

Quarterly economic review

Summary and general observations

The high rates of growth in the real gross domestic product in the first and second quarters of 1980 were followed by a considerably lower rate of increase in the third quarter. This slowdown was attributable to a sharp decline in the real product of the agricultural sector. The real product of the non-agricultural sectors of the economy, however, continued to expand strongly in the third quarter. In the first nine months of 1980, the total real gross domestic product rose by 8½ per cent compared with the corresponding period of 1979, indicating that a high rate of economic growth will be attained in 1980 as a whole.

The further increase in real economic activity in the third quarter was based on a sharp rise in real aggregate domestic demand. The foreign demand for South African goods and services, however, showed signs of faltering because of the current recession in most trading-partner countries. The strong real domestic demand, which had to be satisfied to an increasing extent by larger imports, was characterised in the third quarter by a further marked increase in private consumption expenditure. Real government consumption expenditure also rose sharply, but real fixed investment declined and the build-up of real inventories was of the same order as in the second quarter.

Non-agricultural employment continued to rise in the second quarter of 1980 (the latest period for which statistics are available), but not at the high rate which had been recorded in the preceding six months. The lower rate of increase was probably due to a growing shortage of skilled labour. Unemployment among the more skilled classes of labour, as reflected in the number of registered unemployed Whites, Coloureds and Asians, declined appreciably, but among unskilled workers the decrease in unemployment was notably more moderate. The higher level of employment was accompanied by a rise in the average remuneration per worker, especially in the second quarter of 1980.

The rate of inflation, which had increased in the first and second quarters of 1980, accelerated markedly further in the third quarter and October. Consumer prices increased at a higher rate mainly because of a sharp rise in food prices. The higher rate of increase in production prices reflected mostly a more rapid rise in electricity tariffs and in domestic prices of agricultural products, processed food, machinery and metals.

A substantially larger surplus than in the preceding quarter was recorded on the current account of the balance of payments in the third quarter of 1980. This improvement was entirely due to a marked

increase in the value of the net gold output, mainly on account of the sharp rise in the price of gold during this period. Part of this increase was offset, however, by changes in the other principal current account aggregates. Exports continued to decline, while at the same time imports rose sharply further and higher net service and transfer payments were made to the rest of the world. Although merchandise exports recovered slightly in October, imports showed a further sharp increase.

In addition to the larger current account surplus, a net inflow of capital was recorded in the third quarter. This inflow, which consisted mainly of short-term capital, reflected to some extent the foreign financing of the sharply rising level of imports, but was probably more related to the repayment by foreigners of part of the exceptionally large amounts of trade credit obtained in the domestic money market during the first quarter and the early part of April this year. The substantial overall balance of payments surplus in the third quarter, therefore, represented mostly the effect of a strong upward surge in the gold price and the repayment of trade credits by foreigners. This overall surplus resulted in a marked increase in the net gold and other foreign reserves and a further appreciation of the rand against most of the major world currencies. The increase in the gold and other foreign reserves was reversed, however, during October and November when a decline was recorded in the foreign reserves of the Reserve Bank.

The increase in the net gold and other foreign reserves of the monetary banking sector, together with a sharp rise in bank credit to the private sector, caused a high rate of increase in the money and near-money supply during the third quarter. Offsetting causes of change, however, were an increase in long-term deposits of the private sector with monetary banking institutions and a decline in net bank credit to the government sector, which, however, still showed an increase for the first six months of the current fiscal year.

In contrast with the sharp rise in the liquidity of the private non-banking sector, bank liquidity, as reflected in holdings of excess liquid assets, declined to a relatively low level at the end of August because of a substantial flow of tax funds to the government. During September bank liquidity improved slightly, but the banks' holdings of excess liquid assets were affected by the upward adjustment in the supplementary cash reserve and total liquid asset requirements which came into effect from approximately 21 September.

Conditions in the money market tightened considerably over the August month-end as a result of

the very large flow of tax funds to the government. During September and early October the market eased only slightly, followed by a more pronounced easing from the second week of October. Towards the end of October and in early November, however, tighter conditions were again experienced. Money market interest rates increased towards the end of August and generally showed only minor changes during September and the first half of October. A more distinct rise occurred, however, during the second half of October and the first half of November. Open-market operations by the Reserve Bank during the third quarter, October and the first half of November consisted mostly of sales of special tap Treasury bills maturing at the end of February 1981, when tax payments to the government will reach a major seasonal peak.

Exchequer receipts continued to rise strongly during the third quarter of 1980, not only on account of substantially higher income tax and mining lease payments by gold mining companies, but also because of a sharp increase in other income tax receipts as well as in the proceeds of the general sales tax and customs and excise duties. The rate of increase in Exchequer receipts in the first half of the 1980/81 fiscal year was far above the Budget estimate for the fiscal year as a whole. Likewise, the rate of increase in Exchequer issues in the first half of the current fiscal year was considerably higher than the Budget estimate for the full fiscal year, mainly because of an unusually large requisitioning of appropriated funds by government departments early in the fiscal year. As a result of the substantial increase in Exchequer receipts, the deficit on the Exchequer Account in the first half of the current fiscal year was comparatively small. Borrowing from the domestic non-banking sector exceeded this deficit and enabled the Treasury to reduce its net indebtedness to both the foreign sector and the monetary banking sector.

In the capital market, the upward movement of long-term fixed-interest security yields, which had begun in the second quarter of 1980, continued during the third quarter and in October and November. Investors' expectations of a further increase in long-term yields inhibited their support for new long-term security issues, and a larger part of the new funds raised in the market for fixed-interest securities was obtained by means of issues of short-term and medium-term securities. Buoyant conditions continued to exist in the share market and both turnover and prices rose markedly during the third quarter. During October, however, the comprehensive share price index declined marginally. In contrast with fixed-interest security yields, share yields continued to decline notwithstanding substantially higher dividend payments. Activity in the real estate and mortgage markets remained at a high level in the third quarter. This high level of activity was supported by a sharp increase in the flow of funds to building societies and a corresponding large increase in mortgage lending by the societies.

In regard to more recent developments, it should be noted that since the end of the third quarter certain important changes have taken place in the economic situation. Although it is still too early to assess the significance of these changes they cannot be ignored. Thus, for example, the total gold and foreign exchange reserves of the Reserve Bank declined during October and November after the very sharp rise during the preceding three months. This was partly due to a lower level of the gold price. Money market conditions tended to tighten and both long and short-term interest rates moved up strongly. During October bank credit extended to the private sector increased at a much slower rate. The rate of inflation, however, increased further.

National accounts*

Sustained high rate of economic growth in non-agricultural sectors of the economy

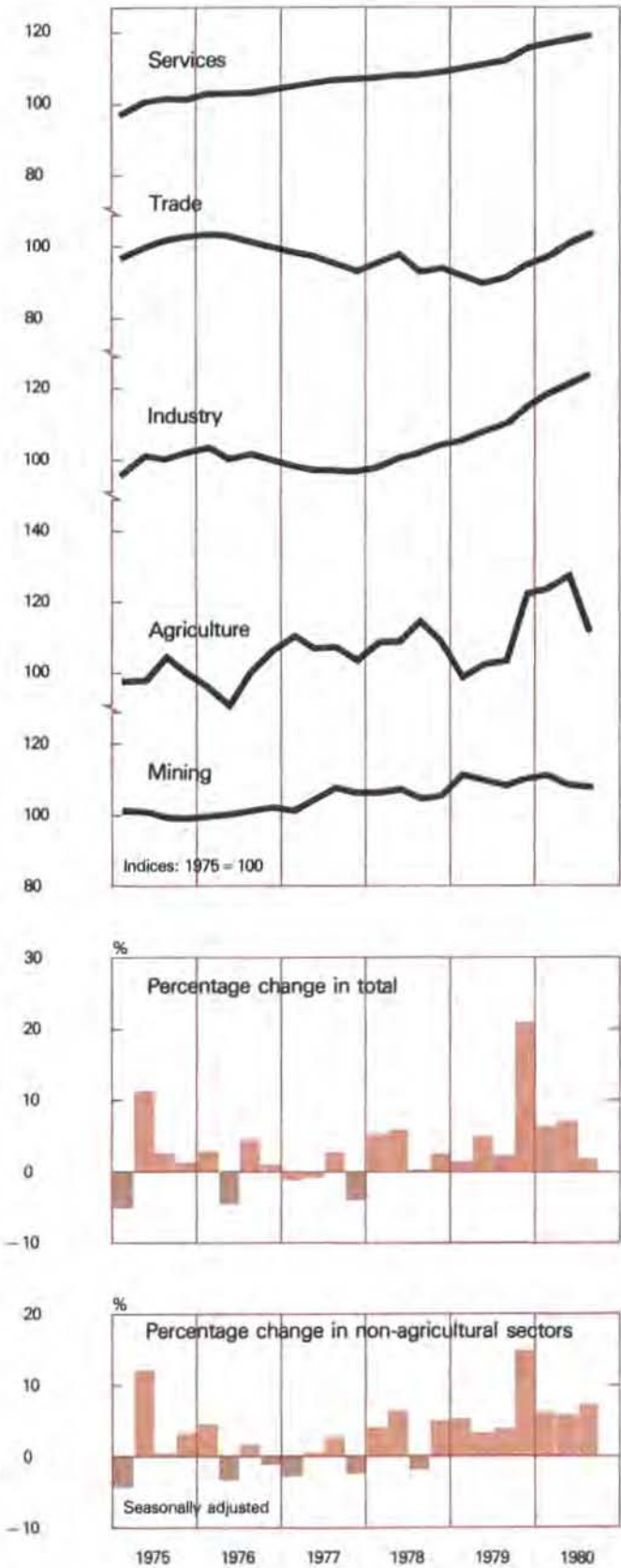
According to preliminary estimates, the real gross domestic product increased at an annual rate of only 1½ per cent from the second to the third quarter of 1980, compared with annual rates of increase of 6 per cent and 7 per cent in the first and second quarters, respectively. This relatively low rate of economic growth in the third quarter was attributable to a sharp decline in the real product of agriculture which had increased markedly in the preceding quarter. Excluding the agricultural sector, the high rate of increase in the real gross domestic product of the rest of the economy accelerated even further in the third quarter. In the first three quarters of 1980 the total real gross domestic product was about 8½ per cent higher than in the corresponding period of 1979, indicating that a high rate of economic growth may be expected for the calendar year 1980.

