

# Quarterly economic review

## Summary and general observations

In the Governor's Address at the Reserve Bank's Annual General Meeting on 26 August 1980 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 1980, were reviewed in detail. This review will be limited, therefore, to a brief description of developments during the second quarter of 1980 and, depending on the availability of statistics, during July and August.

The current upswing in the South African economy, which had entered a more advanced stage in the second half of 1979, gained further momentum in the first half of 1980. High rates of growth in the real gross domestic product were recorded in both the first and second quarters of 1980. The higher level of real economic activity was reflected in a more rapid rise in non-agricultural employment, but at the same time signs were beginning to emerge that the economy was approaching capacity limits in certain sectors.

The further increase in real economic activity in the second quarter of 1980 was based on a very sharp rise in real aggregate domestic demand. Private consumption expenditure was encouraged by an actual and expected further increase in real personal disposable income as well as by the ready availability of consumer credit. Domestic fixed investment rose strongly as a result of the continuing expansion programmes of public corporations and an increasing level of private fixed investment in response to the strong consumer demand, the reduction in excess production capacity, and the ample availability of funds and accompanying relatively low levels of interest rates. A further build-up of inventories occurred in the second quarter and indications are that the long downward phase in the inventory cycle may have ended towards the end of 1979. Real government consumption expenditure continued to show little change in accordance with the prevailing policy of limiting the growth in government expenditure.

The rate of inflation, which had tended to slow down in the fourth quarter of 1979 and the first quarter of 1980, showed renewed acceleration in the second quarter. This was partly due to increases in several administered prices, but higher rates of increase were also recorded in a fairly wide range of other wholesale and consumer prices.

A marked decline in the surplus on the current account of the balance of payments occurred in the second quarter. The main reason for this was that an appreciable decline in the price of gold and a concomitant decrease in the value of the net gold output coincided with a sharp rise in the value of imports and a small decline in the value of merchandise exports. The decline in the price of gold was reversed, however, in the middle of the second quarter and the average price in July and August actually exceeded the high average level of the first quarter.

The smaller surplus on the current account in the second quarter was accompanied by a greatly reduced net outflow of capital. This was accounted for mostly by a sharp decline in the net outflow of short-term capital from the private sector after the Reserve Bank had raised the discount on US dollars in forward exchange transactions in April as a means of discouraging unduly large switching to the domestic financing of foreign trade. The net outflow of capital nevertheless exceeded the surplus on the current account, causing a decline in the gross as well as the net gold and other foreign reserves. However, after taking into account the revaluation of the gold reserves and other valuation adjustments, the gross reserves showed a notable rise during the second quarter.

A fairly strong appreciation of the commercial rand against the US dollar occurred during the second quarter, but at the same time the rand depreciated considerably against other major currencies. As a result, the effective exchange rate of the rand increased only slightly during this period. A distinct rise occurred, however, during July and August.

Following a sharp rise in the supply of money and near-money during the second half of 1979, the rate of increase tended to slow down during the first quarter of 1980 but accelerated again slightly during the second quarter. The rate of increase in the narrowly defined money supply, which had been inordinately high during the six-month period from October 1979 to March 1980, was considerably lower during the second quarter. Most of the expansion in the money and near-money supply during the second quarter was accounted for by a large rise in domestic credit, but a small increase was also recorded in the monetary banking sector's net gold and other foreign reserves and a decline occurred in the private sector's long-term deposits with monetary banking institutions.

The liquidity position of banking institutions, which had weakened notably during the first quarter of 1980 as a result of large movements of tax funds to the government sector, recovered strongly during the second quarter and July. In August the Reserve Bank announced an upward adjustment in the supplementary liquid asset requirements against the short-term liabilities of large banks and the medium-term liabilities of all other banks, to come into effect from approximately 21 September. In addition, the banks will be required to hold an increased proportion of supplementary liquid assets in the form of cash reserve balances with the Reserve Bank. These adjustments in the liquid asset requirements for banking institutions accompanied the abolition of the ceilings on bank credit to the private sector, with effect from 1 September.

After a tightening towards the end of April and in early May, the money market eased almost continuously up to late August when it was affected by the large movement of tax funds to the government. Apart from open-market sales of government securi-

ties, various other instruments and procedures were employed by the Reserve Bank to absorb excess liquidity in the money market. These included sales of special tap Treasury bills to mature at the major tax-payment dates, sales of Reserve Bank debentures, and repurchase agreements with banking institutions.

Exchequer receipts rose strongly during the second quarter, mainly because of substantial income tax payments by gold mining companies and sizeable general sales tax and customs duty collections. At the same time, Exchequer issues increased markedly because of the larger than usual appropriation of funds to government departments at the beginning of the new fiscal year. This resulted in a considerable deficit on the Exchequer Account that had to be financed by means of borrowing or the use of available cash balances. In its borrowing operations, the Treasury relied fairly extensively on increasing its net indebtedness to the monetary banking sector.

