

Quarterly economic review

Introduction

Information for the fourth quarter of 1984 confirms a continuation of the economic downswing which had begun earlier in the preceding quarter. Both real gross domestic expenditure and its main component, real private consumption expenditure, which had fallen substantially in the third quarter, declined further in the fourth quarter. The tightening of monetary policy and hire-purchase terms after the middle of 1984, therefore, achieved its initial objective of curbing aggregate monetary demand and total spending.

Non-agricultural real gross domestic product also started to decline in the third quarter of 1984 and maintained its downward trend in the fourth quarter. However, a considerable increase in real agricultural output caused overall real gross domestic product to show a small increase in the fourth quarter. In 1984 as a whole, a real economic growth rate of 4½ per cent was recorded, as against a negative growth rate of 3 per cent in 1983. The downward trend in real output during the second half of 1984 was accompanied by an increase in unemployment.

The first major benefit of the more effective demand management was the transformation of the deficit on the current account of the balance of payments into a surplus during the fourth quarter. At a seasonally adjusted annual rate, this surplus amounted to R900 million. In addition, the exchange rate of the rand started to recover temporarily from early November.

Subsequently, however, a substantial further appreciation of the US dollar and an accompanying sharp decline in the US dollar price of gold in the second half of December triggered a renewed depreciation of the rand and also created strong expectations that the rand would continue to depreciate in the short run. These expectations gave rise to a substantial net outflow of short-term capital, mainly in the form of unfavourable leads and lags in foreign payments and receipts.

In these circumstances, the rand continued to depreciate during the first three weeks of January 1985, reaching a low point on 21 January. From that date onwards, however, expectations were progressively changed by the growing realisation that the rand was undervalued in relation to the improvement of the current account of the balance of payments, the statement by the so-called Group of Five that they would intervene to prevent an unduly large further appreciation of the US dollar, an actual slight temporary weakening of the dollar and a more stable gold price. This change in expectations contributed to a turnaround in the exchange rate of the rand. The subsequent appreciation of the rand was supported by the introduction by the Reserve Bank on 30 January

of minor adjustments to its forward exchange, rediscounting and gold payment procedures, designed to alleviate pressure on the spot exchange rate of the rand. During the second half of February, however, the US dollar appreciated still further in terms of most currencies, the dollar price of gold declined simultaneously and the exchange rate of the rand once again moved to a lower level.

Although demand pressures on prices eased considerably with the decline in domestic expenditure during the second half of 1984, the rate of inflation, as measured by the consumer and production price indices, continued to accelerate, mainly because of the effect on prices (including administered prices) of the substantial depreciation of the rand since October 1983. This effect is likely to continue for some time and will probably contribute to a further acceleration of the inflation rate in the short run.

The effectiveness of monetary policy during the second half of 1984 was not accurately reflected in money supply changes. The growth rates of the various monetary aggregates accelerated appreciably during the five months to November, before slowing down in December. However, the velocity of circulation of all monetary aggregates showed marked declines during both the third and fourth quarters of 1984, confirming that monetary demand slackened during this period.

Viewed *ex post*, the higher rate of increase in the money supply had its counterpart in an acceleration of the increase in bank credit to the private sector. This increase was largely related to a build-up of inventories (partly involuntary because of the abrupt fall in consumer demand), unfavourable leads and lags in foreign payments and receipts and the re-intermediation of credit transactions because of tight conditions in the inter-company market for funds.

With a view to strengthening its influence over accommodation to the banking system and, more generally, its monetary control, the Reserve Bank on 30 January 1985 introduced certain minor adjustments to its accommodation procedures. The new arrangements will enable the Bank to penalise individual banking institutions which expand their credit excessively and require unduly large amounts of Reserve Bank credit, by applying selectively higher refinancing rates.

In accordance with the cooling-down of the economy, the improvement of the balance of payments and the somewhat higher exchange rate of the rand at the time, a temporary downward movement of short-term interest rates commenced in early November 1984. However, as a result of the marked further decline in the gold price and the accompanying sharp depreciation of the rand from the second half of December, this downward move-

ment was reversed. For example, the clearing banks' prime overdraft rates declined by 1½–2 per cent in November, but were subsequently restored in two steps to their former level of 25 per cent. This renewed increase in short-term interest rates in the second half of December and during January 1985 was accompanied by an upward movement in most long-term interest rates. An easing of market conditions resulted in lower short-term interest rates during most of February, but this was followed by a renewed increase towards the end of the month.

Exchequer issues increased at a rate of 23 per cent in the first nine months of the 1984/85 fiscal year, while Exchequer receipts showed a rate of increase of 22½ per cent. The deficit before borrowing on the Exchequer Account (including the discount on new issues of government stock) was of the order of R4,0 billion, but was financed, on balance, without recourse to bank credit. By means of active government debt management, including substantial open-market sales of government stock by the Reserve Bank, the Government's net indebtedness to the banking sector was actually reduced by a considerable amount during this period as a whole.

Domestic economic developments

Domestic output

Confirmation that the economic downturn in the third quarter of 1984 continued in the fourth quarter is provided by a further decline in non-agricultural real gross domestic product. Real output declines occurred in important sectors, such as manufacturing, commerce, transport and construction. In accordance with the cyclical change in the economy in the course of 1984, the real value added by the first three of these sectors increased during the first half and declined during the second half of the year. Real output in the construction sector, however, declined throughout 1984 as part of the general downward trend in real fixed investment. In contrast, the real value added by the gold mining sector was positive in 1984, while that of the non-gold mining sector showed a notable increase because of higher export volumes.

Real agricultural output followed an irregular course during 1984. An increase in the first quarter was followed by declines in the subsequent two quarters owing to the

Real gross domestic product



Percentage change* in real gross domestic expenditure
Seasonally adjusted annual rates

	1983			1984		
	1st half	2nd half	Year	1st half	2nd half	Year
Private consumption expenditure	1½	4	1	8	-9	2½
Government consumption expenditure	3	8	1	22	-11	9½
Gross domestic fixed investment	-9	-8½	-9	3	-7	-2½
Change in inventories (constant 1975 R millions) ..	-1 116	-376	-746	-618	336	-141
Gross domestic expenditure	-7½	10½	-5	10	-5½	6

* Compared with preceding period.

continuing drought in the summer rainfall areas. In the fourth quarter, however, an above-average wheat crop caused real agricultural output to rise considerably. This contribution of agriculture was sufficiently large to produce an increase in overall real gross domestic product in the fourth quarter.

In 1984 overall real gross domestic product increased by 4½ per cent, compared with a decline of 3 per cent in 1983. Owing to an improvement in South Africa's terms of trade, together with changes in net factor payments to the rest of the world, real gross *national* product increased at a slightly higher rate than real gross *domestic* product, namely by 5 per cent.

Domestic expenditure

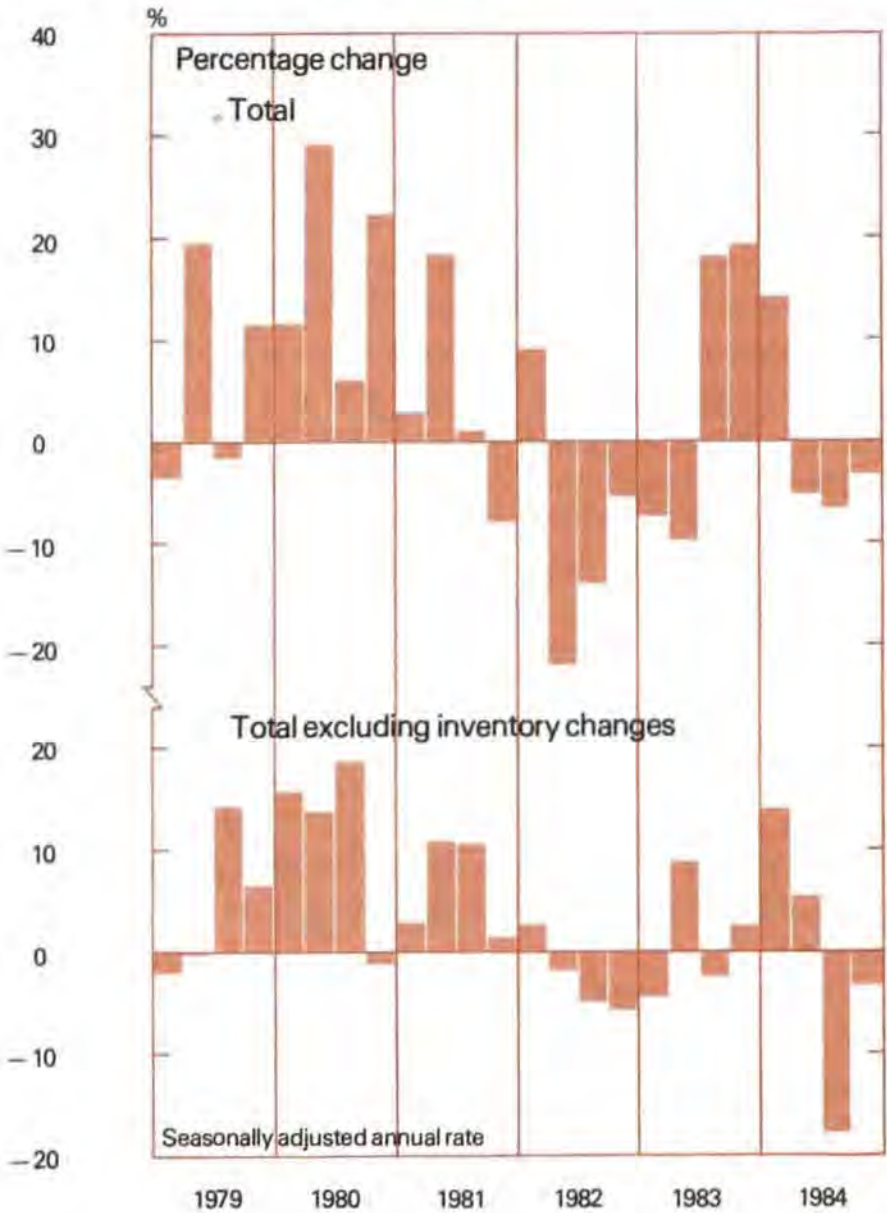
The decline in real gross domestic expenditure from the high level reached in the first quarter of 1984 continued in the fourth quarter, but at a somewhat slower pace. The initial decline in the second quarter of 1984 was due to lower gross domestic fixed and inventory investment. However, from the third quarter of 1984 a decline in real private consumption expenditure became the principal cause of the fall in real aggregate demand. In the third quarter the fall in overall real expenditure was strengthened by a temporary decline in real government consumption expenditure. On balance, real gross domestic expenditure still increased by 6 per cent in 1984, as against a decline of 5 per cent in 1983.

