

# Quarterly economic review

## Summary

Information for the second and third quarters of 1983 indicates that the economic downswing in South Africa may have begun to level out. Non-agricultural real output and employment, for example, showed moderate recoveries as from the second quarter. However, without further confirmation, it is still uncertain whether this change should be diagnosed as a lower turning point of the business cycle. But irrespective of any cyclical change, the average level of real gross domestic product in 1983 will probably be about 3 per cent lower than in 1982.

The observed rise in real output was mainly due to an acceleration of the increase in real private as well as government consumption expenditure and a lower rate of depletion of industrial and commercial inventories. Apparently, the higher rate of monetary expansion during the second half of 1982 and most of the first half of 1983 and the decline in interest rates from the third quarter of last year to early 1983 were accompanied by a change in expectations and consumer sentiment, which eventually came to be reflected in higher consumption expenditure and smaller inventory disinvestment. It is uncertain, however, to what extent the improvement in these demand components will be sustained in the fourth quarter, particularly in view of new developments from the third quarter onwards. These include the lower rate of monetary expansion and accompanying higher interest rates from the third quarter, the contractionary effect of a decline in the general availability of funds on residential construction and related consumer expenditure on durable goods, the further decline in the gold price from the beginning of October, and the influence of lower share and fixed property prices on private wealth and on consumer sentiment. To this must be added that the artificial stimulation of consumption expenditure on motor vehicles by the introduction of new models, has largely fallen away.

The other main generating force of economic growth, namely an increase in the demand for South African exports, has remained fairly weak. In the first three quarters of 1983, a slight increase in exports of mineral products was neutralised by lower agricultural exports. Furthermore, the gold price remained more or less at the lower level to which it had declined in February this year and fell even further from the beginning of October. However, economic recovery is now in progress in the industrial countries and in time this should be reflected in a marked increase in South Africa's non-gold exports.

Despite the weak performance of total exports, the current account of the balance of payments remained in surplus in the first three quarters of 1983, largely because of a low level of imports. However, the surplus in the third quarter was somewhat smaller than in the preceding two quarters of the year. The overall balance of payments was also in surplus in the third quarter and

this was reflected in an increase in the net gold and other foreign reserves. In these circumstances, the rand appreciated slightly against a basket of currencies during the third quarter, but coinciding with the further fall in the gold price, it depreciated in terms of all major currencies during October and November. On balance, the effective exchange rate of the rand declined slightly during the first ten-and-a-half months of 1983, but it was still considerably above its lower turning point in the middle of 1982.

The rate of growth in the money supply which had accelerated during the second quarter, slowed down in the third quarter. A disintermediation of credit transactions, followed by the reverse process of re-intermediation, however, caused considerable fluctuations in the money supply, as measured at month-ends, in the course of the third quarter. The lower rate of monetary expansion was accompanied by a general increase in interest rates. From the beginning of October, when the gold price declined to a lower level, the increase in interest rates became more pronounced.

Coinciding with a decreased general availability of funds, activity in the different sections of the capital market, such as the fixed-interest security, share, mortgage and real estate markets, was at a notably lower level than earlier this year. The market for inter-company borrowing and lending apparently also tightened towards the end of the third quarter, causing credit transactions to revert back to the banking system.

A major reason for the lower rate of increase in the money supply during the third quarter was the success of the Government in financing its deficit before borrowing without recourse to net bank credit. During the second quarter the Government's use of net bank credit had contributed considerably to the higher rate of monetary expansion. Although the rate of increase in central government expenditure slowed down in the third quarter, it was well above the Budget target in the first half of the 1983/84 fiscal year. The rate of increase in central government revenue in the first half of the fiscal year was also higher than the Budget target, but the rate of increase in some of the main revenue components fell short of Budget expectations. It is expected that expenditure as well as the deficit before borrowing in the fiscal year as a whole will be well in excess of Budget estimates.

The rate of price increases slowed down considerably in the third quarter. At a seasonally adjusted annual rate, the increase in consumer prices slowed down from 15,5 per cent in the first quarter of 1983, to 12,7 per cent and 5,4 per cent in the second and third quarters, respectively. As a result, the rate of increase in consumer prices, measured over a twelve-month period, decelerated to 10,9 per cent in September and further to 10,7 per cent in October. It appears, therefore, that the official policy aim of reducing the high rate of inflation is now beginning to show positive results.



Domestic economic developments\*

Domestic output

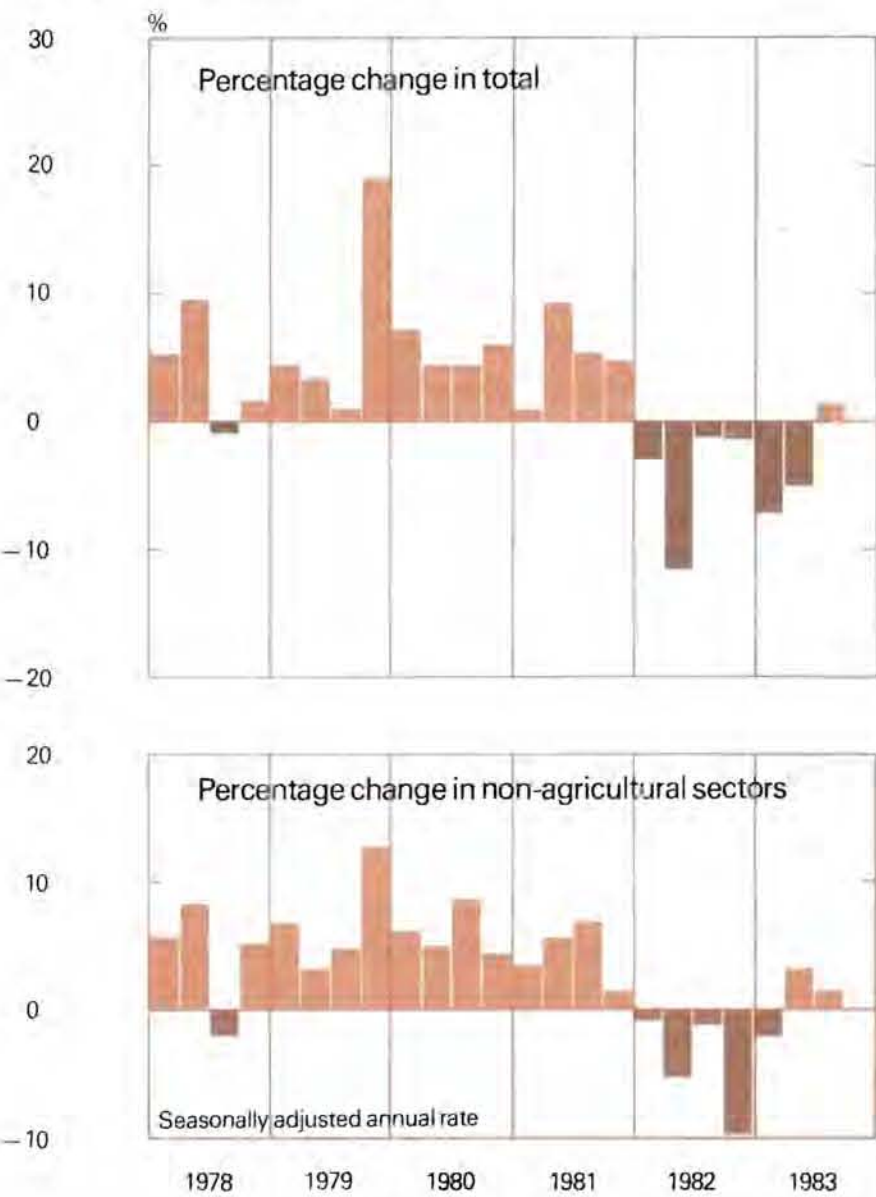
Despite a further decline in real agricultural output in the third quarter of 1983, real gross domestic product showed its first quarterly increase since the fourth quarter of 1981. It is evident, therefore, that the real output of the non-agricultural sectors of the economy increased further in the third quarter, after it had already begun to rise in the preceding quarter. In the first three quarters of 1983, real gross domestic product was about 4½ per cent lower than in the corresponding period of 1982, but with prospective output in the fourth quarter probably remaining at the somewhat higher level of the third quarter, it is expected that the decline in the year as a whole will be of the order of 3 per cent.

A sectoral breakdown of the real gross domestic product in the third quarter shows that agricultural output fell to its lowest quarterly level in 15 years. A decline, but

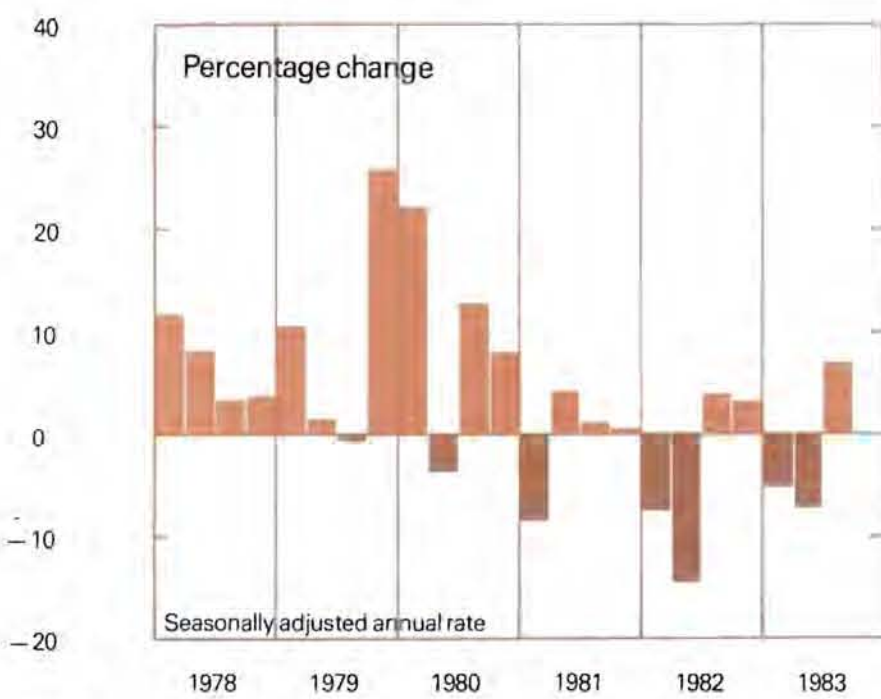
fairly small, was also recorded in the output of the sector electricity, gas and water because of the cut-down on electricity and water consumption prompted by the general scarcity of water in large areas of the country. On the other hand, the output of most other sectors of the economy increased, in particular the output of gold as well as non-gold mining, manufacturing, construction, commerce and the services sectors. Some of these increases were, however, of fairly moderate proportions and cannot be interpreted as a firm indication of a new upward trend.

Owing mainly to the decline in the price of gold, South Africa's terms of trade deteriorated further in the third quarter. Real net factor payments to the rest of the world, however, decreased considerably, largely because of a substantial reduction in interest and dividend payments to foreigners. As a result, the real gross national product rose considerably in the third quarter, after sharp declines had been recorded in the first half of the year. In the first three quarters of 1983, real gross national product was about 2 per cent lower than in the corresponding period of 1982.

Real gross domestic product



Real gross national product



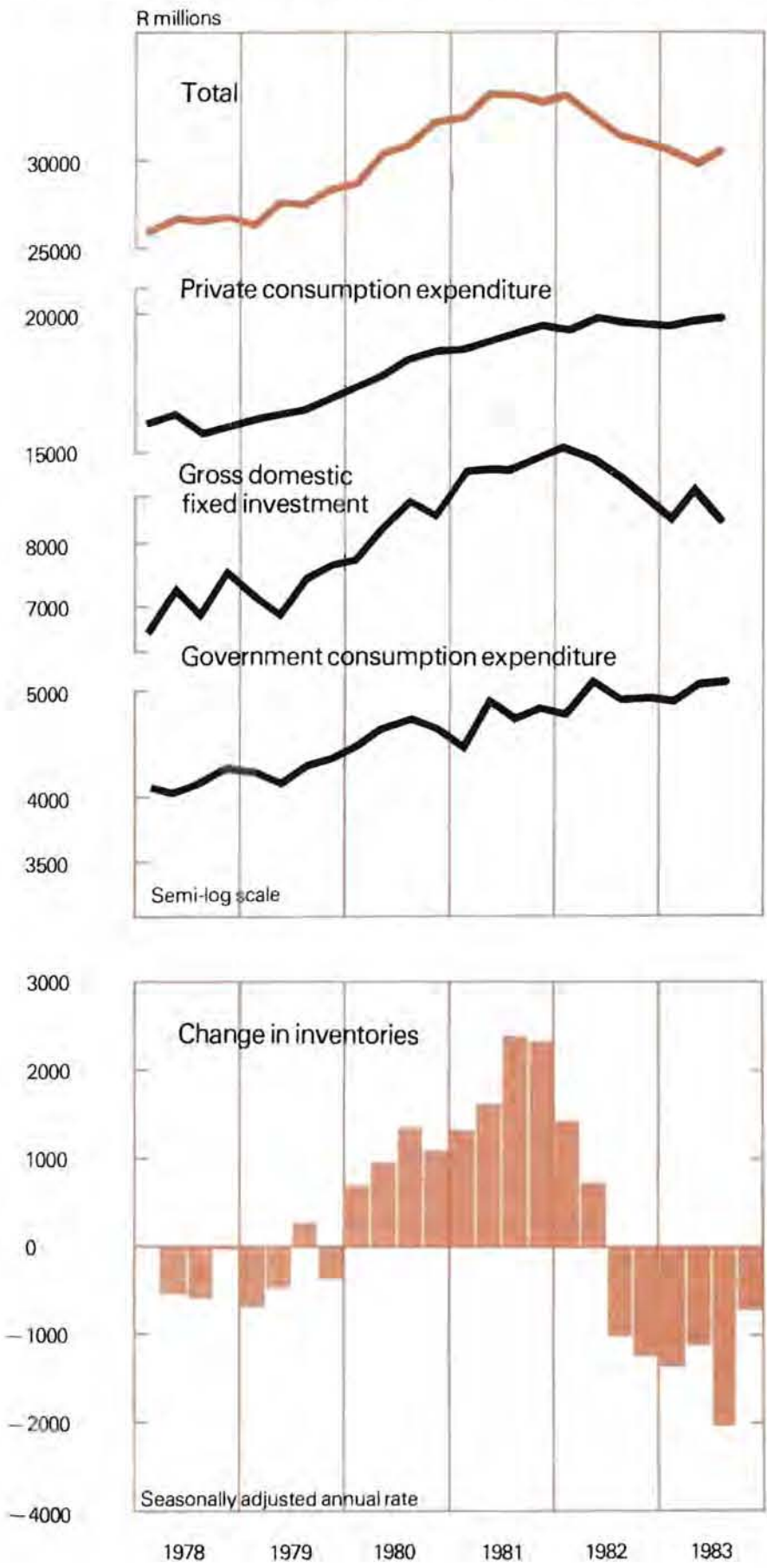
Domestic expenditure

After having declined for five consecutive quarters, real gross domestic expenditure increased appreciably in the third quarter. This was reflected in all major expenditure components, except the fixed capital outlays of the public sector. In the first three quarters of 1983, real gross domestic expenditure was about 7½ per cent lower than in the corresponding period of 1982. However, at the present somewhat higher expenditure levels, it is expected that the rate of decline in 1983 as a whole will be somewhat lower.