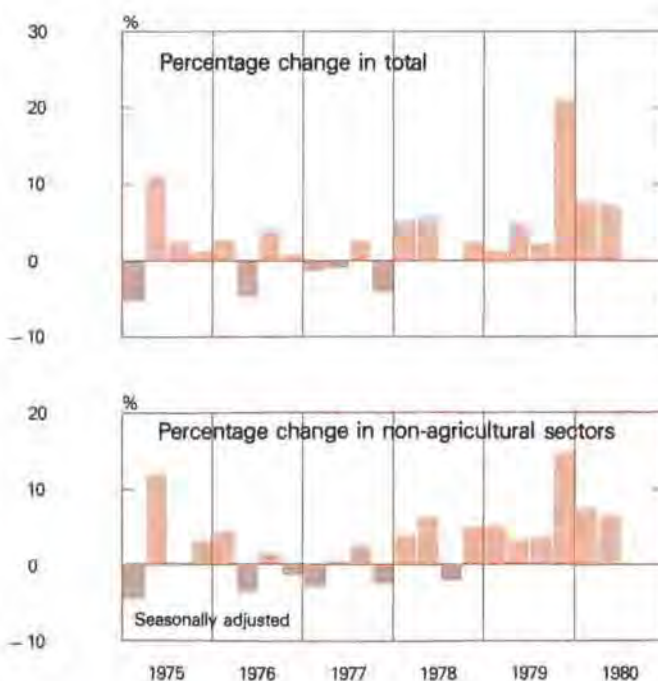
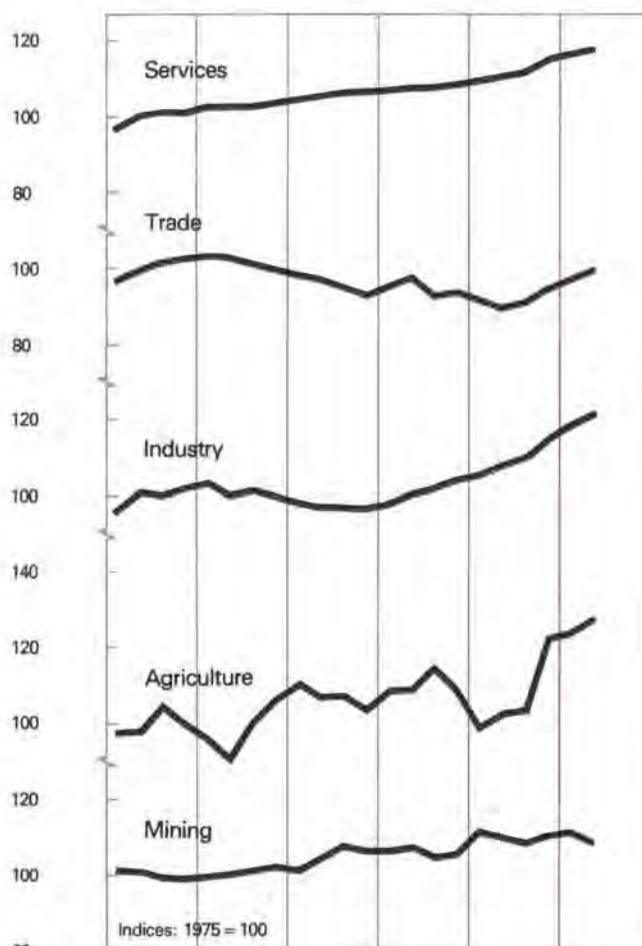
In the capital market, uncertainty about prospective movements of long-term security yields caused a hardening of yields on long-term fixed-interest securities. This was accompanied by a decline in the value of gilt and semi-gilt-edged securities traded on the stock exchange and weaker support for new issues of these securities. Buoyant conditions continued to prevail in the share market and prices increased further during the second quarter and rose sharply to high levels in July and August. The mortgage and real estate markets were equally buoyant and a strong rise in activity occurred during the second quarter.

### National accounts\*

The real gross domestic product, which had risen by 3½ per cent in 1979, increased at substantially higher annual rates of 7½ per cent and 7 per cent in the first and second quarters of 1980, respectively. In the first half of 1980 the real gross domestic product was no less than 8½ per cent higher than in the corresponding period of 1979. The further increase in real economic activity in the second quarter was evident in all sectors of the economy except in the gold mining industry. The volume of gold produced continued to decline because of the mining of lower-grade ore. Higher rates of increase were recorded in the real value added by agriculture; electricity, gas and water; construction; commerce; and the services sector. The real value added by non-gold mining and manufacturing, on the other hand, rose at lower rates than in the first quarter. Excluding agriculture, the rate of growth in the real gross domestic product slowed down from 7½ per cent in the first quarter to 6½ per cent in the second quarter of 1980.

Real gross domestic expenditure increased sharply in the second quarter and was solely responsible for the further rise in the real gross domestic product; the volume of exports declined appreciably during this

Gross domestic product at constant 1975 prices



\*Quarterly changes are based on seasonally adjusted data.



period. High rates of increase were recorded in real private consumption expenditure and real gross domestic fixed investment. In addition, a further increase occurred in real inventories. Real government consumption expenditure, however, showed little change in the second quarter. In the first half of 1980 real gross domestic expenditure was as much as 11½ per cent higher than in the corresponding period of 1979.

The further sharp increase in real private consumption expenditure in the second quarter reflected the strongly rising demand for durable and semi-durable goods in response to an actual and anticipated further increase in real personal disposable income and the ready availability of consumer credit. The more stable components of real consumer

demand, namely expenditure on non-durable goods and on consumer services, increased at roughly the same rates as in the preceding quarter.

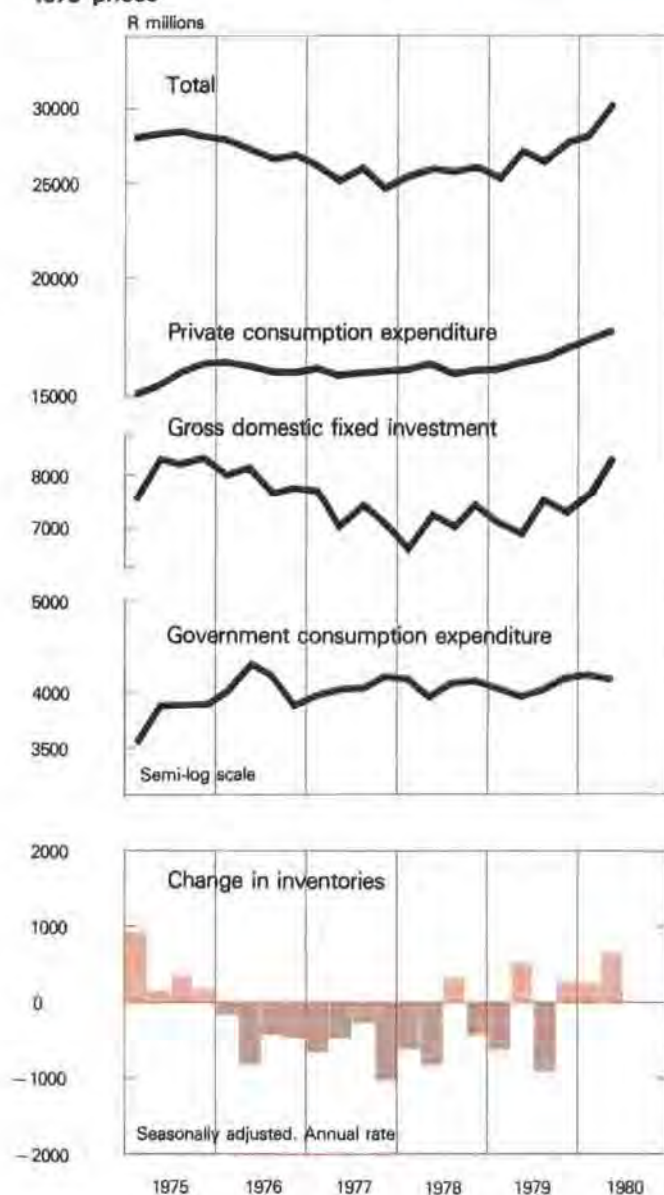
The considerable increase in real gross domestic fixed investment in the second quarter reflected not only a continuation of the expansion programmes of public corporations, but also the new upward phase of the fixed investment cycle in the private sector that has been in progress since the middle of 1979. In the private sector, notable further increases in real fixed capital outlays occurred in manufacturing, residential construction and the financial sector. The latter represented mostly the acquisition of fixed assets for leasing purposes. The sharp rise in the real fixed investment of public corporations was largely due to increased outlays by Sasol and Escom. In contrast with the upward trend in real fixed investment generally, the capital outlays of public authorities declined in the second quarter. A small increase in real outlays on residential construction, mostly low-cost housing, was more than offset by declines in the real fixed investment of the S.A. Railways Administration and general government.