The most significant change in individual expenditure components was the sharp fall in real private consumption expenditure in the third quarter of 1984, followed by an appreciable further decline in the fourth quarter. This contraction of real consumer demand, which followed upon a sharp increase during the preceding four quarters, reflected consumer reaction to the tightening of monetary policy, the increase in the general sales tax and the stricter hire-purchase terms. Declines in real consumer outlays were prominent in the categories durable and semi-durable goods. In 1984 as a whole, real private consumption expenditure still increased by 2½ per cent, compared with an increase of 1 per cent in 1983.

Real government consumption expenditure, which

had made a major contribution to the consumption-based economic upswing from the second quarter of 1983 to the middle of 1984, declined notably in the third quarter of 1984 before showing a renewed increase in the fourth quarter. In 1984 as a whole an increase of 9½ per cent was recorded, as against a much smaller increase of 1 per cent in 1983.

Real gross domestic expenditure



Real gross domestic fixed investment, which had shown a temporary increase during the latter part of the economic upswing, resumed a downward trend in the second quarter of 1984. In the fourth quarter, the decline was evident in all sectors of the economy, with the exception of the South African Transport Services and the Department of Posts and Telecommunications. In 1984 as a whole, real gross domestic fixed investment declined by 2½ per cent, following upon a decline of 9 per cent in 1983. A breakdown of the 1984 change shows a sharp decrease in the real gross fixed investment of public authorities, a slight decline in that of private business enterprises and a small increase in that of public corporations. The latter was almost entirely due to higher real fixed investment outlays by the sector electricity, gas and water.

The abrupt decline in real private consumption expenditure during the second half of 1984 had its counterpart in a build-up of real industrial and commercial inventories, part of which probably represented an involuntary accumulation of inventories. On balance, however, real inventories declined moderately further in 1984. The ratio of real industrial and commercial inventories to real non-agricultural gross domestic product rose from its most recent low of 22,5 per cent in the second quarter of 1984 to 23,7 per cent in the fourth quarter. In real terms, total inventories also increased during both the third and fourth quarters of 1984.

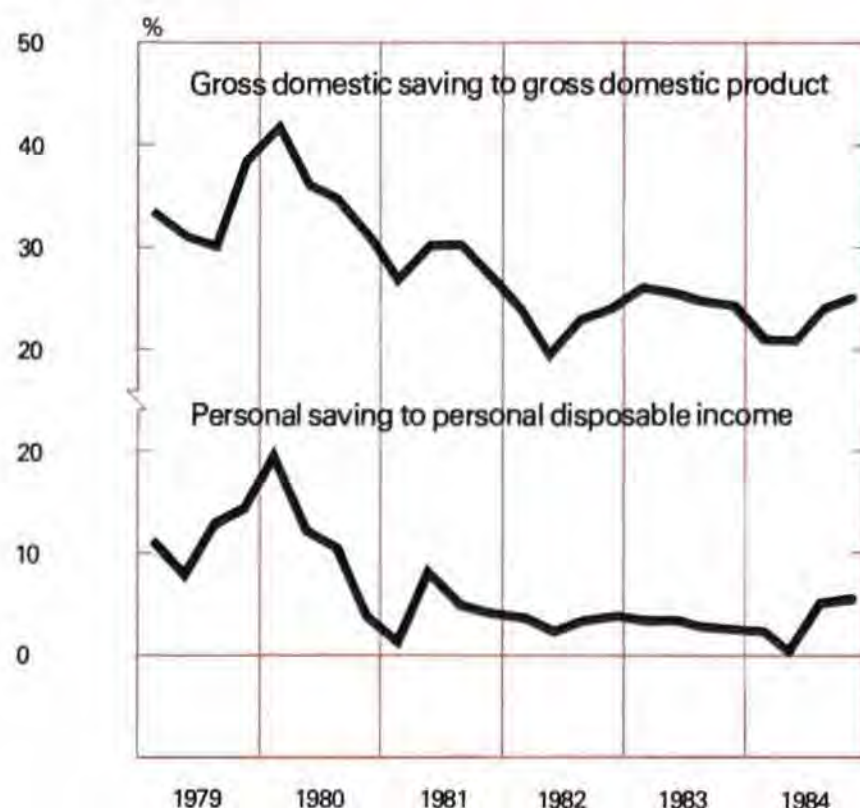
Factor income and saving

Nominal gross domestic product at factor cost increased by 16½ per cent in 1984. Remuneration of employees rose by 18 per cent and gross operating surplus by 15 per cent. In the course of 1984, remuneration of employees showed a sharp increase in the first quarter because of large salary scale adjustments in the public sector, but the increase slowed down considerably during the subsequent three quarters. The increase in gross operating surplus was particularly evident in the South African Transport Services and the sectors electricity, gas and water; manufacturing; finance; and motor trade. On the other hand, the gross operating surplus of the wholesale and retail trade declined in 1984.

The ratio of gross domestic saving to gross domestic product declined to a low of 20½ per cent in the second quarter of 1984, but increased to 25½ per cent in the fourth quarter. In 1984 as a whole, the ratio averaged 23 per cent, compared with slightly more than 25 per cent in 1983.

The improvement in the savings ratio during the second half of 1984 was due to the sustained high level of corporate saving, an increase in personal saving and smaller dissaving by general government. The ratio of personal saving to personal disposable income, which had turned negative in the second quarter of 1984, rose to 5½ per cent in the fourth quarter in accordance with the decline in private consumption expenditure. In the year as a

Savings ratios



whole, it averaged 3½ per cent, compared with 3 per cent in 1983. General government saving remained negative throughout 1984 and in total this dissaving amounted to about R2 000 million.

Employment, productivity and labour costs*

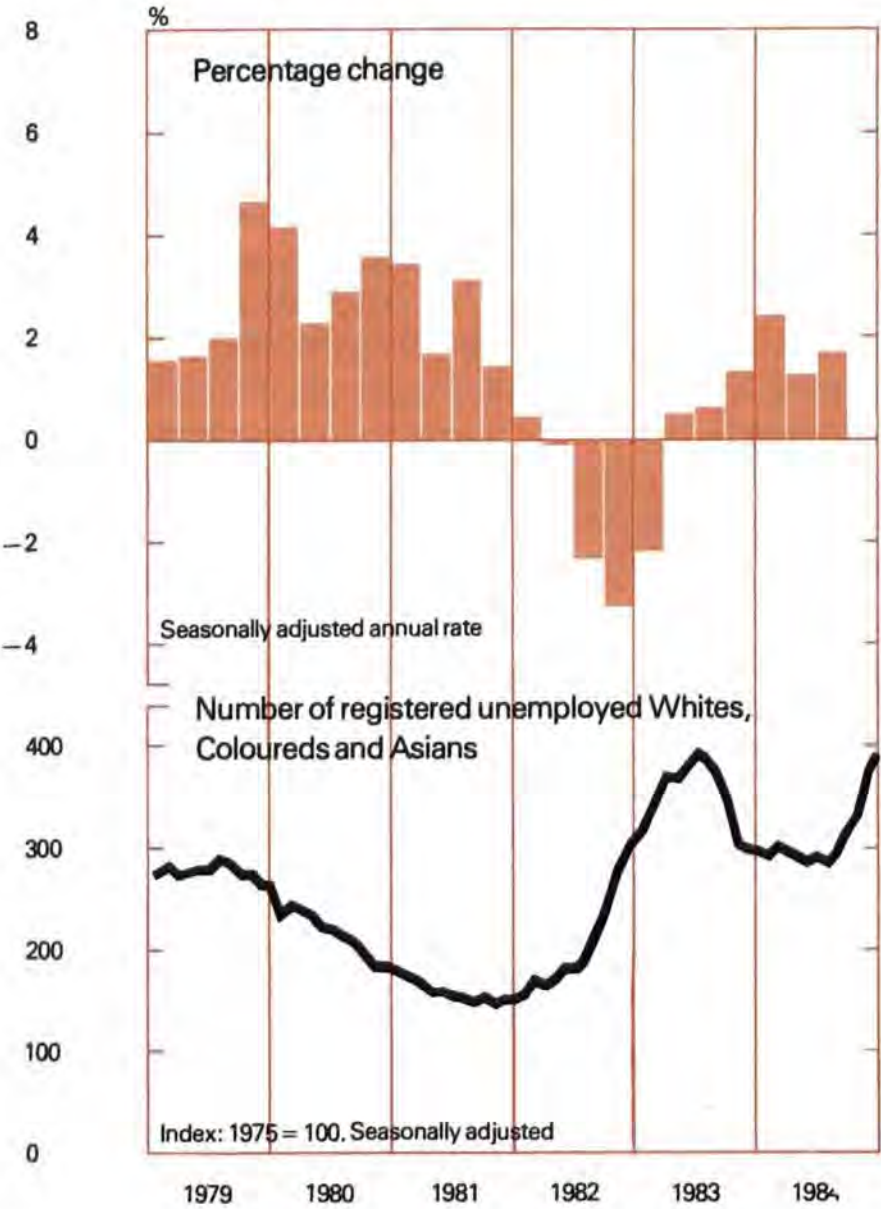
The upward trend in non-agricultural employment continued in the third quarter of 1984. However, the increase during this quarter confirmed the slow-down that had become evident in the preceding quarter. At a seasonally adjusted annual rate the increase decelerated from 2,4 per cent in the first quarter of 1984 to 1,3 per cent and 1,7 per cent in the second and third quarters, respectively. The somewhat higher rate of increase in the third quarter reflected more rapid employment increases in the mining, banking and insurance sectors.

