Quarterly economic review

Introduction

South African economic conditions in the fourth quarter of 1992, and for that matter during the year as a whole, were characterised by five major developments, namely:
- a considerable deepening in the economic downturn to low levels of production, expenditure, investment, saving and employment;
- a weakening of the surplus on the current account of the balance of payments largely because of the serious drought, coupled with further large capital outflows and a decline in the foreign reserves;
- further progress in establishing a more stable financial environment, particularly a lower inflation rate;
- buoyant conditions in most segments of the domestic capital market, with the notable exception of the real estate market; and
- a substantial rise in the public-sector borrowing requirement on account of a high level of government expenditure and of government income performing well below expectations.

The serious drought experienced in South Africa, uncertainty regarding political developments, and subdued international economic growth, caused real gross domestic product to decline again sharply in the fourth quarter of 1992. However, in contrast to the preceding quarter (when the output levels of almost all sectors decreased), the decline in the fourth quarter was restricted mainly to the agricultural and secondary sectors, while the real value added by mining and the tertiary sectors rose moderately. Real domestic output nevertheless decreased by 2 per cent in 1992 – the third consecutive annual decline in total production. As a result, living standards, as measured by real gross national product per capita, have now decreased by nearly 13½ per cent since the start of the recession in the beginning of 1989.

Aggregate real gross domestic expenditure fluctuated sharply during the course of 1992, but for the year as a whole contracted by 2 per cent; which was markedly higher than the rate of decline in the preceding year. This decline in domestic expenditure was brought about by lower consumer outlays, real capital formation and inventory levels, while real government consumption expenditure remained on about the level of the preceding year.

Lower real personal disposable income and a weaker demand for durable and semi-durable consumer goods caused real private consumption expenditure to decline further in the fourth quarter of 1992. For the calendar year 1992 the real outlays of consumers decreased by 2½ per cent – the first such decrease since 1985. Real consumption expenditure of the general government increased at a slower rate, but the level of government consumption, at 21 per cent of gross domestic product, was very high in comparison with an average of 16½ per cent in the 1980s.

The real value of gross domestic fixed investment contracted further in the fourth quarter and total real fixed investment in the fourth quarter of 1992 was almost 23 per cent below its most recent peak value in the fourth quarter of 1989. In 1992 the real fixed capital stock of the country expanded only marginally (by less than ½ per cent); if this trend of low fixed investment is maintained, it could seriously impede the growth potential of the South African economy.

Gross domestic saving also decreased sharply further during 1992 owing mainly to a substantial increase in the dissaving of the general government. Corporate saving rose in the face of lower profits because of a more conservative dividend policy introduced by many companies, while net saving by households showed a distinct but moderately increasing trend, despite the redistribution of income to households with a higher propensity to consume. This development could probably be ascribed to uncertainty regarding future earnings and employment opportunities, causing many households to restrict consumption outlays and reduce indebtedness.

The downturn in economic activity seriously affected employment in the formal sectors of the economy. Retrenchments led to slower growth in the total nominal wage bill, but not to a significant decline in the growth of average salaries and wages per worker. However, a slower rate of increase in the real wage per worker and steady increases in labour productivity did give rise to a small decline in real unit labour costs in the third quarter of 1992.

The serious drought, which had led to a substantial increase in agricultural imports and to a similar substantial decline in agricultural exports, was responsible for a sharp weakening of the surplus on the current account of the balance of payments. In fact, if transactions in agricultural products are excluded from current-account transactions, the adjusted balance continued to fluctuate around a high level, indicating that the deterioration in the current account balance may only be a short-term problem if agricultural conditions should improve. South Africa's terms of trade, however, continued to weaken.

A large outflow of short-term capital not related to reserves was responsible for a more serious deterioration in the capital account of the balance of payments. This outflow of short-term funds was probably related to leads and lags in foreign payments and receipts arising from the depreciation of the rand against the dollar (the currency in which the major proportion of South Africa's foreign trade transactions is concluded), the relatively favourable cost and availability of domestic credit, balance sheet adjustments by foreign organisations at the end of their financial years, and an outflow via forward cover transactions in third currencies because of the strength of the dollar. A larger outflow of long-term capital was also recorded in the fourth quarter of 1992. This arose from the reluctance of domestic organisations to renew maturing debt in view of the high refinancing costs charged by foreign financial institutions in the light of the perceived higher risks that are associated with political developments in South Africa.

These developments on the balance of payments led to a decrease of R3,1 billion in the net gold and other foreign reserves of the country in the fourth quarter of 1992, causing net foreign reserves for the year as a whole to fall by R2,3 billion. If increases in reserve-related liabilities and valuation adjustments are also taken into consideration, South Africa's gross gold and other foreign reserves rose by R1,4 billion during 1992 to a level of R11,2 billion at the end of the year.

Economic conditions during the fourth quarter of 1992 were, however, also characterised by further encouraging movements towards achieving the objective of financial stability – a prerequisite for sustainable long-term growth. The major developments in this regard included:

- A decline in the growth of all the major monetary aggregates. The growth rate of M3 also remained well within the guideline range of 7 to 10 per cent and amounted to 8,8 per cent from the fourth quarter of 1991 to the fourth quarter of 1992.
- The growth in credit extended by monetary institutions to the domestic private sector, measured over a period of twelve months, slowed down significantly further from 15,6 per cent in January 1992 to 8,7 per cent in December 1992.
- A considerable reduction in the rate of inflation.
- The maintenance of a relatively high level of the foreign exchange reserves. At the end of 1992 the level of the gross gold and other foreign reserves was equivalent to the value of about two months' imports of goods and services. Although this is a fairly comfortable level, it is still too low to safeguard the country against unpredictable external shocks.
- A stable exchange rate of the rand. Indeed, in 1992 the real effective exchange rate of the rand rose marginally by 0,3 per cent.

The most important achievement towards financial stability during 1992 was probably the decline – which was hesitant at first but much sharper later – in the rate of increase in the consumer price index. In December 1992 the twelve-month rate of increase in consumer prices reached a single-digit figure for the first time since June 1978. Although this lower rate of increase in consumer prices was partly related to factors such as the decreasing cost of home ownership (because of lower interest rates) and a decline in food prices with the improvement of agricultural conditions, the rates of increase in the prices of most other goods and services also slowed down. This generally widespread slower rise in the prices of goods and services could clearly also be attributed to more stable financial conditions, the low level of domestic demand, relative price stability in the economies of South Africa's main trading partners, and the recent slow-down in real labour costs per unit of physical output.

In the capital markets, trading activity generally remained at high levels. The annual turnover in public-sector stock traded on the Johannesburg Stock Exchange actually reached a record level of just more than R550 billion. The value of shares traded on the stock exchange decreased mildly: share prices declined at first before recovering notably towards the end of 1992. In the primary capital markets borrowers acquired more funds through new issues of fixed-interest securities, but new share issues decreased. Mortgage advances of deposit-taking institutions also continued to rise relatively sharply in the fourth quarter of 1992, because of the flexibility of certain mortgage schemes which enabled borrowers to utilise funds for purposes other than real estate development and because of the cash flow advantages of this kind of borrowing. The value of real estate transactions, however, declined sharply by 14,4 per cent in 1992, while activity in the derivative markets receded in the fourth quarter of the year from relatively high values reached in the preceding quarter.

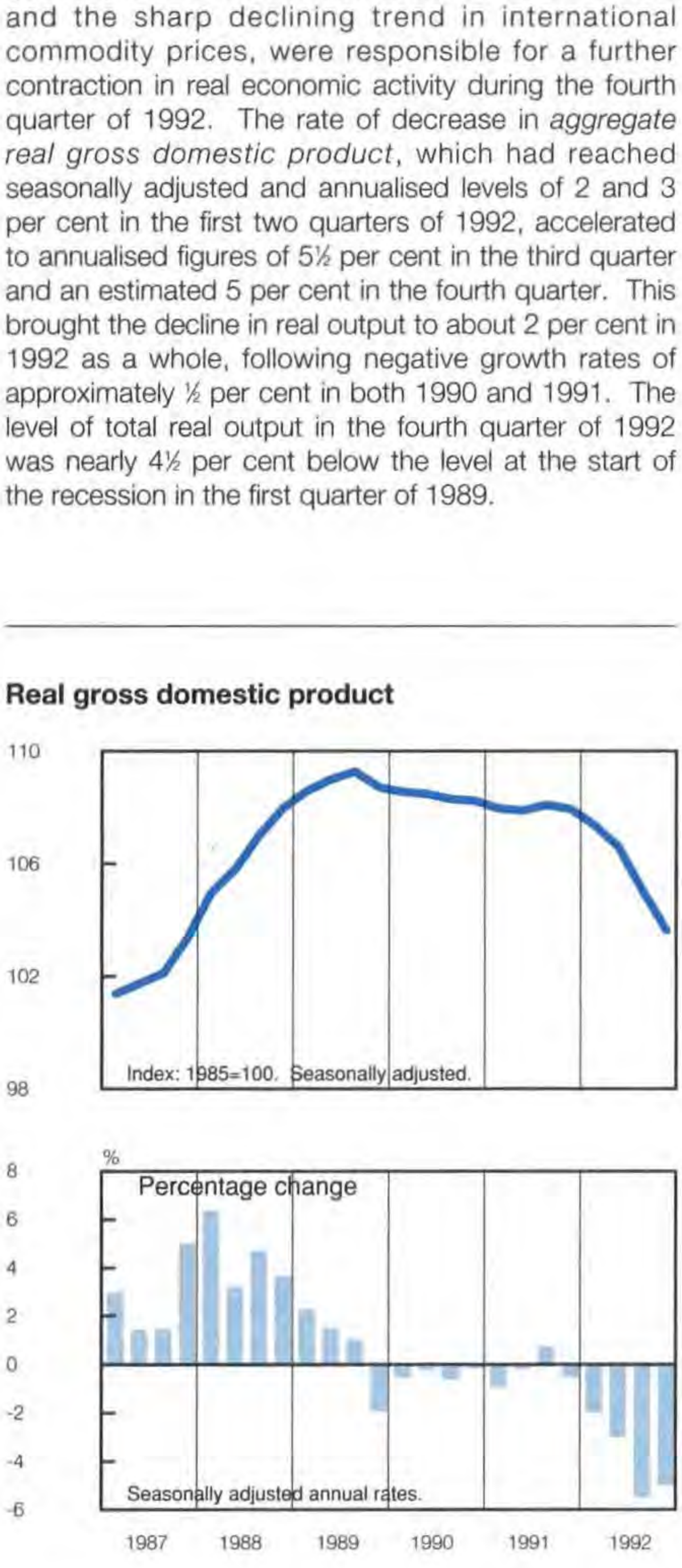
As a ratio of the gross domestic product, the public-sector borrowing requirement rose to 7,8 per cent in the first nine months of fiscal 1992/93 from 4,9 per cent in the corresponding period of the preceding year. This sharp increase in the public-sector borrowing requirement could be attributed to a corresponding sharp rise in the deficit before borrowing on the Main Budget. The year-on-year rate of increase in Exchequer issues in the first ten months of fiscal 1992/93 was moderately lower than the increase projected for the year as a whole, but Exchequer receipts fell considerably short of expectations. The substantial shortfall in Exchequer receipts was partly a reflection of the prolonged and severe downturn in economic activity, but it was also due to some difficulties experienced with the collection of taxes. The financing of the large Exchequer deficit through the issuing of government stock and Treasury bills presented no difficulty under the current conditions of subdued economic activity. However, if the structural shortcomings in government finance are not corrected, these deficits could start crowding out private investment when economic activity starts strengthening again.

Domestic economic developments

Domestic output

The serious drought in the summer rainfall areas of South Africa, uncertainty regarding the outcome of political negotiations and the future constitutional dispensation of the country, the concomitant modest additions to the domestic production capacity, generally subdued international economic conditions and the sharp declining trend in international commodity prices, were responsible for a further contraction in real economic activity during the fourth quarter of 1992. The rate of decrease in *aggregate real gross domestic product*, which had reached seasonally adjusted and annualised levels of 2 and 3 per cent in the first two quarters of 1992, accelerated to annualised figures of 5½ per cent in the third quarter and an estimated 5 per cent in the fourth quarter. This brought the decline in real output to about 2 per cent in 1992 as a whole, following negative growth rates of approximately ½ per cent in both 1990 and 1991. The level of total real output in the fourth quarter of 1992 was nearly 4½ per cent below the level at the start of the recession in the first quarter of 1989.

Real gross domestic product



A *sectoral analysis* of real output changes shows that the continued contraction in real gross domestic product in the fourth quarter of 1992 could to a large extent be attributed to a further decline in real *agricultural output* levels. The wheat crop, in particular, was very badly affected by the drought and is estimated to have declined by approximately 40 per cent from the output level in the fourth quarter of 1991. This further decline in agricultural output resulted in a decrease of 24 per cent in the real value added by the agricultural sector in 1992; a small increase of 2 per cent had been recorded in 1991. Although most of the sub-sectors of agriculture were adversely influenced by the drought during 1992, field crops and livestock production suffered sizeable declines. These adverse agricultural conditions also had negative backward linkage effects on the suppliers of agricultural requirements.

Excluding agriculture, the real value added by the *other economic sectors* also decreased in the fourth quarter of 1992. The rate of contraction of output in these sectors is estimated at almost 1 per cent, which is about the same rate of contraction as in the preceding quarter. This further decline in non-agricultural output was the eighth consecutive quarterly decline and brought the level of output of the non-agricultural sectors to almost 2 per cent below the level at the beginning of the downturn in economic activity. In 1992 the decrease in the production of the non-agricultural sectors also averaged 1 per cent, compared with ½ per cent in 1991.

The real output of the *mining sector* recovered slightly in the fourth quarter of 1992 and rose at an annualised rate of about 1 per cent. Output increases by diamond and coal-mining concerns were primarily responsible for this slight improvement in the fortunes of the mining industry, but the output of other mines (including gold) declined somewhat. However, for the full 1992 calendar year gold production rose by 2 per cent, owing to an improvement in the grade of ore mined. Together with an increase in the real output of diamond mining, this rise caused the real production by the mining sector to expand by about 1 per cent in 1992; in 1991 it had contracted at a rate of 1½ per cent.

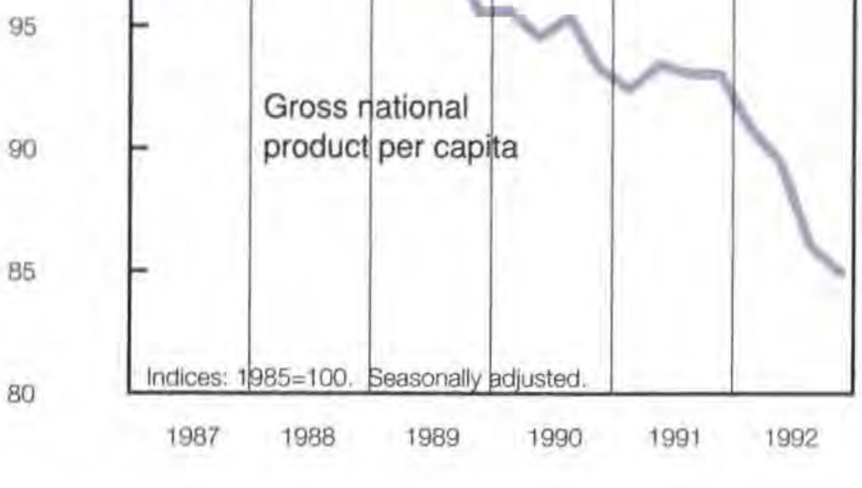
Output volumes in the *secondary sectors* continued to decline in the fourth quarter of 1992. This contraction occurred predominantly in the output of manufacturers and construction enterprises, but the real output of electricity, gas and water undertakings also shrank marginally. The real output of manufacturers, which had declined at an average annualised rate of 3 per cent in the first two quarters of 1992, receded further at an annualised rate of 3½ per cent in the last two quarters. For the year 1992 this decrease is estimated at 3 per cent, compared with 2½ per cent in 1991. The contraction in manufacturing output in 1992 occurred in all the main sub-sectors and varied from about 1½ per cent in the paper and printing industry to almost 8 per cent in the non-metallic mineral and the wearing apparel industries.

After having registered negative growth in the second and the third quarter of 1992, real value added by the *tertiary sectors* rose modestly at an annualised rate of about ½ per cent in the fourth quarter. The main contributions to this increase came from transportation, commerce, finance, insurance and business services. Wholesale trade, and a moderate improvement in the motor trade, were mainly responsible for the rise in the real value added by the commercial sector during the fourth quarter - the first such increase in eight quarters. Real value added by transport benefited from the rise in domestic trade, higher merchandise export volumes, and the re-exports of food to drought-stricken neighbouring countries.

Despite the increase in the last quarter of 1992, real value added by the tertiary sectors in the calendar year 1992 showed very little change from the levels reached in 1991. Real value added by finance, transportation and the general government increased in 1992, but this improvement was neutralised by a contraction of 2 per cent in the real value added by commercial enterprises.

Real *gross national product*, which had expanded by ½ per cent in 1991, contracted by as much as 3½ per cent in 1992. After taking population growth into consideration, real gross national product per capita declined by 5½ per cent in 1992 – the fourth consecutive annual decline in this aggregate. As a result, living standards in South Africa have now decreased by nearly 13½ per cent from 1988 to 1992.

Real gross national product



The further decline in real gross national product in 1992 was the net result of lower domestic output levels and a weakening of South Africa's terms of trade, which exceeded a moderate decline in real net factor payments to non-residents.

Domestic expenditure

Aggregate real gross *domestic expenditure* fluctuated sharply during 1992 from an increase at an annualised rate of nearly 8 per cent in the first quarter to very similar rates of decline in the middle quarters of 1992. In the fourth quarter real domestic expenditure continued to decline, although at a much lower annualised rate of approximately ½ per cent. This decrease reflected declines in real outlays on private consumption expenditure and on gross domestic fixed investment. Real consumption expenditure by general government increased moderately and the rate of destocking slowed down in the fourth quarter.

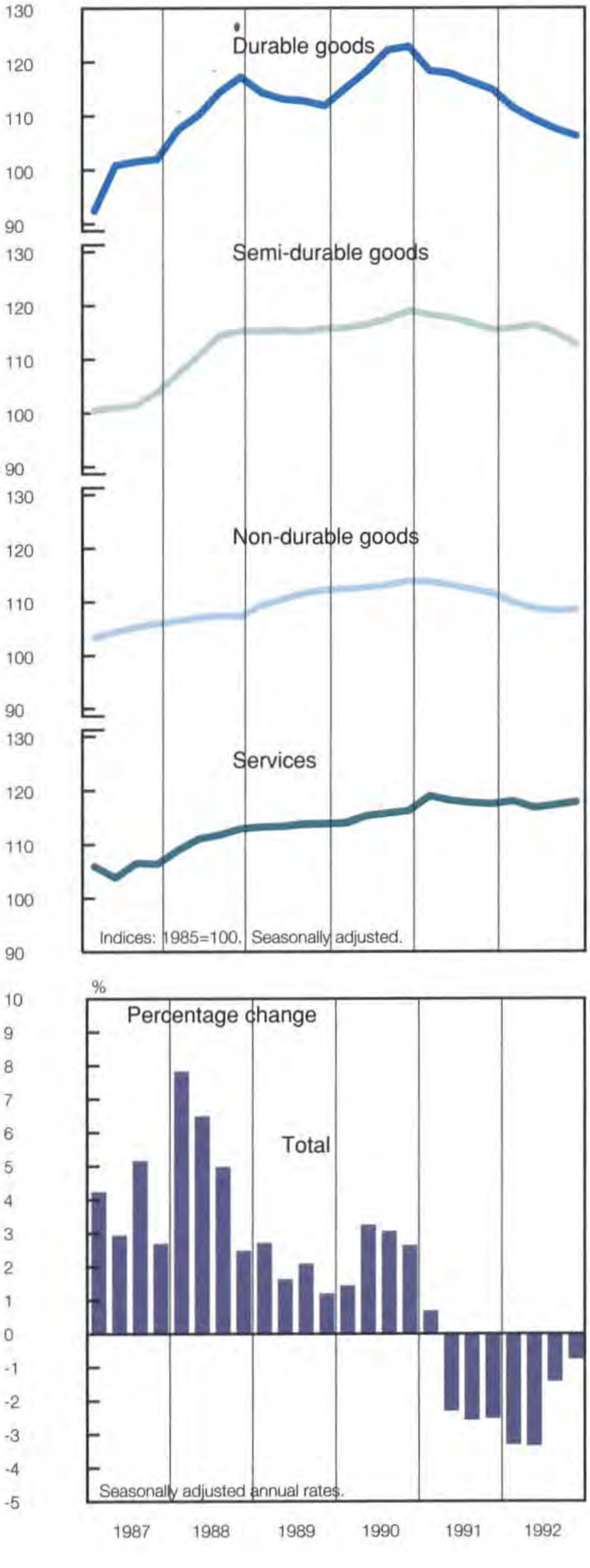
For calendar 1992 the contraction in total real gross domestic expenditure amounted to 2 per cent; this was markedly higher than the decrease of less than ½ per cent recorded in 1991. Real private consumption expenditure in 1992 is estimated to have been 2½ per cent lower than in 1991; this was the first decrease in real consumer outlays during a full calendar year since 1985. Real capital formation also decreased sharply further in 1992, while real government consumption expenditure for the year as a whole remained at about the level of the preceding year and inventories were run down further.

