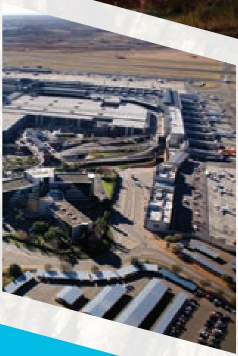


ECONOMY

Hosting the 2010 FIFA World Cup™ acted as a catalyst for expanding the country's infrastructure base, skills development, employment creation and economic growth. The tournament boosted the country's standing internationally, showcasing its capabilities in delivering world-class infrastructure on time and without imposing a financial burden on the national fiscus.

The South African Government injected some R33 billion into preparations for the World Cup, which was an investment that formed part of a long-term development plan for the country.

Some R846 billion has been committed over the next three years to a public-sector infrastructure programme. More than 45% of these funds have been committed to South Africa's electricity, freight rail and ports sectors.

Leadership Group of the Framework Response to the Economic Crisis

In December 2008, the social partners that comprise the Presidential Economic Joint Working Group met to consider how South Africans should respond collectively to the difficult economic conditions largely as a result of the international economic crisis.

The Framework for South Africa's Response to the International Economic Crisis was tabled and endorsed at a special Presidential Economic Joint Working Group meeting.

The leadership group, which consists of representatives from labour, business, government and the community constituency who are responsible for guiding the implementation of the framework, responded with a range of separate and joint measures to deal with the impact of the recession. These include:

- In line with the framework agreement, government has maintained a strong countercyclical fiscal and monetary policy

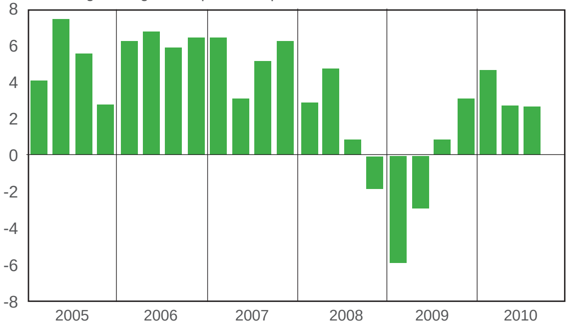
The Industrial Development Corporation (IDC) approved R1,4 billion in loans to distressed companies during 2009's recession. Total loan approvals for the financial year, which ended in March 2010, decreased to R9,4 billion compared to R10,8 billion the previous year. The IDC intensified its lending activities and continued its focus on economic expansion with 65% of approved funding allocated to start-up companies or expansionary activities. The IDC's lending activities created or saved 25 000 jobs.

stance. Government spending levels have been maintained in spite of a sharp drop in tax revenues.

- While monetary policy has been the subject of robust debate, interest rates had been reduced by mid-2010 on four occasions by a total of 350 basis points.
- R11 billion has been set aside for activities designed to address the impact of the recession.
- South Africa introduced its first-ever training lay-off scheme, making R2,9 billion available for its implementation. The scheme is aimed at providing companies with an alternative to retrenching workers during a period of industrial slack caused by recession, thereby enabling employees to have continued income, employment security and skills acquisition.
- By mid-2010, the Retrenchment Action Plan, launched by the Manufacturing, Engineering and Related Services Sector Education and Training Authority, had about 7 000 workers in a programme based on the training lay-off model.
- Other initiatives include the R6,1 billion set aside by the Industrial Development Corporation (IDC) as special loans for firms in distress, and R2 billion allocated by the Unemployment Insurance Fund to the IDC to be loaned to firms in distress.
- Commercial banks and the development finance institutions have been developing an agreement that would allow

Gross domestic product

Percentage change from quarter to quarter



Source: *Quarterly Bulletin, December 2010* them to help firms in distress by sharing relevant information and sharing risks.

Domestic output

According to the South African Reserve Bank's *Quarterly Bulletin*, released in September 2010, economic growth in the South African economy moderated in the second quarter of 2010. Real gross domestic production (GDP) increased at an annualised rate of 3,2% in the second quarter of 2010, following an increase of 4,6% in the first quarter.

