

Quarterly economic review

Summary and general observations

The South African economy achieved a remarkably high rate of real growth of about 8 per cent in 1980, one of the largest figures recorded in any one year during the post-war period. A high level of economic activity was evident in all sectors of the economy and this was reflected, among other things, in a significant reduction in unemployment. Shortages of skilled labour have, in fact, become one of the constraints on maintaining economic growth at its present high level.

The rapid economic growth in 1980 emanated almost entirely from a marked increase in real domestic demand, with only a minor contribution coming from real exports. All components of gross domestic expenditure contributed to the rise in demand, but an exceptionally sharp rise, the highest rate of increase in any single year during the post-war period, was recorded in real private consumption expenditure. At the same time, the rates of increase in consumer and production prices accelerated appreciably, especially during the second half of the year. Although excess demand pressures began to exert a significant influence on price movements, much of the increase was still related to cost-push factors, including upward adjustments in administered prices.

A notable feature of the South African economy in 1980 was that the high rate of economic growth was accompanied by a large surplus on the current account of the balance of payments. Despite a marked increase in imports to supplement the domestic supply of goods, the current account remained in surplus, partly as a result of a further increase in merchandise exports, but more particularly because of an exceptionally large rise in the value of the net gold output. The latter reflected a near-doubling of the average gold price in 1980, which had the effect of raising the value of the net gold output, for the first time since 1946, above the value of merchandise exports. Towards the end of the year, the current account surplus shrunk appreciably, not only because of a decline in the value of the net gold output, but also as a result of a further sharp rise in imports. The capital account of the balance of payments, which was characterised by large swings in short-term capital movements during the year, recorded a further substantial net capital outflow over the year as a whole. This outflow was mainly attributable to the switching of trade financing from foreign to domestic sources, and to other short-term capital movements related to the high level of liquidity and relatively low interest rates in the domestic economy.

In accordance with the generally strong overall balance of payments, the rand appreciated considerably against most currencies during 1980. The effective exchange rate of the rand, however, did not increase further during January and February 1981 because of a depreciation of the rand against the US dollar, which strengthened noticeably against most other currencies during this period.

The monetary aggregates showed excessive rates of growth during 1980. The money and near-money supply, for example, rose by no less than 27 per cent. The predominant statistical "cause" of the change in the money

and near-money supply was an exceptionally large increase in bank credit to the private sector, especially after the abolition of the ceilings on bank credit to the private sector in August 1980. Part of this sharp increase, however, represented the "re-intermediation" of credit which previously had been extended outside the banking system. A relatively small contribution to the growth in the money and near-money supply was made by an increase in the net gold and other foreign reserves of the monetary banking sector, while moderate negative contributions were made by a decline in net bank credit to the government sector and a rise in long-term deposits of the private sector with monetary banking institutions. The decline in the government sector's net indebtedness to the monetary banking sector resulted mainly from a sharp rise in central government revenue and a consequent increase in government deposits.

Open-market operations by the Reserve Bank during 1980 were aimed primarily at smoothing seasonal fluctuations in money market conditions and at absorbing excess liquidity in the market. For these purposes, the Bank sold special tap Treasury bills, issued its own debentures and entered into repurchase agreements with banking institutions, in anticipation of large tax payments to the government at the end of August 1980 and at the end of February 1981. In addition, open-market sales of government stock were effected in the market. Short-term interest rates rose moderately during the first eight months of 1980, but increased more rapidly during the last four months of the year and especially sharply during the first six weeks of 1981. This tightening of the money market was caused by a combination of large seasonal flows of tax funds to the government, changes in cash reserve requirements for banking institutions and, over the year-end, a decline in the net gold and other foreign reserves of the Reserve Bank. In recognition of the increase in short-term interest rates and to indicate the determination of the monetary authorities to reduce the high rate of increase in the money supply, Bank rate was raised from 7 to 8 per cent, with effect from 3 February 1981.

In the capital market, long-term interest rates continued to increase during 1980, partly in response to investors' expectations of such a rise and a reluctance on their part to commit funds to long-term investments. Buoyant conditions were experienced in the share market and in the mortgage and real estate markets during the larger part of 1980. During the fourth quarter and in early 1981, however, share prices and stock exchange turnover in shares declined appreciably, while the mortgage lending by building societies became constrained by a smaller inflow of funds. The value of real estate transactions, on the other hand, maintained a rising trend up to the end of the year.

National accounts

Excellent growth performance

A remarkably high rate of growth of about 8 per cent in the real gross domestic product was achieved in 1980, a rate of increase that was twice as high as the 4 per cent recorded in 1979. This high rate of economic growth not only exceeded the average annual rate of 3 per cent during the nineteen seventies by a substantial margin, but was also one of the highest rates of growth recorded in any one year during the post-war period. Quarterly estimates show that the rate of increase in the real gross domestic product of the non-agricultural sectors remained at a high level throughout 1980.

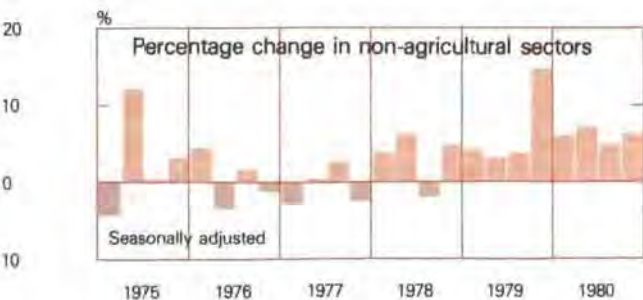
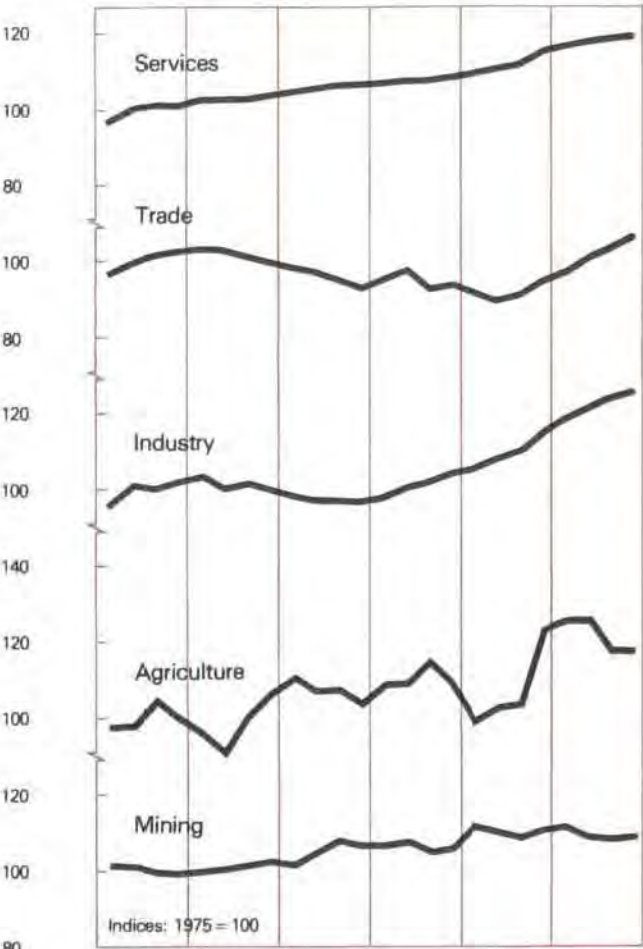
As shown in the accompanying table, higher rates of increase in the real gross domestic product were evident in all the main sectors of the economy in 1980, with the exception of the mining industry. The real product of agriculture increased markedly as a result of excellent summer crops; winter crops actually declined and meat production remained approximately unchanged. A strong expansion in domestic demand, including additions to inventories, sharply raised the real value added by manufacturing and was also reflected in the exceptionally large turnabout in the real value added by commerce, following a decline in each of the preceding three years. The increase in the real product of construction was related to the recovery in building and construction activity. In contrast with these high rates of growth, the real value added by gold mining declined further, largely because of the mining of lower-grade ore, while the real product of non-gold mining increased at a lower rate as a result of a weaker foreign demand stemming from the recession in trading-partner countries.

As a result of a further improvement in South Africa's terms of trade and a decline in real net factor payments to the rest of the world, the real gross national product

Percentage change in real gross domestic and gross national product

	1978	1979	1980
Primary sector	2	3½	8
Agriculture, forestry and fishing	3½	-2½	13
Gold mining	1	-½	-4
Other mining	1	10	4½
Secondary sector	4	8	11½
Manufacturing	6½	9	12
Electricity, gas and water	4½	1	11
Construction	-8½	3	8½
Tertiary sector	1	2	6½
Commerce and accommodation	-1	-3½	11
Services	2	4	5½
Transport, etc.	3	9	8
Financial, etc.	1	2	7
General government	3½	3	3
Total gross domestic product	2	4	8
Gross national product	3	5½	9½

Gross domestic product at constant 1975 prices



increased at an even higher rate than the real gross domestic product, namely by 9½ per cent, compared with 5½ per cent in 1979. Real per capita gross national product rose on average by 5 per cent per annum during the past two years, indicating a significant increase in the real prosperity of South African residents during this period.

At current prices, the rate of increase in the gross domestic product accelerated from 20 per cent in 1979 to 30 per cent in 1980. Total remuneration of employees rose by 18 per cent in 1980, as against 15 per cent in 1979, with mining, manufacturing, construction, financial services and general government contributing most to the increase. Total gross operating surplus, which had risen by 21 per cent in 1979, increased by no less than 46 per cent in 1980. Particularly large increases were recorded in agriculture, gold mining, manufacturing and commerce. Because of higher rates of increase in the total gross operating surplus than in the total remuneration of employees during the past three years, the ratio of the former to the gross domestic product rose to 51 per cent in 1980, compared with the most recent peak of 46 per cent in 1974.

Marked increase in real gross domestic expenditure

The rapid economic growth in 1980 emanated almost entirely from a marked increase in real domestic demand, with real exports making only a minor contribution. Following a rise of only 3 per cent in 1979, real gross domestic expenditure increased by no less than 12 per cent in 1980. As is evident from the accompanying table, all components of expenditure contributed to this increase. At current prices, the increase in total expenditure in 1980 exceeded the rise in the gross national product, resulting in a somewhat smaller surplus on the current account of the balance of payments.

