

Quarterly economic review

Introduction

Like the third quarter of 1986, the fourth quarter saw growth in the real gross domestic product at an annual rate of approximately 4½ per cent. Indications, moreover, were that the recovery was becoming more broadly based. With the exception of commerce, all major sectors of the economy contributed to the fourth-quarter increase in domestic production.

Real gross domestic expenditure, on the other hand, fell back in the fourth quarter of 1986 as it had done in the fourth quarter of 1985 and the second quarter of 1986. The level of aggregate real gross domestic expenditure actually was marginally lower in the fourth quarter of 1986 than in the second quarter of 1985, which preceded the start of the current economic recovery. An analysis of expenditure data in slightly longer-run terms nevertheless shows a mild upward trend in domestic spending to have been maintained: the annualised rate of increase in real gross domestic expenditure from the second half of 1985 to the first half of 1986, and from the first half of 1986 to the second half, both amounted to approximately 2½–3 per cent.

Negative elements in the fourth-quarter configuration of expenditure data included a renewed, although fairly moderate, reduction in total real inventories; a marked slowdown, to about 2 per cent, in the annualised rate of increase in real private consumption expenditure from its third-quarter level of approximately 5 per cent; and a continuation of the decline in real government consumption expenditure that had already been evident in the preceding two quarters. Total real gross domestic fixed investment, on the other hand, rose encouragingly in the fourth quarter of 1986 after having bottomed out in the third quarter. It thereby held out a tentative prospect that a turning point in the prolonged downward phase of the fixed investment cycle may finally have been reached.

Renewed contraction of total real gross domestic expenditure in the sixth quarter of the current economic recovery showed spending behaviour in the South African economy still to be subject to inhibitions and constraints that are not normally a part of the South African business cycle. Both investment and consumer expenditure clearly were influenced downwards, during much of 1986 as during 1985, by private decision makers' enhanced sense of uncertainty and a reluctance to take longer-run views and enter into longer-term commitments. Private fixed investment also was held down by low and, until recently, declining degrees of

capacity utilisation. Inventory accumulation was discouraged, among other things, by businesses' attempts at cost-cutting and rationalisation. Households in 1985 and much of 1986 sought to work down the real burden of earlier financial commitments in the light of, *inter alia*, the decline in real household incomes, lower real asset values in the fixed property market despite relatively high rates of inflation, less buoyant prospects for steady employment and promotion, and perceptions of a less favourable outlook for a rise in their real standard of living in the more immediate future.

Regarding 1986 as a whole, the growth rate in real gross domestic product was held down by the faltering of the recovery in output in the first quarter of the year and did not fully reach 1 per cent. Aggregate real gross domestic expenditure advanced by a modest 1 per cent from its level in 1985. Real private consumption expenditure only marginally exceeded its level in 1985. Real government consumption expenditure on balance fell below its 1985 level by some 1½ per cent. Total real gross domestic fixed investment, despite its quite significant recovery in the second half of the year, nevertheless declined from its average level in 1985 by as much as 16½ per cent. The decline in real inventories, on the other hand, was considerably smaller in 1986 than in 1985; a substantial net addition to total real inventories was made during the second half of the year.

The steady recovery in aggregate domestic production during most of 1986 failed to have a major impact on either employment or registered unemployment up to the third quarter of the year. A more material improvement in labour market conditions nevertheless became apparent in the second half of 1986; signs of more significant increases in the demand for labour could be observed in the fourth quarter in certain important sectors of the economy. Inflation, as measured by the rate of increase in the consumer price index, accelerated further (from 16,2 to 18,6 per cent) from the calendar year 1985 to the calendar year 1986. On the basis of the twelve-month rate of change in the consumer price index, it declined significantly, however, from high points of 20,7 per cent in January 1986 and 19,7 per cent in September to 16,1 per cent in January 1987. Although the most recent improvement in the inflation rate was largely attributable to purely statistical factors, the decline in this rate during the past several months clearly also was aided by the recovery in the average effective exchange rate of the rand during parts of 1986. The inflation rate stands to benefit further from the more recent advances in the exchange rate in the third quarter of 1986 and in the first few months of 1987.

The renewed decline in real gross domestic expenditure, in conjunction with continued growth in real domestic production, found expression in a further rise in the surplus on the balance of payments on current account to a seasonally adjusted and annualised level of no less than R12,9 billion in the fourth quarter of 1986. The current account surplus for the year as a whole accordingly was in excess of R7 billion. An abrupt recurrence of large capital outflows in the fourth quarter (mainly of short-term capital not related to reserves, including unrecorded transactions) nevertheless caused a decline in both the gross and the net foreign reserves. Major increases in the foreign reserves were recorded, however, in January, February and the first half of March 1987.

After a mild reacceleration in the third quarter of 1986, the twelve-month rate of increase in the broadly defined money supply, M3, slowed down again in the fourth quarter to only 9,3 per cent in December, and to less than 9 per cent in January 1987. The increase in the quarterly average of M3 from the fourth quarter of 1985 to the fourth quarter of 1986, at 10,1 per cent, fell well short of the lower limit (of 16 per cent) of the target range for the growth rate in M3 for 1986. However, when the accompanying increase, of 7,6 per cent, in the velocity of circulation of M3 over the 1986 targeting year is taken into account, the increase in the "effective" money supply amounted to 18,4 per cent. This was close to the centre of the 16-20 per cent target range that had been set by the monetary authorities for M3 itself.

Slow growth in M3 in the course of 1986 was essentially explained, in accounting terms, by continued slow growth in the amount of credit extended by banks and other "monetary" institutions. The relatively small increases in this kind of credit and in private-sector money holdings were, in turn, explained to an important degree by various "disintermediation" phenomena, i.e. substitution of a "direct" provision of funds, by so-called primary lenders to so-called ultimate borrowers, for credit that previously was or normally would have been extended by a bank or some other monetary institution. This disintermediation could be traced in part to the comparatively low level of deposit interest rates relative to the inflation rate, and of deposit rates relative to the *average* level of the lending rates that were quoted by monetary institutions on their various credit facilities.

A new target, ranging from 14 to 18 per cent, for the rate of increase in the quarterly average of M3 from the fourth quarter of 1986 to the fourth quarter of 1987, was announced by the Reserve Bank on 10 March 1987. Monetary expansion between these two percentage limits was believed by the monetary authorities to be consistent, on the one hand, with a projected rate of increase in the real gross domestic product over the

four-quarter period concerned of approximately 4 per cent and, on the other hand, with a further gradual decline in the inflation rate.

The money market in the course of 1986 witnessed substantial further declines in short-term interest rates that were encouraged, or endorsed, by reductions in Bank rate. Bank rate was lowered, in four steps, to 10 per cent up to November 1986, and by a further 1/2 per cent, to 9 1/2 per cent, from 10 December. After a mild hardening after 10 December and up to the second week of January 1987, the market rates on money market instruments retreated slightly again up to the middle of March.

Capital markets in the fourth quarter of 1986 and the first few months of 1987 saw a resumption of the decline in long-term interest rates that had been interrupted by the back-up in rates in September and early October 1986. Trading activity in public sector stock and company shares subsided significantly in late 1986 and early 1987 from the exceptionally high levels that had been recorded in the third quarter. A record amount of funds was, however, raised on the stock exchange in the fourth quarter of 1986 in the form of new company share issues. Share prices advanced strongly in the first three quarters of 1986 and again in January 1987.

Mainly because of Exchequer issues that ran well ahead of the original Budget estimates, the central government's budgetary deficit before borrowing and debt repayment for the first ten months (April 1986 to January 1987) of fiscal 1986/87 amounted to R5 652 million. This figure, which also incorporated a part of the effect of the Government's package of additional stimulatory measures that had been announced in June 1986, was some 43 per cent in excess of the original estimate of the deficit of R3 944 million for the fiscal year as a whole. According to the Minister of Finance's estimates in the Additional Budget as presented on 19 February 1987, the deficit for the fiscal year 1986/87 as a whole was expected eventually to amount to R5 461 million. A package of further stimulatory measures was announced by the Minister when presenting the Part Appropriation Bill for 1987/88 on 9 February 1987.

Seven main encouraging features of the South African economy have emerged from these various developments:

The first is the fairly impressive rate of expansion of real domestic output that established itself mainly in the second half of 1986.

Second, the continuing strength of the balance of payments on current account, although evidence of a persisting lack of buoyancy in aggregate domestic demand, has allowed the official foreign reserves to be rebuilt to more comfortable levels; this has *inter alia*

strengthened the authorities' hands in lending support to the exchange rate of the rand if such action were to be called for.

Third, the recovery and higher average level of the exchange rate from mid-1986 has begun to exert a beneficial effect on imported goods prices and on the inflation rate generally.

Fourth, the moderately expansionary stance of monetary and fiscal policy and its associated effects (as in raising financial asset values and in strengthening companies' balance sheets) appear to be wearing down the "disinclination to spend" on the part of households and businesses.

Fifth, tentative evidence has emerged that the long downswing in real gross domestic fixed investment may finally be coming to an end.

Sixth, some mild improvement in the employment and unemployment situation has become observable since the third quarter of 1986.

Finally, the much improved financial results that have been announced by companies from approximately the third quarter of 1986 suggest that the period of business consolidation, cost-cutting and retrenchment is drawing to a close and are themselves contributing to a more positive business sentiment.

Domestic economic developments

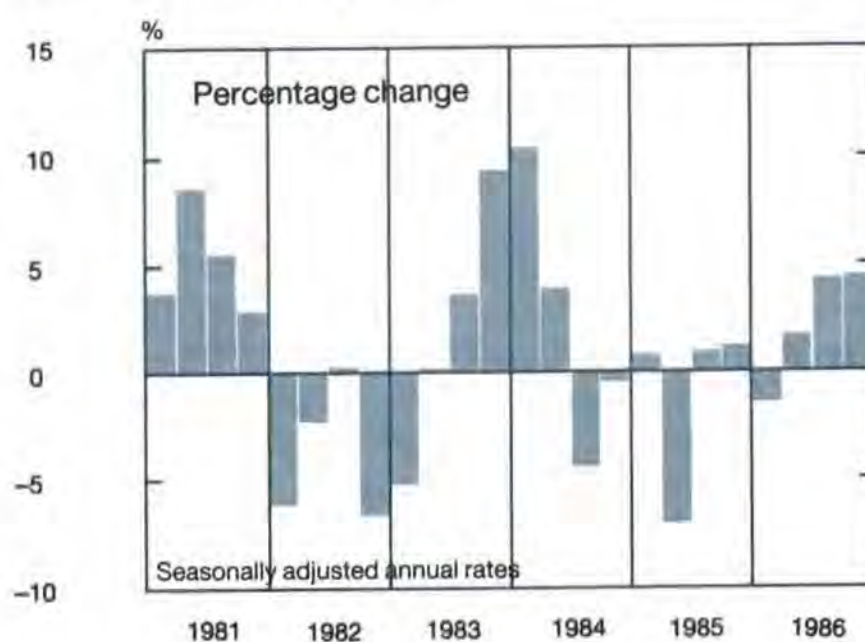
Domestic output

Real gross domestic product in the fourth quarter of 1986 continued to grow at a fairly impressive seasonally adjusted annual rate of more than 4½ per cent. This followed upon rates of change of approximately -1½ per cent in the first quarter of 1986 and of about 2 per cent and 4½ per cent in the second and third quarters, respectively. By the end of 1986, positive rates of growth in real domestic output therefore had been recorded in five of the six most recently completed quarters from the start of the current economic recovery round about the middle of 1985.

Indications in the fourth quarter of 1986 also were that the recovery was becoming more broadly based. Contributions to higher production levels during this quarter were made by all major sectors of the economy with the exception of commerce. Notable increases in output were recorded by agriculture, manufacturing, and mining other than gold, coal and diamond mining. Within the manufacturing sector, significant increases in production were recorded in consumption-based industries such as food and clothing and in the basic metal industries.

Despite the acceleration in output growth in the second half of 1986, the real economic growth rate for the year as a whole did not quite reach 1 per cent. This should be compared, however, with a *contraction* in real domestic output of 1½ per cent in 1985. The mild improvement in the production performance of the South African economy during 1986 as a whole was

Real gross domestic product



attributable mainly to a sharply higher rate of increase in agricultural production and to a reversal of the change in manufacturing output from a decrease of 6 per cent in 1985 to an increase of approximately 1 per cent in 1986.

When the strengthening of the terms of trade is taken into account, the real gross *national* product in 1986 advanced by 1½ per cent, compared with a decrease of ½ per cent in 1985.

