Quarterly economic review

Introduction

Economic conditions in the second quarter of 1984 continued to reflect the upswing that had been in progress from about April 1983. The real gross domestic product of the non-agricultural sectors of the economy showed its fifth consecutive quarterly increase and reached a level that was 7½ per cent higher than its recent trough in the first quarter of 1983. Owing to a decline in real agricultural output, *total* real gross domestic product recovered somewhat less, namely by 6½ per cent, from its low in the second quarter of 1983. The further economic expansion was also evident in an increase in employment and a concomitant decline in unemployment.

As during the first twelve months of the upswing, an increase in real private as well as government consumption expenditure remained the main driving force of the further economic expansion during the second quarter of 1984. Apart from maintaining its upward trend, private consumption expenditure was stimulated by the announcement that the general sales tax would be raised further from 1 July. Government consumption expenditure reflected a spurt in central government spending at the beginning of the new fiscal year. The sustained strong rise in total consumption up to the middle of 1984 accounted almost entirely for the increase of 10½ per cent in real gross domestic expenditure between the second quarter of 1983 and the second quarter of 1984.

In addition to the increase in consumption expenditure, the further economic expansion during the second quarter of 1984 was supported by a growing volume of exports. Already from the fourth quarter of 1983 exports had begun to respond more distinctly to the economic upswing in the industrial countries. However, this export recovery started from a very low base and was restricted to a few export categories, with the result that its influence on real economic growth remained fairly limited.

Although the increases in real output, income and employment associated with the economic upswing were highly beneficial in their own right, South Africa could not afford to sustain the high level of domestic expenditure. Not only did it result in increased inflationary pressure, but it also caused a weakening of the balance of payments and contributed to a sharp depreciation of the rand.

These unfavourable effects became visible in the fourth quarter of 1983, at a time when the US dollar price of gold declined further and *net* agricultural exports turned negative because of preceding drought conditions. In the first quarter of 1984 these effects were strengthened even further by the persistence of the drought in the summer rainfall areas of the country. But the unsustainability of the consumption-based upswing was proved beyond all doubt when the further unduly large increases in both private and government consumption expenditure in the second quarter of 1984 were followed in July by a precipitous fall in the US dollar price of gold.

By July the inflation rate, as measured by the increase over twelve months in the consumer price index, had accelerated from its recent low of 10,0 per cent in February 1984 to 12,4 per cent. Furthermore, the accumulated deficit on the current account of the balance of payments from the fourth quarter of 1983 to the second quarter of 1984 amounted, at a seasonally adjusted annual rate, to about R2,2 billion. This was accompanied by a decline of 27 per cent in the effective exchange rate of the rand from the end of September 1983 to the end of July 1984.

Given the existing external constraints in the form of a lower gold price, the adverse effect of the persisting drought on the balance of payments and the moderate influence exerted on the growth of non-gold exports by the non-inflationary economic expansion in the industrial countries, total spending was obviously too large to be sustained by current output and export earnings. If this situation were to continue, it would weaken the balance of payments still further and contribute to a further decline in the exchange rate and a still higher rate of inflation. Therefore, unless counteracted by appropriate policy measures, the situation could deteriorate into a vicious circle of inflation and currency depreciation.

For these reasons, the authorities in early August adopted a more restrictive policy stance, details of which are published elsewhere in this issue of the *Quarterly Bulletin*. Prior to these measures, the Reserve Bank had in July raised its rediscount rates and induced all short-term interest rates, including the minimum overdraft rate of the clearing banks, to rise by about 1 per cent. This followed upon a tightening of monetary policy from June 1983 onwards. Illustrating the effect of the progressive tightening of monetary policy, the rate of growth in the broad money supply (M3*), measured over a twelve-month period, slowed down from 22 per cent in June 1983 to 17 per cent in July 1984. Reflecting the accompanying increase in interest rates, the clearing banks' prime overdraft rate rose from 14 per cent in early June 1983 to 25 per cent in August 1984.

Although only limited information is available for the third quarter, the indications are that private consumption expenditure started to adjust downwards. In part, the lower private consumption represented a reaction to the artificially inflated spending in the second quarter ahead of the increase in the general sales tax. More fundamentally, however, it reflected the effect of natural economic forces as well as the more restrictive policy measures. According to available statistics, government consumption also moderated somewhat in the third quarter, but not to the same extent as private consumption.

*See definition in the money and bank credit section of this review.

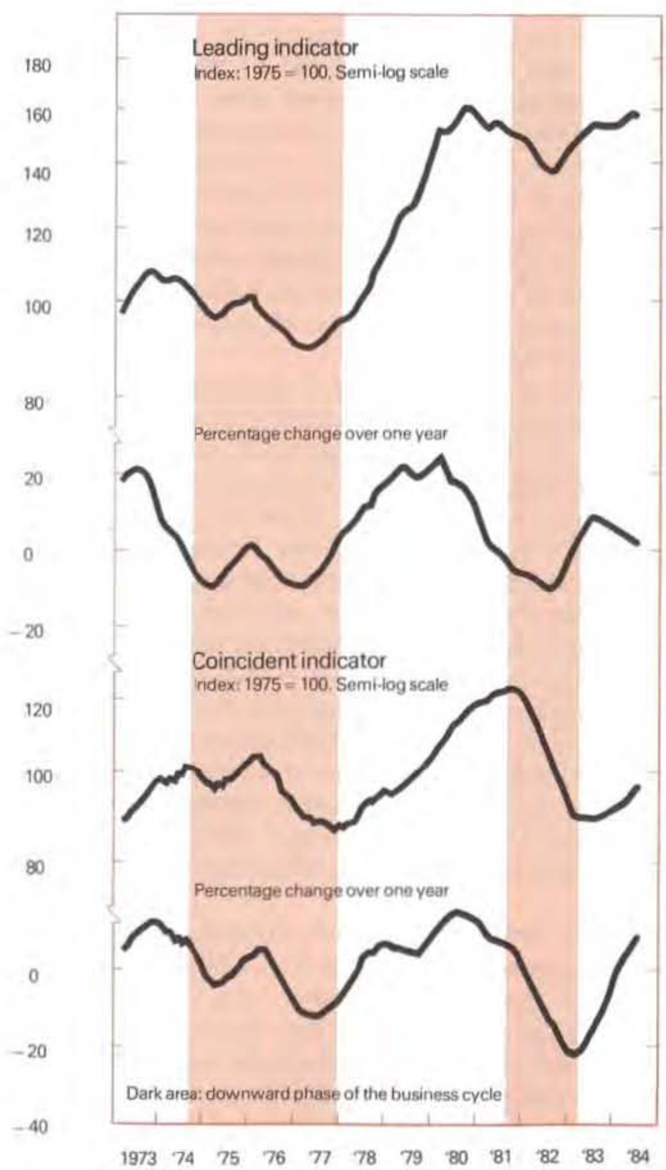
It would appear, therefore, that in the third quarter the upswing was in the process of being transformed into a new downswing. This adjustment had become necessary in order to strengthen the balance of payments and the external value of the rand and to lower the rate of inflation, all with a view to achieving sustainable growth in the longer term. It is anticipated that the improvement in the current account of the balance of payments, which had already become evident in the second quarter, will continue during the second half of 1984 and that a positive rate of real economic growth will still be realised in the year as a whole. The inflation rate is likely to accelerate in the short run owing to the preceding overspending and large depreciation of the rand, but it is expected that the adjustment in the economy will in due course bring about also a moderation of inflation.

