

# Quarterly economic review

## Introduction

Relatively strong rates of increase were shown by real output of the non-primary sectors of the South African economy in the third quarter of 1987, and by most primary and non-primary sectors in the fourth quarter. Broadly similar strength of aggregate real output growth as in the fourth quarter of 1987 could be observed in the first quarter of 1988.

Aggregate real gross domestic product grew at a seasonally adjusted annual rate of nearly 5 per cent in the fourth quarter of 1987, and at a rate of approximately 4 per cent in the first quarter of 1988. As in the final few months of 1987, the growth in real output in the first few months of 1988 was spread widely across most economic activities. With the exception of mining, significant increases in real value added were recorded in all principal sectors of the economy. Above-average rates of production growth were posted by manufacturing, other secondary activities, and the non-primary sectors generally. No adverse impact was experienced as yet from various potential, extraneously imposed, developments – such as an eventual weakening of world commodity prices, or after-effects of the international slump in share prices in October 1987 – that earlier in the present year had appeared to call for some caution in an assessment of growth prospects for the South African economy in 1988.

Substantially faster advances than in real gross domestic product were measured in the first quarter of 1988 in aggregate real gross domestic expenditure. Having increased at an average annualised rate of some 6½ per cent in the second, third and fourth quarters of 1987, total real gross domestic spending rose at a considerably higher rate in the first quarter of 1988. Aggregate real private consumption expenditure continued to move steadily and relatively briskly along the upward path it had established in the preceding seven quarters. It thereby continued to serve as a major driving force of the current upswing in the economy.

Real consumption expenditure by general government rose in the first quarter of 1988 at broadly the same rate as in the fourth quarter of 1987. Despite renewed cutbacks in real fixed capital expenditure by public authorities and public corporations, a mild further increase in total real gross domestic fixed investment was registered in the first quarter of 1988 for the third consecutive quarter. A fourth consecutive quarterly increase was recorded in aggregate real inventories, mainly because of inventory accumulation in manufacturing and in wholesale and retail trade. The volume of this stock building, moreover, was substantially larger in the first quarter of 1988 than in the final three quarters of the preceding year.

Two major concomitant effects attended the further strengthening of domestic monetary demand and real economic activity, and the substantially faster rate of increase in real domestic expenditure than in real domestic production. Firstly, substantially higher levels of the volume and value of merchandise imports, in conjunction with a decline in the volume and value of merchandise exports, caused the large surpluses on the balance of payments on current account that had been maintained throughout the preceding twelve quarters, to be converted into a slight deficit (after seasonal adjustment) in the first quarter of 1988. Partly because of a marked shrinking of the outflow of non-reserve-related capital, however, the gross gold and other foreign reserves still registered a small increase in the first quarter of 1988, while a small rise may also be expected in respect of the first four months of the year. Contraction of the surplus on the balance of foreign trade did, however, contribute significantly to a weakening of the effective exchange rate of the rand from the end of 1987 to the end of May 1988.

Secondly, a marked and relatively abrupt surge in the demand for money and credit caused the rates of increase in bank lending and in the M3 money supply to accelerate sharply further from September 1987. The seasonally adjusted annual rates of increase in monetary institutions' claims on the private sector and in M3 from the end of August 1987 to the end of March 1988 amounted to 24,5 and 30,0 per cent, respectively. M3 as at the end of March 1988 exceeded the upper limit of the target tunnel by approximately R3 billion, or by slightly more than 3 per cent.

Largely because of these developments, a less accommodative posture of monetary policy was adopted by the Reserve Bank from early December 1987 and maintained in a gradually more stringent fashion in the first five months of 1988. A package of demand-restraining fiscal, monetary and credit measures was announced on 4 May 1988. A sharp drop in M3 was indicated, however, by the provisional money supply data for April, while the rate of extension of bank credit also slowed down markedly during that month.

Obliteration of the current account surplus in the first quarter of 1988 focused attention on various "constraints" on the South African economy that, in the currently prevailing conditions, have come to be presented as factors that prevent the economy from realising real growth rates significantly in excess of the rate of population growth for any extensive period. Prime among these impediments to faster growth is the balance of payments constraint which, because of South Africa's foreign debt repayment obligations and its currently limited access to overseas sources of funds, arises from the country's limited capabilities for financing a



current account deficit through inflows of foreign capital. While it is obviously true that South Africa, given its resource endowment and the stage of its economic development, should not be a capital-exporting country, it ought also to be recognised that, even in the most favourable circumstances, a largely consumption-driven economic upswing cannot and should not be financed for any length of time by increasing the country's foreign indebtedness or by drawing down the gold and other foreign reserves. A situation of this nature, as in 1983-84, would eventually call for a reimposition of more restrictive monetary and fiscal policies. If such action were to be delayed or temporarily rendered ineffective, more drastic measures would be needed at a later stage.

Further declines were recorded in the first quarter of 1988 in the inflation rate as measured by the consumer price index. The twelve-month rate of increase in this index, having declined from 20,6 per cent in January 1986 to 14,2 per cent in January 1988, receded further to 13,3 per cent in April. The twelve-month rate of increase in production prices reached a low point of 11,3 per cent in December 1987 but rose during the ensuing three months to 12,0 per cent in March 1988.

In the money market, upward pressure was experienced on short-term interest rates from late November 1987 through April and the first three weeks of May 1988. Bank rate, having been raised by 1 per cent to 10½ per cent from 9 March 1988 in recognition of the hardening of market rates and as an integral component of the Reserve Bank's less accommodative policy stance, was raised further, to 11½ per cent, as a part of the package of demand-restraining measures of 4 May 1988.

Certain further adjustments in the Bank's accommodation policies and procedures were announced in the Bank's statement on the Bank rate increase of 4 May. Specifically, the Bank made clear that assistance to the money market other than at the discount window would henceforth be limited to the smoothing-out of unduly tight month-end or other seasonal money market situations, and that penalty rates would apply to accommodation that, in exceptional circumstances, would be provided to banks at the discount window against the security of non-liquid instruments.

The capital market in the first quarter of 1988 saw a recovery in trading activity from the relatively low levels that had been recorded in the wake of the stock market slump that commenced on 20 October 1987. Further declines were registered, however, in the turnover and prices of shares on the stock exchange. Long-term yields and interest rates firmed in the first quarter of 1988 in sympathy with the upward movement of short-term rates and because of the disappointing behaviour of the gold price in February in particular, but retreated mildly again in April. A rapid rise in mortgage lending by major banks in the first quarter more than made up for a decline in such lending by the building societies.

The Exchequer deficit before borrowing in the March quarter of fiscal 1987/88 amounted to R3,2 billion, exceeding the deficit in the March quarter of fiscal 1986/87 by as much as R2,1 billion. The deficit in April 1988 was, however, R0,8 billion smaller than in April 1987, representing a decrease of approximately 30 per cent.



## Domestic economic developments

### Domestic output

Having increased at a seasonally adjusted annual rate of nearly 5 per cent in the fourth quarter of 1987, real gross domestic product in the first quarter of 1988 was provisionally estimated to have continued to rise relatively briskly at an annual rate of approximately 4 per cent. Real gross domestic product in the first quarter of 1988 reached a level that was some 2½ per cent higher than in the first quarter of 1987.

Above-average growth rates were recorded in the secondary sectors (manufacturing; electricity, gas and water; and construction) and in the non-primary sectors generally. The seasonally adjusted and annualised rates of real output growth in these two sets of sectors in the first quarter of 1988 amounted to approximately 8 and 5 per cent.

Sectoral estimates show that increases in real value added were registered in all sectors of the economy with the exception of mining. The more prominent sectoral output increases were displayed by manufacturing; electricity, gas and water; commerce; agriculture; and construction. Real output in mining, having declined in the third quarter of 1987 mainly because of strikes in the gold mining industry, rose substantially in the fourth quarter, but contracted again in the first quarter of 1988 as lower export volumes were recorded by certain sub-sectors of non-gold mining and as the gold mining industry settled at somewhat lower production levels. A continuation was shown in gold mining in the first quarter of 1988 of the trend of the past several years towards a lower average

gold content of ore milled. This could be attributed to the relatively high rand price of gold which, despite the rising cost of mining operations, allowed the re-processing of waste and the mining of lower-grade ore.

The most important quantitative contributions to the firm rate of growth in aggregate real output in the first quarter of 1988 were made by manufacturing and commerce. The total volume of manufacturing production, seasonally adjusted, in the first quarter of 1988 actually exceeded the quarterly average level of manufacturing production in the calendar year 1980 for only the second time since the second quarter of 1984.

Notable output increases in manufacturing in the first quarter of 1988 were registered by the sub-sectors paper and printing, chemicals, and machinery and transport equipment. Appreciable further rises in real output, in continuation of production increases that had been recorded in the third and fourth quarters of 1987, were also shown by the sector commerce, and by the sub-sectors wholesale and motor trade in particular.

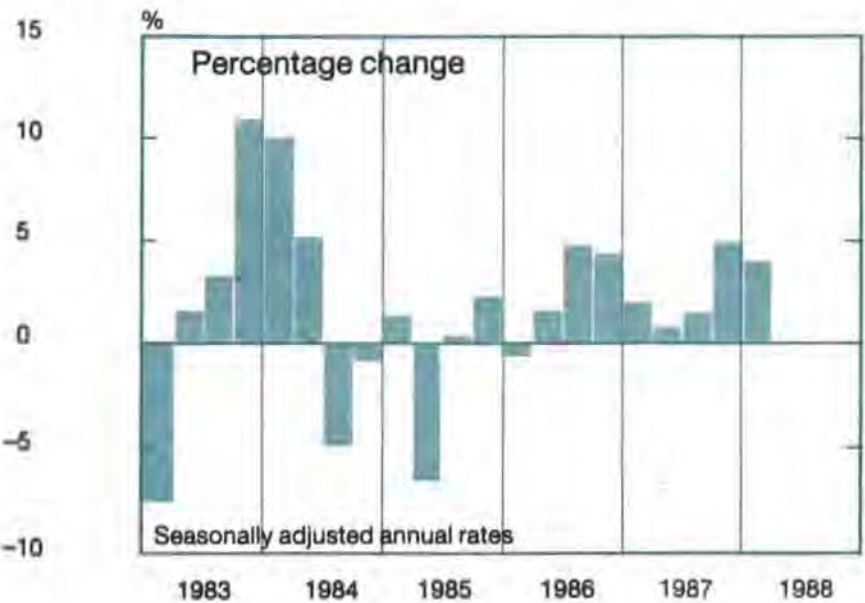
### Domestic expenditure

Total real gross domestic expenditure rose at an average annualised rate of 6½ per cent in the second, third and fourth quarters of 1987 but at a considerably higher rate in the first quarter of 1988. Aggregate real gross domestic expenditure in the first quarter of 1988 was more than 10 per cent higher than in the first quarter of 1987.

Sustained growth was observed in the first quarter of 1988 in all principal components of gross domestic expenditure. *Real private consumption expenditure* advanced at an annualised rate of 4 per cent, in continuation of a series of broadly similar quarterly increases (at annualised rates ranging from approximately 2¾ to 5¼ per cent) that had commenced in the second quarter of 1986. Rates of increase in real private consumption expenditure in most of 1986, 1987 and early 1988 also compared favourably with the longer-term upward trend in real private consumption in the 1980s. In the seven-year period from 1981 through 1987, the average annual rate of increase in aggregate real private consumption expenditure only amounted to approximately 2 per cent.

