

Quarterly economic review

Introduction

South Africa's prolonged recession of more than four years bottomed out in 1993 and the economy recovered somewhat during the course of the year. This is clearly illustrated by both the composite leading business cycle indicator, which showed a steep upward movement from the beginning of 1993, and the coincident indicator, which rose fairly sharply in the second half of the year. After having declined for three consecutive calendar years, real gross domestic product began to rise in the beginning of 1993 and based on present indications the growth rate could reach some 3 per cent in 1994.

A substantial increase in the volume of merchandise exports and net gold exports made a major contribution to this revival in economic activity. The quantity of goods exported increased by no less than 6 per cent in 1993 – considerably in excess of the growth in world trade. Pronounced increases were recorded in the exports of manufactured goods, indicating that the current level of the exchange rate of the rand enables South African manufacturers to compete successfully in international markets. The good export performance more than

neutralised an increase in merchandise imports related to rising domestic expenditure, and a comfortable surplus was therefore maintained on the current account of the balance of payments throughout 1993.

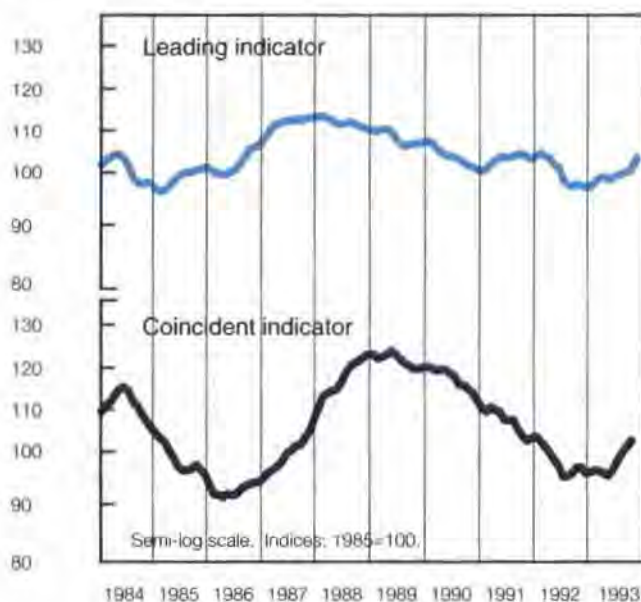
In addition to this remarkable export performance, the mainstay of the economic recovery has been a substantial increase in agricultural production; this followed one of the most severe droughts in South Africa's history. Not only did favourable weather conditions directly cause a higher agricultural output, but through backward and forward linkages the agricultural sector also had a significant indirect effect on domestic production. In the second half of 1993 the increase in economic activity became more widely dispersed and growth was recorded in the real value added by mining, manufacturing, electricity, gas and water, commerce and finance.

An improvement in consumer confidence and a rise in real personal disposable income initially led to a revival in the expenditure on non-durable goods, which rapidly spread to most of the other main categories of consumer goods and services. After having declined for no less than seven consecutive quarters, real private consumption expenditure therefore began to increase from the beginning of 1993. Real capital formation also recovered in the second half of the year, following a period of contraction that had lasted for about 3½ years. The total fixed capital stock of the country nevertheless remained virtually unchanged in 1993, and the capital stock of sectors such as agriculture, mining, electricity, construction and transport actually declined.

The economic recovery was accompanied by a sharp increase in the gross operating surplus amounting to 11½ per cent in 1993. Although this increase was largely related to a rise in the income of farmers, the operating surpluses of most of the other sectors also rose sharply. A sharp increase was particularly evident in the gross operating surpluses of gold mines because of the higher rand price of gold.

Considerable progress was also made during 1993 in realising the objective of financial stability. The rates of increase in both the production and consumer price index declined to levels last attained in the early 1970s. Adherence to a conservative monetary policy, and disintermediation practices, caused the growth in the monetary aggregates to remain subdued during most of 1993. The rates of increase in money supply and bank credit extension generally reached very low levels during the first half of 1993, but then accelerated somewhat towards the end of the year. This brought the growth (measured over twelve months) in the broadly defined money supply (M3) to within the money supply guideline range of 6-9 per cent.

Composite business cycle indicators



Conditions in the money market generally remained tight during 1993, largely because of a substantial decrease in the net foreign assets (including gold) of the Reserve Bank. The Bank prevented conditions from becoming too tight by injecting additional liquidity in the domestic money market. In view of the relatively tight conditions and expected interest rate movements, the decline in money market interest rates, which had already started at the beginning of 1990, continued during 1993 but took place at a much slower pace than in 1992.

Activities on the Johannesburg Stock Exchange, the bond market and the South African Futures Exchange remained buoyant throughout 1993. A decline in the inflation rate, the turn-about in economic activity and a sharp increase in net purchases of securities by non-residents served to fuel a strengthening bull market. Share and stock prices accordingly increased considerably. The market for fixed property also improved significantly in the second half of 1993. The success that was achieved with the reduction of the inflation rate, in conjunction with a decline in overseas interest rates and continued net foreign purchases of domestic loan stock, led to a sharp decrease in long-term interest rates and yields during the course of 1993.

The revival of economic activity and the attainment of greater financial stability in the economy were restricted by a continued large net outflow of capital not related to reserves. Owing largely to political uncertainty, the ongoing internal unrest, pressure on the exchange rate of the rand, a relatively strong US dollar internationally and the relatively high cost of foreign borrowing on international capital markets, a net outflow of capital of no less than R16,3 billion was registered in 1993. Over 90 per cent of this net capital outflow was in the form of short-term capital, i.e. capital with an original maturity of one year or less, and errors and unrecorded transactions.

These large capital outflows caused the net gold and other foreign reserves of the country to decrease by R10,3 billion in 1993. In order to support the level of the foreign reserves and the exchange rate of the rand, the monetary authorities made drawings of R7,1 billion on foreign credit facilities (including an IMF loan) in 1993. As a result of these drawings, the gross gold and other foreign reserves of South Africa declined only marginally. In the first two months of 1994 this position seems to have improved considerably, as reflected in an increase of R1,1 billion in the net foreign reserves of the Reserve Bank, even though a repayment of R1,7 billion was made by South African debtors on foreign debt in terms of the final arrangements with foreign creditor banks.

Despite borrowing by the authorities, the nominal effective exchange rate of the rand declined by 8,7 per cent in 1993, compared with 4,4 per cent in 1992. This sharp drop in the nominal effective exchange rate of the rand exceeded the inflation differential between South Africa and its main trading partners; the real effective exchange rate of the rand therefore also declined by 4,9 per cent in 1993.

The government exercised considerable financial restraint in 1993 and for the second consecutive year real government consumption expenditure increased by less than ½ per cent, compared with an average annual rate of 4 per cent in the 1980s. The Exchequer deficit before borrowing and debt repayment as a ratio of gross domestic product accordingly amounted to 7,3 per cent in the first nine months of fiscal 1993/94, i.e. fairly close to the level of the deficit budgeted for the year as a whole. Although this is a considerable improvement in comparison with the preceding year, the present level of the government deficit is still clearly unsustainable in the long run and, if maintained, will lead to a sharp rise in government debt.

Efforts by the Central Government and parastatal organisations to curtail increases in current expenditure caused the total employment by public authorities to decrease sharply in 1993. Private-sector employment also decreased in the first quarter of 1993, but there are indications that retrenchments may have bottomed out in the second half of 1993. The sharp reductions in employment in the formal sectors of the economy since the second quarter of 1989 have offset increases in employment in the preceding six years. This means that no net additional employment has been provided in the formal non-agricultural sectors of the economy over the past ten years.

Domestic economic developments

Domestic output

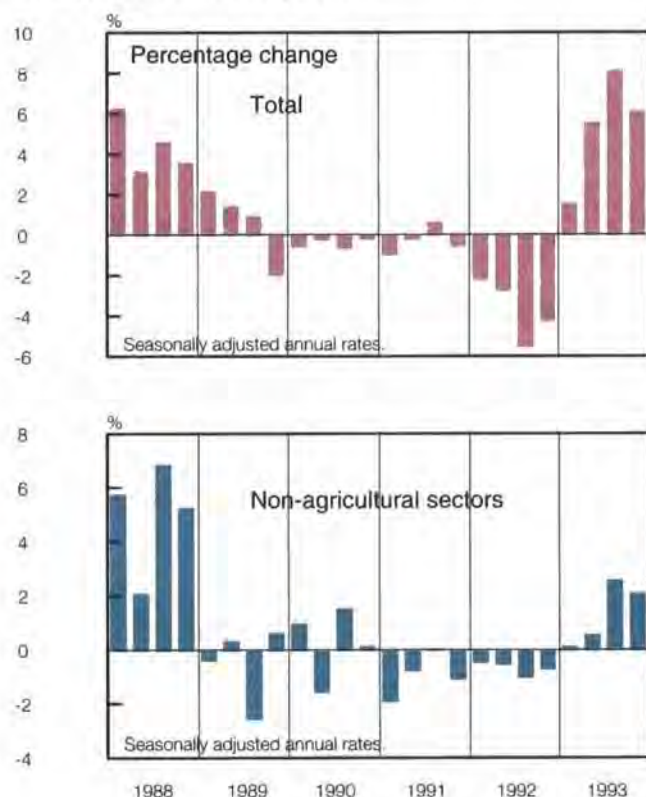
After having declined almost uninterruptedly from the first quarter of 1989 to the fourth quarter of 1992, the level of real economic activity bottomed out and recovered markedly during the course of 1993. The seasonally adjusted and annualised rate of increase in *real gross domestic product* accelerated from 1½ per cent in the first quarter of 1993 to 5½ and 8 per cent in the next two quarters and then amounted to a still high provisional level of 6 per cent in the fourth quarter. In 1993 as a whole the increase in real gross domestic product was approximately 1 per cent; this was the first year of positive growth in the 1990s.

The recovery in domestic output during 1993 was to a large extent the result of favourable weather conditions which led to a rise of 17½ per cent in real *agricultural output*. Maize production in particular trebled from 3 million tons in 1992 to about 9 million tons in 1993. Wheat production also rose substantially over the same period, viz. from 1,3 to 1,9 million tons. Agricultural output did not only make an important direct contribution

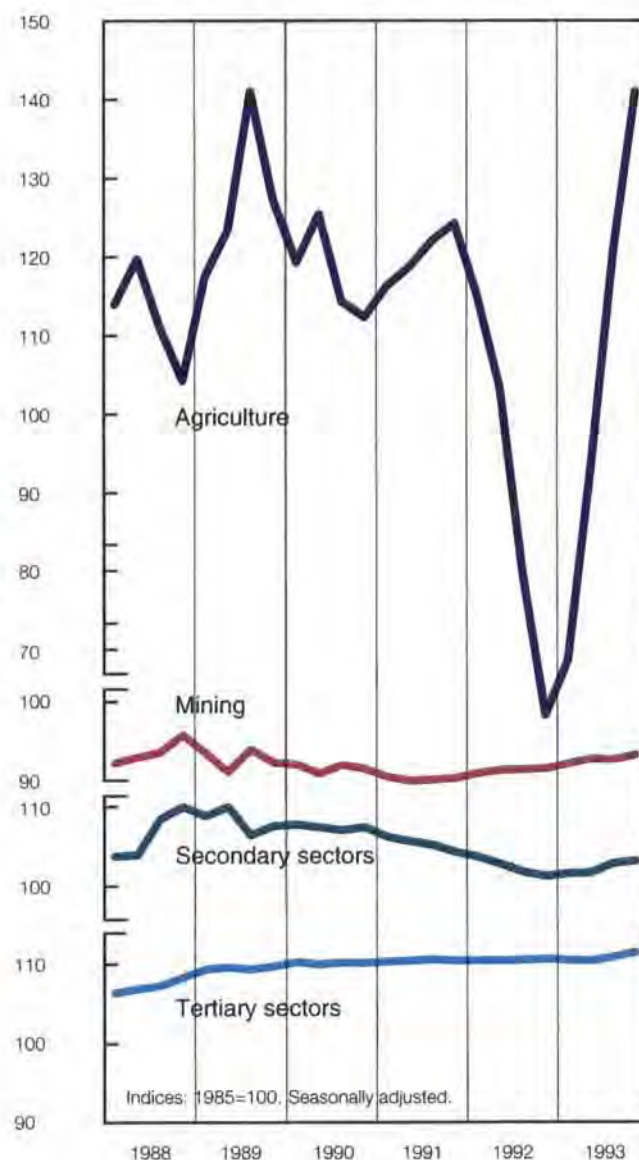
to economic recovery, but through backward and forward linkages also raised domestic production indirectly.

If agricultural production is excluded, the total real output of the *non-agricultural sectors* rose by ½ per cent in 1993; in the preceding year the output of these sectors had contracted by ½ per cent. Moreover, production in the non-agricultural sectors already began to pick up from the beginning of 1993. Fairly marginal annualised rates of increase of ½ per cent in the first two quarters of 1993 were followed by much higher levels of 2½ and 2 per cent in the last two quarters of the year. The economic recovery in the second half of 1993 was

Real gross domestic product



Components of real gross domestic product



also broadly based and embraced a number of economic sectors. In fact, in the fourth quarter of 1993 all the main economic sectors recorded positive growth rates.

Real output by the *mining industry*, which had increased at an average annualised rate of 2½ per cent in the first two quarters of 1993 and had declined by ½ per cent in the third quarter, rose again at an annualised rate of 2½ per cent in the fourth quarter. The real production of the mining industry increased by 1½ per cent in the calendar year 1993, compared with an increase of 1 per cent in 1992. Only the real output of diamond mining contracted in 1993, namely by 5½ per cent; in 1992 diamond production had advanced by no less than 17 per cent. This reversal was mainly due to deliberate cutbacks in production in some of the less cost-effective and older diamond mines in 1993.

