

## Summary

During 2004 macroeconomic growth and stability showed further positive developments, broadly meeting the targets established with the IMF in May 2004. Real GDP growth is estimated to have been 7.2% for the period, driven by developments in the private mega-projects as well as continued growth in other sectors including agriculture. End-of-period inflation was below the 11.0% target at 9.1%; money supply growth was also within the programme at 5.9%. The external sector recorded notable improvements with a 24% reduction in the trade deficit due to an increase in exports from mega-projects, as well as an associated rise (30%) in net international reserves to 4.8 months of import cover (of non-factor goods and services). Commercial non-performing loans fell from 27% to 6% of gross loans, indicating a reduction in risks to macroeconomic stability from the banking sector. Linked with these improvements in economic fundamentals, the exchange rate appreciated sharply against the US dollar (by 21% in nominal terms) and less so against the Rand (4%). Fiscal performance was below expectation across most major categories of taxes with government revenues reaching only 12.3% of GDP against the target of 13.4% (based on new GDP figures – see note). As a result, the government's primary deficit target was overshoot by 0.7 percentage points reaching 3.8% of GDP.

With respect to 2005, real GDP is estimated to grow by 7.7% while end-period inflation is expected to remain in single digits at 8.0%. However, the need for continued macroeconomic stability alongside sustainable, broad-based growth points toward a number of central challenges for the government during 2005 and beyond. In particular, the government's commitment to strengthen domestic resource mobilization and control the primary deficit must be maintained. It also is evident that attention should be given to promote more inclusive growth in the 'traditional' sectors (outside of the mega-projects), to create the conditions for the emergence of new, labor-intensive, export oriented industries and services, and to develop a coordinated natural resources development strategy. Finally, careful management of the exchange rate should be given priority in order to avoid damage to both export industries as well as domestic manufacturers.