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Kwartaalblad

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South African Reserve Bank
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Quarterly economic review

Introduction

In a manner reminiscent of developments in the second half of 1997, gross domestic production once again responded tamely to a solid rise in aggregate final demand in the first quarter of 1998. Unlike the fourth quarter of 1997, when the increase in final demand was predominantly satisfied by higher imports of merchandise goods, inventories were reduced considerably in the first quarter of 1998. The seeming inflexibility of domestic production to react to firm increases in final demand, which have been on-going for about five years, is not likely to be eliminated by adjustments to macro-financial policies as these operate essentially on the demand side of the economy. The implementation of comprehensive structural reform measures is necessary to deal with such inflexibilities. Removing production rigidities will strengthen the long-term growth potential of the economy and provide scope for an acceleration in the pace of job creation.

The growth in real gross domestic product faded in the second half of 1997 and remained at a modest rate of only ½ per cent in the first quarter of 1998, i.e. broadly similar to that of the previous two quarters. Apart from the agricultural sector and the trade and financial services sectors, where output volumes expanded robustly, all the major sectors of economic activity had to contend with either declining production volumes or positive, but generally modest, growth during the first quarter.

As in the fourth quarter of 1997, real gross domestic final demand rose at a fast clip in the first quarter of 1998. Private consumption expenditure was boosted by lower inflation, which contributed to an increase in real personal disposable incomes, and perceptions of growing wealth as share prices moved to higher levels. The firm rise in household spending had the unfortunate side-effect of keeping the household savings ratio at a low level.

Real government consumption expenditure increased strongly in the first quarter of 1998, although at a lower rate than before. Adjusted for inflation, aggregate fixed investment outlays rose at an annualised rate of 7 per cent – about double the growth in fixed capital spending in 1997 as a whole. Investment expenditure was spurred by the drive of Telkom to improve service delivery, particularly in the previously underserviced regions of the country. Other public- and private-sector fixed investment spending maintained the relatively firm growth momentum observed during the second half of 1997. Private-sector manufacturers invested significant amounts of capital in machinery and equipment as part of a longer-term strategy to modernise production techniques and substitute capital for labour.

Significant progress was made with the lowering of inflation when year-on-year inflation fell to levels last encountered in the early 1970s. The decline in inflation has strengthened the credibility of macroeconomic policy and is preparing the way for higher economic growth in the future. It is generally recognised in advanced and developing countries alike that reasonable price stability fosters greater efficiency and equity in an economic system, i.e. an economy that generates more income and ensures a more equitable distribution of income among participants in the economic process.

In an economy where price changes are small, consumers and producers can plan more accurately for the future. Of great significance is that the accumulated savings of the poorer segments of society are less vulnerable to value erosion in a non-inflationary environment. The stabilisation of prices reduces risk and encourages fixed investments with attendant job creation. Low inflation emphasises the need to contain costs and to raise productivity. Productivity growth, in turn, is widely accepted as the principal source of rising living standards, which is, after all, the ultimate objective of economic policy-making.

Employment levels kept on falling during 1997 as private-sector producers tried to contain production-cost increases and public-sector organisations improved the efficiency of social-service delivery systems. Despite the growing excess supply of labour, worker remuneration continued to grow at a rate that was not consistent with low inflation. If inflation is to continue along a downward trend, a further rise in nominal remuneration growth would have to be absorbed by even faster increases in worker productivity or lower operating surplus margins.

The decline in aggregate gross domestic expenditure (the combined total of final demand and inventory changes), together with the price effects of the gradual depreciation of the rand from the second quarter of 1997, led to a slowdown in the upward movement of the value of merchandise imports during the first quarter of 1998. Simultaneously, exports of merchandise goods resumed the upward thrust, which had faltered in the second half of 1997. This resulted in a smaller deficit on the current account of the balance of payments in the first quarter of 1998. This improvement of the current-account balance seemed to be a repetition of a pattern which has established itself in recent years. According to this pattern, changes in the general direction of the real effective exchange rate of the rand were followed with a time delay of two to three quarters by changes in the current-account balance in the direction indicated by the exchange-rate change. These beneficial effects of exchange-rate change for the balance of payments are, unfortunately, often quickly dissipated by rising costs in the domestic economy.

The smaller current account deficit was accompanied by an exceptionally large increase in net inflows of capital which caused international reserves to rise and import cover to reach about three months' worth of imports of goods and services at the end of March 1998. As was the case in 1997, the inflow consisted mainly of portfolio capital in the form of net purchases of listed bonds and shares by non-resident investors.

The accumulation of international reserves helped to steady the rand; on a trade-weighted basis and adjusted for the aggregate inflation differential, the rand declined moderately against the currencies of South Africa's major trading-partner countries during the first quarter of 1998. Provided cost increases can be contained in the period ahead, the first-quarter depreciation could imply a further improvement in the competitive ability of domestic producers in export markets. This could promote the revival of strong export-led economic growth.

Subsequent to the end of the first quarter, the economy was again afflicted by the economic and social problems of other emerging markets. The rand came under speculative attack in April and May, leading the Reserve Bank to supply liquidity to the foreign exchange market in an attempt to ensure reasonably stable trading conditions.

The growth over one year in the broadly-defined money supply continued at a sturdy pace in the fourth quarter of 1997 and the first quarter of 1998. Signs of some moderation in M3 growth came to the fore in March 1998 when the growth over twelve months fell by more than three percentage points, only to accelerate again in April. The lower growth in March was, however, still substantially above the rates considered to be consistent with relative price stability and sound economic growth. Aggregate credit growth, which had slowed down steadily until January 1998, accelerated noticeably in the ensuing three months as credit demand was buoyed by lively trading conditions in the financial markets. In the first quarter, credit extension was heavily biased towards the corporate sector, whereas bank lending to households rose very little.

New procedures for providing liquidity to the money market through daily auctions of repurchase contracts were introduced during the first quarter of 1998. One of the principal aims of the new system was to allow money market interest rates to be more responsive to changes in overall liquidity conditions. The improved liquidity conditions in the money market, together with the waning of inflation, were factors taken into consideration when the Reserve Bank lowered its official lending rates on 9 March 1998. This decline in rates assisted the general downward movement in money market rates and also set the scene for a reduction of one percentage point in the prime overdraft and mortgage lending rates of banks.

When money market conditions tightened in April and May, the response of short-term rates was rather muted. Speculative forces mounted against the rand in May, causing the Reserve Bank to take countervailing steps by changing temporarily from a variable-rate auction to a system of liquidity provision at pre-announced rates. When these steps were implemented on 26 May, the fixed rate for Reserve Bank money was set at 18 per cent – about 190 basis points higher than the rate determined by the variable-rate auction of the previous day. At the same time, the spread between the repurchase rate and the marginal lending rate was increased from 3 percentage points to 10 percentage points, and later to 15 percentage points. These steps elicited a rapid response from long-term and short-term interest rates which rose strongly during May.

Financial markets were buoyant in the first quarter of 1998. The turbulence in Asian economies, which had been building up during the second and third quarters of 1997, deepened in the fourth quarter and rippled out across the major international financial markets. The cautious monetary and fiscal policies pursued in South Africa, along with the existence of a sound domestic banking system and the efficiency of the bank supervisory framework, resulted in a fairly quick restoration of investors' confidence in the first quarter of 1998. Mainly because of these factors, South African securities were accorded an increased weighting in the portfolio composition of many global investors and international fund managers.

Prices on the bond and equity markets consequently ended the first quarter of 1998 higher than they began it. The decline in interest rates, along with the rise in the price of gold and the increased participation of non-residents in the share market, sparked an increase in the all-share price index of 28,6 per cent between December 1997 and April 1998. Concerns about a possible tightening of monetary policy in the United States caused bond and share prices to fall back on the North American markets towards the end of April 1998. This downward adjustment in North America along with renewed concerns about the financial situation in other emerging markets inevitably had ramifications for bond and equity prices in the domestic markets, which declined sharply during April and May 1998.

Along with the restoration of non-resident investors' confidence, a combination of fundamental factors provided the impetus for the decline in yields on bonds at the long end of the yield curve during the first quarter of 1998. These included a conservative Budget proposed to Parliament by the Minister of Finance, a rise in the price of gold, falling inflation, growing net international reserves and a shrinking net open position in foreign exchange of the Reserve Bank. Strong demand for domestic securities as a hedge counterpart for eurorand bond issues gave further momentum to the decline in bond yields in the domestic market during the first quarter. The return of unsettled conditions in other emerging markets during April and May affected prices in the South African securities markets and yields on long-term government bonds consequently rose fairly steeply in these two months.

The central government is gradually reducing its usage of private-sector saving. General government dissaving is also expected to fall further in the year ahead and the primary surplus on the governmental accounts is forecast to rise relative to gross domestic product. Earlier fears that the economy had fallen into a "debt trap", characterised by unsustainable government debt growth, have effectively been put to rest. Part of the decline in long-term interest rates over the past year could also be attributed to the reduced competition from the national government for scarce private-sector saving.

Reducing the deficits on the governmental accounts, and ultimately turning the deficits into surpluses, would be the surest way to enhance national saving. Higher national saving, by promoting lower long-term interest rates, would encourage capital outlays on improving productive capacity, assisting domestic producers to become more competitive in global markets and would also rejuvenate the employment-creating potential of the economy.

Domestic economic developments

Domestic output

The South African economy passed through a lower turning-point of the business cycle in the second quarter of 1993 and real income growth reached fairly robust rates in 1995 and 1996. The pace of economic expansion then slackened considerably in the second half of 1997 as policy steps taken to restore macroeconomic balance began to have an effect. The growth in *real gross domestic product* (at a seasonally adjusted and annualised rate) fell to ½ per cent in the third and fourth quarters of 1997 and stayed at this comparatively subdued level in the first quarter of 1998.

The relatively slow growth in total real output in the first quarter of 1998 was predominantly brought about by a decline in the output of the primary sectors and the slackness in real value added by the secondary sectors. As a result of these developments, the level of aggregate real output in the first quarter of 1998 was only 1 per cent higher than in the corresponding quarter in 1997, signalling that quarter-to-quarter

Real gross domestic product

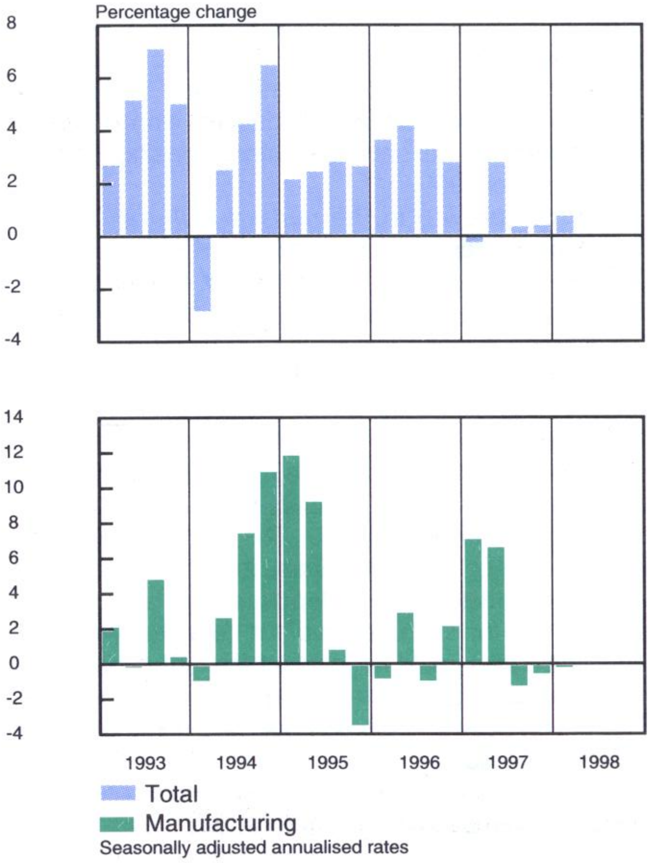


Table 1. Real gross domestic product
Percentage change at seasonally adjusted and annualised rates

Sectors	1997					1998
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sectors	-13½	2	3	1	½	-½
Agriculture	-31	-5	-½	0	-1	6
Mining	1½	7	5	1½	1	-4½
Secondary sectors	6	6	-½	0	3	0
Manufacturing	7	6½	-1	-½	3½	0
Tertiary sectors	-½	1	0	½	1	1
Commerce	-2	2	-1½	-½	½	1½
Transport, storage and communication	½	4½	3	2½	2½	1
Financial and other services	2	2	1	1½	2½	3
Total	**-½**	**2½**	**½**	**½**	**1½**	**½**
Non-agricultural sectors	2	3½	½	½	2	½

output growth in the remainder of the year will have to accelerate significantly if growth of 2 per cent for the calendar year as a whole is to be achieved.

The *agricultural sector*, which had encountered sub-optimal production conditions in certain areas during 1997, recovered in the first quarter of 1998 and output increased at a seasonally adjusted and annualised rate of 6 per cent. This improvement was especially noticeable in the increased incomes of livestock and horticultural producers, who benefited from better-than-expected weather conditions in the first quarter of 1998.

Output growth in the *non-agricultural sectors* remained rather weak at a seasonally adjusted and annualised rate of ½ per cent in the first quarter of 1998. The slack in non-agricultural output growth, which has been evident since the third quarter of 1997, was essentially the result of a decline in mining output. In addition, manufacturing output remained unchanged at about the same level as that of the fourth quarter of 1997.

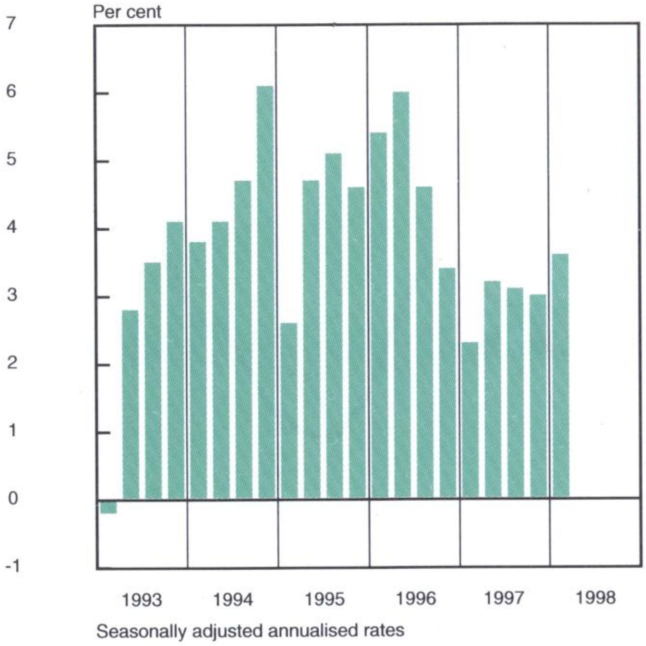
The real value added by the *mining industry* fell at a seasonally adjusted and annualised rate of 4½ per cent in the first quarter of 1998. The rationalisation and streamlining of work practices, the concentration of mining activities on ore deposits with a high gold content and the introduction of full-calendar operations on some mines could not prevent the further decline of the real value added by the gold-mining industry. Production activity in the non-gold segments of mining was hampered, among others, by high production costs, uncertain demand conditions and continuously declining international commodity prices.

Sluggish *manufacturing output* growth in the first quarter of 1998 could have resulted from manufacturers viewing the increase in real domestic final demand and in export volumes as a temporary occurrence. Stronger final demand was consequently met through reductions in inventory holdings rather than through increased production volumes. Output growth in the sector supplying *electricity, gas and water* also slowed down to an annualised growth rate of ½ per cent in the first quarter of 1998 as the demand for electricity by the manufacturing and mining sectors weakened. Construction activity strengthened slightly following the decline in mortgage rates during the fourth quarter of 1997 and real value added by the *construction sector* increased at a steady rate of 1½ per cent in the first quarter.

The firm increase in private consumption expenditure in the first quarter of 1997 caused real output in the *retail trade* to increase at a fast pace. This was partly negated by a small decline in real value added by the *wholesale trade* and a more pronounced decline in the *motor trade*. These declines notwithstanding, the overall real value added by the commercial sector increased at an annualised rate of 1½ per cent in the first quarter of 1998 following two successive quarterly declines in the second half of 1997.

The sector *finance, insurance, real estate and business services* experienced lively conditions as turnovers in the financial markets rose even further to new record high levels in the first quarter of 1998. The growth in this sector accordingly accelerated from 1½ per cent in the fourth quarter of 1997 to 3 per cent in the first quarter of 1998. In contrast, output growth in the *transport, storage and communication sector* subsided from 2½ per cent in the fourth quarter of 1997 to only 1 per cent in the first quarter as activity in the

Change in real gross domestic final demand



goods-producing sectors – to be distinguished from the service-providing sectors – slowed down in the first quarter of 1998.

Domestic expenditure

Aggregate real gross domestic expenditure declined at a seasonally adjusted and annualised rate of 3½ per cent in the first quarter of 1998, but was still more than 1 per cent higher than in the first quarter of 1997. The decline from the fourth quarter of 1997 to the first quarter of 1998 was mainly the result of a sharp decline in inventory levels and slower, but still relatively strong, growth in consumption expenditure by general government. These developments were partly offset by stronger quarter-to-quarter growth in real gross domestic fixed investment and private consumption expenditure.

After having increased from quarter to quarter throughout 1997 at annualised rates that varied between ½ per cent and 1½ per cent, real private consumption expenditure increased at a rate of 2 per cent in the first quarter of 1998. This higher rate of increase was brought about by increases in expenditure on durable, semi-durable and non-durable goods. At constant prices, expenditure on durable goods rose at an annualised rate of 3½ per cent, semi-durable goods at 6½ per cent and non-durable goods at 1½ per cent. The firm growth in aggregate household expenditure was, among others, related to:

- increases in the real income of households as nominal wage remuneration increased faster than the current inflation rate;
- increases in the gross income of farmers following the better-than-expected agricultural conditions;
- lower interest rates, which reduced the debt-servicing costs of households; and
- perceptions of increased wealth among households as share prices reached new heights and residential property values began to recover.

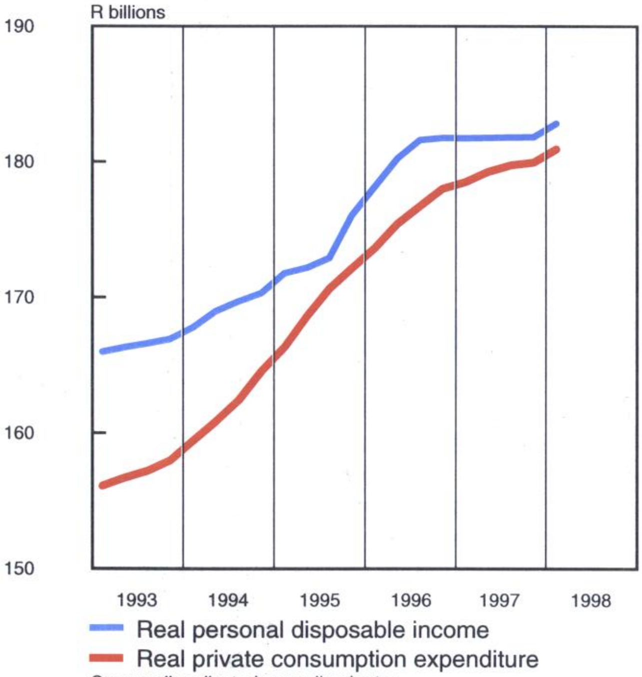
Aggregate *real consumption expenditure by general government* slowed down from an annualised quarter-to-quarter growth rate of 11½ per cent in the fourth quarter of 1997 to 4 per cent in the first quarter of 1998, taking the year-to-year growth in fiscal 1997/98 to about 7½ per cent compared with 7 per cent in fiscal 1996/97. The sustained strong growth in consumption expenditure by general government was largely concentrated in increased spending on intermediate goods and services at the central and provincial government levels. As a percentage of gross domestic

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

Components	1997					1998
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private consumption expenditure........	1	1½	1	½	2	2
Government consumption expenditure	6	7½	9	11½	7	4
Gross domestic fixed investment........	2	3	3	1½	3½	7
Change in inventories (R billions)*.........	-2,7	-2,3	-4,4	-3,0	-3,1	-7,8
Gross domestic expenditure............	**-2**	**5½**	**0**	**4½**	**1½**	**-3½**

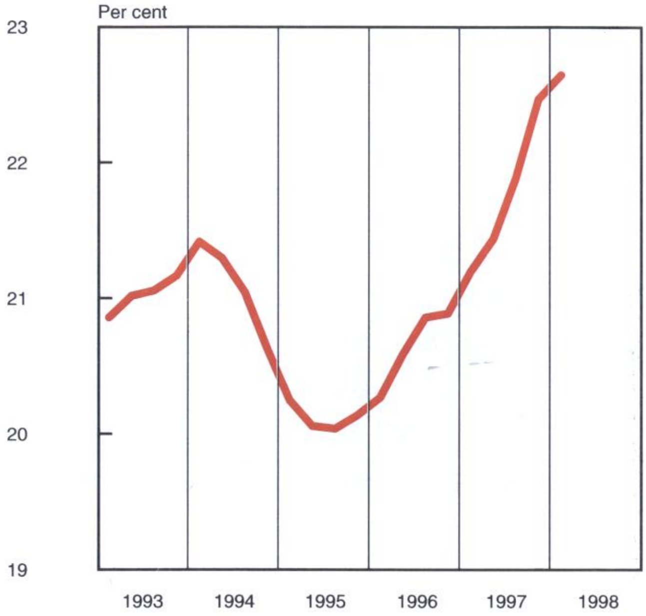
* Constant 1990 prices, annualised

Real personal disposable income and private consumption expenditure



Seasonally adjusted annualised rates

Real government consumption expenditure as percentage of gross domestic product



Seasonally adjusted

product, government consumption expenditure increased from 21 per cent in the first quarter of 1997 to 22 per cent in the first quarter of 1998. The GEAR strategy indicated an average ratio of 19 per cent as optimal in the medium term.

Real gross domestic fixed investment, which had been growing steadily from quarter to quarter during 1997, accelerated to a seasonally adjusted annualised rate of 7 per cent in the first quarter of 1998. Fixed investment activity was particularly lively among public corporations, but the growth in private-sector investment and that of public authorities also gathered some momentum. As a result of this acceleration in fixed-investment growth, the contribution of real fixed capital formation to the growth in real gross domestic product amounted to 1½ percentage points in the first quarter of 1998 as against less than ½ percentage point in the fourth quarter of 1997.

Apart from agriculture and mining, *private-sector entities* in all the main sectors of economic activity contributed to the growth in real fixed investment. Fixed-investment expansion was particularly prominent in the private manufacturing sector where new technology, which is embodied in new machinery and

Table 3. Real private consumption expenditure
Percentage change at seasonally adjusted and annualised rates

Components	1997					1998
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	-3	-2	-2½	-16½	½	3½
Semi-durable goods	4	1	-½	2½	3	6½
Non-durable goods	3	2½	1½	1	2½	1½
Services	-2	2½	3	5	1	0
Total	**1**	**1½**	**1**	**½**	**2**	**2**

Table 4. Real gross domestic fixed investment
Percentage change at seasonally adjusted and annualised rates

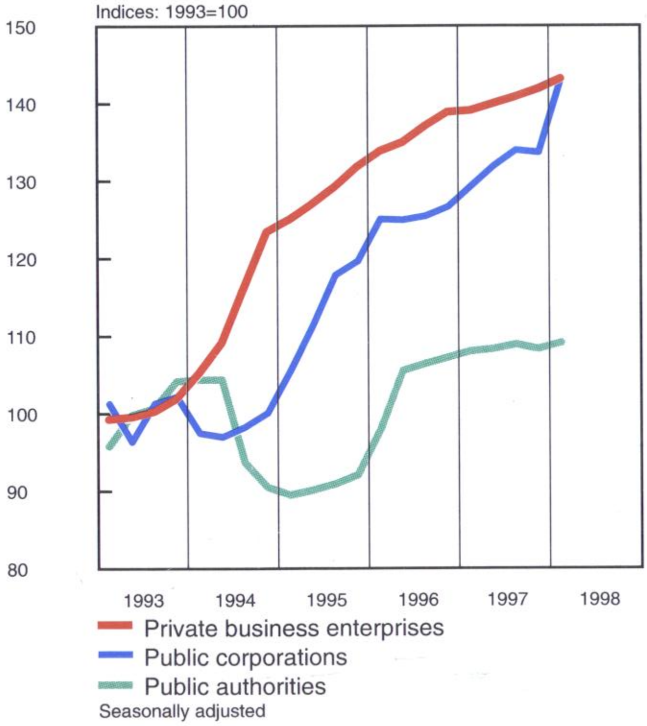
Components	1997					1998
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	1	2½	2½	3	3	3½
Public corporations..........................	8½	8	6½	-1	5½	32
Public authorities...........................	3	1½	2	-2	4	3
Total	**2**	**3**	**3**	**1½**	**3½**	**7**

equipment, is continuously employed. Some additional thrust was provided to private-sector fixed investment by tax incentives granted under government's *Manufacturing Development Programme*. Firm demand for regional shopping centres and some strengthening of investment in private residential buildings, also through the government's housing programme to assist low-income households to acquire their own homes, further added to private-sector capital formation in the first quarter of 1998.

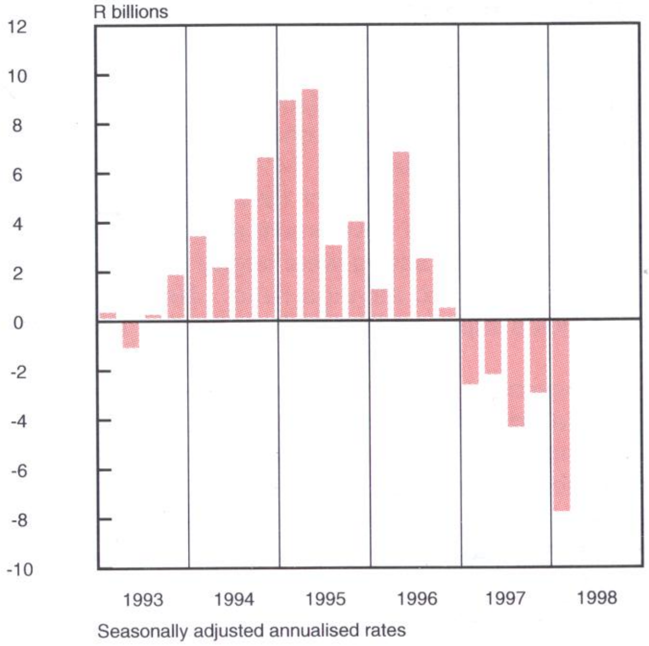
By far the strongest boost to investment spending in the first quarter of 1998 came from *public corporations,* especially Telkom, which is expanding its service-delivery network in previously underserviced areas. All three tiers of general government and public-sector business enterprises, other than public corporations, added meaningfully to the intensity of their capital expansion programmes in the first quarter of 1998.

Inventory levels valued at constant prices declined in the first quarter of 1998 for the fifth consecutive quarter. In fact, the rate of inventory disinvestment in the first quarter surpassed that of any of the preceding four quarters. The somewhat unexpectedly large decline in inventories can mainly be attributed to the robust increase in domestic final demand, the fall in the exchange rate of the rand which could have dampened the importation of merchandise goods and the selling of strategic crude oil reserves. The depletion of

Real gross domestic fixed investment



Change in total real inventories



inventory levels took the ratio of inventories to gross domestic product in the non-agricultural sectors of the economy down from 21½ per cent in the fourth quarter of 1997 to 20½ per cent in the first quarter of 1998. The ratio of industrial and commercial inventories to the same measure of domestic product declined in similar fashion from 17 per cent to 16 per cent.

Factor income

The year-on-year growth in *total nominal factor income* at market prices slowed down from an average rate of 9½ per cent in the last two quarters of 1997 to 8½ per cent in the first quarter of 1998. This slowdown in factor income was the result of slower growth in the gross operating surpluses of business enterprises and in the aggregate remuneration of employees.

The rate of increase over four quarters in *total remuneration of employees* declined from 9 per cent in the fourth quarter of 1997 to 8½ per cent in the first quarter of 1998. This slight decline in the growth of total salaries and wages was evident in all the main sectors of the economy and reflected a marginal slowdown in the rate of wage settlements and declining levels of employment in the formal sectors of the economy. The rate of increase in total remuneration of employees nevertheless remained well above the current rate of inflation measured over twelve months.

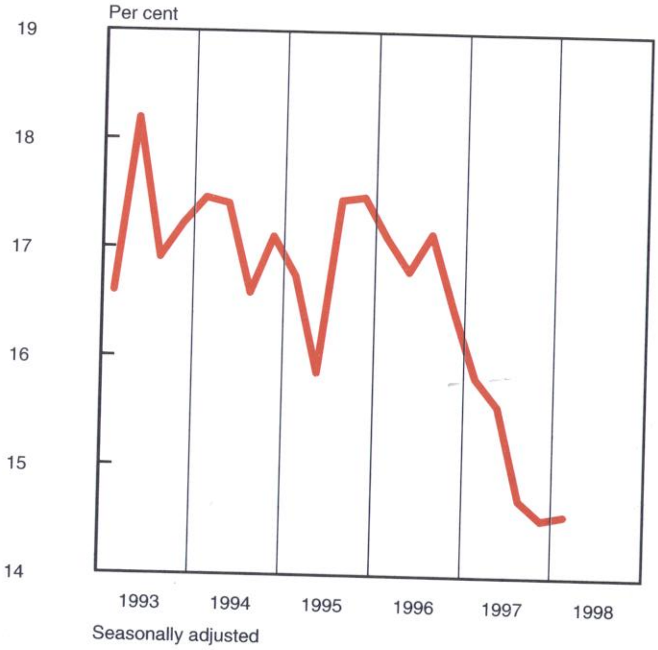
The growth over four quarters in the *nominal gross operating surplus* declined from 8½ per cent in the fourth quarter of 1997 to 8 per cent in the first quarter of 1998. The levelling-off in the growth of the gross operating surpluses was strongly affected by weak output growth in the secondary sectors of the economy. The impact of the low growth in the secondary sectors on operating surpluses was only partially countered by stronger profit growth in the agricultural and financial services sectors.