After having declined almost uninterruptedly from the first quarter of 1976 to the third quarter of 1979, real inventories increased during each of the subsequent three quarters. It would appear, therefore, that the long downward phase of the inventory investment cycle had come to an end. The further build-up of real inventories during the second quarter was the result of increases in mining inventories, industrial inventories of the private sector, agricultural stocks-in-trade, and strategic inventories, which were only partly offset by slight declines in diamond stocks, commercial inventories, and industrial inventories of public corporations.

Gross domestic saving, which had risen substantially in the third and fourth quarters of 1979 and the first quarter of 1980, declined markedly in the second quarter. Apart from a small decline in the saving of general government, the decrease in aggregate saving in the second quarter was largely accounted for by personal saving. The strong rise in private consumption expenditure, financed to a considerable extent by bank credit, had its counterpart in a decline in personal saving. Corporate saving, on the other hand, continued to rise sharply and there was a further increase in the provision for depreciation. The sharp decline in gross domestic saving and the further increase in the gross domestic product at current prices in the second quarter, caused the savings ratio to fall from 35,0 per cent in the first quarter to 33,5 per cent in the second quarter. The latter figure was, however, still higher than the ratio of 31,7 per cent for the year 1979 as a whole.

Although gross domestic saving still exceeded gross domestic investment in the second quarter, the difference was the smallest since the third quarter of 1977. This was reflected in only a small surplus on the current account of the balance of payments in the second quarter.

**Gross domestic expenditure at constant 1975 prices**





## Employment and prices

Employment in the non-agricultural sectors of the economy, which had increased at an average seasonally adjusted annual rate of 1,5 per cent in the first three quarters of 1979, rose at distinctly higher annual rates of 5,6 per cent in the fourth quarter of 1979 and 4,2 per cent in the first quarter of 1980. Available information indicates that a further but slightly smaller rate of increase was recorded in the second quarter. The more rapid rise in employment occurred in the private as well as the public sector.

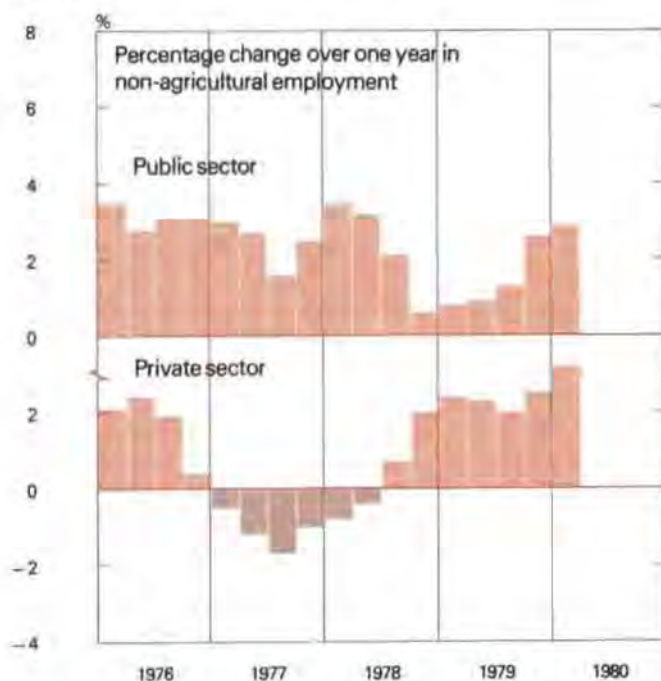
Mirroring the increase in employment, unemployment continued to decline. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from 26 931 in December 1979 to 24 374 in March, 22 375 in June and 21 356 in July. The ratio of unemployed Blacks to the economically active Black population decreased from 9,2 per cent in May 1979 to 8,8 per cent in May 1980.

After the rate of increase in consumer prices had slowed down during the fourth quarter of 1979 and the first quarter of 1980, it accelerated again in the second quarter. The seasonally adjusted annual rate of increase of 13,3 per cent in the second quarter was substantially higher than the 8,6 per cent in the preceding quarter. This acceleration was due to higher rates of increase in certain prices of goods and services subject to administrative control, in particular maize, bread and sugar prices and railway and other transport tariffs, as well as to more rapid

increases in the prices of meat, vegetables, vehicles, footwear, reading matter, and educational, dry-cleaning and personal services. From July 1979, the month in which the consumer price index was raised substantially by an exceptionally sharp rise in the prices of petroleum products, to July 1980 consumer prices increased on average by 12,2 per cent. In the first seven months of 1980 the average monthly consumer price index was 13,6 per cent higher than in the corresponding period of 1979.

On a seasonally adjusted basis, the wholesale price index rose at an annual rate of 12,0 per cent in the first quarter of 1980, but at a higher annual rate of 14,3 per cent in the second quarter. This acceleration was accounted for by a more rapid rise in the prices of domestically produced goods, in particular the prices of agricultural products, processed food, footwear and transport equipment. The rate of increase in the prices of imported goods, on the other hand, slowed down considerably in the second quarter, partly as a result of the abolition of the surcharge on imports in March. From July 1979 to July 1980 wholesale prices rose on average by 14,5

### Labour



### Prices

Percentage change over twelve months





per cent. In the first seven months of 1980 the average monthly wholesale price index was 17,2 per cent higher than in the corresponding period of 1979.

### Balance of payments

The surplus on the current account of the balance of payments declined markedly from a record figure of R1 993 million in the first quarter of 1980 to R160 million in the second quarter. At a seasonally adjusted annual rate, the surplus amounted to R770 million in the second quarter, compared with R7 210 million in the first quarter and an average quarterly surplus of R1 581 million during the preceding three years. The two predominant causes of the substantially lower current account surplus in the second quarter were a sharp rise in the value of merchandise imports and a marked drop in the value of the net gold output. In addition, the value of merchandise exports declined slightly. On the other hand, a small decrease occurred in the net service and transfer payments to the rest of the world.

