Quarterly economic review

Summary

Real economic activity in the second quarter of 1983 continued to reflect the prevailing recession and severe drought conditions in the summer rainfall areas. Real gross domestic product regressed sharply further, in particular as a result of a substantial decline in agricultural output, and this was accompanied by a sustained rise in unemployment. However, there were encouraging signs that the economic downswing may have started to level out. Excluding agricultural output, real gross domestic product actually showed a marginal increase in the second quarter, after it had declined for five consecutive quarters.

The slight increase in non-agricultural real domestic output was related to marginal improvements in some components of domestic demand. Real private as well as government consumption expenditure increased in the second quarter, while at the same time real inventory disinvestment, especially in the case of industrial and commercial inventories, assumed notably smaller proportions. Export demand, on the other hand, continued to decline in real terms, indicating that the incipient economic recovery in the United States and other industrial countries was not yet reflected in South African exports.

Price increases showed a welcome further moderation during the four months to July, but this still left the increase in consumer prices between July 1982 and July 1983 at the unacceptably high rate of 12,1 per cent. This rate of increase was about two-and-a-half times as high as those in the main trading-partner countries. The existence of such a discrepancy serves to emphasize the need to bring down the rate of inflation still further.

Despite the sluggish demand for exports and a sharp decline in the gold price in late February 1983, the current account of the balance of payments improved further in the second quarter. At a seasonally adjusted annual rate, the current account surplus grew to R1,8 billion, or about 2 per cent of gross domestic product in this quarter. This further improvement was entirely due to a continued decline in merchandise imports. On the capital account, a net outflow of funds, mostly short-term capital, was recorded in the second quarter. As a result, the overall balance of payments was in deficit and this was reflected in a decline of R331 million in net foreign reserves. During the preceding nine months net foreign reserves had increased by almost R2 billion.

In effective terms, the rand continued to appreciate during the second quarter, despite the decline in the net foreign reserves. This appreciation reflected the sustained improvement of the balance of payments on current account and it was also consistent with a renewed increase in interest rates from the second half of June onwards. On average, the rand continued to appreciate against other currencies during July. However, during August a fairly sharp depreciation of the rand against an exceptionally strong US dollar caused a decline also in the effective exchange rate of the rand.

In order to improve the technical functioning of the spot as well as the forward foreign exchange markets, the Reserve Bank on 5 September introduced major new arrangements aimed at broadening the spot foreign exchange market and developing an independent forward foreign exchange market oustide the Bank. From that date the Bank no longer quoted spot rates, but influenced the spot exchange rate only by means of intervention in the market.

Owing to an expansion of bank credit to both the non-bank private sector and the government sector, the rate of growth in the money supply accelerated notably during the second quarter, despite the decline in the net foreign reserves. Measured over a twelve-month period, the increase in M2, for example, accelerated from 17 per cent in March to 22 per cent in June. This was accompanied by a sideways movement in interest rates during most of the second quarter. However, this deviation from the policy strategy adopted at the time of the presentation of the 1983/84 Budget in March this year, which reiterated the importance of effective control over the money supply, proved to be only temporary. Proper funding of the government sector's revenue shortfall, instead of the use of bank credit, succeeded in slowing down the rate of monetary expansion from the middle of June onwards. During July the money supply actually declined.

In these circumstances, interest rates showed a renewed increase as from the second half of June. Although seasonal and other short-term fluctuations in interest rates were ironed out by the Reserve Bank through rediscounting, repurchase agreements, variations in the amount of Treasury bills issued and a reduction in liquid asset requirements for banks, interest rates were allowed to rise as part of the official anti-inflationary policy. In his address to stockholders at the Reserve Bank's latest annual general meeting in August, the Governor of the Bank emphasized that it was not the policy of the monetary authorities to reduce interest rates by creating new money at an even faster rate. Such a policy would in any event be self-defeating since the resultant acceleration of the rate of inflation would in due course inevitably produce higher nominal interest rates.

The further increase in general liquidity during the second quarter, together with a continuation of the cyclical decline in the demand for funds for the financing of real economic activity, resulted in continued high turnovers as well as higher prices during the larger part of the second quarter in the fixed-interest security and share markets and in a greater availability of funds and increased lending in the mortgage market. At the same time, there was a marked increase in turnover in the real estate market, part of which was related to the ready availability of mortgage finance.

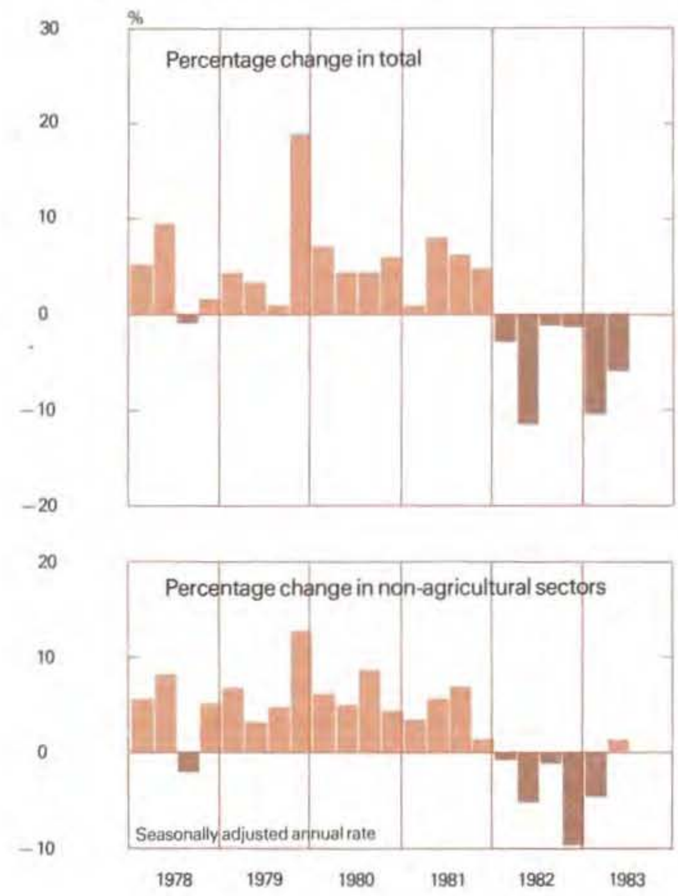
The government sector's revenue shortfall during the second quarter was financed in part by an increase in net bank credit to the Central Government during April and May. This was related to a sharp rise in government expenditure (including drought relief payments) from the beginning of the 1983/84 fiscal year on 1 April. From June onwards, however, the Government stepped up its borrowing from the non-bank private sector by means of new issues of government stock and the Reserve Bank's sales of new government stock obtained on tap from the Treasury. This borrowing enabled the Government to reduce its net indebtedness to the banking sector during both June and July.

Domestic economic developments

Domestic output

Reflecting one of the worst droughts ever recorded in the summer rainfall areas, agricultural output decreased very sharply in the second quarter of 1983, causing an appreciable decline in total real gross domestic product. Excluding agriculture, the real output of the non-agricultural sectors rose marginally, after having declined for five consecutive quarters. The small increase in the second quarter emanated almost entirely from higher output in the wholesale, retail and motor trade. Smaller real output increases were in fact registered by gold mining, general government and electricity, gas and water. In addition, real output in non-gold mining and manufacturing continued its downward trend, but the decline appeared to level out during the second quarter of 1983. Because of regressing real output, the rate of capacity utilisation in the manufacturing sector declined from its most recent peak of 90 per cent in August 1981 to 84 per cent in

Real gross domestic product



May 1983. During the downswing of 1975 to 1977, capacity utilisation reached a trough of 83 per cent in February 1977.

In the first half of 1983, total real gross domestic product was about 5 per cent lower than in the first half of 1982. In the case of the non-agricultural sectors the decline amounted to 4½ per cent. Despite the present relatively low gold price and the primary as well as secondary effects of the severe drought conditions, there was some indication that the present downturn may have started to level out. Total real gross domestic product and that of the non-agricultural sectors are expected to decrease by about 3 – 4 and 2 – 3 per cent, respectively, in 1983 as a whole.