A weaker demand for durable and semi-durable consumer goods caused real *private consumption expenditure* to decrease further in the fourth quarter of 1992, albeit at a lower rate. After having varied between 1½ and 3½ per cent in the first three quarters of 1992, the rate of decline in the real outlays of consumers slowed down to an annualised rate of 1 per cent in the fourth quarter. This lower rate of decline was the result of moderate increases registered in real expenditure on non-durable goods and services.

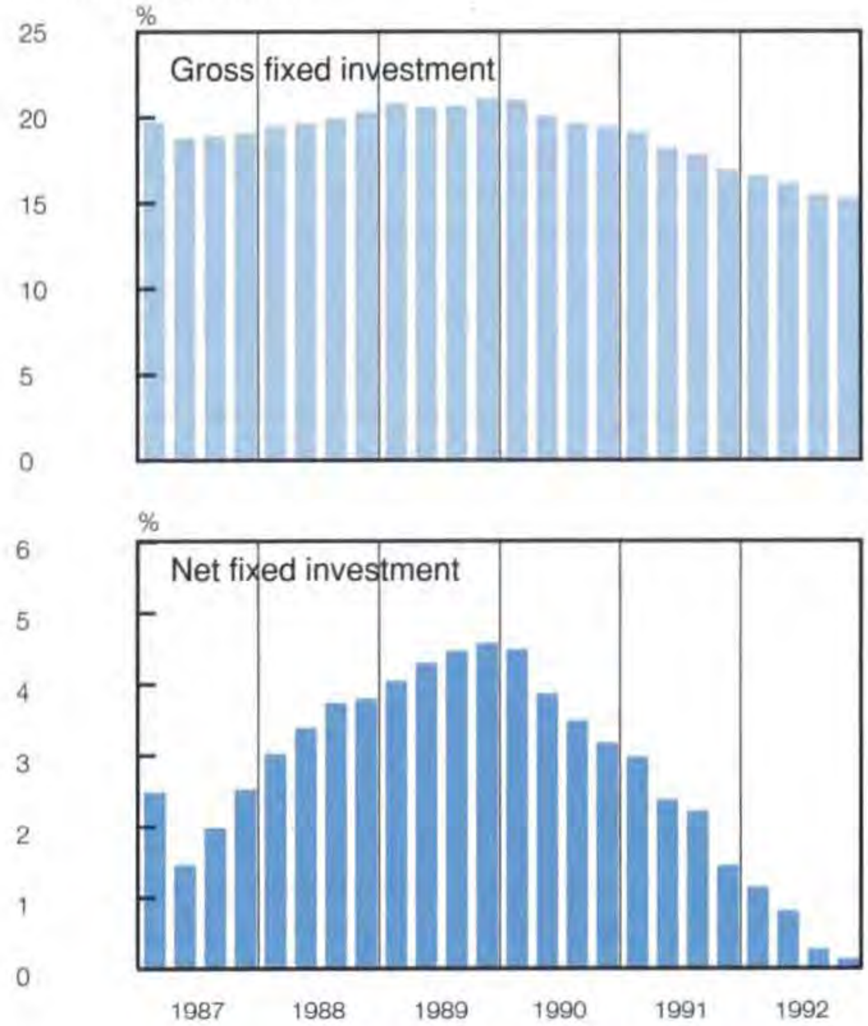
The decline in real outlays on durable goods in the fourth quarter of 1992 was particularly evident in lower spending on furniture and household appliances reflecting lower personal disposable incomes, a weaker housing market and a decline in private residential construction. Real outlays on personal transport equipment also dropped further in the fourth quarter of 1992.

Real *consumption expenditure by the general government*, which had expanded in the first two quarters of 1992 and had then declined at an annualised rate of 3 per cent in the third quarter, rose again by 1 per cent in the fourth quarter. For the calendar year as a whole the growth in real consumption expenditure by the general government slowed down to less than ½ per cent, from approximately 5 per cent in 1991. As a ratio of gross

Components of real private consumption expenditure



Fixed investment as percentage of gross domestic product



domestic product, consumption expenditure by general government nevertheless amounted to 21 per cent in 1992; in the 1980s this ratio had averaged 16½ per cent.

The real value of gross domestic *fixed investment* contracted in the fourth quarter of 1992 for the twelfth consecutive quarter, but the rate of decrease in this aggregate slowed down somewhat. After having accelerated from 7½ per cent in both the first two quarters of 1992 to 13½ per cent in the third quarter, the seasonally adjusted and annualised rate of decrease in real fixed investment shrank to 5 per cent in the fourth quarter. In 1992 as a whole capital formation decreased by about 10 per cent, following decreases of 8½ per cent in 1991 and 2 per cent in 1990. Total real fixed investment in the fourth quarter of 1992 is now estimated to have been nearly 23 per cent lower than its most recent peak value in the fourth quarter of 1989.

The contraction in fixed investment in the fourth quarter of 1992 was brought about by further decreases in real capital expenditure by the private sector and by public corporations, whereas the fixed investment by public authorities increased somewhat. Real fixed capital formation by *private-sector entities* declined at an annual rate of 6½ per cent in the fourth quarter of 1992, or at a rate that was slightly lower than the rates of decline of 8½ per cent and 12½ per cent in the second and third quarters. Smaller declines were recorded in agriculture, mining, manufacturing and finance, but investment spending in commerce accelerated. Real gross domestic fixed investment by the private sector in calendar 1992 was down by 5 per cent; in 1991 it had declined by 5½ per cent.

The apparent reluctance of the private sector to invest in new projects is obviously influenced by the recent poor economic performance, uncertainty regarding future political developments and the incessant civil unrest and violence in many parts of the country. Equally important is the high level of unutilised production capacity in the manufacturing industry and the recession experienced by many of the industrialised countries. However, towards the end of 1992 a number of new major capital projects were announced that could start to strengthen capital formation during the course of 1993.

Real fixed capital expenditure by *public corporations*, which had increased marginally from quarter to quarter in the first nine months of 1992, declined sharply in the fourth quarter. Real fixed investment by public corporations in 1992 was therefore 36½ per cent lower than its level in 1991. This decline reflected the completion of Mossgas, the earlier creation of excess capacity by some of the public corporations and determined efforts to improve the cost-effectiveness of these corporations.

The rise in the real capital outlays by *public authorities* during the fourth quarter of 1992 was confined mainly to the business enterprises of the general government. The delivery of a new airliner to the South African Airways made a noteworthy contribution to the increase in the capital expenditure of Transnet. For the full year 1992 real gross fixed investment by public authorities still declined by 8 per cent, which was a considerably larger decline than the rate of decrease of 1 per cent in 1991.

As could be expected, the contraction of gross fixed investment since 1990 has seriously influenced the expansion of the total fixed *capital stock*, with important implications for the future growth potential of the country. The growth in fixed capital stock, which had averaged approximately 3 per cent per year in the 1980s, amounted to only ½ per cent in 1992. Actual declines in the fixed capital stock were recorded in 1992 for sectors such as agriculture, construction, electricity, gas and water and transport, storage and communication. In the manufacturing sector the growth in fixed capital stock slowed down to 2 per cent from 3½ per cent in 1991, while the fixed capital stock of mining remained almost unchanged.

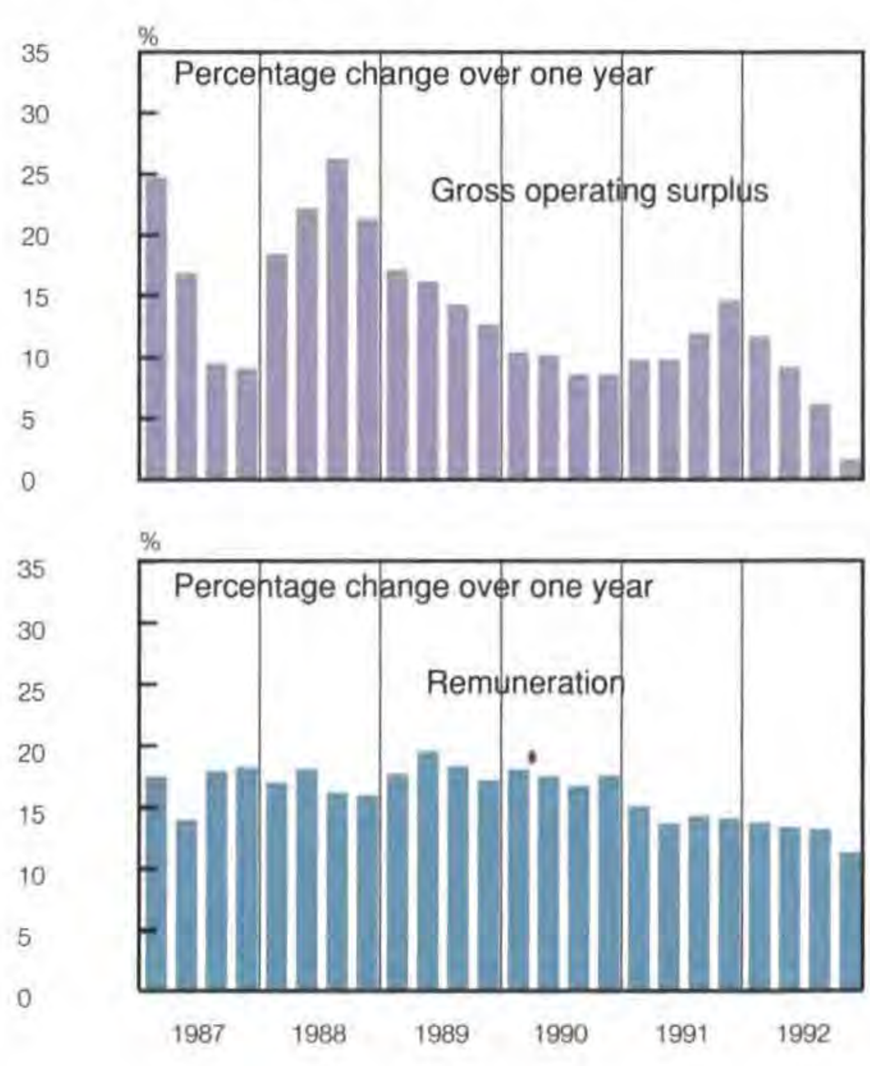
Real *inventory levels*, which had declined almost uninterruptedly from the second quarter of 1989, receded further in the fourth quarter of 1992. Reductions of real inventories in the fourth quarter of 1992 could be observed in most of the major sectors, with the exception of mining. Pronounced declines were recorded in commercial inventories and agricultural stocks-in-trade in particular. The ratio of total inventories to gross domestic product has therefore declined from a peak of 30½ per cent in the third quarter of 1989 to 25½ per cent in the fourth quarter of 1992.

Factor income

The growth in aggregate *nominal factor income* at market prices over a period of twelve months slowed down markedly during the course of 1992 from a high point of 14 per cent in the fourth quarter of 1991 to 9 per cent in the third quarter of 1992 and to 8 per cent in the fourth quarter. For the calendar year 1992 the rate of increase in factor income amounted to not quite 10 per cent, compared with 13 per cent in 1991. This sharply declining trend in the growth of nominal factor income during 1992 was due to a corresponding sharp slow-down in the rate of increase in gross operating surplus and more moderate increases in the wage bill.

The percentage change over one year in the *gross operating surplus* receded from 14½ per cent in the fourth quarter of 1991 to about 6 per cent in the third quarter of 1992 and to a mere 1½ per cent in the fourth quarter. Although the steepness of this decline was

Gross operating surplus and remuneration



probably largely related to the poor agricultural conditions leading to large losses in the agricultural sector, the operating surpluses of the other major sectors also registered more modest increases. For 1992 the gross operating surplus increased by 7 per cent; in 1991 it still rose by 11½ per cent.

The rate of increase in *nominal salaries and wages* fell back from 14 per cent in 1991 to an average level of 12½ per cent in 1992. However, the quarterly rate of increase over a period of twelve months in total nominal salaries and wages slowed down much more impressively from 17½ per cent in the fourth quarter of 1990 to 13 per cent in the third quarter of 1992 and further to 11 per cent in the fourth quarter. Although this slower growth in salaries and wages was evident in all the economic sectors and reflected lower rates of wage increases, it was also due to the large number of workers retrenched as part of rationalisation programmes to cut costs.

Domestic saving

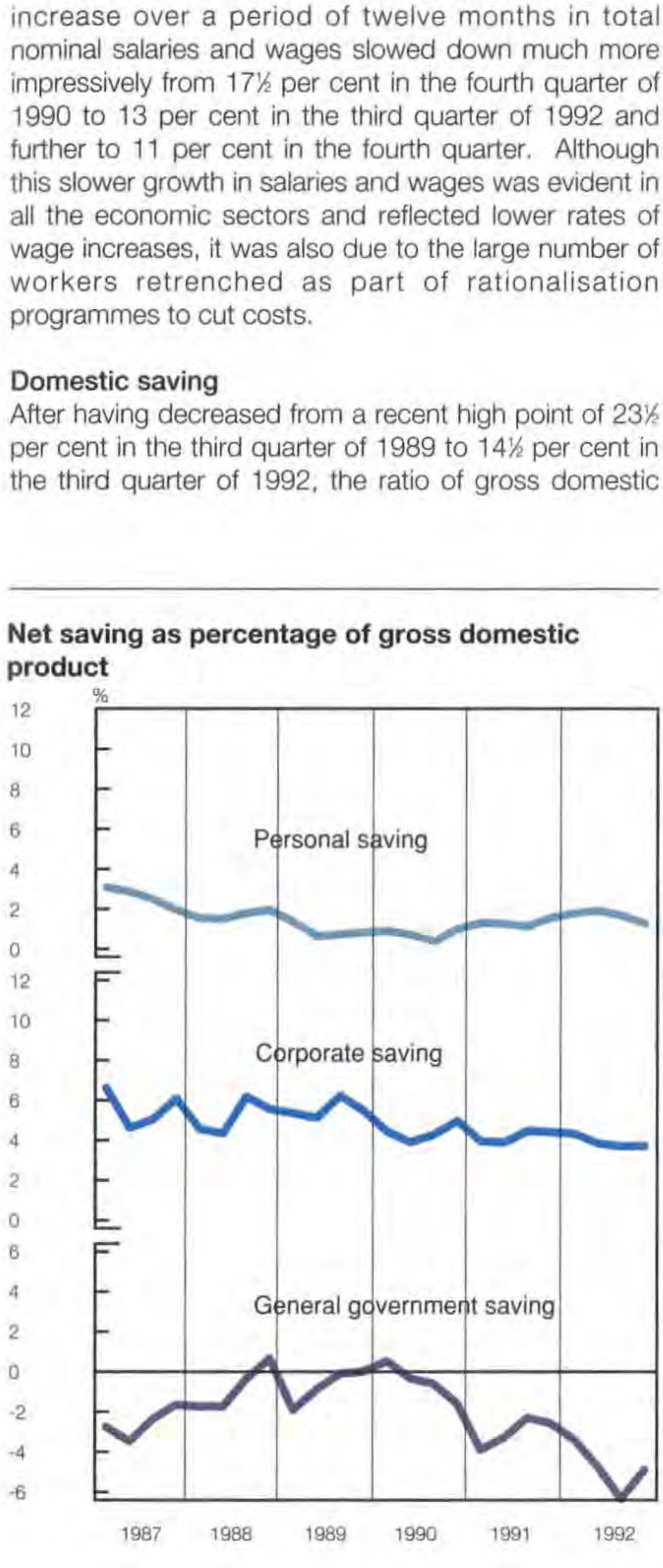
After having decreased from a recent high point of 23½ per cent in the third quarter of 1989 to 14½ per cent in the third quarter of 1992, the ratio of gross domestic saving relative to gross domestic product rose moderately to about 15½ per cent in the *fourth quarter*. This slight improvement in the savings ratio was caused by a substantial contraction of the net dissaving by general government from the exceptionally high level of the preceding quarter. Private-sector saving weakened somewhat in the fourth quarter owing to lower saving by households, while net corporate saving remained at about the level of the preceding quarter.

In the *calendar year 1992* the domestic savings ratio reached a historical low point of 16½ per cent from 18½ per cent in 1991; in the 1980s this ratio had averaged 24½ per cent. The substantial decline in gross domestic saving as a ratio of gross domestic product in 1992 was mainly the result of the substantially larger *dissaving by general government*. Total net dissaving by the general government rose from R8,6 billion in 1991 to R15,5 billion in 1992. The increase of R7 billion in net dissaving by the general government was three and a half times more than the increase of R2 billion in net saving by the private sector.

Corporate saving in 1992 was slightly higher than in 1991. This could be attributed to a combination of lower nominal interest rates, other cost-saving measures, and tighter asset management which enabled companies to maintain sound balance sheets in the face of a prolonged recession. On balance, companies appear to be well placed to finance a higher level of activity once an upturn in economic conditions begins.

Net *saving by households* increased in 1992 as a whole and the ratio of personal saving to personal disposable income improved marginally from 2½ per cent in 1991 to about 3 per cent in 1992. This rise occurred despite a further redistribution of income to lower-income groups with a higher propensity to consume and was probably related to a general increasing sense of insecurity. Many employees became less assured of future earnings and employment opportunities, causing them to be more prudent and to reduce bank overdrafts and other forms of indebtedness.