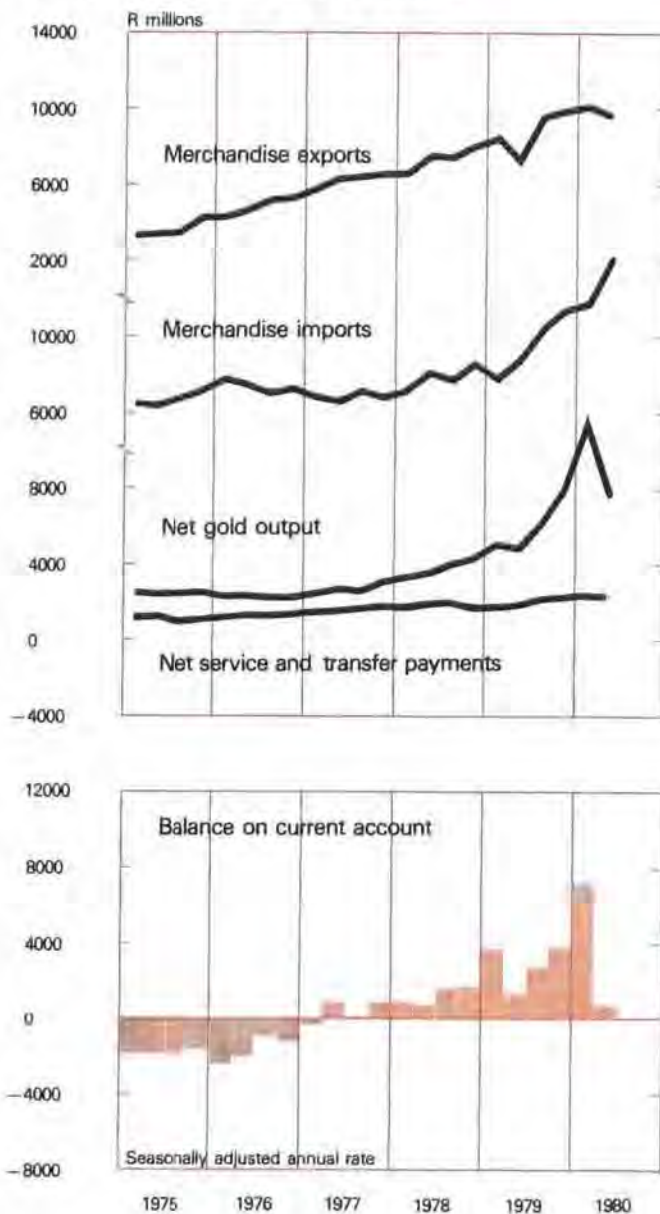
The value of merchandise imports, at a seasonally adjusted annual rate, increased sharply from R11 830 million in the first quarter of 1980 to R14 210 million in the second quarter and R15 396 million in July. The volume of imports, which up to the first quarter of 1980 had responded very little to the current general cyclical upturn in economic activity, increased markedly in the second quarter. At the same time a further sharp rise occurred in import prices. Imports of mineral products (including petroleum products) increased sharply in the second quarter and notable rises were also recorded in the categories transport equipment, textiles, and paper and paper products.

The value of the net gold output, at a seasonally adjusted annual rate, declined from R11 480 million in the first quarter of 1980 to R7 780 million in the second quarter. Most of this decline was attributable to an appreciably lower average price of gold in US dollars and the appreciation of the rand against the US dollar, but there was also a slight decrease in the volume of the net gold output. The average fixing price of gold per fine ounce on the London market declined from US \$631,49 in the first quarter to US \$543,63 in the second quarter, or by 13,9 per cent. Subsequently, however, the price of gold rose again to an average of US \$635,89 per fine ounce in the two-month period July to August 1980.

Merchandise exports, at a seasonally adjusted annual rate, declined from R10 130 million in the first quarter of 1980 to R9 670 million in the second quarter. A sharp decrease in the volume of exports was experienced, in particular in the categories base metals, chemical products, and textiles. At the same time, the rate of increase in export prices slowed down, partly as a result of the appreciation of the rand against the US dollar.

The smaller surplus on the current account in the second quarter was accompanied by a sharply re-

### Balance of payments current account



duced net outflow of capital of R547 million that was reflected in both short-term and long-term capital movements. The net outflow of short-term capital, including errors and omissions on the current as well as the capital account of the balance of payments, amounted to R385 million in the second quarter, compared with R1 058 million in the preceding quarter. A marked decline in the net outflow of short-term capital from the private sector occurred after the discount on US dollars in forward exchange transactions had been raised by the Reserve Bank in April as a means of discouraging unduly large switching to the domestic financing of foreign trade. Repayments on foreign loans obtained previously to supplement the country's foreign exchange holdings



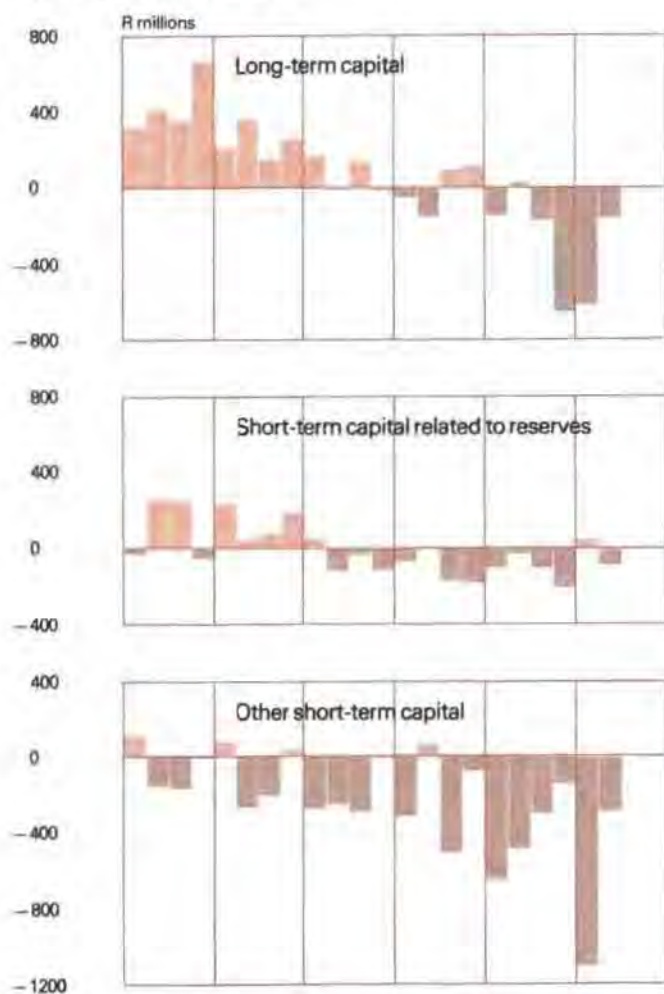
amounted to R95 million in the second quarter, after these so-called liabilities related to reserves had increased by R55 million during the preceding quarter.