\* Quarterly changes are based on seasonally adjusted data.



Gross domestic expenditure at constant 1975 prices

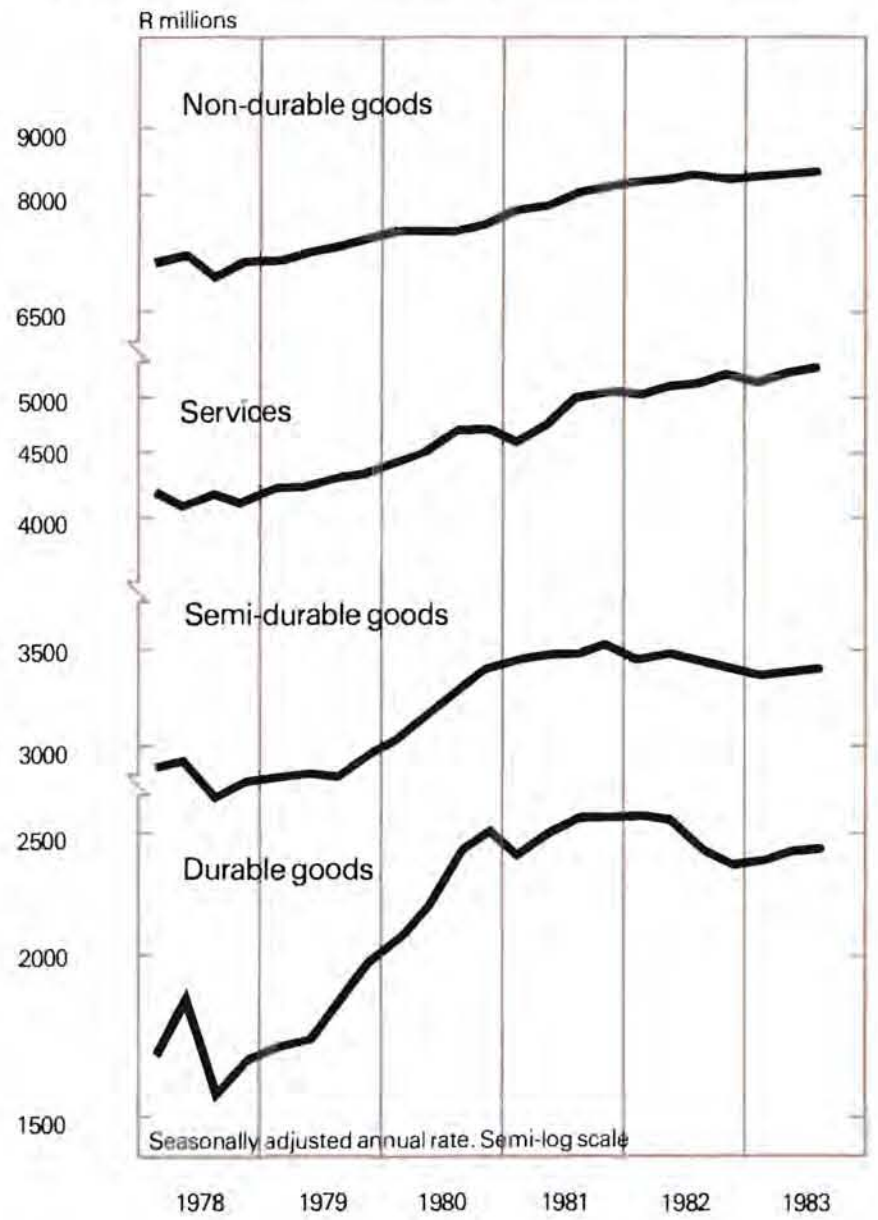


Referring to the main components of real gross domestic expenditure, real private consumption expenditure showed a notable further increase in the third quarter. All consumption expenditure components contributed to this change. Outlays on non-durable goods and on services increased at a somewhat higher rate than in the first half of the year. In the semi-durable goods category, expenditure on clothing and footwear showed signs of a recovery from the low level to which it had declined previously. Outlays on durable goods showed a fairly large

rise, owing mainly to increased expenditure on new motor vehicles, which reflected, among other things, the introduction of new models and a further expansion of the practice of providing motor cars as part of paypackages. Notwithstanding the increase in the second and third quarters, the average level of real private consumption expenditure was still slightly lower in the first three quarters of 1983 than in the corresponding period of 1982. However, if the present higher level of expenditure continues into the fourth quarter, a small increase could materialise in 1983 as a whole.

An interesting feature of the behaviour of real private consumption expenditure so far in the downswing has been that expenditure on durable goods has not declined to the same extent as during previous periods of economic contraction. This relative stability of durable consumption expenditure has apparently been due to the high level of residential construction and an accompanying demand for furniture and household appliances as well as to the aggressive marketing of motor vehicles. The implication is that the customary replacement demand may be of somewhat smaller dimensions during the next upward phase of the business cycle.

Private consumption expenditure at constant 1975 prices





In the third quarter real government consumption expenditure remained at the high level to which it had risen in the preceding quarter. In the first three quarters of 1983 real government consumption outlays were about 1/2 per cent higher than in the corresponding period of 1982. Real salaries and wages rose by 4 1/2 per cent in this period, whereas outlays on goods and other services decreased by 4 per cent. It is anticipated, however, that in 1983 as a whole real government consumption expenditure will increase at a significantly higher rate because of an expected large increase in Central Government expenditure in the fourth quarter.

The decline in real gross domestic fixed investment in the third quarter was confined to the public sector. Real fixed investment by public authorities, which had rebounded sharply in the second quarter on account of purchases of new aircraft by the South African Transport Services, in the third quarter reverted back to a level only slightly higher than in the first quarter. Fixed capital expenditure by public corporations maintained its downward trend, while that of the private sector increased only slightly. In the first three quarters of 1983 total real gross domestic fixed investment was about 9 per cent lower than in the comparable period of 1982. The corresponding decreases for public authorities, public corporations and the private sector amounted to 12 1/2, 10 1/2 and 7 per cent, respectively. Owing to the moderation of the decline in overall real fixed investment, the rate of decline in 1983 as a whole is expected to be slightly lower than in the first three quarters of the year.

Mainly owing to the completion of Sasol's second and third oil-from-coal plants, real fixed capital expenditure by public corporations decreased notably in the second half of 1982 and the first three quarters of 1983. Fixed capital outlays by Eskom, however, remained at a high level. The declining trend in the private sector's real fixed investment did not continue in the third quarter. Small increases in the outlays of manufacturing and on building construction more than offset declines registered by mining and commerce. The rate of capacity utilisation in total manufacturing increased slightly to 85 per cent in the third quarter of 1983.

Although in real terms inventories were liquidated further in the third quarter, the decline was the smallest since the process of destocking had started in the second quarter of 1982. Reflecting the lower rate of depletion, real industrial and commercial inventories declined at a seasonally adjusted annual rate of only R298 million in the third quarter, compared with as much as R1 568 million in the fourth quarter of 1982. Despite imports of maize, agricultural stocks-in-trade decreased further in the third quarter.

### Factor income and saving

In terms of successive quarterly changes, the rate of increase in nominal salaries and wages accelerated from

11 per cent in the first quarter to 12 1/2 and 14 per cent in the second and third quarters, respectively. Nevertheless, the rate of increase in the first three quarters of 1983, compared with the corresponding period of 1982, amounted to only 12 per cent, i.e. well below the rate of increase in each of the preceding four years. Reflecting mainly lower agricultural income and the influence of the recession on company profits, total gross operating surplus decreased somewhat in the first half of 1983. In the third quarter it rose moderately, mainly as a result of larger profits of industrial and commercial enterprises.

Gross domestic saving improved further in the third quarter. As a ratio of gross domestic product, it amounted to 26 per cent, as against the most recent low of 18 1/2 per cent in the second quarter of 1982. The increase in total saving during the first three quarters of 1983 was almost entirely attributable to net corporate saving and provision for the consumption of fixed capital. Owing to the narrowing gap between current income and current expenditure, the net saving of general government in the first three quarters of 1983 was no less than R1 billion lower than in the comparable period of 1982. Net personal saving remained subdued and showed little change in the first three quarters of 1983. As a ratio of personal disposable income, it remained at a historically low level of 3 1/2 per cent.

### Employment\*

The levelling out of the decline in real economic activity was also evident in employment. Total non-agricultural employment, which had declined during the second half of 1982 and the first quarter of 1983, actually showed a slight increase in the second quarter. Employment in the private sector did not decline further in the second quarter, while employment by public authorities maintained its upward course. In the private sector, employment receded further in manufacturing, construction and non-gold mining, but increases were recorded in the number of workers employed by financial institutions, gold mining and the private transport sector. In manufacturing, for which more detailed statistics are available, the existing labour force was used more fully, as was reflected in an increase in the number of overtime hours worked in relation to ordinary hours.

In the first six months of 1983 total non-agricultural employment was 1.9 per cent lower than in the corresponding period of 1982. This was mirrored in an increase in unemployment. Seasonally adjusted, the number of registered unemployed Whites, Coloureds and Asians rose from 32 790 in December 1982 to 40 012 in June 1983. Likewise, Black unemployment, as a ratio of the economically active Black population, increased from about 8.2 per cent to 8.4 per cent during

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\*Employment and labour statistics refer to the non-agricultural sectors of the economy. Data are available only up to the second quarter of 1983.



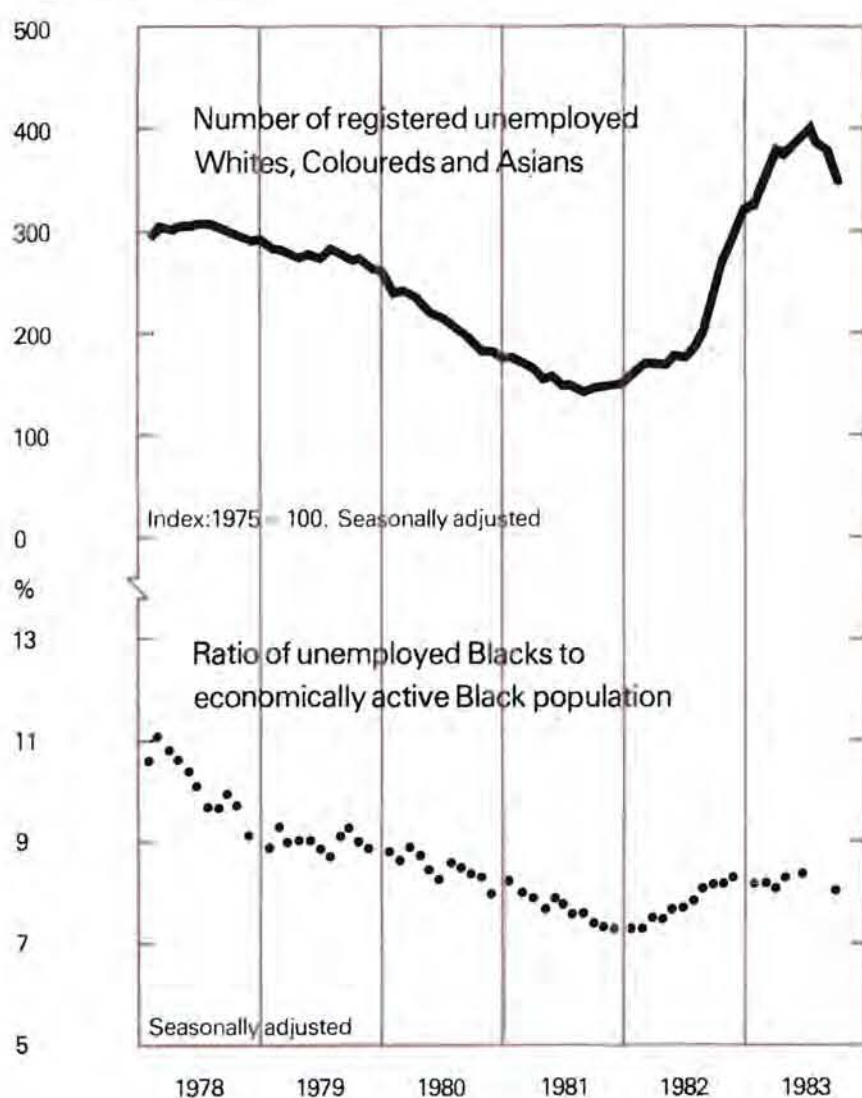
## Percentage change in employment in the non-agricultural sectors

Seasonally adjusted annual rates

	4th qtr. 1981 to 1st qtr. 1982	1st qtr. 1982 to 2nd qtr. 1982	2nd qtr. 1982 to 3rd qtr. 1982	3rd qtr. 1982 to 4th qtr. 1982	4th qtr. 1982 to 1st qtr. 1983	1st qtr. 1983 to 2nd qtr. 1983
Private sector	-0,6	-1,5	-3,8	-5,2	-4,1	0,0
Public authorities	2,4	5,3	3,0	0,2	1,7	2,6
Total	0,2	0,3	-2,0	-3,7	-2,5	0,9

these six months. However, coinciding with the levelling out of the decline in employment, registered unemployment among Whites, Coloureds and Asians declined subsequently to a seasonally adjusted figure of 34 644 in September, while the unemployment ratio for Blacks decreased to 8,1 per cent in September.