Percentage change in real gross domestic expenditure

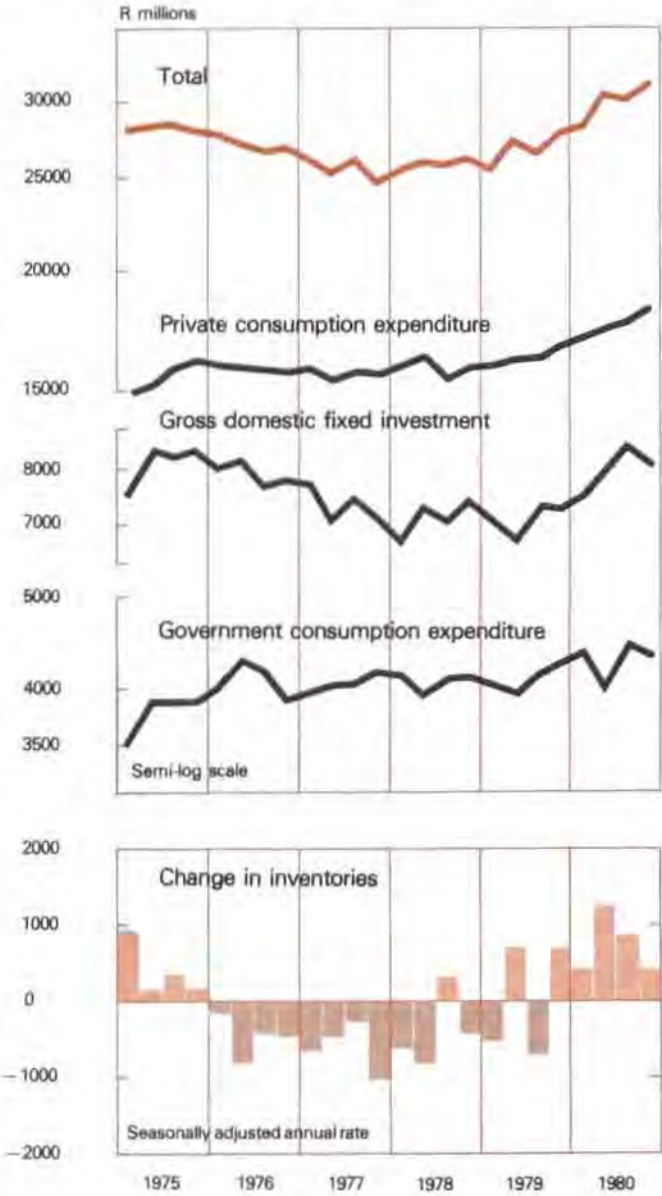
	1978	1979	1980
Private consumption expenditure	1	2	8½
Government consumption expenditure ...	1	—	5½
Gross domestic fixed investment	-3	1	12½
Change in inventories (R millions)	-396	27	762
Gross domestic expenditure	1	3	12

Strong rise in real private consumption expenditure

The substantial increase of 8½ per cent in real private consumption expenditure in 1980, which was the highest rate recorded in any single year during the post-war period, was based on a further rise in real personal disposable income and the ready availability of consumer credit. The rate of increase in real private consumption expenditure remained high throughout the year and accelerated somewhat in the fourth quarter, even if allowance is made for the usual seasonal increase during this period.

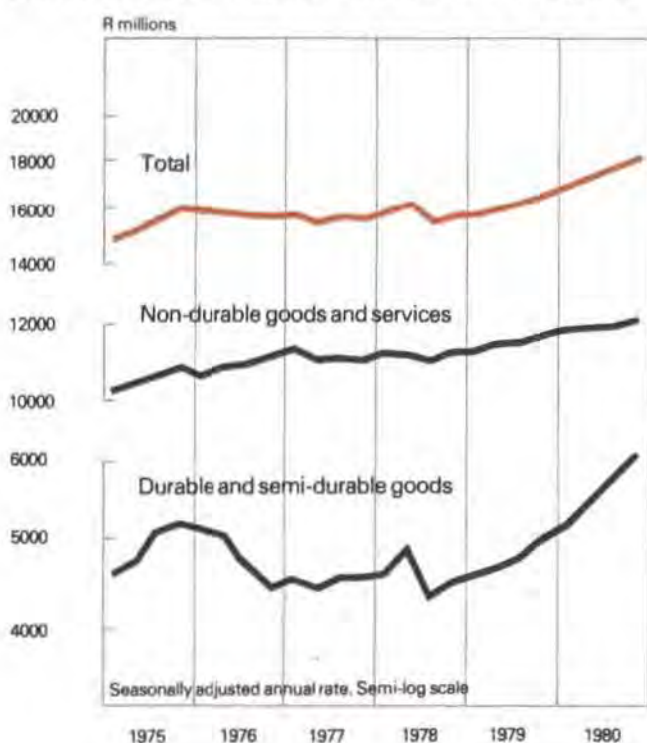
Real expenditure on all major classes of consumer goods increased at substantially higher rates in 1980. The

Gross domestic expenditure at constant 1975 prices



largest rise was recorded in the durable goods category, probably because of the continued existence of a pent-up replacement demand for these goods. Real consumer expenditure on semi-durable goods also showed a marked rise, and the rate of increase in expenditure on non-durable goods was considerably higher than in the immediately preceding years.

Private consumption expenditure at constant 1975 prices



Percentage change in real private consumption expenditure

	1978	1979	1980
Durable goods	5	6½	26
Furniture and household appliances	-2	8	23
Personal transport equipment	17	6	32
Recreational and entertainment goods	—	4	29
Semi-durable goods	-2	1	13½
Clothing and footwear	-2	1½	15
Motor car tyres, tubes, parts and accessories	5	-10	6
Non-durable goods	2	2	5
Food, beverages and tobacco	2	3	5
Petroleum products	5	-10	4
Services	-½	1	3
Total private consumption expenditure	1	2	8½

Appreciably higher rate of increase in government consumption expenditure

In contrast with the period 1977 to 1979, when real government consumption expenditure increased only slightly, these outlays rose by 5½ per cent in 1980. Real salaries and wages increased by 4 per cent, while real outlays on goods and other services rose sharply by 6 per cent. The latter increase reflected not only higher defence expenditure, but also increased expenditure on other government services during a period of rapid expansion in economic activity. The increase in real government

consumption expenditure was partly offset by a decline in real capital outlays by general government, as a result of which aggregate real general government expenditure increased by only 2½ per cent in 1980.

Sharp increase in real gross domestic fixed investment

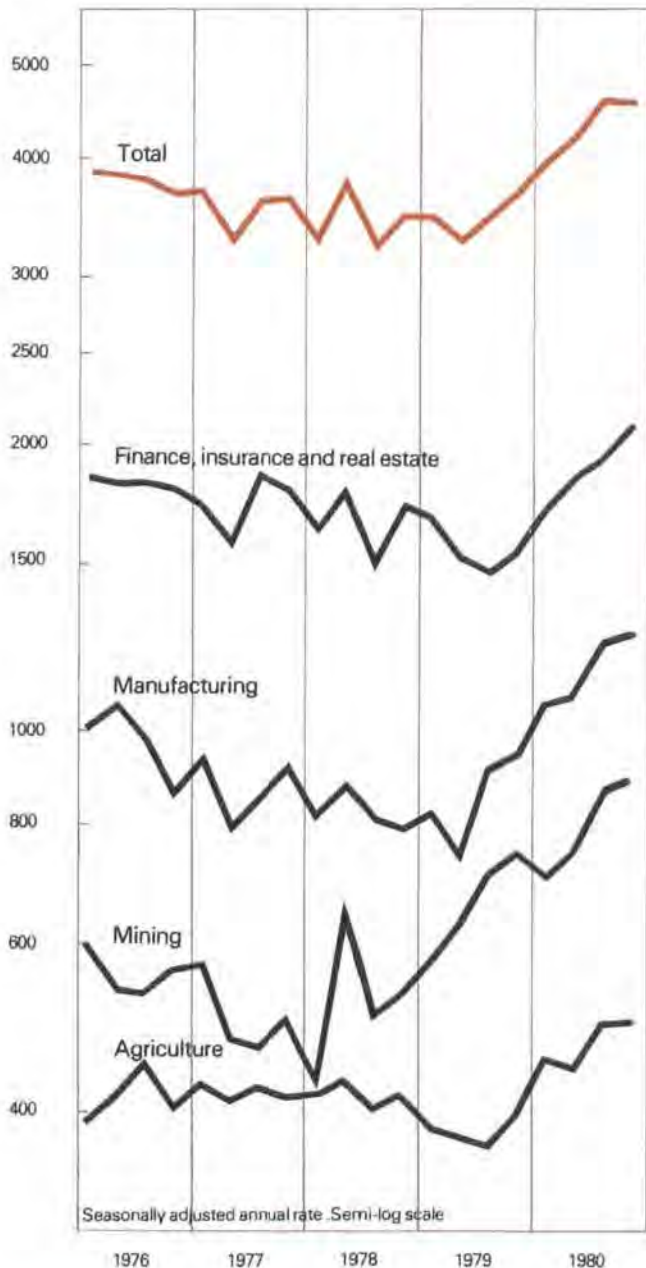
Following a decline from 1975 to 1978 and only a slight increase in 1979, real gross domestic fixed investment increased sharply by 12½ per cent in 1980. Fixed investment was greatly facilitated by a high level of corporate saving and the ready availability of funds in the domestic market at comparatively low rates of interest. As shown in the accompanying table, this substantial increase was accounted for mainly by the real fixed capital outlays of the private sector which surged ahead at a rate of increase of no less than 24½ per cent. An appreciable further increase occurred in the real fixed investment of public corporations, while that of public authorities (comprising general government as well as government enterprises) declined moderately further. Real private fixed investment maintained a strong upward trend during most of 1980 and is likely to remain at a high level for the time being because of the large number of capital projects which are presently in progress.

In the private sector, sharp increases were recorded in the real fixed investment of mining, manufacturing and the financial sector, as well as in real investment in private residential buildings. In addition, there was a sharp turn-about in the real fixed capital outlays of the agricultural sector, resulting from the increased output and the accompanying higher agricultural income. Fixed investment in the mining sector represented the further extension of production capacity, induced by higher prices, especially the price of gold, and an increased demand for metals and

Percentage change in real gross domestic fixed investment

	1978	1979	1980
Private business enterprises	-3	½	24½
Agriculture, forestry and fishing	-1	-8½	24
Mining	5½	26	17
Manufacturing	-5½	4	33
Residential buildings	-16½	½	20
Other (transport, commerce and finance)	—	-9	24
Public corporations	11	3	6
Manufacturing	44	7	19
Electricity, gas and water	8½	-2	-6
Other (mining and finance)	-42	16½	24
Public authorities	-12½	-1	-3½
South African Railways			
Administration	-32	9	7
Other business enterprises	7	-7½	—
General government	-10	-1½	-10
Central government	-11	-3½	-3
Provincial administrations	-1½	4	-13
Local authorities	-20	—	-18
Total real gross domestic fixed investment	-3	1	12½

Gross domestic fixed investment of the private sector at constant 1975 prices

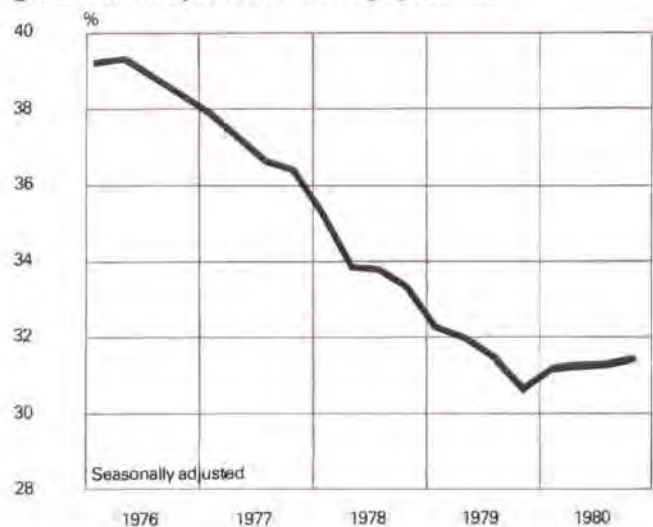


minerals. In manufacturing, fixed investment increased in response to the marked rise in domestic demand and the decline in unused production capacity. The utilisation of production capacity, for example, reached a level of 89,5 per cent in November 1980, after it had declined to as low as 82,9 per cent in August 1977. A sharp increase in the leasing of new capital equipment by the finance sector gave rise to the increase in the real fixed investment of this sector. Despite shortages of building materials and certain classes of skilled labour, investment in private residential buildings increased sharply, reflecting the strong demand for housing.