Domestic expenditure

Growth in aggregate real gross domestic expenditure slowed from an annualised rate of 12,1% in the first quarter of 2010, to 2,3% in the second quarter. The slowdown in real gross domestic expenditure resulted primarily from slower growth in real final consumption expenditure by households. Growth in final consumption expenditure by households slowed to an annualised rate of 4,8% in the second quarter of 2010, compared to an increase of 5,7% in the preceding quarter.

Price inflation

While producer price inflation picked up significantly from negative 12-month rates in most of 2009 to positive rates by mid-2010, consumer price inflation has trended lower since August 2008 and remained within the target range in the six months to July 2010, falling below 4% in September.

A combination of economic factors influenced price developments in the domestic economy, with producer prices strongly influenced by a resurgence in international commodity prices since the beginning of 2009 and high electricity price increases, only partly countered by an appreciation in the external value of the Rand.

Consumer prices responded favourably to the counter-inflationary forces emanating from low inflation in trading-partner countries, the appreciation in the exchange rate of the Rand, substantial surplus capacity in the economy and the resulting intensified competition for business. Deflation in the producer prices of domestic output reverted to inflation in December 2009, accelerating in the following months to July 2010. These price changes were largely due to base effects, higher commodity prices as well as the ongoing elevated electricity price increases announced by Eskom.

The 11th Fortune/TIME/CNN Global Forum was hosted by Time Warner Inc and the Department of Trade and Industry in Cape Town in June 2010. The event provided an opportunity for South African, regional and international organisations to forge relationships and form business linkages with key players and decision-makers in the various sectors globally. A diverse group of leaders who went beyond government and business and included science and technology, entertainment and culture, sports, and non-governmental organisations, attended.

Exchange rates

The nominal effective exchange rate of the Rand decreased marginally by 0,8% from the end of March 2010 to the end of June, following an increase of 3,9% during the first quarter. The decline in the exchange rate of the Rand during the second quarter of 2010 may partly be attributed to international economic developments, especially the sovereign debt crisis in Europe. The exchange rate of the Rand performed admirably against the Euro during the second quarter of 2010 while it depreciated considerably against the Japanese Yen.

The weighted average exchange rate of the Rand increased by 1,2% from the end of June 2010 to the end of August partly as a result of United States dollar weakness, an unchanged monetary policy stance as announced by the Reserve Bank in July 2010 and a further decline in the domestic inflation rate.

The nominal effective exchange rate of the Rand showed much less volatility during the first half of 2010 compared to the second half of 2009. During the months of January, February, April, June and August 2010 the trade-weighted exchange rate of the Rand did not deviate by more than 2% from the mean, while a deviation of more than 2% was observed in all the months during the second half of 2009. The real effective exchange rate of the Rand increased by 11% during the 12 months up to June 2010. While the increase in the real effective exchange rate of the Rand resulted in a deterioration in the competitiveness of South African exporters, the decline in the volatility of the Rand exchange rate provided some stability to business operations and outcomes.

Foreign trade and payments

Following an increase in the first quarter of 2010, gross dividend payments contracted in the second quarter of 2010. Net interest payments to foreign creditors and investors increased marginally during the second quarter. The improvement in the deficit on the overall account was further supplemented by a contraction in net current transfer payments to members of the Southern African Customs Union, consistent with the decline in trade volumes.

South Africa's terms of trade improved further in the second quarter of 2010 as the Rand price of exported goods and services increased further while that of imported goods and services declined marginally. The relatively higher Rand price of merchandise exports further supported the improvement in the current-account balance during the second quarter.

Department of Economic Development

The Department of Economic Development, which was established in 2009, assumed responsibility for coordinating government's work on the Framework for South Africa's response to the International Economic Crisis. The department is also responsible for developing economic policy with broad, cross-cutting focus so that macro- and micro-economic policy reinforce each other and are both aligned to the electoral mandate. The department is responsible for economic development planning and works with other departments to ensure coordination around a programme that places decent work at the centre of government's economic policies to secure better employment outcomes.

Policy development

The department has identified a number of areas with the potential for new jobs. These are:

- infrastructure development
- the green economy
- the manufacturing sector
- knowledge-economy activities
- the rural, agriculture and agroprocessing sector
- tourism and business process services
- the social economy, which includes cooperatives
- public-sector growth
- the continental and regional economy.

