

Quarterly economic review

Summary and general observations

The higher rate of growth in the real gross domestic product of the non-agricultural sectors of the economy during the second half of 1979 continued during the first quarter of 1980. Sharp fluctuations in the real output of the agricultural sector, however, caused the aggregate real gross domestic product to increase at a lower rate in the first quarter of 1980 than in the preceding quarter. With the exception of agriculture and gold mining, higher levels of real economic activity were attained in all major sectors of the economy. The continued high rate of economic growth was accompanied by a distinct increase in employment. Unemployment among unskilled labour nevertheless remained at a relatively high level.

The further economic growth in the first quarter was based mostly on a sustained increase in real private consumption expenditure. Of the other components of real gross domestic expenditure, only fixed investment showed a small rise. Government consumption expenditure decreased and inventories declined by a larger amount than in the preceding quarter. The volume of exports increased slightly in the first quarter, making only a limited contribution to real economic growth during this period. Although total real fixed investment increased only marginally in the first quarter, a strong rise occurred in real private fixed investment. It would appear that surplus production capacity had been taken up in certain industries and that the higher level of consumer demand had increased the scope for new fixed investment.

The official policy of encouraging economic growth was continued in early 1980. One of the main objectives of the 1980/81 Budget was to support the recovery in private consumption and investment by increasing the real disposable income of individuals and by enhancing the financial capacity of companies to expand fixed and inventory investment. In addition, with effect from 31 March, the ceilings on banking institutions' credit to the private sector were raised by an additional 6 per cent of the base figures as at the end of 1975.

The rate of inflation decelerated somewhat in the first quarter of 1980 and consumer as well as wholesale prices showed lower rates of increase. During April the rate of increase in prices tended to accelerate, reflecting the first of the increases in several administered prices that were scheduled to come into effect in the second quarter. In this connection, the large increases in salaries and wages which are now taking place and the tax reductions that were announced in the Budget will show their effect only at a later date. Curbing the high rate of inflation should, therefore, remain one of the major objectives of economic policy in 1980.

Much of the scope for more rapid economic expansion during 1980 was provided by the continuous strengthening of the current account of the balance of payments. A new record surplus on this account was registered in the first quarter of 1980, exceeding the already high figure in the preceding quarter by a substantial margin. This further increase was almost entirely due to a substantial increase in the value of the net gold output, reflecting an exceptionally sharp rise in the price of gold. Most of the current account surplus was absorbed by an unusually large net outflow of capital, consisting predominantly of short-term capital of the private sector. As a result, only a moderate rise occurred in the net gold and other foreign reserves during the first quarter.

A major reason for the outflow of short-term capital was the large-scale switching of trade financing from foreign to domestic sources because of the wide margin between short-term interest rates in South Africa and in other countries, especially in the United States. Initially the outflow of capital was regarded by the authorities as a means of reducing excess liquidity in the economy, but during the period from the middle of March to the middle of April it caused substantial foreign reserve losses and a severe tightening of the money market. To discourage the domestic financing of foreign trade, the Reserve Bank on 18 April raised the discount on the US dollar in forward exchange transactions. A graduated discount on the dollar in forward exchange transactions was introduced on 23 April in order to allow for differences in the maturities of forward exchange contracts. Subsequently, these discounts on forward dollars were lowered in several stages, in accordance with the decline in interest rates in the United States.

The strong current account of the balance of payments and the increase in the net gold and other foreign reserves during the first quarter were reflected in a further appreciation of the rand against the US dollar. Because of a sharp appreciation of the dollar against major currencies during this period, a more pronounced increase occurred in the weighted average value of the rand in terms of the currencies of trading-partner countries. From early April the dollar started depreciating, causing the weighted average value of the rand to depreciate slightly during April and May, notwithstanding a further appreciation of the rand against the dollar. The financial rand discount narrowed sharply during the first two months of 1980, but widened again appreciably during the ensuing three months.

Measured in the conventional way, the supply of money and near-money increased at a much lower rate during the first quarter of 1980 than during the preceding quarter, and at an even lower rate during the first four months of 1980. If, however, banking

institutions' short and medium-term repurchase agreements with the private non-banking sector, which are close substitutes for money and near-money deposits, are taken into account, the monetary expansion was more pronounced during the first quarter and proceeded at an exceptionally high rate during the twelve-month period from April 1979 to April 1980.

The increase in the money and near-money supply during the first quarter of 1980 resulted from a moderate increase in the net gold and other foreign reserves of the monetary banking sector and a substantial rise in this sector's claims on the private sector. These increases were partly offset by a large decline in net claims on the government sector and a renewed strong rise in long-term deposits of the private sector with monetary banks. In contrast with changes during the first quarter, the net gold and other foreign reserves of the monetary banking sector declined during April, whereas net claims on the government sector increased strongly during this period. As a result of the substantial increase in bank credit to the private sector, the unused facilities under the banks' ceilings on bank credit to the private sector declined slightly during the first four months of 1980, notwithstanding the raising of these ceilings at the end of March.

Bank liquidity, in terms of excess holdings of liquid assets over and above the required minimum, weakened appreciably during the first quarter and remained approximately unchanged during April. Various changes in the cash reserve and liquid asset requirements for banking institutions were announced by the Reserve Bank on 25 March. Cash reserve requirements were increased as a first step towards placing more emphasis on cash reserve requirements and supporting open-market operations as instruments of credit control. This policy approach is aimed at a gradual change-over from the existing direct quantitative limits on banking institutions' credit extension to the private sector to an effective indirect method of credit control.

After money market conditions generally had tended to ease during January and most of February 1980, subsequent events caused tighter conditions to prevail in the market until early May. This tightening of the market was reflected in an increase in money market interest rates during the period concerned. Sales of government securities by the Reserve Bank were discontinued early in March because of the tightening of the money market and the scheduling of a new issue of government stock in April. These sales were resumed in May when conditions in the market were again beginning to ease, but the demand for securities was limited by investors' expectations of a further increase in interest rates.

Exchequer issues during the fiscal year which ended on 31 March 1980 were not unduly higher than in the preceding fiscal year, but Exchequer receipts showed a strong rise. As a result, the deficit on the Exchequer Account was appreciably lower

than in 1978/79. Despite the borrowing of a substantially smaller amount from the Public Debt Commissioners and the private non-banking sector than in 1978/79, the financing of a smaller deficit enabled the Treasury to continue its net repayments on foreign loans and to increase its net indebtedness to the monetary banking sector by only a relatively small amount. In accordance with the government's policy of limiting the growth in its expenditure, the 1980/81 Budget provided for a moderate growth in expenditure in the current fiscal year. Structural tax changes and tax relief measures in 1980/81, however, are expected to result in a substantially lower rate of increase in revenue and a corresponding rise in the revenue shortfall that has to be financed by means of borrowing.

Conditions in the capital market remained buoyant during most of the first quarter of 1980. Towards the end of this period, however, the market for fixed-interest securities became characterised by a change in expectations regarding long-term interest rate movements and a hesitancy on the part of investors to acquire additional long-term securities. As a result, long-term yields in the secondary market increased to somewhat higher levels at the end of March and during April. In the share market, turnover and prices, which had risen to new record levels in early 1980, declined during the second half of the first quarter and during April. Activity in the mortgage and real estate markets, on the other hand, increased strongly throughout the first quarter and was boosted by a renewed increase in the flow of longer-term funds to deposit-receiving and related savings institutions.

National accounts*

Sustained higher rate of economic growth

The real gross domestic product, which had increased at an exceptionally high rate in the fourth quarter of 1979, rose further at an annual rate of about 5 per cent in the first quarter of 1980. This uneven rate of economic growth was the result of sharp fluctuations in the real product of agriculture which showed a substantial increase in the fourth quarter of 1979 and a subsequent decline in the first quarter. Excluding agriculture, the real gross domestic product increased at a higher rate during the first quarter, or at approximately the same rate as in the preceding quarter. Mainly as a result of the strong rise in the price of gold, the terms of trade improved further in the first quarter of 1980. This improvement, together with a decline in real net factor payments to the rest of the world, caused the real gross national product to increase at a higher rate than the real gross domestic product.

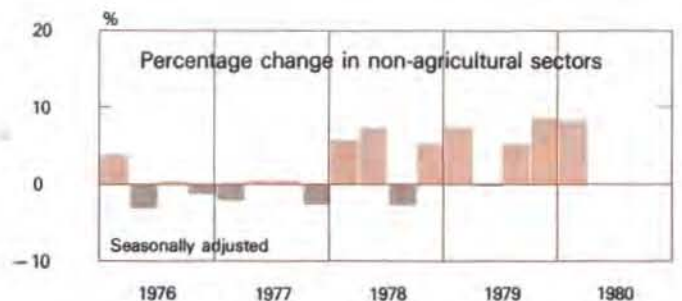
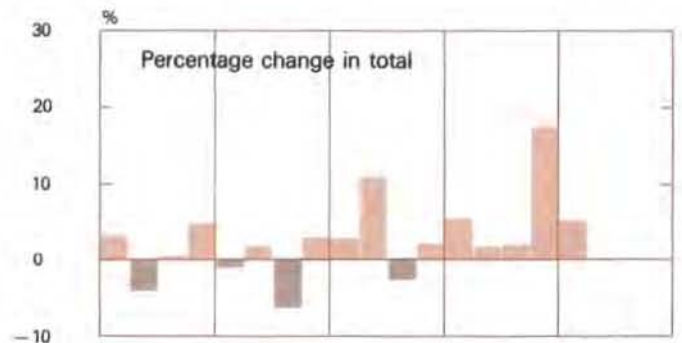
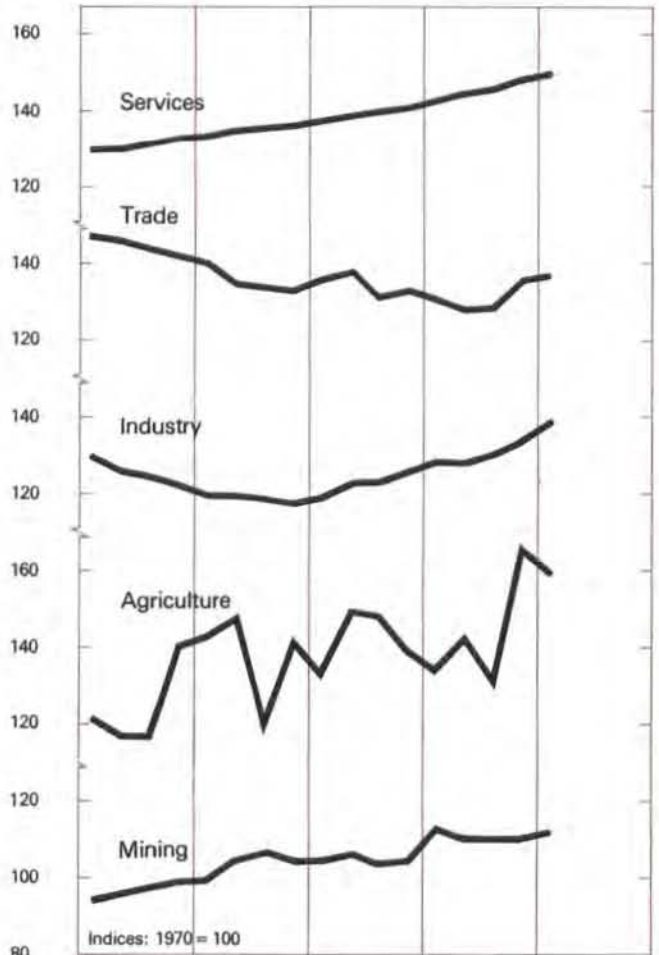
With the exception of a decline in the real product of gold mining, mainly as a result of the mining of lower grade ore, the real value added by most of the major non-agricultural sectors of the economy increased at high rates during the first quarter of 1980. Sharp rises were recorded in the real product of non-gold mining, manufacturing, and the wholesale trade, whereas the real value added by the retail and motor trade showed only a slight increase. The higher level of activity in these sectors gave rise to a further increase in the real value added by the services sectors. Non-gold mining production was boosted by a continued strong foreign demand for metals and minerals and by production at new mines. The increase in the real value added by manufacturing and the wholesale, retail and motor trade reflected mostly a sustained rise in private consumption expenditure.

