

# Annual profile – South Africa

January 2003



## Background

After the British seized the Cape of Good Hope area in 1806, many of the Dutch settlers (the Boers) trekked north to found their own republics. The discovery of diamonds in 1867 and gold in 1886 spurred wealth and immigration and intensified the subjugation of the native inhabitants. The Boers resisted British encroachments, but were defeated in the Boer War (1899-1902). The resulting Union of South Africa operated under a policy of apartheid - the separate development of the races.

The 1990s brought an end to apartheid with democratic elections held in 1994.

Government	Geography
<p><b>Government type:</b> Republic.  <b>Capital:</b> Pretoria.  <b>Independence:</b> 31 May 1910 from UK.  <b>Chief of state:</b> President Thabo Mbeki since 16 June 1999.  <b>Elections:</b> President elected by the National Assembly for a five-year term.                      Election last held: 2 June 1999.                      Next elections scheduled for 2004.  <i>Source: CIA World Factbook 2002</i></p>	<p><b>Area:</b>                      Total: 1 219 912 sq km.                      Land: 1 219 912 sq km.                      Water: 0 sq. km.  <i>Note: includes Prince Edward Islands (Marion Island and Prince Edward Island).</i>  <b>Land boundaries:</b>                      Total: 4 862 km.                      Border countries: Botswana 1 840 km, Lesotho 909 km, Mozambique 491 km, Namibia 967 km, Swaziland 430 km, Zimbabwe 225 km.  <b>Climate:</b> Mostly semi-arid; subtropical along east coast; sunny days, cool nights.  <b>Terrain:</b> Vast interior plateau rimmed by rugged hills and narrow coastal plain.  <b>Natural resources:</b> Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, uranium, gem diamonds, platinum, copper, vanadium, salt and natural gas.  <b>Land use:</b>                      Arable land: 12.13%.                      Permanent crops: 0.77%.                      Other: 87.1% (1998 est.).  <b>Irrigated land:</b>                      13 500 sq km (1998 est).  <b>Natural hazards:</b> Prolonged droughts.  <b>Environment:</b>                      Lack of important arterial rivers or lakes requires extensive water conservation and control measures; growth in water usage threatens to outpace supply; pollution of rivers from agricultural runoff and urban discharge; air pollution resulting in acid rain; soil erosion; desertification.  <i>Source: CIA World Factbook 2002</i></p>
People	
<p><b>Population:</b> 45.4 million.  <b>Population growth rate:</b> 0.02% (2002 est).  <b>Life expectancy at birth:</b>                      Total population: 45.43 years.                      Male: 45.19 years.                      Female: 45.68 years (2002 est).  <b>Ethnic groups:</b> Black 75.2%, white 13.6%, coloured 8.6%, Indian 2.6%.  <b>Religions:</b> Christian 68% (includes most whites and coloureds, about 60% of blacks and about 40% of Indians), Muslim 2%, Hindu 1.5% (60% of Indians), indigenous beliefs and animist 28.5%.  <b>Languages:</b> 11 official languages: Afrikaans, English, Ndebele, Pedi, Sotho, Swazi, Tsonga, Tswana, Venda, Xhosa and Zulu.  <b>Adult literacy rate:</b>                      Definition: % of population aged 15 and over that can read and write.                      2000: 85.3%.  <i>Source: CIA World Factbook 2002, UNDP 2002</i></p>	