## Unemployment



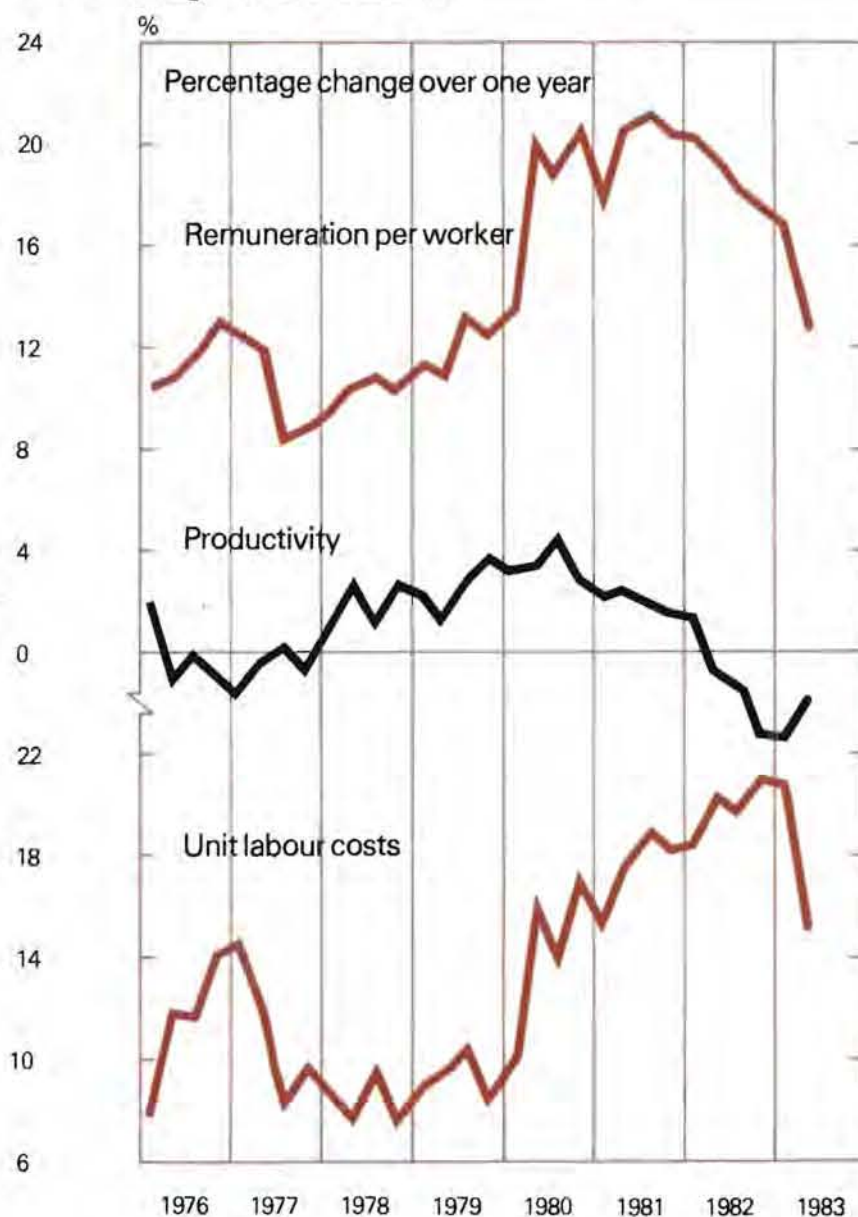
## Labour remuneration and productivity

In nominal terms, average salaries and wages per worker rose by 14,8 per cent in the first half of 1983, compared with the corresponding period of 1982. In the calendar year 1982 the increase amounted to 18,6 per cent.

A slow-down occurred also in the rate of increase in real average remuneration per worker, namely from 3,5 per cent in 1982 to 1,2 per cent in the first half of 1983.

Reflecting the lower rate of increase in labour remuneration, the increase in unit labour cost decelerated from 19,9 per cent in 1982 to 17,9 per cent in the first half of 1983 (compared with the first half of 1982). The more moderate deceleration of the increase in unit labour cost than in labour remuneration was due to a decline of 2,7 per cent in labour productivity (as measured by real gross

## Productivity, remuneration and labour costs in the non-agricultural sectors





domestic product per worker) from the first half of 1982 to the first half of 1983. This productivity decline followed upon a decline of 0,8 per cent in 1982.

### Inflation

The rate of inflation, and presumably also inflationary expectations, moderated significantly during the third quarter of 1983. This must be attributed in large measure to the reduced rate of increase of monetary demand during the preceding year or more, which, in turn, represented the net result of natural recessionary forces and monetary and fiscal adjustment policies. The slowing down of demand helped to curb inflation in a number of ways. First and foremost, it contributed to an appreciation of the rand in terms of other currencies from about the middle of 1982. This served to reduce the rate of increase in import prices expressed in rand and, among other things, made it possible for the rand price of petrol to be reduced and other administered price increases to be restrained. By reducing the pressure on labour resources, the slowing down of demand also contributed to the smaller increases in labour remuneration and unit labour cost.

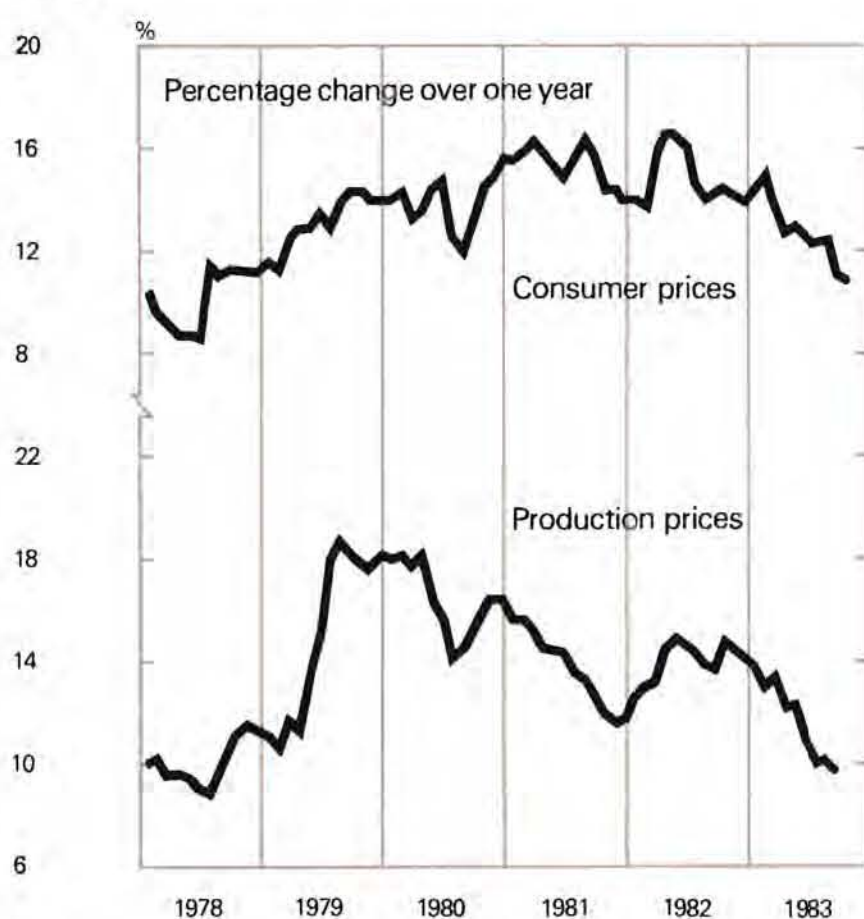
Illustrating the moderation of the inflation rate, the seasonally adjusted annual rate of increase in consumer prices slowed down from 15,5 per cent in the first quarter of 1983 to 12,7 per cent and 5,4 per cent in the second and third quarters, respectively. Considering changes in consumer prices from one month to another,

the average seasonally adjusted monthly increase of 0,6 per cent during the seven months to October 1983 was considerably lower than the corresponding monthly average increase of 1,2 per cent during the preceding six months. Further evidence of the recent slow-down in price increases is provided by the deceleration of the increase in production prices from a seasonally adjusted annual rate of 12,2 per cent in the first quarter of 1983 to 9,7 per cent in the second quarter and only 2,9 per cent in the third quarter.

The significantly lower rate of price increases during the third quarter served to reduce also the level of the inflation rate. Taking the rise in consumer prices as a representative indicator of inflation, the rate of increase over a twelve-month period in consumer prices decelerated from 12,4 per cent in June 1983 to 10,9 per cent in September and to 10,7 per cent in October. Measured similarly, the increase in production prices slowed down from 10,7 per cent in June to 9,6 per cent in September.

The lower rate of increase in consumer prices from the second to the third quarter was evident in the prices of most consumer goods and services. Notable exceptions, however, were the higher rates of increase in the prices of new motor vehicles, motor spare parts and water as well as in house and flat rent, wages of domestic assistants and the cost of transport services.

### Prices



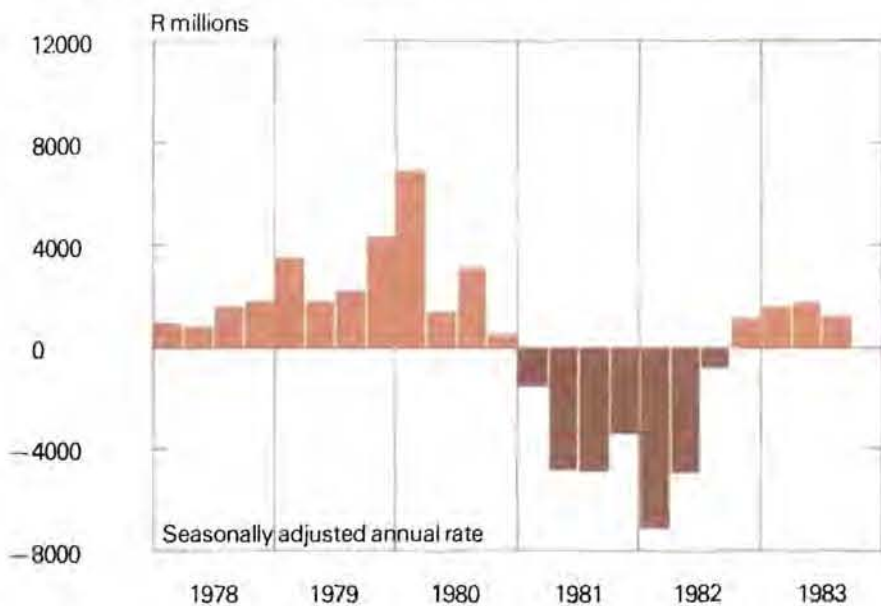


### Balance of payments

#### Current account

A further, but somewhat smaller, surplus was recorded on the current account of the balance of payments in the third quarter of 1983. At a seasonally adjusted annual rate, the surplus diminished from R1 670 million and R1 790 million in the first and second quarters of 1983, respectively, to R1 320 million in the third quarter. The smaller surplus resulted from an increase in merchandise imports and a simultaneous small decline in merchandise exports. Part of the effect of these changes was offset by a slight increase in the value of the net gold output and a sharp decline in net service and transfer payments to the rest of the world.

#### Balance on current account



The increase in imports in the third quarter was entirely due to a higher volume of imported goods. Import prices actually declined because of the low rates of inflation of South Africa's main trading partners, a small increase in the effective exchange rate of the rand and a fall in the prices of imported mineral products. Import volumes were higher despite a substantial decline in imports of mineral products and in transport equipment, the latter reflecting the effect of the delivery of aircraft in the preceding quarter. Although the drought resulted in larger agricultural imports, the volume increase was also evident in virtually all the remaining categories of imports.

