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2009 Budget Summary

On Wednesday, 11 February 2009, the South African Minister of Finance, Mr Trevor Manuel, delivered his 2009 Budget Speech. This Tax Grapevine summarises the tax highlights of this speech..

Income Tax Individuals

Tax rate and bracket structure

The amended income tax rates and tax brackets as announced in the Budget for the 2009/2010 period are shown in the table below.

Taxable Income (R)	Rates of Tax
0 – 132 000	18% of each R1
132 001 – 210 000	R23 760 + 25% of the amount above R132 000
210 001 – 290 000	R43 260 + 30% of the amount above R210 000
290 001 – 410 000	R67 260 + 35% of the amount above R290 000
410 001 – 525 000	R109 260 + 38% of the amount above R410 000
525 001 and above	R152 960 + 40% of the amount above R525 000

Rebates

Primary R9 756
Secondary (age 65 years and older) R5 400

The tax threshold is now R54 200 (2008: R46 000) for individuals below 65 years of age, and R84 200 (2008: R74 000) for individuals 65 years of age and older.

Interest and dividend exemption

The interest and foreign dividend exemption is to be increased from R19 000 to R21 000 per annum for individuals under the age of 65, and from R27 500 to R30 000 per annum for individuals aged 65 and over. The portion of the exemption applicable to foreign interest and dividends is to be increased from R3 200 to R3 500 per annum.

Medical scheme contributions

- ⊙ From 1 March 2009, the tax exempt monthly medical scheme contributions will increase to R625 for the 1st two beneficiaries and R380 for each additional beneficiary.
- ⊙ It is proposed that the existing medical scheme contribution deduction be replaced with a non-refundable tax credit of 30%, to be implemented in two years' time.

Travel allowances

- ⊙ The “deemed business kilometre” system is to be scrapped from 2010/11.
- ⊙ Taxpayers who are required to use their vehicles for business purposes will still be entitled to claim the cost of their business travel based on actual business kilometres travelled, based on an accurate log book.

Capital gains tax

- ⊙ From 1 March 2009, the annual exclusion increases to R17 500.
- ⊙ Individuals who sell their primary residence for a “gross value” of up to R2 million will not be liable for any CGT. Where the value of the primary residence exceeds R2 million, the R1,5 million primary residence exclusion will still apply.

Post-retirement medical contributions.

- ⊙ Certain employers opt to settle post-retirement medical aid contribution obligations by once-off payments. Such once-off payments to be deductible in full in the year in which the expenditure is incurred, subject to certain conditions.

Provisional tax for taxpayers 65 and older.

The threshold for individuals 65 years or older to register as provisional taxpayers is to increase from R80 000 to R120 000, provided that they are not company directors and only receive employment income, interest, rentals or dividends. Other personal and implement tax issues The following amendments are proposed:

- ⊙ Deductions for employer contributions to RA funds made on behalf of employees to be permitted.
- ⊙ Simplification of legislation relating deductions by employers for learnerships.
- ⊙ The tax-free lump-sum retirement benefits of public sector servants who were previously denied the protection of the retrospective taxing of their pre-1998 retirement benefits will be partially restored.
- ⊙ Unrealised gains relating to assets of deceased persons are taxed upon death. The heirs or legatees who acquire these assets are generally not taxed. However, certain assets do not benefit from such relief resulting in additional tax. This unintended additional tax will be removed.

Businesses

Dividends tax

- ⊙ It is expected that the new tax will come into operation during the second half of 2010 once the newly renegotiated tax treaties have been ratified.
- ⊙ Further legislative amendments will be introduced during 2009. These amendments will deal with foreign dividends and will cover anti-avoidance concerns.

Incentives

Carbon-reducing changes:

- ⊙ South African companies are encouraged to take advantage of the Clean Development Mechanism (CDM) opportunities of the Kyoto Protocol. There has been uncertainty with regard to the tax treatment of CDM's. In this regard it is recommended that revenue derived from primary Certified Emission Reductions (CERs) (from CDM projects) be given favourable tax treatment – either as tax exempt or subject to CGT instead of normal income tax- with secondary carbon credits to be treated as trading stock (carbon abatement projects which earns “carbon credits” through the CDM process) of the Kyoto Protocol.
- ⊙ Recommendations that the existing duties on motor vehicles be amended to include CO2 emissions as an environmental criterion from 1 March 2010.

Incentives in 2009:

- ⊙ Investment by companies in energy-efficient equipment to be given an additional allowance of up to 15%, subject to conditions.
- ⊙ R17 billion of the budget has been set aside for industrial support, including tax incentives and industrial development and support to small enterprises.

General Provisions

Various other legislative changes of a general nature were announced, including the following:

Treatment of collective investment scheme distributions: It is proposed that these schemes should follow a flow through principle so that if a dividend received is distributed, it is treated as a dividend distribution, and if interest received is distributed, it is treated as an interest distribution.

Permissible short term insurance reserves: Short term insurers are currently only allowed income tax deductions on reserves which are regulated by the FSB. It is proposed to extend the deduction to reserves relating to offshore short-term insurance operations, subject to conditions.

Application of leasing losses: Anomalies currently exist whereby allowances on assets (arising from finance leases) may not be set off against recoupments arising from the disposal of leased assets (only leasing income). This anomaly will be removed to ring-fence allowances on leased assets against leasing income and recoupments.

Controlled Foreign Companies ("CFC's"): Relief against the imputation of the income of a CFC may be granted if SARS provides a ruling that no erosion of the tax base occurs. In practice, this section is difficult to administer and it is proposed that the provisions be re-examined. A further proposal relates to the introduction of additional objective exemptions from imputation.

Liquidating inactive property owning companies: It is proposed that rollover relief be provided to facilitate the liquidations for a transitional period only (i.e. no CGT will be payable as a result of the liquidation).

Securities lending arrangements ("SLA's"): Certain SLA's (instruments with features of both loans and disposals) seek to be treated as a loan for the one party and as a disposal for the other party in order to generate artificial losses. The tax law will be clarified so that a SLA is either classified as a loan or as a disposal.

Company law reform: Tax legislation will be amended during 2009 and 2010 to take into account the introduction of the revised Companies Act, which becomes effective on 1 January 2010.

Oil and gas companies conducting incidental trades: Currently only domestic companies that are solely engaged in oil exploration and production (with passive income as their only other income) qualify for certain income tax incentives. The legislation will be expanded to also allow oil and gas companies that are involved in incidental trades to qualify for the income tax incentives. However, no tax deductions will be allowed for expenditure relating to oil and gas exploration outside South Africa.

Underwater telecommunication cables: Currently land based telephone lines and cables are eligible for a 5% depreciation write off over 20 years. This allowance will be extended to underwater cables.

Depreciation of improvements: The law is currently not uniform in granting the same depreciation on new and unused improvements when the underlying investment may not qualify. The law will be clarified to grant the allowance for improvements.

Pre-existing cooperatives: New legislation, which will become fully effective in 2010, will revise and expand the role of cooperatives. In light of this, the tax law will be reviewed to preserve tax benefits that existed under the prior law. Adjustments will be made accordingly.

Agricultural trusts: As indirectly controlled government parastatals, agricultural boards have for many years been tax exempt. These boards were converted into trusts pursuant to a legislative mandate that narrowed their authority, whilst the Department of Agriculture continued to retain control over certain trustee positions, trustee rules amendments and certain cash-flows. Despite their conversion to trusts, the underlying activities should largely retain their exemption. Possible amendments may be required to achieve this objective.

Converted Section 21 companies: An entity which is incorporated as a for-profit company and subsequently converts to a Section 21 company may technically not qualify for tax relief. This anomaly will be removed.

Partial taxation of clubs: All clubs created prior to 1 April 2007 are required to apply for the partial exemption system by close of 31 March 2009. The application deadline for these clubs will be moved to 20 September 2010. Other technical anomalies will also be remedied.

Supporting PBO's: Currently some supporting PBO's cannot obtain deductible donations. The deductible donations status of supporting benefits organisations will thus be considered to the extent that tax avoidance does not arise.

Film rebate subsidies: Tax exemptions granted to film producers to be extended so that the rebates can be transferred to the investor-owner. The current film scheme anti-avoidance rules may need expansion as a result of a new set of film schemes currently in the market.

Judicial decisions in respect of trading stock: In a recent decision the Tax Court held that mining stockpiles could not be considered to be trading stock. Indications are that this decision will be appealed. However, it would seem that legislation will be introduced to prevent other taxpayers engaged in mining to rely on this decision whilst the appeal is under way.

Judicial decisions in respect of restraint of trade: The Supreme Court of Appeal overturned a decision by the Tax Court that multiple restraints of trade paid by a company to the same individual were in the nature of a salary substitute making it taxable in the hands of the individual after the first payment. Legislative intervention may be required to improve the amendment passed in 2000 which stated that restraints of trade are fully taxable.

Other taxes

Estate duty

- ⊙ The R3.5 million estate duty deduction permitted for each spouse will now be portable, in that a surviving spouse estate's will be permitted to utilise the unused deduction of the deceased spouse. The combined deduction will be R7 million.
- ⊙ The 5 year rule which allows SARS to raise an additional assessment will be reconsidered to counter the problem of enforcement once the executor has closed the estate.
- ⊙ 1 year usufructuary interest schemes will be closed.

Value-Added Tax

The following amendments have been proposed to the VAT Act:

- ⊙ The minimum threshold for businesses registering for VAT will increase from the current R20 000 annual taxable supply turnover to R50 000 effective from 1 March 2010.
- ⊙ False statements on any VAT form submitted to SARS (not just returns) will be considered an offence in order to serve as a deterrent for those not eligible to register for VAT.
- ⊙ Provisions will be introduced to permit the use of biometric measures to verify the identity of applicants for VAT registration.
- ⊙ Clarification will be provided by way of interpretation note on the reorganisation relief provisions introduced into the VAT Act.
- ⊙ It is proposed that the application of the grounds on which SARS may fully or partially waive interest due on late payments (namely whether there is a loss to the state or whether there is no financial benefit for the taxpayer) be clarified.
- ⊙ In respect of the transfer of shares in share block schemes it is proposed that the law is streamlined so that at least one indirect tax (Transfer Duty or VAT) will be applicable to each transfer.

Customs and excise duties

The following changes have been announced to the current Customs and Excise legislation.

Specific Excise Duties ("Sin Taxes")

- ⊙ The excise duty on malt beer increases by 9.5% from R42.38 to R46.41 per litre of absolute alcohol, which equates to an average tax of 79c per 340ml can.
- ⊙ No changes have been announced to the excise duty on traditional African beer and traditional African beer powder.
- ⊙ Increases have been announced in excise duties on wine of 7.6% unfortified, 9.4% fortified and 9.4% in respect of sparkling wine. This has resulted in the rates per litre on these products equalling R1.98 per litre unfortified, R3.72 per litre fortified and R6.16 per litre sparkling.
- ⊙ Ciders and alcoholic fruit beverages received an increase in excise duty of 9.9% on unfortified and fortified.
- ⊙ Spirits and liqueurs also increase by 14.7% from R21.84 to R25.05 per 750ml bottle.

- ⊙ Smokers will also face increased prices as a result of increases in the excise duties - 12.9% on cigarettes, 5.5% on cigarette tobacco, 8.6% on pipe tobacco and 13% on cigars.

These duty amendments to the specific excise duties above are effective from 11 February 2009.

Plastic bag levy

The levy on plastic bags, introduced in 2004/5 at 3c per bag, has been increased to 4c per bag with effect from 1 April 2009.

Fuel taxes

- ⊙ The fuel levy is increased by 23c and 24c per litre for petrol and diesel respectively. The diesel fuel levy refund relief for the primary sector remains unchanged in percentage terms and its monetary value will be adjusted.
- ⊙ The Road Accident Fund (“RAF”) levy is increased on both petrol and diesel by 17.5c per litre from 46.5c to 64.0c per litre.

The above proposals become effective from 1 April 2009.

Ad Valorem excise duties on motor vehicles

- ⊙ The existing “luxury” ad valorem excise duties on the sale of new motor vehicles will be reduced while an additional ad valorem excise duty will be introduced to take into account carbon dioxide (CO₂) emissions (referred to as an “emission” tax). The new rate structure will become effective from 1 March 2010.

General Customs and Excise Amendments

- ⊙ **Customs dispute resolution:** Amendments to align remission and mitigation provisions within customs dispute resolution to ensure that a single procedure is to be followed will be considered.
- ⊙ **Warehouse policies and procedures:** Amendments will be considered to provide for simplified clearance of goods from licensed warehouses to assist with the administration of ship stores.
- ⊙ **Advance passenger Information (“API”):** Following the enactment of the empowering provisions for the compulsory electronic furnishing of API to SARS, consequential amendments may be necessary subsequent to implementation.
- ⊙ **Customs transit procedures:** Amendments will be considered for improved provision for interruptions to goods in transit.
- ⊙ **Customs enforcement at the border:** As additional support for the Customs Border Control Unit, the Customs and Excise Act will be amended to provide for powers of officers to patrol and carry out surveillance, to question and search persons, and for equipment and facilities to be used in detecting illicit goods concealed on persons.
- ⊙ **Treatment of duty free VAT exempt goods:** The Customs and Excise Act is to be amended to provide for the clearance of duty free goods which are VAT exempt.
- ⊙ **2010 FIFA World Cup:** Amendments relating to the FIFA World Cup rebate item (including the 2009 Confederations Cup) will be considered as required.