The further increase in real economic activity was evident in all sectors of the economy with the exception of agriculture and gold mining. The volume of gold production continued to decline because of the mining of lower-grade ore in response to the sharp rise in the price of gold. Reflecting a somewhat weaker foreign demand for metals and minerals, the real product of the non-gold mining sector increased only slightly in the third quarter. The real product of manufacturing, which had increased only slightly in the second quarter, rose at a relatively high rate in the third quarter. The rate of increase in real manufacturing output nevertheless tended to slow down compared with the rate which had been reached during the second half of 1979 and the first quarter of 1980, probably because of a high level of production capacity utilisation. High rates of increase in the real value added by the construction sector and the wholesale, retail and motor trade were recorded in the third quarter as a result of buoyant conditions in the building industry and the market for consumer goods. Real activity in the services sectors, especially in the financial sector and in transport, storage and communication, rose sharply in the third quarter as a result of a sustained increase in domestic demand.

Reflecting mainly the sharp increase in the price of gold, the terms of trade improved again in the third quarter of 1980. Consequently, the real gross national product increased at a notably higher rate than the gross domestic product. In the first nine months of 1980 the real gross national product was no less than 10 per cent higher than in the corresponding period of 1979.

At current prices, the gross domestic product at factor cost increased at a lower rate in the third quarter than in the preceding quarter, mainly because

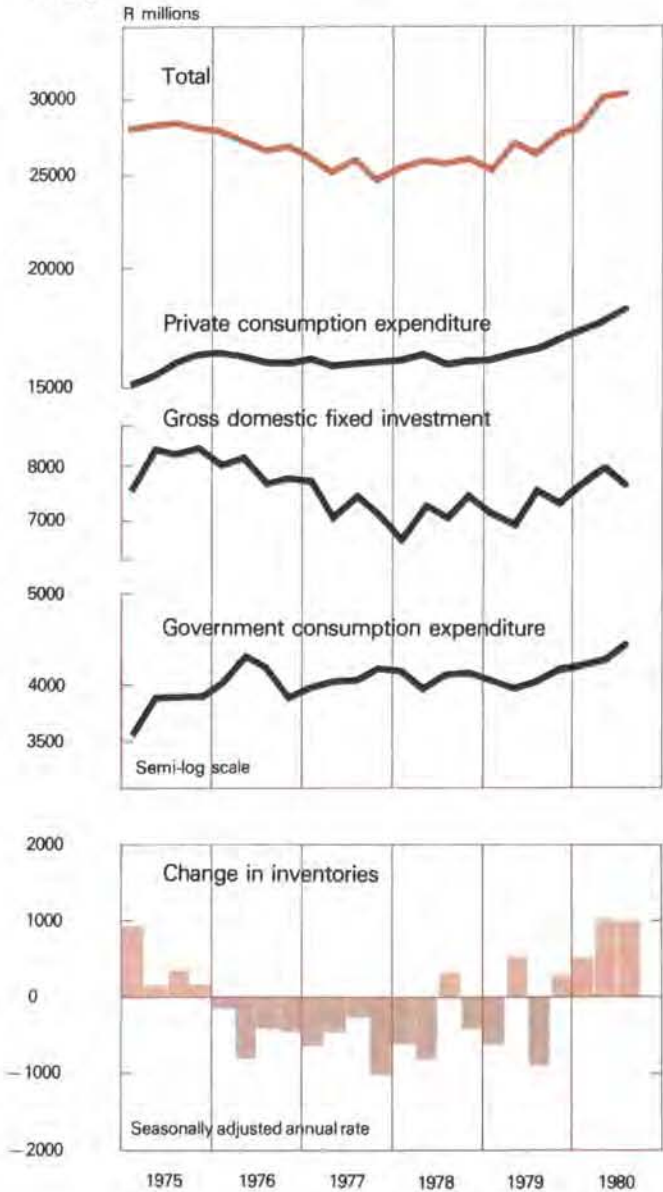
Gross domestic product at constant 1975 prices



*Quarterly changes are based on seasonally adjusted data.

the total remuneration of employees showed only a small increase in the third quarter. A substantial rise in the remuneration of employees occurred in the second quarter, when upward adjustments in salary and wage scales were made and a new system of bonus payments to public sector employees was introduced. In the first three quarters of 1980 the total remuneration of employees was about 18 per cent higher than in the corresponding period of 1979. Except for a decline in the gross operating surplus of agriculture, higher operating surpluses were recorded by most other sectors of the economy in the third quarter. In the first three quarters of 1980 the total gross operating surplus was no less than 44 per cent higher than in the corresponding period of 1979.

Gross domestic expenditure at constant 1975 prices



Further increase in real gross domestic expenditure

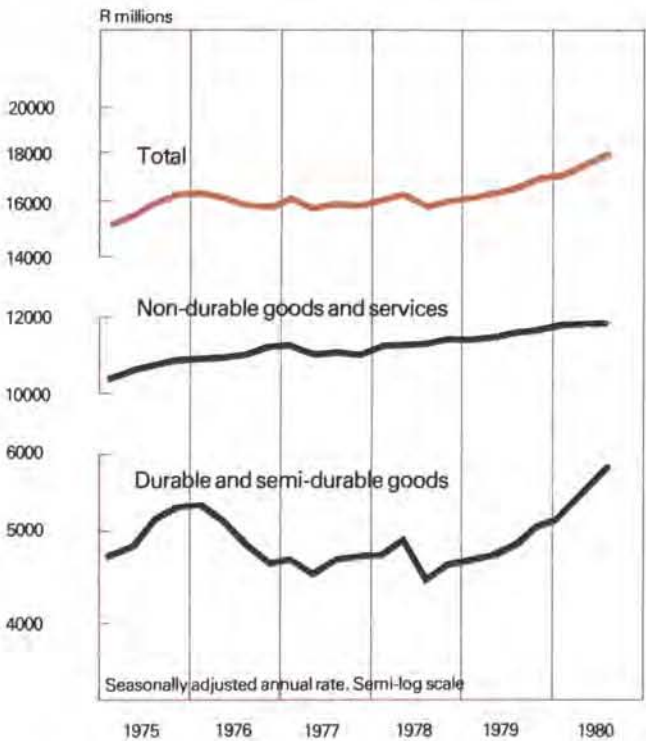
Real gross domestic expenditure continued to rise in the third quarter of 1980, but at a lower rate than in the preceding quarter. This slowdown was caused by a decline in real gross domestic fixed investment, which had grown at an exceptionally high rate in the second quarter, and the fact that the net addition to real inventories did not exceed the figure for the second quarter. Real private consumption expenditure rose at a higher rate, and real government consumption expenditure showed an appreciable increase in the third quarter.

In the first three quarters of 1980 real gross domestic expenditure was no less than 12 per cent higher than in the corresponding period of 1979, and was largely responsible for the growth in the real gross domestic product during this period. Exports at constant prices increased slightly in the first three quarters of 1980 in comparison with the corresponding period of 1979 and made only a marginal contribution to the growth in the real gross domestic product.

Strong rise in real private consumption expenditure

The further strong rise in real private consumption expenditure in the third quarter was reflected most prominently in expenditure on durable consumer goods. Sales of new motor cars, for example, continued to soar and the number of cars sold during the

Private consumption expenditure at constant 1975 prices



first nine months of 1980 exceeded the figure for the corresponding period of 1979 by as much as 30 per cent. Real outlays on furniture and household appliances also showed a marked further increase in the third quarter. Real expenditure on semi-durable consumer goods, in particular on clothing and footwear, likewise increased sharply in this period. Real consumer outlays on non-durable goods, on the other hand, rose at a lower rate than in the second quarter, probably as a result of the very sharp rise in food prices. In the first three quarters of 1980 real private consumption expenditure was about 7½ per cent higher than in the corresponding period of 1979.

Sharp increase in real government consumption expenditure

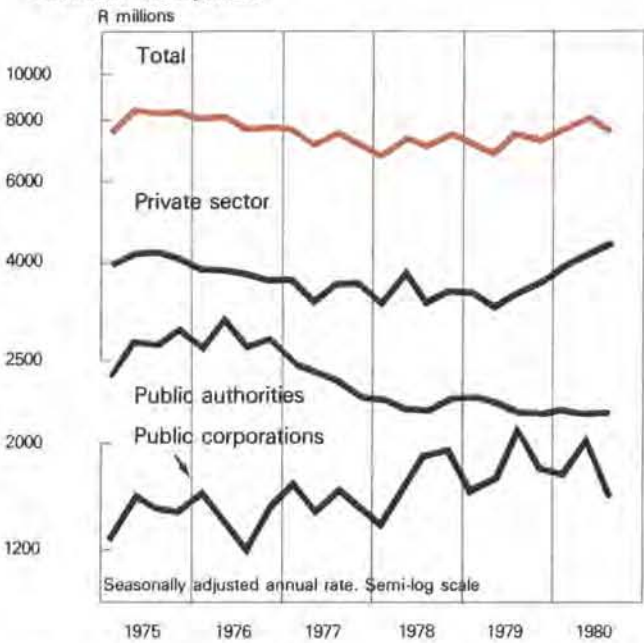
A marked increase in real government consumption expenditure occurred in the third quarter, bringing the rise in the first three quarters of 1980, in comparison with the corresponding period of 1979, to about 6½ per cent. Real salaries and wages increased by about 4 per cent in these three quarters, but real outlays on goods and other services rose sharply by 8 per cent. The increase in real government consumption expenditure in the first three quarters of 1980 was partly offset by a decline in the real capital outlays by public authorities, as a result of which aggregate real public authority expenditure increased by only about 3 per cent in this period.

