Quarterly economic review

Summary and general assessment

The renewed increase in real gross domestic product during the second half of 1983, after a decline during the preceding six quarters, continued in the first quarter of 1984, but at a lower rate. This slow-down of the economic upswing reflected both a decline in the volume of exports and a lower rate of increase in real gross domestic expenditure.

The decline in export volume, which had been preceded by a notable increase in the fourth quarter of 1983, was disappointing and illustrated the continuing sluggish demand for South African exports despite an economic recovery in most industrial countries. On the other hand, the slower rise in real domestic expenditure was neither unexpected nor unwelcome, as it largely represented a reaction to deliberate policy actions to slow down the growth in aggregate demand. Among other things, the Government's deficit before borrowing was funded in a manner that did not contribute to an increase in the money supply, interest rates were allowed to rise to higher levels in the fourth quarter of 1983 and the general sales tax was raised from 6 to 7 per cent with effect from 1 February 1984.

The rapid rise in real gross domestic expenditure from about the middle of 1983 and the resulting economic recovery were welcome up to a point, but could clearly not be sustained in the absence of a more distinct increase in non-gold exports and/or the gold price. Already in the fourth quarter of 1983 the previously existing surplus on the current account of the balance of payments was transformed into a deficit of R1,9 billion (seasonally adjusted annual rate) as a substantial increase in imports coincided with a decline in the gold price. In the first quarter of 1984 the deficit, at a seasonally adjusted annual rate, grew to R2,9 billion because of a further rise in imports that was accompanied by the decline in exports referred to earlier. The weakening of the balance of payments was reflected in a renewed depreciation of the rand from October 1983 onwards. During the eight months to May 1984 the rand depreciated on average by 11 per cent in terms of other currencies.

Apart from external disequilibrium, another undesirable consequence of the premature economic upswing was a reversal of the slow-down in the rate of price increases. Consumer as well as production prices rose at distinctly higher rates in the first quarter of 1984, partly as a result of the depreciation of the rand. For example, at a seasonally adjusted annual rate, the increase in consumer prices accelerated from 9,8 per cent in the fourth quarter of 1983 to 12,5 per cent in the first quarter of 1984.

At the time of the preparation of the 1984/85 Budget in March, it was clear that the economy would have to cope not only with sluggish non-gold exports and a stagnant gold price, but also with an extended drought in the summer rainfall areas. The Minister of Finance, therefore, stressed the need for a temporary pause in the process of economic expansion in order, as a first priority, to strengthen the balance of payments and prevent an undue acceleration in the rate of inflation.

To help achieve these objectives, it was clear that the Budget should have the effect of improving the "mix" of fiscal and monetary policy. Previously, in the 1983/84 fiscal year, the deficit before borrowing had turned out to be considerably larger than envisaged in the Budget. This had required substantial additional borrowing from the domestic non-bank sector in order to finance the deficit without recourse to money creation and had exerted upward pressure on interest rates. To increase the fiscal component of the policy "mix", the 1984/85 Budget provided for moderate upward tax adjustments as a means of holding down the deficit before borrowing. Subsequently, in May, after further information on developments in the economy had become available, an additional tax measure was announced, namely an increase in the general sales tax from 7 to 10 per cent with effect from 1 July, but with the total exemption of certain basic foodstuffs from this tax.

Among the monetary and financial developments which induced the authorities to adopt a more restrictive policy stance, was a new acceleration in the rate of increase in the money supply during the first quarter of 1984, following its appreciable decline during the second half of 1983. This served to sustain monetary demand at too high a level in the prevailing circumstances and, among other things, helped to keep share and fixed property prices remarkably buoyant. The wealth effect of these price rises also exerted an expansionary influence on spending.

Consequently, in line with the weakening of the balance of payments and the concomitant decline in net foreign reserves, interest rates were allowed to rise further towards the end of the first quarter and in the early part of the second quarter. For example, the clearing banks' prime overdraft rate rose from 20 per cent to a predominant rate of 21 per cent. Furthermore, the Reserve Bank's operations in the financial markets from April onwards were aimed specifically at countering the expansionary effect of the usual seasonal increase in government expenditure at the beginning of the new fiscal year. Supplementing the Bank's operations, new government stock issues were made in April in order to avoid the financing of the Government's deficit before borrowing by means of money creation.

The more restrictive policy stance is likely to assert itself more fully in the economy in the months ahead. In the short-term, however, the announced further increase in the general sales tax from the beginning of July is likely to mask the effect of policy on economic activity. Consumer demand for durable and semi-durable goods will probably show a sharp temporary increase before the higher general sales tax comes into effect, and this may be accompanied by an increase in output in order to meet this demand or to replenish stocks. Thereafter, the increase in domestic expenditure may well taper off. Depending on the gold price and South Africa's export performance, the present rate of real economic growth may then regress to a lower level before resuming a more sustainable upward course.

Domestic economic developments

Domestic output*

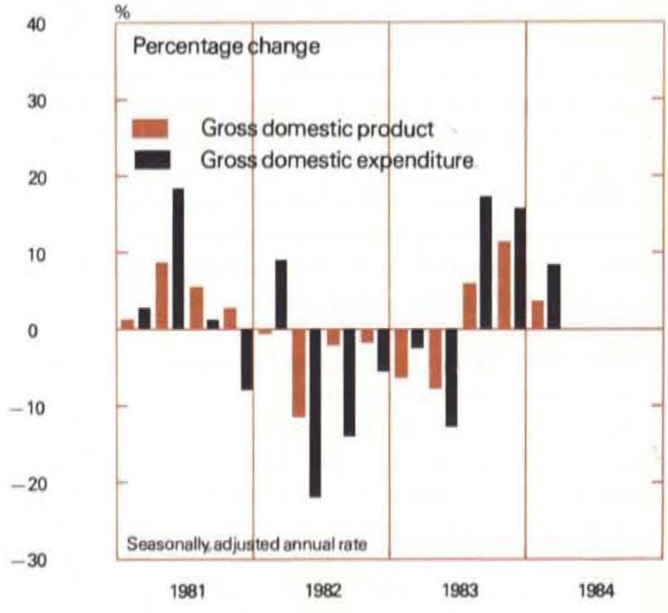
After rising at seasonally adjusted annual rates of about 6 per cent in the third quarter of 1983 and about 11 per cent in the fourth quarter, real gross domestic product increased further at an annualised rate of about 4 per cent in the first quarter of 1984. Declines in the real product of the construction sector and of the wholesale and retail trade (excluding the motor trade) were offset by increases in other sectors. Motor vehicle sales were very buoyant and the real value added by the motor trade, accordingly, showed an appreciable increase.

Owing to a small improvement in South Africa's terms of trade and a decrease in net factor payments to the rest of the world, real gross *national* product increased marginally faster than gross *domestic* product in the first quarter of 1984.

Domestic expenditure*

After rising at seasonally adjusted annual rates of about 17 per cent in the third quarter of 1983 and about 16 per cent in the fourth quarter, real gross domestic expenditure rose further at an annualised rate of about 9 per cent in the first quarter of 1984.

Real gross domestic product and expenditure



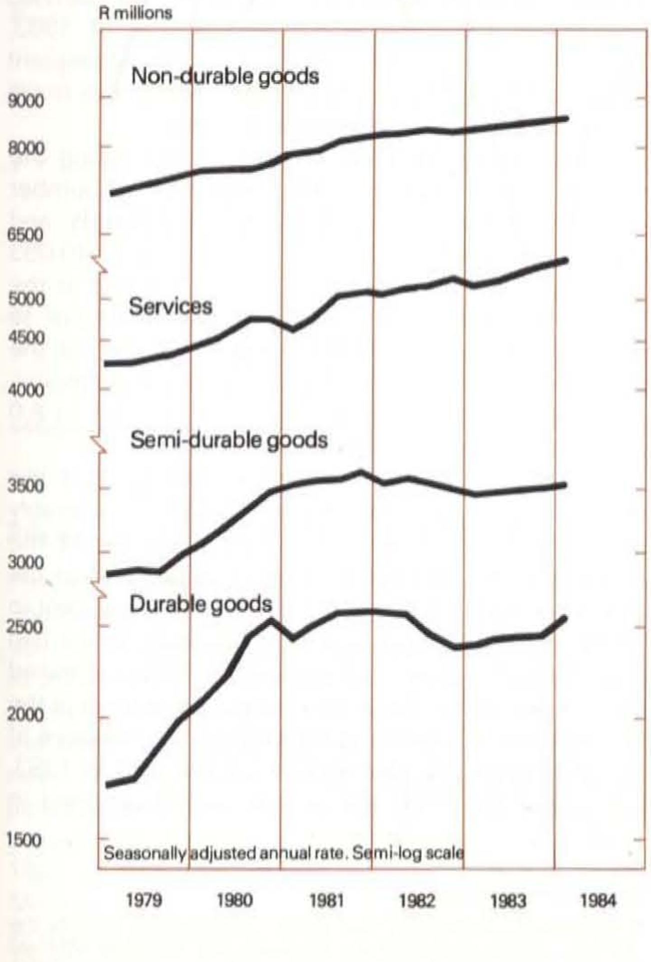
*Quarterly changes are based on seasonally adjusted data.

