

Quarterly economic review

Summary and general assessment

In early 1983 the expectations were that the South African economy could look forward to an early export-led recovery from the recessionary conditions prevailing at the time. Not only had the gold price risen from less than US \$300 per fine ounce in June 1982 to more than \$500 in the first half of February 1983, but it also appeared that the United States and other industrial countries were firmly on their way towards economic recovery, which would in due course come to be reflected in higher South African exports. Moreover, by that time the previously existing deficit on the current account of the balance of payments had already been transformed into a surplus and this had been accompanied by a net inflow of capital and a rise in the net foreign reserves. Under the impact of this increase in reserves the rand had begun to appreciate and interest rates had declined. A climate conducive to economic expansion had thus been created, which was being strengthened further by the wealth effect of rising security and fixed property prices in booming financial and real estate markets.

Soon afterwards, however, the economy was influenced unfavourably by a number of extraneous developments. Firstly, the gold price declined abruptly by more than \$100 per fine ounce during the second half of February. Secondly, the drought worsened substantially and started to exert strong adverse effects on the balance of payments and the domestic economy. Finally, the recovery in the industrial countries proved to be much weaker than had been anticipated and did not benefit South African exports to any significant extent. The expected export-led recovery, therefore, did not materialise.

This new set of circumstances was recognised by the authorities and a restrictive policy stance was adopted at the time of the presentation of the 1983/84 Budget at the end of March. However, government expenditure subsequently increased at a higher rate than anticipated in the Budget because of drought relief and other unavoidable additional outlays. As a result, the Government's deficit before borrowing was larger than expected and, moreover, part of it was initially financed by bank credit. The latter contributed to an undesirable acceleration of the increase in the money supply during the second quarter of 1983 and prevented interest rates from rising as much as they would otherwise have done in response to the decline in the gold price and, more generally, in the net foreign reserves.

Although foreign demand for South African goods and services did not show a significant increase during most of 1983, the financial circumstances prevailing during the first half of the year proved conducive to an increase in domestic demand. In the third quarter real

gross domestic expenditure started to rise and this was accompanied by an increase in real gross domestic product. If the decline in agricultural output is excluded, real gross domestic product in fact began to increase in the second quarter. These real expenditure and output increases continued in the fourth quarter. The expansion of real economic activity was also reflected in higher employment levels from the second quarter.

These changes appeared to signal the beginning of a new economic upswing, based on an increase in domestic demand rather than on a recovery of exports. However, without a more distinct increase in exports and/or the gold price, a recovery of this nature could not easily be sustained. Developments during the fourth quarter indeed confirmed that such a recovery was not consistent with the objectives of maintaining balance of payments equilibrium and curbing the high rate of inflation. The increase in domestic demand found expression in an increase in imports, which contributed to a weakening of the current account of the balance of payments and a depreciation of the rand. At the same time, the slow-down of price increases in the fourth quarter did not continue at the same pace as in the preceding two quarters and the depreciation of the rand began to raise the prospect of a new acceleration of the rate of inflation.

Further setbacks in the economy in the fourth quarter also impaired the sustainability of the apparent upswing. In early October the gold price showed another sharp decline. In addition, there was increasing realisation that the Budget estimates for both government expenditure and the deficit before borrowing would be exceeded considerably in the 1983/84 fiscal year. From the third quarter, however, the deficit before borrowing was funded properly and, accordingly, did not contribute to an increase in the money supply. But the funding of the deficit and the fall in the gold price naturally had the effect of raising interest rates still further. More recently, from 1 February, the general sales tax was raised from 6 to 7 per cent as a means of reducing the deficit before borrowing in the Budget.

Taking everything into account, it appears that the economic downswing reached its bottom during the second quarter of 1983 and that the economy subsequently began to move into the early stages of a recovery phase. However, it is difficult to see how this recovery can gain momentum without a more distinct increase in exports and/or the gold price. The latest indications are that the prospects for a more sound export-led recovery have improved somewhat. From the fourth quarter of 1983 exports have been increasing quite distinctly, also in volume terms, and from February 1984 the gold price has moved to a higher level.

Real gross domestic expenditure, real gross domestic product and non-agricultural employment increased during the second half of 1983 from the low levels to which they had declined in the second quarter. In the year as a whole, however, real gross domestic expenditure still declined by about 4½ per cent, real gross domestic product by about 3 per cent and non-agricultural employment by an estimated 1½ per cent. Owing to an improvement in South Africa's terms of trade, comparing 1983 as a whole with 1982, real gross national product declined by only 1 per cent.

Although the current account of the balance of payments moved into deficit during the fourth quarter of 1983, it recorded a surplus of about R275 million in the year as a whole. A net capital outflow slightly in excess of this amount caused the net foreign reserves to decline by a small amount during 1983. The effective exchange rate of the rand increased during the first nine months of year, but declined sharply during the fourth quarter. On balance, the rand depreciated by 4.3 per cent in terms of other currencies during 1983.

During the first half of 1983 the broad money supply (M2) grew at a high rate, but the increase slowed down during the third quarter and turned into an actual decline during the fourth quarter. From the end of 1982 to the end of 1983 M2 increased by about 16.5 per cent. Reflecting the slow-down of the money supply growth in the second half of 1983, interest rates rose to appreciably higher levels. The commercial banks' prime overdraft rate, for example, increased from 14 per cent in early 1983 to 16 per cent during the second half of June and to 20 per cent in December.

The rate of inflation decelerated notably during the second and third quarters of 1983, but showed some acceleration in the fourth quarter. Measured over a twelve-month period, the increase in consumer prices, for example, slowed down from 13.9 per cent in December 1982 to 11.0 per cent in December 1983.

Domestic economic developments

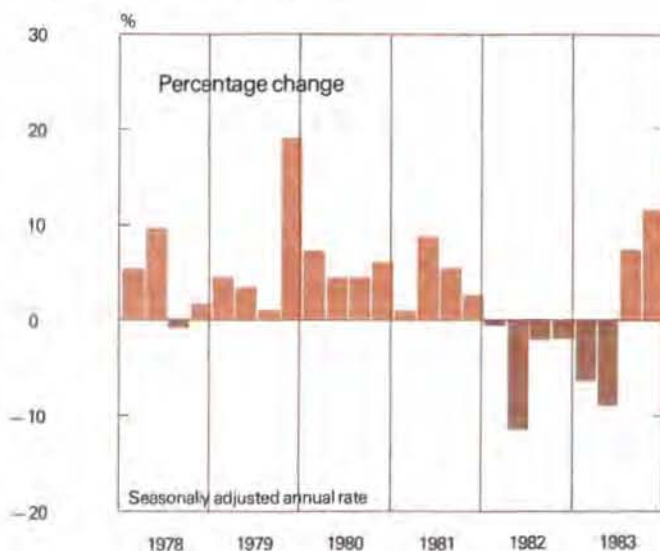
Gross domestic product

The increase in real gross domestic product in the third quarter of 1983, the first quarterly increase since the end of 1981, continued in the fourth quarter. In 1983 as a whole, however, real gross domestic product regressed by about 3 per cent, following upon a decline of about 1½ per cent in 1982. Owing to an improvement in South Africa's terms of trade, comparing 1983 with 1982, real gross national product declined by only 1 per cent in 1983, as against a decline of 3½ per cent in 1982.

Real output declines in 1983 were evident in such important sectors of the economy as agriculture; non-gold mining; manufacturing; electricity, gas and water; wholesale trade; and transport, storage and communication. In the construction sector, real output remained more or less static. The only growth sectors in 1983 were the retail and motor trade; finance, insurance, real estate and business services; general government services; and community, social and personal services.

If agricultural output is excluded, real gross domestic product already started to increase in the second quarter of 1983. This renewed increase in real output during the last three quarters of the year occurred in virtually all non-agricultural sectors of the economy.

Real gross domestic product



Gross domestic expenditure

As in the case of real output, real gross domestic expenditure reversed its downward trend in the third quarter of 1983 and continued to rise fairly strongly in the fourth quarter. All major expenditure components contributed to the latter increase. On balance, however, real gross domestic expenditure still declined by about 4½ per cent in 1983, after having decreased by about 5 per cent in 1982.

Real private consumption expenditure, which had shown an actual decline during the second half of 1982 and the first quarter of 1983, started to recover in the second quarter and the increase gained some momentum in the third and fourth quarters. This increase, however, occurred from a very low base and amounted to only about 1 per cent in 1983 as a whole. Important components of real private consumption expenditure, such as outlays on durable and semi-durable goods, still registered declines from 1982 to 1983, but expenditure on non-durable goods and services increased moderately.

