South Africa

South Africa at a glance: 2003-04

OVERVIEW
The outlook for South Africa is positive. The Economist Intelligence Unit expects the ruling African National Congress (ANC) to win an overwhelming majority in the National Assembly, and for the president, Thabo Mbeki, to have little difficulty in being re-elected to a second term in office in 2004. Fiscal policy will remain cautious, but the resources available to provincial government will be increased. Monetary policy will seek to bring inflation down to its official target of 3-6% by the end of 2004. Real GDP growth is forecast to increase to 3.5% in 2004 from 2.5% in 2003, led by the slow recovery in the world economy, further growth in tourism, a rebound in domestic demand and increases in government spending.

Key changes from last month

Political outlook

- The director of public prosecutions has decided to press corruption charges against the former financial advisor of the deputy president, Jacob Zuma. Although Mr Zuma has not been charged directly, the latter is implicated in the charges and his political position is now in question. The police investigation is centred on whether Mr Zuma had solicited bribes from the French arms contractor, Thomson CSF (now called Thales), one of the main companies involved in the December 1999 arms deal

Economic policy outlook

- Encouraged by lower inflation and the prospect of meeting its inflation target of 3-6% in 2004, the South African Reserve Bank (SARB; the central bank) cut the repo interest rate by a further 100 basis points to 10% (and the prime rate to 13.5%) at an unscheduled meeting of its Monetary Policy Committee (MPC) on September 10th. The MPC had already cut rates by 150 basis points in June and a further 100 basis points in August. Assuming that the rand does not suffer from an external shock and inflation continues to move downwards, we expect a further interest-rate cut of one percentage point in mid-October.

Economic forecast

- Economic prospects remain essentially unchanged from last month.

September 2003

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The Economist Intelligence Unit

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Outlook for 2003-04

The outlook for South Africa is positive. We expect the ruling African National Congress (ANC) to win an overwhelming majority in the National Assembly, and for the president, Thabo Mbeki, to have little difficulty in being re-elected to a second term in office in 2004. Fiscal policy will remain cautious, but the resources available to provincial government will be increased. Despite a steady increase in spending, the budget deficit will remain manageable at 2% of GDP in 2003 and 1.8% of GDP 2004. Monetary policy will seek to bring inflation down to its official target of 3-6% by the end of 2004. Real GDP growth is forecast to increase to 3.5% in 2004 from 2.5% in 2003, led by the slow recovery in the world economy, further growth in tourism, a rebound in domestic demand and increases in government spending.

The political scene

The director of public prosecutions has decided to press corruption charges against the former financial advisor of the deputy president, Jacob Zuma. Although Mr Zuma has not been charged directly, he is implicated in the charges and his political position is now in question. Corruption is also likely to be a major issue at the next election. The prospect of an opposition alliance forming to challenge the ANC in the next election is unlikely following the rejection of calls from the Democratic Alliance for a "coalition for change". The US president, George Bush, visited South Africa as part of his tour of Africa. Mr Bush and Mr Mbeki presented a united front in public on the issue of Zimbabwe, although the US has stepped up pressure on the president to find a resolution to the crisis in the country.

Economic policy

The South African Reserve Bank (SARB) once again lowered its repurchase (repo) rate by 1% at an unscheduled meeting in September, which represents a significant loosening of monetary policy. The South African mining dynasty, the Oppenheimers, have outlined their contribution to the debate on black economic empowerment. This has powerful political backing although it lacks detailed recommendations. The government has stated that it will now provide anti-retroviral drugs through the public health system.

The domestic economy

Real GDP growth for the second quarter of 2003 was lower than forecast, with agricultural performance particularly weak. The fall in inflation in 2003 has been temporarily reversed, with CPIX rising from 6.4% in June to 6.6% in July. Full details of the 2001 population census have been released showing that there has been progress in the overall welfare of the population. Anglogold looks set to win control of the Ghanaian gold mining company, Ashanti Goldfields. A strike in the mining sector has been averted with a new two-year pay deal worth around 12% per year to miners.

Foreign trade and payments

South Africa's current account returned to a small deficit in the first quarter of 2003, mainly because of a reduced trade surplus. However, there are tentative signs that export receipts have picked up in the second quarter of 2003.

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Political structure

Official name	Republic of South Africa
Form of state	A federal state, consisting of a national government and nine provincial governments
Legal system	Based on Roman-Dutch law and the 1996 constitution, in force since February 4th 1997
National legislature	Bicameral parliament elected every five years, comprising the 400-seat National Assembly and the 90-seat National Council of Provinces
Electoral system	List system of proportional representation based on universal adult suffrage
National elections	June 2nd 1999; next election due in 2004
Head of state	President, elected by the National Assembly; currently Thabo Mbeki; under the constitution, the president is permitted to serve a maximum of two five-year terms
National government	Coalition government of the African National Congress and the Inkatha Freedom Party
Main political parties	The African National Congress (ANC) is the majority party in the coalition government; the minority partner is the Inkatha Freedom Party (Inkatha or IFP). Other parties include the Democratic Alliance (DA), the New National Party (NNP, formerly the National Party), the United Democratic Movement (UDM), the Freedom Front (FF) and the Pan Africanist Congress (PAC)

	President	Thabo Mbeki (ANC)
	Deputy president	Jacob Zuma (ANC)
Key ministers	**Agriculture & land affairs**	Thokozile Didiza (ANC)
	Communications	Ivy Matsepe-Casaburri (ANC)
	Defence	Mosiuoa Lekota (ANC)
	Education	Kader Asmal (ANC)
	Finance	Trevor Manuel (ANC)
	Foreign affairs	Nkosazana Dlamini-Zuma (ANC)
	Health	Brigitte Mabandla (ANC)
	Home affairs	Mangosuthu Buthelezi (IFP)
	Housing	Manto Tshabala-Msimang (ANC)
	Justice & constitutional development	Penuell Maduna (ANC)
	Labour	Membathisi Mdladlana (ANC)
	Minerals & energy	Phumzile Mlambo-Ngcuka (ANC)
	Provincial & local government	Sydney Mufamadi (ANC)
	Public enterprises	Jeff Radebe (ANC)
	Safety & security	Charles Nqakula (SACP)
	Trade & industry	Alec Erwin (ANC)
	Transport	Dullah Omar (ANC)
Central bank governor	Tito Mboweni	

Economic structure

Annual indicators

	1998 [a]	1999 [a]	2000 [a]	2001 [a]	2002 [a]
GDP at market prices (R bn) [b]	738.9	800.7	888.1	982.9	1,098.7
GDP (US$ bn)	133.6	130.9	127.8	114.0	104.5
Real GDP growth (%)	0.8	2.0	3.5	2.8	3.0
Consumer price inflation (av; %)	6.9	5.2	5.3	5.7	9.2
Population (m) [c]	42.1 [d]	43.0 [d]	43.7 [d]	44.3 [d]	45.0 [d]
Exports of goods fob (US$ m)	29,263.0	28,626.0	31,636.0	30,717.0	31,085.0
Imports of goods fob (US$ m)	27,207.0	24,554.0	27,320.0	25,855.0	26,712.0
Current-account balance (US$ m)	-2,157.0	-639.0	-575.0	-295.0	289.0
Foreign-exchange reserves excl gold (US$ m)	4,357.0	6,353.0	6,083.0	6,045.0	5,904.0
Total external debt (US$ bn) [e]	24.8	23.9	24.9	24.0	24.4 [d]
Debt-service ratio, paid (%)	12.2	12.1	9.9	11.6	10.3 [d]
Exchange rate (av) R:US$	5.53	6.12	6.95	8.63	10.52

[a] Actual. [b] Since 1985, national accounts data correspond to the new set of national accounts estimates published for the first time by the SARB in 1 Qtr 1994. [c] Economist Intelligence Unit estimates are based on the 1996 population census. [d] Economist Intelligence Unit estimates. [e] There is a discrepancy between SARB and World Bank figures. Economist Intelligence Unit estimates are used for some years.

Origins of gross domestic product 2002	% of total
Agriculture, forestry & fishing	4.3
Mining & quarrying	5.4
Manufacturing	20.2
Construction	3.0
Electricity, gas & water supplies	3.5
Financial services	19.5

Components of gross domestic product 2002	% of total
Private consumption	63.4
Public consumption	17.4
Gross domestic fixed investment	16.8
Change in stocks [a]	0.6
Exports of goods & services	24.9
Imports of goods & services	-23.1

Principal exports 1997	US$ bn
Metals & metal products	6.3
Gold	5.6
Diamonds	2.9
Machinery & transport equipment	2.6

Principal imports 1997	US$ bn
Machinery & appliances	8.9
Mineral products	3.7
Chemicals	3.4
Transport & equipment	1.7

Main destinations of exports 2001	% of total
US	11.7
UK	11.1
Germany	8.3
Japan	6.2

Main origins of imports 2001	% of total
Germany	15.4
US	11.5
UK	8.7
Japan	5.9

[a] Includes residual item.

Quarterly indicators

	2001		2002				2003	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Central government finance (R m)								
Revenue & grants	60,748	67,543	70,554	66,630	67,600	75,138	76,852	n/a
Expenditure	67,191	57,971	72,672	69,614	81,814	61,853	83,054	n/a
Balance	-6,443	9,572	-2,118	-2,984	-14,214	13,285	-6,202	n/a
Output								
GDP at constant 1995 prices (R bn)	163.44	164.15	158.37	165.26	168.45	169.06	162.29	168.27
Manufacturing index (2000=100)[a]	101.2	105.4	105.7	109.0	109.7	108.4	106.4	105.0
Durable goods	102.8	108.1	106.3	110.9	113.6	113.1	109.1	n/a
Non-durable goods	100.4	102.2	106.8	107.7	105.8	103.8	104.4	n/a
Employment & prices[a]								
Employment, private (2000=100)								
Mining	96.6	97.9	96.5	98.6	100.4	100.1	n/a	n/a
Manufacturing	97.4	97.2	96.7	97.4	98.6	99.5	n/a	n/a
Construction	98.8	96.0	95.4	96.0	97.4	96.6	n/a	n/a
Consumer prices (2000=100)	106.1	106.6	110.2	113.9	117.1	120.2	121.9	122.8
Consumer prices (% change, year on year)	4.8	4.3	5.7	7.7	10.4	12.8	10.7	7.8
Production prices (2000=100)	109.2	112.1	118.8	123.1	125.9	127.3	126.5	126.0
Production prices (% change, year on year)	8.1	8.3	13.0	14.7	15.3	13.6	6.5	2.3
Financial indicators								
Exchange rate R:US$ (av)[b]	8.40	10.23	11.53	10.48	10.43	9.63	8.34	7.73
Exchange rate R:US$ (end-period)[b]	9.02	12.00	11.38	10.39	10.54	8.59	7.90	7.51
M2 (end-period; R bn)	496.9	534.5	564.9	560.6	574.9	597.6	594.5	627.1
M2 (% change, year on year)	12.2	15.6	17.9	17.1	15.7	11.8	5.2	11.9
Deposit rate (av; %)	9.0	8.8	9.7	10.5	11.3	11.6	11.2	10.8
Lending rate (av; %)	13.3	13.0	14	15.3	16.3	17.0	17.0	16.5
Money market (end-period; %)	8.5	8.0	9.0	10.2	11.2	12.0	12.0	11.7
Long-term gov bond yield (av; %)	10.8	10.9	12.0	11.9	11.2	10.9	10.0	9.7
JSE, all items (Dec 1960=100)	7,998	10,457	11,015	10,658	9,465	9,277	7,680	8,352
JSE, all items (% change, year on year)	-2.0	28.1	36.1	17.2	18.3	-11.3	-30.3	-21.6
Gold mining share prices (1995=100)	85.1	106.4	166.9	227.2	207.5	207.7	202.0	165.4
Gold mining share prices (% change, year on year)	19.0	74.4	140.3	169.5	143.9	95.2	21.0	-27.2
Sectoral trends (2000=100)[a]								
Gold mining (volume of production)	90.5	90.4	92.8	93.4	93.0	91.8	92.5	86.9
Other mining (volume of production)	106.0	101.0	100.6	104.6	108.4	108.0	105.8	111.3
Retail sales, constant prices	104.9	106.2	107.0	110.0	109.5	108.9	110.9	112.4
Foreign trade (US$ m)[b]								
Exports fob	7,400	6,542	6,442	7,682	7,304	8,365	8,313	8,897
Net gold exports	962	852	858	1,039	1,125	1,052	1,067	n/a
Imports fob	-6,735	-6,082	-5,549	-6,435	-6,793	-7,269	-7,617	-8,058
Trade balance	665	460	893	1,247	511	1,096	696	840
Balance of payments (US$ m)								
Merchandise trade balance fob-fob	984	879	1,060	1,407	883	1,023	1,023	n/a
Services balance	-260	-120	-85	-339	-227	-185	-61	n/a
Income balance	-1,109	-709	-528	-905	-704	-553	-944	n/a
Net transfer payments	-175	-142	-124	-138	-150	-145	-162	n/a
Current-account balance	-560	-92	323	25	-198	140	-144	n/a
Reserves excl gold (end-period)	5,985	6,045	5,996	5,964	5,972	5,904	6,104	6,430

