Quarterly economic review

Introduction

Aggregate real output in the South African economy showed a mild further decline in the first quarter of 1990 at a seasonally adjusted annual rate that is preliminarily estimated at approximately 1½ per cent. This followed a decrease at a similar rate in the fourth quarter of 1989.

Technically, the sequence of two consecutive quarters of negative real output growth can be taken to mean that the "consolidation" of the economy which was experienced in the course of 1989, has now hardened to a light recession. The "soft landing" nature or generally quite gradual character of the economy's cyclical slowing-down since the first quarter of 1989 should not, of course, be understood as being inconsistent with eventual mild fall-offs in aggregate real domestic output and demand.

The moderate decline shown by the real gross domestic product in the fourth quarter of 1989 was, however, essentially due only to a drop in real value added by agriculture (after harvesting of the large 1988/89 maize crop had been completed in the third quarter of 1989). In a similar manner, the mild further contraction of the real domestic product in the first quarter of 1990 could be attributed primarily to some further shrinkage of real value added in agriculture as well as to notably more substantial declines in physical output in the mining sector, particularly in the gold-mining industry.

Only a slight decrease in total real output was shown in the first quarter of 1990 by the *secondary* or industrial sectors; real value added in the *tertiary* (trade and other services) sectors continued to rise moderately at an annualised rate of slightly more than 2 per cent. Total real output of the *non-primary* sectors of the economy (i.e. excluding agricultural and mining production) accordingly still rose in the first quarter of 1990 at an annualised rate of the order of 1½ per cent. The moderately lower level of *total* real gross domestic product in the first quarter of 1990 vis-à-vis the average quarterly level of total real output in 1989 does mean, however, that quarter-to-quarter growth at a fairly significantly positive rate will have to be attained in the remaining three quarters of 1990 if non-negative real growth is to be realised from the calendar year 1989 to the calendar 1990 as a whole. In the currently prevailing conditions (and without the aid of another unusually good crop year in agriculture) the economy may have some difficulty in doing so.

On the spending side of the economy a continuation was shown in the first quarter of 1990 (for the fourth consecutive quarter, but at a notably more modest pace than in the preceding two quarters) of the decline in aggregate *real gross domestic expenditure*. A moderate decrease was displayed by real gross domestic fixed investment for the second consecutive quarter; further decreases were also registered in aggregate real inventories. A major increase was recorded, however, in total real government consumption expenditure on intermediate goods and services in particular. A moderate further rise was also shown by total real private consumption expenditure, despite households' further trimming of their real expenditures on both durable and semi-durable goods.

In the *labour market*, increases in total non-agricultural employment recovered in the course of the first three quarters of 1989 to a rate of growth which (in seasonally adjusted and annualised terms) significantly exceeded the year-to-year rates of increase in employment in the upswing years 1986-1988. However, such information as is available for the fourth quarter of 1989 points to a slow-down in employment increases, if not to actual total employment declines, towards the end of the year. Registered *un*employment among the White, Coloured and Asian population groups, and unemployment among Black workers as measured by the Current Population Survey, showed renewed declines in the third and part of the fourth quarter of 1989 in apparent contradiction to the cooling-down of the economy. The most recently available monthly data for late 1989 and early 1990 do not yet display any pronounced upward trend.

The *inflation rates*, which had reached recent peaks in the second quarter or towards the middle of 1989, mostly improved significantly in the second half of 1989 and continued to do so in the first three months of 1990. The mildly downward drift (and some rather more dramatic improvements) of most inflation rates from mid-1989 onwards was aided by the firmer tone, significant strengthening and only mild subsequent weakening of the effective exchange rate of the rand in the third and the fourth quarter of 1989 and the first quarter of 1990. During much of this period, however, the inflation picture brightened against a background of accelerating nominal wage increases and rising unit labour costs in both real and nominal terms. Comparatively little headway was also made as yet in bringing down the rate of inflation in *consumer* prices – particularly when measured over twelve-month periods.

The moderate further slackening of aggregate real gross domestic expenditure in the first quarter of 1990 helped to strengthen the surplus on the *balance of payments on current account*. This surplus widened under the impact of a significant recovery in merchandise export earnings and a substantial retreat in net service and transfer payments to foreigners from the uncommonly high level these payments had reached in the preceding quarter. These two positive elements more than made up for a marked decline in the value of the net gold exports and some renewed increase in merchandise imports.

A dramatic improvement – mainly because of a huge "swing" in short-term capital movements – was observed on the capital account of the balance of payments in the first quarter of 1990. Between them, the current account surplus and the small remaining net outflow of non-reserve-related capital gave rise to a major strengthening of both the total South African gross and net foreign reserves during this period. However, repayments on foreign loans that had been converted into three-year loans in 1986 and on other debts outside the standstill net, caused the Bank's gross foreign reserve holdings to fall back moderately in April and, to a lesser extent, also in May.

The effective *exchange rate of the rand* weakened mildly in January-February 1990 and more significantly in March. After holding steady in April, it retreated modestly again in May.

Cooling-down of the economy was reflected increasingly in decelerations of the rates of increase in *credit extended by monetary institutions* to the private sector and, to a distinctly less impressive degree, also in the *M3 money supply*. The slowing-down of these growth rates from late 1988 through 1989 and early 1990 has, however, only recently brought most of these rates to below the 20 per cent level. The tempo of monetary expansion has, therefore, remained at significantly higher levels to date than at comparable stages in the slowdown in new credit extension from late 1984 to early 1987; the *extent* of the drop in the twelve-month growth rate of M3 from its high point in August 1988 has, moreover, patently failed to match the extent of the deceleration over comparable timespans during this earlier period.

Growth in the monetary aggregates and in bank credit was boosted in 1988 and 1989 by "liquidity preference proper" and by reintermediation phenomena. Rapid expansion of banking institutions' commitments under repurchase agreements during parts of 1989 in particular, represented these institutitons' attempts at a partial reversal of these developments. The very large volume of buy-backs outstanding caused the Reserve Bank to announce on 24 April 1990 that, primarily in the interest of sound banking practices, the excess of banking institutions' repurchase commitments over the level of these commitments as at the end of February 1990 was to be made subject to cash reserve and liquid asset requirements.

As they presented themselves to observers in mid-June 1990, the national accounts data for the first quarter of 1990, and most of the more recently available readings of cyclically sensitive time series, did not yet suggest a major weakening of business conditions or an abrupt downward adjustment of economic activity. Certain developments did, however, "point downwards" or suggest a possible strengthening of the rate at which the economy may currently be cooling down.

Firstly, downward trends are displayed by the recent behaviour of, among other things, net new company registrations, wholesale and retail sales at constant prices, and the number of new motor vehicles sold. Motor traders have, however, also had to cope with irregular deliveries and inadequate supplies; they experienced a marked recovery in vehicle sales during May.

Secondly, the slow-down in the rate of extension of new bank credit to the private sector (which appears to reflect banks' increased reluctance to lend as well as private borrowers' increased unwillingness or inability to borrow) has now proceeded quite far. The most recently recorded increases in banks' claims on the private sector are close to the Reserve Bank's morally prescribed "norm" of not more than 1 per cent per month. They are also close to an absence of growth in bank credit outstanding in real or inflation-adjusted terms.

Thirdly, "confidence" in April, May and June 1990 does not seem to have been able to maintain fully its generally high levels of the first few months of the year. Business and consumer sentiment appear to have become more "brittle", in the light of, among other things, rapid recent and prospective socio-political developments and the potentially momentous but as yet only very dimly foreseeable nature of these developments. Less buoyantly confident sentiment has also tended to result from gold price declines such as those in late March and in late May and early June, and from the impact of these gold price movements on the behaviour of share prices on the stock exchange.

Total real output of the economy in the second quarter of 1990 is likely to show itself to have been affected adversely by the usual succession of public holidays and long week-ends in April and May as well as by recent increases in the incidence of politically motivated absenteeism and labour unrest, recent and current intergroup friction in certain parts of the country, and recent and current "industrial action" in various sectors and sub-sectors of the economy. Against these various negative elements, however, the main text of this *Review* also draws attention to factors that will tend to support private-sector consumption expenditure in the quarters ahead. In addition, more stimulus than was provided for in the Budget of March 1990 may emanate from the Central Government's spending policies in the fiscal year 1990/91.

The *capital markets* in the first quarter of 1990 witnessed further very large increases in turnover of shares and public-sector stock traded on the stock exchange. Share prices also showed a modest further recovery, and a further increase was recorded in the value of real estate transactions. April, however, saw a sharp drop in trading activity in both stocks and shares and some general weakening of share prices.

Relatively tight conditions continued to be maintained in the *money market*; call rates in the market rose to levels of 21,25; 20,00; 20,25; 21,00 and 20,75 per cent over the month-ends from January to May 1990 respectively. A relatively high degree of stability, on the other hand, was displayed by the rates on short-term market instruments after the Bank rate increase of October 1989. *Inter alia* to counteract the easing effect of increases in the Reserve Bank's net foreign reserve holdings on market conditions, the Bank made intermittent use of dollar swap arrangements with major banks from 23 February 1990 onwards.

National accounts

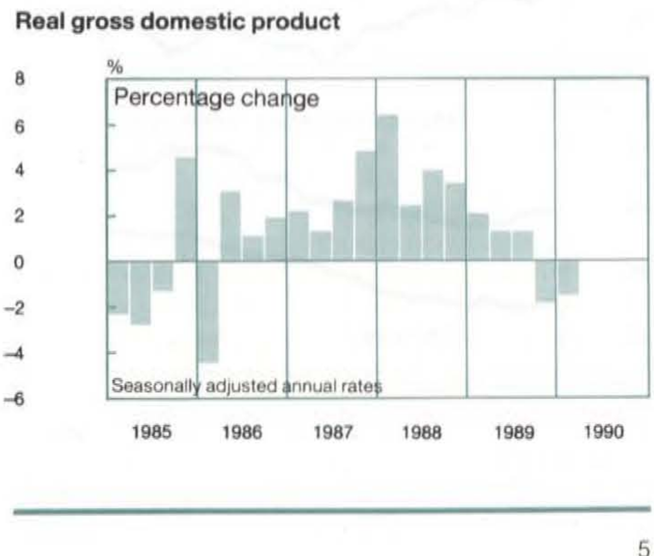
Domestic output

First estimates indicate that the South African real gross domestic product contracted further in the first quarter of 1990. Information currently available suggests that the tempo of this decline amounted to a seasonally adjusted and annualised rate of approximately 1½ per cent. This follows a decline at a similar rate in the fourth quarter of 1989.

Sectoral production estimates show that real value added declined significantly in the first quarter of 1990 in the *primary sectors*, i.e. in agriculture and mining. In the mining sector the decline in real output in the first quarter of 1990 reached a seasonally adjusted and annualised rate of as much as 12 per cent. This was the result of substantially lower gold production and a lacklustre performance by other sub-divisions of the mining industry. The gold-mining industry – apart from being caught in its longer-term problem of rising working costs and prolonged relative weakness of the gold price – was affected adversely by sporadic labour unrest, technical difficulties at certain mines and a resultant decline in milling operations. It also experienced a decline in the average grade of ore milled.

Real output in the *secondary sectors*, i.e. the industrial sectors, in the first quarter of 1990 appeared to have decreased slightly from levels attained in the fourth quarter of 1989. Small declines in real value added in manufacturing and construction outweighed a slight expansion of real output in the sector electricity, gas and water. Production decreases in manufacturing were recorded mainly in the sub-sectors food, paper and printing, and base metals. Increased output levels were recorded, however, in non-metallic mineral production and in machinery and transport equipment.

Real gross domestic product

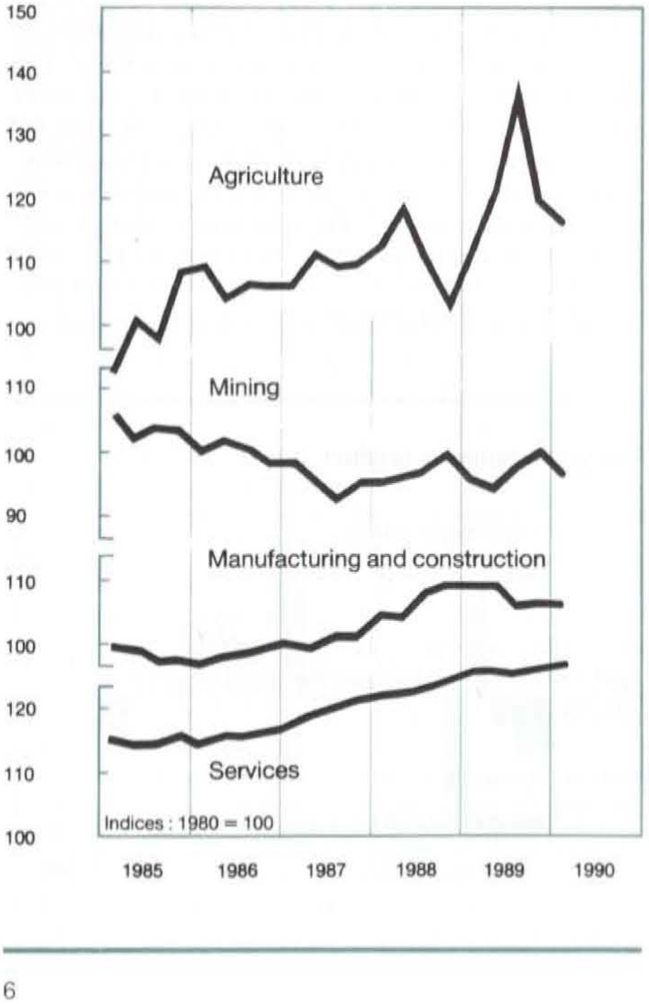


Real value added in the *tertiary sectors*, i.e. in the trade and services sectors, is estimated to have increased moderately in the first quarter of 1990 at an annualised rate of slightly more than 2 per cent. Output increases appeared to have occurred in broadly all tertiary sectors; the tempo of these increases, at annualised rates, ranged from 1 to approximately 2½ per cent.

The relative firmness of real output growth in the tertiary sectors could be attributed, among other things, to the continued strength of foreign demand and to the positive mood regarding the South African socio-political situation that still prevailed among most of both the household and the business sector during the greater part of the first three months of 1990.

Within the total of tertiary activities, positive real growth was displayed by virtually all sub-sectors of *transport* and *finance*. In the sector *commerce*, improvements were shown by both wholesale and retail trade. Real value added in the motor trade, on the other hand, contracted at an annualised rate of approximately 7 per cent. The motor trade was influenced unfavourably by cutbacks in households' real durable consumption expenditure, less buoyant crop prospects in agriculture and diminishing real investment expenditure by business enterprises. In addition, motor dealers were hampered by supply constraints that affected trade in heavy commercial vehicles in particular.

