

Quarterly economic review

Summary and general observations

The economic upswing, which had begun towards the end of 1977 and had proceeded at a slow pace during the first eighteen months of the recovery phase, gained considerable momentum during the second half of 1979. This was reflected in a significant acceleration in the rate of economic growth in the course of the year, but for the year as a whole, the rate of economic growth was only moderately higher than in 1978. The real gross domestic product increased by about 3½ per cent in 1979, but as a result of a further improvement in the terms of trade, the gross national product rose at an appreciably higher rate of about 5 per cent.

Real economic activity in almost all sectors of the economy increased at a higher rate than in 1978. Particularly sharp rises were recorded in non-gold mining, manufacturing and the services sector, and even in construction real activity showed an increase after declines had occurred in the preceding three years. The real product of agriculture, however, rose at a slightly lower rate than in the preceding year, whereas that of gold mining decreased slightly. The real value added by commerce continued to decline in 1979, notwithstanding an improvement in the second half of the year.

The more rapid economic growth in 1979 was reflected in a higher rate of increase in non-agricultural employment in the first nine months of the year. This was particularly evident in the private sector, whereas public-sector employment tended to rise at a somewhat lower rate than in the preceding year. In the private sector, appreciably higher rates of increase in employment were recorded in mining, manufacturing and the financial sector. The increase in employment resulted in a moderate decline in unemployment among all population groups.

In contrast with 1978, when real gross domestic expenditure and real exports contributed about equally to the increase in real gross domestic product, the rise in real gross domestic product in 1979 resulted mainly from an increase in real aggregate domestic demand. Real gross domestic expenditure increased more rapidly as a result of a higher rate of increase in private consumption expenditure, a change in fixed investment from an appreciable decline in the preceding year to a moderate rise in 1979, and a smaller decline in inventories. Real government consumption expenditure, on the other hand, remained approximately at its 1978 level. Economic policy measures which were aimed at stimulating consumer demand, such as the reduction in personal income tax rates, the early repayment of loan levies, increased social benefits and an accommodating monetary policy, took effect in the second half of the year and resulted in a marked acceleration

in the rate of increase in real private consumption expenditure. This, together with the increase in real exports, had the effect of reducing excess production capacity and providing an inducement to fixed investment.

Economic growth in 1979 was based to a large extent on a higher rate of increase in real private consumption expenditure. This base for a higher rate of growth, however, was eroded by a substantial rise in the rate of inflation. Although there was no evidence of demand inflation, wholesale as well as retail prices increased at markedly higher rates in 1979 as a result of sharp rises in the prices of imported goods as well as domestic goods and services. Because of the higher rate of inflation, the real remuneration per worker in the non-agricultural sectors of the economy declined slightly in the first nine months of 1979. Although statistics of the remuneration of labour are not available for the full calendar year, it would appear that the increase in real consumer expenditure was related more to a rise in real disposable personal income that was brought about by a lower rate of increase in personal income tax.

The current account of the balance of payments showed a record surplus in 1979, amounting to no less than 6½ per cent of the gross domestic product. The surplus was accounted for by a substantial increase in the value of the net gold output as well as in the value of merchandise exports, and was attained notwithstanding a sharp rise in the value of merchandise imports and in net service and transfer payments to non-residents.

The surplus on the current account was approximately matched by a net outflow of capital. The net outflow consisted of long-term as well as short-term capital, the latter including fairly large repayments on liabilities related to reserves. Total gross gold and other foreign reserves increased only marginally on account of balance of payments transactions during 1979. The net reserves, however, showed an appreciable rise owing to the reduction of liabilities related to reserves. If valuation and other adjustments, mainly the revaluation of the gold reserves at a market-related price, are taken into account, the gross reserves increased sharply to a new record level at the end of 1979. During the first two months of 1980 the gross gold and other foreign reserves of the Reserve Bank rose appreciably, partly as a result of an increase in the Bank's foreign exchange holdings.

In the foreign exchange market the rand appreciated against the US dollar as well as against the currencies of most trading-partner countries, exceptions being the pound sterling and the German mark. The weighted average value of the rand in terms of all major currencies also appreciated during 1979 and

this appreciation continued during January and February 1980. The exchange rate of the financial rand changed considerably during 1979 and the first two months of 1980. This was reflected in a marked narrowing of the financial rand discount.

Monetary aggregates increased at higher rates during 1979 than during the preceding year. The increase in the supply of money and near-money was only slightly higher than in 1978, but the rate of increase in the narrowly defined money supply was more than double that in 1978. The money and near-money supply actually declined during the first half of 1979, but increased substantially during the second half. Likewise, a strong acceleration in the rate of increase in the narrowly defined money supply occurred during the second half of the year. The higher rate of increase in the supply of money and near-money during 1979 was caused by a more rapid increase in the monetary banking sector's claims on the private sector, a rise in this sector's net claims on the government sector as against a decline in 1978, and a significantly lower rate of increase in long-term deposits of the private sector with monetary banking institutions. On the other hand, the net gold and other foreign reserves of the monetary banking sector rose by a smaller amount during 1979 than during the preceding year.

During January 1980 the seasonally adjusted supply of money and near-money increased only moderately further. A substantial increase in the monetary banking sector's net gold and other foreign reserves was largely offset by a decline in net claims on the government sector and a renewed increase in long-term deposits of the private sector with monetary banking institutions. In addition, claims on the private sector decreased marginally.

Bank credit to the private sector rose by a substantial amount in 1979, reflecting a much stronger demand for credit than in preceding years. The discounts, loans and advances of commercial, merchant and monetary general banks increased strongly, especially hire-purchase credit and leasing finance. In addition to the usual monthly increase, the ceilings on the discounts, loans and advances of banking institutions were raised on two occasions during 1979. Unused facilities under the ceilings nevertheless declined during the year because of the increased lending by the banks. Ceilings on bank investments in private-sector securities were also raised in 1979, causing an increase in the unused facilities under these ceilings.

Net bank credit to the government sector, which had declined during 1978, increased moderately during 1979. This change was more pronounced in the net claims of the monetary banking sector on the central government. Notwithstanding an almost negligible rise in the Exchequer Account deficit in 1979, the Treasury's net indebtedness to the monetary banking sector increased considerably during this period, whereas it had declined during 1978. The larger recourse to the banking sector reflected a

change in the pattern of Exchequer financing in 1979, resulting in smaller amounts being borrowed from the Public Debt Commissioners and the private non-banking sector. The almost unchanged Exchequer Account deficit, despite an appreciable rise in Exchequer issues, was due to a sharp rise in Exchequer receipts, especially income tax and mining lease payments by gold mining companies.

Money market conditions continued to ease during 1979 and January 1980. This easing was reflected in a considerable decline in money market interest rates until the end of November and early December. During the last three weeks of December these rates increased moderately and, apart from temporary decreases, the higher levels were approximately maintained during January and February. Open-market operations by the Reserve Bank during this period were aimed at providing investment outlets to a highly liquid money market in order to ensure an orderly downward adjustment of interest rates and, more recently, a stabilisation of interest rate levels. Bank rate was lowered by $\frac{1}{2}$ per cent on three occasions during 1979 and, in response, the prime overdraft rates of commercial banks, deposit interest rates and mortgage rates were reduced.

In 1979 the capital market was characterised by an ample availability of loanable funds, a marked increase in activity, and a decline in long-term yields and interest rates. In the fixed-interest security market a relatively small amount of new funds was raised, but secondary market transactions increased substantially. Fixed-interest security yields continued to decline, except during temporary periods of tightness towards the middle and again at the end of the year. A boom period was experienced in the share market and stock exchange turnover and prices soared to high levels. Further increases occurred during the first two months of 1980. Activity in the mortgage and real estate markets, which had recovered slowly during the initial phase of the economic upswing, increased significantly in 1979.

National accounts

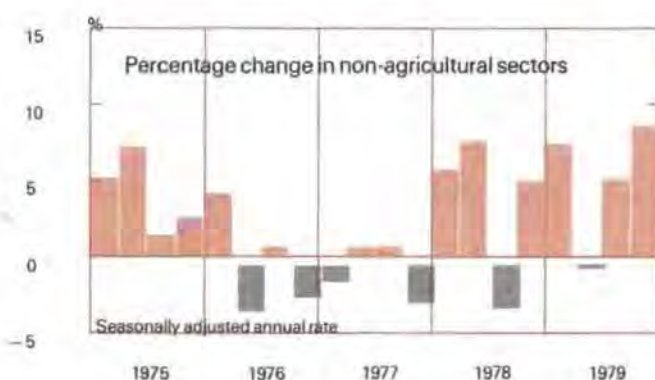
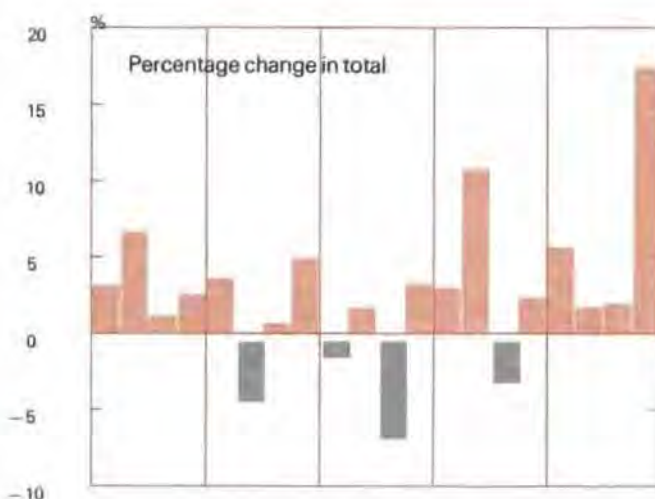
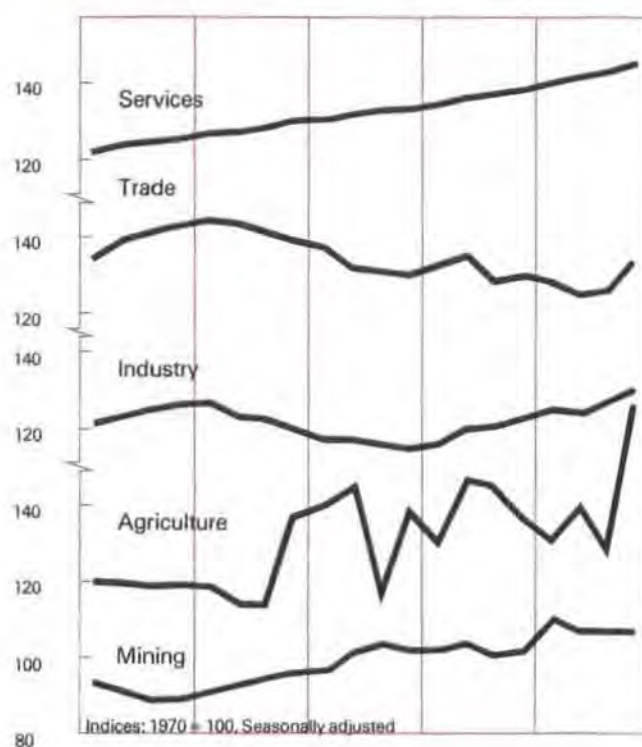
Higher rate of economic growth

A significantly higher rate of economic growth was recorded in 1979. Real gross domestic product increased at a rate of about 3½ per cent in 1979, compared with 2¼ per cent in the preceding year. South Africa's terms of trade improved further in 1979 because of a higher rate of increase in export prices (including the price of gold) than in import prices. In addition, real net factor payments to the rest of the world declined in 1979. Consequently, the real gross national product increased at a higher rate than the real gross domestic product, namely by about 5 per cent, compared with 3 per cent in 1978.

As is shown in the accompanying table, higher rates of increase were recorded in the real output of almost all sectors of the economy in 1979, notably in non-gold mining, manufacturing, construction and the services sector. Exceptions were agriculture, the real product of which rose at a lower rate, gold mining, the real product of which decreased slightly, and commerce which, for the third consecutive year, recorded a decline in real value added, notwithstanding an improvement in the second half of the year.