[a] Seasonally adjusted. [b] Including Namibia.

Sources: South African Reserve Bank, *Quarterly Bulletin*; Statistics South Africa; IMF, *International Financial Statistics*.

Outlook for 2003-04

Political outlook

Domestic politics

The decision by the director of public prosecutions to press corruption charges against the former financial advisor of the deputy president, Jacob Zuma, has certainly injected some life into election campaigning in the run-up to South Africa's parliamentary and presidential elections, which are due to be held in 2004. Although the Economist Intelligence Unit still expects the ruling African National Congress (ANC) to win an overwhelming majority in the National Assembly, and the president, Thabo Mbeki, to have little difficulty in being re-elected to a second term in office, unless the vice-president can quickly clear his name he could be fatally politically wounded. This not only means that the competition within the ANC to secure nomination as the deputy president will increasingly divert many leading politicians from campaigning, but that the corruption allegations hanging over the party will give the opposition something to really attack the ANC over.

The government will also remain politically vulnerable on a range of issues. The first is the proposed increase in fiscal expenditure over the next two years. The increase may not be as great as the government would like, because of constraints on spending at provincial and municipal government level. The government will also have to fight the growing perception of Mr Mbeki as a weak and indecisive president who has not only failed to deal with corruption in both government and party, but who has taken a long time to decide how to deal with the HIV/AIDS pandemic and has been unable to put together a strategy for ending the political crisis affecting South Africa's northern neighbour, Zimbabwe. The election campaign is also likely to aggravate the uneasy relationship between the ANC and its partners in the tripartite alliance—the Congress of South African Trade Unions and the South African Communist Party—and it will also put pressure on its main partner in government, Mangosuthu Buthelezi's Inkatha Freedom Party (IFP).

To counter these problems, the government will increasingly try to steer the election debate back onto issues where it has a strong and clear position, notably the economy. It will seek to highlight that not only has the improvement in the economy benefited the lives of ordinary people—as highlighted in the 2001 population census—but that, despite its overwhelming political domination, it can still listen to people and change policy accordingly, as shown by the decision to provide anti-retroviral drugs through the public health service. Moreover, it should not be forgotten that as the opposition parties remain weak and divided, the best they can probably hope for is to stop the ANC winning an outright majority in the Kwa-Zulu Natal provincial legislature and make some gains in the West Cape government. The ANC is likely to secure its majority elsewhere, although if the corruption debate escalates, the biggest problem could be a drop in voter turnout at the elections.

International relations

Foreign policy has increased in importance for the president in the past 12 months and is likely to remain important for the next year or so. South Africa's efforts will concentrate on solving a range of political crises in Africa and on the New Partnership for Africa's Development (Nepad; the ambitious pan-African development initiative championed by Mr Mbeki). Key issues to be addressed are the need to bring a political solution to the crisis in Liberia and the South African government's efforts to resolve the political problems in Burundi and the Democratic Republic of Congo (DRC). Although neither Burundi nor the DRC has yet found a lasting political settlement, South Africa's efforts to date show that African-led negotiations can help to solve African problems—a point that the president will continue to make a central principle of foreign policy. Of these initiatives, the peace effort in Burundi is the more advanced: 600 South African peacekeeping troops are already in the country and more are likely to be deployed. In June Mr Mbeki flew to Kinshasa to hold talks with the president of the DRC, Joseph Kabila, about establishing a transitional, power-sharing government. The credibility of Nepad is also likely to come under the spotlight as the recently established peer review panel conducts its first country studies on South Africa and Ghana in the coming year. The government is also likely to maintain a high-level commitment to any new round of global trade talks, at which it will seek to act as a champion of the interests of poor African countries.

Following the visit of the US president, George Bush, to South Africa in July, Mr Mbeki is under growing pressure to help force a solution to the ongoing political crisis in Zimbabwe, which is casting a shadow over the Nepad project. Both the South African president and his Nigerian counterpart, Olusegun Obasanjo, are keen to try and reach some sort of progress to end the political stalemate in the country prior to the Commonwealth Heads of Government meetings to be held in Abuja, Nigeria, in December. If no progress has been made by then, it is all too likely that the issue of Zimbabwe will end up dominating the summit, which is something that neither president would like to occur and which would also damage the credibility of Nepad. We still think that South African-sponsored talks between the two parties in Zimbabwe are possible, although given that South Africa is not considered a neutral mediator, it may need to allow the Nigerian government, or an alternative member country of the Southern African Development Community, to take the lead.

Economic policy outlook

Policy trends

Economic policy over the forecast period will focus on keeping growth and investment high in order to create employment, while broadening the ownership of the post-apartheid economy by encouraging black economic empowerment (BEE). The government has published its BEE strategy, and there will be a period of public consultation and parliamentary hearings to refine the strategy before it is adopted as legislation by the end of 2003. The BEE strategy document outlines the government's aim to "substantially increase" black participation in all sectors of the economy, including executive and senior management positions. The strategy also aims to target the poorer sections of society in two ways: by increasing black ownership in communal economic activities such as co-operatives, and increasing black ownership of land and other productive economic activities in so-called "underdeveloped areas".

The minister of finance, Trevor Manuel, is more than aware that political considerations, such as BEE, must be balanced with economic realities and the need to develop South Africa as an emerging market capable of competing with other developing nations for global investment capital. The risk, however, is that weak structures of government at all levels—national, provincial and municipal—will prevent the government from meeting its stated economic policy goals. This failure could allow more radical elements within the ANC to grow in influence, although this is unlikely to occur in the next two years. Privatisation could be a key factor in boosting BEE and attracting foreign investment, but is likely to proceed slowly in the outlook period: no major privatisation is due to take place in 2003, bar the sale of a 30% stake in Eskom, the electricity parastatal. The pace of privatisation should pick up in 2004, although the government is likely to retain its cautious approach to selling off state assets.

Fiscal policy

Although the Ministry of Finance is committed to relaxing fiscal policy in the next few years by increasing expenditure on infrastructure, social services and socio-economic "upliftment" programmes, the fiscal loosening will be moderate. This is because, despite increased spending on infrastructure at the national level, the government will struggle to increase expenditure and improve the provision of services at the provincial and municipal levels. Mr Manuel will also restrict government borrowing during the forecast period. Meanwhile, the reformed South African Revenue Service will continue to improve its collection rates and widen the tax base. This will keep revenue collection above the level targeted by the government and allow the minister of finance to continue reducing the fiscal burden on those currently paying tax. Moreover, revenue from the privatisation programme should help to improve the country's fiscal position, although mainly in 2004. Revenue is forecast to remain constant at just over 25% of GDP during the next two years. As a result, although the government is targeting a fiscal deficit of 2.4% in financial years 2003/04 and 2004/05 (April-March), we expect the actual deficit to be lower, at just under 2% of GDP, in 2003-04 (calendar years). The deficit will continue to be financed comfortably from domestic sources.

Monetary policy

South Africa's monetary policy will remain geared towards meeting its medium-term inflation targets over the forecast period. Encouraged by lower inflation in the first half of 2003 and the prospect of meeting its inflation target of 3-6% in 2004, the South African Reserve Bank (SARB; the central bank) cut the repo interest rate by a further 100 basis points to 10% (and the prime rate to 13.5%) at an unscheduled meeting of its Monetary Policy Committee (MPC) on September 10th. The MPC had already cut rates by 150 basis points in June and a further 100 basis points in August, partly because estimates of inflation in 2002 were lowered on May 30th following the discovery by a portfolio manager at Investec Asset Management, John Stopford, that Statistics South Africa had miscalculated the rent index. However, the case for cutting interest rates is not just that inflation was exaggerated and is now falling quickly, but that real GDP growth has slowed to a crawl and the strong rand has hit exports. Assuming that the rand does not suffer from an external shock, we expect a further interest-rate cut of one percentage point in mid-October. The outcome of the mid-December meeting is less certain, given its proximity to the festive season, and we currently expect interest rates then to remain unchanged, giving a year-end repo rate of 9% (and a prime rate of 12.5%). In 2004, if inflation continues to fall, interest rates are expected to decline by another 0.5-1 percentage points in February 2004. Additional cuts in 2004 will depend on the movement of the rand, inflation trends and, importantly, growth in nominal unit labour costs.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2001	2002	2003	2004
Real GDP growth				
World	2.2	2.9	3.2	3.9
OECD	0.9	1.8	1.7	2.4
EU	1.5	1.0	0.7	1.9
Exchange rates				
¥:US$	121.5	125.3	118.1	116.8
US$:€	0.896	0.945	1.123	1.183
SDR:US$	0.785	0.772	0.718	0.702
Financial indicators				
€ 3-month interbank rate	4.26	3.33	2.27	2.25
US$ 3-month Libor	3.78	1.80	1.11	1.42
Commodity prices				
Oil (Brent; US$/b)	24.5	25.0	26.8	18.9
Gold (US$/troy oz)	271.1	310.3	343.3	317.5
Food, feedstuffs & beverages (% change in US$ terms)	-1.9	12.7	2.1	1.8
Industrial raw materials (% change in US$ terms)	-9.7	2.2	9.1	3.9

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic growth has slowed sharply in most of the world's major economies. We expect that the US will only return to a trend pace of growth in the first half of 2004, and that the euro zone will lag behind. The weak pace of recovery in the OECD is expected to hold many emerging markets back until mid-2004, and average global GDP growth in 2003 will be mediocre at 3.2%, picking up to 3.9% in 2004. US growth is expected to be only 2.4% in 2003, picking up to 3.3% in 2004, and the Japanese economy is forecast to grow by 2% in 2003 and by 1.5% in 2004. Growth in the EU is forecast at just 0.7% in 2003 but should recover to 1.9% in 2004. The outlook for South African exports is clouded by weaker exports to the OECD and the after-effects of the outbreak of severe acute respiratory syndrome (SARS) in Asia earlier this year, and export earnings growth will remain below its long-term potential in 2003. Because of the subdued outlook for world trade growth, which is forecast to expand by 3.9% in 2003, a recovery in South Africa's exports is not expected until 2004, when world trade should expand by 5.5%.