Components of real gross domestic product



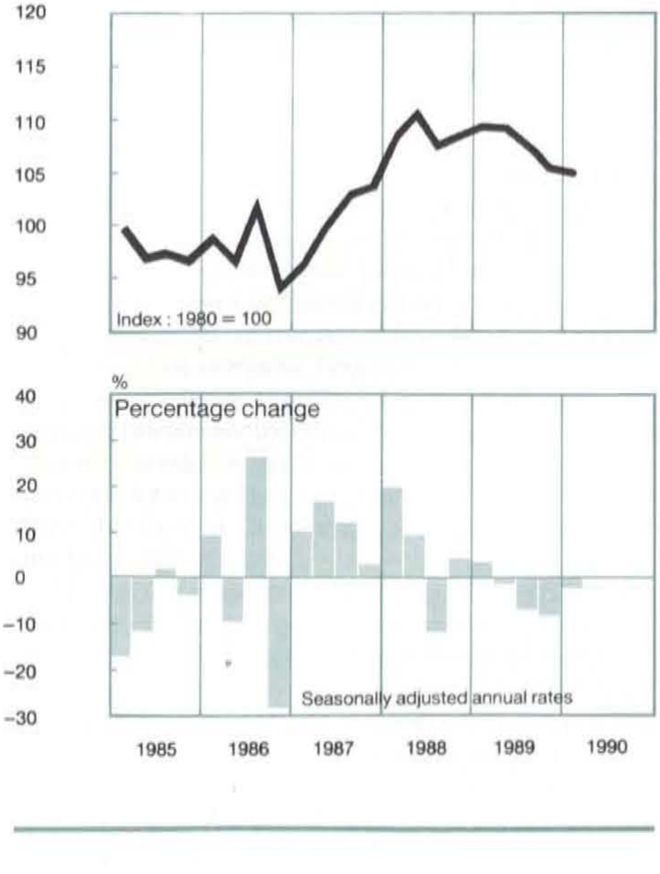
Domestic expenditure

Aggregate real gross domestic expenditure decreased at an annualised rate of ½ per cent in the second quarter of 1989 and at annualised rates of 6½ and 7½ per cent in the third and the fourth quarter. Current estimates indicate that these declines in aggregate real expenditure were continued in the first quarter of 1990 for a fourth consecutive quarter, but at a lower rate which is provisionally estimated at somewhat more than 1½ per cent.

As a result of the shrinkage of total real gross domestic expenditure from the second quarter of 1989 onwards, the level of this expenditure in the first quarter of 1990 was nearly 5 per cent lower than in the first quarter of 1989.

The slowing-down of the rate of contraction of aggregate real gross domestic expenditure from the second half of 1989 to the first quarter of 1990 could be attributed to a slight reacceleration of growth in real

Real gross domestic expenditure



private consumption expenditure, and to a major quarter-to-quarter rise in real government consumption expenditure after three quarters of declines. Aggregate real gross domestic fixed investment, on the other hand, is provisionally estimated to have slipped down further. Further decreases are also estimated to have occurred in aggregate real inventories.

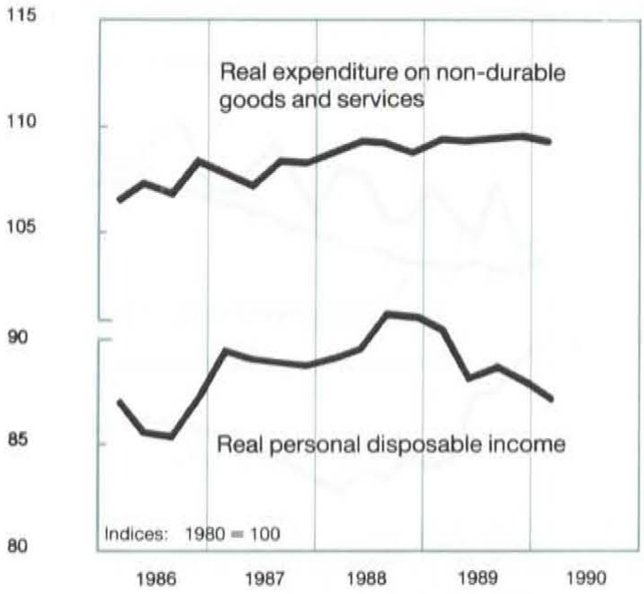
The moderate increase in real *private consumption expenditure* was mainly based on increases in real outlays on non-durable consumer goods and on services. These increases more than made up for further declines (although at lower rates than in the preceding two quarters) in real household expenditures on durable and semi-durable goods. The tempo of the contraction in households' real outlays on consumer *durables*, which had reached an average annualised rate of 11½ per cent in the second half of 1989, slowed down markedly in the first quarter of 1990. This could be attributed to a deceleration of the decline in households' real outlays on personal transport equipment and to continued firmness of their real spending on furniture.

The shrinkage of households' real spending on *semi-durable* goods arose from reductions in real outlays on items such as clothing, household textiles, and automotive spares and accessories. The modest rise in total real private-sector expenditure on *non-durable* consumption goods and on services reflected the more essential and non-discretionary nature of spending in these categories as well as the relative shift towards non-durable expenditure that tends to characterise periods of "consolidation" in the real economy and of fall-offs in real personal disposable income per capita. Such shifts may involve some actual *substitution* of non-durable spending for durable spending, which may mean actual *increases* in real non-durable spending per capita in the face of declines in *total* real consumption expenditure per capita. In addition to these cyclical elements, however, recent increases in the relative importance of non-durable spending in aggregate real private-sector consumption expenditure may also have incorporated the effect of shifts in the distribution of real personal disposable income between income recipients in different categories of income by size.

Prospects for households' real expenditure on durable and semi-durable goods during the remainder of 1990 should be buoyed significantly by certain policy adjustments that were effected in the first quarter of 1990. These included the relaxation of hire-purchase terms (concerning minimum downpayments and maximum repayment periods) in respect of articles such as stoves, refrigerators and television sets, which became effective on 10 March 1990, and the lowering of the surcharges on imported goods – as announced in the Government's Budget for 1990/91 – which should hold back price increases (if not calling forth actual price reductions) in respect of these goods.

In addition, various adjustments to the taxation of personal incomes were announced in the Budget which should be of benefit to the lower-and middle-income groups in particular; the relief afforded by these measures should be felt from the time of their implementation in July 1990 onwards. Improvements have also been announced with regard to the salaries and wages of various low-wage groups of workers in the civil service. Against this, further steps in the phasing-in of the taxation of fringe benefits will impinge unfavourably on real household spending on consumer durables (notably motor vehicles) among the higher-income groups.

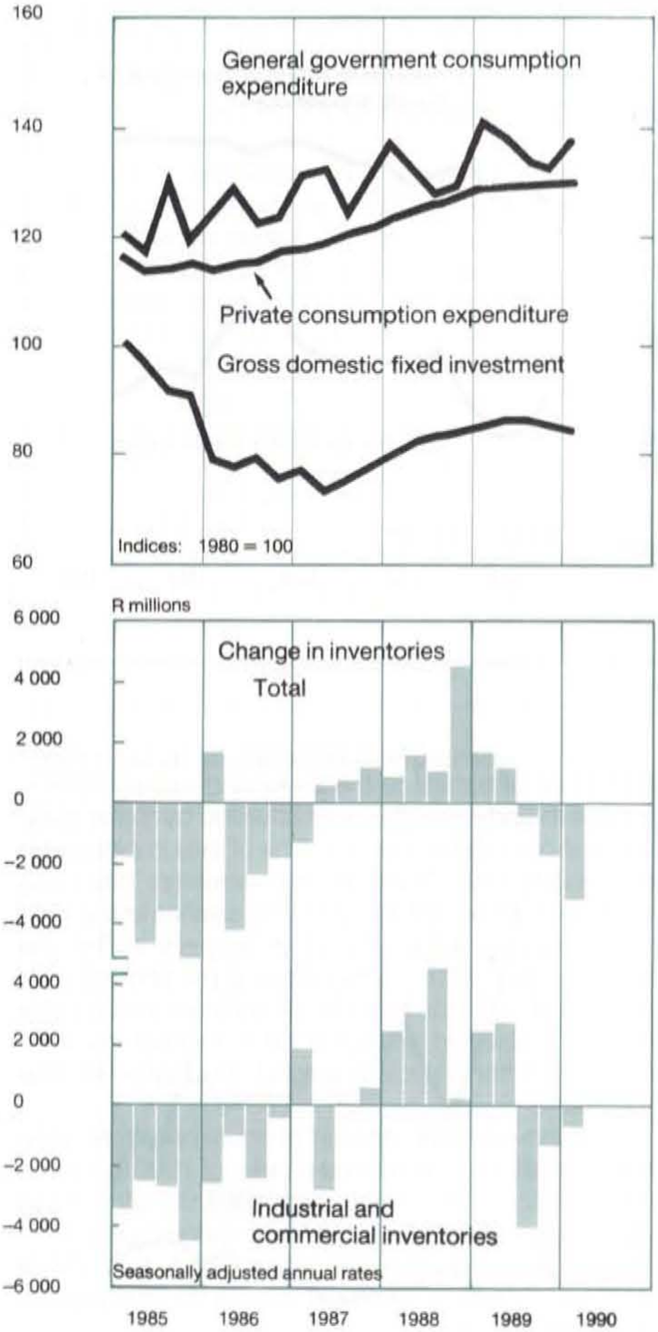
Personal disposable income and expenditure per capita



Real government consumption expenditure rose substantially again in the first quarter of 1990 (i.e. in the final quarter of the fiscal year 1989/90) after three consecutive quarters of significant spending declines. This large first-quarter rise arose mainly from major increases in real government outlays on intermediate goods and services.

The seasonally adjusted and annualised rate of increase in total real government consumption expenditure in the first quarter of 1990 was estimated at nearly 16½ per cent. Although obviously large, this rate of increase was nevertheless considerably smaller than its counterpart of some 40 per cent in the first quarter of 1989. The most recent two fiscal years have, in fact, seen a major change in the time profile of government consumption expenditure in the course of these fiscal years: whereas such spending used to reach its seasonal high point in the first quarter of fiscal years, it did so in the final quarters of both fiscal 1988/89 and fiscal 1989/90.

Main components of real gross domestic expenditure



The level of real government consumption expenditure in the first quarter of 1990 was about 2½ per cent *lower* than in the first quarter of 1989. Total real government consumption expenditure in the fiscal year 1989/90 is, however, estimated to have risen by some 1 per cent vis-à-vis the preceding fiscal year, against an increase of approximately 3 per cent in fiscal 1988/89.

Growth in aggregate real *gross domestic fixed investment* faded away almost entirely in the third quarter of 1989; total gross fixed investment then declined in the fourth quarter of 1989 at an annualised rate of approximately 4½ per cent. Present indications are that this decline continued in the first quarter of 1990 at an annualised rate of approximately 4 per cent.

In the *private* sector declines in real fixed investment were recorded in the first quarter of 1990 in the sectors agriculture, construction and finance. In the case of agriculture, real fixed investment was held back by the less favourable prospects for crops and for farmers' real gross incomes in 1990 than in 1989, by relatively high real interest rates and by the trend towards the withdrawal of marginal land from cultivation. Capital formation in the construction sector is affected by cutbacks in government spending on highways and other infrastructural facilities; in addition, real outlays on residential buildings (and on auxiliary structures, such as roads and streets, sewerage systems, and water and power reticulation) seem unlikely to rise from 1989 to 1990.

In the financial and real-estate sector the decline in real fixed investment was associated with the downturn in real outlays on private residential buildings. Declines were also recorded in real outlays on machinery and transport equipment financed by leasing contracts.

Some increases were still recorded in real expenditure on fixed capital formation in manufacturing, commerce and the mining industry. Real fixed investment in manufacturing would nevertheless appear to be responding downwards to, among other things, some recent widening of the margins of unused or underutilised production capacity, the anticipated low real growth rate of the economy in general in 1990, less impressive cash flows of business enterprises, and somewhat less plenteous corporate liquidity.

Real gross fixed investment in the *public* sector continued to decline from its most recent peak in the third quarter of 1989. This was mainly accounted for by the downward trend in real fixed investment spending by *public authorities*. Among the business enterprises of general government, real fixed investment by the South African Transport Services showed a notable *in*crease in the first quarter of 1990. This was more than fully counterbalanced, however, by declines in real fixed investment expenditures by the Department of Posts and Telecommunications, and by a downturn in such expenditures by general government.

Divergent tendencies were shown by real fixed investment by *public corporations* in their various subsectors. The continued rise in real fixed capital spending by public corporations in manufacturing industry was due to the sustained high level of activity at the Mossgas project. In the sector electricity, gas and water real outlays on fixed capital formation showed a decline over the same period.

Total real inventories, which had been declining since the third quarter of 1989, continued to do so in the first quarter of 1990. De-stocking during this quarter was observed in the mining sector, private manufacturing, and retail and wholesale trade. Decreases were also recorded in real agricultural and diamond stocks-in-trade; the drawing-down of diamond inventories was a reflection of buoyant sales at the international "sights" during the first quarter of 1990.

Factor income and saving

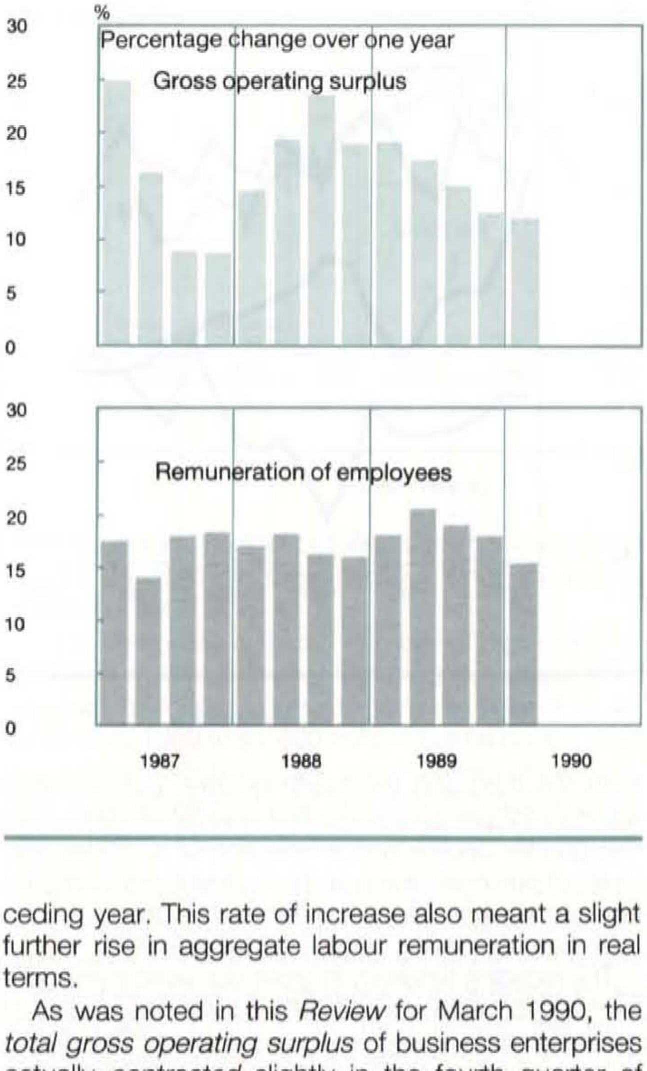
The rate of increase in aggregate nominal factor income at *market prices*, seasonally adjusted and annualised, in the first quarter of 1990 amounted to 11 per cent. Total factor income at market prices was only 14 per cent higher in the first quarter of 1990 than in the first quarter of 1989, against a year-to-year increase of 18½ per cent from the calendar year 1988 to the calendar year 1989. This slow-down was a reflection of the downward trend in the rate of increase over four-quarter periods which has been in evidence in respect of both the principal components of nominal factor income (namely remuneration of employees and the gross operating surplus of business enterprises) since the second half of 1989.

