Quarterly economic review

Introduction

Growth in the economy, which for some time has been proceeding at a rate in excess of the economy's long-term potential as determined by the current domestic savings ratio, slackened somewhat in the third quarter of 1996. This slackening came about in spite of a major fillip arising from a sharp increase in agricultural production. Judging by growth in the economy outside the agricultural sector, it either seems as if the acceleration in the rate of recovery in overall economic activity since 1993 is now losing momentum, or that the upper turning-point of the business cycle might already have been passed. The slowdown in the rate of expansion, however, is likely to differ from preceding downturns during the 1980s in that it is expected to be a slowdown of output growth around a rising long-term trend, rather than an absolute decline in real output. For 1996 as a whole, growth in real gross domestic product of some 3 per cent is still projected.

The weakening of output growth in the third quarter of 1996 was more conspicuous in the non-agricultural goods-producing industries than in the service-providing sectors of the economy. Mining production, and more specifically gold-mining output, declined fairly strongly in the third quarter of 1996. Manufacturing production also lacked vigour in the first three quarters of 1996. Although exports of manufactured products responded positively to the depreciation-induced increase in the competitive strength of South African producers, the response of manufacturing output was rather placid. It seems as if the increases in manufacturing export volumes during 1996 came mostly as a substitute for inventory accumulation and final sales in the domestic market without any meaningful expansion of manufacturing output volumes. The lethargic output performance of the goods-producing industries was to some extent counteracted by slightly more energetic output growth in the services industries. The financial services sector, especially, benefited materially from high activity levels in the bond, equity and other financial markets.

The slowdown in domestic output growth coincided with an actual decline in aggregate gross domestic expenditure, thereby reducing the excess of domestic expenditure over domestic production and narrowing the deficit on the current account of the balance of payments. Growth in all the major components of aggregate final demand slowed down in the third quarter of 1996 and investment in inventories was reduced substantially from the second to the third quarter of 1996. Despite growing at a lower rate, private consumption expenditure was still rising too rapidly and was financed to a significant extent by bank credit extension.

The low savings ratio of the South African economy, which is exacerbated by the rapid expansion of private consumption expenditure, remains a serious cause for concern. The experience of the latest recovery in the economy seems to confirm that the lack of sufficient domestic saving is one of the factors preventing the South African economy from growing on a sustainable basis at a rate of more than 2½ to 3 per cent per year. It would appear that growth beyond this range leads to unsustainable deficits on the current account of the balance of payments. In view of the fickleness of foreign capital movements, it remains risky to rely for too long on the inward movement of international capital to augment domestic saving. To overcome this serious savings constraint on South Africa's long-term economic growth and prosperity, it is important that the government's macroeconomic strategy for growth, employment and redistribution, with its strong emphasis on raising saving and improving macroeconomic stability, be implemented.

Up to the end of the second quarter of 1996, the recovery in economic activity was unable to lift the employment-creating capacity of the economy in a sustainable way. The gains in private-sector employment during the second half of 1994 and the first half of 1995 were reduced by sustained job losses since the middle of 1995. Economic growth without job creation has indeed become a very troubling aspect of the South African economy.

The growth in nominal salaries and wages per worker, which had progressively been brought under control during the first half of the 1990s, started to accelerate in the second half of 1995. Moreover, the growth in labour productivity since the middle of 1995 was not sufficient to prevent a quickening in the rise in nominal unit labour costs. These cost-raising forces began to show their impact, along with that of the weakening rand, when price inflation started to gather renewed momentum in the second quarter of 1996. This emphasised the need for maintaining a consistent and credible counter-inflationary monetary policy. Otherwise, the competitive gains of the recent decline in the exchange rate of the rand would soon be eroded by a spiral of domestic wage and price increases.

The high level of domestic expenditure and the desire to acquire imported intermediate goods and capital equipment before prices could be inflated by the depreciation of the rand, led to a continued upward movement in the value of merchandise imports in the third quarter of 1996. Fortunately, the strong demand for imports coincided with a reorientation of the domestic production structure towards the export market. As could be expected, the currency depreciation had a marked effect on export prices. Total export earnings were also boosted by a sharp rise in the value of net gold exports, contributing to a decline in the deficit on the current account of the balance of payments.

Partly in reaction to the weakening of the rand, but also partly responsible for the slide in the value of the rand, the capital movements to South Africa changed from a net inward flow of funds in the second quarter of 1996 to a net outward flow in the third quarter. There were indications that some of the debt which had been renegotiated in terms of the foreign debt standstill arrangements and which fell due in the third quarter of 1996 was not extended and the proceeds repatriated. Inward investment through the Johannesburg Stock Exchange and the Bond Exchange of South Africa also declined well below levels that were attained in the first half of 1996.

The overall deficit on the balance of payments was responsible for a substantial decline in the gross gold and other foreign reserves of the country. The low level of the foreign reserves contributed to the weakness of the rand and limited the ability of the Reserve Bank to intervene in the foreign exchange market with the objective of stabilising the exchange rate of the rand. The decline in the external value of the rand has by now strengthened the international competitiveness of the South African economy to such an extent that the country should now be more attractive for inward foreign direct investment, provided inflation and cost increases can be contained.

Although it declined slightly during the third quarter of 1996, the still high level of aggregate domestic expenditure contributed to the continued rapid growth in the money supply. The growth rate of the money supply also declined slightly, but the monetary expansion is still too high compared with the long-term growth potential of the economy. It is also too early to judge from the slowdown in money-supply growth whether policy steps that had been taken earlier were successful in sustainably lowering the expansion of the money supply. The persistently high growth in the money supply provided no scope for complacency in the fight against inflation and justified the continued application of counter-inflationary monetary policies.

The strong demand for money on account of transaction purposes was augmented by an increase in the liquidity preference of the private sector which arose from concerns about political developments, uncertainties about the future course of financial policies and expectations of imminent adjustments in the bond and equity market. Institutional investors, especially, showed a clear preference for larger-than-usual holdings of demand and other short-term deposits. This preference for shorter-term deposits led to an even more rapid growth in the narrowly defined than in the broadly defined monetary aggregates.

Because a prominent part of the increase in private consumption expenditure and corporate capital expenditure was financed by means of domestic credit extension, the credit extended by monetary institutions to the non-bank private sector continued to increase at a high rate in the third quarter. A sizeable portion of the increase in credit extension to the private sector was destined for private households. This was an important factor responsible for the strong growth in private household expenditure in the third quarter of 1996. In a statistical or accounting sense, the potential impact of the growth in credit extended to the private sector on the overall money supply was partly counteracted by declines in the net foreign assets of the monetary sector and in net credit extended by the monetary institutions to the government sector.

The South African financial markets experienced a phase of major adjustment during the first five months of 1996 in response to an upward correction in long-term yields in the American bond market and the steep decline in the exchange rate of the rand since mid-February. Up to October 1996, the markets have not settled down completely, an undertone of uncertainty and nervousness still prevails, and the yields on long-term government bonds and money market rates fluctuated around a relatively flat trajectory. Both local and foreign investors appear to become uncomfortable whenever yields declined to below 15 per cent at a time when inflation is rising and the rand is weak, while the smaller demand for funds effectively prevented rates from rising substantially beyond 16 per cent. As yields on long-term and short-term securities have moved broadly in sympathy since May 1996, the yield curve shifted upwards and downwards with the changing sentiment in the markets, but retained its generally flat shape. The curve drifted downwards from May to September 1996, but was then restored in October to a level that was approximately equal to that of May. The yield curve at the end of October probably still reflected wide-spread uncertainty about future price movements in the financial markets and fears of a reversal of the progress made with the reduction of inflation.

Money market rates firmed in November, reflecting the persistently high money market shortage, the scarcity of liquid assets eligible for collateral for obtaining loans at the discount window of the Reserve Bank, renewed inflationary fears and the weakness of the rand. This culminated in an increase of one percentage point in Bank rate as from 21 November 1996, followed by a similar rise in the lending rates of banks on the same day.

Money market conditions, which became generally tight during the second quarter of 1996, tightened even further from the end of June 1996 to the end of October. At the end of October the amount of accommodation which the Reserve Bank had to provide to banks reached its highest level since April 1996 as the decline in the Bank's net foreign assets continued to drain liquidity from the market. Throughout the second and third quarters of 1996 the Bank has taken no countervailing steps and allowed a growing money market shortage to generally reflect the underlying imbalance of demand and supply in the market. The Bank only provided temporary assistance on those occasions when market conditions became excessively tight. Assistance then took the form of adjustments in the portfolio of the Corporation for Public Deposits and foreign currency swap arrangements between the Reserve Bank and private banks.

The raising of funds by the public sector in the primary bond market was considerably smaller in the first half of the current fiscal year than the levels in the first half of the previous fiscal year. Private-sector companies raised funds in the primary bond market in the third quarter of 1996 for the first time since the third quarter of 1995. These companies also increased the amount of capital raised through equity issues in the first three quarters of 1996 relative to the amounts raised in the previous year.

The prices of all classes of shares listed on the Johannesburg Stock Exchange showed no distinct upward or downward trend since February 1996. Owing to the depreciation of the rand, the foreign-currency prices of shares declined steeply, causing the net purchases of South African shares by non-residents to decline progressively during the first three quarters of 1996. In October 1996 non-residents became net sellers of shares listed on the Johannesburg Stock Exchange for the first time since December 1994.

Despite a slight deterioration in the borrowing requirement of the overall public sector in the first half of the current fiscal year, there are strong indications that the government is likely to succeed in achieving its objective to reduce the Exchequer deficit before borrowing and debt repayment as a percentage of gross domestic product. The increase in Exchequer issues in the first half of fiscal 1996/97 was somewhat faster than envisaged by the budget projections in March 1996, but was well below the average increase in the first half of the previous five fiscal years. Fortunately, the increase in Exchequer receipts ran slightly ahead of the budgetary projections. The government also took a major stride forward with the implementation of its macroeconomic strategy when certain tax incentives were made available. To improve tax efficiency, a tax amnesty was announced, which is expected to be more encompassing than previous amnesties.

Domestic economic developments

Domestic output[1]

After having increased at a seasonally adjusted and annualised quarter-to-quarter rate of 3½ per cent in each of the first two quarters of 1996, *aggregate real gross domestic product* increased at a slightly lower but still sturdy rate of 3 per cent in the third quarter. These increases raised the level of gross domestic output in the first three quarters of 1996 to about 3 per cent above its level in the corresponding period of the preceding year.

If the agricultural sector is excluded, the real output of the other sectors increased by about 1 per cent in the third quarter of 1996 compared with 2 per cent in the second quarter. Output growth in the non-agricultural sectors also amounted to 1 per cent in the first

1 In accordance with normal practice, revisions have been made to national accounts and balance of payments data and are incorporated in this issue of the *Quarterly Bulletin*. These revisions are based on more detailed or more appropriate data available. In addition, seasonal factors have been updated.

Real gross domestic product

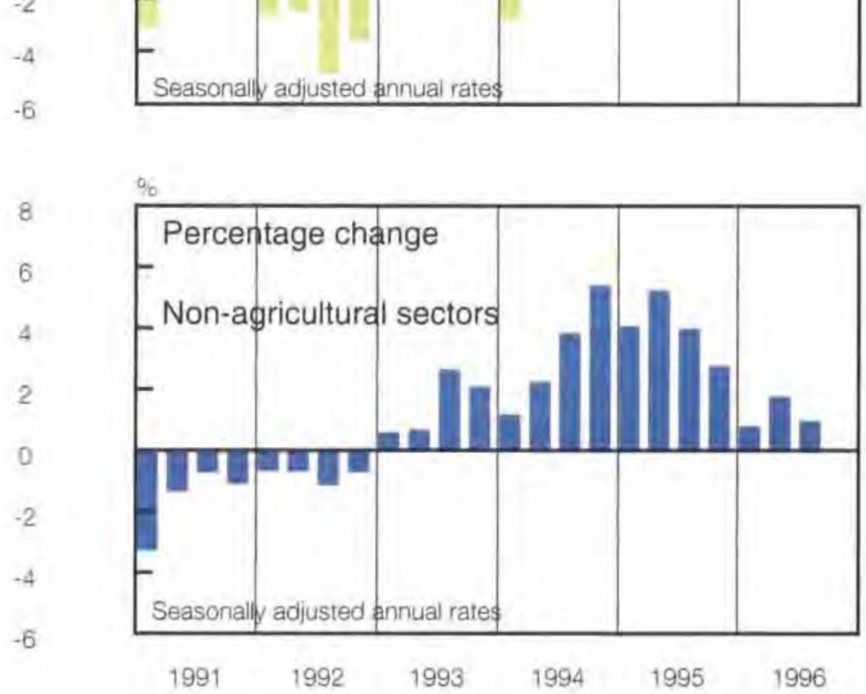


Table 1. Real gross domestic product by sector
Percentage change at seasonally adjusted and annualised rates

Sectors	1996 1st qr	1996 2nd qr	1996 3rd qr
Primary sectors	22½	13	13½
Agriculture	82½	52	54½
Mining	0	-5	-7
Secondary sectors	½	2	½
Manufacturing	-½	1½	-½
Electricity, gas and water	6½	5	5½
Tertiary sectors	½	3	2
Commerce	-3	5	½
Transport	1	2	2½
Financial services	3½	3	4
General government	1	1½	1
Total	3½	3½	3
Non-agricultural sectors	1	2	1

quarter of 1996, which means that the average compounded growth rate in the economy outside the agricultural sector was slightly more than 1 per cent over the first three quarters of 1996. This is significantly lower than the average quarter-to-quarter growth rate of 4 per cent in non-agricultural output which had been recorded in 1995. This decline in the output growth in the non-agricultural sector is broadly consistent with the downward tendency in the coincident business cycle indicator since the middle of 1995 and could be indicative of an economy which is already in the early stages of a period of relatively slower growth.

Agricultural production continued to increase at a very high rate in the third quarter of 1996 on account of exceptionally good weather conditions in most parts of the country which boosted the gross incomes of field-crop, horticultural and livestock farmers. The real output of field-crop farmers especially benefited from an "above-normal" maize crop, the bulk of which was harvested during the third quarter of 1996.

Total real output in the *mining sector*, which had shown almost no change in the first quarter of 1996, contracted at a seasonally adjusted and annualised rate of 5 per cent in the second quarter of 1996 and 7 per cent in the third quarter. The downward trend of mining output was the combined result of lower output in the gold-mining and other mining sectors, apart from diamond and coal mining. Gold-mining output was adversely affected in the third quarter of 1996 by isolated outbreaks of violence among workers, underground fires and seismic activities in some of the larger mines. In the category "other mining", output was also held back by labour-related problems at some of the platinum mines. In contrast to these developments, the level of real output in the diamond-mining and coal-mining industries increased to a level in the first three quarters of 1996 that was 2½ per cent higher than in the corresponding period of 1995.

The real output of the *manufacturing industry* declined slightly in the third quarter of 1996. This meant that the real value added by manufacturing in the first three quarters of 1996 showed almost no increase compared with output levels in the corresponding period in 1995. The slowdown in manufacturing output growth is explained by the slowdown in the growth in real domestic final demand in the first three quarters of 1996. The poor output performance of manufacturing enterprises since the beginning of 1996 was also reflected in lower rates of production capacity utilisation, which declined from a recent high of 83½ per cent in the second quarter of 1995 to 81½ per cent in the first three quarters of 1996.

In the *other secondary sectors*, the real value added by the sector supplying electricity, gas and water rose further at a comparatively high rate because of factors such as the on-going programme of distributing electricity to lower-income groups and the strong demand for electricity for heating purposes during an extraordinarily cold winter.

The real value added by the *tertiary sectors* continued to increase in the third quarter of 1996 at a rate that was higher than the growth rate of the non-agricultural goods-producing sectors. Although increases in real value added occurred in all the main services sectors, these were particularly evident in the transport and financial services sectors. The growth in the value added by the transport, storage and communication sector was assisted by the need to move agricultural commodities in bulk and the persistently high and rising volumes of foreign trade. The continued high levels of activity in the equity, bond and other financial markets almost guaranteed strong growth in the sector finance, insurance, real estate and business services. In the sector commerce and accommodation the rate of increase in real value added slowed down considerably from 5 per cent in the second quarter to only ½ per cent in the third quarter. This was mainly caused by a steep decline in the real output of the motor trade which came on the heels of an even steeper increase in the second quarter.