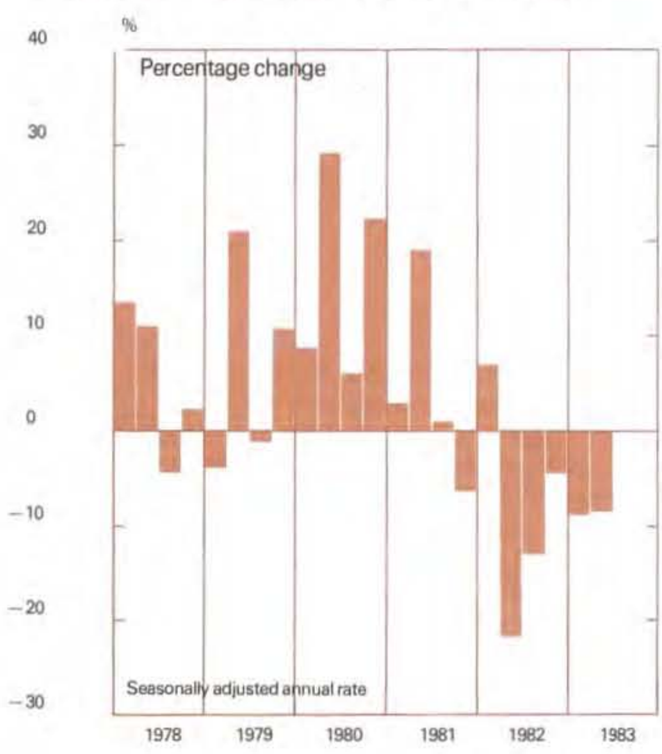
Domestic demand

Aggregate real gross domestic expenditure proceeded with its downward trend in the second quarter of 1983. The different components, however, behaved divergently. Real inventories were depleted further, while fixed investment by the private sector and public corporations continued to recede. On the other hand, total consumption expenditure and fixed capital outlays by public authorities increased.

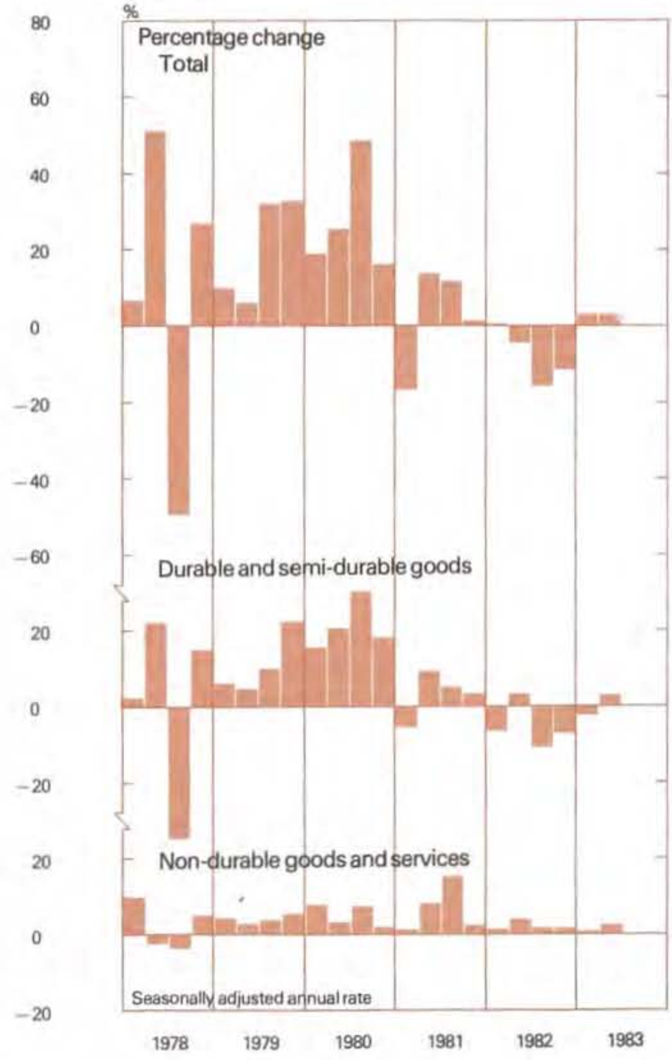
After having declined appreciably in the second half of 1982, the downward trend in real private consumption expenditure bottomed out in the first quarter of 1983. By the second quarter outlays on all major classes of expenditure had started to move upwards again. The level of consumer spending in the first half of 1983 was about the same as that in the first half of 1982. Real government consumption expenditure, which often shows large quarterly fluctuations, increased sharply in the second quarter. A declining trend was discernible during the second half of 1982 and the first quarter of 1983. The subsequent rise in the second quarter was attributable to a marked increase in both total remuneration of employees (the more stable component) and expenditure on goods and other services.

The declining trend in gross domestic fixed investment by public corporations and the private sector continued in the second quarter of 1983. On the other hand, such outlays by public authorities, which had

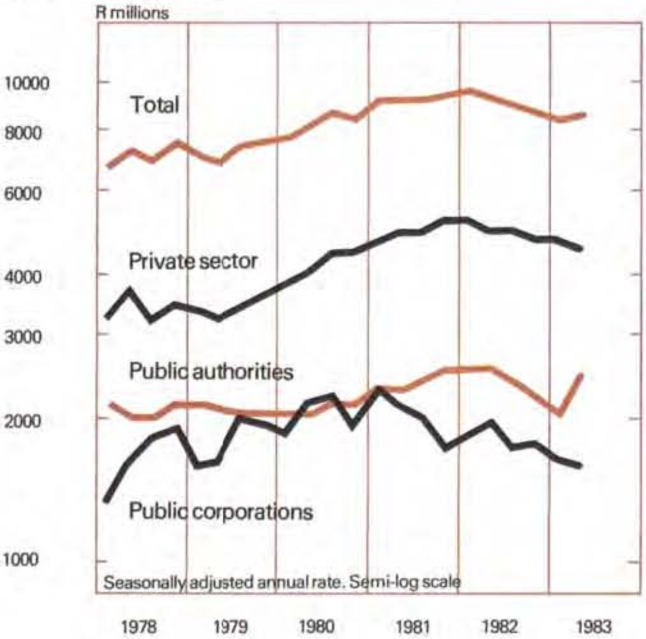
Gross domestic expenditure at constant 1975 prices



Private consumption expenditure at constant 1975 prices



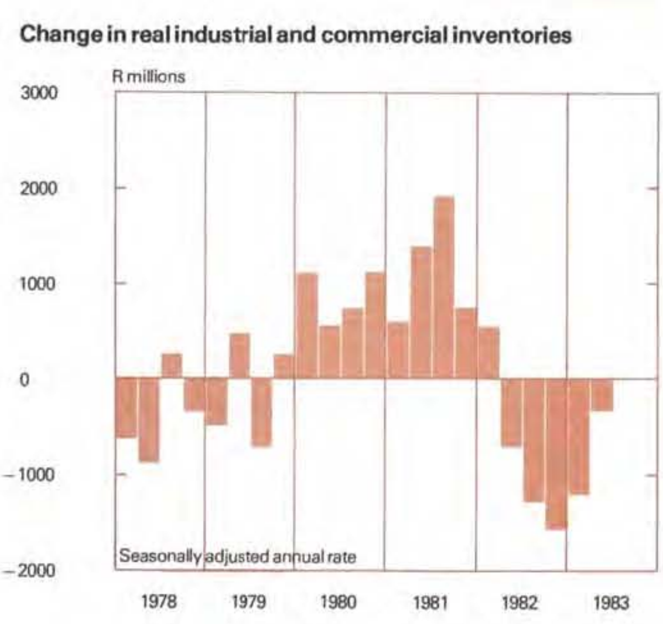
Gross domestic fixed investment at constant 1975 prices



declined for three consecutive quarters, rebounded sharply in the second quarter of 1983 mainly as a result of the delivery of new aircraft ordered previously by the South African Transport Services.

Inventory levels were reduced further in the second quarter of 1983. The continued liquidation of inventories was a major cause of the decline in real expenditure, output and imports. Almost all classes of inventories declined in the second quarter. The largest reductions were recorded in agricultural stocks-in-trade and in the inventories of manufacturing and the wholesale trade. The decline in total industrial and commercial inventories was the smallest since the process of liquidation had commenced in the second quarter of 1982. The ratio of non-agricultural and non-strategic inventories to gross domestic product, excluding agriculture, declined further to about 33 per cent in the second quarter. In the first quarter of 1982, the most recent peak, this ratio amounted to 35½ per cent.