The further increase in real gross domestic expenditure in the first quarter was evident in private as well as government consumption expenditure and in both fixed and inventory investment.

Overall real private consumption expenditure continued to rise at the higher rate attained during the second half of 1983. Looking at the different components, however, the increase in real outlays on durable goods accelerated substantially in the first quarter, owing to an exceptionally sharp rise in new motor-car sales. The increase in real outlays on semi-durable goods also accelerated from the fourth quarter of 1983 to the first quarter of 1984. Partly compensating lower rates of increase were, however, recorded in the case of real consumption expenditure on non-durable goods and on services.

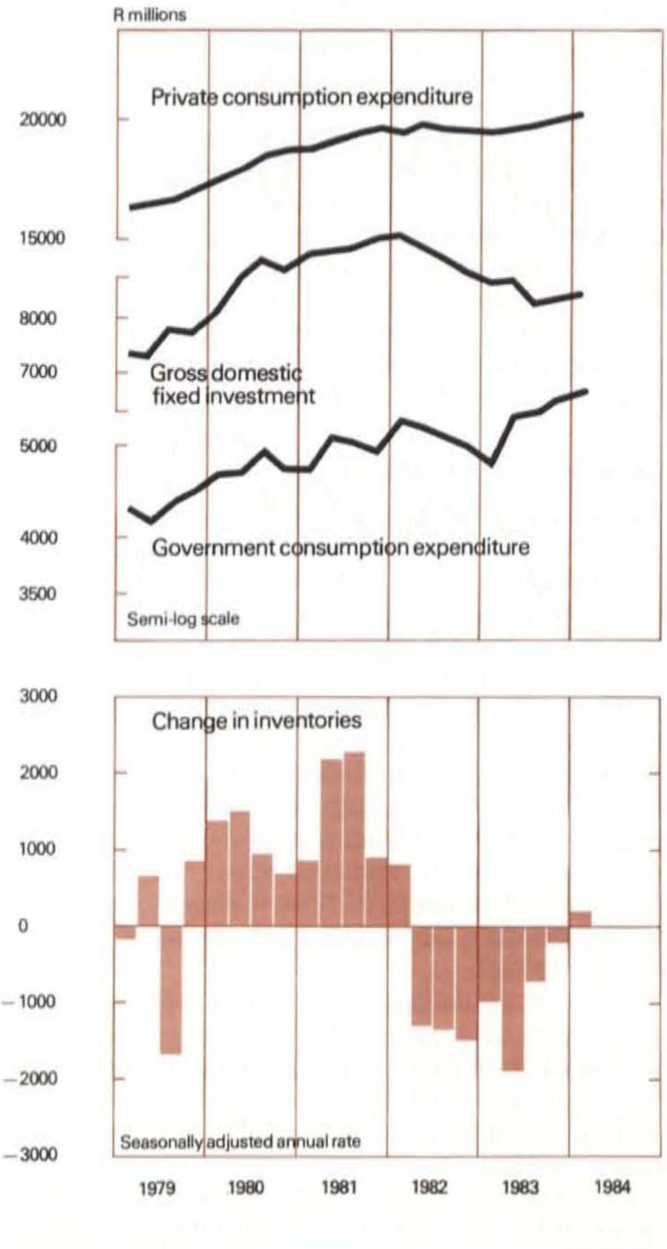
Real government consumption expenditure, which had risen steeply from the second quarter of 1983, maintained a fairly strong upward trend in the first quarter of 1984. This further increase was evident in the remuneration of employees as well as in expenditure on goods and other services.

Private consumption expenditure at constant 1975 prices



The slow-down of the increase in total real gross domestic expenditure in the first quarter was due to a slower rise in fixed investment and a smaller change in the level of real inventories. A breakdown of real fixed investment shows that outlays by public authorities declined at roughly the same rate in the first quarter as in the preceding quarter, while those by public corporations increased at a substantially lower rate than in the fourth quarter of 1983. Real private fixed investment showed its third consecutive quarterly rise and the rate of increase in the first quarter was moderately higher than in the preceding quarter. This, in turn, resulted from a sharp rise in fixed investment

Components of real gross domestic expenditure



in the mining sector as well as from increases in fixed capital outlays in agriculture and manufacturing. Real fixed investment in private manufacturing in fact recorded its first increase since the last quarter of 1982. Partly offsetting these increases, real private fixed investment in residential buildings and other fixed capital outlays in the sector finance, insurance, real estate and business services declined in the first quarter.

Capacity utilisation in total manufacturing rose to a level of about 86½ per cent in the first quarter of 1984, compared with the most recent trough of 84 per cent in the second quarter of 1983.

The rate of inventory depletion slowed down considerably in the second half of 1983 and this was followed by a slight inventory build-up in the first quarter of 1984. Despite this switch to positive real inventory investment, the first inventory build-up since the first quarter of 1982, the expansionary impact of inventory changes on total real gross domestic expenditure was notably smaller than in the fourth quarter of 1983. Positive real inventory investment was particularly evident in the case of industrial and commercial inventories. In real terms, the level of these inventories increased for the first time in eight quarters. The ratio of industrial and commercial inventories to the gross domestic product of the non-agricultural sectors remained virtually unchanged at 24 per cent in the first quarter of 1984, after it had declined uninterruptedly from the most recent peak of 29 per cent in the first quarter of 1982.

Factor income and saving

The increase in nominal gross domestic product slowed down appreciably from the fourth quarter of 1983 to the first quarter of 1984. Considering the main factor components of gross domestic product, there was a considerable acceleration of the increase in salaries and wages in the fourth quarter of 1983 that continued in the subsequent quarter. This mostly reflected large salary adjustments in the public sector. The rate of change in the other factor component, namely gross operating surplus, followed an opposite course. After a considerable acceleration during the second half of 1983, it slowed down to a fairly low figure in the first quarter of 1984. If allowance is made for depreciation, the resulting net operating surplus actually declined.

Gross domestic saving, which had grown steadily from the second quarter of 1982 and had attained a level equal to 25 per cent of gross domestic product in the third quarter of 1983, regressed in relative terms to 22 per cent of gross domestic product in the first quarter of 1984.

All components of gross domestic saving, other than provision for depreciation, declined in the first quarter of 1984. As during the preceding four quarters, the saving of general government was actually negative in this quarter. The steady deterioration of the savings performance of general government reflected a sustained excess of current expenditure, mainly consumption expenditure and interest payments on public debt, over current income in the form of mostly direct and indirect tax receipts. The decline in corporate saving in the first quarter was related to the fall in net operating surplus. The ratio of personal saving to personal disposable income remained at the low level of 2½ per cent to which it had declined in the fourth quarter of 1983. Among the reasons for the low level of the personal savings ratio were the effect of the drought on property income, the upsurge in consumer spending and the financing of such expenditure to an increasing extent by means of consumer credit, and the high cost of servicing the growing level of consumer debt.

