

Quarterly economic review

Summary and general observations

In the Governor's Address at the Reserve Bank's Annual General Meeting on 21 August 1979 and in the Bank's **Annual Economic Report** published at the time of the meeting, economic developments during the year that ended on 30 June 1979, were reviewed in detail. This review will be limited, therefore, to a brief description of developments during the second quarter of 1979 and, depending on the availability of statistics, during July and August.

The moderate cyclical recovery of economic activity during 1978 and the first quarter of 1979 continued during the second quarter, but the pace of the upswing slackened somewhat during this quarter. In some sectors of the economy conditions remained sluggish and in others the rate of increase in activity slowed down. As a result, the real gross domestic product of the non-agricultural sectors of the economy increased only moderately in the second quarter, after an appreciable rise had occurred in the first quarter. A sharp increase in the real value added by agriculture raised the rate of growth in total real gross domestic product to a slightly higher level than in the first quarter, but this increase was merely the result of the earlier harvesting of summer crops. The slowdown in the rate of increase in the non-agricultural real gross domestic product was reflected in a slight rise in registered unemployment during the second quarter and the subsequent two months. This rise represented a reversal of a declining trend which had started at the end of 1977.

Although real aggregate domestic demand increased moderately in the second quarter, it could not sustain a higher rate of economic growth. In real terms, private consumption expenditure rose only marginally, government consumption expenditure showed virtually no change, and gross domestic fixed investment continued on a downward trend. Real inventory investment, however, changed markedly, but increases were confined mostly to agricultural stocks-in-trade and mining inventories. Although measures that are aimed at the further stimulation of the economy by means of encouraging demand were incorporated in the 1979/80 Budget, most of these will start taking effect only in the third quarter of 1979.

Because of the predominant influence of cost factors on price increases, the sluggish demand did not contribute towards lowering the rate of inflation. The rate of increase in consumer prices, which had started to accelerate in the first quarter of 1979, rose further in the second quarter and in July. Wholesale prices already began to rise at a higher rate in the last quarter of 1978 and the rate of increase accelerated markedly in the second quarter of 1979 and in July.

The marked improvement in the terms of trade during 1978 and the first quarter of 1979 did not continue during the second quarter. In addition, declines occurred in the seasonally adjusted volume of exports and net gold output. Despite these changes, the current account of the balance of payments continued to show a substantial surplus in the second quarter. This surplus was, however, well below the record figure in the preceding quarter. A substantial net outflow of capital, which exceeded the surplus on the current account, was recorded in the second quarter. This caused the net gold and other foreign reserves to decline for the first time during any quarter since the last quarter of 1977. During July the net foreign reserves of the Reserve Bank decreased substantially further, but increased again during August.

The narrowly defined money supply as well as the supply of money and near-money, seasonally adjusted, declined during the second quarter, but increased sharply during July. The decline in the money and near-money supply during the second quarter occurred notwithstanding a rapid increase in the monetary banking sector's claims on the private sector. This increase was offset, however, by a decline in the net gold and other foreign reserves of the monetary banking sector and in this sector's net claims on the government sector, as well as by a further rise in the private sector's long-term deposits with monetary banking institutions. A substantial increase in net claims on the government sector and a decline in long-term deposits of the private sector with monetary banking institutions were the most important causes of the increase during July. The expansion of bank credit to the private sector caused the unused facilities under the ceilings on the banks' discounts, loans and advances to decline considerably during the second quarter, but during July these facilities increased again. With effect from 31 August, these ceilings as well as those on private sector investments were raised by the Reserve Bank by an additional 4 per cent of their respective base figures as at the end of December 1975.

The liquidity of all groups of banking institutions remained at a high level during the second quarter and July. Excess liquidity even increased during this period and contributed to a marked easing of money market conditions, especially after the first few days of May up to late August. Reflecting these developments, money market interest rates declined almost uninterruptedly from the beginning of May and stood at considerably lower levels at the end of August. Bank rate was reduced on 13 August as a means of further relaxing monetary policy and in recognition of the decline in short-term interest rates.

This was followed by a lowering of the commercial banks' prime overdraft rate and of most deposit interest rates.

In the capital market, long-term fixed-interest security yields increased slightly during the second quarter, apparently more because of changed expectations regarding price increases and uncertainties about prospective interest rate movements than because of actual shifts in the supply of or demand for loanable funds. During July and August, however, the rise in yields was reversed to some extent. Share yields followed a similar course; a slight rise during the second quarter was followed by a decrease during July and August.

National accounts*

Real gross domestic product, which had risen by 2½ per cent in 1978, increased at annual rates of about 3½ per cent and 4 per cent in the first and second quarters of 1979, respectively. In the first half of 1979, real gross domestic product was approximately 3½ per cent higher than in the corresponding period in 1978. Because of a sharp increase in the first quarter, real gross national product was about 6 per cent higher in the first half of 1979 than in the corresponding six months of 1978. In terms of quarterly changes, however, real gross national product increased at a lower rate during the second quarter of 1979 because the marked improvement in South Africa's terms of trade during the first quarter was not maintained during this period.

