

Quarterly economic review

Introduction

The South African economy in the first quarter of 1987 continued to perform well in various respects. Having increased at annual rates of more than 4½ per cent in the third and the fourth quarters of 1986, the real gross domestic product was provisionally estimated to have advanced further in the first three months of 1987 at an annual rate of approximately 3¼ per cent. Rates of increase in excess of this average were displayed by the non-primary producing sectors of the economy. Domestic output data from the middle of 1985 therefore now present a picture of an economy that, after an earlier period of vacillation, has been on a decisive, moderately vigorous, upward course from approximately the middle of 1986.

A renewed strong increase was recorded in real gross domestic expenditure. Contrary to earlier recoveries in domestic expenditure in the course of 1986, however, the rebound in spending in the first quarter of 1987 was accounted for primarily by increases in so-called real "final demand", i.e. in the total of real private and government consumption expenditure and real gross domestic fixed investment. Changes in inventories in the first quarter did not make a positive contribution to aggregate real domestic demand.

A sharp rise was recorded in real government consumption expenditure. The rate of increase in real private consumption expenditure, having slowed down in the fourth quarter of 1986, firmed again to an annualised level of approximately 4½ per cent in the first quarter of 1987. Against this, the encouraging recovery in aggregate real gross domestic fixed investment in the second half of 1986 was not sustained in the first three months of 1987. Major cutbacks were effected in real fixed capital spending by public corporations. In addition, there was a disappointing drop in real fixed capital outlays by private manufacturing industry. Total real gross fixed investment by the private sector nevertheless rose significantly faster in the first three months of 1987 than in the final three months of 1986.

In accordance with the rising levels of real output and expenditure, the volume of merchandise imports rose substantially in the first quarter of 1987. A very considerable surplus, although smaller than the exceptionally large surplus of the final quarter of 1986, nevertheless continued to be recorded on the balance of payments on current account. Supported by a small inflow of foreign capital "not related to reserves", the strong performance of the current account also caused the foreign reserves to rise impressively in the first quarter and April 1987, notwithstanding a substantial further

reduction in "reserve-related" liabilities as a result of debt repayments.

"Confidence" and the general business mood improved further in the months to May 1987 under the impact of developments such as the rise in the foreign reserves; a further firming of the exchange rate of the rand; a higher average level of the dollar price of gold in April and parts of May; the successful negotiation of a new debt standstill agreement with foreign creditor banks in the second half of March; some firming of the demand for labour in the second half of 1986 and the first few months of 1987; some recent improvements in retail sales and an encouraging upturn in the sales of new motor vehicles; lower inflation rates, as recorded in the first few months of 1987; a strong further rise in share prices through April and most of May; and a strengthening of mortgage demand and a firming of prices in the fixed property market.

Improved foreign perceptions of the South African economic and socio-political situation and prospects had become apparent in the first quarter of 1987 from an enhanced foreign interest in South African fixed-interest-bearing securities and gold mining shares, and from a markedly lower level of the discount of the financial vis-à-vis the commercial rand. A sounder financial footing for future household and business spending was apparent from the shrinking number of insolvencies, liquidations, and summonses for debt. Less encouragingly, the personal savings ratio in the first quarter of 1987, as in the second half of 1986, remained at uncommonly low levels that, in the absence of mitigating developments, obviously would set limits to future expansion of real consumer demand. In addition, the mild rise in the demand for labour as yet failed to make a significant impression on the total number of registered unemployed.

The twelve-month growth rate in the broadly defined money supply, M3, slowed down further in January and February 1987 but picked up fairly significantly in March and April. At a provisionally estimated 10,7 per cent, the seasonally adjusted annual rate of increase in M3 from the beginning of the 1987 targeting year up to the end of April was, however, still well below the 14 per cent lower limit of the new targeting range; slow growth in M3 caused its velocity of circulation to be speeded up further by 3,3 per cent from the fourth quarter of 1986 to the first quarter of 1987. Significantly higher rates of increase were, however, recorded in the narrower monetary aggregates.

Relatively tardy expansion of M3 continued to be explained, in accounting terms, by the relatively very low

rate of increase in credit extended by "monetary" institutions. Households in particular still remained reluctant to assume new financial obligations. More generally, the marked and unusual absence of any significant revival in the demand for bank credit from private sector parties continued to be explained by a variety of "disintermediation" phenomena in the broadest sense of the term.

Despite various short-term fluctuations, money market rates on balance showed little further change in the course of the first five months of 1987. Bank rate was maintained at 9½ per cent throughout this period. Two changes were, however, effected by the Reserve Bank to its various procedures for providing accommodation to the money market. Firstly, as from the month-end of March 1987, funds made available from time to time by the Corporation for Public Deposits had to be tendered for by the banks and the discount houses instead of being offered to the discount houses at a predetermined interest rate. Secondly, as from 18 May 1987 the differentials between the Reserve Bank's various rediscount rates on money market instruments as for the discount houses and for the banks were reduced from 25 to 15 points.

The capital market in the first quarter and April 1987 witnessed another surge in trading activity. New record highs were recorded in the value of transactions in public sector stock and in company shares on the Johannesburg Stock Exchange. In April, the average dividend yield on all classes of shares was bid down to less than 4 per cent. Long-term interest rates declined slightly further in the course of the first quarter but increased moderately in April and May.

The eventual stimulatory impact of fiscal policy in the fiscal year 1986/87 was substantially larger than the impact that had been aimed at in preparing the 1986/87 Budget as presented in March 1986. The deficit before borrowing for the year, as reported by the Minister of Finance in his Budget speech of 3 June 1987, amounted to R6 191 million, or to 4,1 per cent of gross domestic product. In view of the room for further expansion still existing in the economy, the central government's Budget for 1987/88 was also meant to be expansionary. A stimulatory effect on the economy would be exerted *inter alia* through the "inter-related paths" of the budgeted increase in government expenditure, the various tax concessions that had already been announced in the Minister's Part Appropriation speech in February 1987, and the resultant increase in the deficit before borrowing. The Budget proposals provided for an increase of 16,2 per cent in expenditure, an increase of 12,6 per cent in revenue, and a deficit before borrowing of the order of 4,7 per cent of the gross domestic product.

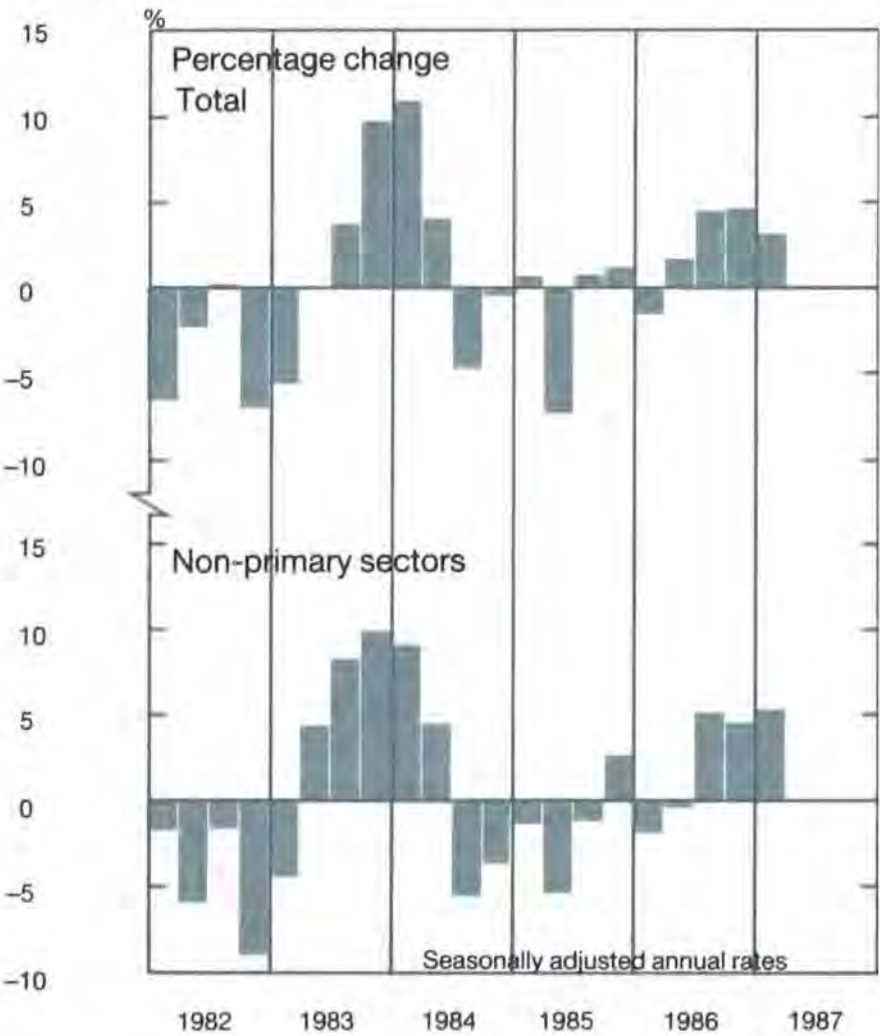
Domestic economic developments

Domestic output

The fairly impressive advance in real gross domestic product recorded in the second half of 1986 was continued in the first quarter of 1987 but at a somewhat lower rate. The seasonally adjusted annualised rate of increase in real gross domestic product amounted to slightly more than 4½ per cent in both the third and fourth quarters of 1986. Present estimates show it to have amounted to approximately 3¼ per cent in the first quarter of 1987. Domestic output data from the middle of 1985 therefore now present a picture of an economy that, after an earlier period of vacillation, has been on a decisive, moderately vigorous, upward course from approximately the middle of 1986.

Growth rates significantly in excess of the growth rate in total real domestic production were displayed by the non-primary producing sectors of the economy. The average annualised rate of increase in real value added by these sectors during the past three quarters to March 1987, amounted to approximately 5 per cent. Notable contributions to higher real output levels

Real gross domestic product



during these three quarters were made by manufacturing industry and by the wholesale, retail and motor trades; together, these four sectors accounted for approximately 45 per cent of total real gross domestic output in 1986. Output gains shown by these sectors in the first quarter of 1987 were, however, partly neutralised by declines in real value added by agriculture and the mining industry.

The real gross *national* product rose considerably in the third quarter of 1986 but decreased by about 2½ per cent in the fourth quarter and showed only a small increase of approximately 1½ per cent in the first quarter of 1987. To a major extent, the earlier rise in real gross national product in the third quarter of 1986 and its subsequent decline in the fourth quarter were a reflection of a material improvement and subsequent deterioration in the South African terms of trade.

Gross domestic expenditure

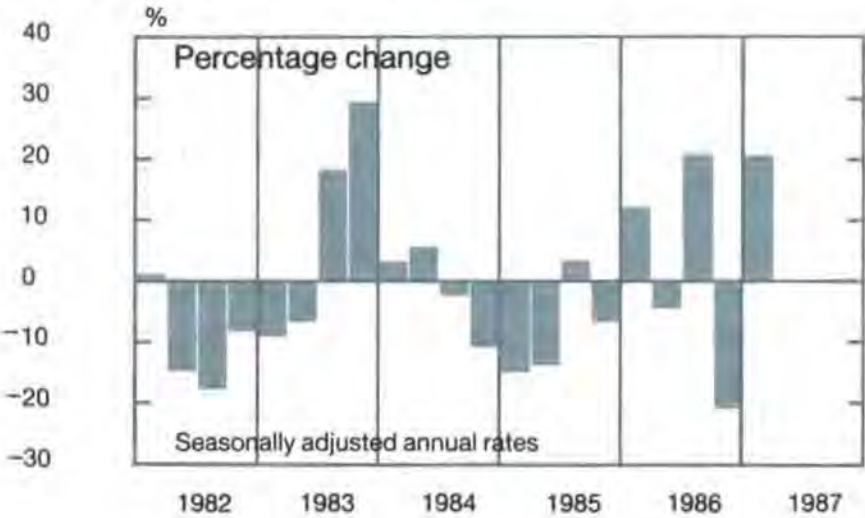
Real gross domestic expenditure fell back sharply in the fourth quarter of 1986 but recovered strongly in the first quarter in 1987. Unlike earlier recoveries in domestic spending in the first and third quarters of 1986, however, the rebound in spending in the first quarter of 1987 was accounted for mainly by increases in so-called real "final demand", i.e. in the total of real private and government consumption expenditure and real gross domestic fixed investment; changes in inventories did not make a positive contribution to the first-quarter increase in real aggregate domestic demand.

