iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Impact of US Financial Crises 2008-09 on South African Economy

Ashima Arora
Doctoral Scholar ,Faculty of Management Studies
University of Delhi ,Delhi 110007, India
phd_ashima.a13@fms.edu

Dr. Anjala Kalsie*
Assistant Professor ,Faculty of Management Studies
University of Delhi ,Delhi 110007, India
kalsieanjala@gmail.com, +91 9871971933

**Corresponding Author*

Abstract

The objective of this paper is to discuss about the impact of US sub-prime crisis on the economy of South Africa. The paper takes into account both the macroeconomic and financial engines of the economy. The weaker integration of the economy with the world might had worked in its favor by limiting the severity of systemic crisis to play out effectively. Nevertheless, the crisis infiltrated its boundaries riding on the channels of capital outflows and diminishing global demand hurting its economic growth. Substantial volatility was found in case of exports, exchange rate, foreign investments, manufacturing and mining production, and stock markets. Numerous factors ranging from lower global economic growth, confidence crisis freezing credit circulation globally, declining oil and commodity prices and demand, and pressure on capital flows culminated into a substantial decline in both fiscal account and external accounts of the economy. The tale of deteriorating economy in 2009 was resonated with the aggravating unemployment, contraction in the fixed capital formation by private sector. Amidst these effects, the stringent regulations saved its banking sector from harsh implications of crisis and thus no emergency stimulus packages were launched for it saving the economy from extra debt.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Yet the government reached out towards confidence building measures by investing into employment generation activities, wages, incomes, infrastructure, and increased final consumption expenditure.

A significant contribution is made by this paper in estimating the severity of impact of crisis on South African economy and measures taken in response. This information has implications for both its trading partners and other emerging economies of its region.

Key Words: US financial crisis, South Africa, impact, manufacturing production, mining production, international trade, exchange rate of Rand.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

1. Introduction

The weak integration of South African economy with rest of the global economies gave an alibi for anticipating decoupled status from the effects of crisis for it. South African economy was expected to be spared from US financial crisis that inflicted wrath on numerous advanced and emerging economies. Quashing the expectations, however, the economy reported a decline in its economic growth plummeting from growth of 3.62% in year 2008 to a depreciation of (-)1.53% in year 2009 (World Bank). The crisis infiltrated the economic boundaries riding on the channels of capital outflows and diminishing global demand hurting its commodity exports based economic growth. Crisis induced feeble demand also slashed the manufacturing and mining production, another life line of South African economy. These sudden external issues complemented with home grown problems of struggling domestic sectors of retail, automotive, and mining suffocated their economic growth. Already these sectors could not extract complete benefit from global prosperity of 2000-2007, let alone the period of crisis that came loaded with credit freeze, confidence crisis and capital flight impacting the demand and finance availability. The evaporation of liquidity had the maximum impact on small enterprises which through multiplier effect engulf other sectors of the economy too. Further impact of crisis manifested itself in the declined earnings of exports, industry value added, depreciating currency valuation, deteriorating investments, and cost cutting resulting in rising unemployment. This way the US sub-prime crisis brought back the vulnerabilities back to the limelight. But decline in the economic growth was an alarming situation not only for South African economy but for the whole continent of Africa. The dependency of neighboring economies on South Africa raised their vulnerabilities even due to the crisis.

However, the crisis presented a silver lining as well for the economy by triggering recovery for certain sectors of the economy. For instance, the economy struggling with rising current account default and surging inflation experienced a sudden resolution owing to crisis causing adjustments through decline in imports and tumble in demand. Furthermore, the economy was saved by the stringent risk management and financial regulations observed by its policymakers. These stringent dispositions defining its financial sector limited the exposure of South African banks to the toxic products of US. Hence, neither any intervention meeting liquidity shortage was implemented nor any alterations were made to its monetary policies by its central bank. Alternatively, the healthy fiscal position facilitated cushion to the threat of slowdown to the economy which was never needed though.

Thus, the South African economy was a witness to the extremes of both the worlds. This crisis brought the first crisis for the economy in nearly two decades owing to its trade

ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

linkages and financial integration with global economies. This paper accordingly elaborates on both the perspectives arising as an after-effect of crisis.

The paper is divided into following sections Section 2 is about Objectives and Methodology, Section 3 is about Analyses and Interpretation and Section 4 finally concluded the paper.

2. Objective and Conceptual Framework

The objective of this paper is to discuss about the impact of US sub-prime crisis on the economy of South Africa. The paper takes into account both the macroeconomic and financial engines of the economy. Few indicators that were analyzed comprises of economic growth, international trade, stock market, exchange rate, foreign exchange reserves, industrial production, and banking sector. The attempt is to estimate the severity of impact of crisis on South African economy and measures taken in response by its government. The descriptive design for the study was adopted employing the reports of the government and central bank of South Africa.

3. Analyses and Interpretation

3.1 Impact on Economic Growth of South Africa

South Africa is counted as the largest economies among all the constituent economies of Africa. Thus, its downfall is a bad news not only for its own economy but for all its neighboring economies which are dependent on it in context of trade, remittances and employment [5].

Table 1. Gross Domestic Product of Russia, 2000-2010 Source: World Bank

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth (annual %)	4.16	2.74	3.67	2.95	4.56	5.28	5.60	5.55	3.62	-1.53	3.09
GDP per capita growth (annual %)	1.61	0.65	2.25	1.65	3.33	4.09	4.43	4.4	2.48	-2.58	1.70

Source: World Bank

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

After a decade of continuous economic growth, the real GDP declined first time in the last quarter of 2008 by 1.8% (y-o-y) as seen in Table 1. The economic growth which had been rising consistently at an average rate of 4% annually from quarter 4 of 1999 to that of 2007 took a reversal in 2008 gesturing to the cessation of the longest upswing of the business cycle in its history. The economic growth hitherto had been a factor of contributions made chiefly by the secondary and tertiary sectors[1] of the economy. While in contrast, the crisis permeation in the economy had been a factor of deterioration in manufacturing and commerce principally shadowed by degeneration in the mining production in 2008. All the segments of the primary, secondary and tertiary sectors experienced reduction from the first quarter of 2009 with the exception of construction and community, social and personal services. The manufacturing production reported the maximum decline in the first half of 2009 at 19.4% followed by mining at 17%. This decline in both the manufacturing and mining productions can be attributed to the unexpected waning of the demand from both the domestic and the external avenues. The similar weakening in the demand led the depreciation in the constituting segments of the tertiary sector viz., transport, trade, real estate and financial services. Amidst all the worrying negative effects of the declining economic growth in 2009, the advantage also emerged - in the form of contraction in the widening current account deficit. The trade and current account deficit which was increasing consistently riding on the increased imports experienced a sharper decline in imports in 2009 owing to the fall in the consumption and inventory reduction relative to the exports. While on one hand, the economy was struggling with rising deficit throughout 2008, it was enjoying capital account surplus on the other hand too. This capital account surplus was sponsored by the strengthening inflow of direct and other investments in contrast to the portfolio outflows which were riding on the negative sentiments and rising risk aversion by the investor amidst the intensifying crisis scenario worldwide in 2008. Other issues faced during 2008 were the deceleration in the money supply and bank loans, steep decline in the share prices along with the restraining outlook of the property market where house prices were reporting decline. The tale of deteriorating economy in 2009 particularly in the first half was resonated with the aggravating unemployment, contraction in the fixed capital formation by private sector besides other numerous sectors. The actual response was rendered by the government in the form of expansionary fiscal policy with the investments in employment generation activities, wages, incomes, infrastructure, and increased final consumption expenditure by the government thereby materializing into confidence building measures.