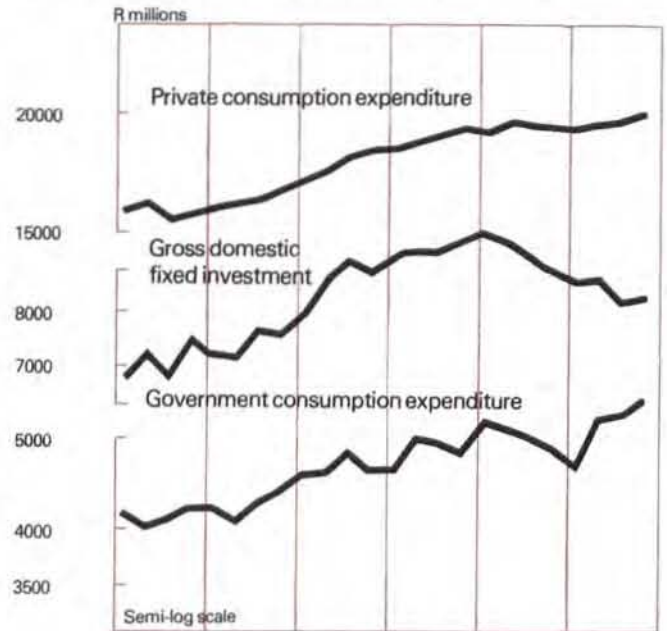
The further increase in real private consumption expenditure in the fourth quarter of 1983 was evident in all the main components. However, a decline in expenditure on new motor vehicles, after the introduction of new models had caused a sharp rise in the third quarter, resulted in a lower rate of increase in real expenditure on durable goods. The rise in expenditure on semi-durable goods also slowed down in the fourth quarter. In contrast, the increase in real outlays on non-durable goods and services gained further momentum.

Following upon a decline in the first quarter of 1983, real government consumption expenditure increased sharply in the second quarter and more moderately in the third and fourth quarters. On average an increase of about 2 per cent was recorded in 1983.

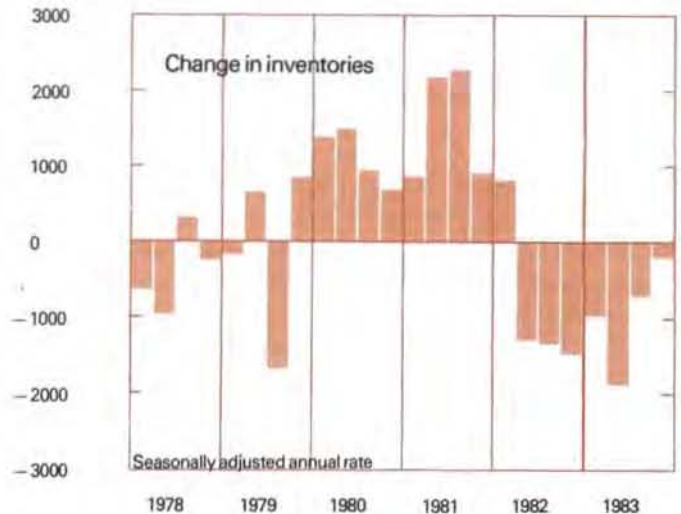
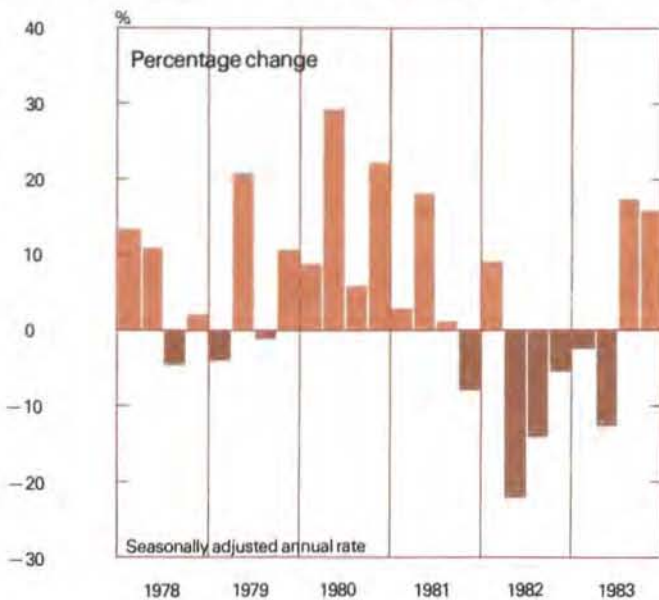
Real fixed investment declined by 8½ per cent in 1983 and made an important contribution to the decrease in overall real gross domestic expenditure in this period. Fixed capital outlays by the private sector and by public authorities both declined by about 11 per cent. On the other hand, the public corporations' real fixed investment increased by about 2½ per cent.

Referring to quarterly changes, real fixed investment by public authorities in the fourth quarter of 1983

Components of real gross domestic expenditure



Gross domestic expenditure at constant 1975 prices



declined to its lowest level in almost nine years. This decline was evident in the fixed investment outlays of all the different levels of authorities. Real capital expenditure by public corporations, which often shows wide quarterly fluctuations, increased moderately in the fourth quarter, mainly owing to a rise in Escom's fixed investment.

Real private fixed investment started to increase from a low level in the third quarter and maintained a small increase in the fourth quarter. Higher investment outlays were made by all sections of the private sector, except manufacturing. The further decline in real fixed investment in manufacturing was related to the existence of a fairly high level of unused production capacity. Capacity utilisation reached a low of 84 per cent in the second quarter of 1983, but by the fourth quarter had recovered to a level of about 86 per cent. This change was accompanied by a somewhat smaller decline in the real fixed capital outlays of private manufacturing in the fourth quarter.

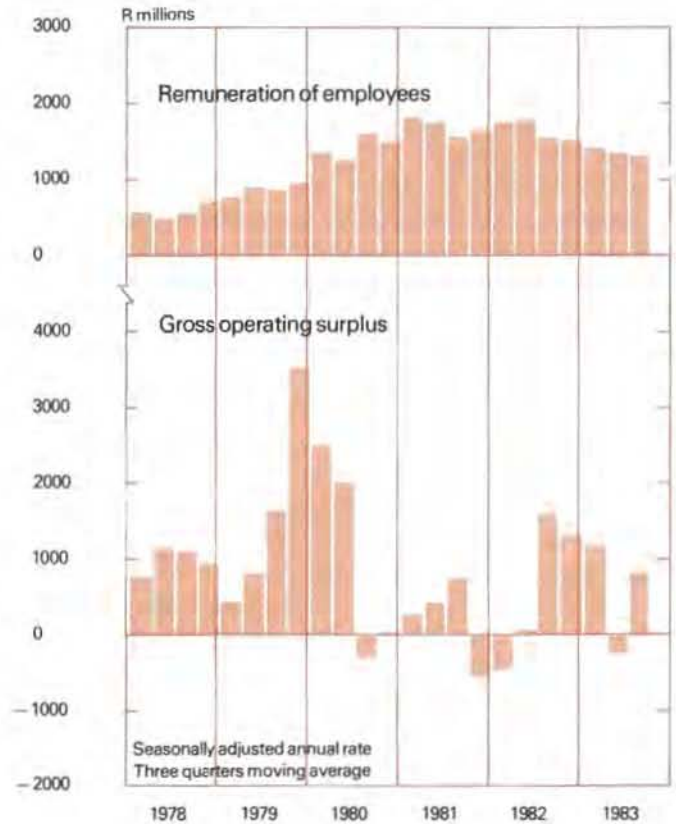
Real inventories were depleted by a larger amount in 1983 than in 1982 and, therefore, made a contribution to the overall decline in aggregate domestic demand in 1983. On a quarterly basis, the inventory liquidation became progressively smaller in the third and fourth quarters. This, in turn, added to the increase in domestic expenditure in the second half of 1983. The relatively small decrease in the fourth quarter reflected mainly the behaviour of industrial and commercial inventories. Indicating that the downward phase of the inventory cycle was still in progress, the ratio of industrial and commercial inventories to the gross domestic product of the non-agricultural sectors continued to decline. In the fourth quarter it amounted to 24 per cent, compared with the most recent peak of 29 per cent in the first quarter of 1982.

Factor income and saving

Nominal gross domestic product in 1983 rose at about the same rate as in 1982, namely by about 12 per cent. Its factor components, however, showed divergent changes. Remuneration of employees, which had increased by 23 and 19 per cent during 1981 and 1982, respectively, grew by a further 14 per cent in 1983. This slower increase was representative of all sectors of the economy. The rate of increase in gross operating surplus, however, accelerated from 2½ per cent in both 1981 and 1982 to 10½ per cent in 1983. Increased profits of mining, manufacturing, commerce, and finance, insurance, real estate and business services were only partly neutralised by lower agricultural profits and a decline in the gross operating surplus of transport, storage and communication services.