Domestic expenditure

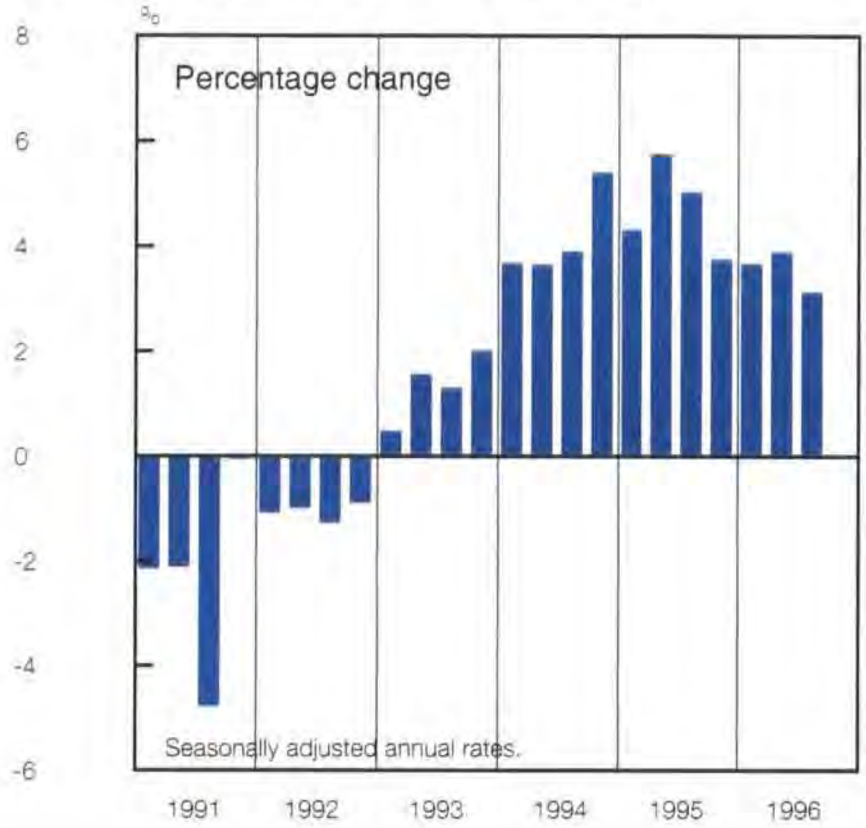
The comparatively strong growth in gross domestic product in the third quarter of 1996 was accompanied by a decline in *real gross domestic expenditure*. Following a small increase at a seasonally adjusted and annualised rate of ½ per cent in the first quarter of 1996, real gross domestic expenditure rose vigorously by 13

Table 2. Real gross domestic expenditure
Percentage change at seasonally adjusted and annualised rates

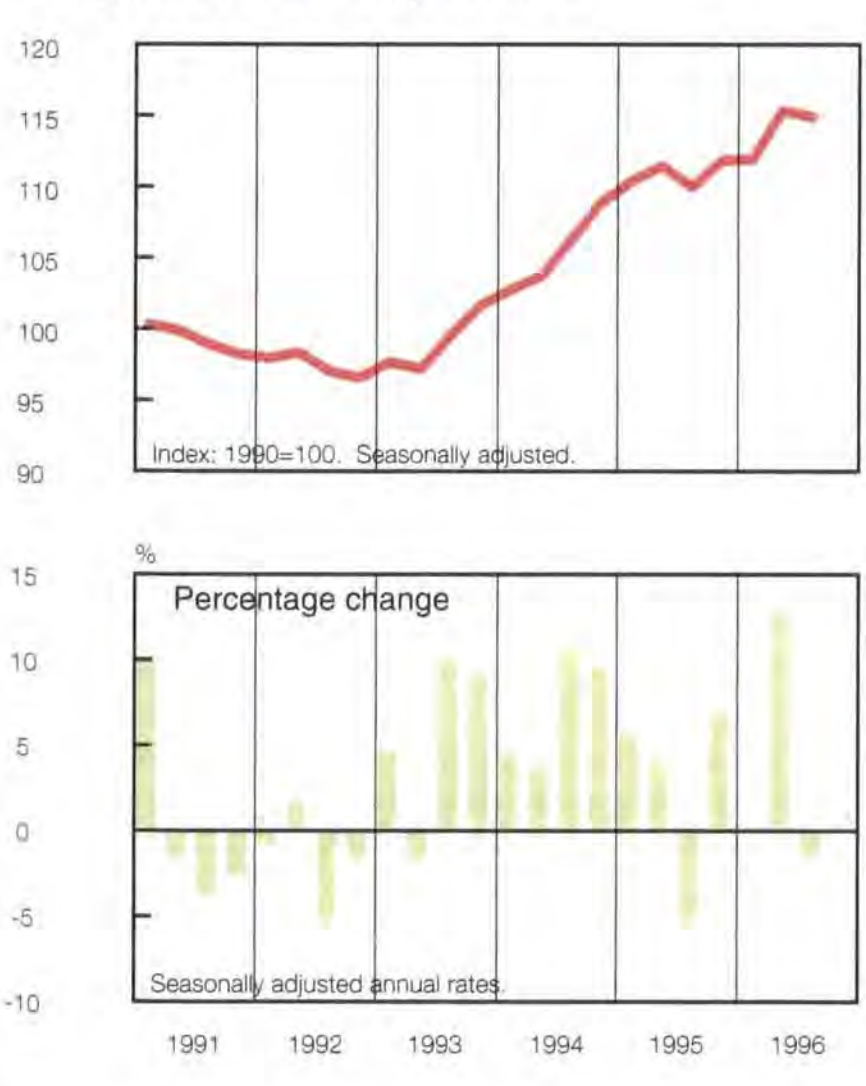
Components	1996		
	1st qr	2nd qr	3rd qr
Private consumption expenditure	3½	4	3
Government consumption expenditure	3	3	2
Gross domestic fixed investment	8	6½	3½
Change in inventories (R billions)	2,3	7,3	2,9
Gross domestic expenditure	½	**13**	**-1½**

per cent in the second quarter, but then declined by 1½ per cent in the third quarter. This turnaround can be attributed mainly to a substantial decline in the rate of inventory accumulation and a slowdown in real domestic final demand. In the first three quarters of 1996 total real gross domestic expenditure was about 3 per cent higher than in the first three quarters of 1995.

Real private consumption expenditure



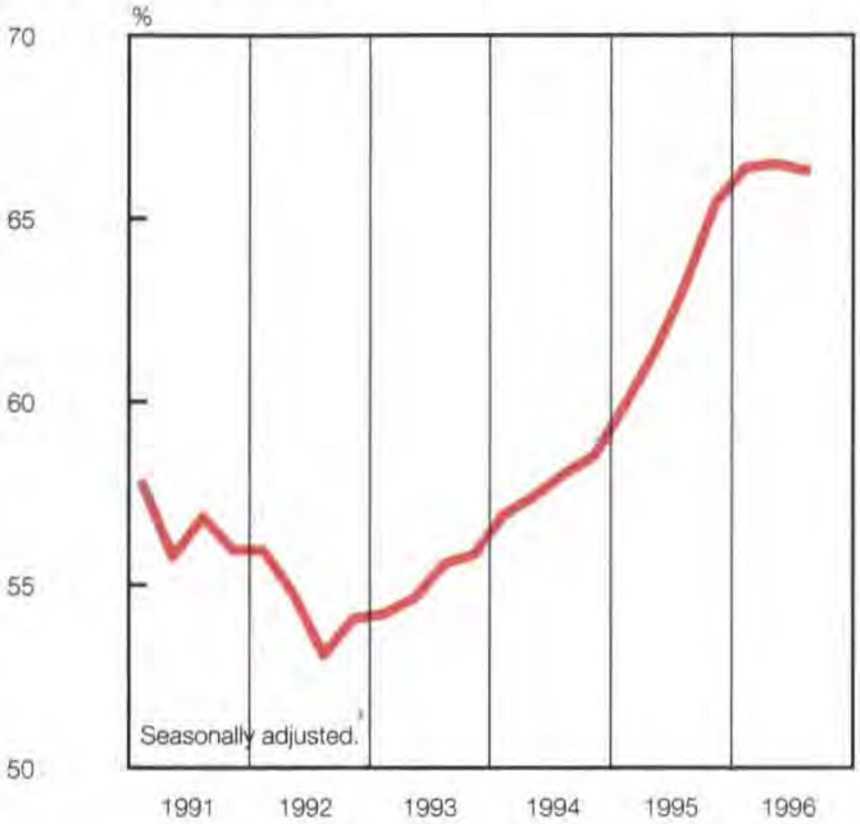
Real gross domestic expenditure



Real outlays on *private consumption expenditure* increased sharply in the first three quarters of 1996 and the quarter-to-quarter rate of increase in this total accelerated from 3½ per cent in the first quarter to 4 per cent in the second quarter, before rising at a lower rate of 3 per cent in the third quarter. The relatively strong growth in real private consumption expenditure in the third quarter was realised despite a decline in real outlays on durable consumer goods. Real expenditure on personal transport equipment fell at an annualised rate of 18½ per cent in the third quarter of 1996 because motor vehicle sales returned to more sustainable levels after the exceptionally high sales volumes of the second quarter.

Apart from the role played by higher private household income, the rising spending levels of consumers were also made possible by the willingness of individuals to incur debt. Real household incomes were boosted by the strong rise in gross farm incomes and increases in salaries and wages, which continued to outpace the rise in the prices of consumer goods and services. Aggregate household debt still increased in the first three quarters of 1996, but at a rate that corresponded approximately with the growth in personal disposable income. The ratio of household debt to personal

Household debt as percentage of personal disposable income



disposable income accordingly stayed roughly unchanged at 66½ per cent over the first three quarters of 1996.

The rate of increase in *real consumption expenditure by general government* slowed down from an annualised level of 3 per cent in the first two quarters of 1996 to 2 per cent in the third quarter. This slower growth was the result of some curtailment in the rate of expenditure by general government departments on intermediate goods and services. The current outlays by general government in the first nine months of 1996 was still 2½ per cent higher than in the corresponding period of 1995. The increase in real consumption expenditure by general government was ½ per cent in the calendar year 1995.

The upward momentum in *real gross domestic fixed investment* since the third quarter of 1993 was maintained in the third quarter of 1996. Current estimates suggest that increases in total real gross domestic fixed investment, at an annualised rate of 8 per cent in the first quarter of 1996 and 6½ per cent in the second quarter, were followed by a further rise of 3½ per cent in the third quarter. Real gross domestic fixed investment in the first three quarters of 1996 was some 7½ per cent higher than in the first three quarters of 1995, compared with growth of 10½ per cent in 1995 as a whole. The further improvement in capital formation in the third quarter was brought about by an expansion of real capital expenditure by all three institutional sectors, namely the private sector, public corporations and public authorities.

Real fixed investment by the private sector increased at a seasonally adjusted and annualised rate of 5 per cent in the first quarter of 1996 and 8 per cent in the second quarter, but then slowed down to 4 per cent in the third quarter. A classification of capital spending in the private sector by type of economic activity shows that the whole sector, apart from the mining industry, participated in the creation of additional production capacity in the third quarter of 1996. Capital expenditure projects currently in progress in the private sector vary from large industrial developments in the metals industry and exhibition centres and entertainment complexes in the services sectors to the expansion and replacement of production capacity in the agricultural sector.

Real *fixed capital formation by the public sector* increased at an annualised rate of 2½ per cent in the third quarter. The investment activities of public corporations were mostly concentrated in the sectors supplying electricity, gas, water and telecommunication services. The increased amount of fixed investment spending by public authorities again indicated the high priority accorded to public-service delivery at the level of provincial governments and local authorities.

The gradual reduction in *inventory investment* since the third quarter of 1995, which was disrupted by a substantial increase in inventory accumulation in the second quarter of 1996, resumed its downward movement in the third quarter. Expressed at constant 1990 prices, inventories increased at an annualised rate of R2,3 billion in the first quarter of 1996 and R7,3 billion in the second quarter, against only R2,9 billion in the third quarter. Whereas the change in real inventory investment raised the growth of real gross domestic product by 7 percentage points in the second quarter of 1996, it reduced overall growth by 6 percentage points in the third quarter.

The smaller increase in aggregate inventory levels in the third quarter than in the second quarter was the result of lower levels of investment in industrial and commercial inventories than in the second quarter and declines in the level of inventory investment in the mining sector. This was partly countered by stockpiling of agricultural commodities at the end of the third quarter owing to the harvesting of a bumper maize crop. Despite the slower pace of inventory accumulation in the third quarter of 1996, the ratio of industrial and commercial inventories to gross domestic product in the non-agricultural sectors of the economy remained broadly unchanged at the level of 18½ per cent attained in the second quarter.

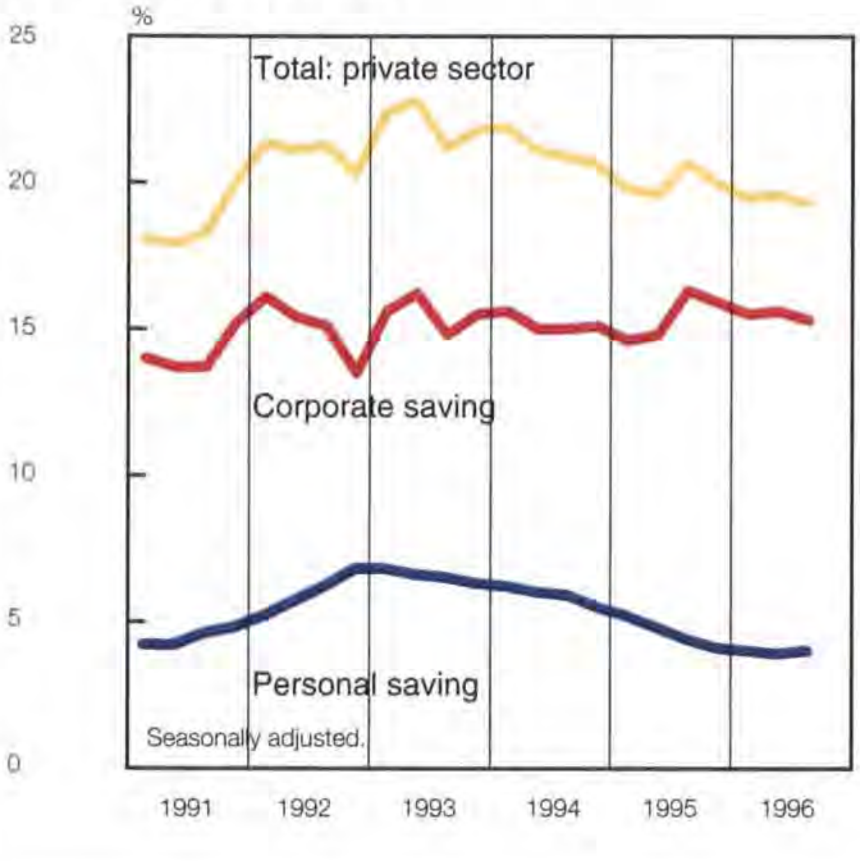
Factor income and saving

The growth over four quarters in *total nominal factor income* at market prices declined from an average of 12 per cent in the final two quarters of 1995 to 11 per cent in the first quarter of 1996, but then accelerated again to 12 per cent in the second and the third quarter. The faster growth during 1996 could be ascribed to stronger growth in the operating surpluses of business enterprises and a slight acceleration in the rate of increase in total labour remuneration. The growth over four quarters in *aggregate remuneration of labour* amounted to 10 per cent in the first three quarters of 1996, which was some 3 percentage points higher than the average rate of consumer price inflation over this period. As aggregate employment was still declining in the early part of 1996, the accelerated growth in labour remuneration should be attributed to rising wages and salaries per worker.

Growth in the nominal *gross operating surpluses* of business enterprises, measured over periods of four quarters, edged higher from 13½ per cent in the first quarter of 1996 to an average of approximately 15½ per cent in the second and third quarter. This stronger growth was mainly due to an improvement in the gross income of farmers and the fillip given to the profitability of exporters in the mining and manufacturing sectors by the decline in the exchange rate of the rand.

The ratio of total *gross domestic saving* to gross domestic product in the third quarter of 1996 remained at the relatively low level of 17 per cent that was registered in the second quarter. This low saving ratio, which is totally inadequate in view of the country's investment and growth requirements, was the result of a sustained high level of dissaving by general government and a weak, though still positive, saving performance by the private sector. Owing mainly to higher tax collections, the net dissaving by general government as a percentage of gross domestic product was reduced from 4 per cent in 1995 to 3½ per cent in the first three quarters of 1996. The corresponding ratio for the private sector declined slightly from 7½ per cent in 1995 to 7 per cent in the first three quarters of 1996.

Private-sector saving as percentage of gross domestic product



Employment

The recovery in overall economic activity since the middle of 1993 has not succeeded in improving the employment-creating potential of the South African economy. The *average annual employment in the formal non-agricultural sectors* of the economy increased only once during the past six years, when it rose at a year-to-year rate of 0,7 per cent in 1995. This increase was followed by a sharp decline of 3,6 per cent, at a seasonally adjusted and annualised rate, in the first quarter of 1996 and a further decline of 2,1 per cent in the second quarter. (The second quarter of 1996 is the most recent period for which information has been released by the Central Statistical Service.)

Against the backdrop of the increasingly competitive international economic environment, employers facing persistently strong demands for higher real wages can adjust their employment practices in response to these demands in three different ways:

(i) resist the wage demands and reduce wages to restore profitability and by so-doing create new or preserve existing employment opportunities;

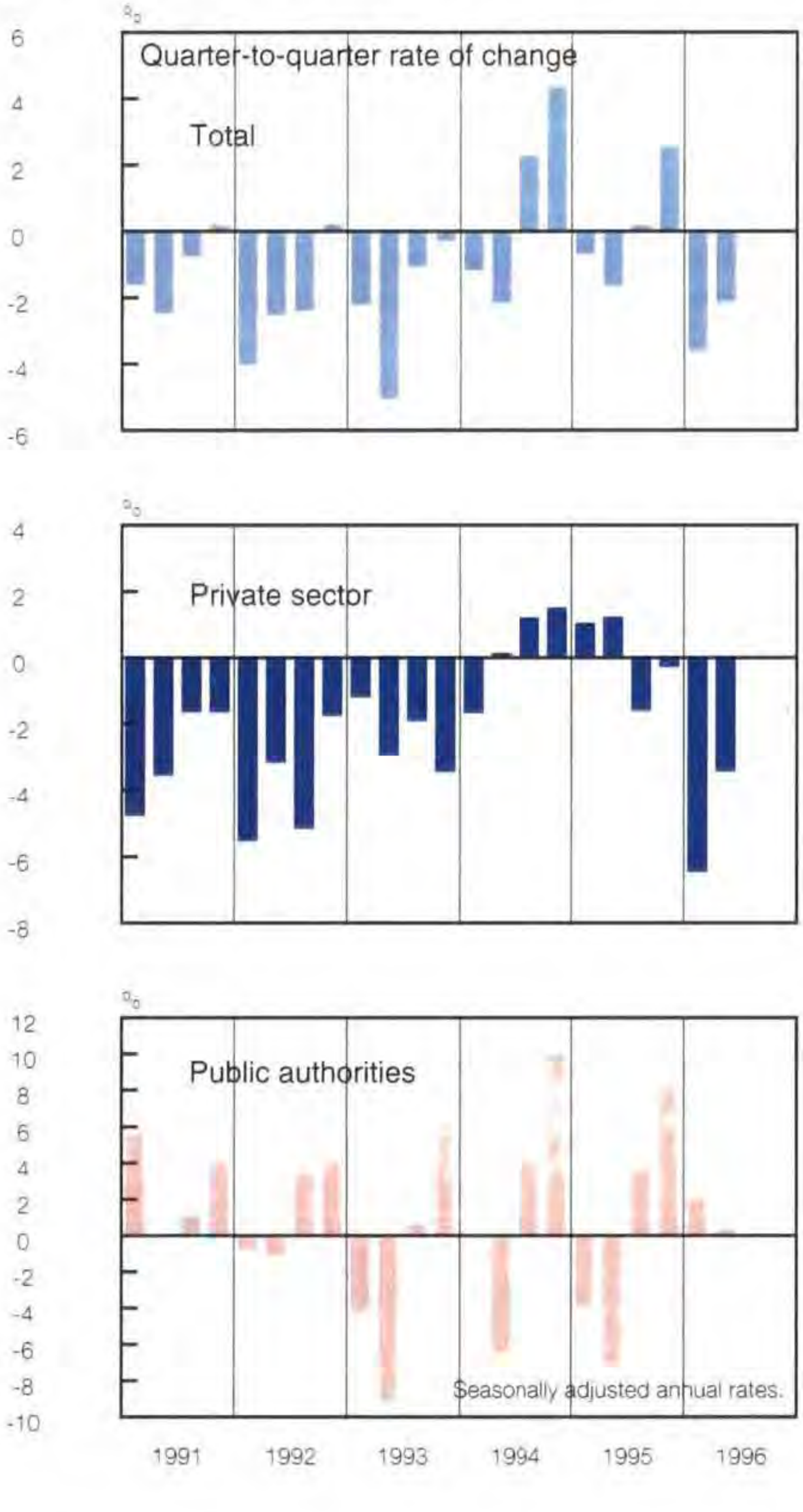
(ii) improve productivity by investing in new equipment or retrenching workers, thereby increasing the capital-intensity and reducing the labour-intensity of production methods; or

(iii) procrastinate and take no corrective steps to resist higher real wages or improve productivity. Under this scenario businesses incur losses, which they subsequently attempt to recover by increasing their output prices. Ultimately they lose competitiveness to such an extent that they are forced out of existence.