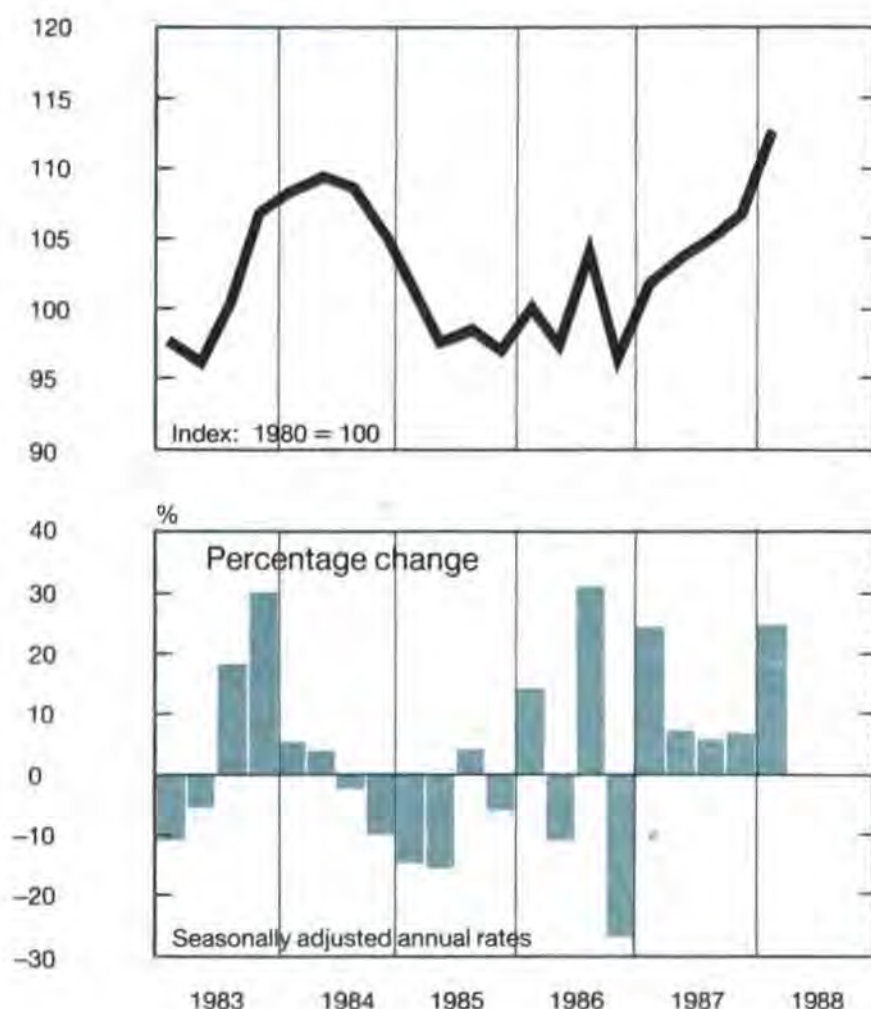
The further rise in real private consumption in the first quarter of 1988 was supported by a slight increase in aggregate real personal disposable income. It was also based, however, on a significant acceleration in households' recourse to consumer credit. Increases in real spending on the main components of private consumption expenditure in the first quarter of 1988, at seasonally adjusted and annualised rates, ranged from 2 per cent in the case of non-durable goods to as much as 13 per cent in the case of durables. The increase in spending on consumer durables was mainly accounted for by relatively strong sales of motor

Real gross domestic product





### Real gross domestic expenditure



vehicles and household appliances. The marked rise in sales of new motor vehicles during the first quarter of 1988, notably in February and March, partly reflected a working-down of the backlog of orders for new motor cars that had arisen by the third and fourth quarters of the preceding year.

Real private spending on semi-durables and on consumer services rose in the first quarter of 1988 at annual rates of approximately 5½ and 3 per cent, respectively. This followed upon broadly similar rates of increase in the fourth quarter of 1987. Increases in household outlays on these two spending components were spread broadly across most of their principal sub-categories.

*Real consumption expenditure by general government*, having increased strongly in the first half of 1987 and again in the fourth quarter after a marked decline in the third quarter, continued to rise in the first quarter of 1988 at broadly the same rate as in the fourth quarter of 1987. The level of this expenditure in the first quarter of 1988 was some 5 per cent higher than in the first quarter of 1987. Although real remuneration of government employees showed only a modest increase in the first quarter of 1988, real government expenditure on intermediate goods and services rose substantially.

For the fiscal year 1987/88 in comparison with fiscal 1986/87, the increase in total real government consumption expenditure, real remuneration of government employees, and real government outlays on intermediate goods and services, amounted to 5½ per cent, 3½ per cent and nearly 9 per cent, respectively.

A third consecutive quarterly increase was shown by *aggregate real gross domestic fixed investment* in the first quarter of 1988. The seasonally adjusted and annualised rates of increase in total real gross domestic fixed investment amounted to 1½ per cent in the second half of 1987 and to 2 per cent in the first quarter of 1988. Significant further increases in real fixed capital formation by the private sector more than neutralised renewed reductions of real fixed capital spending by public corporations and public authorities.

Increases in real gross fixed capital formation by the private sector were displayed by the sectors agriculture, mining, manufacturing, commerce and finance. This broadly-based recovery reflected the gradual return of business confidence and the pressures of strengthening domestic demand, as well as various other favourable developments. In agriculture, improved rainfall conditions and prospects of better harvests provided a stimulus for long-delayed replacement of capital equipment for the planting, harvesting, storage and processing of crops. In the mining sector, capital expenditures were incurred in the development of several new ventures in both gold mining and non-gold mining, while an upgrading of existing plant and machinery was undertaken on a number of older mines.

In manufacturing, rising levels of domestic expenditure caused an increasing number of firms to approach the capacity limits of existing production facilities, thereby creating incentives for expansion and for renewal of technically outdated equipment and plant. This was also reflected in real outlays on machinery and transport equipment financed through leasing contracts. In the first quarter of 1988, capital expenditure financed in this way was more than 30 per cent higher than in the first quarter of the preceding year.

An analysis of total real gross private fixed investment in the first quarter of 1988 according to types of assets shows major increases in outlays on non-residential buildings but most importantly in outlays on transport equipment, machinery, and "other" equipment. The rising level of expenditure on these kinds of capital assets in the second half of 1987 and the first quarter of 1988 brought about a decline in the rate of contraction of the physical stocks of these assets but would not appear to have resulted as yet in an actual increase in these stocks.

Renewed *declines* in real gross fixed investment by public authorities and public corporations again were explained by the completion of earlier investment projects and continued attempts at rationalisation. De-



creases in real investment spending by public corporations were recorded in manufacturing as well as in electricity, gas and water. The latter mainly reflected cutbacks in real fixed capital spending by Eskom, which has budgeted for a reduction in such spending in nominal terms during 1988.

Among public authorities, significant declines in real fixed capital outlays were reported by the business enterprises of these authorities as well as by their general services departments. Divergent trends were recorded, however, in the investment activities of the principal contributors to capital formation by these business enterprises. Specifically, significant increases in the first quarter of 1988 in real fixed investment expenditure by the South African Transport Services (mainly on machinery and construction) were more than fully offset by declines in real fixed capital outlays by the Department of Posts and Telecommunications. Aggregate real fixed capital formation by both public authorities and public corporations in the four quarters to the first quarter of 1988 accordingly continued to fall short substantially (i.e., by more than 30 per cent) of the relatively high average levels of total public-sector real fixed capital investment that had been recorded during the years from 1980 to 1985.

A further build-up of aggregate real *inventories* was recorded in the first quarter of 1988 for the fourth

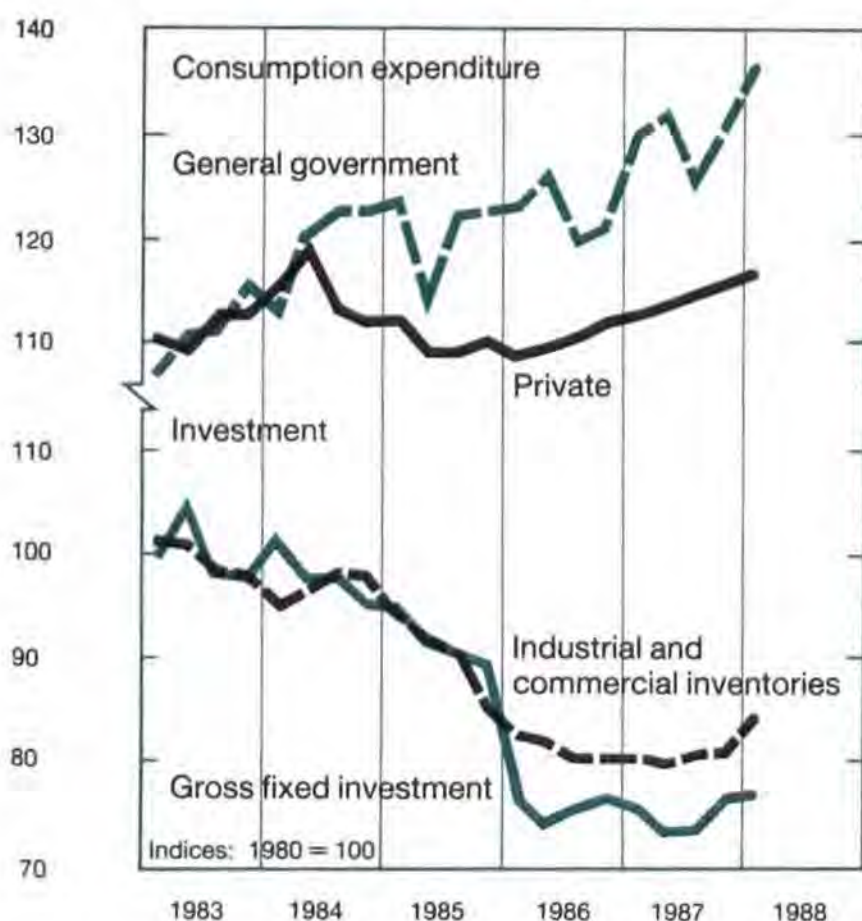
consecutive quarter. The rise in aggregate real inventories in the first quarter of 1988, which was considerably larger than in the preceding three quarters, was accounted for almost entirely by inventory accumulation in manufacturing and in wholesale and retail trade.

Declines actually were recorded in real inventory levels in the motor trade and in stocks-in-trade in the diamond industry. The marked strengthening of the demand for motor vehicles from both the household and the corporate sector, which had commenced in the fourth quarter of 1986, accelerated further during the fourth quarter of 1987 and in the first quarter of 1988. Reduced stock levels accordingly were experienced both in respect of motor vehicle components and in respect of completed vehicles.

The diamond industry did not experience the slump in sales that had been predicted for it in the wake of the stock market crash of October 1987. Active selling of diamonds in the world markets in the first quarter of 1988 led to a shrinking of diamond stocks.