Change in real industrial and commercial inventories



Factor income and saving

Nominal salaries and wages rose at a substantially lower rate in the first half of 1983. After having increased by 23½ and 19 per cent in 1981 and 1982, respectively, the rate of increase in salaries and wages in the first half of 1983 was only about 13 per cent higher than in the corresponding period of 1982. Gross operating surplus grew at low rates in both 1981 and 1982. In the first half of 1983 it decreased somewhat, reflecting mainly lower agricultural income and the influence of the recession on the profits of industrial and commercial companies.

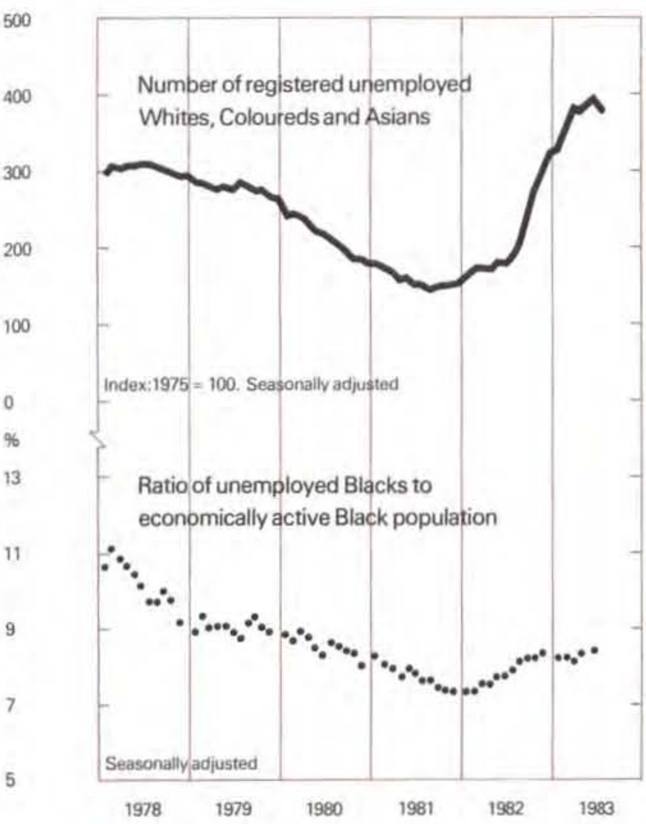
The improvement in gross domestic saving, which had commenced in the third quarter of 1982, continued in the second quarter of 1983. From a low of R14,2 billion in the second quarter of 1982, it rose to R21,7 billion in the second quarter of 1983. As a ratio of gross domestic product, it amounted to 18½ and 24½ per cent, respectively, in these periods. Except for the saving of general government, which turned negative, all the other components contributed to the rise in aggregate gross domestic saving. The personal savings ratio rose from 3 per cent in the second quarter of 1982 to 4½ per cent in the second quarter of 1983, owing mainly to a slowing down of the increase in nominal private consumption expenditure.

Employment*

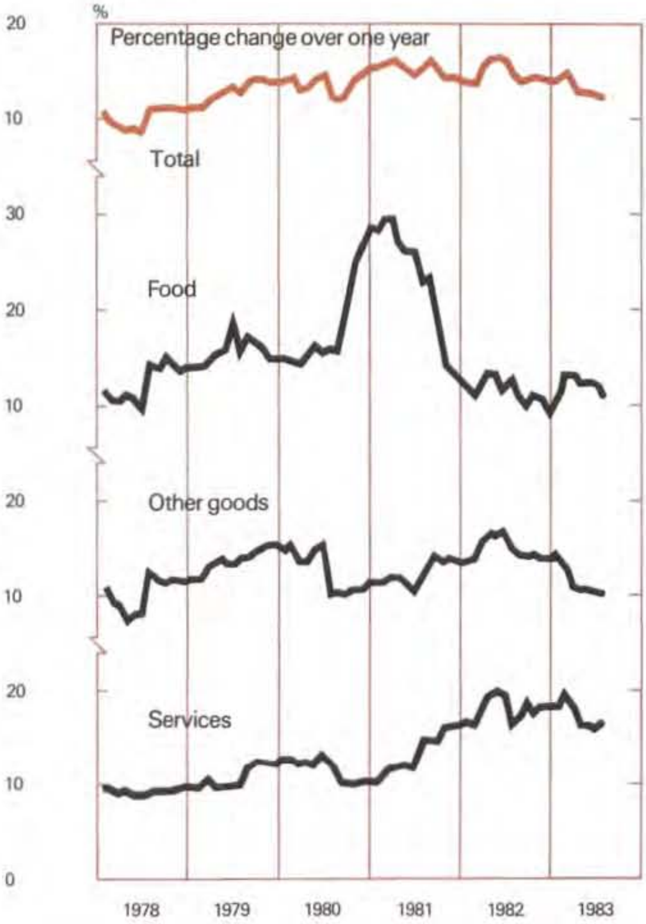
Reflecting the weakening of real economic activity, employment in the non-agricultural sectors dropped at a seasonally adjusted annual rate of roughly 2,5 per cent during each of the three quarters up to the first quarter of 1983. Employment in the private sector already started to decline in the fourth quarter of 1981. In the first quarter of 1983 private-sector employment was reduced at a seasonally adjusted annual rate of 3,7 per cent. Available data for manufacturing, non-gold mining and construction indicate that this trend continued in April and May. Despite the curtailment of employment,

*Employment and labour remuneration statistics refer to the non-agricultural sectors of the economy. Complete data are available only up to the first quarter of 1983.

Unemployment



Consumer prices



the total number of ordinary and overtime hours worked, on average, increased during April and May, after it had declined throughout 1982 and the first quarter of 1983.

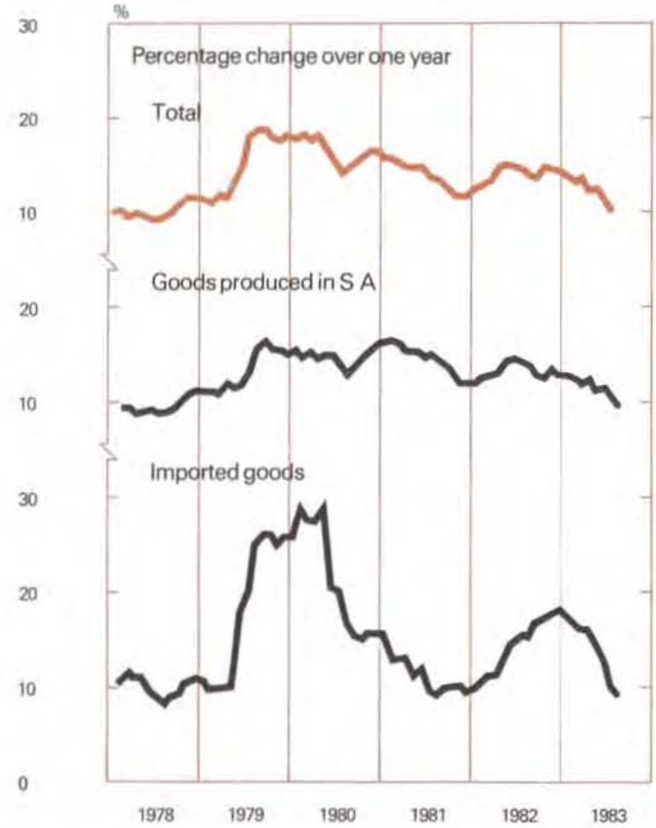
Public-sector employment was stepped up markedly in 1982. But by the fourth quarter of 1982, the rate of increase had levelled off, and in the first quarter of 1983 public authorities merely maintained their employment at the preceding quarter's level.

Fewer employment opportunities naturally came to be reflected in rising unemployment. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians increased from its most recent trough of 14 905 in August 1981 (0,7 per cent of the comparable labour force) to 40 012 in June 1983 (1,8 per cent of the corresponding labour force). In July this trend was reversed when the registered number of unemployed declined to 38 770, or 1,7 per cent of the labour force. Black unemployment rose from a low of 7,3 per cent of the economically active Black population in November 1981 to 8,4 per cent in June 1983. In the first quarter of 1983 labour productivity was 1,9 per cent lower than in the corresponding period of 1982. On the same basis, nominal and real salaries and wages per worker rose by 19,4 and 4,4 per cent, respectively.