- ⊙ **Customs modernisation:** In support of the rapidly changing trade environment, improved use of technology and third-party information to authenticate data and reduce the need for supporting documentation, work is continuing in relation to the modernisation of key customs measures.

Mineral and petroleum royalties

The implementation date of the Mineral and Petroleum Resource Royalty Act will be changed from 1 May 2009 to 1 March 2010 resulting in a saving of R1.8 billion for mining companies.

Taxation of incandescent light bulbs

In order to encourage the use of energy-saving light bulbs, an environmental levy of R3 per bulb will be imposed on incandescent light bulbs.

International air passenger departure tax

From 1 October 2009 the international air passenger departure tax will increase from R120 to R150 on flights to international destinations and from R60 to R80 on flights to Southern African Customs Union member states.

Additional proposed amendments

Various other miscellaneous amendments to the Income Tax Act are proposed, including amendments in respect of the following:

Technical corrections

Various technical amendments will be made to legislation to address non-revenue impact items such as typing and grammatical errors, differences between two texts of the legislation and obsolete provisions. According to the Budget Review, such technical corrections may also be made to legislation which is clearly not in line with the legislative intent. These corrections include:

- ⊙ Specific inclusion of rates and thresholds such as the rates for the turnover tax for micro businesses
- ⊙ Refinements to legislation dealing with the taxation of retirement fund withdrawals in the case of divorce
- ⊙ Technical changes stemming from the Mineral and Petroleum Resource Royalty Act and the Diamond Export Levy Act dealing with unanticipated circumstances and administration.

Tax administration

Dispute settlement procedures: to be clarified to ensure settlement procedures are limited to post assessment.

Payment of interest on allowance of an objection: Proposed amendments to the Income Tax Act and VAT Act in relation to this matter include:

- ⊙ Clarification that payment is not suspended due to an objection.
- ⊙ Formalisation of circumstances where payment will be required despite an objection.
- ⊙ Provision for the payment of interest by SARS on refunded overpayments following successful objections

Interest on delayed payment by employers of PAYE: Currently, if an employer fails to withhold and pay over employees' tax, SARS can enforce payment of the amount as a penalty. This prevents SARS from charging interest for the late payment. Interest will now be levied.

Rounding: The rounding off of employees' tax, provisional tax, foreign tax credits and tax is proposed to simplify the income tax return process.

Other measures under review

Income Tax Act rewrite

It is proposed that employment income tax base be simplified by introducing a uniform definition of employment income which will be utilised for all taxes. The first step to the modernisation is to rewrite the Income Tax Act. A draft for discussion is hoped to be released by the end of 2010.

Provident funds, social security and retirement reforms

The possibility of phasing out provident funds into pension funds as a prelude to broader social security reforms will be considered.

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BA 900 summary of SA banks - December 2008

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BA 900 summary of SA banks - December 2008									
CAPITAL, DEPOSITS AND OTHER LIABILITIES TO THE PUBLIC (R MILLION)									
Line no	Bank	Cheque deposits	Savings deposits	Other demand deposits	Short term deposits	Medium term deposits	Long term deposits	Total deposits	Inter DI funding
1	ABN AMRO BANK	0	0	6236	5685	1137	28	13086	569
2	ABSA BANK LTD	98901	56982	70488	66553	111203	99123	503250	26803
3	AFRICAN BANK LIMITED	0	0	547	873	3463	8722	13605	0
4	ALBARAKA BANK LTD	0	185	116	377	594	346	1618	2
5	BANK OF BARODA	11	0	0	125	61	22	220	0
6	BANK OF CHINA LTD - JHB BRANCH	124	601	0	388	16	33	1162	0
7	BANK OF TAIWAN - SA BRANCH	0	0	99	66	51	18	234	30
8	MARRIOTT CORPORATE PROPERTY BANK LIMITED	0	0	961	148	173	275	1557	282
9	CALYON CORPORATE AND INVESTMENT BANK - SA BRANCH	589	0	7130	746	1453	31	9950	363
10	CAPITEC BANK	0	1210	24	119	390	1266	3008	0
11	CHINA CONSTRUCTION BANK CORPORATION - JHB BRANCH	0	0	2525	0	1307	0	3832	1014
12	CITIBANK N.A	10449	0	6269	7105	9631	83	33537	123
13	COMMERZBANK AKTIENGESELLSCHAFT	0	0	1905	185	2654	1110	5853	21
14	DEUTSCHE BANK AG	21	0	3633	1829	681	0	6164	290
15	FIRSTSTRAND BANK LIMITED	108482	1930	103550	43626	78890	75042	411520	44362
16	GBS MUTUAL BANK	1	14	0	129	126	333	603	1
17	BIDVEST BANK LIMITED	0	29	581	23	47	29	710	15
18	HABIB OVERSEAS BANK LTD	207	18	258	69	38	3	593	0
19	HBZ BANK LTD	504	107	217	691	83	66	1668	1
20	HSBC BANK plc - JOHANNESBURG BRANCH	282	113	3562	842	5709	447	10954	454
21	IMPERIAL BANK LTD	0	0	512	12	40	42021	42586	42021
22	INVESTEC BANK LTD	0	2961	33252	36325	37925	21229	131692	1391
23	JPMORGAN CHASE BANK	49	0	1879	2585	14	245	4772	1940
24	MEEG BANK LIMITED	294	175	242	37	233	84	1065	0
25	MERCANTILE BANK LTD	666	166	1045	763	1316	430	4386	15
26	NEDBANK LTD	68168	8518	107519	72341	81232	68179	405957	16769
27	REGAL TREASURY PRIVATE BANK LTD	0	0	0	0	0	0	0	0
28	SASFIN BANK LTD	0	0	746	111	99	27	983	0
29	SOCIETE GENERALE - JOHANNESBURG BRANCH	0	0	4840	3023	503	0	8367	1822
30	STANDARD CHARTERED BANK	0	0	5003	2875	1590	826	10294	253
31	STATE BANK OF INDIA	197	0	188	241	517	122	1265	212
32	TEBA BANK LIMITED	0	1882	2	49	307	87	2327	0
33	THE SA BANK OF ATHENS LTD	221	92	167	27	384	34	926	0
34	THE STANDARD BANK OF S A LTD	121628	37514	40765	129801	82115	117877	529701	18432
35	VBS MUTUAL BANK	0	143	0	12	6	47	207	0
TOTAL		410794	112641	404261	377784	423987	438184	2167650	157187

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BA 900 summary of SA banks - December 2008											
CAPITAL, DEPOSITS AND OTHER LIABILITIES TO THE PUBLIC (R MILLION)											
Line no	Repurchase agreements	Collateralised borrowings	Foreign funding	Other loans	Other public liabs	Total public liabs	Acceptances	Other liabs	Share capital	Other reserves	Total equity & liabs
1	756	0	0	0	0	13842	0	4510	305	442	19099
2	29991	0	15993	6381	20717	576332	121	81318	14264	28254	700290
3	0	0	0	0	520	14125	0	721	1523	1001	17370
4	0	0	0	0	0	1618	0	39	150	62	1869
5	0	0	0	0	0	220	0	1	63	40	324
6	0	0	771	0	0	1932	0	59	250	40	2281
7	0	0	224	0	11	469	0	51	50	103	673
8	0	0	0	0	0	1557	0	51	207	70	1884
9	0	0	0	0	1356	11306	0	6000	583	560	18449
10	0	0	0	0	0	3008	0	275	155	1116	4554
11	0	0	0	0	0	3832	0	96	459	31	4418
12	500	0	0	0	16	34053	0	33774	2165	1385	71376
13	0	0	0	0	0	5853	11	1705	375	120	8064
14	5913	0	0	0	0	12077	0	7037	503	511	20127
15	22410	0	7057	4983	8587	454556	0	121180	13294	18736	607766
16	0	0	0	0	0	603	0	16	0	99	718
17	0	0	0	0	0	710	0	246	2	550	1509
18	0	0	0	0	0	593	0	3	20	31	647
19	0	0	0	0	0	1668	0	24	50	112	1853
20	2205	0	0	0	0	13159	0	999	885	285	15329
21	0	0	0	0	803	43389	0	592	1400	1864	47245
22	3862	0	0	0	5091	140645	0	16390	9078	3545	169658
23	3113	0	0	0	0	7885	0	38540	2650	0	49075
24	0	0	0	0	10	1075	0	8	55	83	1220
25	0	0	0	6	0	4392	0	247	1483	-187	5935
26	21028	0	3613	0	12009	442608	0	29898	14461	17420	504387
27	0	0	0	0	0	0	0	0	0	0	0
28	0	0	0	0	0	983	0	34	201	189	1407
29	0	0	0	0	7	8373	0	151	296	87	8907
30	0	0	0	0	0	10294	0	600	1079	-292	11680
31	0	0	0	0	0	1265	0	41	339	65	1710
32	0	0	0	0	0	2327	0	177	245	367	3116
33	0	0	1	221	8	1156	0	15	168	19	1358
34	19191	0	59039	0	18749	626681	0	202623	22790	9302	861396
35	0	0	0	0	3	210	0	0	0	25	235
	108970	0	86698	11591	67888	2442796	132	547422	89546	86035	3165930

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BA 900 summary of SA banks - December 2008

LOANS, ADVANCES AND OTHER ASSETS (R MILLION)

Line no	Bank	Central bank, money & gold	SA Banks	Foreign loans	Resale agreements	Instalm. finance	Mortgage advances	Credit cards
1	ABN AMRO BANK	162	12	21	3329	0	0	0
2	ABSA BANK LTD	16942	15356	5178	22797	59989	297554	15040
3	AFRICAN BANK LIMITED	340	1396	0	0	0	0	1378
4	ALBARAKA BANK LTD	35	288	0	0	278	921	0
5	BANK OF BARODA	3	131	1	0	0	26	0
6	BANK OF CHINA LTD - JHB BRANCH	30	59	0	0	0	0	0
7	BANK OF TAIWAN - SA BRANCH	13	7	0	0	0	184	0
8	MARRIOTT CORPORATE PROPERTY BANK LIMITED	27	518	0	0	0	363	0
9	CALYON CORPORATE AND INVESTMENT BANK - SA BRANCH	0	125	0	0	0	0	0
10	CAPITEC BANK	401	598	0	0	0	0	0
11	CHINA CONSTRUCTION BANK CORPORATION - JHB BRANCH	84	6	0	0	0	0	0
12	CITIBANK N.A	542	5074	1	1298	0	0	0
13	COMMERZBANK AKTIENGESELLSCHAFT	111	306	0	0	0	0	0
14	DEUTSCHE BANK AG	124	2343	0	3094	0	0	0
15	FIRSTRAND BANK LIMITED	15508	19443	2612	31742	76051	144471	12400
16	GBS MUTUAL BANK	13	116	0	0	202	296	0
17	BIDVEST BANK LIMITED	85	450	0	0	103	36	0
18	HABIB OVERSEAS BANK LTD	33	380	40	0	0	0	0
19	HBZ BANK LTD	25	884	0	0	0	68	0
20	HSBC BANK plc - JOHANNESBURG BRANCH	154	348	0	2504	0	0	0
21	IMPERIAL BANK LTD	1068	84	0	0	30981	11773	0
22	INVESTEC BANK LTD	3006	7416	1501	7116	1397	56382	1321
23	JPMORGAN CHASE BANK	74	13	0	3682	0	0	0
24	MEEG BANK LIMITED	58	182	0	0	316	584	11
25	MERCANTILE BANK LTD	106	254	0	0	374	1623	22
26	NEDBANK LTD	12944	50520	4363	2630	27265	196494	7225
27	REGAL TREASURY PRIVATE BANK LTD	0	0	0	0	0	0	0
28	SASFIN BANK LTD	25	111	0	0	403	0	0
29	SOCIETE GENERALE - JOHANNESBURG BRANCH	459	6546	1372	0	7	0	0
30	STANDARD CHARTERED BANK	332	2095	0	0	0	328	0
31	STATE BANK OF INDIA	32	18	0	0	0	85	0
32	TEBA BANK LIMITED	106	509	0	0	0	0	0
33	THE SA BANK OF ATHENS LTD	34	158	0	0	147	432	0
34	THE STANDARD BANK OF S A LTD	12995	26809	23650	14541	54543	258015	19948
35	VBS MUTUAL BANK	7	103	0	0	0	105	0
	TOTAL	65877	142659	38738	92732	252058	969738	57345