AFRICA ECONOMIC RESEARCH



Health	Human development																																														
<p><b>People living with HIV/Aids:</b> Adults (age 15-49) 2001: 20.1%. Women (age 15-49) 2001: 2 700 000. Children (age 0-14) 2001: 250 000.</p> <p><b>Tuberculosis cases (per 100 000 people):</b> 1999: 323.</p> <p><b>Undernourished people (1997/99):</b> N/A</p> <p><i>Source: UNDP Human Development Report 2002</i></p>	<p style="text-align: center;"><b>HDI Ranking</b> <b>107 out of 173 countries</b> (1=most developed, 173= least developed)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"><b>Norway</b></td> <td style="text-align: right;"><b>1</b></td> </tr> <tr> <td>Seychelles</td> <td style="text-align: right;">47</td> </tr> <tr> <td>Mauritius</td> <td style="text-align: right;">67</td> </tr> <tr> <td><b>South Africa</b></td> <td style="text-align: right;"><b>107</b></td> </tr> <tr> <td>Gabon</td> <td style="text-align: right;">117</td> </tr> <tr> <td>Namibia</td> <td style="text-align: right;">122</td> </tr> <tr> <td>Swaziland</td> <td style="text-align: right;">125</td> </tr> <tr> <td>Botswana</td> <td style="text-align: right;">126</td> </tr> <tr> <td>Zimbabwe</td> <td style="text-align: right;">128</td> </tr> <tr> <td>Ghana</td> <td style="text-align: right;">129</td> </tr> <tr> <td>Lesotho</td> <td style="text-align: right;">132</td> </tr> <tr> <td>Kenya</td> <td style="text-align: right;">134</td> </tr> <tr> <td>Madagascar</td> <td style="text-align: right;">147</td> </tr> <tr> <td>Nigeria</td> <td style="text-align: right;">148</td> </tr> <tr> <td>Uganda</td> <td style="text-align: right;">150</td> </tr> <tr> <td>Tanzania</td> <td style="text-align: right;">151</td> </tr> <tr> <td>Zambia</td> <td style="text-align: right;">153</td> </tr> <tr> <td>DRC</td> <td style="text-align: right;">155</td> </tr> <tr> <td>Ivory Coast</td> <td style="text-align: right;">156</td> </tr> <tr> <td>Angola</td> <td style="text-align: right;">161</td> </tr> <tr> <td>Malawi</td> <td style="text-align: right;">163</td> </tr> <tr> <td>Mozambique</td> <td style="text-align: right;">170</td> </tr> <tr> <td><b>Sierra Leone</b></td> <td style="text-align: right;"><b>173</b></td> </tr> </table> <p>The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.</p> <p><i>Source: UNDP Human Development Report 2002</i></p>	<b>Norway</b>	<b>1</b>	Seychelles	47	Mauritius	67	<b>South Africa</b>	<b>107</b>	Gabon	117	Namibia	122	Swaziland	125	Botswana	126	Zimbabwe	128	Ghana	129	Lesotho	132	Kenya	134	Madagascar	147	Nigeria	148	Uganda	150	Tanzania	151	Zambia	153	DRC	155	Ivory Coast	156	Angola	161	Malawi	163	Mozambique	170	<b>Sierra Leone</b>	<b>173</b>
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<p><b>Corruption perceptions index (2002)</b></p> <p><b>Score: 4.8</b> (where 10 is "highly clean" and 0 is "highly corrupt").</p> <p><b>Place: 36</b> (102 countries surveyed, 1 = least corrupt, 102 = most corrupt).</p> <p>(The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).</p> <p><i>Source: Transparency International</i></p>	<p><b>Sovereign credit rating</b></p>																																														
<p><b>Restrictions on capital flows</b></p> <p>South Africa has adopted the approach of gradually abolishing exchange controls. Restrictions on non-resident capital flows were fully liberalised with the abolition of the financial rand in 1995. Restrictions on residents are gradually being relaxed.</p> <p><i>Source: South African Reserve Bank</i></p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="794 1249 1082 1294">Standard &amp; Poors</th> <th data-bbox="1082 1249 1409 1294">Moody's</th> </tr> </thead> <tbody> <tr> <td data-bbox="794 1294 1082 2024"> <p><b>Local currency</b> Long-term: A- outlook: positive Short-term: A-2</p> <p><b>Foreign currency</b> Long-term: BBB- outlook: positive Short-term: A-3</p> <p><u>Long-term definition:</u> "A" indicates a strong capacity to meet financial commitments. "-" indicates lower end of category.