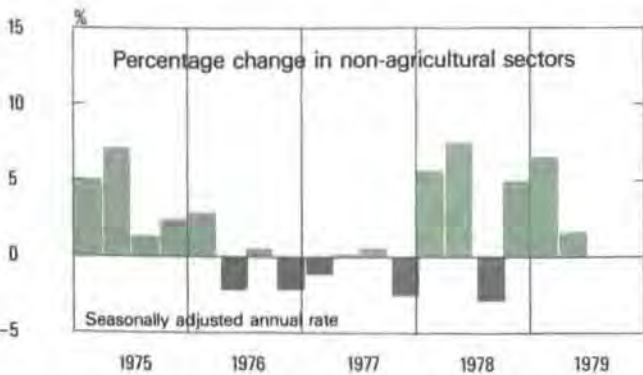
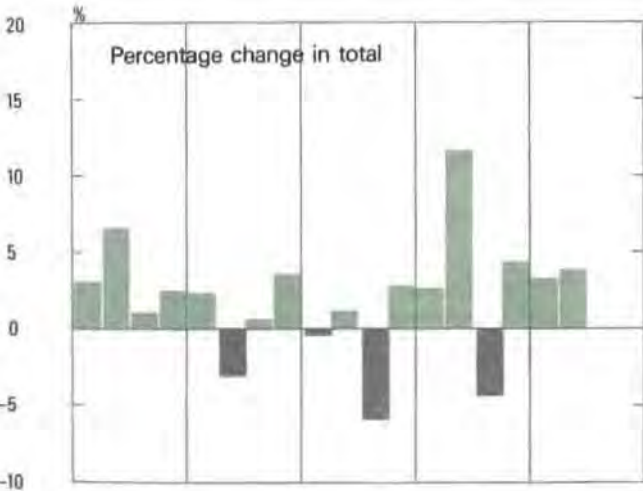
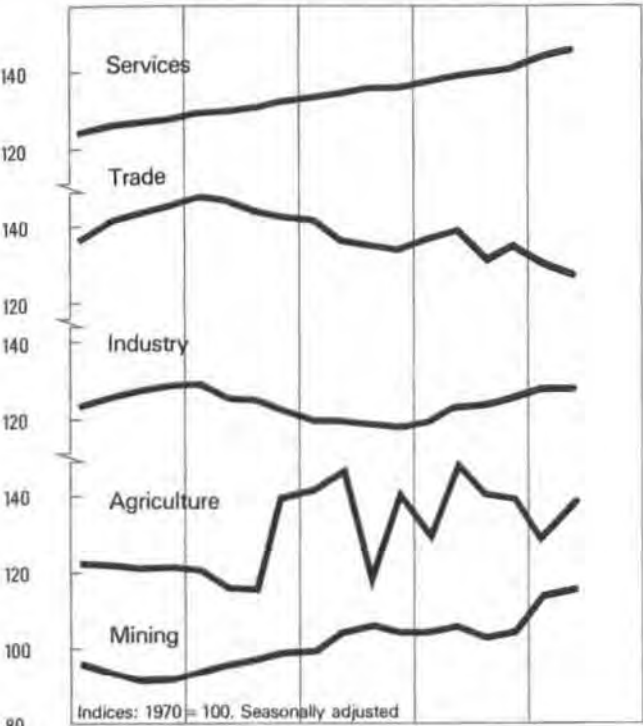
Most of the increase in the real gross domestic product in the second quarter of 1979 was accounted for by a substantial rise in the real value added by agriculture. Although summer crops are expected to be appreciably smaller in 1979 than in the preceding year, the early harvesting of these crops raised the real product of agriculture in the second quarter. The increase in the real value added by the non-agricultural sectors of the economy slowed down considerably from the first to the second quarter of 1979. Lower rates of growth in the second quarter were recorded in the real gross domestic product of such sectors as mining, manufacturing, transport and finance. A particularly sharp decrease occurred in the rate of growth in the real value added by mining, largely because the exceptionally rapid increase in the first quarter was not maintained in the second quarter. The real value added by the sector electricity, gas and water actually declined, following a substantial increase in the first quarter. In addition, the real value added by commerce decreased further during the second quarter.

Real gross domestic expenditure increased sharply at an annual rate of about 10 per cent in the second quarter, contributing materially to the level of such expenditure in the first half of 1979 being approximately 3½ per cent higher than in the corresponding period in 1978. The increase in the second quarter was almost solely accounted for by a substantial change in inventory investment; a sharp decline in inventories in the first quarter was followed by a small increase in the second quarter. This change could be observed in an increase in agricultural stocks-in-trade, mining inventories and, to a lesser extent, retail stocks, as well as in a smaller decline in manufacturing stocks. Wholesale stocks and the inventories of the motor trade continued to decline.

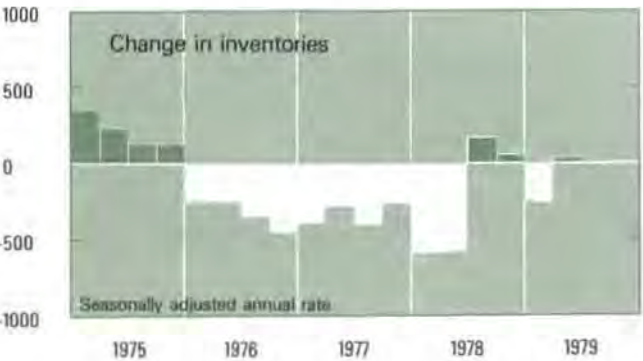
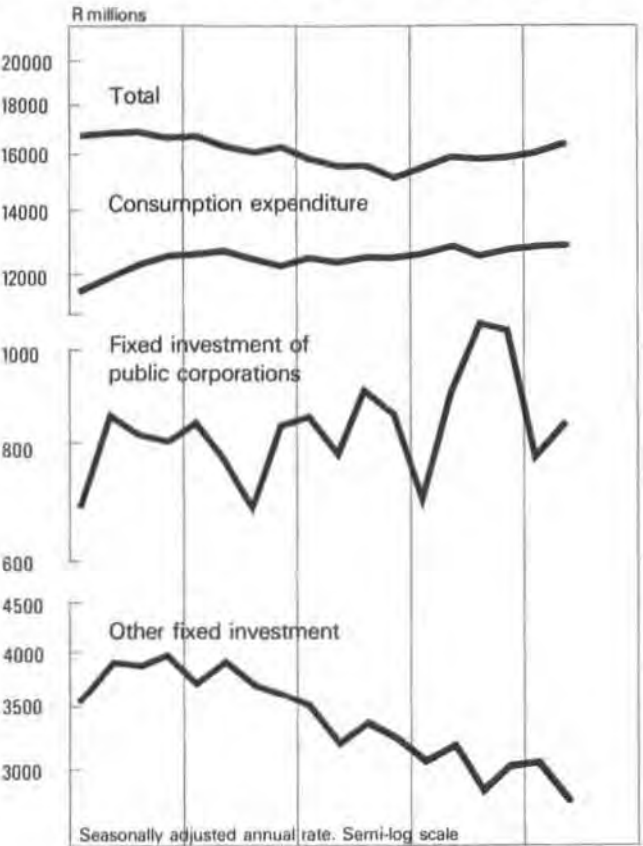
The other components of real gross domestic expenditure contributed, on balance, little to the

* Quarterly changes are based on seasonally adjusted data.