The "improvement in productivity" seems to be the approach adopted by most businesses in South Africa since the end of the 1980s. Faced by persistent demands for higher real wages and salaries, producers responded by retrenching workers and introducing more capital-intensive methods of production. The outcome was a decline in aggregate employment instead of in the level of real wages. In fact, real wages have been rising since the end of the 1980s, while total employment has been falling. This labour shedding has succeeded in restoring gross operating surpluses: as a percentage of the aggregate value of output, the share of operating surpluses has been rising steadily from 37,6 per cent in the fourth quarter of 1992 to 41,3 per cent in the third quarter of 1996.

Gross operating surpluses as percentage of gross domestic product

Non-agricultural employment



Total *employment by private-sector organisations* in the formal non-agricultural sectors of the economy declined consecutively by seasonally adjusted and annualised rates of 1,6 per cent, 0,3 per cent, 6,4 per cent and 3,4 per cent in the four quarters since the third quarter of 1995. As a result, about 104 000 employment opportunities in the private sector were lost between the second quarter of 1995 and the second quarter of 1996. Fragmentary information for July 1996 indicates further declines in employment totals in the manufacturing, mining and quarrying, construction and the electricity-generating sectors.

Despite falling back in the first two quarters of 1995, *total employment by the public authorities* increased by 0,5 per cent in 1995 and further at seasonally adjusted and annualised rates of 2,2 per cent in the first quarter of 1996 and 0,4 per cent in the second quarter. Total employment in the public sector consequently showed virtually no sign of a reduction in the overall size of the public service as is envisaged in the government's recently adopted macroeconomic strategy. On the contrary, the ratio of employment by public authorities to total employment in the formal non-agricultural sectors has now increased from 30,3 per cent in the first quarter of 1990 to 34,6 per cent in the second quarter of 1996.

The recent decrease in employment in the formal sectors of the economy led to a rising number of *registered unemployed workers*. On average, the monthly number of unemployed workers rose by 7,7 per cent from the first six months of 1995 to the first six months of 1996. This brought the total number of the registered unemployed to almost 320 000 in June 1996 as against 244 000 in October 1995.

Labour costs and productivity

The rate of increase in the *average nominal remuneration per worker* declined from a year-to-year rate of 11,9 per cent in 1994 to 9,4 per cent in 1995. As shown in Table 3, the downward trend in the nominal remuneration per worker was reversed in the third quarter of 1995. The higher growth in salaries and wages per worker since the second quarter of 1995 was recorded in the remuneration of persons employed by both the private sector and the public authorities. Despite this recent acceleration in the increases in

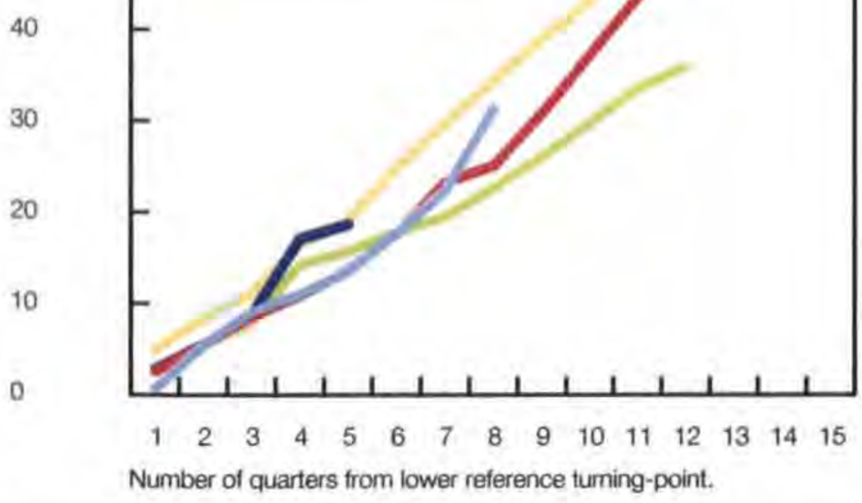
Table 3. Changes in labour costs and productivity
Percentage change over four quarters

Period		Remuneration per worker		Labour productivity	Nominal unit labour cost
		Nominal	Real		
1995:	1st qr.....	10,7	2,3	2,7	7,9
	2nd qr....	7,3	-0,7	3,3	3,9
	3rd qr	8,9	0,6	3,7	5,0
	4th qr.....	10,1	1,0	3,4	6,5
1996:	1st qr.....	11,7	2,4	3,2	8,3
	2nd qr....	10,9	1,0	2,6	8,1

nominal remuneration per worker, the growth in the average remuneration per worker in the current economic recovery was still less than in other upward phases of the business cycle since the 1970s.

The year-to-year increase in *real remuneration per worker* in the sectors of the economy outside agriculture (defined as the nominal remuneration per worker divided by the price deflator for the non-agricultural gross domestic product) fell from 3,2 per cent in 1994 to 0,9 per cent in 1995. In a fashion similar to the year-on-year increase in the nominal remuneration per worker, the year-on-year growth in real remuneration per worker accelerated since the third quarter of 1995. In the second quarter of 1995, the real remuneration of workers was 0,7 per cent below its level of a year earlier, owing mainly to the abnormally high levels of worker remuneration at the time of the general election in the second quarter of 1994. Real worker remuneration then increased in the year to the third quarter of 1995 and accelerated further in the fourth quarter and the first quarter of 1996. The growth over four quarters in real remuneration per worker then subsided somewhat in the second quarter of 1996.

Non-agricultural remuneration per worker



Number of quarters from lower reference turning-point.

The general upward trend in real wages was accompanied by higher *labour productivity*. The year-to-year growth in real output per worker amounted to 3,3 per cent in 1995 – this was the highest year-to-year growth since 1978, when a rate of 3,9 per cent was registered. Productivity growth came to 2,6 per cent in the year to the first quarter of 1996. This improvement in productivity was partly at the expense of employment and was not entirely accounted for by an increase in work effort.

As could be expected with lower increases in labour remuneration and rising productivity, the rate of increase in *nominal unit labour costs* in the non-agricultural sectors of the economy declined from 9,0 per cent in 1994 to 5,9 per cent in 1995. This slowdown in the rate of increase in nominal unit labour costs contributed to the deceleration of year-on-year consumer-price inflation during 1995 and in the early months of 1996. The faster growth in nominal remuneration per employee, without a commensurate acceleration in productivity growth, resulted in accelerated year-on-year rates of increase in nominal unit labour costs since the third quarter of 1995. This higher rate of growth in average labour cost per unit of output contributed to the quickening of inflation in both producer and consumer price indices.

Prices

The rate of inflation, as measured by changes over twelve months in the production and consumer price indices, declined since the beginning of 1995 and took the average inflation in consumer prices to 8,7 per cent in the calendar year 1995 – the lowest year-to-year rate recorded since 1972. However, in the months since March 1996 the changes from month to month in the consumer price index moved to a higher average level. Similarly, the month-to-month changes in the production price index, on average, moved to a higher level as from April 1996. These movements could mean that year-to-year inflation is moving higher from the levels that prevailed in the early months of 1996. Factors such as the

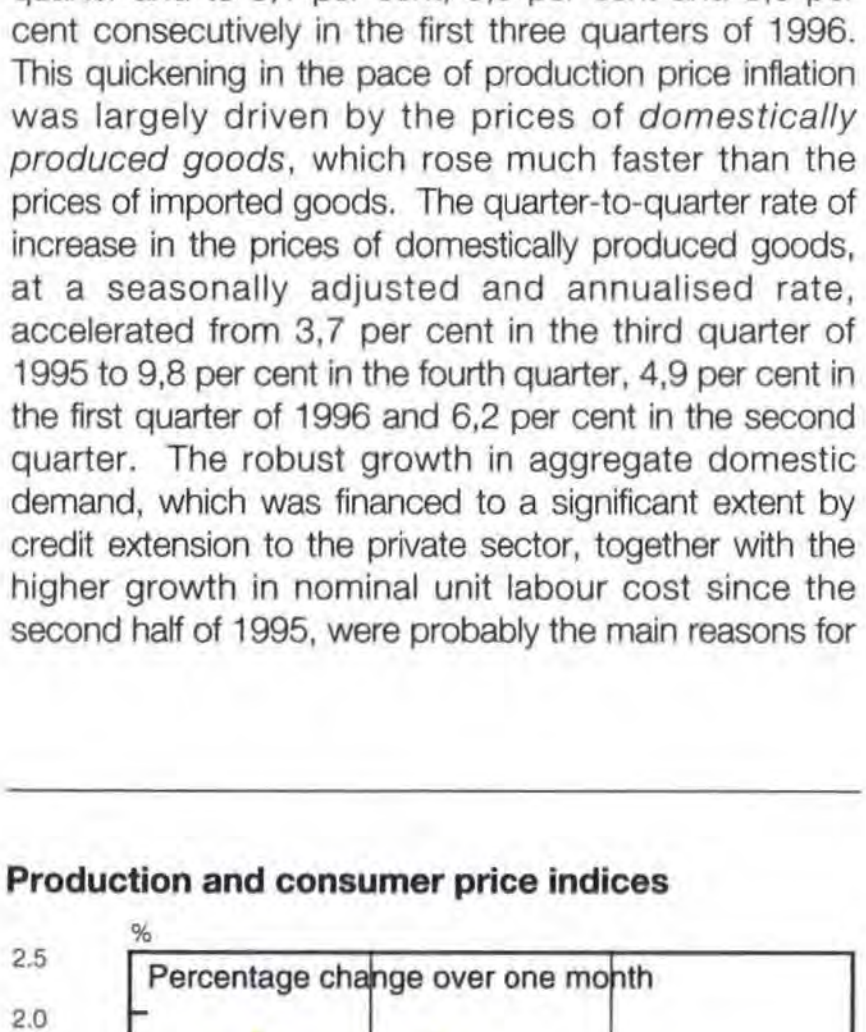
- depreciation of the rand since mid-February 1996,
- persistently strong growth in the money supply and domestic credit extension,
- faster growth in nominal unit labour costs since the second half of 1995, and

- rising food prices,

seem to point towards some setback in the progress made with reducing inflation during the 1990s.

Measured from quarter to quarter and annualised, the rate of increase in both the production and consumer price indices reached a lower turning point in the third quarter of 1995. The rise in the *all-goods production price index* accelerated from 2,8 per cent in the third quarter of 1995 to 7,9 per cent in the fourth quarter and to 5,1 per cent, 6,3 per cent and 9,6 per cent consecutively in the first three quarters of 1996. This quickening in the pace of production price inflation was largely driven by the prices of *domestically produced goods*, which rose much faster than the prices of imported goods. The quarter-to-quarter rate of increase in the prices of domestically produced goods, at a seasonally adjusted and annualised rate, accelerated from 3,7 per cent in the third quarter of 1995 to 9,8 per cent in the fourth quarter, 4,9 per cent in the first quarter of 1996 and 6,2 per cent in the second quarter. The robust growth in aggregate domestic demand, which was financed to a significant extent by credit extension to the private sector, together with the higher growth in nominal unit labour cost since the second half of 1995, were probably the main reasons for the higher increase in the prices of domestically produced goods. In the third quarter of 1996 the prices of domestically produced goods accelerated further to 11,5 per cent when the prices of food also rose quite sharply from month to month.

Production and consumer price indices



The seasonally adjusted index of the *prices of imported goods* declined at an annualised rate of 0,5 per cent from the second quarter of 1995 to the third quarter. The prices of imported goods then increased at a seasonally adjusted annualised rate of 2,8 per cent in the fourth quarter of 1995 and 6 per cent in the first quarter of 1996. Despite the steep depreciation of the rand, the quarter-to-quarter increase in the prices of imported goods stayed relatively subdued in the second and third quarters of 1996: an increase at an annualised rate of 7,0 per cent was recorded in the second quarter and 2,6 per cent in the third quarter when there were hardly any changes from month to month in the prices of imported goods from July to September. The small increases in the prices of imported goods that followed in the wake of the steep decline in the exchange rate of the rand were probably related to the lowering of import tariffs, competition among suppliers of imported goods and declines in the prices of imported mining and quarrying products.

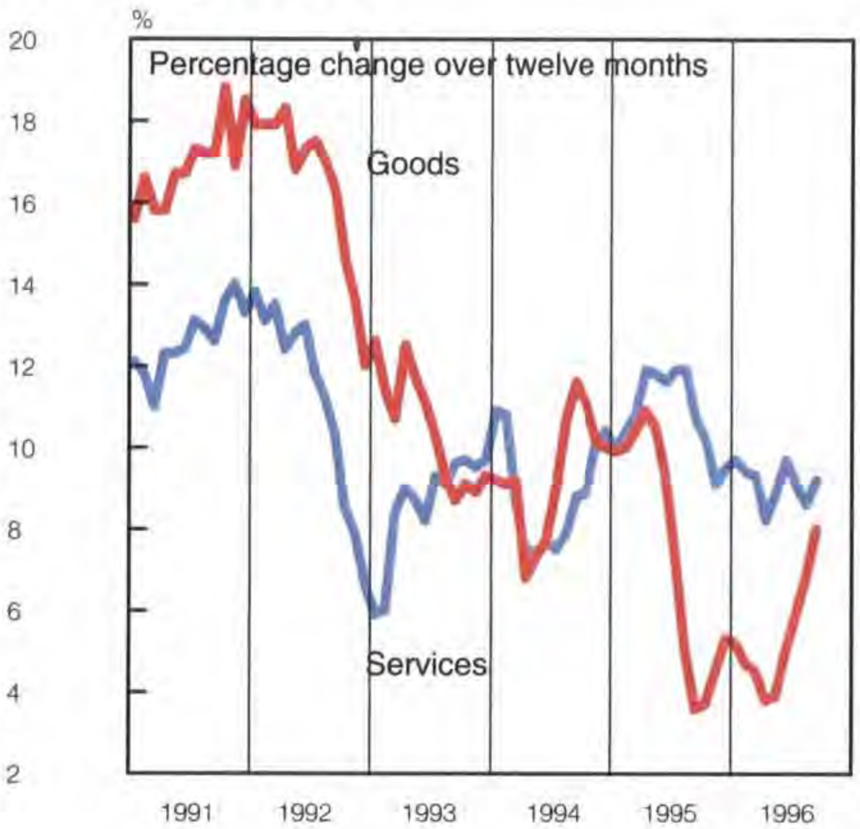
Like the movements in the all-goods production price index, the seasonally adjusted and annualised quarter-to-quarter rate of increase in the *overall consumer price index* accelerated from 2,2 per cent in the third quarter of 1995 to 9,5 per cent in the first quarter of 1996, 7,0 per cent in the second quarter and 8,9 per cent in the third quarter. Measured over periods of twelve months, the rate of increase in the overall consumer price index has remained below 10 per cent since July 1995 and reached its lowest level since June 1972 when it declined to 5,5 per cent in April 1996. It subsequently accelerated to 6,9 per cent

Table 4. Consumer price inflation over twelve months

Per cent

Period		Overall inflation	Underlying inflation
1996:	Jan	6,9	7,3
	Feb	6.5	7,1
	Mar	6,3	6,8
	Apr	5,5	6,6
	May	5,9	6,8
	Jun	6,9	7,3
	Jul	7,1	7,6
	Aug	7,5	7,5
	Sep	8,4	8,0
	Oct	9,1	8,5

Consumer price index



in June 1996, 8,4 per cent in September and 9,1 per cent in October. The prices of consumer goods, which are strongly influenced by increases in domestic production costs, contributed more than the prices of consumer services to the recent acceleration of overall consumer price inflation. Whereas the prices of consumer goods accelerated by 4,9 percentage points from 3,8 per cent in April 1996 to 8,7 per cent in October, the prices of consumer services accelerated by 1,6 percentage point from 8,2 per cent in April 1996 to 9,8 per cent in September.

Underlying inflation (i.e. the rate of increase over periods of twelve months in the overall consumer price index excluding the prices of food and non-alcoholic beverages, home owners' cost and value-added tax) has been below 10,0 per cent for an uninterrupted period of 31 months. It has, nonetheless, accelerated from 6,6 per cent in April 1996 – its lowest point since February 1979 – to 8,0 per cent in September and 8,5 per cent in October. This acceleration in underlying inflation clearly signals that policy-makers cannot relax in their vigil against price inflation.

Foreign trade and payments

Current account

The deficit on the current account of the balance of payments, which had widened from R2,3 billion in the first quarter of 1996 to R4,7 billion in the second quarter, shrank to R3,5 billion in the third quarter. In the first three quarters of 1996 the cumulative deficit on the current account accordingly totalled R10,5 billion. After adjustment for seasonal influences and measured at an annualised rate, the deficit on the current account contracted from R16,8 billion in the second quarter to R11,0 billion in the third quarter. As a ratio of gross domestic product, the deficit on the current account declined from 3,1 per cent in the second quarter to 2,0 per cent in the third quarter.

Sharp increases in the value of merchandise exports and in net gold exports were the main factors responsible for the improvement in the balance on the current account in the third quarter of 1996. Part of the increase in the value of exports during the third quarter of 1996 was probably due to the depreciated exchange rate of the rand. The value of imports, of course, also increased as a result of the depreciation of the rand, but this increase could not fully offset the increase in export values.