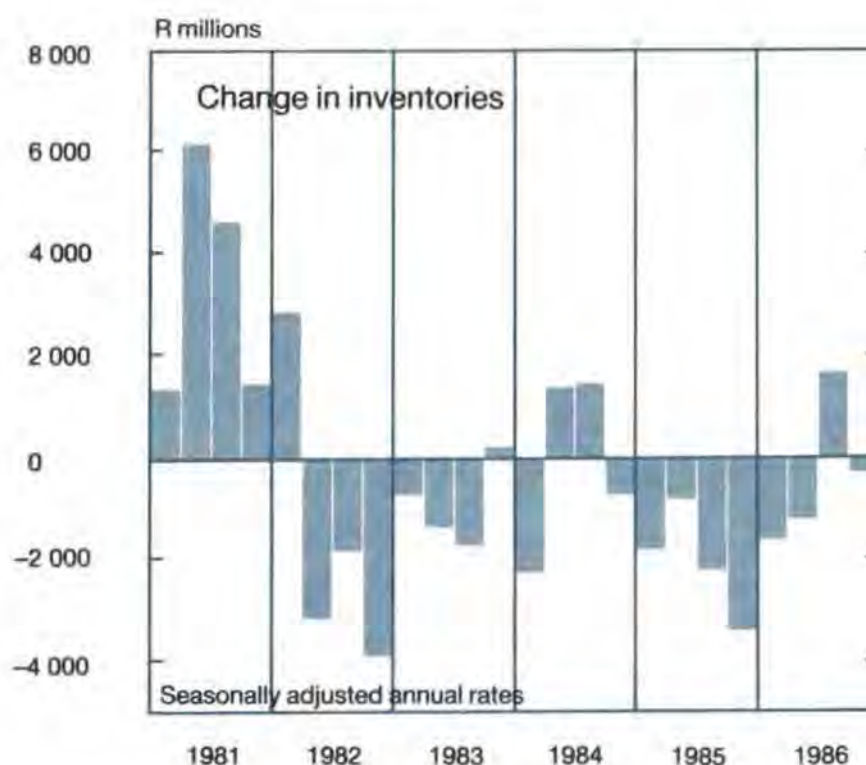
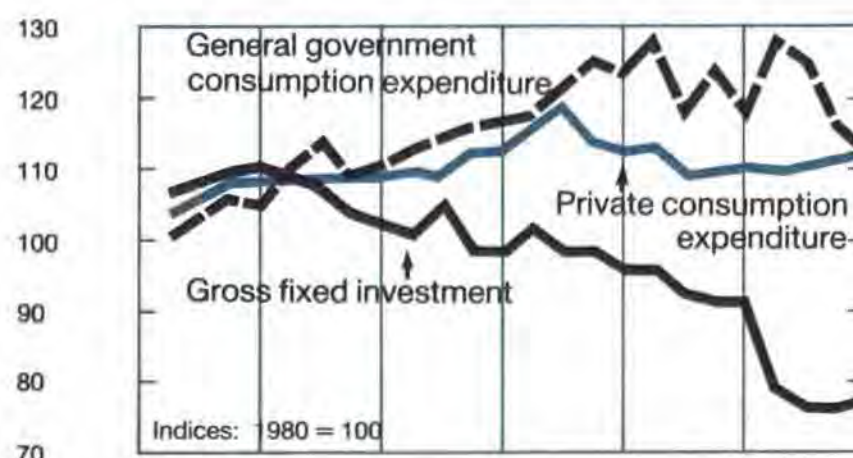
Gross domestic expenditure

Total real gross domestic expenditure fell back in the fourth quarter of 1986 as it had done in the fourth quarter of 1985 and in the second quarter of 1986. This renewed decline in domestic expenditure in the sixth quarter of an economic recovery showed spending proclivities in the South African economy to be subject to inhibitions and constraints that clearly are not normally a part of the South African business cycle. The contraction in real domestic spending in the fourth quarter of 1986 actually somewhat exceeded the marked increase in spending (at an annual rate of some 20½ per cent) that had occurred during the third quarter of the year. An analysis of expenditure data from the middle of 1985 nevertheless still suggests that a slightly upward longer-term trend was being maintained; the annualised rates of increase in total real gross domestic expenditure from the second half of 1985 to the first half of 1986, and from the first half of 1986 to the second half, both amounted to some 2½ – 3 per cent.

The renewed contraction in total real gross domestic expenditure in the fourth quarter of 1986 was mainly accounted for by a reduction in inventories, which followed upon the very large build-up of inventories that had occurred during the third quarter. Total real inventories as at the end of 1986 nevertheless still were materially above their mid-year levels; inventory accumulation accordingly made an important contribution to the mild further recovery in domestic spending in the second half of the year. Total real gross domestic *fixed* investment rose slightly in the third quarter and at an annual rate of nearly 7 per cent in the fourth quarter after declines at annual rates of 13½ per cent and of as much as 44 per cent in the second and first quarters of 1986, respectively. The encouraging increases in total real fixed capital formation in the second half of 1986 were attributable to an increase in capital outlays by public authorities in the third and fourth quarters and to a quite substantial rise in real fixed investment by the private sector in the fourth quarter.

In contrast to the increase in public-sector *capital* spending, real government *consumption* expenditure

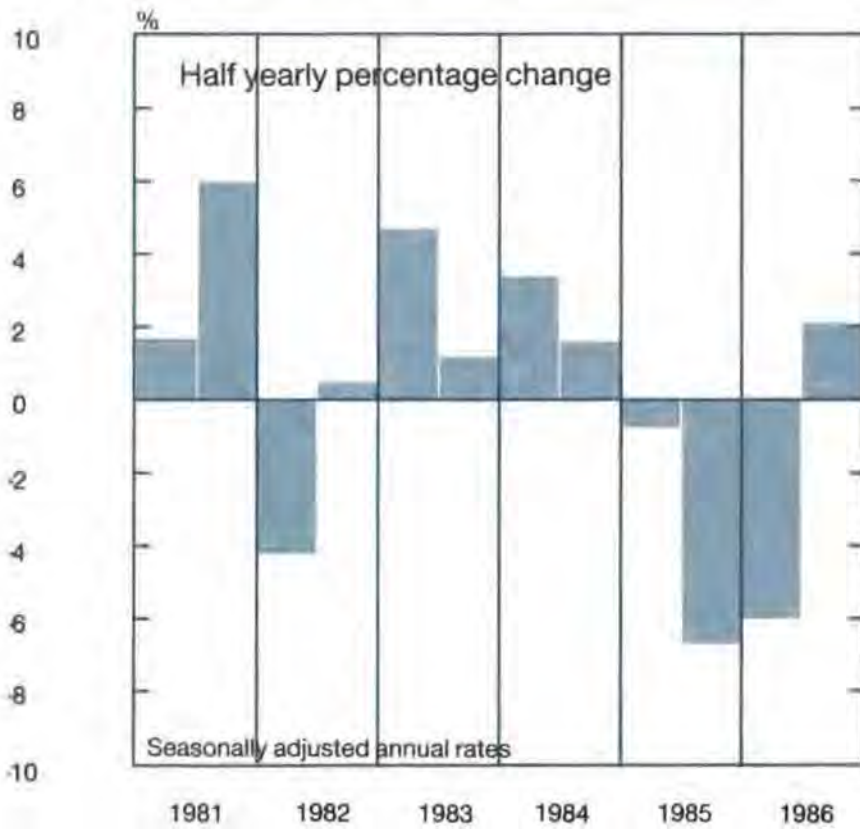
Main components of gross domestic expenditure



decreased further (at an annualised rate of about 12 per cent) in the fourth quarter of 1986. This decrease followed upon a very sharp increase (at a rate of more than 40 per cent) during the first quarter which had been succeeded, however, by substantial declines during the second and third quarters.

In the area of real *private* consumption expenditure, the fairly substantial annual rate of increase in the third quarter of some 5 per cent was not maintained during the fourth quarter, when it slowed down to a modest 2 per cent. The moderate recovery in private consumption expenditure in the second half of 1986 was essentially attributable to rising outlays on durable and semi-durable goods; increased expenditure on such goods, in turn, partly reflected the growing importance of replacement demand. No such revival of consumer demand would probably have occurred, however, but for a material improvement in real household disposable incomes in the course of 1986. Aggregate real

Real personal disposable income



labour remuneration in each of the first three quarters of 1986 was well below its levels in the corresponding quarters of 1985; it showed significant increases, however, from the second quarter of 1986 onward. After a marked rise during the final three months of 1986, aggregate real labour remuneration in the fourth quarter of 1986 actually was some 6 per cent higher than in the fourth quarter of 1985.

When 1986 is viewed *as a whole*, total real gross domestic expenditure during the year, because of its declines in the second and fourth quarters, was only some 1 per cent higher than in 1985. In 1985, however, total real gross domestic expenditure had been approximately 8½ per cent lower than in 1984. The turnaround from a substantial rate of contraction in 1985 to a mildly positive rate of change in 1986 was accounted for mainly by the change-over from inventory disinvestment in the first half of 1986 to a net rebuilding of inventories in the second half. In addition, however, the annual rate of change in aggregate real gross "final demand" (i.e. the total of real private and real government consumption expenditure and real gross domestic fixed investment) recovered steadily from a negative rate of as much as 9 per cent in the first quarter of 1986 to a slightly positive rate of ½ per cent in the fourth quarter of the year.

Inventory disinvestment during 1986 as a whole, in 1980 values, amounted to some R0,4 billion, compared with a drawing-down of inventories to an amount

of approximately R2,1 billion in 1985. Marked increases actually were recorded in respect of diamond and agricultural stocks-in-trade and in mining stocks; in addition, significant further hoarding occurred of certain strategic materials. Real inventories in the industrial and commercial sectors were reduced further during 1986 as a whole but showed some recovery in the second half of the year. The ratio of industrial and commercial inventories to gross domestic product in the non-agricultural sectors of the economy nevertheless declined further to an all-time low of 20 per cent in the fourth quarter of 1986.

The encouraging bottoming-out of *total* real gross domestic fixed investment in the third quarter of 1986 and its moderate upturn in the fourth quarter partly offset the very sharp declines in fixed investment that had occurred during the first and second quarters of the year. For calendar 1986, total real gross fixed investment nevertheless was estimated to have declined by 16½ per cent, compared with a decline of about 6 per cent in 1985. Real fixed capital formation by *public authorities* declined at a rate of 17½ per cent during the first half of the year but rose at a rate of 6 per cent during the second half; its decline during the year as a whole amounted to approximately 10 per cent. This large decline during calendar 1986 was explained essentially by a drop of no less than 40½ per cent in real capital outlays by the South African Transport Services and of 9½ per cent in those of the Department of Posts and Telecommunications. Real fixed investment expenditure by general government departments, on the other hand, increased modestly by about 2½ per cent.

Real fixed capital expenditure by *public corporations* declined rapidly throughout 1986 and was estimated to have contracted by as much as 29½ per cent during the year as compared with 1985. This mostly reflected large cutbacks in real capital outlays by Escom. Real fixed investment by the *private sector* decreased by 14½ per cent during 1986 as a whole despite its quite substantial recovery in the fourth quarter. Reductions in real private capital outlays were recorded in all sectors of the economy with the exception of the mining industry.

Low levels of new real fixed capital formation actually caused production capacity in manufacturing industry to decline in both 1985 and 1986. The capacity utilisation rate in manufacturing nevertheless declined from 83 per cent in 1984 to as little as 77 per cent in the second quarter of 1986. This rate subsequently recovered, however, to 79 per cent in the fourth quarter of 1986. The mild reversal of the decline in the utilisation rate, in conjunction with the recent rise in fixed investment in manufacturing industry, may eventually turn out to have marked the lower turning point of the

fixed investment cycle, which had been in a downward phase from the first quarter of 1982.

Real government consumption expenditure during 1986 as a whole was some 1 1/2 per cent lower than in 1985; during the first three quarters (April to December) of fiscal 1986/87 this kind of expenditure similarly was some 1 1/2 per cent lower than during the corresponding period of fiscal 1985/86. Total real remuneration of government employees increased by about 4 per cent during the first nine months of fiscal 1986/87. It therefore contributed significantly to the rise in aggregate real personal disposable income during this period. Real government expenditure on goods and services other than labour services, however, decreased by nearly 8 per cent.

The more pronounced revival of private consumer demand in the second half of 1986 allowed total real private consumption expenditure during the calendar year 1986 to be maintained at approximately its 1985 level. In 1985, the decline in real private consumer expenditure as compared with 1984 had amounted to as much as 4 per cent.

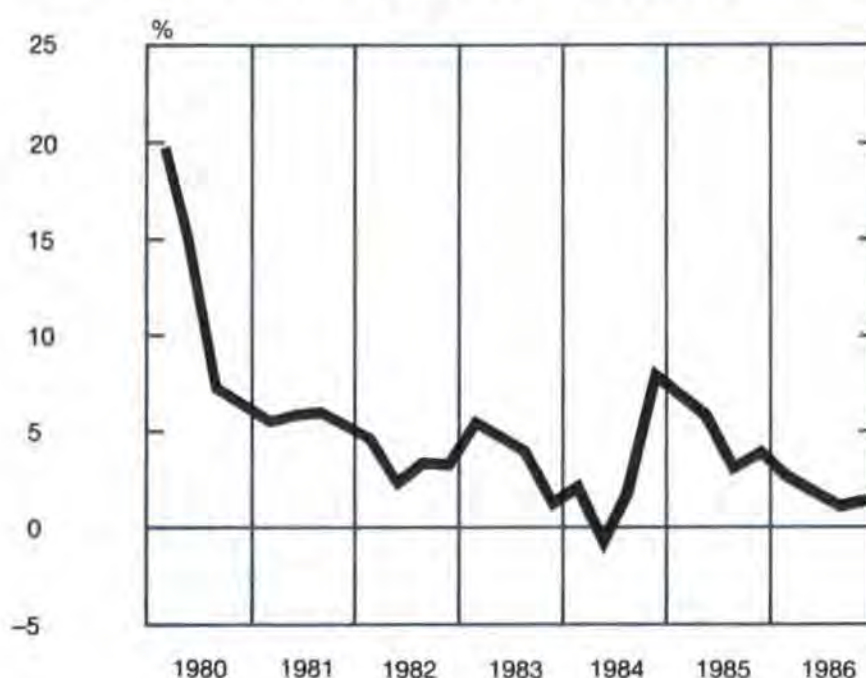
Factor income and saving

Aggregate nominal factor income rose strongly during the second half of 1986. The annualised rate of increase in total factor incomes amounted to 10 1/2 per cent in the first half of 1986 but to as much as 28 per cent in the second half; the increase during the year as a whole amounted to 16 1/2 per cent. *Aggregate nominal labour remuneration* rose by 13 1/2 per cent during 1986 but increased at an annual rate of nearly 22 per cent during the second half. Since the latter rate of increase well exceeded the rise in the consumer price index, aggregate *real* labour remuneration also advanced appreciably in the course of the third and fourth quarters of 1986.