Supplied by Ratings Afrika										
BA 900 summary of SA banks - December 2008										
LOANS, ADVANCES AND OTHER ASSETS (R MILLION)										
Line no	Foreign currency loans	Redeem ¹ pref shares	Public sector o/d, loans	O/draft Private sector	Impairments	Investments	Accept CP, Bills PN	Fixed assets (Non-Fin)	Other assets	Total assets
1	7589	0	0	3091	0	4647	0	6	243	19099
2	19058	2987	11039	106207	8348	117330	9108	5527	4524	700290
3	0	0	0	15956	2765	408	216	229	211	17370
4	0	0	0	0	18	53	282	22	9	1869
5	0	0	0	144	4	0	23	1	0	324
6	1464	0	0	508	3	10	210	1	2	2281
7	261	0	0	174	5	17	0	1	23	673
8	0	102	0	634	0	95	65	4	76	1884
9	7499	0	342	3394	0	5905	1163	1	20	18449
10	0	18	0	3338	289	13	190	229	56	4554
11	1340	0	0	1855	33	972	0	183	10	4418
12	22583	0	0	6594	7	34219	821	168	83	71376
13	2164	404	0	2448	0	1971	646	1	13	8064
14	1730	0	0	1895	0	10638	0	0	303	20127
15	10199	22904	11697	111925	8472	119371	24641	5717	7555	607766
16	0	0	0	25	4	23	39	1	5	718
17	207	0	0	380	8	82	0	57	117	1509
18	19	0	0	139	2	2	30	6	1	647
19	135	0	0	473	6	152	106	15	2	1853
20	7532	0	0	2810	0	1134	804	10	33	15329
21	0	122	0	784	752	877	1563	278	467	47245
22	4082	9557	0	50752	813	21379	5355	251	957	169658
23	1062	0	0	67	0	43079	776	28	294	49075
24	0	0	5	44	30	6	20	15	10	1220
25	1426	0	0	1533	85	144	227	113	198	5935
26	12056	2101	8622	103889	6489	70554	890	6002	5319	504387
27	0	0	0	0	0	0	0	0	0	0
28	4	0	0	513	23	125	119	32	97	1407
29	304	0	0	1	0	151	0	4	64	8907
30	963	0	100	5888	35	916	954	3	136	11680
31	93	0	0	1228	1	39	190	2	25	1710
32	0	417	0	1096	147	1	944	91	99	3116
33	45	0	0	435	20	2	80	39	5	1358
34	75668	16245	2438	103948	11287	224187	23281	6259	10155	861396
35	0	0	0	6	2	0	12	2	1	235
	177485	54858	34244	532172	39648	658503	72755	25302	31112	3165930

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BA 900 summary of SA banks - December 2008

DEPOSITS BY SOURCE (R MILLION)

Line no	Bank	SA Banks	Central & Prov Govt Deps	Other monetary institutions	Local Govt Deps	Financial Public Corp
1	ABN AMRO BANK	569	0	0	0	1
2	ABSA BANK LTD	26803	17566	3494	11182	2259
3	AFRICAN BANK LIMITED	0	0	0	21	142
4	ALBARAKA BANK LTD	2	0	0	0	0
5	BANK OF BARODA	0	0	0	0	0
6	BANK OF CHINA LTD - JHB BRANCH	0	0	0	0	0
7	BANK OF TAIWAN - SA BRANCH	30	0	0	0	0
8	MARRIOTT CORPORATE PROPERTY BANK LIMITED	282	0	0	29	0
9	CALYON CORPORATE AND INVESTMENT BANK - SA BRANCH	363	0	0	13	0
10	CAPITEC BANK	0	24	0	51	0
11	CHINA CONSTRUCTION BANK CORPORATION - JHB BRANCH	1014	0	0	0	0
12	CITIBANK N.A	123	0	0	29	477
13	COMMERZBANK AKTIENGESELLSCHAFT	21	0	0	22	337
14	DEUTSCHE BANK AG	290	0	0	2	0
15	FIRSTRAND BANK LIMITED	44362	16883	3845	9049	151
16	GBS MUTUAL BANK	1	3	0	6	0
17	BIDVEST BANK LIMITED	15	0	0	0	0
18	HABIB OVERSEAS BANK LTD	0	0	0	0	0
19	HBZ BANK LTD	1	0	0	0	0
20	HSBC BANK plc - JOHANNESBURG BRANCH	454	0	0	0	0
21	IMPERIAL BANK LTD	42021	0	0	0	0
22	INVESTEC BANK LTD	1391	1246	0	2861	689
23	JPMORGAN CHASE BANK	1940	0	0	0	0
24	MEEG BANK LIMITED	0	0	0	240	0
25	MERCANTILE BANK LTD	15	1	0	0	0
26	NEDBANK LTD	16769	10212	490	5059	5
27	REGAL TREASURY PRIVATE BANK LTD	0	0	0	0	0
28	SASFIN BANK LTD	0	0	0	0	0
29	SOCIETE GENERALE - JOHANNESBURG BRANCH	1822	0	0	0	250
30	STANDARD CHARTERED BANK	253	0	0	0	0
31	STATE BANK OF INDIA	212	0	0	0	0
32	TEBA BANK LIMITED	0	0	0	0	0
33	THE SA BANK OF ATHENS LTD	0	0	0	0	0
34	THE STANDARD BANK OF S A LTD	18432	15698	392	3660	2929
35	VBS MUTUAL BANK	0	2	0	0	0
	TOTAL	157187	61636		32225	7240

Supplied by Ratings Afrika									
BA 900 summary of SA banks - December 2008									
DEPOSITS BY SOURCE (R MILLION)									
Line no	PIC	Public Enterprise	Insurers & Pension Funds	Private financial corp. sector	Private non-fin corp. sector	Individuals	Foreign sector	Foreign currency deposits	Total deposits
1	0	119	780	3875	4078	0	1033	2631	13086
2	19195	15951	24885	157167	90103	125893	4780	3973	503250
3	304	0	784	12350	0	4	0	0	13605
4	0	0	0	0	0	1616	0	0	1618
5	0	0	3	0	107	94	17	0	220
6	0	0	0	0	0	277	41	844	1162
7	0	0	0	0	74	94	22	13	234
8	0	0	35	29	600	583	0	0	1557
9	0	680	9	4228	2289	0	1075	1294	9950
10	5	0	183	1240	27	1312	166	0	3008
11	0	0	0	0	1337	0	0	1482	3832
12	0	601	1182	9017	9974	7	2418	9709	33537
13	0	1638	539	587	1203	0	124	1381	5853
14	0	406	87	1081	985	0	2888	427	6164
15	16198	3850	20943	91275	76814	105036	5357	17757	411520
16	0	0	7	0	17	565	4	0	603
17	0	0	36	146	293	95	7	117	710
18	0	0	0	0	267	266	39	20	593
19	0	0	0	0	753	657	39	218	1668
20	0	0	0	1784	1318	0	64	7334	10954
21	0	0	147	0	417	0	0	0	42586
22	7742	3454	5074	46178	36547	15719	2189	8603	131692
23	0	40	936	1689	0	0	116	49	4772
24	31	0	1	1	106	685	0	0	1065
25	0	0	10	222	1100	2642	240	156	4386
26	16456	3103	26735	98081	96783	120264	5505	6495	405957
27	0	0	0	0	0	0	0	0	0
28	0	0	42	0	212	730	0	0	983
29	0	560	1	3929	2	0	1795	6	8367
30	0	315	0	3521	5174	0	25	1006	10294
31	0	0	0	0	422	14	42	575	1265
32	0	0	0	0	0	2327	0	0	2327
33	0	0	0	0	351	552	0	23	926
34	22560	11645	22626	135549	130815	126419	24821	14155	529701
35	10	0	0	0	0	195	0	0	207
		42360	105044	571949		506045	52806	78269	2167650

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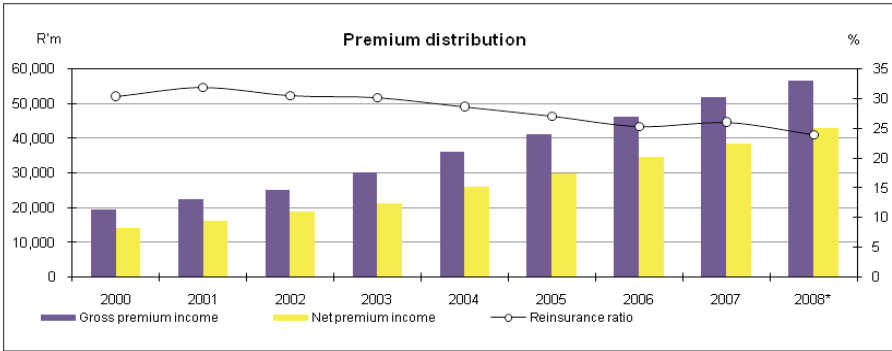
Contact person: Charl Kocks

The South African short term insurance industry - is the market turning?

Compiled by Melanie Brown and Patricia Zvarayi

The year 2008 proved challenging for the industry, beginning with electricity shortages that severely impinged on productive capacity and culminating in the global downturn that saw insurers realise outright investment losses on equity portfolios. Following the soft market experienced over the last three years, and in spite of continued competitive pressures, the industry evidenced some hardening of rates during the latter part of 2008, with insurers acknowledging that continued rate cuts would likely translate to negative real returns in the current climate. As such, gross premium income growth is estimated at approximately 9% (2007: 13%), resulting in an industry GPI of around R56bn in 2008. As mentioned, this is an indication of improved pricing rather than growing volumes. Santam and Mutual & Federal (M&F), who together command in the region of around 40% of industry gross premiums continue to dominate the South African insurance market, albeit holding a smaller proportion of the combined 50% market share in 2001. Over this period, the top four insurers' (Santam, M&F, Hollard and Zurich) combined market share has declined from 60% to just over 50%, while the top eight (with premium in excess of R2bn) held a composite 75% stake, from 80%. Affinity marketing and partnering with banks and motor dealerships have seen bank-aligned and direct insurers continue to make substantial headway in terms of market penetration, with Outsurance's market share increasing to approximately 6%, from around 3% four years ago. This notwithstanding, following the enactment of the National Credit Act in June 2007 and relatively higher interest rates, these avenues of business may dry up significantly in the current climate. As such, plunging vehicle and property sales, which traditionally make up around 85% of industry GPI, have forced insurers to look increasingly to diversification to maintain margins. In this regard, notable success has been achieved with the UMA model, as insurers seek to diversify earnings and increase penetration by accessing the higher margin niche markets. However, declining volumes and limited UMA investment opportunities have increased competition in this area.

Underwriting margins have narrowed significantly since 2004, largely due to rising claims volumes, particularly in motor and property portfolios. Changing weather patterns, resulting in extended flooding in parts of the country and a higher incidence of large fire claims have especially exerted upward pressure on property claims. The depreciating Rand, coupled with increasing inflation for the greater part of the year, significantly increased the cost of motor repairs (which comprise up to 75% of motor premiums) and the replacement value of household items. In motor, insurers have been particularly exposed to the rising cost of replacement parts, a function of the large component of imported parts (even in the case of locally produced vehicles), technological advancements and improved safety features. Interestingly, crime related losses (arising from hijacking and theft) are estimated to have comprised less than 10% of the value of motor insurance claims in 2008, as opposed to accident damages, which accounted for over 80%. Compounding the increase in motor claims is the number of cars on the road together with inadequate road infrastructure, and the rise in inexperienced and unlicensed drivers, all of which is viewed as systemic and not cyclical, implying a long term problem.

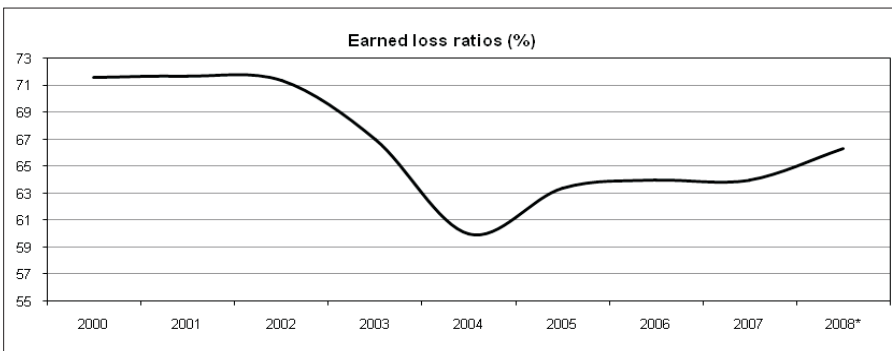


* 2008 figures are GCR estimates

Industry NPI growth slowed to 12% in 2007 from 16% in 2006, and is estimated to have declined even further to around 9% in 2008, largely comprising motor and property premiums (around 90%). However, growth was derived from niche markets, with engineering and liability classes increasing contributions to revenue. Given current depressed economic conditions, it is not considered likely that the declining interest rate environment will stimulate adequate recovery in property and new vehicle purchases to result in above average growth in the medium term.