The net outflow of long-term capital decreased from R623 million in the first quarter of 1980 to R162 million in the second quarter. This decline represented smaller net outflows from both the central government and banking sector and the

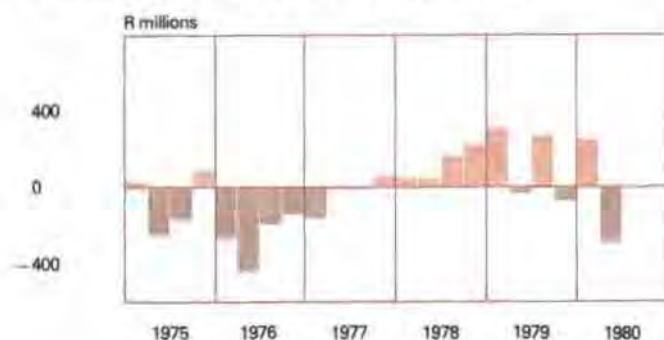
private sector, and a change from a large net outflow to a small net inflow of capital in the case of public corporations and local authorities.

During the second quarter the net as well as the gross gold and other foreign reserves declined appreciably on account of balance of payments transactions. The revaluation of the gold reserves and other valuation adjustments, however, raised the total gross reserves by R699 million during this period to a level of R5 826 million at the end of June. During July an increase in the foreign exchange holdings and in the volume of the gold reserves, together with valuation adjustments, raised the total gross reserves by R430 million to a level of R6 256 million at the end of the month. During August the gross gold and other foreign reserves of the Reserve Bank declined slightly by R37 million, mainly as a result of the revaluation of the gold reserves at a lower price.

### Net capital movements



### Changes in net gold and other foreign reserves



### Exchange rates

Although the rand appreciated by 5,2 per cent against the US dollar during the second quarter of 1980, the effective exchange rate of the rand increased by only 0,2 per cent. The appreciation against the US dollar was largely offset by depreciations against all other major currencies, in particular the Japanese yen and the Swiss franc. During July and August the rand appreciated further by 1,7 per cent against the US dollar, while the effective exchange rate of the rand increased by 1,8 per cent. At the end of August the effective exchange rate of the rand was 7,5 per cent higher than at the end of 1979.

The financial rand did not appreciate to the same extent as the commercial rand against the US dollar during the second quarter. The financial rand discount actually rose from 29,6 per cent at the end of March 1980 to 31,6 per cent at the end of June. In contrast with the appreciation of the commercial rand, the financial rand depreciated against the US dollar during July and August. As a result, the financial rand discount widened appreciably to 38,0 per cent at the end of August.

### Monetary and banking situation

The annual rate of increase in the seasonally adjusted money and near-money supply, which had slowed down from 27 per cent during the second half of 1979 to 14 per cent during the first quarter of 1980, accelerated again slightly to 17 per cent during the second quarter. The rate of increase in the narrowly defined money supply, on the other hand, declined to 16 per cent during the second quarter of 1980, after having amounted to no less than 42 per cent during the preceding six months. When further changes in monetary banks' short- and medium-dated repurchase agreements with the private non-banking sector are taken into account, the annual rates of increase in the broadly defined and narrowly defined money



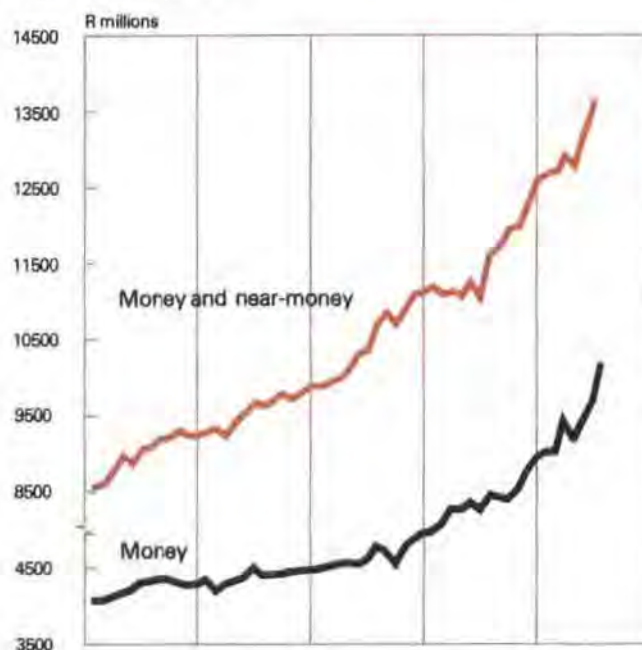
supply during the second quarter of 1980 amounted to 16 per cent and 26 per cent, respectively.

Most of the expansion in the money and near-money supply during the second quarter of 1980 was accounted for by a large rise in domestic credit which, on a seasonally adjusted basis, increased by R871 million after a slight decline of R64 million during the preceding three months. A substantial increase of R690 million in monetary banks' net claims on the government sector (mostly reflecting a very large decrease in government deposits during April in particular) largely reversed the decline of over R900 million in these claims during the first quarter of 1980. Monetary banks' claims on the private sector rose by R181 million. In addition to this expansion of bank credit, significant further increases continued to be recorded in the net gold and other foreign reserves of the monetary banking sector. Finally, long-term deposits of the private sector with monetary banking institutions, which had tended to rise at progressively lower rates in the course of 1979, actually declined sharply during the second quarter of 1980, adding over R300 million (seasonally adjusted) to the money and near-money supply.

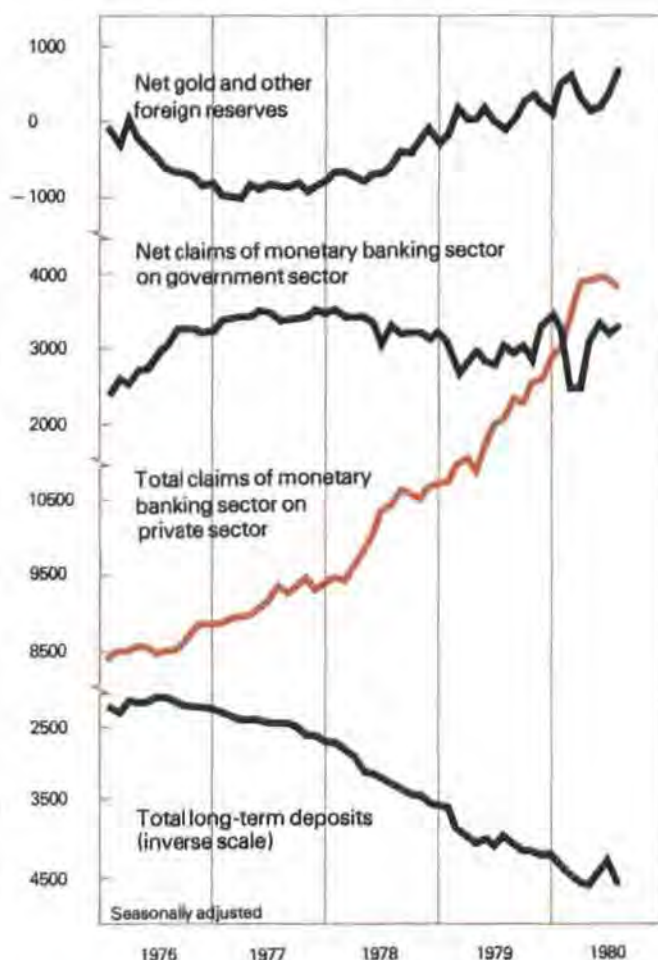
The increase in the monetary banks' claims on the private sector during the second quarter of 1980, amounting to R342 million before seasonal adjustment, was largely accounted for by an increase of approximately R100 million in monetary banks' investments in private sector securities and of R207 million in cash credit advances by the Land Bank. In addition, the discount houses substantially increased their holdings of private bills and acceptances. Although the discounts, loans and advances of the commercial banks, merchant banks and monetary general banks declined slightly during the quarter, most of this decrease reflected substantial transfers of hire-purchase and leasing assets from a monetary to a non-monetary banking institution. When allowance is made for this development, sharply upward trends in the extension of hire-purchase credit and leasing finance by monetary banking institutions continued to be in evidence. Other loans and advances of the commercial, merchant and monetary general banks, on the other hand, declined marginally during the quarter after having advanced relatively strongly during the preceding three months.