Decline in real gross domestic fixed investment

The exceptionally high rate of increase in real gross domestic fixed investment in the second quarter of 1980 was followed by a decline in the third quarter as a result of a sharp decrease in the real fixed capital outlays of public corporations. Real private fixed investment activity, however, remained on a strong upward trend. In the first three quarters of 1980 total real gross domestic fixed investment was 9 per cent higher than in the corresponding period of 1979.

Real private fixed investment recorded a further substantial increase in the third quarter. Particularly sharp rises occurred in agriculture, mining and manufacturing. Fixed capital outlays in the agricultural sector were stimulated by the higher incomes that had been derived from the excellent summer crops of the past season. The further marked increase in fixed investment in the mining sector reflected the continuation of the fixed capital expansion programmes that had been induced by the substantially higher level of the gold price and the sustained demand for other metals and minerals. In manufacturing, fixed investment increased in response to the strong rise in domestic demand and the decline in unused production capacity. The utilisation of production capacity in manufacturing increased from 85 per cent in February 1979 to 89 per cent in August 1980. In the first three quarters of 1980 real private fixed investment increased by about 23 per

Gross domestic fixed investment at constant 1975 prices



cent in comparison with the corresponding period of 1979.

Real fixed capital outlays by public corporations, which often show large quarterly fluctuations, declined appreciably in the third quarter after a substantial increase had been recorded in the second quarter. The decrease in the third quarter was mainly the result of the completion of Sasol's second oil-from-coal plant. The public corporations' real fixed investment in the first three quarters of 1980 was about 3 per cent lower than in the corresponding period of 1979.

The public authorities' real fixed capital outlays rose moderately in the third quarter. An increase in these outlays by the South African Railways Administration was partly offset by a decline in those by general government. The real fixed investment of public authorities in the first three quarters of 1980 was about 4 per cent lower than in the first three quarters of 1979.

Further build-up of real inventories

The large increase in real inventories in the second quarter of 1980 was followed by a build-up of about the same order in the third quarter. Further increases occurred in wholesale, retail, diamond and strategic inventories and agricultural stocks-in-trade. Partly offsetting declines were recorded, however, in industrial inventories and stocks of the motor trade. The build-up of real non-agricultural inventories in each of the past four quarters exceeded the sharp rise in the real gross domestic product of the non-agricultural sectors of the economy in this period. As a result, the

ratio of these inventories to the real non-agricultural gross domestic product rose consistently from a low level of 30,3 per cent in the fourth quarter of 1979 to 31,8 per cent in the third quarter of 1980.

Moderate increase in gross domestic saving

After a temporary decline in the second quarter, gross domestic saving increased again in the third quarter. Domestic saving in the first three quarters of 1980 exceeded that in the corresponding period in 1979 by 42 per cent. Personal saving declined further in the third quarter as a result of the sharp rise in private consumption expenditure, which actually exceeded the amount of the increase in personal disposable income. Personal disposable income did not show a large rise in the third quarter because the tax concessions granted to individuals in the 1980 Budget and which came into effect in the third quarter, were partly neutralised by a comparatively low rate of increase in salaries and wages and a decline in agricultural income. The increase in corporate saving in the third quarter was the result of a larger increase in current income than in current disbursements in the form of income tax and dividend payments. A sharp rise was recorded in the saving of general government, reflecting a substantial increase in receipts of gold mining and other company taxes, general sales tax, and customs and excise duties. Provision for depreciation showed a moderate increase in the third quarter.

In the third quarter of 1980 gross domestic saving exceeded gross domestic investment by a larger amount than in the second quarter. This difference was reflected in a substantially larger surplus on the current account of the balance of payments.

Employment* and prices

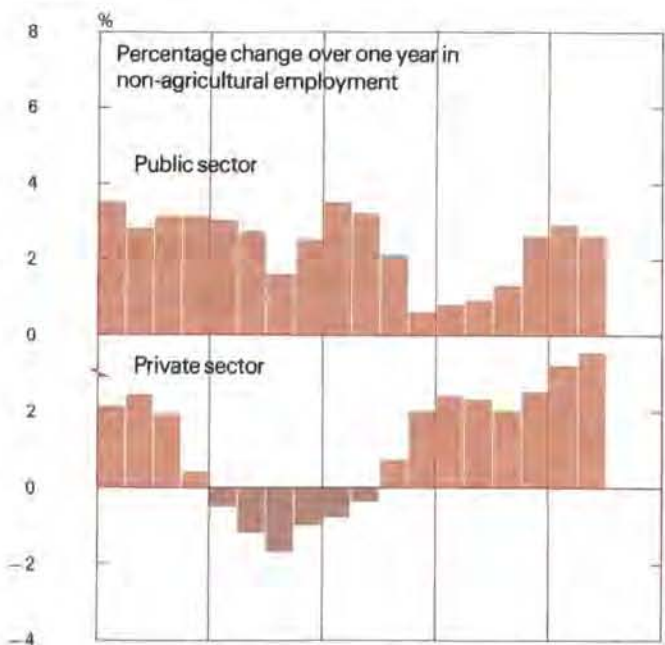
Increase in employment and labour productivity

Non-agricultural employment continued to rise in the second quarter of 1980, but not at the high rate which had been recorded during the preceding six months. One of the reasons for the lower rate of increase in employment was the growing scarcity of skilled workers. Increasing shortages of skilled labour were, in fact, experienced in various sectors of the economy, while at the same time unemployment among unskilled workers declined only moderately and generally remained at a high level.

Non-agricultural employment (seasonally adjusted), which had risen at annual rates of 5,4 per cent and 4,2 per cent in the fourth quarter of 1979 and the first quarter of 1980, respectively, increased at an annual rate of 1,1 per cent in the second quarter. In the first half of 1980 non-agricultural employment was 3,0 per cent higher than in the first half of 1979, compared with an increase of 2,0 per cent in the calendar year 1979. Lower rates of increase in employment in the second quarter were recorded in both the private and the public sector. Marginal declines actually occurred in employment by the central government, local authorities, the gold mining sector and the banking sector.

*Statistics relating to employment and the remuneration of labour are available only up to the end of June 1980.

Labour



The increase in employment was reflected in a sharp decline in the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians from 26 930 in December 1979 to 22 375 in June and 18 939 in October 1980. The ratio of unemployed Blacks to the economically active Black population decreased from 9,2 per cent in August 1979 to 8,6 per cent in August 1980.

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, increased by 4,5 per cent in the first half of 1980 in comparison with the corresponding period of 1979. In the calendar year 1979 labour productivity rose by 2,0 per cent. The increase in productivity is substantiated by a rise in production per man hour in manufacturing, which was 4,5 per cent higher in the first eight months of 1980 than in the corresponding period of 1979. Increased productivity in manufacturing assisted in keeping down the rate of increase in unit labour cost in this sector in the first eight months of 1980 to the 1979 level of 10 per cent, despite a sharp rise in the average salaries and wages per worker.

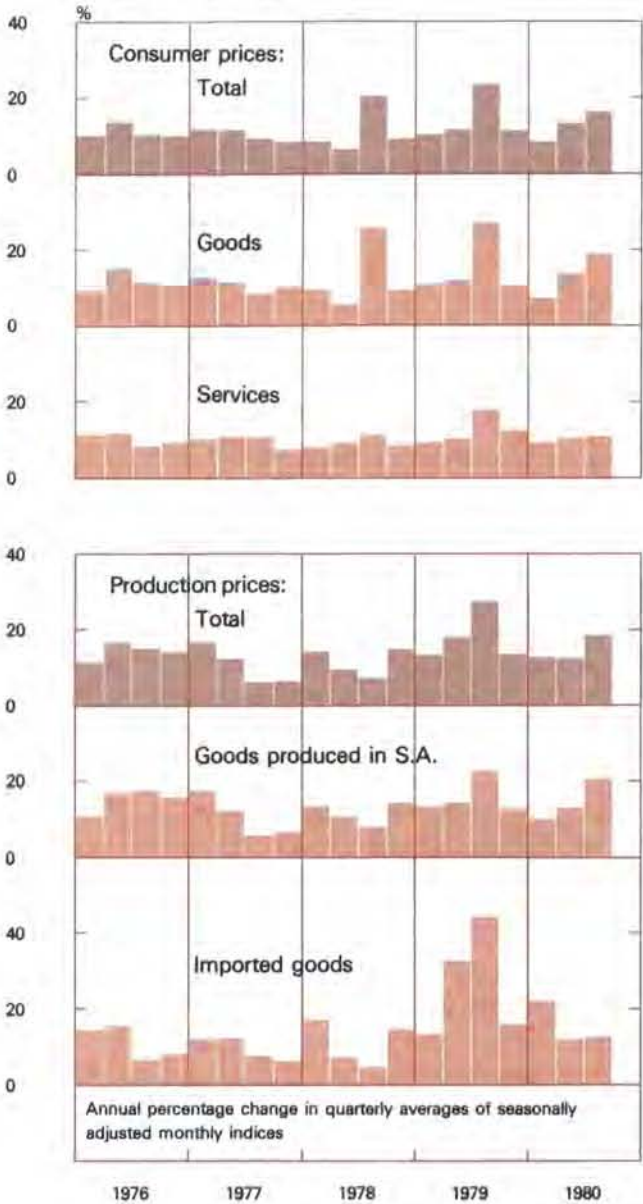
Significant increase in remuneration of labour

The average remuneration per worker in the non-agricultural sectors of the economy rose significantly in the first two quarters of 1980, especially in the second quarter when salary and wage scales in the public sector were adjusted upwards and higher bonuses for government employees were introduced. In the second quarter of 1980 the average remuneration per worker was 19,4 per cent higher than in the second quarter of 1979. Adjusted for price rises, this increase amounted to 4,7 per cent, compared with a decline of 0,5 per cent in the preceding twelve months. The average real remuneration per White worker was 4,3 per cent higher in the second quarter of 1980 than in the second quarter of 1979 as against a decline of 0,5 per cent in the twelve months to March 1980. The real remuneration per non-White worker, which had declined by 0,3 per cent in the twelve months to March 1980, was 6,1 per cent higher in the second quarter of 1980 than in the corresponding period of 1979.