Inflation

Although some measure of success was achieved in the battle against inflation, the rate of price increases nevertheless remained unacceptably high. Measured over a twelve-month period, the increase in consumer prices slowed down from a peak of 16,5 per cent in May 1982 to 12,1 per cent in July 1983. The comparable deceleration in production price increases was from 14,8 to 9,7 per cent, respectively. Compared with the same period in 1982, the average level of the consumer price index was 13,3 per cent higher in the first seven months of 1983. In the case of production prices the corresponding rise amounted to 12,0 per cent. The present rate of increase in consumer prices is still about two-and-a-half times higher than those of South Africa's main trading partners. Many of the symptoms of inflation have recently begun to show some moderation. Among these was the slow-down of the rates of increase in nominal salaries and wages, unit labour costs and administered prices. In addition, the increase in import

Production prices



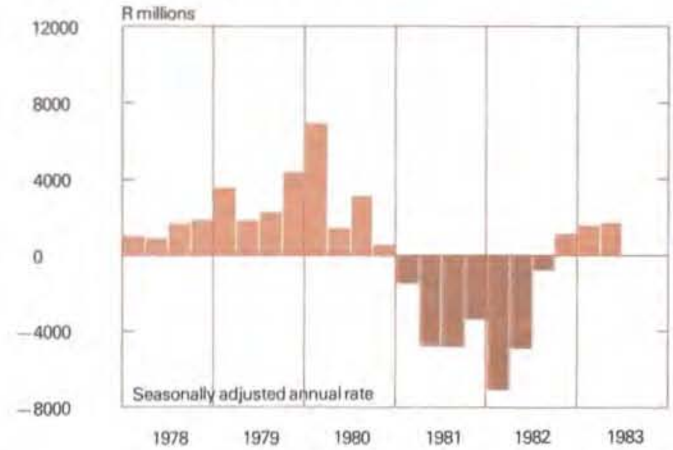
prices decelerated considerably because of lower inflation rates in trading-partner countries and the appreciation of the rand since the middle of 1982.

Balance of payments

Current account

Despite a decline in the gold price and continuing weak merchandise exports, the current account of the balance of payments improved further in the second quarter of 1983. This improvement predominantly reflected a further sharp decline in merchandise imports. Net service and transfer payments showed little change. At a seasonally adjusted annual rate, the surplus on current account in the second quarter of 1983 amounted to R1,8 billion, or 2 per cent of gross domestic product.

Balance on current account



Seasonally adjusted, the value of merchandise exports changed only marginally from the first to the second quarter of 1983. The economic recovery in the industrial countries was evidently still too modest to have any significant effect on South African exports. On top of that, the severe drought came to be reflected

Current account of balance of payments
Seasonally adjusted annual rates
R millions

	1982	1983	
	Year	1st qtr.	2nd qtr.
Merchandise exports	10 142	10 120	10 100
Net gold output	8 627	10 800	9 880
Merchandise imports	−18 004	−15 390	−14 310
Net service and transfer payments	−3 685	−3 860	−3 880
Balance on current account	−2 920	1 670	1 790

in a sharp drop in exports of agricultural products and processed foodstuffs. This trend continued in July when merchandise exports, seasonally adjusted, declined further.

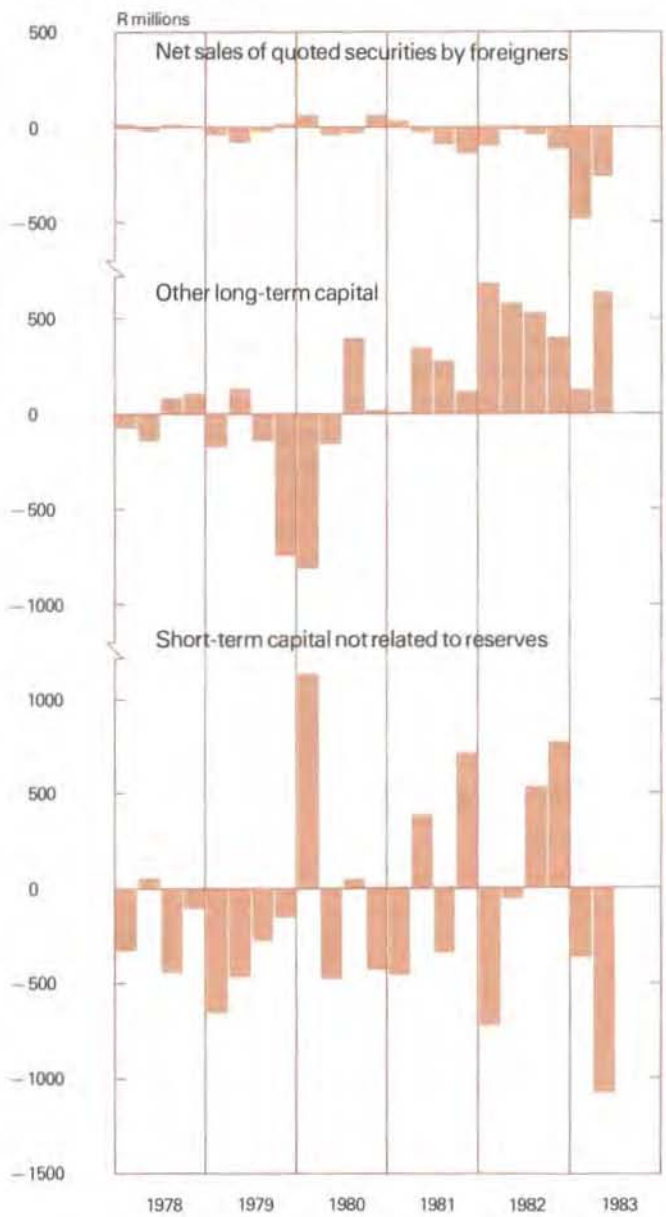
Reflecting a slight decline in volume and at the same time an appreciable fall in price, the value of the net gold output decreased materially from the first to the second quarter. The price of gold on the London gold market dropped by 8 per cent from an average of US $465 per fine ounce in the first quarter to US $428 per fine ounce in the second quarter. About the same percentage decline occurred in the rand price of gold. In July and August the price of gold decreased slightly further to US $423 and US $416 per fine ounce, respectively. The rand price of gold remained fairly stable at about R463 per fine ounce during these two months.

Merchandise imports continued their downward trend in the second quarter of 1983. This decline was particularly evident in the categories mineral products and machinery and electrical equipment. In July merchandise imports, seasonally adjusted, decreased further. In the four months to July the average level of merchandise imports was about 32 per cent lower than the most recent peak in the first quarter of 1982. In volume terms the decrease amounted to approximately 44 per cent.

Capital account

The surplus on current account in the second quarter was accompanied by a small net inflow of long-term capital, amounting to R379 million. A substantial amount of long-term loans was contracted abroad by the central government and banking sector. Public corporations raised only a relatively small amount. These increases were partially offset by a net outflow of long-term equity capital from the private sector. The latter outflow was notably smaller than in the first quarter, indicating that the considerable increase in net sales by foreigners of quoted South African shares after the abolition of exchange control over non-residents and the sharp decline in the gold price in February this year was not maintained in the second quarter. The fall in the gold price from late February reversed previously existing expectations that the rand would continue to appreciate. This prompted South African importers and borrowers to take out forward exchange cover, the cost of which had the effect of eliminating the margin between the lower interest rates abroad and the higher South

Net capital movements



Net capital movements not related to reserves
R millions

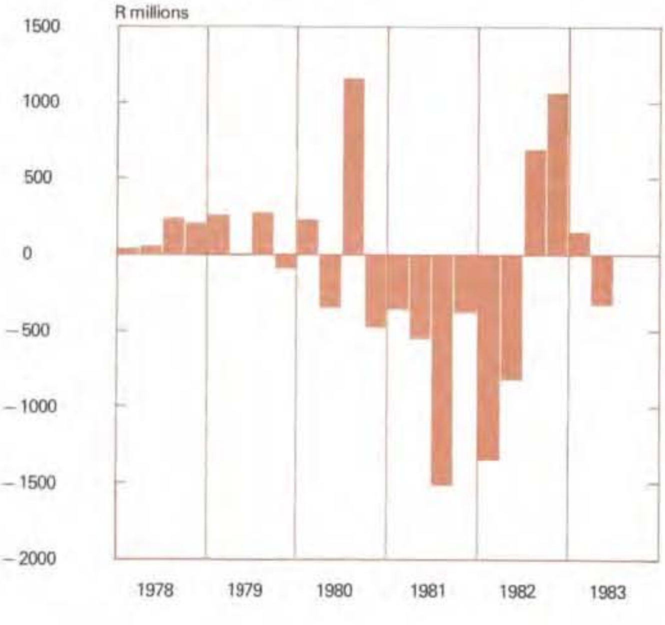
	1982	1983	
	Year	1st qtr.	2nd qtr.
Long-term capital			
Central government and banking sector	1 165	−130	478
Public corporations and local authorities	335	181	25
Net sales by foreigners of securities quoted on the Johannesburg Stock Exchange	−262	−477	−258
Other	715	74	134
Total long-term capital	1 953	−352	379
Short-term capital not related to reserves, but including unrecorded transactions	544	−363	−1 070
Total	2 497	−715	−691

African rates. In this way, the inducement to use foreign credits was reduced and there was a general switch from foreign to domestic financing. Accordingly, a large net outflow of short-term capital occurred from March onwards, which amounted to R1 070 million in the second quarter.

