

Quarterly economic review

Summary and general comments

In the second quarter of 1982 the South African economy found itself in a moderate cyclical downswing which had been in progress from about the fourth quarter of 1981. This situation reflected an inevitable adjustment to the economic recession in the major industrial countries during recent years, which led to a decline in the demand for South African exports and a fall in commodity prices on international markets. The adverse effect of lower export proceeds on the balance of payments and the domestic economy was reinforced by the sharp decline in the price of gold from the fourth quarter of 1980 until the second quarter of 1982. More generally, the downswing reflected the cooling-down of an overheated domestic economy which until recently had been characterised by physical constraints on the further expansion of production and by excessive monetary demand.

The continuation of the economic downswing in the second quarter of 1982 was evident in a number of economic indicators. Real gross domestic product, which had shown no further growth in the preceding quarter, actually declined in the second quarter. According to available information, this decline was accompanied by an increase in unemployment. Real gross domestic expenditure decreased further because of a fall in major expenditure components such as private consumption outlays on durable goods and private fixed investment, and a smaller addition to inventories.

For a number of reasons, including the continued depreciation of the rand, the imposition of a 10 per cent import surcharge in February 1982, the increase from 4 to 5 per cent in the general sales tax from March, and upward adjustments in administered prices, the rate of inflation accelerated somewhat in the second quarter. Furthermore, the current account of the balance of payments remained substantially in deficit. At a seasonally adjusted annual rate, the deficit amounted to R5 400 million, or 7 per cent of the gross domestic product, in the second quarter. The deficit on the current account nevertheless appears to have reached an upper turning-point in the first quarter of 1982 and is expected to decline during the second half of the year. This expectation is largely based on a declining trend in the volume of imports and the recent recovery of the price of gold.

The gold price rose significantly during July and August and the increase gained further momentum during September. The higher gold price will benefit the balance of payments through an increase in the value of South Africa's net gold output, and should, in due course, also support the level of real economic activity. Despite

the increase in the value of the net gold output, however, a large residual deficit on the current account of the balance of payments will have to be faced in the short run. Other exports and commodity prices are still being affected by the recession in the industrial countries. Moreover, present indications are that a general recovery of economic activity in these countries will come about only in 1983 and that the anticipated economic upswing will be fairly mild.

For various technical reasons, including large-scale "disintermediation" and "re-intermediation", the money supply statistics have continued to show wide fluctuations from quarter to quarter. During the second quarter of 1982, however, it became clear that the monetary authorities had succeeded in achieving reasonably tight control over the monetary aggregates. Indeed, during the second quarter, the growth in the broad money supply decelerated to a revised seasonally adjusted annual rate of only 4 per cent, and during July the seasonally adjusted money supply actually declined. An important reason for the slow-down was the contribution made by the restrictive monetary policy to the private sector's reduced demand for bank credit. During the preceding eighteen months a sharp rise in bank credit to the non-bank private sector had been a major cause of the strong monetary expansion.

In the absence of any large further increase in liquidity, financial markets tightened notably during the latter part of the second quarter and in early July. As a result, both short and long-term interest rates increased further. However, coinciding with the decline in interest rates in the United States and the increase in the gold price, the financial markets eased slightly during the rest of July and most of August. Short-term interest rates declined temporarily prior to the seasonally tight August month-end and long-term yields fell below their peaks of early July. At the same time, the easing of market conditions gave rise to expectations of a prospective further decline in long-term interest rates.

The expected and actual decline in long-term yields facilitated large further open-market sales by the Reserve Bank during July and August of new government stock obtained on tap from the Treasury. Apart from its effect on interest rate expectations and activity in the fixed-interest security market, the rise in the gold price led to appreciable increases in share prices during July and August. Price increases were not confined to gold mining shares, but spilled over to other sections of the share market.

Despite a sharp rise in the Exchequer receipts during the first four months of the 1982/83 fiscal year, an even more rapid rise in Exchequer issues during this period

resulted in a large deficit before borrowing. Successful borrowing from the non-bank private sector, supplemented by the Reserve Bank's open-market sales of new government stock, obviated the need for the Treasury to have recourse to bank credit in financing the Exchequer deficit. However, in order to meet unforeseen expenditure and at the same time to adhere to the Budget goal of limiting the deficit before borrowing to 2.8 per cent of gross domestic product, the Government found it necessary to raise the general sales tax from 5 to 6 per cent with effect from 1 September.

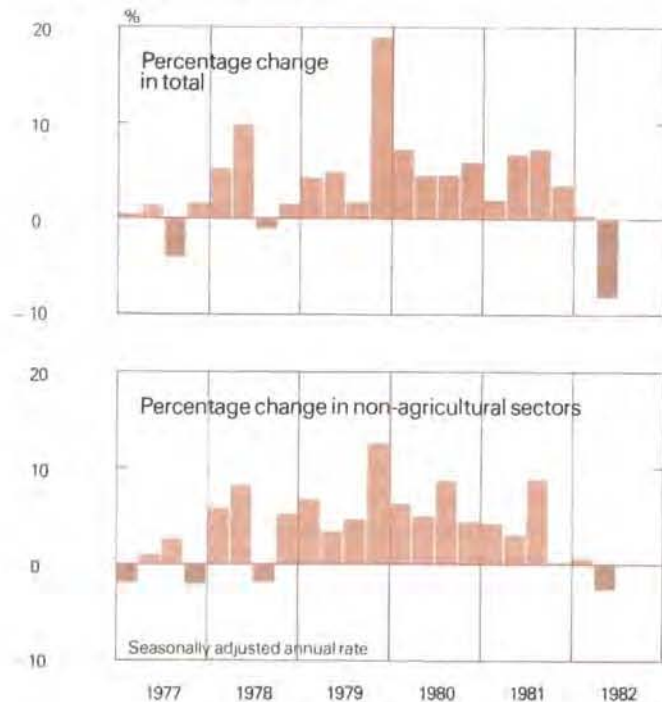
Domestic economic conditions

Decline in real domestic output

Real domestic output in the second quarter of 1982 clearly reflected the current cyclical downswing in the economy. After showing no further growth in the preceding quarter, real gross domestic product declined fairly sharply in the second quarter. However, this decline was not only part of the cyclical change in the economy, but was also caused by a fall in real agricultural output on account of unfavourable weather conditions. In the non-agricultural sectors, the decline in real output was particularly evident in construction and commerce. At the same time, the real product of mining, manufacturing and the services sectors remained roughly unchanged in comparison with the preceding quarter. Despite the decline in the second quarter, aggregate real gross domestic product in the first half of 1982 was still 1½ per cent higher than in the corresponding period of 1981.

Nominal gross domestic product increased moderately further in the second quarter. In terms of factor costs, this increase was due to a considerable rise in total remuneration of employees, resulting from a general upward adjustment of salaries and wages in the public sector. A decline in the overall gross operating surplus, on the other hand, exerted a contractionary influence on aggregate gross domestic product. Lower profits were recorded in agriculture, manufacturing and commerce.

Real gross domestic product



Downward trend in real domestic expenditure

By the second quarter of 1982 a downward trend in real gross domestic expenditure had become firmly established. The further decline in the second quarter was due to lower expenditure on durable consumer goods, a fall in the gross fixed investment of the private sector and a smaller addition to inventories.

After a moderate decline in the first quarter of 1982, total real private consumption expenditure rose marginally in the second quarter because of increased outlays on non-durable and semi-durable goods. However, expenditure on durable goods, in particular on new

motor vehicles, showed a distinct decline. Real government consumption expenditure also increased marginally in the second quarter owing to a slightly higher remuneration of employees.