Further acceleration in price increases

The rate of increase in consumer prices accelerated further in the third quarter, mainly because of a sharp rise in food prices. At a seasonally adjusted annual rate, consumer prices rose successively by 8,6 per cent, 13,3 per cent and 16,3 per cent in the first three quarters of 1980. Seasonally adjusted food prices, which had risen at an annual rate of 20,8 per cent in the second quarter, increased at an annual rate of as much as 29,0 per cent in the third quarter. High annual rates of increase occurred in the prices of meat (53,5 per cent), vegetables (35,0 per cent), fruit (18,4 per cent), milk and milk products (25,9 per cent),

Percentage change in prices



and sugar (41,3 per cent). In addition to the exceptionally strong rise in food prices in the third quarter, large seasonally adjusted annual rates of increase were recorded in the prices of motor vehicles (14,7 per cent), furniture (14,8 per cent), and housing services (18,5 per cent). A further sharp increase in consumer prices was recorded in October. In the first ten months of 1980 these prices were on average 13,4 per cent higher than in the corresponding period of 1979.

The seasonally adjusted production price index (formerly the wholesale price index) increased successively at annual rates of 12,8 per cent, 12,7 per cent and 18,9 per cent in the first three quarters of 1980. As in the preceding quarter, the rate of increase in the prices of domestically produced goods

accelerated markedly in the third quarter. Higher rates of increase were recorded in electricity tariffs and in the producer prices of agricultural products, machinery, metals, and processed food. The rate of increase in the prices of imported goods, which had slowed down in the second quarter mainly because of the abolition of the surcharge on imports, accelerated only slightly in the third quarter. In the first nine months of 1980 production prices were on average 16,1 per cent higher than in the first nine months of the preceding year.

Balance of payments

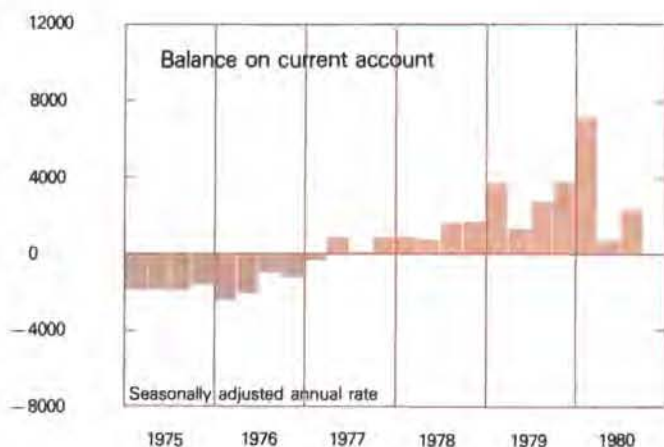
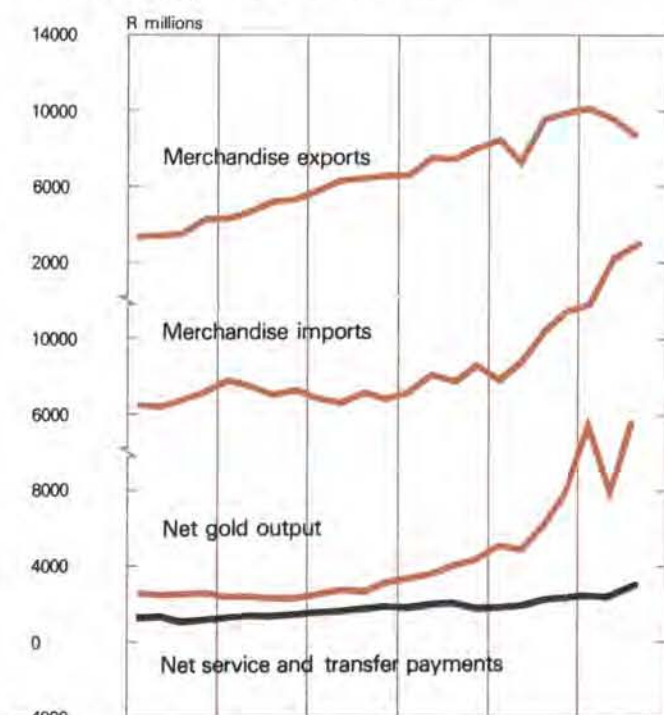
Increased surplus on current account

The surplus on the current account of the balance of payments, which had declined from R1 993 million in the first quarter of 1980 to R160 million in the second quarter, increased to R659 million in the third quarter. In the first nine months of 1980 the current account surplus amounted to R2 812 million. At a seasonally adjusted annual rate, the current account surplus fell from R7 210 million in the first quarter to R770 million in the second quarter before rising to about R2 400 million, or 3,8 per cent of the gross domestic product, in the third quarter. The markedly higher current account surplus in the third quarter resulted from a substantial increase in the net gold output, which reflected mainly the sharp rise in the price of gold during this period. The effect of the increase in the net gold output was partly neutralised, however, by increases in merchandise imports and net service and transfer payments to the rest of the world as well as by a decline in merchandise exports.

The value of the net gold output, at a seasonally adjusted annual rate, increased from R7 780 million in the second quarter to a record amount of R11 540 million in the third quarter. This increase was largely due to a sharp rise in the price of gold, but also to an appreciable increase in the volume of the net gold output. On the London market the average fixing price of gold rose from US \$543,63 per fine ounce in the second quarter to US \$649,25 per fine ounce in the third quarter. Wide fluctuations in the price of gold occurred during the third quarter. After having reached an upper turning point of US \$688,75 on 8 July, the price per fine ounce fluctuated downwards to US \$605,00 on 12 August before rising again to US \$720,50 on 23 September. Subsequently, the price declined appreciably and in October averaged \$661,71 per fine ounce. Mainly as a result of the lower gold price, the value of the net gold output, at a seasonally adjusted annual rate, declined from R11 327 million in September to R10 056 million in October.

As during the preceding quarter, the value of merchandise exports decreased during the third quarter of 1980, probably as a result of the lower rates of growth in trading-partner countries and the substantial increase in domestic demand. At a seasonally adjusted annual rate, exports declined from R10 130 million in the first quarter of 1980 to R9 670 million in the second quarter and R8 830 million in the third quarter. The decline in the third quarter reflected a lower volume of exports as well as a decrease in export prices. Declines occurred mainly in the value of exports of diamonds, uranium, ferrochrome and metallic ores, but sharp increases were recorded in exports of textiles and paper and paper products. During October, however, an increase was recorded in the value of merchandise exports.

Balance of payments current account



In addition to absorbing a larger part of domestic production, domestic demand was to an increasing extent satisfied by means of increased imports. At a seasonally adjusted annual rate, merchandise imports rose from R11 830 million in the first quarter of 1980 to R14 210 million in the second quarter and subsequently to R14 930 million in the third quarter and R16 386 million in October. In the first ten months of 1980 imports were almost 50 per cent higher than in the corresponding period of 1979. A higher volume of imports and a further rise in import prices were responsible for the increase in the value of imports in the third quarter and October 1980. Increases were evident in most categories of imports, but particularly sharp rises were recorded in imports of transport equipment and machinery and electrical equipment. The value of imports of mineral products (including petroleum products), which had reached an exceptionally high level in the second quarter, however, declined in the subsequent four-month period.

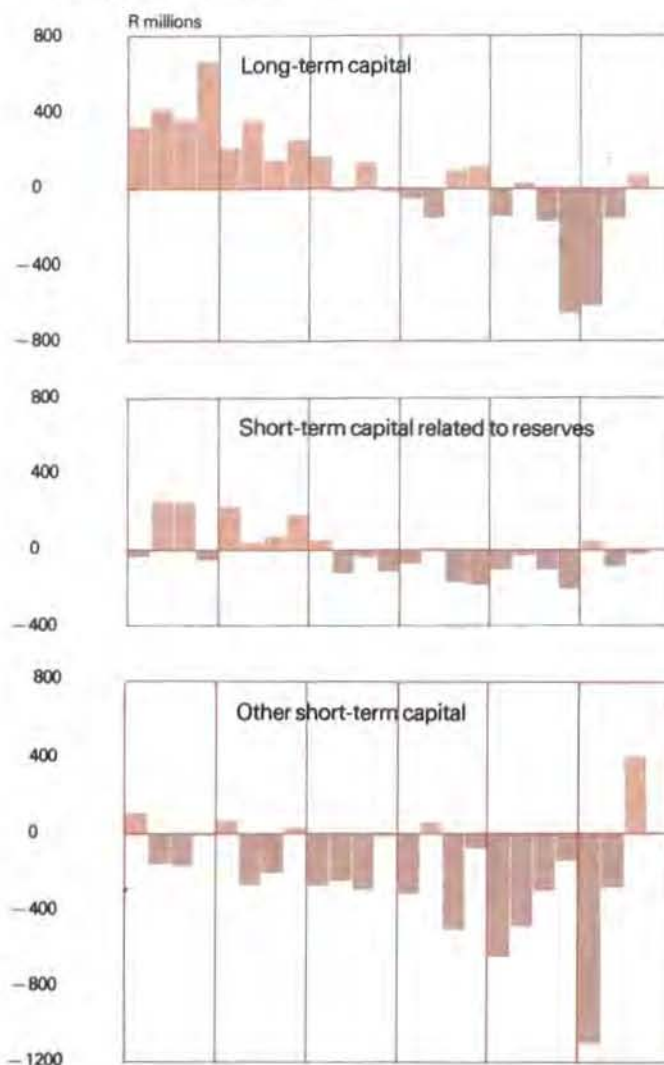
Net service and transfer payments to the rest of the world, at a seasonally adjusted annual rate, increased from R2 470 million in the second quarter of 1980 to R3 040 million in the third quarter. This substantial rise was caused mainly by higher dividend payments by South African companies to foreign shareholders.