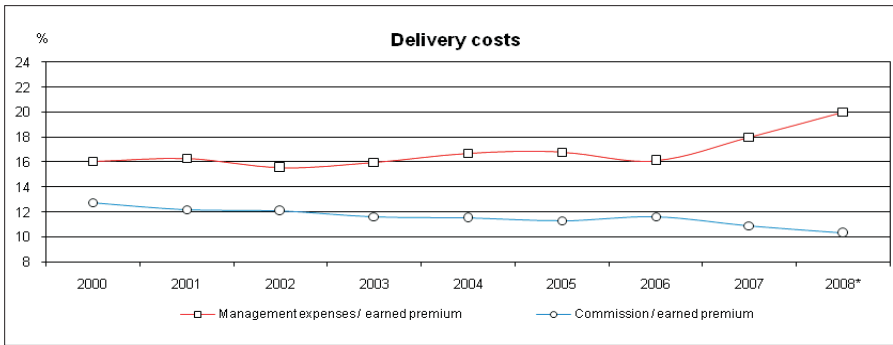
In line with GCR forecasts, the ratio of reinsurance premiums to GPI remained flat at 26% in 2007 and is predicted to have remained around this level in 2008. This was underpinned by reduced cession by the larger insurers, who maintained the largest retention on their motor, property and accident books. Reinsurance rates are expected to harden in the medium term, largely in response to international trading conditions and the increased perception of risk in the domestic market. In particular, two large claims incurred in 3Q 2008 should see reinsurers becoming more conservative about the risks they are willing to accept.

Industry loss ratios continue to rise. From the low of 60% in 2004, the overall loss ratio deteriorated to 64% in 2007, despite the continued refining of provisions, and is expected to have risen further to around 66% in 2008, with multiline insurers driving the high claims ratio. The niche monoline segment returned a significantly improved claims ratio in 2007, a trend that is expected to have been maintained in 2008.



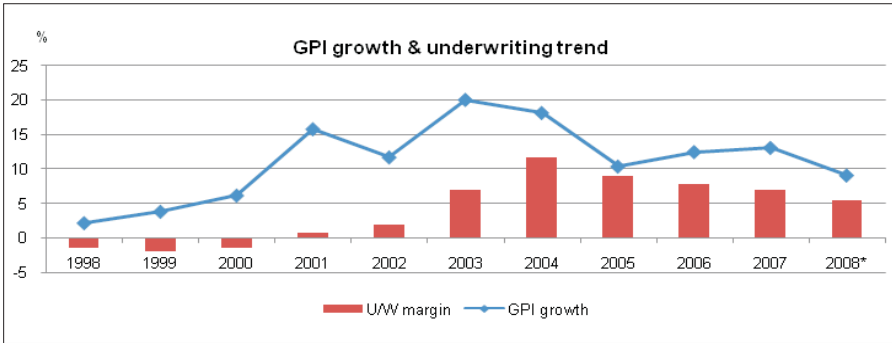
* 2008 figures are GCR estimates

The net commission ratio continued on a downward trend, softening to just under 11% in 2007, from 12% previously. GCR envisages that commission costs to earned premiums eased only slightly in 2008. The downward trend is attributed to the increasing participation of direct insurers, and to a lesser degree in 2008 the growth of business secured through affinity channels, whose commission participation in reinsurance contracts excludes the net open interest. Increased management costs, attributed to inflationary pressures, saw the management expense ratio rise to 18% in 2007, up from 16% in 2006. Given staffing and marketing pressures, GCR envisages that the management expense ratio increased by 2 percentage points in 2008. This trend was exacerbated by a weakening Rand, as well as the reconstitution of claims to management expenses under the new accounting methodology. In addition, the increase in participation costs has arisen from a shift in costs from internal to external, occasioned by outsourcing to UMAs and portfolio administrators as competitive pressures continue to rise. Overall, the delivery cost ratio, which reached 29% in 2007, is expected to have remained at this level in 2008.



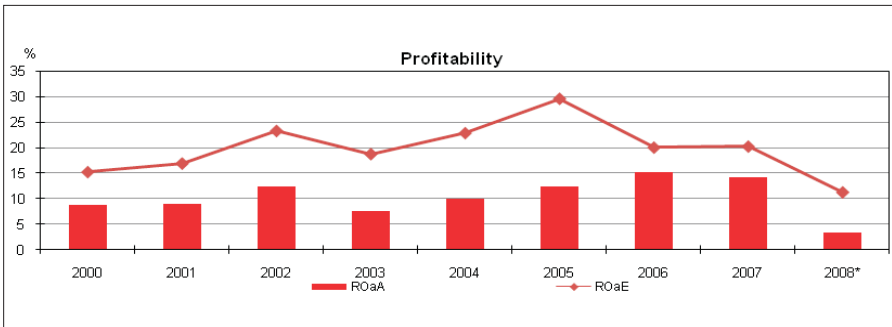
* 2008 figures are GCR estimates

An overall underwriting result of R2.7bn was achieved in 2007, down 6% from 2006. Largely stemming from the deteriorating claims experience, the underwriting margin declined to 7% in 2007 and is expected to have declined to around 5.5% in 2008. It is GCR's opinion that corrective action taken by some of the larger players in the second half of the year supported the industry loss ratio, and hence underwriting result. Based on the FSB's combined results for all insurers for the calendar year ending 2008, the industry reported an increase in underwriting profitability, on the back of a slightly reduced earned loss ratio and a decline in delivery costs. This translated into an underwriting margin of 8.9% compared to 8.3% for the comparable period ending 2007. This supports GCR's view that the larger insurers have implemented the necessary rate increases to stem losses and support solvency. Whilst the underwriting results expected for 2009 should show an improvement on 2008, they will be a far cry from the 12% high achieved in 2004. This notwithstanding, the industry is expected to maintain underwriting profitability for the ninth consecutive year in 2009.



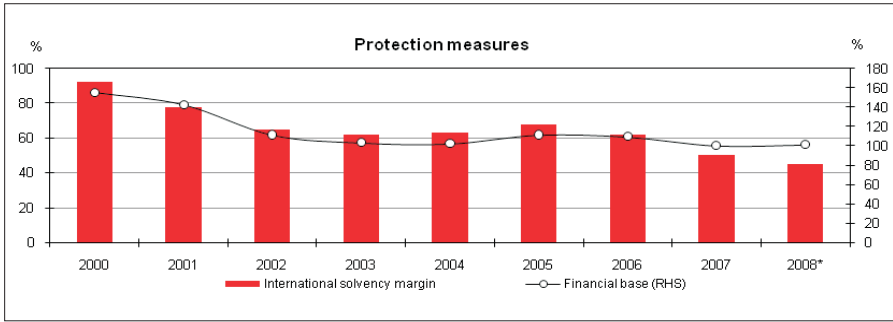
* 2008 figures are GCR estimates

The marked volatility in investment markets saw insurers suffering substantial losses on stock portfolios in 2008. In addition, the cumulative 150 basis point decrease in interest rates since 3Q 2008 has negatively impacted returns on the more conservative portfolios. Hence, while the industry achieved ROaA and ROaE of 14% and 20% in 2007 respectively, these rates are envisaged to have declined sharply in 2008. Going forward, it is expected that investment portfolio weightings will shift in favour of money market instruments as insurers try to stave-off the risk of the volatile capital markets.



* 2008 figures are GCR estimates

The industry international solvency margin declined to 50% in 2007, from 59% in 2006, whilst the statutory ratio declined to 40% (2006: 46%). It is envisaged that the latter has declined even further in 2008, to 36% and the industry international solvency measure has eased to around 45% in 2008, following the impact of incurred losses on distributable reserves. The financial base ratio (including technical reserves) eased to 100% in 2007 (2006: 109%) and is expected to have remained flat in 2008, as reserving remains largely unchanged.



* 2008 figures are GCR estimates

The current economic and operating challenges, exacerbated by volatile investment markets, are expected to place pressure on overall profitability in the short to medium term. This in turn is likely to see a continued reduction in solvency margins. It is expected that with continually declining volumes, the recently evidenced hardening of rates should continue going forward, as the industry pursues profitability in the face of rising claims, exacerbated by increased moral hazard common in tough economic times. As such, premium increases are expected to be aimed at the stabilisation of the insurers' underwriting positions, as insurers can no longer rely on equity markets to support solvency (equity sales contributed 35% to net income in 2007). Risk profiling and management are set to become increasingly important, as is liquidity management.



For further information, please contact the insurance division at GCR on 011 784 1771

Funding of Healthcare in South Africa

One of the most frustrating aspects of trying to understand the dynamics of healthcare in South Africa is that the starting point of discussion, agreed on statistics, are either not compiled or not in the public domain. The healthcare sector has become accustomed to government policy makers quoting inaccurate figures while announcing important policy changes. In her Health Budget Speech in the National Assembly on 5 June 2008, the former Minister of Health, Manto Tshabalala-Msimang said the following:

'Of the R118 billion that was spent in the health sector in 2007/08, R66.4 billion (or 56.3%) was Private Sector expenditure, which serves about 7 million people, while R51.6 billion (43.7%) was utilized in the Public Health Sector, which provides services to about 40 million people.'

The Department of Health and its statutory body the Council for Medical Schemes has access to the National Health Accounts, a study funded by the European Union and the Department of Health but seldom publicly quotes these more inclusive health-spend statistics.

The statement above ignores the following contributions to healthcare spend:

- National Treasury allocation to other national departments including Defence, Public Works, Education and Social Welfare as well as Medium Term Expenditure Framework budgets.
- Levies raised through the Road Accident Fund and Workman's Compensation Fund and spend on the medical component of distributions to injured parties.
- Households (Voluntary contributions to bargaining councils, short term insurance and out-of-pocket expenses payable to both Western and traditional doctors).
- Employers (Voluntary contributions to bargaining councils, provision of on and off-site primary care and out-of-pocket expenses, provision of legally required occupational care).
- Non-Governmental Organisations, corporate social responsibility programmes and charities.

Primary sources of health funding in South Africa

National Treasury

In the February 2008/9 budget Finance Minister, Trevor Manuel allocated R75.5 billion, R12.8 billion more than the previous year, to health expenditure.

This spending is 3.3% of the Gross Domestic Product (GDP) and measured in this way continues to be less than the amounts spent on public health of countries with similar populations sizes and GDP. Measured in terms of the percentage spend of the government budget, it is 10.5%, which is less than the 'Abuja Declaration' target of 15%. Participants of the Abuja Declaration of 2000 committed their countries to a target of 15% of government budget by 2010.

Healthcare is also funded by other national departments including the Departments of Defence, Education, Correctional Services, Safety and Security and Department of Public Works. Some researchers including S Thomas and D Muirhead (2000) writing in Healthcare Financing and Expenditure, published by the Health Systems Trust, have

estimated that the inclusion other government departments and parastatal bodies such as the Road Accident Fund and Workman’s Compensation Fund may add an additional 20% to the value of the public health sector budget.

In her presentation to the Board of Healthcare Funders in June 2008, Professor Di McIntyre of the Health Economic Unit of the University of Cape Town noted that per capita spending by the public sector had remained constant in real terms (not taking inflation into account) between 1998 and 2005 at approximately R1 000 per capita, while the spending in the private sector had increased from R4 000 per capita in 1998 to just short of R6 000 per capita in 2005. She said that the under-financing of the public health sector was one of the key factors contributing to the sector’s under performance.

A Cosatu document “Social Health Insurance’ Cosatu’s position” published in 2005, noted that in 1983, household spending on health as measured by percentage of GDP was 2.2%, while government spending on health as a percentage of GDP was 2.6%. However in the 20 year period since 1983, household spending as a percentage of GDP had risen to 5.1% while government spending had increased to 3%.

More recent 2007 statistics indicate that private sector spend per beneficiary is in the order of R8 743 per capita. However some industry analysts argue that this figure could be as low as R5 500 after taking into account Vat, costs of capital, etc.

It should be noted that some of the allocation of Compensation for Occupational Injuries and Diseases (COID) and the Road Accident Fund are spent in private hospitals.

It is possible that the amount of money spent in both the public and private sectors are understated. Public sector spending, for example does not include money spent by the Department of Public Works, the government department mandated to repair and maintain public health facilities, including hospitals and clinics.

What can you do to protect yourself from rising medical costs?

In his column *Tax Talk* published weekly in the Business Times, Professor Mathew Lester, professor of taxation studies at Rhodes answered this question by saying that people should save lots, and then some, for medical expenses in retirement.

He wrote that he receives lots of letters from South Africa’s pensioners and their most frequent gripes revolve around understanding the benefits of medical schemes. Lester says that South Africans should prepare to pay for their own medical expenses in retirement because unless the public sector ‘makes the biggest comeback since Lazarus’ retirees are on their own.

‘Medical products will still have to be imported and paid for in foreign currency even if China and India master generic geriatric medicines. In addition, if exchange rates against the rand decline, medical costs will continue to increase above the inflation rate,’ he wrote.

The answer? Lester says that the only employer independent tax deductible savings plan available in South Africa is a retirement annuity (RA). Because retirement funds tax has been withdrawn, savings can accumulate tax free. But he cautions that the downside to an RA is that the annuity draw down is taxable. On the other hand, medical expenses become fully tax deductible for tax payers over 65 years old. So the taxable annuity is neutralised by the medical expense deductions.

Medium-term expenditure framework

In addition, the 2008/9 budget allocated R2.1 billion of additional funding for HIV/Aids through the Medium Term Expenditure Framework from 2008 to 2011. This brings the total annual expenditure for HIV/Aids services by the departments of health, education and social development to over R6.5 billion by 2010/2011. To calculate annual expenditure on healthcare, we have divided medium term expenditure by three to arrive at an annual expenditure figure.

The Hospitals Revitalisation Grant made available R2 billion for improving the infrastructure of existing hospitals and covering the costs of constructing 33 new hospitals.