By the second quarter of 1982 it was clear that the strong expansion of real gross domestic fixed investment from about the middle of 1979 had come to an end. Widespread declines were recorded in the real fixed capital outlays of the private sector in the second quarter, indicating the completion of several capital expansion programmes. The effect of these declines on aggregate real gross domestic fixed investment was only partly offset by a further rise in the fixed investment of public authorities. The latter reflected mainly ongoing capital expansion programmes, including the acquisition of new aircraft, of the South African Transport Services and higher capital expenditure by the Department of Posts and Telecommunications. Public corporations' real fixed capital expenditure was more or less maintained at the level of the preceding quarter. Increased outlays by Escom were approximately counterbalanced by the reduced expenditure of Sasol.

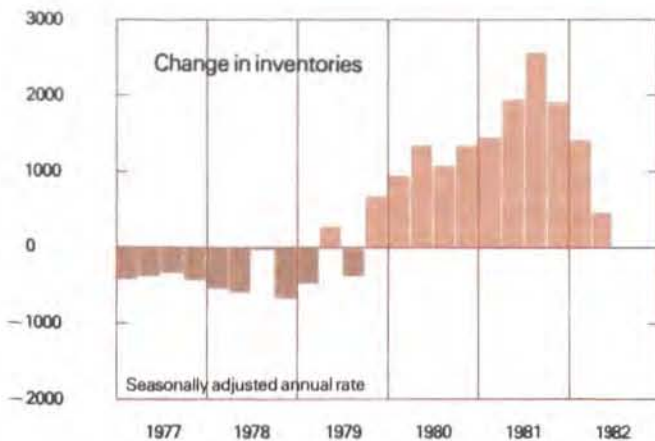
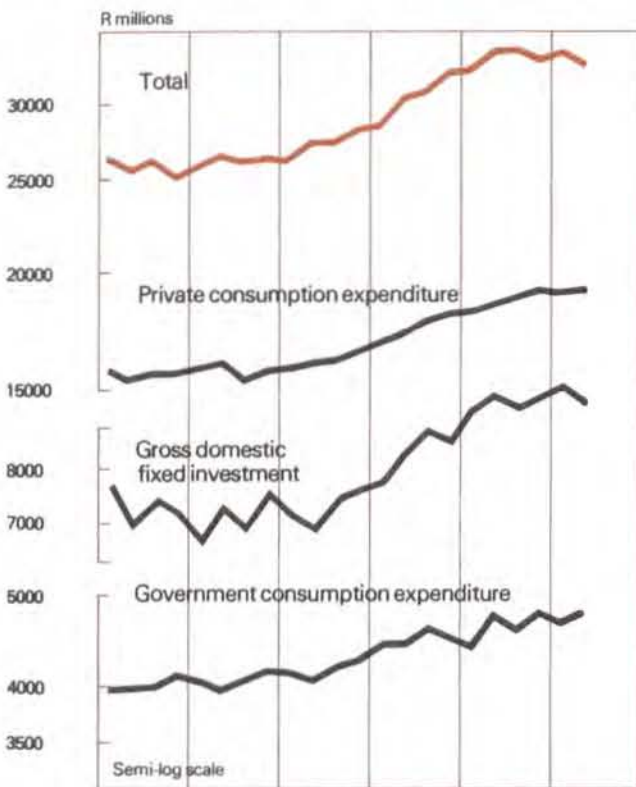
From the middle of 1979 to the second quarter of 1982 the real fixed capital stock of private manufacturing increased by almost 19½ per cent. This increase, together with a slow-down in production from the fourth quarter of 1981, contributed to a decline in the rate of utilisation of production capacity in total manufacturing from a peak of 90 per cent in the third quarter of 1981 to 88 per cent in the second quarter of 1982.

Although real inventories increased further in the second quarter, the net addition was the smallest since the beginning of the upward phase of the inventory cycle at the end of 1979. The further build-up of inventories during a period of cyclical downswing in the economy was probably to a large extent involuntary, because domestic production and imports could not adjust immediately to the slow-down in demand. Industrial inventories, for example, continued to show a considerable increase in the second quarter. Commercial stocks, however, declined notably, while all other classes of inventories increased significantly less than in the preceding quarter. In the second quarter, the ratio of real inventories (excluding strategic inventories) to the real gross domestic product of the non-agricultural sectors amounted to 37 per cent, compared with a trough of 30 per cent in the fourth quarter of 1979.

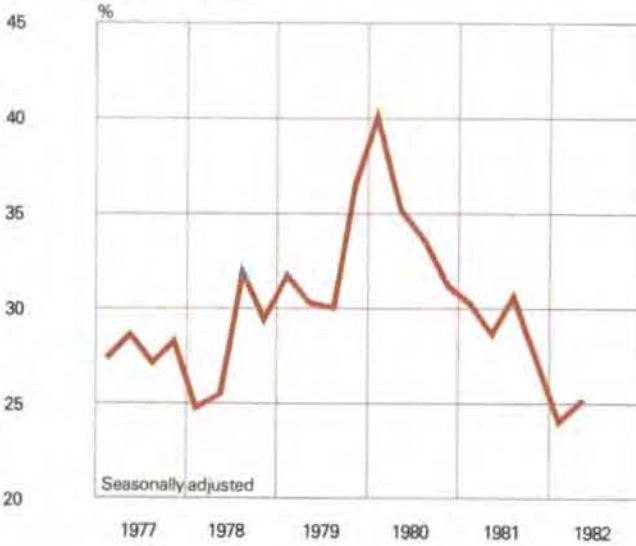
Slight increase in gross domestic saving

The ratio of gross domestic saving to gross domestic product, which had declined to a low of 24 per cent in the first quarter of 1982, increased slightly to 25 per cent in the second quarter. General government saving declined, but corporate as well as personal saving increased in the second quarter. The rise in corporate saving reflected largely lower dividend and tax payments, with pre-tax profits showing little change. De-

Gross domestic expenditure at constant 1975 prices



Gross domestic saving as percentage of gross domestic product



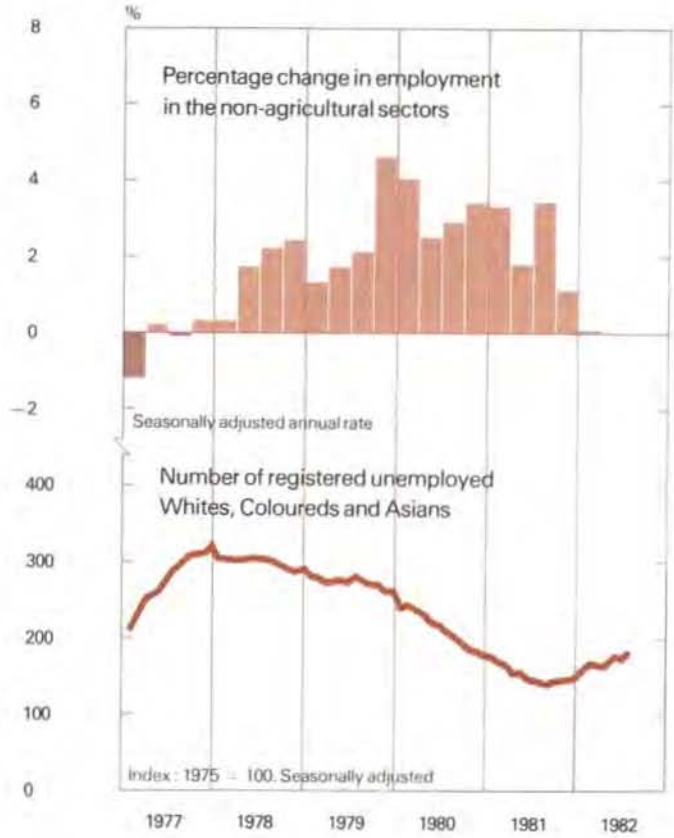
spite the decline in agricultural income, personal saving rose mainly as a result of higher salaries and wages. However, as a ratio of personal disposable income, personal saving amounted to only 4½ per cent in the first half of 1982, compared with 9½ per cent in 1980 and 5½ per cent in 1981.