The levelling-off in employment increases was reflected in higher unemployment. Seasonally adjusted, the number of registered unemployed Whites, Coloureds and Asians rose from its most recent low of 29 345 in July 1984 to 32 460 in September and to 40 300 in December. Black unemployment, as a ratio of the economically active Black population, rose from a low of 7,6 per cent in January 1984 to 8,4 per cent in September.

In the first three quarters of 1984 nominal salaries and wages per worker in the non-agricultural sectors were 15,5 per cent higher than in the corresponding period in 1983, a rate of increase that was significantly higher than the 12,5 per cent in 1983. The increase in nominal re-

* Comprehensive statistics are available only for the first nine months of 1984.

Non-agricultural employment



muneration per worker in the private sector slowed down slightly from 13,9 per cent in 1983 to 13,5 per cent in the first nine months of 1984. In contrast, the increase in public authorities' nominal remuneration per worker accelerated from 8,7 per cent in 1983 to 21,0 per cent in the first nine months of 1984. Translated into real terms, the average remuneration per worker in the non-agricultural sectors was 3,9 per cent higher in the first nine months of 1984 than in the corresponding period in 1983. In 1983 the increase amounted to only 0,2 per cent.

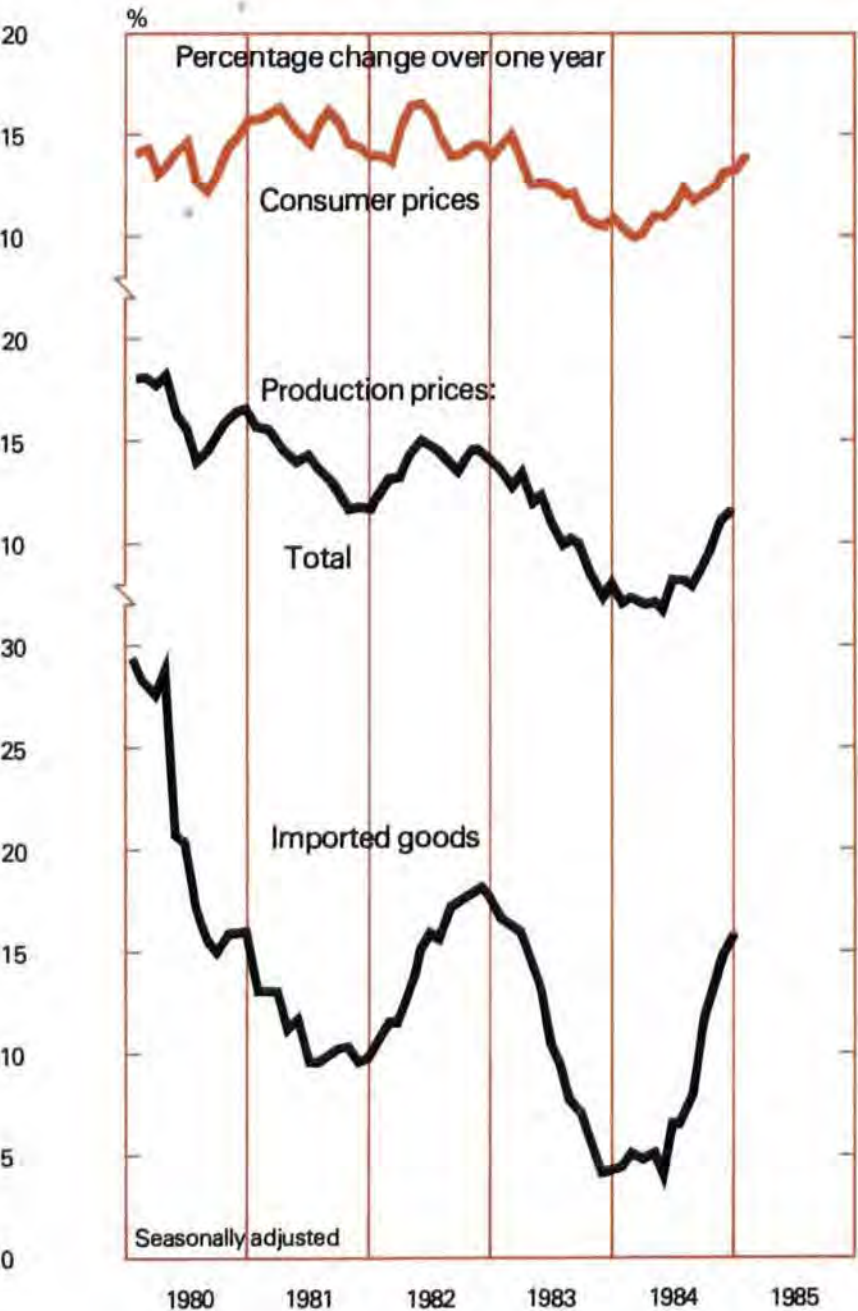
On average, the increase in real remuneration per worker correlated fairly well with the increase in labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors. Compared with the corresponding period in 1983, labour productivity rose by 4 per cent in the first nine months of 1984, as against a decline of 0,3 per cent in 1983. This improvement in labour productivity contributed to a slow-down of the increase in unit labour costs from 13 per cent in 1983 to 11,2 per cent in the first nine months of 1984.

Prices

One of the unfavourable effects of the consumption-induced economic upswing during the fifteen months to the middle of 1984 was an acceleration of the inflation rate. Although demand pressures started to ease from the third quarter of 1984 onwards, upward adjustments in prices, largely reflecting the delayed effect of the sharp depreciation of the rand since October 1983, began to assert themselves. Accordingly, the increase in consumer prices over a twelve-month period accelerated from 10,0 per cent in February 1984 to 11,6 per cent in June, to 13,3 per cent in December and to 13,9 per cent in January 1985. In terms of annual averages, consumer prices increased by 11,7 per cent in 1984, compared with 12,3 per cent in 1983.

Measured over a twelve-month period, the increase in production prices accelerated from a low of 6,6 per cent in May 1984 to 8,1 per cent in June and 11,4 per cent in December. The influence of the depreciation of the rand

Prices



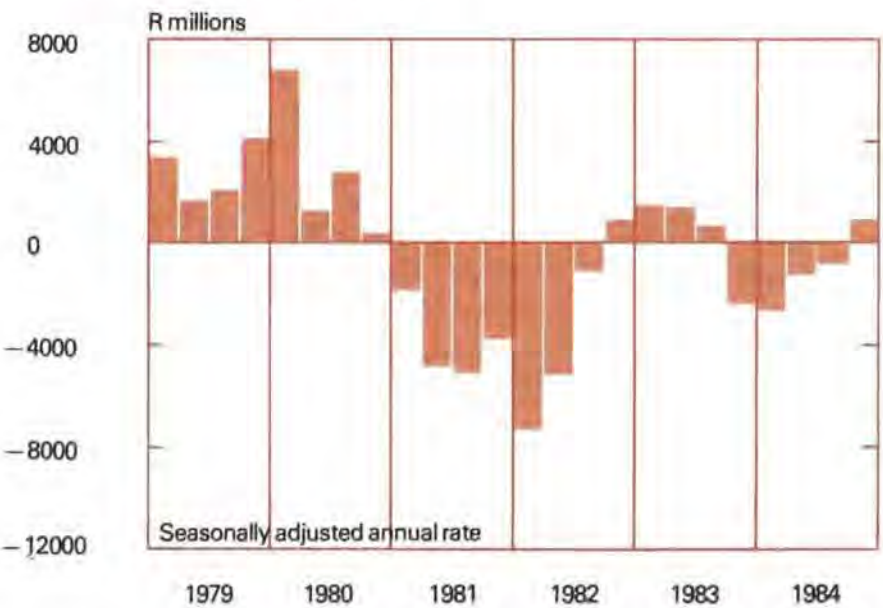
was clearly visible in the import price component of the production price index. The increase over a twelve-month period in the prices of imported goods accelerated only moderately from a low of 3,5 per cent in May 1984 to 6,4 per cent in July. Subsequently, however, it accelerated to 15,7 per cent in December in accordance with the more rapid depreciation of the rand.

Balance of payments

Current account

The current account of the balance of payments continued to improve and moved into surplus in the fourth quarter of 1984. This surplus amounted to R284 million, equivalent to R906 million at a seasonally adjusted annual rate. In 1984 as a whole, a current account deficit of R1 041 million was recorded. The further improvement of the current account in the fourth quarter resulted from appreciable increases in the rand values of merchandise exports and the net gold output, which more than offset the further increases in the value of merchandise imports and net service and transfer payments to foreigners.

Balance on current account



Merchandise exports maintained the upward trend which had begun in the fourth quarter of 1983. The further increase in the fourth quarter of 1984 was largely due to higher rand prices, resulting from the depreciation of the rand in terms of the currencies of South Africa's main trading partners. In particular, large increases were recorded in the export values of mineral products, textiles and base metals. The export volume increased only marginally in the fourth quarter, reflecting mainly higher exports of mining products. Considering 1984 as a whole, exports increased by 28 per cent in terms of value and by 12 per cent in terms of volume.