Large build-up of real inventories

A substantial build-up of inventories in 1980, compared with only a slight increase in the preceding year, contributed materially to the sharp increase in aggregate real gross domestic expenditure in 1980. Increases were recorded in industrial, commercial and strategic inventories, in diamond stocks, and in agricultural stocks-in-trade. The percentage increase in real non-agricultural inventories during 1980 exceeded the percentage rise in the real gross domestic product of the non-agricultural sectors of the economy, causing the inventory ratio to rise from 30,6 per cent in the fourth quarter of 1979 to 31,1 per cent in the fourth quarter of 1980.

Non-agricultural stocks as percentage of gross domestic product excluding agriculture



Substantial further increase in gross domestic saving

Gross domestic saving rose by 31 per cent in 1980, after a substantial increase of 37 per cent had already been recorded in 1979. As a ratio of gross domestic product, gross domestic saving amounted to 32 per cent in 1980, compared with 31½ per cent in 1979 and an average annual ratio of 26 per cent during the period 1970 to 1979. At a level of R20 026 million, gross domestic saving exceeded the amount required for the financing of fixed and inventory investment by R2 845 million, indicating that South Africa's net indebtedness to the rest of the world was reduced by this amount.

A marked increase in corporate saving, to which mining, manufacturing and the financial sector contributed most, was largely responsible for the overall rise in domestic saving in 1980. An increase also occurred in the saving of general government and in total provision for depreciation. In contrast, personal saving declined because of a larger increase in private consumption expenditure than in personal disposable income.

Employment* and prices

Higher rate of increase in employment and labour productivity

The sharp rise in economic activity in 1980 was reflected in a higher rate of increase in employment as well as in labour productivity. The increase in non-agricultural employment was sufficiently large not only to absorb the normal addition to the labour force, but also to bring about a reduction in unemployment. The generally higher level of employment, however, caused severe shortages of skilled labour to emerge in various sectors of the economy in the course of 1980. Unemployment among unskilled labour, on the other hand, appeared to have declined to an only moderately lower level.

Non-agricultural employment was 3,3 per cent higher in the first three quarters of 1980 than in the corresponding

period of 1979, as against an increase of 2,0 per cent in the calendar year 1979. Seasonally adjusted quarterly figures indicate that the high rate of increase in employment in the fourth quarter of 1979 and the first quarter of 1980 tended to slow down somewhat in the subsequent two quarters as skilled and semi-skilled labour resources became more fully utilised.

Higher rates of increase in employment were recorded in both the private and public sectors. Private-sector employment, which had risen by 2,3 per cent in 1979, increased by 3,5 per cent in the first three quarters of 1980 compared with the first three quarters of 1979. The corresponding increases in public-sector employment amounted to 1,4 per cent and 2,8 per cent, respectively. In the private sector, particularly sharp rises in employment occurred in manufacturing, gold mining, transport and financial institutions. In the public sector, employment by the central government, universities and electricity suppliers rose at relatively high rates.

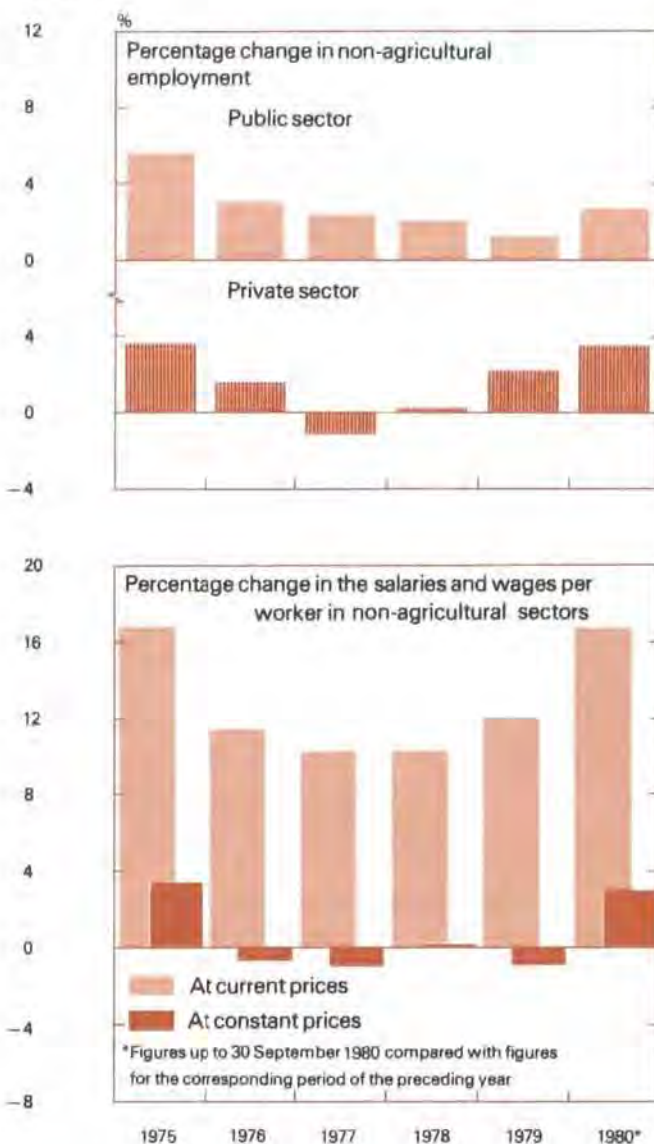
An indication of the decline in unemployment is provided by the fall in the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians from 26 930 in December 1979 to 18 274 in December 1980. Further evidence is provided by the decrease in the ratio of unemployed Blacks to the economically active Black population from 9,0 per cent in November 1979 to 8,1 per cent in November 1980.

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, was 4,1 per cent higher in the first three quarters of 1980 than in the corresponding period of 1979. This rate of increase was well above the figure of 2,0 per cent recorded in the calendar year 1979. In manufacturing, for which more detailed statistics are available, the physical output per man-hour rose by 4,4 per cent in the first eleven months of 1980, compared with 2,4 per cent in 1979.

Sharp rise in remuneration of labour

Both in nominal and real terms the remuneration of labour increased at considerably higher rates in 1980 than in the preceding year. In the non-agricultural sectors of the economy the average remuneration per worker was 16,8 per cent higher in the first three quarters of 1980 than in the corresponding period of 1979, compared with an increase of 12,1 per cent in the calendar year 1979. Adjusted for price rises, the increase in the first three quarters of 1980 amounted to 3,0 per cent, as against a decline of 0,9 per cent in 1979. The average real remuneration per White worker, which had declined in each of the preceding five years, increased by 2,5 per cent in the first three quarters of 1980. Following a low rate of growth of 0,5 per cent in 1979, the average real remuneration per non-White worker rose by 4,4 per cent in the first three quarters of 1980. Employees in all sectors of the economy benefitted from the higher rate of increase in salaries and wages in 1980. In the nine-month period concerned, the average remuneration per employee in the public sector rose by 17,1 per cent, while the corresponding increase in the private sector amounted to 16,7 per cent.

Labour



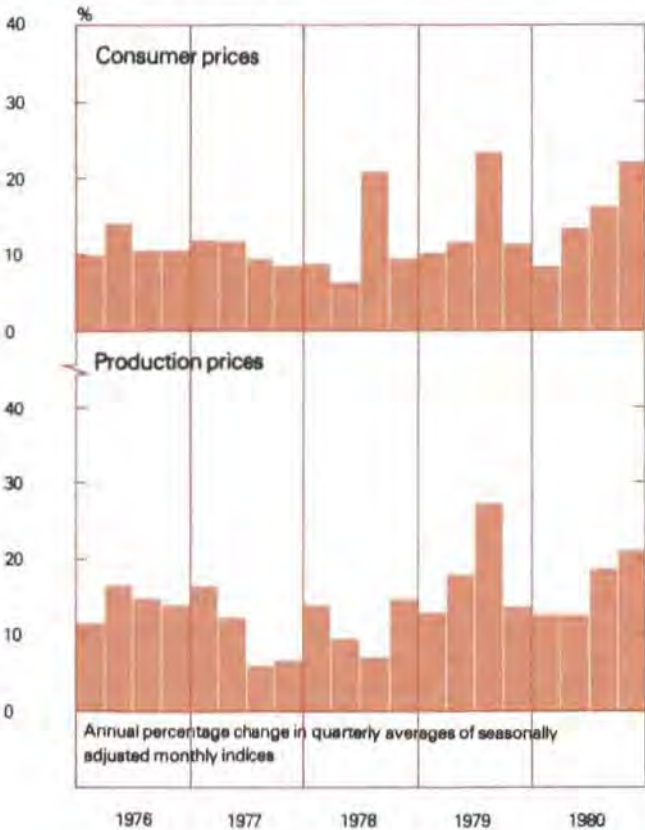
*Statistics relating to employment and the remuneration of labour are only available up to the end of September 1980.

The effect of the higher rate of increase in the remuneration of labour on labour cost per unit of production was partly offset by the more rapid rise in labour productivity. Labour cost per unit of production in the non-agricultural sectors of the economy, as approximated by the ratio of total salaries and wages to the real gross domestic product in these sectors, nevertheless increased by 12 per cent in the first three quarters of 1980, as against a rise of 10 per cent in 1979. More exact statistics for manufacturing indicate that an increase of 9,8 per cent in unit labour cost in 1979 was followed by a rise of 11,4 per cent in the first eleven months of 1980.

Higher rate of inflation

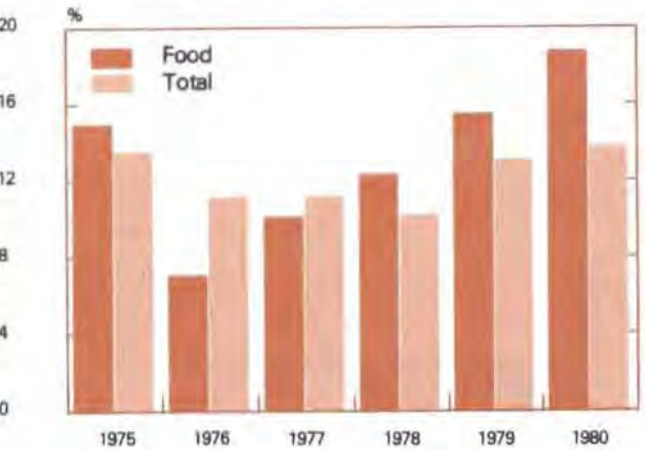
The rate of inflation accelerated notably further in 1980. As against an increase of 13,1 per cent in 1979, the monthly average consumer price index rose by 13,8 per cent in 1980. The marked increase in the prices of petroleum products in 1979 was superseded in 1980 by an exceptionally sharp rise in food prices as the predominant cause of the higher rate of increase in consumer prices. Food prices rose by no less than 18,8 per cent in 1980, reflecting, for example, increases of 32,3 per cent in meat prices, 16,7 per cent in vegetable prices, and 15,2 per cent in prices of grain products. Higher rates of increase than in 1979 were also recorded in the prices of furniture, motor vehicles, reading matter and cleaning materials as well as in housing costs and medical fees.