Levelling-off in employment

Coinciding with the general slow-down in economic activity as from the fourth quarter of 1981, non-agricultural employment increased at a seasonally adjusted annual rate of only 1,1 per cent in the fourth quarter and remained unchanged in the first quarter of 1982. In the latter quarter employment in the public sector rose at an annual rate of 1,7 per cent, but employment in the private sector declined by 0,7 per cent. Available information for manufacturing, mining and construction suggests that this trend continued in April and May. This levelling-off in employment was also reflected in declines in ordinary as well as overtime hours worked in manufacturing and construction.

Available information also indicates that unemployment increased further during the first seven months of 1982. This was due to the combined effect of a levelling-off in employment and the continued growth of the economically active population. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians increased from a low of 14 643 in August 1981 to 15 336 in December and 18 958 in July 1982. The number of unemployed Blacks in relation to the economically active black population declined to 7,1 per cent at the end of 1981 and then remained unchanged up to February.

Employment

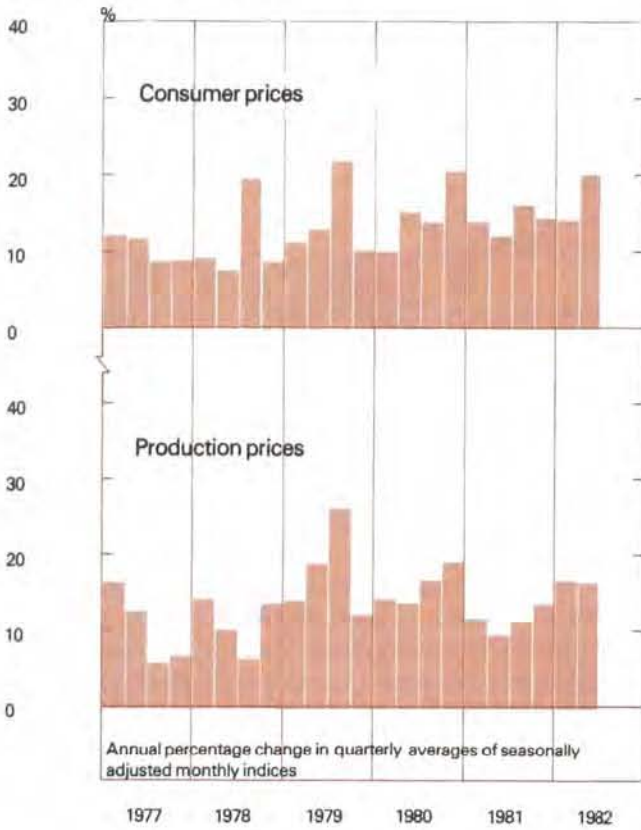


Continuing high rate of inflation

After slowing down somewhat in the fourth quarter of 1981 and the first quarter of 1982, the seasonally adjusted consumer price index rose sharply at an annual rate of 20,3 per cent in the second quarter of 1982. This rise was mainly due to the combination of the continuing effect on prices of the depreciation of the rand, the imposition of a surcharge of 10 per cent on certain classes of imports in February, the increase in the general sales tax from 4 to 5 per cent as from 1 March, and upward adjustments in a number of administrative prices. In July, however, the seasonally adjusted consumer price index increased only marginally, reflecting a fairly general slow-down in the rate of increase in most components of the index. Compared with the same period in 1981, the average level of the consumer price index was 15,2 per cent higher in the first seven months of 1982. From July 1981 to July 1982 the index rose by 14,4 per cent.

The production price index continued to rise at a high rate during the first half of 1982. In July the seasonally adjusted production price index showed a more moderate rise of 0,5 per cent as a result of a slow-down in the rate of increase in the prices of imported goods. The average level of production prices in the first seven

Percentage change in prices



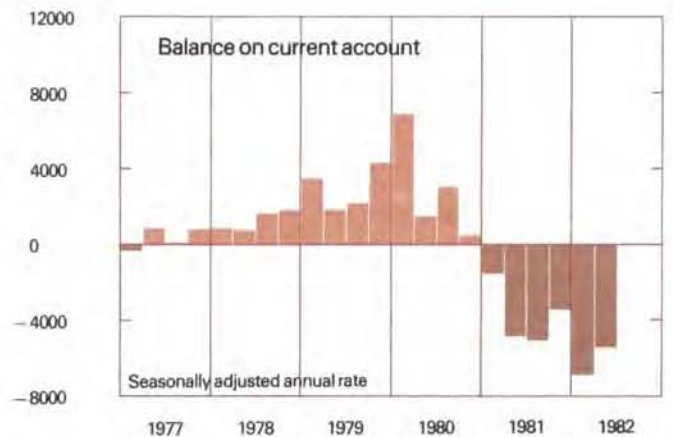
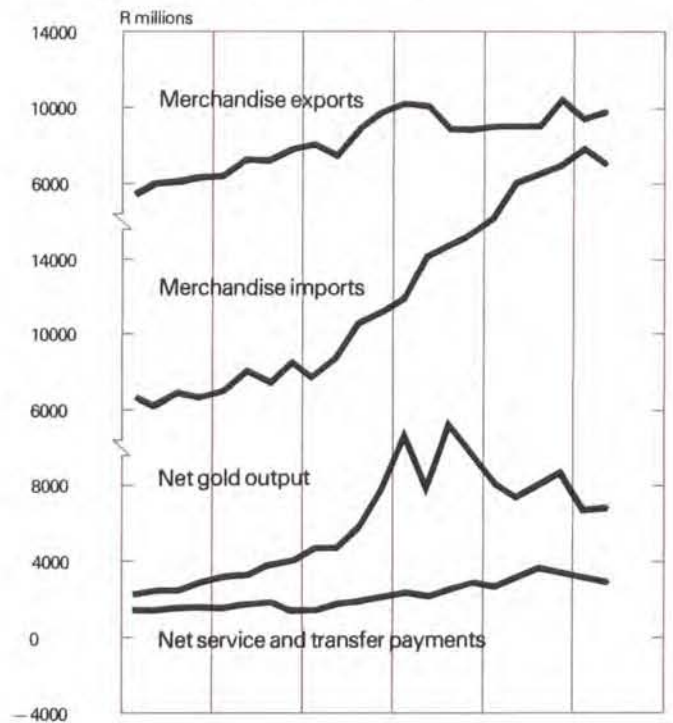
months of 1982 was 13,8 per cent higher than in the corresponding period of 1981. From July 1981 to July 1982 production prices rose by 14,2 per cent.

Balance of payments

Smaller deficit on current account

The deficit on the current account of the balance of payments, which had emerged in the first quarter of 1981 and had grown progressively since then, appears to have reached a turning-point in the first quarter of 1982. At a seasonally adjusted annual rate, the deficit shrunk from R6 890 million (9 per cent of gross domestic product) in the first quarter of 1982 to R5 400 million (7 per cent of gross domestic product) in the second quarter. This improvement was reflected in all the main current account aggregates. Moderate increases in merchandise exports and the net gold output

Balance of payments current account



were accompanied by slight declines in merchandise imports and net service and transfer payments. According to preliminary figures, the current account deficit continued to decline in July.

The seasonally adjusted increase in merchandise exports in the second quarter reflected price as well as volume increases. Since commodity prices on international markets generally remained depressed, the higher export prices resulted mainly from a further depreciation of the rand. Volume increases were recorded for exports of maize, sugar and deciduous and citrus fruit. Seasonally adjusted, merchandise exports showed an encouraging further increase in July.

