

# Quarterly economic review

## Summary and general comments

Although the economy may at some point in 1981 have moved into what can technically be called a "downward phase of the business cycle", it has continued to expand at a relatively high rate and has remained exceptionally buoyant throughout the first ten months of the year. Excluding the contribution of agriculture, the rate of increase in real gross domestic product decelerated appreciably in the first quarter of 1981, mainly owing to physical constraints, and subsequently remained at the lower level in the second quarter, before accelerating slightly in the third quarter. The real value added by agriculture, however, increased notably in the second and third quarters because of the harvesting of record summer crops. In the first three quarters of 1981 total real gross domestic product was about 4½ per cent higher than in the corresponding period of 1980.

Real gross domestic expenditure continued to rise at a high rate during the first half of 1981 and the rate of increase slowed down only slightly in the third quarter. With the exception of inventory investment, this slow-down was evident in all the other expenditure components. In the first three quarters of 1981 real gross domestic expenditure was about 12½ per cent higher than in the corresponding period of 1980.

The utilisation of production capacity in manufacturing remained close to full capacity levels during the first three quarters of the year. Despite the completion of fixed investment programmes, the utilisation of capacity remained at the high level to which it had increased in the first quarter. Non-agricultural employment continued to rise during the first half of 1981, the latest period for which statistics are available. This was reflected in a further decline in unemployment rates among all population groups during the first six months of 1981 and, according to available information, during most of the third quarter.

In the existing circumstances, the further increase in domestic demand contributed to a continued high rate of inflation. Largely owing to increases in administered prices, including the price of bread and petroleum products, the increase in consumer prices actually accelerated from a seasonally adjusted annual rate of 10,4 per cent in the second quarter to 17,7 per cent in the third quarter. In addition, the excess domestic demand, in combination with a decline in the price of gold and in merchandise exports, gave rise to a growing deficit on the current account of the balance of payments. In the third quarter this deficit amounted to R1 398 million and was running at a seasonally adjusted annual rate of about R5 880

million. The current account deficit was accompanied by a small net outflow of capital during the third quarter, i.e. excluding changes in liabilities related to reserves. Accordingly, the net gold and other foreign reserves declined by as much as R1 523 million during this period.

In order to facilitate its foreign reserve management, the Reserve Bank entered into gold swap agreements with several foreign financial institutions during October, in terms of which gold was sold for cash at market-related prices and repurchased forward. Since this method of obtaining additional foreign exchange reserves did not increase the liquidity base of the domestic banking system, it did not conflict with the Reserve Bank's restrictive monetary policy. Among other things, it enabled the Bank to follow a more neutral policy in the fixing of forward exchange rates because it obviated the need to promote a net inflow of capital by means of encouraging the foreign financing of trade. In addition, the rand was permitted to depreciate further in foreign exchange markets during the third quarter and during October as a means of facilitating the inevitable adjustment to unfavourable external influences, among other things by discouraging the high domestic demand for imports. During this four-month period the rand depreciated on average by a further 7,5 per cent against all currencies.

Following a period of excessive monetary expansion during 1980 and the first four months of 1981, the monetary authorities succeeded in regaining effective control of the money supply from May onwards. The increase in the broadly defined money supply (M2) decelerated from a seasonally adjusted annual rate of 46 per cent during the first quarter of 1981 to 26 per cent during the second and 10 per cent during the third quarter. This deceleration reflected the deliberate official policy of accepting, instead of largely neutralising through domestic credit creation, the contractionary effects on the domestic money supply of the declining gold price and other adverse balance of payments developments. Thus, whereas the net gold and other foreign reserves continued to decline sharply during the third quarter, bank credit to the government sector showed only a negligible rise and bank credit to private sector a markedly lower rate of increase than during the preceding quarters.

Interest rates generally showed little change during the third quarter and October. During this period some money market interest rates eased slightly, whereas other short-term interest rates and most long-term interest rates showed small increases. At the prevailing market rates, new issues of fixed

interest securities, including new issues of government stock in October, were well supported.

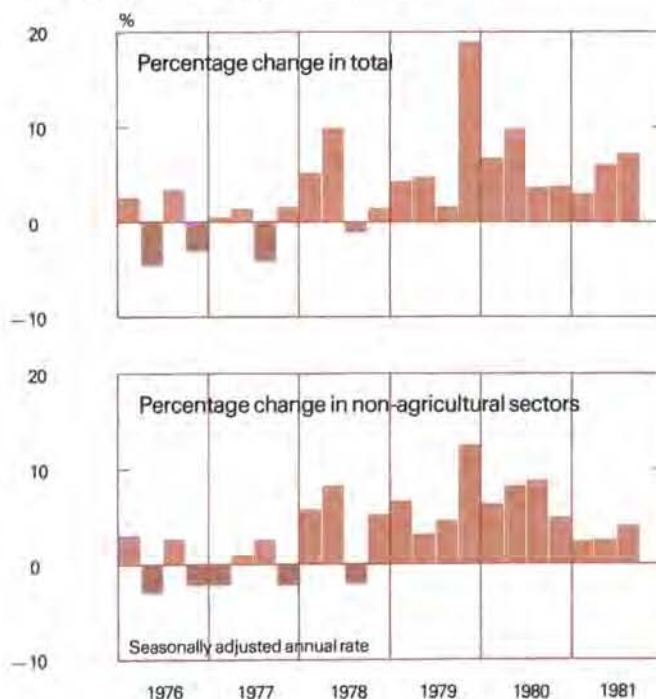
The continued buoyancy of the economy, which tended to exceed earlier expectations, was reflected in a recovery of turnover and prices in the share market during August and September. However, despite a further increase in turnover, share prices declined slightly during October. The value of transactions in the real estate market reached a new record in the third quarter, but the monthly value of these transactions showed a declining tendency in the course of this period. In contrast with fairly active conditions in the other main sections of the capital market, activity in the mortgage market was slowed down during the third quarter by a general scarcity of funds and relatively high interest rates.

## National accounts\*

### Moderation of real economic growth rate of non-agricultural sectors

The harvesting of the record agricultural summer crops caused the rate of increase in real gross domestic product to accelerate notably in the second and third quarters of 1981. Excluding the contribution of agriculture, the real gross domestic product rose at an annual rate of approximately 2½ per cent in each of the first two quarters of 1981, but at an annual rate of about 4 per cent in the third quarter. This slight acceleration was due to faster increases, compared with the second quarter, in the real product of non-gold mining, manufacturing and the wholesale and motor trade. During the first three quarters of 1981 total real gross domestic product was about 4½ per cent higher than during the corresponding period of 1980. A real growth rate of between 4½ and 5 per cent is expected for the calendar year 1981 as a whole.

