

Quarterly economic review

Summary and general observations

The pace of the economic upswing, which had slackened somewhat during the second quarter, regained momentum during the third quarter. The rate of increase in the real gross domestic product of the non-agricultural sectors of the economy was considerably higher in the third quarter than in the preceding quarter and also exceeded the quarterly average for the first half of the year. Fluctuations in the real value added by the agricultural sector, however, caused the total real gross domestic product to rise at a comparatively high rate in the second quarter, but to show no further increase in the third quarter. Apart from a decline in the real product of the agricultural sector and in the volume of gold mining production, a higher level of real economic activity was evident in the other major sectors of the economy.

Real gross domestic expenditure declined appreciably in the third quarter as a result of a sharp decrease in inventories as well as a decline in fixed investment by public authorities. Notwithstanding this decline in real aggregate domestic demand, the rate of increase in private consumption expenditure accelerated in the third quarter and an increase was also recorded in fixed investment by the private sector and by public corporations. Real government consumption expenditure remained approximately at the level of the preceding quarter.

The higher level of real economic activity in the non-agricultural sectors of the economy was reflected in a moderate increase in employment. Available employment statistics for the first half of 1979 indicate that the improvement in non-agricultural employment was due to a higher rate of increase in private-sector employment. Employment in the public sector rose at a lower rate during this period. The higher level of employment in the first half of 1979 had little effect on unemployment, but a more distinct decrease in unemployment became evident in the third quarter.

The rate of inflation accelerated markedly in the third quarter. Both the consumer and wholesale price indices recorded their largest quarterly increases since the third quarter of 1974. The rise in the consumer price index was the result of simultaneous increases in several administered prices, including those of petroleum products, as well as non-controlled prices. Wholesale prices rose on account of higher rates of increase in the prices of domestically produced as well as imported goods.

Despite a sharp increase in the value of imports and in net service and transfer payments to foreigners, a substantial further surplus on the current account of the balance of payments was recorded in the third

quarter. This surplus was brought about by a marked increase in the value of merchandise exports and in the net gold output. Volume as well as price increases were responsible for the higher level of exports, but the increase in the net gold output was solely due to a rise in the price of gold. A sharp rise in import prices accounted for the higher level of imports. The rate of increase in import prices even exceeded that in export prices, including the price of gold, and caused the terms of trade to deteriorate for the second consecutive quarter.

A further substantial net outflow of capital occurred during the third quarter. The larger part of this outflow consisted of short-term capital, but there was also a net outflow of long-term capital. The net outflow of short-term capital was partly related to the repayment of short-term foreign loans because of the sharp rise in interest rates abroad, and to the substantial widening of the margin between the effective cost of trade financing in terms of the US dollar and the rand. The gross gold and other foreign reserves nevertheless increased on account of balance of payments transactions. An even larger increase occurred in the net reserves because of a further reduction of liabilities related to reserves. The overall balance of payments surplus as well as developments in the foreign exchange market and changes in international exchange rates generally were reflected in an appreciation of the rand, not only in relation to the US dollar, but also against all major currencies.

The supply of money and near-money increased sharply during the third quarter, following an actual decline during the first half of the year. During the first nine months of 1979 a fairly moderate increase was recorded. The narrowly defined money supply, however, rose more rapidly during this nine-month period. The rate of increase in this monetary aggregate was even more pronounced during the twelve months to September 1979. With the exception of long-term deposits of the private sector with monetary banking institutions, the other main factors which affect the quantity of money and near-money made positive contributions to the increase during the third quarter. Thus, an increase occurred in the net gold and other foreign reserves of the monetary banking sector, in bank credit extended to the private sector, and in net claims of the monetary banking sector on the government sector. Only a relatively small further rise in long-term deposits of the private sector was recorded during the third quarter, apparently because of a shift to deposits ranking as money and near-money.

Bank credit to the private sector increased at a lower rate during the third quarter. This was especially apparent in the case of the discounts, loans and advances of commercial, merchant and general

banks, notwithstanding the raising of the ceilings on these forms of credit to the private sector from 31 August 1979. Unused facilities under these ceilings, therefore, increased sharply during the third quarter. The unused facilities under the ceilings on private sector investments, however, decreased, notwithstanding the further raising of these ceilings from 31 August.

The liquidity of all groups of banking institutions increased markedly during the third quarter. The high level of liquidity was reflected in a substantial further easing of the money market during this period, except for a temporary tightening of market conditions over month-ends. During October and the first half of November very easy conditions continued to exist, interrupted only by a tightening over the October month-end. Money market interest rates fell sharply and the Reserve Bank was an active seller of securities in the open market with a view to ensuring an orderly decline in interest rates.

The rate of increase in Exchequer receipts during the first six months of the 1979/80 fiscal year was markedly higher than the figure anticipated in the Budget for the fiscal year as a whole. Receipts from gold mining companies were much higher than expected and the tax concessions provided for in the Budget became fully effective only in the second quarter of the fiscal year. Exchequer issues also increased at a higher rate than anticipated in the Budget, but the Exchequer Account deficit that had to be financed by means of borrowing was considerably smaller than in the corresponding period of the preceding fiscal year. Part of this deficit was financed by means of an increase in the Treasury's net indebtedness to the monetary banking sector.

In accordance with the policy objective of achieving a higher rate of economic growth, various measures were announced in September by the Minister of Finance. These included the early repayment of the 1976/77 loan levy to individuals, a bonus payment to pensioners, an additional subsidy on food and on bus passenger services to and from resettlement areas, the relinquishment of certain government revenue, and an increase in government expenditure.

The capital market was characterised by generally buoyant conditions during the third quarter. In the market for fixed-interest securities, new issues were supported more actively, secondary-market transactions increased sharply, and long-term yields declined after having increased temporarily during the period March to July 1979. In the share market, turnover as well as prices rose strongly and share yields declined. A marked increase in activity was also observed in the mortgage and real estate markets.

National accounts*

Higher rate of growth in non-agricultural sectors of the economy

After the pace of the economic upswing had slackened somewhat during the second quarter, a higher rate of growth was resumed in the non-agricultural sectors of the economy in the third quarter of 1979. Preliminary national accounts estimates for the third quarter indicate that the annual rate of increase of 5 per cent in the real gross domestic product of the non-agricultural sectors exceeded the comparable figure of 1½ per cent for the second quarter as well as the average of about 4½ per cent for the first two quarters of the year. Although summer crops were considerably smaller than in 1978, the early harvesting of these crops raised the real value added by the agricultural sector markedly in the second quarter, but caused a sharp decline in the real product of this sector in the third quarter. As a result, the total real gross domestic product increased at an annual rate of 4 per cent in the second quarter and showed no change in the third quarter. During the first nine months of 1979, total real gross domestic product was about 3 per cent higher than during the corresponding period of 1978.

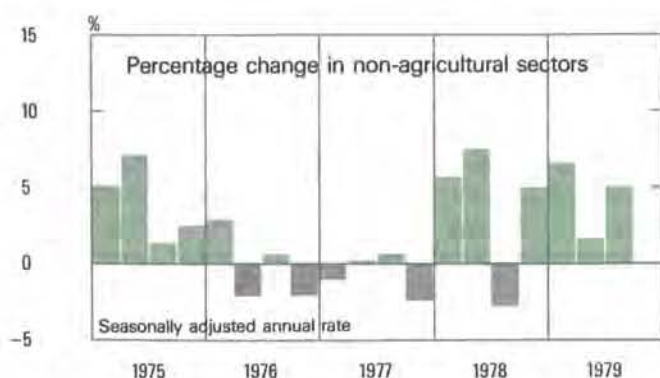
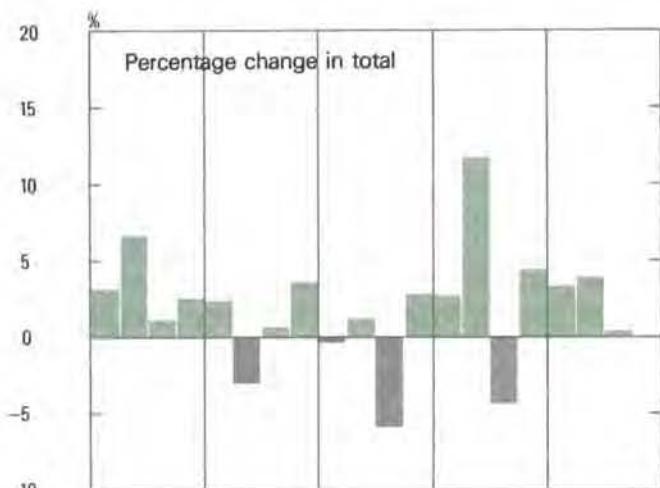
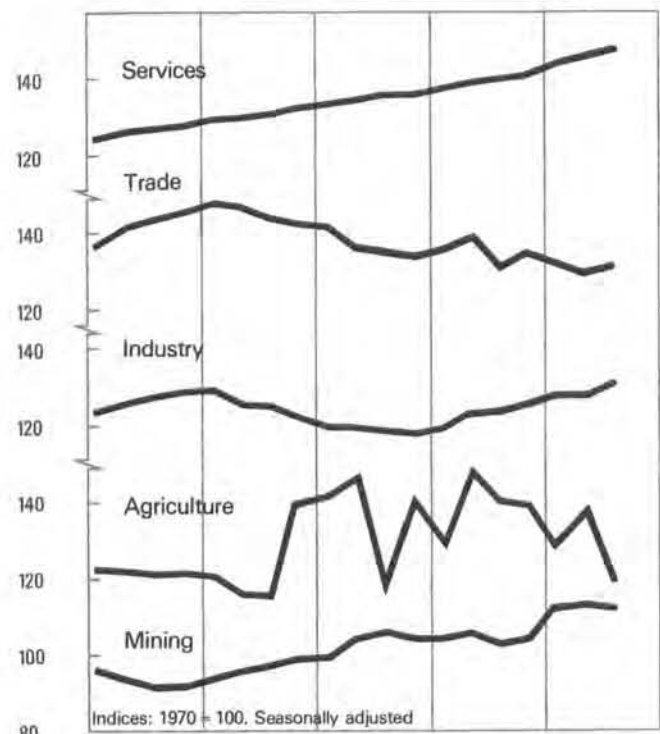
A higher level of real economic activity was evident in virtually all of the non-agricultural sectors of the economy in the third quarter. The volume of manufacturing production recorded its largest quarterly increase in 1979, the volume of non-gold mining production rose slightly above the high level to which it had increased in the first quarter, the real value added by construction increased markedly further after a moderate rise in the second quarter, wholesale and retail sales at constant prices showed the first quarterly increase since the last quarter of 1978, and the real value added by the services sectors continued to rise. A decline occurred only in the volume of gold production, because of the mining of lower grade ore, as well as a reduction in tonnage milled, and in the number of new motor vehicles sold.

