

# Quarterly economic review

## Summary and general comments

The present cyclical downswing in the economy was clearly reflected in the behaviour of key economic variables in the third quarter of 1982. Real domestic output declined for the second consecutive quarter and this was accompanied by an increase in unemployment. At the same time, real domestic demand, which had risen to a very high level in 1981, continued its downward adjustment. This had the beneficial effect of slightly easing inflationary pressure and, through a decline in imports, of diminishing the deficit on the current account of the balance of payments. In the financial sphere, the slow-down in the economy was evident in an easing of the financial markets and a turn-around of the increase in interest rates. All in all, the overheated economy of late 1980 and most of 1981 was clearly in the process of cooling down. In this respect, the current restrictive policy measures aimed at contracting excessive monetary demand, restoring balance of payments equilibrium and reducing inflation, were beginning to achieve their objectives. However, with the inflation rate still unacceptably high, the current account of the balance of payments still in deficit, and a large amount of short-term foreign debt to be repaid, the adjustment process obviously will have to continue for the time being.

Lower real agricultural output, resulting from severe drought conditions in the summer crop areas, contributed significantly to the decline in real gross domestic product in both the second and third quarters of 1982. However, widespread declines in real output also occurred in the non-agricultural sectors of the economy. Nevertheless, for 1982 as a whole, the real gross domestic product of these sectors is expected to increase by about 1 per cent. Owing to a fairly sharp projected decline in real agricultural output, however, overall real gross domestic product is unlikely to show any increase in 1982.

As part of the general economic slow-down, non-agricultural employment did not show any increase in the first two quarters of 1982. Employment in the private sector actually declined, but this decline was counterbalanced by increased employment in the public sector. Static employment levels and the natural growth of the labour force inevitably resulted in higher unemployment.

The further decline in real gross domestic expenditure in the third quarter reflected lower levels of private consumption expenditure on durable and semi-durable goods, government consumption expenditure and fixed investment. Real inventories continued to show a small increase, most of which apparently consisted of an involuntary addition to stocks that was caused by the fall in demand.

Upward demand pressure on prices abated somewhat from the beginning of the third quarter. The increase in production as well as consumer prices decelerated slightly and this change was evident in most components of the production and consumer price indices. Owing to this underlying downward tendency, the increase in the general sales tax from 5 to 6 per cent from 1 September caused only a marginal increase in the consumer price index. Despite the deceleration in the rate of increase in prices, consumer prices were on average still 14,3 per cent higher in October 1982 than in the corresponding month of 1981.

The slow-down in domestic expenditure had a more pronounced effect on imports. In the third quarter the value of imports declined substantially and, supplemented by a fairly sharp rise in the gold price and, therefore, in the value of the net gold output, this caused a considerably smaller deficit on the current account of the balance of payments. Despite this improvement, the current account is expected to remain in deficit for the time being because of the adverse effect on South African exports of the continuing recession in the industrial countries. Against this background, South Africa entered into an agreement with the International Monetary Fund, in terms of which South Africa will, subject to certain conditions, be entitled to draw an amount of R1,2 billion.

Not only the current account, but also the capital account of the balance of payments improved in the third quarter. This resulted in a rise in total net gold and other foreign reserves, the first quarterly increase since the third quarter of 1980. Reacting to a more favourable overall balance of payments, the weighted average value of the rand in terms of other currencies rose slightly from the beginning of the third quarter.

The increase in the net foreign reserves had an expansionary effect on the money supply in the third quarter. In addition, the measured money supply was inflated by a large expansion of bank credit to the private sector. Reflecting alternating periods of "disintermediation" and "re-intermediation", this form of credit for some time now has shown wide quarterly fluctuations which have caused equally sharp variations in the measured money supply. The process of reintermediation recurred in the third quarter and the growth in the money supply, which had slowed down considerably during the second quarter, showed a renewed moderate acceleration. Nevertheless, the seasonally adjusted annual rate of increase of 19 per cent in the broad money supply during the first nine months of 1982 was appreciably lower than the increase of 25 per cent during 1981.

In contrast with the slow-down in real economic activity, financial activity remained fairly buoyant. Turn-

over in the fixed-interest security market reached a new record, share turnover and prices rebounded strongly from low levels in June this year and transactions in the real estate market remained at a high level. Increased activity in these markets stemmed mainly from expectations that fixed-interest security yields were at cyclical peaks; the decline in interest rates abroad and the increase in the gold price, together with their effect on domestic interest rate expectations; and the large institutional investors' ample availability of funds for investment. Reflecting an increased supply relative to the demand for funds, long-term security yields declined sharply during the third quarter and October, while important short-term interest rates followed a similar course despite temporary periods of considerable tightness in the money market.

Fairly large increases in Exchequer issues and receipts in the third quarter kept the rates of increase in both issues and receipts in the first half of the 1982/83 fiscal year well above the Budget estimates for the full year. The net result was a deficit before borrowing on the Exchequer Account that, at an annual rate, was appreciably larger than the Budget estimate. However, considering the additional yield of the general sales tax, the expected continuation of a relatively high rate of increase in other revenue, and an anticipated slow-down of the increase in government expenditure, the actual deficit for the fiscal year as a whole is not expected to exceed the original Budget estimate. In financing the Exchequer Account deficit, the Government was highly successful in borrowing funds from the private non-banking sector. This borrowing took the form mainly of tender issues of new government stock and substantial sales by the Reserve Bank of new government stock obtained on tap from the Treasury. Successful borrowing from the private non-banking sector enabled the Government to reduce considerably its net indebtedness to the monetary banking sector and, in this way, to assist in slowing down the growth of the money supply.

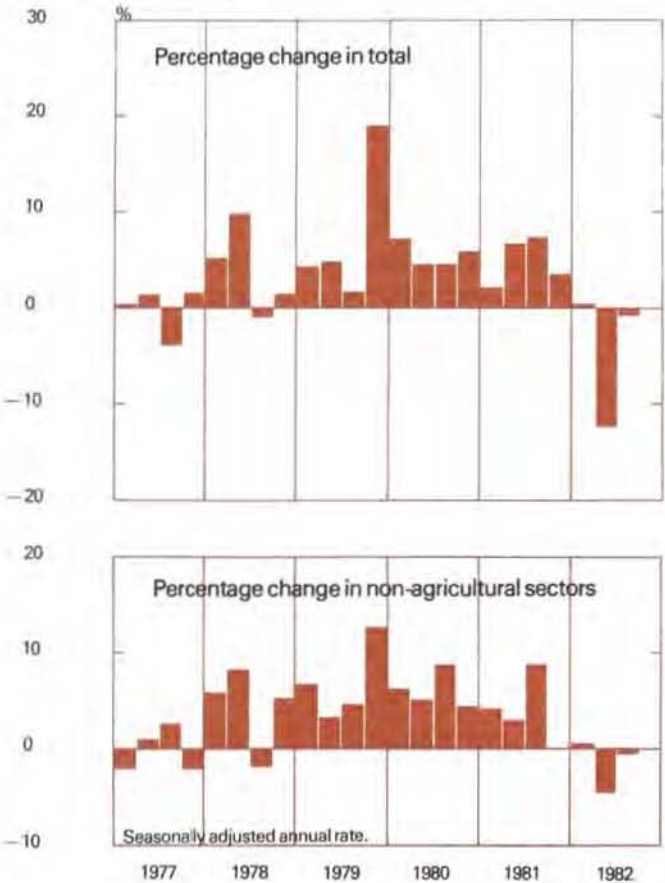
### Domestic economic activity\*

#### Further decline in real gross domestic product

Reflecting the current cyclical downswing in economic activity from the fourth quarter of 1981, real gross domestic product declined moderately further in the third quarter of 1982. This decrease followed upon a rather sharp fall in the second quarter and little change in the first quarter. With the notable exception of increases in the real product of gold mining and general government, the real value added by the other sectors of the economy declined in the third quarter. Real agricultural output decreased on account of severe drought conditions in summer crop areas. The decline in the real product of the secondary and tertiary sectors was related to the appreciable decrease in total real gross domestic expenditure from the second quarter.

With national accounts statistics now available for three quarters, it would appear that little, if any, growth in real gross domestic product can be expected for the calendar year 1982. Excluding an anticipated decrease of 10 per cent in agricultural production, however, the

Real gross domestic product



\* Quarterly changes are based on seasonally adjusted data.



aggregate real product of the non-agricultural sectors is expected to show an increase of about 1 per cent in 1982 as a whole.

At current prices, gross domestic product rose moderately further in the third quarter. In terms of its factor cost components, remuneration of employees continued to increase, albeit at a lower rate, but gross operating surplus, reflecting mainly lower profits, declined for the third consecutive quarter. Although this decrease in the first three quarters of 1982 was largely due to lower agricultural income, the gross operating surplus of important sectors such as non-gold mining, manufacturing and commerce increased only marginally in this period. During the first three quarters of 1982, total remuneration of employees and aggregate gross operating surplus were respectively 19 per cent and 1½ per cent higher than in the corresponding period of 1981.