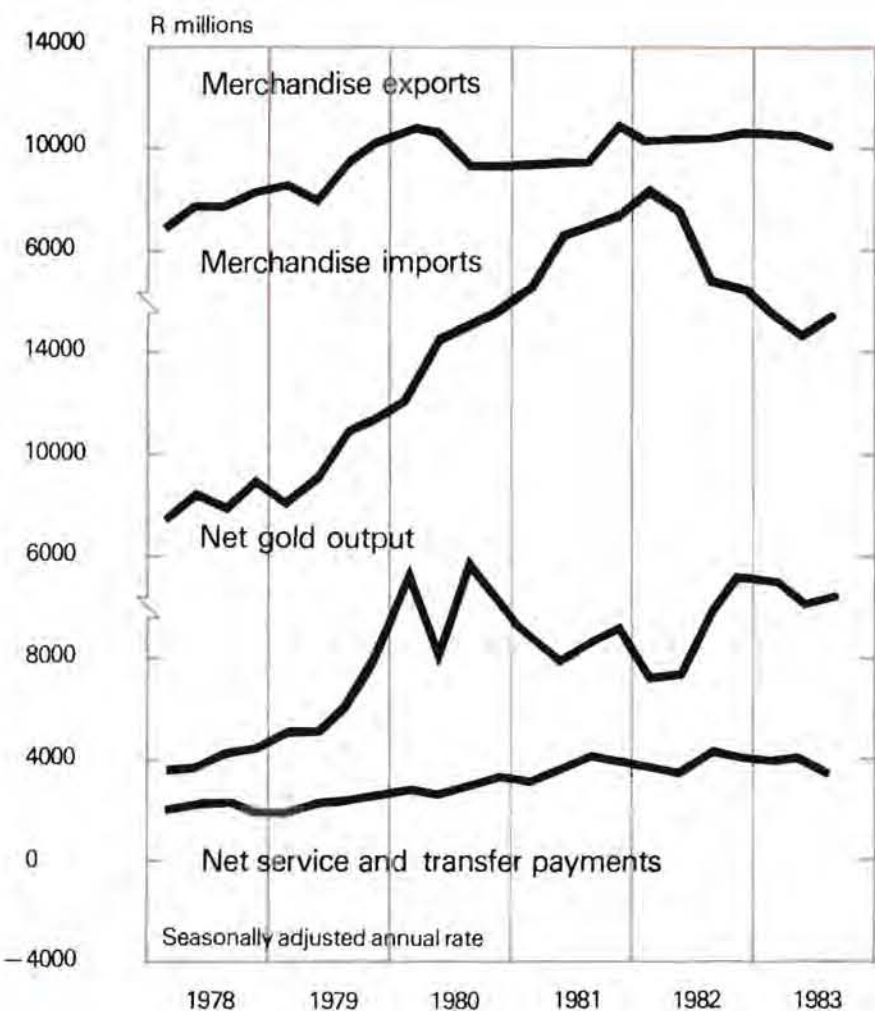
The effect of the drought was more pronounced in the case of exports. A substantial decline in agricultural exports was mainly responsible for the static value of exports in the second quarter and the actual decrease in the third quarter. Exports of mineral products also declined in the latter quarter, mainly owing to a lower world

### Breakdown of merchandise imports and exports

Seasonally adjusted annual rates  
R millions

	1983		
	1st qtr.	2nd qtr.	3rd qtr.
<b>Merchandise imports</b>			
Agricultural products	290	390	710
Mineral products	3 450	2 750	2 140
Transport equipment	1 580	2 470	1 920
Other goods	10 070	8 700	10 330
<b>Total</b>	<b>15 390</b>	<b>14 310</b>	<b>15 100</b>
<b>Merchandise exports</b>			
Agricultural products	1 250	890	600
Mineral products	2 310	2 710	2 540
Other goods	6 560	6 500	6 580
<b>Total</b>	<b>10 120</b>	<b>10 100</b>	<b>9 720</b>

#### Main current account items



demand for coal. An increase in prices caused other exports to show a small increase in the third quarter. Reflecting a general increase in world commodity prices from the end of last year, export prices were on average about 9 per cent higher in the third quarter of 1983 than in the fourth quarter of 1982.

The value of the net gold output, at a seasonally adjusted annual rate, increased slightly from R9 880 million in the



second quarter of 1983 to R10 020 million in the third quarter as a result of an increase in volume. On the London market the price of gold per fine ounce declined from an average of US \$428 in the second quarter to US \$417 in the third quarter. Taking into account the depreciation of the rand in terms of the US dollar during the third quarter, the rand price of gold declined much less from an average of R465 in the second quarter to R462 in the third quarter. In early October the price of gold fell below US \$400 per fine ounce, averaging \$394 in this month and \$380 in the first three weeks of November.

A decline in dividend payments was mainly responsible for the lower net service and transfer payments to foreigners in the third quarter. The decline in dividend payments was in response to the lower gold price, the depressed domestic economic conditions and net sales by foreigners of share investments in South Africa from February this year. In addition, lower interest payments and freight and merchandise insurance payments to foreigners were recorded in the third quarter.

### Capital account

The large net capital outflow during the first half of 1983, mainly in the form of a net outward movement of short-term funds, was followed by a small net inflow in the third quarter. More specifically, there was a sharp reversal of the net outflow of short-term capital not related to reserves in the third quarter. To a large extent the renewed net inflow of short-term capital during the third quarter was in response to the increase in interest rates and a change in exchange rate expectations, which encouraged trade financing to revert to the uncovered use of foreign credits at lower interest rates.

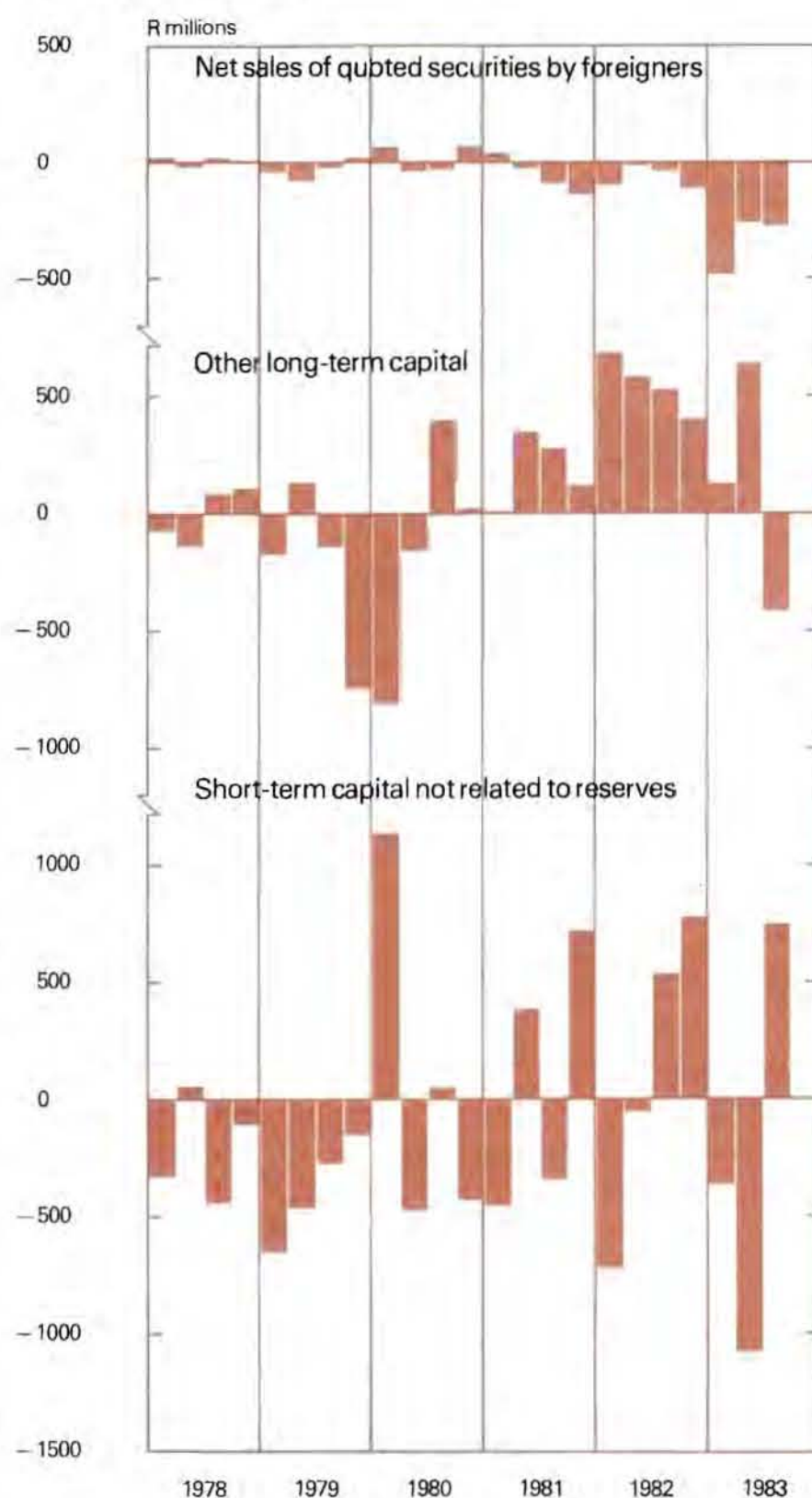
Most of the net inflow of short-term capital in the third quarter was, however, offset by a net outflow of long-term capital. Public corporations continued to borrow on

### Net capital movements

R millions

	1983		
	1st qtr.	2nd qtr.	3rd qtr.
Long-term capital			
Central government and banking sector .....	-130	478	57
Public corporations and local authorities .....	181	25	142
Net sales by foreigners of securities quoted on the Johannesburg Stock Exchange .....	-477	-258	-284
Other private sector .....	74	134	-612
Total .....	-352	379	-697
Short-term capital not related to reserves, but including unrecorded transactions .....	-363	-1 070	754
<b>Net capital inflow .....</b>	<b>-715</b>	<b>-691</b>	<b>57</b>

### Net capital movements



a net basis from foreigners, but, following the abolition of exchange control over non-residents in February this year, there was a substantial net outflow of long-term funds from the private sector, amounting to R896 million. Part of this, namely R284 million, represented further net sales by foreigners of securities quoted on the Johannesburg Stock Exchange, which brought the total for the first three quarters of 1983 to R1 019 million. Apart from selling portfolio investments in South Africa, foreigners also sold some of their direct investments to South African residents. Although most of these transactions had been concluded earlier, a major part of the payment was effected only in the third quarter.



Changes in foreign reserves

Taken together, the transactions on the current and capital accounts of the balance of payments gave rise to an increase of R205 million in net foreign reserves during the third quarter. Previously, these reserves had increased by R164 million during the first quarter of 1983, but had declined by R331 million during the second quarter.

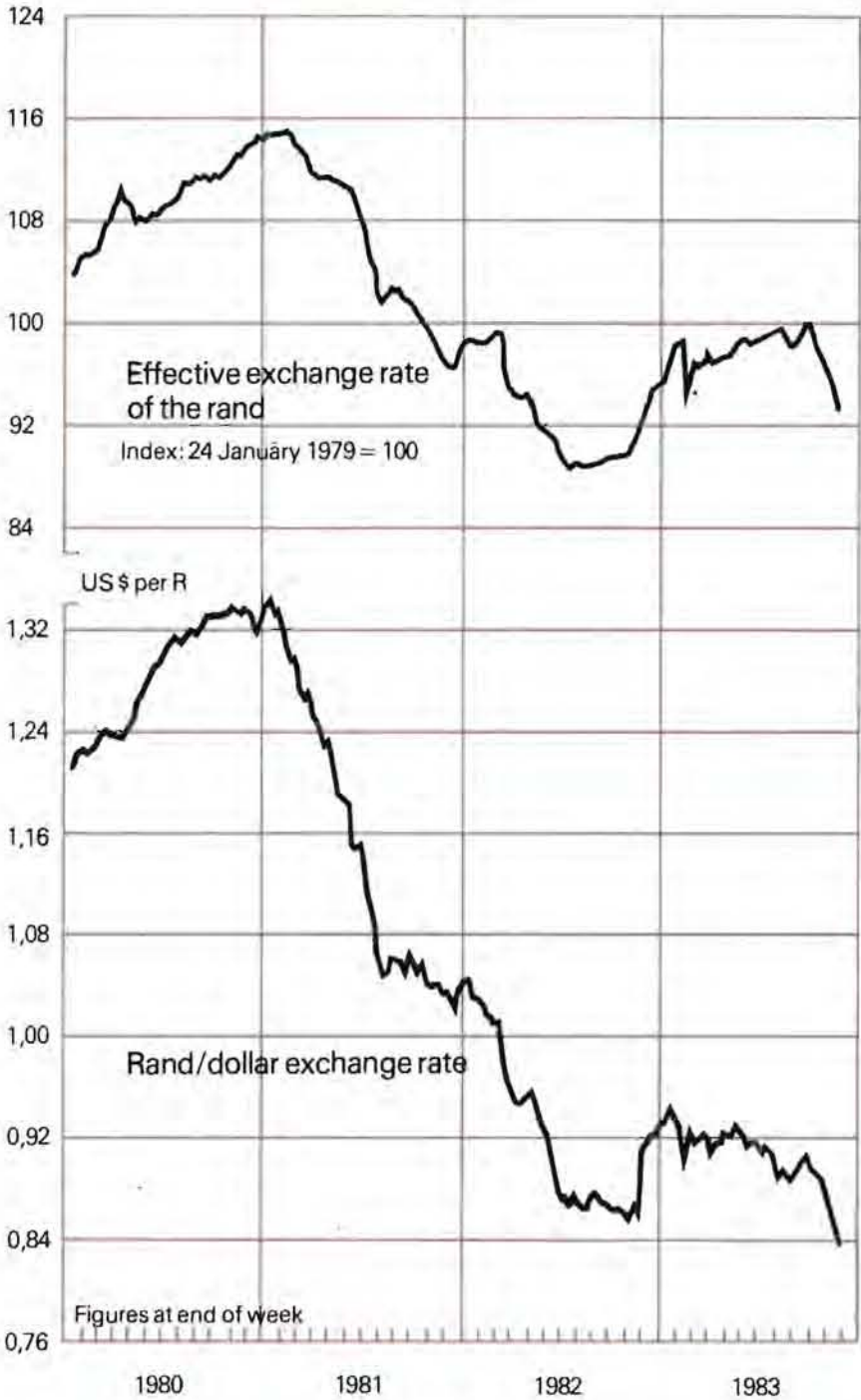
Liabilities related to reserves increased by R452 million during the third quarter, mainly because of short-term foreign borrowing by the Reserve Bank in August to strengthen the foreign reserves before the introduction of the new foreign exchange market arrangements in early September. Gross foreign reserves rose by R293 million during the third quarter to a level of R4 573 million at the end of September.

