Quarterly economic review

Introduction

As discussed in some detail in the Reserve Bank's *Annual Economic Report* for 1993, the protracted economic downturn of the past 4¼ years levelled off in the first half of 1993. In fact, real gross domestic product increased sharply in the first half of 1993 owing largely to improved agricultural conditions. However, when agricultural production is excluded from domestic output, the aggregate real value added by the non-agricultural sectors of the economy remained more or less unchanged. This levelling-out of the downswing is also confirmed by the sideways movement in the coincident composite business cycle indicator.

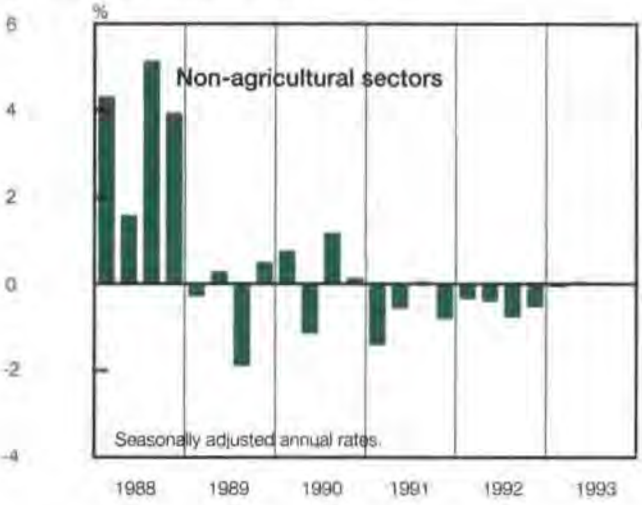
The increase in domestic output during the second quarter of 1993 was accompanied by a decrease in real gross domestic expenditure. Decreases in inventories (measured at constant prices) and in real gross domestic fixed investment were mainly responsible for this turn-about in domestic expenditure. Considerable destocking took place in the mining, manufacturing and commercial sectors, which outweighed an increase in agricultural stocks-in-trade owing to the harvesting of a significant portion of the maize crop. Although fixed capital outlays contracted further in the first half of 1993, the rate of decline slowed down due to preparatory spending on a number of major capital projects, a fairly sharp recovery in the gold price, the replacement of old machinery and equipment and a sharp increase in the volume of exports.

In contrast to the behaviour of these expenditure aggregates, real private consumer spending increased at an annualised rate of ½ per cent in both the first two quarters of 1993 and real government consumption expenditure remained virtually unchanged. The moderate rise in households' expenditure on consumer goods and services followed declines in seven consecutive preceding quarters and was probably partly a correction of the low level of such spending reached in 1992; it could also be ascribed to an improvement in farm income, pre-emptive buying to avoid price increases, the need to replace certain consumer durables and an actual decrease in food prices during the second quarter of 1993.

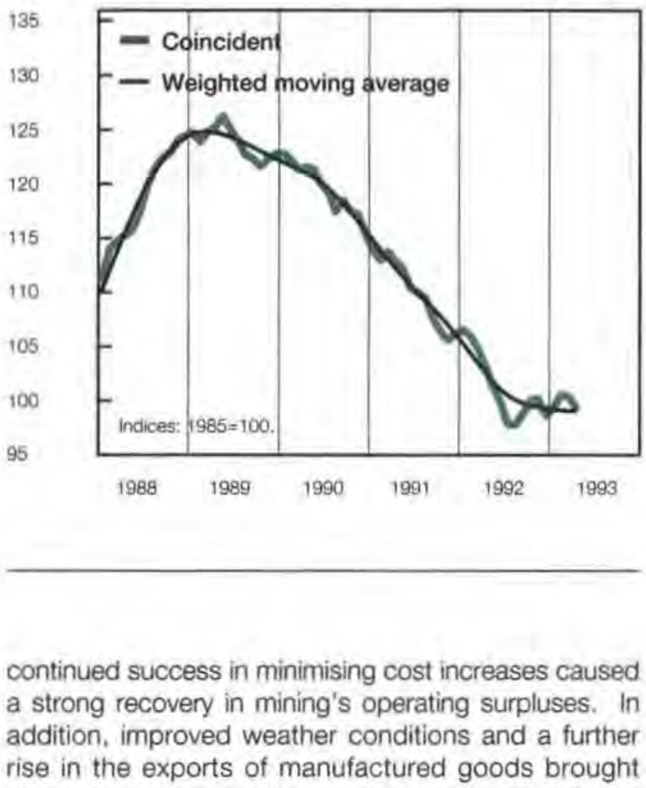
Despite this slight rise in real private consumption expenditure, households' saving rose slightly. Government dissaving was also reduced somewhat and corporate saving improved, especially in those sectors experiencing a rise in gross operating surpluses. A sharp increase in the price of gold and continued success in minimising cost increases caused a strong recovery in mining's operating surpluses. In addition, improved weather conditions and a further rise in the exports of manufactured goods brought about an increase in the gross operating surplus of agriculture and manufacturing.

The better results in the corporate sector were also related to a considerably slower growth in total nominal labour remuneration: the rate of increase in the total wage bill declined from a recent high at a year-on-year rate of almost 20 per cent in the second quarter of

Real gross domestic product



Coincident economic indicator



1989 to 9 per cent in the second quarter of 1993. This lower growth in labour remuneration was the combined result of more realistic wage demands of trade unions, lower salary adjustments granted by private business undertakings, and retrenchments arising from rationalisation in the private as well as the public sector.

The higher output and lower domestic expenditure led to a substantial increase in the surplus on the current account of the balance of payments in the second quarter of 1993. In particular, the value and volume of merchandise exports rose considerably in view of increased exports of diamonds, agricultural products and manufactured goods. A rise in the price of gold caused the value of net gold exports to increase, while the value of imports declined owing to lower imports of agricultural and mineral products.

A smaller outflow of short-term capital (including unrecorded transactions) was responsible for a more than halving of the net capital outflow from the country, namely from R3,7 billion in the first quarter of 1993 to R1,7 billion in the second quarter. As could be expected, this resulted in a small rise in the gold and other foreign reserves. The level of the gross foreign reserves, however, remained low. Despite the improved overall balance of payments position, the nominal and real effective exchange rate of the rand fell sharply further in the second quarter of 1993; the rate of decline in the weighted exchange rate of the rand in nominal terms then slowed down in July and August 1993.

The low level of domestic economic activity and the pursuance of a conservative monetary policy led to a further sharp decline in the growth of money supply and bank credit extension. During the first half of 1993 the growth in M3 actually receded to below the lower limit of the money supply guideline range for 1993. The consolidation of clients' deposits and borrowing under flexible mortgage facilities and some disintermediation (because of the relatively wide margins between banks' deposit and lending rates, and the selling of bankers' acceptances to investors in the non-bank private sector after the liquid-asset status of this paper had been terminated) also contributed to the lower growth in these aggregates.

In response to the consistent action of the monetary authorities against inflation, the measured inflation rate continued to increase at relatively low rates varying around 10 per cent notwithstanding large increases in indirect tax rates. This could be an indication that South Africa is moving into an era of greater price stability. Had it not been for price increases associated with specific incidents, such as the Gulf War of 1990/91, the severe drought of 1991/92 and the introduction of value-added tax, consumer price inflation would probably have been considerably lower.

In the financial markets, money market conditions continued to be relatively tight during the first eight months of 1993. Funding of the government shortfall and a decline in the net gold and other foreign reserves of the Reserve Bank resulted in fairly high levels of accommodation at the discount window. The actions of the Reserve Bank in the money market were therefore mainly directed towards alleviating these tight conditions and neutralising short-term fluctuations.

The capital market was characterised by a sharp increase in the trading of stocks and derivatives emanating from the higher gold price, a softening in bond yields and divergent expectations regarding interest rate movements. Share prices reached new record levels in July 1993 before a downward correction in the gold price caused the prices of shares to fall during August. The value of funds raised by the public sector increased significantly in the first half of 1993, but the value of new issues of securities by the private sector levelled off and real estate transactions declined further.

The general downward movement in money market interest rates, which had already started at the beginning of 1990, carried on in the first four months of 1993; some of these rates subsequently, however, rose slightly. Capital market rates, specifically the yield on long-term government stock, at first moved to moderately higher levels in this period owing mainly to a substantial increase in the supply of government stock and the conversion of bank credit of the independent national states to marketable stock debt. From June these long-term interest rates receded somewhat again.

This rise in the supply of government stock was related to the increase in the public-sector borrowing requirement as well as to an over-funding of the Exchequer deficit. The total public-sector borrowing requirement amounted to R7,5 billion in the second quarter of 1993 (the first quarter of fiscal 1993/94), or to 8,6 per cent of gross domestic product. A sharp increase in government expenditure and a smaller-than-projected rise in revenue gave rise to a large deficit before borrowing on the Exchequer account.

The government was able to finance this deficit with relative ease and exceeded the funding requirements to a considerable extent in the first quarter of fiscal 1993/94. Government stock remained the main debt financing instrument, and a substantial part of the stock issues was taken up by the Public Investment Commissioners on behalf of the goverment employees' pension funds at what were perceived to be attractive yields.

Domestic economic development

Domestic output

After having declined sharply at seasonally adjusted and annualised rates that varied between 2½ and 5½ per cent in 1992, *real gross domestic product* increased at a rate of 1½ per cent in the first quarter of 1993 and even more strongly at a rate of 5 per cent in the second quarter. The level of total real domestic output in the first half of 1992 was none the less still 1½ per cent below its level in the corresponding period in 1992.

The remarkable recovery in domestic output during the first half of 1993 was mainly concentrated in the *primary sectors* of the economy. In fact, the annualised rate of growth in the real production of these sectors amounted to no less than 8½ per cent in the first half of 1993 compared with the last half of 1992. *Agriculture* in particular benefited from the relatively early harvesting of the maize crop – approximately 50 per cent of the estimated 8,9 million tons of maize was harvested in the first half of 1993. Agricultural output therefore added some 2 percentage points to the rate of growth in real gross domestic product in the first half of 1993; in the calendar year 1992 agriculture had pushed the growth rate down by 1,7 percentage points. When agricultural production is excluded from real gross domestic product, the real value added by the non-agricultural sectors remained more or less unchanged in the first half of 1993.

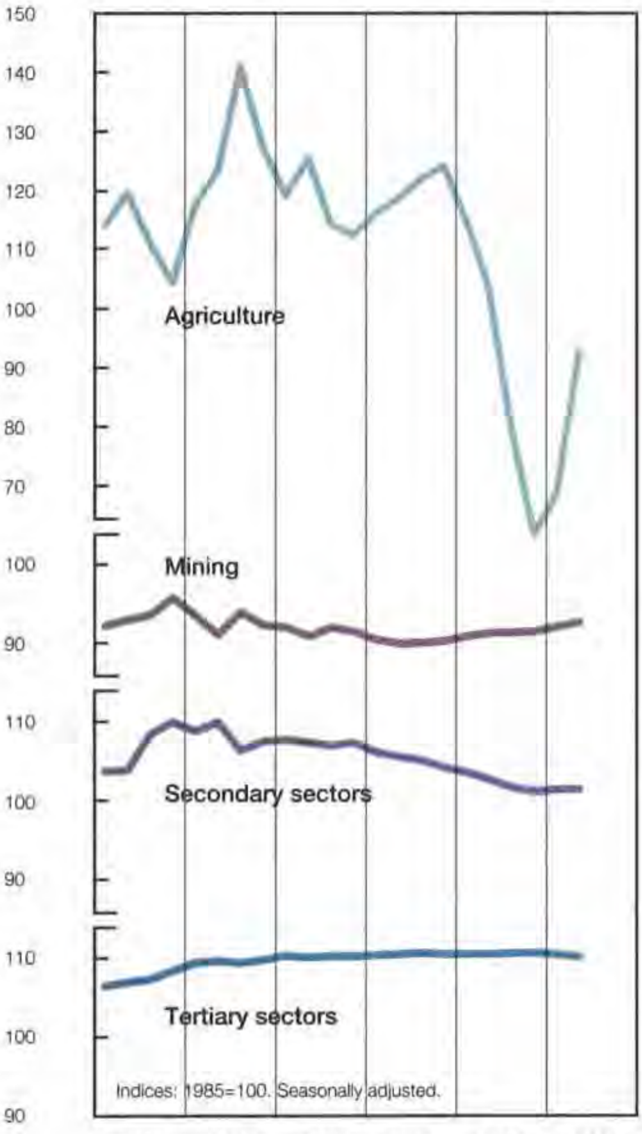
The growth in real output of the *mining* industry, which had already started in the middle of 1991, accelerated from an average annualised rate of ½ per cent in the third and fourth quarter of 1992 to 2½ per cent in the first two quarters of 1993. These considerable gains in mining output could be attributed mainly to a rise in real output by the gold mines, which neutralised a decline in real value added by the non-gold-mining industry. Despite a decline in the tons of ore milled by the mines, gold production rose sharply in the first half of 1993 because of the mining of a higher quality of ore.

