Quarterly economic review

Introduction

Real gross domestic product of the South African economy declined in the third quarter of 1990 for the fourth consecutive quarter; the rate at which it did so – amounting to slightly more than 2 per cent in annualised terms – somewhat exceeded that of the preceding six months. Real gross domestic product was some 1 per cent lower in the first three quarters of 1990 than in the corresponding period in 1989. It is also expected to be about 1 per cent lower in the calendar year 1990 than in the preceding year.

The further shrinkage of aggregate real output in the third quarter of 1990 was mainly due to a marked drop in real value added in agriculture and a significant further decline in real output in the secondary sectors (manufacturing and construction). Slightly positive production growth was shown by the tertiary industries. As a result, only a marginal decline was measured in total real output of the joint *non-primary* sectors; total *non-agricultural* production actually moved along an essentially sideways course.

Real gross domestic *expenditure*, which had shown a modest recovery in the second quarter of 1990, continued to do so in the third quarter at a somewhat higher rate. The third-quarter strengthening of total real domestic expenditure was based on a continuation of the mild rise in real private consumption expenditure, a renewed rise in real government consumption expenditure, and a lower rate of disinvestment in real inventories. The slow but steady advance of total real private consumption expenditure has, in fact, been a remarkable feature of the first six quarters of the current cyclical downturn to date.

Apart from the moderate revival in real gross domestic expenditure in the two most recently completed calendar quarters, the relative moderation of the current downswing to date also continued to be confirmed by the relative firmness (rather than strength) of various other cyclically sensitive time series. Comparative firmness of various aspects of activity in the sixth quarter of the economy's current cyclical downturn was apparent, for example, from the still fairly mild downward movement of the coincident composite business cycle indicator in 1990 to date, the resilience and mild recent gains in retail and wholesale sales at constant prices on a quarterly basis, the apparent "floor" to motor car sales and the modest recoveries in the average level of these sales in the second and third quarter of 1990, and the essentially sideways movement of real building plans passed.

In the *labour market*, declines in total formal-sector employment were likely to have occurred in both the second and the third quarter of 1990, after the surprise strengthening of employment in the first quarter. A further acceleration of the year-on-year rate of increase in the nominal wage per worker in the private sector, and a sharp reacceleration of the year-on-year rate of increase in the nominal wage per worker employed by public authorities, were registered in the first half and the second quarter of 1990 respectively. Industrial action, worker intimidation and stay-aways were a factor contributing to output declines in the third quarter in manufacturing industry in particular.

The abatement of the *inflation rates*, as measured by the major price indices, which had been evident in most cases from approximately the middle of 1989 up to approximately July 1990, was interrupted and reversed from August 1990, mainly as a result of military-political developments in the Middle East and because of the effect of these events on international crude oil prices and on the domestic prices of liquid fuels. The twelve-month rate of increase in the total production price index, for example, receded from 15,8 per cent in May 1989 to 10,3 per cent in July 1990, but reverted to 11,8 per cent in September.

Encouraging strength was displayed by the various elements of the *balance of payments* situation in the third quarter of 1990. The current account surplus widened again in the third quarter mainly on the back of a marked rise in the value of merchandise exports. A net *in*flow of non-reserve-related capital was recorded in the third quarter of 1990 for the first time since the third quarter of 1987; this was the largest such inflow since the final quarter of 1982. The South African net gold and other foreign reserves rose by R2,5 billion from the beginning of 1990 to the end of September.

Significant further decelerations were recorded in the rates of increase in the M3 *money supply* and in monetary institutions' extension of *credit to the private sector*. By the end of September 1990 the rate of increase in M3, as measured for guideline purposes, had penetrated – from above – the *lower* limit of the 11-15 per cent guideline range for growth in M3 in the money management year 1990.

The *capital markets* saw some recovery in turnovers after the sharp fall-offs in trading activity in the second quarter of 1990. Fairly substantial drops in share prices in September and October in particular, brought the total decline in the average level of share prices from its high point in February 1990 to October 1990 to some 18 per cent. Capital market yields and interest rates hardened slightly in September-October on the basis of gloomier inflation forecasts and diminishing prospects for an early easing of monetary policy.

In the area of *government finance*, current projections of Exchequer issues and receipts for fiscal 1990/91 suggest an eventual deficit before borrowing for the fiscal year as a whole that may be fairly comfortably within the figure of 2,8 per cent of nominal gross domestic product which was envisaged in the March 1990 Budget estimates.

A broad overview of these developments makes it clear that the South African economy in the third and early fourth quarter of 1990 was still in a state of slow cyclical contraction. This was the net result of, on the one hand, factors such as the authorities' policies of relatively strict monetary and fiscal restraint, socio-political uncertainty, the current drought, disturbed labour conditions and civil unrest, and the rising real cost of labour, and, on the other hand, of a remarkably well-maintained merchandise export performance, a relatively high level of real government consumption expenditure, and an extensive array of factors supporting private consumption expenditure in real terms. The fairly strong sense of "malaise" that prevailed during this period did not appear to be warranted by the actual performance of the economy. The overall picture, however, remained one of comparative cyclical firmness against a background of incompletely resolved longer-term problems and inadequately addressed structural deficiencies.

Among the more unfavourable conditions and events facing the economy in the fourth quarter of 1990 were:

- *Wage pressures*. The main text of this *Review* finds reason on more than one occasion to refer to the phenomenon of rapid recent increases in nominal wages and in both real and nominal unit labour costs. These wage developments were taking place in a cooling economy, in the face of slackening or negative employment growth and rising unemployment, and against a background of a major longer-term slide in the ratio of non-agricultural formal-sector employment to the economically active population.
- *The effects of the Middle East crisis on the measured inflation rates* and, potentially, on inflation expectations and on the degree to which these expectations have become entrenched in the public mind.
- *Relatively poor prospects for growth in 1991*, in the light of, among other things, higher international crude oil prices, a probable further slackening of growth in the major industrialised economies, the current drought, and failure of the dollar price of gold to respond more energetically to the oil price increase and to the raised level of international tension.

In a more positive vein, recent developments have shown:

- encouraging success of the authorities' recent strict monetary policies in moderating the rates of exsion of bank credit to the private sector and of the M3 money supply;
- remarkable strength of the balance of payments situation and a major recovery of the net foreign reserves;
- a return to a more normal situation in the availability of foreign trade financing from overseas sources, and a significantly less acute and more readily manageable foreign debt repayment situation;
- a distinct possibility – as suggested by economic and econometric analyses – that *reacceleration* of the measured inflation rates will not last long. By the end of 1991, the twelve-month rate of inflation in consumer prices may well have returned to levels lower than those prevailing before Iraq's annexation of Kuwait.

Monetary policy has had to consider its responses to the repercussions of the Gulf crisis and the oil price increase for the measured inflation rates. A *tightening* of policy, resulting in intensified downward pressure on domestic demand and activity over a fairly extensive period, was not considered appropriate for countering the once-and-for-all effect on the general price level of such an isolated, exogenous, event. Such a policy response would have been justifiable only if the exogenous shock on the price level was exerting a lasting effect on inflation expectations, and was causing a more permanent acceleration of the wage-price-wage or price-wage-price spiral. The argument against such a tightening of policy is the stronger if account is taken of the normal lags in the effect of monetary policy measures: regarding the case in hand, the effects of more stringent policies introduced now might become perceptible only by the time inflation as most commonly measured (i.e. the rate of change in the consumer price index over a twelve months period) would, in any event, already be moving out of the period during which it was influenced by the oil price rise.

More realistically, it has been surmised that the fairly stringent stance of monetary policy of the past several quarters may have to be maintained for a longer period to attain "Phase I" of the authorities' policy aims – which is to bring the South African inflation rates down to approximately the average level of the inflation rates in the economies of South Africa's principal international trading partners.

Domestic economic developments

Domestic output[1]

Current estimates show that the South African real gross domestic product contracted somewhat further in the third quarter of 1990, and did so at a mildly higher rate than in the preceding six months. The seasonally adjusted and annualised rate of this contraction is estimated at slightly more than 2 per cent. Little downward movement was recorded, however, in real output of the aggregate *non-primary sectors*; real output of the *non-agricultural* sectors was actually on a virtually sideways course.

Negative rates of change in the real gross domestic product have now been measured in the four most recently completed calendar quarters, out of the six completed calendar quarters of the current cyclical downswing to date. Revisions and adjustments to earlier estimates of the real gross domestic product during the period from the fourth quarter of 1989 to the *second* quarter of 1990 have somewhat increased the declining tendency in the rate of contraction in real domestic output in these three quarters. The annualised rates of contraction in these three quarters are now estimated at approximately 2½ per cent, not quite 2 per cent, and slightly less than 1½ per cent respectively.

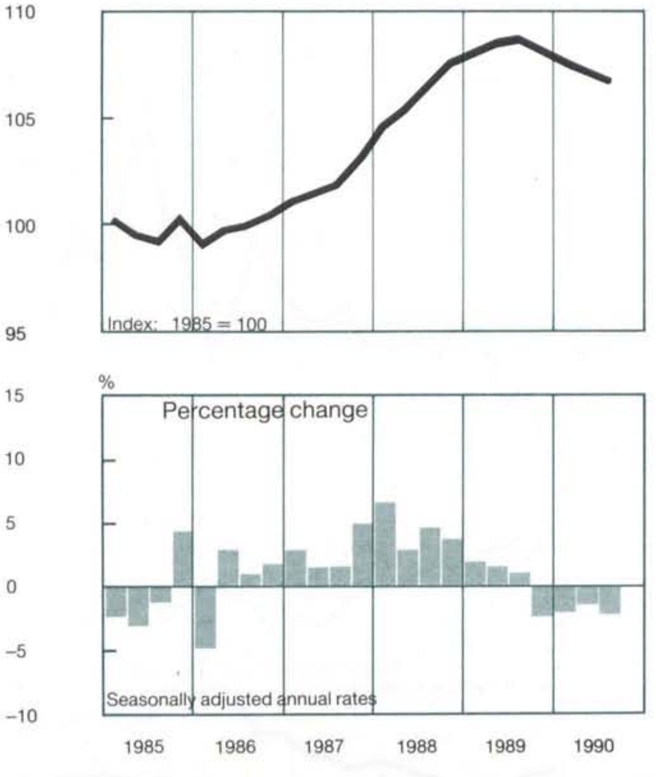
Being followed by contraction at the above-mentioned annualised rate of slightly more than 2 per cent in the third quarter of 1990, the moderately negative growth rates in the first half of 1990 meant that real gross domestic product in the first nine months of 1990 was nearly 1 per cent lower than in the first nine months of 1989. Current projections suggest that real gross domestic product in the full calendar year 1990 will also be about 1 per cent lower than in the full year 1989.

Notable *decreases* were registered in the third quarter of 1990 in real value added by agriculture and manufacturing. *Increases* in real value added were still recorded, however, by mining, commerce and general government.

Major declines in agricultural production in the third quarter of 1990 heavily outweighed production increases in the mining industry; as a result, aggregate real output of the joint *primary* sectors decreased in the third quarter of 1990 at an annualised rate of as much as 10 per cent. In the *secondary* sectors, output

1 As is the usual practice in the third quarter of every calendar year, revisions have been effected in the third quarter of 1990 to several components of the national accounts estimates and are incorporated in this issue of the *Quarterly Bulletin*. The revisions make use of more complete, more detailed or otherwise more appropriate source data than were available before. In addition, seasonal adjustment factors have been updated. Major new source data *inter alia* include the newly released statistics on the physical volume of manufacturing production based on 1985 weights.

Real gross domestic product

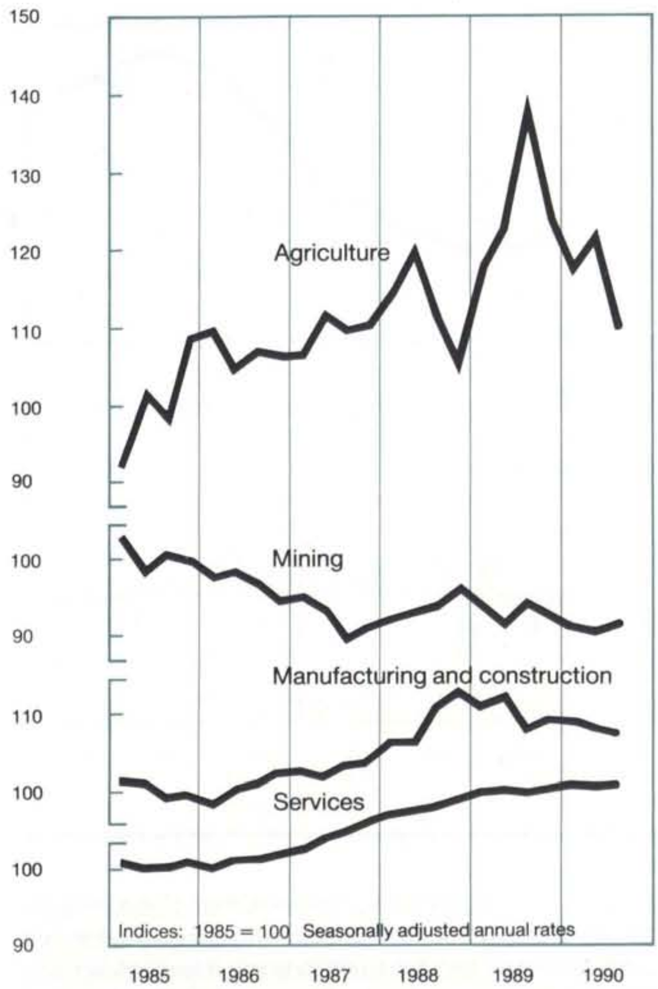


declines in manufacturing, and less than buoyant conditions in the construction industry, caused total real output in these sectors to decline at an annualised rate of some 2½ per cent in the third quarter. This followed contraction at an annualised rate of nearly 3 per cent in the preceding three months. Real value added by the *tertiary* sectors declined at a rate of more than 1 per cent in the second quarter of 1990. This was followed, however, by an *increase* at a rate of nearly 1 per cent in the third quarter of the year.

Aggregate real output of the *non-primary* sectors fell back at an annualised rate of about 2 per cent in the second quarter of 1990, but declined only fractionally further – at an annualised rate of ½ per cent – in the third quarter. Aggregate real output of the *non-agricultural* sectors similarly declined significantly (at an annualised rate of nearly 2½ per cent) in the second quarter of 1990, but moved essentially sideways in the ensuing three months.

The third-quarter decline in real agricultural production was mostly due to the smaller 1989/90 maize crop, which, at some 8,3 million tons, is estimated at less than three-quarters (73 per cent) of the crop of 1988/89. Real manufacturing production reached its most recent high point in the second quarter of 1989. In the third quarter of 1990 it was affected downwards by slacker domestic demand as well as by losses of

Components of real gross domestic product



output on account of strikes and stay-aways and generally troublesome labour conditions. The decline in real value added in manufacturing industry from its peak in the second quarter of 1989 to its level in the third quarter of 1990 amounted to some 5½ per cent.

Real value added in the mining sector was boosted in the third quarter of 1990 by an increase in real output in the gold-mining industry: after a low point had been reached in the second quarter of 1990, gold production was raised in the third quarter by both an increased throughput of ore and a higher average grade of ore milled. This increase in real value added in gold mining more than compensated for a net decline in aggregate real output in the rest of the mining sector, and in "other mining" in particular. The non-gold mining sector was affected adversely by general weakness in, and poor prospects for, the international prices of a number of South Africa's export metals and minerals; production cuts were effected by certain South African producers in the light of tendencies towards international oversupply.

Increases in real value added by the tertiary industries in the third quarter of 1990 reflected higher activity in the retail trade and motor trade sub-sectors of the commercial sector, and a marginal increase in the level of employment by general government. Little change from second-quarter levels was shown by real activity in transport and finance.