Exchange rates

The new arrangements introduced in the foreign exchange market in early September, which meant, among other things, that the Reserve Bank would no longer quote a spot exchange rate, had little immediate effect on the exchange rate of the rand. The new market-determined exchange rate remained in line with the previously existing rate which had been influenced more directly by the Bank. On balance, the rand appreciated by 1 per cent in terms of all other currencies during the third quarter, which brought the total appreciation during the first nine months of 1983 to 31½ per cent. The rand appreciated in terms of most major currencies during the third quarter, with the exception of the US dollar and the Japanese yen.

The sharp decline in the gold price from the beginning of October caused the effective exchange rate of the rand to decline by nearly 4½ per cent during this month, or to about 1 per cent below its level at the end of 1982. This depreciation was evident in terms of all major currencies. During the first few days of November, the gold price dropped below US \$380 per fine ounce, momentarily causing considerable uncertainty in the foreign exchange market. This was temporarily reflected in a widening of the margins between buying and selling prices for dollars quoted by the foreign exchange dealers and also in volatile rand-dollar exchange rates. However, normal market forces proved quite capable of handling the situ-

Exchange rates



ation and, without significant Reserve Bank intervention, orderly conditions were promptly restored and the exchange rate subsequently remained very steady around a level of 85 US cents per rand. During the first three weeks of November the rand depreciated by 4,3 per cent in terms of the US dollar and by 3,0 per cent in terms of all currencies.

Percentage changes in exchange rates of the rand

	31 Dec 1982 to 30 June 1983	30 June 1983 to 30 Sept 1983	30 Sept 1983 to 31 Oct 1983	31 Dec 1982 to 31 Oct 1983
Effective exchange rate	2,6	1,0	-4,4	-0,9
U.S. dollar	-1,9	-0,7	-4,6	-7,0
British pound	4,3	1,4	-4,5	1,0
German mark	5,1	2,8	-4,9	2,8
Swiss franc	3,6	0,3	-4,1	-0,4
Japanese yen	0,1	-2,2	-5,6	-7,6
French franc	11,5	4,0	-4,6	10,7



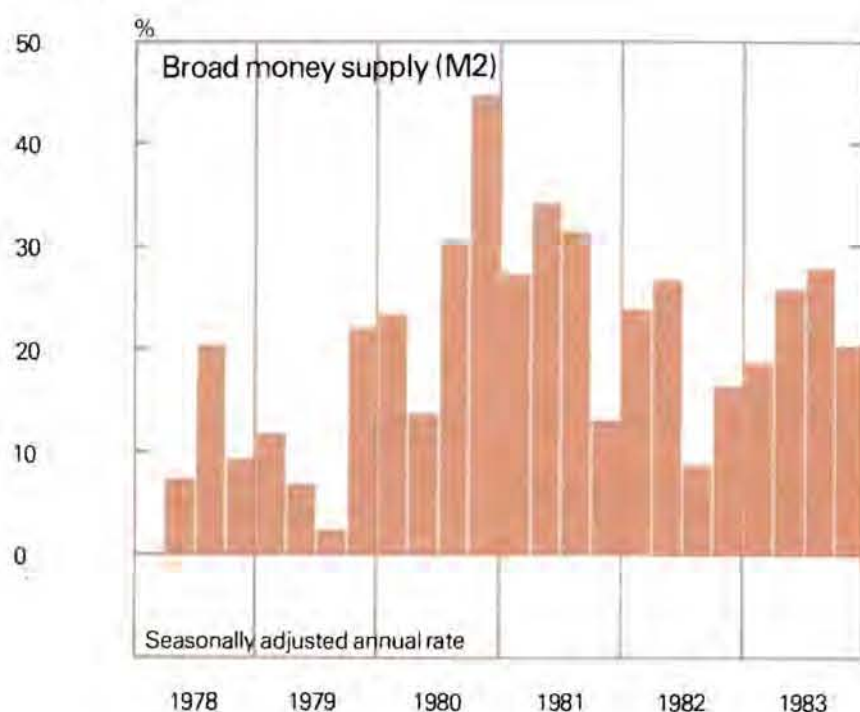
## Money and credit

### Money supply changes

The rate of growth of the broadly defined money supply ( $M_2$ ) declined considerably from June to August, but accelerated again in September. Measured over a twelve-month period, the rate of increase in  $M_2$  slowed down from 24 per cent in May to 19 per cent in August, before rising to 23 per cent in September. However, in terms of quarterly changes, the rate of increase in  $M_2$ , at a seasonally adjusted annual rate, declined from 28 per cent in the second quarter to 20 per cent in the third quarter. Measured money supply figures for the third quarter once again illustrated the instability of these figures as at month-ends. This was partly attributable to the disintermediation of credit transactions during July and August, which helped to reduce the seasonally adjusted annual rate of increase of  $M_2$  during these two months to only 1 per cent, followed by large-scale re-intermediation during September, which helped to raise the  $M_2$  annual growth rate during the quarter as a whole to 20 per cent. The latter re-intermediation was due, among other things, to tight conditions in the market for inter-company borrowing and lending.

The slow-down of the rate of monetary expansion from the second to the third quarter of 1983 was clearly reflected in changes in most short and long-term interest rates. From the middle of June to about the end of August these rates increased sharply. In September, however, most short-term interest rates tended to ease somewhat.

### Changes in $M_2$



### Changes in $M_2$

Seasonally adjusted  
R millions

	1983		
	1st qtr.	2nd qtr.	3rd qtr.
Changes in $M_2$ .....	1 387	1 578	1 250
Contributions to changes in $M_2$ :			
Net bank credit to government sector .....	-11	468	-1 155
Bank credit to the private sector .....	973	1 211	2 144
Total domestic bank credit ....	962	1 679	989
Net gold and other foreign reserves .....	857	-284	-529
Long-term deposits (increase - decrease +) .....	-189	17	330
Other items (net) .....	-243	166	460
Total changes in $M_2$ .....	1 387	1 578	1 250

\*Excluding compensation of R892 million paid by the Government to the Reserve Bank in July in respect of losses on forward exchange contracts.

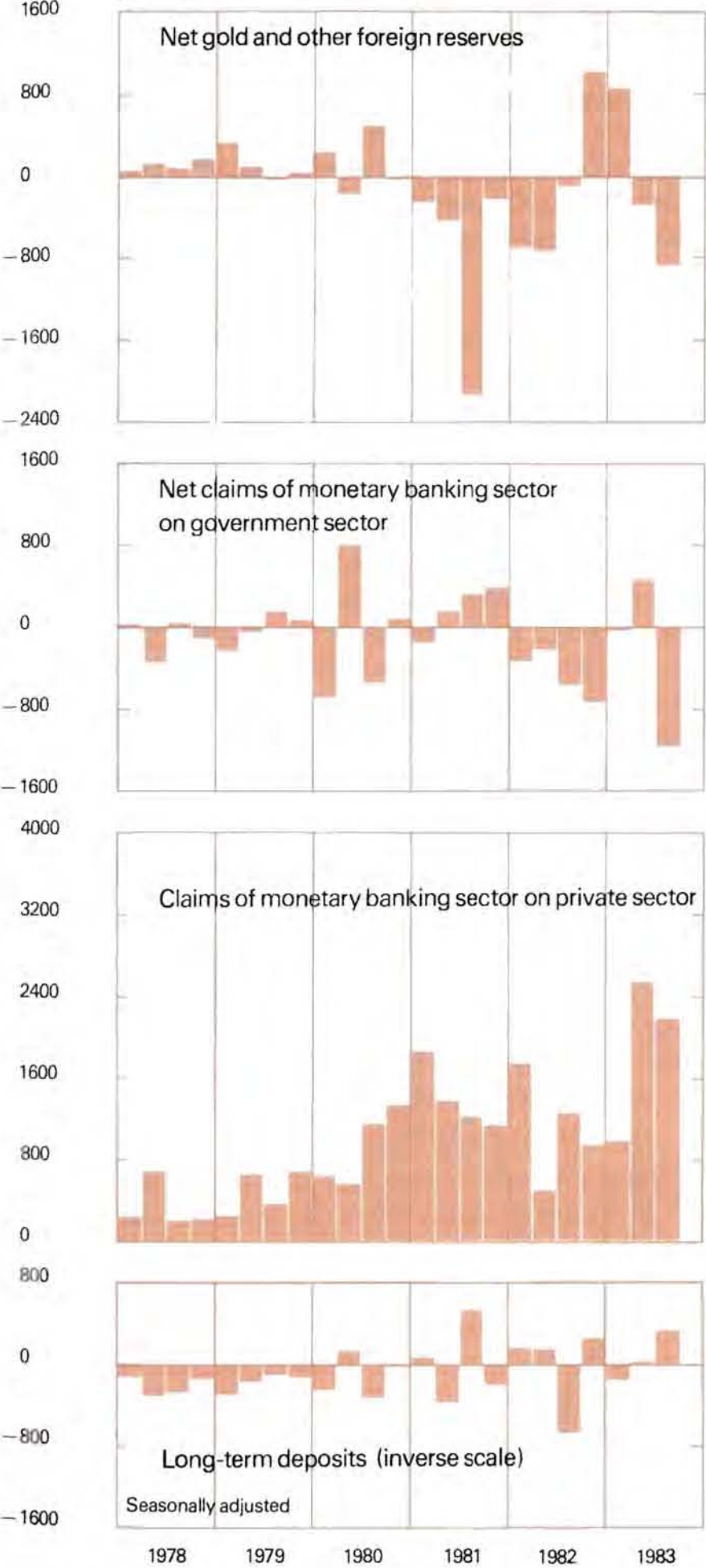
### Contributions to money supply changes

As shown in the accompanying table, the dominant "contribution" to the expansion of the money supply during the third quarter was a further sharp increase in bank credit to the private sector. This was supplemented by a substantial decline in the long-term deposits of the private sector, which was probably related to expectations that interest rates might increase further and to the fairly tight inter-company market. These positive contributions to the money supply growth were countered to some extent by declines in the net gold and other foreign reserves and net bank credit to the government sector. Although the overall balance of payments situation improved during the third quarter, as was pointed out in the discussion of the balance of payments, this improvement fell short of the normal seasonal pattern. The seasonally adjusted net gold and other foreign reserves, therefore, declined substantially. The decline in net bank credit to the government sector reflected the conscious effort on the part of the Central Government to finance its deficit before borrowing without recourse to bank credit, as discussed in the government finance section of this review. Previously, during the second quarter the Government's use of net bank credit had exerted a major expansionary influence on the money supply.



Causes of changes in M2

Changes in:  
R millions

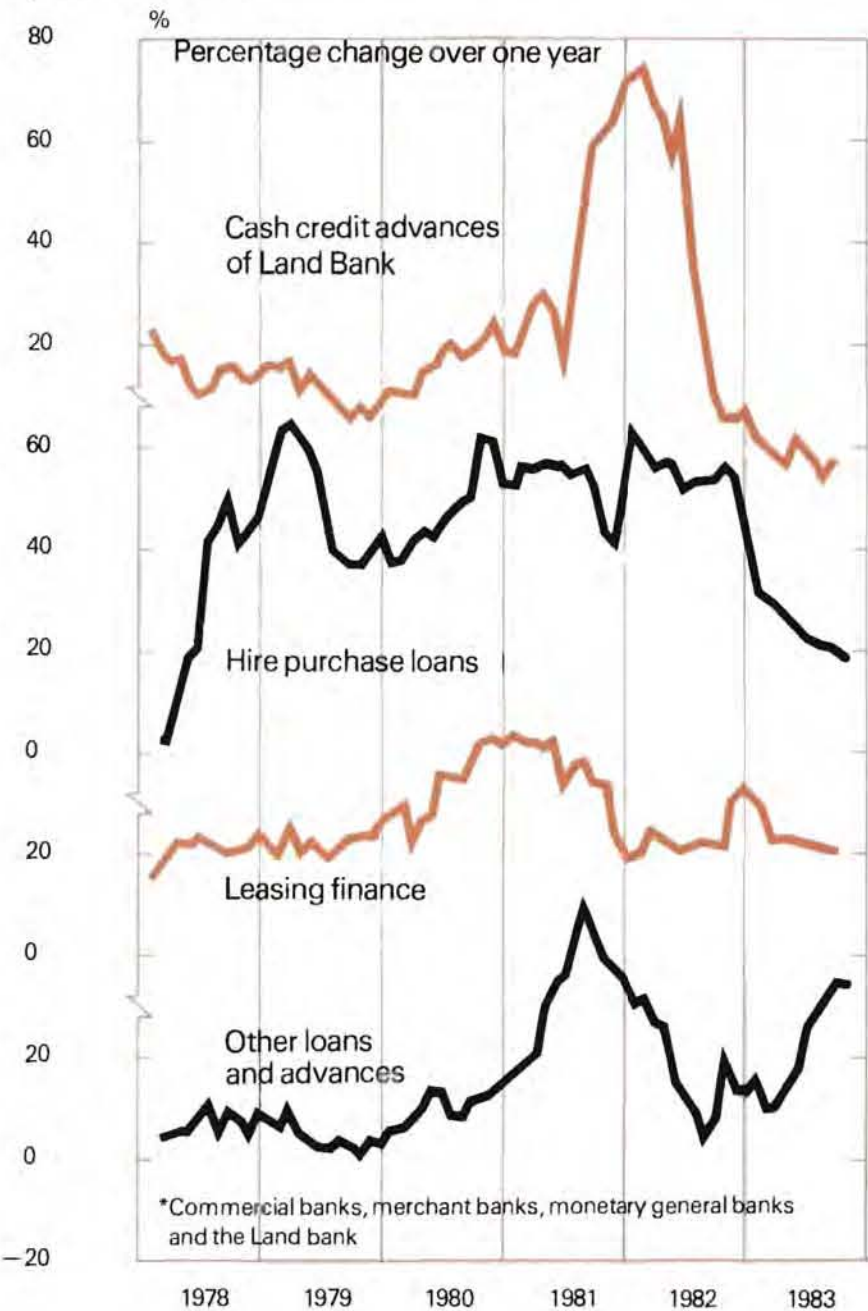


Bank credit to the private sector

Measured over a twelve-month period, the increase in bank credit to the non-bank private sector accelerated from 16 per cent in March to 18 per cent in June and 21 per cent in September. Quarterly changes, in terms of seasonally adjusted annual rates of increase, showed a roughly similar pattern, accelerating from 16 per cent in the first quarter to 34 per cent in the third quarter.