Real private consumption expenditure advanced strongly at an annual rate of some 5 per cent during the third quarter of 1986, but at a substantially lower rate of some 2 per cent in the fourth quarter. It then showed a substantial further increase, however, in the first

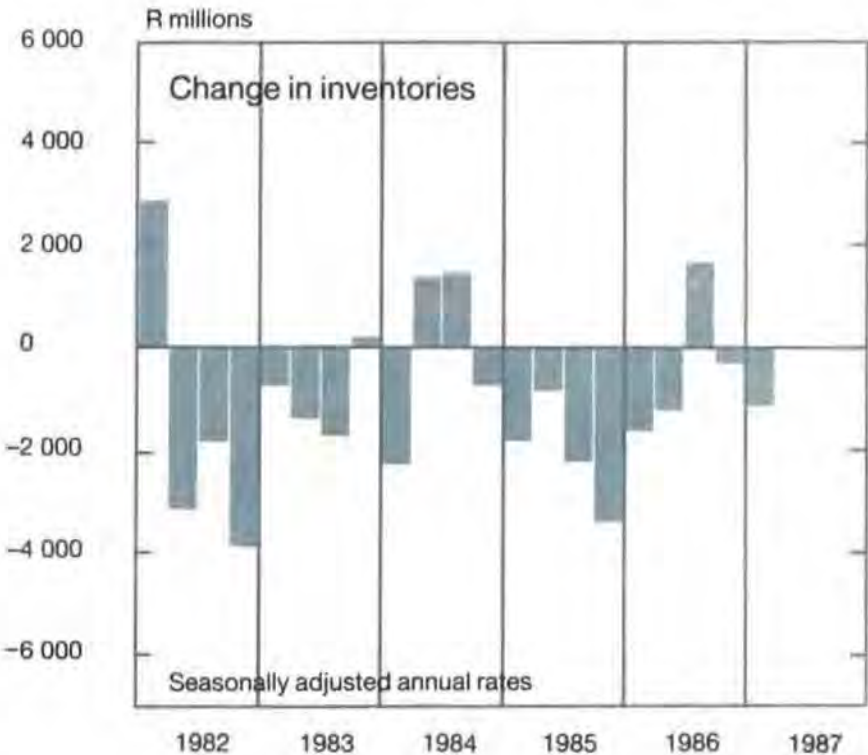
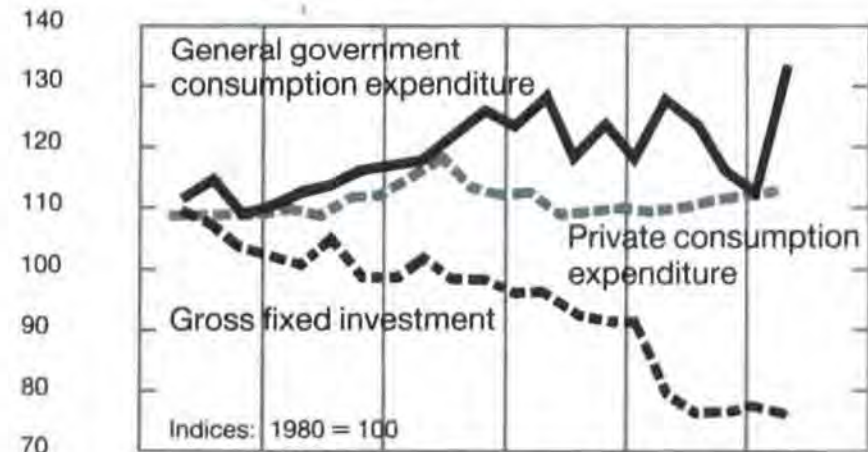
quarter of 1987. This was attributable mainly to strong increases in spending on consumer durables (notably on new motor cars) and, to a lesser extent, also on semi-durable consumer goods. The renewed more vigorous expansion of real private consumption expenditure in the first quarter of 1987, at a rate of some 4½ per cent, derived considerable support from a rise in aggregate real personal disposable income. Growth in total real personal disposable income in the first quarter was estimated to have reached an annualised rate of approximately 3½ per cent.

Total real private consumption expenditure in the first quarter of 1987 was some 3½ per cent higher than its recent low in the first quarter of 1986. It still fell short, however, by some 4½ per cent of its peak level in the final stages of the 1983/84 "mini-boom" in the second quarter of 1984. Major leeway remained to be made up in regaining earlier levels of expenditure on consumer durables. Total real durable consumption

Real gross domestic expenditure



Main components of gross domestic expenditure



expenditure in the first quarter of 1987 actually was no higher than in the second quarter of 1985.

Real *government* consumption expenditure rose very sharply in the first quarter of 1987. Declines in this kind of expenditure during the preceding three quarters therefore now appear to have represented postponements of such expenditure rather than a shift to durably lower levels. After its major increase in the first quarter of 1987, total real government consumption expenditure in the course of the *fiscal* year 1986/87 was only marginally lower than in fiscal 1985/86.

The encouraging rise in aggregate real gross domestic fixed investment in the fourth quarter of 1986 was not sustained in the first quarter of 1987. The moderate decline in total real fixed investment that was recorded during this quarter was accounted for primarily by substantial reductions in fixed capital spending by public corporations. These reductions more than offset increases in fixed investment by the private sector and public authorities. Major cutbacks were recorded in real fixed capital outlays by Escom and the South African Transport Services.

The moderate contraction of total real fixed investment in the first quarter of 1987 also comprised a disappointing drop in real fixed capital outlays by private manufacturing. Capital outlays by private manufacturing once again fell short of capital consumption allowances. As a result, total production capacity in private manufacturing industry shrank slightly further to a level equivalent to production capacity as at the beginning of 1983. Major increases were recorded, however, in real fixed capital expenditure by private mining corporations and, to a more limited extent, also in private residential building. These various increases more than made up for the declines in private fixed invest-

ment in other areas of the economy. Total real gross domestic fixed investment by the private sector therefore actually rose significantly faster in the first quarter of 1987 than in the fourth quarter of 1986.

Real inventories declined further in the first quarter of 1987. Major cutbacks of inventory levels were recorded in the industrial and commercial sectors. By the end of the first quarter of 1987, inventories in these sectors had been declining for seven consecutive quarters. Reductions were also made in diamond and mining stocks. Contrary to common business cycle experience, the further "rationalisation" of inventories in the first quarter of 1987 was effected in the face of a substantial rise in the volume of merchandise imports and despite the present low level of real interest rates. The decline in commercial and industrial inventories in the first quarter of 1987 caused the ratio of these inventories to gross domestic product of the non-agricultural sectors of the economy to drift down further to a low of less than 20 per cent.

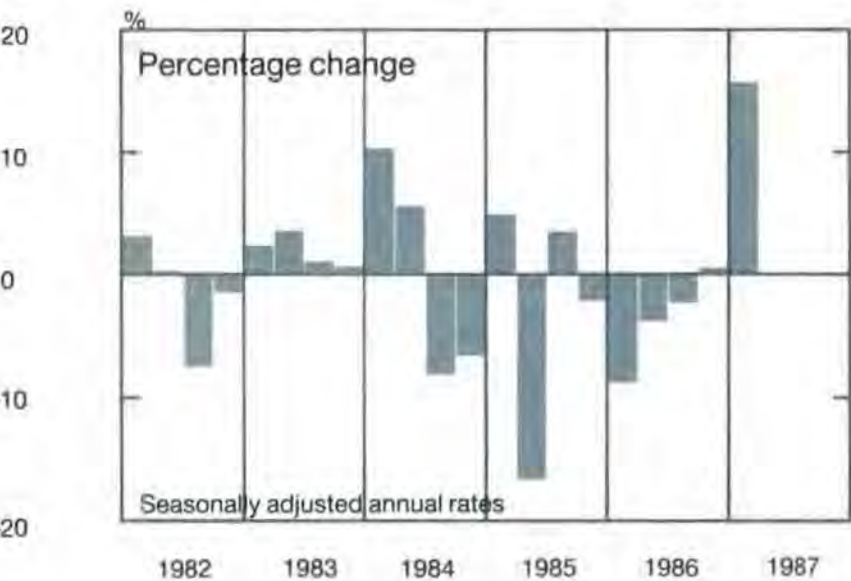
Factor income and saving

Aggregate nominal factor income increased strongly during the second half of 1986. This strong growth was largely but not fully maintained in the first quarter of 1987. Aggregate nominal remuneration of employees continued to rise at a rate that exceeded the rise in the consumer price index. The resultant improvement in aggregate real household incomes could be attributed mainly to the higher average level of nominal wage settlements in 1986 than in 1985 and, to a limited extent, also to somewhat higher levels of employment in the course of the year. As noted in a subsequent section, however, the increases in aggregate real labour remuneration from the second quarter of 1986 were not sufficient to prevent a decline in the average real wage *per worker* from the year 1985 to the year 1986. The average real wage per worker also continued to be lower, although to a diminishing degree, in the various quarters of 1986 than in the corresponding quarters of 1985.

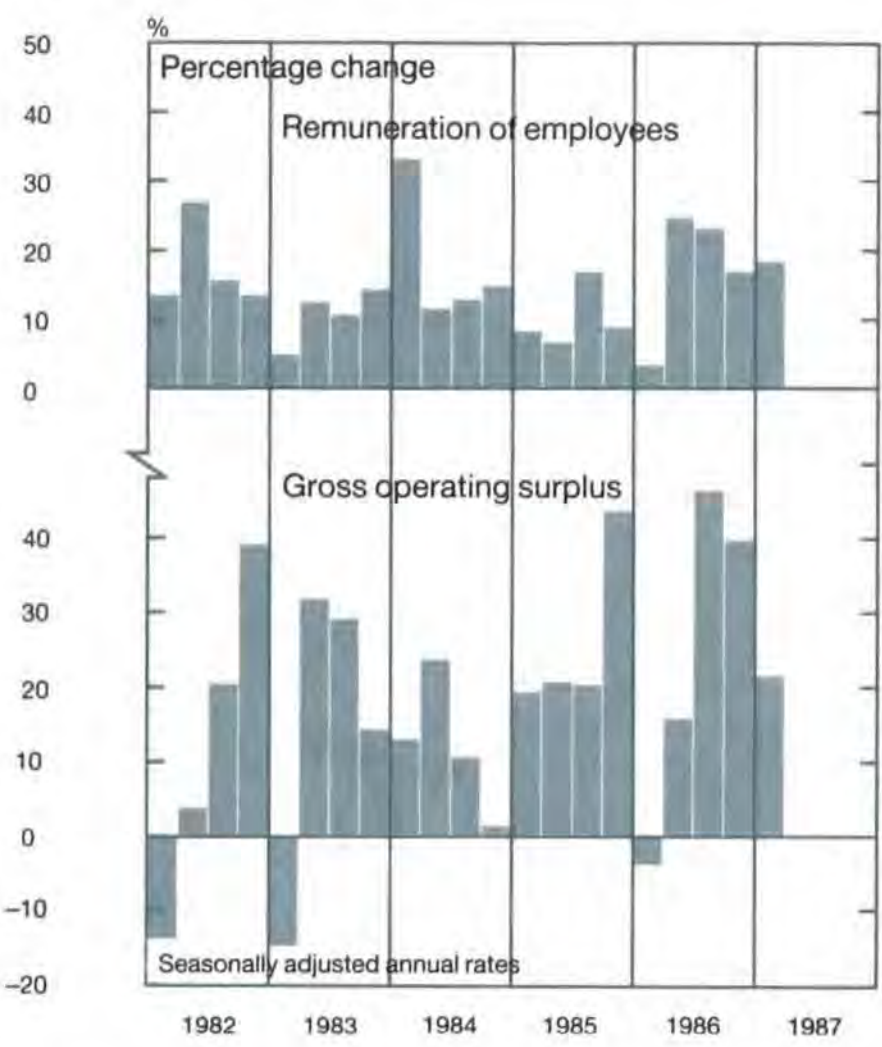
Gross operating surplus, representing the remainder of total factor income, continued to rise mainly under the impact of the improved profit performances of businesses in the manufacturing sector, trade and financial services.

A decline in gross domestic saving, in conjunction with the rising level of gross domestic product at current prices, caused the domestic savings ratio in the first quarter of 1987 to decrease to 22 per cent. This meant a return to the relatively low levels of this ratio that had been recorded in the middle quarters of 1984 and compared poorly with the ratio of 27 per cent that had been registered in the second quarter of 1985. Weakening of the domestic savings performance in the first three

Real gross domestic final demand



Factor income



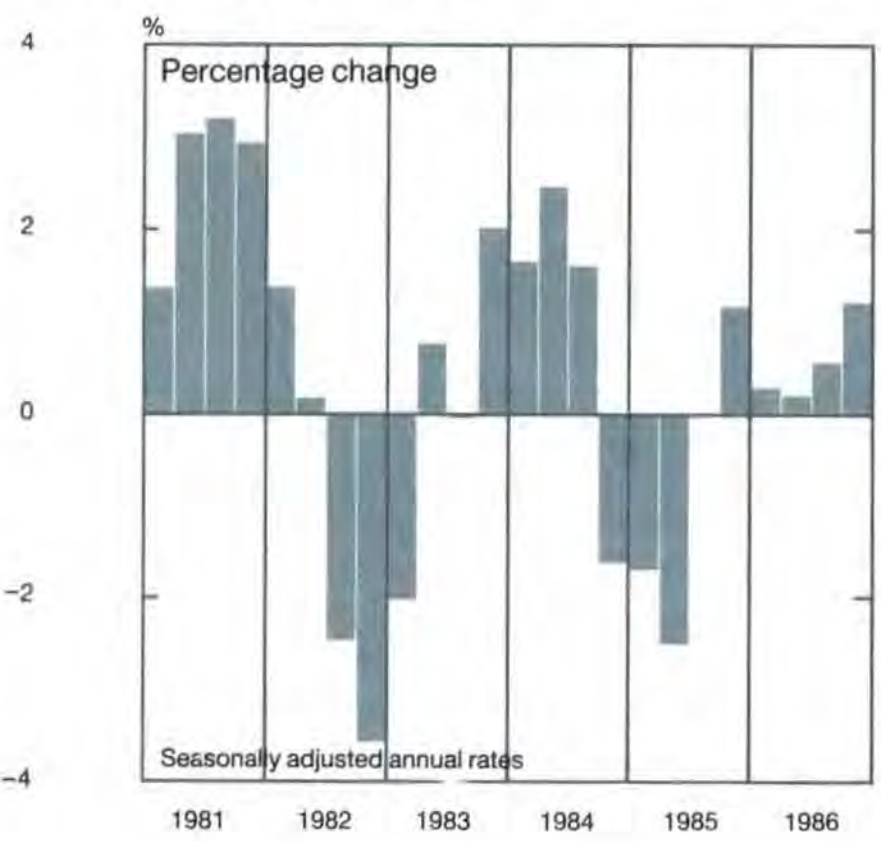
months of 1987 was accounted for mainly by substantial dissaving by general government, reflecting the sharp rise in current government expenditure during this period. At the same time, however, only limited increases were shown by net corporate saving, net personal saving and allowances for capital consumption. Little change accordingly was shown by the ratio of personal saving to personal disposable income from its very low level of approximately 1½ per cent in the third and fourth quarters of 1986.