Notwithstanding a sharp rise in the price of gold and in export commodity prices during the third quarter, the terms of trade deteriorated for the second consecutive quarter because of an even higher rate of increase in import prices, particularly in those of petroleum products. Consequently, the real gross national product declined slightly in the third quarter. The level of the real gross national product in the first nine months of 1979 was nevertheless 5 per cent higher than in the corresponding period of 1978.

At current prices, the gross domestic product increased at a somewhat higher rate in the third quarter than in the second quarter. The remuneration of employees rose at a lower rate, but the gross

* Quarterly changes are based on seasonally adjusted data.

Gross domestic product at constant 1970 prices



operating surplus at a higher rate than in the second quarter. Higher operating surpluses were recorded in gold and non-gold mining, manufacturing and commerce, whereas the operating surplus of agriculture declined. Notwithstanding a marked rise in general sales tax collections, indirect taxes increased at a lower rate than in the second quarter, largely as a result of a decline in customs duties and the surcharge on imports.

Decline in real gross domestic expenditure

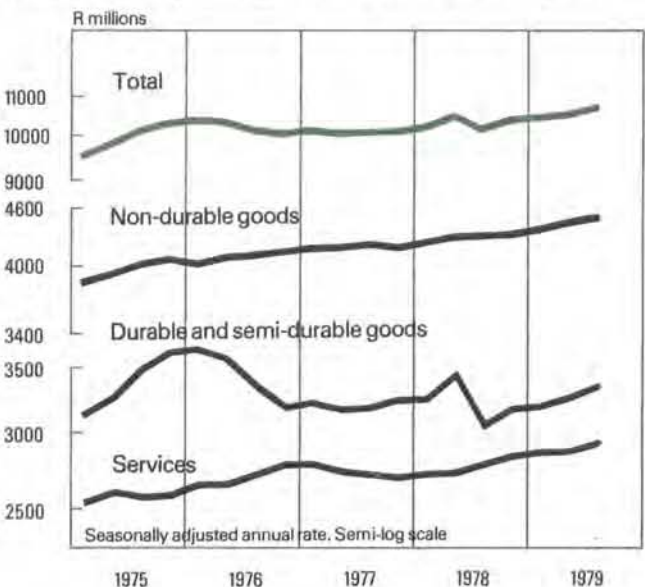
Real gross domestic expenditure declined appreciably in the third quarter, following a sharp increase in the preceding quarter. These swings were caused largely by changes in real inventories. In real terms, an inventory decline in the third quarter, together with a decrease in fixed investment by public authorities, more than offset an increase in private consumption expenditure and in fixed investment by the private sector and public corporations. Government consumption expenditure remained at the level of the preceding quarter. During the first nine months of 1979, real gross domestic expenditure was 3 per cent higher than during the corresponding period of 1978.

At current prices, the rise in the gross national product exceeded that in the gross domestic expenditure in the third quarter. This resulted in a larger surplus on the current account of the balance of payments than in the second quarter.

Sharp increase in real private consumption expenditure

Real private consumption expenditure, which had increased at a higher rate in the second quarter than in the first quarter of 1979, rose even more rapidly in

Private consumption expenditure at constant 1970 prices



the third quarter. During the first nine months of 1979, real private consumption expenditure was about 2½ per cent higher than during the first nine months of 1978. Except for expenditure on non-durable goods, higher rates of increase than in the preceding quarter were recorded in expenditure on durable goods, semi-durable goods (mostly clothing and footwear) and services.

Higher rates of increase were observed in the third quarter in real expenditure on such durable goods as furniture, household appliances and electrical equipment, but the number of new motor cars purchased declined slightly. The higher rate of increase in real expenditure on services partly reflected a substitution of public transport for the use of privately owned motor vehicles. Real consumer outlays on non-durable goods rose only moderately, largely because of a lower level of expenditure on petroleum products.

Unchanged level of real government consumption expenditure

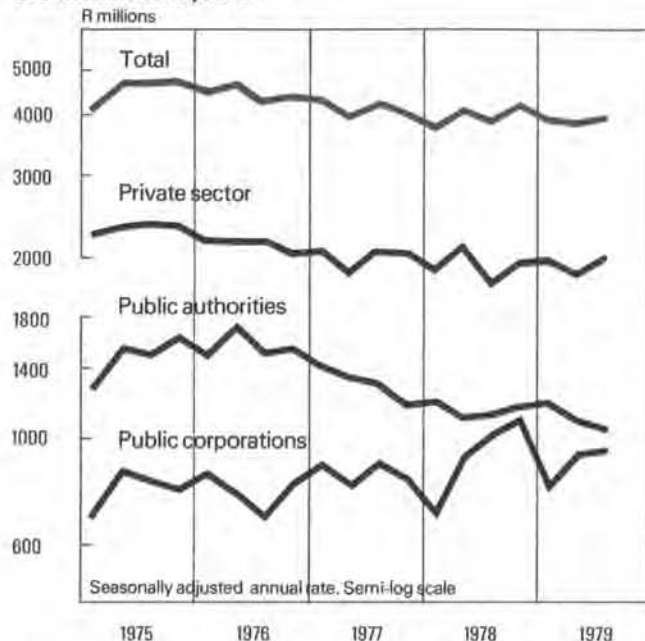
In the third quarter, real government consumption expenditure remained more or less at the level of the preceding quarter. A small increase in the remuneration of employees was counterbalanced by a decline in expenditure on goods and other services, including defence expenditure. Total expenditure in the first nine months of 1979 showed little change in relation to that in the corresponding period of 1978.

Increase in real gross domestic fixed investment

Total real gross domestic fixed investment increased in the third quarter. Increases in the fixed capital outlays of the private sector and public corporations were only partly offset by a decline in similar outlays by public authorities. The level of total real fixed investment during the first nine months of 1979 was about ½ per cent lower than during the corresponding period of 1978. Real fixed investment by public corporations increased by 1½ per cent during this period, whereas that by public authorities and the private sector decreased by 2½ per cent and ½ per cent, respectively.

The increase in real fixed investment by the private sector was particularly evident in the case of gold and non-gold mining, manufacturing and private residential construction. It would appear that the downward trend in private residential construction since the middle of 1974 was reversed in the third quarter. The increase in fixed investment in manufacturing was probably related to the continued rise in the utilisation of production capacity from 83 per cent in the first quarter of 1978 to 86 per cent in the third quarter of 1979. The further increase in real fixed investment by public corporations was largely accounted for by the outlays of Escom. Public authorities' real fixed investment declined during the third quarter because of a decrease in outlays by the South African Railways Administration.