At current prices, the gross domestic product increased at a higher rate in the first quarter of 1980 than in the fourth quarter of 1979. The remuneration of employees rose at about the same rate as in the preceding quarter, but the gross operating surplus increased markedly because of a substantial rise in the profits of mining, manufacturing and commercial enterprises that was only partly offset by a decline in the gross operating surplus of agriculture.

Smaller increase in real aggregate domestic demand

Real gross domestic demand continued to increase in the first quarter of 1980, but at a lower rate than in the preceding quarter. Real private consumption expenditure continued to increase sharply in the first quarter, but real fixed investment, which had risen considerably in the last quarter of 1979, showed only a marginal increase. On the other hand, real govern-

Gross domestic product at constant 1970 prices

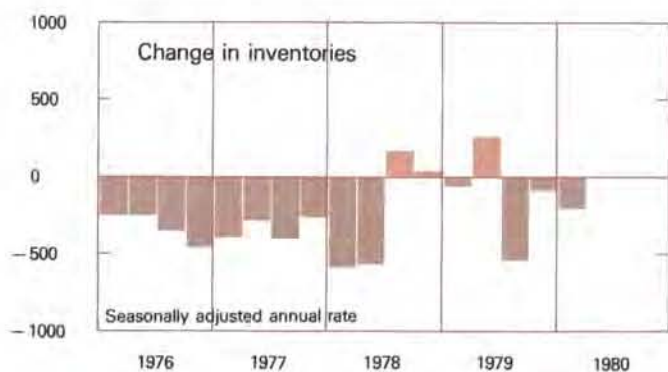
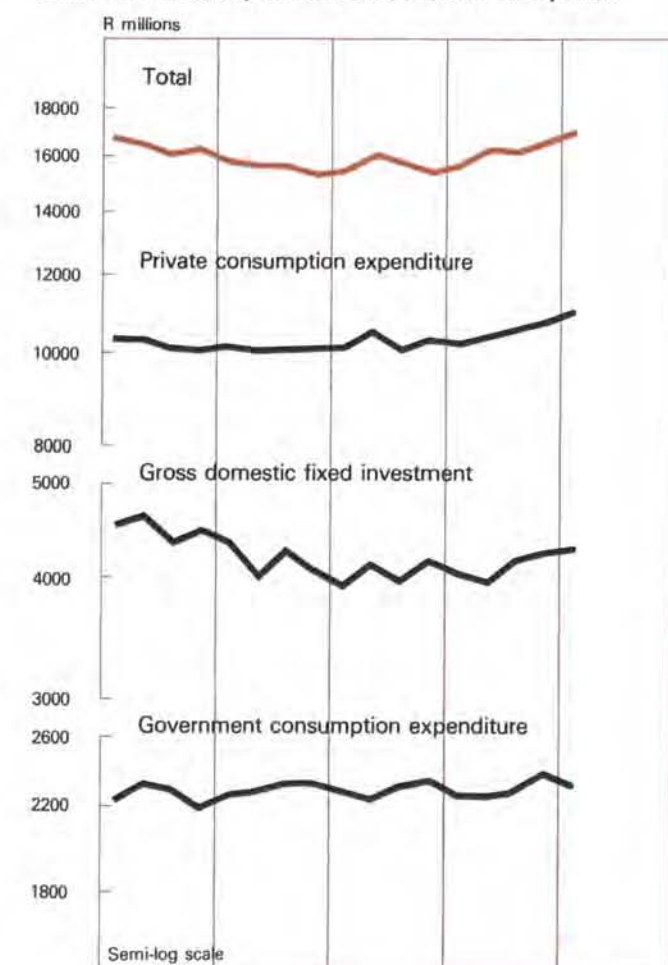


*Unless indicated otherwise, quarterly changes are based on seasonally adjusted data.

ment consumption expenditure declined slightly and real inventories decreased by a larger amount than in the preceding quarter.

At current prices, the rise in gross domestic expenditure was exceeded by the marked increase in gross national product. As a result, the surplus on the current account of the balance of payments was substantially larger than in the fourth quarter of 1979.

Gross domestic expenditure at constant 1970 prices



Pronounced further rise in real private consumption expenditure

Real private consumption expenditure, which had risen at a progressively higher rate in the course of 1979, increased substantially further in the first quarter of 1980. The level of expenditure in this period was about 8 per cent higher than in the first quarter of 1979 and, at an annual rate, about 10 per cent higher than in the last quarter of 1979. Real outlays on the major classes of consumer goods, i.e. durable, semi-durable and non-durable goods, as well as on consumer services, contributed about equally to the further increase in the first quarter. In the durable goods category, real outlays on new motor cars rose significantly, but real expenditure on furniture and household equipment and on recreational and entertainment goods remained at the relatively high level that had been reached in the fourth quarter of 1979.

Sharp decline in real government consumption expenditure

Real government consumption expenditure, which had increased sharply in the fourth quarter of 1979 as a result of a substantial rise in defence spending, declined markedly in the first quarter of 1980 when military outlays showed a decline. Total real government consumption expenditure was nevertheless about 2 per cent higher in the first quarter of 1980 than in the corresponding period of 1979.

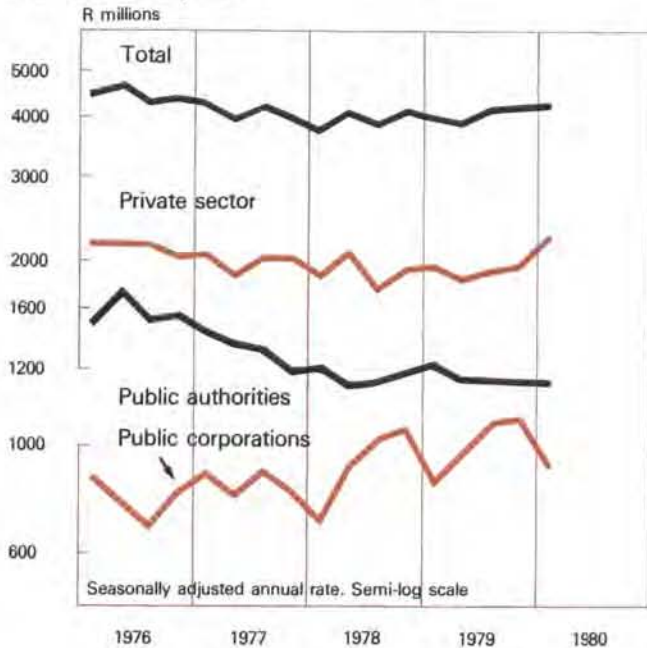
Marginal increase in real gross domestic fixed investment

Real gross domestic fixed investment increased only marginally further in the first quarter of 1980, compared with a marked rise in the fourth quarter of 1979. A substantial increase in the real fixed outlays of the private sector was almost completely offset by a small decline in the real fixed capital expenditure of public authorities and a substantial decline in that of public corporations.

The increase in the real capital outlays of the private sector occurred over a broad front and was particularly evident in the financial sector, reflecting an increase in the leasing of capital assets, and in agriculture and manufacturing. The only exception was the mining sector, the real fixed capital outlays of which declined slightly as a result of the completion of several gold, uranium and non-gold mining projects. Real fixed investment in private manufacturing increased markedly further as excess production capacity was being absorbed by the rise in manufacturing output. Thus, the utilisation of production capacity in manufacturing increased from 86,8 per cent in November 1979 to 87,7 per cent in February 1980, compared with 84,9 per cent in February 1979.

The slight decline in real fixed capital expenditure of public authorities was the net result of declines in outlays by the South African Railways Administra-

Gross domestic fixed investment at constant 1970 prices



per cent of gross domestic product at current prices, compared with 31,2 per cent in 1979 as a whole. The increase in gross domestic saving in the first quarter was accounted for by corporate saving, the current surplus of the general government and provision for depreciation. Personal saving declined slightly in this period. Gross domestic saving exceeded the amount required for the financing of total fixed and inventory investment by a substantially larger margin than in the last quarter of 1979. This difference was reflected in a reduction in South Africa's net indebtedness to the rest of the world and in an increase in the country's net gold and other foreign reserves.

The rate of increase in corporate saving remained at a high level, reflecting mainly increased profits and other current receipts by the mining, industrial and financial sectors. The higher income of these sectors was only partly offset by increased income tax and dividend payments. The current surplus of general government also increased sharply as a result of a higher rate of increase in income from property and indirect tax receipts than in current expenditure. Personal saving declined slightly, mainly because of a substantially higher rate of increase in private consumption expenditure than in personal disposable income.

tion and the Department of Posts and Telecommunications and small increases in capital outlays by general government and on government housing projects. Real fixed capital outlays by public corporations, which often show large quarterly fluctuations, decreased substantially in the first quarter of 1980. This was largely due to a sharp decline in the real fixed capital expenditure by Escom and Sasol which had increased to high levels in the second half of 1979.

Further decline in real inventories

The value of total inventories at constant prices decreased by a larger amount in the first quarter of 1980 than in the fourth quarter of 1979. Industrial and commercial inventories declined most as a result of the higher volume of sales by manufacturing and the wholesale, retail and motor trade. Diamond stocks also declined markedly, but agricultural stocks-in-trade remained at the 1979 year-end level. Reflecting the further decline in real inventories and the increase in the real gross domestic product, the ratio of non-agricultural inventories to the gross domestic product of the non-agricultural sectors declined further to 29,9 per cent in the first quarter of 1980, compared with levels of 30,7 per cent in the fourth quarter of 1979 and 32,2 per cent in the first quarter of 1979.

Substantial further increase in gross domestic saving

Gross domestic saving rose markedly further in the first quarter of 1980 to a level of no less than 35,1

Employment* and prices

Significantly higher rate of increase in employment

Employment in the non-agricultural sectors of the economy increased significantly towards the end of 1979. At a seasonally adjusted annual rate, non-agricultural employment increased successively by 1,9, 1,1 and 1,5 per cent in the first three quarters of 1979, before rising by 5,6 per cent in the fourth quarter. The more rapid rise towards the end of 1979 reflected the higher rate of economic growth which occurred in the public as well as the private sector.

