



South African Reserve Bank  
2011 Annual Economic Report  
and June 2011 Quarterly Bulletin

August 2011



South African Reserve Bank

90<sup>th</sup>

Anniversary



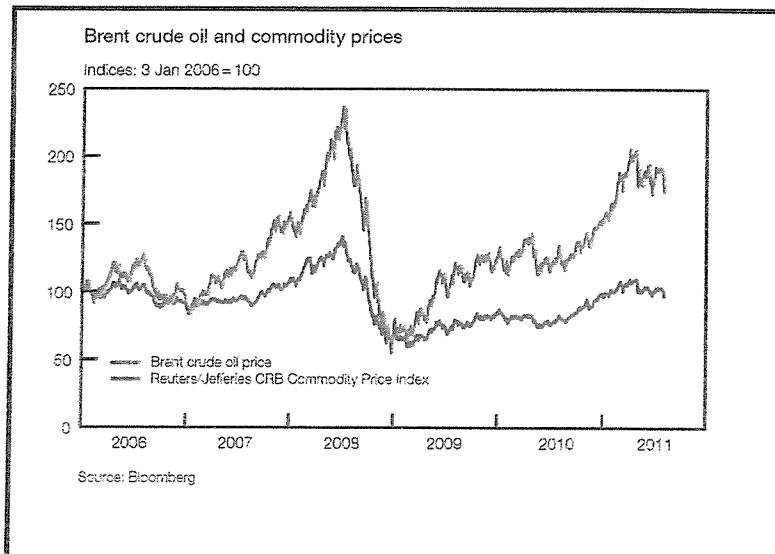


# South African Reserve Bank 2011 Annual Economic Report and June 2011 Quarterly Bulletin

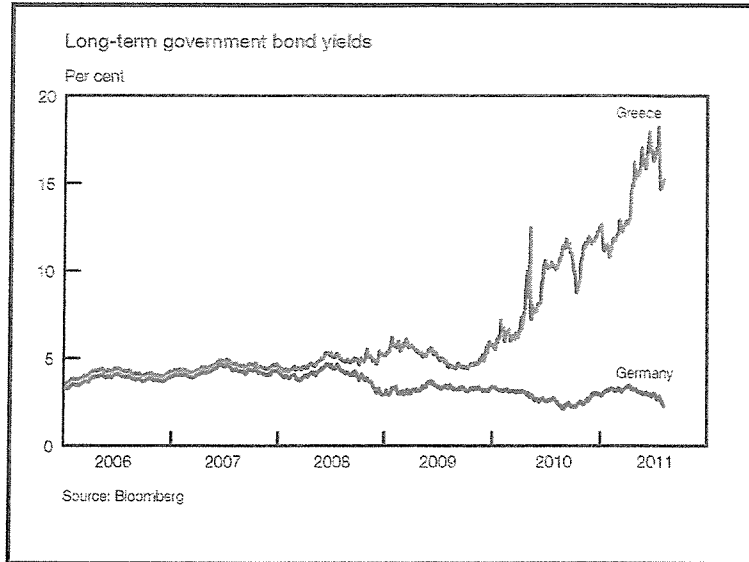
Presentation to the Parliamentary Portfolio  
Committee on Finance

10 August 2011

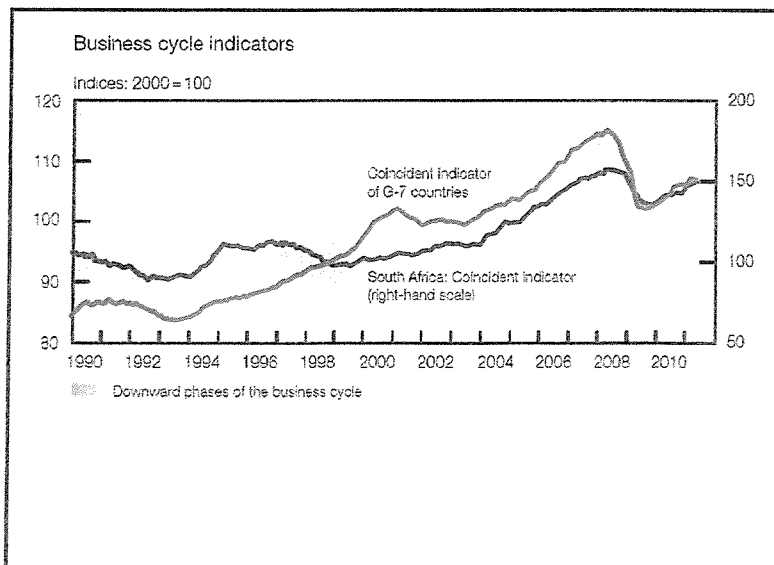
While the global economic recovery continued, it was impeded by the high level of commodity prices, particularly oil...