Net saving as percentage of gross domestic product



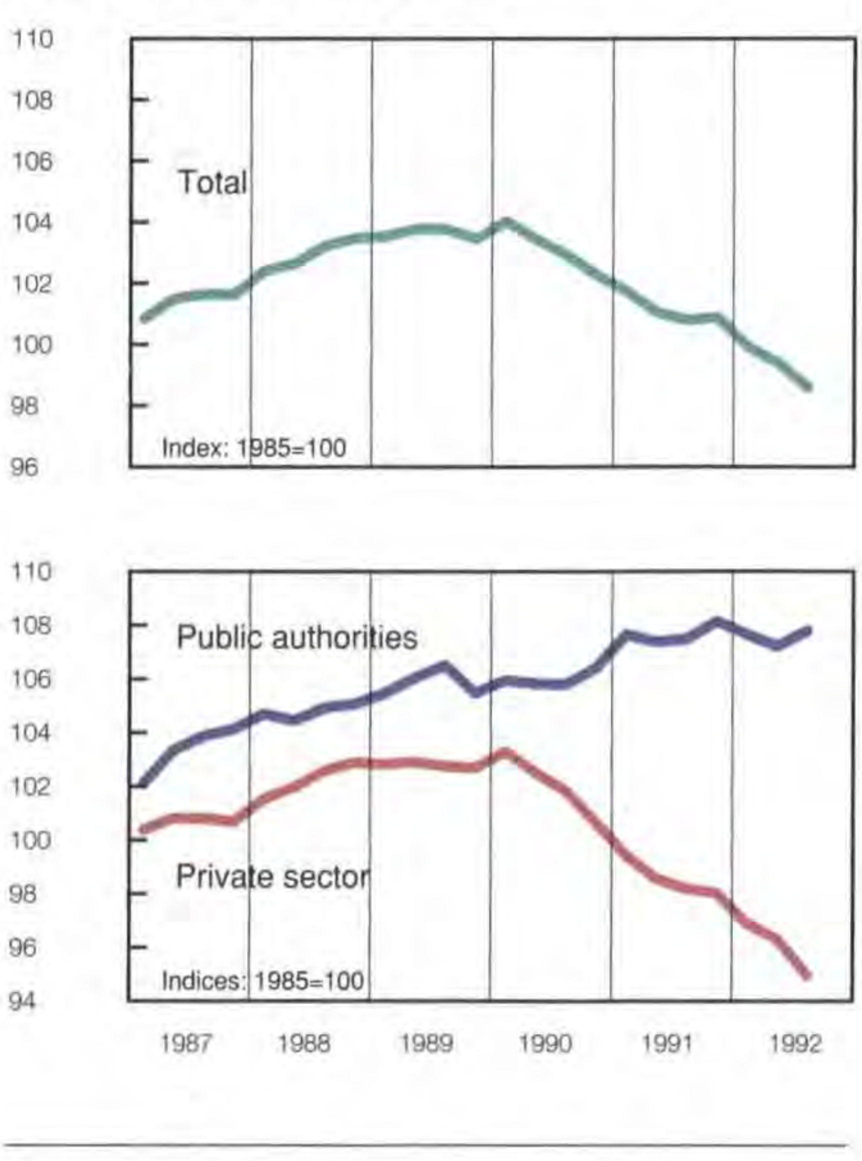
Employment

The downturn in economic activity continued to have a serious effect on employment in the formal sectors of the economy. *Total employment* in the non-agricultural sectors of the economy showed a distinct declining tendency from the beginning of the recession and declined by 0,5 and 2,0 per cent in 1990 and 1991, and at a year-on-year rate of 1,9 per cent in the first nine months of 1992 (latest information available). The rate of retrenchments increased with the deepening of the recession during 1992 and the quarter-to-quarter rate of decrease in employment therefore amounted to seasonally adjusted and annualised rates of 3,7, 2,1 and 3,2 per cent in the first three quarters of the year, respectively. As a result, the level of employment in the formal sectors of the economy outside agriculture in the third quarter of 1992 was 5,1 per cent below its most recent cyclical high point in the second quarter of 1989; as many as 276 000 employment opportunities were lost over this period.

Faced with a sharp decline in domestic demand, private business undertakings were forced to cut operational costs and to retrench a large number of their workers. The employment in the non-agricultural *private sector* initially declined only moderately by 0,7 per cent in 1990, but then more significantly by 3,4 per cent in 1991 and by 2,7 per cent in the first nine months of 1992, compared with the corresponding period of the preceding year. From its high point in the second quarter of 1989 to the third quarter of 1992, employment in the non-agricultural private sector has already declined by about 297 000 persons. The most notable declines occurred in the gold-mining industry, private road transportation, electricity generation, accommodation services, construction and wholesale trade.

In sharp contrast to the downward movement of employment in the private sector, the employment opportunities offered by *public authorities* still increased

Non-agricultural employment



on balance during the current downturn in economic activity: employment by public authorities was 1,3 per cent higher in the third quarter of 1992 than in the second quarter of 1989. Rates of *increase* in employment by public authorities of 0,1 per cent in 1990 and 1,6 per cent in 1991 were followed by seasonally adjusted and annualised quarter-to-quarter rates of *decrease* of 1,8 and 1,7 per cent in the first and second quarter of 1992. However, in the third quarter of 1992 employment by public authorities increased again by 2,2 per cent (seasonally adjusted and annualised), because the authorities of the self-governing territories employed a large number of people on special projects to alleviate the impact of the drought.

The changes observed in the ratio of *overtime hours to normal hours* worked in manufacturing and in construction confirmed the negative effects of the recession on the demand for labour. This ratio declined from the first quarter of 1989 to the second quarter of 1992 by no less than 31,3 per cent in manufacturing and by 27,9 per cent in the construction industry.

Since the beginning of the current cyclical downswing the total number of *registered unemployed* persons has increased more or less in accordance with the decrease in employment opportunities in the non-agricultural sectors of the formal economy. The average level of unemployment during the first ten months of 1992 was therefore also significantly higher (by 17,3 per cent) than in the corresponding period of 1991. In October 1992 the total number of registered unemployed amounted to approximately 302 000 persons.

Labour costs and productivity

Although the rates of increase in the *nominal salaries and wages per worker* in the non-agricultural sectors of the economy slowed down during the recession, workers on average still received large adjustments to their remuneration packages. The rate of increase in the average amount of nominal salaries and wages per worker slowed down only moderately from a recent peak of 18,0 per cent in 1989 to 16,9 per cent in 1990, 15,8 per cent in 1991 and 15,1 per cent in the first nine months of 1992 compared with the corresponding period of the previous year. However, in the third quarter of 1992 the year-on-year rate of increase in the nominal wage per worker receded sharply to 13,9 per cent, against a quarterly average rate of 15,7 per cent in the first half of the year.

The high rates of increase in labour remuneration that had been registered in the salaries of the personnel of *public authorities*, contracted somewhat in 1992. The rate of increase in the average nominal wage of public-authority employees fell from 21,9 per cent in 1989 to 17,3 per cent in 1991 and to a year-on-year rate of 15,9 per cent in the first nine months of 1992. In the third quarter of 1992 the year-on-year rate of increase in nominal salaries and wages per worker employed by public authorities still amounted to 14,5 per cent.

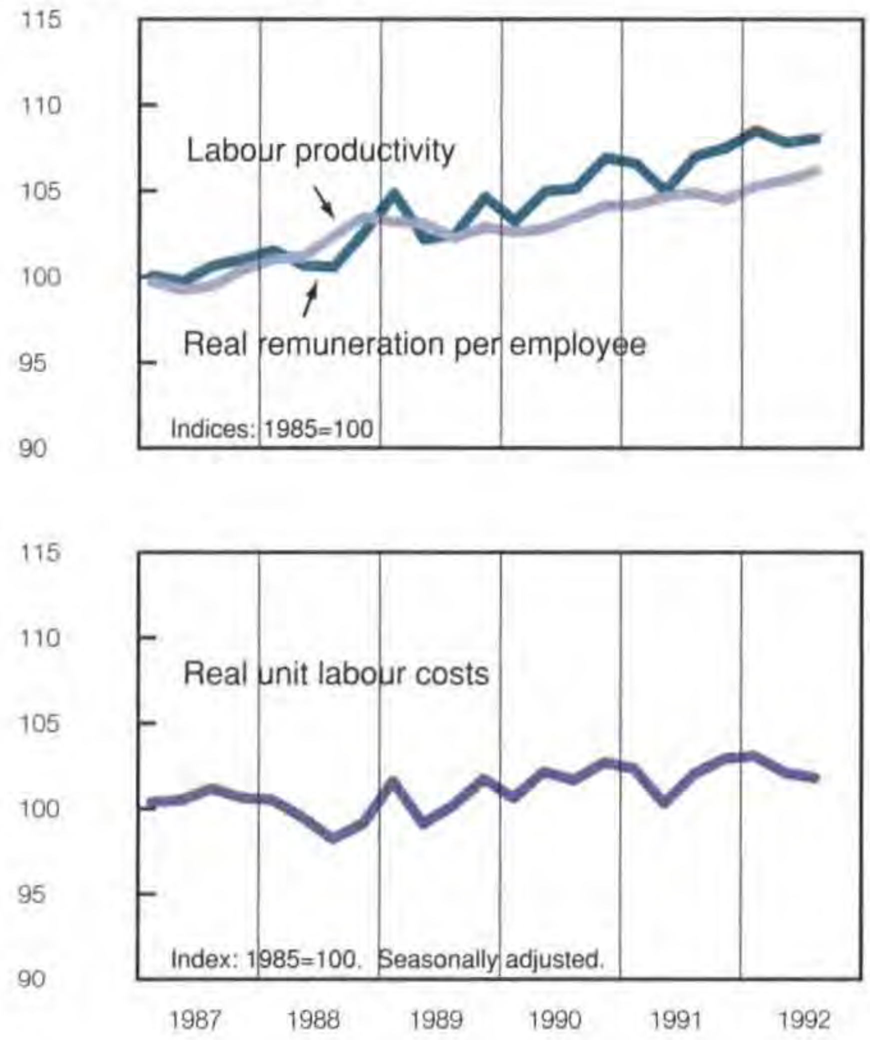
The rate of increase in the nominal salaries and wages per worker in the non-agricultural *private sector* also slowed down from 16,3 per cent in 1989 to 14,8 per cent in 1991 and then slightly further to 14,5 per cent in the first nine months of 1992 compared with the corresponding period of the preceding year. On a quarterly basis, the year-on-year rate of increase in the nominal remuneration per worker in the private sector receded more prominently during 1992 from 15,3 per cent in the first quarter to 14,8 per cent in the second quarter and to 13,4 per cent in the third quarter.

As a result of the continued high nominal wage increases during the recession, the rate of increase in the *real wage* per worker (as deflated by the price deflator for the non-agricultural gross domestic product) declined only moderately from 2,2 per cent in 1989 to 1,4 per cent in 1991 and 1,8 per cent in the first nine months of 1992. With the exception of the first quarter of 1990, the year-on-year rate of change in the real wage per worker in the non-agricultural sectors of the economy was positive in every calendar quarter from the beginning of the current recession. More recently, the year-on-year rate of increase accelerated from a rate of 0,6 per cent in the fourth quarter of 1991 to 1,8 and 2,7 per cent in the first and second quarter of 1992, before declining again to 1,0 per cent in the third quarter.

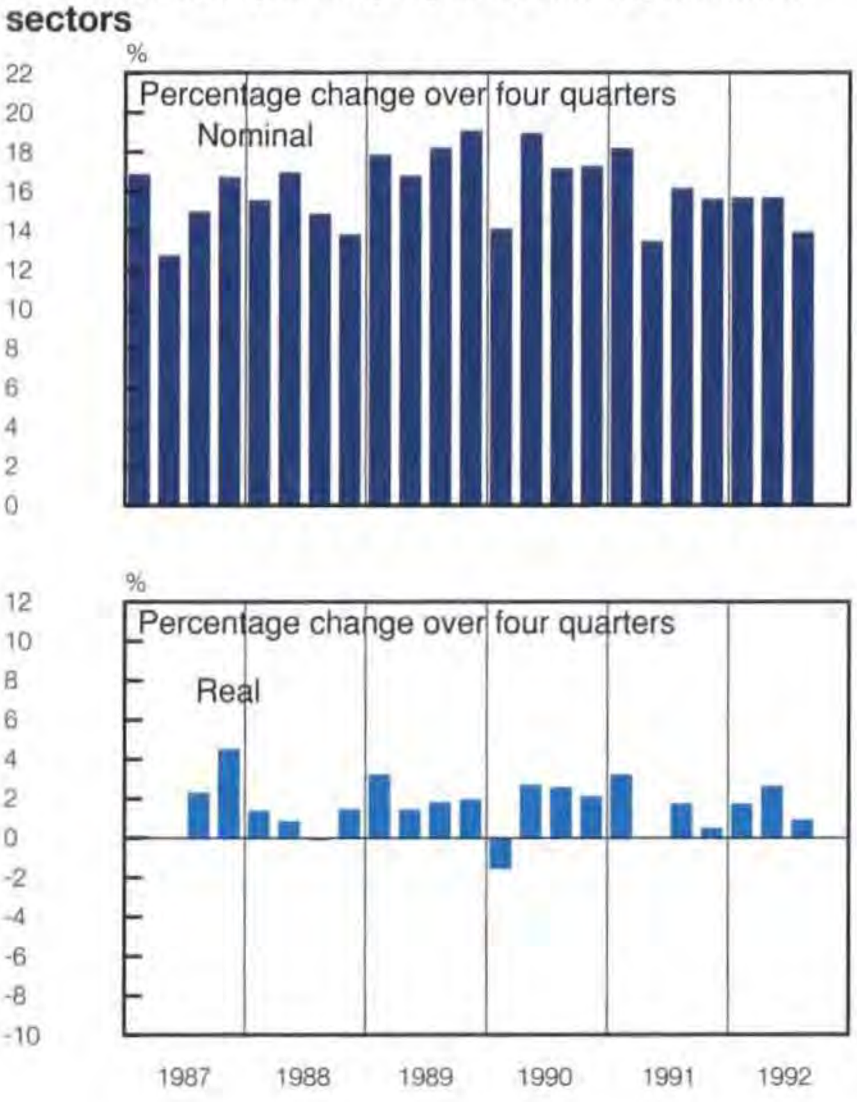
Cost-saving measures that led to the retrenchment of sizeable numbers of workers while real production did not decrease to the same extent, were responsible for an increase of 1,3 per cent in *labour productivity* in 1991 and 1,0 per cent in the first nine months of 1992 against the same period of the preceding year. Measured over a period of four quarters, the change in the real production per worker generally remained positive. With the recent deepening of the recession, it actually rose from 0,3 per cent in the fourth quarter of 1991 to rates of 1,1, 0,9 and 1,2 per cent in the first three quarters of 1992.

The increase in labour productivity was countered to some extent by labour unrest that caused heavy losses in the number of man-days worked. *Real unit labour costs* therefore still rose by 0,8 per cent in the first nine months of 1992; in 1991 the rate of increase had slowed down to 0,1 per cent from 1,4 per cent in 1989. The recent slower rate of increase in the real wage per worker and the steady increase in labour

Non-agricultural labour productivity, remuneration and unit costs



Remuneration per employee in non-agricultural sectors



productivity caused real unit labour costs to decline by a year-on-year rate of 0,2 per cent in the third quarter of 1992.

Prices

Price developments in 1992 were characterised by continued single-digit rates of increase over periods of twelve months in production prices, while consumer price inflation subsided hesitantly at first but then dropped fairly sharply in the second half of the year to its lowest level since June 1978. Various factors were probably responsible for this lower rate of inflation in South Africa, including:

- the continued financial discipline imposed by the monetary authorities;
- the drawn-out downward phase of the business cycle, which has limited the ability of sellers to pass cost increases on to buyers;
- the recent slow-down in the rise in real labour costs per unit of physical output;
- the improvement in agricultural conditions, which caused the rise in food prices to slow down;
- the reductions in the mortgage lending rates of deposit-taking institutions, which resulted in lower costs of home ownership;
- relative stability of the real effective exchange rate of the rand; and
- relative price stability in the economies of South Africa's main trading partner countries.

The rate of increase in the *all-goods production price index* declined sharply from its recent high point of 15,2 per cent in 1989 to 11,4 per cent in 1991 and then further to 8,3 per cent in 1992. In January and February 1992 the rate of increase in this price index over periods of twelve months reached a low point of 6,7 per cent before it reaccelerated to 9,5 per cent in August. A slow-down in the rate of increase in the prices of imported and domestically produced goods then caused this rate of increase to decline again to 7,3 per cent in December 1992. The quarter-to-quarter rate of increase in the all-goods production price index, which had declined from a seasonally adjusted and annualised rate of 12,5 per cent in the third quarter of 1991 to 4,4 per cent in the first quarter of 1992 before reaccelerating to 12,5 per cent in the third quarter, declined even more significantly to a level of only 1,4 per cent in the fourth quarter of 1992.

This improvement in production price inflation during 1992 was partly due to a lower rate of increase in the *prices of imported goods* amounting to 4,2 per cent; in 1989 this rate of increase had still amounted to 16,3 per cent. The quarter-to-quarter rate of increase in the prices of imported goods at a seasonally adjusted and annualised rate (which had risen from a negative level of 0,5 per cent in the first quarter of 1992 to 15,3 per cent in the third quarter on account of higher prices of oil and a decline in the nominal effective exchange rate of the rand), receded sharply again to a negative figure of 10,1 per cent in the fourth quarter. The rate of increase in the prices of imported goods over periods of twelve months also accelerated from negative levels of 1,9 and 0,9 per cent in January and February 1992 to 7,5 per cent in July 1992, but then declined again to 3,1 per cent in December.

The rate of increase in the *prices of domestically produced goods*, however, also dropped sharply from 14,9 per cent in 1989 to only 9,1 per cent in 1992. Increases in the prices of unprocessed food were at first responsible for a sharp rise in the quarter-to-quarter rate of increase in the prices of domestically produced goods from a seasonally adjusted and annualised rate of 4,9 per cent in the first quarter of 1992 to 11,9 per cent in the second quarter; considerably lower price increases in agricultural products then caused this rate of increase to recede again to 4,5 per cent in the fourth quarter. Measured over a period of twelve months, the prices of domestically produced goods also accelerated at first from a low of 8,5 per cent in February 1992 to 10,3 per cent in August before declining again to 8,2 per cent in December 1992.

The rate of increase in the *overall consumer price index* declined from 15,3 per cent in 1991 to 13,9 per

Production prices

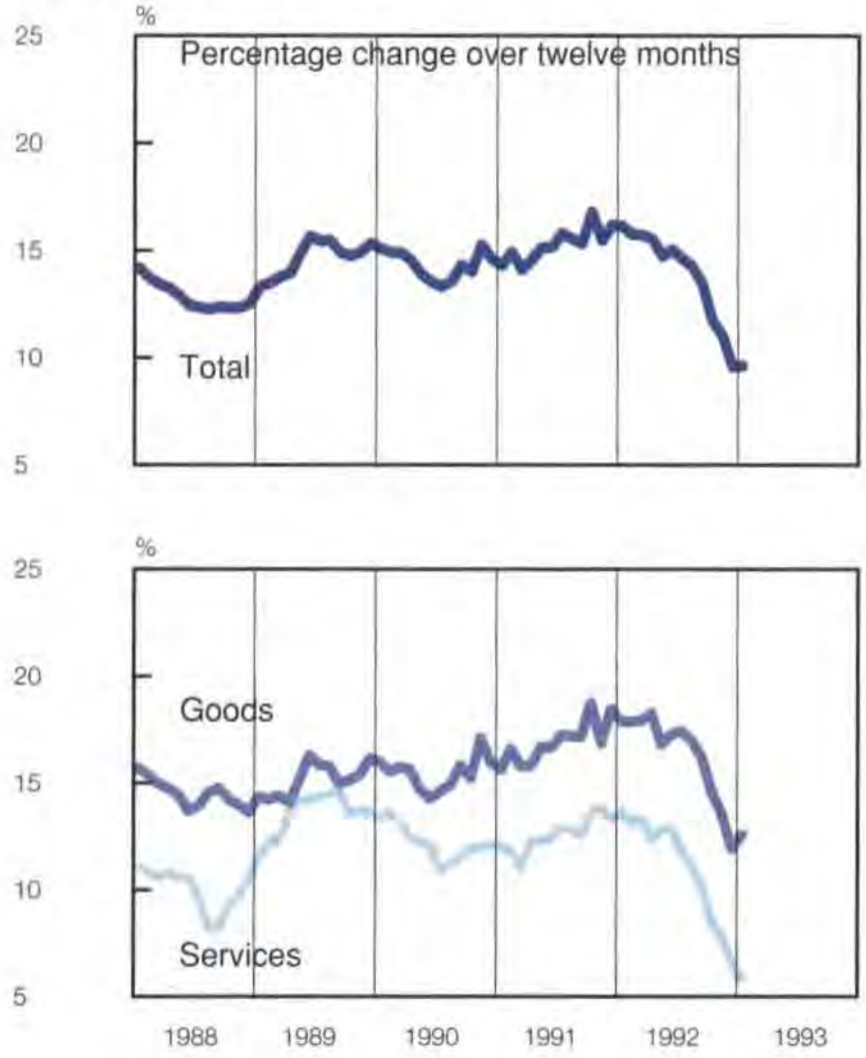
cent in 1992. The slower rise in consumer prices occurred mainly in the prices of consumer services; the rate of increase in the prices of services came down from 12,6 per cent in 1991 to 11,2 per cent in 1992. The rate of increase in the prices of consumer goods also decreased slightly from 17,0 per cent in 1991 to 16,3 per cent in 1992. This modestly lower rate of increase in the prices of consumer goods was related to the drought, which was responsible for a rise of 24,8 per cent in the prices of food and non-alcoholic beverages in 1992. If changes in food prices are excluded from the overall consumer price index, the prices of other consumer goods and services rose by only 11,2 per cent in 1992.