---

[1] The primary sector of the South African economy encompasses agriculture and mining while the manufacturing, electricity, gas and water and construction figures in the secondary sector followed by commerce, transport and communication and finance and other services being enlisted as the tertiary sector of the economy.

ISSN: 2348 9510

International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

The outcome of these government initiatives gave a thrust to the diminishing household consumption expenditure after its continued contraction for first three quarters of 2009. Since the quarter 4, 2009, the improvements were observed in expenditure on durable and semi-durable goods, secondary sector with manufacturing contribution the most along with the tertiary sector. Despite the recovery of economic growth beginning essentially in the second half of the year 2009 (even if at a retarded rate), the year 2009 registered an overall decline at 1.53%. Nevertheless, the positive growth sustained its momentum into the next year of 2010. The recovery in 2010 was broad based with the enhanced performance of all the three sector viz., primary, secondary and tertiary sectors. The augmented output of agriculture[2] and mining sector fuelled the performance of primary sector in 2010. The enhanced agriculture output was riding on the impetus given by the favorable weather condition in 2009-10 that yielded bumper harvest. Successively it was the contraction in the manufacturing and production of electricity[3], gas and water that were responsible for the degeneration of growth of secondary sector throughout the year 2009. Then, when the domestic and external demand re-surged, the manufacturing and thereby secondary sector responded with the increase in its output. Manufacturing played a key role in the slowdown and recovery of the economic growth owing to its significant contribution in GDP via exports[4].

3.2 Inflation

The South Africa Reserve Bank (SARB, hereafter) with the core responsibility of maintaining price stability and thereby inflation under per-determined level indulged in tight monetary policy from June 2008. The pre-crisis period of 2006 & 2007 witnessed the overheating of the economy working under high capacity utilization, increasing expenditure growth – both public and private and buoyant credit availability which led to surging inflationary conditions. This prompted the adoption of anti-cyclic monetary policies by the SARB and its Monetary Policy Committee (MPC). The deteriorating conditions of 2008 with high volatility in food and oil prices internationally along with the additional volatility in exchange rate did not helped much in easing the inflationary pressures in the S. African

---

[2] It should be noted that the share of agriculture in S.Africa's GDP is the smallest (among the BRICS as well) at about 3% only and thereby any fluctuation in its output does not cast cautionary spells for the economy. But the economic development is more sensitive to the fluctuations in the output of service sector as it accounts for more than 60% of the total GDP.

[3] South Africa is the producer of 45% of Africa's electricity requirements and is the supplier providing the electricity at world's 4th cheapest rate.

[4] In year 2009, the manufacturing accounted for 15.1% of GDP. The manufacturing encompasses production of motor vehicles, parts, accessories, and other transport equipment with its huge exporting market in China and Europe. Besides, the petroleum products, chemical products, rubber and plastic products; and basic iron and steel, non-ferrous metal products and machinery also figures in the list of manufactured exports.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

economy. Accordingly it resulted in the shooting of the inflation measured in terms of consumer price index from 7.09 in 2007 to 11.54% in 2008, a jump of 63% within a year.

Table 2. Consumer Price Inflation, 2000-2010

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Inflation, consumer prices (annual %)	5.339	5.702	9.164	5.859	1.385	3.399	4.642	7.098	11.54	7.13	4.262

Source: World Bank

Subsequently, as the global economic dynamics changed in the late 2008 pulling global economies into the financial crisis with it including the S. African economy as well, the output gap widened but the consistently rising inflation heaved a sigh for the economy of S. Africa. The waning demand and bottoming commodity prices in the international market owing to the retrenchment in the output and trade worldwide reduced the pressures of inflation in the S. African economy particularly for the producer price index. The appreciation of the local currency unit – rand since October 2008 along with the wilting prices of the crude oil in the international market from its high of USD 145 per barrel (pb) in July 2008 to less than USD 35pb by year end abetted in curtailing the inflationary pressure. These developments were not restricted to the last months of 2008 but precipitated in the next year of 2009 with the producer price index dropping from the highs of 20% in August 2008 to 2.9% in April 2009. This decreasing trend particularly in producers price index that continued up to June 2009 was prominently propelled by the decline in the prices of petroleum and coal products, basic metals and mining products besides the increase of agricultural and manufactured food products, chemical and its derivative products at the declining rates. On the other hand, the consumer price inflation also dropped from its zenith of 13.6% y-o-y rate in August 2008 to 6.9% by June 2009. This decline in the CPI was sponsored by the moderating prices of the food and beverages, transport and communication goods. This diminishing behavior in the consumer price index even if it was higher than the inflation w.r.t producer price index helped in moderating the overall inflation outlook. In succession, in the latter half of the year 2009 and beginning of 2010, the effect of the improvement in the global economy had started reflecting in the South African economy. The process of inflation moderation continued up to the first half year of 2010. It was basically the appreciation in the exchange rate of rand that assisted in regulating the impact of rising prices of oil and commodities in the international market translating into moderate inflation throughout the year 2010. Further, the surplus capacity provision in most of the sectors of the economy also contributed its part in moderating the inflation with CPI subsiding and remaining within its target range. Consequently, the MPC found the space to reduce its repo

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

rate to its 30-year lowest rate of 5.5% in 2010 in order to give thrust to the economy. The efforts of the MPC started reflecting the results from second quarter of 2010 with the increase in the banks extending credit gradually, thrust for the employment growth, pick up of the consumption expenditure by households driven by the augmentation in their income owing to moderating inflation and decreasing interest rates. Further, SARB and its MPC undertook a reduction of total 500 basis points in repurchase rate (repo rate) since December 2008 to an all-time low level of 6.5% in August 2009 [10]. Consequently, the consumer price inflation witnessed a reduction in the year 2009 from 11.54% in 2008 to 7.13% in the year 2009. Afterwards, from February 2010, the consumer price inflation rate dipped to less than 6% to close the year at 4.26% [1].