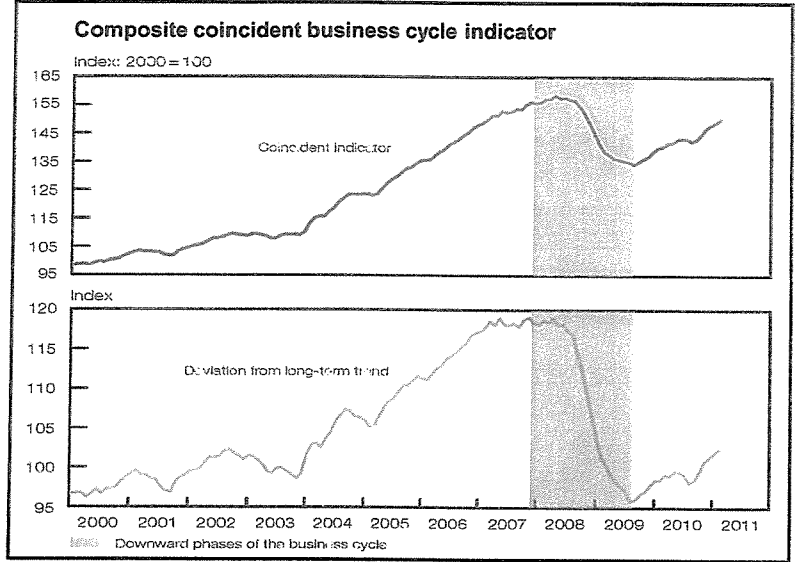
...and by ongoing concerns about fiscal sustainability in peripheral Europe, as reflected in widening interest rate spreads



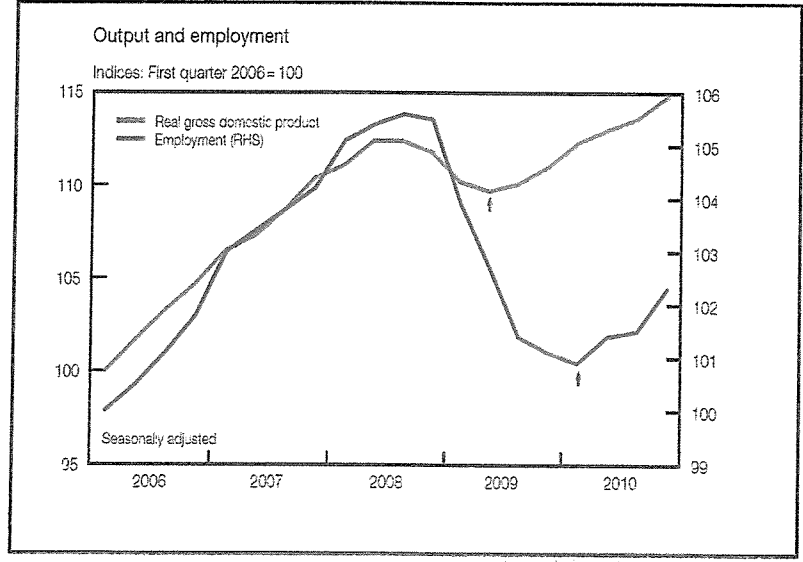
South Africa's latest downturn and subsequent recovery were synchronised with the global economic cycle ...



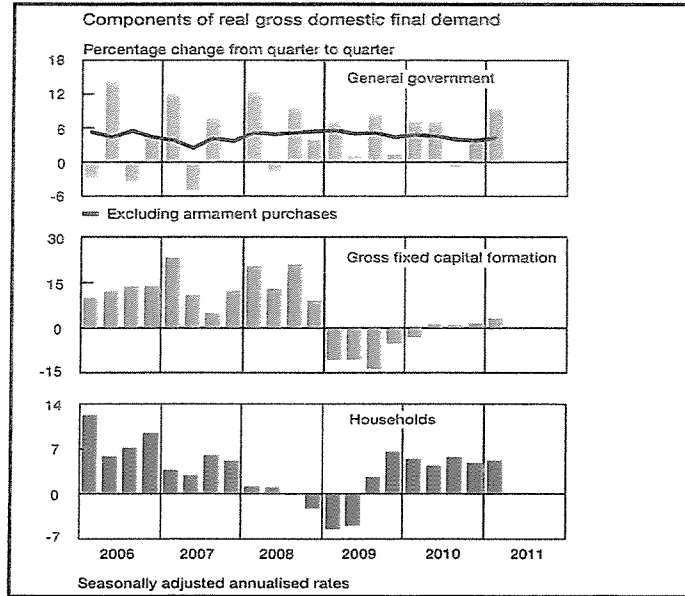
... with the coincident business cycle indicator reaching a lower turning point in August 2009