As shown by the breakdown of changes in bank credit to the private sector in the accompanying table, the sharp rise in bank credit to the private sector during the third quarter was due to an increase in the loans and advances of commercial, merchant, and monetary general banks. This included considerable increases in hire-purchase credit, leasing finance and "other" loans and advances. The increase in hire-purchase credit was related to the notably higher level of retail sales (including motor vehicle sales) in the third quarter. The more rapid expansion of "other" loans and advances reflected the re-intermediation of credit transactions during Sep-

Loans and advances of banking sector \* to private sector





tember, owing to the narrowing of the margin between the cost of acceptance financing and overdraft rates and to tighter conditions in the inter-company credit market. An indication of this re-intermediation is provided by the decline during the third quarter of R330 million in outstanding repurchase agreements entered into by monetary banking institutions in respect of securities representing claims on the private sector.

The table also shows that the Reserve Bank's credit to the private sector increased considerably during the third quarter because of purchases of private sector paper from banking institutions as part of the Bank's policy to iron out short-term fluctuations in money market conditions and interest rates. A correspondingly large decline therefore occurred in the commercial, merchant and monetary general banks' bills discounted and their investment in private sector securities.

#### Changes in bank credit to the private sector

Not seasonally adjusted  
R millions

	1983		
	1st qtr.	2nd qtr.	3rd qtr.
Reserve Bank	69	135	833
NFC and discount houses	311	-490	242
Land Bank	-330	142	-81
Other monetary banks:			
Deposits and investments	-298	677	-528
Bills discounted	166	-234	-386
Hire-purchase credit	187	168	334
Leasing finance	75	115	213
Other loans and advances	1 198	797	1 363
Total	1 378	1 310	1 990

## Financial markets

### Reserve Bank operations in the financial markets

The Reserve Bank's operations in the financial markets during the third quarter and October consisted mainly of substantial sales of government stock in the secondary market and accommodation of the money market in order to moderate or smooth seasonal and other short-term fluctuations in money market conditions and interest rates.

Reserve Bank accommodation in the broad sense and other operations in the money market took several forms:

1. From June onwards securities were bought under repurchase agreements from discount houses and banks. Agreements outstanding amounted respectively to R409 million, R459 million, R1 200 million and R1 201 over the July, August, September and October month-ends. Subsequently, however, the outstanding amount declined to R500 million on 21 November.
2. Liquid bankers' acceptances with maturities not exceeding three months were purchased outright from the discount houses. This new method of accommodation caused the Bank's holdings of these securities to rise from R57 million at the end of August to R142 million at the end of October, but by 21 November they had decreased to R55 million.
3. Call deposits of R147 million were placed by the National Finance Corporation with discount houses over the October month-end. On 21 November these deposits amounted to R150 million.
4. Short-term government stock maturing on 1 December 1983 was purchased to an amount of R170 million.
5. The amount of Treasury bills offered at the weekly tender was reduced from early September, but was increased again in November.
6. The liquid asset requirements for banking institutions were lowered on 18 July and again on 20 September in order to free liquid assets which could be used by the banks to meet pressures on their cash resources. Liquid assets freed in this way amounted to approximately R1 000 million and R1 500 million in July and September, respectively.
7. The "ultimate cash shortage" in the market was accommodated through the rediscounting of securities held by discount houses and through overnight loans to discount houses and banks. The amounts involved in this form of accommodation were respectively R570 million, R1 187 million, R850 million and R753 million over the month-ends of July, August, September and October, and R484 million on 21 November.

Net sales of government stock by the Reserve Bank in the secondary market amounted to R968 million during



the third quarter and R72 million during October. No further sales were made during the first 20 days of November, but on 21 November the Reserve Bank sold government stock on a tender basis in the market. Tenders to the amount of R100 million for long-term stock were accepted, while tenders of R32 million for short-term stock were allotted. Most of this stock was obtained on tap from the Treasury. These sales formed part of the Reserve Bank's policy of controlling the money supply and assisting the Government in its borrowing programme so as to avoid resort to bank credit. The simultaneous marketing of government stock and accommodation of the money market implied no inconsistency of policy. The reconciliation of the need to control the money supply with that of moderating short-term money market fluctuations, forms a normal part of central banking.

Changes in short-term interest rates

Short-term interest rates began to increase in early June at a time when the rate of monetary expansion slowed down and conditions in the money market tightened. An increase in the cost of accommodation in the form of rediscounting and overnight loans also contributed to this increase. During September short-term rates

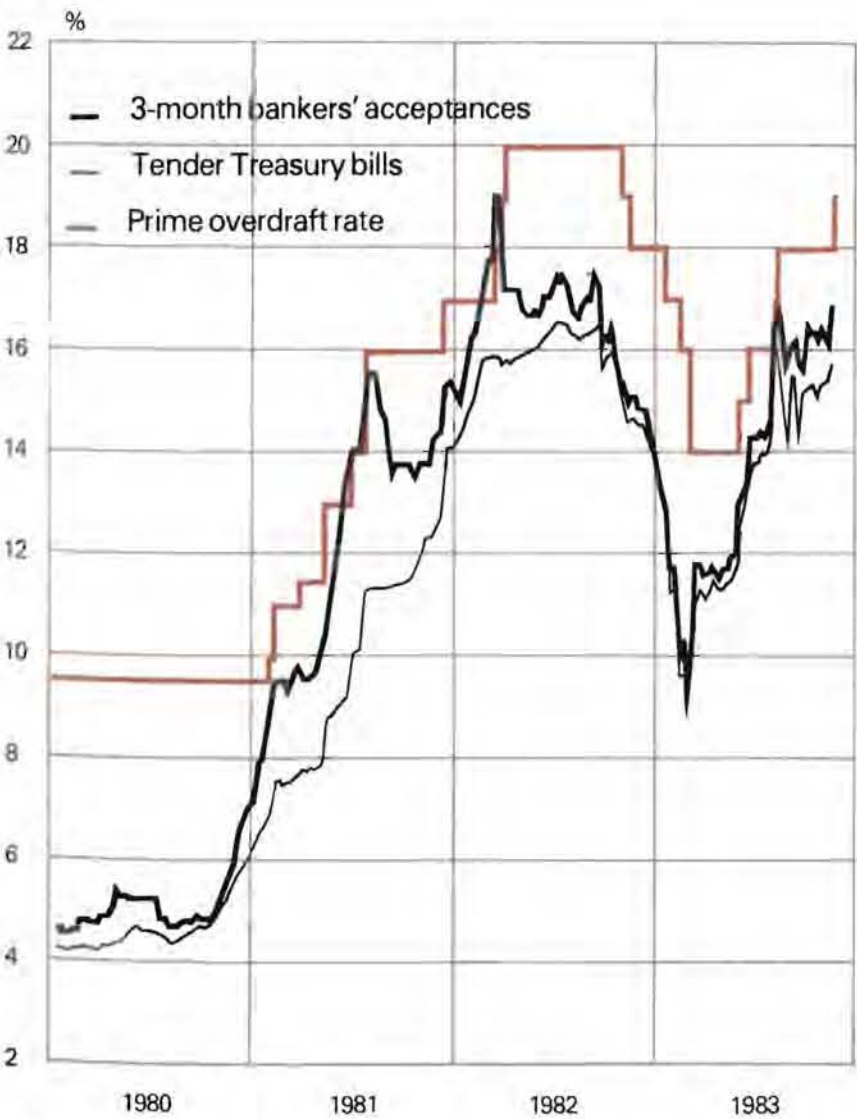
tended to ease somewhat, but coinciding with the decline in the gold price and its effect on general liquidity, these rates resumed an upward course from the beginning of October.

For example, the rate on three-month bankers' acceptances rose from 12,0 per cent on 3 June to 16,9 per cent on 19 August, but declined to 15,5 per cent on 30 September. Subsequently, it increased again to 16,75 per cent on 18 November. The Treasury bill tender rate rose from 11,75 per cent on 3 June to 15,82 per cent on 19 August, declined subsequently to 15,07 per cent on 30 September, and then increased to 15,61 per cent on 18 November. The commercial banks' prime overdraft rate was raised in four steps from 14 per cent in June to 18 per cent in August and was increased further to 19 per cent from 23 November.

Capital market conditions

The seasonally adjusted increase in holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes slowed down considerably from R1 419 million in the first quarter of 1983 to R948 million in the second quarter and only R86 million in the third quarter. This change affected all the institutions concerned. For example, holdings of longer-term funds with banking institutions, seasonally adjusted, increased by R271 million during the second quarter, but actually decreased by R450 million during the third quarter. In the case of the building societies, the increase slowed down from R495 million during the second quarter to R378 million during the third quarter.

Short-term interest rates



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

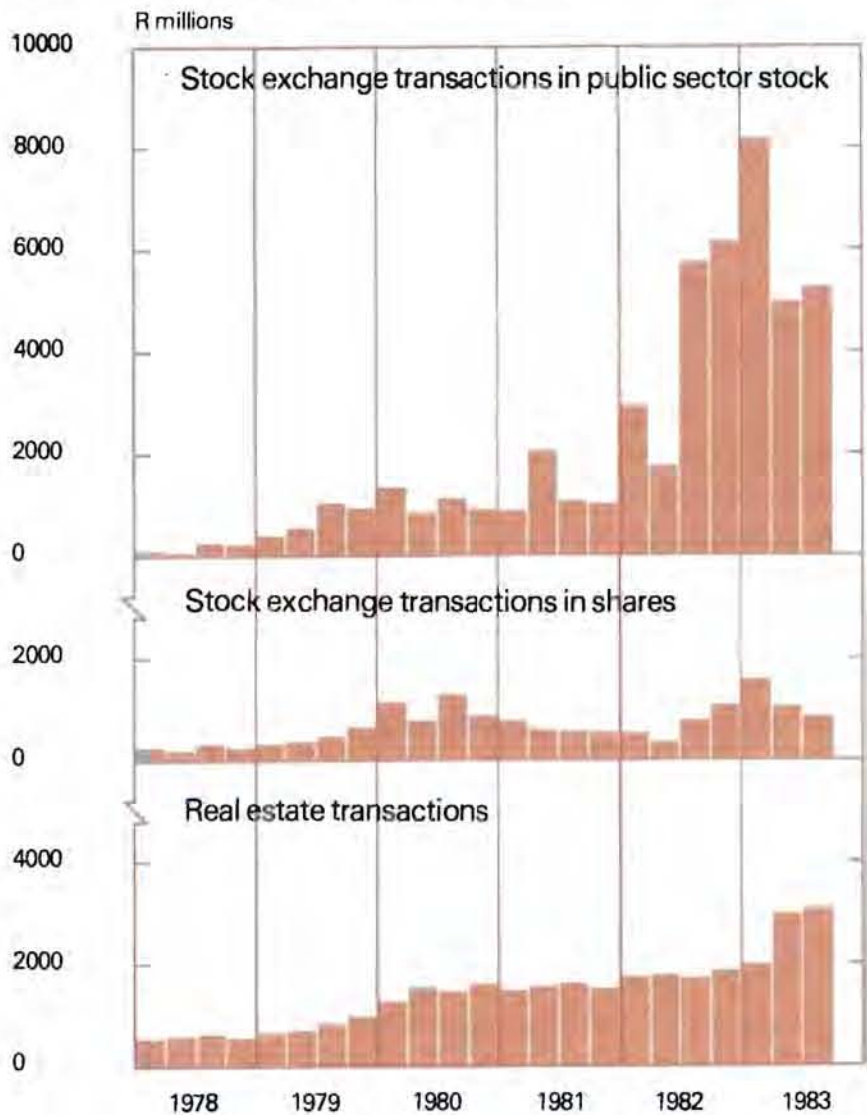
Seasonally adjusted quarterly changes  
R millions

	1982		1983		
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Banking institutions .....	667	317	239	271	-450
Building societies .....	334	853	1 100	495	378
Participation mortgage bond schemes .....	55	83	15	48	87
Government savings schemes .....	38	55	65	134	71
Total .....	1 094	1 308	1 419	948	86

Activity in the primary and secondary sections of the capital market, which had declined notably in the second quarter of 1983, in most instances remained approximately at this lower level in the third quarter. Secondary market turnover in the fixed-interest security market fell from R8 198 million in the first quarter to R4 980 million and R5 274 million in the second and third quarters, respectively. New funds raised in the fixed-interest secur-



