

# Quarterly economic review

## General observations

In the Governor's Address at the Reserve Bank's Annual General Meeting on 23 August and in the Reserve Bank's *Annual Economic Report* published before the meeting, economic and monetary developments during the year that ended on 30 June 1977, and in some cases also during July and the early part of August, were reviewed in detail. This review, therefore, covers only the second quarter of 1977 and, depending on the availability of statistics, also the subsequent two months.

The more important recent economic developments may be summarised as follows:

1. Economic indicators, including quarterly national accounts series, show that recessionary conditions, although still widespread, are being mitigated significantly by a relatively high rate of expansion in economic activity in the primary sectors of the economy.
2. The real gross domestic product increased substantially during the second quarter of 1977, after having declined during the preceding two quarters. This increase was due to a rise in the real value added by the agricultural, mining and services sectors. The real value added by industry and trade, however, continued to decline.
3. Real gross domestic expenditure declined substantially further during the second quarter because of decreases in gross domestic fixed and inventory investment. Real private consumption expenditure remained more or less unchanged at the level of the preceding quarter and real government consumption expenditure increased moderately. At current prices, the gross national product exceeded the gross domestic expenditure for the first time in four years and this was also reflected in a surplus on the current account of the balance of payments.
4. The current account of the balance of payments improved markedly during the second quarter. At a seasonally adjusted annual rate, the current account balance changed from a deficit of R262 million in the first quarter of 1977 to a surplus of R1 277 million in the second quarter. This improvement was due to a further increase in the value of merchandise exports and the net gold output and a continued decline in the value of merchandise imports. The only current account aggregate that did not improve, was the figure of net invisible payments to the rest of the world.
5. The capital account of the balance of payments, however, deteriorated during the second quarter. Not only was there a further outflow of short-term capital not related to reserves and repayments on compensatory foreign loans, but also a net outflow of long-term capital. Notwithstanding the net outflow of long-term capital, the basic balance remained in surplus and the surplus was even larger than in the first quarter.
6. Mainly because of new gold swap agreements during April, the gross gold and other foreign reserves increased during the second quarter. The net gold and other foreign reserves (after adjustment for the new gold swaps and changes in liabilities related to reserves), however, declined by only R13 million, which was very modest in relation to the decreases recorded during preceding quarters.
7. The continuing sluggish conditions in the non-primary sectors of the economy caused a rapid rise in unemployment. At the end of June 1977 the number of registered unemployed Whites, Coloureds and Asians, nevertheless, amounted to only 1.4 per cent of the labour force concerned.
8. After having accelerated during the first quarter of 1977, the annual rate of increase in both consumer and wholesale prices declined during the second quarter. Notwithstanding this decline, the rate of price increases still remains high.
9. The seasonally adjusted money and near-money supply increased sharply during the second quarter and July. This increase was mainly caused by a substantial rise in bank credit to the private sector. Net bank credit to the government sector rose only moderately during the second quarter and actually declined during July. Although the net other foreign reserves of the monetary banking sector increased fairly substantially during the second quarter, this change was largely attributable to the gold swap agreements in April which did not affect the supply of money and near-money.
10. The sharp rise in bank credit to the private sector was largely due to an increase in cash credit advances by the Land Bank and, to a lesser extent, to an increased investment in private sector securities. Discounts and advances of commercial banks, merchant banks and monetary hire-purchase and general banks declined slightly during the second quarter, but increased somewhat during July. The monthly increase of  $\frac{1}{2}$  per cent in the ceilings on bank credit to the private sector, which had been suspended temporarily in March, was reintroduced from 1 September.
11. The "lifeboat" facilities arranged in February this year to assist small banks experiencing liquidity difficulties, were terminated at the end of August, after the

loans extended in terms of this arrangement had been repaid by the banks concerned.

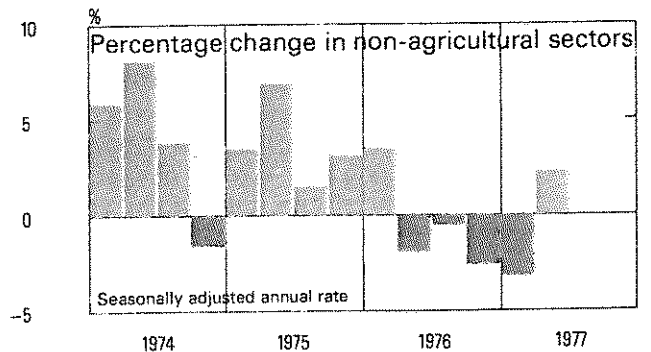
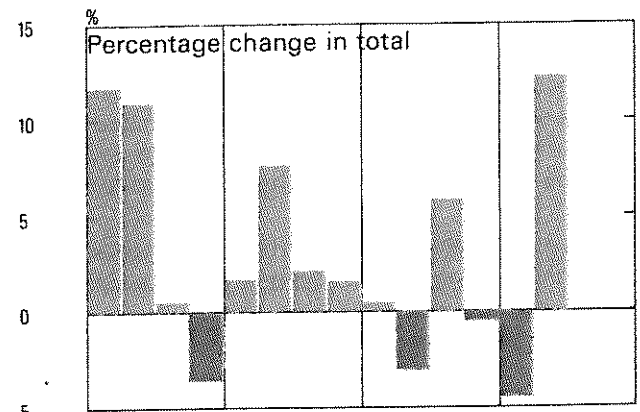
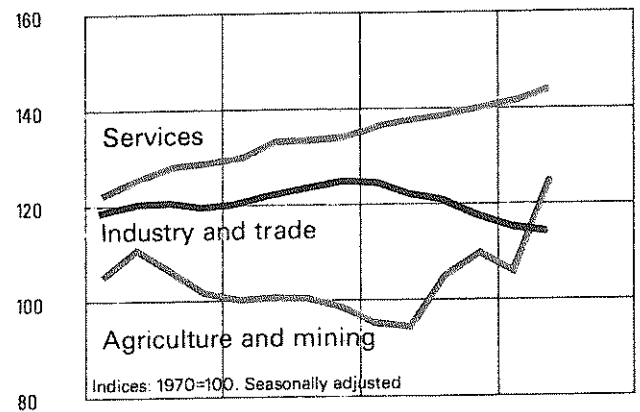
12. As in preceding years, a seasonal increase in Exchequer issues occurred during the second quarter of 1977. However, issues increased relatively less than during the corresponding quarter of 1976. Exchequer receipts, on the other hand, showed an increase relative to the corresponding quarter of the preceding year, and the deficit that had to be financed by means of borrowing, was notably smaller than during the same quarter of last year.

13. Conditions in the fixed-interest security section of the capital market eased noticeably during the second quarter and the subsequent two months. With the exception of the yield on long-term government stock, all fixed-interest security yields declined. Because of these changes, the long-term government stock yield became better aligned with the other yields. The easing of market conditions also became evident in the share market during July and August and the declining trend in the prices of most classes of shares was reversed during these months. The mortgage and real estate sections of the capital market remained depressed during the period April to July 1977.