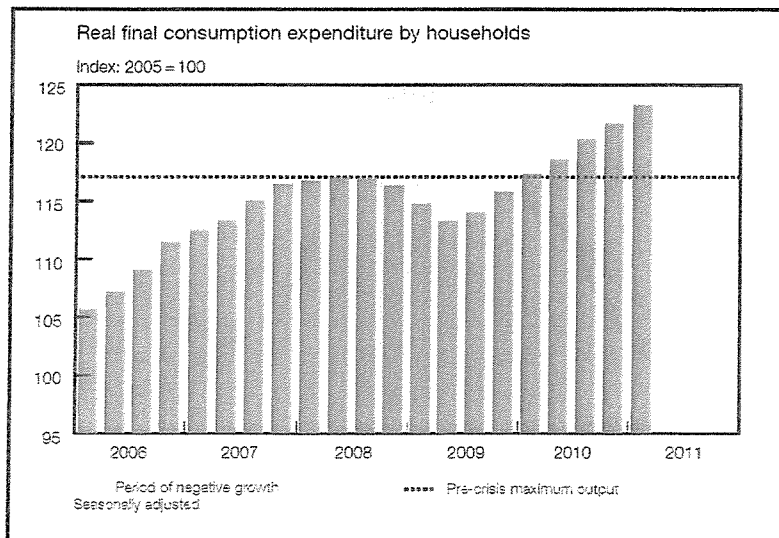
Changes in the level of employment tend to follow general economic activity with a lag



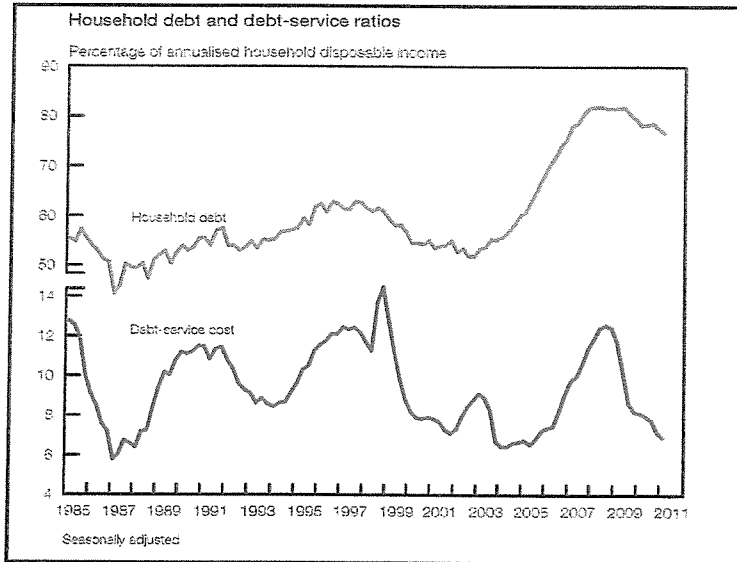
**All components of real final demand trended higher most recently...**



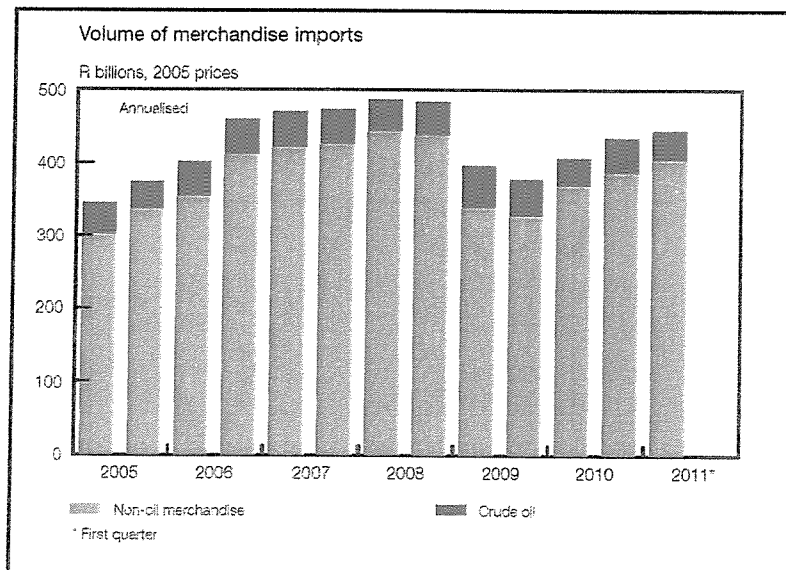
**...but consumption expenditure by households was the major driving force behind the broad recovery in the South African economy**