Gross domestic saving increased continuously during the past seven quarters and, on average, amounted to 24½ per cent of gross domestic product

Change in nominal gross domestic product



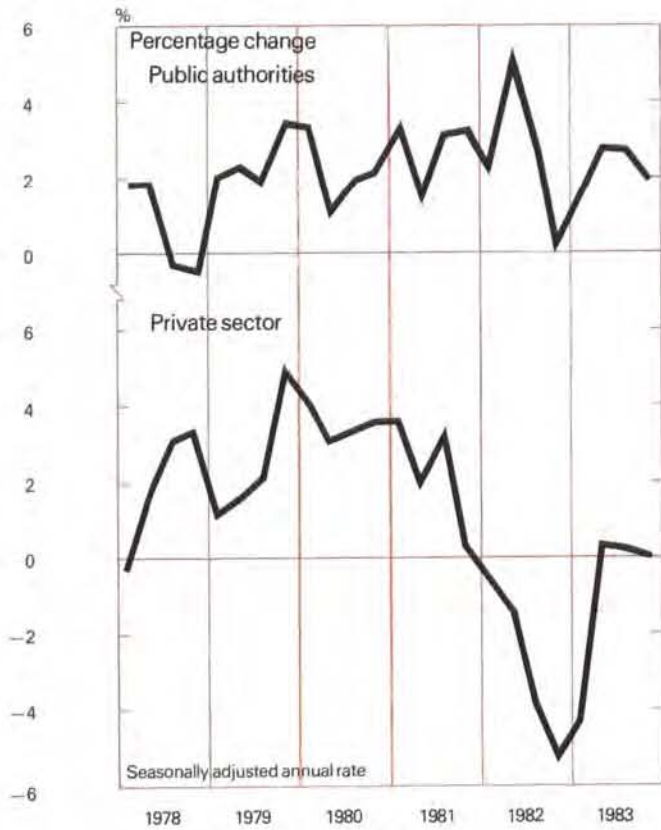
in 1983. The largest contribution came from corporate saving, reflecting somewhat higher profits but lower income tax and dividend payments. The annual saving of general government turned negative for the first time in the post-war period, which meant that current income was insufficient to finance current expenditure. Personal saving declined slightly further, and the ratio to personal disposable income fell from 3½ per cent in 1982 to 3 per cent in 1983.

Employment, productivity and labour costs*

Employment, which had shown a cyclical decline from the third quarter of 1982, increased slightly in both the second and third quarters of 1983. Preliminary indications are that this upward trend continued in the fourth quarter. This turnaround was part of a general increase in real non-agricultural economic activity. In the second as well as the third quarter employment rose at a seasonally adjusted annual rate of about 1 per cent. In the first three quarters of 1983, however,

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

Employment in non-agricultural sectors



employment was still 1,6 per cent lower than in the corresponding period of 1982. A breakdown of employment figures shows that the public authorities' employment continued to rise throughout 1983. At the same time, employment by the private sector stabilised at the lower level of the first quarter of 1983 to which it had declined during the preceding five quarters.

The moderate improvement in employment was reflected in a decline in unemployment. Seasonally adjusted, the number of registered unemployed Whites, Coloureds and Asians declined from the recent peak of 40 012 in June 1983 to 30 743 in October, before rising again slightly to 31 327 in December. Black unemployment as a ratio of the economically active Black population, likewise declined from 8,5 per cent in June 1983 to 8,0 per cent in November.

In nominal terms, the rate of increase in salaries and wages per worker slowed down from 18,6 per cent in 1982 to 13,5 per cent in the first three quarters of 1983. In real terms, the corresponding slow-down was from 3,5 per cent to 0,7 per cent.

Labour productivity, as measured by real gross domestic product per worker, declined by 0,9 per cent in 1982 and by a further 1,1 per cent in the first

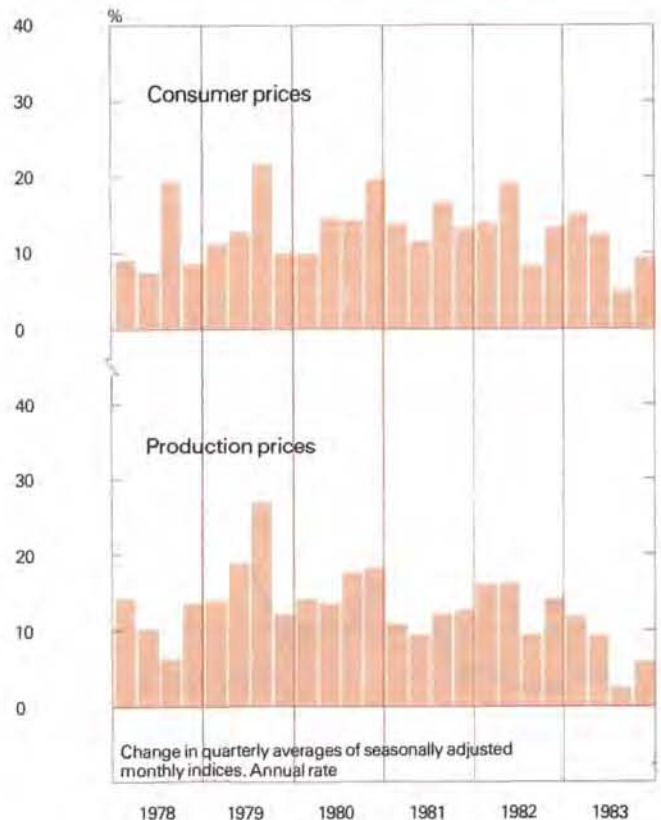
three quarters of 1983. Reflecting the lower rate of increase in remuneration per worker, the increase in unit labour costs decelerated from 19,9 per cent in 1982 to 14,7 per cent in the first three quarters of 1983.

Prices

The rate of price increases slowed down significantly in the course of 1983. This was partly due to a further slackening of domestic demand, reflecting also a slow-down of the growth in the money supply during most of the year, which reduced the upward pressure on labour costs and prices. In addition, the appreciation of the rand and the lower inflation rates in trading-partner countries lowered the rate of increase in import prices.

At a seasonally adjusted annual rate, the increase in consumer prices decelerated from 15,5 per cent in the first quarter to 5,4 per cent in the third quarter, but accelerated again to 9,7 per cent in the fourth quarter. Measured over a twelve-month period, the increase in consumer prices slowed down from 13,9 per cent in December 1982 to 11,0 per cent in December 1983 and to 10,3 per cent in January 1984.

Percentage change in prices



In terms of quarterly changes, the increase in production prices slowed down from a seasonally adjusted annual rate of 12,2 per cent in the first quarter of 1983 to only 2,9 per cent in the third quarter, but accelerated subsequently to 6,4 per cent in the fourth quarter. Changes over a twelve-month period showed a deceleration of the increase in production prices from 14,1 per cent in December 1982 to 7,9 per cent in December 1983. Measured in the same way, the increase in the prices of imported goods slowed down from 17,8 per cent in December 1982 to 3,9 per cent in December 1983.

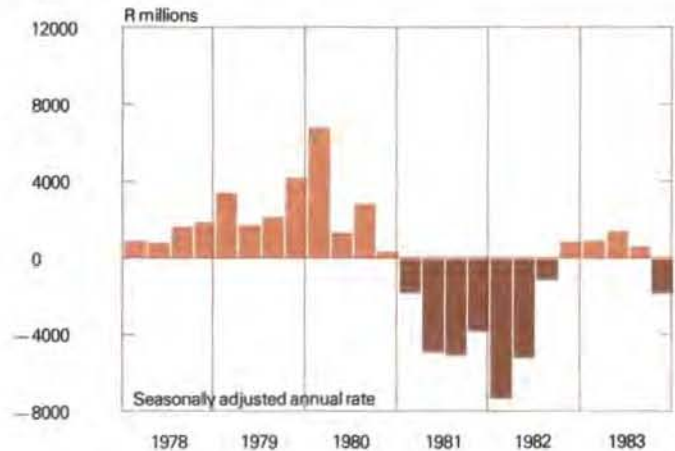
Balance of payments

Current account

The current account of the balance of payments showed a deficit in the fourth quarter of 1983, after it had been in surplus in each of the preceding four quarters. At a seasonally adjusted annual rate, the deficit amounted to about R1 930 million, compared with a quarterly average surplus of R1 010 million in the first three quarters of 1983. This change in the current account balance, despite a considerable increase in exports, was due to marked increases in imports and net service payments to foreigners, and a fall in the net gold output.