With the exception of transport and finance, a slowing-down of the rate of increase in total nominal *remuneration of employees* was apparent in all sectors of the economy. It was conspicuous in particular, however, in the mining sector and in general government. In the mining sector this could be attributed, among other things, to gradual reductions of the number of workers employed, especially in the gold-mining industry where a number of marginal or vulnerable mines have been cutting back on their mining operations. In addition, the National Union of Mineworkers submitted its annual wage demands only at the beginning of the second quarter of 1990.

In the case of general government, a general wage and salary increase of 10 per cent was granted only as from the second quarter of 1990; this may be compared with the general adjustment of 15 per cent in 1989 which became effective from the beginning of that year. Other sectors recorded gradually lower rates of increase in total nominal remuneration of employees in the first quarter of 1990 as a reflection of apparently reduced rates of new job creation and somewhat easier labour market conditions, against the background of the current and prospective cooling-down of the economy.

The annualised rate of increase in the *total* remuneration of employees, which had already fallen back from an average of as much as 23½ per cent in the first half of 1989 to an average of 12½ per cent in the second half, slackened further to about 10 per cent in the first quarter of 1990. Total nominal labour rewards in the first quarter of 1990 were nevertheless still some 15½ per cent higher than in the first quarter of the preceding year. This rate of increase also meant a slight further rise in aggregate labour remuneration in real terms.

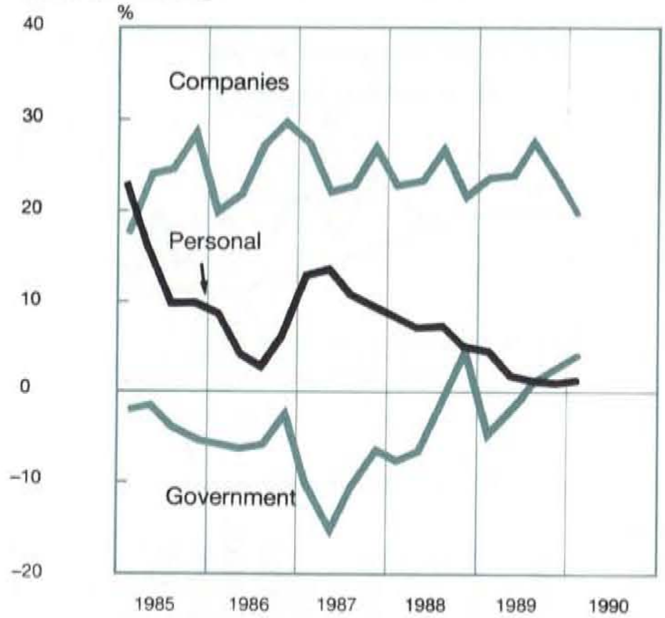
Gross operating surplus and remuneration of employees



As was noted in this *Review* for March 1990, the *total gross operating surplus* of business enterprises actually *contracted* slightly in the fourth quarter of 1989 – mainly on account of lower operating surpluses in agriculture and less impressive rates of increase in company profits in the manufacturing industry, commerce and finance. This was followed, however, by a substantial quarter-to-quarter increase in the total gross operating surplus in the first quarter of 1990, as a reflection of relatively favourable financial results among companies in certain sub-sectors of commerce, transport and finance as well as of the manufacturing industry. More moderate financial results were, however, reported by companies in the mining sector and in construction. Moreover, the rate of change *over four quarters* in the total gross operating surplus in the first quarter of 1990 – which amounted to 11½ per cent – was slightly lower than the average annualised rate of increase in the surplus in the second half of 1989 and significantly lower than the year-to-year increase of approximately 15½ per cent from 1988 to 1989.

Gross domestic saving relative to gross domestic product strengthened mildly from an average of nearly 22 per cent in the first half of 1989 to 23 per cent in

Components of savings as percentage of gross domestic saving



both the third and the fourth quarter, but retreated again to 22 per cent in the first quarter of 1990. This first-quarter decline was a reflection of sustained low levels of personal saving and a decline in net saving by companies; these developments outweighed a moderate rise in net saving by general government.

The receding tendency in gross domestic investment from the fourth quarter of 1989 caused the excess of gross domestic saving over gross domestic investment to improve substantially to 12 per cent in the first quarter of 1990, from an average of only 6½ per cent in the year 1989. Although the slackening of the domestic investment performance is clearly not to be welcomed, the widening of the savings excess may also be viewed more positively as facilitating South Africa's compliance with its commitments regarding reductions of its foreign debt.

The improvement in net saving by *general government* arose from the fact that current revenue in the fiscal year 1989/90 increased by a substantially larger amount (mainly because of higher direct-tax receipts) than had been foreseen in the March 1989 Budget, whereas current expenditure exceeded the Budget estimates to a considerably more modest extent. Positive net saving by general government has, in fact, been recorded again since the third quarter of 1989. This development therefore represents the first *sustained* improvement in the government's saving performance since net *dis*saving by general government on a quarterly basis was recorded for the first time in the first quarter of 1984.

The decline in net saving by the *corporate* sector in the first quarter of 1990 followed very high levels of corporate saving in 1989. This decrease – which occurred in the face of the marked improvement in the total gross operating surplus already referred to – was due to increases in companies' payments of dividends and direct tax, as based on the generally excellent performance of company profits in the second half of 1988 and the first half of 1989 in particular.

Net *personal* saving rose slightly in the first quarter of 1990 but, relative to personal disposable income, still remained at its lowest quarterly level since the net personal *dis*saving that had been recorded in the advanced stages of the mini-boom in the first quarter of 1984. A variety of short-term, cyclical and longer-term factors is contributing to households' currently low propensities to save; as already observed in this *Review* for March 1990, however, households' savings efforts have had to contend in recent quarters with, among other things, the depressing effects on total and per capita real personal disposable income of large recent increases in real personal income tax, lower net interest income on account of comparatively high current levels of mortgage and other interest rates, and comparatively high current levels of consumer debt.

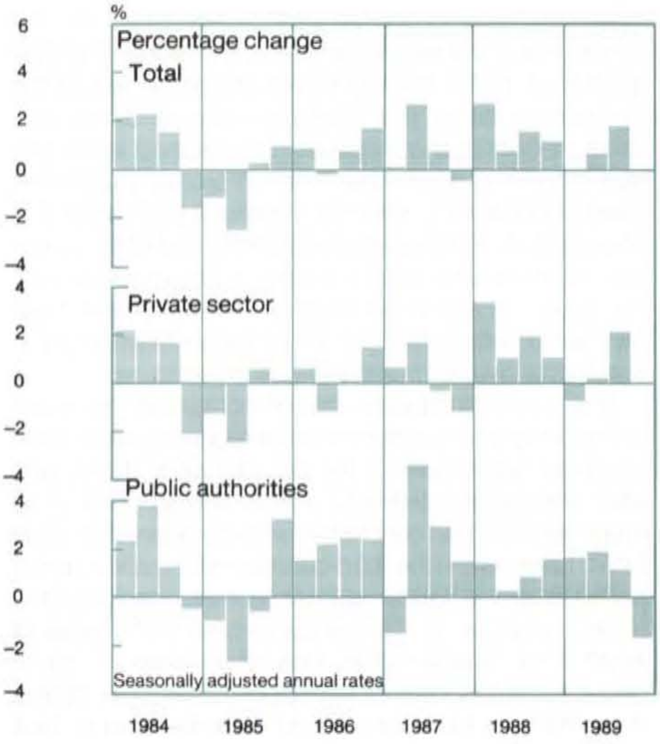
Employment

Total employment in the non-agricultural sectors of the South African economy in the first three quarters of 1989 was higher than in the first three quarters of 1988 by an average of 0,8 per cent. This may be compared with year-to-year increases in the annual average level of such employment of 0,4, 0,9 and 1,2 per cent in the three years of cyclical upswing from 1986 to 1988.

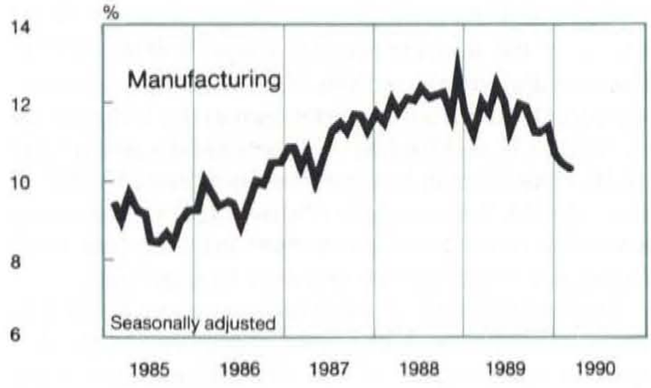
The most recently updated and seasonally adjusted labour statistics indicate that total non-agricultural employment exhibited little or no change in the first quarter of 1989 vis-à-vis the last quarter of 1988, but subsequently increased at annualised rates of 0,6 per cent and 1,7 per cent in the second and the third quarter. However, such information as is available for the fourth quarter of 1989 points to a slow-down in employment increases in the closing months of 1989.

Accelerated employment increases in the *third* quarter of 1989 were observed in (among other sectors and sub-sectors) the mining industry and in trade, among insurance companies and building societies, and in a number of other service industries. Staff *reductions* or continued staff reductions, on the other hand, were recorded in private road transportation, the construction industry, the South African Transport Services and the Department of Posts and Telecommunications, local authorities and certain statutory bodies. Data for the *fourth* quarter of 1989 indicate employment increases in central government, the Department of Posts and Telecommunications, among

Employment in non-agricultural sectors



Overtime hours as percentage of ordinary hours worked



banking institutions and in the building society movement. Continued lay-offs of staff, however, were displayed by most of the industries that had shown employment reductions in the third quarter, while retrenchments of personnel were also recorded in the mining industry, manufacturing, wholesale trade and universities.

Total employment in the non-agricultural *private* sector changed at seasonally adjusted and annualised rates of –0,7, +0,1 and +2,0 per cent in the first three quarters of 1989 respectively; when the trade sector (the employment data of which are still subject to confirmation) is excluded, these percentage changes in the four successive quarters of 1989 amounted to –1,4, –0,4, +1,2 and –2,0 per cent. In the first half of 1989, therefore, relative employment changes in the private sector compared unfavourably with that of public authorities. Total employment by *public authorities* increased uninterruptedly in the first three quarters of 1989 at seasonally adjusted and annualised rates of 1,6, 1,8 and 1,0 per cent respectively, but decreased at an annualised rate of 1,6 per cent in the fourth quarter.

Following net retrenchments in the fourth quarter of 1989, employment in manufacturing industry, construction and electricity generation would appear to have picked up again in the first quarter of 1990.

The ratio of *overtime hours* to normal hours worked in manufacturing declined from the third quarter of 1989 to the first quarter of 1990. In the construction industry, this ratio has been declining since the second quarter of 1989.

The seasonally adjusted number of registered *unemployed* workers in the White, Coloured and Asian population groups increased from a low point of 45 400 in January 1989 to 51 400 in April, but fell back – in apparent contradiction to the cooling-down of the economy – to a new four-year low of 42 000 in December 1989 before increasing again to 49 500 in February 1990.

The seasonally adjusted *total* number of registered unemployed workers increased, on balance, from a low point of 109 900 in February 1989 to 125 700 in December. Again in apparent contradiction to the cooling-down of the economy, however, this figure then retreated to 113 000 in February 1990.

The number of unemployed *Black* workers, as measured by the Current Population Survey, reached a low point of 734 000 in April 1989, rose briefly to 791 000 in May, but decreased to a new low point of 719 000 in November 1989. It then rose to 725 000 in January 1990, this being equal to some 10,7 per cent of the estimated Black labour force.

Labour costs and productivity

The tempo of increases in the *nominal wage per worker* in the non-agricultural *private* sector slowed down slightly from an average quarterly year-on-year rate of 17,6 per cent in the last three quarters of 1988 to year-on-year rates of 16,6, 17,8 and 17,0 per cent (for an average of 17,1 per cent) in the first three quarters of 1989.

In contrast to this slight slackening of private-sector wage increases, the tempo of nominal wage increases among workers employed by *public authorities* accelerated sharply from year-on-year rates of only 9,1 and

8,4 per cent in the last two quarters of 1988 to rates of as much as 19,9, 17,7, 23,3 and 21,1 per cent (for an average of 20,4 per cent) in the four consecutive quarters of 1989. As a result, the year-on-year rate of increase in the average nominal wage of *all* workers in the non-agricultural sectors of the economy also advanced steadily from 14,6 per cent in the final quarter of 1988 to 17,6, 17,8 and 18,9 per cent (for an average of 18,1 per cent) in the first three quarters of 1989. In comparison, the increase in the average nominal wage level of all non-agricultural workers from the year 1987 to the year 1988 had amounted to 15,6 per cent.

Notable features of wage developments in the first three quarters of 1989 were therefore, firstly, the general speeding-up of the rate of increase in the nominal wage level from 1988 to 1989, despite the decline in the growth rate of the real economy and in the face of more modest increases in the demand for non-agricultural labour in 1989 than in 1988. Secondly, in contrast to developments from 1985 to 1988, the rates of increase in nominal wages paid by public authorities in 1989 were significantly higher than the rates of wage increases in the private sector.

The *real* wage per worker in the non-agricultural sectors of the economy, which had decreased from 1985 to 1987, rose by 2,5 per cent in 1988 and in the first three quarters of 1989 was 3,1 per cent higher than in the first three quarters of 1988. On a quarterly basis, the year-on-year increase in the real wage per worker rose from 1,9 per cent in the fourth quarter of 1988 to 3,6 per cent, 2,6 per cent and 3,1 per cent in the first three quarters of 1989.

Real non-agricultural *labour productivity* improved relatively strongly (by 2,7 per cent) from 1987 to 1988. In the course of 1989, however, the quarterly year-on-year rates of productivity changes sagged from +2,4 and +2,1 per cent in the first and the second quarter to −0,2 per cent in the third quarter.

