

South Africa

South African Rand Outlook

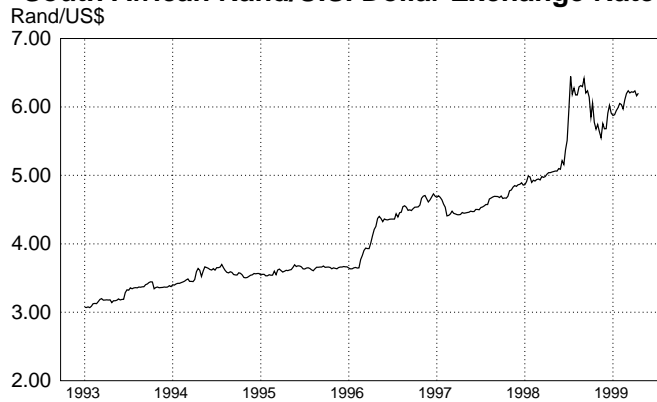
The rand has been trading at the around ZAR 6.07 to the U.S. dollar. Its strength has surprised most analysts (including us). Our most recent forecast put the rand at ZAR 6.40 (end-1999) and ZAR 6.70 (end-2000), which is more bullish than most. Yet, ironically, these forecasts may prove to be too conservative. Since most analysts are unduly influenced by the unusual events of the past three years, they cannot imagine the rand doing anything but depreciating in real terms. Inevitably, they cite the low level of reserves, the large 'forward book' and the possibility of further exchange control relaxation.

These considerations may indeed weigh on the rand in due course. However, the rand has never failed to appreciate in real terms whenever commodity prices have been rising (not to mention emerging market debt spreads narrowing). With increasing optimism about a recovery in world growth and commodity prices, however premature that may be, the rand's outlook has improved. Foreign capital flows into South Africa are likely to rise just as the current account deficit shrinks. For these reasons, we remain relatively bullish on the rand in the medium term (the next 2-3 years). We expect it to continue depreciating but by no more (and possibly by less) than the inflation differential.

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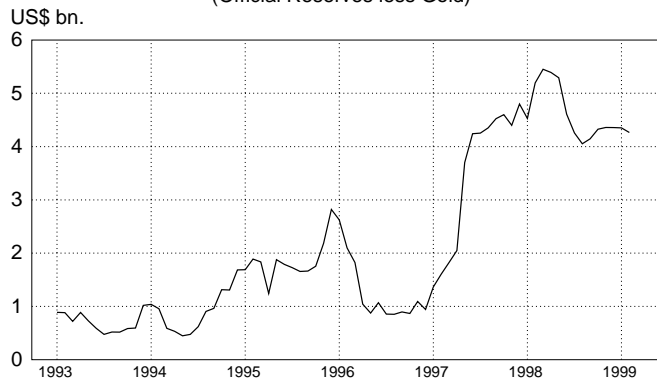
South African Rand/U.S. Dollar Exchange Rate



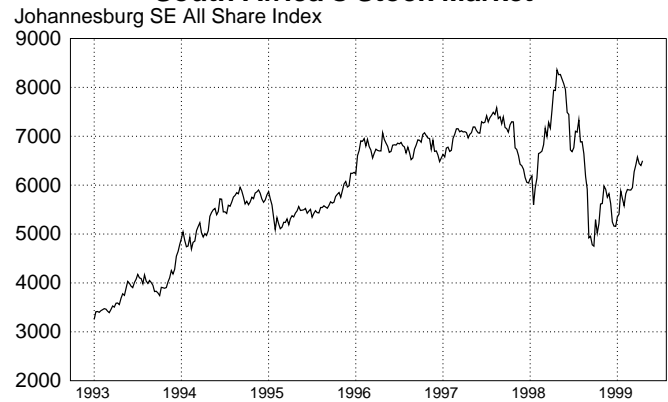
S. Africa/U.S. Short-Term Interest-Rate Spread



South Africa's Reserves (Official Reserves less Gold)



South Africa's Stock Market



South Africa Key Economic Indicators and Forecasts

	1995	1996	1997	1998f	1999f	2000f
Real GDP Growth (%)	3.4	3.2	1.7	0.1	-0.5	2.0
Inflation Rate (%)	8.6	7.4	8.6	6.9	6.0	3.7
Current Acc't Bal. (\$ bn.)	-2.4	-1.7	-1.9	-2.0	-0.8	-1.5
Trade Balance (\$ bn.)	1.4	2.2	1.0	0.4	1.7	1.0
Int'l Reserves (\$ bn.)	4.3	2.4	5.3	6.0	7.0	8.0
Budget Balance (% GDP)	-6.8	-5.6	-4.3	-3.7	-3.5	-3.0