Employment

The degree of utilisation of production capacity in the economy rose moderately in the second half of 1986 in accordance with the accelerated rise in physical output. In the labour market this was apparent from a mild rise in employment outside agriculture and from some decline in the numbers of unemployed.

Employment in the non-agricultural sectors of the economy remained virtually unchanged during the first two quarters of 1986, but rose at annualised rates of 0,6 per cent and 1,2 per cent in the third and fourth quarters, respectively. Higher employment levels in the second half of the year resulted from further increases in employment by public authorities in the

Non-agricultural employment



third and fourth quarters and – after three consecutive quarterly declines – also from an increase in private sector employment in the fourth quarter. The increased demand for labour, which was also apparent from an increase in overtime worked, was broadly-based. It was, however, modest by the standards of earlier cyclical upswings and did not extend to, for example, the trading sectors, electricity generation or the banking industry. Further increases in employment were reported by manufacturing industry in the first quarter of 1987.

Although the difficulties of measuring unemployment and underemployment are well known, various unemployment statistics nevertheless showed the unemployment situation to have improved from the second half of 1986. The seasonally adjusted number of registered unemployed fluctuated around 130 000 in the course of the year. It rose to approximately 132 000 in January 1987 but declined to about 125 000 in March. Registered unemployment among non-Black workers fell back more pronouncedly from a peak of 83 000 in September 1986 to 69 000 in March 1987. Black unemployment was shown by the revised Current Population Survey for Blacks to have declined from 1 181 000, or about 20 per cent of the economically active Black population, in July 1986, to 1 050 000, or about 17½ per cent of the economically active population, in January 1987.

Labour costs and productivity

The average amount of salaries and wages per worker in the non-agricultural sectors of the economy rose by

11,2 per cent in 1985 and by 14,4 per cent in 1986. The seasonally adjusted rate of increase in nominal remuneration per worker accelerated sharply in the second quarter of 1986 but levelled off in the third and fourth quarters. At its higher rate in 1986, the increase in the average nominal wage nevertheless still fell short of the rise in the consumer price index. Real remuneration per worker consequently declined by 3,6 per cent from 1985 to 1986. The average real wage per worker in the fourth quarter of 1986 also was 2,0 per cent lower than in the fourth quarter of 1985, and no less than 9,1 per cent lower than the high point in the average real wage in the first quarter of 1984.

Labour productivity, as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy, declined by 0,6 per cent in 1986. This was partly due to a sharp increase in the number of man-days lost on account of industrial disputes and work stoppages, which rose from 678 000 in 1985 to 1 309 000 in 1986. Productivity recovered significantly, however, in the third and fourth quarters of 1986, when it increased at seasonally adjusted annual rates of 2,9 and 3,4 per cent. This was mainly a reflection of the accelerated rise in aggregate physical output during this period.

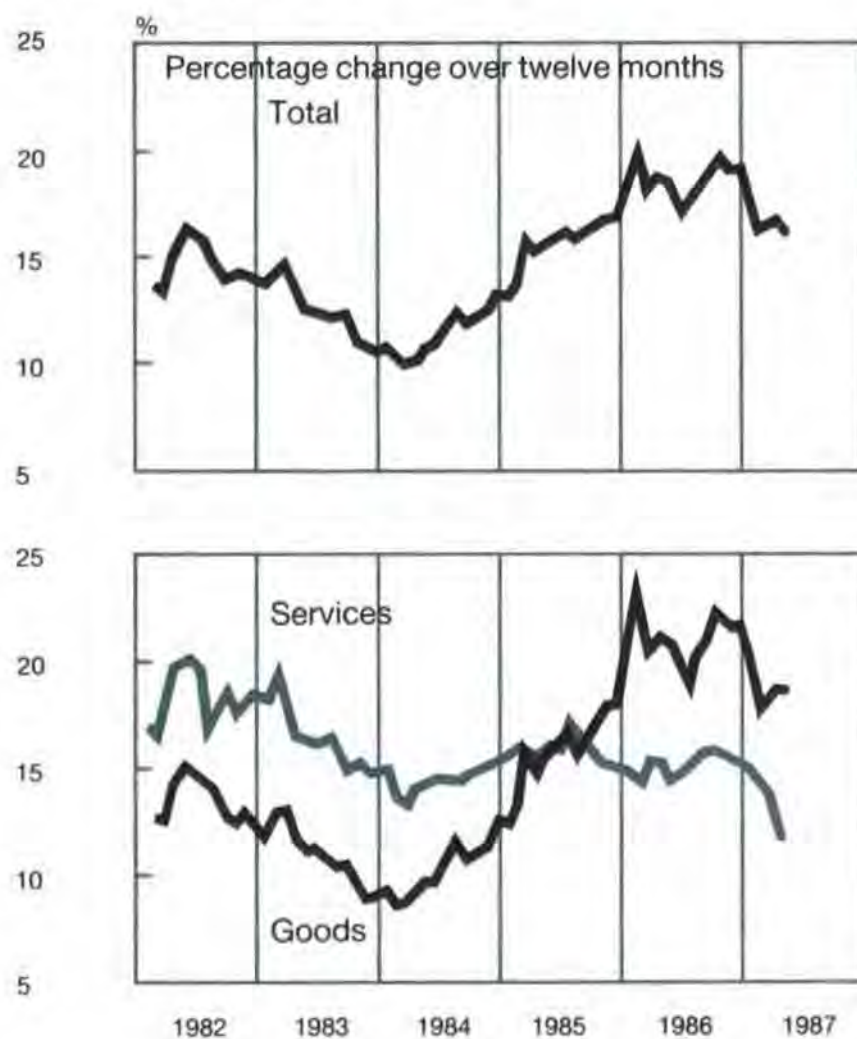
Larger percentage increases in money wages, in conjunction with lower labour productivity, caused the rise in unit labour costs to accelerate from 12,3 per cent in 1985 to 15,0 per cent in 1986. On a quarter-to-quarter basis this rate slowed down sharply, however, from 25,3 per cent in the second quarter of 1986 to only 8,8 per cent in the fourth quarter.

Prices

Shorter-term rises and declines in the various inflation rates in the course of 1986 and the first quarter of 1987 mainly reflected the lagged effects of the depreciation of the rand in 1985 and of fluctuations in the exchange rate of the rand in 1986 on the prices of imported goods. In addition, the rise in the average price level of foodstuffs accelerated sharply during the second half of 1986 and in the first quarter of 1987. To some extent, this represented the effect of a relative under-supply of items such as meat and vegetables.

On a quarter-to-quarter basis, the increase in the overall consumer price index (at seasonally adjusted annual rates) slowed down from 20,7 per cent in the third quarter of 1986 to 15,1 per cent in the first quarter of 1987. This decline reflected lower rates of increase in the cost of housing and of certain other consumer services in the fourth quarter of 1986 and the first quarter of 1987. It also incorporated the effect of lower rates of increase in the prices of certain consumer durables, such as motor cars and furniture, in the first quarter of 1987.

Consumer prices



The twelve-month rate of increase in the consumer price index advanced from a low point of 16,6 per cent in June 1986 to 20,0 per cent in September but then declined significantly to 16,1 per cent in January 1987. It subsequently rose to 16,8 per cent in March 1987 but fell back to 16,2 per cent in April.

The rate of increase in the production price index accelerated to 18,3 per cent in the third quarter of 1986 but slowed down during the subsequent two quarters to 13,7 per cent in the first quarter of 1987. The marked rise in the exchange value of the rand from mid-June to late-September 1986 and further firming of the exchange rate in subsequent months were a major contributory factor in causing the average price level of imported goods actually to show a decline in January and February 1987. Measured over twelve months, the rate of increase in the overall production price index rose from 19,1 per cent in June 1986 to 20,7 per cent in October. It then declined markedly to 14,5 per cent in February 1987 before reverting to 15,9 per cent in March.

Balance of payments

Current account

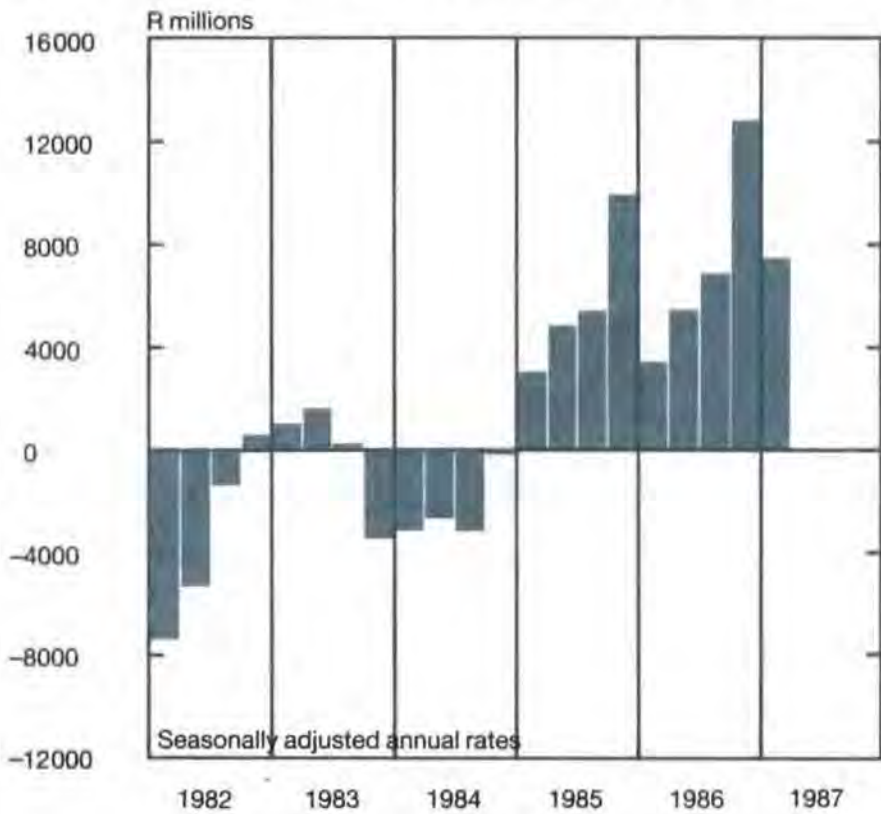
A substantial surplus – the ninth consecutive quarterly surplus since the beginning of 1985 – was recorded on the current account of the balance of payments in the first quarter of 1987. This surplus was considerably smaller than the record surplus of the fourth quarter of 1986 but still substantially larger than the average surplus in the first three quarters of 1986. The decline in the surplus, at seasonally adjusted annual rates, from R12,9 billion in the fourth quarter of 1986 to R7,4 billion in the first quarter of 1987 was accounted for essentially by a combination of a marked decline in the value of merchandise exports and a significant rise in the value of merchandise imports.

Calculated at seasonally adjusted annual rates, the value of merchandise exports fell back from R27,3 billion in the fourth quarter of 1986 to R24,9 billion in the first quarter of 1987, or by some 9 per cent. A moderate increase in the value of agricultural exports was more than offset by a substantial decline in mineral exports, notably in exports of coal.

The overall decline in the value of merchandise exports was a reflection of lower export volumes as well as of a lower average level of export prices. Export prices, in domestic currency, declined significantly (i.e. by an average of 4 per cent) from the fourth quarter of 1986 to the first quarter of 1987. This could be attributed mainly to continued weakness in the international commodity markets and to a further strengthening of the average effective exchange rate of the rand.

The value of merchandise imports rose by approximately 10½ per cent from the fourth quarter of 1986 to the first quarter of 1987. This rise was more than

Balance of payments:Balance on current account



fully accounted for by a rise in import volumes. Rising import volumes, in turn, clearly were related to the continued recovery of output levels in the South African economy and to the renewed rise in real gross domestic expenditure. The volume of imports in the first quarter of 1987, however, still fell well short of the temporary peak in imports that had been recorded in the third quarter of 1986.

