

Summary and general observations

During 1982 South Africa experienced a continuation of the cyclical downswing in real economic activity that had begun in the third quarter of 1981, and real gross domestic product declined by about 1 per cent. This negative rate of real economic growth was partly due to the adverse effect of a severe drought in some parts of the country on agricultural output. However, even if agriculture is excluded, the real product of the other sectors of the economy declined slightly in 1982. As part of the economic downswing during 1982, employment growth levelled off, and this was accompanied by an appreciable increase in unemployment.

The lack of further growth in non-agricultural real output and employment reflected both the depressing effect of the continuing recession in trading-partner countries on the volume of exports and the related downward adjustment in domestic demand from its inordinately high level in 1981. Real gross domestic expenditure in fact declined by 3½ per cent in 1982.

The decline in real gross domestic expenditure led to a considerable fall in the volume of imports, in particular from the second quarter of 1982. The resulting decline in the value of imports made a major contribution to a sharp turnaround in the balance of payments on current account, namely from a seasonally adjusted annualised deficit of almost R7 billion in the first quarter of 1982 to a surplus of about R1 billion in the fourth quarter. In addition to the effect of falling imports, the current account was strengthened by a sharp rise in the price of gold during the second half of 1982.

The improvement in the current account of the balance of payments was accompanied by a net inflow of capital during the second half of the year. In particular, a net inward movement of short-term funds was encouraged by the relatively higher nominal interest rates in South Africa than abroad, combined with expectations of an appreciation of the rand. As a result of the strengthening of both the current and capital accounts, the overall balance of payments was in surplus in this period, and this gave rise to a considerable increase in total net gold and other foreign reserves and an appreciation of the rand against other currencies.

An important aim of monetary policy in 1982 was to reduce the very high rate of monetary expansion of the preceding two years in order to slow down excessive monetary demand. This aim was realised to the extent that the rate of growth in the broad money supply (M_2) decelerated from 27 per cent during 1980 and 25 per cent during 1981 to 17 per cent during 1982. Indeed, during the second half of 1982 M_2 increased at a seasonally adjusted annual rate of only 14 per cent. In the face of only a gradual weakening of the strong private-sector demand for bank credit, monetary control was

complicated by the increase in net foreign reserves. More emphasis had to be placed, therefore, on open-market operations by the Reserve Bank and an appropriate government debt management policy as means of restraining money supply growth. In line with this approach, net bank credit to the government sector declined substantially during 1982 and this exerted a strong counterbalancing contractionary influence on the money supply.

In the financial markets, there was a basic change in the relationship between demand and supply in the course of 1982, especially during the second half of the year. On the one hand, the demand for funds slowed down as the economic downswing progressed, while on the other hand there was a further expansion, although at a lower rate, in private-sector liquidity. Reflecting this change, short as well as long-term interest rates reached cyclical peaks in the third quarter and declined subsequently. Expectations of such a decline in interest rates by themselves gave rise to large-scale security transactions, which had the effect of pushing up security prices and accelerating the tempo of interest rate declines. These expectations were strengthened considerably by the decline in interest rates abroad and the increase in the gold price. Increased activity and rapidly declining interest rates and yields were experienced in the money market and in certain sections of the capital market such as the market for fixed-interest securities and the share market. Further evidence of increased financial activity was provided by larger-scale lending in the mortgage market and the continued buoyancy of the real estate market.

Partly reflecting the inflationary effects of the substantial depreciation of the rand between December 1980 and the third quarter of 1982, the rate of inflation eased only marginally during 1982. In January 1983 consumer prices, for example, were still 14.4 per cent higher than in January 1982, a rate of increase that was considerably higher than those in trading-partner countries.

Because of the high priority assigned to the slowing-down of the rate of inflation, control over money, credit and interest rates remained of vital importance. The improvement in the overall balance of payments and the resulting increase in the net foreign reserves during the second half of 1982 required additional measures by the authorities to maintain monetary control. These took the form of an appreciation of the rand and a substantial reduction in the monetary banking sector's net claims on the government sector as means of counterbalancing the expansionary effect of the increase in net foreign reserves.

With effect from 7 February 1983, the Government abolished exchange control over non-residents and at the same time relaxed exchange control over South

African residents. The former measure implied the disappearance of the financial rand and of the dual exchange rate system which had existed in one form or another since exchange control over non-residents was first introduced in South Africa in 1961. In future, the proceeds of sales of investments held by non-residents will be freely transferable from South Africa through normal banking channels at the ruling unitary exchange rate of the rand. From 7 March, exchange control over South African residents was eased further, when the limits on the balances that foreign exchange dealers are permitted to hold abroad, were raised. In addition, banking institutions were allowed to enter into new short-term currency swap transactions with the Reserve Bank in terms of which US dollars could be acquired by the banks against cash payment in rand.

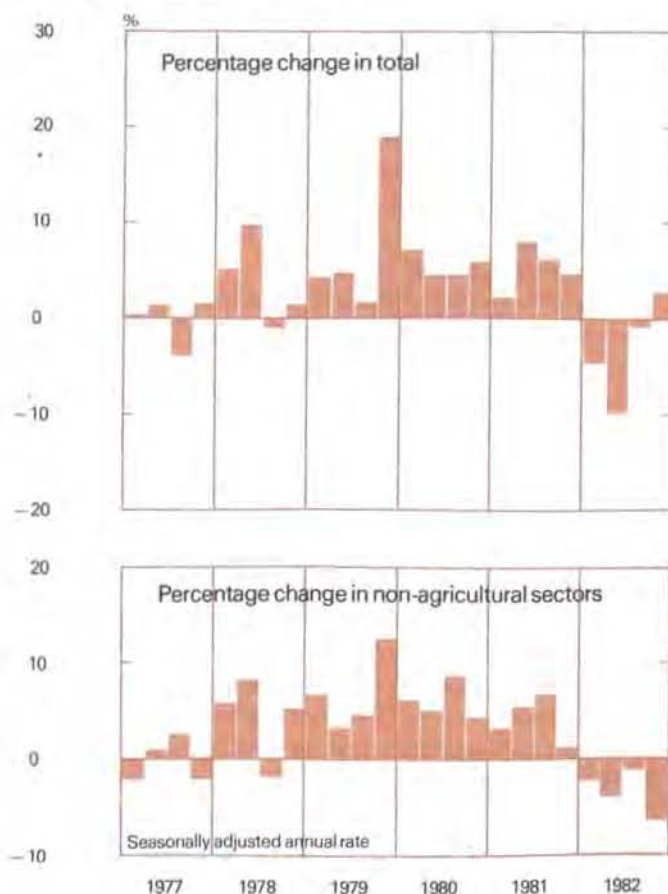
Domestic economic activity*

Negative rate of real economic growth

The economic downswing, which had started in the third quarter of 1981, continued during 1982. This was reflected in a decline of about 1 per cent in real gross domestic product in 1982. Excluding agriculture, the real output of the other sectors of the economy decreased by about 1/2 per cent. On a quarterly basis, total real gross domestic product declined during the first three quarters of 1982, but rebounded in the fourth quarter, when real agricultural output increased sharply as a result of the harvesting of a large wheat crop. The real product of the non-agricultural sectors, however, showed successive quarterly declines throughout 1982.

Since import prices increased faster than export prices (including changes in the gold price), South Africa's terms of trade deteriorated in 1982. This caused real gross *national* product to decline more rapidly than real gross *domestic* product, namely by about 2 1/2 per cent.

Real gross domestic product



* Quarterly changes are based on seasonally adjusted data.

Percentage change in real gross domestic and national product

	1980	1981	1982
Primary sectors	4½	1	-4
Agriculture.....	13	3	-7½
Gold mining.....	-4½	-2½	1½
Non-gold mining.....	4½	1	-5½
Secondary sectors	10½	7	-2
Manufacturing.....	11	6½	-2½
Electricity, gas and water	9	11	6
Construction.....	8	8	-4
Tertiary sectors	6½	5	1
Trade and accommodation	10	7½	-1
Services	5½	4	1½
Total gross domestic product	8	5	-1
Non-agricultural sectors.....	7	5	-½
Gross national product	11	1½	-2½

As shown in the accompanying table, real output in all sectors of the economy, with the exception of gold mining, either declined in 1982 or showed lower rates of increase than in 1981. In the primary sectors, real agricultural production declined on account of severe drought conditions in the summer rainfall areas, while the decline in real non-gold mining output reflected the lower foreign and domestic demand for metals and minerals. The real value added by gold mining, on the other hand, showed an increase because of a rise in the quantity of ore milled. On average, the grade of ore milled showed little change from 1981 to 1982.

In the secondary sectors, an increase, although at a lower rate than in 1981, was maintained in the real output of the sector electricity, gas and water, but the real value added by manufacturing and construction declined in 1982. The lower real manufacturing output reflected declines in real gross domestic expenditure and the volume of exports, while the real product of the construction sector was affected adversely by the cyclical contraction of real fixed outlays on buildings and other construction works.

In the tertiary sectors, the decline in the real value added by commerce was confined to the wholesale and motor trade. The real value added by the retail trade continued to rise, mainly because of a higher level of real private consumption expenditure on non-durable goods. The most important contribution to the increase in the real value added by the services sectors was made by general government services. A partly offsetting decline occurred in the real product of transport and communication services, largely as a result of lower agricultural production, a decline in the volume of imports and exports, and the generally lower level of domestic economic activity.

The increase in nominal gross domestic product, which had decelerated from 30 per cent in 1980 to 14 per cent in 1981, slowed down further to about 12½ per cent in 1982. Total remuneration of employees increased by 19 per cent, which was considerably lower than the 23½ per cent in 1981. Gross operating surplus rose by only 1½ per cent, while net operating surplus

declined by 8 per cent, mainly as a result of a sharp drop in agricultural income and decreases in mining, industrial and commercial profits.

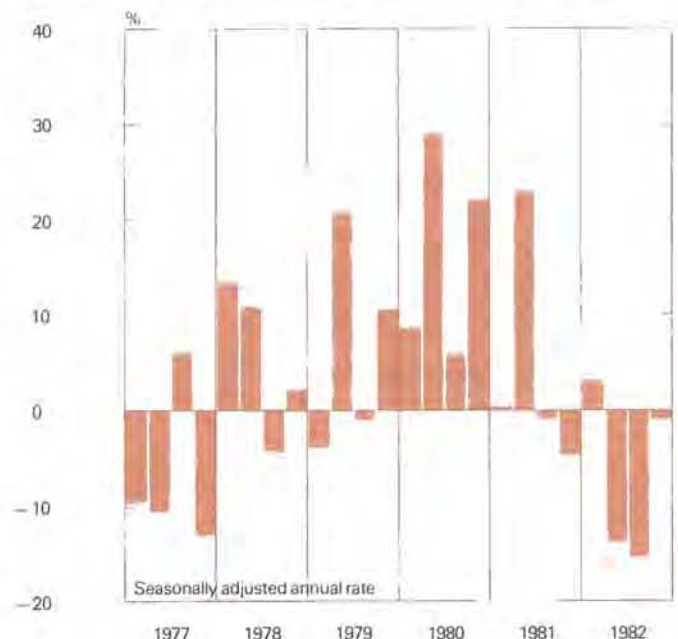
Decline in aggregate real gross domestic expenditure

The process of adjustment in the South African economy was clearly reflected in a decline of about 3½ per cent in real gross domestic expenditure in 1982. This decline followed upon inordinately high rates of increase of 13 per cent and 10 per cent in 1980 and 1981, respectively. Small increases in real private and government consumption expenditure in 1982 were more than offset by declines in real fixed and inventory investment. The decline in overall real gross domestic expenditure started in the second quarter of 1982 and continued during the subsequent two quarters. In the last quarter of the year all components of domestic expenditure decreased.