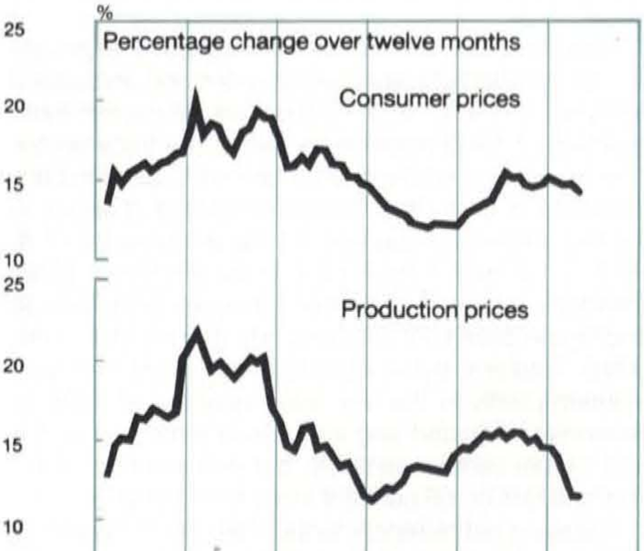
The acceleration in nominal wage increases on the one hand, and the more sideways movement and eventual decline in physical labour productivity on the other hand, caused the year-on-year rate of increase in *nominal unit labour costs* to rise from 11,0 per cent in the fourth quarter of 1988 to 14,8 per cent, 15,4 per cent and a disturbing 19,2 per cent in the first three quarters of 1989. In similar fashion and for similar reasons, the year-on-year rise in *real* unit labour costs accelerated from 1,1 and 0,4 per cent in the first two quarters of 1989 to as much as 3,4 per cent in the third quarter. The average level of real unit labour costs in these three quarters was accordingly some 1,6 per cent higher than in the first three quareters of 1988.

Inflation

Inflation rates, which had reached recent peaks in the second quarter or towards the middle of 1989, mostly improved significantly in the second half of 1989 and continued to do so in the first two or three months of 1990. The mildly downward drift (and some rather more dramatic improvements) of most inflation rates from mid-1989 onwards was clearly aided by the firmer tone of the exchange rate of the rand in the third quarter of 1989, the significant strengthening of the exchange rate in the fourth quarter, and the very limited extent of the weakening of the rand in the first two months of 1990. The inflation picture during this period brightened, however, against a background of accelerating nominal wage increases and of rising real and nominal unit labour costs. Comparatively little headway has also been made as yet in bringing down the rate of inflation in *consumer* prices – when measured over twelve-month periods in particular.

The quarter-to-quarter rate of increase in the prices of *imported goods* (after the most recent revision of the seasonal adjustment of the relevant price index, and after annualisation) dropped from a high point of as much as 26,8 per cent in the second quarter of 1989 to 14,1 per cent in the third quarter and to as low as 6,6 per cent in the fourth quarter. It then reaccelerated mildly, however, to 7,5 per cent in the first quarter of 1990. The *twelve-month* rate of increase in these prices retreated from its high point of 19,3 per cent in June 1989 to 14,7 per cent in December and to 14,4 per cent in January 1990. Despite the mild weakening of the exchange value of the rand in the first quarter of 1990, this rate then fell back more rapidly to 10,1 per cent in April; to some extent, however, this accelerated

Prices



decline was only a statistical reflection of the rapid *rise* in import prices in the early months of *1989*.

The quarter-to-quarter rate of increase in the prices of *domestically produced goods*, in seasonally adjusted and annualised terms, slowed down from a high point of 18,1 per cent reached as early as the first quarter of 1989, to 16,0, 12,8 and 12,2 per cent in the last three quarters of 1989 and to 9,7 per cent in the first quarter of 1990 – its lowest level during the past six years. The *twelve-month* rate of increase in these prices declined at a more moderate pace from 15,4 per cent in May 1989 to 11,3 per cent in March 1990, and reaccelerated to 12,0 per cent in April.

The quarter-to-quarter rate of increase in the *total production price index* accelerated to a high point of 17,9 per cent in the second quarter of 1989, but fell back quite dramatically to only 9,3 per cent in the first quarter of 1990 – its first drop below the double-digit level since the first quarter of 1984. The *twelve-month* rate of increase in the overall production price index reached its 1989 high point (of 15,8 per cent) in May 1989. It then receded fairly gradually to 11,6 per cent in both March and April 1990.

The quarter-to-quarter rate of inflation in *consumer prices*, which had doubled from a seasonally adjusted and annualised level of only 9,2 per cent in the first quarter of 1988 to 18,4 per cent in the second quarter of 1989, slowed down to 13,3 per cent in the fourth quarter of 1989 but reaccelerated disappointingly to 14,7 per cent in the first quarter of 1990. Quarter-to-quarter increases in the costs of consumer services were generally lower than those in the prices of consumer goods and in the overall index in the third and the fourth quarter of 1989. In the first quarter of 1990, however, the costs of services again rose faster than the overall consumer price index, despite an annualised rate of increase in food prices of as much as 18,2 per cent (against a rate of only 5,5 per cent in the first quarter of 1989).

The rate of increase in the consumer price index *over twelve-month periods* reached a high point of 15,7 per cent in June 1989. From this high point, the twelve-month rate of consumer price inflation then retreated only relatively slightly, on balance, to 14,9 per cent in both February and March 1990 and to 14,6 per cent in April. The rates of increase in food prices and in the costs of consumer services also slowed down up to April, despite recent large increases in (among other things) several kinds of dairy products and in home-owners' costs respectively.

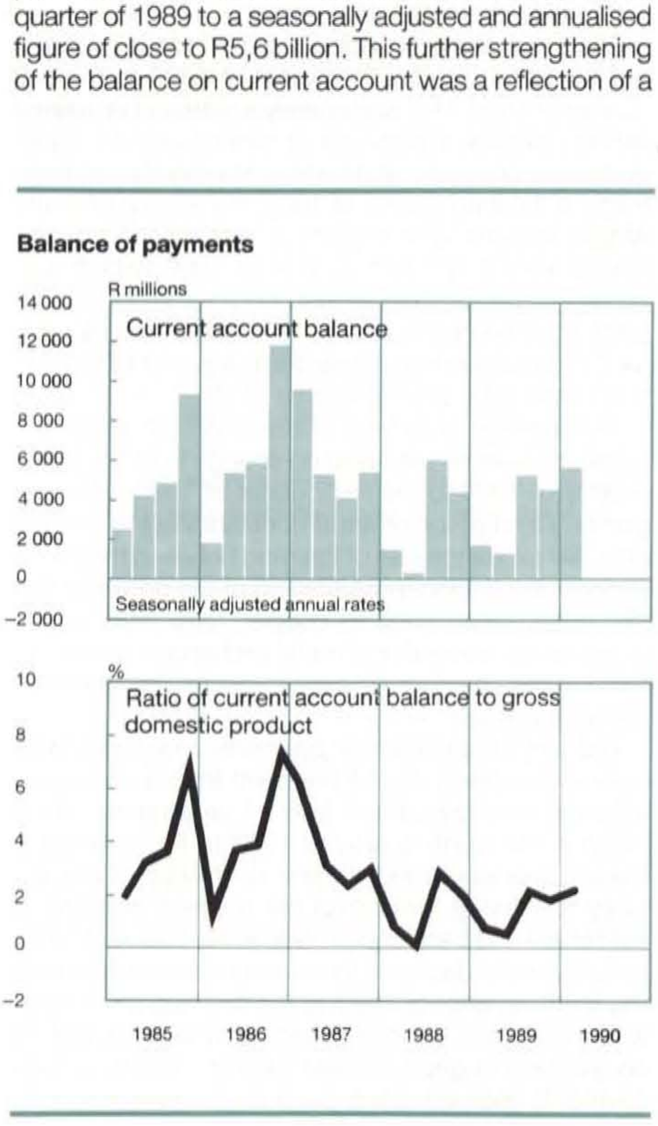
Balance of payments and exchange rates

Current account

Data concerning the current account of the South African balance of payments have been affected appreciably by the reclassification of Namibia as a foreign country instead of as part of the domestic South African economy. The revised statistics resulting from this reclassification show that the seasonally adjusted and annualised quarterly South African current account surplus reached an average level of R1,4 billion (rather than R2,3 billion) in the first two quarters of 1989 and retreated from R5,2 billion in the third quarter of 1989 to R4,4 billion in the fourth quarter (instead of having increased marginally from R5,8 billion to R5,9 billion). The current account surplus, excluding Namibia, for 1989 as a whole amounted to R3,1 billion rather than R4,1 billion.

In the first quarter of 1990 the current account surplus (again excluding Namibia) showed a further improvement from its levels as in the third and the fourth quarter of 1989 to a seasonally adjusted and annualised figure of close to R5,6 billion. This further strengthening of the balance on current account was a reflection of a

Balance of payments



Balance of payments on current account[1]
Seasonally adjusted annual rates
R millions

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

1 Excluding Namibia.

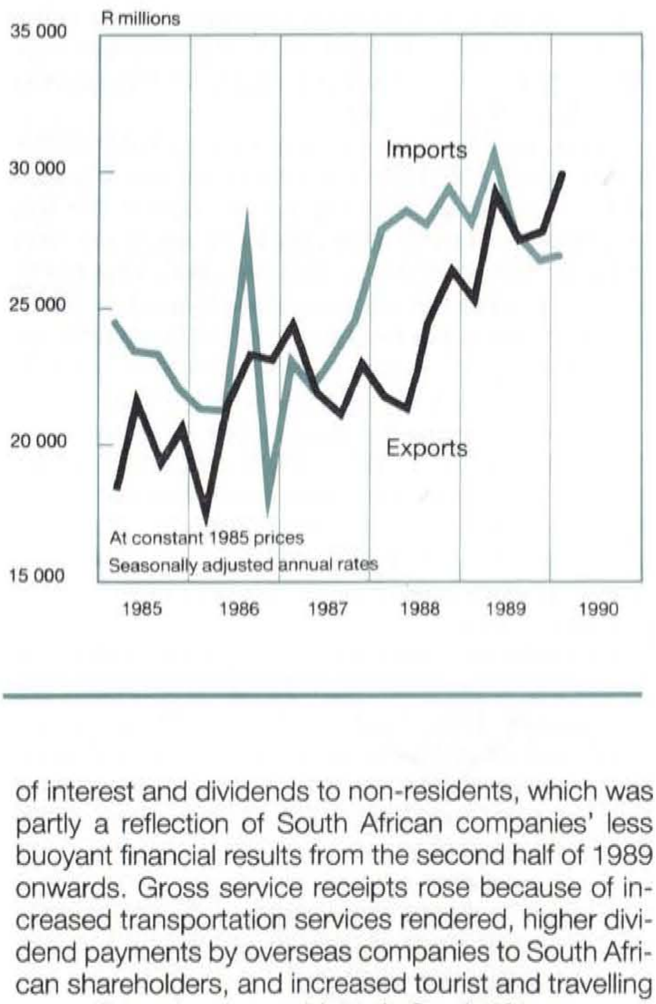
renewed increase in merchandise export earnings and of a substantial decline in net service and transfer payments to non-residents from the uncommonly high level these payments had registered in the fourth quarter of 1989. Between them, these two positive developments more than made up for a marked decline in the value of net gold exports and some renewed increase in the value of merchandise imports.

The value of merchandise *exports* rose by nearly 8 per cent from the fourth quarter of 1989 to the first quarter of 1990. This was entirely a matter of increased export *volumes*, in particular of mineral exports, paper and paper products, and textiles. Having slipped back mildly in the third quarter of 1989, the volume of South African merchandise exports in fact reached a new record level in the first quarter of 1990, which was some 2½ per cent higher than the volume of these exports in the second quarter of 1989 and a very impressive 71½ per cent higher than the low point of these exports reached in the first quarter of 1986.

The average *price* level of South African exports in domestic currency showed no change from the fourth quarter of 1989 to the first quarter of 1990. This was primarily a reflection of virtual constancy of the *average* effective exchange rate of the rand between these two periods; in addition, a weakening of the prices of certain base metals such as copper, ferro-chrome and nickel on the international metal exchanges was counterbalanced by higher export prices for precious metals and coal.

Net service and transfer payments to foreigners fell back substantially (by 14 per cent) from a seasonally adjusted and annualised level of very nearly R12,0 billion in the fourth quarter of 1989 to R10,3 billion in the first quarter of 1990; the first-quarter figure was actually somewhat lower than the quarterly average of net service and transfer payments in the course of 1989. Included in the decline in this current account item from the fourth quarter of 1989 to the first quarter of 1990 was a decrease in gross service payments as well as an increase in gross service receipts. Gross service payments declined mainly because of lower payments

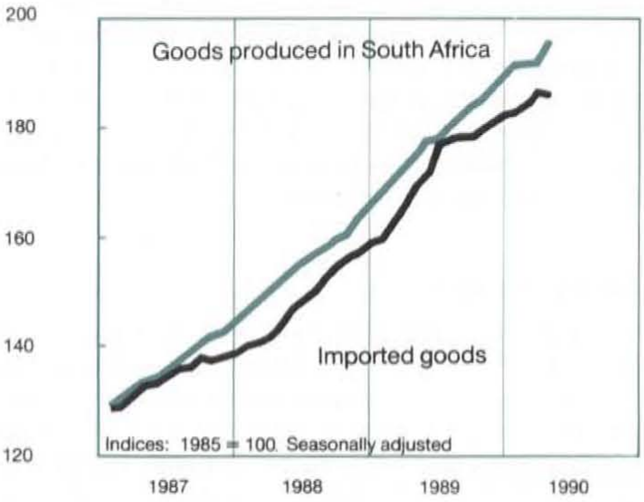
Real merchandise imports and exports



of interest and dividends to non-residents, which was partly a reflection of South African companies' less buoyant financial results from the second half of 1989 onwards. Gross service receipts rose because of increased transportation services rendered, higher dividend payments by overseas companies to South African shareholders, and increased tourist and travelling expenditures by non-residents in South Africa.

The 11½ per cent drop in the value of the *net gold exports* from the fourth quarter of 1989 to the first quarter of 1990 was more than fully accounted for by a decline in physical gold production, owing to a decline in milling operations as well as in the average grade of ore milled. At its seasonally adjusted and annualised level of R17,8 billion, the value of the net gold exports

Production prices



in the first quarter of 1990 was actually lower than in any quarter since the second quarter of 1987; the physical volume of quarterly gold production was at its lowest level since the third quarter of 1987, when the goldmining industry was troubled by extensive labour unrest.

The average rand *price* of gold, as based on the London gold price fixings, rose by some 2 per cent from R1 024 per fine ounce in the fourth quarter of 1989 to R1 045 in the first quarter of 1990. In US dollar terms the gold price strengthened from an average of $390 per fine ounce in the fourth quarter of 1989 to $407 in the first quarter of 1990. The dollar price of gold fell back sharply, however, in the last week of March and again in late May and early June, to a two-month average of $372 per fine ounce in April-May 1990 and to a daily average fixing price of $353 per fine ounce on 7 June. The average *rand* price of gold in April-May amounted to R985 per fine ounce.

The value of *merchandise imports* picked up modestly (by not quite 3 per cent) from the fourth quarter of 1989 to the first quarter of 1990, on account of slight increases in both import volumes and import prices. The *volume* of merchandise imports rose by nearly 1 per cent after two quarters of volume declines; the level of imports by volume in the first quarter of 1990 was, however, still 12½ per cent lower than at its high point in the second quarter of 1989. Stepped-up quantities of imports were recorded in particular in the categories of machinery and electrical equipment and of chemical products.

