

Quarterly economic review

Summary and general observations

In the first quarter of 1983, real economic activity continued to reflect the cyclical downswing in the economy. Real gross domestic product showed a fairly large decline owing to a fall in real agricultural output as well as a decline in the real product of the non-agricultural sectors of the economy. Recessionary conditions were also reflected in a decrease in non-agricultural employment in both the third and fourth quarters of 1982 and, judging by a further increase in unemployment, also in the first quarter of 1983.

The decline in real gross domestic product in the first quarter may be explained by the absence of both the main generating forces of economic growth, namely an increase in real gross domestic expenditure and a rise in the volume of exports. Real gross domestic expenditure, in fact, showed its fourth consecutive quarterly decline. This decline extended to all the main expenditure components, namely private and government consumption expenditure and fixed and inventory investment. Up to the first quarter of 1983, the volume of exports had not begun to reflect the economic recovery in the United States and the other industrial countries.

The downward adjustment of real domestic demand from its exceptionally high levels in 1980 and 1981 had the beneficial effect of reducing demand pressures on prices and of restoring balance of payments equilibrium. In this respect, a major policy objective had been achieved. Nevertheless, the rate of inflation remained unacceptably high, mainly because of the continued effect on monetary demand of the exceptionally large monetary expansion during recent years, the associated continuing effects of the earlier large depreciation of the rand in terms of other currencies, the related high rates of increase in labour and other costs, further increases in administered prices, and the effect of the drought on food prices.

Assisted by an increase in the gold price and in the value of the net gold output, the moderation in domestic demand caused a sustained rapid improvement in the current account of the balance of payments. At a seasonally adjusted annual rate, the current account recorded a surplus of about R2 billion in the first quarter of 1983, while as recently as the first quarter of 1982 it had still been in deficit by as much as R6,6 billion.

The net inflow of capital from abroad during the second half of 1982 was reversed in the course of the first quarter of 1983. This was partly due to a net outflow of long-term capital from the private sector, mostly in the form of the repatriation of funds by foreigners after the abolition of exchange control over non-residents. In addition, a switch from foreign to domestic sources of trade finance towards the end of February and during

March gave rise to a net outflow of short-term capital during the first quarter as a whole. The surplus on the overall balance of payments in the second half of 1982 was, therefore, reduced to much smaller proportions in the first quarter. As a result, the net gold and other foreign reserves, which showed a sharp decline during the second half of February and during March, increased only moderately during the first quarter. This was accompanied by a slight further appreciation of the rand against other currencies.

Despite the negative rate of real economic growth and the improvement in the current account of the balance of payments, the Minister of Finance in his Budget Speech at the end of March came to the conclusion that a policy of reflation would be inappropriate. This was because it was deemed an essential part of the preparation for the next cyclical upswing in the economy to reduce the rate of inflation and to rebuild the net foreign reserves. Economic policy would, however, be adjusted continuously to changing circumstances. Adjustments had already been made towards the end of 1982 when the monetary authorities had consciously permitted some increase in liquidity and a substantial decline in interest rates.

The rate of increase of the broad money supply showed some acceleration during the first quarter of 1983. A combination of a rise in the net gold and other foreign reserves of the monetary banking sector and of an increase in this sector's claims on the non-bank private sector was mainly responsible for this further monetary expansion. In addition, the contractionary influence on the money supply of a decline in net bank credit to the government sector during 1982, largely disappeared in the first quarter of 1983 because of a sharp increase in this form of credit during March. Viewed over a somewhat longer period, the rate of increase in the broad money supply between March 1982 and March 1983 amounted to 17 per cent, which was roughly in line with the increase during 1982 and substantially lower than those of 1980 and 1981.

During the first quarter and the ensuing period, the money market was subjected to strong alternating expansionary and contractionary influences. A sharp increase in the Reserve Bank's net foreign reserves during January and most of February was followed by the usual seasonal flow of tax funds to the Government over the February month-end and a considerable decline in the Reserve Bank's net foreign reserves during March. During April these reserves increased again before declining once more during May, and this was accompanied by a higher level of government spending. In these circumstances, the Reserve Bank had to adapt its operations in the market continuously to iron out large fluctuations in market conditions and interest

rates and, at the same time, to prevent an unduly large expansion of the money supply. Money market interest rates continued their downward movement, which had begun in September 1982, up to the middle of February, but increased during the ensuing period. To a large extent, the renewed increase reflected a change in interest rate expectations. Expectations that interest rates would continue their rapid decline were changed significantly by the sharp fall in the gold price and the reversal of the net capital inflow from abroad during the latter part of the first quarter.

The capital market was characterised by an increased availability of funds in the first five months of 1983. This was caused by a combination of a further expansion of liquidity in the economy and a slow-down in the demand for funds for the financing of real economic activity. The increased availability of funds gave rise to high levels of activity in all sections of the market. Nevertheless, the decline in long-term yields in the fixed-interest security market was reversed during February, mainly because of the change in interest rate expectations. Yield levels were, therefore, notably higher in May than in December 1982. In the share market, prices fluctuated sharply, but increased on balance during the first quarter, before resuming an upward trend during April and May. In the mortgage and real estate markets, the increased availability of funds was reflected in a sharp rise in mortgage lending and a further increase in the value of real estate transactions.

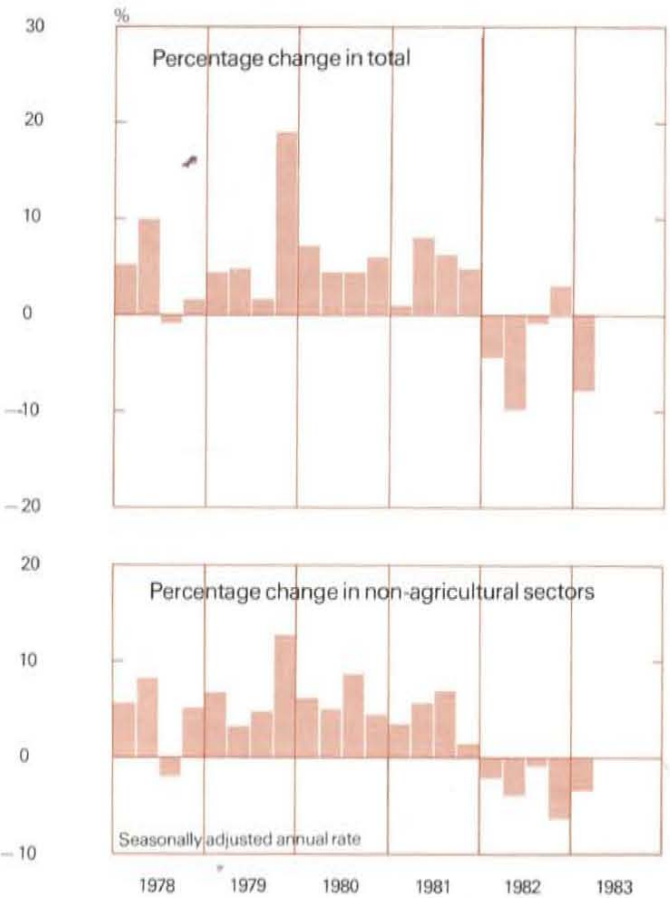
Domestic economic activity*

Further decrease in real domestic output

National accounts estimates for the first quarter of 1983 indicate a continuation of recessionary conditions in the South African economy. Real gross domestic product showed a fairly large decline, reflecting not only a fall in real agricultural output but also a decline in the real product of the non-agricultural sectors.

The decrease in real agricultural output did not, as yet, reflect the effect of the severe drought conditions on summer crops, but merely a downward adjustment from the high level of output in the fourth quarter of 1982, when record winter crops were harvested. In the non-agricultural sectors, notably large decreases were recorded in the real product of manufacturing and of the wholesale and retail trade, mainly as a result of the sustained decline in real domestic demand. The only sectors to show an increase in real value added were non-gold mining, the motor trade and general government services. The higher real output of the non-gold mining sector was particularly evident in copper, chrome and

Real gross domestic product



* Quarterly changes are based on seasonally adjusted data.

platinum production, but this was not reflected in higher exports, but in an accumulation of inventories. Increased motor vehicle sales and a rise in employment were mainly responsible for the higher real value added by the motor trade and general government services, respectively.

Mainly because of an increase in the price of gold, South Africa's terms of trade improved further in the first quarter of 1983. However, the effect of this improvement was neutralised by an increase in real net factor payments to the rest of the world. As a result, real gross national product declined more or less at the same rate as real gross domestic product.

The increase in nominal gross domestic product decelerated further in the first quarter of 1983 to a comparatively low figure. This was due to the continued moderation of salary and wage increases as a result of easier conditions in the labour market, and an actual decline in total gross operating surplus. The latter decline was related to lower agricultural income and a decline in the net profits of industrial and commercial companies.