The *quarter-to-quarter* rate of increase in the overall consumer price index declined from a seasonally adjusted and annualised rate of 18,8 per cent in the fourth quarter of 1991 to 12,2 per cent in the third quarter of 1992 and to an exceptionally low level of 4,7 per cent in the fourth quarter. In particular, the quarter-to-quarter rate of increase in the prices of consumer services plunged from a seasonally adjusted and annualised rate of 16,6 per cent in the fourth quarter of 1991 to only 0,4 per cent in the fourth quarter of 1992. The corresponding rate of increase in the prices of consumer goods initially slowed down moderately from 21,1 per cent in the fourth quarter of 1991 to 16,4 per cent in the third quarter of 1992, but then decreased substantially to 6,7 per cent in the fourth quarter.

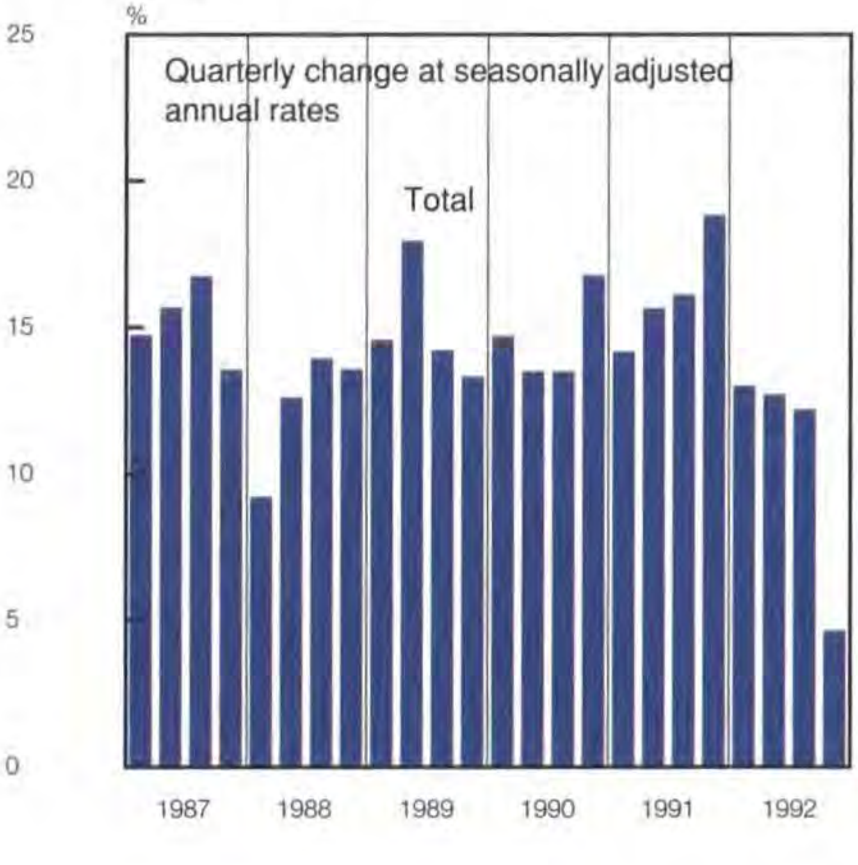
The rate of increase in the overall consumer price index over *periods of twelve months* declined moderately at first from a peak of 16,8 per cent in October 1991 to 14,3 per cent in August 1992; it then fell sharply to 9,6 per cent in December and 9,7 per cent in January 1993. This caused the differential between the inflation rates in production and consumer prices to narrow from 9,5 percentage points in January 1992 to 2,3 percentage points in December 1992.

The declining trend of inflation in consumer prices was due to significantly lower rates of increase in the prices of both consumer goods and of consumer services. The rate of increase over periods of twelve months in the prices of consumer services declined sharply from a high point of 13,9 per cent in November 1991 to 5,9 per cent in January 1993. Although this declining trend could partly be ascribed to sharply lower rates of increase (and in some months even to *decreases*) in the cost of home ownership, inflation in the prices of other services also subsided sharply. The smaller price increases in consumer goods were also widespread. While the rate of increase in the prices of food and non-alcoholic beverages dropped sharply from 29,8 per cent in July 1992 to 14,9 per cent in January 1993, the rate of increase in other consumer goods also fell from 17,2 per cent in July 1991 to 11,3 per cent in January 1993.

Consumer prices



Consumer price index



Foreign trade and payments

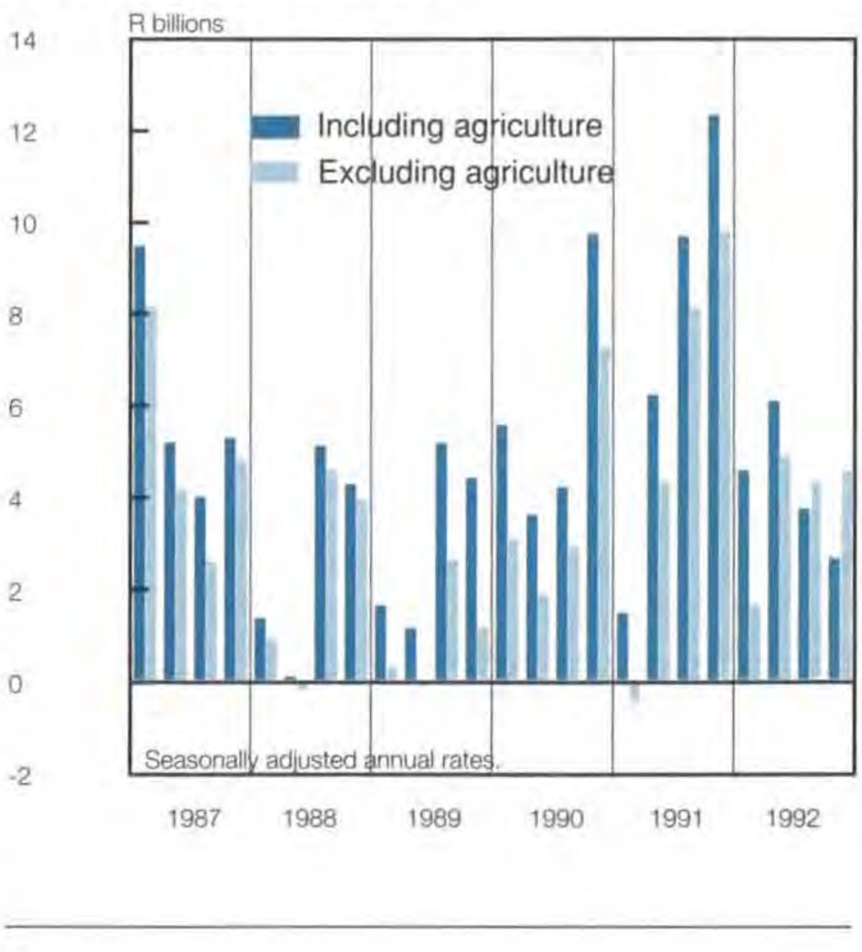
Current account balance

The *surplus on the current account* of the balance of payments (seasonally adjusted and annualised), which had decreased from R5,3 billion in the first half of 1992 to R3,8 billion in the third quarter, declined further to R2,7 billion in the fourth quarter. During 1992 as a whole the current account surplus decreased from a record annual high of R7,4 billion in 1991 to R4,3 billion in 1992, or from 2½ per cent to 1½ per cent of gross domestic product.

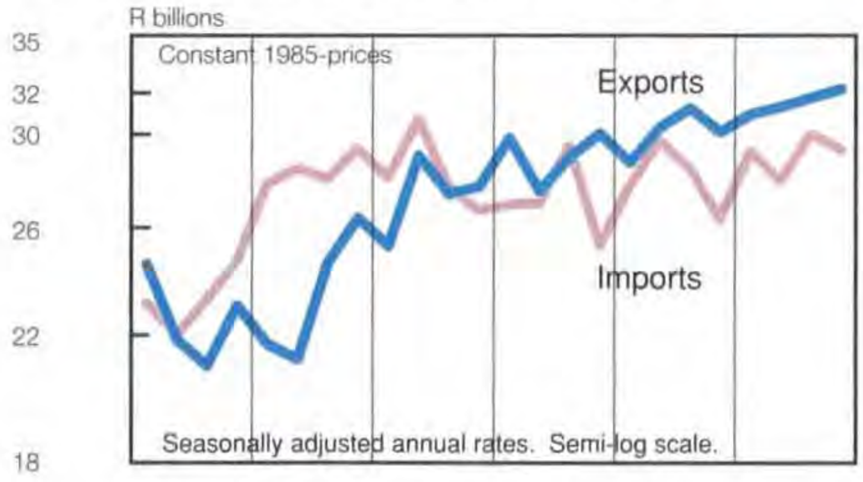
A decline in the value of net gold exports was partly responsible for the smaller surplus on current account during the fourth quarter. However, the severe drought that led to a sharp drop in agricultural exports and a substantial rise in the imports of agricultural products, also made a major contribution to the lower current account surplus. In fact, if agricultural imports and exports are excluded, the adjusted surplus on the current account of the balance of payments (after seasonal adjustment and at an annualised rate) receded only slightly from R4,9 billion in the second quarter of 1992 to R4,3 billion in the third quarter before actually *rising* again to R4,6 billion in the fourth quarter. The exports of agricultural products declined from a seasonally adjusted and annualised rate of R5,7 billion in the second quarter of 1992 to R4,7 billion in the third quarter and to only R3,8 billion in the fourth quarter. On the other hand, the value of agricultural imports rose from R4,5 billion to R5,3 billion and R5,7 billion over the same period.

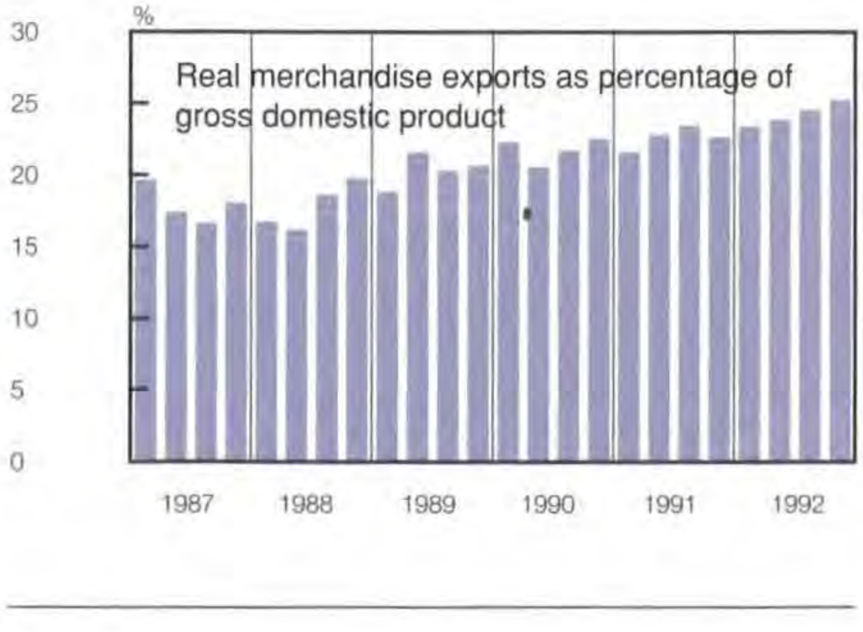
The value of total *merchandise exports* (including agriculture) increased marginally from a seasonally adjusted and annualised rate of R49,1 billion in the third quarter of 1992 to R49,2 billion in the fourth quarter. This increase was the net result of a rise of 1½ per cent in export volumes, which outweighed a decline of about 1 per cent in export prices owing to a further decline in international commodity prices. The sharp contraction in the exports of agricultural products was more than neutralised by higher exports of mineral products and base metals. During 1992 the volume of South African merchandise exports continued to increase at a fairly rapid rate and for the year as a whole the volume rose by almost 5 per cent. This was a remarkable achievement, taking into account the effect of the drought on agricultural exports and the generally depressed state of the economies of South Africa's main trading partner countries. This rise in the volume of exports, together with an increase of 1½ per cent in average export prices, caused the total value of merchandise exports to grow by nearly 6½ per cent in 1992.

Current account balance



Real merchandise imports and exports





Balance of payments on current account
Seasonally adjusted annual rates

R billions

	1991	1992				
	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Merchandise exports	45,9	47,6	49,4	49,1	49,2	48,8
Net gold exports	19,6	18,1	16,0	20,4	18,2	18,2
Merchandise imports	-48,2	-50,5	-49,1	-54,8	-53,1	-51,9
Net service and transfer payments	-9,9	-10,6	-10,2	-10,9	-11,6	-10,8
Balance on current account	**7,4**	**4,6**	**6,1**	**3,8**	**2,7**	**4,3**

After having increased substantially from R16,0 billion in the second quarter of 1992 to R20,4 billion in the third quarter, the value of *net gold exports* (seasonally adjusted and annualised) receded to R18,2 billion in the fourth quarter. This decline was more than fully accounted for by a decrease in the volume of net gold exports from an exceptionally high export level in the third quarter of 1992 which had arisen from the running-down of private-sector gold inventories. The rand price of gold rose from an average of R962 per fine ounce in the third quarter of 1992 to R1 002 per fine ounce in the fourth quarter because of a depreciation of the rand against the dollar, while the dollar price of gold declined from an average of US$347 to US$338 per fine ounce. The lower price of gold in dollar terms reflected the strengthening of the US dollar in international exchange markets, as well as further increases in the supply of gold – including sales by central banks – on international markets. For the year 1992 the average gold price of US$344 per fine ounce was the lowest since the US$317 per fine ounce of 1985. In addition to this poor price performance, a contraction in the volume of net gold exports was also responsible for a decrease of more than 7 per cent in the value of net gold exports in 1992.

Import and export prices

Despite the increase in agricultural imports as well as a rise in the imports of machinery and electrical equipment and transport equipment, the seasonally adjusted and annualised value of *merchandise imports* contracted from R54,8 billion in the third quarter of 1992 to R53,1 billion in the fourth quarter, or by about 3 per cent. This decrease was due to lower import prices and import volumes. Lower international oil prices and inflation rates in South Africa's main trading partner countries outweighed the marginal decline in the effective exchange rate of the rand and led to a decrease of about 1 per cent in import prices in the fourth quarter of 1992. At the same time, the volume of imports also receded by about 2½ per cent owing to a contraction in the import volumes of mineral products. In calendar 1992 the value of merchandise imports rose by about 7½ per cent and import volumes by almost 4 per cent.

Net service and transfer payments to non-residents (seasonally adjusted and annualised), which had increased from R10,2 billion in the second quarter of 1992 to R10,9 billion in the third quarter, rose further to R11,6 billion in the fourth quarter. This further increase in net service and transfer payments in the fourth quarter resulted mainly from higher tourist and travelling expenses by South African residents, which outweighed a decline in the payments of interest and dividends on non-residents' loans and investment. In 1992 as a whole, total net service and transfer payments to non-residents were some R1 billion or 9 per cent higher than in the preceding year.

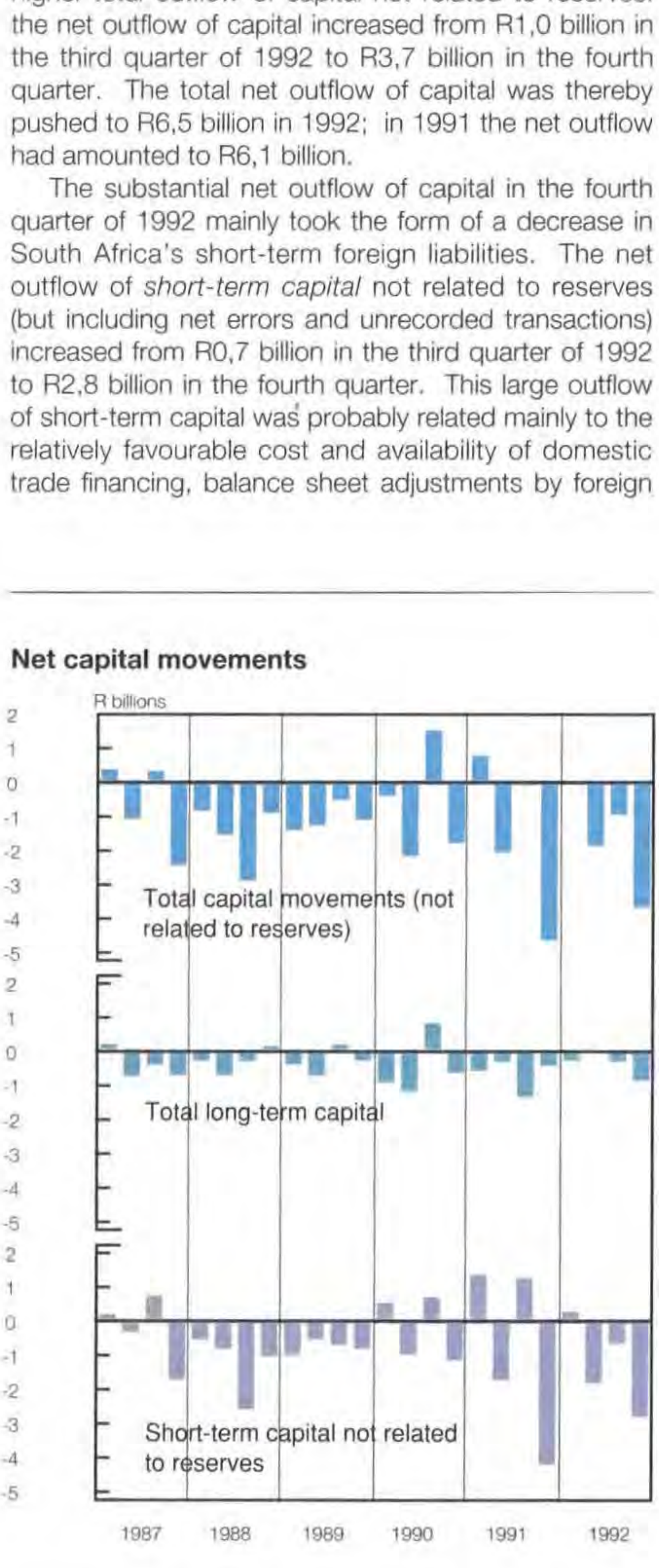
Capital account

The capital account of the balance of payments, which had started to deteriorate in the second quarter of 1992 after a deadlock had been reached in the political negotiation process, showed a further and substantially higher *total outflow* of capital not related to reserves: the net outflow of capital increased from R1,0 billion in the third quarter of 1992 to R3,7 billion in the fourth quarter. The total net outflow of capital was thereby pushed to R6,5 billion in 1992; in 1991 the net outflow had amounted to R6,1 billion.

The substantial net outflow of capital in the fourth quarter of 1992 mainly took the form of a decrease in South Africa's short-term foreign liabilities. The net outflow of *short-term capital* not related to reserves (but including net errors and unrecorded transactions) increased from R0,7 billion in the third quarter of 1992 to R2,8 billion in the fourth quarter. This large outflow of short-term capital was probably related mainly to the relatively favourable cost and availability of domestic trade financing, balance sheet adjustments by foreign organisations at the end of their financial year, and the appreciation of the US dollar in international markets that led to an outflow of capital via forward cover transactions in third currencies. The weakening of the exchange rate of the rand against the dollar (the currency in which by far the greater part of South Africa's foreign trade transactions is concluded), probably also led to leads and lags in foreign payments and receipts and therefore to an outflow of short-term funds. For calendar 1992, the outflow of short-term capital amounted to R5,0 billion; a net outflow of R3,3 billion had been recorded in 1991.