Security and real estate transactions

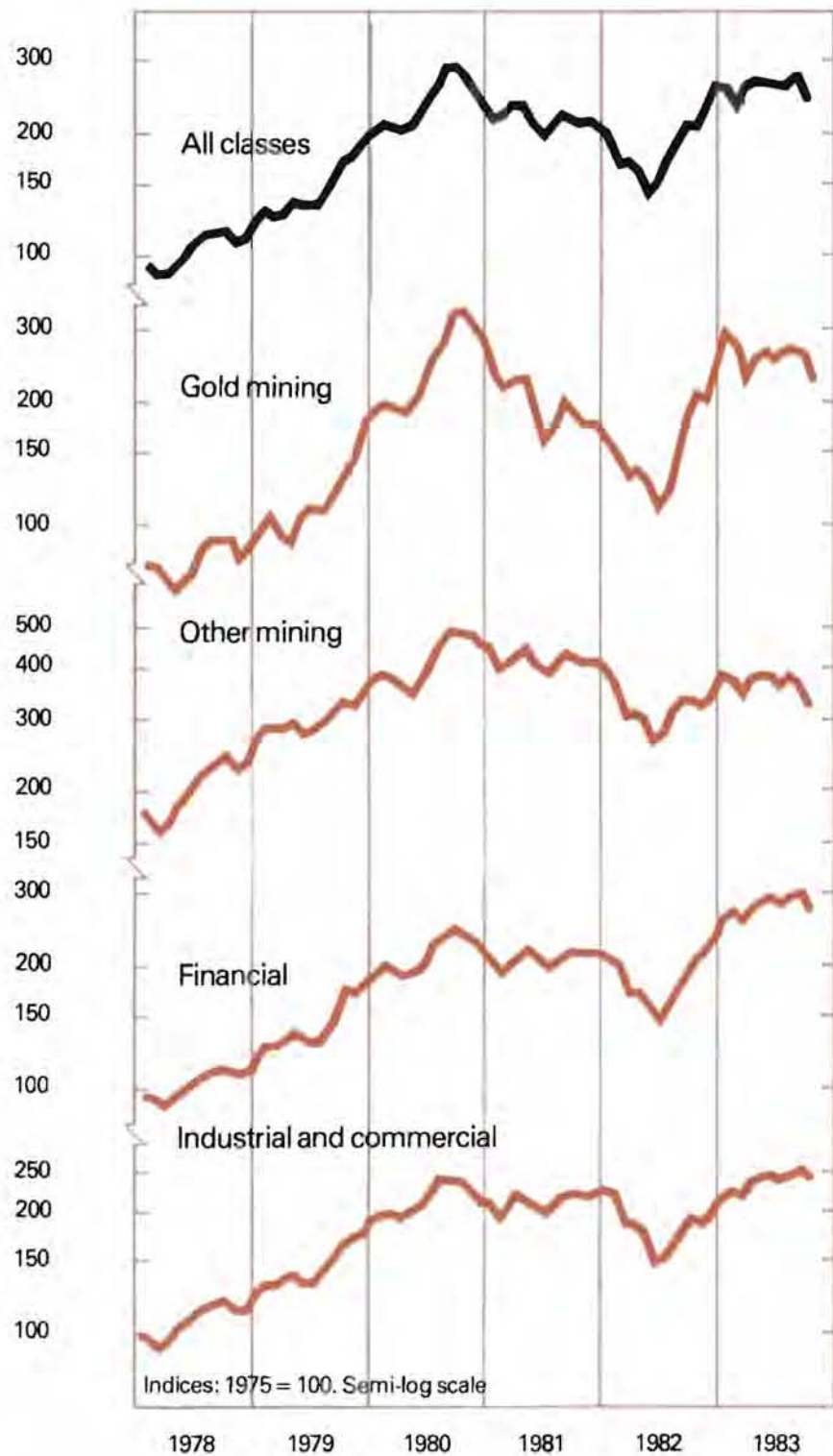


ity market by the public sector and companies listed on the stock exchange declined from R993 million in the first quarter to R824 million in the second quarter, but increased to R1 360 million in the third quarter because of larger net issues of public-sector stock.

Turnover in the share market declined from R1 556 million in the first quarter to R1 029 million and R868 million in the second and third quarters, respectively. Included in these turnover figures were sales by foreigners of shares listed on the Johannesburg Stock Exchange, which increased after the abolition of exchange control over non-residents in early February and the sharp fall in the gold price later in February. On a gross basis, these sales rose from R523 million in the fourth quarter of 1982 to R859 million in the first quarter of 1983, before declining to R530 million in the third quarter.

Share prices, which had risen on average by 12 per cent from December 1982 to February 1983, increased by only 2 per cent from February to June and by 3 per cent from June to September. Reflecting the further decline in the gold price from the beginning of October, gold mining share prices decreased by 16 per cent from September to October. Price declines spilled over to the other sections of the market and share prices declined on average by 10 per cent during this period.

Share prices

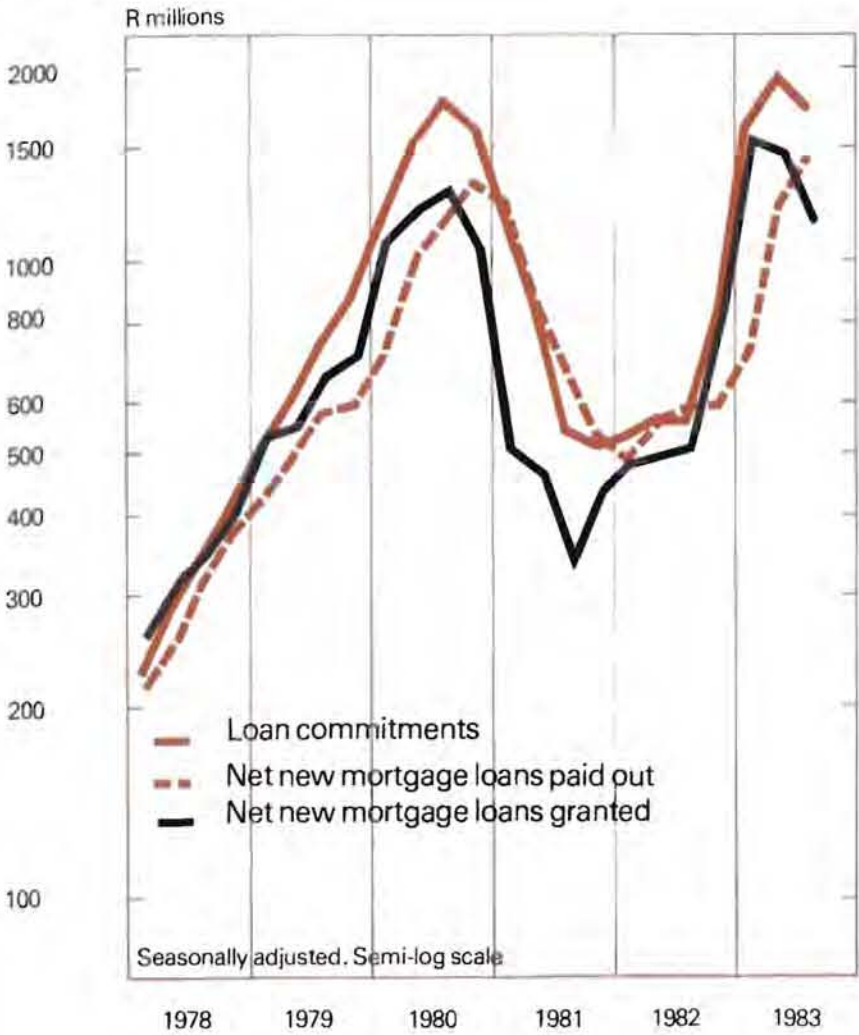


In the mortgage market, new mortgage loans granted by building societies, seasonally adjusted, amounted to R1 548 million and R1 461 million in the first two quarters of 1983, respectively, but declined to R1 134 million in the third quarter. This lower rate of mortgage lending reflected the lower intake of new funds. Mortgage loans actually paid out, however, rose from a seasonally adjusted amount of R1 204 million in the second quarter to R1 447 million in the third quarter. As a result, the societies' loan commitments declined by R185 million during the third quarter and, at the same time, their excess holdings of prescribed investments were reduced by R441 million.

The real estate market retained some of its buoyancy in the third quarter of 1983, but the rate of increase in the



Building societies



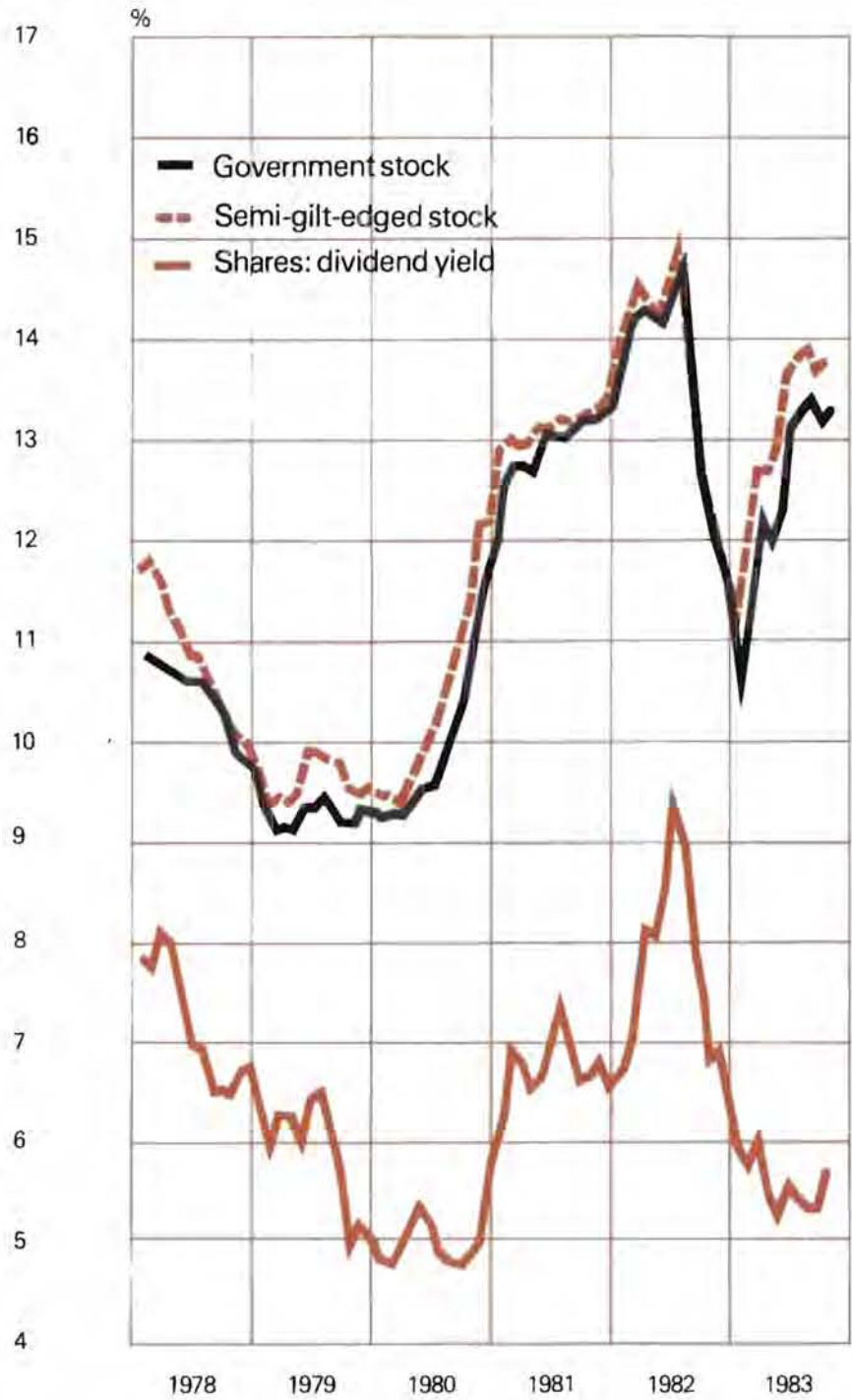
value of real estate transactions slowed down considerably. Seasonally adjusted, these transactions rose from R1 995 million in the first quarter of 1983 to R2 960 million in the second quarter and R3 048 million in the third quarter.

Changes in long-term interest rates

Like short-term interest rates, long-term rates remained fairly stable during April and May, but subsequently moved to higher levels. Thus, the secondary market yield on long-term government stock rose from a monthly average of 12,25 per cent in May to 13,40 per cent in August, before easing to 13,29 per cent in October. The average dividend yield on all classes of shares maintained a downward course throughout the first nine months of 1983, amounting to 6,0 per cent in March and 5,6 per cent in June and 5,3 per cent in September. Reflecting the general decline in share prices, however, the yield increased slightly to 5,7 per cent in October.

The building societies' home mortgage rates were increased from a range of 14,0 – 15,0 per cent in June to 15,0 – 16,0 per cent in August for loans up to R60 000 and from a range of 15,25 – 15,50 per cent in June to 17,0 – 17,5 per cent in August for loans in excess of R60 000. These increases were related to upward adjustments in deposit rates. For example the rates quoted on twelve-

Long-term yields



month deposits by banks and building societies rose from 10,5 – 11,0 per cent in June to 14,0 – 14,5 per cent in October.