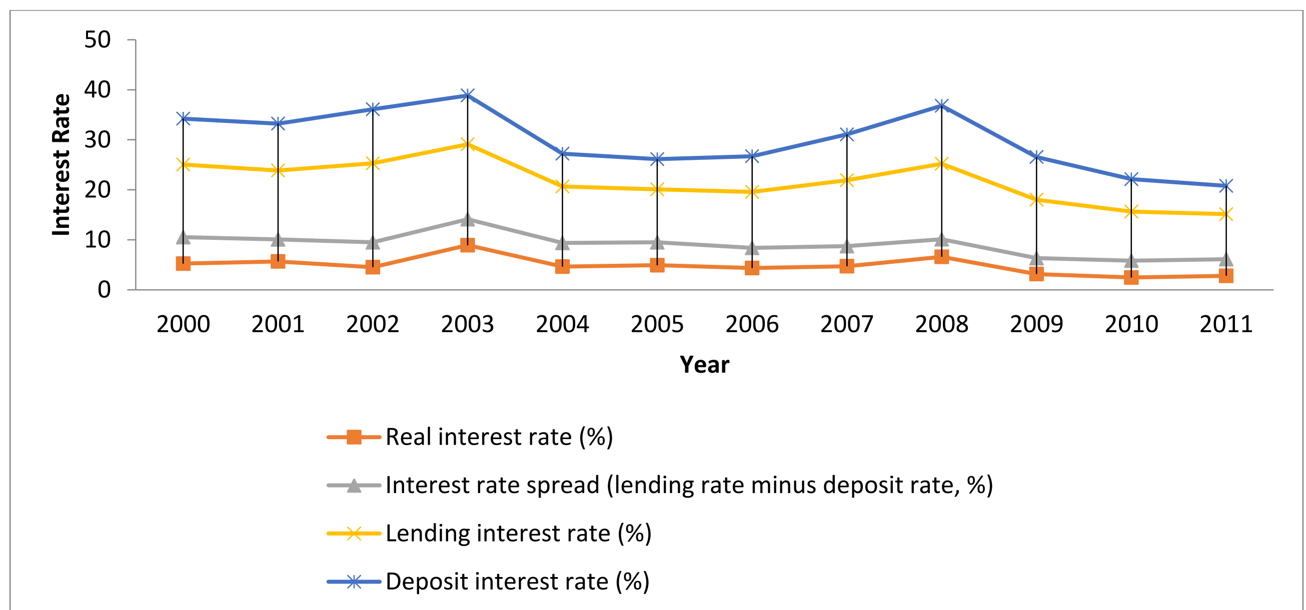
3.3 Interest Rates

South Africa follows the inflation targeting monetary policy framework spearheading its targets with its most potent tool of repurchase rate. Accordingly, its target is to limit the inflation within 3-6% headline Consumer Price index concomitant with the financial stability objective. Thus, when the inflation diminished from its recent apex in August of 2008, the policy stance was changed from being a restrictive one to being an accommodating one. A series of interest rate reductions were implemented from December, 2008 through the diminution of repo rate by the SARB (South Africa Reserve Bank) and it's MPC (Monetary Policy Committee) despite the fact that the inflation at that time was still above the inflation target rate. This is attributed to their forward looking attitude to inflation-targeting framework based on the understanding that medium- to longer-term trajectory dictates the expected inflation instead of current inflation outcomes[5]. The widening of the output gap and the waning domestic demand along with the disappearing external demand leading to the moderation of the inflation were quoted as the reasons driving the serial decrease in the repo rate. Consequently, the repo (repurchase) rate was reduced by a net of 500 basis points from December 2008 to August 2009 settling at 7% propelled by the subsiding of the risks posed to the inflation outlook from the supply-side and exogenous factors. The economy was on a recovery path from November, 2009 surfacing from the effects of the crisis was evident from the MPC's decision to re-change its policy review meetings to bi-monthly from its changed stance of monthly meeting, adopted in December, 2008 to be more reactive to economic developments. Since then up to December, 2010, MPC supplemented the reduction of only 150 basis points with repo rate bottoming out at 5.5% and no additional assistance to the banks or engagement in the quantitative easing to support lower interest rates were provided

[5] In other words, the outcome of the inflation reacts with a lag to the changes in the interest rates directed by the MPC policies.

throughout this period. No supplementary assistance provision resolution to the bank was based on the absence of severe impact on the banking sector of South Africa [1].

Figure 1. Chief Policy Rates of South Africa Reserve Bank



Source: World Bank

Nevertheless, for the first half of the year 2009, the real interest rate remained in the negative territory despite the interest rates existing at the lower level relative to those predominant during the pre-crisis period. Subsequently, with the persistent fall in the inflation, the real interest rate turned positive by the second half of the year 2009 to average out at 3.15% for the year 2009 lower relative to the 2008 real interest rate of 6.59% but higher than the successive rate of 2.45% for 2010. Similarly, both the lending and the deposit interest rates also witnessed a sizeable decline in the year 2009 at 11.7% and 8.54% from 15.1% and 11.6% in 2008 respectively. Consequently, the interest rate spread also remained followed the same trend of moderating from the higher rates of 5.2% in 2003 to 3.5% in 2008 and further lessening to 3.17% in 2009. Furthermore, fluctuation in the spread between the repo rate and the market rate gauged by the South African Benchmark Overnight Rate (Sabor) on deposits remained within the reasonable limits. Not only the market rate[6] but also the overnight foreign exchange rate that follows the repo rate changes fluctuated within the usual range indicating at the vigorous health and efficient functioning of the interbank market of South

[6] Market rate measured by the South African Benchmark Overnight Rate also signifies the interbank lending rate. Whereas, overnight foreign exchange rate (overnight FX rate) signifies the rate applicable on an overnight rand funding in the foreign-exchange swap market.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Africa during the crisis period meriting no assistance from SARB [11]. Thus, the maintenance of sound financial and banking regulations besides the capital control related to the investors assisted in screening the domestic financial market from the acute impact of the turmoil in the international financial market.

3.4 Impact on Capital Flows

Even though the cross-border capital flows suffered a profound impact owing to the upheaval in the international financial market beginning in 2007, the financial account of South Africa maintained a net capital inflow status during this chaotic phase.