Net inflow of capital

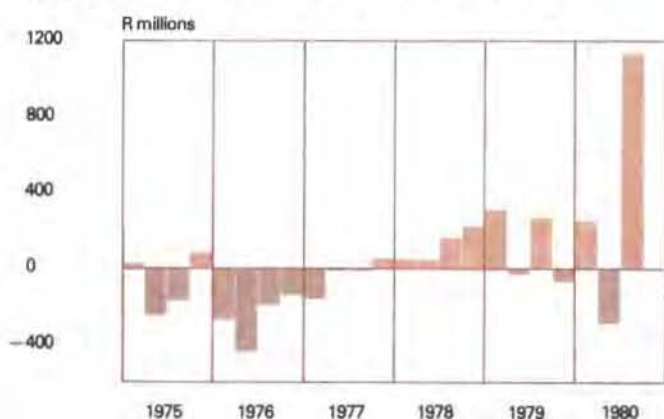
A net inflow of R461 million was recorded on the capital account of the balance of payments in the third quarter, compared with net capital outflows of R547 million and R1 681 million in the second and first quarters of 1980, respectively. The net inflow consisted predominantly of short-term capital and apparently represented to a large extent the repayment of part of the exceptionally large amount of trade credits obtained by foreigners in the domestic money market during the first quarter and the early part of April this year. The domestic financing of foreign trade was encouraged at the time by the low levels of interest rates in South Africa in comparison with those in some trading-partner countries, in particular the United Kingdom and the United States. Subsequently, however, interest rate differentials narrowed and the discount on US dollars in forward exchange transactions was raised by the Reserve Bank in order not to encourage an unduly large further financing of foreign trade in South Africa. The net inflow of short-term capital in the third quarter probably also represented an increase in foreign trade credits, which accompanied the sharp rise in imports.

Liabilities related to reserves were reduced further in the third quarter. These liabilities, which had been incurred previously to supplement the country's foreign exchange holdings, were reduced to working balances required for normal foreign exchange transactions by the further repayments in the third quarter.

Net capital movements



Changes in net gold and other foreign reserves



Net capital movements

R millions

	1980		
	1st qtr.	2nd qtr.	3rd qtr.
Long-term capital			
Central government and banking sector	-112	-39	-145
Public corporations and local authorities	-180	31	147
Private sector	-331	-154	73
Total	-623	-162	75
Short-term capital			
Liabilities related to reserves	55	-95	-22
Other short-term capital, including unrecorded transactions ¹	-1 113	-290	408
Total	-1 058	-385	386
Total capital movements	-1 681	-547	461

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

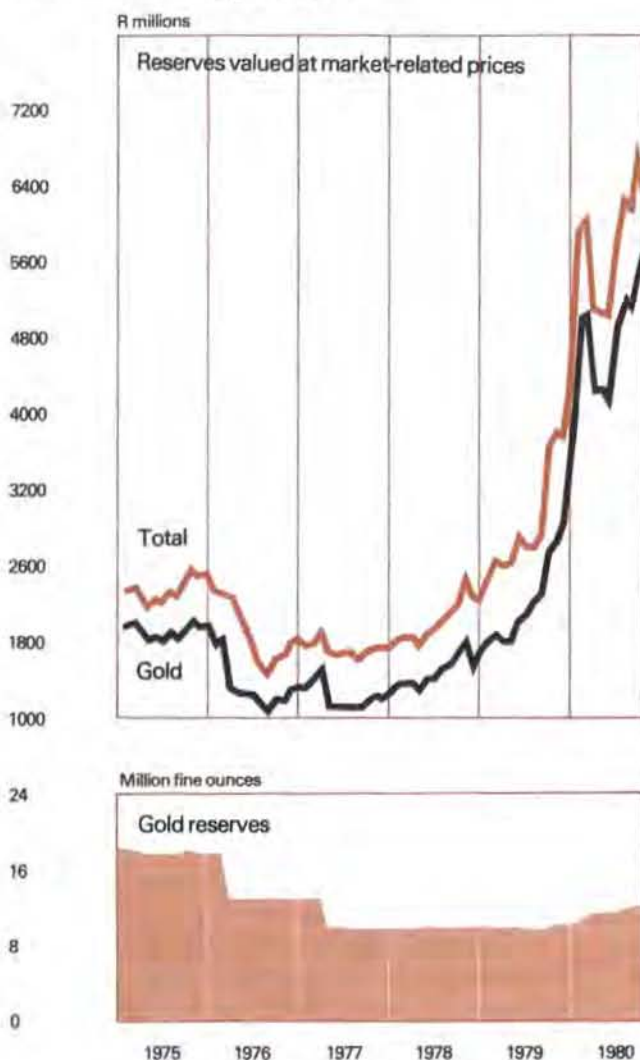
The improvement in the capital account of the balance of payments during the third quarter was also partly attributable to a moderate net inflow of long-term capital. Public corporations borrowed considerable amounts abroad on long-term and a net inflow of long-term capital to the private sector was recorded during this period. The central government, however, continued to make repayments on long-term foreign loans.

Substantial increase in gold and other foreign reserves

The surplus on the current account and the net inflow of capital not related to reserves resulted in an increase of R1 142 million in the net gold and other foreign reserves during the third quarter of 1980. If the change in liabilities related to reserves and valuation adjustments are taken into account, the gross gold and other foreign reserves increased by R981 million during the third quarter to a level of R6 807 million at the end of September. During October the gross gold and other foreign reserves of the Reserve Bank declined by R551 million.

A large part of the increase in the total gross reserves during the third quarter was accounted for by the revaluation of the gold reserves at a higher price. In addition, the volume of the gold reserves increased from 11,34 million fine ounces at the end of June to 12,03 million fine ounces at the end of September. During October the volume of the Reserve Bank's gold reserves increased by a further 138 093 fine ounces. Holdings of foreign exchange also increased during the third quarter, namely from R898 million at the end of June to R1 162 million at the end of September. During October, however, the foreign exchange holdings of the Reserve Bank declined by R137 million.

Gold and other foreign reserves



Further appreciation of the rand

The rand continued to appreciate against most of the main currencies during the third quarter and October. At the end of September the effective exchange rate of the rand was 2,2 per cent higher than at the end of June and during October it rose by a further 1,0 per cent. During the four-month period from the end of June to the end of October the rand appreciated by 2,8 per cent against the US dollar, 11,2 per cent against the German mark, 10,0 per cent against the French franc and 8,6 per cent against the Swiss franc, but depreciated by 1,0 per cent against the British pound and 1,2 per cent against the Japanese yen. A particularly sharp appreciation of the rand against West European currencies occurred during October. From the end of January 1979, when the new exchange rate system was introduced, up to the end of October 1980, the rand appreciated by 16,0 per cent against the US dollar and the effective exchange rate of the rand increased by 12,7 per cent.

Movements in the exchange rate of the financial rand during the third quarter and October corresponded fairly closely with changes in the price of gold, and more specifically with changes in investors' interest in acquiring gold mining shares on the Johannesburg Stock Exchange. At first, the financial rand depreciated sharply up to 12 August and thereafter it fluctuated around the lower level during the rest of August and the early part of September before appreciating sharply, with only minor interruptions, up to the end of October. At the end of October the exchange rate of the financial rand was 11,4 per cent higher than at the end of June 1980, while the financial rand discount narrowed from 31,6 per cent to 25,8 per cent during this four-month period.

Monetary and banking situation

Very high rates of increase in money and near-money

Exceptionally high rates of increase were recorded in the money and near-money supply as well as in the narrowly defined money supply during the third quarter of 1980. Seasonally adjusted, these aggregates rose at annual rates of 49 per cent and 50 per cent, respectively, compared with more moderate annual rates of increase of 18 per cent and 16 per cent, respectively, during the second quarter. During the first nine months of 1980 the annual rate of increase in the seasonally adjusted broadly and narrowly defined money supply amounted to 26 per cent and 34 per cent, respectively, as against 13 per cent and 21 per cent, respectively, during the calendar year 1979. The banks' short-dated and medium-dated repurchase agreements with the private sector actually declined during the third quarter, and if these agreements are included, the broadly and narrowly defined money supply rose at seasonally adjusted annual rates of 39 per cent and 40 per cent, respectively, during this period.

Causes of changes in money and near-money

The exceptionally large increase of R1 405 million in the seasonally adjusted money and near-money supply during the third quarter was caused by a sharp increase in the net gold and other foreign reserves of the monetary banking sector and in bank credit to the private sector. These expansionary factors were partly neutralised by a sharp decline in the monetary banking sector's net claims on the government sector and a renewed rise in long-term deposits of the private sector with monetary banking institutions.