Percentage change in real gross domestic expenditure

	1980	1981	1982
Private consumption expenditure.....	9	6½	2
Government consumption expenditure.....	9	2½	3½
Gross domestic fixed investment.....	14½	11½	-2½
Change in inventories (1975 R millions)	1 185	1 960	-291
Gross domestic expenditure	13	10	-3½

Gross domestic expenditure at constant 1975 prices



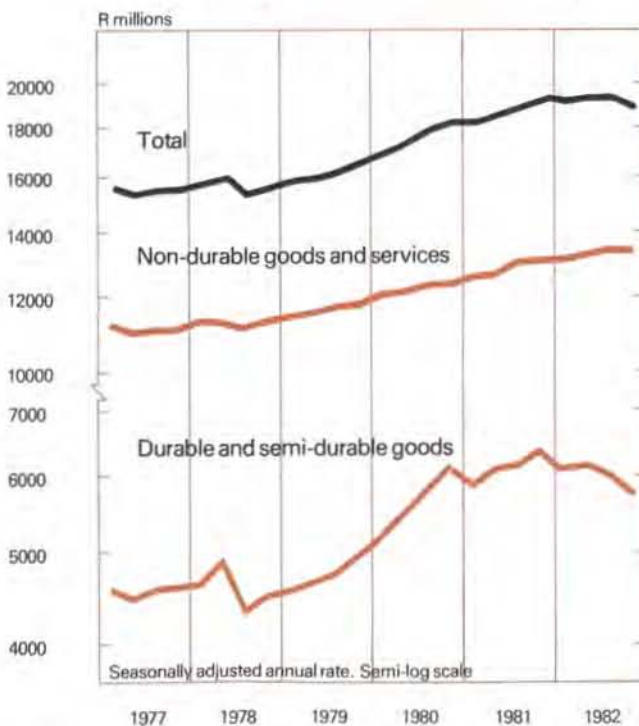
Small increases in real private and government consumption expenditure

Real private consumption expenditure increased by 2 per cent in 1982, a rate of growth that was substantially lower than the 9 per cent in 1980 and the 6½ per cent in 1981. Real expenditure on durable consumer goods declined continuously during 1982 and for the year as a whole the decline amounted to 2½ per cent. Real outlays on semi-durable goods showed a somewhat smaller decline of 1½ per cent. The more essential expenditure on non-durable consumer goods and on services rose steadily throughout 1982 and, in real terms, recorded increases of 3½ per cent and 4½ per cent, respectively.

The much smaller increase in real private consumption expenditure in 1982 should be seen in relation to the lack of growth in real personal disposable income. A slight rise in real salaries and wages was almost entirely neutralised by a decline in real income from property that was caused to a large extent by lower agricultural income.

Real government consumption expenditure, which had shown a moderately rising trend from the beginning of 1980 up to the second quarter of 1982, declined sharply in the second half of the year. In 1982 as a whole, real government consumption expenditure was about 3½ per cent higher than in 1981. Real salaries and wages, largely reflecting larger employment by general government, rose by 3 per cent, while other real consumption outlays increased by 5½ per cent.

Private consumption expenditure at constant 1975 prices

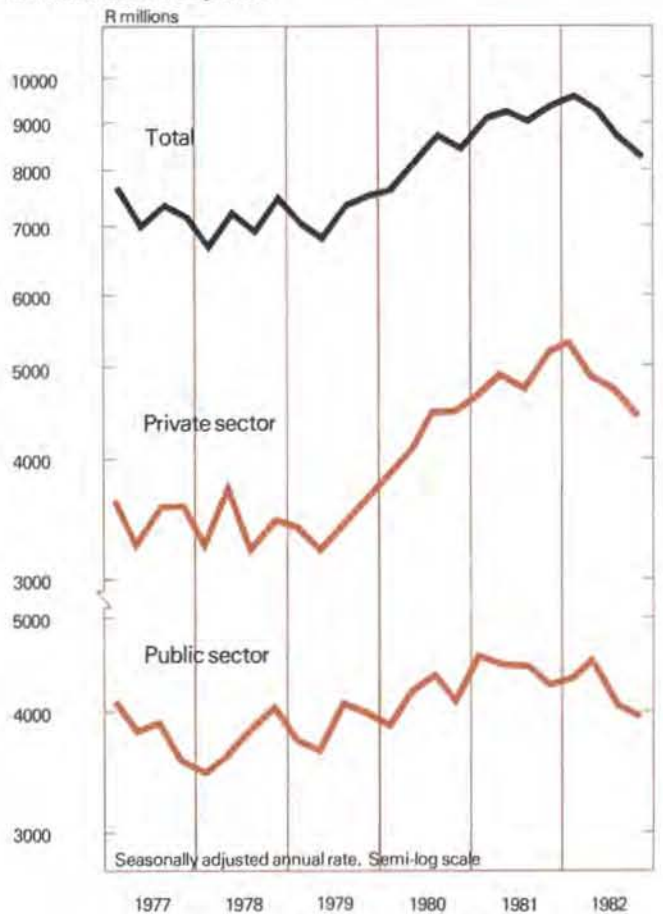


Decline in real fixed and inventory investment

The downswing in total real gross domestic fixed investment from the second quarter of 1982 gained considerable momentum in the third and fourth quarters. In 1982 as a whole it declined by 2½ per cent. In contrast with the exceptionally large increases in real private fixed investment in 1980 and 1981, a small decline of about ½ per cent was recorded in 1982. Real fixed capital outlays in agriculture, mining and the financial services sector decreased in 1982, while those in manufacturing, commerce and residential construction rose at much lower rates than in 1981. Despite the slow-down of the increase in real gross fixed investment by private manufacturing, these outlays still exceeded replacement expenditure. Additional production capacity was, therefore, still being created during a period in which manufacturing production was already declining. This contributed to a decline in the utilisation of production capacity in overall manufacturing, namely from a peak of 90 per cent in the third quarter of 1981 to 86 per cent in the fourth quarter of 1982.

Real fixed investment by public authorities, which had risen fairly sharply in 1981, increased by only 1½ per

Gross domestic fixed investment at constant 1975 prices

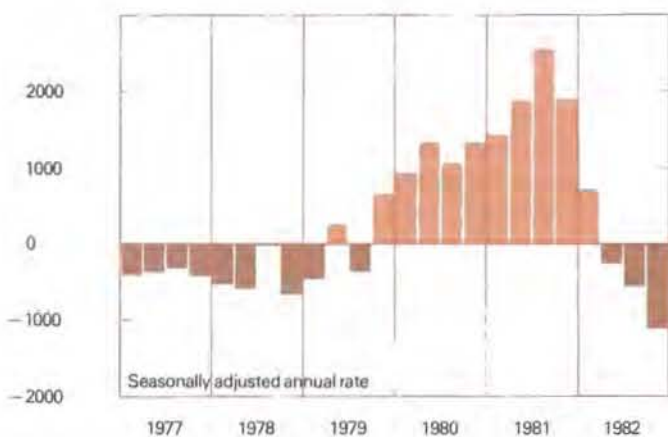


cent in 1982. This slow-down was caused by a decline in expenditure on public housing programmes and general government capital projects and a lower rate of increase in the fixed capital outlays of the South African Transport Services. On the other hand, real fixed investment by the Department of Posts and Telecommunications showed a substantial increase in 1982.

Public corporations' real fixed investment declined sharply by about 12½ per cent in 1982. This was the net result of a considerable increase in the fixed capital outlays of Escom and a more than offsetting decline in those of Sasol. The latter reflected the near completion of Sasol's third oil-from-coal plant.

According to revised estimates, real inventories started to decline in the second quarter of 1982. By the fourth quarter the downward phase of the inventory cycle had been firmly in progress and in this quarter real inventories decreased at a seasonally adjusted annual rate of R1,1 billion. For 1982 as a whole the decline amounted to R0,3 billion, compared with a build-up of R2,0 billion in 1981. This turnabout contributed materially to the lower level of real gross domestic expenditure and of the volume of merchandise imports in 1982. With the exception of moderate increases in livestock and diamond stocks, all the other major classes of stocks decreased in 1982. The ratio of real inventories (excluding strategic and agricultural inventories) to the real gross domestic product of the non-agricultural sectors declined from its most recent peak of 35½ per cent in the first quarter of 1982 to 34½ per cent in the fourth quarter.

Change in inventories at constant 1975 prices



Lower level of gross domestic saving

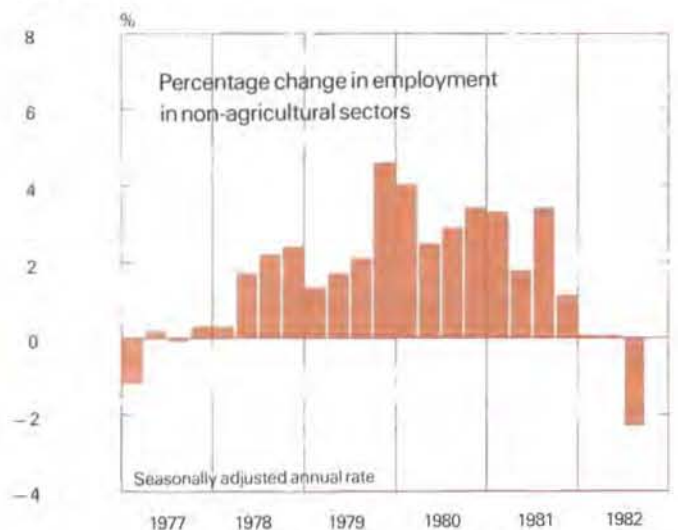
Gross domestic saving amounted to R18,5 billion in 1982, or R2,1 billion less than in 1981. As a ratio of gross domestic product, gross domestic saving declined from 35 per cent in 1980 to 29½ per cent in 1981 and to 23½ per cent in 1982. In relation to the total gross domestic investment of R21,5 billion in 1982, there was a domestic savings shortfall of R3,0 billion, which had to be financed either from foreign reserves or by means of foreign funds. Except for an increase in provision for depreciation, all other savings components, i.e. personal, government and corporate saving, declined in 1982. Personal saving in particular reached a very low level, amounting to only 4½ per cent of personal disposable income. This ratio was not only less than the already low figure of 6½ per cent in 1981, but also well below the longer-term average of about 10 per cent.