Changes in foreign reserves

Coupled with the surplus of R360 million on current account, the net result of these net capital movements was a decline of R331 million in total net foreign reserves in the second quarter. These reserves increased by R322 million during April and May, but this increase was entirely wiped out by a sharp drop of R653 million in June. In order to support the foreign reserves, the authorities increased their reserve-related liabilities by R389 million during the second quarter. Consequently, the gross gold and other foreign reserves rose by R74 million in the second quarter to a level of R4 280 million at the end of June 1983. During July and August the gross gold and other foreign reserves of the Reserve Bank rose by R215 million and R505 million, respectively.

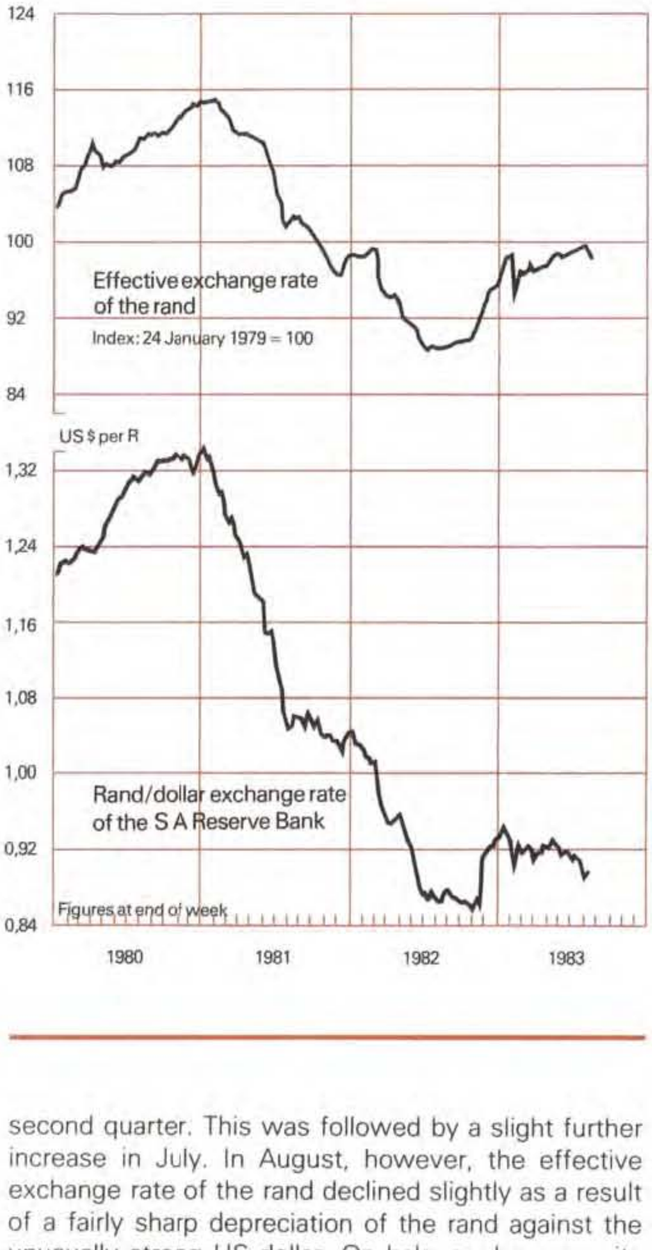
Changes in net foreign reserves



Exchange rates

The sustained improvement of the current account in the second quarter was reflected in a further appreciation of the rand against most of the major currencies. Despite monthly fluctuations, the effective exchange rate of the rand increased by 1,2 per cent during the second quarter. This was followed by a slight further increase in July. In August, however, the effective exchange rate of the rand declined slightly as a result of a fairly sharp depreciation of the rand against the unusually strong US dollar. On balance, however, its value continued to increase against the other main currencies.

Exchange rates



In order to improve the technical functioning of the *spot foreign exchange market*, the Reserve Bank, as from 5 September 1983, arranged to pay gold mines in US dollars instead of rand for gold supplied to the Bank. From that date the Bank no longer quoted a spot exchange rate, but indicated that it would influence the exchange rate by technical "intervention" in the foreign exchange market. As a means of encouraging the further development of the *forward foreign exchange market* and the eventual establishment of an independent forward exchange market outside the Reserve Bank, authorised exchange dealers, with effect from 5 September, could no longer obtain

Changes in the exchange rates of the rand

%

	Dec. 1982 to Mar. 1983	Mar. 1983 to July 1983	July 1983 to Aug. 1983
Effective exchange rate	1,4	1,8	−0,8
US dollar	−2,0	−0,2	−2,3
British pound	7,7	−3,4	–
German mark	−0,1	8,7	0,2
Swiss franc	2,1	2,0	0,8
Japanese yen	−0,3	0,8	−0,1
French franc	6,0	8,8	0,5

exchange rate cover from the Reserve Bank in the form of forward exchange contracts. Instead, they could only enter into swaps with the Bank in order to cover their forward positions in the market. However, the Bank continued to provide forward exchange cover to public corporations and government bodies on the same terms as before. Following this change, the exchange rate of the rand moved slightly upwards.

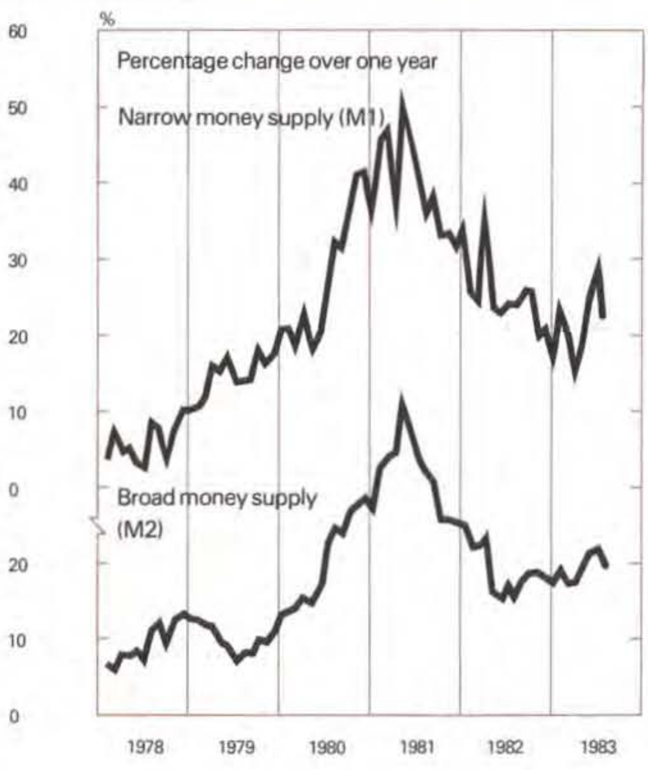
Money and credit

Money supply and credit changes

A notably higher rate of growth in the money supply occurred during the second quarter of 1983. Measured over a twelve-month period, the increase in M2 accelerated from 17 per cent in March to 22 per cent in June. During July, however, M2 actually declined and the increase from the corresponding month in 1982 slowed down to 19½ per cent.