Domestic economic developments

Domestic output

A pronounced further increase in *total* real consumption expenditure and a distinct further rise in the volume of merchandise exports were the principal driving forces of continued output growth of the non-agricultural sectors in the second quarter of 1984. Reflecting the impact of these forces, particularly large output increases were recorded by industry and trade and by non-gold mining. These increases were, however, to a large extent obscured by a marked decrease in agricultural production, associated with the continuing drought in the summer

Business cycle indicators

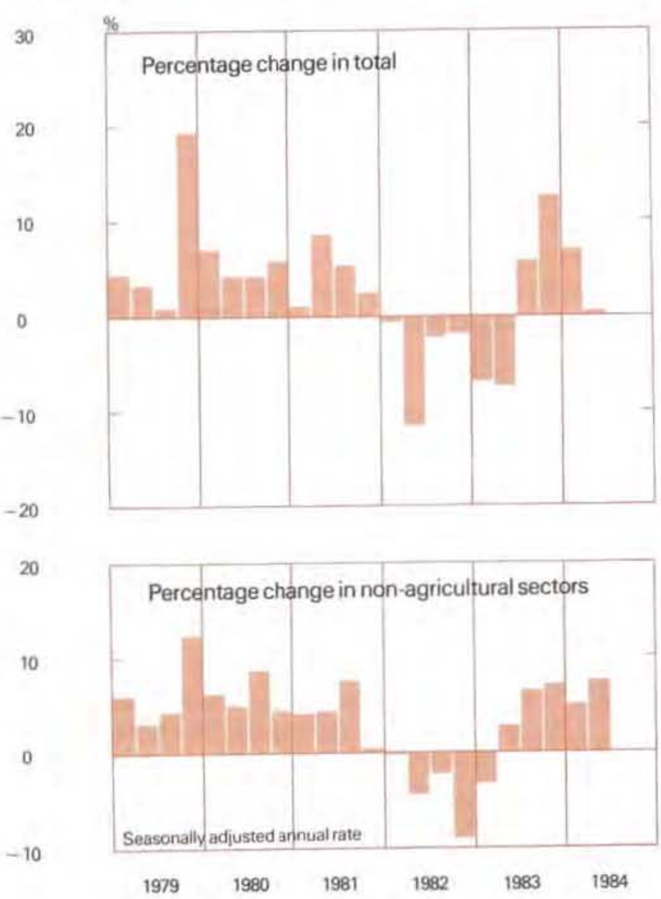


rainfall areas. The net result was that *total* real gross domestic product rose only marginally in this quarter.

By the second quarter of 1984, the respective levels of aggregate real gross domestic product and that of the non-agricultural sectors were 6½ and 7½ per cent higher than their corresponding quarterly lows in the first half of 1983. A marginal improvement in the overall terms of trade, together with changes in real net factor payments to the rest of the world, caused the real gross *national* product to increase at a slightly higher rate than total real gross domestic product between the second quarter of 1983 and the corresponding quarter of 1984, namely by 7½ per cent.

The composite leading business cycle indicator at present signals a renewed economic downturn, probably from early in the second half of 1984. The prospect of a period of economic contraction is in accordance with views expressed earlier that the moderate upswing from about April 1983 was not soundly based and, therefore, unsustainable. It is also compatible with the anticipated effects of the more restrictive policy stance adopted in August.

Real gross domestic product at factor cost

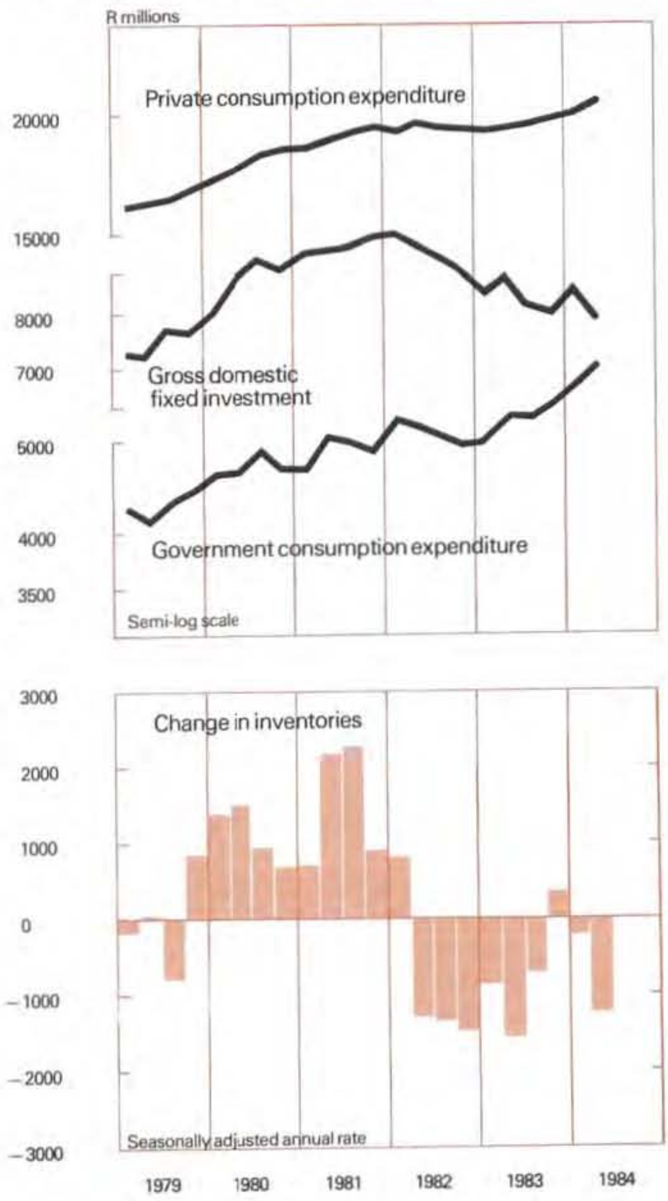


Domestic expenditure

Real gross domestic expenditure, which had risen sharply in the second half of 1983 and the first quarter of 1984, declined in the second quarter. Both private and government consumption expenditure maintained their strong upward trend, but their impact on total spending was more than neutralised by a markedly higher rate of real inventory depletion, supported by a decline in real fixed investment. Even after this decline, the level of aggregate real gross domestic expenditure was still 10½ per cent higher than its trough in the second quarter of 1983.

The rate of increase in real private consumption expenditure accelerated consistently from the second

Components of real gross domestic expenditure



quarter of 1983. In the second quarter of 1984 it reached a seasonally adjusted annual rate of no less than 12 per cent. This exceptionally high growth rate partly reflected artificially inflated consumer purchases ahead of the increase, with effect from 1 July, in the general sales tax rate from 7 to 10 per cent, excluding certain basic foodstuffs. At a seasonally adjusted annual rate, real outlays on durable and semi-durable goods rose by no less than 42 and 31 per cent, respectively, in the second quarter. In contrast, real expenditure on non-durable goods and on services showed comparable increases of only 3 and 1 per cent, respectively. In the second quarter of 1984, total real private consumption expenditure was 7½ per cent above its recent trough in the fourth quarter of 1982.

The fairly strong upward trend in real government consumption expenditure, which had commenced in the second quarter of 1983, was maintained in the second quarter of 1984. All categories of expenditure showed large further increases. In the first half of 1984 total real government consumption expenditure was 12 per cent higher than in the first half of 1983.

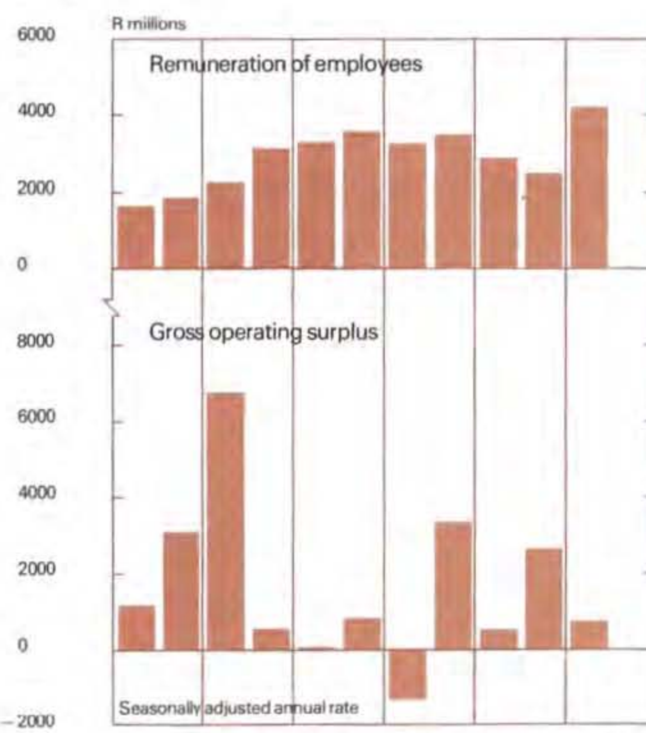
In contrast to developments in the first quarter of 1984 when real gross domestic fixed investment increased sharply over a broad front, fixed capital outlays decreased markedly in the second quarter. The public sector's real fixed investment, which is often subject to irregular movements, declined sharply in the second quarter to a level that was about 20 per cent lower than a year earlier. Private fixed investment also decreased moderately, after an increasing trend had been discernible from the third quarter of 1983. The decline in the second quarter was widely dispersed, but was particularly evident in agriculture, mining, and, for the first time in two years, also in residential construction. After the decline in the second quarter, the private sector's real fixed investment was only 2 per cent higher than its trough in the second quarter of 1983. In total, real gross domestic fixed investment was 5½ per cent lower in the second quarter of 1984 than its trough in the first quarter of 1983.