Rising levels of industrial and commercial inventories in the first quarter of 1988 were a reflection of stepped-up domestic production activity, increased volumes of merchandise imports and declines in the volume of certain merchandise exports. The ratio of real industrial and commercial inventories to gross domestic product in the non-agricultural sectors of the economy advanced only slightly from its historically low level of 19 per cent in the third and fourth quarters of 1987 to approximately 19½ per cent in the first quarter of 1988. However, acceleration of the rate of aggregate real inventory accumulation from the fourth quarter of 1987 to the first quarter of 1988 contributed as much as 8 percentage points to the annualised rate of increase in total expenditure on the real gross domestic product in the first quarter of 1988. This may be compared with a negative contribution of 6½ percentage points that resulted from the decline in the rate of real inventory accumulation from the third to the fourth quarter of 1987.

**Main components of gross domestic expenditure**



#### Factor income and saving

The annualised rate of increase in aggregate nominal factor incomes declined from 25 per cent in the fourth quarter of 1987 to 18½ per cent in the first quarter of 1988. This slowdown represented the net outcome of a deceleration from 26 to 14 per cent in the annualised rate of increase in total nominal remuneration of employees, and from 22½ to 20½ per cent in the annualised rate of increase in the gross operating surpluses of business enterprises.

The relatively high rate of increase in aggregate nominal factor incomes in the fourth quarter of 1987 had been accounted for by the comparatively rapid strengthening of aggregate domestic economic activity, increased turnovers, and the attendant increase in



profits of business enterprises in most sectors of the economy, as well as by relatively high levels of wage settlements in various industries. Both these factors were somewhat less prominent in the first quarter of 1988. Substantial further increases nevertheless were recorded in the gross operating surpluses of the sectors agriculture, manufacturing, commerce, transport and finance.

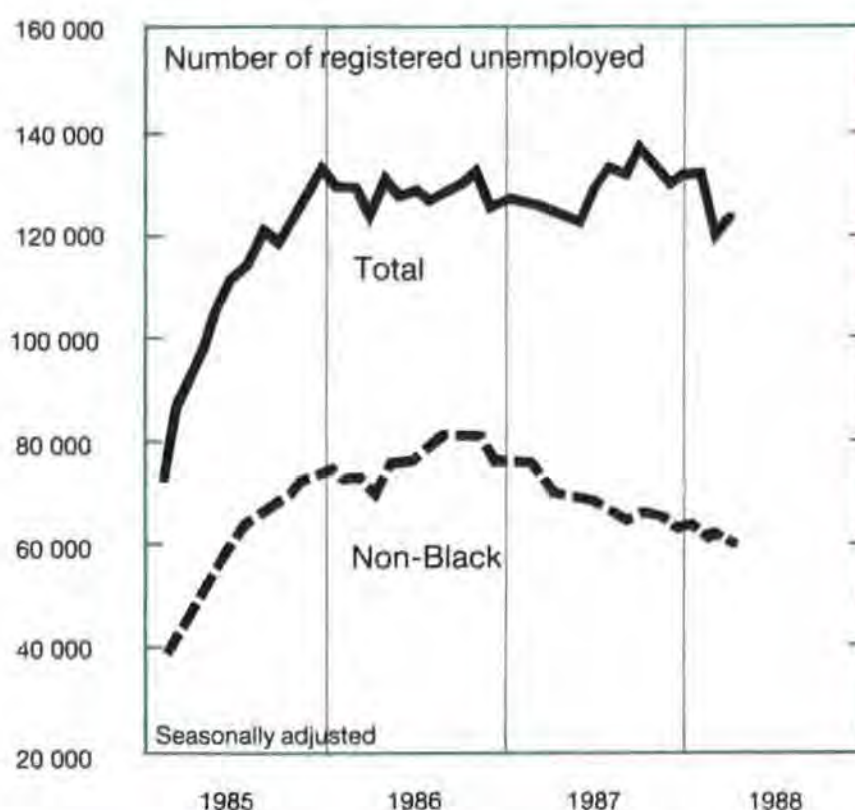
Gross domestic saving relative to gross domestic product declined slightly from 23 per cent in the fourth quarter of 1987 to 21½ per cent in the first quarter of 1988. This was mainly attributable to a further increase in net dissaving by general government and to a further decline in net personal saving (and therefore also in the personal savings ratio). Personal saving in both absolute and relative terms declined further from the relatively high level (approximately 4 per cent of personal disposable income) it had attained in the first quarter of 1987, largely because of earlier reductions in household debt and in households' debt-to-assets ratios; households' increased willingness to borrow, and their large-scale recourse to consumer credit, on the basis of their improved debt-to-assets and debt-to-incomes ratios; the growing pressures of replacement demand for certain consumer durables; and increased spending on consumer durables and semi-durables such as that which tends to accompany an upswing in residential construction and buoyant conditions in the fixed-property market, as have been experienced in the South African economy from approximately the first quarter of 1987 in particular. Further increases in the gross operating surpluses of business enterprises, on the other hand, caused net *corporate* saving, which currently accounts for approximately one-third of total gross domestic saving, to rise substantially in the first quarter of 1988 to a level that was some 34 per cent higher than in the first quarter of the preceding year.

## Employment

Total employment in the non-agricultural sectors of the economy rose by a slender 0,3 per cent in 1986 and by 1,5 per cent in 1987. Increases in numbers employed in the private sector and the public sector in 1987 amounted to 0,5 and 3,9 per cent, respectively.

The quarter-to-quarter rates of increase in employment in manufacturing and construction advanced steadily through the four quarters of 1987. Further increases in employment in these two sectors were recorded in the first quarter of 1988. A continued strengthening of the demand for labour was confirmed by changes in the ratio of overtime to ordinary hours worked. This ratio rose from 10,5 per cent in February 1987 to 12,4 per cent in February 1988 in manufacturing, and from 7,4 to 8,9 per cent in construction over the same period.

## Unemployment



Little change was shown from 1986 to 1987 in the total number of registered unemployed workers, which fluctuated around an average level of close to 130 000 in both these years. A significant decline in this number was recorded, however, in the first quarter of 1988. It amounted to less than 124 000 in March 1988.

Registered unemployment among non-Black workers contracted significantly, by 11,8 per cent, from 1986 to 1987. This trend was continued into 1988. The number of unemployed non-Black workers in March 1988 was 60 175, compared with a peak figure of nearly 82 500 in August 1986.

## Labour costs and productivity

The average amount of nominal salaries and wages per worker in the non-agricultural sectors of the economy rose by 14,2 per cent in 1986 and by 15,7 per cent in 1987. The average *real* wage per worker shrank by 0,4 per cent in 1987, against a decline of as much as 3,8 per cent in the preceding year. The smaller real-wage decline in 1987 was accounted for partly by the somewhat higher level of nominal wage increases in 1987 than in 1986 and partly by the lower level of the rate of inflation as measured by the consumer price index.

Labour productivity (i.e. real gross domestic product per worker in the non-agricultural sectors of the economy) declined by 0,7 per cent in 1986 but rose by a



similar percentage in 1987. The 1987 improvement in labour productivity was attained despite a sharp rise in the number of man-days lost as a result of intensified trade union activity.

The mild rise in labour productivity helped to hold down the effect of the acceleration in nominal wage increases in the second half of 1987 on the rate of increase in unit labour costs. This rate of increase remained unchanged from 1986 to 1987 at a level of 14,9 per cent.

Prices

Significant declines were recorded in the various inflation rates from 1986 to 1987, mainly because of the beneficial effects of exchange rate movements on the prices of imported goods. In addition, increases in administered prices were generally held down below the level of other price increases. Housing costs, as included in the consumer price index, were held down by the relatively low level of interest rates.

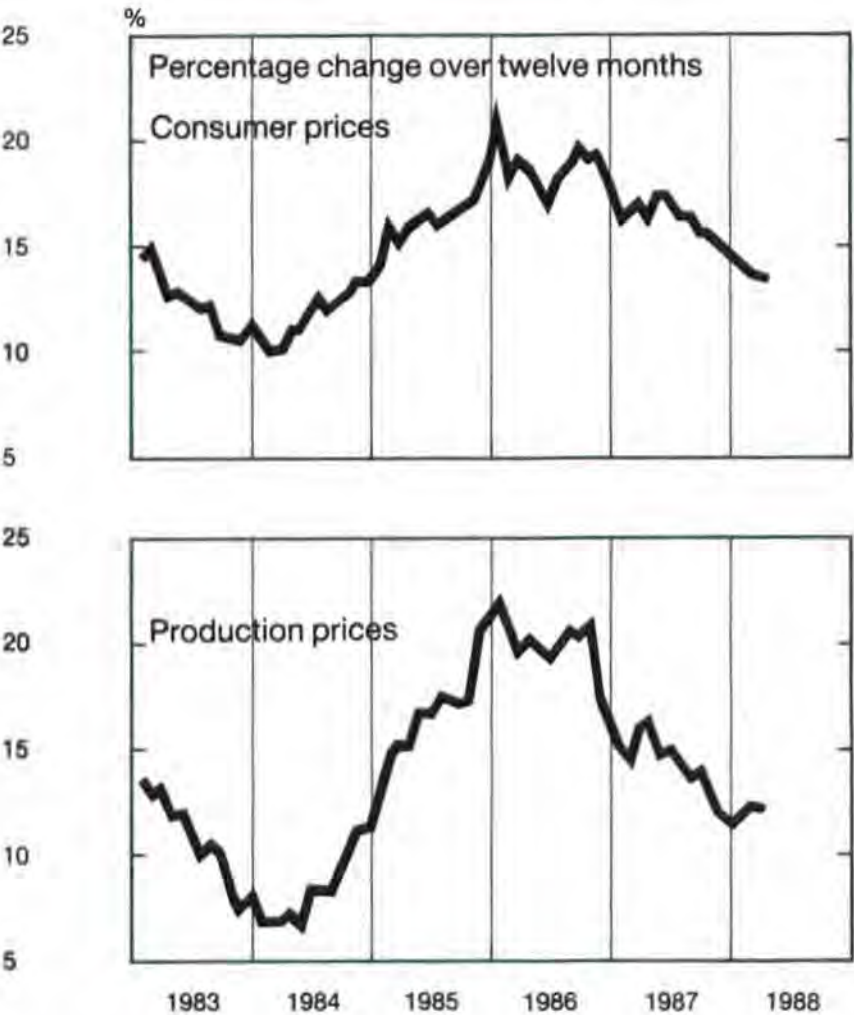
The year-to-year rise in the average level of the consumer price index slowed down from 18,6 per cent in 1986 to 16,1 per cent in 1987. The rate of increase in

the production price index subsided to 13,9 per cent in 1987 from 19,6 per cent in the preceding year.

Further declines in the rate of inflation in consumer prices were recorded in the first quarter of 1988. The quarter-to-quarter change in the consumer price index, at a seasonally adjusted annual rate, decreased from 16,7 and 13,5 per cent in the third and fourth quarters of 1987 to 9,2 per cent in the first quarter of 1988. The twelve-month rate of increase in this index, having declined from its recent peak of 20,6 per cent in January 1986 to 14,2 per cent in January 1988, receded further to 13,7, 13,4 and 13,3 per cent in February, March and April 1988, respectively.

The quarter-to-quarter change in the production price index, at a seasonally adjusted annual rate, fell back from 14,8 per cent in the second quarter of 1987 to only 7,9 per cent in the fourth quarter, but subsequently reaccelerated to 12,5 per cent in the first quarter of 1988. The twelve-month rate of increase in production prices reached a low point of 11,3 per cent in December 1987 but rose during the ensuing three months to 12,0 per cent in March 1988.