The prospects for South Africa's main exports, gold and platinum, are mixed. Gold prices have been very high recently owing to increased global economic uncertainty, but are forecast to ease off gently from 2004 as the global economic picture improves and investors move out of gold. Similarly, we expect platinum to average US$642.5/troy oz in 2003 before falling slowly in 2004. Since our July report we have increased our forecast for the average price of dated Brent Blend in 2003 to US$26.8/barrel, mainly because post-war disorder has caused unexpectedly long delays in the recovery of Iraqi oil production. We expect Brent to fall sharply to an average of US$18.9/b in 2004, its lowest level since 1999, as the market eliminates the war price premium and weak market fundamentals reassert themselves.

There are three main risks to our global forecast. One risk, to which we attach a 30% probability, is that the current slowdown in US consumer and investment spending will worsen. The chances of this happening would be increased if the second risk, that of a collapse in the US dollar against the euro and the yen, were to be borne out, as this would prompt an earlier and more aggressive monetary tightening by the US Federal Reserve (the US central bank) than we currently expect, and damage growth prospects in Europe and Japan. Given that the US, the EU and Japan are key South African export markets, this scenario represents a significant risk to South Africa's growth outlook. Finally, there remains a risk that the US-led administration of Iraq will fail, causing regional instability and driving oil prices back up.

Economic growth

Gross domestic product by expenditure

(R m at constant 1995 prices; % change year on year in brackets unless otherwise indicated)

	2001[a]	2002[a]	2003[b]	2004[b]
Private consumption	406	419	427	443
	(3.1)	(3.1)	(2.0)	(3.6)
Public consumption	111	115	120	126
	(3.3)	(3.7)	(4.1)	(5.0)
Gross fixed investment	100	107	113	120
	(3.2)	(6.5)	(5.4)	(6.2)
Final domestic demand[c]	**617**	**641**	**660**	**688**
	(3.2)	(3.8)	(3.0)	(4.3)
Stockbuilding	2	4	3	3
	(-0.5)[d]	(0.4)[d]	(-0.2)[d]	(0.0)[d]
Total domestic demand	**619**	**645**	**663**	**691**
	(2.6)	(4.2)	(2.7)	(4.3)
Exports of goods & services	168	165	168	172
	(2.5)	(-1.4)	(1.5)	(2.5)
Imports of goods & services	140	144	149	159
	(0.3)	(3.1)	(3.1)	(6.5)
Foreign balance	**27**	**21**	**19**	**13**
	(0.6)[d]	(-1.0)[d]	(-0.3)[d]	(-0.8)[d]
GDP[e]	**642**	**661**	**677**	**701**
	(2.8)	(3.0)	(2.5)	(3.5)

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Statistical discrepancy included in total domestic demand, as recorded in the South African Reserve Bank's *Quarterly Bulletin*. The sum of components may not equal real domestic demand for all years. [d] Contribution to real GDP growth. [e] Statistical discrepancy included in total GDP, as recorded in the South African Reserve Bank's *Quarterly Bulletin*. The sum of components may not equal real GDP.

Real GDP growth figures for the first half of 2003 (which put overall GDP growth at 1.1%) confirm that the South African economy is growing more slowly than had been expected by the authorities. The figures present a mixed picture: although the agricultural sector has dragged down growth and the mining and manufacturing sectors have seen only sluggish growth, some service sectors have grown quite quickly, particularly transport and communications and construction. Tourism continued to grow strongly, benefiting from the government's vigorous marketing and the hosting of the cricket World Cup. Nonetheless, there will have to be a significant recovery in the second half of the year if the government is to meet its real GDP growth target of 3.3% for the year, which seems very unlikely. In line with the data for the first quarter, and because of the weaker global environment, the strength of the rand and high interest rates, we have lowered our forecast for real GDP growth in 2003 to 2.5% (our previous forecast was 3%). On a more positive note, government consumption is forecast to pick up pace gradually as the government has recently announced (and plans further) fiscal packages to boost expenditure on infrastructure, social services and socio-economic "upliftment" programmes.

Real GDP growth is forecast to increase to 3.5% in 2004, led by the slow recovery in the world economy, further growth in tourism, a rebound in domestic demand and increases in government spending. Private consumption in particular should benefit from new tax-relief measures, lower levels of inflation, a steady rise in employment opportunities, and a more benign interest-rate environment, which will support growth in real disposable incomes. However, the main boost to growth will come from gross fixed investment, which is forecast to grow by 5.4% in 2003 and 6.2% in 2004, as privatisation gathers pace and inflows of foreign direct investment increase. The main risks to our cautiously optimistic forecast are that the authorities will fail to implement the necessary reforms, particularly the privatisation programme, and that the expected global economic recovery will be slow to take off.

Inflation

At the end of May Statistics South Africa lowered its estimate of the country's inflation rate for the period January 2002-April 2003, following the discovery of statistical errors in its calculation of housing rental income. Although this carries a small weighting (4.76%) in the inflation basket, the rental data that had been used were from an outdated survey carried out in 1999. Once the rental data were corrected, the SARB's consumer price index (CPIX, which excludes mortgages) was found to have averaged 9.2% in 2002, compared with a previous estimate of 10%. In addition, CPIX inflation slowed to 8.5% in April from 9.3% (previously 11.2%) in March and to 7.7% in May and 6.4% in June. It is clear that the February inflation figure, which was used by the Reserve Bank in deciding interest rates in March, had been overstated by two percentage points and should actually have been 9.3% instead of the published 11.3%.

Although the fall in inflation in the first half of the year was temporarily reversed in July—when CPIX inflation rose to 6.6% owing to increased food prices—we still expect inflation to trend down for the remainder of the year—helped by lower production costs, falling oil and food prices, and the strong rand. The main short-term risk to our inflation forecast is the potential impact of inflationary expectations, which could result in wage settlements substantially above inflation. In any event, the SARB's main task is to meet the government's inflation target of 3-6%. This will not be achieved in 2003, when inflation is forecast to average 6.3% (down from our previous forecast of 7.4%).

However, provided that money supply growth and wage awards can be curbed, average inflation is forecast to ease to 4.9% in 2004—well within the official target range.

Exchange rates

The strengthening of the rand against the US dollar has continued virtually unabated in recent months. The recovery in the rand has been caused by a range of factors: the weakness of the dollar on international markets; the differential between South African interest rates and those in other emerging markets; improved sentiment towards emerging markets (helped by upgrades in South Africa's international credit ratings); and the country's sound economic fundamentals. Although the rand is expected to stay firm in the short term, it will lose some of its recent gains in the coming months. The expected squeezing of the interest-rate differential during the second half of 2003 and into 2004—the SARB is likely to cut interest rates in stages over this period as inflation falls and to boost the economy—will lessen the financial incentive for foreign investors to buy into the rand, at the same time as a growing current-account deficit emerges. Therefore, the rand is expected to trend down in 2004, although there could be periods of volatility. These could arise owing to the low level of reserves, inadequate foreign direct investment, an inflation differential relative to trading partners and vulnerability to capricious market sentiment, particularly as the elections approach.

External sector

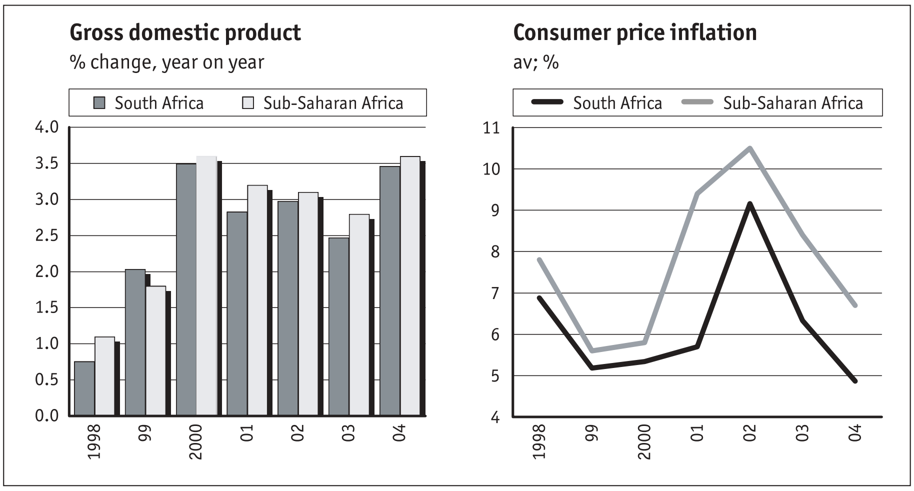
After registering a surplus of 0.3% of GDP in 2002, South Africa's current account returned to a modest deficit of 0.6% of GDP in the first quarter of 2003, owing to a narrowing of the trade surplus to R8.5bn (US$1bn). The strength of the rand and the poor global environment affected merchandise exports, which declined by 14.8%. Imports also fell, owing to weaker domestic demand, the impact of the stronger rand, and low international inflation. The deficits on the services and income accounts remained largely unchanged: an increase in dividend payments to non-resident investors was offset by a decline in government payments to foreign investors and an increase in tourism receipts. The prospects for the country's external account in the remainder of 2003 and 2004 remain fairly good, despite the expected weakness of the world economy for most of this year. Merchandise exports are still projected to rise to US$32.3bn in 2003 and US$33.6bn in 2004. The increase in exports will be led by minerals—particularly platinum—automobiles, base metals, electrical equipment and chemical products. Although economic expansion in 2003 is not expected to match last year's growth rate of 3%, relatively high international oil prices will put pressure on the import bill, which is forecast at US$28.7bn in 2003. In 2004 rising domestic demand will push imports up to US$29.3bn.

The customary deficits on the services and income accounts are expected to widen over the forecast period—the latter driven mainly by higher dividend payments abroad. Services receipts, particularly from foreign tourism, passenger fares, freight, insurance, and the provisioning of ships and aircraft, will still cover about 80% of payments. An already strong tourism sector was boosted by the cricket World Cup, held in South Africa in February-March 2003: 50,000 foreign visitors attended the six-week event, providing foreign-exchange inflows of around US$250m. Overall, the current account is forecast to swing back into deficit in 2003-04. The deficit will average US$2bn per year, but this should pose few problems for the South African authorities, being equivalent to 1.2% of GDP in 2003 and 1.4% of GDP in 2004.