Although showing a somewhat erratic pattern, *manufacturing output* also increased in 1993. Real output in the manufacturing sector increased at an annualised rate of 1½ per cent in the first quarter, declined marginally in the second quarter and surged ahead by nearly 5 per cent in the third quarter; in the fourth quarter it edged up by less than ½ per cent. The increase in the average real value added by manufacturing in 1993 as a whole was virtually equal to that of the preceding year. The improvement in the real value added by the manufacturing sector reflected an increase in the output by almost all the sub-sectors and was probably related to the commencement of several major capital projects, the buoyancy in the agricultural sector, an increase in consumer and foreign demand for manufactured goods and the replenishment of inventories.

The quarterly real output of the sector *electricity, gas and water* rose strongly throughout 1993 at annualised rates varying between 5 and 7 per cent. In calendar 1993 a relatively high growth rate of 3½ per cent was recorded in this sector. In contrast to the other secondary sectors, the real value added by the *construction industry* moved up only marginally in the second half of 1993 and the level for the full calendar year was still below that of the preceding year.

The growth in the real value added by the *tertiary sector*, which had generally remained positive throughout the downturn in economic activity, turned negative in the first two quarters of 1993; it then rose sharply at an average rate of 2 per cent in the last two quarters of the year. The net result of these changes was that the real value added by the services sector in 1993 as a whole rose by about ½ per cent.

The strengthening of domestic demand was probably the main factor responsible for the revival of the tertiary sector. An increase in foreign trade and the handling of the sizeable agricultural crop also contributed to the sharp rise in the real value added by the sector providing transport, storage and communication services, while a steady rise in real personal disposable income and the

need to replace motor vehicles were instrumental in bringing about a relatively high growth rate in the commercial sector during the second half of 1993.

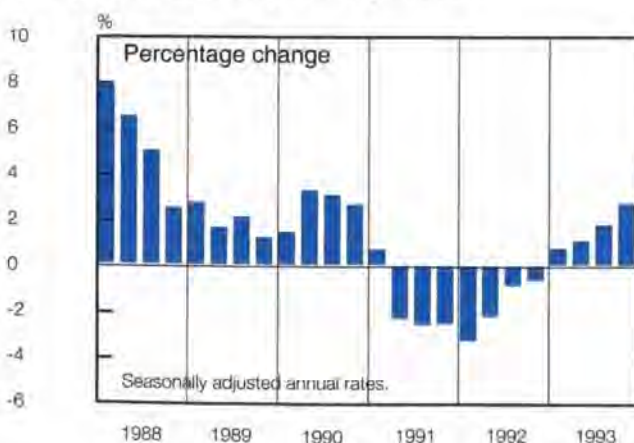
After having receded by more than 2 per cent in 1992, real gross national product rose throughout 1993 and for the year as a whole was 1½ per cent higher than in the preceding year. This increase in the *real gross national product* was caused by higher domestic output levels and a strengthening of South Africa's terms of trade, which more than offset an increase in real net factor payments to non-residents. If population growth is taken into consideration, the real gross national product per capita still declined by almost 1 per cent in 1993. This is also an improvement compared with the rates of decrease of 2 and 4½ per cent recorded in 1991 and 1992.

Domestic expenditure

Aggregate real gross domestic expenditure, which had fluctuated considerably in the recession of 1989 to 1993, increased sharply at a revised annualised rate of 12½ per cent in the third quarter of 1993 and a provisionally estimated 11½ per cent in the fourth quarter. For the calendar year 1993 aggregate real gross domestic expenditure rose by ½ per cent; in 1992 it had still declined by about 1 per cent. The moderate increase in domestic expenditure reflected an increase in real consumption expenditure combined with a moderate building-up of inventories, while real gross domestic fixed investment also began to rise in the second half of 1993.

Real private consumption expenditure started to increase in the first quarter of 1993 following decreases in seven consecutive quarters. The annualised rate of increase in real private consumption expenditure rose markedly from 1 per cent in the first quarter of 1993 to more than 2½ per cent in the fourth quarter. As a result

Real private consumption expenditure



of these increases, private consumption in 1993 as a whole rose by approximately $\frac{1}{2}$ per cent. This higher consumption benefited from:

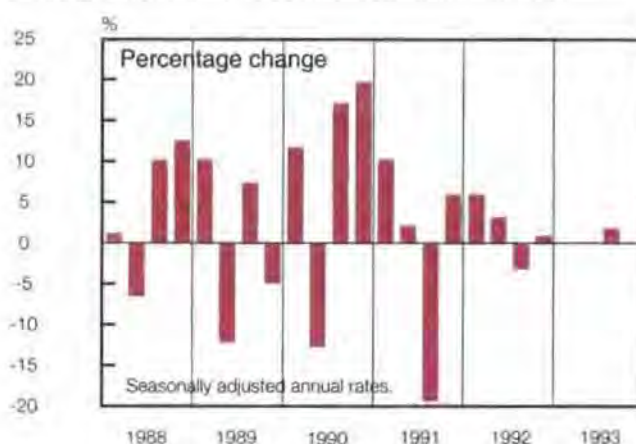
- an increase in real income from the property of households because of improved agricultural conditions;
- a rise in total real personal disposable income, which accelerated from an annualised rate of $1\frac{1}{2}$ per cent in the first two quarters of 1993 to 2 and $2\frac{1}{2}$ per cent in the last two quarters;
- a reduction in the banks' mortgage bond rates, which enhanced the discretionary spending options of households;
- an increase in consumer confidence related to the significant progress made in the negotiations towards a new political dispensation; and
- preliminary indications suggesting that retrenchments may have bottomed out in the second half of 1993.

As shown in the accompanying table, this revival in real private consumption expenditure at first occurred mainly in increased expenditure on non-durable goods. In the second half of 1993, however, it spread quickly to most of the other main categories of consumer goods and services.

For the second consecutive year *real consumption expenditure by general government* rose by less than $\frac{1}{2}$ per cent in 1993. This rate of growth can be compared with $2\frac{1}{2}$ per cent in 1990, 5 per cent in 1991 and an average annual rate of 4 per cent in the 1980s. The fiscal discipline was discernible in both expenditure on intermediate goods and services and in the remuneration of employees.

After having contracted for fourteen consecutive quarters until the second quarter of 1993, *real gross domestic fixed investment* rose at an annualised rate of $1\frac{1}{2}$ per cent in the third quarter and approximately $3\frac{1}{2}$ per cent in the fourth quarter. This acceleration in the growth of fixed investment could be attributed mainly to increases in real capital formation by the private sector and public authorities, which more than offset a moderate decrease in real capital expenditure by public corporations. The rise in capital expenditure by the

Real government consumption expenditure



private sector reflected higher outlays on machinery and equipment financed by way of leasing contracts by financial enterprises, the start of expenditure on major capital projects in the manufacturing sector and a replenishment of capital stock by the agricultural community.

In 1993 as a whole real fixed capital formation still decreased by 4 per cent, following decreases of $8\frac{1}{2}$ and 10 per cent recorded in 1991 and 1992. Although the rate of decline in capital formation slowed down considerably in 1993, the total fixed capital stock showed almost no growth for the first time since the Second World War and the real capital stock of sectors such as agriculture, mining, electricity, gas and water, construction and transport, storage and communication declined.

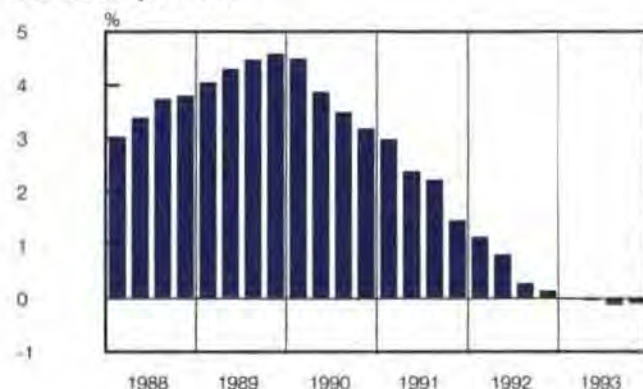
In accordance with the higher domestic demand, an accumulation of *inventories* was reported in both the third and fourth quarter of 1993. This followed a period of an almost uninterrupted drawing-down of total inventories

Real private consumption expenditure by main category

Quarterly percentage change at an annualised rate

	1993				
	1st qr	2nd qr	3rd qr	4th qr	Year
Durable goods	$-\frac{1}{2}$	0	$1\frac{1}{2}$	$3\frac{1}{2}$	$-1\frac{1}{2}$
Semi-durable goods	$\frac{1}{2}$	1	$1\frac{1}{2}$	3	$1\frac{1}{2}$
Non-durable goods	$1\frac{1}{2}$	2	$2\frac{1}{2}$	$2\frac{1}{2}$	0
Services	0	0	$\frac{1}{2}$	$\frac{1}{2}$	1
Total	1	1	2	$2\frac{1}{2}$	$\frac{1}{2}$

Net fixed investment as percentage of gross domestic product



from the second half of 1989. In the calendar year 1993 real investment in inventories rose by R1,2 billion, against substantial decreases in the preceding three years. However, as a ratio of gross domestic product, industrial and commercial inventories continued to move downwards from 17 per cent in the first two quarters of 1993 to about 16½ per cent in the fourth quarter.

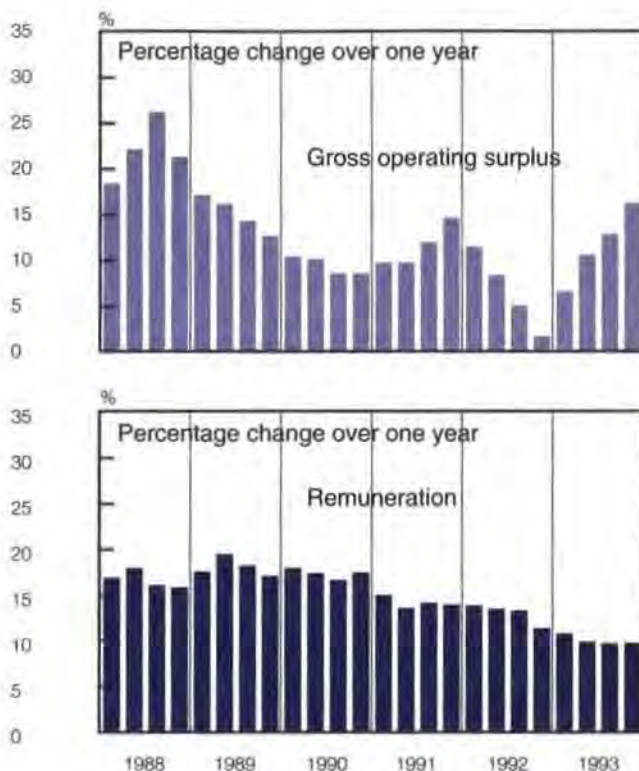
Factor income

The growth in *total nominal factor income* at market prices and over a period of twelve months, rose moderately from a low of 8 per cent in the fourth quarter of 1992 to 13½ per cent in the fourth quarter of 1993. The rate of increase in factor income therefore edged up from 10 per cent in 1992 to 11½ per cent in 1993. This moderate increase in factor income was recorded in a period of considerably lower inflation and was the net result of a sharp rise in the rate of increase in the gross operating surplus, which more than neutralised a slowdown in the rate of increase in remuneration of employees.

The percentage change over one year in the *gross operating surplus* advanced from an average of about 3½ per cent in the last half of 1992 to 14½ per cent in the corresponding period of 1993. For 1993 the gross operating surplus increased by 11½ per cent, which is considerably higher than the increase of 6½ per cent in 1992. This sharp increase was largely related to a sharp increase in the income of farmers. If the agricultural sector is excluded, the gross operating surplus nevertheless rose by 10½ per cent in 1993. Although most of the major sectors contributed to this increase, the gross operating surplus of the gold mines rose particularly sharply with the increase in the rand price of gold.

The rate of increase over four quarters in *nominal remuneration of employees* receded from 11½ per cent in the fourth quarter of 1992 to 9½ per cent in both the third

Gross operating surplus and labour remuneration



and fourth quarter of 1993. Over a full calendar year the rate of increase in total salaries and wages decreased from 13 per cent in 1992 to 10 per cent in 1993. This slower growth in the remuneration of employees was evident in all the major sectors of the economy.

Domestic saving

As a result of the sharp increase in domestic expenditure in the last half of 1993, the ratio of gross domestic saving to gross domestic product receded from 17½ per cent in the second quarter of 1993 to 16½ per cent in both the third and fourth quarter. At 16½ per cent for the calendar year 1993, the domestic savings ratio remained more or less at the level of the preceding year.

The lower savings ratio in the second half of 1993 was the result of a still relatively high level of dissaving by general government and a decrease in net saving by the private sector as a percentage of gross domestic product. Although the government remained a net dissaver, the level of government dissaving in the last half of 1993 was 21 per cent lower than in the last half of 1992. The net saving of the private sector also rose strongly over the same period owing to increases in the gross operating surpluses of incorporated business enterprises and a rise in income from property received by households.

Employment

Total employment in the formal *non-agricultural sectors* was severely influenced by the recession of 1989 to 1993, as well as by rationalisation programmes which led to labour shedding. Employment decreased by 5.9 per cent, or by about 350 000 people, from the first quarter of 1989 to the first quarter of 1993 (latest information made available by the Central Statistical Service). The total number of workers employed in the formal non-agricultural sectors of the economy at the end of the first quarter of 1993 was therefore more or less equal to the number employed at the end of the first quarter of 1983. In other words, no additional employment opportunities were provided in the formal non-agricultural sectors of the economy over the past ten years.