A small increase in the volume of the net gold output, resulting mainly from the mining of higher-grade ore, accounted for most of the rise in the seasonally adjusted value of the net gold output in the second quarter. In addition, the rand price of gold increased slightly from an average per fine ounce of R358 in the first quarter to R359 in the second quarter. This increase reflected the depreciation of the rand during the second quarter. In terms of US dollars, the price of gold on the London market declined from an average per fine ounce of \$363 in the first quarter to \$333 in the second quarter. During July the gold price rose appreciably from its low level in June and this increase continued during August, when interest rates started to decline in the United States and other industrial countries. Compared with an average of US \$315 per fine ounce in June, the gold price increased to US \$338 per fine ounce in July and to US \$364 per fine ounce in August. The higher gold price benefited the balance of payments through a substantial increase in the value of the net gold output in July.

Current account of balance of payments

(Seasonally adjusted annual rate)
R millions

	1981	1982	
		1st qtr.	2nd qtr.
Merchandise exports	9 328	9 660	10 040
Net gold output	8 338	6 970	7 080
Merchandise imports	-18 171	-20 070	-19 270
Net service and transfer payments ...	-3 442	-3 450	-3 250
Current account balance..	-3 947	-6 890	-5 400

Despite a decline in the volume of merchandise imports from the third quarter of 1981, the value of imports expressed in terms of rand continued its upward trend. However, in the second quarter of 1982 the seasonally adjusted value of imports actually declined, when the further fall in the import volume was not fully neutralised by a rise in the rand prices of imports. In July, the seasonally adjusted value of imports declined even more rapidly. The decline in imports during the four months to July reflected mainly lower imports of

capital equipment. In addition, imports of mineral products decreased sharply in July.

Net service and transfer payments to foreigners declined moderately in the second quarter, despite a substantial increase in interest payments on funds borrowed abroad during 1981 and the first half of 1982. Higher interest payments were offset by a decline in dividend payments and in freight and merchandise insurance charges. At the same time, service receipts rose appreciably, owing mainly to an increase in transport services receipts.

Capital account transactions and foreign reserve changes

The deficit of R1 407 million on the current account of the balance of payments in the second quarter was financed to a large extent by means of compensatory borrowing. Liabilities related to reserves, which had risen by as much as R1 605 million in the first quarter of 1982, increased further by R764 million. In contrast with the preceding quarter, when the larger part of the increase in reserve-related liabilities represented short-term foreign borrowing by private banking institutions, most of the increase during the second quarter reflected borrowing by the Reserve Bank. As shown in the accompanying table, a net inflow of long-term capital, mainly borrowing by the Treasury, the Department of Posts and Telecommunications and some public corporations, and a small net inward movement of short-term capital not related to reserves also served to finance the current account deficit. The balance of the deficit, namely R55 million, was financed from gold and other foreign reserves. At the end of June total gold and other foreign reserves amounted to R3 837 million.

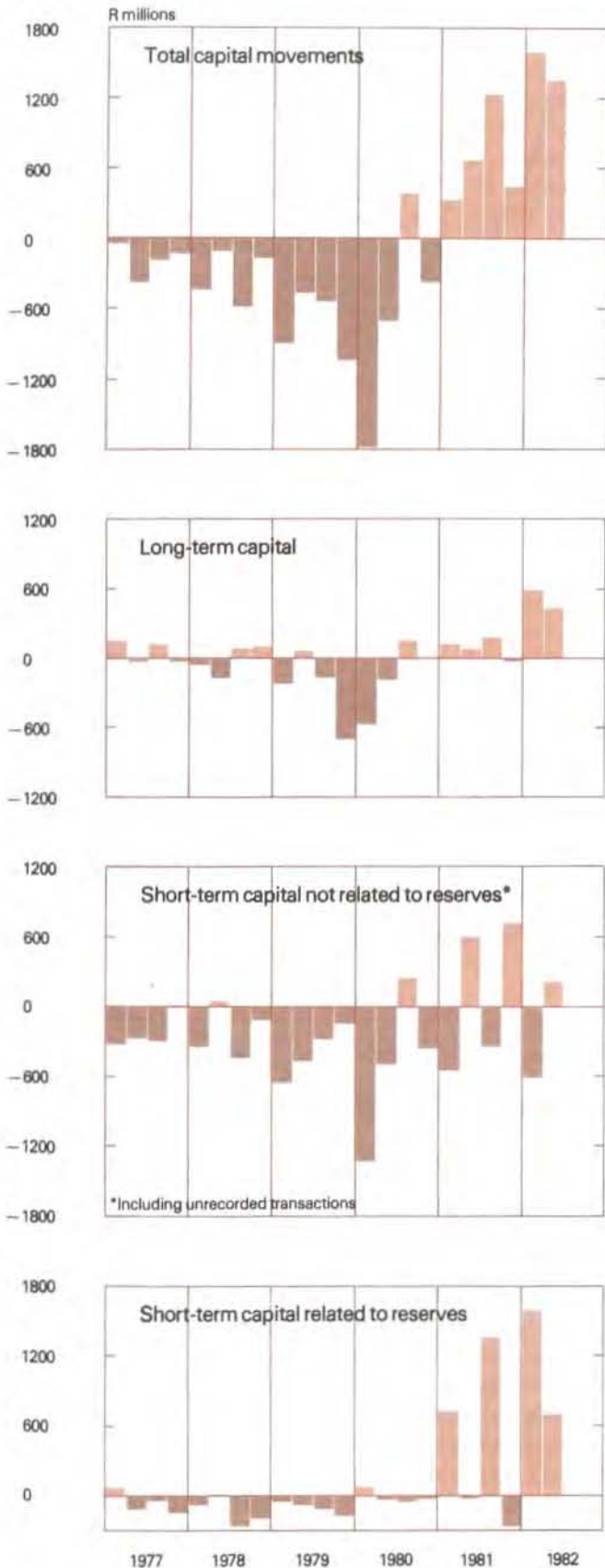
Financing of current account deficit

R millions

	1982	
	1st qtr.	2nd qtr.
Net inflow of long-term capital	587	546
Net inflow of short-term capital not related to reserves, including errors and omissions	-600	42
Changes in reserve-related liabilities	1 605	764
Change in foreign reserves	256	55
Total financing	1 319	1 407

During July the Reserve Bank entered into further gold swap agreements with foreign financial institutions. In terms of these agreements, gold was sold at market-related prices for cash and was simultaneously repurchased on a forward basis. As a result, the Bank's foreign exchange reserves increased, while its gold holdings declined. Reflecting these and other transactions, the gold and other foreign reserves of the Bank increased by R204 million during July to a level of R3 612 million at the end of month. Despite the re-

Net capital movements

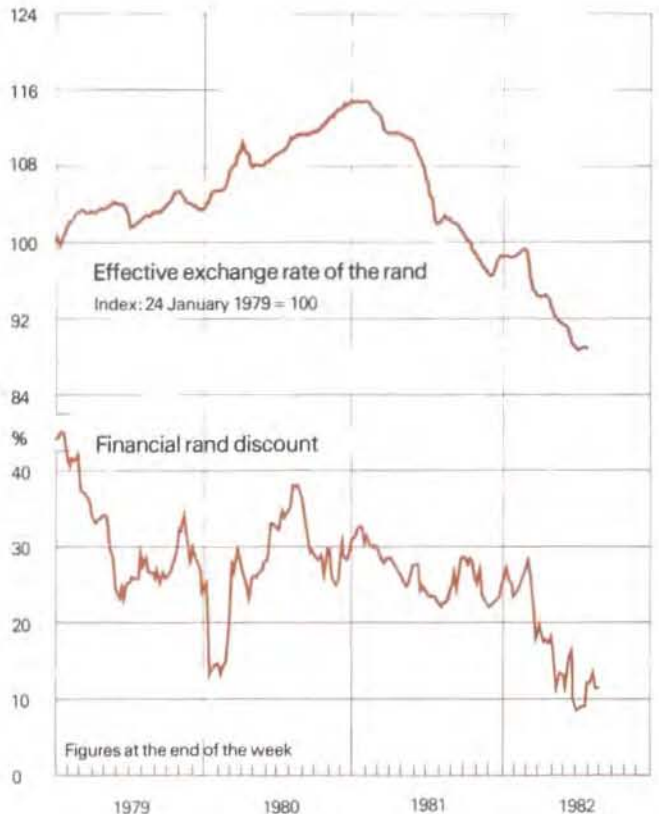


valuation of the gold reserves at a higher price, the Bank's total foreign reserves declined slightly to R3 600 million at the end of August, reflecting a decrease of R508 million in foreign exchange reserves during the month.

