

# Quarterly economic review

## Summary and general comments

The cyclical upswing in the South African economy from the end of 1977 continued well into 1981. Real gross domestic product, which had grown by about 8 per cent in 1980, increased from this high base by a further 4½ per cent in 1981. This reduction in the rate of increase in real gross domestic product did not reflect a general levelling-off in monetary demand but was rather the result of physical constraints on the further expansion of production. Real gross domestic expenditure in fact still grew by as much as 13 per cent in the first three quarters of 1981 and by 10½ per cent in the year as a whole, following upon a 13½ per cent rise in 1980. In the fourth quarter of 1981, however, a distinct change in the course of economic events became evident and present indications are that the cyclical upswing may have reached an upper turning point in the third quarter. Despite a general levelling-off and in some cases even slight declines during the fourth quarter, economic activity nevertheless remained at a high level.

South Africa, therefore, followed the main industrial countries into a downward phase of the business cycle, but with a considerable time lag. Because of this time lag, South Africa in early 1981 found itself in the final stages of a cyclical upswing at a time when its trading-partner countries were already experiencing a cyclical downturn. Inevitably, this situation had a marked effect on South Africa's balance of payments. On the one hand, exports were affected adversely by the recessionary conditions in trading-partner countries, while on the other hand imports were rising rapidly because of a high level of domestic demand and increasing physical constraints on domestic production. Consequently, the current account of the balance of payments moved into deficit in the first quarter of 1981. This cyclical change in foreign trade was greatly accentuated in 1981 by a sharp decline in the price of gold and, more generally, by a considerable deterioration of the terms of trade. The final outcome was a substantial swing in the current account balance, namely from a surplus of R2 830 million in 1980 to a deficit of R3 947 million in 1981. The large deficit on the current account was only partly counterbalanced by a net inflow of capital of R1 112 million, excluding changes in liabilities related to reserves. Consequently, the net gold and other foreign reserves declined by R2 835 million during 1981 as a result of balance of payments transactions.

Reflecting the marked change in the balance of payments, the rand depreciated sharply during 1981. The extent of this depreciation was increased considerably by the strengthening of the US dollar in foreign exchange markets. On the other hand, the depreciation of the rand was moderated by the Reserve Bank's short-term foreign borrowing and its use of gold swaps

as a measure of augmenting foreign exchange reserves.

The sharp depreciation of the rand had the effect of partly shielding the economy from the adverse external developments. In terms of rand, the price of gold declined much less than in terms of US dollars, while other export prices actually increased at a time when world commodity prices tended to decline. In the course of 1981, however, it became clear that the recession in the industrial countries would last much longer than had been forecast initially and that the decline in the price of gold could be larger and of a longer duration than had been anticipated. It was also realised that the rapidly growing deficit on the current account of the balance of payments could be financed only on a temporary basis by means of short-term foreign borrowing and gold swaps. In these circumstances, the need for a more fundamental adjustment of the economy was increasingly stressed by the monetary authorities. A firm policy stance was therefore adopted to defend the internal and external value of the rand and to ensure that consolidation and adjustment in the economy would be achieved. In practical terms, this led to renewed efforts to achieve tight control over government spending, bank liquidity and the money supply. At the same time, the financial markets were permitted to tighten further and both interest rates and premiums on forward dollars to rise to more realistic levels. More recently, in February 1982, indirect tax increases were announced by the Government in order to ensure that the Exchequer's deficit before borrowing would be kept to a total which could be financed without undue recourse to bank credit.

Despite the contractionary effect on the money supply of the substantial decline in the net gold and other foreign reserves, the monetary aggregates continued to rise at exceptionally high rates during 1981. The broadly defined money supply (M2), which had risen by 27 per cent during 1980, increased by a further 25 per cent during 1981, while the narrowly defined money supply (M1) rose by 34 per cent during 1981, as against 36 per cent in 1980. This further strong monetary expansion during 1981 resulted mainly from an increase in bank credit to the private sector, including the reintermediation during the early part of 1981 of credit which had previously been arranged outside the banking system. In addition, net bank credit to the government sector increased by a fairly large amount during 1981, in particular during the fourth quarter. After the initial process of re-intermediation during the early part of 1981 and in line with a restrictive monetary policy stance, the growth in the money supply slowed down considerably during the middle quarters of the year. During the fourth quarter, however, the increase accelerated again because of the extension of additional bank credit for the financing of record agricultural crops and a large temporary use of bank credit by the Government.

Not only the balance of payments, but also government revenue was affected adversely by the decline in the price of gold. The loss of revenue in the form of income tax and mining lease payments by gold mining companies was, however, compensated for by higher than expected collections of income tax from individuals and non-mining companies and of indirect taxes. Despite a higher rate of increase in Exchequer issues, the deficit before borrowing on the Exchequer Account in the first three quarters of the fiscal year, i.e. the period April to December 1981, was roughly in line with the Budget estimate. However, the programme for financing this deficit deviated from that envisaged in the Budget, mainly owing to a shortfall in the contribution expected from the Public Debt Commissioners. As a result, the Treasury was obliged to have temporary recourse to the banking sector, in particular to the Reserve Bank, a financing procedure that was not provided for in the Budget.

Mainly as a result of the decline in the net gold and other foreign reserves, the financial markets tightened considerably further during 1981. Short as well as long-term interest rates, which had increased sharply during the fourth quarter of 1980 from the exceptionally low levels that had prevailed earlier, maintained a steep upward trend throughout 1981. Equity yields, however, did not conform to this general pattern of interest rate changes, mainly as a result of an optimistic business mood which caused non-mining share prices to resume an upward course after a fairly sharp decline from October 1980 to February 1981. Only in early 1982 did a general declining tendency in share prices and an accompanying increase in share yields become evident. The tightening of the financial markets and the accompanying rise in interest rates were officially endorsed by the monetary authorities and Bank rate was raised in five steps from 7,0 to 13,5 per cent in the course of 1981. In February 1982 the direct link between Bank rate and the prime overdraft rate of the clearing banks was abolished. The latter rate, which had already increased from 9½ to 17 per cent in the course of 1981, rose immediately to 18 per cent and was subsequently raised to 20 per cent. Despite the rise in long-term interest rates, expectations of prospective further increases in rates re-emerged towards the end of 1981, after having been absent since the middle of May. As during the early part of 1981, these expectations inhibited investment in fixed-interest securities during December and in early 1982.

The rate of inflation remained inordinately high in 1981. Consumer and production prices were 15,2 per cent and 13,5 per cent, respectively, higher in 1981 than in 1980. Several factors contributed to the continued high level of price increases in 1981. Among these were the physical constraints on production at a time of sharply rising money supply and domestic expenditure, upward adjustments in administered prices and the considerable depreciation of the rand.

## **Business cycle changes and national accounts**

### **Upper turning point in business cycle**

Preliminary indications are that the cyclical upswing in economic activity which had commenced at the end of 1977, may have reached an upper turning point in the third quarter of 1981. Further information is, however, required for a more precise dating of this apparent cyclical turning point. The composite index of coinciding business cycle indicators, which covers a representative range of economic activity, reached a peak in August 1981 and declined during the subsequent four months. Selected leading economic indicators, in particular those that are related to prospective expenditure, output and financial developments, confirmed the observed cyclical downturn. The duration of the latest upward phase of the business cycle roughly equalled that of the longest cyclical expansion during the post-war period, namely the upswing from 1961 to 1965.

Already from the beginning of 1981 the rate of growth in real gross domestic product slowed down, but the continued buoyancy of the economy, and in particular the sharp further increase in real gross domestic expenditure, clearly indicated that this slow-down was due to physical constraints on production and that it did not reflect a general levelling-off in monetary demand. Only from the fourth quarter of 1981 did a broadly based change in the course of economic events become evident. This change towards the end of the year, however, did not consist of a sudden and substantial decline in general economic activity, but rather of a slight and gradual downward adjustment from a very high level of activity. The momentum of the preceding upswing is likely to maintain economic activity at a high level during the initial phase of the current downswing.

### **Appreciable further increase in real gross domestic product**

Following an increase of about 8 per cent in 1980, real gross domestic product grew from this high base by a further 4½ per cent in 1981. The lower rate of growth in a buoyant economic environment, characterised by a strong further expansion of real gross domestic expenditure, was mainly due to scarcities of skilled and semi-skilled labour and the almost full utilisation of production capacity in most sectors of the economy. Real gross *national* product, however, increased by only about 1½ per cent in 1981, as against 11 per cent in 1980, because of a marked deterioration of South Africa's terms of trade, attributable mainly to the sharp decline in the price of gold.

The further growth in real gross domestic product in 1981 emanated mainly from the secondary and tertiary sectors of the economy. As shown in the accompanying table, higher rates of increase than in 1980 were re-



**Percentage change in real gross domestic and gross national product**

|   | 1979     | 1980      | 1981      |
|---|----------|-----------|-----------|
| <b>Primary sector</b> .....               | -        | 4½        | 1         |
| Agriculture, forestry and fishing.....    | -4½      | 12½       | 4         |
| Gold mining.....                          | -½       | -4½       | -2½       |
| Other mining.....                         | 10       | 4½        | -         |
| <b>Secondary sector</b> .....             | 8        | 10½       | 6½        |
| Manufacturing.....                        | 9        | 11        | 6         |
| Electricity, gas and water.....           | 7        | 8½        | 11        |
| Construction.....                         | 1½       | 8         | 8         |
| <b>Tertiary sector</b> .....              | 3        | 6½        | 4½        |
| Commerce and accommodation.....           | -3       | 10        | 7         |
| Services.....                             | 5        | 5½        | 4         |
| <b>Total gross domestic product</b> ..... | <b>4</b> | <b>8</b>  | <b>4½</b> |
| <b>Gross national product</b> .....       | <b>6</b> | <b>11</b> | <b>1½</b> |

corded in the real value added by construction and the sector electricity, gas and water, while fairly high rates of increase were maintained in the real product of manufacturing, commerce and accommodation, and the services sector. In the primary sector, the real product of agriculture showed a moderate further increase. The contribution of the record maize and wheat crops to the increase in the real value added by agriculture was partly neutralised by a sharp rise in intermediate inputs and an appreciable decline in meat production. The real product of the mining industry declined during 1981 as a result of a lower international demand for metals and min-

erals generally and the gold mines' policy of mining lower grade ore.

At current prices, the rate of increase in gross domestic product declined from 31 per cent in 1980 to 13½ per cent in 1981. This deceleration was caused by a fall in the rate of increase in the overall gross operating surplus from 46 per cent in 1980 to only 2 per cent in 1981. This, in turn, reflected mainly a sharp drop in gold mining profits as a result of the considerable decline in the price of gold. Excluding gold mining, total gross operating surplus rose by 16½ per cent in 1981, compared with 30 per cent in 1980. In contrast, total remuneration of employees rose at a somewhat higher rate of 24 per cent in 1981, compared with the 21 per cent recorded in 1980. The difference between the growth rates in gross domestic product at current and constant prices reflected a sharp deceleration of the rate of increase in the derived gross domestic product deflator, namely from 22 per cent in 1980 to 8½ per cent in 1981, largely as a result of wide swings in the price of gold during these two years.

**Further sharp increase in real gross domestic expenditure**

Real gross domestic expenditure, which had risen by no less than 13½ per cent in 1980, increased sharply by a further 10½ per cent in 1981. A strong upward trend continued during the first three quarters of 1981, but a notable decline occurred in the fourth quarter, owing to a decrease in real gross domestic fixed investment and a smaller net addition to inventories. In the year as a whole, real inventories increased by a substantially larger amount than in 1980, but all the other components of real gross domestic expenditure rose at lower rates than in 1980. In nominal terms, gross domestic expenditure exceeded gross national product by a substantial margin in 1981, indicating that a large deficit was recorded on the current account of the balance of payments.