Of these, the sharp rise in imports stood out as the major cause of the weakening of the current account in the fourth quarter. Although increases were evident in most import categories, exceptionally large rises were confined to one or two categories, which suggests that these were more in the nature of large random fluctuations than abrupt changes of trend. Moreover, these fluctuations in rand values were

Balance on current account



Current account of the balance of payments

(Seasonally adjusted annual rates)

R millions

	1982		1983			
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Merchandise exports	10 142	9 964	10 244	9 574	11 550	10 333
Net gold output	8 627	10 802	9 879	10 020	9 015	9 929
Merchandise imports	-18 004	-15 664	-14 579	-15 369	-18 260	-15 968
Net service and transfer payments	-3 975	-4 182	-4 066	-3 592	-4 236	-4 019
Balance on current account	-3 210	920	1 478	633	-1 931	275

accentuated by a fairly sharp depreciation of the rand during the fourth quarter. Therefore, the current account of the balance of payments may well revert back to a surplus in early 1984, especially if exports were to benefit more from the economic recovery in the industrial countries. For 1983 as a whole the current account surplus amounted to R275 million, compared with a revised deficit of R3 210 million in 1982.

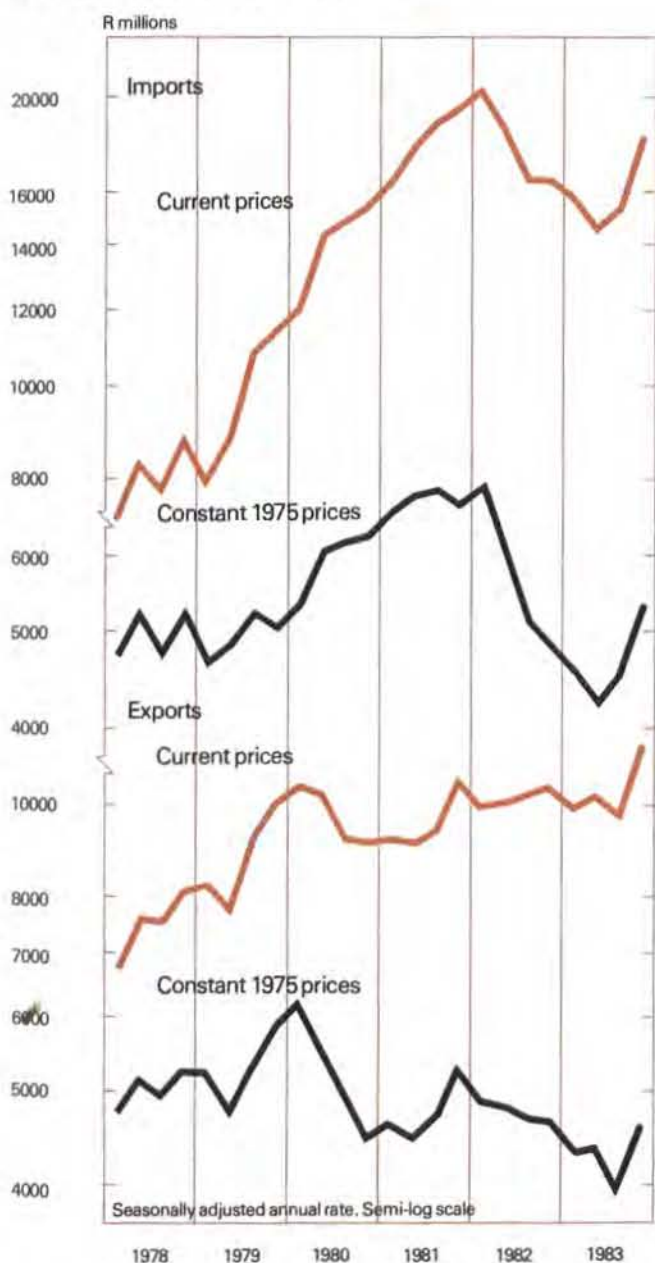
The value of merchandise exports increased notably in the fourth quarter, partly because of the effect of a depreciation of the rand on export prices and a rise in

international commodity prices. In addition, volume increases were also recorded in some of the main export categories. For example, both the value and volume of mining exports showed a significant increase, in particular exports of uranium, coal, platinum and diamonds. Part of this increase was, however, offset by a decline in agricultural exports as a result of the drought. In 1983 the value of merchandise exports increased by just less than 2 per cent, but the export volume declined by about 9 per cent.

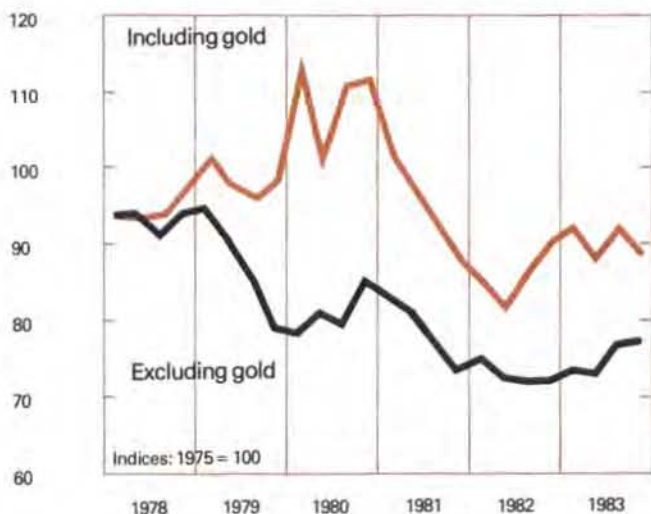
The net gold output decreased substantially from the third quarter to the fourth quarter of 1983, owing mainly to a decline in the gold price. On the London market the average price per fine ounce declined from US \$417 in the third quarter to US \$388 in the fourth quarter. Because of a sharp depreciation of the rand in terms of the US dollar, the corresponding decline in the rand price of gold was notably smaller, namely from R462 to R456 per fine ounce. In the first two months of 1984 the gold price declined to an average of US \$378, but increased in rand terms to R470 per fine ounce. In 1983 as a whole, the gold price averaged US \$424, or R472, per fine ounce, compared with US \$367, or R409, in 1982. Reflecting this increase in price, the value of the net gold output rose by 15 per cent to R9 929 million in 1983.

Merchandise imports showed an unusually sharp rise in the fourth quarter of 1983. Although increases were recorded in most of the major import categories, sharp rises of an apparent random rather than seasonal nature occurred in the categories mineral products and agricultural products. Of the other categories, machinery and electrical equipment also showed an appreciable increase. Despite the substan-

Merchandise imports and exports



Terms of trade



tially higher figure in the fourth quarter, imports declined by about 11½ per cent in 1983. In volume terms, a much larger decline of about 18 per cent was recorded.

After net service and transfer payments to foreigners had declined in the second and third quarters of 1983, they increased substantially in the fourth quarter, partly reflecting the depreciation of the rand. This rise was mainly due to an increase in freight and merchandise insurance payments on the higher merchandise imports, but some of the other service categories, such as payments on foreign investment, also recorded substantial increases. In 1983 as a whole, net service and transfer payments remained approximately at the level of the preceding year.

Capital account and foreign reserves

The deficit on the current account of the balance of payments in the fourth quarter of 1983 was accompanied by a net inflow of capital not related to reserves, amounting to R913 million. As shown in the accompanying table, this net inflow followed upon a substantial net outflow during the first half of 1983 and only a small net inflow in the third quarter. This substantial improvement was due to a continued large net inflow of short-term capital, including unrecorded transactions, and a swing in long-term capital movements from a substantial net outflow in the third quarter to a net inflow in the fourth quarter. In 1983 as a whole, there was still a net outflow of capital not related to reserves of R301 million.