Exchange rate changes

After declining by 4,4 per cent during the first quarter of 1982, the effective exchange rate of the rand (i.e. its weighted average value in terms of other currencies) decreased further by 5,6 per cent during the second quarter. Subsequently, during July and August, it increased slightly by 0,3 per cent. During the first eight months of 1982 the effective exchange rate of the commercial rand decreased by 10 per cent, bringing the total decline since the beginning of 1981 to 22 per cent. As shown in the accompanying table, the commercial rand continued to depreciate against most of the major currencies during the second quarter, but appreciated against most currencies during July and August. A further depreciation occurred only against the US dollar. From the beginning of 1981 to the end of August the commercial rand depreciated by 35 per cent against the US dollar.

Exchange rates



Exchange rates of the commercial rand

Percentage change

	December 1981 to March 1982	March 1982 to June 1982	June 1982 to August 1982
Effective exchange rate	-4,4	-5,6	0,3
US dollar	-9,0	-7,9	-1,1
British pound	-2,3	-6,1	1,0
German mark	-2,6	-6,6	1,6
Swiss franc	-2,9	-0,3	1,3
Japanese yen	2,0	-4,9	1,4
French franc	-0,2	0,2	2,3

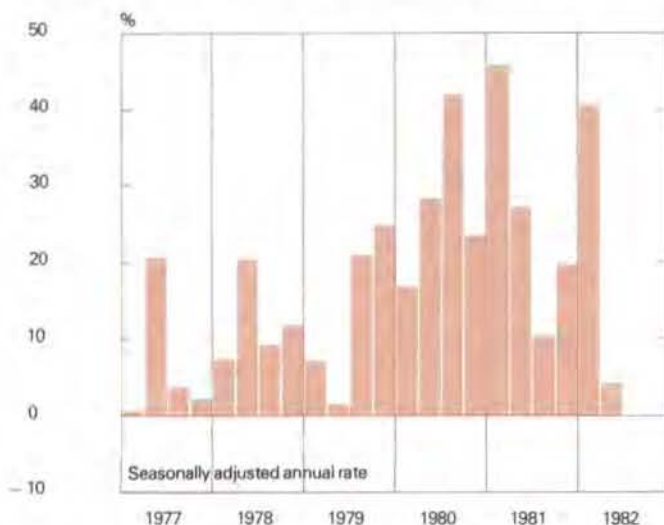
The financial rand depreciated by 8,4 per cent in terms of the US dollar during the first quarter of 1982, but appreciated by 4,8 per cent during the second quarter and by 0,7 per cent during July and August. During the first eight months of 1982 the financial rand depreciated by only 3,4 per cent. The discount on the financial rand narrowed from 23 per cent at the end of 1981 to 11 per cent at the end of August.

Money and banking

Slow-down of growth in money supply

After reaching 41 per cent during the first quarter of 1982, the seasonally adjusted annual rate of increase in the broad money supply (M2) slowed down to only 2 per cent during the four months to July. During the first seven months of 1982 the annual rate of increase amounted to 17 per cent, compared with 25 per cent during 1981. The slow-down in monetary expansion was even more pronounced in the case of the narrow money supply (M1). At a seasonally adjusted annual rate, M1 increased by 48 per cent during the first quarter of 1982, but by only 1½ per cent during the period from April to July.

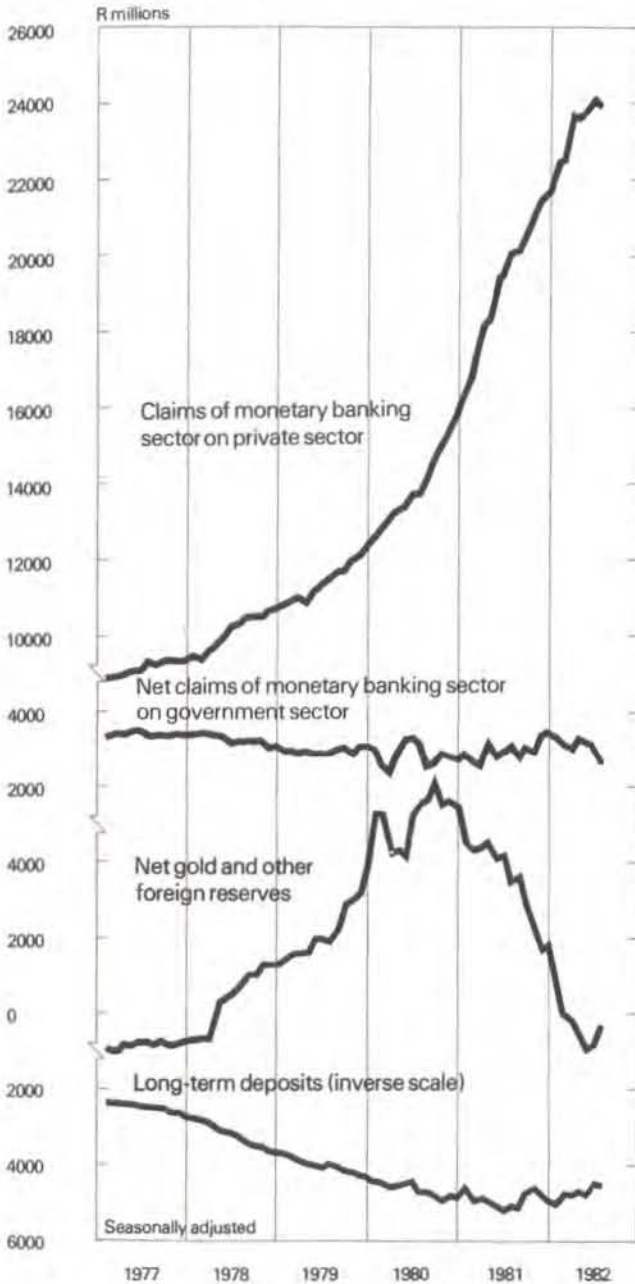
Changes in broadly defined money supply (M2)



Causes of changes in M2

An *ex post* analysis of the "causes" of changes in the seasonally adjusted broad money supply shows that the marginal increase during the four months to July reflected a further increase in bank credit to the non-bank private sector and a decline in the latter sector's holdings of long-term deposits with monetary banking institutions. Further declines in net credit to the government sector and the monetary banking sector's net gold and other foreign reserves exerted a contractionary influence on the money supply. Before adjustment for seasonal variations, the Reserve Bank's net "other" assets, including losses realised on the forward exchange cover operations conducted on behalf of the Treasury, increased notably further during the second quarter, but most of this increase was neutralised by a decline in the net "other" assets of the rest of the monetary banking sector.