**Real gross domestic product at factor cost**

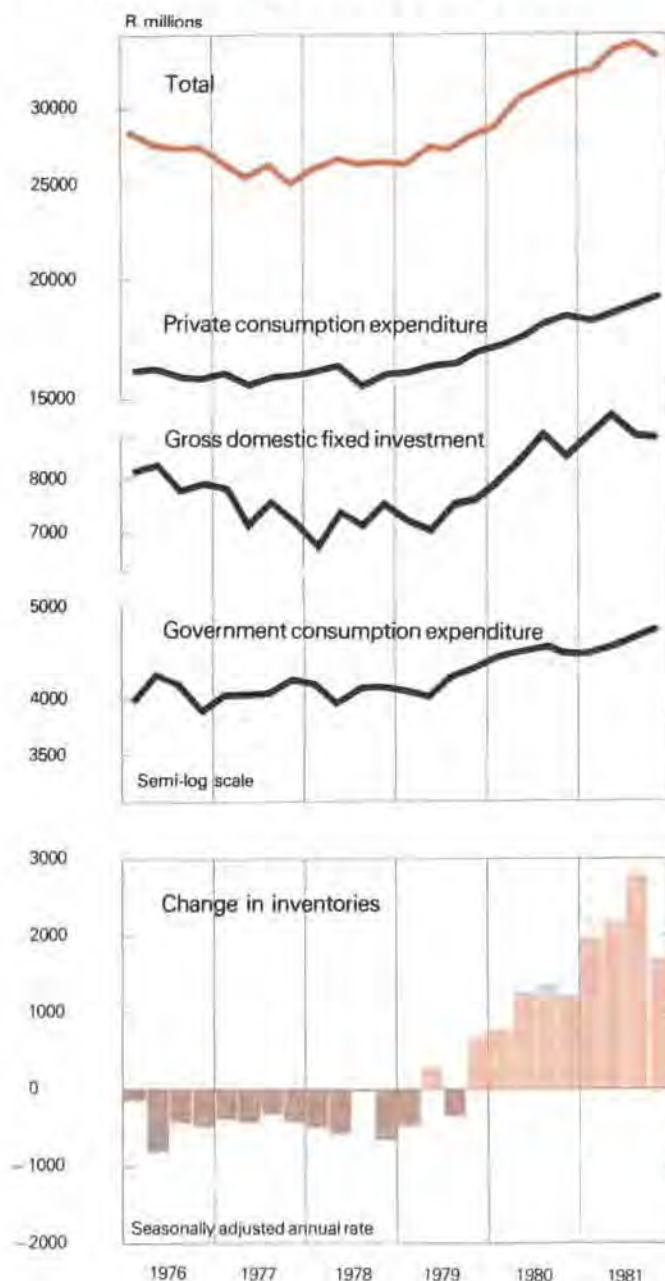


**Percentage change in real gross domestic expenditure**

|  | 1979      | 1980       | 1981       |
|--|-----------|------------|------------|
| Private consumption expenditure.....         | 2½        | 9          | 6          |
| Government consumption expenditure.....      | 2½        | 7½         | 2          |
| Gross domestic fixed investment.....         | 2         | 14         | 6½         |
| Change in inventories (1975 R millions)..... | 27        | 1 153      | 2 183      |
| <b>Gross domestic expenditure</b> .....      | <b>3½</b> | <b>13½</b> | <b>10½</b> |



## Gross domestic expenditure at constant 1975 prices



## Sustained increase in real private consumption expenditure

Real private consumption expenditure continued to rise strongly throughout 1981, facilitated by a further increase in real personal disposable income and a decline in personal saving. The rate of increase of 6 per cent was, however, notably lower than the 9 per cent of 1980. This slowdown was particularly evident in expenditure on durable goods and, to a lesser extent, on semi-durable goods and services. Real outlays on non-durable goods increased at more or less the same rate as in 1980.

## Percentage change in real private consumption expenditure

|   | 1979      | 1980     | 1981     |
|---|-----------|----------|----------|
| Durable goods.....                                | 7½        | 27       | 9        |
| Furniture and household appliances                | 8½        | 23       | 8½       |
| Personal transport equipment                      | 8         | 34       | 10       |
| Recreational and entertainment goods              | 4         | 26       | 11       |
| Semi-durable goods.....                           | 1         | 13       | 10       |
| Clothing and footwear                             | 1½        | 14       | 10       |
| Motor-car tyres, tubes, parts and accessories     | -10       | 5        | 11       |
| Non-durable goods.....                            | 2         | 4        | 4        |
| Food, beverages and tobacco                       | 3         | 4        | 3        |
| Petroleum products                                | -10       | 5        | 11       |
| Services.....                                     | 2         | 6½       | 5½       |
| <b>Total private consumption expenditure.....</b> | <b>2½</b> | <b>9</b> | <b>6</b> |

## Moderate increase in real government consumption expenditure

The rate of increase in real government consumption expenditure slowed down considerably in 1981, namely from 7½ per cent in 1980 to only 2 per cent in 1981. The two main components of government consumption expenditure, i.e. remuneration of employees and outlays on goods and other services, both increased by about 2 per cent in 1981.

## Distinct change of trend in real gross domestic fixed investment

Following upon an increase of 14 per cent in 1980, real gross domestic fixed investment maintained a strong upward trend during the first half of 1981, but declined during the second half. Nevertheless, an increase of 6½ per cent was still recorded in 1981 as a whole. As shown in the accompanying table, the real fixed investment outlays of the private sector rose at a lower rate in

## Percentage change in real gross domestic fixed investment

|  | 1979      | 1980      | 1981      |
|--|-----------|-----------|-----------|
| <b>Private business enterprises.....</b>               | <b>½</b>  | <b>23</b> | <b>11</b> |
| Agriculture, forestry and fishing.....                 | -8½       | 26        | 17        |
| Mining.....  | 26        | 24        | -1        |
| Manufacturing.....                                     | 4         | 30½       | 15        |
| Residential buildings.....                             | ½         | 21        | 26        |
| Other (transport, commerce and finance).....           | -9        | 16        | 5½        |
| <b>Public corporations.....</b>                        | <b>7½</b> | <b>14</b> | <b>-8</b> |
| Manufacturing.....                                     | 7         | 25        | -2½       |
| Electricity, gas and water.....                        | 6½        | 4         | -9        |
| Other (mining and finance).....                        | 16½       | 30        | -27       |
| <b>Public authorities.....</b>                         | <b>-½</b> | <b>-2</b> | <b>12</b> |
| S.A. Transport Services.....                           | 9         | 5½        | 32        |
| Other business enterprises.....                        | -4½       | -         | 6         |
| General government.....                                | -2        | -6½       | 4½        |
| Central government.....                                | -5½       | -2        | 8½        |
| Provincial administrations.....                        | ½         | -5½       | -3        |
| Local authorities.....                                 | -         | -16       | 7½        |
| <b>Total real gross domestic fixed investment.....</b> | <b>2</b>  | <b>14</b> | <b>6½</b> |



1981, while those of public corporations actually declined. In contrast, real fixed investment by public authorities increased sharply in 1981, after having declined during each of the preceding four years.

Real fixed capital expenditure by the private sector continued to increase sharply during the first half of 1981, but declined during the second half as a result of the completion of some of the capital expansion programmes which had commenced during the earlier part of the fixed investment upswing in 1979. Real fixed capital outlays by the private sector on residential construction rose at a higher rate in 1981 than in 1980, but lower rates of increase were recorded in private real fixed investment in agriculture, manufacturing, transport, commerce and finance. Private fixed investment in mining actually declined in 1981. The effect of the investment upswing on production capacity is illustrated by the increase of 13 per cent in the real net fixed capital stock of private manufacturing from the middle of 1979 to the end of 1981. Despite this increase, the utilisation of production capacity in manufacturing nevertheless rose from 85,3 per cent in the second quarter of 1979 to 89,9 per cent in the fourth quarter of 1981.

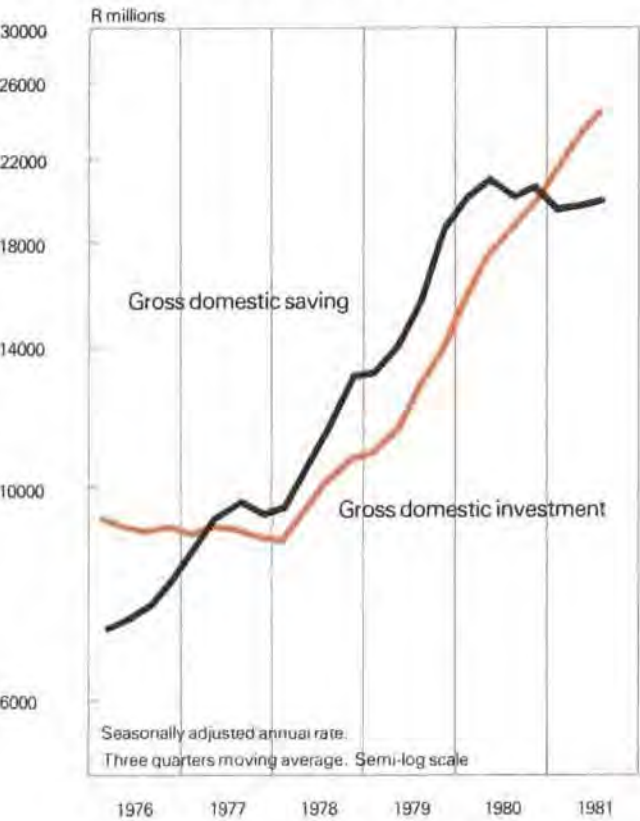
The increase in the real fixed investment of public authorities in 1981 was mainly due to several large expan-

sion programmes, including purchases of new rolling stock and the acquisition of new aircraft by the South African Transport Services. Real outlays on low cost housing also showed a fairly large increase in 1981 and, in addition, the real fixed investment of the general government departments of public authorities recorded its first annual increase since 1975. The decline in the real fixed investment of public corporations in 1981 was mainly due to the completion of Sasol's second oil-from-coal plant and a decrease in the real outlays of Iscor and Escorn.

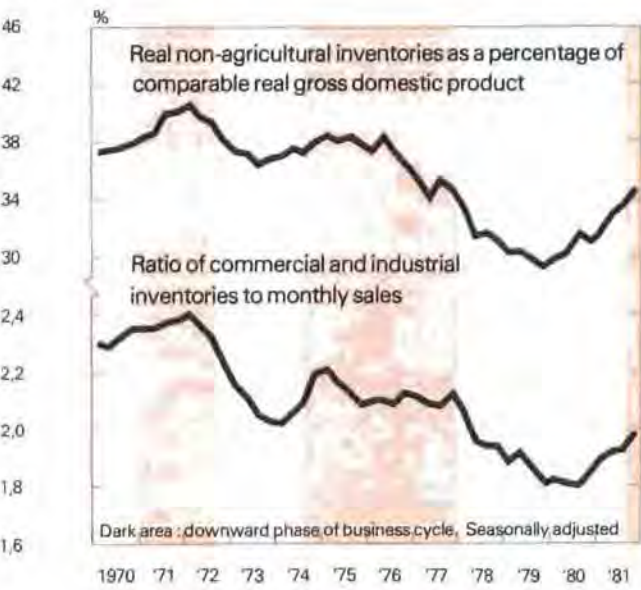
### Sharp increase in real inventories

The upward phase of the inventory cycle, which had commenced in the middle of 1979, continued during 1981 when further increases were recorded in real industrial, commercial, strategic and diamond inventories and agricultural stocks-in-trade. The considerable net addition to total inventories in 1981 made a significant contribution to the continuing high level of real aggregate domestic expenditure in this period. Diamond stocks increased on account of weak foreign demand, whereas the higher agricultural stocks reflected the harvesting of record summer crops. The substantial and sustained build-up of real non-agricultural and non-strategic inventories since the second half of 1979 caused the ratio of these inventories to the real non-agricultural gross domestic product to rise from 29 per cent in the fourth quarter of 1979 to 34 per cent in the fourth quarter of 1981.