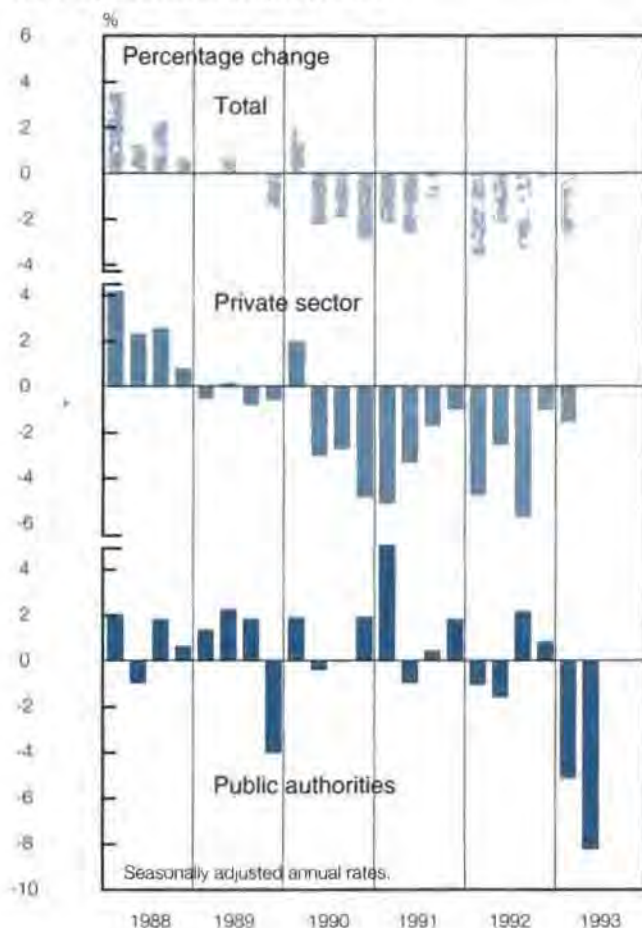
The decline in total employment was attributable to personnel reductions in the *private sector*. Total employment in the private sector started to decline in the third quarter of 1989 and, with the exception of the first quarter of 1990, declined in every subsequent quarter up to the first quarter of 1993. Moreover, the quarter-to-

quarter rate of decline accelerated sharply from a seasonally adjusted and annualised rate of 1.0 per cent in the fourth quarter of 1991 to 5.7 per cent in the third quarter of 1992; only then did it slow down to 1.0 and 1.6 per cent in the next two quarters. Information available for the second quarter of 1993 indicates a continued reduction in the work force of the private sector, despite increases in the employment by the motor trade, banks and the insurance industry.

Employment by *public authorities* rose, on balance, by 2.5 per cent from the first quarter of 1989 to the fourth quarter of 1992. During the first two quarters of 1993, however, efforts by the Central Government and parastatal organisations to curtail increases in current expenditure caused the total employment by public authorities to decline at seasonally adjusted and annualised rates of 5.1 and 8.2 per cent. The level of total employment by public authorities in the second quarter of 1993 was accordingly 0.7 per cent lower than in the first quarter of 1989. Subsequently, the level of employment by public authorities remained unchanged in the third quarter, owing largely to a relatively large increase in the employment of the independent states.

The severe effect of the cyclical downswing on the labour market is also confirmed by a sharp increase in the number of *registered unemployed workers*. During the first ten months of 1993 the average level of registered unemployed persons was 12.5 per cent higher than in the corresponding period of 1992. In October 1993 the seasonally adjusted total number of registered unemployed amounted to 319 000 persons.

Non-agricultural employment



Labour costs and productivity

The rate of increase in the average *nominal remuneration per worker* in the non-agricultural sectors of the economy declined from a peak of 18.3 per cent in 1989 to 15.2 per cent in 1992. The rate of increase over four quarters in average salaries and wages per worker receded even more sharply from 19.4 per cent in the second quarter of 1990 to only 12.2 per cent in the first quarter of 1993. Despite this decline, the rate of increase in nominal labour remuneration per worker was still relatively high, taking inflation rates and the over-supply of workers into consideration. These high rates of increase could mainly be ascribed to the retrenchment of a large number of unskilled workers, causing a decline in the ratio of unskilled to skilled workers in formal-sector employment and thus higher average salaries and wages per worker.

At first the slower growth in total labour remuneration per worker was mainly due to a decrease in the growth of average salaries and wages per worker in the private sector: the growth over four quarters in nominal remuneration per worker in the private sector fell from 18.5 per cent in the first quarter of 1990 to 12.7 per cent in the first quarter of 1993 and, according to available information, probably even further in the second quarter. However, the rate of increase in the nominal remuneration per worker employed by public authorities

also dropped substantially from 22,5 per cent in the first quarter of 1991 to the low levels of 7,0 per cent in the second quarter of 1993 and 7,6 per cent in the third quarter.

The *real remuneration per worker* in the non-agricultural sectors of the economy (as deflated by the price deflator for the non-agricultural gross domestic product) continued to rise throughout the recession until the first quarter of 1993. However, in accordance with the slower growth in nominal remuneration, the growth rate over four quarters in the real remuneration per worker slowed down significantly from 3,5 per cent in the second quarter of 1992 to 1,3 per cent in the first quarter of 1993.

The retrenchment of a sizeable number of workers and a decrease in the number of man-days lost owing to strikes and work stoppages were responsible for an acceleration in the rate of increase in non-agricultural *labour productivity* from 0,5 per cent in 1990 to 1,4 per cent in both 1991 and 1992. The rate of increase over four quarters in the real production per worker in the non-

agricultural sectors also rose from 0,5 per cent in the fourth quarter of 1991 to 1,8 per cent in the fourth quarter of 1992 and 1,7 per cent in the first quarter of 1993.

The lower rates of increase in the nominal remuneration of workers and the rise in labour productivity brought the rate of increase in nominal *unit labour costs* down from 17,2 per cent in 1989 to 13,6 per cent in 1992. The year-on-year rate of increase in nominal unit labour costs declined even more significantly from a peak of 19,8 per cent in the fourth quarter of 1989 to only 10,3 per cent in the first quarter of 1993 – the lowest rate of increase in nominal unit labour costs since 1985. Despite these lower increases in nominal costs, the change in real unit labour costs remained positive until the end of 1992. However, in the first quarter of 1993 real unit labour costs (measured over twelve months) declined by 0,4 per cent.

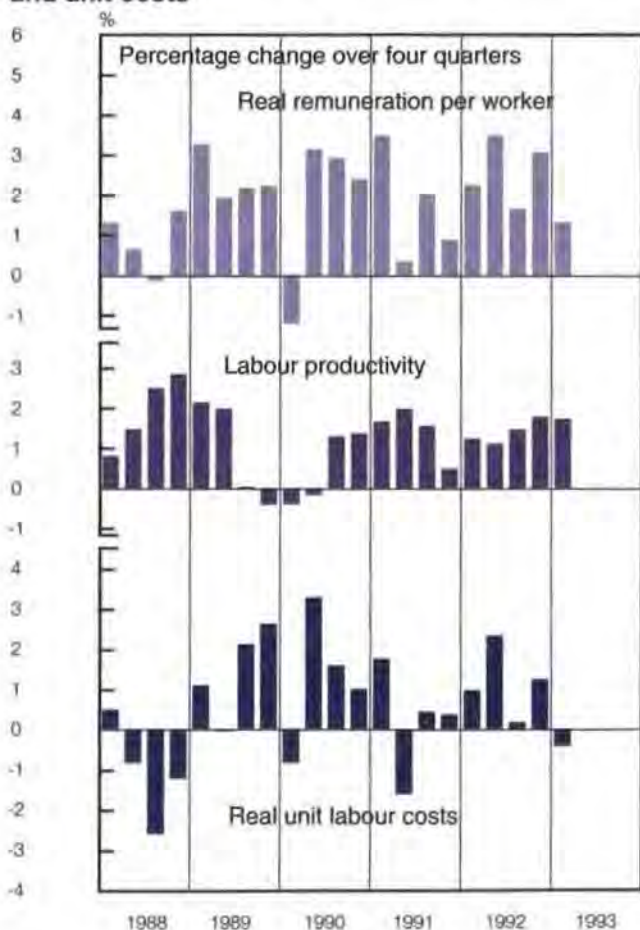
Prices

The lower rates of increase in unit labour costs, the conservative monetary policy pursued by the authorities, the relative stability in the external value of the rand, the lack of demand pressures and improved agricultural conditions combined to bear inflationary pressures down. This caused the rate of increase of the consumer price index to slow down to single-digit levels in 1993, while the rate of increase in the production price index remained relatively low.

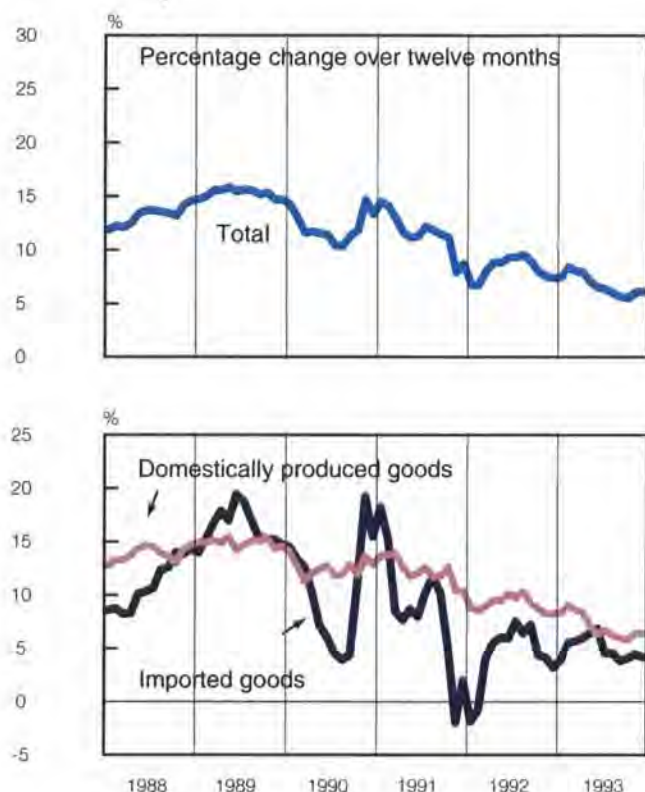
The rate of increase in the all-goods *production price index* declined substantially from its most recent high point of 15,2 per cent in 1989 to only 6,6 per cent in 1993 – its lowest level since 1971. The rate of increase over twelve months in the production price index had already reached a single-digit level of 9,7 per cent in November 1991 and remained under 10 per cent in the ensuing period. In October 1993 this rate of increase reached the low level of 5,4 per cent before rising again somewhat to 6,0 per cent in November and December 1993.

Although the *prices of imported goods* rose at somewhat higher rates in 1993 than in 1992 owing to the sharper depreciation of the rand, these price increases have dampened the inflation in the overall production price index virtually uninterrupted since the beginning of 1991. The rate of increase over periods of twelve months in the prices of imported goods dropped from 19,1 per cent in November 1990 to negative rates towards the end of 1991 and the beginning of 1992; it then accelerated to 7,5 per cent in July 1992 and fluctuated around this level in the ensuing period. The rate of increase over periods of twelve months in the prices of imported goods receded again recently from 6,8 per cent in June 1993 to 4,1 per cent in December. For the calendar year 1993 the rate of increase in the prices of imported goods amounted to 5,0 per cent, as opposed to 4,2 per cent in 1992 and 16,3 per cent in 1989.

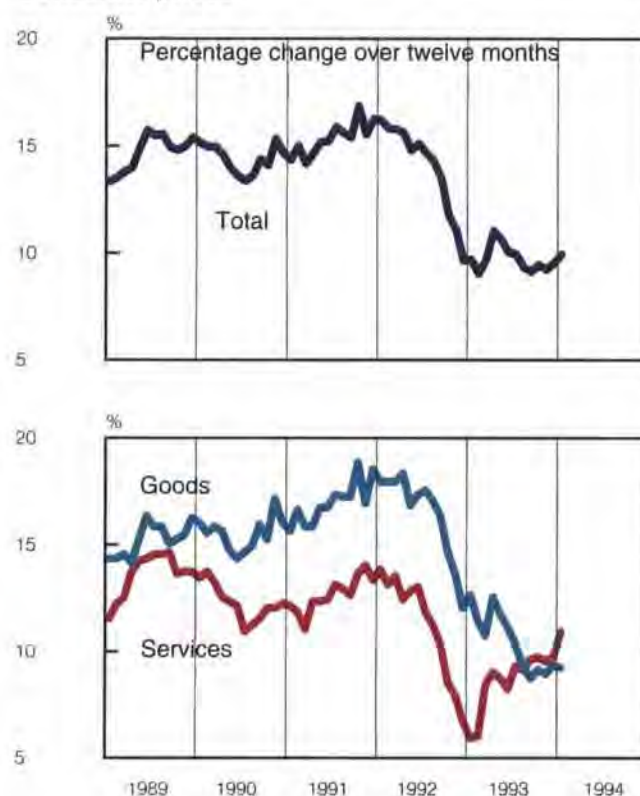
Non-agricultural labour productivity, remuneration and unit costs



Production prices



Consumer prices



After having reached a peak of 13,9 per cent in March 1991, the rate of increase over periods of twelve months in the *prices of domestically produced goods* declined significantly in the subsequent months. During the course of 1993 this rate of increase in the prices of domestically produced goods dropped yet further from 9,0 per cent in February to 5,7 per cent in October, before rising again somewhat to 6,3 per cent in December. The average rate of increase in the prices of domestically produced goods therefore slowed down from 14,9 per cent in 1989 to 7,0 per cent in 1993.

The rate of increase over periods of twelve months in the overall *consumer price index* only reached its most recent high point towards the end of 1991. In contrast with the production price index, this rate of increase in the consumer price index declined only moderately at first from 16,8 per cent in October 1991 to 15,1 per cent in June 1992; only then did it drop rapidly to 9,6 per cent in December 1992 and even further to 9,0 per cent in February 1993. This rate of increase then rose again to 11,0 per cent in April, before fluctuating downwards to 9,1 per cent in September 1993; it then accelerated somewhat to 9,9 per cent in January 1994.

For the first year since 1973, a single-digit rate of inflation in the consumer price index was therefore

recorded in 1993, viz. 9,7 per cent. From April 1993 (the month during which value-added and other indirect taxes were increased) until January 1994 the seasonally adjusted and annualised rate of increase in the consumer price index came to only 7,4 per cent.

Slower increases in the prices of both consumer goods and services contributed to the lower rate of inflation in consumer prices during 1993. However, the rate of increase in the prices of consumer services over a period of twelve months recently showed a distinct upward movement from a low of 5,9 per cent in January 1993 to 10,9 per cent in January 1994. In contrast with this development, the rate of increase over a period of twelve months in the prices of consumer goods decreased on balance from 12,5 per cent in April 1993 to 9,2 per cent in January 1994.