Small increase in non-agricultural employment*

As part of the general slow-down in economic activity, the increase in non-agricultural employment levelled off in the first half of 1982, and actually declined in the third quarter. The average level of non-agricultural employment in the first three quarters of 1982 was only 0,9 per cent higher than in the corresponding period of the preceding year, as against an increase of 2,9 per cent in 1981.

Employment growth in the first nine months of 1982 was confined to the public sector. Private-sector employment showed successive quarterly declines during this period. The retrenchment of employees in

Employment

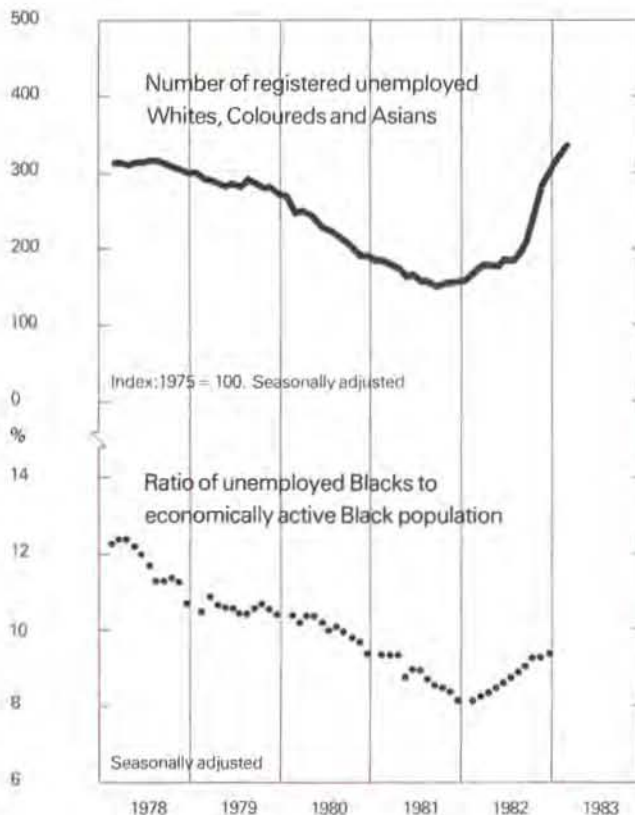


*Statistics relating to employment and labour remuneration in the non-agricultural sectors of the economy are only available up to the third quarter of 1982.

the private sector is illustrated by the fact that employment levels in major sections of the private sector were notably lower in the third quarter of 1982 than in the corresponding quarter of 1981. For example, the following declines were recorded: 1,5 per cent in manufacturing; 2,0 per cent in construction; 1,7 per cent in gold mining; and 11,0 per cent in non-gold mining. The lower demand for labour in the private sector was also reflected in declines of 5,2 per cent and 3,7 per cent from the third quarter of 1981 to the third quarter of 1982 in the total number of hours worked by production workers in manufacturing and construction, respectively. In addition, the number of overtime hours in relation to ordinary hours worked in manufacturing declined from a recent peak of 15,1 per cent in August 1981 to 10,3 per cent in September 1982. The corresponding decline in construction was from 10,4 to 8,7 per cent.

The levelling-off in employment growth was reflected in increased unemployment. Seasonally adjusted, the number of registered unemployed Whites, Coloureds and Asians rose from 15 336 in December 1981 to 32 569 in December 1982 and further to 34 096 in January 1983. The ratio of unemployed Blacks to the economically active Black population rose from 8,0 per cent in November 1981 to 9,2 per cent in November 1982.

Unemployment



Decline in labour productivity

Employment did not reflect the economic downswing to the same degree as real output. As a result, labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, was marginally lower in the first three quarters of 1982 than in the corresponding period of 1981. In 1981 a productivity increase of 2,0 per cent was recorded. The rate of increase in output per man-hour in manufacturing, for which more detailed statistics are available, slowed down from 3,4 per cent in 1981 to 1,9 per cent in the first three quarters of 1982.

Slightly lower rate of increase in salaries and wages

Nominal salaries and wages per worker in the non-agricultural sectors of the economy, which had increased by 20,5 per cent in 1981, were on average 19,0 per cent higher in the first three quarters of 1982 than in the corresponding period of 1981. The increase in real salaries and wages per worker slowed down from 4,6 per cent in 1981 to 3,6 per cent in the first three quarters of 1982.

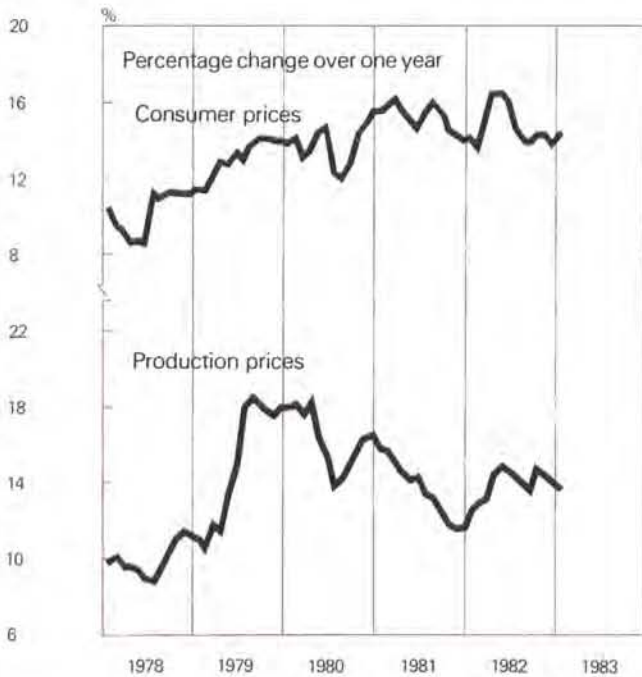
The continuing high rate of increase in nominal salaries and wages per worker at a time when labour productivity showed a decline, resulted in a rise in unit labour costs. In the non-agricultural sectors, the increase in unit labour costs accelerated from 18,1 per cent in 1981 to 19,2 per cent in the first three quarters of 1982 compared with the corresponding period in the preceding year.

Continuing high rate of price increases

Consumer prices, which had increased by 15,2 per cent in 1981, were on average 14,7 per cent higher in 1982 than in the preceding year. The increase in food prices slowed down from 22,0 per cent in 1981 to 11,2 per cent in 1982. However, the increase in prices of goods other than food accelerated from 12,3 per cent in 1981 to 14,7 per cent in 1982. In addition, the rise in the cost of services accelerated sharply from 13,5 per cent in 1981 to 17,9 per cent in 1982. The slightly lower rate of increase in consumer prices in 1982 was due to slower price rises during the second half of the year. In January 1983, consumer prices were 14,4 per cent higher than in January 1982, whereas in June the rate of increase over a twelve-month period had still amounted to as much as 16,0 per cent.

The average level of production prices rose by 13,9 per cent in 1982, compared with a slightly lower increase of 13,5 per cent in 1981. This acceleration was due to a higher rate of increase in the prices of imported goods. An increase of 10,7 per cent in 1981 was followed by a rise of 15,2 per cent in 1982, mainly as a result of the lagged effect of the depreciation of the rand against other currencies during 1981 and the first half of 1982. The increase in the prices of domestically produced goods, however, slowed down from 14,2 per cent in 1981 to 13,6 per cent in 1982. As in the case of

Prices



consumer prices, production price increases slowed down during the second half of 1982. The rate of change over a twelve-month period amounted to 13,7 per cent in January 1983, compared with 14,6 per cent in June 1982.

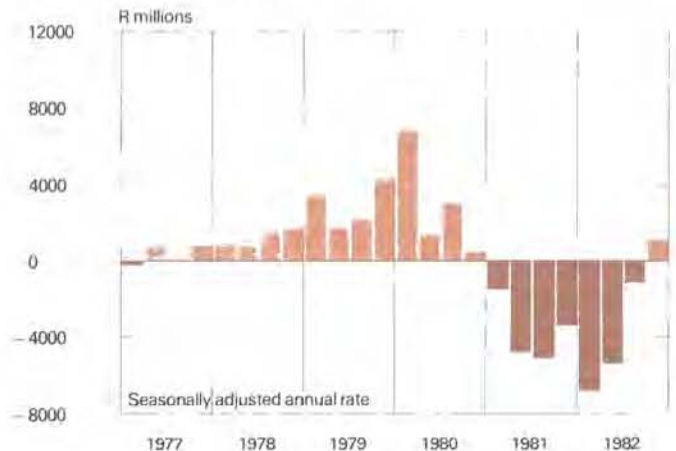
Balance of payments

Rapid improvement of current account

The current account of the balance of payments, which had been in deficit from the beginning of 1981, moved into surplus in the fourth quarter of 1982. At a seasonally adjusted annual rate, this surplus amounted to R1 104 million, while as recently as the first quarter of 1982 the current account had still shown a seasonally adjusted annualised deficit of no less than R6 565 million. The current account balance, therefore, turned around sharply within a relatively short period of nine months. Because of this rapid improvement, the current account deficit of R3 037 million in 1982 as a whole was considerably smaller than the R3 701 million deficit in 1981.

The marked improvement of the current account since the first quarter of 1982 was caused mainly by a sharp decline in merchandise imports and a substantial increase in the value of the net gold output. In addition, merchandise exports increased slightly. Net service and transfer payments to the rest of the world, however, showed a further increase from the first to the fourth quarter of 1982.

Balance on current account



Current account of balance of payments

Seasonally adjusted annual rates
R millions

	1981		1982			Year
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	
Merchandise exports	9 579	10 008	10 046	10 108	10 366	10 132
Net gold output	8 340	6 970	7 085	9 482	10 971	8 627
Merchandise imports	-18 111	-20 070	-19 320	-16 679	-16 327	-18 099
Net service and transfer payments	-3 509	-3 473	-3 273	-4 136	-3 906	-3 697
Balance on current account	-3 701	-6 565	-5 462	-1 225	1 104	-3 037

Reflecting the slow-down in domestic economic activity and, more specifically, in gross domestic expenditure, the seasonally adjusted value of imports declined by 18½ per cent from the first to the fourth quarter of 1982. Total merchandise imports in 1982 were, however, only marginally lower than in 1981. Despite lower rates of inflation in the industrial countries, import prices in terms of rand rose by 17½ per cent in 1982 because of the depreciation of the rand during a large part of the year. On the other hand, the volume of imports, which had begun to decline from the third quarter of 1981, was 15 per cent lower in 1982 than in the preceding year. From the first quarter of 1982 to the fourth quarter the import volume fell by as much as 26½ per cent to reach a level that was equivalent to 15 per cent of the real gross domestic product. This ratio was well below the average of 21½ per cent for the post-war period.