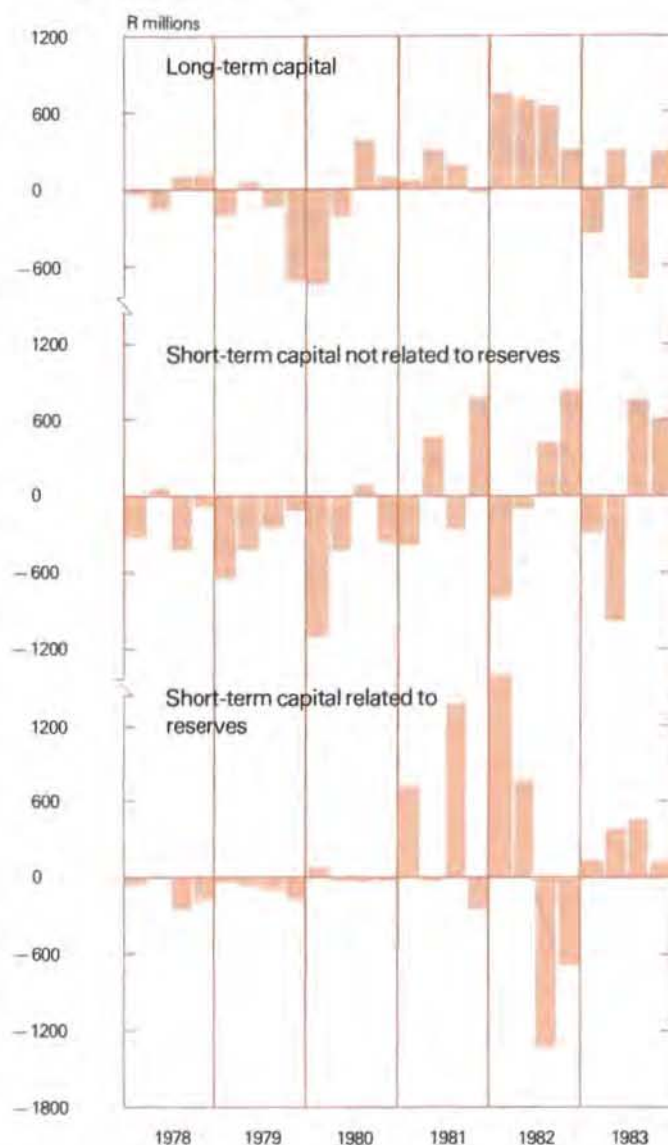
The net inflow of short-term capital not related to reserves during the fourth quarter was largely related to the tighter domestic money market situation. Various

Capital movements not related to reserves

R millions

	1983				Year
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	
Long-term capital					
Central government and banking sector	-130	416	57	-27	316
Public corporations and local authorities	181	25	142	456	804
Net sales by foreigners of securities quoted on the Johannesburg Stock Exchange	-477	-257	-284	-40	-1 058
Other private sector	74	133	-612	-95	-500
Total long-term	-352	317	-697	294	-438
Short-term capital not related to reserves but including unrecorded transactions.	-287	-982	787	619	137
Total capital movements not related to reserves	-639	-665	90	913	-301

Net capital movements



factors contributed to the inflow of long-term capital. Firstly, a further substantial increase was recorded in the foreign borrowing of public corporations for the financing of investment projects. Secondly, net sales by foreigners of securities quoted on the Johannesburg Stock Exchange declined considerably, largely owing to increased security purchases by non-residents. Finally, the large net outflow of other long-term capital of the private sector during the third quarter, which was related to purchases of foreign interest in South African enterprises, declined to only a moderate figure in the fourth quarter.

The net result of the current account deficit and the net capital inflow in the fourth quarter was a slight decline of R64 million in total net foreign reserves during the fourth quarter. Reserve-related liabilities

increased by R119 million during this period. Turning to the year 1983, net foreign reserves showed only a small decline of R26 million.

Exchange rates

The effective exchange rate of the rand increased by 3,7 per cent during the first nine months of 1983, but declined sharply by 7,7 per cent during the fourth quarter. During 1983 as a whole the rand therefore depreciated on average by 4,3 per cent in terms of the other currencies, following upon a depreciation of 13,3 per cent during 1981 and 3,3 per cent during 1982.

The decline in the effective exchange rate of the rand continued during January 1984. The persistent strength of the US dollar against other currencies and a concomitant decline in the gold price to a level of about US \$370 per fine ounce mainly contributed to the weakening of the rand during the four months to January 1984. During February, when the gold price moved to a higher level, mainly in response to a weakening of the dollar, the rand appreciated on average by 2,2 per cent against all other currencies. On balance, therefore, the effective exchange rate remained approximately unchanged during the first two months of 1984.

As shown in the accompanying table, the rand appreciated in terms of most of the main currencies, with the exception of the US dollar and the Japanese yen, during the first nine months of 1983. Subsequently, however, it depreciated sharply against all major currencies during the fourth quarter and January 1984. During February the rand continued to depreciate against most Western European currencies, but appreciated in terms of the US dollar and the Japanese yen.

Changes in the exchange rate of the rand

%

	Dec 1982 to Sept 1983	Sept 1983 to Dec 1983	Dec 1982 to Dec 1983	Dec 1983 to Feb 1984
Effective exchange rate	3,7	-7,7	-4,3	-0,1
US dollar	-2,6	-9,3	-11,6	1,1
British pound	5,8	-6,8	-1,5	-1,4
German mark	8,0	-6,6	0,9	-3,1
Swiss franc	3,8	-7,2	-3,7	0,7
Japanese yen	-2,1	-10,9	-12,8	1,7
French franc	16,1	-5,9	9,2	-2,4

Effective exchange rate of the rand



Money and credit

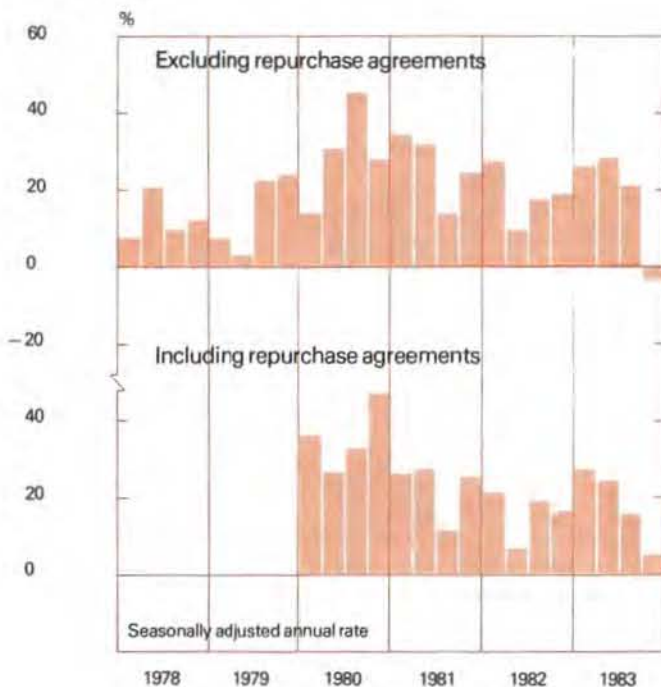
Money supply changes

Despite the volatility of month-end money supply figures, which often obscures the true underlying tendencies, the latest information indicates a distinct slow-down of the money supply growth. At a seasonally adjusted annual rate, the growth of the broad money supply (M2) slowed down from 27 per cent during the first half of 1983 to 20 per cent during the third quarter and actually turned negative to the extent of 4 per cent during the fourth quarter. Short and medium-dated repurchase agreements of monetary banks with the non-bank private sector increased sharply by R611 million during the fourth quarter, indicating a disintermediation of credit transactions. But even if these agreements are included in M2, the seasonally adjusted annual rate of increase during the fourth quarter came to only 4 per cent. Naturally, the slower money supply growth found expression in a fairly sharp rise in interest rates, as will be indicated later in this review. During 1983 as a whole M2 increased by 16,5 per cent, by comparison with 17,4 per cent in 1982.