Foreign trade and payments

Current account

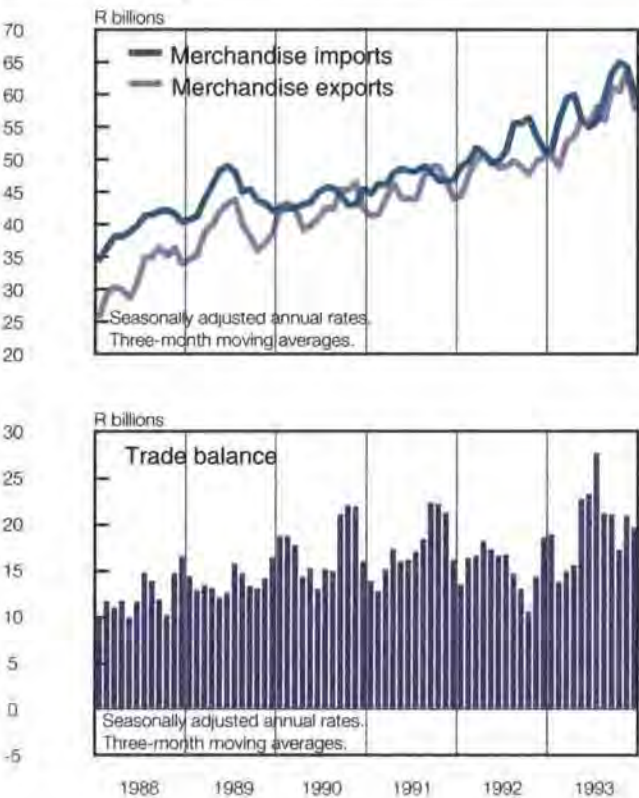
Notwithstanding the recovery in economic activity during the course of 1993, the *surplus on the current account* of the balance of payments remained relatively large. Taken at a seasonally adjusted and annualised rate, the current account balance contracted only moderately from an average quarterly level of R6,2 billion in the first half of 1993 to R6,0 billion in the third quarter and R5,3 billion in the fourth quarter. For 1993 as a whole the surplus on the current account amounted to R5,9 billion – significantly more than the surplus of R3,9 billion in 1992. As a percentage of gross domestic product, the surplus on the current account rose from 1,2 per cent in 1992 to 1,6 per cent in 1993.

The only slight downward movement in the surplus on the current account during 1993 took place despite a sharp rise in the value of merchandise imports and in net service and transfer payments to non-residents. This relatively strong current account performance was the combined result of a substantial rise in the value of merchandise exports and net gold exports.

The value of *merchandise exports* (seasonally adjusted and annualised) rose from R48,6 billion in the first quarter of 1993 to no less than R63,6 billion in the fourth quarter. For 1993 as a whole the total value of merchandise exports increased by 14½ per cent, against 9½ per cent in the preceding year. The sharp rise in merchandise exports in 1993 was to a large extent related to higher export prices, which rose by 8 per cent because of the depreciation of the rand. International commodity prices were generally depressed and only started to edge upwards slightly towards the end of the year.

The volume of merchandise exports also performed exceptionally well in 1993 and rose by 6 per cent, thereby exceeding the growth in world trade of 3 per cent by a considerable margin. In particular, the exports of manufactured products rose sharply. As a percentage of

Balance of payments: Trade account



total merchandise exports, manufactured products have now increased their share consistently from 15,7 per cent in 1989 to 23,9 per cent in 1993 – an indication that the level of the exchange rate of the rand still allows South African manufacturers to compete successfully in international markets. The continued strong performance of manufactured exports is probably also a reflection of

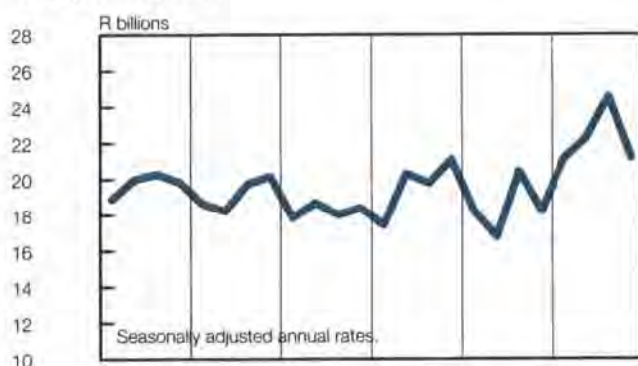
Balance of payments on current account

Seasonally adjusted annual rates

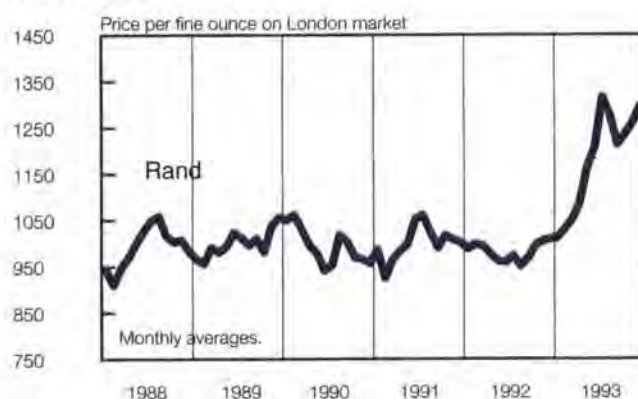
R billions

	1992					1993	
	Year	1st qr	2nd qr	3rd qr	4th qr	Year	
Merchandise exports.....	49,0	48,6	56,2	55,8	63,6	56,1	
Net gold exports	18,4	21,0	22,2	24,5	21,2	22,2	
Merchandise imports.....	-51,9	-56,1	-55,8	-59,3	-64,0	-58,8	
Net service and transfer payments	-11,6	-11,7	-12,0	-15,0	-15,5	-13,6	
Balance on current account	3,9	1,8	10,6	6,0	5,3	5,9	

Net gold exports



Gold price



the low level of domestic demand, which is prompting manufacturers to seek other outlets for their goods.

After having risen persistently from a seasonally adjusted and annualised value of R18,2 billion in the fourth quarter of 1992 to an exceptionally high R24,5 billion in the third quarter of 1993, *net gold exports* declined to a still high level of R21,2 billion in the fourth quarter. The value of net gold exports therefore increased by 21 per cent in 1993; in the four-year period from 1988 to 1992 the value of net gold exports had declined at an average annual rate of approximately 2 per cent. A rise in the rand price of gold was mainly responsible for the increase in 1993, while the average dollar price of gold was, at US\$360 per fine ounce, only slightly higher than in 1992. The volume of net gold exports rose by about 4 per cent in 1993, mainly reflecting an increase in the grade of ore milled.

As could be expected in view of the substantial rise in domestic expenditure in the second half of 1993, the value of *merchandise imports* (seasonally adjusted and annualised) increased from R55,8 billion in the second quarter of 1993 to R59,3 billion in the third quarter and R64,0 billion in the fourth quarter. For the year as a whole

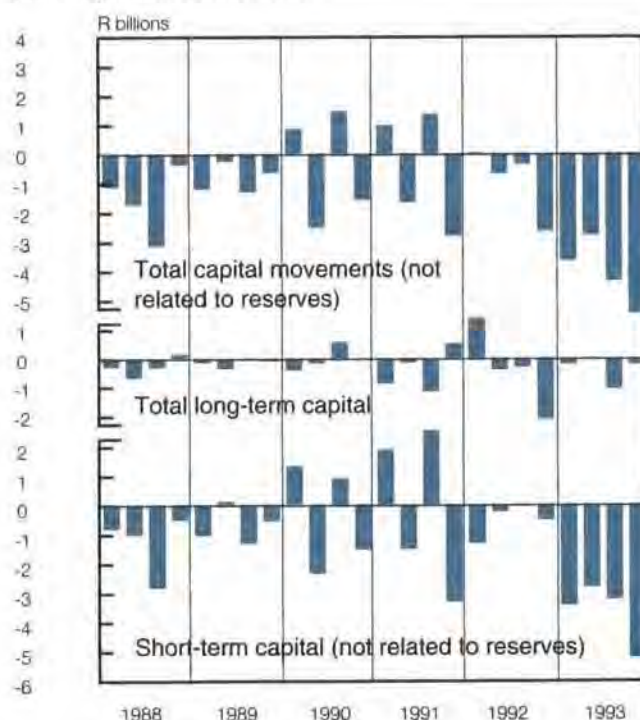
the value of merchandise imports rose by 13½ per cent, consisting of increases of 9 per cent in the prices and 4 per cent in the volume of imported goods. Pronounced increases were registered in the categories machinery and electrical equipment and transport equipment, which offset a sharp decrease in the imports of agricultural products.

Net service and transfer payments to non-residents increased gradually from a seasonally adjusted and annualised value of R11,7 billion in the first quarter of 1993 to R15,0 billion in the third quarter and even further to R15,5 billion in the fourth quarter. The increasingly larger deficit on the services account in 1993 was due to an increase in service payments to non-residents, which exceeded the increase in the value of services rendered to them. The sharp rise in service payments was, in turn, largely the result of higher tourist and travelling expenses by South Africans, higher payments for freight and merchandise insurance and a significant increase in interest payments to non-residents, reflecting large foreign investments through the financial-rand system in South African securities.

Capital movements

The alarmingly large total *net outflow of capital* not related to reserves (as redefined to include the foreign short-term liabilities of the private monetary sector), which had amounted to R10,8 billion in the first nine months of 1993, continued in the fourth quarter. Owing largely to

Net capital movements



Net capital movements (not related to reserves)*

R millions

	1992	1993				
	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Long-term capital						
Public authorities.....	2 092	-119	-597	-738	-619	-2 073
Public corporations	1 050	-526	-132	-140	-876	-1 674
Private sector	-4 653	441	750	-224	1 280	2 247
Total long-term capital	-1 511	-204	21	-1 102	-215	-1 500
Short-term capital not related to reserves						
Monetary sector	3 306	-1 799	-1 033	652	-629	-2 809
Other, including unrecorded transactions	-5 468	-1 652	-1 787	-3 900	-4 625	-11 964
Total capital movements, excluding liabilities related to reserves.....	-3 673	-3 655	-2 799	-4 350	-5 469	-16 273

* Redefined to include the foreign short-term liabilities of the private monetary sector.

political and social uncertainty, the ongoing internal unrest, pressure on the exchange rate of the rand combined with a relatively strong US dollar, and the practice of some foreign banks to reduce their outstanding claims on non-residents at the end of their financial years, a net outflow of capital of no less than R5,5 billion was recorded in the fourth quarter of 1993; this level was somewhat higher than the net outflow of R4,4 billion in the third quarter of 1993.

As in the previous quarters, the continued large net outflow of capital in the fourth quarter of 1993 again occurred mainly in *short-term capital*, including errors and unrecorded transactions. The net outflow of short-term capital not related to reserves increased from R3,2 billion in the third quarter of 1993 to R5,3 billion in the fourth quarter. The net outflow of *long-term capital*, on the other hand, contracted from R1,1 billion to R0,2 billion over the same period.

For the calendar year 1993 as a whole a net outflow of R16,3 billion was registered, which was substantially higher than the net outflow of R3,7 billion in 1992; the cumulative net outflow of capital since 1985 now adds up to R49 billion. Over 90 per cent of the net capital outflow in 1993 was in the form of short-term capital, i.e. capital with an original maturity of one year or less. A large part of this short-term capital outflow was due to a decline in the financial rand balances with banks because of net purchases of securities by non-residents.

The net outflow of long-term capital of R1,5 billion consisted largely of repayments on foreign loans by *public authorities and public corporations*. Owing to the relatively high cost of foreign borrowing vis-à-vis domestic borrowing, these institutions were reluctant to

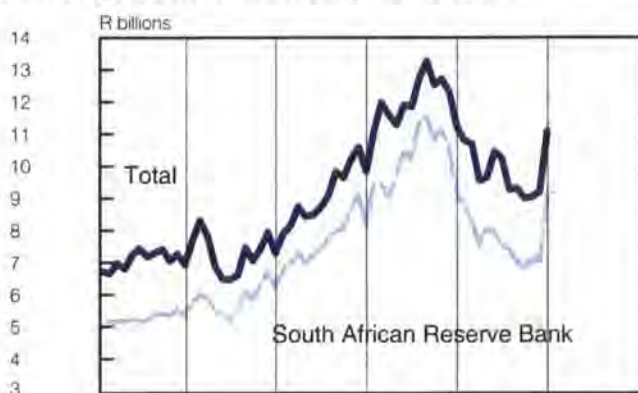
roll over debt falling due to non-residents. No less than R1,6 billion on bearer bonds and notes and R1,8 billion on loans guaranteed by foreign governments were therefore redeemed in 1993. These institutions and the *private sector* also made net repayments of R0,9 billion on debt converted to medium- and long-term loans outside the standstill net, while the final three instalments to foreign creditors in terms of the Third Interim Debt Arrangements came to R2,4 billion in 1993.

Although a net inflow of long-term capital to the private sector of R2,2 billion was recorded in South Africa in 1993, this included net purchases of R4,2 billion by non-residents of securities listed on the Johannesburg Stock Exchange; these purchases do not, of course, represent a net gain of foreign reserves to the country because they were offset by corresponding outflows in other categories of the capital account (for example in the short-term foreign liabilities of monetary institutions), in view of the fact that these transactions had to be concluded through the financial-rand mechanism.