After having increased at an annualised rate of 1 per cent in the first quarter of 1993, the total real value added by the *secondary sectors* showed virtually no change in the second quarter. The improved performance of the secondary sectors was primarily due to a substantial increase in the real value added by the sector supplying *electricity, gas and water*: the real value added by this sector rose at an annualised rate of 3½ per cent in the first quarter of 1993 and 5 per cent in the second quarter. This was partly due to an increase in domestic demand, but more particularly to a substantial increase in electricity sold to neighbouring countries.

Manufacturing output contracted at an annualised rate of almost ½ per cent in the second quarter of 1993, following an increase of nearly 2 per cent in the first quarter of this year. This decrease in manufacturing output was fairly widespread and was recorded in spite of a further expansion in the volume of manufactured goods exported. Strikes and stay-aways, which resulted in a sharp rise in man-days lost in production, impeded output expansion seriously: the number of man-days lost on account of strikes and other protest actions increased to 570 000 in the second quarter of 1993 from about 65 000 in the first quarter of the year. The percentage utilisation of production capacity in manufacturing therefore amounted to only 77½ per cent in the second quarter of 1993.

The *construction* industry continued to suffer in the first half of 1993 from the general weakness of domestic demand and was especially affected by the

Components of real gross domestic product



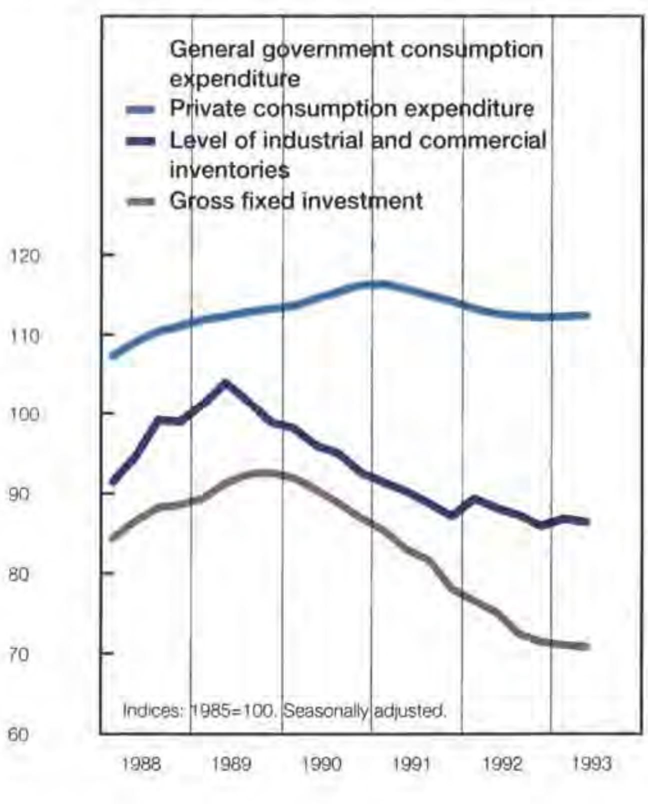
more pronounced declines in real capital expenditure on buildings and construction works from the end of 1992. The annualised rates of decline in the real value added by the construction sector nevertheless receded from 9 and 11 per cent in the last two quarters of 1992 to 8 per cent in the first quarter of 1993 and 5½ per cent in the second quarter.

Total real value added by the *tertiary sectors*, which had generally continued to increase in the current recession, decreased at an annualised rate of 1 per cent in both of the first two quarters of 1993. These decreases mainly reflected a contraction in the real value added by commerce, transportation and general government services, while the real value added by finance and community services continued to expand. In the sector commerce the decline in the real value added accelerated during the first six months of 1993 from an annualised rate of 2½ per cent in the first quarter to 3½ per cent in the second quarter.

Domestic expenditure

The increase in domestic output during the second quarter of 1993 was accompanied by a decrease in *real gross domestic expenditure* at a seasonally adjusted and annualised rate of 11½ per cent; in the first quarter of 1993 domestic expenditure had increased at a rate of 9 per cent. This sharp turnaround in real domestic expenditure was the net result of further decreases in real gross domestic fixed investment and in inventories valued at constant prices, which outweighed a small increase in total real consumption expenditure.

Main components of real gross domestic expenditure



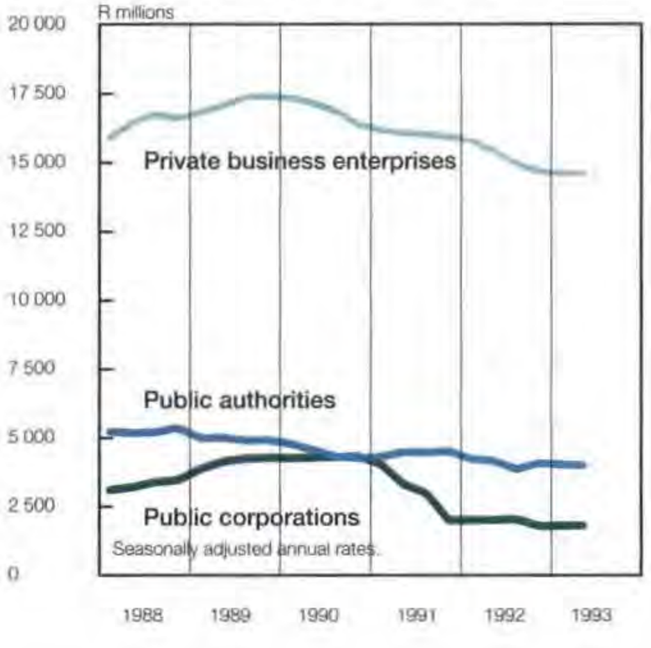
Real private consumption expenditure increased at an annualised rate of ½ per cent in both the first two quarters of 1993, following rates of decline in this aggregate varying between ½ and 3½ per cent in the four quarters of 1992. The slight rise in real outlays on consumer goods and services by households in the first half of 1993 was partly a correction of the very low levels of such spending in 1992. Other factors that could have contributed to the rise in real consumer spending included a slight rise in real personal disposable income, owing mainly to an improvement in farm income, pre-emptive buying aimed at avoiding price increases that were expected to arise from an increase in the value-added tax rate and a sharp depreciation of the rand, the need to replace consumer durable goods, the recent further increase in informal retail outlets and an actual decrease in food prices during the second quarter of 1993.

The further modest growth in real private consumption expenditure in the second quarter of 1993 mainly reflected expenditure on semi-durable goods, such as motor-related equipment and repairs, textiles and household equipment, as well as on non-durable goods in the category food, beverages and tobacco. Real expenditure on services remained about unchanged, while the rate of decline in real outlays on durable consumer goods slowed down further from about 7 per cent in 1992 to annualised levels of 1½ per cent in the first quarter of 1993 and 1 per cent in the second quarter. This slower contraction in the second quarter of 1993 came about mainly because of higher outlays on furniture and household appliances, while real expenditure on personal transport equipment retreated somewhat from the high level in the first quarter of the year. In the first half of 1993 total real expenditure on personal transport equipment was still higher than in the corresponding period of 1992.

Real consumption expenditure by general government showed little change in the first and second quarter of 1993. Measured over a period of four quarters, total real remuneration of employees decreased slightly in the second quarter of 1993, while real outlays on intermediate goods and services were only marginally higher. As a ratio of gross domestic product, consumption expenditure by general government amounted to a still high level of 21½ per cent in the second quarter of 1993; in the 1980s this ratio averaged 16½ per cent.

Although *real gross domestic fixed investment* continued to decline in the first half of 1993, the annualised rate of decrease in this aggregate slowed

Real gross domestic fixed investment



down markedly from a high of 13½ per cent in the third quarter of 1992 to 2½ per cent in the first quarter of 1993 and 1½ per cent in the second quarter. This slower contraction in fixed capital outlays in the second quarter of 1993 was discernible in the main types of organisations distinguished in an institutional classification of investment.

The rate of decrease in *real private fixed investment* receded from an annualised rate of nearly 2 per cent in the first quarter of 1993 to approximately 1 per cent in the second quarter. After having declined almost uninterruptedly from the second half of 1990, the fixed investment outlays by private enterprises engaged in mining, manufacturing and commerce actually increased in the second quarter of 1993. The apparent bottoming-out of the downward movement in investment expenditure in these sectors was probably related to the start of spending on a number of major capital projects encouraged by tax concessions on depreciation allowances, a fairly sharp recovery in the gold price, the need for replacement of machinery and equipment, and growing expectations of a revival in world economic growth and trade.

Increases in the capital outlays of the South African Post Office and general government were mainly responsible for a slower rate of decline in *real fixed investment by public authorities:* the rate of decline in these authorities' fixed investment contracted from 6 per cent in the first quarter of 1993 to slightly below 2½ per cent in the second quarter. Owing largely to increases in real outlays by Eskom on the electrification of low-cost housing areas, the *fixed investment by public corporations* rose at an annualised rate of 1 per cent in both the first two quarters of 1993.

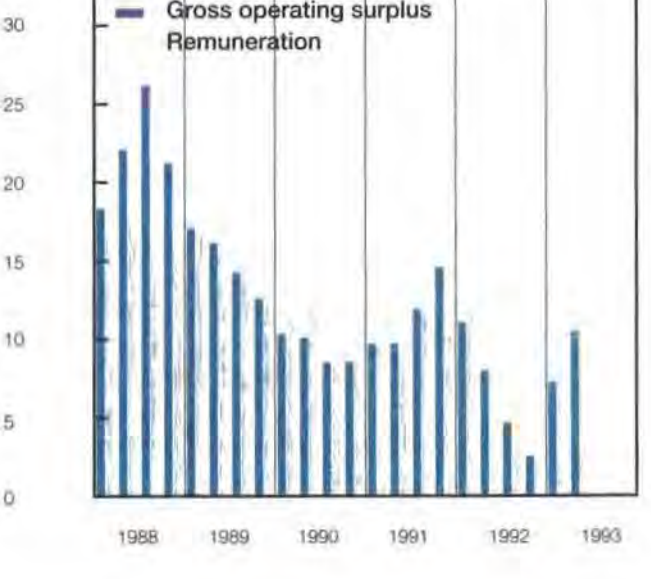
After *inventory investment* had turned positive in the first quarter of 1993, considerable destocking took place again in the second quarter. Diamond stocks-in-trade remained low, but inventories were reduced in the mining, manufacturing and commercial sectors. The substantial rise in the volume of exports and the decline in the volume of imports were probably the most important reasons for the decline in the stocks of these sectors. However, agricultural stocks-in-trade increased strongly owing to the harvesting of a significant portion of the maize crop.

At 17½ per cent the ratio of industrial and commercial inventories to the non-agricultural gross domestic product was nevertheless still very low; in the 1980s this ratio averaged 24 per cent, and at the beginning of the current cyclical downturn it amounted to 22 per cent.

Nominal factor income

Higher growth in the total gross operating surplus was mainly responsible for a slight acceleration in the growth of aggregate nominal factor income from a year-on-year rate of 9 per cent in the first quarter of 1993 to 10 per cent in the second quarter. The rate of increase in the *gross operating surplus* increased much more sharply, *viz* from 7 per cent to 10½ per cent over the same period. Profits in agriculture and mining made the major contribution to the sharper rise in total

Gross operating surplus and remuneration



operating surplus, but manufacturing enterprises also reported improved results. A sharp increase in the rand price of gold and the gold-mining industry's success in minimising increases in operating cost were the main factors behind the strong recovery in mining operating surpluses. The better results in the case of agriculture and manufacturing could be attributed to an increase in maize production and a sharp rise in the exports of manufactured goods.

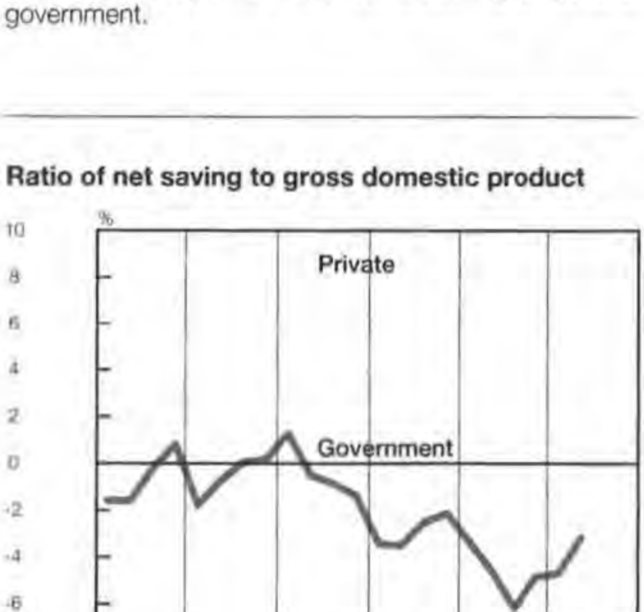
The percentage change over four quarters in total nominal *labour remuneration* slowed down from 10½ per cent in the first quarter of 1993 to 9 per cent in the second quarter. This lower rate of increase in total salaries and wages was evident in all the major sectors of the economy, with the exception of agriculture and mining. A number of reasons can be cited for the slower growth in aggregate employee remuneration, including:

- the long and severe downturn in domestic economic activity;
- retrenchments resulting from the rationalisation of business enterprises in the private sector as well as public-sector institutions;
- the high level of unemployment and the influence of more liquidations and insolvencies; and
- the encouraging signs of more realistic wage demands set by some trade unions.