Contrary to earlier expectations of a decline, the real product of agriculture rose slightly in 1979 as a result of a substantial increase in winter crops that more than compensated for a decline in summer crops. The real product of gold mining was marginally lower because of the mining of lower grade ore which, in turn, was related to the sharp rise in the price of gold. In the case of non-gold mining, however, the real product increased markedly because of strong foreign demand for metals and minerals. A sharp rise also occurred in the real value added by manufacturing, reflecting mainly an increase in real private consumption expenditure and in the

Gross domestic product at constant 1970 prices



Percentage change in real gross domestic and gross national product

	1978	1979
Primary sector	2	3
Agriculture, forestry and fishing	3	1
Gold mining	1	¼
Other mining	1	9
Secondary sector	3	5½
Manufacturing	4½	6½
Electricity, gas and water	5	5½
Construction	-5	1½
Tertiary sector	2	3
Commerce and accommodation	-1	-2½
Services	3	5
Total gross domestic product	2¼	3½
Gross national product	3	5

volume of merchandise exports. The real value added by construction showed an increase in 1979 after declines had been recorded in the preceding three years. Notwithstanding an improvement in the course of the year, the real value added by commerce declined in 1979 as a whole, the largest decreases being recorded in the case of the wholesale and the motor trade. The real value added by the services sector rose strongly in 1979, mainly because of a substantial increase in the real product of transport, storage and communication which was related to the sharp increases in non-gold mining and manufacturing production.

At current prices, the rate of increase in the gross domestic product accelerated from 14½ per cent in 1978 to 20 per cent in 1979. The remuneration of employees rose by 15 per cent, compared with 11 per cent in 1978, reflecting higher rates of increase mainly in the case of mining, manufacturing and general government. The gross operating surplus increased by 25½ per cent in 1979, as against 17½ per cent in the preceding year. The major contribution to the higher rate of increase in 1979 was made by agriculture, gold mining, non-gold mining, manufacturing and the wholesale and retail trade.

The difference between the growth rates in the gross domestic product at current and constant prices implied an increase of about 15½ per cent in the derived gross domestic product deflator in 1979, as against a rise of 12 per cent in 1978. The higher rate of increase in 1979 reflected the combined effect of a sharp increase in export prices (including the price of gold) and in domestic prices.

Seasonally adjusted quarterly estimates of the real gross domestic product show that after an appreciable increase in the first quarter and only moderate rises in the second and third quarters, a marked increase was recorded in the fourth quarter. This sharp rise reflected not only the substantial increase in agricultural production on account of large winter crops, but also significant increases in the real value added by manufacturing and the wholesale, retail and motor trade.

Moderately higher rate of increase in real gross domestic expenditure

Real gross domestic expenditure, which had risen by 1½ per cent in 1978, increased at a moderately higher rate of about 3 per cent in 1979. In contrast with 1978, when real gross domestic expenditure and real exports contributed about equally to the rise in the real gross domestic product, the further increase in the real gross domestic product in 1979 emanated mainly from a rise in real aggregate domestic demand. The more rapid rise in real gross domestic expenditure in 1979 was accounted for by a higher rate of increase in real private consumption expenditure, the fact that a decline in real fixed investment in 1978 changed to a small increase in 1979, and a smaller

Percentage change in real gross domestic expenditure

	1978	1979
Private consumption expenditure	1½	2½
Government consumption expenditure	½	—
Gross domestic fixed investment	-4	2
Change in inventories (<i>R millions</i>)	-235	-110
Gross domestic expenditure	1½	3

decline in real inventories. Real government consumption expenditure in 1979 remained more or less at its 1978 level.

At current prices, the increase in gross domestic expenditure was exceeded by the rise in the gross national product. As a result, a substantially larger surplus than in 1978 was recorded on the current account of the balance of payments in 1979.

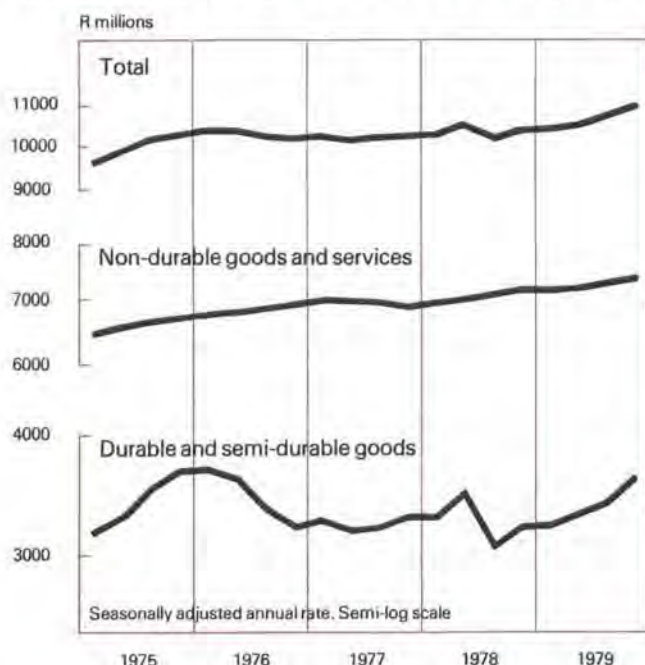
Higher rate of increase in real private consumption expenditure

Although the rate of increase in real private consumption expenditure was only moderately higher in 1979 than in 1978, a significant acceleration occurred in the course of the year. In the first quarter, for example, real expenditure showed no change but in the fourth quarter it rose at a seasonally adjusted annual rate of about 10 per cent. Consumer expenditure was stimulated during the second half of the year by the tax concessions granted to individual taxpayers in the 1979/80 Budget as well as by the early repayment of loan levies and increased social benefits. Expenditure on all major classes of consumer goods, i.e. durable, semi-durable and non-durable goods, as well as on consumer services increased more rapidly in 1979, the largest rise being recorded in the durable goods category.

Percentage change in real private consumption expenditure

	1978	1979
Durable goods	4	6
Furniture and household appliances	-1	6½
Personal transport equipment	18	7
Recreational and entertainment goods	—	4
Semi-durable goods	-1	1
Clothing and footwear	-2	3
Motor car tyres, tubes, parts and accessories	5	-8
Non-durable goods	2	2½
Food, beverages and tobacco	2	3½
Petroleum products	5	-10
Services	1	3
Rent of dwellings	2	2
Transport and communication services	3½	3½
Medical services	3	3½
Expenditure by residents abroad	-15	5
Total private consumption expenditure	1½	2½

Private consumption expenditure at constant 1970 prices



Unchanged level of real government consumption expenditure

After real government consumption expenditure had risen at an average annual rate of as much as 10 per cent from 1973 to 1976, it increased by only 1 per cent and $\frac{1}{2}$ per cent in 1977 and 1978, respectively. The policy of maintaining discipline in government expenditure continued in 1979 and real government consumption expenditure did not rise above its 1978 level. An increase in the real remuneration of employees was counterbalanced by a decline in real expenditure on goods and other services. In real terms, defence expenditure decreased for the third consecutive year.

Small increase in real gross domestic fixed investment

The decline in real gross domestic fixed investment during the preceding three years was reversed in 1979 when a small increase was recorded. This increase was attributable to a further rise in the real capital expenditure of public corporations, with that of the private sector and public authorities remaining approximately at their respective 1978 levels.

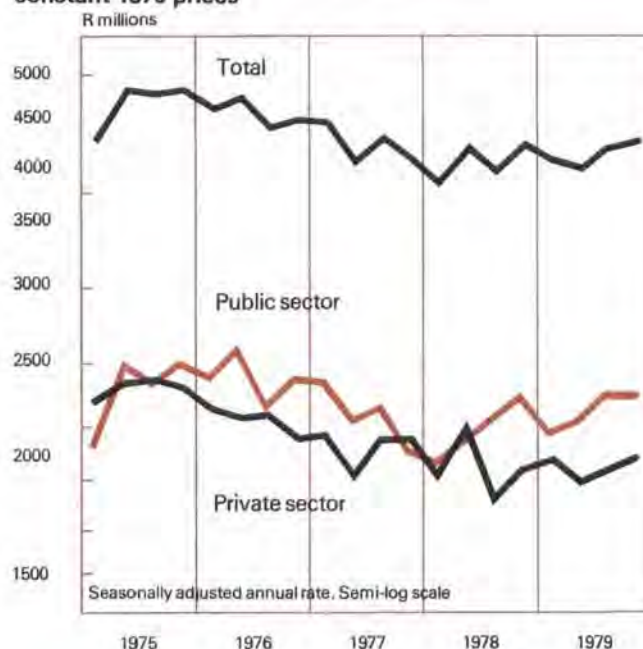
In the private sector, real fixed investment by the mining sector increased sharply as a result of the extension of production capacity at gold mines, the construction of uranium plants and the creation of additional production capacity in other mining to meet a higher foreign demand. Likewise, real fixed investment by manufacturing, which had declined markedly in 1978, increased substantially as excess

Percentage change in real gross domestic fixed investment

	1978	1979
Private business enterprises	-4 $\frac{1}{2}$	—
Agriculture	-2	-8
Mining	6	20
Manufacturing	-14	12
Residential buildings	-16	1 $\frac{1}{2}$
Other (transport, commerce, finance)	$\frac{1}{2}$	-12
Public corporations	11	9
Manufacturing	44	9
Electricity, gas and water	9	7
Other (transport, mining, finance)	-43	24
Public authorities	-12 $\frac{1}{2}$	—
South African Railways Administration	-31	9
Other business enterprises	6 $\frac{1}{2}$	-4
General government	-10	-1 $\frac{1}{2}$
Central government	-10 $\frac{1}{2}$	-3
Provincial administrations	-1 $\frac{1}{2}$	1
Local authorities	-19	-1 $\frac{1}{2}$
Total real gross domestic fixed investment	-4	2

production capacity was being taken up by the rise in manufacturing production. The utilisation of production capacity in manufacturing, for example, increased from 83 per cent in the first quarter of 1978 to 87 per cent in the fourth quarter of 1979. The downward trend in private residential construction since the middle of 1974 was reversed in 1979 and for the year as a whole a small increase was recorded. On the other hand, real fixed investment by agriculture, transport, and the financial and

Gross domestic fixed investment at constant 1970 prices



business services sector declined appreciably in 1979.

Real fixed investment by public corporations, which had increased at an average annual rate of 10 per cent from 1976 to 1978, rose further by 9 per cent in 1979. The fixed capital outlays of Sasol and Escom increased moderately, but those of Iscor, reflecting the development of a new coal mine, rose substantially in 1979.

Public authorities' real fixed investment showed little change in 1979. The fixed capital outlays of the South African Railways Administration, which had declined sharply in 1977 and 1978, increased appreciably in 1979. This increase, was neutralised, however, by declines in the fixed capital outlays of other business enterprises and general departments of public authorities.

Smaller decline in real inventories

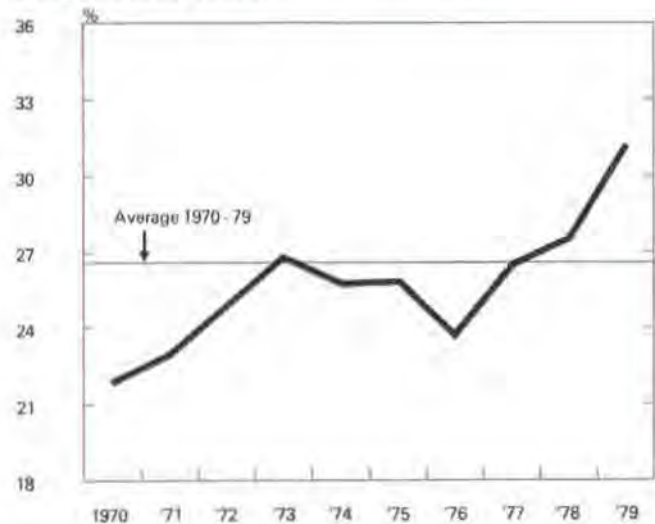
The book value of inventories, excluding livestock, increased by about R2 120 million during 1979, compared with R690 million during 1978. Industrial and commercial inventories contributed about R1 440 million to the increase during 1979, whereas agricultural stocks-in-trade and diamond and mining stocks accounted for the balance. At constant 1970 prices, the value of inventories declined by about R110 million during 1979, as against a decrease of R235 million during 1978. Small increases in real diamond stocks, the real inventories of mining and private manufacturing and agricultural stocks-in-trade were more than offset by declines in the real industrial inventories of public corporations and the wholesale and motor trade as well as in the livestock inventory at constant prices. In relation to the real gross domestic product of the non-agricultural sectors, real non-agricultural inventories reached an all-time low of 29,2 per cent in the fourth quarter of 1979. This ratio compared with 31,6 per cent in the fourth quarter of 1978 and the most recent peak of 38,1 per cent in the third quarter of 1975.

Substantial further increase in gross domestic saving

Gross domestic saving rose by R3 996 million, or 36 per cent, in 1979, after substantial increases of 18½ per cent and 26½ per cent had been recorded during 1978 and 1977, respectively. Gross domestic saving amounted to 31,2 per cent of the gross domestic product in 1979, compared with 26,6 per cent during the nineteen-seventies as a whole. Total gross domestic saving amounted to R15 006 million in 1979, whereas the financing requirement for the purpose of fixed and inventory investment was considerably lower at R11 899 million, meaning that an amount of R3 107 million was available for the reduction of South Africa's net indebtedness to the rest of the world.