### National accounts\*

After having declined during the fourth quarter of 1976 and the first quarter of 1977, the real gross domestic product increased substantially during the second quarter. However, this increase was almost entirely due to a large rise in agricultural production which reflected the exceptionally good crops harvested during this period. The real value added by the non-agri-

### Gross domestic product at constant 1970 prices



\*Unless indicated otherwise, this section of the review is based on *seasonally adjusted* quarterly estimates of the national accounts.

cultural sectors of the economy also increased slightly during the second quarter, after having declined during the preceding four quarters. This was the result of an increase in the real value added by the gold mining, non-gold mining and services sectors and an only partly offsetting decline in the real value added by construction and the wholesale, retail and motor trade. The physical volume of manufacturing production remained more or less unchanged during the second quarter, after substantial declines had been recorded during the preceding two quarters. The accompanying graph contrasts the poor growth performance in commerce and industry with the striking growth in the primary sectors since the second quarter of 1976.

The rate of increase in the gross domestic product at current prices accelerated markedly during the second quarter of 1977, mainly as a result of sharp increases in agricultural income, increased profits of non-gold mining companies, higher income generated by the increased tariffs for electricity and transport services, and increased indirect taxes which became effective during the second quarter of 1977. The rate of increase in the remuneration of employees declined slightly in the second quarter of 1977.

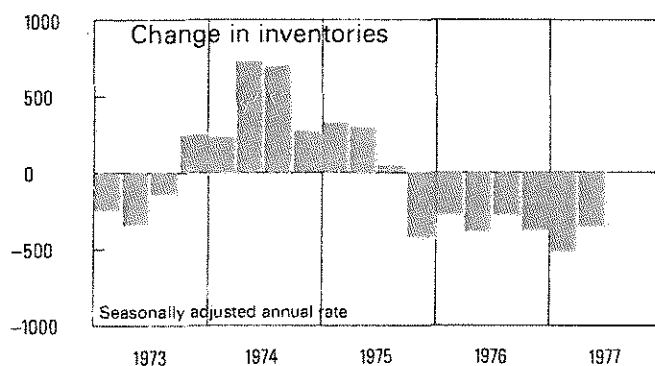
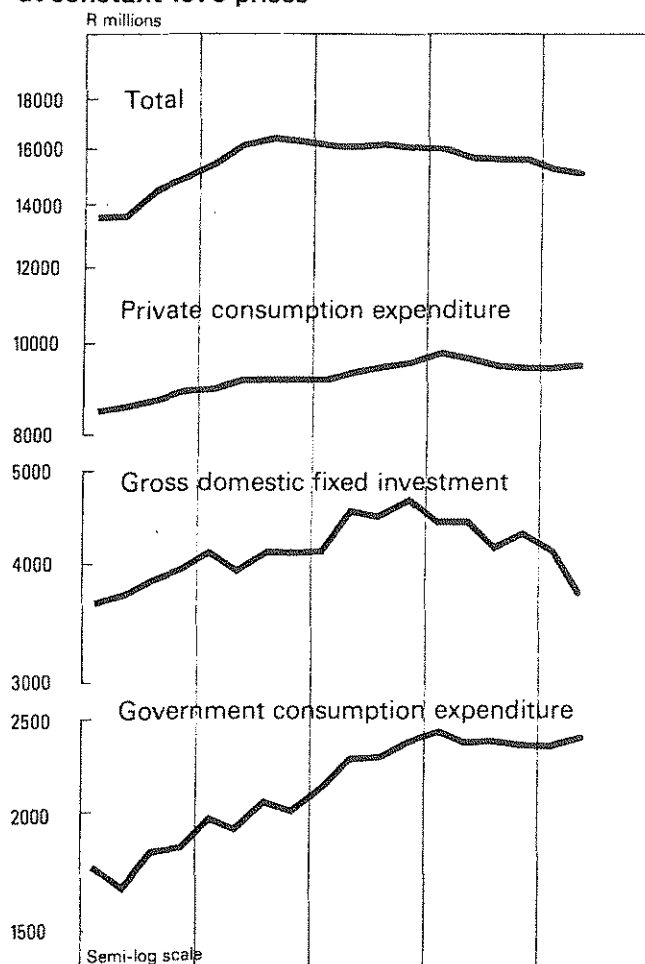
Real gross domestic expenditure declined substantially further during the second quarter of 1977. Real private consumption expenditure showed little change and the moderate increase in real government consumption expenditure was more than offset by declines in real gross domestic fixed and inventory investment. At current prices, gross national product exceeded gross domestic expenditure for the first time in four years. This development was also reflected in the balance of payments on current account, which changed from a small deficit in the first quarter to a fairly large surplus in the second quarter of 1977.

Real private consumption expenditure declined for three consecutive quarters up to the end of 1976, but showed little change during the first half of 1977. Increases in real outlays on non-durable goods (mainly food) during the second quarter of 1977 were almost neutralised by declines in real spending on personal transport equipment, furniture, household appliances, clothing and footwear. Real outlays on services showed little change compared with the first quarter of 1977.

After having remained more or less unchanged during the preceding quarter, real government consumption expenditure increased slightly during the second quarter of 1977. Preliminary indications are that real salaries and wages remained approximately at their first quarter level, but that real expenditure on goods and other services (including defence expenditure) increased moderately.

Real fixed capital outlays by the public and private sectors declined substantially during the second quarter of 1977. The sharp decline in real fixed investment by the private sector occurred over a broad front, including manufacturing, mining, commerce and resi-

### Gross domestic expenditure at constant 1970 prices



dential building, but the decrease in the case of public authorities was confined to the South African Railways which made lower real outlays on transport equipment. Although the real fixed investment by public corporations declined in the second quarter of 1977, it was still at a relatively high level.

The total value of real inventories declined further during the second quarter of 1977. Increases in real

diamond stocks and real agricultural stocks in trade were more than offset by a further sharp decrease in real industrial and commercial inventories. The decline in total real non-agricultural inventories and the moderate increase in the comparable real gross domestic product lowered the inventory ratio to 32,8 per cent in the second quarter of 1977, as against 34,3 per cent in the first quarter and 35,8 per cent in the second quarter of 1976.

Gross domestic saving increased further during the second quarter of 1977 and for the first time in four years actually exceeded the amount needed to finance total fixed and inventory investment. Consequently, the country's net indebtedness to the rest of the world could be reduced. Preliminary indications are that all components of gross domestic saving, i.e. personal and corporate saving, the current surplus of general government and provision for depreciation, increased during the second quarter of 1977.