Causes of changes in M2



The seasonally adjusted annual rate of increase in bank credit to the non-bank private sector decelerated from 41 per cent during the first quarter of 1982 to only 3 per cent during the period April to July. This deceleration was caused mainly by a decline in the ordinary overdrafts of commercial banks. In the first quarter overdrafts were inflated by the reintermediation of lending transactions which had previously been concluded outside the banking system (including credit arranged by banks off their balance sheets) and by the so-called "round-tripping", i.e. the practice of borrowing on overdraft from banks and investing these funds with

Causes of changes in M2 during 1982

R millions

	Not seasonally adjusted		Seasonally adjusted	
	Jan. to March	Apr. to July	Jan. to March	Apr. to July
Net gold and other foreign reserves	-1349	-340	-1301	-222
Net claims on government sector	-1216	459	-477	-327
Claims on private sector	2 062	414	1 969	247
Long-term deposits (increase - decrease +)	72	183	172	234
Net other assets	1 312	165
Total causes of changes in M2	881	881	1 765	122

banks at rates higher than the prevailing overdraft rates. It would appear, therefore, that the demand for bank credit weakened significantly during recent months.

Low level of excess bank liquidity

Excess holdings of liquid assets by banks over and above the legally required minimum remained at a low level during the second quarter. The excess liquid asset ratio declined slightly from 2,6 per cent at the end of March 1982 to 1,9 per cent at the end of June, but increased again to 2,4 per cent at the end of July. Required liquid assets rose by R446 million during the second quarter, before declining slightly by R93 million during July. Actual holdings of liquid assets increased by R311 million during the second quarter and remained unchanged during July. The latter increase reflected mainly larger holdings of liquid government securities and bankers' acceptances, a slight rise in credit to the Land Bank, and an increase in the net other assets of the Reserve Bank (representing to a large extent losses on forward exchange contracts). A decline in the net gold and other foreign reserves of the Reserve Bank during the second quarter exerted a negative influence on the banks' holdings of liquid assets.

Money market conditions and interest rates

Tight conditions in the money market during the first quarter of 1982 were followed by generally easier conditions during the second quarter. Not only were the cash reserve requirements for banking institutions lowered at the end of March, but a high level of government expenditure and further foreign borrowing by banking institutions also contributed to the easing of the market. Only over the June month-end did the market tighten considerably, mainly because of tax payments to the Government. Fairly easy market conditions continued to prevail during July and most of August, but the market tightened substantially towards the end of August and over the month-end. This was caused mainly by open-market sales of government securities

by the Reserve Bank and a seasonal peak in tax payments, in particular by gold mining companies.

Reserve Bank accommodation was provided to the discount houses for varying periods during each of the months April to August 1982. Generally, the amount of accommodation was fairly small, except over the June and August month-ends. At the end of August the discount houses were accommodated to the extent of R1 027 million and, in addition, accommodation of R300 million was provided directly to commercial banks.

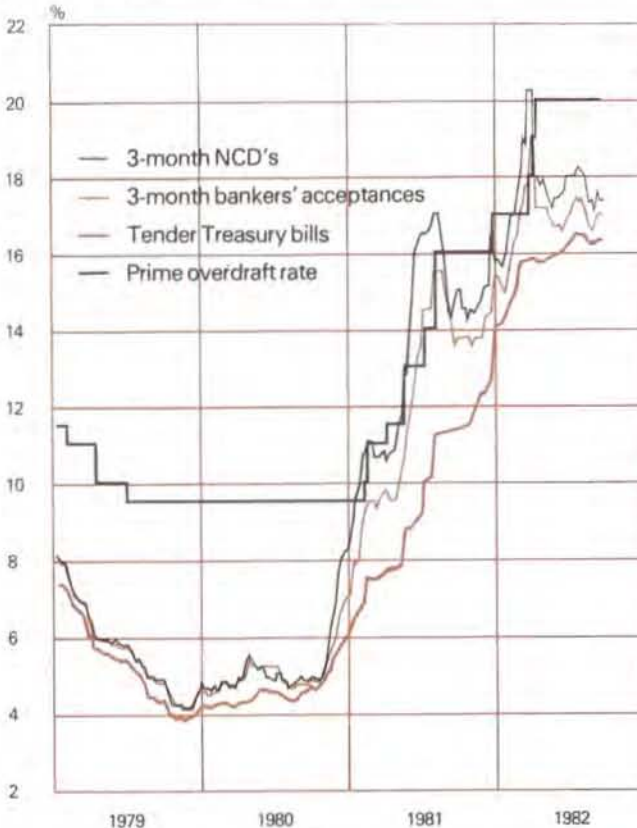
Money market interest rates other than the Treasury bill tender rate declined during April and in early May and remained fairly stable until early June, but increased subsequently up to the end of July. During most of August these rates declined, before rising again over the tight month-end and into September. The rate on three-month bankers' acceptances, for example, fluctuated between 19,0 per cent on 26 March, 16,6 per cent on 14 May and 17,5 per cent on 17 September. The Treasury bill tender rate increased from 15,8 per cent on 26 March to a peak of 16,48 per cent on 9 July and amounted to 16,32 per cent on 17 September.

Large open-market sales of government securities

Extensive open-market sales of government securities were made by the Reserve Bank during the five months to August 1982. Net sales of government stock, including new stock obtained on tap from the Treasury, during this period amounted to R1 284 million. In addition, the Bank sold special Treasury bills to an amount of R372 million. These bills matured at the end of August, and the timing of the maturity was aimed at alleviating the seasonal shortage of funds over the August month-end, when large tax payments were made to the Government. For the purpose of conducting open-market operations, the Reserve Bank obtained government stock on tap from the Treasury or through subscriptions to new issues. In addition, stock was purchased from the Public Debt Commissioners. In this way, the Bank acquired government stock amounting to R1 396 million for resale in the market during the five months to August. Taking the redemption of maturing stock into account, the Bank's transactions in government stock resulted in a decline of R84 million in its holdings of such stock during the five months to August.

Most of the new funds of R1 732 million raised by the Treasury through public as well as tap issues of government stock during the period April to July were used for the purpose of financing a large deficit on the Exchequer Account. Government deposits with the Reserve Bank rose by only R50 million during these four months. During August, however, government deposits increased by R760 million, partly because of further tap issues of stock, but mainly as a result of the peak in company tax payments at the end of the month.

Short-term interest rates



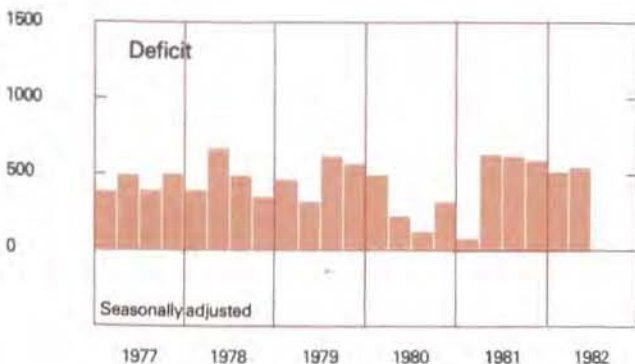
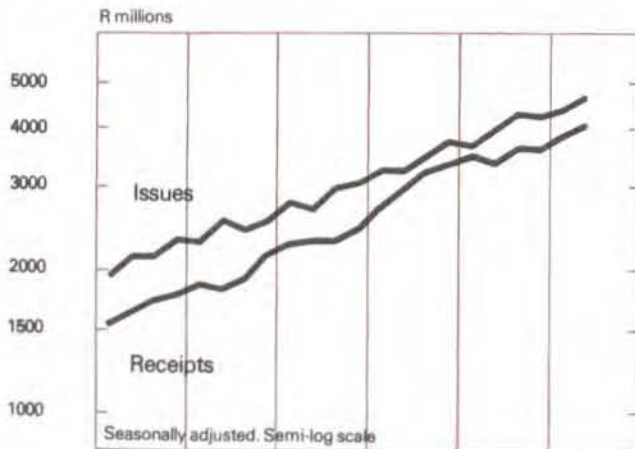
Government finance