The effect of the depreciation of the rand was also reflected in the increase in the value of the net gold output in the fourth quarter of 1984. In terms of US dollars per fine ounce, the gold price declined from an average of \$345 in the third quarter of 1984 to \$334 in the fourth quarter. In terms of rand per fine ounce, how-

Current account of the balance of payments, 1984
R millions

	1st qr.*	2nd qr.*	3rd qr.*	4th qr.*	Year
Merchandise exports	11 610	12 326	13 624	14 796	13 089
Net gold output	11 019	10 208	11 803	13 706	11 684
Merchandise imports	-21 000	-19 847	-21 721	-22 728	-21 324
Net service and transfer payments	-4 406	-4 084	-4 602	-4 868	-4 490
Balance on current account	-2 777	-1 397	-896	906	-1 041

* Seasonally adjusted annual rates.

ever, there was an increase from an average of R544 in the third quarter to R606 in the fourth quarter. In addition, a small increase also occurred in the volume of the net gold output over this period. Accordingly, the rand value of the net gold output rose by 16 per cent in the fourth quarter. In 1984 as a whole the value of the net gold output increased by 18 per cent, including a volume increase of 6½ per cent. In January 1985 the gold price fell to an average of \$303 per fine ounce, the

rand equivalent of which amounted to R657. Subsequently, in February, the monthly average dollar price of gold decreased slightly below its January level. The average rand price declined even more distinctly to R589 per fine ounce because the rand appreciated, on average, in terms of the US dollar during this month.

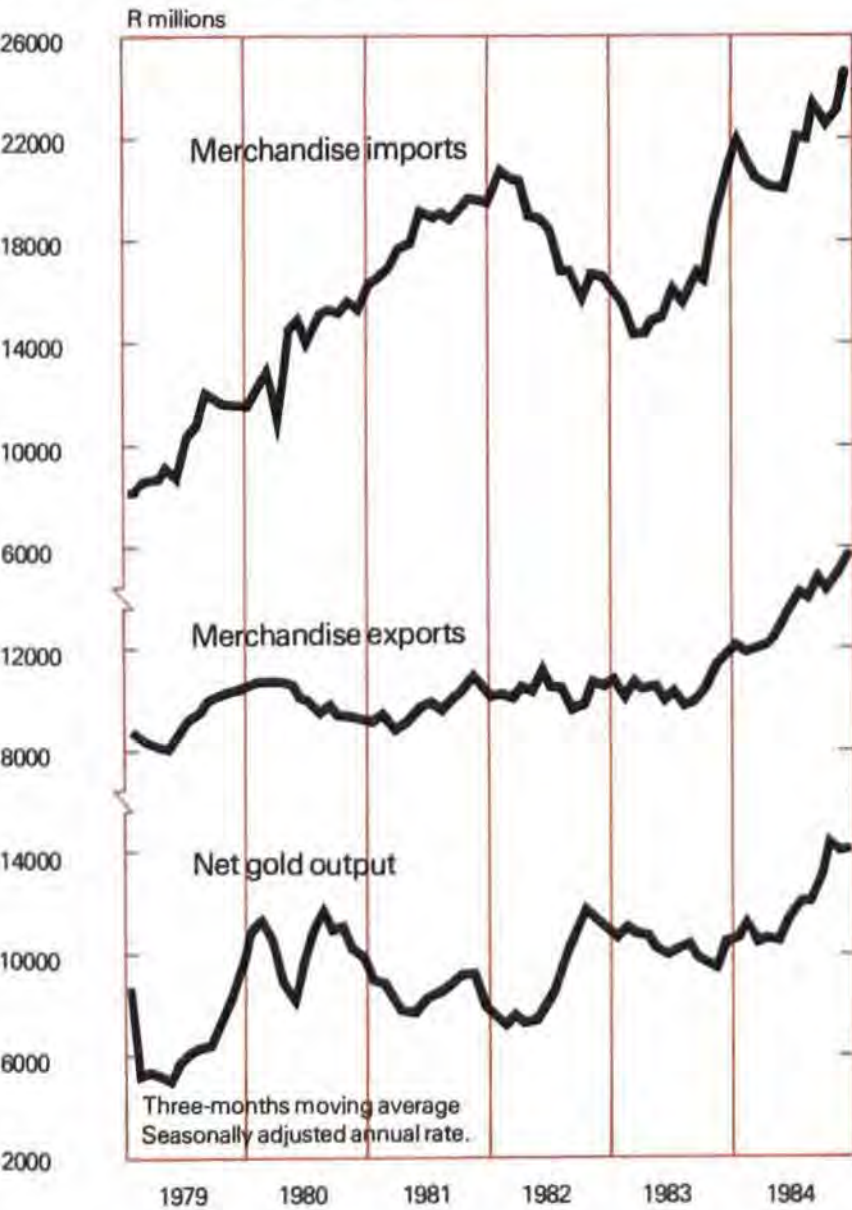
Owing to higher imports in such categories as chemical products, machinery and electrical equipment, and transport equipment, the value of merchandise imports increased further in the fourth quarter of 1984. This increase was entirely due to price increases, the larger part of which reflected the depreciation of the rand. The volume of merchandise imports declined by about 3 per cent in the fourth quarter. From 1983 to 1984 the value and the volume of imports increased by 34 per cent and 20½ per cent, respectively.

Net service and transfer payments increased by 13 per cent in 1984. Freight and merchandise insurance payments as well as interest on foreign loans increased appreciably, while dividend payments to foreign investors showed a decline. The overall increase in service payments was partly offset by higher service receipts. Increased receipts were particularly evident in the categories passenger fares, ships' stores, foreign investment income and tourist expenditure. Despite the higher interest payments, the ratio of these payments to total export and service receipts increased only slightly from 5,3 per cent in 1983 to 6,2 per cent in 1984.

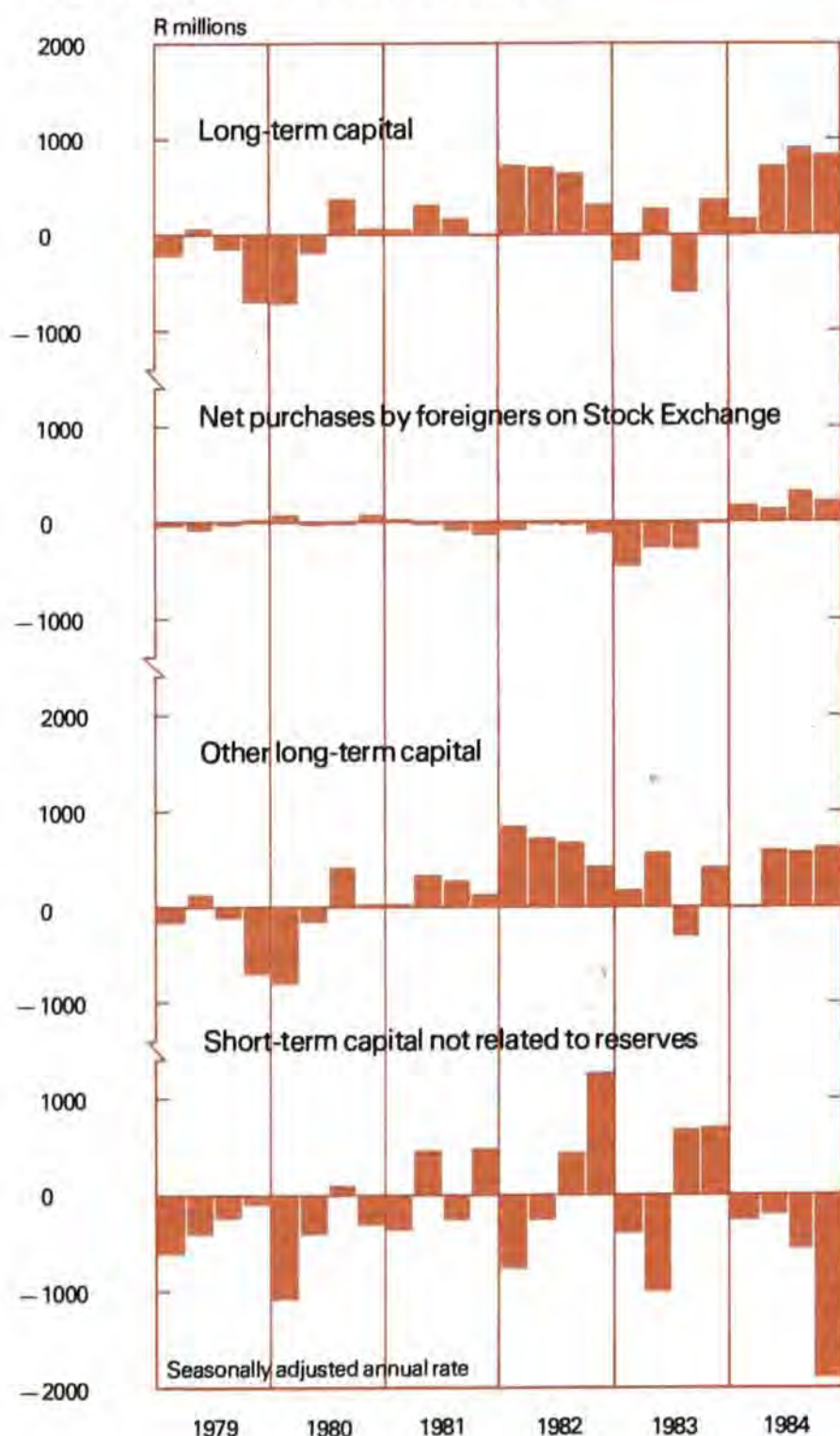
Capital account

A net inflow of long-term capital of R833 million occurred during the fourth quarter of 1984. Net purchases by foreigners of securities listed on the Johannesburg Stock Exchange amounted to R214 million, while net foreign borrowing by the Treasury, banks and the public corporations accounted for the rest of the long-term capital inflow. The inward movement of long-term capital was more than offset by a net outflow of short-term funds of R1 943 million. The larger part of this amount represented unfavourable leads and lags in foreign payments and receipts in response to the almost continuous depreciation of the rand and expectations that this depreciation would continue in the short run.

Balance of payments: Trade account



Balance of payments: Capital account



In 1984 as a whole there was a net inflow of long-term capital of R2 671 million. Of this amount, R880 million represented net purchases by foreigners of securities listed on the Johannesburg Stock Exchange. The net outflow of short-term capital during 1984 amounted to R3 059 million.

Foreign reserves

During the fourth quarter of 1984 net gold and other foreign reserves declined by R826 million. This brought the total decline during 1984 to R1 429 million. In order to support the level of foreign reserves, the banking system borrowed on short term abroad. Consequently, the banks' so-called liabilities related to reserves increased by R542 million during 1984.

