Quarterly economic review

Introduction

Aggregate real gross domestic product of the South African economy declined in the second quarter of 1990 for the third consecutive quarter, thereby confirming the recessionary character of current economic conditions. In addition, the mild further contraction of total real output in the second quarter of 1990 – unlike the declines in real output in the preceding two quarters – was no longer confined *primarily* to downward adjustments of real value added in agriculture, the mining industry or the joint primary sectors. Instead, decreases in real production during this quarter were recorded in all principal sectors and sub-sectors of the economy with the exception of agriculture and general government.

The *tempo* of the decline in total real output in the second quarter of 1990, at an annualised rate of not quite 1 per cent, was, however, again somewhat lower than in the preceding quarter. The seasonally adjusted and annualised rate of contraction in the real gross domestic product in the five quarters of the current downswing to mid-1990 accordingly did not quite reach, and in the year to mid-1990 barely exceeded, ½ per cent. At the same time, aggregate real gross domestic *expenditure*, which had already been receding at an annualised rate of some 1½ per cent in the three quarters to the first quarter of 1989, shrank only moderately faster (at an annualised rate of some 2½ per cent) in the ensuing five quarters to mid-1990. Moreover, real gross domestic expenditure appeared to have regained a firmer footing in the first quarter of 1990 and – thanks mainly to a reduced rate of disinvestment in inventories – actually staged a minor recovery in the second quarter of the year.

Evidence of continuing mildness of the current cyclical downturn to mid-1990 was also provided by the behaviour of registered employment (which *rose*, on balance, through the first four quarters of the downturn); the relatively modest rise in total registered unemployment (which did not match the worsening of unemployment over comparable periods in any of the preceding three cyclical downswings); continuing low levels of registered unemployment among the White, Coloured and Asian population groups; the relative firmness of the volumes of wholesale and retail sales, and comparatively well-maintained levels of sales of new motor vehicles; the absence of a clear upward tendency in insolvencies and company liquidations since late 1988; and the very limited extent of the rise in borrowing clients' "amounts overdue" on their loan accounts with banking institutions. The composite coincident business cycle indicator moved essentially sideways through 1989 and moved more unambiguously downwards only in February-March 1990.

The comparatively benign character of the current cyclical slow-down up to the middle of 1990 at least, invites a search for the reasons that would account for it. As was suggested at various points in the Reserve Bank's recently published *Annual Economic Report* for 1990 and in the Governor's Address at the Bank's Annual General Meeting on 28 August 1990, aggregate real economic activity in the 1989-90 downturn to date was supported by sustained remarkable strength of the South African merchandise export performance in the first half of 1989, and again in the first quarter of 1990, in particular; by the relatively high average level of real government consumption expenditure; by the relative firmness of, and the absence (to date) of any absolute decline in, total real private consumption expenditure; by the moderateness of the decline in real gross domestic fixed investment; and by the long-term downward trend in, and the commensurately reduced cyclical responsiveness of, real inventories. Unlike developments in July-August 1984, moreover, the authorities' gradually more restrictive policies from late 1987 or early 1988 did not have the appearance of emergency measures that were imposed on a brittle, overstrung as well as overheated, domestic business situation; business and consumer sentiment in mid-1990 tended towards uncertainty, cautiousness and a "wait-and-see" attitude rather than towards despondency or fear.

However, closer analysis of the economy's behaviour in the current downswing to date also shows an apparently increased importance of *structural*, as against *cyclical*, determinants of several aspects of this behaviour. Certain structural elements actually help to explain the apparent relative firmness of the economy in its current downswing phase; in a longer-term perspective, however, these or related structural elements may also act as impediments to longer-term economic growth and development. As was also noted in the Bank's *Annual Economic Report*, attention of the authorities has shifted increasingly in the past few years to longer-term problems and structural deficiencies of the South African economy, and to the formulation of longer-term policies and strategies that seek to address these deficiencies:

Firstly, *inflation* in the economy as of mid-1990 cannot be regarded as a consequence of cyclically excessive effective demand or of a subsidence of the exchange rate under the pressures of excessive demand. Instead, a "core" element in the South African inflation rates currently arises from the largely self-perpetuating interaction of inflation expectations, upward nominal wage and price adjustments, and the rising real *effective* cost of labour in the present, unusually turbulent, labour conditions.

Secondly, *registered unemployment*, having moved to a new and higher general level in 1985, has responded relatively little to both the cyclical upswing of 1986-89 and the cyclical downswing from early 1989 to date. The stubbornness (and the implied underlying long-term upward tendency) of unemployment during the 1986-89 upward phase of the business cycle was associated to an important degree with the low rate of expansion of the real fixed capital stock even during that upswing, with the limited employment-creating capabilities of the capital stock and of additions to the capital stock, and with the rising real *effective* cost of providing employment. More recently, real fixed investment has been held back by various non-cyclical as well as cyclical factors; mildly rising employment and the absence of a more pronounced rise in registered unemployment in the face of the current downswing to date, have, therefore, been reflections of the increased quantities of (recently) less productive labour that have been needed to extract only mildly lower levels of aggregate real output from a recently near-stagnant total real fixed capital stock.

Thirdly, advances in non-agricultural *labour productivity* slowed down in the course of 1989 and turned into productivity *decreases* in the first two quarters of 1990. While a slackening of measured labour productivity (or at least of productivity growth) is a fairly common cyclical phenomenon in early downswing periods, productivity in 1989 and in 1990 to date has also been affected adversely by industrial action, absenteeism, worker intimidation and labour unrest. The heightened incidence of such occurrences has been related only tenuously to the current business cycle situation; it has been linked more obviously to the aggressiveness of the new trade union movement and to recent socio-political developments. In a broader time perspective, average non-agricultural labour productivity was, at most, only some 1½-2 per cent higher in 1990 than in 1980, despite a major deepening of capital per worker in the first half of the 1980s (i.e. a 19 per cent increase in the capital/labour ratio from 1979 to 1986).

Fourthly, recent declines in the *domestic savings ratio* have also had partly cyclical explanations (such as the less impressive financial results of companies since mid-1989, a cyclical shift of real factor remuneration from the gross operating surplus to labour rewards, and the "ratchet effect" – or "habit persistence" – which operates on real private consumption expenditure in the case of cyclical declines in real personal disposable income *per capita*). The longer-term downward drift of the domestic savings ratio can, however, also be traced to certain structural changes, which almost certainly include a structural redistribution of real disposable income in favour of lower income recipients. Firmness of real private consumption expenditure has been a factor in setting a floor to the decline in real aggregate domestic demand and real economic activity in the 1989-90 downswing to date. In a longer-run context, however, the South African society's rising propensity to consume is an impediment to growth and development.

Fifthly, the limited cyclical downward reaction of *real gross domestic fixed investment and real private durable consumption expenditure* in the 1989-90 downturn to date – which, like real private consumption in general, has served to sustain aggregate real domestic demand – is partly a reflection of the rather modest heights to which such expenditures had risen in the preceding upswing under the impact of non-cyclical influences. The diminished cyclical responsiveness of total real gross domestic fixed investment expenditure in the downswing phase to date can be traced partly to the growing relative importance in total real investment expenditure of relatively unpostponable spending for purposes of replacement, maintenance and repair.

In the key areas of monetary policy interest – i.e. as regards inflation, the balance of payments/foreign reserves/exchange rate situation, and the rates of expansion of bank credit and the money supply – generally encouraging developments were recorded in the second quarter and July-August 1990. Significant further slow-downs were registered in the quarter-to-quarter and twelve-month rates of increase in the prices of imported goods and in the twelve-month rate of increase in the production price index. The quarter-to-quarter increase in the production price index, however, reaccelerated from the first to the second quarter of 1990, and relatively little further headway was made in bringing down the rates of consumer price inflation. The direct and indirect effects of a durable increase of, say, 40 per cent in the world price of crude oil (to an average of approximately $25 per barrel) may eventually raise the South African consumer price level by some 1 per cent; the essentially once-and-for-all nature of the increase in the oil price should, however, be emphasised.

On the *balance of payments* front, a significant drop in the volume of merchandise exports and a marginal further increase in merchandise imports were the principal factors in causing the seasonally adjusted and annualised current account surplus to contract from R5,6 billion in the first quarter to R3,6 billion in the second quarter of 1990. In conjunction with renewed and very substantial capital outflows (which were dominated by long-term debt repayment obligations, partly in terms of the standstill arrangements), this caused both the South African total gross and net foreign reserves to decline by R1,4 billion in the second quarter. Major re-strengthenings of both the gross and the net foreign reserves of the Reserve Bank were, however, recorded in July-August. A high degree of stability was displayed by the exchange rate of the rand from April 1990 onward.

Significant further decelerations were observed in the rates of expansion of monetary institutions' *credit extension to the private sector* and in the *M3 money supply* in the second quarter and July 1990. M3 as at the end of June and July 1990 had retreated to within the "cone" traced out by the 1990 "guideline" limits to monetary expansion; the rate of growth in M3 over twelve-month periods as at the end of May, June and July 1990 fell below 20 per cent for the first time after a long 26-month interlude.

On the basis of his review of current monetary and economic conditions and of the Reserve Bank's policy objectives, the Governor of the Bank concluded in his Address to the Bank's shareholders on 28 August 1990 that, although the time for a relaxation of monetary policy was approaching, the right moment for such a change had not yet been fully reached. The Bank would not, however, hesitate to relax its policy as soon as such a change could be justified.

The *capital markets* in the second quarter and July-August 1990 witnessed sharp fall-offs in trading activity from the extraordinary heights this activity had reached in the first quarter, a sustained more hesitant mood in the share market, and some further weakening of share prices. In the *primary* markets, however, the amounts of new security issued rose significantly from first-quarter levels.

Percentage increases in *Exchequer issues* well in excess of the budgeted percentage increase in Central Government expenditure for fiscal 1990/91 as a whole, were recorded in these issues during the first five months (April - August 1990) of the current fiscal year – both with and without inclusion of the July 1990 transfer of R2,0 billion to the Independent Development Trust (IDT). The percentage increase in Exchequer *receipts* during this five-month period was, however, also well ahead of the Budget estimates, despite shrinking income tax receipts from the gold-mining industry. Even without inclusion of the transfer to the IDT in Exchequer issues, the Exchequer Account deficit before borrowing in the five months concerned nevertheless amounted to an unusually high percentage of the deficit as envisaged in the March 1990 Budget for the fiscal year 1990/91 as a whole.

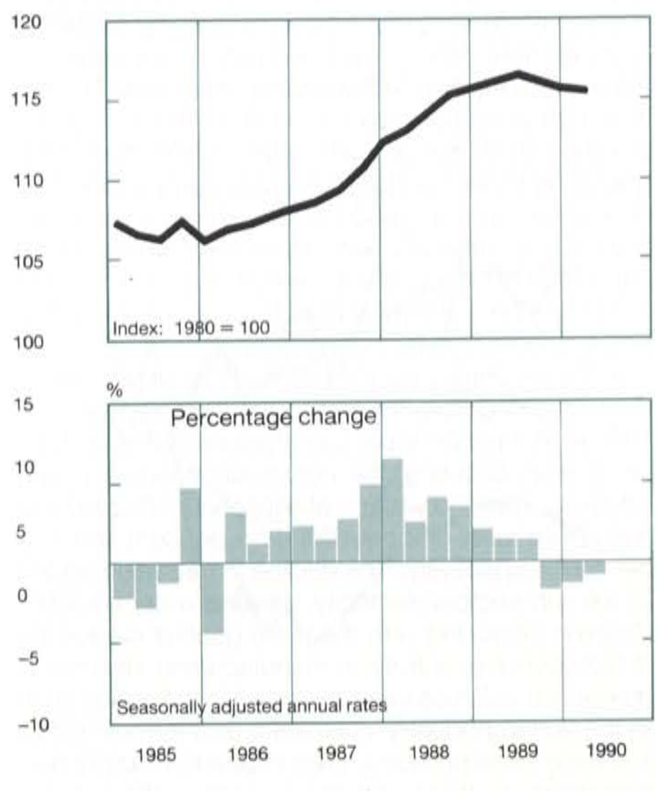
Domestic economic developments

Domestic output

Total real gross domestic output declined at seasonally adjusted annual rates of around 1½ per cent in both the fourth quarter of 1989 and the first quarter of 1990. It then contracted further in the second quarter of 1990 at an annualised rate that is provisionally estimated at not quite 1 per cent.

Moderation of the tempo of the decline in total real gross domestic product in the second quarter of 1990 could be attributed to an increase in real value added by agriculture and to a slow-down in the rate of decrease of real value added in the mining sector. Negative growth in the real gross domestic product in the fourth quarter of 1989 and in the first quarter of 1990 had been attributable, primarily, to downward adjustments in real output in agriculture and in both agriculture and the mining industry respectively. However – as was also observed in the Reserve Bank's recently published *Annual Economic Report* for 1990 – partly because of developments in these two primary sectors in the second quarter of 1990, the mild decline in total real gross domestic production during the five quarters

Real gross domestic product



of the current cyclical downswing to mid-1990 as a whole was due entirely, on balance, to a decline in real value added in the secondary industries.

The average annual rate of decline in total real gross domestic product amounted to slightly less than ½ per cent in the five quarters of the current cyclical downswing to mid-1990, and to slightly more than ½ per cent during the *four* quarters to mid-1990. By comparison, the average annual rate of decline in real value added by the non-agricultural sectors, the non-primary sectors, and the secondary sectors only, in the four quarters to the second quarter of 1990 amounted to about 2 per cent, approximately 1 per cent and somewhat more than 3 per cent respectively.

The renewed slackening of real economic activity in the secondary sectors of the economy in the second quarter of 1990 was actually a part of the more generalised and more broadly based nature of the cyclical slow-down of the economy in the second quarter of 1990 as compared with preceding quarters. Negative growth rates in real value added were recorded in this quarter in all principal sectors of the economy with the exception of agriculture and general government.

Real value added in the *primary* sectors rose in the second quarter of 1990 at an annualised rate of 2½ per cent. This production increase, however, represented a mild rebound from a relatively low level, after output declines at an average annualised rate of some 11 per cent had been recorded in the preceding two quarters. The slow-down of the contraction in real output of the *mining sector* could largely be attributed to approximate sideways movements of physical production in coal and diamond mining which served to cushion more pronounced declines in real output of the gold-mining and "other mining" industries. The decline in physical gold production in the second quarter of 1990 (which was actually rather smaller than in the preceding three months) was again partly a reflection of a lower average grade of ore milled. In addition, however, an unusually high incidence of worker intimidation and of labour unrest is likely to have contributed to the decline in the measured throughput of ore that was also observed during this quarter.

