Quarterly economic review

Introduction

Present indications are that the upswing in the South African economy which had been in progress from the second quarter of 1983, gave way to a downturn in the third quarter of 1984. This assessment is based in part on a decline in real gross domestic product in the third quarter, even after allowance is made for the low level of real agricultural output caused by the drought. The decline in overall real output was accompanied by an increase in unemployment.

The downturn started with an appreciable decline in real private consumption expenditure. To some extent this decline represented a natural reaction to the artificially inflated spending in the second quarter ahead of the increase in the general sales tax. More fundamentally, however, it was related to the gradual tightening of monetary policy over the preceding twelve months and the further more restrictive policy measures introduced in July and early August. The lower levels of real private and government consumption expenditure and a further decline in real fixed investment were the main causes of a decline in overall gross domestic expenditure in the third quarter. Real inventories, however, recorded a small increase in this period.

The corrective policy measures were necessitated by the unsustainability of the economic upswing which had largely been based on an increase in government and private consumption expenditure. Unfavourable symptoms of the consumption-based upswing became apparent in the fourth quarter of 1983, when the current account of the balance of payments moved into deficit, the rand started to depreciate and the inflation rate began to accelerate. The unsustainability of the high level of private as well as government consumption expenditure was further underscored by the sharp appreciation of the US dollar in July 1984, which was accompanied by a marked decline in the US dollar price of gold. This set of circumstances brought about a substantial drop in the effective exchange rate of the rand.

The economic downturn in the third quarter was to some extent obscured by the fact that certain key economic variables did not adjust significantly during this transitional period. The abrupt decline in private consumption expenditure, especially on durable goods, resulted in an involuntary build-up of certain classes of inventories. In addition, imports naturally needed time to adjust to the slow-down in private consumption demand; government consumption expenditure could not be reduced materially in the short run; the rand at first continued to depreciate and the rate of inflation accelerated further. The latter was, of course, not unexpected in view of the preceding sharp depreciation of the rand.

The current account of the balance of payments nevertheless improved substantially in the third quarter by showing a considerably smaller deficit than in the preceding quarter. Despite this favourable development, the net capital inflow during the third quarter was not sufficient to prevent a decline in net foreign reserves and a further decline in the effective exchange rate of the rand. In October the current account moved into surplus and during November the Reserve Bank's net foreign reserves began to rise again.

In the field of money and credit, total bank credit to the private sector and the money supply still continued to rise rapidly during the third quarter. Hire-purchase credit extended by the banking sector did slow down significantly, but this was initially more than compensated for by a substantial increase in overdraft facilities utilised by the corporate sector. The latter apparently reflected the financing of an involuntary inventory accumulation, the supplementing of cash flows and the re-intermediation of credit transactions because of tighter conditions in the market for intercompany finance. During October, however, bank credit to the private sector increased only marginally further.

The increase in the Reserve Bank's refinancing rates at the beginning of August was accompanied by a more or less corresponding rise in short-term interest rates. Subsequently, these rates remained at the higher levels until early November, when a distinct downward movement began. Included in the downward adjustment of rates were declines of 1½ to 2 per cent in the clearing banks' prime overdraft rates, which followed marked decreases in the rates on Treasury bills, Land Bank bills, bankers' acceptances and government stock.

The Reserve Bank viewed these decreases as reflecting the decline in real gross domestic expenditure, the distinct moderation of the demand for credit and the improvement in the current account of the balance of payments. Accordingly, the Bank on 19 November lowered its refinancing rates by 1 per cent. Monetary policy remains committed, however, to bringing about the adjustment in the economy that will ensure an improved balance of payments, higher net foreign reserves, a stronger rand and a lower rate of inflation, in order to lay a sound foundation for longer-term economic growth.

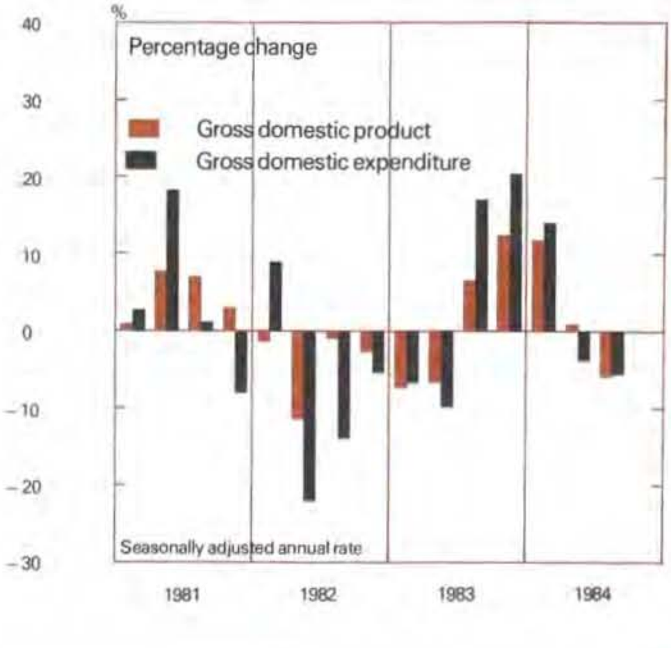
In the first half of the 1984/85 fiscal year, Exchequer issues were substantially higher than in the corresponding period of the preceding fiscal year and also in excess of the adjusted Budget estimates. It is expected, however, that the rate of increase will moderate in the second half of the fiscal year. The high rate of increase in Exchequer issues during the first half of 1984/85 resulted in an appreciable deficit before borrowing, but this was financed without recourse to net bank credit. Borrowing operations were facilitated considerably by the perception in the capital market that interest rates had peaked and were likely to show a further downward movement.

Domestic economic developments

Domestic output

Real gross domestic product regressed considerably in the third quarter of 1984, after it had increased strongly in the preceding four quarters. The decline in the third quarter stemmed mainly from an appreciable fall in total gross domestic expenditure, especially private and government consumption expenditure. To some extent the decline in private consumption expenditure was a natural reaction to the artificially inflated outlays in the second quarter ahead of the increase in the general sales tax. At the same time, however, it was related to the gradual tightening of monetary policy over the preceding twelve months and the restrictive policy measures introduced in July and August. In the case of government consumption expenditure, the decline should be seen as an adjustment from the very high levels of outlays in the first half of 1984. Reflecting the impact of this change in demand, particularly large decreases in real output were recorded in manufacturing, construction, retail and motor trade and transport, storage and communication. The only notable exception to the general declining trend in total output was a moderate further increase in the real value added by non-gold mining, as a result of an increased export demand for metals and minerals. The real product of agriculture remained at the low level to which it had declined in the second quarter.