Financing of gross domestic investment



Inventory ratios



## Lower level of gross domestic saving

Gross domestic saving showed large quarterly fluctuations in 1981 and during the year as a whole declined by R810 million in comparison with 1980. As a ratio of gross domestic product, it amounted to about 28 per cent in 1981, compared with 33 per cent in 1980. Gross domestic saving was substantially lower than gross domestic investment during 1981, indicating the extensive use of foreign financing.

As shown in the accompanying table, all components of *net* domestic saving declined in 1981, whereas total provision for depreciation rose markedly in accordance with the further increase in fixed capital investment.

The decline in personal saving was the result of a larger rise in private consumption expenditure than in personal disposable income. The ratio of personal saving to personal disposable income amounted to about 6 per cent in 1981, compared with ratios of approximately 9 and 8 per cent in 1979 and 1980, respectively. The main reason for the notable decrease in corporate saving in 1981 was the sharp decline in the price of gold and its effect on corporate income. The lower level of the saving of general government was the net result of a larger increase in current expenditure than in current receipts. The latter reflected mainly the decline in income tax receipts from gold and other mining companies.

### Change in gross domestic saving R millions

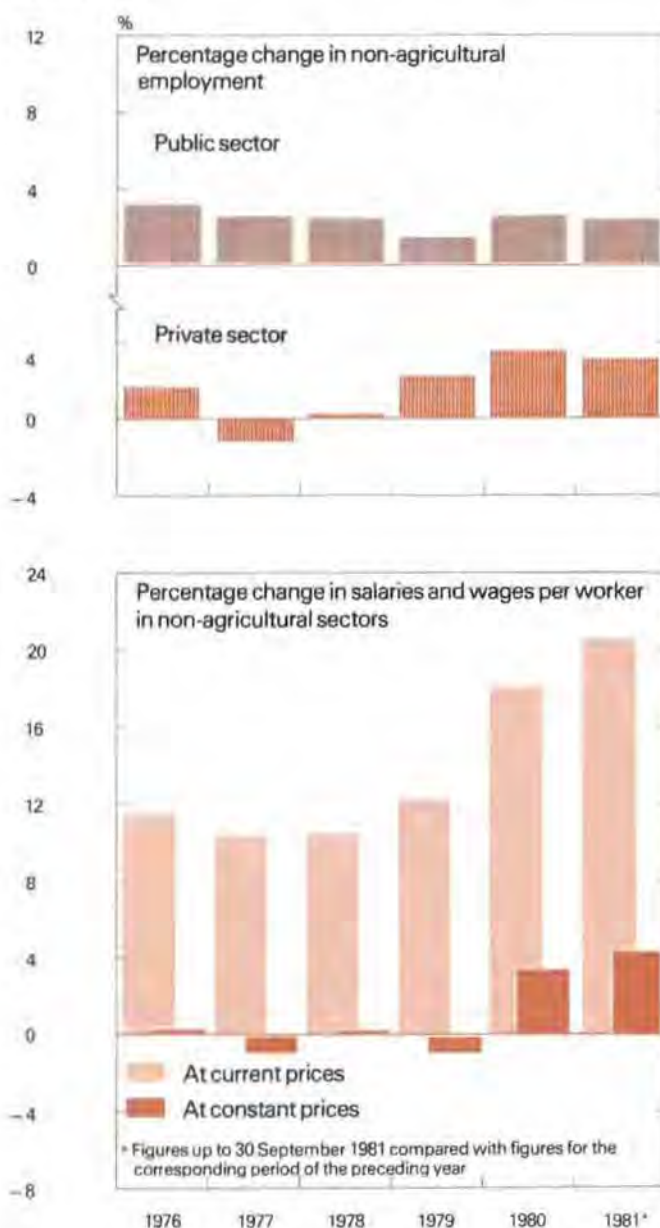
|                                   | 1979  | 1980  | 1981   |
|-----------------------------------|-------|-------|--------|
| Personal saving.....              | 554   | 213   | -269   |
| Corporate saving.....             | 2 458 | 2 613 | -1 227 |
| Saving of general government..... | 260   | 1 399 | -788   |
| Net domestic saving.....          | 3 272 | 4 224 | -2 284 |
| Provision for depreciation.....   | 985   | 1 190 | 1 474  |
| Gross domestic saving.....        | 4 257 | 5 414 | -810   |

## Labour market and prices

### Further increase in employment

Within the constraints imposed by scarcities of skilled and semi-skilled labour, employment continued to rise fairly strongly during the first three quarters of 1981<sup>1)</sup> Non-agricultural employment was 2,9 per cent higher in the first nine months of 1981 than in the corresponding period of 1980, compared with an increase of 3,3 per

### Labour



1) Statistics relating to employment and the remuneration of labour are at present only available up to the end of the third quarter of 1981.



cent in 1980. This slight slow-down was evident in both the private and public sectors. Reflecting the further rise in employment, unemployment among all population groups continued to decline during the first nine months of 1981. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from 18 356 in December 1980 to 15 040 at the end of September 1981. Likewise, the unemployment rate among Blacks, as measured by the ratio of unemployment to the economically active population, declined from 8,1 per cent at the end of 1980 to 7,3 per cent in September 1981.

During the subsequent four months there appeared to have been a slight change in labour market conditions. Registered unemployment among Whites, Coloureds and Asians showed small, but consistent, monthly increases, and in January 1982 the number stood at 16 358.

#### Lower rate of increase in labour productivity

Labour productivity, as measured by real gross domestic product per worker in the non-agricultural sectors of the economy, was 2,0 per cent higher in the first nine months of 1981 than in the corresponding period of 1980. An increase of 3,9 per cent was recorded in 1980. Following a sharp rise during the first three quarters of 1980, labour productivity showed virtually no further growth during the subsequent three quarters, but rose again in the third quarter of 1981. In addition to a higher labour turnover, productivity growth during 1981 was also constrained by the almost full utilisation of production capacity in most sectors of the economy. In manufacturing, for which more detailed statistics are available, the increase in the volume of output per man-hour slowed down to 2,8 per cent in the first nine months of 1981, compared with 4,5 per cent in 1980.

#### Sharp rise in salaries and wages and in unit labour costs

Active competition for skilled and semi-skilled labour, together with the adjustment of salary and wage scales for the increased cost of living, caused nominal salaries and wages per worker to rise sharply by 21 per cent in the first nine months of 1981, compared with the corresponding period of 1980. In real terms, salaries and wages per worker increased by 4,4 per cent in the first nine months of 1981. These rates of increase were somewhat higher than in 1980, when nominal and real salaries and wages per worker rose by 18 per cent and 3,5 per cent, respectively.

The combination of a lower rate of increase in labour productivity and a higher rate of increase in salaries and wages resulted in an accelerated rise in unit labour costs in 1981. In the non-agricultural sectors, unit labour costs were 18 per cent higher in the first nine months of 1981 than in the corresponding period of

1980, compared with an increase of 14 per cent in 1980. Since labour costs represent a major portion of total production costs, the sharp rise in unit labour costs contributed materially to the further increase in production prices in 1981.

#### High rates of increase in prices

Physical constraints on production, the continuing sharp rise in domestic expenditure that was facilitated by a marked increase in the money supply, upward adjustments in administered prices, and a considerable depreciation of the rand set the scene for another sharp rise in unit labour and other production costs and in prices during 1981. The average level of consumer prices in fact rose by 15,2 per cent in 1981, compared with 13,8 per cent in 1980. On a quarterly basis, the seasonally adjusted annual rate of increase in consumer prices accelerated from 13,1 per cent and 10,4 per cent in the first and second quarters of 1981, respectively, to 17,7 per cent in the third quarter, before slowing down slightly to 16,2 per cent in the fourth quarter. Between January 1981 and January 1982, the average consumer price index rose by 13,9 per cent.

Food prices, which had risen sharply during 1980, increased further from this high level during 1981 and were on average 22 per cent higher than in 1980. As in

Percentage change in prices





1980, food prices therefore made a major contribution to the continuing high rate of inflation in 1981. In addition, higher rates of increase than in 1980 were recorded in the prices of motorcars and spare parts, furniture and household equipment, clothing, alcoholic beverages and tobacco as well as in the costs of housing, transportation and educational services. Lower rates of increase were, however, recorded in the prices of petroleum products, the wages of domestic assistants, and in the costs of dry-cleaning, medical, recreational and entertainment services.

The increase in the average level of production prices slowed down from 16,2 per cent in 1980 to 13,5 per cent in 1981, mainly because of a deceleration of the rise in the prices of imported goods from 20,1 per cent in 1980 to 10,7 per cent in 1981. However, like consumer prices, production prices rose at a notably higher rate during the second half of 1981. At a seasonally adjusted annual rate, the increase in production prices accelerated from 10,1 per cent and 8,1 per cent in the first and second quarters, respectively, to 13,2 per cent and 15,3 per cent in the third and fourth quarters, respectively. A higher rate of increase in the prices of imported goods was mainly responsible for the faster rise of production prices in the fourth quarter. Showing the delayed effect (partly as a result of the forward exchange cover taken out by importers) of the substantial depreciation of the rand, the seasonally adjusted annual rate of increase in the prices of imported goods surged ahead from 2,6 per cent in the second quarter to 7,9 per cent in the third quarter and to 18,6 per cent in the fourth quarter. Between January 1981 and January 1982 production prices increased by 12,5 per cent.

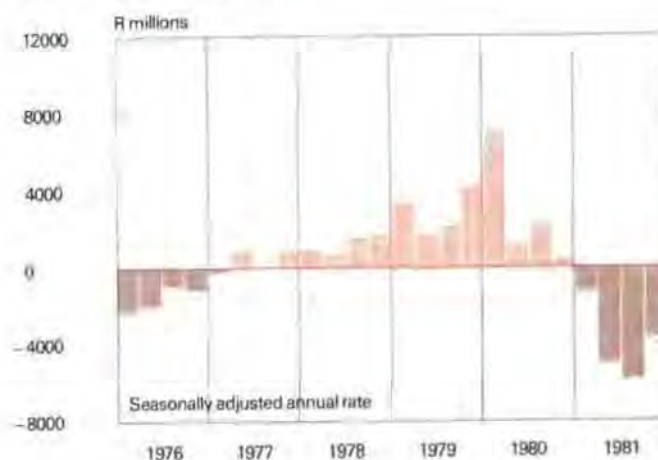
## Balance of payments

### Substantial change in current account balance

A substantial deficit of R3 947 million was recorded on the current account of the balance of payments in 1981. Already in the first quarter of the year the current account moved into deficit and, at a seasonally adjusted annual rate, the deficit increased from R1 266 million in the first quarter to R5 856 million in the third quarter, before declining to R3 628 million in the fourth quarter. The deficit for the year as a whole was roughly equal to 5½ per cent of the gross domestic product, a ratio that was more or less in line with past experience in similar phases of the business cycle. An unusual feature of the change in the current account balance, however, was the exceptionally large swing of R6 777 million, from a surplus of R2 830 million in 1980 to the deficit of R3 947 million in 1981.