After an average quarterly outflow of longer-term funds of R0,2 billion in the first nine months of 1992, the outflow of *long-term capital* rose to R0,9 billion in the fourth quarter of the year. This outflow of capital reflected mainly the repayment of debt outside the standstill net (notably the repayment of a loan of DM250 million, or about R500 million, by the Treasury), because of the high refinancing costs that were charged by foreign financial institutions, which arose from perceived greater risks because of the break-down of multiparty constitutional negotiations in 1992. Public authorities therefore changed from being net importers of long-term capital to the amount of R1,2 billion in the first half of 1992 to becoming net exporters to the amount of R0,9 billion in the second half of the year. A small net outflow of long-term capital amounting to R0,3 billion was also registered in the private sector in the fourth quarter of 1992. Against this, the net outflow of long-term capital from public corporations to the amount of R0,2 billion in the third quarter of 1992 was reversed in the fourth quarter to a net inflow of just below R0,2 billion. For 1992 as a whole the outflow of long-term capital, at R1,5 billion, was nevertheless still considerably smaller than the net outflow of R2,7 billion in 1991.

Net capital movements

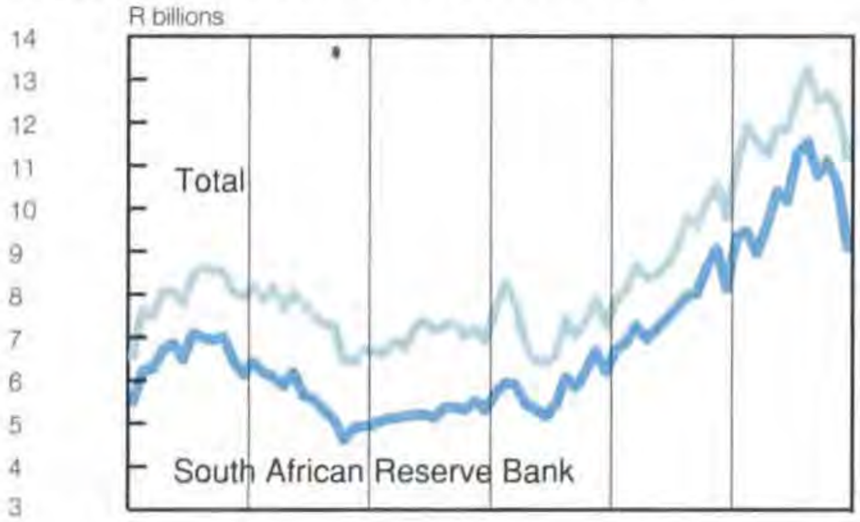


Foreign reserves

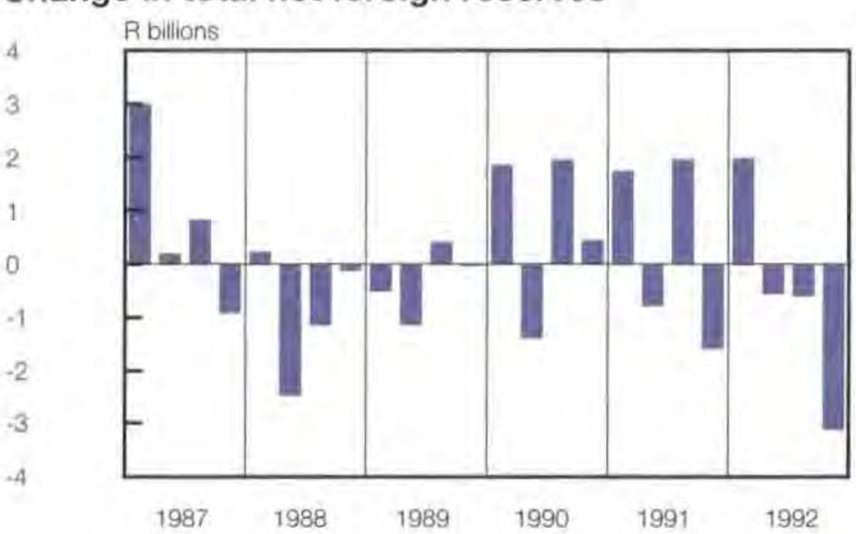
The considerable deterioration on the capital account of the balance of payments during the fourth quarter of 1992 resulted in a further substantial decline in South Africa's *net foreign reserves*. After having decreased by about R0,6 billion in both the second and the third quarter of 1992, the total net gold and other foreign reserves fell by R3,1 billion in the fourth quarter. Compared with increases of R2,9 billion and R1,4 billion in 1990 and 1991, the country's net foreign reserves declined by R2,3 billion in 1992.

Taking into account an increase of R1,7 billion in South Africa's reserve-related liabilities and small positive valuation adjustments to reserves, the *total gross gold and other foreign reserves* declined by R1,3 billion in the fourth quarter of 1992. At the end of December 1992 the total gross gold and foreign reserves amounted to R11,2 billion, or to some R1,4 billion more than the level at the end of 1991. At this level, however, the total gross foreign reserves were

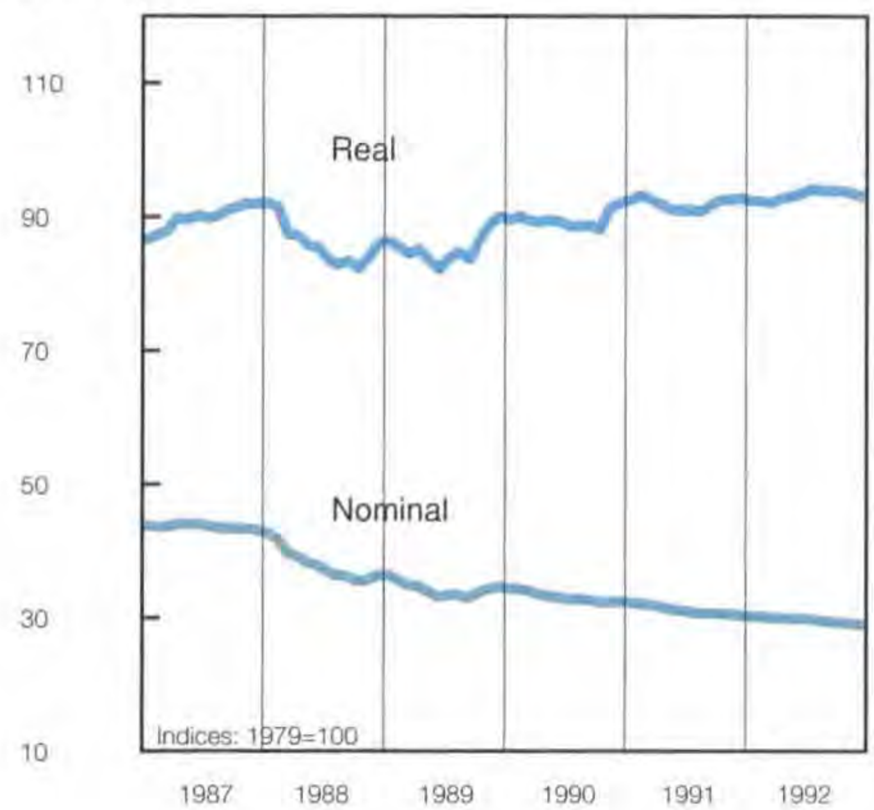
Gross gold and other foreign reserves



Change in total net foreign reserves



Nominal and real effective exchange rate of the rand



still equivalent to the value of only about two months' imports of goods and services. The gold reserves of the country amounted to 6,6 million fine ounces at the end of December 1992, virtually unchanged from the end of December 1991.

Exchange rates

Foreign exchange markets have been dominated by downward pressure on most of the principal European currencies since the European exchange rate crisis of 16 September 1992. The US dollar, supported by better prospects for an upturn in the American economy, appreciated by 30,4 per cent against the British pound and by 9,8 per cent against the German mark from 16 September 1992 to 28 February 1993. The rand was not immune to this strengthening of the dollar and during the second week of November it traded for the first time above the level of R3,00 per dollar. A historical low was reached on 26 February 1993, when the commercial rand traded at a rate of R3,1412 against the dollar.

The nominal effective exchange rate of the rand declined by 1,1 per cent during the fourth quarter of 1992 and by a further 1,8 per cent in the subsequent period up to 28 February 1993. For 1992 as a whole, the effective exchange rate of the rand depreciated by 4,3 per cent, compared with a decline of 6,3 per cent recorded in the preceding year. *The real effective exchange rate* of the rand remained relatively stable and rose by only 0,3 per cent during 1992.

Greater uncertainty among foreign investors, the aftermath of certain politically inspired incidents and the generally weaker foreign perceptions of domestic developments, contributed to a depreciation of 16,3

Changes in exchange rates of the rand
%

	31 Dec 1991 to 31 Dec 1992	16 Sep 1992 to 31 Dec 1992	31 Dec 1992 to 28 Feb 1993
Weighted average	–4,3	–2,0	–1,8
US dollar	–10,2	–8,0	–2,8
British pound	10,9	13,3	3,0
German mark	–4,4	–0,3	–1,5
Japanese yen	–10,8	–7,8	–8,2
Netherlands guilder	–4,7	–0,6	–1,3
Italian lira	15,2	12,7	5,0
Financial rand	–34,7	–20,7	7,2

per cent in the exchange rate of the *financial rand* during the last quarter of 1992. Stability in the market for financial rand was also negatively influenced by the selling of financial rand by South African corporates in order to acquire foreign assets. The Minister of Finance's announcement, at the end of November, of stricter measures to curtail such transactions, promoted greater stability and led to an immediate appreciation of almost 7 per cent. The financial rand subsequently fluctuated around this new level up to the last week of January 1993.

Increased foreign interest in South African gold-mining shares pushed the financial rand exchange rate to a high of R4,44 per dollar on 12 February 1993. The financial rand discount accordingly narrowed from 37,2 per cent at the end of December 1992 to 30,7 per cent on 28 February 1993.

Financial markets

Money supply

The growth of all the major monetary aggregates receded further in the fourth quarter of 1992, reflecting mainly the restrictive monetary policy stance and the depressed real economic conditions. As already indicated in previous *Quarterly Bulletins*, sharp fluctuations in deposits of the non-monetary private sector in certain months were responsible for volatile movements in the growth of monetary aggregates, but the twelve-month growth rates of most of these aggregates nevertheless declined, on balance, during 1992.

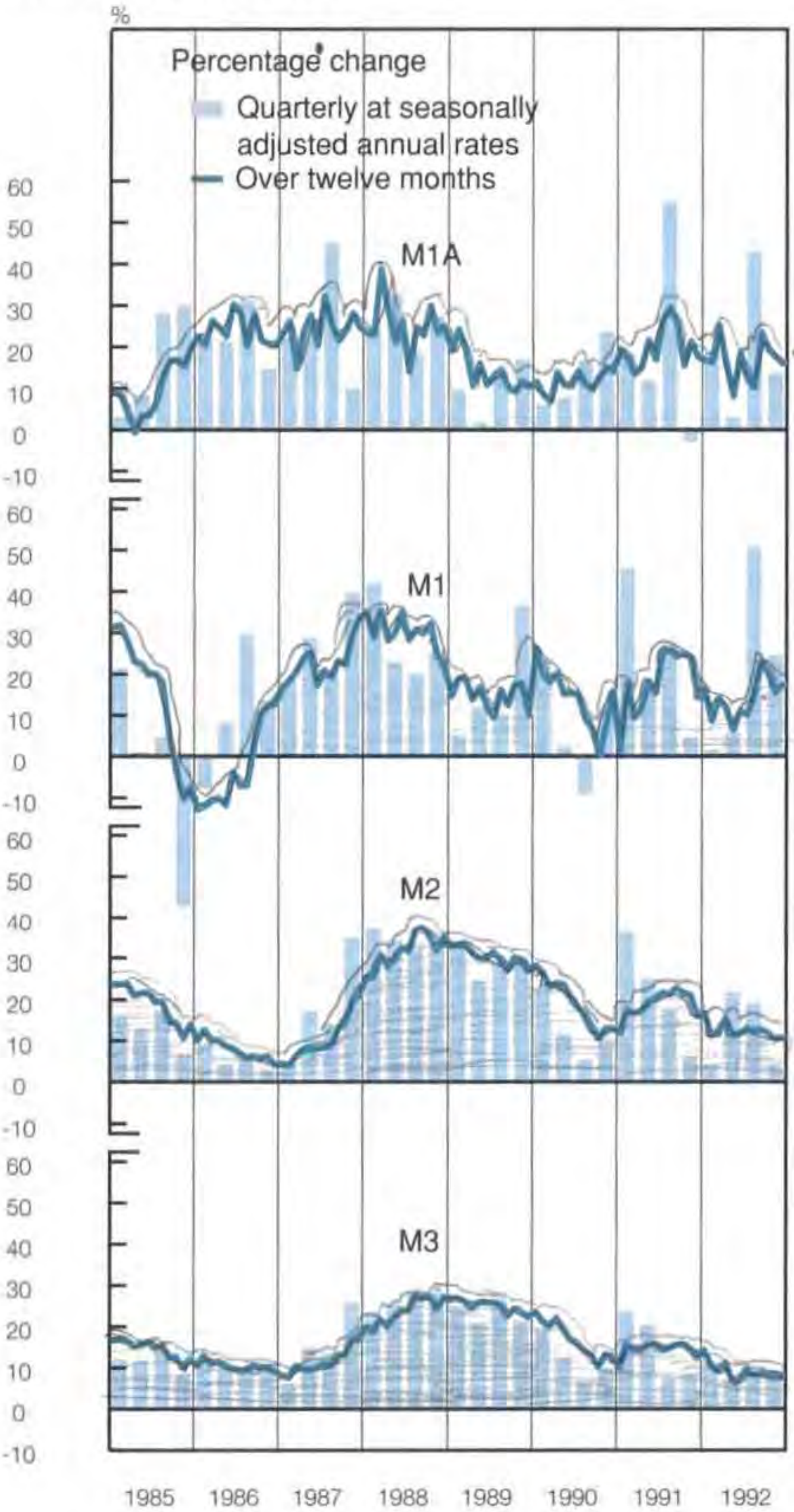
The rate of increase in the *broadly defined money supply* (M3) over periods of twelve months fell back from 12,7 per cent in December 1991 and a recent peak of 14,4 per cent in January 1992 to 7,1 per cent in May; it then fluctuated between 7 and 10 per cent in the next four months and amounted to 8,7 per cent in September. In the fourth quarter of 1992 the twelve-month growth rate of M3 fell back moderately further to 8,0 per cent in December. In January 1993 it declined sharply to an estimated 5,4 per cent.

Sharp fluctuations in the growth rates of the *narrower monetary aggregates* during the first nine months of 1992, leading to higher rates of increase at the end of September, were followed by generally lower growth rates in the fourth quarter: the twelve-month growth rates in M1A, M1 and M2 generally increased from 17,7 per cent, 14,8 per cent and 16,1 per cent in December 1991 to 23,6 per cent, 23,2 per cent and 12,8 per cent in September 1992, respectively; they then declined again to 16,2 per cent, 17,5 per cent and 10,8 per cent in December 1992, respectively. At these levels the twelve-month growth rates of the narrower monetary aggregates, with the exception of M1, were therefore lower than the corresponding rates at the end of 1991, despite a shift to shorter-term deposits during 1992. This shift to shorter-term deposits took place because of the favourable interest rates that deposit-taking institutions offered on these types of deposits in order to reduce the average outstanding maturity of their liabilities.

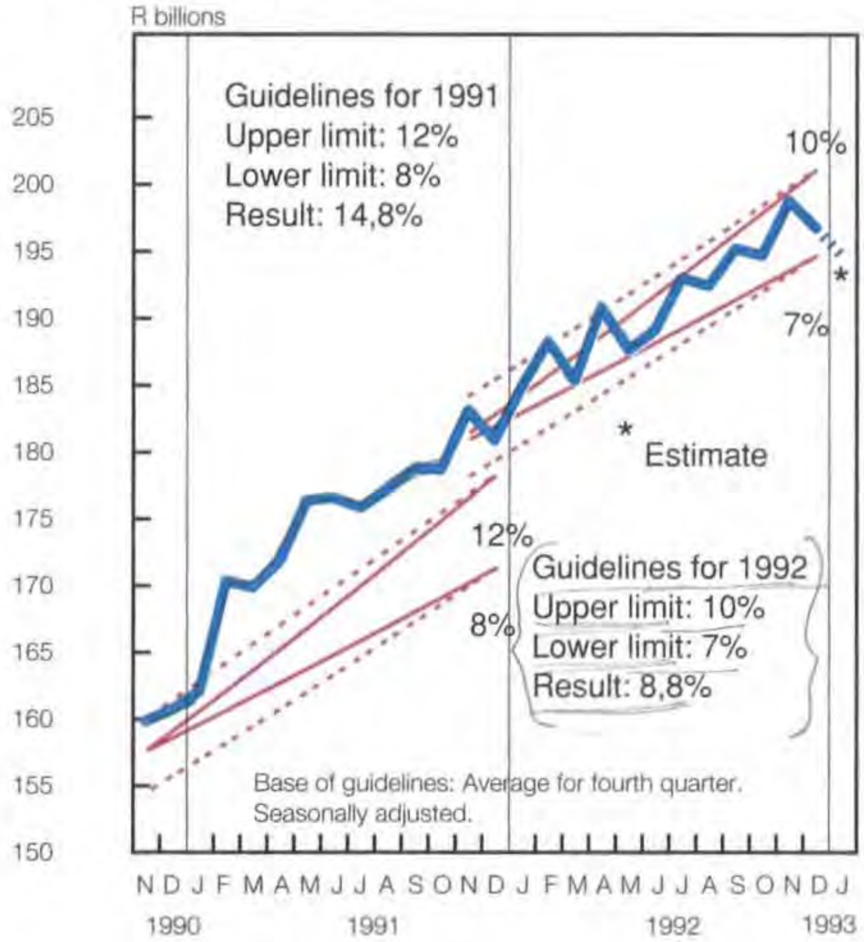
The declining tendency in the growth of the narrower monetary aggregates in the fourth quarter of 1992 was also reflected in the rates of increase in the quarterly average values of these aggregates (seasonally adjusted and annualised). These growth rates for M1A and M1 decreased from very high levels of 43,1 and 50,8 per cent in the third quarter of 1992 to 13,6 and 24,6 per cent in the fourth quarter. The quarter-to-quarter rate of increase in M2 also receded sharply from a seasonally adjusted and annualised rate of 19,1 per cent to the low figure of 4,3 per cent over the same period.