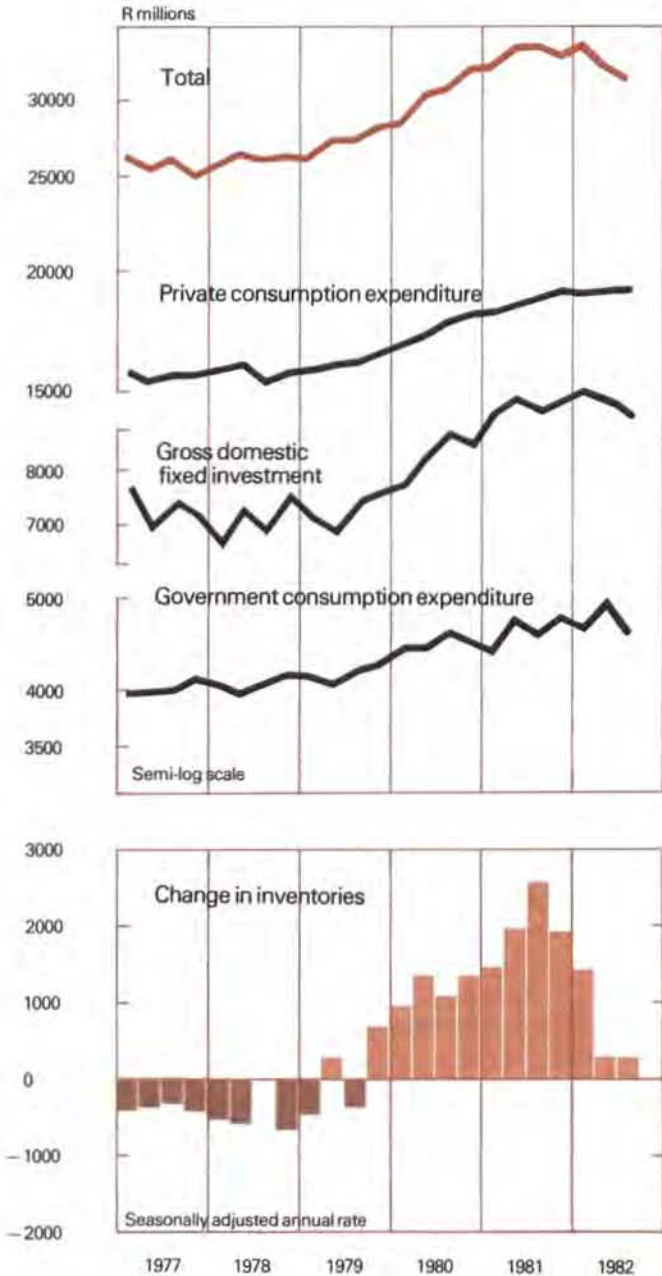
#### Downward trend in real gross domestic expenditure

The restrictive policy measures taken by the authorities to curb excessive domestic demand, together with natural market forces, had the desired effect of bringing about an actual decline in real gross domestic expenditure in both the second and third quarters of 1982. In the first three quarters of 1982, real gross domestic expenditure was about 3½ per cent lower than in the corresponding period of 1981. The further decline in the third quarter was largely attributable to decreases in gross domestic fixed investment and government consumption expenditure, with private consumption expenditure and inventory investment showing almost no change. At current prices, gross domestic expenditure exceeded gross national product by a substantially smaller amount than in either the first or the second quarters. By definition this was reflected in a decline in the deficit on the current account of the balance of payments.

After having declined moderately in the first quarter, real private consumption expenditure remained more or less constant in the second and third quarters. Nevertheless, in the first three quarters of 1982, real private consumption expenditure was still about 3 per cent higher than in the corresponding period of 1981. However, if the trend during the first three quarters continues, a somewhat lower increase may be expected for the year as a whole.

Owing to their cyclical sensitivity, real outlays on durable goods declined uninterruptedly in the first three quarters of 1982. In the third quarter, the level of this expenditure was already 5½ per cent lower than the most recent peak in the fourth quarter of 1981. Real outlays on semidurable goods fluctuated quite markedly in the first three quarters of 1982, but in general tended to decline from the high level reached in the fourth quarter of 1981. Reflecting its more essential nature, real expenditure on non-durable goods and on services increased steadily during the first three quarters of 1982.

Gross domestic expenditure at constant 1975 prices



Real government consumption expenditure has fluctuated around a moderately rising trend since the beginning of 1981. In the first three quarters of 1982, aggregate outlays by general government on goods and services of a non-capital nature were about 3½ per cent higher than in the corresponding period of 1981. Real salaries and wages, largely reflecting increased employment by general government, rose by 1½ per cent in this period, and outlays on goods and other services by 4½ per cent.

Total real gross domestic fixed investment started to decline in the second quarter of 1982, and the down-



swing gathered considerable momentum in the third quarter. Nevertheless, the level of total real fixed capital outlays in the first three quarters of 1982 was still 1½ per cent higher than in the corresponding period of 1981. For the year as a whole, however, little increase, if any, is expected.

The widespread decline recorded in real *private* fixed investment in the second quarter continued in the third quarter. Particularly sharp decreases were recorded in agriculture, mining, manufacturing and private transport. Despite the decline in real *gross* fixed investment by private manufacturing, real *net* investment was still positive. This meant that additional production capacity was still being created at a time when domestic production was already diminishing. Reflecting this further addition to production capacity, the utilisation of capacity in total manufacturing amounted to 86½ per cent in the third quarter, compared with 88 per cent in the preceding quarter and a peak of 90 per cent a year ago. Following upon an increase in the second quarter, real fixed investment by public authorities declined in the third quarter, reflecting largely a decrease in capital outlays by the South African Transport Services. In contrast, real fixed investment of public corporations showed a moderately rising trend from the first quarter, mainly as a result of increased outlays by Escom.

The net addition to total real inventories, which had amounted to no less than R2 billion in 1981, declined substantially in the course of 1982 to a level of only R285 million (at a seasonally adjusted annual rate) in the third quarter of 1982. As in the preceding quarter, there was apparently again an involuntary addition to inventories in the third quarter because of the inability of imports and domestic production to adjust timeously to the slow-down in demand. Stocks of the motor trade,

for example, continued to show an appreciable increase in the third quarter. Wholesale inventories, however, declined notably. The other major classes of stocks showed little change or increased only marginally. The ratio of real inventories (excluding strategic and agricultural stocks) to the comparable real gross domestic product increased to 38½ per cent in the third quarter, its highest level in almost six years. Judged by short-term surveys and company reports, the majority of businessmen would seem to regard the existing level of stocks as too high in relation to expected future sales. It is expected, therefore, that industrial and commercial inventories will decline in the near future.

### Increase in gross domestic saving

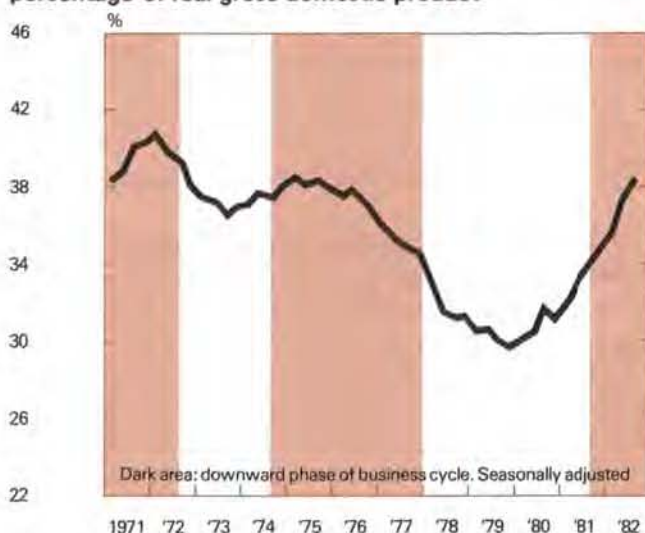
At a seasonally adjusted annual rate, gross domestic saving increased steadily from a low level of R18 billion in the first quarter of 1982 to R19 billion in the second quarter and further to R22 billion in the third quarter. As a ratio of gross domestic product, gross domestic saving amounted to 27½ per cent in the third quarter, compared with a low of 23½ per cent in the first quarter. Despite the sharp increase in the third quarter, gross domestic saving was still insufficient to finance even the lower total fixed and inventory investment, and foreign funds had to be used to finance the shortfall.

General government saving and provision for depreciation increased in the third quarter. A partly offsetting decline was recorded in personal saving, with corporate saving showing little change. The sharp rise in general government saving emanated from a rise in current income and a decline in current expenditure. Corporate saving remained more or less unchanged, notwithstanding an increase in the saving of gold mining on account of the higher gold price. The moderately lower level of personal saving, despite a lower rate of increase in consumption expenditure at current prices, was related to the decline in agricultural income, increased income tax payments and a lower rate of increase in salaries and wages. As a ratio of personal disposable income, personal saving averaged only 4½ per cent in the first three quarters of 1982, which was substantially lower than the long-term average of about 10 per cent.

### Levelling-off in employment growth

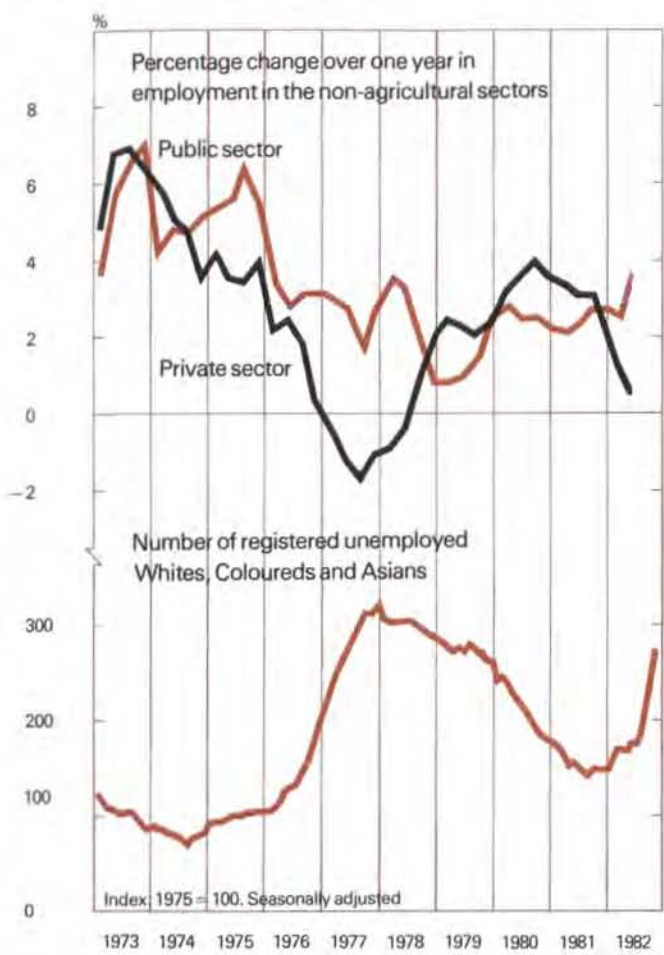
As in the first quarter of 1982, non-agricultural employment showed virtually no growth in the second quarter. The employment level in the first half of 1982 was only 1.4 per cent higher than in the corresponding period of 1981, compared with an increase of 2.9 per cent in 1981 as a whole. As is customary during periods of economic downswing, employment in the public sector continued to rise during the first and second quarters of 1982, namely at seasonally adjusted annual rates of 1.7 per cent and 5.6 per cent, respectively. The fairly sharp rise in the second quarter reflected increased employment by the Central Government, provincial administra-