Prices





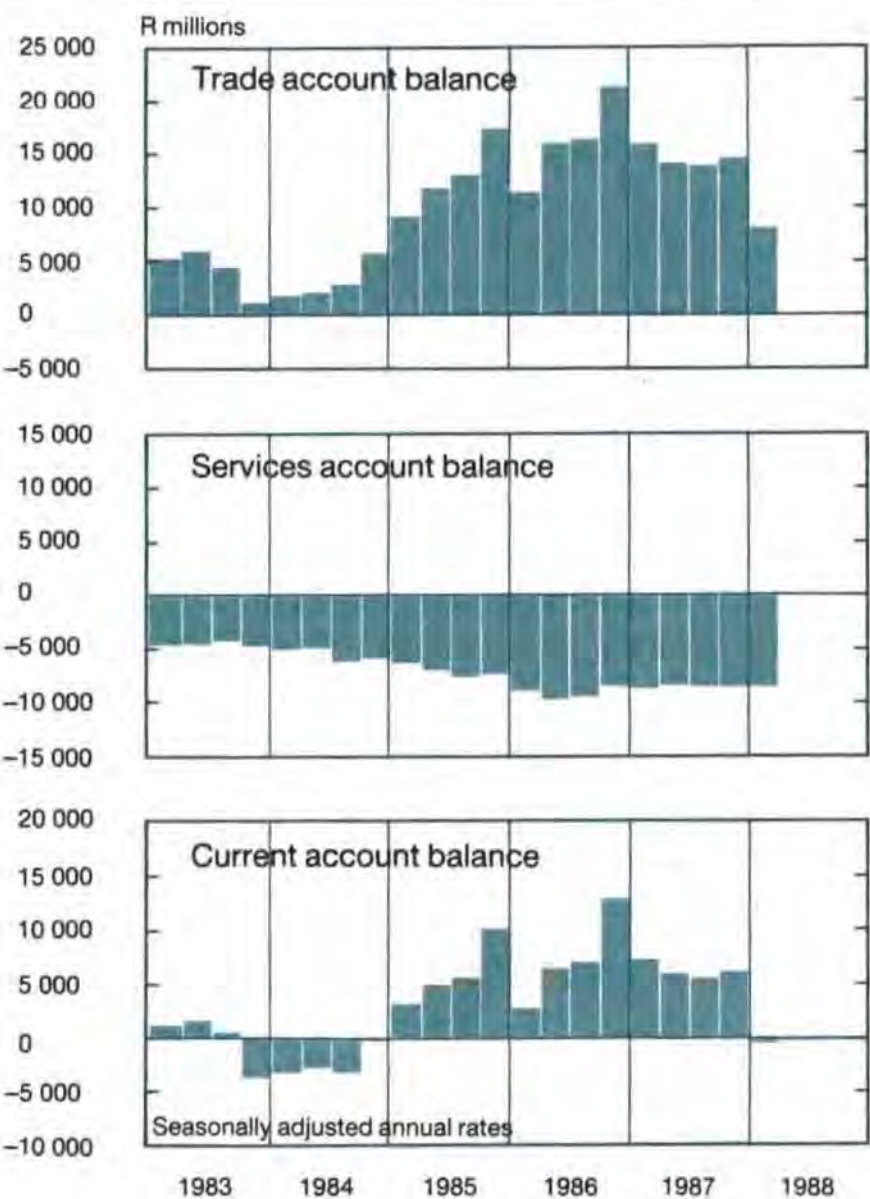
# Balance of payments

## Current account

Not seasonally adjusted, the surplus on the current account of the balance of payments of R882 million in the fourth quarter of 1987 declined only marginally to R839 million in the first quarter of 1988. After seasonal adjustment and conversion to annual rates, however, this mild contraction amounted to a change from a current account surplus of R6,1 billion in the fourth quarter of 1987 to a deficit of R0,4 billion in the first quarter of 1988. This substantial decline was attributable to the joint effect of a large rise (of approximately 20 per cent) in the value of merchandise imports and a moderate decline (of approximately 4 per cent) in the value of merchandise exports. Net gold exports rose fairly significantly, while a slight decline was recorded in net service and transfer payments to foreigners.

The moderate decline in merchandise export earnings in the first quarter of 1988 was more than fully accounted for by a decrease of some 7 per cent in export *volumes*. Substantial declines in export volumes were recorded in chemicals and agricultural products. The total volume of merchandise exports in the first three months of 1988 also was some 11 per cent lower than the quarterly average of these volumes at their recent peak in the third and fourth quarters of 1986. The average level of export *prices*, however, was about 3 per cent higher in the first quarter of 1988 than in the final quarter of 1987, reflecting a marked further strengthening of international commodity prices and a decline in the average effective exchange rate of the rand. The *value* of merchandise exports in the first quarter of 1988, although lower than in the preceding quarter, was some 4½ per cent higher than its quarterly average in the course of the preceding year.

Balance of payments: Balance on current account



## Balance of payments on current account

Seasonally adjusted annual rates

R millions

	1987					1988
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports .....	23 882	24 468	24 810	27 424	25 146	26 300
Net gold exports .....	18 390	17 043	17 911	17 824	17 792	18 530
Merchandise imports .....	-26 409	-27 370	-28 817	-30 684	-28 320	-36 780
Net service and transfer payments .....	-8 631	-8 305	-8 424	-8 504	-8 466	-8 460
Balance on current account .....	7 232	5 836	5 480	6 060	6 152	-410



The sharp rise in merchandise imports from the fourth quarter of 1987 to the first quarter of 1988 likewise primarily reflected a change – i.e. an increase – in import volumes, which was obviously related to the marked further strengthening of real domestic expenditure. Aggregate imports in volume terms were some 36 per cent higher in the first quarter of 1988 than their quarterly average at the lower turning point in the importation cycle in the first and second quarters of 1986. The average level of import prices advanced only marginally from the fourth quarter of 1987 to the first quarter of 1988, i.e. by somewhat less than 1 per cent. This slow rate of import price increases was attributable to continued relatively low inflation rates in trading partner countries and to a sharp weakening of oil prices in the international markets, which was offset only partly by the first-quarter decline in the exchange rate of the rand.

Increases were recorded in all principal categories of goods imports during the first quarter of 1988. Notably large increases were registered, however, in imports of machinery and electrical equipment, transport equipment and mineral products in particular.

The increase in net gold exports from the fourth quarter of 1987 to the first quarter of 1988 amounted to 4 per cent. This was entirely due to an increase in the

volume of gold exports. The average fixing price of gold slipped from US \$473 (R943) per fine ounce in the fourth quarter of 1987 to US \$454 (R932) in the first quarter of 1988. In April 1988, the average dollar price of gold declined slightly further to \$452 per fine ounce. Because of the depreciation of the rand against the dollar, however, the average rand price of gold rose to R968 per fine ounce during the month. On 17 May the rand price of gold per fine ounce breached the R1 000 mark for the first time since early September 1986.

Net service and transfer payments to foreigners declined marginally by 1/2 per cent from the fourth quarter of 1987 to the first quarter of 1988. This decline resulted from an increase of more than 4 per cent in service receipts from non-residents, which more than offset an increase of 1 1/2 per cent in service payments.

### Capital account and foreign debt

The total outflow of capital not related to reserves shrank from R1,8 billion in the fourth quarter of 1987 to R0,7 billion in the first quarter of 1988. Substantial declines were recorded in the outflow of both long-term and short-term capital. Outflows of long-term capital shrank from R0,7 billion in the fourth quarter of 1987 to R0,3 billion in the first quarter of 1988. The outflow of short-term capital decreased from R1,1 billion to R0,4 billion during this period.

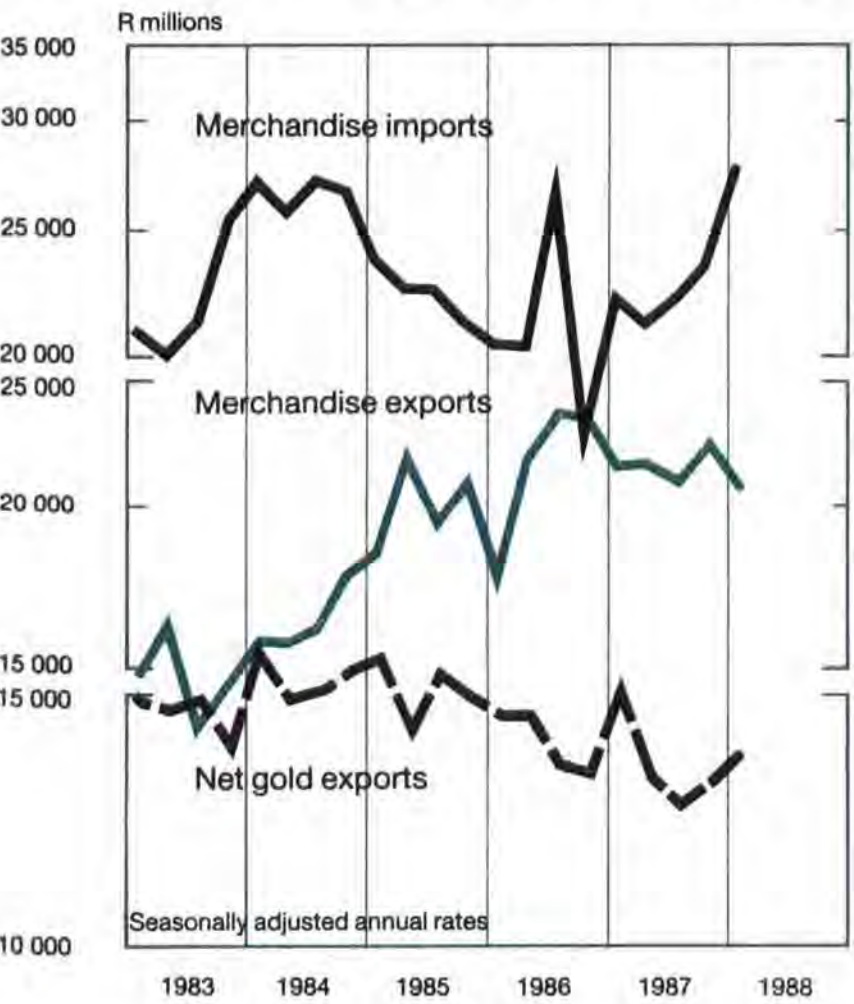
The declines in these outflows of non-reserve-related capital could be attributed partly to the fact that no lump sum repayments were made in the first quarter of 1988 on the total amount of matured outstanding debt inside the "standstill net". Repayments in accordance with the Second Interim Arrangements with foreign creditor banks in the first three months of 1988 therefore were limited to the small repayments that are made on individual debts as they mature. In addition, the diminished outflow of short-term capital indicated a reduction in the extent of switching from foreign to domestic sources of finance.

Public corporations were net importers of capital in all four quarters of 1987 to a total amount of R817 million. They showed a net outflow of capital, however, to an amount of R140 million in the first quarter of 1988. This mainly represented repayments of debt outside the standstill net in the form of bearer bonds and notes.

Net sales by non-residents of securities listed on the Johannesburg Stock Exchange amounted to R35 million in the first quarter of 1988, against net purchases of R73 million in the fourth quarter of 1987.

Liabilities related to reserves declined marginally by R13 million in the first quarter of 1988 after an inflow of R248 million had been recorded in the preceding quarter.