Employment, labour cost and labour productivity*

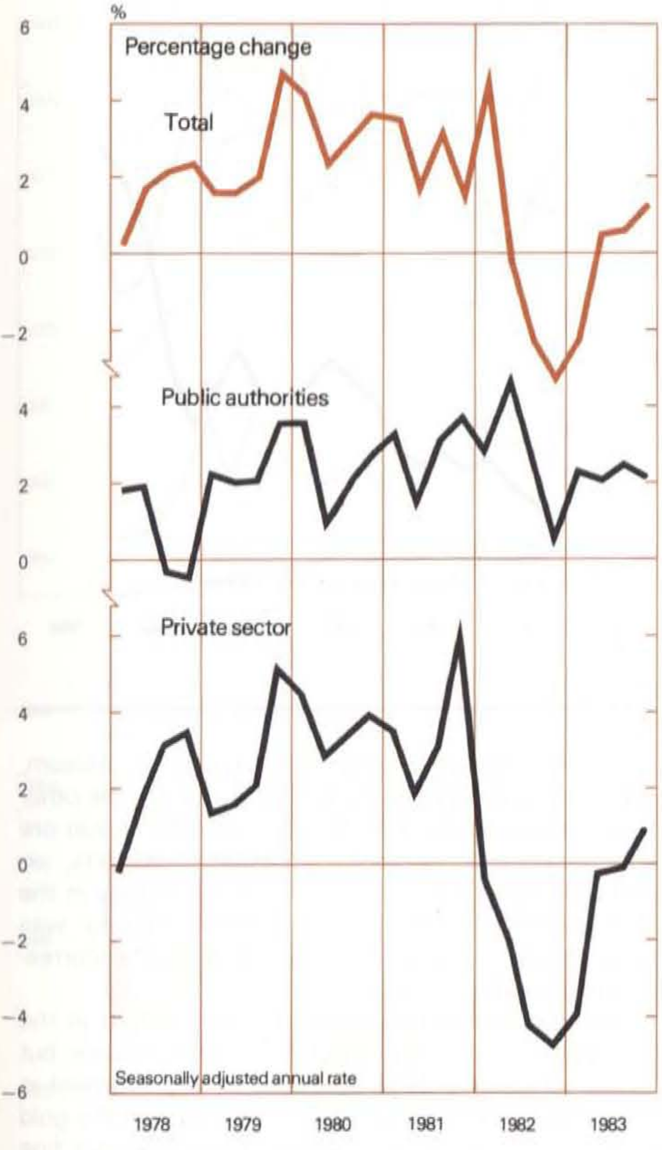
Coinciding with an increase in the real gross domestic product of the non-agricultural sectors of the economy, non-agricultural employment, seasonally adjusted, started to rise in the second quarter of 1983. In the fourth quarter, this increase gained further momentum, mainly because of a more distinct increase in private sector employment. The latter had declined throughout 1982 and in the first quarter of 1983, before stabilising at this lower level in the subsequent two quarters. Employment by public authorities maintained an upward trend throughout 1983.

Reflecting the increase in employment during the second half of 1983, the seasonally adjusted number of registered unemployed Whites, Coloureds and Asians declined from its most recent peak of 40 093 at the end of June 1983 to 30 634 at the end of the year. Subsequently, the figure decreased further to 30 217 at the end of March 1984. As a ratio of the economically active Black population, Black unemployment declined from 8,5 per cent in June 1983 to 8,0 per cent in November 1983.

Salaries and wages per worker rose by 12,4 per cent in 1983, a rate of increase that was considerably lower than the 18,6 per cent in 1982. In real terms, the increase in the average remuneration per worker decelerated from 3,5 per cent in 1982 to 0,2 per cent in 1983. Labour cost per unit of production, which had risen by as much as 19,8 per cent in 1982, increased by 12,8 per cent in 1983. Real output per worker in the non-agricultural sectors of the economy, a measure of labour productivity, declined by 0,3 per cent in 1983, somewhat less than the decline of 0,9 per cent in 1982.

*Employment, productivity and labour cost statistics refer to the non-agricultural sectors of the economy and complete data are only available up to the fourth quarter of 1983.

Employment in non-agricultural sectors

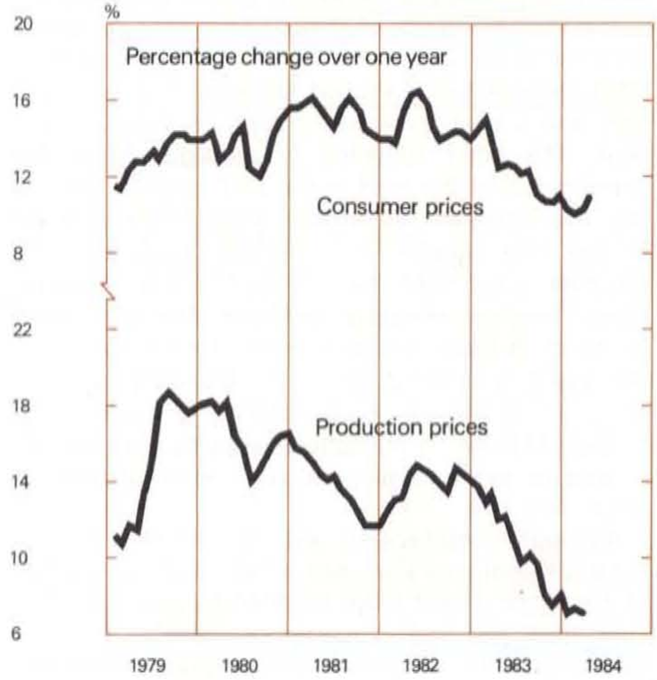


Prices

Progress towards a greater degree of price stability in South Africa was halted in early 1984, partly due to the upsurge in domestic demand during the second half of 1983. By raising the level of imports, this demand increase contributed to the renewed depreciation of the rand from October 1983, which in time exerted new upward pressure on prices. At a seasonally adjusted annual rate, the increase in consumer prices accelerated from 9,8 per cent in the fourth quarter of 1983 to 12,5 per cent in the first quarter of 1984. Measured over a twelve-month period, however, the increase slowed down from 11,0 per cent in December 1983 to 10,2 per cent in March 1984. Subsequently, it accelerated to 11 per cent in April, reflecting a rise in transport and postal tariffs and a sharply higher rate of increase in food prices.

In terms of seasonally adjusted quarterly changes, the increase in production prices accelerated slightly from an annual rate of 4,3 per cent in the fourth quarter of 1983 to 4,6 per cent in the first quarter of 1984. The increase over a twelve-month period slowed down, however, from 7,9 per cent in December 1983 to 7,1 per cent in April 1984. Measured in the same way, the increase in the prices of imported goods included in the production price index accelerated from 3,9 per cent in December to 4,9 per cent in April, illustrating mainly the effect of the depreciation of the rand.

Prices



Balance of payments

Current account

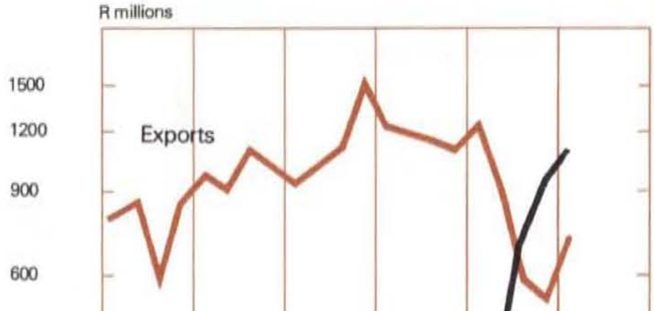
Apart from its expansionary domestic effects, the upsurge in expenditure from the middle of 1983 came to be reflected in a strong rise in imports and a weakening of the current account of the balance of payments. The current account, which had been in surplus from the fourth quarter of 1982, moved into deficit in the fourth quarter of 1983 and deteriorated further in the first quarter of 1984. At a seasonally adjusted annual rate, the deficit amounted to R1,9 billion in the fourth quarter and grew to R2,9 billion in the first quarter. The larger deficit in the first quarter was due not only to higher imports, but also to a slight decline in exports and a rise in net service payments to foreigners. These negative influences were countered only partly by an increase in the net gold output.

The fairly sharp rise of about 12 per cent in imports from the fourth quarter of 1983 to the first quarter of 1984 consisted of a volume increase of about 9 per cent and a price increase of approximately 2½ per cent. The latter reflected to a large extent the depreciation of the rand in the first quarter. Most of the main categories of imports reflected the increase in the first quarter, in particular machinery and electrical equipment, base metals, transport equipment, textiles, chemical products and agricultural products. A moderate decline occurred, however, in the category mineral products, following upon an unusually sharp rise in the preceding quarter. The further increase in agricultural imports was directly related to the continuing drought in large parts of South Africa.

Although merchandise exports were still at a notably higher level than during the first three quarters of 1983, the export value declined by about 4½ per cent from the fourth quarter of 1983 to the first quarter of 1984. In volume terms, exports declined by about 6 per cent, but export prices rose by about 1½ per cent, partly as a result of the depreciation of the rand. Declines were evident in exports of uranium, diamonds and paper and paper products. On the other hand, increases were recorded in exports of iron ore and nickel. In addition, agricultural exports, in particular wool and fruit, increased moderately in the first quarter, but the level of these exports was nevertheless considerably lower than in the corresponding quarter of 1983.