In the *secondary sector*, contractions of real output were recorded from the first to the second quarter of 1990 in all three principal sub-divisions of this sector – i.e. in manufacturing, the construction industry, and electricity, gas and water – at seasonally adjusted and annualised rates of 3 per cent, 2½ per cent and 1½ per cent respectively. The decline in real value added by the sub-sectors electricity, gas and water and construction coincided with the more general slackening of real economic activity. In manufacturing, declines in production volumes were recorded in industries such as the clothing industry, chemicals, non-ferrous metals and base metal products. Less impressive output performances in these industries partly reflected the weaker trend in real domestic final demand and the drawing-down of inventories in response to the past and present stance of official policies and other demand-discouraging factors. Also from the demand side of the economy, output declines in these industries to some extent reflected shrinkage of the "net foreign balance" (i.e. the difference between exports of goods and non-factor services and imports of such goods and services) which, from the first to the second quarter of 1990, reached an annualised rate of some R1,1 billion. From the supply side, production activities in the second quarter of 1990 were still hampered by relatively high levels of strikes, lock-outs, stay-aways and turbulent labour relations and by a continued high incidence of civil strife and unrest.

Real value added in the *tertiary sectors* retreated in the second quarter of 1990 at a modest annualised rate of nearly 1 per cent. This reflected rates of decline in the sub-sectors commerce and transport and in finance, real estate and business services, which ranged (in annualised terms) from some ½ to approximately 2½ per cent. In the sub-sector commerce the decline in real value added originated mainly from lower levels of activity in the retail and motor trade.

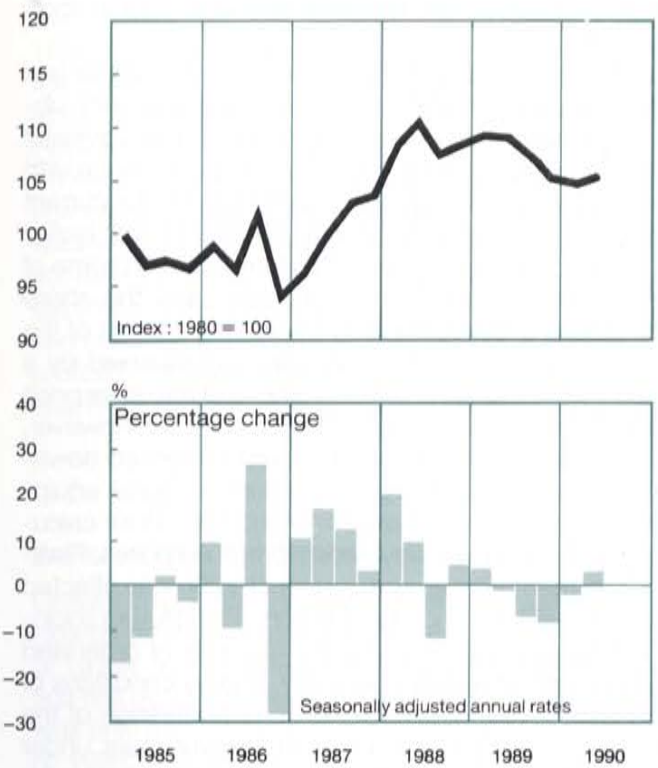
Lower levels of real output were displayed by the various sub-divisions of the *transport* sector in general. An above-average decrease was recorded, however, by the real activities of Transnet. This arose, somewhat technically, mainly from a decline in foreign demand, as reflected in a marked drop in the volume of merchandise exports in the second quarter of 1990 (after an even more substantial *increase* in these exports in the preceding three months). In the *financial services* industries, the slackening of real activity was a reflection of the cooling-down of the economy in general, but also of sharply lower turnovers on the stock exchange and of a decline in real estate transactions.

As during preceding quarters of the current cyclical downswing, the decline in the real gross *national* product in the second quarter of 1990, which reached an annualised rate of approximately 3 per cent, was markedly more pronounced than the concurrent decline in the real gross *domestic* product. This was a result of a significant increase in real net factor payments (mainly higher interest payments) to non-residents, which more than offset a shrinkage of the adverse terms-of-trade adjustment during the second quarter. This improvement in the terms of trade in the second quarter was a reflection of a decline in international crude oil prices during that quarter and of a firming of the world prices of certain South African export commodities.

Domestic expenditure

Aggregate real gross domestic expenditure fell back as early as the third quarter of 1988 and again from the second quarter of 1989 onward. However, after having retreated at annualised rates of some 6½ and

Real gross domestic expenditure



7½ per cent in the third and the fourth quarter of 1989, aggregate real domestic spending appeared to have found new support in the first quarter of 1990 (when it receded at an annualised rate of only about 1½ per cent), and actually staged a minor recovery (at an annualised rate of close to 3 per cent) in the second quarter.

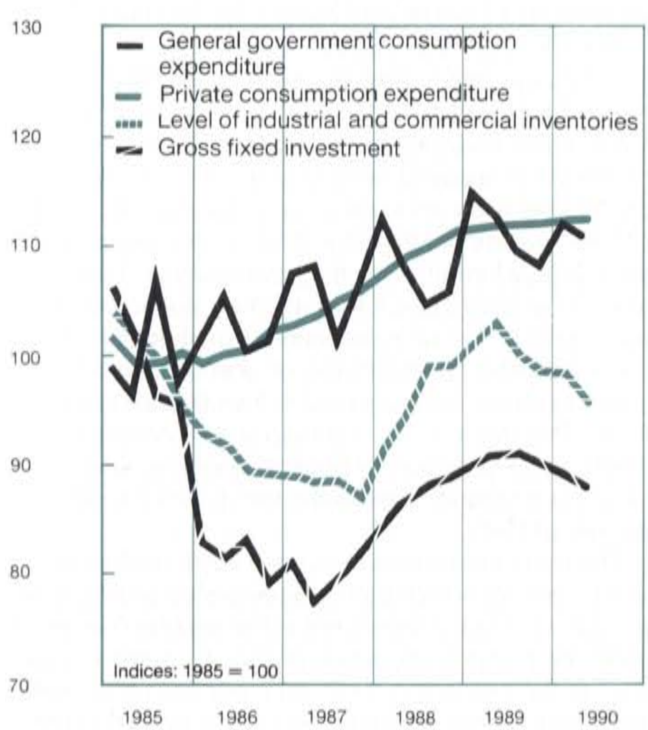
The modest reversal of the contraction of total real domestic spending in the second quarter of 1990 could be attributed to a drop in the rate of decumulation of aggregate real inventories during that quarter which was superimposed on the sustained mild upward trend in total real private consumption expenditure in the current downswing to date. Between them, the changes in these two aggregate spending items contributed a positive 5 percentage points to the annualised growth rate of approximately 3 per cent in aggregate real gross domestic expenditure in the second quarter. In contrast, second-quarter declines in total real government consumption expenditure and in total real gross domestic investment collectively made a negative contribution of more than 2 percentage points.

The average level of total real gross domestic expenditure in the first half of 1990 was some 4½ per cent lower than in the first half of 1989 and some 5½ per cent lower than in the first half of 1988. These fairly pronounced shrinkages were associated with net declines in the volume of merchandise imports of 8½ per cent from the first half of 1989 to the first half of 1990 and of 4½ per cent from the first half of 1988 to the first half of 1990. They also contributed to the 42 per cent strengthening of the aggregate surplus on the current account of the balance of payments from R3,6 billion in the four quarters to mid-1989 to R5,1 billion in the four quarters to mid-1990.

Real *private consumption expenditure* rose slightly further in the second quarter of 1990, at an annualised rate of approximately ½ per cent. As in nearly all preceding quarters of the current cyclical slow-down to date, this mild further growth in total real private consumer outlays was entirely the result of rising real household expenditure on non-durable goods and on services, which rose in the second quarter of 1990 at seasonally adjusted and annualised rates of 1 and 1½ per cent respectively. Real private consumption expenditure on durable and semi-durable goods receded further in the second quarter at annualised rates of approximately 3½ and 1 per cent.

Total real private consumption expenditure was supported in the second quarter of 1990 by a slight further increase in total real personal disposable income. The mild forging-ahead of total real private consumer outlays throughout the five quarters of the current cyclical

Real gross domestic expenditure and its components



downturn of the economy to mid-1990 was, however, also attributed in the Reserve Bank's recent *Annual Economic Report* for 1990 to factors such as slow-moving cyclical and structural redistributions of income in favour of wage earners and of lower-income groups, households' "habit persistence", and the pressures of replacement demand in respect of durable consumer goods.

Within the broad category of real private spending on consumer durables, the shrinking of households' real expenditure on personal transport equipment in the second quarter of 1990 reflected the relatively high prices of motor vehicles and the current, relatively high, level of real interest rates on consumer debt. In contrast, the second-quarter increase in households' real expenditure on household appliances reflected the positive impact on such expenditures of the easing of certain hire-purchase restrictions and the lowering of import surcharges by the fiscal authorities in March 1990.

Real *consumption expenditure by general government* rose very strongly in the first quarter of 1989, declined in the ensuing three quarters, rose sharply again in the first quarter of 1990, and declined again in the second quarter. As a result, total real government expenditure, although at a relatively high average level in the current downswing to date, was nevertheless some 2 per cent *lower* in the first half of 1990 than in the first half of 1989. The decrease in total real government consumption expenditure in the second quarter of 1990 arose mainly from substantially lower real outlays on intermediate goods and services. The average level of real government spending on such goods and services was 5½ per cent lower in the first half of 1990 than in the first half of 1989.

Total *real gross domestic fixed investment* topped out in the third quarter of 1989 and receded in the ensuing three quarters to the middle of 1990 at fairly moderate annualised rates of some 4½, 4 and 5 per cent respectively. Its contraction in the second quarter of 1990 was mostly a matter of further shrinkage of real fixed capital formation by the private sector. However, real gross fixed capital formation by public corporations, which had been expanding markedly from the second quarter of 1988 mainly on account of the Mossgas operations, also declined in the second quarter of 1990. This decline outweighed a small increase in real fixed capital formation by public authorities, which had been on a steadily downward trend from the second quarter of 1988.

The rate of decline in real gross fixed capital formation by *private sector* parties accelerated slightly to an annualised level of 5 per cent in the second quarter of 1990, from annualised levels of 2½, 5½ and 4½ per cent in the preceding three quarters from mid-1989. This mild further acceleration of the rate of decline arose mainly from cut-backs in real fixed capital spending in agriculture, the mining industry and the sector finance, insurance, real estate and business services. However, increases, albeit at lower rates than in preceding quarters, were still recorded in real fixed investment spending in manufacturing and commerce.

The generally downward trend in private-sector real fixed capital formation from mid-1989 was fairly obviously related to the cooling-down of the domestic economy and its relatively poor prospects for growth in 1990, relatively high real interest rates in the current stage of the business cycle as compared with earlier cyclical downswings, more hesitant growth in some of the major industrialised economies, and the sharp decline in world commodity prices during most of the period from mid-1988. This was accompanied by a generally disappointing performance of the dollar price and the rand price of gold. More specifically, however, private sector investment was also influenced downwards by the surcharge on imported capital equipment and by recent revisions of the formula for calculating depreciation allowances for tax purposes. Finally, the investment climate as in mid-1990 was affected unfavourably by uncertainties concerning future socio-political developments, by the militancy of organised labour and of workers generally, and by conditions of persistent civil unrest. The relative moderation of the retreat of real private-sector fixed investment under these circumstances (as compared, for example, with the sharp fall-off of such investment in early 1986) could be explained partly from the relatively modest levels reached by real fixed investment in the preceding upswing period.

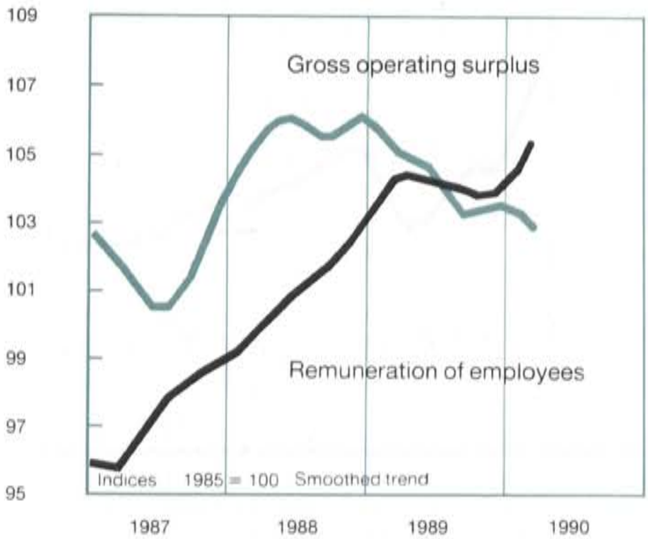
Real fixed capital outlays by *public corporations* declined in the second quarter of 1990 at an annualised rate of 13½ per cent. This was based on a temporary slow-down in the investment activities in the sub-sector manufacturing, which had moved to relatively high levels towards the end of 1989 and in the first quarter of 1990, and on a sideways movement of real fixed investment outlays in the sub-sector electricity, gas and water.

Real fixed capital expenditure by *public authorities* rose at an annualised rate of some 5 per cent in the second quarter of 1990. An appreciable rise in real fixed capital formation by the business enterprises of general government (mainly by the Department of Posts and Telecommunications) more than fully made up for declines in such expenditure by all three levels of general government itself.

An analysis of gross domestic fixed investment in the second quarter of 1990 by *type* of capital assets shows declines in aggregate real outlays on buildings and on transport equipment; some increases were still recorded, however, in aggregate real spending on construction works and on machinery and equipment. The average level of real spending on machinery and transport equipment in the first half of 1990 was, however, about 5 per cent lower than during the year 1989.

Accelerating reductions of *total real inventories* were recorded in the third and the fourth quarter of 1989 and the first quarter of 1990. Total real inventories were then drawn down further in the second quarter of 1990, but at a markedly lower rate. This moderation of the tempo of inventory decumulation arose mainly from smaller declines in diamond stocks-in-trade, an increase in agricultural stocks-in-trade, and a replenishment of mining stocks as current physical production came to exceed more significantly the lower real volume of mineral exports. Destocking was, however, still taking place with regard to industrial and commercial inventories. As a result, the ratio of real industrial and commercial inventories to the real gross domestic product retreated further from 20 per cent in the first quarter of 1990 to 19½ per cent in the second quarter.