Gross domestic fixed investment at constant 1970 prices



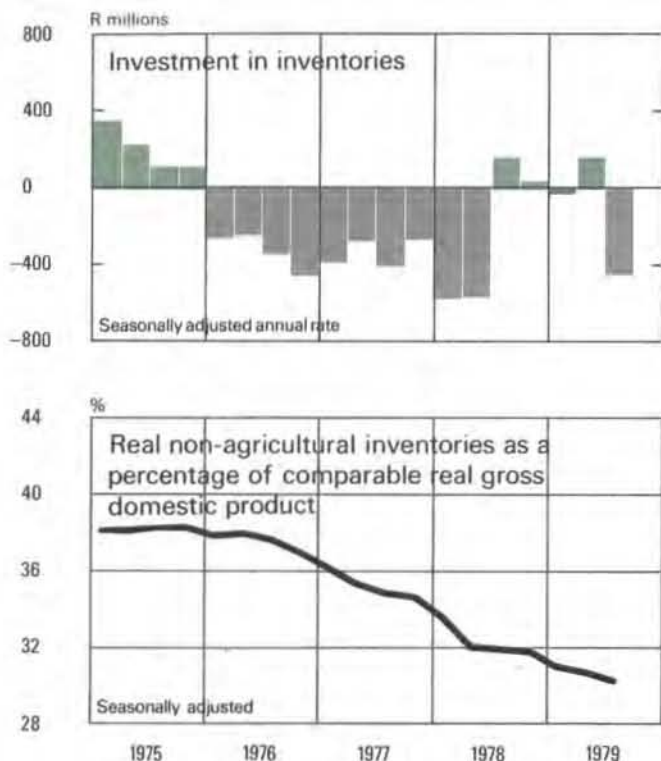
Substantial decline in real inventories

After the value of inventories at constant prices had increased during the second quarter, a substantial decline occurred during the third quarter. Industrial and commercial inventories as well as agricultural stocks-in-trade declined, reflecting the increase in wholesale and retail sales and the lower level of agricultural production, respectively. The decline in real non-agricultural inventories and the increase in the real gross domestic product of the non-agricultural sectors lowered the inventory ratio to 30,2 per cent in the third quarter, compared with 30,6 per cent in the second quarter and the most recent peak of 38,2 per cent in the third quarter of 1975.

Marked increase in gross domestic saving

Gross domestic saving rose markedly in the third quarter when an increase in corporate saving and in provision for depreciation exceeded a decrease in the current surplus of general government and in personal saving. Personal saving declined as a result of the sharp increase in private consumption expenditure at current prices and a lower rate of increase than in the preceding quarter in the nominal value of salaries, wages and income from property. The decline in the current surplus of general government largely reflected lower direct and indirect tax receipts. Total gross domestic saving in the first nine months of 1979 was 33 per cent higher than in the corresponding period of 1978. Personal saving, corporate saving, the current surplus of general government and provision for depreciation were 60, 25, 67 and 16 per cent,

Inventories



respectively, higher in the first nine months of 1979 than in the corresponding period of 1978.

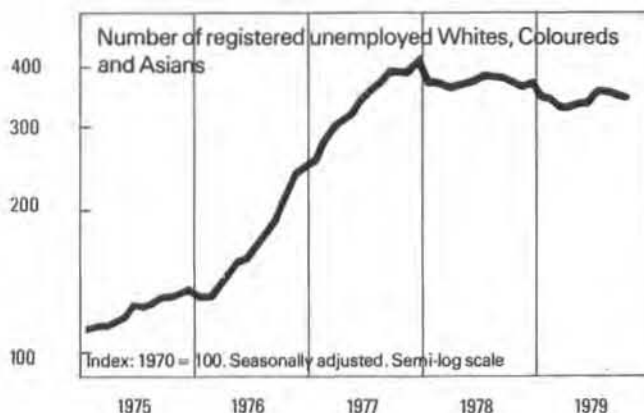
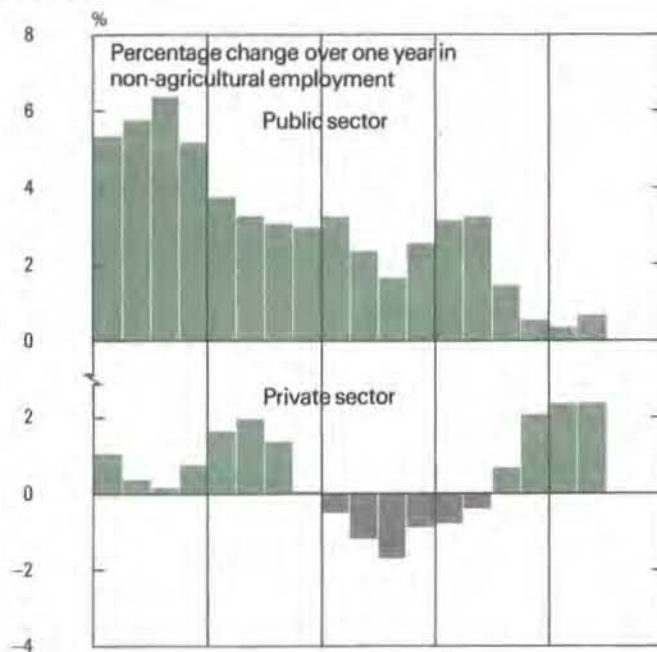
Gross domestic saving substantially exceeded gross domestic investment in the third quarter. The difference was reflected in a net outflow of capital as well as an increase in the gold and other foreign reserves.

Employment and prices

More rapid increase in employment and earnings

Non-agricultural employment, which had increased by 0,9 per cent in 1978, rose at seasonally adjusted annual rates of 1,2 per cent and 0,9 per cent in the first and second quarters of 1979, respectively. In the first half of 1979 employment in the non-agricultural sectors was 1,9 per cent higher than in the corresponding period of 1978. The improvement in non-agricultural employment was due to a higher rate of increase in private-sector employment. After employment in this sector had increased by only 0,4 per cent in 1978, its level in the first half of 1979 was 2,4 per cent higher than in the corresponding six months of 1978. With the exception of construction,

Labour



higher employment levels were evident in all sections of the private sector. The level of public sector employment, on the other hand, was only 0,6 per cent higher in the first half of 1979 than in the corresponding period of 1978, compared with an increase of 2,5 per cent in 1978. Employment by the central government, the South African Railways Administration and local authorities was actually lower in the first half of 1979 than in the corresponding period of 1978.

The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians increased from 27 265 in April 1979 to 29 547 in July, before decreasing during the subsequent three months to 28 408 in October. The number of unemployed Blacks amounted to 9,2 per cent of the economically active population in August 1979, compared with 9,8 per cent in August 1978.

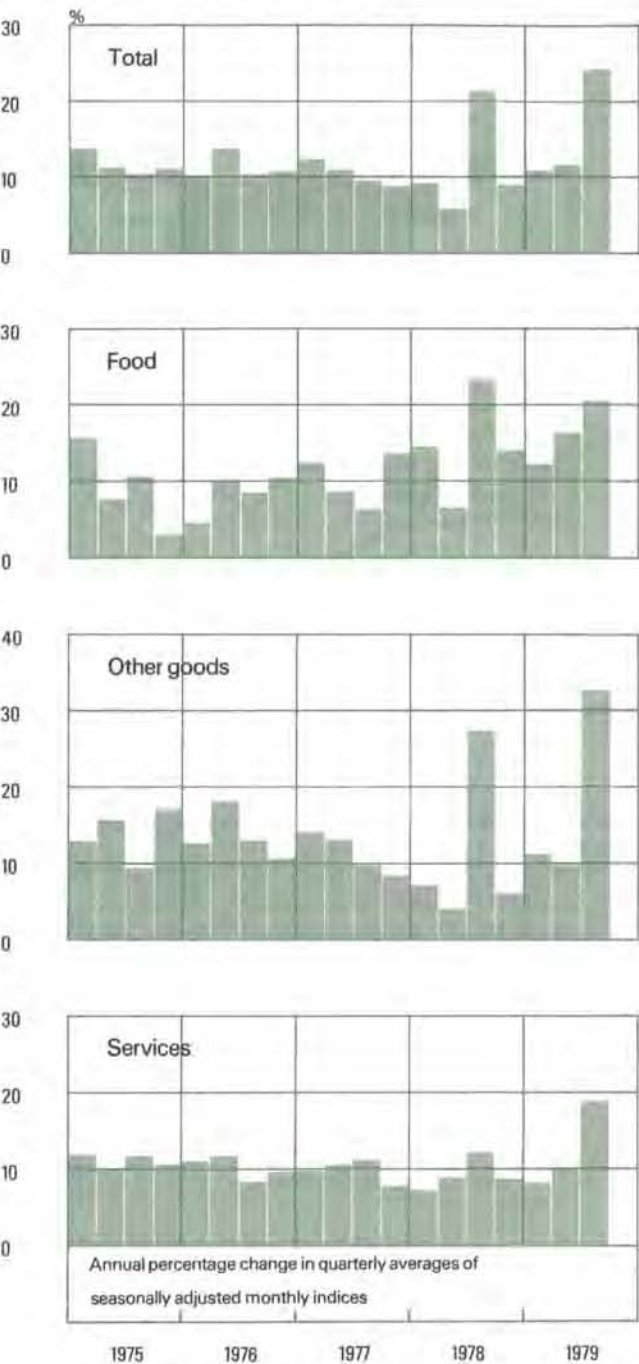
The seasonally adjusted average remuneration per worker in the non-agricultural sectors of the economy increased by 6,8 per cent in the first half of 1979, compared with the second half of 1978. If the effect of price increases is eliminated, the average real remuneration per White and non-White worker rose by 1,9 per cent and 2,2 per cent, respectively, from the second half of 1978 to the first half of 1979. The average levels of the real remuneration of White and non-White workers, however, were still 1,2 per cent and 0,2 per cent, respectively, lower in the first half of 1979 than in the corresponding period of 1978.