Sharp decline in real gross domestic expenditure

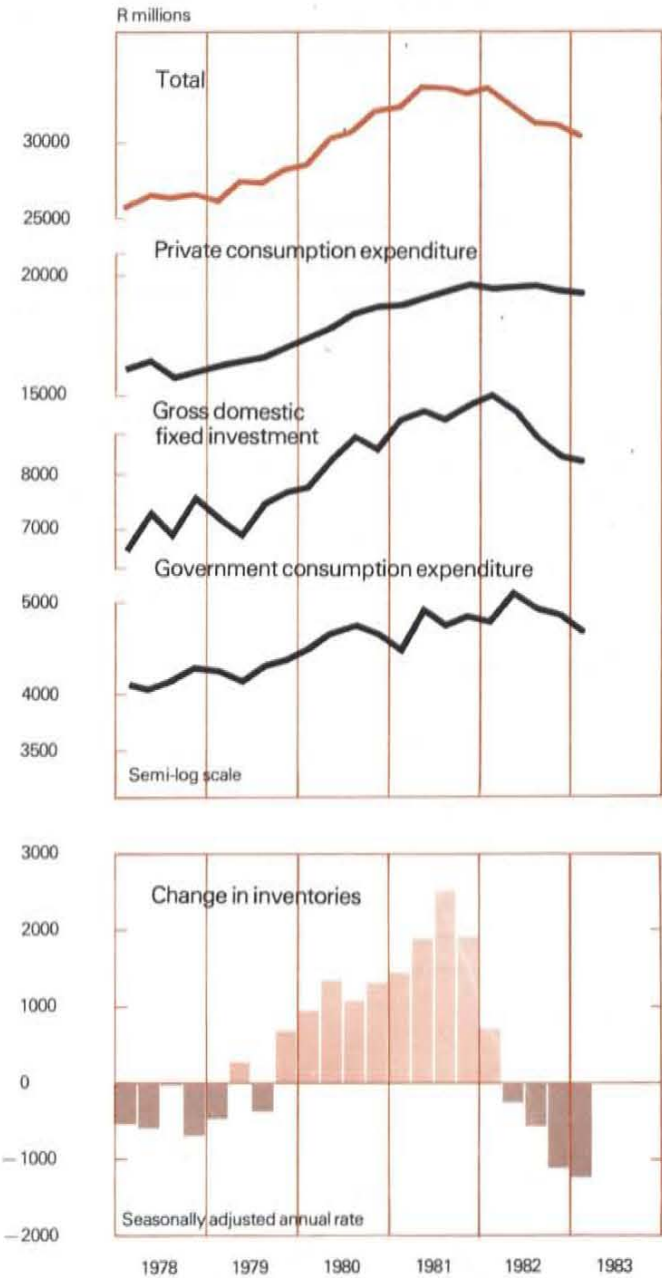
As in the preceding three quarters, real gross domestic expenditure declined in the first quarter of 1983. For the second consecutive quarter, declines occurred in all the main expenditure components. The sustained fall in gross domestic expenditure to a large extent explained the negative rate of real economic growth.

Looking at the main expenditure components, the decrease in real private consumption expenditure in the first quarter was the net result of declines in outlays on durable and semi-durable goods, and small increases in outlays on more essential non-durable goods and on services. This expenditure pattern clearly reflected the response of consumers to a decline in real personal disposable income. The cut-back in real consumer outlays on semi-durable goods was particularly evident in the category clothing and footwear, while the further decline in expenditure on durable goods was reflected in almost all categories. Only in the case of personal transport equipment was there a small increase in real outlays.

Real government consumption expenditure declined for the third consecutive quarter, but its main components showed divergent changes in the first quarter. Real salaries and wages, reflecting employment by general government, increased moderately, while real outlays on goods and other services declined. The level of the latter expenditure in the first quarter of 1983 was about 25 per cent lower than the peak reached in the second quarter of 1982.

The downturn in real gross domestic fixed investment from the second quarter of 1982 continued in the first quarter of 1983. A small increase in the private sector's real fixed investment was more than offset by declines in that of public authorities and public corporations. The increase in the real fixed investment of the

Gross domestic expenditure at constant 1975 prices



private sector was accounted for by higher outlays on gold mining installations and on commercial and residential buildings. Residential construction benefited materially from the increased availability and lower cost of funds in the mortgage market.

The decline in the real fixed investment of public authorities resulted largely from a sharp reduction in outlays by the South African Transport Services. Outlays by the Department of Posts and Telecommunications and investment expenditure on government housing schemes and general government services actually increased in the first quarter. Lower real capital expenditure by the

public corporations was accounted for by reduced outlays by Sasol and Iscor, which more than offset increased outlays by Escom.

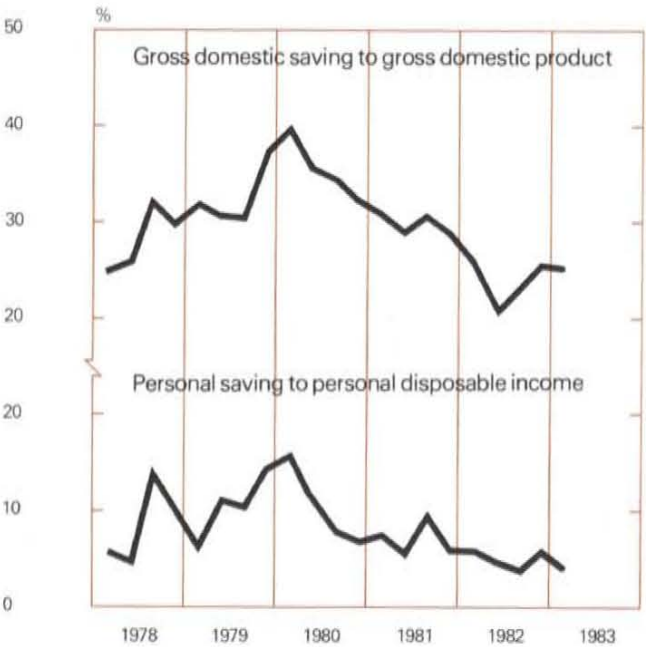
The production capacity of the manufacturing sector, as measured by the real fixed capital stock, increased further in the first quarter of 1983. In conjunction with the decline in the volume of manufacturing production, this caused the utilisation of production capacity to fall to 84,6 per cent.

Real inventory investment, the most volatile component of real gross domestic expenditure, assumed fairly large negative proportions in the first quarter of 1983. This was reflected in a decline in real manufacturing, wholesale, retail and motor vehicle inventories. On the other hand, some additions were made to diamond stocks and the inventories of the sector electricity, gas and water. The ratio of real inventories (excluding strategic and agricultural inventories) to the real gross domestic product of the non-agricultural sectors declined further from its most recent peak of 35½ per cent in the first quarter of 1982 to 34 per cent in the first quarter of 1983.

Further increase in gross domestic saving

Gross domestic saving increased markedly during the past three quarters to a level of R21 billion in the first quarter of 1983. As a ratio of gross domestic product, it amounted to 25 per cent, compared with a low of 20 per cent in the second quarter of 1982. Personal and corporate saving declined somewhat in the first quarter, but the saving of general government and provision for depreciation increased.

Savings ratios



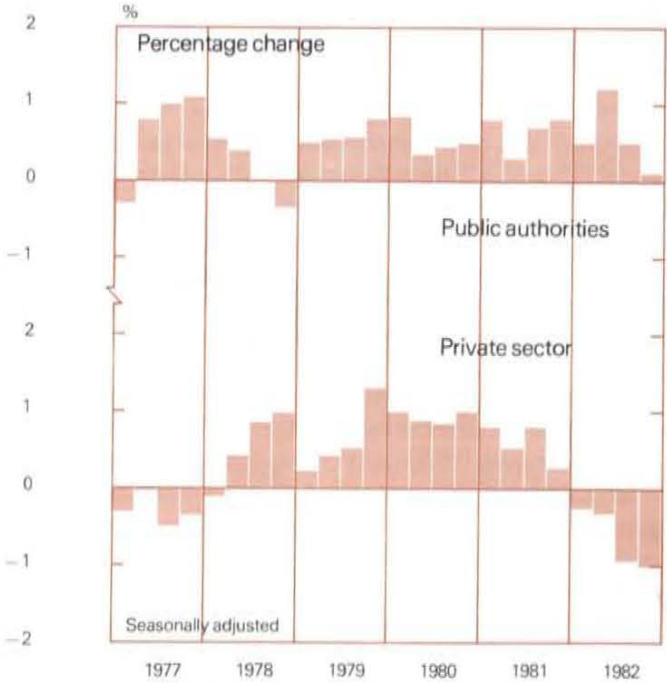
The decline in personal saving reflected a larger increase in private consumption expenditure than in personal disposable income. The increase in personal income decelerated notably because of a moderation of salary and wage increases and a decline in property and entrepreneurial income that resulted mainly from lower agricultural income. As a ratio of personal disposable income, personal saving amounted to only 3½ per cent in the first quarter, compared with an already low ratio of 4½ per cent in 1982. The decline in corporate saving was caused by lower company profits.

Decline in employment*

The economic downswing was not only reflected in a decline in real gross domestic product and expenditure, but also in lower employment levels in the non-agricultural sectors of the economy. At a seasonally adjusted annual rate, non-agricultural employment remained virtually unchanged in the first two quarters of 1982, but declined by 2,3 per cent and 2,8 per cent in the third and fourth quarters of 1982, respectively. For the year as a whole, a marginal increase of only 0,4 per cent was recorded, against 2,9 per cent in 1981.

Non-agricultural employment in the private sector actually declined by 0,5 per cent in 1982, while employment by public authorities increased by 2,7 per cent. In

Employment in non-agricultural sectors



*Statistics relating to employment and labour remuneration in the non-agricultural sectors of the economy are only available up to the end of 1982.

the private sector, employment declines were recorded in manufacturing, construction, gold mining and other mining. Employment in commerce increased marginally and somewhat larger increases occurred in employment by financial institutions and electricity supply organisations.

As a result of the lower employment levels in various sectors of the economy and the natural increase in the working population, unemployment increased further during 1982 and the first quarter of 1983. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians increased from its most recent trough of 14 905 in August 1981 to 32 790 in December 1982 and 38 440 in March 1983. The ratio of unemployed Blacks to the economically active Black population rose from 8,0 per cent in January 1982 to 9,0 per cent in January 1983.

Decrease in productivity

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, declined by 0,8 per cent in 1982, following upon a rise of 2,1 per cent in the preceding year. This decline reflected the combination of an increased labour input and a simultaneous decline in real output. The increase in real output per man-hour in manufacturing slowed down from 3,4 per cent in 1981 to 1,2 per cent in 1982. Considering real output per unit of labour and capital, overall productivity in the non-agricultural sectors of the economy declined by 2,6 per cent in 1982, against an increase of 1,9 per cent in 1981.