Domestic saving

Gross domestic saving relative to gross domestic product strengthened moderately from the exceptional low level of 16½ per cent in 1992 to 17½ per cent in the second quarter of 1993. This improvement was the combined result of a rise in the net saving of the private sector and a decline in the net dissaving of general government.

Ratio of net saving to gross domestic product



The *general government*, which had become a net dissaver in 1984, continued to erode domestic savings to finance its current expenditure. High increases in government consumption expenditure, in interest payments on the public debt, and large current transfers to households, exceeded the slower growth in government revenue, and net dissaving by general government reached the high level of R16,3 billion, at a seasonally adjusted and annualised rate, in the first quarter of 1993. In the second quarter of 1993 general government's net dissaving declined moderately to an annualised level of R11,3 billion.

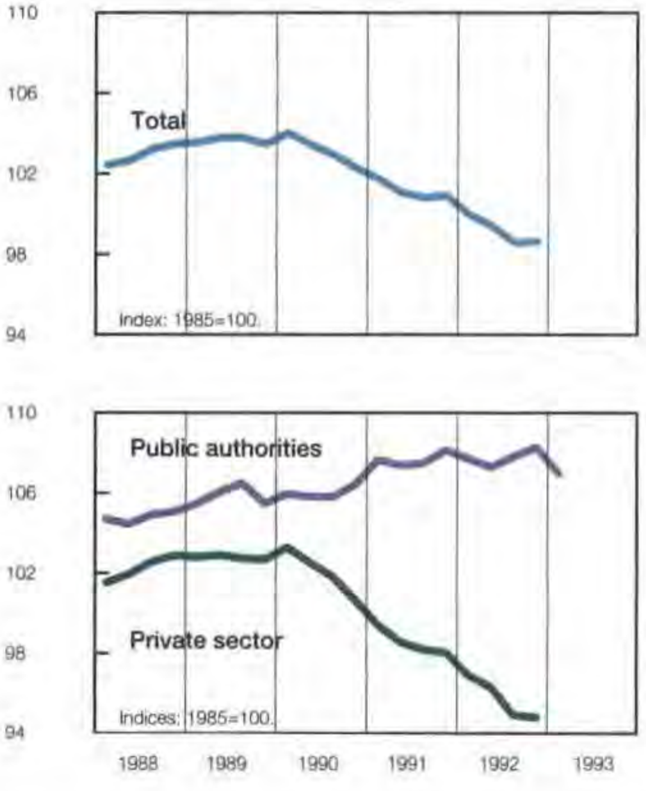
Net saving of the *private sector*, as a ratio of gross domestic product, edged up marginally from 5½ per cent in calendar 1992 to nearly 6 per cent in the second quarter of 1993 because of increases in the net saving of both companies and households. As could be expected, corporate saving improved in those sectors experiencing a rise in operating surpluses: agriculture, mining, manufacturing and financial services. Although net saving by the personal sector rose slightly in the second quarter of 1993, the ratio of personal saving to personal disposable income remained below 2½ per cent – slightly down from the average level of 1992.

Employment

Total employment in the non-agricultural sectors of the economy declined in ten of the fifteen quarters from the beginning of the current recession up to the fourth quarter of 1992 (the latest information published by the Central Statistical Service). The slump in employment accelerated on balance from a seasonally adjusted and annualised rate of decline of 1,3 per cent in the fourth quarter of 1989 to 2,6 per cent in the second quarter of 1991 and to 3,6, 2,2 and 3,3 per cent in the first three quarters of 1992. Smaller personnel reductions in the private sector and higher employment by public authorities then caused total employment in the non-agricultural sectors to increase by 0,2 per cent in the last quarter of 1992.

The quarter-to-quarter rate of decline in employment by the *private sector* accelerated from a seasonally adjusted and annualised level of 0,3 per cent in the first quarter of 1989 to high rates of 4,5, 2,5 and 5,6 per cent in the first three quarters of 1992. New job opportunities in the manufacturing sector, in wholesale and retail trade and in the insurance industry, together with lower rates of reductions in employment by the mining industry and hotels and laundry services, then caused the rate of decrease in private-sector employment to drop to only 0,5 per cent in the fourth quarter of 1992. In the first quarter of 1993 increases were recorded in employment in the wholesale and retail trade sectors, banks and in private road transportation, while the motor trade, insurance industry and agricultural control boards reported lower employment numbers than before. The decline in

Non-agricultural employment



private-sector employment was by and large the outcome of rationalisation programmes aimed at strengthening the cost-efficiency of companies in an environment where generally weak economic conditions threatened the existence of many businesses.

Although occasional decreases in employment were recorded by *public authorities* during the recession, total employment by public authorities increased by 1,4 per cent from the first quarter of 1989 to the first quarter of 1993 – a net addition of 23 400 job opportunities. More recently, increases at seasonally adjusted and annualised rates of 2,0 and 1,7 per cent in the third and fourth quarter of 1992 were followed by a substantial decline at a rate of 4,7 per cent in the first quarter of 1993. This reduction in employment was the result of rationalisation programmes implemented by parastatal corporations, such as Transnet, the South African Post Office and Telkom to limit increases in operational costs, and of attempts by the central government to slow down increases in current expenditure.

The seasonally adjusted total number of *registered unemployed* persons increased in accordance with the declining level of formal employment in the non-agricultural sectors of the economy. The average level of registered unemployed during 1992 was therefore no less than 16,2 per cent higher than in 1991. This figure rose further in the first four months of 1993 to a level that was 18,7 per cent higher than in the corresponding period in the previous year. In April 1993 the total number of registered unemployed amounted to 316 000 persons.

Labour costs and productivity

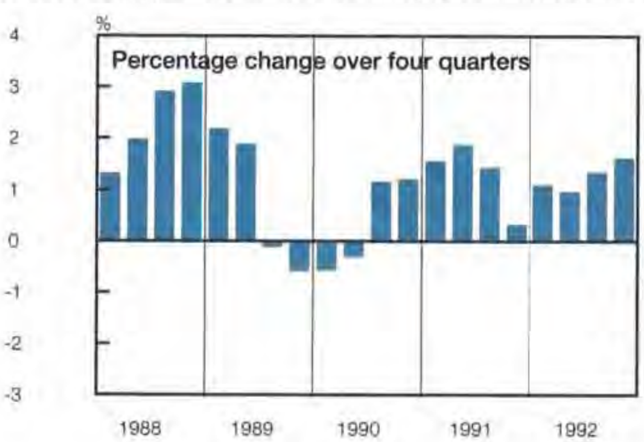
In spite of the weaker economic conditions and the excess supply of labour, the rate of increase in the average monthly *nominal labour remuneration* per worker in the non-agricultural sectors of the economy declined only modestly from 18,0 per cent in 1989 to 15,2 per cent in 1992. Over the shorter term the year-on-year rate of increase in salaries and wages per worker slowed down somewhat more conspicuously from a recent high of 16,2 per cent in the second quarter of 1992 to 14,4 per cent in the third quarter and 14,6 per cent in the fourth quarter. This lower rate of increase occurred in the labour remuneration per worker of the private sector and public authorities. In the fourth quarter of 1992 the year-on-year rate of increase in nominal wage remuneration of the private sector and public authorities amounted to 15,1 per cent and 13,2 per cent, respectively. The rate of increase in the salaries and wages per worker employed by public authorities then rose again to 14,0 per cent in the first quarter of 1993.

The rate of increase in the *real wage* per worker in the non-agricultural sectors of the economy (as deflated by the price deflator for the non-agricultural gross domestic product) declined from 2,2 per cent in 1989 to 1,4 per cent in 1991; it then rose to 2,6 per cent in 1992 – the highest average annual rate of increase since 1984. In the fourth quarter of 1992 the year-on-year rate of increase in real remuneration per worker amounted to 3,6 per cent, compared with 1,6 per cent in the third quarter of 1992. As already explained in some detail in previous economic surveys, the high rate of increase in real remuneration per worker originated largely from the retrenchment of workers in the private sector, while nominal salary adjustments were lower than the rate of inflation.

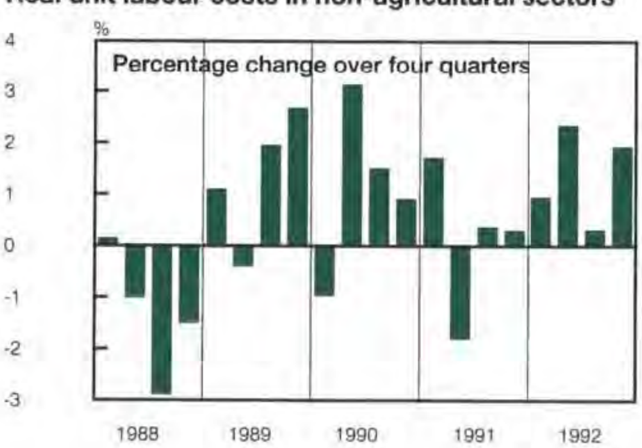
These reductions in the labour force were also primarily responsible for an increase in *labour productivity* of 0,4 per cent in 1990, and 1,3 and 1,2 per cent in 1991 and 1992. In addition, productivity was improved by a lower incidence of labour unrest, because the total number of man-days lost owing to strikes and work stoppages during these two years was significantly lower than in 1990. Increases in real production per worker were recorded in almost every calendar quarter since the second quarter of 1989, and recently the year-on-year rate of increase also accelerated from 0,3 per cent in the fourth quarter of 1991 to 1,6 per cent in the fourth quarter of 1992.

Average real remuneration per worker in non-agricultural sectors

Production per worker in non-agricultural sectors



Real unit labour costs in non-agricultural sectors

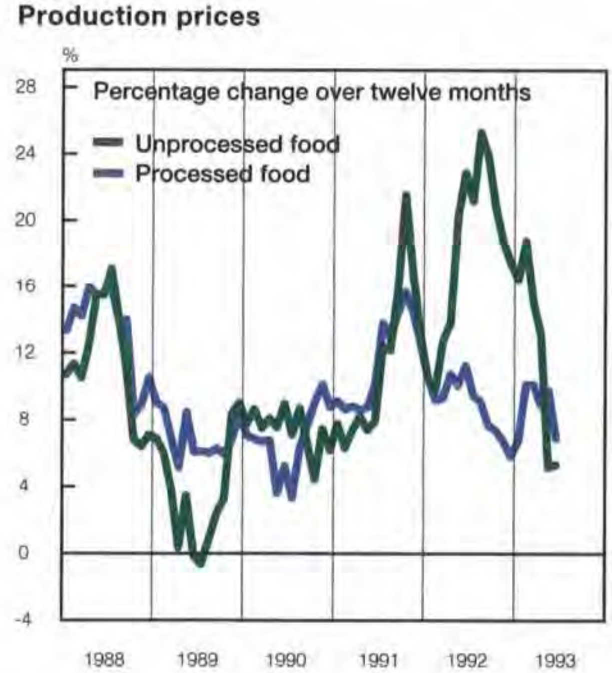


Because the recent rise in real remuneration per worker exceeded the increase in labour productivity, *real unit labour costs* rose sharply in 1992. After having increased by only 0,1 per cent in 1991, real unit labour costs (as deflated by the price deflator for the non-agricultural gross domestic product) rose by 1,4 per cent in 1992. The year-on-year rate of increase in real unit labour costs also accelerated from a negative level of 1,8 per cent in the second quarter of 1991 to a positive figure of 2,3 per cent in the second quarter of 1992; it then declined to 0,3 per cent in the third quarter before rising again to 1,9 per cent in the fourth quarter.

Prices

Recent domestic price movements confirm that meaningful progress has been made in subduing inflation. The rate of increase in the production prices of *domestically produced goods* over *periods of twelve months* declined from a post-Gulf War high of 13,9 per cent in March 1991 to 6,3 per cent in June 1993 – the lowest such rate since June 1972, when 5,5 per cent was recorded. Although the improvement in agricultural conditions made an important contribution to this lower rate of increase, producers were also forced to absorb cost increases in an attempt to maintain turnover in a weak business environment. This is clearly illustrated in the accompanying graph by the wide divergence which developed during 1992 between the rates of increase in the prices of unprocessed and processed food and the declining

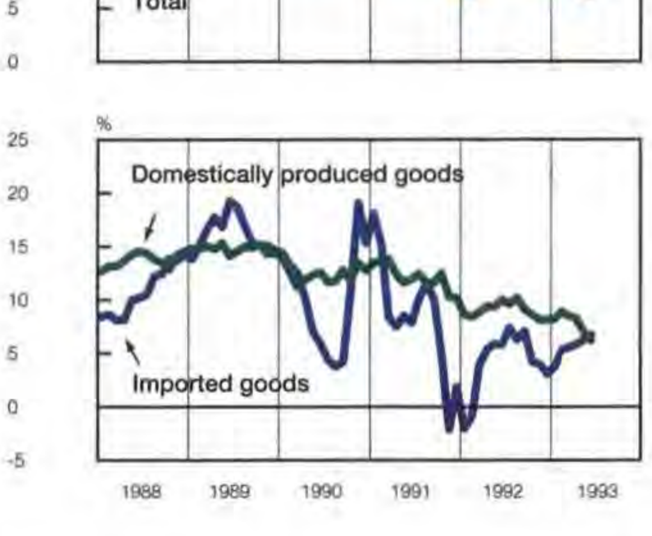
Production prices



trend in the last-mentioned category up to June 1993. The *quarter-to-quarter* rate of increase in the prices of domestically produced goods also declined from a seasonally adjusted and annualised rate of 11,9 per cent in the second quarter of 1992 to 4,5 per cent in the fourth quarter; it then accelerated somewhat to 7,1 per cent in the second quarter of 1993.