Reflecting the sharp increase in total consumption expenditure, little growth in total domestic production and a decline in the volume of merchandise imports, real inventories in the second quarter of 1984 declined by a notably larger amount than in the first quarter. The liquidation of stocks in the second quarter was particularly evident in industrial and commercial inventories. The ratio of real industrial and commercial inventories to real non-agricultural gross domestic product continued to decline from its most recent peak of 29 per cent in the first quarter of 1982 to 22½ per cent in the second quarter of 1984. In terms of its ratio to monthly sales, the level of industrial and commercial inventories in the second quarter represented sales of 1,6 months only, compared with its most recent peak of 2,1 months in the second quarter of 1982.

Factor income and saving

Following upon the sharp acceleration in nominal salaries and wages in the first quarter of 1984 mainly as a result of the large salary and wage scale adjustments in the public sector, the rate of increase in this component of factor income slowed down in the second quarter. The other main component of factor income, namely total gross operating surplus, rose strongly in the second quarter, despite a considerable decrease in the operating surplus of agriculture. Particularly large increases in operating surplus were recorded in gold mining, non-gold mining and trade, which reflected the higher rand price of gold, increased exports of metals and minerals, and purchases ahead of the increase in the general sales tax rate effective from 1 July, respectively.

Changes in factor income



Owing to larger company profits, corporate saving increased appreciably further in the second quarter of 1984. The other two components of net domestic saving, namely personal saving and the saving by general government, were actually negative in this quarter. The saving by general government had already turned negative in the first quarter of 1983, and by the first half of 1984 it had accumulated to a seasonally adjusted annual amount of about R2 000 million. Owing to the growing divergence between the increases in personal disposable income and private consumption expenditure, personal saving declined gradually from a high level in the second quarter of 1981 to a small negative figure in the second quarter of 1984.

Although supplemented by a rise in the provision for depreciation, the increase in corporate saving was not large enough to prevent the ratio of total gross domestic saving to gross domestic product from declining from 25½ per cent in the first quarter of 1983 to 19½ per cent in the second quarter of 1984.

Employment*

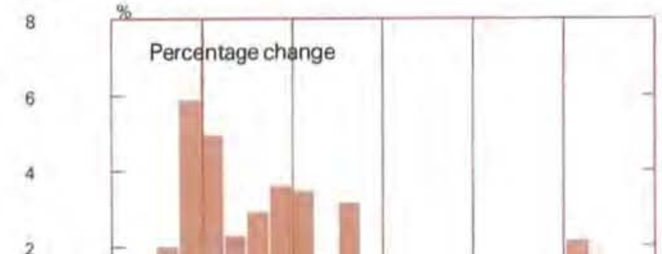
The cyclical rise in employment from the second quarter of 1983 continued in the first quarter of 1984. At a seasonally adjusted annual rate, the increase accelerated from 1,3 per cent in the fourth quarter to 2,1 per cent in the first quarter of 1984. Private sector employment, which started to rise from the fourth quarter of 1983, gained momentum in the first quarter of 1984. Higher employment levels were particularly evident in manufacturing, mining, electricity generation, financial services and private transport. Employment by public authorities maintained the upward trend which had already commenced in the first quarter of 1979.

The counterpart of rising employment levels was a decline in unemployment. The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians decreased from its most recent peak of 40 090 (1,8 per cent of the labour force) in June 1983 to 29 345 (1,2 per cent of the labour force) in July 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 rose again to 8,0 per cent in June.

Measured over a four-quarter period, the rate of increase in nominal salaries and wages per worker in the non-agricultural sectors slowed down consistently in the course of 1983 to only 9,8 per cent in the fourth quarter. Owing to the increase in salary and wage scales in the public service, the growth rate in nominal salaries and wages per worker accelerated to 15,2 per cent in the first quarter of 1984. The average remuneration of employees of public authorities was 19,5 per cent higher in the first quarter of 1984 than in the corresponding quarter of 1983. In the private sector the comparable increase was 13,5 per cent.

In real terms, labour remuneration increased by 4,5 per cent in the first quarter of 1984, compared with negative growth rates in the last two quarters of 1983. Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors, improved further in the first quarter. Measured over a four-quarter period, productivity growth reached

Non-agricultural employment



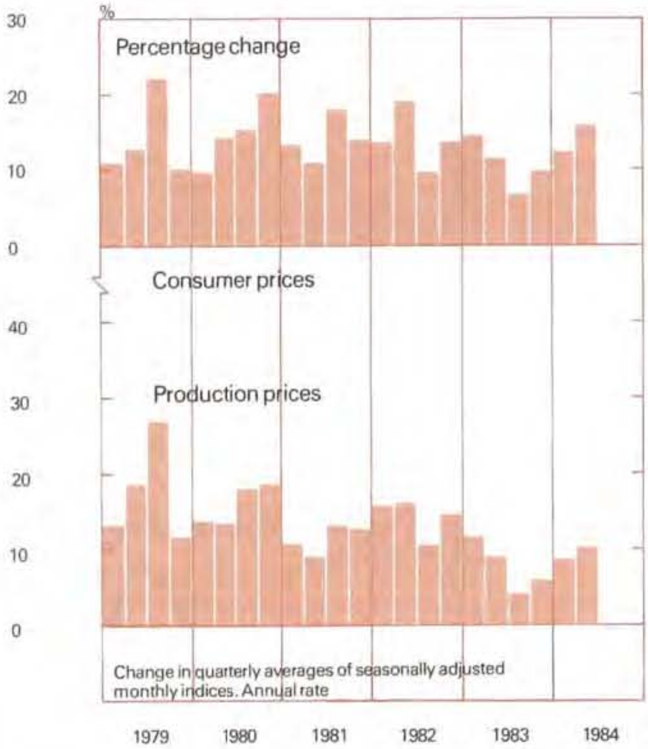
3,1 per cent in this quarter. On the same basis, real unit labour costs increased by 1,4 per cent. The corresponding increase in nominal unit labour costs amounted to 11,7 per cent.

Prices

The rate of inflation, as measured by increases in both consumer and production prices, continued to accelerate in the second quarter of 1984. Upward pressure on prices in the first half of 1984 was introduced by an almost continuing downward floating of the exchange rate of the rand, the price raising effect of the drought, the persistent strong rise in consumption expenditure, the higher rate of increase in nominal salaries and wages per worker, and a number of administered price adjustments. Measured over a twelve-month period, the rate of increase in consumer prices accelerated from 10,0 per cent in February to 11,6 per cent in June. The change in the general sales tax rate on 1 July had the statistical effect of raising the consumer price index by 0,4 per cent. The sales tax was abolished on certain basic foodstuffs and the general sales tax rate on other

*Employment and labour remuneration statistics refer to the non-agricultural sectors of the economy and are available only up to the first quarter of 1984.

Prices



goods and services was increased from 7 to 10 per cent. Including this effect, consumer prices were 12,4 per cent higher in July 1984 than twelve months earlier. Production prices in July 1984 were 8,1 per cent higher than in July 1983. The prices of domestically produced goods rose by 8,6 per cent in this period, and that of imported goods by 6,4 per cent. The latter accelerated from the fourth quarter of 1983, owing to the depreciation of the rand.

In July the effective exchange rate of the rand declined further by 16 per cent. The resulting rise in import prices is likely to contribute to higher inflation, either directly or indirectly through its effect on other prices and costs. The prospect of such an acceleration of the rate of inflation was one of the reasons for the adoption of a more restrictive economic policy stance in early August.