Gross domestic product at constant 1970 prices



Gross domestic expenditure at constant 1970 prices



increase in the second quarter. Private consumption expenditure rose only moderately, government consumption expenditure showed little change, and gross domestic fixed investment continued on a downward trend. The increase in real private consumption expenditure in the second quarter occurred in the durable and non-durable goods categories. Expenditure on semi-durable goods and on services actually declined in this period. The further decline in real gross domestic fixed investment was the net result of an increase in fixed capital outlays by public corporations and decreases in such outlays by the private sector and public authorities.

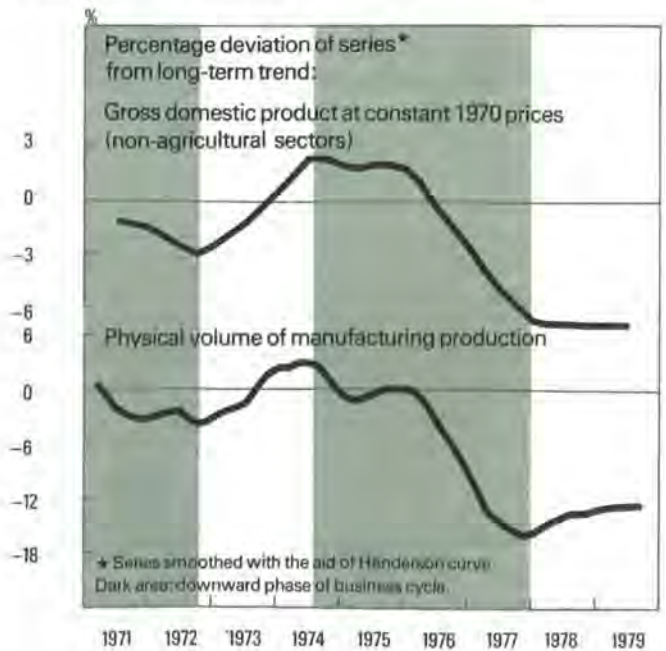
After a substantial further rise in the first quarter of 1979, gross domestic saving declined in the second quarter. Increases in personal saving and the provision for depreciation were more than offset by declines in corporate saving and the current surplus of general government. Gross domestic saving nevertheless exceeded gross domestic investment, the difference being reflected in a further surplus on the current account of the balance of payments.

Business cycle trends, labour conditions and prices

The cyclical recovery of economic activity during 1978 and the first quarter of 1979 continued during the second quarter. Judging from the slower increase in non-agricultural real gross domestic product and changes in other economic indicators, however, the pace of the upswing slackened somewhat during the second quarter. In some sectors of the economy, conditions remained sluggish and in others the rate of increase in activity slowed down. Although measures for the further stimulation of the economy were incorporated in the 1979/80 Budget, most of these measures will start taking effect only in the second half of 1979.

Comparatively high rates of increase in the volume of manufacturing and mining production in the first quarter of 1979 were followed by lower rates in the second quarter. Despite the more moderate increases in the second quarter, the volume of production in both these sectors was considerably higher in the first half of 1979 than in the corresponding period of 1978. Activity in the building and construction sector remained at a low level, but some improvement occurred during the first half of 1979. The value of wholesale and retail sales at constant prices, excluding sales of motor vehicles, declined further in the second quarter. In the first half of 1979 these sales were appreciably lower than in the first half of 1978. Average monthly sales of new motor vehicles increased sharply in the first four months of 1979,

Business cycle indicators



but declined during the subsequent four months. The number of new motor vehicles sold during the first eight months of the year was only slightly higher than in the corresponding period of 1978.

The slowdown in the rate of increase in the real gross domestic product of the non-agricultural sectors of the economy in the second quarter was reflected in a slight increase in registered unemployment. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from its most recent peak of 31 750 in July 1978 to 27 270 in April 1979, before rising to 29 547 in July.

Based on quarterly averages, the seasonally adjusted consumer price index rose at an annual rate of 10,7 per cent in the first quarter and by 11,6 per cent in the second quarter of 1979. The more rapid price rise in the second quarter was attributable to a higher rate of increase in rent and servants' wages and in the prices of food, footwear, vehicles and petrol. The increase in petrol prices in June 1979 was reflected in the consumer price index for July, contributing an estimated 2,1 percentage points to the overall rise of 3,6 per cent in consumer prices between June and July. Compared with the same month in the preceding year, consumer prices rose by 12,8 per cent in both April and May, by 13,6 per cent in June, and by 12,9 per cent in July 1979. The lower rate of in-

crease in July was due to the fact that the effect of the general sales tax was no longer reflected in the comparison of price figures over the twelve-month period.

The seasonally adjusted wholesale price index rose at annual rates of 12,9 per cent and 15,6 per cent in the first and second quarters of 1979, respectively. The acceleration in the rate of increase in the second quarter was due to more rapid rises in the prices of imported as well as domestically produced goods. Domestically produced goods of which the prices rose at higher rates included agricultural products, machinery, metal products, footwear and food. Between June and July wholesale prices increased by 2,6 per cent, largely on account of higher prices for steel and petroleum products. Compared with the same month in the preceding year, wholesale prices increased by 12,3 per cent in May, by 13,4 per cent in June, and by 15,8 per cent in July.