To some extent this exceptionally large swing over a period of one year reflected the normal cyclical behaviour of the main current account aggregates. Business cycle changes in South Africa typically lag behind those in the main industrial countries, as a result of which the advanced stages of cyclical upswings in South Africa usually coincide with the early stages of cyclical downswings in the industrial countries. During such periods South Africa's exports are effected adversely by the recessionary conditions in trading-partner countries at a time when its imports are rising rapidly because of a high level of domestic demand and increasing physical constraints on domestic production. These divergent tendencies in exports and imports are usually not confined to volume changes, but are also augmented by a weakening of the terms of trade. This cyclical pattern in South Africa's foreign trade was very much in evidence in 1981 and, moreover, was greatly

### Balance on current account





**Current account of balance of payments**  
(Seasonally adjusted annual rate)  
R millions

|                                   | 1980         | 1981          |               |               |               |               |
|-----------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                                   | Year         | 1st qtr.      | 2nd qtr.      | 3rd qtr.      | 4th qtr.      | Year          |
| Merchandise exports               | 9 643        | 8 839         | 9 000         | 8 718         | 10 755        | 9 328         |
| Net gold output                   | 10 141       | 8 495         | 7 610         | 8 381         | 8 866         | 8 338         |
| Merchandise imports               | -14 207      | -15 818       | -18 230       | -19 282       | -19 354       | -18 171       |
| Net service and transfer payments | -2 747       | -2 782        | -3 418        | -3 673        | -3 895        | -3 442        |
| <b>Deficit on current account</b> | <b>2 830</b> | <b>-1 266</b> | <b>-5 038</b> | <b>-5 856</b> | <b>-3 628</b> | <b>-3 947</b> |

accentuated by the effect of a sharp decline in the price of gold and, more generally, the deterioration of the country's terms of trade. Terms of trade actually weakened by about 11 per cent in 1981.

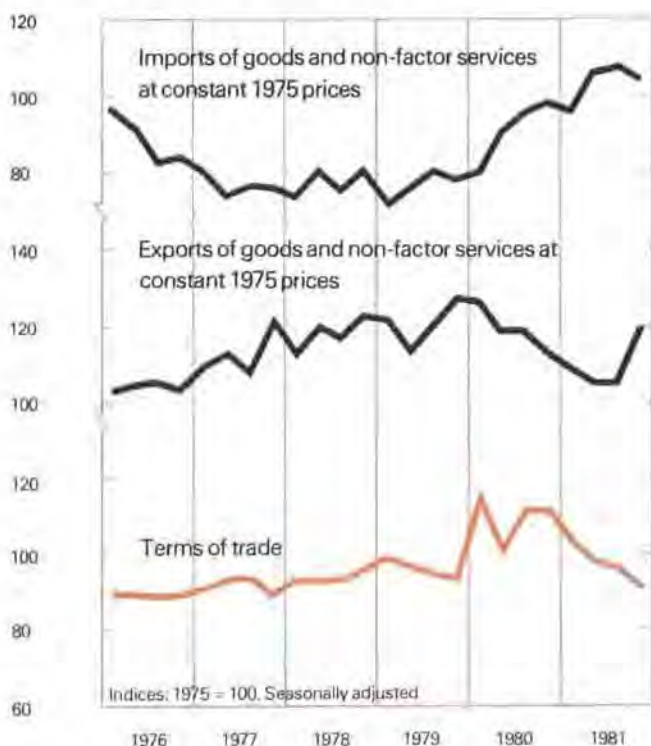
As shown in the accompanying table, the value of the net gold output declined by about R1 800 million, or 18 per cent, in 1981. The price of gold decreased from an average of US \$613 per fine ounce in 1980 to US \$460 per fine ounce in 1981, or by 25 per cent. As a result of the sharp depreciation of the rand against the US dollar, the rand price of gold decreased by only 16 per cent from 1980 to 1981. The higher rand price of gold in the fourth quarter accounted partly for the increase in the value of the net gold output in this period. In addition to the fall in the gold price in 1981, the volume of the net

gold output declined slightly, mainly because the mines continued their policy of mining lower grade ore. During the first two months of 1982 the gold price fell further to an average of US \$379 per fine ounce.

The depreciation of the rand during 1981 had the effect of shielding exporters against unfavourable economic developments in trading-partner countries. In value terms, merchandise exports declined by only 3 per cent in 1981, despite a decrease of 13½ per cent in volume. The difference was accounted for by an increase in the rand prices of exports, largely as a result of the depreciation of the rand. The decline in the value of exports reflected mainly lower export proceeds from diamonds, copper, sugar and hides and skins. The other main categories of exports increased in 1981 and particularly large rises were recorded in exports of agricultural and mineral products. In the fourth quarter, exports increased significantly. To some extent this reflected the effect of the depreciation of the rand during this period, but a notably higher export volume was also recorded, mainly as a result of increased exports of coal, wool and nickel. During January 1982, however, the seasonally adjusted value of merchandise exports again declined sharply.

The value of merchandise imports, which had risen by no less than 46 per cent in 1980, increased further by 28 per cent in 1981. The continued growth of domestic expenditure from an already high level was responsible for an increase of 15½ per cent in the volume of imports. Moreover, import prices rose by approximately 10½ per cent in 1981. Higher import values were evident in virtually all the main categories of goods, but particularly sharp rises occurred in the categories machinery and electrical equipment, mineral products (including oil), textiles and transport equipment. The sharp rise in imports during the first three quarters of 1981 did not continue in the fourth quarter. The relatively low rate of increase in this period was due to the combined effect of a further rise in import prices and an actual decline in the volume of imports, the first decrease since the fourth quarter of 1979. During January 1982 the seasonally adjusted value of merchandise imports actually declined, namely from an annual rate figure of R19 350 million in the fourth quarter of 1981 to R17 750 million in January.

**Balance of payments current account**



Net service and transfer payments to foreigners increased by 25 per cent in 1981 owing to a substantially larger rise in service payments than in service receipts. The increase in service payments reflected higher freight and insurance payments in respect of the larger merchandise imports, a sharp rise in other transportation costs, and a further substantial increase in dividend payments to foreigners.

### Moderate net inflow of capital

After a net capital outflow had been recorded in each of the four preceding years, a net inflow occurred in 1980. Excluding changes in liabilities related to reserves, but including unrecorded transactions, this net inflow amounted to R1 112 million, compared with a net outflow of R2 299 million in the preceding year. For various reasons the net capital inflow of 1981 was relatively small in comparison with the deficit on the current account. Foremost among these, was the policy of the Reserve Bank of allowing the balance of payments to drain excess liquidity from the economy. To facilitate this process, forward exchange rates were generally fixed in such a way as to make the domestic cost of trade financing either marginally more attractive than, or at least roughly equal to, foreign costs. In these circumstances, foreign exchange holdings were augmented by means of short-term foreign borrowing by the banking system, i.e. an increase in liabilities related to reserves, and through entering into gold swap agreements. Other factors contributing to the relatively small net inflow of capital were the ready availability of funds in the domestic financial markets and relatively low domestic interest rates, in comparison with those in other countries, during most of the year. In addition, the continued existence of exchange control on non-residents and the accompanying large discount on the financial rand, naturally meant that financial rand continued to be used almost exclusively by foreigners for investment in South Africa.

As shown in the accompanying table, the net inflow of long and short-term capital (excluding changes in liabilities related to reserves but including unrecorded transactions) amounted to R357 million and R755 million, respectively. The long-term capital inflow consisted mostly of net foreign borrowing by public corporations. The central government and banking sector was also a small net borrower of long-term foreign funds, but the private sector made a net repayment on long-term foreign debt. Sharp fluctuations in short-term capital movements occurred in the course of 1981. A net inward movement of short-term funds was recorded in the second and fourth quarters of the year.

### Sharp decline in gold and other foreign reserves

The large deficit on the current account, which was only partly counterbalanced by a net inflow of capital, resulted in a decline of R2 835 million in the net gold and other foreign reserves during 1981, compared with an increase of R531 million during the preceding year. In order to maintain an adequate level of foreign exchange holdings, the foreign reserves were supplemented through an increase of R1 830 million in the liabilities related to reserves of the Reserve Bank and other banking institutions. This addition to the gross foreign reserves was partly offset by the revaluation of the gold component of these reserves at a lower price in accordance with the decline in the price of gold, as well as by other valuation adjustments. The gross gold and other foreign reserves therefore, also declined, but by a somewhat smaller amount of R1 548 million, to reach a level of R4 245 million at the end of 1981.

The decline in total gross foreign reserves was accounted for by a decrease of R1 660 million in the gold reserves of the Reserve Bank. This, in turn, was largely due to valuation adjustments as well as gold swap agreements entered into with several foreign institutions during October and November, in terms of

### Net capital movements

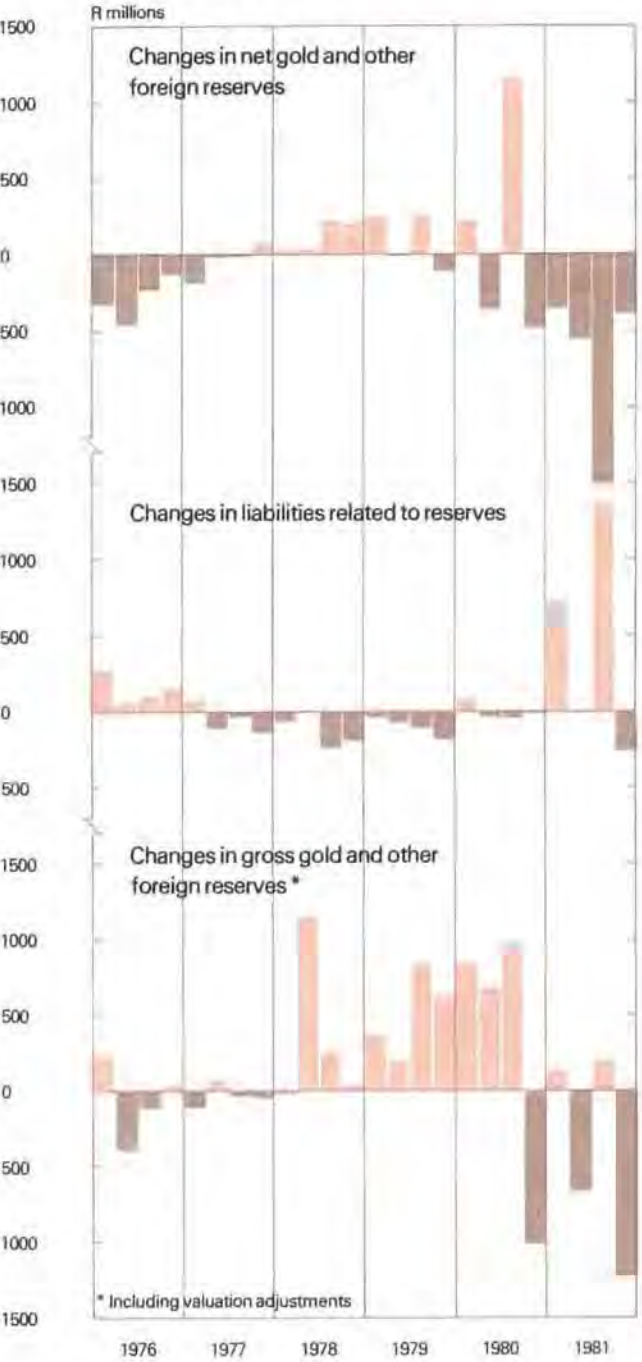
R millions

|  | 1980   | 1981     |          |          |               |
|--|--------|----------|----------|----------|---------------|
|  | Year   | 1st qtr. | 2nd qtr. | 3rd qtr. | 4th qtr. Year |
| <b>Long-term capital</b>   |        |          |          |          |               |
| Central government and banking sector .....  | -313   | 12       | 24       | 37       | -67 6         |
| Public corporations and local authorities .....  | 179    | 107      | 54       | 189      | 202 552       |
| Private sector .....   | -474   | 31       | 51       | -94      | -189 -201     |
| <b>Total</b> .....   | -608   | 150      | 129      | 132      | -54 357       |
| <b>Short-term capital, excluding liabilities related to reserves but including unrecorded transactions</b> ..... | -1 691 | -419     | 629      | -257     | 803 755       |
| <b>Total net capital movements not related to reserves</b> .....   | -2 299 | -269     | 758      | -125     | 749 1 112     |
| <b>Liabilities related to reserves</b> .....   | 1      | 727      | -17      | 1 375    | -255 1 830    |
| <b>Total</b> .....   | -2 298 | 458      | 741      | 1 250    | 494 2 942     |



which gold was sold for cash at market-related prices and repurchased forward. The gold swaps were made in order to augment foreign exchange holdings. Foreign reserves other than gold holdings accordingly rose from R939 million at the end of 1980 to R1 051 million at the end of 1981. During January and February 1982 the gross gold and other foreign reserves of the Reserve Bank increased by R48 million, owing mainly to short-term foreign borrowing by bank-

Changes in foreign reserves



ing institutions for the purpose of supplementing their liquid asset holdings over the tight February month-end.