**Non-agricultural sectors: Real non-strategic inventories as percentage of real gross domestic product**





Employment and unemployment



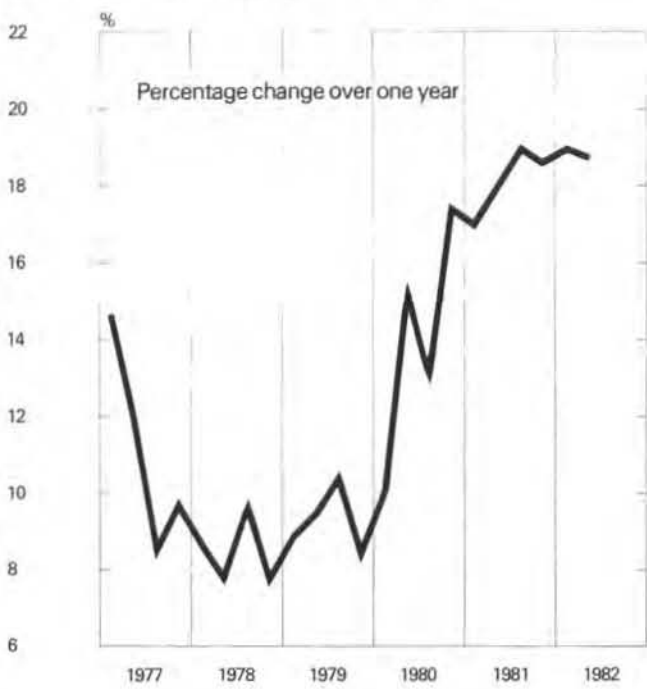
tions, agricultural control boards and the electricity supply sector. Increased public-sector employment in the first and second-quarters of 1982 was, however, counterbalanced by seasonally adjusted annual rates of decline of 0,7 per cent and 1,4 per cent, respectively, in private-sector employment. Lower employment in manufacturing and non-gold mining in the first quarter was followed by declines in employment in mining as a whole, and also in manufacturing, construction and trade in the second quarter.

The slackening of the demand for labour in the private sector was also reflected in a decline in ordinary and overtime hours worked in manufacturing and construction in the first seven months of 1982. In addition, the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians rose from 15 336 in December 1981 to 18 123 in June and sharply further to 28 313 in October 1982.

Slightly lower rate of increase in salaries and wages

Nominal and real salaries and wages per worker in the non-agricultural sectors of the economy were 19,4 per

Unit labour costs in the non-agricultural sectors



cent and 3,5 per cent, respectively, higher in the first half of 1982 than in the corresponding period of 1981. In 1981 nominal salaries and wages per worker rose by 20,5 per cent and in real terms the increase amounted to 4,6 per cent. As a result of a lower rate of increase in labour productivity and the continuation of a high rate of increase in remuneration per worker, labour cost per unit of production in the non-agricultural sectors rose by 18,8 per cent in the first half of 1982, compared with the corresponding period in 1981. This increase followed upon an already sharp rise of 18,1 per cent in 1981.

Percentage change in salaries and wages per worker in the non-agricultural sectors of the economy

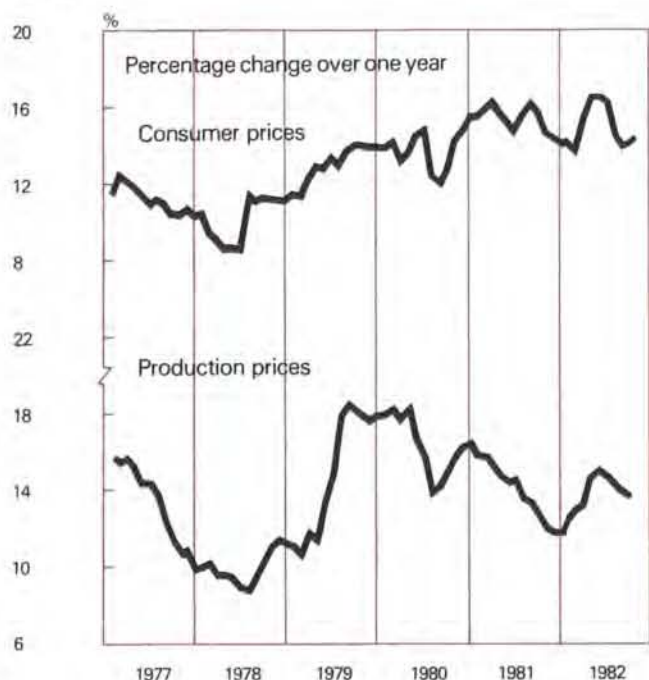
	1981	First half of 1982 <sup>1</sup>
Whites		
At current prices.....	21,8	17,8
At constant prices .....	5,7	2,1
Non-Whites		
At current prices.....	20,5	21,2
At constant prices .....	2,9	6,3
All population groups		
At current prices.....	20,5	19,4
At constant prices .....	4,6	3,5

<sup>1</sup> Compared with the corresponding period of the preceding year.

Slow-down of price increases

In the third quarter, consumer prices were beginning to reflect the cyclical downturn in the economy. Compared with the corresponding month in 1981, the in-

## Prices



crease in consumer prices slowed down from 16,0 per cent in June 1982 to 13,9 per cent in August, before accelerating slightly to 14,3 per cent in October. This moderate rise was largely due to the increase in the general sales tax rate from 5 to 6 per cent from the beginning of September. All the major items in the consumer price index showed lower rates of increase in the third quarter than in the preceding quarter, with the exception of the prices of dairy products and housing costs in the form of rent and water and electricity tariffs. Despite the slow-down in consumer price increases, these prices were on average still 14,9 per cent higher in the first ten months of 1982 than in the corresponding period of 1981.

In terms of changes over a twelve-month period, the increase in production prices decelerated from 14,6 per cent in June 1982 to 13,5 per cent in September. This deceleration occurred despite a sharp rise in the prices of imported goods in August, in particular in the prices of metal products, machinery and transport and scientific equipment. The rate of increase in domestically produced goods, however, decelerated continuously during the third quarter. In the first nine months of 1982, production prices were on average 13,8 per cent higher than in the corresponding period of 1981.

## Balance of payments

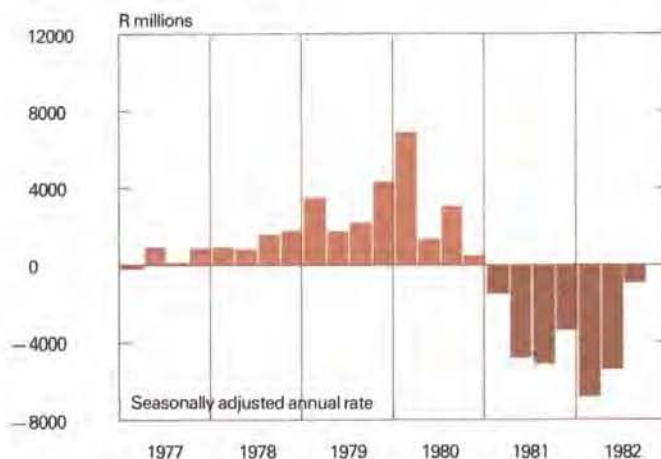
### Substantially reduced deficit on current account

A substantially reduced deficit was recorded on the current account of the balance of payments in the third quarter of 1982. At a seasonally adjusted annual rate, the deficit declined from R6 890 million in the first quarter to R5 400 million in the second quarter and only R940 million in the third quarter. The actual deficit in the third quarter amounted to R291 million, which brought the total for the first nine months of 1982 to R3 034 million. A sharp rise in the value of the net gold output, reflecting a considerably higher gold price, a substantial decline in imports, and a moderate increase in merchandise exports were responsible for the much smaller deficit in the third quarter. In contrast to these favourable developments, there was an appreciable increase in net service and transfer payments to foreigners.

The moderate increase in merchandise exports in the third quarter occurred despite a slight rise in the effective exchange rate of the rand. In the first two quarters of 1982 the increase in the value of exports reflected mainly the effect of the depreciation of the rand on export prices. In the first nine months of 1982 the volume of exports was still slightly below that in the corresponding period of 1981.

The substantial increase in the value of the net gold output in the third quarter resulted mainly from the sharp rise in the gold price, but also from an increase in volume. The latter was partly due to the mining of higher grade ore. On the London market the price of gold rose from an average of US \$333 per fine ounce in the second quarter to an average of US \$380 per fine ounce in the third quarter, or by 14 per cent. Because of the further depreciation of the rand against the US dollar, the corresponding rand price of gold increased by al-

### Balance on current account





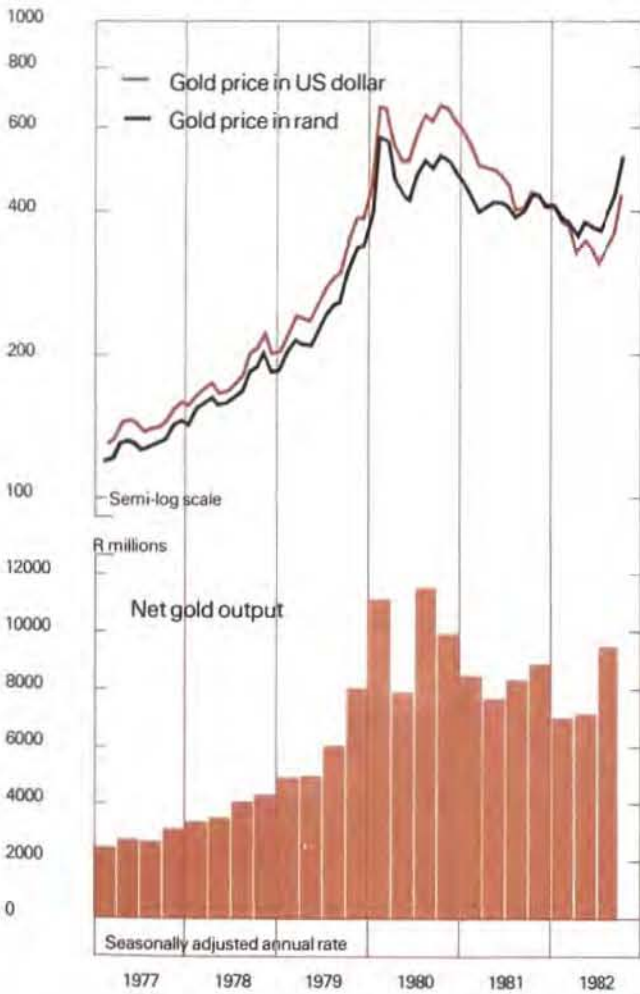
Current account of the balance of payments