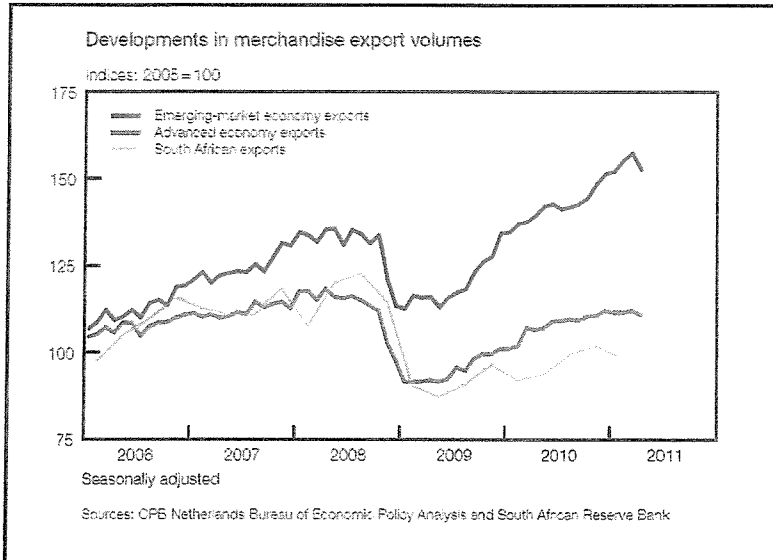
Nevertheless, both the household indebtedness ratio and debt-service cost edged marginally lower



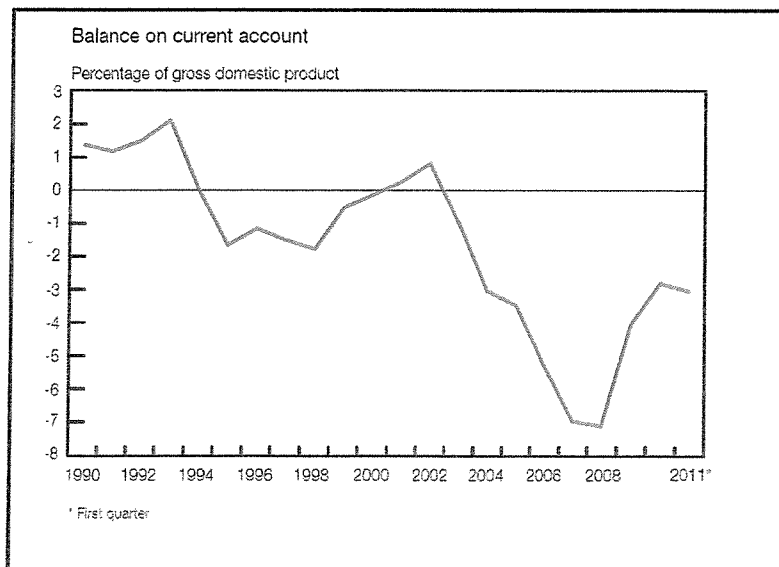
The increase in domestic expenditure was reflected in rising import volumes ...



... but export volumes were slow to respond and the pace of recovery was weaker than that of both emerging-market and advanced economies' exports

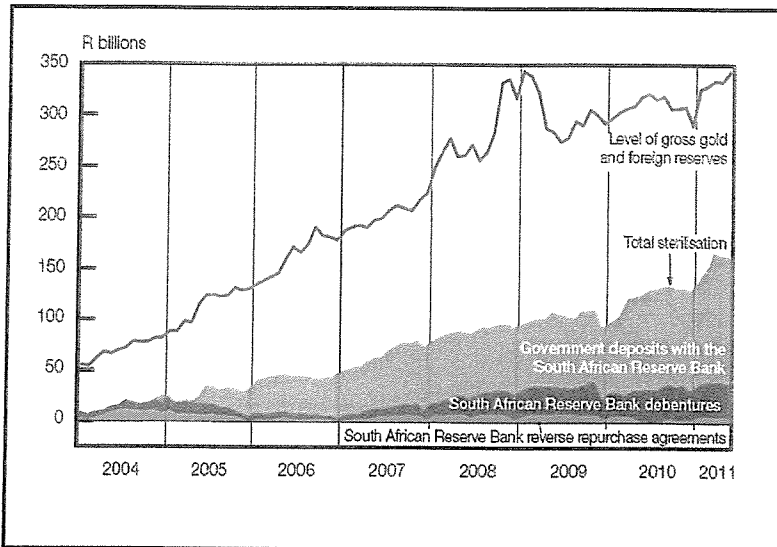


However, higher export prices and the favourable trend in the terms of trade contributed to a narrowing of South Africa's current-account deficit