Gross operating surpluses, mostly reflecting the much improved profit performances of businesses in a wide variety of activities, rose at an annual rate of 11 per cent in the first half of 1986 but at an unusually high rate of 36 per cent during the second half. For the calendar year as a whole this increase amounted to approximately 21 per cent.

Gross domestic savings rose more or less proportionally to the gross domestic product at current prices. The domestic savings ratio, i.e. the ratio of gross savings to the gross domestic product, accordingly was maintained in 1986 at approximately its 1985 level of 25 1/2 per cent. A significant rise in this ratio was observable, however, from the first to the third and fourth quarters of the year. The increase in gross domestic saving in 1986, at R4,7 billion, well exceeded the increase in nominal gross domestic investment, at R3,4 billion. Being reflected in the growing surplus on the

Ratio of personal saving to personal disposable income



current account of the balance of payments, this further increase in the domestic savings surplus permitted further repayments on South Africa's foreign indebtedness.

Substantial increases in capital consumption allowances at replacement values held down the rise in the net undistributed profits of incorporated business enterprises in 1986 to only R0,4 billion. Net saving by general government, however, rose by R1,4 billion, because of approximate stability in the total of interest payments on the public debt at approximately its 1985 level and because of a slowdown in the rise in nominal government consumption expenditure. Personal savings, on the other hand, declined by R2,1 billion despite the marked rise in personal disposable income in the second half of 1986. This caused the personal savings ratio (i.e. the ratio of personal saving to personal disposable income) to decline from 4,9 per cent in 1985 to as little as 1,6 per cent in 1986.

Employment*

Employment in the non-agricultural sectors of the economy was only 0,2 per cent higher during the first three quarters of 1986 than during the first three quarters of 1985. A more significant improvement in labour market conditions was apparent, however, in the second half of the year. On a quarter-to-quarter basis, seasonally adjusted employment in the non-agricultural sectors remained virtually unchanged from the fourth quarter of 1985 to the first quarter of 1986, declined at

*Comprehensive employment and labour remuneration statistics are available only up to the third quarter of 1986.

Employment in non-agricultural sectors

Percentage change at seasonally adjusted annual rates

	1985		1986		
	3rd qr	4th qr	1st qr	2nd qr	3rd qr
Private sector	0,4	1,2	-0,4	-1,6	-0,3
Public authorities	0,9	2,3	0,6	2,3	4,2
Total	0,6	1,6	-0,1	-0,4	1,0

an annual rate of 0,4 per cent in the second quarter, but rose at a rate of 1,0 per cent in the third quarter. Employment increases in the third quarter of 1986 were due to increased employment by public authorities. Employment in the private sector actually declined further for the third consecutive quarter. More recent information nevertheless indicates that the demand for labour increased in the manufacturing and construction sectors during the three months ended December 1986. In addition to increased employment, overtime worked in these sectors also showed an upward trend. Higher employment levels, moreover, were reported with regard to October and November by the Department of Posts and Telecommunications and by the mining industry.

Unemployment remained at high levels during 1986 because of the relatively low rate of employment increases compared with the steady expansion of the labour force. The seasonally adjusted number of registered unemployed varied around a monthly average level of about 130 000 during 1986 and amounted to 131 800 in January 1987.

Indications nevertheless are that total unemployment may well have started to decline during the second half of 1986. According to the revised Current Population Survey for Blacks, which is based on the 1985 Population Census, the total number of unemployed Blacks declined from 1 181 000 in July to 1 087 000 in October 1986. The ratio in October of unemployed Blacks to the economically active Black population amounted to 18,1 per cent.

The seasonally adjusted number of registered unemployed Whites, Coloureds and Asians (which is known normally to be a highly sensitive and consistent indicator of changes in economic activity in general and in labour market conditions in particular) reached a peak of 83 000 in September 1986 before declining to 79 000 in December and to less than 77 000 in January 1987.

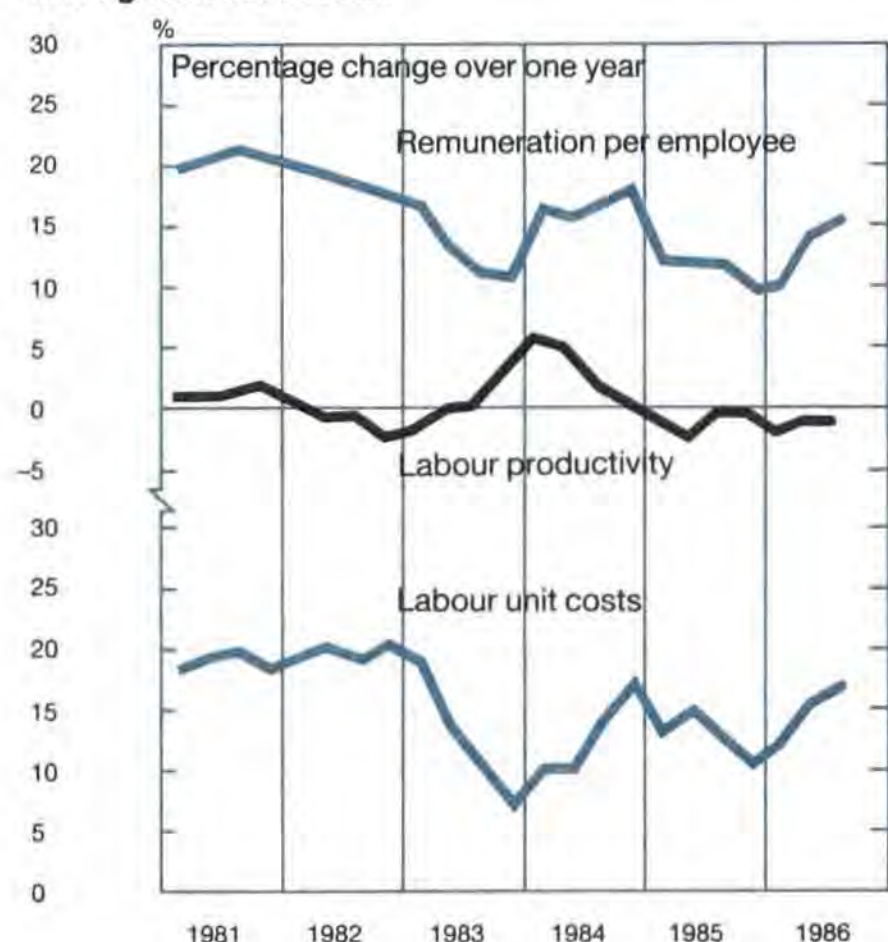
Labour costs and productivity

Continued easy labour market conditions did not prevent remuneration per worker in nominal terms from

rising faster in 1986 than during the preceding year. Average wage and salary payments per worker rose by 13,6 per cent during the first three quarters of 1986 compared with the same period in 1985, as against an increase of 11,2 per cent in calendar 1985. The rate of increase in the average wage per worker in the first three quarters of 1986, however, still fell significantly short of the rise in the consumer price index. The marked rise in aggregate real labour remuneration from the second quarter of 1986 onwards (which started from a low first-quarter base) therefore did not yet succeed in raising the real wage per worker above 1985 levels during the greater part of 1986. Real remuneration per worker, in fact, was lower by 4,3 per cent in 1985 than in 1984, and by a similar percentage on average during the first nine months of 1986 than during the first nine months of 1985.

Labour productivity (as measured by the real gross domestic product per worker in the non-agricultural sectors of the economy) declined by 1,0 per cent in 1985 and by a further 1,4 per cent in the first three quarters of 1986. This was mainly a reflection of cyclical developments. It was also partly attributable, however, to a rising number of man-days lost as a result of industrial disputes and work stoppages, which increased from approximately 380 000 in 1984 to over 678 000 in 1985 and to no less than 973 880 in the first three

Labour productivity, remuneration and unit costs in the non-agricultural sectors



quarters of 1986. An improvement in labour productivity (at an annual rate of 1,3 per cent) nevertheless was observed in the third quarter *vis-à-vis* the second quarter of 1986, mainly because of strengthening rates of increase in production volumes during this period.

The rise in the rate of increase in nominal remuneration per worker, in conjunction with the decline in labour productivity, caused the year-on-year rise in unit labour costs to accelerate from its most recent low of 10,1 per cent in the fourth quarter of 1985 to 17,0 per cent in the third quarter of 1986.

Prices

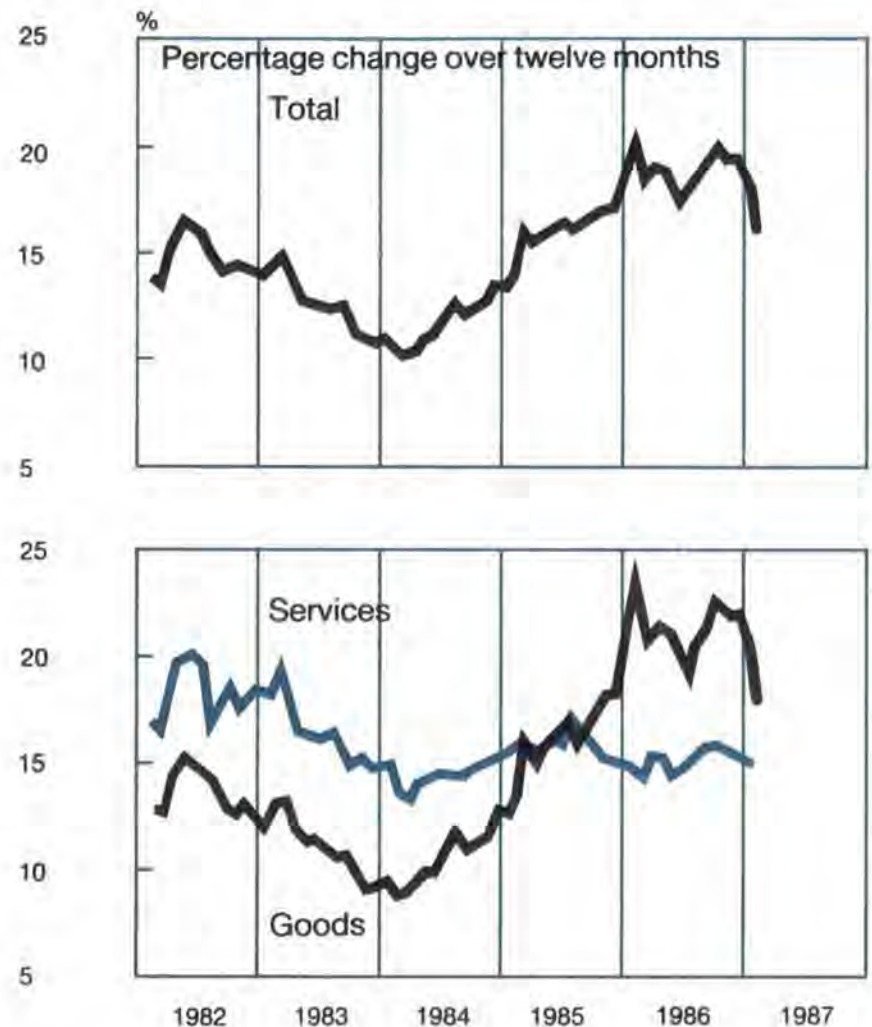
The rate of increase in the annual average of the *consumer price index* advanced from 16,2 per cent in 1985 to 18,6 per cent in 1986. The rate of increase in the *production price index* accelerated from 16,9 per cent in 1985 to 19,6 per cent in 1986. This deterioration of the inflation rates from year to year primarily reflected the lagged effect of the depreciation of the rand in the second half of 1985 and during parts of 1986 on the prices of imported goods. Variations in the rate of increase in the general price level in the course of 1986 mainly reflected the effect of shorter-term changes in the exchange rate of the rand and of fluctuations in the rate of increase in the prices of foodstuffs.

On a quarterly basis, the annualised rate of increase in the seasonally adjusted consumer price index declined from 27,2 per cent in the first quarter of 1986 to 12,8 per cent in the second quarter, but reaccelerated to 18,3 per cent in the third quarter. The third-quarter reacceleration was attributable primarily to higher rates of increase in the cost or prices of food and housing and of a number of consumer durables, such as furniture and motor cars. In the fourth quarter, the rate of increase in consumer prices slowed down to 17,2 per cent, mainly because of lower rates of increase in the cost of housing (reflecting lower rents and mortgage interest rates), and of certain other services.

Measured over twelve months, the rate of increase in the consumer price index advanced from a low point of 16,9 per cent in June 1986 to 19,7 per cent in September. It subsequently slowed down, however, to 18,1 per cent in December and declined further to 16,1 per cent in January 1987.