### **Business cycle trends, labour situation and prices**

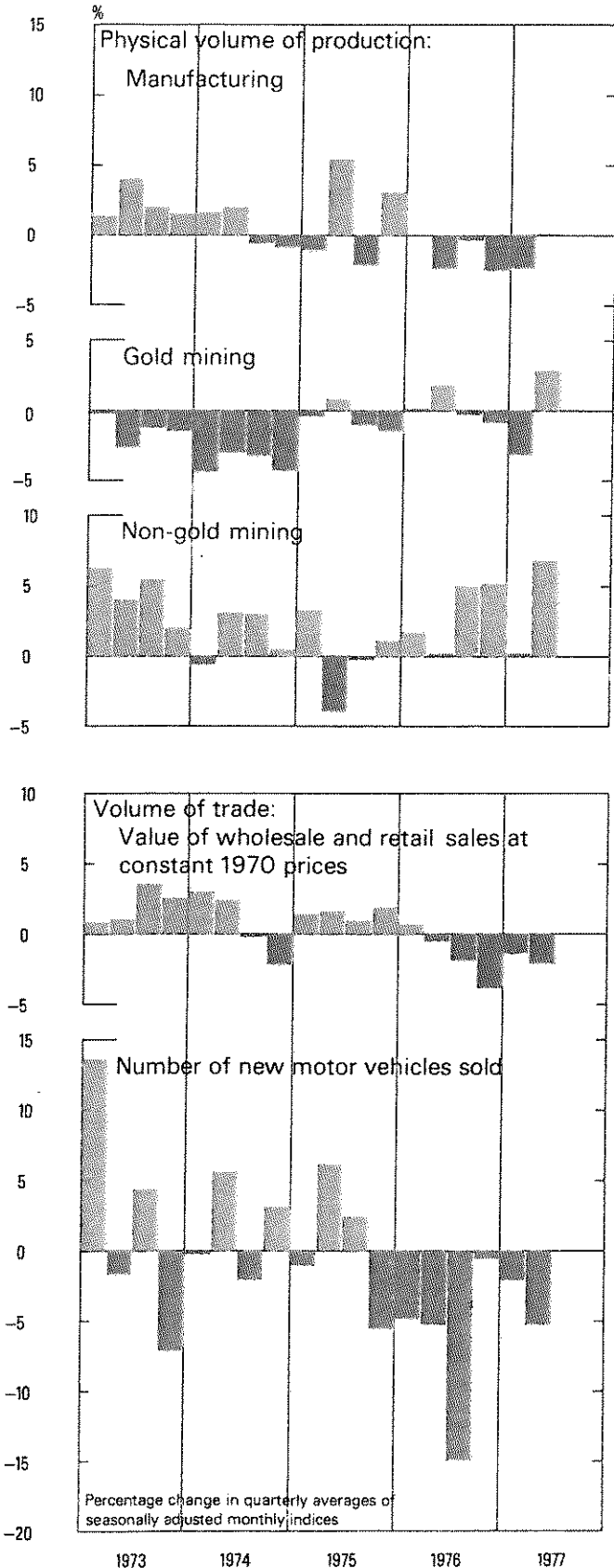
Economic indicators, including quarterly national accounts series, confirm that recessionary conditions continue to exist in the South African economy, but that these conditions are being mitigated by a relatively high rate of expansion in economic activity in the primary sectors. In the non-primary sectors of the economy, especially manufacturing, commerce and the building industry, conditions are still sluggish and the indicators show that up to the end of the second quarter of 1977 the cyclical downswing in economic activity in these sectors had not yet come to an end. However, there are factors that may contribute towards the end of the downward phase of the business cycle being reached within the near future. One of these factors is the effect that the income generated by the increase in primary production and exports could have on real private consumption expenditure. During the first half of 1977 this expenditure stabilised at the level to which it had declined during the third quarter of 1976. Another indication of a return to more stable conditions is the slight improvement in the manufacturing industry. After having declined for four consecutive quarters, the seasonally adjusted volume of manufacturing production increased slightly during the second quarter of 1977 to a level just above that for the preceding quarter. In addition, the rate of utilisation of production capacity rose slightly during the second quarter.

The continuing depressed conditions in the non-primary sectors of the economy caused a further rapid increase in unemployment. Thus, the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians rose further from 24 940 in March 1977 to 28 603 in July and 31 585 in August. Although no reliable statistics are available, indications are that Black unemployment also increased substantially further during recent months.

After having accelerated during the first quarter of 1977 as a result of an increase in government-administered prices and, to a lesser extent, indirect taxes, the annual rate of increase in the seasonally adjusted consumer price index declined from 13,3 per cent in the first quarter of 1977 to 11,8 per cent in the second quarter. With the exception of furniture and equipment prices, lower rates of increase were recorded in the prices of all other goods during the second quarter. Mainly because of the continued high rate of increase in servants' wages and higher rates of increase in transportation and home-owners' costs (excluding rent), the rate of increase in service costs during the second quarter exceeded the corresponding figure for the first quarter of 1977. Compared with the same month a year ago, the rate of increase in consumer prices declined from 11,7 per cent in March to 11,0 per cent in June, but rose to 11,3 per cent in both July and August 1977.

As a result of an annual rate of increase of 18,2 per

### Volume of production and trade



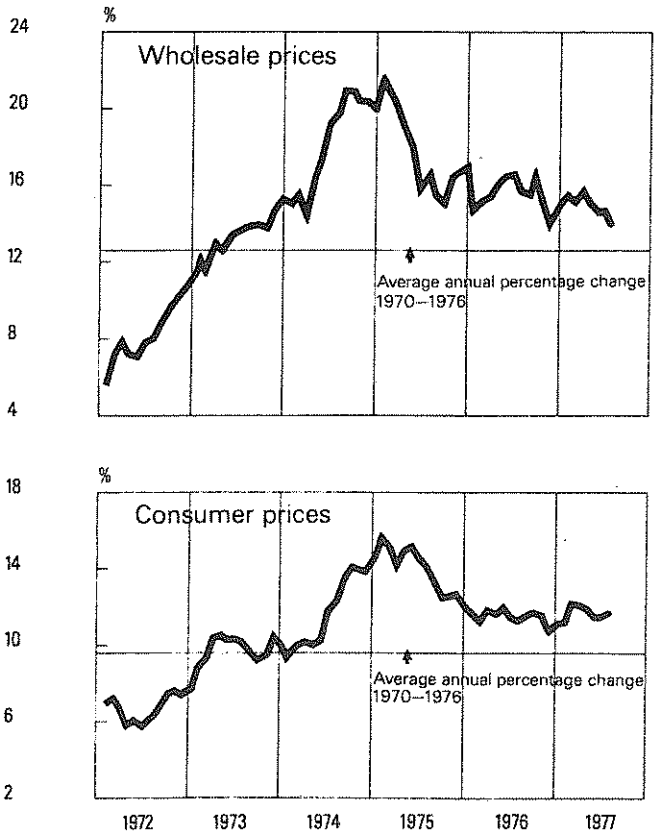
### Annual percentage change in quarterly averages of seasonally adjusted monthly consumer price indices