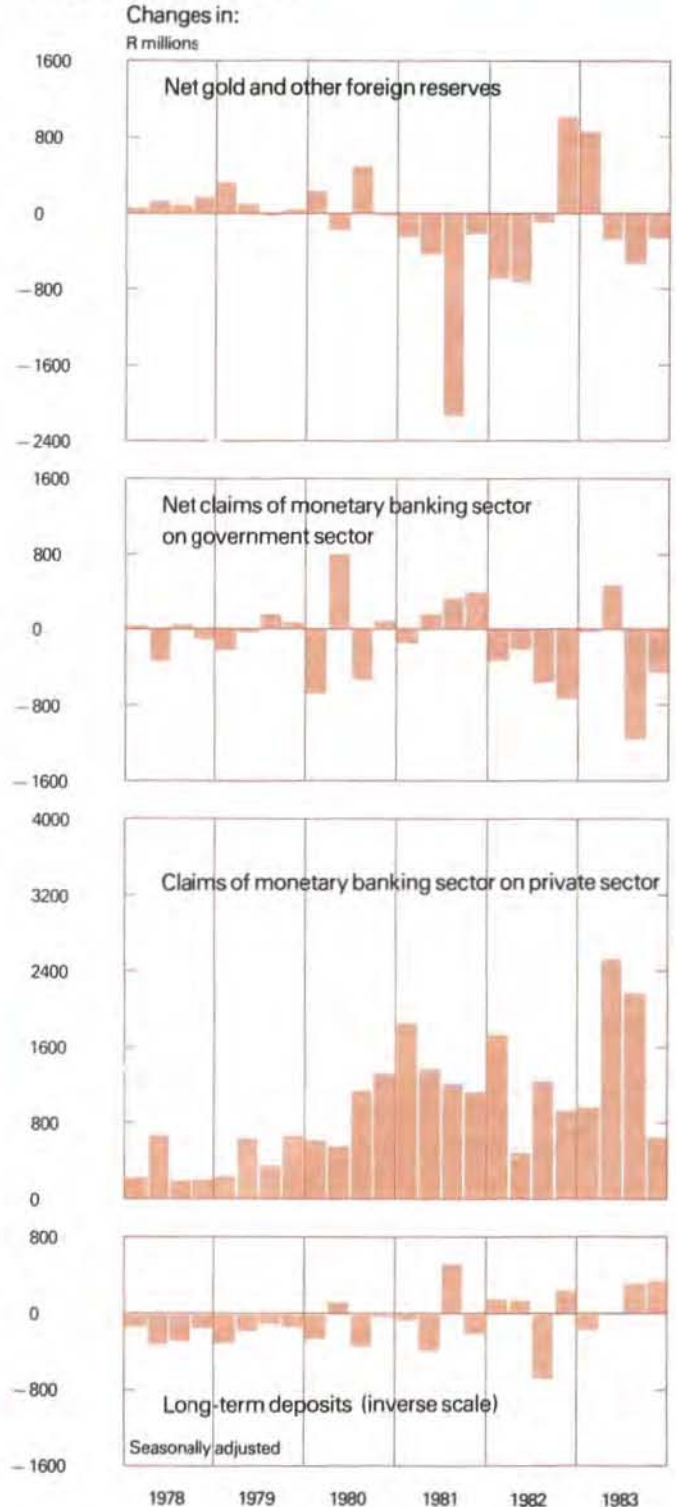
Viewed ex post, the decline in M2, seasonally adjusted, during the fourth quarter reflected appreciable declines in net foreign reserves and in net bank credit to the government sector. Bank credit extended

to the private sector continued to rise, but considerably slower than in the first nine months of 1983. A decline in the non-bank private sector's long-term deposits with monetary banking institutions also

Changes in M2



Causes of changes in M2



exerted an expansionary influence on M2 during the fourth quarter. This decline was related to expected further increases in long-term rates.

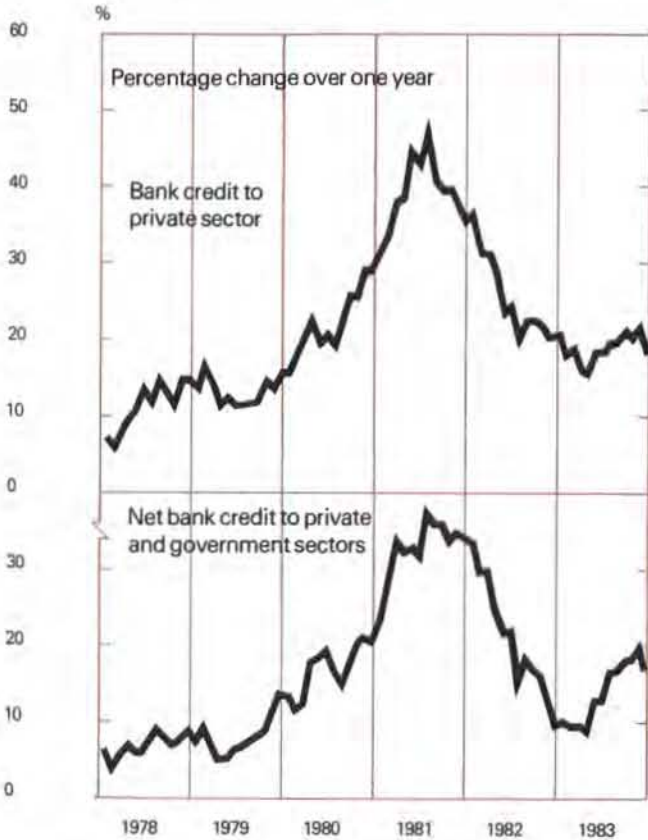
Bank credit to the private sector

Bank credit to the private sector, which had been the dominating statistical "cause" of the substantial growth in the money supply during the first three quarters of 1983, rose at a considerably lower rate in the fourth quarter of the year. During the first three quarters of 1983 the seasonally adjusted annual rate of increase in bank credit to the private sector amounted to 27 per cent, but it decelerated to only 9 per cent during the last quarter. During 1983 this growth rate amounted to 19 per cent, compared with 20 per cent in 1982.

An analysis of bank credit extended to the private sector shows that both hire-purchase credit (including instalment credit to companies) and leasing finance continued to increase rapidly during the fourth quarter. At the same time, there was a substantial slow-down of the rate of increase in "other" loans and advances. The decline in bills discounted by commercial, mer-

chant and monetary general banks was mainly due to a switch from this type of credit to bank overdrafts as a result of the narrowing of the margin between the cost of acceptance financing and overdraft rates. The resulting increase in "other" loans and advances, mainly bank overdrafts, was nevertheless countered by some measure of disintermediation, as reflected in an increase of R787 million in the monetary banking institutions' repurchase agreements with the non-bank private sector in respect of securities representing claims on the private sector. The increase of 2 per cent from 1 December 1983 in the lending rate ceilings, imposed in terms of the Limitation and Disclosure of Finance Charges Act, also induced some switching from bank overdrafts to financing in the inter-company market.

Domestic credit extension



Financial markets

Reserve Bank operations in the financial markets

In order to assist in government debt management, the Reserve Bank continued to sell government stock in the financial markets during the fourth quarter of 1983 and January 1984. Net sales amounted to R431 million during the fourth quarter and to R50 million during January. Most of the stock sold in this way was obtained on tap from the Treasury. During 1983 as a whole the Reserve Bank's net sales of government stock in the market amounted to about R2 000 million.

Other operations of the Bank in the open market consisted of, firstly, the renewal of some of the outstanding repurchase agreements, in terms of which securities had previously been bought from banking institutions. Despite these renewals, the outstanding amount of the repurchase agreements declined from R1 200 million at the end of September to R750 million at the end of 1983, but subsequently increased again to R1 000 million on 31 January. On 29 February the outstanding amount was slightly lower at R950 million. Secondly, the Bank continued its outright purchases of liquid bankers' acceptances. The outstanding amount of these securities held by the Bank increased from R114 million at the end of September to R147 million on 28 October, but declined subsequently to R53 million at the end of December and amounted to R93 million at the end of February.

In addition to these operations, NFC funds were again placed at call with the discount houses towards the end of October. These call loans amounted to R147 million at the end of October, R156 million at the end of December and R194 million on 29 February. As a means of ironing out short-term money market fluctuations, the amount of Treasury bills offered at the weekly tender was raised temporarily from about the middle of November to the middle of December.

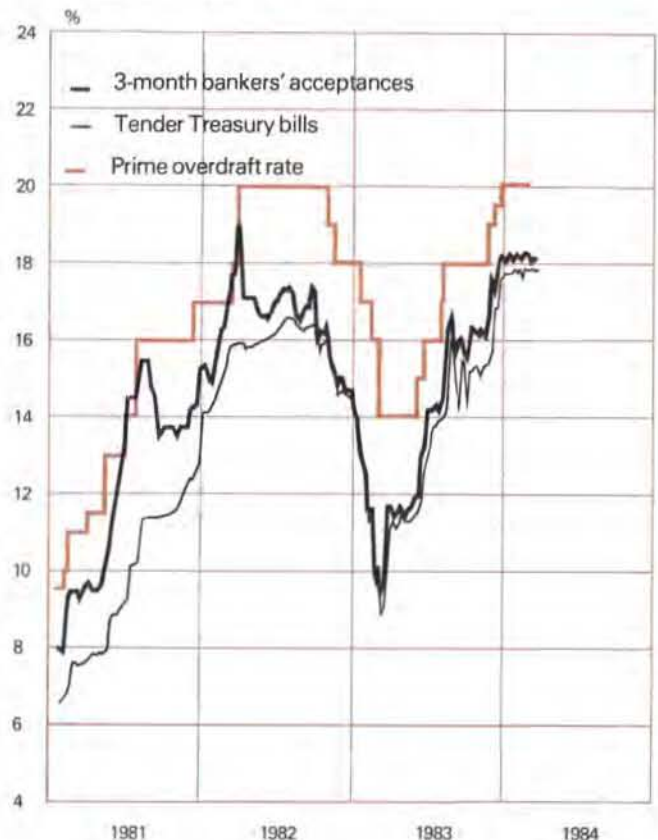
The Reserve Bank's debt management and open-market operations naturally also influenced the Bank's refinancing of securities for the discount houses. Refinancing in the form of rediscounts and overnight loans rose to a distinctly higher level in the middle of December, amounting to R1 302 million on 15 December, compared with R705 million at the end of November and R753 million at the end of October. Subsequently, the amount of refinancing remained at the higher level and stood at R1 532 million at the end of December, R1 208 million on 31 January and R1 498 million on 29 February. Accompanying the increase in refinancing by the Bank, the practice of linking rediscount rates to related money market rates was discontinued from 12 December. Since then, the Bank at its discretion has fixed a set of rediscount rates for the

various types of securities refinanced for discount houses and banking institutions.