As in the case of merchandise exports, the average price level of merchandise imports declined in the first quarter of 1987. This was mostly a matter of the higher average effective exchange rate of the rand. The effect

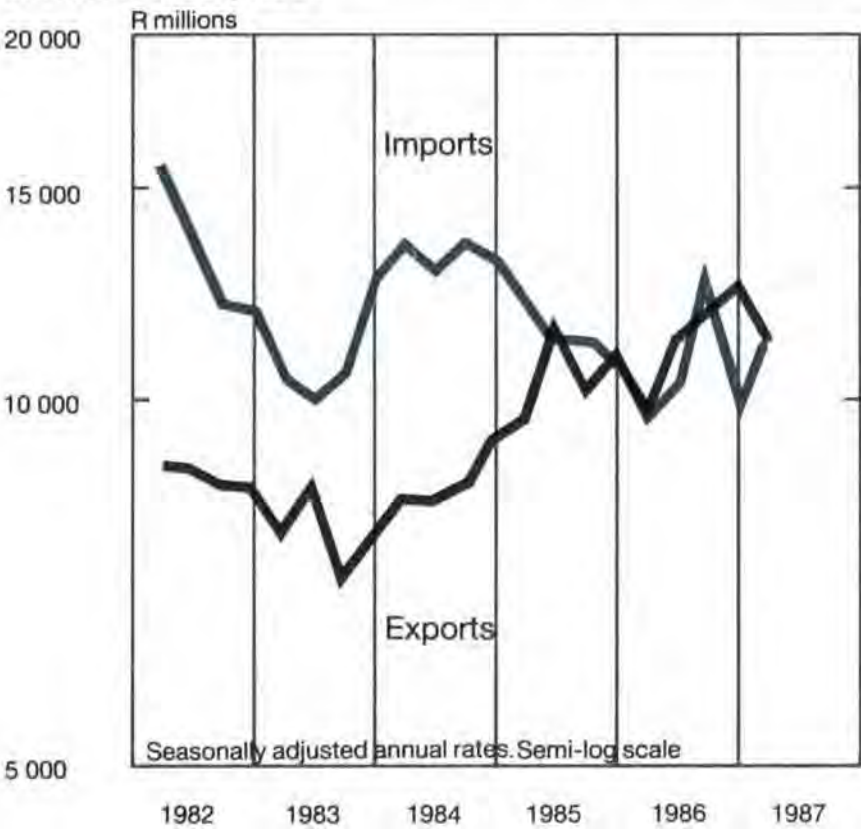
Current account of balance of payments

Annualised seasonally adjusted figures

R millions

	1986					1987
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	20 760	23 807	27 321	27 340	24 807	24 930
Net gold exports	14 854	15 768	18 370	17 884	16 719	17 680
Merchandise imports	-23 752	-24 619	-30 579	-23 638	-25 647	-26 180
Trade balance	11 862	14 956	15 112	21 586	15 879	16 430
Net service and transfer payments	-8 284	-9 380	-8 220	-8 668	-8 638	-9 000
Current account balance	3 578	5 576	6 892	12 918	7 241	7 430

Merchandise imports and exports at constant 1980 prices



of further exchange rate appreciation was supported, however, by continuing low inflation rates in trading partner countries and by a mild decline in the quarterly average level of prices in the international oil market.

Net gold exports declined slightly in the first quarter of 1987 because of a decline in the average rand price of gold. The average dollar price of gold actually rose marginally from \$404 per fine ounce in the fourth quarter of 1986 to \$406 in the first quarter of 1987. Appreciation

of the rand vis-à-vis the US dollar, however, caused the rand price of gold to decline significantly from R904 to R844 over the same period. The effect of the rand price decline on the net gold exports was offset to some extent by a small rise in physical gold production.

The dollar price of gold rose significantly from the end of March 1987 to a peak in the fixing price of \$476,60 on 27 April. The fixing price fell back, however, to \$453,00 the following day. On 18 May, it again exceeded \$476. The average price of gold per fine ounce during April and May amounted to \$450 or to R905; this may be compared with a dollar price of \$341 and a rand price of R724 in the corresponding period of 1986.

Capital account

The capital account of the balance of payments had weakened substantially during the fourth quarter of 1986, when it had shown a total net outflow of capital (not related to reserves) of as much as R3,5 billion. In the first quarter of 1987, however, a small net inflow of R533 million was recorded. Changes in the movements of both long-term and short-term capital were involved in this marked improvement of the capital account.

Long-term capital movements turned around from a net outflow of R759 million in the final quarter of 1986 to a net inflow of R120 million in the first quarter of 1987. The main reason for this change-over was to be found in a considerable net inflow of long-term foreign funds to public corporations. The resumption of substantial net new foreign lending to public corporations comprised drawings on existing loan facilities for

Net capital movements, excluding liabilities related to reserves

R millions

	1986					1987
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Long-term capital						
Public authorities	-195	-70	19	-59	-305	-7
Public corporations	30	-110	21	-16	-75	347
Banking sector	-43	-33	-5	-13	-94	-29
Private sector:						
Net purchases of listed securities by non-residents	-404	-117	-278	-566	-1 365	-209
Other	-2	-146	-88	-105	-341	18
Total	-614	-476	-331	-759	-2 180	120
Short-term capital including unrecorded transactions	-860	-584	238	-2 753	-3 959	413
Total capital movements	-1 474	-1 060	-93	-3 512	-6 139	533

project financing as well as a taking-up of new long-term foreign loans. At the same time, net sales by foreigners of securities listed on the Johannesburg Stock Exchange also fell back sharply from R566 million in the final three months of 1986 to only R209 million in the first quarter of 1987. Because of the financial rand system, such sales do not, of course, result in an actual loss of foreign exchange.

The large net outflow of short-term capital not related to reserves but including unrecorded transactions of R2,8 billion in the fourth quarter of 1986, also was transformed into a net inflow, amounting to R413 million, in the first quarter of 1987.

In addition to these non-reserve-related capital movements, the banking sector and the Government reduced their reserve-related short-term foreign liabilities by a further R677 million. Of this amount, R240 million represented repayments on South Africa's 1982 loan from the International Monetary Fund.

Foreign reserves

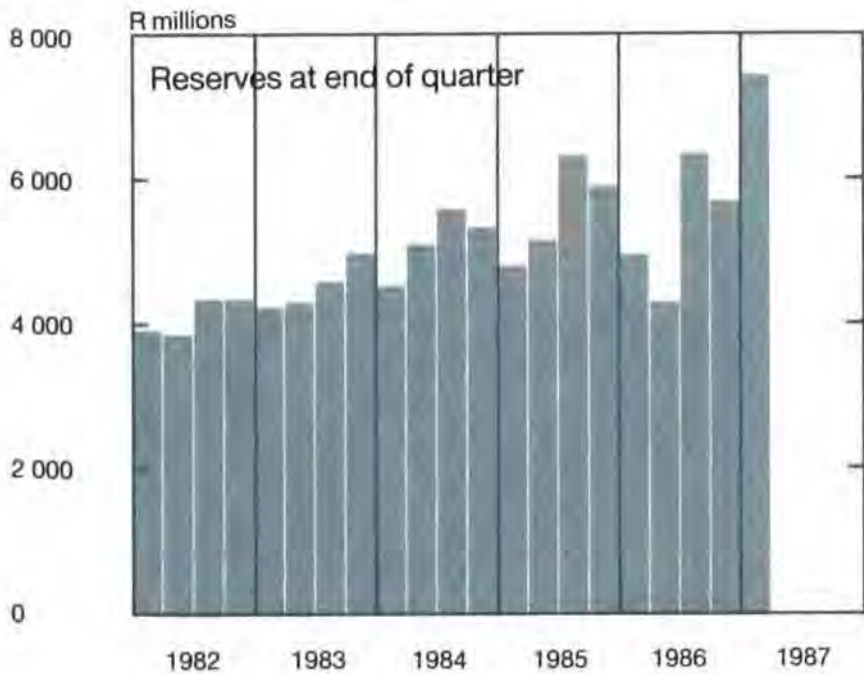
The total gross gold and other foreign reserves held by the banking sector and the Government rose by R1,8 billion in the first three months of 1987 to R7,5 billion at the end of the first quarter. This figure was nearly twice as high as the amount of R3,9 billion registered by the gross reserves at the end of April 1986 and was equivalent to approximately two months' imports of goods and services. During April 1987 the gross gold and other foreign reserves of the Reserve Bank rose further by R0,4 billion.

Exchange rates

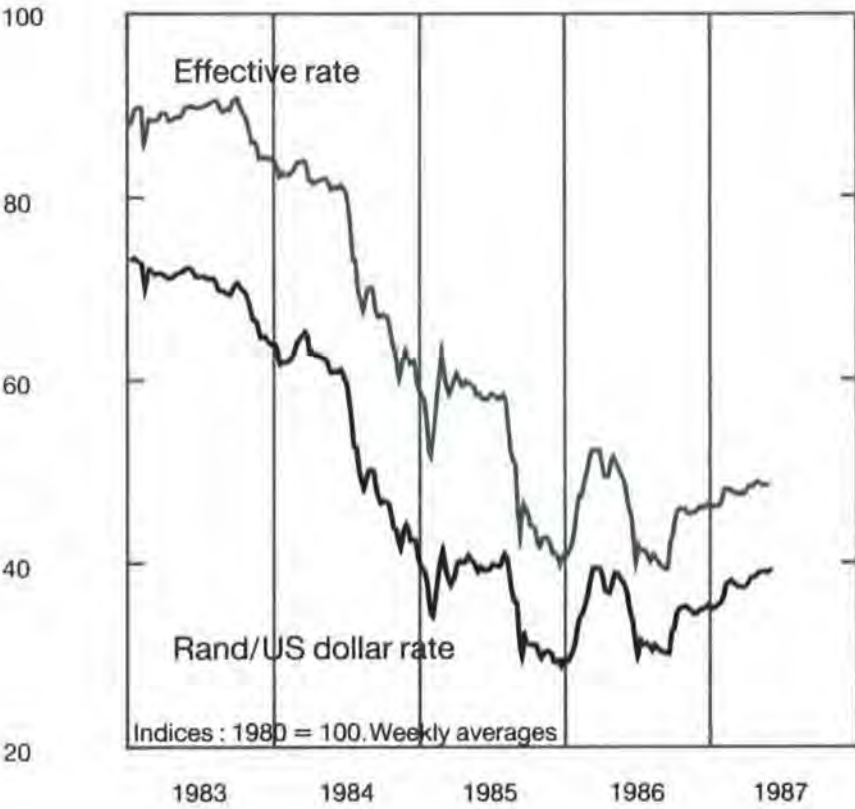
After having increased by 23,1 per cent from its low point on 12 June 1986 up to 22 September, the effective exchange rate of the rand advanced by another 4,8 per cent during the eight months to the end of May 1987. This further strengthening of the exchange rate reflected an appreciation of 9,1 per cent of the rand vis-à-vis the US dollar and a slight increase in terms of most other major currencies during this period. At its level of just below US\$0,50 at the end of May 1987, the exchange value of the rand in terms of the US dollar was broadly equal to its average value during the periods March to April 1986 and the first six months of 1985. The effective exchange rate of the rand in terms of the "basket" of currencies as at the end of May 1987 was, however, some 17,4 per cent lower than the average of this rate during the first half of 1985.

Reflecting the higher dollar price of gold and less unfavourable foreign perceptions of the South African political and economic situation (which were also aided by South Africa's conclusion of a new debt agreement with foreign creditor banks in March 1987), the value of the financial rand strengthened sharply from the beginning of 1987. On 30 March, the value of the finrand amounted to 35,3 US cents. This represented a discount vis-à-vis the commercial rand of 29,1 per cent, against an average discount of about 50 per cent during the four months to the end of February. Between

Total gold and other foreign reserves



Exchange rates of the rand



Changes in the exchange rates of the rand
%

	12 June 1986 to 22 Sept 1986	22 Sept 1986 to 31 May 1987	12 June 1986 to 31 May 1987
Weighted average	23,1	4,8	29,0
US dollar	26,7	9,1	38,1
British pound	32,3	-1,5	30,3
German mark	17,6	-2,9	14,2
Swiss franc	14,5	0,4	14,9
Japanese yen	17,9	2,1	20,4
French franc	19,1	0,3	19,4
Financial rand	14,2	23,2	40,7

the end of March and the end of May the financial rand fluctuated between 28 and 33 US cents; the financial rand discount accordingly varied from 30 to 42 per cent.

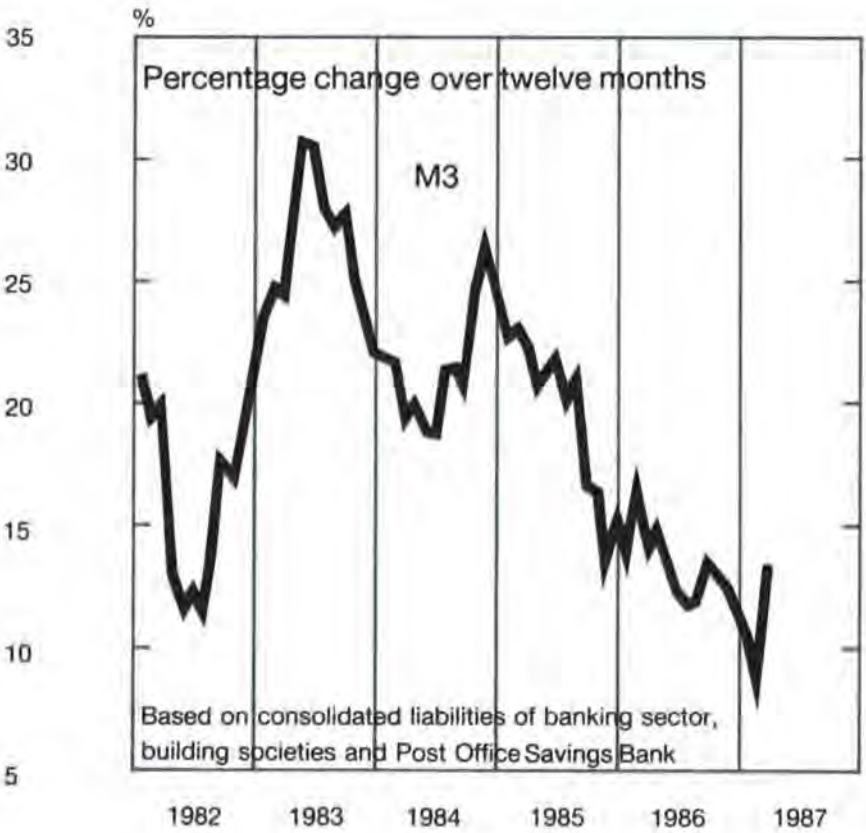
Money and banking

Money supply

"Disintermediation" phenomena continued to hold down the rates of increase in bank credit and in the broader monetary aggregates during the first quarter of 1987. Disintermediation in the broadest sense of the term comprises all forms of substitution of "direct" financing, by so-called primary lenders of so-called ultimate borrowers, for credit that previously was or normally would have been extended by a bank or some other monetary institution. Disintermediation therefore has the effect of limiting the growth in bank credit.