Higher rate of increase in prices

The average level of consumer prices was 13,0 per cent higher in the first ten months of 1979 than in the corresponding period of 1978. On a quarterly basis, the seasonally adjusted consumer price index rose successively at annual rates of 10,7 per cent, 11,6 per cent and 24,4 per cent in the first three quarters of 1979. The marked acceleration in the third quarter was the result of simultaneous increases in several administered as well as non-controlled prices. Sharp increases in administered prices were effected in the case of petroleum products, public transport, coal, maize, dairy products and margarine. In addition, substantial increases occurred in the prices of meat, vegetables, tobacco, footwear, dry-cleaning and hairdressing services as well as in flat rent and servants' wages. From October 1978 to October 1979, consumer prices increased by 14,3 per cent.

Wholesale prices were, on average, 13,0 per cent higher in the first nine months of 1979 than in the corresponding period of 1978. The increase in the seasonally adjusted wholesale price index accelerated from an annual rate of 12,9 per cent in the first quarter of 1979 to 15,6 per cent and 22,4 per cent in the second and third quarters, respectively. This acceleration occurred in the prices of domestically produced as well as imported goods. Sharp rises were

Percentage change in consumer prices



recorded in the prices of agricultural products, processed food, footwear, petroleum products, basic metals and metal products, and machinery. From September 1978 to September 1979, wholesale prices increased by 15,8 per cent.

Balance of payments

Substantial further surplus on current account

A substantial further surplus of approximately R1 030 million was recorded on the current account of the balance of payments in the third quarter. This figure brought the surplus in the first nine months of 1979 to about R2 600 million. At a seasonally adjusted annual rate, the current account surplus amounted to R3 530 million in the third quarter, compared with R2 260 million and R3 520 million in the second and first quarters, respectively. The surplus in the third quarter was accounted for by marked increases in merchandise exports and the net gold output, which were only partly offset by sharp rises in merchandise imports and net service and transfer payments to foreigners.

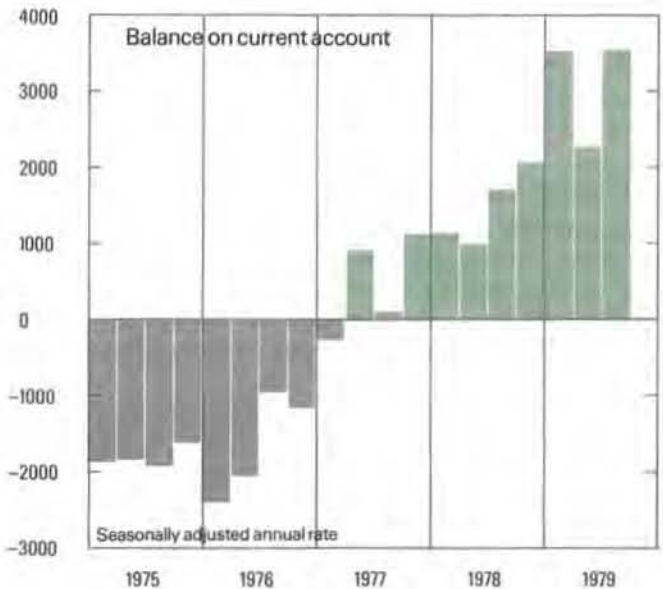
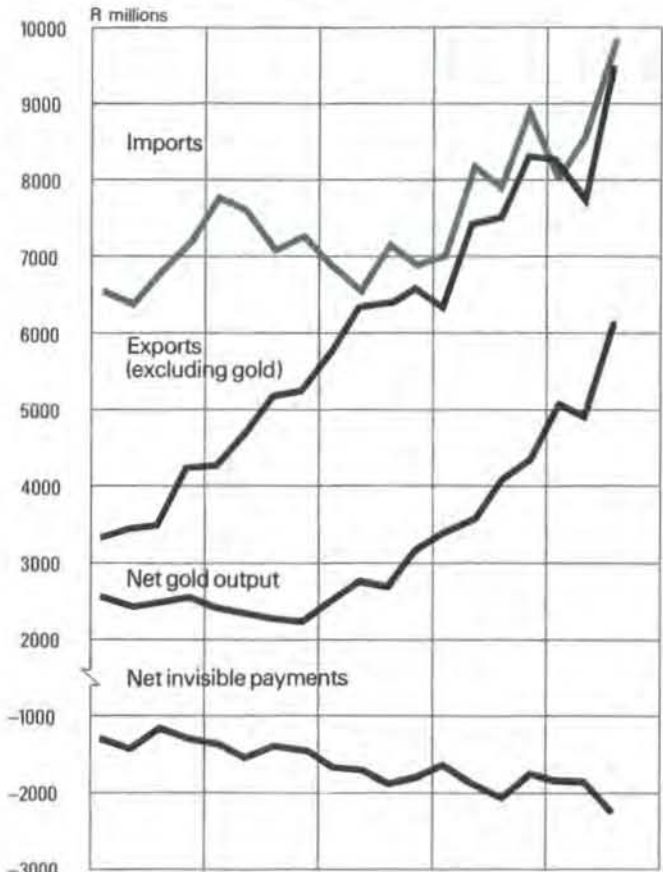
Merchandise exports, at a seasonally adjusted annual rate, increased from R7 770 million in the second quarter to R9 480 million in the third quarter. This increase reflected volume as well as price rises. Increases occurred mostly in metal and mineral exports, especially of diamonds, uranium, platinum, iron ore and coal. Exports of agricultural products, however, declined slightly during this period.

The value of the net gold output increased from a seasonally adjusted annual rate figure of R4 910 million in the second quarter to R6 120 million in the third quarter. This increase occurred despite a slight decline in volume and was entirely due to a rise in the price of gold. The average price of gold on the London market increased from \$258,69 per fine ounce in the second quarter to \$316,83 per fine ounce in the third quarter, or by 22,5 per cent. After a record fixing price of \$437,00 per fine ounce had been reached on 2 October, wide fluctuations occurred in the gold price during the remaining part of the month. An average fixing price of \$391,31 per fine ounce was recorded in October.

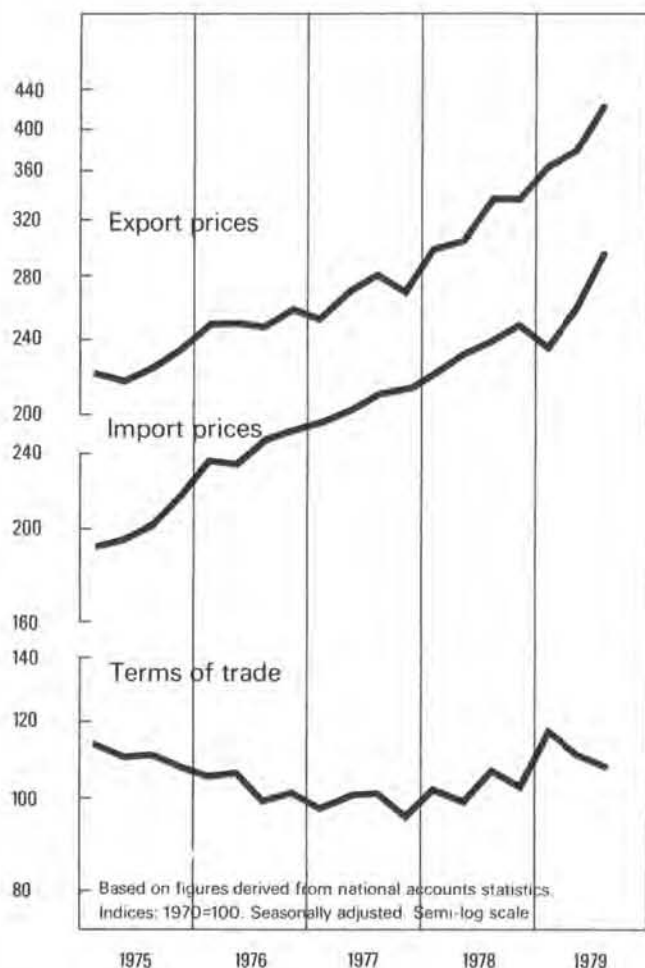
Merchandise imports, at a seasonally adjusted annual rate, increased from R8 590 million in the second quarter to R9 830 million in the third quarter, largely as a result of a sharp rise in prices. The volume of imports remained approximately at the level of the preceding quarter. Increases occurred mostly in imports of mineral products (including petroleum products), chemical products and plastic materials. The marked increase in import prices during the third quarter caused the terms of trade to deteriorate for the second consecutive quarter, notwithstanding an appreciable further rise in the price of gold as well as in the prices of export commodities.

Net service and transfer payments to the rest of the world, which had shown a sharply rising trend during the past four years, tended to level off during the first half of 1979. In the third quarter, however, these net payments again rose rapidly because of increased freight and merchandise insurance payments, tourist expenditure, payments for other transportation

Balance of payments current account



Terms of trade



services, and dividend payments on foreign investment in South Africa. Compared with R1 830 million in the second quarter, net service and transfer payments to foreigners amounted to R2 240 million in the third quarter.

Continued large net outflow of capital

A substantial net outflow of capital of R872 million occurred during the third quarter, bringing the total net outflow during the first nine months of 1979 to R2 299 million. As is shown in the accompanying table, the larger part of the net outflow consisted of short-term capital.