### Depreciation of the rand

An increase of 10,9 per cent in the effective exchange rate of the commercial rand during 1980 was followed by a decline of 13,9 per cent during 1981. This depreciation was basically due to balance of payments changes, but also reflected the strengthening of the US dollar in foreign exchange markets. As shown in the accompanying table, the commercial rand depreciated against all major currencies during 1981, but particularly sharply against the US dollar, the Swiss franc and the Japanese yen. During the first two months of 1982 the effective exchange rate increased slightly by 0,6 per cent, despite a further depreciation of the rand against the US dollar.

Changes in the exchange rate of the commercial rand %

|                         | 1980 | 1981  | 1982<br>Jan. and<br>Feb. |
|-------------------------|------|-------|--------------------------|
| Effective exchange rate | 10,9 | -13,9 | 0,6                      |
| U.S.A. dollar           | 10,9 | -22,1 | -2,4                     |
| British pound           | 3,2  | -2,7  | 2,0                      |
| German mark             | 26,1 | -10,6 | 2,8                      |
| Swiss franc             | 23,4 | -21,0 | 2,2                      |
| Japanese yen            | -5,7 | -15,8 | 5,0                      |
| French franc            | 25,1 | -2,2  | 3,9                      |

The financial rand depreciated by 14,5 per cent during 1981. A sharp decline in the price of gold during January 1982 resulted in the selling of gold shares by non-residents and this contributed to a further depreciation of the financial rand by 4,1 per cent during this

Effective exchange rate of the rand



month. During February it depreciated by a further 1,6 per cent. The financial rand discount narrowed from 30,2 per cent at the end of 1980 to 23,4 per cent at the end of 1981, before increasing again to 26,1 per cent at the end of February 1982.

## Money and banking

### High rate of growth in money supply

Monetary aggregates continued to rise at exceptionally high rates during 1981. The broadly defined money supply (M2) and the narrowly defined money supply (M1) increased by 25 per cent and 34 per cent, respectively, compared with 27 per cent and 36 per cent, respectively, during 1980. In the course of 1981 the seasonally adjusted annual rate of increase in M2 slowed down from 46 per cent in the first quarter to 26 per cent in the second quarter and 10 per cent in the third quarter, but accelerated again to 21 per cent in the fourth quarter. If the banks' short and medium-dated repurchase agreements with the non-bank private sector are included, the growth rates of M2 and M1 during 1981 amounted to 22 per cent and 23 per cent, respectively, compared with 34 per cent and 45 per cent during 1980. During January 1982 M1 and M2 rose at seasonally adjusted annual rates of 19 and 47 per cent, respectively.

### Causes of changes in M2

As shown in the accompanying table, the main statistical "cause" of the expansion of the money supply during 1981 was the exceptionally large increase of R6 442 million, or 36 per cent, in domestic credit extension. Bank credit to the private sector rose by R5 632 million, while net bank credit to the government sector increased by R811 million. Although the net gold and other foreign reserves of the monetary banking sector declined sharply by R2 835 million during 1981, only part of the expansionary effect on the money supply of the large-scale domestic credit extension was neutralised in this way. A relatively small increase in long-term deposits of the private sector with monetary banking institutions also contributed to a moderation of the money supply growth. The increase in M2 during

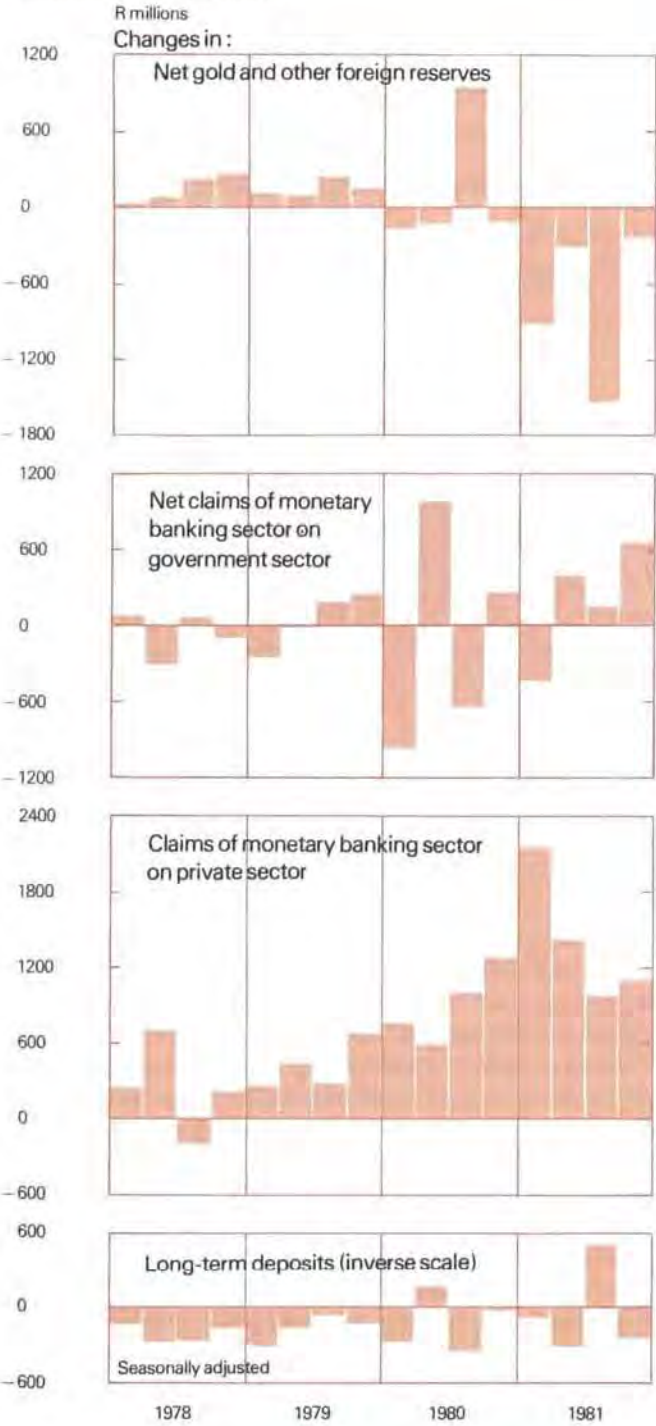
**Causes of changes in M2**  
R millions

|   | Not seasonally adjusted |              | Seasonally adjusted |              |                  |            |
|---|-------------------------|--------------|---------------------|--------------|------------------|------------|
|   | Year 1980               | Year 1981    | 1st qtr.            | 2nd qtr.     | 1981<br>3rd qtr. | 4th qtr.   |
| Net gold and other foreign reserves .....         | 531                     | -2 835       | -918                | -283         | -1 534           | -246       |
| Claims on government sector:                      |                         |              |                     |              |                  |            |
| Gross claims .....                                | 585                     | 101          |                     |              |                  |            |
| Government deposits (increase-, decrease +) ..... | -992                    | 709          |                     |              |                  |            |
| Net claims .....                                  | -407                    | 810          | -439                | 410          | 151              | 656        |
| Claims on private sector .....                    | 3 629                   | 5 632        | 2 153               | 1 409        | 969              | 1 083      |
| Long-term deposits (increase-, decrease +) .....  | -468                    | -134         | -68                 | -325         | 499              | -248       |
| Net other assets .....                            | 221                     | 617          |                     |              |                  |            |
| <b>Total causes of changes .....</b>              | <b>3 506</b>            | <b>4 090</b> | <b>1 585</b>        | <b>1 029</b> | <b>443</b>       | <b>930</b> |

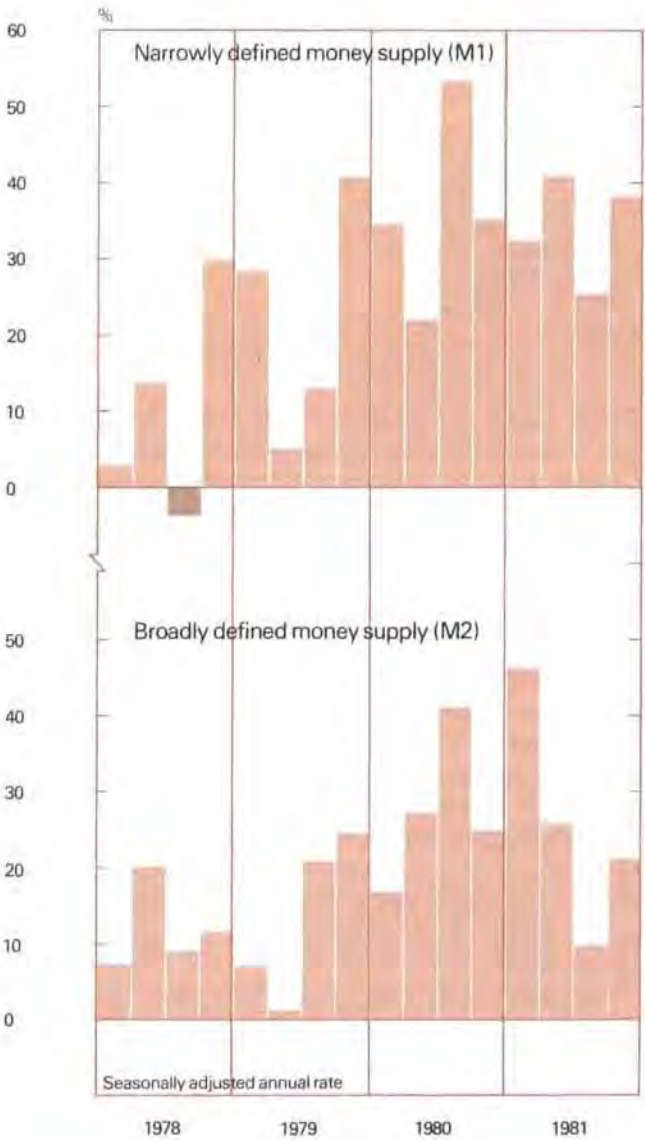


January 1982 was "caused" mainly by a substantial further increase in bank credit extended to the private sector. Net gold and other foreign reserves continued to decline sharply, while a contractionary influence was also exerted by a decline in net claims on the government sector and an increase in long-term deposits of the private sector with monetary banking institutions.

Causes of changes in M2



Changes in money supply



Composition of changes in domestic credit extension

Credit extended by the monetary banking sector to the private sector increased by 35 per cent during 1981, as against 29 per cent during 1980. However, the increase slowed down considerably in the course of 1981. At a seasonally adjusted annual rate, the increase decelerated from 65 per cent in the first quarter to 35 per cent in the second quarter and to 21 per cent and 23 per cent in the third and fourth quarters, respectively.