	2nd qtr. 1976 to 3rd qtr. 1976	3rd qtr. 1976 to 4th qtr. 1976	4th qtr. 1976 to 1st qtr. 1977	1st qtr. 1977 to 2nd qtr. 1977
Services .....	9,1	10,3	9,1	10,6
Housing .....	10,4	12,3	7,6	10,1
Other .....	6,8	6,6	11,9	11,4
Goods: .....	11,2	8,9	15,3	12,2
Food .....	7,3	8,2	16,0	9,3
Furniture and equipment .....	10,9	11,8	11,0	17,1
Clothing and footwear	10,9	9,8	9,8	7,5
Vehicles .....	13,0	10,2	17,6	16,3
Other .....	16,1	7,5	17,8	15,2
<b>Total .....</b>	<b>10,5</b>	<b>9,3</b>	<b>13,3</b>	<b>11,8</b>

cent in the seasonally adjusted wholesale price index of South African produced goods during the first quarter and a subsequent slowdown to an annual rate of increase of 12,0 per cent during the second quarter of 1977, the seasonally adjusted annual rate of increase in wholesale prices of all goods for domestic con-

### Prices

#### Percentage change over twelve months

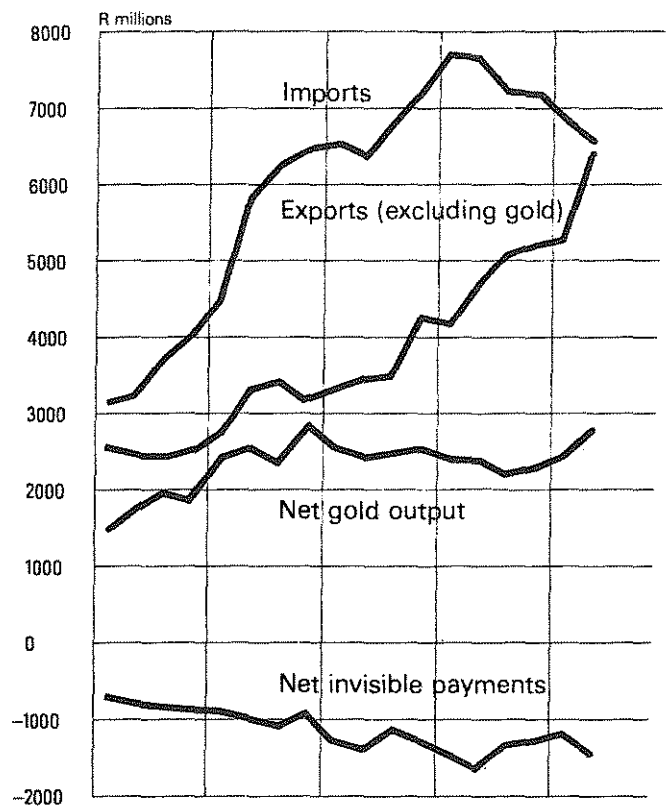


sumption rose sharply to 16,0 per cent in the first quarter, but declined to 13,3 per cent in the second quarter. The sharp rise in the rate of increase in the prices of South African produced goods during the first quarter was brought about by higher prices of basic metals and electricity. Prices of imported goods, which had increased at a relatively low rate during the second half of 1976, rose at seasonally adjusted annual rates of 10,0 and 17,4 per cent during the first and second quarters of 1977, respectively, largely as a result of increased oil prices in the first quarter and the introduction of a surcharge of 15 per cent on certain imported goods from the second quarter. Between July 1976 and July 1977 the wholesale price index for all goods rose by 13,6 per cent, as against an increase of 15,3 per cent between March 1976 and March 1977.

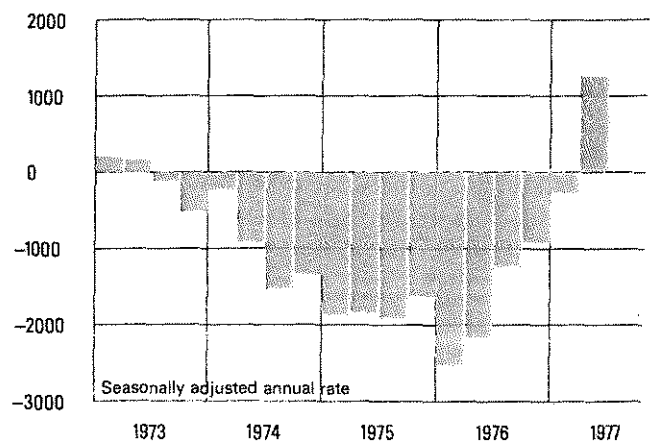
### Balance of payments

As during the first quarter of 1977, a surplus was recorded on the current account of the balance of payments during the second quarter and the relevant figure of R361 million was markedly higher than that of R47 million for the first quarter. At a seasonally adjusted annual rate, the improvement of the current account was even more pronounced; the balance switched from a deficit of R262 million in the first quarter to a surplus

### Balance of payments current account



### Balance on current account



of R1 277 million in the second quarter. This improvement was the net result of a sharp rise in merchandise exports and the net gold output and a continued decline in the value of merchandise imports, which was only partly offset by a considerable increase in net invisible payments to the rest of the world.

Merchandise exports increased for the fifth consecutive quarter and, at a seasonally adjusted annual rate, rose from R5 318 million in the first quarter of 1977 to R6 436 million in the second quarter, or by 21 per cent. This increase occurred over a wide range of commodities, but particularly sharp rises were recorded in exports of diamonds, maize, iron ore and coal. Sugar exports, on the other hand, declined because of an over-supply on international markets.