Domestic expenditure

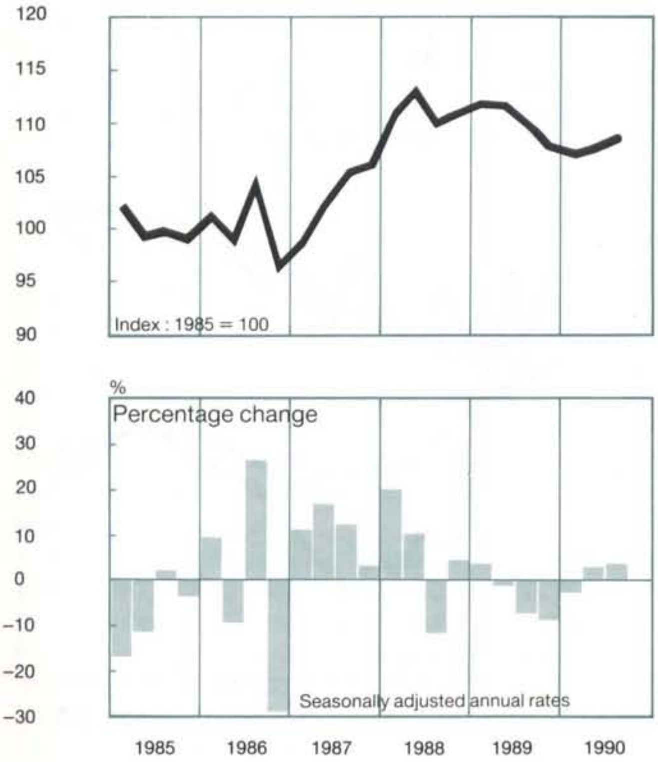
Total real gross domestic expenditure reached a high point for the second half of the 1980s in the second quarter of 1988. After fluctuating around a downward trend, it declined marginally in the second quarter of 1989, rapidly in the third and the fourth quarter of 1989, and at a much lower rate again in the first quarter of 1990. It then staged a modest *recovery* in the second quarter, at an annualised rate now estimated at nearly 2½ per cent. This was followed by a further recovery in the third quarter of 1990 at a somewhat stronger rate of approximately 3½ per cent.

Despite the recovery of total real gross domestic expenditure in the two most recently completed calendar quarters, its average level in the first *three* quarters of 1990 was still some 3½ per cent lower than its average level in the first three quarters of 1989, and some 3 per cent lower than its average level in the first half of 1988. This was mostly a reflection of the quite substantial drop in real domestic spending that occurred in the second half of 1989.

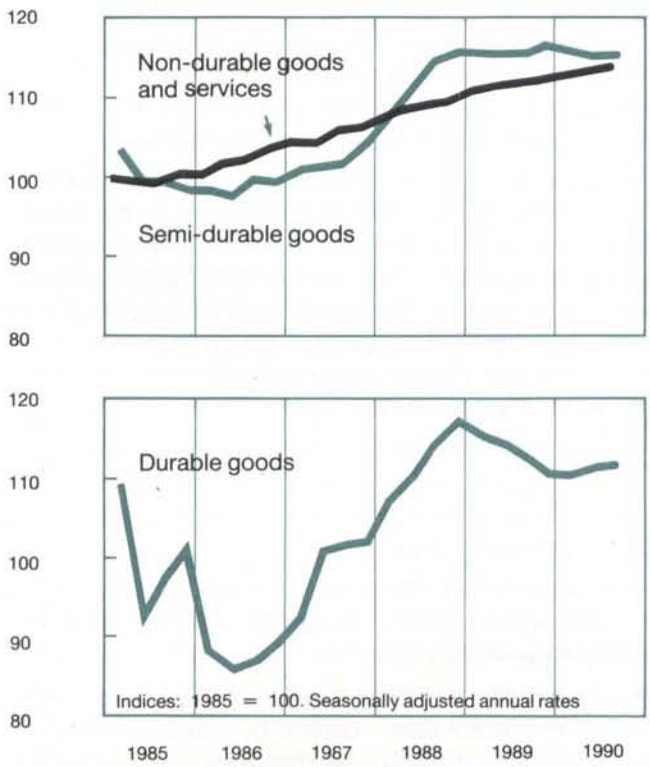
The downward shift in the average level of aggregate real gross domestic expenditure from the first half of 1988 and the first nine months of 1989 to the first nine months of 1990, was essentially a result of the authorities' fairly restrictive financial policies that were aimed at curbing inflation and maintaining current account surpluses, and of a general sense of uncertainty that was inhibiting fixed investment spending in particular. The fairly restrictive stance of monetary policy was maintained in the second and the third quarter of 1990, and further declines were registered in total real gross domestic fixed investment during that period. In the light of these developments, the modest further revival of total real gross domestic demand in the third quarter of 1990, which took place in an otherwise cooling economy, calls for further analysis.

The continued recovery of aggregate real gross domestic expenditure in the third quarter of 1990 was based on a continuation of the persistent, although limited, forging-ahead of real private consumption expenditure, an increase in real government consumption expenditure, and a further decline in the rate of decumulation of total real inventories. The combined effect of the movements in these three main spending categories outweighed a further contraction of spending on total real gross domestic fixed investment.

Real gross domestic expenditure



Components of real private consumption expenditure



Total *real private consumption expenditure*, which has never stopped rising during the 1989/90 downswing to date, is estimated to have advanced in the third quarter of 1990 at an annualised rate of some 1½ per cent. This rate of increase somewhat exceeded the rates of increase in the preceding five quarters of the current downswing, which ranged from some ½ to about 1 per cent. In an unusual turn of events, the most recent quarterly increase in total real private consumption expenditure stemmed to a significant extent from higher real outlays on *durable* and *semi-durable* goods; continuing firmness and a number of increases were also displayed, however, by spending on non-durables and on services.

Real private consumption expenditure on *durable* goods rose in the third quarter of 1990 at an annualised rate of 1½ per cent. Notable increases were recorded in private consumers' real outlays on furniture and household appliances. Spending on motor vehicles, which had declined (by a total of some 9 per cent) from the second quarter of 1989 to the second quarter of 1990, showed almost no change in the third quarter of 1990.

Households' real spending on *semi-durables* declined in the first two quarters of 1990 at an average annualised rate of 2½ per cent. It then rose in the third quarter of 1990 at an annualised rate of approximately ½ per cent. The growth in real spending in this category was broadly based; some of the more noteworthy increases were registered in outlays on clothing, footwear and household textiles. Real outlays on *non-durable* goods and on services rose at annualised rates of some 1½ and 2½ per cent respectively.

The continuing upward tendency in total real private consumption expenditure, and the mild strengthening of this tendency in the third quarter of 1990, could be attributed partly to a mild increase in total real personal disposable income. The effect of this increase arose from, or was supported by, factors such as –

- the general wage and salary increases granted by general government, which became effective from the beginning of the second quarter of 1990 (although some of these increases were applied with retrospective effect from the first quarter);
- adjustments, effective from late in the second quarter or from the beginning of the third quarter of 1990, in the wages and salaries of certain lower-paid categories of workers in the government services;
- relatively high wage settlements, as negotiated by several trade unions, in all major sectors of the economy;
- the lowering of income tax for individuals, and some restitution of income tax paid, from or during

the third quarter of 1990, as announced in the Budget of March 1990;

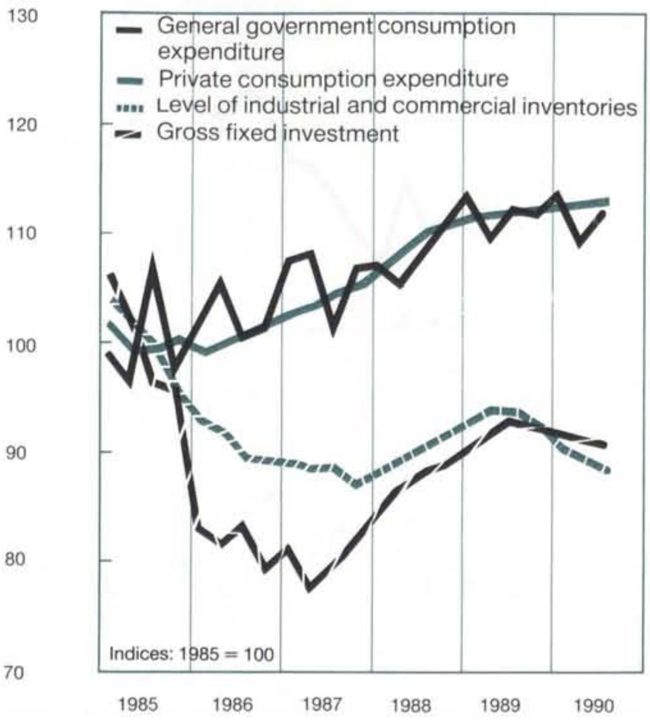
- the effective transfer of real personal disposable income and real purchasing power to certain lower-income groups in a number of Black townships, on account of households' non-payment of rent and services charges to local authorities and/or (in certain cases) the non-servicing of home mortgage loans;
- the relatively high propensity to consume (low propensity to save) among households in the lower-income groups. (In conjunction with an effective shift of real personal disposable income from higher-to lower-income recipients, this would tend to result in a very high "apparent" or "observed" marginal propensity to consume out of any measured increment in total real personal disposable income.);
- a general climate of "rising expectations" among broad population groups in the present environment of rapid socio-political change and anticipated socio-political change;
- the enduring effect on present consumption of anticipated price increases and of unfavourable inflation expectations generally;
- specifically, the effect of anticipated price increases of new motor-cars – backed by intensive marketing of certain new models – on motor vehicle sales in the third quarter of 1990;
- progressive electrification of certain Black and other residential areas, giving rise to an increased demand for certain household appliances; and
- a general replacement demand for certain durable consumer goods, arising from the increased average age and relatively low real level of private households' stocks of these goods.

Real *consumption expenditure by general government* rose significantly in the first quarter of 1990, declined in the second quarter (i.e. in the first quarter of fiscal 1990/91), but rose markedly again in the third quarter. The third-quarter rise was mainly explained by a significant increase in real government purchases of intermediate goods and services; this was supported by a marginal increase in total real salary and wage payments.

The rise in real government consumption expenditure in the third quarter of 1990 served to re-establish the long-term upward trend in this category of domestic expenditure in both relative and absolute terms. Although the average level of real government consumption expenditure was lower in the first *half* of 1990 than in the first *half* of 1989, it was marginally higher again in the first three quarters of 1990 than in the first three quarters of 1989.

The rise in real government consumption outlays in the year 1990 is unlikely to match the 3½ per cent increase this kind of expenditure displayed in the year 1989. In a long-term perspective, however, real government consumption expenditure relative to real gross domestic product rose steadily from an average of 11½ per cent in the 1960s to 13½ per cent in the 1970s, 16½ per cent in the 1980s and 17½ per cent in the second half of the 1980s. It amounted to 18 per cent of real gross domestic product in the third quarter of 1990.

Main components of real gross domestic expenditure



Total real *gross domestic fixed investment* topped out in the third quarter of 1989 and declined in the ensuing three quarters at revised annualised rates of more than 2 per cent, approximately 2 per cent and 2½ per cent. This was followed by a further contraction at an annualised rate of approximately 3 per cent in the third quarter of 1990.

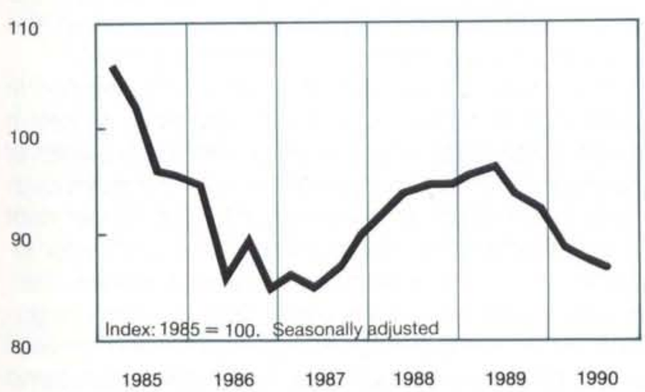
Fall-offs in real fixed capital formation were recorded in the third quarter of 1990 in both the private sector and among public authorities. These declines outweighed an increase in real fixed investment by public corporations. The third-quarter rise in real fixed investment by public corporations meant a resumption of the upward movement this investment had displayed from the second quarter of 1988 – mainly because of the investment activities of Mossgas.

Total real gross domestic fixed investment rose quite impressively (by 20 per cent) from its cyclical low point in the second quarter of 1987 to its cyclical high point in the third quarter of 1989. However, at its high point in the third quarter of 1989 total real gross domestic fixed investment was still some 7 per cent lower than its average level in 1985, which, in turn, was 13½ per cent lower than the average level of total real gross domestic fixed investment in the record investment year 1981. In the third quarter of 1990, total real fixed investment was some 9½ per cent lower than its average level in 1985.

The weakening of the South African fixed investment performance after the third quarter of 1989 was attributed in the September 1990 issue of this *Bulletin*, not only to cyclical factors and to various increases in the so-called user costs of capital, but also to uncertainties engendered by current and prospective socio-political developments, the current lack of clarity and certitude about South Africa's future system of socio-economic organisation, unsettled labour conditions and civil unrest. In addition, investment plans are discouraged by downward pressure on firms' operating surpluses that arise from upward pressure on unit labour costs.

An analysis in institutional terms shows that the decline in aggregate real fixed capital formation in the third quarter of 1990 stemmed mainly from notable decreases in real fixed capital spending in the sectors manufacturing and commerce and in the category *private residential* construction. Various factors contributed to a softer trend in private home-building from the beginning of 1990. Such factors included the relatively high current interest costs of mortgage financing in real terms; the fact that the phasing-in of fringe-benefit taxation of interest subsidies in respect of housing loans is nearing completion; contractors' reluctance to conduct building operations in Black townships that are afflicted by violence and civil unrest; and financial institutions' growing resistance to the granting of mortgage loans for home-building purposes in Black high-risk areas, which may also be areas that have been affected by certain mortgagors' disinclination to service their mortgage loans.

Real fixed investment in private residential buildings



The contraction of real fixed capital formation in manufacturing industry *inter alia* also reflected the normal cyclical phenomenon of a decline in the degree of capacity utilisation. A slackening of the tempo of confirmation of new building and civil-engineering contracts was apparent to some extent in all major sectors of the economy.

Aggregate real fixed capital expenditure *by the public sector* retreated in the third quarter of 1990 at a significant rate. This was a result of substantial cutbacks of real fixed capital spending by public authorities; these reductions more than offset the increase in real fixed capital outlays by public corporations. The lower level of real fixed capital expenditure by public authorities reflected reduced capital outlays by all three levels of general government as well as a marked drop in real fixed investment spending by the Department of Posts and Telecommunications; *increases* in real capital expenditure by this Department had still been recorded in the preceding nine months.

A net *dis*investment in total *real inventories* was registered in the third quarter of 1990 for the fifth consecutive quarter, but on a more limited scale than in the preceding three quarters. Not least because of the current, relatively high, real interest cost of carrying inventories, firms in commerce and manufacturing in particular have been working towards increased rates of turnover of their inventories. An economising on inventory holdings was evident in particular in retail trade: inventories relative to sales in the retail sector declined from an average of nearly 1½ months' sales in 1989 to an average of only slightly more than 1 month's sales in the first three quarters of 1990.

The decline in the tempo of inventory decumulation in the third quarter of 1990 could be attributed mainly to a slight *in*crease in agricultural stocks-in-trade (which was related to the harvesting of the 1989/90 maize crop), and to smaller reductions of real industrial and commercial inventories. In the case of the industrial and commercial sectors, the drawing-down of inventories slowed mainly as the counterpart of shrinkage of the so-called "net foreign trade balance" between merchandise imports and merchandise exports, which contracted by R1,3 billion from nearly R14 billion in the second quarter of 1990 to R12,7 billion in the third quarter. As a result, the ratio of real industrial and commercial inventories to the real gross domestic product showed almost no change from the second to the third quarter, being estimated at some 19½ per cent in both these periods.

Factor income

The growth in nominal gross domestic product at market prices from 1988 to 1989, which was reported to have been 18½ per cent in the September 1990 issue of this *Bulletin*, has since been revised downwards to 17½ per cent. In the course of the first three quarters of 1990, the rate of increase in total nominal output at market prices over four-quarter periods slowed down progressively from 14½ per cent in the first quarter to 12 per cent in the second quarter and 11½ per cent in the third quarter.