Short-term interest rates

After short-term interest rates had eased somewhat during the latter part of August and during September, they resumed an upward course from the beginning of October. For example, the rate on three-month bankers' acceptances rose from 15,50 per cent at the end of September to 18,10 per cent on 30 December, compared with 14,25 per cent at the end of 1982. Subsequently, it peaked at 19,00 per cent on 10 January but then declined marginally to 18,15 per cent on 9 March. The Treasury bill tender rate similarly increased from 15,07 per cent at the end of September to 17,62 per cent on 30 December. At the end of 1982 this rate stood at 14,10 per cent. During January and February 1984 it more or less remained at the 1983 year-end level, amounting to 17,73 per cent on 27 January and 17,74 per cent on 9 March. The prime overdraft rate of the commercial banks was increased in three steps from 18 per cent at the beginning of the fourth quarter to 20 per cent by the end of the year, reaching again its previous peak recorded in 1982.

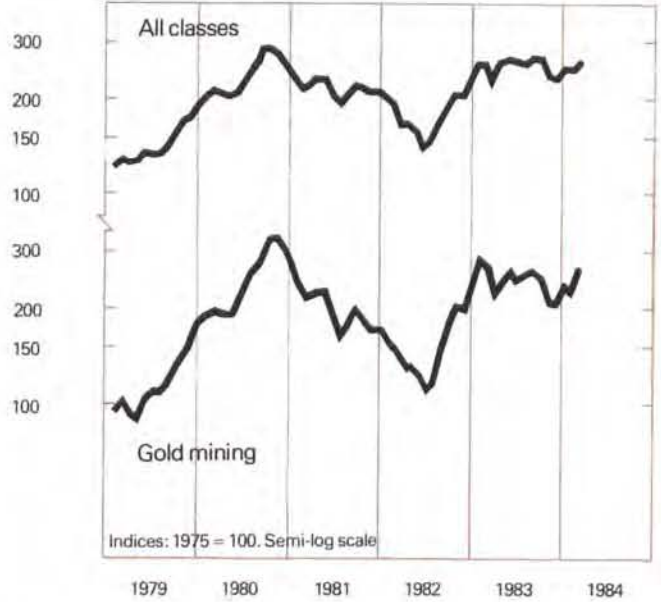
Short-term interest rates



Capital market activity

Activity in the capital market continued to shrink in the fourth quarter after the market had begun to lose its buoyancy in the second quarter of 1983. Turnover levels in 1983 were, however, still considerably higher than in 1982. Secondary market turnover in fixed-interest public-sector securities decreased from R8 198 million in the first quarter of 1983 to R5 274 million in the third quarter and R4 172 million in the fourth quarter. In 1983 as a whole this turnover amounted to R22 624 million, compared with R16 640 million in 1982. Turnover in the share market fell from R1 556 million in the first quarter to R868 million and R741 million in the third and fourth quarters, respectively. Total share turnover of R4 194 million in 1983 was nevertheless substantially higher than the R2 795 million in 1982. Share prices, which had risen on average by 12 per cent from December 1982 to February 1983, increased subsequently by only 4 per cent to September, before declining by 6 per cent to December. Subsequently, during the first two months of 1984, share prices rose again by 5 per cent. Most of this increase occurred during February and coincided with an upward movement of the gold price.

Share prices



Security and real estate transactions



In the mortgage market, the seasonally adjusted amount of new mortgage loans granted by building societies decreased from R1 548 million in the first quarter to R1 134 million in the third quarter and R893 million in the fourth quarter. In total, new loans of R4 978 million were granted in 1983, as against R2 271 million in 1982. Even in the buoyant real estate market, the seasonally adjusted value of real estate transactions, which had risen to a record R3 048 million in the third quarter, declined to R2 717 million in the fourth quarter. Total real estate transactions in 1983 rose to R10 770 million from the R6 961 million in 1982.

The seasonally adjusted increase in holdings of longer-term funds with building societies, banking institutions, participation mortgage bond schemes

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

R millions

	1982		1983*			
	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Year
Banking institutions.	434	239	271	-450	-488	-428
Building societies ...	1 730	1 100	494	378	501	2473
Participation mortgage bond schemes.	253	15	48	90	117	270
Government savings schemes	3	65	140	71	66	342
Total	2 420	1 419	953	89	196	2657

*Quarterly data are seasonally adjusted.

and government saving schemes, decelerated from R1 419 million in the first quarter to only R196 million in the fourth quarter. In 1983 as a whole, the increase in holdings of longer-term funds amounted to R2 657 million, slightly more than the increase of R2 420 million during 1982. As shown in the accompanying table, the building societies were most successful in attracting new longer-term funds during 1983.

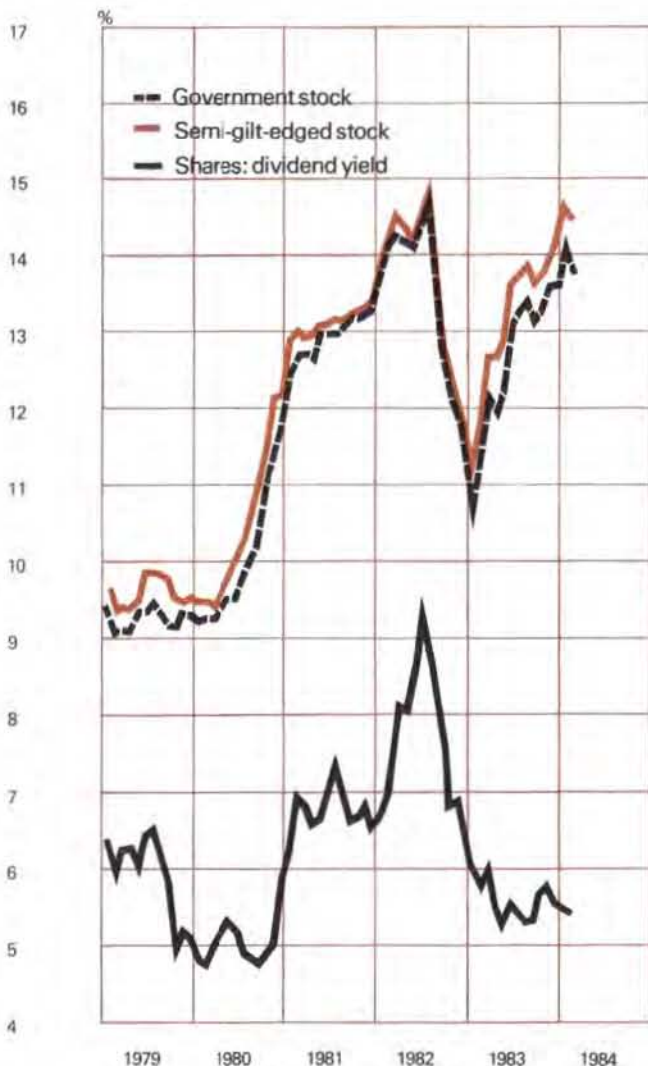
Long-term interest rates

The lesser availability of longer-term funds was accompanied by an increase in deposit rates. For example, the rates quoted on twelve-month deposits by banks and building societies rose from 14,0 per cent in September to 16,0 per cent in December, compared with 14,5 per cent at the end of 1982.

Following the increase in deposit rates, the building societies' home mortgage rates were raised from a range of 15,0 – 17,5 per cent to a range of 16,25 – 18,75 per cent in December for new loans and from February 1984 for existing loans. At the end of 1982 these rates ranged from 14,25 – 16,25 per cent.

In the secondary securities market, the yield on long-term government stock rose from a monthly average of 11,31 per cent in December 1982 to 13,14 per cent in September 1983, to 13,64 per cent in December and 13,80 per cent in February 1984. The average dividend yield on all classes of shares declined from 6,5 per cent in December 1982 to 5,3 per cent in September 1983. A marginal increase to 5,6 per cent in December was followed, however, by a renewed decline to 5,4 per cent in February 1984.