The appreciable rise in the net gold output in the first quarter was mainly due to a volume increase, but at the same time there was also an improvement in the rand price of gold. On the London market the gold price declined from an average of US $388 per fine ounce in the fourth quarter of 1983 to US $384 per fine ounce in the first quarter of 1984. In terms of rand, however, the price per fine ounce rose from

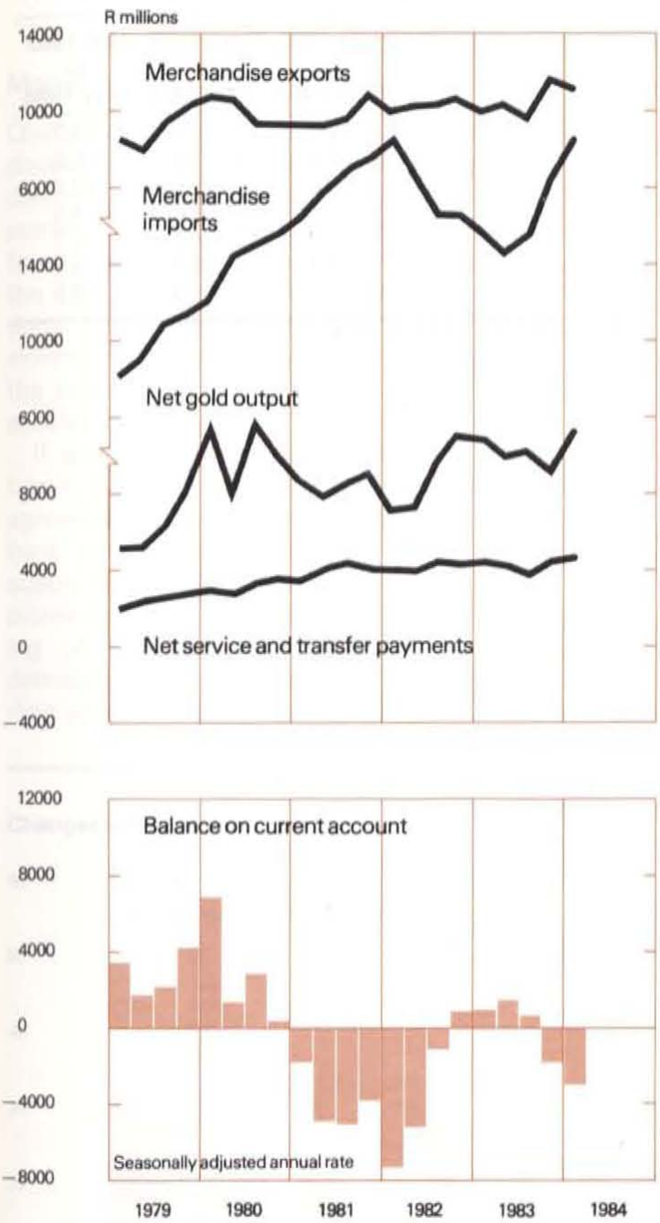
Imports and exports of agricultural products



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

	1983				1984
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Merchandise exports	9 964	10 244	9 574	11 550	11 040
Net gold output	10 802	9 879	10 020	9 015	11 020
Merchandise imports	–15 664	–14 579	–15 369	–18 260	–20 430
Net service and transfer payments	–4 182	–4 066	–3 592	–4 236	–4 540
Balance on current account	**920**	**1 478**	**633**	**–1 931**	**–2 910**

Balance of payments current account



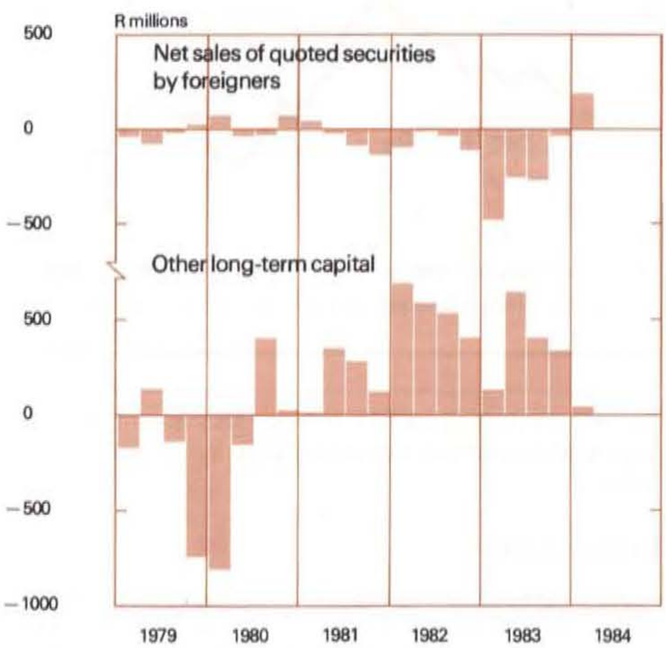
R456 to R473 during this period. Subsequently, the US dollar price declined further to an average of $377 per fine ounce in May, the rand equivalent of which amounted to R482.

Net service payments to foreigners increased further in the first quarter owing to higher freight and insurance payments on the increased level of imports. Part of this increase was offset by small declines in other transport payments and tourist expenditure.

Capital account

A net outflow of capital of R114 million occurred in the first quarter of 1984, consisting of a net long-term capital inflow of R233 million and a net short-term capital outflow (not related to reserves) of R347 million. The net inflow of long-term capital was accounted for by foreign borrowing to the amount of R131 million by the South African Transport Services and the Department of Posts and Telecommunications and by net purchases, amounting to R194 million, by foreigners of securities listed on the Johannesburg Stock Exchange. Previously, in all four quarters of 1983 foreigners were net sellers of South African listed securities. This inflow of long-term capital was partly offset by an outflow from the Treasury and the banking sector. The net outflow of short-term capital apparently reflected unfavourable "leads and lags" in foreign payments and receipts, based on expectations that the rand would for the time being continue to depreciate.

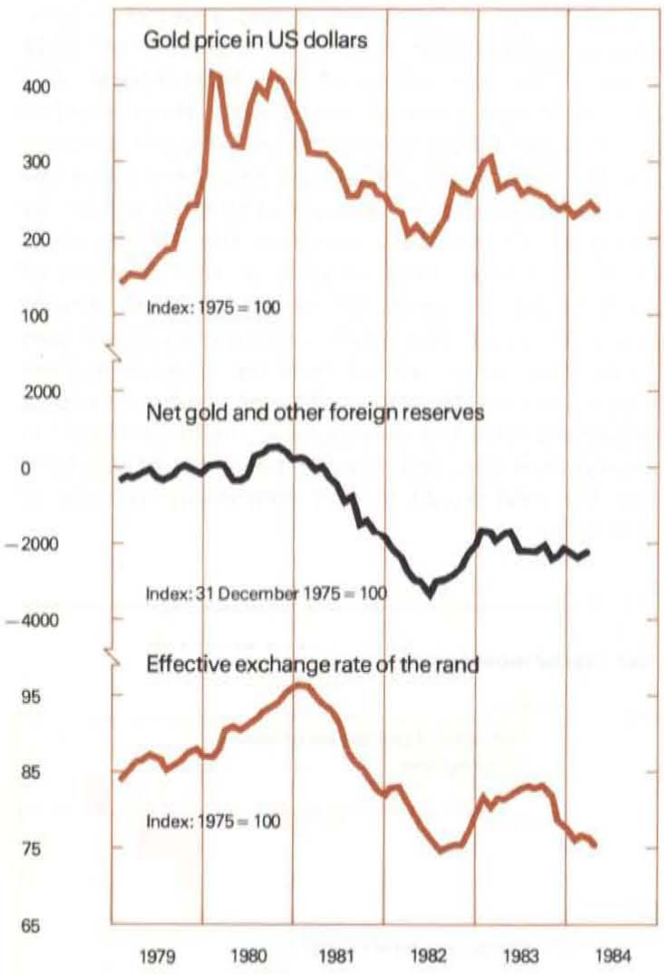
Net capital movements



Changes in net foreign reserves and in liabilities related to reserves

Balance of payments transactions caused the net gold and other foreign reserves to decline by R562 million during the first quarter of 1984. Transactions on the current account contributed R448 million to this decline. Reserve-related net borrowing by the banking

Gold price, net reserves and exchange rate



system amounted to R71 million. This meant that an appreciable decline occurred also in gross foreign reserves.