Domestic saving

Gross domestic saving relative to gross domestic product showed virtually no change in the first quarter of 1998 from the level of 14½ per cent that was attained in the second half of 1997. Persistently large dissaving by general government and a slight weakening of corporate saving were largely responsible for the low domestic savings ratio. Net saving by households improved marginally in the first quarter of 1998.

Government dissaving worsened over the past five completed calendar quarters. With the debt of Government rising steadily against the backdrop of high nominal interest rates, higher interest costs together with consumption expenditure rising faster than current tax revenues, caused the saving shortfall of general government to remain precarious. The general government accordingly had to borrow funds for the financing of capital spending as well as for a portion of recurrent expenditure.

Gross domestic saving as percentage of gross domestic product



Net saving by the corporate sector declined slightly in the first quarter of 1998 owing to subdued economic growth and operating surpluses being compressed by unit labour costs, which increased faster than aggregate output prices. The positive savings gap of the corporate sector, i.e. the excess of gross corporate saving over the gross investment needs of companies, declined from the high levels of the second half of 1997, thereby lowering the investible resources available for use outside the corporate sector.

Net saving by households improved marginally from a seasonally adjusted and annualised amount of R1,9 billion in the fourth quarter of 1997 to R2,5 billion in the first quarter of 1998. Despite the faster growth in household income and a slight decline in household debt, which caused household savings to increase, the personal savings ratio in relation to personal disposable income remained at the very low fourth-quarter level of ½ per cent in the first quarter of 1998 as against a ratio of 1½ per cent a year earlier.

Employment

A prominent feature of the labour market in South Africa during 1997 was the accelerated rate of decline in officially measured employment. Revised estimates released recently by the Central Statistical Service indicate that *total employment in the regularly surveyed non-agricultural sectors of the economy* declined at a year-to-year rate of 1,6 per cent in 1997, following no material change in the average level of employment in 1996. What is more, job losses appear to have acce-

Non-agricultural employment

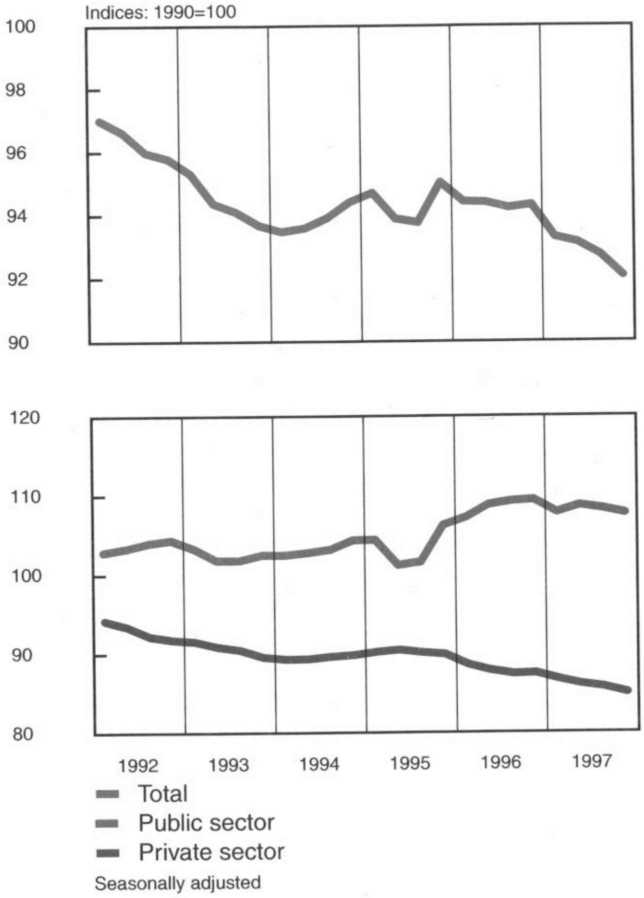


Table 5. Employment in the non-agricultural sectors of the economy

Percentage change from quarter to quarter at seasonally adjusted annualised rates

	Private sector	Public sector	Total
1996: 1st qr.........	-5,7	3,7	-2,6
2nd qr	-3,3	6,1	-0,1
3rd qr	-2,0	1,7	-0,7
4th qr	0,3	0,6	0,4
Year...........	**-2,6**	**5,2**	**0,0**
1997: 1st qr.........	-3,5	-5,7	-4,3
2nd qr	-2,9	3,3	-0,7
3rd qr	-1,8	-1,5	-1,7
4th qr	-3,5	-2,2	-3,0
Year...........	**-2,3**	**-0,5**	**-1,6**

lerated from quarter to quarter during 1997; the second-quarter decline at an annualised rate of 0,7 per cent was followed by declines of 1,7 per cent in the third quarter and 3,0 per cent in the fourth quarter. Put differently, total employment in the formal non-agricultural sectors of the economy declined by 130 000 employment opportunities from the end of 1996 to the end of 1997.

The private as well as the public sector experienced job losses in each of the last two quarters of 1997. Employment losses in the *private sector* during the fourth quarter occurred in almost all the subsectors of the economy, but were more prominent in the manufacturing, mining, construction, electricity generation and motor trade sectors. Employment in the *public sector,* which had been expanding at a year-to-year rate of 5,2 per cent in 1996, declined by 0,5 per cent or 30 000 positions in 1997 as movement towards the objective of a more efficient and streamlined public-service delivery system began to take effect. This process was especially evident at the level of national government.

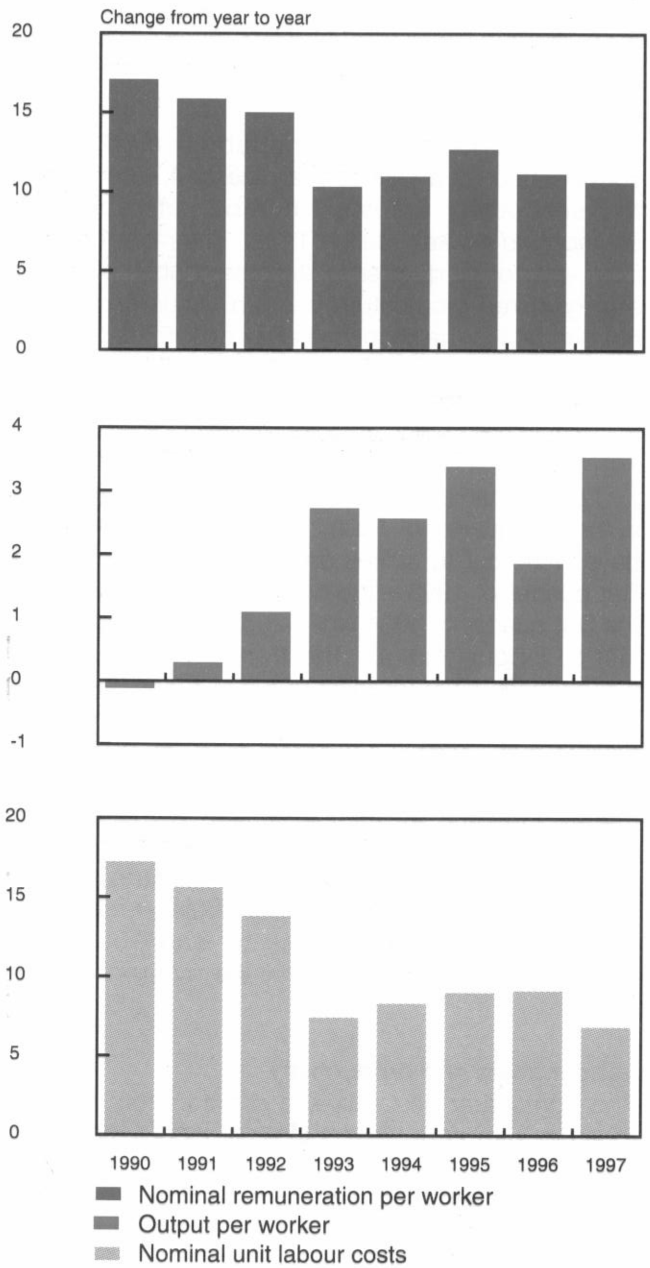
The disequilibrium in the labour market was corroborated by a year-to-year rise of 4,7 per cent in the seasonally adjusted number of *registered unemployed workers* during 1997. The rate of change from quarter to quarter in registered unemployment also gathered momentum from an annualised rate of 5,4 per cent in the second quarter of 1997 to 29,4 per cent in the fourth quarter. In December 1997 the total number of registered unemployed workers amounted to a seasonally adjusted total of 350 000, compared with 300 000 a year earlier.

Labour market conditions were somewhat turbulent in the first quarter of 1998. A total of 288 000 workdays were lost to strikes and work disruptions in the first quarter of 1998 – the highest in any quarter since the first quarter of 1994 when 295 000 workdays were lost to labour unrest. The transport and security sectors accounted for most of the lost workdays. The length of the security industry strike increased the lost workdays statistics in a way that may turn out to be a one-off event, implying that the first-quarter developments need not portend a difficult round of wage negotiations later in the year. Nevertheless, the circumstances that prevailed in the first quarter required price setters and other decision-makers to remain attentive to the risk of wage-push and consequential price inflation for the remainder of the year.

Labour costs and productivity

The somewhat sedate pace of economic activity, together with an excess supply of labour, could not prevent nominal labour remuneration from rising at a brisk pace during the past two calendar years. The average *nominal remuneration per worker in the non-agricultural sectors* of the economy increased at a high rate of 11,2 per cent in 1996, followed by a slightly lower rate of 10,7 per cent in 1997. Apart from the propagation of wage inflation by expectations of persistently rising consumer prices, the increases in nominal employee remuneration were also caused by the rising skills level of the employed workforce as workers at the lower end of the skills and wage scales were retrenched, the gradual tightening of skills shortages in certain niche areas of the labour market and the relatively healthy growth in corporate earnings. A significant development in the course of 1997 was the tapering-off of nominal remuneration growth from a year-on-year rate of 13,6 per cent in the first quarter to 6,4 per cent in the fourth quarter.

Non-agricultural labour productivity, remuneration and unit labour costs



The ratio of remuneration per worker to output prices, i.e. the *real remuneration per worker* in the non-agricultural sectors of the economy, rose by 1,3 per cent in 1996 and by 2,7 per cent in 1997 as increases in the nominal remuneration per worker continued to exceed the growth in output prices. The potential for compression of the operating surplus margins of employers was countered by *rising productivity levels:* output per worker increased by 1,9 per cent in 1996 and 3,5 per cent in 1997. In part, the robust productivity growth was a result of the paring of employment numbers and relatively strifeless industrial relations in 1996 and 1997. The strong productivity growth helped to curb the growth in the *cost of labour per unit of output* from 9,1 per cent in 1996 to 6,9 per cent in 1997. In fact, nominal unit labour costs increased at a year-on-year rate of only 2,3 per cent in the fourth quarter of 1997.

Slower growth in aggregate output and demand and rising unemployment appeared to be insufficient to durably slow down the growth in unit labour costs to a rate compatible with overall price stability. If inflation is to continue along a downward-sloping trend, any further rise in nominal wage growth would have to be absorbed by even stronger productivity growth. Should this fail to materialise, operating margins will have to be lowered. Lower operating margins have, of course, implications for future investment growth and consequently also for the growth of potential output and job creation in the South African economy.

Table 6. Labour costs and productivity*

Percentage change over four quarters

		Remuneration per worker		Output per worker	Nominal unit labour costs
		Nominal	Real		
1996:	1st qr.....	13,8	4,4	2,9	10,6
	2nd qr	8,7	-0,9	1,4	7,1
	3rd qr	10,2	0,3	0,8	9,3
	4th qr.....	12,1	1,6	2,3	9,6
	Year........	**11,2**	**1,3**	**1,9**	**9,1**
1997:	1st qr.....	13,6	4,7	3,0	10,3
	2nd qr.....	12,7	4,7	3,5	8,9
	3rd qr	10,2	2,4	3,7	6,3
	4th qr.....	6,4	-0,9	4,0	2,3
	Year........	**10,7**	**2,7**	**3,5**	**6,9**

* Excluding the agricultural sector

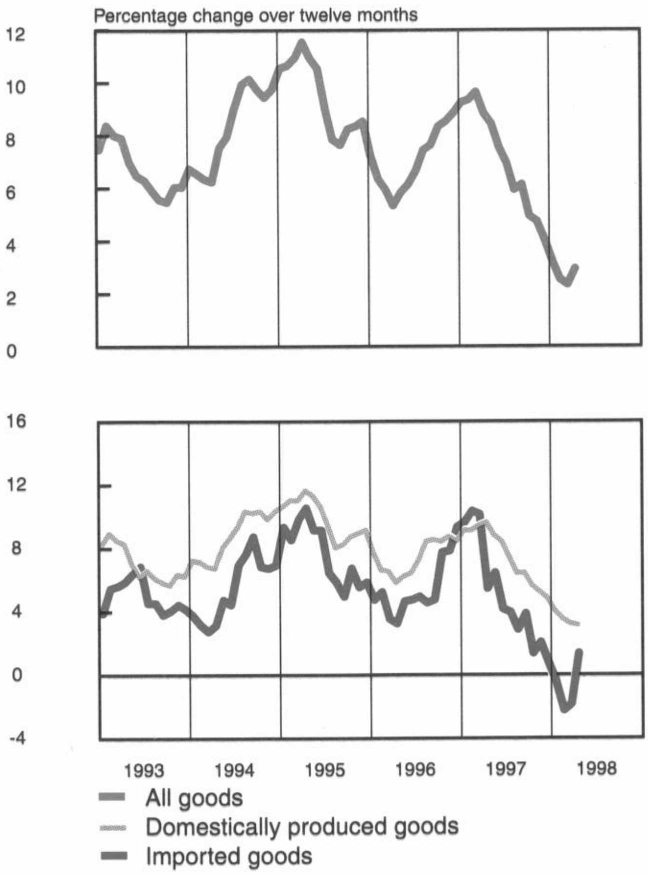
Inflation

A significant deceleration in domestic price inflation both at the production and the consumer price levels was recorded in recent months. Inflation in the all-goods production price index declined substantially from a seasonally adjusted and annualised rate of 8,1 per cent in the first quarter of 1997 to 0,6 per cent in the first quarter of 1998 – the lowest rate of increase in almost three decades. Over the same period overall consumer price inflation, seasonally adjusted and annualised, declined from 9,9 per cent to 3,9 per cent, the latter rate being the lowest recorded in close to three years.

Measured over periods of twelve months, the rate of increase in the *all-goods production price index* fell from 9,6 per cent in March 1997 to 2,9 per cent in April 1998. This slowdown resulted in part from the restraining influence of exceptionally low rates of increase, and at times even declines, in the *prices of imported goods.* Assisted by low and declining international crude oil prices, the rate of change over twelve months in the prices of imported goods was reversed from an increase of 10,1 per cent in March 1997 to declines of 2,3 per cent in February 1998 and 1,9 per cent in March. The prices of imported goods then increased by 1,3 per cent in the twelve months to April 1998. During 1997, tariff reform and increased competition by international suppliers reduced the pricing power of domestic producers. These factors, together with some moderation in the growth in unit labour costs, brought the increase over twelve months in the *prices of domestically produced goods* down from 9,7 per cent in April 1997 to 3,2 per cent in April 1998.

Consumer price inflation over twelve months also slowed down, albeit somewhat less impressively than production price inflation, from 9,9 per cent in April 1997 to 5,0 per cent in April 1998. The increase over twelve months in the prices of *consumer goods* declined from 9,2 per cent in April 1997 to 5,8 per cent in April 1998. A significant slowing in the rate of change over twelve months in the prices of food products played a meaningful part in the decline of consumer-goods inflation. The increase in the prices of *consumer services* slowed down somewhat more than that of consumer goods during the past year, namely from a year-on-year rate of 10,9 per cent in April 1997 to 4,0 per cent in April 1998. This downward movement in inflation in consumer services prices was assisted by declines in home-ownership costs on account of the adjustment in mortgage rates following the lowering of official lending rates in October 1997 and March 1998.

Production prices



Consumer prices

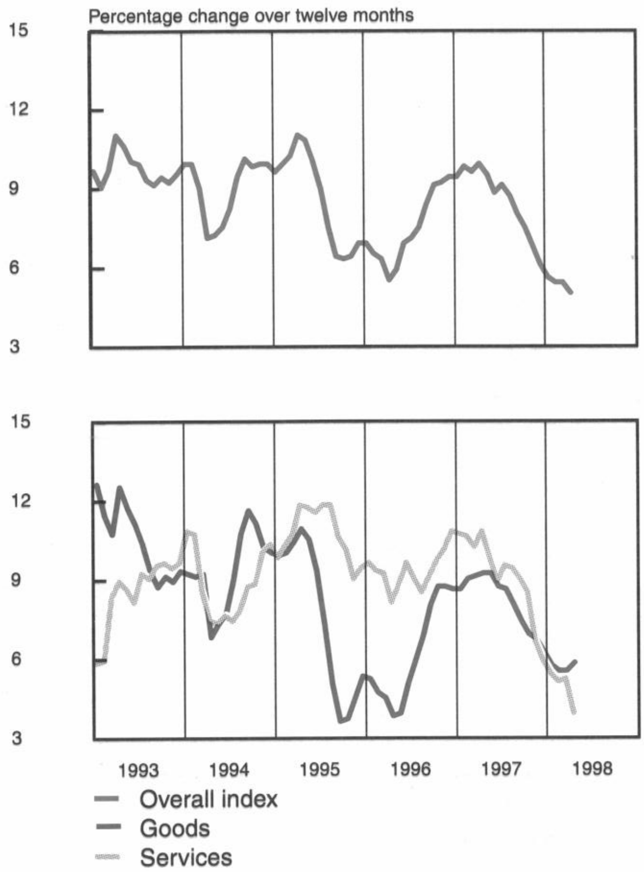


Table 7. Inflation

Quarter-to-quarter changes at annualised rates

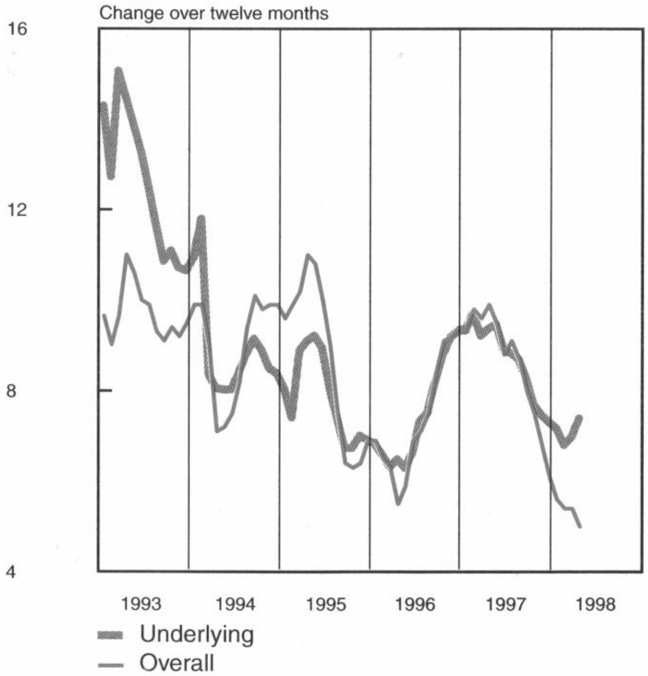
	All-goods production price index	Overall consumer price index	Underlying consumer price index*
1997: 1st qr.........	8,1	9,9	7,4
2nd qr	3,1	7,0	8,1
3rd qr	2,5	6,6	6,7
4th qr	4,4	4,1	7,8
1998: 1st qr..........	0,6	3,9	5,4

* The equivalent of "core" inflation as estimated by the South African Reserve Bank

The decline in consumer price inflation in recent months was held back by some rigidity in the prices of goods and services supplied by public-sector bodies. The consumer prices of goods and services in categories such as communications, municipal services, energy, health and education, recorded year-on-year increases in excess of 12 per cent in recent months, whereas price inflation was much less pronounced in those categories where private-sector entities were the dominant suppliers.

Underlying inflation (i.e. the change in the overall consumer price index excluding the prices of food and non-alcoholic beverages, the cost of home-ownership and value-added tax) has also declined since the first quarter of 1997, but to a lesser extent than the overall consumer price inflation. When the strong inflation-moderating effects of food products and housing costs are not taken into consideration, the underlying inflation rate measured over twelve months came to 7,4 per cent in April 1998 compared with the 5,0 per cent recorded in overall consumer price inflation. "Core" inflation, which has the same informational content as underlying inflation, was recently identified as one of a set of economic variables to be closely observed by the Reserve Bank when deliberating on monetary policy measures.

Inflation in consumer prices



Foreign trade and payments

Current account

The mounting *deficit on the current account* of the balance of payments (seasonally adjusted and annualised) was reversed when the deficit shrank from R14,1 billion in the fourth quarter of 1997 to R8,6 billion in the first quarter of 1998. As a ratio of gross domestic product, the current account deficit amounted to 1,4 per cent in the first quarter of 1998 compared with 1,5 per cent in 1997 as a whole. In contrast, the Asian economies currently suffering serious confidence crises had deficit ratios equalling about 4½ per cent of gross domestic product in 1997.

The reduction in the deficit on the current account of the balance of payments arose primarily from a robust increase in the value of merchandise exports and a simultaneous levelling-off in the growth of the value of merchandise imports. The value of net gold exports declined somewhat from the fourth quarter of 1997 to the first quarter of 1998 and net service and transfer payments to non-residents increased further.

The seasonally adjusted and annualised *value of merchandise exports*, which had been rising meekly over the last three quarters of 1997, regained much of its earlier vigour and advanced by about 5½ per cent from the fourth quarter of 1997 to reach R124,3 billion in the first quarter of 1998. This increase in the value of merchandise exports can be decomposed into an increase of 4 per cent in the physical quantity of goods exported and a much smaller increase of 1½ per cent in the aggregate level of export prices.

The higher value of exported goods in the first quarter of 1998 resulted from increases in the somewhat less price-sensitive category of mining products, such as coal, and from the more price-sensitive manufactured goods category. Exports of manufactured goods, which had been flagging in the second half of 1997, resumed their upward trend in the first quarter of 1998, especially in the categories chemical

Current account

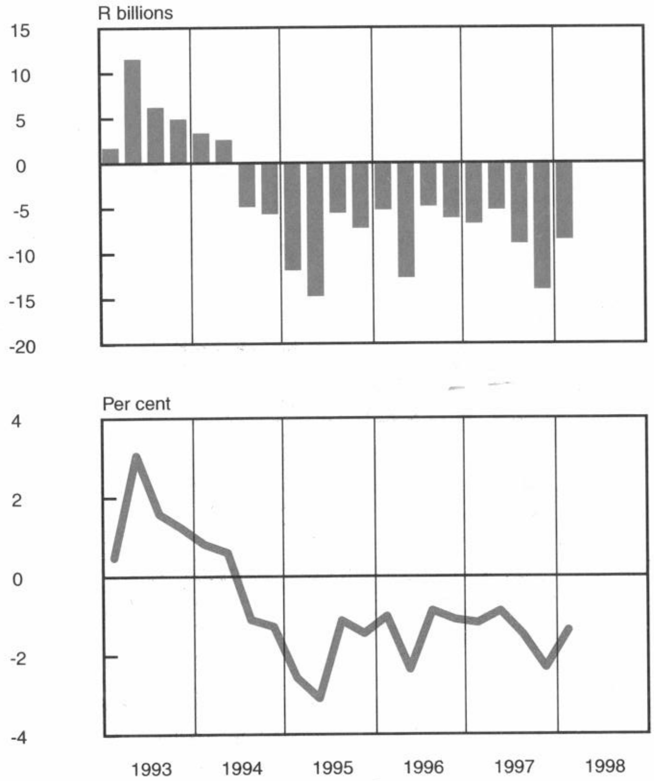
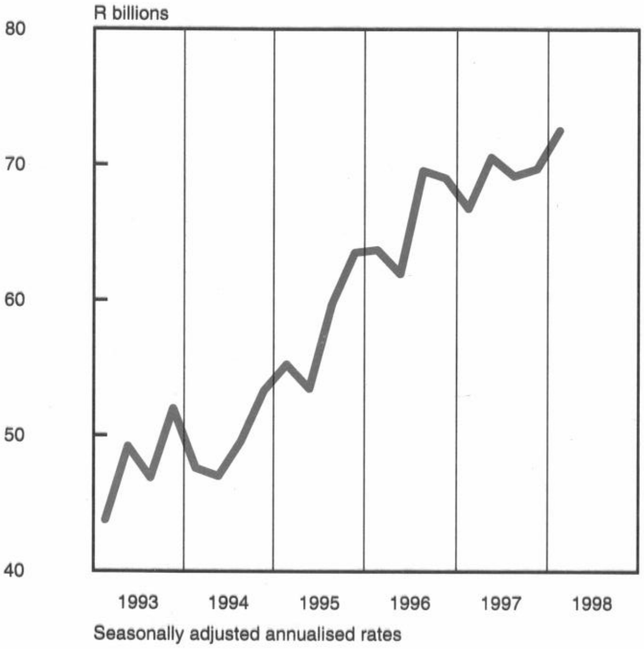


Table 8. Balance of payments on current account
Seasonally adjusted and annualised
R billions

	1997				1998
	1st qr	2nd qr	3rd qr	4th qr	1st qr
Merchandise exports	107,7	115,9	115,3	117,6	124,3
Net gold exports	26,8	24,7	26,0	25,7	24,9
Merchandise imports	-123,6	-128,6	-132,1	-139,0	-139,1
Net service and transfer payments	-17,7	-17,3	-18,2	-18,4	-18,7
Balance on current account	**-6,8**	**-5,3**	**-9,0**	**-14,1**	**-8,6**

Real merchandise exports



products, machinery and electrical equipment, and paper and paper-related products. These increases were partly offset by a decline in the export value of vehicles and transport equipment.

The *prices of exported goods* advanced modestly in the first quarter of 1998. This can be explained by the fact that the expected rise in the rand-price realisation of goods priced in foreign currency following from a decline in the exchange rate of the rand was largely neutralised by a persistent decline in international commodity prices. At the end of March 1998 the US dollar prices of international commodities were down by 20,7 per cent from their pinnacle in May 1997.

The value of South Africa's *net gold exports* (seasonally adjusted and annualised) declined from R25,7 billion in the fourth quarter of 1997 to R24,9 billion in the first quarter of 1998. This weaker export performance of the gold-mining industry was caused predominantly by a decline in the physical quantity of gold exports. In contrast, and despite a decline in the average fixing price of gold on the London market, the actual realised export price of gold rose by 6½ per cent in the first quarter of 1998. This propitious price development was a consequence of the physical delivery of gold that had been sold in terms of forward sales contracts entered into long before the first quarter of 1998 and the cushioning effect on the rand price of gold of the mild depreciation of the rand.

The *price of gold* rallied in April 1998 and reached an average level of $308 per fine ounce in that month, when a slight weakening of the dollar and speculation about the prospective gold holdings of the future European Central Bank had a positive effect on sentiment towards gold. Profit-taking by institutional investors and weak physical demand from Asian countries caused the price of gold to fall again to below $300 per fine ounce in the first two weeks of May 1998. Heightened international tension in the wake of nuclear testing in India subsequently caused a marginal strengthening of the gold price.

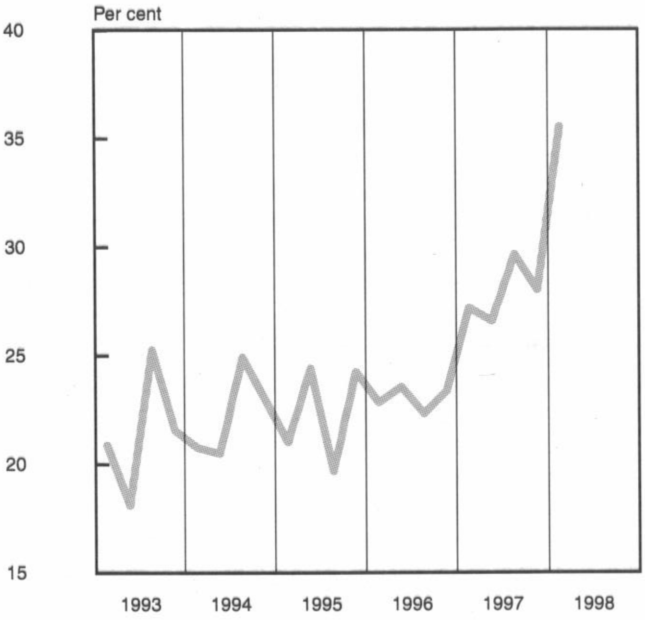
After having risen persistently from a seasonally adjusted and annualised value of R123,6 billion in the first quarter of 1997 to R139,0 billion in the fourth quarter, the value of *merchandise imports* remained virtually unchanged in the first quarter of 1998. Reflecting in part the decline in aggregate gross domestic expenditure (including inventory investment), the physical quantity of goods imported declined by more than 1 per cent in the first quarter of 1998. The impact of this decline in the physical quantity of imports on the value of imports was fully balanced by an increase of similar magnitude in the prices of imported goods. The decline in the aggregate value of imported goods occurred essentially in the categories crude oil, and vehicles and transport equipment. These declines were countered by increases in the categories precious and semi-precious stones, textiles and textile articles, and machinery and electrical equipment – the latter was a reflection of the higher level of gross fixed investment in the economy during the first quarter of 1998.