The twelve-month rate of increase in import prices declined markedly from 32,7 per cent in January 1986 to 20,4 per cent in June, mainly because of the delayed impact of lower oil prices and of the strengthening of the exchange rate of the rand in the first quarter. This rate then reaccelerated to 22,4 per cent in October 1986 in response to the exchange rate decline from March to June, but fell back to only 8,3 per cent in January 1987. The effects of the strengthening of the

Consumer prices



exchange rate from June to September 1986 and of the more recent improvement of the exchange rate in early 1987 are yet to work through more fully to the imported goods price index and to production prices generally. The increase over a twelve-month period in the overall production price index rose from 19,1 per cent in June 1986 to 20,6 per cent in October but declined to 16,4 per cent in December and to 14,9 per cent in January 1987.

Balance of payments

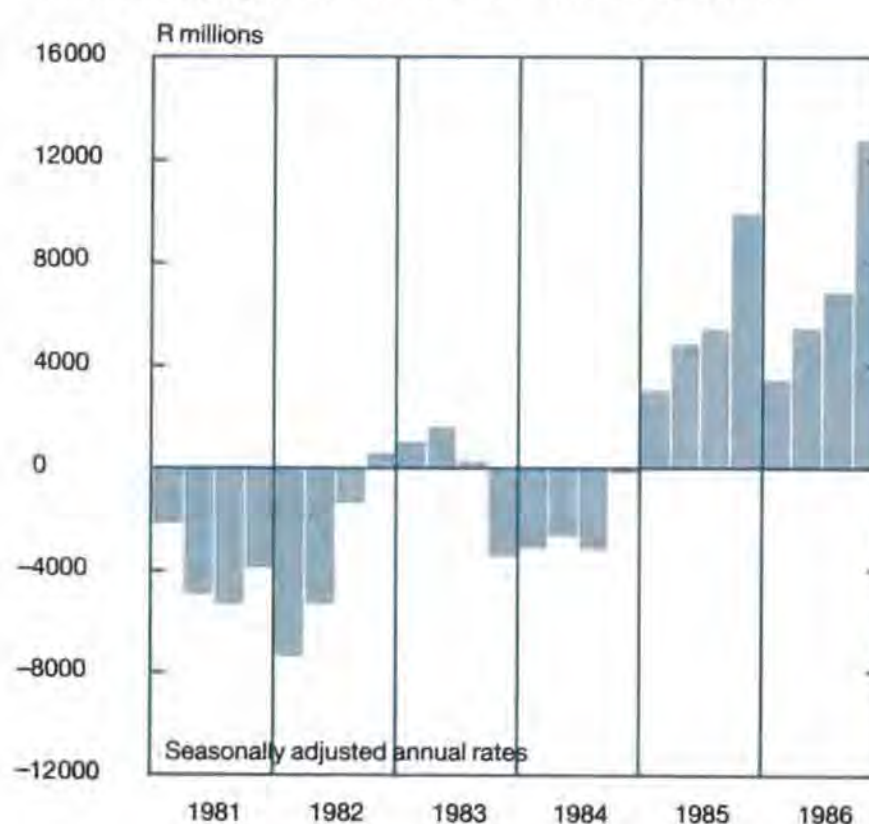
Current account

The renewed slowdown in domestic expenditure, in conjunction with a further rise in domestic production, found expression in a record surplus on the current account of the balance of payments in the fourth quarter of 1986. At a seasonally adjusted annual rate, this surplus amounted to as much as R12,9 billion. For 1986 as a whole, the current account surplus amounted to R7,2 billion, compared with R5,9 billion in 1985.

In statistical terms, the sharp further rise in the current account surplus during the fourth quarter of 1986 was attributable almost entirely to a sharp drop in the value of merchandise imports. The substantial increase in the current account surplus from 1985 to 1986 was, however, explained by a rise in the value of merchandise exports and, to a lesser extent, in net gold exports. Relative to the value of the gross domestic product in 1986 and in the fourth quarter of 1986, the current account surpluses during the year as a whole and during the fourth quarter amounted to 5,2 per cent and to a record 8,5 per cent, respectively.

South African merchandise exports in 1986 continued to benefit from sustained, if moderate, real growth in the world's industrialised economies and from sustained competitiveness of South African goods in the international markets on account of further declines in the average effective exchange value of the rand. The 21 per cent rise in the value of merchandise exports in 1986 was made up of a 6 per cent rise in export volumes and a 14 per cent increase in average export prices. The absence of any significant further increase in merchandise export earnings during the fourth quarter of 1986 partly reflected a decline in export prices. International commodity prices actually advanced moderately further during this quarter; the

Balance of payments: Balance on current account



average price level of South African merchandise exports in domestic currency declined, however, because of the appreciation of the rand during this period.

Net gold exports increased by 8 per cent during 1986 on account of an 18 per cent increase in the average rand price of gold. Various factors, including downward pressure on the dollar in the international foreign exchange markets, lower interest rates in the international money and capital markets, and renewed concern about the foreign debt problems of Third World countries, caused the dollar price of gold to rise from an average level of US \$317 per fine ounce in 1985 to US \$368 in 1986. The average rand price of gold rose

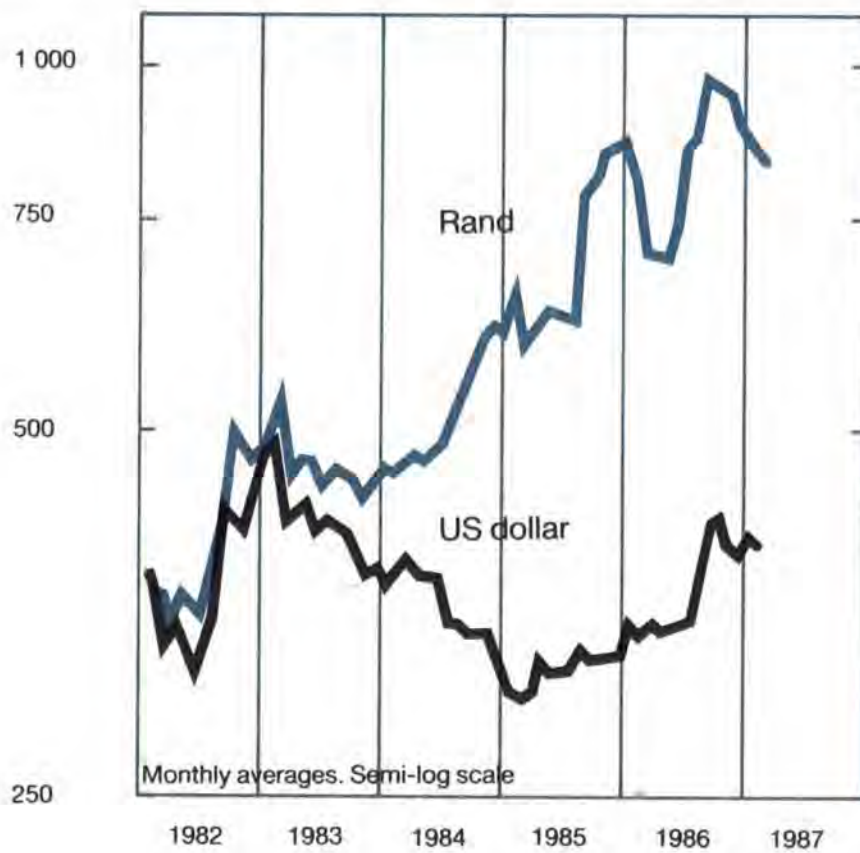
Current account of balance of payments

Annualised seasonally adjusted figures

R millions

	1985	1986				Year
		1st qr	2nd qr	3rd qr	4th qr	
Merchandise exports	20 465	20 760	23 807	27 321	27 340	24 807
Net gold exports	15 460	14 854	15 768	18 370	17 884	16 719
Merchandise imports	-23 045	-23 752	-24 619	-30 579	-23 638	-25 647
Trade balance	12 880	11 862	14 956	15 112	21 586	15 879
Net service and transfer payments	-6 955	-8 284	-9 380	-8 220	-8 668	-8 638
Current account balance	5 925	3 578	5 576	6 892	12 918	7 241

Gold price

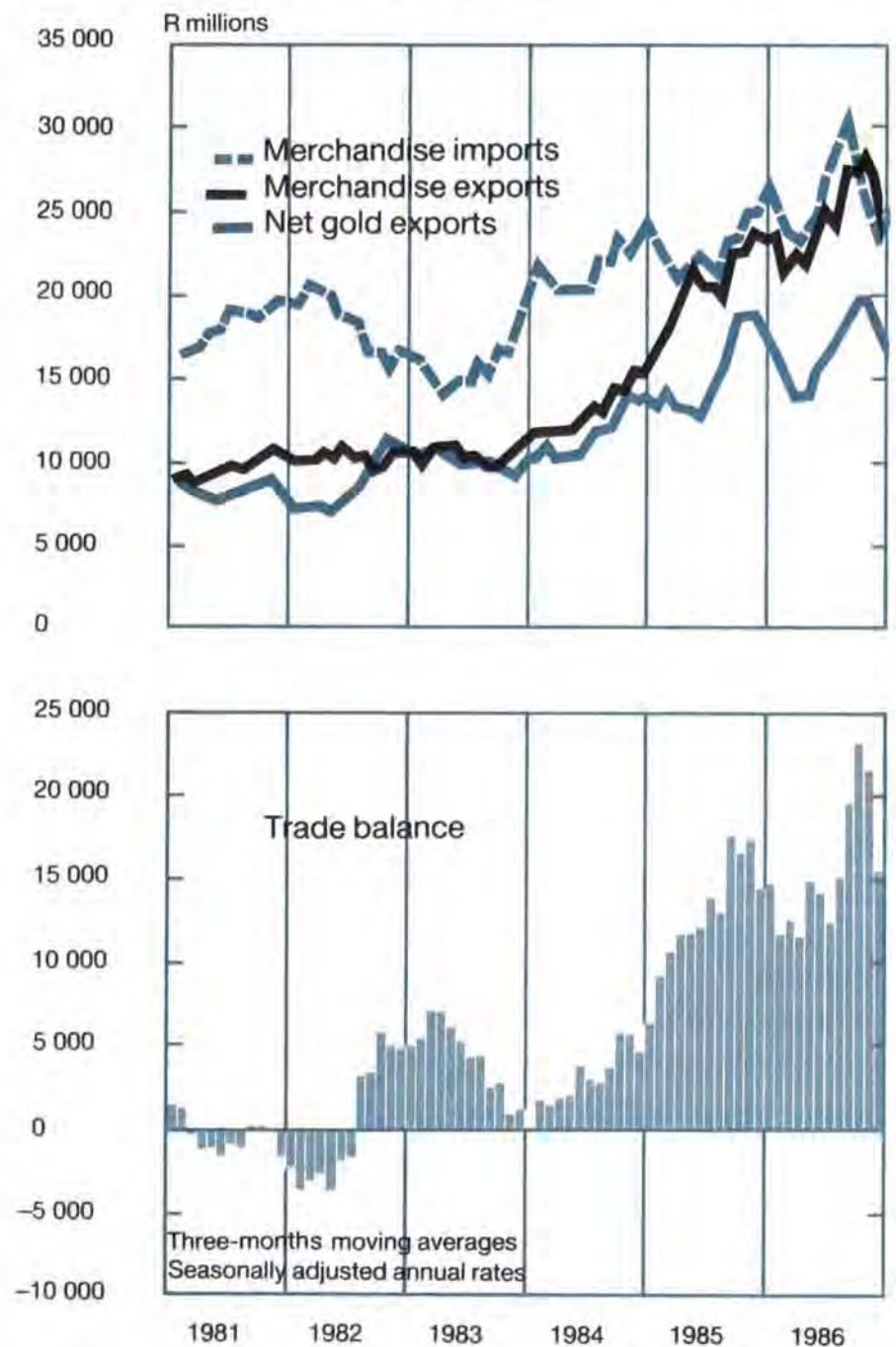


from R711 in 1985 to R840 in 1986. During the fourth quarter of 1986, however, the 11,1 per cent increase in the average exchange value of the rand in terms of the US dollar more than neutralised the 6 per cent rise (from US \$381 to US \$404) in the average dollar price of gold. The value of net gold exports accordingly declined marginally despite a slight rise in the volume of gold production.

Subdued demand in the domestic economy caused the volume of merchandise imports in 1986 to decline by approximately 5 per cent. Substantial price increases, amounting to more than 17 per cent, nevertheless caused the value of such imports to rise by some 11½ per cent. From a relatively high level in the third quarter of 1986, the value of merchandise imports declined substantially in the fourth quarter to about the average level of 1985 and the first two quarters of 1986. This decline was more than fully accounted for by a decline in import volumes. Import prices actually rose slightly despite the fourth-quarter appreciation in the average exchange value of the rand, mainly as a result of higher international oil prices. Particularly large declines in import values in the course of the fourth quarter were recorded in mineral products, machinery and electrical equipment, and transport equipment.

Increases in net service and transfer payments to foreigners during the fourth quarter of 1986 and during 1986 as a whole mainly resulted from higher distribu-

Balance of payments: Trade account



tions of dividends and increased payments to non-residents for non-merchandise insurance.

Capital account

After having improved substantially in the third quarter of 1986, the capital account of the balance of payments deteriorated markedly in the fourth quarter. The total net outflow of capital not related to reserves rose from a fairly insignificant amount of R0,1 billion in the three months to September 1986 to as much as R3,5 billion in the three months to December.