### Real gross domestic product at factor cost



### Slower increase in real gross domestic expenditure

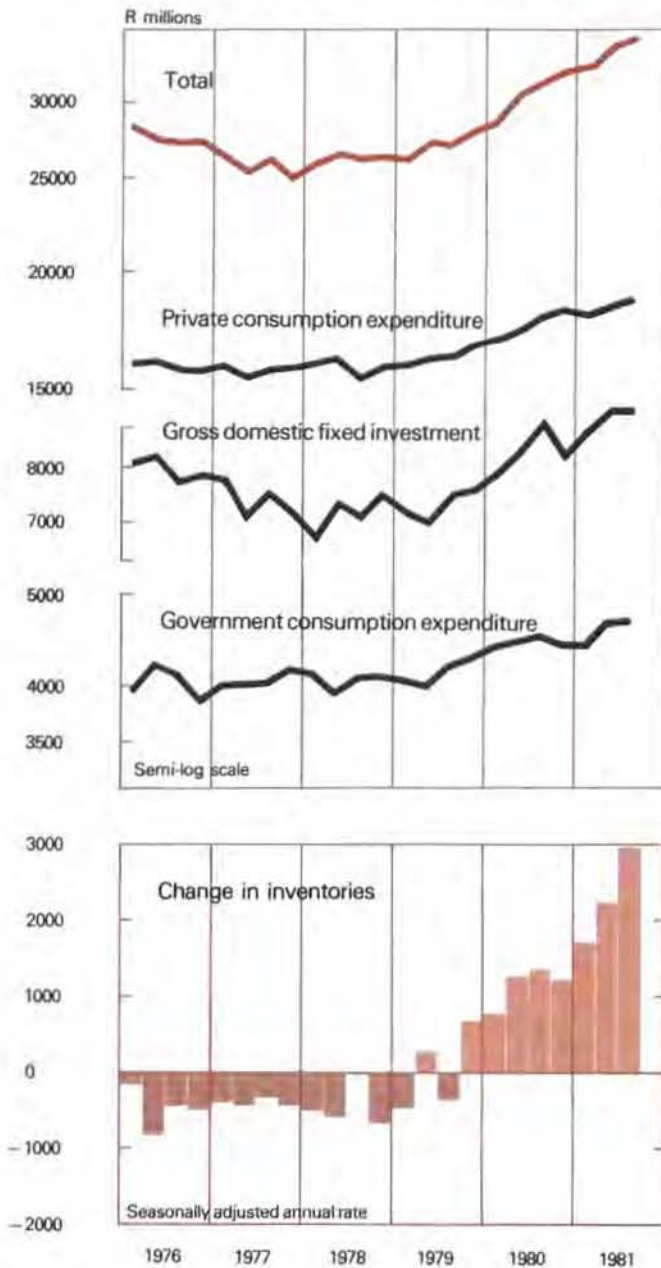
Real gross domestic expenditure continued to increase in the third quarter, but at a somewhat lower rate than in the first half of 1981. Except for inventory investment, all the other components of real

\*Quarterly changes are based on seasonally adjusted data.

domestic expenditure contributed to this lower rate of increase. In the first three quarters of 1981 real gross domestic expenditure was still about 12½ per cent higher than in the comparable period of 1980. In nominal terms, gross domestic expenditure again exceeded gross national product by a substantial margin in the third quarter, indicating that another large deficit was recorded on the current account of the balance of payments.

Real private consumption expenditure increased moderately in the third quarter. The increase in consumer outlays on non-durable goods and on

### Gross domestic expenditure at constant 1975 prices



services accelerated somewhat, but the effect of this was partly neutralised by a decline in real outlays on semi-durable goods and a lower rate of increase in real outlays on durable goods. Real private consumption expenditure in the first three quarters of 1981 was about 5½ per cent higher than in the corresponding period of 1980.

Real government consumption expenditure, which had increased appreciably in the second quarter, showed little change in the third quarter. In the first three quarters of 1981 real government consumption expenditure was about 3 per cent higher than in the comparable period of 1980. Real remuneration of employees increased by 1½ per cent in this nine-month period, while real outlays on goods and other services, including defence spending, rose by 4½ per cent.

Following upon a substantial increase in the second quarter, total real gross domestic fixed investment showed little change in the third quarter and was about 7½ per cent higher in the first three quarters of 1981 than in the corresponding period of 1980. Real fixed outlays of the private sector did not rise further in the third quarter, because increases in fixed capital outlays in agriculture and on residential construction were more or less counterbalanced by decreases in the outlays of mining and commerce, while those of manufacturing remained more or less unchanged. In the first three quarters of 1981 real private fixed investment rose by about 11 per cent in comparison with the corresponding period of 1980.

Public sector investment, likewise, showed little change in the third quarter. In the case of public authorities, a sharp increase in real outlays by the South African Transport Services, reflecting purchases of rolling stock and additional aircraft, was neutralised by a decrease in real expenditure by general government departments. The real fixed investment of public authorities in the first three quarters of 1981 was about 11½ per cent higher than in the same period of 1980. Regarding the real fixed investment outlays of public corporations, a further increase in expenditure by Sasol was approximately counterbalanced by a decline in expenditure by Eskom. The public corporations' real fixed investment levelled out during the past four quarters. In the first three quarters of 1981 it was about 3½ per cent lower than in the corresponding period of 1980.

The large increase in real inventories in the first half of 1981 was followed by a substantial further build-up in the third quarter. All classes of inventories increased in the third quarter, with major contributions coming from industrial, commercial, strategic, diamond and agricultural stocks. Among other things, these increases reflected the weaker domestic and foreign demand for goods, the harvesting of record agricultural crops and the stockpiling of strategic goods. The substantial and persistent build-up of real non-agricultural and non-strategic inventories since the second half of 1979 caused the ratio of these inventories to the real non-agricultural

gross domestic product to rise consistently from a low level of 29 per cent in the fourth quarter of 1979 to 33½ per cent in the third quarter of 1981.

#### Lower level of gross domestic saving

Gross domestic saving, which often shows large quarterly fluctuations, increased markedly in the third quarter of 1981 and, as a ratio of gross domestic product, rose from 25 per cent in the second quarter to 27 per cent in the third quarter. In the third quarter of 1981, gross domestic saving was again substantially lower than gross domestic investment, indicating the continued extensive use of foreign funds to finance the shortfall, as reflected in this instance in a decline in the net gold and other foreign reserves.

Except for a decline in corporate saving, all the other components of gross domestic saving increased in the third quarter. Personal saving changed from a negative figure in the second quarter to a positive figure in the third quarter, as a result of a larger rise in disposable income than in consumption expenditure. Because current income increased by a larger amount than current expenditure, the saving of general government increased markedly in the third quarter.

In the first three quarters of 1981, gross domestic saving declined by about R2 000 million, in comparison with the first three quarters of 1980, and as a ratio of gross domestic product, it amounted to only 26½ per cent, compared with 33½ per cent in calendar year 1980. In the first three quarters of 1981 net private saving, i.e. personal and corporate saving, decreased by no less than R2 800 million, reflecting, among other things, the effect of the lower gold price and higher production costs on gold mining profits and the continued high level of private consumption expenditure. The saving of general government showed little change over this period, but provision for depreciation rose markedly in accordance with the sharp increase in fixed capital investment at current prices.

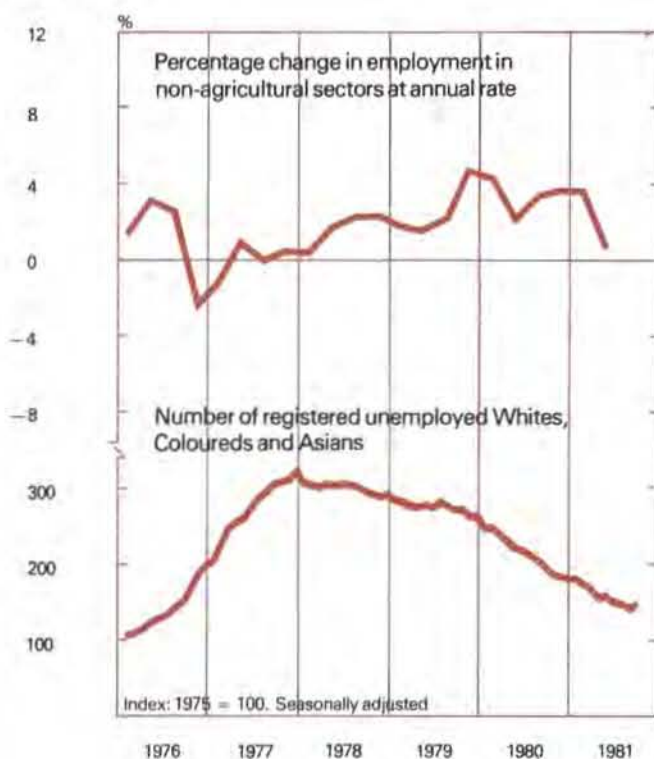
## Employment\* and prices

### Lower rate of increase in employment and labour productivity

From the second quarter of 1981 conditions in the labour market reflected the slower real economic growth resulting largely from physical constraints, such as the persistent scarcity of skilled and semi-skilled labour. The seasonally adjusted annual rate of increase in non-agricultural employment, which had amounted to 3,4 per cent in both the third and fourth quarters of 1980 and to 3,7 per cent in the first quarter of 1981, decelerated to 0,7 per cent in the second quarter. This deceleration occurred in most sectors of the economy.