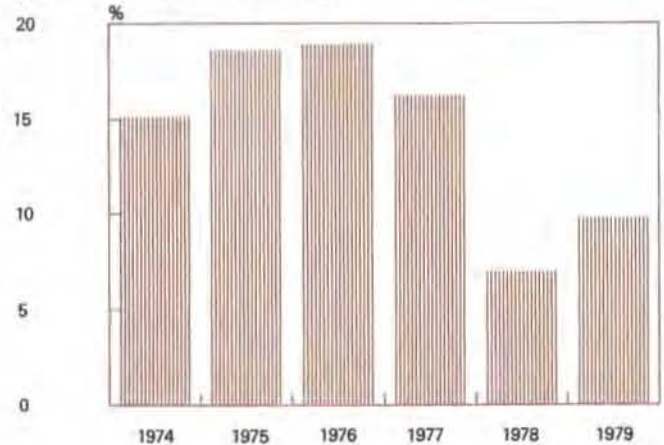
During January and February employment in manufacturing and construction, for which more up-to-date statistics are available, increased further at seasonally adjusted annual rates of 4,1 per cent and 3,4 per cent, respectively. In manufacturing the seasonally adjusted number of hours worked by production workers, which had risen at an annual rate of 3,6 per cent in the first half of 1979, increased at annual rates of 6,9 per cent and 1,5 per cent in the second half of 1979 and in the first two months of 1980, respectively. The seasonally adjusted number of hours worked by production workers in construction, which had actually declined at an annual rate of 6,0 per cent in the first half of 1979, increased at annual rates of 1,6 per cent and 18,3 per cent in the second half of 1979 and in the first two months of 1980, respectively.

Non-agricultural employment rose by 2,0 per cent in 1979 as a whole, compared with 0,9 per cent in the preceding year. Private-sector employment, which had risen by only 0,4 per cent in 1978, increased by 2,3 per cent in 1979. The rate of increase of 1,4 per cent in public sector employment in 1979, however, was appreciably lower than the corresponding increase of 2,4 per cent in 1978. With the exception of construction, higher levels of employment were recorded in all sections of the private sector in 1979. In the public sector, employment by local authorities and the South African Railways Administration declined in 1979, whereas the number of employees of universities increased sharply. Employment in the remainder of the public sector rose at a lower rate than in 1978.

The higher level of employment resulted in a moderate decline in unemployment among all population groups. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians decreased from 30 000 in December 1978 to 26 930 in December 1979 and further to 23 810 in April 1980. The ratio of unemployed Blacks to the economically active Black population declined from 9,4 per cent in February 1979 to 8,8 per cent in February 1980.

*Aggregate statistics relating to employment and the remuneration of labour are only available up to the end of 1979.

Annual percentage change in labour costs per unit of production in manufacturing



Slight increase in overall labour productivity

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, rose at a lower rate in the first half of 1979 than in 1978, but at a substantially higher rate in the second half of 1979. The increase in 1979 as a whole amounted to 1,9 per cent, compared with 1,3 per cent in the preceding year.

A higher rate of increase in labour productivity, however, did not occur in all sectors of the economy. In manufacturing, for which more detailed statistics are available, production per man hour rose by 2,4 per cent in 1979, compared with 3,4 per cent in 1978. The lower rate of increase in 1979 reflected a more rapid rise in the number of hours worked than in the volume of manufacturing production. Labour costs per unit of production also increased at a higher rate than output, namely by 9,8 per cent as against an increase of 6,7 per cent in the volume of production. The rise in unit labour costs in 1979 exceeded the increase of 6,9 per cent in 1978, but was substantially below the average annual rate of increase of 15 per cent during the preceding five years.

Decline in real remuneration of labour

The average remuneration per worker in the non-agricultural sectors of the economy increased by 12,1 per cent in 1979, compared with 10,4 per cent in 1978. In real terms, however, the average remuneration per worker declined by 0,9 per cent in 1979 as against a slight increase of 0,3 per cent in the preceding year. The decline in the real per capita remuneration in 1979 was largely due to a higher rate of increase in prices than in salaries and wages. The rate of increase in the real salaries and wages per non-White worker slowed down from 1,1 per cent in 1978 to 0,4 per cent in 1979, whereas the real salaries and wages per White worker declined by 0,8 per cent and 1,0 per cent in 1978 and 1979, respectively.

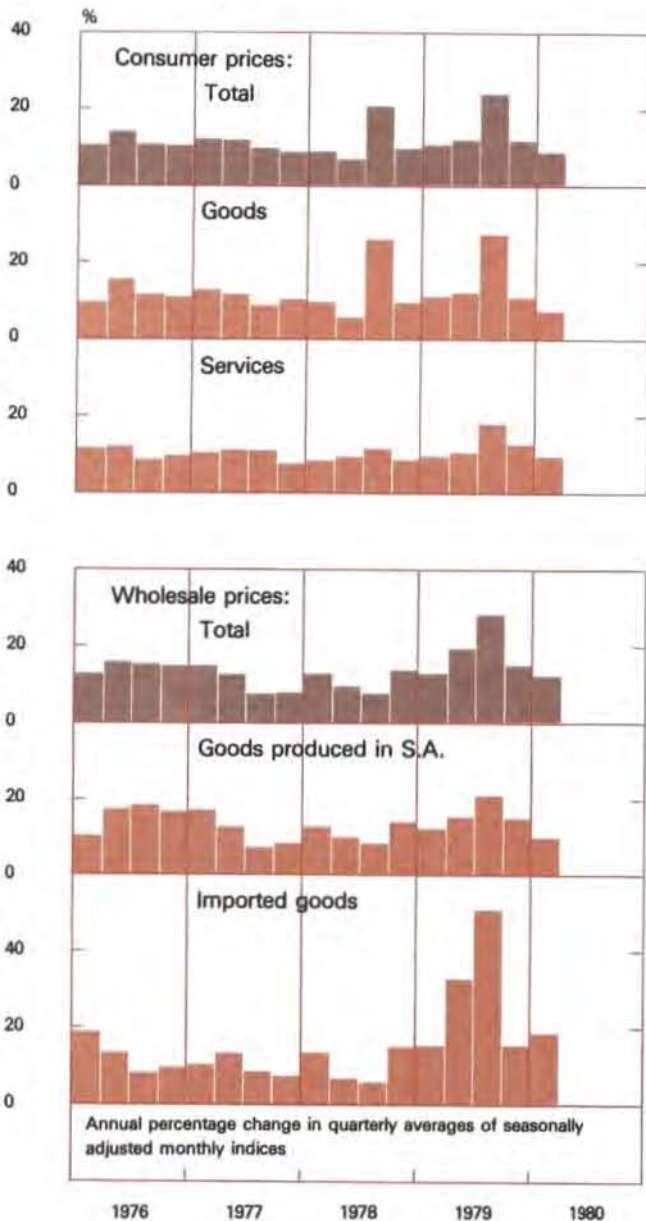
Lower rate of increase in prices

The rate of inflation decelerated appreciably in the first quarter of 1980, mainly because of the limited effect of increases in administered prices during this period. Increases in several important administered prices, however, were scheduled for the second quarter of 1980. The annual rate of increase in the seasonally adjusted consumer price index slowed down from 11,3 per cent in the fourth quarter of 1979 to 8,6 per cent in the first quarter of 1980 because of lower rates of increase in the prices of goods as well as of services. The seasonally adjusted annual rate of increase in the prices of consumer goods declined to 6,3 per cent in the first quarter,

despite higher rates of increase in the prices of vehicles, clothing, footwear and meat. The corresponding rate of increase in the prices of consumer services amounted to 9,1 per cent, reflecting lower rates of increase in housing and transport costs but a more rapid rise in postal tariffs and in the cost of medical services and education. Compared with the corresponding month of the preceding year, consumer prices rose by 13,0 per cent in March and by 13,3 per cent in April 1980.

Wholesale prices, which had increased at a seasonally adjusted annual rate of 14,6 per cent in the fourth quarter of 1979, rose at an annual rate of 12,0 per cent in the first quarter of 1980. This deceleration was due to a lower rate of increase in the prices of domestically produced goods, in particular electricity, gas and water tariffs and the prices of agricultural products and manufactured goods other than machinery, transport equipment and footwear. The prices of imported goods, on the other hand, rose at a higher rate in the first quarter than in the fourth quarter of 1979. Compared with the corresponding month of the preceding year, wholesale prices increased by 18,0 per cent in March and by 18,6 per cent in April 1980.

Percentage change in prices



Balance of payments

Record surplus on current account

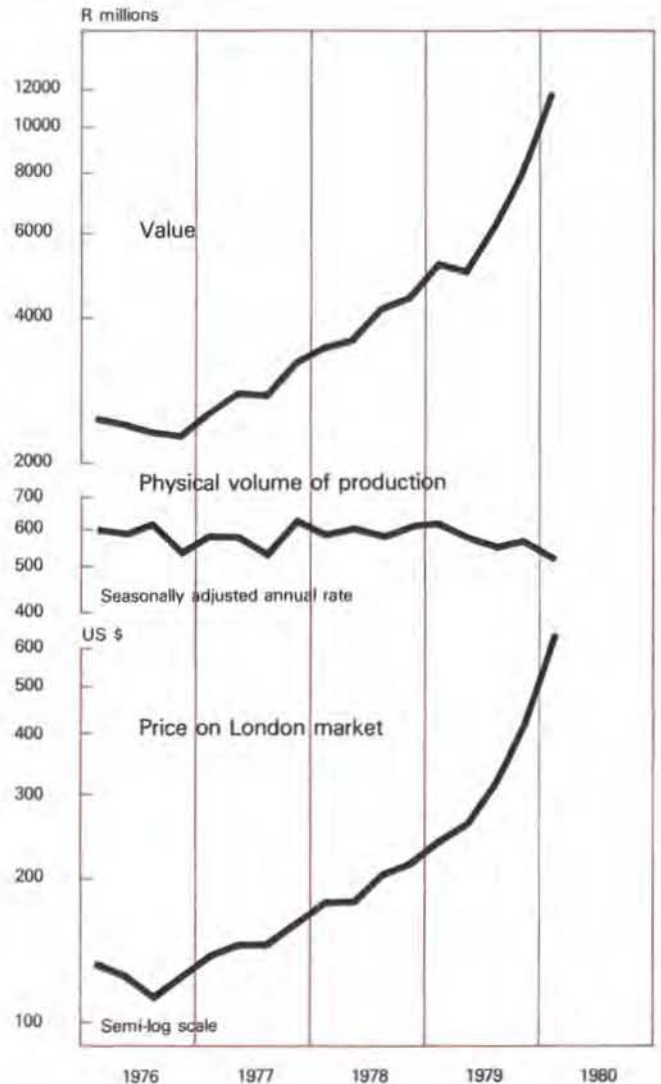
A record surplus of R1 977 million was recorded on the current account of the balance of payments in the first quarter of 1980. At a seasonally adjusted annual rate, the current account surplus increased from R4 070 million in the last quarter of 1979 to R7 780 million in the first quarter of 1980. As a ratio of the gross domestic product, the surplus amounted to 13,3 per cent in the first quarter. This substantially higher surplus was almost entirely due to an exceptionally large increase in the value of the net gold output, resulting from a sharp rise in the price of gold. The value of merchandise exports and the value of merchandise imports both increased slightly, and net service and transfer payments to the rest of the world remained approximately unchanged.