</p> <p>"BBB" indicates an adequate capacity to meet financial commitments, but more subject to adverse economic conditions. "-" indicates lower end of category.</p> <p><u>Short-term definition:</u> "A-2" indicates satisfactory capacity to meet financial commitments. "A-3" indicates adequate capacity to meet financial commitments but is more exposed to adverse economic conditions.</p> <p><u>Outlook definition:</u> "positive" indicates that the rating may be raised.</p> </td> <td data-bbox="1082 1294 1409 2024"> <p><b>Government bonds</b> Foreign currency (long-term): Baa2 Foreign currency (short-term): P-2 Domestic currency (long-term): A2 Outlook: positive</p> <p><u>Long-term definition:</u> "Baa" indicates adequate financial security. However, certain protective elements may be lacking or may be unreliable over any great period of time. "2" indicates mid-range within category. "A2" indicates a mid-range ranking in the good financial security category.</p> <p><u>Short-term definition:</u> "P-2" indicates strong credit quality and a strong capacity for timely payment of obligations.</p> <p><u>Outlook definition:</u> "Positive" indicates that the rating is likely to change over the medium-term.</p> </td> </tr> </tbody> </table>	Standard & Poors	Moody's	<p><b>Local currency</b> Long-term: A- outlook: positive Short-term: A-2</p> <p><b>Foreign currency</b> Long-term: BBB- outlook: positive Short-term: A-3</p> <p><u>Long-term definition:</u> "A" indicates a strong capacity to meet financial commitments. "-" indicates lower end of category.</p> <p>"BBB" indicates an adequate capacity to meet financial commitments, but more subject to adverse economic conditions. "-" indicates lower end of category.</p> <p><u>Short-term definition:</u> "A-2" indicates satisfactory capacity to meet financial commitments. "A-3" indicates adequate capacity to meet financial commitments but is more exposed to adverse economic conditions.</p> <p><u>Outlook definition:</u> "positive" indicates that the rating may be raised.</p>	<p><b>Government bonds</b> Foreign currency (long-term): Baa2 Foreign currency (short-term): P-2 Domestic currency (long-term): A2 Outlook: positive</p> <p><u>Long-term definition:</u> "Baa" indicates adequate financial security. However, certain protective elements may be lacking or may be unreliable over any great period of time. "2" indicates mid-range within category. "A2" indicates a mid-range ranking in the good financial security category.</p> <p><u>Short-term definition:</u> "P-2" indicates strong credit quality and a strong capacity for timely payment of obligations.</p> <p><u>Outlook definition:</u> "Positive" indicates that the rating is likely to change over the medium-term.</p>																																										
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<p><b>Taxation</b></p> <p><b>Corporate income tax</b></p> <p>The corporate tax rate is generally 30% and for non-resident companies operating in South Africa through a branch it is 35%. Small businesses and medium-sized corporations' tax rate is 15% on the first R150 000 of taxable income.</p> <p>Gold mining companies are treated separately and the taxation rate is reached through a specific formula.</p> <p><b>Personal income tax</b></p> <p>Since 1 January 2001 South African residents have been taxed at progressive rates on their worldwide income. Personal income tax is charged progressively and rates range between 18% and 40%.</p> <p><i>Source: South African Budget Review</i></p>																																															
<p><b>Fitch</b></p> <p><b>Long-term foreign currency</b> BBB- (Good credit quality and low expectation of credit risk) "-" indicates lower end of category).</p> <p><b>Short-term foreign currency</b> F3 (Fair credit quality and adequate capacity for timely payment of financial commitments).</p>																																															