An important policy focus for the department will be the creation of sustainable livelihoods and addressing the challenges of enterprises in the Second Economy.

The department will establish the Ministerial Advisory Panel, which will serve as an ideas forum.

Trade relations

Internationally, open economies with an export base perform much better in terms of economic growth than do closed economies. Increasingly, production is becoming globally integrated, and South Africa forms a vital part of international supply chains.

Therefore, dismantling barriers to trade, especially those faced by South African exporters, is a critical component of any economic strategy that promotes sustainable growth.

Africa

Driven by regional economic development and integration imperatives, the South African Government continues to display its commitment to its neighbours and other members of the Southern African Development Community and regional blocs such as the Common Market for Eastern and Southern Africa through the Spatial Development Initiative (SDI) Programme.

The SDI Programme aims to promote trade and investment-led economic growth and development. The programme methodology allows for the creation of a critical mass of integrated private-sector and infrastructure development necessary to kick-start a sustainable economic development process. It is focused on unlocking inherent economic potential in specific southern African locations, often along existing transport or development corridors. The SDI methodology emphasises the enhancement of the attractiveness of an area for investment by simultaneously advocating the removal of bureaucratic, administrative and institutional impediments to trade and investment.

South Africa continues to be an important source of investments in Africa.

The following areas have been prioritised:

- infrastructure and logistics
- energy and information and communications technology
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agribusiness

- mining
- human-resource development.

Relations with the North

South Africa continues to consolidate its economic and trade relations with the major economies in the north as they remain important markets for goods, services, investment and technology. 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.

The United Kingdom (UK), Germany, the Netherlands and Switzerland are among South Africa's top-10 export destinations. Germany, the UK and France are among the top-10 countries from which South Africa's imports originate.

Since 2001, Germany has been South Africa's largest source of imports, showing annual growth of 18,5% between 2007 and 2008. In 2009, Germany was overtaken by China, which became the largest source of imports.

South-South trade

In pursuing relations with the South, it will be necessary to ensure an approach to trade that will strengthen South Africa's and Africa's efforts to develop an industrial base rather than the continuation of the current pattern of trade where exports of raw material are exchanged for manufactured goods.

Bilateral engagements

The Department of Trade and Industry has learned important lessons that will inform future bilateral engagements. Firstly, as compared to free trade areas, more focused preferential trade agreements allow for a more strategic integration process among developing countries. Secondly, it is increasingly apparent that tariffs are not always the most important barrier faced in foreign markets and hence negotiating outcomes must deal more effectively with non-tariff barriers. Thirdly, the department will need to give attention to forging sectoral cooperation agreements to support South Africa's industrial development objectives.

Multilateral engagements

South Africa is a strong proponent of multilateralism. The country has seen multilateralism as the necessary intergovernmental response to the challenges of globalisation and deepening interdependence among economies and societies around the world. Established as an outcome of the Uruguay Round of multilateral trade negotiations in 1994, the World Trade Organisation (WTO), having established extensive multilateral rules over global trade, has moved to the centre of an evolving system of multilateral institutions charged with global economic governance.

While multilateral disciplines in the WTO reduce the scope for unilateral action by powerful nations, existing rules exhibit imbalances and inequities that prejudice the trade and development interests of developing countries.

South Africa's support for the launch of the Doha Round was premised on an assessment that negotiations opened up a possibility to rebalance the global trading system more in favour of developing countries. South Africa's negotiating objectives aim to:

- enhance market access for products of export interests to developing countries
- eliminate industrial country subsidies and support to inefficient producers, particularly in agriculture
- renegotiate rules that perpetuate imbalances in international trade
- ensure policy space for developing countries to pursue developmental objectives through meaningful implementation of the principle of special and differential treatment.

Over the course of the Doha Round negotiations, the country has witnessed an erosion of the developmental mandate. This has manifested in the gradual lowering of the ambition of developed countries to substantially reform agriculture trade, alongside growing pressure on emerging developing countries to open their markets for industrial products and services.

Economic transformation

The sum total of the estimated 2,8 million small, medium and micro-enterprises (SMMEs) contribute between 52% and 57% to the GDP. It is also estimated that SMMEs contribute nearly 61% of employment.