High rates of increase in Exchequer issues and receipts

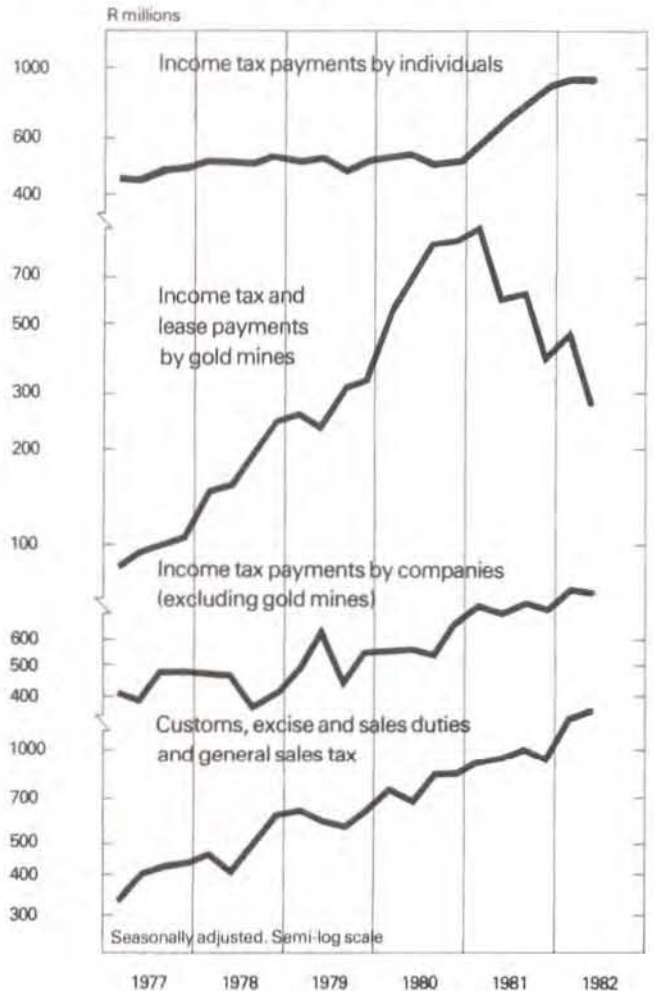
As in the preceding two years, Exchequer issues increased sharply in the first four months of the 1982/83 fiscal year, i.e. the period April to July 1982. Compared with the corresponding period in 1981, issues rose by 16 per cent in these four months. This rate of increase was well above the Budget estimate of 11,5 per cent for 1982/83 as a whole.

Receipts on the Exchequer Account in the first four months of 1982/83 were 20 per cent higher than in the corresponding period of 1981/82, despite a substantial decline in revenue received from gold mining companies. In the Budget, the rate of increase in government revenue for the fiscal year as a whole was estimated at 11 per cent. The relatively high rate of increase in revenue was partly accounted for by the imposition in February 1982 of a 10 per cent surcharge on certain classes of imported goods and an increase in the general sales tax from 4 to 5 per cent as from 1 March. Collections of indirect taxes were 41 per cent higher in

Exchequer Account



Revenue collections — State Revenue Fund



the first four months of 1982/83 than in the corresponding period of 1981/82.

Despite the sharp rise in revenue, a substantial deficit of R1 709 million, excluding borrowing and debt repayment, was recorded on the Exchequer Account in the first four months of 1982/83. The size of this deficit in relation to the estimated figure of R2 380 million for the fiscal year as a whole, was a major reason for the further increase in the general sales tax from 5 to 6 per cent with effect from 1 September. In his announcement of this increase, the Minister of Finance stated that certain developments had placed increasing upward pressure on government expenditure. In order to meet this unforeseen expenditure and at the same time to adhere to the Budget goal of limiting the deficit before borrowing to 2,8 per cent of the gross domestic product, additional revenue had to be found.

Financing of the Exchequer deficit

The larger part of the Exchequer deficit of R1 709 million in the first four months of 1982/83, namely R1 461

million was financed by means of net borrowing from the non-bank private sector. This sector increased its holdings of government stock through subscriptions to new issues as well as open-market purchases from the Reserve Bank. Net borrowing from the Public Debt Commissioners and the foreign sector amounted to R187 million and R155 million, respectively. The Exchequer's net indebtedness to the monetary banking sector declined by R94 million.

New government stock issues

On two occasions during the first four months of the current fiscal year, namely in April and June, new government stock was offered for public subscription on a tender basis. Subscriptions were well in excess of the amounts offered. In addition, new government stock was issued on tap to the Reserve Bank and the Public Debt Commissioners. Subscriptions to new issues of marketable government stock during the first four months of 1982/83 totalled R2 130 million. During August substantial further open-market sales of government stock, obtained on tap from the Treasury, were made by the Reserve Bank. Owing to these successful sales of new government stock, new public stock issues were not made to refinance the government stock debt of R166 million that matured on 15 August.

Capital market

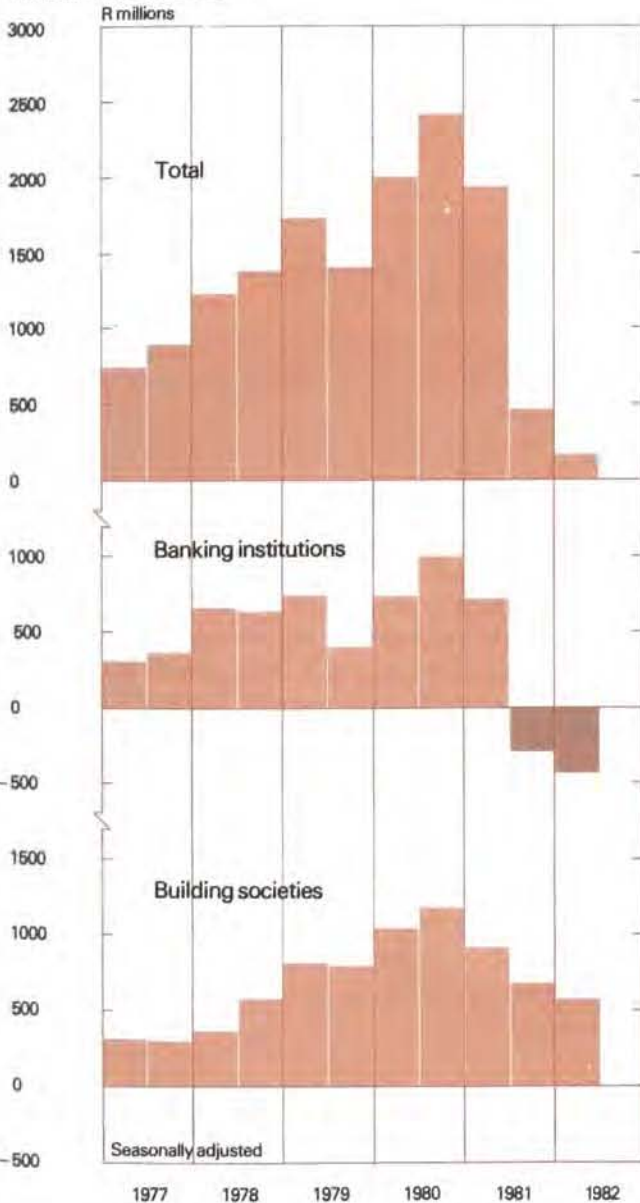
Small increase in holdings of longer-term funds with non-contractual savings institutions

The relatively low level of gross domestic saving and the draining of domestic liquidity through the balance of payments during the first half of 1982, together with a shift from longer-term to short-term deposits, caused holdings of longer-term non-contractual savings with financial institutions to increase by only a small amount during both the first and second quarters of 1982. Holdings of longer-term funds with banking institutions,

building societies, participation mortgage bond schemes and government savings schemes, for example, showed a seasonally adjusted increase of R92 million during the first quarter of 1982 and of only R50 million during the second quarter. During 1980 and 1981 the average quarterly increases in these holdings amounted to R1 100 million and R600 million, respectively.