Exchange rates

From July 1982 to September 1983 the rand generally appreciated in terms of other currencies, but this was followed by a period of depreciation from October 1983 onwards. On average, the rand depreciated by 7,7 per cent against all other currencies from the end of September 1983 to the end of the year, by 3,3 per cent during the first quarter of 1984 and by a further 0,4 per cent during April and May. Compared with the decline of 11,1 per cent in the effective exchange rate of the rand during the eight months to May 1984, the rand depreciated by 14,3 per cent against the exceptionally strong US dollar and by 15,7 per cent against the Japanese yen. The rand also depreciated, but somewhat less, against the currencies of all South Africa's other main trading partners.

Changes in the exchange rate of the rand

%

	July 1982 to Sept 1983	Sept 1983 to Dec 1983	Dec 1983 to May 1984
All currencies	11,2	−7,7	−3,7
US dollar	4,2	−9,3	−5,5
British pound	20,9	−6,8	−0,8
German mark	11,6	−6,6	−4,5
Swiss franc	5,7	−7,2	−1,7
Japanese yen	−4,1	−10,9	−5,5
French franc	21,7	−5,9	−3,9

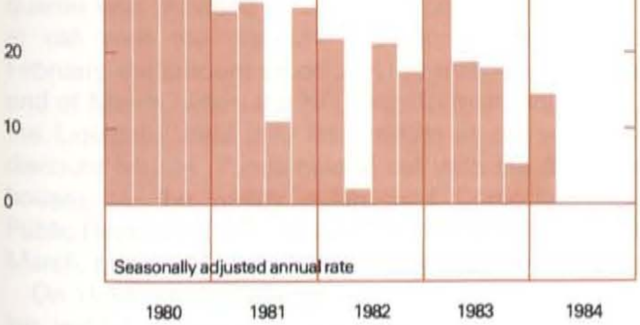
Money and bank credit*

Money supply changes

Quarterly money supply changes continued to be distorted by the "disintermediation" and "re-intermediation" of credit transactions. Available information points to fairly extensive disintermediation during the fourth quarter of 1983 and re-intermediation during the first quarter of 1984. Recognising these distortions, it is nevertheless clear that the considerable slow-down of the increase in the money supply during the second half of 1983 was followed by a renewed acceleration during the first quarter of 1984.

If quantifiable disintermediation and re-intermediation in the form of changes in outstanding repurchase agreements between banking institutions and the non-bank private sector are incorporated in the money supply figures, the seasonally adjusted annual rate of increase in the M2 concept of money supply, consisting of M1 plus short-term deposits (other than demand deposits) and medium-term deposits (including savings deposits) of the non-bank private sector,

Changes in M2



Changes in monetary aggregates*
(Seasonally adjusted annual rates)
%

	M1	M2	M3
1983: 1st quarter	28,6	27,9	26,7
2nd quarter	65,1	18,6	13,4
3rd quarter	14,0	17,8	11,7
4th quarter	10,2	5,4	—
1984: 1st quarter	36,5	14,6	12,3

*Including repurchase agreements with the non-bank private sector.

decelerated from 27,9 per cent in the first quarter of 1983 to 5,4 per cent in the fourth quarter. Subsequently, however, it accelerated to 14,6 per cent in the first quarter of 1984. The comparable figures for M3, which includes in addition to M2 also all other deposits of the non-bank private sector with monetary banking institutions*, were 26,7 per cent in the first quarter of 1983, nil per cent in the fourth quarter, and 12,3 per cent in the first quarter of 1984. The M1 figures given in the accompanying table are of very limited use as an indication of monetary expansion during the period in question, since they have been greatly distorted by a notable shift from long and medium-term deposits to demand deposits in response to actual and expected changes in interest rates as well as in the structure of interest rates, including the introduction of interest on cheque deposits from March 1983. The accompanying table shows these changes in the composition of the non-bank private sector's deposit holdings with monetary banking institutions.

Composition of private sector deposits with monetary banking institutions
%

	1983			1984
	30 June	30 Sept	31 Dec	31 March
Cheque and transmission deposits...	17,8	18,2	19,3	18,0
Other demand deposits	34,8	35,9	37,4	41,4
Savings and medium term deposits	30,1	30,5	29,4	26,9
Long-term deposits.	17,3	15,4	13,9	13,7
Total deposits	100,0	100,0	100,0	100,0

Viewed over a somewhat longer period of twelve months, the rate of growth in M2 (including repurchase agreements with the non-bank private sector)

*As from 31 March 1984 the liabilities and assets of the newly established Corporation for Public Deposits have been incorporated in the consolidated assets and liabilities of the monetary banking sector. The liabilities and assets of this sector on that date have also been adjusted to reflect the liquidation of the National Finance Corporation. For the purpose of calculating changes in liabilities and assets of the monetary banking sector from March onwards, the so-called "pooled funds" of the former Public Debt Commissioners have been included in the figures before March.

*In South Africa a strong case can be made out for also including building society deposits and "shares" in the M3 concept of money supply. This matter is currently receiving the attention of the Reserve Bank and a more comprehensive M3 series will be published in due course.

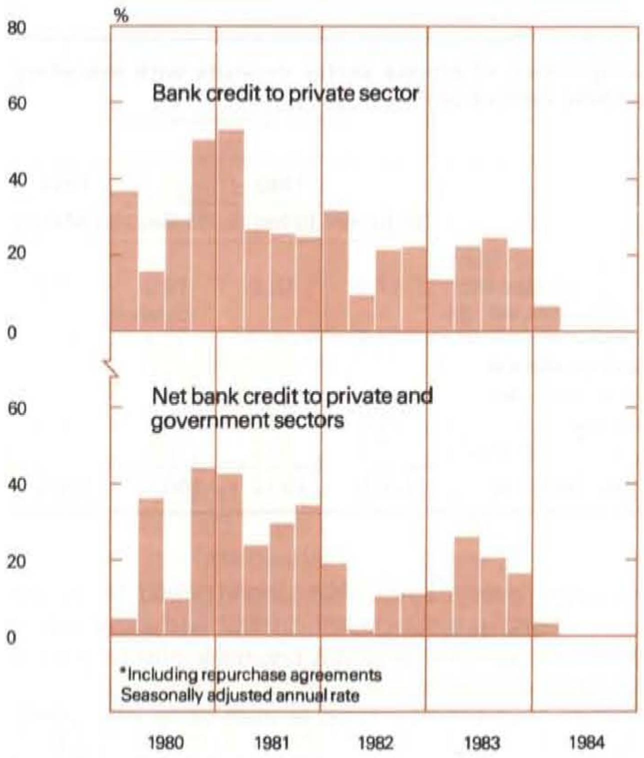
slowed down from 21,9 per cent in May 1983 to 16,1 per cent in January 1984, before accelerating again to 18,0 per cent in March. The corresponding growth rate of M3 decelerated from 19,7 per cent in June 1983 to 10,3 per cent in January 1984, but rose subsequently to 12,8 per cent in March.

Domestic credit extension

The more rapid increase in the money supply during the first quarter of 1984 was largely related to a higher rate of increase in total domestic credit extension, i.e. to the private and government sectors together. Measured domestic bank credit figures were appreciably distorted by disintermediation in the fourth quarter of 1983 and re-intermediation in the first quarter of 1984. In order to reduce this distortion, repurchase agreements with the non-bank private sector are included in the total bank credit figures. Measured over a twelve-month period, the rate of growth in domestic credit extension accelerated from 18,5 per cent in December 1983 to 20,3 per cent in March 1984.

The rate of growth over a twelve-month period in bank credit to the private sector (including repurchase agreements with the non-bank private sector) accelerated from 20,4 per cent in December 1983 to 21,5 per cent in February 1984, but slowed down to 17,9 per cent in March. In absolute terms, credit to the private sector showed an appreciable further rise during the first quarter. A breakdown of this increase indicates that hire-purchase credit and leasing finance rose further from the high level of the preceding quarter. In addition, the commercial, merchant and general banks' other loans and advances, mostly overdrafts, showed a considerable increase.

Changes in domestic credit extension*



Financial markets

Reserve Bank operations

Net sales of government stock in the market during the first quarter of 1984, which was a seasonally tight period in the money market, amounted to only R52 million. In order to facilitate government debt management, the Bank's net government stock sales during 1983 had amounted to as much as R2 000 million. Owing to the seasonal easing of the money market from April, government stock sales by the Bank were increased again. Net open-market sales, which were aimed also at slowing down the growth of the money supply, amounted to R265 million during April and May. In addition, the Bank sold tax anticipation bills to an amount of R750 million during these two months.