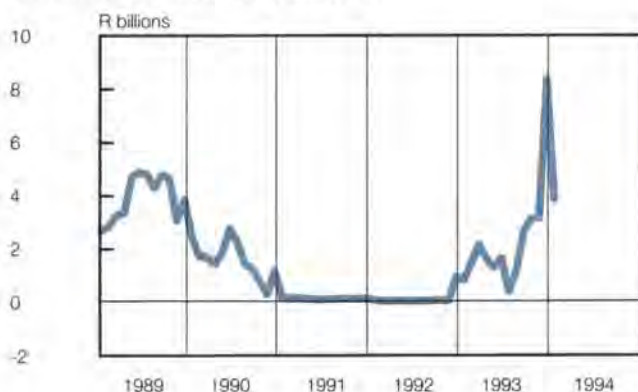
Foreign reserves

The net result of the large outflow of capital not related to reserves and the slightly smaller surplus on the current account of the balance of payments was a decrease of R4,3 billion in South Africa's *net gold and other foreign reserves* in the fourth quarter of 1993. The country's net foreign reserves therefore declined by R10,3 billion in the calendar year 1993; a significant turn-about from the increase of R0,3 billion recorded in 1992. In the first two months of 1994, however, a sharp reversal in this aggregate took place and the net foreign reserves of the Reserve Bank rose by R1,1 billion.

Gross gold and other foreign reserves



Liabilities related to reserves



The relatively low level of the gross foreign reserves caused the authorities to make considerable drawings on their short-term foreign credit facilities. The Reserve Bank's outstanding short-term *foreign liabilities related to reserves* therefore gradually increased from zero in November 1992 to R2,6 billion at the end of September 1993 and to R5,3 billion at the end of December 1993. In the first two months of 1994 these liabilities of the Bank decreased again to R3,9 billion at the end of February. The Central Government also provided additional assistance in maintaining adequate foreign reserve levels by drawing R2,8 billion on the International Monetary Fund in December 1993. This loan is repayable in eight equal quarterly instalments starting in the first quarter of 1997.

As a result of the drawings on these loan facilities, the *gross gold and other foreign reserves* of South Africa declined only marginally from R11,2 billion at the end of 1992 to R11,1 billion at the end of 1993. However, the gold reserves of the country amounted to only 4,8 million fine ounces at the end of December 1993, which was substantially lower than the level of 6,6 million fine ounces

at the end of December 1992; this of course also implies that the foreign exchange holdings of the country increased over this period. In the first two months of 1994 the Reserve Bank's gross gold and other foreign reserves declined marginally by R292 million to R8,8 billion at the end of February 1994.

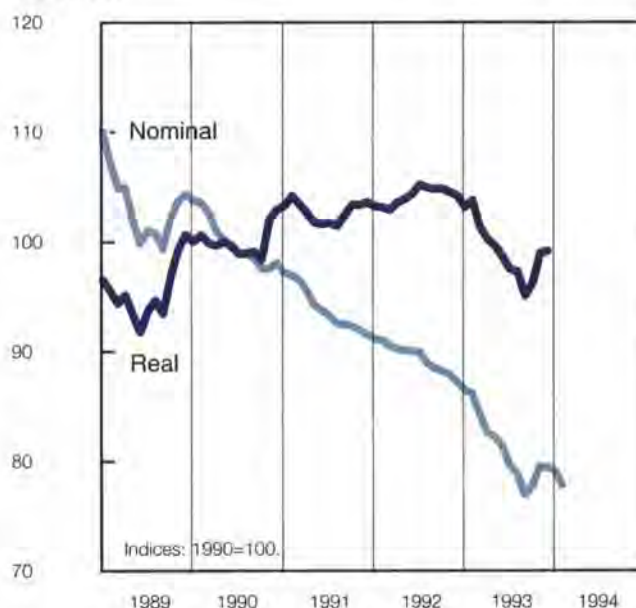
Exchange rates

The *nominal effective exchange rate* of the rand declined by 8,7 per cent in 1993, compared with 4,4 per cent in 1992. The further decrease in the average weighted exchange rate of the rand was the result of a depreciation of the rand against all the main currencies, except the Italian lira. In particular, the rand depreciated substantially against the Japanese yen in 1993 on account of the relative strength of this currency in the international markets. In the first two months of 1994 the rand continued to depreciate against the major currencies, and the nominal effective exchange rate therefore declined further by 3,2 per cent.

The sharp decline in the nominal effective exchange rate of the rand during 1993 exceeded the difference in the inflation rates between South Africa and its main trading partners; the *real effective exchange rate* of the rand therefore declined by 4,9 per cent in 1993.

Despite sharp fluctuations at times in the exchange rate of the *financial rand* in reaction to a variety of political and economic-related incidents in 1993, the exchange rate of the financial rand appreciated, on balance, from R4,860 per dollar at the end of December 1992 to

Nominal and real effective exchange rates of the rand



Changes in exchange rates of the rand

%

	31 Dec '92 to 18 Oct '93	18 Oct '93 to 31 Dec '93	31 Dec '92 to 31 Dec '93	31 Dec '93 to 28 Feb '94
Weighted average	-9,2	0,6	-8,7	-3,2
US dollar	-8,4	-1,9	-10,1	-2,1
British pound	-7,4	-0,3	-7,7	-2,6
German mark ...	-7,8	4,8	-3,4	-3,4
Japanese yen ...	-21,3	2,4	-19,4	-8,5
Netherlands guilder	-7,6	4,2	-3,8	-3,0
Italian lira	-1,4	5,7	4,2	-3,5

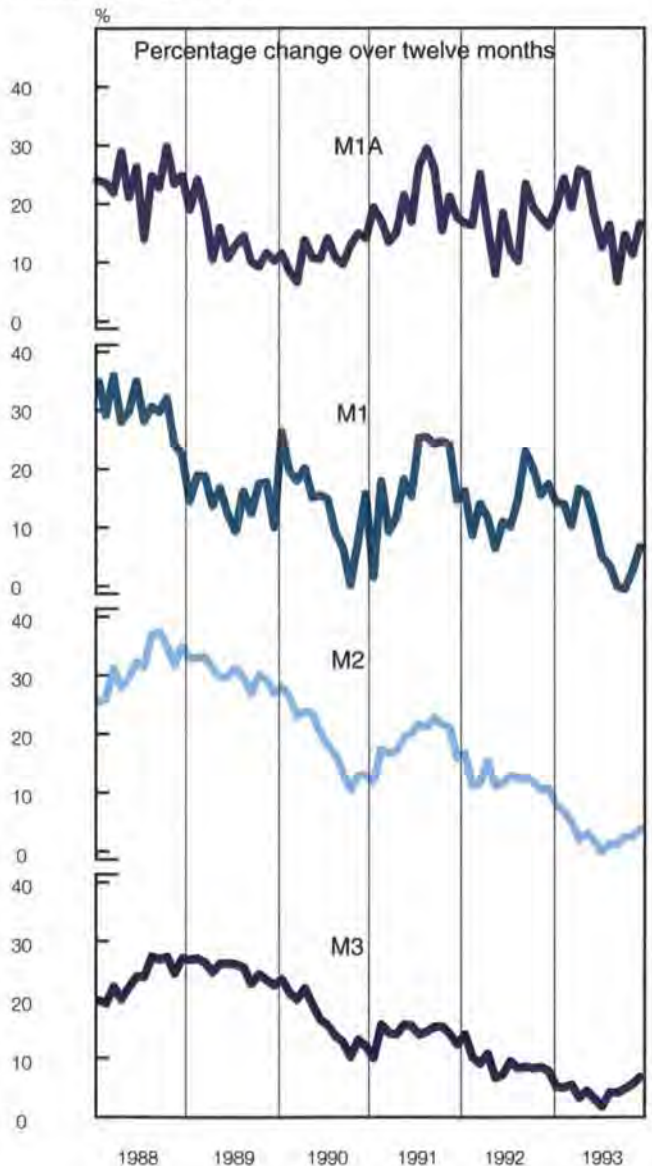
R4,296 per dollar at the end of 1993, or by just more than 13 per cent. The financial rand discount narrowed over this period from 37,2 per cent to 20,9 per cent. Concern regarding problems experienced with the constitutional negotiating process caused the exchange rate of the financial rand to depreciate to R4,726 per dollar on 28 February 1994. The financial-rand discount also widened to 26,5 per cent over this period.

Financial markets

Money supply

Growth in the monetary aggregates remained subdued during the greater part of 1993. The rates of increase in these aggregates generally reached very low levels during the first half of 1993, but then accelerated somewhat towards the end of the year. The twelve-month growth rate in the *broadly defined money supply* (M3) decreased from an already low 8,0 per cent in December 1992 to only 1,9 per cent in July 1993; in the subsequent six months it rose moderately to 7,0 per cent in December and then further to an estimated 9,6 per cent in January 1994.

Monetary aggregates



Change in monetary aggregates

R millions

	Coin and banknotes in circulation	Cheque and trans- mission deposits	M1A	Other demand deposits	M1	Other short and medium- term deposits	M2	Long- term deposits	M3
December 1992	9 535	30 191	39 726	31 845	71 571	100 642	172 213	25 007	197 220
December 1993	10 482	35 850	46 332	30 066	76 398	102 549	178 947	32 031	210 978
Change	947	5 659	6 606	-1 779	4 827	1 907	6 734	7 024	13 758
Percentage change over 12 months	9,9	18,7	16,6	-5,6	6,7	1,9	3,9	28,1	7,0
Change as percentage of total change in M3....	6,9	41,1	—	-12,9	—	13,9	—	51,0	100,0

The relatively slow growth in M3 during a large part of 1993 could mainly be ascribed to the low level of domestic economic activity, a decline in the rate of inflation, the relatively restrictive monetary policy stance and disintermediation practices owing to the large margins between banks' deposit and lending rates. As discussed in some detail in the *Quarterly Bulletin* of December 1993, the growth in the measured money supply was restrained further by some technical matters, such as over-funding of the Exchequer deficit at the beginning of the fiscal year, increased utilisation of flexible mortgage facilities, and regulatory changes to the liquid asset and cash reserve requirements of the banks.

The rates of increase over periods of twelve months in most of the *narrower monetary aggregates* also declined in the beginning of 1993, but then accelerated somewhat in the second half of the year. The rate of increase in M2 namely receded from 10,8 per cent in December 1992 to 0,1 per cent in July 1993 before rising again to 3,9 per cent in December, while the rate of increase in M1 came down from 17,5 per cent in December 1992 to -0,5 per cent in October 1993 before rising to 6,7 per cent in December. In contrast with these developments, the twelve-month growth rate in M1A initially accelerated from 16,2 per cent in December 1992 to 25,9 per cent in April 1993; it then slowed down to 6,9 per cent in September, but rose again to 16,6 per cent in December.

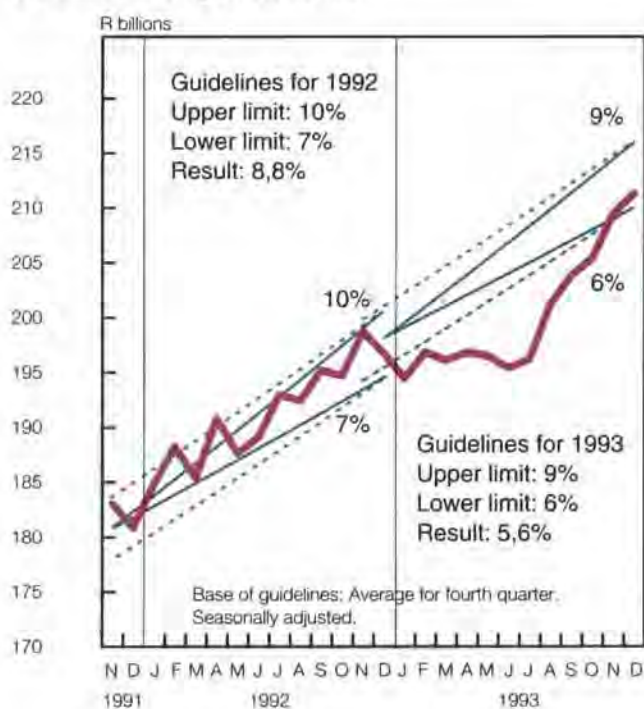
Shifts between different categories of deposits were mainly responsible for the larger fluctuations in the growth rates of the *narrower monetary aggregates* than in that of M3 during 1993. As shown in the accompanying table, pronounced shifts occurred from "other demand deposits" to cheque and transmission deposits; this was largely the result of the active marketing of these kinds of deposit and of the transfer of public corporations' call deposits with the Corporation for Public Deposits to cheque and transmission deposits with banks. In addition, a substantial increase was registered in long-term deposits because of "liquidity preference proper" considerations in

anticipation of expected reductions in deposit rates. In fact, the increase in long-term deposits accounted for more than half of the total increase in M3 in 1993.

The 1993 "guideline" year

The average level of the M3 money supply was equal to R207,5 billion in the fourth quarter of 1993; this was 5,6 per cent higher than the average level of M3 in the fourth quarter of 1992. The actual increase in M3, as measured for *money supply guideline purposes*, was therefore

Guidelines for growth in M3



somewhat below the lower limit of the guideline range of 6-9 per cent for the 1993 guideline year. As already indicated, the growth in M3 was very subdued during the first seven months of 1993 and the seasonally adjusted value of M3 fluctuated around the quarterly average value of M3 for the fourth quarter of 1992 (i.e. the base of the 1993 guideline year). Subsequently, the acceleration in the growth of M3 brought the money supply to within the guideline range from November 1993.

The *income velocity* of M3 increased from 1,71 in the fourth quarter of 1992 to 1,87 in the third quarter of 1993, or by about 9 per cent, because of the relatively low demand for money and disintermediation practices. The income velocity of M3 then receded somewhat in the fourth quarter in accordance with a marked acceleration of the growth in the demand for money during this quarter.