Unemployment rates continued to decline in the second quarter. The seasonally adjusted unemployment rate for Whites, Coloureds and Asians, i.e. the ratio of registered unemployment to the labour force, decreased from 0,9 per cent in the fourth quarter of 1980 to 0,8 and 0,7 per cent in the first and second quarters of 1981, respectively. Likewise, the unemployment rate for Blacks, i.e. the ratio of unemployment to the economically active population, declined

### Employment



\*Statistics relating to employment and the remuneration of labour are available only up to the end of the second quarter of 1981.

from 8,3 per cent in the fourth quarter of 1980 to 8,1 per cent in the first quarter of 1981 and to 7,5 per cent in July. However, the declining trend in unemployment may have been reversed towards the end of the third quarter, when the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians rose from 14 600 in August to 15 120 in October.

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, actually declined from the second half of 1980 to the first half of 1981, but was still about 2 per cent higher in the first half of 1981 than in the first half of the preceding year. In 1980 as a whole labour productivity increased by 4 per cent. The lower rate of increase in the first half of 1981 was apparently related to the almost full utilisation of available production capacity and shortages of skilled labour.

#### Higher rate of increase in remuneration of labour

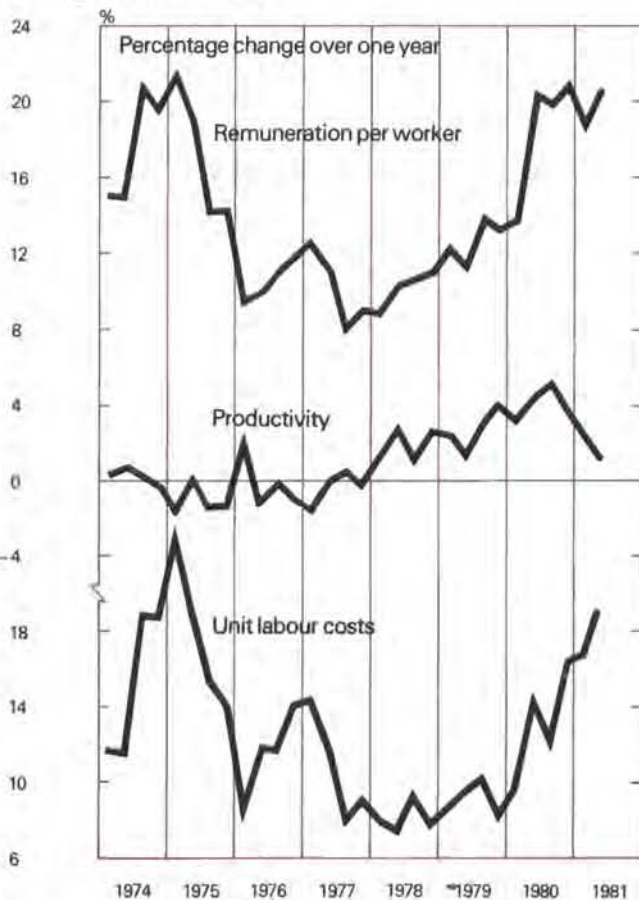
In nominal terms, the average remuneration per worker in the non-agricultural sectors of the economy rose sharply by 19,7 per cent in the first half of 1981

(compared with the corresponding period of the preceding year), as against an increase of 18,1 per cent in 1980 as a whole. If adjustments are made for price increases, the real average remuneration per worker rose by 3,6 per cent in the first half of 1981 (compared with the first half of 1980), following upon an increase of 3,5 per cent in 1980 as a whole.

As shown in the accompanying table, the average real remuneration of White workers grew at a higher rate in the first half of 1981, while that of workers of other population groups actually declined in this period. This decline reflected mainly the effect of the sharp rise in food prices during the second half of 1980 on the consumer price index for lower income groups, which is used as a deflator in the conversion of the average remuneration of non-White workers from nominal to real terms.

The sharp rise in nominal salaries and wages, together with the lower rate of increase in output per worker, contributed to a substantially higher rate of increase in labour costs in the first half of 1981. Unit labour costs in the non-agricultural sectors of the economy were 18 per cent higher in the first half of 1981 than in the corresponding period of 1980, compared with a rise of 13 per cent in 1980 as a whole.

**Productivity, remuneration and labour costs in non-agricultural sectors**



**Percentage change in salaries and wages per worker in non-agricultural sectors**

	1980	1st half 1980 to 1st half 1981
Whites		
At current prices	17,5	22,0
At constant prices	3,3	5,7
Other population groups		
At current prices	19,9	18,2
At constant prices	4,3	-0,8
Total		
At current prices	18,1	19,7
At constant prices	3,5	3,6

#### Higher rate of increase in prices

A further round of upward adjustments in administered prices and rates, together with higher rates of increase in a wide range of other prices, caused consumer prices to rise at a markedly higher rate in the third quarter of 1981. At a seasonally adjusted annual rate, the quarterly increase in these prices accelerated from 13,1 per cent and 10,4 per cent in the first and second quarters of 1981, respectively, to 17,7 per cent in the third quarter. More particularly, upward adjustments were made to the prices of bread and petroleum products and to water tariffs, mortgage interest rates and property taxes. In addition, higher rates of increase were recorded in the prices of vehicles, motor spare parts, clothing, footwear and tobacco products and in rents. From

October 1980 to October 1981 consumer prices rose by 14,6 per cent.

Like consumer prices, the rate of increase in production prices also accelerated in the third quarter of 1981. At a seasonally adjusted annual rate, the increase amounted to 13,2 per cent in this period, compared with 10,1 per cent and 8,1 per cent in the first and second quarters, respectively. A higher rate of increase was evident in the prices of imported as well as domestically produced goods. From September 1980 to September 1981 production prices increased by 12,4 per cent.

## Balance of payments

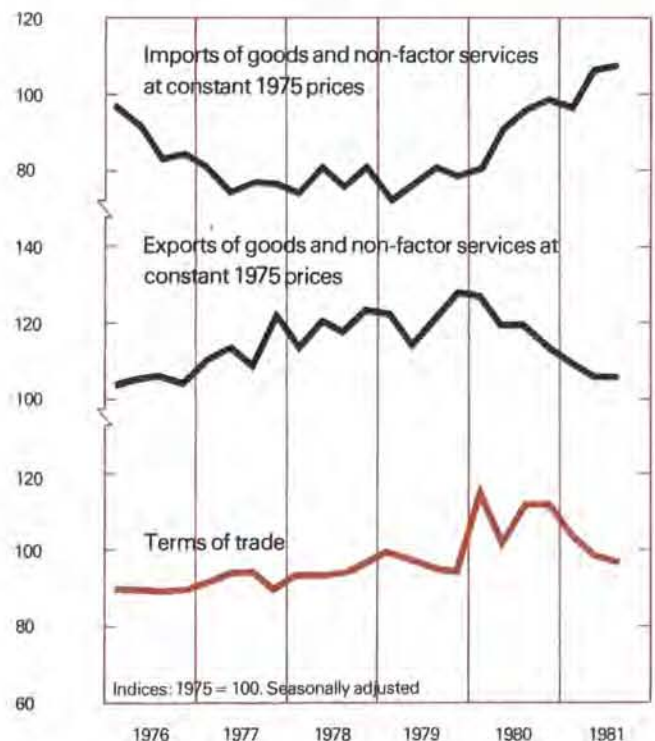
### Further large deficit on current account

As during the first half of the year, the current account of the balance of payments was affected adversely in the third quarter by the continuing high level of gross domestic expenditure, recessionary conditions in trading-partner countries and a further deterioration of the terms of trade (including a lower price of gold). A further deficit of R1 398 million was recorded on the current account in the third quarter, which brought the total deficit in the first nine months of 1981 to R2 810 million. At a seasonally adjusted annual rate, the current account deficit in the third quarter amounted to R5 880 million, or about 8 per cent of the gross domestic product.

As shown in the accompanying table, seasonally adjusted merchandise exports in the third quarter declined slightly from the level of the preceding quarter; a decline in volume was only partly countered by an increase in prices. Exports of maize and sugar rose sharply, whereas exports of nickel, platinum and ferro-chrome declined substantially.