In contrast to these developments, the recent depreciation of the exchange rate of the rand caused the rate of increase in the prices of *imported goods* over *periods of twelve months* to accelerate from 3,1 per cent in December 1992 to 6,3 per cent in May 1993. These rates of increase were nevertheless lower than the corresponding rates of increase in the all-goods production price index since March 1991 and therefore contributed to the relative stability in this price index. However, at a rate of 6,8 per cent in June 1993, the rise in import prices surpassed the corresponding rate of increase in the all-goods production price index. The *quarter-to-quarter* rate of increase in the prices of imported goods turned around sharply from a negative rate of 10,1 per cent in the fourth quarter of 1992 to a positive seasonally adjusted and annualised rate of 21,6 per cent in the second quarter of 1993, owing to the depreciation of the rand.

Production prices



Reflecting the changes in its two main components, the rate of increase in the *all-goods production price index* over *periods of twelve months* has been on a downward trend since May 1989. This rate of increase slowed down on balance from 15,8 per cent in that month to 6,4 per cent in June 1993. The *quarter-to-quarter* rate of increase in production prices declined at first from a seasonally adjusted and annualised level of 12,5 per cent in the third quarter of 1992 to only 1,4 per cent in the fourth quarter, before accelerating to 9,0 per cent in the second quarter of 1993.

The rate of increase in the overall *consumer price index* over *periods of twelve months* declined from a high of 16,8 per cent in October 1991 to 9,0 per cent in February 1993. The inclusion of the sharp increase in educational fees in this index in March 1993 and the effect of an increase of 4 percentage points in the value-added tax rate, higher other indirect taxes and an increase in the price of petrol, then caused the rate of increase in consumer prices over periods of twelve months to accelerate to 11,0 per cent in April. The potential of these increases to fuel renewed price increases was, however, limited by the consistency of a conservative monetary policy and the drawn-out economic downturn. In addition, the lower rates of increase in the prices of food and decreases in the costs of home ownership contributed to a deceleration in the rate of increase in consumer prices to 9,9 per cent in July 1993.

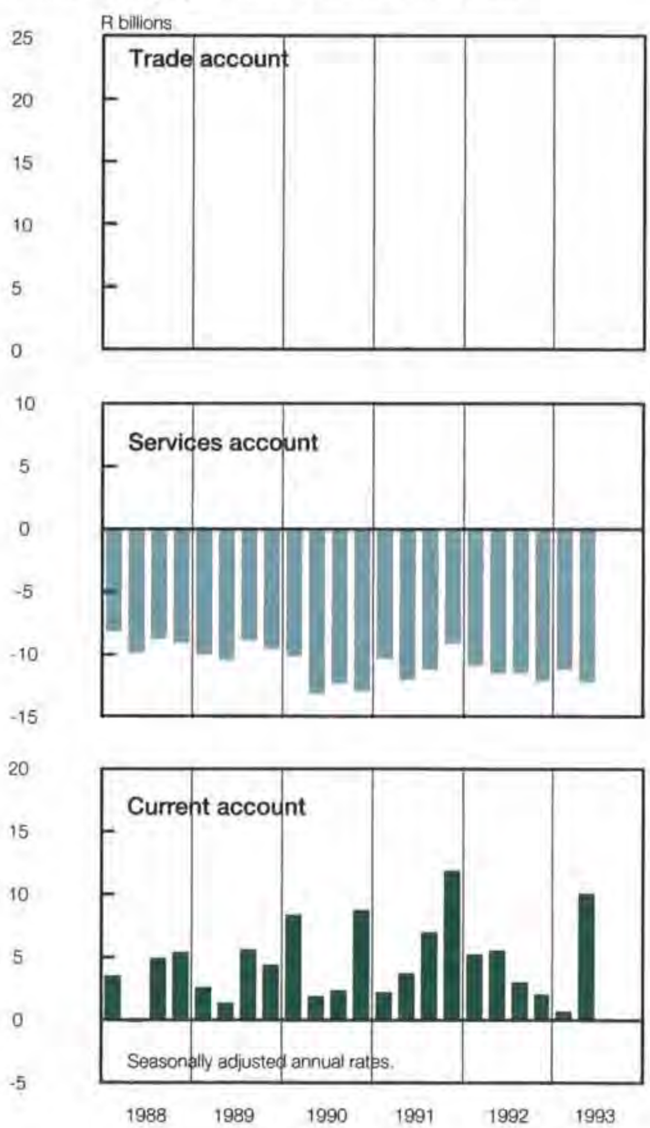
After having declined from a seasonally adjusted and annualised level of 18,8 per cent in the fourth quarter of 1991 to 4,7 per cent in the fourth quarter of 1992, the *quarter-to-quarter* rate of increase in the consumer price index rose abruptly to 17,6 per cent in the second quarter of 1993, mainly because of the effects of increases in indirect taxes. In particular, the prices of consumer services rose very rapidly in the first half of 1993.

Foreign trade and payments

Current account

The surplus on the current account of the balance of payments (seasonally adjusted and annualised), which had weakened from R11,9 billion in the fourth quarter of 1991 to only R0,7 billion in the first quarter of 1993, improved substantially again to R10,1 billion in the second quarter. As a ratio of gross domestic product, the surplus on the current account amounted to nearly 3 per cent in the second quarter of 1993; this ratio came close to the 4 per cent reached at its recent high in the fourth quarter of 1991 after having equalled only 0,2 per cent in the first quarter of 1993.

Balance of payments : Current account

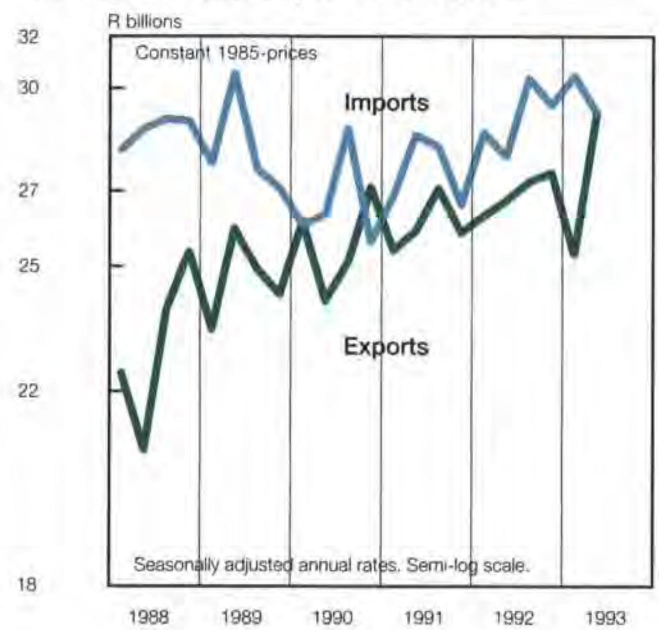


The exceptionally large surplus on the current account in the second quarter of 1993 was the combined result of a sharp increase in the value of merchandise exports, a further moderate rise in the value of net gold exports and a decline in the value of merchandise imports. In contrast to these developments, the value of net service and transfer payments to non-residents rose again.

After having declined from R49,4 billion in the fourth quarter of 1992 to R47,2 billion in the first quarter of 1993, the value of *merchandise exports* (seasonally adjusted and annualised) rose to R56,2 billion, or by almost 19 per cent, in the second quarter of 1993. This substantial increase was to a large extent due to an increase in the volume of merchandise exports by some 15½ per cent. Large increases were recorded in the exports of diamonds, agricultural products and manufactured goods (particularly chemical products and machinery and electrical equipment). The exports of certain mining products also rose sharply in the second quarter of 1993.

Despite a renewed decline in international commodity prices in dollar terms in the second quarter of 1993, the rand prices of merchandise exports advanced by almost 3 per cent over this period. This is explained by the fact that South Africa's exports are primarily denominated in US dollars and that the rand depreciated sharply against the dollar: from the end of the first quarter of 1993 to the end of the second quarter of 1993 the rand depreciated by 4,4 per cent against the dollar.

Real merchandise imports and exports



Balance of payments on current account
Seasonally adjusted annual rates

R billions

	1992					1993	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Merchandise exports	47,5	49,6	49,5	49,4	49,0	47,2	56,2
Net gold exports	18,1	16,7	20,4	18,2	18,4	21,1	22,2
Merchandise imports	–49,5	–49,2	–55,4	–53,4	–51,9	–56,4	–56,1
Net service and transfer payments	–10,9	–11,6	–11,5	–12,2	–11,6	–11,2	–12,2
Balance on current account	**5,2**	**5,5**	**3,0**	**2,0**	**3,9**	**0,7**	**10,1**

The value of *net gold exports* at a seasonally adjusted and annualised rate rose from R21,1 billion in the first quarter of 1993 to R22,2 billion in the second quarter, owing mainly to a rise in the price of gold. The fixing price of gold averaged US$360 per fine ounce in the second quarter of 1993; in the first quarter of this year it came to only $329 per fine ounce. In July 1993 the gold price rose even further to an average of $392 per fine ounce; for a brief period it actually rose above $400 per fine ounce to a high of $406 per fine ounce on 2 August 1993, before declining again to between $370 and $375 in the second half of August. This sudden drop in the price of gold could be attributed to a decline in the physical demand for gold, stop-loss orders and the re-establishment of somewhat more stable conditions in the European Exchange Rate Mechanism. In rand terms per fine ounce, the price of gold rose from R1 029 in the first quarter of 1993 to R1 150 in the second quarter and to R1 293 in July and August 1993.

The value of *merchandise imports* declined slightly from a seasonally adjusted and annualised rate of R56,4 billion in the first quarter of 1993 to R56,1 billion in the second quarter, or by ½ per cent. Moderate rises in the prices of imported goods and a sharp decline in the nominal effective exchange rate of the rand caused the prices of merchandise imports to increase by about 3 per cent in the second quarter of 1993. Import volumes declined by some 3½ per cent from the first to the second quarter of 1993, owing largely to lower imports of agricultural and mineral products. The value and volume of merchandise imports in the first half of 1993 were nevertheless still 14 and 5½ per cent above their respective levels in the corresponding period of the preceding year.

Net *service and transfer payments* to non-residents (seasonally adjusted and annualised values) increased from R11,2 billion in the first quarter of 1993 to R12,2 billion in the second quarter. Higher travelling expenses related to an increased number of South Africans travelling abroad were largely responsible for a sharp increase in service payments. These increased payments were countered to some extent by a rise in receipts from freight and merchandise insurance and from transport services rendered to foreigners.

Capital movements

The *net outflow of capital*, which had started to increase during the second quarter of 1992 owing to a deadlock in the political negotiation process at that time and which had deteriorated substantially in the subsequent nine months, improved somewhat in the second quarter of 1993. After having increased from a mere R11 million in the first quarter of 1992 to R3,7 billion in the first quarter of 1993, the net outflow of capital not related to reserves contracted to R1,7 billion in the second quarter of 1993. The total net outflow of capital over the twelve-month period ended June 1993 was therefore no less than R9,8 billion, compared with R4,4 billion in the preceding twelve-month period.

As could be expected, this improvement in the capital account took place mainly in *short-term capital* movements: short-term capital (excluding reserve-related liabilities, but including unrecorded transactions) decreased from net outflows of R2,6 billion in the fourth quarter of 1992 and R3,5 billion in the first quarter of 1993, to a more moderate R1,7 billion in the second quarter. This smaller outflow of short-term funds nevertheless still exceeded the quarterly average net outflow of R1,2 billion recorded during 1992. The further outflow of short-term capital in the second quarter of 1993 was probably caused by leads and lags in foreign payments and receipts related to the continuing strong performance of the dollar on international foreign exchange markets, the availability of domestic credit facilities and the ongoing unrest in the country.