Real merchandise imports, exports and net gold exports





Substantial repayments on foreign debt in the course of the calendar year 1987 did not succeed in reducing the total amount of South Africa's foreign debt outstanding *in dollar terms*, which stood at \$22,6 billion at the end of both 1987 and 1986. This was the result of the sharp depreciation of the US dollar against all other major currencies in 1987. Debt repayments and appreciation of the rand against the dollar, however, caused the foreign debt outstanding in terms of rand to contract from as much as R65,8 billion at the end of August 1985 to R49,5 billion at the end of calendar 1986, and to R43,6 billion at the end of calendar 1987. Relative to the total value of exports of goods and services, this decline was from 156 per cent of total export earnings in calendar 1985 to 108 per cent in 1986 and to 93 per cent in 1987.

### Foreign reserves

The improved position of the capital account, in conjunction with the virtually unchanged surplus (before seasonal adjustment) on the current account, caused the total gross gold and other foreign reserves to increase by R258 million in the first quarter of 1988 after a decline of R617 million in the fourth quarter of 1987. In April the total reserves of the Reserve Bank decreased by R219 million, but in May they rose again by R314 million. The gold holdings of the Reserve Bank rose marginally from 5,83 million fine ounces at the end of December 1987 to 5,86 million fine ounces at the end of March 1988 before declining to 5,39 million fine ounces at the end of May.

### Exchange rates

Having increased by a marginal 0,1 per cent in the fourth quarter of 1987, the effective exchange rate of the rand declined materially by 10,3 per cent from the end of December 1987 to the end of May 1988. Declines were posted against all major currencies but amounted to as much as 12,8 and 13,7 per cent against sterling and the US dollar, respectively. This weakening of the rand was mainly related to the deterioration of the South African merchandise trade balance and the lower gold price.

After the financial rand had appreciated by nearly 50 per cent against the US dollar in 1987, it strengthened

#### Changes in the exchange rates of the rand

	30 Sept 1987 to 31 Dec 1987	31 Dec 1987 to 31 May 1988
Weighted average .....	0,1	-10,3
US dollar .....	7,6	-13,7
British pound .....	-6,4	-12,8
German mark .....	-7,3	-6,8
Swiss franc .....	-9,8	-2,7
Japanese yen .....	-9,9	-11,9
French franc .....	-5,8	-7,3
Financial rand .....	7,1	5,1

### Net capital movements

R millions

	1987					1988
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Long-term capital						
Public authorities .....	-9	-217	-60	-243	-529	-28
Public corporations .....	347	348	107	15	817	-140
Banking sector .....	38	-60	94	18	90	19
Private sector:						
Net purchases of listed securities by non-resi-						
dents .....	-209	-546	-531	73	-1 213	-35
Other capital .....	18	-278	-19	-584	-863	-107
Total long-term capital .....	185	-753	-409	-721	-1 698	-291
Short-term capital including unrecorded transactions, but						
excluding reserve-related liabilities .....	222	-173	-370	-1 050	-1 371	-386
Total capital movements excluding liabilities related to						
reserves .....	407	-926	-779	-1 771	-3 069	-677
Change in liabilities related to reserves .....	-627	-362	-426	248	-1 167	-13



Exchange rates of the rand



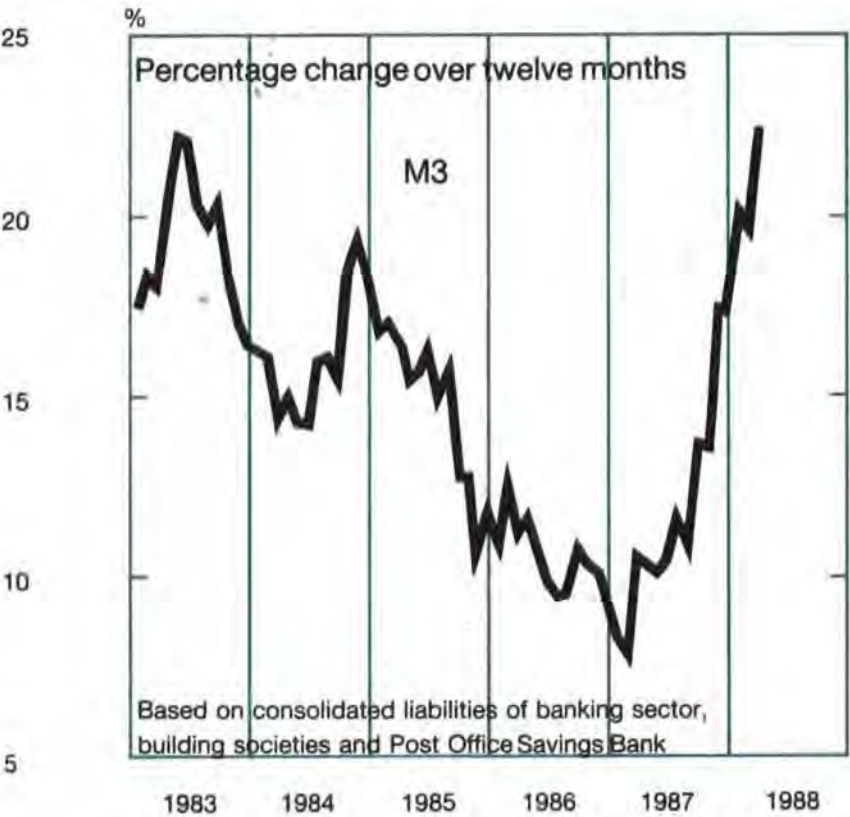
further by 15½ per cent up to 18 March 1988, thereby reaching its highest level since early March 1986. The dollar value of the financial rand as on 18 March 1988 represented a discount vis-à-vis the commercial rand of 20,2 per cent. News of planned disinvestment by certain overseas companies, however, then contributed to a weakening of the financial rand by 9,0 per cent up to 31 May 1988. During most of the period from the end of 1987 the financial rand discount fluctuated around 25 per cent, compared with average discounts of more than 40 per cent in the course of 1986 and 1987.

Financial markets

Money supply

The quarter-to-quarter rate of increase in M3, seasonally adjusted and annualised, advanced from only 5,0 per cent in the first quarter of 1987 to 16,1 and 15,9 per cent in the second and third quarters. It then accelerated sharply further to 26,1 per cent and 23,5 per cent in the fourth quarter of 1987 and the first quarter of 1988, respectively. The seasonally adjusted annual rate of increase in M3 from the beginning of the 1988 targeting year (mid-November 1987) to the end of March 1988 amounted to as much as 29,5 per cent. A marked drop in M3 was indicated, however, by preliminary data for April 1988.

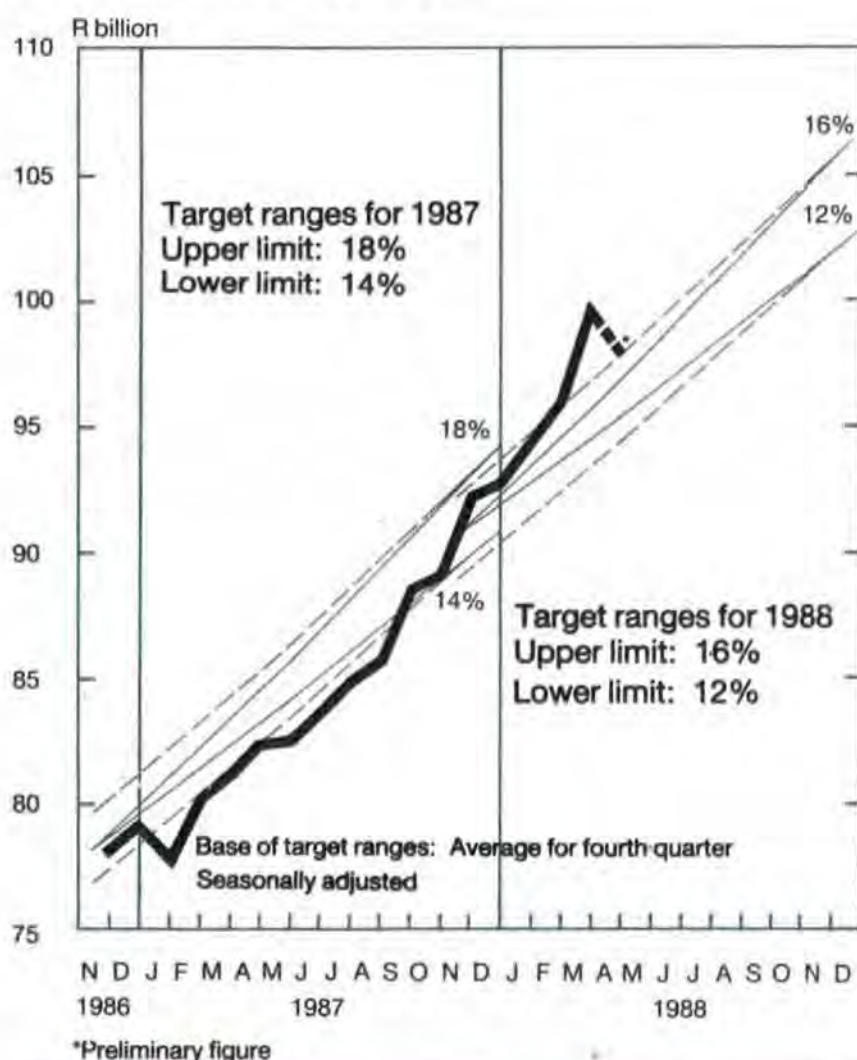
Money supply



M3 as at the end of February 1988 exceeded the upper limit of the target tunnel by R57 million, or by a fractional 0,06 per cent. The M3 figure for March 1988, however, exceeded the upper limit of the target tunnel by as much as R3,0 billion, or by 3,1 per cent. Against this, the provisionally estimated decline in M3 (seasonally adjusted) of approximately R1,7 billion during April 1988 will have reduced the extent to which M3 exceeded the upper boundary of the target tunnel to approximately R250 million, or to 0,3 per cent.



### Target ranges for growth in M3



The sharp acceleration in the rate of growth of the M3 money supply from September 1987 through the fourth quarter of 1987 and the first quarter of 1988 was a reflection of rising demand for money and credit which stemmed from the further strengthening of domestic demand and economic activity, in combination with an elimination or reversal of various factors (such as the rising share market and the widening of banks' lending-rate/deposit-rate margins) that had brought about disintermediation in 1986 and early 1987. Fund holders also displayed an increased preference for fixed-value depository investments against uncertain-value investments in market instruments in an environment of increased interest rate uncertainty and a clear tendency towards a hardening of interest rates. Various more transitory factors, however, are also likely to have contributed to the uncommonly sharp rise in M3 during March 1988. These may have included banks' adjustments to certain balance sheet data with a view to their reporting of their financial positions at the quarter-end and financial year-end, and market participants' preparation for payment, in April, for the large amounts of government stock that had been sold by the Reserve Bank in the open securities markets during March.

The high rate of growth in the quarterly average of M3 from the fourth quarter of 1987 to the first quarter of 1988 exceeded the rate of increase in gross domestic product at current prices between these two quarters and was partly a reflection of "reintermediation" phenomena (i.e. of a return to bank-intermediated credit as a substitute for credit that previously had been extended directly by non-bank lenders to non-bank borrowers). The sharp rise in M3 accordingly caused M3's velocity of circulation to decline by 1,0 per cent from the fourth quarter of 1987 to the first quarter of 1988. The velocity of circulation of M3 in the first quarter of 1988, at 1,920, was some 2,1 per cent lower than its recent peak value of 1,961 in the first quarter of 1987.