Exchange rates

The effective exchange rate of the rand continued its decline during October 1984, but started to recover in early November in response to the improvement of the balance of payments. However, a substantial further appreciation of the US dollar and accompanying marked decline in the US dollar price of gold during the second half of December triggered a renewed depreciation of the rand and also created strong expectations that the rand would continue to depreciate in the short run. As discussed earlier, these expectations gave rise to unfavourable leads and lags and a substantial net outflow of short-term capital.

In this environment, the rand continued its downward slide during the first three weeks of January 1985. However, the news that real spending in South Africa was being effectively reduced and that the deficit on the current account of the balance of payments had been transformed into a surplus during the fourth quarter of 1984 had the effect of changing exchange rate expectations. This effect was strengthened by the statement by the so-called Group of Five that they would intervene to prevent an unduly large further appreciation of the US dollar, and by an actual slight temporary weakening of the dollar. The result was a turnaround of the exchange rate of the rand. The subsequent appreciation of the rand was further supported by the introduction on 30 January of certain supplementary measures to alleviate pressure on the spot exchange rate of the rand.

These measures consisted, firstly, of an arrangement in terms of which foreign exchange dealers may enter

Exchange rates of the rand



into direct forward exchange contracts with the Reserve Bank to buy US dollars for future delivery from the Bank, without necessarily engaging in the usual "swap" transactions with the Bank. These "swap" transactions, a facility that remains available to the foreign exchange dealers, require that foreign exchange dealers sell dollars spot to the Bank and enter into contracts with the Bank to repurchase these dollars forward on a set future date and at an agreed price. Before entering into such "swap" transactions, however, foreign exchange dealers have to buy dollars in the spot market and in doing so they may exert downward pressure on the spot exchange rate of the rand. Secondly, it was announced that, as an interim arrangement, gold mines would be paid in US dollars for only 50 per cent of their production and that the balance would be paid in rand. This step meant that half of the dollar proceeds of gold sales would accrue to the Reserve Bank and could be used for transactions by the Bank in either the spot or the forward foreign exchange market. The total supply of dollars in the market is, of course, not affected by this move.

The effective exchange rate of the rand declined further by 13,0 per cent during the fourth quarter of 1984 to record a total decrease of 35,6 per cent from the end of September 1983. In terms of the US dollar, the rand depreciated by 16,0 per cent during the fourth quarter of 1984 and by 44,5 per cent from the end of September 1983 to the end of 1984. The weighted average exchange rate of the rand in terms of all currencies other than the US dollar declined by 11,9 per cent during the fourth quarter of 1984 and by 31,7 per cent from the end of September 1983 to the end of 1984.

The effective exchange rate of the rand declined by 13,3 per cent during the first three weeks of January 1985, but increased again by 27,9 per cent between 21 January 1985 and 13 February. During the second half of February, however, the US dollar appreciated still further, the dollar price of gold declined simultaneously and the rand showed a renewed depreciation. On balance, the effective exchange rate increased by 1,3 per cent

during January and February 1985. As shown in the accompanying table, this increase represented an appreciation in terms of most major currencies, with the exception of the US dollar.

Changes in the exchange rates of the rand			
%			
	Sept 1984 to Dec 1984	Sept 1983 to Dec 1984	Dec 1984 to Feb 1985
Weighted average	-13,0	-35,6	1,3
Weighted average, ex- cluding US dollar	-11,9	-31,7	4,4
US dollar	-16,0	-44,5	-2,5
British pound	-10,1	-28,7	4,1
German mark	-12,9	-33,8	3,3
Swiss franc	-12,9	-32,4	6,6
Japanese yen	-14,1	-40,9	0,4
French franc	-13,2	-33,3	3,3

Money and credit

Money supply changes

The growth rates of the various monetary aggregates accelerated notably during the second half of 1984. Measured over a twelve-month period, the growth rate of M3 accelerated from 12,0 per cent in December 1983 to 14,2 per cent in June and to 24,7 per cent in November, before slowing down slightly to 23,2 per cent in December. Likewise, the growth rate of M2 (measured over a twelve-month period) accelerated from 16,5 per cent in December 1983 to 18,4 per cent in June 1984 and to 28,9 per cent in November, but decelerated again to 25,8 per cent in December. The corresponding growth rate of M1 accelerated from 26,6 per cent in December 1983 to 29,1 per cent in June 1984 and to 39,6 per cent in November, but slowed down subsequently to 34,0 per cent in December.

As indicated by the decline in real gross domestic expenditure during the second half of 1984, the more rapid rise in the money supply during this period did not reflect an increase in monetary demand. In fact, the velocity of circulation of money showed notable declines during both the third and fourth quarters of 1984. For

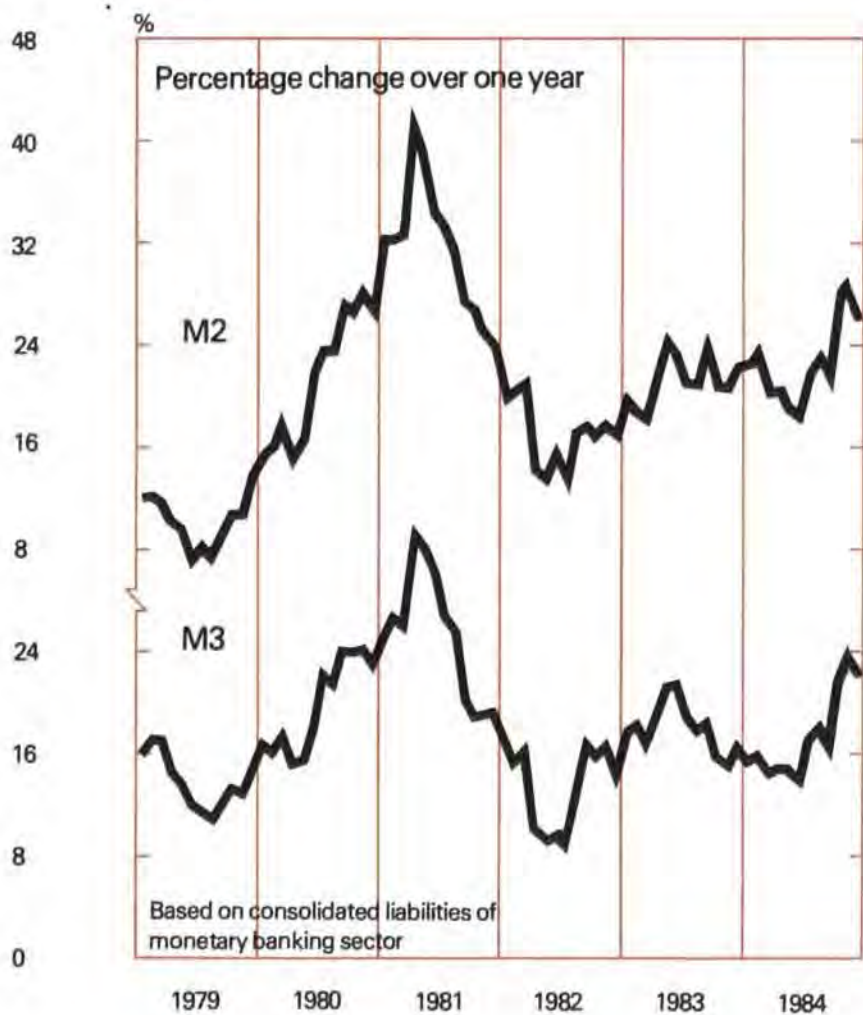
example, the velocity of circulation of M3 declined by 2,1 per cent and 4,3 per cent in the third and fourth quarters, respectively. Corresponding declines in the velocity of circulation of M2 amounted to 2,5 per cent and 5,7 per cent, respectively.

For reasons to be discussed later on, the increase in bank credit to the private sector paradoxically started to accelerate with the onset of the economic downswing in the third quarter of 1984. This was the main counterpart of the acceleration in the growth rates of the various monetary aggregates during the second half of 1984. In contrast, declines in net bank credit to the government sector and net foreign reserves exerted a contractionary influence on the money supply, not only during the second half of 1984 but also during the year as a whole.