In October building societies were granted permission to issue debentures and negotiable certificates of deposit. Debentures must have a minimum maturity of 5 years and may not be redeemed before the expiry of the minimum maturity. Negotiable certificates of deposit with minimum and maximum maturities of 1 and 5 years may be issued, in total up to a maximum of 40 per cent of a building society's deposit and debenture liabilities. "Short-term" negotiable certificates of deposit, i.e. certificates with original maturities of up to 2 years, may not exceed 20 per cent of a society's total deposit liabilities.

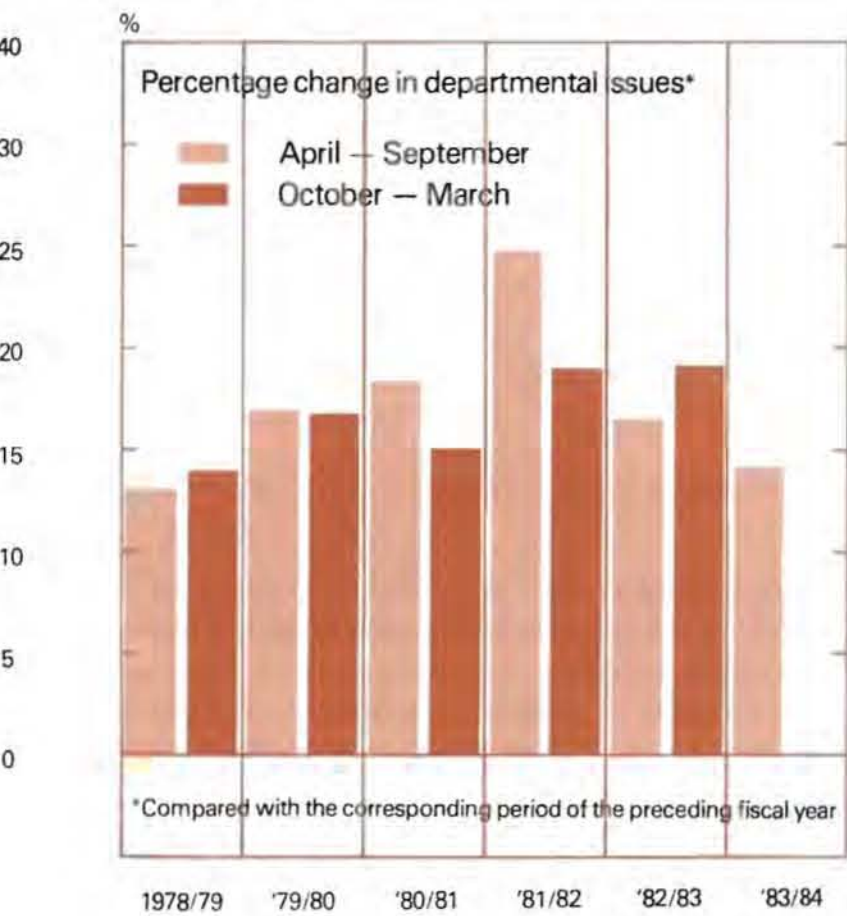


Government finance

Exchequer issues

In the first two quarters of the 1983/84 fiscal year, departmental issues from the Exchequer Account (as adjusted for changes in the balances on the Paymaster-General Account) were respectively 16,6 per cent and 12,0 per cent higher than in the corresponding quarters of the preceding fiscal year. After a relatively high rate of growth in the first fiscal year quarter, the increase in Exchequer issues, therefore, slowed down to a rate more in line with the Budget estimate of 10,3 per cent for the fiscal year as a whole. In the first half of 1983/84, issues increased by 14,3 per cent, compared with the corresponding period in 1982/83. Owing to higher interest payments resulting from increased domestic borrowing as well as to salary increases, drought relief payments and the usual additional appropriations, it may be expected that the actual increase in expenditure as well as the deficit before borrowing in the fiscal year as a whole will be well in excess of the original Budget estimate.

Exchequer Account



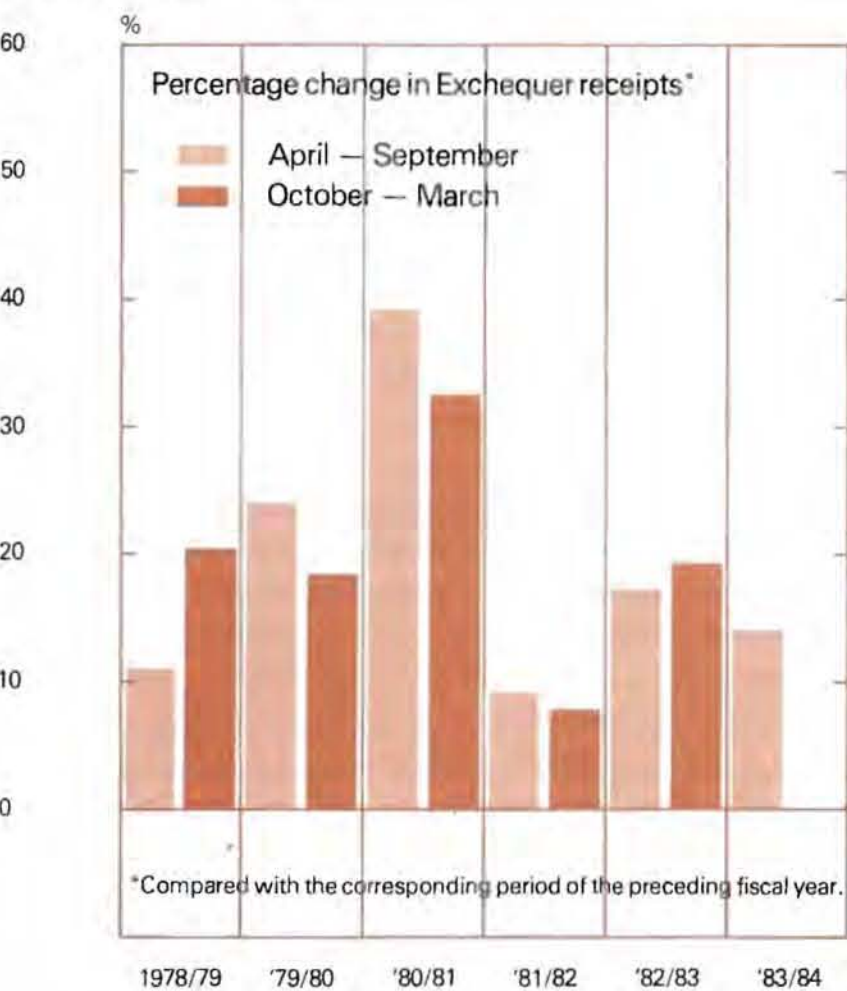
Revenue receipts

Revenue collections by the Central Government in the first half of the 1983/84 fiscal year were 14,0 per cent higher than in the corresponding period of 1982/83, a rate of increase that was well above the Budget estimate of 9,6 per cent for the full fiscal year. This discrepancy

was due to considerably higher than expected receipts of income tax and mining lease payments from gold mining companies, which still reflected the comparatively high gold price during the latter part of 1982 and in early 1983. Excluding these receipts, revenue collections during the first half of the fiscal year increased by 7,7 per cent (compared with the first half of 1982/83), whereas the Budget provided for an increase of 9,9 per cent in the full fiscal year.

An analysis of the main non-gold mining sources of revenue shows that the rate of increase in income tax receipts from individuals in the first half of the current fiscal year exceeded the Budget estimate, probably because of the still fairly high rate of increase in nominal salaries and wages and the effect of "fiscal drag". Tax payments by non-gold mining companies, however, increased at a rate well below the Budget target, owing to the effect of the current recession on company profits. Excluding the surcharge on imports, customs duties were actually lower in the first half of 1983/84 than in the corresponding period of 1982/83, whereas the Budget provided for an increase of about 7 per cent in the fiscal year as a whole. The growth rate in excise duty and general sales tax receipts in the first half of the current fiscal year was also below the Budget target. If the intended abolition of the surcharge on imports before the end of 1983 is taken into account, it is expected that indirect tax receipts in the full fiscal year will fall short of the Budget

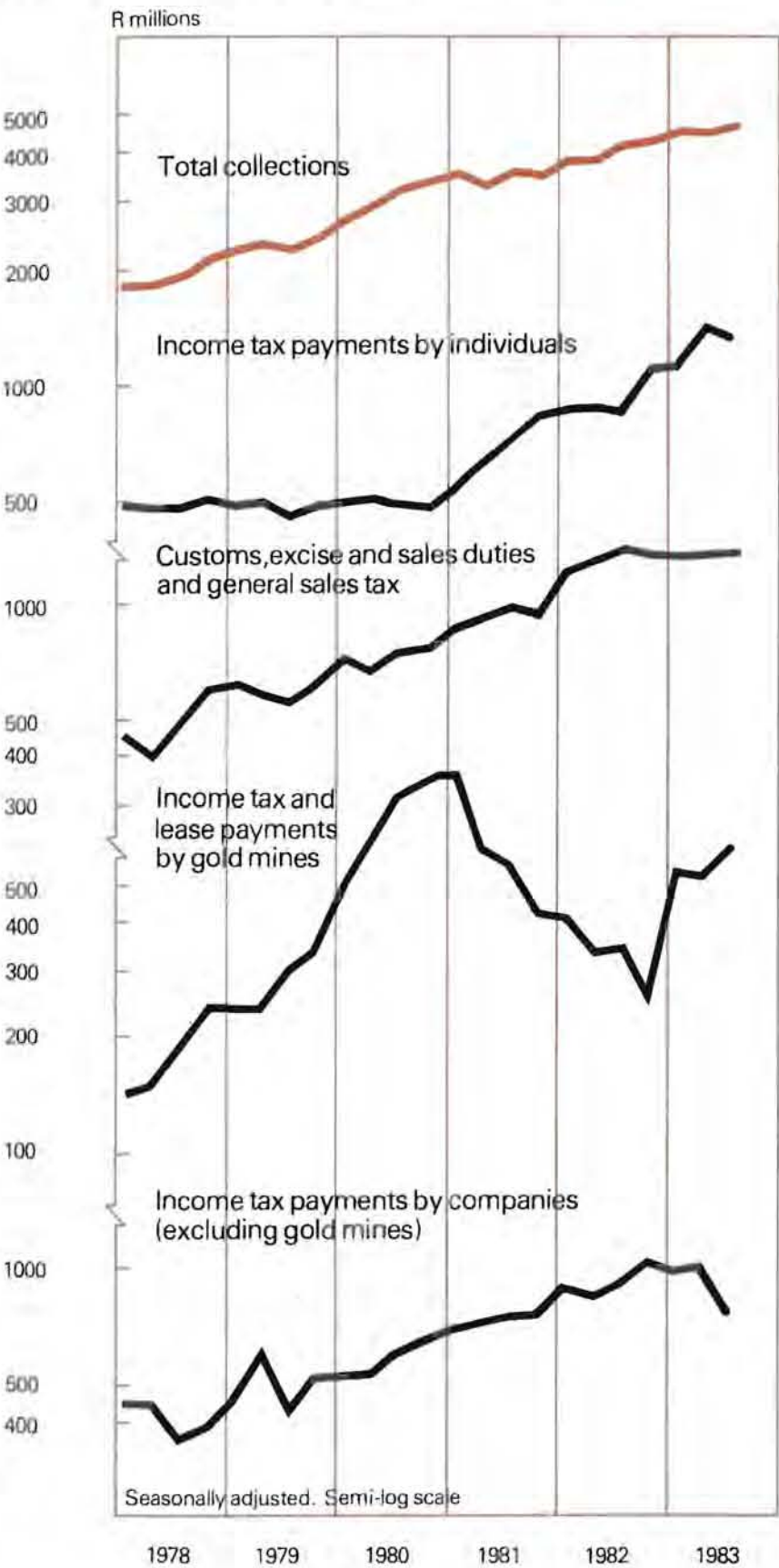
Exchequer Account





estimate. Indirect tax revenue will also be affected by increased payments to neighbouring countries in terms of Customs Union Agreements.

Revenue collections — State Revenue Fund



Financing of the deficit before borrowing

During the first quarter of 1983/84 the financing of the deficit on the Exchequer Account included the use of net bank credit to the extent of R500 million. This made an important contribution to the acceleration of the rate of increase in the money supply during this period. How-

ever, a tender issue of government stock in June and substantial subsequent Reserve Bank sales of government stock obtained on tap from the Treasury enabled the financing of the Exchequer Account deficit in the second fiscal year quarter without recourse to net bank credit. On balance, the Treasury's net indebtedness to the monetary banking sector was actually reduced during the first half of the current fiscal year. Full details of the financing of the Exchequer Account deficit of R1 901 million in the period are presented in the accompanying table.

Exchequer Account financing

R millions

	1983		
	April–June	July–Sept.	April–Sept.
Deficit	–1 765	–135	–1 901
Foreign sector	97	60	158
Public Debt Commissioners	677	532	1 209
Non-bank private sector	491	729	1 220
Monetary banking sector	500	–1 186	–686
Total financing	1 765	135	1 901

The important part played by the Reserve Bank in the Treasury's borrowing operations during the first half of 1983/84 is illustrated by the fact that slightly more than half of the Treasury's gross government stock issues was taken up by the Reserve Bank. The Bank acquired most of this stock on tap from the Treasury for the purpose of resale in the secondary market. Sales of stock to the non-bank private sector, either directly or indirectly through the intermediation of banking institutions and stockbrokers, assisted the Treasury in its borrowing programme and, at the same time, served to curb the expansion of the money supply. Details of the Treasury's government stock issues during the first half of the 1983/84 fiscal year are as follows:

	R millions
Gross issues:	
Public Debt Commissioners	800
Reserve Bank:	
Tap issues	1 467
Subscriptions	189
Public issues	608
Total	3 064
Less: Redemptions	704
Net issues	2 360