Long-term capital movements changed from a recorded net outflow of R204 million in the first quarter

Net capital movements (not related to reserves)

R millions

	1992					1993	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Long-term capital							
Public authorities	941	303	–133	–786	325	–119	–597
Public corporations	55	540	–227	172	540	–526	–132
Private sector	–1 283	–880	48	–261	–2 376	441	750
Total long-term capital	–287	–37	–312	–875	–1 511	–204	21
Short-term capital, including unrecorded transactions, but excluding reserve-related liabilities	276	–1 684	–664	–2 629	–4 701	–3 452	–1 717
Total capital movements, excluding liabilities related to reserves	**–11**	**–1 721**	**–976**	**–3 504**	**–6 212**	**–3 656**	**–1 696**

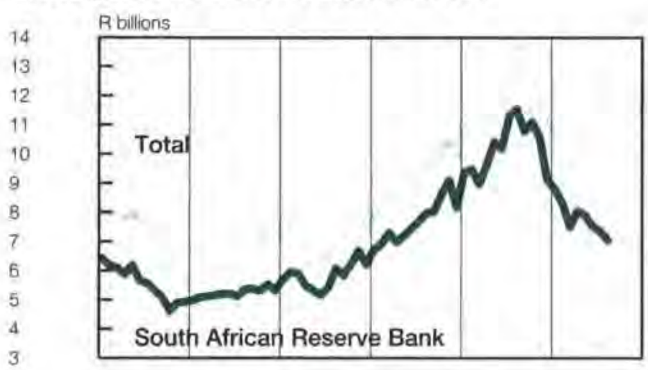
of 1993 to a small net inflow of R21 million in the second quarter. As shown in the accompanying table, this net inflow of long-term capital was entirely due to an inflow of capital to the private sector. This was, in turn, brought about by net purchases by non-residents of securities listed on the Johannesburg Stock Exchange of R1,2 billion, that is by the appropriation of existing financial-rand balances in South Africa. These inflows therefore did not occasion an increase in foreign reserves, but were neutralised by corresponding outflows in other items on the capital account of the balance of payments. Excluding these net purchases of securities by non-residents, a net outflow of R0,4 billion was still recorded in the long-term capital of the private sector. Public authorities and public corporations also continued to make net redemptions on foreign long-term debt.

Foreign reserves

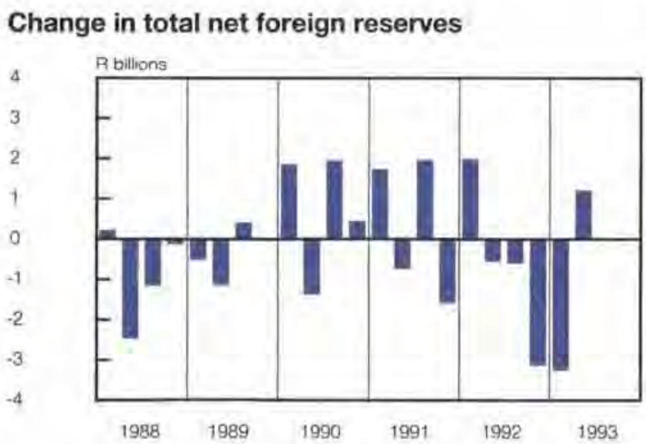
The surplus on the current account of the balance of payments exceeded the net outflow of capital not related to reserves in the second quarter of 1993, with the result that the country's *net gold and other foreign reserves* increased by R1,2 billion. However, during the first half of 1993 the total net foreign reserves still decreased by R2,0 billion, after having declined by R2,3 billion during 1992 as a whole.

The improved foreign reserve position in the second quarter of 1993 enabled the monetary sector to reduce its liabilities related to reserves by R1,6 billion during this period; in the preceding twelve months these liabilities had increased by R4,5 billion. Taking into account positive valuation adjustments of R1 billion arising mainly from the rise in the gold price, South Africa's total *gross gold and other foreign reserves*

Gross gold and other foreign reserves



Change in total net foreign reserves



increased by R0,7 billion in the second quarter to a level of R10,2 billion at the end of June 1993. This increase occurred mainly in the foreign reserves of the private banks, while the foreign reserves of the Reserve Bank remained virtually unchanged. In July and August 1993 the gross gold and other foreign reserves of the Reserve Bank decreased by R0,5 billion to R7,0 billion at the end of August 1993. The net foreign reserves of the Reserve Bank, however, remained on about the same level over this period.

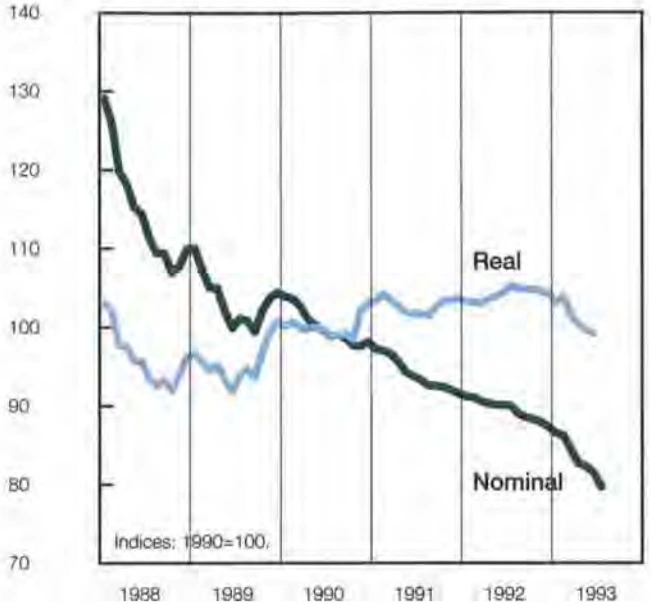
Exchange rates

The instability in the international foreign exchange markets and South Africa's weak overall balance of payments position caused the *nominal effective exchange rate* of the rand to depreciate by 4,8 per cent in the second quarter of 1993 and by a further 0,3 per cent in the next two months until the end of August 1993. In this period the rand depreciated against most of the currencies of South Africa's main trading partner countries. In particular, the rand depreciated sharply against the Japanese yen on account of the relative strength of this currency: from the beginning of 1993 up to the end of August the rand depreciated by no less than 24,3 per cent against the yen. However, it also depreciated fairly sharply against the US dollar and British pound over this period.

The *real effective exchange rate* of the rand declined by 2,2 per cent in the second quarter of 1993, following a decrease of 2,7 per cent in the first quarter of this year. At the end of June 1993 the real effective exchange rate of the rand was therefore 4,9 per cent below its level at the end of 1992 and 4,3 per cent below its level at the end of 1991.

Owing largely to the continued interest in South African gold-mining shares and reasonably favourable progress in the constitutional negotiating process, the *financial rand* remained relatively stable during the first seven months of 1993. With the exception of the period immediately after the assassination of Mr Chris Hani in April, the financial rand fluctuated between the narrow margins of R4,47 and R4,74 per dollar from the end of January 1993 to the end of July 1993. A sharp drop in the price of gold then caused the financial rand to depreciate from R4,51 per dollar on 2 August 1993 to R4,69 per dollar on 31 August. The financial rand discount widened over the same period from 25 to 28 per cent. At the end of August 1993 the financial rand was 3,6 per cent above its level at the end of December 1992.

Nominal and real effective exchange rates of the rand



Changes in exchange rates of the rand
%

	31 Dec '92 to 31 Mar '93	31 Mar '93 to 30 Jun '93	30 Jun '93 to 31 Aug '93	31 Dec '92 to 31 Aug '93
Weighted average	-3,8	-4,8	-0,3	-9,9
US dollar	-3,9	-4,4	-1,5	-9,4
British pound....	-2,6	-5,3	-0,3	-7,9
German mark ...	-3,4	-0,1	-2,6	-6,3
Japanese yen ...	-10,0	-11,9	-3,6	-24,3
Netherlands guilder	-3,3	-0,4	-2,3	-6,2
Italian lira	5,3	-8,4	2,5	-1,9

Financial markets

Money supply

The growth in the *broadly defined money supply* (M3), which had remained well within the money supply guidelines of 7-10 per cent during 1992, receded below the new guidelines of 6-9 per cent during the first half of 1993. The seasonally adjusted value of M3 came to R195,4 billion at the end of June 1993, which was marginally lower than the base value of R196,5 billion of the guidelines and also R8,4 billion, or 4,1 per cent, below the lower limit of the money supply guideline range calculated for June 1993. The growth in M3 from the base of the current guideline range (percentage change at an annual rate) amounted to a negative rate of 0,9 per cent in June 1993.

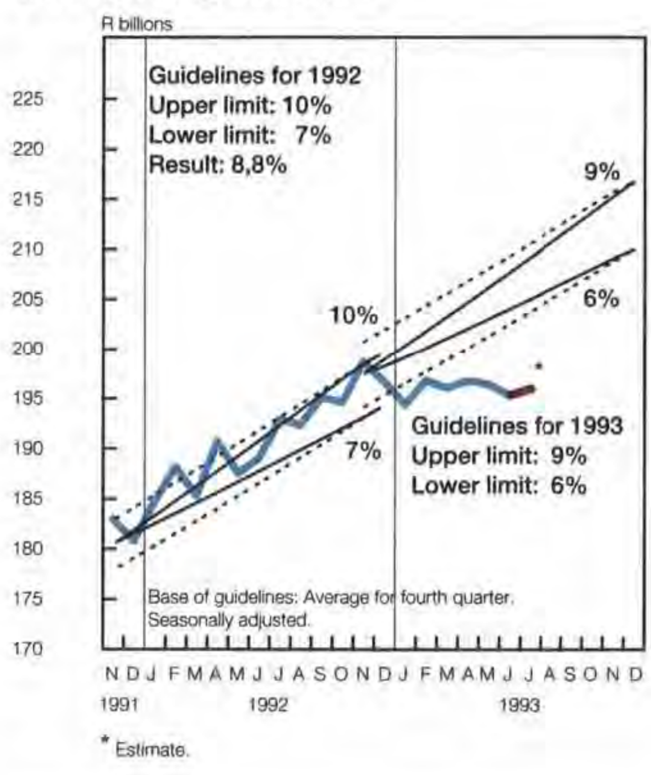
The downward tendency in the growth in money supply in the first half of 1993 is also clearly reflected in the rate of increase in M3 over periods of twelve months. This growth rate of M3 slowed down from 8,0 per cent in December 1992 to only 3,3 per cent in June 1993. Preliminary estimates for July 1993 show that the growth in M3 over twelve months decreased further to a low 1,8 per cent in this month.

Various factors were probably responsible for these very low growth rates in M3 during the first seven months of 1993, especially the low level of domestic economic activity and the relatively restrictive monetary policy stance. The consolidation of clients' deposits and borrowing under flexible mortgage facilities and some disintermediation, induced *inter alia* by relatively wide margins between banks' deposit and lending rates and the selling of bankers' acceptances to investors in the non-bank private sector after the liquid-asset status of this paper had been abolished, also contributed to the further deceleration in the growth of money supply. Other regulatory changes, such as the adjustment in the basis for calculating cash reserve and liquid asset requirements, also affected money supply.

These factors contributed to a contraction in the growth rates of almost all of the *narrower monetary aggregates* during the first six months of 1993. The rates of increase in M1 and M2 over periods of twelve months receded from 17,5 and 10,9 per cent in December 1992 to 11,0 and 1,8 per cent in June 1993, respectively. Contrary to these developments, the growth rate over twelve months in M1A fluctuated considerably and increased, on balance, from 16,2 per cent in December 1992 to 18,1 per cent in June 1993, owing to a shift to cheque and transmission deposits (the main components of M1A) with banks; this shift from longer- to shorter-term deposits clearly reflected a higher preference for liquidity by the private sector.

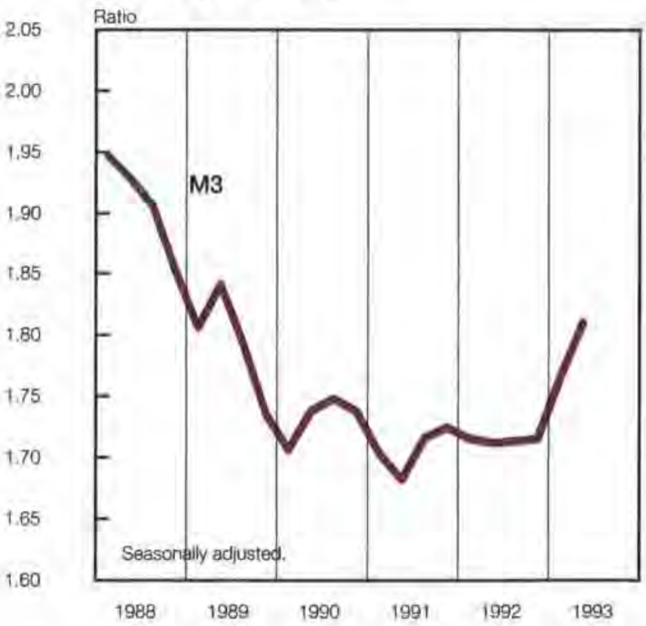
The main *counterparts* (in a statistical or accounting sense) of the R1,5 billion decrease in M3 from the end of December 1992 to the end of June 1993 were

Guidelines for growth in M3



* Estimate.

Income velocity of money



decreases of R2,1 billion in the monetary sector's net gold and other foreign reserves and of R4,8 billion in the net claims on the government sector. This was countered partly by increases of R3,1 billion in these institutions' net claims on the private sector and of R2,3 billion in their "net other assets".