The accompanying table shows that cash credit advances by the Land Bank, mainly for the purpose of financing the record summer crops, made an appreciable contribution to the expansion of bank credit to the

# Changes in claims on the private sector

Not seasonally adjusted

R millions

|                                       | 1980         | 1981         |              |              |             |              |
|---------------------------------------|--------------|--------------|--------------|--------------|-------------|--------------|
|                                       | Year         | 1st<br>qtr.  | 2nd<br>qtr.  | 3rd<br>qtr.  | 4th<br>qtr. | Year         |
| Reserve Bank, NFC and discount houses | 269          | 149          | -32          | -42          | -139        | -64          |
| Land Bank                             | 288          | 20           | 80           | 887          | 275         | 1 262        |
| Other monetary banks:                 |              |              |              |              |             |              |
| Deposits and investments              | 350          | 194          | 149          | 365          | 81          | 789          |
| Bills discounted                      | 578          | 56           | 243          | -326         | 62          | 35           |
| Hire-purchase credit                  | 832          | 341          | 293          | 215          | 699         | 1 548        |
| Leasing finance                       | 530          | 119          | 156          | 154          | -93         | 336          |
| Other loans and advances              | 782          | 1 208        | 637          | -135         | 16          | 1 726        |
| <b>Total</b>                          | <b>3 629</b> | <b>2 087</b> | <b>1 526</b> | <b>1 118</b> | <b>901</b>  | <b>5 632</b> |

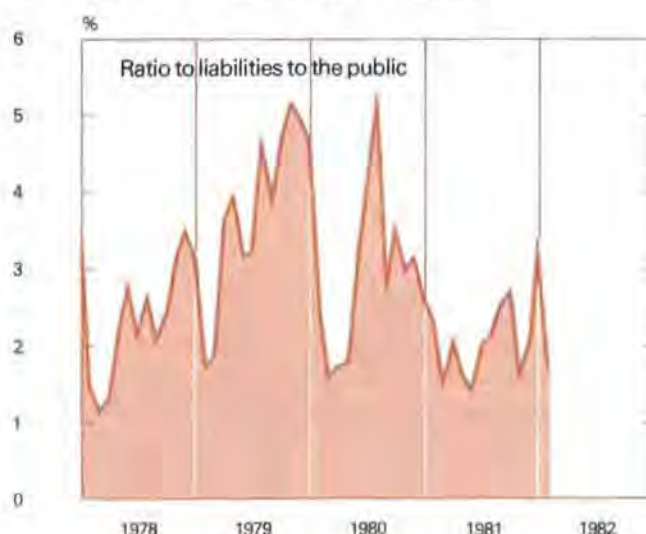
private sector during 1981. Major contributions were also made by the commercial, merchant and monetary general banks' hire-purchase credit and their loans and advances other than hire-purchase credit and leasing finance. The demand for hire-purchase credit remained strong throughout 1981 and the amount of credit extended increased considerably during the fourth quarter. Other loans and advances, including leasing finance, however, increased by progressively smaller amounts during the second and third quarters, and actually declined during the fourth quarter. Almost all components of bank credit extended by the monetary banking sector to the private sector contributed to the further sharp increase during January 1982. In particular, there was a renewed increase in loans and advances other than hire-purchase credit and leasing finance, which had actually declined during the second half of 1981.

Net bank credit to the government sector, seasonally adjusted, declined during the first quarter of 1981, but increased during each of the subsequent three quarters. The Reserve Bank's net claims on the government sector increased by R1 484 million during 1981, consisting, on the one hand of an increase of R724 million in government security holdings and direct credit, and on the other of a decline of R760 million in government deposits with the Bank. The rest of the monetary banking sector's net claims on the government sector declined by R673 million during 1981, mainly as a result of a decrease in government security holdings. An important reason for the lower holdings of government securities was the substitution by the banks of advances to the Land Bank and short-term Land Bank debentures for Treasury bills and short-term government stock in their portfolios of liquid assets.

## Increase in bank liquidity

Bank liquidity declined during the first half of 1981 but increased again during the second half of the year, and was at a notably higher level at the end of 1981 than at the end of 1980. The excess liquid asset ratio of banking institutions declined from 2,5 per cent at the end of

## Excess liquid assets of banking institutions



1980 to 2,0 per cent in June 1981, before rising to 3,4 per cent at the end of December. Legally required liquid assets actually declined during the last seven months of 1981 at a time when actual liquid asset holdings continued to increase. Throughout the year the decline in the Reserve Bank's net gold and other foreign reserves made a negative contribution to the banking institutions' liquid asset holdings. The institutions' holdings of liquid bankers' acceptances increased considerably during the first half of the year, but declined somewhat during the second half. Increased holdings of liquid Land Bank paper made an important contribution to bank liquidity during the second half of 1981. In addition, bank liquidity was augmented, mostly during the fourth quarter, by the combined effect of an increase in the banking system's holdings of liquid government securities, including Special Treasury bills, and a decline in government deposits.

During January 1982 the excess liquidity ratio of banking institutions declined substantially to 1,7 per



cent at the end of the month. A particularly sharp decline occurred in banking institutions' holdings of call deposits with discount houses. The decline in bank liquidity during January resulted mainly from the further decline in the Reserve Bank's net gold and other foreign reserves and decrease in holdings of liquid bankers' acceptances.

### Money market conditions and interest rates

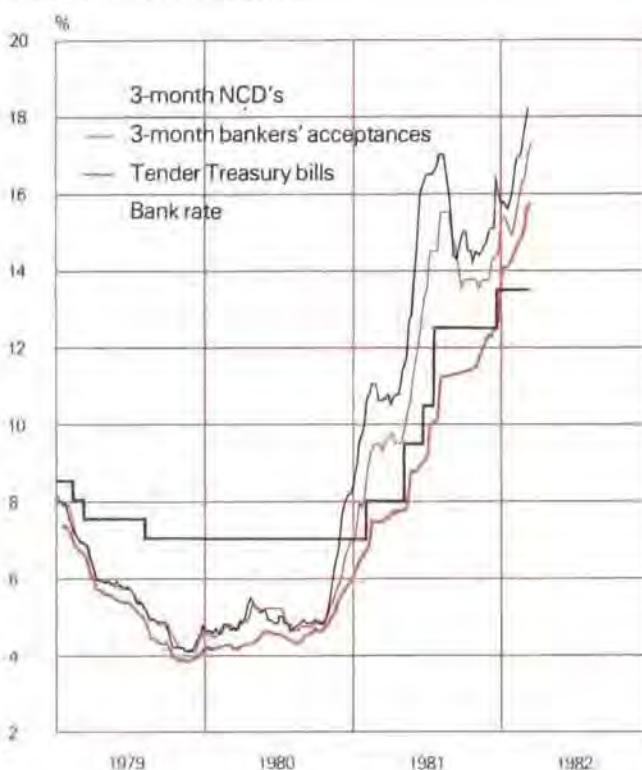
Money market conditions, which had tightened markedly during the last quarter of 1980, generally remained tight throughout 1981 and in early 1982. Periods of relative ease were nevertheless experienced from early April to about the middle of May and from the middle of December to early January 1982. On the other hand, the general tightness of the market during 1981 at times became more severe, especially over the month-ends of January, February, May, July and August and almost continuously during the period from early September to the middle of December. In 1982 the market tightened substantially over the January month-end, remained fairly tight during February, and was severely short of funds at the end of February and in early March.

Apart from seasonal increases in banknotes in circulation, peaks in the flow of tax funds to the government and occasional subscriptions to government loans, the most important cause of the sustained tightness of the market was the continuous decline in the net gold and other foreign reserves of the Reserve Bank. The periods of relative ease, on the other hand, were largely due to increased government spending and an accompanying decline in government deposits, and short-term foreign borrowing by banks. Special accommodation provided by the Reserve Bank eased the usual seasonal tightening over the February and August month-ends.

Mirroring the generally tighter conditions in the money market during 1981 and in early 1982, Reserve Bank accommodation to the discount houses remained at fairly high levels for longer periods at a time, in particular from the end of May. More recently, on 30 November, accommodation to the discount houses reached a high level of R757 million, but on 31 December it amounted to only R293 million. In early 1982, an unusually severe tightening of the market over the January and February month-ends caused the accommodation to discount houses to rise to R896 million and R987 million on 29 January and 27 February, respectively. Subsequently it increased further to R1 021 million on 5 March. Over the January and February month-ends the Reserve Bank was also called upon to provide direct accommodation of R33 million and R201 million, respectively, to banking institutions other than discount houses.

Money market interest rates increased sharply during 1981 and the first nine weeks of 1982. The rate on three-month bankers' acceptances rose from 7,00 per

Short-term interest rates



cent on 24 December 1980 to 15,25 per cent on 31 December 1981 and to 17,75 per cent on 5 March 1982. The Treasury bill tender rate on these dates amounted to 6,04 per cent, 14,04 per cent and 15,76 per cent, respectively. On 23 October the margin between the Treasury bill tender rate and the call deposit rate of the National Finance Corporation was raised to  $\frac{3}{4}$  per cent and on 18 December and 15 February 1982 it was increased further to 1 per cent and  $1\frac{1}{2}$  per cent, respectively. These increases were aimed at creating a more active market in Treasury bills.

Bank rate was raised in five steps during 1981, namely from 7,0 to 13,5 per cent, in recognition of the tightening of the financial markets and the general increase in interest rates. The increase in Bank rate permitted the commercial banks to increase their prime overdraft rates from 9,5 to 17,0 per cent during 1981. The various deposit rates of banking institutions were raised on a number of occasions during 1981, more details of which are provided in the capital market section of this review.

On 16 February 1982 the direct link between Bank rate and the prime overdraft rate of the clearing banks was abolished. Previously, in terms of an understanding between the Reserve Bank and the clearing banks, prime overdraft rates had to be maintained within a range of between  $2\frac{1}{2}$  and  $3\frac{1}{2}$  per cent above Bank rate. In future, each bank will be free to determine its

own prime overdraft rate in response to market forces, subject only to the influence of broad official monetary policy and the maximum rates of interest laid down under the Limitation and Disclosure of Finance Charges Act. Following this change in prime rate arrangements, the banks' prime overdraft rate was raised immediately from 17 to 18 per cent and subsequently further to 20 per cent.

### Open-market operations

Open-market purchases of securities by the Reserve Bank totalled R726 million during 1981. Most of these purchases consisted of the buying in of government stock prior to dates of maturity on 1 October and 1 December. This operation was aimed at ironing out unduly large fluctuations in money market conditions. Total open-market sales of government stock by the Reserve Bank during 1981 amounted to R1 143 million, of which R723 million represented sales of long-term stock. Most of the stocks sold in the market were obtained on tap from the Treasury or purchased from the Public Debt Commissioners. The Bank's sales were intended to assist the Treasury in its borrowing operations. During January and February 1982 the Bank sold government stock amounting to R29 million. In addition to the government stock sales, the Bank sold special Treasury bills to an amount of R142 million in late December and early 1982. These bills matured on 27 February, and the timing of the maturity was aimed at alleviating the usual seasonal shortage of funds in the money market over the February month-end.