The net gold output, at a seasonally adjusted annual rate, increased from R7 850 million in the last quarter of 1979 to R11 480 million in the first quarter of 1980, or by 46,2 per cent. This increase occurred despite a further decline in the volume of gold production and reflected a rise of 52,4 per cent in the average fixing price of gold on the London market, namely from \$414,27 per fine ounce in the fourth quarter of 1979 to \$631,49 per fine ounce in the first quarter of 1980. The price of gold fluctuated sharply during the first quarter. After a record fixing price of \$850 per fine ounce had been reached on 21 January, the price fluctuated downwards to \$494,50 per fine ounce on 31 March. In April the average price amounted to \$517,06 per fine ounce.

After the value of merchandise exports had increased at a high rate during the second half of 1979, it rose only slightly further in the first quarter of 1980. At a seasonally adjusted annual rate, merchandise exports amounted to R10 210 million in the first quarter, compared with R10 020 million in the preceding quarter. Increases occurred in most of the main export categories, but these increases were largely offset by a substantial decline in diamond exports. The lower rate of growth in the value of merchandise exports in the first quarter was due to a more moderate rate of increase in export prices as well as in the volume of exports. Sharp rises in the prices of sugar, copper, platinum, iron ore and maize were largely neutralised by declines in the prices of uranium, ferro-chrome, wool and coal. Similarly, considerable increases occurred in the volume of some exports, notably maize and ferro-chrome, but these were to a large extent offset by declines in the volume of others, in particular diamonds and sugar.

Merchandise imports, at a seasonally adjusted annual rate, increased from R11 260 million in the fourth quarter of 1979 to R11 380 million in the first quarter of 1980. The relatively small increase in imports in the first quarter was the net result of a decline in imports of mineral products (including

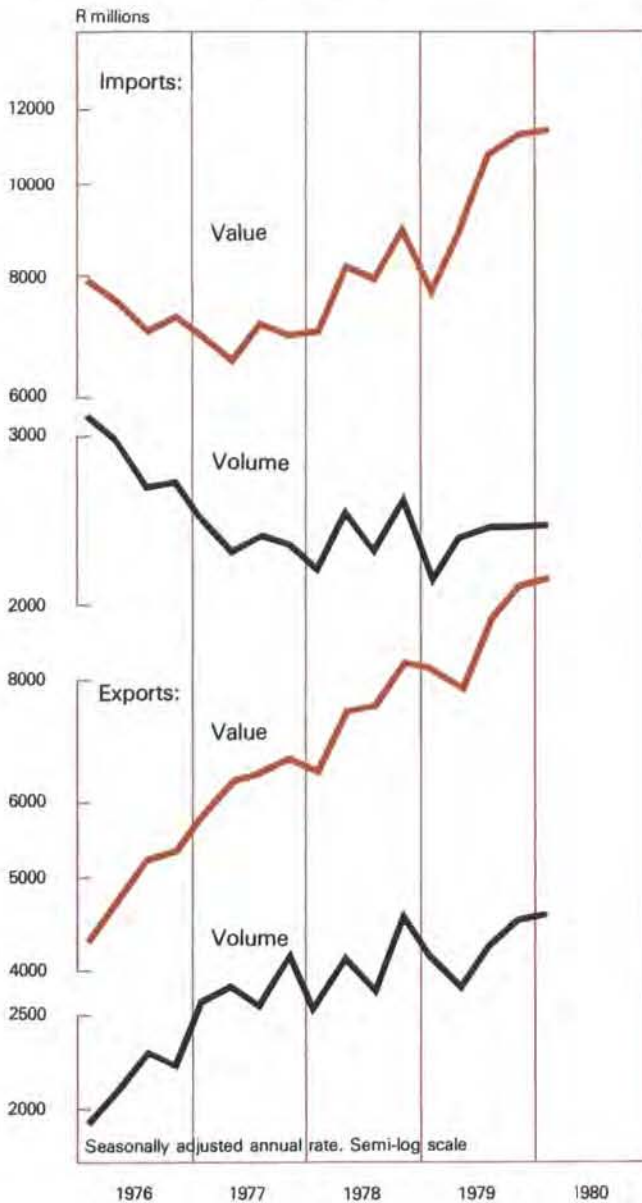
Net gold production



petroleum), a sharp rise in imports of machinery and electrical equipment, and moderate increases in most of the other main categories of imports. The increase in the value of imports in the first quarter consisted of a moderate increase in prices and a slight decline in volume. Import prices, which had risen rapidly during the second half of 1979, increased at a lower rate in the first quarter because the further acceleration of the rates of increase in prices in trading-partner countries was countered to some extent by an appreciation of the rand.

At a seasonally adjusted annual rate, the value of net service and transfer payments to the rest of the world, which had increased sharply during 1979, declined marginally from R2 542 million in the last quarter of 1979 to R2 530 million in the first quarter of 1980. This small decline was the result of higher service payments, particularly dividend payments, being more than offset by an increase in service

Merchandise imports and exports



receipts which reflected, among other things, the high interest rates abroad.

Exceptionally large net outflow of capital

The net outflow of capital, which had increased to an unusually high level of R1 017 million in the last quarter of 1979, increased sharply further to R1 665 million in the first quarter of 1980. The latter increase was the result of a corresponding strong rise in 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. The net outflow of long-term capital increased only moderately during the first quarter.

The net outflow of short-term capital during the first quarter amounted to R1 042 million, consisting

predominantly of private-sector capital. Public corporations and local authorities were responsible for only a small net outflow of short-term capital, whereas a moderate increase occurred in liabilities related to reserves. A major reason for the outflow of short-term capital from the private sector was the large-scale switching of trade financing from foreign to domestic sources because of the considerable difference between the levels of short-term interest rates in South Africa and those in other countries, particularly in the United States. The rate on three-months bankers' acceptances in the United States, for example, rose from 13,3 per cent at the end of December 1979 to 15,5 per cent at the end of February and to 19,0 per cent at the end of March 1980. In contrast, the corresponding rate in South Africa increased from 4,6 per cent at the end of 1979 to 4,9 per cent at the end of March 1980.

Initially the outflow of short-term capital was used by the authorities as a means of reducing excess liquidity in the economy, but during the period from the middle of March to the middle of April the capital outflow assumed such proportions that substantial foreign reserve losses and a severe tightening of the money market were experienced. To discourage the domestic financing of foreign trade, the Reserve Bank on 18 April raised the discount on forward exchange transactions in US dollars from 2,5 to 12 per cent. This was replaced by a graduated discount on forward dollars on 23 April to allow for differences in the maturities of forward exchange contracts. The discounts for various maturities were fixed at such levels as to make it marginally more attractive to use foreign instead of domestic credit in

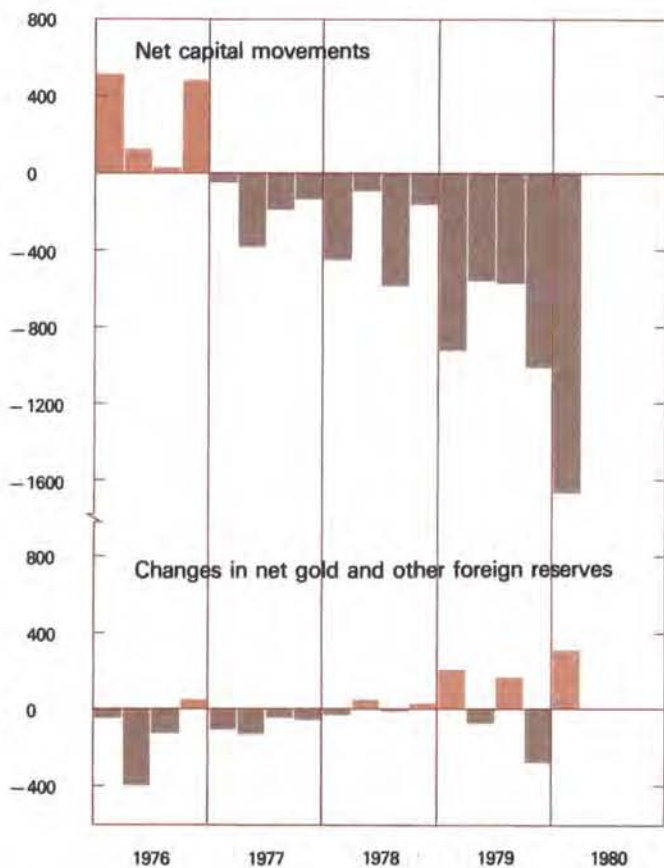
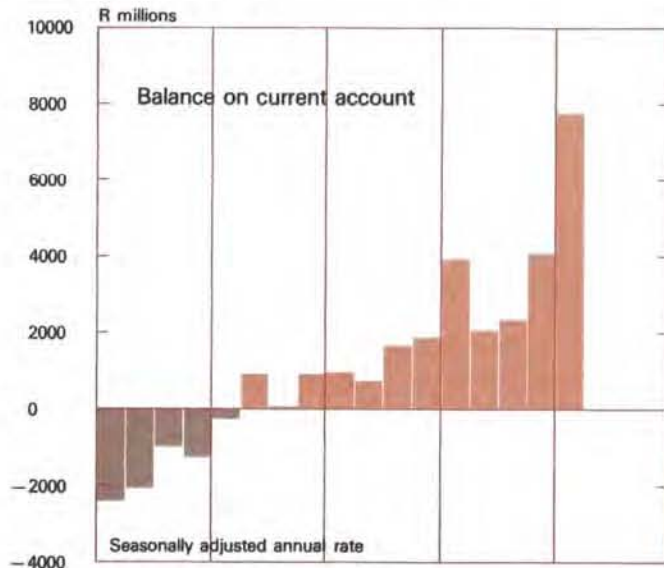
Net capital movements

R millions

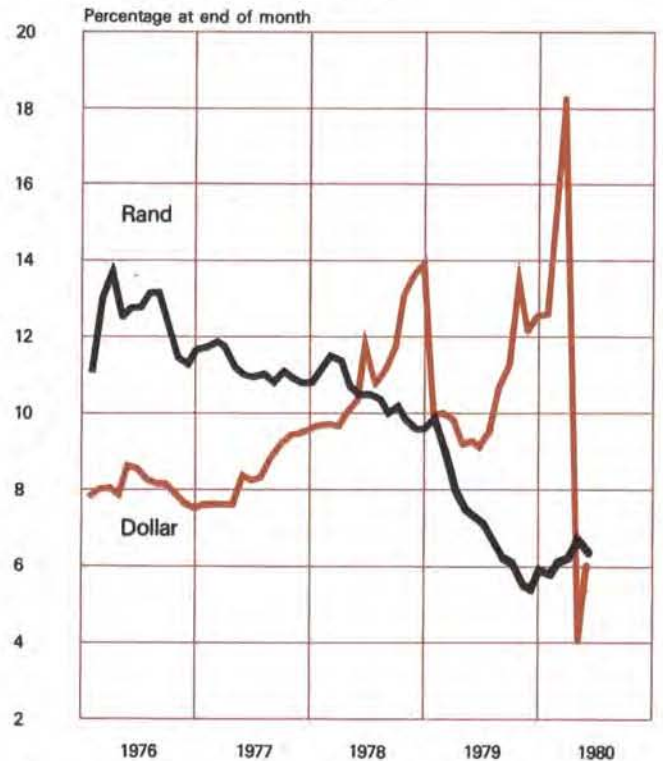
	1979 4th qtr	1980 1st qtr
Long-term capital		
Central government and banking sector	-89	-112
Public corporations and local authorities	-101	-180
Private sector	-324	-331
Total	-514	-623
Short-term capital		
Liabilities related to reserves ...	-203	55
Other capital of central government and banking sector ..	—	3
Public corporations and local authorities	100	-28
Private sector, including unrecorded transactions ¹	-400	-1 072
Total	-503	-1 042
Total capital movements	-1 017	-1 665

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

Balance of payments



Effective cost of trade financing



the financing of short-term trade covered by forward exchange contracts. In accordance with the subsequent decline in interest rates in the United States, the discounts on forward dollars were reduced in several stages. On 26 May discounts of 4,50, 4,25 and 3,75 per cent were applicable to forward exchange contracts for periods of up to 121 days, 122 to 243 days, and 244 to 365 days, respectively.