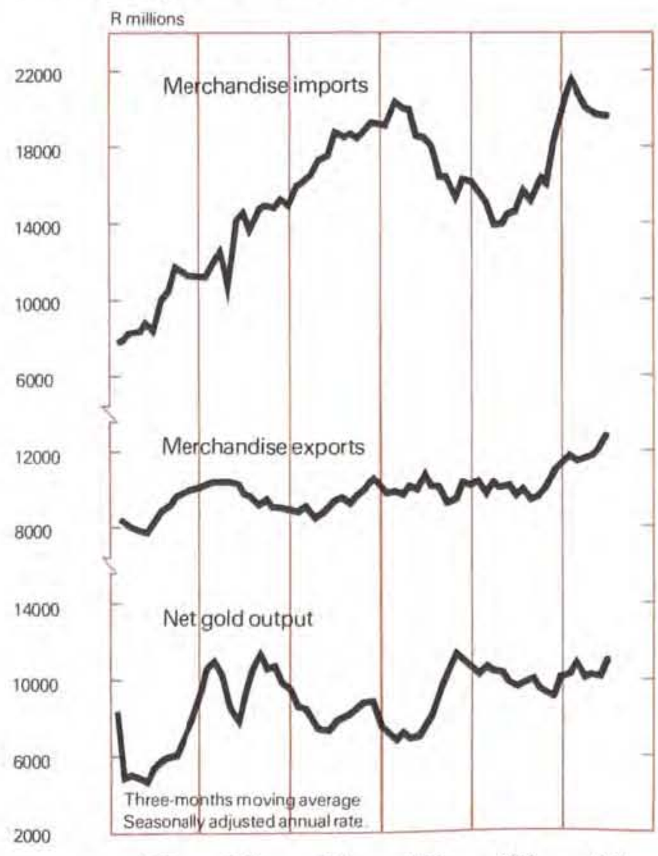
Balance of payments

Current account

The current account of the balance of payments improved substantially in the second quarter of 1984, despite a deterioration in South Africa's terms of trade. Taken at a seasonally adjusted annual rate, the deficit on current account declined from R2,8 billion in the first quarter of 1984 to R1,4 billion in the second quarter. Provisional trade figures indicate that this improvement continued in July. Apart from the net gold output, all the other main current account items contributed to the smaller deficit.

Merchandise exports, which had begun to rise late in 1983, increased further and also at a more rapid rate during the second quarter of 1984. This increase reflected higher export prices as well as a larger export volume. Price increases were related mostly to the depreciation of the rand; international commodity prices actually declined slightly in response to the further strengthening of the US dollar. After the increase in the second quarter, the volume of exports was 20 per cent higher than its

Balance of payments: Trade account

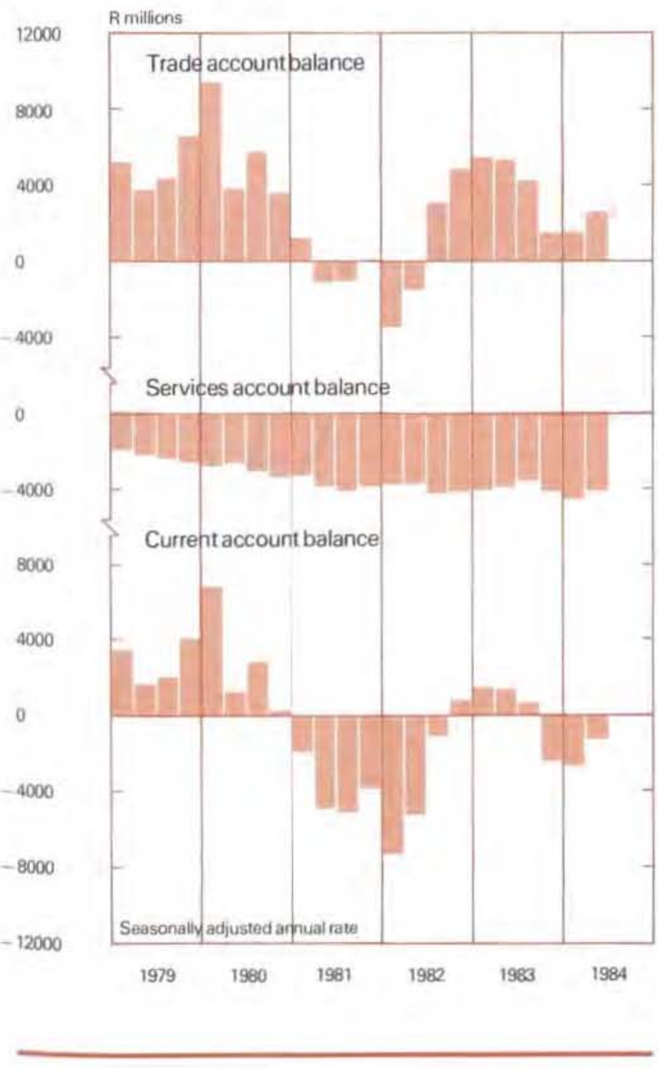


Current account of the balance of payments

(Seasonally adjusted annual rates)
R millions

	1984	
	1st qtr.	2nd qtr.
Merchandise exports	11 620	12 340
Net gold output	11 020	10 210
Merchandise imports	–20 990	–19 830
Net service and transfer payments	–4 410	–4 070
Balance on current account	–2 760	–1 350

Balance of payments: Current account



lower turning point in the third quarter of 1983. In July a further increase was reported in exports.

After merchandise imports had increased substantially from the third quarter of 1983 to the first quarter of 1984, they declined sharply in the second quarter, owing to a lower volume of imports. However, this decrease was narrowly based and occurred mainly in imports of mineral products and, to a lesser extent, also in imports of transport equipment. In accordance with the high level of domestic expenditure, most of the other main categories of imports either increased further during the second quarter or remained at relatively high levels. Despite a continuing decline in imports of mineral products in July, the total value of imports rose slightly in terms of the depreciated rand.

Lower net service and transfer payments to foreigners also contributed to the decline in the deficit on current account. Although payments for services rendered by foreigners increased slightly, service receipts from the rest of the world were sharply higher, reflecting mainly increased income on foreign investments.

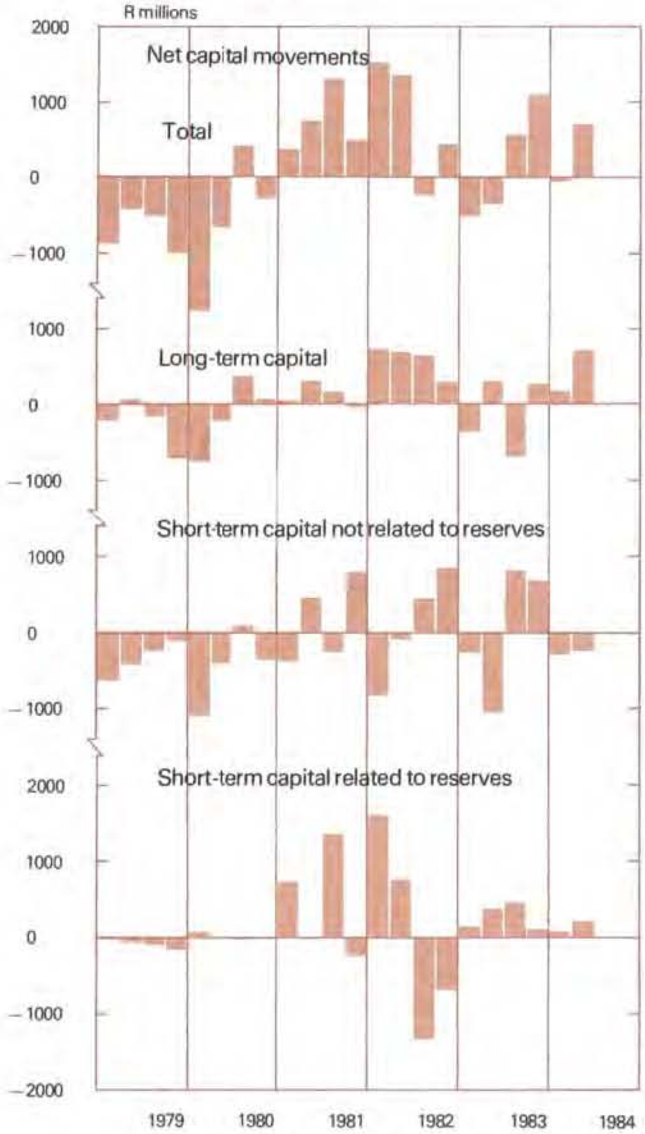
As a result of a fall in the volume of gold sold abroad, the value of the net gold output declined moderately in the second quarter. The average fixing price of gold on the London market decreased from US $384 per fine ounce in the first quarter of 1984 to US $379 per fine ounce in the second quarter. But in terms of rand per fine ounce, the gold price rose from R473 to R483 over the same period. Subsequently, the gold price dropped to US $333 per fine ounce on 9 July, before it recovered slightly during the rest of the month and during August. In July as well as in August, the average gold price amounted to US $348 per fine ounce. Owing to the sharp depreciation of the rand, however, the average rand price of gold in August was 5 per cent above its level in July.