Real gross domestic product and expenditure



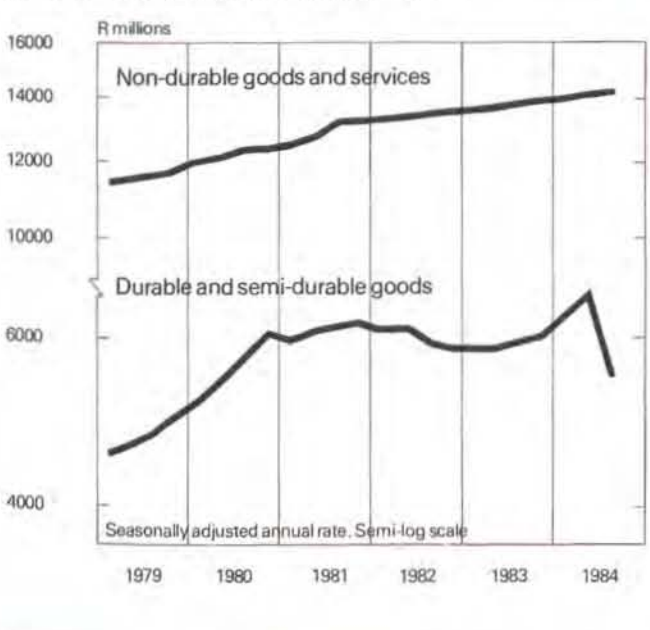
In the first three quarters of 1984 total real gross domestic product was about 6 per cent higher than in the corresponding period of the preceding year. Bearing in mind the high level of gross domestic product in the fourth quarter of 1983 and the fact that the real output of the non-agricultural sectors may decline even further in the last quarter of 1984, a real growth rate of about 4 per cent is expected for the calendar year 1984 as a whole.

Domestic expenditure

The decrease in aggregate gross domestic expenditure, which had commenced in the second quarter, gained further momentum in the third quarter. Almost all the main expenditure components contributed to this further decline. The only exception was real inventory investment which reflected a change from a marked liquidation of stocks in the second quarter to a moderate build-up in the third quarter.

Real private consumption expenditure declined appreciably in the third quarter. In view of the excessive increases which had occurred in the first half of 1984, the decrease in the third quarter was not unexpected. More generally, it also reflected a reaction to the more stringent monetary policy referred to earlier, as well as tighter hire-purchase conditions and the increase in general sales tax in July. Real outlays on all categories of durable goods, but especially on motor cars, were particularly affected and declined to relatively low levels. Real expenditure on semi-durable goods also declined, but outlays on more essential non-durable goods and services showed normal increases.

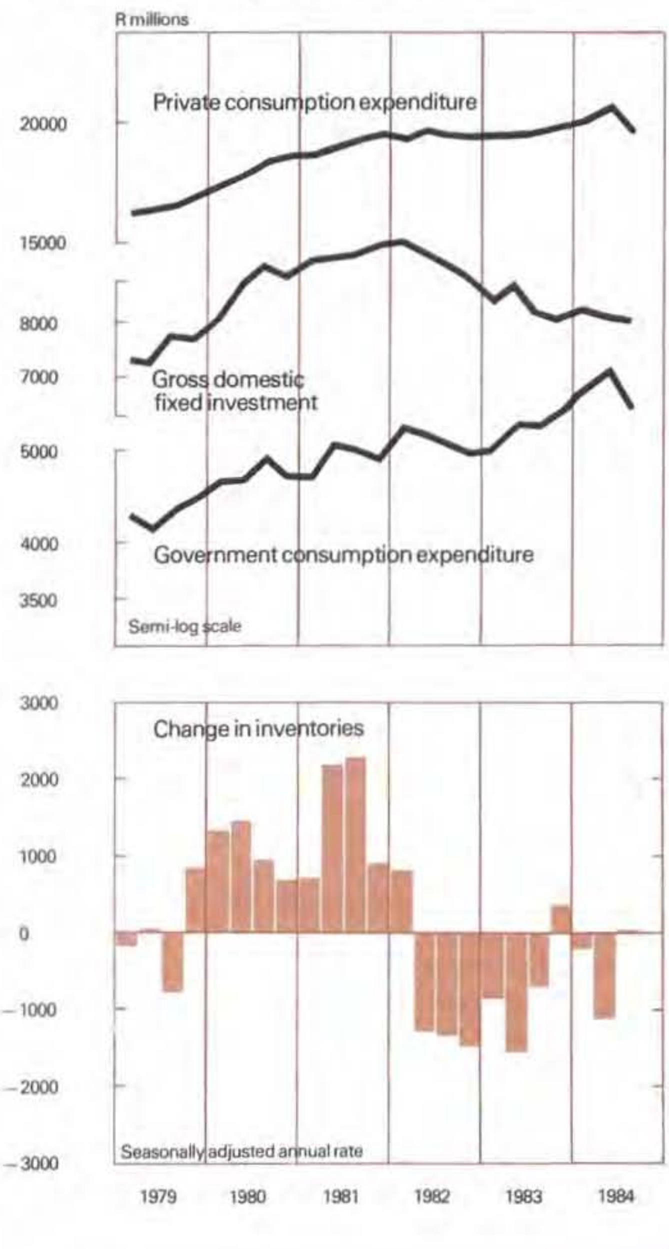
Real private consumption expenditure



The strong upward trend in real government consumption expenditure in the second half of 1983 and the first half of 1984 was arrested in the third quarter. Despite this decline, real government consumption expenditure in the first three quarters of 1984 was nevertheless still 11½ per cent higher than in the corresponding period of 1983. As a ratio of real gross domestic expenditure, it amounted to 18 per cent in the first three quarters of 1984, which not only exceeded the already high average level attained in 1983, but was also substantially higher than the longer-term average of 15 per cent in the ten-year period 1973 to 1982.

Total real gross domestic fixed investment declined for the second consecutive quarter. This was also the

Components of real gross domestic expenditure



general trend of all sections of private fixed investment, which had previously edged up slightly from a low in the second quarter of 1983. The moderate increase in fixed investment in private manufacturing from the first quarter of 1984 proved to be temporary and a declining trend was resumed in the third quarter. Increased outlays by Escom caused fixed investment by public corporations to maintain a fairly strong upward movement, while at the same time outlays by public authorities, which had previously shown large quarterly fluctuations, also increased notably. In the first three quarters of 1984, aggregate real fixed investment was 4 per cent lower than in the corresponding period of 1983. In the case of the private sector, public corporations and public authorities, the corresponding declines amounted to ½, 3 and 12 per cent, respectively.

Following upon a substantial depletion in the second quarter, real inventories increased slightly in the third quarter. This was mainly attributable to the abrupt sharp decrease in private consumption expenditure, which caused an involuntary accummulation of inventories. The inventory build-up was particularly evident in the case of industrial and commercial inventories. After a persistent decline for eight consecutive quarters, the ratio of these inventories to the real non-agricultural gross domestic product rose slightly from 22,6 per cent in the second quarter to 22,9 per cent in the third quarter.

Factor income and saving

The moderation in the rate of increase in nominal salaries and wages from the first to the second quarter, was also discernible in the third quarter. The other main component of factor income, namely gross operating surplus, showed little change in the third quarter because sizeable increases in the surpluses of the mining and financial services sectors were almost completely neutralised by decreases in manufacturing, commerce and transport services.