The seasonally adjusted net gold and other foreign reserves, which had declined moderately during the first half of 1980, rose very strongly

Causes of changes in money and near-money

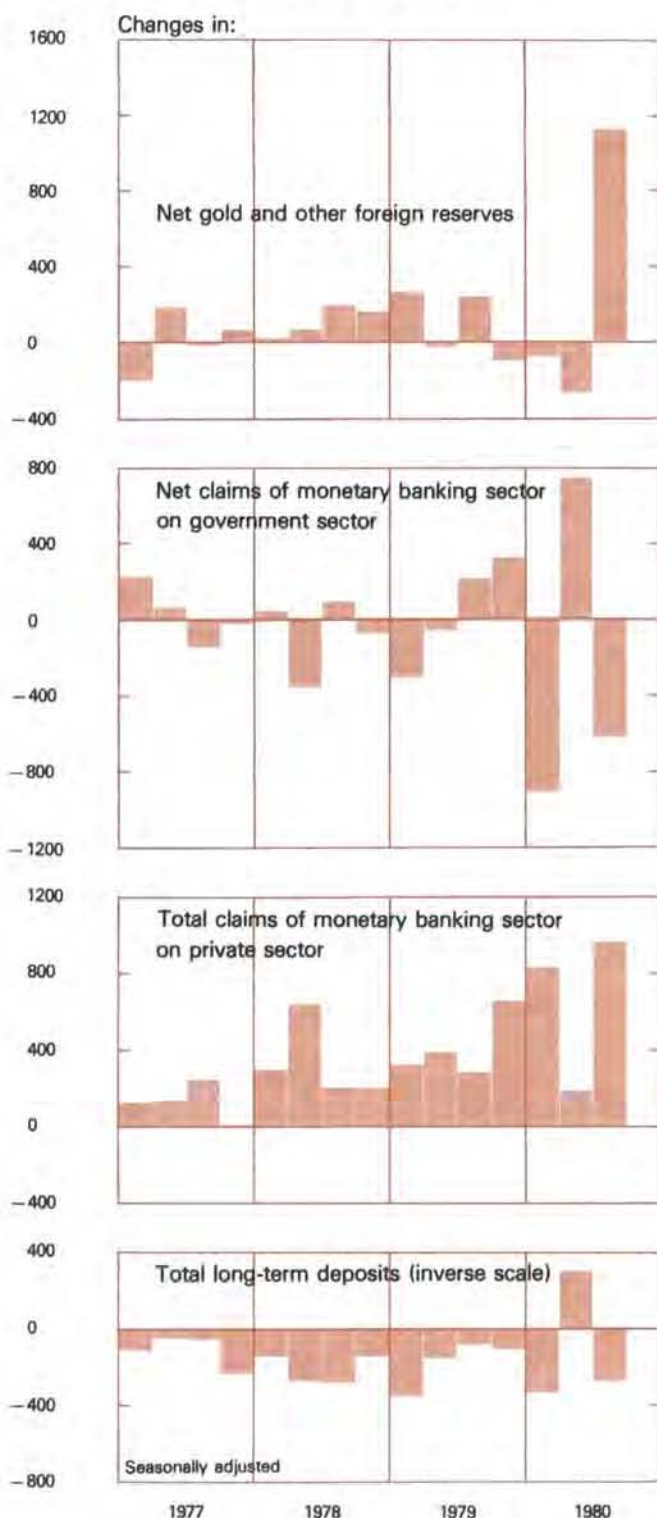
R millions

	Not seasonally adjusted			Seasonally adjusted		
	1980			1980		
	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Net gold and other foreign reserves ¹	130	-300	1 105	-67	-259	1 138
Claims on government sector:						
Gross claims	-490	266	353
Government deposits (increase-, decrease+)	-733	833	-1 159
Net claims	-1 223	1 099	-806	-902	690	-614
Claims on private sector	709	342	1 072	838	181	979
Long-term deposits (increase-, decrease+)	-333	168	-199	-334	317	-266
Net other assets ¹	680	-421	205
Total causes of changes	-37	888	1 377	407	532	1 405

1. Figures were revised in order to establish closer correspondence with procedures applied in the calculation of net foreign reserve figures in the balance of payments.

during the third quarter. This large increase occurred almost entirely in the gross gold and other foreign reserves of the monetary banking sector and reflected the surplus on the current account of the balance of payments as well as the net inflow of capital during the third quarter.

Causes of changes in money and near-money



The seasonally adjusted net claims of the monetary banking sector on the government sector declined appreciably during the third quarter, after an increase of roughly the same order had been recorded during the preceding quarter. Government deposits, unadjusted for seasonal changes, increased substantially by R1 159 million during the third quarter because of a very large flow of tax funds to the government at the end of August. This increase was partly offset by a rise of R353 million in gross claims on the government sector, reflecting to a large extent the monetary banking sector's subscription to the new issue of government stock in July.

The seasonally adjusted long-term deposits of the private sector with monetary banking institutions, which had declined during the second quarter, showed wide fluctuations during the third quarter. On balance, however, a renewed rise was recorded in these deposits during this period.

Sharp rise in bank credit to the private sector

The seasonally adjusted claims of the monetary banking sector on the private sector rose sharply by R979 million, or at an annual rate of 32 per cent, during the third quarter of 1980. During the preceding quarter bank credit to the private sector increased by a relatively small amount, partly as a result of a transfer of hire-purchase and leasing assets from a monetary to a non-monetary banking institution. If the effect of this transfer is disregarded, however, the monetary banking sector's claims on the private sector rose at an annual rate of 21 per cent during the second quarter. During the first nine months of 1980 the seasonally adjusted annual rate of increase in bank credit to the private sector amounted to 22 per cent, compared with 16 per cent during 1979 as a whole.

Repurchase agreements of monetary banking institutions with the private sector in assets representing claims on the private sector, declined during the third quarter. When these agreements are included in bank credit to the private sector, the result is a higher rate of bank credit expansion during the first half of 1980 but a lower annual rate of increase in the monetary banking sector's claims on the private sector during the third quarter, namely of 23 per cent.

The sharp rise of R1 072 million in bank credit to the private sector, unadjusted for seasonal changes, during the third quarter was accounted for largely by an increase of R953 million in the discounts, loans and advances of commercial, merchant and general banks. To a significant extent, this increase reflected the banks' response to the abolition of the ceilings on their discounts, loans and advances to the private sector and on their investments in specified private-sector securities. Abolition of the ceilings was announced by the Reserve Bank on 26 August 1980 and became effective from 1 September. A substantial part of this increase, namely R469 million, was in

the form of increased holdings of bills discounted. Hire-purchase credit and leasing finance rose by R266 million and R102 million, respectively, while other loans and advances showed only a relatively small increase of R119 million. In addition to the rise in discounts, loans and advances of the commercial, merchant and general banks, the cash credit advances of the Land Bank increased by R136 million. Investments in private-sector securities, however, declined marginally by R19 million.

Lower level of excess bank liquidity

The excess liquidity ratio of all banking institutions, which had increased sharply from 1,6 per cent at the end of February 1980 to 5,3 per cent at the end of July, declined to 2,7 per cent at the end of August before rising again to 3,6 per cent at the end of September. The changes in bank liquidity during August and September were caused mostly by fluctuations in the holdings of excess liquid assets of the commercial banks; the excess liquidity ratio of other banking institutions remained at a relatively low level during the period from July to September.

The decline in the banks' holdings of excess liquid assets during August was caused by a substantial decrease in their actual liquid asset holdings. This resulted from a sharp drop of R782 million in the government sector's contribution to the banks' liquidity base, reflecting the substantial flow of tax funds to the government at the end of August. The improvement in bank liquidity during September was the net result of a substantial increase in the banks' liquidity base, including a contribution of R609 million by the foreign sector, and an increase of R250 million in their required liquid asset holdings. The latter was partly due to the adjustments in the supplementary cash reserve and total liquid asset requirements that were announced by the Reserve Bank on 26 August. Of the increase in required liquid asset holdings, which came into effect from approximately 21 September, R205 million had to be held in the form of cash reserve balances. Required cash reserve balances with the Reserve Bank rose by R363 million, but those with the National Finance Corporation declined by R158 million. From approximately 21 October the required cash reserve balances with the Reserve Bank and the National Finance Corporation rose further by R53 million and R4 million, respectively.

Money market conditions and interest rates

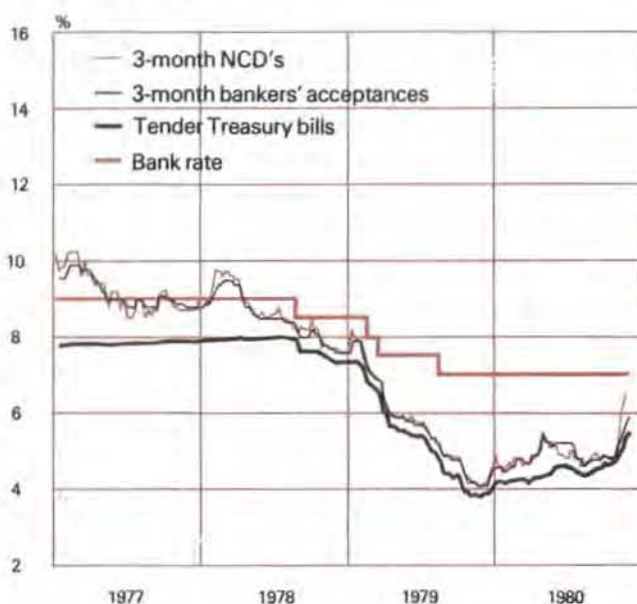
After tight conditions had been experienced over the August month-end, the money market eased only slightly during September and early October. In the second and third weeks of October a more pronounced easing of the market occurred, but tighter conditions were again experienced towards the end of the month and early November.