The relatively low rates of interest and the general availability of funds in the South African capital market encouraged further large net repayments on long-term foreign loans by the central government, the South African Railways Administration, public corporations and the private sector. As a result an appreciable net outflow of long-term capital, amounting to R623 million, was recorded in the first quarter of 1980.

Further increase in gold and other foreign reserves

Despite the substantial net outflow of capital, the surplus on the current account of the balance of payments was sufficiently large to allow for a moderate increase of R257 million in the net gold and other foreign reserves during the first quarter. An increase of R55 million in liabilities related to reserves raised the increase in the gross gold and other foreign reserves on account of balance of payments transactions to R312 million. If valuation adjustments, especially the upward revaluation of the gold reserves, are taken into account, the gross reserves

increased by R845 million during the first quarter to a level of R5 127 million at the end of March.

The increase in the gross foreign reserves during the first quarter was accounted for by a sharp rise of R1 808 million during January and February, and a decline of as much as R963 million during March. Although most of this decrease during March was due to the revaluation of the gold reserves at a lower price, the foreign exchange reserves also declined, namely from R1 041 million at the end of February to R900 million at the end of March. During April the gross gold and other foreign reserves of the Reserve Bank increased by R46 million to R4 795 million at the end of the month. This increase was the net result of an upward revaluation of the gold reserves, a rise in the Bank's foreign exchange holdings, and partly offsetting declines in the volume of gold reserves and the Bank's liabilities related to reserves.

Exchange rate changes

The weighted average value of the rand in terms of major currencies appreciated by 5,3 per cent during the first quarter of 1980, compared with 0,5 per cent during the last quarter of 1979. The rate of appreciation of the rand against individual currencies varied considerably during the first quarter. Thus, the rand appreciated by 16,9 per cent against the Swiss franc, 14,1 per cent against the German mark, 6,6 per cent against the Japanese yen, 4,3 per cent against the British pound, and 2,1 per cent against the US dollar.

From early April the US dollar started depreciating against the other major currencies, as a result of which the weighted average value of the rand depreciated by 0,7 per cent from the end of March until 30 May, notwithstanding an appreciation of 3,5 per cent against the dollar. On the latter date the weighted average value of the rand was 4,6 per cent above its level at the beginning of 1980 and 8,3 per cent above the level on 24 January 1979 when the system of managed floating of the rand was introduced.

The financial rand discount, which had declined sharply during the first two months of 1980, amounted to 14,9 per cent at the end of February. Subsequently, it increased considerably to 31,2 per cent on 1 April, before fluctuating downwards to 27,1 per cent on 30 May 1980.

Monetary and banking situation

High rates of growth in monetary aggregates

The money and near-money supply, which had increased by 13 per cent during 1979 as a whole and at a seasonally adjusted annual rate of 27 per cent during the last quarter, rose moderately at an annual rate of 14 per cent during the first quarter of 1980. During April it declined at a seasonally adjusted annual rate of 10 per cent, resulting in an annual rate of increase of 7 per cent during the first four months of 1980. From April 1979 to April 1980 the money and near-money supply increased by 15 per cent. If, however, the banks' short and medium-dated repurchase agreements with the private non-banking sector, which are close substitutes for money and near-money deposits, are taken into account, the rate of increase amounted to as much as 27 per cent.

Changes in monetary aggregates

	April 1979 to April 1980	
	Including repurchase agreements	Excluding repurchase agreements
Money	17,8	29,2
Money and near-money	14,9	26,8
Money, near-money and long-term private deposits	15,1	24,1
Claims on the private sector	22,3	32,6
Domestic credit extension	18,7	26,7

The narrowly defined money supply, which had increased by 21 per cent during 1979 and at a seasonally adjusted annual rate of 47 per cent during the last quarter of the year, rose very sharply further at an annual rate of 37 per cent during the first quarter of 1980. A sharp decline of R263 million during April, however, brought the annual rate of increase to 12 per cent during the first four months of the year. The narrowly defined money supply started accelerating markedly from July 1979, and during the ten-month period from the end of June 1979 to the end of April 1980 the increase amounted to as much as R912 million. Moreover, if the so-called "continuous contracts" and "overnight buy-backs" among the monetary banks' repurchase agreements with the private non-banking sector are taken into account, this increase amounted to no less than R1 512 million, or to a seasonally adjusted annual rate of 35 per cent.

Causes of changes in money and near-money

The increase in the seasonally adjusted money and near-money supply during the first quarter of 1980 resulted from a moderate increase in the net gold and other foreign reserves of the monetary banking sector

and a substantial rise in this sector's claims on the private sector. Most of these increases, however, were offset by a very large decline in net claims on the government sector and a renewed strong rise in long-term deposits of the private sector with monetary banks. During April net claims of the monetary banking sector on the government sector rose strongly, whereas a relatively moderate increase occurred in claims on the private sector. The net gold and other foreign reserves of the monetary banking sector declined during April and only a slight further rise was recorded in long-term private sector deposits with monetary banks.

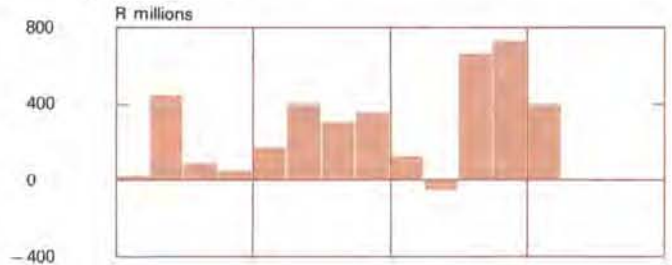
The seasonally adjusted net gold and other foreign reserves of the monetary banking sector increased by R133 million during the first quarter of 1980. These reserves rose strongly during January and February, largely as a result of the substantial surplus on the current account of the balance of payments. Most of this increase, however, was neutralised by a subsequent sharp decline during March when the net outflow of capital reached an unprecedentedly high level, mainly because of large-scale switching from foreign to domestic financing of foreign trade. During April the decline in reserves slowed down again, amounting to R151 million. The net gold and other foreign reserves of the Reserve Bank actually increased by R118 million during April, excluding the effect of the revaluation of the Bank's gold reserves.

The seasonally adjusted claims of the monetary banking sector on the private sector, which had increased at a high annual rate of 25 per cent during the fourth quarter of 1979, expanded even more rapidly at an annual rate of 30 per cent, or by R838 million, during the first quarter of 1980. This increase reflected, apart from a stronger demand for credit generally, the use of domestic bank credit in the financing of foreign trade. During April a relatively small increase of R113 million was recorded.

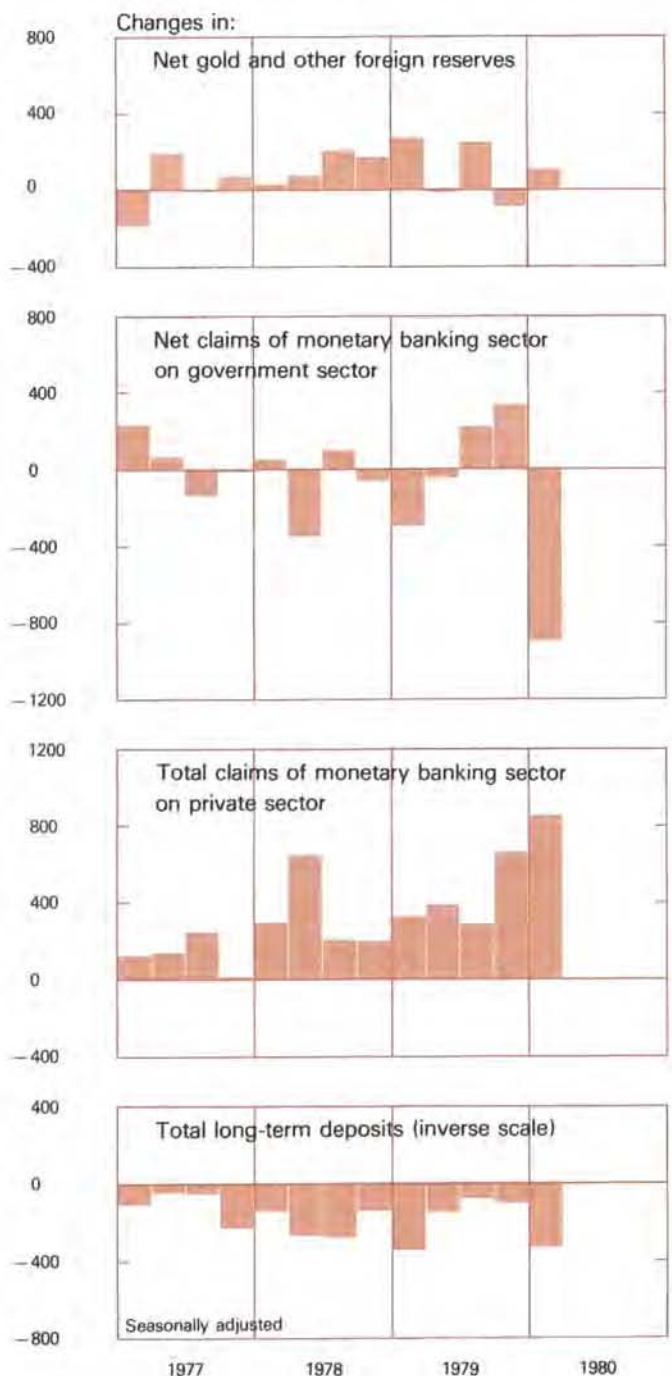
After an increase in the seasonally adjusted net claims of the monetary banking sector on the government sector had contributed considerably to the expansion of the money and near-money supply during the second half of 1979, a sharp decline of R902 million in these net claims occurred during the first quarter of 1980. Part of this decline was accounted for by a substantial increase in government deposits, resulting from large tax receipts at the end of February. During April a sharp decrease in government deposits and a substantial rise in gross claims on the government sector caused the monetary banking sector's net claims on the government sector to increase strongly by R653 million.