The twelve-month rate of increase in M3 up to the end of March 1988 amounted to 22,4 per cent. The corresponding twelve-month rates of increase in M1A, M1 and M2 amounted to 25,4 per cent, 36,3 per cent and 31,5 per cent, respectively. Money growth during the first quarter of 1988 was concentrated in the non-M1A components of M1 and M2, i.e. in demand deposits other than cheque and transmission deposits, and in other short- and medium-term deposits with unexpired maturities of up to six months. A relative shift by investors towards the shorter end of the deposit maturity spectrum is a regular feature of periods of rising interest rates and expected further increases in interest rates.

The main statistical counterpart of the increase of nearly R6,4 billion in M3 during the first quarter of 1988 was an increase of R6,9 billion in monetary institutions' domestic credit extension. The net gold and other foreign reserves held by monetary institutions rose by a modest R0,1 billion.

### Domestic credit extension

The sharply higher rates of increase in banks' and other monetary institutions' credit to the private sector in the fourth quarter of 1987 were continued in the first quarter of 1988. This was explained by further increases in domestic spending and economic activity; markedly higher levels of merchandise imports and inventory accumulation; "reintermediation" phenomena; and aggressive marketing by monetary institutions of their credit facilities generally and of certain innovations among their credit products.

Not seasonally adjusted, the increase in monetary institutions' claims on the private sector from the end of 1987 to the end of the first quarter of 1988 amounted to more than R5,9 billion. This could be compared with an increase of only R1,4 billion in the first quarter of 1987. Households' increased recourse to bank credit for financing durable goods purchases, and rising levels of fixed investment expenditure by business enterprises, were reflected in an increase of R0,9



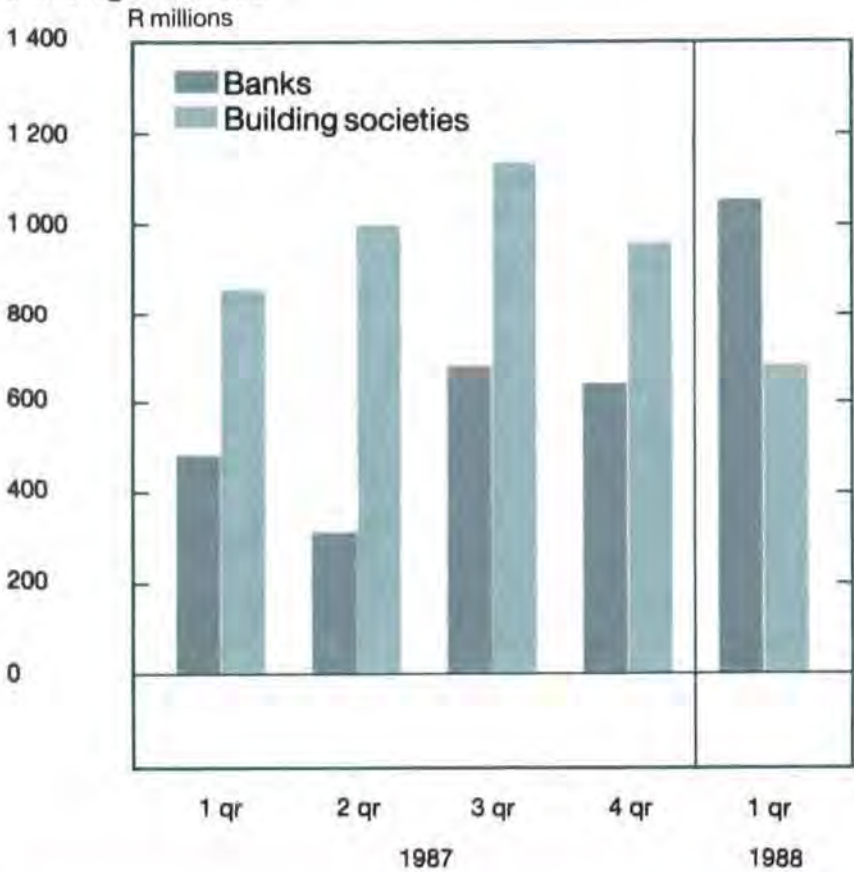
billion in hire-purchase and leasing finance during the first quarter of 1988, against an increase of only R0,3 billion in the first quarter of 1987.

Little change was shown by banks' holdings of bills discounted, deposits and investments in the first quarter of 1988. Against this, banks' "other" loans and advances rose by as much as R4,3 billion during this period. Included in this figure was an increase of R1 046 million, or 11,3 per cent, in mortgage lending by banking institutions. Building societies' mortgage advances, in contrast, rose by a comparatively modest R675 million, or 2,6 per cent, during the three months concerned.

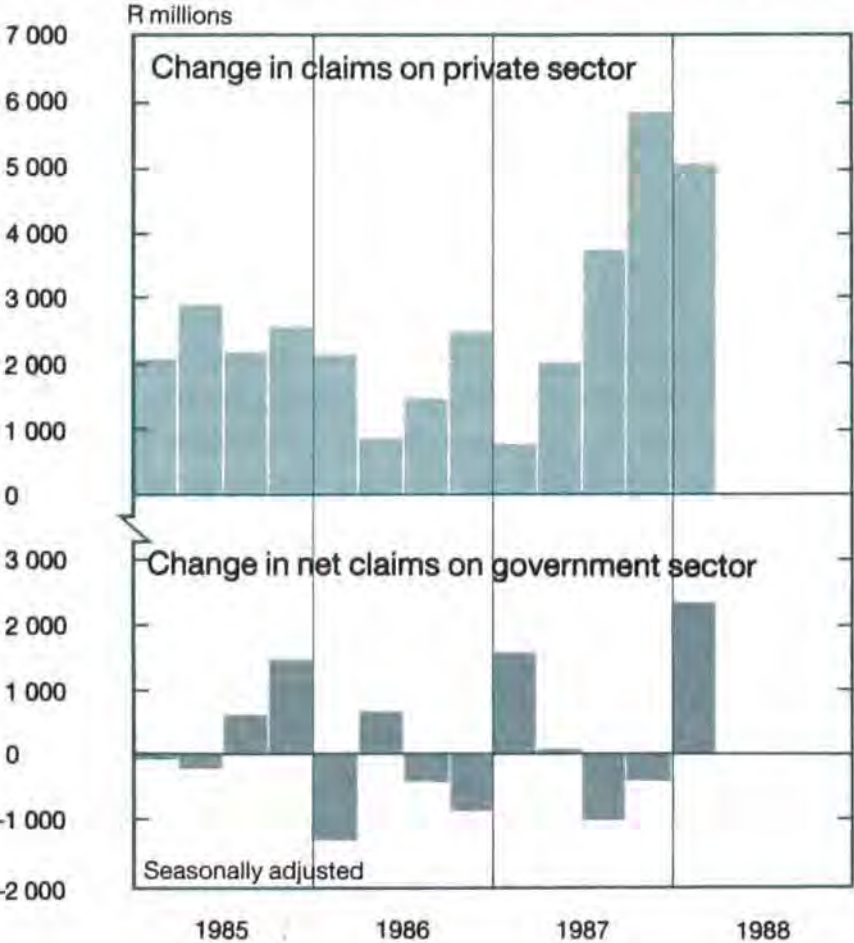
The twelve-month rate of increase in banking institutions' claims on the private sector rose from a lower turning point of only 1,7 per cent in February 1987 to 26,3 per cent in March 1988. The twelve-month rate of increase in all *monetary* institutions' claims on the private sector accelerated from a lower turning point of 5,7 per cent in February 1987 to 20,7 per cent in March 1988.

Substantial month-to-month fluctuations continued to be displayed by monetary institutions' net claims on the government sector. Not seasonally adjusted, the increase in these claims during the first quarter of 1988 amounted to R932 million. The twelve-month rate of increase in these claims as at the end of March 1988 amounted to a fairly substantial 23,0 per cent.

**Increase in mortgage advances of banks and building societies**



**Domestic credit extended by monetary institutions**



**Changes in claims of monetary institutions on the private sector**

Quarter-to-quarter percentage changes in quarterly averages (Seasonally adjusted annual rates)

	Claims against the private sector	
	Banking system %	All monetary institutions %
1987: 1st quarter .....	13,7	11,7
2nd quarter .....	2,5	9,3
3rd quarter .....	13,1	14,6
4th quarter .....	36,2	22,3
1988: 1st quarter .....	32,7	26,1

### Reserve Bank operations in the money market

The tightening of money market conditions that had started to make itself felt from late November 1987, continued in the first five months of 1988. The average level of accommodation that was provided by the Reserve Bank at the discount window rose from R149 million during the calendar year 1987 to more than



R400 million in the first quarter of 1988. In accordance with the normal seasonal easing of the market in the second quarter of the calendar year, the average amount of discount window accommodation subsequently dropped, however, to R214 million during April. Various reasons then caused it to rebound to R460 million in May.

Special month-end Reserve Bank assistance to the market other than at the discount window consisted of R700 million in repurchase agreements plus R175 million in the form of tender funds from the Corporation for Public Deposits (CPD) at the end of March. *Reverse* buy-back agreements were employed by the Bank in the rapidly easing money market conditions that prevailed during the first half of April. At the end of April, however, accommodation was again being provided by the Bank in the form of R300 million in repurchase agreements and refinancing at the discount window of R614 million.

Bank rate was raised, for the second time in 1988, as part of a package of demand-restraining fiscal, monetary and credit measures that was announced on 4 May 1988. In its statement accompanying this Bank rate increase, the Reserve Bank made clear that it would normally expect the money market shortage to be accommodated at the discount window, thereby to be subjected to the full discipline of the Bank's refinancing policies: assistance to the money market other than at the discount window would henceforth be limited to the smoothing-out of unduly tight month-end or other seasonal money market situations. In addition, penalty rates would apply to accommodation that, in exceptional circumstances, would be provided to banks at the discount window against the security of non-liquid instruments.

In accordance with this stricter approach by the Bank to its accommodation procedures and the less accommodative stance of its monetary policies generally, no assistance in the form of repurchase agreements or CPD tender funds was made available to the money market over the May month-end. Refinancing accommodation at the discount window as on 30 May reached a relatively substantial amount of R739 million.

In its transactions in government stock in the first quarter of 1988, the Bank was, on balance, a small-scale net *buyer* of government securities. In April, however, the Bank's net sales of government securities reached a very high level of R2 363 million. This was followed by further net *sales* to an amount of R1 542 million during May.