Forecast summary
(% unless otherwise indicated)

	2001[a]	2002[a]	2003[b]	2004[b]
Real GDP growth	2.8	3.0	2.5	3.5
Manufacturing production growth[c]	2.8	5.3	5.7	5.0
Gross agricultural production growth	-1.7	4.0	3.6	3.5
Consumer price inflation (av)	5.7	9.2	6.3	4.9
Consumer price inflation (year-end)	4.6	12.4	5.3	4.6
Short-term interbank rate[d]	13.8	15.8	15.4	12.6
Government balance (% of GDP)[e]	-1.0	-0.5	-2.0	-1.8
Exports of goods fob (US$ bn)	30.7	31.1	32.3	33.6
Imports of goods fob (US$ bn)	25.9	26.7	28.7	29.3
Current-account balance (US$ bn)	-0.3	0.3	-1.8	-2.2
Current-account balance (% of GDP)	-0.3	0.3	-1.2	-1.4
External debt (year-end; US$ bn)[f]	24.0	24.4[g]	25.7	26.4
Exchange rate R:US$ (av)	8.63	10.52	7.81	8.40
Exchange rate R:¥100 (av)	7.10	8.39	6.61	7.19
Exchange rate R:€ (year-end)	10.58	9.00	9.52	10.50
Exchange rate R:SDR (year-end)	15.08	11.67	11.51	12.80

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Based on index of manufacturing production only. [d] End of period. [e] Government finance data are presented on a calendar year basis to allow comparisons with other macroeconomic data. The fiscal year in South Africa ends March 31st. [f] There is a discrepancy between SARB and World Bank figures. Economist Intelligence Unit estimates are used for some years. [g] Economist Intelligence Unit estimates.



The political scene

Mr Mbeki lurches from crisis to crisis, but stays aloof

Just as the South African president, Thabo Mbeki, seemed to have shaken off one crisis, another one has come along to haunt his presidency. Just as he seemed to have put an end to the long-running saga over the government's controversial HIV/AIDS policy (or lack of it), the issue of corruption associated with the December 1999 R43.8bn (US$7.2bn) arms deal has resurfaced. In the case of the HIV/AIDS controversy, after years of slow-building pressure the cabinet eventually decided that it will publish a national HIV/AIDS plan by the end of September which will outline how the government is to provide anti-retroviral drugs to the general population through the public health system. Although the change in the overall policy was broadly expected (June 2003, page 18) the speed at which the government has acted did take some HIV/AIDS activists and businesses by surprise (see Economic policy).

The anti-retroviral policy has been welcomed

After the long years of bitter campaigning against the government's opposition to the use of anti-retrovirals—and, in particular, Mr Mbeki's apparent personal concerns about whether the drugs should be used owing to safety concerns—the decision seems to have been broadly welcomed by the media, the public and HIV/AIDS activists in South Africa. The press in particular have praised the change with the *Sunday Independent* even going as far as to call it a "momentous day in South Africa's history". HIV/AIDS activists also seemed to have been caught up in the emotion of the events, the chairman of the Treatment Action Campaign (TAC), Zackie Achmat, the organisation which has led the recent campaign to change government policy, even going as far as to say that the policy reversal boded well for other areas of policy concern as it showed that the government could listen to public opinion and enact changes as a result.

The deputy president faces allegations of corruption

But just as the president had won back some support from a sceptical public, he resorted to his old strategy of refusing to make any public comment on a new row which has enveloped the government: whether the deputy president, Jacob Zuma, solicited bribes from the French arms contractor, Thomson CSF (now called Thales), one of the main companies involved in the December 1999 arms deal. Mr Mbeki has simply stated that the law must be allowed to runs its course and that he has no public comment on the issue. The fact that the deputy president was being investigated on suspicion of corrupt practices by the elite anti-corruption police squad, the Scorpions, has long been a matter of general public knowledge (March 2003, page 17). However, the issue leapt back into the public spotlight in late July, when the *Sunday Times* newspaper published a letter sent by the Scorpions to Mr Zuma which contained 35 questions for the deputy-president to respond to over the issue.

What was clear from the questions being asked was that although the Scorpions suspected the deputy-president of being involved in some form of corrupt practices, they clearly had not been able to put together a strong case against him. Their main concern was that he had received R1.16m from the Nkobi Group of companies during the period October 1995 and September

2002, the companies in turn being controlled by the vice-president's former financial advisor, Schabir Shaik. The lack of detailed written evidence proving that the payments to Mr Zuma were related to the arms deal was borne out by the subsequent decision by Bulelani Ngcuka, the national director of public prosecutions, not to press charges against the vice-president. The director of public prosecutions has, however, announced that the judiciary is to push ahead with the trial of Mr Shaik, who faces charges of using his contacts with the deputy president to facilitate contracts with Thompson CSF and benefit from subsequent payoffs.

The fact that the prosecution has decided to press charges against Mr Shaik will cast a long shadow over the political future of the deputy president. Not only are the prosecution set to argue that the Nkobi group of companies used Mr Shaik's links with Mr Zuma to help it win the contract to become one of the joint venture partners with Thompson CSF, but that Mr Zuma also received additional payments from Thompson CSF. In this respect, one of the key pieces of evidence used by them as listed in the charge sheet is an encrypted fax sent by Thompson CSF's former head in South Africa which purports to pledge R500,000 a year for the "permanent support of JZ" (presumably Mr Zuma) in future projects.

Mr Zuma will also face a tough time in parliament as the opposition Democratic Alliance (DA) plans to present the case to parliament's ethics committee for action against Mr Zuma on the grounds that the deputy president made no detail of any payments from any of the companies in the Register of Members' Interests. The smaller opposition parties are also keeping up the public pressure on the government in the eyes of the public, claiming that the only reason that Mr Ngcuka has not pressed charges against the deputy president is because of direct political pressure on him—which has also reportedly led to significant internal rifts within the ruling African National Congress (ANC). However, it should also be noted that the difficulty of getting corruption charges to stick against the ANC's former chief whip and a senior member of the party, Tony Yengei (he was eventually charged with fraud and not corruption after agreeing to plead guilty; March 2003, page 17), could well be a sufficient justification for the public prosecutor's decision not to launch a case against Mr Zuma in the absence of a very strong case against him and considerable supporting (written) evidence—although the public prosecutor has stated that he does have such evidence against Mr Zuma, for example the fax.

A range of corruption charges hang over senior ANC members

The corruption cloud hanging over Mr Zuma comes at a difficult time for the president. Not only has Tony Yengei been dragged through the courts, but there has also been a trial of the former wife of Nelson Mandela, Winnie Madikizela-Mandela, on charges of fraud and theft (this has now moved to appeal after she was convicted; June 2003, page 13). In addition, in early August, the former transport minister, Mac Maharaj, resigned from the board of FirstRand bank following an internal investigation into his alleged acceptance of improper financial favours. Another cloud came in late July, when the DA started to raise questions about the president's involvement in an oil deal with Nigeria made in 1999 in which some of the money is alleged to have been paid into an offshore account. All this would seem to suggest that corrupt practices and financial wheeling and dealing are commonplace among many leading ANC politicians, and increases the pressure on the president to come out and make a decisive statement against corruption.

Mr Mbeki makes no decisive statement against corruption

That he has so far chosen not to do so, is perhaps unsurprising. In his first term in office, Mr Mbeki has generally opted not to comment on various controversial issues—particularly those relating to senior members of the ANC—and has been unwilling to push strongly either his own, or the government's defence, against any allegations. Instead, he has broadly adopted the position that if he asked those accused of various charges to resign it would not only undermine the effectiveness of the government and ANC, but would draw him personally into many issues. His preferred option is to leave the justice system and the constitution to resolve controversial issues, only reacting if these find the person in question guilty and they are not willing to proffer their own resignation. The reason for this is both a reflection of his character—he prefers rational, behind-the-scenes debate and has a strong belief in the power of institutions rather than in trying to get a viewpoint across to a hostile media—and of the more general problem that the cabinet has been quite divided on various issues and has struggled to agree a common position quickly. Although the press and public opinion have tended to build up their own head of steam over an issue, the government has equally failed to set the political agenda and defend its policies. This policy has also faced a specific problem in this case, as the public prosecutor has decided not to charge Mr Zuma, only Mr Shaik, but from the charge sheet against Mr Shaik, such as the fax, the deputy president is clearly implicated. Therefore the legal system will not necessarily take its due course and, as some political commentators have pointed out, it is not clear how Mr Zuma can use the legal system to clear his name as he is not able to go to the courts and demand to be tried. However, one possible route that Mr Zuma is apparently looking into is to sue the public prosecutor for damaging his reputation if he is unwilling to press charges.

Speculation arises as to who might succeed Mr Zuma

Whatever the weakness of the way in which the president deals with the media on critical issues such as the corruption allegations against Mr Zuma and the overall damage this does to the image of the ANC and his presidency, it still remains very unlikely that Mr Mbeki will face a challenge as the ANC's candidate in the forthcoming elections and will, therefore, be re-elected. However, the new cloud over Mr Zuma does potentially raise the issue of who Mr Mbeki could pick as a deputy if the current incumbent was to be sidelined; selection as deputy, the second highest position within the ANC, places the person in a strong position to either succeed Mr Mbeki, or at least have a strong say in who should. On the one hand, the press has often speculated that Mr Zuma only really got the job as deputy president because the leader of the Inkatha Freedom Party (IFP), Mangosuthu Buthelezi, turned it down and Mr Mbeki needed someone with strong political links in KwaZulu-Natal to quell the violence in the late 1990s and ensure that the ANC-IFP alliance did not fall apart. This view has led some sections of the press to argue that Mr Mbeki would quite happily drop Mr Zuma after the elections, particularly if, as expected, the ANC manages to win overall control of the KwaZulu-National provincial assembly. The case for dropping Mr Zuma would be heightened by the corruption scandal he has now become embroiled in.

There are several potential candidates to succeed Mr Zuma

This would, in turn, open up the race for someone else to succeed Mr Zuma. Although apparently based on little more than speculation, a relatively limited number of names seem to be commonly bandied around in the press as possible successors to Mr Zuma, none of which are all that surprising. Within the ANC the names include the foreign minister, Nkosazana Dlamini-Zuma (perhaps the marginal favourite from within the ANC); the minerals and energy minister, Phumzile Mlambo-Ngcuka (who is probably too junior to get the job); the defence minister, Mosiuoa Lekota; the finance minister, Trevor Manuel; and the agriculture minister, Thoko Didiza. From outside the party the name which is most often put forward is that of Cyril Ramaphosa, who many still see as most likely to succeed Mr Mbeki and who, because he would be brought in from outside, would be untainted by allegations of corruption within the government and the ANC. However, the governor of the South African Reserve Bank, Tito Mboweni, cannot be entirely discounted at this stage.