Real gross operating surplus and remuneration of employees



Factor income and domestic saving

Growth in total nominal factor income at market prices slowed down only marginally from a year-to-year rate of 19 per cent in 1988 to 18½ per cent in 1989. In the first half of 1990, however, total nominal factor income was only some 13 per cent higher than in the first half of 1989. The rate of increase in total nominal factor income at market prices (i.e. in the nominal gross domestic product), seasonally adjusted and annualised, slowed down from an average of 14½ per cent in the second half of 1989 to 11½ per cent in the first half of 1990.

Growth in the total of nominal factor rewards in the first half of 1990 was supported mainly by continuing rapid advances in total nominal *labour remuneration*. Total nominal labour remuneration in the first half of 1990 was still some 15 per cent higher than in the first half of 1989. This could be attributed partly to general wage and salary increases by general government (which, however, mostly took effect only from the beginning of the second quarter of 1990) and to additional improvements in service conditions for workers in certain low-paid government services in particular. Notable increases in total nominal labour remuneration were, however, also recorded in mining, manufacturing and commerce in the private sector, while total labour rewards in the financial sector remained at a high level. The continuing relatively rapid rise in total nominal labour remuneration in a slackening economy (and in the face of the fact that growth in businesses' gross operating surpluses has been declining markedly since the second quarter of 1989 in particular) could be attributed partly to the relative mildness of the downswing to mid-1990, to the scarcity of the supply of labour in certain occupations, and to the outcome of wage negotiations between employers and generally aggressive trade unions. In general, rates of wage increases agreed upon in recent wage settlements have still been in excess of the more recently observed inflation rates.

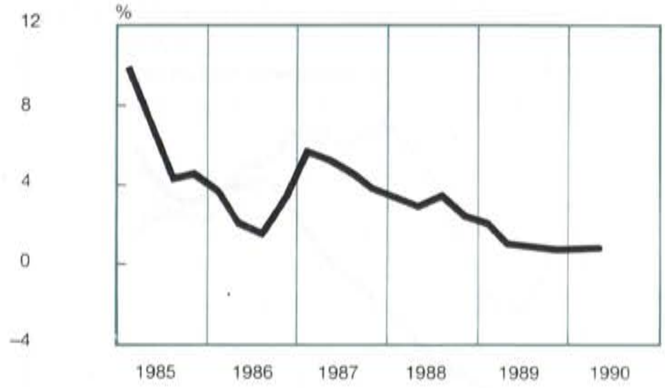
The nominal gross *operating surplus* was 15½ per cent higher in 1989 than in 1988. However, the year-on-year rate of growth in the nominal operating surplus reached its most recent high point as early as the third quarter of 1988, and fell back in subsequent quarters. Although the *quarter-to-quarter* growth rates in the operating surplus fluctuated substantially, the nominal operating surplus was, on average, only 11 per cent higher in the first two quarters of 1990 than in the first two quarters of 1989.

The fairly modest annualised quarter-to-quarter rate of increase in the gross operating surplus of 12½ per cent in the second quarter of 1990 reflected mainly the general slackening of domestic final demand, the uncomfortable profit or loss situation in large parts of the gold-mining industry, and the negative effects on business conditions of widespread socio-political unrest and of specific boycott actions and consumer intimidation aimed at certain sections of trade and industry in major industrial areas.

The ratio of *gross domestic saving* to the gross domestic product declined slightly from 22 per cent in the first quarter of 1990 to 21 per cent in the second quarter. The accompanying decline in the ratio of gross domestic saving to gross domestic investment was also reflected in a narrowing of the surplus on the current account of the balance of payments between these two quarters.

The most recent weakening of the domestic savings ratio in the second quarter of 1990 resulted from reduced saving by the corporate sector and by general

Ratio of personal saving to personal disposable income



government against a slight improvement in personal saving and in the personal savings ratio. Net personal saving increased partly on the strength of a slight rise in total real personal disposable income (taking the form of a rise in aggregate real labour remuneration); the marginal rise in the personal savings *ratio* may be seen as the counterpart of households' more reserved approach to spending on consumer durables.

In contrast, net saving by the corporate sector retreated under the impact of declining growth in the aggregate net operating surplus which, in nominal terms, was only 9 per cent higher in the second quarter of 1990 than in the second quarter of the preceding year. Net saving by general government declined in the second quarter of 1990 because the moderate increase in general government's consumption expenditure at current prices in this quarter was not matched fully by the rise in direct and indirect tax receipts.

Employment

The average level of total non-agricultural employment in the South African economy was some 1,2 per cent higher in the advanced upswing year 1988 than in 1987. Little change in total non-agricultural employment appears subsequently to have been recorded in the first quarter of 1989. This was followed, however, by renewed employment increases at seasonally adjusted and annualised quarter-to-quarter rates of expansion of 0,6 and 1,2 per cent in the "consolidation" period of the economy in the middle quarters of 1989.

A *contraction* of non-agricultural employment at a seasonally adjusted and annualised rate of 2,0 per cent in the fourth quarter of 1989 was followed by renewed *expansion* at an annualised rate of 2,4 per cent in the first quarter of 1990. However, as was noted in the Reserve Bank's recent *Annual Economic Report*, this quite dramatic recovery of total employment in the first quarter of 1990 was essentially a "correction" of employment decreases in the preceding three months. Major fluctuations in numbers of workers employed were, for example, recorded in the two quarters concerned in the South African Transport Services. Prolonged strike action among SATS workers in the period November 1989-January 1990 resulted in lay-offs and resignations of large numbers of staff and in decreases in employment by SATS in the fourth quarter of 1989 at a seasonally adjusted and annualised rate of 34,1 per cent. This was followed by employment increases in the first quarter of 1990 at an annualised rate of 34,6 per cent.

Reaccelerations of employment growth were, however, also shown in the first quarter of 1990 by various private sector industries. Staff retrenchments or continued reductions of personnel, on the other hand, were displayed during this quarter by (among other sectors and sub-sectors) the general government, the Department of Posts and Telecommunications, the gold-mining industry, technikons, private road transportation, wholesale and motor trade and certain other services industries.

The overall rate of non-agricultural employment increases four quarters after the cyclical upper turning-point of the economy in the first quarter of 1989, nevertheless compared favourably with employment developments at a similar stage in, for example, the cyclical downturn of 1981-83. Data for the second quarter of 1990 indicate declines in employment in manufacturing, construction and electricity generation.

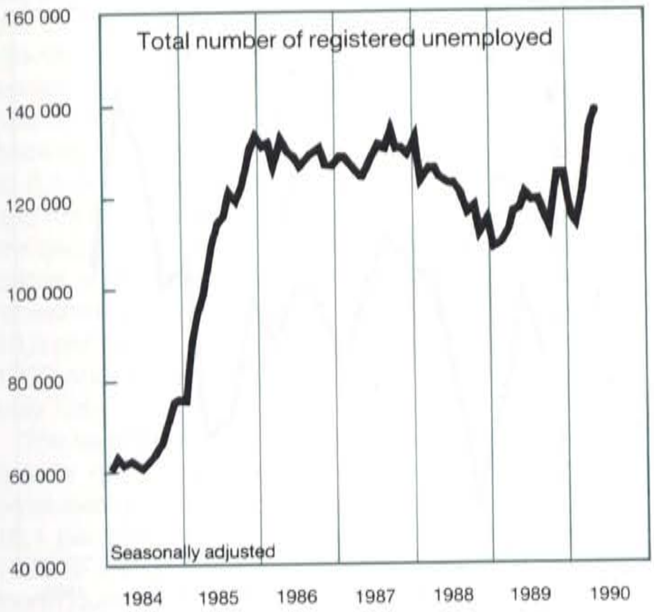
Total employment in the non-agricultural *private* sector rose at seasonally adjusted and annualised rates of 0,2 and 1,3 per cent in the middle quarters of 1989, but *de*creased at an annualised rate of 2,0 per cent in the fourth quarter. It then advanced again at a quite remarkable annualised rate of 4,0 per cent in the first quarter of 1990, mainly because of employment increases in manufacturing, construction, non-gold mining, electricity generation and certain services industries.

Employment increases at annualised rates of 1,8 and 1,0 per cent were recorded by *public authorities* in the middle quarters of 1989. This was followed, however, by employment *de*creases at rates of 2,1 and 1,6 per cent in the fourth quarter of 1989 and the first quarter of 1990.

The ratios of *overtime hours* to normal hours worked declined in construction and in manufacturing from the second and the third quarter of 1989, respectively, up to the first quarter of 1990. Both these ratios recovered slightly, however, in April and May 1990, but did not re-attain their levels as in the corresponding period in 1989.

The seasonally adjusted number of registered *unemployed* workers in the White, Coloured and Asian population groups retreated, in apparent contradiction

Unemployment



to the cooling-down of the economy, from 51 400 in April 1989 to 42 000 in December, but rose to 53 600 in May 1990. This more recent figure, however, was still substantially lower than the peak number of unemployed among the population groups concerned of 82 300 in September 1986. The net rise in registered unemployment among these population groups in the current downswing to date also still fell substantially short of the increases in unemployment over comparable periods in the preceding three cyclical downturns. Against this, the seasonally adjusted *total* number of registered unemployed rose, on balance, from a low point of 108 900 in January 1989 to 138 900 in May 1990, as compared with the preceding peak figure of 136 300 in September 1987.

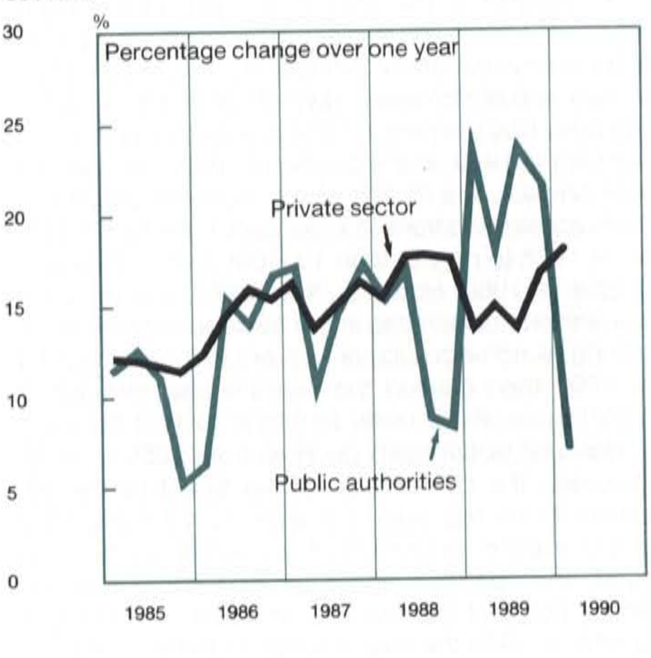
Labour costs and productivity

The year-to-year increase in the nominal wage per worker accelerated from 15,6 per cent in the advanced upswing year 1988 to 16,9 per cent in the consolidation and early downswing year 1989. In the course of 1989, the quarterly year-*on*-year rates of increase in the nominal wage per worker accelerated, on balance, from 17,0 per cent in the first quarter, *via* 15,8 and 16,8 per cent in the second and the third quarter, to 18,2 per cent in the final quarter. It then slowed down quite abruptly, however, to 14,3 per cent in the first quarter of 1990.

In contrast to developments in the period 1985-1988, nominal wage increases among workers employed by *public authorities* substantially exceeded nominal wage increases in the private sector throughout 1989. The year-on-year rate of increase in the nominal wage per worker employed by public authorities accelerated dramatically from only 8,4 per cent in the final quarter of 1988 to as much as 24,1, 17,7, 23,8 and 21,9 per cent (for an average of some 21,8 per cent) in the four successive quarters of 1989. However, as is not unusual in public-authority wage developments, this rate then fell back, almost as sharply as it had risen, to only 7,2 per cent in the first quarter of 1990. This was partly a result of the fact that general salary adjustments in the public service generally became effective only from the beginning of the second quarter of 1990, as against the coming into effect of certain major annual adjustments from the beginning of the first quarter in 1989.

By comparison, year-on-year increases in the average nominal wage per worker in the *private* sector advanced from 13,6 per cent in the first quarter of 1989 to 14,9, 13,8 and 16,6 per cent (for an average of 14,8 per cent during the year) in the ensuing three quarters. However, this rate then accelerated further to 17,9 per cent in the first quarter of 1990. Employers' increasing resistance to large nominal wage increases in a slackening economy – such as would seem to be apparent from the slow-down in the *overall* rate of wage advances in the first several months of 1990 – therefore had clearly failed as yet to have a material effect on wage developments among *private* businesses during that period.

Average remuneration per worker in non-agricultural sectors



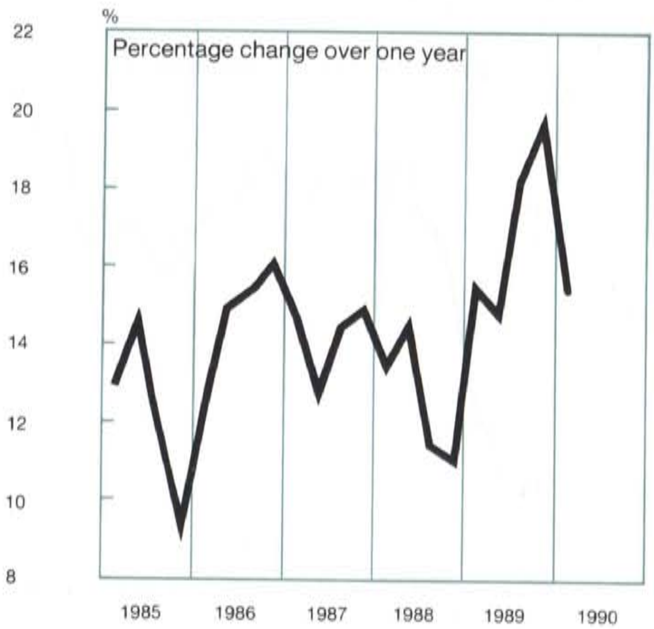
The year-to-year rate of increase in the *real* wage per worker was noted in the Reserve Bank's recent *Annual Economic Report* to have retreated mildly from 2,5 per cent in 1988 to 1,9 per cent in 1989. The year-*on*-year rate of increase in the real wage per worker amounted to 2,0 per cent in the fourth quarter of 1988 and to 3,0, 0,8, 1,3 and 2,8 per cent in the four quarters of 1989, but turned negative (for the first time since the third quarter of 1987) to the extent of 0,6 per cent in the first quarter of 1990 vis-à-vis the first quarter of 1989. This was the result of the drop in the year-on-year rate of increase in the average of the nominal wage of all workers in the non-agricultural sectors of the economy in the first quarter of 1990, in the face of the sustained relatively high level of the year-on-year rate of inflation in consumer prices during that period.