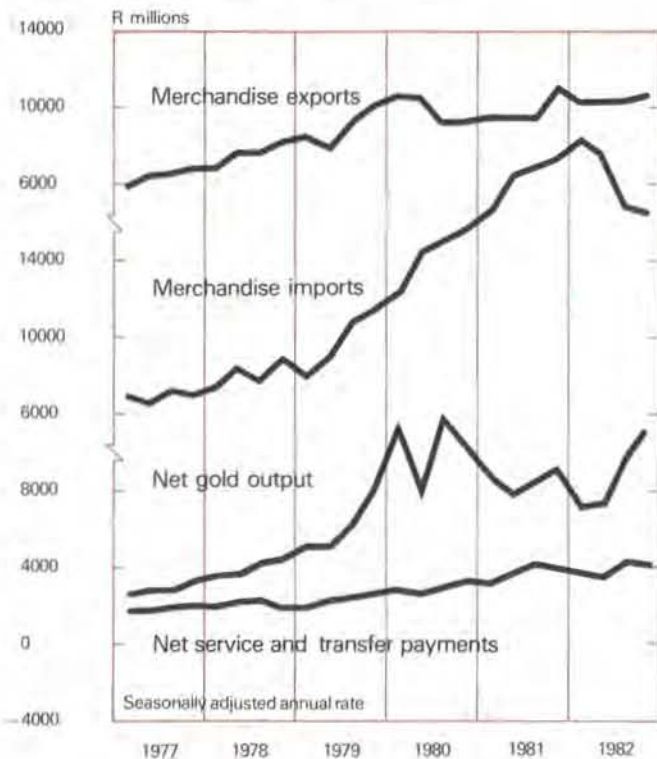
The value of the net gold output increased substantially by 55 per cent from the second to the fourth quarter of 1982, owing to a sharp rise in the price of gold as well as a moderate increase in gold production. On the London market the price of gold per fine ounce rose from an average of US \$348 in the first half of 1982 to US \$380 in the third quarter and US \$427 in the fourth quarter. In January and February 1983 the gold price averaged US \$487 per fine ounce. From 22 February, however, the gold price started to decline sharply from US \$503 to be-

low US \$400 per fine ounce, before recovering to US \$413 per fine ounce on 4 March. On average, the gold price amounted to US \$376 per fine ounce in 1982, compared with US \$460 in 1981. As a result of the depreciation of the rand against the US dollar, the rand price of gold increased from R400 per fine ounce in 1981 to R409 in 1982. Reflecting this price increase as well as a small rise in volume, the value of the net gold output was 3,5 per cent higher in 1982 than in 1981.

Merchandise exports continued to reflect depressed business conditions in trading-partner countries and made only a slight contribution to the improvement of the current account in 1982. The small increase of 6 per cent in the value of exports in 1982 was due to a rise in export prices. The volume of exports actually declined by 3 per cent in 1982. The higher export prices reflected mainly the depreciation of the rand. Only during the second half of 1982 did the prices of some export products, such as platinum, silver, coal, iron ore, nickel and copper begin to rise. According to the *Economist's* index of commodity prices, these prices were on average about 17 per cent lower in 1982 than in 1981.

In contrast with the other main current account items, net service and transfer payments to foreigners did not contribute to the improvement of the current account balance in 1982. The increase in these payments in 1982 was due mainly to a sharp rise in interest payments on foreign loans, supplemented by moderately higher tourist expenditure. Dividend payments on foreign investment declined appreciably in 1982, mainly as a result of lower gold mining profits.

Balance of payments current account



Substantial net inflow of capital

Not only did the current account of the balance of payments improve in the course of 1982, but the capital account was strengthened by a substantial net inflow of funds, especially during the second half of the year. The net capital inflow (excluding reserve-related liabilities but including errors and omissions) amounted to R2 614 million in 1982, compared with R866 million in 1981.

As shown in the accompanying table, the larger part of the net capital inflow in 1982 consisted of long-term capital. Loans raised abroad by the Treasury, the South African Transport Services and the Department of Posts and Telecommunications accounted for most of the long-term capital inflow. In addition, there was a net inflow of long-term capital, mainly in the form of foreign loans, to public corporations and the private sector.

A substantial outflow of short-term capital (excluding changes in liabilities related to foreign reserves) occurred in the first quarter of 1982, but this was followed by a sizeable inflow during the second half of the year. The net inward movement of short-term funds was encouraged by the relatively higher interest rates in South Africa and expectations that the rand would appreciate against other currencies.

Net capital movements (not related to reserves)
R millions

	1981		1982			Year
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	
Long-term capital						
Central government and banking sector.....	167	306	346	201	272	1 125
Public corporations and local authorities.....	666	47	70	112	106	335
Private sector.....	-291	242	158	143	-90	453
Total.....	542	595	574	456	288	1 913
Short-term capital, not related to reserves, including unrecorded transactions.....	324	-607	-3	531	780	701
Total net capital movements.....	866	-12	571	987	1 068	2 614

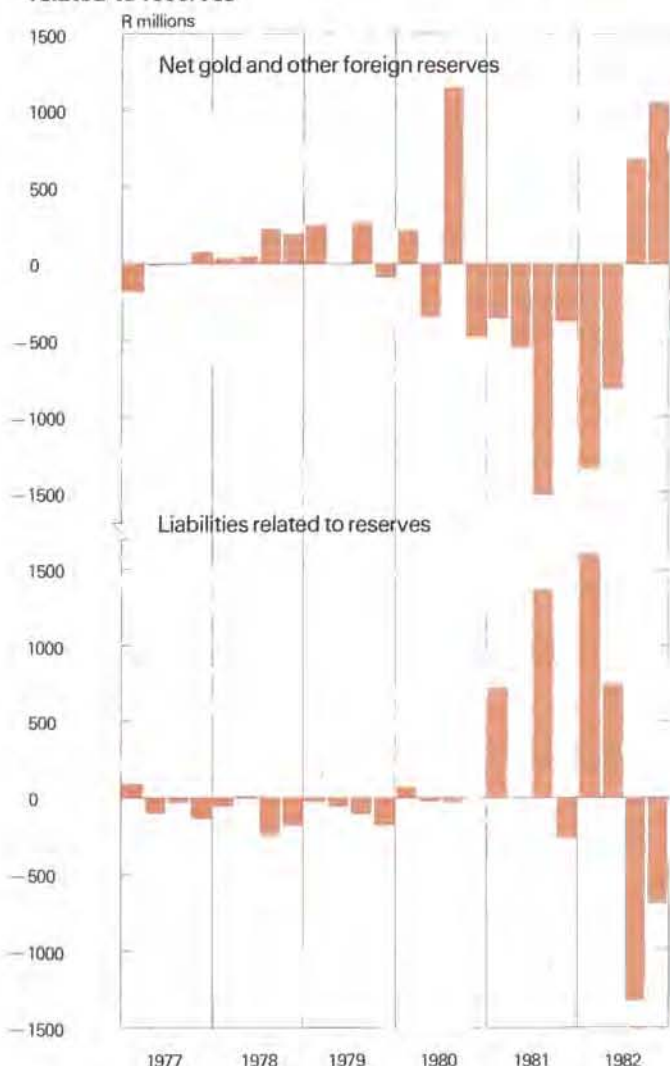
Increase in gold and other foreign reserves

Total net gold and other foreign reserves declined by R2 168 million in the first half of 1982, but increased by R688 million in the third quarter and R1 057 million in

the fourth quarter as a result of the improvement of both the current and capital accounts of the balance of payments. On balance, net foreign reserves declined by R423 million in 1982, as against a decrease of R2 835 million in 1981. The increase in net foreign reserves during the second half of 1982 was accompanied by a reduction of R2 039 million in liabilities related to reserves. Prior to this reduction, these liabilities had risen by R1 830 million during 1981 and by a further R2 369 million during the first half of 1982. The gross gold and other foreign reserves increased by R67 million during 1982 to a level of R4 312 million at the end of the year.

During January 1983 the Reserve Bank reduced its reserve-related liabilities by a further R320 million. The Bank's gross foreign reserves nevertheless increased by R731 million, including the revaluation of gold reserves at a higher price.

Changes in net foreign reserves and liabilities related to reserves



Change of direction in exchange rate movements

The effective exchange rate of the commercial rand, which had declined by 9,8 per cent during the first six months of 1982, increased by 7,2 per cent during the second half of the year. This pattern of change was roughly representative of movements in the rand's exchange rates against individual major world currencies in the course of 1982. On balance, the rand depreciated against the US dollar, the German mark, the Swiss franc and the Japanese yen during 1982 as a whole, but appreciated against the British pound and the French franc. During January and February 1983 the effective exchange rate of the rand increased by 1,4 per cent, reflecting an appreciation of the rand against most of the major currencies. Against the US dollar, however, the rand depreciated slightly during these two months.

In contrast with the depreciation of the commercial rand, the financial rand maintained a fairly stable exchange rate against the US dollar during the first seven months of 1982. Together with the depreciation of the commercial rand, this resulted in a substantial decline in the financial rand discount, namely from 23,4 per cent at the end of 1981 to 9,3 per cent at the end of July 1982. Subsequently the financial rand depreciated by 8,5 per cent during August and September, before ap-

Changes in the exchange rates of the commercial rand
%

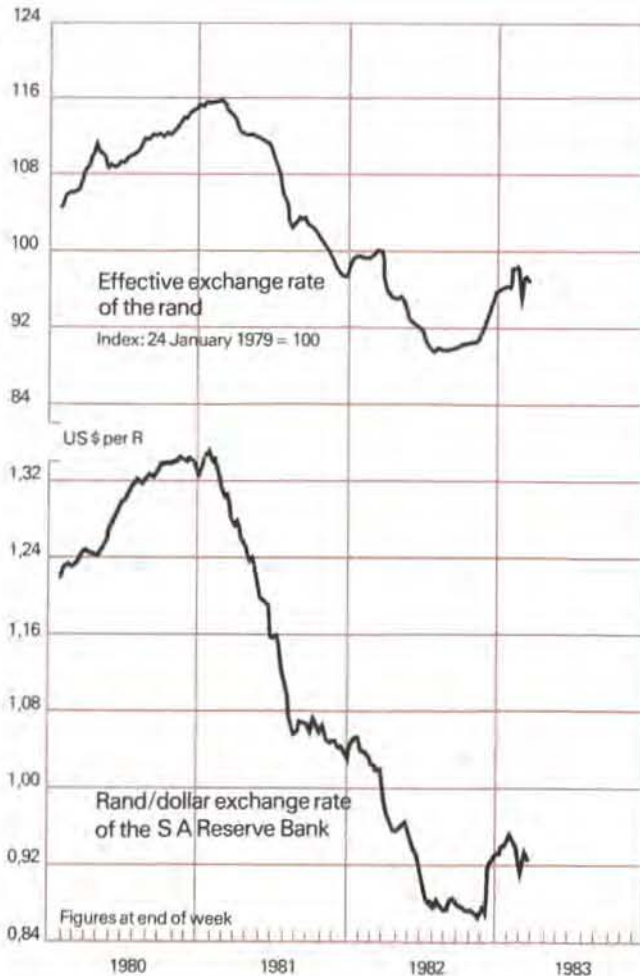
	Dec 1981 to June 1982	June 1982 to Dec. 1982	Dec 1981 to Dec. 1982	Dec 1982 to Feb. 1983
Effective exchange rate	-9,8	7,2	-3,3	1,4
US dollar	-16,2	6,3	-10,9	-0,5
British pound	-8,2	14,5	5,1	5,6
German mark	-8,9	3,3	-5,9	1,0
Swiss franc	-2,4	1,3	-1,1	1,4
Japanese yen	-3,0	-1,8	-4,8	-0,3
French franc	-0,1	5,3	5,2	1,3

precipitating again by 4,8 per cent during the next three months. The net effect of these changes was a depreciation of 5,3 per cent in the financial rand during 1982. At the end of December 1982 the financial rand discount amounted to 18,7 per cent. During January 1983 the financial rand appreciated by 1,7 per cent against the US dollar and the financial rand discount declined to 17,8 per cent.