The *main counterparts* (in a statistical or accounting sense) of the R2,5 billion increase in M3 in the fourth

Monetary aggregates



Guidelines for growth in M3



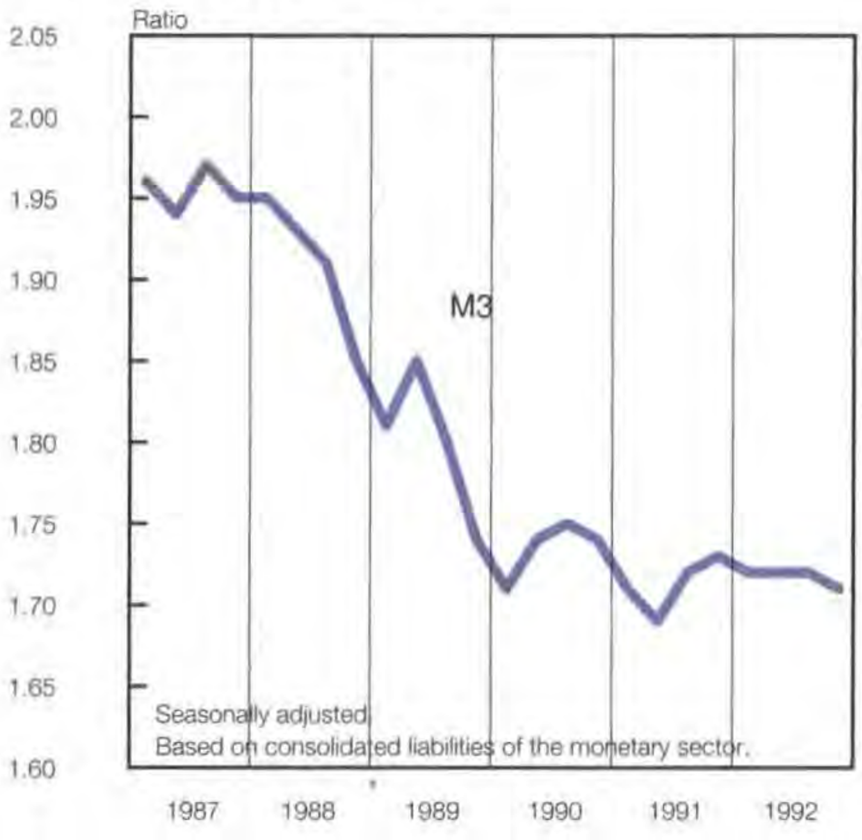
quarter of 1992 were increases of R4,7 billion in the monetary institutions' net claims on the government sector and of R5,5 billion in the claims of these institutions on the private sector. In contrast to these developments, the net gold and other foreign reserves and "net other assets" of the monetary sector decreased in the fourth quarter by R3,1 billion and R4,6 billion, respectively.

The 1992 "guideline" year

Although the twelve-month growth rates in M3 fluctuated considerably during 1992, they generally remained well within the guideline range that was set at 7 to 10 per cent for the growth in M3 from the fourth quarter of 1991 to the fourth quarter of 1992. The increase in the *quarterly average value of M3* (seasonally adjusted and annualised) dropped sharply from 11,3 per cent in the first quarter of 1992 to 7,0 per cent in the second quarter; it then rose slightly to 8,7 per cent in the third quarter before receding again to 8,5 per cent in the fourth quarter. The growth in M3 as measured for guideline purposes from the fourth quarter of 1991 to the fourth quarter of 1992 amounted to 8,8 per cent. These relatively moderate growth rates in M3 were a clear reflection of the success of monetary policy and allowed three further reductions in Bank rate of one percentage point each during the year to a level of 14 per cent from 18 November 1992.

The increase in nominal gross domestic product over the guideline year amounted to only 8,1 per cent, which was less than the rate of increase in M3. The *income velocity* of M3 accordingly decreased from 1,725 in the fourth quarter of 1991 to 1,709 in the fourth quarter of 1992, or by 0,6 per cent. This relative stability in the income velocity was recorded despite larger margins between borrowing and lending rates of deposit-taking institutions which normally lead to disintermediation practices and a rising velocity of circulation. The recent behaviour of income velocity probably points to a structural change in this variable

Income velocity of money



on account of the implementation of the Deposit-taking Institutions Act in February 1991 which caused certain "off-balance-sheet" items in the books of deposit-taking institutions to be reflected directly as deposits in the financial accounts of these institutions.

In a *statistical or accounting sense* the R16,0 billion increase in the seasonally adjusted average quarterly value of M3 from the fourth quarter of 1991 to the fourth quarter of 1992 was more than fully explained by a R15,5 billion increase in monetary institutions' claims on the domestic private sector and an increase of R1,8 billion in these institutions' net claims on the government sector. The last-mentioned increase, however, included the repayment (of R3,8 billion) by the government to the Reserve Bank on the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account. This, of course, caused the "net other assets" of monetary institutions to decline simultaneously by that amount, which led to a decrease of R0,1 billion in these net other assets over the guideline year. Contrary to these developments, the monetary institutions' net gold and other foreign assets declined by R1,2 billion from the fourth quarter of 1991 to the fourth quarter of 1992.

Money supply guidelines for 1993

After due consideration of the underlying economic conditions in the country, the Reserve Bank announced on 8 February 1993 that it had decided to reduce its money supply guidelines for 1993 further as a signal to the market regarding its intended monetary policy. The money supply guidelines have now been reduced progressively over the past few years from 14 to 18 per cent in 1988 to 6 to 9 per cent from the fourth quarter of 1992 to the fourth quarter of 1993. Although these money supply guidelines are not intended to establish a rigid "money rule", they serve as a useful and important indicator for short-term adjustments in monetary policy measures.

With the announcement of the present lower guideline range, which was accompanied by a one percentage point lowering of Bank rate, the Reserve Bank clearly signalled to the market its determination to persist with a policy of combating inflation. However, in view of the present low level of the income velocity of M3, these low money supply guidelines also provide ample room for an increase in real economic activity.

Credit extension by monetary institutions

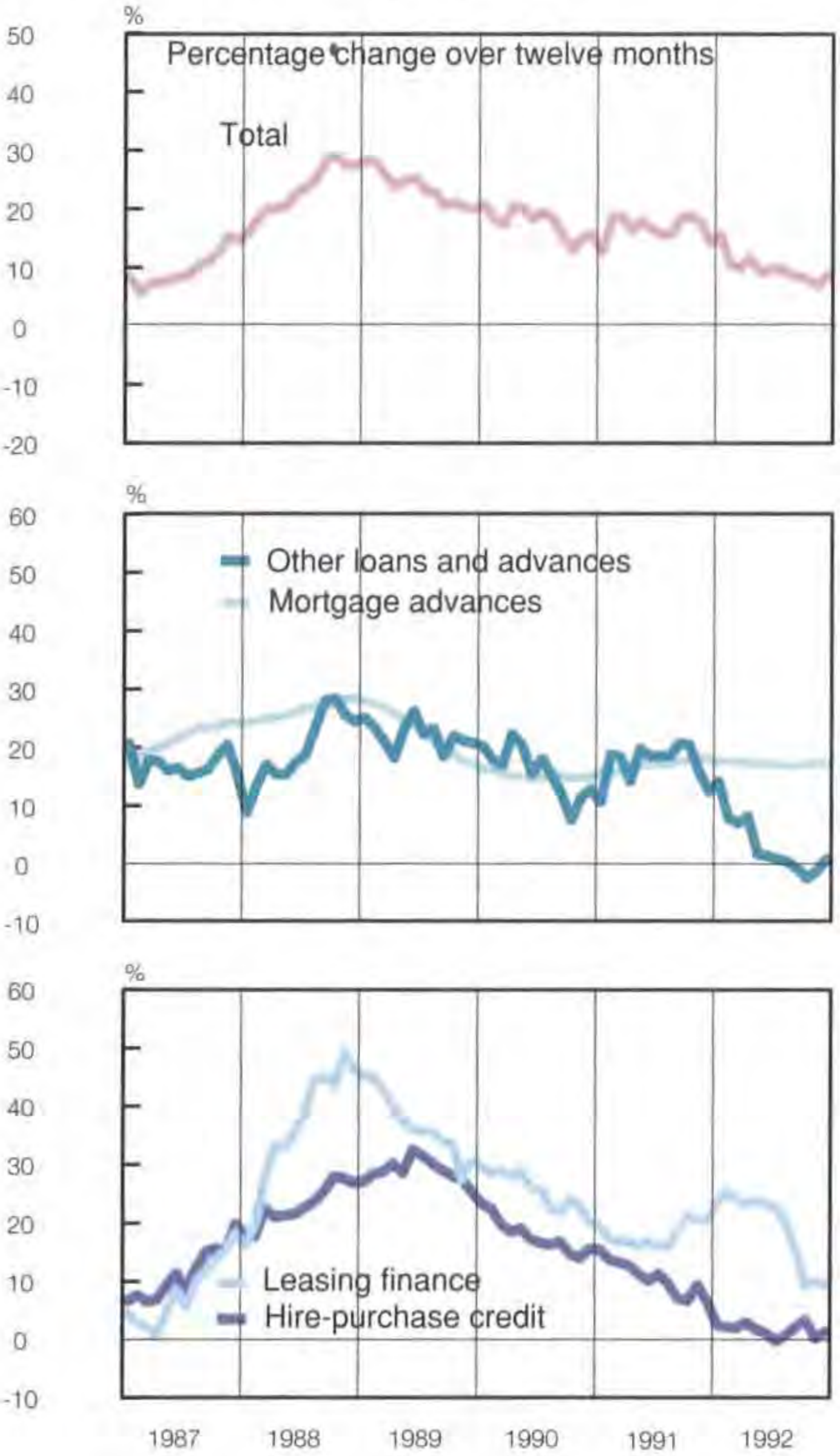
The growth in credit extended by monetary institutions also slowed down significantly during 1992 owing to a lower demand for credit which reflected the recessionary conditions in the country, lower inflation and the relatively high cost of borrowing. In the process of more active credit-risk management and in an environment of increasing insolvencies, business closures and rising bad debts, some deposit-taking institutions became less accommodating in extending further credit to certain clients and rather concentrated on the improvement of the quality of their borrowers.

The twelve-month rate of increase in *total domestic credit extension* therefore decreased from a recent high point of 14,1 per cent in January 1992 to 8,0 per cent in October; however, it then rose moderately again to 10,4 per cent in December 1992. The rate of increase in credit extended to the *private sector* over periods of twelve months similarly declined from 15,6 per cent in January 1992 to 7,0 per cent in November, before accelerating again to 8,7 per cent in December 1992.

An *analysis by type of credit* of the monetary institutions' claims on the domestic private sector shows that the slower growth in credit extension was mainly due to relatively lower rates of increase in hire-purchase credit, leasing finance and so-called "other loans and advances" (including overdrafts). The twelve-month rate of increase in hire-purchase credit (excluding unearned finance charges) declined from 6,7 per cent in December 1991 to only 1,5 per cent in December 1992, while the twelve-month rate of increase in "other loans and advances" showed an even sharper decrease from 12,6 per cent to only 0,9 per cent over the same period. The rate of increase over twelve months in leasing finance also declined markedly from 20,6 per cent in December 1991 to 9,6 per cent in December 1992.

Contrary to these developments, the demand for

Credit extension to the private sector



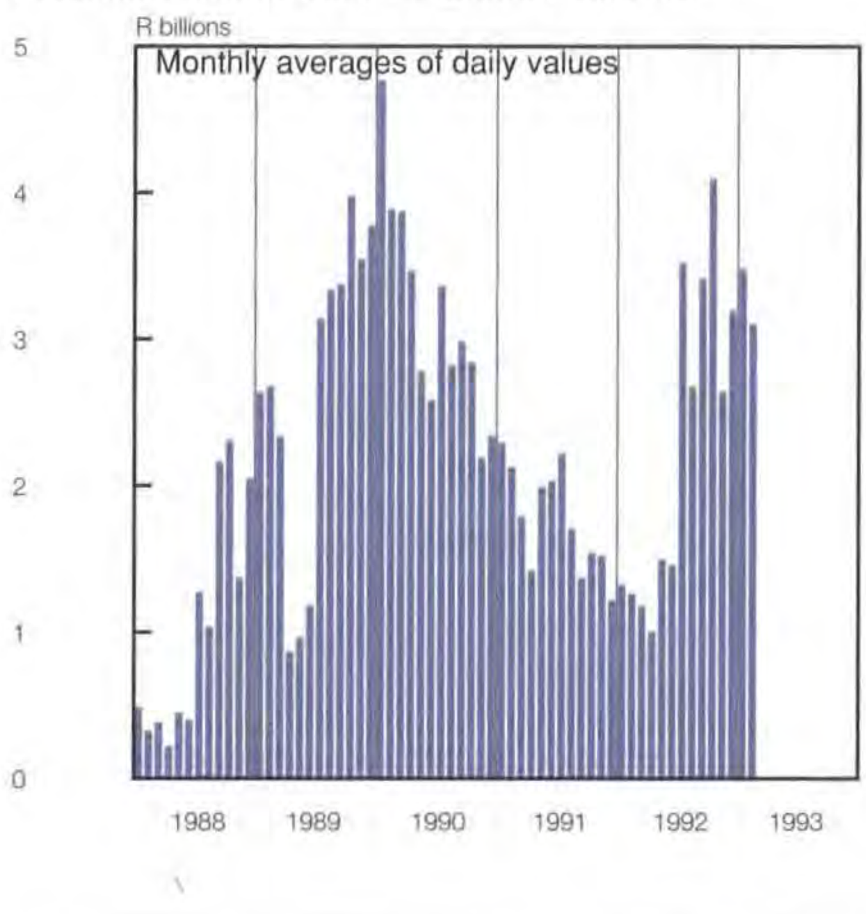
mortgage advances from deposit-taking institutions remained buoyant during 1992. Despite an actual significant decline in the nominal value of real estate transactions in 1992, the twelve-month growth rate in mortgage advances contracted only marginally from 18,0 per cent in December 1991 to 17,3 per cent in December 1992. This type of credit remained attractive to borrowers because of the flexibility of some of the mortgage schemes, which allow funds to be used for other purposes, and because of the comparatively low mortgage-lending interest rates, which improve the borrowers' cash flow position. The deposit-taking institutions also promoted this type of credit actively because of the low capital requirements applicable to these advances.

Money market conditions and Reserve Bank operations in the money market

Money market conditions, which had been relatively easy in the first four months of 1992 and had then tightened significantly in the next five months, remained tight during the fourth quarter of 1992 and in January 1993. The average daily level of accommodation at the discount window declined slightly from R1,2 billion in December 1991 to R1,0 billion in April 1992, but then increased to R4,1 billion in October. The average daily level of accommodation then declined to R2,7 billion in November before rising again to R3,5 billion in January 1993 and R3,1 billion in February. The amount of accommodation at month-ends decreased from R2,8 billion in December 1991 to R1,2 billion in February 1992 and increased again to R4,8 billion in September; it then declined to R3,8 billion in November and December 1992 and increased again to R4,5 billion in January 1993 and R4,6 billion in February.

As stated in the *Quarterly Bulletin* for December 1992, the tighter money market conditions in the period from May to October 1992 were mainly due to an increase in government deposits with the Reserve Bank, a decrease in the net gold and other foreign reserves, an increase in notes in circulation, the issuing of Reserve Bank bills, and the introduction of an additional cash reserve requirement on deposit-taking institutions. The slightly easier conditions in the last two months of 1992 were caused mainly by a decrease in government deposits with the Reserve

Accommodation at the discount window



Bank, which was partly offset by an increase in notes in circulation and a sharp decline in the net gold and other foreign reserves of the Reserve Bank. Subsequently, government deposits with the Reserve Bank rose again in the first two months of 1993 and this rise exceeded a decline in notes in circulation and in the foreign reserves of the Reserve Bank, with the result that money market conditions tightened again.

The *actions of the Reserve Bank* in the money market during 1992 were at first aimed at neutralising excess liquidity by means of foreign exchange intervention swaps, the issuing of special short-dated Treasury bills and the introduction of a supplementary cash reserve requirement on deposit-taking institutions. During the second half of 1992 the operations of the monetary authorities consisted mainly of neutralising short-term fluctuations by adjusting the asset portfolio of the Corporation for Public Deposits and sales of government stock for Exchequer funding. By means of the active management of the assets of the Corporation for Public Deposits, the Reserve Bank was able to smooth out seasonal changes in money market liquidity.

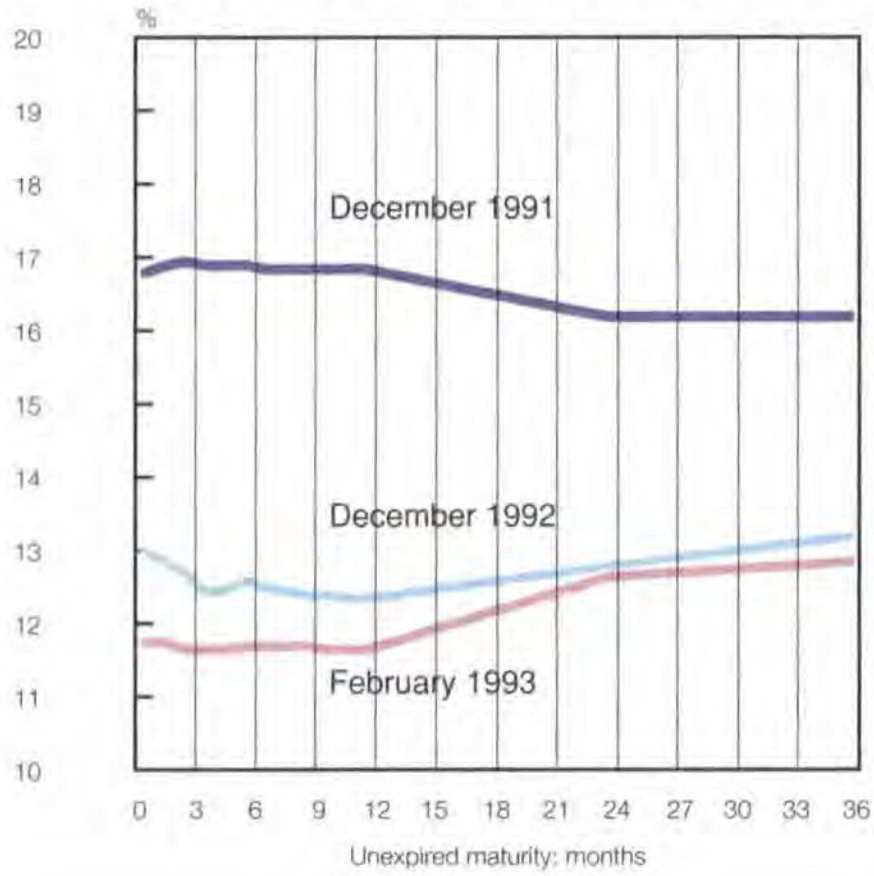
The Reserve Bank's transactions in government stock increased markedly in 1992 in a deliberate attempt to develop the market for this stock. Gross sales of government stock by the Bank came to no less than R112 billion in 1992, compared with R29 billion in 1991. This increased "liquidity" of government paper caused the yield on long-term government stock to move below the corresponding yield on Eskom stock during the course of 1992. Net sales of government stock rose from R11,6 billion in 1991 to R14,6 billion in 1992 as a reflection of the considerable increase in the deficit before borrowing of the Central Government.

Money market interest rates

Money market interest rates, which had decreased at a rapid rate during the first nine months of 1992, declined slightly further in the remainder of the year. This was clearly reflected in the rate on *three-month liquid bankers' acceptances*, which declined sharply from 16,40 per cent at the end of December 1991 to 12,55 per cent at the end of September 1992 and then only slightly further to 12,40 per cent at the end of December 1992. This rate then declined to 12,15 per cent at the end of January 1993 and further to 11,65 per cent on 9 February, following the reduction in Bank rate of one percentage point on that day; it then moved marginally downwards again to 11,60 per cent on 28 February 1993.

The declining tendency in money market interest rates during 1992 and early in 1993 is also illustrated by changes in the yield curves for negotiable certificates of deposit. As shown in the accompanying graph, the somewhat downward-sloping yield curve for *negotiable certificates of deposit* in December 1991 changed to an upward-sloping curve in December 1992 and in February 1993.

Yield curves for negotiable certificates of deposit



As already mentioned, the progress towards financial stability in 1992 permitted the Reserve Bank to lower Bank rate on three occasions during 1992 and again in February 1993 by one percentage point. The *prime lending rate* of deposit-taking institutions followed these reductions and was also reduced by 1 percentage point on three occasions during 1992, to 17,25 per cent from 23 November 1992. The reduction in Bank rate on 9 February 1993 again led to a one percentage point lowering of the prime lending rate to 16,25 per cent, with effective dates ranging from 15 February to 2 March 1993 at the various deposit-taking institutions.