The renewed considerable outflow of non-reserve-related capital in the fourth quarter of 1986 comprised net outflows of both long-term and short-term capital. A modest net inflow of short-term capital of R0,2 billion in the third quarter was transformed into a major net outflow of R2,8 billion in the fourth quarter. This

Net capital movements*

R millions

	1985	1986				Year
		1st qr	2nd qr	3rd qr	4th qr	
Long-term capital						
Public authorities	-415	-195	-70	19	-59	-305
Public corporations	817	30	-110	21	-16	-75
Banking sector	-298	-43	-33	-5	-13	-94
Private sector:						
Net purchases of listed securities by non-residents	-336	-404	-117	-278	-566	-1 365
Other	-213	-2	-146	-88	-105	-341
Total	-445	-614	-476	-331	-759	-2 180
Short-term capital including unrecorded transactions	-8 786	-860	-584	238	-2 753	-3 959
Total capital movements	-9 231	-1 474	-1 060	-93	-3 512	-6 139

*Excluding liabilities related to reserves.

marked turnaround would appear to have been explained mainly by a shift from foreign to domestic sources of overseas trade financing. The net outflow of long-term capital rose from R331 million in the third quarter to R759 million in the fourth quarter, mainly because of increased net sales by non-residents of securities listed on the Johannesburg Stock Exchange; under the financial rand system, however, such sales are matched by an offsetting inflow of foreign capital in some different form and therefore do not result in a loss of foreign exchange. In January 1987, net security sales by non-residents contracted again to a negligible R6 million.

From calendar year 1985 to calendar year 1986, the aggregate net outflow of foreign capital declined from R9,2 billion to R6,1 billion. This marked contraction of the total net outflow of funds was more than fully explained by a considerable decline in the outflow of short-term capital (including unrecorded transactions) from R8,8 billion in 1985 to R4,0 billion in 1986. In 1985, events leading up to the temporary closure of the foreign exchange markets in late-August and foreigners' strongly negative perceptions of the prospects for the South African economy, *inter alia* resulted in occasionally very large leads and lags in international payments and receipts, notably after the imposition of the foreign debt standstill from 2 September. In contrast, considerably more stable conditions prevailed in the South African foreign exchange markets during most of 1986. A substantial further build-up of South African short-term foreign asset holdings, amounting to R2,7 billion and apparently related to South African financing of merchandise export transactions, did, however, take place in the course of the year.

Long-term capital outflows rose steeply from R0,4 billion in 1985 to R2,2 billion in 1986. This mostly reflected increased net sales by non-residents of securities listed on the Johannesburg Stock Exchange, which amounted to R1,4 billion in 1986; as noted earlier, however, such sales do not result in a loss of foreign reserves. In addition, the net inflow of loan capital to public corporations of R0,8 billion in 1985 changed to a small outflow of R0,1 billion in 1986. Public corporations, banking institutions and private business enterprises also continued to make moderate further repayments on long-term foreign debt.

The banking sector and the Central Government in 1986 reduced their reserve-related liabilities by R2,3 billion. Of this amount, R801 million represented repayments on a loan from the International Monetary Fund. A further repayment on this loan, to an amount of R240 million, was made in February 1987. By the end of 1987, this loan will have been repaid in full.

Foreign reserves

The net result of the various current and capital account developments outlined above was a small decline of R189 million in South Africa's gross gold and other foreign reserves during 1986. At a level of some R5,7 billion at the end of 1986, these foreign reserves were equivalent to about 14½ per cent of the total annual value of import payments. During the first two months of 1987, however, the gold and other foreign reserves of the Reserve Bank increased by as much as R1,7 billion.

Exchange rates

After having declined to a historical low on 12 June 1986, the effective exchange rate of the rand rose by 23 per cent up to 22 September 1986. Between that date and the end of 1986, the external value of the rand remained fairly stable, fluctuating within a narrow band between US \$0,4366 and US \$0,4567. For 1986 as a whole the average effective exchange rate of the rand declined by 12 per cent.

Reflecting the favourable current account balance in the fourth quarter of 1986, a further weakening of the US dollar, and the accompanying rise in the dollar price of gold, the weighted average exchange rate of the rand continued to strengthen by a further 4,7 per cent from the beginning of 1987 up to 19 January. It then showed little change from that date.

Changes in the exchange rates of the rand

%

	12 June 1986 to 22 Sept 1986	22 Sept 1986 to 31 Dec 1986	31 Dec 1986 to 19 Jan 1987	19 Jan 1987 to 11 Mar 1987
Weighted aver- age	23,1	0,6	4,7	-2,6
US dollar	26,7	0,8	7,9	-2,8
British pound .	32,3	0,6	3,5	-6,4
German mark .	17,6	-4,0	-	-0,6
Swiss franc	14,5	-0,3	0,8	-
Japanese yen..	17,9	4,6	1,4	-0,7
French franc ..	19,1	-1,5	1,2	-0,7
Financial rand .	14,2	-8,2	7,8	15,7

The financial rand remained under pressure because of continuing sales by foreigners of securities listed on the Johannesburg Stock Exchange and because of "disinvestment" by a number of overseas business concerns; it fluctuated around USA \$0,20 during the second half of 1986. However, renewed foreign interest in South African gold shares – due to the upward trend in the dollar price of gold from the beginning of January 1987 – and in fixed-interest securities, subsequently caused the financial rand to rise to 26,75 US cents on 11 March 1987. The financial rand discount *vis-à-vis* the commercial rand widened from 42,0 per cent at the end of June 1986 to as much as 54,2 per cent on 3 February 1987, but subsequently shrank to 44,0 per cent on 11 March 1987.

Exchange rates of the rand



Money and credit

Money supply

The mild acceleration in the rate of increase in the broad money supply, M3, during the third quarter of 1986 levelled off again in the fourth quarter. After having increased from 9,4 per cent in July to 9,6 per cent in August and 10,8 per cent in September, the twelve-month growth rate in M3 slowed down to 10,4 per cent in October, 10,1 per cent in November and only 9,3 per cent in December – the lowest rate of increase in the broad money supply to be recorded in the course of the year. The twelve-month rate of increase in M3 for January 1987 was less than 9 per cent. The rate of increase in the quarterly average of M3 from the fourth quarter of 1985 to the fourth quarter of 1986 amounted to only 10,1 per cent, compared with the rate of 16 per cent that had been set as the lower limit of the monetary target for 1986. As a result, the shortfall of M3 *vis-à-vis* the lower limit of the 1986 target range eventually amounted to as much as R4,2 billion or 5,1 per cent.

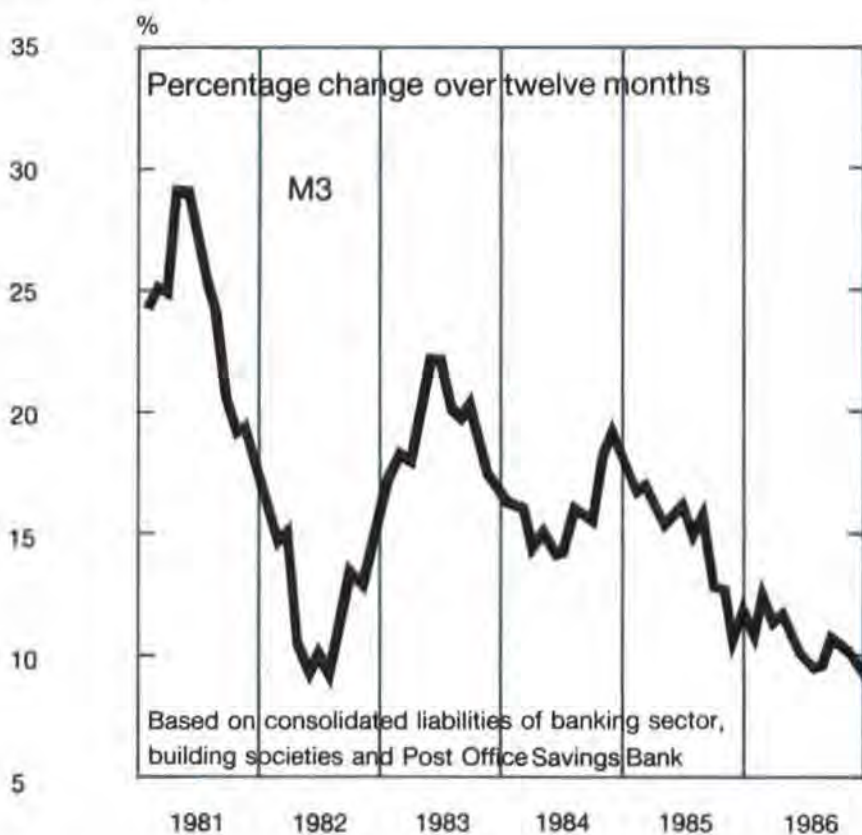
The increase in the gross domestic product at current prices from the fourth quarter of 1985 to the fourth quarter of 1986 amounted to 18,4 per cent. This substantially higher rate of growth in the nominal gross domestic product than in M3 indicated an increase in the income velocity of circulation of M3 (i.e. in the ratio

of the quarterly gross domestic product, at current prices and at a seasonally adjusted annual rate, to the quarterly average of the seasonally adjusted money supply during the quarter concerned) of no less than 7,6 per cent.

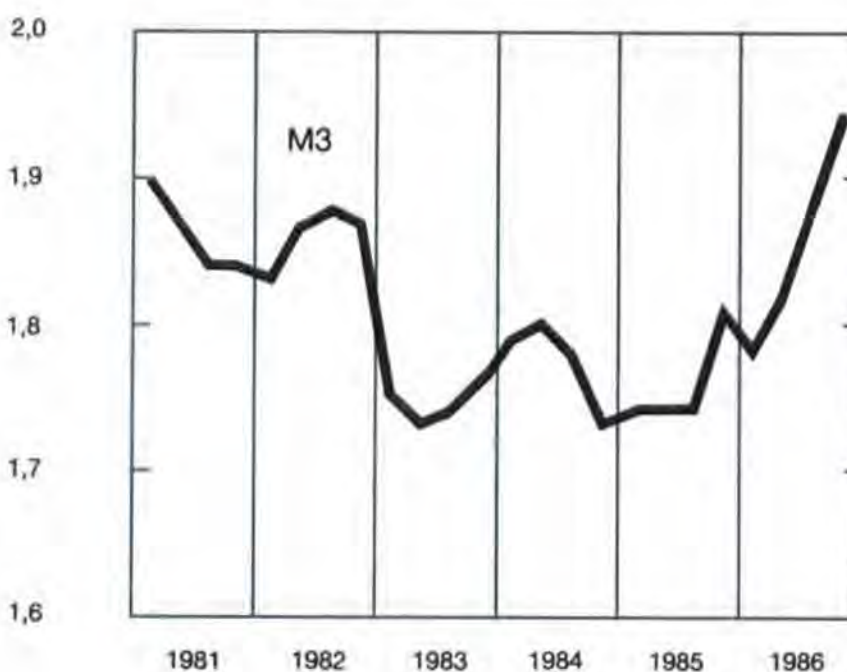
As explained by the Reserve Bank in its recently released publication *Money supply targets for 1987*, this marked rise in velocity during a period of mostly declining interest rates was attributable partly to the comparatively low recent levels of deposit interest rates offered by banks and building societies relative to the inflation rate. Comparatively low after-tax returns on deposits and similar investments caused investors to look around for alternative investment opportunities as made available, for example, by insurance companies and unit trusts. Some of the investment outlets involved – including, for example, investors' purchases of newly issued company shares, or of the units issued by unit trusts – directly or indirectly enabled recipients of the funds concerned to repay bank credit, thereby bringing about a reduction in both the assets and the liabilities of the banking system and causing a decline in the measured money supply. "Disintermediation" in the broadest sense of the term, including conventional intercompany lending and borrowing in the so-called grey market, also was fostered in the course of 1986 by a general widening of the gap between the banks' deposit rates and their *average* lending rates.

The twelve-month growth rate in M2 continued to fluctuate downwards in the fourth quarter of 1986 from 6,4 per cent in September to only 4,3 per cent in December, its lowest level since the start of the 1980s. Shifts towards longer-term deposits under the impact

Money supply



Income velocity of money



of declining interest rates and declining interest rate expectations, actually caused the "near-money" component of M2 (i.e. the total of "other short-term" and medium-term deposits) to decline absolutely from the end of 1985 to the end of 1986. The effect of the shifts between various kinds of bank deposits that had been brought about by the change, in September 1985, in the banks' procedure for "averaging" a part of their short-term liabilities for purposes of their cash reserve and liquid asset requirements, would, however, appear to have run its course by the fourth quarter of 1986. The twelve-month growth rate in M1, which had been negative up to August 1986, accordingly increased from 2,6 per cent in September 1986 to 12,8 per cent in December. The twelve-month growth rate in M1A, which had been boosted by the abolition of the earlier version of the banks' "averaging", declined from 28,1 per cent in September 1986 to 20,5 per cent in December.