The portfolio investments catalogued a net outflow for the first time in past 8 years for the year 2008 owing to the widespread liquidity and confidence crisis prevalent and swelling worldwide, particularly post the collapse of Lehman Brothers. Thus, the investors struggling with the escalating credit squeeze in the international financial market, mounting uncertainty due to substantial losses on investments and accompanying escalating liquidity scarcities globally started limiting their exposures via pulling out their investments. South Africa serving as no exception also fell to this trend with the significant portfolio outflow recorded in the second half of 2008. Subsequently, with the easing of the risk aversion attitude of the investors, South African capital market witnessed the return of the portfolio inflow in the first half of 2009. The issuance of international bonds by the government amounting USD1.5 billion[7] further augmented the capital inflows during that period. And subsequently, for the period of next 18 months from 2009 up to June 2010, net FII contributed to the net capital inflows finding its way into South African issued equity and debt securities. These rising inflows occurred owing to two reasons viz., rising appetite of the investors towards the S. African assets with the economic growth expected to fare relatively better than the other developed economies and other being its sound and robust macroeconomic framework tested and outdone in the phase of the crisis. Another catalyzing factor working in favor of S. African capital markets attracting global investor's interest and their investments was the interest rate differential offered by the market of S. Africa. Thus, when on one hand, the share market emerged to be the core destination for the bulk of the funds inflow into the economy, the concentration of the non-residents on the other hand was fixated on the acquisition of bonds up till the culmination of 2009 following in to the first half of 2010 [12].

Table 3. Foreign Direct Investment flows, 2000-2010

[7] A part of this newly issued USD 1.5 billion government bond was directed towards the redemption of USD 0.6 billion government bonds maturing during the same period.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign direct investment, net inflows (% of GDP)	0.73	6.14	1.33	0.47	0.32	2.64	0.24	2.3	3.62	2.68	1.02
Foreign direct investment, net outflows (% of GDP)	NA	NA	NA	NA	NA	0.37	2.27	1.04	-0.8	0.46	-0

Source: World Bank

In contrast, the foreign direct investment (FDI) exhibited a less volatile and more resilient outlook compared to the portfolio flows (FIIs) during the crisis period. FDI recorded substantial inflow from the beginning of the year 2008 unlike FII registering a net outflow throughout the year. The economy received the FDI inflow in the form of advance and trade finance of both the short and long-term nature tendered by the non-resident holding companies to their S. African subsidiaries. Consequently, the financial account of S. Africa recorded the highest net FDI inflow of 3.62% of its GDP since its last record of 2001. In contrast, the FDI outflow registered a decline of 0.8% of its GDP in 2008 relative to its net FDI outflow in the relevant previous year of 2007 at 1.04% of its GDP which essentially reflects the crisis having made its mark on the economy in 2008. The trend of FDI inflows continued from 2008 into the first half of 2009 percolating chiefly into the sectors of telecommunications, pharmaceutical and mining industries (for 2009). Subsequently, the FDI inflow tapered off significantly in its march from the second half of 2009 up to the year 2010. Undoubtedly, the first half of 2010 witnessed the conclusion on smaller transaction but the long-term investments were missing in action during that time distressed by the sustainability of the global economic recovery. This ex-ante withdrawal of the foreign direct investment also suggests the impacts of crisis permeating the economy that reflected in its due course of time owing to the long term nature of the FDI decisions.

Therefore, in entirety, whatever the financial accounts was losing via the portfolio outflows was being more than compensated by the FDI inflow during the mid-crisis phase of 2008 following which even the FII contributed with its gradual improvement in 2009 in the net capital inflow. That is to say that the financial market had proceeded towards the gradual stabilization having a significant impact on the non- bank financial intermediaries by the end of 2009. Also, this period was best utilized by the South African enterprises by increasing their acquisition of foreign assets via outward FDI owing to depressed environment worldwide leading to under-valuation of the assets of interest. For instance, the largest acquisition was executed by the mining company of S. Africa with their geographic

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

diversification via the acquisition of overseas mining assets in 2009. Consequently, in 2009, the outward FDI witnessed a growth of 0.46% of GDP compared with the decline in the previous period of 2008 at 0.8% of GDP.

3.5 Impact on International Trade

With a significant proportion of economic growth of S. Africa propelled by the export earnings collected majorly from its trade transactions with the advanced economies that struggling with the financial crisis of 2007-09 accordingly witnessed a substantial damage to its balance of payments [8]. Both the international trade and economic activities diminished in most of the developed economies with the squeeze of the credit, riding on the solvency and confidence crisis predominantly in the second half of 2008. Likewise, the prices of the commodities took a plunge on an international level impacting the commodities exporting economies especially post the collapse of Lehman Brothers. South Africa being a major player involved in the export of platinum group of metals (PGMs) faced the incremental pressure on its trade balance impacting its net balance of payments succeeded by the depreciation in the valuation of the exchange rate of rand. Additionally the waning export earnings also aggravated the economic growth that was already slackening from the effects of the contagion of the global financial crisis. The crisis embroiled the manufacturing of the automobile sector of S. Africa with the sale of new cars reporting a substantial decline [4]. The export volumes experienced the crisis effects particularly in the last quarter of 2008 following into the first half year of 2009. Owing to the robust performance of the export for the first three quarters, the net exports registered an accelerating growth of 1.75% from the previous year 2007 at 31.5% of GDP to 35.9% of GDP in the next year of 2008. Further, the import demand also witnessed a decline in the second half of 2008 to 22.9% of GDP relative to its statistic of 27.5% of GDP in the first half of 2008. It was the deterioration in the volume of non-oil merchandise imports that led to its decline in the second half but still the imports recoded an overall vigorous figure of 38.9% of GDP in 2008 with a growth of 1.51% over its previous year contribution in GDP.