Apart from a reduction of liabilities related to reserves, i.e. repayments on loans which had been raised previously to supplement foreign exchange holdings, the outflow of short-term capital was related to the repayment of short-term foreign loans because of the sharp rise in interest rates abroad, and more generally to the widening of the margin between the effective cost of trade financing in terms of the US dollar and the rand. This margin, for

Net capital movements

R millions

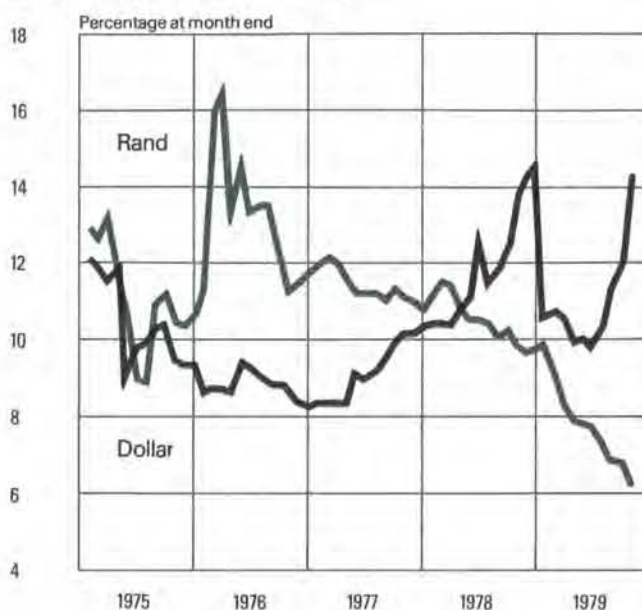
	1979			
	1st qtr.	2nd qtr.	3rd qtr.	First nine months
Long-term capital				
Central government and banking sector	-86	23	-19	-82
Public corporations and local authorities	15	—	-44	-29
Net purchases of securities listed on the Johannesburg Stock Exchange	-27	-61	-36	-124
Other private sector	-35	22	-50	-63
Total	-133	-16	-149	-298
Short-term capital				
Liabilities related to reserves	-101	-34	-103	-238
Other, including unrecorded transactions ¹	-579	-564	-620	-1 763
Total	-680	-598	-723	-2 001
Total net capital movements	-813	-614	-872	-2 299

1. I.e. errors and omissions on the current as well as the capital account.

example, widened from 0,8 per cent at the end of January 1979 to 2,1 per cent at the end of June and 8,1 per cent on 31 October.

The net outflow of long-term capital during the third quarter represented mostly repayments on

Effective cost of trade financing



foreign loans by the central government and banking sector, public corporations and the private sector. Foreigners were net sellers of securities listed on the Johannesburg Stock Exchange, but the contra item of such security sales, which have the effect of creating financial rand, is included in the figures as an inflow of capital to the private sector.

Increase in gold and other foreign reserves

Balance of payments transactions caused the gross gold and other foreign reserves to rise by R162 million during the third quarter. If valuation adjustments are also taken into account, the gross reserves increased by R843 million to reach a level of R3 650 million at the end of September. During October the gross gold and other foreign reserves of the Reserve

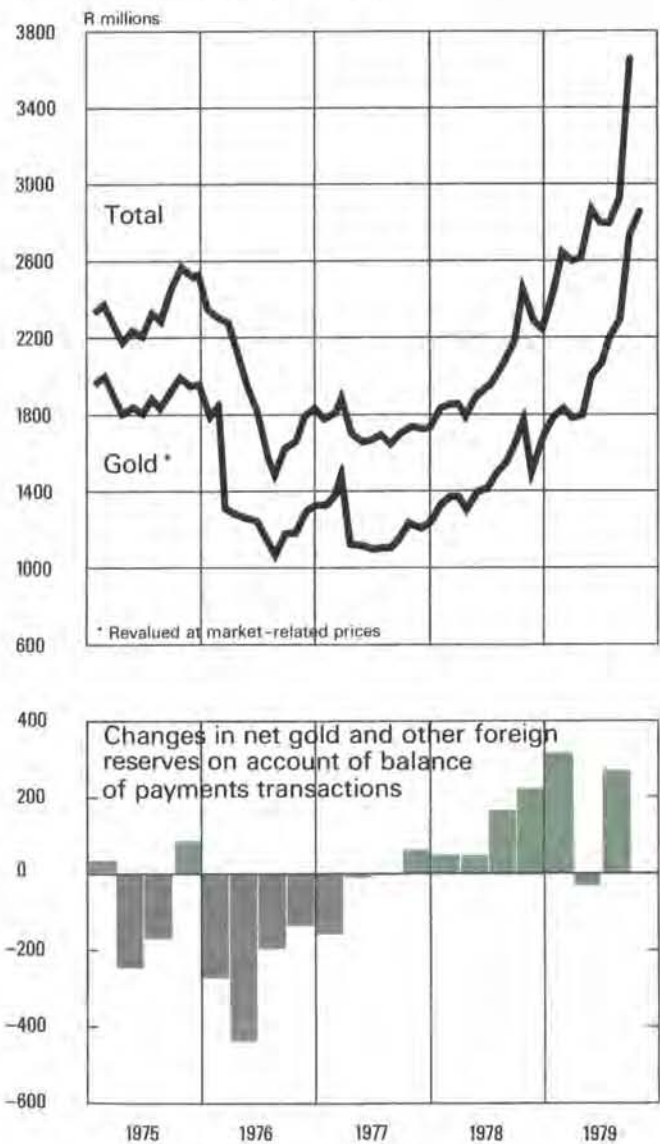
Bank increased further by R116 million and amounted to R3 527 million at the end of the month. The latter increase was entirely due to a rise in the gold reserves, resulting from the repurchase of a portion of the gold which the Bank had previously sold to foreign parties under gold swap transactions.

The net gold and other foreign reserves, i.e. gross reserves minus changes in liabilities related to reserves and valuation adjustments, increased by R265 million during the third quarter. During the first nine months of 1979, the net reserves rose by R541 million.

Appreciation of the rand

In the foreign exchange market, the rand appreciated by 2,4 per cent against the US dollar during the third quarter, namely from \$1,1800 per rand at the end of June to \$1,2088 per rand at the end of September. The weighted average exchange rate of the rand against all currencies appreciated by 1,0 per cent, representing the net result of an appreciation against the US dollar, the British pound and the Japanese yen, and a depreciation against most Western European currencies. During the early part of October the rand continued to appreciate against the US dollar but then declined to \$1,2060 per rand at the end of the month. The weighted average exchange rate of the rand appreciated by 2,3 per cent during October. From the introduction of the new exchange rate system at the end of January 1979 until the end of October, the rand appreciated by 4,9 per cent against the US dollar, whereas the weighted average exchange rate of the rand appreciated by 5,1 per cent.

Gold and other foreign reserves



Monetary and banking situation

Higher rate of increase in money and near-money

The seasonally adjusted supply of money and near-money, which had declined at an annual rate of about 2 per cent during the second quarter of 1979, increased sharply by R747 million, or at an annual rate of 30 per cent, during the third quarter. During the first nine months of 1979 the annual rate of increase amounted to about 9 per cent, compared with a rise of 12 per cent during 1978 as a whole. The narrowly defined money supply, seasonally adjusted, rose at an annual rate of 10 per cent during the third quarter, after having declined at an annual rate of 1 per cent during the second quarter. The annual rate of increase in this monetary aggregate amounted to 12 per cent during the first nine months of 1979 and to 18 per cent during the twelve months to September 1979, compared with 10 per cent during the calendar year 1978.

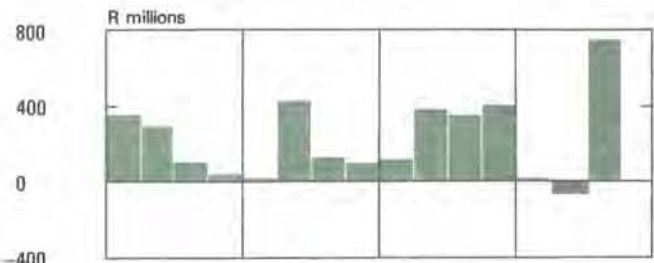
The net gold and other foreign reserves of the monetary banking sector, which had decreased slightly by R28 million during the second quarter, rose sharply by R279 million during the third quarter, largely because of an increase in gross reserves. During October the net gold and other foreign reserves of the Reserve Bank increased moderately further by R77 million, excluding the effect of the monthly revaluation of the Bank's gold stock. A small decrease of R69 million in the monetary banking sector's net claims on the government sector during the second quarter was followed by a marked increase of R284 million during the third quarter, reflecting mostly a decline in government deposits. Claims on the private sector continued to expand during the third quarter, but at a much lower rate than during the second quarter. Long-term deposits of the private sector with monetary banking institutions, which had risen only moderately by R157 million during the second quarter, recorded an even smaller increase of R55 million during the third quarter. The lower rate of increase in these deposits during the second and third quarters reflected a distinct change in investors' attitudes.