The seasonally adjusted annualised value of *net service and transfer payments* to non-residents increased from R18,4 billion in the fourth quarter of 1997

Table 9. Real value of merchandise trade
Percentage change

	1997				1998
	1st qr	2nd qr	3rd qr	4th qr	1st qr
Merchandise exports	-3,2	5,7	-2,0	0,8	4,1
Net gold exports	15,1	-6,4	7,8	-3,1	-9,1
Merchandise imports	-0,4	4,4	0,4	3,1	-1,2

Interest payments as percentage of foreign payments for services



to R18,7 billion in the first quarter of 1998. The strong inward investment in the South African securities markets shifted interest and dividend payments higher by more than the rise in the receipts from foreign tourists visiting the country. Interest payments as a percentage of gross service payments to non-residents have already increased from 27 per cent in the first quarter of 1997 to 35½ per cent in the first quarter of 1998.

Capital account

The capital account of the balance of payments, which had registered shrinking surpluses during the second half of 1997, showed a substantial net inflow of capital in the first quarter of 1998: the net inward movement of capital not related to reserves declined at first from R16,8 billion in the first half of 1997 to R3,4 billion in the second half, but then rose strongly to R11,2 billion in the first quarter of 1998. These net inflows, being mostly of a portfolio kind, are arguably sentiment-sensitive and can easily be reversed when sentiment towards emerging markets in general, or South Africa in particular, turns negative again. Such a situation developed towards the end of April and during May 1998.

An abrupt and lasting flow reversal could have potentially serious consequences for general macroeconomic equilibrium. However, the growing commitment of the authorities to macroeconomic stability, the belief among non-resident investors that inflation has been brought under control, and is likely to remain under control, and adherence to a flexible exchange rate regime are arguments against the likelihood of continued outflows of capital from South Africa. In addition, relatively high yields on South African debt instruments and buoyant share prices were still luring non-residents to the South African bond and equity markets in April and May 1998.

The *net inflow of long-term capital* (i.e. capital with an original maturity of longer than twelve months, including portfolio investments in long-term capital instruments) increased from R2,6 billion in the fourth quarter of 1997 to R18,2 billion in the first quarter of 1998. Apart from the private monetary sector, where fixed capital commitments were reduced, net inflows of longer-term capital were recorded in all the other sectors.

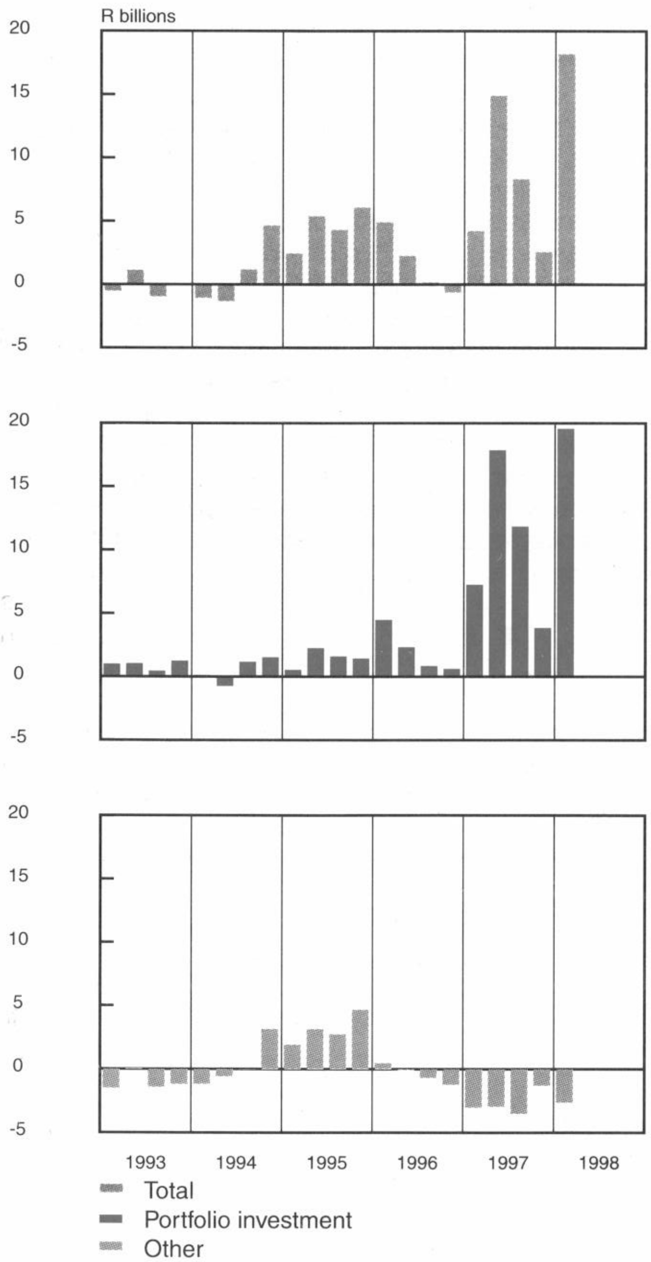
Table 10. Net capital movements not related to reserves
R billions

	1997				1998
	1st qr	2nd qr	3rd qr	4th qr	1st
Long-term capital					
Public authorities	1,0	12,2	2,1	-2,5	6,2
Public corporations	1,4	4,8	0,8	-0,2	1,0
Monetary sector	-0,2	-0,1	-0,3	-0,2	-0,6
Private sector	2,0	-2,0	5,7	5,5	11,6
Total long-term capital	**4,2**	**14,9**	**8,3**	**2,6**	**18,2**
Short-term capital					
Monetary sector	2,3	3,3	-4,5	0,0	-0,1
Other, including unrecorded transactions	-2,7	-5,2	-2,3	-0,7	-6,9
Total short-term capital	**-0,4**	**-1,9**	**-6,8**	**-0,7**	**-7,0**
Total capital	**3,8**	**13,0**	**1,5**	**1,9**	**11,2**

The net inflow of long-term capital to the *private non-monetary sector* rose from R5,5 billion in the fourth quarter of 1997 to R11,6 billion in the first quarter of 1998. Non-resident investors increased their holdings of shares listed on the Johannesburg Stock Exchange by R12,8 billion in the first quarter of 1998. This inward investment was partly offset by South African entities acquiring foreign assets through the asset-swap mechanism, although the amount of R2,3 billion acquired in this way was down from R4,4 billion in the fourth quarter of 1997.

The net inflow of long-term capital to the public sector in the first quarter of 1998 is largely explained by eurorand bonds issued on behalf of South African parastatals which raised R1,1 billion, and net purchases of public-sector bonds by non-residents to the amount of R6,8 billion. These inflows were partly neutralised by repayments made on fixed loan redemption commitments of R3,7 billion falling due in the first quarter of 1998. Gross outflows occurred in the first quarter of 1998 on account of bearer bonds which became payable, debt repayments in terms of the Final Debt Arrangements with foreign creditor banks, the repayment of affected debt previously converted into long-term debt and a reduction in outstanding loans guaranteed by foreign governments.

Long-term capital movements



The strong inflows of capital into South Africa through the bond and share markets and the fundamentally strong balance of payments position were taken into consideration when further *exchange control liberalisations* pertaining to capital-account transactions were announced on 11 March 1998. Among the announced changes was the concession that South African institutional investors would be permitted, thenceforth, to invest up to 15 per cent of their total South African assets abroad. The limit had previously been 10 per cent. During 1998, offshore investments of up to 5 per cent of the 1997 net inflow of funds to institutional investors would also be allowed – previously, 3 per cent of the net inflows during 1996 had been allowed.

South African corporates would also be allowed to retain foreign currency earnings for up to 180 days from day of shipment or date of service rendition and to transfer up to R50 million from South Africa to finance approved investments abroad. More generous liberalisations would apply to outward investment into the SADC region. Private individuals who are taxpayers in good standing would be permitted to invest up to R400 000 per person abroad, instead of R200 000 as before.

The *net outflow of short-term capital,* excluding reserve-related liabilities, but including unrecorded transactions, which had contracted from R6,8 billion in the third quarter of 1997 to R0,7 billion in the fourth quarter, increased again to R7,0 billion in the first quarter of 1998 as trade financing shifted from foreign to domestic credit sources, partly owing to the weakening in the exchange rate of the rand. The short-term foreign liabilities of the private monetary sector remained more or less unchanged from the end of December 1997 to the end of March 1998.

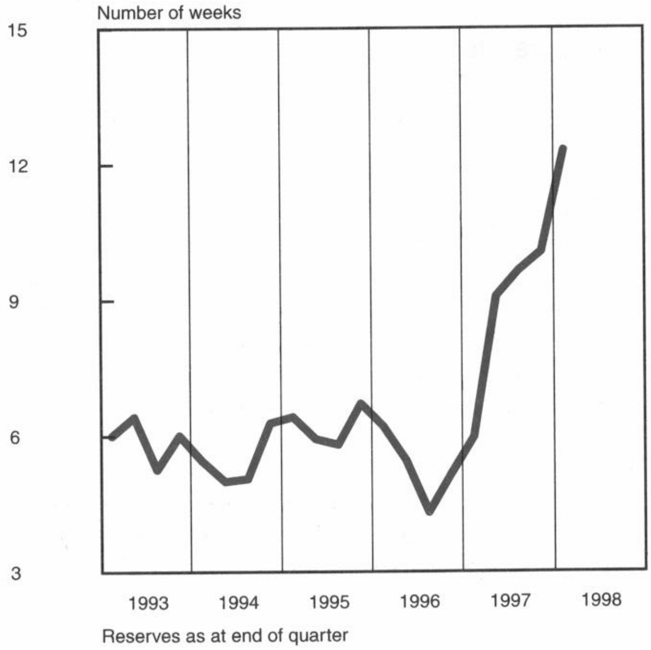
Foreign reserves

The substantial net inflow of capital outweighed the absolute size of the shortfall on the current account during the first quarter of 1998, resulting in an overall surplus on the balance of payments of R8,7 billion in South Africa's total *net gold and other foreign reserves*. This was quite a drastic turnaround from the second half of 1997 when the net international reserves of the country declined by R2,4 billion. In April 1998, however, the net reserves of the Reserve Bank declined once again by R0,2 billion. The Bank became a net seller of foreign exchange during May 1998, causing a decline of R7,9 billion in its net reserves in that month.

The country's total *gross gold and other foreign reserves* increased by R8,5 billion to a level of R45,0 billion at the end of March 1998. This increase occurred despite a reduction in the foreign short-term indebtedness of the Reserve Bank from R9,8 billion at the end of December 1997 to R9,2 billion at the end of March 1998 and repayments to the amount of R0,5 billion on government's obligation to the International Monetary Fund in terms of the Compensatory and Contingency Financing Facility. Measured in United States dollars, aggregate gross foreign reserves increased from $7,5 billion at the end of December 1997 to $9,0 billion at the end of March 1998. Relative to the value of imports of goods and services, gross reserves at the end of March were equivalent to about 12 weeks' worth of imports of goods and services – a threshold widely regarded as the minimum "acceptable level" of international reserves.

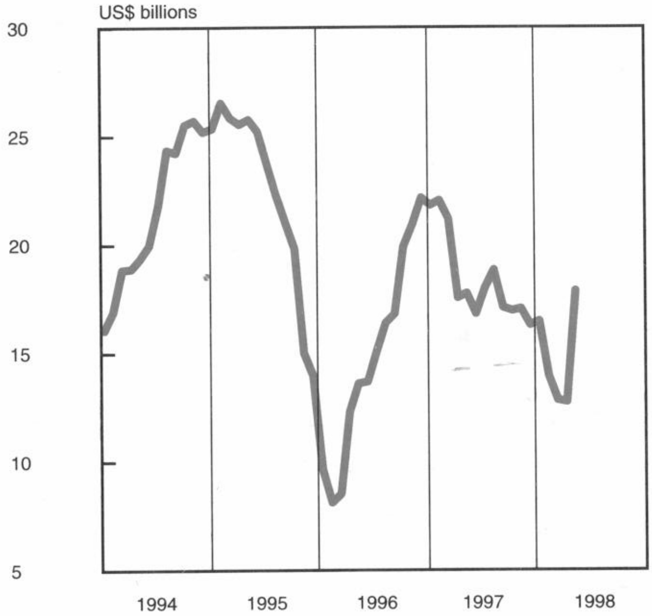
At the end of March 1998 the Reserve Bank's net oversold position in foreign currency (i.e. the Bank's net forward position in foreign currency reduced by its net holdings of spot gold and foreign exchange reserves) amounted to US$12,8 billion compared with US$16,3 billion at the end of December 1997. In May 1998 the

Imports covered by international reserves



Reserves as at end of quarter

Net oversold position in foreign exchange of the Reserve Bank



Bank had to provide liquidity to the foreign exchange market in support of the rand, which had become a target for currency speculators. The net oversold position in foreign currency then increased to US$17,9 billion at the end of May 1998 – still well below the recent high of US$22,2 billion at the end of 1996.

On 15 January 1998 the limit on foreign-currency holdings to which banks had previously been subjected, was abolished with immediate effect. This relaxation of exchange controls required from South African banks to still manage for prudential reasons their currency risk exposure within guidelines laid down by the Registrar of Banks. The foreign-currency holdings of banks are subject to the requirement that the effective net open position at the close of business on any day for any bank does not exceed an amount equal to fifteen per cent of the bank's net qualifying capital and reserves.

Exchange rates

The turbulent conditions in the Southeast Asian financial markets subsided around the beginning of 1998 and more orderly trading conditions prevailed during the first quarter of the year. The currencies of Thailand, South Korea, Malaysia and the Philippines appreciated against the US dollar, with the Thai baht leading the way, strengthening by 23,1 per cent from the end of December 1997 to the end of March 1998. The notable exception to the general improvement in market conditions in Asia was Indonesia, where delays in the implementation of IMF-led assistance programmes heightened anxieties over continued political and social instability. Investors expressed concern over Indonesia's commitment to the agreed economic reform programme and the rupiah declined by 46 per cent against the US dollar in the first quarter.

Conditions in the South African foreign exchange market were relatively tranquil during the first quarter of 1998 and exchange rate movements were not nearly as volatile as in some of the other emerging markets. The Reserve Bank intervened in the market from time to time to provide liquidity, but this intervention was of limited duration and scope. On a net basis, the Bank bought more foreign exchange during the first quarter of 1998 than the amounts relinquished to the market.

The nominal effective exchange rate of the rand, which had depreciated, on balance, by 3,9 per cent during the fourth quarter of 1997, declined by 2,8 per cent in the first quarter of 1998. The depreciation of the trade-weighted value of the rand was heavily dominated by the movements of the rand against the US dollar and the British pound: during the first quarter the rand declined in value by 3,4 per cent against the US dollar and by 4,3 per cent against the British pound. The rand broadly maintained its parity with the German mark and the Netherlands guilder, but lost some value against the Japanese yen.

From the end of March 1998 and into May the rand depreciated against the currencies of all its major trading-partner countries, apart from the British pound and the Japanese yen which both lost value against the rand. With the currencies of the European Monetary Union maintaining parity with each other, the rand declined in equal percentages against the German mark, the Netherlands guilder and the Italian lira. Some non-resident investors began taking in profits when the yield on long-term government bonds declined to the 12,50 per cent range. Being classified as an emerging market by most international investors, South Africa was also contaminated by the uncertain socio-political situation in Indonesia, which had ramifications in many other emerging markets. The rand came under speculative attack and fell to a new record low of R5,20 against the dollar on 2 June 1998, despite Reserve Bank measures to maintain orderly trading conditions through a steady supply of liquidity into the foreign currency market. The relative weakness of the rand was aggravated by news of a deteriorating Russian economy, which put downward pressure on the rouble and impacted negatively on many other emerging markets.

The *real effective exchange rate* of the rand declined by 2,2 per cent in the first quarter of 1998 as the *nominal effective exchange rate* declined by more than the narrowing inflation differential between South Africa and its main trading partners. The average twelve-month production-price inflation differential between South Africa and its four main trading partners declined from 4,0 per cent in January 1998 to 1,8 per cent in March. Provided that domestic cost pressures can be contained, the fall in the *real effective exchange rate* indicates a strengthening of the competitive ability of South African producers in export markets and the likelihood of stronger export-led growth in the future.

Exchange rates of the rand

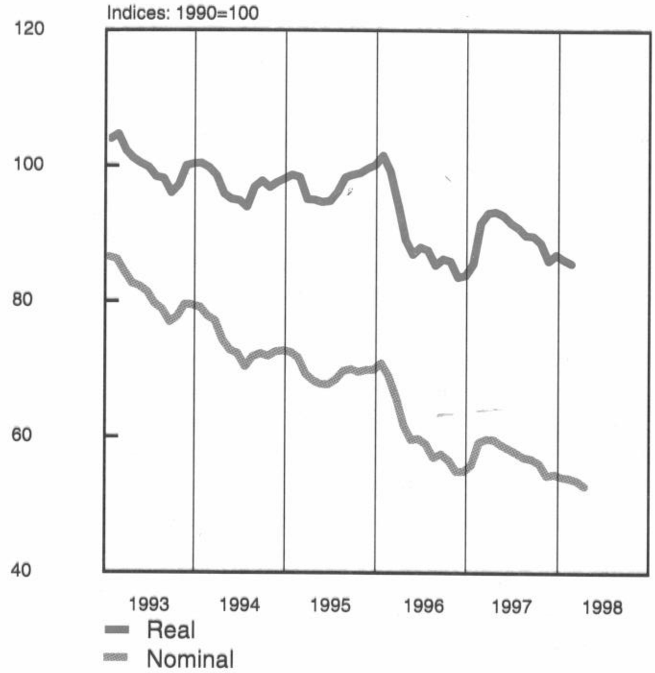


Table 11. Exchange rates of the rand
Percentage change

	13 Mar 1997 to 31 Oct 1997	31 Oct 1997 to 31 Dec 1997	31 Dec 1997 to 31 Mar 1998	31 Mar 1998 to 4 Jun 1998
Weighted average............	-9,6	0,5	-2,8	-1,6
US dollar.............	-8,6	-1,1	-3,4	-1,5
British pound	-12,6	-0,2	-4,3	0,6
German mark......	-6,8	2,5	-	-6,0
Japanese yen	-10,2	7,0	-0,7	2,0
Netherlands guilder..............	-6,7	2,5	-	-6,0
Italian lira.............	-8,4	2,6	0,3	-6,0

Monetary developments, interest rates and financial markets

Revised approach to monetary policy

When the new system of liquidity provision to the banks was implemented, the Governor of the Reserve Bank also announced a revised framework for monetary policy. This framework recognised the considerable uncertainties that exist about the behaviour of the velocities of circulation of the various monetary aggregates and the difficulties in forecasting with reasonable accuracy the relationships between money growth, nominal income growth and inflation. These problems are not unique to South Africa. A number of countries which encountered similar problems since the 1980s have abandoned the use of monetary "targets" or "guidelines" as part of their overall macroeconomic policy strategies and introduced direct inflation targeting as the principal indicator for taking monetary policy decisions.

The Bank was not convinced that South Africa has reached the stage where an explicit inflation target could be incorporated in its overall macroeconomic strategy. The Bank nevertheless reiterated its strong commitment to gradually bring the domestic "core" or "underlying" inflation rate in line with the average rate of inflation in the country's major trading partners and major international competitors. Accordingly, the Bank indicated a range of between 1 and 5 per cent per annum as an explicit inflation objective that will be taken into consideration when formulating monetary policy, but which should not be interpreted as a formal inflation rule.

Growth in the money supply is still seen as vital to the process of inflation propagation. For this reason, money growth will have to be contained within bounds consistent with sustained low inflation and without jeopardising stronger economic growth. An average rate of growth in M3 of between 6 and 10 per cent per annum over the following three years was seen to meet these criteria as it would accommodate an increase in aggregate real output of up to 5 per cent per year. As an intermediate objective of monetary policy, the Reserve Bank will strive to reduce the growth in M3 over periods of twelve months to within the stated guideline range. Previously, the *level* of M3 was indicated to unfold in a projected range based on the average value of M3 in the fourth quarter of the year preceding the "guideline year".

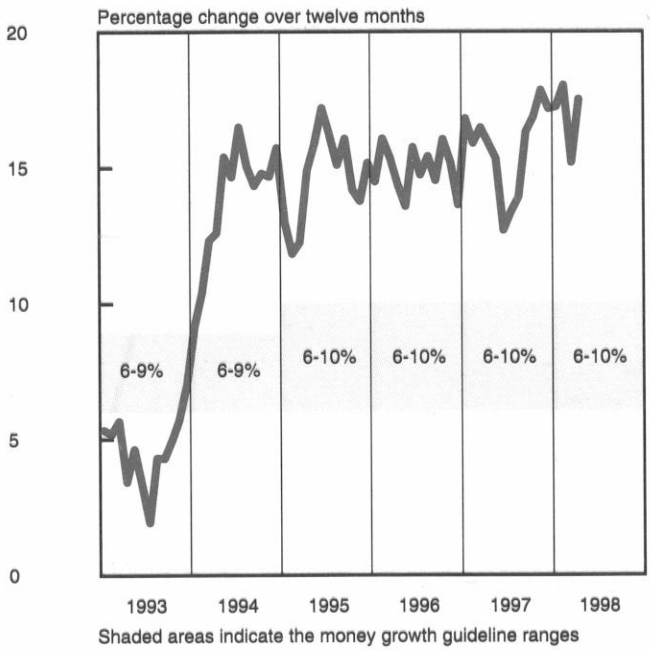
The Bank indicated that the money growth guidelines will be applied in a flexible and low-profile manner. Other variables, such as changes in various price indices (e.g. the production price index), the level of interest rates, the shape of the yield curve, developments in the external and public sectors of the economy and in the labour market, will also be closely observed to serve as input in the process of taking monetary policy decisions. Discretion and judgement will be exercised in deciding on the combination of money growth, changes in interest rates and exchange rate movements that will be appropriate to achieve the objective of steadily declining and ultimately low inflation. The Reserve Bank made it clear that it has no intention of adhering, in a mechanistic way, to an inflexible policy rule.

Money supply

The growth in the broadly defined money supply (M3), which had reached a lower turning-point in June 1997, showed a strong upward movement in the subsequent ten months. The twelve-month rate of increase in M3 accelerated, on balance, from 12,7 per cent in June 1997 to 17,5 per cent in April 1998. At its current level the twelve-month growth of M3 is substantially higher than the upper limit of the growth range of between 6 and 10 per cent, which the Reserve Bank had indicated as one of a set of longer-term indicators guiding monetary policy decision-making.

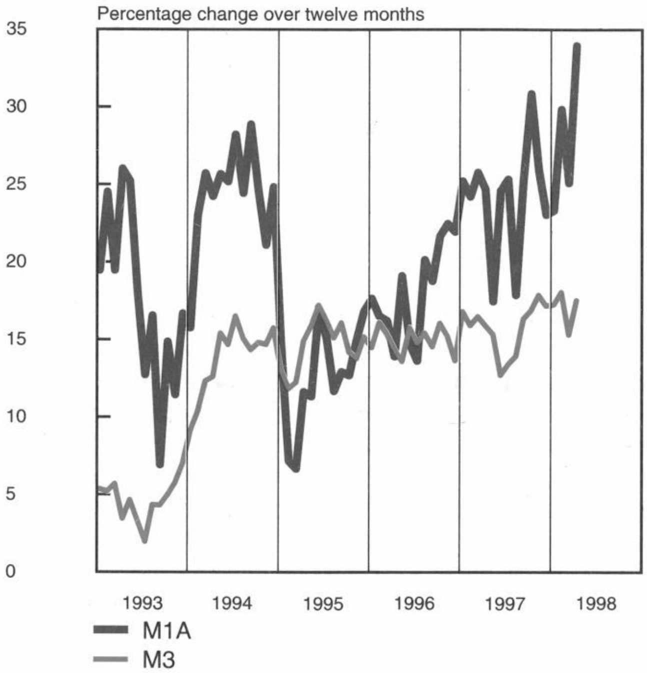
The rapid growth in the money supply in the last quarter of 1997 and in the first quarter of 1998 emanated, to a significant extent, from rising turnovers and prices in the securities markets. The relative strength displayed by aggregate final demand in the past two quarters gave further impetus to the growth in the demand for money for transaction purposes. All these were reinforced by the

M3 money supply



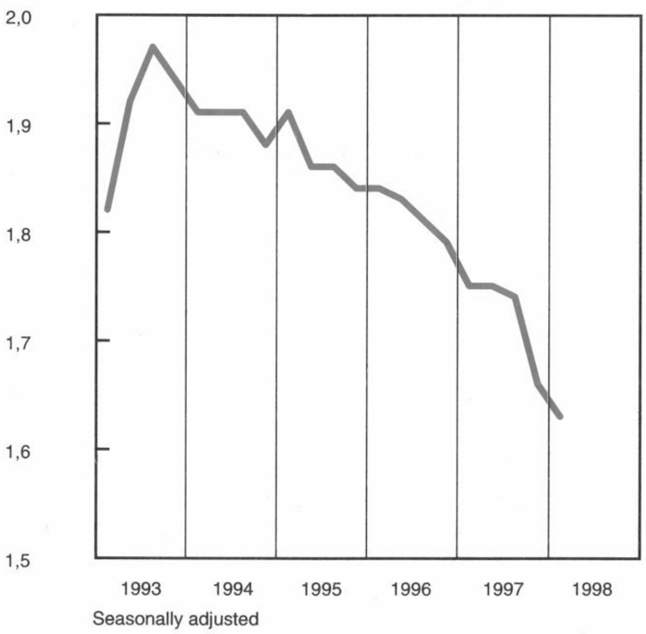
Shaded areas indicate the money growth guideline ranges

Monetary aggregates



general strengthening of confidence in money as a store of value owing to inflation slowing down and the increasing attractiveness of inflation-adjusted pre-tax returns on depository-type investments. What made the

Income velocity of M3



rapid growth in M3 somewhat surprising was its co-existence with some widening of the margin between banks' lending and deposit rates, which normally encourages disintermediation and slower growth in bank balance sheets.

The strong demand for money boosted M3 growth to a level in the first quarter of 1998 that was 9 percentage points higher than the growth in nominal gross domestic product. As a consequence, the income velocity of circulation of M3 declined strongly to 1,63 in the first quarter – down by 17,6 per cent from its recent peak in the third quarter of 1993. The liquidity ratio of the economy, i.e. M3 stated as a percentage of nominal gross domestic product (seasonally adjusted and annualised), rose to 61,5 in the first quarter of 1998, the highest value of this ratio recorded since the third quarter of 1970.

Cheque and transmission deposits, together with other demand deposits, constituted 40,7 per cent of M3 during the nine months to March 1998. From the end of June 1997 to the end of March 1998 these types of deposits accounted for 57,1 per cent of the overall increase in M3, indicating a stronger preference for relatively liquid assets among the general public. The popularity of shorter-term deposits in recent times came from the increased usage of cash management schemes offered by banks and the relatively attractive yields on these types of deposits as revealed by the inverse shape of the deposit-yield curve. Banks also actively encouraged the shortening of deposit maturities in anticipation of a lowering of official interest rates.

In a statistical or accounting sense the rapid expansion of the money supply over the past three quarters was reflected in a substantial increase in the monetary sector's claims on the private sector. Net foreign assets of the monetary sector also increased sizeably in the first quarter of 1998, but net claims on

Table 12. Growth in monetary aggregates over twelve months

Per cent

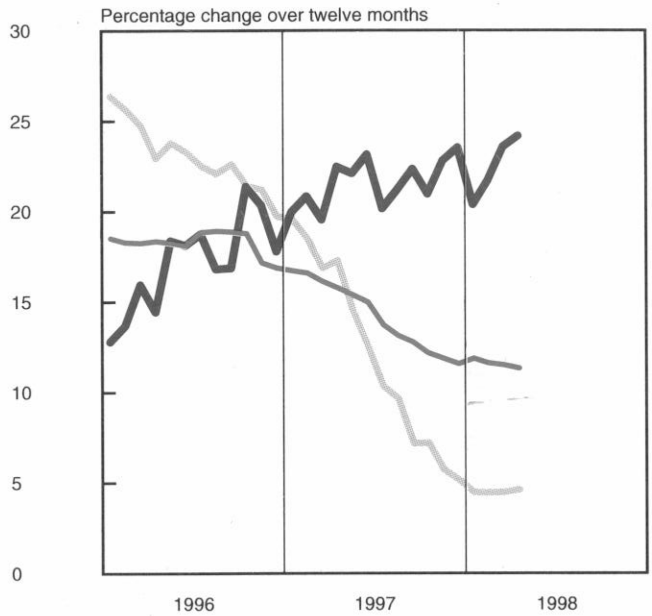
	M1A	M1	M2	M3
1997: Mar.........	25,7	30,1	17,8	16,5
Jun.........	24,5	19,1	13,0	12,7
Sep.........	25,2	23,7	17,5	16,3
Dec.........	23,0	17,3	18,7	17,2
1998: Jan..........	23,3	22,9	18,7	17,2
Feb.........	29,8	22,8	19,1	18,0
Mar.........	25,0	14,9	15,1	15,2
Apr..........	33,9	29,9	18,4	17,5

Table 13. Changes in the accounting counterparts of M3

R billions

	1997		1998
	3rd qr	4th qr	1st qr
Net foreign assets	1,9	-1,9	5,9
Net claims on the government	4,0	4,5	-2,7
Claims on the private sector	9,7	13,0	19,2
Net other assets	0,2	-0,2	-8,7
Total change in M3.........	15,8	15,4	13,7

Credit extended to private sector by type of credit



the government sector declined as government accumulated deposits with the banks while the banks reduced their claims on the government sector. Net other assets of the banks declined sharply in the first quarter of 1998 because of considerable increases in the other liabilities of banks, in part owing to the strengthening of capital and reserves.