Seasonally adjusted annual rate  
R millions

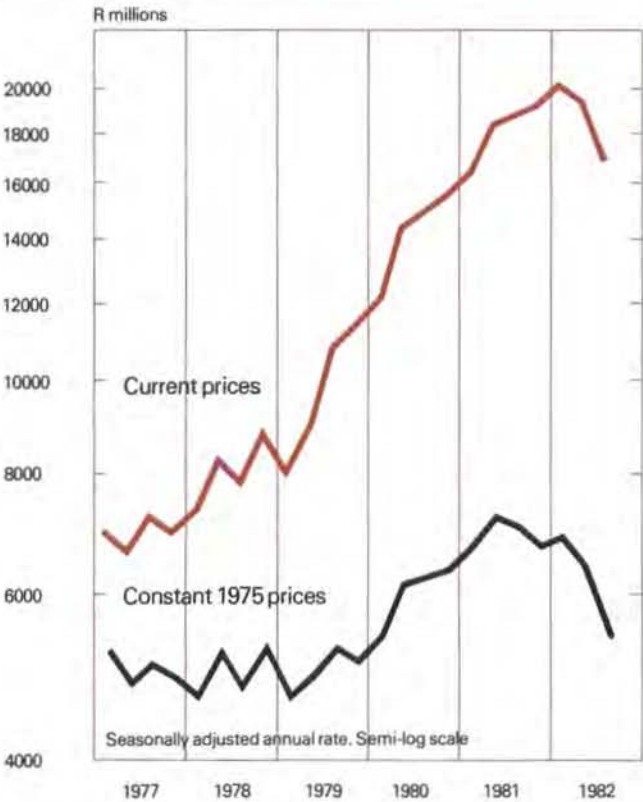
	1982		
	1st qtr.	2nd qtr.	3rd qtr.
Merchandise exports.....	9 660	10 040	10 370
Net gold output.....	6 970	7 080	9 480
Merchandise imports .....	-20 070	-19 270	-16 770
Net service and transfer payments.....	-3 450	-3 250	-4 020
Deficit on current account.....	-6 890	-5 400	-940

most 22 per cent from the second to the third quarter. In October the gold price averaged US \$422 per fine ounce, which brought the average for the first ten months of 1982 to US \$365 per fine ounce. This was still considerably below the average of US \$460 per fine ounce in 1981. In terms of rand, the average gold price per fine ounce in the first ten months of 1982 amounted to R395, compared with R400 in 1981.

Gold price and net gold output



Merchandise imports



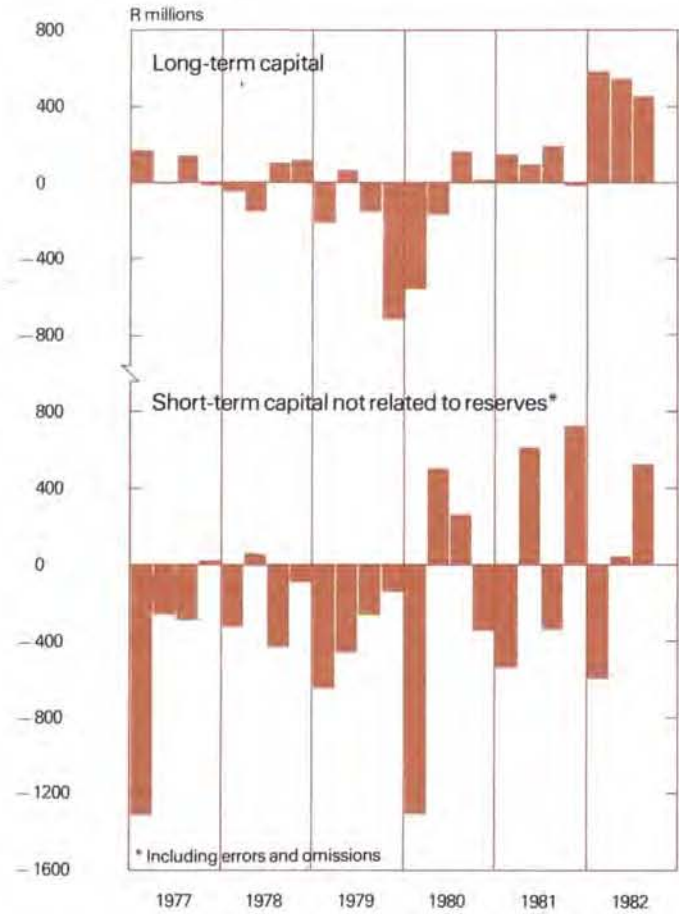
Although the *volume* of imports had begun its cyclical downturn in the third quarter of 1981, the *value* of imports only began to decrease in the second quarter of 1982 and then declined more rapidly in the third quarter. This was entirely due to a sharp decline in the import volume since import prices in terms of rand continued to rise in this quarter. Declines were most prominent in imports of mineral products and transport equipment.

Net service and transfer payments to foreigners were the only major current account item which did not contribute to the smaller deficit in the third quarter. In particular, service payments increased substantially, reflecting a sharp rise in interest payments on foreign loans and continuing large dividend payments on foreigners' investment in South Africa.

Large net capital inflow

A net capital inflow amounting to R979 million, excluding changes in liabilities related to reserves, was recorded in the third quarter. In the first nine months of 1982 the net capital inflow amounted to R1 554 million. In contrast with the first two quarters of the year, when there was a sizeable net inflow of long-term capital but either a net outflow or only a small net inflow of short-term capital, a considerable net inflow of short-term capital occurred in the third quarter. Apparently the short-term capital inflows consisted mostly of trade cre-

### Net capital movements



dits arranged abroad in response to the relatively higher short-term interest rates in South Africa and expectations that the rand would not depreciate significantly further against other currencies. These expectations encouraged some importers not to take out forward exchange cover, but to take full advantage of the interest rate differentials between South Africa and other countries. At the same time, these expectations and the

### Net capital movements

R millions

	1982			
	1st qtr.	2nd qtr.	3rd qtr.	Jan. to Sept.
<b>Long-term capital</b>				
Central government and banking sector.....	298	318	201	817
Public corporations and local authorities .....	47	70	112	229
Private sector.....	242	158	143	543
<b>Total .....</b>	<b>587</b>	<b>546</b>	<b>456</b>	<b>1 589</b>
<b>Short-term capital, excluding liabilities related to reserves but including errors and omissions.....</b>	<b>-600</b>	<b>42</b>	<b>523</b>	<b>-35</b>
<b>Total net capital movements .....</b>	<b>-13</b>	<b>588</b>	<b>979</b>	<b>1 554</b>



higher domestic interest rates provided an inducement to exporters to speed up the repatriation of export proceeds. Apart from the short-term capital inflow, there was also an appreciable net inflow of long-term capital in the third quarter. As in the preceding two quarters, this capital inflow consisted mainly of loans obtained by the public sector, but also of a moderate net inflow of funds to the private sector.

### Increase in foreign reserves

Balance of payments transactions caused total *net* gold and other foreign reserves to increase by R688 million during the third quarter, the first quarterly increase since the third quarter of 1980. The Reserve Bank and other banking institutions reduced their liabilities related to reserves by R1 342 million. Despite this reduction, total gross gold and other foreign reserves increased by R486 million during the third quarter to a level of R4 323

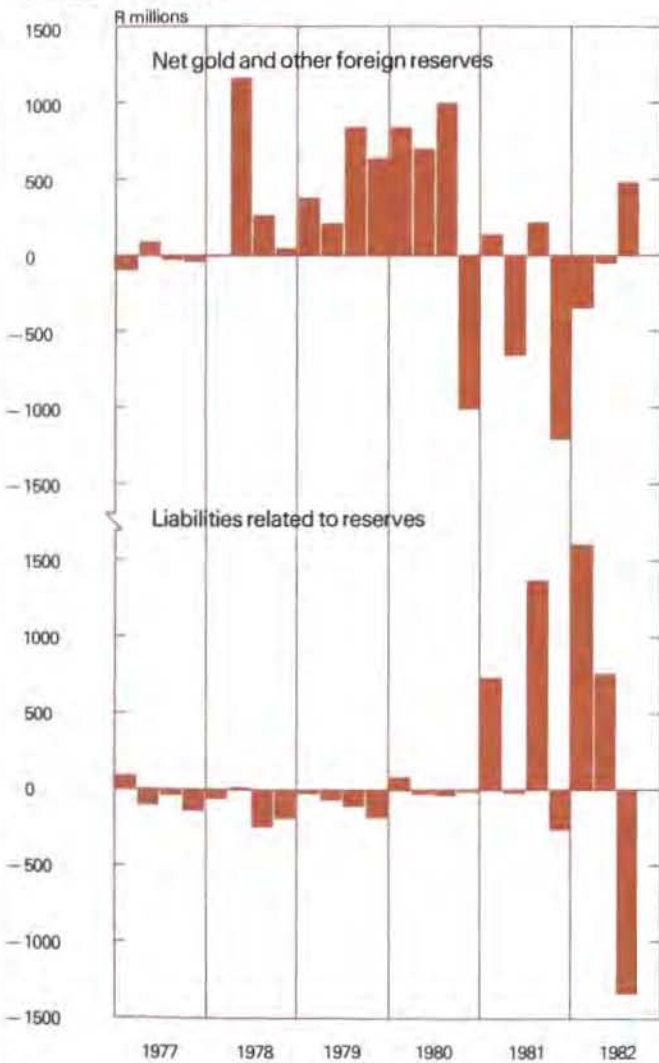
million at the end of September. The valuation of the gold reserves at a higher price was a major reason for the increase in the gross foreign reserves.