The seasonally adjusted net gold output rose moderately in the third quarter because of an increase in volume. The price of gold on the London market in fact declined from an average of US \$479 (or R401) per fine ounce in the second quarter to US

### Balance of payments current account



### Current account of the balance of payments

Seasonally adjusted figures at an annual rate  
R millions

	1981		
	1st qtr.	2nd qtr.	3rd qtr.
Merchandise exports .....	8 780	8 940	8 660
Net gold output .....	8 490	7 610	8 380
Merchandise imports .....	-15 800	-18 210	-19 260
Net service and transfer payments .....	-2 760	-3 390	-3 660
<b>Deficit on current account .....</b>	<b>-1 290</b>	<b>-5 050</b>	<b>-5 880</b>

\$421 (or R395) per fine ounce in the third quarter. The considerably smaller decline in the rand price of gold was due to the depreciation of the rand against the US dollar. In October the average gold price on the London market amounted to US \$438 (or R418) per fine ounce.

Merchandise imports, seasonally adjusted, increased further from the high level of the second quarter owing to a rise in the volume of imports as well as in prices. In particular, substantial increases occurred in imports of machinery and electrical equipment, chemical products, textiles, and base metals. In contrast, imports of mineral products (including oil), which had risen considerably in the first six months of the year, declined in the third quarter.

### Small net outflow of capital

The substantial deficit on the current account in the third quarter was accompanied by a small net outflow

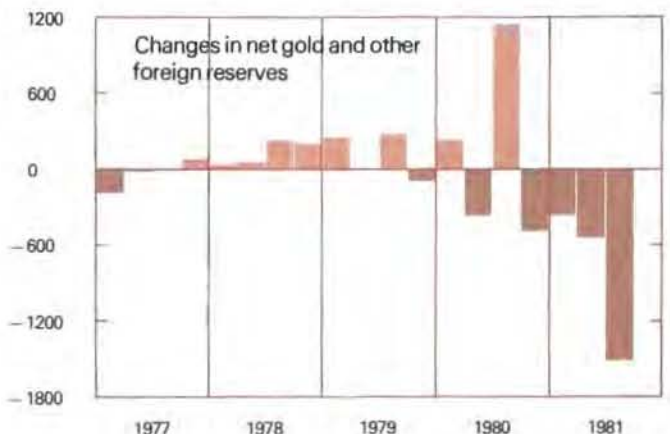
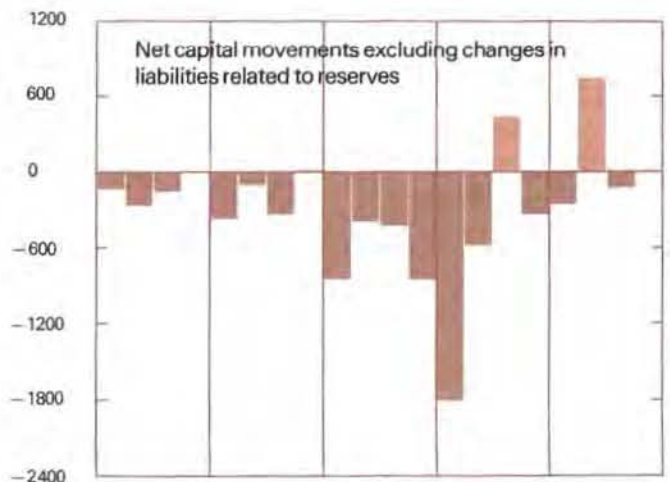
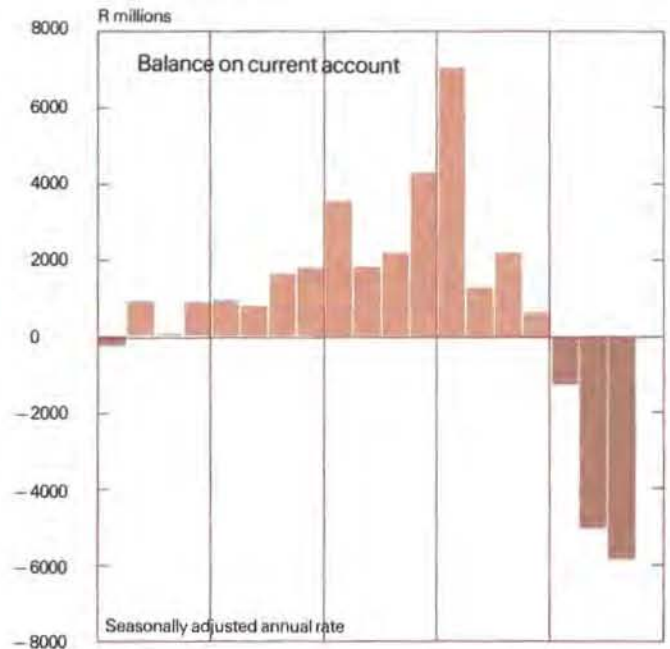
### Net capital movements\*

R millions

	1981		
	1st qtr.	2nd qtr.	3rd qtr.
<b>Long term capital</b>			
Central government and banking sector .....	12	24	37
Public corporations and local authorities .....	107	54	189
Private sector .....	31	51	-94
<b>Total .....</b>	<b>150</b>	<b>129</b>	<b>132</b>
<b>Short-term capital not related to reserves</b>			
Central government and banking sector .....	-14	-35	18
Public corporations and local authorities .....	-101	-72	-147
Private sector, including unrecorded transactions .....	-304	736	-128
<b>Total .....</b>	<b>-419</b>	<b>629</b>	<b>-257</b>
<b>Total net capital movements not related to reserves .....</b>	<b>-269</b>	<b>758</b>	<b>-125</b>

\*Excluding changes in liabilities related to reserves.

### Balance of payments



of capital, amounting to R125 million (excluding changes in liabilities related to reserves, but including errors and omissions). A net capital inflow of R364 million was recorded during the first nine months of 1981. The small net outward movement of funds during the third quarter was mainly due to a net outflow of long-term as well as short-term capital from the private sector. In contrast, there was a net inflow of long-term and short-term capital to the combined central government and banking sector. Public corporations' long-term foreign borrowing increased appreciably, but this inflow of capital was largely offset by a net repayment on their short-term foreign debt and an increase in their short-term foreign assets.

### Substantial decline in net gold and other foreign reserves

The large deficit on the current account or the balance of payments, together with the small net outflow of capital, caused the net gold and other foreign reserves to decline by as much as R1 523 million during the third quarter. This brought the decrease in net foreign reserves to R2 940 million from the fourth quarter of 1980. Foreign reserves were supplemented by net short-term foreign borrowing of R1 375 million by the Reserve Bank and other banking institutions during the third quarter. This increase in liabilities related to reserves, together with positive valuation adjustments to the rand value of the gold as well as the foreign exchange reserves, resulted in an increase of R209 million in the gross gold and other foreign reserves during the third quarter. At the end of September the gross foreign reserves amounted to R5 464 million.

The substantial deficits on the current account of the balance of payments during the second and third quarters resulted in a sharp fall in total foreign

exchange holdings, namely from R1 257 million at the end of March to R826 million at the end of September. This decline was particularly evident in the Reserve Bank's foreign exchange holdings, despite substantial foreign borrowing by the Bank. Excluding holdings of Special Drawing Rights, these holdings decreased from R726 million to R145 million during the six months to September. In order to replenish its foreign exchange reserves, the Reserve Bank entered into gold swap agreements with several foreign financial institutions during October, in terms of which gold was sold for cash at market-related prices and repurchased forward. Part of the proceeds of the gold swaps was used to make repayments on short-term foreign loans. These credit facilities can, however, be utilised again as and when required. The foreign exchange holdings of the Reserve Bank accordingly increased by R296 million to R560 million during October, whereas the gold reserves declined by R1 032 million to R3 606 million.