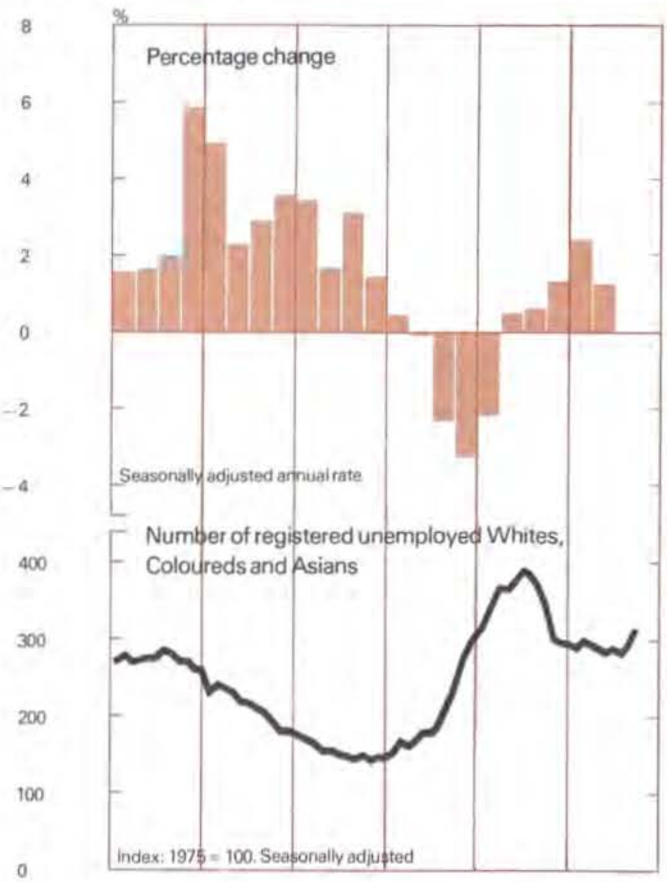
Except for corporate saving, which remained virtually unchanged, all other components of gross domestic saving showed improvements in the third quarter. As a result, the ratio of gross domestic saving to gross domestic product almost reverted to its longer-term average of 25 per cent. In the first half of 1984 the savings ratio stood at only 21 per cent. Although government saving remained negative in the third quarter, the extent of dissaving was markedly lower than in the preceding two quarters. The large swing in private consumption expenditure, from a marked rise in the second quarter to a substantial decline in the third quarter, caused personal saving to change from a small negative figure in the second quarter to about 3½ per cent of personal disposable income in the third quarter.

Employment, productivity and labour costs*

After having accelerated to a seasonally adjusted annual rate of 1,4 per cent in the fourth quarter of 1983 and 2,4 per cent in the first quarter of 1984, the corresponding rate of increase in employment slowed down to 1,3 per cent in the second quarter. Statistics available for July show that employment in sectors such as manufacturing, construction, mining and electricity generation and in the Department of Posts and Telecommunications increased only marginally, while employment by the South African Transport Services recorded a further decline.

Reflecting these rising employment levels, the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from 40 093 in June 1983 to 29 345 in July 1984. Subsequently, however, this number rose again to 34 205 in October 1984. As a ratio of the economically active Black population, Black unemployment declined from 8,5 per cent in June 1983 to 7,8 per cent in March 1984, but then rose again to 8,3 per cent in July.

Non-agricultural employment

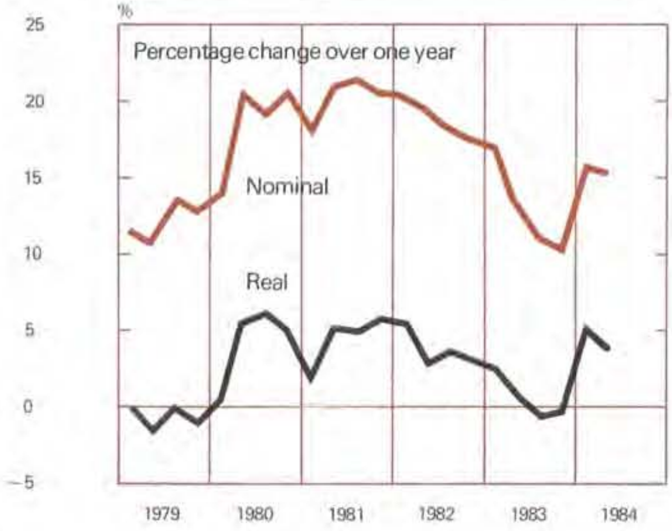


* Employment, productivity and labour remuneration statistics refer to the non-agricultural sectors of the economy and comprehensive data are only available up to the second quarter of 1984.

During the first half of 1984 nominal salaries and wages per worker were 15,4 per cent higher than in the corresponding period of 1983, an increase that was slightly higher than the 12,5 per cent in the calendar year 1983. This acceleration was largely the result of the increased salary and wage scales in the public service. In real terms, remuneration per worker rose by 0,2 per cent in 1983, but was no less than 4,2 per cent higher in the first half of 1984 than in the corresponding period of the preceding year.

Mainly on account of the cyclical recovery in production, real output per worker was 4,5 per cent higher in the first half of 1984 than in the corresponding period of 1983. In 1983 it had declined by 0,3 per cent. This improvement in labour productivity contributed to a lowering of the rate of increase in unit labour costs from 12,8 per cent in 1983 to 10,4 per cent in the first half of 1984.

Remuneration per worker in the non-agricultural sectors



Prices

The seasonally adjusted annual rate of increase in consumer prices, which had accelerated from a low of 6,8 per cent in the third quarter of 1983 to 16,0 per cent in the second quarter of 1984, slowed down to 10,5 per cent in the third quarter. This deceleration mainly reflected a lower rate of increase in food prices, primarily because of the statistical effect on the price index of the abolition as from 1 July 1984 of the general sales tax on certain basic foodstuffs. Excluding food, the rate of increase in the prices of other goods and services continued to accelerate in the third quarter. Measured over a twelve-month period, the comprehensive consumer price index rose by 12,2 per cent and 12,5 per cent in September and October 1984, respectively.

Prices

Percentage change over preceding quarter at a seasonally adjusted annual rate

	Consumer prices		Production prices		
	Total	Total excluding food	Total	Imported goods	SA goods
1983:3rd qtr	6,8	7,9	4,2	−0,6	5,4
4th qtr	9,8	10,3	6,1	3,6	6,8
1984:1st qtr	12,5	12,0	8,9	11,2	8,3
2nd qtr	16,0	13,0	10,2	6,1	11,5
3rd qtr	10,5	15,4	8,0	14,1	6,3

In terms of seasonally adjusted quarterly changes, the increase in production prices accelerated from the fourth quarter of 1983 to the second quarter of 1984, but slowed down in the third quarter as a result of a lower rate of increase in the prices of domestically produced goods. In contrast, the prices of imported goods accelerated further in the third quarter owing to the depreciation of the rand. In September 1984 production prices were on average 8,8 per cent higher than in the corresponding month of 1983.