### More stable exchange rates from middle of 1982

The effective exchange rate of the commercial rand, which had declined by 10 per cent during the first half of 1982 and by 22 per cent during the eighteen months to June 1982, increased by 1 per cent during the four months July to October 1982. Between the end of October and 26 November it rose by a further 3½ per cent. As shown in the accompanying table, the rand appreciated against all the major currencies, except the US dollar, during the four months to October. Between the end of 1980 and the end of October 1982 the effective exchange rate of the commercial rand decreased by 21½ per cent, while the rand depreciated by 36 per cent against the US dollar.

The financial rand depreciated by 4 per cent against the US dollar during the first half of 1982 and by a further 6 per cent during the third quarter. During October, however, it appreciated slightly by 2 per cent. At the end of October the cumulative depreciation of the financial rand from the end of 1980 amounted to 21 per cent. The financial rand discount narrowed sharply in the course of 1982, namely from 25,5 per cent at the end of January to 9,3 per cent at the end of July, before it increased again to 13,8 per cent at the end of October.

Changes in net foreign reserves and liabilities related to reserves



Exchange rates of the commercial rand  
Percentage change

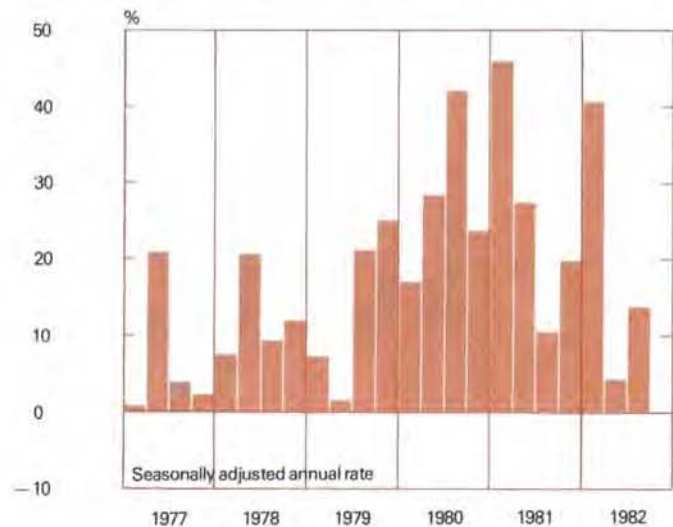
	30 June 1982 to 31 Oct. 1982	31 Dec. 1981 to 31 Oct. 1982	31 Dec. 1980 to 31 Oct. 1982
Effective exchange rate .....	0,8	-9,0	-21,6
US dollar .....	-2,2	-18,0	-36,2
British pound .....	1,7	-6,7	-9,2
German mark .....	2,1	-7,0	-16,9
Swiss franc .....	3,2	0,6	-20,5
Japanese yen .....	6,7	3,5	-12,9
French franc .....	4,1	4,1	1,7

## Money and banking

### Acceleration in money supply growth

The growth of the money supply, which has shown sharp quarterly fluctuations during recent years, accelerated notably during the third quarter of 1982. At a seasonally adjusted annual rate, the increase in M2, which had declined from 41 per cent in the first quarter to 4 per cent in the second quarter, accelerated to 14 per cent in the third quarter. During the first nine months of 1982 M2 and M1 increased at seasonally adjusted annual rates of 19 and 23 per cent, respectively, compared with growth rates of 25 and 34 per cent, respectively, during 1981 as a whole.

Changes in broadly defined money supply (M2)



### Causes of changes in M2

R millions

	Not seasonally adjusted			Seasonally adjusted		
	1982			1982		
	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Net gold and other foreign reserves.....	-1 349	-819	688	-1 301	-495	368
Claims on government sector:						
Gross claims .....	-92	589	-168	...	...	...
Government deposits (increase-, decrease+) .....	-1 124	-82	-733	...	...	...
Net claims.....	-1 216	507	-901	-477	88	-789
Claims on private sector .....	2 062	604	1 112	1 969	387	1 174
Long-term deposits (increase-, decrease+) .....	72	107	-614	172	278	-773
Net other assets.....	1 312	128	630	...	...	...
<b>Total causes of changes in: M2.....</b>	<b>881</b>	<b>527</b>	<b>915</b>	<b>1 765</b>	<b>225</b>	<b>713</b>
M1 .....	626	73	721	1 117	-139	872

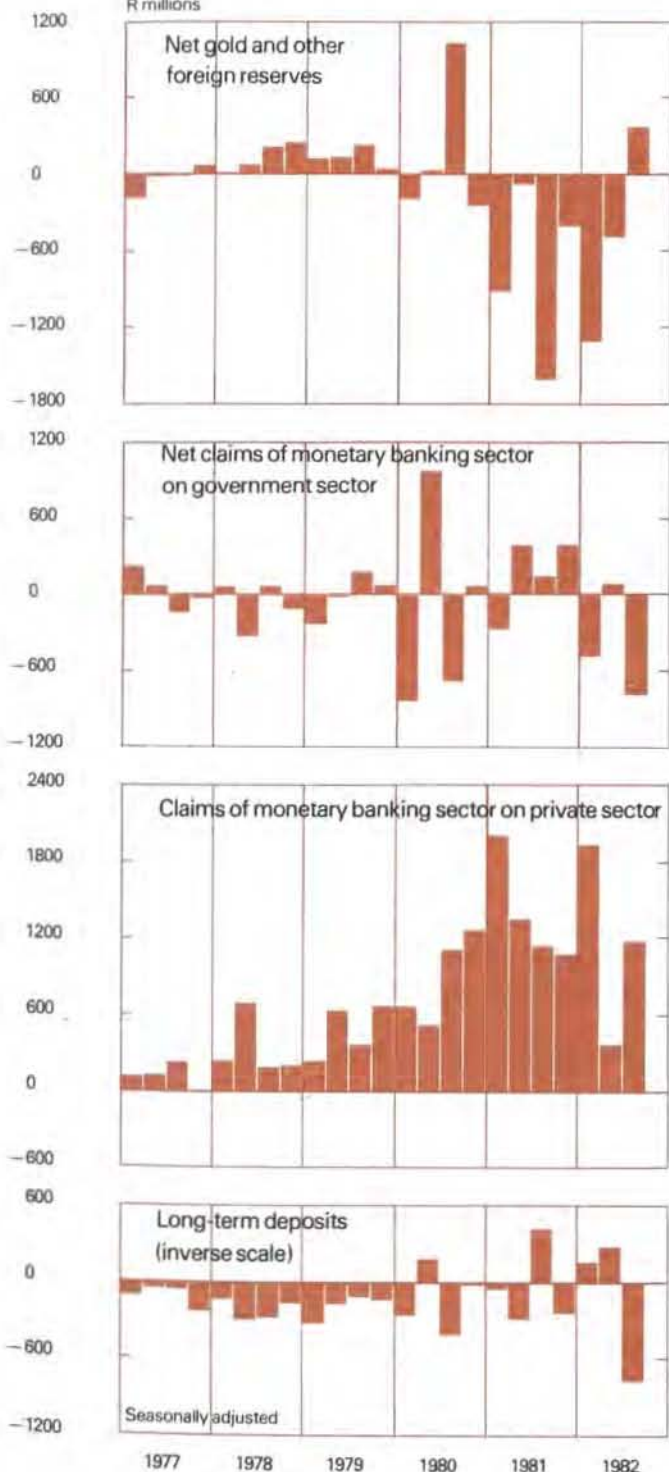


## Causes of changes in M2

The renewed acceleration in the growth of M2 (seasonally adjusted) during the third quarter was "caused" by a substantial further extension of bank credit to the private sector and a sizeable increase in the net gold and

### Causes of changes in M2

Changes in:  
R millions



other foreign reserves of the monetary banking sector. In addition, there was a notable increase in this sector's net other assets, the larger part of which consisted of losses on forward exchange contracts administered by the Reserve Bank on behalf of the Government. A contractionary influence was exerted on M2 by a decline in net bank credit to the government sector (excluding forward exchange losses) and an increase in long-term deposits of the private sector with monetary banking institutions.

As mentioned above, the increase in the monetary banking sector's net foreign reserves was largely due to an improvement in the overall balance of payments, which enabled the banks to make repayments on short-term foreign loans ranking as liabilities related to reserves. Net bank credit to the government sector declined mostly as a result of an increase in government deposits that was related to large-scale sales of new government stock by the Reserve Bank. Long-term deposits, which had declined during both the first and second quarters of 1982, increased in anticipation of a prospective decline in long-term deposit rates.

### Substantial increase in bank credit to private sector

Claims of the monetary banking sector on the private sector increased at a seasonally adjusted annual rate of 21 per cent during the third quarter, compared with 7 per cent during the second and 41 per cent during the first quarter of 1982. The comparable rate of increase during the first nine months of 1982 amounted to 22 per cent, which was substantially lower than the increase of 35 per cent during 1981 as a whole.

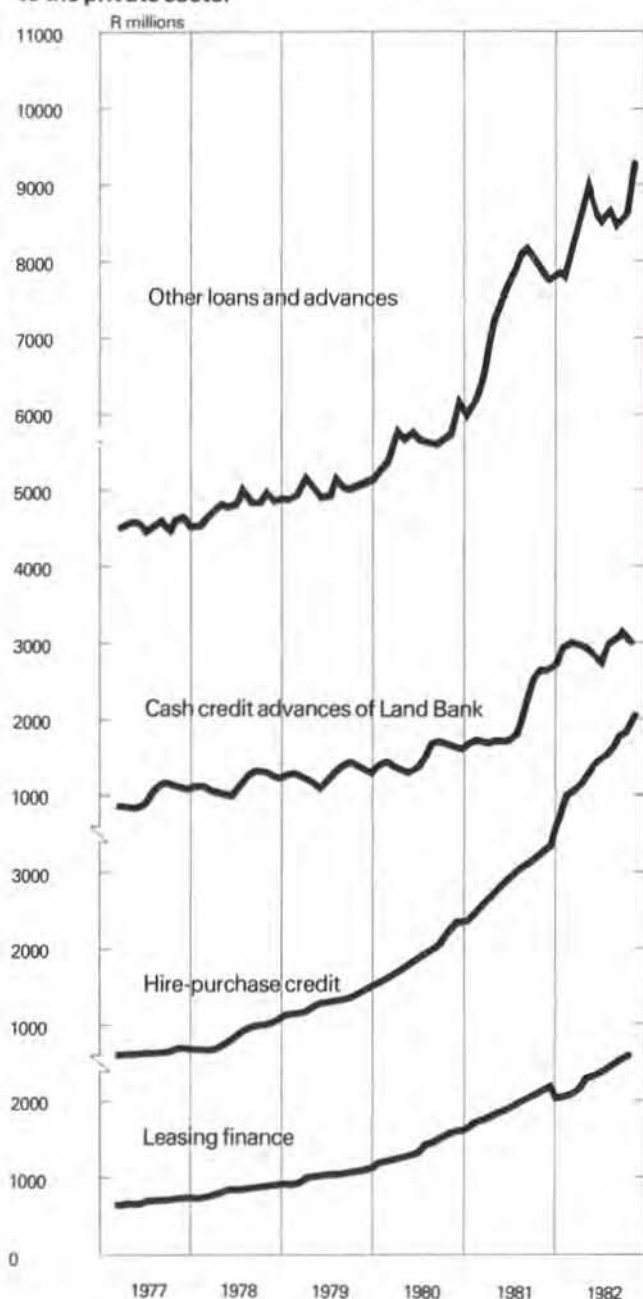
As shown in the accompanying table, an appreciable part of the increase in bank credit to the private sector during the third quarter consisted of a further expansion of hire-purchase credit and leasing finance extended by commercial, merchant and general banks. In addition, these banks' "other" loans and advances, mainly personal loans and utilised overdraft facilities, rose considerably during the third quarter. To some extent the increase in these banks' credit extension to the private