All components of gross domestic saving contributed to the increase in 1979. Personal saving, which had declined moderately in 1978, rose sharply in

Gross domestic saving as a percentage of gross domestic product



1979 as a result of an increase in disposable personal income that was brought about mainly by a lower rate of increase in personal income tax payments. The largest contributions to the further increase in corporate saving were made by mining and the financial sector and reflected a proportionally larger increase in company income than in direct company tax and dividend payments. Mainly as a result of a further sharp rise in company tax receipts, the current surplus of general government likewise increased more in 1979 than in 1978 notwithstanding lower rates of increase in direct personal tax, reflecting the concessions granted in the 1979/80 Budget, as well as in indirect taxes. Provision for depreciation increased at a higher rate in 1979 because of a higher rate of price increases and a more rapid rise in investment at current prices.

Employment and prices

Higher rate of increase in employment

Employment generally reflected the higher rate of increase in real economic activity in 1979. The rate of increase in non-agricultural employment in the first three quarters of 1979 (compared with the corresponding period of 1978) amounted to 1,8 per cent, as against 0,9 per cent in 1978. (Statistics for the fourth quarter of 1979 are not yet available). The higher rate of increase in employment was particularly evident in the private sector, whereas public-sector employment tended to rise at a somewhat lower rate. Private-sector employment, which had increased by 0,4 per cent in 1978, rose by 2,2 per cent in the first three quarters of 1979 (compared with the corresponding period of 1978). In contrast, public-sector employment increased by 2,1 per cent in 1978 and by 0,9 per cent in the first three quarters of 1979.

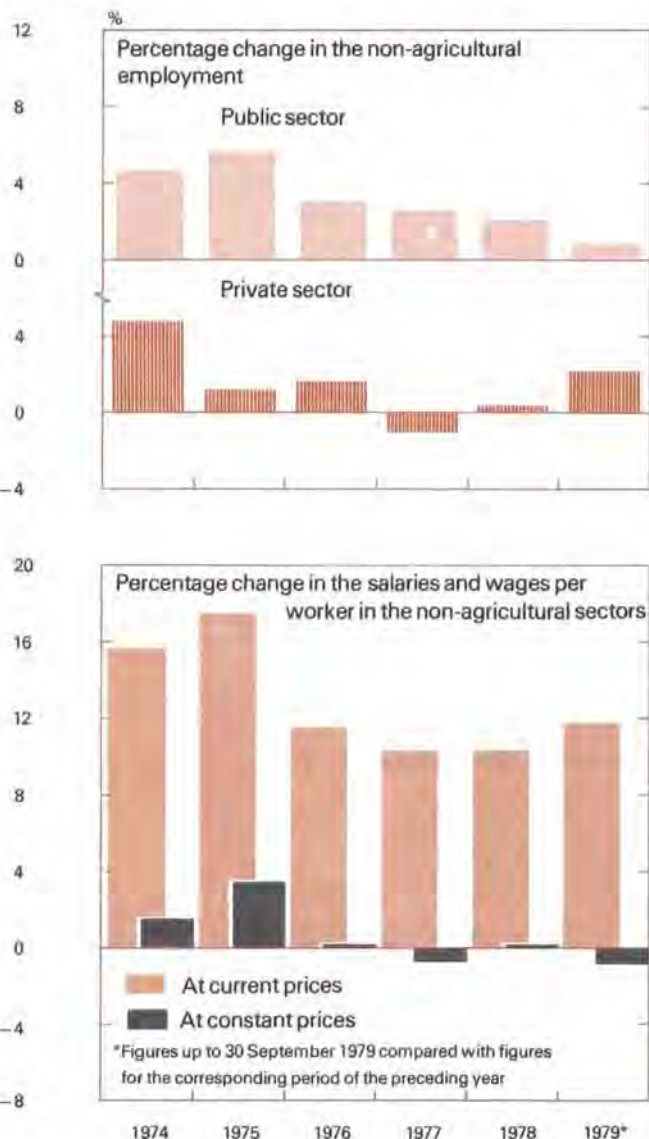
Higher levels of employment were recorded in virtually all the private non-agricultural sectors of the economy in the first three quarters of 1979. Appreciably higher rates of increase in employment were observed in manufacturing, mining and the financial sector. In the public sector, employment by all authorities and organisations other than agricultural control boards and universities increased at lower rates in the first three quarters of 1979.

The higher level of employment was reflected in a moderate decline in unemployment. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from 31 060 in December 1978 to 28 070 in December 1979 and 24 550 in January 1980. Likewise, the number of unemployed Blacks as a ratio of the economically active Black population decreased from 9,3 per cent in November 1978 to 9,0 per cent in November 1979.

Lower rate of increase in labour productivity

In the first three quarters of 1979, for which statistics are available, labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, increased by 0,8 per cent, compared with the corresponding period of 1978. In 1978 productivity increased at a slightly higher rate of 1,4 per cent. In manufacturing, for which more detailed statistics are available, production per man hour rose by 2,3 per cent in the first eleven months of 1979, compared with the corresponding period of 1978, as against 3,4 per cent in 1978. The lower rate of increase in productivity in manufacturing was accompanied by an increase of 10,0 per cent in the labour costs per unit of manufacturing production in the first eleven months of 1979. This rise was markedly higher than the rate of increase of 5,9 per cent in 1978.

Labour



Slight decline in real remuneration of labour

The average remuneration per worker in the non-agricultural sectors of the economy increased by 11,8 per cent in the first three quarters of 1979 (compared with the corresponding period of 1978), as against 10,3 per cent in 1978. The increase in 1979 was neutralised, however, by a further sharp rise in prices. In real terms, the average remuneration per worker actually declined by 0,9 per cent in the first three quarters of 1979, compared with a slight increase of 0,2 per cent in 1978. The average real remuneration of Non-White workers, which had risen by 0,9 per cent in 1978, increased by only 0,3 per cent in the first three quarters of 1979, whereas that of White workers declined by 0,7 per cent in 1978 and further by 1,0 per cent in the subsequent nine-month period.

Higher rate of inflation

Although there was little evidence of demand inflation, sharp rises in the prices of domestic goods and services as well as in the prices of imported goods raised the rate of inflation in 1979 to well above its level in 1978. The average monthly consumer price index increased by 13,1 per cent in 1979, compared with 10,1 per cent in 1978. The higher rate of increase in 1979 was largely the result of a rise of 14,4 per cent in the prices of consumer goods, reflecting for example an increase of 15,4 per cent in food prices, of 52,3 per cent in the prices of petroleum products, and of 14,5 per cent in the prices of footwear. Prices of consumer services rose, on average, by 10,8 per cent 1979.

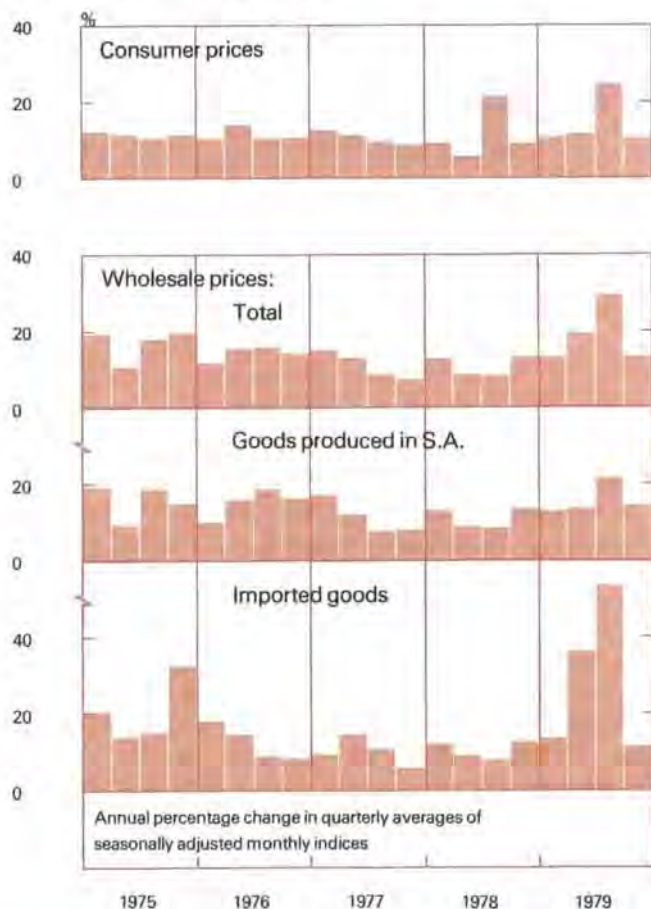
On a quarterly basis, the seasonally adjusted consumer price index increased successively at annual rates of 10,7, 11,6 and 24,4 per cent in the first three quarters of 1979. In the fourth quarter the annual rate of increase reverted back to a lower level of 10,6 per cent. From January 1979 to January 1980 consumer prices rose by 13,8 per cent.

Wholesale prices increased, on average, by 15,3 per cent in 1979, compared with 9,7 per cent in 1978.

Sharp increases were recorded in the prices of domestically produced goods (13,4 per cent) as well as imported goods (20,1 per cent). In particular, substantial increases occurred in the prices of agricultural products, petroleum products and footwear. Lower rates of increase than in 1978 were recorded, however, in the prices of minerals, beverages and tobacco, and in electricity, water and gas tariffs.

At a seasonally adjusted annual rate, wholesale prices rose successively by 12,9, 19,3 and 29,2 per cent in the first three quarters of 1979, before decelerating to 13,4 per cent in the fourth quarter. From January 1979 to January 1980 wholesale prices increased by 18,4 per cent.

Percentage change in prices



Balance of payments

Record surplus on current account

A record surplus of R3 107 million was recorded on the current account of the balance of payments in 1979, after surpluses of R1 330 million and R412 million had been attained in 1978 and 1977, respectively. As a ratio of the gross domestic product, the current account surplus increased from 1,2 per cent in 1977 to 3,3 per cent in 1978 and 6,5 per cent in 1979. On a quarterly basis, the seasonally adjusted current account surplus declined from an annual-rate figure of R3 920 million in the first quarter of 1979 to R2 050 million in the second quarter, before increasing to R2 380 million in the third quarter and R4 070 million in the fourth quarter.

The substantially larger surplus in 1979 than in 1978 was the result of a marked increase in the value of the net gold output as well as a sharp rise in the value of merchandise exports and was achieved despite a considerable increase in the value of merchandise imports and in net service and transfer payments to the rest of the world. In terms of price and volume changes, the larger surplus reflected an increase in the volume of exports, a decline in the volume of net gold output as well as in the volume of imports and a further improvement in the terms of trade. The terms of trade improved because of a rise in the price of gold and in the prices of major export commodities that exceeded a sharp increase in crude oil and other import prices.