Percentage change in prices



A marked acceleration in the rate of increase in consumer prices occurred in the course of 1980. At a seasonally adjusted annual rate, the increase amounted to only 8,6 per cent in the first quarter, but advanced to 13,3 per cent in the second quarter, 16,3 per cent in the third quarter and 22,3 per cent in the fourth quarter. From December 1979 to December 1980 the seasonally adjusted consumer price index rose by 15,7 per cent. The effect of food price increases on this change is clearly illustrated by rises of 57,3 per cent in meat prices, 29,6 per cent in vegetable prices and 29,2 per cent in the overall food price index during this period. Compared with the corresponding month in the preceding year, the seasonally adjusted consumer price index increased by 15,5 per cent in January 1981.

Percentage change in consumer prices



The monthly average production price index increased by 16,3 per cent in 1980, compared with 15,2 per cent in 1979. Sharp rises in the prices of imported goods as well as domestically produced goods were responsible for the higher rate of increase in 1980. The respective increases in these two categories of production prices amounted to 20,2 per cent and 15,0 per cent in the year under review. Higher rates of increase than in 1979 occurred in almost all production prices, with the exception of the prices of beverages and leather goods and electricity tariffs.

At a seasonally adjusted annual rate, the increase in production prices accelerated from 12,8 per cent in the first quarter to 21,2 per cent in the fourth quarter of 1980. From December 1979 to December 1980 production prices rose by 16,6 per cent and from January 1980 to January 1981 by 15,7 per cent.

Balance of payments

Further surplus on current account

Despite the marked increase in domestic demand, part of which spilled over into additional imports, and a sharp rise in import prices, the current account of the balance of payments recorded its fourth consecutive annual surplus in 1980. The surplus amounted to R2 845 million, or 4,6 per cent of the gross domestic product, compared with R3 001 million, or 6,2 per cent of the gross domestic product, in 1979. Although the net gold output increased substantially in 1980 and a further rise was also recorded in merchandise exports, the smaller surplus on the current account than in 1979 resulted from an exceptionally strong rise in merchandise imports and a sharp rise in net service and transfer payments to the rest of the world. As shown in the accompanying table, the seasonally adjusted surplus on the

current account fluctuated substantially in the course of 1980 and declined appreciably in the last quarter of the year.

Current account of the balance of payments

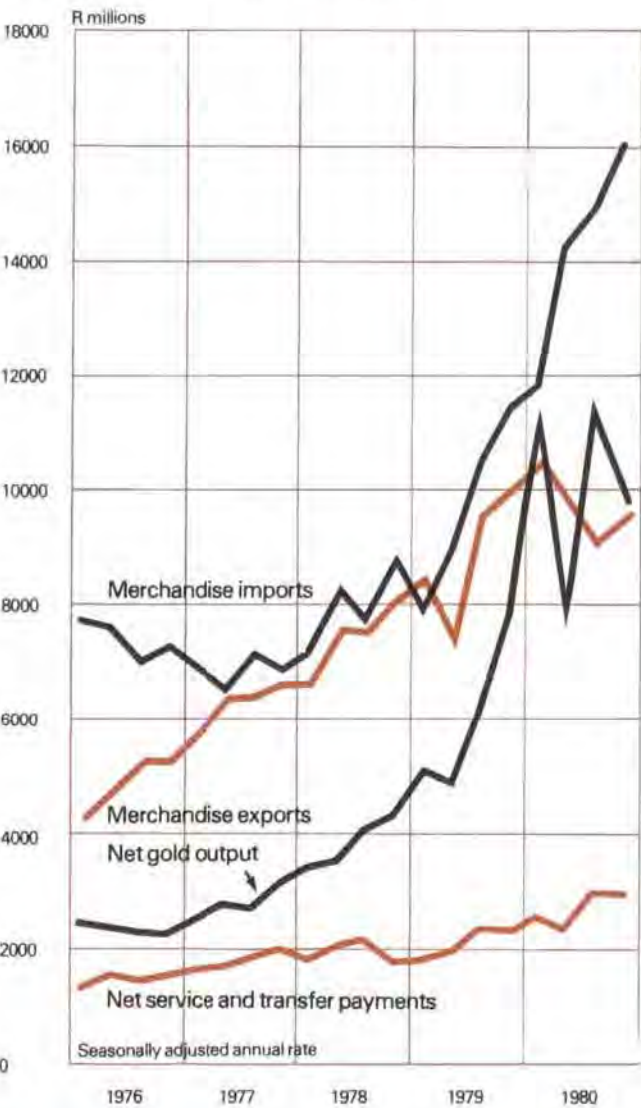
Seasonally adjusted figures at an annual rate
R millions

	1979		1980			
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Merchandise exports	8 844	10 470	9 770	9 040	9 550	9 705
Net gold output	6 003	11 460	7 760	11 520	9 830	10 141
Merchandise imports	9 739	11 890	14 290	14 970	16 000	14 288
Net service and transfer payments	2 107	2 570	2 370	2 970	2 940	2 713

Balance on current account

	3 001	7 470	870	2 620	440	2 845
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Balance of payments current account

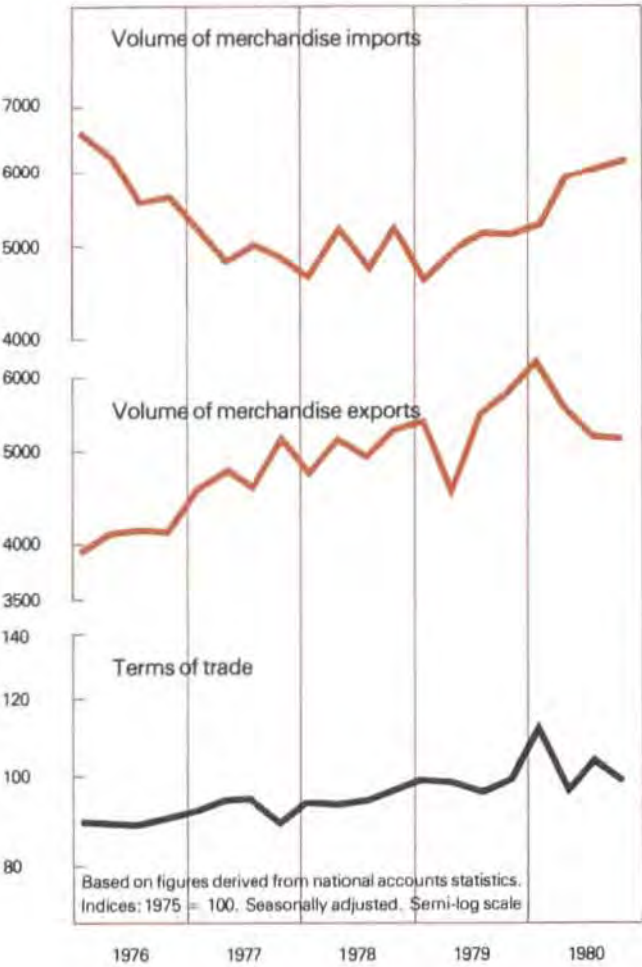


The value of the net gold output increased by no less than 69 per cent in 1980 as a result of a near-doubling of the US dollar price of gold. On the London market, the average fixing price of gold rose from US \$307,01 per fine ounce in 1979 to US \$612,94 per fine ounce in 1980. Because of the mining of lower grade ore, induced by the sharp rise in the gold price, the volume of the net gold output, however, decreased appreciably in 1980. The sharp rise in the price of gold caused the value of the net gold output to rise, for the first time since 1946, above the value of merchandise exports. Marked fluctuations in the price of gold occurred during 1980, resulting in large quarterly swings in the net gold output and the surplus on the current account of the balance of payments.

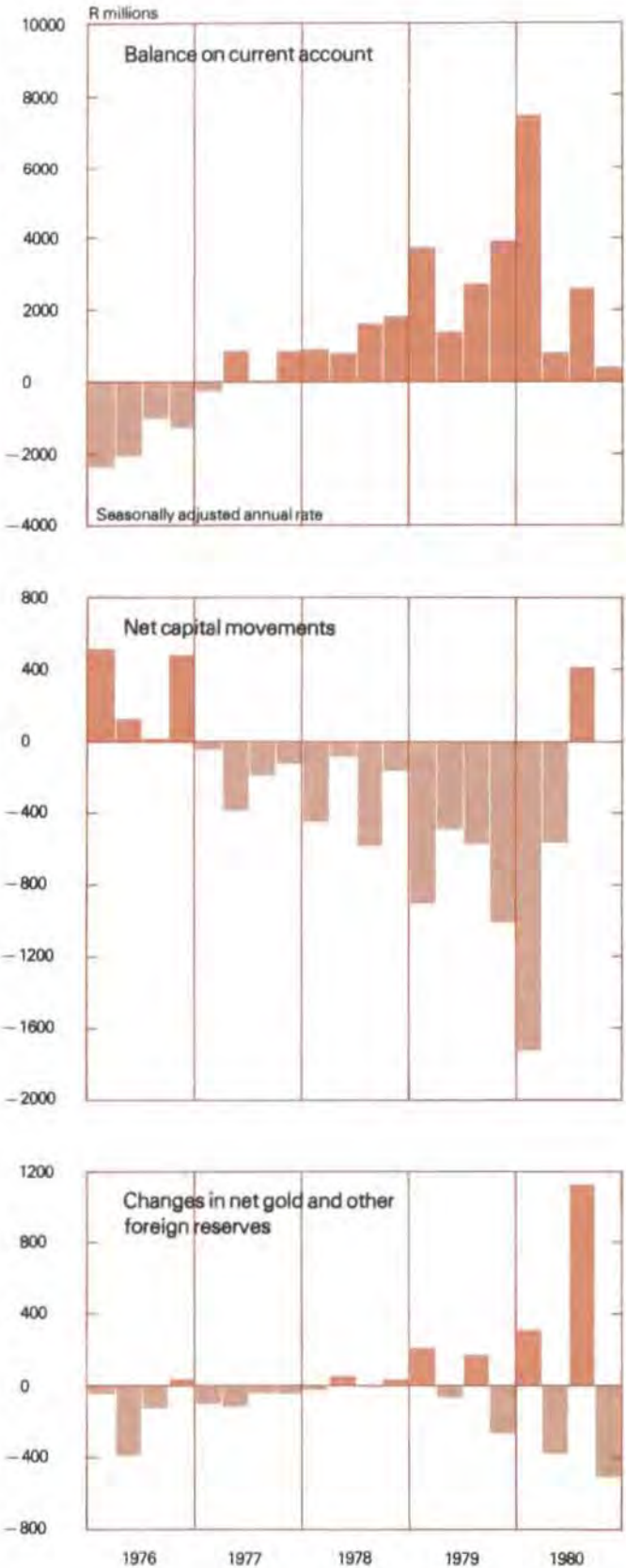
The increase in merchandise exports amounted to 10 per cent in 1980, consisting of a volume increase of about 4 per cent and a price rise of about 5 per cent. The higher export volume was largely accounted for by maize and coal, but a partly offsetting decline occurred in the volume of diamond exports. Increases occurred in the export prices of platinum, iron ore, diamonds, nickel, maize and sugar, but declines were recorded in the prices of uranium, coal, ferro-chrome and asbestos. Export prices in terms of rand were adversely affected by the appreciation of the rand against the currencies of South Africa's main trading partners. During the first three quarters of 1980 merchandise exports tended to decline, but an appreciable increase was again recorded in the fourth quarter.