Call loans to the discount houses, which had declined sharply over the August month-end, showed

wide fluctuations during September and amounted on average to about R1 160 million in this month. During October these loans rose to higher levels, reaching a peak of R1 299 million on 8 October. At the end of October these loans fell back to R1 100 million, but on 21 November had increased to R1 281 million. Accommodation by the Reserve Bank to the discount houses amounted to as much as R447 million on 30 August, but reverted to lower levels towards the middle of September before increasing to R376 million on 30 September. By 8 October, however, all bills under discount had been returned to the discount houses. Accommodation was provided again to the discount houses from 22 October and at the end of October it amounted to R280 million, but on 7 November all accommodation was repaid. After having been virtually depleted on 30 August, the banks' free balances with the National Finance Corporation generally remained at a low level during September and early October. In accordance with the easing of the market from the second week of October, these balances rose to R320 million on 15 October, but then declined to a very low level at the end of the month. From early November these balances increased once again and amounted to as much as R623 million on 21 November.

Money market interest rates, which had increased towards the end of August, showed only minor changes during September and the first half of October. During the second half of October, however, these rates tended to rise and increased more pronouncedly during the first half of November. The rate on three-month bankers' acceptances, for example, amounted to 4,80 per cent on 9 October, the same level as on 29 August, but subsequently in-

Money market interest rates



creased to 5,20 per cent on 31 October and 5,90 per cent on 21 November. The Treasury bill tender rate, on the other hand, showed a more distinct upward trend during September, October and the first half of November, rising from 4,52 per cent on 29 August to 5,50 per cent on 21 November.

Open-market operations by the Reserve Bank during the third quarter, October and the first half of November consisted mostly of sales of special tap Treasury bills maturing at the end of February 1981, when tax payments to the government are due to reach a major seasonal peak. Sales of such bills amounted to R610 million during these four and a half months. As a further means of mopping up excess liquidity in the money market, the Reserve Bank sold small amounts of other government securities and entered into repurchase agreements which will also mature at the end of February 1981.

Government finance

Marked increase in revenue collections

Receipts on the Exchequer Account were 39 per cent higher in the first half of the 1980/81 fiscal year, i.e. the period April to September 1980, than in the corresponding period of the preceding fiscal year. This exceptionally high rate of increase, which compares with a Budget estimate of 11 per cent for the fiscal year as a whole, was caused not only by substantially higher than anticipated receipts from gold mining companies, but also by rates of increase in receipts of customs duties, excise duties and the general sales tax that were well above Budget estimates. Income tax receipts from taxpayers other than gold mining companies also increased at a considerably higher rate than anticipated in the Budget for the full fiscal year, but this was partly due to the fact that tax deductions under the pay-as-you-earn system were adjusted only in July, when the new tax-deduction tables (incorporating the tax concessions provided for in the Budget) came into effect. These higher income tax receipts, however, also reflected a general increase in company profits and in salaries and wages.

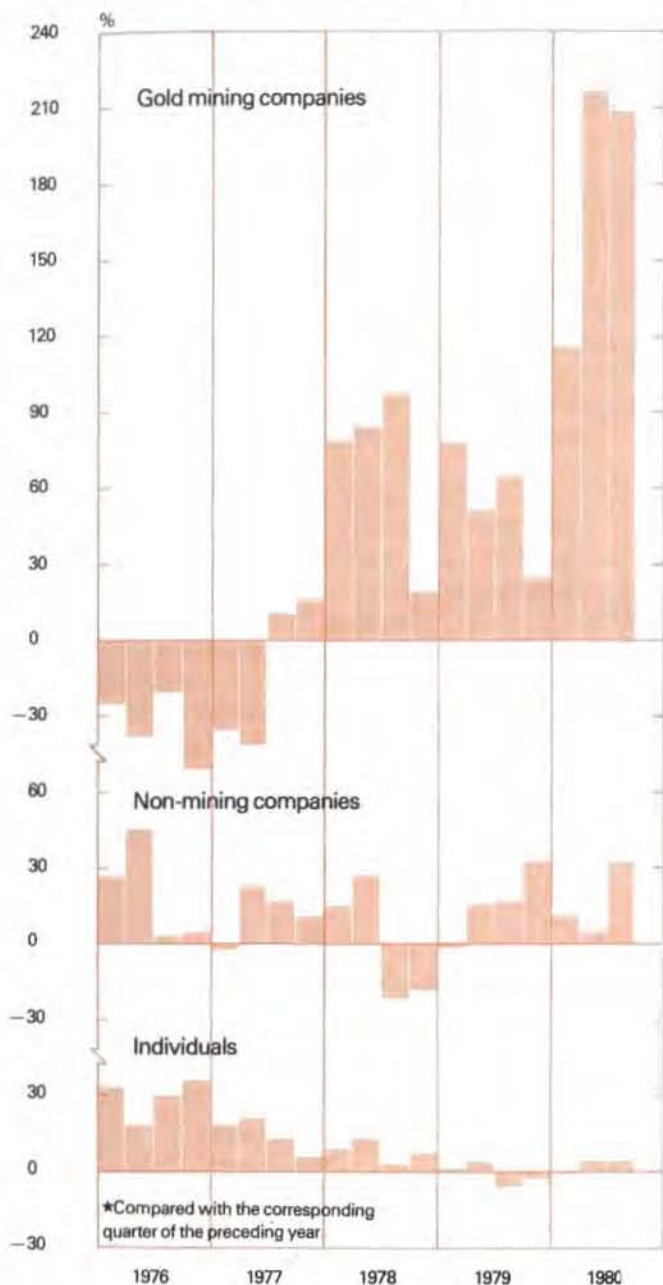
Income tax and mining lease payments by gold mining companies amounted to R1 686 million in the first half of the 1980/81 fiscal year, or R1 118 million more than in the corresponding period of the preceding fiscal year, representing almost 68 per cent of the estimated receipts from gold mining in the fiscal year as a whole. Other income tax receipts

State Revenue Fund — Revenue collections R millions

	1979			1980/81 Budget	1980		
	April- June	July- Sept.	April- Sept.		April- June	July- Sept.	April- Sept.
Indirect taxes							
Customs duties	103	110	213	480	144	178	322
Surcharge on imports	60	61	121	1	—	—	—
Excise duties	239	202	441	1 130	278	289	567
General sales tax	274	308	582	1 550	368	415	783
Sub-total	676	681	1 357	3 162	790	882	1 672
Less: Transfers to the Central Revenue Fund ¹ and to neighbouring countries ²	104	117	221	541	128	128	256
Sub-total	572	564	1 136	2 621	662	756	1 416
Income tax payments and other collections							
Income tax and lease payments by gold mines	116	452	568	2 485	367	1 320	1 686
Other income tax payments	926	1 005	1 931	4 141	967	1 257	2 224
Other income	305	453	758	1 665	383	479	862
Total	1 919	2 474	4 393	10 912	2 379	3 810	6 189

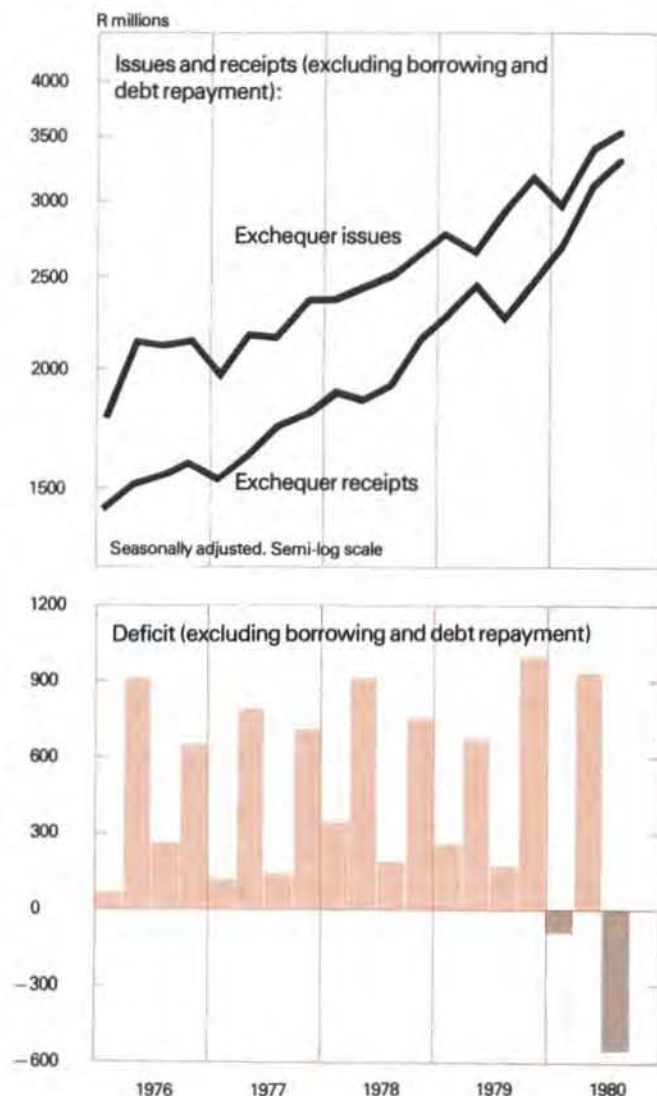
1. Formerly the South West Africa Account. 2. In terms of Customs Union agreements.

Percentage change in income tax collections*



were 15 per cent higher in the first half of the current fiscal year than in the corresponding period of the 1979/80 fiscal year, a rate of increase that was substantially above the Budget estimate of about 2 per cent for the full fiscal year. Likewise, receipts of the main classes of indirect taxes showed rates of increase in the first half of the fiscal year that were markedly higher than those anticipated in the Budget for the full fiscal year. This increase in the indirect tax yield was related to the sharp upward trend in private consumption expenditure and in imports. In comparison with the first half of the preceding fiscal year, customs duties rose by 51 per cent, excise

State Revenue Account



duties by 29 per cent, and the proceeds of the general sales tax by 35 per cent.