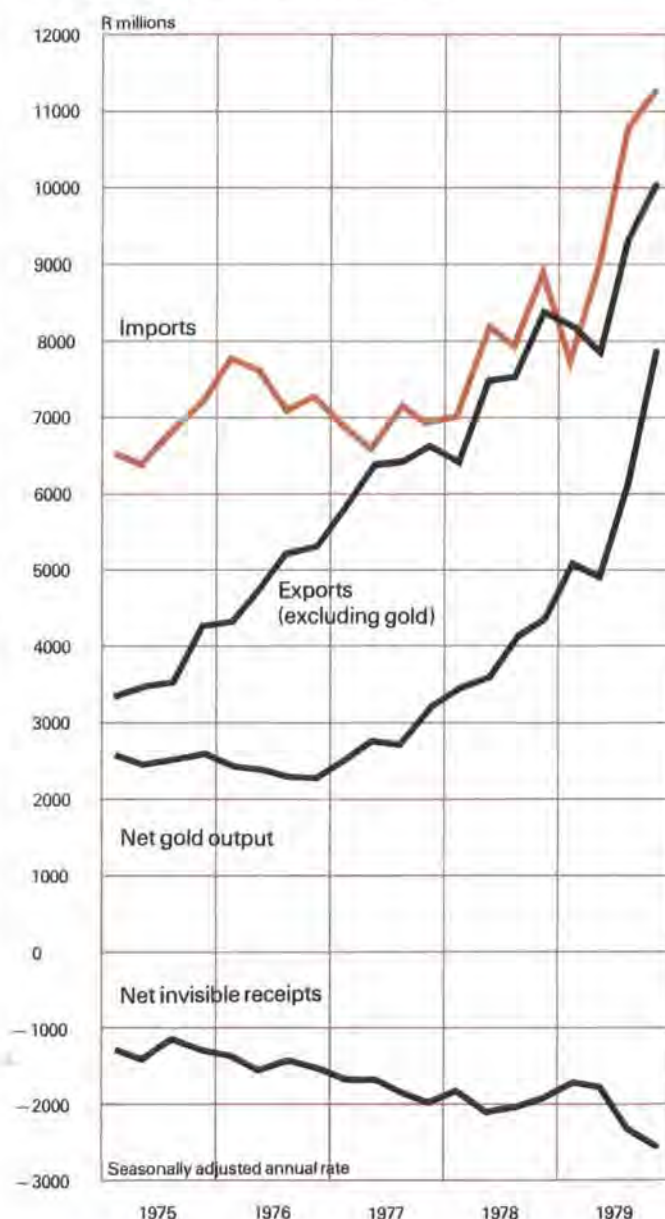
The value of net gold output increased from R3 864 million in 1978 to R6 003 million in 1979, or by 55 per cent, as a result of a higher price of gold. The average fixing price of gold on the London market rose by 59 per cent from \$193 per fine ounce in 1978 to \$307 per fine ounce in 1979. Because of the scope provided for the mining of lower grade ore by the higher price of gold, the volume of the net gold output declined by 2,7 per cent in 1979. The price of gold maintained a sharply rising trend in the course of 1979, increasing from an average fixing price per fine ounce of \$208 in December 1978 to \$460 in December 1979. As a result, the value of the net gold output, at a seasonally adjusted annual rate, increased from R5 100 million in the first quarter of 1979 to R7 850 million in the fourth quarter. In January 1980 the average price of gold per fine ounce rose to \$675, before declining to \$666 in February.

The value of merchandise exports increased by 19 per cent from R7 449 million in 1978 to R8 856 million in 1979, with a particularly sharp rise occurring in the second half of the year. After the value of merchandise exports, at a seasonally adjusted annual rate, had declined from R8 230 million in the first quarter to R7 840 million in the second quarter, it rose to R10 020 million in the fourth quarter and R11 150 million in January 1980. The increase in

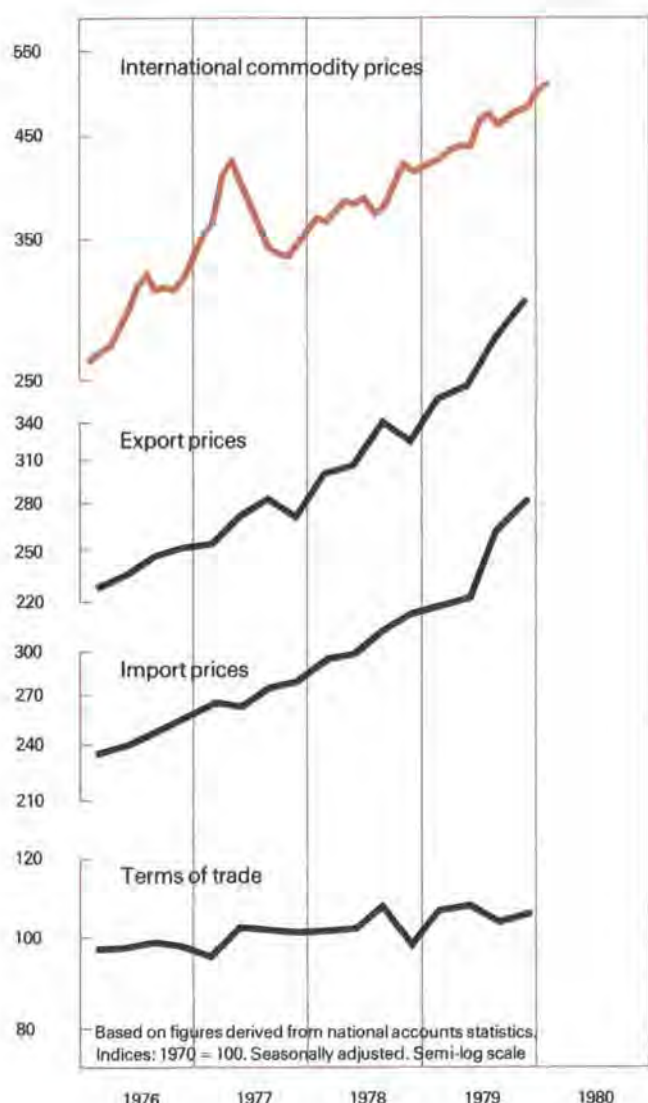
the value of exports in 1979 was largely accounted for by price rises. Sharp increases were recorded in the prices of most mining products and some major agricultural products, in particular in the prices of uranium, platinum, copper, diamonds, nickel, ferro-chrome, wool and maize. The volume of exports rose by 4 per cent in 1979, reflecting increases in most of the major mining and agricultural export products other than diamonds and maize.

The value of merchandise imports increased sharply from R8 019 million in 1978 to R9 669 million in 1979, a rise of about 21 per cent. At a seasonally adjusted annual rate, the value of merchandise imports increased steadily from R7 710 million in the first quarter of 1979 to R11 260

Balance of payments current account



Terms of trade



million in the fourth quarter. After a peak of R13 700 million had been reached in August 1979, the seasonally adjusted value of merchandise imports fluctuated downwards to an annual-rate figure of R10 300 million in January 1980. Increases occurred over a wide range of imported goods during 1979, but particularly large rises were recorded in the categories mineral products (including petroleum products), artificial resins and plastic materials, leather products, textiles, base metal products, and optical and other specialised instruments. In contrast, imports of machinery and electrical equipment increased only slightly and imports of transport equipment remained approximately at the level of the preceding year.

The volume of imports declined slightly in 1979, mainly because of lower imports of mineral products (including petroleum products). This decline brought the ratio of real imports to the real gross domestic

product to a low level of 13,5 per cent, compared with an average of 18,2 per cent in the post-war period. Import prices, however, rose sharply as a result of increased oil prices and higher rates of inflation in trading-partner countries.

Net service and transfer payments to foreigners increased from R1 964 million in 1978 to R2 083 million in 1979 because the rise in service payments exceeded the increase in service receipts. The rise in service payments was accounted for by higher freight and insurance payments related to an increase in freight rates and in imports, larger tourist expenditure abroad, higher dividend payments resulting from the increased profitability of South African enterprises, particularly gold and other mining companies, and an increase in interest payments because of the higher level of interest rates abroad, notwithstanding a reduction of the amount of loans outstanding.

Substantial net outflow of capital

As in the preceding two years, the balance of payments recorded a substantial net outflow of capital in 1979. This net outflow, including errors and omissions on the current as well as the capital account, amounted to R3 082 million, compared with R1 293 million in 1978. The larger part of the net outflow in 1979, namely R2 215 million, consisted of a net outflow of short-term capital from the private sector, including errors and omissions. In the course of 1979, however, this net outflow declined sharply, namely from R790 million in the first quarter to R400 million in the fourth quarter. An important

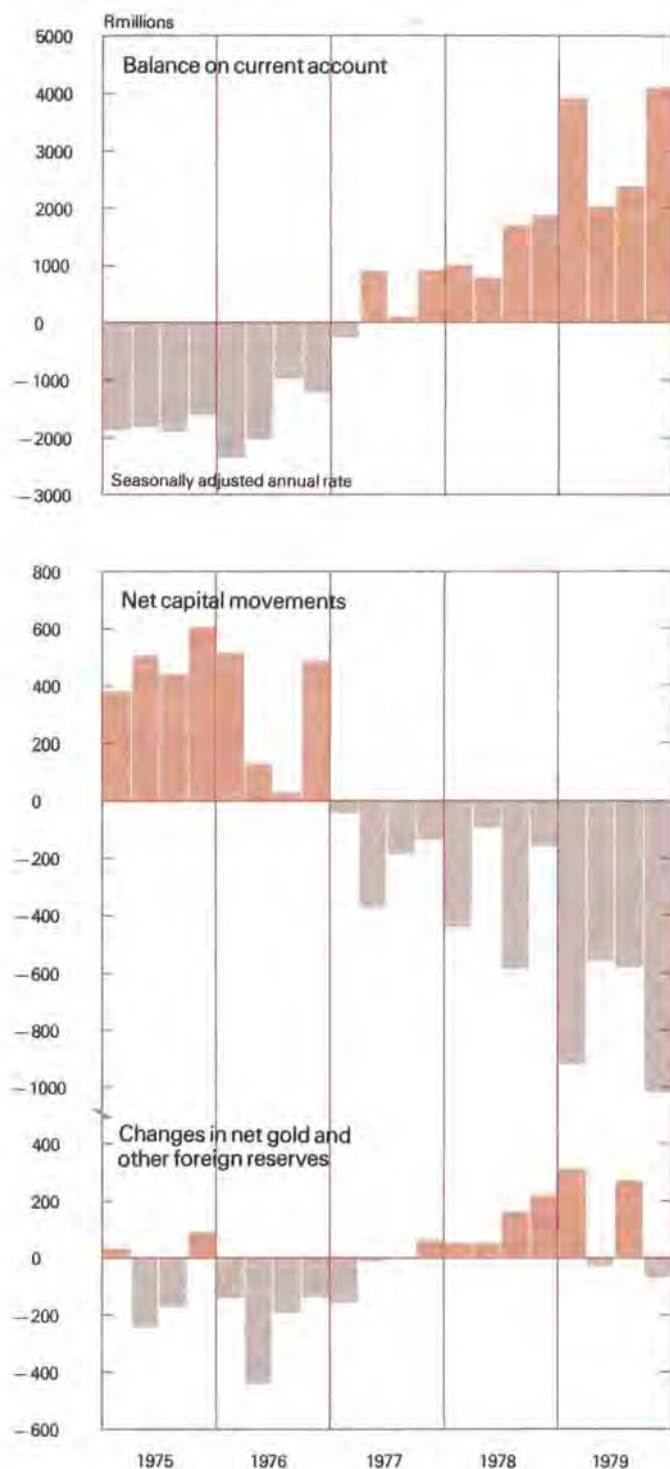
Net capital movements

R millions

	1977	1978	1979
Long-term capital			
Central government and banking sector	-58	-427	-100
Public corporations and local authorities	98	237	-139
Private sector	256	195	-516
Total	296	5	-755
Short-term capital			
Liabilities related to reserves	-221	-437	-441
Other capital of the central government and banking sector	29	21	11
Public corporations and local authorities	103	202	318
Private sector, including unrecorded transactions ¹⁾	-964	-1 084	-2 215
Total	-1 053	-1 298	-2 327
Total net capital movements	-757	-1 293	-3 082

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

Balance of payments



factor contributing to this form of capital outflow was the switching from foreign to domestic financing of foreign trade that was induced by the high degree of domestic liquidity and the considerable interest rate differential between South Africa and foreign countries.

The net outflow of long-term capital amounted to R755 million in 1979, compared with a net inflow of R5 million in 1978. The substantial net outflow in 1979 occurred notwithstanding a considerably smaller net outflow from the central government and banking sector and was attributable mainly to large repayments on foreign loans by the private sector and public corporations. These repayments were encouraged by the availability of funds in the domestic capital market and the high interest rates on foreign loans.

A net inflow of short-term capital to public corporations, consisting mainly of the short-term financing of imports of capital equipment, occurred in 1979. In addition, there was a small net inflow of short-term capital to the central government and banking sector, excluding changes in liabilities related to reserves.

Sharp fluctuations in the net outflow of capital occurred in the course of 1979. A substantial net outflow of R922 million in the first quarter was followed by a smaller amount of R563 million in the second quarter. Subsequently, the figure increased slightly to R580 million in the third quarter and R1 017 million in the fourth quarter. The net outflow in the fourth quarter reflected not only a net outflow of short-term capital from the private sector, but also considerable repayments on long-term loans by this sector.