## Economy

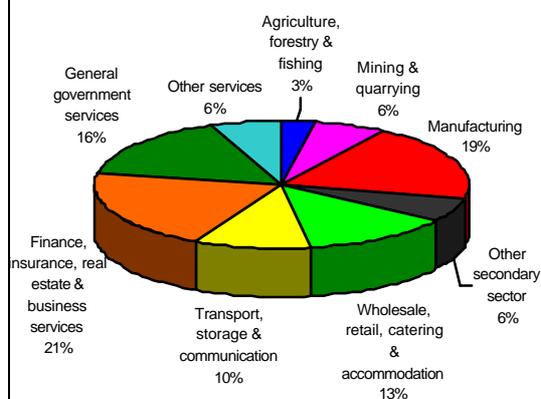
### Selected statistics

	1997	1998	1999	2000	2001	2002 <sup>3</sup>
Population (million)	41.2	42.0	42.8	43.7	44.561	45.4
Nominal GDP (US\$m) <sup>1</sup>	149 072	134 455	131 613	126 831	111 578	135 000
GDP/head (US\$) <sup>1</sup>	3 621	3 202	3 073	2 903	2 504	2 974
Exchange reserves – excl. gold (US\$m) <sup>2</sup>	4 799	4 341	6 353	6 092	6 120	5 930
Import cover (months)	2.0	1.9	3.1	2.7	2.9	3.6
External debt (US\$bn) <sup>2</sup>	39.2	37.5	38.9	36.9	30.8	32.3
% of GDP	26.3	27.9	29.5	29.1	27.6	23.9

1) Year beginning in January. 2) End of period. 3) Preliminary or estimates.

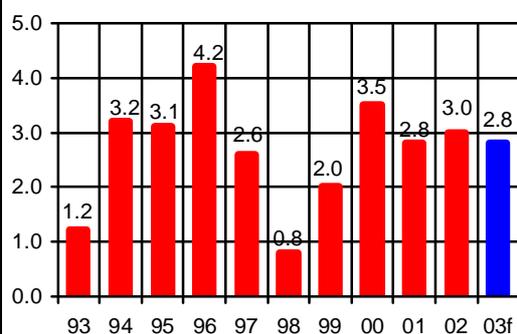
e = estimate, f = forecast

### Economic structure



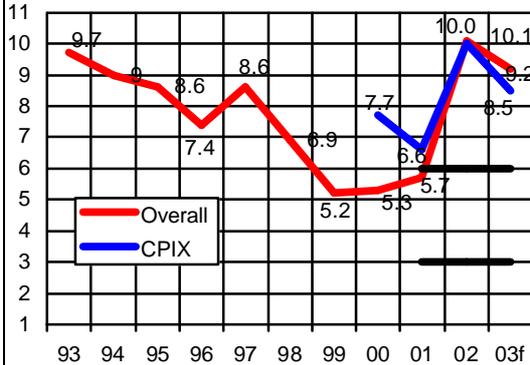
- The economy has developed from being commodity-based into a relatively well-diversified service driven economy. As a result, the country's traditional exposure to mining and its associated commodity prices have declined.
- Although the primary sector's contribution to GDP has declined, it continues to provide significant inputs for secondary value-added, is responsible for substantial export earnings and is a significant employer.
- The largest contributor to GDP is the services sector. Finance, insurance, real estate and business services are the most prominent contributors in the sector.
- Other important services sub-sectors are wholesale and retail trade, catering and accommodation; transport, storage and communication; and general government services.