Lower rate of increase in bank credit to the private sector

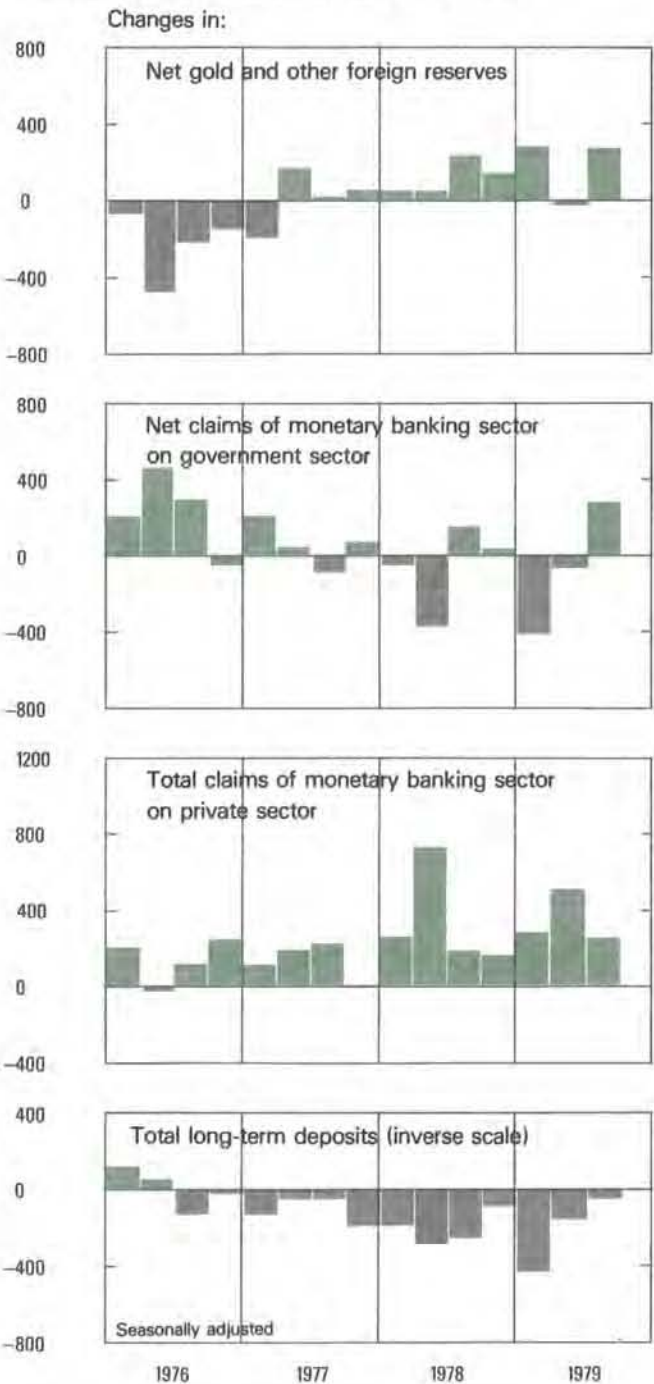
The seasonally adjusted claims of monetary banks on the private sector rose at an annual rate of 9 per cent during the third quarter, following a much higher rate of increase of 20 per cent during the second quarter. The annual rate of increase during the first nine months of 1979 amounted to 13 per cent, the same rate of increase as in 1978.

The rise of R376 million in bank credit extended to the private sector during the third quarter, not seasonally adjusted, was partly attributable to a large increase of R111 million in cash credit advances by the Land Bank. Net new investments in private-

Changes in money and near-money



Causes of changes in money and near-money



Causes of changes in money and near-money R millions

	Not seasonally adjusted			Seasonally adjusted		
	1979			1979		
	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Net gold and other foreign reserves	291	-28	265	295	-28	279
Claims on government sector:						
Gross claims	-425	100	-71			
Government deposits (increase -, decrease +)	-226	289	113			
Net claims	-651	389	42	-413	-69	284
Claims on private sector	220	515	376	274	515	258
Long-term deposits (increase -, decrease +)	-339	-292	-14	-429	-157	-55
Net other assets	226	-353	-3			
Total causes of changes	-253	231	666	25	-68	747

sector securities amounted to R69 million, following a rapid rise of R96 million during the preceding quarter. The discounts, loans and advances of the commercial, merchant and monetary general banks, which had increased by R243 million during the second quarter, rose moderately by R86 million during the third quarter. The latter figure consisted of an increase of R72 million in bills discounted, a strong rise of R115 million in hire-purchase credit and leasing finance, and a decline of R101 million in other loans and advances.

The unused facilities under the banks' ceilings on discounts, loans and advances to the private sector increased very sharply by R348 million during the third quarter, mainly as a result of the raising, with effect from 31 August 1979, of the authorised ceilings by an amount equal to 4 per cent of the relevant base figures as at 31 December 1975. Notwithstanding a corresponding increase in the authorised investment ceilings, unused facilities under these ceilings actually declined by R15 million during the third quarter.

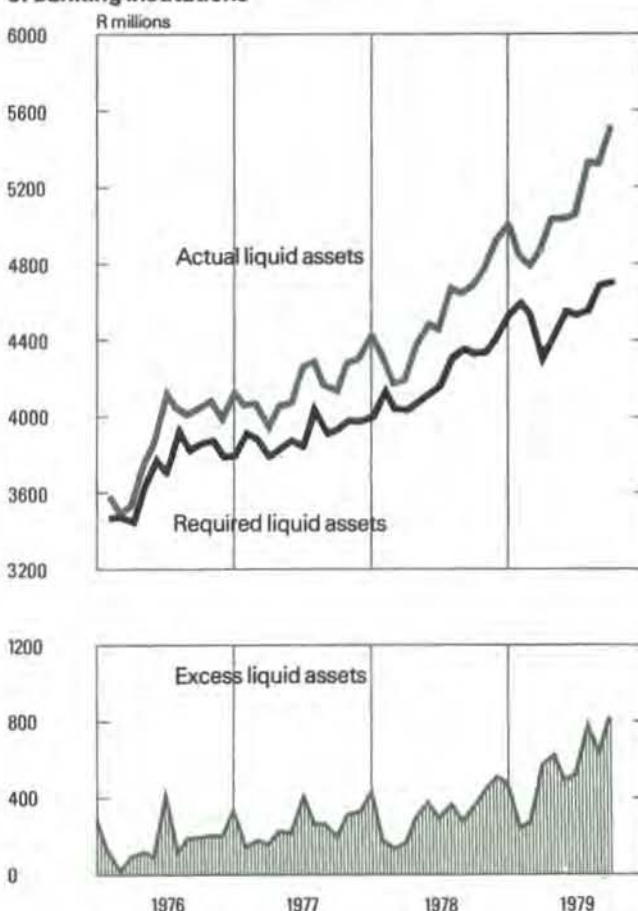
High level of excess liquidity

The liquidity of all groups of banking institutions, which had been at a high level during the period March to July, decreased slightly during August. The main reason for this slight decline was an increase of R140 million in the banks' required minimum holdings of liquid assets. During September, however, the banks' excess liquidity once again increased substantially. The excess liquidity ratio of all monetary banking institutions declined from 4,7 per cent at the end of July to 3,8 per cent at the end of August, before increasing to 4,8 per cent at the end of September. The corresponding ratios for non-monetary banks (excluding two banks which are in the process of winding up their operations) amounted to 4,7, 3,6 and 4,6 per cent at these three month-ends, respectively.

During the third quarter the aggregate amount of excess liquid assets increased by R300 million. This was mainly caused by an increase of R491 million in

actual holdings of liquid assets, which was partly neutralised by an increase in required liquid assets. The large rise in actual liquid asset holdings was largely accounted for by an increase of R304 million in the foreign sector's contribution to the banks' liquidity base.

Actual, required and excess liquid assets of banking institutions



Money market

Conditions in the money market, which had been very easy during July and August, tightened on the last day of August, eased in the course of September, but tightened somewhat again over the September month-end. During October and the first half of November the market was, however, very easy again, except for a temporary tightening over the October month-end. The tightening over the August month-end was mainly attributable to a large seasonal increase in government deposits and a decrease in gross claims on the government sector, which were partly neutralised by rising net foreign reserves of the Reserve Bank. The tightening of the market over the September month-end was the result of a further increase in notes in circulation that was only partly neutralised by a sharp rise in the net foreign reserves of the Reserve Bank. A sharp increase in government deposits was mainly responsible for the tight market conditions over the October month-end.

Call loans to the discount houses amounted to as much as R1 033 million on 30 August and remained at fairly high levels during September, October and the first half of November, reaching a new record figure of R1 069 million on 15 October. Accommodation to the discount houses, which had been nil from the beginning of July up to 30 August, amounted to R121 million on 31 August. After having reverted gradually to lower levels in the course of September, the accommodation again increased over the September month-end. By 6 October,

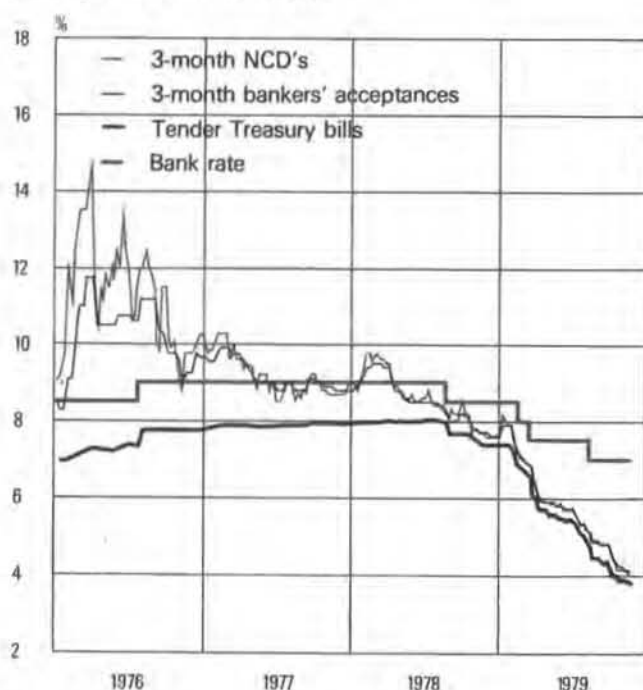
however, all bills rediscounted by the Reserve Bank had been repurchased by the discount houses. Accommodation was again provided over the month-end and amounted to R282 million on 31 October.