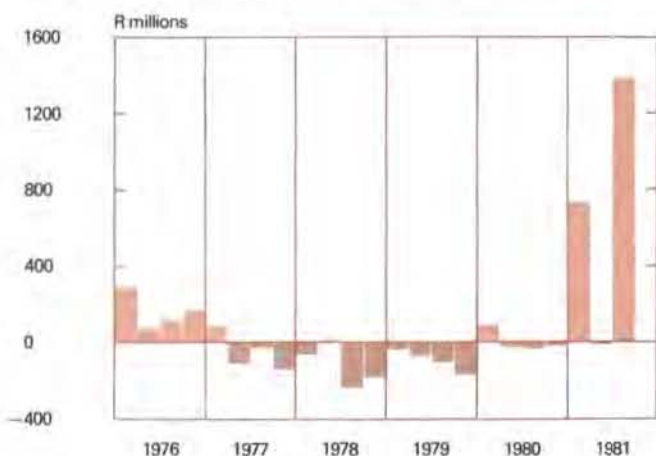
### Further depreciation of the rand

Against this background, the commercial rand showed an effective depreciation of 7,5 per cent against all major currencies during the four months from July to October. As shown in the accompanying table, a further large depreciation against the US dollar occurred during this period and, in addition, the rand depreciated sharply against the other main currencies.

#### Changes in commercial exchange rates of the rand

	1981	
	July to October	First ten months
All currencies (weighted average) ...	-7,5	-13,7
US dollar .....	-8,0	-22,6
British pound .....	-3,1	0,1
Japanese yen .....	-4,7	-11,0
German mark .....	-13,6	-11,4
Swiss franc .....	-15,7	-18,7
French franc .....	-8,6	-3,5

### Changes in short-term capital related to reserves



The financial rand depreciated by 10,2 per cent against the US dollar from the end of June to the end of October, while the financial rand discount rose slightly from 27,2 per cent to 28,8 per cent during this period. The somewhat larger depreciation of the financial rand, than of the commercial rand, against the US dollar during the third quarter was partly attributable to foreigners' net sales, amounting to R90 million, of securities quoted on the Johannesburg Stock Exchange.

As a temporary bridging operation to facilitate its foreign exchange reserve management at a time when interest rates in South Africa were considerably lower than those in the United States and in certain other



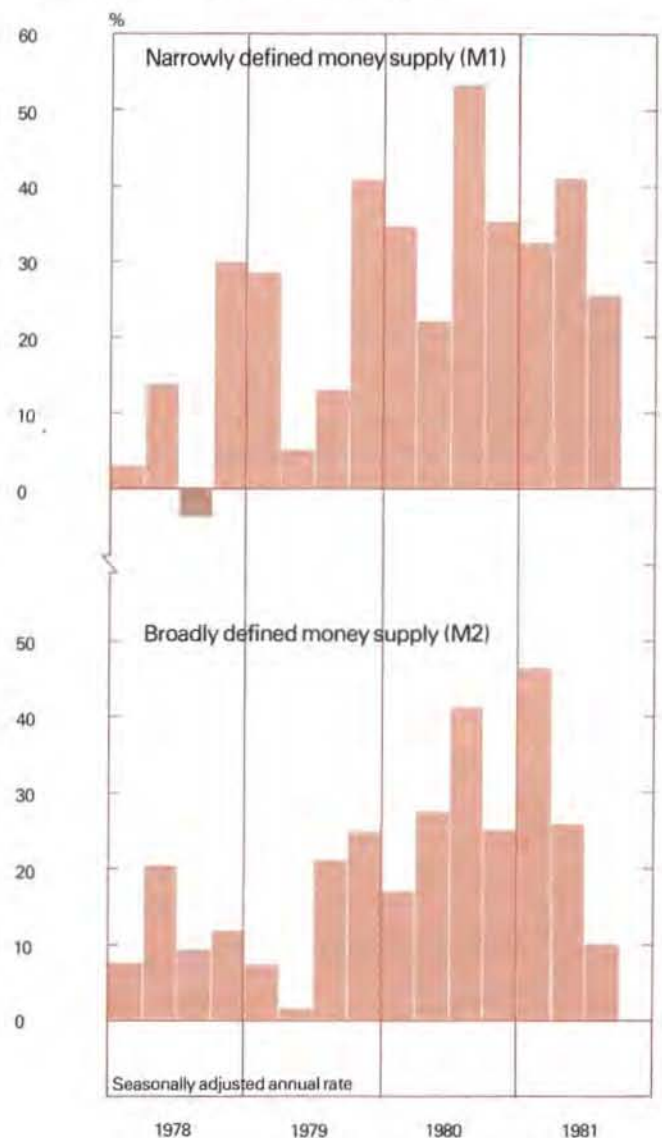
important industrial countries, the Reserve Bank from August onwards quoted relatively large discounts on forward dollars, which had the effect of neutralising the interest rate differential and therefore encouraging the South African banks and their clients to make relatively more use of foreign financing. This device proved useful in easing the pressure on the Reserve Bank's foreign exchange reserves. However, since it also served to weaken the restrictive impact of the Bank's domestic monetary policy, it was only used until the gold swaps referred to above had been negotiated. Thereafter it was phased out completely. Indeed, in recent weeks the Reserve Bank has quoted forward dollars at a premium.

## Money and banking

### Further slow-down of growth in money supply

The lower rate of increase in the money supply, which had become evident in the second quarter of 1981, continued during the third quarter. At a seasonally adjusted annual rate, the increase in the broadly defined money supply (M2) slowed down from 46 per cent and 26 per cent during the first and second quarters, respectively, to 10 per cent during the third quarter. The narrowly defined money supply (M1), rose at a seasonally adjusted annual rate of 25 per cent during the third quarter, compared with 32 per cent and 41 per cent during the first and second quarters, respectively. From the end of 1980

### Percentage change in money supply

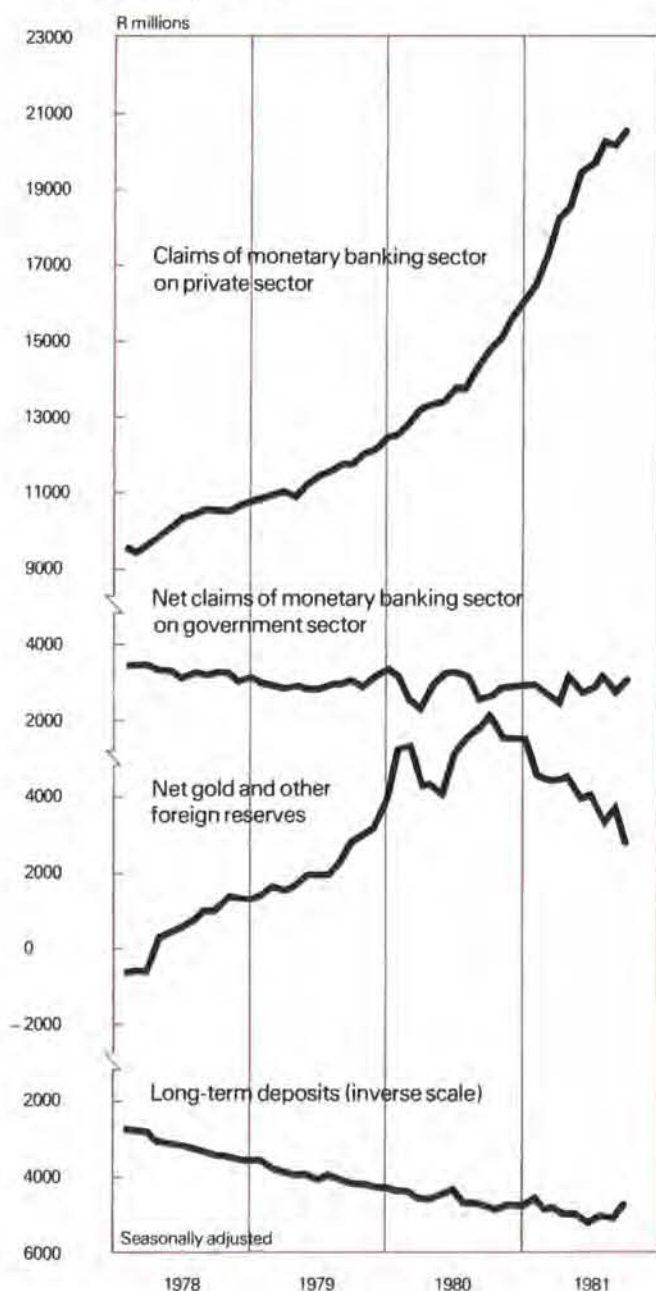


to the end of September 1981 the seasonally adjusted annual rates of increase in M2 and M1 amounted to 27 per cent and 33 per cent, respectively.