For primary lenders, "direct" financing of borrowers will often be a substitute for the holding of various kinds of deposits that are included in the various monetary aggregates. Disintermediation therefore also has the effect of limiting the growth in these aggregates. In the first quarter of 1987, as during most of 1986, several factors held down the demand for deposits with banks and building societies and fostered disintermediation. These factors included the persistently negative real interest rates on bank and building society deposits. A lower-than-otherwise demand for such deposits also was encouraged by the attractions of investing in the strongly rising share market. A more widespread use of "cash management" techniques by or on behalf of corporate entities or groups of corporate entities also

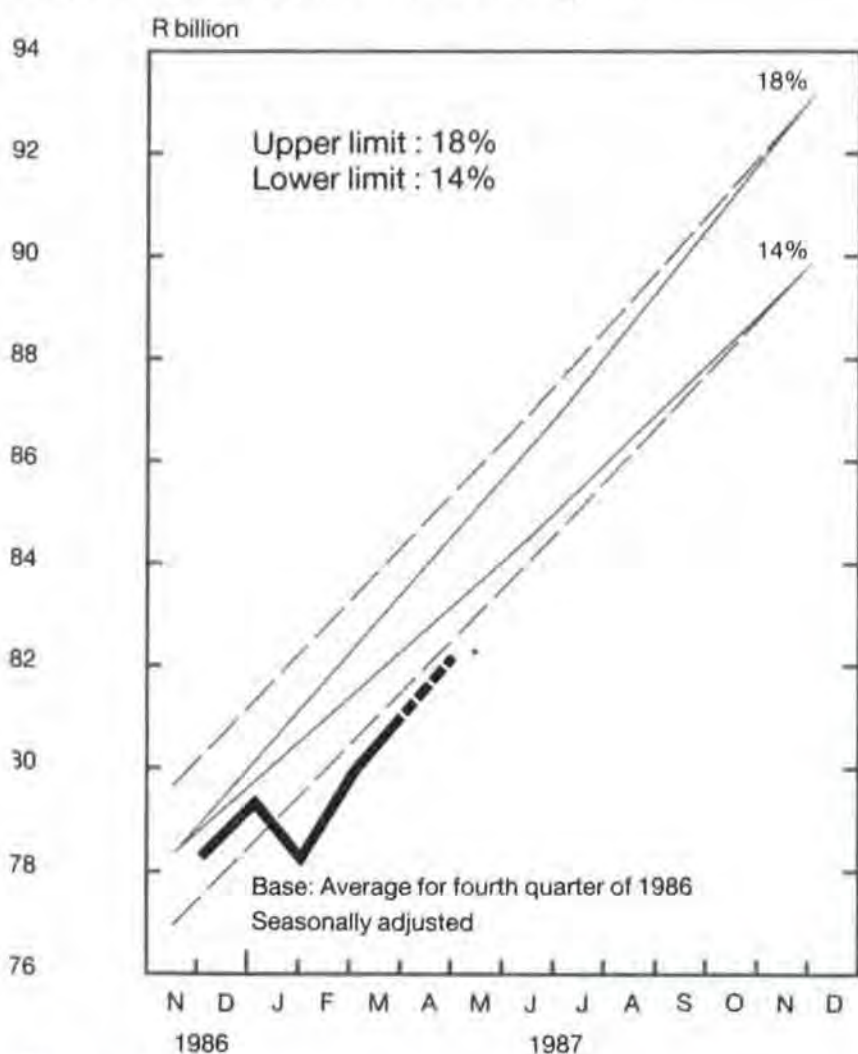
Money supply



allowed the deposit holdings of business enterprises to be reduced to or maintained at lower-than-otherwise levels.

Under these circumstances the rate of increase in the broadly defined money supply, M3, slowed down further from 9,3 per cent in December 1986 to only 7,1 per cent in February 1987. It then re-accelerated fairly significantly, however, to 10,7 per cent in March. Preliminary data indicate that the twelve-month growth rate in M3 amounted to 10,1 per cent in April. The seasonally adjusted annual rate of increase in M3 from the beginning of the 1987 targeting year (i.e. from mid-November 1986) up to the end of April 1987 was provisionally estimated to have amounted to 10,7 per cent. This growth rate brought M3 as at the end of April close to the lower side of the "tunnel" flanking the growth path that would be traced out by M3 if M3 were increasing at its centrally targeted growth rate of 16 per cent. At 10,7 per cent, however, the actual annualised rate of increase in M3 obviously still fell well short of the 14 per cent lower limit of the 14 – 18 per cent target range. M3 as at the end of April 1987 accordingly was estimated to have fallen short of its minimum target value (as identified by the lower limit of the targeting "cone") by an amount of approximately R1,1 billion, or by 1,3 per cent.

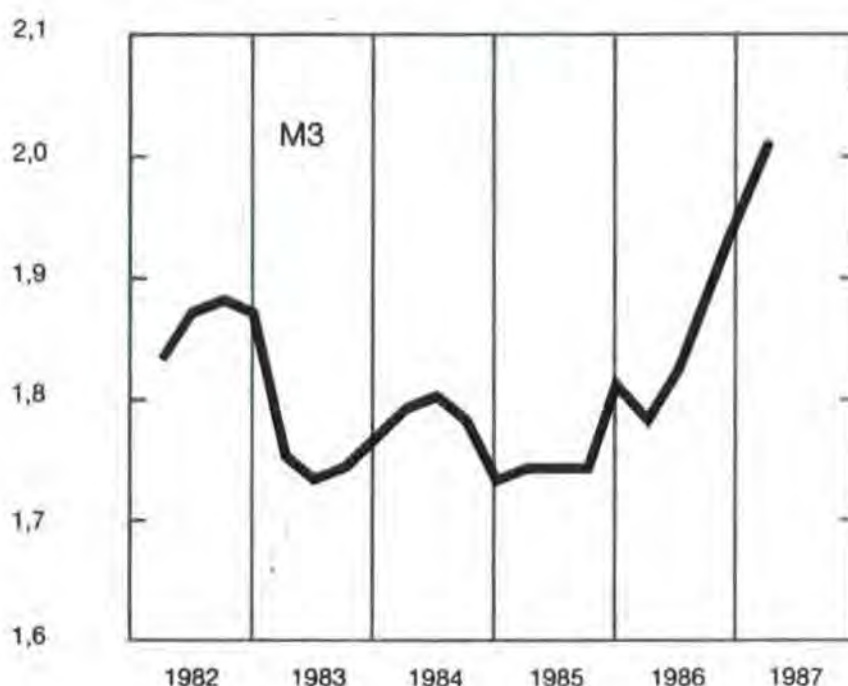
Target ranges for growth in M3 during 1987



* Preliminary figure

Slow growth in M3 also caused its income velocity of circulation, i.e. the ratio of the gross domestic product to M3, to increase further in the first quarter of 1987. Having risen by 7,6 per cent from the fourth quarter of 1985 to the fourth quarter of 1986, M3's velocity of circulation rose by 3,1 per cent (to 2,0) in the first quarter of 1987.

Income velocity of money



The twelve-month growth rate in M2 remained at very low levels during the first quarter of 1987, ranging from 4,3 per cent in December 1986 and a low of only 3,3 per cent in February 1987 to 6,5 per cent in March. In comparison, relatively high rates of growth were displayed by the narrower monetary aggregates. The growth rate in M1 accelerated steadily from 12,8 per cent in December 1986 to 20,7 per cent in March 1987. The rate of growth in M1A fluctuated sharply from 20,5 per cent in December to as much as 25,7 per cent in February and as little as 14,7 per cent in March.

Building societies marginally increased their share in the total deposit liabilities of all "monetary" institutions, from 32,1 per cent at the end of March 1986 to 33,7 per cent at the end of March 1987. The Post Office Savings Bank maintained its share in total deposits at 4,3 per cent. The share of banking institutions accordingly declined from 63,5 per cent to 62,0 per cent. Building societies experienced relatively rapid growth in their long-term deposit liabilities, which increased by approximately 31 per cent against an increase of about 22 per cent in the aggregate long-term deposit liabilities of all monetary institutions. Mirroring the divergent rates of growth in the various monetary aggregates, banking

institutions experienced an increase in their demand deposit liabilities (as included in M1) of approximately 22 per cent between the end of March 1986 and the end of March 1987. In contrast, "other" short- and medium-term deposit liabilities of all monetary institutions (as included in M2) actually declined by about 4 per cent during this period.

A low rate of expansion also continued to be recorded in total credit extended by the monetary institutions. In accounting terms, this slow growth in credit extended by institutions in the monetary sector continued to provide the principal explanation for slow growth in the broadly defined money supply. The twelve-month rate of increase in credit declined further from 6,9 per cent in December 1986 to 4,8 per cent in February 1987, but then recovered significantly to 8,1 per cent in March. Increases in the net gold and other foreign reserves of the monetary sector, on the other hand, made substantial contributions to the growth in the money supply in the first quarter of 1987.

Bank credit

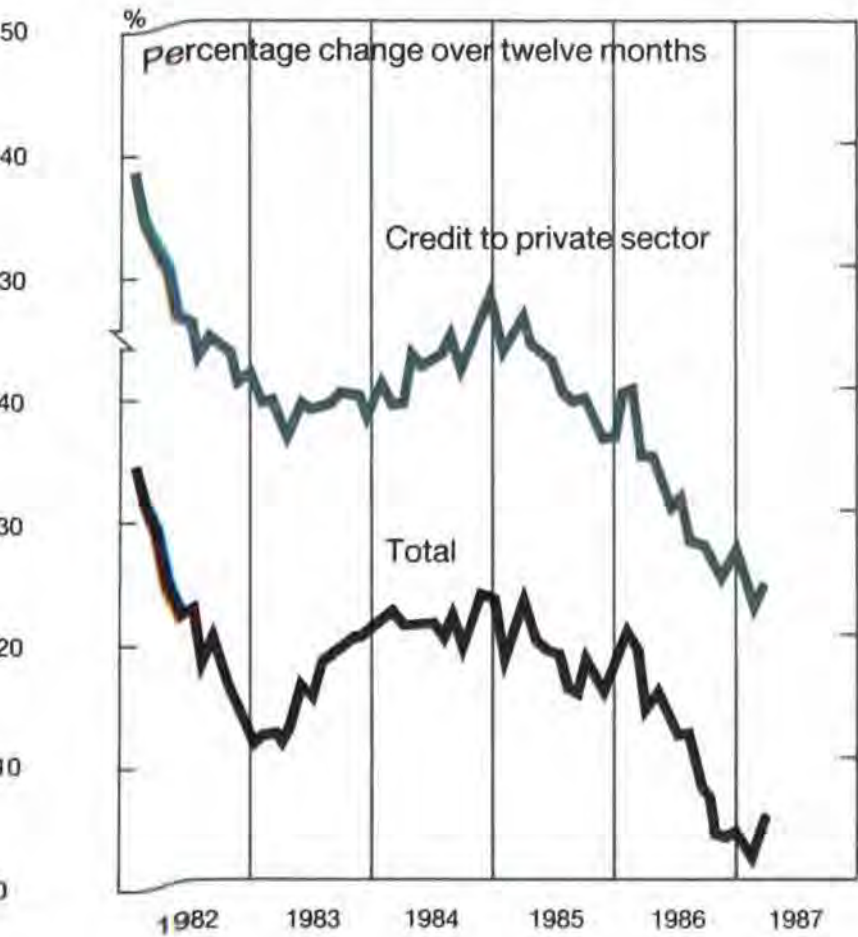
As in the case of credit extended by all monetary institutions, the twelve-month rate of increase in credit extended by banking institutions to the private sector remained at very low levels throughout the first quarter

of 1987. This rate declined from 6,8 per cent in December 1986 to only 1,5 per cent in February 1987 before edging up to 3,7 per cent in March. From the end of December 1986 to the end of March 1987, bank credit to the private sector actually declined at a seasonally adjusted annual rate of approximately 2 per cent.

The remarkable absence of any significant recovery in private sector demand for bank credit – despite the marked upswing in economic activity, the rising value of imports, and continued double-digit inflation – would appear to have reflected households' and businesses' continuing efforts to consolidate and work down existing debt positions. To a more important extent it clearly also reflected the various disintermediation phenomena referred to earlier. These included the increased use that was being made of "set-offs" of corporate clients' debit and credit balances in the books of banking institutions, such as are permitted under certain conditions in terms of the present banking regulations.