**Money market interest rates**

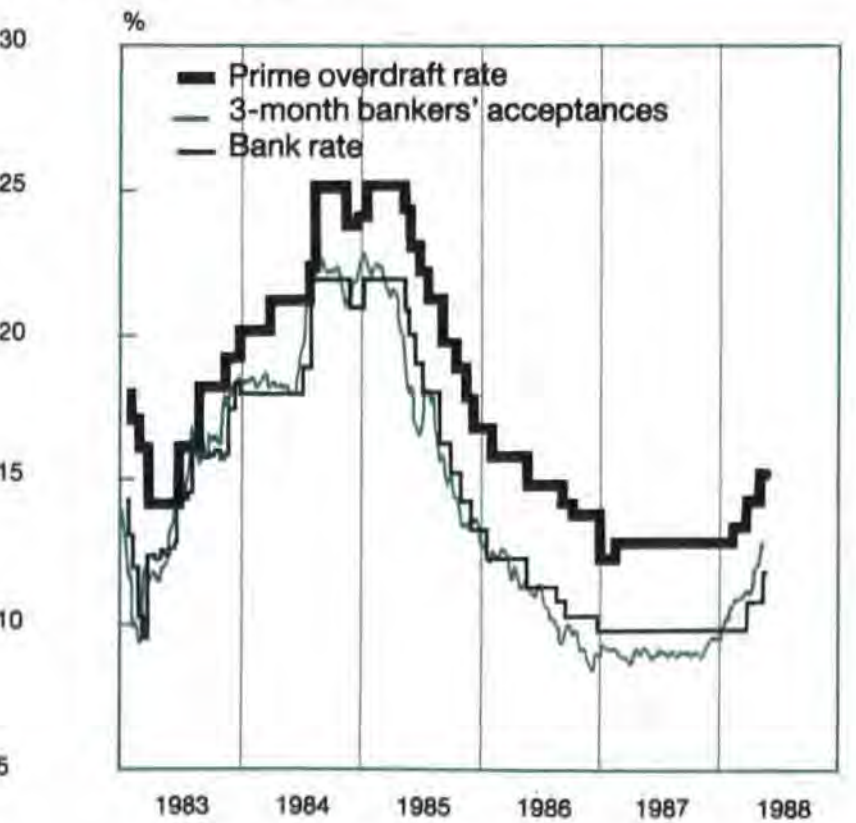
Money market interest rates, which had started to harden from late November 1987, continued to do so throughout most of the first five months of 1988. The

rate on three-month liquid bankers' acceptances rose from 9,00 per cent at the end of November to 10,45 per cent at the end of February, and to around 10,75 per cent during the first week of March. Following the increase in Bank rate from 9½ to 10½ per cent from 9 March, the bankers' acceptance rate rose further to 11,0 per cent at the end of that month.

After a brief period of relative interest rate stability, various factors – including the narrowing of the South African foreign trade surplus, the strength of domestic monetary demand, rapidly rising bank credit, and expectations arising from the above-target rate of growth of the money supply – caused renewed upward pressure to be exerted on the level of market interest rates. With the Reserve Bank's rediscount rate for liquid bankers' acceptances still at 10,8 per cent, the market rate on such acceptances topped 11 per cent in the second half of April and reached 11,85 per cent at the end of the month.

Market rates initially hardened further in the wake of the Bank rate increase (from 10½ to 11½ per cent) of 5 May 1988 and in the light of the Reserve Bank's accompanying statement setting out its approach to its open-market and discount window accommodation policies. The rate on liquid bankers' acceptances reached 12,75 per cent on 19 May. However, a growing impression that the pressures of domestic demand might not be fully as strong as had been suggested by the growth in money and credit in the first quarter of 1988, and other factors, subsequently caused the

**Short-term interest rates**





liquid acceptance rate to subside mildly again to 12,5 per cent on 27 May and to 12,25 per cent on 8 June.

Following the Bank rate increase of 5 May 1988, the clearing banks raised their prime overdraft rates from 14 to 15 per cent. The market rate on *non-liquid* bankers' acceptances reached 13,70 per cent on 17 May and 13,30 per cent on 8 June. The differentials of this rate vis-à-vis the rate on three-month *liquid* bankers' acceptances amounted to 1,35 per cent and 1,05 per cent on 14 May and 8 June, respectively. The average differential between the rates on non-liquid and liquid bankers' acceptances in the course of 1987 amounted to 0,17 per cent. The widening of this differential in May 1988, in particular, was due to banks' relatively limited holdings of statutory liquid assets, in conjunction with the Reserve Bank's newly spelled-out approach of charging penalty rates to banks that may apply for discount window accommodation against the security of non-liquid instruments. In addition, the general availability of statutory liquid assets may be reduced further when banks' advances to the Land Bank and a part of the Land Bank's bills outstanding will lose their status as liquid assets for purposes of the Banks Act, as is likely to happen later in 1988.

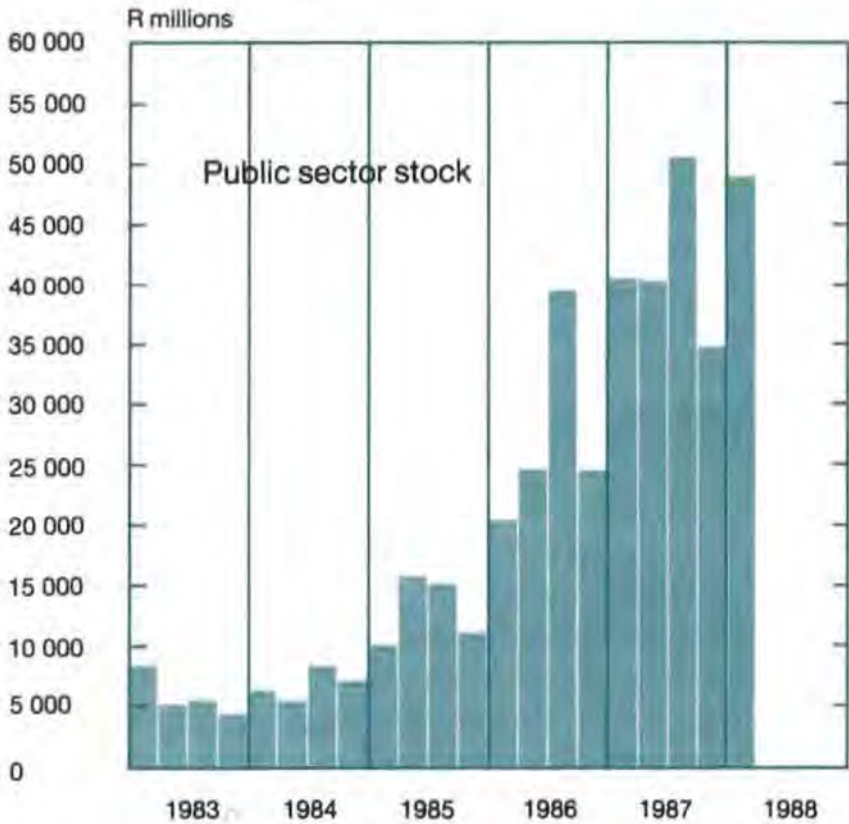
### Capital market activity

Trading activity in the capital market recovered somewhat in the first quarter of 1988 after having fallen back sharply in the fourth quarter of 1987. This was reflected in increased turnover in public sector securities listed on the stock exchange and in a further improvement in trading activity in the fixed property market. Further declines were recorded, however, in the turnover and prices of shares listed on the stock exchange.

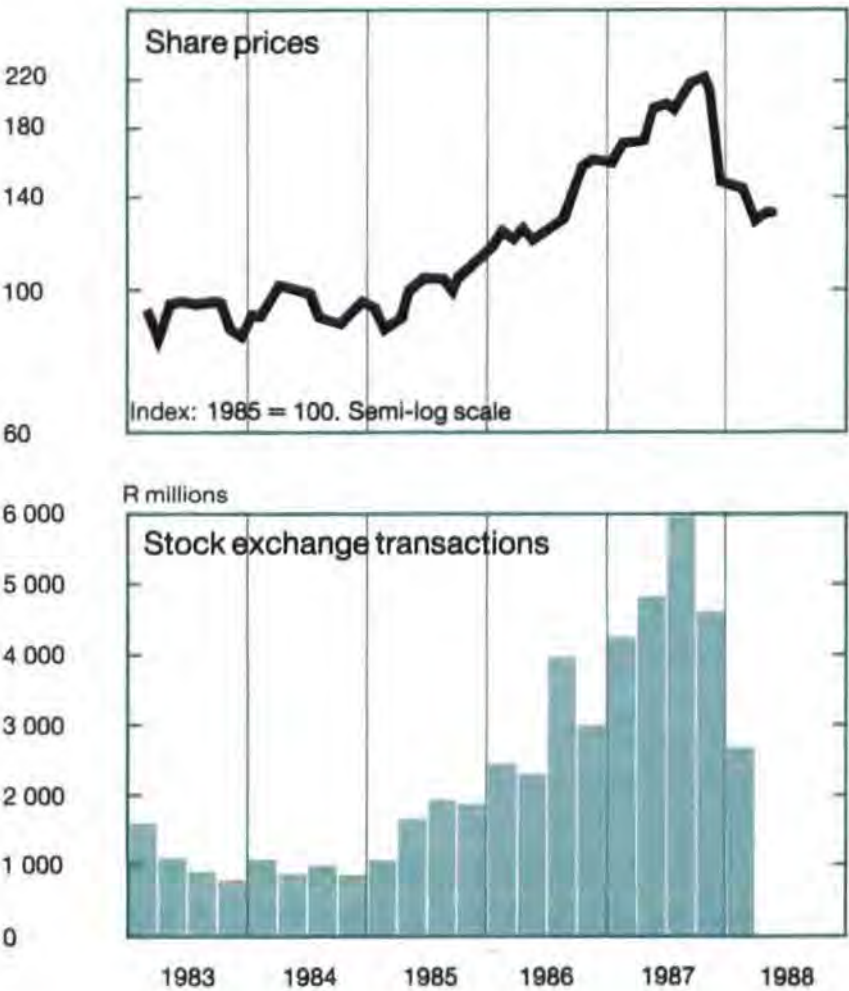
The value of public sector stock traded on the stock exchange rose from R34,5 billion in the fourth quarter of 1987 to R48,6 billion in the first quarter of 1988. The value of real estate transactions rose from R4,4 billion in the fourth quarter of 1987 to R4,8 billion during the first three months of 1988.

The value of shares traded on the stock exchange decreased markedly from the record level of R5,9 billion that had been reached in the third quarter of 1987 to R4,6 billion in the fourth quarter, and to only R2,4 billion in the first quarter of 1988. This contraction in share turnover was accompanied by a further decline in share prices. Following the 33 per cent drop in share prices that had been recorded in the fourth quarter of 1987, the average price level of all classes of shares declined further by 10 per cent in the first quarter of 1988. This was mainly the result of the rising trend in interest rates and of uncertainty concerning future movements in the prices of precious metals and of the exchange rate of the rand. The average price level of mining shares fell back during this quarter by as much as by 23 per cent.

Stock exchange transactions



Share prices and stock exchange transactions





In the primary markets, a net *repayment* was made in the first quarter of 1988 to banks and private non-bank investors of R1 631 million of public sector stock, compared with net issues of such stock of R401 million in the fourth quarter of 1987. Companies listed on the stock exchange raised R155 million through new issues of ordinary shares in the first three months of 1988, compared with R545 million in the fourth quarter of 1987. Fixed interest securities were issued by these companies to an amount of only R60 million in the first quarter of 1988, as against an amount of such issues of R217 million during the preceding three months.

Sustained demand for mortgage finance enabled the building societies to maintain their mortgage lending in the fourth quarter of 1987 at approximately its third-quarter level of R2,3 billion. During the first quarter of 1988, however, mortgage loans paid out by the building societies amounted to only R2,0 billion. In contrast, mortgage financing by the major banks that are active in this field rose sharply during the first quarter of 1988. Banks' total holdings of housing finance mortgages increased by R1,2 billion during this three-month period, compared with an increase of R2,1 billion during the full year 1987. The corresponding amounts for building societies were R0,7 billion and R3,9 billion, respectively.