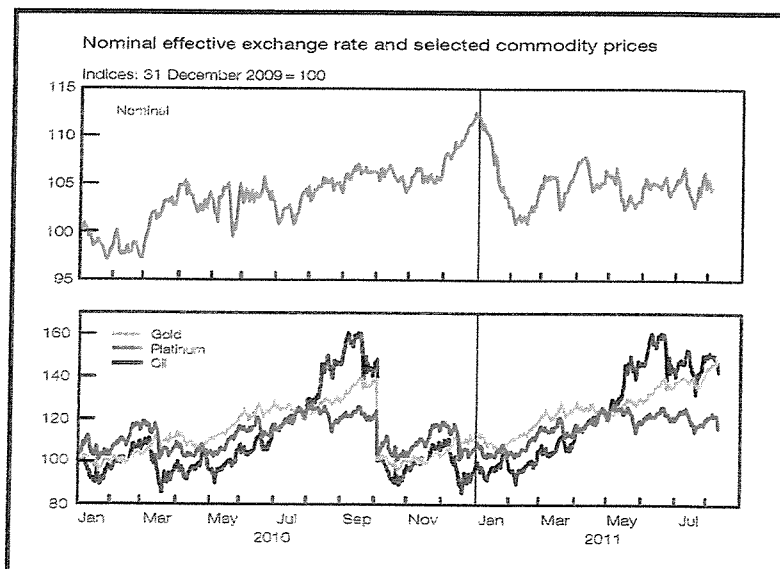




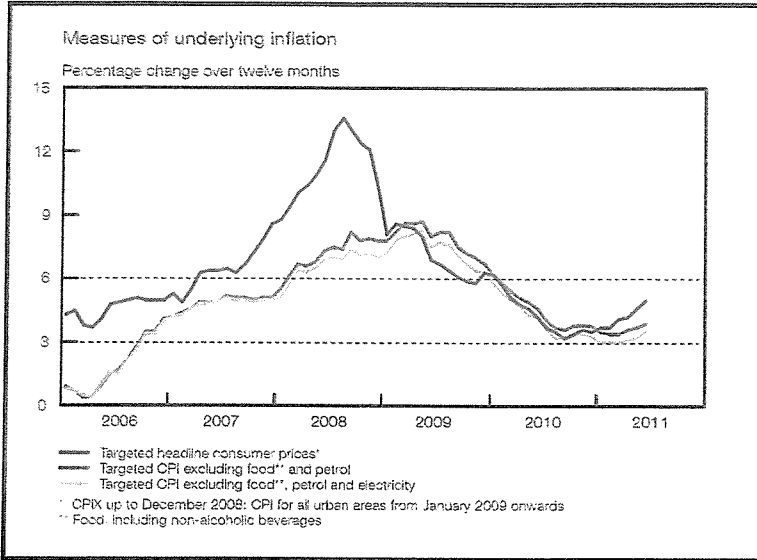
The authorities have accumulated foreign currency reserves on a substantial scale, but at a cost, as money created when purchasing foreign exchange had to be sterilised



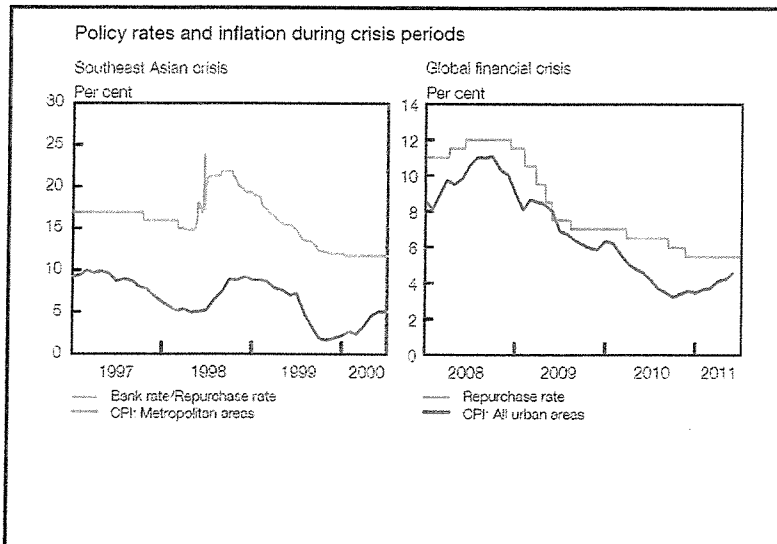
Despite the scale of foreign-reserve accumulation, the effective exchange rate of the rand was higher in recent months than at the end of 2009 ...