The budget provided additional funds to take account of the cost of the 2007 public service salary agreement, as well as occupation specific salary dispensations. R10 million was earmarked to recapitalise the nursing colleges. Tertiary and central hospitals received an additional R1.08 billion over the next three years for the modernisation of tertiary services. A total of R39 million was earmarked for improving TB control and management over the next three years.

Road Accident Fund and Workman's Compensation expenses

According to the RAF Annual Report for the financial year 2005-2006, 71 000 claimants received R355-million for medical expenses at an average of R5000 per claim.

The Compensation Fund provides compensation to employees who are injured or contract diseases through the course of employment. According to the DA's Anchen Dreyer, the Fund has an annual income of about R4 billion and reserves of R18 billion.

The Fund has approved, but unpaid claims to the value of R73 million.

Doctors, chemists, physiotherapists and other medical service providers often wait for years to receive payment for services delivered and people have died because of complications arising out of delayed medical treatment. For the purpose of this exercise we have assumed that health-related pay-outs are in the region of R1 billion a year.

Medical scheme contributions

According to the 2007 Council for Medical Schemes' annual report, there are 7.478 million people covered by medical schemes. Total contributions received by medical schemes during 2007 was R64.7 billion. This money is primarily spent in the private sector.

Out-of-pocket expenses

Out-of-pocket expenses are seldom included by the Department of Health in the calculation of public and private expenditure on health in South Africa. Reserve Bank figures show the astounding growth of out-of-pocket expenses over the last 36 years. These expenses are incurred by South Africans who are members of medical schemes, who have to pay for shortfalls in cover, as well as those who have chosen not to be covered by a medical scheme, either voluntarily or due to a lack of finance. However, Reserve Bank figures do not include out of pocket expenditure on traditional doctors or medicines.

Estimates of out-of-pocket spend include the following:

- The World Health Organisation 2008 World Health Statistics estimate that private prepaid plans as a percentage of private expenditure on health is 77.3%. If this is the case, total private healthcare spend in 2007 would be R81.4 billion and out-of-pocket expenditure R16.7 billion.
- Reserve Bank figures of September 2008 indicate that total household expenditure on health during 2007 was R101.9 billion. If the portion spent on medical scheme contributions is deducted from this amount, this means R44.3 billion is spent on out-of-pocket expenses. This figure includes medical and pharmaceutical products as well as medical services.
- In 1992/3 Valentine and McIntyre (1994) estimated that approximately 22% of total healthcare spending was out-of-pocket. This was broken down into co-payments by medical scheme members (40%), cash payments for GP services (24%) and over the counter medications (36%). Applying this rule of thumb to current health expenditure, out-of-pocket expenses would be approximately R40 billion.
- The SA Health Review 2007 estimates that patients who are not members of medical schemes pay R16.5 billion on an out-of-pocket basis to pay for private hospitals, specialists, doctors and pharmacies.

Out-of-pocket spend reflects a growing demand for private medical care by South Africans across the wealth spectrum. A University of Stellenbosch 2006 survey into the spending by lower income sectors (households earning between R2 500 and R6 000 per month,) showed that 22.4% of all out-patient visits of individuals in this group were to private doctors.

Spending from the following sources is more difficult to measure:

- Ad hoc expenditure on private healthcare by uninsured families and individuals (both the very rich who choose to be self-insured and those who cannot afford medical scheme premiums).
- Additional health expenditure by insured members of schemes where schemes do not cover the full cost of treatment. This would include ad hoc expenditure on general practitioner visits, co-payments, above-threshold benefits and money spent during waiting periods.
- Employers paying for ad hoc medical expenses of staff members.
- Out-of-pocket expenses spent on pharmaceuticals and non-PMB prescription medication by both insured and uninsured people.
- Bad debts in the private medical sector. The combined hospital groups estimate that they treat over one million emergency patients a year, some of which become in-patient emergencies. The cost of this treatment is a direct cost to the hospitals concerned and represents a significant portion of their bad debts.

Growing out-of-pocket health spend must indicate a measure of the failure of, or inaccessibility of, the free public primary healthcare services available to the poor. As Neil Soderlund, Gillian Schierhout and Alex van den Heever, the authors of a 1998 report on private healthcare noted, private out-of-pocket spending might thus be an important index of the improvement of public primary care services to the economically disadvantaged.

Employer funded healthcare

Employers fund healthcare for their employees, either directly through health services provided at the workplace, or indirectly through contributing to different forms of private insurance on behalf of their employees. The government is the single largest employer in South Africa and contributes to private insurance schemes on behalf of civil servants. These contributions are thus indirectly funded from tax revenue.

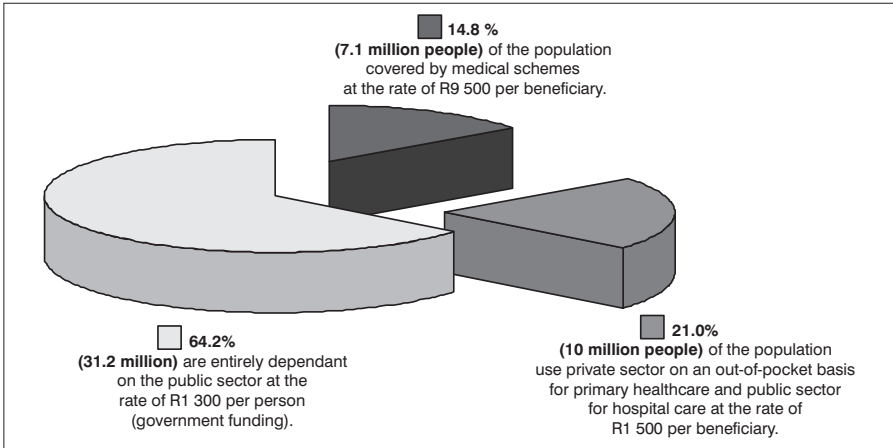
- Many of the larger companies in South Africa offer medical scheme membership, either in closed company-run schemes or open schemes, to employees as part of a salary package. Employer funded medical scheme contributions are captured in the medical scheme contributions mentioned above.
- In addition, many larger companies offer on and off-site primary healthcare services to staff. In terms of tax legislation introduced in 2006, employer-provided medical treatment (on and off-site) is tax free in the hands of employees and retirees. Expenses for such medical treatment is deductible as a company expense.
- It is very difficult to calculate the value of these services as other items qualify for tax deductibility as at present the South African Revenue Service (SARS) has no way to single out on and off-site medical or health service provision.
- A third component of employer funded healthcare is money spent on the compulsory provision of occupational health services. The South African mining industry which contributes an estimated 7.7% to GDP employer an estimated 456 600 employees. The mining sector arguably offers the most comprehensive occupational healthcare, due to the dangerous nature of mining activity, the geographic remoteness of mines and the fact that tuberculosis (TB) is classified as an occupational disease. In addition, many mining companies have started voluntary programmes to offer anti-retroviral treatment to miners and their dependants with HIV/Aids.

Estimates of employer-spend

- Anecdotal evidence and conversations with a number of human resource managers in the mining sector suggest that an 'educated guess' would suggest that on and off-site spend and occupational health, but excluding any premiums paid to medical schemes and money paid for compulsory provision of occupational care might be in the region of R3 000 per annum. If this is the case, and assuming the generally quoted figure of 456 600 people employed in the mining industry is accurate, the mining sector alone spends in the region of R1.35 billion per year.
- A second 'educated guess' comes from information supplied by the head of an occupational health provider, who provides health services of different types to employers. Prices charged for a range of services vary between R46 and R140 per person per month, with an average of R74 per person per month. If we take this average figure as a guide, and assume that half of South Africa's 8.4 million formally employed workers, (who are not principal members of medical schemes), that is 2.6 million workers, are receiving R74 per month in on or off-site care, we arrive at unrecorded employer spend of R2.3 billion.

These figures may be fanciful, but we will attempt to get better values during the course of 2009 for the 2010 edition of *Health Care in South Africa*.

At the July 2008 Board of Healthcare Funders' Conference Professor Di McIntyre of the Health Economic Unit of the University of Cape Town presented the following public private mix in health funding (2005 figures).



Bargaining councils

Many employers of trade related groups provide their employees with access to Bargaining Council funded healthcare whereby employers and employees contribute to non-medical schemes provided healthcare on a 50/50 basis.

The number of members and value of contributions is no longer recorded by the Council for Medical Schemes, as Bargaining Councils are exempt from the Medical Schemes Act. In 2004 Bargaining Councils had 117 058 members.

However a recently published document prepared for National Treasury, *Bargaining council and other benefit schemes*, by Debbie Budlender and Shaheeda Sadeck of the Community Agency for Social Enquiry, estimate that there are currently 13 funds with over 130 000 members. Total contributions across the 13 funds in 2006 were estimated to be in the region of R165 million.

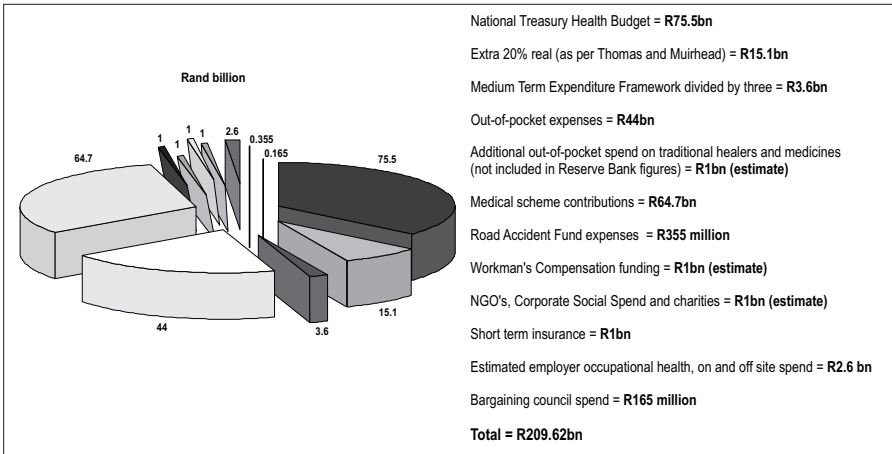
Short-term insurance contributions

It is estimated that short-term health insurance policy premiums contribute to the financing of healthcare in the region of R1 billion a year. This figure was quoted by Barry Scott, the chief executive of the South African Insurance Association (SAIA), during the Appeal Court case between Guardrisk, a subsidiary of Alexander Forbes and the Council for Medical Schemes.

Non-governmental organisations and corporate social investment initiatives

It is very difficult to find information on the total value of services funded by non-governmental organisations, corporate investment initiatives and charities. However the World Health Organisation has estimated this component of the market share of healthcare funding to be in the region of 0.5% of the total funding of healthcare.

Total estimated healthcare spend in South Africa in 2007 = 209.62bn



Sources: Council for Medical Schemes, Department of Health, National Health Accounts, Road Accident Fund annual report, Compensation Fund annual report, 2008 Budget Speech by the Minister of Finance, Business Day, various 'best guesses'.

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Future Design of South Africa's Healthcare Service

'Equity and access' have been at the heart of the post-1994 government health policies. In 1994 the newly elected ANC government considered several health delivery models which would be able to 'provide reasonable healthcare to all citizens within the constraints of the resources of the country', an obligation imposed by the Constitution and the Bill of Rights.

The year 2008 was a pivotal year in the formation of national healthcare policy. Most of this chapter deals with the consequences of the Polokwane decision in November 2007 to introduce National Health Insurance, as discussed at the Board of Healthcare Funders' conference in July 2008.

The Polokwane policy decision was effectively a fourteen year jump back in time, when the soon-to-be-elected government first started grappling with the idea of providing and funding National Health Insurance. Between 1992 and 1998 it was decided that while National Health Insurance (a health delivery model where all South Africans would have access to the same level of care) was a worthy target, it was unaffordable.

During the period between 1992 and 1998 many alternative policy initiatives and proposed financing mechanisms withered under the harsh light of budgetary constraints. Eventually it was agreed to introduce Social Health Insurance, (a model that envisaged mandatory membership of all employed South Africans in medical schemes) as a first step towards National Health Insurance.

South Africa at a glance

Population	R48 million
Gross Domestic Product	R2 287bn (2008)
GDP per capita	R42 704 (2008)
Total revenue 2008/9	R625.4 bn
Government expenditure 2008/9	R611.1 bn
Health (% of government spend)	10.50%
Government Health Spend (% of GDP)	3.30%
National Treasury budget allocated to the Department of Health	R75.5 bn
Unemployment (strict definition, those actively seeking work)	25.5%
Unemployment (wider definition including discouraged work seekers)	40%
Recipients of social welfare	More than 12.5 million people
Total employed (formal + domestic + agriculture + informal)	12.6 million
Formal sector employment	8.4 million
Number of principal members of medical schemes (2007)	3.2 million
Number of beneficiaries of medical schemes (2007)	7.4 million

Source: *South Africa at a glance 2008/9*, published by Editors Inc, National Treasury and CMS Annual Report 2007

Progress on Healthcare legislation since 1998

Stage One: Fully implemented

- ⊙ Amend Medical Schemes Act to include PMBs, community rating and open enrolment.
- ⊙ Improve governance.