The faster monetary expansion during the second quarter was due to a considerably higher rate of increase in total credit extended by the monetary banking sector. In terms of changes over a twelve-month period, the increase in total bank credit accelerated from 9 per cent in March 1983 to 13 per cent in June. This acceleration occurred in bank credit to the non-bank private sector as well as in net bank credit to the government sector. The most important cause of the former increase was the shift from foreign to domestic financing of trade, referred to above. Net bank credit to the government sector showed a substantial rise during April and May because of a sharp increase in government expenditure from the beginning of the new fiscal year on 1 April 1983. In

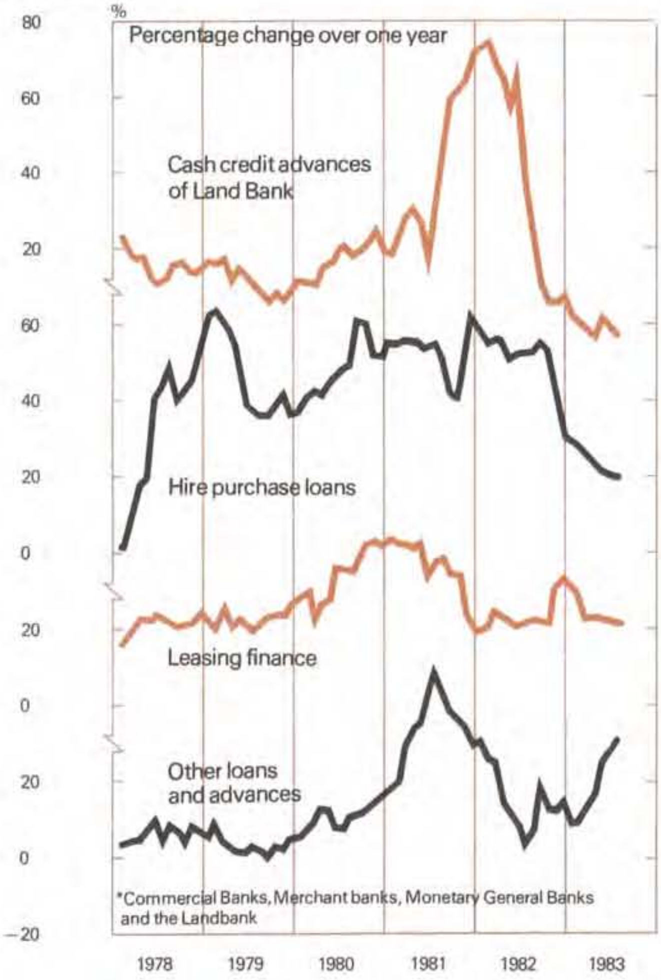
Money supply



June, however, the government sector ceased to use new bank credit to finance its revenue shortfall, and actually reduced its net indebtedness to the banking sector. This served to reduce the expansionary effect of total bank credit extension on the money supply.

Interest rates which had declined to relatively low levels in early March 1983, increased again during the second half of March under the impact of the sharp decline in the price of gold and its effect on net foreign reserves and on liquidity in general. The subsequent more rapid monetary expansion, together with extensive accommodation provided by the Reserve Bank at times of financial stringency in the money market, caused interest rates to move sideways until the end of May. In June, when the government sector began to reduce its net indebtedness to the banking sector, the situation changed significantly and interest rates started moving upwards again. This renewed increase was related to the decline in the money supply during July, and it continued during August.

Loans and advances of banking sector* to private sector



Contributions to money supply changes

The decline in M2 during July reflected decreases in net foreign reserves and net bank credit to the government sector. Bank credit to the private sector increased only moderately during this month.

To some extent the influence of the expansion in total bank credit on the money supply during the second quarter was offset by a decline in net foreign reserves. The different "contributions" to the seasonally adjusted change in M2 are presented in the accompanying table.

Changes in M2
Seasonally adjusted
R millions

	1983	
	1st quarter	2nd quarter
Change in M2	1 387	1 578
Contributions to change in M2:		
Bank credit to private sector	973	1 211
Net credit to government sector	−11	468
Total domestic bank credit	962	1 679
Net foreign reserves	857	−284
Long-term deposits (increase–, decrease+)	−189	17
Other items	−243	166
Total	1 387	1 578

Financial markets

Reserve Bank operations in the financial markets

The Reserve Bank's operations in the financial markets during the second quarter of 1983 and the subsequent two months were aimed partly at ironing out unduly large short-term fluctuations in money market conditions and interest rates, and partly at attaining better control over the money supply.

Throughout the period of five months the Reserve Bank provided varying amounts of accommodation to the discount houses. At the end of May banking institutions were directly accommodated by an amount of R93 million. In order to provide additional assistance to the banks, the Reserve Bank in June started to buy securities under repurchase agreements from them. Agreements outstanding amounted to R418 million over the June month-end, R408 million over the July month-end and R459 million over the August month-end.

Ironing-out operations of the Bank also consisted of the varying of the amount of Treasury bills offered at the weekly tender from the beginning of April. In addition, during May the Bank sold special Treasury bills, of which the maturity was scheduled to expire at the time of the tax payment peak at the end of August. On 18 July the liquid asset requirements for banking institutions were lowered in order to free liquid assets which could be used by the banks to meet seasonal pressure on their cash resources. In addition to this short-term objective, this relaxation of the liquid asset requirements formed part of a longer-term transition from a liquid asset to a cash reserve system of credit control.

The more fundamental open-market operations of the Reserve Bank, aimed at influencing changes in the money supply, consisted of sales of government stock outside the banking system or of sales to the non-bank private sector through the intermediation of discount houses, banking institutions and stockbrokers. These sales were intended to assist the Government in its borrowing programme in order to avoid the monetisation of the government deficit. Net sales of government stock in the market amounted to R418 million during the second quarter and to R539 million during the ensuing two months. Most of this stock was obtained on tap from the Treasury, specifically for the purpose of resale in the market.

Changes in short-term interest rates

Despite the various measures by the Reserve Bank to smooth unduly large fluctuations in money market conditions, periods of easing and tightening were nevertheless experienced in the market. These were reflected in short-term interest rate fluctuations. But apart from these minor fluctuations, short-term rates also showed more fundamental changes. During April and May they moved sideways, but from June to late August they showed a sharp increase. Over the August month-end and in early September rates tended to drift downwards, but they hardened again during the second week of September.

Short-term interest rates

The rate on three-month bankers' acceptances, for example, rose from 9,30 per cent on 4 March to 11,75 per cent on 31 March and fluctuated around this level during April and May. It subsequently increased to 16,25 per cent on 26 August, before easing slightly to 16,00 per cent on 9 September. The Treasury bill tender rate increased from 8,86 per cent on 4 March to 11,24 per cent on 31 March and fluctuated further upwards to 11,47 per cent on 27 May. On 26 August and 9 September the rate amounted to 15,56 per cent and 15,42 per cent, respectively. The banks' prime overdraft rate, which had declined to 14 per cent in March, was raised in four steps to 18 per cent in August.