The average *price level* of imports, which had declined mildly (by 2 per cent) in the fourth quarter of 1989, rose similarly mildly (also by 2 per cent) in the first quarter of 1990. Incorporated in this minor price increase was a slight hardening of international crude oil prices; other price increases were restrained, however, by the relatively stable average effective exchange rate of the rand in the first quarter of 1990 and by relatively low inflation rates in most trading partner countries. The cheapening of imports relative to domestically produced goods from approximately the middle of 1989 seems likely to have provided some stimulus for an increase in import volumes.

Capital account

The capital account of the balance of payments improved substantially in the first quarter of 1990. The total net outflow of capital not related to reserves fell back from more than R1,1 billion in the fourth quarter of 1989 (and from a quarterly average of a similar size in the course of 1989) to R0,4 billion in the first quarter of 1990. This was the smallest such outflow since the first quarter of 1987.

The R0,7 billion improvement in the extent of the outflow of non-reserve-related capital from the fourth

Net capital movements (not related to reserves)
R millions

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

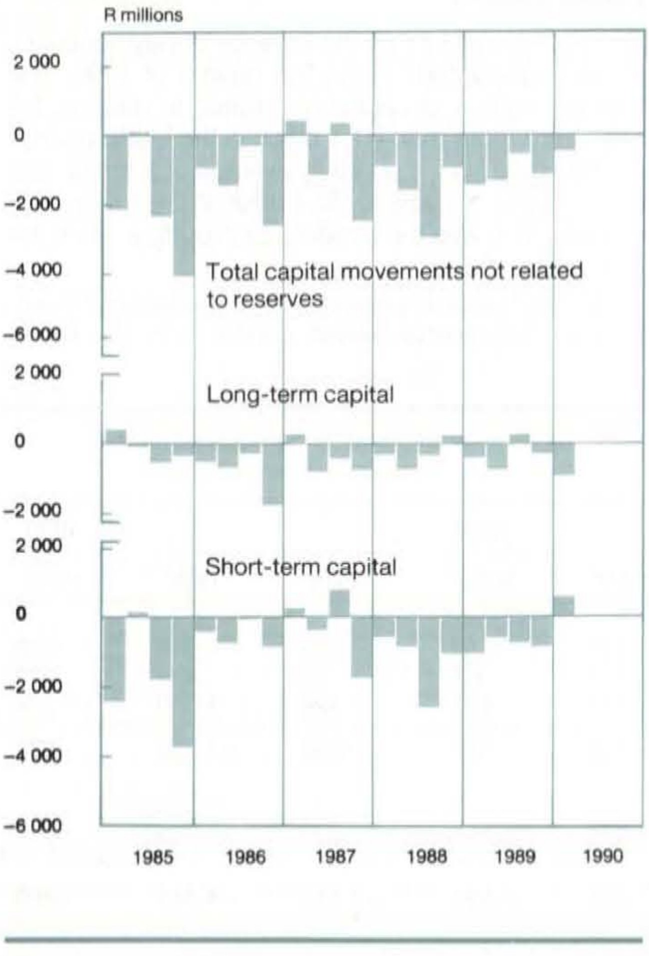
quarter of 1989 to the first quarter of 1990 was more than fully explained by a "swing" of more than R1,3 billion (from an outflow of R0,8 billion to an inflow of R0,5 billion) in the net movement of *short-term* capital (including unrecorded transactions) between these two quarters. The net inflow of short-term capital in the first quarter of 1990 followed net outflows of short-term capital (to an aggregate amount of R9,9 billion) during an unbroken period of nine calendar quarters from the fourth quarter of 1987 onwards. Part of the inflow of short-term capital in the first three months of 1990 consisted of an increase in trade-related foreign liabilities.

In contrast to this marked improvement in the short-term capital position, the outflow of *long-term* capital rose from R0,3 billion in the fourth quarter of 1989 to nearly R0,9 billion in the first quarter of 1990 – the largest such outflow since the fourth quarter of 1986. This increase in the aggregate outflow of long-term capital was overwhelmingly accounted for by private-sector capital movements, and more specifically by increased net sales by non-residents of securities that are listed on the Johannesburg Stock Exchange (which, however, under the financial rand system do not, of course, lead to a loss of gross foreign reserves). In addition, however, public authorities made increased net repayments on debt outside the standstill net. Against this, public corporations in the first quarter of 1990 were net importers of foreign capital for a second consecutive quarter. The net amount of long-term foreign capital taken up by the public corporations (in the form of project financing) in the first three months of 1990 actually exceeded the total amount of their net new foreign borrowing in all of 1989.

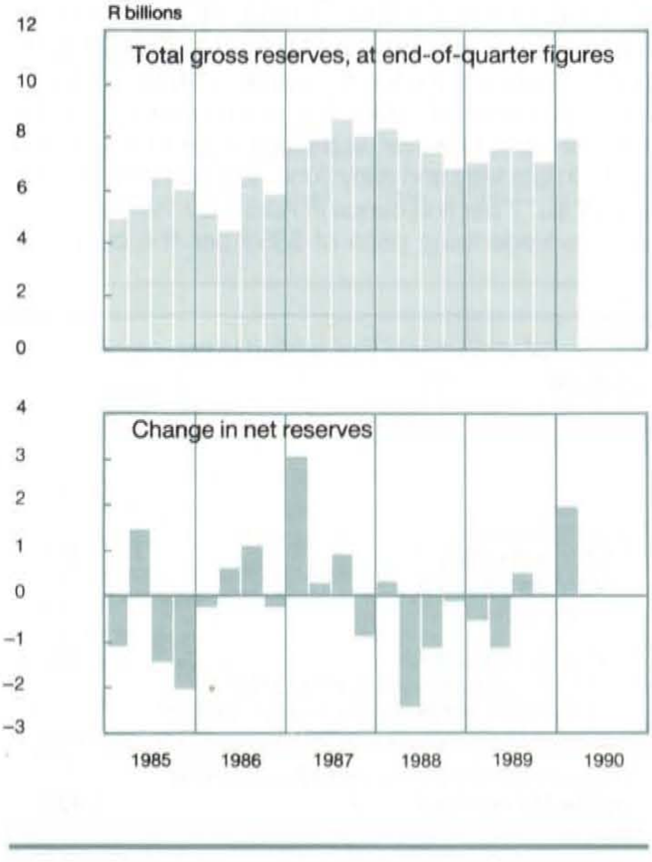
Foreign reserves

The marked amelioration of the position on the capital account of the balance of payments, in conjunction with the sustained surpluses on the current account, caused the South African total *net* gold and other foreign reserves to rise by R1,9 billion in the first quarter of 1990. This followed a *decline* in the net foreign reserves of R1,2 billion during the year 1989. The substantial strengthening of the overall balance of payments situation allowed the South African banking sector to reduce its reserve-related foreign liabilities by R0,9 billion during the first quarter of 1990. Despite these debt redemptions, however, the South African total *gross* gold and other foreign reserves still increased by R0,9 billion in the first quarter from R6,9

Net capital movements



Gold and other foreign reserves



billion at the end of December 1989 to R7,8 billion at the end of March 1990; the gross reserves as at the end of March 1990 were equal to some nearly 2½ months of merchandise imports and to some 1½ months of imports of both goods and services.

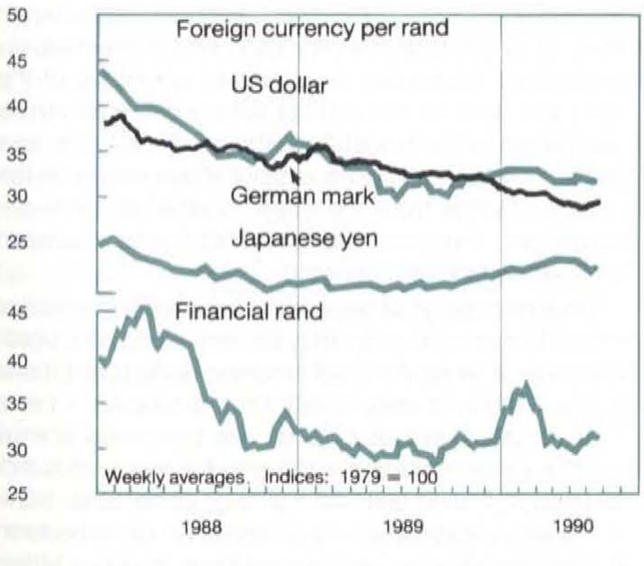
In April 1990 the gross gold and other foreign reserves of the *Reserve Bank* declined by R429 million. This was mainly due to repayments on foreign loans that had been rescheduled into longer-term loans in accordance with the provisions of the First Interim Arrangements as concluded with foreign creditor banks in 1986, and to the renegotiation of gold swap agreements with overseas banks at lower gold prices. The Reserve Bank's gold holdings rose from 3,1 million fine ounces at the end of December 1989 to 3,6 million fine ounces at the end of April 1990.

Exchange rates

The effective exchange rate of the rand, which had drifted down slightly (by 1,1 per cent) from the end of 1989 to the end of February 1990, declined by 2,5 per cent during March, but held steady at its new lower level during April. During May the effective exchange rate weakened by another 1,0 per cent. Among other developments, this mild softening of the rand reflected strength of the American dollar in the international exchange markets and the sharply lower level of the dollar price of gold from late March 1990 onwards. During the first five months of 1990 the rand depreciated against most of the major currencies but gained 1,0 per cent against the Japanese yen.

The *financial* rand firmed remarkably, partly on the strength of the State President's address at the opening of Parliament on 2 February, to R3,13 per dollar on 6 February 1990, but weakened sharply again in subsequent weeks when more sober assessments of the prevailing and prospective socio-political situation set in. On 2 April the financial rand was quoted at R4,19 to the dollar; this represented a discount vis-à-vis the commercial rand of 36,3 per cent. On 29 May the financial rand's discount against the commercial rand stood at 32,0 per cent, compared with its discount of 19,2 per cent on 6 February.

Exchange rates



Changes in exchange rates of the rand

%

	31 Dec 1988 to 31 Dec 1989	31 Dec 1989 to 28 Feb 1990	28 Feb 1990 to 31 May 1990
Weighted average	−4,3	−1,1	−3,8
US dollar	−6,7	−0,3	−3,7
British pound	4,2	−5,1	−4,5
German mark	−11,8	−0,1	−4,9
Swiss franc	−5,1	−3,8	−8,6
Japanese yen	6,3	3,3	−2,1
French franc	−11,6	−1,0	−5,4
Financial rand	6,8	−2,3	−5,3

Financial markets

Money supply

The uneven and rather slow subsidence of the rates of increase in the M3 money supply, which had started in the third quarter of 1988 and had been maintained during 1989, was continued into the first few months of 1990. The seasonally adjusted and annualised quarter-to-quarter rate of increase in the quarterly average of M3 (after the exclusion of Namibia from the monetary statistics) fell back from its high point of 28,5 per cent in the third quarter of 1988 to only 20,7 per cent in the second quarter of 1989, but rebounded to 26,7 per cent in the third quarter. It then dropped to 21,4 per cent in the final quarter of 1989 and to 19,0 per cent in the first quarter of 1990.

The twelve-month rate of increase in M3 receded, on balance, from its high point of 27,5 per cent in August 1988 to 22,4 per cent in December 1989. After reaccelerating mildly in January 1990 and decelerating in February, this rate reached 20,0 per cent in March 1990, but rose again to 21,7 per cent in April; the reacceleration of the twelve-month growth rate in April could, however, be attributed largely to the abnormally low level of M3 in April *1989*.

The net shrinkage of some six percentage points in the twelve-month rate of increase in M3 from September 1988 to April 1990 – i.e. over a 20-month period – may be contrasted with a decline of more than ten percentage points in this twelve-month growth rate (namely from 19,5 to 9,4 per cent) over a comparable 20-month period during the preceding cyclical decline in the rate of monetary expansion from December 1984 onwards. It will be recalled, however, that this earlier monetary deceleration took place mostly against a background of pronounced recessionary conditions in the general economy and of a very rapid lowering of short-term interest rates.

When the amounts of the banks' commitments (not including the discount houses' commitments) under repurchase agreements with non-bank private-sector parties are added to M3, the twelve-month behaviour of the growth rate of this extended M3 aggregate differs from that in M3 itself in detail only. The rate of increase in this "M3-plus" quantity declined from a high point of 26,9 per cent in August 1988 to 23,0 per cent in December 1989, and to 20,1 per cent in April 1990.

The seasonally adjusted and annualised rate of increase in M3 from the presumed starting-point of the 1990 "guidelines" for growth in the M3 money supply – i.e. from mid-November 1989 – up to the end of April 1990 amounted to 15,5 per cent. This rate of increase therefore exceeded the upper boundary of the guidelines (of 15 per cent) to only a modest degree.

Even at its somewhat more moderate recent levels, the quarter-to-quarter rate of growth in the quarterly average of M3 still exceeded the quarter-to-quarter rate of increase in the gross domestic product at current prices. The income velocity of circulation of M3 (which had been declining by an average of 1,4 per cent per quarter in the nine quarters after the most recent upper turning-point in M3's velocity in the third quarter of 1987) accordingly shrank by another 1,7 per cent in the first quarter of 1990. The overall decline in M3's velocity of circulation of 13,6 per cent from the third quarter of 1987 to the first quarter of 1990 may be compared with a 72,5 per cent increase in the quarterly average of M3 (seasonally adjusted) over this period.

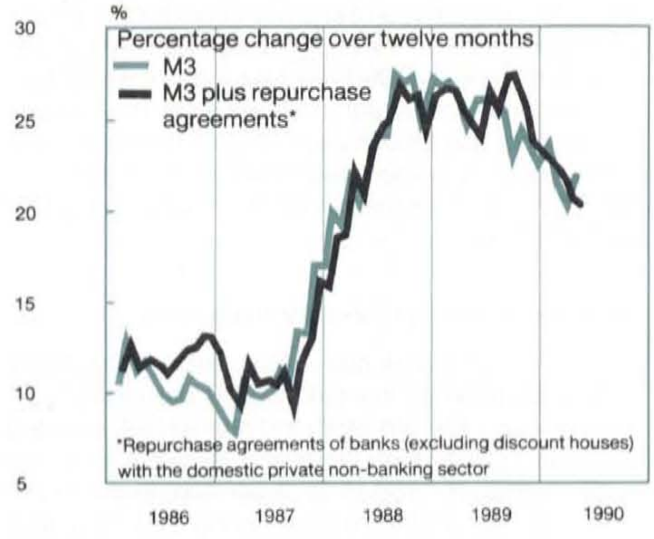
Growth in M3 in excess of growth in the nominal gross domestic product and expenditure (and therefore presumably also in excess of increases in the *transaction* needs for money balances) has over the past two years been attributed primarily to reintermediation phenomena and to increases in the private non-banking sector's "liquidity preference proper". *Reintermediation* tends to occur in periods of strong credit demand, rising interest rates and associated declines in banks' lending rate/deposit rate differentials; reintermediation phenomena have probably been strengthened lately by the authorities' restrictive policy actions of the past few quarters and by the tightness in money market conditions which accompanied these policy measures.