Mr Zuma's future hangs in the balance

Whether Mr Zuma will be dumped by the president remains a delicate issue at present. Despite constant rumours of rifts between him and the president, largely fuelled by the press, the reality is that they are long-standing allies in the ANC (who shared a relatively close relationship while in exile). In addition to a long history between the pair, Mr Mbeki also has a political problem in that if he were to drop Mr Zuma, it would weaken the ANC's position in KwaZulu-Natal at a time when he wants to consolidate it and when the alliance with the IFP is at its most fragile (even to the point of breaking). Finally, Mr Zuma has a strong understanding of local delivery of government services, which is likely to prove an important issue in the 2004 elections and during Mr Mbeki's second term in office. Given the fact that he has not actually been charged with anything, these factors all mean that it is possible that he could survive the current political crisis. However, he may only be able to do this if no further evidence against him comes to light in the trial of Mr Shaik and if he can quickly clear his name—which will prove difficult unless his lawyers can find some way of requiring the courts to clarify his innocence. What is clear is that he is now unlikely to be able to secure nomination as the successor to Mr Mbeki as president of the ANC and the country.

Jacob Zuma and the December 1999 arms deal: a chronology of recent events

December 1999: Patricia de Lille, member of parliament, initially calls for an investigation into claims that senior African National Congress politicians took kickbacks from the deal.

February 2001: The speaker of parliament, Frene Ginwala, writes to parliament's standing committee on public accounts (Scopa) to produce evidence of alleged malpractice in the arms deal as senior members of the ANC, including Jacob Zuma, claim that parliament is not taking into account the facts and is basing its concerns on unsubstantiated rumours.

April 2001: Reports emerge in the press which suggest a link between Schabir Shaik, Mr Zuma's financial advisor, and payments to the president.

November and December 2002: The deputy president and his spokesman both publicly deny any allegations of bribery related to the arms deal claiming they are unfounded and baseless.

March 2003: Mr Zuma provides a written reply to a question in parliament in which he states that he is unaware of any investigation into him by the elite, anti-corruption police squad, the Scorpions, and once again denies the allegations made against him as baseless.

July 2003: The *Sunday Times* publishes a letter sent to the deputy president by the Scorpions which contains 35 questions concerning the arms deal that they want him to answer. Mr Zuma launches a counterattack questioning the Scorpions' motives for allowing the questions to be leaked and threatening legal action.

August 2003: Mr Shaik is formerly charged with a range of corrupt practises by Bulelani Ngcuka, the national director of public prosecutions. However, Mr Zuma is not charged, although he appears to be implicated in some of the evidence used to prosecute his former financial advisor.

Does South Africa have a corruption problem?

As the issue of corruption is now firmly back under the political spotlight, the debate over whether South Africa really does have a problem with corruption has, unsurprisingly, leapt back onto the public agenda. On the one hand, there are those who argue that corruption in South Africa is not really a problem at the level of senior politicians. Most of the cases that the Scorpions investigate—with an impressive conviction rate of 85%—concern low-ranked civil servants seeking to supplement low wages. Moreover, it can be argued that the fact that Mr Yengei and Mr Zuma have been subject to such high-profile investigations shows that the anti-corruption mechanisms in place in the country, coupled with a vigilant media and opposition parties, are highly effective and should be left to do their job. Political commentators also point out that the ANC is acutely aware of the problem, periodically announcing that it is sacking a mayor or councillor for what it euphemistically terms "laziness" but which really means for being involved in corrupt practices. Finally, some commentators have noted that bearing in mind the size of the arms deal and the fact that deals of this nature—rather like large engineering projects—are bound to be associated with corrupt practices, the level of corruption involved in this deal was not that substantial. At a seminar in mid-August, David Botha, a consultant at the Institute of Strategic Studies, claimed that the arms deal was the "most transparent ever done in the world".

South Africa's general commitment to fighting corruption and the lack of widespread corruption amongst senior politicians is also confirmed in many surveys of corruption. South Africa is generally amongst the least corrupt countries in Africa and is comparably ranked amongst its peers in terms of income elsewhere in the world. But perhaps the worry is that the negative publicity associated with the arms deal—coupled with the president's unwillingness to address the issue head on—could lead people to start thinking about the corruption issue more closely leading to a rapid change in perceptions.

The economic benefits of the 1999 arms deal

One strategy that the government has used to help defer criticism of the 1999 arms deal is to point out the economic benefits of the deal via the various so-called offset aspects that it included. These are the Defence Industrial Participation Programme (DIPP), which stipulates that for purchases of between US$2m and US$10m, a South African company should be involved, and the National Industrial Participation Programme (NIPP), which requires companies to make investments in South Africa to help them meet purchases with an imported value of over US$10m. Both programmes have been in place for ten years, but really picked up following the arms deal. Writing the forward to the 2002 annual review of the NIPP, the trade and industry minister, Alec Erwin, argued that the latter had been particularly important to South Africa and that not only had it fundamentally reshaped the economy but that the projects created were also sustainable in the long run. He also noted that the government's Industrial Participation Secretariat was currently monitoring a range of projects from developing plugs designed to kill the roots of trees to ship repairs, condom manufacturing and jewellery production. By the end of March 45 projects involving 38 local companies had been approved under the DIPP, while 45 projects had been approved under the NIPP.

The "coalition for change" seems dead in the water

With the about-turn on the government's HIV/AIDS policy and the corruption allegations against Mr Zuma seemingly preoccupying the media for most of July and August, against the background of the visit of the US president, George Bush, it is perhaps not surprising that other domestic political developments have taken a back seat. Of the issues that have come to the surface in the last few months, perhaps the most interesting is whether the opposition will form an alliance to compete in the forthcoming elections. The issue came to the fore in early August, when the leader of the DA, Tony Leon, made a public call for all the country's opposition parties to consider joining a "coalition for change" in the run-up to the 2004 elections as the only real way that the parties would be in a position to mount a realistic challenge to the government. (The call was more specific, but similar, to a call for greater co-operation made by Mr Buthelezi at the IFP's national conference in July).

However, Mr Leon's call for unity was met with what can only be described as a muted response from the other parties, with some, such as the New National Party (NNP), firmly opposed to such a deal after its acrimonious split from the DA. Others, such as Bantu Holimisa's United Democratic Movement (UDM), were not quite so hostile but openly questioned whether there was sufficient time to get a coalition up and running and to agree on a united strategy of how best to compete in the elections. Given the lack of a positive response, it is now likely that the DA will concentrate on cementing the alliance that it has with the IFP in the Kwa-Zulu Natal provincial legislature, possibly moving it beyond its current informal basis to a more formal agreement. Whether this will be enough to defeat the ANC in the province is still not clear, but it could mean that even if the ANC emerges as the largest party it will not be able to form a majority. The need to cement an alliance with the IFP—and perhaps form an alliance with another party such as the UDM—has also become an issue for the

ANC. Despite the high-profile cabinet position of its leader, Mr Buthelezi, recent opinion polls show that it is losing support in KwaZulu Natal and nationally, and needs to try and find a new identity as a party with more than just a regional support base and a high-profile leader. A recent opinion poll conducted for *Business Day* in May by AC Nielsen showed that support for the IFP had declined from 9% in the 1999 elections to only 2% at the time of the poll.

The visit of the US president provides a boost for Mr Mbeki

As domestic politics is currently dominated by the issue of corruption, Mr Mbeki was probably relieved to be able to spend some time concentrating on foreign policy and the more positive publicity he received during the visit of the US president, George Bush, in early July (as part of his five-nation, five-day trip to Sub-Saharan Africa). Although there was some opposition to the visit by anti-war protestors, they were kept well away from the scene of the talks and Mr Bush's hotel, and large-scale demonstrations failed to materialise (partly because of the cold weather). Although the media focused mainly on the talks held between the two presidents on the issue of Zimbabwe, probably of equal importance to Mr Mbeki were the talks on economic issues. In particular, the South African president was keen to make progress on a number of issues related to trade liberalisation ahead of the September meeting of the World Trade Organisation (WTO) in Mexico—notably agriculture and cheaper generic drugs for poor countries—and the envisaged free-trade agreement between the US and the Southern African Customs Union (SACU). As well as South Africa, SACU includes the smaller countries that surround it—Botswana, Lesotho, Namibia and Swaziland—and a first round of negotiations on a possible free-trade agreement with the US was completed in Pretoria during the last month.

Mr Bush supports Mr Mbeki's policy towards Zimbabwe

But the most positive news for Mr Mbeki came from the fact that the US president eventually came out firmly in favour of his current approach to dealing with Zimbabwe, despite the fact that the US and Zimbabwean governments had traded an increasingly bitter war-of-words in the run-up to the visit with the US administration seeming to be becoming increasingly agitated that very little progress had been made on the issue. Prior to the visit, the US secretary of state, Colin Powell, had called for the South African government to play a greater role in helping to resolve the crisis quickly. Speaking to the press after the talks on Zimbabwe, Mr Bush stated that both governments clearly wanted the same outcome for the country and that he was confident that South Africa's efforts to broker talks would help to resolve the crisis in Zimbabwe. He also described the South African president very positively as a "point man" in his approach to a solution. Moreover, he stated that there was "no tension" between the two of them over the "sad situation" in South African's northern neighbour, a theme later taken up by Mr Mbeki who stated that "we are absolutely of one mind about the urgent need to address the political and economic challenges of Zimbabwe".

Despite the very positive words that came out of the talks, the real question is whether Mr Mbeki can actually deliver on his promises to the US president that talks are under way and will deliver a positive response. Political commentators have noted that Mr Bush's public endorsement of Mr Mbeki was actually a form of pressure and that Washington expects Mr Mbeki to achieve progress on Zimbabwe within a reasonable period (which would include helping to bring about new, supervised elections in Zimbabwe). Sources close to the talks also indicated that Mr Bush had stepped up the pressure on the South African president by saying that South African companies would benefit from a new aid package to Zimbabwe if the political crisis were resolved. The reconstruction package promised by Mr Bush will apparently be worth around US$10bn over an unspecified period, and will become available if a new president takes office in Zimbabwe.

Pressure to resolve the crisis in Zimbabwe is set to increase

Pressure to reach some sort of agreement on Zimbabwe is not just coming from the US. Mr Mbeki is aware that both he and the Nigerian president, Olusegun Obasanjo, will face growing pressure in the run-up to the Commonwealth heads of government meeting to be held in December 2003 in Abuja, Nigeria. Both Mr Obasanjo and Mr Mbeki are aware that, if they cannot get talks under way, the meeting will be overshadowed by the Zimbabwean crisis and a row over whether the Zimbabwean president, Robert Mugabe, should be allowed to attend the meeting. As Zimbabwe is currently suspended from the Commonwealth Council of Ministers, Mr Mugabe ought not to be invited, but some African leaders may boycott the meeting if he is excluded.

Although it has been apparent that Mr Mbeki's policy of quiet diplomacy has achieved little to date in bringing about a solution to the problems in Zimbabwe, there are signs that progress could be made in the not too distant future. In particular, if Mr Mbeki can convince the Zimbabwean president to at least retire his presidency of his party, the Zimbabwean African National Union-Patriotic Front (ZANU-PF), this could pave the way for talks between ZANU-PF and the opposition Movement for Democratic Change (MDC) and the drawing up a new constitution—rather than a transfer of power—which both the MDC and ZANU-PF could claim represented a victory of sorts. Once a new constitution had been agreed (including safeguards for free and fair elections) and passed by parliament, which would require an agreement between the two parties, it would be possible to hold fresh parliamentary and presidential elections under the new constitution, perhaps by the beginning of 2004, but 2005 would seem a more realistic date.