Below-target growth in M3 was due, in the accounting sense, to continued slow growth in the extension of credit by "monetary" institutions, which, over a twelve-month period, amounted to only 6,9 per cent in December 1986 compared with 16,8 per cent in December 1985. Although the net gold and other foreign reserve holdings of the "monetary" sector declined somewhat

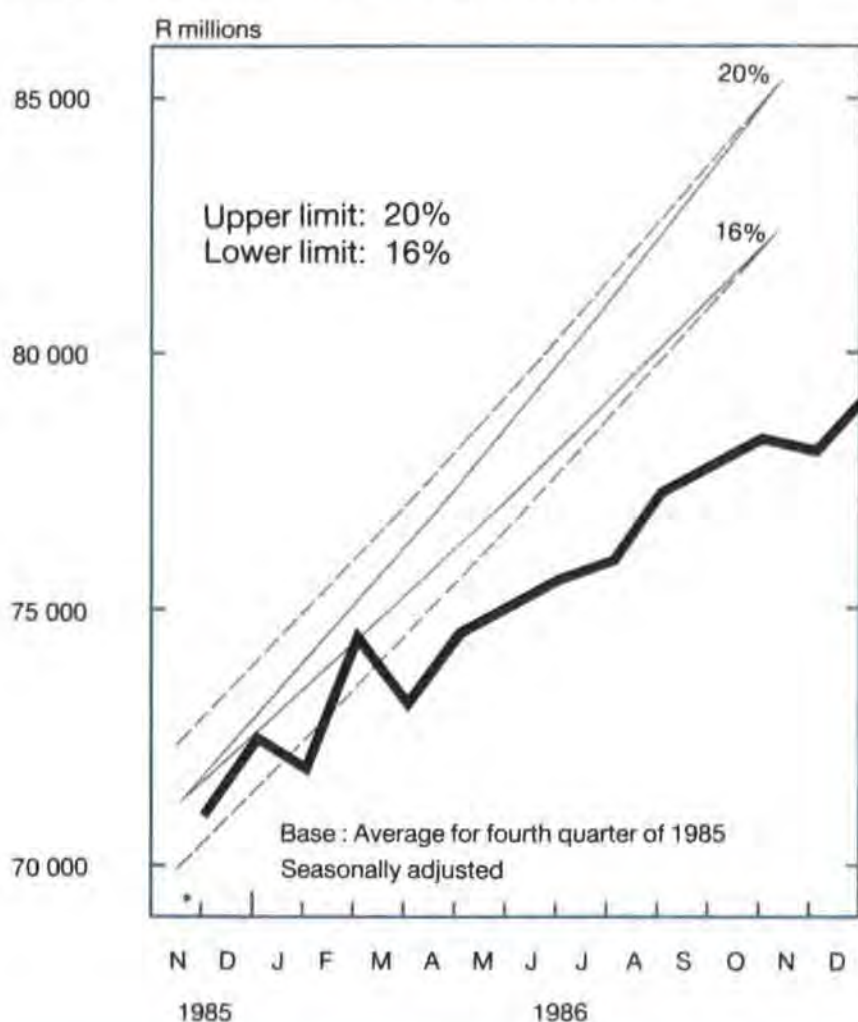
in December, they contributed positively to the growth in M3 during 1986 as a whole, against their substantial contractionary effect in the course of 1985.

A new target range for the rate of increase in M3 of 14 to 18 per cent between the fourth quarter of 1986 and the fourth quarter of 1987, was announced by the Reserve Bank on 10 March 1987. In explaining the two-percentage point reduction in these rates from their 1986 counterparts, the Bank stated that this would serve to "reaffirm the determination of the monetary authorities to prevent excessive money creation and any re-emergence of demand inflation". The monetary authorities believed that realisation of the new, lower, target would be consistent with the simultaneous achievement of a projected acceleration of the growth rate of the real gross domestic product (to approximately 4 per cent from the fourth quarter of 1986 to the fourth quarter of 1987) and of a further gradual decline in the inflation rate.

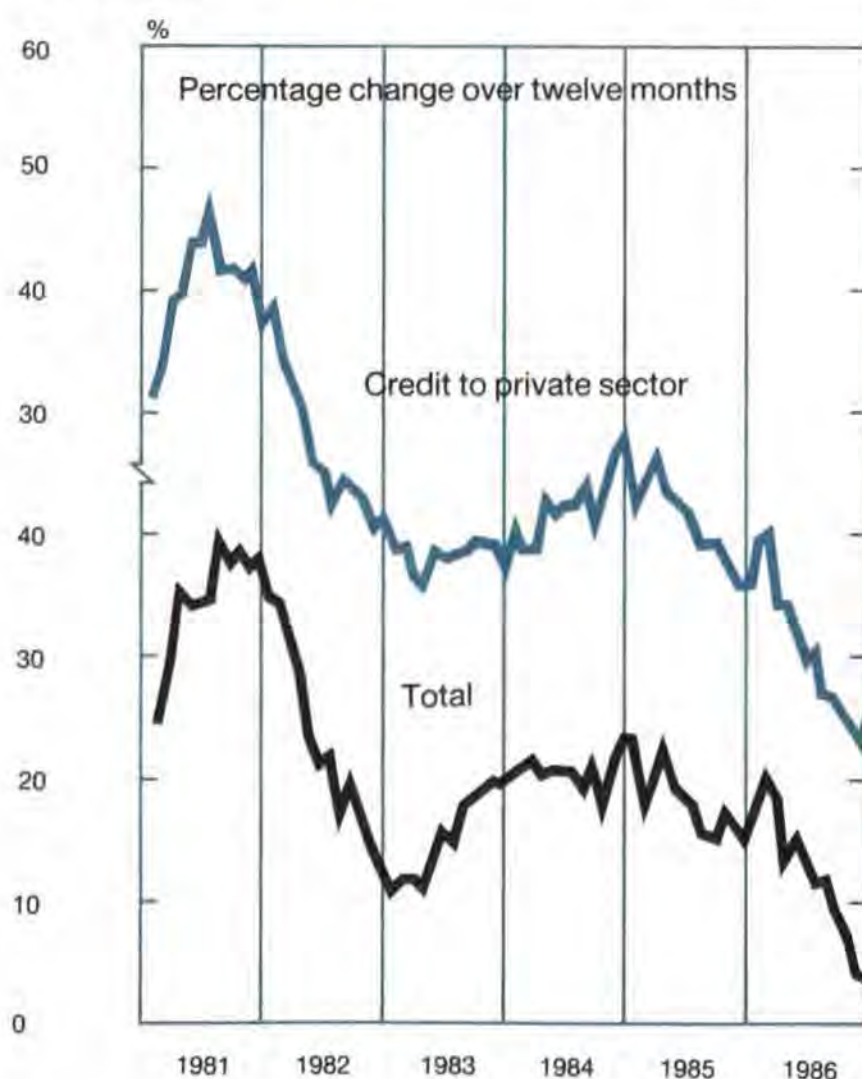
Bank credit

The twelve-month rate of increase in bank credit to the private sector shrank from 6,7 per cent in September 1986 to a low point of 3,9 per cent in November before

Target ranges for growth in M3 during 1986



Bank credit



recovering to 6,8 per cent in December; the rate in December, however, was still well below the rate of 15,7 per cent that had been recorded in December 1985. Apart from the various disintermediation phenomena referred to earlier, this continued sluggish growth in bank credit also reflected households' and businesses' continuing efforts to consolidate their existing debt positions and to avoid new additions to their financial indebtedness. Companies' greatly increased recourse to new share issues in the fourth quarter of 1986 also served to provide means for repaying earlier borrowings from the banking system.

Low levels of fixed investment in the course of most of 1986 were clearly reflected in a decline of 6,7 per cent in leasing finance during the year. Hire-purchase credit declined by 2,1 per cent from December 1985 to December 1986. The twelve-month growth rate in banks' "other" loans and advances, on the other hand, rose abruptly from 7,1 per cent in November to 16,2 per cent in December 1986; the latter rate nevertheless was still well below the rate of 25,8 per cent that had been recorded in December 1985. The higher rate of increase in banks' "other" loans and advances during December 1986 would appear to have been related to some extent to higher consumer spending during the summer holiday season, as well as to businesses' switching from off-shore to domestic sources of financing of foreign trade.

Banks' net claims on the government sector decreased substantially from December 1985 to December 1986. As a result, the relative increase in *total* bank credit in 1986 was even smaller than the increase in bank credit to the private sector. From December 1985 to December 1986, the increase in total bank credit amounted to only 3,4 per cent.

Financial markets

Bank rate policy and interest rates

Below-target growth in the money supply, the strong condition of the balance of payments on current account, and the clear absence of renewed inflationary pressures arising from accelerated increases in aggregate monetary demand, caused the authorities further to ease their monetary policy stance in the course of 1986. Bank rate and the associated refinancing rates were reduced further on five occasions. Bank rate was lowered by 3 percentage points, to 10 per cent, up to November, and by a further 1/2 percentage point, to 9 1/2 per cent, from 10 December. The clearing banks' prime rate was reduced by 4 1/2 per cent, from 16,5 to 12,0 per cent, in the course of the year. In a "technical correction" aimed at restoring a more appropriate alignment of the prime rate *vis-à-vis* relevant money market rates, the prime rate was raised again, however, to 12,5 per cent, between 24 and 26 January 1987.

Money market rates also eased substantially during 1986. The rate on three-month bankers' acceptances,

Short-term interest rates



for example, fluctuated downwards from 13,60 per cent at the end of December 1985 to 8,95 per cent at the end of December 1986, its lowest level since early 1981. At the end of February 1987 this rate had increased marginally again to 9,0 per cent. Money market rates softened to well below the Reserve Bank rediscount rates in August 1986. The market rates then remained at levels of up to 1 percentage point or more below the relevant rediscount rates throughout the remainder of 1986, as well as during the first two months of 1987.

Debt management and refinancing operations

Debt management operations by the Reserve Bank in 1986 continued to be aimed in the first instance at appropriate ways of funding the Government's borrowing requirements. A fairly high need for funds on the part of the Government, and favourable market conditions, led the Bank to effect net sales of government stock to an amount of R2 744 million in the first two quarters (April to September) of the 1986/87 fiscal year. Relatively high Government balances with the Reserve Bank, and less receptive market conditions after a hardening of long-term rates in September and early October, subsequently caused the Bank to slow down its selling activities in the fourth quarter of 1986. Net open-market sales of government stock in the course of the fourth quarter accordingly amounted to only R129 million. Further net sales of government securities to an amount of R216 million were effected in January and February 1987. Of the stock sold by the Bank, R2 200 million was obtained on tap from the Treasury; somewhat more than R1 000 million was taken up via the Public Investment Commissioners.

Sales of specially-dated Treasury bills, and variations in the amount of bills offered at the weekly tenders for Treasury bills and Land Bank bills, were again used by the Bank for smoothing out the larger seasonal variations in money market conditions. Specially-dated Treasury bills to an amount of R550 million fell due during the last two days of February 1987. Of this amount, bills to an amount of R200 million had been issued in September 1986, a further R200 million in November, and R150 million in January 1987.

Variations in the amount of funds held by the Corporation for Public Deposits with the discount houses also continued to be used extensively in 1986 as an integral part of the Reserve Bank's procedures for influencing money market conditions. Wide fluctuations in the amount of the Corporation's deposits with the discount houses occurred towards the end of 1986 in particular. Having been reduced to nil during parts of November and December 1986, the amount of the Corporation's deposits nevertheless closed the year at a new peak level of R1 400 million. Nil balances were re-

corded again on a number of days in January and February 1987.

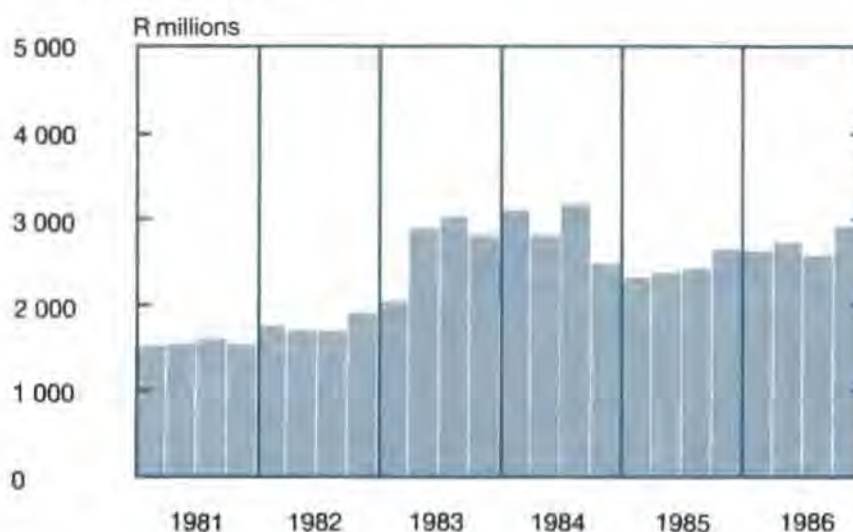
Accommodation at the discount window fluctuated downwards during 1986. The monthly average amount of such accommodation increased from approximately R1 100 million in January 1986 to nearly R2 000 million in March, but declined to only R1 million in November before rising again to R127 million in December 1986. No accommodation at the discount window was required on a number of days during the last two months of 1986.

Substantial accommodation (to a total amount of R2 557 million, comprising refinancing at the discount window of R1 157 million and funds of the Corporation for Public Deposits with the discount houses of R1 400 million) nevertheless had to be provided again at the end of December 1986. In contrast, only modest amounts of both kinds of assistance (to a total of R520 million) were provided at the end of January 1987. At the end of February, when market conditions would normally have been expected to be tight on account of the usual large tax payments to the Government, total accommodation to the discount houses ran to a fairly moderate amount of R1 125 million. This included funds from the Corporation for Public Deposits to an amount of R800 million.