Current account

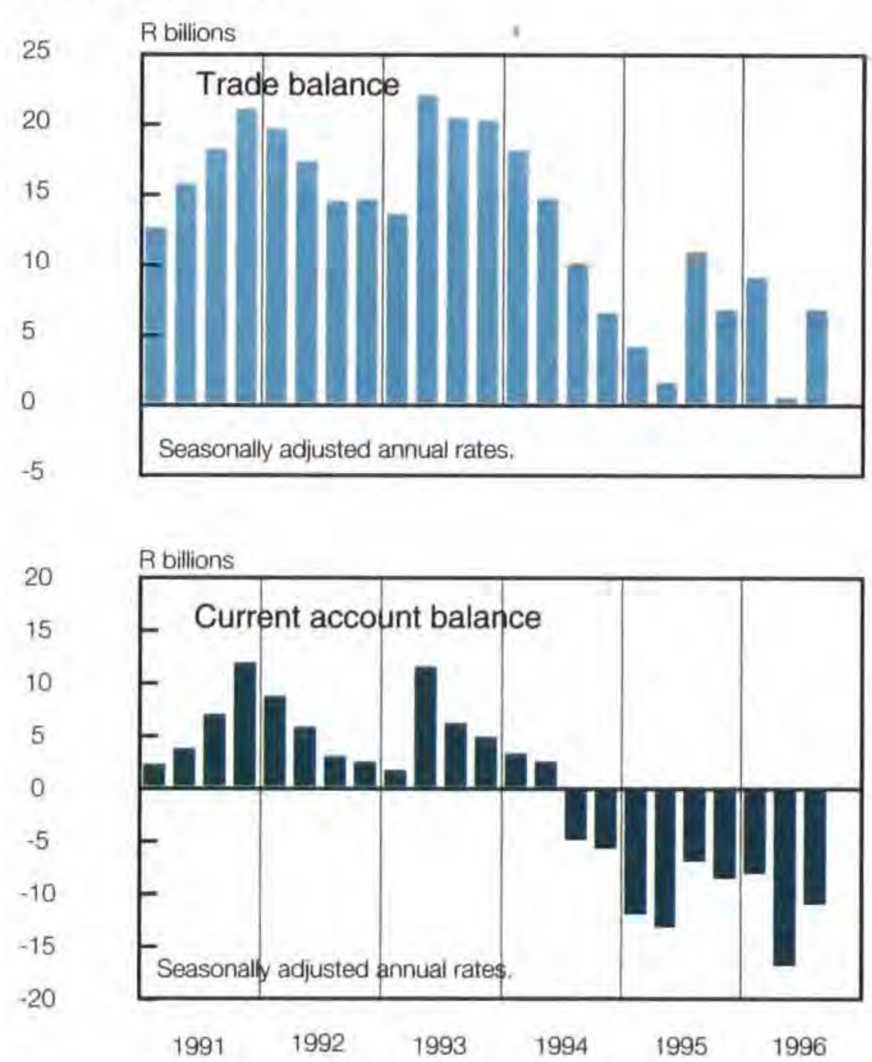


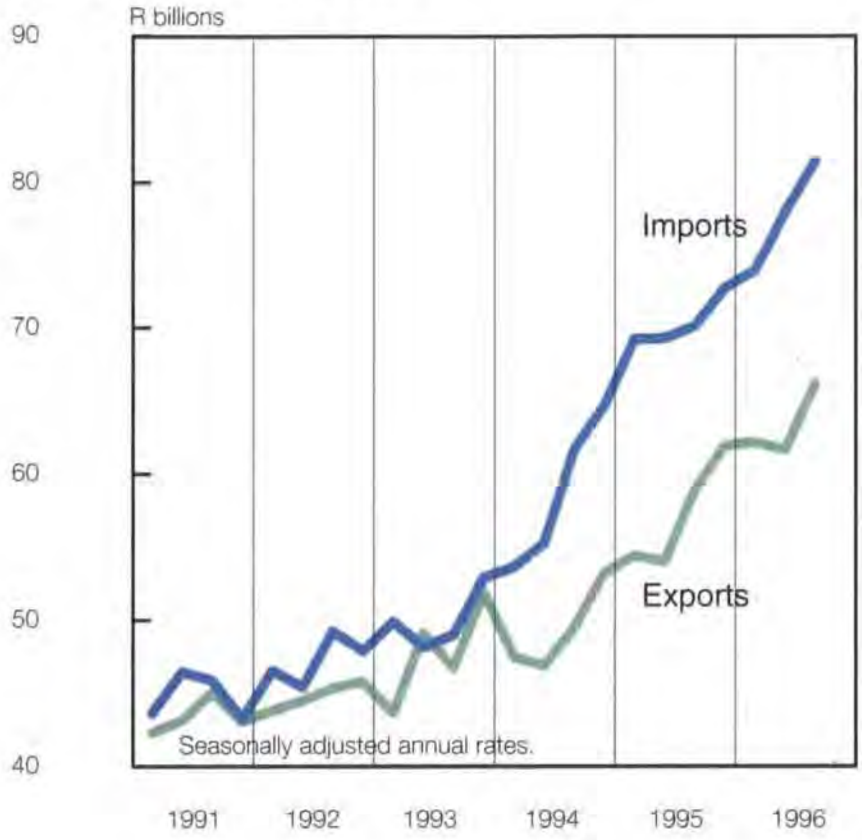
Table 5. Balance of payments on current account
Seasonally adjusted and annualised rates
R billions

	1995	1996		
	Year	1st qr	2nd qr	3rd qr
Merchandise exports.......	81,3	90,0	94,3	102,8
Net gold exports..............	22,5	23,4	20,8	26,5
Merchandise imports.......	-98,0	-104,3	-114,5	-122,5
Net service and transfer payments	-16,0	-17,2	-17,4	-17,8
Balance on current account	**-10,2**	**-8,1**	**-16,8**	**-11,0**

The value of *merchandise exports* rose from a seasonally adjusted and annualised value of R94,3 billion in the second quarter of 1996 to R102,8 billion in the third quarter. This represents a quarter-to-quarter increase of 9 per cent. The value of exports of mining products and manufactured goods rose strongly in the third quarter of 1996. The export values of mining products, many of which are determined in foreign currency, benefited from the decline in the exchange rate of the rand. The price elasticity of the export demand for South Africa's manufactured goods is also estimated to exceed the value of unity; it is therefore not entirely surprising to see the export quantities of manufactured goods responding positively to the increased competitiveness of local producers. Chemical products, machinery and electrical equipment and transport equipment showed a strong increase in export values in the third quarter. The exports of agricultural goods also began to rise on account of the high level of agricultural production that followed from the excellent climatic conditions experienced in the first half of the year.

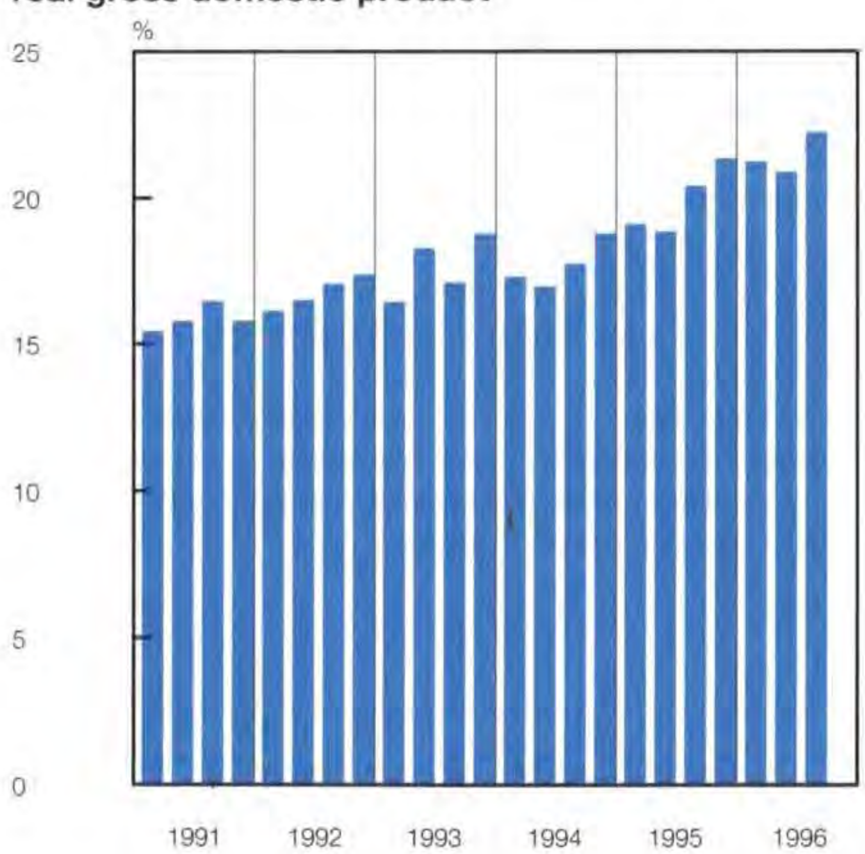
The *volume of merchandise exports* rose by slightly more than 7 per cent in the third quarter of 1996. The physical quantity of exported goods in the first nine months of 1996 was no less than 13½ per cent above its level in the corresponding period of 1995. As this growth rate is likely to exceed that of aggregate world trade, it is conceivable that South Africa gained some market share in international trade during the first three quarters of 1996. As a percentage of real gross domestic product, merchandise exports, at constant prices, rose from 20,9 per cent in the second quarter of 1996 to 22,2 per cent in the third quarter. Although the movement in international commodity prices remained relatively uninspiring, the average p*rice level of merchandise exports* still rose by 2 per cent from the second to the third quarter of 1996 owing to the further decline in the nominal exchange rate of the rand.

Real merchandise trade



The value of *net gold exports*, at seasonally adjusted and annualised rates, fell from R23,4 billion in the first quarter of 1996 to R20,8 billion in the second quarter, but then recovered strongly to R26,5 billion in the third

Real merchandise exports as percentage of real gross domestic product



quarter. The increase in the third quarter of 1996 could be attributed to higher rand prices received for gold exports and to an increase in the volume of gold exported. Although the average fixing price of gold on the London market declined from US$390 per fine ounce in the second quarter of 1996 to US$385 in the third quarter, the rand equivalent of the gold price moved from R1 683 per fine ounce to R1 721 per fine ounce over the same period. The rand price of gold advanced to R1 744 per fine ounce in October 1996, while the dollar price retreated further to US$381 per fine ounce. The selling of gold from inventories that had been accumulated over previous quarters resulted in an increase of 10½ per cent in the physical quantity of gold exports from the second quarter of 1996 to the third quarter.

The persistently high level of aggregate domestic demand, the depreciation of the rand, the resultant rise in the prices of imported goods and expectations of further declines in the exchange rate of the rand which encouraged the early import of intermediate goods and capital equipment in order to beat higher prices later, were primarily responsible for the rise of 7 per cent in the *value of merchandise imports* between the second and the third quarter of 1996. The depreciation of the rand, rising international oil prices and modest price increases in trading partner countries caused the prices of merchandise imports to rise by 3 per cent in the third quarter of 1996. Mainly due to pronounced increases in the imports of agricultural products and manufactured goods, the volume of imports rose by 4 per cent from the second to the third quarter of 1996.

Net service and transfer payments to non-residents (seasonally adjusted and annualised), which had increased to R17,4 billion in the second quarter of 1996, rose again to R17,8 billion in the third quarter. This increase in the deficit on the services account of the balance of payments was the net result of a rise of R1,7 billion in payments for services to foreigners and a rise of R1,3 billion in receipts for services rendered to non-residents. More specifically, the higher payments for services resulted from the higher level of foreign trade and the associated payments for freight and insurance, and higher interest payments on account of the increased debt exposure of South African organisations to non-residents.

Table 6. Merchandise imports and exports
Seasonally adjusted quarter-to-quarter percentage change

	1996		
	1st qr	2nd qr	3rd qr
Merchandise imports			
Value	3	10	7
Price	1	4	3
Volume	2	6	4
Merchandise exports			
Value	2	5	9
Price	2	6	2
Volume	-	-1	7

Capital account

Among the many ramifications of the depreciation of the rand was a drastic turnaround in the capital account of the balance of payments. As investors' perceptions of South Africa turned increasingly negative, the net inward movement of capital not related to reserves fell at first from an average quarterly figure of R4,8 billion in 1995 to R1,4 billion in the first two quarters of 1996 and then changed to a net outflow of R0,2 billion in the third quarter of 1996. Included in this net outflow of capital were various payment commitments in terms of the existing formal agreements for the repayment of foreign debt that was previously affected by the debt standstill arrangements, such as R575 million which had to be paid mostly to foreign creditor banks, R685 million of government-guaranteed loans and R760 million of previously affected debt which had been converted into long-term loans maturing in the third quarter of 1996.

The net movements of *long-term capital* experienced an abrupt reversal: inflows of long-term capital of R4,3 billion in the first quarter of 1996 and R1,9 billion in the second quarter changed to a net outflow of R0,1 billion in the third quarter. All the institutional sectors indicated in Table 7, apart from the private sector, recorded net outflows of long-term capital. The inflow of long-term capital to domestic private-sector entities was predominantly in the form of net purchases

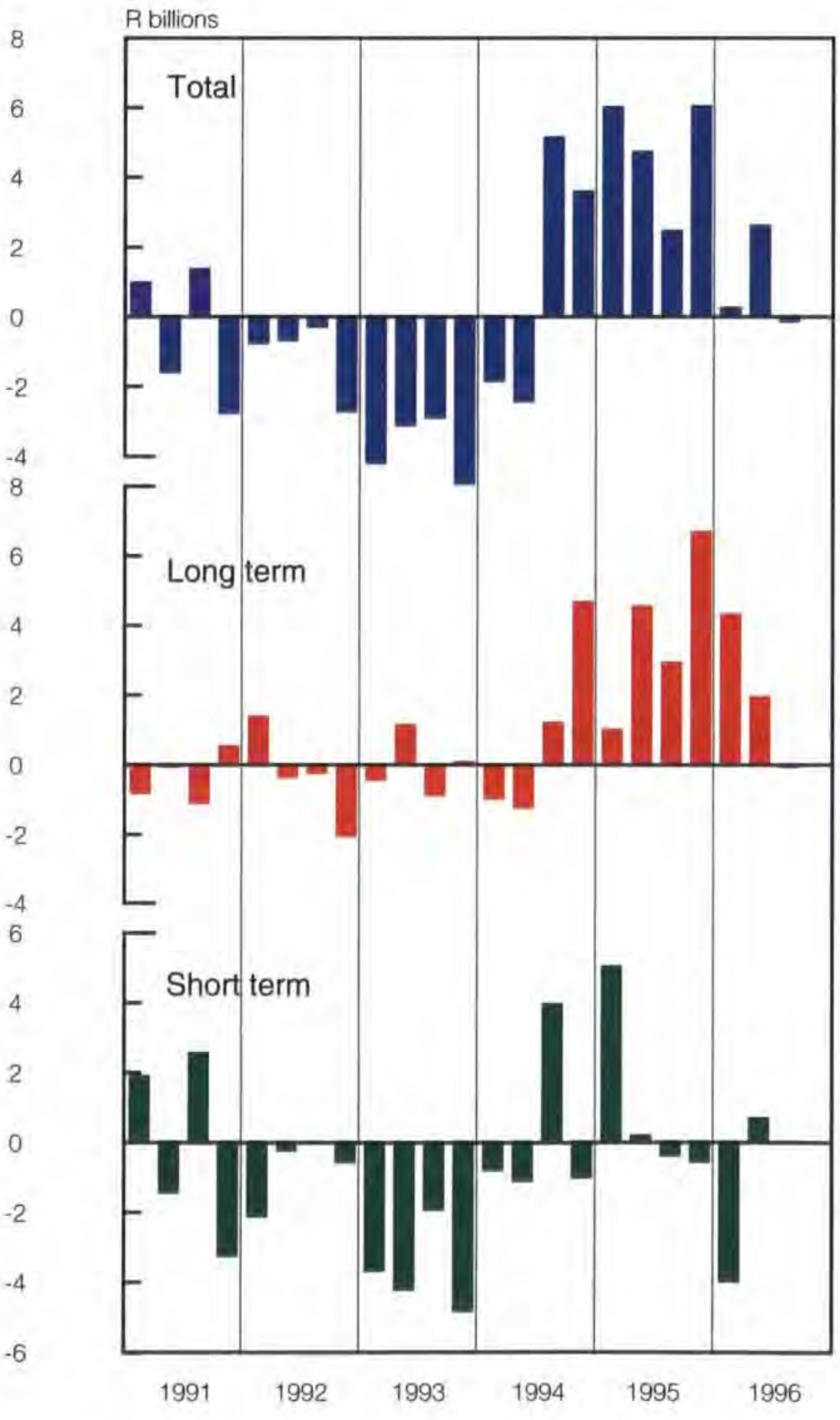
Table 7. Net capital movements not related to reserves
R billions

	1995	1996		
	Year	1st qr	2nd qr	3rd qr
Long-term capital				
Public authorities	4,6	1,3	0,1	-0,2
Public corporations	2,3	0,9	1,0	-0,8
Monetary sector	1,8	-0,2	-0,4	-0,2
Private sector	6,4	2,3	1,2	1,1
Total	**15,1**	**4,3**	**1,9**	**-0,1**
Short-term capital	4,1	-4,0	0,7	-0,1
Total capital	**19,2**	**0,3**	**2,6**	**-0,2**

by non-residents of shares listed on the Johannesburg Stock Exchange to an amount of R1,5 billion. However, non-residents became net sellers of shares to the value of R1,3 billion in October 1996.

Predictably, net movements of *short-term capital* became even more volatile than before the rand began to depreciate in February 1996. A net outflow of short-term capital, including unrecorded transactions, of R4,0 billion in the first quarter of 1996 turned into a net inflow of R0,7 billion in the second quarter, which was subsequently converted into a net outflow of R0,1 billion in the third quarter. Unlike previous quarters when the private banks were prominently involved in the inward or outward movement of short-term capital to and from the country, banks reduced their short-term foreign liabilities by a relatively small amount in the third quarter.

Net capital movements (not related to reserves)



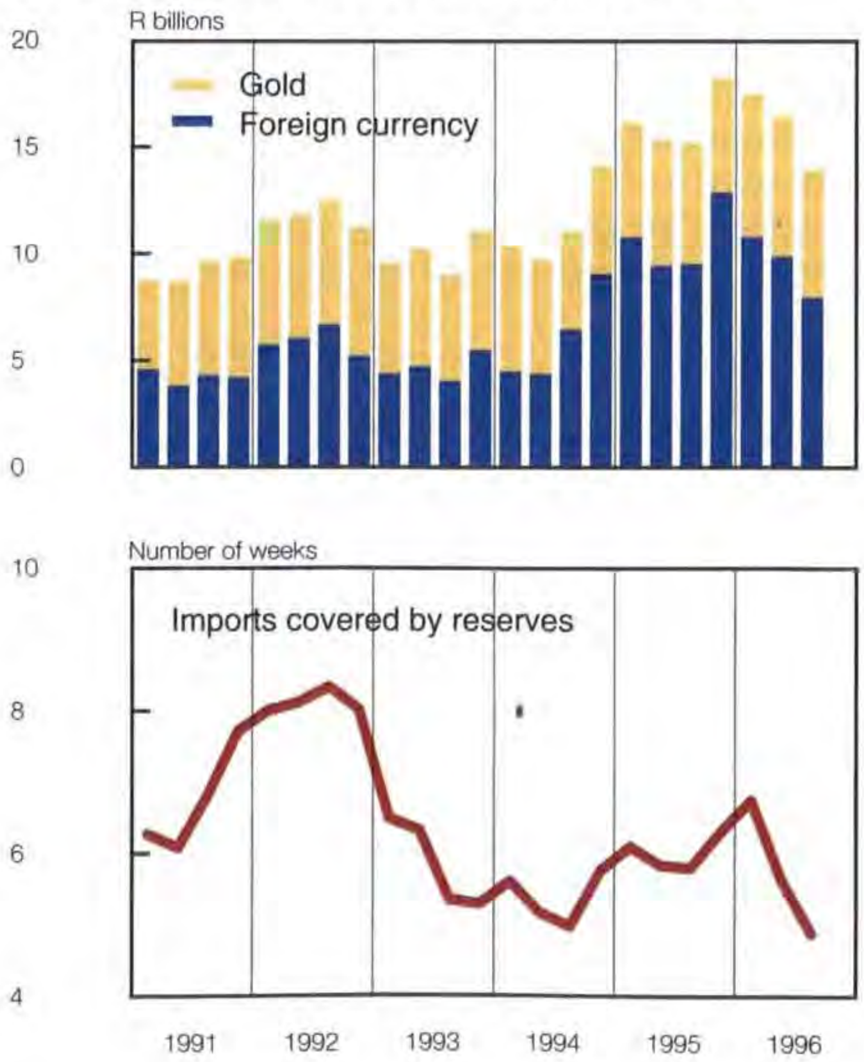
Owing to the strong inflow of short-term capital to the banking sector in the second quarter of 1996, the short-term foreign liabilities of the banks remained at a high level throughout the third quarter.