Long-term yields



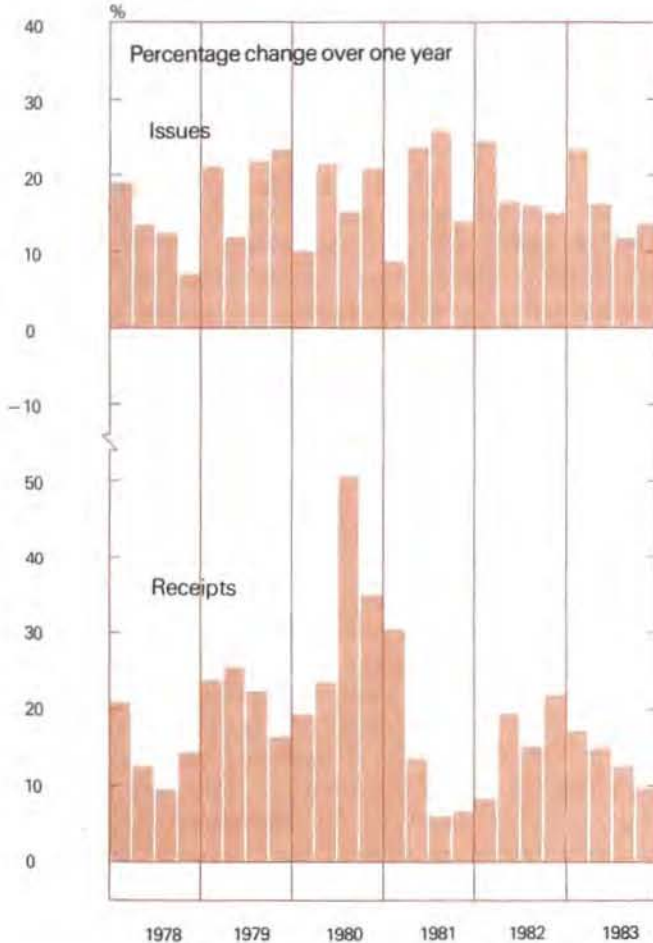
Government finance

Exchequer issues and receipts

Issues to government departments from the Exchequer Account* were 14,2 per cent higher in the first three quarters of the 1983/84 fiscal year than in the corresponding period of the preceding fiscal year. This rate of increase was notably higher than the 10,3 per cent provided for in the Budget for the fiscal year as a whole. This difference reflected a considerable amount of additional expenditure on, among other things, drought relief, subsidies, the servicing of the public debt and improved conditions of service for government employees. The Additional Budget, which was presented to Parliament on 28 February 1984, provided for additional expenditure of R1 145 million during the 1983/84 fiscal year. This additional amount will raise the original Budget estimate of the increase in Exchequer issues to a notably higher level.

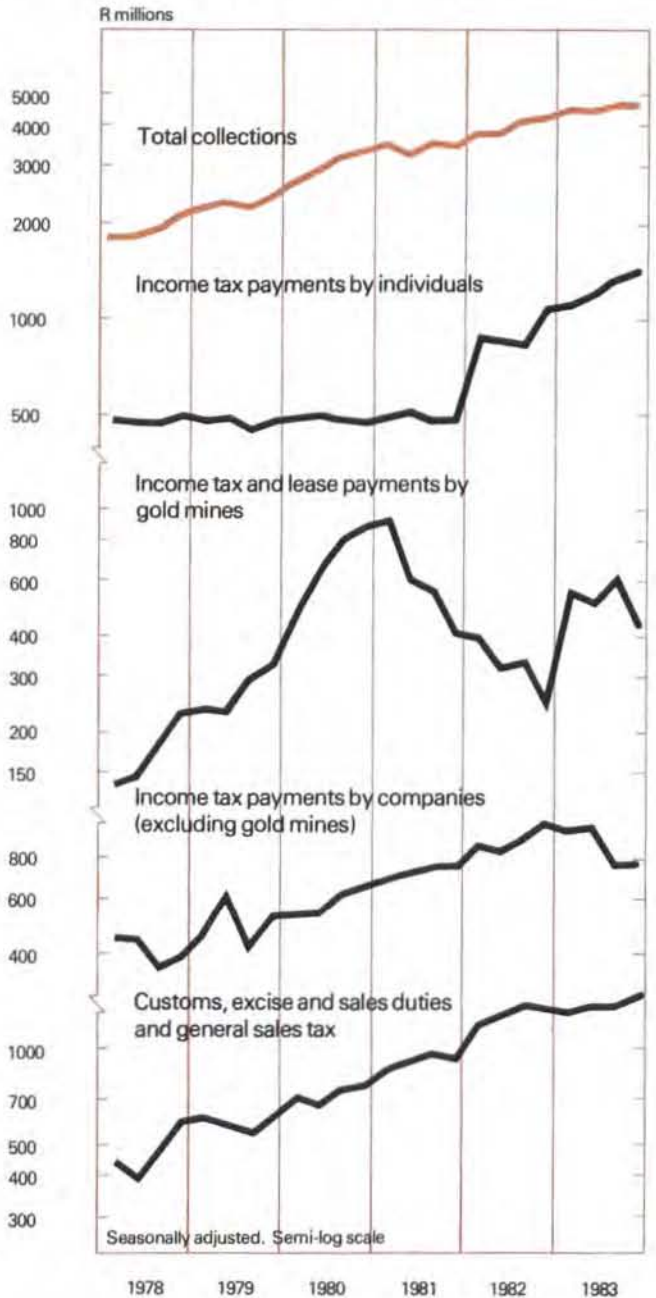
*The Exchequer Account is adjusted for changes in the balances on the Paymaster-General Account.

Exchequer Account



Exchequer receipts were 12,8 per cent higher in the first three quarters of the 1983/84 fiscal year than in the corresponding period of 1982/83. The Budget provided for an increase of 9,6 per cent for the fiscal year as a whole. This higher than anticipated rate of increase was mainly attributable to larger income tax and mining lease receipts from gold mining companies. Excluding these receipts, Exchequer revenue was only 7,8 per cent higher than in the corresponding period of 1982/83, whereas an increase of 9,9 per cent had been estimated for the full fiscal year. In

Revenue collections — State Revenue Fund



particular, the rate of increase in income tax from non-mining companies as well as customs and excise duties did not fully meet Budget expectations. The rate of increase in personal income tax receipts, however, was in excess of the Budget estimate.

Financing of the deficit before borrowing

The deficit on the Exchequer Account, excluding borrowing and debt repayment, amounted to R3 430 million in the first nine months of 1983/84. This amount already exceeded the Budget estimate of R2 082 million for the full fiscal year. As a means of reducing the amount of the deficit, the general sales tax was raised from 6 to 7 per cent, with effect from 1 February 1984.

Although the Treasury did not at all times in the course of the first three fiscal year quarters succeed in financing the deficit without recourse to bank credit, the deficit was nevertheless properly funded during this period as a whole. This meant that substantially more had to be borrowed from the non-bank private sector than had been anticipated at the time of the Budget. Net new issues of government stock, excluding issues to the Public Debt Commissioners, totalled R1 743 million during the first nine months of 1983/84, as against a Budget figure of R930 million for the fiscal year as a whole. Most of this stock was issued on tap to the Reserve Bank for resale in the market.

A sectoral classification of the Treasury's net borrowing during the first nine months of 1983/84 is as follows:

	R millions
Public Debt Commissioners	2 476
Non-bank private sector	1 749
Monetary banking sector	-914
Foreign sector	119
Total	<u>3 430</u>

Budget of the South African Transport Services for 1984/85

In the South African Transport Services' Budget for the 1984/85 financial year, presented to Parliament on 29 February 1984, total revenue and operating expenditure were estimated at R6 607 million and R7 227 million, respectively. This left a deficit of R620 million, part of which would be financed by means of an average tariff increase of 9,4 per cent from 1 April 1984. It was estimated that the tariff increases would yield additional revenue of R514 million, reducing the deficit to R106 million. Capital expenditure was estimated at R1 750 million, virtually the same amount as in 1983/84.

Post Office Budget

The Post Office Budget for the 1984/85 financial year, presented to Parliament on 13 March 1984, provided for operating expenditure of R2 385 million and an additional amount of R218 million for, among other things, loan redemptions and the staff housing scheme. At current tariffs, income in 1984/85 was estimated at R2 267 million, which left a deficit of R335 million. In order to help finance this deficit, it was announced that tariffs would be increased on average by 9 per cent from 1 April. It was estimated that additional income of R204 million would be derived from the higher tariffs and that the deficit would be reduced in this way to R132 million. Capital expenditure was estimated at R1 276 million, or 25,7 per cent more than in 1983/84.