With effect from 7 February 1983, exchange control over non-residents was abolished. This implied the dis-

appearance of the financial rand and of the dual exchange rate system which had existed previously. The immediate effect of this step was that, under the new unitary exchange rate system, the rand depreciated by slightly more than 5 per cent against the US dollar on 7 February, while the effective exchange rate of the rand declined by a roughly similar percentage. Subsequently, up to 4 March, the rand appreciated again by 4,3 per cent against the US dollar and the effective exchange rate increased by 3,1 per cent.

Exchange rates



Money and banking

Slow-down of monetary expansion

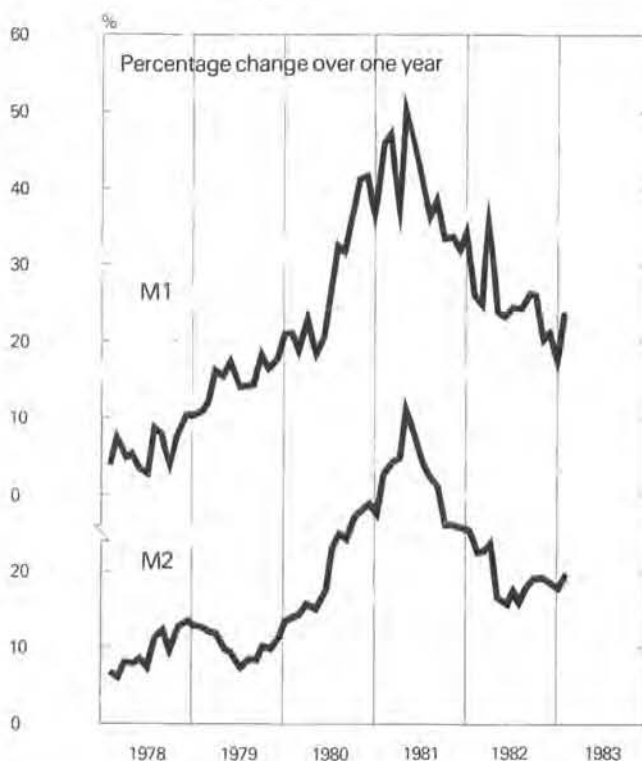
The excessively high rate of monetary expansion from the middle of 1980 to early 1982 slowed down significantly in the course of 1982. At a seasonally adjusted annual rate, the increase in the broad money supply (M_2) decelerated from 21 per cent in the first half of 1982 to 14 per cent in the second half. The corresponding rates of growth in the narrow money supply (M_1) amounted to 19 per cent and 14 per cent, respectively. During 1982 as a whole, M_2 and M_1 increased by 17 per cent and 16 per cent, respectively, whereas during 1981 the corresponding growth rates had amounted to as much as 25 per cent and 34 per cent.

Causes of changes in M_2

As shown in the accompanying table, the main statistical "cause" of the change in M_2 during 1982 as a whole was an increase in bank credit to the private sector. In addition, M_2 was expanded by an increase in the "net other assets" of the monetary banking sector, consisting mainly of Reserve Bank claims on the Government in respect of losses on forward exchange contracts incurred by the Bank on behalf of the Government. A moderate decline in the net gold and other foreign reserves of the monetary banking sector, a substantial decrease in net bank credit extended to the government sector, and a small rise in long-term deposits of the private sector with monetary banking institutions exerted a contractionary influence on M_2 in 1982.

The slow-down of the rate of monetary expansion in the course of 1982, in particular during the second half, reflected a weakening of the non-bank private sector's demand for bank credit as the economic downswing progressed. In addition, there was an increase in the private sector's holdings of long-term deposits with monetary banking institutions at a time when long-term interest rates peaked and expectations of a decline in such rates strengthened. However, the main reason for

Growth of monetary aggregates



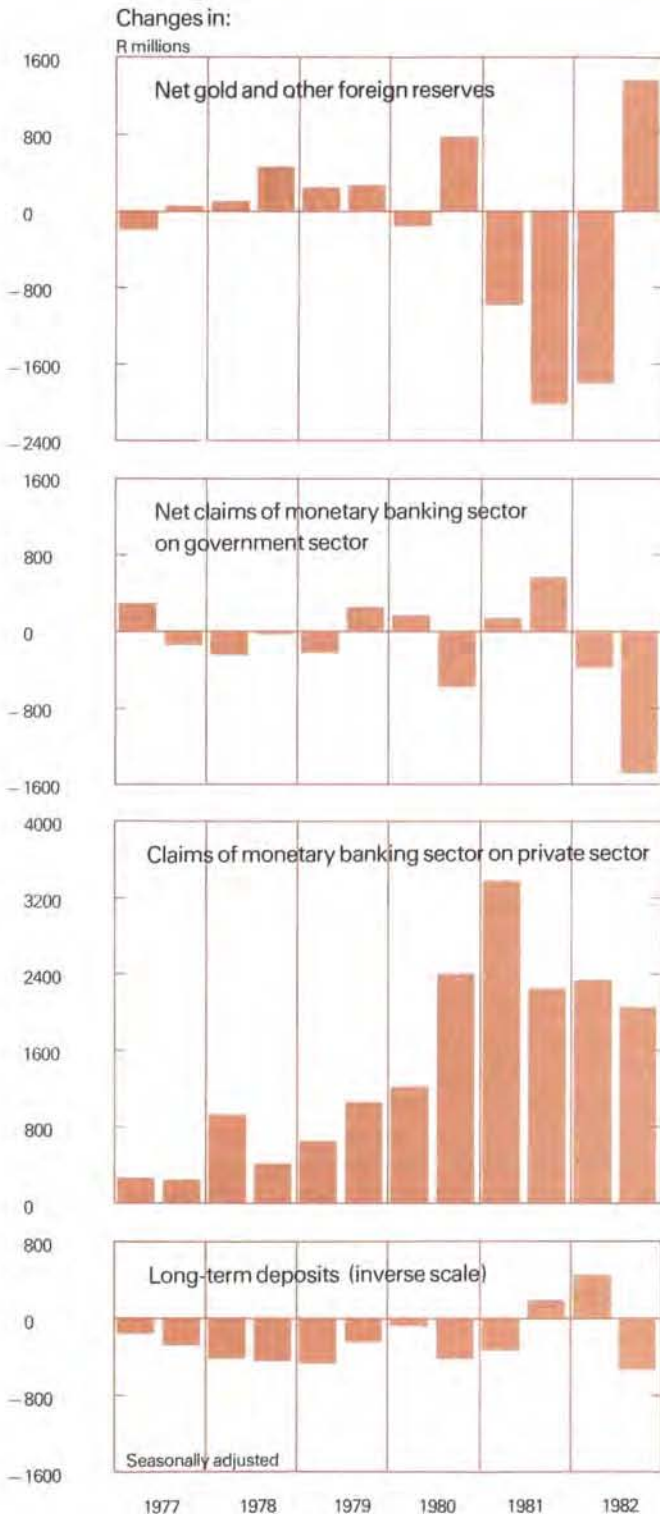
the slower monetary expansion was the success of the Treasury's loan financing and the Reserve Bank's operations in the financial markets in reducing net bank credit to the government sector. On the other hand, as a result of the improvement in the overall balance of payments, an increase in the monetary banking sector's net gold and other foreign reserves emerged as a new "cause" of monetary expansion during the second half of 1982. The need to neutralise this expansionary effect on the money supply required that the Treasury and the Reserve Bank achieve an appropriate reduction in the monetary banking sector's net claims on the government sector.

Causes of changes in M_2

R millions

	Not seasonally adjusted		Seasonally adjusted			
	Year 1981	Year 1982	1982			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Net gold and other foreign reserves.....	-2 835	-433	-1 301	-495	368	992
Net claims on government sector.....	809	-2 031	-477	88	-789	-690
Claims on private sector.....	5 632	4 446	1 969	387	1 174	893
Long-term deposits (increase -, decrease +).....	-133	-90	172	278	-773	231
Net other assets.....	617	1 655
Total.....	4 090	3 547	1 765	225	713	753

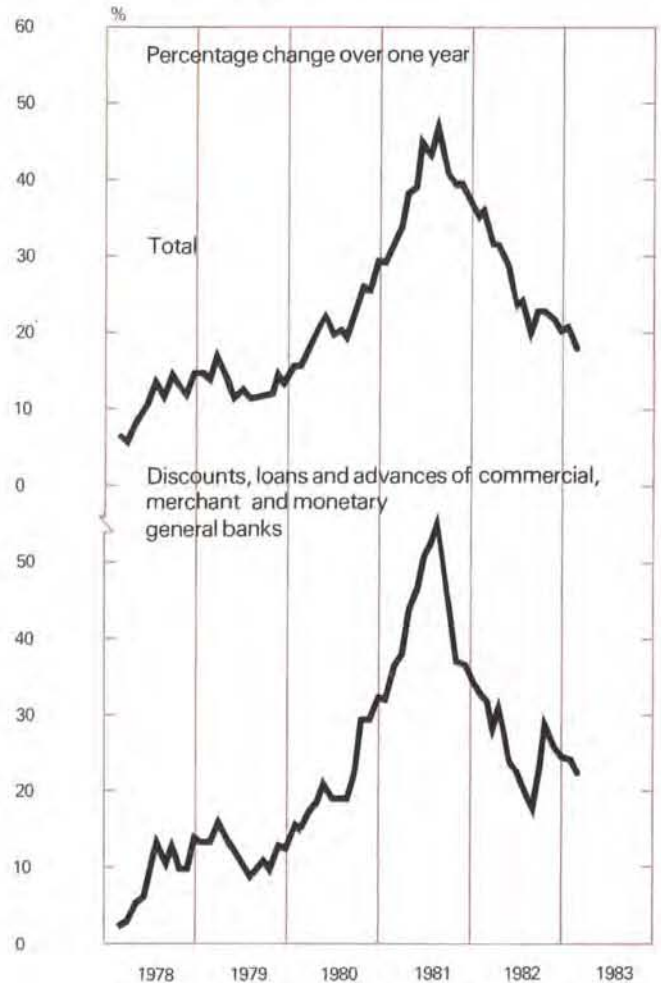
Causes of changes in M2



Lower rate of increase in bank credit to the private sector

The increase in bank credit to the private sector, a major cause of the rapid growth in the money supply during recent years, slowed down from 35 per cent in 1981 to

Bank credit to private sector



20 per cent in 1982. This slow-down was particularly evident in the second half of the year, when there was a notable weakening of the demand for bank credit and some substitution of foreign for domestic credit. At a seasonally adjusted annual rate, the increase in the monetary banking sector's claims on the private sector decelerated from 23 per cent during the first half of 1982 to 18 per cent during the second half. This change was reflected in virtually all components of bank credit to the private sector, in particular in the discounts and different classes of loans and advances of the commercial, merchant and monetary general banks.

