

MACRO-ECONOMIC REVIEW

Following on strong world GDP growth of 4,0% in 2004, economic expansion proved remarkably resilient in 2005, growing 3,5% – despite record-high oil prices and the impact of major natural disasters, such as the December 2004 Asian tsunamis and some of the worst hurricanes on record in the US during the second half of the year.

The US and China remained the engines of growth of the world economy, but global growth has broadened significantly since the middle of 2005 with, for example, economic expansion increasing in Japan and Europe due to greater domestic demand strength. Despite significant monetary tightening by some major central banks, global monetary conditions remained accommodative, with relatively low real interest rates.

Given the broader base of economic expansion and the fact that the pace of growth in the US and China is expected to decline only moderately, above-trend global economic growth of 3,4% or more can again be expected in 2006. Leading economic indicators and surveys of purchasing managers from around the world confirm the view that the global growth momentum will continue in 2006.

Although the value of the US dollar strengthened against the euro in 2005, based on a rising interest rate differential in favour of US assets, it is expected to weaken again in 2006 due to the anticipated increasing US fiscal deficit and trade gap. Oil prices are expected to decline only slowly and to remain well above real long-term historical averages, primarily due to robust demand from China.

The major risks to the global economy remain high oil prices, its overdependence on American household spending and the continued reliance of the US on massive foreign inflows to finance its twin deficits.

In South Africa, strong economic growth was experienced in 2005, projected to be about 5,1%. Inflation during the year was well within the South African Reserve Bank's target range of 3-6%, aided by a modest appreciation of the rand against the US dollar and persistent monetary and fiscal discipline. These positive economic conditions are expected to continue in 2006. The strength of the rand continued to have a negative impact on export earnings of the mining and manufacturing industries, albeit that the mining industry operated in an environment of robust commodity prices.

Real gross domestic product growth rates