Foreign reserves

The joint effect of deficits on the current account and the capital account of the balance of payments was a decline of R3,7 billion in the country's net gold and other foreign reserves during the third quarter of 1996. The accumulated decline in the *net gold and other foreign reserves* came to R7,8 billion in the first three quarters of 1996. This decline compares with a buildup of the net gold and foreign reserves amounting to R4,7 billion in the first three quarters of 1995. In October 1996, however, the net gold and other foreign reserves of the Reserve Bank rose once again by R0,4 billion.

The country's *gross gold and other foreign reserves* declined by R2,6 billion in the third quarter of 1996, bringing the overall level of gross foreign reserves to R13,9 billion at the end of that quarter. This level of gross foreign reserves consisted of about 43 per cent gold reserves and 57 per cent foreign currency holdings. Included in the foreign currency holdings at the end of September 1996 was an amount of R0,6

Total gross gold and other foreign reserves



billion obtained through short-term borrowing to raise the level of gross foreign reserves; this amount was fully repaid in October 1996. The gross foreign reserves of the country at the end of September were equal to the value of imports' for a period of only about 4½ weeks, compared with about 5½ weeks at the end of September 1995. Subsequently, the gross foreign reserves of the Reserve Bank improved slightly by R0,2 billion in October 1996.

Exchange rates of the rand

The *nominal effective exchange rate of the rand,* which had declined by 14,6 per cent between the end of 1995 and the end of June 1996, declined further by 4,3 per cent over the three-month period to the end of September 1996. The index value of the nominal effective exchange rate declined steeply in July 1996, but relative tranquillity prevailed in the foreign currency market during the remaining months of the third quarter and, in fact, the rand appreciated marginally. This brief interlude of relative stability came to an end in October 1996 when the rand again became the target of speculative attacks which caused its nominal trade-weighted value to decline by 5,5 per cent from the end of September 1996 to the end of October. This brought the accumulated depreciation of the rand over the first ten months of 1996 to 22,7 per cent.

The *real effective exchange rate of the rand* declined by 12,1 per cent over the first half of 1996. A further decline of 3 per cent in July and August 1996 then took the index of the real exchange rate of the rand to a level that was 15,9 per cent lower than the recent upper turning-point in January 1996. This decline is a fair approximation of the extent to which the competitiveness of South African producers has improved since the beginning of 1996.

The value of the *net daily turnover in foreign exchange* (i.e. the gross purchases and sales of the major currencies in the spot and forward markets, adjusted for double counting arising from local interbank transactions) declined from an average daily turnover of US$6,7 billion in the second quarter of 1996 to US$4,9 billion in the third quarter. This overall decline occurred in both the spot and the forward exchange market. The value of transactions in the spot market involving non-resident institutions, including the offshore branches of South African banks, increased from an average of US$1,5 billion per day in the second quarter of 1996 to US$1,8 billion per day in the third quarter. These developments coincided with the slowdown in the pace of decline in the exchange rate of the rand during the third quarter of 1996.

Effective exchange rates of the rand

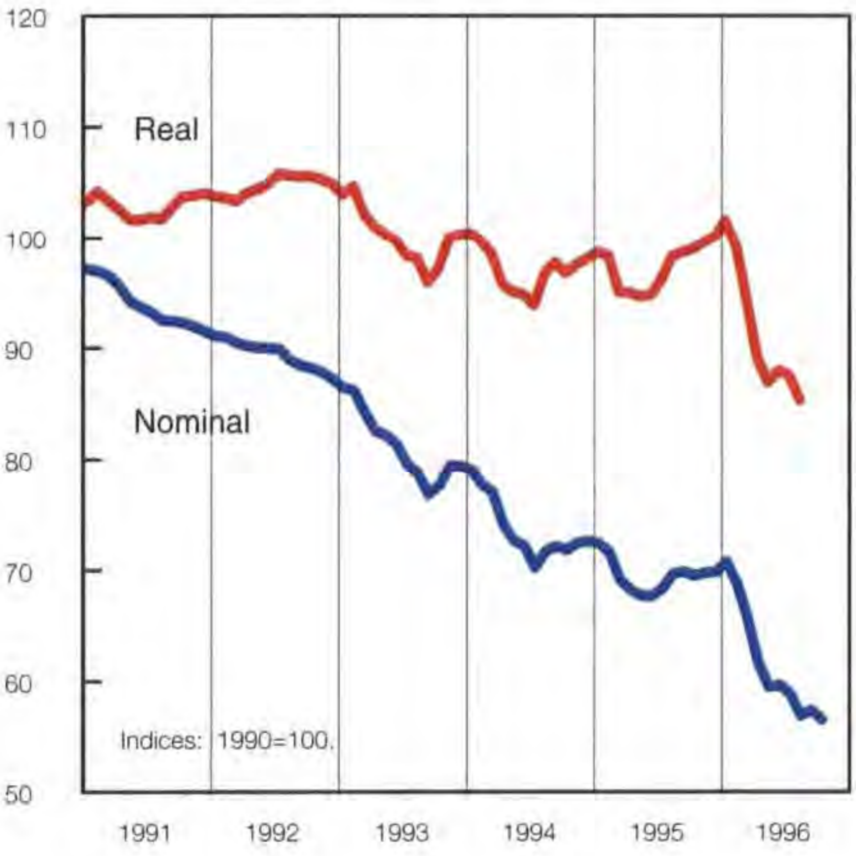


Table 8. Changes in the exchange rates of the rand
Per cent

	31 Dec 1995 to 31 Mar 1996	31 Mar 1996 to 30 Jun 1996	30 Jun 1996 to 30 Sep 1996	30 Sep 1996 to 31 Oct 1996	31 Dec 1995 to 31 Oct 1996
Weighted average	-8,0	-7,2	-4,3	-5,5	-22,7
US dollar	-8,9	-7,6	-4,1	-4,6	-23,0
British pound	-7,5	-8,9	-5,0	-8,5	-26,8
German mark	-6,4	-4,6	-3,8	-5,6	-18,9
Japanese yen	-5,8	-4,5	-2,8	-3,0	-15,2
Netherlands guilder	-6,5	-4,4	-3,8	-5,6	-18,8
Italian lira	-9,9	-9,6	-4,6	-5,4	-26,4

The weakness of the rand since February 1996 was driven by persistent rumours about imminent changes in the exchange controls that still apply to South African residents, the weak overall balance of payments situation, the low level of foreign exchange reserves, rising inflation and somewhat one-sided expectations about future movements in the exchange rate which created opportunities for destabilising speculation. As indicated in Table 8, the decline in the exchange value of the rand was particularly severe against the British pound and the Italian lira. The rand equivalent of the US dollar rose from R3,65 at the end of December 1995 to R4,74 at the end of October 1996.

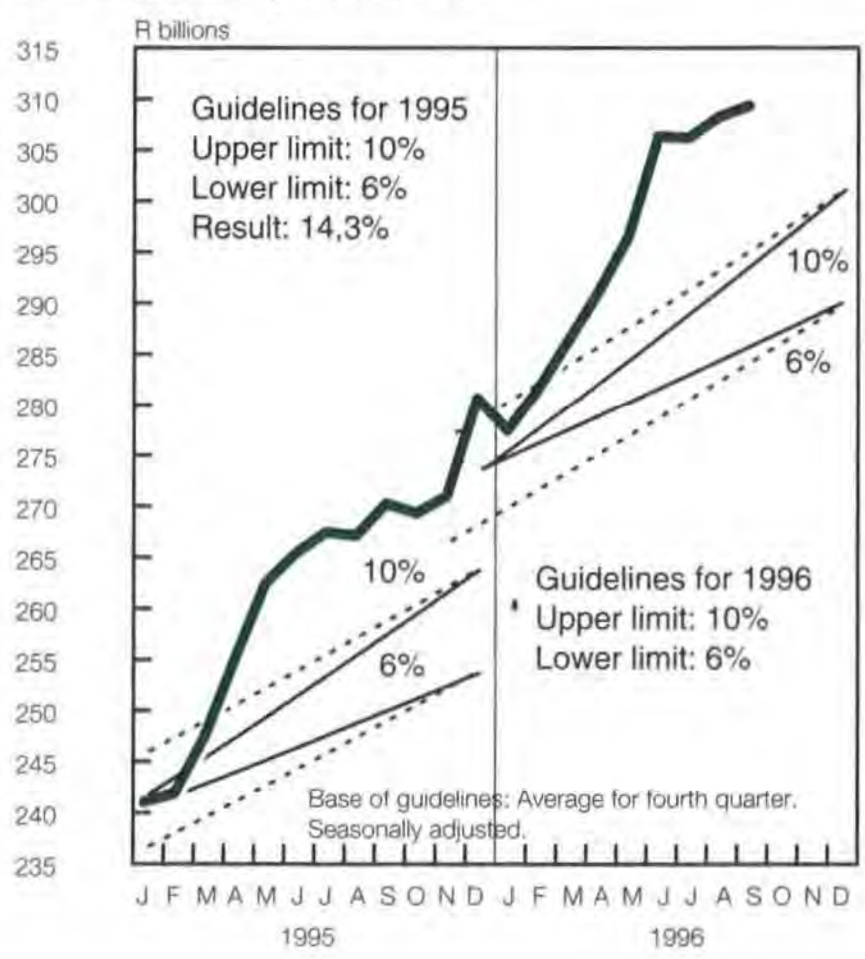
Monetary developments, interest rates and financial markets

Money supply

The *broadly defined money supply (M3)* expanded rapidly in the first nine months of 1996. The twelve-month growth rate of M3 fluctuated in a range between 16,1 per cent in February 1996 and 13,6 per cent in May. In the third quarter of 1996, the twelve-month growth rate seemed to have slackened slightly from 15,7 per cent in June to 14,5 per cent in September. The quarter-to-quarter growth in the quarterly average value of M3 (seasonally adjusted and annualised), which had accelerated from 6,9 per cent in the fourth quarter of 1995 to 13,7 per cent in the first quarter of 1996 and 21,2 per cent in the second quarter, also slowed down somewhat to 18,6 per cent in the third quarter of 1996.

As a result of the rapid monetary expansion in the first three quarters of 1996, the seasonally adjusted monthly values of M3 exceeded, by a substantial margin, the upper limit of the guideline range of 6-10 per cent for the current guideline year. The seasonally adjusted value of M3 in September 1996 was R13,8 billion or 4,7 per cent higher than the upper limit of the guideline cone. The growth in the seasonally adjusted value of M3, at an annualised rate and measured from the base of the guideline year, came to 15,9 per cent

Guidelines for growth in M3



in September 1996; this was well above the upper limit of 10 per cent for the current guideline growth range.

The rapid growth in the money supply during 1996 was related partly to the strong expansion in consumption and investment expenditure, including inventory accumulation. Apart from this transactions need for money, the private sector's liquidity preference might have been strengthened by political uncertainty during the second quarter of 1996.

The higher demand for money holdings was also motivated by a speculative need for money, founded on expectations of major adjustments in the bond and share markets. Institutional investors, such as long-term insurers and pension funds, showed strong preference to maintain larger-than-usual liquid balances with monetary institutions. The decline in the exchange rate of the rand and expectations of likely policy interventions also strengthened the private non-bank sectors' liquidity preference.

Lower inflation and consequently some increased confidence in money as a store of value added to the demand for depository-type investments during 1996. The margins between the banks' lending and deposit rates narrowed slightly in the third quarter of 1996. This normally gives rise to an increase in bank-intermediated activity, thereby adding to the M3 money supply.

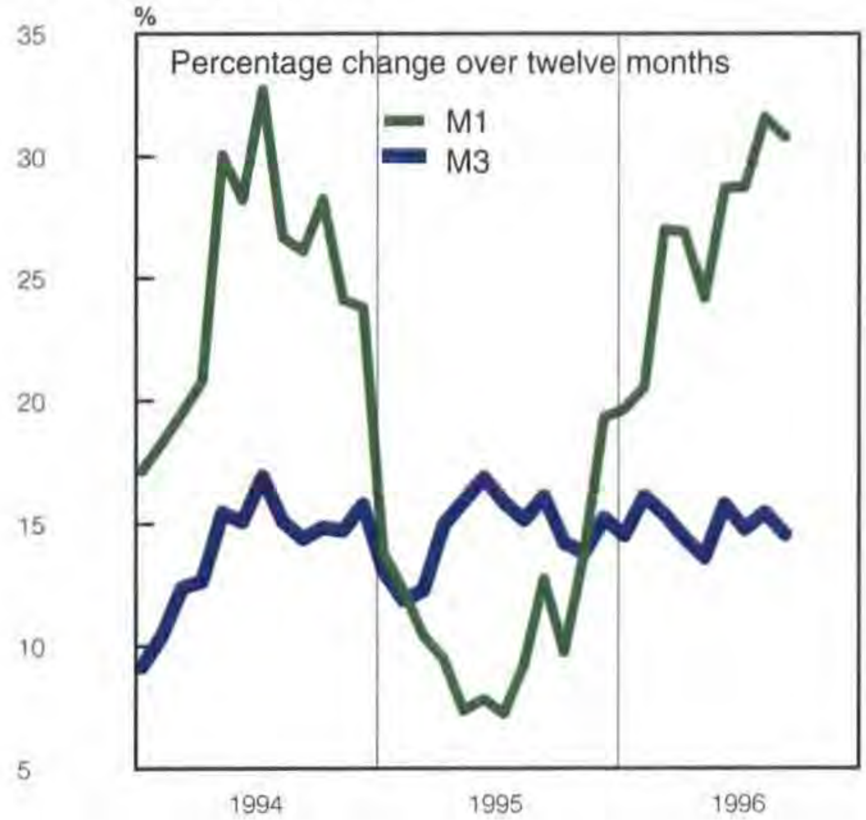
Evidence of the strong liquidity preference of the private sector during the first three quarters of 1996 is presented in Table 9. The changes in the components of M3 clearly reveal a preference for the holding of shorter-term deposits.

Table 9. Quarterly changes in components of monetary aggregates

R billions

Monetary aggregates	1996 1st qr	1996 2nd qr	1996 3rd qr
Notes and coin in circulation	0,3	0,5	-0,3
Cheque and transmission deposits	-2,4	4,5	3,7
M1A	-2,1	5,0	3,4
Other demand deposits	7,9	2,6	3,3
M1	5,8	7,6	6,7
Other short- and medium-term deposits	3,5	5,9	-3,6
M2	9,3	13,5	3,1
Long-term deposits	-1,3	1,7	1,0
M3	8,0	15,2	4,1

Monetary aggregates



Cheque and transmission deposits were highly popular in the second and third quarters of 1996, whereas other demand deposits maintained their popularity throughout the first three quarters of 1996. In total, these two categories of deposits contributed about 72 per cent to the growth in M3 in the first nine months of 1996. In contrast, long-term deposits either experienced relatively small increases or declined during each of the first three quarters of 1996 and contributed only about 5 per cent to the growth in M3 over the first three quarters of 1996.

The growth rates over twelve months in the narrower monetary aggregates also revealed the

Table 10. Twelve-month growth rates in M1 and M3

Per cent

Period	M1	M3
1996: Jan	19,6	14,5
Feb	20,5	16,1
Mar	27,0	15,3
Apr	26,9	14,4
May	24,1	13,6
Jun	28,7	15,7
Jul	28,7	14,7
Aug	31,6	15,4
Sep	30,7	14,5

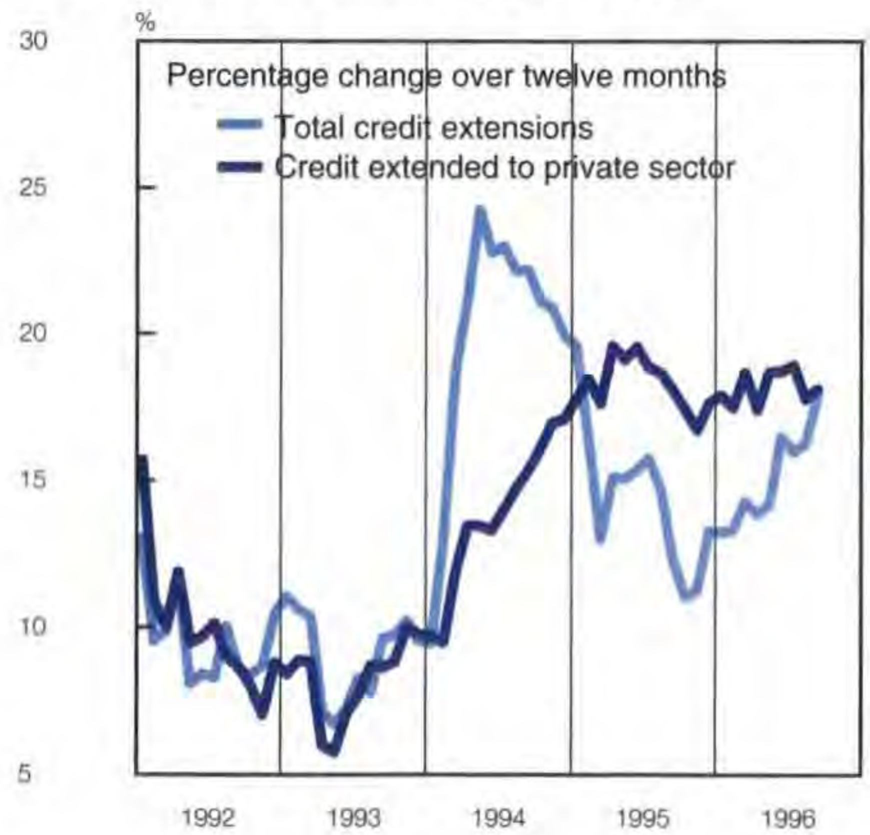
preference for shorter-term deposits with monetary institutions. The twelve-month growth of M1 continuously outpaced the growth in M3 during the first nine months of 1996: the growth differential in favour of M1 was more than 16 percentage points in August and September 1996.