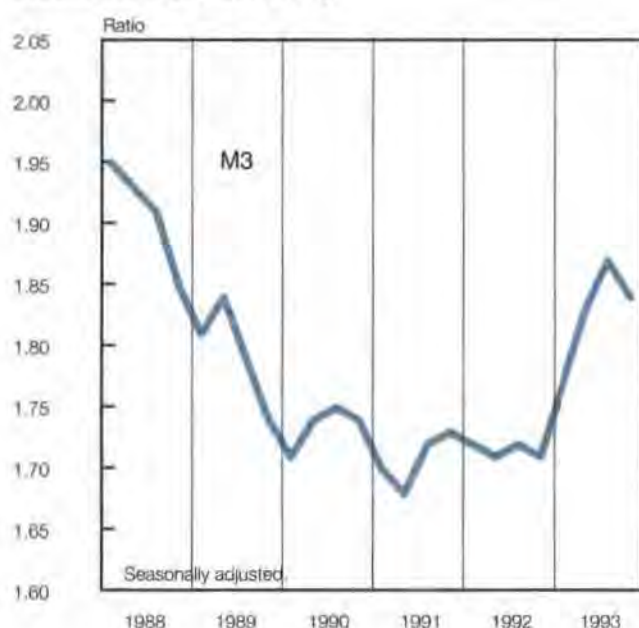
In a *statistical or accounting sense* the increase in the average quarterly value of R11,0 billion in M3 (seasonally adjusted) from the fourth quarter of 1992 to the fourth quarter of 1993 was more than fully explained by an increase of R19,3 billion in monetary institutions' average claims on the domestic private sector. The monetary sector's quarterly average net claims on the government sector contributed a further R1,5 billion to the increase in money supply. Contrary to these developments, the monetary sector's net foreign assets (including gold) and "net other assets" decreased by R8,4 billion and R1,4 billion, respectively, from the fourth quarter of 1992 to the fourth quarter of 1993.

Credit extension

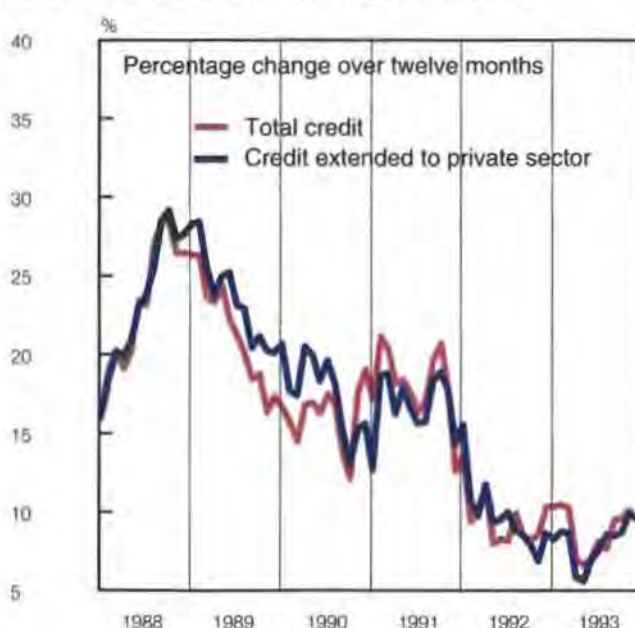
The twelve-month growth rate in *domestic credit extension to the non-bank private sector* by monetary institutions receded from an already low 8,7 per cent in December 1992 to 5,7 per cent in May 1993 before rising to 9,6 per cent in December. These growth rates were below the inflation rate (as measured by changes in the consumer price index) from the end of 1991, and were only positive in real terms in November 1993. The relatively low growth in the banking sector's claims on the private sector was mainly due to the low level of economic activity in South Africa, a weak demand for such credit in conditions of general uncertainty, the relatively high cost of borrowing, disintermediation practices and regulatory changes.

An analysis of the monetary institutions' claims on the domestic private sector by *type of credit* shows that the relatively low growth in credit extension during 1993 was mainly due to relatively low rates of increase in leasing finance and in so-called "other loans and advances". The growth rate over twelve months in *leasing finance* slowed down markedly from 9,6 per cent in December 1992 to only 2,2 per cent in June 1993; it then rose again to 6,8 per cent in December. The corresponding growth rate in "other loans and advances" also decreased further from only 0,9 per cent in December 1992 to negative levels throughout the first six months of 1993, but then increased to 8,1 per cent in December 1993. As shown in the accompanying table, "other loans and advances" nevertheless still accounted for nearly 30 per cent of the

Income velocity of money



Credit extended by monetary institutions



Change in credit extension to the private sector

R millions

	Investments and bills discounted	Instalment sales credit	Leasing finance	Mortgage advances	Other loans and advances	Total
December 1992.....	19 551	19 552	14 500	82 395	73 488	209 487
December 1993.....	14 575	23 062	15 493	97 014	79 452	229 596
Change.....	-4 976	3 510	993	14 618	5 964	20 109
Percentage change over 12 months ...	-25,5	18,0	6,8	17,7	8,1	9,6
Change as percentage of total change in credit extension	-24,7	17,4	4,9	72,7	29,7	100,0

total increase in credit extension to the domestic private sector in 1993. In addition, *investments and bills discounted* by banks actually declined sharply in nominal terms in 1993, making a negative contribution to bank credit extension.

In contrast with these developments, relatively high growth was registered in mortgage finance and instalment sales credit in 1993. Despite the actual decline in the nominal value of transactions in real estate, the demand for *mortgage finance* remained strong because of the advantages of the flexibility of some mortgage schemes and the banks' active promotion of this credit facility on account of the low capital requirements applicable to them. The rate of increase over twelve months in mortgage advances therefore even increased slightly from the high level of 17,3 per cent in December 1992 to 17,7 per cent in December 1993. The pronounced influence of mortgage advances on credit extension is clearly illustrated by the fact that the increase in these facilities accounted for about 73 per cent of the total increase in bank credit to the private sector.

The twelve-month growth rate in *instalment sales credit* accelerated sharply from only 1,5 per cent in December 1992 to 11,4 per cent in June 1993 and to 18,0 per cent in December 1993. This substantial increase in instalment sales credit was driven principally by rising car sales and "special-rate" vehicle finance packages introduced by banks.

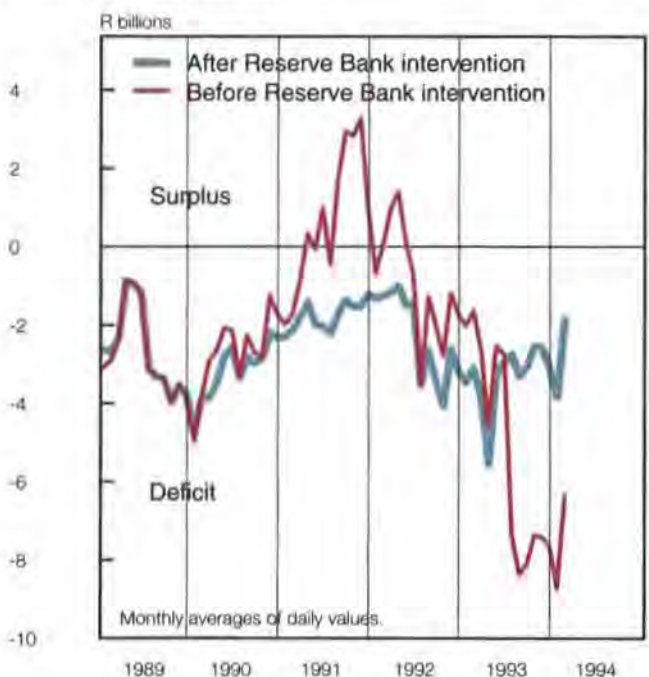
Money market conditions and Reserve Bank operations in the money market

Money market conditions remained relatively tight during the first nine months of 1993, eased somewhat in October and November and tightened again considerably in December 1993. These changes are clearly reflected in the amount of accommodation at the discount window at month-ends, which at first increased from R3,8 billion at the end of December 1992 to R4,8 billion at the end of September 1993; it then contracted again to R3,3 billion at the end of November before rising to R5,6 billion at the end of January 1994 and declining again sharply to R3,9 billion in February.

The relatively tight money market conditions during most of 1993 were mainly due to a decrease in the net foreign assets (including gold) of the Reserve Bank. An increase in notes in circulation and a decrease in the financing of the Land and Agricultural Bank by the monetary authorities, as well as an increase in government deposits with the Reserve Bank in certain months also supported these tighter conditions. In 1993 as a whole, however, government deposits with the Reserve Bank declined by R1,4 billion.

The Reserve Bank prevented money market conditions from becoming too tight by injecting additional liquidity into the domestic money market. The actions of

Money market deficit



the Reserve Bank included a lowering in May 1993 and again in August of the minimum cash reserve requirements that banks had to comply with, buy-back arrangements and the transferring of Treasury cash balances held on deposit with the Reserve Bank to the private banking institutions. This last-mentioned new procedure was introduced in June 1993 in anticipation of a proposed system of Tax and Loan Accounts to be implemented during 1994. At the end of December 1993 the government funds placed with the banks amounted to R5,2 billion; this was reduced to R2,0 billion at the end of February 1994.

In addition, the monetary authorities also neutralised short-term fluctuations in money market liquidity by adjusting the asset portfolio of the Corporation for Public Deposits. From the end of December 1992 to the end of December 1993 these adjustments, on balance, had an easing effect on money market conditions of about R1,6 billion.

Gross sales of government stock by the Reserve Bank came to R178 billion in 1993, compared with R112 billion in 1992. Net sales of these stocks by the Reserve Bank in 1993 amounted to R13,4 billion, which was slightly less than the R14,6 billion in 1992 despite the larger Exchequer deficit in 1993. The Reserve Bank's trading in government stock options increased only marginally from a monthly average of R5,2 billion in 1992 to R5,3 billion in 1993.

Money market interest rates

The general downward movement in money market interest rates, which had already started at the beginning

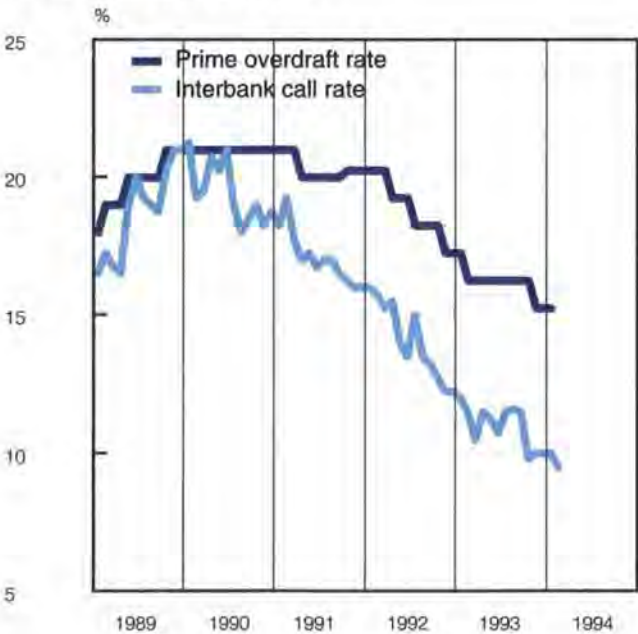
of 1990, continued during 1993 and the first two months of 1994, but at a much slower pace than in 1992. This was clearly reflected in the rate on *inter-bank call money*, which decreased from 16,00 per cent at the end of 1991 to 12,25 per cent at the end of 1992, to 10,00 per cent at the end of December 1993, and to 9,50 per cent at the end of February 1994. Other money market interest rates showed a similar downward trend.

The Reserve Bank lowered Bank rate on two occasions during 1993 by one percentage point to its present level of 12 per cent. The private banks followed suit and reduced their prime lending rates from 17,25 to 16,25 per cent towards the end of February and the beginning of March 1993 and further to 15,25 per cent from 1 November 1993. The inflation-adjusted or real prime lending rate also decreased from 7,0 per cent at the end of 1992 to 5,2 per cent at the end of 1993.

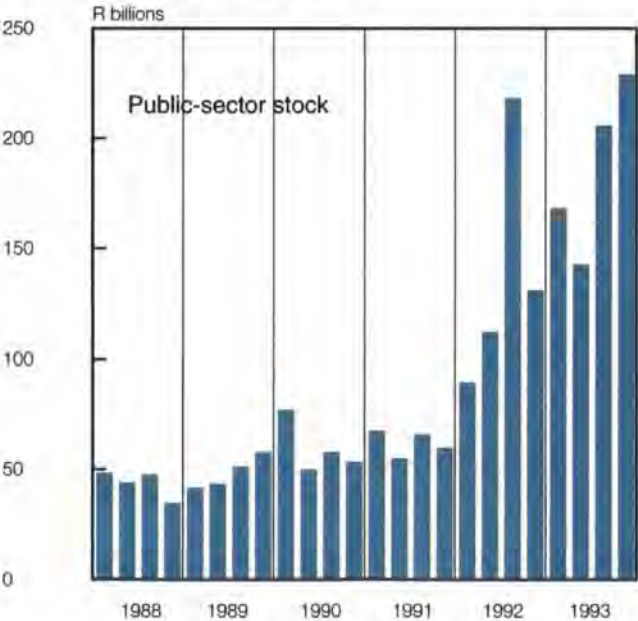
Capital market activity

Activity on the *Johannesburg Stock Exchange* remained buoyant throughout 1993. After having increased sharply from R142,8 billion in the second quarter of 1993 to R206,0 billion in the third quarter, the value of *public-sector stock* traded on the stock exchange increased further to a new record quarterly level of R229,2 billion in the fourth quarter. At R746,4 billion in 1993, the annual turnover of these stocks was 35 per cent higher than in 1992. Trading activity in this market continued at a high level at the outset of 1994, amounting to R82,5 billion in January. A continued decline in the inflation rate, the turn-about in economic activity and a sharp increase in