The liquidity position of banking institutions, which had weakened appreciably during the first quarter of 1980 mainly because of large movements of funds to the government sector in January and February, recovered strongly during the second quarter and July. The excess liquidity ratio of all banking institutions rose from a seasonally low point of 1,6 per cent at the end of February to 4,3 per cent at the end of June and 5,3 per cent at the end of July. The ratio for all monetary banks advanced from 1,5 per cent at the end of February to 5,5 per cent at the end of July. The excess liquidity ratio of commercial banks at the end of July actually amounted

## Monetary analysis



## Causes of changes in money and near-money





to 6,8 per cent. R897 million of the large aggregate increase of R1 000 million in the banks' actual holdings of liquid assets during the second quarter of 1980 was attributable to an increased contribution of the government sector to the banks' liquidity base.

Monetary policy measures announced by the Governor of the Reserve Bank in August included the abolition, with effect from 1 September 1980, of the ceilings on banking institutions' discounts and advances to the private sector and on their investments in private sector securities. This was accompanied, however, by upward adjustments in the supplementary liquid asset requirements against the short-term liabilities of large banks and the medium-term liabilities of all other banks, with effect from approximately 21 September. In addition, increased proportions of the supplementary liquid assets held by large banks against their short- and medium-term liabilities, and by other banks against their medium-term liabilities, had to be held in the form of reserve balances with the Reserve Bank from that date.

#### Money market conditions and interest rates

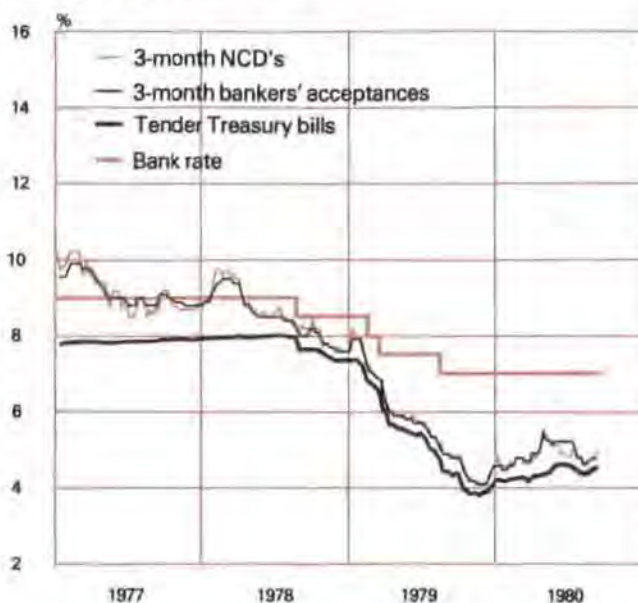
After a relatively severe tightening towards the end of April and in early May, the money market eased considerably and almost continuously up to late August. Tight conditions, associated mainly with very large movements of tax funds to the government, were experienced, however, over the August month-end.

Call loans to the discount houses generally remained at high levels from early May and reached a record amount of R1 274 million on 28 August. These loans then declined sharply, in accordance with the tightening of the market over the August month-end, to R945 million on 3 September, but increased again to R1 222 million on 8 September. With the exception of a few days over the June month-end, no accommodation from the Reserve Bank was required by the discount houses during the period from 7 May up to 30 August. On 30 August, however, accommodation extended to the discount houses amounted to R447 million. This amount was reduced to R132 million on 8 September.

Banks' free balances with the National Finance Corporation reached a record amount of R685 million on 23 May. Although fluctuating considerably, these balances approached virtual depletion only during a few days over the June month-end and on 30 August.

Money market interest rates, which had increased fairly markedly from late November or early December 1979 to the end of April 1980, mostly declined again from early May up to the second week of August. These rates then rose marginally during the remainder of the month and early September. The rate on three-month bankers' acceptances, for example, declined from 5,40 per cent on 25 April to 4,65 per cent on 8 August before increasing to 4,80 per cent on 5 September. The Treasury bill tender

#### Money market interest rates



rate continued to rise during May to 4,66 per cent on 30 May, but declined to 4,36 per cent on 8 August before rising to 4,56 per cent on 5 September.

Open-market sales of government securities by the Reserve Bank amounted to R72 million during the second quarter and to R49 million during July and August. Various other instruments and procedures were also employed by the Bank to absorb excess liquidity in the money market and to counteract anticipated tightness in the market over the August month-end. Special or tax-anticipation tap Treasury bills to an amount of R500 million were sold during May and June and matured on 29 August. Further sales of these bills, which will mature on 28 February 1981, were made during July and August. During June, the Bank also sold R100 million of its own securities. In addition, repurchase agreements were concluded by the Bank with various banking institutions during the period June to August.

#### Government finance

Receipts on the Exchequer Account in the second quarter of 1980, i.e. during the first quarter of the fiscal year 1980/81, were R468 million or approximately 24 per cent above the comparable figure for the same quarter of 1979. This was mostly due to unusually large receipts of income tax from the gold mining industry. Receipts of income tax from other sources, on the other hand, were only 4 per cent higher than those during the corresponding quarter of 1979. This relatively small increase reflected incidental factors as well as some early effects of the income tax concessions announced in



the March 1980 Budget; the main impact of these concessions will, however, only be experienced from the third quarter of 1980 onward.