Monetary banks' free balances with the National Finance Corporation, which had been at a relatively high level during August, were almost depleted during most of September. These balances reached substantial levels again in the course of October, but declined to insignificant amounts during the last few days of the month and early November.

Money market interest rates continued to decrease after the end of August, the decline becoming more pronounced during the first part of October but more slowly during the remainder of the month and the first half of November. The rate on three-month bankers' acceptances declined from 4,90 per cent on 31 August to 4,80 per cent on 28 September, 4,40 per cent on 12 October and 4,10 per cent on 16 November. The rate on three-month negotiable certificates of deposits followed a similar course. The Treasury bill tender rate decreased from 4,45 per cent on 31 August to 4,38 per cent on 28 September, 3,93 per cent on 12 October and 3,81 per cent on 16 November.

The Reserve Bank was an active seller in the open market from the beginning of August with a view to ensuring an orderly decline in interest rates. Open-market sales of R126 million by the Bank during August were followed by sales of R303 million during September and of as much as R555 million during October and the first three weeks of November. The latter figure included special tap Treasury bills of R300 million that will mature at the end of February 1980 to offset the seasonal flow of tax money to the government. In addition, the amount of Treasury bills offered at the weekly tender was temporarily increased from R50 million to R100 million from 2 November.

Money market interest rates



Government finance

High rate of increase in Exchequer receipts

Exchequer receipts during the first six months of the 1979/80 fiscal year, i.e. the period April to September 1979, were 23 per cent higher than in the corresponding period of the preceding fiscal year. This increase was markedly higher than the figure of 4 per cent anticipated in the Budget for the fiscal year as a whole. The main reasons for the substantial rise in receipts were a marked increase in receipts from gold mining companies as a result of the sharp rise in the price of gold, the fact that an important part of the tax concessions provided for in the latest Budget became effective only in July 1979, and the distortion of the comparison of receipts in 1979/80 with those in the preceding fiscal year caused by the fact that the general sales tax did not exist during the first three months of the 1978/79 fiscal year.

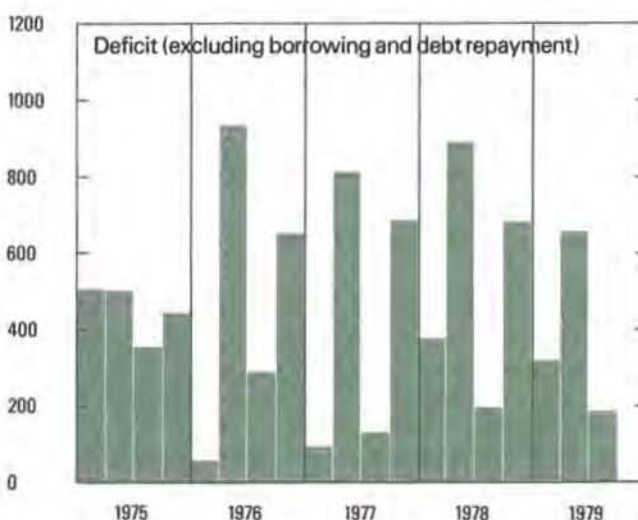
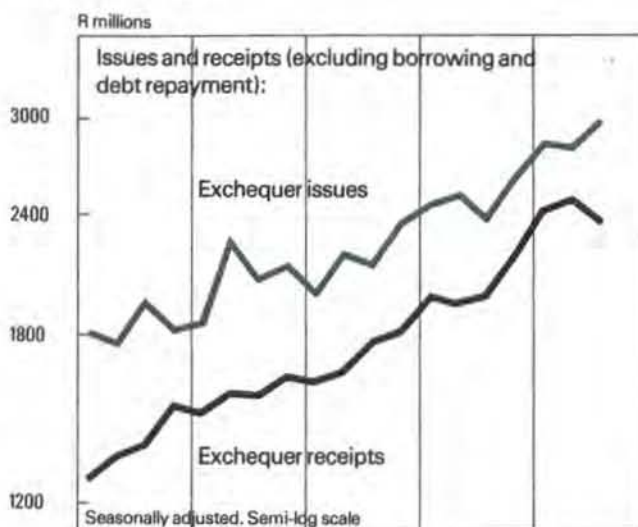
Whereas the 1979/80 Budget provided for an actual decline of R7 million in receipts in the form of income tax and mining lease payments by gold mining companies, actual receipts during the first half of the fiscal year already exceeded those during the first half of the preceding fiscal year by R222 million. The deviation of other income tax receipts from Budget estimates is likely to be reduced in the second half of the fiscal year when personal income tax collections will fully reflect lower tax rates.

As is shown in the accompanying table, collections of indirect taxes during the first half of the fiscal year conformed fairly closely to Budget estimates for the fiscal year as a whole. The largest deviation occurred in the case of excise duties because part of the duty on petroleum products was not channelled to the Exchequer Account but was used for stabilising fuel prices.

Exchequer issues exceed Budget estimates

Exchequer issues, in the form of funds made available to government departments for approved expenditure, were 17 per cent higher in the first half of the 1979/80 fiscal year than in the corresponding period

Exchequer Account



State Revenue Fund¹ – major components of revenue

Seasonally adjusted figures at annual rates
R millions

	1978		1979/80		1979		
	April–June	July–Sept.	April–Sept.	Budget	April–June	July–Sept.	April–Sept.
Customs duties	347	382	365	446	415	442	429
Surcharge on imports	341	344	343	236	230	237	234
Excise duties	924	890	907	1 023	1 019	822	921
General sales tax	—	806	806	1 175	1 154	1 299	1 227
Income tax and lease payments by gold mines	599	814	706	855	990	1 242	1 116
Other income tax payments	3 942	3 599	3 770	3 795	4 968	3 762	4 365

1. Including amounts payable to neighbouring countries in terms of Customs Union agreements.

of 1978/79. This increase was notably higher than the estimated increase of 12 per cent in central government expenditure during the fiscal year as a whole.

Smaller Exchequer deficit

The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R844 million in the first half of 1979/80, or R245 million less than the deficit in the corresponding period of the preceding fiscal year. In contrast with the first half of 1978/79 during which the Treasury reduced its net indebtedness to the monetary banking and foreign sectors, 27 per cent of the Exchequer deficit in the first six months of 1979/80 was financed by means of net foreign borrowing and an increased net indebtedness to the monetary banking sector. A substantially smaller amount was borrowed from domestic non-banking sources and this was reflected in a reduced net investment in government securities by the private non-banking sector as well as the Public Debt Commissioners.

Additional measures to stimulate the economy

With a view to stimulating the economy further, various measures were announced in September by the Minister of Finance. These included the early repayment in November of the 1976/77 loan levy and accrued interest to individuals, amounting to about R154 million, a bonus payment of R24,5 million to pensioners, an increase of R20 million in food subsidies, and a further subsidy of R12 million on bus passenger services to and from resettlement areas. In view of the substantial additional government revenue in the form of income tax and mining lease payments by gold mining companies, it was decided to relinquish certain revenues and to increase government expenditure. Thus, excise duties of R75 million and interest receipts of R55 million from the Railways Administration were relinquished in order to stabilise the price of fuel and to increase the subsidy on railway passenger transport. In addition, government expenditure is expected to increase by R120 million during the 1979/80 fiscal year because of unavoidable cost rises.

Exchequer Account financing R millions

	1978			1979		
	April– June	July– Sept.	April– Sept.	April– June	July– Sept.	April– Sept.
Deficit	892	197	1 089	660	184	844
Financing:						
Domestic sources	912	188	1 100	591	103	694
Non-banking sectors	1 014	412	1 426	461	154	616
Public Debt Commissioners ¹	417	199	615	222	-71	151
Private non-banking sector	598	213	810	240	225	465
Monetary banking sector	-102	-223	-326	129	-51	78
Foreign sources	-20	9	-11	69	81	150
Total	892	197	1 089	660	184	844

¹ Including the Department of Posts and Telecommunications.