The *main counterpart* (in a statistical or accounting sense) of the R4,1 billion increase in M3 in the third quarter of 1996 was an increase in the monetary institutions' claims on the private sector. This was offset to a large extent by decreases in the monetary institutions' net foreign assets, their net claims on the government sector and their net other assets. The net claims of monetary institutions on the government sector showed a fairly drastic reversal from an increase of R8,9 billion in the second quarter of 1996 to a decline of R2,1 billion in the third quarter.

Credit extension

The rate of increase over twelve months in *total domestic credit extension* of the monetary sector increased from 13,2 per cent in December 1995 to 14,2 per cent in March 1996 and then to 16,4 per cent in June 1996. Total domestic credit growth over twelve months then remained at roughly 16 per cent in July and August 1996, but accelerated to 17,8 per cent in September. The relatively high rate of credit extension in the third quarter of 1996 was mainly the result of strong growth in credit extension to the non-bank private sector. As mentioned earlier, the net claims of the monetary institutions on the government sector declined in the third quarter of 1996.

Credit extended by monetary institutions



Credit extended by the monetary institutions to the non-bank *private sector* persisted to increase at an inordinately high rate during the first nine months of 1996. The twelve-month growth rate in credit extension to the private sector accelerated at first from 17,6 per cent in December 1995 to 18,9 per cent in July 1995; it then receded slightly to 18,1 per cent in September 1996. These monthly growth rates exceeded the inflation rate as measured by changes in the consumer price index and the increase in real credit extension over twelve months accelerated from 10,0 per cent in December 1995 to 11,6 per cent in March 1996. When consumer-price inflation began to accelerate in the second quarter of 1996, the rise in real private-sector credit extension declined to 11,0 per cent in June 1996 and 8,9 per cent in September.

An analysis of monetary institutions' claims on the private sector by *type of credit* shows that growth in credit extension to the private sector consisted mostly of increases in mortgage advances, instalment sales, leasing finance, overdrafts and "other loans and advances". Together the increase in these types of credit extension exceeded the overall increase in the monetary sector's claims on the private sector. The strong demand of private-sector entities for credit was boosted by firm increases in current expenditure by households and capital expenditure by companies. High external trade volumes and a switching of trade-based credit from foreign to domestic sources on account of the increased volatility of the exchange rate and recent rises in forward cover costs gave further impetus to private-sector credit growth in the third quarter of 1996.

Mortgage advances by the monetary sector to the non-bank private sector once again showed a strong rise in the third quarter of 1996. Considering the slowing of activity in the real estate market since May 1996, it seems obvious that a sizeable portion of

Table 11. Increases in credit extension to the private sector by main type of credit

R billions

	1996		
Type of credit	**1st qr**	**2nd qr**	**3rd qr**
Mortgages	5,3	5,1	6,5
Instalment sales	1,6	2,3	1,8
Leasing finance	0,7	0,9	1,7
Investments	1,0	-1,6	0,6
Bills discounted	-0,6	0,3	-1,2
Other loans and advances	6,2	3,9	5,0
Total	**14,2**	**10,9**	**14,4**

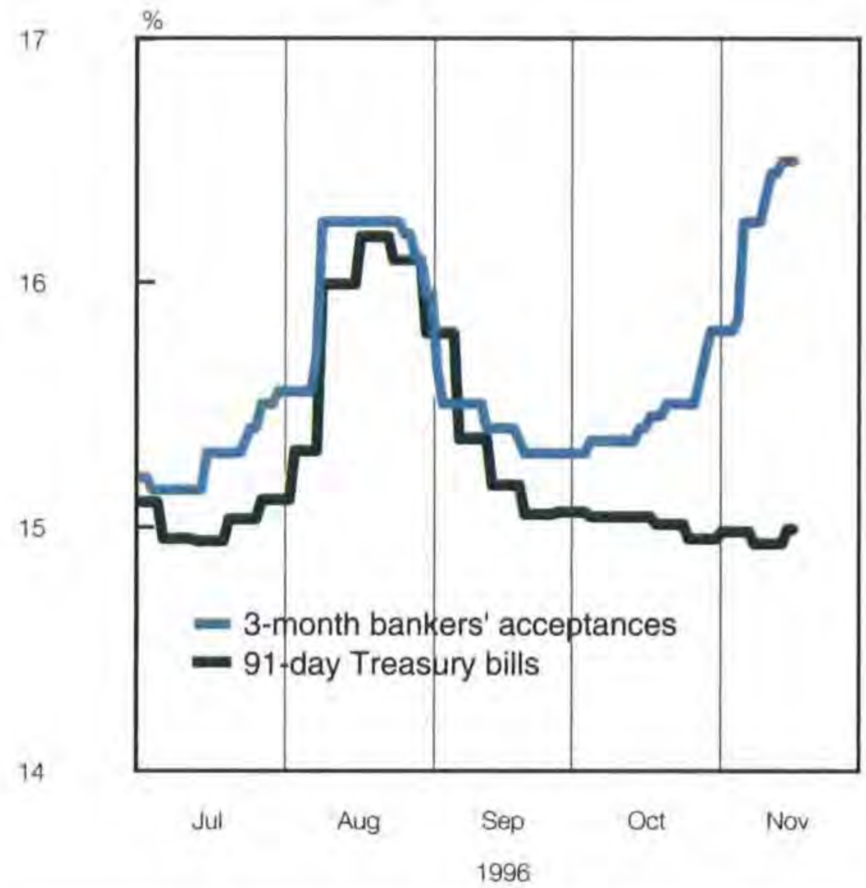
mortgage advances to the private sector must have been used for purposes other than the acquisition of real estate or the construction or improvement of residential buildings.

The shift in the relative importance of credit extended from the household to the private corporate sector in the second quarter of 1996 continued in the third quarter. Although the increment in credit extended to private households rose from R5,3 billion in the second quarter of 1996 to R6,1 billion in the third quarter, the increment in credit extended to the corporate sector rose even more from R4,5 billion in the second quarter to R6,3 billion in the third quarter. In terms of percentage changes, the growth over twelve months in credit extension to households at 16,0 per cent in September 1996 was well below the growth of 19,4 per cent in credit extension to the corporate sector over the same period.

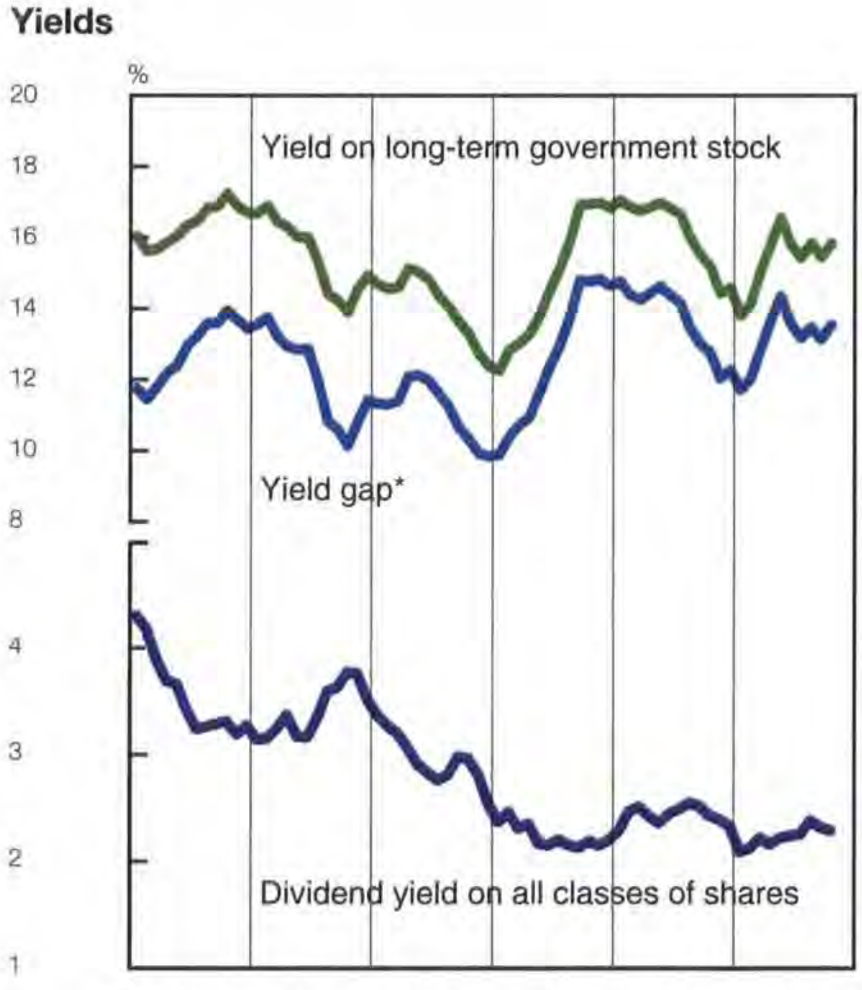
Interest rates and yields

Bond yields, which had risen steeply from January to May 1996, fluctuated in a relatively narrow range of about 15 to 16 per cent in the ensuing months. The upward movement in the monthly average yield on long-term government stock from 13,77 per cent in January 1996 to 16,53 per cent in May was set in motion by an upward adjustment in bond yields in the American financial markets and the decline in the exchange rate of the rand from the middle of February 1996. Since June 1996 the trend movement of the yield on long-term government stock has lacked clear upward or downward direction. Both local and foreign investors appear to be uncomfortable with yields below the 15 per cent mark whilst inflation is rising and the rand remains weak. At the upper end of the range, it would appear that the relatively weak demand for funds by public-sector entities in the first half of fiscal 1996/97 prevented rates from rising substantially beyond the 16 per cent level.

Money market interest rates



Yields



* The monthly average yield on long-term government stock less the dividend yield on all classes of shares measured in percentage points.

In similar fashion, *rates in the money market* rose throughout the first five months of 1996. The rate on bankers' acceptances of three months, for example, increased from 14,10 per cent at the end of January 1996 and 14,05 per cent at the end of February to 16,40 per cent at the end of May 1996. This rate then declined to 15,20 per cent at the end of June 1996. In the course of the third quarter the rate on bankers' acceptances fluctuated around a level that was slightly higher than in June, but moved upwards to 15,80 per cent at the end of October in response to the weakening of the rand, higher inflation expectations and market speculation about an imminent tightening of monetary policy. The rate on bankers' acceptances moved even higher in November 1996 and came to 16,50 per cent on 15 November.

Unlike the upward movement in the rate on bankers' acceptances of three months during October and

November 1996, the tender *rate on Treasury bills of three months* gradually drifted lower from 15,06 per cent at the end of September to (14,99) per cent on 15 November. The special status enjoyed by short-dated Treasury bills, the limited availability of liquid assets in the market and the relatively strong demand by banks for liquid assets were the principal forces behind the somewhat contradictory behaviour of the tender rate on Treasury bills of three months in October and the first half of November 1996.

The level and the shape of the *yield curve* varied considerably during the first ten months of 1996. Between January and May 1996 the yield curve moved sharply upwards. In May the yield curve was not only higher than in January, but also slightly more inverted at the short end and steeper at the long end. As rates generally declined across the full maturity spectrum, the yield curve drifted downwards until September 1996. The upward movement of rates in October 1996 raised the yield curve to a level that was slightly higher than in May, but with an even flatter slope, signalling increased uncertainty about the future direction of financial policies and expectations of higher future inflation.

Against the backdrop of very tight money market conditions, *Bank rate* was raised from 15 to 16 per cent on 29 April 1996 in an attempt to create orderly trading conditions in the foreign exchange market. The money market remained generally tight in the period since the end of April and the tender rate on Treasury bills of three months occasionally increased to a level that was higher than Bank rate. Despite these upward pressures on official lending rates and the further weakening of the rand between April and October 1996, Bank rate remained unchanged until the end of October. The persistence of the money market shortage at a very high level in November 1996, the further increase of rates in the money market, the high rate of increase in the money supply and rising inflation expectations then caused the Reserve Bank to raise Bank rate by one percentage point to 17 per cent on 21 November 1996.

The *prime overdraft rate of banks* was increased from 18,50 per cent to 19,50 per cent on 29 April 1996 in response to the rise in Bank rate on that day. The rising money market rates exerted upward pressure on the cost of funding banks' lending activities in May. To alleviate this downward pressure on the margin between their lending rates and the cost of funds, the banks raised their prime overdraft rates to 20,50 per cent on 20 May 1996, even though Bank rate was left unchanged at the time. With the decline of money market rates in June, thereby easing banks' funding costs, and after the Reserve Bank had announced a reduction of 0,75 percentage points in the cost of accommodation against collateral of second-tier assets, the banks lowered their prime overdraft rates to 19,50 per cent on 1 July 1996. Subsequent to the cancellation of the levy on financial services rendered, the banks again lowered their prime overdraft rates by 0,25 percentage points to 19,25 per cent on 1 October 1996. Following the rise in Bank rate on 21 November 1996, the banks raised their prime overdraft rates by one percentage point to 20,25 per cent on the same day.

The *real or inflation-adjusted prime overdraft rate* of banks, i.e. the nominal prime overdraft rate adjusted for the change in the consumer price index over twelve months, remained relatively high in the first nine months of 1996. This rate increased from 10,9 per cent at the end of December 1995 to 13,8 per cent at the end of May 1996; it subsequently fell back to 10,2 per cent at the end of September 1996. The decline in the real prime overdraft rate since May 1996 was more a reflection of the acceleration in the twelve-month rate of consumer price inflation rather than the decline in the nominal prime overdraft rate over this period.

The *predominant rate on mortgage loans of banks* traced the changes in the prime overdraft rate of banks

Table 12. Interest rates and yields
Per cent at month-end, unless specified otherwise

End of	Monthly average yield on long-term government stock	3-months bankers' acceptances	Prime overdraft rate		Predominant rate on mortgage loans	Predominant rate on 12-months fixed deposits
			Nominal	Real		
1996: Jan	13,77	14,10	18,50	10,85	18,25	14,00
Apr	15,78	15,20	19,50	13,24	18,25	13,50
May	16,53	16,40	20,50	13,83	19,25	14,50
Jun	15,78	15,20	20,50	12,77	20,25	15,00
Jul	15,39	15,55	19,50	11,57	19,25	14,25
Aug	15,82	15,95	19,50	11,16	19,25	14,25
Sep	15,42	15,30	19,50	10,21	19,25	15,00
Oct	15,80	15,80	19,25	9,31	19,00	15,00

closely. Mortgage rates were raised by one percentage point to 19,25 per cent in May 1996 and further to 20,25 per cent in June, but were subsequently reduced to 19,25 per cent in July and 19,00 per cent in October 1996.

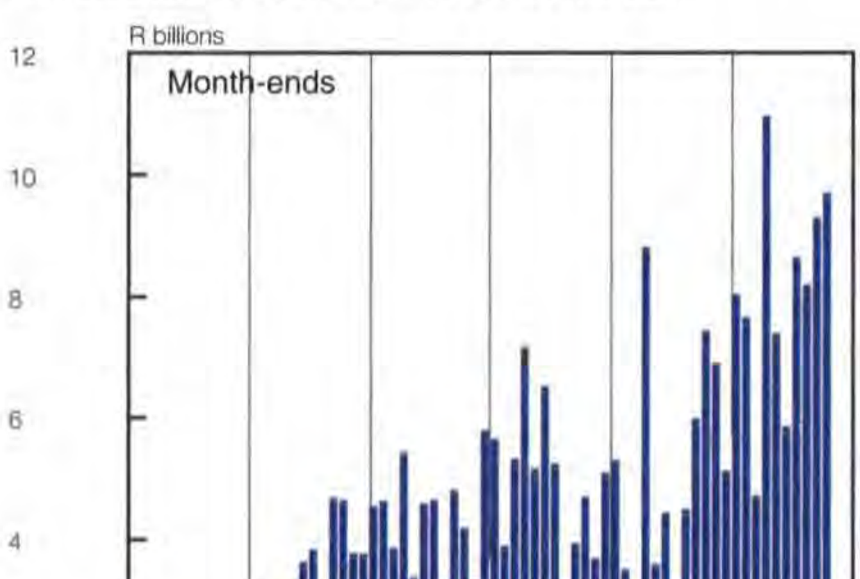
The predominant *retail rate on twelve-month fixed deposits* was increased by one percentage point to 14,50 per cent in May 1996 and to 15,00 per cent in June, but was lowered again to 14,25 per cent in July. The twelve-month fixed-deposit rate was increased to 15 per cent in September when money-market conditions once again became very tight.

Money market conditions

Money market conditions fluctuated widely in the first ten months of 1996, but remained generally tight since April. The amount that the Reserve Bank had to provide to banks at month-ends changed within a range of R4,7 billion at the end of March 1996 and R11,0 billion at the end of April. This "money market shortage" increased in the third quarter of 1996 from R5,8 billion at the end of June to R9,3 billion at the end of September. The amount of Reserve Bank accommodation increased once more in October 1996 to R9,7 billion at the end of the month.

The tightening of money market conditions during the third quarter of 1996 was mainly a consequence of a decline of R1,4 billion in the net foreign assets of the Reserve Bank, an increase of R0,8 billion in the notes and coin in circulation outside the Reserve Bank and an increase of also R0,8 billion in government deposits with the Reserve Bank.

Accommodation at the discount window



The *Reserve Bank's operations* in the money market during the third quarter of 1996 were intended to allow the money market shortage to reflect the underlying imbalance in demand and supply and to provide temporary assistance in times of extreme tightness. To this end, the Bank made appropriate adjustments to the asset portfolio of the Corporation for Public Deposits and also entered into swap arrangements with private banks in order to ease very tight money market conditions. Some banks had to utilise second-tier assets as collateral against part of the accommodation obtained from the Reserve Bank during October and November.