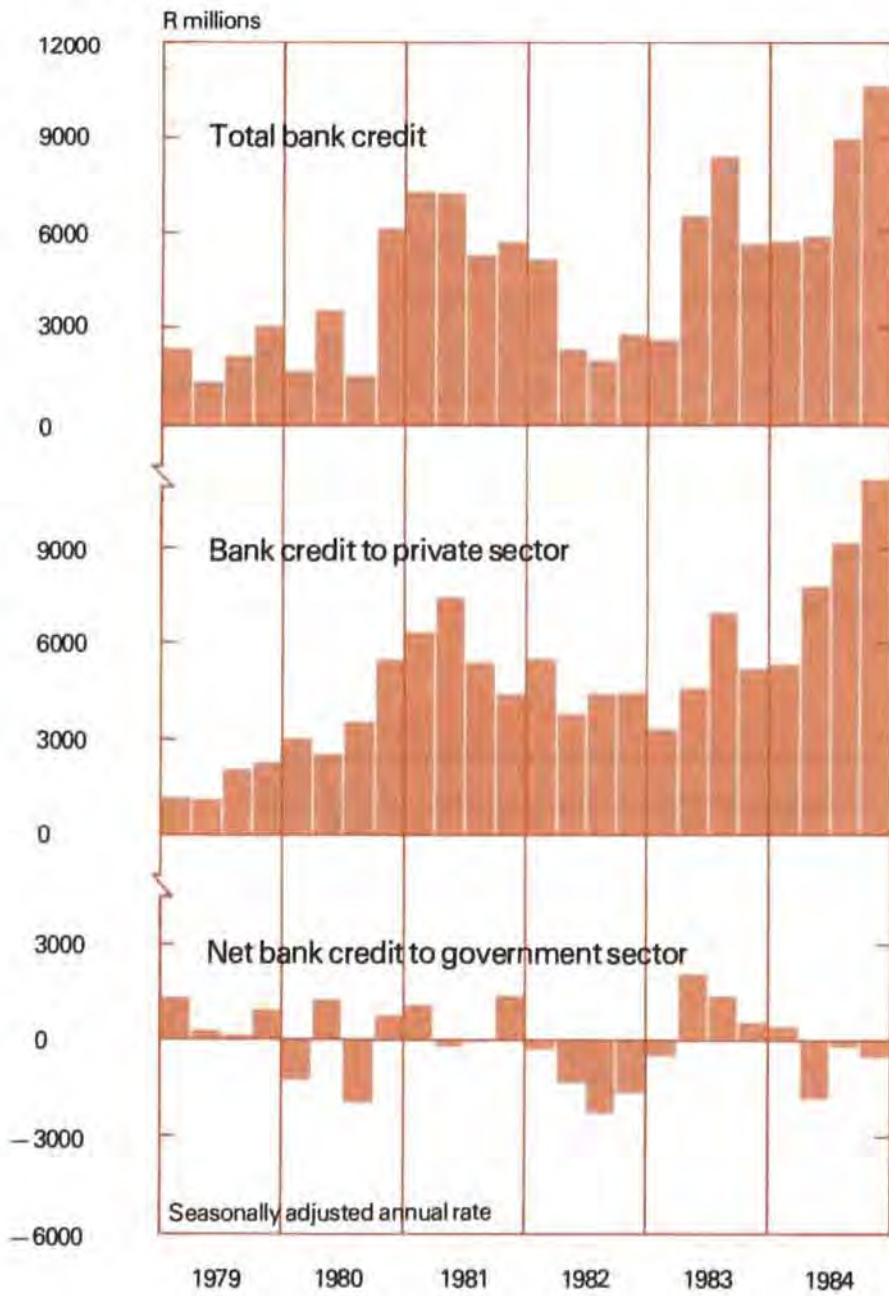
Bank credit to the private sector

The rate of increase in bank credit to the private sector, measured over a twelve-month period, accelerated from 18 per cent in December 1983 to 22 per cent in June

Money supply



Bank credit



1984 and to 24 per cent in August. After a temporary slow-down to 21 per cent in September, this rate of increase accelerated again to 28 per cent in December.

An analysis of bank credit extended to the private sector indicates a distinct change in its composition in the course of 1984. The slow-down in consumer expenditure from the third quarter was accompanied by a lower rate of increase in consumer credit, in particular during the last four months of the year. Likewise, leasing finance increased considerably slower during these four months. On the other hand, bank credit to the corporate sector, mostly bank overdrafts, showed a more rapid rise during this period. In addition, credit granted by the Land Bank increased notably during the fourth quarter.

The higher rate of increase in bank overdrafts was related to the build-up of inventories and the unfavourable leads and lags in foreign payments and receipts, referred to earlier. Furthermore, bank overdrafts were used to finance the unanticipated higher rand cost of imports resulting from the depreciation of the rand. Re-intermediation of credit transactions owing to tight conditions in the intercompany market for funds also contributed to the more rapid rise in bank overdrafts.

On 21 February 1985 hire-purchase terms were eased slightly to the extent that maximum repayment periods in hire-purchase contracts were lengthened in the case of certain categories of durable consumer goods.

Financial markets

Reserve Bank operations in financial markets

As during the first three quarters of 1984, the Reserve Bank continued to sell government stock in the financial markets during the fourth quarter in order to assist in government debt management. Net sales during the fourth quarter amounted to R1 115 million. This brought the total of such sales during 1984 to R2 008 million. Further net sales of government stock during January and February 1985, including sales of R62 million by means of tender, amounted to R159 million.

The Bank's other operations during 1984 were aimed mainly at preventing seasonal and other temporary influences from causing unduly large fluctuations in short-term interest rates. These operations consisted mainly of sales of special tax Treasury bills, variations in the amount of bills offered at the weekly tenders of Treasury bills and Land Bank bills, changes in the funds placed at call with the discount houses by the Corporation for Public Deposits, and repurchase agreements entered into with banking institutions.

The amount of the Bank's refinancing in the form of rediscounts and overnight loans to discount houses increased steadily during the first nine months of 1984, namely from a daily average of R1 164 million in December 1983 to R1 877 million in June 1984 and to R2 008 million in September. During the subsequent four months, however, the amount of accommodation showed little variation, increasing only slightly to a daily average of R2 102 million in December, before decreasing to an average of R1 989 million in January 1985.

As an instrument of monetary policy, rediscount rates of the Reserve Bank were increased by 1 per cent in July 1984 and by 3 per cent in August. These rates were lowered by 1 per cent in November, but restored to their August levels in January 1985.

On 29 January 1985 the Reserve Bank announced that, in order to strengthen its influence over accommodation to the banking system, it would in future provide accommodation to discount houses only against the security of assets owned by them and that banking institutions requiring accommodation would have to approach the Bank directly. The new arrangements will enable the Bank to penalise individual banking institutions which expand their credit excessively and then require unduly large amounts of Reserve Bank credit, by applying higher refinancing rates.

Following the introduction of the new arrangements, direct accommodation to banks amounted to R354 million on 29 January, but this amount of credit was fully repaid in early February. Conditions in the money market started to ease in early February and the accommodation provided to the discount houses declined to less than R500 million on 19 February. By the end of February, however, the accommodation provided to the discount

houses had again increased to R1 778 million. Banking institutions were accommodated directly by R739 million on the month-end.

Short-term interest rates

Short-term interest rates generally followed an upward course during 1984. During the fourth quarter these rates initially remained fairly stable at the high levels to which they had risen by the end of the third quarter. However, in accordance with the cooling-down of the economy, the improvement of the balance of payments and the somewhat higher exchange rate of the rand at the time, a general downward movement in interest rates commenced in early November. By 16 November the three-month bankers' acceptances rate, for example, had declined from 22,25 per cent at the end of September 1984 to 20,75 per cent. On the same day the clearing banks announced reductions of 1½–2 per cent in their prime overdraft rates, with effect from 19 November. This was followed by a reduction of 1 per cent in the refinancing rates of the Reserve Bank, also with effect from 19 November.

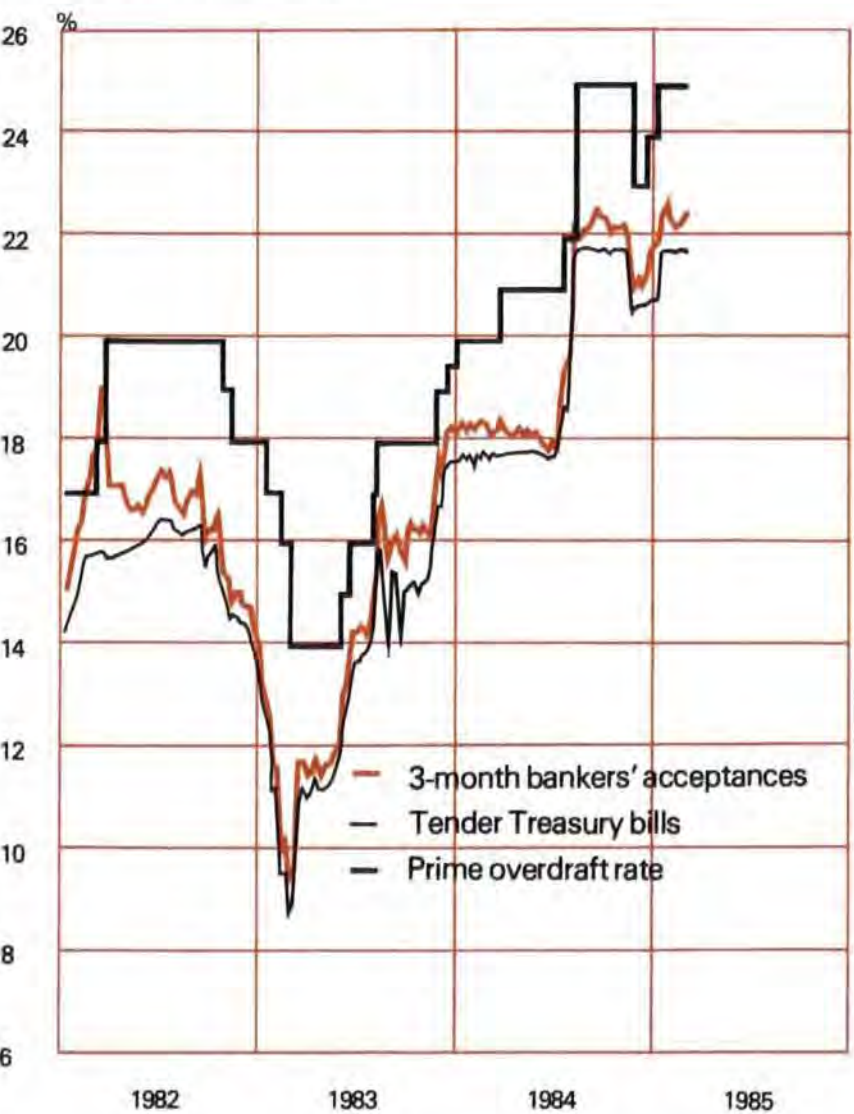
Subsequently, during the second half of December and in early January, short-term interest rates showed

renewed increases in response to a marked further decline in the gold price and an accompanying sharp depreciation of the rand. On 17 December the clearing banks' prime overdraft rates were raised to 24 per cent and, after an increase of 1 per cent in Reserve Bank's refinancing rates on 8 January, they were raised further to 25 per cent. By 25 January the rate on three-month bankers' acceptances had risen to 22,25 per cent, compared with 20,75 per cent on 16 November 1984. Likewise, the Treasury bill tender rate increased from 20,56 on 16 November to 21,79 per cent on 25 January 1985. Short-term rates eased somewhat during most of February, but increased again towards the end of the month as market conditions became progressively tighter. On 1 March the rates on three-month bankers' acceptances and tender Treasury bills amounted to 22,40 per cent and 21,76 per cent, respectively.