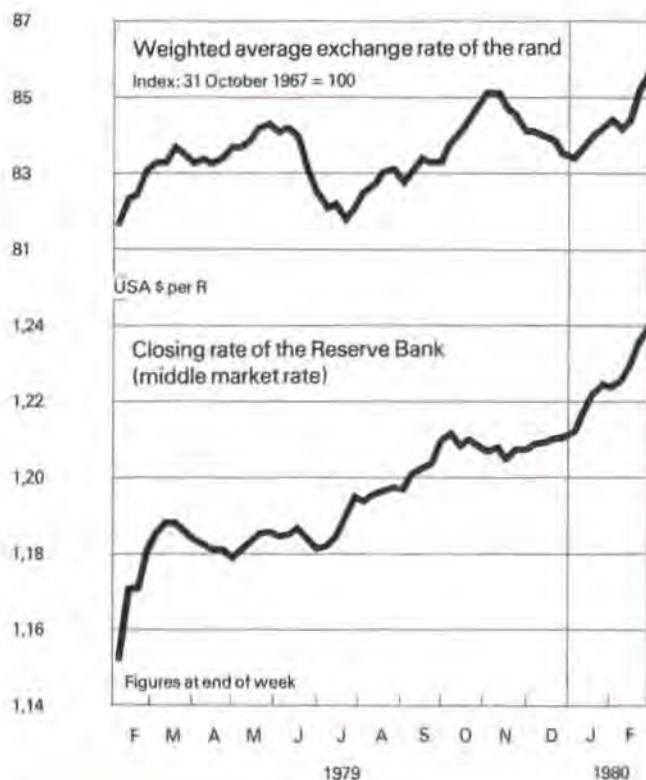
Increase in gold and other foreign reserves

The net gold and other foreign reserves increased by R466 million during 1979, bringing the total increase during the past two years to R940 million. If a decline of R441 million in liabilities related to reserves is taken into account, the gross gold and other foreign reserves increased by R25 million during 1979 on account of balance of payments transactions. After taking into account valuation adjustments, especially the revaluation of the gold reserves, and the allocation of Special Drawing Rights to South Africa, the gross reserves increased by R2 052 million during 1979 to a level of R4 282 million at the end of the year. The foreign exchange component of the reserves, including Special Drawing Rights, rose by R51 million during 1979 to a level of R602 million at the end of the year. During the first two months of 1980 the gold and other foreign reserves of the Reserve Bank increased further by R1 796 million to R5 831 million at the end of February. The foreign exchange holdings of the Bank rose by R427 million during these two months and amounted to R782 million at the end of February.

Appreciation of the rand

Following the introduction of the new exchange rate system of managed floating in January 1979, the rand appreciated against the currencies of most trading-partner countries. During 1979 the exchange rate between the rand and the US dollar fluctuated

Exchange rates



upwards from \$1,1500 to \$1,2095 per rand, representing a rand appreciation of 5,2 per cent. During this period the rand not only appreciated by 29,7 per cent against the Japanese yen, but also moderately against the Swiss franc, the French franc and the Dutch guilder. The strong position of sterling on foreign exchange markets, however, caused the rand to depreciate by 3,7 per cent against this currency. In addition, the rand depreciated slightly by 0,5 per cent against the German mark. The weighted average value of the rand in terms of all major currencies appreciated by 2,5 per cent in 1979. The exchange rate between the financial rand and the US dollar changed markedly during 1979. At the end of 1978 the discount in relation to the exchange rate between the commercial rand and the US dollar amounted to 43,9 per cent, but this discount narrowed to 26,5 per cent at the end of 1979.

The strong rise in the price of gold and an accompanying increase in foreign exchange holdings caused the rand to appreciate by 2,4 per cent against the US dollar during January and February 1980. The weighted average value of the rand increased by the same percentage during this period. The discount on financial rand declined further during the first two months of 1980 and amounted to 14,9 per cent at the end of February.

Monetary and banking situation

Accelerated rate of increase in monetary aggregates

The money and near-money supply, which had increased by 12 per cent during 1978, rose at a slightly higher rate of 13 per cent during 1979. In the case of the narrowly defined money supply, however, a growth rate of 10 per cent during 1978 was followed by a very large increase of 21 per cent during 1979. The acceleration in these growth rates occurred despite the rapid rise in the outstanding amount of banks' short-dated repurchase agreements with non-bank private investors from July 1979 onward. These agreements, which are mostly close substitutes for money and near-money deposits with monetary banking institutions, cause the measured quantity of money and near-money to be smaller than it would have been otherwise. Data recently obtained from the banks show that the extent of the underestimate of the money and near-money supply on account of repurchase agreements outstanding to have been approximately R856 million at the end of January 1980.

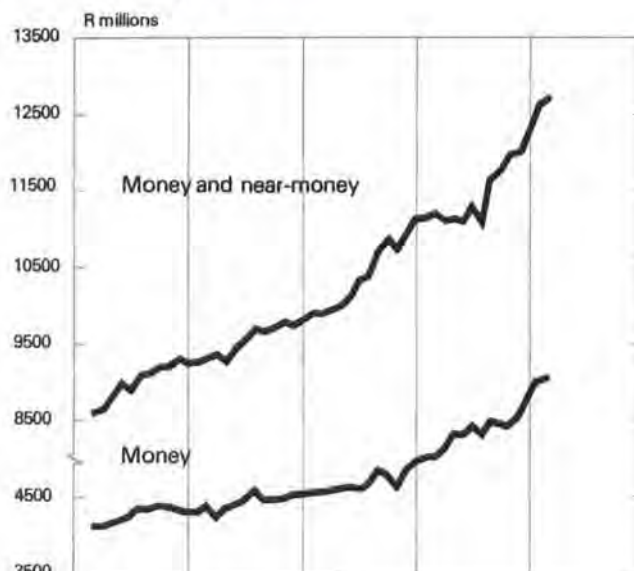
On a quarterly basis, the seasonally adjusted money and near-money supply decreased slightly during the first half of 1979, but rose very sharply at annual rates of approximately 30 per cent during both the third and fourth quarters of the year. The narrowly defined money supply, seasonally adjusted, increased at an annual rate of 30 per cent during the first quarter of 1979, declined slightly during the second quarter, and rose at an annual rate of 10 per cent during the third quarter. A record increase, namely at an annual rate of 52 per cent, was recorded during the fourth quarter. During January 1980 the seasonally adjusted money and near-money supply showed only a moderate further increase of R94 million.

Causes of changes in money and near-money

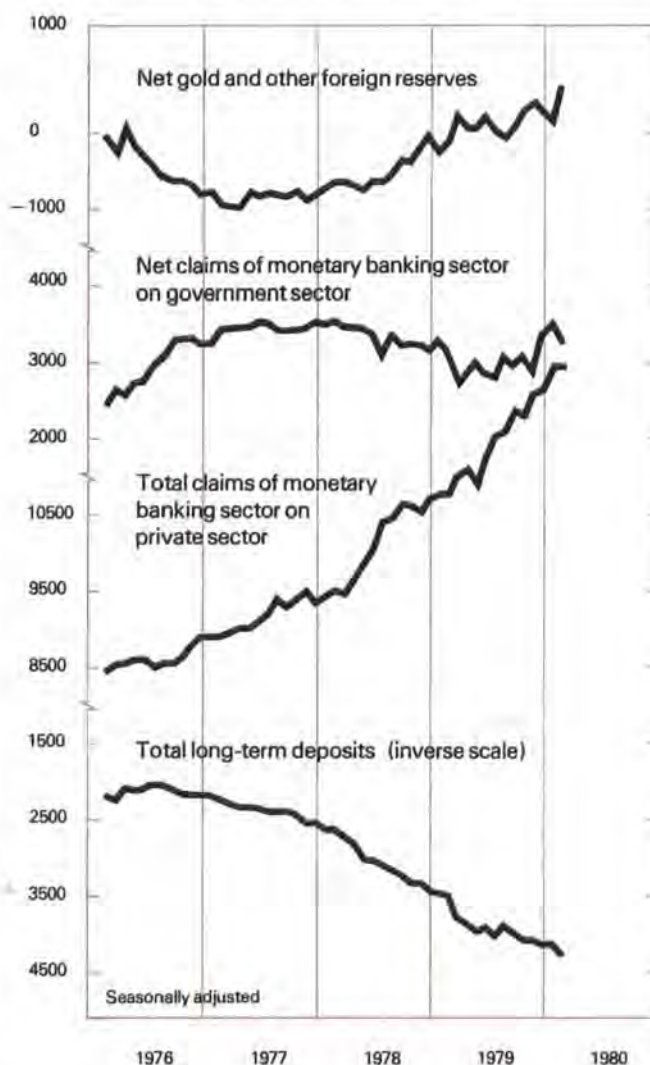
The higher rate of increase in the supply of money and near-money during 1979 than during 1978 was caused by an accelerated rate of increase in the monetary banking sector's claims on the private sector, a rise in the former sector's net claims on the government sector as against a decline in 1978, and a significantly lower rate of increase in long-term deposits of the private sector with monetary banking institutions. The net gold and other foreign reserves of the monetary banking sector, on the other hand, rose by a smaller amount during 1979 than during the preceding year.

The net gold and other foreign reserves of the monetary banking sector, which had increased by R489 million during 1978, rose further by R426 million during 1979. Quarterly changes in seasonally adjusted data showed marked fluctuations in reserves in the course of the year. Substantial increases during the first and third quarters were followed by

Monetary analysis



Causes of changes in money and near-money



Causes of changes in money and near-money

R millions

	Year 1978	Year 1979	Seasonally adjusted data				
			1979				1980
			1st qtr	2nd qtr	3rd qtr	4th qtr	Jan.
Net gold and other foreign reserves	489	426	295	-28	273	-125	392
Claims on government sector							
Gross claims	-7	58					
Government deposits (increase—, decrease +)	-246	155					
Net claims	-253	213	-413	-69	269	431	-209
Claims on private sector	1 367	1 684	274	515	259	634	-18
Long-term deposits (increase—, decrease +)	-825	-672	-429	-157	-54	-32	-165
Net other assets	487	-150					
Total causes of changes	1 265	1 501	25	-68	728	807	94

declines during the second and fourth quarters.

The monetary banking sector's claims on the private sector increased by 16 per cent during 1979, compared with 14 per cent during 1978. Major increases occurred during the second and fourth quarters of 1979, when seasonally adjusted annual rates of increase of 20 per cent and 23 per cent, respectively, were recorded. Net claims of the monetary banking sector on the government sector, which had declined during 1978, rose appreciably during 1979. During the first half of 1979 these net claims, seasonally adjusted, continued to decline, but a sharp rise was recorded during the second half. The increase during the fourth quarter alone amounted to R431 million and reflected a rise in gross claims that was almost entirely due to increased holdings of Treasury bills by monetary banking institutions (including the Reserve Bank and National Finance Corporation). The rise in gross claims was not accompanied by a corresponding increase in government deposits with the monetary banking sector. The rise in these holdings, resulting partly from an increase in the amount of bills offered at the weekly tender, amounted to R541 million during the fourth quarter.

Total domestic credit extended by the monetary banking sector, i.e. the total of claims on the private sector and net claims on the government sector, increased by 14 per cent during 1979, as against 8 per cent during 1978. Seasonally adjusted quarterly data show that a decline at an annual rate of 4 per cent during the first quarter of 1979 was followed by successive annual rates of increase of 14, 16 and 32 per cent during the last three quarters of the year. The sharp rise during the fourth quarter accounted for the substantial increase in the money and near-money supply during this period.

Long-term deposits of the private sector with monetary banking institutions, which had risen substantially during 1978, continued to increase sharply during the first half of 1979. During the second half of the year, however, the increase in these

deposits, seasonally adjusted, amounted to only R86 million, compared with R586 million during the first half. This substantially lower rate of increase signalled a distinct change in investors' attitudes and expectations.

During January 1980 a sharp rise of R392 million in the net gold and other foreign reserves of the monetary banking sector was largely offset by a substantial decline in net claims on the government sector and a renewed increase in long-term deposits of the private sector with monetary banking institutions. Claims on the private sector showed a minor decrease.

Substantial increase in bank credit to the private sector

All components of the monetary banking sector's credit to the private sector contributed to the substantial increase of R1 684 million during 1979. Cash credit advances by the Land Bank rose by R128 million, investments in private-sector securities increased by R160 million, and the discounts, loans and advances of commercial, merchant and monetary general banks expanded by R1 144 million. A substantial portion of the latter figure, namely R692 million, consisted of an increase in hire-purchase credit and leasing finance. Bills discounted rose sharply by R203 million and all other loans and advances increased by R249 million, of which R169 million represented an increase during the fourth quarter.

The unused facilities under the banks' ceilings on discounts, loans and advances increased sharply in March and August when the authorised ceilings were raised by amounts equal to 5 per cent and 4 per cent, respectively, of the base figures as at 31 December 1975. During 1979 as a whole, however, the unused facilities declined by R83 million. The decline amounted to as much as R509 million during the fourth quarter and to R253 million during December alone. During January 1980 the unused facilities under the ceilings increased slightly by R9 million. Authorised investment ceilings were also raised in

1979, causing the unused facilities under these ceilings to show a net rise of R44 million during the year. This was followed, however, by a decline of R12 million during January 1980.

The monetary banking sector's claims on the private sector was understated by R722 million on 31 January 1980 on account of sales of such claims to investors in the private non-banking sector under repurchase agreements.