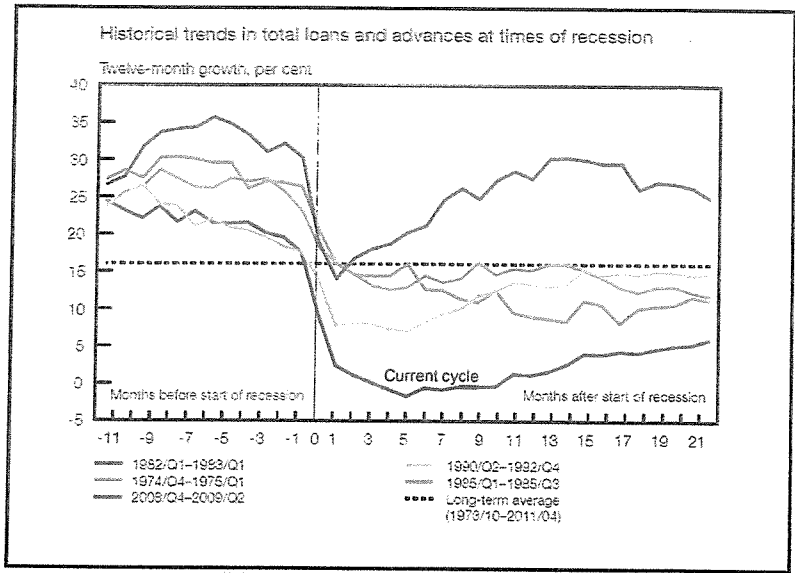
... which assisted in moderating domestic inflation



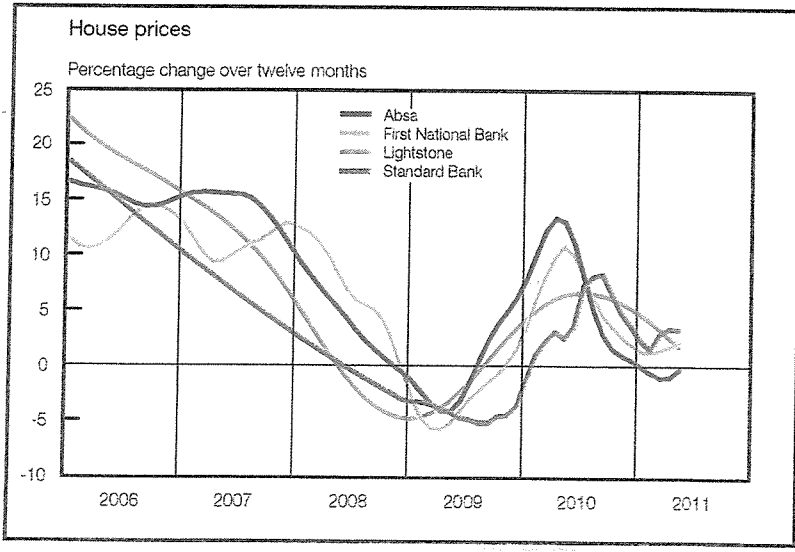
This created space to reduce the policy interest rate aggressively to support the domestic economic recovery



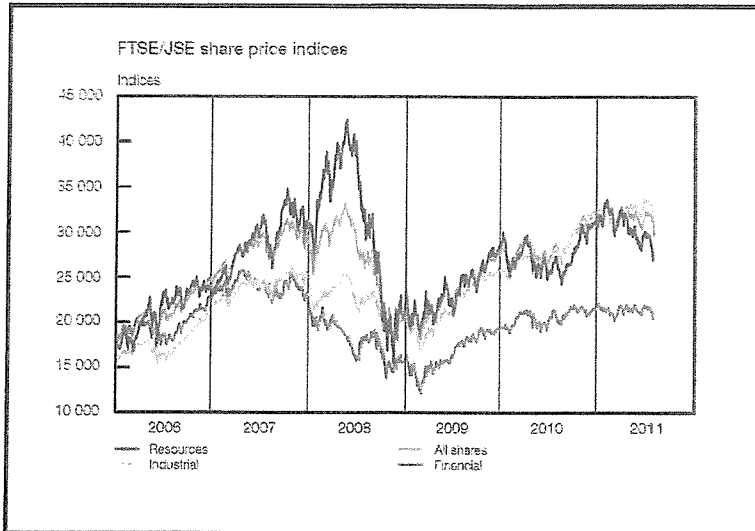
**Credit extension by banks nevertheless remained at growth rates far below those following previous recessions...**