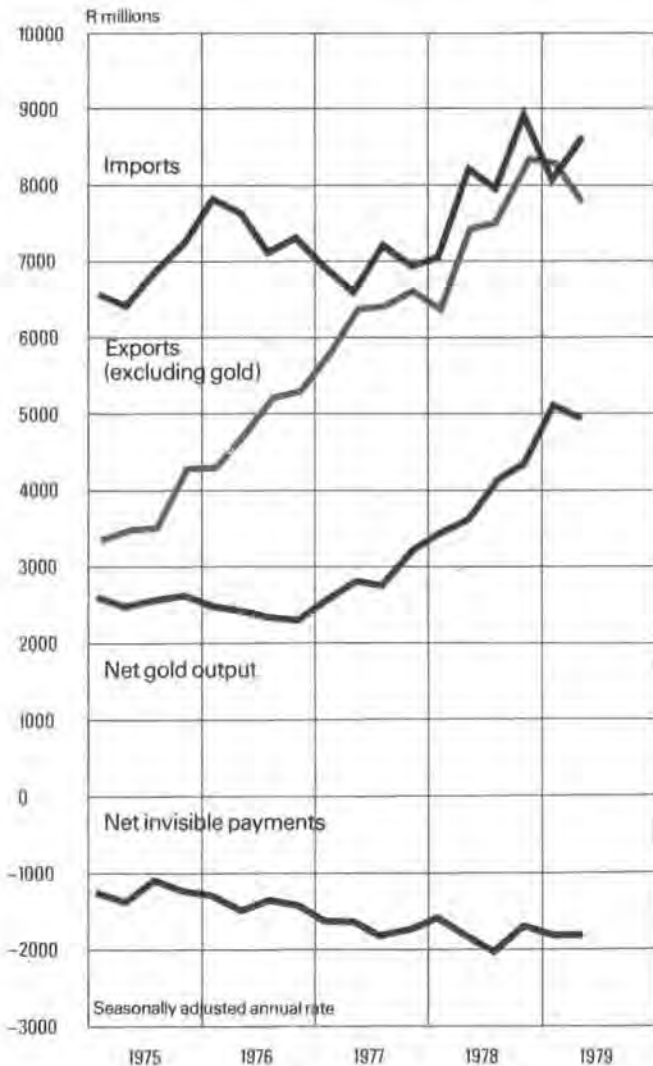
Prices
Percentage change over twelve months



Balance of payments

The surplus on the current account of the balance of payments decreased from a record figure of R1 025 million in the first quarter to R543 million in the second quarter of 1979. At a seasonally adjusted annual rate, the surplus on the current account amounted to R3 517 million in the first quarter and R2 257 million in the second quarter. Despite this decrease, the surplus in the second quarter was still equal to 5 per cent of the gross domestic product, compared with an average deficit ratio of 2 per cent in the post-war period. The smaller seasonally adjusted surplus in the second quarter was accounted for by an increase in merchandise imports, a decline in merchandise exports, and a lower net gold output. Net invisible payments to the rest of the world remained approximately the same as in the preceding quarter.

Balance of payments current account



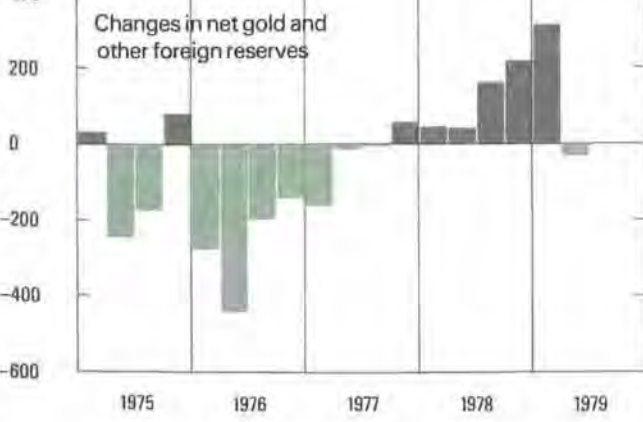
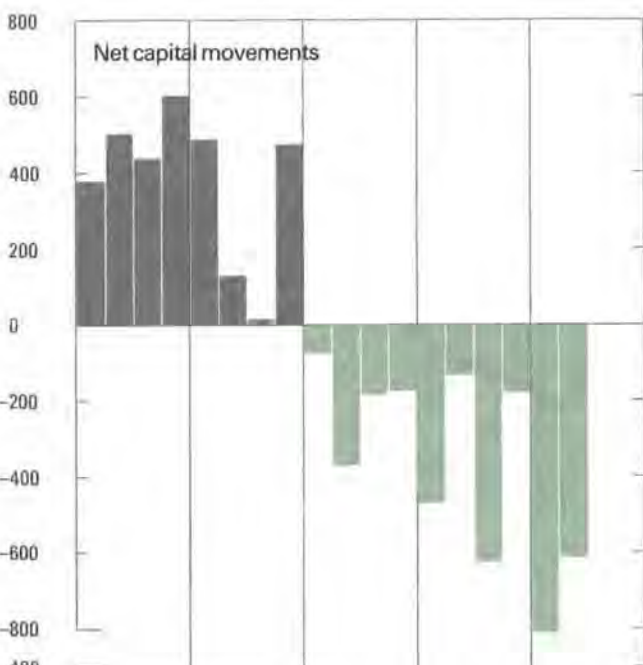
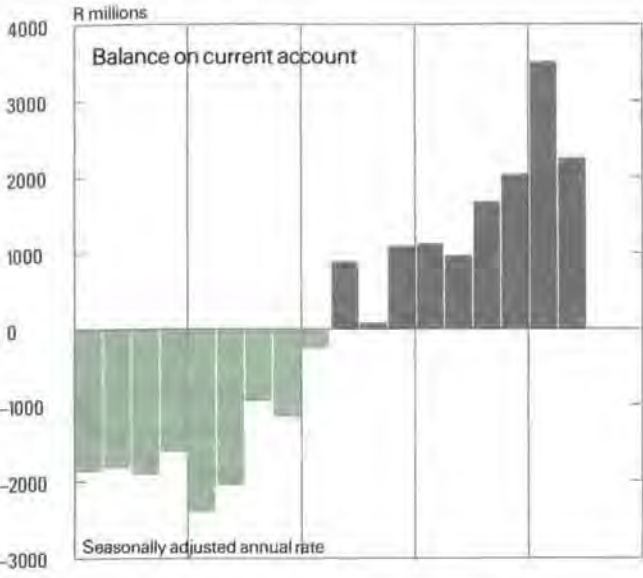
The value of merchandise imports, at a seasonally adjusted annual rate, increased from R8 014 million in the first quarter to R8 586 million in the second quarter of 1979. This increase occurred notwithstanding a further slight decline in the volume of imports, and was attributable, therefore, to a rise in import prices. The value of most categories of imports was higher in the second quarter, but particularly large increases were recorded in imports of petroleum products, machinery and electrical equipment, base metals, chemical products and artificial resins, and plastic materials. In July, however, the seasonally adjusted value of merchandise imports declined sharply, namely from an annual rate figure of R8 565 million in June to R7 670 million in July.