Credit extension

The rate of increase over twelve months in *total domestic credit extension* by monetary institutions (i.e. credit extension to the private sector and net claims on the government sector) receded from a recent peak of 17,1 per cent in October 1997 to 15,2 per cent in April 1998. This slowdown in the rate of credit growth was essentially the result of a decline in net credit extended by banks to the government sector. The growth over twelve months in bank credit extension to the private sector slowed down visibly up to January 1998, but then accelerated in the subsequent three months.

The twelve-month rate of increase in *credit extension by banks to the private sector* declined to 13,3 per cent in January 1998, but accelerated to 15,1 per cent in April. However, when bank credit to the private sector is redefined to exclude bank loans to local authorities, but to include loans and advances granted under resale agreements and foreign loans in the bank's own name which were on-lent to other clients, the adjusted aggregate slowed down from 12,8 per cent in December 1997 to 12,5 per cent in March 1998. In the twelve months to April 1998, this measure of credit to the private sector rose by 14,1 per cent. These monthly growth rates exceeded the rate of inflation in consumer prices over twelve months by a widening margin, with the result that the growth in the real redefined credit extension to the private sector accelerated from 6,3 per cent in December 1997 to 6,7 per cent in March 1998 and 8,7 per cent in April.

Credit growth has consistently outpaced the growth in nominal gross domestic expenditure by a considerable margin, thereby raising the ratio of outstanding private-sector credit to annualised gross domestic product to 68,6 per cent in the first quarter of 1998 – the highest ratio on record. The most important contributing factor to this persistently strong growth in credit extension to the private sector was the buoyancy of financial market activity which resulted in almost incessant increases from quarter to quarter in trade volumes and turnovers. Some conversion of trade finance to domestic sources of credit, instead of foreign ones, could also have contributed to the firmer growth in credit extension.

An analysis of banks' claims on the private sector by *type of credit* shows that the rate of growth over twelve months in the largest credit category, namely *mortgage advances*, moderated to within a narrow range of between 11,9 and 11,3 per cent from January 1998 to March. The strength of the growth in credit extension to the private sector, however, stemmed from rapid growth in *other loans and advances*, which accelerated from an already high rate of 23,6 per cent in December 1997 to an all-time high of 24,2 per cent in April 1998. In contrast, the growth over twelve months in *instalment sale credit* subsided from rates higher than 10 per cent in the months up to October 1997 to single-digit rates over the ensuing months.

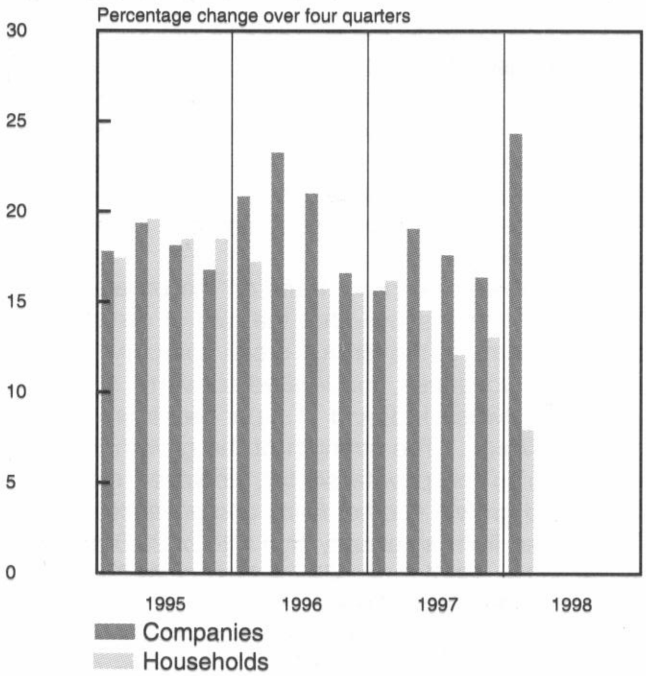
Table 14. Credit extended to the private sector by main type of credit
Percentage change over twelve months

		Mortgages	Instalment sales	Leasing finance	Investment and bills	Other loans and advances	Total
1997:	Mar	16,1	18,1	14,4	-6,2	19,6	16,0
	Jun	15,0	14,3	8,9	0,7	23,2	16,4
	Sep	12,7	10,7	0,5	3,0	22,4	14,3
	Dec	11,5	9,2	-3,0	13,4	23,6	14,4
1998	Jan	11,9	8,6	-3,9	11,2	20,4	13,3
	Feb	11,6	8,5	-3,8	13,6	21,8	13,8
	Mar	11,5	9,7	-6,1	17,5	23,6	14,6
	Apr	11,3	9,1	-4,5	22,5	24,2	15,1

Similarly, the growth over twelve months in *leasing finance* declined from rates higher than 15 per cent at the beginning of 1997 to increasingly negative growth rates during the last quarter of 1997 and the first quarter of 1998. The relatively sharp increase in *investments and bills* was partly caused by upward asset revaluations at the end of March 1998, which also affected the consolidated reserve liabilities of monetary institutions.

The total increase in private-sector credit of R19,2 billion in the first quarter of 1998 could be attributed to an increase of R18,0 billion in credit extended to the corporate sector; credit extended to households increased by merely R1,2 billion. In terms of percentage changes, the growth over twelve months in credit extension to the corporate sector accelerated from 16,3 per cent in December 1997 to 24,3 per cent in March 1998, whereas that to the household sector receded from 13,0 per cent to only 7,9 per cent over the same period. Mortgage advances accounted for 26,3 per cent of the increase in bank credit extension to the corporate sector in the first quarter of 1998, overdrafts for 21,8 per cent and other loans and advances for 40,1 per cent.

Credit extended to private sector



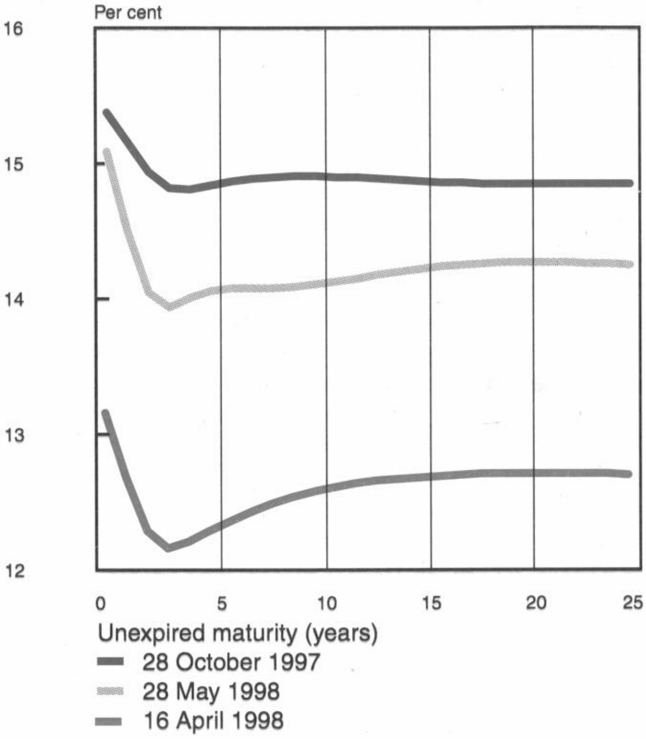
Interest rates and yields

The general downward movement of the *yield curve* from the beginning of 1997 was briefly interrupted in the second half of October 1997 when the uncertainties created by the financial problems in a number of Asian economies spread to other emerging markets, including South Africa. The yield curve resumed its downward movement in the last days of October 1997, leaving the impression that the contagion from the Asian crisis had been relatively short-lived. Despite the increasing integration of the South African economy into the global economy, there are a number of reasons why the country was initially left relatively unscathed by the Asian crisis. These include:

- the sudden depreciation of the rand in 1996 which prompted a number of policy responses to reduce macroeconomic imbalances in the external and the public sectors of the economy;
- adherence to a flexible exchange rate regime which allowed the rand to float relatively freely against other currencies;
- South African banks generally exercised prudence in their lending activities, are sufficiently capitalised and profitable, strictly supervised and without government interference in directing lending to preferred sectors or companies; and
- the availability and transparency of information regarding economic data and policies.

The downward movement of the yield curve continued during the first four months of 1998. A combination of factors have provided the impetus for

Yield curves



this decline over the full spectrum of the yield curve. These include:

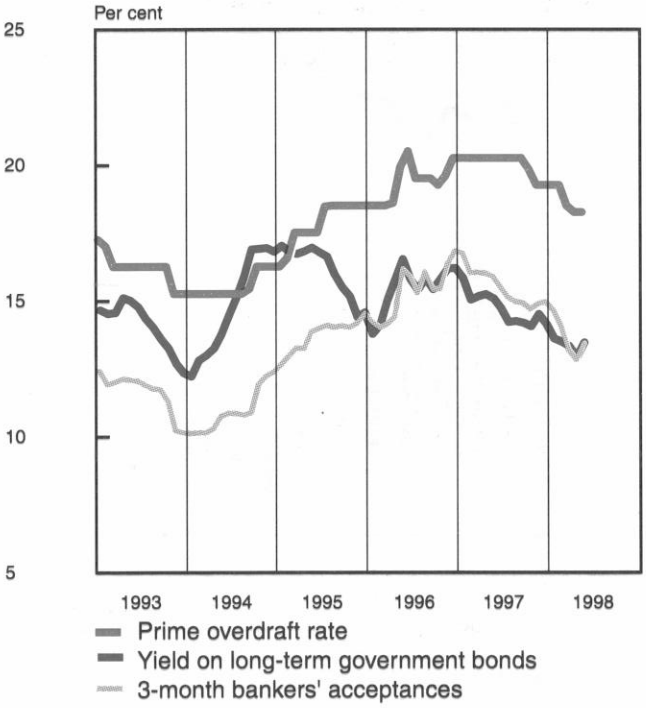
- a conservative Budget proposed to Parliament by the Minister of Finance, which reflected all the main characteristics of fiscal discipline, most notably an expected deficit before borrowing and debt repayment equal to 3,5 per cent of the projected gross domestic product for fiscal 1998/99;
- a rise in the price of gold from US$279 in mid-January 1998 to US$314 late in April;
- falling inflation as reflected in low increases in the consumer and production price indices;
- growing net gold and foreign exchange reserves;
- a shrinking net open position in foreign exchange which was greatly assisted by strong international portfolio investment flows into the domestic securities markets; and
- a reduction in Reserve Bank lending rates and expectations of further reductions in these rates.

From the beginning of 1998 the yields on bonds with a maturity of three years declined more than the yields on all other bonds with maturities shorter and longer than three years. The inverted gradient of the curve at the shorter end then became steeper, while an upward sloping curve emerged over the maturity area between three and twenty years. This shape of the yield curve would seem to signal expectations of further declines in yields in the short- to medium-term area of the maturity spectrum.

The *monthly average yield on long-term government bonds* increased from 14,0 per cent in October 1997 to 14,5 per cent in November when the full impact of the events in Asia was felt. In the aftermath of this crisis and with a return to more normal trading conditions, bond yields moved lower to a monthly average of 12,9 per cent in April 1998. The *daily average yield on long-term government bonds* increased sharply from 13,76 per cent on 22 October 1997 to 15,07 per cent on 28 October. Thereafter, this yield declined steadily until the middle of March 1998, when it increased slightly in reaction to an increase of eight percentage points in the tax rate applicable to the interest earnings of retirement funds. When the bullish trend resumed, the daily average yield fell below 13 per cent on 8 April 1998 for the first time since 17 May 1994.

A low point of 12,67 per cent was reached on 17 April 1998, but fears about a likely tightening of monetary policy in the United States and concerns about the situation in Russia and Asia and the impact this might have on the exchange rate of the rand led to some profit-taking, which took the daily average yield on long-term government bonds back to 12,98 per cent by the end of April 1998. The uncertainties created by the nervousness of the foreign-exchange market during May 1998, and the response of the

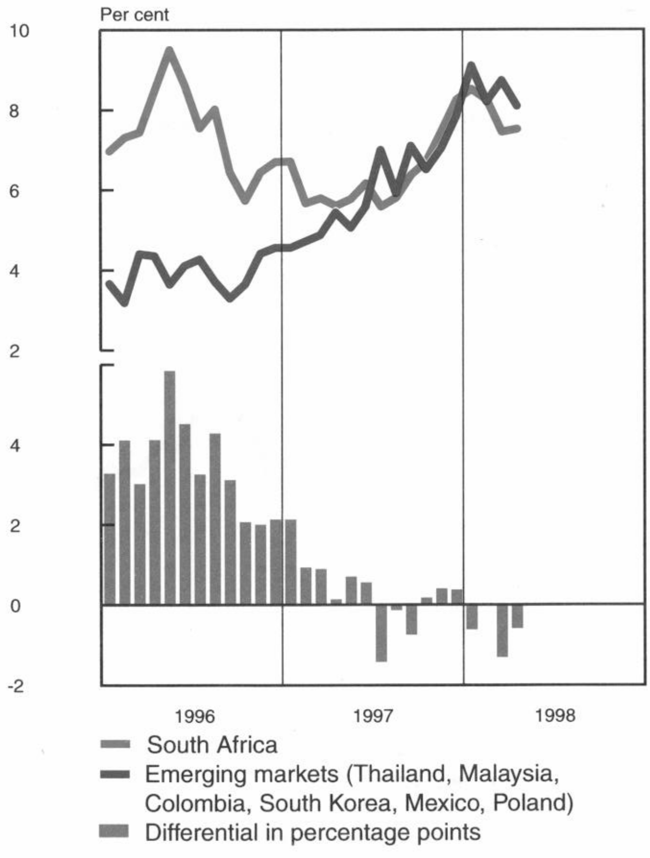
Average monthly interest rates and yields



Reserve Bank on 26 May to calm down the situation in order to prevent the occurrence of unduly large fluctuations in the exchange rate of the rand, elicited a sharp correction in the bond market. The yield on long-term government bonds climbed by almost 155 basis points from the end of April 1998 to 14,53 per cent on 2 June.

The *monthly average inflation-adjusted yield on long-term government bonds,* which averaged about 5 per cent between February and August 1997, increased to about 7,5 per cent in April 1998. This was brought about by a fairly steep decline in consumer price inflation over twelve months, which exceeded the decline in the monthly average nominal bond yield. The *differential* between inflation-adjusted long-term government bond yields in South Africa and the United States averaged about 3,5 percentage points from November 1997 to April 1998. This stood in contrast to the differential of inflation-adjusted short-term interest rates between South Africa and a selection of "emerging market economies" – the South African rate was lower by a margin of about 0,3 percentage points than the average rate of the emerging markets.

Inflation-adjusted short-term interest rates



The official lending rates of the Reserve Bank were lowered on 9 March 1998 with the introduction of the new procedures to provide liquidity to the money market. In terms of the new procedures, banks are permitted to tender on a daily basis for a preannounced amount of Reserve Bank money through a system of sales and repurchases of securities. The *rate* at which the Bank was prepared to enter into *repurchase transactions* was initially set at 15 per cent, effectively reducing the cost of borrowing from the Reserve Bank by one percentage point. This subsequently led to a downward adjustment from 19,25 per cent to 18,25 per cent in the *prime overdraft rate of banks*. The former system of accommodation at penalty rates was also replaced by a new marginal lending facility where overnight loans or loans for a few days are provided to banks at the marginal lending rate. The marginal lending rate was initially maintained at the level of the former Bank rate, namely 16 per cent.

The *repurchase rate* of the Reserve Bank stayed fixed until 16 March 1998, but was kept at 15 per cent by the auction process until 31 March. From 1 April 1998 the repurchase rate began to respond to changes in overall liquidity conditions in the money market, resulting in the rate drifting downwards to 14,85 per cent on 16 April 1998. After the Bank had signalled its discomfort with the pace of decline in the repurchase rate by providing less than the estimated liquidity requirement in the daily auction, this rate increased to 14,93 per cent on 29 April 1998. It subsequently moved downwards again to 14,79 per cent on 8 May 1998.

In the ensuing days strains in the foreign exchange market eventuated in a relatively sharp upward adjustment in the repurchase rate to 16,09 per cent on 25 May 1998. During this period (8 May to 25 May 1998) the signalling mechanism of the Bank proved to function efficiently. Of the estimated daily liquidity requirements of the market, only 25 per cent was provided through the daily auction system, thus nudging the repurchase rate gradually higher. On 26 May the Reserve Bank – in a step that was intended to be only temporary – instituted a fixed-rate daily auction for repurchase agreements with one-day maturities in place of the variable-rate auction for repurchase agreements with maturities of seven days. The repurchase rate was then fixed at 18 per cent until 4 June 1998, when it was lowered to 17,50 per cent.

To enhance the efficiency of the new system of liquidity provision the Reserve Bank on 14 May 1998 announced an increase in the marginal lending rate to a level that was meant to discourage banks from making extensive use of this facility. The marginal lending rate was no longer fixed at 16 per cent, but was allowed to fluctuate in accordance with changes in the repurchase rate, but at a level that is 3 percentage points above the daily average effective rate applicable to repurchase transactions at the final auction of the day. The increase in the marginal lending rate became effective on 20 May 1998. Turbulent conditions in the money, capital and foreign-exchange markets compelled the Reserve Bank on 26 May 1998 to set its marginal lending rate at a margin of 10 percentage points above the repurchase rate. On that date, the marginal lending rate was raised to 28 per cent. On 2 June 1998 it was raised further to 33 per cent, but was lowered again to 32,5 per cent on 4 June 1998.

Easier money market conditions, waning inflation and the reduction in the official lending rates of the Reserve Bank and expectations of further reductions in these rates were the main causes for a downward movement in money market rates during the first quarter of 1998. The rate on bankers' acceptances with a maturity of three months, which is broadly representative of the general movement in money market rates, declined from 14,80 per cent at the beginning of January 1998 to 13,75 per cent at the end of February and 12,75 per cent at the end of March. Along with the upward movement in the repurchase rate of the Reserve Bank, the rate on bankers' acceptances of three months increased again in the latter half of April 1998 to 12,92 per cent at the month-end and further to 15,60 per cent on 2 June.

The downward trend in money market interest rates was also evident in the decline of the tender rate on Treasury bills with a maturity of three months, from 14,65 per cent at the beginning of January 1998 to 13,69 per cent at the end of February, 12,92 per cent at the end of March and 12,81 per cent at the end of April. This decline was a reflection of the increasingly easier money market conditions that prevailed during the greater part of the first four months of 1998. Subsequent to the end of April 1998 the tender rate on Treasury bills with a maturity of three months rose in harmony with other money-market rates to 14,79 per cent on 5 June.

The *interbank call rate*, which was meant to become a rate that is highly sensitive to changes in the underlying liquidity conditions in the money market, remained singularly unresponsive to changes in the daily liquidity needs of the banks. This rate remained at 13 per cent from the date of the inception of the new system up to 14 May 1998 when the draining of liquidity through the foreign exchange market forced the call rate to rise to 13,50 per cent and later to 18,00 per cent on 1 June 1998 in reaction to the increase in the official lending rates of the Reserve Bank. It declined subsequently to 17,50 per cent on 4 June 1998.

The *predominant rate on mortgage loans* by banks, which had been lowered by one percentage point to 19 per cent in November 1997 following the reduction in Bank rate on 20 October, was reduced further to 18 per cent in March 1998 when the repurchase system of liquidity provision by the Reserve Bank was introduced. In a somewhat isolated step, one bank announced a further reduction of 50 basis points in its mortgage loan rate on 11 May 1998. The *inflation-adjusted rate on mortgage loans* increased from 11,6 per cent in November 1997 to 13,0 per cent in February 1998, but then receded to 11,9 per cent in March on account of the reduction of one percentage point in the nominal rate. The *predominant retail rate on twelve-month fixed deposits with banks*, which had been lowered to 13,50 per cent in November 1997, was reduced again by another percentage point to 12,50 per cent in March 1998.

Table 15. Interest rates and yields
Per cent

	Monthly average interest rates and yields				Predominant rate	
	Yield on long-term government bonds					
	Nominal	Inflation-adjusted	SARB repurchase rate	3-month bankers' acceptances	Mortgage loans	12-month fixed deposits
1997: Apr	15,2	4,9		16,0	20,0	14,5
Oct	14,0	6,2		14,7	20,0	14,5
Nov	14,5	7,3		14,9	19,0	13,5
Dec	14,1	7,6		15,0	19,0	13,5
1998: Jan	13,6	7,5		14,6	19,0	13,5
Feb	13,5	7,7		14,1	19,0	13,5
Mar	13,3	7,5	15,0	13,2	18,0	12,5
Apr	12,9	7,5	14,9	12,8	18,0	12,5
May	13,5	...	15,2	13,4	18,0	12,5

Money market

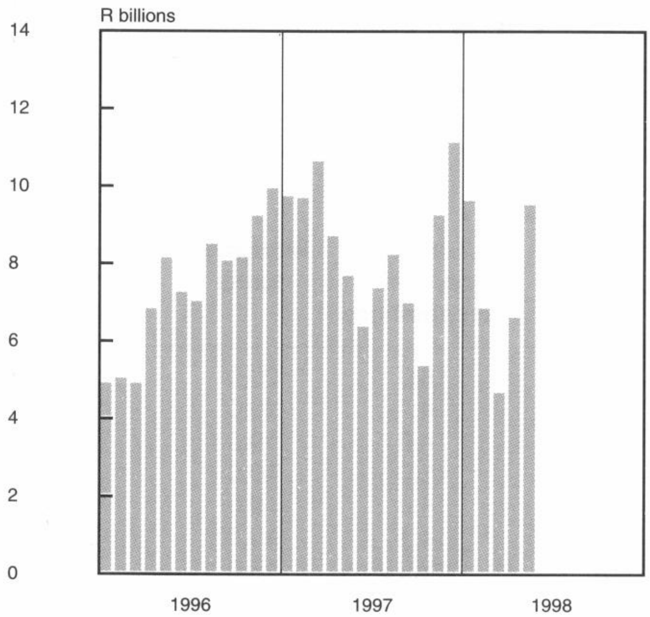
As mentioned earlier, the Bank introduced new monetary policy operational procedures on 9 March 1998, replacing the previous system under which the Bank provided liquidity by means of overnight loans at Bank rate. In terms of the new procedures, an amount of central bank funds is auctioned daily on the basis of repurchase transactions. In addition, a marginal lending facility was implemented in order to add more flexibility in the application of the new accommodation procedures. A new averaging procedure was also introduced on 20 March 1998 in the calculation of the minimum cash reserves that banks are required to maintain at the Reserve Bank. In terms of this provision, banks are allowed to meet the new cash reserve requirement of 2½ per cent on their total liabilities, as adjusted, on the basis of an average amount calculated over each maintenance period of approximately one month. This allows banks automatic recourse to their cash balances for settlement purposes on a daily basis as long as the average level of reserves during the maintenance period equals or exceeds the minimum cash reserve requirement.

Money market conditions eased considerably during the first quarter of 1998. The total amount of liquidity provided at month-ends decreased from R7,6 billion at the end of January to R4,5 billion at the end of February and R4,4 billion at the end of March. The easier money market conditions were also reflected in changes in total liquidity provided, expressed as monthly averages of daily values, which decreased substantially from R9,6 billion in January 1998 to R4,6 billion in March. The April 1998 average came to R6,3 billion signalling some tightening of liquidity conditions during that month. In May 1998 the money market became even tighter and the average daily amount of liquidity provided by the Bank rose to R9,5 billion in that month. The daily amount of liquidity provided by the Bank reached an all-time high of R16,7 billion on 26 May.

The easing of money market conditions in the first quarter of 1998 could mainly be ascribed to an increase of R6,7 billion in the net foreign assets of the Reserve Bank, a decrease of R1,2 billion in notes and coin in circulation outside the Reserve Bank and a decrease of R0,4 billion in government deposits with the Bank. A decline in the net foreign assets of the Bank during April was mainly responsible for the tighter liquidity situation during that month. Towards the end of April 1998 and in May the Reserve Bank assisted the foreign exchange market in order to reduce the potential volatility of exchange rate movements. This, of course, drained liquidity from the domestic money market.

The total amount of liquidity provided by the Bank under the new system consisted mainly of advances to the banks in terms of repurchase agreements. Loans to banks in terms of the marginal lending facility reached levels of R1 135 million on 23 March 1998 and R1 573 million on 20 April, but averaged only R165 million per day in March, R316 million per day in April and R1 863 million in May 1998. Banks also made active use of their cash reserve balances for settlement purposes. At the end of April 1998 total liquidity provided consisted of outstanding repurchase transactions to the amount of R4,1 billion, loans in terms of the marginal lending facility to the amount of only R42 million and net cash reserves utilised amounting to R144 million. Outstanding repurchase transactions increased to R10,5 billion out of a total liquidity requirement of R10,7 billion at the end of May 1998.

Total liquidity provided by Reserve Bank



Monthly average of daily values

Bond market

Net issues of fixed-interest securities by the *public sector in the domestic primary bond market* fell from R7,5 billion in the fourth quarter of 1997 to R3,6 billion in the first quarter of 1998 as the fiscal year 1997/98 drew to a close and it became apparent that the deficit before borrowing and debt repayment on the Exchequer account would almost be within the limits set by the Minister of Finance. Total net issues of public-sector stock came to R20,4 billion in the full fiscal year 1997/98 – almost the same amount as in the previous fiscal year.

On 1 April 1998 the tap system of issuing capital market debt instruments of government was changed into an *auction system*. A panel of primary dealers was appointed to market the government's domestic capital market debt instruments. The panel, which consists of registered banking institutions, enjoys exclusive dealing rights with the government in respect of all domestic government bond issues. The primary dealers have committed themselves to active

Table 16. Bond market activity
R billions

	Secondary market		
		Non-residents	
	Value of bonds traded	Net purchases	Cumulative net purchases from January 1997
1997: 1st qr.....	883	6,1	6,1
2nd qr	834	7,4	13,5
3rd qr.....	1 182	5,9	19,4
4th qr.....	1 370	-4,7	14,7
Year........	**4 269**	**14,7**	**14,7**
1998: 1st qr	1 675	10,1	24,8

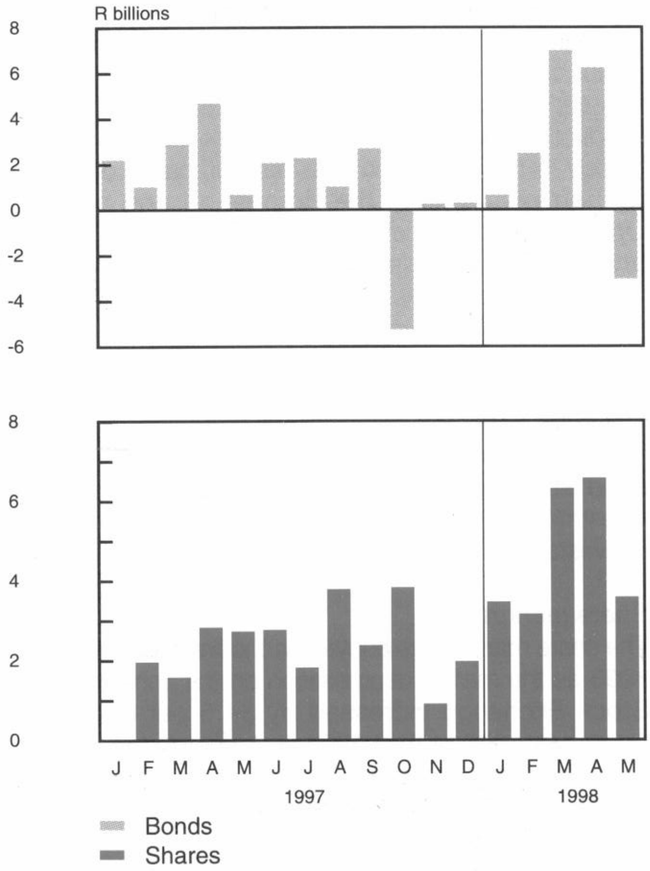
participation in the auctions by competitive bidding at market-related rates. Government bonds with a nominal value of R5,1 billion were *auctioned and allotted* from the beginning of April 1998 to the end of May, leaving R25,9 billion still to be funded in the remainder of fiscal 1998/99.

Private-sector listed companies in the first quarter of 1998 abstained completely from making *rights issues of fixed-interest securities* (including convertible preference shares and debentures) in the domestic primary capital market and from issuing *foreign-currency-denominated bonds* in the international primary bond market. Three domestic institutions, namely Eskom, Transnet and the Development Bank of Southern Africa, established themselves as borrowers by issuing *rand-denominated bonds in the eurobond market* in the year to April 1998. The proceeds of these issues amounted to R870 million in the calendar year 1997 as a whole and to R3,1 billion in the first four months of 1998 alone. These issues have long maturities, falling mostly in the range of thirty years and beyond, and were well received by retail investors in Europe.

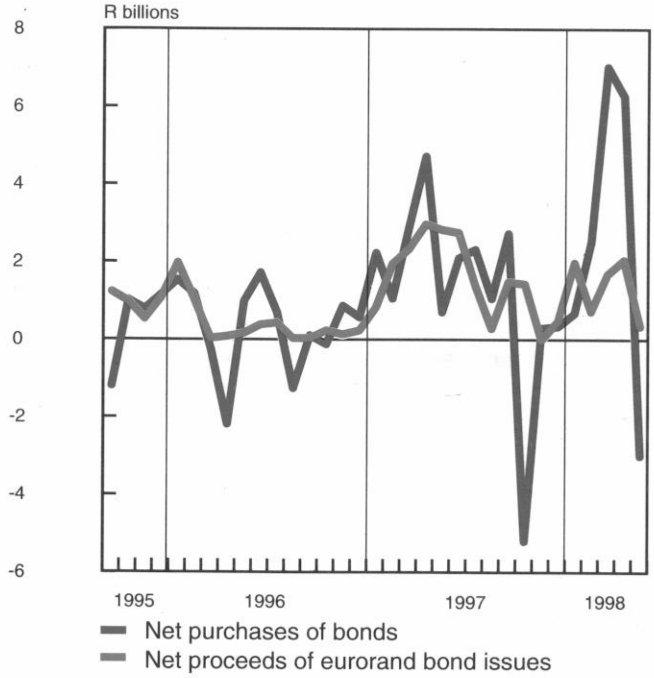
Turnover in the *secondary bond market* attained quarterly values of R1 182 billion, R1 370 billion and R1 675 billion in the three successive quarters from the third quarter of 1997. Turnover was particularly lively in March and April 1998: a monthly high of R726 billion was recorded in April. *Purchases through repurchase transactions,* measured as a percentage of total purchases, increased from 48 per cent in the first quarter of 1997 to 65 per cent in the first four months of 1998. Intensified competition, which caused a contraction in the spread between repurchase bid and offered rates, encouraged repurchase-type transactions.