Capital account

The improvement of the current account of the balance of payments was accompanied by a change in the capital account from a net outflow of R123 million in the first quarter of 1984 to an inflow of R462 million in the second quarter. This change was brought about largely by a substantial increase in the inflow of long-term capital. As in the preceding quarter, foreigners were again net purchasers of securities quoted on the Johannesburg Stock Exchange. However, the amount of these purchases declined moderately, and the increase in long-term capital was largely the result of a corresponding rise in loan capital. In particular, the Department of Posts and Telecommunications borrowed considerable amounts abroad for development purposes and, in addition, the Treasury and some of the public corporations were also net borrowers abroad.

A net outflow of short-term capital of R274 million, including unrecorded transactions, occurred in the second quarter of 1984. This followed upon an outflow

Balance of payments: Capital account



of R309 million in the preceding quarter. The outflow of short-term capital continued to reflect unfavourable "leads and lags" in foreign payments and receipts, largely based on an expected depreciation of the rand.

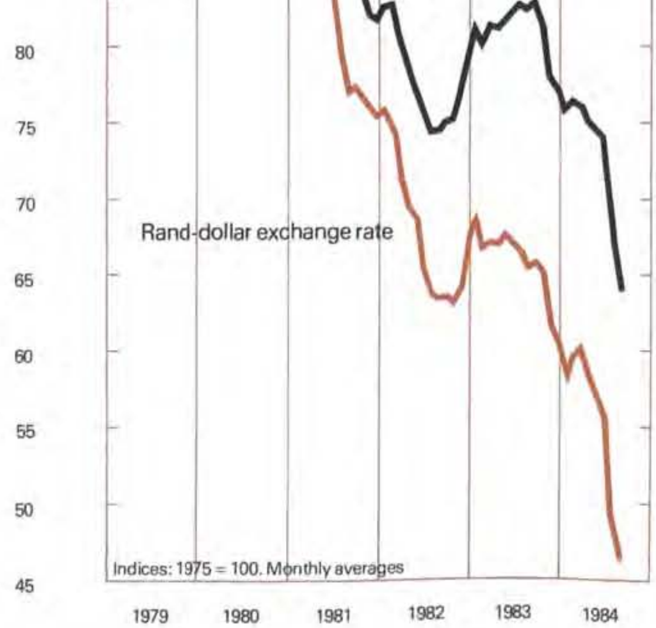
Foreign reserves

Owing to the net inflow of capital and an improvement in the current account deficit, the net gold and other foreign reserves increased by R133 million in the second quarter of 1984. Despite this increase, private monetary banking institutions borrowed short-term funds abroad and in this way contributed materially to an increase of R239 million in reserve-related liabilities. In July the Reserve Bank experienced a decline in net reserves amounting to R465 million. Following the introduction of more restrictive fiscal and monetary policy measures in early August, the net foreign reserves of the Reserve Bank increased by R243 million during this month.

Exchange rates

A period of relatively stable exchange rates during the larger part of the second quarter of 1984, was followed by a sharp depreciation of the rand from about the middle of June to the end of July. On a weighted average basis, the rand declined only marginally by less than 1 per cent against other currencies from the end of March to 23 June 1984. In response to a weaker gold price and stronger dollar, the effective exchange rate of the rand subsequently decreased by more than 2 per cent during the rest of the month. This brought the total decline in the effective exchange rate during the second quarter to 3,1 per cent. In July the effective exchange rate of the rand fell by a further 16 per cent. In addition to a more rapid depreciation against the dollar, the rand also depreciated by between 14 and 16 per cent against the other major currencies.

Exchange rates of the rand



Changes in the exchange rates of the rand
%

	31 Mar.1984 to 30 Jun. 1984	30 Jun. 1984 to 31 Jul. 1984	31 Jul. 1984 to 31 Aug. 1984
All currencies	−3,1	−16,0	5,5
US dollar	−7,9	−18,6	5,9
British pound	−1,6	−15,8	5,4
German mark	−1,1	−15,4	5,7
Swiss franc	−0,2	−14,1	3,6
Japanese yen	−2,6	−15,9	4,3
French franc	−1,6	−15,5	5,6

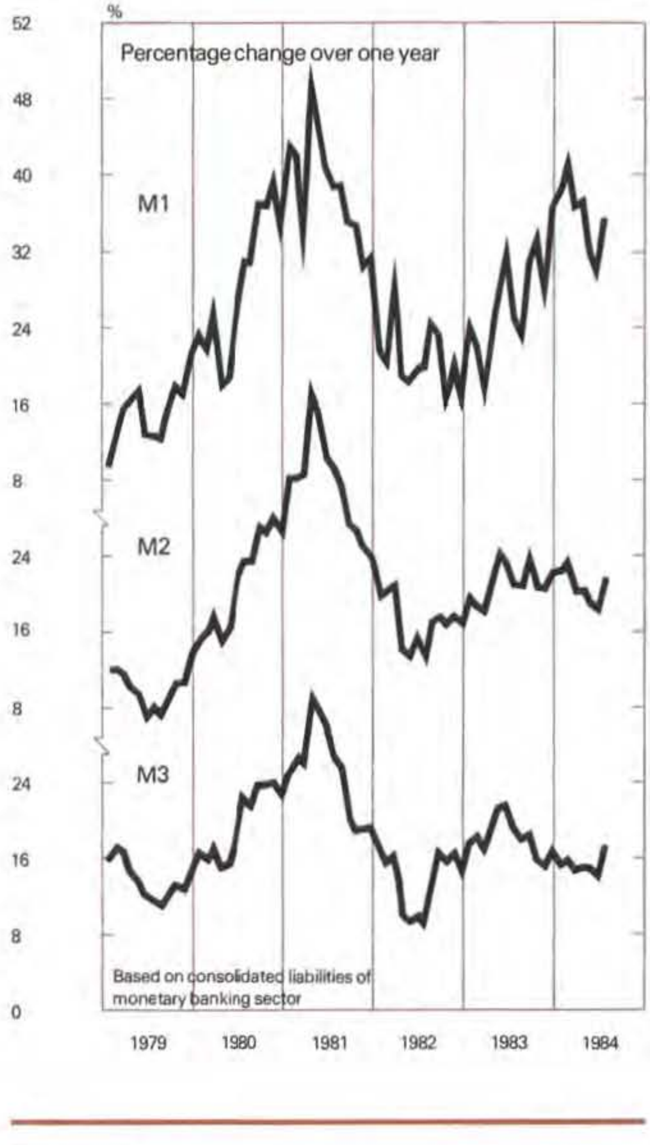
The stricter monetary policy measures applied from 3 August 1984, the expected improvement in the balance of payments and an increase in the gold price, were responsible for a subsequent reversal of this downward trend of the exchange rate of the rand. In August the rand appreciated against all the major currencies, causing the effective exchange rate to rise by 5,5 per cent.

Money and bank credit

Money supply changes

The rate of growth in the money supply, which had begun to decelerate from the middle of 1983, continued to slow down moderately during the second quarter of 1984, before increasing again during July. Measured over a twelve-month period, the rate of increase in M3 (i.e. the broad money supply comprising banknotes and coin in circulation and all the deposits of the non-bank private sector with monetary banking institutions*) slowed down from 22 per cent in June 1983 to 16 per cent in January 1984. It then fluctuated around this

Money supply



*The inclusion of deposits of monetary banking institutions, building societies and the Post Office Savings Bank in a broad money supply concept is currently receiving the attention of the Reserve Bank.

level, before decelerating again slightly to 14 per cent in June. However, in July it increased again to 17 per cent. Likewise, the corresponding growth rate in M2 (i.e. M3 minus long-term deposits of the non-bank private sector with monetary banking institutions) slowed down further from 20 per cent in February 1984 to 18 per cent in June and rose to 22 per cent in July. In addition, a similar trend was discernible in the growth in M1 (i.e. notes and coin in circulation plus demand deposits of the non-bank private sector with monetary banking institutions), although it continued to be affected by a shift to demand deposits from medium and long-term deposits in response to actual and expected interest rate differentials.