Non-agricultural *labour productivity* improved relatively strongly (by 2,7 per cent) in the advanced upswing year 1988, but (excluding retail trade) slowed down to a rate of increase of 1,3 per cent in 1989. A slow-down in the rate of productivity advances is not uncommon in early downswing periods; a part of the slow-down in productivity improvements in 1989 should be attributed, however, to increased losses of physical output on account of strikes and lock-outs, absenteeism, worker intimidation and labour unrest. The quarterly year-on-year rate of increase in physical output per non-agricultural worker (excluding retail trade) slackened from more than 3,0 per cent in the third and the fourth quarter of 1988 to 2,9 and 2,4 per cent in the first two quarters of 1989. Labour productivity then moved sideways in the third quarter of 1989 before deteriorating to year-on-year rates of *de*crease of 0,2 and 1,2 per cent in the fourth quarter of 1989 and in the first quarter of 1990.

Acceleration of the rates of increase in the nominal wage per worker, and slackening of the rate of improvement in physical labour productivity, caused the year-to-year rate of increase in *nominal unit labour costs* to rise from 12,6 per cent in 1988 to a disconcerting 17,1 per cent in 1989. In the course of 1989, the quarterly year-on-year rate of increase in nominal unit labour costs accelerated from 11,0 per cent in the fourth quarter of 1988 to no less than 19,6 per cent in the fourth quarter of 1989. However, the markedly lower year-on-year rate of increase in the average nominal wage among all non-agricultural workers in the first quarter of 1990 then caused the year-on-year increase in nominal unit labour costs to retreat to 15,3 per cent.

Real unit labour costs declined from 1985 to 1988. However, the combination of significant further advances in the real wage per worker on the one hand and of slackening productivity increases on the other hand, then brought about an increase in real unit labour costs of 2,0 per cent in 1989. In the fourth quarter of 1989 the year-on-year increase in real unit labour costs actually amounted to as much as 4,0 per cent. In the first quarter of 1990, however, the shrinkage of the real wage per worker caused this rate to decline to 0,3 per cent.

Nominal unit labour costs in non-agricultural sectors



Inflation

As was also noted in the Reserve Bank's *Annual Economic Report* for 1990, changes in the South African inflation rates as measured by the more important price indices since approximately mid-1989, have been encouraging but can clearly not yet be regarded as adequate. With the exception of the rate of increase in the rand prices of imported goods (which in the past several years have fluctuated widely in accordance with exchange rate movements), all major inflation rates reported, to date, for the second quarter and July 1990 – whether measured over twelve-month periods or from quarter to quarter in annualised terms – were still, or again, above double-digit levels. Recent abrupt increases in the prices of liquid fuels – as occasioned by military and political developments in the Middle East since 2 August 1990 – will obviously worsen the measured inflation rates over periods that include these events. The essentially once-and-for-all character of the oil price rise should, however, be emphasised: it is the *price* of oil, *not* the *rate of increase* in the price of oil over prolonged periods, that rose abruptly (whether durably or perhaps only temporarily) in August-September 1990.

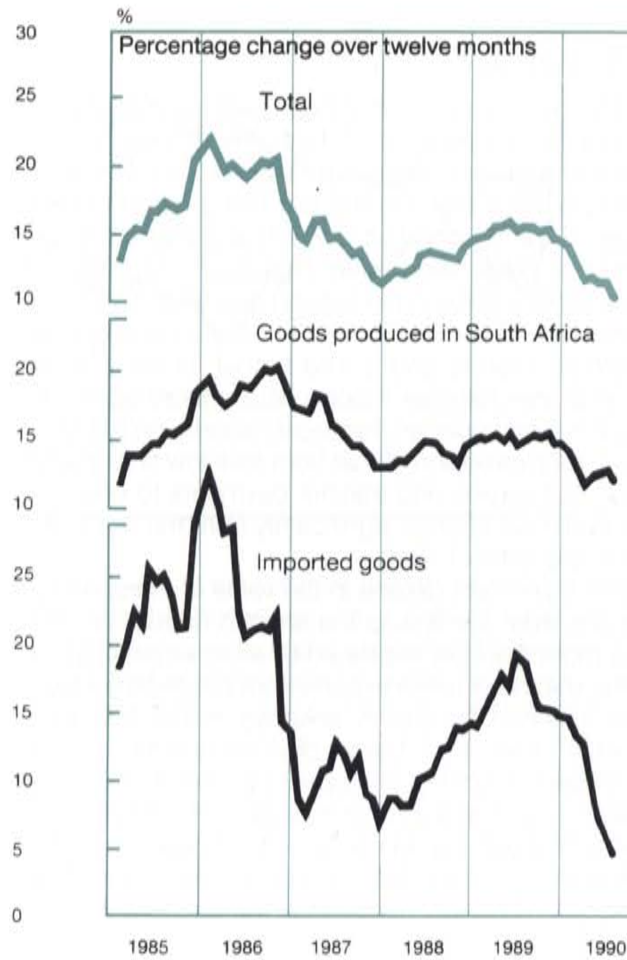
Strengthening of the effective exchange rate of the rand in the fourth quarter of 1989, relative stability of the exchange rate in the first two quarters of 1990, and the lowering of the import surcharges in the Central Government's Budget for 1990/91, caused the seasonally adjusted and annualised quarter-to-quarter rate of increase in the prices of *imported goods* to fall back from 26,8 per cent in the second quarter of 1989 to 6,6 and 7,5 per cent in the fourth quarter of 1989 and the first quarter of 1990, and to only 2,9 per cent in the second quarter of 1990. The rate of increase in the prices of imported goods over twelve-month periods retreated uninterruptedly from its recent high point of 19,3 per cent in June 1989 to only 6,0 per cent in June 1990 and 4,7 per cent in July – its lowest level since May 1984.

The seasonally adjusted and annualised quarter-to-quarter rate of increase in the prices of *domestically produced goods* dropped from its recent high point of 18,1 per cent reached as early as the first quarter of 1989 to a level of 12-13 per cent in the third and the fourth quarter of 1989, and to a single-digit level (9,7 per cent) in the first quarter of 1990. It then reaccelerated, however, to 14,2 per cent in the second quarter of 1990. This reacceleration originated from stepped-up price increases in a wide range of sectors and subsectors of the domestic economy, involving mining products, beverages and tobacco, textiles, wood products, rubber products, chemicals, coal and petroleum products, machinery and equipment, basic metals and metal products, and non-metal mineral products. The *twelve-month* rate of increase in these prices slowed down from its recent high point of 15,4 per cent in May 1989 to 11,3 per cent in March 1990, but reaccelerated to 12,5 per cent in June before retreating once more to 11,6 per cent in July.

Behaving much the same as the price index of domestically produced goods, the seasonally adjusted and annualised quarter-to-quarter rate of increase in the overall *production price index* declined from its high point of 17,9 per cent in the *second* quarter of 1989 to 11,1 per cent in the fourth quarter of 1989, and to a single-digit level (9,2 per cent) in the first quarter of 1990. It then reaccelerated to 11,8 per cent in the second quarter – being held down below the rate of increase in the prices of domestically produced goods by the low concurrent rate of increase in the prices of imported goods. The *twelve-month* rate of increase in the production price index receded from 15,8 per cent in May 1989 to 11,6 per cent in March and April 1990, but – instead of reaccelerating – then fell back slightly further to 11,2 per cent in June and very encouragingly to 10,3 per cent in July.

The quarter-to-quarter rate of increase in the *consumer price index*, seasonally adjusted and annualised, declined from 18,0 per cent in the second quarter of 1989 to 13,3 per cent, a disappointing 14,9 per cent, and 13,1 per cent in the fourth quarter of 1989 and in the first and the second quarter of 1990 respectively. This rate, therefore, was still some distance from regaining the single-digit level it had penetrated (from above) in the first quarter of 1988. The *twelve-month* rate of increase in consumer prices retreated only sluggishly, on balance, from its recent high point of 15,7 per cent in June 1989 to 13,3 per cent in July 1990. Sharp increases were still recorded in recent months in the prices of food, tobacco and alcoholic beverages; as a result, the rise in the consumer price index for the lower income group over the twelve months to July 1990 amounted to 14,4 per cent, against a somewhat more moderate rise of 12,8 per cent for the high income group.

Production prices



Balance of payments and exchange rates

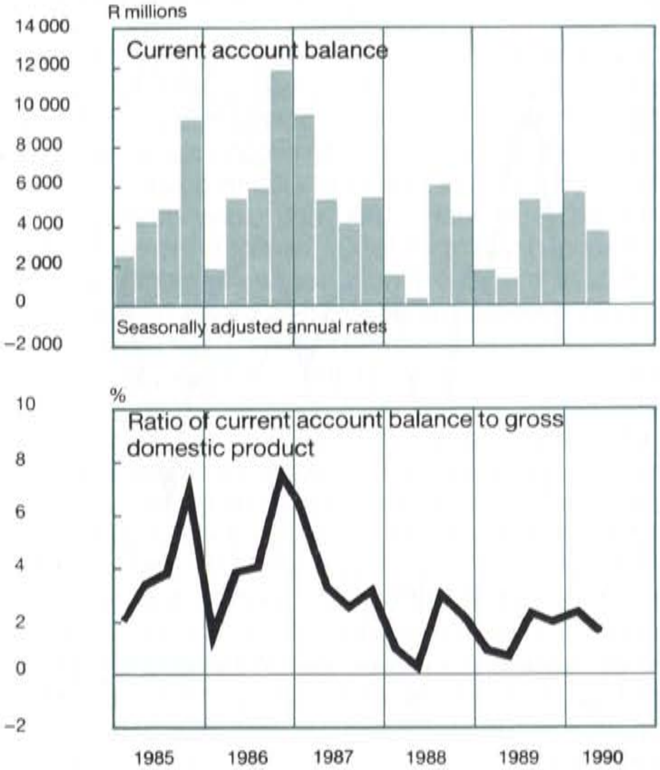
Current account

The surplus on the South African balance of payments on current account, which had strengthened from a quarterly average (in seasonally adjusted and annualised terms) of R1,4 billion in the first half of 1989 to R4,8 billion in the second half of 1989 and had advanced further to R5,6 billion in the first quarter of 1990, fell back to R3,6 billion in the second quarter of 1990. This contraction arose from a decline in the value of merchandise exports and a mild further increase in the value of merchandise imports (after a more significant rise in the first quarter). Net gold exports, on the other hand, recovered somewhat from their low first-quarter level. Net service and transfer payments to non-residents did not change significantly from the first to the second quarter of 1990.

The 5 per cent decline in the *value* of *merchandise exports* from the first to the second quarter of 1990 was more than fully explained by an 8 per cent decline in the *volume* of these exports from the all-time record level reached by export volumes in the first three months of the year. Lower physical quantities of exports were recorded in respect of minerals and base metals as well as agricultural exports. The total volume of merchandise exports in the second quarter of 1990, although also lower than one year earlier, was, however, still marginally higher than the quarterly average in 1989.

A strengthening of export *prices* in the second quarter of 1990 partly made up for the decline in export volumes. The average level of South African export prices in terms of rand declined after the first quarter of 1989 because of a slackening of the international commodity markets and (from the third quarter of 1989) the increased stability of the exchange rate of the rand. A number of world commodity prices firmed again, however, in the second quarter of 1990; higher export prices of copper, nickel and coal more than offset declines in the export prices of platinum and ferrochrome during this period.

Balance of payments

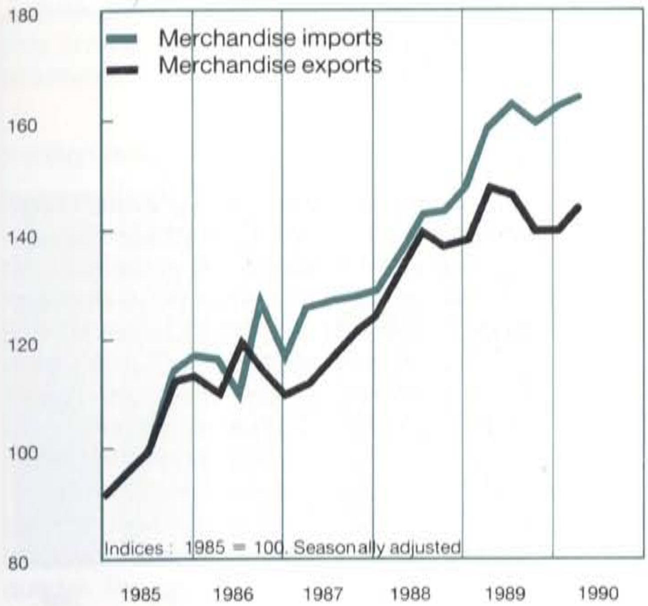


The value and volume of *merchandise imports* rose slightly from the first to the second quarter of 1990 by 1,3 and 0,2 per cent respectively, despite the mild spreading of recessionary conditions in the domestic economy. The average *volume* of merchandise imports in the first two quarters of 1990 was some 4½ per cent lower than in the first two quarters of 1988 and some 8½ per cent lower than in the first two quarters of 1989. However, as was also observed in the

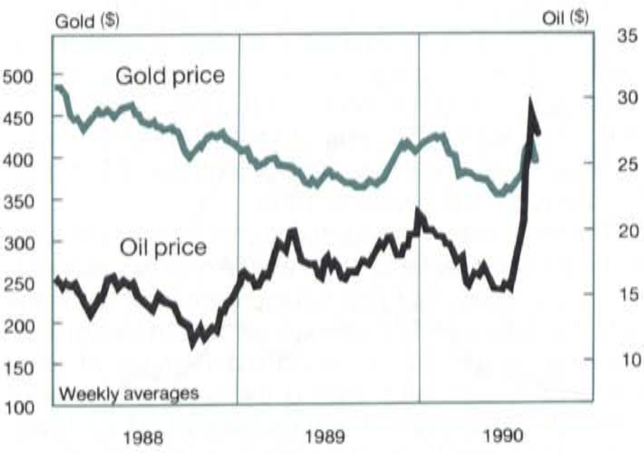
Balance of payments on current account
Seasonally adjusted annual rates
R millions

	1989					1990	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Merchandise exports	34 842	42 866	39 986	38 646	39 085	41 660	39 527
Net gold exports	18 970	18 150	19 670	20 122	19 228	17 793	18 500
Merchandise imports	−41 519	−48 560	−44 841	−42 368	−44 322	−43 577	−44 140
Net service and transfer payments	−10 640	−11 293	−9 628	−11 971	−10 883	−10 299	−10 264
Balance on current account	1 653	1 163	5 187	4 429	3 108	5 577	3 623

Prices of merchandise imports and exports



Gold and oil prices



Reserve Bank's recent *Annual Economic Report* for 1990, the import *penetration ratio* (i.e. the ratio of real merchandise imports to real gross domestic expenditure) was no lower in the first quarter of 1990 than in the second quarter of 1988 and, at 22,3 per cent, was on average only fractionally lower in the first *two* quarters of 1990 than its average level of 22,4 per cent in the first *two* quarters of 1988.