In order to assist the money market during the period of seasonal tightness, the Reserve Bank continued to buy securities under repurchase agreements from banking institutions during the first quarter of 1984. At the end of February, when there was a substantial flow of tax funds to the Government, the amount of repurchase agreements outstanding stood at R950 million. In accordance with the subsequent easing of market conditions, this amount declined to R746 million at the end of March and by the second week of May all agreements had expired. On 28 May repurchase agreements amounting to R300 million were arranged for a relatively short period of ten days.

Supplementing the purchase of securities under repurchase agreements, the Bank also bought bankers' acceptances outright in the market. At the end of March the Bank's holdings of such securities amounted to R90 million, but by the end of April all of these acceptances had reached maturity.

Further assistance to the market during the first quarter was provided by means of placing NFC funds at call with the discount houses. At the end of February the amount stood at R194 million, but at the end of March, when the NFC was formally liquidated, the Liquidator held only R12 million at call with the discount houses. Funds held at call with the discount houses by the newly established Corporation for Public Deposits (CPD) amounted to R359 million on 31 March, but these funds were withdrawn on 1 April.

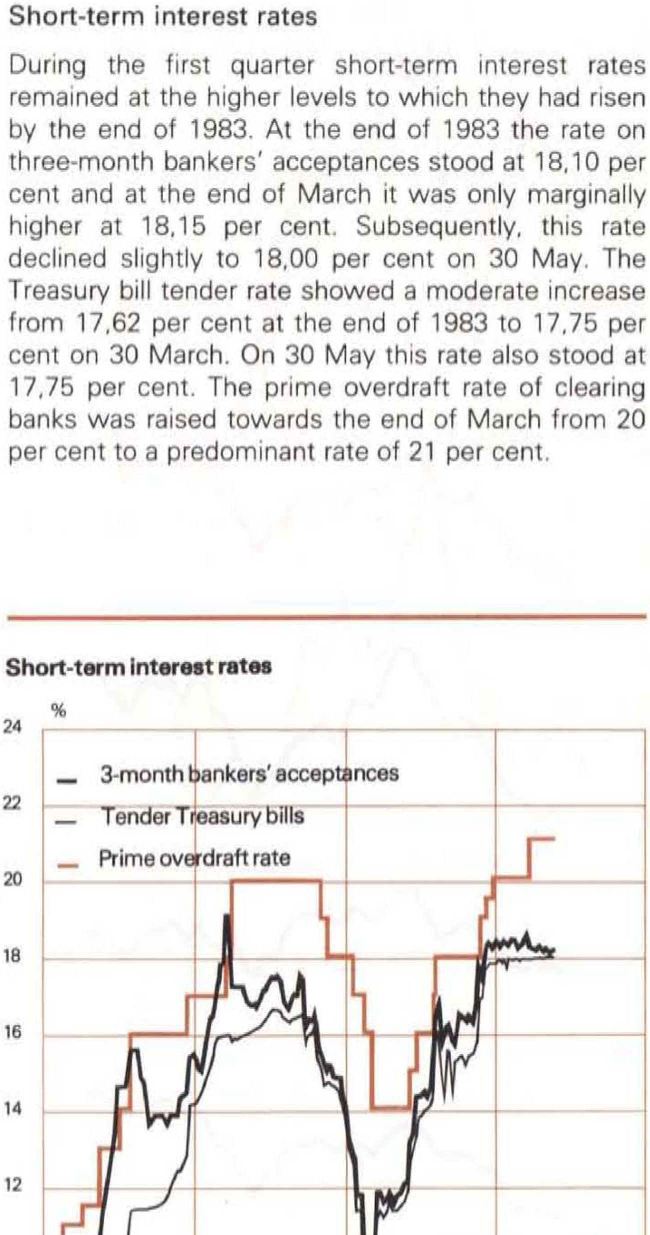
On 15 March the liquid asset requirements for banking institutions were reduced and the required cash reserve holdings with the NFC were abolished. The requirement in respect of short-term liabilities was lowered from 30 per cent to 25 per cent and that in respect of medium-term liabilities from 20 per cent to 18 per cent.

The influence of natural market forces, the Bank's operations and the reduction of the liquid asset requirements was reflected in changes in the amount of securities refinanced by the Bank for the discount houses. Refinancing in the form of rediscounts and overnight loans increased from R1 532 million at the end of 1983 to R1 658 million at the end of March and to R2 221 million at the end of April. Subsequently, the amount of refinancing declined to R2 009 million at the end of May.

Short-term interest rates

During the first quarter short-term interest rates remained at the higher levels to which they had risen by the end of 1983. At the end of 1983 the rate on three-month bankers' acceptances stood at 18,10 per cent and at the end of March it was only marginally higher at 18,15 per cent. Subsequently, this rate declined slightly to 18,00 per cent on 30 May. The Treasury bill tender rate showed a moderate increase from 17,62 per cent at the end of 1983 to 17,75 per cent on 30 March. On 30 May this rate also stood at 17,75 per cent. The prime overdraft rate of clearing banks was raised towards the end of March from 20 per cent to a predominant rate of 21 per cent.

Short-term interest rates



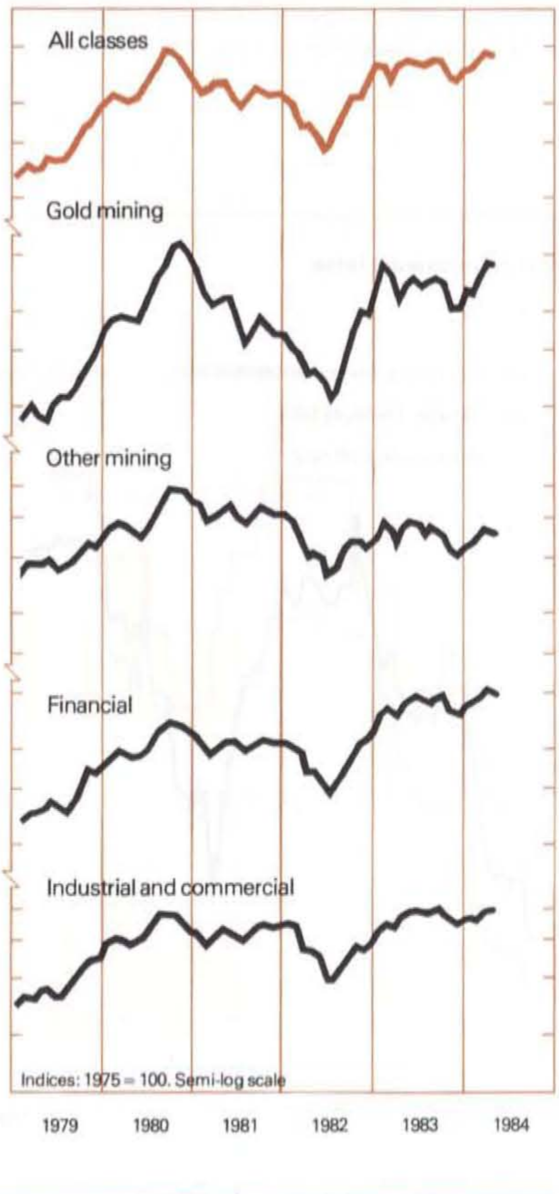
Capital market activity

In accordance with the higher rate of increase in the money supply, the slow-down of activity in the capital market from the second quarter of 1983 did not continue during the first quarter of 1984. In the fixed-interest security market the value of stock exchange transactions in public sector stock increased from R4 172 million in the fourth quarter of 1983 to R6 179 million in the first quarter of 1984. Likewise, in the share market the turnover in listed shares rose from R741 million in the fourth quarter to R1 045 million in the first quarter. The indications are, however, that in April turnover in both these markets reverted again to somewhat lower levels. In the real estate market the value of transactions increased from R2 790 million in the fourth quarter of 1983 to R3 047 million in the subsequent quarter.