### Government finance

#### Rates of increase in Exchequer receipts and issues higher than Budget estimates

Receipts on the Exchequer Account <sup>1)</sup> during the first nine months of the 1981/82 fiscal year, i.e. the period from April to December 1981, were 8 per cent higher than during the corresponding period of the 1980/81 fiscal year. The 1981/82 Budget provided for a slight decline of 1 per cent in the fiscal year as a whole. Most of the main components of revenue showed rates of increase in excess of those anticipated in the Budget for the full fiscal year. Collections of indirect taxes, consisting of customs and excise duties and general sales tax, reflected the considerable further rise in domestic expenditure and imports and increased by 30 per cent, as against a Budget estimate of 21 per cent. Inland revenue collections, excluding general sales tax, increased by 1 per cent during the first nine months of 1981/82, compared with a budgeted decline of 7 per cent for the full fiscal year. Income tax payments by individuals rose at a notably higher rate than had been anticipated because of fairly large salary and wage adjustments and the effect of fiscal drag. Likewise, the increase in income tax receipts from non-mining companies was appreciably higher than expected, mainly because of the continuing buoyant domestic economic conditions and an accompanying increase in the profits of these companies. On the other hand, the profits of mining companies were affected adversely by increased production costs and a weaker foreign demand for metals and minerals generally, resulting in an actual decline in income tax payments by these companies. For example, income tax and mining lease payments by gold mining companies were actually R839 million, or 35 per cent, lower in the first nine

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

### State Revenue Fund — Revenue collections

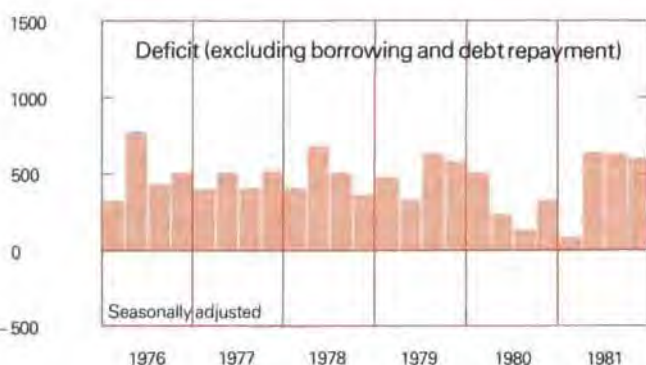
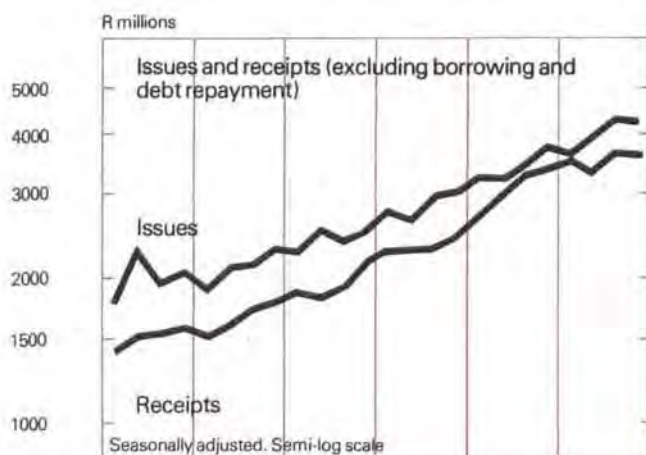
|   | 1981/82 Budget |                                | April – December |                 |                   |
|---|----------------|--------------------------------|------------------|-----------------|-------------------|
|   | R millions     | Percentage change <sup>1</sup> | 1980 R millions  | 1981 R millions | Percentage change |
| Indirect taxes <sup>2</sup>                 |                |                                |                  |                 |                   |
| Customs duties                              | 850            | 15,5                           | 531              | 807             | 52,0              |
| Excise duties                               | 1 385          | 11,4                           | 853              | 1 028           | 20,5              |
| General sales tax                           | 2 150          | 30,1                           | 1 208            | 1 529           | 26,6              |
| Total                                       | 4 385          | 20,7                           | 2 592            | 3 364           | 29,8              |
| Income tax and lease payments by gold mines | 2 160          | -40,5                          | 2 374            | 1 535           | -35,3             |
| Other income tax payments                   | 5 688          | 20,3                           | 3 271            | 4 267           | 30,4              |
| Other collections                           | 1 652          | -11,4                          | 1 354            | 1 299           | -4,1              |
| Sub-total                                   | 13 885         | 0,2                            | 9 591            | 10 465          | 9,1               |
| Less transfers to neighbouring countries    | 725            | 32,7                           | 406              | 542             | 33,5              |
| <b>Total receipts</b>                       | <b>13 160</b>  | <b>-1,1</b>                    | <b>9 185</b>     | <b>9 923</b>    | <b>8,0</b>        |

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

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



## Exchequer Account



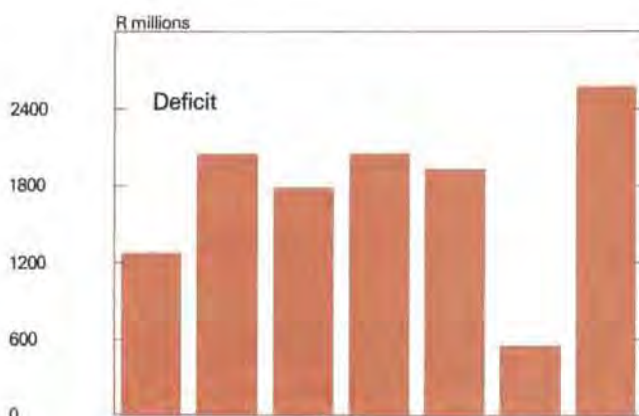
months of 1981/82 than in the corresponding period of 1980/81.

Issues from the Exchequer Account were 20 per cent higher in the first nine months of the 1981/82 fiscal year than in the corresponding period of 1980/81. The Budget provided for an increase of 17 per cent in the full fiscal year. In the first half of the fiscal year, issues increased by no less than 25 per cent, compared with the corresponding period of the 1980/81 fiscal year, but the increase slowed down to 14 per cent in the subsequent quarter. Issues in the last quarter of the fiscal year will be affected by the amount of the appropriations provided for in the Additional Budget, presented to Parliament on 2 March 1982. Expenditure additional to that provided for in the original Budget is estimated at R565 million, bringing total expenditure for 1981/82 to R16 434 million, or 21 per cent more than in the preceding fiscal year. However, actual expenditure in 1981/82 may eventually be lower because of the usual savings by the various government departments.

## Financing of Exchequer deficit

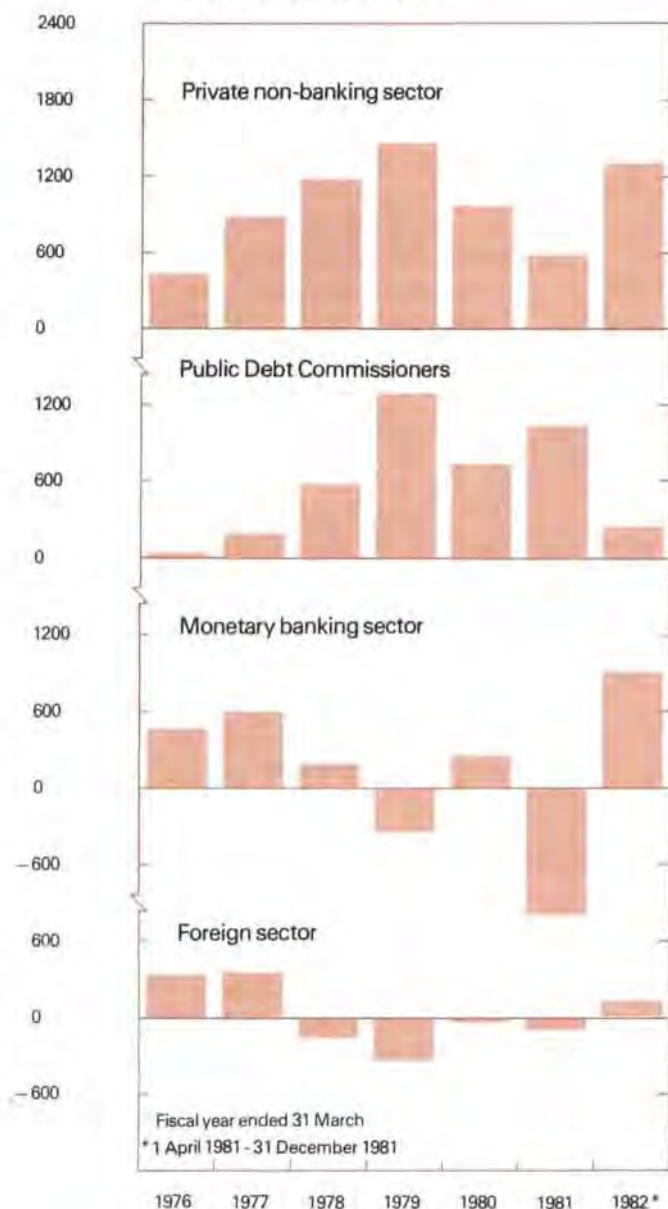
Taking into account the usual seasonal behaviour of receipts and issues in the various fiscal year quarters, the

## Exchequer Account deficit and financing



### Financing

Change in net indebtedness to:



outcome of the higher rate of increase in both Exchequer receipts and issues appears to be a somewhat smaller than anticipated deficit before borrowing on the Exchequer Account in the fiscal year 1981/82. In the first three quarters of the fiscal year the deficit amounted to R2 579 million, compared with a Budget estimate of R2 707 million for the full fiscal year. The deficit was financed by means of the following net borrowing from various sectors:

|  | R millions   |
|--|--------------|
| Public Debt Commissioners (net increase in holdings of government securities) .... | 243          |
| Private non-banking sector .....   | 1 307        |
| Monetary banking sector .....  | 906          |
| Foreign sector .....   | 123          |
| <b>Total</b> .....   | <b>2 579</b> |

Judging by the figures for the first nine months of the 1981/82 fiscal year, the borrowing programme deviated notably from that envisaged in the Budget. The Public Debt Commissioners, who experienced substantial withdrawals of funds by the South African Transport Services, the Department of Posts and Telecommunications, provincial administrations and public corporations, made an appreciably smaller than expected contribution to the financing of the Exchequer Account deficit. The gross investment in government securities by the Commissioners during this nine-month period amounted to R994 million, as against a budgeted amount of R1 850 million for the full fiscal year. Net borrowing from the private non-banking sector by means of non-marketable securities was also running below Budget estimates. As a result, the Treasury was obliged to have recourse to the monetary banking sector as a source of funds, a financing procedure that was not provided for in the Budget. The increase of R906 million in the Government's net indebtedness to the monetary banking sector during the first nine months of 1981/82 consisted of a rise of R55 million in this sector's holdings of government securities and a decline of R851 million in the Treasury's cash balances, including a drawing-down of the balance on the Stabilization Account by R638 million.

#### Government stock and bond issues

Public issues of new government stock were made on three occasions during the first nine months of 1981/82, namely in May, October and December, to coincide with the redemption of maturing stock. The first two of these issues were well supported, but the third met with poor response and resulted in a net repayment of stock amounting to R492 million. Renewed expectations of a further increase in long-term yields were mainly responsible for the lack of interest in the December issue. In these circumstances, new issues of

government stock with maturities of 2¾ years and 10½ years were offered for subscription on a tender basis in February. The amount of the short-term stock issue was limited to R100 million and that of the longer-term issue to R200 million. These issues were slightly over-subscribed. An amount of R102 million was tendered for the short-term stock, of which R100 million was accepted at an average price yielding 14,85 per cent. Tenders for the long-term stock amounted to R215 million and the average yield on the allotted stock of R200 million came to 14,42 per cent. In order to facilitate borrowing by means of non-marketable bond issues, higher rates of interest on Treasury, National Defence, and Defence Bonus bonds were announced in February 1982.

#### Part Appropriation Bill

In his presentation of the Part Appropriation Bill to Parliament on 11 February 1982, the Minister of Finance stated that, although considerable pressure had been exerted on the Government's finances by the decline in revenue from gold mining taxation and leases, the deficit before borrowing for the current fiscal year was expected to be reasonably close to the Budget estimate of R2 707 million. However, the Government had to make temporary use of bank credit in the fourth quarter of 1981 in financing part of the deficit. This method of financing was largely responsible for the more rapid increase in the money supply during that quarter. Although steps had been taken to assist the Treasury in raising funds in a non-inflationary manner, immediate stronger corrective action was necessary to ensure that the Exchequer's deficit before borrowing in both the present and the coming financial years would be kept to a total which could be financed without undue recourse to bank credit. Accordingly, a surcharge of 10 per cent was imposed, with immediate effect, on all imports other than petroleum products and goods subject to the 1947 General Agreement on Tariffs and Trade. In addition, the rate of the general sales tax was raised from 4 to 5 per cent, with effect from 1 March.