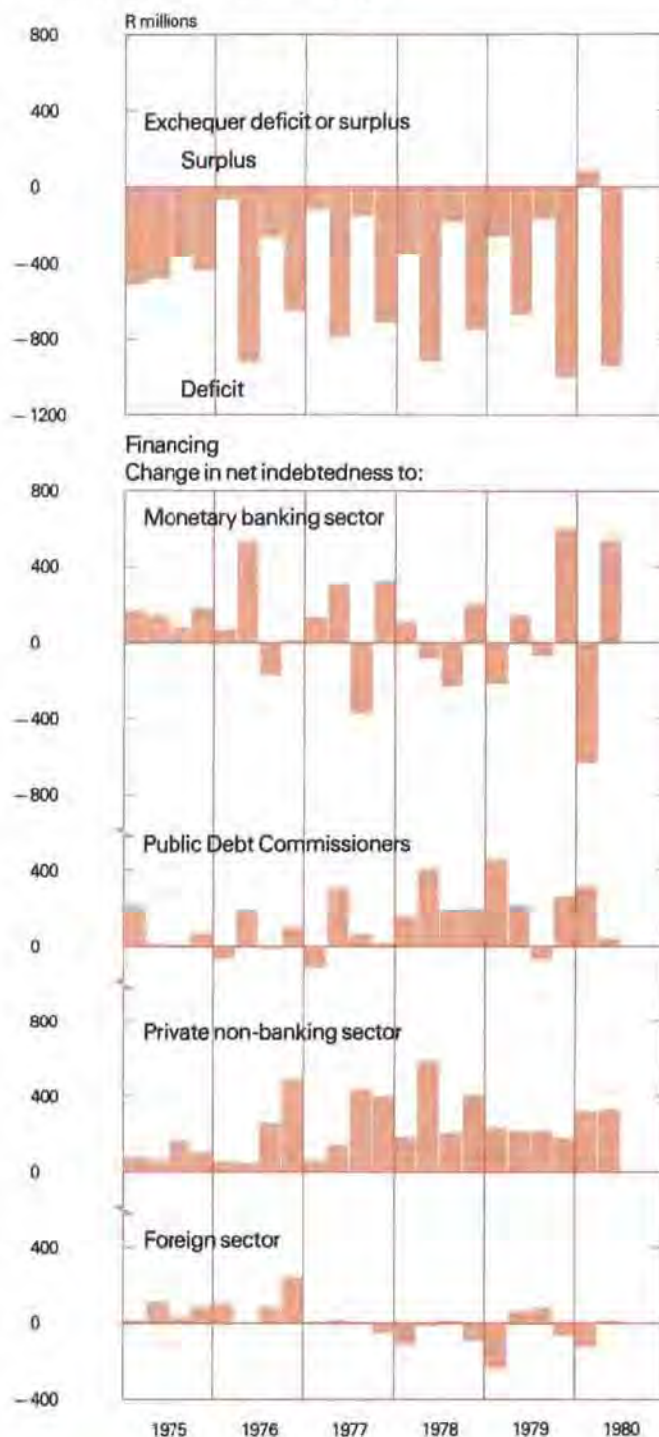
The marked upward trend in private consumption expenditure from approximately the second quarter of 1979 was reflected in sharply increased receipts of general sales tax. During the second quarter of 1980, receipts of this tax were 34 per cent above those during the second quarter of 1979. Collections of import duties, on a similar basis of comparison, increased by 39 per cent. These large increases were partly neutralised, however, by the loss of revenue resulting from the abolition of the surcharge on imports in the March 1980 Budget. As a result, total receipts in respect of the principal components of indirect taxation (i.e., customs duties, excise duties and sales taxes) during the second quarter of 1980, after allowing for transfers to neighbouring countries, exceeded those (including the surcharge on imports) during the second quarter of 1979 by 16 per cent.

Showing a change from the seasonal pattern that had prevailed during the preceding two years, Exchequer issues to government departments during the second quarter of 1980 increased by 14 per cent from their level during the first quarter. At R3 370 million, the level of total Exchequer issues during the period April to June 1980 was 28 per cent higher than that during the second quarter of 1979. A roughly similar rate of increase, as compared with the same month in the preceding year, was also apparent during July. In view of the aggregate increase in central government expenditure of only 14 per cent provided for in the Budget for the fiscal year 1980/81 as a whole, more modest rates of increase in Exchequer issues may, therefore, be anticipated during the remainder of 1980 and the first quarter of 1981.

The high level of Exchequer issues, neutralised only partly by the high level of Exchequer receipts, resulted in a deficit of R940 million during the quarter ended June 1980. This deficit exceeded the shortfall in the second quarter of 1979 by R269 million and followed upon a surplus of R100 million during the first quarter of 1980. In financing this deficit, a steady flow of loan funds continued to be received from the private non-banking sector; the amount of R337 million taken up from this sector was R112 million above that in the second quarter of 1979 despite the abolition of the compulsory loan levy in March 1980. Investments in government securities by the Public Debt Commissioners and net borrowing from the foreign sector amounted to only R43 million and R20 million, respectively. An amount of as much as R540 million, or 57 per cent of the deficit, accordingly had to be financed by net borrowing from the monetary banking sector. In contrast, the Treasury during the preceding quarter had reduced its net indebtedness to the monetary banking sector by as much as R632 million.

Two stock issues were made available for public subscription during July 1980 to coincide with the redemption of a stock issue of R526 million. A

#### Exchequer deficit and financing



short-term issue, to be redeemed in December 1981, was made available at 5,15 per cent. Applications for this issue amounted to R752 million, of which R726 million originated from the monetary banking sector. The amount raised by means of the long-term issue at 9,80 per cent was nearly R218 million. This included applications by the Public Debt Commissioners and the private non-banking sector for R90 million and R49 million, respectively.