Banks' net claims on the *government* sector decreased during January and February 1987 but increased sharply during March. As a result the twelve-month growth rate in *total* bank credit, which had decreased from 3,4 per cent in December 1986 to a negligible 0,4 per cent in February 1987, rose to 4,9 per cent at the end of March.

Bank credit



Financial markets

Bank rate policy and interest rates

The need, as perceived by the monetary authorities, for a continuation of the prevailing moderately expansionary stance of monetary policy, caused the Reserve Bank to keep Bank rate at its ruling level of 9½ per cent throughout the first five months of 1987. A change was effected to the Reserve Bank's refinancing policies, however, in that the margins between the Bank's various refinancing rates as for discount houses and for banks were reduced from 25 to 15 points with effect from 18 May 1987. This meant, for example, that, at an unchanged rediscount rate for Treasury bills for the discount houses of 9,5 per cent, the rediscount rates for the discount houses for Land Bank bills and for three-month liquid bankers' acceptances were lowered from 9,75 per cent to 9,65 per cent and from 10,0 per cent to 9,80 per cent, respectively.

Money market interest rates, which had continued to ease substantially during the second half of 1986, moved within a fairly narrow band during the first five

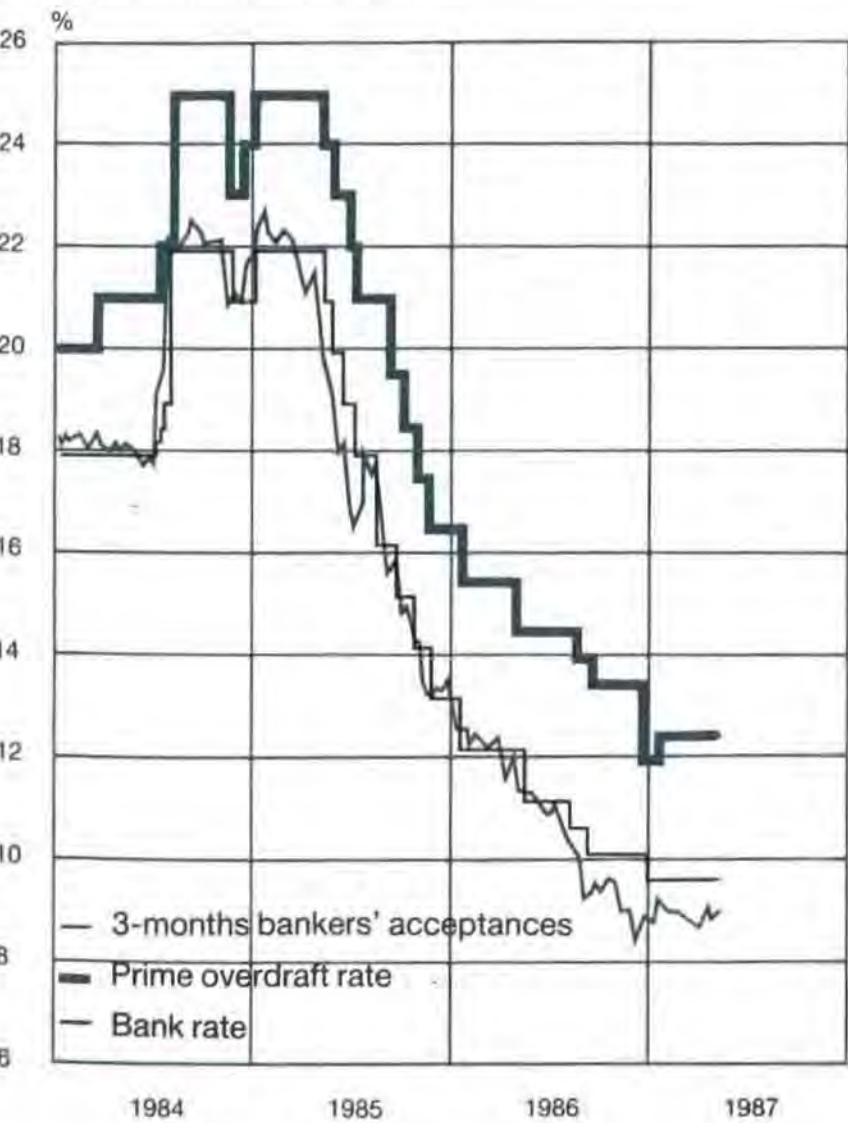
months of 1987. The rate on three-month bankers' acceptances, for example, declined from a high point of 9,40 per cent in the third week of January 1987 to a low point of 8,45 per cent at the end of March. A modified procedure for providing cash reserves to the money market, in terms of which funds made available by the Corporation for Public Deposits (CPD) are to be tendered for from time to time by the discount houses and the banks, was, however, adopted by the Reserve Bank from the month-end of March 1987. Partly because of market uncertainty concerning this new procedure, the market rate on bankers' acceptances reverted to 9,40 per cent on 23 April. This rate subsequently eased again, however, to 8,90 per cent at the end of April; it then hardened slightly, on balance, to 9,05 per cent on 26 May. Despite these various short-term fluctuations, market rates on money market instruments therefore remained well below the relevant Reserve Bank rediscount rates from the beginning of 1987 up to the end of May.

A major reason for the introduction of the new tender system for CPD funds was to distinguish this method of influencing money market conditions from the Reserve Bank's basic discount policy, i.e. the Bank's policy in regard to the extension of financial assistance of "refinancing" to discount houses and banks *at their instance* – either in the form of *rediscounting* of Treasury bills and other acceptable financial instruments or in the form of *collateral lending* against the security of such instruments – at interest rates based upon the official Bank rate.

In its overall monetary strategy the Reserve Bank assigns a key role to its Bank rate and discount policy. Changes in Bank rate and, to a lesser extent, marked and persistent upward or downward tendencies in the "money market shortage" *accommodated at the Reserve Bank's discount window*, should accordingly be viewed as indicative of a change in the Bank's policy stance. For this reason discount policy should be distinguished from public debt management, open-market operations (including "buy-backs" and "reverse buy-backs"), currency swaps and other ways of supplying cash reserves to or withdrawing cash reserves from the money market *at the Reserve Bank's initiative* – all of which naturally affect the need for discount window refinancing. The new tender system of providing CPD funds to the banks and discount houses is viewed by the Reserve Bank as falling under the latter broad category and *not* under discount policy.

In terms of this broad approach, persistent action taken by the Reserve Bank to supply cash reserves to the market in order to limit the amount of discount window refinancing would normally imply that the Bank does not wish to see any marked increase in interest rates. Alternatively, a decision by the Reserve Bank not

Short-term interest rates



to offset a tightening of money market conditions but to allow a large and sustained increase in discount window refinancing, should normally serve as a signal of an impending tightening of monetary policy involving upward adjustments in short-term interest rates.

Debt management and refinancing operations

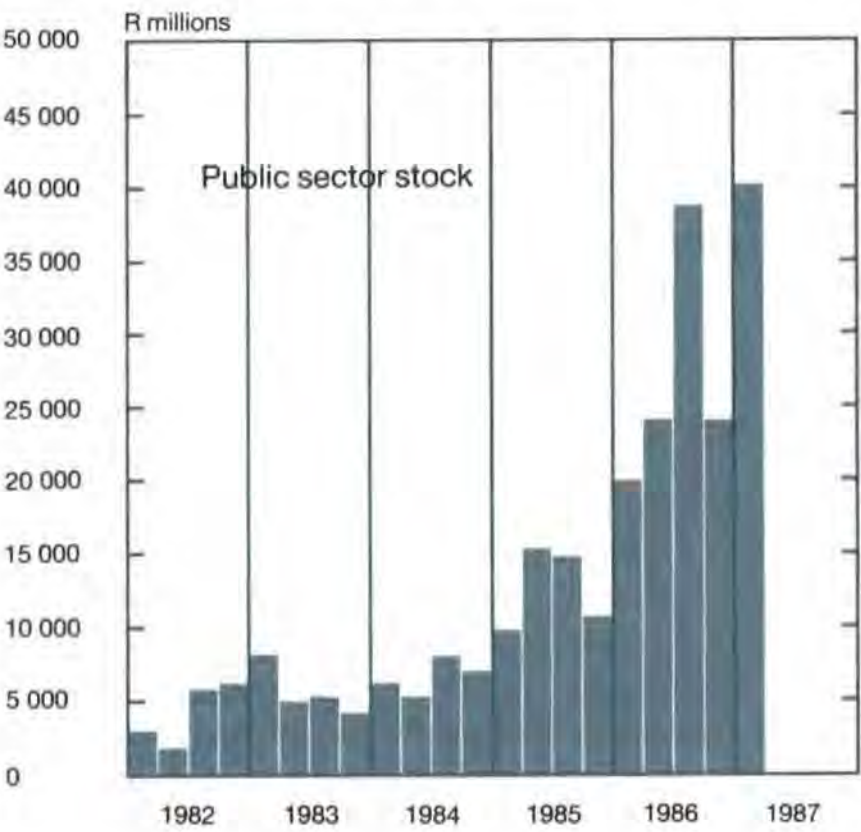
The usual “mismatch” between government expenditure and revenue in the first quarter (April to June) of the 1987/88 financial year caused the Reserve Bank greatly to step up its selling activities in the government securities market in April and May 1987. The Bank’s net sales of government stock accordingly rose from R247 million during the three months from January to March, to as much as R1 474 million in April and R536 million in May.

The provision of cash reserves to the money market in the form of funds from the Corporation for Public Deposits that had been tendered for by banks and discount houses, amounted to R963 million at the end of March 1987. At the end of April the amount of CPD funds provided to the market amounted to R500 million, and refinancing at the discount window to R444 million. Reverse buy-back agreements were concluded by the Bank on several days in the course of May to absorb surplus cash balances in the market or “to provide the market with assets”. At the end of May, R200 million was made available to the market by the Corporation for Public Deposits and R500 million through refinancing at the discount window.

Capital market activity

Renewed sharp increases in trading and new-issuing activity were observed in the capital market in the first quarter of 1987. In various instances activity levels exceeded previous records that had been established in the third quarter of 1986. Exceptionally high levels of activity were observed particularly in the secondary

Stock exchange transactions

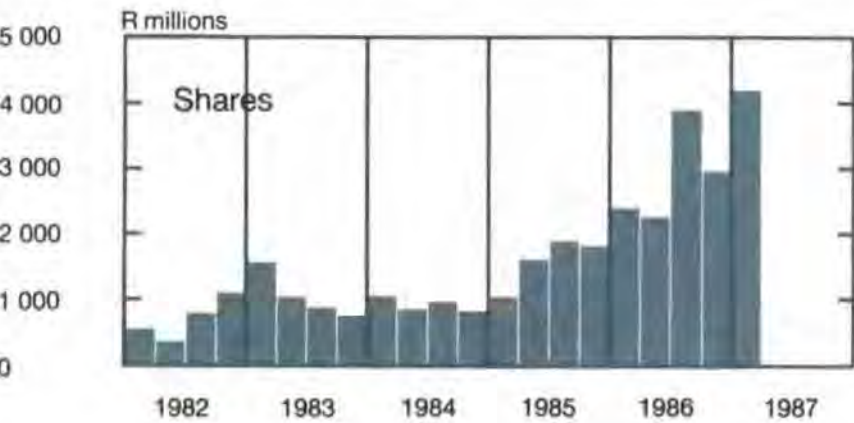


capital market and in the primary market for fixed-interest securities. The value of shares and public sector stock traded on the stock exchange during the first three months of 1987, for example, was nearly 50 per cent higher than the quarterly average for 1986. These higher turnover levels were maintained during April. In the fixed property market the value of transactions in the first quarter of 1987 was some 21 per cent higher than the quarterly average for 1986.

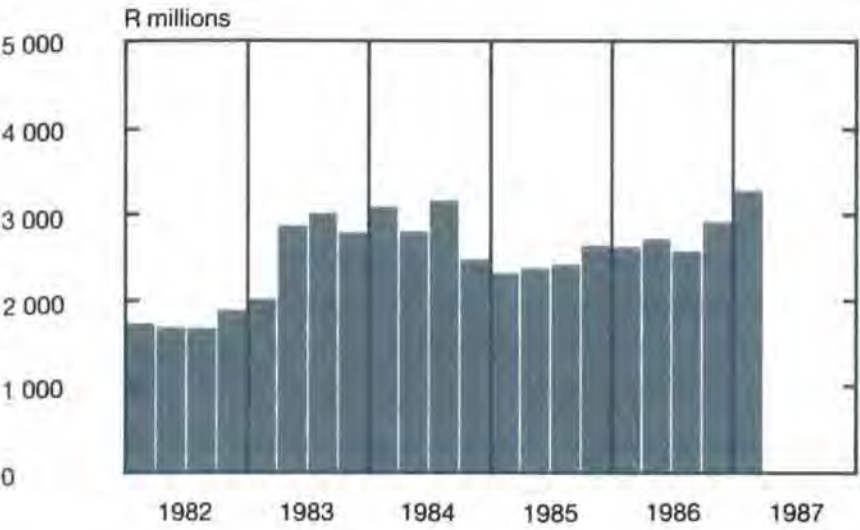
In the secondary market the value of public sector stock traded on the stock exchange rose from R24,3 billion in the fourth quarter of 1986 to a new record level of R40,3 billion in the first quarter of 1987. The value of company shares traded on the stock exchange similarly increased from R2,9 billion in the fourth quarter of 1986 to a record high of R4,2 billion in the first quarter of 1987. In the fixed property market the value of transactions advanced from R2,9 billion in the fourth quarter of 1986 to R3,3 billion in the first quarter of 1987, the highest level of such transactions since the third quarter of 1984.