The very slight rise in import volumes from the first to the second quarter of 1990 was accounted for by increased imports of mineral products and of vehicles and transport equipment. The limited extent (1 per cent) of the rise in the average level of import prices from the first to the second quarter could be attributed to a decline in international oil prices during the second quarter and to the relative stability of the exchange value of the rand.

During the first half of 1990 the average level of import prices was only 4 per cent higher than the average level of these prices in 1989. The abrupt surge of international oil prices after the outbreak of armed conflict in the Middle East at the beginning of August 1990 could, however, come to exert heightened pressure on South African import prices while also exerting downward pressure on the current account surplus. International oil prices (Brent crude) rose from an average of US$18 per barrel in the first seven months of 1990 to an average of more than $26 per barrel in August, or by 44½ per cent. A high point of $32 per barrel was reached momentarily on 24 August; the Brent crude price then declined mildly, however, to slightly more than $30 per barrel on 10 September.

The value of the *net gold exports* rose by 4 per cent from the first to the second quarter of 1990, thereby preventing a more drastic shrinking of the current account surplus in the second quarter. Gold export earnings rose despite significant declines in the dollar price of gold from late March 1990 into April, and again in late May and early June. Increases in the volume of gold exports as measured for balance of payments purposes (and as distinct from current gold *production* by the mining industry) therefore outweighed these price declines.

The average dollar price of gold of $352 per fine ounce in June 1990 represented the lowest monthly average dollar gold price since July 1986. The average dollar price of gold subsequently recovered only mildly (to $362 per fine ounce) in July 1990, but more substantially (by 9 per cent, to $395 per fine ounce) in August in response to the outbreak of armed conflict, and the threat of potentially large-scale hostilities, in the Middle East. The *rand* price of gold advanced from R951 per fine ounce in July to R1 016 per fine ounce in August. However, a gold price well in excess of $400 per fine ounce would be required to offset, through the price of gold alone, the direct adverse impact that would be exerted on the current account of the South African balance of payments if the international oil price were to remain durably at, or to rise above, its current level of approximately $30 per barrel of crude.

Net service and transfer payments to non-residents reached a record high point, in annualised terms, of R12,0 billion in the fourth quarter of 1989, but retreated to an annualised level of R10,3 billion in both the first and the second quarter of 1990. An increase in net interest payments to foreigners in the second quarter of 1990 was neutralised by foreigners' increased travel expenditures in South Africa and by an increase in transfer receipts.

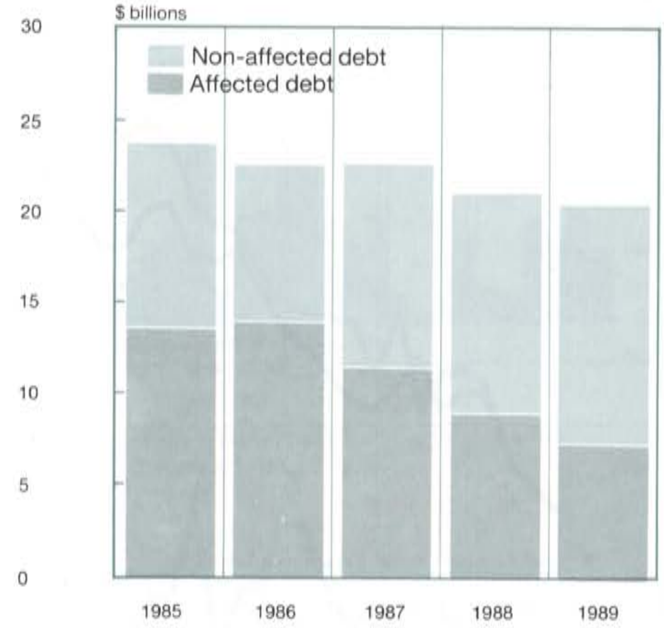
Capital account

The capital account of the balance of payments, which had improved dramatically in the first quarter of 1990, deteriorated substantially again in the second quarter. The total outflow of capital not related to reserves increased from only R0,4 billion in the first quarter of 1990 to R2,2 billion in the second quarter – its highest level since the third quarter of 1988 and roughly twice as large as the quarterly average outflow of not quite R1,1 billion in the course of 1989.

The large size of the aggregate net outflow of capital in the second quarter of 1990 was almost fully accounted for by repayments on foreign debt in accordance with the debt standstill arrangements with foreign creditor banks and by increased redemptions of other forms of foreign debt. During the second quarter of 1990 a total amount of approximately US$1,2 billion (about R3 billion) fell due for repayment both inside and outside the standstill net. When capital outflows (not related to reserves) arising from sales of securities by foreigners and from changes in South Africa's foreign asset holdings are excluded, it is clear that a large amount of the maturing debt must have been rolled over, or that new sources of foreign capital were tapped during the three months concerned.

In 1988 and 1989, proportions of more than 80 per cent and more than 70 per cent, respectively, of the total outflows of non-reserve-related capital of R6,2 billion and R4,3 billion in these two years consisted of *short-term* capital (including unrecorded transactions). In contrast, outflows of *long-term* capital, amounting to R2,1 billion, accounted for more than 80 per cent of the total net outflow of all non-reserve-related capital of some R2,6 billion in the first half of 1990. The outflow of long-term capital in the first half of 1990 actually exceeded substantially the R1,2 billion outflow of long-term capital during all of the year 1989. The outflow of short-term capital, on the other hand, contracted from a quarterly average of R0,8 billion in 1989 to a quarterly average of hardly more than R0,2 billion in the first half of 1990. When viewed from the side of this recent shrinkage of short-term capital outflows, this change-over from short-term capital outflows in 1988 and 1989 to long-term capital outflows in 1990 to date clearly reflected the increased stability of the exchange rate of the rand as well as relatively high current levels of short-term interest rates in South Africa.

Foreign debt of South Africa



South Africa's foreign debt inside the standstill net declined from US$13,6 billion, or 57,4 per cent of the total foreign debt, at the end of August 1985 to US$7,3 billion, or 35,4 per cent of the total debt, at the end of

Net capital movements (not related to reserves)
R millions

	1989					1990	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Long-term capital							
Public authorities	–313	–143	–170	–20	–646	–206	–673
Public corporations	124	316	–62	58	436	473	–35
Private sector	–213	–899	413	–321	–1 020	–1 204	–482
Total long-term capital	**–402**	**–726**	**181**	**–283**	**–1 230**	**–937**	**–1 190**
Short-term capital including unrecorded transactions, but excluding reserve-related liabilities	–1 020	–555	–711	–829	–3 115	531	–1 000
Total capital movements excluding liabilities related to reserves	**–1 422**	**–1 281**	**–530**	**–1 112**	**–4 345**	**–406**	**–2 190**

1989. It then declined further in the first half of 1990 on account of repayments (to an amount of about US$150 million) in terms of the existing standstill arrangements with foreign creditor banks as well as because of further conversions of debt into long-term loans outside the standstill net.

Foreign reserves

South Africa's total *gross* gold and other foreign reserves rose by R0,9 billion in the first quarter of 1990, but declined by R1,4 billion in the second quarter as a reflection of the narrowing of the current account surplus as well as of that quarter's large debt repayment obligations. The country's total gross gold and other foreign reserves accordingly *declined*, on balance, by R0,5 billion during the first six months of 1990, to R6,4 billion at the end of June.

The total *net* reserves rose by as much as R1,9 billion in the first quarter of 1990, but – like the gross reserves – declined by R1,4 billion in the second quarter. The net *rise* of R0,5 billion in the net reserves in the first six months of 1990 may be compared with a drop of R1,2 billion during the year 1989.

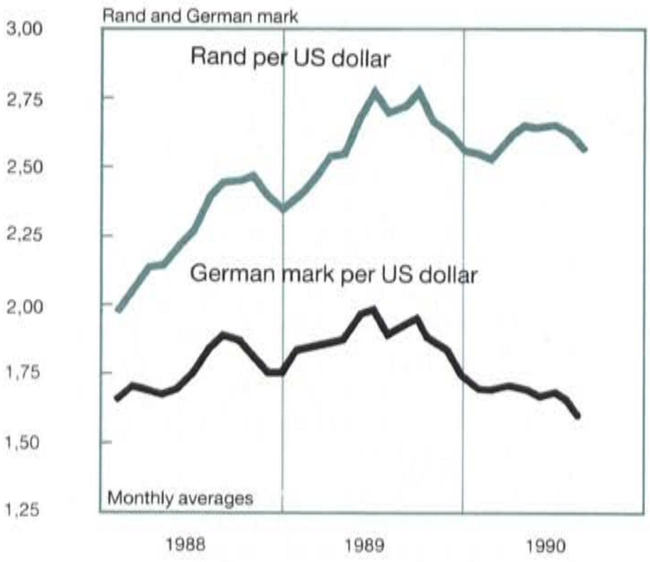
During July-August 1990 the gross and the net reserves of the Reserve Bank rose by as much as R0,9 billion and R2,1 billion respectively. The Bank's gold reserves rose from 3,1 million fine ounces at the end of December 1989 to 3,7 million fine ounces at the end of August 1990.

Exchange rates

Slackening of the growth performance of the United States economy, lower interest rates and prospects of lower interest rates, caused the American dollar to weaken on balance from mid-June 1989 to the end of August 1990 against all major currencies except the Japanese yen. Depreciations of the US dollar against the German mark, sterling and the Swiss franc over this period amounted to as much as 23, 21 and 28 per cent respectively. The dollar's depreciation against the rand amounted to 11 per cent.

The effective exchange rate of the rand reached its lowest point ever on 18 September 1989, but regained a major part of the losses it had sustained in 1989 during the remainder of that year, on account of the stronger current account surpluses in the third and the fourth quarter of 1989 and the strengthening of the dollar price of gold from mid-September. The subsequent weakening of the rand in 1990 to date was concentrated mainly in the first three months of the year, partly because of the sharp drop in the dollar price of gold in late March. More stability was displayed by the effective exchange rate of the rand from early April. At the end of August 1990 the exchange rate of the rand was still 1,8 per cent above its all-time low point of 18 September 1989.

Exchange rates



The *financial* rand's discount vis-à-vis the commercial rand shrank to only 19,2 per cent on 6 February 1990 in the wake of the State President's address at the opening of Parliament on 2 February, but subsequently returned to levels of more than 30 per cent. Following the sharply increased political tension and military moves in the Persian Gulf area in August, the sharp rise in the dollar price of gold, to a peak of US$414 per fine ounce on 23 August, caused the financial rand to strengthen to R3,63 per dollar, and its discount to narrow to 28,9 per cent, on 14 August. The flaring-up of faction fights in a number of Black townships, and the decision of the authorities to restrict the use of financial rand to the acquisition of fixed assets, plant and machinery, subsequently contributed to a renewed weakening of the financial rand to R3,89 per dollar and to a renewed widening of its discount to 34,2 per cent on 31 August.

Changes in exchange rates of the rand
%

	30 Dec 1988 to 18 Sept 1989	18 Sept 1989 to 29 Dec 1989	29 Dec 1989 to 31 Aug 1990
Weighted average	–10,9	7,3	–5,1
USA dollar	–15,9	11,0	–0,5
British pound	–3,7	8,2	–16,4
German mark	–7,7	–4,5	–7,9
Swiss franc	–5,9	0,9	–16,5
Japanese yen	–2,3	8,8	0,2
French franc	–8,7	–3,2	–9,7
Financial rand	–5,2	12,7	–7,9

Financial markets

Money supply

Growth in the M3 money supply substantially exceeded the upper limit of the monetary target range in both of the targeting years 1988 and 1989 and continued to exceed the upper limit (of 15 per cent) of the "guideline" range for growth in M3 during the first five months of the money-management year 1990. In June 1990, however, M3 retreated to within the "cone" traced out by the upper and lower limits to monetary expansion as set by the guideline range. The annualised rate of increase in M3 (seasonally adjusted) from its quarterly average in the fourth quarter of 1989 to its level as at the end of June and July 1990 amounted to 13,8 and 13,5 per cent respectively.

The *twelve-month* rate of increase in M3 declined, on balance, from its cyclical high point of 27,5 per cent in August 1988 to a more recent high point of 23,5 per cent in January 1990 and to 19,1, 16,6 and 15,8 per cent in May, June and July 1990. The last-mentioned threesome of rates followed a period of 26 months (beginning in March 1988) in which growth in M3 over twelve-month periods had never dropped below 20 per cent.

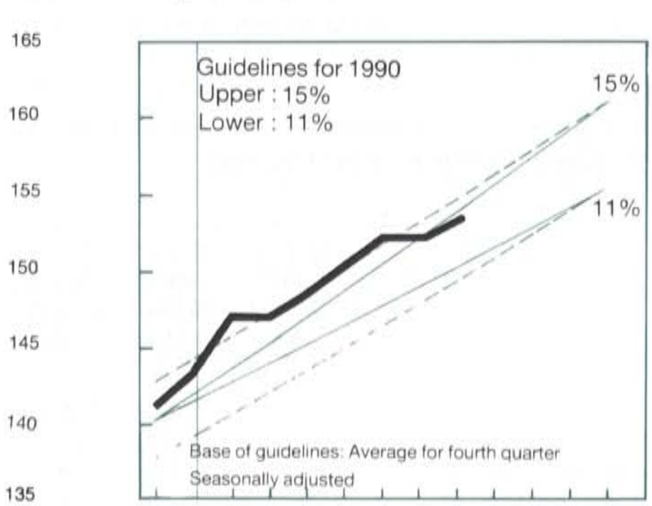
The *quarter-to-quarter* rate of increase in M3, seasonally adjusted and annualised, retreated in a broadly similar way from its cyclical peak of 28,5 per cent in the third quarter of 1988 and a more recent high point of 26,7 per cent in the third quarter of 1989, to 12,2 per cent in the second quarter of 1990. This most recent rate of increase actually fell slightly short of the concurrent annualised quarter-to-quarter rise in the gross domestic product at current prices. The income velocity of M3, which had been decreasing by an average of 1,5 per cent per quarter over the preceding ten quarters from the fourth quarter of 1987 onward, accordingly rose slightly (by about 1 per cent) in the second quarter of 1990.