Increase in bank liquidity

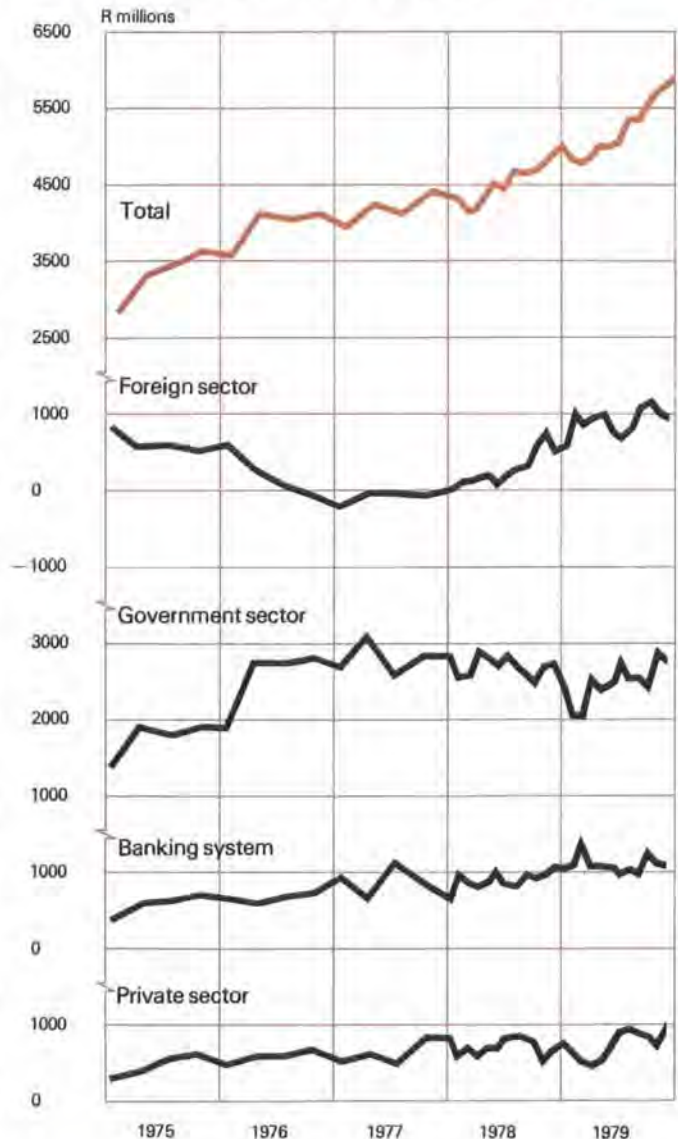
The liquidity of all groups of banking institutions increased appreciably during 1979. The required liquid asset holdings of these institutions rose by R506 million during the year, whereas actual holdings of liquid assets increased by as much as R887 million. This sharp rise in actual liquid asset holdings was caused mainly by an increase of R438 million in the foreign sector's contribution to the banking institutions' liquidity base. The government sector's contribution to the increase in the liquidity base amounted to R37 million, comprising a decline of R257 million during the first half of the year and an increase of R294 million during the second half.

The excess liquidity ratio for all groups of banks rose from 3,1 per cent at the end of 1978 to 4,7 per cent at the end of 1979. Monetary banking institutions' excess liquidity increased considerably during the year, largely as a result of a sharp rise in the excess liquidity of commercial banks. The excess liquidity of other banking institutions, excluding two banks which are in the process of winding up their operations, increased more moderately during 1979, because a marked increase during the first three quarters of the year was to a large extent offset by a decrease during the last quarter.

As part of monetary policy changes during 1979, the liquid asset requirements for banking institutions were relaxed slightly in March. The supplementary requirements relating to increases in "large" banks' short-term and medium-term liabilities to the public since September 1975, were reduced from 20 and 8 per cent to 10 and 4 per cent, respectively. The requirement against increases in "other" banks' short-term liabilities was abolished entirely.

During January 1980 the excess liquidity of commercial banks dropped sharply from 6,3 per cent

Sectoral sources of bank holdings of liquid assets



Quarterly figures from 1975 to 1977. Monthly figures from 1978 to 1979

to 2,6 per cent. The excess liquidity of all other banks, on the other hand, improved slightly during the month.

Excess liquidity ratios of banking institutions

	1978		1979			1980
	Dec.	Mar.	June	Sept.	Dec.	Jan.
Monetary banks:						
Commercial banks	3,8	3,9	3,9	6,2	6,3	2,6
Other	2,0	3,3	2,0	1,8	1,8	1,9
Total	3,2	3,8	3,2	4,8	4,8	2,4
Other banks	0,2	3,9	2,9	4,6	1,2	1,3
All banks	3,1	3,7	3,2	4,8	4,7	2,4

Money market conditions and interest rates

Money market conditions generally continued to ease during 1979 and the early part of 1980. Temporary periods of tightness were experienced, however, over most month-ends, especially in February and August 1979 and February 1980. Short-term changes in market conditions were caused mainly by flows of funds to and from the government sector and by changes in the net gold and other foreign reserves of the Reserve Bank, and to a lesser extent by changes in the amount of banknotes in circulation.

Call loans to the discount houses were at a relatively low level during January 1979, but increased subsequently to levels well in excess of R700 million during most of the period February to April. During the remainder of 1979 and during January, February and early March 1980 these loans remained at levels ranging from R800 million to about R1 200 million, amounting to R1 196 million on 27 February. Free balances of monetary banking institutions with the National Finance Corporation and accommodation provided by the Reserve Bank to discount houses reflected the fluctuations in money market conditions and the customary tightening over month-ends during 1979 and the first two months of 1980. The free balances were either depleted or at very low levels over most month-ends, whereas varying amounts of accommodation were provided to the discount houses during the periods of tightness over month-ends.

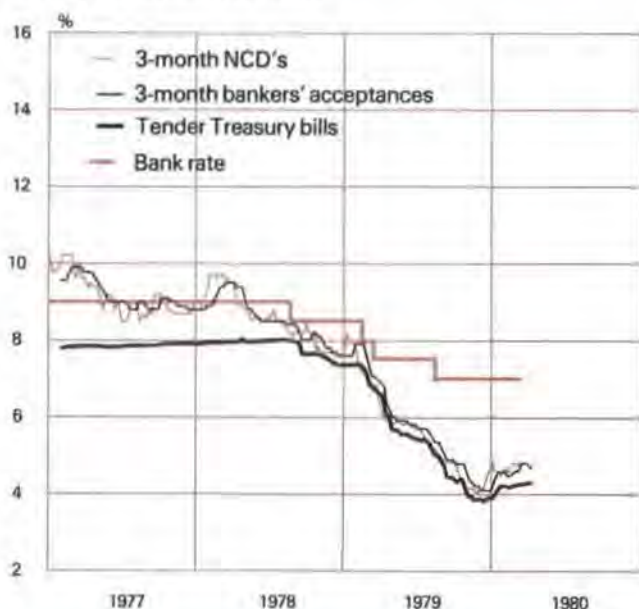
Money market interest rates continued their downward trend during the first eleven months of 1979, but increased slightly during the last three weeks of December. They then declined during most

of January 1980, rose during February, but decreased again in early March to approximately their end-of-December levels. The rate on three-months bankers' acceptances, for example, declined from 7,90 per cent on 5 January 1979 to 4,10 per cent on 7 December, before increasing to 4,60 per cent on 28 December. This rate amounted to 4,80 per cent on 29 February and 4,70 per cent on 7 March. The rate on three-months negotiable certificates of deposit and the basic call money rate of the discount houses showed roughly similar changes. The Treasury bill tender rate declined from 7,39 per cent on 5 January 1979 to 3,81 per cent on 23 November before rising to 4,20 per cent on 28 December. After a temporary decline during January, it rose to 4,27 per cent on 29 February, but declined again to 4,20 per cent on 7 March.

Open-market operations of the Reserve Bank during 1979 were aimed at providing investment outlets to a highly liquid money market in order to ensure an orderly downward adjustment of interest rates and, towards the end of the year, the stabilisation of interest rate levels. Net sales of securities amounted to R959 million, of which R690 million represented net sales during the period August to October. During October and the early part of November special tap Treasury bills to an amount of R300 million were sold. The maturity of these bills was planned to coincide with the period of seasonal tightness at the end of February 1980. During January and February 1980 open-market sales of securities of R97 million were undertaken and further special tap Treasury bills to an amount of R50 million were issued during January. In February Treasury bills amounting to R25 million were obtained from the National Finance Corporation and subsequently these were sold in the market.

Bank rate was reduced by $\frac{1}{2}$ per cent on 6 February, on 17 March and on 13 August 1979, lowering the rate from 8,5 to 7 per cent. In response to these changes, the prime overdraft rate of commercial banks was reduced in stages from 11,5 to 9,5 per cent. Deposit rates were also reduced during 1979 and the rate on 31-day notice deposits with commercial banks, for example, declined from 7 per cent to a level ranging from 4 to 4,5 per cent.

Money market interest rates



Government finance

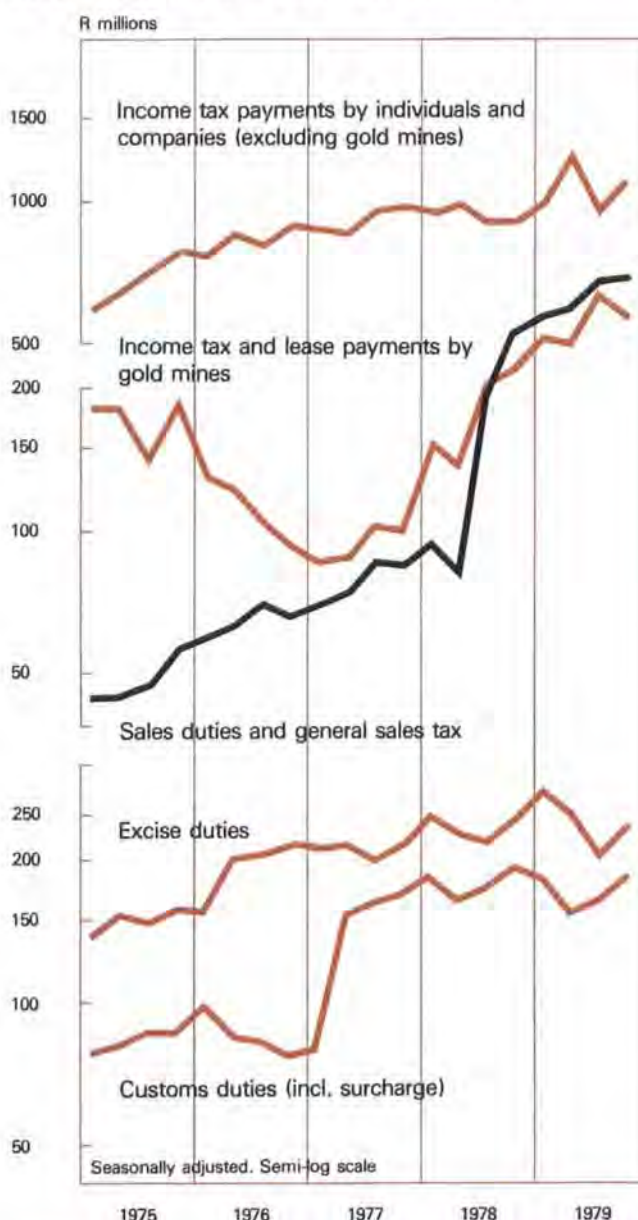
High rate of increase in Exchequer receipts

Receipts on the Exchequer Account (excluding borrowing) rose by 22 per cent to R9 728 million in 1979, compared with an increase of 16 per cent in 1978. The high rate of increase in 1979, the largest since 1974, was the result of a substantial increase in income tax and mining lease payments by gold mining companies, a more rapid rise in other income tax receipts, and the fact that the general sales tax was collected for a full year, compared with a period of six months in 1978.

Income tax and mining lease payments by gold mining companies amounted to R1 143 million in 1979, or 57 per cent more than in 1978, and reflected the increase in profits that was brought about by the sharp rise in the price of gold. Gold mining companies contributed 11,9 per cent of total revenue collections in 1979, as against 9,1 per cent in 1978. The contribution in 1979, however, was still well below the corresponding figure of 15,3 per cent in 1974. Income tax receipts from taxpayers other than gold mining companies increased by 12 per cent in 1979, as against 3 per cent in 1978, notwithstanding the fact that the tax concessions granted to individual taxpayers in the 1979/80 Budget came into effect during the second half of the year. The comparatively high rate of increase in 1979 reflected the growth in the income tax base, including higher company profits and an increase in personal incomes, and the progression in personal income tax rates.