The lower growth in money supply during the first half of 1993 was accompanied by an increase in the *income velocity of M3*. The velocity of circulation rose by 5,2 per cent from the fourth quarter of 1992 to the second quarter of 1993.

Credit extension

The growth in total domestic credit extension by monetary institutions slowed down significantly during the first half of 1993: the rate of increase over twelve months receded from 10,4 per cent in December 1992 to 7,4 per cent in June 1993, which was well below the rate of inflation as measured by changes in the consumer price index. This lower growth in domestic credit was mainly a reflection of the depressed economic conditions in the country, a weak demand for funds, the relatively high cost of borrowing and some disintermediation.

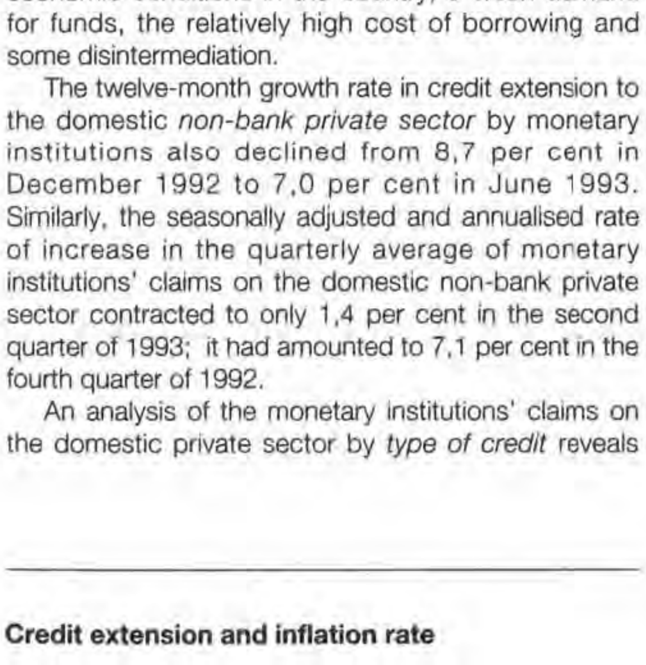
The twelve-month growth rate in credit extension to the domestic *non-bank private sector* by monetary institutions also declined from 8,7 per cent in December 1992 to 7,0 per cent in June 1993. Similarly, the seasonally adjusted and annualised rate of increase in the quarterly average of monetary institutions' claims on the domestic non-bank private sector contracted to only 1,4 per cent in the second quarter of 1993; it had amounted to 7,1 per cent in the fourth quarter of 1992.

An analysis of the monetary institutions' claims on the domestic private sector by *type of credit* reveals that the slower growth in such credit extension during the first half of 1993 was mainly due to relatively lower rates of increase in leasing finance and in "other loans and advances" (including overdrafts). The growth over twelve months in *leasing finance* declined markedly from 9,6 per cent in December 1992 to only 2,2 per cent in June 1993. The corresponding growth rate in *"other loans and advances"* also decreased further from an already low positive level of 0,9 per cent in December 1992 to negative levels throughout the first six months of 1993; it amounted to -0,6 per cent in June 1993.

In contrast to these developments, the growth rate over twelve months in *instalment sales credit* increased markedly from only 1,5 per cent in December 1992 to 6,3 per cent in March 1993 and even further to 11,4 per cent in June. The acceleration in this type of credit extension was related largely to pre-emptive purchases by households and enterprises of durable goods in anticipation of an increase in the value-added tax rate and a rise in motor vehicle prices owing to the depreciation of the rand.

Despite the relatively low increase in the nominal value of transactions in real estate, the demand for *mortgage finance* remained buoyant. The flexibility of some of the mortgage schemes offered by the banks, and the banks' active promotion of such credit facilities on account of the lower capital requirements applying to them, continued to make this type of credit attractive to borrowers. The rate of increase over twelve months in mortgage advances therefore remained relatively high at 17,5 per cent in June 1993; the corresponding rate in December 1992 had been 17,3 per cent.

Credit extension and inflation rate

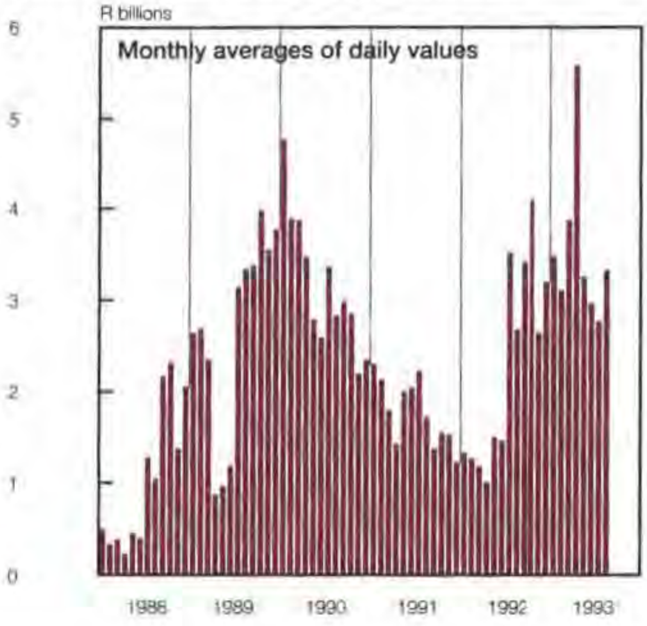


Money market conditions and Reserve Bank operations in the money market

Money market conditions remained relatively tight during the first eight months of 1993. The average daily *level of accommodation* at the discount window increased from R3,2 billion in December 1992 to R5,6 billion in April 1993. Although the level of accommodation then receded to R2,8 billion in July 1993, this did not reflect an easing of money market conditions; the money market shortage simply moved to a lower but still restrictive level under the new system of accommodation provided by the Reserve Bank as from 1 May 1993. In August 1993 the average daily level of accommodation increased slightly again to R3,3 billion.

A substantial increase in government deposits originating from the over-funding of the Exchequer deficit was mainly responsible for the tight money market conditions in the first eight months of 1993. In the first six months of the year the net gold and other foreign reserves of the Reserve Bank also decreased fairly sharply. An improvement in speculative capital outflows then caused the net foreign reserves of the Bank to rise in July, before they declined again in

Accommodation at the discount window



August because of repayments in terms of the debt standstill arrangement with foreign creditor banks. A relatively small increase in the financing of the Land and Agricultural Bank by the Reserve Bank and the Corporation for Public Deposits as well as a modest decrease in notes in circulation during the first eight months of 1993, were unable to counteract the tightening effects of these other factors.

The *actions of the Reserve Bank* in the money market during the first eight months of 1993 were directed mainly towards alleviating the tighter conditions. This approach was particularly apparent in the second quarter of the year when the Reserve Bank, with the implementation of the new system of accommodation, took deliberate action to lower the money market shortage in order to bring it more in line with the availability of paper that can be used for overnight loans at Bank rate. This was achieved by reducing the minimum cash reserve requirement that banks have to comply with, by entering into buy-back arrangements, and by transferring funds from the Exchequer Account at the Reserve Bank to the banks as an interim measure in anticipation of the proposed system of Tax and Loan Accounts. At the end of August 1993 the government funds placed with banks amounted to R6,0 billion.

The operations of the monetary authorities in the money market during the first eight months of 1993 also consisted of the neutralising of short-term fluctuations by adjusting the asset portfolio of the Corporation for Public Deposits. On balance, however, these adjustments also had an easing effect of about R2,1 billion on money market conditions. On 4 August 1993 the Reserve Bank announced that the minimum cash reserve requirement of banks would be reduced further and that banks would again be allowed to reduce their liabilities, for the purpose of calculating their cash reserve requirements, by subtracting interbank deposits and certain repurchase agreements. These changes will reduce the minimum cash reserve requirement by about R1,2 billion from 21 September 1993, but the effect on the money market is expected to be smaller because of the relatively large holdings of vault cash by banks, which should not decline proportionately.

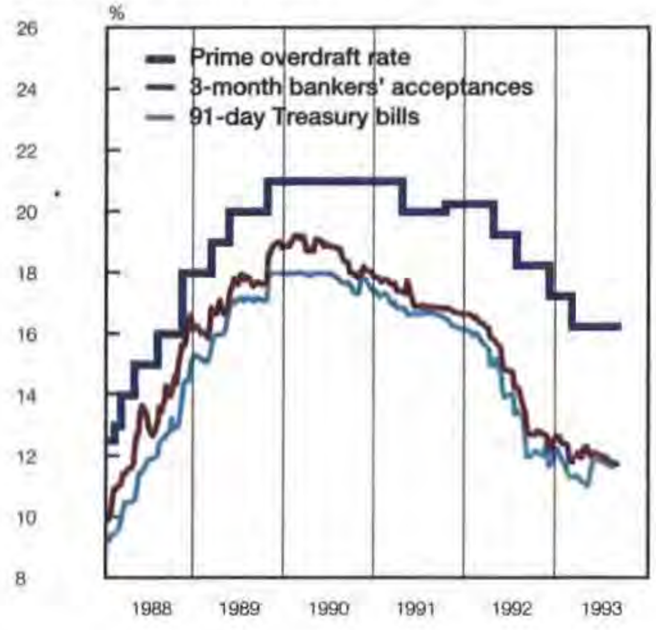
Gross sales of government stock by the Reserve Bank amounted to R118 billion in the first eight months of 1993, compared with R70 billion in the corresponding period in 1992 and R112 billion during 1992 as a whole. After taking purchases in the market into account, *net* sales of government stock by the Reserve Bank during the first eight months of 1993 came to R11,1 billion; in the corresponding period of 1992 such net sales had totalled R12,0 billion. The Reserve Bank's trading of government stock options, which rose from a monthly average of R2,0 billion in 1991 to R5,2 billion in 1992, increased only marginally to a monthly average of R5,3 billion in the first eight months of 1993.

Money market interest rates

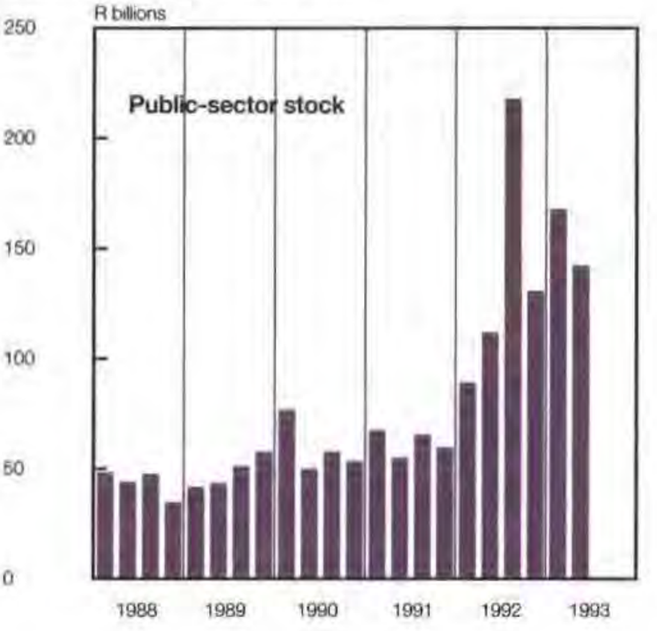
The general downward trend in money market interest rates, which had already started at the beginning of 1990, continued in the first four months of 1993. This was clearly reflected in the rate on *three-month bankers' acceptances,* which declined sharply from 16,65 per cent at the end of December 1991 to 12,65 per cent at the end of 1992, and further to 12,30 per cent at the end of April 1993. This rate then continued to recede to 11,75 per cent at the end of August 1993.

Some of the other money market interest rates, however, increased slightly from April 1993. The *interbank call rate*, for instance, declined from 16,00 per cent at the end of December 1991 to 12,25 per cent at the end of December 1992 and to 10,50 per cent at the end of March 1993; it then increased to 11,60 per cent at the end of August 1993. The *three-month Treasury bill tender rate* also declined from 16,13 per cent at the end of December 1991 to 11,32 per cent at the end of February 1993 and even further to 11,02 per cent at the end of April 1993; the continued decline in this rate was probably related to the increased status of this money-market instrument in the system of accommodation at the Reserve Bank. This Treasury bill rate then rose again to 11,72 per cent at the end of August 1993, as a result of tighter conditions in the money market and diminished expectations of an imminent further reduction of Bank rate.

Short-term interest rates



Stock exchange transactions



The *prime lending rate* of the banks followed the reduction in Bank rate and was lowered from 17,25 to 16,25 per cent, with effective dates ranging from 15 February to 2 March 1993 at the various banks. The inflation-adjusted or *real prime lending rate* decreased somewhat from a relatively high level of 7,0 per cent in December 1992 to 5,8 per cent in July 1993 because of the lower nominal prime lending rate and the slight increase in this period in the rate of inflation as measured by changes in the consumer price index.