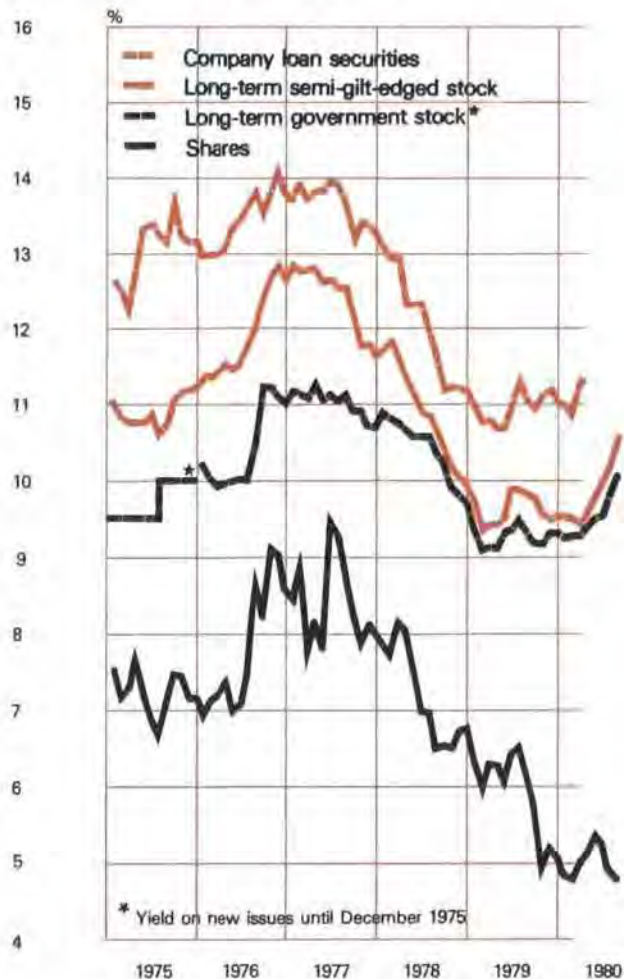
## Capital market

Partly reflecting further changes in expectations regarding long-term interest rate movements, yields hardened in the fixed-interest security markets during the second quarter of 1980 and more markedly in July and August. The secondary-market yield on long-term government stock, for example, rose from 9,26 per cent in March to 9,54 per cent in June and 10,08 per cent in August. The yield on semi-gilt-edged stock of the highest grade advanced from 9,42 per cent in March to 10,01 per cent in June and 10,59 per cent in August. Similarly, the yield on company loan securities increased from 11,30 per cent in March to 11,59 per cent in July and remained approximately at this level in August. These rate advances were accompanied by a decline in the total value of gilt- and semi-gilt-edged securities traded on the stock exchange and by a reduction in the amount of net new issues of public-sector stock. Small net repayments on stock were actually made by the central government and local authorities. Public corporations, however, attracted new funds to an

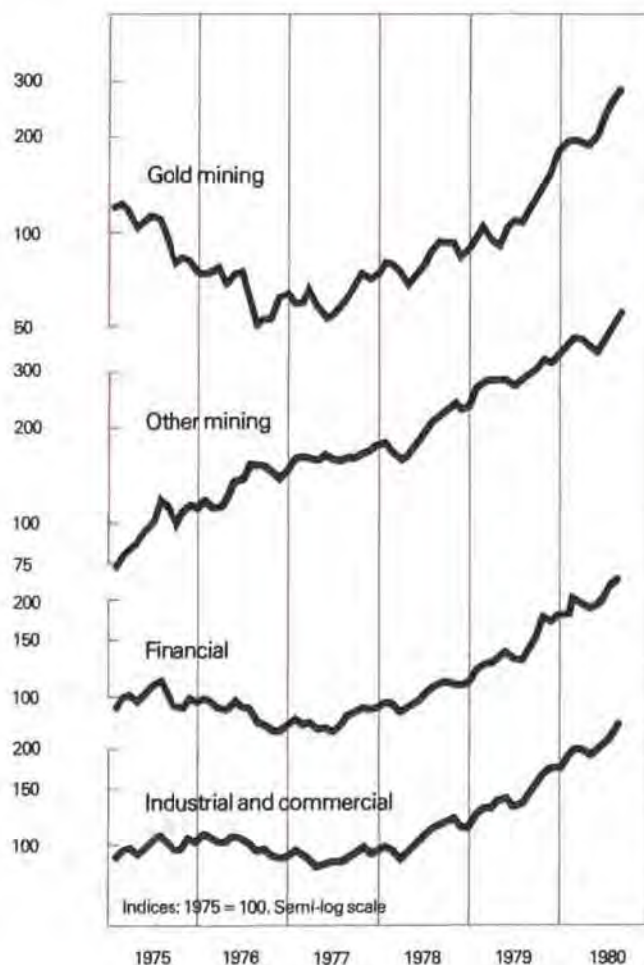
amount of R163 million during the second quarter, compared with R119 million in the first quarter. The amount of funds obtained from new issues by the private sector rose from R103 million in the first quarter to R254 million in the second quarter, this being mainly due, however, to an exceptionally large preference share issue in April.

Buoyant conditions continued to prevail in the share market. After a marked decline during the second quarter, turnover in this market returned during July to a level ranking second only to the record amount registered in January 1980. The average price of all classes of shares advanced by 3 per cent during the second quarter, and by a further 18 per cent during July and August. Major gains were recorded by the prices of mining shares in particular. These prices rose, on average, by 5 per cent during the second quarter and by a further 21 per cent from June to August. Rising dividend rates, however, prevented a decline in dividend yields commensurate with the increase in share prices. The average dividend yield on all classes of shares, for example, declined from 5,90 per cent in December 1979 to

### Secondary market security yields



### Share prices





5,00 per cent in March 1980 but actually rose again to 5,24 per cent in June before declining to 4,79 per cent in August. Divergent tendencies in the yields on long-term government stock and on shares caused the gap between these yields to widen from 3,42 per cent in December 1979 to 4,26 per cent in March 1980, and to 5,29 per cent in August.

A continued, but smaller, net outflow of funds was experienced by the unit trusts. The increase in share prices, however, caused the market value of the trusts' assets to rise from R596 million at the end of March to R696 million at the end of July.

The seasonally adjusted flow of longer-term funds to deposit-receiving and other savings institutions declined sharply from R1 237 million during the first quarter of 1980 to only R711 million in the second quarter. This decrease was most pronounced in the case of banking institutions, whose intake of such funds declined from R564 million during the first quarter to only R140 million during the second quarter. Diminished availability of longer-term funds contributed to upward revisions of the interest rates on deposits of twelve months and longer by the banks and the building societies in June 1980. Depending on the maturities of these deposits, these rates were raised by  $\frac{1}{2}$  to  $1\frac{1}{2}$  per cent. The rate on fixed-period paid-up building society shares was raised by  $\frac{1}{2}$  per cent. Subsequently, during July, longer-term funds invested with the institutions concerned increased sharply by R594 million. Building societies, for example, recorded their highest seasonally adjusted monthly inflow of new funds to date.

Activity in the fixed property and mortgage markets and in residential construction gained further momentum during the second quarter. The increase in the seasonally adjusted value of real estate transactions from the first to the second quarter of 1980 amounted to 22 per cent. Gross mortgage loans granted by the building societies rose from R1 137 million during the first quarter of 1980 to R1 379 million during the second quarter, and a further amount of R501 million was granted during July. Partly because of the increase in mortgage loan demand, the excess holdings of prescribed investments of the building societies did not rise further during the second quarter and, as a percentage of the building societies' total liabilities to the public, actually declined from 10,5 per cent in February to 9,8 per cent in June. Foreshadowing further increases in residential construction, the seasonally adjusted value of residential building plans passed rose from R325 million in the first quarter to R422 million in the second quarter. The amount of loans granted by the building societies for the construction of new buildings rose from R241 million to R272 million during this period, and a further amount of R105 million was granted during July.