General sales tax collections amounted to R1 213 million in 1979, the first full calendar year during which this tax was collected. Collections in 1979 exceeded those in 1978 by R829 million and more than compensated for the loss of revenue that resulted from the abolition of the sales duty at the time of the imposition of the general sales tax in July 1978.

Revenue collections — State Revenue Fund



State Revenue Fund¹ — Major components of revenue

R millions

	Calendar year		Fiscal year ended March		April to Dec.
	1978	1979	1979	1980 ²	1979 ³
Customs duties	362	420	371	446	439
Surcharge on imports	368	272	359	236	242
Excise duties	951	975	983	1 023	932
General sales tax	384	1 213	672	1 175	1 258
Income tax and lease payments by gold mines	727	1 143	862	855	1 118
Other income tax payments	3 733	4 179	3 799	3 795	4 335

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

2. Budget estimates.

3. Seasonally adjusted figures expressed at an annual rate.

In contrast with the higher rates of increase in income tax and general sales tax collections, revenue in the form of customs and excise duties declined slightly in 1979. This result reflected the reduction of the surcharge on imports from 12½ per cent to 7½ per cent in March 1979.

Exchequer receipts during the first nine months of the 1979/80 fiscal year were 21 per cent higher than during the corresponding period of the preceding fiscal year. The increase in receipts during the fiscal year as a whole, therefore, will almost certainly be considerably higher than the 4 per cent anticipated in the Budget. During the first nine months of the current fiscal year receipts from gold mining companies were only R20 million short of the Budget estimate for the fiscal year as a whole and further receipts are due at the end of February 1980. Other income tax receipts during the first nine months of the fiscal year represented 77 per cent of the Budget estimate for the fiscal year as a whole, whereas only 67 per cent of actual receipts in the 1978/79 fiscal year was collected during the first nine months.

Continuation of higher rate of increase in Exchequer issues

The high rate of increase in Exchequer issues in 1978 was maintained in 1979. Issues rose by 17,5 per cent to R11 897 million in 1979, after an increase of 17,0 per cent had been recorded in 1978. During the first nine months of the 1979/80 fiscal year Exchequer issues to government departments were 20 per cent higher than during the corresponding period of the preceding fiscal year. This increase was considerably higher than the Budget estimate of 12 per cent for the fiscal year as a whole, largely because of the earlier requisitioning of appropriated funds by government departments than in the preceding fiscal year. Issues to departments during the first nine months of the fiscal year amounted to 76 per cent of the total amount appropriated originally by Parliament for the full fiscal year, compared with 73 per cent during the corresponding period of the preceding fiscal year. An Additional Budget which provided for

expenditure of R352 million was presented to Parliament early in March. The Minister intimated that a large portion of the additional appropriations would be financed from savings by government departments and that net additional expenditure would amount to about 2 per cent of the original Budget estimates. Even if these additional appropriations are taken into account, issues during the first quarter of 1980 are likely to be only marginally above the level in the corresponding quarter of 1979, thus reducing the rate of increase in Exchequer issues for the fiscal year as a whole.

Small increase in Exchequer Account deficit

The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R2 169 million in 1979, or only R24 million more than in 1978. In the financing of this deficit the Treasury made only one public issue of government stock, but substantial amounts of stock and special Treasury bills were made available to the Reserve Bank for the purpose of conducting open-market operations.

The pattern of Exchequer financing in 1979 differed from that in 1978. The Treasury borrowed smaller amounts from the Public Debt Commissioners and the private non-banking sector, but increased its net indebtedness to the monetary banking sector, whereas in 1978 its net indebtedness had been reduced. As during the preceding two years, however, net repayments on foreign debt were made in 1979. Of the amount borrowed from the private non-banking sector in 1979, R193 million (or 22 per cent of the total) consisted of an increase in this sector's holdings of marketable government securities and R688 million of loan levies and investments in non-marketable securities. In 1978 a substantially larger amount of the borrowing from the private non-banking sector, namely R790 million (or 55 per cent of the total), represented an increase in holdings of marketable securities.

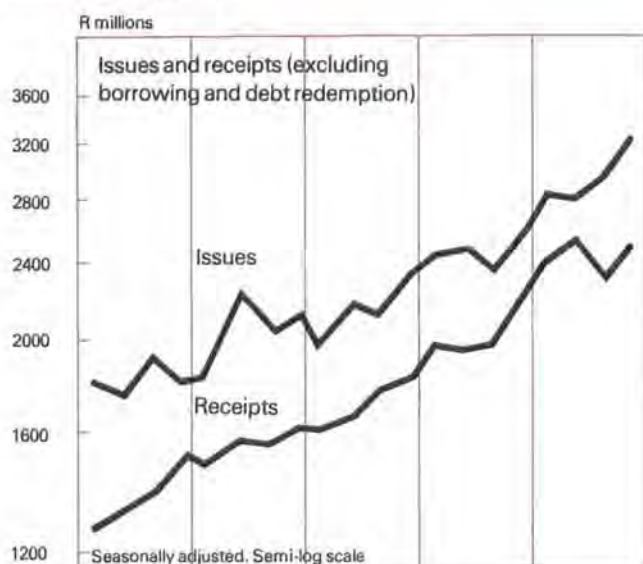
When the financing of the Exchequer Account deficit in the first nine months of the 1979/80 fiscal year is compared with that in the corresponding

Exchequer Account financing R millions

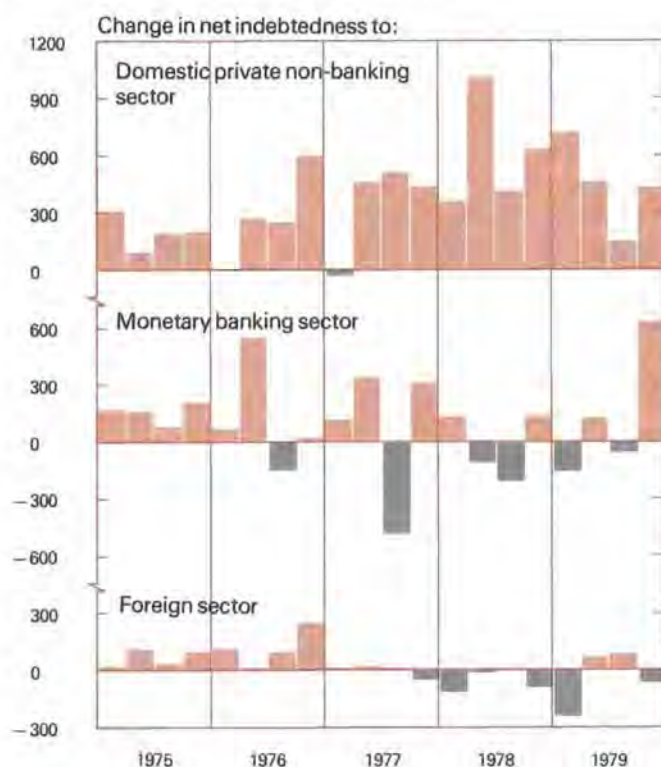
	Calendar year		April to December	
	1978	1979	1978	1979
Deficit	2 145	2 169	1 771	1 851
Financing:				
Domestic sources				
Public Debt Commissioners ¹	993	888	823	420
Private non-banking sector	1 425	881	1 234	627
Monetary banking sector	-54	553	-185	712
Foreign sources	-219	-153	-101	92
Total	2 145	2 169	1 771	1 851

¹ Including the Department of Posts and Telecommunications

Exchequer Account



Financing of Exchequer Account deficit



period of the 1978/79 fiscal year, the differences are more pronounced. As is shown in the accompanying table, recourse to the monetary banking sector constituted an important part of the financing programme in 1979/80, whereas the Treasury's net indebtedness to the monetary banking sector was reduced in 1978/79. In addition, the Treasury was a net borrower from the foreign sector in 1979/80,

whereas net repayments on foreign debt were made in 1978/79.

Railway Budget

The South African Railways Administration's Budget for 1980/81 was presented to Parliament by the Minister of Transport Affairs on 5 March 1980. It is expected that the current financial year, ending on 31 March 1980, will close with a deficit of R136,9 million, or R64,4 million less than the original Budget estimate. This favourable result will be achieved as a result of increased assistance, totalling R105 million, by the central government in the form of interest exemptions and subsidies aimed at reducing losses on passenger transport services. Operating expenditure during the 1980/81 financial year is estimated at R4 385 million, an increase of 15,9 per cent compared with the revised estimates for the 1979/80 financial year. The rise in operating expenditure will result mainly from increased labour costs, reflecting the general salary and wage increases from 1 April 1980, and higher costs of fuel and consumable stores. At the existing tariffs revenue for the 1980/81 financial year is estimated at R4 028 million, or 10,4 per cent more than in the preceding year. In order to finance the resultant operating shortfall of R357 million, the Minister proposed increases in a wide range of road, rail and air transport tariffs and harbour dues as from 1 April 1980. These increases are expected to yield R361 million during 1980/81 and the year is expected to close with a surplus of about R4 million.

Gross investment by the South African Railways Administration during 1980/81 is estimated at R1 169 million, or almost 29 per cent more than the revised estimate for the 1979/80 financial year. The greater part of the capital expenditure will be financed from loans to be obtained from the Treasury, but a significant portion will be financed from the Administration's own resources. Foreign borrowing is estimated at R150 million.

Post Office Budget

In presenting the 1980/81 Post Office Budget to Parliament on 18 March, the Minister of Posts and Telecommunications stated that current revenue during the year ending March 1980 is expected to be about 3 per cent higher than originally estimated, despite the postponement of the announced tariff increases for a period of five months. Expenditure during 1979/80 is expected to be about 1 per cent less than the original estimates. It is estimated that operating revenue during the 1980/81 financial year will increase by 19,4 per cent to R1 090 million and expenditure by 19,7 per cent to R961 million. An important part of the increase in expenditure consists of salary increases which will come into effect on 1 April 1980. Capital expenditure is estimated to increase by 19,3 per cent to R425 million in 1980/81 and it is expected that 56 per cent of this amount will be financed from the operating surplus and the provision for depreciation.

Capital market

Smaller demand for funds in the fixed-interest security market

The market for fixed-interest securities continued to ease during 1979. Not only was the demand for loanable funds in this market substantially smaller than in 1978, but a further sharp rise in gross domestic saving provided the base for an increased supply of loanable funds. Market conditions and yields were also influenced, however, by greater investors' interest in the share, real estate and mortgage markets as investment outlets, as well as by seasonal changes in the flows of funds in the financial markets and uncertainties regarding prospective yield movements. In these circumstances, long-term fixed-interest security yields generally continued their downward movement during 1979, but they tended to firm temporarily from May to July and again from November to December.

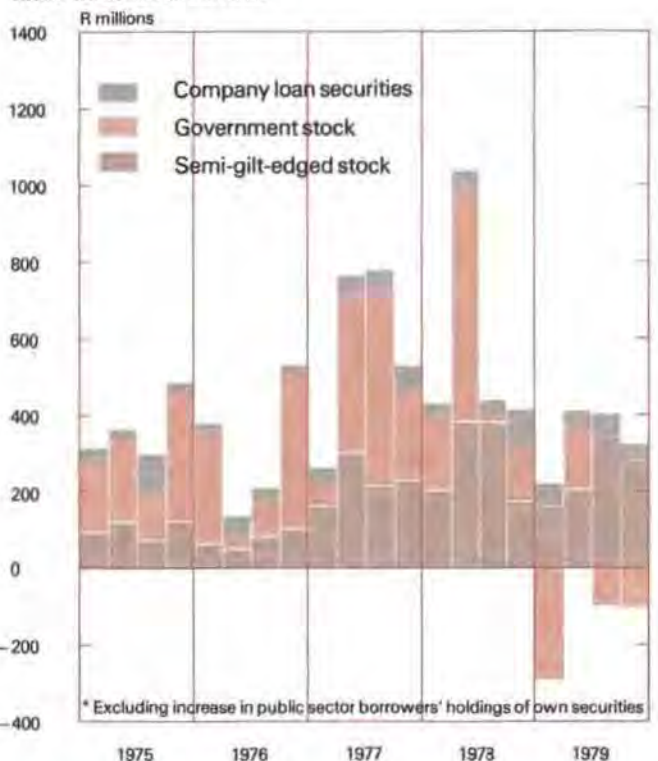
The secondary-market yield on long-term government stock declined from 9,72 per cent in December 1978 to 9,15 per cent in October 1979, before rising to 9,32 per cent in December. Corresponding changes in the long-term yield on the highest grade semi-gilt-edged stock were from 9,95 per cent in December 1978 to 9,52 and 9,53 per cent in October and December 1979, respectively. The yield on company loan securities declined from 11,18 to 10,77 per cent

during the first nine months of 1979, before increasing to 11,17 per cent in November. In January and February 1980 fixed-interest security yields reverted again to lower levels. The long-term yield on gilt-edged and semi-gilt-edged stock and on company loan securities amounted to 9,26, 9,48 and 10,67 per cent, respectively, in February.