Further increase in nominal and real remuneration of labour

Despite the economic slow-down, nominal salaries and wages continued to rise at a high rate in 1982 and it appeared that salaries and wages would be adjusted only with some time lag to the changed economic circumstances. In nominal terms, the average remuneration per worker in the non-agricultural sectors of the economy increased by 18,6 per cent in 1982, compared with 20,5 per cent in 1981. Adjusted for price increases, real salaries and wages per worker increased by 3,4 per cent in 1982.

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

	1980	1981	1982
At current prices			
Whites	17,5	21,8	17,0
Other population groups	19,9	20,5	19,5
Total	18,0	20,5	18,6
At constant 1975-prices			
Whites	3,2	5,7	2,0
Other population groups	4,3	2,9	5,2
Total	3,7	4,6	3,4

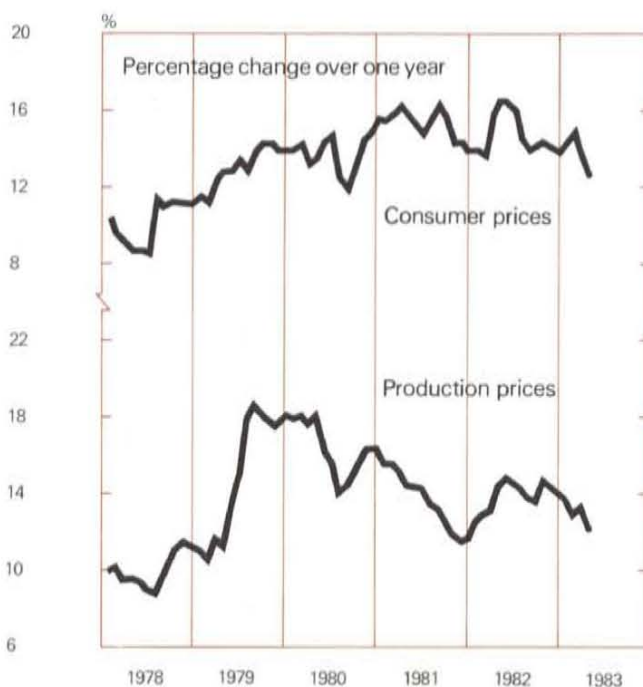
The high rate of increase in nominal salaries and wages per worker at a time when labour productivity declined, resulted in a rise in unit labour costs. In the non-agricultural sectors, the increase in unit labour costs accelerated from 18,0 per cent in 1981 to 19,5 per cent in 1982. The successive sharp rises in unit labour costs not only affected profits adversely, but also came to be reflected in higher prices.

Sustained high rate of inflation

The increase in consumer prices, which had slowed down during the third and fourth quarters of 1982, accelerated again in the first quarter of 1983. Higher food prices, in particular the sharp rise in vegetable prices as a result of prevailing drought conditions, were mainly responsible for this acceleration. On average, the prices of all other goods rose at a significantly lower rate in the first quarter. To a large extent, this reflected lower rates of increase in the prices of durable consumer goods, such as motor cars and furniture. A higher rate of increase in the cost of services also contributed to the more rapid rise in consumer prices in the first quarter. Accelerated cost increases were particularly evident in the case of rent, wages of domestic assistants and transport tariffs.

In terms of changes over a twelve-month period, the rate of increase in consumer prices eased somewhat in March and April. On this basis, the increase decelerated from 15,0 per cent in February to 13,6 per cent in March and 12,6 per cent in April.

Prices



The slow-down of the increase in production prices in the last two quarters of 1982 continued in the first quarter of 1983. The increase in the prices of imported goods, which had remained at a high level throughout 1982, moderated significantly in the first quarter of 1983. It would appear, therefore, that the appreciation of the rand during the second half of 1982 was beginning to have its effect on import prices in early 1983. On the other hand, the deceleration of the increase in the prices of domestically produced goods, which had been responsible for the overall slow-down in production prices in the second half of 1982, was not maintained in the first quarter of 1983. These production prices rose, on average, at the same rate as in the fourth quarter of 1982. Higher rates of increase than in the preceding quarter were in fact recorded in the prices of domestically produced agricultural products, electricity, transport equipment, wood products, food, beverages and tobacco. Compared with the corresponding month in the preceding year, production prices increased by 13,3 per cent in March and by 12,0 per cent in April.

Balance of payments

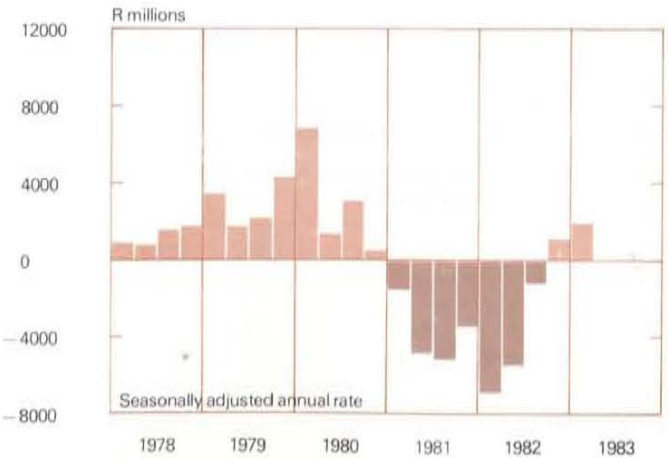
Increased surplus on current account

The current account of the balance of payments, which had moved into surplus in the fourth quarter of 1982, improved further in the first quarter of 1983. At a seasonally adjusted annual rate, a surplus of about R2 000 million was recorded, compared with a surplus of about R1 100 million in the preceding quarter and a deficit of no less than R6 565 million as recently as the first quarter of 1982. As shown in the accompanying table, the sharp turnaround was due largely to a sharp decline in merchandise imports and a considerable rise in the value of the net gold output. Reflecting the tardy economic recovery in the industrial countries, merchandise exports increased only slightly from the first quarter of 1982 to the first quarter of 1983. During this four-quarter period, net service and transfer payments to foreigners showed a moderate further increase.

In the first quarter of 1983, there was a slight fall in the value of merchandise exports, mainly because of the lowering effect of the appreciation of the rand on export prices. As during the whole of 1982, the volume of exports showed little change in early 1983. In the first quarter, value increases in export categories such as vegetable products, processed foodstuffs and textiles were offset by declines in the categories mineral products, chemical products and paper products.

The value of the net gold output, which had risen sharply during the second half of 1982, declined slightly in the first quarter of 1983. This decline occurred notwithstanding an increase in the gold price and reflected a decrease of 5 per cent in the volume of the net gold output. On the London gold market the gold price rose from an average of US \$427 per fine ounce in the last quarter of 1982 to US \$465 per fine ounce in the first quarter, an increase of about 9 per cent. Because of the

Balance on current account



Current account of balance of payments

Seasonally adjusted annual rates
R millions

	1982				1983
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Merchandise exports	10 008	10 046	10 108	10 366	10 210
Net gold out-put	6 970	7 085	9 482	10 971	10 800
Merchandise imports	-20 070	-19 320	-16 679	-16 327	-15 210
Net service and transfer payments ...	-3 473	-3 273	-4 136	-3 906	-3 790
Balance on current account	-6 565	-5 462	-1 225	1 104	2 010

appreciation of the rand against the US dollar, the corresponding increase in the rand price of gold was only 4½ per cent. In the course of the first quarter the gold price declined sharply, namely from US \$492 per fine ounce in February to US \$420 per fine ounce in March. Subsequently, the price per fine ounce averaged US \$433 and US \$437 in April and May, respectively.

In line with the generally slower increase in nominal gross domestic expenditure, the value of merchandise

imports declined by a further 6,5 per cent in the first quarter of 1983. From the peak in the first quarter of 1982 to the first quarter of 1983, the value of imports shrunk by as much as 24 per cent. In volume terms, the decline in imports amounted to 9 per cent in the first quarter of 1983, a continuation of the trend which had been in evidence from the third quarter of 1981. Except for an increase in the value of imports in the category paper and paper products in the first quarter, declines were recorded in all the main import categories, in particular in mineral products, chemical products, textiles, machinery and electrical equipment, and transport equipment.

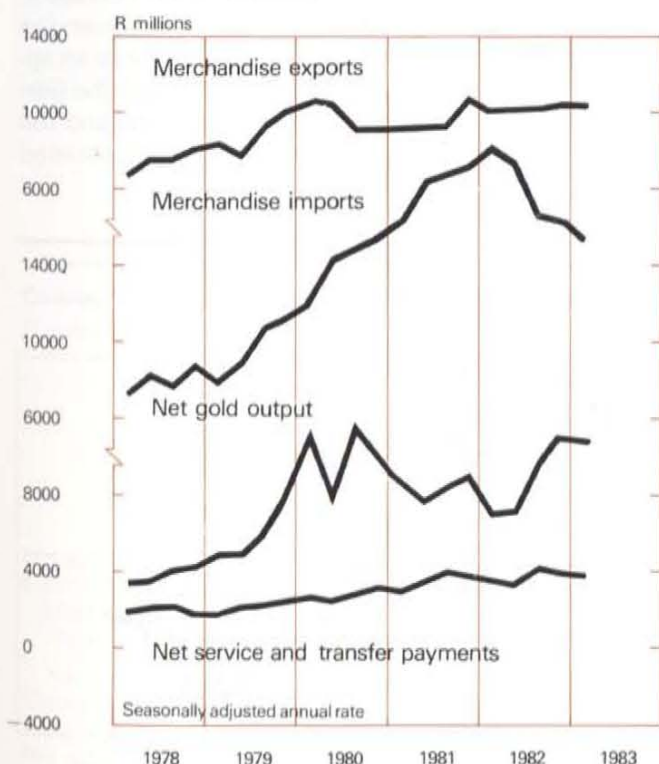
Net service and transfer payments to foreigners declined slightly in the first quarter of 1983. An increase in dividend payments was more than offset by declines in freight, merchandise insurance and other transport payments.