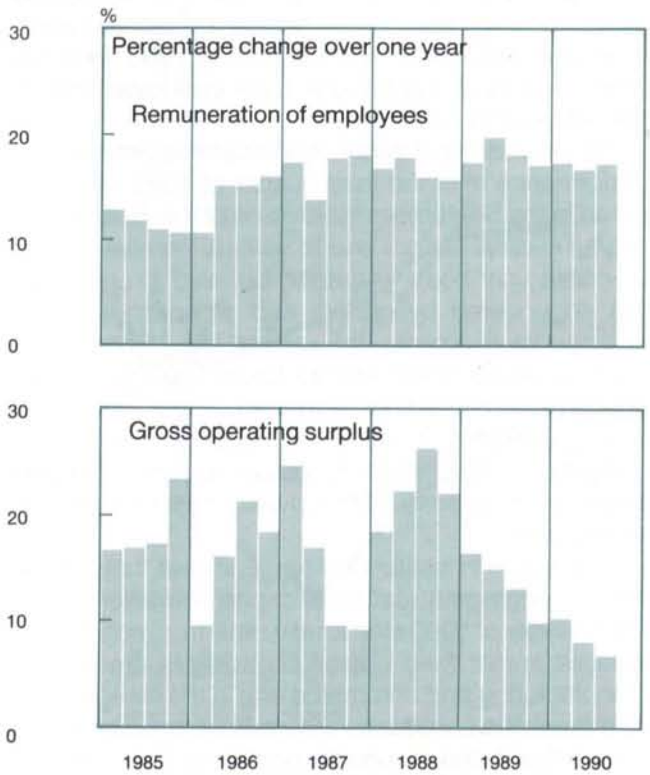
The decline in the tempo of growth in total nominal output at market prices was even more pronounced on a quarter-to-quarter basis. The annualised rate of increase in nominal gross domestic product contracted from an average of about 16 per cent in the first two quarters of 1990 to only 10½ per cent in the third quarter. This was a reflection of the effect of the cyclical slackening of the economy on entrepreneurial profits and on the total of nominal labour rewards, as well as of deteriorating conditions in agriculture in large parts of the country and of a loss of buoyancy in a number of the world's commodity markets. Most conspicuously influenced by these developments were the sectors and sub-sectors agriculture, electricity, gas and water, construction, commerce and finance.

The decline in quarter-to-quarter growth in total nominal factor rewards in the third quarter of 1990 arose from more moderate increases in total nominal labour remuneration as well as in the nominal gross operating surplus of business enterprises. Quarter-to-quarter growth in the *remuneration of employees* fell back in the third quarter of 1990 after having accelerated sharply in the second quarter, when large wage and salary adjustments became effective in the public sector. However, the third-quarter slow-down of growth in total nominal labour rewards almost certainly also reflected slacker labour market conditions in the formal non-agricultural economy during that period, which included retrenchments and rationalisations of staff by firms in several industries. The average level of total nominal labour remuneration in the first three quarters of 1990 was nevertheless still 17 per cent higher than in the first three quarters of 1989, against a year-to-year increase of nearly 18 per cent from the calendar year 1988 to the calendar year 1989.

Growth in the nominal *gross operating surplus* from 1988 to 1989 has been revised downwards from 15½ to 13½ per cent. This was mainly the result of certain major revisions of basic source data from the mining industry. As is also brought out by the accompanying graph, the average year-on-year increase in the gross operating surplus in the first three quarters of 1990 had shrunk to approximately 8 per cent. In the third quarter of 1990 this increase, as well as the annualised *quarter-to-quarter* rate of increase in the gross operating surplus, actually did not amount to more than about 6½ per cent. The most recent decline in the growth rate of the nominal gross operating surplus on a quarterly basis was mainly due to a drop in the surplus in agriculture, which partly offset increases that were still recorded in a few other sectors of the economy.

The rapid fading of growth in the aggregate nominal gross operating surplus from the second half of the up-

Remuneration of employees and gross operating surplus



swing year 1988 onwards, was accompanied by a steady rise in the share of total nominal labour remuneration in total nominal factor rewards, from the most recent low point of this ratio of 56½ per cent in the second quarter of 1988 to 60 per cent in the third quarter of 1990. This tendency towards a rising relative importance of labour rewards in total factor remuneration was spread widely through the economy. It was, however, particularly noticeable in the mining sector, where labour remuneration as a proportion of total factor income generated rose rapidly from an average of 48 per cent in the second half of 1989 to 56 per cent in the third quarter 1990, despite conscious efforts in the gold-mining industry in particular to hold down the share of wage payments in total operating costs.

The share of total nominal labour remuneration in total nominal factor rewards typically tends to rise in the closing stages of upswings and the early stages of downswings in the course of a "normal" cyclical movement in the South African economy. The 60 per cent share of total nominal labour rewards in total factor income in the third quarter of 1990 was, however, fractionally higher than at any earlier time since the beginning of the 1980s at least. The comparatively high level of this ratio was reached despite the downward trend in total formal-sector employment relative to the economically active population, which has similarly been apparent since the early 1980s. This further evidence of longer-term forces working towards redistribution of factor income in favour of labour and at the expense of operating surpluses in the formal sector of the economy, holds implications for the incentives to entrepreneurial effort, innovation and investment, and therefore for the longer-term development potential of the South African economy.

Domestic saving

The domestic savings ratio, i.e. the ratio of gross domestic saving to the gross domestic product, showed little change from the second to the third quarter of 1990 at a level of approximately 21½ per cent in both cases. However, the excess of gross domestic saving over gross domestic investment widened slightly from 7 per cent in the second quarter of 1990 to 8 per cent in the third quarter, in line with the further weakening of real gross domestic fixed investment. This was in agreement with the widening of the surplus on the current account of the balance of payments and implied a further small improvement in South Africa's ability to meet its foreign debt repayment obligations or to replenish its gold and other foreign reserves.

Approximate constancy of the domestic savings ratio from the second to the third quarter of 1990 was the net result of an increase in saving by general government, a marginally higher level of saving by the household sector, and a moderate decline in corporate saving from levels reached in the preceding two quarters. The relative moderateness of the decline in corporate saving in a clearly less favourable business environment reflected the good financial results that were still being shown by companies in various areas; by and large, companies were structured more soundly, showed healthier balance sheet positions, and were better prepared for countering or avoiding cost increases than had been the case in the preceding two cyclical downturns.

The improvement in the income and expenditure account of the general government in the third quarter of 1990, which meant a further increase in net saving by the general government, stemmed mainly from higher revenues from both direct and indirect taxation.

The level of net personal saving improved slightly in the third quarter of 1990. This was due to a further increase in real personal disposable income, which arose from adjustments in remuneration packages of employees in excess of the prevailing inflation rate. The provision for consumption of fixed capital in the third quarter of 1990 proceeded on its steady upward course.

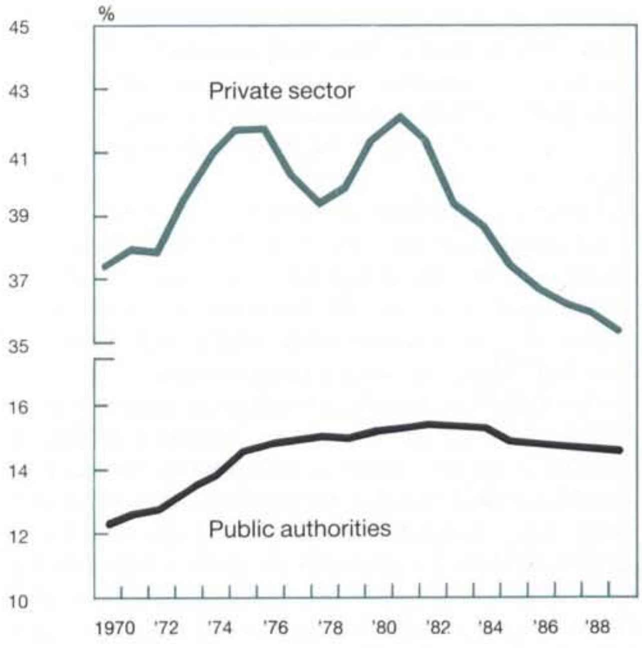
Employment

Total employment in the non-agricultural sectors of the economy rose by less than 3,0 per cent in the course of the 1986-89 upswing (i.e. from the first quarter of 1986 to the first quarter of 1989), against employment increments of 11,5 per cent and 12,6 per cent in the cyclical expansions of 1972-74 and 1978-81. A year-to-year increase of 1,2 per cent in the advanced upswing year 1988 was followed by a year-to-year rise of 0,5 per cent in 1989.

In the course of 1989, the seasonally adjusted and annualised rates of increase in total non-agricultural employment of 0,6 and 1,0 per cent in the second and the third quarter were followed by a *de*crease at an annualised rate of 0,9 per cent in the fourth quarter. This, in turn, was followed by a renewed *in*crease at a rate of as much as 2,8 per cent in the first quarter of 1990.

To an important extent, the renewed employment increases in the first quarter of 1990 represented a reversal of staff reductions in the final quarter of 1989 (notably because of re-appointments of staff who had resigned or been laid off by the South African Transport Services during the strike by SATS workers from November 1989 to January 1990). However, significant increases in employment were also shown in the first quarter of 1990 by (among other sectors and sub-sectors) manufacturing, the construction industry, non-gold mining, retail trade, and certain other service industries. Retrenchments and staff reductions, on the other hand, were shown during this quarter by (among other sectors and sub-sectors) general government, the gold-mining industry, and wholesale and motor trade.

Ratio of formal non-agricultural employment to economically active population



In the second quarter of 1990 employment declined – with only a few exceptions, such as in non-gold mining, building societies and the insurance industry – throughout most of the non-agricultural economy. The annualised rate of decrease in total non-agricultural employment in this quarter amounted to 2,1 per cent.

Total employment in the non-agricultural *private* sector rose in the third quarter of 1989 at a seasonally adjusted and annualised rate of 1,1 per cent, thereby neutralising employment declines in the preceding two quarters. After decreasing at a modest annualised rate of 0,4 per cent in the fourth quarter of 1989, private-sector non-agricultural employment recovered at a remarkable annualised rate of as much as 4,0 per cent in the first quarter of 1990. However, the recessionary tendencies in the economy subsequently caused it to decrease again at a rate of 2,1 per cent in the second quarter.

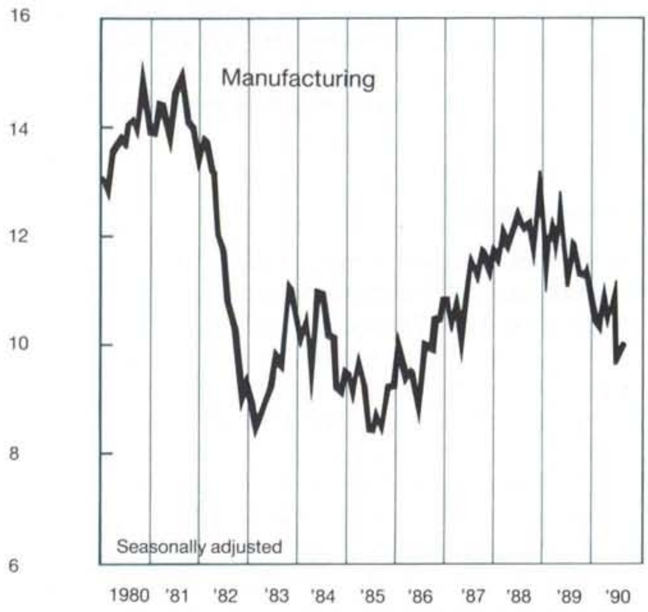
Employment *by public authorities* rose at accelerating rates from the third quarter of the upswing year 1988 to the second quarter of 1989, but slowed down to a seasonally adjusted and annualised rate of increase of 0,7 per cent in the third quarter of 1989. Like private-sector employment, it then decreased (at a rate of 2,1 per cent) in the fourth quarter of 1989. Having shown little change in the first quarter of 1990, employment by public authorities – again like private-sector employment – then fell back once more in the second quarter of 1990, and did so at a similar annualised rate of 2,1 per cent.

With regard to the *year* 1989 the rise in the average level of employment by public authorities significantly exceeded – at low levels of both growth rates – the rise in employment in the private sector. From 1988 to 1989 employment by public authorities rose by 1,1 per cent. Very little change (0,3 per cent) was shown by the average level of employment in the private sector between these two years. Near-stagnancy in *formal* private-sector employment in the early downswing year 1989 compares with a moderate decline (of 0,6 per cent) in such employment in the downswing year 1985.

The ratio of *overtime hours* to normal hours worked in manufacturing declined from the third quarter of 1989 to the second quarter and July 1990. In the construction industry, this ratio declined from the second quarter of 1989. It recovered briefly in the second quarter of 1990, but receded again in July.

The seasonally adjusted number of registered *unemployed* workers in the White, Coloured and Asian population groups declined, on balance, from its high point of 82 300 towards the end of the 1984-86 downswing, to a six-year low of 42 000 as recently as December 1989 (i.e. well into the current downswing). It then reverted to a level of more than 50 000 in May and June 1990 (when it amounted to 53 600 and 52 600 respectively). The tempo of this increase in unemployment among the population groups concerned in the fifth quarter of the current downswing, was, however, significantly lower than during comparable periods and at similar stages in the preceding three cyclical downward movements of the economy.

Overtime hours as percentage of ordinary hours worked



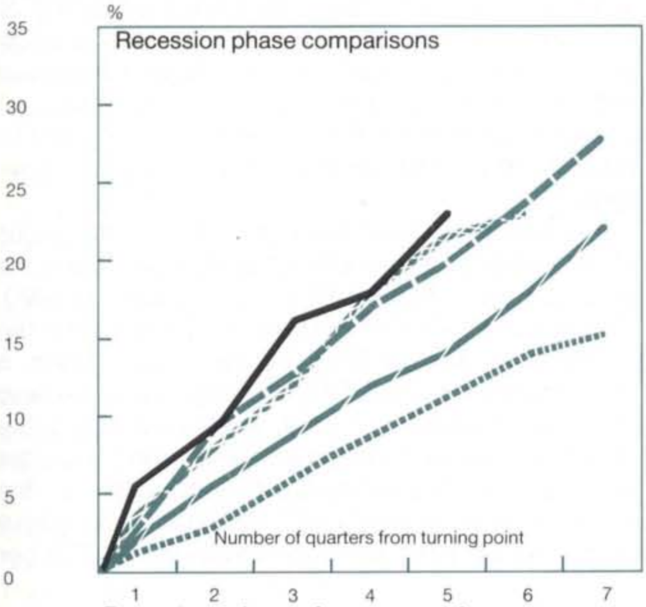
In contrast to unemployment among Whites, Coloureds and Asians, the seasonally adjusted *total* number of registered unemployed workers rose, on balance, from a recent low point of 108 900 in January 1989 to 138 900 in May 1990 and 136 000 in June. These figures were at more or less the same level as the preceding peak in total registered unemployment in September 1987.

Labour costs and productivity

The year-to-year rate of increase in the average annual amount of nominal salaries and wages per worker in the non-agricultural sectors of the economy accelerated steadily from 11,4 per cent in 1985 to 18,3 per cent in 1989. The year-*on*-year rate of increase in the nominal wage per worker accelerated from 14,3 per cent in the fourth quarter of 1988 to 18,3, 17,2, 18,4 and 19,4 per cent in the four successive quarters of 1989, but fell back to 13,9 per cent in the first quarter of 1990. It then reaccelerated to 17,1 per cent in the second quarter.

The year-on-year rates of increase in nominal salaries and wages per worker in the non-agricultural *private* sector amounted to 15,5, 16,9, 15,9 and 18,3 per cent (for an average of some 16,7 per cent) in the four successive quarters of 1989. These rates then *rose further* (to 17,8 and 16,2 per cent, for an average of 17,0 per

Average remuneration per worker in private non-agricultural sectors



Percentage change from upper reference turning-point in:
4th qr 1970 3rd qr 1974 3rd qr 1981
2nd qr 1984 1st qr 1989

cent) in the first two quarters of 1990 – in the face of somewhat slacker economic conditions, declining private-sector employment in the second quarter of 1990, and increases in registered unemployment in the first half of 1990.

Sustained rapid nominal wage increases, and even accelerations (or *further* accelerations) of such increases, in the early stages of cyclical downswings – with attendant effects on the average *real* wage of workers – have not been unusual in the history of the post-war South African business cycle. As shown in the accompanying graph, however, the cumulative rise in the nominal wage per worker in the non-agricultural private sector during the first five quarters of the current downward phase of the business cycle, was substantially larger than the cumulative rise in the nominal wage per worker over similar periods in the downswings of 1971-72 and 1984-86. It was even significantly larger than the cumulative rise in the money wage per worker during comparable periods in the downswing phases of 1974-77 and 1981-83.