The conservative monetary and fiscal policies pursued in South Africa contributed to a fairly rapid expansion of non-resident participation in the domestic bond market and to a quick restoration of investors' confidence following the turbulence in Asian markets in the fourth quarter of 1997. *Non-resident participation in the secondary bond market*, measured as non-resident purchases and sales as a percentage of the total purchases and sales of bonds, increased from an average of 11,8 per cent in the first three quarters of 1997 to 18,3 per cent in the fourth quarter and 19,1 per cent in the first four months of 1998. The quarterly value of *net purchases* of bonds by non-residents on the Bond Exchange was also restored quickly from net sales to the value of R4,7 billion in the fourth quarter of 1997 to net purchases of R10,1 billion in the first quarter of 1998. Non-residents were still active as purchasers of bonds in April 1998 when they acquired bonds to the net value of R6,2 billion. When the events in Indonesia and Russia subsequently turned investors' sentiment against emerging markets, non-residents became net sellers of bonds to the amount of R3,0 billion in May 1998.

Non-residents' net purchases in secondary capital markets



Non-resident activity in the eurorand and domestic bond markets



The *cumulative value of net purchases of bonds* in the first five months of 1998 stood at R13,3 billion, compared with R11,4 billion in the same period a year earlier and R14,7 billion in 1997 as a whole. The net proceeds of rand-denominated bonds issued by non-resident entities in the eurorand market corresponded closely in the longer run with net purchases of bonds by non-residents in the domestic bond market. Outright purchases of bonds in the domestic market are frequently made as the hedge counterpart of eurorand bond issues. In the first five months of 1998 the cumulative net proceeds of eurorand bonds issued by non-resident entities fell short, by R6,7 billion, of the cumulative net purchases of domestic bonds by non-residents. The link between net purchases of bonds by non-resident entities and the proceeds of eurorand bond issues was thereby decoupled as many portfolio investments that were liquidated in October 1997 got reinvested in the domestic bond market.

Share market

The share market was buoyant in the first four months of 1998 as the market capitalisation on the Johannesburg Stock Exchange increased by 34,5 per cent from December 1997 to April 1998 and monthly turnovers in the secondary share market scaled unprecedented heights. Activity was boosted by, among others, the following factors:

- the general recovery on world bourses after the setbacks suffered at the time of the 1997 Asian crisis;
- sound monetary and fiscal policies in South Africa which inspired global fund managers to increase the weighting of South African equities in their portfolio composition;
- the general decline in interest rates;
- higher taxation of the interest earnings of pension funds which encouraged increased exposure by these funds to equities;
- new listings which were mostly oversubscribed;
- corporate restructurings through mergers, acquisitions and unbundlings, especially in the financial sector;
- trading in anticipation and as a result of the restructuring in the financial sector; and
- normal capital-raising activities.

Turnover on the Johannesburg Stock Exchange, having increased by 77 per cent in 1997, came to an all-time quarterly high of R67,5 billion in the first quarter of 1998 – 15 per cent more than the previous quarterly high in the third quarter of 1997. In April 1998 the value of shares traded amounted to a monthly all-time high of R31 billion. The total value of capital raised in the primary share market by listed companies amounted to R9,3 billion in the first quarter of 1998, including R1,6 billion raised by means of *rights issues*

Turnover in the share market

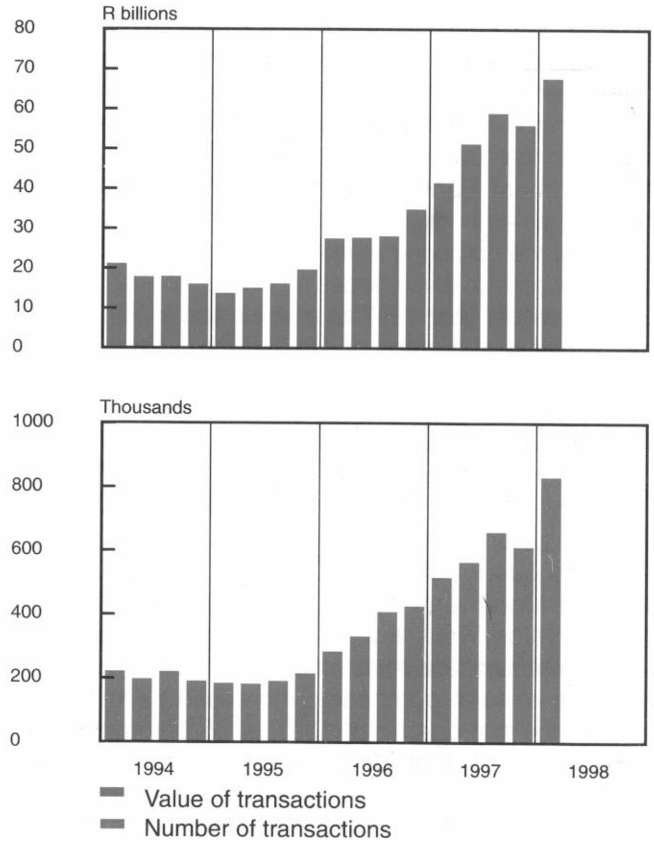


Table 17. Share market transactions
R billions

	Total value of capital raised in the primary markets	Secondary market: Value of shares traded	Non-residents: Net purchases	Non-residents: Cumulative net purchases from January 1997
1997: 1st qr.....	7,9	41,2	3,5	3,5
2nd qr	12,2	51,0	8,2	11,7
3rd qr	19,2	58,7	7,9	19,6
4th qr.....	11,0	55,8	6,6	26,2
Year........	**50,3**	**206,7**	**26,2**	**26,2**
1998: 1st qr.....	9,3	67,5	12,8	39,0

of ordinary shares and R5,9 billion through shares issued for the acquisition of assets not already listed.

Non-residents traded actively in the secondary share market, even though their contribution to turnover (measured as their purchases and sales as a percentage of the total purchases and sales) declined from 33,9 per cent in the fourth quarter of 1997 to 30,6 per cent in the first four months of 1998. Despite this, the value of net purchases of shares by non-residents came to a quarterly all-time high of R12,8 billion in the first quarter of 1998 and the monthly value to an all-time high of R6,5 billion in April, followed by R3,5 billion in May. The cumulative value of net purchases of shares at R22,9 billion in the first five months of 1998 was two and a half times more than the value in the same period of the preceding year.

The problems in Asia contributed materially to a decline of 26,4 per cent in the all-share price index from a peak on 7 August 1997 to a recent low on 12 January 1998. Investors' confidence then rebounded and the all-share price index increased by 49,3 per cent to a new high on 20 April that was about 10 per cent higher than the peak on 7 August 1997. Using *monthly average values of share price indices*, the all-share price index increased by 28,6 per cent from December 1997 to a high in April 1998. This rise was led by an increase in the prices of gold-mining shares of 37,8 per cent and an increase of 35,5 per cent in the prices of banking and insurance companies' shares. The prices of non-gold-mining shares lagged somewhat behind those of the other share classes as prospects for this sector were dampened by relatively subdued international commodity prices.

Average monthly share prices

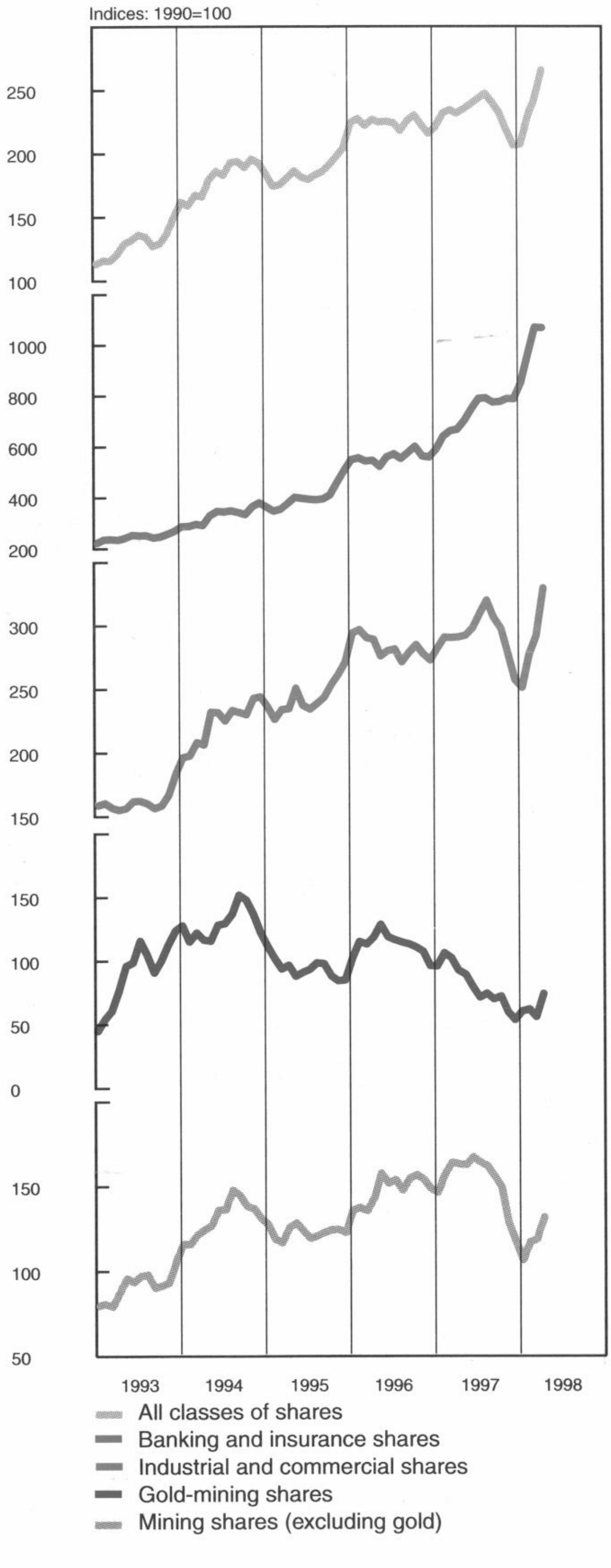


Table 18. Monthly average of share prices
Indices: August 1997=100

	All classes of shares	Mining shares (excluding gold)	Gold-mining shares	Industrial and commercial shares	Financial shares	Banking and insurance shares
1997: Aug	100	100	100	100	100	100
Dec	83	73	72	81	88	100
1998: Jan	84	66	81	79	91	107
Feb	92	72	83	87	101	122
Mar	98	73	75	91	109	135
Apr	107	81	100	103	116	135

Table 19. Yields and price ratios

	Dividend yield Per cent	Earnings yield* Per cent	Price-earnings ratio*	Yield differential Percentage points
1997: Jan	2,46	6,89	14,51	13,36
Jul	2,31	6,56	15,23	11,90
Aug	2,33	6,59	15,17	11,91
Dec	2,74	7,57	13,21	11,40
1998: Jan	2,70	7,62	13,13	10,91
Feb	2,43	6,93	14,43	11,06
Mar	2,35	6,53	15,31	10,98
Apr	2,15	5,95	16,81	10,77

* Excluding gold-mining shares

As indicated in Table 19, the *monthly average dividend and earnings yields* (excluding gold-mining shares) declined sharply in the first four months of 1998 to the lowest levels since April 1996. The yield on long-term government bonds declined too, resulting in a narrowing of the yield differential between bonds and shares of only 0,6 percentage points over the period from December 1997 to April 1998. The price-earnings ratio of all classes of shares (excluding gold-mining shares) increased strongly from January 1998, when it was at its lowest level since December 1992, to 16,8 in April as the share market rallied.

Other financial markets

Echoing the sentiment in the underlying share market, activity in the formal derivatives markets was brisk in the first four months of 1998. Trading in *options on equity futures contracts* recorded an all-time high in January 1998, while *trading in equity futures contracts* also reached its highest level ever in March 1998. Quarterly all-time highs were attained in the total *number* of options on futures and futures contracts traded in the first quarter of 1998 – 4,8 million contracts were traded compared with 3,6 million in the fourth quarter of 1997. The total number of options on futures and futures contracts declined in April 1998 to 1,2 million contracts compared with the monthly average of 1,6 million contracts in the first quarter.

Trade in *rand-dollar futures contracts* declined from 260 contracts in the third quarter to 110 contracts in both the fourth quarter of 1997 and the first quarter of 1998, but then fell away completely in April. The number of *equity options contracts* traded decreased from 63 000 in the fourth quarter of 1997 to 50 000 in the first quarter of 1998, but 35 000 contracts were then traded in April alone. The number of trades conducted in *warrants* increased from 38 million in the fourth quarter of 1997 to 269 million in the first quarter of 1998 as the number of warrants listed increased from three to nine. The number of warrants traded more than halved from 112 million in March 1998 to 55 million in April.

Total trades in white and yellow maize *commodity futures contracts* decreased from 9 800 contracts in the fourth quarter of 1997 to 9 300 contracts in the first quarter of 1998. The number of wheat contracts traded increased from 157 in the fourth quarter of 1997 to 168 in the first quarter of 1998. *Options* on commodity futures were introduced in March 1998 and 241 maize options were traded to the end of April.

The *real-estate market* remained sluggish in 1997, but became slightly livelier when the total value of transactions increased from a quarterly average of R8,2 billion in the first three quarters of 1997 to R9,9 billion in the fourth quarter. The average monthly value of transactions levelled off at R2,8 billion in the first four months of 1998.

Public finance

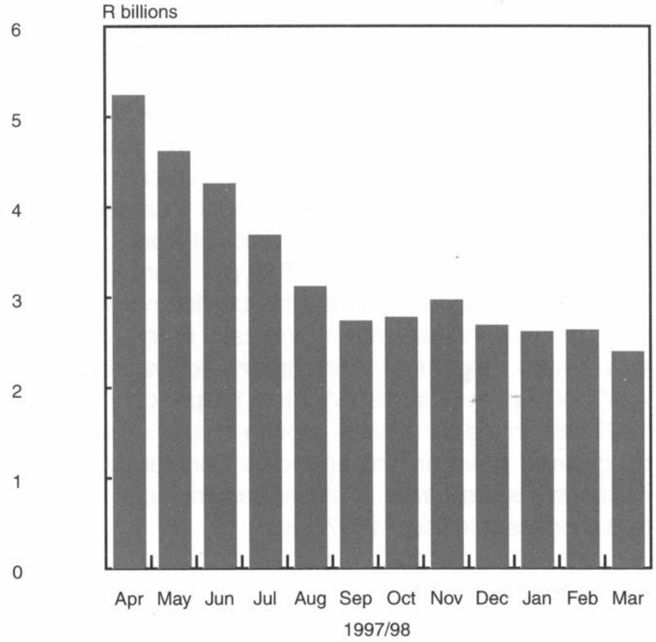
Public-sector borrowing requirement

The *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the consolidated central government, provincial governments, local authorities and non-financial business enterprises in the public sector) declined from R12,7 billion in the April-June 1997 quarter to R5,1 billion in the January-March 1998 quarter. This resulted in a decline in the public-sector borrowing requirement for the fiscal year as a whole from R33,7 billion in 1996/97 to R31,4 billion in 1997/98. As a ratio of gross domestic product, the public-sector borrowing requirement declined from 6,1 per cent in fiscal 1996/97 to 5,2 per cent in fiscal 1997/98.

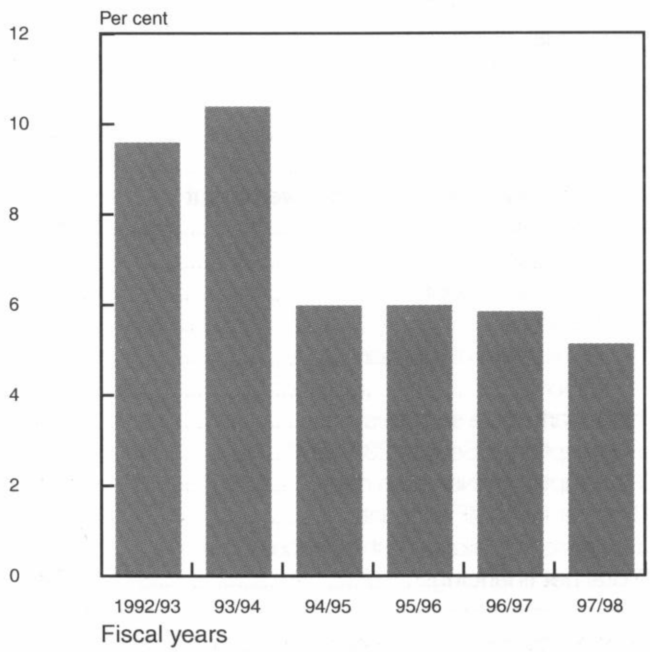
The smaller public-sector borrowing requirement conformed with government's intention to gradually improve its finances and reduce its involvement in the economy. The shrinking of the deficit on the Main Budget from R29,7 billion in fiscal 1996/97 to R21,1 billion in fiscal 1997/98 was by far the most important reason for the decline in the overall public-sector borrowing requirement.

The success attained by central government in curbing the budget deficit was to some extent negated by the deterioration in the financial position of provincial governments, whose borrowing requirement increased from R2,4 billion in fiscal 1996/97 to R6,2 billion in fiscal 1997/98. The provincial government's shortfall was caused by some provincial governments exceeding spending totals that had been indicated in their budget proposals, and by a delay in the transferring of R1,5 billion from national to provincial governments.

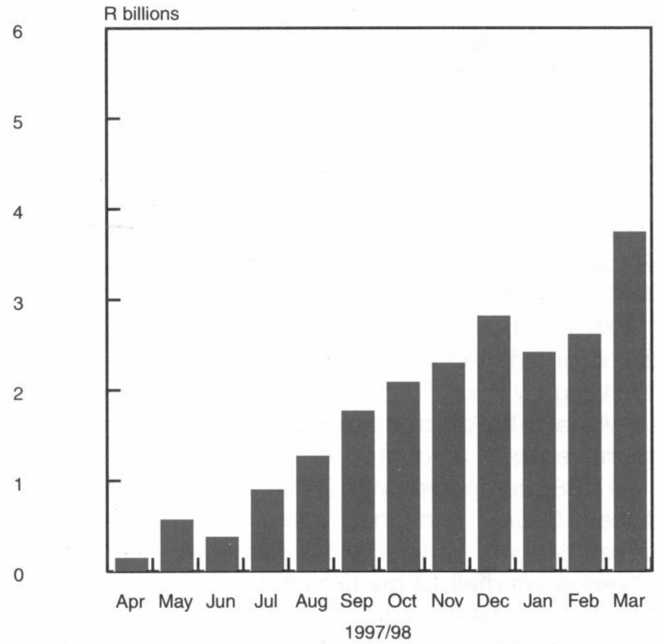
Bank deposits of provincial governments



Public-sector borrowing requirement as a ratio of gross domestic product



Bank indebtedness of provincial governments



The shortfall in the revenue of the provincial governments was financed by means of drawing down provincial government deposits with private banks and an increase in the bank indebtedness of provincial governments. Provincial government deposits were drawn down from R5,2 billion at the end of March 1997 to R2,4 billion at the end of March 1998, whereas additional bank credit advanced to provincial governments amounted to R3,4 billion in fiscal 1997/98.

Tax revenue of general government increased as a percentage of gross domestic product from 27,5 per cent in fiscal 1996/97 to 28,5 per cent in fiscal 1997/98. This increase in the tax burden notwithstanding, the year-on-year rate of increase in total revenue and grants of general government contracted from 12,7 per cent in fiscal 1996/97 to 11,3 per cent in fiscal 1997/98. In the same vein, growth in total expenditure by general government agencies decelerated even more impressively from 13,3 per cent in fiscal 1996/97 to 8,0 per cent in fiscal 1997/98.

Exchequer account

The *deficit on the Exchequer account* in fiscal 1997/98 was slightly higher than that which had been envisaged at the time of the Budget. The year-on-year increases both in issues and receipts exceeded the projected increases contained in the Budget.

Exchequer issues to government departments at R189,7 billion were R2,9 billion higher than the original budgetary provision for fiscal 1997/98. Although the realised growth in government expenditure of 7,0 per cent in fiscal 1997/98 exceeded the budgetary intention of 6,1 per cent, increasing fiscal prudence is palpably demonstrated when this growth is stated against the average growth rate of 14,0 per cent in government expenditure over the previous five fiscal years.

Government receipts (excluding extraordinary revenue to an amount of R2,9 billion) increased by 11,7 per cent to R163,1 billion in fiscal 1997/98, which slightly exceeded the budget growth projection of 11,2 per cent. The overshoot of government revenue relative to the budgeted increase was largely the result of higher-than-budgeted receipts from inland revenue, which increased by 12,9 per cent in fiscal 1997/98. Receipts from customs and excise duties, in contrast, fell short of the budgetary expectations for fiscal 1997/98 largely because of the accelerated implementation of tariff reductions agreed to in the Final Act of the Uruguay Round of trade negotiations.

As a ratio of gross domestic product, government receipts amounted to 26,9 per cent in fiscal 1997/98, compared with 26,3 per cent recorded in fiscal 1996/97 and government's stated long-term objective of a ratio of 25,0 per cent. The slight revenue windfall of government roughly countered the over-expenditure by certain government agencies and brought the deficit ratio more or less in line with what had been government's intention when the Budget for 1997/98 was initially presented to Parliament.

The *deficit before borrowing and debt redemption* on the Exchequer account turned out to be R26,5 billion in fiscal 1997/98, somewhat higher than the budgeted deficit of R24,8 billion. As a ratio of gross domestic product the deficit amounted to 4,4 per cent in fiscal 1997/98 compared with a budgetary projection of 4,0 per cent and the 5,6 per cent realised in fiscal 1996/97. This generally downward movement in the ratio of the deficit to gross domestic product was consistent with government's objective as outlined in the Macroeconomic Strategy for Growth, Employment and Redistribution (the GEAR strategy) to contain the budget deficit to 3,0 per cent of gross domestic product in fiscal 1999/2000.

Table 20. Government receipts by type of income in fiscal 1997/98
Percentage change

Revenue categories	Budgeted	Actual
Customs and excise	8,0	4,0
Customs duty	4,3	-7,1
Excise duty	15,9	18,4
Fuel levy	10,4	16,3
Inland revenue	11,7	12,9
Income tax	13,5	14,7
Value-added tax	11,4	11,7
Total receipts	**11,2**	**11,7**

Table 21. Financing the government deficit in fiscal 1997/98
R millions

Domestic government bonds (including discount)	25 601
Less: Discount	4 020
Net receipts from domestic government stock bonds	**21 581**
Treasury bills	1 897
Extraordinary receipts	2 949
Foreign loans	2 434
Repayment of IMF loan	-1 381
Other	3 815
Non-marketable securities	-132
Redemption of Section 239 debt*	-3 774
Redemption of Namibian debt	-203
Transfer from IMF account	1 381
Decrease in available cash balances	389
Total net financing	**26 522**

* Debt of the former independent republics of Transkei, Bophuthatswana, Venda and Ciskei and self-governing territories

The deficit in fiscal 1997/98 was financed mainly by means of domestic government bond issues and to a lesser extent by foreign loans, the sale of strategic oil reserves and income from the sale of other state assets. The issuance of foreign loans also had the added advantage of expanding the investor base of government. Two foreign bond issues were made: one in the Samurai market for ¥40 billion and the other in the United States market for US$500 million.

Government's borrowing activities during the past fiscal year increased the amount of outstanding government debt from R310,6 billion at the end of March 1997 to R336,4 billion at the end of March 1998. As a ratio of gross domestic product, government debt declined from 55,8 per cent in March 1997 to 55,4 per cent in March 1998, providing evidence that the scare of unsustainable public debt growth in the South African economy had been put to rest.

The Budget for the fiscal years 1998/99 to 2000/2001

When the Minister of Finance presented his Budget proposals to Parliament on 11 March 1998 he alluded to the new framework of relations between national, provincial and local governments in terms of the new Constitution. This was the first Budget to be set within a three-year Medium-Term Expenditure Framework (MTEF). The MTEF presented the Minister with an operational plan that was designed to give effect to policy objectives enunciated in previous policy documents. Some of the more important objectives were to:

- adhere to the principles of sound public finance;
- reduce the share of debt service costs in total government expenditure in order to release resources for re-allocation to social-service delivery;
- improve domestic saving;
- ensure a fiscal policy position that is generally supportive of an overall counter-inflationary policy; and
- support an export-friendly trade and industrial strategy.

The publication of the MTEF also brought with it certain important advantages and the assurance that fiscal discipline would be maintained. These advantages were:

- government departments and agencies were encouraged to evaluate their policy proposals continuously within realistic budget projections;
- medium-term planning by departments and agencies was emphasised, thereby improving the efficiency of public-service delivery;
- the management of expenditure roll-overs from year to year was placed on a sound footing;
- a framework was created within which government could assess the financial implications of policy proposals; and
- the credibility of fiscal policy targets was strengthened.

Total government expenditure was estimated to increase to R201,3 billion in fiscal 1998/99, or by 6,1 per cent over actual expenditure in fiscal 1997/98. Further increases of 7,2 per cent in fiscal 1999/2000 and 9,0 per cent in fiscal 2000/01 were indicated by the MTEF. These were expected to lead to a slight decline in the ratio of government expenditure to gross domestic product from 31,2 per cent in fiscal 1997/98 to 29,0 per cent in fiscal 2000/01, giving credence to government's objective of reducing its share of total domestic spending.

Capital expenditure by government was projected to increase by 4,0 per cent in 1998/99, which is unlikely to increase the ratio of government capital formation to gross domestic product. This development appeared to be at variance with the stated objective of the GEAR strategy of an expansionary infrastructure programme for addressing service deficiencies and backlogs. Another concern is the increase in the ratio of interest payments to total expenditure which was expected to increase to 21,0 per cent in fiscal 1998/99 from 20,3 per cent in fiscal 1997/98; the expectation was that the interest-to-expenditure ratio would peak in 1998/99 and then subside in the ensuing years. The shift projected in government expenditure from general, economic and protection services to expenditure on social services at the level of the *consolidated national government* (i.e. the consolidated expenditure of the national and provincial governments) is indicated in Table 22.

Exchequer issues to government departments as a ratio of gross domestic product

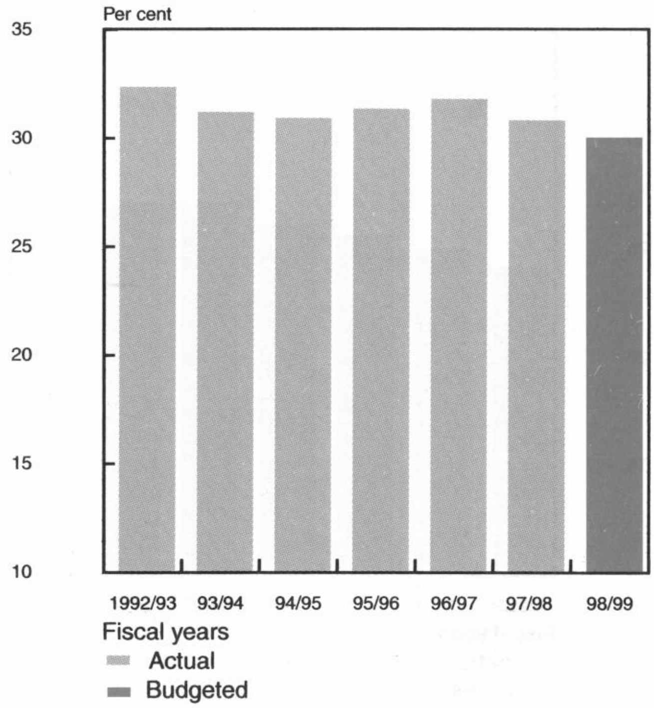


Table 22. Functional classification of consolidated national expenditure
Per cent of total expenditure

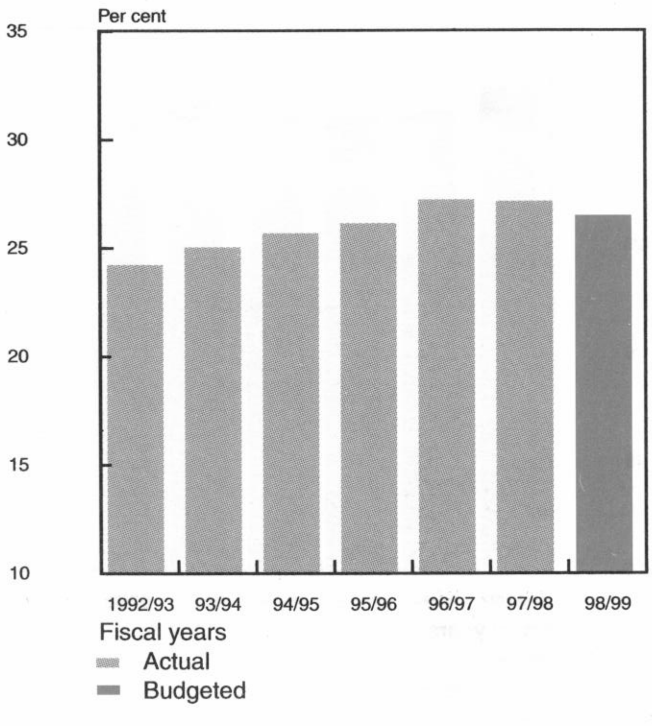
	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001
General government services and unallocatable expenditure	7,6	4,9	6,3	7,8
Protection services	15,6	16,1	16,0	15,8
Defence	5,6	5,3	5,3	5,1
Police	6,9	6,9	6,9	6,7
Prisons	2,0	2,6	2,7	2,7
Courts of law	1,0	1,2	1,2	1,3
Social services	46,6	49,8	48,7	47,8
Education	21,2	22,8	22,4	21,8
Health	10,6	12,2	12,0	11,7
Social security and welfare	9,7	9,6	9,4	9,3
Housing	2,2	1,9	2,0	1,8
Other	2,9	3,2	3,0	3,1
Economic services	10,0	8,3	8,4	8,6
Interest	20,3	21,0	20,6	20,1

Total government revenue (excluding extraordinary revenue) was estimated to increase by 8,9 per cent in fiscal 1998/99 compared with actual revenue in fiscal 1997/98, by a further 8,9 per cent in fiscal 1999/2000 and 8,8 per cent in fiscal 2000/01. These increases were expected to result in a decline in the ratio of revenue to gross domestic product from 26,9 per cent in fiscal 1997/98 to 25,9 per cent in fiscal 2000/01.