The value of merchandise exports, at a seasonally adjusted annual rate, declined from R8 280 million in the first quarter to R7 768 million in the second quarter of 1979, owing to a sharp decrease in the volume of exports. Export prices rose further during the second quarter, but at a lower rate than during the preceding quarter. The decline in the value of exports was attributable largely to lower diamond exports; the other main categories of exports continued to increase. Preliminary indications are that the seasonally adjusted value of merchandise exports increased appreciably in July.

At a seasonally adjusted annual rate, the value of the net gold output declined from R5 084 million in the first quarter of 1979 to R4 910 million in the second quarter because of a decline in volume. The price of gold continued to rise and the average price per fine ounce on the London market increased from \$238,24 in the first quarter to \$258,69 in the second quarter and \$297,84 in the two-month period July to August.

A continued large net outflow of capital was recorded in the second quarter, but the amount of R614 million was nevertheless somewhat less than the corresponding amount of R813 million during the preceding quarter. A net outflow of short-term capital (including errors and omissions on the current as well as the capital account), amounting to R598 million, accounted for most of the outflow in the second quarter. Apart from a small net reduction of liabilities related to reserves, the net outflow of short-term capital consisted almost entirely of an outflow of private sector capital. To some extent this outflow was related to the widening of the margin between the effective cost of trade financing in terms of US dollars and in terms of rand. This margin amounted to 2,3 per cent at the end of March, but widened to 3,0 per cent in July and to 4,5 per cent in August. The net outflow of long-term capital amounted to only R16 million in the second quarter, compared with R133 million in the first quarter. The former figure consisted of a net inflow of R23 million to the central government and banking sector and a more than offsetting net outflow of R39 million from the private sector. The net inflow of capital to public corporations and local authorities was negli-

Balance of payments



gible because inflows in the form of project financing were counterbalanced by repayments on existing loans.

The net gold and other foreign reserves, which had increased during the preceding six quarters, declined by R37 million during the second quarter of 1979 on account of balance of payments transactions. During July the net gold and other foreign reserves of the Reserve Bank decreased further, namely by R146 million, but during August an increase of R120 million was recorded. If changes in liabilities related to reserves and valuation adjustments are taken into account, the total gross gold and other foreign reserves increased by R202 million during the second quarter to reach a level of R2 807 million at the end of June. Subsequently, the gross gold and other foreign reserves of the Reserve Bank rose from R2 548 million at the end of June to R2 688 million at the end of August.

After the new exchange rate system had come into operation at the end of January, the rand appreciated by 2,9 per cent against the US dollar during the remaining two months of the first quarter. The effective exchange rate of the rand appreciated by 2,3 per cent during this period. During the second quarter and the subsequent two months the rand appreciated, on balance, by 1,1 per cent against the US dollar, whereas the effective exchange rate of the rand actually depreciated by 0,6 per cent.

Monetary and banking situation

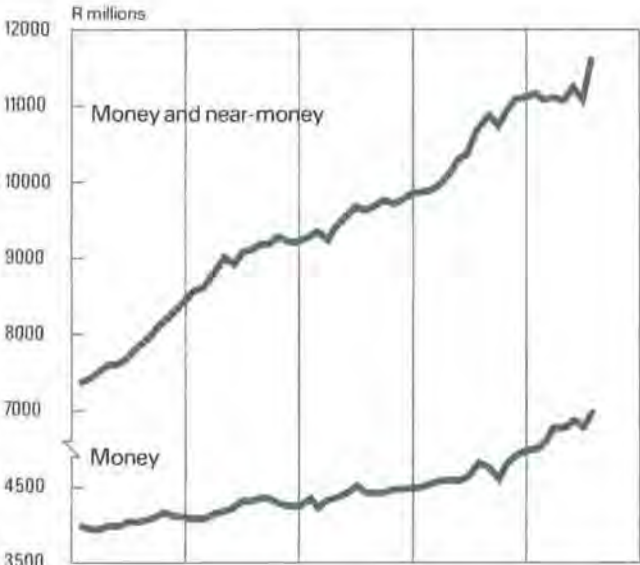
The seasonally adjusted supply of money and near-money, which had increased sharply during the second half of 1978 but only marginally during the first quarter of 1979, actually declined by R68 million, or at an annual rate of about 2 per cent, during the second quarter. During July, however, a substantial increase of R571 million occurred, resulting in an annual rate of increase of 14 per cent during the four-month period April to July 1979. After a substantial increase at a seasonally adjusted annual rate of 34 per cent during the preceding six months, the narrowly defined money supply declined slightly by R19 million during the second quarter of 1979, before rising sharply by R190 million during July.

As regards the causes of changes in the seasonally adjusted supply of money and near-money, claims of the monetary banking sector on the private sector rose rapidly at an annual rate of 20 per cent during the second quarter, compared with 11 per cent during the preceding quarter. This increase was more than offset, however, by decreases in the other causes of changes. The net gold and other foreign reserves of the monetary banking sector, which had increased consistently up to the first quarter, declined slightly by R28 million during the second quarter. A decline of R76 million in gross reserves, excluding valuation adjustments, was partly offset by a reduction of R48 million in the short-term foreign liabilities of the banking sector. Monetary banks' net claims on the government sector declined further by R69 million during the second quarter, bringing the total decline during the first half of 1979 to R482 million and net claims outstanding to their lowest level since May 1976. Long-term deposits of the private sector with monetary banking institutions, which had increased consistently during the past three years and at a high rate from the fourth quarter of 1977, rose more moderately by R157 million during the second quarter.