"Liquidity preference proper" is based on expectations of rising interest rates (which imply capital losses on fixed-interest-bearing securities) and on interest rate uncertainty (which increases the perceived capital risk of fixed-interest securities). Expectations of rises in interest rates and interest rate uncertainty probably played an important part in the general public's (also including, for example, the large institutional investors) demand for depository investments in 1988 and early 1989 and in late 1989 and early 1990 respectively.

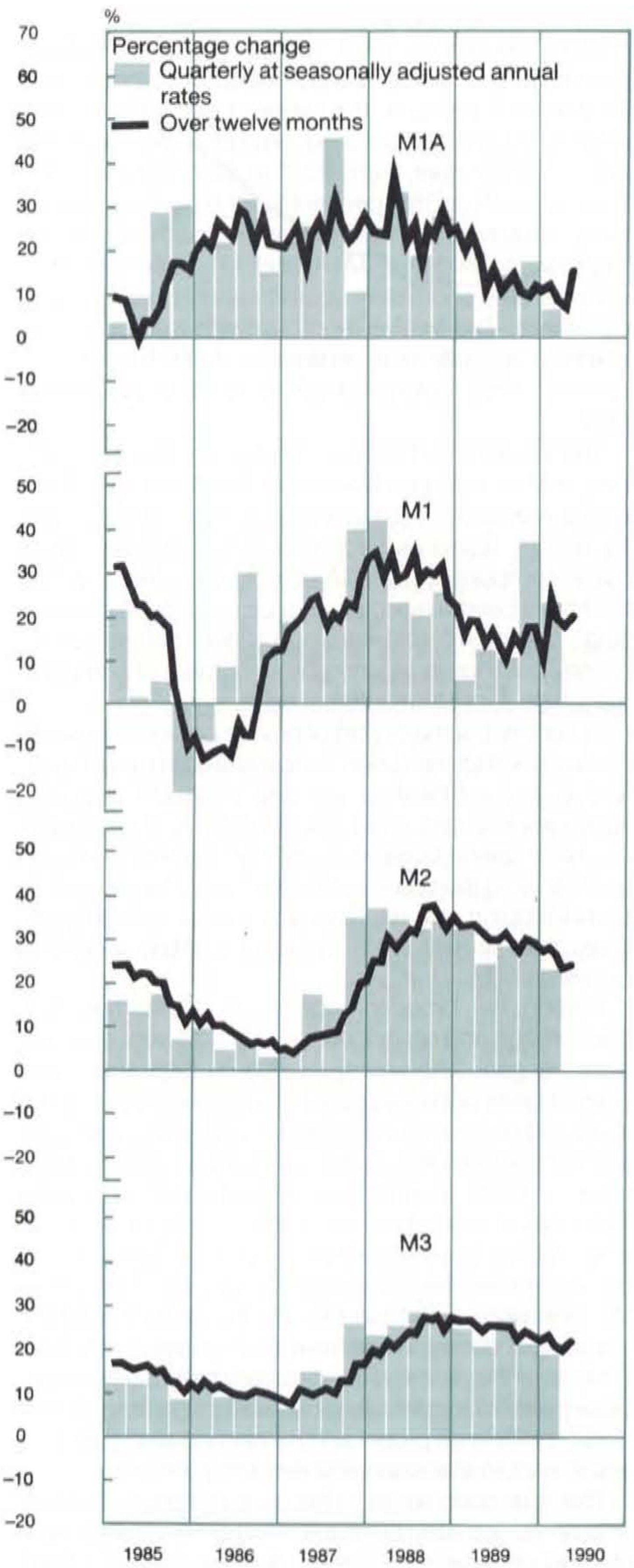
Other factors that are likely to have strengthened the demand for deposits, as included in M3, in recent quarters included (1) the comparatively high interest rates on deposits at the very short end of the maturity spectrum in particular; (2) a gradual spreading of the belief that positive real interest rates will henceforth be maintained by the monetary authorities; and (3) the less single-mindedly upward course of share prices on the stock exchange from the fourth quarter of 1989 onwards, and the more sluggish and hesitant upward trend in fixed-property prices.

"Round-tripping" as a source of accelerated increases in the M3 money supply, may also have played a significant role at times in the tight money market conditions of late 1989 and early 1990. Round-tripping – i.e. a state of affairs in which funds are borrowed from a bank or other monetary institution for the purpose of being redeposited with the same or some other bank or monetary institution – represents an extreme form of intermediation or reintermediation. It arises when intermediaries' normal lending rate/deposit rate rela-

Growth in broad monetary aggregates



Monetary aggregates



tionships are inverted, as when the month-end interbank rates and call rates in the money market actually come to exceed the commercial banks' prime overdraft rate. This was particularly the case at the end of January 1990.

In an attempt to lower the average cost of funding of their asset portfolios, certain banks and discount houses at various stages in the course of 1989 greatly increased their recourse to repurchase agreements as a form of off-balancesheet financing; such deliberate off-balance-sheet financing serves as a partial counterweight to re-intermediation phenomena. However, on 24 April 1990 it was announced by the Reserve Bank that cash reserve and liquid asset requirements would be made to apply to banks' commitments under repurchase agreements in excess of the level of such commitments as at the end of February 1990. (These requirements were to take effect from the date of the banks' certification of their monthly returns for May 1990. Where applicable, they would therefore be reflected in the banks' minimum required holdings of liquid assets and of cash reserve balances with the Reserve Bank from approximately 21 June 1990 onwards.) The prime objective of this measure, which anticipates the introduction of pertinent provisions in the proposed Deposit-Taking Institutions Act, was to strengthen banks' reserve asset holdings for prudential purposes and in the interest of sound banking practices. The Reserve Bank's action in this area did not, therefore, signify a shift in the Bank's monetary policy stance.

The quarter-to-quarter and twelve-month rates of increase in the "narrow" monetary aggregates, M1A and M1, generally remained well below those of M3 in the course of 1989 and the first four months of 1990.

The twelve-month growth rate of M1A (and, to a lesser extent, also the growth rate of M2) also declined more rapidly than the growth rate of M3 during this sixteen-month period.

From December 1988 to April 1990 the twelve-month growth rate in M3 declined, on balance, from 27,2 to 21,7 per cent; the twelve-month growth rates in M1A, M1 and M2 declined, on balance, from 25,0 to only 13,8 per cent, from 22,7 to 20,0 per cent, and from as much as 35,1 per cent to 23,9 per cent respectively. However, the twelve-month growth rates in the "narrow" aggregates, M1A and M1, also displayed considerable short-term volatility and apparent capriciousness. The twelve-month growth rate of M1, for example, actually *rose*, on balance, to 26,5 per cent in January 1990 before retreating to 20,0 per cent in April.

The pronounced drop in the twelve-month growth rate of M1A between December 1988 and April 1990 was a reflection of diminishing growth in the demand for money balances for transaction purposes. Since major components of M1A do not earn interest, it may also have been a reflection of a progressive "economising" on non-interest-earning or low-interest-earning money holdings in a general environment of comparatively high short-term interest rates.

In contrast, a major part of private parties' increased money holdings has been concentrated in recent quarters in interest-bearing call and overnight deposits, which are included in M1 but not in M1A. These deposits have drawn comparatively high interest rates and also serve as the prime vehicle for round-tripping when round-tripping occurs. This accounted for comparatively rapid growth in M1 in recent quarters relative to growth in M1A.

Among the broader aggregates, reintermediation phenomena and enhanced liquidity preference proper over the past 2½ years, as well as high short-term interest rates on a downward-sloping yield curve at the short end of the maturity spectrum, have found expression in increased demand for "other short"- and medium-term deposits (comprising deposits with unexpired maturities of more than one day up to six months inclusive). As has been observed on earlier occasions, this has accounted for comparatively very rapid growth in M2 relative to growth in M3. By the same token, the more rapid decline in twelve-month growth in M2 than in M3 over the past few quarters may have been attributable partly to a gradually diminishing significance of liquidity preference proper and reintermediation phenomena in a more stable interest rate environment.

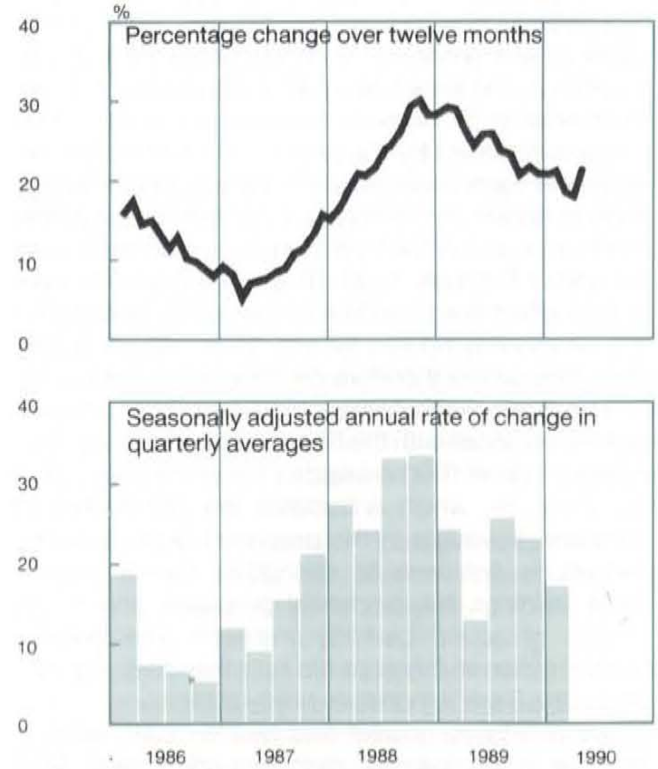
The main counterpart, in the accounting sense, to the seasonally adjusted increase in M3 of R5,1 billion from the end of December 1989 to the end of March 1990 was a R4,3 billion increase in monetary institutions' extension of credit to the domestic private sector. Monetary institutions' net claims on the government sector, which had declined by R2,7 billion in the course of 1989, decreased by another R0,6 billion in the first quarter of 1990. Because of large increases in government deposits with the banking system, monetary institutions' net claims on the government sector actually turned negative at the end of November 1989 and at the end of January 1990 reached a negative amount (not seasonally adjusted) of as much as R2,4 billion. The net gold and other foreign reserve holdings of the money-creating sector decreased by R1,2 billion in 1989, but rose by no less than R1,3 billion in the first quarter of 1990.

Credit extension by monetary institutions

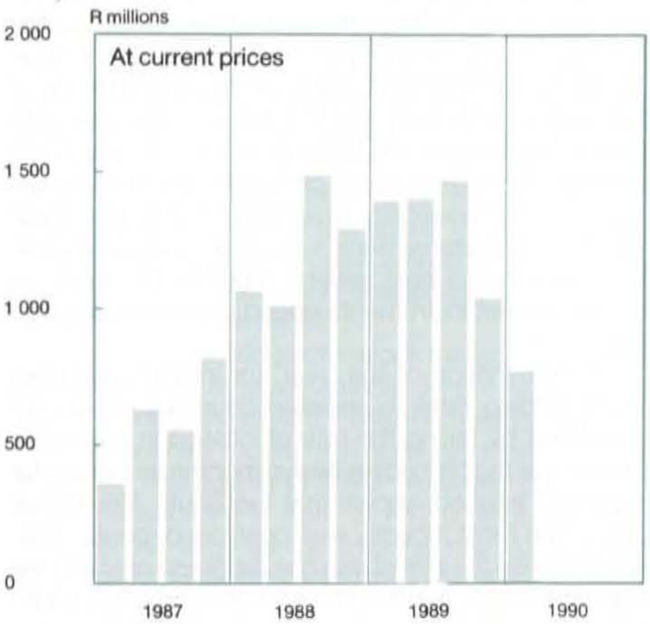
The quarter-to-quarter rate of increase in the quarterly average of monetary institutions' claims on the private sector, seasonally adjusted and annualised, receded markedly from its high point of 33,2 per cent in the fourth quarter of 1988 to 22,8 per cent in the fourth quarter of 1989 and to 16,9 per cent in the first quarter of 1990. The twelve-month rate of increase in these claims slowed down from 28,6 per cent in December 1988 to 20,6 per cent in December 1989 and to 17,7 per cent in March 1990.

From the *end* of December 1989 to the *end* of March 1990 monetary institutions' claims on the private sector rose at a seasonally adjusted annual

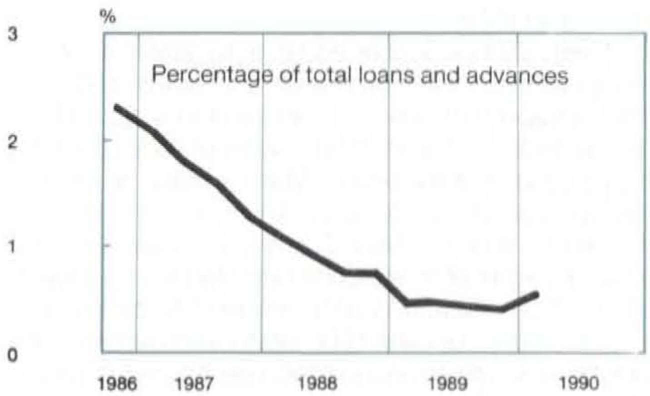
Claims of monetary institutions on domestic private sector



Changes in hire-purchase credit and leasing finance



Overdue loans and advances with banks



rate of only 12,3 per cent. This rate of increase was, in fact, marginally lower than the (annualised) maximum rate of growth of 1 per cent per month which the money-creating institutions have been asked to observe by the Reserve Bank. It was also significantly lower than recent twelve-month rates of increase in the consumer price index.

These quite impressive decelerations (which, however, still left the tempo of credit growth at fairly high levels) provided evidence of the cumulative effect of higher interest rates and of the general cooling-down of the economy, as well as of the shrinking of unused credit lines, banks' less accommodative attritude in meeting new credit applications, the waning significance of temporary distress borrowing by corporate entities in particular, and households' increased hesitancy in adding further to consumer debt.

From the end of March 1989 to the end of March 1990, "bills discounted" in the portfolios of monetary institutions still rose by a major 39,7 per cent, as these institutions strove to expand their actual liquid asset holdings in line with the statutorily required minima; private banks' holdings of liquid bankers' acceptances actually increased by as much as 44,9 per cent. Hire-purchase credit and leasing finance and monetary institutions' mortgage advances rose by 23,2 and 17,2 per cent respectively. "Other" loans and advances (consisting mainly of overdrafts) rose by 16,1 per cent; a rising proportion of the increase in these advances was extended to corporate clients rather than to households and individuals. Monetary institutions' investments in private-sector securities, on the other hand, *de*creased by as much as 26,0 per cent, partly as a reflection of the use of these securities as underlying assets in repurchase agreements.