Specific tax adjustments and other measures were announced to spread the tax burden more equitably and raise an additional amount of revenue to the amount of R3,3 billion in fiscal 1998/99. These included the following:

- Changes regarding income tax on individuals with the objective of eliminating the effects of bracket creep;
- measures were introduced to eliminate tax avoidance by means of ingenious structuring of salary packages through employer contributions to medical aid schemes, travel expenses, taxation on residential accommodation and contributions to friendly societies;
- measures dealing with the tax treatment of trusts;
- the tax rate applicable to rent and interest income of retirement funds was raised from 17 per cent to 25 per cent;
- the fuel levy on petrol and diesel was increased;
- the exclusion of liquor and tobacco products from the existing export incentive scheme;
- excise duty on tobacco products was increased, while those applicable to alcoholic beverages were also increased; and
- more uniform *ad valorem* duties were introduced.

Exchequer receipts as a ratio of gross domestic product

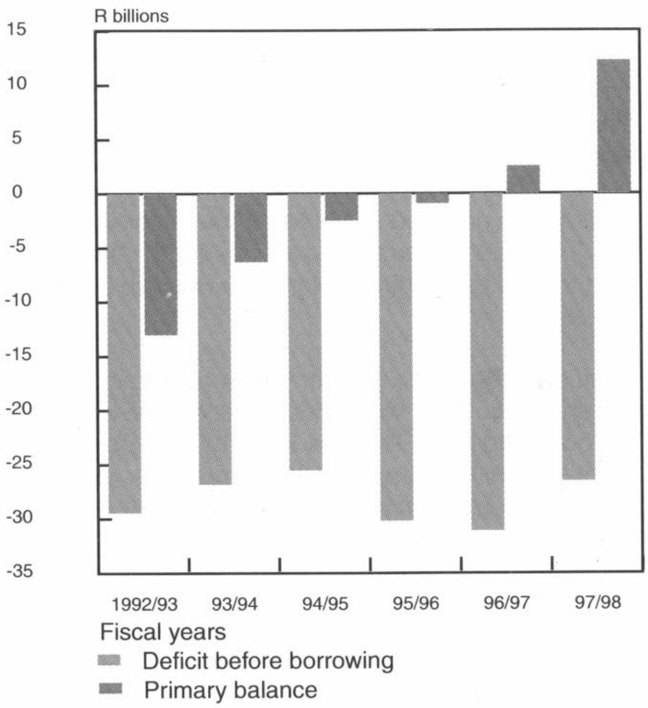


A charge was announced which would be levied at a rate of 2,5 per cent on the free reserves of mutual insurers who have decided to demutualise and restructure themselves as corporate entities. Because the revenue from this charge will be non-recurrent, it will be used to capitalise a fund which will be intended as a vehicle for development and job creation. The fund will be known as the Umsobomvu Fund.

The *deficit before borrowing and debt repayment* in fiscal 1998/99 was estimated at R23,7 billion, which equalled 3,5 per cent of the projected gross domestic product. A *primary surplus* (i.e. the deficit recalculated by excluding interest payments from total expenditure) was foreseen for fiscal 1998/99; in fact, the primary surplus as a percentage of gross domestic product was expected to increase from 2,1 per cent in fiscal 1997/98 to 2,8 per cent in fiscal 1998/99. The overall strengthening of fiscal discipline is also expected to reduce government dissaving as a percentage of gross domestic product from 3,3 per cent in 1997/98 to 2,5 per cent in 1998/99.

After taking the scheduled loan redemptions into consideration, the gross financing requirement for fiscal 1998/99 was projected to amount to R39,5 billion.

National government balances



This was expected to be financed as follows:

	R millions
Government stock	30 970
Extraordinary receipts	800
Transfer from IMF accounts	1 036
Treasury bills (net)	2 500
Foreign loans	5 000
Change in cash balances	-800
Total financing	**39 506**

The net addition to total government debt during fiscal 1998/99 is unlikely to increase the ratio of government debt to gross domestic product. It was estimated that this ratio could decline to 54,3 per cent by the end of fiscal 1998/99 from its level of 55,4 per cent at the end of fiscal 1997/98. To total government debt should still be added debt of some of the former regional structures that was uncovered subsequent to the closure of accounts on 31 March 1995. A Special Finance Act to appropriate payment of these accounts will soon be tabled in Parliament by the Department of State Expenditure because the payment of these outstanding amounts was not provided for by the Interim Constitution. This debt includes bank overdrafts and amounts owed to the pension funds of the former regional structures. The amounts involved were such that the inclusion thereof in total government debt was unlikely to raise the government debt ratio materially.

Exchequer account in April 1998

In April 1998 Exchequer issues to government departments (adjusted to reflect cash flows) were 18,2 per cent higher than in April 1997. This year-on-year rate of increase was much higher than the rate of 6,1 per cent budgeted for fiscal 1998/99 as a whole. By contrast, exchequer receipts (excluding extraordinary receipts) fell short by 4,4 per cent of the amount received in April 1997, whereas they were expected to grow at a year-on-year rate of 8,9 per cent. The net result of these changes in government receipts and expenditure was a deficit on the Exchequer account before borrowing and debt repayment of R9,6 billion, equivalent to 40,4 per cent of the budgeted deficit for the fiscal year 1998/99 as a whole. In April 1997 the deficit was equivalent to 25,0 per cent of the eventual cash flow deficit for fiscal 1997/98. No firm conclusions regarding fiscal developments in the fiscal year 1998/99 should, however, be drawn from the Exchequer account flows in April 1998.

Monetary policy and Reserve Bank accommodation procedures

Statement issued by Dr C.L. Stals, Governor of the South African Reserve Bank

7 March 1998

Part 1: Summary of monetary policy measures

The task of the Reserve Bank is to protect the value of the South African currency. In order to achieve this objective the domestic inflation rate must gradually be brought more in line with the average rate of inflation in the country's major trading partners and major international competitors. In order to achieve this objective, the Bank has adopted an eclectic approach to monetary policy in which recognition is formally given to a medium- to longer-term stance of monetary policy. In this approach, developments in a few selected financial aggregates will be monitored as a basis for monetary policy decisions. In applying this policy the Bank will strive:

firstly, to bring the domestic inflation rate down to a level more in line with inflation in the economies of South Africa's major trading partners which now fluctuates between 1 and 5 per cent per year. This cannot at this stage be accepted as an official or firm inflation target for South Africa, but it provides an important economic guideline when monetary policy decisions aimed at longer-term objectives are taken;

secondly, to achieve an average rate of growth in the broadly-defined money supply (M3) of between 6 and 10 per cent per annum. Such growth rates are regarded as consistent with acceptable objectives for the rate of inflation and the potential real rate of growth in the economy. The growth in money supply is still regarded as a vital element in containing inflation, and the Bank will continue to announce money supply guidelines, but a more medium- to longer-term approach is now adopted; and

thirdly, to restrict the rate of increase in total bank credit extension to not much more than 10 per cent per year in order to realise the money supply guidelines.

As a result of the growing complexity of functional relationships between the various financial variables, the Bank will also closely monitor developments in other financial indicators. To obtain overall financial stability, all the major financial aggregates should change within a consistent and sustainable framework.

As already announced, the Bank will introduce more flexible accommodation procedures for banking institutions on 9 March 1998. From this date banks will be offered the opportunity to tender on a daily basis for a fixed amount of central bank funds through repurchase transactions. In addition, a marginal lending facility will replace the current system of collateral loans at Bank rate, where overnight loans or loans for a few days will be provided to banks at the marginal lending rate. To guarantee orderly conditions in the changeover from the old to the new system, the Reserve Bank has decided to:

firstly, fix the repo rate at 15 per cent from 9 to 13 March 1998. This will reduce the effective cost of borrowing from the Reserve Bank by one percentage point. From 16 March 1998 the Bank will only announce a maximum amount for the daily tender of repos, and the average rate will be determined through the tender mechanism; and

secondly, fix the marginal lending rate at 16 per cent, that is at the level of the old Bank rate, for at least two weeks as from 9 March 1998. This rate will be reconsidered after two weeks in light of the experience with the new repo system.

A new averaging provision will be introduced in the application of the minimum cash reserves that banks have to maintain at the Reserve Bank from 20 March 1998. To simplify the current cash reserve requirements, the Reserve Bank has decided to apply only one reserve ratio of 2½ per cent on the total liabilities (as adjusted) of banks, beginning from the maintenance period starting on 23 April 1998. This will slightly reduce the amount of the minimum cash reserves, but no interest will be paid on any part of the minimum cash reserve balances.

The Reserve Bank has also decided, from time to time, to issue Reserve Bank debentures for the management of bank liquidity. The issue of these debentures will partially compensate banks for the loss of interest that they currently earn on part of their cash reserves, and will establish a role for Reserve Bank debentures in the new system of accommodation.

Part II: Motivation and description of new measures

1. Recent financial developments

Considerable success has been achieved over the past decade in bringing the inflation rate in South Africa down to more acceptable levels. The rate of increase in the overall consumer price index has now remained below 10 per cent per annum for five successive years.

Moreover, the recent acceleration in consumer price inflation, from a rate of 5,5 per cent in April 1996 to 9,9 per cent in April 1997, due to the sharp depreciation of the rand in 1996, was reversed. The index was contained to a single digit figure throughout 1997 and declined to 5,6 per cent in January 1998. This downward trend was assisted by relatively subdued increases in food prices and the reduction of one percentage point in the Bank rate in October 1997. Consequently, the so-called core inflation rate, i.e. the overall consumer price index adjusted for the effects of price changes in fresh and frozen food, movements in interest rates on mortgage loans and overdrafts and adjustments in value-added and property tax, did not decline to the same extent. At 7,2 per cent in January 1998, the core inflation rate was still twice as high as the current average rate of inflation in the economies of South Africa's major trading partners and competitors.

The rate of increase in bank credit extension to the private sector also slowed down significantly in recent months. Over a twelve-month period the growth rate in this macroeconomic aggregate declined from a peak of 17,3 per cent in February 1997 to 13,4 per cent in January 1998. However, net claims of monetary institutions on the government sector continued to increase sharply. As a result, the growth in total domestic credit extended by banks still amounted to 15,4 per cent over the twelve months to January 1998.

The growth rate in the money supply also remained high. After a promising decline from 16,8 per cent in January 1997 to 12,7 per cent in June, the twelve-month growth rate of the broadly-defined money supply (M3) rose to 17,2 per cent in January 1998. It therefore continued to increase at rates appreciably higher than the upper limit of the Reserve Bank's guideline range of 6 to 10 per cent. The recent acceleration in money supply growth was probably mainly related to the uncertain conditions in the financial markets because of the economic crisis in East Asia.

The growth in the M3 money supply over the past four years has, however, consistently increased at high rates, fluctuating around 15 per cent, while the income velocity declined sharply. It is accepted that structural factors were mainly responsible for the continued high growth in the money supply. Research in industrial countries suggests that when countries move from a high to a low inflation environment, the relationship between money and credit growth, established in periods of high inflation, becomes unstable. Lower inflation, coupled with positive real interest rates, encourages people and institutions to hold a greater proportion of their financial assets in the form of deposits. In South Africa this factor was supported by the opening up of the domestic economy to international competition and financial liberalisation, leading to substantial increases in financial sector activity. Turnover on the Bond Exchange, for example more than doubled from R2,0 trillion in 1995 to R4,3 trillion in 1997, while the total value of shares traded on the stock exchange rose from R63 billion to R207 billion over the same period. In addition, financial innovation and new payments technology affected the relationship between money and inflation. An increase in the proportion of the population holding bank accounts and the greater utilisation of non-cash payment mechanisms were important contributing factors to the continued rapid money supply growth.

These trends in monetary conditions, and particularly the continuing high demand for credit, were reflected in interest rates, which remained at relatively high inflation-adjusted levels. The real yield on long-term government bonds amounted to 7,6 per cent in December 1997. Although temporarily disrupted by the crisis in East Asia, the yield curve, however, drifted downwards by 2 to 3 percentage points over its whole spectrum during 1997. This general decline in nominal interest rates was confirmed by the lowering of Bank rate from 17 to 16 per cent on 20 October 1997.

Recent developments in South Africa's accounts with the rest of the world have again demonstrated the necessity of applying prudency in the conduct of monetary policy. With only a moderate increase in real gross domestic product, the deficit on the current account of the balance of payments increased from a seasonally adjusted and annualised figure of R9,0 billion in the third quarter of 1997 to R14,1 billion in the fourth quarter. This brought the deficit on the current account as a ratio of gross domestic product to about 2½ per cent, which according to international standards is still not excessive. It does, however, illustrate how quickly the current account of the balance of payments can deteriorate and emphasises the importance of taking this fact into account at all times when monetary policy is determined.

The capital account of the balance of payments was characterised in 1997 by a large inflow of capital of a relatively permanent nature, while net repayments were made on trade-related borrowing. As the net inflow of capital exceeded the current account deficit, the foreign exchange holdings of the country increased sharply. In addition, the Reserve Bank borrowed funds abroad to augment its foreign reserves even further. The country's gross gold and other foreign reserves, therefore, rose by R22,7 billion from a lower turning point of R13,9 billion in September 1996 to R36,6 billion at the end of December 1997, equivalent to about 10 weeks' imports of goods and services. The exchange rate of the rand was accordingly much steadier in 1997 than in 1996, but was nevertheless at times affected by events in international financial markets.

2. A more eclectic approach to monetary policy

In view of the distortions that developed over time in the relationship between changes in the money supply and inflation, central banks in several other countries have abandoned money supply targets as an intermediate objective of monetary policy. A number of countries in the 1990s introduced inflation targeting as part of their overall macroeconomic policy strategies where a precommitment to an explicit quantitative inflation target is underwritten by government, the central bank and, in some cases, also by organised business and labour.

South Africa, however, has not yet reached the stage where such an explicit inflation target can be incorporated in its overall macroeconomic strategy. The Reserve Bank has over the past few years opted for a more eclectic approach to monetary policy based on guidelines for the M3-money supply, and supplemented the monetary base by also monitoring a range of other financial indicators in determining the required monetary policy stance. Under present circumstances, the Reserve Bank believes that this is still the best approach to follow, but that guidelines provided by the Bank to the market on the major financial aggregates should reflect the medium- to long-term orientation of monetary policy.

In the absence of a pre-determined quantified inflation target, the objective of monetary policy in South Africa is to bring the domestic inflation rate gradually more in line with the average rate of inflation in the country's major trading partners and major international competitors. This is necessary to protect the competitiveness of South African exporters, and also local manufacturers, against the competition of imported goods. It is also the best way to avoid the need for periodic disruptive and inflationary adjustments in the exchange rate of the rand. Current and expected future inflation trends in the rest of the world indicate an assumed level of inflation on a global basis of between 1 and 5 per cent per annum. Although this relatively low level cannot at this stage be accepted as a formal commitment or firm inflation target for the Reserve Bank, it nevertheless provides an explicit economic objective, deduced from global trends, that must be taken into account when monetary policy decisions, aimed at longer-term objectives, are taken. To measure progress in this regard, the Bank will monitor changes in the core inflation rate as calculated by the Central Statistical Service, instead of the overall "headline" rate of inflation.

As the growth in money supply is still regarded as a vital element in the process of inflation creation, the Reserve Bank will continue to announce money supply guidelines, but a more medium- to long-term approach will be adopted for this purpose. An average rate of growth in the broadly defined money supply (M3) of between 6 and 10 per cent per annum should be consistent with the objective of keeping inflation under control, and accommodate an increase in real production of up to 5 per cent per year over the next three years. Account will have to be taken of the possible effects on money supply growth of further structural changes in the financial sector.

The growth in money supply for guideline purposes will no longer be measured by the rate of increase in the quarterly average value of M3 between the fourth quarter of a specific year to the fourth quarter of the next year. Instead, the intermediate objective of the Bank is now to bring the average level over the next three years in the rate of increase in M3, measured over successive twelve-month periods, down to the guideline range.

As in the past, money supply guidelines will be applied in a flexible and low profile manner. The Reserve Bank will also continue to intervene in the financial markets from time to time to support orderly conditions. The Bank will exercise discretionary judgement in deciding what combination of money supply growth, interest rates and exchange rates should be aimed at in any given set of circumstances, in order to support the objective of low inflation.

To restrict money supply growth to a level of about 10 per cent per annum in the period from 1998 to 2000, it is important that the amount of total bank credit extension should also not increase by much more than 10 per cent per year. Higher rates of increase in the demand for bank credit will put upward pressure on domestic interest rates. The Reserve Bank will, for obvious reasons, not always be prepared to counter such upward pressures by the creation of additional liquidity. The need to moderate the rates of increase in total bank credit extension over the next three years also implies that the overall government sector should reduce its demand for bank credit funding. Excessive borrowing by the public sector will also exert upward pressure on interest rates, and could crowd out the private sector.

As a result of the growing complexity of functional relationships between the various financial variables, the Bank is of the opinion that it will be unwise to over-emphasise money supply and bank credit extension as indicators for its monetary policy decisions. For the time being, the Reserve Bank prefers to follow a more eclectic approach in applying monetary policy and will also closely monitor other financial indicators, such as developments in other price indices (including production prices, the gross domestic product deflator and the exchange rate of the rand), the level of interest rates and the shape of the yield curve. Inflation can also be affected by developments in other economic aggregates such as changes in nominal and real salaries and wages, nominal unit labour cost, the gap between potential and actual national output, money market conditions, the overall balance of payments position, the gross gold and other foreign exchange reserves, and the public-sector borrowing requirement. Changes in these aggregates may affect the financial aggregates and can, therefore, also influence the stance of monetary policy.

3. The management of liquidity

The Reserve Bank must, through active management of overall liquidity, maintain appropriate monetary conditions that will support the desired growth rate in the money supply. Various instruments can be used for this purpose, such as open market operations, temporary swaps of foreign currency for rand and changes in the minimum cash reserve requirements for banks. Active management of liquidity by the Bank in turn has direct implications for the level of interest rates. As already announced on 26 August 1997, the Reserve Bank will, together with the introduction of the South African Multiple Option Settlement System (SAMOS system) on 9 March 1998, also introduce more flexible accommodation procedures for banking institutions. From this date banks will be offered the opportunity to tender on a daily basis for a fixed amount of central bank funds through repurchase transactions, and accordingly be given more scope to manage their liquidity positions effectively. The information made available by the Reserve Bank at the daily tender, will signal the policy intentions of the central bank to the market in a more transparent way.

The maturity of the repurchase transactions will normally be one week, but the Reserve Bank may at times change this maturity if it is of opinion that the underlying situation warrants shorter or longer maturities. Counterparties in the tender will be restricted to banks, because these transactions are specifically undertaken to regulate the daily liquidity of the banking system. Banks will always be expected to cover their tender bids with a sufficient amount of eligible underlying securities, which will consist of central government bonds, Treasury bills, Reserve Bank debentures and Land Bank bills, irrespective of maturity.

Repurchase transactions will generally be conducted at a variable rate and allotments will be made at the individual bidding rates tendered by the banks. The principles of a multiple-rate auction or so-called US-style auction will therefore be applied. The average repo rate will accordingly fluctuate daily, within narrow margins. To create orderly conditions in the changeover from the old to the new system of accommodation, the repo rate will be fixed at 15 per cent for all repos entered into by the Reserve Bank during the week from 9 to 13 March 1998. The maturities of the repurchase transactions entered into at the first tender on Monday, 9 March, will be divided equally in five amounts spread out over the next five tender days in order to obtain initially an even spread of maturing repos over one week. As from Tuesday, 10 March, and until further notice, all new repo transactions will be for a maturity of one week. The lower repo rate of 15 per cent, in comparison with the now defunct Bank rate of 16 per cent, should affect other short-term interest rates and therefore also the lending rates of banking institutions.

As from Monday, 16 March 1998, the Bank will only announce a maximum amount for the daily tender of repos, and the average rate will be determined through the tender mechanism. The Reserve Bank believes that daily changes in the repo rate should not lead to volatility in the prime overdraft rate and, particularly, not in the mortgage lending rates of banks. Banks should in future find a new base for these rates which could perhaps be linked to a moving average of the repo rate. Lending rates of banks should theoretically be linked to the average effective cost of their total funds. Every bank will, of course, remain free to quote lending rates at its own discretion, based on its own internal cost structures and policy objectives. It should be pointed out, however, that healthy competition in the financial markets will normally lead to the convergence of interest rates for the same types of loans offered by individual institutions operating in a competitive environment.

The objective of these new procedures is to create more flexibility, but not instability, in the determination of money market and other interest rates in South Africa. It should also encourage banks to make more active use of surplus funds available within the banking system, that is within the interbank market. In order to enable banks to meet an unforeseen shortage of liquidity in the daily settlement and to avoid excessive volatility in interest rates, two additional changes will be made to the current accommodation facilities available to banks at the Reserve Bank. Firstly, the present discount window facility will be replaced with a new marginal lending facility where overnight loans or loans for a few days will be provided to banks at the marginal lending rate. Banks will have unrestricted access to this facility against the collateral of central government securities, Treasury bills, Reserve Bank debentures and Land Bank bills, irrespective of maturity. The facility will be accessible at the initiative of each banking institution, but for only a short period of time on any one occasion.

The marginal lending rate applicable to this facility should form a kind of upper limit or ceiling to the overnight market rate for funds. When liquidity positions are well balanced no bank should under normal circumstances be willing to pay higher rates in the interbank market than it has to pay to the Reserve Bank in terms of the marginal lending facility. During the transition period, the marginal lending rate will be fixed at the current Bank rate of 16 per cent to facilitate the changeover to the new system. The rate of 16 per cent for this facility will be retained for at least two weeks as from 9 March, and will then be reconsidered in light of the experience of the first two weeks with the repo system.

Secondly, banks will no longer be bound to maintaining the required minimum cash reserves with the Reserve Bank on a daily basis. Instead, they will be allowed to meet the cash reserve requirements on the basis of an average amount calculated over each maintenance period of one month. This will allow banks automatic recourse to their cash balances with the central bank on a daily basis as long as the average level of reserves during the maintenance period equals or exceeds the minimum cash reserve requirement. These balances at the central bank can accordingly in future be used to supplement unexpected shortages of funds. For practical reasons, the averaging facility against the reserve balances will only become available as from 20 March 1998.

The current minimum cash reserve requirements for banks are 2 per cent of the value of their total liabilities (as adjusted) on which no interest is paid, plus 1 per cent of their short-term liabilities (as adjusted) on which interest is paid. At the end of 1997 banks were required to hold approximately R12 billion in total as a minimum cash reserve balance with the Reserve Bank in terms of these reserve ratios. If the vault cash holdings of banks of R6,2 billion at the end of December 1997 are subtracted from this total, it leaves approximately R6 billion available for the averaging provision.

However, different reserve requirements on different deposits can distort the application of an average cash reserve requirement. The Reserve Bank has therefore decided to simplify the current system of cash reserve requirements by applying only one reserve ratio of 2½ per cent on total liabilities (as adjusted), beginning from the maintenance period starting on 23 April 1998, i.e. based on the total liabilities of the banks as reported in their monthly statements on DI 310 for 31 March 1998. According to the banks' liability position at the end of December 1997, this will mean that the total cash reserve requirements of the banks will be reduced by about R500 million to R11,5 billion. After 23 April 1998, no interest will be paid on any part of the minimum cash reserve balances.

Recent increases in the Reserve Bank's net gold and foreign exchange reserves added a substantial amount of liquidity to the domestic money market. As it may in the near future become necessary to absorb part of the expanding amount of liquidity in the system, the Bank has also decided to issue Reserve Bank debentures for this purpose. The issue of these debentures will partially compensate banks for the loss of interest as a result of the termination of reserve requirements on short-term liabilities on which interest was previously paid. At the same time it will establish a role for Reserve Bank debentures in the Reserve Bank's new system of accommodation. Further details of the changes in the cash reserve requirements for banking institutions and the issue of Reserve Bank debentures will be announced in due course.

4. Concluding remarks

As outlined above, an eclectic approach has now been adopted in the pursuance of monetary policy in which recognition is formally given to a medium- to longer-term stance of monetary policy. This approach reconfirms the Reserve Bank's commitment to achieving and maintaining overall financial stability, irrespective of shorter-term fluctuations in overall economic activity. By protecting the value of the currency the Reserve Bank makes its contribution to balanced and sustainable economic growth in the country.

The changes in the Reserve Bank's accommodation procedures to more active liquidity management through discretionary market operations should lead to greater flexibility in money market interest rates with enough safeguards to prevent undue volatility in these rates. This should improve the transmission process of monetary policy, while the greater transparency of the accommodation procedures should provide more credibility to policy measures.

In changing the monetary policy framework, the Reserve Bank has given recognition to the relatively high level of real interest rates in South Africa by fixing the first repo rate one full percentage point below the current Bank rate. This is, however, not necessarily part of a continuing process of a relaxation of monetary policy measures. The high rates of growth in money supply and bank credit extension, the East Asian crisis and recent developments in the current account of the balance of payments, caution against a premature excessive relaxation in the existing restrictive monetary policy measures.

The integration of the South African financial system in the global financial markets

Address by Dr C.L. Stals, Governor of the South African Reserve Bank, at the Financial Forum of the National Bank of Belgium Brussels

13 May 1998

1. Political and social reforms in the 1990s

Major political and social reforms took place in South Africa since the beginning of this decade. In the internal democratisation process, the ANC Government was elected in April 1994 with a 64 per cent majority. This introduced a period of transformation, based on the principles of equity, freedom and the restoration of basic human rights for all the people of the country.

Within the country, the political changes led to the stimulation of expectations that were justifiable but not always realistic. Urgent needs for housing, better education, health care and other basic services, were immediately exposed. The new Government was faced with many legitimate demands for the immediate supply of these facilities, and responded by producing a comprehensive programme for Reconstruction and Development (the RDP).

Economists pointed out at the time that the RDP presented only one side of the macroeconomic framework that was needed for a sustainable longer-term economic restructuring programme. The RDP provided a list of the needs of the people that obviously added up to more than what the economic resources of the country could produce. After about two years in power, the ANC Government in June 1996 also produced a Macroeconomic Strategy for Growth, Employment and Redistribution (GEAR), that concentrated more on the supply-side of the economy. The analysis identified constraints that must be removed to raise the economic growth potential of the country on a permanent basis to a higher level, and provided some indication on how Government will proceed to accomplish RDP objectives over a longer period of time. These two supplementary programmes, namely the one for reconstruction and development, and the other for growth, employment and redistribution, still form the basis for macroeconomic policy within the country.

The social and political reforms had important implications, also for South Africa's international economic relations. During the 1970s and the 1980s, a comprehensive programme of punitive international economic actions were introduced against South Africa, mainly through the auspices of the United Nations. These included measures such as trade boycotts, disinvestment campaigns, the withdrawal of foreign loan funds from South Africa, and the implementation of wide-ranging economic sanctions in general. These international actions were withdrawn soon after the fully democratic elections of 1994 took place, and the opportunities were opened up for South Africa to reintegrate its economy again in the world environment.

The ANC Government committed itself to a macro-economic policy based on the sound principles of the market economy, but guided also by the needs and the nature of the social reforms that are now taking place within the country. International economic policy must be directed towards the gradual integration of South Africa in the international economic environment, and towards the removal of unnecessary controls, such as exchange controls, that may inhibit this objective.

2. The position of the South African Reserve Bank

The South African Reserve Bank is one of the older central banks outside of Europe. It was established in 1921, and has played a major part in the development of the South African financial system over the past 77 years.

Since its incorporation in 1921, the Reserve Bank has always been a relatively independent central bank. Even today, the total share capital of the Bank is held entirely by the private sector, with two important restrictions in the South African Reserve Bank Act:

- no individual shareholder may hold more than ½ per cent of the capital of the Bank; and
- the Bank may never pay a dividend of more than 10 per cent per annum on the nominal value of its capital.

Control over the Bank is vested in a Board of Directors, consisting of 14 members. Seven members are elected by the shareholders, and seven are appointed by the President of the Republic of South Africa. The seven members appointed by Government include the Governor and three Deputy Governors, the only full-time members of the Board. The four Governors form the very important Monetary Policy Sub-committee of the Board, and the power to take decisions on monetary policy issues has been delegated to this Sub-committee by the Board.