The *inflation-adjusted prime lending rate* fluctuated around 3,5 per cent in the first eight months of 1992 and then increased to 5,9 per cent in October and 7,0 per cent in December because of the decline in the rate of inflation. At this level the real prime lending rate was higher than the most recent corresponding rates in Japan (3,9 per cent), the United Kingdom (5,3 per cent) and the United States of America (3,0 per cent), but well below the rate in Germany (9,4 per cent) and in France (7,8 per cent). It should, however, be taken into consideration that South Africa is still in the process of moving towards financial stability. The rate of inflation is still relatively high and various structural imbalances need to be addressed that may justify higher real interest rates than in countries where these adjustments have already been made.

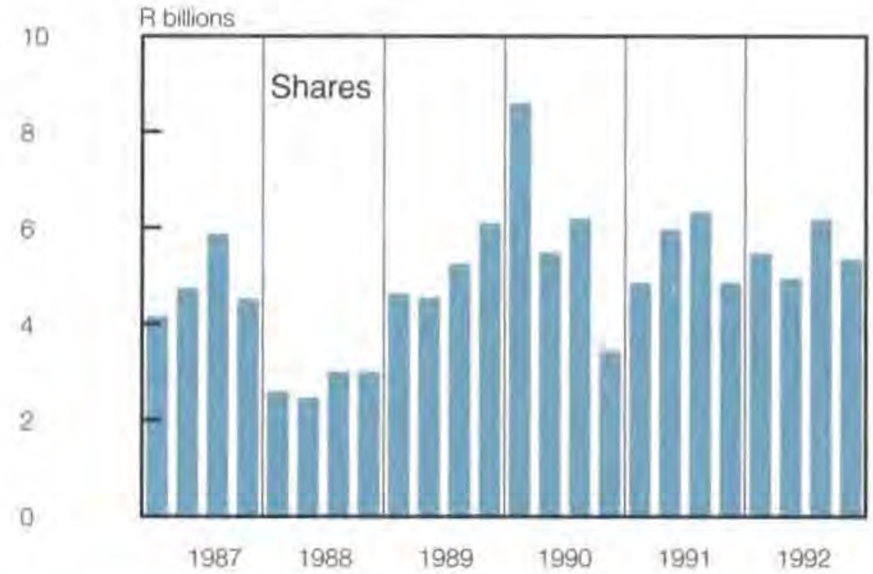
Capital market activity

Conditions in the *secondary capital market*, which had remained buoyant throughout the first nine months of 1992, were characterised by a slight decrease in trading activity in the fourth quarter of 1992. After having increased from R112,3 billion in the second quarter of 1992 to R218,3 billion in the third quarter, the value of *public-sector stock* traded on the Johannesburg Stock Exchange receded again to R131,1 billion in the fourth quarter. The annual turnover in these securities nevertheless amounted to no less than R551,2 billion in 1992, this being 121 per cent higher than in 1991. Trading in public-sector stock during 1992 was influenced considerably by portfolio adjustments of institutional investors in favour of these stocks because of their increased liquidity and relatively favourable yields.

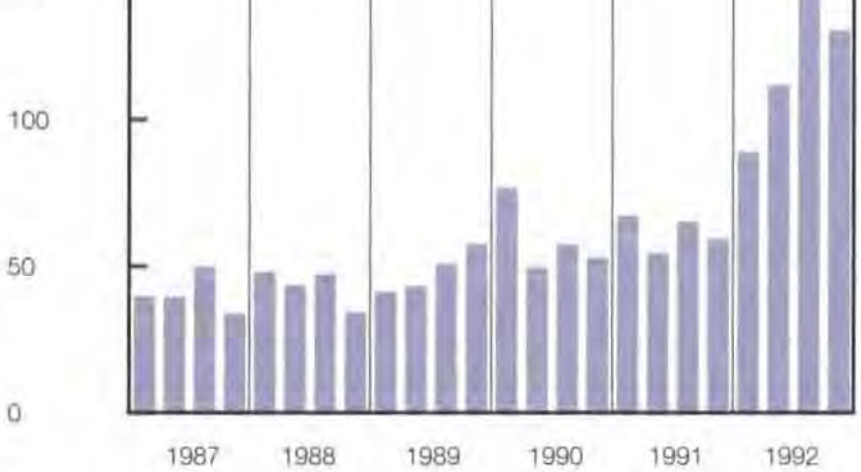
As a result of the lively bull market, an all-time monthly high of R79,3 billion was recorded in transactions in public sector stock in July 1992. Trading activity then receded slightly in the ensuing three months before the firming of the yield on long-term government stock towards the end of October caused the monthly value of public-sector stock traded to fall back even further to R24,8 billion in December. In January 1993, however, the value of public-sector stock traded increased sharply again to R60,1 billion, because market sentiment became more bullish on expectations of a further lowering of Bank rate.

The value of *shares* traded on the Johannesburg Stock Exchange increased from R5,0 billion in the second quarter of 1992 to R6,2 billion in the third quarter before decreasing to R5,4 billion in the fourth quarter. The total value of share transactions in 1992 amounted to R22,1 billion – about ½ per cent lower than the turnover in 1991. The contraction in the value of shares traded in 1992 was due to a decline in both the volume and prices of shares traded. The *number of shares* traded declined by 11 per cent from 2,5 billion in 1991 to 2,2 billion in 1992. Because this decline exceeded the fall in share prices, share turnover velocity (measured as the value of turnover as percentage of market capitalisation) also receded for the second consecutive year, from 3,8 per cent in 1991 to 3,4 per cent in 1992.

Stock exchange transactions



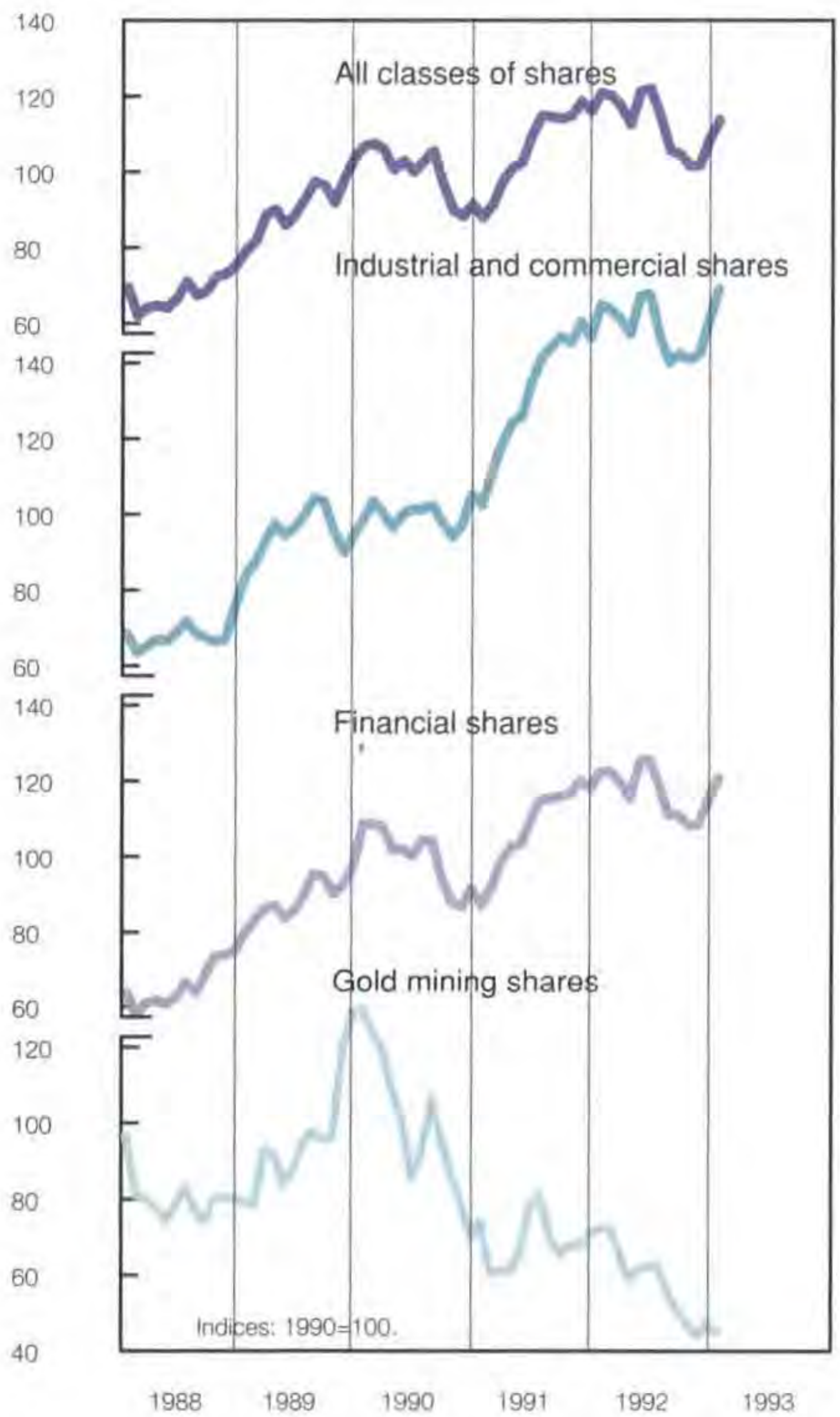
Stock exchange transactions



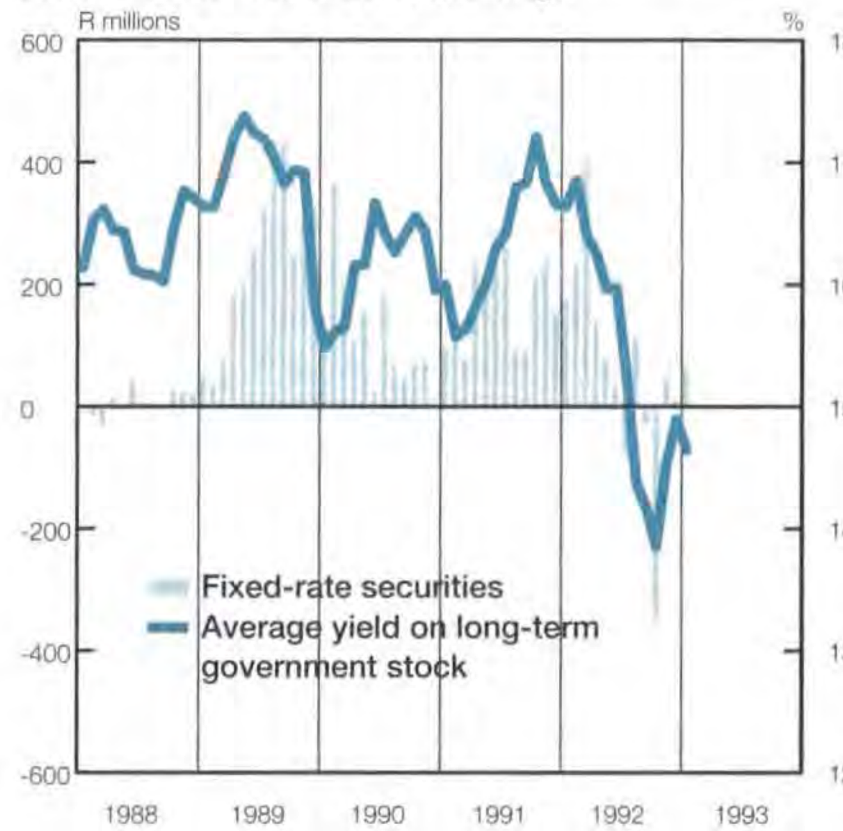
The average monthly *price level* of all classes of shares decreased by 16,7 per cent over the four-month period from July to October 1992; it then moved sideways in November before increasing by an impressive 6,7 per cent in December and by 4,6 per cent in January 1993. The recovery in share prices was visible in marked increases in the prices of industrial, commercial and financial shares. The prices of gold-mining shares also recovered in December 1992, but fell back again in January 1993 on the back of negative investor sentiment flowing from significant gold sales by European central banks. On 10 February 1993 gold share prices increased sharply after renewed overseas interest. However, the average price level of all classes of shares in January 1993 was 5,8 per cent lower than in January 1992, while the average price levels of gold-mining and other mining shares were 37,8 per cent and 22,9 per cent lower. The average price level of industrial and commercial shares, however, rose by 2,6 per cent measured over the same period.

Non-residents, who were net purchasers of public-sector stock and net sellers of shares in the first two

Share prices



Non-residents' net purchases of fixed-rate securities on the stock exchange

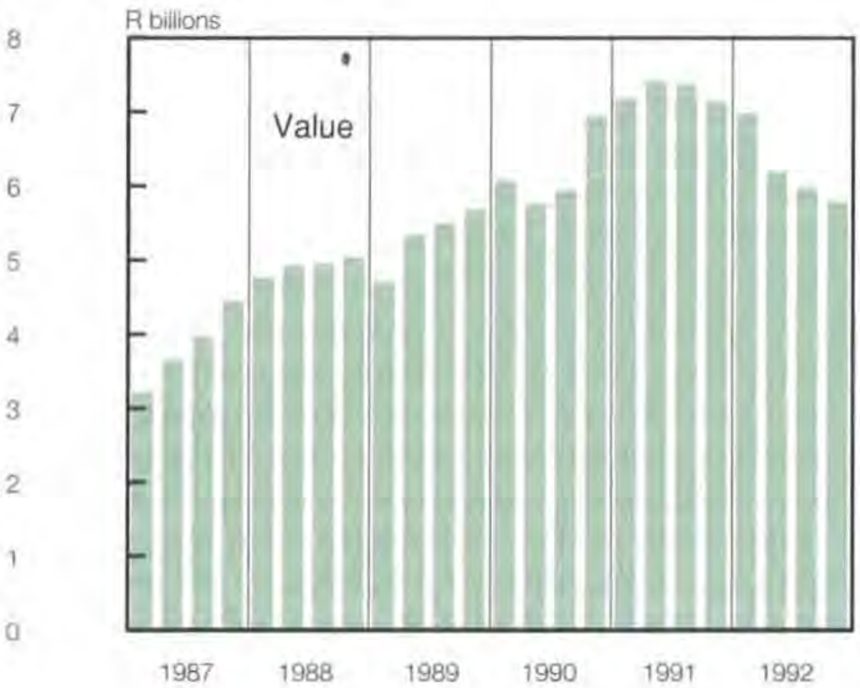


quarters of 1992, moved out of stock and into shares as from July, probably as a result of their perception that certain share prices had reached attractively low levels. In the fourth quarter of 1992 non-residents were consequently net sellers of public-sector stock to an amount of R299 million and net purchasers of shares to an amount of R424 million. Although net purchases of public-sector stock by non-residents decreased from R2,0 billion in 1991 to R0,8 billion in 1992, the sharp decrease in net sales of shares by non-residents from R4,1 billion in 1991 to only R0,5 billion resulted in non-residents being net purchasers of shares and stock to an amount of about R0,3 billion in 1992. This followed net sales of securities by non-residents of R3,0 billion and R2,1 billion in 1990 and 1991, respectively.

In the *primary capital markets* the amount of funds that borrowers in the public sector raised through new issues of *fixed-interest securities* amounted to R0,3 billion in the fourth quarter of 1992, compared with a net repayment of R1,1 billion in the third quarter; the largest part of the estimated public-sector borrowing requirement had already been met in the first quarter of the fiscal year 1992/93. The value of funds acquired by listed companies through new issues of fixed-interest securities, including convertible preference shares and debentures, amounted to R0,4 billion in the second quarter of 1992. No such issues were made during the period July to November 1992, but in December a single issue of corporate bonds amounting to R1 billion was made, which could pave the way for more such issues as it enables companies to "lock into" fixed-interest borrowings.

The value of new issues of ordinary *shares* by companies listed on the Johannesburg Stock Exchange, which had decreased from R2,9 billion in the first quarter of 1992 to a mere R11 million in the third quarter, increased sharply to R1,7 billion in the fourth quarter. For the year as a whole new issues of ordinary shares by listed companies declined by 21 per cent from R6,0 billion in 1991 to R4,7 billion in 1992. The extent to which corporate enterprises had recourse to the capital market during 1992 was greatly influenced by the conditions that prevailed in the share market during the year. With the sharp decrease in share prices in the third quarter, share issues also decreased. The subsequent moderate recovery in share prices led to somewhat higher issues in the fourth quarter.

Real estate transactions



In the *mortgage market* the net amount of mortgage advances paid out by deposit-taking institutions and mutual building societies increased from an average monthly amount of R1 billion in the third quarter of 1992 to R1,1 billion in the fourth quarter. The total holdings of mortgage loans of these institutions increased from R66,5 billion in December 1991 to R78,5 billion in December 1992.

The value of *real estate transactions* declined by 14,4 per cent from R29,1 billion in 1991 to R24,9 billion in 1992; the average number of transactions in fixed property contracted by 19,9 per cent, while the average price of property transactions rose by only 6,8 per cent. The deepening of the recession, a decline in personal disposable income, and increasing commercial property vacancies, caused the value of real estate transactions to decline from R7,0 billion in the first quarter of 1992 to R6,0 billion in the third quarter and further to R5,8 billion in the fourth quarter.

Although the value of transactions in *futures contracts* receded from R15,9 billion in the third quarter of 1992 to R13,8 billion in the fourth quarter, this was still higher than the quarterly average of R12,3 billion in 1992 and considerably higher than the quarterly average of R5,8 billion in 1991. Activity on the South African Futures Exchange also did not show a sharp seasonal decline during December 1992; transaction levels were kept high by the turn-about in share prices and uncertainty about the gold price. Contracts in share indices represented 88,9 per cent of the total value of futures contracts during 1992, compared with 66,1 per cent in 1991. Trade in options on futures contracts, which had commenced on the South African Futures Exchange on 16 October 1992, increased sharply in each of the ensuing months. The value of transactions in options on index futures more than doubled from R43,5 million in November 1992 to R88,3 million in January 1993 and it seems as if a significant part of the over-the-counter market has shifted to the exchange.

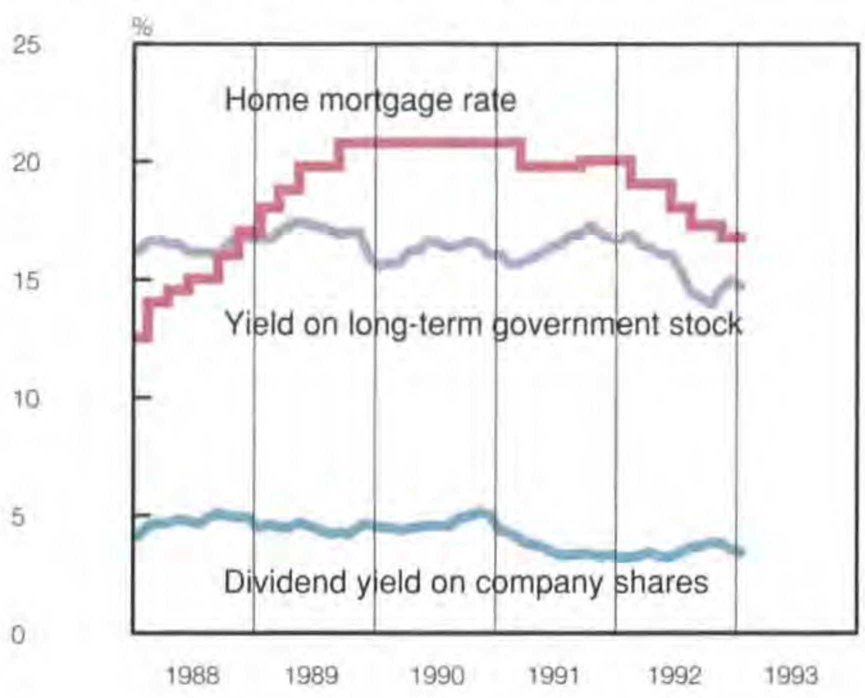
Activity on the Johannesburg Stock Exchange's *Traded Options Market*, however, decreased significantly from an average of 759 contracts with an underlying value of R3,1 million in the third quarter of 1992 to a mere 97 contracts with an underlying value of R0,5 million in the fourth quarter. During the last three weeks of December no share options were traded on the Traded Options Market, but 145 contracts with an underlying value of R0,9 million were traded in January 1993. In the bond market, gilt options were heavily traded throughout the second half of 1992 because of the increase in activity in the underlying market and divergent expectations regarding future developments.