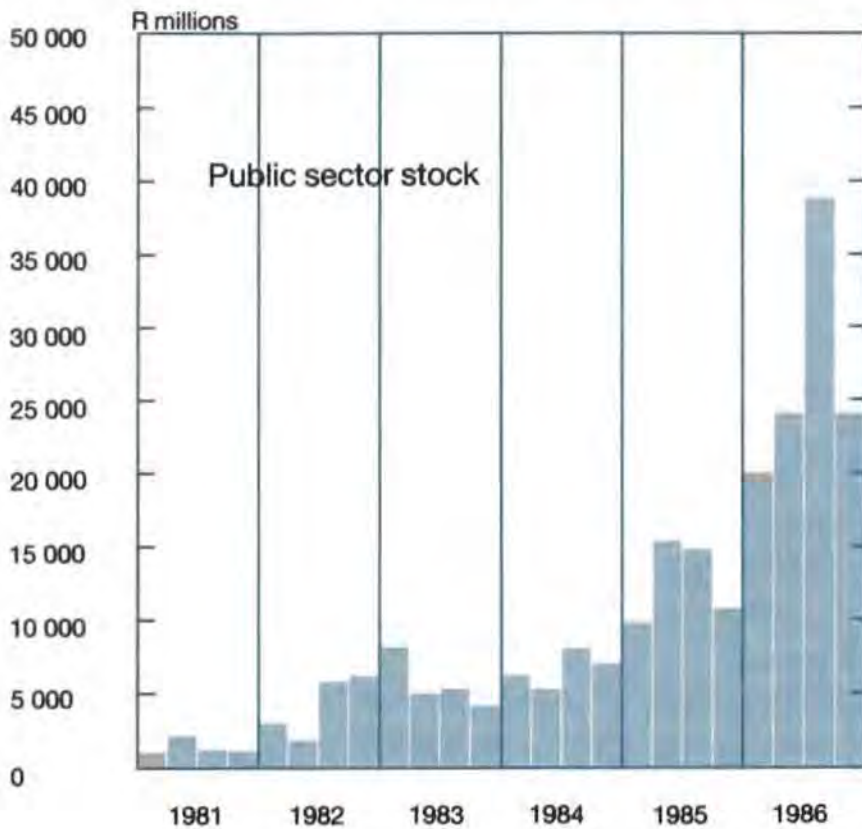
Capital market activity

Marked further declines in long- and short-term interest rates during most of 1986 set the stage for uncommonly high levels of trading activity in the capital markets in the course of the year. The value of public sector stock traded on the Johannesburg Stock Exchange more than doubled from R51,2 billion in 1985 to R108,0 billion in 1986. The value of shares traded rose from R6,9 billion in 1985 to R11,5 billion in 1986.

Real estate transactions



Stock exchange transactions

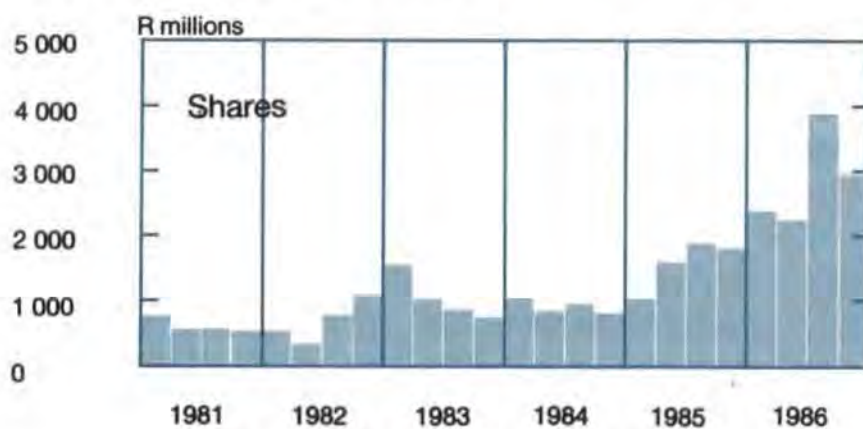


Real estate transactions, reflecting more subdued conditions in the fixed property market, rose more moderately to R10,9 billion in 1986 from R9,8 billion in 1985.

Trading activity in stocks and shares in the fourth quarter of 1986 retreated from the exceptionally high levels that had been attained in the third quarter, as did the amounts of new issues of public and private sector stock. New issues of shares, on the other hand, were substantially larger in the fourth quarter than in the third quarter. Increased trading activity during this quarter also was observed in the real estate and mortgage markets.

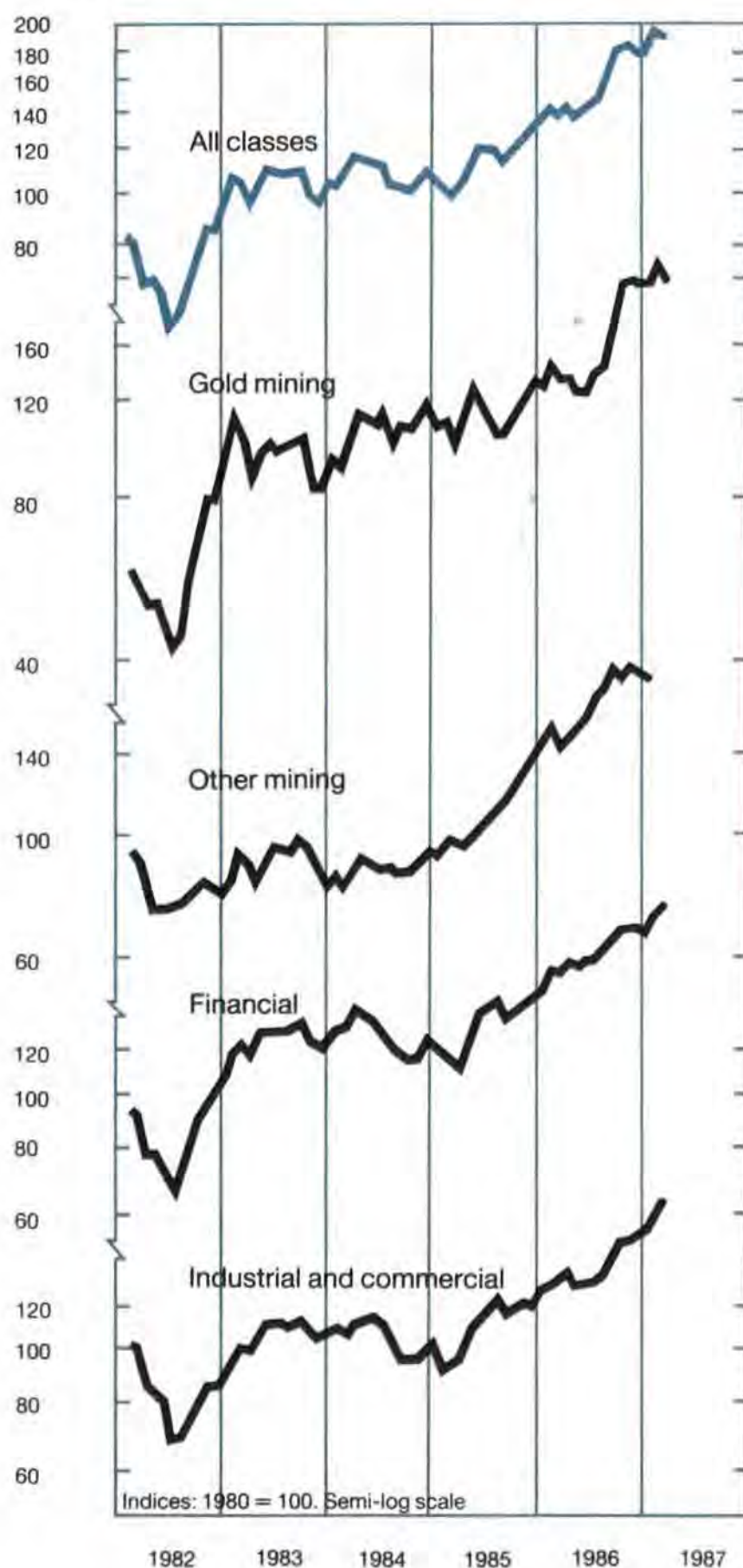
In the secondary markets, the value of public sector stock traded on the stock exchange decreased from

Stock exchange transactions



R39,2 billion in the third quarter of 1986 to R24,3 billion in the fourth quarter. The value of company shares traded on the stock exchange similarly declined from R3,9 billion in the third quarter to R2,9 billion in the fourth quarter. Real estate transactions, however, rose from R2,6 billion in the third quarter of 1986 to R2,9 billion in the fourth quarter.

Share prices



In the primary markets, a net amount of R546 million of public sector stock (excluding South African Transport Services stock) held by banks and private non-bank investors was redeemed during the fourth quarter of 1986, compared with net new issues of R938 million in the third quarter. A limited amount of only R22 million was raised by companies listed on the stock exchange in the form of new issues of fixed-interest securities in the fourth quarter, against R216 million in the preceding quarter. New funds raised by companies in the form of share capital, however, increased from R121 million in the third quarter to a record amount of R1,5 billion in the fourth quarter of 1986; this included an issue by a major building society in the act of its conversion from a mutual society into a company.

In the mortgage market, lower mortgage rates, increased demand and further above-average net inflows of funds to building societies allowed these institutions to increase their mortgage lending to R1,9 billion during the fourth quarter of 1986, compared with a quarterly average of R1,6 billion during the first nine months of the year.

Share prices, having risen more or less consistently in the first three quarters of 1986, advanced by a further 1 per cent in the fourth quarter of 1986 despite lower stock exchange turnovers. The average price of all classes of shares increased by a substantial 38 per cent in 1986 and by as much as a further 7 per cent in January 1987.

Long-term rates and yields

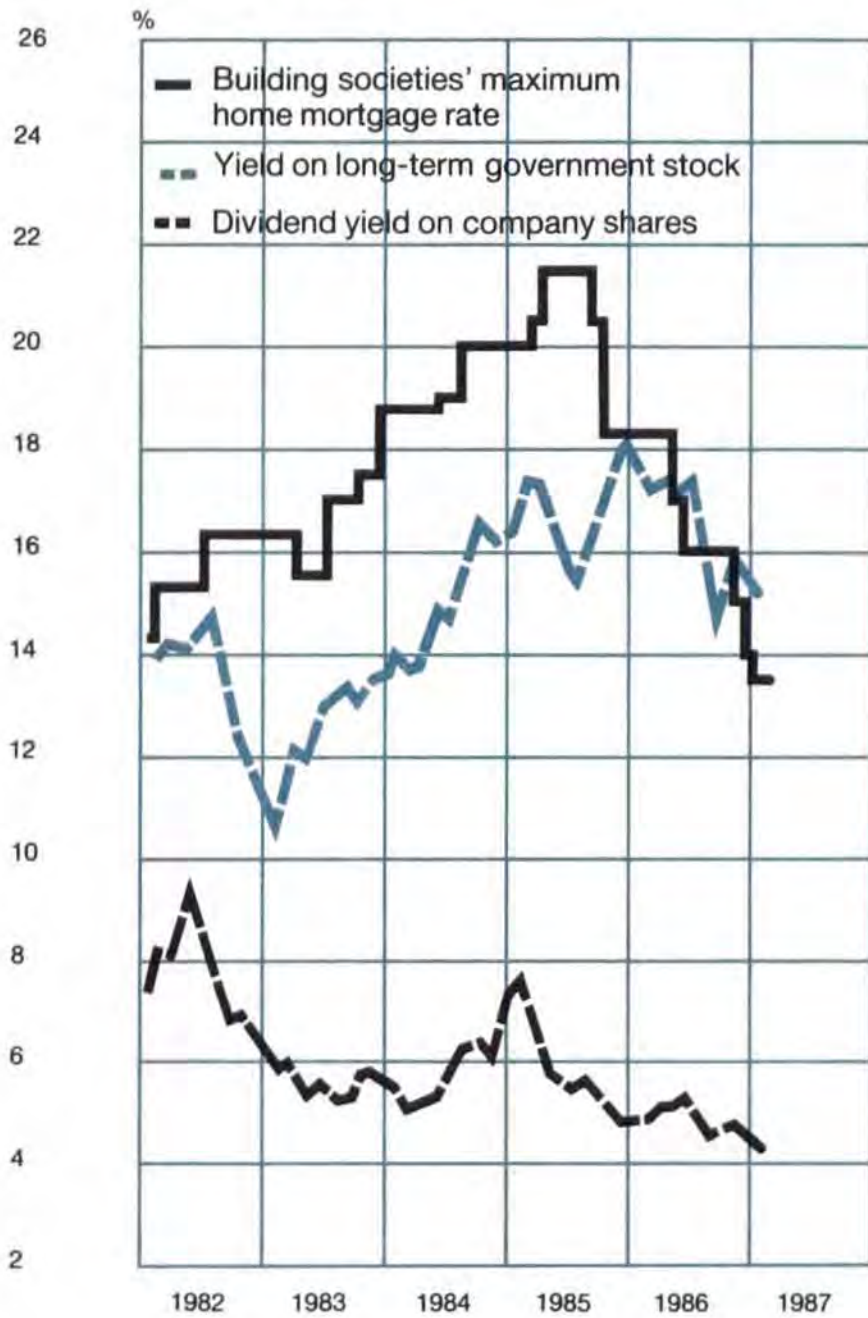
The rise in share prices, especially during the third quarter of 1986, resulted in a gradual decrease in the dividend yield on all classes of shares from 5,2 per cent in June 1986 to 4,7 per cent in December. Mirroring the sharp rise in share prices during January 1987, this yield then declined further to 4,4 per cent in January.