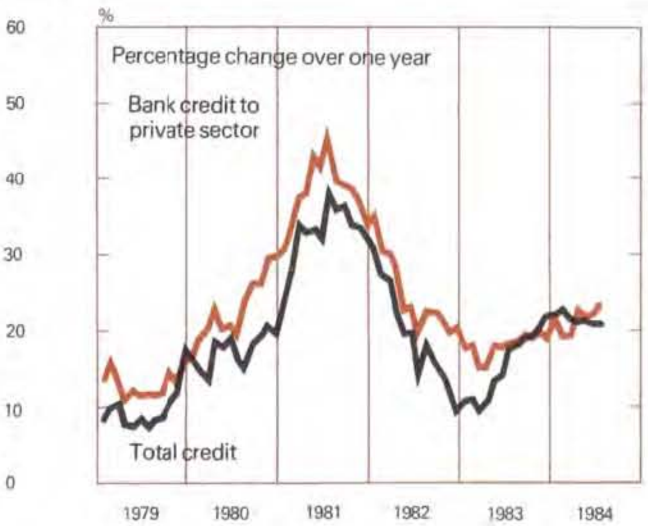
The lower rate of growth in the money supply during the second quarter occurred during a period in which the underlying economic conditions favoured a more rapid expansion of the money supply. Thus, in the second quarter the balance of payments improved considerably, leading to an increase in the net foreign reserves. The demand for credit by the private sector increased sharply, mainly as a result of inflated consumer purchases ahead of the increase in general sales tax. Moreover, government consumption expenditure accelerated sharply without a coinciding increase in government revenue, resulting in a much larger deficit before borrowing. Despite these developments, a lower growth in the money supply was attained because the seasonally adjusted net bank credit to the government sector declined notably in the second quarter. In July the renewed acceleration in the growth of money supply was mainly related to an increase in total bank credit.

The slight further deceleration in the money supply growth during the second quarter coincided with a more or less sideways movement in interest rates until the end of June. During July and August the decline in the gold price, the depreciation of the rand and the measures adopted by the authorities, resulted in a sharp increase in the general level of interest rates.

Bank credit

The decline in net claims of the monetary banking sector on the government sector, was responsible for a slightly lower rate of increase in total bank credit extended. Measured over a twelve-month period, the rate of increase in total bank credit decelerated from 21 per cent in March to 20½ per cent in June and 19 per cent in July. However, the rate of growth in claims of the banking sector on the non-bank private sector accelerated sharply during the second quarter and remained at the higher level in July. This acceleration was largely associated with the announcement in May of an increase in the general sales tax, which led to increased consumption expenditure and financing needs before the higher tax came into effect on 1 July. The continued high rate of growth in July was mainly related to a backlog in processing the exceptionally high volume of hire-purchase contracts over the June month-end. Measured over a twelve-month period, the increase in credit extended to the private sector rose from 19 per cent in March to 22 per cent in both June and July.

Bank credit



A breakdown of the claims of the monetary banking sector on the private sector shows that hire-purchase credit and leasing finance increased further during the four-month period to July 1984 from the high level which had been reached at the end of March. At the end of July, this form of credit was 38 per cent above its level at the end of July 1983. In addition, other loans and advances, mostly overdrafts, also rose sharply in the second quarter, but declined in July. Over the twelve months to July 1984 these loans and advances increased by 34 per cent.

Financial markets

Reserve Bank operations

The Reserve Bank's operations during the five months to August 1984 included the extensive use of open-market sales of new government stock obtained mainly on tap from the Treasury. The object of these sales was to help finance the seasonally high government spending at the beginning of the new fiscal year without the use of bank credit. The Bank's net sales of government stock increased from only R52 million in the first quarter of 1984 to R546 million in the second quarter. With the seasonal tightening in the market towards the end of June, these net sales were reduced to R174 million during the next two months.

Various measures were also taken to iron out seasonal fluctuations in the market. Among other things, the Bank used repurchase transactions with banks and discount houses for this purpose. After outstanding repurchase agreements had reached a peak of R950 million in February 1984, they were reduced to R300 million at the end of May. New agreements were again concluded over the June and July month-ends, and the outstanding agreements amounted to R600 million at the end of July. All these agreements expired during August and were not renewed by the Bank.

The Reserve Bank also alleviated the effect of large tax flows to the Government by selling special tax Treasury bills to the amount of R1 050 million during the five months to August 1984. Bills to the amount of R500 million matured at the end of August. Of the remaining amount, R200 million will mature on 30 November and R350 million on 28 February 1985, the other two tax payment peaks. In addition, the Bank varied the amount of Treasury bills offered at the weekly tender in accordance with market conditions. From 18 June 1984 the Bank started with the issuing of Land Bank bills by way of public tender on each Monday, and the amounts offered were also adjusted to prevailing market conditions. Furthermore, the Corporation for Public Deposits placed funds amounting to R300 million at call with the discount houses during July and August.

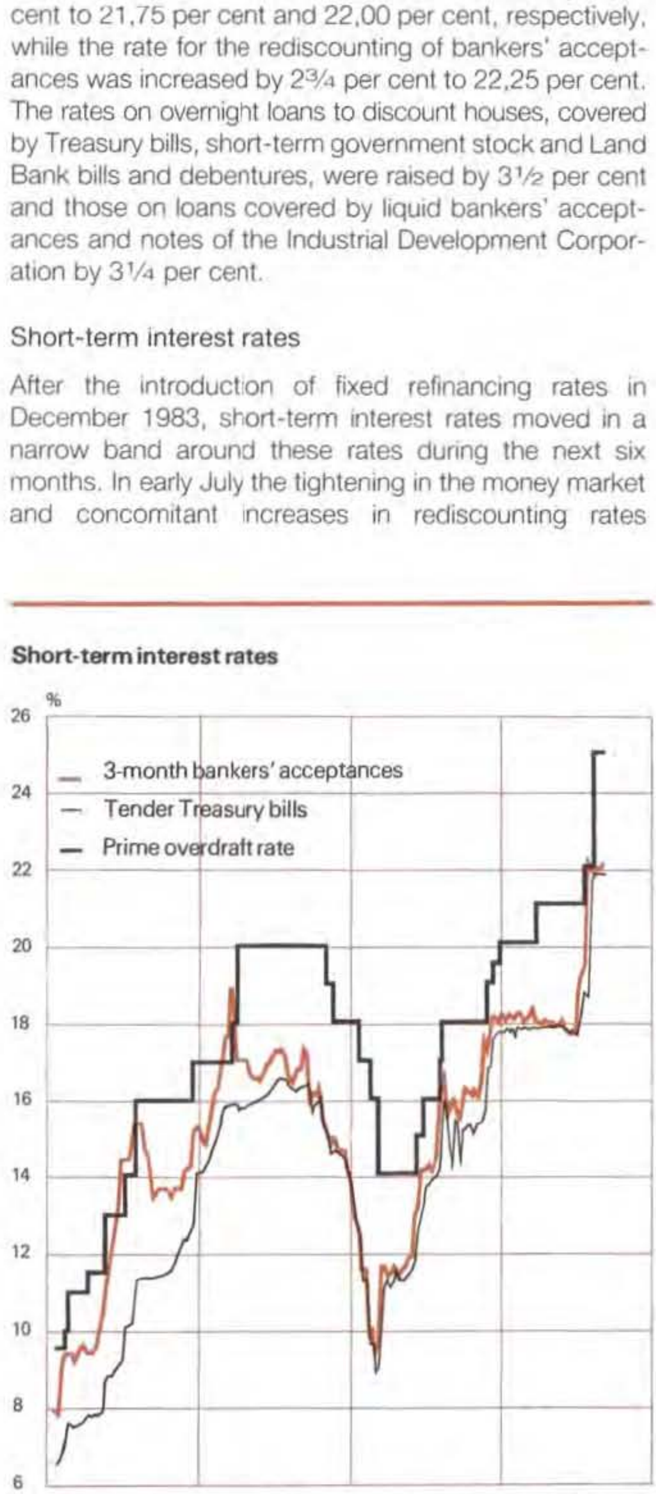
The Bank continued its refinancing through the discount window for the discount houses during the five months to August. Refinancing consisted of overnight loans as well as the rediscounting of Treasury bills, liquid bankers' acceptances and Land Bank bills at the Bank's rediscount rates. In the second quarter, this form of accommodation amounted to an average figure of R1 752 million, compared with R1 580 million in the preceding quarter. Subsequently, it increased considerably to an average of R2 152 million during July and August. Direct accommodation to banking institutions in the form of overnight loans was provided only occasionally and in small amounts.

The terms at which this refinancing was done, changed considerably during July and August. In July the sharp depreciation of the rand forced the Bank to increase its refinancing rates in three steps by 3/4 to 1 per cent. As part of the policy measures introduced on 3 August 1984, the refinancing rates were raised further. The rates to the discount houses for the rediscounting of Treasury bills and Land Bank bills were raised by 3 per cent to 21,75 per cent and 22,00 per cent, respectively, while the rate for the rediscounting of bankers' acceptances was increased by 2 3/4 per cent to 22,25 per cent. The rates on overnight loans to discount houses, covered by Treasury bills, short-term government stock and Land Bank bills and debentures, were raised by 3 1/2 per cent and those on loans covered by liquid bankers' acceptances and notes of the Industrial Development Corporation by 3 1/4 per cent.