Capital market

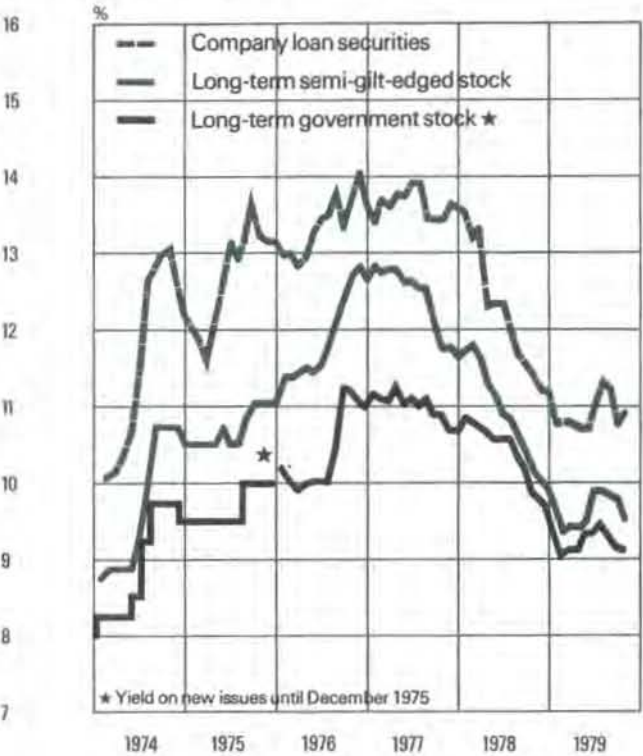
Lower yields and higher turnover in market for fixed-interest securities

After a temporary tightening during the period March to July 1979, conditions in the market for fixed-interest securities eased again during the subsequent three months. New issues were supported more actively and long-term yields declined slightly. Thus, the secondary-market yield on long-term government stock, which had risen from 9,07 per cent in February 1979 to 9,49 per cent in July, declined to 9,15 per cent in October. The long-term secondary-market yield on the highest grade semi-gilt-edged stock rose from 9,35 per cent in February to 9,89 per cent in July, before declining to 9,52 per cent in October. During the same periods the secondary market yield on company loan securities increased from 10,75 per cent to 11,31 per cent, and then decreased to 10,92 per cent.

The amount of new funds raised in the market by means of net issues of public-sector stock amounted to R118 million in the third quarter. During the first nine months of 1979 an amount of R354 million was raised, compared with R1 770 million during the corresponding period of 1978. As is shown in the accompanying table, the main reason for the lower level of public sector borrowing in the market for fixed-interest securities during 1979 was the comparatively small amount of new funds raised by the central government. In addition, borrowing by public corporations and local authorities was also lower during the first nine months of 1979 than during the corresponding period of 1978. New issues of long-term loan securities by private-sector companies amounted to R60 million during the third quarter, bringing the amount of funds raised during the first nine months of 1979 to R173 million, compared with R122 million during the first nine months of 1978.

Secondary-market transactions in listed fixed-interest securities increased sharply in the third

Secondary market security yields



quarter. Transactions of R389 million and R555 million in the first and second quarters of 1979, respectively, were followed by a turnover amounting to R1 057 million in the third quarter. The total turnover of R2 001 million in the first nine months was substantially higher than the corresponding figure of R424 million for the first nine months of 1978.

Share market buoyant

Turnover and prices in the share market increased sharply during the period July to October. The number of shares traded on the stock exchange

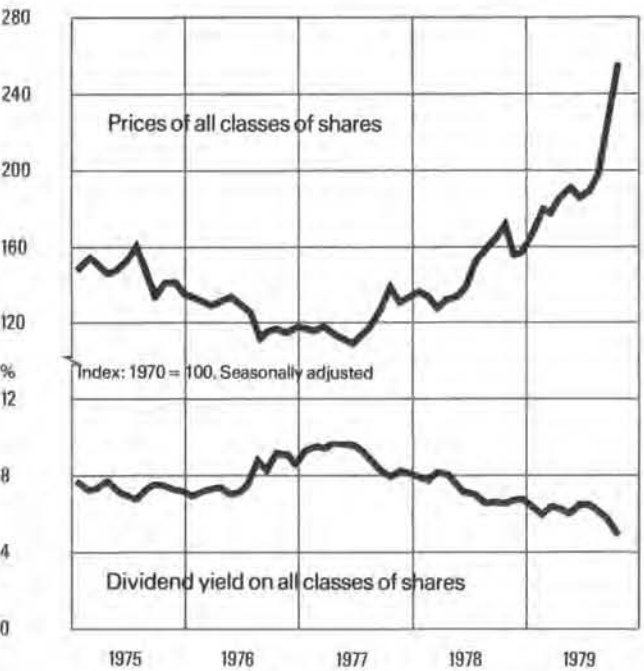
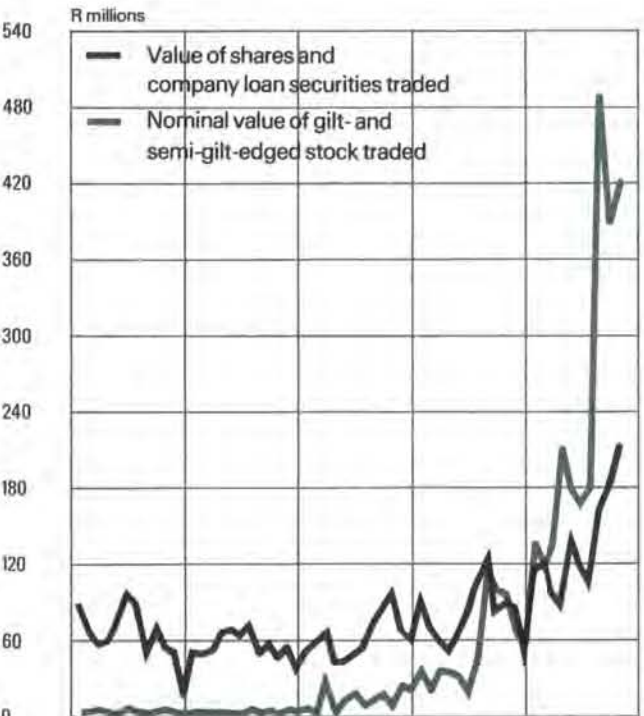
Net new issues of long-term fixed-interest securities
R millions

Period	Central government ¹	Public corporations ¹	Local authorities ¹	Total public sector ¹	Private sector
1978 – 1st quarter	188	165	38	391	32
2nd quarter	598	332	56	986	46
3rd quarter	9	352	32	393	44
4th quarter	137	154	22	313	100
Year	932	1 003	148	2 083	222
1979 – 1st quarter	-296	152	12	-132	77
2nd quarter	165	168	35	368	36
3rd quarter	-102	196	24	118	60

1. Adjusted for increases in the issuers' holdings of own securities.

during this period was, on average, 34 per cent higher than during the second quarter. Share prices rose, on average, by 29 per cent during this period. Buoyant conditions could be observed in all sections of the market. Financial shares showed the largest price increases, followed by mining shares and the combined group of industrial and commercial shares. The

Stock exchange



comprehensive share price index, covering all classes of shares, reached a level in September that was higher than the peak in May 1969. Turnover, however, did not rise to the level of the May 1969 peak, probably because of the substantial increase in transactions in fixed-interest securities. The buoyancy of the market was reflected also in the successful raising of R231 million by Sasol in September and October as part of a fully placed total share issue of R525 million. The amount of R35 million offered for public subscription drew applications totalling R1 094 million.

Because of the rapid rise in share prices, the dividend yield on all classes of shares declined from 6,44 per cent in June to 5,75 per cent in September and 4,91 per cent in October. The inverse yield gap between ordinary shares and long-term government stock widened from 2,91 per cent in June to 4,24 per cent in October.

Unit trusts experienced a small further net outflow of funds in the form of net repurchases of units during the third quarter. Because of rising share prices, the market value of the trusts' net assets increased by R67 million during the third quarter to a level of R501 million at the end of September. The average selling price of units rose by 13 per cent during this period.

Smaller flow of longer-term funds to deposit-receiving and related savings institutions

The flow of longer-term funds to deposit-receiving and related savings institutions declined significantly during the third quarter. As is shown in the accompanying table, this change was most pronounced in the case of banking institutions, but could also be observed in the case of building societies.

Flow of longer-term funds to financial institutions

Seasonally adjusted data
R millions

	1979		
	1st qtr.	2nd qtr.	3rd qtr.
Banking institutions	435	338	197
Building societies	505	463	375
Participation mortgage bond schemes	-11	-1	-11
Government savings facilities	89	108	105
Total	1 018	908	666

Further increase in real estate and mortgage market activity

Activity in the real estate and mortgage markets increased further in the third quarter. The value of real estate transactions was 20 per cent higher than in the preceding quarter. Transactions in the first nine months of 1979 exceeded those in the corresponding

period of 1978 by 24 per cent. The gross amount of mortgage loans granted by building societies during the third quarter were 25 per cent higher than in the second quarter, and in the first nine months of 1979 gross mortgage lending by the societies was 73 per cent higher than in the corresponding period of 1978.

Notwithstanding the increase in mortgage lending by the building societies, the demand for mortgage loans could not absorb the amount of funds available for this purpose. Consequently, the societies had to increase their holdings of prescribed investments by a further amount of R113 million. At the end of September the societies' excess holdings of prescribed investments amounted to R832 million, or 9,1 per cent of their liabilities to the public. Indications are, however, that the demand for mortgage loans is increasing strongly and that the increase will accelerate even further once the 99-year lease scheme for housing in black townships becomes fully operative.

Fixed property market