The rate of increase in the seasonally adjusted long-term deposits of the private sector with monetary banking institutions, which had slowed down considerably during the second half of 1979, regained momentum during the first quarter of 1980 when these deposits rose by R334 million. Abundant private-sector liquidity and changes in expectations

Changes in money and near-money



Causes of changes in money and near-money



Causes of changes in money and near-money

R millions

	Not seasonally adjusted				Seasonally adjusted			
	3rd qtr 1979	4th qtr 1979	1st qtr 1980	Apr. 1980	3rd qtr 1979	4th qtr 1979	1st qtr 1980	Apr. 1980
Net gold and other foreign reserves	259	-96	157	-36	247	-85	133	-151
Claims on government sector:								
Gross claims	-71	454	-588	303				
Government deposits (increase—, decrease+)	98	-7	-635	674				
Net claims	27	447	-1 223	977	221	330	-902	653
Claims on private sector	377	572	709	72	293	664	838	113
Long-term deposits (increase—, decrease +)	-13	-27	-333	-36	-82	-103	-334	-18
Net other assets	-5	-18	653	-955				
Total causes of changes	645	878	-37	22	662	733	407	108

regarding interest rate movements apparently contributed to the renewed increase in long-term deposits. Only a small further increase of R18 million was recorded in April.

Rapid expansion of most components of bank credit to the private sector

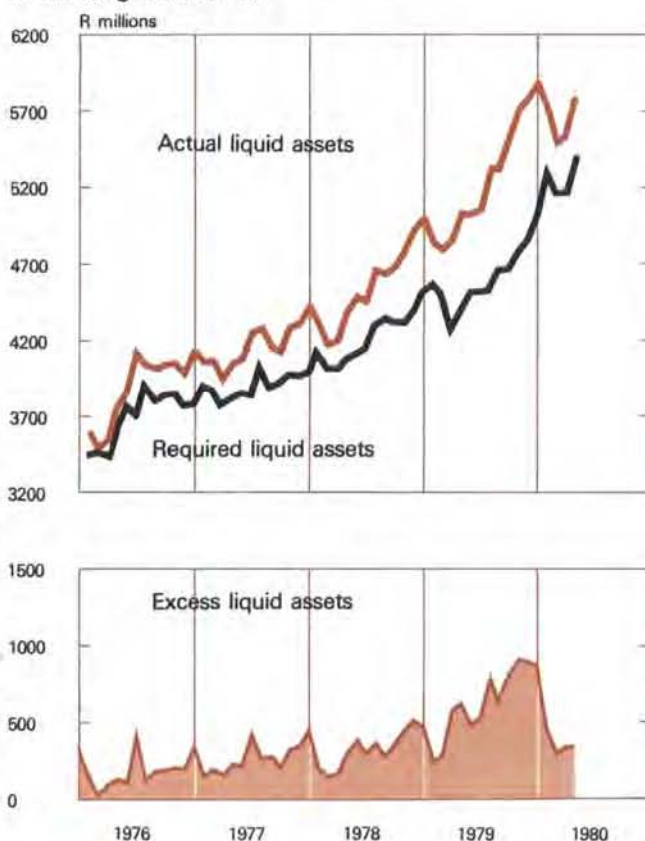
The substantial increase in bank credit to the private sector during the first quarter of 1980 was largely attributable to an increase of R556 million in the discounts, loans and advances of the commercial, merchant and monetary general banks. This amount included a net increase of R242 million in hire-purchase credit and leasing finance, a decline of R73 million in bills discounted, and a rise of R387 million in other loans and advances. Investments by monetary banking institutions in securities of the private sector also rose appreciably during the first quarter, namely by R123 million, whereas cash credit advances by the Land Bank declined slightly by R88 million. The discounts, loans and advances of commercial, merchant and general banks continued to rise appreciably during April, but offsetting declines in investments in private-sector securities by monetary banking institutions and cash credit advances by the Land Bank caused bank credit to the private sector to increase by a relatively small amount during this month.

As a result of the substantial increase in bank credit to the private sector, the unused facilities under the banks' ceilings on discounts, loans and advances rose by only R18 million during the first quarter of 1980, notwithstanding the raising of the ceilings, with effect from 31 March, by an additional 6 per cent of the base figures as at the end of 1975. During April the unused facilities declined by R61 million. With effect from 31 March, the ceilings on private-sector investments were also raised by an additional 6 per cent of the base figures. Unused facilities under these ceilings nevertheless declined by R13 million during the first quarter, but increased slightly by R8 million during April.

Low level of excess bank liquidity

The liquidity position of monetary banking institutions weakened appreciably during the first quarter of 1980, whereas that of non-monetary banking institutions improved slightly. The excess liquidity ratio for all monetary banking institutions declined from 4,8 per cent at the end of December 1979 to 1,7 per cent at the end of March 1980. The corresponding ratios for non-monetary banks were 1,2 per cent and 2,9

Actual, required and excess liquid assets of banking institutions



per cent, respectively. The main reason for the deterioration in bank liquidity generally was a decline of R382 million in the banks' actual liquid asset holdings. This was caused by declines of R894 million and R202 million, respectively, in the contributions of the government sector and the private sector to the banking institutions' liquidity base. Part of these declines, however, was neutralised by an increase in other sectors' contributions to the liquidity base. At the end of April the excess liquidity ratios of banking institutions were approximately equal to those at the end of March.

Various changes in the cash reserve and liquid asset requirements for banking institutions were announced by the Reserve Bank on 25 March and came into effect from the date of certification of the banks' monthly returns for March.* These changes had virtually no effect on total required liquid assets, but caused the required cash holdings of all banking institutions with the Reserve Bank and the National Finance Corporation to increase by R353 million.

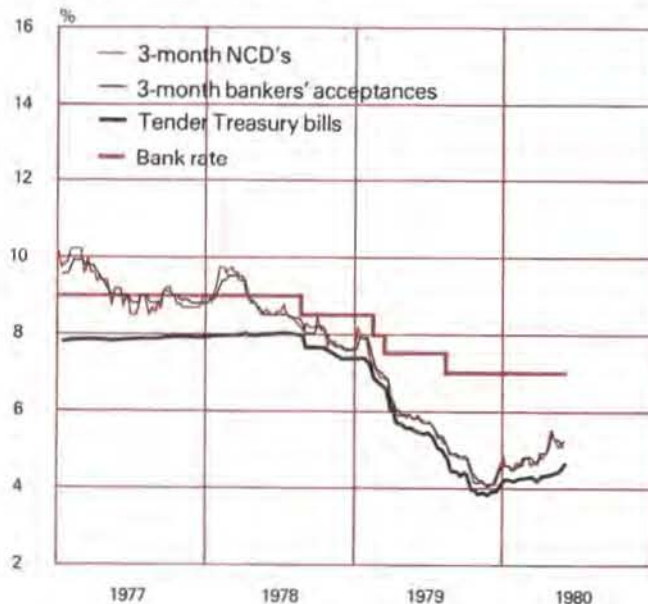
Money market

Conditions in the money market were seasonally tight over the February month-end because of the usual flow of tax funds to the government. Market conditions eased somewhat during the second and third weeks of March, but tightened considerably over the month-end as a result of the substantial decline in the net gold and other foreign reserves of the Reserve Bank. From 21 April a large additional amount of cash had to be held by banking institutions with the Reserve Bank and the National Finance Corporation because of the changes in the cash requirements referred to above. This, together with a large increase in the amount of notes in circulation, caused a severe tightening in the money market towards the end of April and in early May.

Call loans to discount houses reached a high level of R1 196 million on 28 February before declining to R982 million on 1 March and to R848 million on 24 April. On 27 May these loans had increased again to R1 181 million. Accommodation to discount houses, which had amounted to R285 million on 29 February, reverted to lower levels up to 21 March but rose sharply during the remainder of the month, reaching R562 million on 31 March. This amount included a deposit of R217 million of the Public Debt Commissioners with discount houses as well as overnight loans of R62 million. By 15 April all accommodation had been repaid. From 21 April until early May large amounts of bills were again rediscounted with the Reserve Bank. This accommodation to discount houses amounted to R393 million on 26 April, but had been repaid completely on 7 May.

*See statement by the Reserve Bank in this issue of the *Quarterly Bulletin*.

Money market interest rates



Monetary banks' net free balances with the National Finance Corporation decreased to a low level on 29 February and were virtually depleted during March, April and early May except for a few days in the middle of April. From 5 May larger free balances were kept with the National Finance Corporation, amounting to as much as R602 million on 27 May.

Money market interest rates rose moderately during February before declining slightly during the first week of March. Thereafter, these rates increased during the remainder of the month, remained mostly unchanged during the first two weeks of April, but rose quite sharply during the second half of April, before declining slightly during the first three weeks of May. The rate on three-months bankers' acceptances declined from 4,80 per cent on 29 February to 4,70 per cent on 7 March, before rising to 4,90 per cent on 28 March. Subsequently, this rate remained unchanged until 11 April, but increased to 5,40 per cent on 25 April before declining to 5,20 per cent on 30 May. The Treasury bill tender rate decreased from 4,27 per cent on 29 February to 4,20 per cent on 7 March, before increasing to 4,28 per cent on 28 March and 4,66 per cent on 30 May.

Open-market sales of securities by the Reserve Bank amounted to R97 million during January and February and to R12 million during the first few days of March. No further sales of government securities were made during the remainder of March and during April because of the tightening of the market and the scheduling of a new issue of government stock in April. On 31 March the Reserve Bank made the first issue of its own securities when debentures of R100 million, maturing on 1 April 1980, were issued to the

National Finance Corporation. Open-market operations were resumed in May, but the scope for transactions was limited by expectations of a further increase in interest rates. The Reserve Bank nevertheless sold special Treasury bills to an amount of R155 million from 8 to 20 May. These bills will mature on 29 August in order to alleviate the usual period of seasonal tightness over the August month-end arising from tax payments to the government.

Government finance

Moderate increase in Exchequer issues

Exchequer issues to government departments, which had increased by 20 per cent in the first nine months of the 1979/80 fiscal year compared with the corresponding period of the preceding fiscal year, were slightly lower in the last quarter of the fiscal year, i.e. the first quarter of 1980, than in the last quarter of the preceding fiscal year. In the 1979/80 fiscal year as a whole issues increased by 14 per cent, as against the Budget estimate of 12 per cent. As during the preceding two fiscal years, the rate of increase in Exchequer issues, and more generally in central government expenditure, reflected the policy of the government of allowing very little expansion of its expenditure in real terms. During the three-year period from 1977/78 to 1979/80, Exchequer issues on average rose by 13 per cent per year, a rate of increase that exceeded the average rate of inflation during this period by only a small margin. During the preceding three years, for example, the average annual rate of increase in Exchequer issues amounted to 22 per cent.