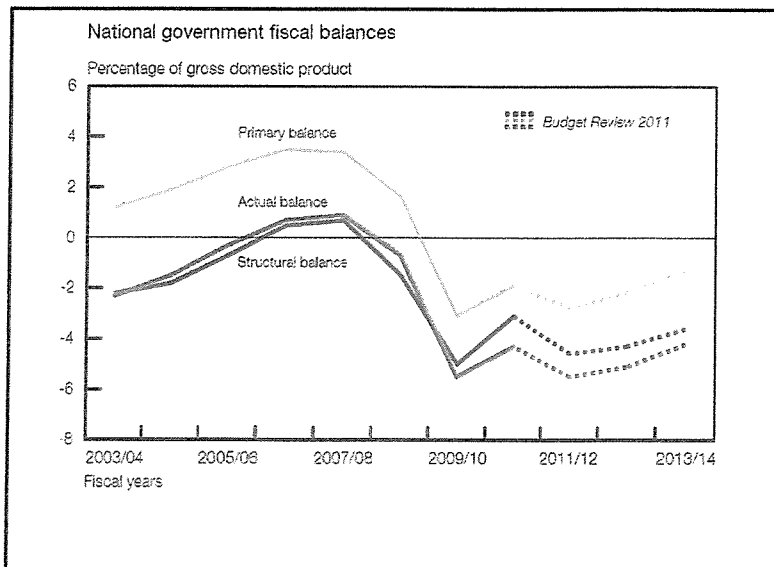
**... as mortgage loans reflected subdued conditions in the housing market**



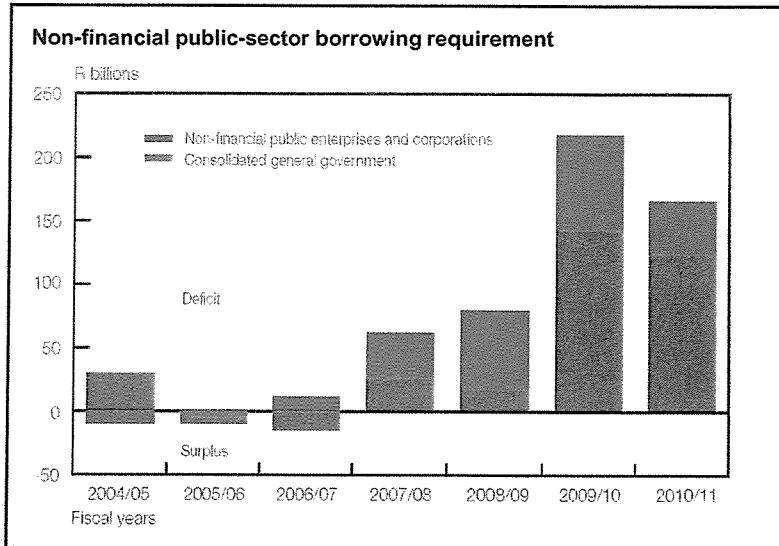
**Share prices have tracked global markets upwards**



**Relatively large deficits reflected countercyclical fiscal policies within a framework of long-term fiscal sustainability**

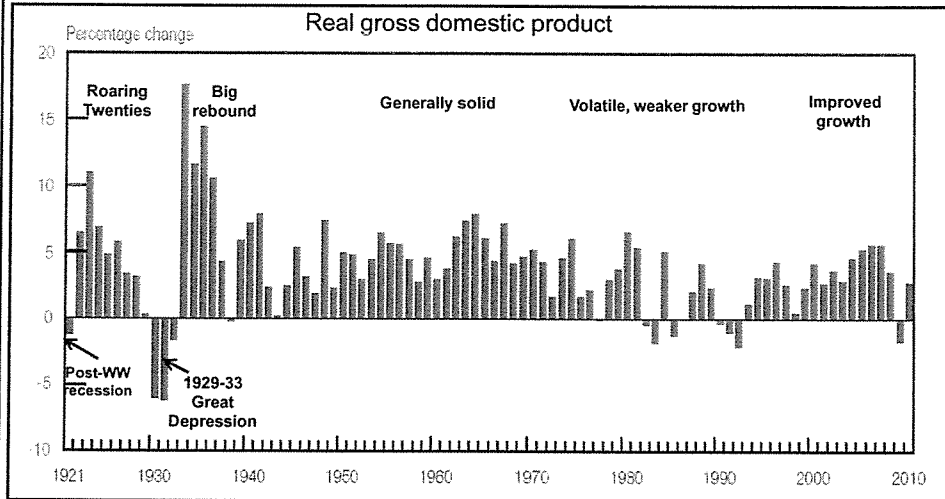


**Non-financial public entities borrowed less most recently, contributing to a lower public-sector borrowing requirement**