In this context, it is to be remembered that the last-mentioned two downswings incorporated large portions of the wage "explosions" which accompanied and followed the gold booms and profit surges of 1973-74 and 1979-80; no similar "external" event can help to explain the upward tendency in the nominal wage per worker in the private sector since early 1989. In addition, this more recent surge in the money wage per worker has taken place in an employment situation in the formal sector of the economy that compares unfavourably with those of preceding downswing periods. These developments point to an "autonomous" element in recent money wage increases, which – together with inflation expectations – goes a major part of the way in explaining recent and current inflation in the South African economy.

Year-on-year increases in nominal salaries and wages per worker employed *by public authorities* reached relatively very high rates of 24,4, 17,7, 24,0 and 22,1 per cent in the four quarters of 1989, but fell back abruptly to only 6,0 per cent in the first quarter of 1990. It then reaccelerated to a high 19,0 per cent in the second quarter. As has been observed on earlier occasions, however, high variability in the rate of salary adjustments over one-year periods has been a long-standing feature of the labour scene in the public service. General salary and wage increases in the public sector in 1990 generally became effective only from the second quarter; in 1989, a number of major annual adjustments had applied from the beginning of the year.

The *real* wage per non-agricultural worker rose by 2,3 per cent in 1988 and by another 3,2 per cent in the early downswing year 1989. In the course of 1989 the quarterly year-on-year rate of increase in the average real wage rose from 2,0 per cent in the second quarter to 2,8 and 3,9 per cent in the third and the fourth quarter. However, in the first quarter of 1990 the marked dip in the year-on-year increase in the *nominal* wage per worker – which arose partly from the delay in public-sector salary adjustments already referred to – temporarily caused this increase to be exceeded by the year-on-year rise in the consumer price index. As a result, the average real wage in the first quarter of 1990 was 0,9 per cent lower than in the first quarter of 1989. This was the first decline in the real wage per worker over a four-quarter period since the third quarter of 1987. In the second quarter of 1990, however, the real wage per worker was again higher than one year earlier, by a significant 2,7 per cent.

Non-agricultural *labour productivity* rose by 0,9 per cent in 1987, by a fairly impressive 2,7 per cent in 1988, and by 1,1 per cent in 1989. On a quarterly basis, the year-on-year improvement in labour productivity shrank from 3,2 per cent in the fourth quarter of 1988 to 2,2 per cent in the second quarter of 1989 and to almost nil in the third quarter. Labour productivity then *declined* at year-on-year rates of 0,2, 1,2 and 1,0 per cent in the final quarter of 1989 and in the first two quarters of 1990.

Reflecting the accelerated 1989 rise in nominal wages and the slowing-down of productivity growth, *nominal labour costs per unit of physical production* rose by 17,1 per cent in 1989. The year-on-year rise in these costs quickened from 10,7 per cent in the fourth quarter of 1988 to disturbingly high rates of 18,4 and 19,6 per cent in the third and the fourth quarter of

1989. It then fell back to 15,3 per cent in the first quarter of 1990 (because of the drop in the year-on-year rise in the average money wage during that quarter), but reverted to 18,2 per cent in the second quarter.

The year-to-year rise in *real* unit labour costs rose to 2,0 per cent in 1989, mainly because of the slow-down in productivity growth during that year. Real unit labour costs still declined marginally (at a year-on-year rate of 0,2 per cent) in the second quarter of 1989, but increased at year-on-year rates of as much as 2,7 and 4,0 per cent in the third and the fourth quarter. In the first quarter of 1990, the fairly marked year-on-year drop in the average real wage of non-agricultural workers caused the year-on-year rise in real unit labour costs to shrink to 0,3 per cent. However, this rate of increase then rebounded to a major 3,7 per cent in the ensuing three months.

Inflation

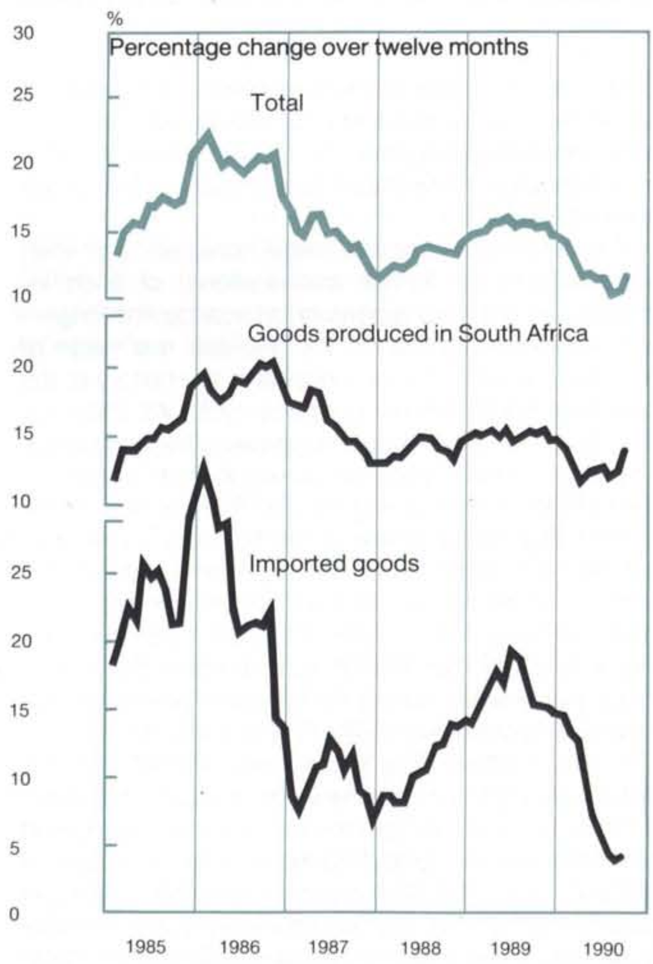
Reflecting the cooling-down of the economy, the various factors contributing to strengthening and stability of the exchange rate of the rand, and the direct and indirect effects of the authorities' explicit anti-inflationary policy attitude, inflation as measured by the major price indices slowed down significantly from approximately the middle of 1989 up to approximately July 1990. Inflation as measured by the twelve-month rate of increase in the production price index fell back at a notably impressive speed in the first quarter of 1990 in particular.

Military-political developments in the Middle East from early August 1990 and their effects on international crude oil prices and on the domestic prices of liquid fuels, caused an interruption and reversal of the downward tendency in the domestic inflation rates. Increases of 8,5 and 9,8 per cent in the domestic prices of petrol and diesel fuel were imposed by the National Energy Council with effect from 4 September 1990; these increases are estimated to have raised the consumer price index directly by 0,5 per cent. Further increases in liquid fuel prices – ranging from 22,3 to 26,9 per cent – were announced in October 1990. These more recent increases were projected to raise the consumer price index directly by another 1,2 per cent. However, because of subsequent declines in the international crude oil prices, the price of petrol was lowered again (by 9,6 per cent) with effect from 12 November 1990.

As observed earlier, "autonomous" cost-push pressures on the general price level are also being exerted by the stepped-up level of trade union activity and militancy in the currently prevailing business situation. Unofficial survey results indicate that trade unions in the first half of 1990 succeeded in negotiating annual nominal wage increases *for their members* which on average amounted to more than 20 per cent. To the extent that wage claims seek compensation for *past* inflation, the average level of these wage settlements may be compared with increases of 14,5 and 12,1 per cent in the average levels of the consumer price index and the production price index from the first half of 1989 to the first half of 1990. To the extent that wage claims seek to provide protection against *expected* inflation, it may be noted that current projections of consumer price inflation from the first half of 1990 to the first half of 1991 generally fall well short of 20 per cent.

The quarter-to-quarter rate of increase in the prices of *imported goods* declined dramatically from the second quarter of 1989 to the second quarter of 1990. This was a reflection of still fairly limited inflation in the countries of origin of South African import goods, a high degree of stability of the exchange rate of the rand from the third quarter of 1989, and the lowering of the import surcharges in the Central Government's Budget for 1990/91. Quarter-to-quarter increases in the prices of imported goods fell back, on balance, from a seasonally adjusted and annualised rate of 26,8 per

Production prices



cent in the second quarter of 1989 to 7,5 per cent in the first quarter of 1990; this rate then shrank further to only 2,9 per cent in the second quarter of 1990. Approximate stability in the prices of imported goods (i.e. an annualised rate of increase of only 0,5 per cent) was attained in the third quarter, despite the third-quarter rise in the world prices of crude oil.

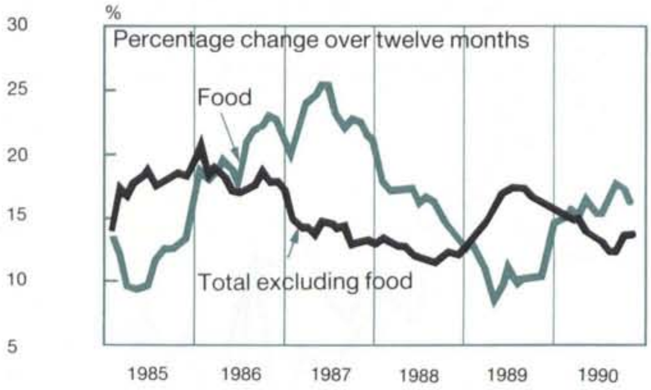
The *twelve-month* rate of increase in the prices of imported goods retreated from its most recent peak of 19,3 per cent in June 1989 to only 4,1 and 4,4 per cent in August and September 1990. The twelve-month rates of increase in these prices as in August and September 1990 were the lowest such increases since the increase of 3,9 per cent in May 1984.

The quarter-to-quarter increase in the prices of *domestically produced goods* slowed down from a seasonally adjusted and annualised rate of 18,1 per cent in the first quarter of 1989 to 9,7 per cent in the first quarter of 1990. It then reaccelerated sharply but briefly to 14,2 per cent in the second quarter of 1990, but declined again to 13,8 per cent in the third quarter. The *twelve-month* rate of increase in domestic production prices retreated from its 1989 peak of 15,4 per cent in May of that year to 11,6 per cent in July 1990. The subsequent reacceleration of this rate to 13,6 per cent in September 1990 was due to more rapid increases in the prices of a broad range of domestically produced goods, which included sharp rises in electricity, gas and water tariffs as well as in the prices of petroleum products and coal.

The quarter-to-quarter rate of increase in the total *production price index* (which essentially replicates movements in the price index for domestically produced goods, but currently does so at a somewhat lower level) declined from a seasonally adjusted and annualised level of 17,9 per cent in the second quarter of 1989 to a single-digit figure (9,2 per cent) in the first quarter of 1990, but reaccelerated to 11,8 per cent in the second quarter. It then returned to 11,2 per cent in the third quarter. The *twelve-month* rate of increase in the production price index declined encouragingly from its high point of 15,8 per cent in May 1989 to 11,6 per cent in March and April 1990 and to only 10,3 per cent in July. It then reaccelerated marginally to 10,5 per cent in August and abruptly to 11,8 per cent in September.

The quarter-to-quarter rate of increase in the *consumer price index*, seasonally adjusted and annualised, retreated from its recent high point of 18,0 per cent in the second quarter of 1989 to 13,1 per cent in the second quarter of 1990. This downward movement through less than five percentage points clearly failed to match the more impressive decline (of close to nine percentage points) in the rate of increase in production prices from the second quarter of 1989 to the first quarter of 1990. In the third quarter of 1990 the annualised quarter-to-quarter rise in the consumer price index reaccelerated to 13,6 per cent, mainly because

Consumer prices



of more rapid increases in the prices of foodstuffs (especially meat), motor vehicles and transport services.

From the second quarter of 1989 to the third quarter of 1990 – with the exception of the first quarter of 1990 – the quarter-to-quarter rates of increase in the prices of consumer *goods* were consistently higher than the corresponding rates of increase in the prices of consumer *services*. The quarter-to-quarter rate of increase in the prices of consumer *goods* receded, on balance, from its high point of 18,4 per cent in the second quarter of 1989 to a low point of 13,8 per cent in the second quarter of 1990, but reaccelerated to as much as 17,4 per cent in the third quarter of 1990. In contrast, the quarter-to-quarter rate of increase in the prices of consumer *services* fell back, on balance, from its high point of 17,2 per cent in the *first* quarter of 1989 to 11,4 per cent in the second quarter of 1990; it then *declined further* to a comparatively modest 6,6 per cent in the third quarter of 1990.

The *twelve-month* rate of increase in the consumer price index decreased from its 1989 peak of 15,7 per cent in June of that year to 13,3 per cent in July 1990. This comparatively modest decline served to make clear that relatively little progress was, as yet, being made in subduing the inflation in consumer prices as most commonly measured. The twelve-month rate of increase in consumer prices then reaccelerated to 13,6 per cent in August 1990 (prior to the effect of the oil and fuel price increases), and to 14,3 per cent in September, but retreated slightly to 14,0 per cent in October.

The stubbornness of inflation in consumer *goods* prices (in addition to the effect on these prices of the conflict situation in the Middle East) also accounted for the reacceleration of overall consumer price inflation in August-September 1990. The twelve-month rates of increase in the prices of *foodstuffs* and of consumer *goods* as in September and October 1990 amounted to 17,3 and 15,9 per cent and to 16,0 and 15,2 per cent respectively, compared with the twelve-month rates of increase of 14,3 and 14,0 per cent in the overall consumer price index in these two months. In contrast, the twelve-month rates of increase in the prices of consumer *services* as in September and October 1990 were still at a rather lower level of 11,5 and 12,0 per cent.

Balance of payments and exchange rates

Current account

The surplus on the South African balance of payments on current account narrowed from R5,6 billion (seasonally adjusted and annualised) in the first quarter of 1990 to R3,6 billion in the second quarter. It then widened significantly again to R4,2 billion in the third quarter of 1990, despite the mild further rise in real gross domestic expenditure during this period.

The current account surplus in the third quarter of 1990 mildly exceeded the R4,0 billion average of the five preceding quarterly surpluses in the 1989-90 downswing to date. *Before* seasonal adjustment and annualisation, the cumulative surplus in the first three quarters of 1990 amounted to R3,5 billion. This may be compared with the surplus of R3,1 billion in the full calendar year 1989.

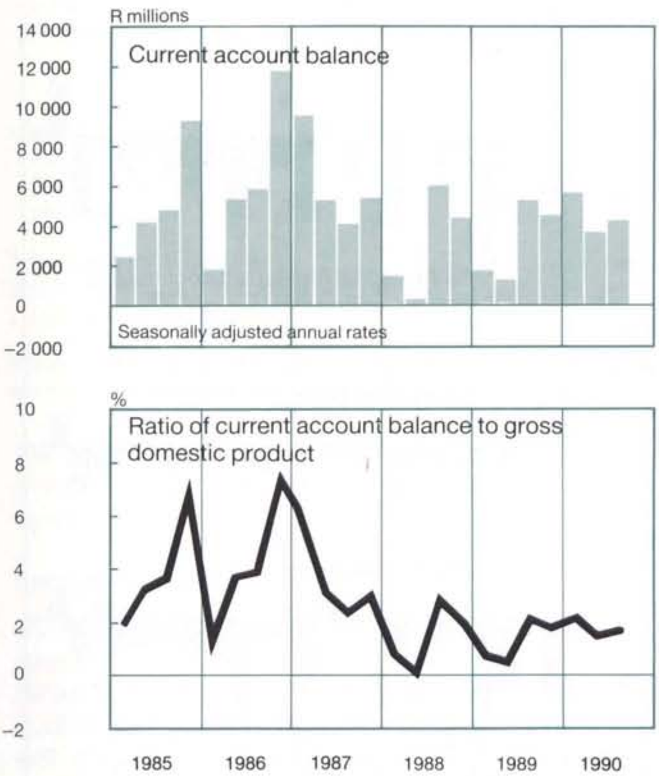
The third-quarter strengthening of the current account surplus was explained essentially by an increase of some 8½ per cent in the value of merchandise exports, to a near-record level (seasonally adjusted and annualised) of R42,9 billion. Supported by a slight further *de*crease in net service and transfer payments to non-residents, this rise in the value of merchandise exports outweighed the combined effect of a 5½ per cent rise in the value of merchandise imports and a 2½ per cent *de*crease in the value of the net gold exports.