Seasonally adjusted holdings of longer-term funds with banking institutions and government savings schemes declined by R376 million and R64 million, respectively, during the second quarter, while those with building societies and participation mortgage bond schemes rose by R415 million and R74 million, respectively. In these circumstances, the institutions concerned continued to compete actively for funds, and deposit and related interest rates increased further. Increases during the four months to July 1982 ranged from 0,75 to 3,0 per cent.

Change in holdings of longer-term funds with financial institutions

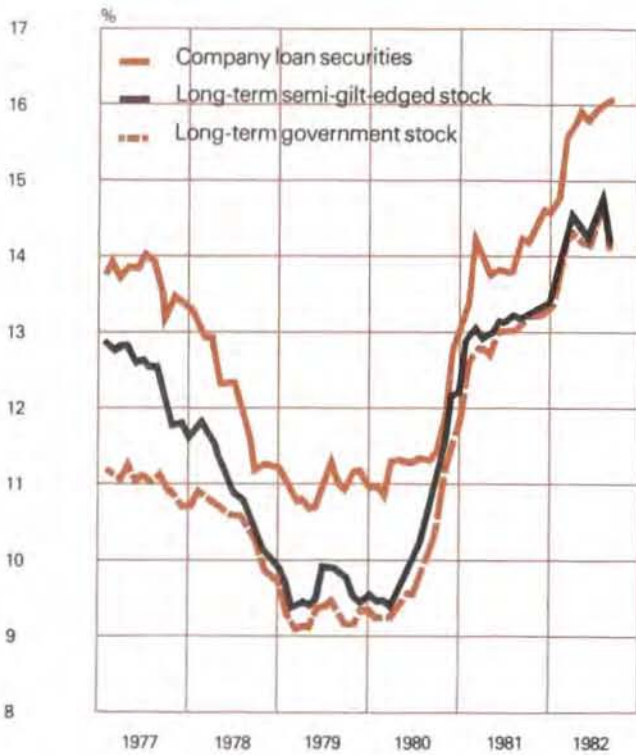


Buoyant fixed-interest security market

Conditions in both the primary and secondary markets for fixed-interest securities were extremely buoyant from the beginning of the second quarter of 1982. During this quarter the public sector raised new funds amounting to R1 560 million in the market (excluding changes in the government stock holdings of the Reserve Bank and the Public Debt Commissioners and in other public-sector borrowers' holdings of their own securities), compared with R572 million in the first quarter and a quarterly average of R542 million in 1981. As during the first quarter, the private corporate sector raised a relatively small amount of new funds in the fixed-interest security market in the second quarter. During July and August additional new funds were raised by the public sector. A substantial portion of this represented open-market sales by the Reserve Bank of new government stock obtained on tap from the Treasury. In the secondary market, the very high turnover in public-sector stock during the first quarter of 1982 was not fully maintained in the second quarter, but the turnover rose again sharply during July and August.

Investment in fixed-interest securities was encouraged by expectations that long-term interest rates were at or close to cyclical peaks. These expectations were strengthened during the latter part of July and during August, when interest rates in the United States declined, the gold price increased and domestic short-term interest rates moved to somewhat lower levels. In accordance with these expectations, long-term fixed-interest security yields actually declined in August. The secondary market yield on long-term government stock rose from a monthly average of 14,3 per cent in March to 14,7 per cent in July, before declining to an average of 14,1 per cent in August and 13,2 per cent in the first half of September. The monthly average yield on semi-gilt-edged stock of the highest grade showed a similar movement, namely from 14,5 per cent in March to 14,8 per cent in July, 14,2 per cent in August and 13,4

Secondary market yields

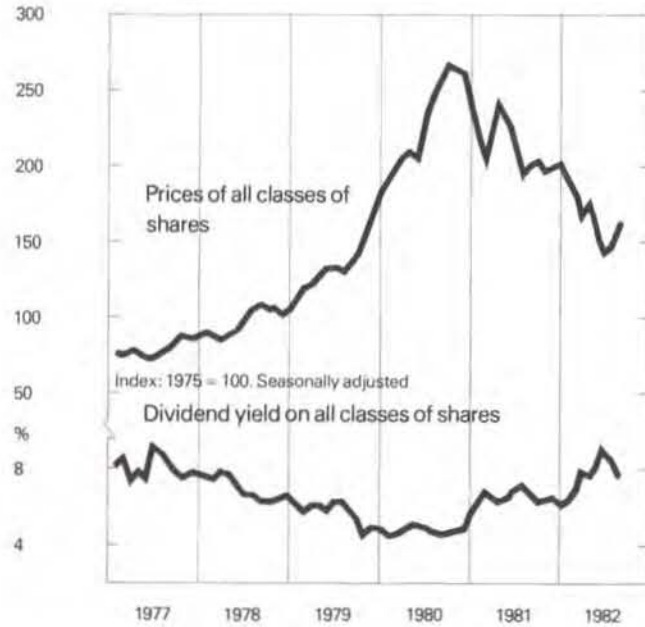


per cent in the first half of September. The secondary market yield on company loan securities increased from 15,7 per cent in March to 16,0 per cent in July and further to 17,1 per cent in the first half of September.

Turnaround in share prices and yields

Share prices, which had been on a downward trend from the fourth quarter of 1980 and had declined particularly sharply from March to June 1982, turned around in July and showed notable increases during August. This turnaround was caused mainly by the increase in the price of gold and revived optimism on international stock exchanges, which not only raised the prices of gold mining shares, but also influenced the general mood on the Johannesburg Stock Exchange and the prices of other classes of shares. Share prices declined on average by 17 per cent from March to June, followed by an increase of 22 per cent from June to August. These changes were mirrored in the average dividend yield on all classes of shares, which rose from 8,15 per cent in March to 9,37 per cent in June before easing to 8,04 per cent in August.

Stock exchange



Slight increase in building societies' mortgage lending

After a sharp reduction in their new mortgage lending from the fourth quarter of 1980 to the third quarter of 1981, building societies started to grant new loans in somewhat larger amounts from the fourth quarter of 1981. Net new mortgage loans granted, seasonally adjusted, increased from R329 million in the third quarter of 1981 to successively R440 million, R473 million and R502 million in the subsequent three quarters. The more liberal lending policy of the societies came to be reflected in the amount of new mortgage loans actually paid out in the second quarter, which showed its first seasonally adjusted quarterly increase since the fourth quarter of 1980. Also reflecting the change in lending policy, the societies' loan commitments rose from a low of R501 million at the end of March 1982 to R551 million at the end of June.

Following further increases in their borrowing rates, the societies raised their home mortgage rates by 1 per cent, with effect from 20 July on new loans and from 1 September on existing mortgages. After this increase, the home mortgage rates ranged from 14,25 to 16,25 per cent.

Further increase in real estate transactions

The seasonally adjusted value of real estate transactions rose further to a new record in the second quarter of 1982. As during the preceding fifteen months, a decline in residential property transactions was more than compensated for by an increase in non-residential property

transactions. The continued buoyancy of the real estate market reflected a rise in the fixed property investments of insurers and private pension funds as well as an increased amount of funds mobilised by participation mortgage bond schemes.