Bond market

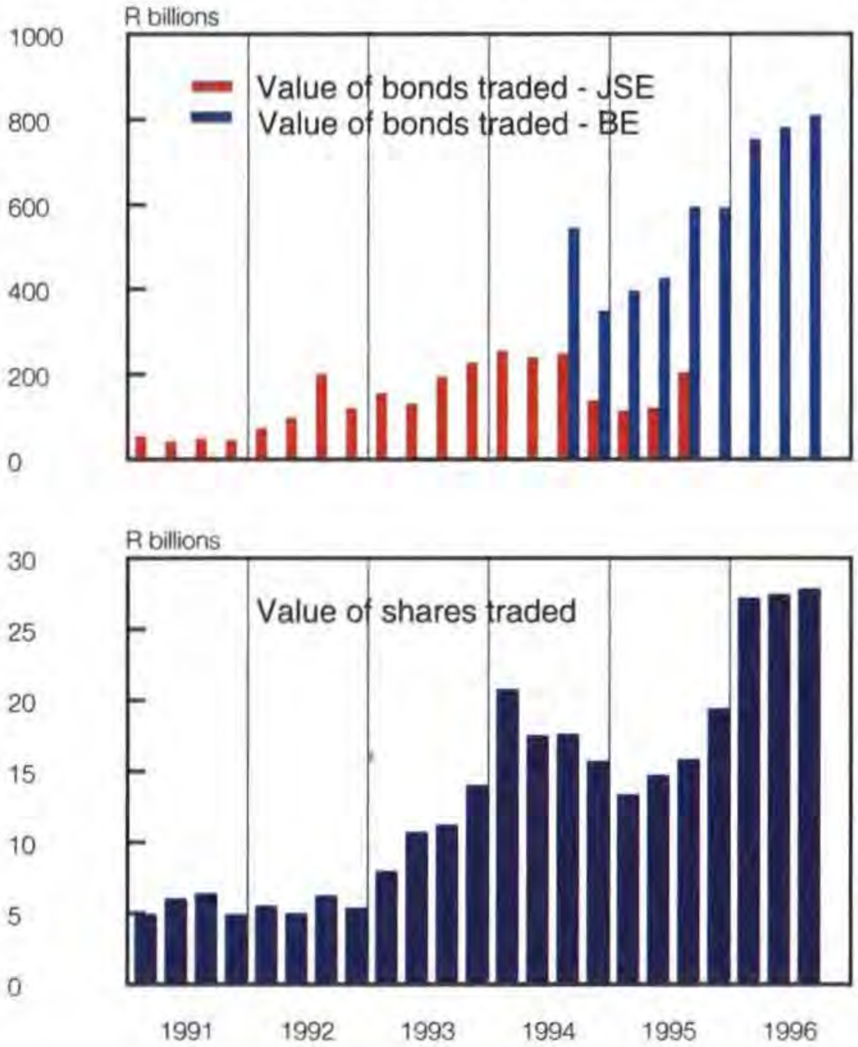
Net new borrowing by the *public sector* in the *domestic primary bond market* increased rapidly from R1,9 billion in the second quarter of 1996 to R9,8 billion in the third quarter. The total amount of funds raised by public-sector entities accordingly came to R11,7 billion in the first half of the current fiscal year, compared with the much larger amount of R19,6 billion in the first half of fiscal 1995/96.

Listed private-sector companies acquired funds through rights issues of fixed-interest securities (including convertible preference shares and debentures) amounting to R2,1 billion in the third quarter of 1996. These issues were the first of their kind since July 1995 and afforded the companies involved the opportunity to meet their financing needs at a cost below the prevailing high interest rates on other kinds of paper, while investors were attracted by the prospects of converting debt into equity at some future date.

The government raised funds in the *international primary bond market* in October 1996 through issues in the Eurobond market amounting to DM500 million (R1,5 billion) and in the United States market to an amount of $300 million (R1,4 billion). The Eurobond issue was priced at 140 basis points above the comparable German government Bund maturing in 2003 and the dollar issue at 190 basis points above the prevailing yield on US government bonds with a maturity equal to that of the South African issue. These issues not only broadened the investor base, but also lengthened the maturity structure of South African government debt. No new funds were raised on the international bond markets by non-financial public-sector enterprises and private-sector companies during the third quarter of 1996. In fact, private-sector companies have not returned to the international bond market since the fourth quarter of 1995.

Activity in the *secondary bond market* remained very buoyant during the first three quarters of 1996. The value of bonds traded on the Bond Exchange increased from a quarterly average of R593 billion in the second half of 1995 to R753 billion in the first quarter of 1996 and R781 billion in the second quarter. Activity subsequently rose even further when the turnover reached R809 billion in the third quarter. In October

Turnover in the secondary capital market



JSE - Johannesburg Stock Exchange
BE - Bond Exchange of South Africa

1996 the turnover declined marginally to R268 billion from a monthly average of R270 billion in the third quarter. The liveliness of the secondary bond market was prompted by the relatively high level of inflation-adjusted yields during 1996 which, together with a fair measure of yield variability, created opportunities for investors and speculators alike.

Non-residents were net purchasers of bonds to the amount of R2,0 billion in the first ten months of 1996. What is more, they increased their participation in the market by raising their purchases as a percentage of total turnover from 3,6 per cent in January 1996 to 7,6 per cent in October. Sales of bonds by non-residents also increased from 3,0 per cent of total turnover in January 1996 to 7,6 per cent in October 1996. Even though non-residents' participation in secondary bond trading is still rather modest, their trading activities have a significant effect on short-term price movements in the market. Whereas non-residents were net buyers of bonds from May to July 1996, they were net sellers in August and October.

Equity market

The demand for funds in the *primary equity market* by companies listed on the Johannesburg Stock Exchange

Table 13. Trading in the equity market

Quarter	Number of shares traded (millions)	Value of shares traded (R billions)	Net purchases by non-residents (R billions)
1995: 1st qr..........	1 119	13,3	0,8
2nd qr	1 158	14,7	2,0
3rd qr	1 348	15,8	1,2
4th qr	1 523	19,4	0,8
1996: 1st qr..........	1 990	27,2	2,4
2nd qr	1 912	27,4	2,0
3rd qr	2 370	27,8	1,4

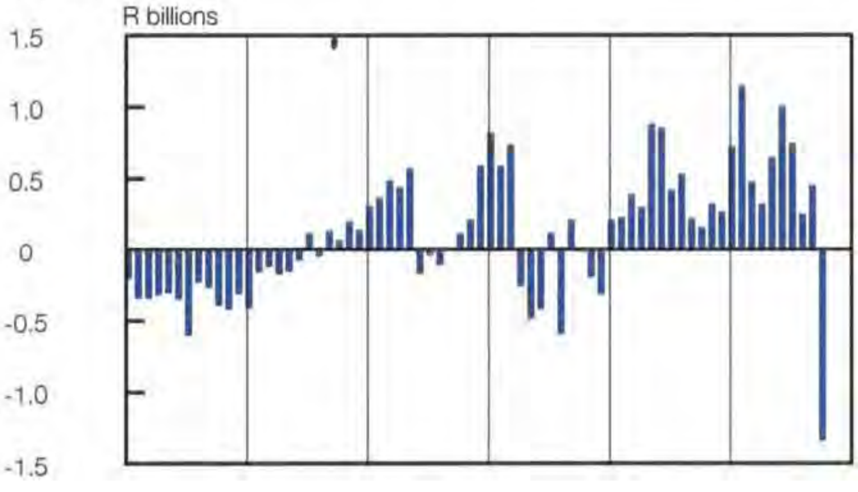
increased moderately in 1996. Owing mainly to the relatively high level of share prices and the high cost of borrowing, the value of new capital raised increased to R16,4 billion, or by 7 per cent in the first nine months of 1996 compared with the first nine months of 1995.

The value of shares traded on the *secondary equity market* reached a record high of R27,8 billion in the third quarter of 1996. The average monthly value of shares traded then moved even higher from an average of R9,3 billion in the third quarter of 1996 to R12,6 billion in October. For the first ten months of 1996 as a whole, the overall value of shares traded on the Johannesburg Stock Exchange increased by 90 per cent. As share prices remained relatively flat in 1996, the increase in turnover must be attributed to a rise in the number of shares traded. Apart from lower marketable securities tax, turnover was also boosted by the introduction of computer-based and dual-capacity trading, the entry of financial institutions and foreign securities firms into the market and fierce competition within the broking community.

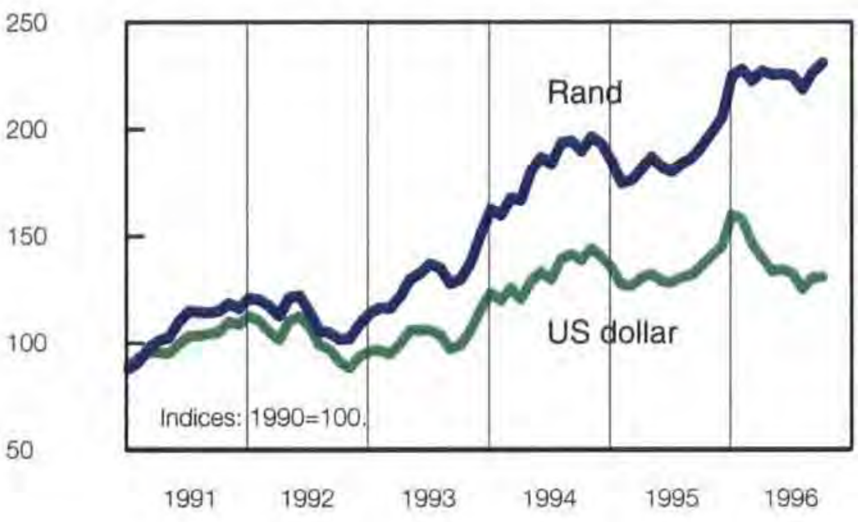
Non-residents remained active participants as buyers and sellers in the secondary equity market. Purchases of listed shares by non-residents amounted to R33,7 billion in the first ten months of 1996, or 70 per cent more than in the corresponding period of 1995. Sales of listed shares by non-residents came to R29,3 billion in the first ten months of 1996, leaving a net inward movement of non-residents' funds of R4,4 billion to the Johannesburg Stock Exchange. These net purchases, however, showed a distinct downward movement from R2,4 billion in the first quarter of 1996 to R2,0 billion in the second quarter and R1,4 billion in the third quarter; this was followed by net *sales* of equity amounting to R1,3 billion in October – the first time since December 1994 that non-residents were net sellers of shares.

The monthly *average price level of all classes of shares* fluctuated within a relatively narrow range from January to July 1996. The Johannesburg Stock

Net purchases by non-residents in the secondary equity market



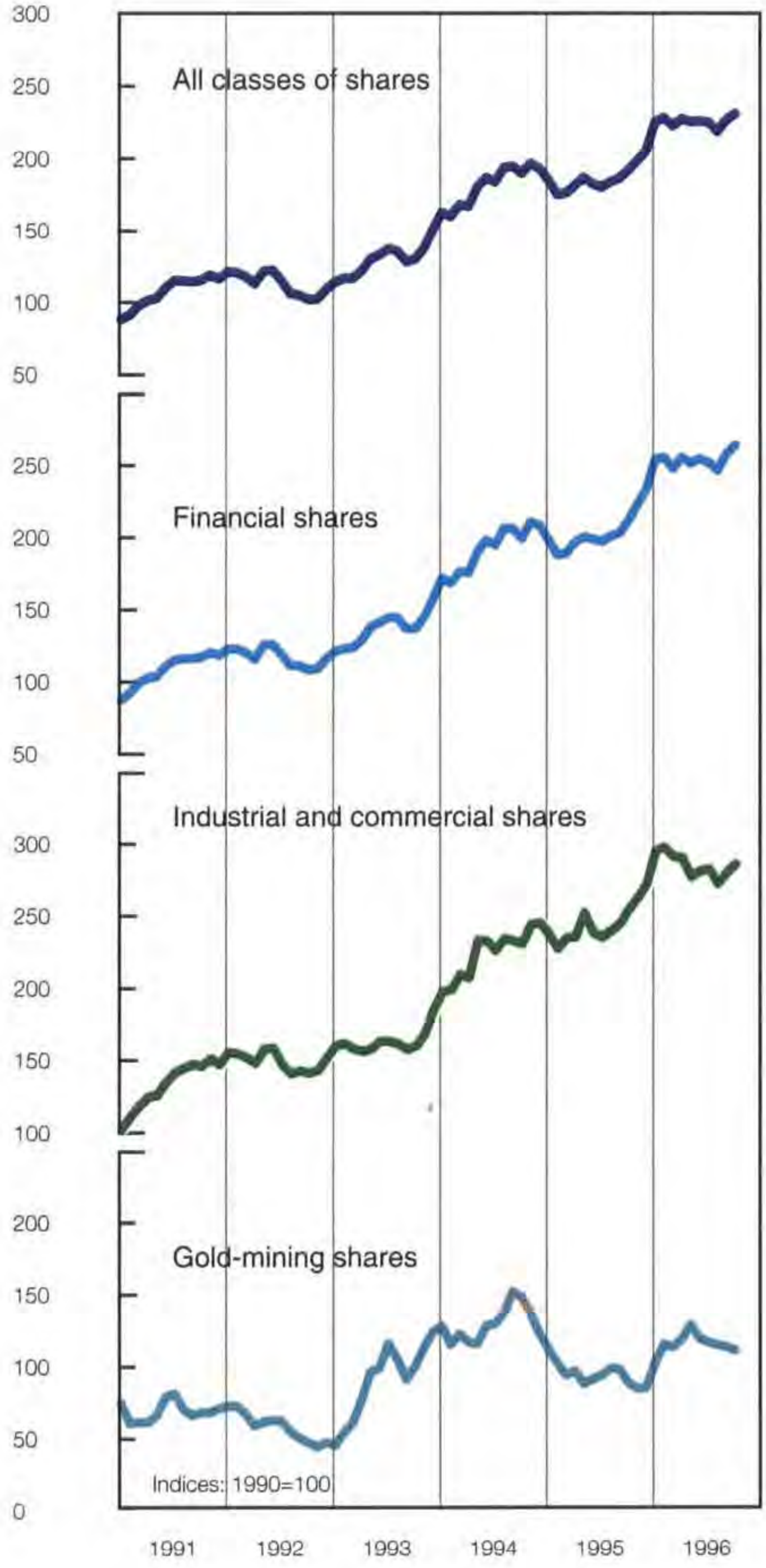
Share price indices of all classes of shares



Exchange reacted to the decline in share prices on Wall Street in mid-July and the monthly average level of the prices of all classes of shares receded in August to a level that was about 4 per cent below the high of February 1996. Share prices rallied again in September and the monthly average price level of all classes of shares increased by 3,6 per cent and again by 2,0 per cent in October 1996. The strengthening in share prices from August to October was the net outcome of a firm rise in the prices of financial shares, a slightly smaller rise in the prices of mining, other than gold, and industrial and commercial shares and a decline in the prices of gold-mining shares. Converted into a dollar index, the monthly average price level of all classes of shares declined by 18,3 per cent from January to October 1996. This decline may partly explain the waning of net purchases of shares by non-residents over the first ten months of 1996.

The *monthly average dividend and earnings yield of all classes of shares* (the earnings yield excludes gold-mining shares) receded slightly from August to October 1996 as share prices generally strengthened. The *price-earnings ratio* of all classes of shares,

Share prices



except the shares of gold-mining companies, increased slightly from 15,2 in August 1996 to 15,8 in October as share prices increased and earnings declined slightly. This upward movement, however, was preceded by a decline in the price-earnings ratio from 18,2 in January 1996 to 16,5 in May and then to 15,2 in August. With the yield on long-term government bonds tending modestly downwards since May 1996, the *yield gap* (i.e. the monthly average yield on long-term government stock less the

Table 14. Dividend yield, earnings yield, price-earnings ratio and yield gap on all classes of shares

Period		Dividend yield Per cent	Earnings yield* Per cent	Price-earnings ratio*	Yield gap Percentage points
1995:	Jan........	2,08	5,50	18,17	11,69
	May.......	2,21	6,05	16,54	14,32
	Aug........	2,37	6,57	15,22	13,45
	Sept.......	2,31	6,40	15,64	13,11
	Oct	2,28	6,31	15,84	13,52

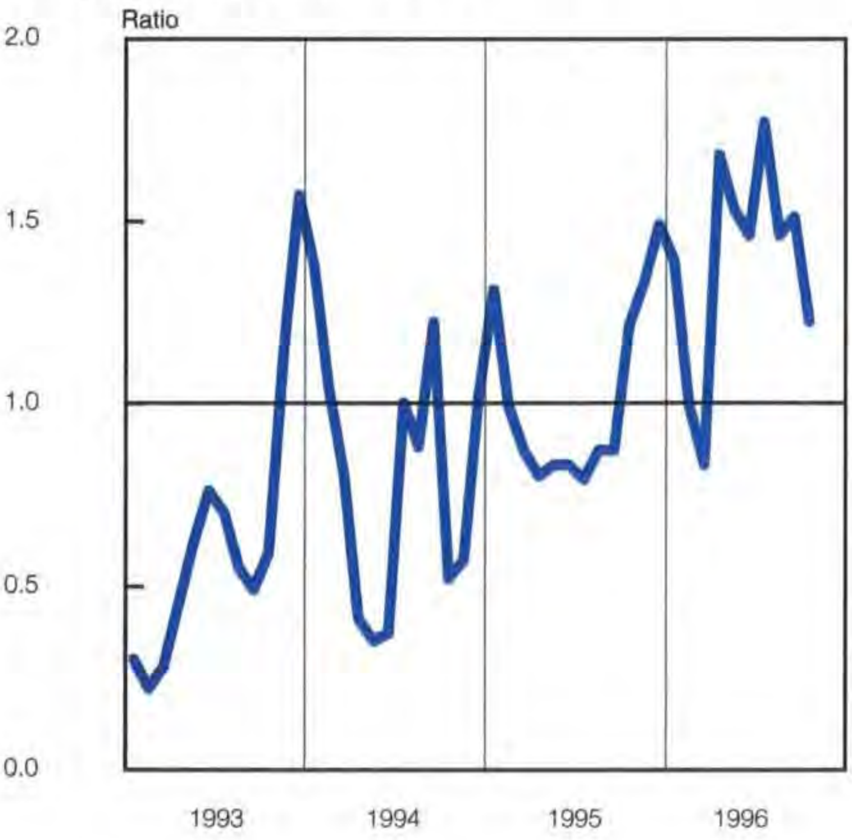
* Excluding gold-mining shares

dividend yield on all classes of shares) narrowed from 14,3 percentage points in May to 13,5 percentage points in October.