Stage Two: Still pending

- ⊙ Introduction of health-related cross subsidies.
- ⊙ Determine price of PMBs on which equalisation will be effected.
- ⊙ Align PMB contribution to an industry community rate.
- ⊙ Establish the REF that will transfer funds from schemes with lower PMB costs to schemes with higher PMB costs.

Stage Three: Still pending

- ⊙ Introduce income tax subsidies through the tax system.

Stage Four: Still pending

- ⊙ Introduce mandatory cover for people in certain income groups.

Source: South Africa Medical Schemes Rating Bulletin

During 2008 the healthcare community waited in vain for concrete proposals from the Department of Health on how the National Health Insurance would be paid for and distributed. Besides the general objectives of National Health Insurance, (described later in this chapter) the all important 'guts' of the proposal, such as how many people it would cater for, the nature and model of funding, what level of services would be provided and the role of providers were not opened for public debate or comment. While studies may have been commissioned, no findings or proposals were announced.

Then in late November 2008 the Development Bank of Southern Africa released a discussion document *The Roadmap for the Reform of the South African Health System*, a report commissioned by the African National Congress (ANC), which was according to DBSA chairman Jay Naidoo, 'intended to guide future healthcare policy and would allow whoever becomes health minister after next year's election to "hit the ground running"'. The report suggests that the state should repair the public sector while at the same time make better use of the private sector.

This report was welcomed by many in the health sector as it indicated that the ruling party may have been questioning the current government policy, and was pragmatic and open to new ideas.

Lack of policy action has meant that neither SHI nor the NHI model have been implemented and wide disparities between health care in the public and private sectors are growing. Household studies carried out between 1992 and 2003 and reported on in a paper by Gilson and McIntyre Post-apartheid challenges; household access and use of care, published in the International Journal of Health Services indicate that challenges in improving equity include the worsening community perceptions of the quality of public health services and the influence of health insurance on the way in which services are used.

SAMA response to National Health Insurance

At the SAMA conference in August 2008, SAMA officially endorsed the principle of universal access in a resolution supporting the implementation of a National Health Insurance system for South Africa, saying that both public and private sectors have a role to play.

Outgoing president Prof. Ralph Kirsch said that 'the time for talking about universal access to healthcare was over', and now the debate should be about how to deliver and fund the services necessary to ensure that everyone had access to good quality healthcare.

'In order to succeed, healthcare providers would have to open their minds, moderate their self-interest and overcome their prejudices getting involved in designing a health system that will cater for the health needs of everyone.'

The DBSA report confirms many of the findings of academics in health policy units around the country; it reports that maternal mortality virtually doubled in the five years to 2005 and the average life span of South Africans has fallen to just below 50 years. The report puts the blame for this deterioration on the government's 'poor leadership'.

Whether or not the post 2009-government takes note of the DBSA document remains to be seen. There is likely to be a renewed focus on examining healthcare models around the world and coming up with a pragmatic solution for South Africa.

Certainly the new government will be able to use some of the research that has been done on the subject. Some are in favour of centrally funded and provided delivery of healthcare while others favour a tax payer funded public health care sector which should deliver to the poor and unemployed supplemented by a mix of other providers including private public partnership facilities and private providers of healthcare. Affordability will play a role in finding solutions, as will, no doubt the practicalities of delivery mechanisms. ices and the influence of health insurance on the way in which services are used.

The re-introduced National Health Insurance

At the ruling party's December 2007 Polokwane conference a policy discussion document on *Social Development* was distributed to African National Congress (ANC) structures as part of the agenda for the 52nd National Conference of the ANC. The paper argued for the need to 'attack poverty' and made the following reference to health insurance '... Government has taken bold steps in establishing a National Health Insurance scheme and must finalise its plans as soon as possible.'

Reg Magennis, CEO of Elixir Consulting, a speaker at the Board of Healthcare Funders' Conference in Durban in June 2008, explained the government's broader plans with respect to the Social Security Framework. He said that in discussion papers dedicated to the health component of Social Security, the following specific reference was made to health insurance:

'Government must speed up the implementation of the National Health Insurance Scheme. Such a scheme enhances the equitable access by the general public to healthcare and reduces the inequities between the private and public health providers.'

He quoted from a paper by Dr Olive Shisana, CEO of the Human Sciences Research Council (HSRC) entitled '*A National Health System, Opportunities and Challenges of South Africa.*' In this paper, Shisana says that health should be accessible to all and policy should follow the following guiding principles:

- ✓ **Right to Health:** Every person has the right to achieve optimum health, and it is the responsibility of the state to provide the conditions to achieve this.
- ✓ **Social Solidarity:** The principle of 'social solidarity' in this context implies broader risk pooling and equitable benefits in exchange for contributions from those able to make payment with the government contributing on behalf of the indigent. This should not exclude supplementary health insurance.
- ✓ **Universality:** Compulsory membership is essential as not to undermine the principle of social solidarity.
- ✓ **Vertical Equity** (unequal treatment for unequal need): Acknowledge that 'unnecessary' or 'avoidable' gaps in health and healthcare service delivery between groups with different levels of social privilege should be eliminated.
- ✓ **Universal Access to Healthcare and Related Resources:** This principle secures equality of access to a defined package of healthcare irrespective of whether it is publicly or privately funded. This principle calls for access to basic health as articulated in the ANC Health Plan and expressed in the Reconstruction and Development Programme.
- ✓ **Efficiency:** Pooling public and private resources (money, human resources, physical infrastructure, equipment and medicine) together to ensure sustainability.

In order to comply with these principles, Dr Shisana suggests the implementation of a national health insurance plan incorporating the following key elements:

- It draws in private and public health sector funds.
- It draws in public and private human and physical resources.
- The financial contribution would come from employers, employees and the self-employed with the government providing for the indigent. The contribution would be progressive thus promoting vertical equity and the idea of one risk pool allows for cross subsidisation between the poor and the rich, the healthy and the unhealthy. This could also include funds currently paid to medical aid schemes by government or public entities.
- Compulsory or mandatory contributions would ensure that the entire population is covered.
- The cover would be comprehensive in that people would have access to comprehensive health services regardless of employment status.
- The services would continue to be provided by both public and private providers as currently the case.
- The health fund would be administered through a single agency, such as the South African Social Security Agency (SASSA). The fund's administration costs could be set by Parliament. A single payer model is likely to result in significantly lower administration and transaction costs and significant cross subsidisation.
- The structural and organisational reform needed must be supported by robust legislative changes that will make contributions mandatory by both formal and informal employees and employers, and that will govern the activities and conduct of both public and private providers.

It is unclear how the new healthcare plan will be funded. South Africans are already taxed at relatively high levels.

Global Personal Tax Comparisons		
Rank	Country	Tax as % of gross salary (single employees)*
1	UAE	5
2	Russia (Moscow)	13
3	Hong Kong	14.2
4	Taiwan	14.6
5	Singapore	16.4
6	South Korea	16.5
7	China (Beijing)	20.4
8	Mexico	21.4
9	Brazil	22.5
10	Argentina	22.7
14	India	29.1
14	Australia	29.1
14	UK	29.4
14	USA	29.4
18	Ireland	30.3
**	South Africa	38
32	Belgium	50.5
*Based on average salary of \$91 000/year		
**not ranked in official report		
Source: Research consultants Mercer, quoted in the Financial Mail, 12 September 2008		

Magennis said that leaders in the private healthcare system are generally in support of universal funding for a basic package to which all should have equitable access. He said that private health insurance has remained an important feature of OECD country delivery systems for the following reasons:

- Source of significant resources.
- Reduced pressure on the public health system.
- Increased access to care, particularly among those willing to pay for it.
- Improved consumer choice.
- Greater health system responsiveness.

However, he warned that private health insurance had also given rise to considerable equity challenges, overall healthcare expenditure and moral hazard induced utilisation.

At the Board of Healthcare Funders' conference in Durban in July 2008, Professor Di McIntyre of the Health Economic Unit of the University of Cape Town pointed out that many countries around the world were searching for healthcare funding models. She said that post-Polokwane there had been renewed political will to move towards a National Health Insurance model. She said that NHI should be designed in a sustainable way, ensuring effective revenue collection, pooling, purchasing and provision of healthcare services. She said that there were still many critical issues to be resolved.

These included the following:

- The cost of National Health Insurance and how these costs would be met.
- The role of medical schemes.
- The role of the private sector.
- Mechanisms for payment of healthcare providers.
- Who would administer the system.

She made the following remarks about revenue collection and fund pooling:

- A general tax revenue was undoubtedly the most progressive financing source. She called on National Treasury to allocate greater public spending to the health sector, not at the expense of other social services.
- She said that out-of-pocket payments were the most regressive form of financing.
- She pointed out that it would be essential for the chosen collecting organisation to have the trust of participants.
- With respect to fund pooling, she said that the World Health Organisation had found that those systems with greater levels of risk pooling achieved more than those with limited risk pooling.

At the same conference, Moremi Nkosi of the Department of Health outlined the necessary steps that should be taken in order to implement National Health Insurance.

■ **Legislative and regulatory reforms**

These included developing a transparent tariff negotiating process, ongoing amendments to the Medical Schemes Act and the introduction of the Risk Equalisation Fund, a clear definition of the Basic Benefits Package, a review of prescribed minimum benefit legislation and amendments to tax legislation to mandate earmarked payroll related contributions.

■ **Health service provision and delivery reforms**

These included the strengthening of the public health facilities, the strengthening of public private contracting for healthcare services and evaluation of existing designated service providers.

■ **Complementary reforms**

These included multi-pronged initiatives directed at strengthening the public primary healthcare referral system to ensure timely, cost effective access to services. Such multi-pronged initiatives should include public private partnerships and initiatives.

■ **Creation of a National Health Fund**

The fund would be responsible for pooling all revenue from mandatory earmarked contributions and these funds (in conjunction with general tax revenues) would be used to fund the basic benefits package covered by National Health Insurance. The state would pay in a universal subsidy to cover indigent people.

Speaking at the Absa Health Care Consultants' Annual Client Seminar in September 2008, Dr Brian Ruff, Head of Clinical Risk Management at Discovery said that in order to implement NHI the government would have to find solutions to revenue collection, risk pooling and the purchasing function. He said that South Africans might end up with a

single revenue collection under NHI with all those funds going into a single risk pool. This same organisation would then become the healthcare purchaser. An alternative to this solution would be for the purchasing body to split up into a number of different purchasing bodies.

In Ruff's opinion there was no danger of the nationalisation of the demand side (funds) and the disappearance of supply side (the private healthcare sector). He said that NHI would be unaffordable in the short-term and estimated that 30% of GDP would be required to extend current private healthcare to the entire population.

You can't use health policy as an instrument of economic policy.



Dr Jonathan Broomberg

In an article published on the ITI News website by Lloyd Coultts, 'Health Insurance and State Healthcare', the author quotes Discovery's head of strategic risk management, Jonathan Broomberg, who made the following observations:

- ▶▶ The private healthcare sector has spent the last 15 years knocking on government's door with ideas on how it could assist to achieve national health goals. These initiatives have borne no fruit.
- ▶▶ Parallel countries such as Brazil and India have made dramatic strides in healthcare delivery during this period by drawing on the assets of the private healthcare sector, while South African policy makers spent much of its energy bashing the private sector due, in part, to ideologically driven bias.
- ▶▶ The government's focus on social health insurance (in terms of which regulated voluntary health insurance will be extended to a mandatory system for those in formal employment, with subsidies from tax revenues subsidising low income membership), is sound.
- ▶▶ There are valid criticisms of the government for the decline in public sector delivery since 1994, due to a declining budget in real per capita terms. An early casualty of this decision was the cut in tertiary hospital spend in favour of primary healthcare.
- ▶▶ Even with current budgets, however, a great deal more could be achieved through the restructuring of systems.
- ▶▶ Government's next big failure was the diagnosis it had reached on the role of the private sector, which it believes to be responsible for driving up healthcare costs and diminishing access to healthcare. "Why?" he asks.
- ▶▶ There remains a deep reservoir of good faith in the private sector (who wish to) work with government without regard to business opportunities, because good quality healthcare was fundamental to the ongoing stability of society.
- ▶▶ South Africa could not expect to leapfrog its economic development requirements. "You can't leapfrog to a health system that demands resources only available in very developed economies. In other words, you can't use health policy as an instrument of economic policy."
- ▶▶ Improvements in healthcare would have to track employment levels and general economic growth, although improved public sector management and greater public private collaboration would also make a major contribution.
- ▶▶ Government itself had played an inadvertent role driving up health costs through ineffective sequencing of legislation, for instance by introducing open enrolment of medical schemes in an environment without mandatory cover and risk equalisation.
- ▶▶ Government legislation had thus contributed to progressive anti-selection against medical schemes, which combined with a medical scheme population growing sicker every year, was driving up costs. It was unfortunate that these important cost drivers were never acknowledged.

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The Merger of the JSE and BESA

Some market observers were disappointed that BESA, a potential JSE competitor, is being bought by the JSE. The rationale for the 'merger' is, however, compelling.