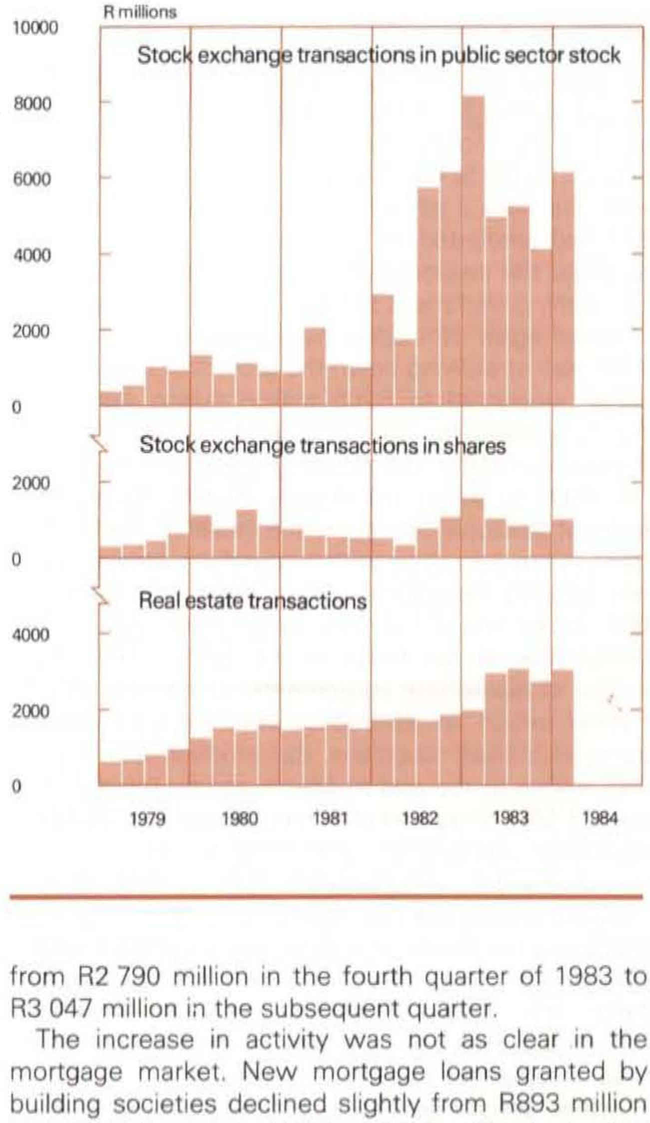
The increase in activity was not as clear in the mortgage market. New mortgage loans granted by building societies declined slightly from R893 million in the fourth quarter of 1983 to R882 million in the first quarter of 1984. New mortgage loans paid out, however, rose from R1 161 million in the fourth quarter to R1 256 million in the first quarter. The slightly lower amount of new loans granted in the first quarter was the direct result of a smaller intake of funds. Holdings of deposits and shares with building societies were affected by the general increase in liquidity preference as reflected in a shift from medium and long-term deposits to short-term deposits. In order to increase the amount of mortgage loans actually paid out in the face of a smaller intake of funds, the societies had to reduce their investments. At the same time, however, their loan commitments showed a corresponding decline.

Despite a smaller intake of longer-term funds by building societies, participation mortgage bond schemes and government savings schemes, the overall increase in holdings of such funds with deposit-receiving and related institutions was notably larger in the

Share prices



Security and real estate transactions



Changes in holdings of longer-term funds with non-contractual savings institutions
R millions

	1983					1984
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year	1st qtr.
Banking institutions	269	265	−493	−469	−428	−3
Building societies	1174	416	469	414	2473	538
Participation mortgage bond schemes	14	48	91	117	270	77
Government savings schemes	80	136	71	55	342	20
Total	1537	865	138	117	2657	632

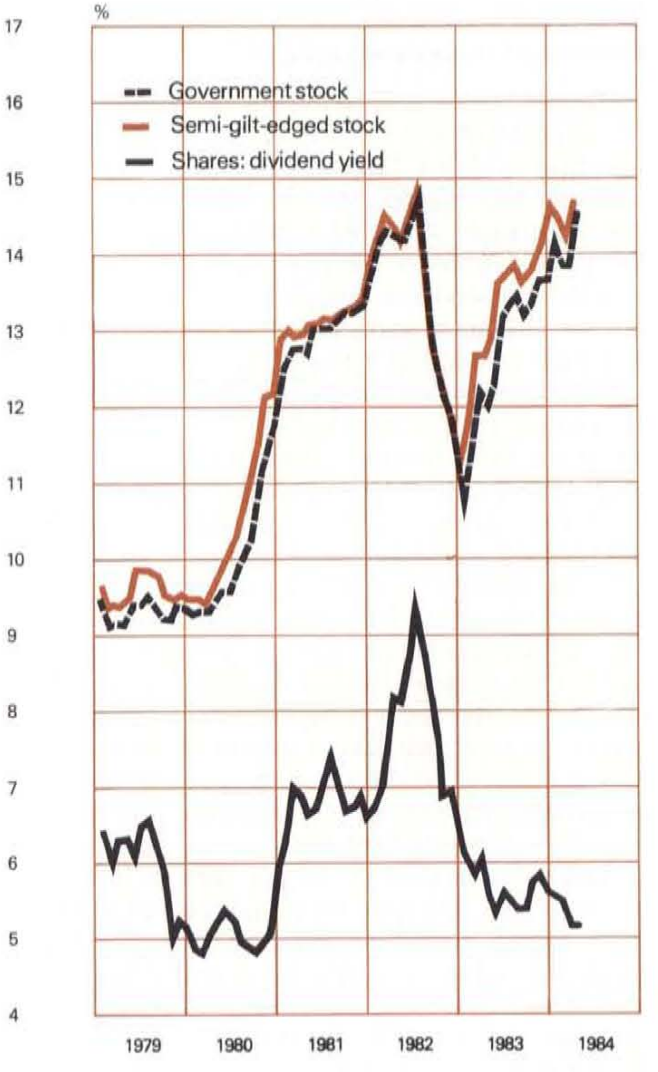
first quarter of 1984 than in the fourth quarter of 1983. The reason was that the sharp decline in holdings of medium and long-term deposits with banking institutions in the fourth quarter was followed by a substantially smaller decline in the first quarter. Of the different institutions competing for longer-term funds, the building societies were once again the most successful in attracting such funds.

Long-term interest rates

Like short-term interest rates, long-term rates remained fairly stable during the first quarter of 1984. The yield on long-term government stock rose only marginally from an average of 13,64 per cent in December 1983 to 13,78 per cent in March 1984. The long-term yield on semi-gilt-edged stock of the highest grade remained virtually unchanged, amounting to an average of 14,23 per cent in December and 14,20 per cent in March. Reflecting the increase of 12 per cent in share prices on the stock exchange from December 1983 to March 1984, the average dividend yield on all classes of shares declined from 5,6 per cent to 5,1 per cent. In April long-term yields increased to slightly higher levels. The average yield on government stock amounted to 14,46 per cent, that on semi-gilt-edged stock to 14,67 per cent and that on all listed shares to 5,1 per cent.

Deposit interest rates also showed little change during the first quarter of 1984. For example, the predominant rate on twelve-month deposits remained unchanged at 16,0 per cent during the first quarter, but was raised to 16,5 per cent in April. Likewise, the building societies' home mortgage rates for new loans remained unchanged at the levels to which they had been raised in December 1983, namely a range of 16,25 – 18,75 per cent. On 29 May some of the societies announced increases of 0,5 to 0,75 per cent in their mortgage rates, with effect from June on new loans and from 1 July on existing loans.

Long-term yields



Government finance

Exchequer* issues and receipts

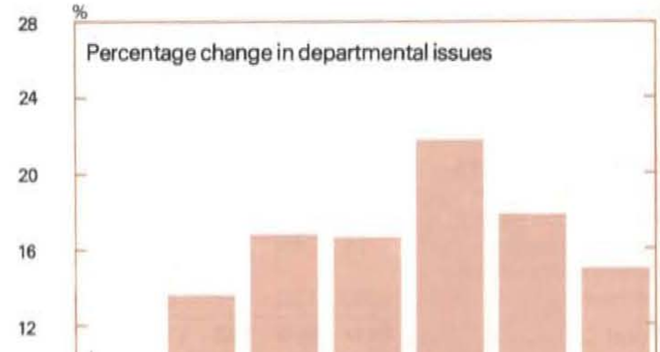
Exchequer issues to government departments were 17 per cent higher in the first quarter of 1984, i.e. the last quarter of the 1983/84 fiscal year, than in the corresponding quarter of 1983. This relatively high rate of increase, compared with the 14 per cent in the first three quarters of 1983/84, was largely due to the increased expenditure provided for in the Additional Budget. On the other hand, Exchequer receipts were only 7 per cent higher in the first quarter of 1984 than in the corresponding quarter of 1983, compared with an average rate of increase of 13 per cent in the preceding three quarters. Therefore, instead of the usual surplus in the first calendar year quarter (or last fiscal year quarter), a deficit of R255 million was recorded in the first quarter of 1984.