Bank liquidity

Bank holdings of liquid assets in excess of the legally required minimum generally remained at a low level up to late September 1982, but increased after a reduction in the cash reserve and liquid asset requirements for banking institutions on 27 September. Further increases occurred during the fourth quarter and January 1983. The ratio of surplus liquid assets to liabilities to

the public declined from 3,4 per cent at the end of December 1981 to 1,9 per cent at the end of June 1982, but rose to 2,7 per cent at the end of December and 3,4 per cent at the end of January 1983. The increase in the Reserve Bank's net gold and other foreign reserves during the second half of 1982 and January 1983 had an expansionary effect on the banks' actual holdings of liquid assets. Liquid asset holdings were also enlarged during 1982 by the further extension of credit in liquid form to the Land Bank and increased holdings of liquid bankers' acceptances. In contrast, a strong contractionary influence was exerted on the banks' liquidity base during 1982 by a sharp increase in government deposits.

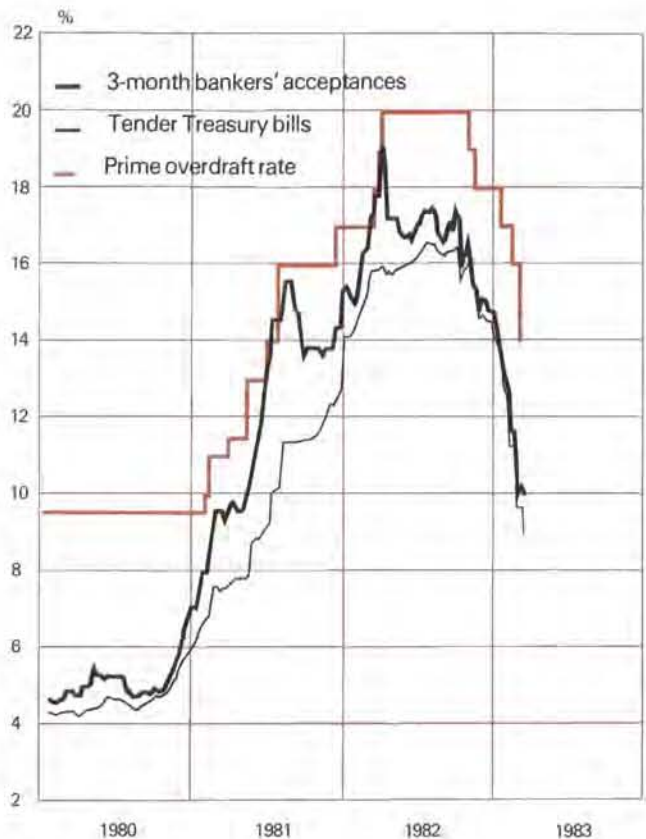
Money market conditions and interest rates

Generally, conditions in the money market remained tight throughout 1982, but there were distinct variations in the degree of tightness in the course of the year. Thus, the market was very tight during the first quarter and again over the August month-end and the larger part of September. During the remainder of the year the degree of tightness was somewhat less and it tended to diminish even more towards the end of the year. The sustained tightness of the market was illustrated by the fact that the discount houses were accommodated, although at penal rates, by the Reserve Bank for fairly long periods over month-ends during the first seven months of the year and that they remained indebted to the Bank almost continuously from 23 August to the end of the year. Accommodation provided to the discount houses reached a record level of R1 163 million on 4 September and amounted to R748 million at the end of December.

Money market interest rates, which had been rising from the fourth quarter of 1980, moved into a cyclical downward phase towards the end of September. At the time, the market was still severely short of funds, but the increase in the gold price, indications that the balance of payments was improving rapidly, the decline in interest rates abroad and a lower demand for credit gave rise to strong expectations of a general decline in interest rates. These expectations were reflected in the subsequent decline in money market interest rates. The rate on three-month bankers' acceptances, for example, fluctuated upwards from 15,25 per cent at the end of 1981 to 17,35 per cent on 24 September, before declining to 14,25 per cent at the end of 1982. The Treasury bill tender rate rose from 14,04 per cent at the end of 1981 to 16,35 per cent on 24 September and declined subsequently to 14,10 per cent at the end of 1982.

Except for a tightening over the December 1982 month-end, the easier market conditions from early December continued during January and the first half of February. However, over the February month-end the market experienced a strong seasonal tightness owing to the flow of tax funds to the Government. Despite the

Short-term interest rates



easier market conditions during January and most of February, the discount houses remained short of funds and were accommodated by R321 million at the end of January, even after the National Finance Corporation had placed call deposits, amounting to R104 million at the end of the month, with them. At the end of February the shortage of funds in the market amounted to R823 million, including accommodation of R30 million to banking institutions. The shortage was slightly alleviated by the National Finance Corporation's call deposits of R241 million with the discount houses.

Despite the discount houses' shortage of funds, there were signs of increasing liquidity in the market, to which the Reserve Bank responded by selling government securities in the market. The rate on three-month bankers' acceptances declined further to 11,60 per cent on 4 February, while the Treasury bill tender rate fell to 11,19 per cent. Immediately after the abolition of exchange control over non-residents as from 7 February, money market interest rates moved upwards briefly, but then resumed their downward tendency. On 4 March the three-month bankers' acceptances rate and the Treasury bill tender rate stood at 9,30 per cent and 8,86 per cent, respectively.

Bank rate remained unchanged during 1982, but the

prime overdraft rate of the clearing banks was lowered from 20 per cent to 19 per cent on 1 November, to 18 per cent from 22 to 25 November. Subsequently, the prime overdraft rate was reduced further to 17 per cent on 24 January, to 16 per cent from 16 to 24 February and to 14 per cent on 7 March 1983. Deposit rates of banking institutions generally increased up to the end of September, before declining during the ensuing period. More information on deposit rates is provided in the capital market section of this review.

Reserve Bank operations in the financial markets

Extensive operations in the financial markets were undertaken by the Reserve Bank during 1982 and the first two months of 1983 with a view to ironing out large fluctuations in money market conditions and to exercising a contractionary influence on the money supply. Sales of government stock by the Bank during this fourteen-month period amounted to R2 283 million, of which R1 800 million consisted of stock obtained on tap from the Treasury. The remaining part of the stock sold by the Bank in the market was obtained by means of subscriptions to new issues, open-market purchases and purchases from the Public Debt Commissioners, or represented sales from the Bank's own government stock portfolio.

From April to August 1982 the Bank also sold special Treasury bills to the amount of R372 million. These bills matured at the end of August to coincide with the tax-payment peak at that date. Similar bills, totalling R450 million and which matured at the end of February 1983, were sold by the Bank between the beginning of December 1982 and 17 February 1983. As a further means of alleviating seasonal tightness in the money market, the Bank entered into repurchase agreements with banks and discount houses on 28 October. These measures were supplemented by the National Finance Corporation's temporary placement of loans at call with the discount houses over month-ends. These loans amounted to R120 million at the end of December 1982, R104 million at the end of January and R241 million at the end of February 1983. During February 1983 the Reserve Bank sold R150 million of short-term government stock from its portfolio on a tender basis.

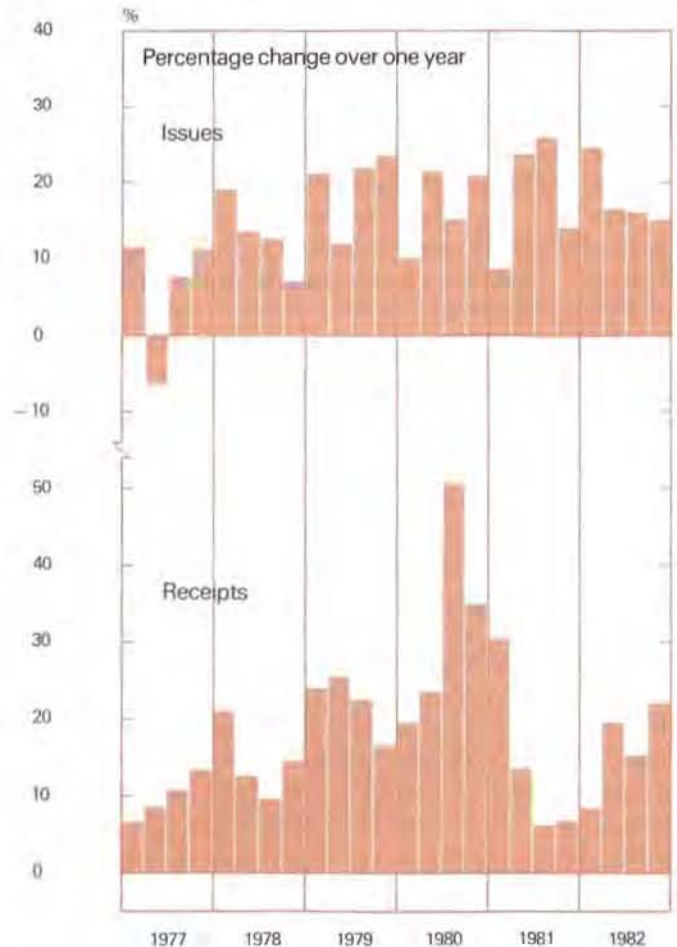
Government finance

Increases in Exchequer* issues and receipts both ahead of Budget estimates

During the first nine months of the 1982/83 fiscal year, i.e. the period from April to December 1982, both the increases in Exchequer issues and receipts were well ahead of Budget estimates for the fiscal year as a whole. It is anticipated, however, that the Exchequer deficit before borrowing and debt repayment for the full fiscal year will be lower than the original Budget figure, which was estimated at R2 380 million, or slightly less than 3 per cent of gross domestic product.

Compared with the corresponding period of the preceding fiscal year, Exchequer issues increased by 16,1 per cent in the first nine months of 1982/83, as against an original Budget estimate of 11,5 per cent for the full fiscal year. The increase in issues slowed down slightly in the course of 1982/83, namely from 16,8 per cent in

Exchequer Account



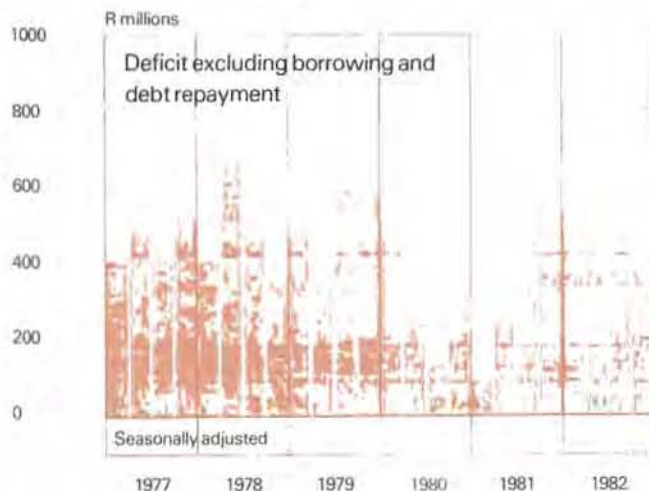
*The Exchequer Account is adjusted for changes in the balance on the Paymaster-General Account.

the first fiscal year quarter to 15.2 per cent in the third quarter. The Additional Budget, which was presented to Parliament on 1 March 1983, provided for additional expenditure of R797 million during the 1982/83 fiscal year. This additional amount raised the budgeted increase in expenditure in 1982/83 from 11.5 to 16.0 per cent.