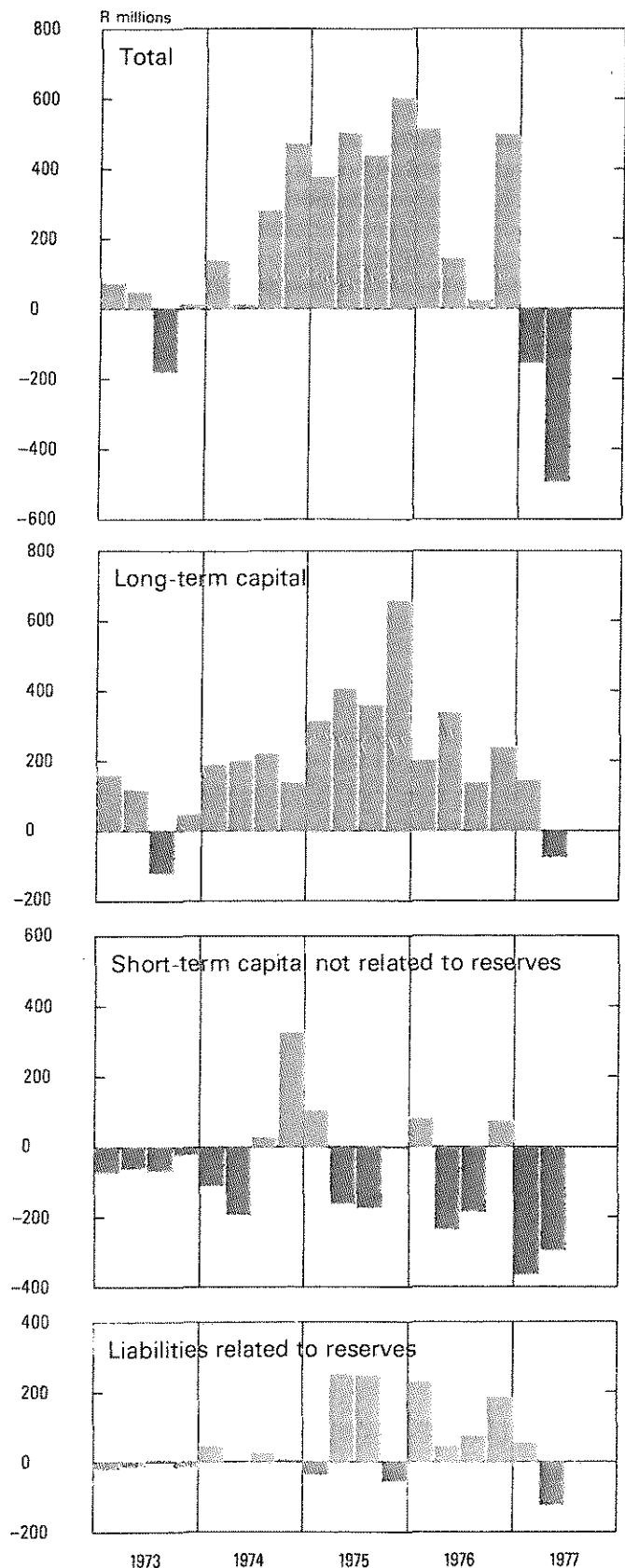
Merchandise imports maintained a downward trend and, at a seasonally adjusted annual rate, declined from R6 860 million in the first quarter of 1977 to R6 551 million in the second quarter, or by 4,5 per cent. Import prices continued to increase, which indicates that an even greater decline must have occurred in the volume of imports. The decrease in the value of imports was mainly accounted for by lower imports of transport equipment, textiles and mineral products.

At a seasonally adjusted annual rate, the net gold output increased from R2 478 million in the first quarter to R2 800 million in the second quarter of 1977. This improvement was entirely attributable to an increase in the price of gold because at constant prices the net gold output remained at the level of the first quarter. The average price of gold on the London market increased from \$138,93 per fine ounce in the first quarter to \$145,49 per fine ounce in the second quarter of 1977. On a monthly basis, however, the price per fine ounce declined from an average of \$149,18 in April to \$140,73 in June, before it increased again to \$143,36 in July and \$144,98 in August.

In contrast to the improvement in the other current account aggregates, net invisible payments to the rest of the world increased, at a seasonally adjusted annual rate, from R1 198 million in the first quarter to R1 408 million in the second quarter of 1977. This rise in net invisible payments to foreigners was largely due to an increase in interest payments on foreign loans and a rise in transportation payments to non-residents resulting from higher freight rates.

The substantial improvement of the current account was also responsible for a more favourable basic balance, which increased from a surplus of R195 million in the first quarter to a surplus of R285 million in the second quarter of 1977. Long-term capital movements actually changed from a net inflow of R148 million during the first quarter to a net outflow of R76 million during the second quarter, owing mainly to net repayments on foreign loans by all sectors. In particular, public corporations and local authorities repaid a net amount of R61 million on foreign loans

### Net capital movements



during the past quarter. A net outflow of short-term capital not related to reserves, including errors and unrecorded transactions, occurred again during the second quarter and amounted to R298 million. The private sector was entirely responsible for this outflow, because a small net inflow of short-term funds was recorded for the central government and banking sector and public corporations and local authorities.

In spite of the net outflow of capital, the net gold and other foreign reserves declined only slightly by R13 million during the second quarter of 1977, compared with a decrease of R162 million during the preceding quarter. Mainly because of the gold swap agreements in April, the gross gold and other foreign reserves increased by R92 million during the second quarter to reach a level of R873 million at the end of June, notwithstanding repayments on compensatory foreign loans. Subsequently, the gold and other foreign reserves of the Reserve Bank rose further by R6 million during July, before declining again by R43 million during August.

### Monetary and banking situation

The seasonally adjusted money and near-money supply, which had declined at an annual rate of approximately 2 per cent during the first quarter of 1977, increased sharply by R556 million, or at an annual rate of nearly 27 per cent, during the second quarter. During July, a further small increase was recorded, resulting in a rate of increase of about 20 per cent during the period April to July 1977 and of 10 per cent for the first seven months of the year. This compares with annual rates of increase of 1 per cent during the second half of 1976 and 9 per cent for 1976 as a whole.

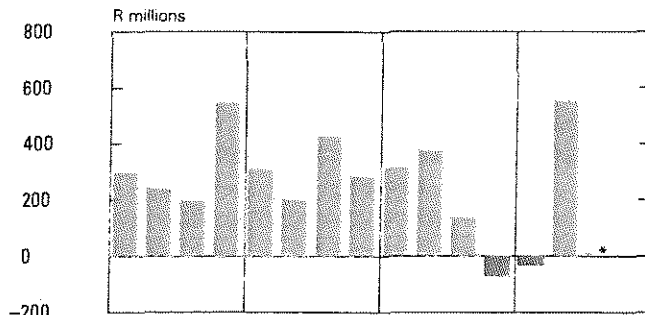
The large increase of R560 million in the seasonally adjusted money and near-money supply during the period April to July 1977 was mainly caused by a substantial increase in bank credit to the private sector. Although the net gold and other foreign reserves of the monetary banking sector increased by R197 million during the second quarter — the first such quarterly increase in three years — this increase partly reflected the gold swap agreements concluded in April. As such an increase in the net gold and other foreign reserves has a counterpart in increased "other liabilities" of the banking sector, it does not affect the money and near-money supply. A further small rise in the net gold and other foreign reserves occurred during July. Net claims on the government sector showed a substantial seasonal increase of R593 million during the second quarter, but rose by only R98 million after seasonal adjustment, i.e. by about 3 per cent as compared with 7 per cent during the first quarter of 1977. During July these claims actually declined by R55 million, thus continuing the slowdown in the rate of credit extension to the government sector which had started during the third quarter of 1976. During the first seven months of 1977 the increase in the seasonally adjusted net claims of the banking sector on the government sector amounted to only R265 million, compared with nearly R900 million during the corresponding period of 1976.