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. It aims to:

- improve geographic outreach
- achieve the desired impact on small enterprises
- provide a single access point for small enterprises
- be inclusive of all relevant stakeholders
- leverage resources in service delivery
- optimise resource usage
- align government's service-delivery strategy coherently.

The Department of Trade and Industry established the necessary institutional framework 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 Empoerment transactions.

In 2009/10, highlights in this sector included:

- The Technology and Human Resources for Industry Programme leveraged R227 million from the private sector for new technology development and supported 298 enterprises (64% of which are SMMEs), 2 187 students and 685 researchers.
- The Support Programme for Industrial Innovation recorded sales of R283 million, of which R191 million were export sales for new products and processes in 2009/10, created 176 shop-floor jobs and 59 new projects were supported against a target of 80 projects.

- The *National SMME Directory* was finalised incorporating SMME support programmes from the public, private sector and donor-funded programmes.
- The Cooperative Strategy aimed at developing cooperatives through the provision and upscaling of the relevant support programmes was finalised and approved by the National Economic Development and Labour Council (Nedlac), including the Nedlac report in this regard.
- The targeted procurement for small enterprises, th.rough the 10 Product Procurement Policy Framework aimed at increasing access to markets for SMMEs through government procurement was finalised and the SMME payment hotline was successfully launched in September 2009. The Department of Trade and Industry payment hotline received about 20 000 calls in the last financial year, and the value of payments facilitated was R210 million.

State-owned enterprises (SOEs)

As the shareholder representative for government, the Department of Public Enterprises is responsible for overseeing nine SOEs, namely Alexkor, Broadband Infraco, Denel, Eskom, the Pebble-Bed Modular Reactor, South African Airways, South African Express Airways, South African Forestry Company and Transnet. The role of the department is to ensure that SOEs provide economic growth and give South Africa a cutting edge in the development of key infrastructure and manufacturing capacity.

It monitors performance with regard to:

- infrastructure investment and delivery
- operational and industry efficiency
- financial and commercial viability
- governance and regulatory compliance.

Optimal excellence and quality service delivery demand that public entities share the same vision of the department, and are responsive to the developmental agenda.

The Medium Term Strategic Framework (MTSF) for 2009/14 states the need to review the SOEs as part of the economic transformation agenda.

The MTSF also states the need for government to integrate SOEs into the planning processes and improve the monitoring and evaluation of their performance.

In 2010, President Jacob Zuma appointed the Presidential Review Committee to conduct a review of SOEs and, among other things, to determine how government can strengthen alignment between its development objectives and the strategic role to be played by SOEs in the economy.

Expanded Public Works Programme (EPWP)

The EPWP is a government-wide intervention to create both short and ongoing work opportunities.

The EPWP continues to be a strategic intervention to alleviate poverty and unemployment through the creation of labour-intensive work opportunities.

The EPWP is characterised by, among other things, caring for the elderly and sick, educating pre-school children, rehabilitating and cleaning up the environment, as well as upgrading and maintaining crucial infrastructure such as roads, bridges, water and sanitation.

The Leadership Group of the Framework Response to the Economic Crisis accelerated the development of regulatory measures to provide guidance on improved terms and conditions of employment for EPWP employees, thereby furthering the objectives of decent work.

The EPWP aims to create 4,5 million work opportunities, and more than a million opportunities have been created already since the beginning of Phase Two. Part of the programme focuses on repairing the country's roads networks.

The Training of the Unemployed Project was launched in March 2010. The project seeks to train and re-skill South African workers who were retrenched as a result of the global economic recession. The project trains electricians, boilermakers, welders and mechanics to be employable and to start their own businesses. By May 2010, more than 750 trainees had registered for the project. The aim is to train as many South Africans as possible.

The qualifications the trainees obtain at the end of their course meet qualification requirements of the Manufacturing, Engineering and Related Services Education and Training Authority. By May 2010, the Unemployment Insurance Fund and other government entities contributed almost R50 million to train the candidates. Participants in the project are paid a stipend of R2 100 a month. The project is due to be completed by the end of July 2011.