Table 4. Exports and Imports of South Africa, 2000-2010

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports of goods and services (% of GDP)	27.9	30.1	32.9	27.9	26.4	27.4	30	31.5	35.9	27.3	27.4
Imports of goods and services (% of GDP)	24.9	26.1	29.1	25.5	26.7	27.9	32.5	34.2	38.9	28.2	27.6

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Source: World Bank

However, the year 2009 could not escape from the wrath of the financial crisis effects. Not only the exports but also the imports witnessed a revision in its volumes, earnings and thereby the trade balance and the balance of payments. The exports from S. Africa witnessed a decline of approximately 24% in the first half of 2009 in terms of volume. The feeble demand led to the downward revision in the volumes of mining exports while the reduction in the manufactured export volume occurred with the shrinking investment spending in Europe, its chief trading partner. Adding to the existing woes was the depreciation of rand (its currency) leading to contraction in its export revenues in 2009 unlike in 2008 where the moderate appreciation in rand compensated for the dismayed growth in the volume of its merchandise exports. With the rising transactions between the commodity producing nations and Asian economies particularly in China and India, the early indications of the revival of the global economy became more perceptible in the second half of 2009. Additionally, the restrained demand domestically for the imports along with the sustained consumption of domestic inventories contributed in the reduction of the import bills. Further, it was the combined effect of uncertainty regarding the global economic outlook and weak business confidence that restricted the volume of import orders. Consequently, the aggregate bearing on the trade balance from rising export and declining import demand transpired in terms of conversion of trade deficit into trade surplus in the second half of 2009. While the exports contributed to 27.3% of GDP, the imports contributed to 28.2% of GDP leading to a trade surplus by the end of the year 2009 (Table 4).

Subsequently, in 2010 the domestic consumption expenditure appreciated leading to higher imports and thereby reducing trade surplus transmuting into a net trade deficit position by the end of the year. This revival of the trade transaction and domestic economic activity could be attributed to the looming project completion deadlines related to 2010 FIFA World Cup tournament. This tournament not only became the cause of rising import orders but also contributed in increasing the earnings stemming from the services related to the hosting of the tournament. Simultaneously, the production utilization capacity witnessed a marked improvement in the euro area that translated into the recovery of the manufacturing sector leading to the enhanced demand for the S. African base metals and related products exports. Consequently, the year 2010 witnessed a growth of 4.53% and 9.56% in both the exports and imports to 27.4% and 27.6% of GDP respectively.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

3.6 Impact on its Capital Market

With the credibility of sustained record of dependable macroeconomic management, South Africa had managed to develop and promote a profound and liquid bond market with resilient institutions along with the reduction in external vulnerability. And the year 2008-09 was a year of renovation in its financial market marked by the modernization of the market infrastructure[8], increment in the access to investment prospects in the whole Africa[9], new product subscriptions and a major institutional change[10] [1].

Table 5. Market capitalization of listed companies (% of GDP), 2000-2010

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Market capitalization of listed companies (% of GDP)	154.2	118	166.2	159.2	207.9	228.9	273.9	291.3	179.9	248.2	174.9

Source: World Bank

The domestic money market was not as gravely injured from the impacts of the GFC as those of the developed markets. And accordingly, only small surge in the domestic money market rates was experienced in South Africa when compared with the significant rise in the Libor rates being endured by the advanced crisis during the unfolding of the GFC. Further, the credit freeze in the international markets forced the local institutions to opt for the alternatives to/of the international markets for their financing needs thereby switching to domestic markets leading to the increase in the money market rates in South Africa. Consequently, the year 2008 did not witness any substantial liquidity pressures, thereby

[8] The replacement of 15 year old derivative system of the Johannesburg Stock Exchange with the multiple instrument online trading system denoted the modernization of the infrastructure of S. Africa's financial market in 2008. Further, a new central counterparty clearing house 'Bond Clear' was also established in 2008 to fast track the licensing pendency by the Bond Exchange of South Africa Limited (BESA) in collaboration with NASDAQ OMX.

[9] The increment in the access to the investment prospects were facilitated by the formation of coalition between the FTSE and JSE (Johannesburg Stock Exchange) launching FTSE/JSE All-Africa 40, and the FTSE/JSE All-Africa ex South Africa 30 indices in 2008. Subsequently, Africa Board was unleashed in February, 2009 by the JSE proffering listings to those companies having an abode or substantial local operational base in Africa.

[10] Institutional change was annexed with the acquisition of BESA (renowned for bond market) by the JSE (renowned for equity market) in 2008 with the receipt of BESA's shareholder's approval in February 2009 succeeded by the ultimate merger in June, 2009. This was done to increase the competitiveness and effectiveness of the markets dealing of S. Africa internationally, particularly in the interest related products.

International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

maintaining a stable money market. Even the standing facilities and supplementary repurchase transactions were also used once in a while to accommodate liquidity volatility in the market besides the usual utilization of cash reserves for the same by the banking sector. However, during this time, the money market liquidity got constricted with the surge in the circulation of notes and coins that was successively neutralized with the infusion of sizeable liquidity amounting R17.5 billion by the SARB. This amount of liquidity was arranged by the SARB with the purchase of foreign currency for the reserve accumulation that further assisted in decreasing the bilateral foreign borrowings by the banks during the crisis period of 2008-09. Thus, the liquidity requirement in the money market was attended by the intensified flow of capital inflow into the financial market during that time. Nevertheless, this procedure also supplemented to the cost of the monetary authorities attempting to sterilize[11] the foreign capital flooding the market.

Equity/Share Market

The trading activity particularly in the secondary share market (equity market) remained brisk in the pre-crisis period of 2006 and 2007 with the share prices scaling an upward trend along with the consistently ascending turnover value and total market capitalization. The total market capitalization was on a soaring drift since 2001 consistently up to 2007. However, the year 2008 witnessed a slackened performance chiefly owing to the slowing global economy and escalating volatility in the share market riding on the increase in liquidity and confidence crisis. This fact was supported by the declining market capitalization of the listed firms from 291.3% of GDP in 2007 to 179.9% of GDP in 2008. The most affected class was that of the non-resident investors with the rising sentiment of aversion to risk making them the net sellers on JSE (Johannes Stock Exchange) during the crisis period from being the net buyers during the pre-crisis period. While in 2007, the net purchases on JSE registered by the non-residents amounted to R63.3 billion; its net sales amounted to R 54.4 billion.

The problems of the US financial market exploded into global financial crisis that translated into declines in the global share prices. Even S&P index lost close to 57% from its highs of October 2007 to its bottom in March, 2009. Subsequent to this event, responding to the central bank and fiscal interventions of the economies worldwide, the anxiety and distrust in the global financial market had started to subside. Consequently, with the improvements in the global economic prospect along with the sturdy macroeconomic framework of S. Africa, its equity capital inflow recovered gradually in the subsequent year of 2009. In fact the total

[11] Sterilization is the process undertaken by the central bank of the nation to drain the excess liquidity flooding the market via the increased capital flows and could become a possible cause of inflation if not managed with time.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

equity capital that could be raised in the whole 2008 was accomplished within the first seven months of the year 2009. Correspondingly, the non-resident with improved sentiments re-transformed into the net purchasers on the JSE Index from their brief but intense avatar of net sellers during the crisis period. Even the net capitalization of the companies recorded a net increase of 38% from 179.9% of GDP in 2008 to 248.2% of GDP in 2009. The substantial portion of this funding was accumulated in the first half of 2009 with the second half slackening to an extent.