Capital market activities

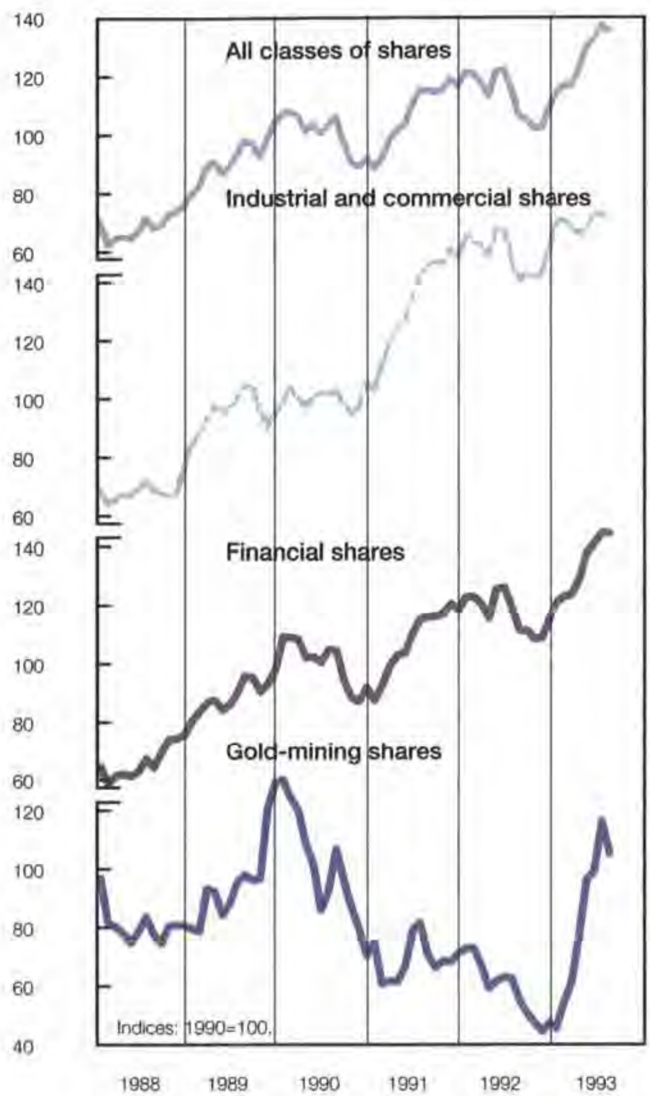
A sharp rise in the gold price, a softening in bond yields and divergent expectations regarding interest rate movements lifted trading in stocks and derivatives during the first eight months of 1993. Share prices reached new record levels in July 1993 before a downward correction in the gold price resulted in a softening in the prices of shares during August. In the primary capital market the amount of funds raised by the public sector increased significantly in the first half of 1993, but the value of new issues of securities by the private sector levelled off. In contrast to these relatively buoyant conditions, real estate transactions declined further in the first half of 1993.

Expectations of generally lower interest rates pushed the value of *public-sector stock traded* on the Johannesburg Stock Exchange up from R131 billion in the fourth quarter of 1992 to R168 billion in the first quarter of 1993; it then receded again to R143 billion in the second quarter owing to the large number of public holidays during which no trading took place and a firming of yields. In July and August 1993 the monthly average value in trading activity increased to R60,3 billion from R47,6 billion in the second quarter of 1993.

The total value of *shares traded* on the Johannesburg Stock Exchange, which had fluctuated around an average quarterly amount of R5,5 billion throughout 1991 and 1992, rose sharply to R8,0 billion and R10,8 billion in the first and second quarter of 1993, respectively. This high turnover was brought about by increases in both the prices and volume of shares traded. The downward movement in short-term interest rates, increased net purchases of shares by non-residents (from January to May), and the higher price of gold provided considerable support to the share market during the first half of 1993. The value of shares traded in July and August increased to an average monthly value of R4,0 billion.

In keeping with many of the main stock exchanges in the world, *share prices* on the Johannesburg Stock Exchange began to recover towards the end of 1992. In fact, the average price level of all classes of shares rose by no less than 34,3 per cent from November 1992 to July 1993. A strong surge in the demand for gold and a concomitant rise in the gold price led to a substantial rise in the prices of gold-mining shares. The prices of industrial, commercial, financial and other mining shares also drifted upwards in the first seven months of 1993. However, in August 1993 the average price level of all classes of shares decreased by 1,3 per cent when the gold price fell sharply.

Share prices



The recovery in share prices, the weaker financial rand and the interest of *non-residents* in gold-mining shares caused a sharp increase in non-residents' net purchases of shares from an average quarterly amount of R0,3 billion in the last half of 1992 to R1,1 billion in the first half of 1993. Non-residents also continued to be net purchasers of public-sector stock to amounts of R0,2 billion and R0,4 billion in the first two quarters of 1993. Total net purchases of securities by non-residents consequently amounted to R2,7 billion in the first half of 1993. In July and August non-residents were still net purchasers of public-sector stock amounting to R0,3 billion; they had, however, once again become net sellers of shares to an amount of R0,2 billion.

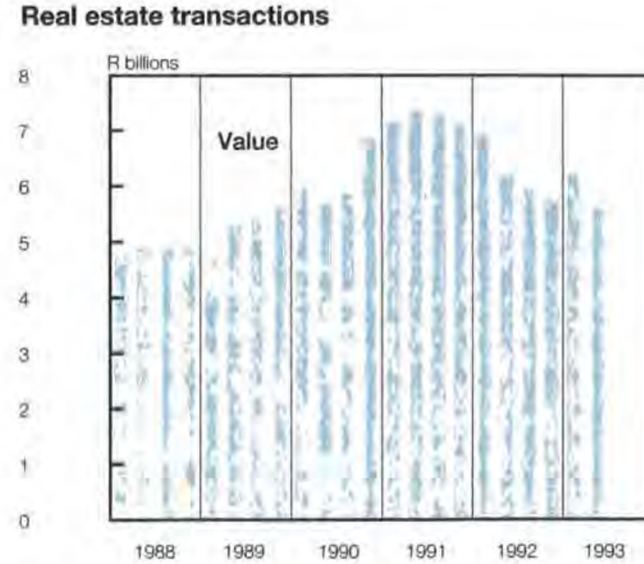
In the *primary capital market* net new borrowing by the *public sector* through issues of fixed-interest securities increased sharply in the first quarter of 1993 when it became apparent that the actual government deficit would be considerably higher than the budgeted amount. The funds raised by borrowers in the public sector increased from R0,3 billion in the fourth quarter of 1992 to R8,1 billion in the first quarter of 1993; it then rose even further to R11,0 billion in the second quarter of 1993 (or the first quarter of the fiscal year). This brought the new issues of public-sector stock to R19,1 billion in the first six months of 1993, compared with R10,3 billion in the corresponding period of 1992.

New issues of *fixed-interest securities* (including convertible preference shares, debentures and corporate bonds) by listed *private-sector* companies contracted from R1,0 billion in the second half of 1992 to R0,5 billion in the first half of 1993. However, the value of rights issues of *ordinary shares* by listed companies increased from R1,7 billion to R2,3 billion over the same period. The significant recovery in share prices and the strong demand for good quality scrip in the first half of 1993 made share capital issues increasingly attractive.

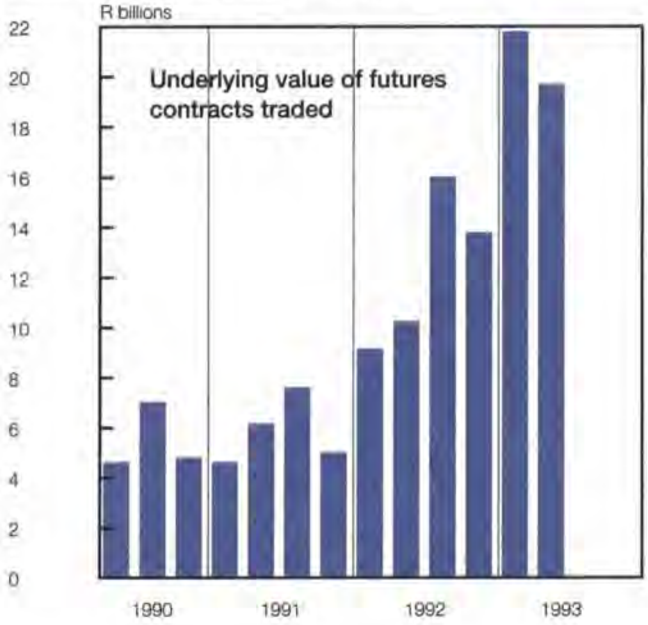
In the *mortgage market* the promotion of flexible bond facilities gave rise to an average monthly amount of mortgages paid out by banks of R2,9 billion in the first six months of 1993 – the same high level as in the second half of 1992. On a net basis the total outstanding holdings of mortgage loans of these institutions therefore advanced further from R78,5 billion in December 1992 to R85,2 billion in June 1993.

The *fixed-property* market continued to reflect the severity of the current cyclical downswing. The

Real estate transactions



Futures exchange transactions



Capital market interest rates and yields

number of property transactions in the first six months of 1993 was therefore 16 per cent lower than in the first six months of 1992, while the average price of such transactions rose by only 7,8 per cent over the same period. The declining level of transactions in fixed property could be ascribed to declining real personal disposable income, growing uncertainty about political developments and lower returns on investment.

Activity in *futures contracts* in share indices during the first seven months of 1993 was stimulated by sharply rising share prices. The average monthly underlying value of transactions in futures contracts amounted to R7,2 billion over this period, compared with R3,6 billion in 1992. After having reached the high level of R9,1 billion in July 1993, the underlying value of transactions in futures contracts declined somewhat to R7,9 billion in August. The value of trade in *options* on index future contracts increased from a monthly average of R103 million in the first quarter of 1993 to R305 million in the second quarter and to R391 million in July and August 1993. Contrary to these developments, activity on the Johannesburg Stock Exchange's *Traded Options Market*, which had weakened during the second half of 1992 and had picked up only slightly in the first two months of 1993, fell away completely in the period March to June.

Capital market yields and interest rates

After having declined quite sharply from 16,9 per cent in February 1992 to 13,9 per cent in October, the monthly average yield on *long-term government stock* fluctuated between 14,4 per cent and 15,0 per cent in the ensuing eight months. The higher level of this long rate was mainly due to a substantial increase in the supply of government stock related to the higher borrowing requirement of the Central Government, and to the conversion of bank credit of the TBVC countries to marketable stock debt. In response to the lower-than-expected measured inflation rate, the monthly average yield on long-term government stock then declined again from 14,7 per cent in June 1993 to 14,2 per cent in July and to 13,8 per cent in August. The monthly average *real* yield on government stock also softened from 4,3 per cent in June 1993 to 3,9 per cent in July.

The banks' *predominant mortgage bond rate* was reduced by 0,75 percentage points to 16,0 per cent from 1 March 1993, following the reduction in Bank rate on 9 February 1993. The mortgage bond rate has therefore now been lowered by 4 percentage points since the beginning of 1992. The interest rates on deposits with banks were reduced even more than this lending rate. For example, the *twelve-month deposit rate* was lowered from 15,5 per cent at the beginning of 1992 to 12,0 per cent in December and then further to 11,0 per cent in February 1993. Without an accompanying increase in the mortgage bond rate, some banks increased the twelve-month deposit rate again to 12,0 per cent in April, while others followed suit towards the middle of May. This rate provided depositors with a positive pre-tax real yield of 1,9 per cent in July 1993.

Mirroring the recovery in share prices, the average *dividend yield* on all classes of shares declined from 3,51 per cent in December 1992 to 2,75 per cent in July 1993. The average *earnings yield* on all classes of shares (excluding gold-mining shares) decreased from 7,74 per cent to 6,59 per cent over the same period.

Most of the officially determined longer-term interest rates were also reduced during the first eight months of 1993. For instance, the maximum permissible *finance charges rates* as laid down in terms of the Usury Act, were reduced with effect from 12 March 1993 from 26 to 25 per cent in respect of money lending, credit and leasing transactions for amounts of more than R6 000 (but not exceeding R500 000), and from 29 to 28 per cent in respect of transactions for amounts up to R6 000. Similarly, the *official rate of interest* as defined by the Income Tax Act (Act No. 58 of 1962) for fringe benefit tax purposes, was lowered by 2 percentage points to 15 per cent with effect from 1 January 1993. However, the *standard interest rate* applicable to loans by the State out of the State Revenue Fund (Exchequer Act, No. 66 of 1975) was increased by 0,5 percentage points to 15,5 per cent from 1 January 1993. It was then reduced to 14,75 per cent from 1 February 1993, before being increased again to 15,0 per cent from 1 March and 15,5 per cent from 1 May 1993. On 1 July 1993 it was lowered again to 15,0 per cent and on 1 August 1993 further to 14,75 per cent.