Exceptionally high rate of growth in Exchequer receipts

Exchequer receipts increased by 21 per cent in the first nine months and by 18 per cent in the last three months of the 1979/80 fiscal year, compared with the corresponding periods of the preceding fiscal year. The increase of 20 per cent in the fiscal year as a whole was not only the highest annual rate of increase since 1973/74, but was also substantially above the Budget estimate of 4 per cent.

This substantial deviation from the Budget estimate was largely due to a rise of as much as 74 per cent in income tax and mining lease receipts from

State Revenue Fund¹ – Revenue collections

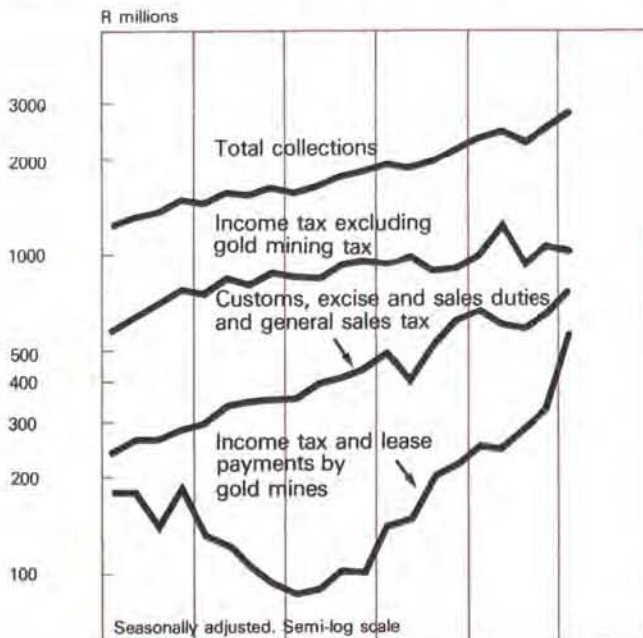
R millions

	January – March		Fiscal year ended March		
	1979	1980	1979	1980	
				Budget estimates	Actual receipts
Import duties	84	118	371	446	453
Surcharge on imports	85	64	359	236	251
Excise duties	277	342	983	1 023	1 039
Sales duty ²	—	—	121	1	1
General sales tax ²	287	351	672	1 175	1 277
Sub-total	734	874	2 506	2 881	3 021
Income tax and lease payments by gold mines	308	666	862	855	1 502
Other income tax payments	1 248	1 273	3 799	3 795	4 203
Other revenue collections	551	557	1 596	1 590	1 791
Total	2 842	3 370	8 763	9 121	10 517

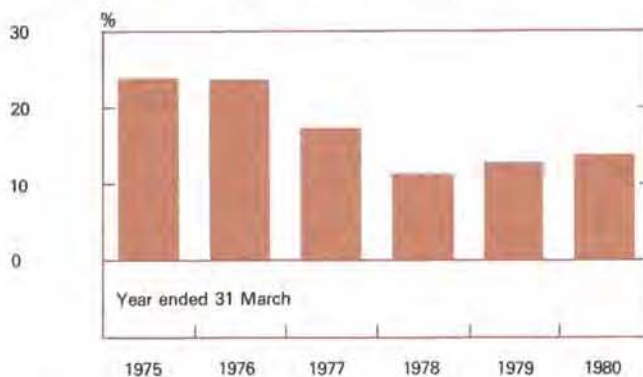
1. Including amounts transferable to neighbouring countries in terms of Customs Union Agreements.

2. The sales duty was abolished in July 1978 when a general sales tax was introduced.

Revenue collections — State Revenue Fund



Percentage change in Exchequer issues



gold mining companies, resulting from the sharp increase in the price of gold. If receipts transferable to neighbouring countries in terms of the Customs Union Agreements are excluded, gold mining companies contributed 15 per cent of total revenue receipts during 1979/80. This ratio was considerably higher than the corresponding figure of 10 per cent in 1978/79, but still slightly lower than in 1974/75 when revenue receipts from gold mining companies also increased substantially owing to a strong rise in the price of gold. The income tax component of receipts from gold mining companies accounted for 22 per cent of total income tax collections in 1979/80, compared with 15 per cent in the preceding fiscal year.

As shown in the accompanying table, virtually all revenue components increased appreciably in 1979/80. The only exception was the surcharge on imports, which showed a decline because of the lowering of the surcharge rate. Income tax receipts

from sources other than gold mining companies rose by 11 per cent, notwithstanding the extensive tax concessions granted in the 1979/80 Budget. This increase was in sharp contrast with the rate of increase of only 2 per cent in 1978/79 when the income tax yield still reflected a slow economic recovery generally and a more moderate increase in export commodity prices than in the ensuing year.

As a result of the decline in collections of the surcharge on imports and the higher receipts from gold mining companies, the ratio of indirect taxes to total revenue, excluding amounts transferable to member countries of the Customs Union, decreased slightly to 26 per cent in 1979/80. This ratio was nevertheless well above the level of 20 per cent in 1975/76 when the process of tax reform, in terms of which greater emphasis would be placed in future on indirect taxes as a source of revenue, was initiated.

Exchequer deficit financed mainly from domestic non-banking sources

A surplus of R82 million (before borrowing and debt repayment) was recorded on the Exchequer Account in the first quarter of 1980, resulting mainly from larger receipts from gold mining companies and the relatively low level of Exchequer issues during this period. In contrast with the pattern of Exchequer financing during the preceding nine months of the 1979/80 fiscal year, the Treasury was able to reduce its net indebtedness to the monetary banking sector and to make substantial repayments on foreign loans during the first quarter of 1980.

In the 1979/80 fiscal year as a whole, the deficit on the Exchequer Account amounted to R1 769 million, or R320 million less than in 1978/79. As shown in the accompanying table, the largest part of the deficit, namely R1 740 million, was financed by means of borrowing from domestic non-banking sources, i.e. the Public Debt Commissioners and the private non-banking sector. The Treasury's net indebtedness to the monetary banking sector, which

Exchequer Account financing

R millions

	January – March		Fiscal year ended March	
	1979	1980	1979	1980
Deficit (–) or surplus	–318	82	–2 089	–1 769
Financing				
Domestic sources				
Public Debt Commissioners ¹	468	321	1 291	741
Private non-banking sector	254	339	1 488	999
Monetary banking sector	–159	–619	–344	61
Sub-total	563	41	2 435	1 801
Foreign sector	–245	–124	–346	–32
Total financing	318	–82	2 089	1 769

1. Including the Department of Posts and Telecommunications.

had declined by R344 million in 1978/79, increased by R61 million during 1979/80. The net repayment of debt to the foreign sector amounted to R32 million, bringing the amount redeemed during the past two years to R378 million.

Two new issues of government stock were offered for subscription on 15 April 1980 and were planned to coincide with the redemption of maturing stock amounting to R337 million. The yield on the new short-term stock was fixed at 5,00 per cent and that on the new long-term stock at 9,25 per cent. Subscriptions to the short-term and long-term stock amounted to R404 million and R107 million, respectively. Private-sector investors showed little interest in these issues because of expectations of an increase in interest rates.

Central government Budget for the 1980/81 fiscal year

In presenting the 1980/81 Budget the Minister of Finance stated that the government's broad economic policy for the period ahead would remain one of "disciplined growth from a position of basic strength". Developments during the past year, which caused fiscal policy to be more conservative and less expansionary than originally planned, together with the favourable effects of the authorities' broad financial policy, increased not only the basic strength of the economy but also the scope for more rapid growth. Policy was aimed, therefore, at utilising the growth potential of the economy. It was stated, however, that the continued emphasis on growth would be accompanied by an equally strong emphasis on continued financial discipline. The growth in government expenditure would be limited so as to provide the private sector with both the scope and incentive for more rapid economic expansion without over-extending available resources. Moreover, the revenue shortfall would be financed without adding to the money supply.

In addition to promoting production, employment and investment, another major objective of official economic policy in 1980/81 would be to curb the rate of inflation. In the Minister's view, the existing inflation was mainly of the cost-push kind which could not be combated effectively by means of depressing aggregate demand. It was recognised that shortages of skilled labour and other bottlenecks were likely to create upward pressures on labour and certain other costs in the year ahead, but it was concluded that this problem could also not be solved by restricting demand. Accordingly, inflation would be countered by other means, comprising (1) effective control over government expenditure and the increase in the money supply with a view to preventing the emergence of demand inflation; (2) stimulation of supply through greater emphasis on the training and better utilisation of labour resources, increased imports, and the prevention of monopolistic practices; (3) a further appreciation of the rand against other currencies, if warranted by supply and

demand conditions in the foreign exchange market; (4) strict discipline in respect of increases in administered prices; and (5) tax proposals aimed at lowering certain costs or at least slowing down their rate of increase.

To give effect to these policy objectives, the Budget proposals were aimed at supporting the recovery in private consumption and investment by increasing the real disposable incomes of individuals and by enhancing the financial capacity of companies to expand fixed and inventory investment, and at contributing to the fight against inflation. The latter would be achieved by limiting the growth in government expenditure, financing the "deficit before borrowing" without resort to money creation, abolishing the import surcharge, providing additional funds for training and education, and increasing subsidies on food, transport and housing. In addition, the Budget proposals were aimed at continuing the process of structural tax reform which had been initiated previously.

Structural tax changes and tax relief measures consisted of, firstly, the introduction of a single basic income tax rate for both married and unmarried persons and the substitution of a new and comprehensive system of tax rebates for one of income abatements. Differentiation between married and unmarried taxpayers would be achieved by allowing a smaller rebate to unmarried persons and increasing their tax liability by means of a 20 per cent surcharge. Secondly, the progression of the basic marginal rates of normal income tax would be adjusted to reach a maximum of 50 per cent (previously 55 per cent) at a taxable income of R40 000 (previously R30 000) in the case of married persons and at an income of R28 000 (previously R22 000) in the case of unmarried persons. Thirdly, the compulsory loan levy on individuals and companies was abolished. Fourthly, concessions were granted in respect of transfer duty, estate duty, tax-free lump-sum payments by pension and retirement annuity funds, the tax-free portion of the income of married women, and taxes paid by Blacks.

Taking into account estimated tax concessions of R909 million, total revenue in 1980/81 was expected to amount to R10 856 million, representing an increase of about 11 per cent. Total expenditure, including provisions for higher salaries and wages in the public service, increased social and civil pensions, additional funds for training and education, and increased subsidies, was estimated at R13 083 million in 1980/81, or 14 per cent more than in the preceding fiscal year. The "deficit before borrowing" was expected to increase from a preliminary figure of R1 683 million in 1979/80 to R2 227 million in 1980/81. The latter figure, together with loan repayments of R1 430 million, would result in an estimated financing requirement of R3 657 million. It was envisaged that this amount would be financed mainly by borrowing from the Public Debt Commissioners and the private non-banking sector.

Capital market

Firming of the market for fixed-interest securities

The market for fixed-interest securities, which had tightened temporarily towards the end of 1979, eased again during the most of the first quarter of 1980. During the second half of March, however, the market became characterised by a change in expectations regarding long-term interest rate movements and a hesitancy on the part of investors to acquire long-term securities. These tighter conditions continued to prevail during April. In these circumstances, and in order not to coincide with a government stock issue, two new issues of public corporation stock, which had been scheduled for April, were postponed until May and June.