After a gradual decline during the first half of 1986 and a substantial drop in the third quarter, long-term interest rates reverted to markedly higher levels in late September and early October 1986. They resumed their downward movement, however, from the third week in October. The yield on long-term government stock increased from a monthly average of 14,5 per cent in September 1986 to 15,8 per cent in October before declining to 15,6 per cent in November, 15,3 per cent in December 1986, and 15,1 per cent in January 1987. In February, this yield hardened to 15,4 per cent.

The building societies' maximum home mortgage rate was reduced from the level of 16,0 per cent that had been maintained since June 1986, to 15,0 per cent in November and to 13,5 per cent in December.

The interest rates on deposits with financial institutions followed the general downward movement in interest rates. The predominant rate on twelve-month

Long-term interest rates



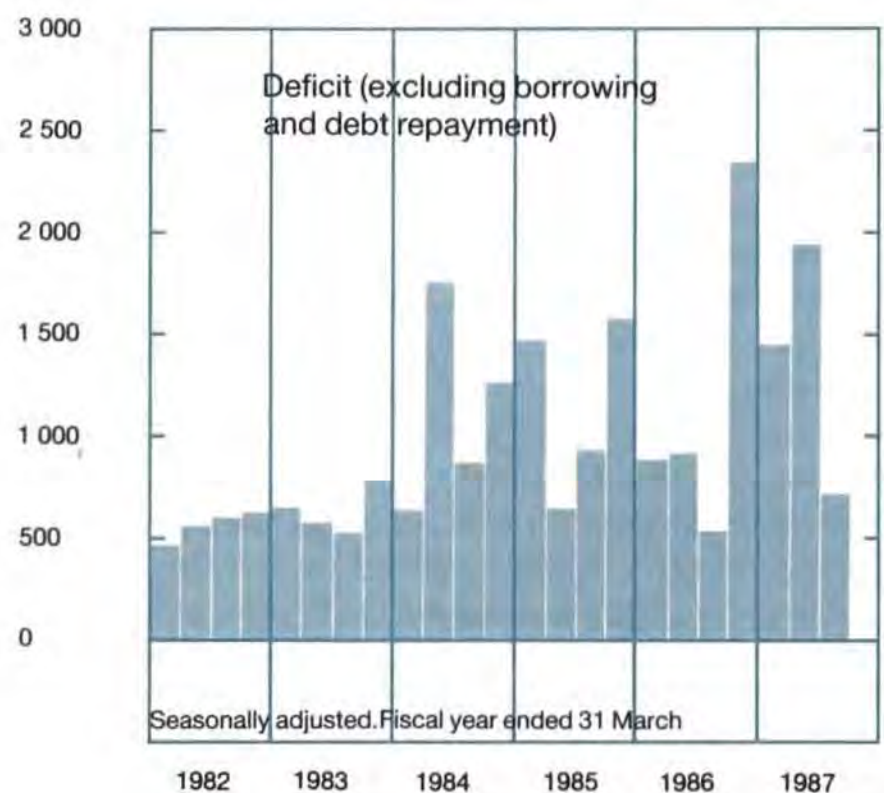
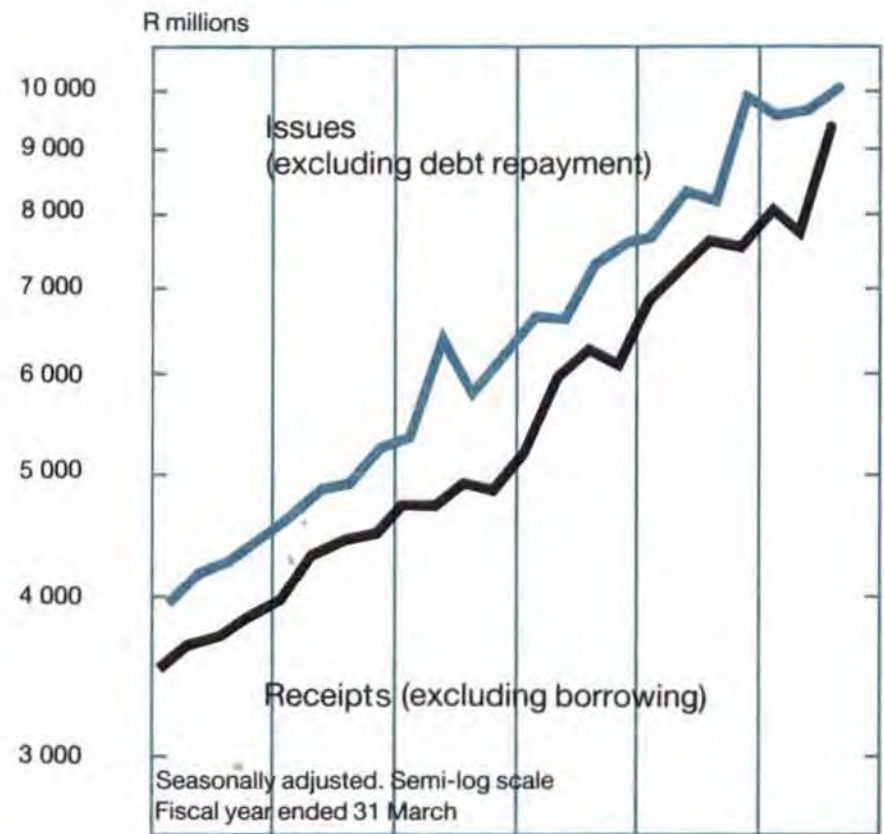
deposits with banks and building societies, which had been reduced in steps from 14,5 per cent in December 1985 to 10,5 per cent in September 1986, was lowered further to 9,5 per cent in December, but rose to 10,0 per cent in February.

Government finance

Exchequer issues* and receipts

The rate of increase in Exchequer issues, compared with the corresponding period of the preceding year, accelerated from 14,8 per cent in the second quarter of fiscal 1986/87 to 19,1 per cent in the third quarter. In

Exchequer Account



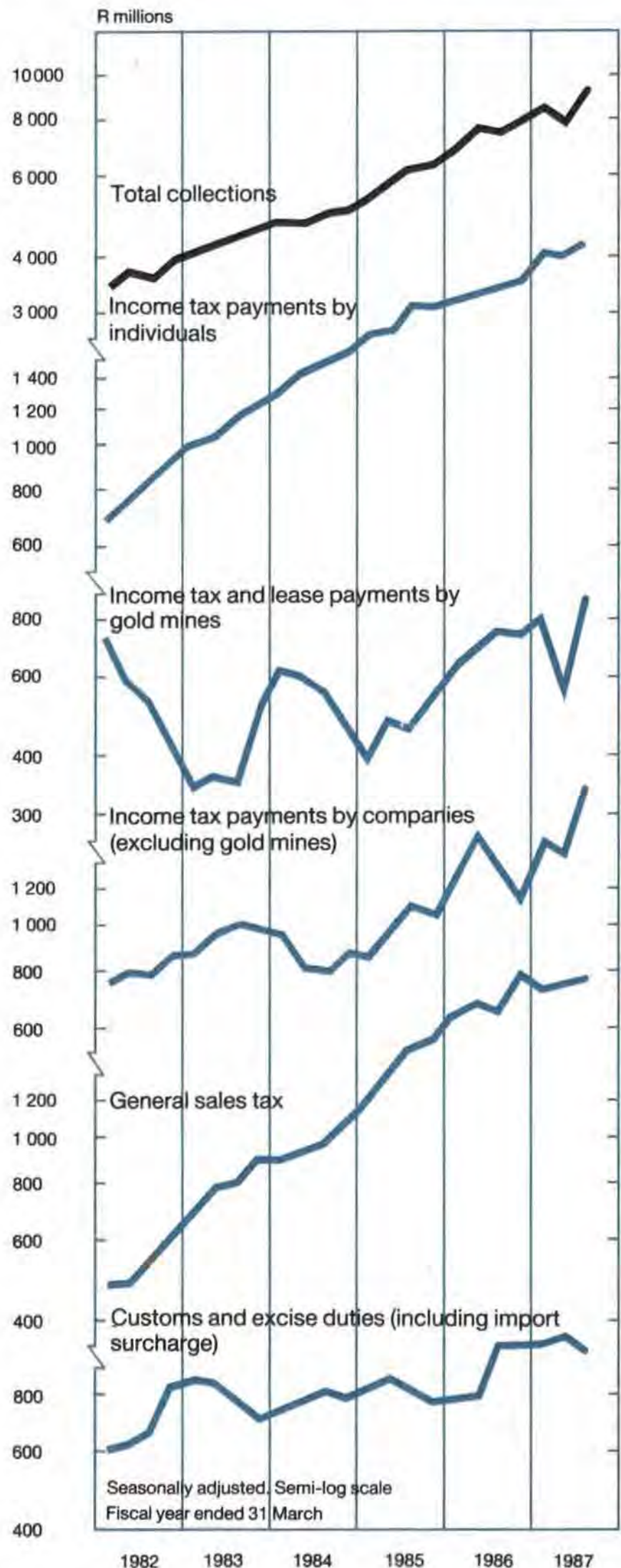
*The Exchequer Account is adjusted for changes in the balance on the Paymaster-General Account.

the first ten months of fiscal 1986/87, i.e. during the period from April 1986 to January 1987, the increase in total issues to government departments amounted to 18,2 per cent. This may be compared with the increase of 13,9 per cent in government expenditure that had been envisaged in the March 1986 Budget for the fiscal year 1986/87 as a whole. The overall increase in Exchequer issues for the full fiscal year 1986/87 was, moreover, expected eventually to reach 21,7 per cent. Additional expenditure provided for in the Additional Budget for the fiscal year 1986/87, which was presented to Parliament on 19 February 1987, raised total budgeted expenditure by 7,0 per cent, to R40 213 million, from the amount of R37 571 million that had been provided for in the main Budget as presented in March 1986.

The *net* additional expenditure of R2 642 million provided for in the Additional Budget (after allowing for savings of R126 million on other items) was made up of amounts of R561 million in respect of projected savings that had failed to be realised, R259 million in respect of statutory expenditure (mainly interest payments), R697 million arising from the stimulatory package of June 1986, and other additional expenditures to an amount of R1 125 million. When the unrealised projected savings and the statutory expenditure are excluded, the remaining *gross* additional expenditure of R1 948 million provided for a gross amount of R855 million to be made available to the provincial administrations (mainly in the form of subsidies, and for the take-over of the former administration boards), R267 million for Foreign Affairs (mainly budgetary aid to the TBVC countries, and higher foreign exchange costs), R187 million for public order and security, and various smaller amounts for other services, including R27 million to agriculture for locust control.

Compared with the corresponding period of the preceding fiscal year, the rate of increase in receipts on the Exchequer Account rose substantially from only 4,2 per cent in the second quarter of fiscal 1986/87 to 25,8 per cent in the third quarter. This was mainly due to a shift in income tax payments by companies from the second to the third quarter of the fiscal year 1986/87. The rate of increase in Exchequer receipts in the first ten months of the fiscal year amounted to 13,6 per cent and therefore slightly exceeded the Budget estimate of 13,1 per cent for the fiscal year as a whole. In the Additional Budget, total receipts for fiscal 1986/87 were estimated at R34 750 million (including R1 012 million from the Central Energy Fund for financing the stimulatory package as announced in June 1986). This represented an increase of 16,8 per cent for the fiscal year as a whole, and of 13,4 per cent (against the budgeted increase of 13,1 per cent) if the funds from the Central Energy Fund are excluded.

Revenue collections – State Revenue Fund



Deficit before borrowing

A deficit of R1 549 million was recorded in the third quarter of the fiscal year 1986/87. As a result the deficit in the first nine months of fiscal 1986/87 increased to R5 204 million, against a deficit of R3 397 million in the corresponding period of the preceding year. The deficit increased further to R5 652 million in the first ten months of the fiscal year 1986/87 and, according to the Minister's estimates in his Additional Budget speech, was expected to reach R5 461 million for the fiscal year as a whole. According to information currently available for the first *nine* months of fiscal 1986/87, the deficit of R5 204 million in respect of this period was financed from the following sources:

	R millions
Public Investment Commissioners	3 080
Non-bank private sector	1 387
Banking sector	1 305
Foreign sector	-87
	<hr/>
	5 685
Less discount on government stock	481
	<hr/>
	5 204

Part Appropriation 1987/88

In the light of existing surplus production capacity, the sluggish demand for bank credit, and the continuing high level of unemployment in the economy, further stimulatory measures were announced by the Minister of Finance in his speech accompanying his presentation of the Part Appropriation Bill, 1987/88 (the "Mini-budget"), to Parliament on 9 February 1987.

These measures included the following:

Firstly, the 1983 loan levy was to be repaid to taxpayers before the end of March 1987, in order to obtain an immediate increase in personal disposable income.

Secondly, further tax concessions were to be made to married women so as to encourage them to continue to make their skills available to the economy. In terms of these concessions, the income deduction allowable for income tax purposes was to be increased to the greater of R2 250 or 22,5 per cent of a married woman's earnings.

Thirdly, the tax-free amount of interest earnings was to be increased from R500 to R1 000 per taxpayer, in order to encourage personal savings.

Fourthly, rate adjustments were to be made in respect of individual income tax tables, so as to provide some alleviation of the burden of fiscal drag and to counter the effect of the phasing-in of the taxation of fringe benefits.

In his "Mini-budget", the Minister of Finance also announced that an amount of R117 million was to be made available as a first instalment in a five-year programme for the reconstruction of the agricultural sector in drought-stricken areas. A further amount of some R120 million was to be made available for various other assistance programmes to the agricultural sector.

Finally, an amount of R200 million was to be set aside for the improvement of civil pensions and allowances.