Capital market yields and interest rates

Long-term interest rates, which had decreased during the first ten months of 1992, hardened in the last two months of the year. These higher rates on the capital market were mainly a reflection of the substantial increase in the borrowing requirement of the Central Government, the conversion of bank credit of the self-governing states into marketable stock debt, and the increasing net foreign sales of domestic loan stock.

After having declined quite rapidly from 16,9 per cent in February 1992 to 13,9 per cent in October, the average *yield on long-term government stock* rose to 14,9 per cent in December and softened slightly to

Capital market interest rates and yields



14,6 per cent in January 1993. These higher rates, and a decrease in the measured inflation rate, resulted in a rise of the monthly average *real* yield on government stock from a low of 0,1 per cent in August 1992 to 4,6 per cent in January 1993.

The deposit-taking institutions' *predominant mortgage bond rate* was reduced in four steps during 1992 from 20 per cent at the beginning of the year to 16,75 per cent on 1 December 1992. After the lowering of Bank rate on 9 February 1993, the mortgage bond rate was reduced further to 16,00 per cent from 1 March 1993. The deposit-taking institutions also lowered their longer-term deposit rates: the *twelve-month deposit rate* was reduced in five steps during 1992 from 15,5 per cent in March to 12,0 per cent in December and then further to 11,0 per cent in February 1993. Since this latter reduction once again equalled the decrease in the prime lending rate, the margin between the prime rate and the rate on twelve-month deposits remained at a relatively high level of 5,25 per cent. The twelve-month deposit rate provided depositors with a positive pre-tax real yield of 2,1 per cent in January 1993.

The *dividend yield* on all classes of shares, which had increased from 3,13 per cent in January 1992 to 3,76 per cent in October 1992, decreased to 3,36 per cent in January 1993, owing to a rise in share prices. The *earnings yield* on all classes of shares (excluding gold-mining shares) rose from 7,58 per cent in January 1992 to 8,35 per cent in October and then receded to 7,33 per cent in January 1993.

The maximum permissible *finance charges rates*, as laid down in terms of the Usury Act, were reduced with effect from 4 December 1992 from 28 per cent to 27 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 31 per cent to 30 per cent in respect of amounts of up to R6 000. These rates were reduced further on 22 January 1993 to 26 and 29 per cent, respectively. On 31 December 1992 the Minister of Finance announced that certain money lending transactions for amounts of less than R6 000 will be exempted from the provisions of the Usury Act. This step was taken in order to facilitate credit extension by financial institutions to the informal sector.

The *official rate of interest* as defined by the Income Tax Act (Act No 58 of 1962), was reduced by 2 percentage points to 15 per cent with effect from 1 January 1993. However, the *standard interest rate* applicable to loans granted by the State out of the State Revenue Fund (Exchequer Act, Act No 66 of 1975) was increased by 0,75 percentage points to 15,0 per cent with effect from 1 December 1992 and by a further 0,5 percentage points to 15,5 per cent with effect from 1 January 1993, before being reduced to 14,75 per cent with effect from 1 February 1993.

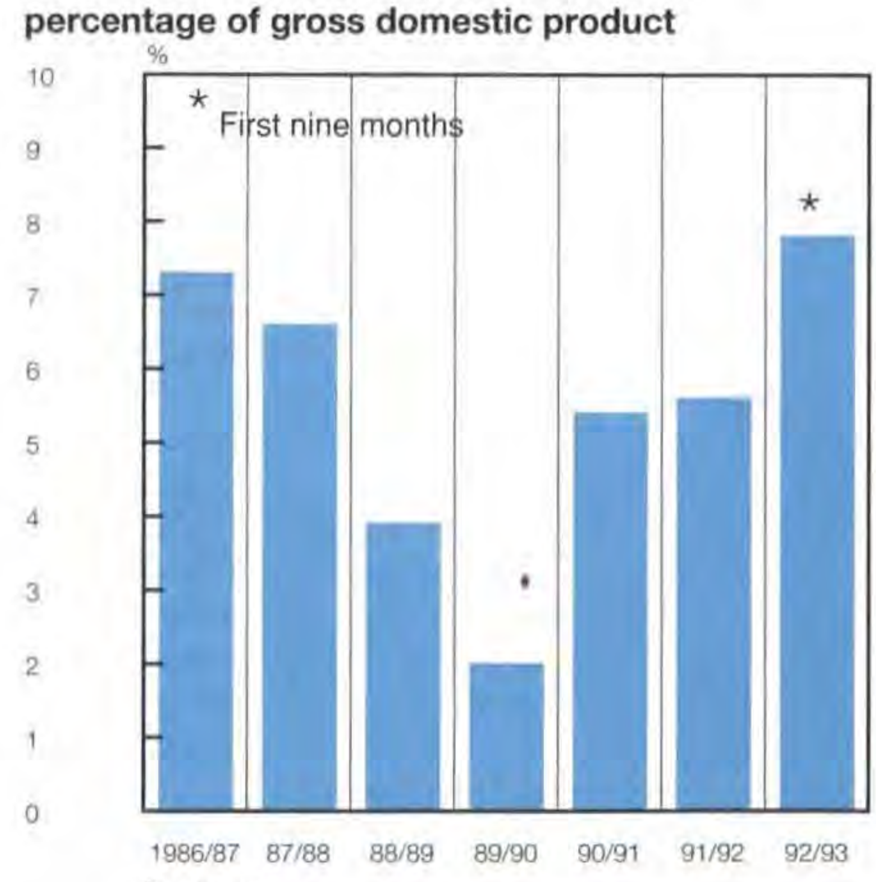
Public finance

Public-sector borrowing requirement

Fiscal policy continued to be more expansionary than originally intended during the first nine months of fiscal 1992/93, as was clearly reflected by a sharp increase in the *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the Consolidated Central Government, provincial administrations, local authorities and non-financial public enterprises). Although the public-sector borrowing requirement shrank from R8,9 billion in the September quarter of 1992 to R4,7 billion in the December quarter, it amounted to R19,4 billion in the first nine months of fiscal 1992/93, or to about 70 per cent more than in the corresponding period of the preceding year. As a ratio of gross domestic product, the public-sector borrowing requirement in the first nine months of fiscal 1992/93 was equal to 7,8 per cent; in the same period of fiscal 1991/92 this ratio had already been regarded as high at 4,9 per cent.

The sharp increase in the public-sector borrowing requirement during the first nine months of fiscal 1992/93 could be attributed to the higher borrowing requirement of *general government*. This was due in particular to the deterioration in the deficit before borrowing in the Main Budget, with expenditure remaining on high levels and income performing well below expectations.

Public-sector borrowing requirement as percentage of gross domestic product

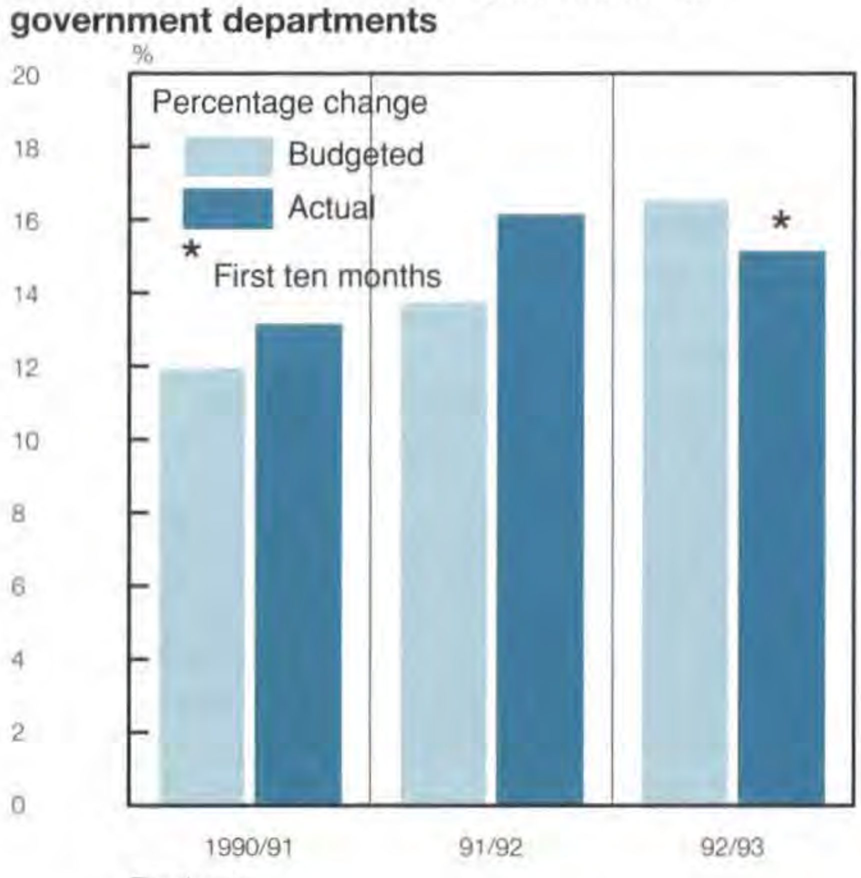


Exchequer account

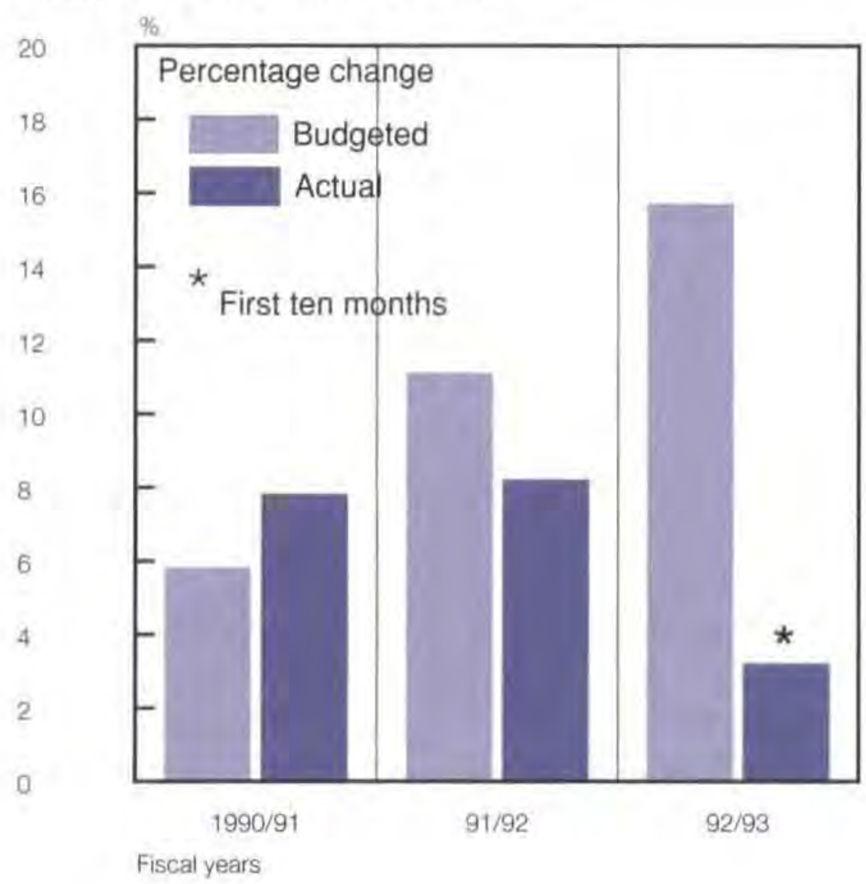
The year-on-year rate of increase in *Exchequer issues* (after the usual adjustment for changes in the balance on the Paymaster-General Account), which had accelerated sharply from 13,0 per cent in the June quarter of fiscal 1992/93 to 18,6 per cent in the September quarter, slowed down to 17,8 per cent in the December quarter. In the first nine months of fiscal 1992/93 Exchequer issues were, therefore, 16,5 per cent above the level reached in the corresponding period of the previous year, this rate of increase being about 3 percentage points higher than the year-on-year rate of increase in the consumer price index. Real gross domestic product declined during the same period, with the result that Exchequer issues in relation to gross domestic product increased to 30,0 per cent in the first nine months of fiscal 1992/93. This ratio was substantially higher than the level of 28,0 per cent in the corresponding period of the preceding year and than the average level of 25,2 per cent in the 1980s.

In January 1993 Exchequer issues rose only moderately further. This brought the year-on-year rate of increase in these issues in the first ten months of fiscal 1992/93 to 15,1 per cent. This rate was still below the Budgetary provision of an increase of 16,5 per cent for fiscal 1992/93 as a whole. Exchequer issues in the first ten months of fiscal 1992/93, at 80,7 per cent of total Budget expenditure, were also below the share of 83,1 per cent in the corresponding period of the preceding year and marginally lower than the average ratio of 81,8 per cent for the first ten months of the preceding five fiscal years.

Budgeted and actual exchequer issues to government departments



Budgeted and actual revenue



After having receded from 8,9 per cent in the first quarter of fiscal 1992/93 to a low level of only 1,0 per cent in the second quarter, the year-on-year rate of increase in *Exchequer receipts* (excluding the proceeds from privatisation) rose moderately to 5,0 per cent in

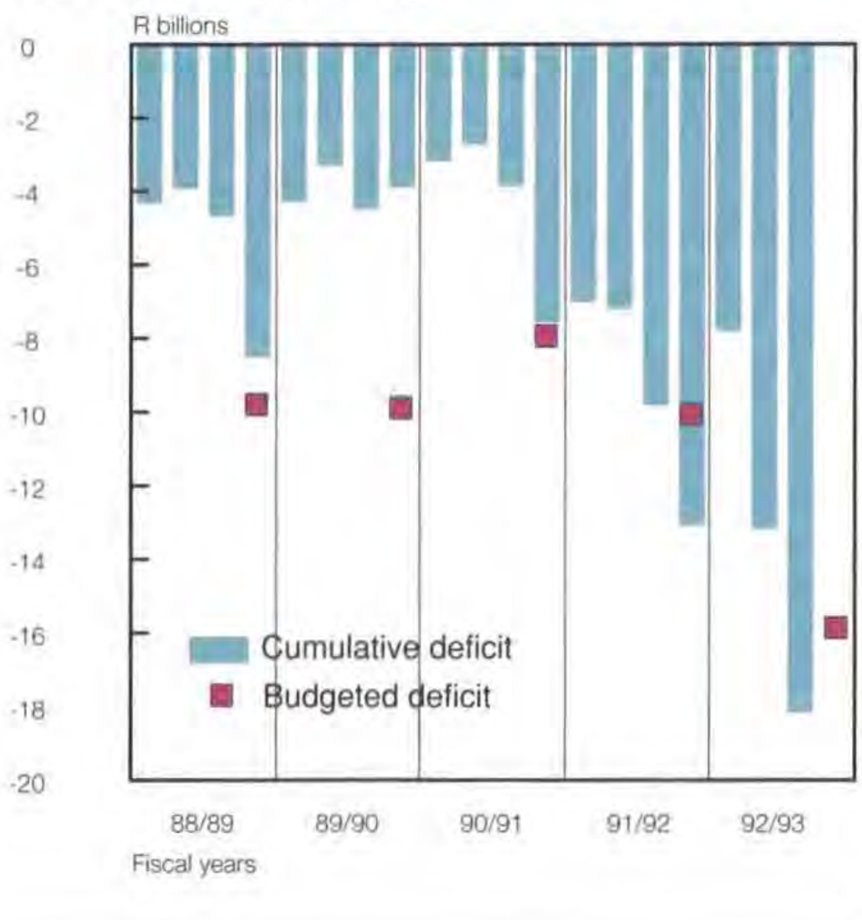
Year-on-year rate of increase in Exchequer receipts
%

	Budgeted for the fiscal year 1992/93	Receipts in first nine months of fiscal 1992/93
Income tax from individuals	22,5	14,4
Income tax from companies	5,4	–16,7
Value-added tax	12,1	–7,2
Customs and excise duties	28,4	32,0
Total Exchequer receipts	**15,7**	**4,5**

the third quarter. Revenue collections in January 1993 were even lower than in January 1992, with the result that the rate of increase in these receipts amounted to only 3,2 per cent in the first ten months of fiscal 1992/93 compared with the corresponding period of the preceding year. In the Budget it had been projected that revenue would increase by 15,7 per cent for the fiscal year as a whole.

This substantial shortfall in Exchequer receipts could to a large extent be ascribed to the prolonged and severe downturn in economic activity, but it probably also reflected serious shortcomings in the tax structure of the country and some difficulties experienced with the collection of taxes. In particular, the receipts from value-added tax were considerably lower than envisaged in the Budget. In addition, income tax receipts rose at a relatively low rate, reflecting lower than expected proceeds from personal income tax and a decrease in tax collected from companies in comparison with the same period in the preceding year. However, the increase in revenue from customs and excise duties, at a year-on-year rate of 32,0 per cent in the first nine months of fiscal 1992/93, was slightly higher than the budgeted increase of 28,4 per cent for the fiscal year as a whole. This favourable outcome was the combined result of higher than expected receipts from the fuel levy and from excise duties, which more than offset the lower than budgeted income derived from customs duties and the surcharge on imports.

Deficit before borrowing



The relatively small increase in Exchequer receipts, combined with a sharp rise in Exchequer issues, led to a *deficit on the Exchequer Account* before borrowing and debt repayment of R4 993 million in the December quarter of fiscal 1992/93. This brought the Exchequer deficit before borrowing and debt repayment in the first nine months of fiscal 1992/93 to R18 189 million, or to 14,2 per cent more than the budgeted deficit of R15 927 million for the fiscal year as a whole. As a ratio of gross domestic product, the Exchequer deficit before borrowing and debt repayment in the first nine months of fiscal 1992/93 was equal to 7,3 per cent, which was also considerably higher than the ratio of 4,5 per cent that had been foreseen in the Budget for the fiscal year as a whole.

The Exchequer deficit for the first *nine* months of fiscal 1992/93, including the discount on new government stock issues, was *financed* by funds obtained from:

	R millions
Public Investment Commissioners	12 350
Non-monetary private sector	11 763
Monetary institutions	1 805
Foreign sector	907
Total gross financing	26 825
Less: Discount on new government stock	2 859
Less: Transfer to Gold and Foreign Exchange Contingency Reserve Account	3 777
Transfer to Civil Services Pension Fund	2 000
Total net financing	**18 189**

The *financial instruments* utilised in financing the Exchequer deficit of R18 373 million in the first ten months of fiscal 1992/93, including the discount on new government stock, were as follows:

	R millions
Government stock (including discount)	24 485
Treasury bills	2 495
Foreign loans	569
Non-marketable securities	29
Increase in available cash balance	-128
Total financing	27 432
Less: Transfers	5 777
Less: Discount on new government stock	3 282
Total net financing	**18 373**

From this information it is apparent that a substantial increase occurred in the use of Treasury bills to finance the Exchequer deficit. This was specifically undertaken to assist the Reserve Bank in its endeavours to make Treasury bills the main instrument for accommodation purposes.

Additional Budget

In his presentation of the Additional Budget for fiscal 1992/93 to Parliament on 15 February 1993, the Minister of State Expenditure stated that an additional amount of R6,5 billion would have to be appropriated for the current fiscal year, including R2,4 billion for drought relief. The estimated overspending resulting from normal activities of government departments should amount to only R0,8 billion, or to 0,8 per cent of the amount originally budgeted. The additional expenditure brings the revised expenditure figure for fiscal 1992/93 to R104,9 billion.

Exchequer receipts (excluding the proceeds from privatisation) are expected to amount to R75,1 billion for fiscal 1992/93 as a whole. This means that the deficit before borrowing and debt repayment for fiscal 1992/93 could reach R29,8 billion, or approximately 9,0 per cent of the projected gross domestic product.