The marked rise in the value of *merchandise exports*, seasonally adjusted and annualised, from R39,5 billion in the second quarter of 1990 to R42,9 billion in the third quarter, was accounted for by significant increases in export volumes as well as export prices. Mainly because of larger quantities of exports of precious metals and transport equipment, the aggregate *volume* of merchandise exports rose by nearly 5 per cent from the second to the third quarter of 1990, to its third-highest level ever recorded; the third-quarter volume of exports, moreover, was only marginally lower than export volumes at their two record peaks in the first quarter of 1990 and the second quarter of

Balance of payments on current account
Seasonally adjusted annual rates
R millions

	1989	1990		
	Year	1st qr	2nd qr	3rd qr
Merchandise exports	39 085	41 660	39 527	42 852
Net gold exports	19 228	17 793	18 500	18 008
Merchandise imports	–44 322	–43 577	–44 140	–46 503
Net service and transfer payments	–10 883	–10 299	–10 264	–10 125
Balance on current account	3 108	5 577	3 623	4 232

Balance of payments



Real merchandise imports and exports

1989. As a result, the average level of exports by volume in the first three quarters of 1990 was some 5½ per cent higher than in the first three quarters of the preceding year.

The average level of merchandise export *prices* rose by 3½ per cent from the second to the third quarter of 1990. This fairly significant firming of the export price level arose, firstly, from a small recovery in international commodity prices (notably of rhodium, nickel and ferro-manganese) and, secondly, from a 1,2 per cent decline in the average effective exchange value of the rand. Contrary to developments during the oil crises of 1973-74 and 1979-80, the international prices of oil substitutes such as coal and uranium failed to respond to the Middle East crisis situation in the first two months after Iraq's invasion of Kuwait.

The 5½ per cent increase in the value of *merchandise imports* from the second to the third quarter of 1990 was more than fully explained by a 9½ per cent rise in the *volume* of these imports. Surprisingly, the *volume* of merchandise imports in the third quarter of 1990 (i.e. in the sixth quarter of the current cyclical slow-down) was at its second-highest level since the early 1980s, being exceeded in this period only by the volume of imports in the second quarter of 1989; the *value* of imports was at an all-time record level but for its level in the second quarter of 1989. The import penetration ratio (i.e. the ratio of real merchandise imports to real gross domestic expenditure) in the third quarter of 1990 was similarly at its second-highest level since late 1986. At 24,3 per cent, this ratio was also significantly higher than its average value of 22,8 per cent in the advanced upswing year 1988.

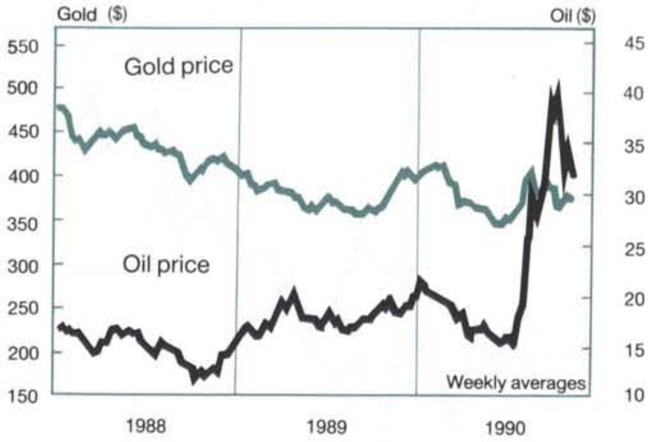
To an important extent, however, the rise in and high level of import volumes in the third quarter of 1990 were due only to increases in the quantity of imports of mineral products. Even when mineral products are *in*cluded, the *average* level of imports by volume in the first *three* quarters of 1990 was some 3½ per cent lower than in the first three quarters of 1989. When mineral products are *ex*cluded, the aggregate volume of merchandise imports declined from the second to the third quarter of 1990; the *average* level of physical imports excluding mineral products was a significant 8 per cent lower in the first three quarters of 1990 than in the first three quarters of the preceding year.

The average level of import *prices* was 3½ per cent lower in the third quarter of 1990 than in the second quarter. It had, therefore, not yet been affected materially by the surge in the world prices of crude oil from the last week of July onwards.

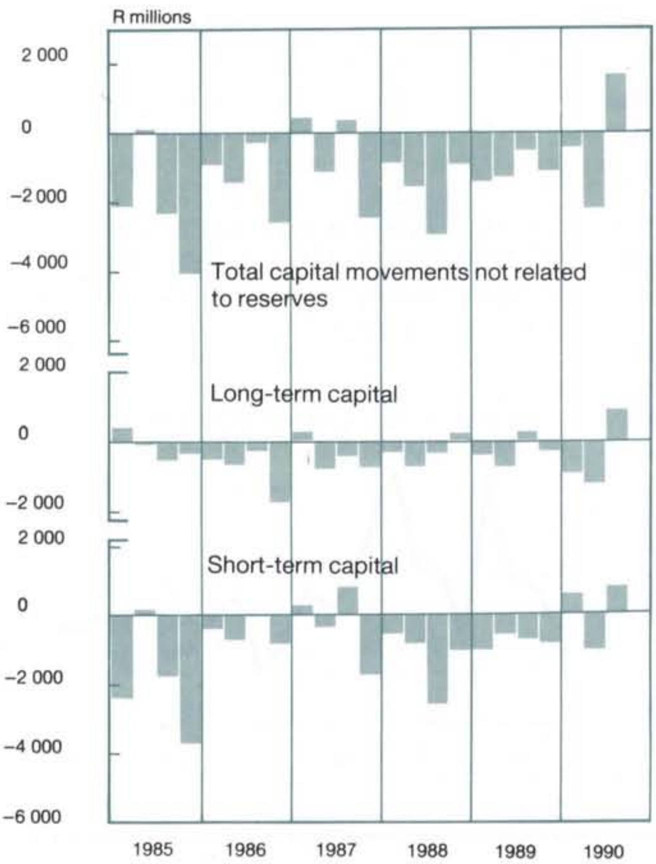
The value of the *net gold exports*, seasonally adjusted and annualised, declined from R18,5 billion in the second quarter of 1990 to R18,0 billion in the third quarter, despite a firming of the quarterly average price of gold from US$365 to US$382 and from R970 to R990 per fine ounce between these two periods.

The daily average fixing price of gold rose from its low point during 1990 to date of $346 per fine ounce on

Gold and oil prices



Net capital movements



14 June, and from $360 on 20 July (prior to the Iraqi occupation of Kuwait), to a high point of $414 on 23 August. It fell back, however, to levels of less than $370 on 17 October. During the period from 1 January 1990 to the end of October the average daily fixing price of gold amounted to $384 per fine ounce.

Net service and transfer payments to non-residents, seasonally adjusted and annualised, reached an all-time record high of R12,0 billion in the fourth quarter of 1989, but retreated to R10,3 billion in both the first and the second quarter of 1990 and slightly further to R10,1 billion in the third quarter. Increases in payments to non-residents arose from higher South African travel expenditures in foreign countries and from higher freight and insurance charges that were associated with the high level of merchandise imports. These increases were marginally outweighed, however, by increased receipts of dividends and interest from foreign parties and by lower interest payments on South Africa's foreign debt.

Capital account

An *in*flow of capital not related to reserves was registered on the capital account of the balance of payments in the third quarter of 1990 for the first time since the third quarter of 1987. *Out*flows of capital of R0,4 billion and R2,2 billion had been recorded in the first and the second quarter of 1990; the net *in*flow of capital of R1,5 billion in the third quarter accordingly reduced the cumulative net outflow in the first three quarters of 1990 to R1,1 billion. This may be compared with total net outflows of non-reserve-related capital of R3,2 billion and R4,3 billion in the first three quarters of 1989 and in the full year 1989 respectively.

The total net inflow of non-reserve-related capital in the third quarter of 1990 comprised change-overs from outflows to inflows of both long-term and short-term capital. *Long-term* capital movements switched from an outflow of as much as R1,2 billion in the second quarter of 1990 to an inflow of R0,8 billion in the third quarter; most of this inflow consisted of project financing by public business enterprises, public corporations and the private sector. The amount of foreign debt (both inside and outside the standstill net) falling due for repayment shrank from approximately US$1,2 billion in the second quarter of 1990 to US$0,4 billion in the third quarter. By far the greater part of the third-quarter amount of repayment obligations consisted of debt outside the standstill net in the form of maturing bearer bonds and notes.

Short-term capital movements (excluding changes in reserve-related liabilities, but including unrecorded transactions) switched from an outflow of R1,0 billion in the second quarter of 1990 to a significant inflow of R0,7 billion in the third quarter; this was the largest such inflow since the third quarter of 1987. Most of the inflow in the third quarter of 1990 consisted of trade financing, reflecting the high level of imports and depreciation of the dollar during that quarter. The cumulative net inflow of R0,3 billion of short-term capital in

Net capital movements (not related to reserves)
R millions

	1989	1990		
	Year	1st qr	2nd qr	3rd qr
Long-term capital				
Public authorities	–646	–206	–673	47
Public corporations	436	473	–35	279
Private sector	–1 020	–1 204	–482	495
Total long-term capital	**–1 230**	**–937**	**–1 190**	**821**
Short-term capital including unrecorded transactions, but excluding reserve-related liabilities	–3 115	531	–1 000	721
Total capital movements excluding liabilities related to reserves	**–4 345**	**–406**	**–2 190**	**1 542**

the first three quarters of 1990 may be compared with a total net outflow of R2,3 billion in the first three quarters of 1989.

Foreign reserves

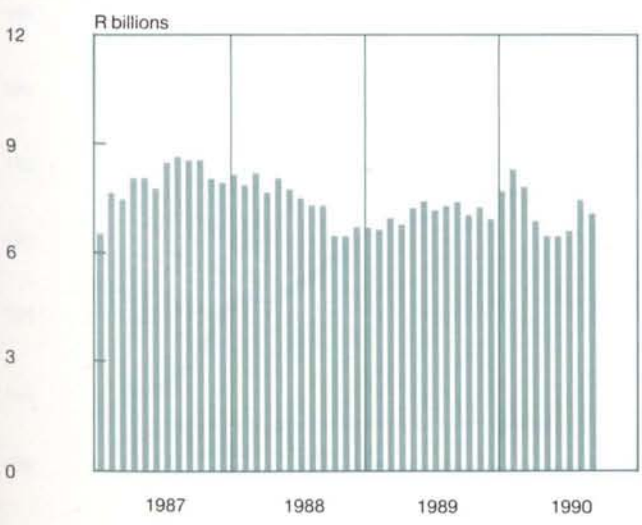
South Africa's total *net* gold and other foreign reserves rose by R1,9 billion in the first quarter of 1990, but declined by R1,4 billion in the second quarter. In the third quarter the current account surplus, in conjunction with the largest total net inflow of non-reserve-related capital since the fourth quarter of 1982, caused the total net foreign reserves to rise by R2,0 billion. The net rise in the net reserves in the first nine months of 1990 accordingly amounted to R2,5 billion. This followed a decline of R1,2 billion in the net foreign reserves during the year 1989.

The improved balance of payments position in the third quarter of 1990 enabled the authorities to reduce their reserve-related liabilities by R1,6 billion. Despite this decline in short-term foreign obligations, South Africa's total *gross* gold and other foreign reserves still rose by R0,6 billion in the third quarter. In October the gross and net foreign reserves of the Reserve Bank rose by R0,4 billion and R0,9 billion respectively.

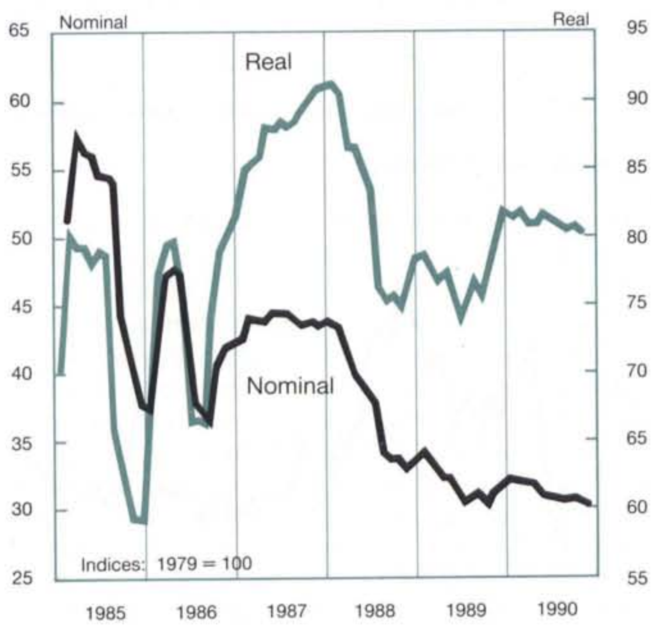
Exchange rates

The international exchange markets were affected during the four and a half months from 1 July 1990 to mid-November by general weakness of the US dollar, the United Kingdom's anticipated – and, eventually, actual – joining of the Exchange Rate Mechanism of

Gross gold and other foreign reserves



Effective exchange rate of the rand



Changes in exchange rates of the rand
%

	18 Sept 1989 to 15 Nov 1990	30 Jun 1990 to 15 Nov 1990
Weighted average	0,7	–1,0
US dollar	11,8	5,1
British pound	–10,6	–6,6
German mark	–16,0	–7,3
Swiss franc	–17,5	–7,4
Japanese yen	–1,2	–11,0
French franc	–16,1	–7,0
Financial rand	14,3	14,9

the European Monetary System, and the effects of the crisis situation in the area surrounding the Persian Gulf.

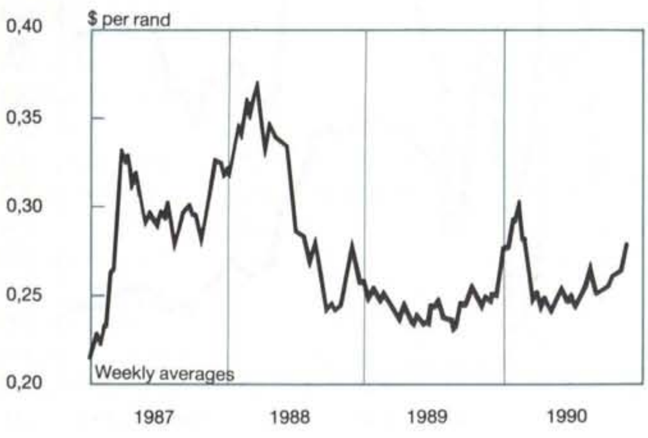
From the beginning of July 1990 until 15 November the US dollar depreciated by 11,8 per cent, 11,2 per cent and 15,3 per cent against the German mark, sterling and the Japanese yen respectively. New all-time lows of the US dollar were recorded against the German mark and the Swiss franc during this period.

The appreciation of the rand against the US dollar from 1 July 1990 to 15 November amounted to some 5,1 per cent. However, this rise in the dollar value of the rand did not prevent the rand from depreciating against all other major currencies. The effective exchange rate of the rand accordingly declined by 1,0 per cent during the four and a half months concerned. As on 15 November, the effective exchange rate of the rand was still 0,7 per cent above its low point of 18 September 1989.

The average *real* effective exchange rate of the rand declined by 0,8 per cent from June 1990 to September 1990 and was 1,3 per cent lower in September 1990 than in December 1989. Also in September 1990, it was, however, still a significant 7,0 per cent higher than at its lower turning-point in September 1989.

Except for its behaviour during a few days in early February 1990, the *financial* rand broadly followed the trend of the commercial rand against the US dollar. As a result, the discount of the financial rand against the commercial rand fluctuated around a relatively stable 35 per cent during most of the year. From the beginning of October 1990, however, the financial rand firmed somewhat on more positive sentiments which arose, among other things, from overseas visits by the State President. As on 15 November the financial rand's discount vis-à-vis the commercial rand stood at 28,4 per cent.