### Causes of changes in money and near-money R millions

	Not seasonally adjusted			Seasonally adjusted		
	1st qtr. 1977	2nd qtr. 1977	July 1977	1st qtr. 1977	2nd qtr. 1977	July 1977
Net gold and other foreign reserves . . . . .	-202	187	17	-186	197	20
Claims on government sector:						
Gross claims . . . . .	64	78	255	...	...	...
Government deposits (increase—, decrease+) . . . . .	-303	515	-372	...	...	...
Net claims . . . . .	-239	593	-117	222	98	-55
Claims on private sector . . . . .	59	196	235	-12	285	254
Long-term deposits (increase—, decrease+) . . . . .	-78	-137	3	-131	-20	12
Net other assets . . . . .	238	-186	-260	...	...	...
<b>Total causes of changes . . . . .</b>	<b>-222</b>	<b>653</b>	<b>-122</b>	<b>-38</b>	<b>556</b>	<b>4</b>

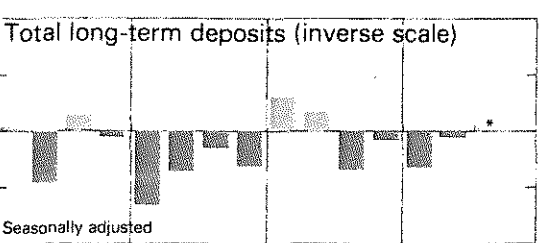
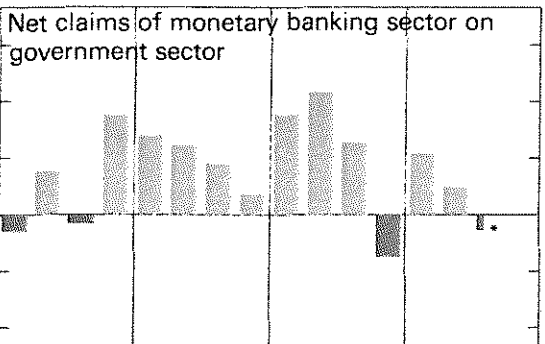
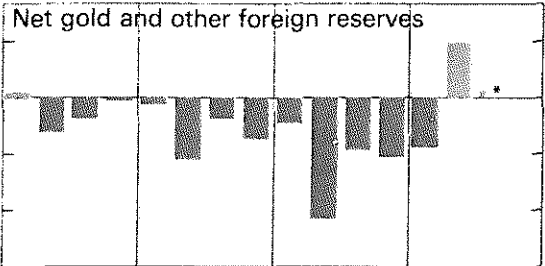
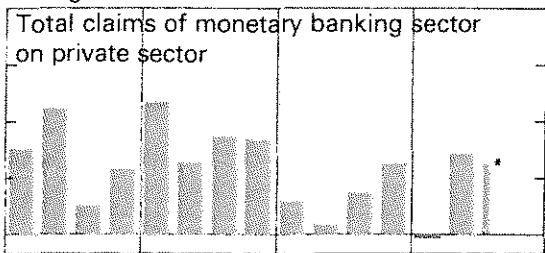


### Changes in money and near-money



### Causes of changes in money and near-money

Changes in:

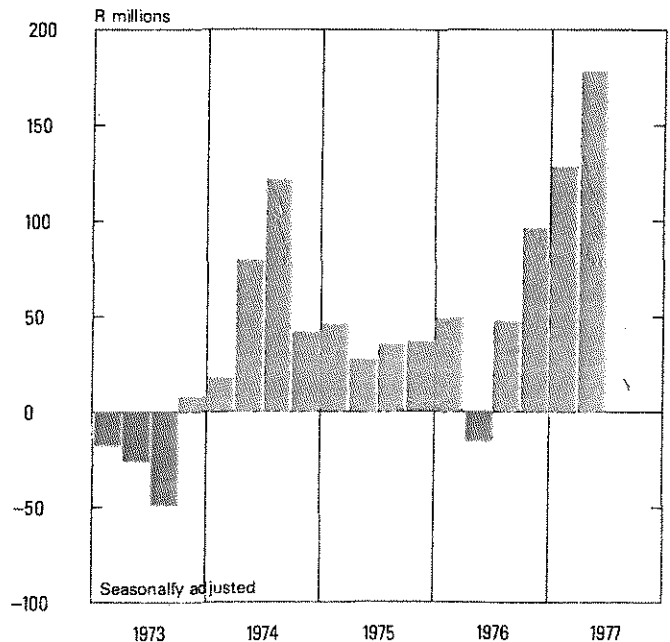


\*Changes from end of June 1977 to end of July 1977

The rise in long-term deposits of the private sector during most of the second half of 1976 and the first half of 1977, slowed down during the second quarter of 1977 and actually changed to a small decrease during July.

Bank credit to the private sector, which had decreased at a seasonally adjusted annual rate of less than 1 per cent during the first quarter of 1977, increased at a rate of about 14 per cent during the second quarter. During July it increased further so that for the first seven months of the year the expansion amounted to an annual rate of about 10 per cent, which was slightly more than the increase during the second half of 1976. The main reasons for this renewed increase in private sector credit were a rise of R87 million in the banks' investments in private sector securities and an increase of R164 million in cash credit advances of the Land Bank during the second quarter of 1977. During July these advances rose further by R110 million, or about 10 per cent. Discounts and advances of commercial banks, merchant banks and monetary hire-purchase and general banks actually declined slightly by R19 million during the second quarter, but increased fairly markedly during July because of a very substantial over-subscription of a share issue. Certain banks were affected by the credit ceilings, although substantial amounts of unused facilities continued to exist for the banking system as a whole. From 1 September the monthly increase of  $\frac{1}{2}$  per cent in the ceilings, which had been suspended as a temporary measure in March, was reintroduced. Those

### Changes in cash credit advances of the Land Bank



banking institutions of which the combined ceiling figure in respect of discounts and advances and investments does not exceed R10 million, were exempted from the ceiling requirement with effect from the same date.

The excess liquidity of banking institutions remained at relatively low levels during April and May, but increased to a higher level in June and July, particularly in the case of the commercial banks.

nounced an increase in the differential between the Treasury bill tender rate and the NFC's rate for call deposits from 15 to 25 points, effective from 26 August. The deposit interest rates of the largest commercial banks remained unchanged during June, July and August.

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**Surplus liquidity ratios of banking institutions, 1977**  
%

	Mar.	Apr.	May	June	July
Commercial banks . . .	1,1	2,5	2,5	4,8	3,6
Other monetary banks	2,0	0,9	0,6	0,5	-0,6
Other banks . . . . .	-3,0	-2,6	-2,2	-2,9	-2,2
All banks . . . . .	1,2	1,7	1,7	3,2	2,0

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Conditions in the money market eased further during June, July and August, except for a brief period towards the end of July during which stock issues were made by the central government. Owing mainly to the seasonal flow of tax funds to the government, money market conditions tightened considerably over the August month-end.

In line with these developments, the banks' excess balances with the National Finance Corporation were virtually exhausted during the latter part of July and over the August month-end, and the banks' call loans with the discount houses declined sharply during these two periods. Total call deposits with the discount houses declined by over R160 million from 30 August to 1 September but recovered slightly during the next few days.