Short-term interest rates

After the introduction of fixed refinancing rates in December 1983, short-term interest rates moved in a narrow band around these rates during the next six months. In early July the tightening in the money market and concomitant increases in rediscounting rates

Short-term interest rates



resulted in corresponding increases in short-term interest rates. The upward adjustment of refinancing rates at the beginning of August once again led to increases of about the same order in short-term rates.

For example, the rate on three-month bankers' acceptances fluctuated around 18 per cent during the first six months of 1984, before it increased to 19,70 per cent at the end of July. On 3 August it increased sharply to 22,25 per cent, and amounted to 22,10 per cent at the end of the month. Likewise, the Treasury bill tender rate fluctuated around 17,75 per cent during the first half of 1984, but rose to 18,72 per cent at the end of July and to 21,77 per cent at the end of August. In line with these movements, the clearing banks' prime overdraft rates were raised from 21 per cent to 22 per cent in July and to 25 per cent in early August.

Interest rates on short-term deposits also remained relatively stable during the second quarter of 1984, but started to rise from the middle of July in line with other short-term rates. During August, however, these deposit rates did not increase to the same extent as the money market interest rates.

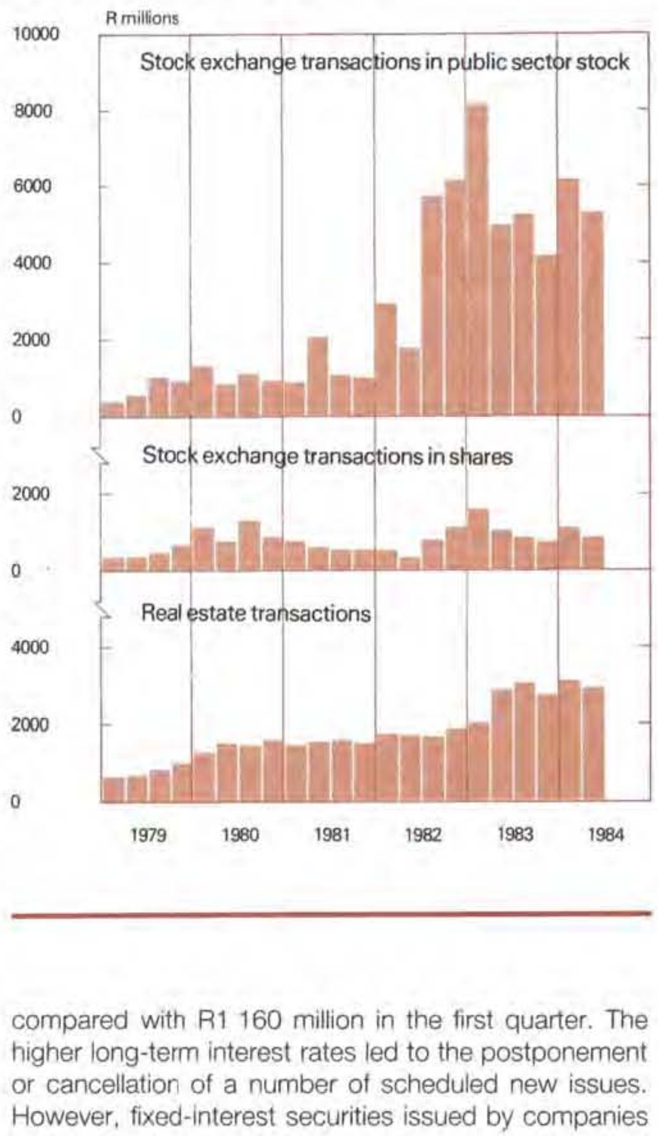
Capital market activity

The level of activity in the capital market resumed a downward movement in the second quarter of 1984. This slow-down, which had been discernible from the second quarter of 1983, was temporarily interrupted in the first quarter of 1984. The easing of capital market activity during the second quarter of 1984 reflected a decreased availability of funds. Illustrating the latter, the rate of increase in the broad money supply (M3) per unit of real output declined from 25 per cent in the second quarter of 1983 to 7 per cent in the second quarter of 1984.

In accordance with this change in financial activity, the value of public sector stock traded on the stock exchange eased from R6,2 billion during the first quarter of 1984 to R5,3 billion during the second quarter. However, a new monthly record turnover of R2,9 billion was recorded in July. The value of shares traded on the stock exchange reflected similar movements. Share turnover declined from R1 045 million in the first quarter of 1984 to R848 million in the second quarter. In July it amounted to R342 million, compared with a monthly average of R282 million in the second quarter. The increased turnover in July reflected selling pressure, which caused the average price of all classes of shares to decline by 9 per cent during this month. In the real estate market, the value of transactions remained at a high level after declining only marginally from R3 041 million in the first quarter of 1984 to R2 903 million in the second quarter. In July, however, the turnover in the real estate market increased sharply to a record level of R1 295 million.

In the primary market, the public sector raised new funds through issues of fixed-interest securities to the amount of R577 million in the second quarter of 1984,

Security and real estate transactions

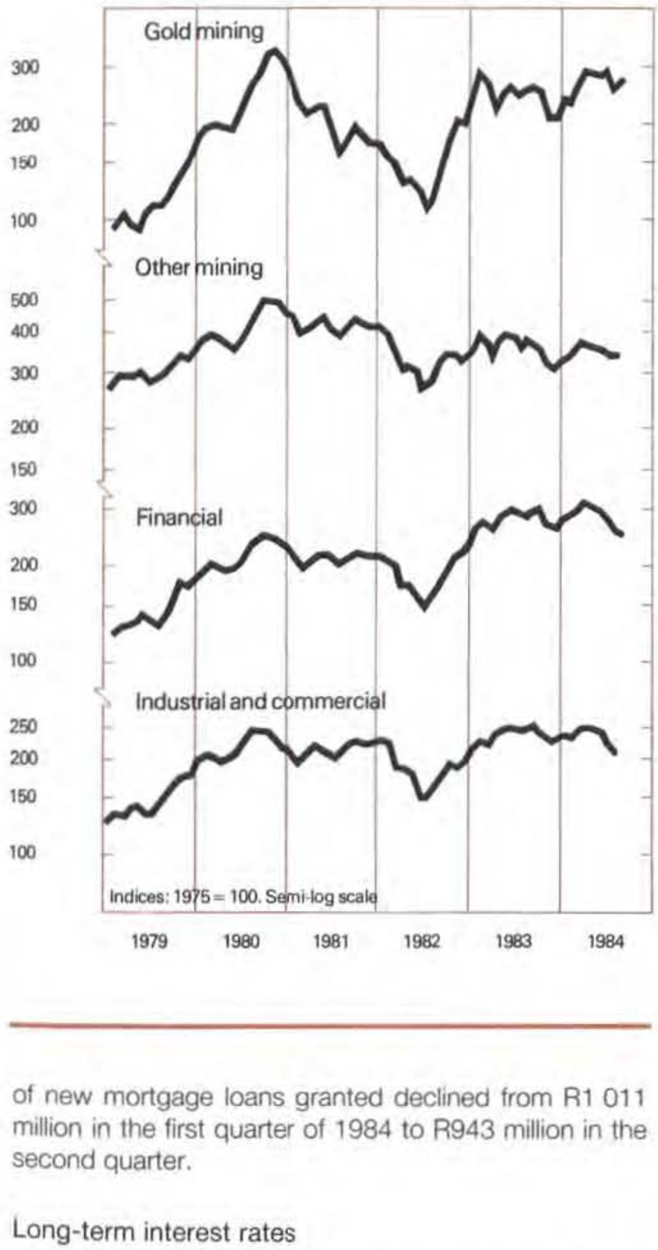


compared with R1 160 million in the first quarter. The higher long-term interest rates led to the postponement or cancellation of a number of scheduled new issues. However, fixed-interest securities issued by companies in the private sector increased from an annual total of R265 million in 1983 to R528 million in the second quarter of 1984. These issues were mainly in the form of preference shares.

The prevailing strength of share prices up to the end of the second quarter encouraged companies to raise further new share capital. These issues, which had increased sharply during 1983, declined only slightly from R266 million in the first quarter of 1984 to R233 million in the second quarter. The relatively large issues of permanent share capital were induced by expensive short-term bank financing. In fact, bank credit (including leasing finance) to companies decreased by R294 million in the second quarter of 1984, compared with a substantial increase in the preceding quarter.