### Changes in monetary banking sector's claims on the private sector

Not seasonally adjusted  
R millions

	1982		
	1st qtr.	2nd qtr.	3rd qtr.
Reserve Bank, NFC and discount houses .....	-93	185	80
Land Bank .....	-53	121	-33
Other monetary banks:			
Deposits and investments .....	80	236	-191
Bills discounted .....	318	105	-66
Hire-purchase credit .....	349	323	428
Leasing finance .....	252	110	203
Other loans and advances .....	1 209	-476	691
<b>Total .....</b>	<b>2 062</b>	<b>604</b>	<b>1 112</b>

**Loans and advances of monetary banking sector to the private sector**



sector was related to the re-intermediation of credit arranged previously outside the banking system.

### Increased bank liquidity

Bank holdings of liquid assets in excess of the legally required minimum remained at a low level during July and August, but increased notably after a reduction in the cash reserve and liquid asset requirements for banking institutions on 27 September. The ratio of surplus liquid assets to liabilities to the public declined slightly from 1,9 per cent at the end of June 1982 to 1,8 per cent at

the end of August, before rising to 2,4 per cent at the end of September. The banking institutions' required liquid assets declined by R63 million during July and August and, after the lowering of the liquid asset requirements, by R634 million during September. Actual liquid asset holdings declined by R538 million during the third quarter, mainly because of a decline in net bank credit to the government sector resulting from a large increase in government deposits.

The lowering of the financial requirements for banking institutions consisted, in the case of banks with assets in excess of R800 million, of the reduction of the supplementary minimum reserve balances which they are required to hold with the Reserve Bank against their short and medium-term liabilities to the public from 4 to nil per cent and from 3 to 2 per cent, respectively. At the same time, their required liquid asset holdings, which by definition include their balances with the Reserve Bank, were reduced from 58 to 54 per cent in the case of short-term liabilities, and from 35 to 34 per cent in the case of medium-term liabilities. In the case of all other banking institutions, the supplementary minimum reserve balances which they have to hold with the Reserve Bank against their short and medium-term liabilities to the public were also reduced from 4 to nil per cent and from 3 to 2 per cent, respectively. In addition, their required balances with the National Finance Corporation were reduced from 3 to 2 per cent of their medium-term liabilities to the public. Their total liquid asset requirements, however, remained unchanged.

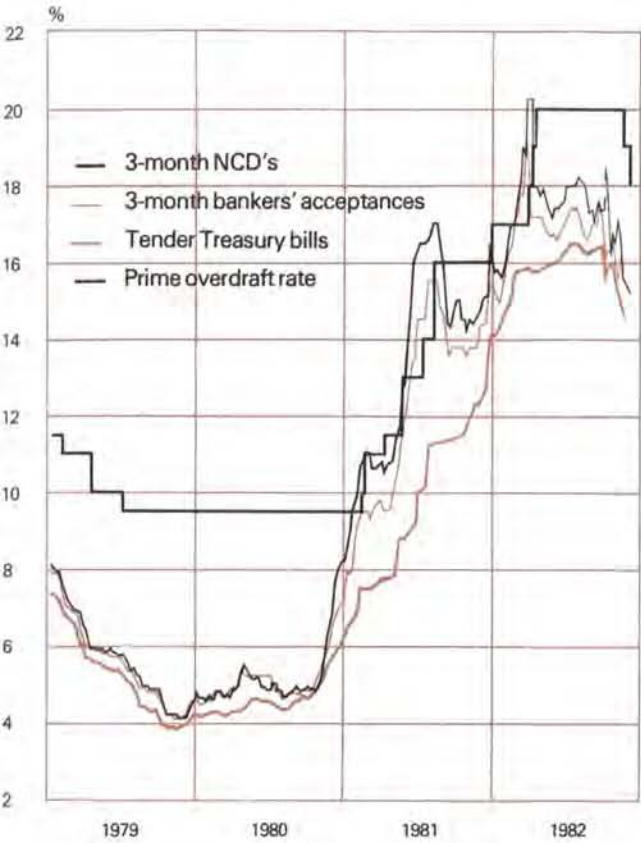
### Money market and short-term interest rates

After relatively easy conditions had prevailed in the money market during July and most of August 1982, the market tightened sharply over the August month-end owing to large tax payments and extensive open-market sales of government securities by the Reserve Bank. Market conditions remained tight during September because of a low level of government spending, repayments of foreign loans by banking institutions and, during the early part of the month, further open-market sales of government stock by the Reserve Bank. However, the reduction in the financial requirements for banking institutions, which was aimed at alleviating the tightness of the market and preventing undue further upward pressure on short-term interest rates, released a fairly large amount of cash reserves. As a result, the market eased significantly over the September month-end.

During October the market again tightened considerably, mainly owing to further repayments on foreign loans by banking institutions, a relatively low level of government expenditure, and the issue of new government stock on 15 October. In order to prevent unduly tight conditions over the month-end, the Reserve Bank entered into repurchase agreements with banking institutions and discount houses on 28 October, in terms of which bankers' acceptances and Land Bank bills



Short-term interest rates



amounting to R250 million were purchased by the Bank. These securities were repurchased by the institutions concerned on 2 November. Towards the end of October the Reserve Bank also discounted Land Bank bills amounting to R200 million as a further means of temporary assistance to the market. This transaction was reversed on 4 November. Despite these arrangements, the market remained fairly tight over the October month-end and was also relatively short of funds during November.

Reserve Bank accommodation to the discount houses increased to R1 027 million at the end of August and a peak of R1 163 million on 4 September. After the lowering of the cash reserve requirements for banks, the accommodation declined to R584 million at the end of September. At the end of October, following the Reserve Bank's assistance to the market, the discount houses were accommodated to the amount of R572 million. Although the amount of accommodation declined subsequently, the discount houses remained indebted to the Bank.

Money market interest rates declined during the first three weeks of August, but resumed an upward course towards the end of the month and peaked before the reduction in the banks' liquid asset requirements. Subsequently, these rates fluctuated sharply downwards.

The rate on three-month bankers' acceptances reached 17,35 per cent on 24 September and stood at 15,00 per cent on 26 November. On these two dates the Treasury bill tender rate amounted to 16,35 per cent and 14,57 per cent, respectively. Some wholesale deposit rates declined slightly during the period from September to November, while rates on smaller amounts decreased somewhat only in November. The prime overdraft rates of the commercial banks were reduced from 20 to 19 per cent on 1 November and further to 18 per cent from 22 to 25 November.

Reserve Bank transactions in government stock and Treasury bills

Direct borrowing by the Central Government continued to be supplemented during the third quarter by the Reserve Bank's extensive sales of new government stock. The Bank either obtained new stock on tap or through subscriptions to new issues from the Treasury. In addition, the Bank purchased existing stock, mainly from the Public Debt Commissioners, for resale in the market. Owing to a severe shortage of funds in the money market, the Reserve Bank's sales of government stock were temporarily suspended during the second half of September. In October, however, these sales were resumed, but on a smaller scale. Apart from government stock sales, the Bank also sold Treasury bills totalling R51 million in the market. These bills were purchased from the National Finance Corporation. Details of the Reserve Bank's transactions in government stock are shown in the accompanying table.

Transactions in government stock by Reserve Bank		
R millions		
	1982	
	July to Sept.	Oct. and Nov.
Acquisitions		
Subscriptions.....	146	—
Tap issues.....	720	180
Purchases.....	165	3
Total.....	1 031	183
Disposals		
Redemptions.....	90	—
Sales.....	1 149	209
Total.....	1 239	209
Net disposals by Reserve Bank.....	208	26

Government finance

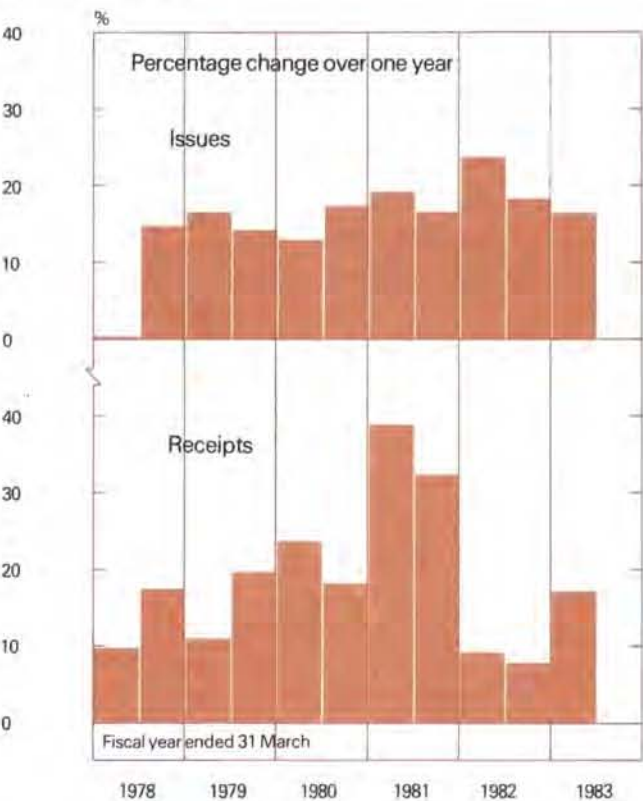
Exchequer\* issues and receipts

Exchequer issues and receipts in the first half of the 1982/83 fiscal year, i.e. the period April to September 1982, both increased at rates that were well in excess of the Budget estimates for the fiscal year as a whole. Compared with the first half of the preceding fiscal year, the increase in issues amounted to 16,6 per cent and that in receipts to 17,2 per cent. The Budget provided for rates of increase of 11,5 and 11,0 per cent in issues and receipts, respectively, in the full fiscal year. As in immediately preceding years, the growth in issues is likely to slow down somewhat during the second half of the fiscal year. Having regard to expenditure likely to be provided for in the Additional Budget, however, the rate of growth in government expenditure in the full fiscal year will probably still exceed the original Budget estimate by a substantial margin. On the other hand, receipts may continue to rise at a fairly high rate because of the effect of the higher rand gold price on revenue receipts from gold mining companies and the further increase in the general sales tax from 5 to 6 per cent from 1 September.