Net outflow of capital

The net inflow of capital during the last three quarters of 1982 was reversed in the first quarter of 1983. Excluding changes in liabilities related to reserves, the net capital outflow in the first quarter amounted to R645 million. Of this amount, R274 million represented a net outflow of long-term capital and R371 million a net outflow of short-term capital.

As shown in the accompanying table, the private sector recorded a fairly large net outward movement of long-term funds in the first quarter. This consisted mainly of the repatriation of the proceeds of security sales by foreigners on the Johannesburg Stock Exchange after the abolition of the financial rand system on 7 February. Further net borrowing by public corporations partly offset this net capital outflow from the private sector. The net outflow of short-term capital in the first quarter reflected a switch from foreign to domestic

Main current account items

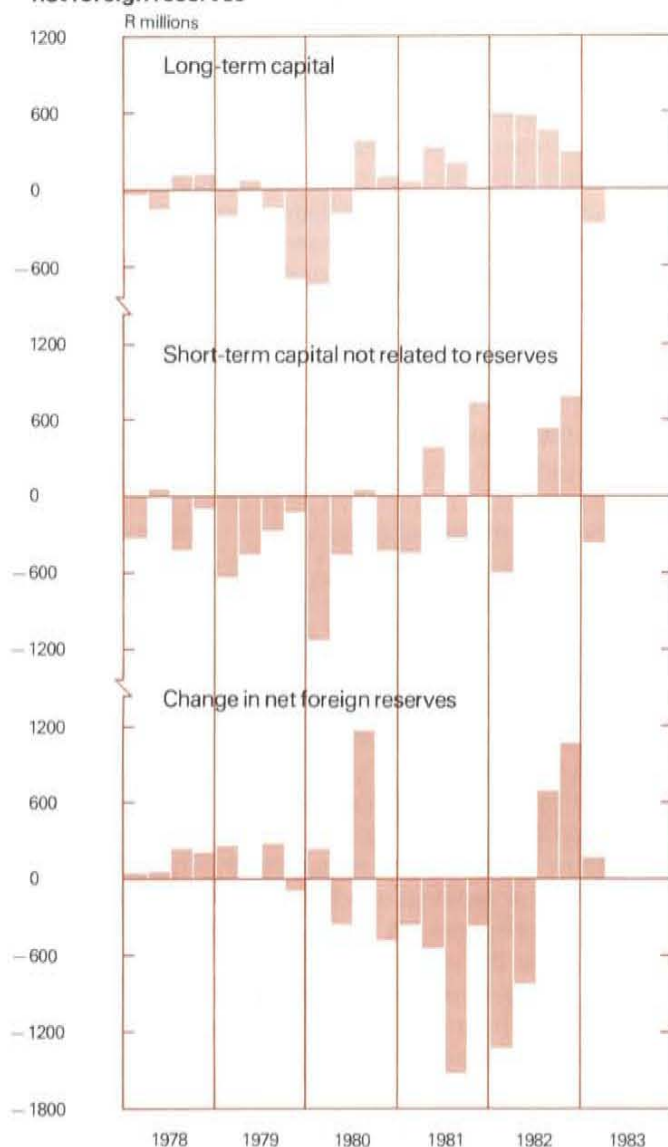


Net capital movements (not related to reserves)

R millions

	1982				1983
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Long-term capital					
Central government and banking sector...	306	346	201	272	-52
Public corporations and local authorities...	47	70	112	106	181
Private sector	242	158	143	-90	-403
Total	595	574	456	288	-274
Short-term capital, not related to reserves, including unrecorded transactions	-607	-3	531	780	-371
Total net capital movements	-12	571	987	1 068	-645

Net capital movements and changes in net foreign reserves



financing of trade during the latter part of this period. The fall in the gold price towards the end of February and during March reversed the previously existing expectations that the rand would appreciate against other currencies. 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 nominal South African rates and, therefore, also the inducement to use foreign credits.

Small further increase in net foreign reserves

Total net gold and other foreign exchange reserves, which had risen by R1 745 million during the second half of 1982, increased by a further R697 million during January 1983. Subsequently, during February and

March, these reserves declined by R533 million. On balance, therefore, net foreign reserves increased by R164 million during the first quarter as a whole. Notwithstanding the increase during the nine months to March, the level of the net reserves remained relatively low.

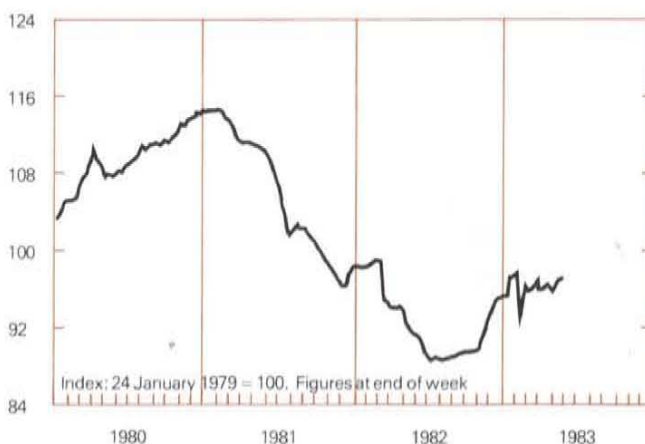
The gross gold and other foreign reserves were supplemented by an increase of R149 million in liabilities related to reserves. On the other hand, the valuation of the gold reserves at a lower price, together with other valuation adjustments, caused a decline of R419 million in the gross foreign reserves. Taking everything into account, the gross foreign reserves declined by R106 million during the first quarter to reach a level of R4 206 million at the end of March. During April the gross foreign reserves of the Reserve Bank increased by R420 million, but this was followed by a decline of R323 million during May.

Further appreciation of the rand

After the effective exchange rate of the rand had increased by almost 10 per cent from the end of July 1982 to the end of January 1983, it declined by 4,7 per cent immediately after the abolition of the financial rand system on 7 February. However, by the end of February the effective exchange rate had risen again by 3½ per cent above its level on 7 February. During the subsequent three months it fluctuated around this level and at the end of May it was 2,1 per cent higher than at the end of 1982.

As shown in the accompanying table, the increase in the average value of the rand against other currencies during the first five months of 1983 was due to an appreciation of the rand against the British pound, the German mark, the Swiss franc, the French franc and the Japanese yen. On the other hand, the rand depreciated slightly against the US dollar.

Effective exchange rate of the rand



Changes in the exchange rates of the rand

%

	Sept 1982 to Dec 1982	Dec 1982 to Mar 1983	Dec. 1982 to May 1983
Effective exchange rate	6,1	1,3	2,1
US dollar	7,6	-2,0	-0,1
British pound	12,4	7,7	0,8
German mark	1,1	-0,1	5,7
Swiss franc	-1,3	2,1	4,3
Japanese yen	-6,0	-0,3	1,4
French franc	1,0	6,0	12,1

Money and banking*

Sustained large quarterly fluctuations in money supply

Figures for the first quarter of 1983 once again demonstrated the extreme volatility of *quarterly* changes in the money supply. At a seasonally adjusted annual rate, the broad money supply (M2) showed successive quarterly increases of 27, 9, 17 and 19 per cent during 1982, before rising by 25,6 per cent during the first quarter of 1983. In themselves, these *quarterly* fluctuations in the money growth rate are not very significant. To a large extent they reflect weaknesses in the month-end monetary statistics produced by a number of short-lived random factors affecting the banks' and the public's financial position at month-ends. For the rest they are mainly caused by the frequent occurrence of "dis-intermediation" and "reintermediation". To draw meaningful conclusions from the monetary statistics, it is therefore necessary to view their behaviour over somewhat longer periods, such as twelve months. If this is done, the figures show that between March 1982 and March 1983 the increase in M2 amounted to 17,4 per cent in March 1983. The corresponding increase in the narrow money supply (M1) over this twelve-month period amounted to 14,5 per cent.

Causes of changes in M2

In terms of an *ex post* analysis of the statistical "causes" of changes in M2, the sharp rise during the first quarter of 1983 was due to a combination of an increase in the net gold and other foreign reserves of the monetary banking sector and an increase in this sector's claims on the private sector. This expansionary influence was partly offset by a slight decline in net bank credit to the

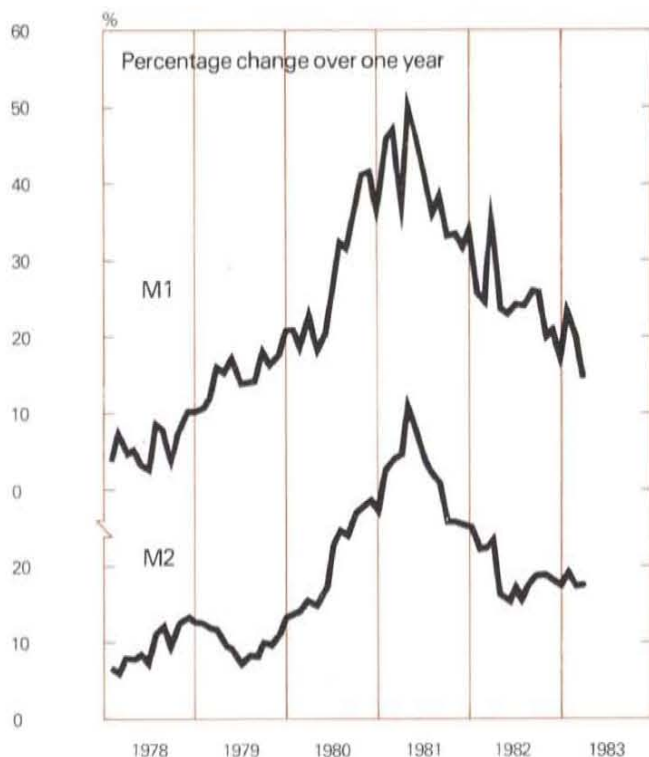
*Owing to the usual annual revision of seasonal factors, seasonally adjusted changes may differ from those published previously.