A lower intake of funds by the building societies and participation mortgage bond schemes during the second quarter and a weaker demand for mortgage finance in response to the high mortgage loan rates, resulted in decreased activity in the mortgage market. The amount

Share prices



Capital market interest rates

of new mortgage loans granted declined from R1 011 million in the first quarter of 1984 to R943 million in the second quarter.

Long-term interest rates

The decreased general availability of funds exerted further moderate upward pressure on long-term interest rates during the second quarter. However, in line with short-term interest rates, long-term rates moved sharply upwards during July. This movement continued during August after the further policy measures had been introduced at the beginning of August.

The monthly average yield on long-term government stock rose from 13,8 per cent in March 1984 to 14,7 per cent in June and further to 15,4 per cent in July and 16,0 per cent in August. The corresponding yield on Escom stock increased from 14,2 per cent in March to 14,8 per cent in June and to 16,0 per cent in August. The average dividend yield on all classes of shares, which had fluctuated downwards during 1983 and the first three months of 1984, subsequently increased slightly. Reflecting mainly the decline in share prices, this yield increased from 5,1 per cent in March to 6,2 per cent in August.

In accordance with the upward movement of other long-term interest rates, the building societies' maximum home mortgage rate, applicable to loans of more than R60 000, was increased only slightly from 18,75 per cent in December 1983 to 19,0 per cent in June 1984. In August it was raised further to 20 per cent. Participation mortgage bond schemes raised their mortgage rates from 19,3 per cent in January 1984 to 20,3 per cent in July.

An indication of the movement of longer-term deposit rates is provided by changes in the twelve-month deposit rate of banks and building societies. The predominant rate on twelve-month deposits, which had declined to 11,0 per cent in March 1983, was raised in several steps to 16,5 per cent in May 1984. This was followed by further rises to 18,0 per cent in August.

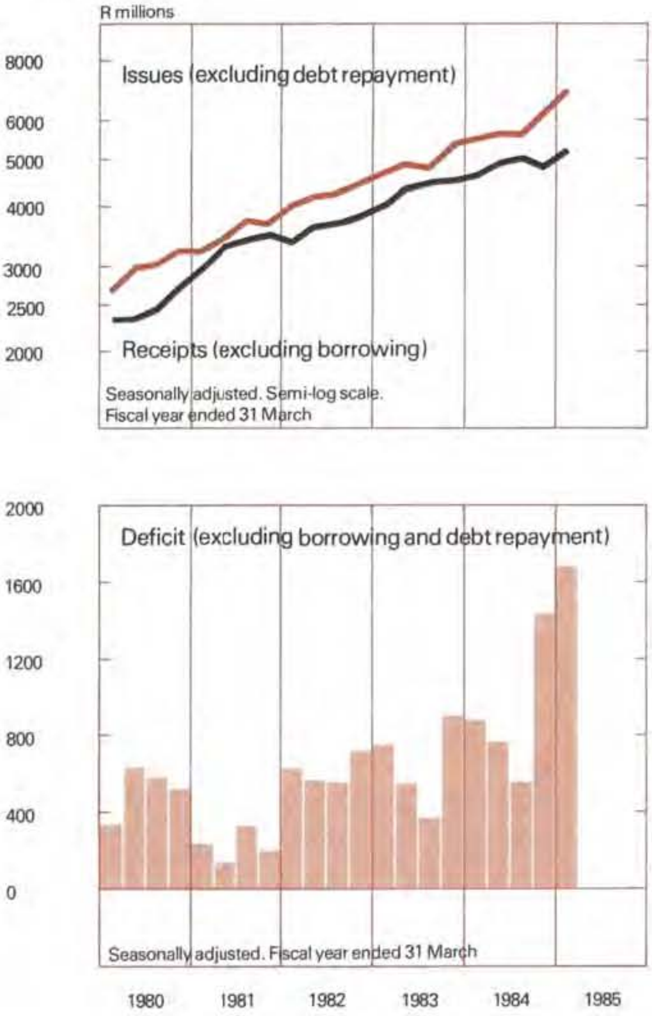
Government finance

Exchequer issues and receipts

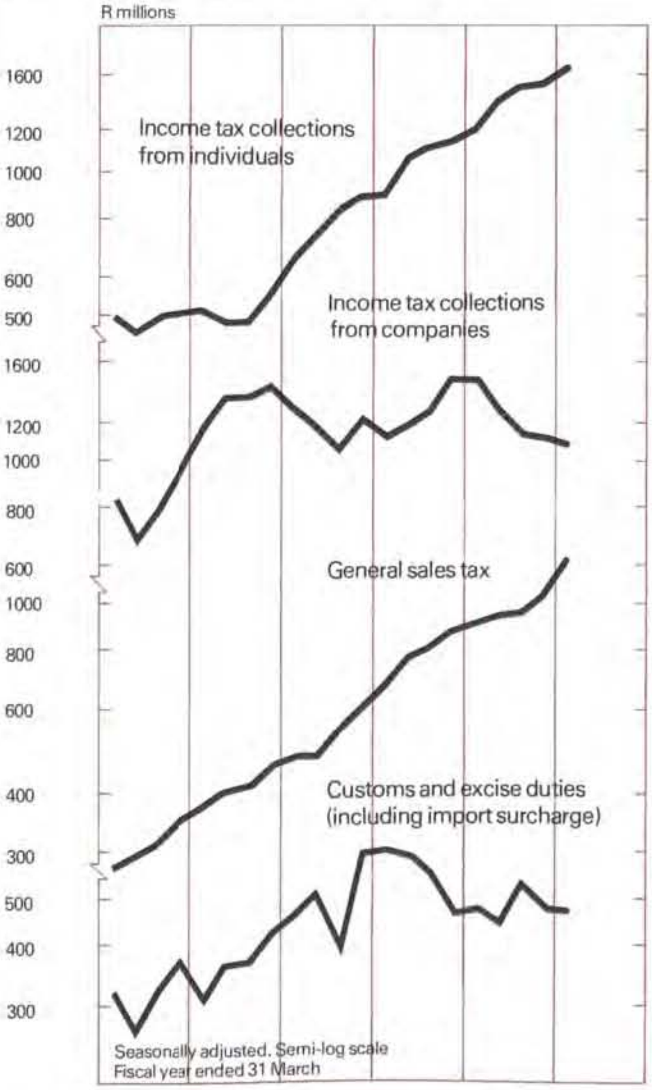
As during the past number of years, issues from the Exchequer Account* to government departments showed a spurt at the beginning of the 1984/85 fiscal year. In the first quarter of the fiscal year, i.e. the period April to June 1984, issues were 24 per cent higher than in the corresponding period of the preceding fiscal year. This rate of increase slowed down somewhat in July, but still amounted to 23 per cent in the first four months of 1984/85, a rate of growth that was substantially higher than the adjusted Budget estimate of expenditure of 14 per cent for the full fiscal year.

Exchequer receipts during the first quarter of 1984/85 were 12 per cent higher than in the corresponding quarter of 1983/84. This rate of increase was notably lower than the Budget estimate of 15 per cent for the full fiscal year which takes into account the increase in the general sales tax (and the exclusion of basic foodstuffs from the tax) which became effective in July. The higher tax rate only began to benefit Exchequer receipts in August. However, the exceptionally sharp rise in private consumption expenditure during June, ahead of the increase in the general sales tax, caused general sales tax receipts in July to show a marked increase. This increase and a larger than seasonal increase in income tax collections during July, contributed to an appreciably higher rate of increase of 17 per cent in Exchequer receipts during the first four months of 1984/85. Other

Exchequer Account



Revenue collections - State Revenue Fund



*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.

categories of revenue that showed higher than anticipated rates of increase were customs duties and, to a lesser extent, excise duties.

Financing of the deficit before borrowing

The deficit before borrowing and the debt repayment on the Exchequer Account amounted to R2,7 billion in the first quarter of 1984/85 and to R3,1 billion in the first four months of the fiscal year. The latter figure actually exceeded the adjusted Budget estimate of R2,8 billion for the full fiscal year.

During the first quarter of 1984/85 the deficit was financed from the following sources:*

	R millions
Monetary banking sector	232
Public Investment Commissioners	570
Non-bank private sector	1 786
Foreign sector	71
	2 659

*These figures are not adjusted for seasonal tendencies and refer to the Exchequer Account only. The figure for the monetary banking sector, therefore, differs from that used in the money and bank credit section of this review.