As shown in the accompanying table, the higher than anticipated receipts applied to most of the main revenue components. For example, revenue collections from gold mining companies, income tax payments by individuals, and customs and excise duty receipts were considerably above Budget estimates. Income tax receipts from companies other than gold mines and general sales tax collections, however, conformed more closely to Budget estimates.

\* The Exchequer Account is adjusted for changes in the balance on the Paymaster-General Account.

Exchequer Account



Financing of the Exchequer deficit

The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R1 514 million in the first half of the 1982/83 fiscal year. At an annual rate, the deficit exceeded the Budget figure of R2 380 million for the fiscal year as a whole by a con-

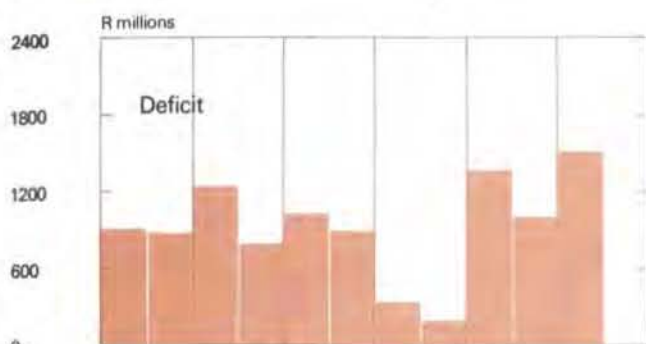
State Revenue Fund — Revenue collections

	1982/83 Budget		Actual collections	
	R millions	Percentage change <sup>1</sup>	April-Sept. 1982 R millions	Percentage change <sup>4</sup>
Indirect taxes <sup>2</sup>				
Customs duties <sup>3</sup> .....	1 470	24	859	66
Excise duties .....	1 634	9	771	17
General sales tax .....	3 170	50	1 486	54
Total .....	6 274	31	3 116	46
Income tax and lease payments by gold mines .....	1 005	-53	701	-42
Other income tax payments .....	7 845	23	3 704	30
Other collections .....	1 648	-9	885	6
Sub-total .....	16 772	11	8 406	19
Less transfers to neighbouring countries .....	914	25	453	65
<b>Total revenue collections</b>	<b>15 858</b>	<b>10</b>	<b>7 953</b>	<b>17</b>

<sup>1</sup> Compared with actual collections during the 1981/82 fiscal year.  
<sup>2</sup> Including amounts transferable to neighbouring countries in terms of Customs Union Agreements and to the Central Revenue Fund of South West Africa.  
<sup>3</sup> Including surcharge on imports.  
<sup>4</sup> Compared with collections during the period April to September 1981.

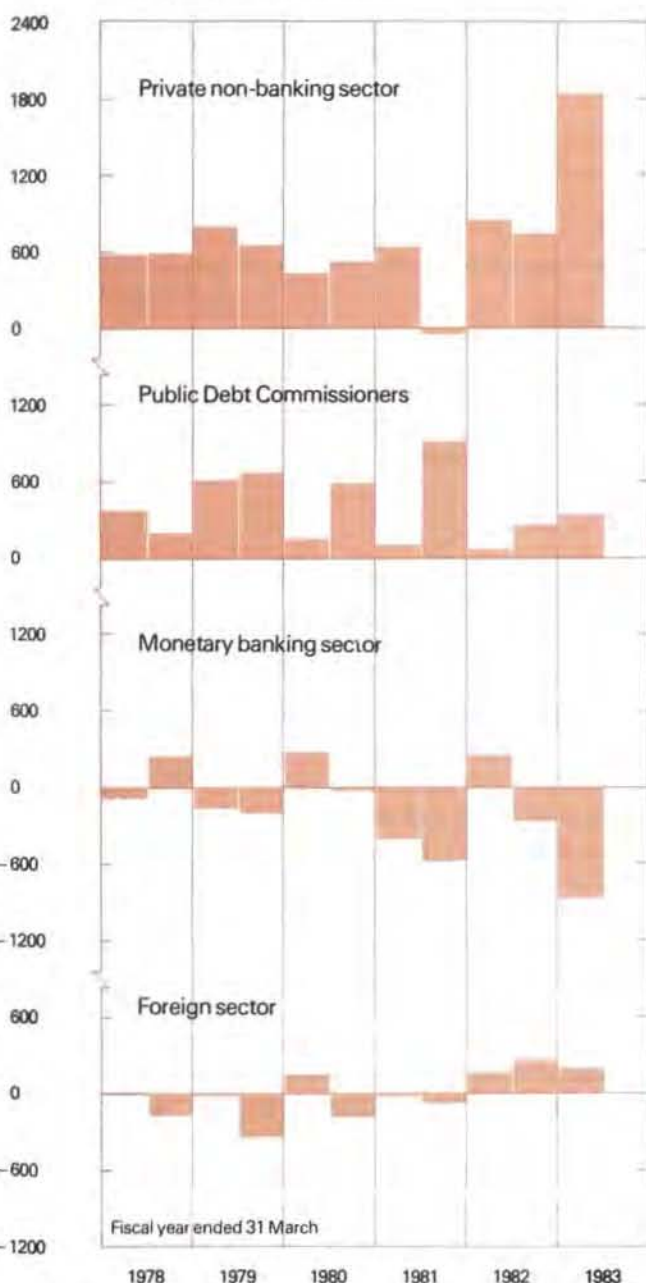


## Exchequer Account deficit and financing



### Financing

Change in net indebtedness to :



siderable margin. However, considering the additional yield of the general sales tax, the expected continuation of a relatively high rate of increase in other revenue, and an anticipated slow-down of the increase in issues in the second half of the fiscal year, the deficit in the fiscal year as a whole should not exceed the original Budget estimate.

Successful borrowing from the private non-banking sector, either directly by means of new issues of government securities or indirectly through sales of new government stock by the Reserve Bank, obviated the need to use bank credit in the financing of the deficit. The Exchequer's net indebtedness to the monetary banking sector in fact declined appreciably during the first half of the fiscal year. The different sources of finance utilised during this period were the following:

	R millions
Public Debt Commissioners .....	335
Private non-banking sector .....	1 843
Foreign sector .....	208
Monetary banking sector .....	-872
<b>Total .....</b>	<b>1 514</b>

## Government stock issues

During the first half of the current fiscal year the Treasury's new stock issues, excluding issues to the Public Debt Commissioners, totalled R2 320 million. Taking redemptions of R564 million into account, net new issues of government stock amounted to R1 756 million, more than twice the amount of R800 million proposed in the Budget for the fiscal year as a whole. An important part of these new issues consisted of the Reserve Bank's sales of new stock obtained on tap from the Treasury. From April to September tap issues to the Reserve Bank amounted to R1 520 million and all of this stock was sold in the market.

In October the Treasury issued new government stock totalling R200 million on a tender basis. This issue attracted subscriptions of R407 million. The average yield to redemption on this 9½ year stock was 12,95 per cent per annum. At the time of the new issue, namely on 15 October, maturing stock amounting to R50 million was redeemed.

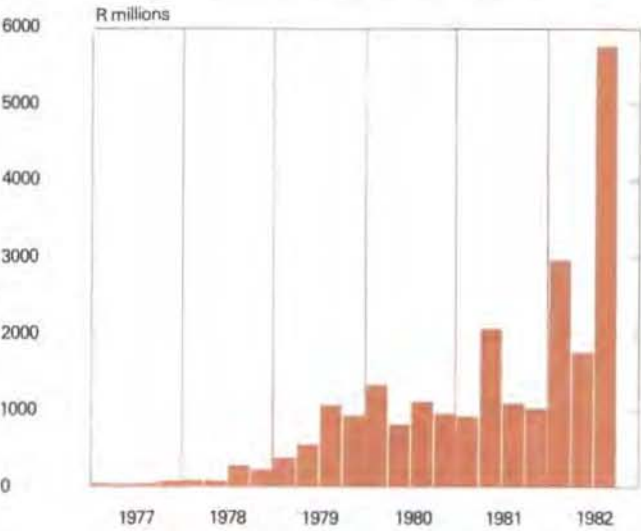
Capital market

Sharp increase in holdings of longer-term funds

Holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes increased sharply during the third quarter of 1982. Compared with R92 million and R26 million during the first and second quarters of the year, respectively, the seasonally adjusted increase amounted to R1 008 million during the third quarter.

Banking institutions recorded their first quarterly increase in savings and long-term deposits in 1982 during the third quarter. Building societies, on the other hand, experienced a somewhat lower increase in deposits and shares during the third quarter than during the preceding three months. Participation mortgage bond schemes were able to maintain their higher intake of new funds of the first half of the year during the third quarter. Government savings schemes, which had experienced a net outflow of funds during the preceding four quarters, recorded a net inflow during the third quarter.