Causes of change in M2

R millions

	Year 1982	Not seasonally adjusted		Seasonally adjusted	
		4th qtr 1982	1st qtr 1983	4th qtr 1982	1st qtr 1983
Net gold and other foreign reserves	-423	1 057	164	1 009	857
Claims on government sector:					
Gross claims	181	-148	10
Government deposits (increase-, decrease+)	-2 219	-280	-463
Net claims	-2 038	-428	-453	-690	- 11
Claims on private sector	4 418	640	1 378	893	973
Long-term deposits (increase-, decrease+)	-90	345	-298	231	-189
Net other assets	1 679	-391	239
Total changes in: M2	3 546	1 223	1 030	984	1 387
M1	1 826	405	523	-123	1 041

Money supply



government sector and an increase in long-term deposits of the private sector with monetary banking institutions.

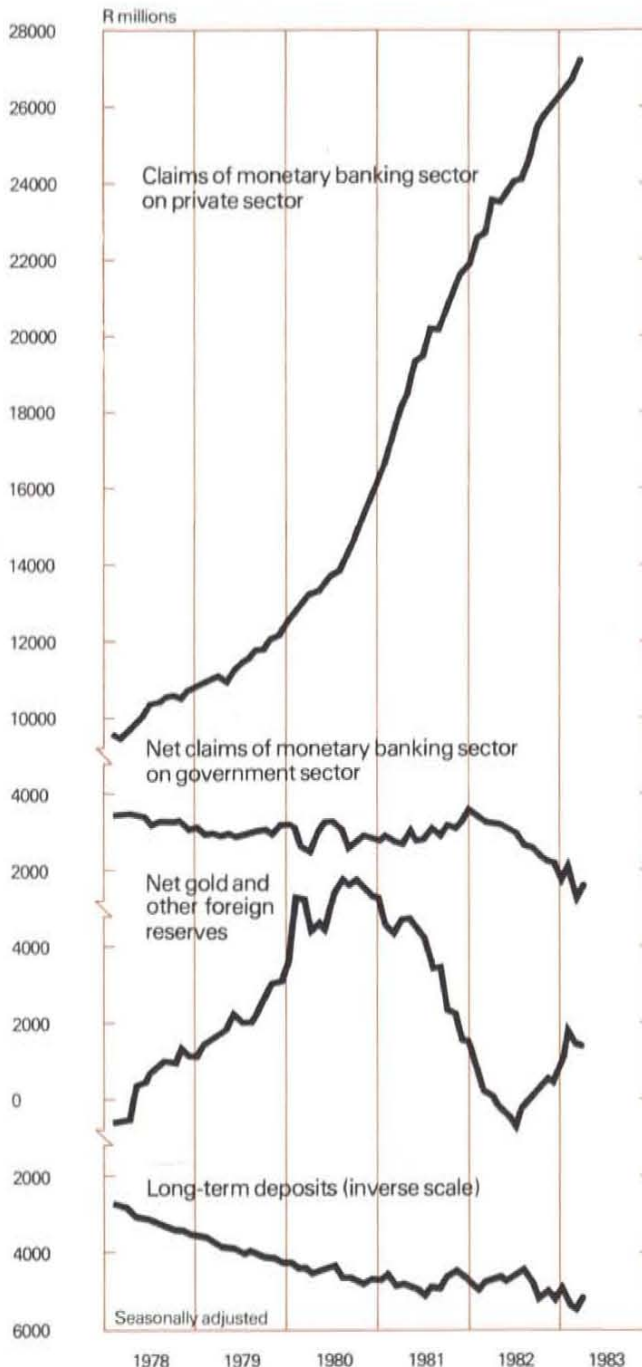
The increase in the net reserves during the first quarter occurred mainly during the first half of this period. The subsequent decline had a contractionary effect on the money supply, but part of this effect was neutralised by increased Reserve Bank credit to the private sector. The latter consisted of an accommodation of other banking institutions through a transfer of private-sector securities to the Bank. Net bank credit to the government sector also changed significantly in the course of the first quarter. The decline was concentrated in February, and during March a considerable increase was again recorded.

Change in composition of bank credit to the private sector

Total claims of the monetary banking sector on the private sector increased at a seasonally adjusted annual rate of 16 per cent during the first quarter of 1983. This rate of increase was equal to that in the preceding quarter, but appreciably lower than the increase of 20 per cent during 1982.

As shown in the accompanying table, there was a notable change in the composition of the monetary banking sector's claims on the private sector from the fourth quarter of 1982 to the first quarter of 1983. Credit

Causes of changes in M2



extended by the Land Bank declined substantially, probably because of a decline in agricultural inventories and the granting of less producers' credit as a result of the drought. In addition, there was a shift in holdings of private-sector securities to the Reserve Bank from other banking institutions, mainly because the provision of accommodation by the Bank to other banking institutions involved the transfer of private-sector securities to the Bank. This represented increased Reserve Bank credit to the private sector. Finally, there was a substan-

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

Not seasonally adjusted
R millions

	4th qtr 1982	1st qtr 1983
Reserve Bank, NFC and discount houses	-43	380
Land Bank	204	-330
Other monetary banks:		
Deposits and investments	343	-298
Bills discounted	125	166
Hire-purchase credit	131	187
Leasing finance	145	75
Other loans and advances	-265	1 198
Total	640	1 378

tial increase in the commercial, merchant and general banks' loans and advances other than hire-purchase credit and leasing finance. This reflected the shift from foreign to domestic financing of foreign trade referred to earlier, and the greater use of overdraft facilities owing to a narrowing of the margin between overdraft rates and the rates on money market paper.

Decline in bank liquidity

Bank liquidity, as measured by the ratio of holdings of excess liquid assets to liabilities to the public, was fairly comfortable during the fourth quarter of 1982 and January 1983, but it declined appreciably during the subsequent two months. The excess liquid asset ratio declined from 3,4 per cent at the end of January to 1,8 per cent at the end of March. During these two months required liquid assets rose by R277 million, while actual liquid asset holdings declined by R232 million. The latter was due to a decline in the net gold and other foreign reserves of the Reserve Bank and a decrease in credit to the Land Bank ranking as liquid assets. This contractionary influence on the banks' liquidity base was partly offset by larger holdings of liquid bankers' acceptances and by a decline in government deposits.

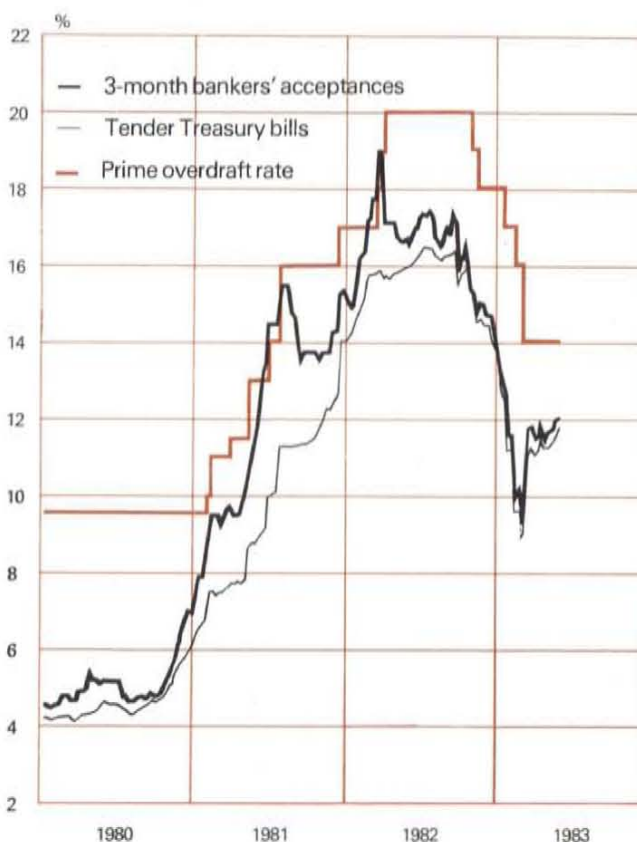
Money market conditions and interest rates

Following upon a very tight December month-end, conditions in the money market eased slightly during January and the larger part of February. The market, however, tightened considerably over the February month-end owing to the seasonal flow of funds to the Government. During March, and in particular over the month-end, the market experienced serious liquidity problems which were mainly related to a net outflow of funds from South Africa. During April market conditions eased considerably owing to an increase in the gold and other foreign reserves of the Reserve Bank. In May the foreign reserves declined again, but owing to a higher level of government spending, money market conditions did not tighten until the month-end.

Reserve Bank accommodation to the discount houses increased from R748 million on 31 December 1982 to R794 million on 28 February 1983. In addition, assistance of R30 million was provided to banking institutions over the February month-end. At the end of March the shortage of funds in the market that had to be accommodated by the Reserve Bank amounted to R1 105 million, including loans of R229 million to banking institutions. Prior to the month-end, deposits of R250 million and R109 million had been placed with the discount houses by the Public Debt Commissioners and the National Finance Corporation, respectively. If these deposits are taken into account, the total shortage of funds in the market at the end of March came to the considerable amount of R1 464 million. At the end of April the shortage declined to R711 million, including deposits of R140 million by the National Finance Corporation with discount houses. By the end of May all deposits had been withdrawn by the National Finance Corporation, but Reserve Bank accommodation to the discount houses and to banking institutions amounted to R658 million and R93 million, respectively.