### Causes of changes in M2

As during the first half of the year, the main statistical "cause" of the further expansion of the seasonally adjusted money supply during the third quarter of 1981 was the increase in the monetary banking sector's claims on the private sector. The increase in these claims, however, slowed down progressively from the second quarter. A marked contractionary

### Causes of changes in M2



### Causes of changes in M2

Seasonally adjusted  
R millions

	1981		
	1st qtr.	2nd qtr.	3rd qtr.
Net gold and other foreign reserves .....	-918	-283	-1 534
Net claims on the government sector .....	-439	410	151
Claims on the private sector .....	2 153	1 409	969
Long-term deposits of the private sector (increase-, decrease+)	-68	-325	499
<b>Total</b> .....	<b>1 585</b>	<b>1 028</b>	<b>443</b>

influence on the money supply was exerted by the sharp decline in the monetary banking sector's net gold and other foreign reserves. A small increase in the monetary banking sector's net claims on the government sector and a large decline in the private non-banking sector's holdings of long-term deposits with monetary banking institutions contributed to the money supply growth during the third quarter.

### Lower rate of increase in bank credit to the private sector

The increase in the monetary banking sector's seasonally adjusted claims on the private sector decelerated from an annual rate of 65 per cent during the first quarter of 1981 to 35 per cent during the second quarter and 21 per cent during the third quarter. The lower rate of increase during the third quarter reflected partly a weaker demand for credit and partly a certain amount of new disintermediation. During the first nine months of 1981 the seasonally adjusted annual rate of increase in bank credit to the private sector still amounted to as much as 39 per cent.

A breakdown of monetary banks' credit to the private sector (unadjusted for seasonal changes) shows that the Land Bank's cash credit advances for the financing of the record summer crops accounted

### Composition of changes in monetary banking sector's claims on private sector

Unadjusted for seasonal changes  
R millions

	1981		
	1st qtr.	2nd qtr.	3rd qtr.
Reserve Bank, NFC and discount houses .....	149	-32	-42
Land Bank .....	20	80	888
Other monetary banks:			
Deposits and investments .....	194	149	365
Bills discounted .....	56	243	-326
Hire-purchase credit .....	341	293	215
Leasing finance .....	119	156	154
Other loans and advances .....	1 208	637	-136
<b>Total</b> .....	<b>2 087</b>	<b>1 526</b>	<b>1 118</b>

for the larger part of the increase during the third quarter. Excluding these advances, there was only a small rise in bank credit to the private sector during this period. Investments in private-sector securities increased considerably, mainly because of the re-purchasing of securities sold previously by banking institutions under repurchase agreements to the private sector. The upward trend in hire-purchase credit and leasing finance continued, but there was a slight slow-down of the increase in hire-purchase credit. Bills discounted declined considerably, partly as a result of a lower level of domestic financing of foreign trade, but also because of banking institutions' sales of discounted bills to investors outside the banking system. Other loans and advances, mainly overdrafts granted by commercial banks, actually declined after their sharp rise during the first half of the year.

#### Increase in bank liquidity

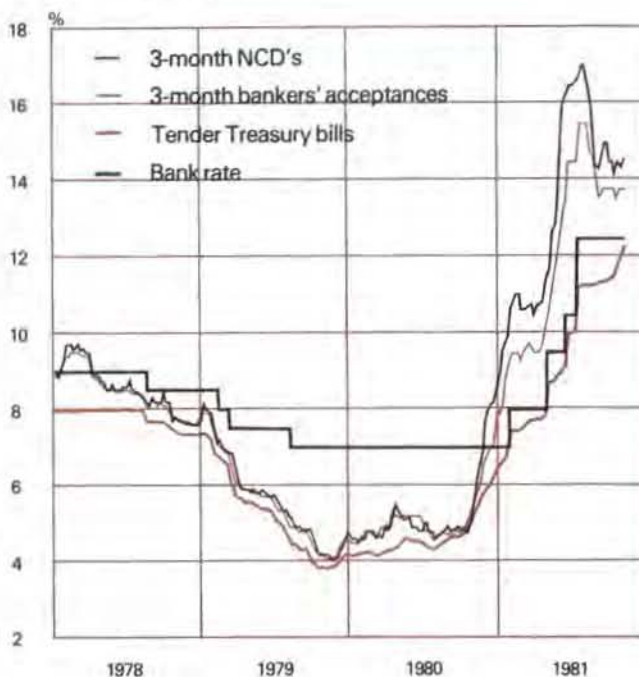
The excess liquid asset holdings of banking institutions which had been at a low level during the second quarter and July 1981, improved slightly during August and September. Actual holdings of liquid assets rose by R258 million during this two-month period, mainly as a result of the substantial increase in credit extended by these institutions to the Land Bank. Required liquid assets, on the other hand, rose by only R96 million. The excess liquidity ratio of all banking institutions, therefore, increased from 2,0 per cent at the end of June to 2,1 per cent at the end of July and to 2,7 per cent at the end of September.

#### Money market

Conditions in the money market (in the narrow sense), which generally had been tight from early May, eased somewhat from the middle of August, mainly because of short-term foreign borrowing by banking institutions for the purpose of meeting their liquid asset requirements at the time of the seasonal flow of tax funds to the Government over the August month-end. However, from early September the market tightened considerably and an appreciable shortage of funds was experienced over both the September and October month-ends. The renewed tightening of the market was caused partly by repayments of short-term foreign loans during September, subscriptions to new issues of government stock from 1 October, and open-market operations by the Reserve Bank. Somewhat easier conditions were experienced in the market after the first week of November, but conditions tightened again towards the end of the month.

Despite the tightening of the money market from early September, interest rates on private-sector paper did not reverse their moderate decline since the end of July, but merely remained at the levels reached in early September. The rates quoted by the discount houses on three-month bankers' acceptances, for

**Short-term interest rates**



example, decreased from 15,5 per cent on 31 July to 13,75 per cent on 4 September and remained at this level until 20 November, after which it rose to 14,25 per cent on 27 November. The Treasury bill tender rate, on the other hand, rose from 11,25 per cent on 31 July to 11,47 per cent on 16 October. On 23 October the margin between the Treasury bill tender rate and the call deposit rate of the National Finance Corporation was raised from 0,5 per cent to 0,75 per cent, partly to assist the discount houses and the National Finance Corporation and partly to make investments in Treasury bills more attractive and to develop a more active market in these bills. The Treasury bill tender rate subsequently increased to 12,40 per cent on 27 November.

#### Open-market operations

During the three months from August to October the Reserve Bank obtained short-term government stock amounting to R400 million on tap from the Treasury and, in addition, purchased long-term stock amounting to R275 million from the Public Debt Commissioners. Open-market sales of short-term and long-term stock by the Reserve Bank during this period amounted to R421 million and R283 million, respectively. The Bank's open-market purchases of government stock during the three-month period concerned consisted mostly of the buying in of stock maturing on 1 October and 1 December. Such purchases amounted to R411 million, of which R116 million and R295 million represented stock maturing on 1 October and 1 December, respectively.

## Government finance

### Revenue collections generally higher than expected

In the first half of the current fiscal year, i.e. the period April to September 1981, revenue collections by the Central Government were 10 per cent higher than in the corresponding period of the preceding fiscal year. The Budget provided for a decrease of 1 per cent in the 1981/82 fiscal year as a whole. As shown in the accompanying table, most of the major revenue components in the first half of 1981/82 either increased at rates that were higher or declined at rates that were lower than those anticipated in the Budget for the fiscal year as a whole.

The smaller decline in income tax collections from gold mining companies, compared with the Budget figure, was due largely to the effect of the depreciation of the rand on the rand price of gold and on gold mining profits, as well as the fact that profits in the early part of the current fiscal year still reflected the preceding higher price of gold. However, in the second quarter of the fiscal year income tax payments by gold mining companies were actually 42 per cent lower than in the corresponding period of the 1980/81 fiscal year. Income tax payments by other companies continued to reflect high company profits, while personal income tax receipts were boosted by salary and wage increases and the consequent shift of taxpayers into higher marginal tax rate brackets. Because of the substantial increase in imports and domestic demand generally, customs and excise duties, two of the main components of indirect tax, recorded rates of increase during the first half of 1981/82 that were substantially in excess of Budget estimates for the fiscal year as a whole. Receipts of the general sales tax, on the other hand, increased at a rate below the Budget estimate.