Balance of payments

Current account

A moderate deficit of R523 million was recorded on the current account of the balance of payments in the third quarter of 1984, which brought the total deficit during the first nine months of the year to R1 291 million. Taken at a seasonally adjusted annual rate, the deficit on current account declined from R1 350 million in the second quarter of 1984 to R820 million in the third quarter.

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

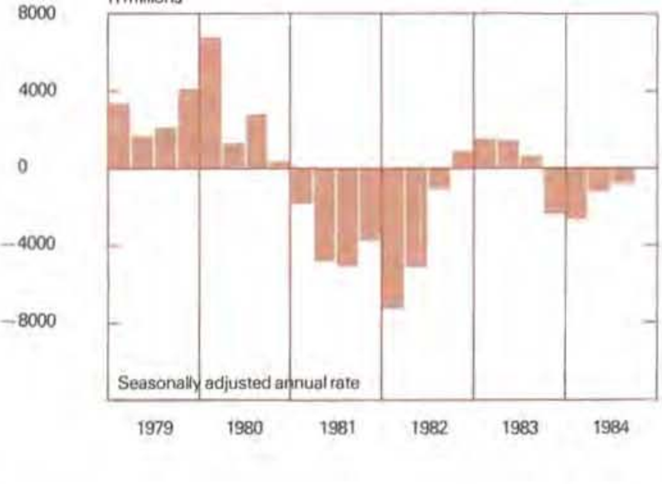
	1984		
	1st qtr.	2nd qtr.	3rd qtr.
Merchandise exports	11 620	12 340	13 630
Net gold output	11 020	10 210	11 800
Merchandise imports	−20 990	−19 830	−21 710
Net service and transfer payments	−4 410	−4 070	−4 540
Deficit on current account	−2 760	−1 350	−820

After merchandise imports had declined in the second quarter of 1984, it increased, at a seasonally adjusted annual rate, to R21 710 million in the third quarter, owing to both price and volume increases. Import prices were affected mostly by the depreciation of the rand, because price increases in trading-partner countries remained moderate. Fluctuating imports of mineral products, which had mainly been responsible for the decline in imports in the second quarter, made the largest contribution to the volume increase in the third quarter. Increased net service and transfer payments to foreigners, reflecting higher freight and merchandise insurance payments, interest payments and travel expenditure, also contributed to the further, although smaller, deficit on the current account.

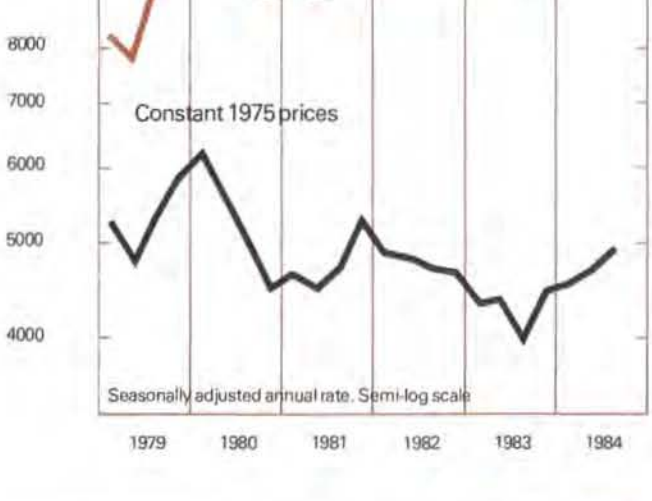
The rising trend in merchandise exports since the fourth quarter of 1983 continued in the third quarter of 1984. The beneficial effect of the depreciation of the rand on export prices was largely neutralised by a decline in international commodity prices. Accordingly, the higher exports reflected mainly a further rise in the volume of non-agricultural exports. Particularly large increases were recorded in exports of mineral products, base metals, textiles and precious metals and minerals.

The depreciation of the rand, however, resulted in a sharp increase in the rand value of the net gold output. In terms of rand, the gold price per fine ounce increased from an average of R483 in the second quarter of 1984 to R544 in the third quarter, the highest recorded quarterly rand price of gold. Over the same period the average dollar price of gold per fine ounce declined from US $379 to US $345. The volume of the net gold output also increased moderately in the third quarter. In October the average price of gold in terms of rand increased further to R601 per fine ounce, despite a small decline in the average dollar price of gold.

Balance on current account



Merchandise exports

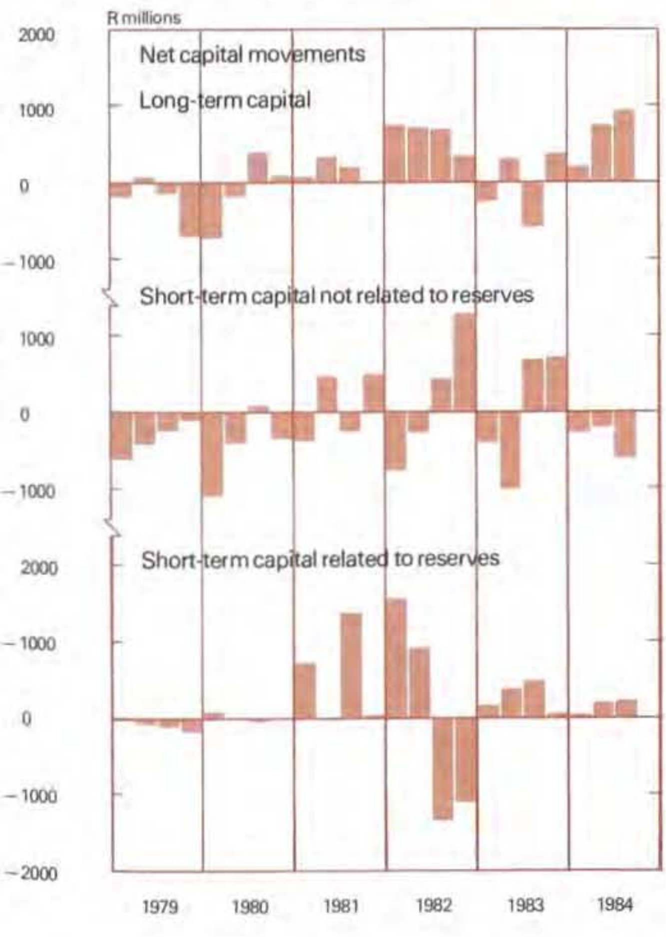


Capital account and foreign reserves

The deficit on the current account in the third quarter was accompanied by a net inflow of capital, not related to reserves, of R295 million. Further long-term loans were obtained abroad by the Treasury, the South African Transport Services, the Department of Posts and Telecommunications and public corporations. Foreigners were again net purchasers of securities quoted on the Johannesburg Stock Exchange to the amount of R335 million. This brought their total net purchases to R666 million in the first nine months of 1984, compared with a net outflow of R1 073 million in 1983. In October a further small net inflow of foreign funds through the stock exchange occurred. These long-term capital inflows were largely offset by an outflow of short-term capital.