3.7 Fluctuations in the Exchange Rate and Foreign Exchange Reserves of South Africa

Table 6. Total Reserves & Official Exchange Rate, 2000-2010

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total reserves (includes gold, current US$ billion)	7.7	7.62	7.81	8.15	14.88	20.62	25.59	32.91	34.07	39.6	43.81
Official exchange rate (LCU per US$, period average)	6.94	8.609	10.54	7.565	6.46	6.359	6.772	7.045	8.261	8.474	7.321

Source: World Bank

a. *Foreign Exchange Valuation*

South Africa unlike many other countries, did not encounter any severe shortage of the foreign exchange during the crisis period of 2008-09. Moving in accordance with the global financial market's sentiments in the midst of the crisis, the spot exchange rate of South African rand was also influenced by the same prevailing sentiments irrespective of its fundamental economic position. Thus, the volatility experienced by developed economy's currencies during the crisis period in the spot market along with the forward foreign exchange market caused the simultaneous fluctuations in the rand also. The volatility in the forward rates used to increase during the month-end with the raised requirement of liquidity in the domestic market followed by the stabilized FX-rates during the mid-month period. Further, the substantial decline in the turnover in the FX transactions echoed the impact of the crisis on S. Africa markets in 2008 with an upturn of only 1.8% relative to its growth of 62% from 2003-2007. During 2008, while the forward and swap FX revenues witnessed depreciation, the spot revenue surge.

Nevertheless, owing to the large trade and current account deficit there was a considerable depreciation in the exchange rate of rand in the year 2008. This depreciation in rand was further aggravated by the clearance of their position in domestic assets (in bourses) by the non-resident investors and thereby the substantial outflow of capital from the stock exchange in the second half of 2008. The depreciation in rand was severe could be avowed by the depth of its magnitude at 23.2% decline in its nominal effective exchange rate in 2008 that even overturned the appreciation of the past two years. Consequently, the rand suffered from the depreciation of 17% from its previous year 2007 value of R7.04 per USD to R8.26 per USD in 2008.

Succeeding in the first half of next year 2009, the higher volatility, ambiguity about the comparative economic prospects concomitant with the surge in the global commodity prices led the nominal effective exchange rate to swell further. Subsequently, as the stock market in S. Africa recovered with the restored interest of the investors in its securities besides the contracting current account deficit in the year 2009, rand succeeded in recovering a portion of its loss of 2008 depreciation. The other domestic factors also contributed in strengthening the valuation of rand amidst the depressing global financial environment. These factors were its robust monetary and fiscal policies along with a huge interest rate differential with other advanced economies maintaining a consistently low interest rate that assisted the economy in attracting the investors and thereby the capital inflows leading to the early recovery of its currency valuation. Consequently, the exchange rate of rand appreciated in the first half of the year 2009. While, the year 2008 witnessed a decline of 16.5% in its real effective exchange rate of rand, the first half of year 2009 was comparatively promising with its appreciation by 18.5%. Subsequently, the appreciation in rand in the second half was not as robust as it was in the first half of the year 2009 with only 3.7% average appreciation recorded in the second half of the year. The factors working in the appreciation of rand in the second half of 2009 was the concoction of rising prices of commodities in the international market, recovering economic growth, improvement in the inflation outlook and the upcoming FIFA World Cup Tournament evoking positive sentiments towards the economy and its growth. And thus, the rand enduring the volatile movement throughout the year with both up and down-swings maintained its status quo at R8.474 per USD in 2009 from R8.26 per USD.

Further, with the trend of rising global commodity prices into 2010, the appreciation of its real effective rate continued. But the appreciating currency had its own fallout in term of decreasing the competitiveness of the manufacturing sector’s exports. During this period, the competitiveness edge titled towards the developed economies with their depreciated exchange values against the emerging economies. The year resultantly appreciated by 13% to R7.32 per USD in 2010.

b. Foreign Exchange Reserves

On the other hand, South African Reserve Bank witnessed a reduction in its gross reserves to USD38.8 billion declining by USD 500 million from 2008 till the end of February 2009. Since the SARB essentially follows the policy of non-intervention in the foreign exchange market to support the fluctuating currency in the international market, hence the depreciation of reserves was owing to the combination of rand's depreciation in the international market and deterioration in the gold's price along with the appreciation of the US dollar during the same period. Still, both the years 2008 and 2009 on the overall registered a positive figure of appreciation relative to the previous year statistics if not with the same momentum. This was owing to the positive balance account transaction in which any decline either of the capital or current account was compensated by the other leading to the positive reserves. This fact was underpinned particularly in 2009 when the surplus financial account riding on the robust capital inflows compensated the current account deficit in 2009. Consequently, the total reserves increased from USD32.91 billion in 2007 to USD34.07 billion in 2008 to USD39.6 billion in 2009. Correspondingly, the import cover of goods and services also escalated from 13 weeks in 2007 to 16.6 weeks in 2008 to 20.7 weeks by the end of 2009. Even the IMF contributed in this increase of the foreign exchange reserves of the SARB with the allocation of SDR amounting $2.4 billion in 2009. This resulted in the improvement in the ratio of foreign exchange ratio to current account deficit from 2:1 in 2008 to 3:1 in 2009. This amount increased to USD 43.81 billion in 2010. The sufficient foreign exchange reserve concomitant with the strong exchange rate facilitated the authorities to manage and restrain the inflation amidst the escalating global oil and commodity prices.