The secondary market yield on long-term government stock decreased from 9,32 per cent in December 1979 to 9,26 per cent in February 1980, remained at this level during March, and rose to 9,41 per cent in April. A somewhat lower yield of 9,25 per cent was fixed for a new issue of long-term government stock in April. The long-term secondary market yield on the highest grade semi-gilt-edged stock declined from 9,53 per cent in December 1979 to 9,48 per cent in February and 9,42 per cent in March 1980, before rising to 9,59 per cent in April. The secondary market yield on long-term company loan stock did not show any clear trend during the first four months of 1980, except that the average

yield of 11,28 per cent in April was slightly higher than in December 1979.

New funds raised by the public sector in the fixed-interest security market amounted to R335 million during the first quarter, compared with R169 million during the last quarter of 1979 and a quarterly average of R162 million in 1979. New funds of R103 million were raised by private-sector companies listed on the stock exchange during the first quarter, as against R42 million in the preceding quarter and a quarterly average of R48 million in 1979.

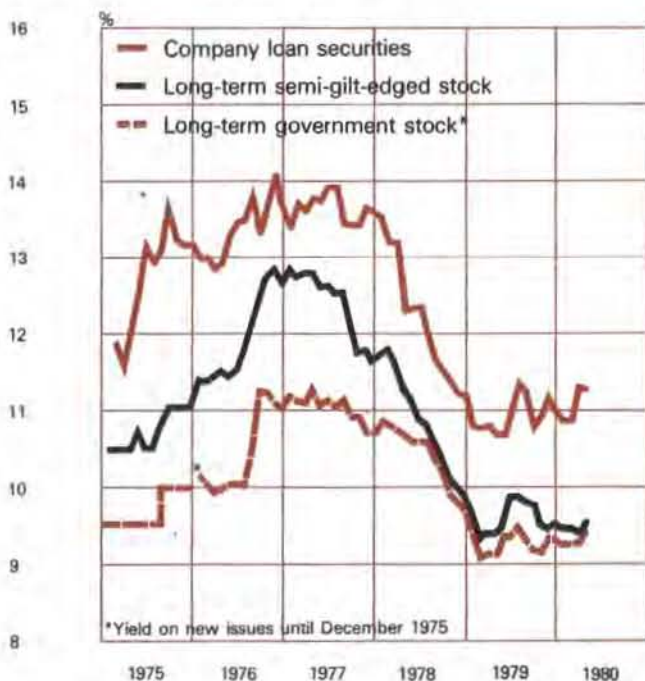
New record levels of turnover and prices in the share market

Stock exchange turnover and share prices reached new record levels in the first quarter of 1980, but turnover reverted to lower levels after January and share prices started to decline in March. Although lower turnovers were recorded in February and March, the number of shares traded during the first quarter exceeded the total for the preceding quarter and the quarterly average for 1979 by 34 per cent and 69 per cent, respectively.

Coinciding with the sharp rise in the price of gold, share prices rose strongly during January. Prices continued to increase during February and reached a level that was on average 48 per cent higher than the May 1969 peak. During March most share prices declined but the comprehensive share price index, covering all classes of shares, was still 9 per cent higher than in December 1979. Industrial and commercial share prices showed the highest rate of increase, followed successively by financial and by mining share prices. A further small decline in prices occurred during April. With the exception of commercial shares, the declining tendency in prices during March and April was evident in all major classes of shares.

The dividend yield on all classes of shares decreased marginally from 5,05 per cent in December 1979 to 5,00 per cent in March, before rising to 5,15

Secondary market security yields



Percentage change in share prices

	1979		1980	
	3rd qtr	4th qtr	1st qtr	April
Mining shares:				
Gold	19,4	39,1	6,1	-0,7
Coal	14,7	7,2	8,2	-1,6
Other metals and minerals ..	12,8	15,7	10,3	-9,3
Financial shares:				
Mining	16,4	34,9	3,5	-5,6
Industrial and general	16,9	11,0	18,8	-1,8
Real estate	19,6	14,9	22,1	-4,3
Banking and insurance	14,9	9,1	11,1	-1,1
Industrial and commercial shares:				
Industrial	15,2	17,1	10,1	-2,6
Commercial	17,2	14,0	16,6	1,1
All shares	16,9	23,5	8,8	-2,0

Stock exchange



per cent in April. These changes were much in line with those in other long-term yields and the yield gap between long-term government stock and shares, for example, remained almost unchanged, amounting to 4,26 per cent in December and March and 4,27 per cent in April.

Unit trusts recorded a further net outflow of funds, amounting to R16 million, during the first quarter. This outflow was financed mainly from net sales of securities. In accordance with the increase in share prices, the market value of their net assets rose by R11 million to a level of R596 million during the first quarter. This amount was substantially less than the increase of R84 million during the last quarter of 1979 and the average quarterly increase of R49 million in 1979.

Renewed sharp increase in holdings of longer-term funds with deposit-receiving and related savings institutions

The rate of increase in holdings of longer-term funds with deposit-receiving and related savings institutions, which had tended to level off during the second half of 1979, accelerated sharply during the first quarter of 1980. The seasonally adjusted increase in holdings of longer-term funds amounted to R1 237 million during the first quarter, compared with R771 million during the last quarter of 1979 and a quarterly average of R783 million in 1979.

As during 1979, holdings of longer-term funds with building societies showed the largest increase, followed by holdings with banking institutions and government savings schemes. The intake of new funds by participation mortgage bond schemes increased moderately during the first quarter, indicating a somewhat greater interest in this type of mortgage financing. Building societies reduced their rate on special savings deposits, i.e. deposits which are subject to a limited number of withdrawals per month and the maintenance of a minimum balance, by ½ per cent on 1 March.

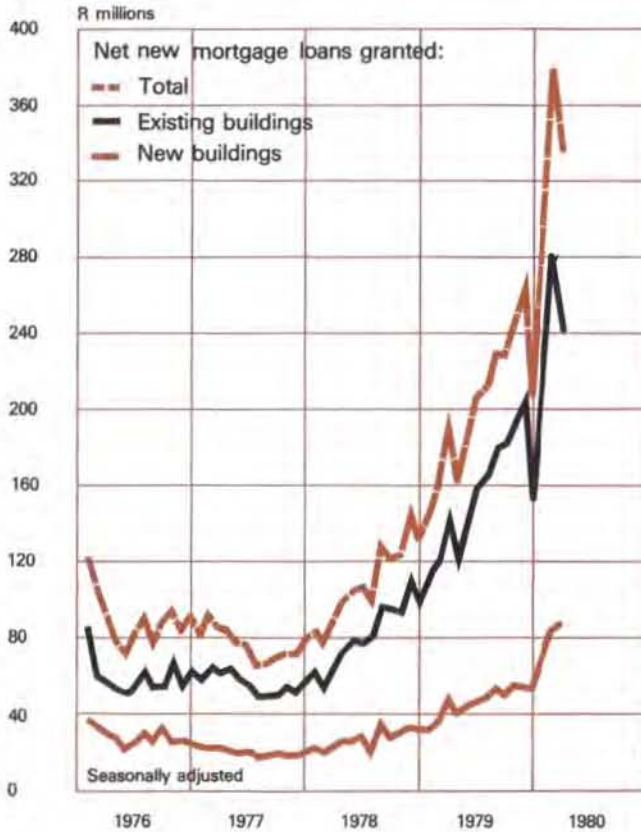
An analysis of the sources of funds invested with building societies during 1979 shows that, as in the past, the predominant portion of the societies' intake of new funds came from individuals and non-profit organisations. An interesting feature, however, was

Increase in holdings of longer-term funds with deposit-receiving and related institutions

Seasonally adjusted
R millions

	1979				1980
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Banking institutions	396	327	194	219	564
Building societies	418	356	385	436	529
Participation mortgage bond schemes	-2	-6	-10	4	16
Government savings schemes	98	107	108	112	128
Total	910	784	667	771	1 237

Building societies

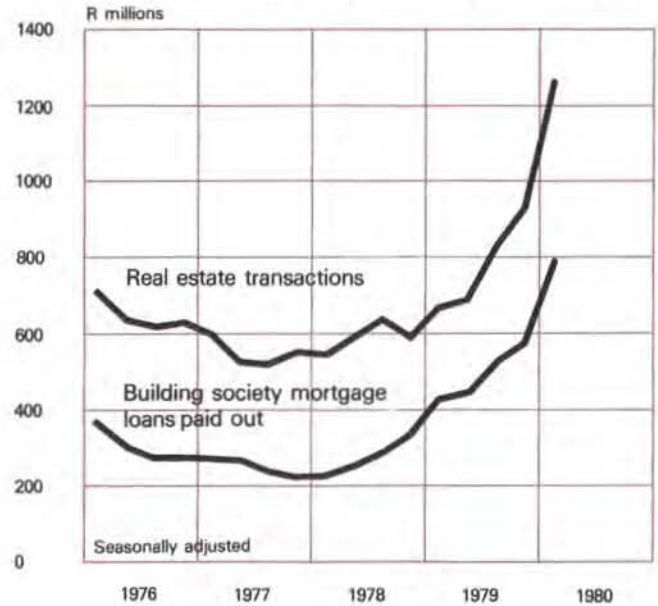


the increase in the relative importance of the flow of new funds from non-bank financial institutions to building societies. At the same time, the relative importance of net new investments by companies, which had increased sharply in 1978, showed a significant decline.

Further sharp increase in mortgage and real estate market activity

The gross value of mortgage loans granted by building societies amounted to R1 120 million during the first quarter, compared with R873 million during the preceding quarter and a quarterly average of R721 million in 1979. New loans granted for the construction of buildings amounted to R221 million during the first quarter, showing a significant increase in comparison with the quarterly average of R140 million in 1979. Reflecting the higher rate of mortgage lending by building societies, new mortgage loans granted but not yet paid out rose from R880 million at the end of December 1979 to R1 137 million at the end of March 1980. Excess holdings of prescribed investments, which had consistently exceeded commitments in respect of loans granted but not yet paid out during 1979, were approximately equal to the societies' new loan commitments at the end of March. This indicates a stronger demand for

Real estate transactions and mortgage loans paid out



mortgage loans and a smaller need to channel new funds into prescribed investments.

Building societies lowered their lending rates by $\frac{1}{2}$ per cent in February 1980. Home mortgage rates were reduced to a range of 9,0 to 11,0 per cent, whereas rates of 10,5 to 11,5 per cent have been quoted by the societies on commercial mortgage loans since February.

The seasonally adjusted value of real estate transactions increased sharply further during the first quarter and was 38 per cent higher than in the last quarter of 1979 and 60 per cent above the quarterly average in 1979. This rapid rise was partly due to a strong rise in property prices, as reflected in an increase of 21 per cent in the average value of gross home mortgage loans granted by building societies during the first quarter. The seasonally adjusted value of building plans passed in the first quarter was 24 per cent higher than in the preceding quarter and exceeded the quarterly average in 1979 by 50 per cent.