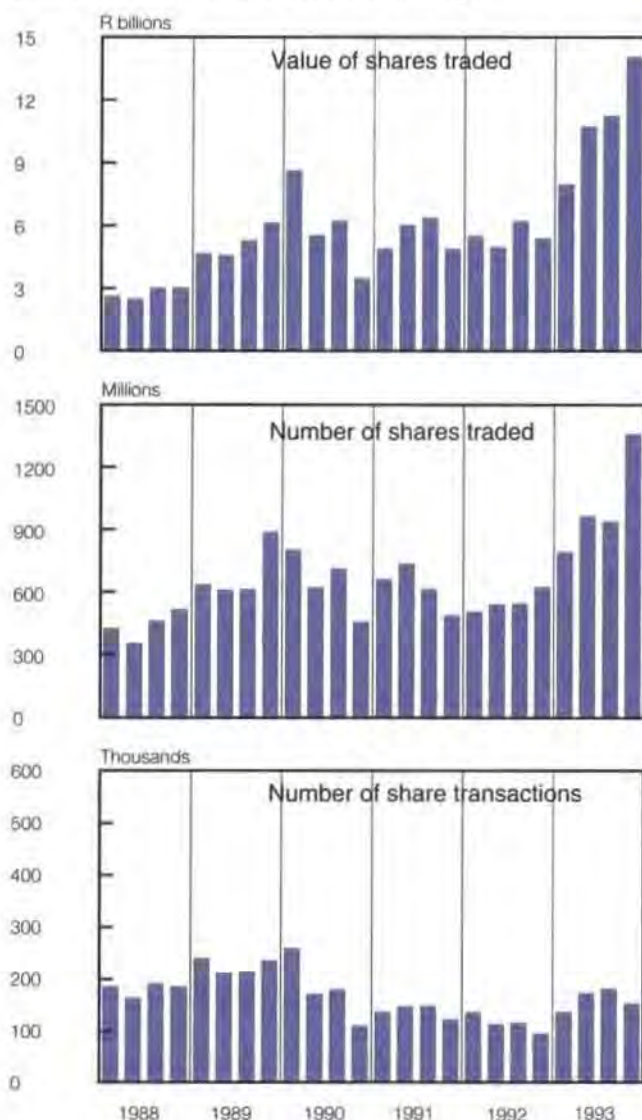
Short-term interest rates



Stock exchange transactions



Shares traded on the stock exchange

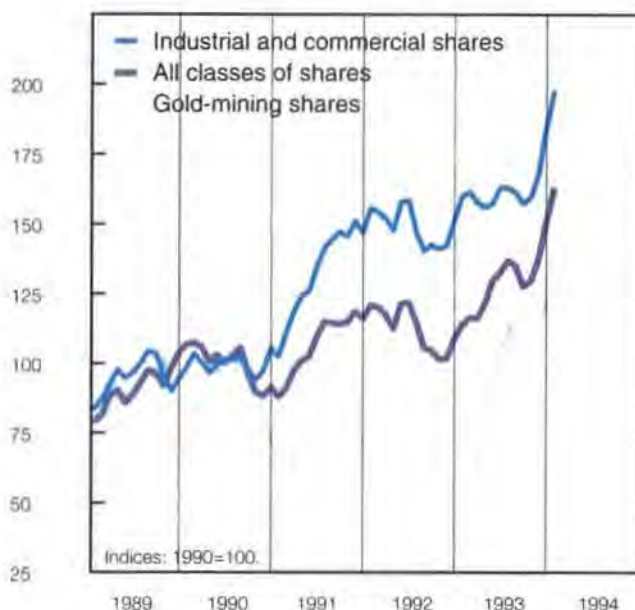


net purchases of securities by non-residents all fuelled a strengthening bull market.

The *value of shares* traded on the Johannesburg Stock Exchange increased sharply from R8,0 billion in the first quarter of 1993 to R11,3 billion in the third quarter and still further to R14,1 billion in the fourth quarter. The total value of share transactions in 1993 therefore amounted to R44,1 billion – almost double the turnover in 1992. The sharp increase in the value of shares traded resulted in an increase in share turnover velocity (measured as the value of turnover as a percentage of market capitalisation) from a monthly average of 4,3 per cent in 1992 to 7,3 per cent in 1993.

The sharp increase in the value of shares traded in 1993 was the result of significant increases in both the

Share prices



volume and prices of shares traded. The *number of shares* traded increased by 86 per cent from 2,2 billion in 1992 to 4,1 billion in 1993. *Share prices*, which had started to recover at the end of 1992 and then faltered slightly in the third quarter, rose substantially in the subsequent four months to January 1994. The average monthly price level of all classes of shares rose by an impressive 27,2 per cent from September 1993 to January 1994. This rise in share prices was brought about by an improvement in the political climate, the lifting of sanctions against South Africa, buoyant trading conditions on some of the world's leading stock exchanges and investors' increased preference for so-called emerging markets.

A slight improvement in the gold price caused the prices of gold shares to recover initially. However, significant increases were also recorded in the prices of all other share categories in 1993. The average price level of all classes of shares was 42,8 per cent higher in January 1994 than in January 1993, while the average price level of gold-mining shares and of industrial and commercial shares was 183,7 per cent and 23,5 per cent higher. In February 1994 share prices softened somewhat after large downward corrections had taken place in some of the world's leading stock exchanges.

Non-residents played an important role in the recovery of share prices during 1993 and were net purchasers of shares to the amount of R2,8 billion. In the fourth quarter of 1993 the net purchases of shares by non-residents came to R0,9 billion. They also continued

to purchase other securities on the Johannesburg Stock Exchange. Non-residents' net purchases of public-sector stock on the stock exchange amounted to R1,5 billion in 1993. This made non-residents net purchasers of securities to an amount of R4,3 billion in 1993; in 1992 their net purchases were only R0,3 billion, while they were net sellers of securities of R3,0 billion and R2,1 billion in 1990 and 1991, respectively.

In the *primary capital market* the largest part of the estimated public-sector borrowing requirement had already been met by the issuing of *public-sector stock* amounting to R16,0 billion in the first half of the fiscal year 1993/94. Consequently, borrowers in the public sector took up only R0,8 billion in the fourth quarter of 1993 by means of new issues of fixed-interest securities.

The value of funds acquired by listed companies through new issues of *fixed-interest securities* (including convertible preference shares and debentures) amounted to R0,1 billion and R0,4 billion in the first two quarters of 1993. No such issues were made in the third quarter, but R0,3 billion was again subscribed for in the fourth quarter.

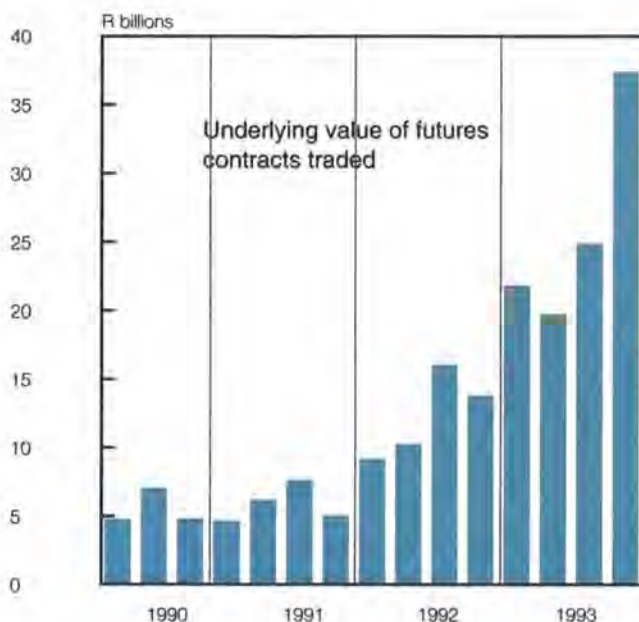
The value of *rights issues of ordinary shares* by companies listed on the Johannesburg Stock Exchange fluctuated considerably in 1993. After having declined from R2,0 billion in the first quarter of 1993 to R0,3 billion in the second quarter, these rights issues rose again to R2,0 billion in the third quarter before declining to R0,9 billion in the fourth quarter. The continued strong demand for quality paper and sharply increasing share prices made issues of share capital attractive to both issuers and investors. A number of companies also announced that they intend acquiring share capital through rights issues in order to facilitate unbundling.

In the *mortgage market* the banks' total holdings of mortgage loans increased steadily from R78,5 billion in December 1992 to R92,9 billion in December 1993. The relatively stagnant housing market in the fourth quarter of 1993 and the decision of certain banks to stop carrying mortgage registration costs and valuation fees caused the average monthly amount of loans paid out by banks to decrease marginally from R3,6 billion in the third quarter to R3,5 billion in the fourth quarter.

The value of *real estate transactions* declined by 3,2 per cent from R24,9 billion in 1992 to R24,1 billion in 1993; the average number of transactions in fixed property contracted by 10,3 per cent, while the average value of property transactions rose by a significant 8,2 per cent. The value of real estate transactions showed a significant turn-around in the second half of 1993 in keeping with the improving economy, the further decline in interest rates and improved affordability. After having declined from R6,1 billion in the first quarter of 1993 to R5,7 billion in the second quarter, the value of real estate transactions increased to R5,9 billion in the third quarter and to R6,4 billion in the fourth quarter.

The *derivative market* was characterised by buoyant activity throughout 1993, but activity increased particularly sharply in the fourth quarter. The underlying

Futures exchange transactions



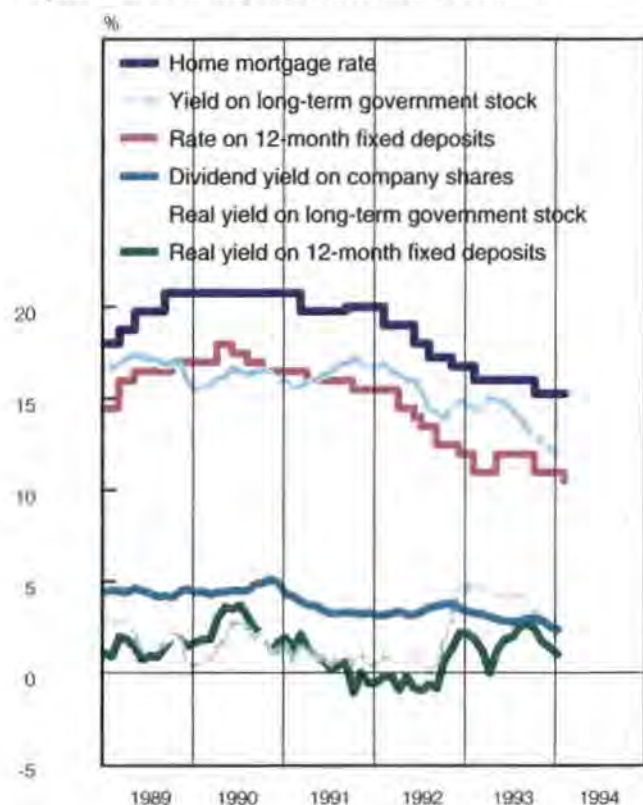
value of transactions in *futures contracts* increased from a quarterly average of R22,1 billion in the first nine months of 1993 to R37,4 billion in the fourth quarter. This level was considerably higher than the quarterly average of R12,3 billion in 1992 and R5,8 billion in 1991. Contracts in share indices represented 97,4 per cent of the total value of futures contracts in 1993. The underlying value of trade in *options* on index futures contracts also increased from a monthly average of R343 million in the third quarter of 1993 to R723 million in the fourth quarter.

Contrary to the extremely high level of activity in futures and options on index futures contracts, activity on the Johannesburg Stock Exchange's *Traded Options Market* had not yet resumed by February 1994, after having fallen away completely in February 1993.

Capital market yields and interest rates

The monthly average *yield on long-term government stock*, which had moved upwards from 13,9 per cent in October 1992 to 15,0 per cent in April 1993, declined quite sharply in the subsequent months to 12,1 per cent in January 1994. This downward movement was mainly a reflection of the continued success achieved in reducing inflation, a decline in overseas interest rates and net foreign purchases of domestic loan stock. The decline in the long-term yield on government stock was appreciably sharper than the decline in the inflation rate; the *real* yield on government stock therefore decreased from 3,6 per cent in April to 2,5 per cent in December

Capital market interest rates and yields



1993. In February 1994 the nominal long-term yield on government stock firmed significantly to a monthly average of 12,6 per cent because of the foreign selling of stock, profit-taking, reduced expectations of a cut in Bank rate and nervousness about political developments.

The banks' predominant mortgage bond rate was reduced by 0,75 percentage points to 16,0 per cent from 1 March 1993 and by a further 0,75 percentage points to 15,25 per cent in November 1993. The mortgage bond rate has therefore now been lowered by 5,5 percentage points from its peak of 20,75 per cent in February 1991.

The twelve-month deposit rate of banks was lowered from 15,5 per cent at the beginning of 1992 to 12,0 per cent in December and further to 11,0 per cent in February 1993. Without an accompanying increase in the mortgage rate, some banks increased their twelve-month deposit rate again to 12,0 per cent in April, while others followed suit towards the middle of May. In November 1993 this rate was lowered to 11 per cent and again to 10,5 per cent in January 1994. In view of the fact that the prime overdraft rate of clearing banks declined to the same extent in November, the margin between the twelve-month deposit rate and the predominant prime overdraft rate of banks remained at 4,25 percentage points before increasing to 4,75

percentage points in January 1994. The rate on deposits of twelve months provided a positive *real* yield before tax of 1,4 per cent to depositors in December 1993.

The sharp increase in share prices resulted in a reduction of the average *dividend* yield from 3,51 per cent in December 1992 to 2,97 per cent in September 1993 and then sharply further to 2,36 per cent in January 1994. The average *earnings* yield on all classes of shares (excluding gold-mining shares) decreased even more significantly from 7,74 per cent to 6,91 per cent and 5,50 per cent over the same periods. The *price-earnings* ratio of 18,2 in January 1994 thereby approached its all-time high of 18,6 achieved in September 1987. However, if the discount on the financial rand is taken into consideration, the price-earnings ratio for non-residents amounted to only 13,8 in January 1994.

The maximum permissible *finance charges* rates, as laid down in terms of the Usury Act, were reduced with effect from 24 December 1993 from 25 to 23 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 28 to 26 per cent in respect of amounts of up to R6 000. This brought the total reduction in these rates during 1993 to 3,0 percentage points.

Other longer-term rates were also lowered during the five-month period until February 1994. The standard interest rate applicable to loans granted by the government out of the State Revenue Fund was lowered from 14,75 per cent to 13,5 per cent on 1 November 1993, and in three further steps to 12,5 per cent on 1 February 1994. The standard interest rate was increased to 13,25 per cent with effect from 1 March 1994. After having remained unchanged since 1 July 1989, the prescribed interest rate on certain judgement debts was reduced by 3 percentage points to 15,5 per cent with effect from 1 October 1993. The official rate of interest, as defined by the Income Tax Act, was reduced by 1 percentage point to 14 per cent with effect from 1 February 1994.