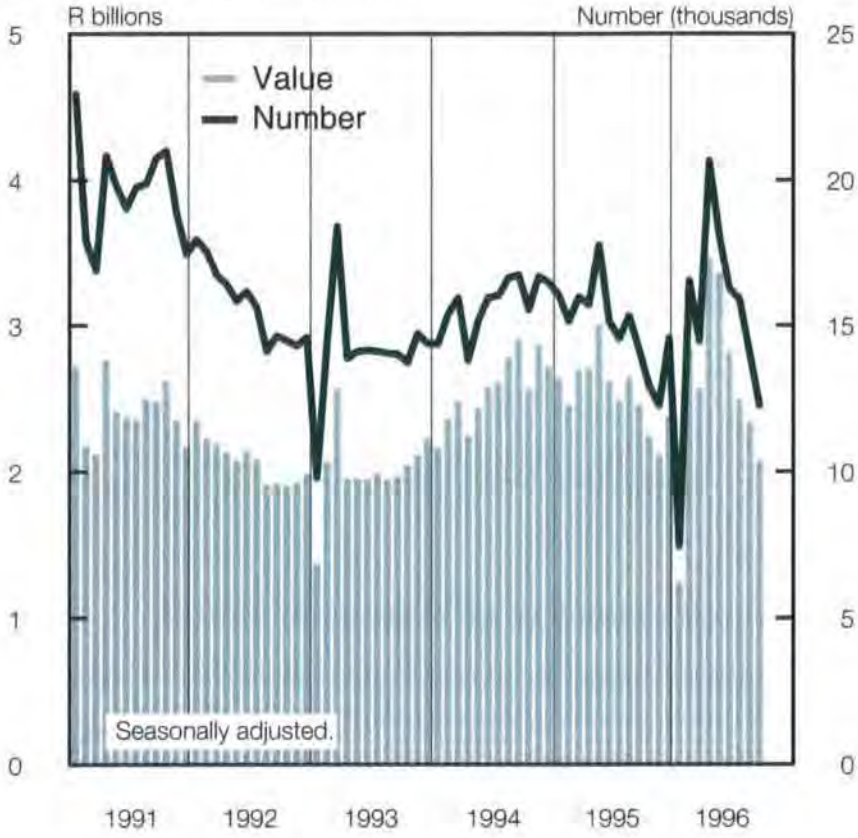
Other financial markets

Uncertainty and the absence of a clear trend in the financial markets and the persistent weakening of the rand since February 1996 had their ramifications in the formal *market for derivative instruments*. The number of equity *option* contracts traded accordingly rose by as much as 51 per cent in the first ten months of 1996

The ratio of the number of equity option contracts to equity futures contracts



Real estate transactions



compared with the corresponding period in the previous year. In contrast, the number of equity *futures* contracts traded increased by only 7,6 per cent in the first ten months of 1996 over the corresponding period of 1995. The faster growth in the number of equity option contracts traded resulted in the trading in this type of contract consistently exceeding trading in equity futures contracts since April 1996. The increasing popularity of option contracts relative to that of futures contracts can be attributed to the volatility and uncertainty in the equity market during 1996.

The value of transactions in the *real estate market*, which had receded from R8,3 billion in the second quarter of 1995 to R6,7 billion in the first quarter of 1996, increased to R9,6 billion in the second quarter. Increases in the predominant rate on mortgage loans in May and June 1996, together with unprecedented steep increases in local government rates and taxes, adversely affected the real estate market towards the middle of 1996, causing the monthly value of real estate transactions to fall from an all-time high of R3,5 billion in April 1996 to R2,1 billion in September. Measured over a period of one year, the average nominal value per transaction in real estate declined by 0,9 per cent in the third quarter of 1996. This was the first such decline since the fourth quarter of 1986 and implied, of course, a steep decline in the inflation-adjusted price of real estate.

Although financing in the *mortgage market* remained buoyant, some levelling off in the growth rate became discernible in the first nine months of 1996. The rate of increase over twelve months in mortgage advances receded to 17,1 per cent in September 1996, compared with 18,9 per cent in September 1995. Monetary institutions' total mortgage loans outstanding nevertheless increased from R134,6 billion in December 1995 to R151,6 billion in September 1996. The growth in mortgage advances continued to be concentrated in conventional rather than flexible automatically accessible mortgage bonds.

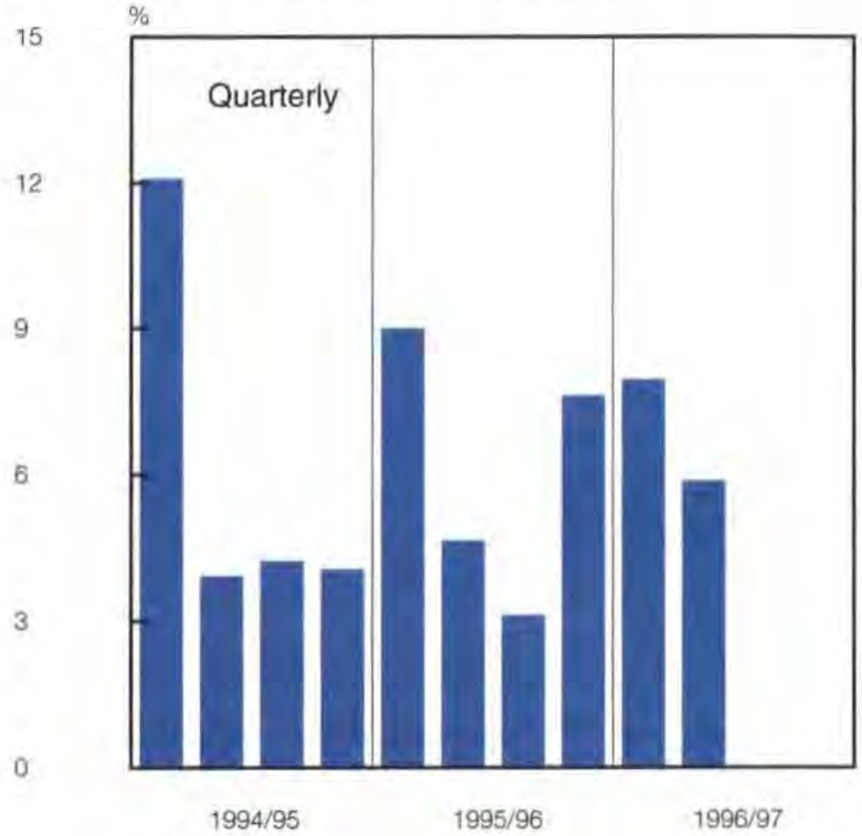
Public finance

Public-sector borrowing requirement

The *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the consolidated Central Government, provincial governments, local authorities and the non-financial government business enterprises and public corporations) increased by R2,3 billion from R16,4 billion in the first half of fiscal 1995/96 to R18,7 billion in the first half of fiscal 1996/97. This took the total public-sector borrowing requirement to 6,9 per cent of the gross domestic product in the first half of fiscal 1996/97, which is marginally worse than the 6,8 per cent registered in the first half of the previous fiscal year.

The slight deterioration in the public-sector borrowing requirement in the first half of fiscal 1996/97 could be attributed to a turnaround in the finances of the provincial governments from a surplus of R1,6 billion in the first half of fiscal 1995/96 to a deficit of R0,5 billion in the first half of fiscal 1996/97. The financial shortfall of provincial governments bears testimony to the improvement in the capacity to render social services at the level of provincial government. The finances of local authorities and extra-budgetary institutions also deteriorated from the first half of fiscal 1995/96 to the first half of fiscal 1996/97, but this was partly countered by a reduction in the borrowing requirements of the non-financial public enterprises, the Main Budget and the social security funds.

Public-sector borrowing requirement as percentage of gross domestic product



Fiscal years.

At the level of general government (i.e. the total public sector without the non-financial public enterprises) the deterioration in the borrowing requirement was occasioned by, among others, a sharp acceleration in spending on goods and services and interest payments. The year-on-year increase in expenditure on goods and services by general government accelerated from 9,2 per cent in the first half of fiscal 1995/96 to 17,9 per cent in the first half of fiscal 1996/97. Interest paid by general government, which had increased by 22,5 per cent in the first half of fiscal 1995/96 compared with the corresponding period of the previous year, increased by 23,6 per cent in the first half of fiscal 1996/97 over the first half of fiscal 1995/96.

Exchequer account

The fiscal accounts for the first half of fiscal 1996/97 indicate that the government will be able to achieve its objective of reducing the deficit before borrowing and debt repayment relative to gross domestic product as envisaged in the Budget of March 1996. Both Exchequer issues and Exchequer receipts, however, increased somewhat more than had been foreseen in the Budget.

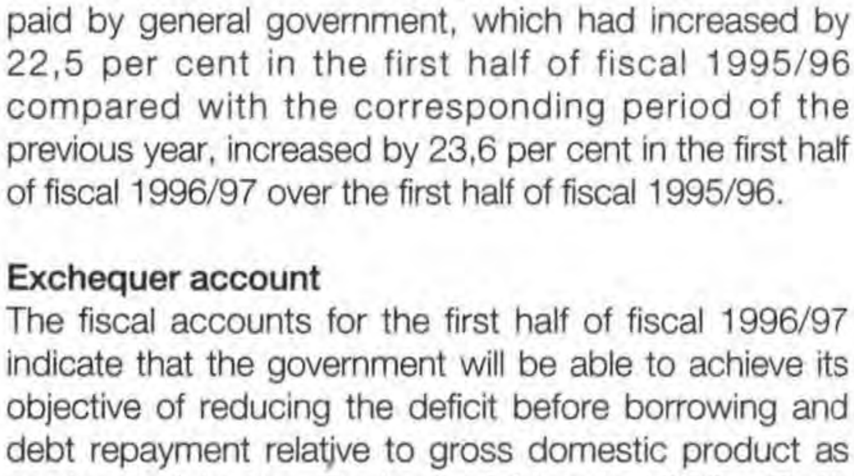
The year-on-year rate of increase in *Exchequer issues* to government departments (adjusted to reflect cash flows) in the first half of fiscal 1996/97 amounted to 11,3 per cent, which was less than 1 percentage point higher than the budgetary provision of 10,4 per cent for the fiscal year as a whole. As a manifestation of government's commitment to fiscal prudence the rate of increase in Exchequer issues in the current fiscal year was well below the average year-on-year rate of increase of 14,9 per cent in the first six months of the preceding five fiscal years. As a ratio of gross domestic product, Exchequer issues to government departments declined from 32,7 per cent in the first half of fiscal 1995/96 to 32,5 per cent in the first half of the current fiscal year.

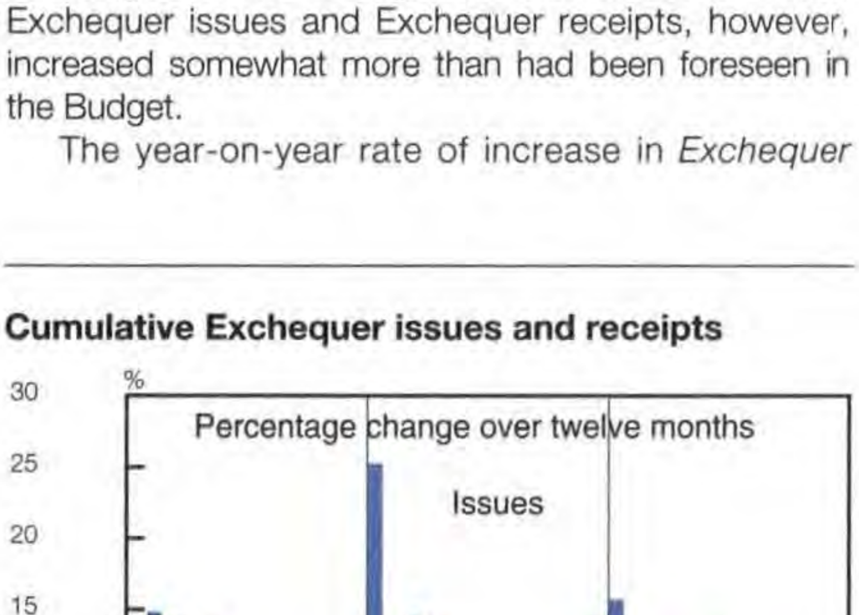
Exchequer issues in October 1996 took the year-on-year rate of increase in such issues to 14,2 per cent in the first seven months of fiscal 1996/97. Exchequer issues for the first seven months of fiscal 1996/97 equalled 59,5 per cent of the total expenditure of R173,7 billion which had been foreseen by the Minister of Finance for fiscal 1996/97 as a whole.

Exchequer receipts (excluding extraordinary or non-recurring revenue) in the first half of fiscal 1996/97 were 14,7 per cent more than in the first half of fiscal 1995/96. This means that the year-on-year growth in Exchequer receipts in the first half of fiscal 1996/97 is 1,1 percentage points higher than the projected growth rate of 13,6 per cent for the full fiscal year; the average year-on-year rate of increase in Exchequer receipts in the first half of the previous five fiscal years was 11,1 per cent. As a percentage of gross domestic product, Exchequer receipts increased from 24,9 per cent in the first half of fiscal 1995/96 to 25,5 per cent in the first half of the current fiscal year.

The higher-than-budgeted rate of increase in government revenue could be attributed to inland revenue receipts which outperformed the budgetary projections. Inland revenue receipts rose faster than envi-

Cumulative Exchequer issues and receipts





Fiscal years.

Table 15. Increase in government revenue
Percentage change over same period of previous year

Revenue source	Budgeted increase in fiscal 1996/97	Realised increase: first six months of fiscal 1996/97
Customs and excise duties	9,7	11,1
Inland revenue	14,2	18,1
Income tax	17,5	21,2
Value-added tax	13,3	10,9
Total Exchequer receipts	**13,6**	**14,7**

saged in the Budget because of a sharper rise in income tax collections than had been included in the budget estimates. In contrast, the increase in value-added tax receipts fell short of the budget projections. The sustained high level of aggregate domestic demand and the accompanying high level of merchandise imports helped revenue from customs and excise duties to rise by 11,1 per cent in the first half of fiscal 1996/97, compared with a budgeted increase of 9,7 per cent for the fiscal year as a whole.

The revenue collected by the government in October 1996 was boosted, among others, by income collected in September, but only accounted for in the Exchequer account at the beginning of October. The year-on-year rate of increase in Exchequer receipts accordingly came to 17,1 per cent in the first seven months of fiscal 1996/97. As a percentage of the projected revenue collections for the current fiscal year as a whole, the revenue collected in the first seven months amounted to 60,1 per cent.

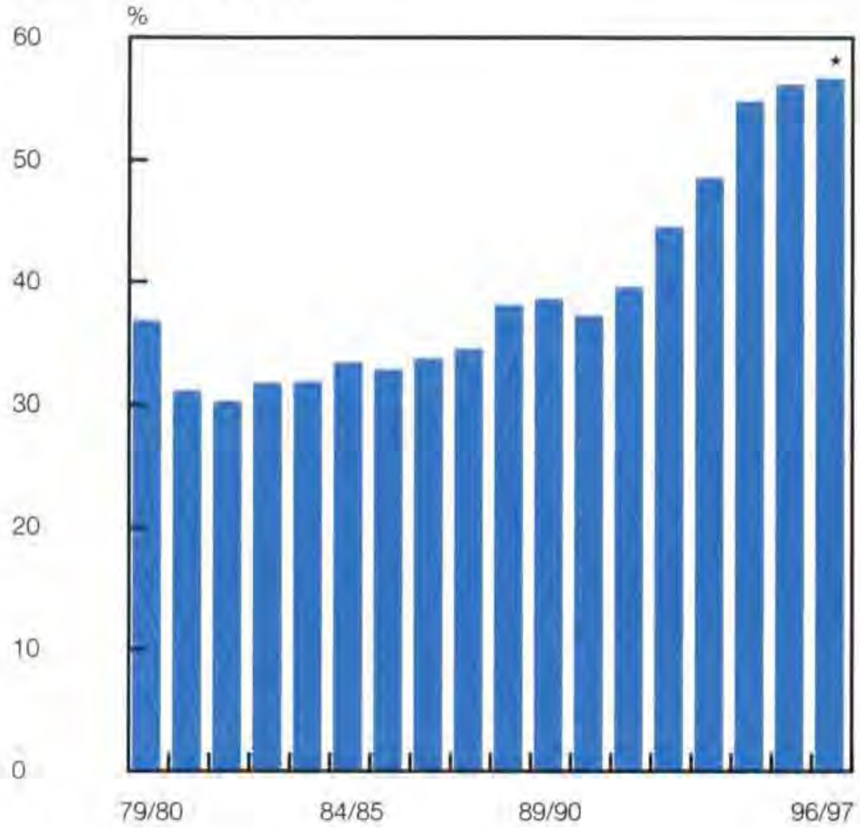
The net result of the higher-than-budgeted revenue and expenditure was a *deficit* of R18,8 billion on the Exchequer account before borrowing and debt repayment in the first half of fiscal 1996/97. As a ratio of gross domestic product, the deficit is calculated at 6,9 per cent for the first half of fiscal 1996/97; for the full fiscal year a ratio of 5,5 per cent had been foreseen and in the first half of the previous fiscal year a deficit of 7,8 per cent was recorded. The deficit for the first half of fiscal 1996/97 amounted to 61,4 per cent of the budgeted deficit for the year as a whole, which was less than the ratio of 63,4 per cent for the corresponding period of the previous fiscal year.

As shown in Table 16, the deficit for the first half of fiscal 1996/97 was financed largely through the issue of long-term government stock. The deficit which had to be financed, together with discount on new government stock issues, gave rise to an increase in *government debt* from R279,8 billion at the end of March 1996 to

Table 16. Financing of Exchequer deficit in the first half of fiscal 1996/97

	R millions
Government stock (including discount)	17 415
Less: Discount on new government stock	3 974
Net receipts from government stock issued	**13 441**
Treasury bills	3 618
Foreign loans	-6
Non-marketable securities	-138
Money market instruments	-2 981
Extraordinary receipts	1 878
Decrease in available cash balances	3 033
Total net financing	**18 845**

Total government debt as percentage of gross domestic product



Fiscal years.
*As at 30 September 1996.

R299,0 billion at the end of September. As a percentage of the gross domestic product, government debt rose from 56,2 per cent at the end of March 1996 to 56,7 per cent at the end of September.

As a step towards the implementation of the government's macroeconomic strategy for growth, employment and redistribution, a number of changes to the tax structure were announced during the third quarter of 1996. The new accelerated depreciation allowances, which form part of government's industrial support measures indicated in the strategy, became available on 1 July 1996. This allowance permits a depreciation write-off on the expansion of existing manufacturing plant and equipment over a period of three years, instead of five years as was previously stipulated. A tax holiday scheme came into effect on 1 October 1996 for new manufacturing projects which comply with certain criteria pertaining to employment intensity, location in specially designated areas and the kind of industry.

To improve the efficiency of tax collection in the country, the government announced another tax amnesty on 22 October 1996. The new amnesty, which is intended to last from 1 November 1996 to 28 February 1997, will be applicable to a wider range of taxpayers with payments in arrears than previous amnesties.