1987, was maintained at these levels during the ensuing months. In January 1988, however, the banks also raised their twelve-month deposit rate to 10,75 per cent. The building societies subsequently raised their rates on these deposits to a level ranging from 10,75 to 11,25 per cent in February 1988, and further to a level ranging from 11,00 to 11,60 per cent in March. Following the increase in Bank rate of 5 May 1988, both the banks and the building societies raised their predominant twelve-month deposit rates to 11,5 per cent.

### Long-term interest rates and yields

Long-term interest rates hardened in the first quarter of 1988 despite the downward drift of the inflation rate in consumer prices and the limited budgetary financing requirements of the Central Government. Upward pressure on long-term rates and yields was exerted by the rising level of short-term rates and by the disappointing performance of the dollar price of gold in February in particular. The average monthly yield on long-term government stock advanced from 15,5 per cent in December 1987 to 16,1 per cent in January 1988, 16,5 per cent in February and 16,6 per cent in March. It then declined slightly, however, to 16,5 per cent in April 1988.

Mirroring the sharp decline in share prices, the average monthly dividend yield on all classes of shares rose from 3,6 per cent in September 1987 and 5,1 per cent in December to 5,7 per cent in both March and April 1988.

Following the increase in Bank rate of 9 March 1988, the predominant home mortgage rate of the building societies was raised from 12,5 per cent in December 1987 to 14,0 per cent. This rate subsequently was raised further, to 15,0 per cent, after the Bank rate increase of 5 May.

The predominant rate on twelve-month deposits, which had been raised to 10,75 per cent by the building societies and to 10,5 per cent by the banks in July



Government finance

General government income, expenditure and saving

The rate of increase in total current income of general government accelerated mildly from 15,6 per cent in the fiscal year 1986/87 to 16,4 per cent in the fiscal year 1987/88. The rate of increase in total current government expenditure declined significantly from 19,3 per cent in fiscal 1986/87 to 15,6 per cent in fiscal 1987/88. Net dissaving by general government nevertheless was larger in fiscal 1987/88 than in the preceding year. Gross saving by general government, however – i.e. the excess (or shortfall) of current income vis-à-vis current expenditure before provision for depreciation at replacement value of the fixed capital stock of government enterprises – increased markedly in fiscal 1987/88 after a substantial decrease had been recorded in fiscal 1986/87.

The increase in current expenditure by general government in fiscal 1987/88 was mainly accounted for by an increase of 21,2 per cent in consumption expenditure. Relative to the corresponding quarters of fiscal 1986/87, the increases in government consumption expenditure in fiscal 1987/88 amounted to 18,7 per cent, 19,1 per cent, 25,5 per cent and 21,8 per cent in the four consecutive quarters of the fiscal year, respectively.

The increase in total current income of general government in the final quarter of fiscal 1987/88, when compared with the final quarter of fiscal 1986/87, amounted to 21,8 per cent. The principal factor contributing to this increase was a rise of 23,4 per cent in indirect taxes, which was a reflection of rising levels of domestic monetary demand. Relative to the corresponding quarters of 1986/87, the increases in total current income in the first, second and third quarters of fiscal 1987/88 amounted to 8,3, 25,2 and 7,8 per cent.

Total expenditure by general government on final goods and services (comprising both consumption and investment expenditure) was 21,5 per cent higher in fiscal 1987/88 than in the preceding fiscal year. Relative to gross domestic product, however, this expenditure showed only a minor increase from 21,6 per cent in fiscal 1986/87 to 22,4 per cent in fiscal 1987/88.

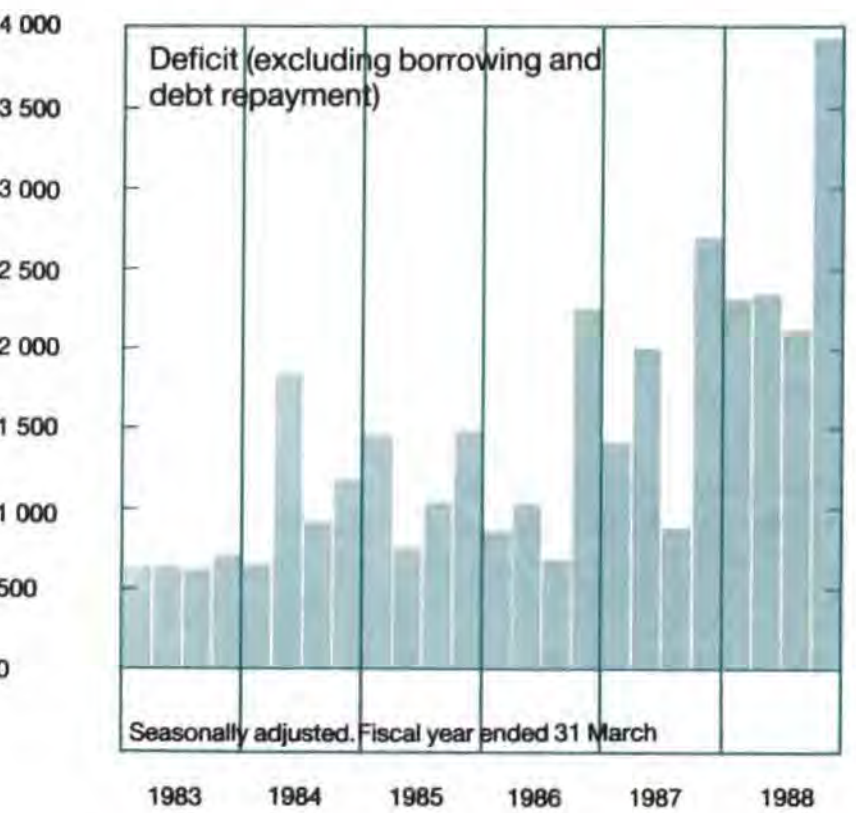
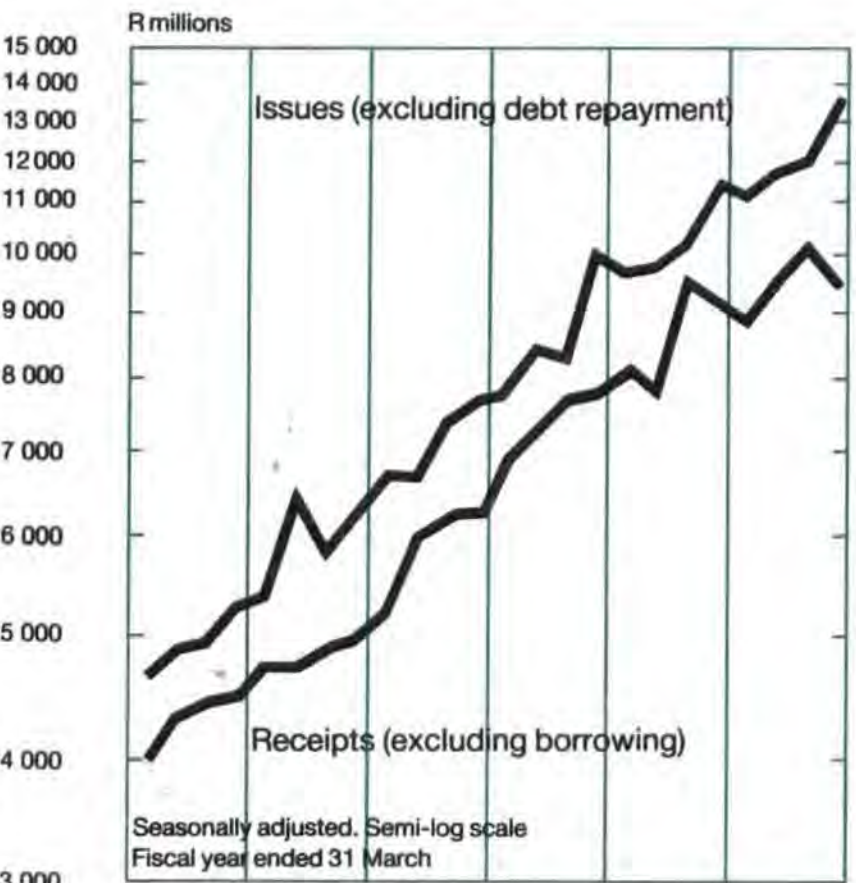
Exchequer issues

Exchequer issues to government departments (after the usual adjustment for changes in the balance on the Paymaster-General Account), compared with the corresponding quarters of the preceding year, decelerated markedly from 22,4 per cent in the December quarter

of 1987 to 14,8 per cent in the March quarter of 1988.

On a basis of comparability with the June 1987 Budget estimate of an increase in government expenditure in fiscal 1987/88 of 16,2 per cent, the actual increase in Exchequer issues in fiscal 1987/88 amounted to 18,7 per cent. This represented an increase in real terms of approximately 4,6 per cent.

Exchequer account





In April 1988, i.e. in the first month of fiscal 1988/89, Exchequer issues (after the usual adjustment for changes in the balance on the Paymaster-General Account), were, in fact, 1,6 per cent lower than in April 1987. This may be compared with a budgeted increase in such issues of 12,6 per cent for the fiscal year as a whole.

In April 1988 the deficit before borrowing and debt repayment amounted to R1 814 million, against a budgeted deficit of R10 014 million for fiscal 1988/89 as a whole. Although higher than the average monthly figure as budgeted for, the recorded deficit in April 1988 was R764 million lower than in April 1987, representing a year-on-year decrease of 30 per cent.

### Exchequer receipts

Compared with the corresponding quarter of fiscal 1986/87, Exchequer receipts in the March quarter of 1988 increased by only 6,0 per cent. The small extent of this increase was mainly due to a decrease of 22,5 per cent in total receipts from the gold mining industry and to a substantial reduction in the transfer of funds from the Central Energy Fund to the Exchequer Account. When transfers of funds from the Central Energy Fund are excluded, Exchequer receipts in the March quarter of 1988, compared with the March quarter of 1987, actually increased by 15,2 per cent.

On a basis of comparability with the June 1987 Budget estimate of an increase in revenue in fiscal 1987/88 of 12,6 per cent, total actual Exchequer receipts in fiscal 1987/88 exceeded actual receipts in the preceding fiscal year by only 11,1 per cent.

In April 1988, Exchequer receipts exceeded their one-year-earlier level by 31,8 per cent. This was well in excess of the budgeted rate of increase of 16,3 per cent for the fiscal year as a whole.

### Deficit before borrowing

The deficit before borrowing and debt repayment in the March quarter of fiscal 1987/88 amounted to R3 168 million or R2 073 million more than in the corresponding quarter of the preceding fiscal year. As a result, the deficit before borrowing and debt repayment in fiscal 1987/88 as a whole (excluding the discount on new government stock of R887 million) amounted to R9 668 million. This was R3 366 million more than the deficit in fiscal 1986/87. The deficit for fiscal 1987/88 was financed from the following sources:

	<u>R millions</u>
Public Investment Commissioners	
Government stock .....	5 336
Treasury bills .....	-1 628
Non-bank private sector .....	3 638
Banking sector	
Corporation for Public Deposits .....	4 029
Other banks .....	-728
Foreign sector .....	-92
	<u>10 555</u>
Minus: discount on government stock .....	887
<b>Total financing .....</b>	<b><u>9 668</u></b>