Financial rand in US dollar



Financial markets

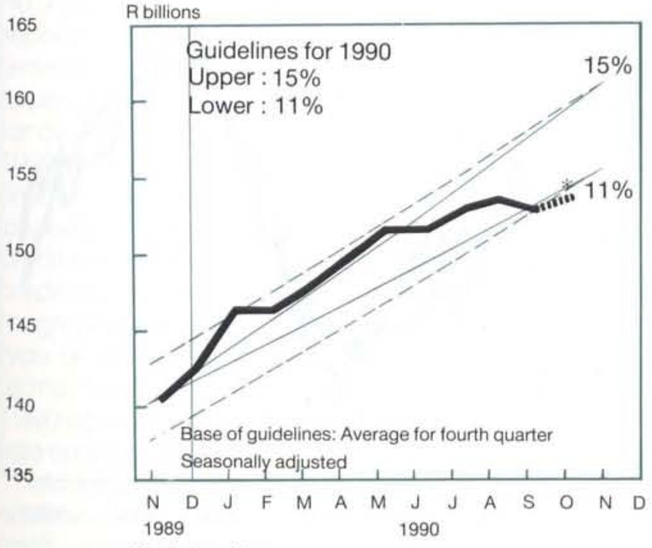
Money supply

Having exceeded the upper limits of the target ranges in 1988, 1989 and the first five months of 1990, the growth rate of the M3 money supply as measured for targeting or guideline purposes moved back into the guideline range from June 1990 onwards. The seasonally adjusted and annualised rate of increase in M3 from its quarterly average in the fourth quarter of 1989 to its level as at the end of June 1990 amounted to 13,8 per cent. The corresponding rates of increase in M3 to the ends of July, August and September 1990 subsequently amounted to 13,5, 12,6 and 10,7 per cent. At the end of September 1990, therefore, the growth rate of M3 had actually penetrated – from above – the *lower* limit of the 1990 guideline range of 11 to 15 per cent.

The *twelve-month* rate of increase in M3, which had peaked at 27,5 per cent in August 1988, had declined to 19,1 per cent by May 1990. In June, July, August and September this rate of increase fell back progressively further to 16,6, 15,8, 14,0 and 12,9 per cent. These five most recently recorded rates of increase in M3 over twelve-month periods were the first such rates to fall below the 20 per cent level after a 26-month interlude.

More dramatic evidence of the slowing-down of the monetary expansion in recent months was provided by the drop in the seasonally adjusted and annualised *quarter-to-quarter* rate of increase in the quarterly average of the M3 money supply. Having amounted to 26,7 per cent as recently as the third quarter of 1989

Guidelines for growth in M3



*Preliminary figure

and to 19,0 per cent in the first quarter of 1990, this rate retreated sharply further to 12,2 per cent in the second quarter of 1990 and to a single-digit level (7,2 per cent) in the third quarter.

Quarter-to-quarter growth in M3 at annualised rates of 12,2 and 7,2 per cent in the two most recently completed calendar quarters fell short of the annualised quarter-to-quarter growth in the gross domestic product at current prices. As a result, the velocity of circulation of the M3 money supply – which had declined, on balance, by more than 13 per cent from 1,96 in the third quarter of 1987 to only 1,70 in the first quarter of 1990 - assumed an upward course again from the second quarter of 1990. M3's velocity rose by some 1,0 per cent in both the second and the third quarter of 1990.

The declines in the various rates of increase in the M3 money supply primarily reflected the effects of the mild slackening of real economic activity, and of the abatement of inflation from approximately mid-1989 to approximately mid-1990, on the demand for money balances for transaction purposes. At the same time changes in the interest rate climate meant a weakening of the inducements to reintermediation and of the reasons for accumulating liquid deposits as financial asset holdings. By the third quarter of 1990, expectations of interest rate declines had probably already started to reduce "liquidity preference proper" and to call forth some *dis*intermediation phenomena. Some early disintermediation may also have resulted from financial intermediaries' lowering of certain deposit rates, relative to their lending rates, with a view to restoring interest rate margins. More recently, however, various developments (the Middle East crisis, the renewed rise in the measured inflation rates, and policy pronouncements by the authorities) are likely to have given rise to expectations of a period of little change in short-term interest rates.

Against the various factors conducive to disintermediation, certain considerations argued for investment in *medium-term* and *long-term* deposits. Such considerations included the likelihood of eventual interest rates reductions, changes or prospective changes in the taxation of interest earnings, and the diminished attractiveness of the share market and unit trusts as financial investment media.

The M1A money supply, being more transactions-related than M3 and consisting of non-interest-earning or low-interest-earning forms of money holdings, rose at twelve-month rates of increase of around 10 per cent from approximately April 1989 onwards and continued to do so in the third quarter of 1990. In September 1990 this rate amounted to 9,7 per cent. The corresponding rate of increase in M1 was 6,8 per cent. The twelve-month rate of increase in M2 as in September 1990 still amounted to a comparatively substantial 13,5 per cent; this rate of increase therefore still approximated the more recently measured inflation rates.

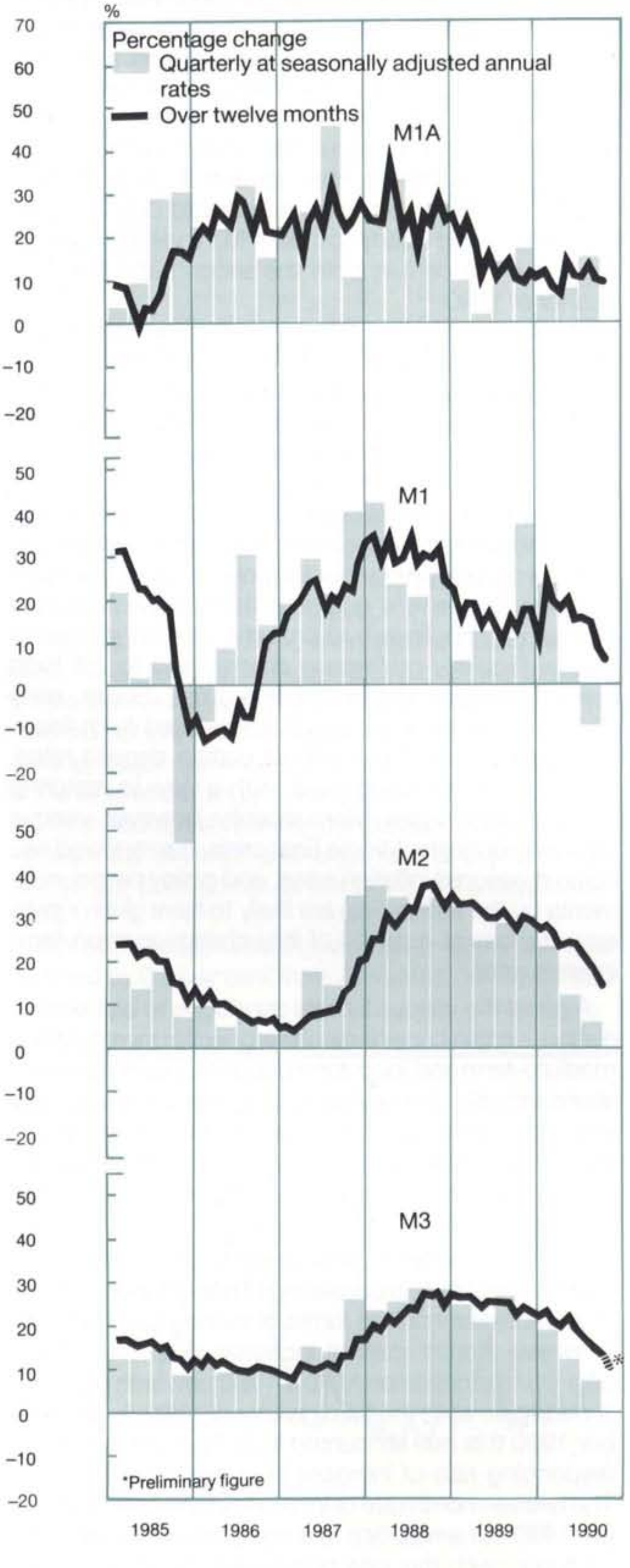
In the statistical or accounting sense, the seasonally adjusted increase of R1,3 billion in M3 from the end of June 1990 to the end of September was again explained more than fully by increases in the money-creating institutions' claims on the domestic private sector; the total rise in these claims, seasonally adjusted, amounted to R2,3 billion between the two quarter-ends concerned. In addition, the monetary system's net gold and other foreign reserve holdings, which had declined by a seasonally adjusted R0,8 billion in the second quarter of 1990, rose by R1,6 billion in the third quarter. *Negative* contributions to the accounting explanation of the third-quarter increase in M3 were, on the other hand, made by a decline of R0,4 billion in the monetary sector's seasonally adjusted net claims on the government sector and by a decline of R1,6 billion (not seasonally adjusted) in the monetary sector's "net other asset" holdings.

A part of the decline in the money-creating institutions' net other assets during the third quarter of 1990 could be attributed to surpluses experienced by the Reserve Bank – acting on behalf of the Treasury – in its provision of forward foreign exchange cover; surpluses of this nature result in credit balances on the Reserve Bank's so-called Forward Exchange Contracts Adjustment Account.

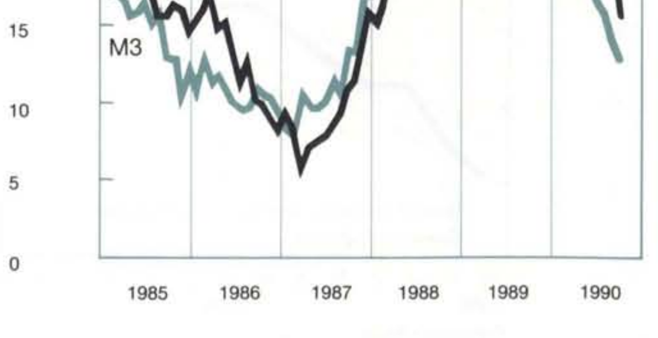
Credit extension by monetary institutions

The twelve-month rate of increase in credit extended by monetary institutions to the domestic private sector, which had peaked at 30,2 per cent in October 1988,

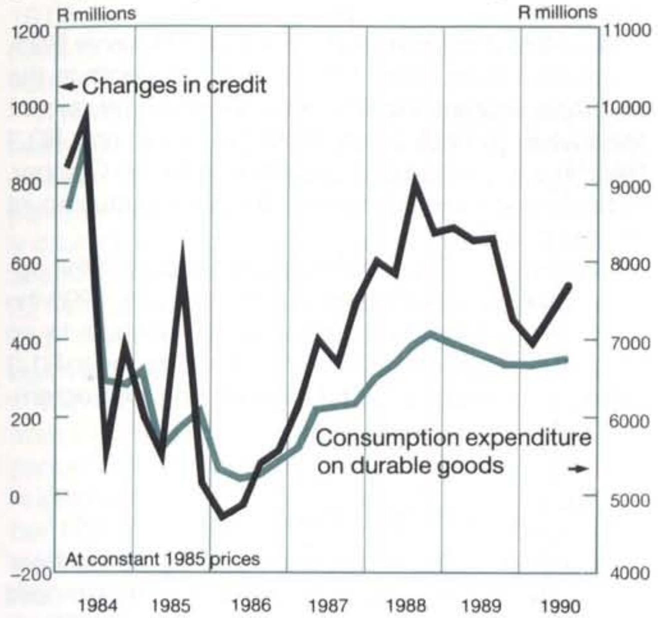
Monetary aggregates



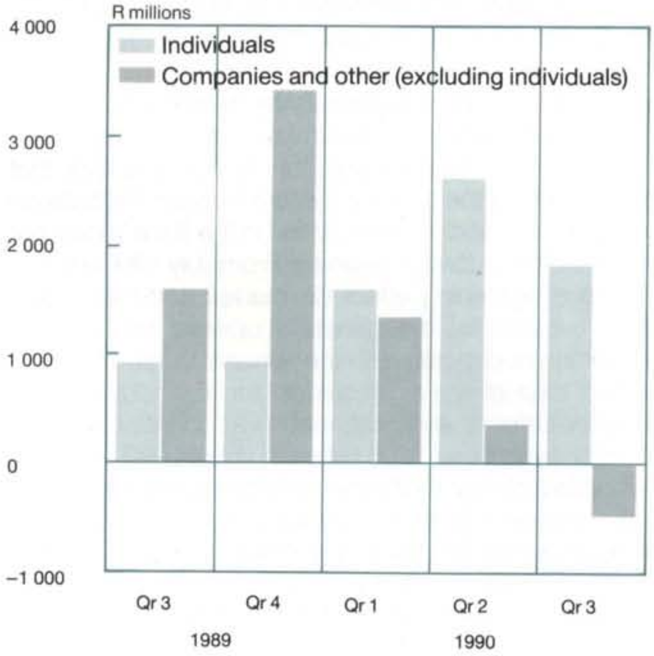
M3 and credit extension to private sector by monetary institutions



Private consumption expenditure on durable goods and changes in hire-purchase credit and leasing finance



Changes in banks' general and mortgage advances to individuals and other private sector borrowers



slackened, on balance, to 20,6 per cent in December 1989 and eventually to 18,4 per cent in August and 15,4 per cent in September 1990. However, at these levels the more recent rates of increase in the money-creating institutions' claims on the private sector over twelve-month periods still exceeded both the more recently measured inflation rates and the rates of increase in the M3 money supply.

The total of the banks' *hire-purchase credit and leasing finance* granted, which is closely related to households' spending on consumer durables and businesses' spending on investment goods, rose by R0,9 billion, R1,1 billion and R1,4 billion in the first, the second and the third quarter of 1990 respectively. The firmness and rising trend of these increases would appear to suggest unexpected strength of private-sector demand for tangible assets of a capital nature; the 1990 increases in the banks' hire-purchase and leasing finance were, however, taking place from a relatively low base within the total of monetary institutions' total credit extension. The R1,4 billion rise in hire-purchase credit and leasing finance in the third quarter of 1990 roughly equalled the average quarterly increase in this type of credit during 1989 in *nominal* terms. In *real* terms, however, the increase in the third quarter of 1990 obviously was significantly smaller than the average quarterly increase in 1989.

Mortgage advances by the banks and the building societies rose by approximately R2,1 billion during each of the first three quarters of 1990, against an average quarterly increase of R2,2 billion in 1989. From the second quarter of 1990, increases in the monetary institutions' *general and mortgage* advances tended to be concentrated to a growing extent in lending to individuals and households rather than to corporate clients; this would appear to have been accounted for partly by the relative importance of mortgage lending to individuals. A slackening of corporate credit demand was reported by banking institutions in the third quarter of 1990, and the average level of banks' general and mortgage advances to companies in the private sector actually declined marginally (by R0,4 billion) from the second to the third quarter. At the same time, however, the banks also noted a need for a continued "carrying" of certain corporate clients in straitened conditions; it may be observed that in the absence of adequate cash flow for debt repayment, the debiting and capitalisation of interest would by itself cause corporate clients' indebtedness to their banking institutions to rise by close to 2 per cent per month.

Debit balances on clients' *credit card accounts* amounted to only 2,0 per cent of monetary institutions' total claims on the private sector at the end of September 1990. However, from the end of September 1989 to the end of September 1990 the outstanding amount of these balances rose by as much as 25,0 per cent.

Money market conditions

Money market conditions were kept relatively tight during the sixteen months to November 1990 in accordance with the Reserve Bank's fairly stringent policy intentions and the explicitly anti-inflationary character of its policy stance. The average daily level of accommodation provided to the market at the Bank's discount window nevertheless eased from a high point of R4,8 billion in January 1990 to R3,0 billion in September and R2,9 billion in October.

Use was made occasionally by the Reserve Bank in the period August to November 1990 of foreign-exchange intervention swaps, for sterilising liquidity that was reaching the banking system through the balance of payments and the rising trend in the Bank's own net gold and other foreign reserves. From July 1990 a spontaneous tightening effect on market conditions was also exerted by the generally upward tendency in government deposits with the Reserve Bank. The combined total of the balances on the Exchequer, Paymaster-General and Stabilisation Accounts rose from a daily average of R8,6 billion in June 1990 to R10,7 billion in October. Tightening effects on market liquidity also resulted from the steadily rising trend in the amount of banknotes in circulation and from the fact that surpluses were being experienced by the Reserve Bank in its provision of forward foreign exchange cover.

Towards the middle of November, declining government deposits and increases in the Reserve Bank's net gold and other foreign exchange holdings contributed to a substantial easing of money market liquidity. In spite of intervention swaps amounting to R1,1 billion, discount window accommodation declined to a low point of R1,5 billion on 17 November. This was counteracted by the issuing on 19 November of special short-dated Treasury bills, repayable on 23 November, but which were renewed a few times, to an amount of R0,5 billion, and by further intervention swaps of R0,3 billion.