Capital market conditions

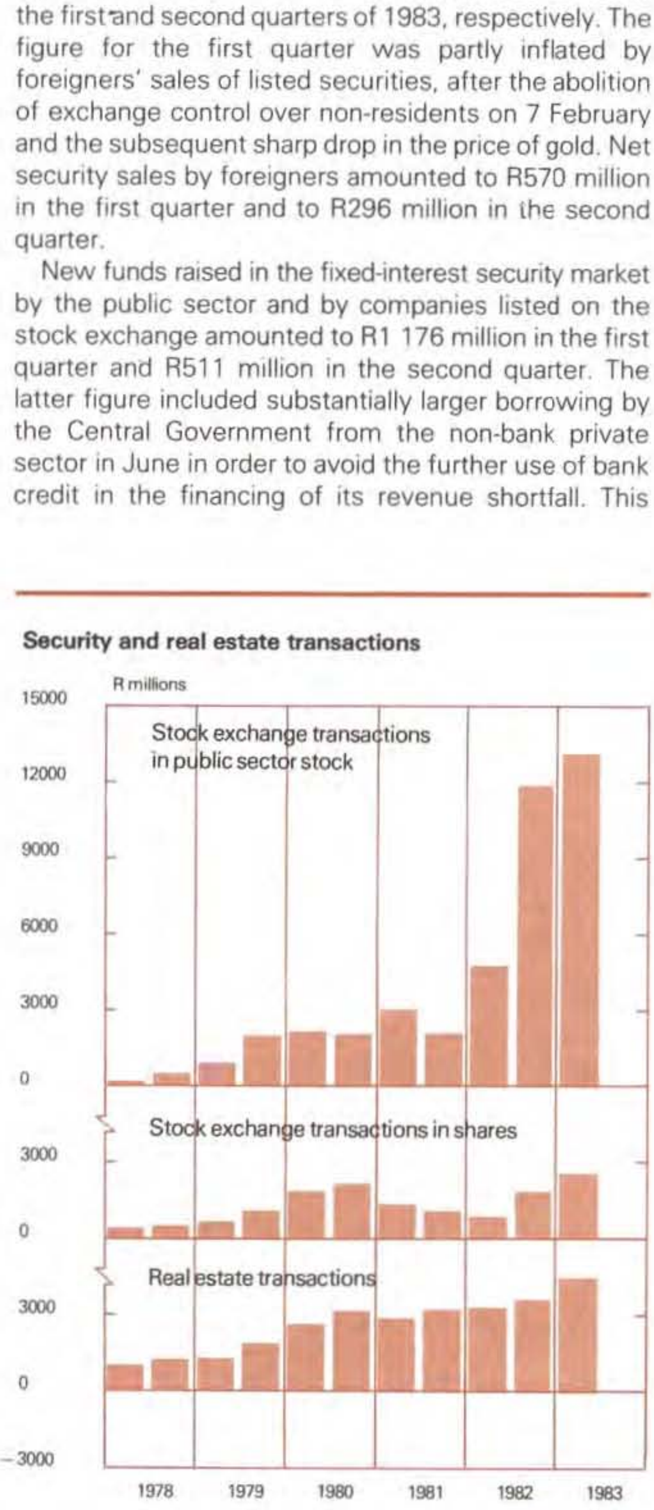
In the capital market, the value of public-sector stock traded on the stock exchange increased from a quarterly average of R4 160 million in 1982 to R8 198 million in the first quarter of 1983, before receding to R4 980 million in the second quarter. Turnover in the share market rose sharply from a quarterly average of R699 million in 1982 to R1 556 million and R1 029 million in the first and second quarters of 1983, respectively. The figure for the first quarter was partly inflated by foreigners' sales of listed securities, after the abolition of exchange control over non-residents on 7 February and the subsequent sharp drop in the price of gold. Net security sales by foreigners amounted to R570 million in the first quarter and to R296 million in the second quarter.

New funds raised in the fixed-interest security market by the public sector and by companies listed on the stock exchange amounted to R1 176 million in the first quarter and R511 million in the second quarter. The latter figure included substantially larger borrowing by the Central Government from the non-bank private sector in June in order to avoid the further use of bank credit in the financing of its revenue shortfall. This increased borrowing by the Government, mainly through open-market sales of government stock by the Reserve Bank, continued during the third quarter. New funds raised in the share market by companies listed on the stock exchange were limited to the small amounts of R3 million and R56 million in the first and second quarters, respectively.

In the mortgage market, the increased general availability of funds found expression in a substantially larger flow of funds to mortgage market intermediaries. Building societies' and participation mortgage bond schemes' intake of new funds increased from a quarterly average of R496 million in 1982 to R1 115 million in the first quarter of 1983 and R543 million in the second quarter. Accordingly, the amount of new mortgage loans granted by them rose from a quarterly average of R668 million in 1982 to R1 678 million and R1 634 million in the first and second quarters of 1983, respectively. From June, however, when there was a distinct change in the general availability of funds in the financial markets, the intake of new funds by these mortgage market intermediaries assumed notably smaller proportions.

Accompanying the general increase in financial activity and supported specifically by the higher level of mortgage lending, the value of real estate transactions rose from a quarterly average of R1 740 million in 1982 to R1 996 million and R2 792 million in the first and second quarters of 1983, respectively. Apart from the contribution of funds made available by mortgage market intermediaries, the further increase in real estate transactions was also related to either larger financing or direct participation by other financial institutions as well as by the household and corporate sectors.

Security and real estate transactions

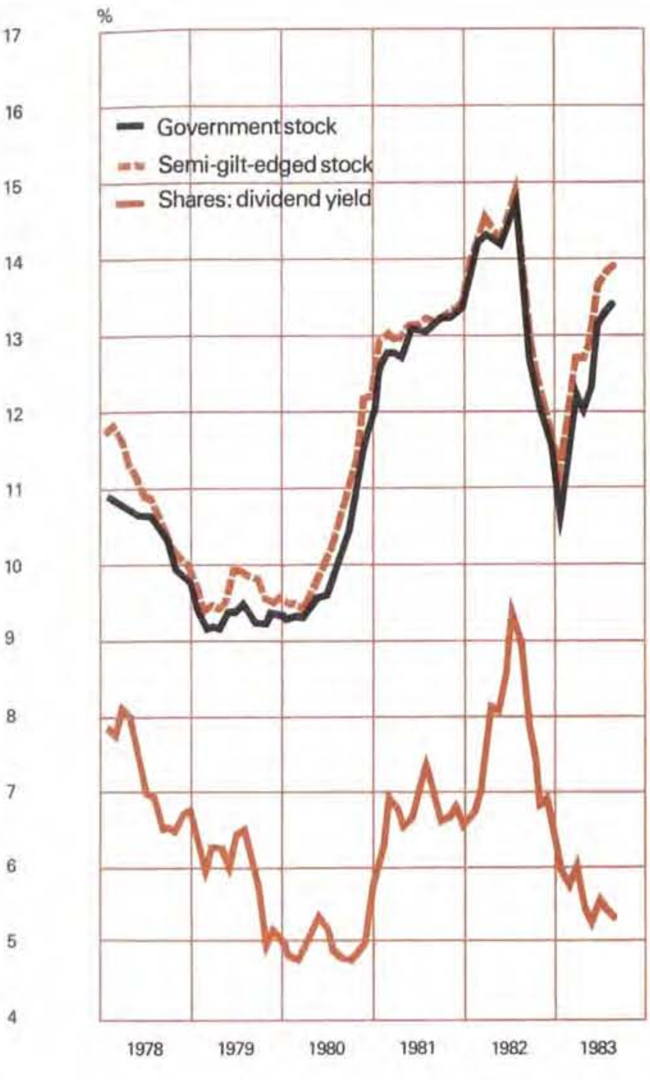


Changes in long-term interest rates

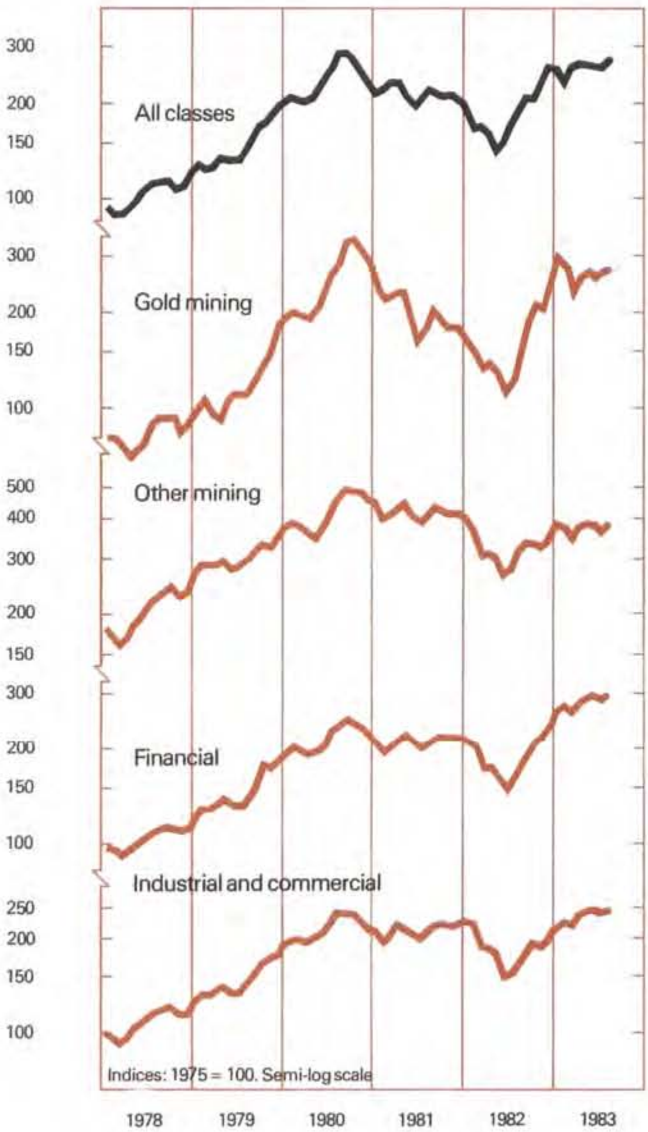
Long-term interest rates followed roughly the same course as short-term rates. A fairly sharp decline to early February 1983 was followed by an increase to the end of March, relatively little change during April and May and a pronounced new increase from June onwards. The monthly average yield on long-term government stock rose from a low of 10,6 per cent in January 1983 to 12,3 per cent in March. It remained at this level until May, but increased subsequently to 13,4 per cent in August. Likewise, the monthly average yield on semi-gilt-edged stock of the highest grade rose from 11,2 per cent in January 1983 to 12,7 per cent in March and to 13,9 per cent in August.