The downward tendency of rates on private money market instruments, which had been in evidence since March, was arrested temporarily during the latter part of July and over the August month-end. The 3-month NCD rate, for example, which had declined almost uninterruptedly from 10,00 per cent on 18 March to 8,50 per cent on 8 July, increased to 9,00 per cent on 29 July, declined again somewhat during August and then increased to 8,80 per cent on 2 September. The Treasury bill tender rate, which had increased marginally to 7,89 per cent on 22 July, declined to its previous level of 7,88 per cent on 12 August and remained unchanged during the ensuing period.

With a view to maintaining local short-term rates at appropriate levels relative to those of South Africa's main trading partners, the Reserve Bank continued during July and August with its open-market sales of government securities to the banks, discount houses and certain institutional investors. In order to stimulate interest in the weekly Treasury bill tender, the Governor of the Reserve Bank, in his Chairman's Address, an-

## Government finance

As in the preceding three fiscal years, a seasonal increase in the deficit on the Exchequer Account was recorded during the first quarter of the current fiscal year, i.e. the period April to June 1977. The deficit of R816 million (excluding borrowing and debt repayment) was, nevertheless, about R120 million less than in the corresponding quarter of 1976. In July a further deficit of R42 million was recorded.

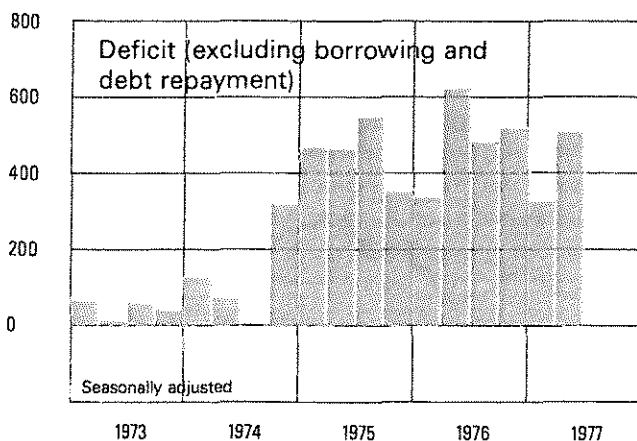
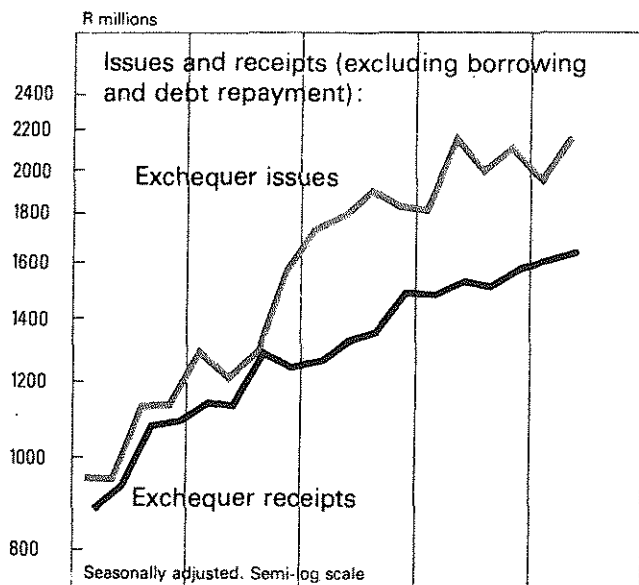
In line with government policy to allow only a moderate increase in government expenditure during the 1977/78 fiscal year, Exchequer issues during the first quarter of the fiscal year did not show any increase in relation to those during the corresponding period of the preceding year. Exchequer receipts, on the other hand, were about 10 per cent higher than during the

period April to June 1976. The increase in receipts during the first quarter of the current fiscal year was, nevertheless, lower than the estimated rise of 16 per cent in government revenue for the fiscal year as a whole. This lower rate of increase in receipts was largely due to an actual decline of 4 per cent in income tax collections (including those from gold mining companies) in relation to those for the corresponding period of the preceding fiscal year. The increase in Exchequer receipts during the quarter under review was, therefore, mainly attributable to higher collections of indirect taxes, in particular of customs duties which, from 1 April, included a 15 per cent surcharge on certain categories of imports.

As shown in the accompanying table, almost 42 per cent of the Exchequer deficit for the first quarter of the fiscal year was financed by an increase in the Exchequer's net indebtedness to the monetary banking sector, notwithstanding relatively large contributions by the Public Debt Commissioners and the private non-banking sector. The increase of R341 million in the net claims of the monetary banking sector on the Exchequer during the relevant period was largely accounted for by a decline of R286 million in Exchequer deposits. The Public Debt Commissioners' net investment in government securities amounted to R312 million and the private non-banking sector contributed an amount of R148 million, of which R67 million represented compulsory loan levies, to the financing of the Exchequer deficit.

During July 1977 two stock issues were offered for public subscription and total applications, excluding those of the Public Debt Commissioners, amounted to R324 million. Applications of the private non-banking sector totalled more than R180 million. As from 15 August 1977 the Treasury has made available for investment by individuals a new series of Treasury Bonds to replace the former Second Series Premium Bonds. The new series bears tax-free interest at 8 per cent per annum and the bonds have a maturity of five

## Exchequer Account



## Exchequer Account financing

R millions

	April - June	
	1976	1977
Deficit (excluding borrowing and repayment of debt) . . . . .	936	816
Financed by:		
Domestic non-banking sources . . . . .	380	461
Public Debt Commissioners . . . . .	202	312
Paymaster-General . . . . .	120	—
Private sector . . . . .	58	148
Monetary banking sector . . . . .	550	341
Foreign sector . . . . .	6	15
<b>Total . . . . .</b>	<b>936</b>	<b>816</b>

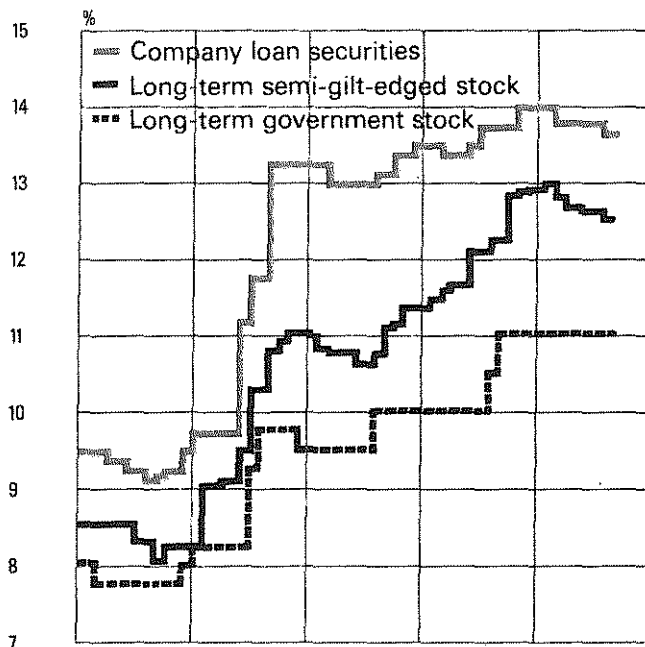
years. A maximum of R40 000 may be invested in the new bonds, irrespective of holdings in other tax-free bonds. The new Defence Bonus Bonds, announced by the Minister of Finance in his March 1977 Budget speech, will be available for investment by individuals from 1 October 1977. These Bonds will be issued at Post Offices in units of R5 and will participate in a monthly draw for Prize Bonds. The interest on both types of Bonds, as well as the capital amount of prizes allocated in the form of Prize Bonds, will be exempted from income tax.