### State Revenue Account — tax collections

	1981/82 Budget		April-Sept. 1981	
	R millions	Per- centage change <sup>1</sup>	R millions	Per- centage change <sup>2</sup>
Income tax				
Gold mines	1 620	-42	927	-35
Other	5 688	20	2 857	28
Total	7 308	-3	3 784	4
Customs duties <sup>3</sup>	850	16	518	61
Excise duties <sup>3</sup>	1 385	11	657	21
General sales tax	2 150	30	965	23

1. Compared with actual collections during the 1980/81 fiscal year.

2. Compared with the corresponding period of the 1980/81 fiscal year.

3. Including amounts transferable to neighbouring countries in terms of Customs Union Agreements and to the Central Revenue Fund of South West Africa.

### High rate of increase in Exchequer issues

Issues to government departments from the Exchequer Account\* were 25 per cent higher in the first half of the 1981/82 fiscal year than in the first half of the preceding fiscal year. This increase was well above the Budget estimate of 17 per cent for the fiscal year as a whole. During October issues continued to increase at a high rate and were 24 per cent higher than in October 1980. In order not to exceed the total amount approved by Parliament, Exchequer issues should therefore rise at a considerably lower rate during the last five months of the fiscal year.

### Financing of the Exchequer Account deficit

The deficit (before borrowing and debt repayment) on the Exchequer Account amounted to R1 339 million in the first half of the 1981/82 fiscal year. This figure represented about half of the budgeted deficit for the fiscal year as a whole and considerably exceeded the deficit of R551 million in the 1980/81 fiscal year. The deficit was financed as follows:

	R millions
Foreign sector	158
Public Debt Commissioners	67
Private non-banking sector	844
Monetary banking sector	270
Total	1 339

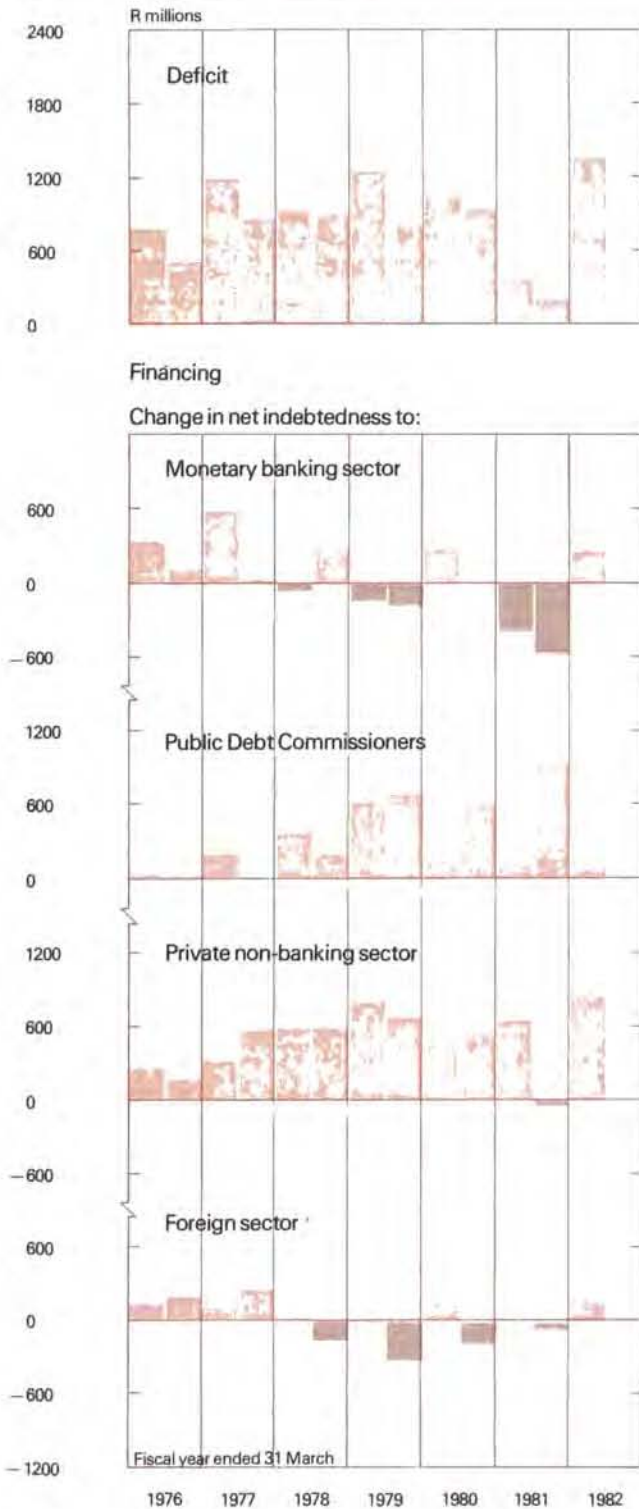
The larger part of the deficit was financed by means of borrowing from the private non-banking sector. Apart from this sector's subscription to a new issue of government stock in May, the open-market sales of government stock by the Reserve Bank, referred to earlier, contributed materially to the net increase in the private non-banking sector's holdings of such stock. The Public Debt Commissioners made only a minor contribution to the financing of the Exchequer Account deficit, mainly because of investments in other public-sector securities and a withdrawal of funds by the South African Transport Services, provincial administrations and public corporations. The Treasury's net recourse to the monetary banking sector as a source of finance was comparatively small and consisted mostly of an increase of R203 million in this sector's holdings of Treasury bills.

### Successful stock issues during October

Two new stock issues were offered for subscription on 1 October 1981 to coincide with the redemption of maturing stock amounting to R284 million. The new loans consisted of the issue at par of a 12,75 per cent short-term stock with a yield, including commission, of 12,8 per cent and the issue of a 13 per cent long-term stock at R98,5 per cent with an effective

\*The Exchequer Account is adjusted to take account of changes in the cash balance on, and the net borrowing from, the Paymaster-General Account and to incorporate the Stabilization Account.

### Exchequer deficit and financing



yield, including commission, of 13,23 per cent. Applications for the short-term and the long-term stock amounted to R317 million and R316 million, respectively. The Public Debt Commissioners contributed R120 million to the applications for long-term stock. In total, the monetary banking sector applied for R321 million, and the private non-banking sector for R192 million, of the new stock.

If the results of the new issues in May and October are taken into account, the Government's borrowing programme for the 1981/82 fiscal year has already exceeded expectations. The Budget provided for net new issues of marketable government stock of R650 million (excluding borrowing from the Public Debt Commissioners), but applications for new government stock by the private non-banking sector during the first seven months of 1981 already amounted to R921 million. Two series of government stock totalling R818 million, owned mainly by banking institutions, were redeemed on 1 December. This redemption coincided with two new issues of government stock. New 13,0 per cent short-term stock were issued at R99,5 per cent to yield 13,25 per cent (including commission), while 13,0 per cent long-term stock were issued at R98,35 per cent and also offered an effective yield of 13,25 per cent.

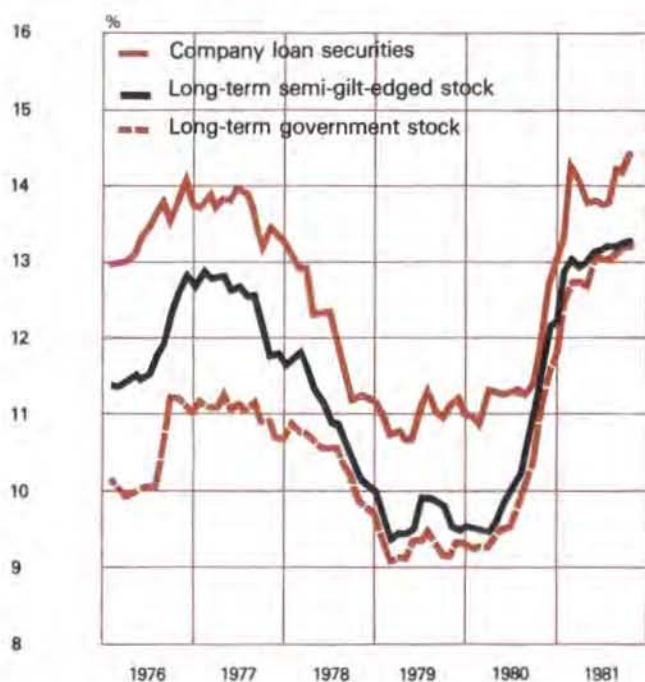
## Capital market

### Lower turnover and slight increase in yields in market for fixed-interest securities

Secondary market transactions in fixed-interest securities were considerably smaller in the third quarter of 1981 at a time when long-term yields were moving to slightly higher levels. The nominal value of such securities traded on the stock exchange during the third quarter was about half of that in the second quarter. Compared with the average of the first two quarters of the year, new issues of fixed-interest securities were relatively small in the third quarter, but notably higher in October when new issues were made by the Government and a large public corporation. New issues during the third quarter and October were generally well supported.