In the primary markets the public sector (excluding the South African Transport Services) raised new funds through issues of fixed-interest securities to an amount of R818 million in the first quarter of 1987. This may be compared with net *redemptions* of R520 million in the fourth quarter of 1986. Companies listed on the stock exchange raised an amount of R201 million through new issues of fixed-interest securities in the first quarter of 1987, against an amount of only

Stock exchange transactions



Real estate transactions



R22 million in the preceding quarter. New funds raised by companies in the form of share capital, on the other hand, fell back from a record level of R1 172 million in the fourth quarter of 1986 to R205 million in the first quarter of 1987.

In the mortgage market, a sustained improvement in the net inflow of funds to building societies and participation mortgage bond schemes, in conjunction with an increase in mortgage demand, allowed these institutions to increase their mortgage lending. During the first quarter of 1987 mortgage loans paid out by the building societies amounted to R2,0 billion, compared with R1,9 billion in the fourth quarter of 1986. Share prices responded to the increase in trading activity. Having advanced substantially by 38 per cent in 1986, the average price level of all classes of shares rose further by 9 per cent in the first quarter of 1987, mainly because of a 20 per cent increase in industrial and commercial share prices. A further rise in the average of all share prices of as much as 15 per cent was recorded in April and May.

Long-term rates and yields

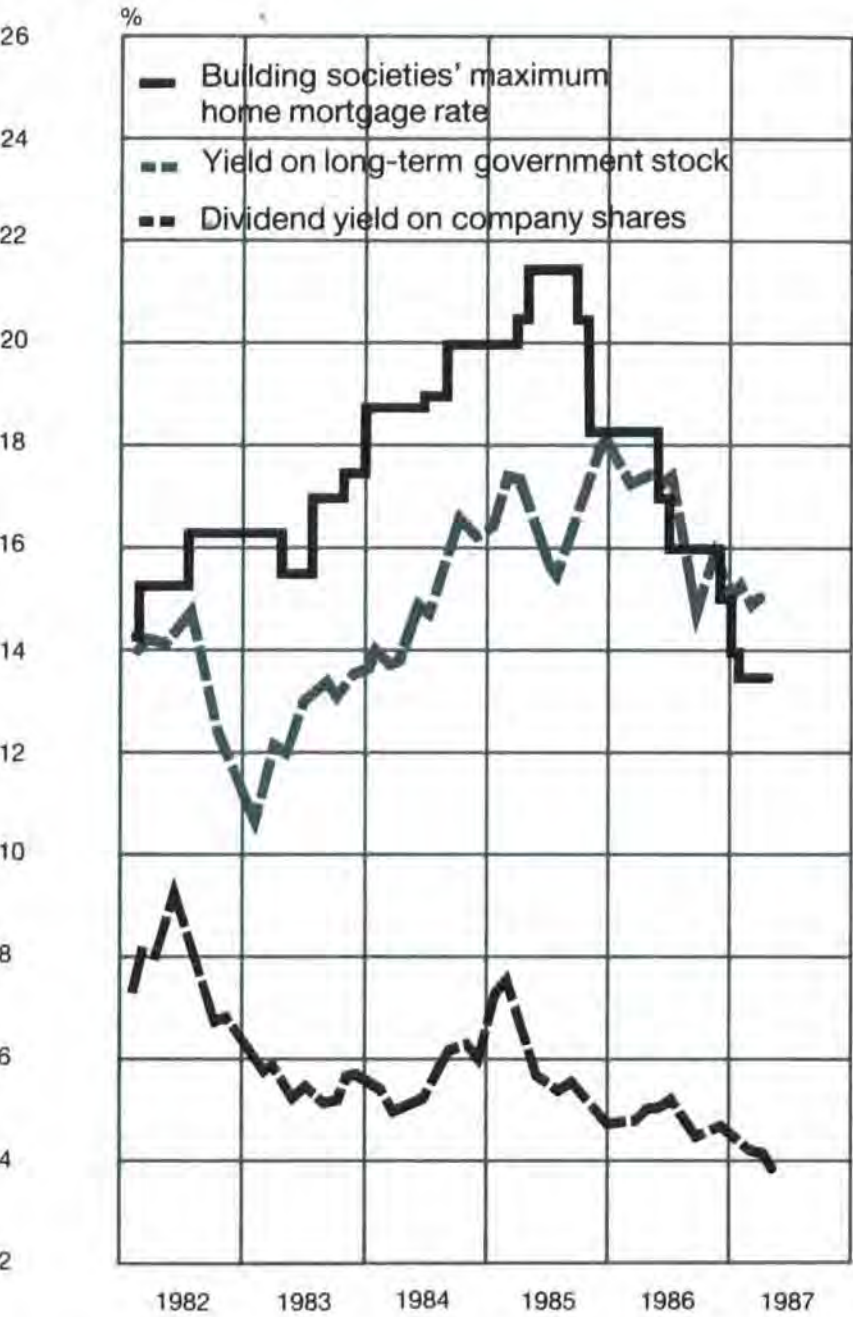
The rise in share prices during the first quarter of 1987 resulted in a gradual decrease in the dividend yield on all classes of shares from 4,7 per cent in December 1986 to 4,2 per cent in March 1987. Mirroring the sharp rise in share prices, this yield then declined further to 3,8 per cent in May.

Long-term interest rates declined slightly in the first quarter of 1987. The average monthly yield on long-term government stock eased from 15,3 per cent in December 1986 to 15,1 per cent in January 1987, hardened temporarily to 15,4 per cent in February, but then retreated further to 15,0 per cent in March 1987. Expectations of higher inflation and of a large public sec-

tor financing requirement, however, then caused this rate to increase to 15,6 per cent in May.

Longer-term deposit rates increased moderately during the first quarter of 1987. The predominant rate on twelve-month deposits of banks and building societies rose by 0,5 per cent to 10,0 per cent in February 1987. The building societies' predominant home mortgage rate was raised from 13,5 per cent to 14,0 per cent as from April 1987.

Long-term interest rates

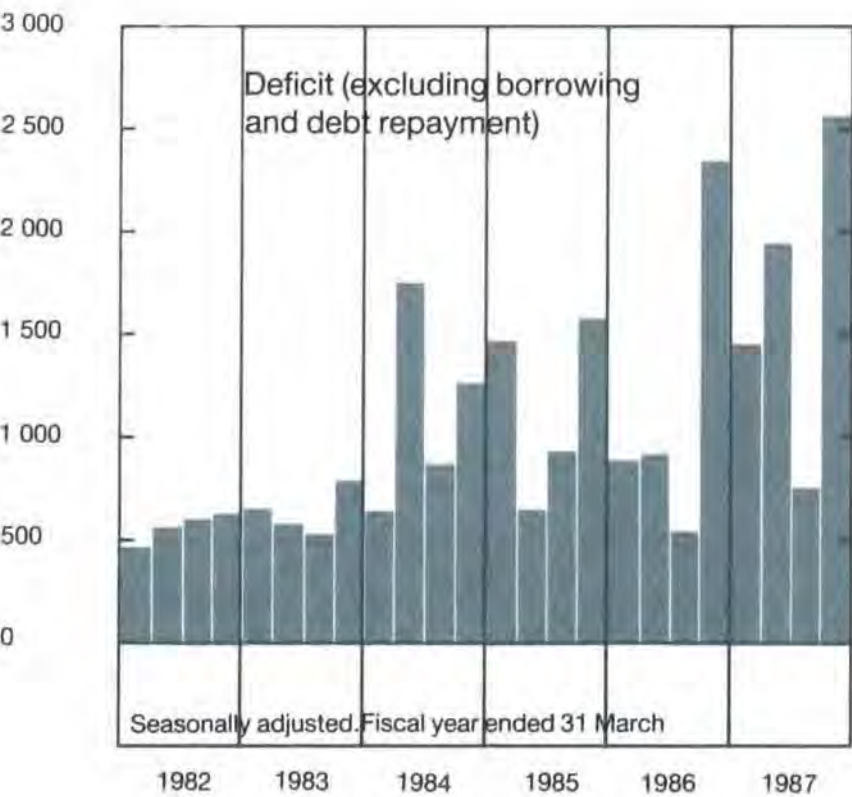
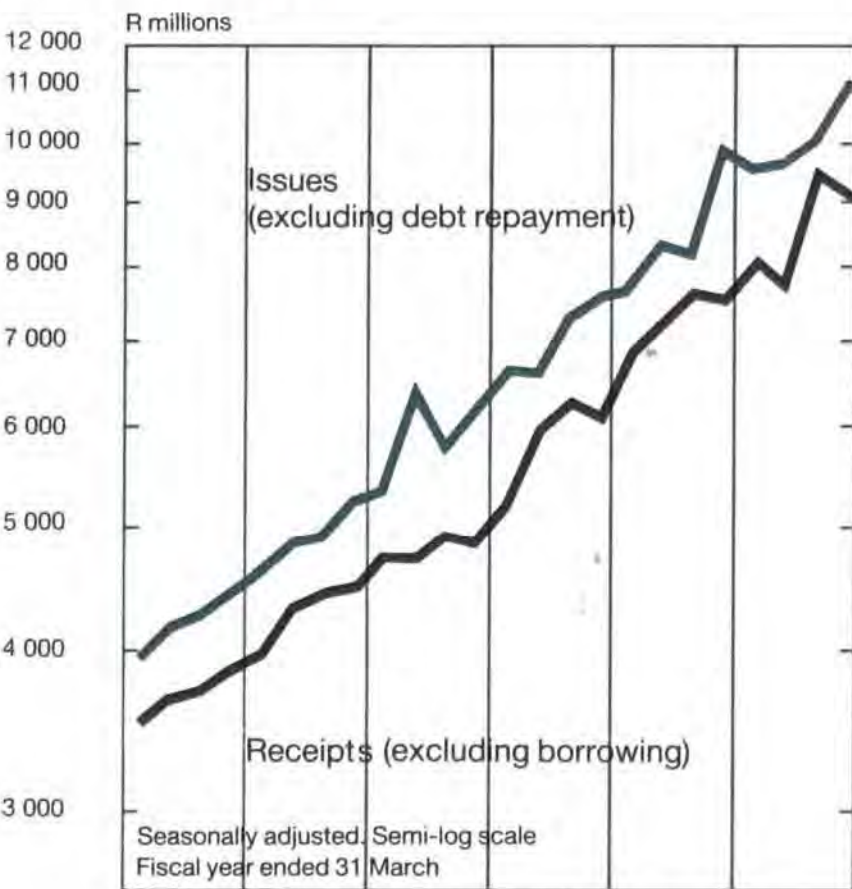


Government finance

Exchequer Account : fourth quarter of fiscal 1986/87

A marked acceleration occurred in Exchequer issues – after the usual adjustment for changes in the balance on the Paymaster-General Account – during the fourth quarter of fiscal 1986/87, i.e. during the period January-March 1987. Compared with the corresponding quarter of the preceding year, the rate of increase in these

Exchequer Account

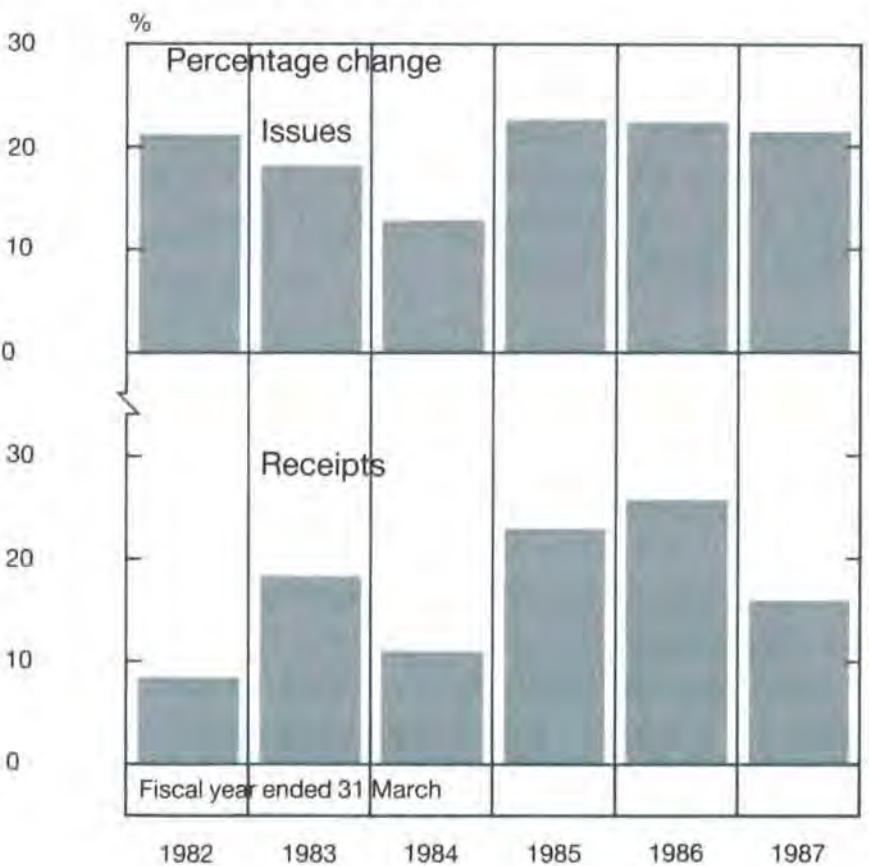


issues rose from 19,1 per cent in the third quarter of fiscal 1986/87 to as much as 35,2 per cent in the fourth quarter. This sharp pick-up in government spending in the course of the first quarter of *calendar* 1987 also was apparent from a considerable rise in the demand for final goods and services of the general government as identified in the National Accounts. In the first quarter of 1987 total expenditure by general government on consumption and investment was 25,1 per cent above its level in the first quarter of 1986. From the fourth quarter of calendar 1986 to the first quarter of calendar 1987, total spending on final goods and services by general government actually rose by no less than 24,7 per cent.