Merchandise imports, which rose strongly throughout 1980, were no less than 47 per cent higher last year than in 1979. This was accounted for by increases of 25 per cent and 18 per cent in import prices and the volume of imports, respectively. The increase in prices was largely the result of a substantial rise in the price of oil, but was also due to continuing high rates of inflation in other countries, which were only partly neutralised by the appreciation of the rand. The higher level of merchandise imports was evident in all the main categories of imported goods, but particularly sharp rises were recorded in imports of machinery and electrical equipment, mineral products, transport equipment, chemical products and base metals.

Volume of foreign trade and terms of trade



Balance of payments



Net service and transfer payments to the rest of the world increased by 29 per cent in 1980, mainly because of a sharp rise in dividend payments to foreign shareholders. Despite the generally higher levels of interest rates abroad, interest payments to foreigners actually declined in 1980 as a result of preceding reductions in foreign debt. Except for an increase in receipts from transport services, other service receipts from foreigners were affected adversely by recessionary conditions abroad.

Smaller net outflow of capital

The net outflow of capital, excluding changes in "liabilities related to reserves", decreased from R2 535 million in 1979 to R2 300 million in 1980. This change in the capital account of the balance of payments was accounted for by a smaller total net outflow of capital, i.e. short-term as well as long-term capital, from both the private sector and the central government and banking sector. In addition, there was a larger net inflow of capital in all forms to public corporations and local authorities. Various factors contributed to the further net outflow of capital during 1980, such as the ready availability of funds in the South African

Capital account of balance of payments

R millions

	1979	1980				
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Long-term capital						
Central government and banking sector	-108	-79	-13	-63	-166	-321
Public corporations and local authorities	-193	-185	30	148	186	179
Private sector	-723	-309	-177	49	-37	-474
Total	-1 024	-573	-160	134	-17	-616
Short term capital not related to reserves: (including errors and omissions)	-1 511	-1 211	-362	293	-404	-1 684
Change in net gold and other foreign reserves owing to balance of payments transactions	466	257	-345	1 143	-510	545
Liabilities related to reserves	-441	55	-42	-23	-6	-16
SDR allocations and valuation adjustments	2 027	533	1 086	-139	-498	982
Change in gross gold and other foreign reserves	2 052	845	699	981	-1 014	1 511

money and capital markets, the comparatively low levels of domestic interest rates, and a desire on the part of the authorities to drain excess liquidity from the economy by means of a controlled outflow of funds.

As shown in the accompanying table, which provides a breakdown of the capital flows into short-term and long-term capital, sharp fluctuations in capital movements occurred in the course of the year. A major reason for these fluctuations was the switching of trade financing between foreign and domestic sources in response to changing differences between the foreign and domestic cost of trade financing. The effective cost of trade financing not only depended on interest rates and bank financing charges, but also on the dollar discount quoted by the Reserve Bank in forward exchange transactions. This discount was deliberately kept low during the first few months of 1980 in order to drain some of the surplus liquidity from the domestic money market. During April, when the government made a new stock issue and the Reserve Bank was enabled to sell its own debentures in the market, the discount was raised substantially to reflect fully the differences between interest rates in the United States and in South Africa. Subsequently, differentiated discounts were introduced for contracts of varying maturities and these discounts were regularly adjusted during 1980 to reflect changes in interest rates more accurately. After a net inflow of short-term capital in the third quarter, which had the effect of raising the already high level of liquidity in the economy, the discounts were fixed in such a way as to provide some incentive to the domestic financing of foreign trade or to remain neutral in this respect.

Increase in gold and other foreign reserves

Total net gold and other foreign reserves increased by R545 million in 1980 on account of balance of payments transactions. The gross gold and other foreign reserves rose by R1 511 million to a level of R5 793 million at the end of the year. The substantially larger increase in the gross reserves was partly due to the revaluation of the gold reserves at a higher market-related price. The gold reserves actually rose from R3 680 million at the end of 1979 to R4 854 million at the end of 1980. Included in this change

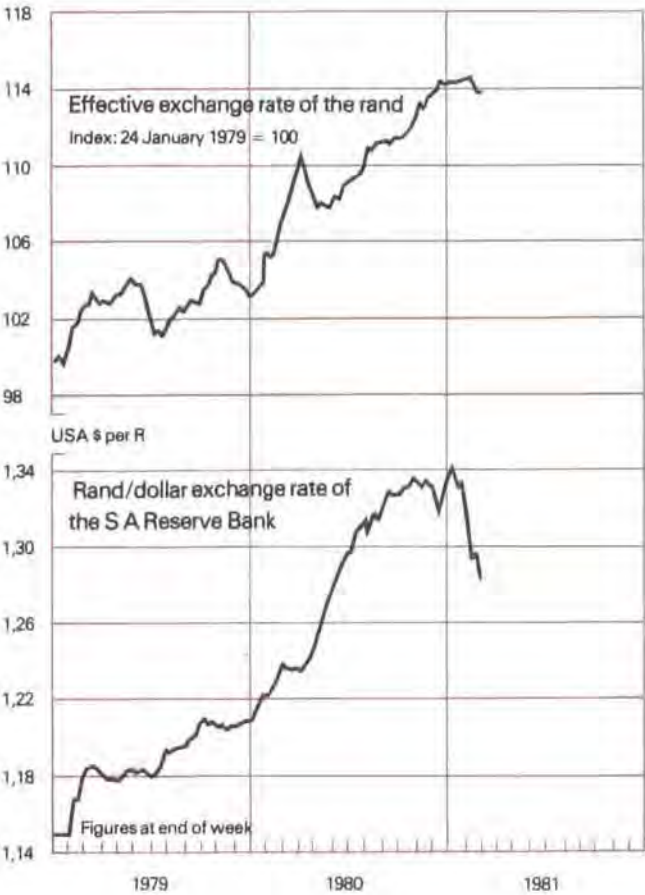
was an increase of 2,12 million fine ounces in the quantity of gold reserves. Total holdings of foreign exchange rose from R602 million to R939 million during 1980. During January 1981 the gross gold and other foreign reserves of the Reserve Bank declined by R376 million, mainly as a result of the revaluation of the gold reserves at a lower price.

Substantial appreciation of the rand

The effective exchange rate of the commercial rand continued to appreciate sharply during 1980. At the end of the year it was 10,5 per cent higher than at the end of 1979 and 14,5 per cent higher than at the end of January 1979, when the new system of managed floating of the rand was introduced. A sharp appreciation of the rand against most of the Western European currencies occurred during 1980. The rand appreciated, for example, by 26,1 per cent against the German mark, 23,4 per cent against the Swiss franc, 25,1 per cent against the French franc, and 24,5 per cent against the Dutch guilder. Against the US dollar and the British pound smaller appreciations of 10,9 per cent and 3,2 per cent, respectively, were recorded. In contrast, the rand depreciated by 5,7 per cent against the Japanese yen. The rand did not appreciate further during January and February 1981, when the US dollar started to appreciate sharply against most other currencies. From the end of December 1980 to 27 February 1981 the effective exchange rate of the rand actually declined by 0,5 per cent, as a result of a depreciation of 4,6 per cent against the US dollar that was not fully offset by the appreciation against other currencies.

The financial rand appreciated by 5,3 per cent during 1980. At the end of the year the financial rand discount on the US dollar amounted to 30,2 per cent, compared with 26,5 per cent at the end of 1979. From the end of 1980 to 27 February 1981 the financial rand depreciated by 4,1 per cent, but the discount remained at its year-end level of about 30 per cent.

Exchange rates



Money and banking

High rates of increase in monetary aggregates

The strong expansion of economic activity in 1980 was accompanied by high rates of growth in the monetary aggregates. The money and near-money supply increased by 27 per cent during 1980, compared with 13 per cent during 1979, while the narrowly defined money supply grew at a rate of 36 per cent, as against 21 per cent in 1979. Despite the sharp rise during 1980, the ratio of the money and near-money supply to the gross domestic product at current market prices increased only slightly from 23,1 per cent in the fourth quarter of 1979 to 24,1 per cent in the fourth quarter of 1980. If the banks' short-dated and medium-dated repurchase agreements with the private sector are taken into account, the growth rate in the broadly and the narrowly defined money supply amounted to 34 per cent and 45 per cent, respectively.

Causes of changes in money and near-money

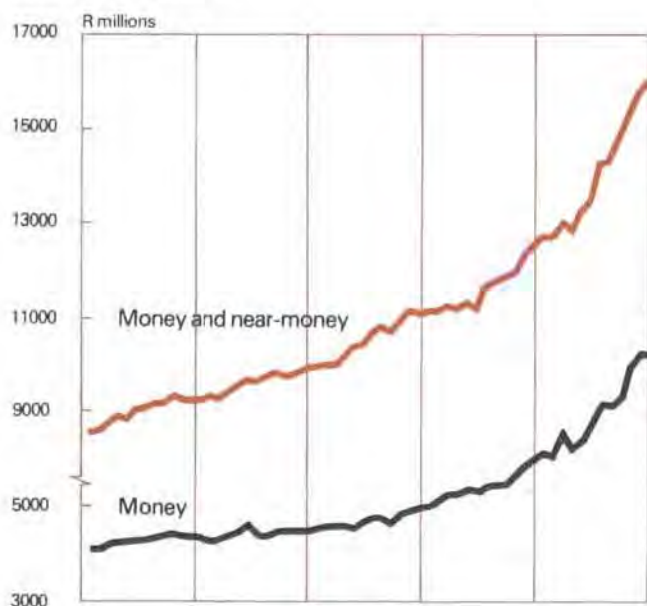
As shown in the accompanying table, the statistical 'causes' of changes in the money and near-money supply varied considerably in the different quarters of 1980. On balance, the net gold and other foreign reserves of the monetary banking sector contributed R437 million to the increase of R3 439 million in money and near-money during 1980. Net claims of the monetary banking sector on the government sector declined by R492 million and a negative influence was also exerted by the increase of R292 million in long-term deposits of the private sector with monetary banking institutions. The predominant 'cause' of the strong monetary expansion during 1980, however, was a sharp rise in

Causes of changes in money and near-money

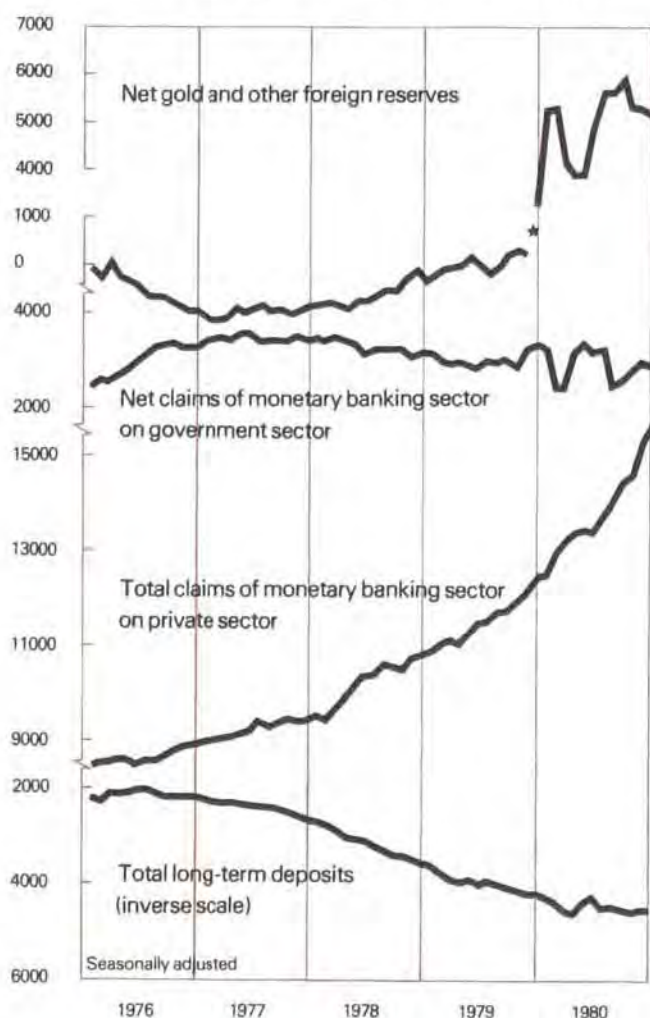
R millions

	Not seasonally adjusted		Seasonally adjusted			
	Year 1979	Year 1980	1980			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Net gold and other foreign reserves	426	437	-67	-259	1 138	-305
Claims on government sector:						
Gross claims	58	500				
Government deposits (increase -, decrease +)	155	-992				
Net claims	213	-492	-902	690	-614	339
Claims on private sector	1 684	3 251	838	181	979	1 240
Long-term deposits (increase -, decrease +)	-672	-292	-334	317	-266	-19
Net other assets	-150	535				
Total causes of changes	1 501	3 439	407	532	1 405	1 027

Monetary analysis



Causes of changes in money and near-money



the claims of the monetary banking sector on the private sector, especially during the second half of the year. During 1980 these claims increased by R3 251 million, or 26 per cent.