The slow-down in the tempo of monetary expansion from late 1988 onward could be attributed in a general manner to the effect of the authorities' more restrictive policies, the cooling of the economy and the contractions of real gross domestic product and domestic final demand from various points in time in the course of 1988 or 1989 and to the downward drift of the various inflation rates after the middle of 1989. In addition, the increased stability of nominal interest rates and diminishing expectations of further interest rate increases meant a waning of the pressures for maintaining highly liquid balances for "speculative" reasons or for reasons of liquidity preference proper; and a slackening of credit demand, and of money-creating institutions' competition for deposits, afforded opportunities to these institutions for a lowering of their deposit rates relative to their lending rates, as they sought to restore their interest rate margins. Against these various considerations which are making for a lower rate of monetary expansion, the demand for interest-earning deposit holdings seems likely to be supported somewhat by the gradual strengthening of the *real after-tax* interest returns on deposits for smaller depositors in particular. A similar effect stands to be exerted by the diminished buoyancy of conditions on the stock exchange.

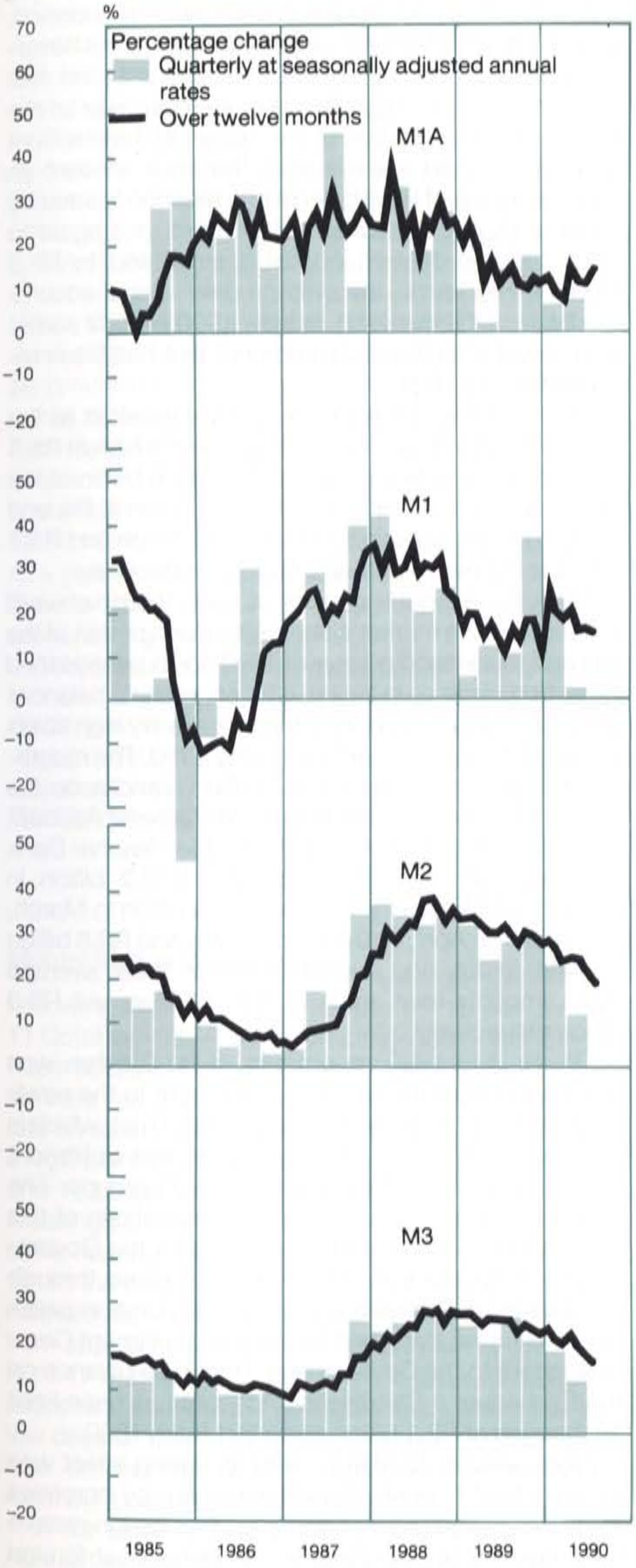
Like the rates of increase in M3, the rates of growth in the narrower monetary aggregates also displayed downward trends from the last few months of 1988. In July 1990 the growth rates of M1A, M1 and M2 over twelve-month periods amounted to 13,6 per cent, 15,0 per cent and 18,2 per cent respectively. The comparatively slow growth in M1A (which comprises notes and coin in circulation and private non-monetary institutions' balances in cheque and transmission accounts) reflected the slackening of the growth in nominal expenditures as well as rising real returns on non-M1A forms of money holdings. Since April 1989 the twelve-month growth rate of M1A has mostly been only about half as high as the rate of growth in M3.

In contrast, the rate of increase in the long-term deposit component of M3 – which had remained at low levels since late 1987 as investors avoided the less readily renewable depository investments in a climate of rising interest rates and rising interest rate expectations – accelerated sharply from the end of March 1990 to the end of July. The annualised rate of increase in these deposits between these two month-ends amounted to no less than 34,9 per cent. Growth in these deposits was also stimulated by banks' and building societies' increases in their long-term deposit interest rates

Guidelines for growth in M3



Monetary aggregates



in April 1990, when investor sentiment had already turned to expectations of future reductions and declines in the general pattern of nominal interest rates. Early reductions of the long-term deposit rates were, in fact, made by the institutions concerned from approximately the middle of 1990 onwards.

In the statistical (or accounting) sense, the seasonally adjusted increase of R3,8 billion in M3 from the end of March 1990 to the end of June was more than fully explained by an increase of R8,3 billion in monetary institutions' claims on the private sector. Net claims on the government sector rose by a seasonally adjusted R0,6 billion between the two quarter-ends concerned. The seasonally adjusted net gold and other foreign reserves of the monetary sector, which had increased by no less than R1,3 billion in the first quarter of 1990, fell back by R0,8 billion during the second quarter, in the wake of the narrower current account surplus and substantial repayments on long-term foreign debt in particular.

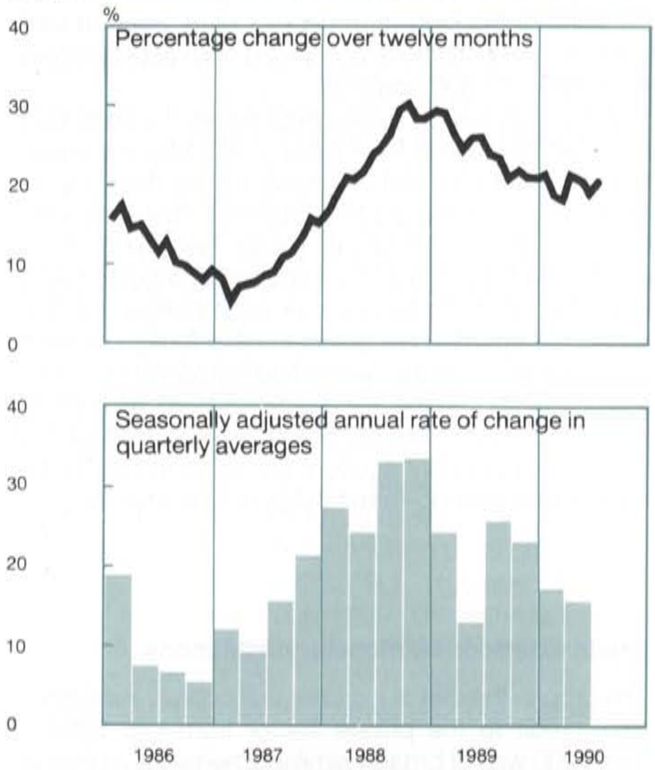
Credit extension by monetary institutions

The drop in the rate of increase in monetary institutions' total credit to the private sector from late 1988 to mid-1990 was of broadly similar dimensions as the deceleration of the rate of increase in the M3 money supply. The twelve-month rate of increase in the monetary sector's total claims on the private sector fell back from 30,2 per cent in October 1988 to 20,6 per cent in December 1989 and to 18,7 per cent in June, but re-accelerated mildly to 20,0 per cent in July.

The *quarter-to-quarter* rate of increase in the monetary institutions' total credit to the private sector, seasonally adjusted and annualised, retreated even more markedly from its peak level of 33,2 per cent in the fourth quarter of 1988 to 22,8 per cent in the fourth quarter of 1989 and to 15,4 per cent in the second quarter of 1990, as the steadily widening and strengthening effect of recent and current real interest rate levels and the slowing of the economy made themselves felt in a fall-off in incremental credit demand.

Within the total of monetary institutions' claims on the private sector, "bills discounted" rose by 55,4 per cent in the twelve months to the end of June 1990 as banks and building societies sought to strengthen or replenish their liquid asset portfolios. Hire-purchase credit and leasing finance, and mortgage advances, rose by 20,5 and 15,7 per cent respectively. Investments in private sector securities increased by as much as 44,4 per cent, probably partly as a reflection of a levelling-off of the use of these securities as the underlying assets in repurchase agreements. "Other" loans and advances, consisting mainly of overdrafts, rose by 18,9 per cent; most of this increase was concentrated in advances to companies rather than to households or individuals.

Claims of monetary institutions on domestic private sector



Quarterly increases in the sum total of hire-purchase credit and leasing finance (the changes in which are associated closely with rises and declines in durable consumer goods purchases and fixed investment expenditure) slowed down from approximately R1,4 billion in each of the first three quarters of 1989 to R1,0 billion in the final quarter of 1989 and to R0,9 billion and R1,1 billion in the first and the second quarter of 1990. Quarterly increases in monetary institutions' total mortgage advances retreated from around R2,5 billion in each of the first two quarters of 1989 to R1,8 billion and R1,9 billion in the ensuing two quarters, but rose somewhat again to R2,1 billion in each of the first two quarters of 1990.

"Overdue" amounts on the loan accounts of private banks' borrowing clients rose from a very low 0,4 per cent of total loans and advances granted at the end of December 1989 to 0,5 per cent at the end of March 1990 and to 0,7 per cent at the end of June. This may be compared with a level of this ratio of 2,3 per cent at the end of December 1986 and suggests that financial hardships imposed by the downturn of the economy from early 1989 to mid-1990 have, generally speaking, been relatively limited.

Reserve Bank operations in the money market

Money market conditions, as measured by the market's needs for Reserve Bank accommodation, eased gradually from the beginning of 1990 but nevertheless remained tight in comparison with the first seven months of 1989. The average daily level of the Bank's accommodation of the market at the discount window receded steadily from the peak amount (in nominal terms) of R4,8 billion it had reached in January 1990 to R2,6 billion in June 1990, but rose again to R3,4 billion in July. In August it amounted to R2,8 billion. In *real* terms, the average daily level of accommodation of the market in January 1990 was still somewhat lower than the record amount that had been recorded in July 1984.

The *month-end* amount of accommodation at the discount window declined from an all-time high of R5,5 billion at the end of January 1990 to R3,6 billion at the end of May. It then increased to R4,3 billion at the end of June before declining again to R3,5 billion and R3,1 billion at the end of July and August respectively.

From the accounting point of view, the downward tendency in the market's shortages during most of the first and the second quarter of 1990 could be explained partly from declines in the government sector's balances with the Reserve Bank from the inordinately high levels these balances had reached in early 1990. The monthly average of the daily totals of the balances on the Exchequer Account, the Paymaster-General Account and the Stabilisation Account with the Reserve Bank decreased from R12,1 billion and R12,2 billion in January and February 1990 to R11,0 billion in March, R9,9 billion in April, R10,0 billion in May and R8,6 billion in June. In July and August, however, these average daily amounts rose again to R10,1 billion and R9,9 billion respectively.

On 16 July 1990 an amount of R2,0 billion was transferred from the Exchequer Account to the newly established Independent Development Trust, which is to initiate actions for the socio-economic upliftment and development of various population groups. The potential impact on money market conditions of this large and sudden release of funds from the Government's accounts was, however, neutralised through the sale of government and public corporation paper by the Reserve Bank and the Public Investment Commissioners to the Development Trust. The balance on the Exchequer's *Stabilisation* Account has been kept unchanged at R2,1 billion since 29 March 1990.

From January to March 1990 an easing effect was also exerted on money market conditions by increases in the Reserve Bank's net gold and other foreign reserve holdings. A slight decrease in the Bank's net foreign reserves was, however, recorded during the second quarter. The Bank's dollar swap arrangements with major banking institutions, which had been introduced on 23 February 1990 for the purpose of temporarily sterilising cash reserves accruing to the private banking system (primarily from balance of payments sources), continued to be used from time to time as a convenient instrument for managing money market conditions. The total amount of these dollar swaps reached a peak of R1,7 billion in mid-May 1990 and stood at R1,2 billion in mid-August.

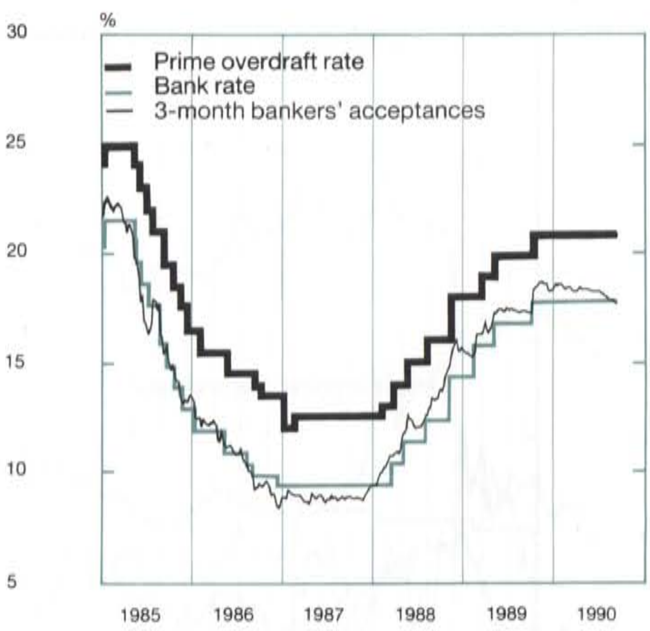
The average daily amount of notes in circulation decreased from R8,1 billion in January 1990 to R7,9 billion in February. It then increased steadily to R8,5 billion in July 1990 and to R8,7 billion in August 1990.