In the 1983/84 fiscal year as a whole, Exchequer issues increased by 15 per cent, a rate of increase that was considerably higher than the 10,3 per cent envisaged in the original 1983/84 Budget. The additional expenditure appropriated by Parliament towards the end of the fiscal year was in respect of, among other things, improved conditions of service for government employees, drought relief, subsidies and interest payments on government debt.

Revenue increased by 11 per cent in 1983/84, a slightly higher rate than the 9,6 per cent provided for in the original Budget. As shown in the accompanying table, this higher than expected rate of increase was almost entirely due to higher revenue receipts from gold mining companies and individual taxpayers. The former reflected a higher rand gold price than was

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

Exchequer Account



projected for the purpose of Budget estimates, while the latter showed the effect of a sharp rise in salaries and wages as well as "fiscal drag". Most other classes of revenue collections fell short of Budget estimates, in particular receipts of income tax from companies other than gold mines and customs and excise duties.

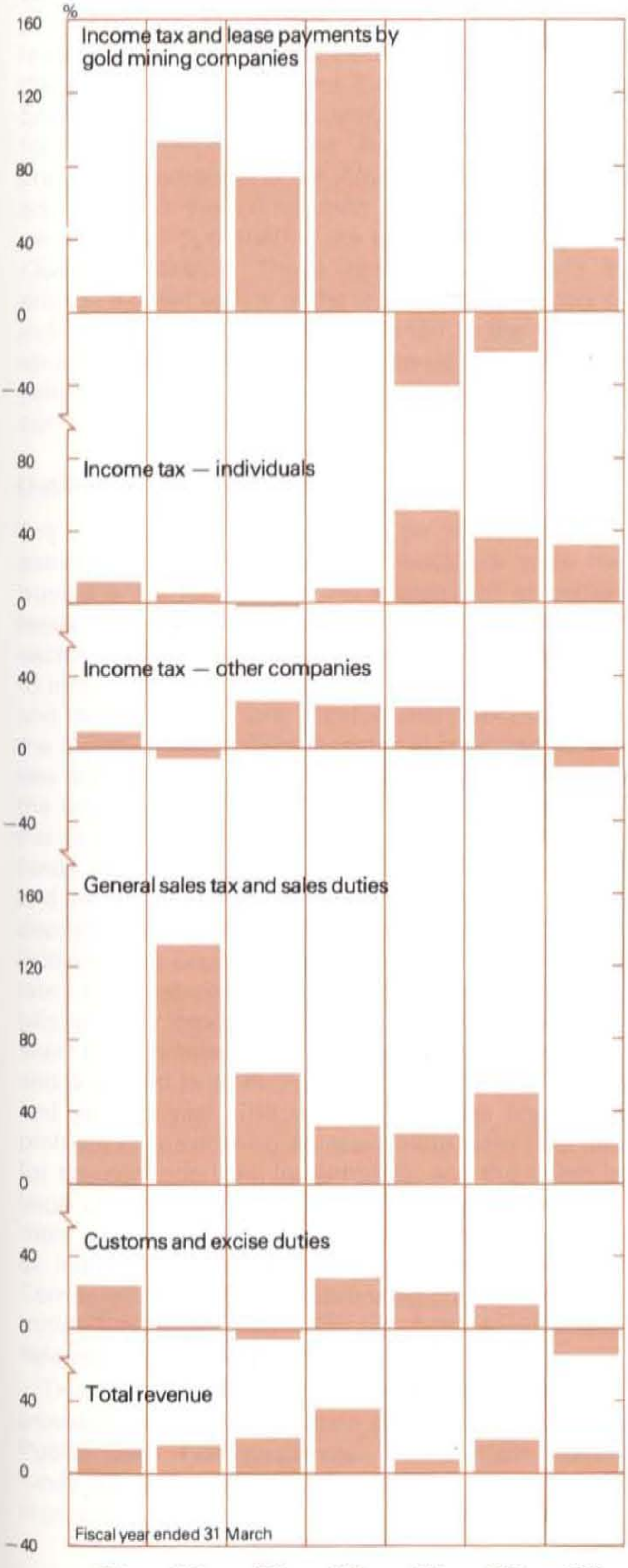
Financing of the 1983/84 revenue shortfall

Owing to higher expenditure, the revenue shortfall in 1983/84 amounted to R3 685 million, instead of the R2 082 million anticipated in the Budget. In financing the deficit, an amount of R1 673 million was borrowed from the non-bank private sector, either directly or

Government revenue in 1983/84

	Original Budget		Actual revenue	
	R millions	Percentage change	R millions	Percentage change
Income tax and lease payments by gold mines	1 810	6,5	2 222	35,0
Other income tax payments:				
Companies other than gold mines	4 313	9,7	3 423	–11,4
Individuals	5 301	22,0	5 681	32,1
Total	9 614	15,9	9 104	11,5
Indirect taxes:				
Customs and excise duties	2 057	–12,3	1 937	–14,9
General sales tax	3 955	20,2	3 874	21,7
Total	6 012	6,7	5 811	6,4
Other revenue	1 658	–7,4	1 885	–1,0
Total revenue	19 094	9,6	19 022	10,8

State Revenue Fund — percentage change in main revenue components



through Reserve Bank sales of government stock obtained on tap from the Treasury. The Public Debt Commissioners (Public Investment Commissioners as from 31 March 1984) contributed R2 536 million to the financing of the deficit by means of net investments in government securities, including the investment of the proceeds of the sale of the Government's share in Sasol. Net foreign borrowing amounted to R183 million in 1983/84. Successful borrowing from domestic non-bank and foreign sources enabled the Government to reduce its net indebtedness to the monetary banking sector by R707 million.

The 1984/85 Central Government Budget

The Minister of Finance presented the 1984/85 Central Government Budget to Parliament on 28 March 1984. In assessing the implications of the existing economic situation for monetary and fiscal policy in the fiscal year ahead, the Minister stated that South Africa had to face up to certain harsh realities which required that a temporary pause in the process of economic expansion be accepted. The dollar price of gold had declined further since the third quarter of 1983 and remained relatively low, the country was still faced with a serious drought, and non-gold exports remained sluggish. As had been the case in the preceding year, the Minister opted for a middle course policy which would avoid extremes. In terms of this option, the exchange rate would be permitted to decline moderately, while at the same time a conservative "mix" of fiscal and monetary policy, including high interest rates, would be applied with a view to curbing aggregate demand and total expenditure. The immediate objectives of such a policy would be to maintain a sound balance of payments and to reduce the rate of inflation as a prerequisite for achieving optimal and stable economic growth in the longer term.

To achieve this objective, it was deemed important to improve the "mix" of fiscal and monetary policy. In 1983/84 the deficit before borrowing had risen above the desirable level and although it had been financed without new money creation, there were limits to a financing policy of this kind. It might mean that the Government was financing current expenditure by borrowing, which ought to be avoided, or that increased government stock issues on the capital market were raising interest rates and "crowding out" other deserving borrowers in both the public and private sectors. To avoid an unduly large Budget deficit, it was necessary to reduce the increase in government spending and to make relatively moderate tax adjustments.

Accordingly, certain customs and excise duties were increased, the tax rate on companies other than gold and diamond mines was raised from the existing 46,2 per cent (including a surcharge of 10 per cent) to 50 per cent, and the surcharge on gold and diamond mines was increased from 15 to 20 per cent. In order to raise the effective rate of company taxation, certain incentive and investment allowances were reduced. It was also announced that a fringe benefit tax would be introduced from 1 September. In addition to raising taxes, the Minister proposed that R259 million of the proceeds of the sale of the Government's share in Sasol be used to supplement revenue.

Expenditure in 1984/85 was estimated at R24 945 million, representing an increase, on a comparable basis, of 11,7 per cent in relation to the anticipated expenditure in 1983/84. Revenue was estimated at R21 977 million, or 15,4 per cent more than the preliminary figure for 1983/84. This left a deficit of R2 968 million, which was estimated to amount to about 3 per cent of gross domestic product. Taking into account loan redemptions of R2 175 million, the total financing requirement was estimated at R5 143 million.

Subsequently, on 11 May, the Minister of Finance announced that, with effect from 1 July, the general sales tax on certain basic foodstuffs would be abolished and the rate on all other articles would be increased from 7 to 10 per cent. It was estimated that these measures would raise additional revenue of R800 million in 1984/85.