### Capital market

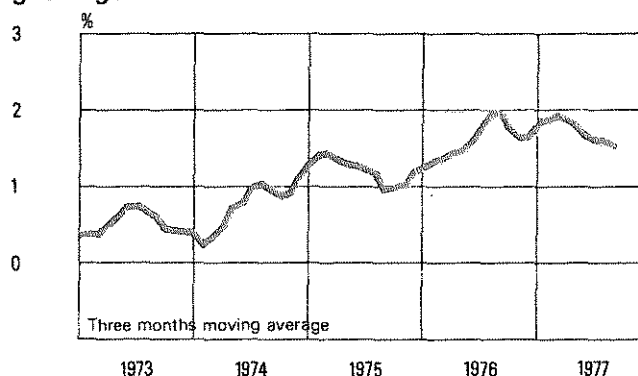
Conditions in the fixed-interest security section of the capital market eased noticeably during the second quarter of 1977 and the subsequent two months. This easing also became evident in the share market during July and August, but the other sections of the capital market, namely the mortgage and real estate markets, remained depressed throughout the period April to July 1977.

The easing of the fixed-interest security market was reflected in lower yields on new issues of most classes of securities and in the over-subscription of virtually all new issues of semi-gilt-edged stock. The yield on new issues of the highest grade long-term semi-gilt-edged stock, which had reached a peak of 12,98 per cent in February, declined to a level of 12,60 per cent in June

### Yields on fixed-interest securities



### Yield margin between long-term semi-gilt and gilt-edged stock



and further to 12,50 per cent in August. Similarly, the yield on new issues of company loan securities declined from 13,80 per cent in March to 13,65 per cent in August. The yield on new issues of long-term government stock remained unchanged at 11 per cent, but this yield became better aligned with other long-term fixed-interest security yields. Thus, the margin between the yields on long-term semi-gilt and gilt-edged stock narrowed from 1,98 per cent in February to 1,50 per cent in August, which was still considerably higher than the average margin of 0,88 per cent for the five years up to the end of June 1977.

After a temporary improvement in share prices during December 1976 and January 1977, most classes of share prices declined almost uninterruptedly until June, but showed signs of recovery during July and August. The accompanying table shows the movement in the prices of the principal classes of shares.

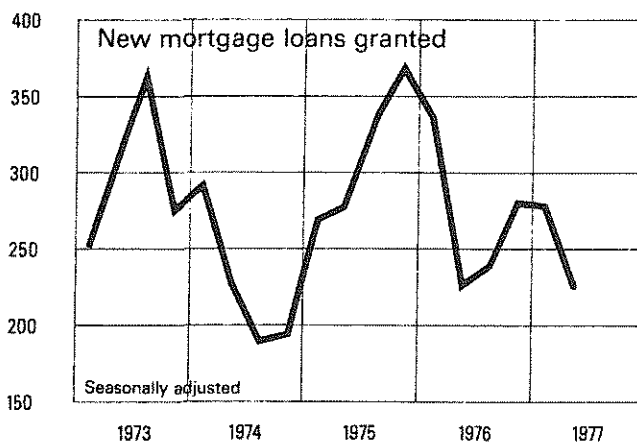
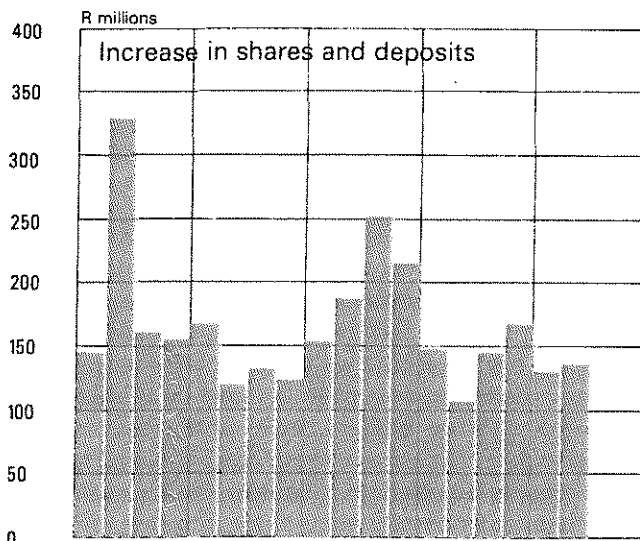
**Percentage change in share prices**

Class of share	Change	
	Jan. to June 1977	June to Aug. 1977
Gold mining .....	-7,7	12,1
Coal mining .....	-0,6	-2,5
Other metals and minerals .....	—	9,4
Financial .....	-7,4	10,4
Industrial and commercial .....	-7,4	4,5

The seasonally adjusted flow of longer-term funds to deposit-receiving and related institutions during the second quarter of 1977 was somewhat lower than during the preceding quarter. Savings and long-term deposits with banking institutions, seasonally adjusted, increased by R117 million during the second quarter, compared with R198 million during the first quarter of 1977. The seasonally adjusted intake of new funds by building societies during the second quarter amounted to R136 million, which was approximately equal to the corresponding amount for the first quarter. However, the total intake for the first six months of 1977 was 14 per cent less than that for the last six months of 1976. The seasonally adjusted flow of funds to the building societies during July amounted to R42 million, which was about 8 per cent lower than the monthly average for the second quarter. Participation mortgage bond schemes, which had experienced an outflow of funds of R8 million, seasonally adjusted, during the first quarter, recorded an inflow of R10 million during the second quarter. The seasonally adjusted flow of funds to government savings facilities, including the Post Office Savings Bank, was at a somewhat higher level during the second quarter when an inflow of R67 million was recorded, compared with R56 million during the first quarter.

Because the inflow of funds of mortgage market intermediaries did not increase to any significant extent,

**Building societies**



conditions in the mortgage market remained tight and mortgage rates remained unchanged. New mortgage loans granted by building societies during the second quarter amounted to R228 million, which was 9 per cent less than the amount granted during the first quarter. The amount of new loans granted during July was 15 per cent lower than the monthly average for the second quarter. The new statutory investment requirements for building societies probably had an adverse effect on their mortgage lending.

Real estate transactions remained at a low level. The seasonally adjusted value of such transactions during the first half of 1977 was on average about 8 per cent lower than during the last six months of 1976.