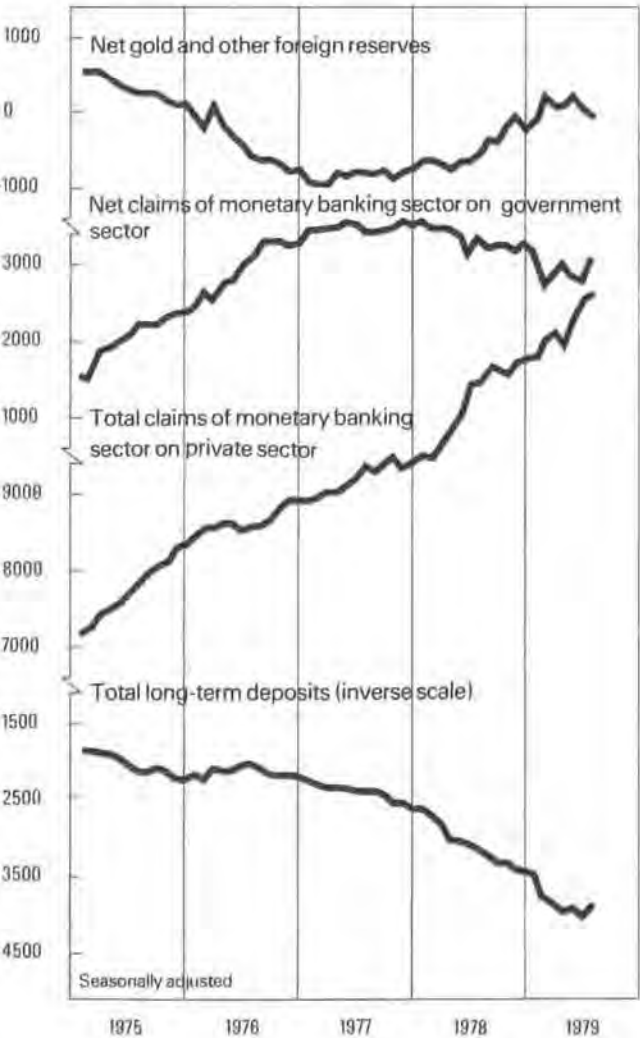
The increase in the seasonally adjusted supply of money and near-money during July was due to a large rise of R276 million in net claims on the government sector, mainly because of a substantial decline of R494 million in government deposits, a further moderate increase of R50 million in claims on the private sector, and a decrease of R150 million in long-term deposits of the private sector with monetary banks. The effect of these causes of change was partly offset by a decline of R106 million in the net gold and other foreign reserves of the monetary banking sector. During August, the net foreign reserves of the Reserve Bank, excluding the effect of the monthly revaluation of the gold reserves, increased by R123 million.

One reason for the more rapid rise in the monetary banking sector's claims on the private sector during the second quarter was a sharp increase of R98

Monetary analysis



Causes of changes in money and near-money



Causes of changes in money and near-money

R millions

	Not seasonally adjusted			Seasonally adjusted		
	1st qtr. 1979	2nd qtr. 1979	July 1979	1st qtr. 1979	2nd qtr. 1979	July 1979
Net gold and other foreign reserves	291	-28	-117	295	-28	-106
Claims on government sector						
Gross claims	-425	100	-202			
Government deposits (increase -, decrease +)	-226	289	494			
Net claims	-651	389	292	-413	-69	276
Claims on private sector	220	515	96	274	515	50
Long term deposits (increase -, decrease +)	-339	-292	179	-429	-157	150
Net other assets	226	-353	-21			
Total causes of changes	-253	231	429	25	-68	571

million in investments in private-sector securities. During the first quarter of 1979 these investments remained virtually unchanged. In addition, cash credit advances by the Land Bank rose by R85 million during the second quarter, increasing against the normal seasonal pattern by R124 million during June alone because of the earlier harvesting of summer crops. The discounts, loans and advances of commercial, merchant, monetary hire-purchase and general banks, which had increased sharply by R299 million in the first quarter, recorded a substantial further increase of R243 million during the second quarter. An analysis of this lending reveals that bills discounted rose by R67 million, hire-purchase credit by R111 million and leasing finance by R39 million. Other loans and advances, however, increased by only R26 million. The increase in the claims on the private sector during July was due to a substantial further rise of R135 million in the cash credit advances by the Land Bank. The discounts, loans and advances of commercial, merchant, monetary hire-purchase and general banks declined by R50 million.

In conformity with the expansion of bank credit to the private sector, the unused facilities under the banks' ceilings on discounts and advances declined by R84 million during the second quarter. During June they decreased by R164 million, but during July an increase of R90 million was recorded. As from 31 August, these ceilings as well as the ceilings on investments in private sector securities were raised by an additional 4 per cent of their base figures as at the end of December 1975.

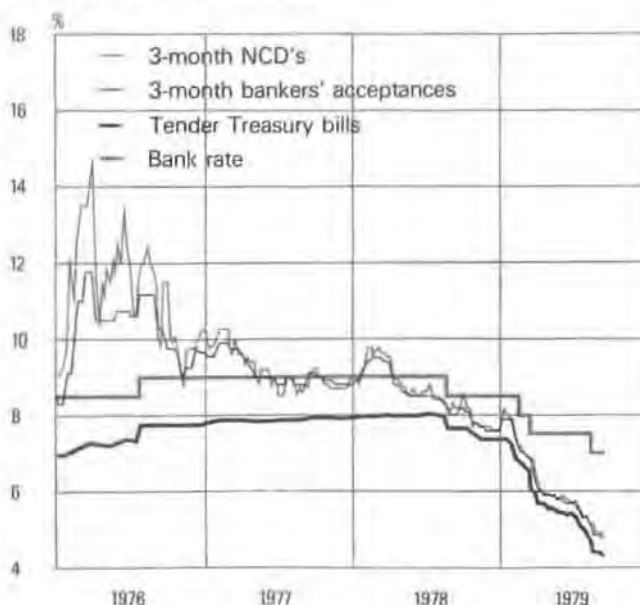
After the liquidity position of all groups of banking institutions had improved during March 1979, the banks' excess liquidity remained at a high level during the subsequent four months. The excess liquidity ratio of all monetary banking institutions increased from 3,7 per cent at the end of March to 4,7 per cent at the end of July. If two banks which are in the process of winding up operations are excluded, the excess liquidity ratio of non-monetary banks rose from 2,6 per cent to 4,7 per cent during the same period.