Strong expansion in bank credit to the private sector

As mentioned earlier, the credit extended by monetary banking institutions to the private sector increased by R3 251 million during 1980. If repurchase agreements in assets representing claims on the private sector are included, the increase amounted to R3 730 million, or 28 per cent. A strong expansion in bank credit to the private sector

Changes in discounts and advances of commercial banks, merchant banks and monetary general banks



*The gold holdings of the Reserve Bank, included in this amount, were valued at R29,55 per fine ounce from January 1976 up to November 1979. From December 1979, they have been valued at a market-related price.

occurred after the ceilings on this form of bank lending had been abolished by the Reserve Bank in August 1980. During the last four months of 1980, for example, the claims of the monetary banking sector on the private sector rose at a seasonally adjusted annual rate of 39 per cent. Apart from generally reflecting the sharp rise in domestic expenditure, the expansion in bank credit represented to some extent also the 're-intermediation' of credit which previously had been extended outside the banking system following the abolition of the credit ceilings.

The increase in bank credit to the private sector during 1980 included a rise of R288 million in the cash credit advances by the Land Bank, an increase of R417 million in holdings of private-sector securities, a rise of R708 million in bills discounted, and an expansion of R1 777 million in the loans and advances by commercial, merchant and monetary general banks. Of the latter amount R968 million represented an increase during the last four months of 1980. Loans and advances in the form of hire-purchase credit and leasing finance increased by R519 million and R401 million, respectively, during the year. According to preliminary information received from the five largest banking groups, their discounts, loans and advances rose sharply further during January 1981.

Decline in bank liquidity

In contrast with a substantial increase in 1979, bank liquidity declined appreciably during 1980. The excess liquidity ratio of all banking institutions decreased from 4,7 per cent at the end of 1979 to 2,5 per cent at the end of 1980. This decline occurred mostly in the excess liquidity ratios of commercial banks. Those of other monetary banks and non-monetary banks remained at low levels throughout the year. The weakening of the banks' liquidity position during 1980 was due to a stronger rise in legally required liquid assets than in actual holdings of liquid assets, partly as a result of changes in the liquid asset requirements which came into effect in April and again in September, and a relatively greater shift out of long-term deposits towards short-term and medium-term deposits. During January 1981 the excess liquidity ratio of commercial banks decreased further to only 1,8 per cent, but the liquidity of other banking institutions improved slightly.

Excess liquidity ratios of banking institutions

%

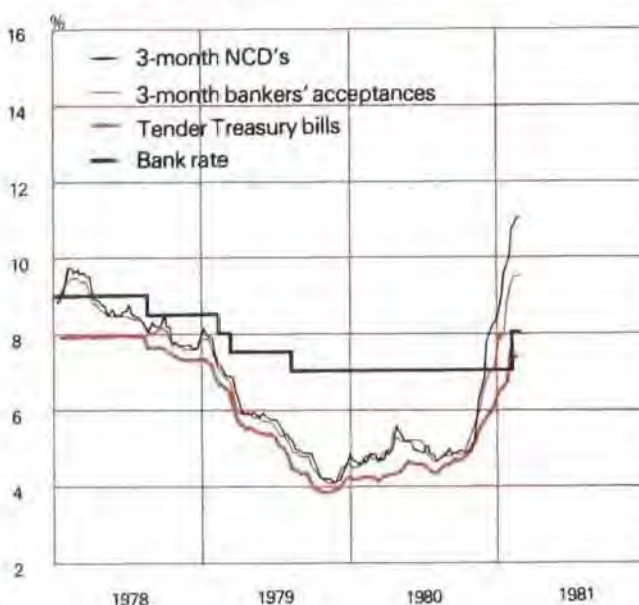
	1979		1980			1981
	Dec.	Mar.	June	Sept.	Dec.	Jan.
Monetary banks:						
Commercial banks	6,3	1,8	5,9	4,7	3,2	1,8
Other	1,7	1,4	0,8	1,7	1,6	2,3
Total	4,8	1,7	4,2	3,7	2,7	1,9
Other banks	1,2	2,9	5,8	1,4	0,7	0,8
All banks	4,7	1,7	4,3	3,6	2,5	1,9

Money market conditions and interest rates

Apart from short periods of temporary tightness, money market conditions were generally easy during the first eight months of 1980. After a severe tightening over the August month-end, however, the market remained relatively tight throughout the ensuing period, especially during December and the first two months of 1981. Indicating these changes, call loans to discount houses showed a slightly upward trend during the first eight months of 1980. Thereafter, these balances showed large fluctuations and generally remained at relatively low levels during December 1980 and the first two months of 1981. Reserve Bank accommodation was provided to the discount houses over most month-ends during 1980 in order to alleviate seasonal shortages of funds. From the beginning of December 1980 to early February 1981, however, the discount houses remained indebted to the Bank. At the end of February accommodation was again provided to the discount houses. Because of other measures taken by the Reserve Bank to ease the tight situation over the month-end, the accommodation amounted, however, to only R192 million. The banks' free balances with the National Finance Corporation were at relatively high levels during the first eight months of 1980. From September last year to early February 1981, these balances were at appreciably lower levels and were regularly depleted. During the remainder of February these balances were built up to substantially higher levels in anticipation of the large flow of tax funds to the government at the end of the month.

The tighter conditions in the market from the August month-end were caused initially by substantial tax payments to the government and an increase in the required cash reserve balances that had to be held with the Reserve Bank. Over the year-end and in early 1981 a sharp decline in the net gold and other foreign reserves of the Reserve

Money market interest rates



Bank was largely responsible for the continued existence of tight market conditions. Seasonal variations in the amount of banknotes in circulation at times also contributed to the tightness of the market.

Money market rates, which had reached a lower turning point in November 1979, showed a moderate rise up to the middle of October 1980 and increased sharply up to the middle of February 1981, before stabilising at the higher levels in response to measures taken by the Reserve Bank to ease the seasonal tightness in the market. At the end of November 1979 the rate on three-month bankers' acceptances, for example, amounted to 4,10 per cent. It increased to 4,80 per cent on 9 October 1980, then rose sharply to 9,50 per cent on 13 February 1981, and thereafter remained unchanged up to 27 February. The Treasury bill tender rate amounted to only 3,81 per cent on 23 November 1979, but rose to 4,36 per cent on 8 August 1980, to 6,77 per cent on 30 January 1981, and, following an increase of 1 per cent in Bank rate, to 7,52 per cent on 6 February. Subsequently the rate declined slightly to 7,45 per cent on 27 February.

Open-market operations by the Reserve Bank during 1980 were aimed primarily at absorbing excess liquidity in the money market and at ensuring an orderly upward movement in short-term interest rates. Apart from open-market sales of government stock, special tap Treasury bills and Reserve Bank debentures were issued in anticipation of large tax payments to the government at the end of August 1980 and the end of February 1981. Various repurchase agreements maturing on these two month-ends were also concluded by the Reserve Bank with banking institutions. Total open-market sales of securities during 1980, most of which were effected during the first eight months of the year, amounted to R2 392 million. No sales were undertaken during the period from November 1980 to January 1981.

Towards the end of January and in February the Reserve Bank actually entered the market as a buyer to help alleviate the seasonally tight market conditions. In addition, the Bank concluded further repurchase agreements with various banking institutions on 26 February. These agreements, involving transactions in bankers' acceptances and gilt-edged and semi-gilt-edged stock, expire on 19 March but may be extended, if necessary, to 7 April. The seasonal shortage of funds in the market was also recognised in the reduction of the amount of Treasury bills offered at the weekly tender from R50 million to R30 million as from 23 January, to R20 million from 13 February, and to R10 million on 27 February.

In recognition of the increase in short-term interest rates, Bank rate was raised from 7 to 8 per cent, with effect from 3 February 1981. This was followed by an increase from 10 to 11 per cent in the commercial banks' prime overdraft rate, with effect from 9 February. Shortly before, on 24 January 1981, the prime overdraft rate had been raised by $\frac{1}{2}$ per cent. Following the increase in the banks' lending rate, increases ranging from 0,5 to 1,25 per cent in deposit interest rates were announced by some banks. Upward adjustments in deposit rates had also been made earlier during the period from November 1980 to January 1981. Building societies raised their deposit rates (including rates on building society shares) by $\frac{1}{2}$ to $1\frac{1}{2}$ per cent in June, by up to 1 per cent in December 1980,

and by 1 to $1\frac{1}{2}$ per cent in January, depending on the types of deposits and the differences in maturity.

On 23 February it was announced that the maximum rates on money lending transactions, which do not necessarily reflect current market rates, will be raised with effect from 2 March 1981. The maximum rate of 14 per cent on loans of R400 or more was raised to 18 per cent and made applicable to loans of more than R1 000. New maximum rates of 24 per cent and 21 per cent were fixed for loans of up to R500 and loans of more than R500 but not exceeding R1 000, respectively. New maximum rates of 24 per cent and 21 per cent were fixed for hire-purchase credit and leasing finance of up to R5 000 and more than R5 000, respectively.

Government finance

Exceptionally sharp rise in revenue collections

Government revenue increased substantially in 1980 because of the buoyant economic conditions, which were reflected, among other things, in substantially higher company profits, consumer expenditure and imports; the relatively large increase in salaries and wages; and, in particular, the marked rise in the price of gold and its effect on gold mining profits. Revenue collected by the central government increased by 33 per cent in 1980, compared with 21 per cent in 1979.

During the first nine months of the 1980/81 fiscal year, i.e. the period April to December 1980, the central government's revenue collections were no less than 38 per cent higher than in the corresponding period of the preceding fiscal year. This exceptionally high rate of increase was substantially above the Budget estimate of 11 per cent for the fiscal year as a whole. Almost all components of revenue increased at rates which were well in excess of Budget estimates, but a marked rise in income tax and mining lease payments by gold mining companies accounted mostly for the sharp increase in revenue collections. Revenue receipts from gold mining companies during the first nine months of the fiscal year were about three times as high as those in the corresponding period of the 1979/80 fiscal year. With a substantial amount of revenue still due

from the gold mining companies at the end of February 1981, about 96 per cent of the budgeted amount to be received from this source during the full fiscal year, had already been collected by the end of 1980.