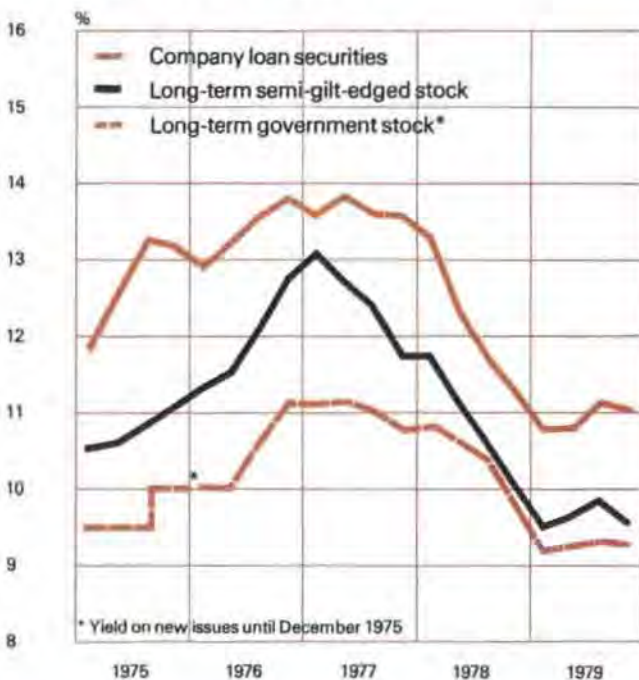
Funds raised by the public sector in the fixed-interest security market by means of net new issues of stock, excluding the increase in the relevant borrowers' holdings of their own stock, amounted to R656 million, or R1 400 million less than in 1978. This decline was caused mainly by a net redemption of stock, amounting to R336 million, by the central government, as against net new issues of R916 million in 1978. In addition, public corporations and local authorities borrowed a somewhat smaller amount than in the preceding year. Net new issues of loan securities by private-sector companies listed on the stock exchange decreased from R222 million in 1978 to R190 million in 1979.

The value of gilt-edged and semi-gilt-edged stock traded on the stock exchange increased strongly from R639 million in 1978 to R2 916 million in 1979. The declining trend in the stock exchange turnover of these securities towards the end of the year was reversed in January and February 1980. A new record turnover of R544 million was recorded in February.

Net issues of domestic marketable fixed-interest securities*



Secondary market security yields



Boom period in the share market

Stock exchange turnover as well as share prices increased substantially during 1979. The number of shares traded on the stock exchange was 48 per cent higher than in 1978 and share prices were, on average, 72 per cent higher in December 1979 than in December 1978. The increase in turnover and share prices accelerated considerably towards the end of 1979 as a result of the strong rise in the price of gold as well as in the prices of other metals and commodities generally, a more optimistic assessment of South African economic prospects, and the interest of institutional investors in investing in the share market.

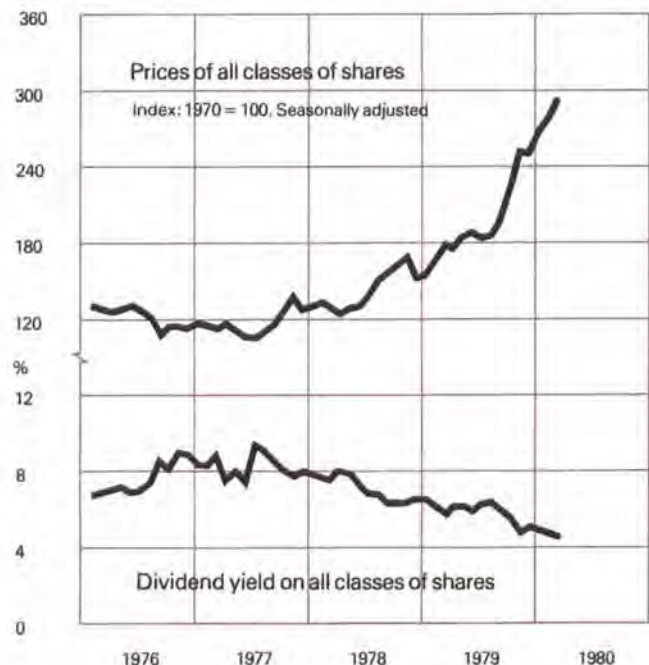
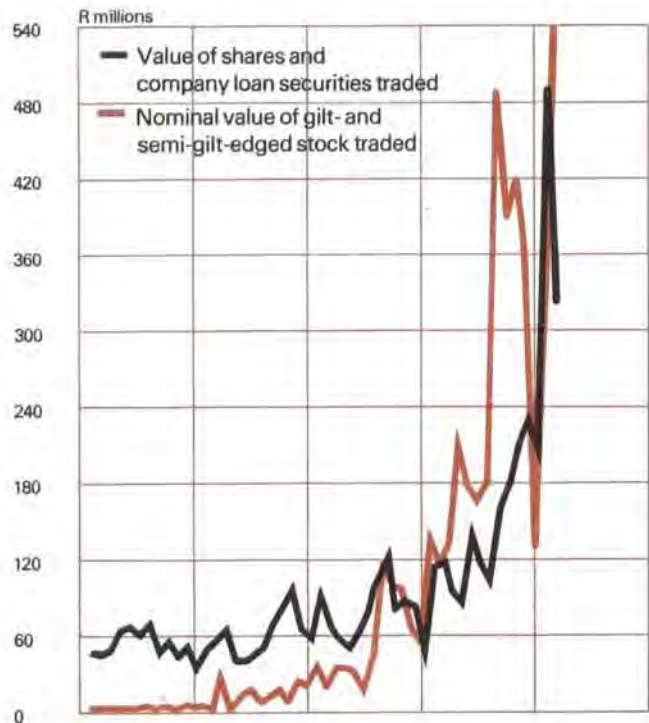
The prices of mining shares showed the largest increase during 1979. This increase amounted to 91 per cent and compared with rises of 62 and 54 per cent in the prices of financial and of industrial and commercial shares, respectively. The marked rise in share prices during 1979 occurred despite the depressing effect of net sales of South African listed shares by foreigners, amounting to R119 million, mainly for the purpose of creating financial rand, and of new share issues of R294 million by companies listed on the stock exchange. Share prices continued to rise during January and February 1980 and the price index, covering all classes of shares, rose by 11 per cent during this period.

The average dividend yield on all classes of shares declined from 6,76 per cent in December 1978 to 5,05 per cent in December 1979 and 4,75 per cent in February 1980. Yield changes caused the inverse yield gap between shares and long-term government stock to widen from 2,96 per cent in December 1978 to 4,27 per cent in December 1979 and to 4,51 per cent in February 1980.

Notwithstanding the boom period in the share market, unit trusts experienced a net outflow of funds of R16 million in the form of net repurchases of units during 1979. The sharp increase in share

prices, however, raised the market value of their net assets by 50 per cent, namely from R390 million at the end of 1978 to R585 million at the end of 1979. Reflecting this increase, the average selling price of units rose by 55 per cent during 1979.

Stock exchange



Percentage change in share prices

	1977	1978	1979	1980 Jan. & Feb.
Mining shares:				
Gold	16,8	18,8	107,2	7,9
Coal	13,2	32,2	54,0	8,3
Other metals and minerals	31,4	33,6	41,7	15,0
Financial shares:				
Mining	15,7	24,3	102,3	9,7
Industrial and general	16,5	22,6	47,7	20,3
Real estate	-11,5	-2,2	71,1	23,4
Banking and insurance	22,6	13,2	46,5	12,7
Industrial shares	8,7	14,0	56,1	11,8
Commercial shares	-3,2	30,0	39,3	16,0
All shares	13,7	19,5	71,7	10,6

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

The large flow of longer-term funds to banking institutions, building societies, participation mortgage bond schemes and government saving schemes during 1978 continued at an even higher level during 1979. The total flow of longer-term funds to these institutions amounted to R3 144 million in 1979, compared with R2 590 million in 1978. The rate of inflow of longer-term funds, however, declined significantly in the course of 1979 because of a shift to short-term deposits and to other investment outlets such as equities and real estate.

In contrast with 1978, building societies were able to attract substantially larger amounts of longer-term funds than banking institutions during 1979. The

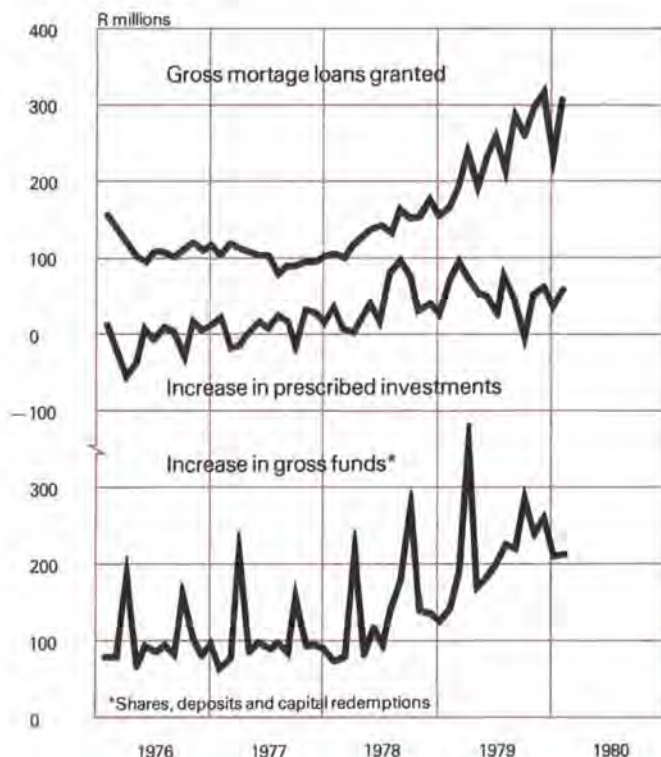
inflow of such funds to the societies increased by 70 per cent in 1979, whereas the inflow to banking institutions was slightly lower than in 1978. The flow of funds to government saving schemes rose marginally above the high level of 1978, whereas the outflow of funds from participation mortgage bond schemes continued because of the lack of demand for the type of mortgage financing provided by the schemes.

The unusually large inflow of longer-term funds to the various institutions resulted in a reduction in deposit and related interest rates on various occasions in the course of 1979. These rates were generally reduced by ½ per cent at a time in February, April and August.

**Flow of longer-term funds to financial institutions
(Seasonally adjusted)**
R millions

	1978	1979				
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Banking institutions	1 285	396	326	193	224	1 139
Building societies	943	447	410	332	415	1 604
Participation mortgage bond schemes	-21	-2	-6	-10	4	-14
Government savings facilities	383	98	107	98	112	415
Total	2 590	939	837	613	755	3 144

Building societies



Sharp rise in real estate and mortgage market activity

Activity in the real estate and mortgage markets increased sharply during 1979. The value of real estate transactions was 34 per cent higher in 1979 than in 1978. Further evidence of the increase in real estate market activity in 1979 was provided by the rise of 38 per cent in the value of building plans passed. Gross mortgage loans granted by building societies were 74 per cent higher in 1979 than in the preceding year, and mortgage loans outstanding rose by R980 million, or 15 per cent, during 1979 to a level of R7 552 million at the end of the year. Commitments in respect of mortgage loans granted but not yet paid out more than doubled from R410 million at the end of 1978 to R880 million at the end of 1979.

Notwithstanding the increase in mortgage financing by building societies, the demand for mortgage loans was insufficient to absorb the funds available for this purpose. Consequently, the building societies made an addition of R613 million to their prescribed investments during 1979. Their excess holdings of prescribed investments above the statutory minimum increased from 6,0 to 9,7 per cent of liabilities to the public during 1979.

Building societies lowered their rates on home mortgages by ½ per cent to a range of 9,5 - 11,5 per cent during April 1979. In July their rates on other

mortgages were also reduced by $\frac{1}{2}$ per cent to a range of 11,0 - 12,0 per cent. On 20 February 1980 a further reduction of $\frac{1}{2}$ per cent in the mortgage rate on housing loans was announced, lowering the range of rates to 9,0 - 11,0 per cent. The rate on mortgage loans granted by participation mortgage bond schemes was lowered in stages from 10,8 to 9,1 per cent in the course of 1979.