High rate of increase in Exchequer issues

Issues to government departments from the Exchequer Account were 23 per cent higher in the first half of the 1980/81 fiscal year than in the corresponding period of the preceding fiscal year. This rate of increase was considerably above the Budget estimate of 14 per cent for the full fiscal year and reflected to some extent an early requisitioning of appropriated funds by government departments. Unless additional appropriations are made, substantially lower rates of increase in Exchequer issues will have to prevail during the second half of the fiscal year in order not to exceed the rise anticipated in the Budget for the year 1980/81 as a whole.

Decline in net indebtedness to the monetary banking sector

Mainly because of very large receipts of income tax and lease payments from gold mining companies at the end of August, the Exchequer Account showed a record surplus (excluding borrowing and debt repayment) of R565 million in the third quarter of 1980. In the first half of the 1980/81 fiscal year the deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to only R375 million, compared with a deficit of R844 million in the first half of the preceding fiscal year.

As shown in the accompanying table, the private non-banking sector's holdings of government securities increased by R651 million during the first half of the current fiscal year. A portion of these securities consisted of special Treasury bills maturing at the end of February 1981, when income tax and lease payments by gold mining companies are due to reach a seasonal peak. Because of the abolition of the loan levy on individuals and companies in the 1980 Budget, borrowing from the private non-banking sector during the first half of the current fiscal year did not include loan levies. The Public Debt Commissioners' net investment in government securities during the first half of the 1980/81 fiscal year amounted to R120 million. Borrowing from the domestic non-banking sector during this period, therefore, exceeded the deficit on the Exchequer Account. This enabled the Treasury to reduce its net indebtedness to the foreign sector and the monetary banking sector by R15 million and R382 million, respectively. The latter figure consisted mostly of an increase in cash balances, resulting from the sharp rise in tax revenue. During the third quarter of 1980 alone these cash balances increased by no less than R1 132 million, of which R465 million represented a rise in the balance on the Stabilization Account.

Exchequer Account financing

R millions

	1980		
	Apr.- Jun.	Jul.- Sept.	Apr.- Sept.
Deficit (-) or surplus	-940	565	-375
Financing:			
Domestic sources			
Non-banking sector	380	392	771
Public Debt Commissioners ¹	43	78	120
Private non-banking sector	337	314	651
Monetary banking sector	541	-922	-382
Government securities	205	210	415
Cash balance ²	336	-1 132	-797
Foreign sources	20	-35	-15
Total financing	940	-565	375

1. Including the Department of Posts and Telecommunications.

2. Increase -, decrease +.

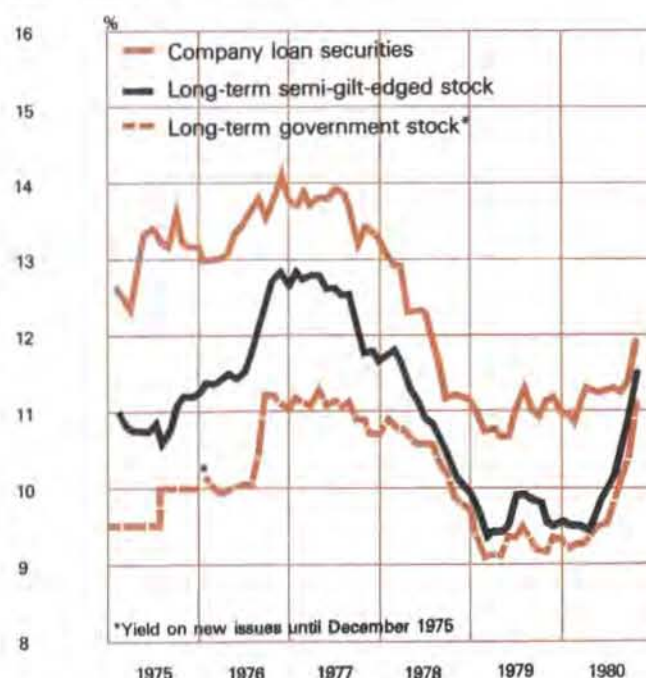
Capital market

Increase in fixed-interest security yields

In the fixed-interest security market the upward movement of long-term yields, which had begun in the second quarter of 1980, continued during the third quarter. The secondary market yield on long-term government stock increased from 9,54 per cent in June to 10,40 per cent in September and 11,11 per cent in October. The long-term yield on semi-gilt-edged stock of the highest grade rose from 10,01 per cent in June to 10,97 per cent in September and 11,52 per cent in October, while the yield on loan securities of companies increased from 11,28 per cent in June to 11,40 per cent and 11,91 per cent in September and October, respectively.

Investors' expectations of an increase in long-term yields inhibited their support for new long-term security issues and a larger proportion of new investment funds than previously was allocated to securities with short-term and medium-term maturities. New funds raised by the public sector in the fixed-interest security market, excluding the net increase in the borrowers' holdings of their own securities, amounted to R643 million in the third quarter, compared with a quarterly average of R235 million in the first half of the year. Private-sector companies listed on the stock exchange raised new funds to the amount of R107 million in the fixed-interest security market during the third quarter, as against a quarterly average of R179 million in the first half of the year.

Secondary market security yields



Secondary market transactions in public-sector stock increased sharply in the third quarter. The value of gilt-edged and semi-gilt-edged stock traded on the stock exchange was 37 per cent higher than in the second quarter, but was still 17 per cent lower than the exceptionally large figure of R1 340 million recorded in the first quarter of 1980.

Continued buoyancy in the share market

In the share market both turnover and prices increased substantially in the third quarter. The number of shares traded on the stock exchange was 56 per cent higher than in the second quarter, while

the value of shares traded was 71 per cent above the level in the second quarter. From June to September the comprehensive index of all classes of share prices advanced by 28 per cent, bringing the increase during the first nine months of 1980 to 52 per cent. Gold mining share prices showed the highest rate of increase during the third quarter, namely 42 per cent. The price of other mining shares, financial shares, and industrial and commercial shares rose by 36 per cent, 20 per cent and 16 per cent, respectively, during this period. During October the comprehensive share price index declined marginally by less than one per cent.

As a result of the strong rise in share prices, dividend yields declined notably during the third quarter, but the effect of the rising share prices on share yields was partly neutralised by higher dividend payments. The average dividend yield on all classes of shares nevertheless declined from 5,24 per cent in June to 4,75 per cent in September and 4,90 per cent in October. This decline, together with the increase in the yield on long-term government stock, caused the yield gap between long-term government stock and shares to widen from 4,30 per cent in June to as much as 5,65 per cent in September and 6,21 per cent in October.

Unit trusts recorded a further small net outflow of funds, amounting to R7 million, during the third quarter. The increase in share prices, however, raised the market value of their net assets from R667 million at the end of June to R747 million at the end of September 1980. Reflecting this increase, the average selling price of units rose by 21 per cent during the third quarter, while the average yield on units declined from 4,53 per cent in June to 4,36 per cent in September.

Sharp rise in holdings of longer-term funds with deposit-receiving and other savings institutions

The increase in holdings of longer-term funds with deposit-receiving and other savings institutions, which had slowed down considerably during the second quarter of 1980, regained momentum during the third quarter. The seasonally adjusted increase during the latter period amounted to R1 474 million, compared with R712 million in the preceding quarter.

Change in holdings of longer-term funds with financial institutions –seasonally adjusted

R millions

	1980		
	1st qtr.	2nd qtr.	3rd qtr.
Banking institutions	564	140	631
Building societies	529	461	720
Participation mortgage bond schemes	16	—	20
Government savings facilities	128	111	103
Total	1 237	712	1 474

Stock exchange



As in the second quarter, holdings of longer-term funds with building societies showed the largest increase. Holdings of such funds with banking institutions increased somewhat less, but by a substantially larger amount than in the second quarter. The increase in holdings of longer-term funds in government savings facilities during the third quarter was approximately equal to that during the second quarter.

High level of activity in mortgage and real estate markets

The substantial investment of new funds with building societies during the third quarter and a stronger demand for funds resulted in increased mortgage lending by the societies. Net new mortgage loans granted by the building societies, seasonally adjusted, rose from R1 226 million in the second quarter to R1 305 million in the third quarter, while the corresponding increase in mortgage loans actually paid out was from R959 million to R1 144 million. At the end of September the building societies' commitments in respect of mortgage loans granted but not yet paid out stood at R1 775 million, compared with

R1 500 million at the end of June. Because of the high level of these commitments and in order to minimise capital losses resulting from the impending increase in security yields, the societies took the precaution of converting some of their security holdings into cash. Although total prescribed investments still increased by R29 million during the third quarter, holdings of government stock and semi-gilt-edged stock were reduced by R85 million and R75 million, respectively. Cash and deposit holdings showed a corresponding increase.

In the real estate market the seasonally adjusted value of transactions decreased from the exceptionally high figure of R1 530 million in the second quarter to R1 413 million in the third quarter, a decline of 8 per cent. The value of transactions in the third quarter was, however, 12 per cent above the level in the first quarter of 1980. The decline in turnover in the secondary real estate market was accompanied by a slowdown in the rate of increase in prospective building activity. The seasonally adjusted value of building plans passed, which had increased by 24 per cent and 30 per cent in the first and second quarters of 1980, respectively, rose by only 3 per cent in the third quarter. Loans granted by building societies for the construction of new buildings, likewise increased by 11 per cent in the third quarter, compared with an average quarterly increase of 30 per cent in the first half of the year.

Fixed property market