Money market interest rates started to decline towards the end of September 1982 and this trend continued well into February 1983. However, from late February to the end of March these rates showed a re-

Short-term interest rates



newed increase as a result of the tight market conditions. From early April, when market conditions eased somewhat, money market rates were influenced considerably by interest rate expectations and a clear trend could not be discerned. The rate on three-month bankers' acceptances declined from 14,25 per cent on 31 December to 9,90 per cent on 18 February, increased to 11,75 per cent on 31 March and to 12,00 per cent on 3 June. The corresponding rates on Treasury tender bills amounted to 14,10 per cent, 9,56 per cent, 11,24 per cent and 11,75 per cent, respectively.

The prime overdraft rate of clearing banks, which was reduced from 16 per cent to 14 per cent on 7 March, remained unchanged until the middle of June, when it was increased to 15 per cent. Maximum lending rates, fixed in terms of the Limitation and Disclosure of Finance Charges Act, were reduced by 2 per cent from 2 May 1983. Deposit rates of banking institutions started to decline during the last quarter of 1982 and were adjusted further downwards during the first quarter of 1983. Subsequently, some institutions adjusted their deposit rates slightly upwards.

Reserve Bank operations in the financial markets

During the first two months of 1983 the Reserve Bank operated extensively in the financial markets in order to iron out large fluctuations in money market conditions and to prevent an unduly large expansion of the money supply. Sales of government stock by the Bank during these two months amounted to R202 million. In addition, special Treasury bills, maturing at the end of February, were sold to the amount of R350 million. During March the Reserve Bank did not operate in the market and government stock sales by the Bank amounted to only R2 million. In view of an expected easing of the money market from the beginning of April, mainly because of increased government spending, various measures were taken to prevent an unduly large increase in the availability of funds in the market. These included an increase in the amount of Treasury bills offered at the weekly tender, a variation of the deposits of the National Finance Corporation with discount houses in accordance with changes in money market conditions, sales of government securities to the amounts of R13 million in April and R108 million in May, and sales of special Treasury bills totalling R100 million on 4 May. These bills are due to mature on 31 August. Supplementing these measures, a public issue of government stock withdrew a net amount of R93 million from the market during the second half of April. These various measures served to reduce, but did not entirely offset, the drawing down by the government sector of its deposits with the Reserve Bank.

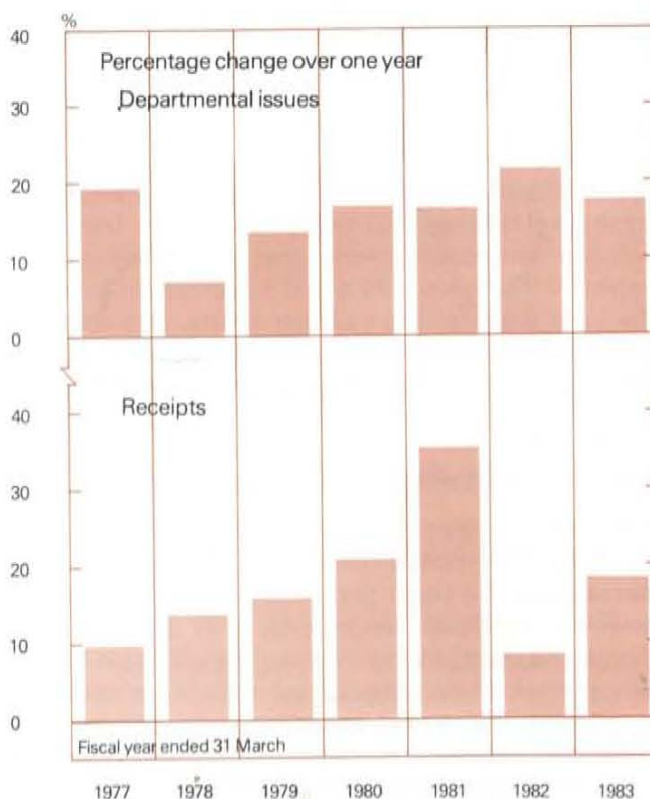
Government finance

High rate of growth in Exchequer issues in last quarter of fiscal year

In the last quarter of the 1982/83 fiscal year, i.e. the first quarter of 1983, departmental issues from the Exchequer Account* were 24 per cent higher than in the corresponding quarter of the preceding fiscal year. This rate of increase was substantially higher than that of 16 per cent in the first three quarters of 1982/83 and was mainly attributable to the large amount of expenditure appropriated in the Additional Budget. On the other hand, the increase of 17 per cent in Exchequer receipts in the last quarter of 1982/83, compared with the corresponding quarter in the preceding fiscal year, was lower than the 19 per cent rise in the first three quarters of 1982/83.

Despite these divergent growth rates in issues and receipts in the last quarter of the fiscal year, the Exchequer Account recorded a surplus before borrowing and debt repayment of R280 million. An amount of R142 million was borrowed from the Public Debt Commissioners, but foreign debt of R218 million was repaid and, in addition, the Treasury reduced its debt to the pri-

Exchequer Account



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

vate non-banking sector by R340 million. Although the government sector as a whole reduced its net indebtedness to the monetary banking sector during the first quarter, the Exchequer's net indebtedness increased by R136 million.

Exchequer issues and receipts in the 1982/83 fiscal year

In the 1982/83 fiscal year as a whole, issues to government departments from the Exchequer Account increased by 18 per cent. This increase was substantially higher than the original Budget estimate of 11½ per cent, mainly as a result of the relatively large amount appropriated in the Additional Budget and higher than expected interest payments on government debt. Total revenue collections increased by 19 per cent in the 1982/83 fiscal year, compared with an original Budget estimate of 11 per cent. In absolute terms, the higher than expected increase in revenue was sufficiently large to counterbalance the additional increase in expenditure. The actual deficit of R2 373 million* on the Exchequer Account, excluding borrowing and debt repayment, therefore, came very close to the original Budget figure of R2 380 million.

As shown in the accompanying table, collections of indirect taxes in 1982/83 conformed closely to Budget estimates. Actual collections of the general sales tax, however, reflected the increase in the rate from 5 to 6 per cent in September 1982, which was not provided

for in the original Budget. Similarly, actual collections of customs duties were affected by the reduction from 10 to 5 per cent in the surcharge on imports, which was also not provided for in the original Budget.

Income tax and lease payments by gold mining companies declined much less than was originally anticipated because of the increase in the gold price from about the middle of 1982. Other income tax payments exceeded Budget estimates by a considerable margin, mainly as a result of a higher than expected increase in personal income tax. The latter was related to the high rate of increase in nominal salaries and wages and the effect of the so-called "fiscal drag".

Financing of the Exchequer Account deficit

During the 1982/83 fiscal year the Treasury raised a substantial amount of loan funds in the private non-banking sector, either directly by means of public issues of government stock or indirectly through issues of government stock on tap to the Reserve Bank for resale in the market. Public issues of government stock amounted to R1 000 million, of which R524 million was subscribed for by the private non-banking sector. Stock issued on tap to the Reserve Bank totalled R1 800 million, the major portion of which was sold by the Bank to this sector. However, the private non-banking sector's holdings of non-marketable government securities, including loan levies, declined by R184 million during 1982/83.

As indicated in the accompanying table, borrowing from the private non-banking sector and the Public Debt Commissioners, together with a small amount of net foreign borrowing, exceeded the deficit on the Ex-

*Because of additional appropriations at the end of the fiscal year, this figure differs from the R1 785 million quoted in the 1983 Budget Speech.

State Revenue Fund — Revenue collections

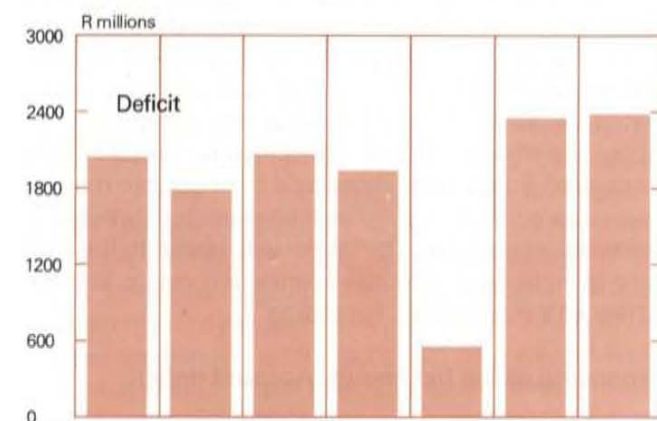
	1982/83 Budget		Actual collections		
	R millions	Percentage change ¹	1981/82 R millions	1982/83 R millions	Percentage change
Indirect taxes ²					
Customs duties ³	1 470	24	1 183	1 489	26
Excise duties	1 634	9	1 503	1 632	9
General sales tax	3 170	50	2 116	3 181	50
Total	6 274	31	4 802	6 302	31
Income tax and lease payments by gold mines	1 005	-53	2 131	1 652	-23
Other income tax payments	7 845	23	6 399	8 159	28
Other collections	1 648	-9	1 818	1 958	8
Sub-total	16 772	11	15 150	18 072	19
Less transfers to neighbouring countries	914	25	733	906	24
Total revenue collections	15 858	10	14 416	17 166	19

¹ Compared with actual collections during the 1981/82 fiscal year.