### Real GDP growth (%)



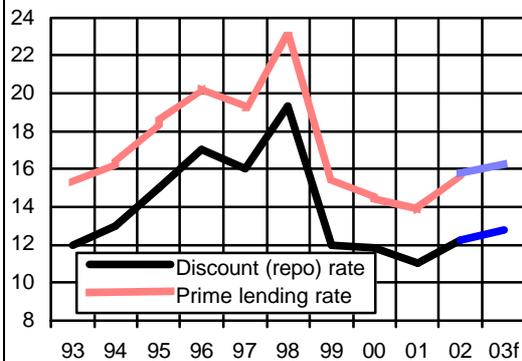
- Supported by its readmission into the global economy in 1994, economic conditions have improved markedly. However, South Africa's new status as global player has increased the economy's exposure to global economic developments, for example, the slowdown between 1997 and 1999 on account of the negative impact of the southeast Asian crisis.
- Growth has, however, recovered since 2000 aided by better global economic conditions particularly improved growth in key European export markets.
- Growth averaged 2.7% between 1994 and 2002 which compares favourably with rates in countries with similar economic fundamentals. Growth has, however, fallen short of the levels required to address socio-economic imbalances and alleviate poverty and unemployment. The challenge for the country is to raise growth levels to support its relatively young democracy.
- Real GDP growth is forecast to slow marginally to 2.8% in 2003 following the 3% recorded in 2002. This is due to ongoing global economic uncertainty after September 2001 and the unresolved standoff between the US and Iraq.

## Consumer inflation (%)



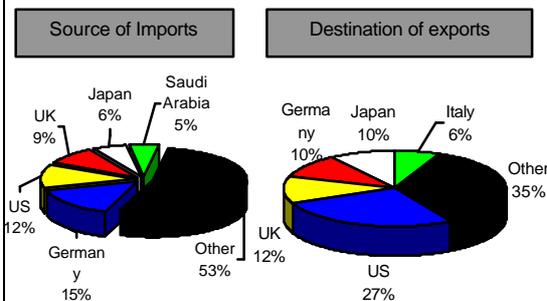
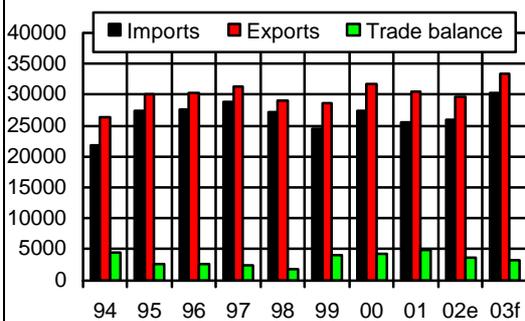
- Inflation has been moving lower bringing it closer to that of South Africa's main trading partners. In addition to sound monetary and fiscal policies the downward trend in inflation was supported by global deflationary trends and the introduction of official inflation targeting in 2000, which established CPIX (overall consumer inflation excluding mortgage interest rates) as the target measure.
- The sharp increase in international crude oil prices together with further currency weakness and occasional regional food shortages pushed inflation higher in 2002.
- Upward inflation pressure resulted in the South African Reserve Bank (SARB) missing its targets of 3% to 6% set for both 2001 and 2002. A stronger and more stable exchange rate together with an expected easing in food prices should result in inflation moving lower during 2003 and within the target range towards the end of the year.

## Interest rates (%)



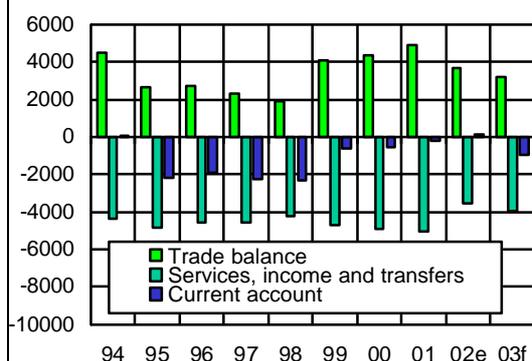
- Interest rate changes have largely been in response to inflationary pressures. Relatively high positive real interest rates have been maintained to combat inflation.
- A more accommodative monetary policy since the second half of 1996 was interrupted by the southeast Asian currency crisis in 1997/98. In response, interest rates moved sharply higher.
- After stability returned to international financial markets, interest rates rapidly dropped to below pre-crisis levels. Renewed inflationary pressures saw interest rates rising in 2002. Interest rates are expected to ease in the second half of 2003 in recognition of lower inflation and a stronger and more stable rand exchange rate.