Public finance

Public-sector borrowing requirement

The *public-sector borrowing requirement* (the deficit before borrowing and debt repayment of the consolidated Central Government, provincial administrations, local authorities and the non-financial public enterprises) amounted to R17,5 billion in the first nine months of fiscal 1993/94. This was R2,7 billion below the level in the corresponding period of the preceding year. As a ratio of gross domestic product, the public-sector borrowing requirement decreased from 8,1 per cent in the first nine months of fiscal 1992/93 to 6,2 per cent in the first nine months of fiscal 1993/94.

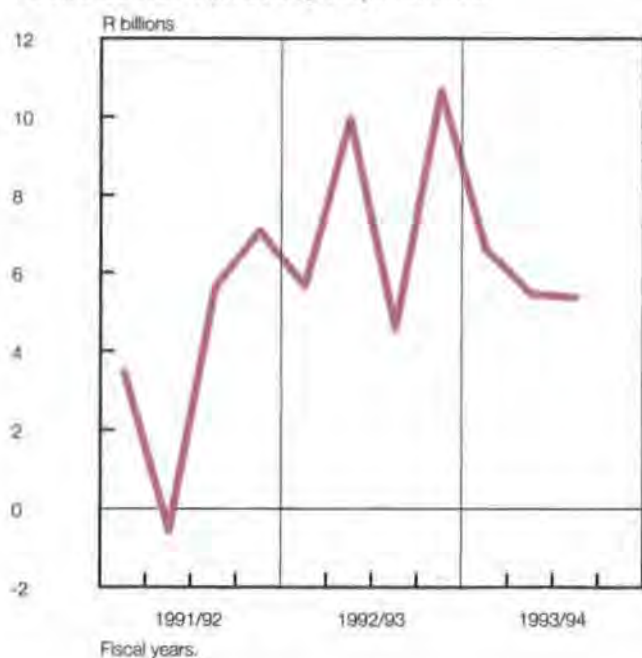
The decline in the public-sector borrowing requirement could partly be attributed to the fact that the total income and grants received by non-financial public enterprises exceeded their current and capital expenditure and the net loans extended by them. More importantly, the lower public-sector borrowing requirement was the result of a contraction in the *borrowing requirement of general government* from R21,4 billion in the first nine months of fiscal 1992/93 to R18,9 billion in the first nine months of fiscal 1993/94, or of R2,5 billion. This improvement in the deficit before borrowing of general government was achieved because of a slower increase in expenditure than in revenue. Expenditure by general government recorded a year-on-year rate of increase of 9,4 per cent in the first nine

months of fiscal 1993/94, while the year-on-year rate of increase in revenue amounted to 15,5 per cent. However, expenditure of general government in the second quarter of fiscal 1992/93 included extraordinary transfers to the amount of R5,8 billion. If these transfers are excluded from the figures for the first nine months of fiscal 1992/93, general government expenditure in the first nine months of fiscal 1993/94 would be 16,4 per cent higher and the borrowing requirement R3,3 billion higher than the adjusted figure for the first nine months of the preceding year.

All the *various levels of general government*, with the notable exception of extra-budgetary institutions, recorded an improvement in their balances on income-and-expenditure accounts in the first nine months of fiscal 1993/94. In view of a sharp increase in the deficit before borrowing and debt repayment of the TBVC countries and the self-governing states, the borrowing requirement of extra-budgetary institutions totalled R0,3 billion in the first nine months of fiscal 1993/94; in the first nine months of fiscal 1992/93 these institutions' income still exceeded their expenditure.

In contrast to these developments, the borrowing requirement of local authorities remained virtually unchanged and the surplus on the income-and-expenditure accounts of provincial administrations increased from R1,2 billion in the first nine months of fiscal 1992/93 to R1,6 billion in the first nine months of fiscal 1993/94. Owing to the fact that the extraordinary transfers to the Gold and Foreign Exchange Contingency Reserve Account and the civil service pension funds in the first nine months of fiscal 1992/93 were made from the Main Budget, the deficit before borrowing and debt repayment on this account decreased by R2,9 billion in the first nine months of fiscal 1993/94.

Public-sector borrowing requirement

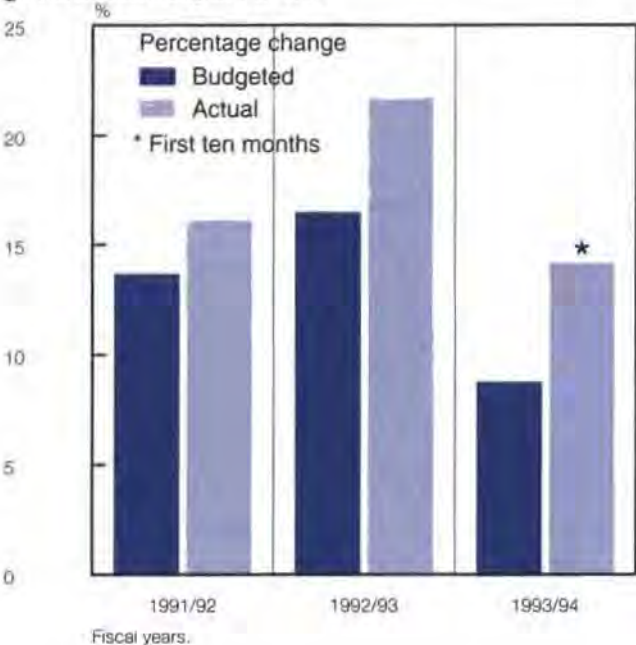


Exchequer account

After having accelerated from 12,7 per cent in the first quarter of fiscal 1993/94 to 17,1 per cent in the second quarter, the year-on-year rate of increase in *Exchequer issues* (adjusted for cash flows, including changes in the balance on the Paymaster-General Account) amounted to 16,2 per cent in the third quarter of fiscal 1993/94. This brought the level of Exchequer issues in the first nine months of fiscal 1993/94 to 15,4 per cent above the level reached in the corresponding period of the preceding fiscal year; in the Budget for the fiscal year 1993/94 as a whole an increase of 8,8 per cent in expenditure had been envisaged. Exchequer issues as a ratio of gross domestic product, equalled 30,7 per cent in the first nine months of fiscal 1993/94, which is substantially higher than the average level of 27,5 per cent in the corresponding period of the preceding five fiscal years.

In January 1994 Exchequer issues increased by only 1,0 per cent compared with January 1993, which brought the year-on-year rate of increase in these issues to 14,2 per cent in the first ten months of fiscal 1993/94. Exchequer issues for the first ten months of fiscal

Budgeted and actual Exchequer issues to government departments



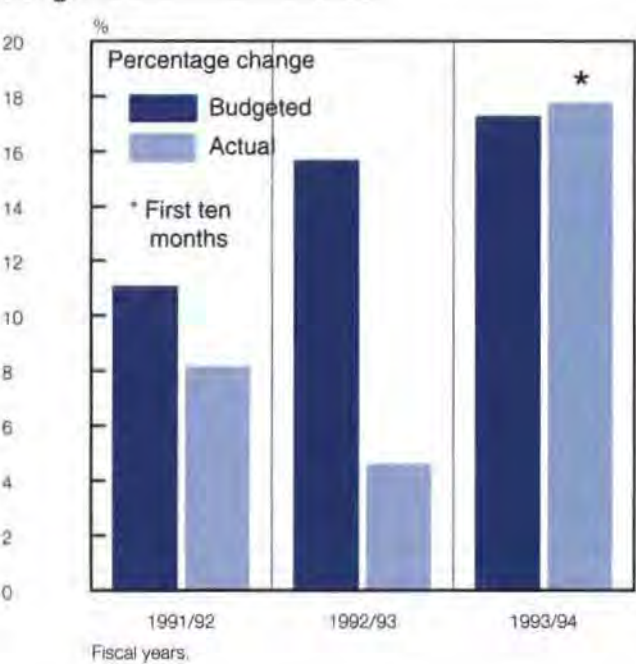
1993/94 therefore equalled 81,3 per cent of the total expenditure of R114,2 billion budgeted for the year as a whole; this percentage was higher than the 77,8 per cent in the corresponding period of the preceding fiscal year and also higher than the average ratio of 79,2 per cent for the first ten months of the preceding five fiscal years.

The year-on-year rate of increase in *Exchequer receipts* (excluding the proceeds from privatisation) accelerated from 13,0 per cent in the first quarter of fiscal 1993/94 to 17,1 and 18,4 per cent in the next two quarters. For the first nine months of fiscal 1993/94 Exchequer receipts therefore increased by 16,4 per cent against the corresponding period in the preceding year; this rate of increase was considerably higher than the year-on-year rate of increase of 4,5 per cent in the first nine months of fiscal 1992/93. As a ratio of gross domestic product, Exchequer receipts also rose from 22,7 per cent in the first nine months of fiscal 1992/93 to 23,4 per cent in the first nine months of fiscal 1993/94.

In January 1994 the revenue collected by the government advanced sharply, mainly because of an overflow of revenue which had been due in the preceding month. The year-on-year rate of increase in Exchequer receipts accordingly reached a level of 17,8 per cent in the first ten months of fiscal 1993/94, or slightly above the increase of 17,3 per cent budgeted for the fiscal year as a whole.

As shown in the accompanying table, this relatively good performance of government revenue collected was the combined result of slightly higher-than-expected

Budgeted and actual revenue



income from value-added tax and from customs and excise duties, while income-tax receipts performed below expectations. Income-tax proceeds from companies declined in the first nine months of fiscal 1993/94 compared with the corresponding period of the preceding year, probably relating to the low level of economic activity, the lag in the collection of the newly introduced tax on distributed profits and the overflow of provisional tax receipts due in December into January, which was much larger than in the preceding year. The

Exchequer receipts

Percentage change

	Budgeted for fiscal 1993/94	Actual for first nine months of fiscal 1993/94
Value-added tax	43,1	44,4
Income tax	11,6	6,9
Companies	1,0	-5,1
Individuals	15,5	11,4
Customs and excise duties	10,0	12,4
Customs duty (including the surcharge)	5,9	13,9
Fuel levy	12,1	10,3
Excise duty	11,1	9,0

receipts from individuals' income tax in the first nine months of fiscal 1993/94 were also considerably lower than the amount budgeted because of lower-than-expected salary and wage increases. Customs receipts, however, exceeded expectations owing to a substantial rise in the value of imports.

The deficit on the Exchequer Account before borrowing and debt repayment amounted to R5,4 billion in the December quarter of 1993. The deficit in the first nine months of fiscal 1993/94 therefore totalled R20,4 billion, or 7,3 per cent of gross domestic product; the budgeted deficit for the fiscal year as a whole was R25,9 billion or 7,0 per cent of gross domestic product.

In the first nine months of fiscal 1993/94 the Exchequer deficit, including the discount on new government stock, was financed mainly from funds obtained from the Public Investment Commissioners and from the non-monetary private sector. Nearly R2,0 billion of the deficit was financed from funds obtained from monetary institutions as part of the deliberate policy of the authorities to increase the amount of Treasury bills outstanding in order to improve the efficacy of monetary policy.

As a result of the sharp increase in receipts and the somewhat lower issues in January 1994, the Exchequer deficit before borrowing and debt repayment in the first

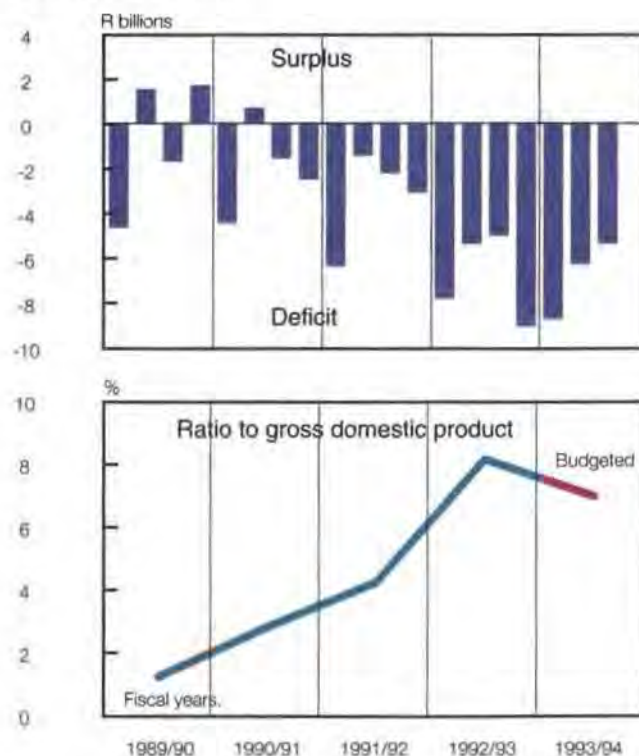
Financing of the Exchequer deficit in the first nine months of fiscal 1993/94 by type of lender

Sector	R millions
Public Investment Commissioners.....	7 145
Non-monetary private sector.....	14 111
Monetary institutions.....	1 964
Corporation for Public Deposits.....	873
Other monetary institutions.....	1 091
Foreign sector.....	-275
Total gross financing.....	22 945
Less: Discount on new government stock	2 527
Total net financing.....	20 418

ten months of fiscal 1993/94 declined to R18,7 billion. The borrowing instruments utilised to finance this deficit, including the discount on new government stock, were as follows:

	R millions
Government stock (including discount).....	27 273
Treasury bills.....	1 657
Foreign loans.....	-129
Non-marketable securities.....	-147
Change in available cash balances (increase -, decrease +).....	-7 369
Total gross financing.....	21 285
Less: Discount on new government stock ..	2 601
Total net financing.....	18 684

Exchequer deficit



Adjustment Budget

In his presentation of the *Adjustment Budget* for fiscal 1993/94 to Parliament in December 1993, the Minister of State Expenditure indicated that an additional amount of R4 113 million would have to be appropriated for the current fiscal year. The revised expenditure for fiscal 1993/94 is therefore R115,2 billion, i.e. after adjustments have been made for expected surrenders to the amount of R1,5 billion, savings of R0,5 billion and additional expenditure of R1,1 billion, which had already been included in the budgeted amount of R114,2 billion.