In contrast to the accelerating rise in Exchequer issues, the rate of increase in receipts on the Exchequer Account, as compared with one-year-earlier levels, slowed down from 25,8 per cent in the fourth quarter of calendar 1986 to 17,9 per cent in the first quarter of calendar 1987. This decline occurred despite a large transfer of funds from the Central Energy Fund to the Exchequer. It could be observed in virtually all categories of revenue collections. Notably lower rates of increase were apparent, however, in income tax receipts and general sales tax receipts in particular.

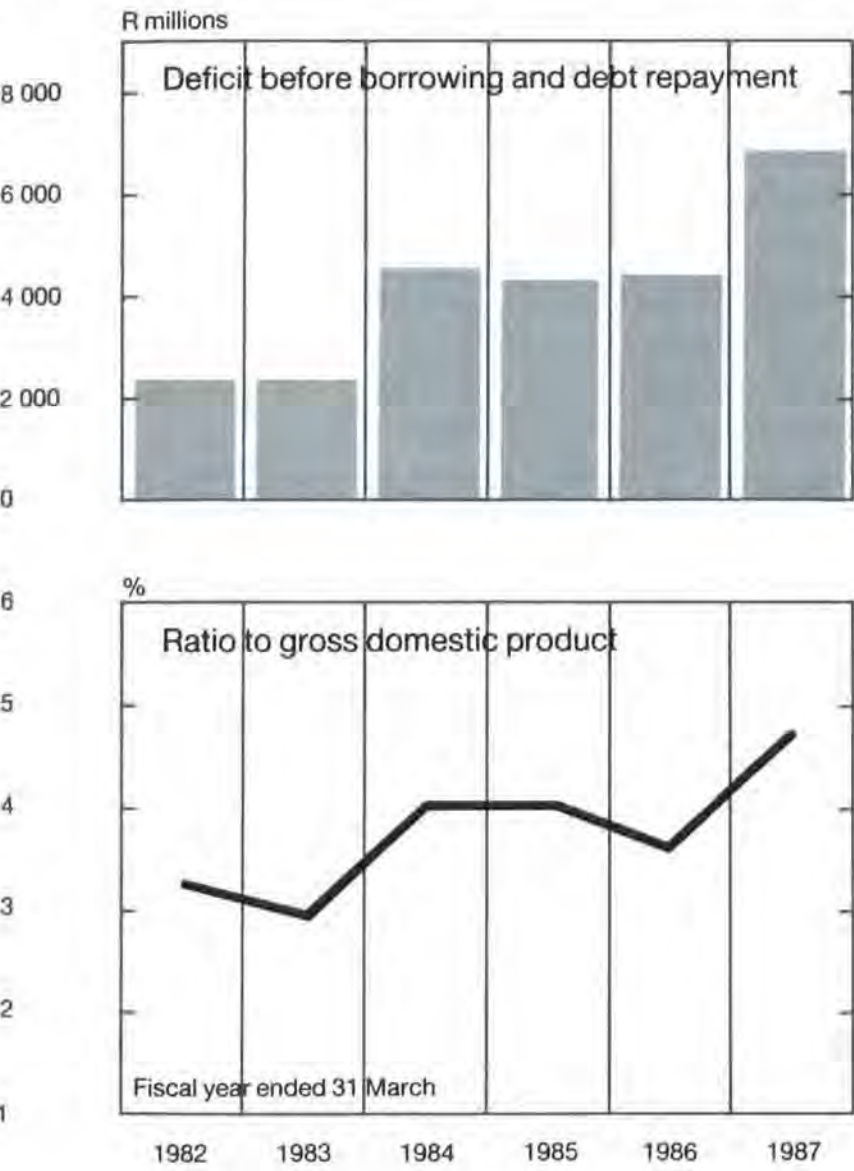
The deficit before borrowing of R1 095 million in the first quarter of calendar 1987 plus the discount of R124 million on new government stock, was financed essentially by the Public Investment Commissioners

Exchequer issues and receipts



(to an amount of R2 540 million), and by a small contribution from the foreign sector (R2 million). Declines were recorded, however, in the Exchequer's net indebtedness to the domestic banking system (R839 million) and to the non-bank private sector (R484 million).

Exchequer deficit



Outcome of central government Budget for fiscal 1986/87

The eventual stimulatory impact of fiscal policy in the fiscal year 1986/87 was substantially larger than the impact that had been aimed at in preparing the 1986/87 Budget as presented in March 1986. The deficit before borrowing, as reported by the Minister of Finance in his Budget speech of June 1987, amounted to R6 191 million, or to 4,1 per cent of gross domestic product. This compared with a ratio of 3,1 per cent of gross domestic product implied by the "second and final" Budget estimates.

Actual Exchequer issues to government departments, as compiled on the basis of comparability with the Budget figures, exceeded the second and final estimates by R2 115 million, or by 5,5 per cent. As shown in the accompanying table, they also exceeded the actual Exchequer issues in fiscal 1985/86 by 22,5 per cent. The considerable underlying increase in *central* government expenditure from fiscal 1985/86 to fiscal 1986/87 was, however, partly neutralised by a decline in the demand for goods and services of the rest of the *general* government sector. The rate of increase in total expenditure on final goods and services by *general* government in fiscal 1986/87 amounted to 18,6 per cent.

Also on the basis of comparability with the Budget data, total revenue receipts in fiscal 1986/87 exceeded the Budget estimates by R503 million, or by 1,5 per cent. This included, however, receipts from the Central Energy Fund for financing the package of additional stimulatory measures that had been announced in June 1986. When these receipts are excluded, the balance of Exchequer receipts actually fell somewhat short of the Budget estimates.

As shown in the accompanying table, lower-than-budgeted increases in revenues were recorded under all principal headings of Exchequer receipts, with the exception of gold mining taxes and "other" receipts. Higher-than-budgeted revenues from gold mines ob-

Budgeted and actual Exchequer issues and receipts; fiscal year 1986/87

	Budget ¹		Actual	
	R millions	Percentage change ²	R millions	Percentage change ²
Issues	38 206	15,7	40 321	22,5
Receipts	33 627	13,3	34 130	16,4
Deficit before borrowing	4 579	13,4	6 191	53,3
Deficit as percentage of GDP	3,1		4,1	

¹ Second and final print.
² Compared with actual results in fiscal year 1985/86.

State Revenue Fund – Revenue collections in 1986/87

	Budget ¹		Actual collections	
	R millions	Percentage change ²	R millions	Percentage change ²
Total collections from gold mines	2 820	-7,6	3 179	4,2
Other income tax collections	16 347	19,8	15 708	15,1
General sales tax	9 425	17,1	8 913	10,7
Customs and excise duties ³	2 540	21,2	2 520	20,3
Other receipts	2 495	1,0	3 810	54,2
Total receipts	33 627	14,7	34 130	16,4

¹ Second and final print.

² Compared with actual collections during the 1985/86 fiscal year.

³ Excluding amounts transferable to neighbouring countries but including the surcharge on imports.

viously were related to the higher-than-estimated average rand price of gold and the resultant increased profitability of the gold mining industry. "Other" receipts substantially exceeded the Budget estimates on account of the transfer of funds from the Central Energy Fund. General sales tax receipts and tax collections from non-mining companies failed to meet levels as anticipated in the Budget because of limited growth in the domestic demand for goods and services in preceding quarters. Income tax collections from individuals and income from customs and excise duties were, however, close to the Budget estimates.

The R6 191 million deficit before borrowing and debt repayment for 1986/87 was financed from the following sources:

	R millions
Public Investment Commissioners ¹	3 689
Non-bank private sector	902
Banking sector	663
Foreign sector	1 015
	<u>6 269</u>
Less: discount on government stock ² ...	<u>78</u>
Total financing	<u>6 191</u>

¹ Net cash purchases of new government stock.

² Excluding the discount on new issues to the Public Investment Commissioners

The foreign sector financing of R1 015 million consisted of the utilisation of R1 032 million of foreign creditors' funds held with the Public Investment Commissioners and net debt repayments of R17 million.

Exchequer Account: April 1987

In April 1987, i.e. in the first month of fiscal 1987/88, Exchequer issues (after the usual adjustment for

changes in the balance on the Paymaster-General Account) were 27,1 per cent higher than in April 1986. Exchequer receipts exceeded their one-year-earlier level by 9,9 per cent. The deficit before borrowing amounted to R2 578 million, exceeding the deficit in April 1986 by as much as 47 per cent.

The 1987/88 Government Budget

In his presentation of the Budget for 1987/88 to Parliament on 3 June 1987, the Minister of Finance stated that the highest priority in determining economic goals in South Africa should be given to a growth process that would generate work and ensure participation in the ensuing benefits by the greatest number of people. This approach was also manifest in the long-term economic strategy proposed by the Economic Advisory Council, which sought to establish the three-fold objective of a strengthening and development of the modern sector of the economy, greater inward industrialisation, and regional development.

The Minister also noted that new ground was being broken in the 1987/88 Budget in that government expenditure and financing were being based for the first time on approaches and priorities as laid down by the State President's Committee on National Priorities, which formed part of a five-year plan for such expenditure. The first five-year plan was to cover the period 1987/88 to 1991/92. This plan was to be revised annually so as to achieve the goal of setting realistic public sector expenditure on a moving five-year basis. In order to allow greater room for private sector activity, the plan envisaged a relative reduction in total public sector expenditure from 38 per cent of gross domestic product in 1985/86 to approximately 34½ per cent in 1991/92. Attainment of this objective clearly would be bound up closely with the processes of privatisation and deregulation.

With regard to the Government's fiscal and monetary strategy for 1987/88, the Minister noted that room still existed for further expansion in the South African economy, as was reflected in such things as the "massive" surplus on the current account of the balance of payments, the comparatively high level of unemployment, low interest rates and spare production capacity. It remained the Government's policy stance that any possible room for growth in the short to middle term be exploited. The Budget as presented, read in conjunction with the fiscal measures already announced in the Part Appropriation Bill in February 1987, therefore was meant to be expansionary. A stimulatory effect on the economy would be exerted by the budgeted increase in total government expenditure, by the various tax concessions that had already been announced in February 1987, and by the resultant increase in the deficit before borrowing. More effective utilisation was to be made, in financing part of this deficit, of foreign funds invested with the Public Investment Commissioners by virtue of South Africa's arrangements for the repayment of foreign debt. The Budget should, however, promote real economic growth without leading to excessive money creation or spending.

Government expenditure in fiscal 1987/88 was estimated to increase by 16,2 per cent, and government revenue by 12,6 per cent. Identified capital expenditure was estimated to amount to R4 636 million, compared with R5 086 million in 1986/87. The deficit before borrowing was projected at R8 425 million, or at about 4,7 per cent of gross domestic product. It was proposed that this deficit be financed in the manner set out below.

1987/88 Budget	
R millions	
Revenue	38 443
Expenditure	46 868
Deficit (before borrowing)	8 425
Financing (net of debt repayment):	
Public Investment Commissioners (PIC)	4 100
New government stock issues	2 500
Non-marketable securities	340
Foreign loans ¹	1 119
Use of available balances	366
Total	8 425

¹ Including funds from foreign deposits held with the Public Investment Commissioners.

Budget of the South African Transport Services for 1987/88

In the Budget of the South African Transport Services for the financial year 1987/88, presented to Parliament on 26 May 1987, total revenue was estimated at R10 247 million. Included in this amount were estimates of the additional revenue that would result from the general increase in tariffs, averaging 10 per cent, which came into effect on 1 July 1987. Operating expenditure in the 1987/88 financial year was estimated at R10 287 million. The resulting deficit was accordingly estimated to amount to R40 million, compared with an anticipated deficit of R98 million and an actual surplus of R139 million in 1986/87. Capital expenditure in 1987/88 was estimated at R750 million, or at R296 million less than had been budgeted for in 1986/87.

Budget of Department of Posts and Telecommunications for 1987/88

In the Budget of the Department of Posts and Telecommunications for the financial year 1987/88, presented to Parliament on 25 May 1987, operating expenditure was estimated at R3 891 million, representing an increase of R517 million or 15,3 per cent over the preceding year. A further R334 million would be required mainly for loan redemptions and for the staff housing scheme. At the existing postal and related tariffs, income in 1987/88 was estimated at R3 919 million, leaving an operating deficit of R307 million. This deficit would be financed by means of a weighted average increase of 11,7 per cent in telecommunication and postal tariffs from 1 July 1987. The postage on standard letters had already been raised from 14 to 16 cent on 1 April 1987; this increase was included in the average percentage rise. It was estimated that additional income of R345 million would be derived from these higher tariffs, resulting in an operating surplus of R38 million. Capital expenditure was estimated to amount to R1 620 million, or to 3,4 per cent less than in 1986/87.