Stock exchange turnover in public sector stock



Holdings of longer-term funds with non-contractual savings institutions

Seasonally adjusted quarterly changes  
R millions

	1981	1982		
	Quarterly average	1st qtr.	2nd qtr.	3rd qtr.
Banking institutions.....	105	-73	-399	585
Building societies.....	397	161	415	324
Participation mortgage bond schemes.....	37	38	74	60
Government savings schemes.....	59	-34	-64	39
Total.....	598	92	26	1 008

In order to compete more effectively in the shorter end of the market, interest rates on larger special savings deposits were raised in July by between 2,55 to 3,0 per cent, depending on the size of balances in these deposit accounts. However, in November interest rates on one-year and two-year deposits were lowered by 1,0 per cent. Participation mortgage bond schemes also raised their net deposit rate, i.e. after deduction of the management fee, by up to 1,0 per cent in the third quarter.

Active fixed-interest security market

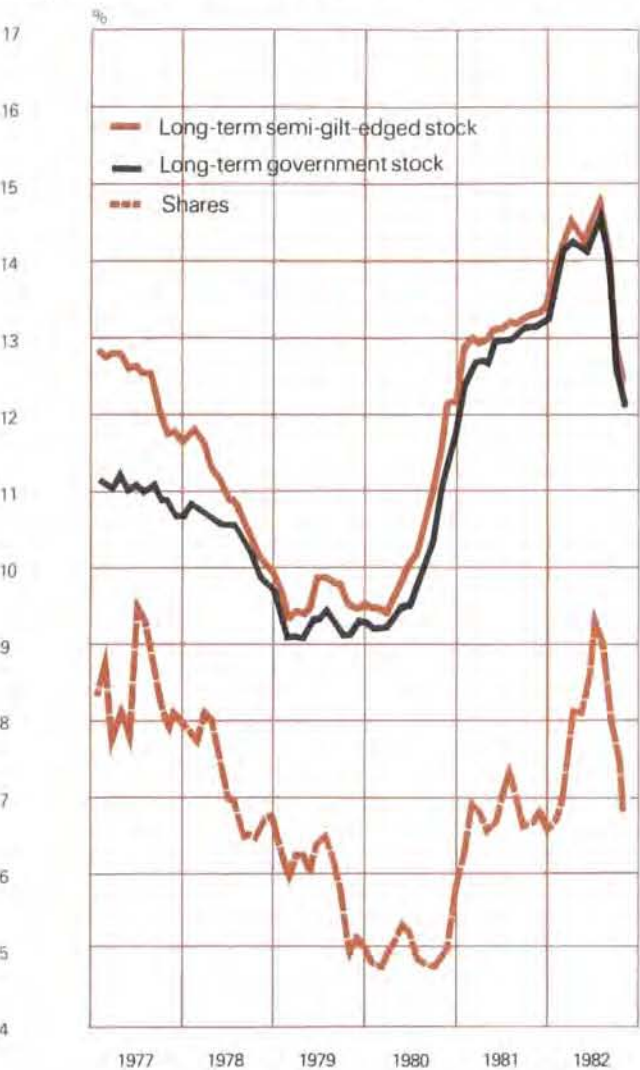
Market opinion that interest rates may have reached their cyclical peaks led to a surge of activity in the fixed-interest security market in the four months to October. The nominal value of gilt and semi-gilt-edged stock traded on the stock exchange increased to R5 756 million in the third quarter, almost double the amount of the record turnover in the preceding quarter. In September alone the turnover amounted to R3 027 million.

A further turnover of R2 195 million was recorded in October. In the primary market new issues of public sector stock were well supported during the third quarter. A net amount of R1 900 million (excluding changes in the government stock holdings of the Reserve Bank and the Public Debt Commissioners and in public corporations' and local authorities' holdings of their own stock) was raised by public sector borrowers, compared with R572 million and R1 595 million in the first and second quarters of 1982, respectively.

In terms of monthly averages, the secondary market yield on long-term government stock reached a peak of 14,70 per cent in July, before declining to 12,72 per cent in September and 12,19 per cent in October. Likewise, the monthly average yield on semi-gilt-edged stock of the highest grade rose to a peak of 14,78 per cent in July and declined subsequently to 12,80 and 12,41 per cent in September and October, respectively. In a very thin market the yield on company loan securities did not show a clear trend during the third quarter.



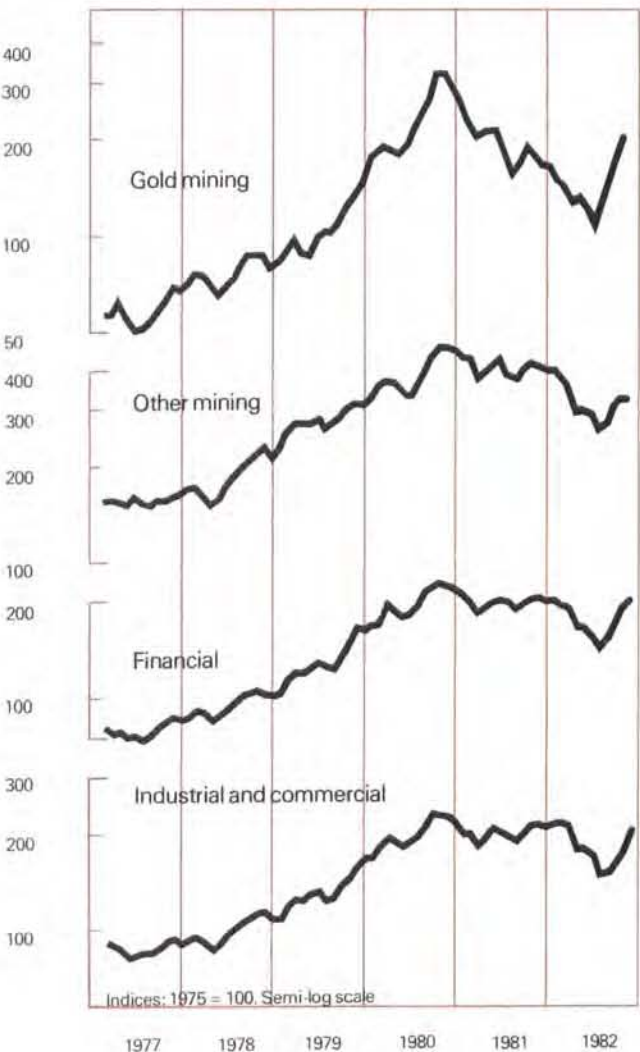
Secondary market security yields



Buoyant share market

The optimistic mood created by the appreciable rise in the gold price and in activity and prices on major stock exchanges abroad, together with expectations of a decline in interest rates, caused the declining turnover and prices on the Johannesburg Stock Exchange to rebound sharply in the third quarter. The number of shares traded was 80 per cent higher than in the preceding quarter and the trade volume in September was the highest since the market had peaked in September 1980. From September to October the share turnover increased by a further 14 per cent. Share prices rose on average by 37 per cent from June to September. Of the different classes of shares, gold mining share prices increased by 67 per cent, other metal and mineral share prices by 51 per cent, financial share prices by 33 per cent, and industrial and commercial share prices by 17 per cent. Led by a further 11 per cent

Share prices



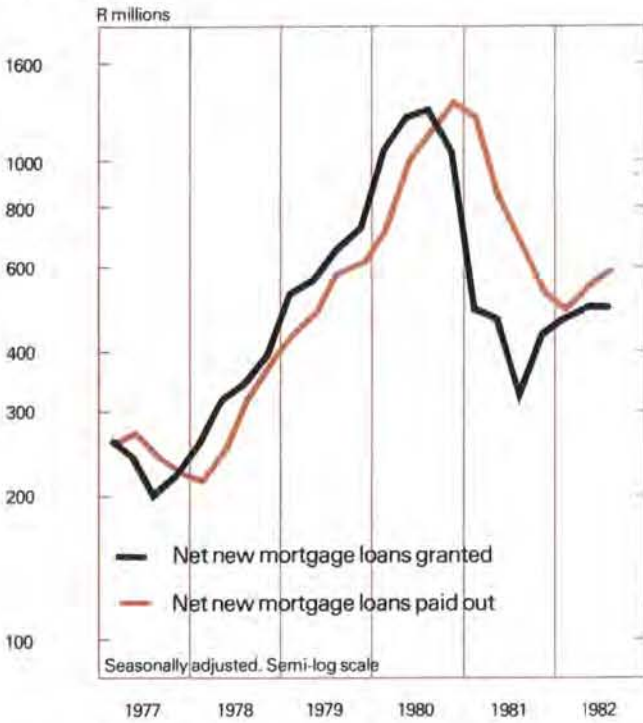
rise in gold mining share prices, the prices of all classes of shares, on average, increased by 9 per cent from September to October.

In an environment of stable or slightly declining dividend payments, the sharp rise in share prices caused a considerable decline in dividend yields. Compared with the most recent peak of 9.37 per cent in June 1982, the average dividend yield on all classes of shares decreased to 7.42 per cent in September and 6.82 per cent in October.

Restrained activity in mortgage market

The fairly small flow of new funds to building societies during the third quarter kept the societies' mortgage lending during this period at the lower level of the first half of the year. Seasonally adjusted new mortgage loans granted and paid out amounted to R494 million and R591 million, respectively, in the third quarter.

### Building societies



### Lower turnover in real estate market

The restrained mortgage lending of the building societies and the diminishing interest of institutional investors in fixed property gave rise to a lower turnover in the real estate market in the third quarter. The seasonally adjusted value of real estate transactions was 2 per cent lower than in the preceding quarter. However, even after this decline, the value of real estate transactions in the first nine months of 1982 was still 11 per cent higher than in the corresponding period of 1981.

These amounts were roughly in line with the quarterly averages of R488 million and R518 million, respectively, in the first half of 1982. In the face of a smaller inflow of funds, the relatively large net addition of R263 million in the societies' holdings of prescribed investments during the second quarter was followed by only a moderate further net addition of R110 million during the third quarter.

A significant development in the mortgage market in the third quarter was the announcement of a commercial bank that it would grant more loans against the security of home mortgages. The conditions of these loans are slightly more lenient than those of building society mortgages, but the mortgage rates are at present higher than the corresponding rates of the building societies.

As a result of higher borrowing costs, the building societies raised their mortgage rates by 1 per cent as from 20 July on new loans and from 1 September on existing loans. After this increase, their home mortgage rates ranged from 14,25 to 16,25 per cent. In the third quarter the finest rate on participation mortgage bonds was also raised by 0,78 per cent to 19,15 per cent.