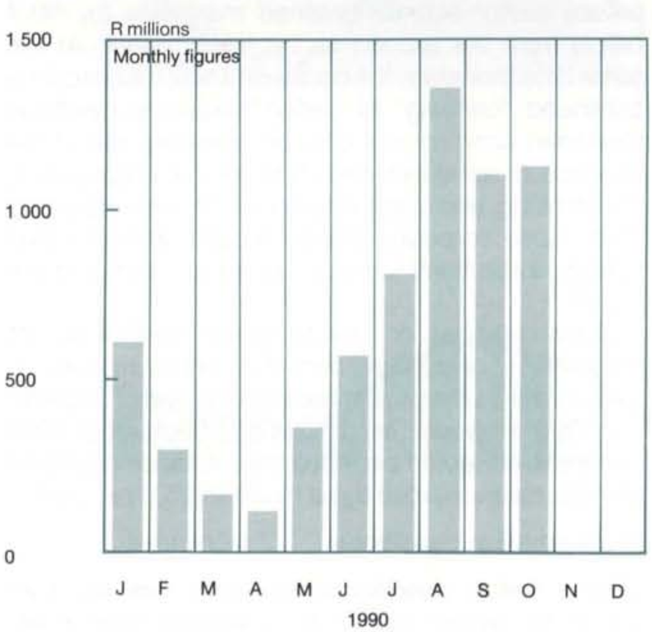
Net sales of government stock by the Reserve Bank contracted from nearly R1,3 billion per month in the first three months (April to June 1990) of the current fiscal year, to R0,8 billion, R0,9 billion and only R0,3 billion in July, August and September 1990. In October, net *purchases* were effected by the Bank to an amount of R0,3 billion.

The Bank continued to step up its activity in the options market in government securities. In July 1990 the Bank was a party to traded options contracts to an amount of R0,8 billion. This amount was raised to R1,3 billion, R1,1 billion and R1,1 billion in August, September and October respectively.

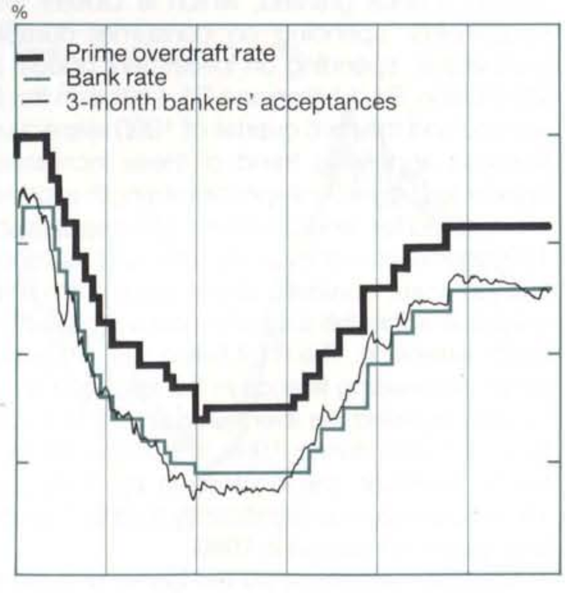
Money market interest rates

The market rate on three-month liquid bankers' acceptances fluctuated downwards from a high point of 18,80 per cent on 18 November 1989 to 18,30 per cent (the Reserve Bank's then and present rediscount rate for such acceptances) on 6 July 1990. By the middle of 1990 various factors (such as the acknowledged presence of recessionary conditions in the economy, the slowing-down of growth in M3, and the downward tendency in most inflation rates) gave rise to widely held views that a lowering of Bank rate was to be expected shortly. These views were reinforced by the modest strengthening of the dollar price of gold in

Government stock options traded by Reserve Bank



Short-term interest rates



July. As a result, the market rate on liquid acceptances declined further to levels lower than the Reserve Bank's rediscount rate for such acceptances: it amounted to 18,05 per cent at the end of July and reached a low point of 17,60 per cent (40 points below Bank rate) from 3 October.

A realisation that the Middle East crisis situation was more serious and might last longer than had been anticipated, deteriorating expectations of inflation, and policy pronouncements by the authorities, subsequently caused the market rate on three-month liquid acceptances to harden quite abruptly to 18,00 per cent from 22 October and to 18,20 per cent by the October month-end. However, this rate then softened significantly again to 17,85 per cent on 22 November.

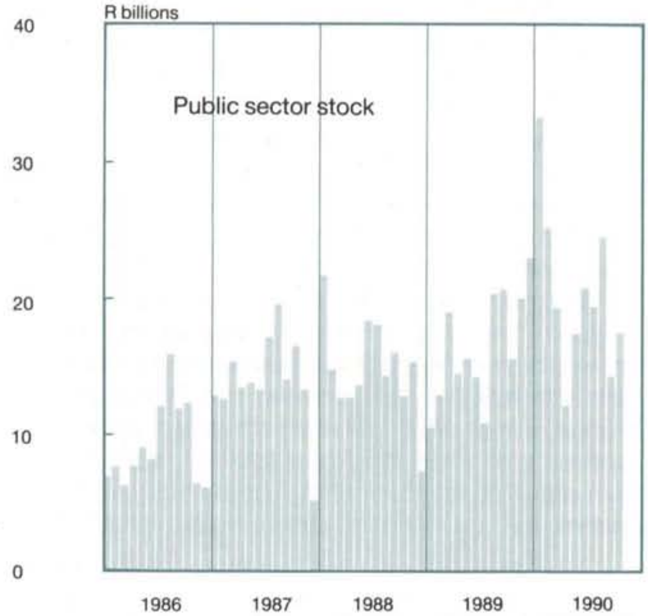
The discount houses' call rate declined substantially from 21,25 per cent at the end of June 1990 to 20,25 per cent at the end of July, 19,00 per cent at the end of August and only 18,35 per cent at the end of September 1990. In accordance with the market's reassessment of the prospects for short-term interest rates, this rate then rose to 19,25 per cent at the end of October. Round-tripping could still have been induced by the above-prime call rate at the end of June 1990. Since the end of June, however, call rates in the market have remained well below the clearing banks' prime overdraft rate.

Capital market developments

Trading activity in the secondary capital markets reached quite extraordinary heights in the first quarter of 1990, but fell back sharply in the second quarter. It then recovered in the third quarter to more or less the levels recorded in the final quarter of 1989. A marginal recovery was also registered in the volume of fixed property transactions. The monthly average level of share prices, which had turned downwards in March 1990 and had declined further during the second quarter, showed minor gains in July and August; share prices dropped again, however, from the fourth week in August, when the gold price fell back sharply from its then prevailing level of more than $400 per fine ounce. In the *primary* capital markets, the amount of new security issues eased somewhat in the third quarter of 1990, after having increased substantially in the preceding three months.

The value of *public sector stock* traded on the stock exchange rose from a high R58,1 billion in the fourth quarter of 1989 to a huge R77,3 billion in the first quarter of 1990. It then dropped by 35 per cent to R50,2 billion in the second quarter of 1990, but recovered to R58,1 billion in the third quarter. On a monthly basis, trading activity in the third quarter fell back from R24,5 billion in August to R14,3 billion in September, but recovered slightly to R17,5 billion in October. The value of these transactions in October was slightly lower than the average monthly turnover of

Stock exchange transactions



public sector stock of R19,3 billion from July to September.

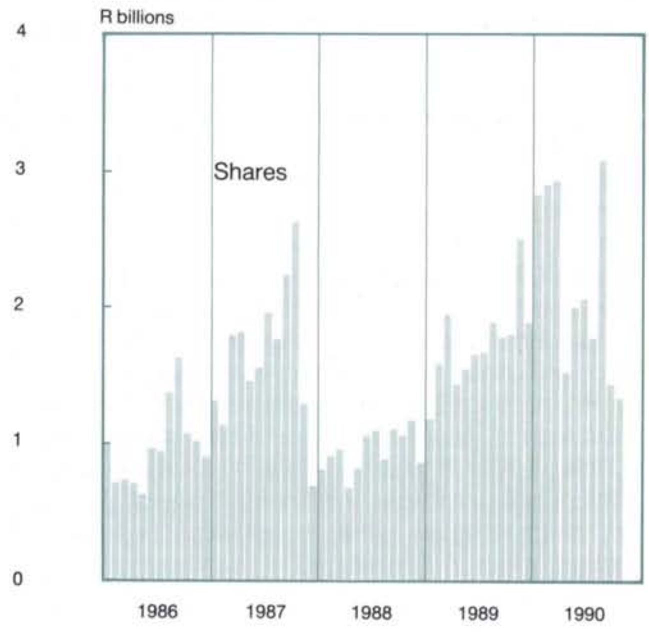
Net purchases of public sector stock *by non-residents* on the Johannesburg Stock Exchange retreated steadily from a quarterly total of R883 million in the fourth quarter of 1989 to R705 million in the first quarter of 1990 and to only R296 million and R311 million in the second and the third quarter. In October 1990 the amount of these purchases shrank further to R73 million, from a monthly average of R104 million in the preceding three months.

The *value of shares* traded on the stock exchange rose from a record R6,2 billion in the fourth quarter of 1989 to a new record of R8,6 billion in the first quarter of 1990. It then dropped by 36 per cent to R5,5 billion in the second quarter of 1990, but recovered to R6,2 billion in the third quarter; the third-quarter revival in trading activity arose from the Iraqi invasion of Kuwait, its effect on world oil prices and inflationary expectations, and its initially stimulating impact on the dollar price of gold.

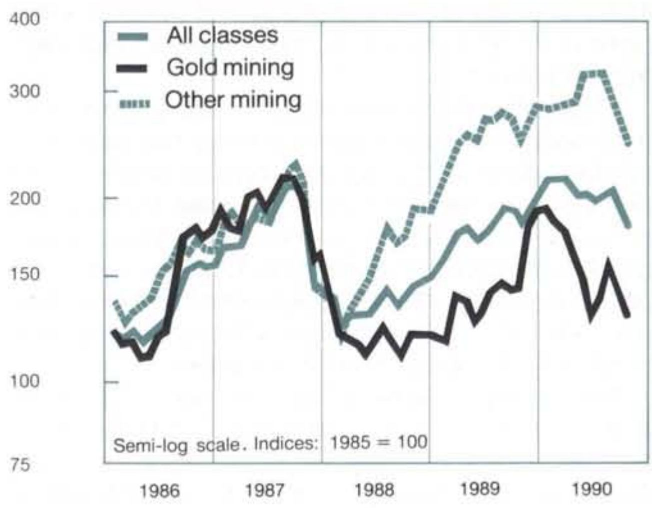
On a monthly basis, the value of transactions in shares fell back from an all-time high of R3,1 billion in August 1990 to less than half that amount (R1,4 billion and R1,3 billion) in September and October. Share-trading activity in October was, in fact, at its lowest ebb since January 1989.

The value of *net sales* of shares *by non-residents* on the Johannesburg Stock Exchange reached its peak only in the first quarter of 1990. This figure rose from R518 million in the fourth quarter of 1989 to as much as R2 832 million in the first quarter of 1990, but then

Stock exchange transactions



Share prices



declined sharply to R803 million in the second quarter and to only R273 million in the third quarter. However, non-residents returned to the market as large-scale sellers in October; their net sales of shares during that month amounted to R227 million.

The rapid dwindling of non-residents' net sales of shares in the middle quarters of 1990 caused non-residents' net sales of *both* stocks and shares to contract sharply from R2 127 million in the first quarter of 1990 to only R507 million in the second quarter and to be transformed briefly into net *purchases* (to an amount of R38 million) in the third quarter. However, net sales (to an amount of R154 million) were recorded again during October.

The average *price level* of all classes of shares rose by 7 per cent in the fourth quarter of 1989 and by another 4 per cent (on balance) in the first quarter of 1990. It then retreated by 7 per cent in the second quarter of 1990 and by a further 4 per cent in the third quarter: minor gains in the monthly averages of 2 per cent in July and 1 per cent in August were followed by major drops of 7 per cent in both September and October.

The 14 per cent decline in the average share price level in September-October 1990 was the largest price decline over a two-month period since the "crash" of October 1987. In October 1990 the monthly average price level of all classes of shares was 18 per cent lower than at its most recent (all-time) high point of February 1990, and 16 per cent lower than at its "pre-crash" high point of September 1987.

Major instability was displayed by *gold-mining* share prices. These prices dropped by 35 per cent from January 1990 to June but recovered by 24 per cent in July-August, notably after Iraq's invasion of Kuwait on 2 August. They then fell back by 10 per cent in September and by another 10 per cent in October, in the wake of the failure of the Gulf crisis to boost the dollar price of gold more durably and impressively.

Financial share prices rose on balance by 8 per cent in the first quarter of 1990 around a peak in February, weakened (by 3 per cent) in the second quarter, rose (by 2 per cent) in July, but fell back markedly again (by 6 per cent) in both September and October. The net decline in these prices from February to October amounted to 14 per cent. *Industrial and commercial* share prices also peaked in February 1990. They then declined by 2 per cent in the second quarter, 5 per cent in the third quarter and 4 per cent in October.

The value of deals in *futures contracts* rose abruptly (by 59 per cent) from an average of R2,2 billion per month in May-July 1990 to R3,1 billion in August, mainly in response to uncertainties created by the Middle East crisis situation. This was followed, however, by a relapse to R1,9 billion in September and a slight recovery to a more normal level of R2,3 billion in October.

In the *primary* capital markets, the amount of funds raised by borrowing entities in the public sector through new issues of fixed-interest securities to bank and non-bank private-sector investors, changed from a net debt *repayment* of R0,8 billion in the fourth quarter of 1989 to net new borrowings of R0,4 billion and R5,2 billion in the first and the second quarter of 1990. Net new borrowing then eased somewhat to R2,0 billion in the third quarter.

Private-sector companies made new issues of fixed-interest securities of only R60 million in the first quarter of 1990, R113 million in the second quarter and R233 million in the third quarter. Listed private companies made new issues of ordinary share capital of only R0,3 billion in the first quarter of 1990, of as much as R2,2 billion in the second quarter, and of R0,3 billion again in the third quarter.

In the *mortgage* market, mortgage loans paid out by the building societies, which had declined to R1,4 billion and R1,5 billion in the third and the fourth quarter of 1989, strengthened steadily to a level of R1,8 billion in both the first and the second quarter of 1990 and further to R2,2 billion in the third quarter of 1990. The increase in building societies' *holdings* of mortgage loans, which had amounted to R0,5 billion in both the third and the fourth quarter of 1989, rose to R0,6 billion in the first quarter of 1990, to R0,8 billion in the second quarter and to R1,0 billion in the third quarter. In contrast, the increase in *banking institutions'* holdings of mortgage loans declined slightly from R1,3 billion in the fourth quarter of 1989 to R1,2 billion in the first quarter of 1990, and even further to R0,9 billion in the second quarter. It then recovered slightly to R1,0 billion in the third quarter of 1990.

Increase in mortgage bond holdings

The value of *real estate transactions* strengthened from a record R5,7 billion in the fourth quarter of 1989 to a new high of R6,2 billion in the first quarter of 1990. It retreated to R5,7 billion again in the second quarter, but recovered slightly to R5,8 billion in the third quarter.

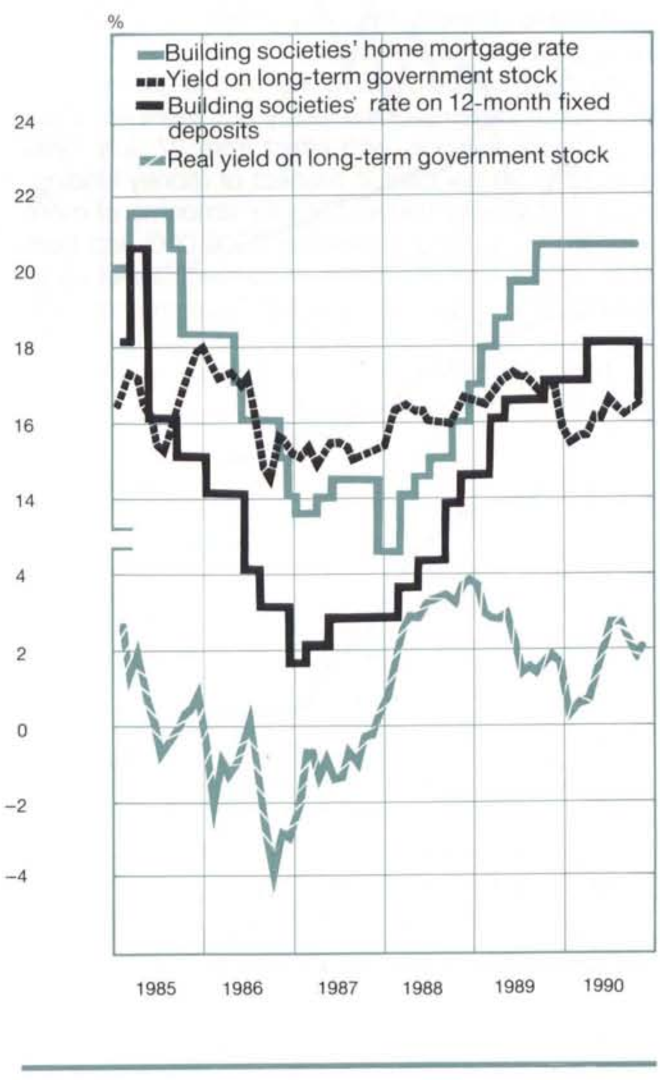
Capital market yields and interest rates

Capital market rates hardened from February to June 1990, but softened slightly in July-August in the light of expected declines in short-term interest rates, the downward tendency in most inflation rates, a slightly better dollar price of gold, and official efforts to improve the marketability of government stock. These rates then firmed slightly again in September-October, on the basis of gloomier inflation forecasts and diminishing prospects for an early easing of monetary policy.