Revenue collections in the first nine months of 1982/83 were 19.7 per cent higher than in the corresponding period of the preceding year. Part of this increase represented additional general sales tax collections after the tax rate had been raised from 5 to 6 per cent from 1 September. The Budget provided for an increase of 11.0 per cent in revenue for the fiscal year as a whole, excluding the increase in the general sales tax.

The higher than anticipated revenue yield was evident in all the main classes of revenue. Indirect tax collections, consisting of customs and excise duties and general sales tax, were 40 per cent higher in the first nine months of 1982/83 than in the corresponding period of the preceding fiscal year. Excluding the increase from 5 to 6 per cent in the general sales tax, an increase of 31 per cent was estimated in the Budget for the full fiscal year. As expected, income tax and mining lease payments by gold mining companies were substantially smaller in the first nine months of 1982/83 than in the corresponding period of the preceding year. Nevertheless, because of the increase in the gold price during the second half of 1982, the decline of 43 per cent was appreciably smaller than the expected decline of 53 per cent for the fiscal year as a whole. Income tax collections from companies other than gold mines in the first nine months of 1982/83 conformed closely to the Budget's expected increase of 22 per cent for the full fiscal year. On the other hand, the increase in income tax payments by individuals was significantly in excess of the Budget estimate of 24 per cent.

Exchequer Account deficit



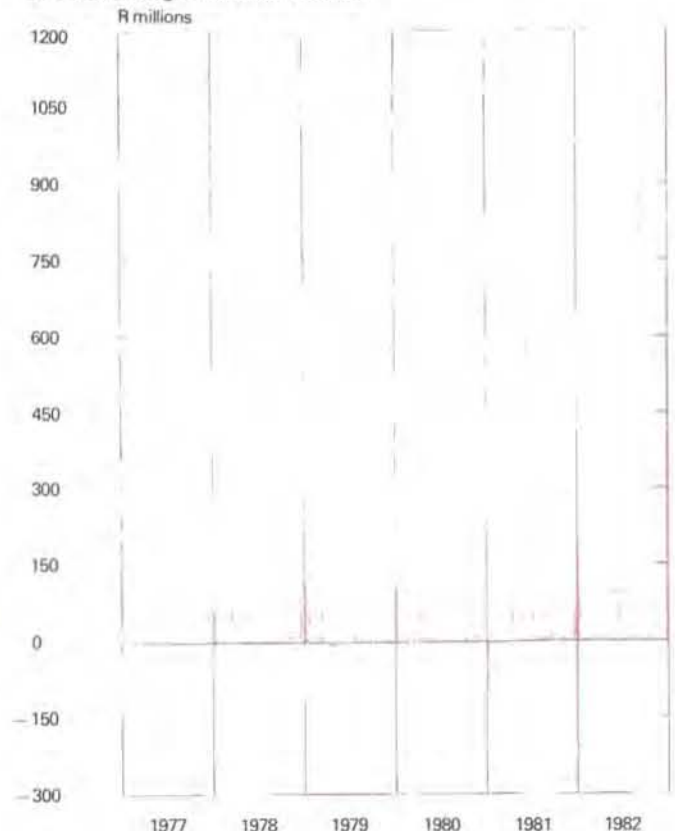
Financing of the Exchequer Account deficit

The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R2 653 million in the first nine months of 1982/83. Although notably higher than the Budget figure of R2 380 million for the full fiscal year, the usual seasonal surplus on the Exchequer Account in the last fiscal year quarter is likely to reduce the deficit to a figure lower than the Budget estimate. The deficit of R2 653 million on the Exchequer Account was financed as follows:

	R millions
Public Debt Commissioners	752
Non-bank private sector	2 677
Monetary banking sector	-1 020
Foreign sector	244
Total	2 653

A substantial part of the amount borrowed by the Treasury from the non-bank private sector consisted of Reserve Bank sales of new government stock obtained by the Bank on tap from the Treasury. New government stock issues (excluding stock issues to the Public Debt Commissioners) during the first nine months of 1982/83 amounted to R2 780 million, of which R1 800 million was issued on tap to the Reserve Bank and sold by the

Changes in non-bank private sector's holdings of marketable government stock



Bank in the market. Taking into account stock redemptions of R614 million during these nine months, net new issues of government stock amounted to R2 166 million, compared with a Budget estimate of R800 million for the full fiscal year.

Mainly as a result of these issues, total deposits on the Exchequer, Paymaster-General and Stabilization Accounts rose by R1 140 million from the end of March 1982 to reach a level of R3 240 million at the end of 1982. Of this increase, R400 million represented a rise in the balance on the Stabilization Account, which stood at R2 433 million at the end of 1982. The increase in government deposits accounted for the considerable decline in the Treasury's net indebtedness to the monetary banking sector during these nine months.

Budget of the South African Transport Services for 1983/84

In the 1983/84 Budget presented to Parliament on 2 March 1983, it was anticipated that the South African Transport Services would end the 1982/83 financial year with an operating deficit of R373 million. Revenue in 1982/83 was expected to be R588 million lower than the original Budget estimate, but the decline would be partly neutralised by lower operating expenditure.

Budget estimates for the 1983/84 financial year provided for revenue of R6 244 million and expenditure of R6 878 million, leaving a deficit of R634 million. Although transport tariffs were increased by an average of 15 per cent in January 1983, it was stated that the anticipated deficit in 1983/84 could necessitate a further increase in tariffs in the course of the year. It was estimated that capital expenditure in 1983/84 would be reduced by nearly 9 per cent to R1 815 million. This would be financed to the extent of R1 024 million from net domestic and foreign borrowing and R791 million from internal sources.

Capital market

Significant easing of market conditions

The tight capital market conditions of the first half of 1982 eased significantly during the second half of the year. On the one hand, the deepening of the recession resulted in a slow-down of the demand for funds, while on the other hand there was an increase in the general availability of funds in the market. The latter increase was largely the result of the expansionary effect of the sharp rise in the price of gold and the net inflow of short-term foreign capital from the middle of the year on net foreign reserves and private sector liquidity. These changes were reflected in strongly rising share and other security prices and a correspondingly sharp fall in yields.

In addition to the basic change in the demand-supply relationship in the capital market, the decline in long-term yields during the second half of the year was the outcome of large-scale security transactions, prompted by expectations of a general decline in interest rates from their cyclical peaks. These expectations were strengthened considerably by the decline in interest rates abroad and the increase in the gold price.

Increased holdings of longer-term funds with financial institutions

The seasonally adjusted increase in holdings of longer-term funds with banking institutions, building societies, participation mortgage bond schemes and government savings schemes, which had averaged only R59 million in the first two quarters of 1982, amounted to R1 007 million in the third quarter and R1 188 million in the fourth quarter.

The substantially larger increase in longer-term fund holdings during the second half of 1982 was reflected mainly in additional investments with building societies and banking institutions. The seasonally adjusted increase in building society shares and deposits accelerated from R576 million in the first half of 1982 to R1 154 million in the second half. Of the total net inflow of new funds to the societies during 1982, R1 508 million consisted of an increase in fixed deposits, R218 million of

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

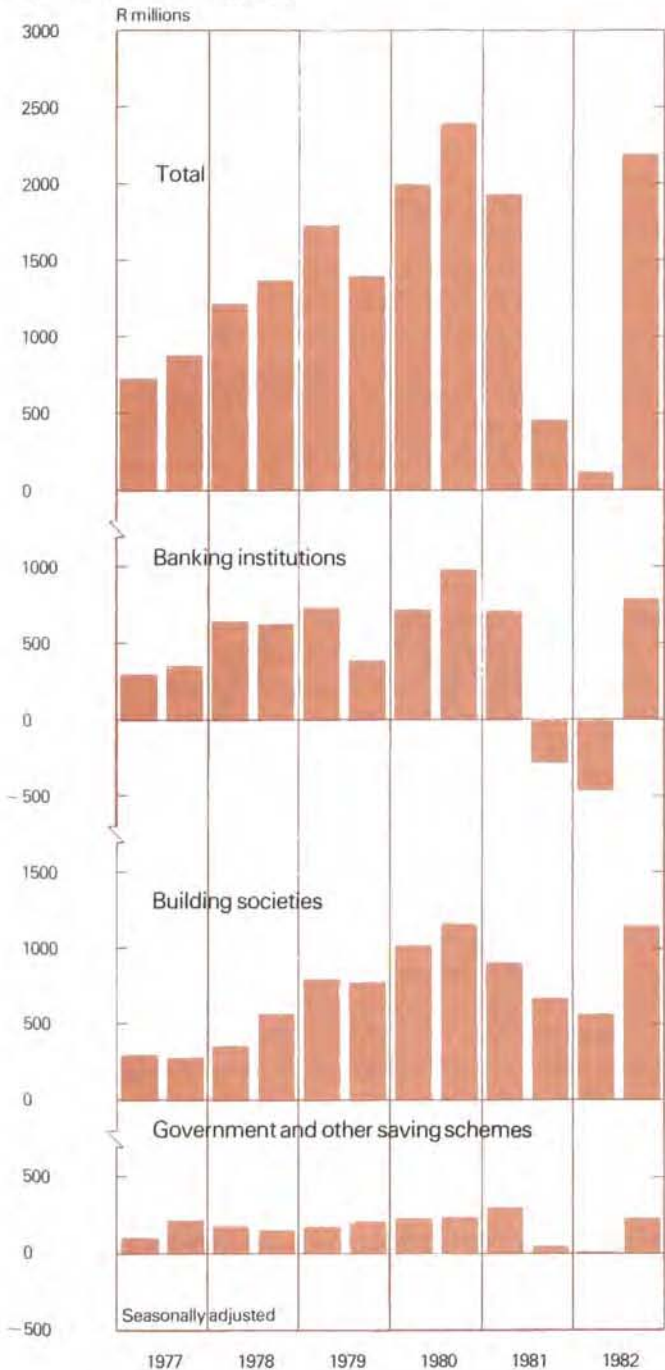
Seasonally adjusted quarterly changes
R millions

	1982			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Banking institutions.....	-73	-399	585	213
Building societies.....	161	415	324	830
Participation mortgage bond schemes.....	38	74	59	82
Government savings schemes.....	-34	-64	39	63
Total.....	92	26	1 007	1 188

an increase in savings deposits and R4 million of larger share holdings. The increase in holdings of longer-term funds with banking institutions, which had actually declined during the first half of 1982, amounted to R798 million during the second half of 1982.