Money market conditions and interest rates

After relatively tight conditions had prevailed in the money market over the April month-end and during the first few days of May, the market eased substantially during the ensuing period up to late August. Moderately tighter conditions prevailed over the May, June and August month-ends, but over the July month-end the market continued to experience easy conditions. The tightening of the market over the May month-end mostly reflected a combination of a large rise in government deposits and an increase in notes in circulation, whereas the tightening over the June month-end was mainly caused by a large drop in the net foreign reserves of the Reserve Bank.

Call loans to the discount houses showed an

Money market interest rates



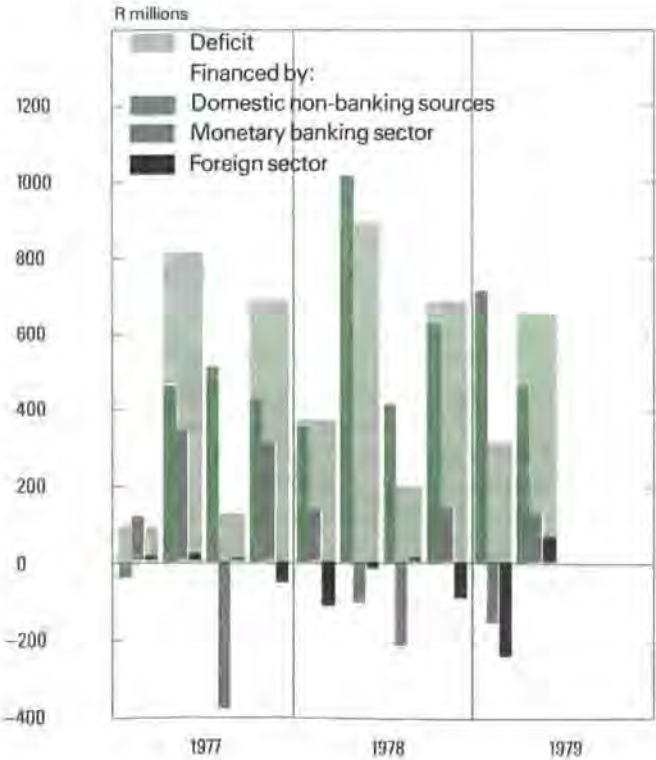
upward trend from early in May with only temporary declines over the May and June month-ends. After having reached a new record level of R1 033 million on 30 August, these loans declined to R874 million on 31 August and R886 million on 8 September. Reserve Bank accommodation remained at very low levels during most of the period under review, reaching a peak of R175 million on 30 June. Monetary banks' net free balances with the National Finance Corporation were also on a considerably higher average level during the period May to August than during the preceding four months. Only during the last days of May and June and over the August month-end were these balances virtually depleted.

Money market interest rates continued to decline almost uninterruptedly from the beginning of May. The rate on three-month bankers' acceptances and on three-month negotiable certificates of deposit declined from 5,9 per cent on 11 May to 4,9 per cent on 31 August. The Treasury bill tender rate decreased from 5,56 per cent on 11 May to 4,72 per cent on 10 August. After Bank rate was reduced from 7,5 per cent to 7 per cent on 13 August, the tender rate fell sharply to 4,47 per cent on 17 August, and to 4,35 per cent on 7 September. The commercial banks' prime overdraft rate was lowered from 10 to 9,5 per cent during the period 16 to 24 August. Effective from 24 August, the deposit rates of banking institutions, with the exception of the rate on ordinary savings deposits, generally also were reduced by one half of one per cent.

Government finance

Receipts on the Exchequer Account in the second quarter of 1979, i.e. the first quarter of the 1979/80 fiscal year, were 24 per cent higher than in the corresponding period of the preceding year. This substantial increase was due to a sharp rise in income tax and mining lease payments by gold mining companies, the effect of the general sales tax which had not yet been in operation in the first quarter of the preceding fiscal year, and the fact that not all tax concessions granted in the 1979/80 Budget had taken effect in the second quarter of 1979. Proceeds of the surcharge on imports declined appreciably in the second quarter following the lowering of the rate of the surcharge from 12½ to 7½ per cent in the Budget, but income tax concessions granted to individuals and companies will begin to have their effect on provisional tax payments and tax payments under the pay-as-you-earn system only in the second quarter of the current fiscal year, i.e. the third quarter of 1979. In the case of personal income tax, for example, revised tables for the monthly deduction of taxes by employers came into operation only in July, with the result that the lower tax deductions will be reflected in the August Exchequer receipts. Because of all these factors, the rate of increase in Exchequer receipts in the first quarter of the 1979/80

Exchequer Account deficit and financing



fiscal year was substantially higher than the anticipated rate of increase of 4 per cent for the year as a whole.