Slow-downs in households' acquisition of durable consumer goods and in private businesses' fixed investment activities were reflected in the decline in the quarterly increase in monetary institutions' hire-purchase and leasing finance outstanding from approximately R1,4 billion in each of the first three quarters of 1989 to R1,0 billion in the fourth quarter of 1989 and to R0,8 billion in the first quarter of 1990. The quarterly increase in monetary institutions' total holdings of mortgage advances similarly fell back from around R2,5 billion in the first two quarters of 1989 to approximately R1,8 billion and R1,9 billion in the third and the fourth quarter, and to R2,1 billion in the first quarter of 1990.

"Overdue" amounts on the loan accounts of the banks' borrowing clients, which had contracted from 2,3 per cent of total borrowings at the end of December 1986 to only 0,4 per cent at the end of December 1989, rose slightly but significantly to 0,5 per cent at the end of March 1990.

Money market conditions

Money market conditions, as measured by the market's need for Reserve Bank accommodation, remained tight throughout the first five months of 1990 as compared with the first five months of the preceding year, but took on a somewhat easier tone after the end of January 1990. The average daily level of the Bank's accommodation of the market at the discount window rose from R3,8 billion in the fourth quarter of 1989 to R4,8 billion in January 1990; it then receded to R3,9 billion, R3,9 billion, R3,5 billion and R2,8 billion in February, March, April and May respectively.

The *month-end* amount of accommodation at the discount window reached an all-time high (in nominal terms) of R5,5 billion at the end of January 1990. This was followed by amounts of R5,0 billion, R4,7 billion, R4,0 billion and R3,6 billion at the month-ends from February to May.

Overnight loan accommodation to banks at the discount window over month-ends amounted to R1,4 billion at the end of February 1990 and to a record R2,7 billion (indicating a marked dearth of rediscountable liquid assets) at the end of March. This amount then dropped to R1,2 billion at the end of April and to R0,8 billion at the end of May. The monthly average of the daily amounts of these loans retreated from a peak of R1,0 billion in March 1990 to only R0,1 billion in May.

From early January 1990 up to approximately the middle of March an easing effect was exerted on money market conditions by substantial increases in the Reserve Bank's net gold and other foreign reserve holdings. In view of the Bank's policy stance and policy intentions, this effect was counteracted partly through the Bank's introduction of dollar swap arrangements with major banks from 23 February. In terms of these arrangements, dollars sold by the Reserve Bank to the banks as authorised foreign exchange dealers are deposited by the banks with the Reserve Bank; the dollars are subsequently repurchased by the Bank at predetermined exchange rates which ensure a market-related interest rate.

An easing effect on market conditions was also exercised by the declining trend in government deposits with the Reserve Bank, as these deposits retreated from the extraordinarily high level of R13,5 billion they had reached on 25 January 1990. The monthly average of the daily totals of the balances on the Exchequer Account, the Paymaster General Account and the Stabilisation Account declined from R12,1 billion and R12,2 billion in January and February 1990 to R11,0 billion in March, R10,0 billion in April and R9,9 billion in May.

Net sales of government stock by the Reserve Bank in April-May 1990 amounted to R3,5 billion, against R1,7 billion in April-May 1989. On 15 May 1990 an amount of R1,3 billion in government stock was redeemed by the Treasury; open-market sales of stock and other measures were used by the Reserve Bank to forestall an undue easing of money market liquidity as a result of this redemption.

The amount of Treasury bills on offer at the weekly tender was raised to R40 million on 30 March 1990, to R50 million from 7 April, to R70 million from 11 May, and to R100 million on 15 June.

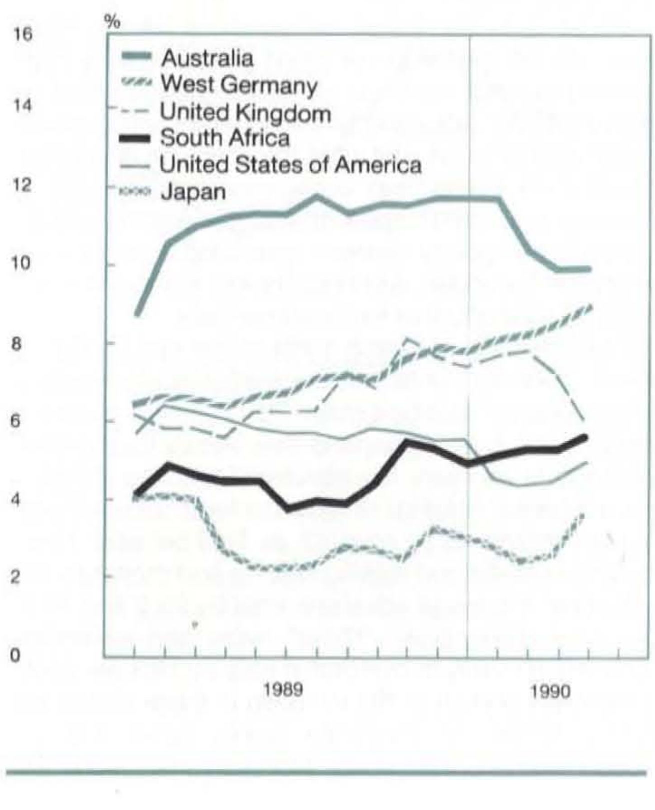
Money market interest rates

The market rate on three-month liquid bankers' acceptances, which had firmed to 18,70 per cent on 30 January 1990, eased to 18,50 per cent on 6 February and further to 18,30 per cent on 22 March. From late March to mid-June 1990 this rate showed a high degree of stability as it moved within a narrow band ranging from 18,30 to 18,50 per cent.

The discount houses' call rate hardened to 21,25 per cent in the tight market conditions at the end of January 1990, resulting in round-tripping by large clients of banking institutions. At the month-ends of February, March, April and May the call rate rose more moderately to levels of 20,00, 20,25, 21,00 and 20,75 per cent. As a diminishing probability came to be assigned to the possibility of a further increase in Bank rate and the Reserve Bank's associated accommodation rates in the next several months, the rates on money market instruments edged downwards marginally.

An examination of the "real" (or inflation-adjusted) prime lending rates in selected countries (which are calculated by taking the rate of inflation in consumer prices over the preceding twelve months as a proxy for expected inflation) shows that the South African real prime rate most recently was positioned roughly halfway between the lowest rate (the Japanese rate) and the highest rate (the Australian rate) in the sample of countries investigated. The improvement in the South African inflation rates from approximately the middle of 1989, and the increase (to 21,0 per cent) in the commercial banks' nominal prime overdraft rate from 11 October 1989, were reflected in an increase in the South African real prime rate from 3,7 per cent in June 1989 to 5,6 per cent in April 1990.

Real prime lending rates



Capital market developments

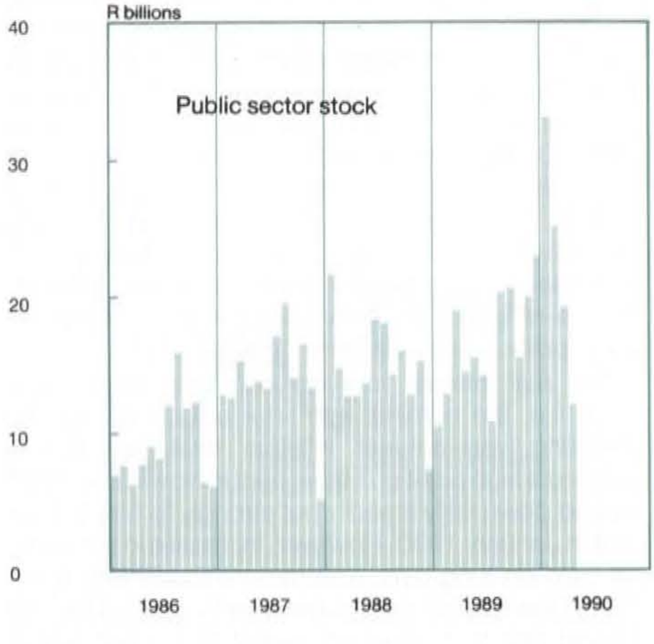
Trading activity in the capital markets, which had recovered vigorously in the third quarter of 1989 and increased markedly further in the fourth quarter, rose to quite extraordinarily high levels in the first quarter of 1990. Very high turnovers were recorded in the trading of public-sector stock as well as of company shares on the stock exchange. Share prices also showed a modest further recovery, and a further increase was recorded in the value of real estate transactions. The month of April, however, saw a sharp drop in trading activity in both stocks and shares and some general weakening of share prices.

The value of *public-sector stock* traded on the stock exchange rose by a remarkable 33 per cent from its earlier record level of R58,1 billion in the fourth quarter of 1989 to a new record high of no less than R77,3 billion in the first quarter of 1990. However, the value of these transactions in April, at R12,0 billion, was less than half as large as the average monthly figure of R25,8 billion in the preceding three months.

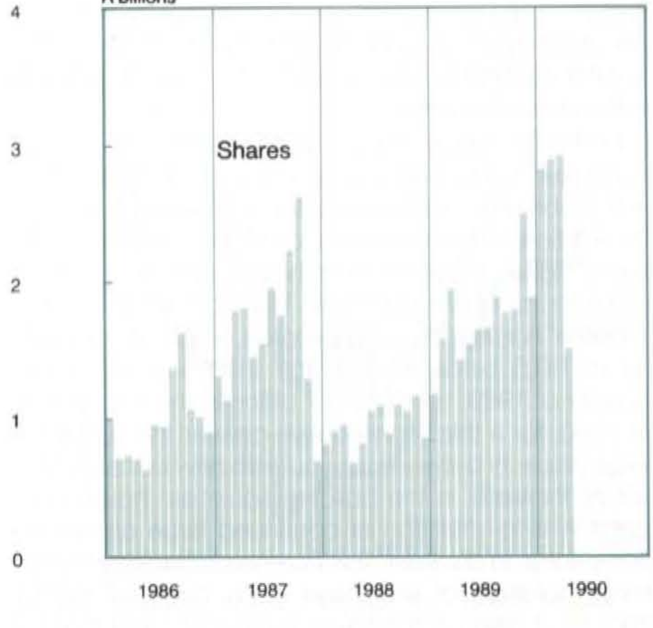
The sharp decline in stock-trading activity in April could be attributed partly to the usual large number of public holidays and long week-ends during that month. To a minor extent, however (since transactions involving non-residents have made up only a very small proportion of all trading in stocks on the stock exchange), it also reflected a marked decline in purchases, sales and net purchases of public-sector stock by non-residents during April, in comparison with non-residents' purchases and sales of such stock in each of the preceding three months; this seems likely to have been influenced, among other things, by the significant hardening of real yields on gilt-edged and other long-term instruments in several of the world's major industrial economies since the beginning of 1990. (*Net purchases* of all public-sector securities by non-residents on the Johannesburg Stock Exchange retreated from a monthly average of some R0,2 billion in the first quarter of 1990 to significantly less than half that amount in April.) Finally, the figures concerning overall trading in public-sector stock in April may have been influenced downwards already by a decline in the volume of repurchase transactions for which such stocks serve as the underlying instruments.

The value of *shares* traded on the stock exchange rose by nearly 39 per cent from its previous record level of R6,2 billion in the fourth quarter of 1989 to a new record amount of R8,6 billion in the first quarter of 1990. The average monthly value of these transactions, however, subsequently fell back significantly from slightly less than R2,9 billion in the first quarter of 1990 to only R1,5 billion in April – its lowest level in the most recent twelve months. This may have been a reflection of the impact of the sharply lower gold price on market sentiment from late March 1990 onwards, as well as of the market's increased sense of uncertainty about unsettled issues concerning South Africa's future socio-political and economic dispensation. However, *net sales* of shares by *non-residents* on the Johannesburg Stock Exchange also fell back considerably.

Stock exchange transactions



Stock exchange transactions



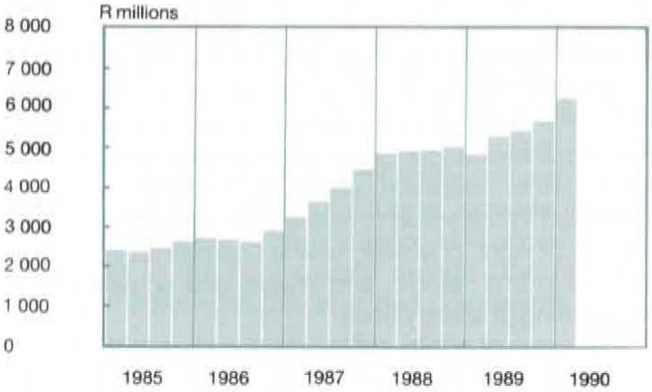
The average *price level* of all classes of shares, which had risen by 7 per cent in the fourth quarter of 1989, increased by a further 4 per cent in the first quarter of 1990. This further increase in the general price level in the first quarter arose mainly from advances in the average prices of financial shares and of industrial and commercial shares, which rose by 8 and 9 per cent respectively. In contrast, the average price level of gold-mining shares fell back by a further 7 per cent during the quarter.

In February 1990 the average price levels of financial shares, industrial and commercial shares and of "all classes" of shares exceeded their earlier record levels of September 1987 by 11 per cent, by a marginal 1 per cent and by 3 per cent respectively; the average price level of gold-mining shares, on the other hand, had retreated from its high point in December 1989 to a level that was some 16 per cent lower than its 1987 peak. In April 1990 the average price level of "all classes" of shares fell back materially (by 5 per cent) in the wake of the weakening of the dollar price of gold and the market's then prevailing sense of unease about possible longer-term socio-political and economic developments.

In the *primary markets*, relatively low levels of new-issue activity were displayed in the first quarter of 1990 by borrowing entities in both the private and the public sector. An amount of only R60 million was raised in this quarter by companies listed on the stock exchange in the form of new issues of fixed-income securities; this may be compared with an amount of R162 million in the preceding three months. New issues of ordinary shares by listed companies dropped from R5,7 billion (including the Iscor privatisation issue) in the fourth quarter of 1989 to a meagre R0,3 billion in the first quarter of 1990. "Net new borrowing" by the public sector through the issuance of fixed-interest securities did strengthen somewhat, however, from a net *repayment* of debt of R0,8 billion in the fourth quarter of 1989 to a net *repayment* of only R0,4 billion in the ensuing quarter.

In the *mortgage market*, the amount of mortgage loans paid out by building societies, which had peaked at R2,7 billion in the third quarter of 1988, amounted to R1,9 billion in the first quarter of 1990. This was significantly higher, however, than the amount of R1,5 billion in the fourth quarter of 1989. 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; for a third consecutive quarter the sustained large disparity between pay-outs on new loans and the actual increase in the building societies' holdings of loans was a reflection of continued large capital redemptions. In contrast, the increase in *banking institutions'* holdings of mortgage loans declined slightly from R1,3 billion in the fourth quarter of 1989 to R1,2 billion in the first quarter of 1990.