3.8 Industrial Sector

The impact of crisis on the industrial production sector reverberated chiefly in its manufacturing and the mining (sectors) components. Further, deteriorating value added by the manufacturing, commerce and mining sectors ended the longest upward phase of its business cycle in the last quarter of 2008. Consequently, the industry value contribution to GDP which had been growing even if at a reduced rate, declined in the year 2009 from 32.32% of GDP in 2008 to 30.99% of GDP in 2009 and further reducing to 29.84% of GDP and 29.21% of GDP in 2010 and 2011 respectively. In fact, during the ascending phase of the economic growth of South Africa from 1999-2007, all the key sectors contributed in its story of growth with the exclusion of the mining sector. The mining sector remained an underdog and failed to exploit the phase of commodities boom worldwide with the mining production growing with an average rate of only 0.7% [6]. Thus, the decline in the mining sector is the result of confluence of internal and external factors. While, the external factors emerged in

the form of decay of prices and demand for the commodities with the intensification of the global financial crisis, the internal factors were mainly – supply side bottlenecks viz., infrastructural challenges (rails, ports) leading to hindrances in the procurement of goods and services, bureaucratic impediments, scarcities of employable skilled staff, irregular electricity supply and safety concerns leading to production stoppages (or shutting of various mines and shafts in the country). The gold mining production also fell in the same last quarter of 2008, to its lowest in its history of 50 years. Accordingly, the real value added by the mining sector depreciated by 5.4% in 2008 and a further by 7.2% in 2009 with the maximum severity restricted to the first half of 2009. Subsequently, as the recovery in the global economy commenced and the demand for the commodities gained strength by the second half of 2009, the corresponding gains percolated the mining sector. The production surged at an annualized rate of 1.8% in the second half of 2009 and by 2.6% in the first half of next year 2010. The escalation in demand and prices of the commodities specifically in the second half of 2009 were fuelled by the restoration of the inventory holdings particularly by China and a number of European countries. The credit of an enhanced performance of the mining sector in 2010 goes to the increment in the production of the platinum group metals (PGMs), diamonds and other mining products. The production in gold mining sector was further constricted by the surge in the rand price of gold along with the consistent rising operational cost of the gold mines in 2010.

Table 7. Industry Value Added, 2000-2010

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Industry, value added (% of GDP)	31.78	32.27	32.61	31.68	31.27	31.17	31.16	31.25	32.32	30.99	29.84

Source: World Bank

Both the manufacturing and the mining production sectors were impacted not only by the contraction of demand but also by the fading project investments from the economy with the strengthening of the crisis. The diminishing demand was countered by the producers in the form of pruning of the production more than the respective drop in demand. This had a multiplier effect as the manufacturing and mining production pruning translated into shrunken inventories, higher production cost, low revenues leading to increased terminations. Subsequently, the production capacity utilization also contracted from an average 82.7% in second half of 2008 to 78% in the first half of 2009.

ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

3.9 Impact on Employment

The resilient association of South Africa with the global economy became the reason of it being impacted by the crisis pulling it into a series of recessionary problems as a result. The decline in the manufacturing sector, mining, commerce, financial, real estate, services as well as wholesale and retail sector contributed in slackening the economic growth [13]. The labor market of S. Africa failed to create an exception in the list of the affected owing to the crisis. The decline in the demand and the prices of the global commodities from the economies worldwide impacted the export earnings of S. Africa which translated into the pruning of the employment levels supplementing the number of unemployed(s) within the economy. The significant contribution to the rising layoffs was made by the manufacturing and the mining sector that even suppressed the increase in the overall employment in the formal non-agricultural sector in 2008. The rising layoffs were chiefly restricted to the private sector for the second half of the year 2008. Subsequently, the layoffs increased in the 1st quarter of 2009 with deterioration of activity levels related to site preparations and building installations i.e., in the construction sector. The employment rate depreciated by 2% between 1st and the 2nd half of the year 2009 raising the number of employment loss to .26 million by 2nd half of 2009 from .14 million in first quarter of 2009. The 1st half of 2009 witnessed less dismissal of jobs from the gold-mining sector and more from the non-gold mining sector. The manufacturing sector contributed about one third of the total layoffs registered in the third quarter of 2009. The unemployment rate escalated to 24.5% as per their official publication. However, these official figure discounted those workers who being disappointed with the state of affairs of both the domestic and global economy have stopped searching for the jobs spiritedly christened as the discouraged workers syndrome. Their inclusion in the official unemployment rate can take it up to 32% owing to their substantial numbers viz., 1.6 million [9]. Further, the non-agricultural sector of the economy witnessed a consistent increase in layoffs for the consecutive six quarters up to 2010. The unemployment was also facilitated by the decay in the capital formation in the trade and private residential development owing to the global financial crisis repercussions. All the industries were influenced by this slowdown that essentially was a telltale sign of job sackings, reduced or absent bonuses owing to the pruned sales volume and thereby the revenues and the trimming of the working hours.

Table 8. Unemployment in South Africa, 2000-2010

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Unemployment Rate	25.4	27.9	30.05	29.6	27.05	26.6	25.55	23.15	22.93	23.93	24.93

ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

Source: Bloomberg

The government responded to the rising unemployment with its initiatives of public capital formation projects leading to an increase in the employments. The infrastructural drive owing to the hosting of the FIFA world cup and numerous other infrastructure projects[12] assisted during the distressing period of 2009-2010 in countering the surging layoffs particularly in the construction sector. The local and the provincial government levels provided the main impetus to the extension in the public sector projects. Nevertheless, it was observed that the employment extended by the public sector during the recessionary phase was eclipsed by the employment prospects lost in the private sector. Successively, the government launched the second phase of employment generation program in conjunction with trade union and other social associates facilitating an additional employment to 50,000 people. These employments by the government were generated with a view to alleviate the adversity among the unemployed families and thereby were of temporary and flexi-time nature providing employment up till 2010. Also, the social safety net was also expanded by the government for the unemployed people during the 2008-2010 recessionary phase.

3.10 Banking Sector – Credit Extension

In general, the foreign structured toxic products had a limited exposure with the financial institution(s) of South Africa, unlike other advanced and emerging economies with substantial exposure at the outbreak of the crisis in 2007. The conservative approach of its regulator towards the financial regulation and risk management practices served itself in shielding its financial institutions from the grave effects of the global financial crisis. No emergency compelled the central bank SARB to facilitate liquidity as there was no shortage of the same in its financial system. Both the banking sector and the financial system continued to function effectively amidst the global financial phase in the global economies. In fact, the stability was observed in its banking system up to the first half of 2009 with the interbank market functioning normally. The mandatory capital levels were maintained above the customary prudential requirement, thereby affording stability, liquidity and profitability to the banking sector. While the Basel II requirements mandates 8% as the minimum capital adequacy ratio, S. African banks were required to maintain it at 9.5% but the actual ratios improved even during the time of the crisis. By 2008 end, the minimum adequacy ratio was 13.1% that upgraded to 14.1% by the end of 2009 followed by 14.9% by 2010 end.