On 27 October 2008 the JSE Limited announced its intention to acquire 100% of the Bond Exchange of South Africa Ltd (BESA) and made an offer of R90 per share, valuing the exchange at R173 million. The offer was rejected by BESA's shareholders. BESA's largest shareholder, the New Zealand Stock Exchange (NZX), said that this offer was "not a true reflection of BESA's current, or likely future, value". The JSE made a revised offer of R125 per share in December. The offer won the support of 85% of shareholders, including the NZX. The new offer values BESA at R241 million.

The JSE/BESA deal is the culmination of numerous unsuccessful discussions over the past few years. A major stumbling block to an acquisition or merger was that, until BESA's recent rights issue, the exchange's Articles of Association prevented the JSE from owning any shares in BESA. Once this rule was changed, according to John Burke, the director of Issuer Services at the JSE, in an interview on Summit TV, BESA's shareholders were saying "get on with it."

The merger is in line with consolidations that are occurring among exchanges globally. The New York Stock Exchange and Euronext merged in 2007 to form NYSE Euronext. Also in 2007 the London Stock Exchange (LSE) purchased the Borsa Italiana. The LSE itself has been the target of several takeover bids. OMX, the Swedish stock exchange, bought exchanges in Denmark, Finland, Estonia and Latvia after making an unsuccessful bid to buy the LSE in 2000.

The reasons for these consolidations – and others which are bound to follow – are all to do with economies of scale. One of the aims of the NYSE/Euronext merger was to create the world's first global stock market. The LSE's acquisition of the Borsa Italiana was intended to diversify the LSE's product offering and customer base. And, in simple terms, the purpose of the JSE/BESA merger is to create market efficiencies.

Advantages for the JSE and Market Participants

For the JSE, the acquisition of BESA will improve its service offering and help it to remain competitive in an increasingly fast-changing global financial market. The main profit driver for both the JSE and BESA is volume traded. A larger product range and an integrated trading platform will boost this. Deputy CEO of the JSE, Nicky Newton-King, said the proposed deal is intended to create a world-class, unified, multi-product exchange that efficiently provides sophisticated trading, clearing and settlement infrastructure to all its clients.

Another reason given by the JSE when it launched its bid was feedback from various market participants that neither the JSE nor BESA offered a solution that encourages greater use of South African interest rate instruments. Once the merger of the two exchanges is complete, more of the trades currently lost to overseas exchanges should be executed in the local market.

Other benefits of the merger include:

- Improved, common risk management processes. The merged entity will work to introduce holistic risk management, clearing and settlement mechanisms for all products traded on the larger, merged exchange, thereby enabling best of breed mechanisms to be introduced into the South African markets.

- Reduction in costs through economies of scale. An integration of platforms should result in cost savings for users and the market as a whole.
- Increased product range and increased liquidity. A broader array of instruments to trade will benefit users and bring more participants to the market.
- Lower counterparty risk.

As part of its commitment to curtailing costs for traders, the JSE has promised to retain the current BESA fee structure without increase for two years.

Positives for the South African Economy

The JSE has said that the large proportion of trading in spot instruments that occurs overseas has negative implications for the efficiency and competitiveness of the South African economy. John Burke commented that “whereas derivative trading in bond markets far outstrips actual spot trading all over the world ... derivative trading in South Africa for bond traders in interest rate products is not where it should be...”.

It is important for efficient use of capital that there are deep debt and equity markets in South Africa. If the trading, clearing and settlement of South African financial instruments is done locally the economy as a whole will benefit from a more vibrant financial system. Nicky Newton-King has been quoted as saying that “the market is telling us that the South African interest rate market cannot continue with two exchanges... neither offering what participants really want”.

By combining platforms and boosting overall liquidity, the South African financial markets will become more competitive globally and the cost of trading, overall, will go down. A more efficient debt market will also mean a better allocation of capital. This could subsequently lead to financial innovation, which will likely benefit the economy further. A combined JSE and BESA have also promised to grow the local fixed income market in accordance with global trends.

The following key focus areas of the combined entity will drive the development of this fixed income growth strategy:

- **Product and services review.** This involves a broad-ranging and open-minded review of all the interest rate products and services currently provided or in the planning stage.
- **Market model review.** A full assessment of the of the current market models for trading, clearing and settlement. This will allow the integrated exchange to develop a superior, customised market model.
- **Infrastructure review.** On completion of the market model review and the formulation of the overall fixed income strategy, a technological review will be undertaken to determine the best technology infrastructure.

The acquisition of BESA by the JSE is subject to approval by the Competition Commission, the Financial Services Board (FSB) and the SA Reserve Bank. The scheme of arrangement was approved by BESA shareholders on 6 February 2009.

Consumer Price Index (CPI)

Transition to the 2009 CPI

1. Introduction

In February 2009, Statistics South Africa (Stats SA) will introduce a revamped Consumer Price Index (CPI) with the publication of the CPI for January 2009. Various changes, methodological and other, will be implemented in the construction of this CPI, and these changes are of three main types. First, the CPI will undergo reweighting with the introduction of new expenditure weights, based largely on the Income and Expenditure Survey of 2005/6. Associated with this change is the update of the CPI basket. Second, the release of the CPI for January 2009 will mark the introduction of the Classification of Individual Consumption by Purpose (COICOP), replacing the International Trade Classification (ITC) currently in use. Third, the CPI will be rebased so that 2008=100.

2. Reweighting

In order to reflect changes in the cost of living of households, the composition of the CPI should reflect the average spending patterns of the population. Over time, however, spending patterns naturally change as incomes and preferences evolve and as new products become available and others are phased out. This means that over time spending patterns diverge from the CPI basket, which therefore needs to be reweighted from time to time. The international norm is that the reweighting of the CPI basket occurs at least once every five years based on data from household expenditure surveys. In South Africa, the Income and Expenditure Surveys (IES) have, as their main objective, the collection of information on spending patterns for use in the calculation of CPI weights.

On the basis of the recently released IES 2005/6 and other supplementary data sources, Stats SA has constructed a new CPI basket. As part of the reweighting process, new items have been included and some items currently included in the CPI excluded from the new basket, with importance within total spending and widespread purchasing the main criteria for inclusion in the basket. For those items that continue to form part of the CPI basket, their relative importance as indicated by their respective weights may have increased or decreased. There have been some substantial shifts in the spending patterns of households between 2000 and 2005/6, meaning that it is likely that the introduction of the new 2006 weights will impact on the level of calculated inflation.

There are two effects that will impact on calculated inflation. Firstly, incomes have risen between 2000 and 2005/6 and, as a result, spending patterns have changed. This income effect saw a shift in expenditure away from food, for example, and towards transport and services. The second effect, a substitution effect, results in households shifting their expenditure away from higher inflation items towards lower inflation items. Overall, given these behavioural changes, it is anticipated that the reweighting of the CPI will result in a decrease in the level of measured inflation. The greater importance of services, which typically have lower rates of inflation relative to goods, in the CPI basket serves to reinforce this expectation. Thus, of the three main changes, the new CPI weights and basket are responsible for the greatest disruption to the CPI time-series.

3. A new classification system: COICOP

The move to COICOP, bringing South Africa in line with standard international practice, entails a recategorisation of the elementary aggregates, with some items being allocated to different CPI aggregates. As its name suggests, COICOP classifies expenditures according to their purpose and, so, expenditures for similar purposes are classified together. Thus, for example, vehicle insurance is moved from Transport under the ITC system, and medical aid contributions are moved from Medical Care and Health, to Insurance (part of Miscellaneous Goods and Services) under COICOP. Many items, though, are unaffected with some aggregates remaining virtually unchanged (e.g. Clothing and Footwear).

What are the implications of this change in classification for the CPI and measured inflation? On its own, a change in the method of classification has no impact on the level of measured inflation. In other words, if this were the only change being implemented, there would be no difference in the overall CPI or measured inflation between the ITC or COICOP classifications. However, the classification change impacts on the composition of certain CPI aggregates and, depending on the extent of the change, results in a break in the series of those aggregates.

4. Introduction of the 2009 CPI

Of the three main changes to the CPI, it is the move to the new CPI basket that will impact on the level of measured inflation. The current reweighting process is qualitatively different from that which occurred in 2002 involving a more substantial change in the composition of the total basket and a streamlining of the number of items included in the basket. The latter has allowed Stats SA to increase the number of prices per product it collects, thereby improving the robustness of the calculated price changes. In preparation for the release of the new CPI, therefore, Stats SA began collecting price data for the expenditure items contained in the new index in January 2008, while continuing to collect price data for the current CPI. This parallel collection of price data ensures that it is possible to compare like with like in calculating inflation rates in the January 2009 release.

The following table (Table 1) provides an illustration of the way in which the CPI will be moved from the current methodology to the new methodology. In this example, as will happen in South Africa, the existing CPI is replaced by the revamped CPI in January 2009, with parallel price collection occurring during 2008.

The first three columns of the table detail the path of the old CPI, which has some year in the past equal to 100. From this index, year-on-year (YoY) and month-on-month (MoM) inflation rates are calculated, which are published as per usual. In January 2008, the parallel collection of prices begins, with the new CPI for January 2009 equalling 100 (column D). Over the course of 2008, the new CPI is calculated parallel to the old CPI, but the former is not published as it is not the official CPI. By December 2008, twelve months of data exist for the new CPI. Month-on-month inflation rates based on the new CPI exist (column F), but there is still insufficient data to calculate year-on-year inflation rates. The possible differing behaviour of the new and old CPIs are visible in the different rates of month-on-month inflation in columns C and F.

Table 1. Illustration of the Old and New CPI Series (Hypothetical Example)

	Old Consumer Price Index			New Consumer Price Index			Old CPI 2008=100	New CPI 2008=100
	Index	Inflation Rate		Index	Inflation Rate			
		YoY	MoM		YoY	MoM		
	A	B	C	D	E	F		
Jul-07	137,1	6,4	0,5				94,8	
Aug-07	137,8	6,4	0,5				95,2	
Sep-07	138,4	6,3	0,5				95,7	
Oct-07	139,1	6,3	0,5				96,1	
Nov-07	139,8	6,2	0,5				96,6	
Dec-07	140,4	6,2	0,5				97,0	
Jan-08	141,1	6,1	0,5	100,0			97,5	97,6
Feb-08	141,7	6,1	0,5	100,4		0,4	98,0	98,0
Mar-08	142,4	6,0	0,5	100,9		0,5	98,4	98,5
Apr-08	143,1	6,0	0,5	101,4		0,5	98,9	98,9
May-08	143,7	5,9	0,5	101,8		0,5	99,3	99,4
Jun-08	144,4	5,8	0,4	102,3		0,4	99,8	99,8
Jul-08	145,0	5,8	0,4	102,7		0,4	100,2	100,2
Aug-08	145,6	5,7	0,4	103,1		0,4	100,6	100,6
Sep-08	146,3	5,7	0,4	103,5		0,4	101,1	101,1
Oct-08	146,9	5,7	0,5	104,0		0,4	101,6	101,5
Nov-08	147,7	5,7	0,5	104,5		0,5	102,1	102,0
Dec-08	148,4	5,7	0,5	105,0		0,5	102,6	102,4
Jan-09				105,4	5,4	0,4		102,9
Feb-09				105,9	5,5	0,4		103,4
Mar-09				106,4	5,4	0,5		103,8

For the January 2009 release, the published CPI will be the new CPI. Both the old and the new CPI series will be rebased so that the average index for 2008 equals 100 (columns G and H). However, the 2008 indices using the old weights and old prices differ from the 2008 indices calculated using the new weights and the new prices. From the launch of the January 2009 CPI, year-on-year inflation rates will be calculated based on the new weights and prices, i.e. the index presented in column D forms the basis for year-on-year comparisons starting in January 2009.

In other words, the year-on-year inflation rate for January 2009 is calculated as

$$\frac{\text{CPI}^{2006 \text{ Weights}}_{\text{Jan 2009}}}{\text{CPI}^{2006 \text{ Weights}}_{\text{Jan 2008}}} = \frac{102.90}{97.60} \quad \text{and not} \quad \frac{\text{CPI}^{2006 \text{ Weights}}_{\text{Jan 2009}}}{\text{CPI}^{2008 \text{ Weights}}_{\text{Jan 2008}}} = \frac{102.90}{97.50}$$

where the superscript denotes the weights and the subscript the price data.

The month-on-month inflation rates will be based on the old weights and prices (column A) until December 2008, whereafter they will be based on the new weights and

prices (column D). In other words, in the January 2009 release the month-on-month inflation rate will be published as 0.5 percent, while the year-on-year inflation rate will be 5.4 percent.

The transition to the new CPI will mean that for 2008, the year in which the parallel price collection took place, there will technically be two price index series, one using the old weights and the old price series (the CPI as it currently exists) and one using the new weights and the new price index series.

However, there is only one official Consumer Price Index series. The publication of the new CPI indices does not and will not constitute a revision of the officially published CPI, nor will it entail a withdrawal of the price indices published during the course of 2008. Consumer price indices published for 2008 are and will remain the official consumer price indices for 2008. Price indices and their resultant inflation rates for 2008 are based on the 2000 weights and the current set of price data, classified according to the ITC system. Price indices and the resulting inflation rates for 2009 onwards will be based on the 2006 weights and the new set of price data, classified according to COICOP.