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

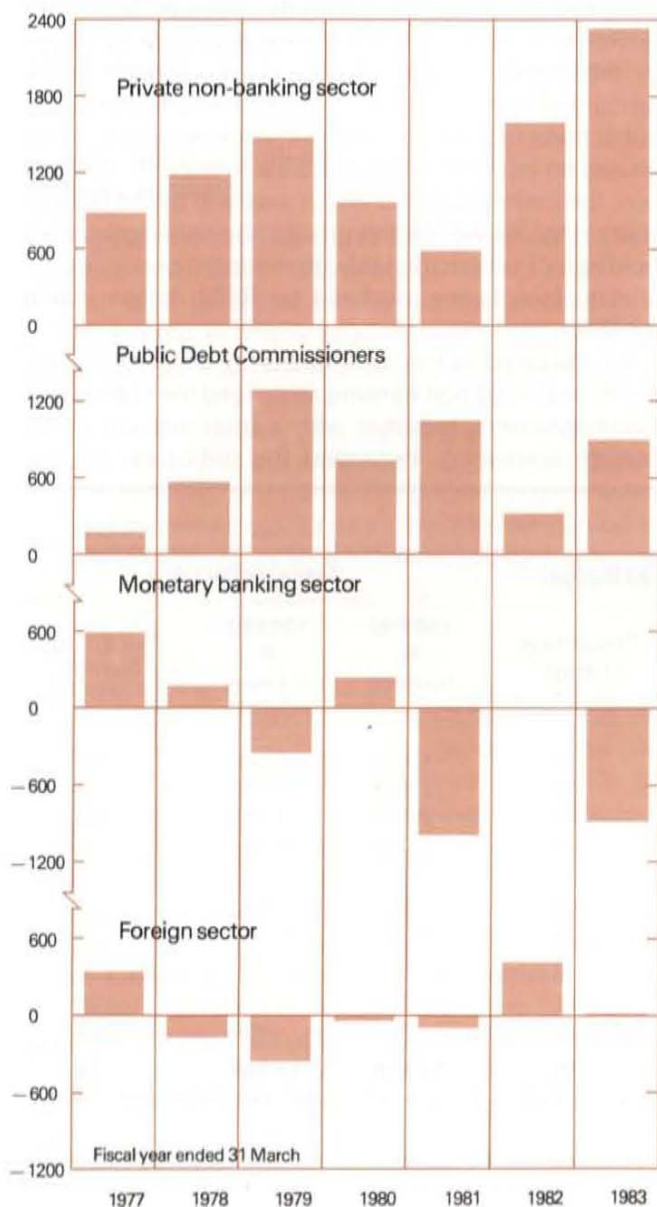
³ Including surcharge on imports.

Exchequer Account



Financing

Change in net indebtedness to:



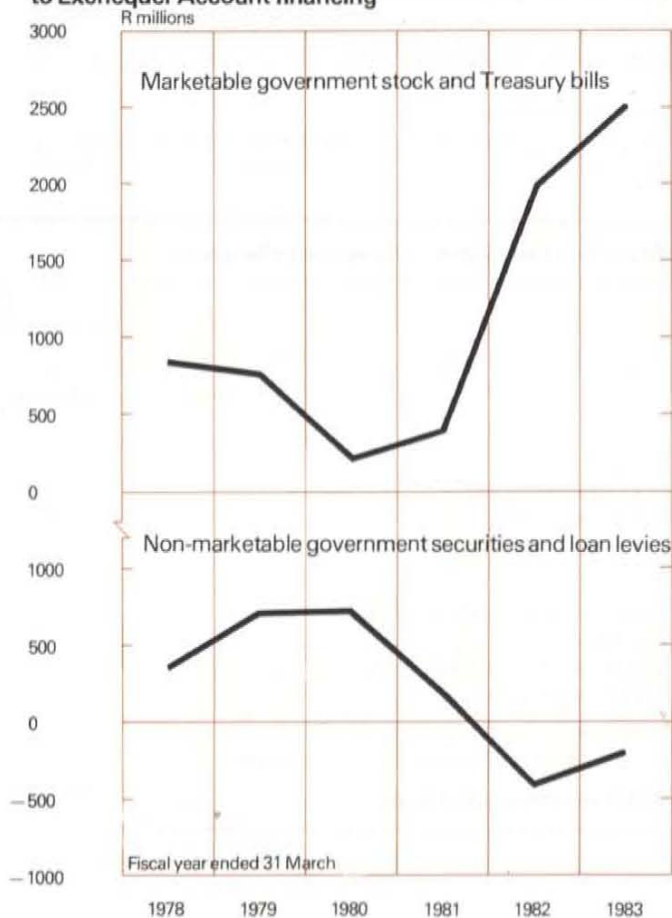
Exchequer Account financing

R millions

	Fiscal year ended 31 March	
	1982	1983
Revenue	14 525	17 192
Issues	16 869	19 565
Deficit, before borrowing	2 344	2 373
Financing		
Public Debt Commissioners	329	894
Non-bank private sector	1 590	2 337
Monetary banking sector	—	-884
Foreign sector	425	26
Total	2 344	2 373

chequer Account by a substantial margin. This enabled the Treasury to reduce its net indebtedness to the monetary banking sector by no less than R884 million, mainly through an increase in government deposits. The combined balances on the Exchequer and Pay-

Composition of non-bank private sector's contribution to Exchequer Account financing



master-General Accounts in fact rose from R2 099 million at the end of March 1982 to R3 335 million at the end of March 1983. Of the latter amount, R3 095 million represented balances on the Stabilization Account.

The 1983/84 Central Government Budget

The Central Government's Budget for the 1983/84 fiscal year was presented to Parliament on 30 March 1983. In his assessment of the implications of the prevailing economic situation for fiscal and monetary policy in the year ahead, the Minister of Finance posed the question whether the time had not arrived for a policy of deliberate "reflation" or "stimulation" of the economy as a whole, in particular since the real growth rate had become negative and the balance of payments had begun to show a surplus. Such an approach would imply some combination of materially higher government spending and tax reductions, a higher rate of increase in the money supply, lower interest rates and presumably some depreciation of the rand. However, the Minister came to the conclusion that any such policy would be inappropriate since it would increase the rate of inflation, harm the balance of payments, weaken the rand, reduce the net foreign reserves and damage South Africa's credit rating abroad. For these reasons, it would in the longer term undermine and not promote real economic growth.

The Minister emphasised that inflation remained a serious problem which commanded further attention and that the net foreign reserves needed to be rebuilt by means of repayments of short-term foreign debt. This was deemed an essential part of the preparation for the next cyclical upswing in the economy.

It was pointed out by the Minister that the policy approach outlined by him did not mean that economic policy would remain static in the months ahead, but that policy would be adjusted continuously to changing circumstances. Adjustments had in fact been made throughout the past two years. For example, when the existing conservative policy measures had increasingly taken effect in the latter part of 1982 and the balance of payments had improved, while the recessionary tendency in the economy had continued, monetary policy had consciously been eased by permitting a certain increase in liquidity and a substantial decline in interest rates.

However, in the Minister's opinion the authorities had for the time being gone as far as they should in this direction. According to him, the prevailing economic situation called for a fiscal-monetary policy "mix" which would provide for continued restraint on government spending, a relatively small Budget deficit before borrowing, and effective control over the money supply. As far as interest and exchange rates were concerned, the authorities would as far as possible adhere to their policy of relying on market forces to determine realistic rates within the framework of the overall financial strategy.

In line with this approach, total government expenditure was estimated to rise by only 10,3 per cent to R21 176 million during the 1983/84 fiscal year, after taking into account proposals for higher social, military and civil pensions and other minor expenditure adjustments. Only minor tax changes were announced by the Minister, the most important being adjustments to certain stamp duties. Total revenue for 1983/84 was estimated at R19 094 million, or 9,6 per cent more than the revised estimates for 1982/83. The 1983/84 deficit before borrowing was estimated at R2 082 million, equivalent to about 2,4 per cent of the expected gross domestic product. Taking into account loan repayments of R1 941 million, the government's total financing requirement was estimated at R4 023 million.

As usual, it was assumed that the proceeds of stock redemptions during the fiscal year would be re-invested in new stock. With a view to maintaining effective control over the money supply, it was further assumed that the deficit before borrowing would be financed without recourse to bank credit, despite the abolition of the 5 per cent compulsory loan levy on individual taxpayers. The proposed financing of the Budget deficit is shown in the accompanying table.

1983/84 Budget

R millions

Revenue	19 094
Expenditure	21 176
Deficit, before borrowing	2 082
Financing (net of debt repayment)	
Public Debt Commissioners	1 500
New stock issues	930
Issues of non-marketable domestic securities ¹ ..	-296
Foreign loans	-52
Total	2 082

¹ Including loan levies and certain loan expenditure.

Capital market

Further large increase in holdings of longer-term funds with financial institutions

In the first quarter of 1983, the increase in holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes slightly exceeded the high level to which it had grown in the fourth quarter of 1982. Seasonally adjusted, the increase amounted to R1 419 million in the first quarter of 1983, compared with R1 308 million in the preceding quarter.

As shown in the accompanying table, the different groups of institutions were not equally successful in attracting new longer-term funds during the first quarter. The increase in holdings of such funds with banking institutions and participation mortgage bond schemes was notably smaller than in the fourth quarter of 1982, while holdings of longer-term funds with government savings schemes showed a slightly larger increase. The building societies, on the other hand, did exceptionally well in attracting new funds. Their intake of funds increased by as much as 29 per cent from the fourth quarter of 1982 to the first quarter of 1983. A substantial part of the new funds invested with building societies consisted of increased share holdings.