## International trade (US\$m)



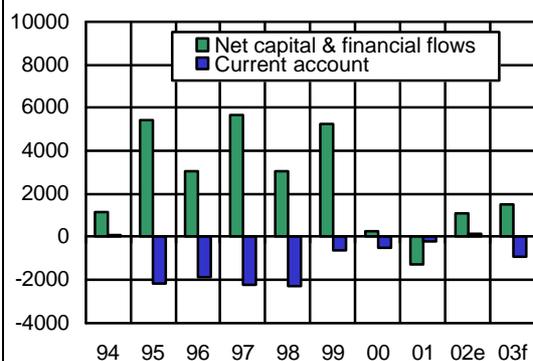
- Exports mainly consist of manufactured goods, gold, base metals, and other mineral and agricultural products. The export composition has changed significantly in recent years with mining products making way for manufactured and other products.
- Imports primarily consist of machinery and capital equipment, mineral products (oil) and various manufactured goods.
- Trade is benefiting from various agreements which have increased market access for South African products. The most important are the agreements with the EU, US (under the African Growth and Opportunity Act) and other SADC members.
- While exports and imports have grown rapidly in recent years trade surpluses have been maintained. In 2002 imports were affected by rising international crude oil prices and the weaker exchange rate. The benefits of the weaker currency on exports, compensated for the higher import costs.
- While exports should remain solid growth will suffer in 2003 due to the strengthening in the rand exchange rate. Imports will remain high due to the stronger exchange rate, domestic demand and uncertain and volatile international crude oil prices.

## Current account (US\$m)



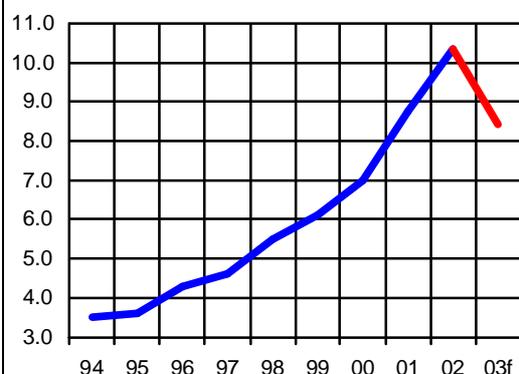
- Net outflows on the services, income and transfer accounts have traditionally absorbed surpluses on the trade account which have kept the current account in deficit. Lower net service, income and transfer outflows against the backdrop of a solid trade surplus pushed the current account into surplus in 2002 (0.1% of GDP) for the first time in many years.
- The improvement in the services, income and transfer account can be attributed to a combination of factors, including rising tourism receipts while income payments to the rest of the world levelled off.
- The lower trade surplus expected for 2003 together with higher net outward service, income and transfer payments should see the current account balance return to deficit in 2003 (0.5% of GDP).

## Capital flows (US\$m)



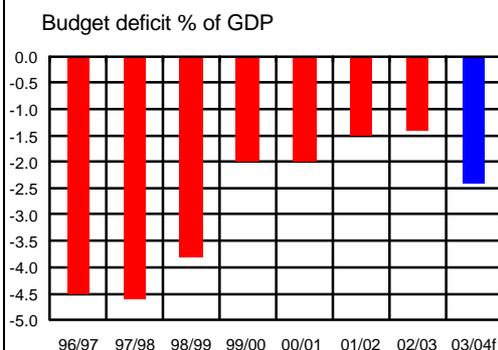
- Capital flows have been volatile in recent years. Since South Africa's re-admittance to global financial markets, after the first democratic elections in 1994, capital inflows (mostly portfolio-related) grew sharply but have proved to be volatile in times of global uncertainty.
- While the financial account has sometimes been supported by external participation in South Africa's privatisation programme the new dispensation has awarded South African corporates and individuals the opportunity to diversify their investment portfolios to include external assets which have eroded inflows. Thus the gradual relaxation in exchange controls in recent years against the backdrop of increased global and regional uncertainty, have contributed to lower inflows on the financial account.
- South Africa is increasingly being seen as a stable and sound emerging market investment destination which, in addition to inflows associated with the Telkom IPO in March, should support a larger financial account surplus in 2003.