5. Time series data

Various users may require historical CPI data compatible and comparable with the new CPI data. Stats SA recognises this need and will publish COICOP-consistent historical price series where the data allows. This decision is in line with International Labour Organisation recommendations that when changing classifications results in significant changes in the composition of the CPI aggregates, the CPI under the new classification should be calculated backwards for at least one year to allow the calculation of consistent annual rates of change (ILO, *Consumer Price Index Manual*, paragraph 9.143). Essentially, these series would represent an alternative calculation of the published historical series based on COICOP as opposed to ITC classifications. In some instances sufficient historical price data is available to extend the COICOP-based series backwards over a considerable period of time, as may be the case for food and non-alcoholic beverages for example. In other instances, historical price data is not available and it will therefore not be possible to calculate these historical series further back than 2008. These historical COICOP-based price indices will, however, remain consistent with previously published indices. At a minimum, therefore, historical price series according to the COICOP classification covering no less than the twelve months of 2008 will be made available by Stats SA in the month leading up to the CPI release in February 2009. The publication of historical price series for CPI aggregates under the ITC system will then be suspended.



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Annual Inflation on a Monthly Basis – Base year: 2000 = 100

The figures in this table are prior to the rebased figures.

Year	Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	Index %	96.9 +2.6	96.6 +2.3	97.6 +3.4	98.9 +4.5	99.3 +5.1	99.9 +5.2	100.8 +6.0	101.2 +6.9	101.7 +6.9	102.2 +7.0	102.2 +7.0	102.5 +7.0
2001	Index %	103.8 +7.1	104.1 +7.8	104.8 +7.4	105.3 +6.5	105.7 +6.4	106.2 +6.3	106.1 +5.3	105.9 +4.6	106.2 +4.4	106.1 +4.0	106.6 +4.3	107.2 +4.6
2002	Index %	109.0 +5.0	110.2 +5.9	111.3 +6.2	113.1 +7.4	113.9 +7.8	114.7 +8.0	116.3 +9.6	116.9 +10.4	118.1 +11.2	119.9 +13.0	120.3 +12.9	120.5 +12.4
2003	Index %	121.6 +11.6	121.5 +10.3	122.7 +10.2	123.1 +8.8	122.8 +7.8	122.4 +6.7	122.4 +5.2	122.9 +5.1	122.5 +3.7	121.7 +1.5	120.8 +0.4	120.9 +0.3
2004	Index %	121.8 +0.2	122.4 +0.7	123.2 +0.4	123.4 +0.2	123.5 +0.6	123.9 +1.2	124.3 +1.6	124.1 +1.0	124.1 +1.3	124.6 +2.4	125.3 +3.7	125.0 +3.4
2005	Index %	125.4 +3.0	125.6 +2.6	126.9 +3.0	127.6 +3.4	127.6 +3.3	127.4 +2.8	128.5 +3.4	129.0 +3.9	129.5 +4.4	129.6 +4.0	129.5 +3.4	129.5 +3.6
2006	Index %	130.4 +4.0	130.5 +3.9	131.2 +3.4	131.8 +3.3	132.6 +3.9	133.6 +4.9	134.9 +5.0	136.0 +5.4	136.3 +5.3	136.6 +5.4	136.5 +5.4	137.0 +5.8
2007	Index %	138.2 +6.0	138.0 +5.7	139.2 +6.1	141.0 +7.0	141.8 +6.9	143.0 +7.0	144.4 +7.0	146.1 +6.7	146.1 +7.2	147.4 +7.9	148.0 +8.4	149.3 +9.0
2008	Index %	150.0 +9.3	151.5 +9.8	153.9 +10.6	156.6 +11.1	158.4 +11.7	160.4 +12.2	163.8 +13.4	165.0 +13.7	165.3 +13.1	165.3 +12.1	165.4 +11.8	163.5 +9.5

Source: Statistics South Africa (www.statssa.gov.za)

Updated rebased historical table

Year	Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
2000	Index %	60.6 +2.7	60.4 +2.4	61.0 +3.4	61.8 +4.6	62.1 +5.1	62.4 +5.1	63.0 +6.1	63.3 +6.9	63.6 +7.1	63.8 +7.0	63.9 +7.0	64.1 +5.4	62.5 +5.4
2001	Index %	64.9 +7.1	65.1 +7.8	65.5 +7.4	65.8 +6.5	66.1 +6.4	66.4 +6.4	66.3 +5.2	66.2 +4.6	66.4 +4.4	66.3 +3.9	66.6 +4.2	67.0 +4.5	66.1 +5.8
2002	Index %	68.1 +4.9	68.9 +5.8	69.6 +6.3	70.7 +7.4	71.2 +7.7	71.7 +8.0	72.7 +9.7	73.1 +10.4	73.8 +11.1	74.9 +13.0	75.2 +12.9	75.3 +12.4	72.1 +9.1
2003	Index %	76.0 +11.6	75.9 +10.2	76.7 +10.2	76.9 +8.8	76.8 +7.9	76.5 +6.7	76.5 +5.2	76.8 +5.1	76.6 +3.8	76.1 +1.6	75.5 +0.4	75.6 +0.4	76.3 +5.8
2004	Index %	76.1 +0.1	76.5 +0.8	77.0 +0.4	77.1 +0.3	77.2 +0.5	77.4 +1.2	77.7 +1.6	77.6 +1.0	77.6 +1.3	77.9 +2.4	78.3 +3.7	78.1 +3.3	77.4 +1.4
2005	Index %	78.4 +3.0	78.5 +2.6	79.3 +3.0	79.8 +3.5	79.8 +3.4	79.6 +2.8	80.3 +3.3	80.6 +3.9	80.9 +4.3	81.0 +4.0	80.9 +3.3	80.9 +3.6	80.0 +3.4
2006	Index %	81.5 +4.0	81.6 +3.9	82.0 +3.4	82.4 +3.3	82.9 +3.9	83.5 +4.9	84.3 +5.0	85.0 +5.5	85.2 +5.3	85.4 +5.4	85.3 +5.4	85.6 +5.8	83.7 +4.6
2007	Index %	86.4 +6.0	86.3 +5.8	87.0 +6.1	88.1 +6.9	88.6 +6.9	89.4 +7.1	90.3 +7.1	90.7 +6.7	91.3 +7.2	92.1 +7.8	92.5 +8.4	93.3 +9.0	89.7 +7.2
2008	Index %	94.4 +9.3	94.7 +9.8	96.2 +10.6	97.9 +11.1	99.0 +11.7	100.3 +12.2	102.4 +13.4	103.1 +13.7	103.3 +13.1	103.3 +12.1	103.4 +11.8	102.2 +9.5	100.0 +11.5
2009	Index %	103.1 +8.1	104.3 +8.6											

Source: Statistics South Africa (www.statssa.gov.za)

Interest Rate Change Dates (Prime and Repo)

Consumer Price Index (CPI)- rebased figures

Annual Inflation on a Monthly Basis - Base year: 2000 = 100

Year	Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
2000	Index %	60.6 +2.7	60.4 +2.4	61.0 +3.4	61.8 +4.6	62.1 +5.1	62.4 +5.1	63.0 +6.1	63.3 +6.9	63.6 +7.1	63.8 +7.0	63.9 +7.0	64.1 +5.4	62.5 +5.4
2001	Index %	64.9 +7.1	65.1 +7.8	65.5 +7.4	65.8 +6.5	66.1 +6.4	66.4 +6.4	66.3 +5.2	66.2 +4.6	66.4 +4.4	66.3 +3.9	66.6 +4.2	67.0 +4.5	66.1 +5.8
2002	Index %	68.1 +4.9	68.9 +5.8	69.6 +6.3	70.7 +7.4	71.2 +7.7	71.7 +8.0	72.7 +9.7	73.1 +10.4	73.8 +11.1	74.9 +13.0	75.2 +12.9	75.3 +12.4	72.1 +9.1
2003	Index %	76.0 +11.6	75.9 +10.2	76.7 +10.2	76.9 +8.8	76.8 +7.9	76.5 +6.7	76.5 +5.2	76.8 +5.1	76.6 +3.8	76.1 +1.6	75.5 +0.4	75.6 +0.4	76.3 +5.8
2004	Index %	76.1 +0.1	76.5 +0.8	77.0 +0.4	77.1 +0.3	77.2 +0.5	77.4 +1.2	77.7 +1.6	77.6 +1.0	77.6 +1.3	77.9 +2.4	78.3 +3.7	78.1 +3.3	77.4 +1.4
2005	Index %	78.4 +3.0	78.5 +2.6	79.3 +3.0	79.8 +3.5	79.8 +3.4	79.6 +2.8	80.3 +3.3	80.6 +3.9	80.9 +4.3	81.0 +4.0	80.9 +3.3	80.9 +3.6	80.0 +3.4
2006	Index %	81.5 +4.0	81.6 +3.9	82.0 +3.4	82.4 +3.3	82.9 +3.9	83.5 +4.9	84.3 +5.0	85.0 +5.5	85.2 +5.3	85.4 +5.4	85.3 +5.4	85.6 +5.8	83.7 +4.6
2007	Index %	86.4 +6.0	86.3 +5.8	87.0 +6.1	88.1 +6.9	88.6 +6.9	89.4 +7.1	90.3 +7.1	90.7 +6.7	91.3 +7.2	92.1 +7.8	92.5 +8.4	93.3 +9.0	89.7 +7.2
2008	Index %	94.4 +9.3	94.7 +9.8	96.2 +10.6	97.9 +11.1	99.0 +11.7	100.3 +12.2	102.4 +13.4	103.1 +13.7	103.3 +13.1	103.3 +12.1	103.4 +11.8	102.2 +9.5	100.0 +11.5
2009	Index %	103.1 +8.1	104.3 +8.6											

Source: Statistics South Africa (www.statssa.gov.za)

Date of change of Prime Interest Rate of Banks

2000

%

24 Jan 2000

Date of change of Repo Rate

2000

%

Jan

17 Oct 2000

11.75 - 12.00

2001

%

18 Jun 2001

14.50 - 13.75

16 Jul 2001

13.75 - 13.50

25 Sep 2001

13.50 - 13.00

2001

%

15 June 2001

12.00 - 11.00

05 Sep 2001

11.00 - 10.00

21 Sep 2001

10.00 - 9.50

2002

%

16 Jan 2002

13.00 - 14.00

18 Mar 2002

14.00 - 15.00

14 Jun 2002

15.00 - 16.00

16 Sep 2002

16.00 - 17.00

2002

%

16 Jan 2002

9.50 - 10.50

15 Mar 2002

10.50 - 11.50

14 Jun 2002

11.50 - 12.50

13 Sep 2002

12.50 - 13.50

INTEREST RATE CHANGE DATES (PRIME AND REPO)

Date of change of Prime Interest Rate of Banks		Date of change of Repo Rate	
2003	%	2003	%
13 Jun 2003	17.00 - 15.50	13 Jun 2003	13.50 - 12.00
15 Aug 2003	15.50 - 14.50	15 Aug 2003	12.00 - 11.00
11 Sep 2003	14.50 - 13.50	11 Sep 2003	11.00 - 10.00
20 Oct 2003	13.50 - 12.00	17 Oct 2003	10.00 - 8.50
15 Dec 2003	12.00 - 11.50	12 Dec 2003	8.50 - 8.00
2004	%	2004	%
16 Aug 2004	11.50 - 11.00	13 Aug 2004	8.00 - 7.50
2005	%	2005	%
15 Apr 2005	11.00 - 10.50	14 Apr 2005	7.50 - 7.00
2006	%	2006	%
08 Jun 2006	10.50 - 11.00	08 Jun 2006	7.00 - 7.50
03 Aug 2006	11.00 - 11.50	03 Aug 2006	7.50 - 8.00
13 Oct 2006	11.50 - 12.00	13 Sep 2006	8.00 - 8.50
08 Dec 2006	12.00 - 12.50	08 Dec 2006	8.50 - 9.00
2007	%	2007	%
08 Jun 2007	12.50 - 13.00	07 Jun 2007	9.00 - 9.50
18 Aug 2007	13.00 - 13.50	17 Aug 2007	9.50 - 10.00
12 Oct 2007	13.50 - 14.00	12 Oct 2007	10.00 - 10.50
07 Dec 2007	14.00 - 14.50	07 Dec 2007	10.50 - 11.00
2008	%	2008	%
11 Apr 2008	14.50 - 15.00	11 Apr 2008	11.00 - 11.50
13 Jun 2008	15.00 - 15.50	13 Jun 2008	11.50 - 12.00
12 Dec 2008	15.50 - 15.00	11 Dec 2008	12.00 - 11.50
2009			
06 Feb 2009	15.00 - 14.00	06 Feb 2009	11.50 - 10.50
25 Mar 2009	14.00 - 13.00	25 Mar 2009	10.50 - 9.50

Interest Rates

Interest is the amount a borrower pays a lender for the use of the funds borrowed. There is a wide range of interest rates, including the various rates on deposits, the prime lending rate of banks, rates on mortgage bonds (home loans), the repo rate of the South African Reserve Bank, rates charged by micro-lenders and the rate on government stock, to mention but a few.

Source: South African Reserve Bank (www.reservebank.co.za)