Economic policy

The MPC is to meet more often

Following the revisions made to the country's inflation statistics at the end of May (June 2003, page 25), the South African Reserve Bank (SARB) has both eased monetary policy in the last few months and changed the way in which it meets to assess conditions in the economy and announce changes in monetary policy. Following its June meeting, the Monetary Policy Committee (MPC) announced that it would now hold meetings at least once every two months rather than on a quarterly basis, as under the existing set-up the meetings were too far apart to allow for a quick reaction to certain events. The MPC statement also pointed out that although some important data are still available only quarterly, there is probably enough important data available on the economy on a monthly basis to allow it to hold effective deliberations on the economy every two months. As a result of the changes, three new meetings were announced for 2003—in mid-August, mid-October and mid-December—replacing the meetings scheduled for September and November. The first meeting in 2004 is to be held in February.

Interest rates are cut in June, August and September

Encouraged by the downward trend in inflation in the first half of the year—which was substantially helped by the revisions to the inflation rate—and confident that its more frequent meetings will allow it to monitor monetary policy more closely, the SARB subsequently cut interest rates quite aggressively. The MPC first cut interest rates by 150 basis points at its June meeting, then chose to cut them by a further 100 basis points at its August meeting. The SARB sanctioned another cut of 100 basis points following a special policy meeting on September 10th, giving a repo rate of 10%. This is the third interest rate cut in the current easing cycle, which has seen the repurchase rate slashed by a cumulative 350 basis points since the start of the year.

The latest move was somewhat unexpected, as many had expected a cut at the next scheduled meeting of the MPC in mid-October. The case for cutting interest rates in South Africa is not just that inflation was exaggerated and is now falling quickly, but that real GDP growth has slowed to a crawl and the strong rand has hit exports. A recent period of rand stability may have been a compelling factor for the bank to cut rates again so soon after the August meeting. Announcing the cuts, the SARB continued to warn that although inflation was trending down and the rand remained relatively strong, it was still concerned about the size of wage settlements and the growth of the current-account deficit. As the economy appears to have responded quite positively to the downward moves in interest rates in both June and August (see Economic trends), most economists expect that rates will be cut further—probably by around 100 basis points—at either the mid-October or mid-December meetings of the MPC. The Economist Intelligence Unit expects the cut to be made at the first meeting in October rather than at the December one, as long as inflation continues on its downward trend, and assuming that there is no great disruption on the foreign-exchange markets which adversely affects the value of the rand.

The finance minister thinks that inflation will trend down

This view certainly seemed to be strongly supported by the finance minister, Trevor Manuel, when he addressed a meeting of businessmen in late August. At the meeting he stated that he was confident that inflation could be brought within the SARB's target range of 3-6% and that because the trend in inflation was positive, a further easing of monetary policy was possible in the final quarter of the year. He also noted that if current trends are maintained, it is likely that the budget deficit will be marginally higher than he had originally forecast. In particular, he noted that the slowdown in the economy and the strength of rand in the first half of the year had had an impact on corporate profitability which could mean that the government will struggle to raise as much revenue as it had forecast.

The Oppenheimers leap into the BEE debate

The government outlined its broad-based economic empowerment (BEE) strategy early in the year for public comment (June 2003, page 22). In response, the well-connected South African mining dynasty, the Oppenheimers, who for a century have been at the heart of the country's mining industry through their control of the diamond mining company, De Beers, and who still have a major stake in the mining giant, Anglo America, have outlined their contribution to the policy debate. At a meeting at the family residence, Brenthurst, in early August, which was attended by most key members of the cabinet and the president, Nicky Oppenheimer outlined what has been dubbed as the Brenthurst Initiative, which the Oppenheimers hope will substantially further the debate on the overall process of BEE.

Arguing that there is an overwhelming consensus that the South African economy needs to grow faster to create more jobs—with real GDP growth of 5% plus per year, compared to the current growth rate of 3% per year—the Brenthurst Initiative argues that whether rightly or wrongly, there is a nervousness about the risk-reward ratio of investing in South Africa and that one of the reasons for this is the uncertain impact—and possible costs to business—of the government's proposed BEE policy. Although there are several ways to overcome this—such as putting forward sound arguments why perceptions of risk are misplaced or actively seeking to reduce the crime rate—the Oppenheimers argues that in the short to medium term the best option is probably to focus investors' attention on rewards rather than risks. However, in the case of South Africa, they stress, the reward should be explicitly linked to a social goal, namely, investor commitment to BEE. In other words, those businesses that were best able to show that they had actively moved ahead with BEE would be rewarded with lower rates of corporate tax for a limited period of say 10-15 years. This, it is argued, would be one of the simplest benefits to implement and if it did lead to an increase in the growth rate it would, in effect, be fiscally neutral. The incentives would also be set on a sliding scale, whereby those who moved ahead most quickly and comprehensively with BEE would receive the best incentives, while those not moving forward would be penalised (a "carrot and stick" approach).

The Brenthurst initiative cannot be dismissed lightly

Given the high level of political support for the Brenthurst Initiative—the president even provided a preface for the document which welcomed the initiative as a stimulus to wider debate on this crucial subject—it cannot be dismissed lightly. The *Financial Mail* even went as far as to argue that the Brenthurst Initiative, along with several other policy documents, "could set the scene for a lively debate on economic policy reminiscent of the period before the government adopted its GEAR policy document". However, given the initiative's lack of concrete detail, it still has some way to go before it could be implemented as economic policy, if the government does choose to go down this route which is far from clear at the moment. The Oppenheimers have stated that they do not feel that they own the initiative and that it is now up to others to try and move the debate forward. They believe that this process will eventually fill in much more detail to their skeleton outline and determine whether it ends up as a policy proposal. It seems that several key issues will have to resolved in this debate.

- First, some economists question whether the willingness of firms to implement BEE is the key constraint that is holding BEE back. Economists such as Iraj Abedian of Standard Bank argue that factors such as the country's skill shortage are much more important constraints to BEE and that this will not be altered under a proposal such as the Brenthurst Initiative.

- Second, many economists are deeply sceptical about the idea of offering tax breaks as a driver of change. This group, which includes a number of influential voices in the crucial ministries of finance and trade and industry, argue that tax breaks are usually abused or are just an avenue to corruption and are generally opposed to a differentiated tax system in principle.

- Finally, even if some economists like the idea of a tax-incentive scheme, many are still sceptical about how it would be administered. Most pressing is concern over how the "stick" of tax penalties could be implemented, but the Ministry of Trade and Industry has also noted that it could be very difficult to actually implement not only the scorecard itself, but to do so in conjunction with the tax-incentive system.

These specific criticisms of the Brenhurst Initiative also exclude the views of those economists within South Africa who feel that the whole idea of trying to use economic policy to push ahead with black economic empowerment is completely misplaced. This criticism comes from both the right of the political spectrum, where it is argued that only once the government has achieved growth should it worry about redistribution, and the left, where it is feared that black economic empowerment of the type being promoted by the government only really empowers a small black elite who are not entrepreneurs but are profiting from their ability to gain control of existing (and often marginal) firms that they did not set up.

Can economic collapse be averted by the new policy on anti-retrovirals?

One factor which may have influenced the government's policy towards anti-retroviral drugs and HIV/AIDs was the publication in mid-July of a major World Bank report on the possible impact of the pandemic on the country. According to the authors of the World Bank report, South Africa will suffer a complete economic collapse within only four generations (or by 2080) if the government does nothing to combat the problem quickly and South Africa will be transformed from a middle income economy to a poor African economy on a par with Kenya. The report projects that GDP per head could fall from current levels of US$2,600 to only US$1,000 by 2080.

The report marks a major change from many previous reports which have argued that although HIV/AIDs is a serious humanitarian and social problem, its impact on the economy will be relatively modest, resulting in a decline in income per head of only 1% a year for the next decade. The World Bank researchers argue that these reports underestimate the extent to which HIV/AIDS is killing young adults. This, the authors of the report argue, is severely undermining the country's stock of human capital as adults are not passing skills and learning onto children. The report estimates that by 2010 15-25% of all children in Sub-Saharan Africa will be orphans.

The report argues strongly that spending money on keeping HIV/AIDS patients alive would provide significant economic benefits to the country. Moreover, it estimates that this would probably only cost around R21bn over seven years, which although expensive, is affordable for a middle income country.

The fact that the government has now agreed to help finance the widespread distribution of anti-retrovirals will help to limit the extent of the economic collapse forecast by the World Bank, as by keeping adults alive longer they should still be able to help transfer skills and education to their children. However, the details of the government's policy are still being debated; it plans to publish its detailed rollout plan for the issuing of the drugs at the end of September. Moreover, the government has yet to give detailed budget estimates on what it plans to spend on the programme, which will be the crucial factor in determining its success. The government has also apparently set a target of training 24,000 additional staff by financial year 2005/06 (April-March) and setting up 356 additional treatment sites with co-ordination provided by a regional centre in each of the provinces. Once this system is in place, the goal is to make anti-retrovirals available to 50% of the country's AIDS patients by 2008, or a total of around 600,000 people.

As well as money and resources, many commentators are also concerned about the political commitment to the plan. The new policy looks set to be implemented by a national implementation unit which will work with the current health services, but it will also need strong political support. As the cabinet has been converted to the provision of anti-retrovirals only reluctantly—the president is hardly likely to make it a priority and the health minister, Manto Tshabalala-Msimang, seems little more committed to the programme—some commentators had hoped that the director-general of the Ministry of Health, Ayanda Ntsaluba, would be the driving force behind the programme. However, he moved to the Ministry of Foreign Affairs at the end of August, while the vice-president, Jacob Zuma, who could have championed the programme, has his own political concerns at present (see The political scene). As Steven Friedman, a senior research fellow at the Centre for Policy Studies in Johannesberg notes, "there is still a fair amount of reluctance in parts of the government to act on HIV/AIDS with appropriate urgency" and this, more than anything else, could determine the success of the programme.

Maria Ramos moves to head Transnet

Maria Ramos, the highly respected director-general of the national Treasury is to leave her post at the end of 2003 to become head of the public-sector utility Transnet. In her time at the Treasury she has been a driving force in the success of the government's fiscal restructuring programme. Although her successor has yet to be announced, the most likely candidate is the current deputy director-general, Lesetja Kganyago, who has worked closely with Ms Ramos over the years. There is little doubt that Ms Ramos is facing a tough challenge at the highly complex and large state parastatal, Transnet, but she is well qualified to make notable progress in the near future.

The domestic economy

Economic trends

Growth has been sluggish in the first half of 2003

The fact that the South African economy slowed down considerably in the first half of 2003 was confirmed by the second quarter GDP statistics produced by Statistics South Africa. Following real GDP growth of 1.5% in the first quarter of the year (seasonally adjusted annualised rate), real GDP growth fell to only 1.1% in the second quarter of the year. Key reasons for the slowdown in growth include the following.

