral ties between the two countries.

Economic transformation

There are an estimated two million small medium and micro-enterprises (SMMEs) and 17 000 registered cooperatives in South Africa.

Government aims to boost small enterprises, equalise income and wealth and create long-term jobs. Fostering entrepreneurship among women is a particular focus.

Developing SMMEs has attracted increasing attention in South Africa in recent years, as an engine for general economic growth, and for employment creation and equity acceleration.

The Small Enterprise Development Agency (Seda), which provides non-financial support to small and medium enterprises (SMEs), was formed by merging the Ntsika Enterprise Promotion Agency and the National Manufacturing Advisory Centre.

The department established the necessary institutional frameworks for the promotion of a more inclusive economy, in the form of the Integrated Small Business Strategy and the agencies designed to deliver support and services to SMMEs, namely:

- Khula Enterprise Finance Limited (Ltd) to provide financial support to the underserviced market of between R10 000 and R250 000
- the Seda for non-financial support
- the South African Micro-Finance Apex Fund for micro-finance of R10 000
- the National Empowerment Fund for financing Broad-Based Black Economic Empowerment transactions.

Industrial Development Corporation (IDC)

The IDC is a self-financing, South African state-owned development finance institution that provides funding to entrepreneurs engaged in competitive industries.

According to the IDC's annual results announced in March 2009, the IDC had a 42% increase in profit to R5,6 billion and revenue more than doubled to R14,9 billion. During 2008/09, the IDC provided R500 million to 14 companies in distress. By July 2009, another five companies had benefitted by R300 million. Some R6,1 billion had been set aside for more rescues over the next two years. The IDC's funding approvals rose by 27% and is expected to create 24 200 new direct jobs.

Business Partners Limited (Ltd)

Business Partners Ltd is a specialist investment group, providing customised investment, mentorship and property-management services to SMEs in South Africa.

In addition to its own investment funds, Business Partners Ltd also manages a joint venture fund, the Business Partners-Khula Start-Up Fund – a R150-million fund established together with Khula Enterprise Finance Ltd.

State-owned enterprises (SOEs)

The Department of Public Enterprises is the shareholder representative for government with oversight responsibility for the following SOEs: Alexkor, Broadband Infraco, Denel, Eskom and the Pebble-Bed Modular Reactor, South African Airways, South African Express Airways, South African Forestry Company and Transnet.

SOEs have a critical role to play in advancing economic growth, since they are responsible for the development of key infrastructure and manufacturing capacity. SOEs are implementing comprehensive investment programmes to ensure that significant and sustained opportunities for investment are created in supplier industries.

Expanded Public Works Programme (EPWP)

The EPWP is a government-wide intervention to create both short and ongoing work opportunities. By the end of December 2009, government had created more than 480 000 public works job opportunities, which was 97% of the set target.

The jobs are in areas like construction, home- and community-based care, and environmental projects.