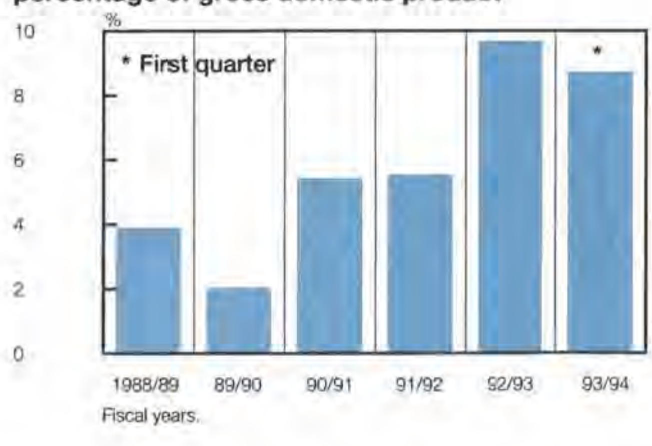
Public finance

Public-sector borrowing requirement

The *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the Central Government, provincial administrations, local authorities and non-financial public enterprises) amounted to R7,5 billion in the first quarter of fiscal 1993/94 (the second quarter of the calendar year 1993), compared with R10,7 billion in the preceding quarter and R6,4 billion in the first quarter of fiscal 1992/93. Although the public-sector borrowing requirement is normally relatively large in the first quarter of a fiscal year, the deficit of 8,6 per cent of gross domestic product in the first quarter of fiscal 1993/94 exceeded the ratio of 8,2 per cent in the corresponding period of the preceding fiscal year.

This large public-sector borrowing requirement was recorded despite a decline in the deficit of the non-financial public enterprises, and could be attributed mainly to a weakening in the expenditure patterns of *general government* (the Central Government, provincial administrations and local authorities). The total *expenditure* of general government in the first quarter of fiscal 1993/94 rose to 16,1 per cent above the level in the first quarter of fiscal 1992/93, i.e. at a rate considerably in excess of the inflation rate in South Africa. A rise in current expenditure was again mainly responsible for the sharp rise in total expenditure, while capital expenditure increased by only 2,1 per cent from the first quarter of fiscal 1992/93 to the first quarter of fiscal 1993/94. In particular, subsidies and other transfers rose by no less than 28,3 per cent over this period, owing to subsidies for export promotion and transfers of TBVC countries and self-governing states.

Public-sector borrowing requirement as percentage of gross domestic product



Expenditure on goods and services also increased by 16,5 per cent over this twelve-month period; in the fiscal year 1992/93 the growth in this major expenditure item amounted to 11,2 per cent.

The total *income* of general government advanced by 13,3 per cent from the first quarter of fiscal 1992/93 to the first quarter of fiscal 1993/94, which was above the average growth of 8,2 per cent in the full fiscal year 1992/93. As a ratio of gross domestic product, general government income expanded from 27,5 per cent in the first quarter of fiscal 1992/93 to 28,6 per cent in the first quarter of fiscal 1993/94. This rise in government income relative to gross domestic product was mainly the result of an increase in tax income, while other income rose more moderately.

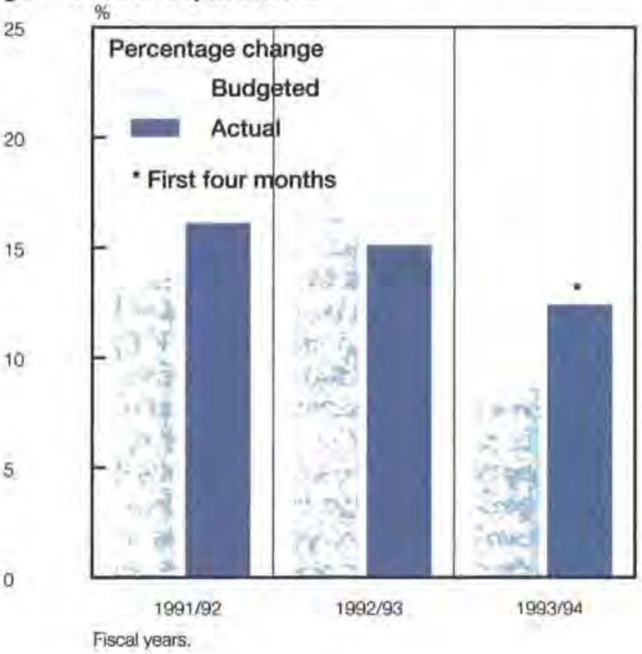
With the exception of local government and extra-budgetary institutions and social security funds, all the other *general government institutions* recorded higher borrowing requirements or smaller surpluses in the first quarter of fiscal 1993/94. A strong improvement in the finances of the extra-budgetary institutions was mainly due to an ongoing process of commercialisation, while local authorities were able to reduce their borrowing requirement. However, the surplus of provincial administrations decreased and the consolidated deficits of the TBVC countries and self-governing states became larger. The substantial rise in the borrowing requirement on the Main Budget was, however, the main contributor to the higher public-sector borrowing requirement. A sharp increase in expenditure and a smaller-than-projected increase in revenue led to a large deficit before borrowing on the Exchequer account.

Exchequer account

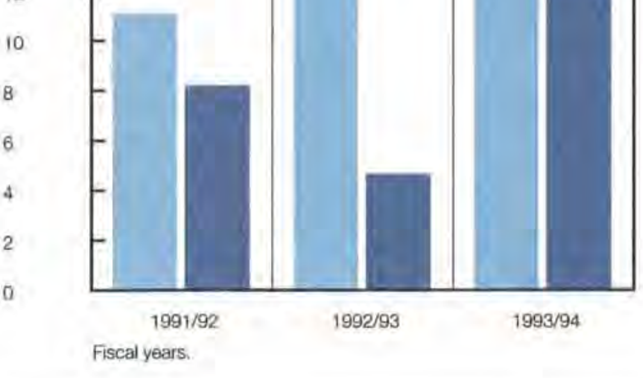
The rate of increase in *Exchequer issues* (after the usual adjustment for changes in the balance on the Paymaster-General Account) in the first quarter of fiscal 1993/94 amounted to 12,7 per cent, compared with the first quarter of the preceding fiscal year. Although this rate of increase was well below the average year-on-year rate of increase of 15,7 per cent in the corresponding period of the preceding five fiscal years, it was still markedly higher than the growth rate of 8,8 per cent in the expenditure budgeted for fiscal 1993/94 as a whole. If Exchequer issues in July 1993 are also taken into account, the year-on-year rate of increase for the first four months of fiscal 1993/94 amounted to 12,4 per cent.

Interest payments on government debt increased by only 0,9 per cent from the first four months of 1992/93 to the first four months of fiscal 1993/94; the Budget allowed for an increase of 26,5 per cent in these payments for the fiscal year as a whole. This relatively low rise in interest payments on a higher outstanding amount of government debt was probably the result of a small proportion of interest payments that fell due for payment in this period. This implies that large sums of interest will become payable during the rest of the year, and that the rate of increase in *other government expenditure* of 13,8 per cent in the

Budgeted and actual exchequer issues to government departments



Budgeted and actual government revenue



first four months of 1993/94 against the first four months of the preceding fiscal year was considerably higher than the budgeted rate of increase. Moreover, on 6 August 1993 the Government announced that an amount of R724 million will also be set aside to provide aid to certain sections of the economy: R469 million for a wide range of agricultural activities and R255 million for job creation.

Exchequer receipts performed dismally during the first two months of fiscal 1993/94, but improved substantially in June 1993. This brought the rate of increase in government receipts to 13,0 per cent in the first quarter of fiscal 1993/94, compared with the same quarter of the preceding fiscal year. If Exchequer receipts in July 1993 are also taken into consideration, the year-on-year rate of increase remained unchanged at 13,0 per cent in the first four months of 1993/94. An increase of 17,3 per cent in government receipts was estimated in the Budget for the year as a whole.

As shown in the accompanying table, the lower-than-expected increase in government receipts during the first four months of fiscal 1993/94 could mainly be blamed on the low proceeds from income tax during this period. However, the Department of Finance has indicated that this low rate of increase could have been affected by the implementation of changes to the income tax system and that the proceeds from this source may be higher during the rest of the fiscal year. Income receipts from value-added tax, which had been adversely affected during April and May 1993 by pre-emptive consumer buying to avoid the imminent increase in the value-added tax rate, increased by 54,7 per cent in the first four months of fiscal 1993/94 compared with the corresponding period of the preceding fiscal year. The proceeds from customs and excise duties in the first four months of fiscal 1993/94 also increased at a higher-than-budgeted rate.

The higher-than-budgeted Exchequer issues and lower-than-budgeted government receipts resulted in an *Exchequer deficit* before borrowing and debt repayment of R9,4 billion for the first four months of 1993/94; this was equal to 36,1 per cent of the budgeted deficit of R25,9 billion for the fiscal year as a whole. As a ratio of gross domestic product, the deficit before borrowing and debt repayment came to 10,0 per cent in the first quarter of fiscal 1993/94, compared with an average of 8,3 per cent for the corresponding period of the preceding five fiscal years and the 7,0 per cent budgeted for the fiscal year 1993/94 as a whole. (The last-mentioned ratio differs slightly from the ratio provided by the Minister because privatisation proceeds have been excluded from ordinary government revenue and included in the financing of the deficit for purposes of economic analysis.)

Percentage increase in exchequer receipts

	Budgeted for fiscal year 1993/94	Actual in first four months
Customs and excise......	10,0	13,7
Inland revenue...............	18,6	14,8
Income tax.................	11,6	1,3
Value-added tax.........	43,1	54,7
Total receipts...............	**17,3**	**13,0**

The Exchequer deficit before borrowing and debt repayment for the first four months of fiscal 1993/94 was *financed* with funds obtained from:

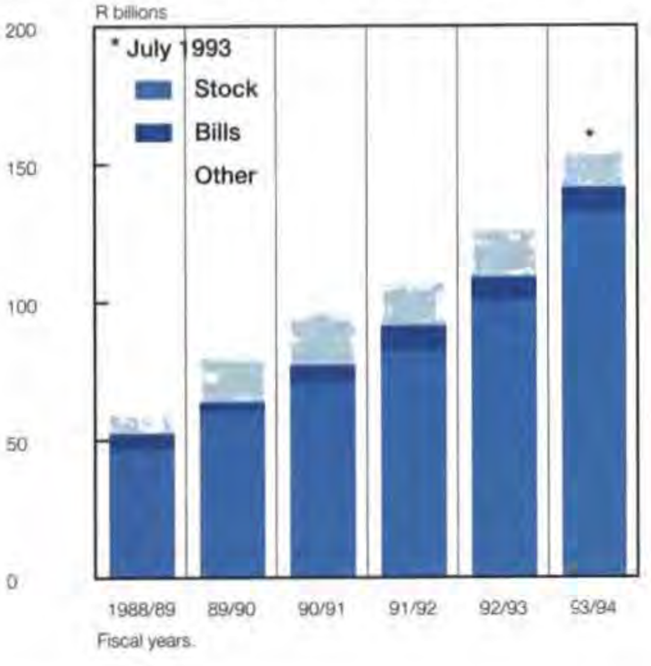
	R millions
Public Investment Commissioners	3 774
Non-monetary private sector	14 426
Foreign sector	-190
Monetary institutions..................................	-6 534
Corporation for Public Deposits.............	-2 599
Other monetary institutions....................	-3 935
Total gross financing...................................	11 476
Less: Discount on new government stock..	2 112
Total net financing....................................	**9 364**

The *financial instruments* utilised in financing the Exchequer deficit during the first four months of fiscal 1993/94 were as follows:

	R millions
Government stock (including discount)	21 275
Treasury bills..	-513
Foreign loans..	-112
Non-marketable securities	-60
Change in available cash balances (increase -, decrease +)	
Cash balances at the Reserve Bank	-3 114
Cash balances at banks	-6 000
Total financing	11 476
Less: Discount on new government stock ..	2 112
Total net financing....................................	**9 364**

From this information it is apparent that *government stock* remained the primary debt-financing instrument, which also explains the large discount of no less than R2,1 billion in the first four months of fiscal 1993/94. A substantial portion of this stock was taken up by the Public Investment Commissioners on behalf of the government employees' pension funds, at what were perceived to be attractive yields. No less than 77,5 per cent of the budgeted borrowing requirement had already been financed by means of government stock issues in the first four months of fiscal 1993/94; in the corresponding period in the preceding fiscal year this

Composition of outstanding government debt



ratio had amounted to 35,2 per cent. As a result, the *available cash balances* of the government rose by R9,1 billion in the four months up to the end of July 1993, of which a large proportion was placed with private banking institutions.

Despite a considerable increase in the amount of *Treasury bills* offered at the weekly tender as from April 1993, the use of Treasury bills in the financing of the deficit contracted. This decrease was caused mainly by the Corporation for Public Deposits discontinuing its investment in non-marketable short-dated Treasury bills as from June 1993. This formed part of the monetary authorities' programme to limit the restrictive influence of short-term deposits placed with the Corporation for Public Deposits on conditions in the money market.

As a result of the Exchequer's large deficit before borrowing and the large proportion of over-funding of the deficit, *Government debt* (excluding financial guarantees) increased from R154,7 billion at the end of March 1993 to R175,2 billion at the end of July 1993, or by 13,2 per cent. No less than 66 per cent of this increase consisted of long-term domestic marketable stock debt, while the short-term marketable stock debt of the government also rose sharply. The non-marketable domestic debt and the foreign debt of the government were reduced over this period.