- The agricultural sector performed poorly in the first half of the year owing to poor harvests as a result of bad weather conditions. On a seasonally adjusted and annualised rate, it contracted by 3.1% in the first quarter of the year and 8.7% in the second.

- The ongoing poor performance of manufacturing, which has been adversely affected by the appreciation of the rand and the weak global economy, which have had a major impact on exports, against a background of weak domestic demand (partly because of high interest rates).

Following on from the publication of the second quarter GDP figures, economists have generally been quite cautious about the overall outlook for the economy in 2003. On the one hand, the second quarter growth rate was lower than the consensus forecast: this was 1.5% compared to the actual 1.1%. On the other hand, economists are increasingly confident that the global economy is picking up more quickly that many had initially forecast and that the aggressive cutting of interest rates by the SARB in June, August and September is beginning to feed through into the domestic economy. There are already tentative signs that vehicle sales have started to pick up from June following the interest rate cuts and this recovery could gather pace if rates are cut further in mid-October. Some have, therefore, moderately revised their growth forecasts for the year down to around 2%, but others, hoping for a strong rebound in the second half of the year, have left them broadly unchanged at around 2.5%.

The services sector has continued to grow

Although the mining sector has posted weak growth in 2003, owing to a degree of buoyancy in the services sector the economy has continued to grow in 2003, albeit slowly. Within the services sector, growth has been strongest in transport and communications, helped by growth in telecommunications. Finance, real estate and business services has also posted positive growth in 2003 as house prices have continued to rise (in late July all the flats on offer at Westpoint, a 222-unit development in Sandton, were sold within a 24-hour period). The community, social and personal services sector has also grown as the government has increased the level and coverage of welfare payments in past budgets.

Gross domestic product
(% real annualised change from the previous quarter; seasonally adjusted unless otherwise indicated)

		2002		2003	
	Weight[a]	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Agriculture, forestry & fishing	3.9	4.9	0.3	-3.1	-8.7
Mining & quarrying	4.9	1.1	-0.1	-0.7	1.9
Manufacturing	18.4	3.6	1.6	-0.3	-0.8
Electricity & water	3.2	0.2	3.8	1.5	1.7
Construction	2.8	2.5	4.0	3.7	1.8
Trade, hotels & restaurants	12.4	1.8	3.1	1.3	1.6
Transport & communications	10.9	5.8	6.5	5.4	4.2
Finance, real estate & business services	17.9	3.2	2.1	2.2	2.3
Community, social & personal services	2.4	2.6	3.6	3.2	3.7
Central government services	12.3	1.5	0.6	0.9	0.8
Other producers	2.4	1.6	2.2	1.9	1.5
Total value added	**91.6**	**2.9**	**2.4**	**1.4**	**1.1**
Taxes less subsidies on products	8.4	2.3	2.2	2.4	2.0
GDP	**100.0**	**2.9**	**2.4**	**1.5**	**1.1**

[a] Share of total GDP in 2 Qtr 2003.

Source: Statistics South Africa.

An inflationary blip is recorded in July

Most economists are also maintaining a relatively cautious stance on the future direction of inflation. Although there is a strong consensus that inflation will trend down in the final quarter of 2003, allowing a further interest rate cut, the July inflation data showed a modest increase in the crucial CPIX inflation rate, which is the measure used by the SARB for its inflation target goal. According to Statistics South Africa, year on year CPIX inflation rose from 6.4% in June to 6.6% in July, reversing the downward trend that had been in place for the first six months of the year. The rise was mainly caused by above trend increases in food prices, which is not surprising given the poor performance of the agricultural sector so far this year and the fact that the winter months are when domestic food stocks are generally at their lowest. Rising housing costs (excluding mortgages) and the cost of health and education also helped to push the index up. Two factors in particular will help a downward trend in inflation, falling food and oil prices, with the latter, in particular, set to kick in towards the end of the year.

Inflation as measured by CPIX[a] in 2003

	2002	2003						
	Average[b]	Jan	Feb	Mar	Apr	May	Jun	Jul
Index (2000=100)	116.5	122.3	122.2	123.5	123.9	123.9	123.5	124.8
% change, year on year	9.3	10.0	9.3	9.3	8.5	7.7	6.4	6.6

[a] CPIX is the consumer price index excluding interest rates of mortgage bonds. [b] The average for 2002 was 11.3% prior to the statistical revision in May 2003.

Source: Statistics South Africa.

The rand has been relatively stable

Having appreciated steadily in the first five months of the year, and then fallen back to over R8:US$1 in mid-June, since then the rand has strengthened quickly and since early July has been quite stable, hovering in a range of between R7.2-7.6:US$1. After appreciating so strongly in the last 18 months, this period of relative stability has led to some degree of uncertainty amongst foreign-exchange traders as to which way the currency will go now, up or down. In general, sentiment in the foreign-exchange market seems to indicate that the rand will fall in the coming six months, although given the recent volatility and the unexpected scale of the appreciation, most currency forecasters are understandably nervous about making very firm commitments. Although the value of the rand will still be driven by speculation and sentiment towards emerging markets, most analysts feel that the rand will fall because of economic fundamentals. With the economy still sluggish, inflation only coming down slowly while interest rates are falling, slow export growth, the current-account deficit set to grow and the likely pick-up in the US economy causing some investors to move out of emerging markets and back into US dollars, the rand should fall back steadily in late 2003 and into 2004.

The 2001 census results are formally released

On July 7th Statistics South Africa (SSA) formally released the main results of the 2001 population census at a press conference in Pretoria. The results are likely to be heavily promoted by the government in the coming election campaign given the positive news they contain about the overall level of economic development in the country. Data from the census show that between 1996-2001 there have been significant improvements in the provision of housing, water, electricity and communications to the average South African. One of the early economic policies of the new African National Congress government when it came to power in 1994 was the million houses scheme, and, as the census shows, the government has continued to build on this, with more than 2m houses—classified as formal structures built out of bricks and mortar—being built between the first post-apartheid census in 1996 and the current one, conducted in 2001. Moreover, and crucially for the government, the increase in houses was largely in black residential areas, where the number of households increased sharply from 6.5m in 1996 to 8.7m in 2001. The census also revealed the following.

- The number of households with electricity increased by 10% between 1996 and 2001, while just over 70% of households now use electricity for lighting and just over 50% also use it for cooking.
- An even larger percentage of households, 85%, now have access to piped water within a 200 metre radius of their homes, although 15% use boreholes, rivers and rainwater tanks.
- The proportion of people with access to a telephone increased from 29% in 1996 to 42% in 2001.
- Over 90% of households now have access to a toilet.

South Africa is urbanising rapidly

The census also confirmed that South Africa is a rapidly urbanising nation, which is unlikely to change and will continue to put huge strain on the country's municipal authorities who are in charge of providing services in the cities. The two provinces that have seen the largest gains in population are, perhaps not surprisingly, Gauteng, which received 400,000 in-migrants between 1996 and 2001, and the Western Cape, which received an additional 185,000 persons over the same period. Gauteng's population growth between 1996 and 2001 was double the national average while that of Western Cape was 1.4 times the national average. Migrants were overwhelmingly from the smaller rural provinces, notably the Eastern Cape and Limpopo. This type of data is of considerable importance to a government committed to improving the delivery of social services at the local level as it will be used to determine how the government allocates financial resources to provinces—an issue that will be examined in detail by the financial and fiscal commission which is due to start work on the issue in late 2003.

In a statement issued at the launch of the census results, although welcoming the publication of the data, the president, Thabo Mbeki, also noted that South Africa's official statistical system needs strengthening, and particularly the building up of a stronger base of skilled statisticians (a point that is perhaps also borne out by the revision to the inflation statistics in late May). Although the census is generally believed to be statistically sound, it has attracted some criticism over the quality of certain aspects of its data and there were some problems during its implementation. For example, the finance minister, Trevor Manuel, highlighted problems with paying enumerators, threats of strike action, and a leaking roof at the processing centre. Questions have also been raised over the failure of SSA to publish mortality and fertility data along with the other main databank. SSA's statistician-general, Pali Lehohla, has stated that the figures will be released in October after they have been analysed further, but some experts have pointed out that given the country's huge HIV/AIDS crisis it is difficult to understand why these figures were not prioritised.

Although the South African population census does not provide long-term projections of the country's population, the US Population Reference Bureau (PRB) estimates that South Africa's population will fall from its current level of 44m to only 35.1m by 2025 and 32.5m by 2050, a 26% decline. This will be mainly driven by the impact of HIV/AIDS on the population, which the PRB estimates now affects 20.1% of the population.

Agriculture

SAHRC paints a bleak picture of life on South African farms

Following a two-year investigation into the ongoing problem of the high level of violence on South African farms, the South African Human Rights Commission (SAHRC) released its long-awaited report in early September. The aim of the enquiry was to examine—in a logical and systematic fashion—the nature and causes of violence on South African farms. This includes violence against both farmers and farm workers. The report comes at an important time in post-apartheid South Africa as the farming sector is still experiencing huge racial strains. On the one hand, as the SAHRC notes, around 1,500 white farmers have been murdered since the end of apartheid, or since 1992. However, acts of racial abuse and violence against farm workers are also common amongst a significant minority of farmers and, more generally, conditions in the sector are still appalling with long working hours and low pay (despite the introduction of a minimum wage in the sector; March 2003, page 27). The report paints a pretty bleak picture of parts of South Africa's farming system, saying that the primary factor driving increased violence against white farmers is crime, which it blames on the slow progress made with the country's land reform programme and the widening income gap between farmers and farm workers. The report also argues that in some provinces there is a culture of violence in which violent acts against farm workers are perpetrated in an environment of impunity. Against this background of violence, combined with poor education and alcoholism, it is perhaps not surprising that the number of murders has been as high as it has. Part of the problem is also that the authorities do not have the capacity to provide enough police in rural areas or to monitor breeches of labour laws. In addition, farmers often obstruct the work of visiting officials using the Property Rights Act to refuse government inspectors and trade union officials access to their land.

Financial and other services

Banks and producers press for new vehicle credit regulations

Although there are early indications that the lowering of interest rates has boosted car sales in the last few months, banks and car producers in South Africa have increasingly raised the issue that reform to the country's credit laws could be even more effective in boosting sales and increasing the affordability of cars. Following a submission by WesBank to the Retail Motor Industry Organisation, WesBank, has now formally asked the trade and industry minister, Alec Erwin, to change the conditions of the 1980 Credit Agreement Act as its relates to vehicles. At present, vehicle buyers must pay a 10% deposit, pay off the loan in no more than 54 months and the monthly instalments should not differ by more than 10% over the life of the loan. WesBank argues that if these regulations were dropped, it would be able to double the number of people who could afford loans from 5% of the population at present, to 10%. The banks would also like customers to be able to lease vehicles. Under this arrangement the provider of finance leases the vehicle to an individual for them to use after estimating the value of the vehicle at the end of the lease period. If this were 30% of the vehicle's sale value, then the cost of the lease would be 70% of the vehicle's price. At the end of the lease period, the individual can choose to buy the car or its ownership reverts to the bank who will sell it. WesBank estimate that this sort of legislation, which is in force in the US and UK, would allow them to reduce the costs of buying a car even further. Wesbank's leasing proposal has also attracted the support of vehicle manufacturers; the head of Toyota, Johan van Zyl, has publicly stated his support for the introduction of more innovative financing options, such as leasing arrangements, to make buying motor vehicles easier and cheaper.