Overnight loan accommodation to banks at the discount window over month-ends increased from R0,8 billion at the end of May to R1,1 billion at the end of June 1990. However, no assistance in this form had to be provided to the market at the end of July or August.

Net sales of government stock by the Reserve Bank from April to June 1990 amounted to R3,8 billion. In July and August such sales amounted to R0,8 billion and R0,9 billion respectively. The Bank also stepped up its activity in the government stock options market to a noteworthy degree. During July, for example, the Bank's transactions in traded-options contracts amounted to nearly R0,8 billion.

The amount of Treasury bills offered at the weekly tender was raised to R70 million from 11 May 1990, to R100 million from 15 June and to R120 million from 24 August 1990. The amount of Treasury bills outstanding advanced from only R247 million on 11 May 1990 to R1 104 million on 17 August 1990.

Short-term interest rates



Money market interest rates

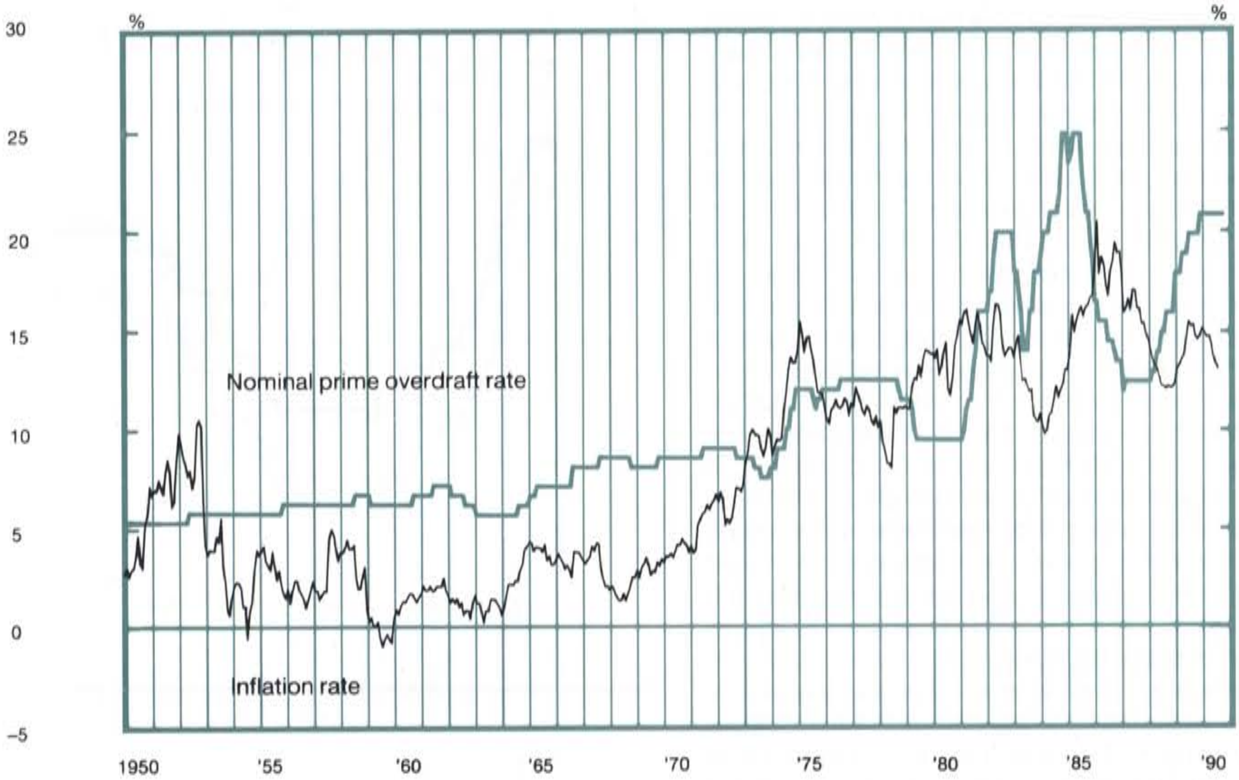
Following the Bank rate increase (to 18 per cent) of 11 October 1989 (and the simultaneous increase in the Reserve Bank's rediscount rate for three-month liquid bankers' acceptances to 18,30 per cent), the market rate on liquid bankers' acceptances fluctuated between a high point of 18,80 per cent on 18 November 1989 and 18,30 per cent on 6 July 1990. As the market increasingly came to expect a lowering of Bank rate and of the Reserve Bank's associated accommodation rates within the next few months, the market rate on liquid bankers' acceptances dropped below 18,30 per cent from approximately 7 July 1990, and below Bank rate from 17 August 1990. This was the first such negative acceptance rate/Bank rate differential since the last few days of 1987. On 12 September 1990 the market rate on three-month liquid bankers' acceptances reached a low point of 17,80 per cent.

In his Governor's Address at the Reserve Bank's Annual General Meeting of shareholders on 28 August 1990, the Governor stated his conviction that although the time was approaching for a relaxation of monetary policy, the right moment for such a policy change could not yet be said to have arrived. As in mid-September 1990, the "average" market expectation of future interest rate movements, as reflected in the rates quoted in futures contracts for three-month liquid bankers' acceptances, was for the liquid acceptance rate to decline to 17,08 per cent by November 1990 and to 16,12 per cent by February 1991.

The discount houses' call rate declined markedly from 21,25 per cent at the end of June 1990 to 20,25 per cent at the end of July and to only 19,00 per cent at the end of August. Round-tripping may, however, still have been provoked by the positive call rate/prime rate differential as at the end of June.

A comparison of the South African commercial banks' prime overdraft rate with the twelve-month rate of inflation in consumer prices over the past forty years shows that – in contrast with the first twenty-three years of this period – the prime lending rate since 1973 has not been significantly positive in real terms for more than approximately 2½ years in succession. The negative real interest rates that appeared to be made feasible and permissible by direct credit controls and exchange controls, by the floating of the exchange rate, and/or by balance of payments strength imparted by the high dollar price of gold in the gold boom years 1973-75 and 1979-81 (and which repeatedly appeared to be required for purposes of restimulating the domestic economy), have only fairly recently been recognised adequately as having been a contributory factor in bringing about various longer-term problems and

The prime overdraft rate and twelve-month rate of inflation in consumer prices



structural deficiencies in the South African economy. The need for rectifying these deficiencies is an argument in the case for interest rates that will be positive in real terms in virtually all conceivable conditions.

Capital market developments

Trading activity in the secondary capital markets, which had reached quite extraordinary heights in the first quarter of 1990, fell back sharply in the second quarter. Declines were also recorded in the volume of fixed property transactions, while share prices weakened further after hesitancy on the stock exchange had set in from approximately March 1990 onward. In the *primary* markets, on the other hand, the amount of new security issues rose significantly in the second quarter of 1990, after having declined substantially in the preceding three months.

The value of *public sector stock* traded on the stock exchange rose from R58,1 billion in the fourth quarter of 1989 to a wholly unprecedented R77,3 billion in the first quarter of 1990, but declined by a remarkable 35 per cent to R50,2 billion in the second quarter. At R19,3 billion, however, the value of these transactions in July was again significantly higher than the average *monthly* turnover of public sector stock of R16,7 billion from April to June.

The declining level of trading in public sector stock in the second quarter of 1990 could be attributed to a minor extent to diminishing net purchases of such stock by non-residents on the Johannesburg Stock Exchange, which decreased 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 in the second quarter. This amount subsequently recovered, however, to R190 million in July, from a monthly average of R97 million in the preceding three months.

The value of *shares* traded on the stock exchange, which had increased from a then record level of R6,2 billion in the fourth quarter of 1989 to a new record level of R8,6 billion in the first quarter of 1990, fell back by 36 per cent to R5,5 billion in the second quarter. Unlike turnover in the public-sector stock market, however, the amount of shares traded then slipped back slightly further from its monthly average of some R1,8 billion in the second quarter to R1,7 billion in July.

The value of the net *sales* of shares by non-residents on the Johannesburg Stock Exchange only reached its peak in the first quarter of 1990. The amount of these sales rose from R518 million in the fourth quarter of 1989 to no less than R2 832 million in the first quarter of 1990, but fell back sharply to R803 million (or to a monthly average of some R268 million) in the second quarter of 1990. It then declined even further to only R118 million in July.

The more rapid dwindling of non-residents' net *sales* of shares than of their net *purchases* of public sector stock in the first seven months of 1990 caused non-residents' aggregate net sales of both shares and stock to decline sharply from R2 127 million in the first quarter of 1990 to only R506 million in the second quarter; these net *sales* were then reconverted into net *purchases* of R72 million in July (against net purchases of R365 million in the fourth quarter of 1989).

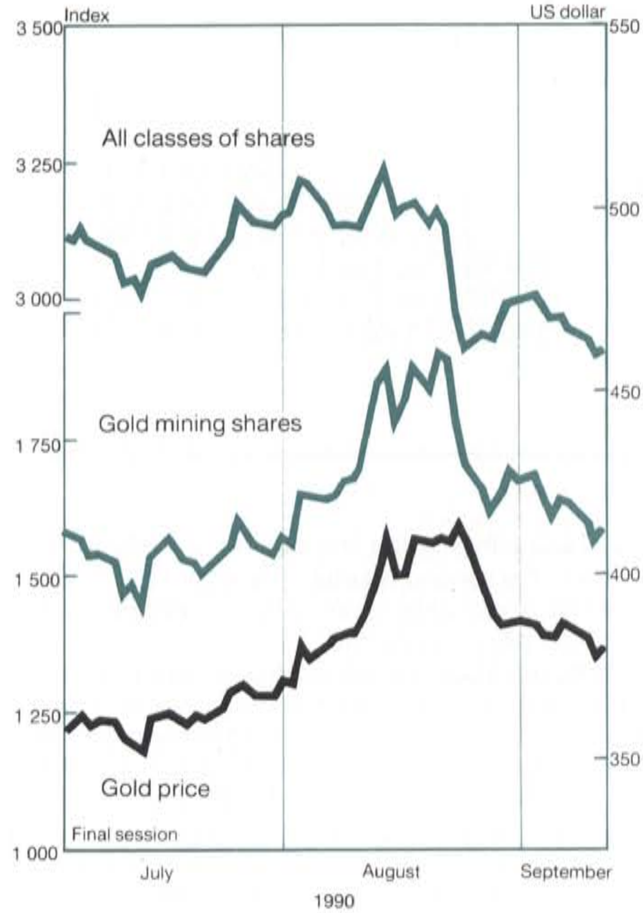
More generally, the decline in transactions in public sector stock and company shares in the second quarter of 1990 marked a return to more normal and sustainable levels of trading activity, after the hectic spurt in these transactions in the first quarter. A large part of the overall decline in trading activity would appear to have been due to the fact that portfolio reshufflings (notably shifts out of public sector stock and into shares) by insurers and pension funds in response to the new rules concerning maximum investment limits, and opposite switchings by non-residents out of shares into higher-yielding public sector stock, have now largely run their course. In addition, the exuberance of share trading activity that was a feature of the first quarter of 1990, was also dampened by declines in the dollar price of gold in March, May and June and by the effect of these declines on gold-mining share prices, other share prices and market sentiment.

The average *price level* of all classes of shares, which had risen by 7 per cent in the fourth quarter of 1989, gained another 4 per cent in the first quarter of 1990, but shed 7 per cent in the second quarter. This was the second-largest price decline in a single calendar quarter after the "crash" of October 1987 (which had caused the average share price level to drop by 33 per cent in the fourth quarter of 1987); it was still surpassed, however, by the 10 per cent price decline in the first quarter of 1988. In June 1990 the monthly average price level of all classes of shares was 8 per cent lower than at its most recent high point in February 1990.

The average price level of *gold-mining* shares reached a high point in January 1990, but subsequently slipped back steadily, by a total of 35 per cent, to a level in June 1990 that was 42 per cent lower than the all-time high of these prices in August 1987. Gold-mining share prices recovered, however, by some 24 per cent in July-August 1990 in response to the firming of the dollar price of gold, notably after the Iraqi invasion of Kuwait on 2 August.

The average price level of *financial* shares reached its highest point as in 1990 to date only in March 1990. Financial share prices rose by 8 per cent in the first quarter of 1990, declined by 3 per cent in the second quarter, but rose again by 2 per cent in July. *Industrial and commercial* share prices reached a peak in Feb-

JSE-Actuaries' share price indices and gold price

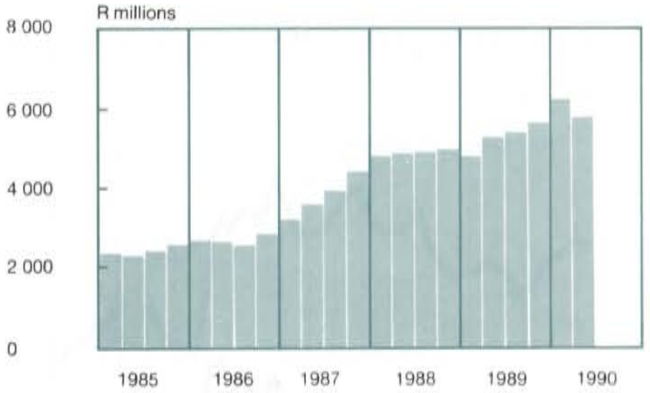


ruary 1990, but retreated by 2 per cent in the second quarter and by 1 per cent in July.

The monthly total value of deals in *futures contracts* amounted to nearly R2,3 billion, R2,3 billion and close to R2,0 billion in May, June and July 1990 respectively. The amount of these deals then rose abruptly (by 59 per cent) to more than R3,1 billion in August, mainly in response to uncertainties created by the crisis situation in the area surrounding the Persian Gulf.

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 *repayment* of debt of R0,8 billion in the fourth quarter of 1989 to net new borrowing of R0,4 billion and R5,3 billion in the first and the second quarter of 1990 respectively. *Private sector* companies, which had made new issues of fixed interest securities in the first quarter of 1990 to an amount of only R60 million, raised R109 million in the second quarter of 1990. In addition, companies listed on the stock exchange also increased the amounts of new issues of ordinary share capital from

Real estate transactions



only R0,3 billion in the first quarter of 1990 to R2,2 billion in the second quarter. The latter total included three major individual issues of R0,8 billion, R0,6 billion and R0,4 billion respectively.

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, rose steadily to a level of R1,8 billion in both the first and the second 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 R0,7 billion in the first quarter of 1990 and to R0,8 billion in the second quarter. However, 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 of 1990.