## South African rand/US\$ (annual average)



- The depreciation in the rand exchange rate accelerated in the wake of the emerging market crisis of 1997/1998 due to negative sentiment towards stability within the southern-African region and uncertainty about the pace of privatisation in South Africa.
- The severe global economic slowdown in the aftermath of 11 September 2001, a continuation in regional instability and emerging market jitters (particularly Argentina's debt) have increased pressure on the rand.
- In 2001 (measured at the end of December) the rand lost about 60% of its value against the US\$. The currency gradually retraced some of its losses in 2002 reclaiming 30% through a combination of improved investor sentiment towards South Africa and US\$ weakness on global markets.
- As a result of its rollercoaster performance over the past two years, the rand has gone from being the worst performing currency in 2001 to the best in 2002. While a marginal depreciation from current levels is expected in 2003 the currency should be more stable.

## Government finances



- Fiscal management has improved substantially in recent years. The budget deficit declined from levels close to 10% of GDP in 1994/95 to 1.4% in 2002/03.
- This is remarkable taking into account global economic conditions. More remarkable is the fact that government managed to bring its deficit down and at the same time give significant personal income tax relief. In addition, social spending has received growing allocations.
- The positive fiscal situation is mainly attributable to revenue that consistently exceeded expectations. A combination of factors including improved collection due to better administration and a changing attitude in the previous tax avoidance culture helped revenue to perform well.
- Revenue has also benefited from government's privatisation programme with further gains expected in the future.
- While the budget deficit is expected to grow to 2.4% of GDP in 2003/04 it remains well below internationally accepted levels. The allowance for a higher deficit is welcome in light of global economic conditions.

## Economic outlook

- South Africa's economy has undergone significant changes since 1994. Sound monetary policy saw inflation declining to historically low levels, while fiscal restructuring and prudent management resulted in healthy government finances, which is allowing increased expenditure on social upliftment. The progress in sound monetary and fiscal management has been acknowledged by investment upgrades from prominent international rating agencies. South Africa has proved that it has a rightful place among the better performing emerging markets and is being rewarded accordingly.
- While the country has experienced a sharp increase in portfolio-related capital inflows, which have proved to be rather volatile, the all-important domestic and foreign direct investment that can make a difference to unemployment and development has been progressing slowly. The diversification process being undertaken by South African corporations whose investment options before 1994 were limited to South Africa partly explains the low domestic investment levels. Foreign direct investment through privatisation has been delayed due to a depressed global economy and an erratic neighbourhood. However, the listing of Telkom in March 2003 on both the Johannesburg Securities Exchange and New York Stock Exchange has put the programme back on track.
- Although the economy is expanding it is not rapid enough to eradicate widespread poverty through job-creation. The changing structure of the South African economy with services growing in importance also largely disqualifies unskilled workers from being formally absorbed into the work force. The challenge for the South African economy is to increase growth rates while at the same time focusing on skills development and education. For this scenario to be successful government will have to balance the aspirations of the disadvantaged with its proven commitment to sound monetary and fiscal management.
- It is thus no longer a question of lowering budget deficits. Of greater importance is improved and more effective social service delivery aimed at improving the plight of lesser-advantaged communities until this function is absorbed through normal economic channels.
- For the more immediate future the economic outlook depends on global and domestic conditions, which are mixed. Global economic conditions continue to be subdued following the 11 September 2001 terrorist attacks on the US which compounded the already evident global economic slowdown. Domestic demand is expected to improve following the strengthening of the rand and the outlook for lower interest rates. Growth is expected to remain solid at 2.8% in 2003.

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