Income tax receipts from taxpayers other than gold mining companies, which had been estimated to increase by only 2 per cent in the 1980/81 fiscal year because of the tax concessions provided for in the Budget, rose by 15 per cent in the first nine months of the fiscal year. This high rate of increase was attributable to the sharp rise in salaries and wages and in company profits during 1980. Indirect tax receipts were boosted by marked increases in consumer expenditure and imports. Receipts of customs duties, excise duties and general sales tax were 59 per cent, 27 per cent and 33 per cent, respectively, higher in the first three quarters of the 1980/81 fiscal year than in the corresponding period of the preceding fiscal year.

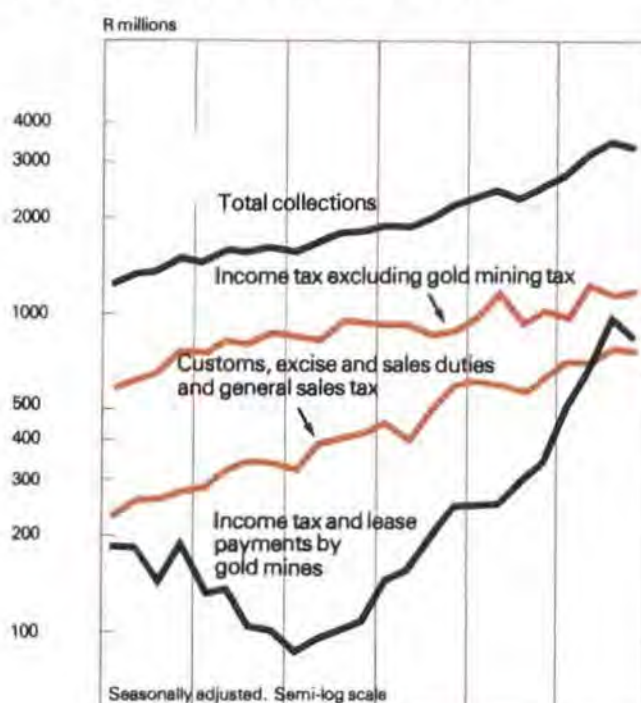
State Revenue Fund — major components of revenue

R millions

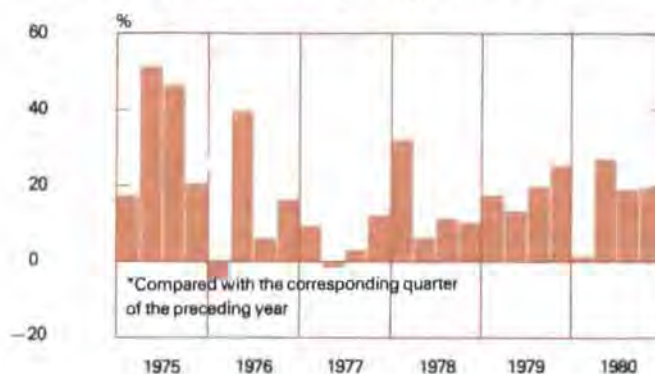
	1979			1980	
	Jan.- Dec.	Apr.- Dec.	Budget	Jan.- Dec.	Apr.- Dec.
Indirect taxes					
Customs duties	420	335	480	648	531
Surcharge on imports	272	187	1	61	—
Excise duties	975	698	1 130	1 224	886
General sales tax	1 183	905	1 550 ¹	1 551	1 208
Sub-total	2 850	2 125	3 161	3 484	2 625
Less: Transfers to the Central Revenue Fund of South West Africa and to neighbouring countries ¹	421	331	541	522	406
Sub-total	2 429	1 794	2 620	2 962	2 219
Income tax payments and other collections					
Income tax and lease payments by gold mines	1 143	836	2 485	3 040	2 374
Other income tax payments	4 049	2 844	4 141	4 494	3 271
Other income	1 634	1 159	1 665	1 841	1 323
Total	9 255	6 633	10 911	12 337	9 187

¹In terms of Customs Union agreements.

Revenue collections — State Revenue Fund



Percentage change in Exchequer departmental issues *



High rate of increase in Exchequer issues

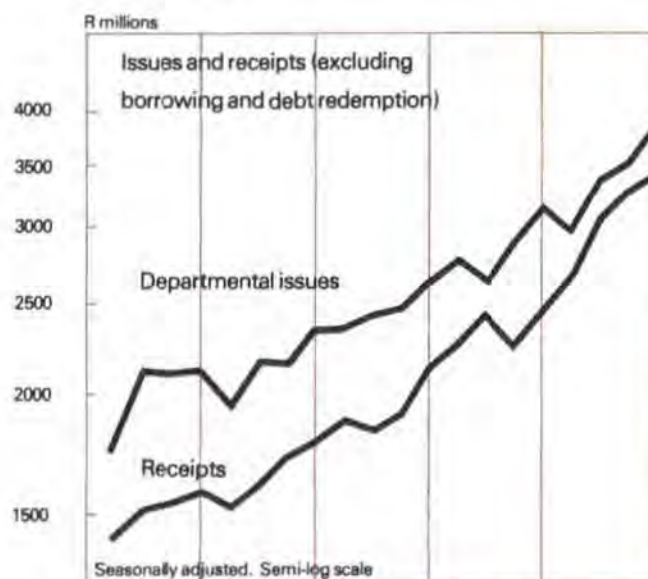
Issues to government departments from the Exchequer Account increased by 17 per cent in 1980, as against a rise of 19 per cent in 1979. In the first quarter of 1980, i.e. the last quarter of the 1979/80 fiscal year, issues were only 2 per cent higher than in the same quarter of 1979, and actually declined in comparison with the fourth quarter of 1979. This indicated that by the end of the third quarter of the fiscal year a substantial part of the funds appropriated for the fiscal year as a whole had already been spent. With the commencement of the 1980/81 fiscal year in April 1980, issues resumed a higher rate of increase and during the first three quarters of the 1980/81 fiscal year they were 22 per cent higher than in the corresponding period of the preceding fiscal year, compared with an increase of 14 per cent provided for in the Budget for the fiscal year as a whole. The pattern of issues to government departments repeated itself and by the end of the third quarter of the fiscal year about 80 per cent of the expenditure amount originally appropriated by Parliament had already been issued. Apart from appropriations in the Additional Budget, the amount to be issued during the last quarter of the fiscal year, will, therefore, be notably smaller than the average for the preceding three quarters. The Additional Budget, presented to Parliament on 19 February, provided for additional expenditure of R578 million, or 4.4 per cent of the original estimate of expenditure, during the fiscal year. Total expenditure, after taking into account savings of R94 million by government departments, is therefore expected to increase by 19 per cent in the 1980/81 fiscal year.

Small Exchequer deficit

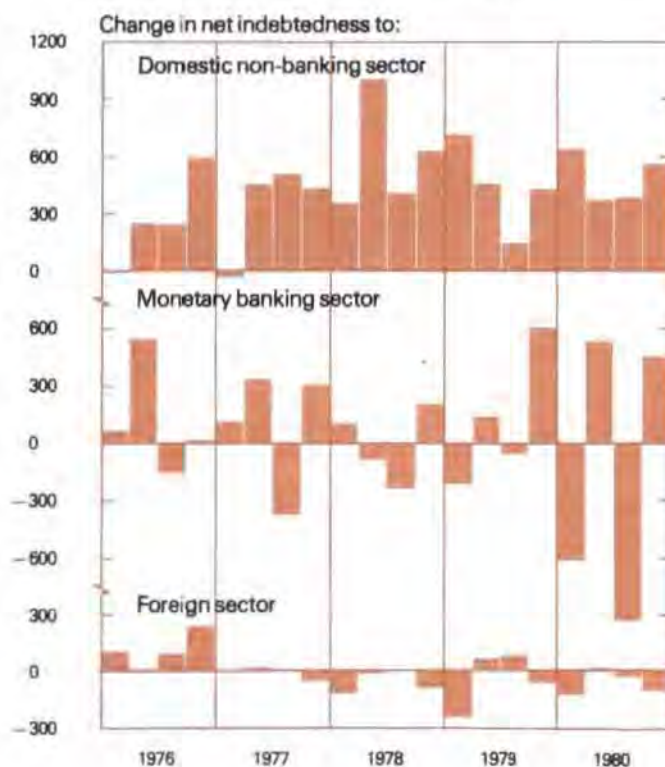
The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R1 305 million in the first three quarters of the 1980/81 fiscal year, or R540 million less than in the corresponding period of the preceding fiscal year. This shortfall was financed entirely by means of borrowing from the domestic non-banking sector. Net borrowing from the private non-banking sector and the Public Debt Commissioners amounted to R816 million and R526 million, respectively. In addition, the Exchequer's net indebtedness to the monetary banking sector increased by R79 million, but because of the seasonally large flow of tax funds to the government at the end of February and the consequent increase in Exchequer deposits, the monetary banking sector's net claims on the Exchequer are expected to show an appreciable decline during the fiscal year as a whole. Foreign debt totalling R115 million was, however, repaid during the first nine months of the fiscal year.

In the calendar year 1980 the deficit on the Exchequer Account amounted to R1 236 million. Net borrowing from the private non-banking sector and the Public Debt Commissioners amounted to R1 150 million and R847 million, respectively. At the same time, foreign debt of R239 million was repaid and the Exchequer's net indebtedness to the monetary banking sector declined by R523 million. Part of the latter decline resulted from a rise of R728 million in Exchequer deposits, including the balance on the Stabilization Account. The latter increased by R750 million during 1980.

Exchequer Account



Financing of Exchequer Account deficit



Part Appropriation Bill

The Part Appropriation Bill, which provides for the financing of government expenditure from the beginning of the new fiscal year on 1 April 1981 until such time as the main Budget for the 1981/82 fiscal year is approved, was presented to Parliament on 16 February 1981. In presenting the Bill the Minister of Finance stated that the policy of exercising strict control over the increase in government expenditure will be continued in the new fiscal year. In addition, appropriate measures will be taken to curb the rapid rise in the money supply, which has made the financial situation increasingly conducive to general demand inflation.

Although tax proposals will be postponed to the time of the main Budget, the Minister announced his intention to raise the tax threshold and to streamline tax payment procedures so as to reduce the number of tax returns which have to be processed. An amount of R720 million was provided for increased salaries and wages in the public service. This increase will, on average, amount to 12 per cent, but will incorporate vocational differentiation in terms of which certain groups of employees will receive higher percentage rises in their remuneration. Provision of R88 million was also made for increased pensions, including a special bonus payment to social pensioners.