The average monthly yield on long-term RSAs rose from 15,5 per cent in January 1990 to 16,7 per cent in June, but backed down slightly to 16,4 per cent and 16,3 per cent in July and August. It then returned to 16,4 per cent in September and 16,6 per cent in October.

The *real* interest yield on long-term government stock (i.e. the nominal rate after adjustment for the prevailing year-on-year inflation rate) rose, mainly as a result of the then declining inflation rate, from only 0,3 per cent in January 1990 to 2,7 per cent in July. A marginally lower nominal yield on long-term stock and a marginally higher twelve-month inflation rate then caused this rate to slip back to 2,4 per cent in August. In September the real long-term stock rate declined significantly further to 1,8 per cent, despite the marginally higher nominal yield on long-term government

Capital market interest rates and yields



securities. This was a reflection of the oilprice-induced reacceleration of the twelve-month inflation rate.

The monthly average *dividend yield* on all classes of shares rose, in line with the second-quarter weakening of share prices, from 5,3 per cent in March 1990 to 5,6 per cent in both July and August. It then advanced further to 6,0 per cent in September and 6,1 per cent in October. The average *earnings yield* on all classes of shares (excluding goldmining shares) eased from 15,4 per cent in December 1989 to 14,5 per cent in June 1990, but recovered to 15,3 per cent in September and 15,4 per cent in October.

The building societies' predominant *home mortgage rate*, which had been raised to 20,75 per cent in October 1989 from its previous level of 19,75 per cent, was maintained at this new level up to November 1990. This was the longest period in which no change was made in this rate since the period October 1975 to March 1979.

The predominant *rate on twelve-month deposits* with banks and building societies, which is regarded as representative of deposit rates in general, was lowered from 18,0 to 17,0 per cent in August 1990 and further to 16,5 per cent in October as part of these institutions' endeavours to restore somewhat more comfortable interest rate margins in a somewhat easier credit demand situation.

The maximum permissible *finance charges rates*, as determined in terms of the Usury Act, were reduced, for technical reasons, with effect from 27 July 1990 from 30 to 29 per cent in respect of money lending, credit and leasing transactions for amounts of more than R6 000 (but not exceeding R500 000) and from 33 to 32 per cent in respect of transactions of up to R6 000. The rates on *tax-free investments* with building societies, the Post Office Savings Bank and the Treasury have remained unchanged since being raised by 1,5 per cent in March 1990.

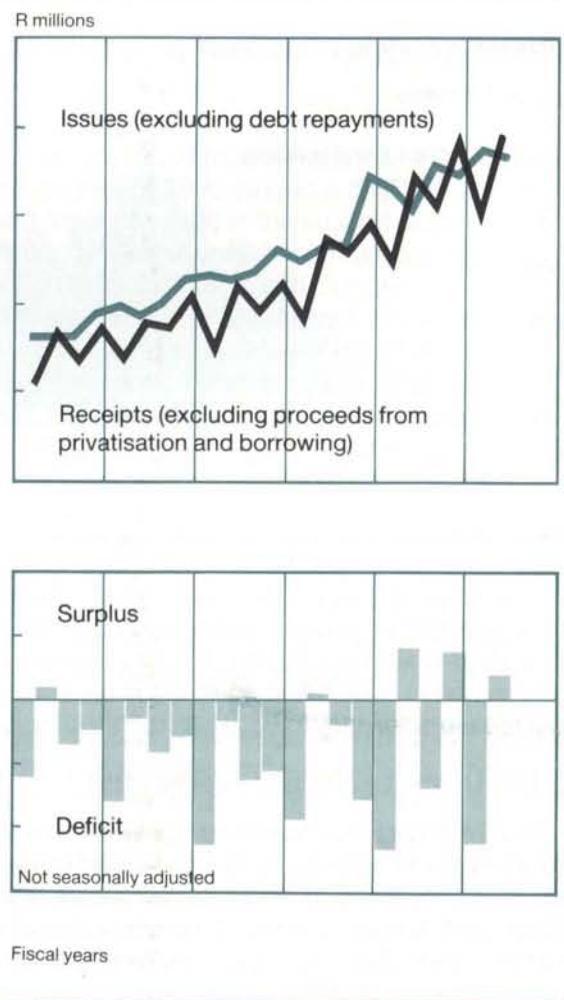
Government finance

Exchequer issues

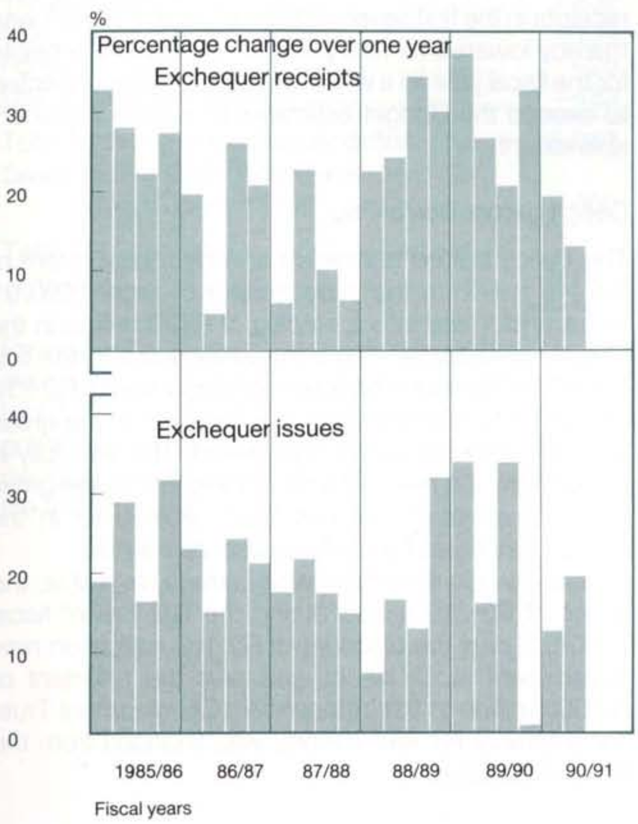
The year-on-year rate of increase in Exchequer issues to government departments (after the usual adjustment for changes in the balance on the Paymaster-General Account) accelerated markedly from 12,6 per cent in the first or June quarter of the fiscal year 1990/91 to 19,2 per cent in the September quarter. The year-on-year rate of increase in these issues in the first *half* of the fiscal year accordingly amounted to 15,8 per cent; this was well in excess of the increase in government expenditure of 11,9 per cent that had been envisaged in the Budget of March 1990 for the fiscal year as a whole. In *real* or inflation-adjusted terms the year-on-year increase in these issues during the first half of fiscal 1990/91 amounted to 1,7 per cent.

Exchequer issues to government departments in the first half of fiscal 1990/91 were equal to 50,9 per cent of total budgeted expenditure for the full fiscal

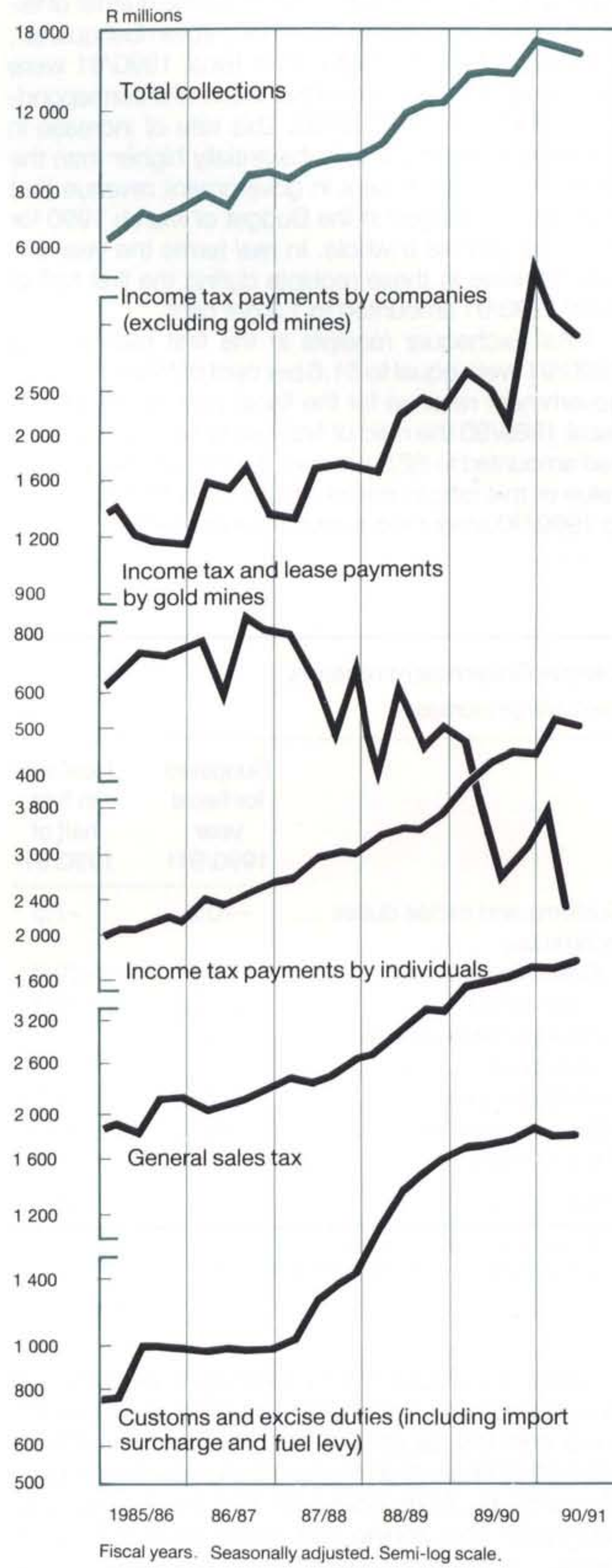
Exchequer Account



Exchequer receipts and issues



Revenue collections – State Revenue Fund



year. This may be compared with a value of this ratio of 49,4 per cent in fiscal 1989/90, as well as with an *average* value of this ratio in the four fiscal years from 1986/87 to 1989/90 which similarly amounted to 49,4 per cent.

Exchequer issues during the first half of fiscal 1990/91 that were considerably in excess of 50 per cent of the respective budgets for the fiscal year as a whole, were recorded in particular with regard to the Police vote and the Department of Finance. In the case of the Department of Finance, relatively heavy expenditure in the first half of the year could be attributed to unexpectedly large payments of interest on government debt. The Police experienced unanticipated expenditure needs on account of the unrest situation and because of improvements in salaries and related employment benefits that were announced for members of the force in April and June 1990.

In October 1990, the year-on-year rate of increase in Exchequer issues fell back significantly from the level it had reached in the September quarter. The year-on-year increase in these issues in the first *seven* months (April to October) of fiscal 1990/91 was thereby brought down to 12,4 per cent. Present indications are that Exchequer issues during the fiscal year as a whole are likely to exceed the Budget estimates for government expenditure by only a fairly modest amount.

Exchequer receipts

The year-on-year rate of increase in Exchequer receipts decreased from 19,1 per cent in the June quarter of fiscal 1990/91 to 12,8 per cent in the September quarter. Total receipts in the first half of fiscal 1990/91 were accordingly 15,4 per cent higher than in the corresponding period of fiscal 1989/90. This rate of increase in Exchequer receipts was substantially higher than the increase of 5,8 per cent in government revenue that had been envisaged in the Budget of March 1990 for the fiscal year as a whole. In *real* terms the year-on-year increase in these receipts during the first half of fiscal 1990/91 amounted to 1,3 per cent.

Total Exchequer receipts in the first half of fiscal 1990/91 were equal to 51,6 per cent of total budgeted government revenue for the fiscal year as a whole. In fiscal 1989/90 the ratio of first-half to full-year revenue had amounted to 52,9 per cent. In contrast, the *average* value of this ratio in the four fiscal years from 1986/87 to 1989/90 amounted to only 49,2 per cent.

Central Government receipts
Percentage increase

	Budgeted for fiscal year 1990/91[1]	Realised in first half of 1990/91[2]
Customs and excise duties	–10,2	–7,5
Income tax:		
Gold mines	–5,0	–29,9
Other mines	–10,8	106,4
Non-mining companies	19,8	24,2
Individuals	4,3	21,1
General sales tax	12,5	9,7
Gold-mining leases	–8,0	–39,8
Other receipts	–14,0	40,2
Total	5,8	15,4

1 Budget Speech, March 1990
2 Compared with the first half of fiscal 1989/90.

Rates of increase in total Exchequer receipts that were significantly higher than had been budgeted for, could primarily be attributed in the first half of fiscal 1990/91 to larger-than-budgeted increases in receipts of income tax from individuals and (even more pronouncedly) from mining companies other than gold-mining companies. Against this, the year-on-year rates of increase in receipts from gold-mining companies and from the general sales tax fell short of the budgeted percentage increases for the fiscal year as a whole.

In October 1990 the year-on-year rate of increase in Exchequer receipts slowed down further from its September-quarter level. The rate of increase in these receipts in the first *seven* months of fiscal 1990/91 was thereby lowered to 13,5 per cent. Exchequer receipts for the fiscal year as a whole are nevertheless expected to exceed the Budget estimates to a quite considerable extent.

Deficit before borrowing

The deficit before borrowing and debt repayment of R4 449 million in the June quarter of fiscal 1990/91 was transformed into a *surplus* of R730 million in the September quarter. The cumulative deficit in the first half of the fiscal year accordingly amounted to R3 719 million, or to approximately 2,8 per cent of the gross domestic product during that period. This was fully in line with the 2,8 per cent ratio of the deficit to the gross domestic product that had been allowed for in the Budget estimates for the fiscal year as a whole.

According to the information currently available, the deficit of R3 719 million during the first half of fiscal 1990/91, *plus* the discount of R2 168 million on new government stock issues and *plus* the payment of R2 000 million to the Independent Development Trust (for a total of R7 887 million), was financed from the following sources:

	R millions
Public Investment Commissioners	–110
Non-bank private sector	7 233
Banking sector:	
Corporation for Public Deposits	–192
Other banks	961
Foreign sector	–5
Total financing	**7 887**

The payment of R2 000 million to the Independent Development Trust was funded out of the Exchequer's financing surplus of fiscal 1989/90. In the above table this amount is, therefore, included in the "other banks" part of *the banking sector's* contribution to the financing of the Exchequer deficit.

The cumulative deficit in the first *seven* months of fiscal 1990/91 amounted to R3 053 million, or to 38 per cent of the deficit of R7 994 million that had been budgeted for in March 1990 with regard to the fiscal year 1990/91 as a whole. The corresponding deficit in the first seven months of fiscal 1989/90 amounted to R2 985 million, or to 30 per cent of the budgeted deficit.

The deficit of R3 053 million that was recorded in the first seven months of fiscal 1990/91 was financed by means of the following debt instruments:

	R millions
Government stock (excluding the discount)	4 388
Treasury bills	1 232
Non-marketable securities	–109
Foreign loans	–25
Use of cash balances	–433
Total financing of Exchequer deficit	5 053
Less: Payment to the Independent Development Trust	2 000
Total net financing (= deficit before borrowing)	**3 053**

Present estimates and projections suggest that the eventual deficit for fiscal 1990/91 as a whole may be less than the deficit of R7 994 million originally budgeted for. It could possibly amount to only about 2,6 per cent of the expected gross domestic product in the full fiscal year.