In terms of the South African Reserve Bank Act, the Reserve Bank has full responsibility for the implementation of monetary policy in South Africa. In terms of the new Constitution of the Republic of South Africa, Parliament has tasked the Bank with the clear instruction to protect the value of the South African currency. The independence of the Bank in pursuing this objective is also guaranteed within the Constitution.

The Reserve Bank is accountable to its shareholders, mainly for the internal management of the organisation but, more important, to Parliament for the implementation of monetary policy. The Bank is required to consult regularly with the Minister of Finance, to submit an Annual Report on its activities to

Parliament, and to appear before the Parliamentary Committee, known as the Portfolio Committee for Finance, from time to time.

The Reserve Bank has not been granted the same autonomy in respect of the country's international financial relations. In the management of the official foreign reserves of the country, and in its operations in the foreign exchange market, the Bank acts as an agent for the Minister of Finance. The Minister also holds responsibility for the foreign exchange control policy.

This position of relative independence of the Reserve Bank in respect of domestic monetary policy issues has been respected by the new Government, although the situation is from time to time challenged by certain pressure groups within the country. For understandable reasons, the financial disciplines applied by the Reserve Bank in pursuing its objective of protecting the value of the currency, are not always appreciated in all quarters. There are strong pressure groups that believe that the new South Africa justifies also a new monetary policy that will provide more funds at lower interest rates for the funding of the massive needs for social reform. The Bank is often criticised for being over-ambitious with its goals for inflation, and many South Africans still believe in the merits of a trade-off between inflation and growth, and detest the so-called "high interest rate" policy of the Bank.

3. The challenge of financial globalisation

Over the past five years, South Africa had to face the challenge of re-joining the world economy, just at a time when the global financial markets were in a process of major change. After more than two decades of economic isolation, many distortions were created within the South African economy that also had to be corrected as part of the process of re-integration in the world environment.

The first task South Africa had to undertake was to remove fairly extensive exchange controls that were introduced since 1961, mainly in reaction to economic actions applied against the country for non-economic reasons. Although there were many pressures for the immediate removal of all the exchange controls after the 1994 elections, the South African authorities opted for a gradualist, rather than a "big bang" approach, mainly because of the depleted situation in the official foreign exchange reserves, and also the need for gradual structural adjustment in the domestic economy.

All the exchange controls were segmented into the following three categories:

- controls applicable to current account transactions;
- controls applicable to the movement of capital owned by non-residents; and
- controls applicable to the outward investment of capital by South African residents.

The controls applicable to current account transactions were removed first, and South Africa now complies fully with the requirements of Article VIII of the Articles of Agreement of the International Monetary Fund.

Secondly, all controls applicable to non-residents, such as a compulsory debt standstill arrangement for the repayment of foreign loans, and the two-tier exchange rate system for investments in South African equities and securities by non-residents, were removed. In the present situation, non-residents are completely free to bring funds into South Africa, and to repatriate funds, for whatever purpose.

Thirdly, controls applicable to the outward investment of capital by residents were gradually relaxed on a sectoral basis. Initially, controls on direct investment abroad by South African corporates were relaxed as far as possible. As a second step, institutional investors were enabled to diversify part of their portfolios into foreign currency denominated assets. Since last year, private individuals have been allowed to invest limited amounts of their savings outside of South Africa.

The philosophy of the gradual relaxation of the exchange controls is based on the assumption that, on a net basis, South Africa will gain more from inflows of non-resident capital than what will be lost through the outflows of resident capital. So far, this policy was vindicated by the actual events of the past three years. Over this period, for example, non-residents increased their holdings of South African equities and bonds by an estimated R92 billion (US$20,1 billion), and South African institutional investors increased their holdings of foreign assets by R37,4 billion (US$7,4 billion). Comparisons of this nature are, however, still distorted by the remaining exchange controls.

South Africa has now removed about 75 per cent of the exchange controls that existed four years ago. Only one major step must still be taken, and that is to release the blocked funds owned by former residents (i.e. emigrants). It is estimated that the total value of the emigrants' funds held blocked in South Africa is in the region of $3 billion. For the rest, ceilings and limits will be raised gradually until all the controls have become ineffective, and can finally be repealed.

Other steps that had to be taken in this process of reintegration in the world financial markets were to normalise South Africa's relations with multi-national institutions, such as the World Bank, the International Monetary Fund, the United Nations and its economic agencies, the African Development Bank, and many other regional economic co-operation arrangements.

The integration process also required ratings from the international credit rating agencies, such as Moody's, Standard & Poor, Japanese rating agencies, and Fitch IBCA. Moody's provided an investment rating at the lowest level, and Standard & Poor a rating marginally below investment quality. With good support from the other agencies, the South African Government was able to raise more than R11,3 billion in various international capital markets in seven bench-mark issues made over the past few years.

The globalisation process also required of South Africa to liberalise its domestic banking sector, to develop the domestic financial markets, including the market for foreign exchange, and to upgrade the national payment, clearing and settlement system.

4. The monetary policy model of the South African Reserve Bank

In the environment of major political and socio-economic reforms, the Reserve Bank had to continue to pursue a monetary policy that would protect the value of the currency.

Traditionally, since 1986, the Reserve Bank has applied a monetary policy model that was firmly anchored to changes in the M3 money supply. At the time of the introduction of the monetary base model, the M3 money supply was increasing at a rate of close to 30 per cent per annum, and the rate of inflation was close to 20 per cent.

The rate of growth in the money supply was gradually reduced to below 10 per cent for the first time in 1992 (8,0 per cent), and was kept at this level throughout 1993. The rate of inflation declined into a single digit figure for the first time in 1993, after more than 20 years of double digit inflation. It has now stayed below the 10 per cent level for more than 5 years.

The money supply model required some strict controls over the amount of liquidity available in the banking sector and, of course, also the acceptance of realistic interest rates. Total bank credit extension to the private sector, for example, increased by 28 per cent in 1988 and contributed to the inflationary pressures in the economy. In 1992, total claims of the banking sector against the private sector increased by only 9 per cent to contribute to the lower rate of increase in the money supply.

The success of the monetary policy model during the period 1986 to 1993 is unquestionable. Against the background of the major reforms in the South African economic structure over the past four years, the M3 money supply has, however, lost some of its usefulness as an anchor for monetary policy. Consistent relationships that existed previously between M3 and the demand for goods and services, and, with time lags, prices, were broken by the structural changes in the economy. The income velocity of the money supply declined sharply.

Over the past four years, the rate of increase in the money supply has persistently stayed around the level of about 15 per cent, being about 5 full percentage points above the annual guidelines of the Reserve Bank. Over the same period, total bank credit extension increased by about 16 per cent per annum, a rate of growth that the Reserve Bank also regarded as excessive.

And yet, inflation remained very well under control. After a depreciation of the rand of 22 per cent in 1996, inflation increased temporarily from a level of about 5 per cent to almost 10 per cent a year later. Over the past twelve months, however, inflation has come down again to the level of about 5 per cent per annum.

These developments forced the Reserve Bank to reconsider its monetary policy model and to follow a more eclectic approach in which a strict financial (monetary) package is used as a guideline for the purpose of taking monetary policy decisions. This financial package includes:

- movements in the money supply and its components: M1, M2 and M3;
- changes in total bank credit extension, both to Government and the private sector;
- the level of interest rates and the structure of the yield curve;
- changes in the gold and foreign exchange reserves; and
- movements in the exchange rate of the rand.

In support of this monetary policy approach, it should be noted that South Africa has a floating exchange rate system, and that the effective Reserve Bank rate for providing liquidity to banking institutions is based on a daily tender for repurchase transactions in which the amount of the tender is fixed by the Bank, but the interest rate fluctuates.

In managing the amount of liquidity that the Reserve Bank is prepared to provide to banking institutions, the monetary authorities maintain an important influence on the level of interest rates, and therefore on the amount of bank credit extension, and on the money supply. Interest rates therefore serve as the main operational instrument of monetary policy.

The relatively large increases in the money supply and in bank credit extension over the past four years can be explained partly by:

- almost explosive increases in volumes on the various financial markets;
- the reintermediation in the banking sector of certain financial transactions, such as direct lending by foreign banks to South African non-bank private-sector institutions; and
- the absorption of many new workers from the subsistence sector in the market economy.

Although the Reserve Bank remains concerned about the excessive growth rates in the money supply and bank credit extension, we have become more tolerant in recent years of these increases at the relatively higher rates.

In the situation, South Africa has to consider more seriously the introduction of inflation targets as an anchor for monetary policy purposes. The Reserve Bank has tentatively assumed a goal of maintaining inflation at a level that will be more or less in line with inflation in the economies of South Africa's major trading partners and competitors in world markets. This will, in the present environment, require inflation of less than 5 per cent per annum.

The exchange rate policy of South Africa is based on the assumption that low inflation will automatically also lead to a more stable exchange rate in the longer term. The Reserve Bank does intervene in the foreign exchange market from time to time, but then only to smooth out short-term fluctuations, or to provide liquidity to the market. As exchange controls are being phased out, the Bank's role in the foreign exchange market is also gradually reduced.

5. The banking sector

The integration of South Africa in the global financial markets had important implications for the South African banking sector. The official policy was to open up the South African banking sector for foreign participation, and to expose South African banking institutions to foreign competition. As a result of this policy, more than 20 foreign banks established themselves as operating institutions in South Africa, and more than 60 foreign banks do business in the country through representative offices.

Despite these changes, the South African banking sector remains relatively sound and well-managed. In line with world trends, some mergers are now taking place, and the approximately 35 domestic banks are rationalising their activities to face the challenges of globalisation.

Bank regulation and supervision are still done by the South African Reserve Bank, and are based entirely on the recommendations of the Basle Committee. Regulation and supervision concentrate on the management of risk exposures within each banking institution. The globalisation process is placing heavy demands on the resources of the Bank Supervisory Office.

6. The financial markets

Integration in the world financial markets required major restructuring of the institutional arrangements in the South African capital markets. Two years ago, the Johannesburg Stock Exchange (JSE) introduced major reforms to provide for corporate ownership, foreign ownership (of stock brokers), dual capacity trading, negotiated commissions, and electronic screen trading. The JSE is continuing to improve its facilities by providing for the immobilisation and dematerialisation of stock, and for improved clearing and settlement arrangements. The total turnover on the JSE last year amounted to about $45 billion.

The most spectacular increase in volumes over the past few years took place in the Bond Exchange of South Africa. Total turnover in this market increased from the equivalent of US$553 billion in 1995, to US$927 billion in 1997, i.e. an increase of 67,6 per cent over just two years. The relaxation of the South African exchange controls made an important contribution to the development of the Bond Exchange. Total gross transactions by non-residents in this market last year exceeded $257 billion.

Interest is also growing in the South African Futures Exchange (SAFEX). The total number of contracts traded in this market increased from 3½ billion in 1995 to more than 5 billion in 1997.

An interesting further development that flowed from the globalisation process is the emergence of a Eurorand market where the outstanding amount of rand denominated loans raised by non-South African borrowers from non-South African investors, is now R37½ billion. A substantial part of these loan issues was hedged by investing in South African bonds.

The market in foreign exchange in South Africa is also growing rapidly. The daily turnover in this market now exceeds $10 billion. Of particular importance is the expansion in forward cover operations in this market, where South African banks now carry a forward sales book of approximately $110 billion, fully covered by forward purchases of a similar amount.

The Reserve Bank recently introduced steps to encourage a more active development of the domestic interbank market for funds. It is the objective to ensure that short-term interest rates should be flexible, and should fluctuate to reflect changes in underlying market conditions. This is particularly important if account is taken of the growing volumes of short-term international capital movements.

7. Upgrading of the national payment, clearing and settlement system

To stay in step with the financial globalisation process, the Reserve Bank recently also upgraded the national payment, clearing and settlement system managed by the Bank. On 9 March 1998, the Bank introduced a new electronically operated South African Multiple Option Settlement (SAMOS) system.

This system provides for an electronic on-line real-time link between participating banks, and for secure fund transfers between these banks. It enables the banks to monitor and manage their liquidity positions continuously, and provides for electronically managed end-of-day settlement of interbank transactions. As from the beginning of October, it will become possible to settle transactions on an intra-day basis as and when instructions are received within the SAMOS system.

This versatile new settlement system, which is directly linked to SWIFT, will eventually hopefully also be used for cross-border settlements in the Southern African region.

8. The Southern African Development Community

The globalisation process has also extended South Africa's financial responsibilities into other African countries. A formal Treaty for economic co-operation in Southern Africa was entered into in 1995 between twelve countries in the region. This Treaty, referred to as the Southern African Development Community (SADC), provides for economic co-operation and, eventually, integration in the region.

Within SADC, there is a Committee of Governors of all the central banks of the region that has embarked on a number of co-operation projects that are intended to develop the financial systems and markets of the region. The approach of the Governors Committee at this stage is to develop the financial infrastructures in each of the countries, before venturing into the more demanding tasks of macroeconomic co-ordination or integration. The current projects are intended to:

- define the role and the functions of central banks in SADC;
- standardise rules and systems for bank regulation and supervision;
- develop financial markets and utilise existing markets in the interests of the region;
- remove obstacles to the free movement of investment and other funds in the region;
- improve national payment systems in each country; and
- expand banking capacity and skills through training courses and exchange programmes.

9. Concluding remarks

The integration of South Africa in the world financial markets was stimulated by:

- the major political reforms in the country since 1994:
- the need of the country for foreign capital inflows to supplement its scarce own resources; and
- the world-wide trend towards financial globalisation.

This integration process required of South Africa to:

- apply sound and acceptable macroeconomic, fiscal and monetary policies;
- phase out exchange controls, albeit on a gradual basis;
- open up the domestic banking sector for international competition;
- restructure the financial markets;
- upgrade the national payment, clearing and settlement system; and
- get more involved in the development of the financial structure of the Southern African region.

The process of financial integration did not go without any setbacks. From February to October 1996, South Africa experienced its own foreign exchange market crisis that forced painful adjustments on the economy. In October 1997 South African financial markets were again afflicted by the East Asian crisis.

We have, however, learned from both experiences, and remain optimistic about the benefits our country will derive from its continued participation in the financial globalisation process. Our approach at this stage is not to try to change the course of the financial globalisation process, but rather to adapt our policies and our financial structures to comply with the standards and the norms set by international investors.

South Africa's subscription to the International Monetary Fund's Special Data Dissemination Standard

by A.J.H. Casteleijn

Background

The current arrangements pertaining to the International Monetary Fund's (IMF's) surveillance over members' policies were formalised in 1977. In terms of Article IV, Section 3, of the IMF's Articles of Agreement, the IMF has the mandate to oversee each member's efforts to direct its economic and financial policies towards the objective of fostering orderly economic growth with reasonable price stability, to promote orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions, and to follow exchange rate policies compatible with these obligations. To fulfil this mandate, the IMF has adopted several surveillance procedures over the years. These procedures include regular consultation with all IMF members and semi-annual Executive Board discussions of member countries' policies. However, the rapid development in international financial markets in the past decade and the importance which international capital markets attach to timely, accurate and reliable information has created a need for a more robust, on-line system of surveillance.

In attempting to meet the new challenges posed by a changing global environment, the IMF adopted new initiatives in the past two years which are aimed at increasing the effectiveness of its surveillance responsibilities. In the wake of the 1994/95 Mexican financial crisis, the IMF's Executive Board was requested to establish standards which would increase the effectiveness of surveillance and guide IMF member countries in the provision of economic and financial data to the public.

In April 1995 the Interim Committee called on the IMF's Executive Board to establish standards to guide members in disseminating economic and financial data. The Group of Seven industrial countries, which met shortly thereafter in Halifax, made a similar request. A year later, in April 1996, the IMF's Managing Director reported to the Interim Committee that the IMF's Special Data Dissemination Standard (SDDS) had been established and that invitations to subscribe had been sent to members.

In co-operation with the official agencies of member countries, international rating agencies and institutional investors, the IMF identified and defined quality standards for macroeconomic statistics as well as a system for providing "information on data". The Managing Director of the IMF expressed his expectation that, by enhancing access to timely and comprehensive statistics, the SDDS would contribute to the formulation of sound macroeconomic policies and also to the improved functioning of financial markets. Countries which signed up voluntarily for the SDDS are expected to make the necessary changes to statistical practices to meet the data coverage, periodicity and timeliness requirements of the standard during a transition period, which ends on 31 December 1998.

This article discusses South Africa's subscription to the SDDS. The first section of the article describes the so-called dimensions of the SDDS, and the second section provides a fairly detailed presentation of the specific macroeconomic data which the SDDS targets. Subsequent sections cover South Africa's reasons for subscribing to the SDDS, the progress being made in the implementation of the SDDS, the transition plans which have to ensure observance of the standard by the end of 1998, the IMF's Dissemination Standards Bulletin Board and the hyperlinking initiative which has opened up access to the national data sites of certain subscribing member countries. The final section contains summarising comments.

The dimensions of the SDDS

The SDDS was developed following extensive consultations between IMF staff and official statistical agencies, users of data – especially in financial markets – and other international organisations. Financial markets require rapid and reliable information as more and more decisions with immediate and significant consequences rely on such data. The IMF established the SDDS in March 1996 so that member countries that have, or seek, access to international financial markets can voluntarily disseminate economic and financial data (according to specific procedures). The SDDS is the stricter of the two standards that the IMF developed – the IMF also developed a general data dissemination standard (GDDS) intended to improve statistics for all IMF members which are unable to subscribe to the special standard.

The special standard covers the primary aspects of the compilation and dissemination of specified categories of data. The standard according to which these data categories are to be disseminated, comprises four dimensions: the data (encompassing data coverage, periodicity and timeliness); access by the public; integrity of the data; and the quality of the data. For each of these dimensions the standard prescribes a set of good practices for the dissemination of economic and financial data, namely:

- the practice of disseminating the range of data needed to monitor macroeconomic performance and policy, with the periodicity and timeliness that balance the needs of data users and the capabilities of compilers of statistics;
- practices that encourage ready and equal access to the data;
- practices that help ensure the objectivity and professionalism – that is, the integrity – of the data; and
- practices that, while not themselves guaranteeing the quality of the statistics, do help users to assess quality for their own purposes.

The data dimension of the SDDS focuses on crucial basic data which shed light on economic performance and policy in the real, fiscal, financial and external sectors. It specifies the minimum coverage required, but countries are encouraged to also disseminate other relevant data. An important aspect of the SDDS data dimension should, however, be emphasised: as it stands, the system does not provide access to a database, but to a metadatabase, i.e. the harmonised dissemination of *information about data* for each of the series selected and for each participating country. The IMF holds the view that this information should assist economic and financial analysts to properly assess country risk and thus reduce the likelihood of their being surprised by far-reaching international financial crises such as the Mexican exchange rate crisis of 1994/95 and the Asian financial problems of October 1997.

Ready and equal access to data is a principal requirement for the public, including market participants. To support such access, the SDDS prescribes advance notification of release to all interested users. The IMF monitors these "release calendars". The calendars give users the information they need to organise their approach to dealing with data inputs. Since these calendars identify, for each of the data categories prescribed by the standard, either the day of release or the day no later than which release will take place, the Fund deems that the calendars demonstrate sound management of data operations and impart transparency to statistical compilation. The SDDS also specifies that data will be released simultaneously to all interested parties other than government ministries and agencies. For the media and commercial agencies, simultaneous release implies access, under embargo conditions, to all on an equal basis.

To help users to assess integrity, the SDDS prescribes that the terms and conditions under which official statistics are produced shall be disseminated, that government access to data before release shall be identified and that prior notification of information about revision and advance notice of major changes in methodology shall be provided. To fulfil the objective of providing the public with reliable information, official statistics must have the confidence of their users. In turn, user's confidence in the statistics ultimately becomes a matter of confidence in the objectivity and professionalism of the agency producing the statistics.

Transparency of its practices and procedures is a key factor in creating confidence. This calls for the highest degree of objectivity or freedom from political bias as would be expected of good practice for a compiler of official statistics. In the interest of protection from undue influence on the data before their release, the SDDS prescribes (for all data categories covered by the standard) persons or officials holding designated positions within government, but outside the disseminating agency, who have pre-release access to the data should be listed and the schedule according to which they receive access should be reported.

To help users to assess quality, the SDDS prescribes that documentation must be provided on the methodology and sources used in preparing statistics. The SDDS further requires dissemination of component detail, reconciliations with related data and adherence to statistical frameworks that support statistical cross-checks and provide assurance of reasonableness. The standard also contains strong encouragement to subscribing members to lay the foundations for policy actions at national level by restructuring their main statistical frameworks in accordance with accepted international guidelines. Therefore, for the national accounts and the balance of payments, the comprehensive frameworks of the standard are cast in terms of the *1993 System of National Accounts* and the fifth edition of the IMF's *Balance of Payments Manual*. For data in the fiscal sector, the IMF's *Government Finance Statistics Manual* is proposed as the point of reference, while the IMF's *Manual on Monetary and Financial Statistics* is the proposed guide for subscribing members in the compilation of their financial data.

In most countries the different data categories are produced by a minimum of three agencies – the national statistical office, the central bank and the finance department. The SDDS provides flexibility designed to take into account differences in the way national statistical systems are organised and to recognise differences in economic structures.

The macroeconomic data targeted by the SDDS

As mentioned in the previous section, the countries participating in the SDDS must observe strict standards for all the important macroeconomic series that relate to the real sector, the fiscal sector, the monetary and financial sectors, and the external sector (see Appendix).

The real sector includes

- series from the quarterly national accounts;
- quarterly series on the labour market, such as employment, unemployment and wages;
- monthly production indices (for example manufacturing production) which, according to the IMF, are forward-looking indicators of general economic activity for the compilation of gross domestic product, whereas the inclusion of other forward-looking indicators is encouraged; and
- monthly price indices, such as consumer prices and production prices.

The fiscal sector includes

- annual series on government or public-sector operations as identified in the annual national accounts (for example general government accounts);
- quarterly series on government debt; and
- monthly series on budgetary developments, i.e. revenue, expenditure and financing of deficits.

The monetary and financial sectors include

- monthly series based on the accounts of the banking sector, i.e. monetary aggregates, credit extention and external debt of banks;
- monthly series to monitor the accounts of the central bank, such as international reserves, outstanding credit and foreign position; and
- daily series on interest rates and securities market data.

The external sector includes

- annual series on country investment positions;
- quarterly series on the balance of payments;
- monthly series on international reserves;
- monthly series on foreign trade by value; and
- daily series on the spot and forward exchange rate.

An annual population series is specified to convert aggregates to a *per capita* basis.

A minimum level of detail is prescribed for each of these fields and then greater disaggregation is encouraged.

South Africa's reasons for subscribing

Overall, the SDDS, which is based on best international practices, is a demanding standard. In fact, no country was initially able to meet the standard. Consequently, at the request of member countries, the IMF agreed to introduce a transition period to give countries some latitude so that they could meet the specifications of the standard before the end of 1998. The IMF also hopes that the number of statistically developed countries that agree to participate in the SDDS will increase by the end of this year. According to the IMF and certain international rating agencies, countries which do not comply will be penalised for lack of statistical transparency by the financial markets that will charge an additional risk premium on interest rates.

After thorough evaluation of the SDDS, the South African authorities realised that adherence to the IMF's standard would require the concerted efforts of all the agencies concerned. It also became apparent on closer evaluation that adherence to the standard would benefit South Africa. Apart from providing a far more comprehensive macroeconomic database which could enhance decision-making by policy-makers and private data users alike, the most important reason for subscribing to the standard was the South African authorities' desire to project to potential international investors an accurate, timely, comprehensive and transparent image. The SDDS presents an excellent platform for South Africa's re-emergence into the international financial community. As the standard is aimed specifically at countries that access or wish to access international capital markets, it was clear from the outset that South Africa should subscribe to the SDDS to ensure that the dissemination practices demanded of international capital market participants are adopted as soon as possible within the time frame the IMF set.

A comprehensive evaluation was done of the current data dissemination practices in South Africa and after due consideration of the discussions among all three agencies responsible, namely the Central Statistical Service, the Department of Finance and the South African Reserve Bank, it was concluded that the required standard could be met by the end of the transition period. It was also decided that an early subscription would be beneficial as this would allow more time to adjust and augment existing dissemination practices to meet the standard. At the same time, it was expected that adherence to the standard over the shorter term would ensure the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies. South Africa's Minister of Finance accordingly signed South Africa's letter of subscription to the SDDS in August 1996.

Progress in South Africa and transition plans

In supplying South Africa's data for the SDDS the South African Reserve Bank is responsible for monetary and financial statistics, the Department of Finance for all fiscal and foreign trade statistics, and the Central Statistical Service (CSS) provides all non-financial data. In addition, the South African Reserve Bank has to update the advance release calendar. This information is sent by electronic mail via the Internet to the Dissemination Standards Division of the IMF. The

Head of the Economics Department of the Reserve Bank is the SDDS co-ordinator for South Africa. The Bank's Corporate Communications Division is also involved in all press releases related to the SDDS. Finally, the economists and statisticians who compile the statistical series included in the SDDS, are responsible for all information about these series appearing on the Dissemination Standards Bulletin Board (DSBB) and they must ensure that any change in definition or method used in preparing the series is duly reported to the SDDS co-ordinator so that the information on the DSBB may be amended accordingly.

The metadata, i.e. tables containing descriptive information about the data which have to be disseminated according to SDDS specifications, had to be provided by South Africa to IMF staff within three months of the date of subscribing to the standard. The Department of Finance, the South African Reserve Bank and the Central Statistical Service completed this task in time and have in the meantime taken major steps to improve the coverage, periodicity and timeliness of release of data categories which do not currently meet the standard. Public access to the data has already been improved by introducing quarter-ahead advance release calendars from each of these institutions. Summarised methodologies which provide information on the quality of the data have also been sent to the IMF for comment.

Since South Africa's subscription to the SDDS, the Department of Finance has identified interest payments as a separate item on the monthly revenue and expenditure statement of the Central Government. The Department has amended the Exchequer Account to include a breakdown of costs incurred, which includes, interest payments, management costs and the cost of raising loans. The Department also plans to update the register of guaranteed debt on a quarterly basis to fulfil the periodicity and timeliness requirements of the SDDS. As regards general government operations, the split of financing between domestic and foreign sources for the budgetary accounts still has to be implemented.

The separation of the domestic financing of the budgetary accounts between the bank and non-bank sectors is also currently not available within the specifications of the standard. Steps have been taken to ensure that such a separation is available before the end of 1998. Through the intervention of the Financial Services Board, the members of the Central Depository Limited have been approached to provide the above-mentioned information. The Commissioner for Customs and Excise is responsible for the dissemination of merchandise trade data on a monthly basis and has indicated that the data will be available and meet SDDS specifications by the end of 1998.

The *Monthly Release of Selected Data* of the South African Reserve Bank has been supplemented by the release of daily current market rates on the Bank's World Wide Web site. Secondary dissemination of market statistics and other information by means of the Internet was expanded significantly when IMF approval was received for establishing a hyperlink from the South African Reserve Bank's web site to that of the Johannesburg Stock Exchange, thereby accomplishing the daily periodicity of secondary dissemination of stock market data as required by the SDDS.

The Reserve Bank's Statement of Assets and Liabilities (as amended to enable weekly dissemination) will be disseminated on a weekly basis before the end of 1998. The SDDS stipulates that data on gross national product and gross domestic saving shall be disseminated with a quarterly frequency within three months of the quarter to which the data relate. To observe these stipulations of the SDDS, a new table under the heading "National product and saving – selected items" was added to the *Quarterly Bulletin* of the Bank, thereby fully meeting all the requirements of the standard for the national accounts data category. The Bank has indicated its intention to release regular schedules of interest payments on government domestic marketable stock in compliance with the specifications of the standard. (The statistical tables in this edition of the *Quarterly Bulletin* have been amended to permit the release of these data, and have also been amended to allow for the timely release of data concerning the breakdown by currency of the foreign component of National Government Debt.) Coverage of the analytical accounts of the banking sector has also been extended in this edition of the Quarterly Bulletin by means of the dissemination of the foreign position of the banking sector.

The Reserve Bank intends revising its current quarterly surveys during the transition period so that it can collect data concerning the foreign liabilities and assets of the non-bank private sector timeously. The Bank also intends taking the steps required to distinguish between foreign direct investment and portfolio capital movements, each with a quarterly frequency. Moreover, the Bank has been taking the steps necessary to ensure the speedier collection and dissemination of monetary sector statistics during the transition period. Releasing the data sooner to meet the timeliness specification of the standard, implies the release of preliminary data which may have to be revised at a later stage.

To observe the standard, data on South Africa's international investment position should follow the guidelines in the *IMF's Balance of Payments Manual* (fifth edition). In contrast to all other data categories, implementation may extend beyond the end of 1998. The timeliness requirement in respect of the international investment position data will, however, have to be met by the end of the second quarter of 1999.

No major problems are envisaged in complying with the requirements of the SDDS, regarding many of the real sector data categories for which the Central Statistical Service (CSS) is responsible. Data on the gross domestic product, consumer price index, production price index and manufacturing production index are already being disseminated in accordance with SDDS requirements. The timeliness of the dissemination of the production price index was brought to within one month of the end of the reference month in April 1998. The management of the CSS has indicated that the necessary planning has also been completed to ensure speedier release of other relevant indices. Dissemination of the mining production index, for example, still has to be brought to within six weeks of the end of the reference month (currently disseminated within seven weeks). To meet the standard's six-week specification, timely dissemination of certain data obtained by the CSS from the Minerals Bureau will have to be achieved.

The CSS has also indicated that, should sufficient funding be forthcoming, it is prepared to take the necessary steps to ensure the timely release of all relevant surveys. The labour statistics of the CSS have also been re-engineered. The 17 discrete labour statistics surveys that provide current indicators of employment, wages and salaries have been replaced by two quarterly surveys. The timeliness of the mid-year estimates of population still has to be improved by the CSS to meet the standard and various CSS surveys and census publications which are used for national accounts compilations will have to be made available more timeously. The CSS will also have to amend its own advance release calendar to meet the format that the SDDS prescribes.