Reflecting the deficit on current account and the net inflow of capital, the net gold and other foreign reserves declined by R228 million during the third quarter. The gross foreign reserves, however, increased by R492 million owing to a rise in reserve-related liabilities and positive valuation adjustments stemming from the depreciation of the rand. During October the Reserve Bank's net foreign reserves declined by R234 million.

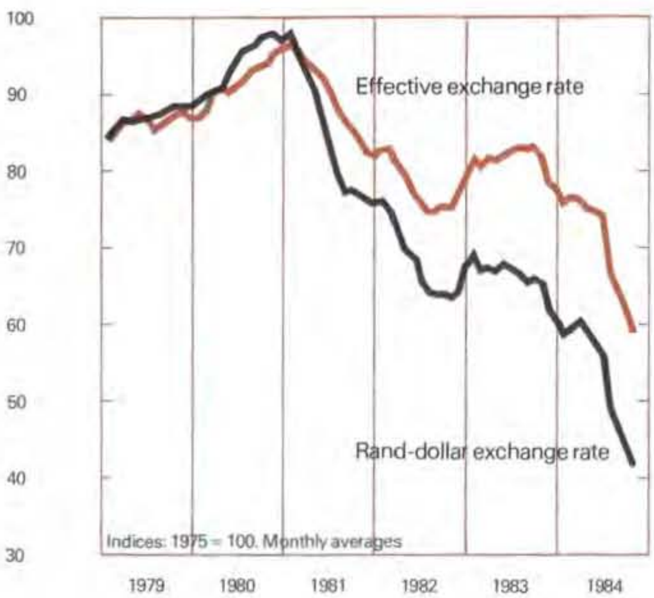
Balance of payments: Capital account



Exchange rates

The effective exchange rate of the rand declined by 14,5 per cent during the third quarter of 1984, compared with declines of just more than 3 per cent during both the first and second quarters of 1984. During October it declined further by 11,6 per cent, but then increased by 5,8 per cent during the first three weeks of November. This brought the decline in the effective exchange rate of the rand to 25,1 per cent from the beginning of 1984 to 21 November. Although the marked appreciation of the US dollar in terms of major currencies was initially responsible for the weaker rand, the rand depreciated against all major currencies during the third quarter and October 1984. During the first three weeks of November the appreciation of the rand in terms of the US dollar was slightly higher than in terms of the other major currencies.

Exchange rates of the rand



Money and bank credit

Money supply changes

The growth rates of the various monetary aggregates, which had decelerated during the second quarter, accelerated during the third quarter. Measured over a twelve-month period, the growth rate of M_3 accelerated from 14 per cent in June 1984 to 17 per cent in September. Likewise, the corresponding rate of growth in M_2 accelerated from 18 per cent in June to 22 per cent in September. M_1 again grew more rapidly than the other

Money supply

Changes in the exchange rates of the rand
Percentages

	Dec 1983 to Mar 1984	Mar 1984 to Jun 1984	Jun 1984 to Sept 1984	Sept 1984 to Oct 1984	Oct 1984 to 21 Nov 1984	Dec 1983 to 21 Nov 1984
Effective exchange rate	−3,3	−3,1	−14,5	−11,6	5,8	−25,1
US dollar	−2,6	−7,9	−18,7	−12,5	6,3	−32,2
British pound	−1,8	−1,6	−11,8	−10,3	4,3	−20,3
German mark	−7,0	−1,1	−11,5	−12,5	5,4	−24,9
Swiss franc	−3,8	−0,2	−12,8	−12,6	6,0	−22,5
Japanese yen	−5,7	−2,7	−15,9	−12,6	6,0	−28,4
French franc	−6,2	−1,6	−11,5	−12,7	5,6	−24,6

aggregates owing to a further shift from long to shorter-term deposits.

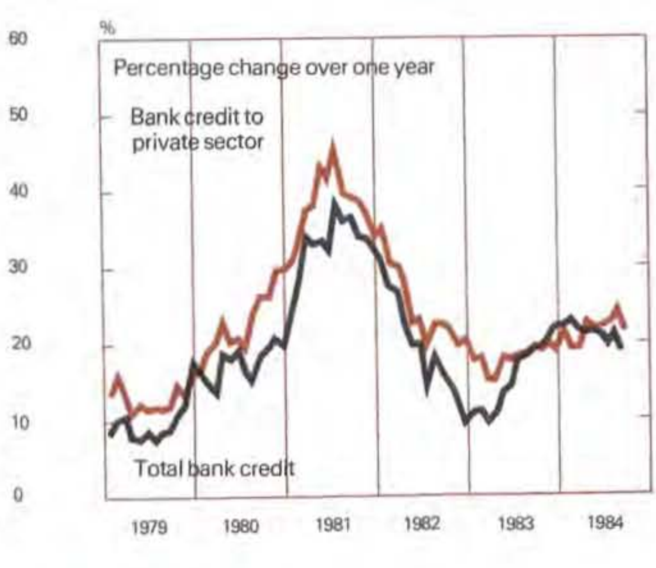
The renewed acceleration in the rate of monetary expansion during the third quarter occurred despite declines in net foreign reserves and net bank credit to the government sector. However, a further sharp increase in bank credit to the private sector occurred and this was mainly responsible for the accelerated money growth.

Bank credit to the private sector

Measured over a twelve-month period, the rate of increase in bank credit to the private sector accelerated from 22 per cent in June 1984 to 24 per cent in August, before declining to 21 per cent in September. According to preliminary information for October, a further deceleration occurred in the rate of increase in credit extended to the private sector. The latter was probably indicative of the slow-down in economic activity referred to earlier.

The further increase in bank credit to the private sector during the third quarter was concentrated in July and August and was apparently the result of several factors. A delay in the processing of a large number of hire-purchase transactions over the June month-end, i.e. transactions entered into prior to the increase in sales tax, caused a further increase in hire-purchase credit in the third quarter. Other contributing factors included the financing of involuntary stock building because of reduced consumer and industrial demand, the re-intermediation of credit transactions resulting from tight conditions in the inter-company market for funds and a large flow of tax funds to the government, and an increase in the holdings of Land Bank debentures by the discount houses.

Bank credit



Financial markets

Reserve Bank operations in financial markets

The Reserve Bank continued its sales of government stock in the financial markets during the five months to November 1984 in order to assist in the financing of the Government's large deficit before borrowing. Net sales amounted to R314 million during the third quarter and R212 million in October. In November, when interest rates started to move downwards, the Bank was a very active seller of government stock in the market. Net sales actually amounted to R421 million during this month. Most of the stock sold in the market was obtained on tap from the Treasury.

The Bank's other operations were mainly aimed at preventing seasonal and other temporary influences from causing unduly large fluctuations in short-term interest rates. In the five months to November 1984 these operations consisted mainly of sales of special tax Treasury bills, variations in the amount of bills offered at the weekly tenders of Treasury bills and Land Bank bills, and changes in funds placed at call with the discount houses by the Corporation for Public Deposits.