In line with other interest rates, deposit and related interest rates declined during the second half of 1982, particularly during the fourth quarter. Further downward adjustments were made during January and

Change in longer-term fund holdings with financial institutions



Selected interest rates¹

%

	1981 31 Dec.	31 May 1982	31 Dec. 1982	1983 28 Feb.
Ordinary savings deposits.....	4,00	4,00	4,00	4,00
Special savings deposits.....	8,25 ²	8,75 ²	8,75 ¹	8,75 ¹
Fixed deposits:				
12 months	11,50	16,00	15,00	13,00
24 months	13,50	15,50	14,00	12,00
36 months	13,25	14,00	14,00	12,00
60 months	14,00	14,00	14,00	12,50
Building society shares:				
Indefinite period paid-up.....	11,50	14,00	14,00	14,00
Tax-free shares.....	8,75	9,50	9,50	9,50
Post Office Savings Bank Certificates.....	8,75	9,50	9,50	9,50
National Savings Certificates ⁴	9,00	9,00	9,75	9,75
Tax-free Treasury Bonds.....	8,75	9,50	9,50	9,50

¹ Predominant rates

² Deposits of less than R15 000.

³ Deposits of up to R10 000.

⁴ Average rate over full period of investment.

February 1983. The accompanying table shows the changes in the more important rates from the end of 1981 to the end of February 1983.

Buoyant fixed-interest security market

The fixed-interest security market was characterised by heavy secondary market trading in public-sector securities during the second half of the year. The value of

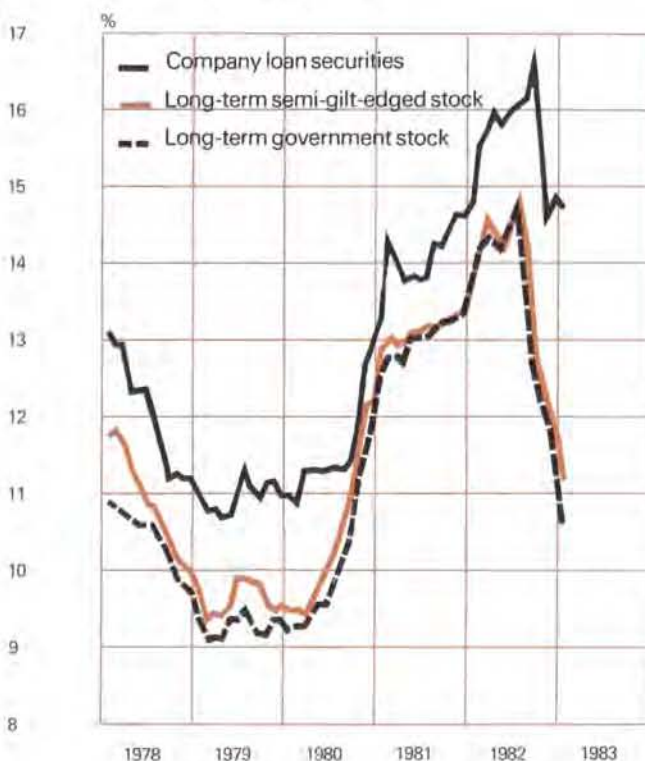
such securities traded on the Johannesburg Stock Exchange soared from a quarterly average of R2 358 million in the first half of 1982 to R5 756 million in the third quarter and R6 168 million in the fourth quarter. In total, the turnover of R16 640 million in 1982 was substantially higher than the corresponding figure of R5 100 million in 1981. Activity in the primary market was also at a considerably higher level in 1982 than in the preceding year. A net amount of R5 670 million (excluding changes in the government stock holdings of the Reserve Bank and the Public Debt Commissioners and in public corporations' and local authorities' holdings of their own stock) was raised by the public sector borrowers in 1982, compared with R2 165 million in 1981.

Fixed-interest security yields in the secondary market peaked in July 1982 and subsequently declined sharply. The monthly average yield on long-term government stock rose from 13,3 per cent in December 1981 to 14,7 per cent in July 1982, before declining to 11,3 per cent in December and 10,6 per cent in January 1983. The corresponding yield on semi-gilt-edged stock of the highest grade increased from 13,4 per cent in December 1981 to 14,8 per cent in July last year, and declined subsequently to 11,7 per cent in December and 11,2 per cent in January 1983. In response to the abolition of exchange control over non-residents and the fall in the gold price, the yields on long-term government stock and semi-gilt-edged stock increased again and averaged 11,40 per cent and 11,78 per cent, respectively, in February.

Strong rise in turnover and prices in share market

The downward trend in turnover and prices in the share market from October 1980 was reversed in July 1982. The number of shares traded on the Johannesburg Stock Exchange during the second half of 1982 was 68 per cent higher than in the first half and for the year as a whole the share turnover was 6 per cent above that in 1981. During January and February 1983 share turnover

Secondary market security yields



was 30 per cent up on the monthly average for the fourth quarter of 1982.

Share prices rose on average by 64 per cent from June to December 1982 to reach a level that was on average 9 per cent higher than in December 1981. Gold mining share prices increased by 129 per cent from June to December 1982, while the corresponding rise in all mining share prices amounted to 100 per cent. During this six-month period financial share prices increased by 59 per cent and industrial and commercial share prices by 30 per cent. In January 1983 share prices, on average, gained a further 14 per cent on their December levels, but declined by 2 per cent in February. Reflecting the increase in share prices, the average dividend yield on all classes of shares declined from 9,4 per cent in June to 5,8 per cent in December and 6,0 per cent in February 1983.

Following the abolition of exchange control over non-residents, the average daily value of shares traded on

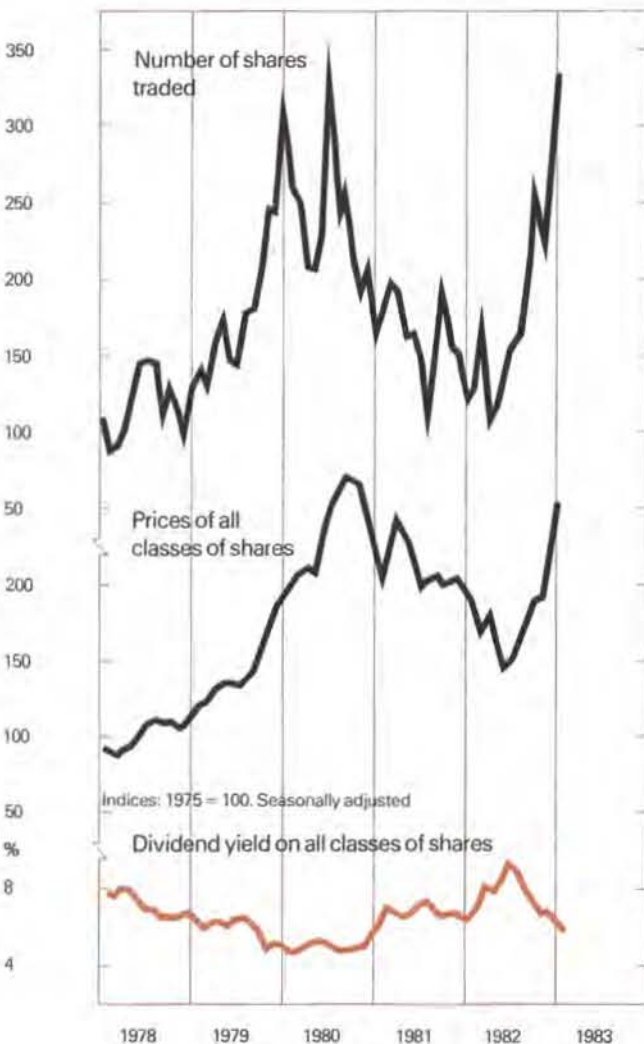
the Johannesburg Stock Exchange, which had amounted to R27,7 million in January 1983 and to R27,4 million in the first four trading days of February, rose to R38,5 million in the week commencing 7 February. On the first day of the new unitary exchange rate system, a turnover of no less than R52,4 million was recorded. All in all, the value of shares traded in January and February amounted to R583 million and R565 million, respectively, compared with a monthly average of R365 million in the fourth quarter of 1982.

Increased lending in mortgage market

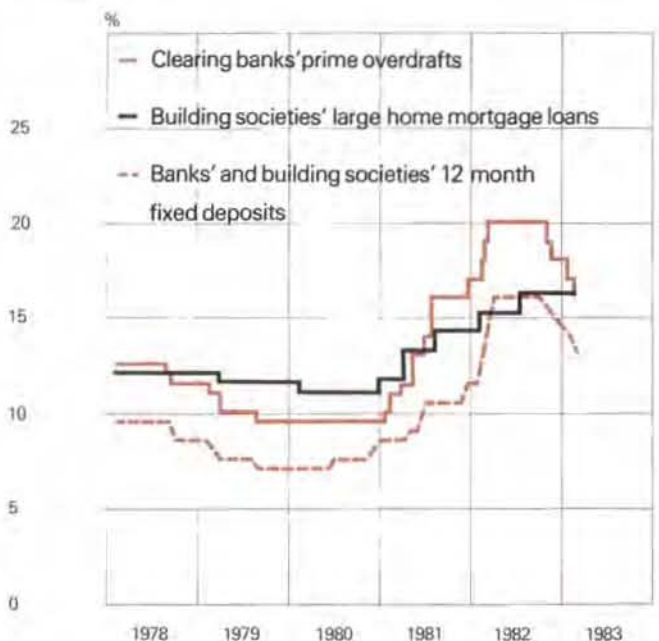
The increased flow of funds to the building societies enabled them to pursue a more liberal lending policy. The seasonally adjusted amount of new mortgage loans granted increased from a quarterly average of R490 million in the first three quarters of 1982 to R838 million in the fourth quarter. The seasonally adjusted amount actually paid out on new mortgages adjusted more slowly and rose from a quarterly average of R518 million in the first half of 1982 to R591 million and R607 million in the third and fourth quarters, respectively. The difference between new loans granted and paid out was reflected in notably higher loan commitments. An increase of R38 million in these commitments during the first half of 1982 was followed by a rise of R288 million during the second half.

New mortgage loans paid out were not only smaller than loans granted, but also did not match the societies' inflow of new funds. As a result, the societies increased their holdings of prescribed investments by a season-

Stock exchange



Interest rates



ally adjusted amount of R741 million during the second half of 1982. Their excess holdings of these investments rose from R550 million in June 1982 to R1 179 million in December.

Adjustments in the building societies' mortgage rates, which usually tend to lag behind other interest rate changes, did not follow the downward adjustment in other rates during the latter part of 1982 and January 1983. The more flexible participation mortgage bond rate, net of management fees, however, declined from a peak of 19,15 per cent in October 1982 to 18,0 per cent in January 1983.

Sustained high turnover in real estate market

Turnover in the real estate market, which had declined slightly in the third quarter of 1982 from a peak in the preceding quarter, showed a renewed increase in the fourth quarter. The seasonally adjusted value of real estate transactions reached a new record level of R1 795 million in the fourth quarter. In 1982 as a whole, the value of transactions was 13 per cent higher than in 1981.