Plans to be implemented during the transition period are aimed at ensuring complete observance in all but two of the 21 broad data categories. As the timeliness requirement will be less than what is prescribed for only two broad data categories by the end of 1998, South Africa will still be seen as "in observance" of the overall standard. Out of a total number of 36 encouraged data subcategories, the standard is likely to be fully observed in all but one of them before the end of the transition period.

Plans to be implemented during the transition period will ensure complete observance of the specifications of the standard for only 87 per cent of the prescribed data categories. The specifications of certain subcategories will not comply fully with all the requirements of the standard before the end of the transition period. All these categories fall within two broader data categories, namely Labour Market and Central Government Debt. The two agencies responsible for disseminating the relevant data, the CSS and the Department of Finance, have indicated that they would avail themselves of the SDDS's flexibility option, which enables member countries to be substandard on a maximum of two data categories.

The Bulletin Board and hyperlinks to actual data

The IMF specifically designed the SDDS to improve the quality of member countries' statistics and to facilitate the use of key macroeconomic data that the IMF claims are most relevant for assessing a country's economic situation. It uses two approaches to achieve these objectives. Firstly, it proposes quality standards for the 21 main groups of macroeconomic statistical series. Secondly, the countries that subscribe to the standard are allocated coverage on the IMF's Dissemination Standards Bulletin Board (DSBB) on which harmonised information on the preparation and dissemination of the member country's statistical series is presented. To make known, especially to financial market participants, which countries subscribe to the SDDS and, more important, observe the SDDS, the IMF maintains the electronic bulletin board on the Internet. Members who have subscribed to the SDDS provide information to the IMF about their dissemination practices, and this information – called the metadata – is posted on the bulletin board by the IMF's Dissemination Standards Division.

The Internet address "http://dsbb.imf.org" at the IMF's World Wide Web site gives access to the DSBB. It is organised by country and for South Africa there are currently various screens providing different categories of information:

- General information, including an index of data categories and the page summarising South Africa's observance and transition plan, coverage, periodicity and timeliness.
- The calendar on the release of data for the next 3 to 4 months. This advance release calendar must be updated at the end of every month, with the dates and times of release of the series concerned being definitive for the next month and indicative for later months.
- For each group of series there are about 5 pages of various kinds of general information on the data, regarding coverage, periodicity, timeliness, advance release calendar, degree of confidentiality, privileged access for government authorities, independence of the statisticians in their comments, advance notice of changes in methodology and finally two headings to help assess the quality of the data, specifically by indicating how any interested party can obtain information about the methodology used.
- In addition, the dissemination formats of these series are briefly described so that any interested party can obtain them as soon as they are published. An additional subgroup of information on the methodology used to produce the data will soon be available on the DSBB for each data category.

The bulletin board became accessible to the public in September 1996 when metadata for the first subscribers to the SDDS could be accessed. The metadata for 40 of the 45 subscribers to the standard can currently be accessed on the IMF's bulletin board. The first hyperlinks to national data sites were established by the IMF on 25 April 1997 for the following subscribers: Canada, Hong Kong – China, Mexico, Singapore, South Africa and Switzerland. In this way, data users were enabled to move quickly between the bulletin board, that describes the statistical practices of countries subscribing to the SDDS, and the actual data for the six subscribing countries. Hyperlinks between the DSBB and countries' data are currently in place for 15 subscribers. The subscribers whose national data are hyperlinked to the IMF's DSBB have developed a summary page on the Internet, showing data that correspond to the descriptions of their data and dissemination practices posted on the IMF's DSBB. Data users can move from the DSBB to national summary data pages. Furthermore, by using the hyperlinks that the subscriber has provided, users can move from many of these national summary data pages to more detailed data. Users may also move in the other direction, namely from national pages to the IMF's DSBB.

The DSBB publicly identifies the countries that have subscribed to the SDDS and enables easy international access to the information describing their data and their dissemination practices. This information also permits the IMF, market participants and other users to monitor countries' observance of the standard. The IMF's ultimate objective is to ensure observance of the standard, not only to preserve the credibility and integrity of the standard, but also to enhance the efficiency of its own surveillance and at the same time ensure that data users receive accurate information. To this end the IMF keeps a record of observance and should a country no longer fulfil its commitment to observing the standard, its metadata will be removed from the DSBB. This would openly indicate that a country was not fulfilling its commitment.

Conclusions

The SDDS is a demanding standard. Even though some of its requirements may seem unattainable in the short to medium term, they clearly indicate the direction in which progress must be sought if South Africa is to take its rightful place in the global economy and in the international financial markets. The availability of homogeneous international data can also reveal to international development agencies the areas in which economic development is more likely to be achieved.

The integrity requirements set by the IMF have also been heartily welcomed by the statisticians who compile macroeconomic data. On the one hand, the value of their product is clearly recognised. It is essential that all users throughout the world should be placed on an equal footing in terms of access to the statistics, as this statistical knowledge is an asset in the economic competition in which the financial market participants are in a sense both players and referees. On the other hand, by ensuring that these standards are upheld, the SDDS helps to protect the intellectual autonomy of the statisticians, which benefits the scientific rigour of their work.

Local and overseas users of South African economic and financial data have responded most favourably to the expected and already achieved outcome of South Africa's subscription to the SDDS. The prospect of improved data timeliness, coverage and periodicity, the tangible benefits in progressing towards the standard, and the hyperlinking between

Table: IMF member countries that have subscribed to the SDDS

Argentina	Australia*	Austria	Belgium
Canada	Chile	*Colombia*	*Croatia*
Czech Republic*	Denmark	Ecuador*	Finland
France	Germany	*Hong Kong - China*	Hungary
Iceland	India	Indonesia	Ireland
Israel	Italy	*Japan*	Korea
Latvia	Lithuania	Malaysia	*Mexico*
Netherlands	Norway	*Peru*	Philippines
Poland	Portugal*	*Singapore*	Slovak Republic*
Slovenia	*South Africa*	Spain	Sweden
Switzerland	Thailand	*Turkey*	*United Kingdom*
United States			

* Subscribers without metadata posted on the DSBB. Links to national summary data sites are available for those in italics

the DSBB and South Africa's own Internet data sites have been enthusiastically welcomed by government agencies, economists, financial and research institutions, and various other users of macroeconomic data.

Member countries which have subscribed to the SDDS are requested to observe it fully, subject to the flexibility allowed, by the end of the transition period. Subscription to the SDDS carries with it a commitment to observe the set of good practices embodied in the standard. Subscription to the standard also entails a commitment to provide accurate metadata for the DSBB. The SDDS provides for carelessness and occasional non-compliance regarding prescribed practices and also the provision of accurate metadata. However, if there are concerns about non-observance of the practices that the SDDS prescribes, the markets will in all probability soon be aware of possible problems.

At the end of 1998 the IMF will request South Africa to give a definite indication of whether the country's data disseminating agencies are indeed able to uphold the standard. Although much remains to be done if South Africa is to meet the requirements of the SDDS, all the official data disseminating agencies in South Africa have made a concerted effort to improve their statistical systems. Plans have also been adopted for the increased application of the latest internationally approved methodologies for the compilation of economic statistics and for the improved dissemination of internationally comparable data.

Since only 6 months remain before the end of the transition period, the implementation process will be monitored closely by South Africa's SDDS co-ordinator with a view to establishing the progress the relevant agencies are making with the implementation of their transition plans. Furthermore, the urgency with which these plans will have to be implemented has been highlighted by recent developments in the South-East Asian region and elsewhere which have moved the IMF to suggest the need for further steps to improve transparency of economic performance and policies by means of a further strengthening of the SDDS requirements.

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Appendix
The Special Data Dissemination Standard: Coverage, Periodicity and Timeliness

Coverage				
Prescribed		**Encouraged** categories and/or components	**Periodicity**	**Timeliness**
Category	Components			
Real sector				
National accounts: nominal real, and associated prices (*)	GDP by major expenditure category and/or by productive sector	Saving, gross national income	Q	Q
Production index/indices (#)	Industrial, primary commodity, or sector, as relevant		M (or as relevant)	6W (M encouraged, or as relevant)
		Forward-looking indicator(s) (e.g. qualitative business surveys, orders, composite leading indicators index)	M or Q	M or Q
Labour market	Employment, unemployment, and wages/earnings, as relevant		Q	Q
Price indices	Consumer prices and production or wholesale prices		M	M
Fiscal sector				
General government or public sector operations, as relevant (*)	Revenue, expenditure, balance and domestic (bank and non-bank) and foreign financing	Interest payments	A	2Q
Central government operations (#)	Budgetary accounts: revenue, expenditure, balance and domestic (bank and non-bank) and foreign financing	Interest payments	M	M
Central government debt	Domestic and foreign, as relevant, with a breakdown by currency (including indexed), as relevant, and a breakdown by maturity; debt guaranteed by central government, as relevant	Debt-service projections: interest and amortisation on medium and long-term debt (Q for next four quarters and then A) amortisation on short-term debt (Q)	Q	Q
Financial sector				
Analytical accounts of the banking sector (*)	Money aggregates, domestic credit by public and private sector, external position		M	M
Analytical accounts of the central bank (#)	Reserve money, domestic claims on public and private sector, external position		M (W encouraged)	2W (W encouraged)
Interest rates	Short-term and long-term government security rates, policy variable rate	Range of representative deposit and lending rates	D	1
Stock market	Share price index, as relevant		D	1
External sector				
Balance of payments (*)	Goods and services, net income flows, net current transfers, selected capital (or capital and financial) account items (including reserves)	Foreign direct investment and portfolio investment	Q	Q
International reserves (#)	Gross official reserves (gold, foreign exchange, SDRs and Fund position) denominated in US dollars	Reserve-related liabilities, as relevant	M (W encouraged)	W
Merchandise trade (#)	Exports and imports	Major commodity breakdowns with a longer time lapse	M	8W (4-6W encouraged)
International investment position	As determined by the SDDS		A (Q encouraged)	2Q (Q encouraged)
Exchange rates	Spot rates and three- and six-month forward market rates, as relevant		D	1
Addendum: Population		Key distribution (e.g. by age and gender)	A	...

Note: For periodicity and timeliness: daily ("D"); weekly or with lapse of no more than one week ("W") after the reference date or close of the reference week; monthly or with lapse of no more than one month ("M"); quarterly or with lapse of no more than one quarter ("Q"); annual ("A")

* Comprehensive statistical frameworks

\# Tracking categories

1 Given that data are widely available from private sources, dissemination of official producers may be less time-sensitive. Although dissemination by recorded telephone messages or telefax services is encouraged, dissemination of these data can be made part of other (preferably high-frequency) dissemination products

Notes to tables

Money and banking

South African Reserve Bank: Liabilities and assets - Tables S-2 and S-3

The column for deposits of provincial governments which no longer maintain deposits with the Reserve Bank, was omitted from Table S-2. The new money-market accommodation system, which was introduced on 9 March 1998, necessitated the introduction of columns for banks' cash reserve contra accounts, and information on the provision of liquidity under the new operational procedures. Columns dealing with the rediscounting of bills by the Reserve Bank were omitted as this kind of accommodation was discontinued in 1993.

Corporation for Public Deposits: Liabilities and assets - Tables S-4 and S-5

The Post Office, Transnet and Telkom ceased to maintain deposits with the Corporation for Public Deposits in 1992. The column previously used to indicate the deposits of these institutions was consequently used to indicate the deposits made by the Public Investment Commissioners. These had previously been included under Central Government deposits. The column for the balances of the Corporation for Public Deposits with the Reserve Bank was deleted as there had been no entries for more than seven years. The column for "Other investments" was redefined as "Other public-sector investments" and subdivided to indicate "Bills" and "Other investments" separately.

Banks' liabilities - Tables S-6 and S-7

The new accommodation system necessitated the inclusion of a column specifically showing loans received under repurchase agreements from the Reserve Bank, separately from loans received under repurchase agreements from "other" sources.

Banks: Analysis of deposits by type of deposit or and selected asset items - Table S-10

The column indicating financial rand deposits was replaced by a column showing foreign currency denominated deposits of South African residents. The column indicating banks' advances to the government sector was subdivided to show advances to provincial governments separately from those to the central government.

Opmerkings oor tabelle

Geld- en bankwese

Suid-Afrikaanse Reserwebank: Laste en bates - Tabelle S-2 en S-3

Die kolom vir deposito's van provinsiale regerings wat nie meer deposito's by die Reserwebank hou nie, is in Tabel S-2 weggelaat. Die nuwe akkommodasiestelsel vir die geldmark, wat op 9 Maart 1998 in werking gestel is, het die byvoeging van kolomme vir die banke se kontantreserwe-kontrarekenings en inligting oor die voorsiening van likiditeit ingevolge die nuwe prosedures genoodsaak. Kolomme wat met die herdiskontering van wissels deur die Reserwebank verband hou, is weggelaat omdat hierdie soort akkommodasie in 1993 opgeskort is.

Korporasie vir Openbare Deposito's: Laste en bates - Tabelle S-4 en S-5

Die Poskantoor, Transnet en Telkom het in 1992 opgehou om deposito's by die Korporasie vir Openbare Deposito's te hou. Die kolom wat voorheen gebruik is om deposito's van hierdie instellings aan te dui, is derhalwe gebruik om die deposito's te toon wat deur die Openbare Beleggingskommissarisse gemaak is. Die deposito's was voorheen onder die deposito's van die Sentrale Regering ingesluit. Die kolom wat die saldo's van die Korporasie vir Openbare Deposito's by die Reserwebank toon, is verwyder aangesien daar vir meer as sewe jaar geen inskrywings was nie. Die kolom "Ander beleggings" is weer omskryf as "Ander openbaresektor-beleggings" en onderverdeel om "Wissels" en "Ander beleggings" afsonderlik te toon.

Banke se laste - Tabelle S-6 en S-7

Die nuwe akkommodasiestelsel het die invoeging van 'n kolom genoodsaak wat lenings ingevolge terugkoopooreenkomste van die Reserwebank afsonderlik toon van lenings wat onder terugkoopooreenkomste uit "ander" oorde ontvang is.

Banke: Ontledings van deposito's volgens tipe deposant en uitgesoekte bateposte - Tabel S-10

Die kolom wat finansiëlerand-deposito's aangetoon het, is vervang met 'n kolom wat deposito's toon van Suid-Afrikaanse inwoners wat in buitelandse geldeenhede betitel is. Die kolom wat banke se voorskotte aan die regeringsektor toon, is onderverdeel om voorskotte aan provinsiale regerings afsonderlik van dié aan die sentrale regering te toon.

Banks and mutual banks: Liquid asset holdings - Table S-14

Columns indicating asset categories which no longer qualify as liquid assets were omitted. These included loans to former discount houses repayable on demand, and acceptances and self-liquidating bills or promissory notes.

Monetary sector: Liabilities and assets - Table S-18 to S-21

The tables now reflect the monetary sector's balance sheet accurately. It is no longer necessary to add government loans obtained from the IMF to the monetary sector's foreign liabilities and government's foreign deposit holdings to the monetary sector's foreign assets. Similarly, drawings by government on its loan facilities with the IMF, which were previously indicated under foreign liabilities of the monetary authorities, are now classified as government deposits. Claims on local authorities are shown separately.

Credit extension by all monetary institutions - Table S-22

The table now presents credit extension to the private sector according to two alternative definitions, namely the conventional definition and credit to the private sector redefined to exclude bank loans to local authorities, but to include loans and advances granted under resale agreements and foreign loans in the bank's own name which were on-lent to other clients.

Banks and mutual banks: Mortgage loans - Table S-25

This table was moved from the section "Capital market" to locate it in the proximity of other tables containing data on credit extension to the private sector.

Selected money market and related indicators - Table S-26

The heading of the column indicating Reserve Bank accommodation to banks was changed to "Total liquidity provided by the Reserve Bank" so that it would reflect the new operational procedures instituted on 9 March 1998. The heading of the column "Notes in circulation" was changed to "Notes and coin in circulation".

Money market accommodation: Selected daily indicators - Table S-27

A table with daily frequencies was added to indicate the daily liquidity requirements of the market, amounts of liquidity provided to the market through the system of repurchase agreements and the daily average repurchase tender rates.

Money market and related interest rates - Table S-28

Columns were added for the marginal lending rate and the repurchase tender rate were added.

Banke en onderlinge banke: Besit aan likiede bates - Tabel S-14

Kolomme wat batekategorieë getoon het wat nie meer as likiede bates kwalifiseer nie, is weggelaat. Dit sluit onmiddellik-opeisbare deposito's aan voormalige diskontohuise en aksepte en selflikwiderende wissels en promesses in.

Monetêre sektor: Laste en bates - Tabelle S-18 tot S-21

Die tabelle toon nou die monetêre sektor se balansstaat noukeurig. Dit is nie meer nodig om lenings wat die regering van die IMF verkry het by die monetêre sektor se buitelandse laste en die regering se besit aan buitelandse deposito's by die monetêre sektor se buitelandse bates te tel nie. Insgelyks word trekkings deur die regering op sy leningsfasiliteite by die IMF, wat voorheen onder buitelandse laste van die monetêre owerhede aangedui is, nou as regeringsdeposito's ingedeel. Eise teen plaaslike owerhede word afsonderlik getoon.

Kredietverlening deur alle monetêre instellings - Tabel S-22

Die tabel gee nou kredietverlening aan die private sektor volgens twee verskillende definisies weer, naamlik die konvensionele definisie en krediet aan die private sektor heromskryf om banklenings aan die plaaslike owerhede uit te sluit, maar met inbegrip van die lenings en voorskotte wat ingevolge terugverkoopooreenkomste toegestaan is en buitelandse lenings in die bank se eie naam wat aan ander kliënte deurgeleen is.

Banke en onderlinge banke: Verbandlenings - Tabel S-25

Hierdie tabel is uit die afdeling "Kapitaalmark" verskuif om dit saam te groepeer met die ander tabelle wat gegewens oor kredietverlening aan die private sektor bevat.

Uitgesoekte geldmark- en verwante aanwysers - Tabel S-26

Die opskrif van die kolom wat akkommodasie deur die Reserwebank aandui, is verander na "Totale likiditeit voorsien deur die Reserwebank" sodat dit 'n weerspieëling is van die nuwe bedryfsprosedure wat op 9 Maart 1998 in werking gestel is. Die opskrif van die kolom "Note in omloop" is verander na "Note en munte in omloop".

Geldmarkakkommodasie: Uitgesoekte daaglikse aanwysers - Tabel S-27

'n Tabel met daaglikse waarnemings is bygevoeg om 'n aanduiding te bied van die daaglikse likiditeitsbehoefte van die mark, bedrae aan likiditeit wat deur die stelsel van terugkoopooreenkomste aan die mark beskikbaar gestel is en die daaglikse gemiddelde terugkooptenderkoerse.

Geldmark- en verwante rentekoerse - Tabel S-28

Kolomme vir die marginale leningskoers en die terugkooptenderkoers is bygevoeg.

Capital market

Capital market activity - Table S-30

Information on purchases of shares and stocks reported by the Johannesburg office of the South African Revenue Service has been omitted from this table. Private-sector issues in the primary market now refer to capital raised on the Johannesburg Stock Exchange. This information is reported as the total value of share capital raised, rights issues of ordinary shares and rights issues of fixed-interest securities. Data regarding transactions by non-residents are extended to include purchases, sales and net purchases of shares and bonds, shown separately.

Derivative market activity - Table S-31

Data regarding activity in the derivatives market were extended to include futures, options on futures, and rand-dollar and commodity futures in a separate table.

Share prices, yields and stock exchange activity - Table S-33

The unit trusts data were revised to reflect the selling price of units in equity funds. Income funds were previously included.

Unit trusts - Table S-34

The selected items and transactions of unit trusts were adjusted to include the market value of net assets of money market funds. The subtotal indicating total market value of security holdings was omitted.

Public Investment Commissioners - Table S-35

The liabilities and assets of the Public Investment Commissioners were revised to incorporate more comprehensive and relevant data. The relatively insignificant amounts received from other domestic funds of households were added to the funds received from trust accounts of households. Holdings by the Public Investment Commissioners of bills issued by public corporations and public financial institutions were consolidated into a single column. Investment in shares was divided into direct and indirect investment. The column for other assets, which previously contained indirect share investment, was amended to reflect investment in guaranteed investment contracts, unit trusts and investment policies.

Long-term insurers - Table S-37 and Short-term insurers - Table S-39

The liabilities of long- and short-term insurers were expanded to include claims in respect of derivative instruments from 1996.

Kapitaalmark

Kapitaalmarkbedrywigheid - Tabel S-30

Gegewens oor aankope van aandele en effekte wat deur die Johannesburgse kantoor van die Suid-Afrikaanse Inkomstediens gerapporteer is, is uit hierdie tabel weggelaat. Privaatsektor-uitgiftes in die primêre mark verwys nou na kapitaal wat op die Johannesburgse Aandelebeurs verkry is. Hierdie inligting word verstrek as die totale waarde van verkrygde aandelekapitaal, regte-uitgiftes van gewone aandele en regte-uitgiftes van vasterentedraende sekuriteite. Gegewens met betrekking tot transaksies deur nie-inwoners is uitgebrei om aankope, verkope en netto aankope van aandele en effekte, wat afsonderlik getoon word, in te sluit.

Afgeleidemark-bedrywigheid - Tabel S-31

Gegewens met betrekking tot bedrywigheid in die mark vir afgeleide instrumente is uitgebrei om termynkontrakte, opsies op termynkontrakte, en rand-dollar- en kommoditeitstermynkontrakte in 'n afsonderlike tabel in te sluit.

Aandelepryse, opbrengskoerse en aandelebeurs-aktiwiteit - Tabel S-33

Die gegewens oor effektetrusts is hersien om die verkoopprys van onder-aandele in aandelefondse te weerspieël. Inkomstefondse was voorheen ingesluit.

Effektetrusts - Tabel S-34

Die uitgesoekte items en transaksies van effektetrusts is aangepas om die markwaarde van netto bates van geldmarkfondse in te sluit. Die subtotaal wat die totale markwaarde van die besit aan sekuriteite aandui, is weggelaat.

Openbare Beleggingskommissarisse - Tabel S-35

Die laste en bates van die Openbare Beleggingskommissarisse is hersien om meer omvattende en toepaslike gegewens in te sluit. Die betreklik onbeduidende bedrae wat vanaf ander binnelandse fondse van huishoudings ontvang is, is saamgevoeg met die fondse wat van huishoudings se trustrekeninge ontvang is. Die Openbare Beleggingskommissarisse se besit aan wissels uitgereik deur openbare korporasies en openbare finansiële instellings is in een kolom saamgevat. Belegging in aandele is verdeel tussen regstreekse en onregstreekse belegging. Die kolom vir ander bates, wat voorheen onregstreekse belegging in aandele ingesluit het, is gewysig om belegging in gewaarborgde beleggingskontrakte, effektetrusts en beleggingspolisse te weerspieël.

Langtermynversekeraars - Tabel S-37 en Korttermynversekeraars - Tabel S-39

Die laste van lang- en korttermynversekeraars is uitgebrei om verpligtings ten opsigte van afgeleide instrumente vanaf 1996 in te sluit.

Short-term insurers: Income statement - Table S-38
The income statement of short-term insurers as presented in this new table contains the cash flow of short-term insurers.

Official pension and provident funds: Income statement - Table S-40
The empty column indicating rental income was omitted and interest and dividend income were included under separate headings.

Official and private self-administered pension and provident funds - Table S-41
The assets of official pension and provident funds were amended to omit the column indicating loans. "Other assets" were disaggregated to indicate accumulated interest separately from 1991.

Private self-administered pension and provident funds - Table S-42
The income statement of private self-administered pension and provident funds was expanded to show interest and dividends separately.

Capital market: Selected data - Table S-137
Data on the total amount of mortgage loans outstanding were replaced by the number of real-estate transactions.

Public finance

The South African authorities subscribed to the International Monetary Fund's Special Data Dissemination Standard (SDDS) in 1996 and indicated their willingness to fully observe the specifications of the SDDS before the end of 1998. To partially observe the specifications of the SDDS, two new tables under the headings "Interest payment schedule of government domestic marketable stock" and "National government debt denominated in foreign currencies" were added as pages S-63 and S-65.

Regrouping of tables
To combine all the information on the public sector, the following tables were moved from the section "Capital market" to the section "Public finance":
- "Ownership distribution of domestic marketable stock debt of local authorities" from page S-33 to S-66;
- "Ownership distribution of domestic marketable stock debt of sundry public-sector borrowers" from page S-33 to S-66;
- "Ownership distribution of domestic marketable stock debt of non-financial public enterprises" from page S-34 to S-67;

Korttermynversekeraars: Inkomstestaat - Tabel S-38
Die inkomstestaat van korttermynversekeraars soos aangebied in hierdie nuwe tabel bevat die kontantvloei van korttermynversekeraars.

Amptelike pensioen- en voorsorgfondse: Inkomstestaat - Tabel S-40
Die leë kolom wat huurinkomste aangedui het, is weggelaat en inkomste uit rente en dividende is onder afsonderlike opskrifte ingesluit.

Amptelike en private self-geadministreerde pensioen- en voorsorgfondse - Tabel S-41
Die bates van amptelike pensioen- en voorsorgfondse is aangepas om die kolom wat lenings aandui, weg te laat. “Ander bates” is onderverdeel om opgelope rente vanaf 1991 afsonderlik aan te dui.

Private self-geadministreerde pensioen- en voorsorgfondse - Tabel S-42
Die inkomstestaat van private self-geadministreerde pensioen- en voorsorgfondse is uitgebrei om rente en dividende afsonderlik te toon.

Kapitaalmark: Uitgesoekte gegewens - Tabel S-137
Gegewens oor die totale uitstaande verbandvoorskotte is vervang met die aantal transaksies in vaste eiendom.

Openbare finansies

Die Suid-Afrikaanse owerhede het in 1996 op die Internasionale Monêtere Fonds se Spesiale Data Disseminasie Standaard ingeskryf en hulle bereid verklaar om voor die einde van 1998 volledig aan die bepalings van die standaard te voldoen. Ten einde gedeeltelik aan die bepalings van die standaard te voldoen, is twee nuwe tabelle onder die opskrifte "Rentebetalingskedule van binnelandse bemarkbare effekteskuld van die regering" en "Skuld van die nasionale regering in buitelandse geldeenhede betitel" bygevoeg as bladsye S-63 en S-65.

Hergroepering van tabelle
Om al die inligting oor die openbare sektor bymekaar te groepeer, is die volgende tabelle van die afdeling "Kapitaalmark" na die afdeling "Openbare finansies" geskuif:
- "Binnelandse bemarkbare effekteskuld van plaaslike owerhede volgens besitter" van bladsy S-33 na S-66;
- "Binnelandse bemarkbare effekteskuld van diverse leners in die openbare sektor volgens besitter" van bladsy S-33 na S-66;
- "Binnelandse bemarkbare effekteskuld van niefinansiële openbare ondernemings volgens besitter" van bladsy S-34 na S-67;

- "Local authorities: Liabilities and assets" from page S-45 to S-80; and
- "Non-financial public enterprises: Liabilities and assets" from page S-44 to S-81.

- "Plaaslike owerhede: Laste en bates" van bladsy S-45 na S-80; en
- "Nie-finansiële openbare ondernemings: Laste en bates" van bladsy S-44 na S-81.

Balance of payments

Foreign debt of South Africa - Page S-98
South Africa's total loan commitments in terms of international bearer bonds and notes are shown as a separate item under "Other foreign-currency-denominated debt".

Gold and other foreign reserves - Page S-100
The net open position in foreign currency of the Reserve Bank at month-ends was added as a separate item.

Exchange rates, gold price and trade financing rates - Page S-103
The time series on the exchange rate of the financial rand against the US dollar and the financial rand discount were replaced by the six- and twelve-month rand-dollar forward cover rates of the South African private banking sector.

Betalingsbalans

Buitelandse skuld van Suid-Afrika - Bladsy S-98
Suid-Afrika se totale leningsverpligtinge ingevolge internasionale toondereffekte en note-uitgifte word afsonderlik onder "Ander skuld betitel in buitelandse geldeenhede" getoon.

Goud- en ander buitelandse reserwes - Bladsy S-100
Die netto oop posisie in buitelandse valuta van die Reserwebank op maandeindes is as 'n afsonderlike item bygevoeg.

Wisselkoerse, goudprys en handelsfinansieringskoerse - Bladsy S-103
Die tydreekse met betrekking tot die wisselkoers van die finansiële rand teenoor die VSA-dollar en die finansiëlerand-diskonto is met die ses- en twaalfmaande rand-dollar termyndekkingskoerse van die Suid-Afrikaanse private banksektor vervang.

National accounts

National accounts: Percentage change in selected data at constant prices – Table S-142
A series was added for the gross domestic product, excluding agriculture.

Nasionale rekeninge

Nasionale rekeninge: Persentasieverandering in uitgesoekte gegewens teen konstante pryse – Tabel S-142.
'n Reeks is vir die bruto binnelandse produk met die uitsluiting van die landbou bygevoeg.

General economic indicators

Consumer prices – Table S-133
A column indicating "Underlying inflation", which contains the same information as "core" inflation, was added to the table.

Consumer prices: Percentage change – Table S-134
Columns indicating percentage changes over periods of twelve months in the price indices of consumer goods and consumer services were incorporated in this new table.

Algemene ekonomiese aanwysers

Verbruikerspryse - Tabel S-133
'n Kolom wat "Onderliggende inflasie" aandui, wat dieselfde inligting as "kern"-inflasie bevat, is tot die tabel toegevoeg.

Verbruikerspryse -Tabel S-134
Kolomme wat die persentasieverandering oor tydperke van twaalf maande in die prysindekse van verbruikersgoedere en verbruikersdienste toon, is tot hierdie nuwe tabel toegevoeg.