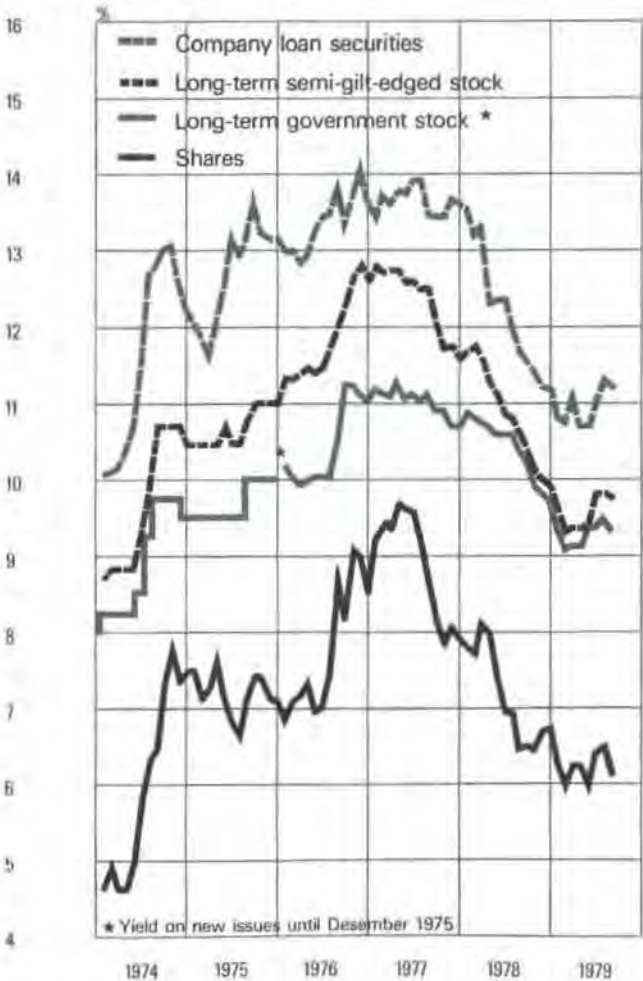
Exchequer issues in the first quarter of the current fiscal year were 7 per cent higher than in the corresponding quarter of the preceding year. This increase was markedly lower than the anticipated rate of growth in expenditure of 12 per cent for the fiscal year as a whole, indicating that Exchequer issues will rise more rapidly during the remaining part of the fiscal year.

Issues exceeded receipts by R660 million in the quarter under review, or by R232 million less than in the corresponding quarter of the preceding year. The largest part of this deficit, namely about 70 per cent, was financed by means of borrowing from domestic non-banking sources. Borrowing from the Public Debt Commissioners amounted to R222 million and that from the private non-banking sector to R240 million. The latter amount consisted mainly of investments in non-marketable bonds, particularly National Defence Bonds, and receipts of compulsory loan levies. In contrast with the preceding quarter and the first quarter of the 1978/79 fiscal year, the Treasury again made use of bank credit, namely to the extent of R129 million, in the first quarter of the current fiscal year. This amount represented an increase of R226 million in the monetary banking sector's holdings of government securities and an offsetting rise of R97 million in Exchequer Account deposits with this sector. Net foreign borrowing by the Treasury amounted to R69 million during the quarter under review.

Capital market

Conditions in the fixed-interest security market tightened slightly during the second quarter of 1979. Support for new issues weakened and yields increased slightly. This tightening of the market was apparently not caused by shifts in the availability of loanable funds or the demand for new capital, but rather by uncertainties regarding prospective yield movements, an actual and expected higher rate of inflation, and portfolio adjustments by institutional investors. During July and August an easing of market conditions became apparent; new issues of securities were again over-subscribed and fixed-interest security yields in the secondary market tended to decline slightly below the levels to which they had risen during the second quarter. The yield on long-term government stock increased from 9,11 to 9,35 per cent during the second quarter, before decreasing to 9,33 per cent in August. Long-term yields on the highest grade semi-gilt-edged stock rose from 9,43 to

Secondary market security yields



9,89 per cent during the second quarter, but then declined to 9,81 per cent in August. The yield on long-term loan securities of companies amounted to 11,25 per cent in August, which was still marginally higher than the yield of 11,01 per cent in June.

Net new issues of fixed-interest securities by the public sector, adjusted for changes in the issuers' holdings of their own securities, amounted to R368 million in the second quarter, compared with a net repayment of R132 million in the first quarter. During July the central government repaid maturing stock amounting to R497 million and attracted new funds to the amount of R397 million by means of issues, including a long-term issue at 9,375 per cent.

Stock exchange turnover increased further in the second quarter. The nominal value of gilt-edged and semi-gilt-edged stock traded amounted to R555 million, compared with a quarterly average of R287 million for the preceding three quarters. The value of shares traded on the stock exchange during the second quarter increased more moderately and was 5 per cent higher than in the first quarter. The latter increase was mainly accounted for by a rise in share prices. The comprehensive share price index, covering all classes of shares, rose by 6 per cent during the second quarter. In July the value of shares traded declined slightly, but on average share prices remained unchanged. In August, however, share turnover rose sharply and the comprehensive share

price index increased by 7 per cent. The average dividend yield on all classes of shares increased from 6,3 to 6,4 per cent during the second quarter, but declined to 6,2 per cent in August.

The seasonally adjusted flow of longer-term funds to deposit-receiving and related savings institutions remained at a high level and amounted to R921 million in the second quarter, compared with R967 million in the first quarter. The building societies' share in these funds decreased slightly from 52 per cent of the total in the first quarter to 50 per cent in the second quarter. Gross mortgage loans granted by building societies amounted to R636 million in the second quarter, or 10 per cent more than in the preceding quarter. Notwithstanding this increase, the demand for mortgage loans was inadequate to absorb the societies' inflow of funds and, as a result, the societies had to increase their prescribed investments by R125 million during the second quarter. During July the societies experienced a further net inflow of funds amounting to R144 million, or slightly less than the monthly average of R155 million for the second quarter.

In the real estate market, the value of transactions continued to edge upwards during the second quarter and exceeded the figure for the first quarter by 3 per cent. A more rapid increase in transactions occurred in July.

Statement regarding monetary policy

Issued by the Governor of the South African Reserve Bank, Dr T W de Jongh

11 August 1979

After the usual consultation with the Treasury, the Reserve Bank has decided to reduce Bank rate by $\frac{1}{2}$ per cent to 7 per cent per annum with effect from 13 August 1979.

This step represents a further relaxation of monetary term interest rates in the market during recent weeks, which has resulted in an excessive gap between these rates and Bank rate.