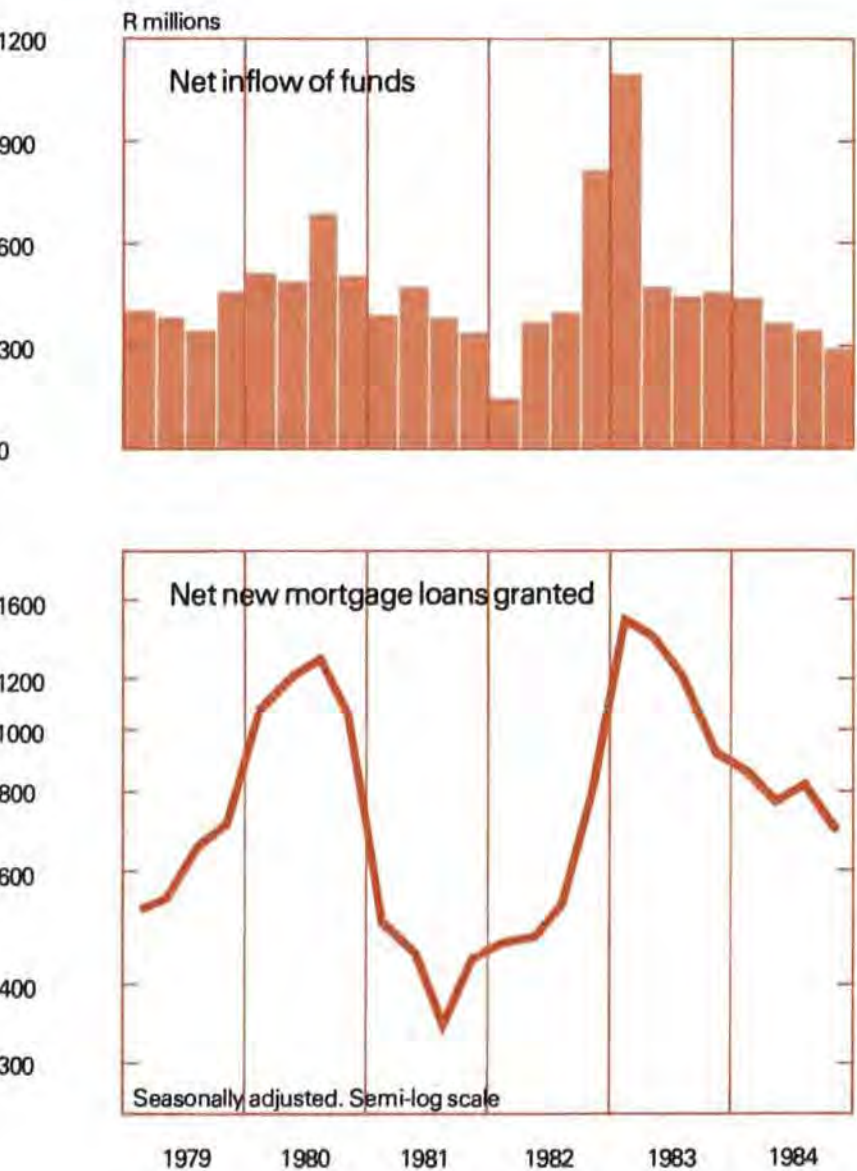
Capital market activity and long-term interest rates

The renewed increase in capital market activity from the second to the third quarter of 1984 was not maintained in the fourth quarter. This was evident in a lower stock exchange turnover in public sector stock as well as in

Short-term interest rates



Building societies



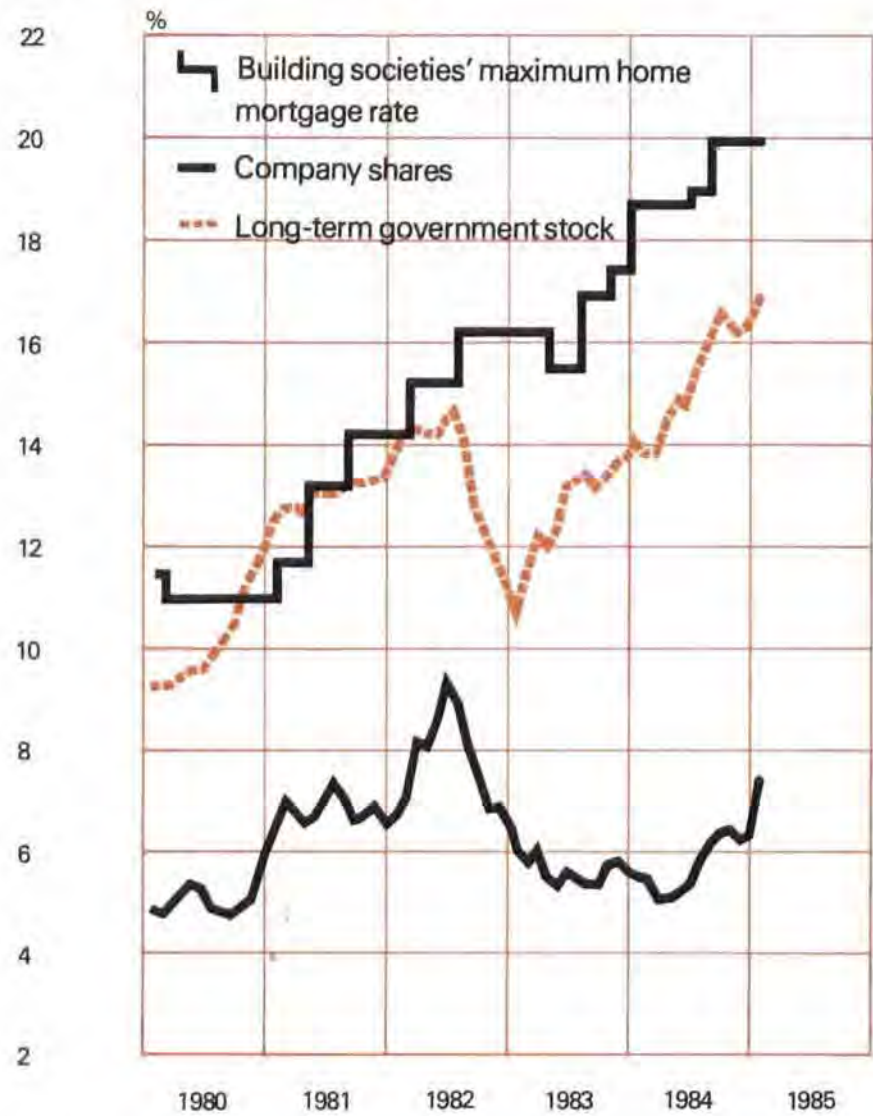
company shares, a decline in the amount of new mortgage loans granted by building societies, and a fall in the value of real estate transactions. In 1984 as a whole, stock exchange turnover in public sector stock increased by 19 per cent and the value of real estate transactions by 7 per cent. On the other hand, stock exchange turnover in company shares declined by 13 per cent in 1984, while the building societies' new mortgage lending fell by as much as 38 per cent. The latter decline resulted from a marked drop of 41 per cent in the net inflow of funds to the societies.

Share prices, which had been declining since March 1984, increased temporarily during the fourth quarter, but resumed a downward movement in January 1985. From their peak in March 1984 to January 1985 share prices declined, on average, by 13 per cent. The average dividend yield on all classes of shares rose from a low of 5,1 per cent in March 1984 to 6,3 per cent in December and to 7,4 per cent in January 1985. Yield increases were more prominent in the case of fixed-interest securities. The yield on long-term government stock, for example, rose from an average of 13,6 per cent in December 1983 to 16,6 per cent in September 1984, before easing to 16,3 per cent in December. In line with other interest rate increases, it moved upwards to an average of 17,4 per cent in February 1985.

After a fairly sharp increase in August 1984, deposit interest rates remained fairly stable during the rest of the year. For example, the predominant rate quoted on twelve-month deposits by banks and building societies remained at the 18 per cent to which it had risen in August. Following the general increase in interest rates from about the middle of December 1984, a major realignment of deposit rates occurred during January and in early February 1985. The predominant rate on twelve-month deposits was kept at 18 per cent, while other deposit rates were raised by between 0,5 and 3,5 per cent.

During the fourth quarter of 1984 and in early 1985 the building societies' mortgage rates remained generally unchanged at the range of 18,25–20,0 per cent that was fixed in August 1984. In October, however, one major building society raised its home mortgage rate for new loans in excess of R60 000 to 23 per cent. In February 1985 another building society followed suit by increasing its rate for similar loans to 21,5 per cent. Also in October, some of the banks increased their rates for new mortgage loans in excess of R60 000 to 25 per cent.