The value of *real estate transactions* rose from its previous record level of R5,7 billion in the fourth quarter of 1989 to a new high of R6,2 billion in the first quarter of 1990 and amounted to R5,7 billion in the second quarter of 1990.

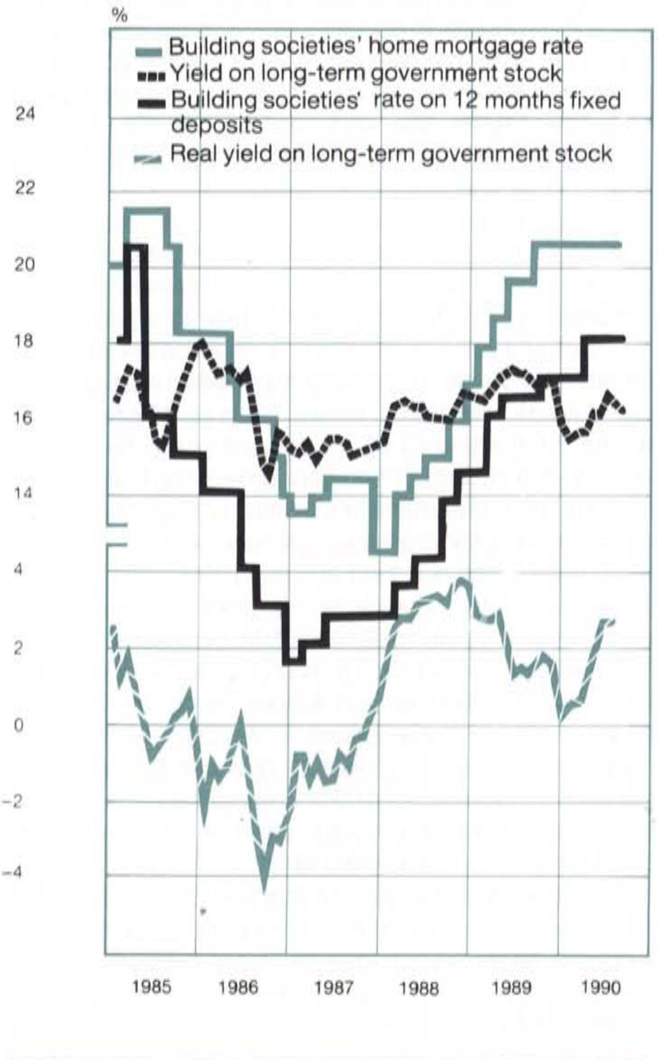
Capital market yields and interest rates

Capital market rates, which had been on a hardening course from about February 1990, softened slightly in July and August in the general climate of declining short-term interest rate expectations, improvements in the inflation rates, the slightly better dollar price of gold in July, and official efforts to improve the tradeability of government stock. The average monthly yield on long-term government stock, which had declined relatively steeply from 16,9 per cent in October 1989 to 15,5 per cent in January 1990, reverted to 16,7 per cent in June. It then eased slightly to 16,4 per cent in July 1990 and to 16,3 per cent in August.

The *real* interest rate on long-term government stock (i.e. the nominal rate after adjustment for the prevailing year-on-year inflation rate), which had reached a high point of 3,9 per cent in November 1988, slid down fairly steadily but strongly to only 0,3 per cent in January 1990. However, increases in the nominal yield on long-term government stock up to June, and the decline in the inflation rate, subsequently caused this rate to return to 2,7 per cent in July 1990.

Mirroring the weakening of the general level of share prices in the second quarter of 1990, the monthly average *dividend yield* on all classes of shares rose from 5,3 per cent in March 1990 to 5,6 per cent in July; it remained at this level in August. The average *earnings* yield on all classes of shares (excluding gold-mining shares) eased from 15,4 per cent in December 1989 to 14,5 per cent in June 1990, before recovering to 15,1 per cent in July and to 15,2 per cent in August.

Capital market interest rates and yields



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 through September 1990, its longest period of no change since the period October 1975-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 raised from 16,5 per cent to 17,0 per cent in October 1989 and to 18 per cent in April 1990. However, this rate was lowered to 17,0 per cent in August 1990 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 were raised by 1,5 per cent in March 1990. This increase was effected partly by way of compensation for the first step in the gradual phasing-out (by 20 per cent per year over a five-year period) of the tax-free status of the interest income earned on these investments. The current interest rate of 11,5 per cent on Post Office Savings Certificates and on tax-free deposits with, and subscription shares in, building societies compares with a rate of 9,5 per cent in November 1989.

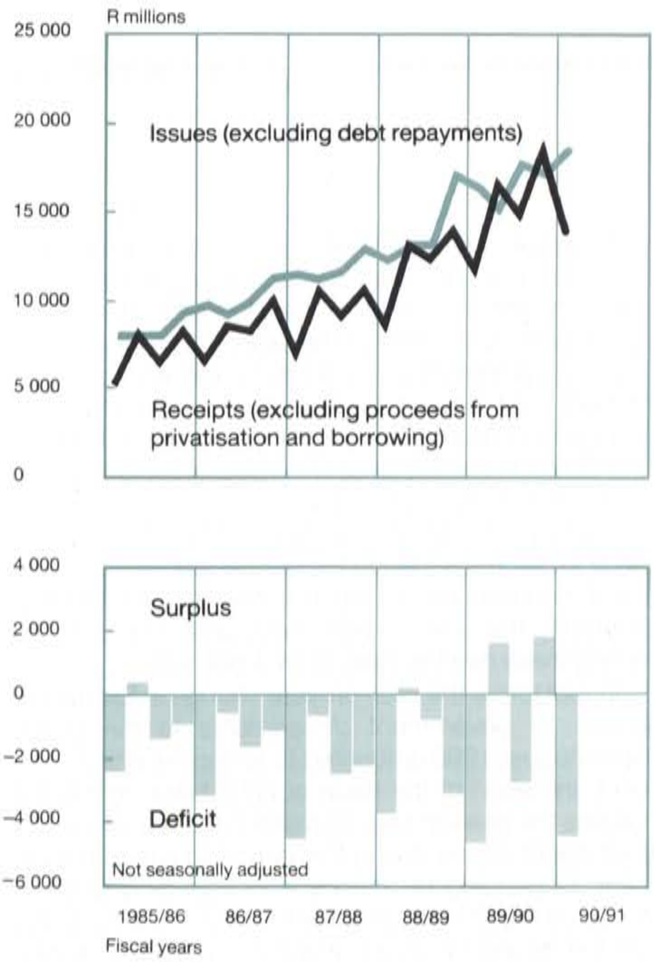
Government finance

Exchequer issues

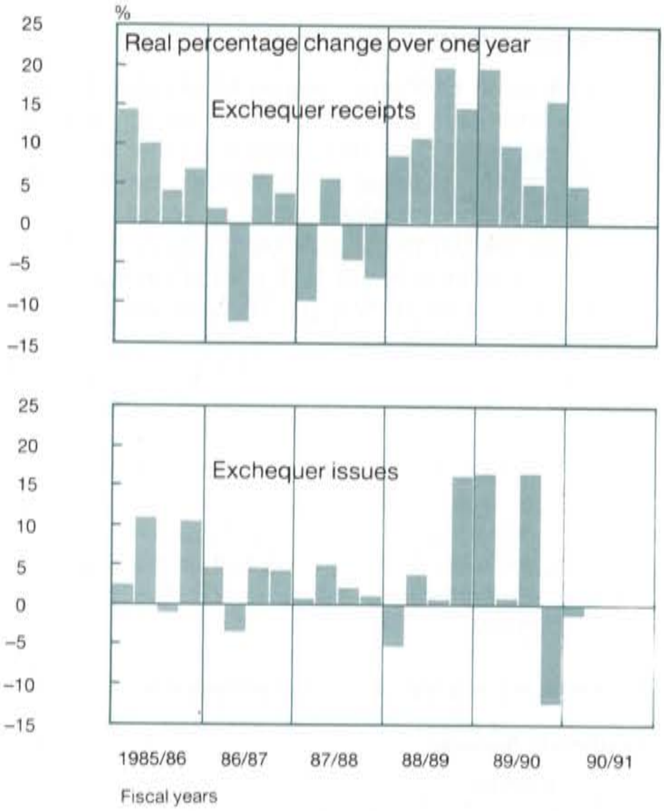
The change in Exchequer *issues* to Central Government departments as compared with the corresponding quarter of the preceding fiscal year (after the usual adjustment for changes in the balance on the Paymaster-General Account) rose from an actual *de*crease of 1,0 per cent in the final or March quarter of fiscal 1989/90 to an increase of 12,6 per cent in the first or June quarter of fiscal 1990/91. The year-on-year percentage increase in such issues in the June quarter of 1990 was therefore slightly higher than the budgeted increase of 11,9 per cent for the fiscal year 1990/91 as a whole.

In July-August 1990, notably in August, the year-on-year percentage increase in Exchequer issues to government departments rose substantially. As a result, these issues were 17,0 per cent higher in the first five months of fiscal 1990/91 than in the first five months of fiscal 1989/90.

Exchequer Account



Exchequer receipts and issues



However, the published data for *total* Exchequer issues in July 1990 also include the payment of R2,0 billion to the Independent Development Trust (IDT), which was established for the express purpose of instituting programmes and actions of socio-economic upliftment and development of the country's various population groups. This expenditure was funded from the Government's financing surplus in fiscal 1989/90 and was not included in the Government's 1990/91 budgetary expenditure estimates. When this amount of R2,0 billion is added to Exchequer issues to government departments in the first five months of fiscal 1990/91, the year-on-year increase in these issues during these months rises to 24,4 per cent.

In *real* terms the year-on-year change in Exchequer issues to *government departments* in the period April-August 1990 amounted to an *in*crease of 2,9 per cent. Inclusion of the issue of R2,0 billion to the IDT causes the year-on-year increase in the real amount of Exchequer issues during this period to rise to 9,4 per cent. Depending on the pace of spending of these funds by the IDT, the short-term impact of fiscal policy on the economy could, therefore, be more expansionary than anticipated.

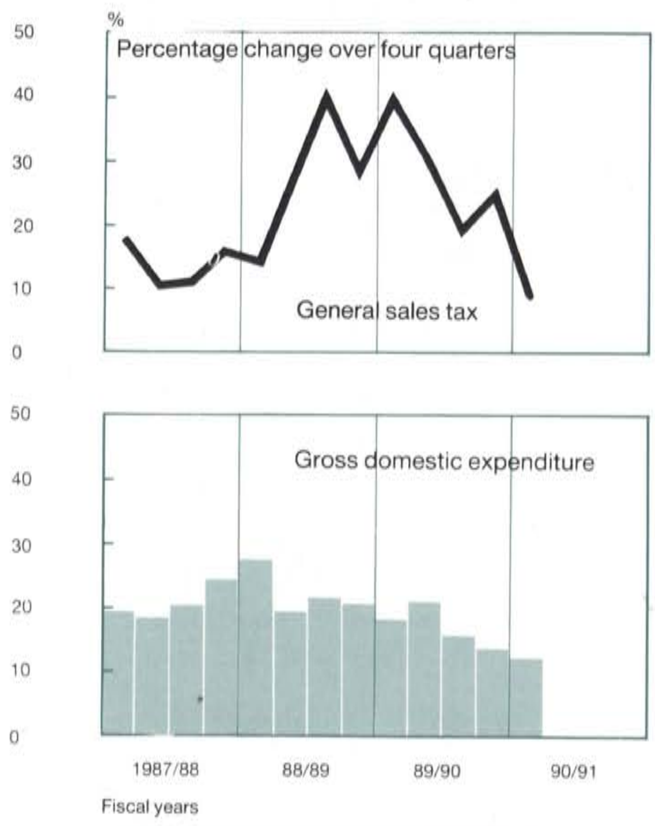
Exchequer receipts

The year-on-year rate of increase in Exchequer *receipts* declined from 27,2 per cent in the March quarter of 1990 to 19,1 per cent in the June quarter. This rate of increase then showed a slight further deceleration in July and a more pronounced decline in August, owing to lower income tax receipts from the gold-mining industry. Total receipts in the first five months of fiscal 1990/91 accordingly were 15,0 per cent higher than in the corresponding period of fiscal 1989/90.

This rate of increase of 15,0 per cent in Exchequer receipts in the first five months of fiscal 1990/91 was markedly higher than the increase of 5,8 per cent in government revenue that had been envisaged in the March 1990 Budget for the fiscal year as a whole. In *real* terms the year-on-year increase in Exchequer receipts during the five months to August 1990 amounted to 1,2 per cent.

The unexpected strength of Exchequer receipts in the first five months of fiscal 1990/91 could be attributed mainly to unanticipated large increases in receipts from income tax on individuals and companies. Receipts from customs and excise duties and from the surcharge on imports during this period also exceeded the Budget expectations for the fiscal year as a whole.

General sales tax and gross domestic expenditure



However, the rate of increase in receipts from the fuel levy and from general sales tax during the five months to August 1990 was lower than had been anticipated in the Budget estimates for the current fiscal year. This was largely a reflection of the general slowing-down of domestic economic activity.

Deficit before borrowing

The Exchequer Account deficit before borrowing and debt repayment in the first five months of fiscal 1990/91 amounted to R7 126 million, or to R3 132 million more than in the corresponding period in fiscal 1989/90. At this level the cumulative deficit in the five months to August 1990 was equal to 89 per cent of the deficit of R7 994 million that was envisaged in the March 1990 Budget for the fiscal year 1990/91 as a whole. If the payment to the Independent Development Trust is not regarded as an Exchequer issue, the cumulative deficit from April to August 1990 amounted to R5 126 million, or to 64 per cent of the budgeted deficit for the fiscal year. The Exchequer Account deficit of R4 856 million in the *four* months to July 1990, *plus* the discount of R1 670 million on new issues of government stock (for a total of R6 526 million), was financed from the following sources:

	R millions
Public Investment Commissioners	–970
Non-bank private sector	6 726
Banking sector:	
Corporation for Public Deposits	–581
Other banks	1 403
Foreign sector	–52
Total	**6 526**

The borrowing instruments and available cash balances utilised in the financing of the Exchequer Account deficit of R7 126 million in the first *five* months of fiscal 1990/91 were as follows:

	R millions
Government stock	7 917
Treasury bills	719
Non-marketable securities	–88
Foreign loans	–24
Use of cash balances	696
Total gross financing	9 220
Less: Discount on new stock issues ..	2 094
Total net financing (= Exchequer deficit)	**7 126**