Real estate transactions



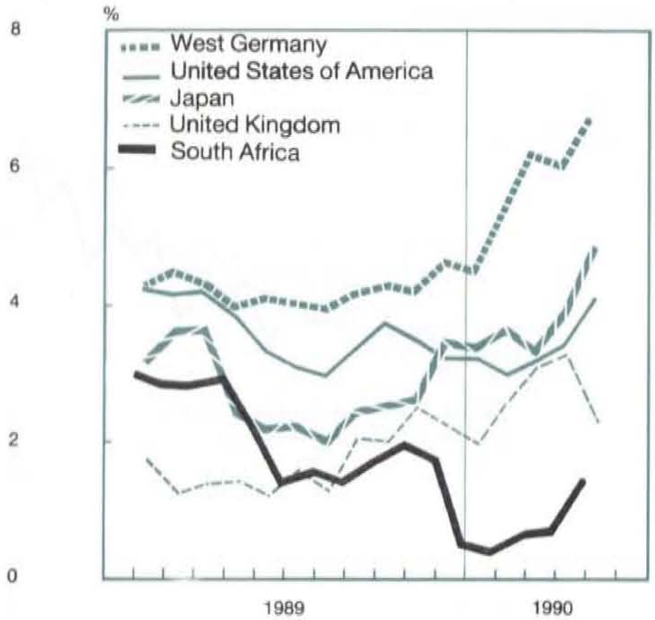
The value of *real estate transactions* rose from its record total of R5,7 billion in the fourth quarter of 1989 to a new record amount of R6,2 billion in the first quarter of 1990. The total of these transactions in 1989, at R21,2 billion, was 8 per cent higher than in 1988. In *real* terms, however, i.e. after adjustment for inflation as measured by the consumer price index, the volume of real estate transactions in 1989 fell back by some 6 per cent.

Long-term yields and interest rates

The downward movement in the *yield on long-term government stock*, which – for various reasons, such as the Government's early completion of its borrowing programme for budgetary purposes in the fiscal year 1989/90, and generally positive investor sentiment among both residents and non-residents – had started towards the middle of the fourth quarter of 1989, ran out of steam and began reversing itself in February 1990. The monthly average yield on long-term government stock declined relatively steeply from 16,9 per cent in October 1989 to 15,5 per cent in January 1990, but backed up to 15,6 per cent in February, 15,7 per cent in March and 16,2 per cent in April, on the strength of considerations such as the recent disappointing behaviour of the dollar price of gold and the market's re-emerging concerns about potential longer-run socio-political and economic developments.

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*, slipped 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, and a decline in the inflation rate, subsequently caused the real interest rate to recover somewhat to 1,4 per cent in April 1990.

Real long-term interest rates



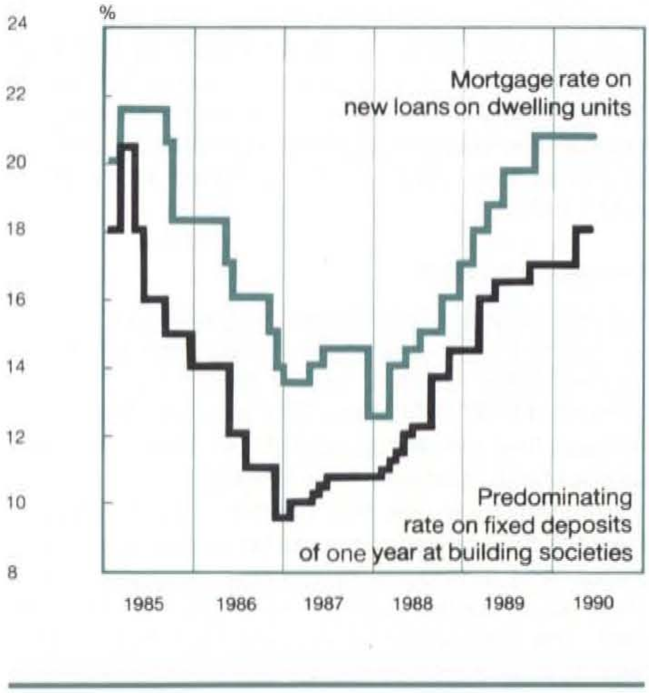
Mirroring the further improvement in the general level of share prices in the first quarter of 1990, the monthly average *dividend yield* on all classes of shares declined from 5,7 per cent in December 1989 to 5,3 per cent in March 1990. Weaker share prices then caused this yield to strengthen again to 5,5 per cent in April. The average *earnings yield* on all classes of shares (excluding gold-mining shares) eased from 15,4 per cent in December 1989 to 14,6 per cent in April 1990, largely because of less impressive financial results of companies in various sectors of the economy during this period.

The building societies' predominant home mortgage rate, which had been raised to 19,75 per cent in June 1989, was maintained at that level during the ensuing four months. Following the increase in Bank rate on 11 October 1989, this rate was raised to 20,75 per cent in October.

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 18,0 per cent in April 1990.

Share prices and yields

Building societies' interest rates



Government finance

Exchequer issues

In the first three quarters (the June, September and December quarters) of the fiscal year 1989/90 the year-on-year rates of increase in Exchequer issues to government departments (after the usual adjustment for changes in the balance on the Paymaster-General Account) amounted to 33,8, 15,9 and 26,1 per cent. However, in the March quarter of fiscal 1989/90 (i.e. in the first quarter of 1990) Exchequer issues were actually 1 per cent *lower* than in the March quarter of fiscal 1988/89. This steep decline in the year-on-year rate of increase was a reflection of limited *additional* government expenditure, which is normally incurred in the final or March quarter of fiscal years; the limited amount of additional expenditure for which appropriation had to be sought was, in turn, a reflection of the high degree of financial discipline that had been exercised by the authorities in the course of the fiscal year.

Government expenditure for the fiscal year 1989/90 as a whole rose by 16,2 per cent, against the original Budget estimate of 13,2 per cent or of 15,0 per cent if the Budget's provision of R1 billion for unforeseen expenditure is included; the actual increase rises to 17,1 per cent when adjustment is made for the change in the balance on the Paymaster-General Account. In *real* terms the increase in government expenditure in fiscal 1989/90 amounted to 1,1 per cent, or to 1,9 per cent after adjustment for the change in the balance on the Paymaster-General Account.

In April 1990, i.e. in the first month of fiscal 1990/91, Exchequer issues (after adjustment for changes in the balance on the Paymaster-General Account) were as much as 4,0 per cent *lower* than in April 1989. This, however, was mainly a result of the relatively high level of these issues in April 1989. The decrease over twelve months in Exchequer issues in April 1990 should not, therefore, be regarded as a harbinger of the prospective course of these issues in the remainder of the fiscal year 1990/91.

Exchequer receipts

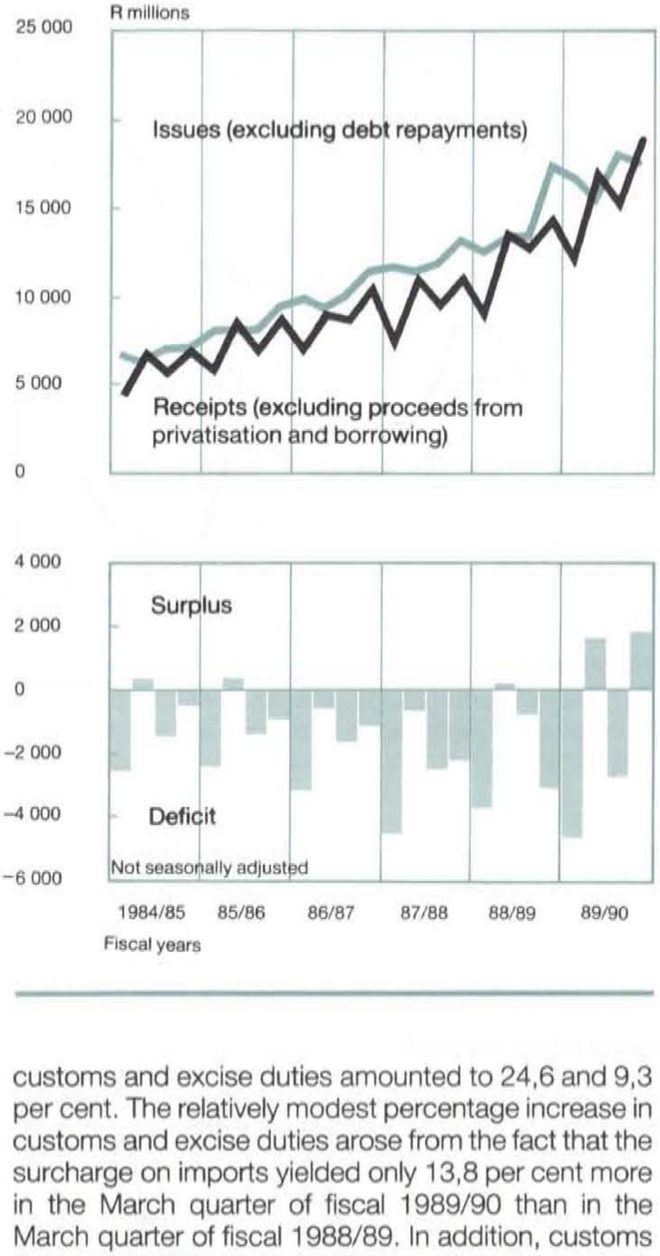
The year-on-year rates of increase in Exchequer receipts (excluding the proceeds from privatisation actions) in the first three quarters of the fiscal year 1989/90 amounted to 37,2, 26,4 and 20,4 per cent. This rate of increase then jumped up again to 32,5 per cent in the final or March quarter of fiscal 1989/90.

Compared with the final quarter of the fiscal year 1988/89, the increase in income tax receipts from companies and individuals in the final quarter of fiscal 1989/90 amounted to an astonishingly high 39,3 per cent. The corresponding increase over four-quarter periods in receipts from the general sales tax and from customs and excise duties amounted to 24,6 and 9,3 per cent. The relatively modest percentage increase in customs and excise duties arose from the fact that the surcharge on imports yielded only 13,8 per cent more in the March quarter of fiscal 1989/90 than in the March quarter of fiscal 1988/89. In addition, customs duties actually produced 10,3 per cent *less* than in the preceding year, which, among other things, reflected the effect of shifts in the composition of merchandise imports (as well as of a mild net decline in the volume of these imports) in the first quarter of 1990 vis-à-vis the first quarter of 1989.

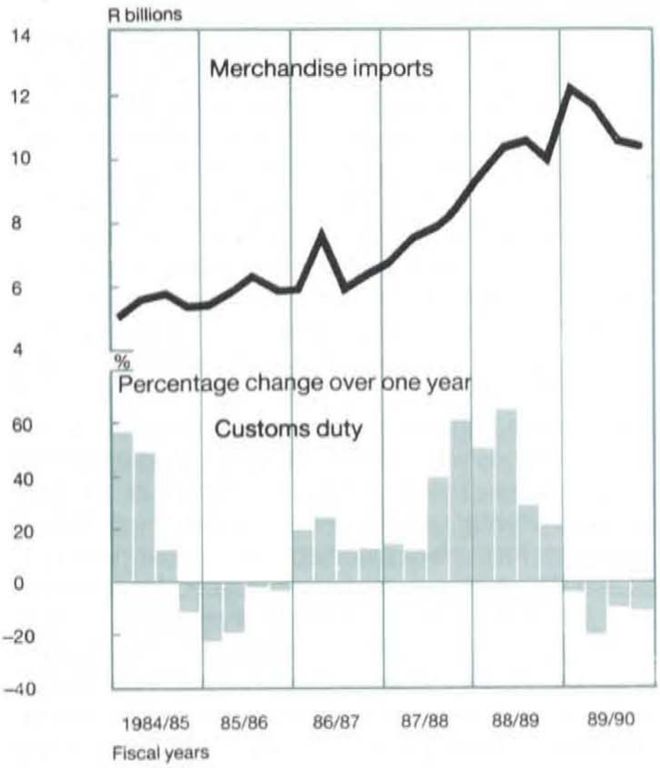
Government revenue (excluding privatisation proceeds) during fiscal 1989/90 as a whole was a major 28,2 per cent higher than in the preceding fiscal year. This may be compared with the increase of 16,0 per cent that had been budgeted for in the original Budget estimates of March 1989. In *real* terms, revenue receipts in the fiscal year 1989/90 increased by a substantial 11,5 per cent.

In April 1990 Exchequer receipts were 19,3 per cent higher than in April 1989. This percentage increase

Exchequer Account



Merchandise imports and customs duty



was well in excess of the rate of increase in government revenue of 5,8 per cent that had been budgeted for with regard to the fiscal year 1990/91 as a whole. At this very early stage in the new fiscal year, however, the observed rate of year-on-year increases in revenue receipts should not yet be regarded as indicative of trends that will apply in the course of the fiscal year.

Deficit before borrowing

A *surplus* before borrowing and debt repayment, amounting to R1 421 million, was recorded in the March quarter of fiscal 1989/90; this may be compared with a deficit of R2 480 million in the March quarter of fiscal 1988/89.

For the fiscal year 1989/90 as a whole, the deficit before borrowing and debt repayment (excluding the proceeds from privatisation actions, and computed on a basis of comparability with data as provided by the Minister of Finance in his Budget speech) amounted to R3 996 million. This was as much as R5 953 million *less* than the deficit of R9 949 million that had been foreseen by the Minister in his original Budget estimates. Relative to the nominal gross domestic product, the eventual actual deficit amounted to only 1,7 per cent; the deficit as originally budgeted for, would have amounted to 4,1 per cent of gross domestic product as projected at the time of the 1989/90 Budget with regard to the fiscal year.

The deficit of R3 996 million in fiscal 1989/90 was financed from the *net* proceeds of new issues of borrowing instruments (and of the loan levy) as follows:

	R millions
Government stock	10 165
Treasury bills	3 326
Loan levy	692
Non-marketable securities	–890
Foreign loans	–174
	13 119
Plus: Privatisation proceeds	2 975
Less: Discount on new issues	4 331
Less: Transfers to Stabilisation and other accounts	3 416
Less: Increase in available cash balances	4 351
Total net financing (= deficit before borrowing)	**3 996**

At the same time, the deficit of R3 996 million, plus the discount of R4 331 million on new issues of government stock (adding up to a total of R8 327 million), was financed from the various available *sources* of financing as follows:

	R millions
Public Investment Commissioners	4 111
Non-bank private sector	6 204
Banking sector:	
Corporation for Public Deposits	1 886
Other banks	–6 868
Foreign sector	19
Proceeds from privatisations	2 975
Total	**8 327**

Budgets of Own Affairs Administrations for 1990/91

Provision was made in the 1990/91 General Affairs Budget of the Minister of Finance for a total allocation to Own Affairs Administrations of R12 482 million. In addition, these administrations were to utilise R261 million from their own resources; aggregate expenditure by these administrations in 1990/91 was therefore budgeted to amount to R12 743 million. Of this total, amounts of R8 138 million, R3 386 million and R1 219 million were to be spent by the Administrations of the House of Assembly, the House of Representatives and the House of Delegates respectively.