Changes in the average dividend yield on all classes of shares did not follow the same pattern as other long-term yields. With minor fluctuations, this yield continued its downward course throughout the first eight months of 1983, amounting to 6,0 per cent in March, 5,6 per cent in June and 5,3 per cent in August. Apart from

Long-term yields



Share prices



some reduction in dividends, this yield decline reflected a further upward movement of share prices. On average, share prices rose by 13 per cent from March to June, remained unchanged in July and subsequently rose by 2 per cent during August. During the five months to August gold mining share prices rose by 18 per cent, other mining share prices by 10 per cent, financial share prices by 13 per cent, and industrial and commercial share prices by 11 per cent.

The building societies' home mortgage rates rose by 0,5 per cent in August to a range of 14,5 – 15,5 per cent for loans up to R60 000. Previously, in July, the rates on loans in excess of R60 000 had been raised by 1,5 per cent to 16,75 – 17,0 per cent. The increases in the banks' and the building societies' lending rates from June 1983 were related to adjustments in deposit rates. For example, the predominant rate on twelve-month deposits with banks and building societies was raised in two steps from 10,5 – 11,0 per cent in June to 13,0 per cent in July.

At their levels in early 1983, most long-term as well as short-term interest rates were negative in real terms. However, owing to the subsequent upward movement of interest rates, most rates again became positive in real terms in July and August. Nevertheless, in comparison with real interest rates in those industrial countries which had achieved great success in bringing down inflation rates, these positive real interest rates were still relatively low.

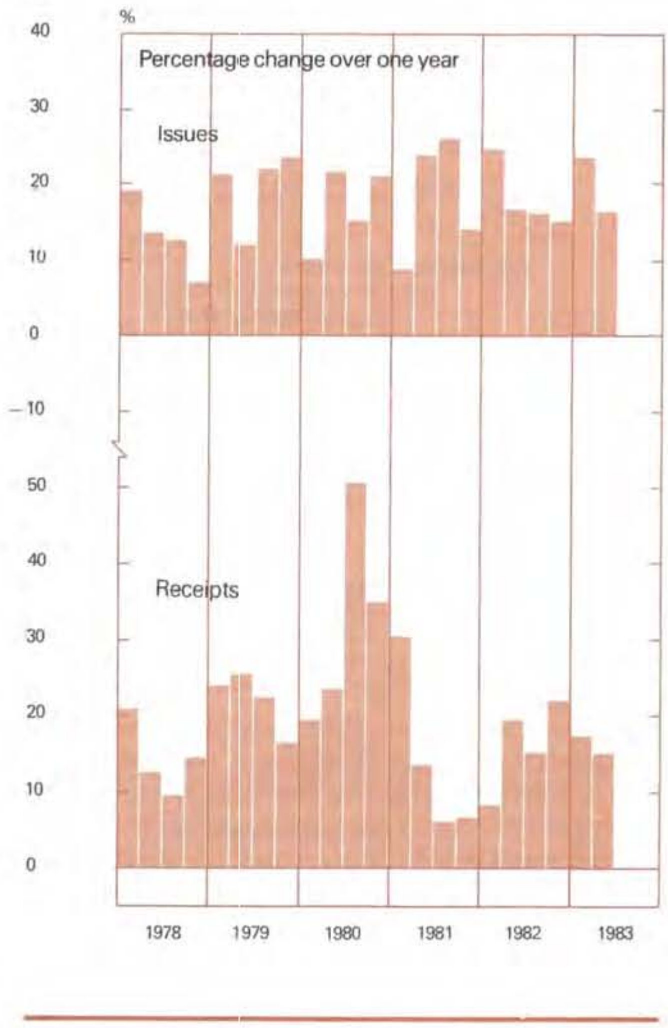
Government finance

Exchequer issues and receipts

Repeating the seasonal pattern of the past number of years, departmental issues from the Exchequer Account* rose sharply in the first four months of the 1983/84 fiscal year, i.e. the period April to July 1983. Compared with the corresponding period in 1982, the rate of increase amounted to 15,5 per cent, which was well in excess of the Budget estimate of 10,3 per cent for the fiscal year as a whole. Drought relief payments accounted for part of this increase in issues, but the higher level of issues also applied to several other expenditure categories.

Revenue collections during the first four months of the 1983/84 fiscal year were 8,3 per cent higher than in the corresponding period of the preceding fiscal year. The rate of increase was slightly lower than the Budget estimate of 9,6 per cent for the fiscal year as a whole. This lower rate of increase was due to an actual decline in aggregate receipts in July, compared with the corresponding month in 1982, primarily because of a much larger than expected drop in receipts of customs duties (including the import surcharge), a decline in income tax collections, and large transfers of revenue to neighbouring countries in terms of Customs Union Agreements. If these transfers are not taken into account, the rate of increase in aggregate receipts during the four months was slightly higher than the Budget figure. In particular, collections of income tax and mining lease payments from gold mining companies rose at a higher than expected rate. The rate of increase in income tax receipts from individuals exceeded the Budget estimate, but that in income tax receipts from non-gold mining companies was lower than expected because of smaller company profits.

Exchequer Account



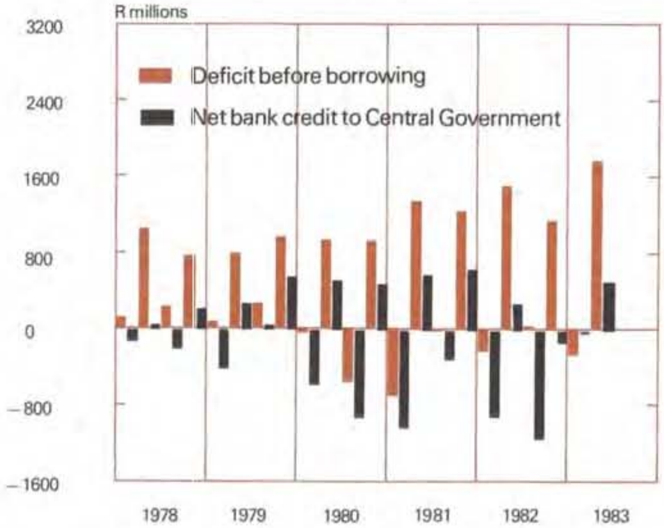
*The Exchequer Account is adjusted for changes in the balance on the Paymaster-General Account in order to bring Exchequer issues more in line with actual government expenditure.

Financing of the deficit before borrowing

Reflecting the widening gap between issues and receipts (net of transfer payments to neighbouring countries), the Exchequer Account deficit before borrowing and debt repayment amounted to as much as R2 276 million in the first four months of 1983/84. This deficit actually exceeded the Budget estimate of R2 082 million for the full fiscal year.

During the first two months of the fiscal year the deficit was financed partly by bank credit. Net bank credit to the Government increased by R488 million during these two months and accounted for the net

Exchequer deficit and monetary financing



bank credit extension to the broader government sector during the second quarter of 1983. However, owing to two tender issues of government stock in June and the Reserve Bank's substantial sales of government stock obtained on tap from the Treasury, the Government was able to step up its borrowing outside the banking system and to reduce its net indebtedness to the banking sector from June onwards. On balance, net bank credit to the Government amounted to R254 million during the first four months of 1983/84. The remaining part of the Exchequer Account deficit in these four months was financed by means of net borrowing of R910 million from the Public Debt Commissioners, R1 002 million from the non-bank private sector and R110 million from the foreign sector.

New government stock of R300 million was issued by tender in June. In addition, new government stock also to the amount of R300 million, was issued on tap to the Reserve Bank during June. Further tap issues of R450 million and R87 million were made to the Reserve Bank during July and August, respectively.