The monthly average yield on long-term government stock rose from 13,03 per cent in June to 13,21 per cent in October, while the corresponding increase in the case of long-term semi-gilt-edged stock of the highest grade was from 13,13 per cent to 13,27 per cent. The monthly average yield on company loan securities rose from 13,75 per cent in June to 14,44 per cent in October.

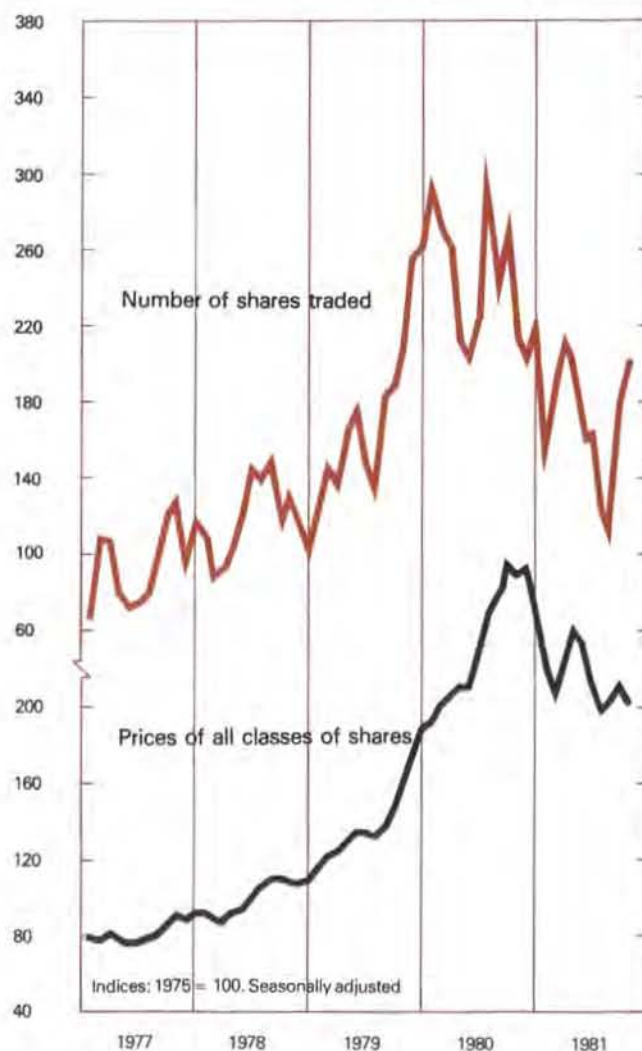
### Secondary market yields



### Recovery of share prices and yields

Share prices, which had been fluctuating downwards from October 1980, recovered moderately during August and September, before declining slightly during October. In July share prices were on average 33 per cent lower than in September 1980, but during the subsequent three-month period they showed an increase of 11 per cent. Financial share prices rose moderately during these three months, while appreciable increases were recorded in the prices of mining and industrial and commercial shares. The index of the number of shares traded on the Johannesburg Stock Exchange declined from 313 in September 1980 to 122 in July 1981, but rose to 222 in October. In accordance with the changes in share prices, the average dividend yield on all classes of shares increased from 4,75 per cent in September 1980 to 7,37 per cent in July, before declining to 6,67 per cent in October.

### Stock exchange



### Smaller increase in holdings of longer-term funds with non-contractual savings institutions

The overall increase in holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes slowed down markedly from the second to the third quarter of 1981. As shown in the accompanying table, the seasonally adjusted holdings of longer-term funds with banking institutions and government savings schemes actually declined, while the seasonally adjusted intake of new longer-term funds by building societies was notably smaller. Participation mortgage bond schemes, on the other hand, recorded a relatively large intake of new funds. In order to encourage an increase in the flow of funds to the building societies, the dividend rates on building society shares were raised in August, that on tax-free shares by 0,5 per cent and those on other shares by 1,0 to 1,5 per cent. The interest payable on certain tax-free government savings facilities was also raised in the course of September and October.

### Change in holdings of longer-term funds with non-contractual savings institutions.

Seasonally adjusted  
R millions

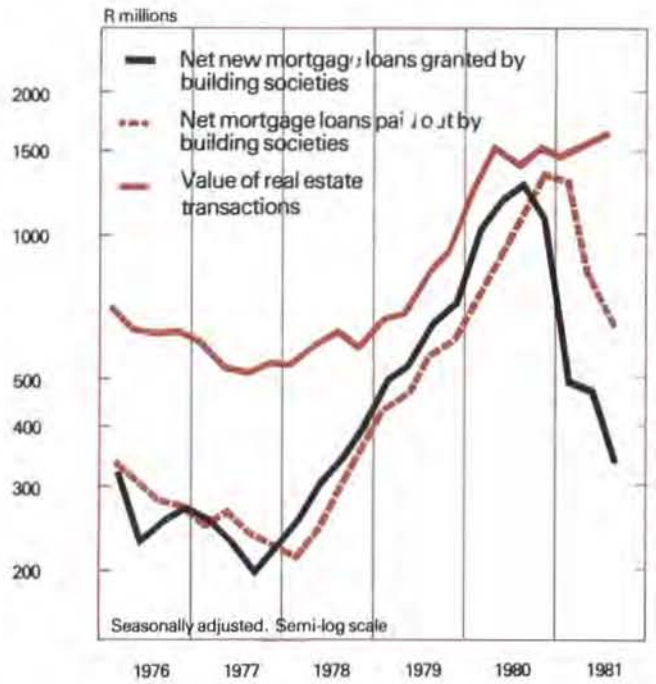
	1981		
	1st qtr.	2nd qtr.	3rd qtr.
Banking institutions .....	97	518	-80
Building societies .....	404	493	340
Participation mortgage bond schemes .....	32	33	58
Government savings schemes .....	169	87	-17
<b>Total .....</b>	<b>702</b>	<b>1 131</b>	<b>301</b>

### Mortgage and real estate markets

Constrained by a smaller inflow of funds, building societies were forced to reduce their new mortgage lending even further, namely from seasonally adjusted amounts of R484 million and R462 million in the first and second quarters of 1981, respectively, to R329 million in the third quarter. The amount of mortgage loans actually paid out likewise declined from a quarterly average of R1 058 million in the first half of the year to R648 million in the third quarter. The societies were able to maintain their mortgage loan payments at a relatively high level because of the appreciable return flow of funds in the form of capital redemption payments on existing mortgage loans, the inflow of new funds, and a small reduction in holdings of prescribed investments. By curbing their new mortgage lending, the societies reduced their mortgage loan commitments from R1 635 million at the end of 1980 to R831 million at the end of June and further to R539 million at the end of September.

Following an increase in some of their deposit interest rates, the building societies raised their

### Fixed property market



mortgage rates by 1 per cent from 13 August in respect of new loans and from 1 October in respect of existing loans. At present their home mortgage rates range from 12,25 to 14,25 per cent. A considerable increase also occurred in the lending rates of participation mortgage bond schemes.

Despite the tight conditions in the market for mortgage financing, the quarterly value of real estate transactions reached a new record in the third quarter. The monthly value of these transactions, however, showed a declining tendency during the third quarter. In September the seasonally adjusted value of real estate transactions was 5 per cent lower than the monthly peak in June.