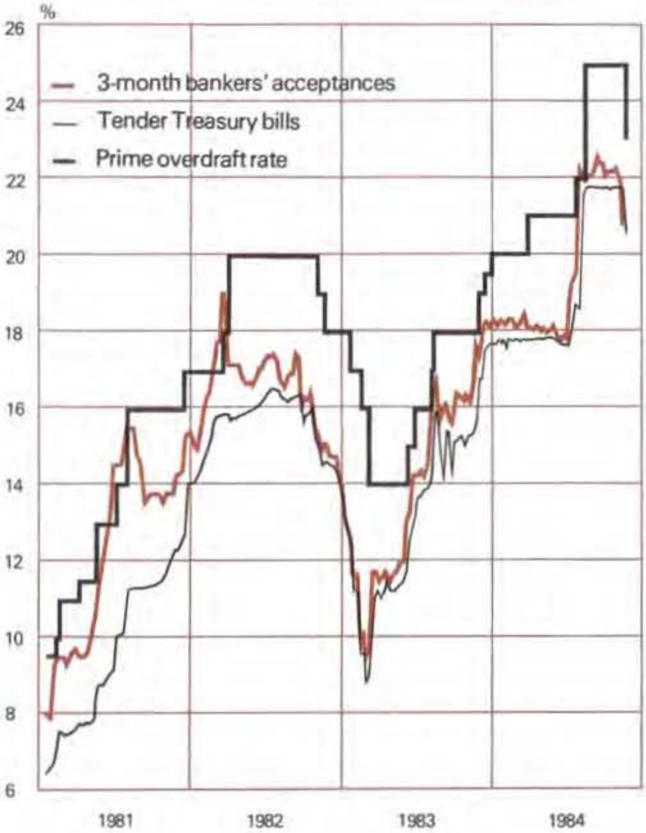
In view of continuing tight conditions in the money market, the Bank's refinancing in the form of discounts and overnight loans to discount houses rose to substantially higher levels. This refinancing increased from a daily average of R1 752 million in the second quarter of 1984 to R2 024 million in the four months ended October 1984. Subsequently, the amount of refinancing declined to R1 369 million on 19 November, but increased again to R2 295 million at the end of the month.

Short-term interest rates

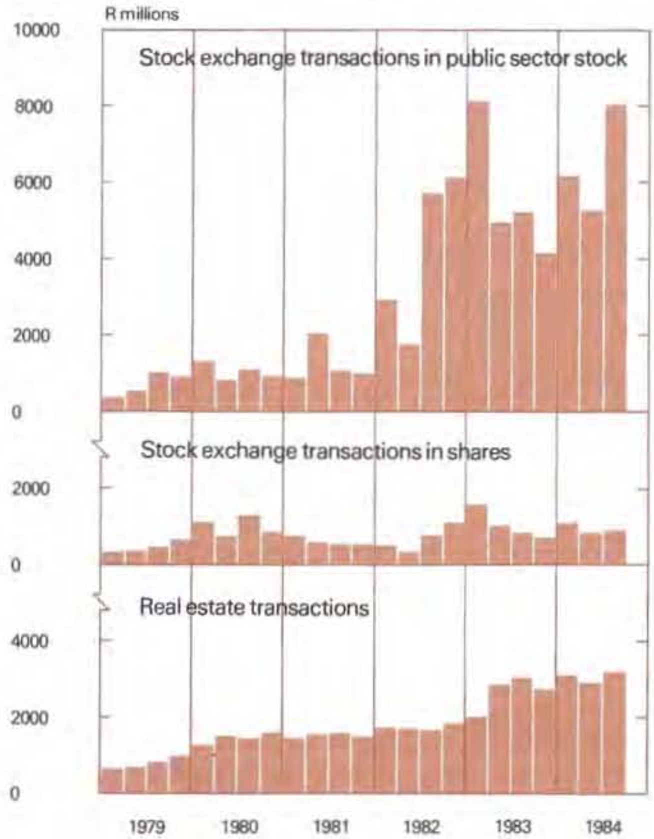
The increase in the Reserve Bank's refinancing rates at the beginning of August was accompanied by more or less corresponding increases in money market interest rates. Subsequently, until early November, these rates remained at about these higher levels. The rate on three-month bankers' acceptances increased from 19,70 per cent at the end of July to 22,25 per cent on 3 August. During the next two months it fluctuated around this level and amounted to 22,20 per cent on 2 November. The Treasury bill tender rate rose from 18,72 per cent at the end of July to 21,60 per cent on 3 August and amounted to 21,78 per cent on 2 November. Likewise, short-term deposit rates rose sharply in August and remained at their higher level during the next two months. The prime overdraft rate of the clearing banks was raised from 22 to 25 per cent on 6 August and remained unchanged until the middle of November.

In accordance with the cooling-down of the economy and the improvement in the balance of payments and the exchange rate of the rand, a general downward

Short-term interest rates



Security and real estate transactions



movement in short-term interest rates commenced in early November. By 16 November the three-month bankers' acceptance rate had declined to 20,75 per cent and the Treasury bill tender rate to 20,56 per cent. On the same day the clearing banks announced reductions of 1½ to 2 per cent in their prime overdraft rates, with effect from 19 November. This was followed by a reduction of 1 per cent in the refinancing rates of the Reserve Bank, also with effect from 19 November.

Capital market activity

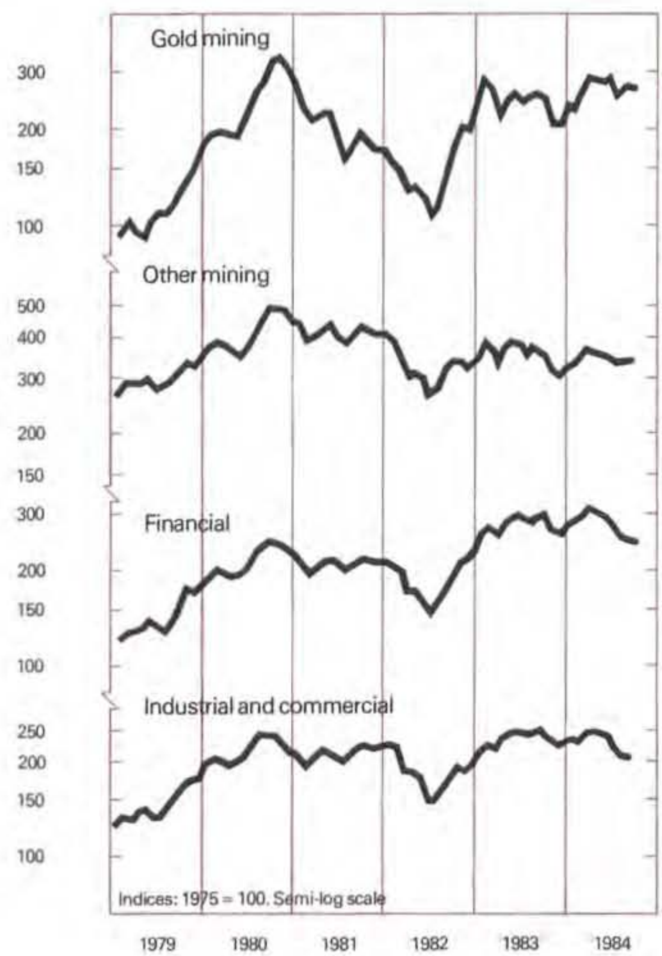
Capital market activity, which had eased notably in the second quarter of 1984, increased again in the third quarter. Higher turnovers than in the second quarter were recorded in the markets for fixed-interest securities and company shares as well as in the real estate market. In the mortgage market, new loans granted by building societies also showed a small increase, despite a decline in the intake of new funds by the societies. This was made possible by the liquidation of excess holdings of prescribed investments and a small further increase in net loan redemption receipts.