The market for credit is to become more competitive

The proposed changes to vehicle financing regulations come at a time when the market for credit in South Africa is likely to become more competitive, following the announcement by Barclaycard, the UK's largest issuer of credit cards, that it has decided to enter the South African market. Barclaycard, which is owned by Barclays Bank, has around 11m customers worldwide—although only around 55,000 in Africa—and will use direct marketing techniques to win new customers. It will also work with Standard Bank in South Africa given that it currently does not have a branch network in the country. The credit card introduced by Barclays will exploit the high profile of the English premier football league in South Africa by using Manchester United branding and aims to sign up 1m customers in a decade, which would significantly expand the number of users of credit cards from the current estimate of 5% of the population. The South African credit and debit card market is also set to undergo a technical revolution in the coming year as banks slowly move from providing swipe cards, which are verified by signature, to chip cards, which are verified by the typing of a four digit code into a hand-held terminal at the point of sale. Although it is estimated that the move will cost South Africa's four big banks between R400m-600m each, it will potentially save the considerable amounts that are lost to fraud each year; these are now estimated at R200m a year and, worryingly for the banks, have been growing extremely rapidly. The introduction of chip cards in some large European states, notably France, has led to a rapid reduction in fraud.

Barclays Bank has also announced that it will relocate its Africa division from London to Johannesburg. This should allow it to be in closer contact with its operations throughout the rest of Sub-Saharan Africa, although it has no plans at present to develop a retail branch network in South Africa. The other multinational bank with an African network, Standard Chartered Bank, has also announced that it has set aside US$30m to enter the South African market, with the initial aim of opening a Johannesburg branch for corporate clients. Once again, this should help South African companies with operations in other parts of Africa to conduct their business affairs. It also places both banks in a better position to expand their presence in the market should they want to (June 2003, page 29).

Infrastructure

A second national telecoms operator is still a long way off

Despite our hopes that progress with licensing a second national operator (SNO) to compete with South Africa's telecommunications parastatal, Telkom, would move ahead quite quickly in 2003, this now seems increasingly unlikely after the telecoms regulator, the Independent Communications Authority of South Africa (ICASA), rejected both of the two bids for a 51% stake in the SNO (March 2003, page 29). The bids were placed by CommuniTel and Two Consortium. Although the minister of communications, Ivy Matsepe-Casaburri, has still to approve ICASA's recommendations, if she does so it could lead to yet further delays in the process as either a temporary operator is agreed on, the two bids are comprehensively re-examined or new bids are invited.

Environmental regulations are being improved

In mid-July the Department for Environmental Affairs and Tourism published five bills for public comment which cover a range of issues from aid quality to national management of the environment to increasing biodiversity. The publication of the new legislation comes at a time when the department has also publicly stated that it wants to step up its efforts to ensure that companies comply with environmental regulations. Since the end of apartheid, only one major act relating to the environment—the National Environmental Management Act—has been passed, while much of the existing legislation is both out of date and difficult to enforce. A key aspect of the new legislation will be the establishment of an environmental police force which will have the power to inspect premises and land and ensure that owners and operators are meeting the requirements of new and existing legislation.

Mining

Anglogold seeks to consolidate its position

In the last few months it has emerged that the South African gold mining giant, Anglogold (which is now London listed), is in negotiations with a Ghanaian gold mining company, Ashanti Goldfields (also London listed). Having already acquired 50% of Ashanti's Tanzanian mine, Geita, when it fell into financial difficulty several years back—something which Ashanti has struggled to get over and which it still has a weak balance sheet because of—the acquisition of the entire company would certainly make Anglogold Africa's largest producer with a diverse range of mines around the subcontinent. For Bobby Godsell, the head of Anglogold, not only does the deal have a strong business logic and the added advantage of being conducted with a close friend, Sam Jonah, head of Ashanti; it is also an opportunity to turn the company into a pan-African giant and a symbol of the continent's future.

Although for some time it seemed that Anglogold's deal would be accepted by both shareholders and the Ghanaian government (which owns 17% of the mine and has a golden share giving it the right to veto any takeover), Anglogold's move was challenged in early August by another Ghanaian gold mining company, Randgold. Putting in an offer initially worth US$1.46bn (one Randgold share for every two Ashanti shares), compared to Anglogold's US$1.1bn (26 Anglogold shares for every 100 Ashanti shares), the new offer certainly upped the bidding stakes. It also changed the market's perceptions of both companies; Anglogold's shares have since firmed, while Randgold's have fallen. While the Ashanti board has recommended the acceptance of the Anglogold bid, which it argues will provide the company with the financial and technical resources needed to develop the underground Obuasi mine, it is still not clear what position the Ghanaian government will adopt. It may accept the business logic of the Anglogold deal, or it may take a more nationalistic stance in the run-up to the 2004 elections claiming that the Randgold deal is preferential in terms of preserving Ashanti's Ghanaian identity, although since the deal has been announced the local Ghanaian press has swung behind the Anglogold deal. Lonim, a platinum producer, is also an important shareholder in Ashanti, and its final position could also prove crucial. At present we expect Anglogold to win control of Ashanti, but it is not beyond the realms of possibility that another of the large gold mining companies could still enter the race, making it even more complex.

A strike in the mining sector is averted

While Anglogold was concentrating its international efforts on the proposed bid for Ashanti, its South African mining operations were concentrating on averting a strike. Wages in the mining sector in South Africa are broadly set under two-year deals; the last one was agreed in 2001, while the deal just agreed between the National Union of Mineworkers (NUM) and the major mining companies (under the auspices of the Chamber of Mines) will run until 2005. The negotiations that took place in the last few months were a virtual identical replay of those in 2001: the producers claimed that they could not afford the double-digit wage demands of the NUM—it initially demanded 20%—and the union did not back down for some time and threatened strike action which was only narrowly averted with a last-minute deal (although there has not been a major strike in the mining sector for 16 years). Under the new deal, miners will be awarded a pay rise of 10%, which will cost the mining companies around 12% when pension contributions, holidays and job regradings are taken into account. Mining companies estimate that labour costs account for around 50% of their total working costs. What is clear is that the confrontational nature of negotiating miners' wages seems more a legacy of old apartheid South Africa and that a new, less confrontational, approach would certainly be a welcome development before negotiations start again in 2005.

While large-scale miners were locked in wage negotiations, the Department of Minerals and Energy announced in early September that it is to increase the funding that it allocates to the small-scale mining sector. The increase means that the total funding available will rise from the current level of just over R5m to R15m in the budget for fiscal year 2003/04 (April-March). At present the funding provided by the department supports 13 projects employing a total of 780 people, around two-thirds of whom are women. The money will also help to expand the Mining Qualification Authority which provides support for disadvantaged South Africans to obtain mining qualifications, which will help the overall transformation of the industry.

Leading gold producing companies
(by market capitalisation & production)

Ranking/company	Market capitalisation (£ bn, Aug 8th 2003)	Production in 2002 (oz bn)
1. Newmont	15.57	7.63
2. Barrick	9.97	5.69
Anglo/Ashanti	8.72	7.56
3. Anglogold	7.53	5.94
4. Gold Fields	5.62	4.46
5. Placer Dome	5.42	2.82
14. Ashanti	1.19	1.62
22. Rangold Resources	0.61	0.00[a]

[a] Rangold produced just 210,00 oz from its 50% stake in one mine.

Source: Financial Times.

Oil and gas

Details of the development of Ibhubesi are outlined

The full details of the decision by the South African energy parastatal, PetroSA, to buy a 30% equity stake in the Ibhubesi Gas Group have come to light in the last few months. It has also been announced that the operators of the Ibhubesi gasfield, Forest Oil, have started a new US$30m phase of exploration drilling on the field, which is located off the West coast of South Africa (north of Saldanha

Bay, towards the maritime boundary with Namibia). It is estimated that the Ibhubesi field has reserves of up to 25 trn cu ft of gas. PetroSA will pay for the stake from internal funds and the gas will be used to extend the life of PetroSA's oil-from-gas plant at Mossel Bay until June 2008. In addition, the minerals and energy minister, Phumzile Mlambo-Ngcuka, has announced that the department will shortly be releasing a gas infrastructure masterplan which will outline four phases of gas pipeline and infrastructure building with the aim of developing a national gas pipeline network. The first phase would concentrate on delivering supplies from Mozambique to Secunda and Durban (June 2003, page 32); while the subsequent stages would link the west coast fields first to Cape Town (stage 2); and then to Guateng (the third stage); and then take the Cape Town pipeline on to East London and Durban (stage four).

Foreign trade and payments

Exports have fallen sharply so far in 2003

As already noted by the South African Reserve Bank (SARB; the central bank) in its monetary policy reports, there does seem to have been a deterioration in the country's external trade position in 2003 compared with 2002 in the face of the strong rand and the slow global economy. The country's export performance would probably have been even weaker in 2003 were it not for the gold price, which has continued to remain strong reflecting low global interest rates and the poor investment prospects of investing in global stockmarkets. Platinum prices have also held up well in 2003, which has helped to support export earnings: base metal exports in the first six months of the year were 4.3% higher than in the same period in 2002 although gold exports have fallen. Despite these positive developments, according to the South African Revenue Service, exports for the first half of the year were down nearly 11% compared with the first six months of 2002, while imports have fallen by just over 4%. This has led to a fall of some 47% in the trade surplus compared with the same period in 2002.

Trade account
(R m)

	Jan-Jun 2002	Jan-Jun 2003	% change
Exports	154,998.6	138,157.8	-10.9
Imports	131,394.1	125,655.2	-4.4
Trade balance	**23,604.5**	**12,502.6**	**-47.0**

Source: South African Revenue Service Trade Statistics.

However, some economists have been keen to point out that while overall exports will be down on 2002, the fall in exports has not been as bad as feared and there are already signs that they have started to recover slowly. After running a trade deficit in the first three months of the year, the trade account has moved back into a surplus since then, and from April to June exports recovered by around 4% on a month-on-month basis. Perhaps a bit more worryingly, provisional data for July show that while exports continued to grow on a month-on-month basis of 4%, imports jumped by nearly 8%, or double the rate of export growth. However, South Africa's provisional trade data are often quite volatile on a monthly basis and such gains can easily be eroded the following month.

The current account returns to a deficit in 1st quarter 2003

Recent data indicate that South Africa's current account returned to a deficit of R1,191m in the first quarter of 2003, comparing unfavourably with surpluses of R3,724m in the first quarter of 2002 and R2,017m in the first quarter of 2001. The deterioration in the current account was driven mainly by the narrowing of the trade surplus. The deficit on the services and income account remained largely unchanged from the fourth quarter of 2002, preventing a further slippage in the current account. Lower payments for transport services and an increase in tourism receipts also helped to curb the shortfall on the services account.