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

Seasonally adjusted quarterly changes
R millions

	1982				1983
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Banking institutions ...	-211	-339	667	317	239
Building societies	152	391	334	853	1 100
Participation mortgage bond schemes	41	73	55	83	15
Government savings schemes	-26	-64	38	55	65
Total	-44	61	1 094	1 308	1 419

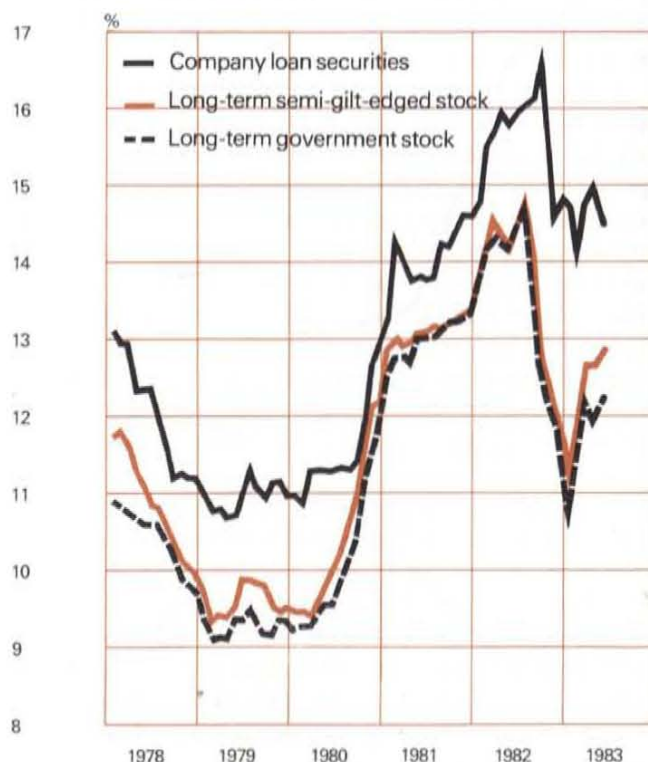
The general increased availability of funds in the economy in relation to the demand for funds gave rise to a decline in deposit interest rates. In the case of banking institutions, the rate on twelve-month deposits, for example, declined from 15,0 per cent in December 1982 to 10,5 per cent in March, while the corresponding decline in the case of building societies was from 14,5 to 11,0 per cent. Subsequently, however, the building societies raised their twelve-month deposit rate to 12 per cent in May, while upward adjustments in deposit rates were also made by some banking institutions.

Slight increase in long-term fixed-interest security yields

The already high secondary market turnover in fixed-interest securities of the public sector in the fourth quarter of 1982 increased still further in the first quarter of 1983, but declined appreciably during April and May. The monthly average turnover increased by 33 per cent from R2 056 million in the fourth quarter of 1982 to R2 733 million in the first quarter, before declining to R1 340 million during April and May.

Conditions in the fixed-interest security market tightened somewhat during February and March after the abolition of exchange control over non-residents on 7 February and the sharp fall in the gold price during March. This was accompanied by a change in previously existing expectations that interest rates would continue their sharply downward trend. In the secondary market, the average monthly yield on long-term government stock declined from a peak of 14,7 per cent in July 1982 to 10,6 per cent in January 1983 and then increased to 12,3 per cent in March. Subsequently, it amounted to 12,0 per cent and 12,3 per cent in April and May, respectively. The corresponding decline in the long-term yield on semi-gilt-edged stock of the highest grade was from 14,8 per cent in July 1982 to 11,2 per cent in January 1983, but the yield increased again to 12,9 per cent in May.

Secondary market security yields



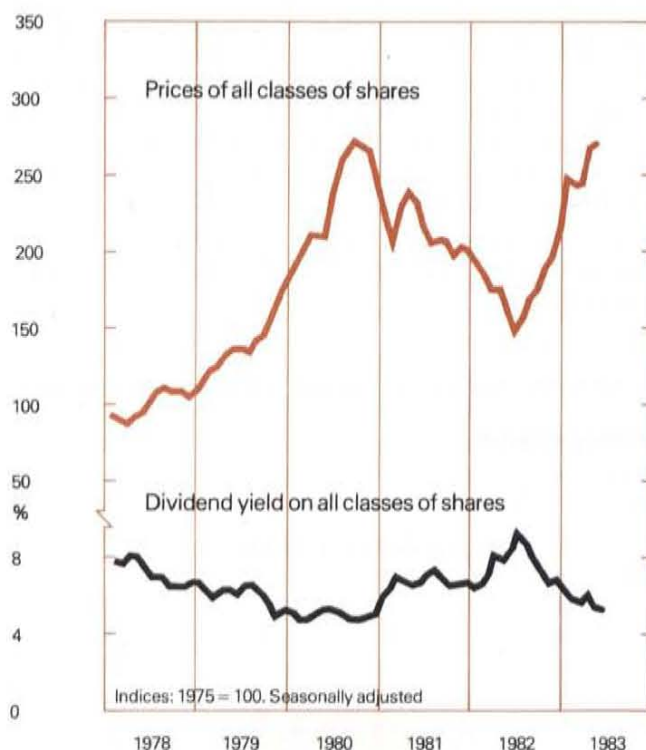
Temporary decline in share prices

Turnover and prices in the share market increased further during the first two months of 1983, but declined in March. During April and May activity remained at the lower level, but share prices showed a renewed increase. The resilience of the share market was clearly illustrated by the fact that the market hardly responded to a sharp rise in net sales of securities by non-residents after the abolition of exchange control applicable to them. These net security sales increased from R124 million in the fourth quarter of 1982 to R570 million in the first quarter of 1983. The decline in share prices during March was more related to the sharp decline in the gold price at the time.

The number of shares traded on the Johannesburg Stock Exchange was 13 per cent higher in the first quarter of 1983 than in the preceding quarter, but the monthly average during April and May was 27 per cent

lower than in the first quarter. Share prices rose on average by 12 per cent from December 1982 to February 1983, before declining by 9 per cent in March. The subsequent increase during April and May raised the average level of prices to 16 per cent above that in December. From December to May gold mining share prices fluctuated by as much as 18 per cent per month, but were 4 per cent higher in May than in December. During these five months other mining shares rose by 13 per cent, financial shares by 22 per cent, and industrial and commercial shares by 25 per cent.

Share prices and yields

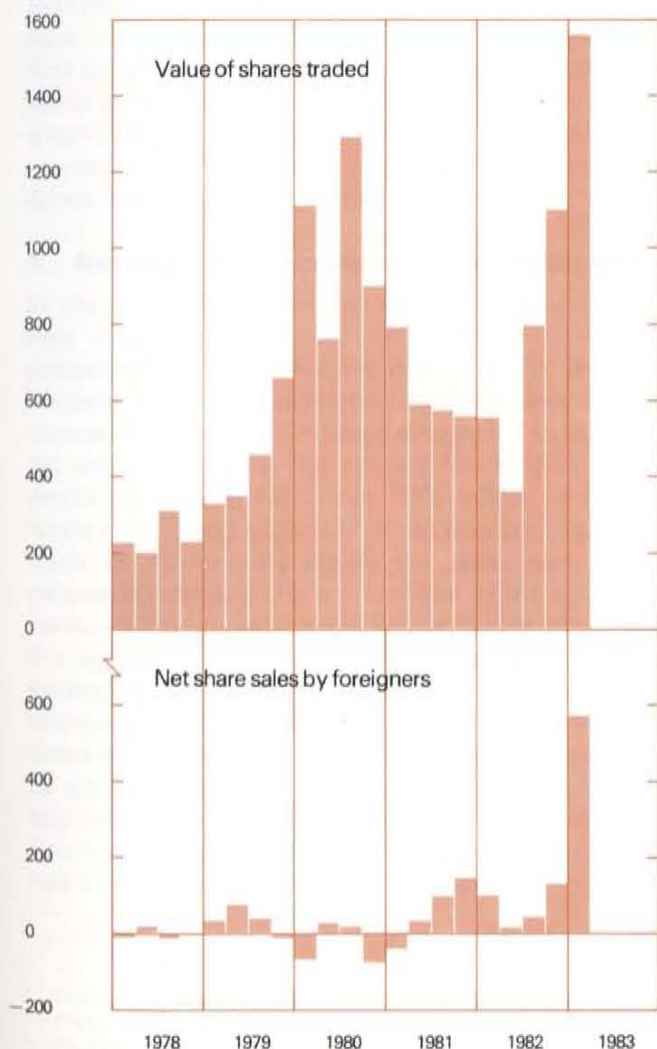


Reflecting the increase in share prices, the average dividend yield on all classes of shares declined from 6,5 per cent in December 1982 to 6,0 per cent in March and to 5,3 per cent in May.

Increased lending by building societies in the mortgage market

The large intake of new funds by the building societies during the first quarter had its counterpart in increased mortgage lending by the societies. The seasonally adjusted amount of new mortgage loans granted increased from R820 million in the fourth quarter of 1982 to R1 548 million in the first quarter of 1983. The corresponding increase in mortgage loans actually paid out was from R595 million to R718 million. Because of the fairly large difference between loans granted and paid

Stock exchange



out, the societies' loan commitments rose by R792 million during the first quarter to reach a level of R1 546 million at the end of March.

In addition to the increase in the societies' mortgage loans outstanding, their prescribed investments showed a seasonally adjusted rise of R659 million during the first quarter. At the end of March their excess holdings of these investments amounted to R1 694 million.

The increased availability and lower cost of funds borrowed by institutions operating in the mortgage market led to a decline in mortgage rates. The rates on the building societies' new home mortgage loans were reduced, with effect from 1 April 1983, from a range of 14,25 – 16,25 per cent on all loans to a range of 14,0 – 15,0 per cent on home loans up to R60 000. A higher rate applied to loans in excess of R60 000. On 20 May it was announced that building societies would no longer co-operate in determining uniform deposit and mortgage rates and that in future each building society would be free to fix its own rates. In the case of the participation mortgage bond schemes, the more flexible rate on participation mortgages was reduced from 18,0 per cent to 17,1 per cent in February and to 15,1 per cent in March.

Renewed increase in real estate turnover

Turnover in the real estate market, which had remained at a high level throughout 1982 and had shown a renewed increase towards the end of the year, rose further in the first quarter of 1983. The seasonally adjusted value of real estate transactions was 8 per cent higher in the first quarter than in last quarter of 1982. To an important extent, the renewed buoyancy in the real estate market was related to the increased availability of funds in the mortgage market, a pent-up demand for housing and persistent inflationary expectations.

Building societies