#### Budget of the South African Transport Services

In the Budget of the South African Transport Services (formerly the South African Railways Administration), presented to Parliament on 3 March 1982, it was estimated that the current financial year ending on 31 March will close with a shortfall of R71,9 million. Assuming a growth rate of 2 per cent in the real gross domestic product and an inflation rate of 13 per cent, and taking into account salary and wage and pension adjustments, total expenditure for the 1982/83 financial year was estimated at R6 525 million. A wide range of transport tariff increases, averaging 15 per cent, was announced and total revenue for 1982/83 was estimated at R6 514,5 million, leaving a deficit of R10,5 million. Capital expenditure during 1982/83 would be



curtailed drastically and, together with loan redemptions of R311,6 million, was estimated at R2 225 million. Of this amount, R1 075 million was expected to be financed from internal sources, R700 million from domestic borrowing and R450 million through external loans.

**Capital market**

**Increase in fixed-interest security yields**

In accordance with the general tightening of financial markets from about the fourth quarter of 1980, long-term fixed-interest security yields rose sharply during the last quarter of 1980 and the first five months of 1981. During the subsequent six months these yields remained relatively stable and edged up only moderately. From December 1981, however, the yields started to rise more rapidly and this was accompanied by renewed expectations of prospective further increases in long-term interest rates. As during the latter part of 1980 and the first four months of 1981, these expectations from December 1981 inhibited investment in fixed-interest securities. These expectations

**Secondary market security yields**



appeared to have strengthened further in January and February 1982, when long-term fixed-interest securities traded at considerably higher yields in the secondary market.

Net new issues of public sector stock, excluding net increases in issuers' holdings of their own stock, amounted to R2 470 million in 1981, compared with R1 448 million in 1980. Secondary market transactions in gilt-edged and semi-gilt-edged stock likewise increased strongly in 1981. For example, the nominal value of stock exchange transactions in this stock rose from R4 219 million in 1980 to R5 101 million in 1981.

#### Long-term fixed-interest security yields in secondary market

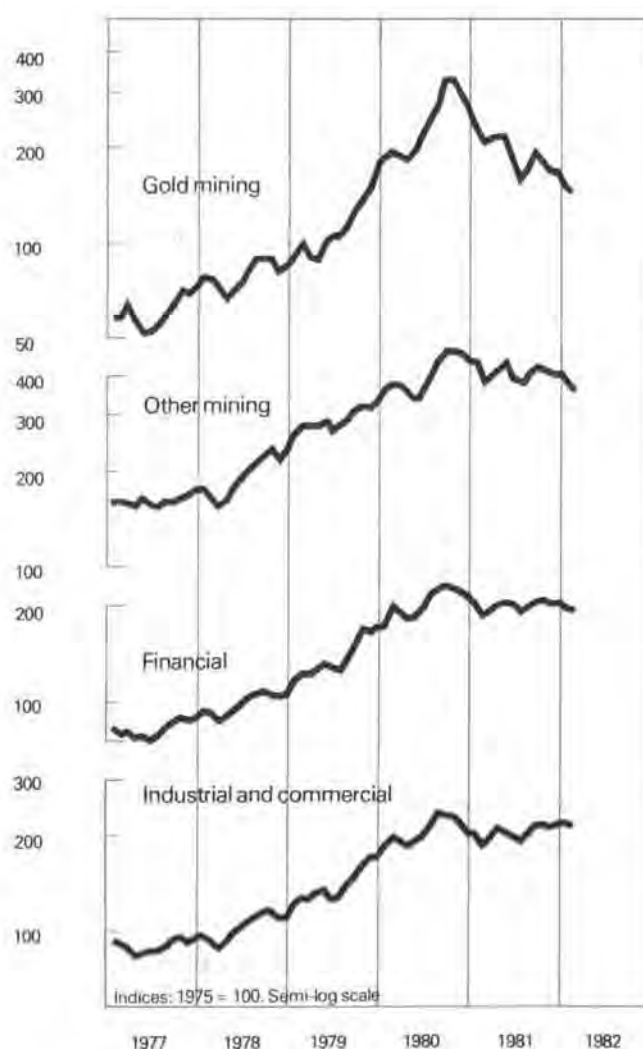
Monthly averages  
%

|                         | 1980  |       | 1981  |       | 1982 |  |
|-------------------------|-------|-------|-------|-------|------|--|
|                         | Dec.  | May   | Dec.  | Feb.  |      |  |
| Government stock        | 11,81 | 13,05 | 13,33 | 14,20 |      |  |
| Escom stock             | 12,20 | 13,13 | 13,41 | 14,27 |      |  |
| Company loan securities | 13,03 | 13,75 | 14,58 | 15,53 |      |  |

#### Resilient share market

Share prices displayed remarkable resilience in 1981 in the face of a further general tightening of financial markets. Following a sharp decline in share prices during the fourth quarter of 1980 and the first two months of 1981, the prices of industrial and commercial shares and of financial shares fluctuated upwards during the remainder of 1981. However, mining share prices, with the exception of those of coal mining shares, drifted downwards throughout 1981 in response to a sharp decline in the price of gold and in mining profits generally. In December, industrial and commercial share prices were on average 15 per cent higher than in February 1981 and only 7 per cent below the peak in September 1980. Likewise, financial share prices were on average 10 per cent higher in December than in February and 14 per cent below the September 1980 peak. Gold mining share prices, on the other hand, were as much as 48 per cent lower in December than in September 1980. The behaviour of share prices reflected, as an aftermath of the boom conditions in the economy during 1980 and the continued buoyancy of the economy in 1981, optimistic expectations about the prospective course of economic events. Other factors contributing to the continuing high level of share prices at a time when the prices of other securities were declining rapidly, included expectations of further high rates of inflation, the need to find investment outlets for the new investment funds of institutional investors, and a relatively larger participation in share market transactions by foreign investors than in 1980. During January 1982, however, a general declining tendency in share prices became apparent and this continued during February, gaining momentum towards the end of the month.

#### Share prices



The number of shares traded on the stock exchange during 1981 was at a substantially lower level than in 1980. The monthly average for the year was 44 per cent below the peak in the third quarter of 1980. During January and February 1982 the monthly average number of shares traded declined below the corresponding figure for the fourth quarter of 1981.

Share yields increased sharply from September 1980 to February 1981, but the subsequent upward movement of non-mining share prices, together with somewhat lower dividend payments towards the end of 1981, caused the average dividend yield on all classes of shares to decline from 6,97 per cent in February to 6,54 per cent in December. As a result of the subsequent decline in share prices, the average share yield rose to 7,05 per cent in February 1982. Although share yields increased during 1981 as a whole, the increase did not match that in other long-term interest rates. The yield margin between long-term govern-



ment stock and shares, for example, widened from 5,95 per cent in December 1980 to 6,79 per cent in December 1981.

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

Holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes increased by R2 391 million during 1981, compared with a considerably larger amount of R4 397 million during 1980. These tighter conditions were experienced by all groups of non-contractual savings institutions, with the exception of participation mortgage bond schemes, which recorded a larger net inflow of funds during 1981 than during the preceding year. Building societies and participation mortgage bond schemes increased their relative shares in the total inflow of longer-term funds to the institutions concerned during 1981, whereas those of banking institutions and government savings schemes declined in comparison with 1980.

**Changes in holding of longer-term funds with non-contractual savings institutions**

|                                     | 1980         |              | 1981         |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | R millions   | %            | R millions   | %            |
| Banking institutions                | 1 713        | 39,0         | 419          | 17,5         |
| Building societies                  | 2 199        | 50,0         | 1 588        | 66,4         |
| Participation mortgage bond schemes | 65           | 1,5          | 148          | 6,2          |
| Government savings schemes          | 420          | 9,5          | 236          | 9,9          |
| <b>Total</b>                        | <b>4 397</b> | <b>100,0</b> | <b>2 391</b> | <b>100,0</b> |

The general scarcity of funds led to active competition for deposits and other funds among the various institutions during 1981. Deposit interest and related rates were raised on several occasions in the course of the year and in January and February 1982. The accompanying table shows the more important rates at the end of December 1980 and at the end of February 1982.

### Declining trend in mortgage and real estate markets

The smaller intake of new funds by building societies during 1981 induced the societies to curb their mortgage lending. New mortgage loans granted by the societies decreased from R4 599 million in 1980 to R1 700 million in 1981. However, the amount actually paid out on new mortgages declined much less, namely from R4 191 million in 1980 to R3 283 million in 1981. As a result of the societies' more restrictive lending policy, their loan commitments declined markedly from R1 635 million at the end of 1980 to R513 million at the end of 1981.

The home mortgage rates of building societies were raised in three steps during 1981, namely by  $\frac{3}{4}$  per cent in January, by  $1\frac{1}{2}$  per cent in April and by 1 per cent in

**Selected interest rates<sup>1</sup>**  
%

|  | 31 Dec. 1980      | 28 Feb. 1982      |
|--|-------------------|-------------------|
| Ordinary savings deposits                            | 3,50              | 4,00              |
| Special savings deposits                             | 5,50 <sup>2</sup> | 8,75 <sup>3</sup> |
| Fixed deposits:                                      |                   |                   |
| 12 months  | 8,50              | 11,50             |
| 24 months  | 9,50              | 13,50             |
| 36 months  | 9,50              | 13,50             |
| 60 months  | 9,50              | 14,00             |
| Building societies' indefinite period paid-up shares | 8,00              | 12,50             |
| Building societies' tax-free shares                  | 7,00              | 8,75              |
| Post Office Saving Bank certificates                 | 7,00              | 8,75              |
| National Savings Certificates <sup>4</sup>           | 7,50              | 9,00              |
| Tax-free Treasury bonds                              | 7,00              | 9,50              |

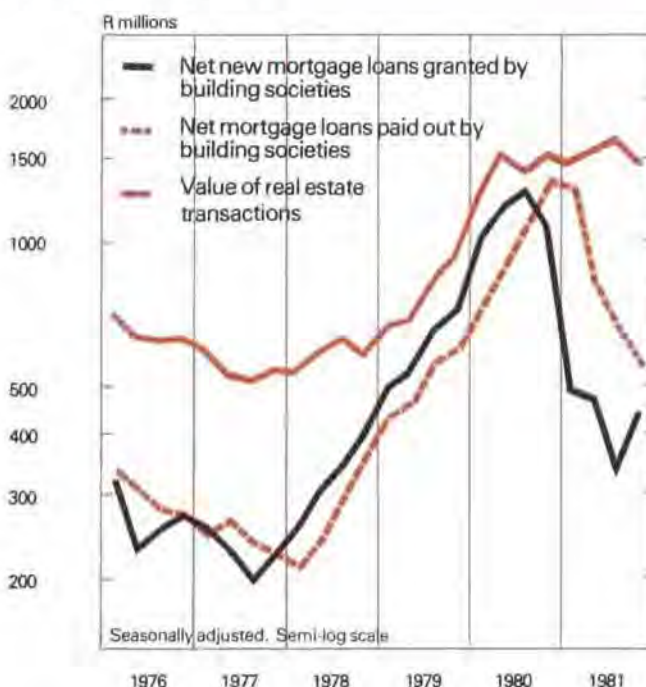
1) Predominant rates.

2) Deposits of less than R20 000.

3) Deposits of up to R15 000.

4) Average rate over full period of investment.

### Fixed property market



August. A further increase of 1 per cent was announced in February 1982, which raised the home mortgage rates to levels ranging from 13,25 to 15,25 per cent.

Activity in the real estate market came to be affected in the course of 1981 by the lower level of mortgage lending and higher mortgage rates. The seasonally adjusted value of real estate transactions increased to a peak in June and remained at a high level in the third quarter, before declining by about 12 per cent in the fourth quarter.