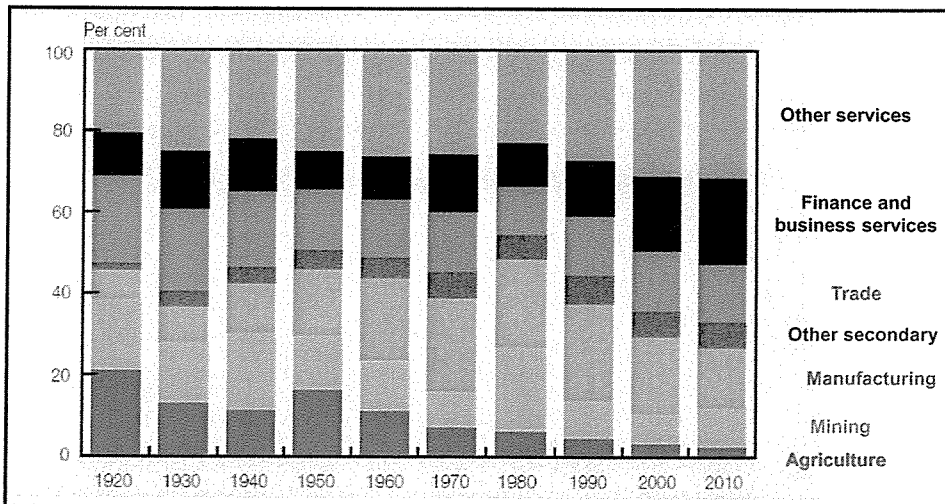
The SARB's 90 years: four snapshots

The South African economy has grown over the past 90 years, but in an uneven way



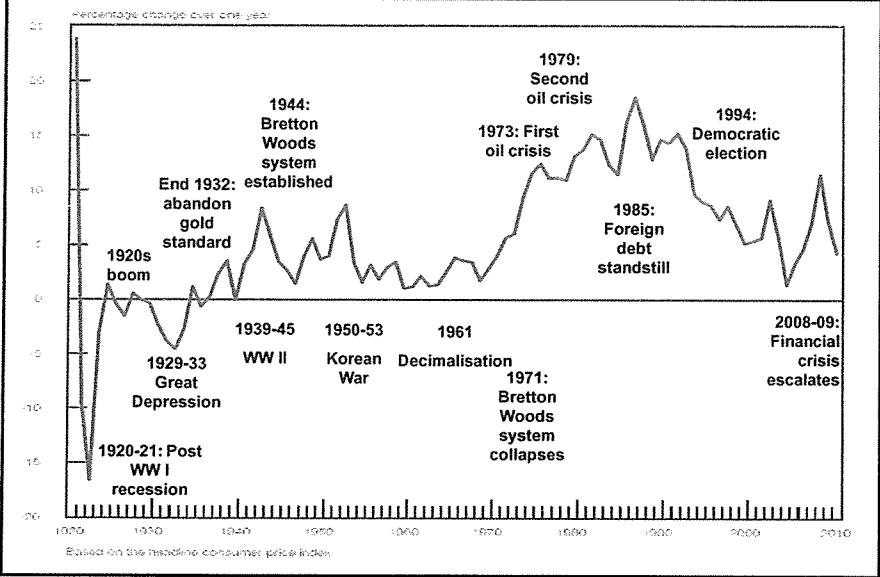
The production structure has changed considerably

Composition of GDP by main sector



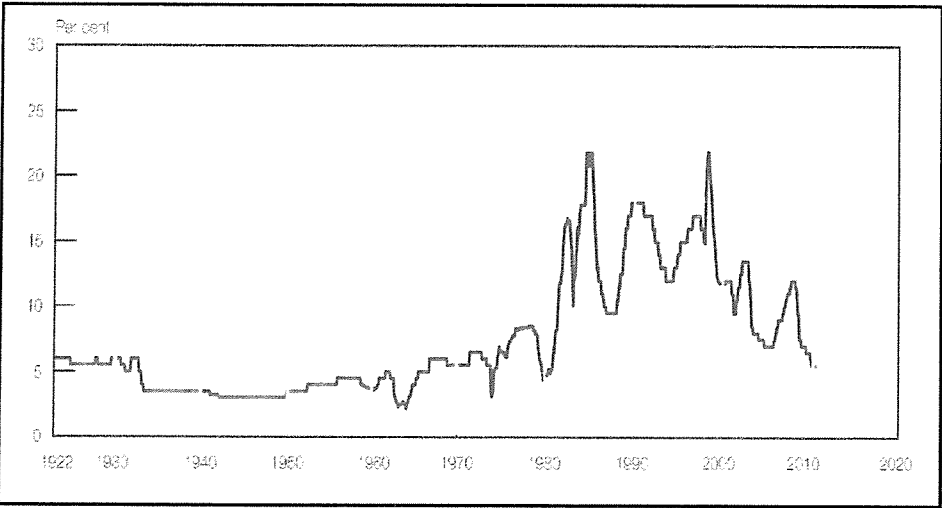
**There was deflation in the early years and inflation in the later years of the Bank**

**Headline consumer price index**



**Lower inflation makes it possible to maintain lower interest rates**

**SARB's key policy interest rate**



## Conclusion

- High international commodity prices, sovereign debt concerns abroad
- A consumer-led upswing in the SA economy
- Employment creation lagging and lustreless
- Inflation contained and interest rates at lowest levels since 1980, although inflation risks remain