The value of public sector stock traded on the stock exchange rose from R5,3 billion in the second quarter to R8,1 billion in the third quarter, while in October the turnover amounted to R2,4 billion. Likewise, the value of shares traded on the stock exchange rose from R848 million in the second quarter to R955 million in the third quarter and in October it amounted to R279 million. In the real estate market the value of transactions rose from R2,9 billion in the second quarter to a new quarterly record of R3,2 billion in the third quarter.

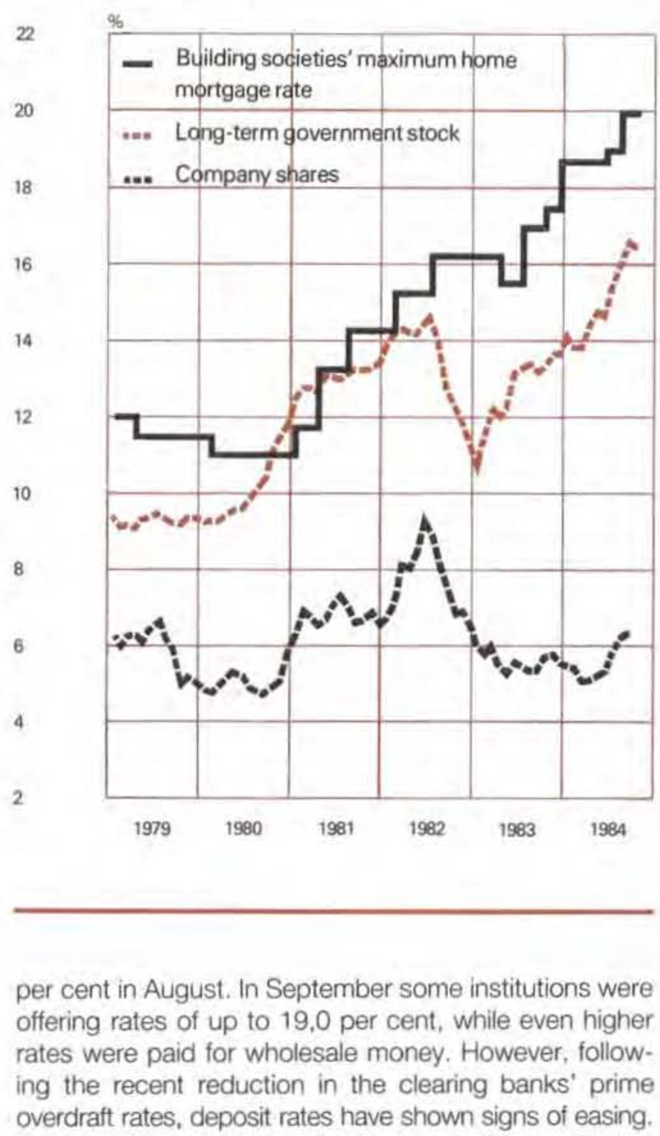
In the primary market, the public sector raised new funds totalling R687 million through issues of fixed-interest securities in the third quarter, compared with R577 million in the second quarter. In contrast with the R548 million raised by listed companies in the private sector through new issues of fixed-interest securities in the second quarter, only R83 million was obtained during the third quarter. The amount of new shares issued by companies amounted to only R41 million in the third quarter, compared with R230 million and R267 million, respectively, in the first two quarters of 1984.

Despite higher turnovers on the stock exchange, the prices of shares and fixed-interest securities declined during the third quarter. Share prices, for example, declined on average by 11 per cent, compared with the increase of 21 per cent from November 1983 to March 1984 and a decline of 4 per cent from March to June.

Share prices



Capital market interest rates



However, the level of share prices in September was still 4 per cent higher than the most recent low in November 1983.

Long-term interest rates

Long-term yields in the secondary market, which had shown an upward trend from early 1983, rose sharply further during the third quarter. The yield on long-term government stock, for example, rose from a monthly average of 14,72 per cent in June to 16,60 per cent in September. Subsequently, however, it eased to an average of 16,47 per cent in October. The average dividend yield on all classes of shares increased from to 5,34 per cent in June to 6,35 per cent in September.

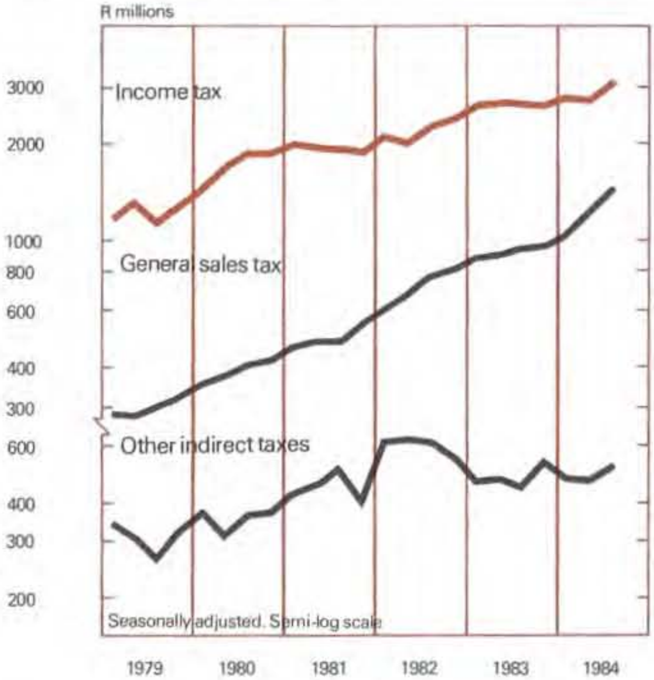
General competitive conditions prevailed in the market for deposits during the third quarter and forced banks and building societies to raise their deposit interest rates. The rate on twelve-month deposits, for example, was increased from 16,5 per cent in June 1984 to 18,0 per cent in August. In September some institutions were offering rates of up to 19,0 per cent, while even higher rates were paid for wholesale money. However, following the recent reduction in the clearing banks' prime overdraft rates, deposit rates have shown signs of easing. In view of the higher cost of funds, building societies raised their home mortgage rates from a range of 17,0 – 19,0 per cent in June to 18,25 – 20,0 per cent in August. In October one of the large building societies raised its home mortgage rate for new loans in excess of R60 000 to 23,0 per cent, while certain banks increased their corresponding mortgage rates to 25,0 per cent.