Table 9. Domestic credit to private sector, 2000-2010

[12] Such as the Gautrain Rapid Rail Link

Indicator Name	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Domestic credit to private sector (% of GDP)	133.7	142.3	115.1	120.7	132.4	144.2	163.4	167.5	147.4	152.1	153.9

Source: World Bank

It was the period beginning from second half of 2009 that weathered a relatively challenging economic and financial environment. The stagnation with the declining demand for credit and deterioration of loans had started to mar the balance sheets of the banks with the effects of crisis on the economy gathering strength. The negative slide of the loans and advances began from September 2009 to remain until April 2010 followed by a positive growth in May 2010 only. While the credit risk increased to 0.1% of gross loans and advances besides the rise in the impaired advances loans owing to the financial stress battering both the households and the business. Accordingly, the ratio of impaired advances to gross loans and advances increased from 3.2% in 2008 to 5.9% in 2009 followed by 5.8% in 2010 [1]. In fact, the slackening in the credit extension specifically to the private sector had permeated the system in early 2008 slipping to its near-record depths by 2009 beginning. Resultantly, there was a fall of 12% from 167.5% of GDP in the year 2007 to 147.4% of GDP in 2008 in the domestic credit extended to the private sector of the economy (Table 9). This was a combined effect of both the internal and the external conditions and policies prevailing in the economy. The countercyclical policies of the SARB had implemented the tighter monetary policies since 2006 leading to the higher cost of the loans and advances along with the crisis influenced strict credit conditions during 2008 jointly resulted into shrinking and suspension of investment plans by the household and corporates. These events coincided with the financial crisis leading to the deterioration in all the categories of total loans and advances. The unbreakable running of the economy due to the 2010 FIFA World Cup Tournament to be held in S. Africa, the domestic credit to the private sector also witnessed an increase just the other sectors of the economy.

4. Conclusion

The financial crisis manifested its impact in the form of weakened demand that in turn opened the Pandora box for the South African economy.

- Feeble demand from both the external and domestic sources slashed the manufacturing and mining production severely in 2008. Both manufacturing and mining industries forms the lifeline of economy of South Africa. The saga of impact of crisis via production pruning permeated all the three sectors viz., primary, secondary and tertiary sectors of the economy.

- Capital flows also suffered a profound impact with portfolio investments making an exit in 2008 sparked by the confidence crisis, credit freeze and risk aversion among investors. The trend reversed to register appreciation for next 18 months attracting FII beginning in early 2009, chiefly due to risk differential benefit offered by S. African bourses. Alternatively FDI witnessed a healthy inflow during 2008 and first half of 2009, post which it declined in second half of the year.

- However, exchange rate was more influenced by capital flows reflecting depreciation initially in later half of 2008 followed by appreciation in 2009 in accordance with the flow of FII.

- As the crisis seeped into real economy, its domestic demand reversed for the worst resulting in decreased private consumption. Further, domestic demand concomitant with escalating cost of finance added to the stress of industrial production of the economies.

Amidst all the worrying negative effects of US financial crisis, the merit surfaced through contracting widened current account deficit (CAD).

- The import orders were revised downwards in 2009 riding on deteriorating consumption and inventory reducing CAD. Yielding similar benefit and riding on similar reasons of declining volatility in food and oil prices, inflation declined since October 2008.

- Accordingly, the monetary policy also shifted from being restrictive to accommodating in response to inflation as well as outplay of crisis. All the key policy rates were uniformly slashed accompanies with no additional financial assistance being provided to banks as the impact of crisis was not essentially severe enough to evoke generous subsidies.

- Further, since the banking system did not experienced any liquidity shortage, no emergency stimulus packages were launched for the economy's financial system. The credit could be accorded to the conservative approach towards financial regulation and risk management orientation of its central bank. On other hand, it was the integration with global economy which facilitated the flow of contagion into Indian economy.

The tale of deteriorating economy was further resonated with the aggravating unemployment and contraction in the fixed capital formation by private sector. The actual response was rendered by the government in the form of:

- Expansionary fiscal policy with the investments in employment generation activities, wages, incomes, infrastructure, and increased final consumption expenditure thereby materializing into confidence building measures.
- The government initiatives gave a thrust to the diminishing household consumption expenditure declining for first three quarters of 2009. The results emerged with the improvement of expenditure on durable and semi-durable goods, secondary sector with manufacturing and tertiary sector from fourth quarter of 2009.

In essence, South Africa has a touch-and-go experience with the financial crisis which made its presence felt, only to exit equally swiftly. This brief experience may be attributed to the low integration of South African economy with global economies to experience any meaningful and severe impact of crisis contagion.

Moreover, the work highlights the need for the economy to build an internal assessment and peer review mechanism which consistently evaluates its regulatory systems for an early detection of weak areas. Effective supervision would fortify its governance on domestic and international scales reducing the cost of failure in future.

References

1. *The BRICS Report.* (2012). New Delhi: Oxford University Press.
2. Bloomberg. (n.d.). *Various Databases*. Retrieved 2015, from Bloomberg Professional: Subscription Service
3. World Bank. (n.d.). *Various Databases*. Retrieved 2011-2015, from The World Bank: Data: data.worldbank.org/
4. African Development Bank. (2009, March). Impact of the Global Financial and Economic Crisis on Africa. *African Development Bank Working Paper Series N96*.
5. Arieff, A., Weiss, M. A., & Jones, V. C. (2010). *The Global Economic Crisis: Impact on Sub-Saharan Africa and Global Policy Responses.* Washington: Congressional Research Service R40778.

iJCEM
International Journal of Core Engineering & Management
ISSN: 2348 9510
International Journal Of Core Engineering & Management (IJCEM)
Volume 2, Issue 5, August 2015

6. Baxter, R. (2009). The global economic crisis and its impact on South Africa and the country's mining industry. *Challenges for Monetary Policy-makers in Emerging Markets, 105*.

7. Fantu, C. (2011). After the gold rush: Prospects for Africa, economic recovery and long-term growth. In P. A. Bergeijk, A. d. Haan, & R. v. Hoeven (Eds.), *The financial crisis and developing countries; A global Multidisciplinary Perspective* (pp. 49-64). United Kingdom: Edward Elgar Publishing Inc.

8. Naudé, W. (2009, January). The Financial Crisis of 2008 and the Developing Countries. *United Nations University - World Institute for Development Economic Research Discussion Paper No. 2009/01*.

9. Padayachee, V. (2011). Global economic recession: effects and implications for South Africa at a time of political challenges. *Claves de la Economia Mundial*.

10. SARB. (2010). *The international banking crisis and domestic financial intermediation in emerging market economies: issues for South Africa.* South African Reserve Bank, BIS Papers No 54.

11. South African Reserve Bank. (2008/09 (and other various Years)). *Annual Report* .

12. South African Reserve Bank. (2010). *Annual Economic Report.* South African Reserve Bank.

13. Verick, S. (2010). *Unravelling the impact of the global financial crisis on the South African labour market.* Geneva: Employment Analysis and Research Unit, Employment Analysis and Research Department.