Capital market interest rates

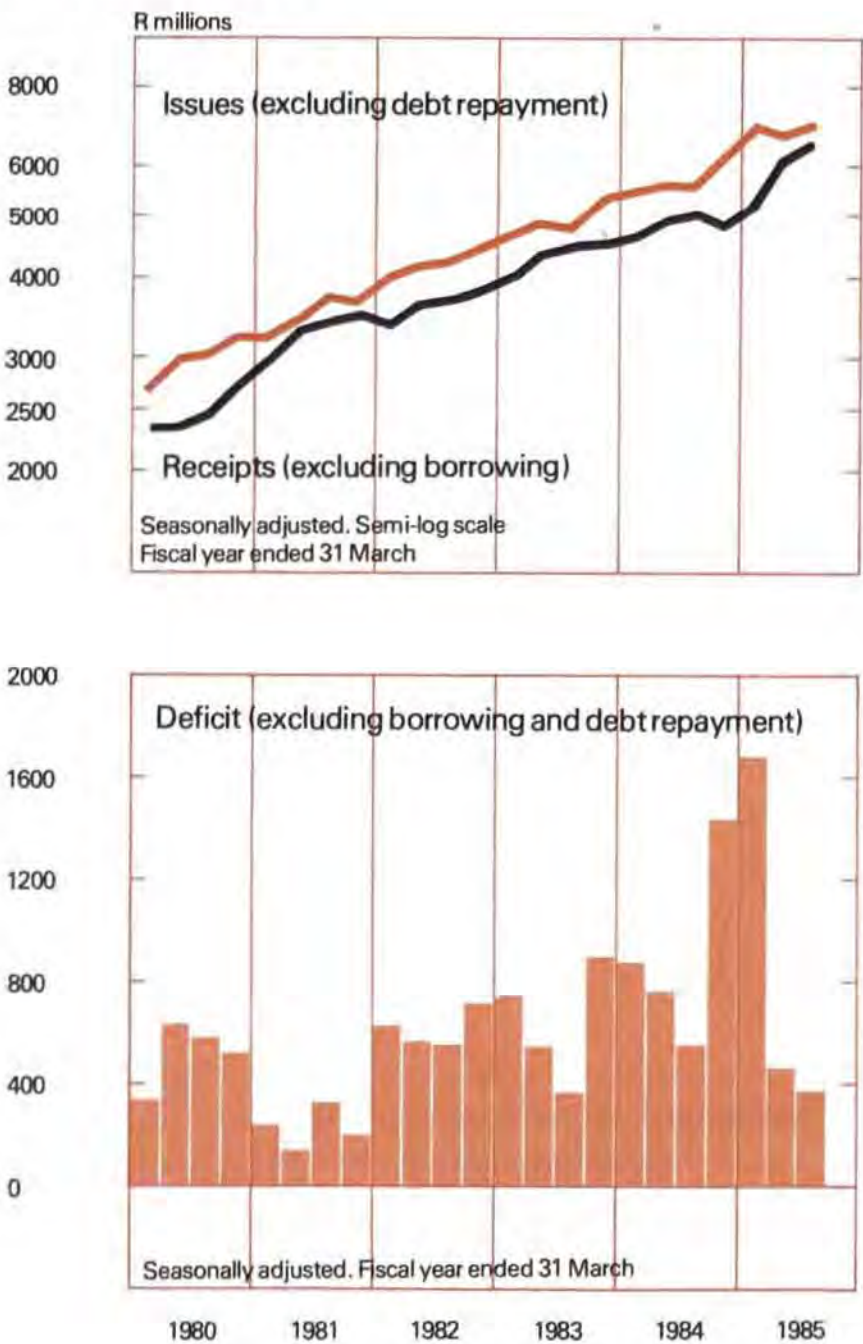


Government finance

Exchequer issues

Compared with the corresponding period in the preceding fiscal year, the increase in Exchequer* issues to government departments accelerated slightly from 22,5 per cent in the first half of the 1984/85 fiscal year to 23,6 per cent in the third quarter of the fiscal year. In the first nine months of the 1984/85 fiscal year, the increase in issues amounted to 22,9 per cent. The Additional Budget, presented to Parliament on 25 February 1985, provided for additional expenditure of R1 436 million (excluding additional statutory appropriations) during the 1984/85 fiscal year. Including this additional amount as well as statutory appropriations, provisional estimates indicate that expenditure could increase by about 22 per cent in the fiscal year as a whole.

Exchequer Account

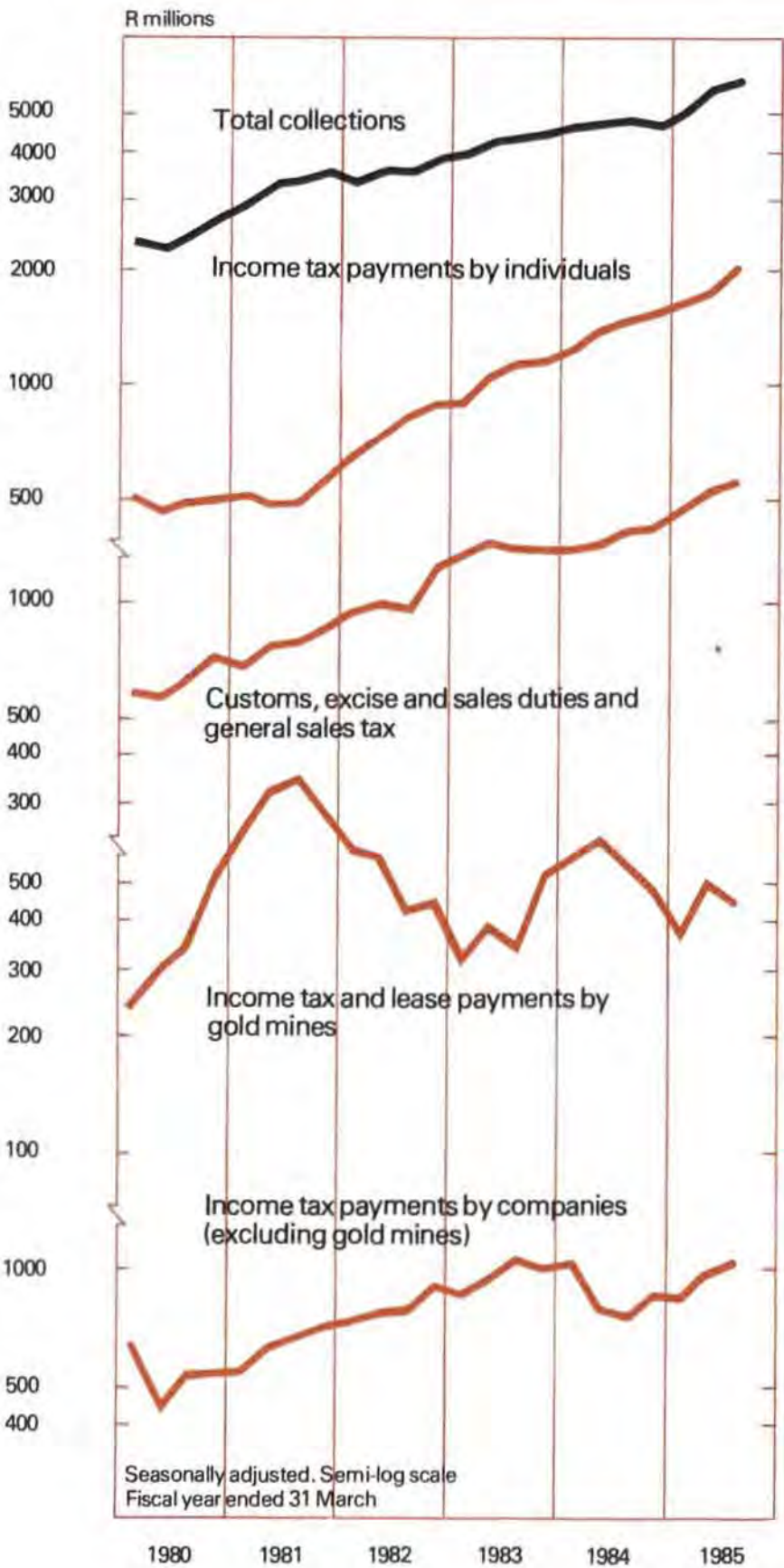


The Exchequer Account is adjusted for changes in the balance on the Paymaster-General Account.

Exchequer receipts

Exchequer receipts were 29 per cent higher in the third quarter of the 1984/85 fiscal year than in the corresponding quarter of the preceding year. In the first nine months of the fiscal year the increase, compared with the corresponding period in the preceding year, amounted to 22,5 per cent. The high rate of increase was partly due to the increase in the general sales tax on most items from 7 to 10 per cent on 1 July 1984 and was attained despite the larger than expected decline in gold mining receipts in

Revenue collections — State Revenue Fund



the form of income tax and mining lease payments. In the first nine months of 1984/85 these receipts were, in fact, 26 per cent lower than in the corresponding period in 1983/84. Excluding revenue from gold mining companies, other receipts on the Exchequer Account were 29 per cent higher in the first nine months of 1984/85 than in the corresponding period in the preceding fiscal year. According to provisional estimates, the rate of increase in total Exchequer receipts in 1984/85 could be slightly higher than the 22,5 per cent recorded in the first nine months.

Financing of Exchequer deficit

The deficit on the Exchequer Account (before borrowing and debt repayment) amounted to R4 082 million in the first nine months of 1984/85. This amount was already well in excess of the original budget estimate for the full fiscal year, but was nevertheless financed without recourse to bank credit. By means of active government debt management, including open-market sales of government stock by the Reserve Bank, the Government's net indebtedness to the monetary banking sector was actually reduced by a substantial amount.

The financing of the Exchequer deficit in the first nine months of 1984/85, i.e. the period from April to December 1984, is indicated below:

	R millions
Monetary banking sector	-882
Public Investment Commissioners	1 506
Non-bank private sector	3 200
Foreign sector	258
Total	4 082

Budget of the South African Transport Services for 1985/86

In the South African Transport Services' Budget for the 1985/86 financial year, presented to Parliament on 20 February 1985, total revenue was estimated at R8 158 million. Included in this amount was the estimated additional revenue resulting from the higher passenger fares and air cargo rates introduced in early February as well as from the average tariff increase of 7,5 per cent from 1 April in respect of goods traffic and harbour charges. Operating expenditure in the 1985/86 financial year was estimated at R8 350 million, leaving a deficit of R192 million. In his budget speech the Minister of Transport Affairs stated that without tariff adjustments, the expected deficit in 1985/86 would have amounted to more than R750 million. Capital expenditure was estimated at R1 650 million, R100 million less than the budget figure for the preceding financial year.

Budget of Department of Posts and Telecommunications for 1985/86

In the Budget of the Department of Posts and Telecommunications for the 1985/86 financial year, operating expenditure was estimated at R2 739 million, an increase of 10,7 per cent over the preceding year. A further R293 million would also be required mainly for loan redemptions and the staff housing scheme. At the existing tariffs, income in 1985/86 was estimated at R2 700 million, which left an operating deficit of R332 million. This deficit would be financed by means of an average tariff increase of 14,8 per cent in telecommunication and postal tariffs from 1 April 1985. It was estimated that additional income of R400 million would be derived from the higher tariffs, resulting in an operating surplus of R68 million. Capital expenditure was estimated at R1 345 million, 15 per cent more than in 1984/85.