Exchequer issues and receipts

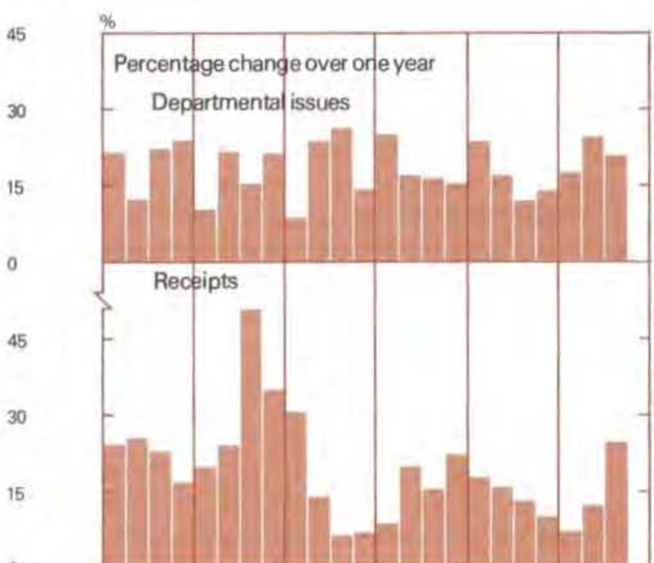
Compared with the corresponding period in the preceding fiscal year, the increase in Exchequer issues* to government departments decelerated from 24,3 per cent in the first quarter of 1984/85 to 20,7 per cent in the second quarter. During October issues rose by 31,4 per cent in relation to the same month in the preceding year. This brought the rate of increase in issues during the first seven months of the 1984/85 fiscal year to 23,8 per cent.

Exchequer receipts during the first seven months of the 1984/85 fiscal year were 21 per cent higher than in the corresponding period of the preceding fiscal year. During the seven-month period concerned income tax and lease payments by gold mines increased at a rate below Budget estimates, but it is expected that the increase in the rand price of gold may benefit government revenue during the remainder of the fiscal year. The rates of increase in other income tax and general sales tax receipts were also slightly below expectations. However, the higher general sales tax rate from 1 July 1984, was reflected only from August in receipts. On the other hand, receipts of other forms of indirect tax were higher than expected, but probably only because of the high level of consumption expenditure during the early part of the fiscal year.

State Revenue Fund — Revenue collections



Exchequer Account



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

Financing of the Exchequer Account deficit

The Exchequer Account recorded a surplus before borrowing and debt repayment, amounting to R206 million, in the second quarter of 1984/85. This served to reduce the deficit before borrowing during the first half of the fiscal year to R2 453 million. This deficit was financed from the following sources:

	R millions
Monetary banking sector	–755
Public Investment Commissioners	970
Non-bank private sector	2 150
Foreign sector	88
Total financing	2 453

The substantial contribution of the non-bank private sector to the financing of the deficit largely reflected investments in government stock. This was achieved mainly through open-market sales of stock by the Reserve Bank, since public issues were only made available on one occasion during the first half of the 1984/85 fiscal year. During October, however, two further stock issues were made available for public subscription. An amount of R100 million was allotted in respect of stock with a maturity of four years and an average yield of 18,16 per cent while R200 million was allotted in respect of stock with a maturity of 22 years and an average yield of 16,56 per cent. In addition, during October and November the Reserve Bank sold a fairly substantial amount of government stock obtained on tap from the Treasury. It would appear, therefore, that the government's borrowing requirement for the 1984/85 fiscal year has already largely been met.

Notes to tables

South Africa's foreign liabilities and assets — Tables S-70 to S-73

Information on South Africa's foreign liabilities and assets as at 31 December 1983, together with comparable figures from the end of 1977, is published in this issue of the *Quarterly Bulletin*. These figures are based on data obtained from censuses of foreign transactions, liabilities and assets for 1973 and 1980, which were updated by means of sample surveys for subsequent years.

Foreign liabilities

South Africa's foreign liabilities increased by about 14 per cent to R45,4 billion at the end of 1983, compared with 27 and 23 per cent in 1981 and 1982, respectively. For the third successive year an increase in short-term foreign liabilities made the main contribution to the rise in total foreign liabilities. In 1983 short-term foreign liabilities increased by 23 per cent. Contrary to 1982, when this increase was mainly the result of foreign trade financing obtained by the private sector, short-term foreign liabilities of the central government and banking sector also increased materially in 1983. The latter increase amounted to 35 per cent, compared with 19 per cent of the private sector.

After South Africa's long-term foreign liabilities had increased by 16½ per cent in 1982, it rose further by 9½ per cent in 1983. Foreign loans obtained abroad by the Treasury, South African Transport Services, Department of Posts and Telecommunications and public corporations again contributed mainly to the increase in total long-term foreign liabilities. The long-term foreign liabilities of the private sector increased by only 5 per cent in 1983, which was considerably below the average annual rate of 11 per cent from 1977 to 1982. This smaller rate of increase was mainly caused by the abolition of exchange control on non-residents in early 1983, which led to a substantial outflow of share capital through the Johannesburg Stock Exchange. Non-direct foreign investment in share capital, therefore, actually declined in 1983. However, direct investment in share capital showed a small increase despite sales of foreign direct investment in certain large South African enterprises.

As a result of the large increase in the total foreign liabilities of the public sector in 1983, its liabilities as a percentage of total foreign liabilities increased from 33 per cent at the end of 1982 to 36 per cent at the end of 1983. Over the same period a corresponding decline occurred in direct investment as a ratio of total foreign liabilities, namely from 43½ per cent to 42 per cent.

The investment of EEC countries as a ratio of South Africa's total foreign liabilities continued to decline, namely from 54 per cent at the end of 1982 to 50½ per cent at the end of 1983. This decrease occurred mainly as a result of increases in the percentage shares of North and South America and the rest of Europe, while the shares of the other regions remained at about the same level.

Foreign assets

South Africa's foreign assets increased by 9½ per cent during 1983 to R16,9 billion at the end of the year, compared with an increase of just more than 14 per cent in 1982. Excluding gold reserves, South Africa's other foreign assets increased by 12½ per cent in 1983, compared with 17½ per cent in 1982.

The increase in the total foreign assets of South Africa in 1983 was divided about equally between the central government and banking sector and the private sector. The foreign assets of public corporations and local authorities declined somewhat during the year. South Africa's investment in foreign shares also declined for the second consecutive year, but this decline was neutralised by an increase in the share of South African residents in the undistributed earnings of foreign organisations and in long-term loans granted to foreigners. Owing to the smaller increase in the foreign assets of the private sector, direct investment as a ratio of total foreign assets, excluding the gold reserves, declined from 56½ per cent in 1982 to 55½ per cent in 1983.

The EEC countries remained the most important region for foreign investment by South African residents. However, investments in North and South America continued to increase fairly sharply, with the result that this region's share in South Africa's foreign assets increased at the expense of mainly the African countries.