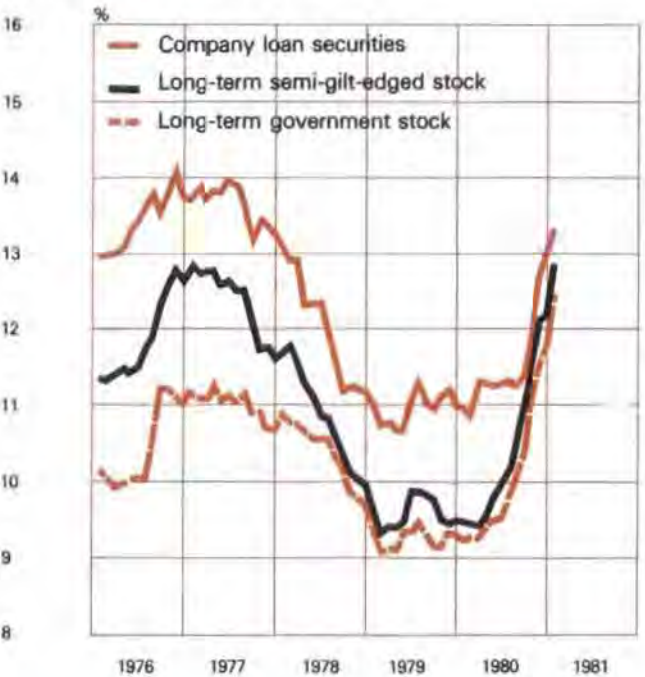
Capital market

Sharp rise in fixed-interest security yields

After a distinct upward trend in yields on long-term fixed-interest securities had become evident in the second quarter of 1980, a sharp rise in these yields occurred during the second half of the year, especially during the fourth quarter. The main reasons for this increase appear to have been a stronger demand for loanable funds, the rising rate of inflation, the expectation that the monetary authorities would take steps to improve their control over the money supply, and consequently investors' expectations of a rise in long-term interest rates and a reluctance on their part to commit funds to long-term investments.

The secondary-market yield on long-term government stock declined from 9,32 per cent in December 1979 to 9,26 per cent in March 1980 before rising to 9,54 per cent in June, 10,40 per cent in September and 11,81 per cent in December. Similarly, the long-term yield on semi-gilt-edged stock of the highest grade declined from 9,53 per cent to 9,42 per cent during the first quarter of 1980 before rising to 10,01 per cent, 10,97 per cent and 12,20 per cent during the subsequent three quarters. The yield on loan securities of companies increased consistently throughout 1980, but rose somewhat less than the yields on long-term gilt-edged and semi-gilt-edged stock. In December 1980 the yield on these company securities amounted to 13,03 per cent, compared with 10,97 per cent in December 1979. In early 1981, the yields on fixed-interest securities increased further and in the first half of February the yields on long-term gilt-edged and semi-gilt-edged stock and on company loan securities amounted to 12,70 per cent, 13,15 per cent and 13,65 per cent, respectively.

Secondary market security yields



Public sector borrowers raised an amount of R1 448 million by means of new issues of marketable securities in the fixed-interest security market in 1980, as against R956 million in 1979. The central government, public corporations and local authorities raised amounts of R816 million, R552 million and R80 million, respectively, in 1980. Net new issues of loan securities by companies amounted to R596 million in 1980, compared with R190 million in 1979.

Upper turning point in share market activity and prices

The upward trend in share prices from about the middle of 1977 was reversed towards the end of the third quarter of 1980. Share prices and stock exchange turnover declined notably during the fourth quarter and the downward movement continued during January 1981. The decline in share prices coincided with the sharp increase in interest rates and was also related to the fall in the price of gold. Stock exchange turnover, as measured by the number of shares traded, was 33 per cent lower in the fourth quarter of 1980 than in the preceding quarter, but during the year as a whole an increase of 41 per cent was recorded. Share prices reached a peak in September 1980, when the comprehensive share price index (covering the prices of all classes of shares) had increased by 277 per cent from the most recent trough in June 1977 and by 52 per cent from December 1979. During the last quarter of 1980 the index declined by 13 per cent, but share prices were nevertheless, on average still 33 per cent higher in December 1980 than a year ago. Of the different classes of shares, mining shares showed the highest price increase during 1980, mainly because of a marked rise in gold mining share prices, followed by financial shares and lastly by industrial and commercial shares.

As a result of the decline in share prices during the fourth quarter of 1980, the average dividend yield on all classes of shares increased from 4,75 per cent in September to 5,86 per cent in December. This increase raised the yield level by 0,81 percentage points above the figure of 5,05 per cent in December 1979. Notwithstanding the increase in the average share yield during the fourth quarter of 1980, the yield gap between long-term government stock and shares, which had grown from 4,27 per cent in December 1979 to 5,65 per cent in September, widened further to 5,95

Percentage change in share prices

	Jul. 1977 to Sep. 1980	1980					Year
		1st qtr.	2nd qtr.	3rd qtr.	4th qtr.		
Mining shares	419	7	15	40	-15		46
Gold	507	6	20	42	-17		51
Coal	238	8	6	36	-2		54
Other metals and minerals	213	10	-8	35	-15		17
Financial shares	215	10	4	20	-9		25
Industrial and commercial shares	168	14	4	16	-10		23
All shares	277	9	9	28	-13		33

Stock exchange



per cent in December 1980. In September as well as in December, the yield gap was larger than the share yield itself.

New share capital raised by companies listed on the Johannesburg Stock Exchange during 1980 amounted to R486 million. This figure was well above the amount of R294 million raised in 1979, but was comparatively small in relation to the new fixed investment of the corporate sector. The high level of savings generated within the corporate sector to a large extent obviated the need to raise external capital for investment programmes.

Investors in unit trusts were encouraged by the sharp rise in share prices during the first nine months of 1980 to realise capital gains on their investments. Net repurchases

of units by the trusts amounted to R50 million during 1980, compared with R16 million in 1979. Despite this outflow of funds, the market value of the trusts' net assets increased from R585 million in December 1979 to R694 million in December 1980. Reflecting the increase in the market value of net assets per unit, the average selling price of units rose by 38 per cent during 1980, while the average yield on units declined from 5,43 per cent in December 1979 to 4,67 per cent in December 1980.

Sharp rise in holdings of longer-term funds with financial institutions

A sharp rise in holdings of longer-term funds with deposit-receiving and other savings institutions was recorded in 1980. The rate of increase in these holdings, however, declined appreciably towards the end of 1980 and in early 1981. This change was apparently due to a smaller intake of corporate fixed deposits, a dwindling of the temporary placement of funds with deposit-receiving institutions by long-term institutional investors in anticipation of a further increase in long-term interest rates, and a lower rate of increase in savings by individuals that was related to the sharp rise in consumer expenditure.

Despite the slowdown in the inflow of new funds in the last quarter of 1980, holdings of longer-term funds with the institutions concerned increased by a record amount of almost R4 400 million in 1980, compared with about R3 130 million in 1979. Building societies recorded the largest inflow of longer-term funds, followed by the banking institutions. Participation mortgage bond schemes recorded their first worthwhile inflow since 1976, indicating that there was a revival in the demand for industrial and commercial mortgage loans. The flow of funds to government savings facilities was more or less maintained at the level of the preceding year.

Change in investors' holdings of longer-term funds with financial institutions

Seasonally adjusted, quarterly
R millions

	Annually		1980			
	1979	1980	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Banking institutions	1 136	1 713	562	139	635	377
Building societies	1 595	2 199	529	461	729	480
Participation mortgage bond schemes	-14	65	16	—	20	29
Government savings facilities	415	420	128	111	103	76
Total	3 132	4 397	1 237	711	1 487	962

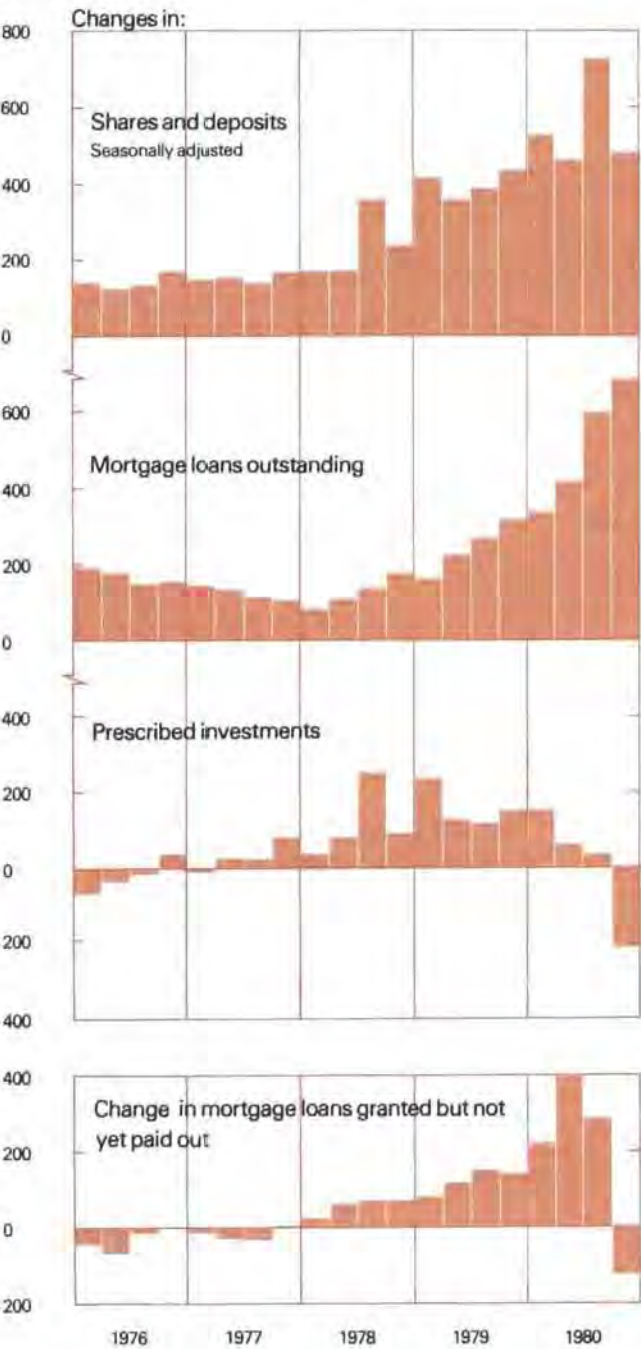
High level of activity in mortgage and real estate markets

The substantial amount of new funds invested with building societies, together with a considerably larger return flow of funds in the form of capital repayments on existing mortgages, enabled the societies to accommodate a strong demand for mortgage loans in 1980. New mortgage loans

of R4 600 million, or R2 143 million more than in 1979, were granted in 1980, while new mortgage loans of R4 191 million were actually paid out in the year.

The smaller inflow of funds to the societies towards the end of 1980 induced them to slow down the granting of new mortgage loans and, at the same time, to reduce their outstanding commitments in respect of new loans granted but not yet paid out. New mortgage loans granted in the fourth quarter were about R220 million, or 17 per cent, lower than in the third quarter and the societies' loan

Building societies



commitments, which had risen from R880 million at the end of 1979 to R1 803 million at the end of November 1980, were reduced by R167 million during December. In meeting the demand for mortgage loans and reducing their loan commitments, the societies lowered their excess holdings of prescribed investments from R1 074 million at the end of August 1980 to R728 million at the end of the year.

The increase in the building societies' deposit rates in December 1980 led to the announcement in January of an increase of $\frac{3}{4}$ per cent in the home mortgage rates of the societies. These rates now range from 9,75 – 11,75 per cent. In February the societies indicated that a further increase in mortgage rates could occur in the course of 1981.

In the real estate market the value of transactions reached a record level in 1980, representing an increase of 84 per cent above the level of transactions in 1979. After a record turnover had been reached in the second quarter of 1980, the tempo of transactions slackened somewhat in the third quarter but regained momentum in the fourth quarter. It is expected, however, that the current lower rate of mortgage lending by the building societies and the existing high level of property prices will have a lagged effect on turnover in the real estate market.

Fixed property market

