Quarterly Bulletin
Kwartaalblad

December 2000

South African Reserve Bank
Suid-Afrikaanse Reserwebank

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Minimum reserve requirements

by H F Nel

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Introduction

The world economy continued to expand at a lively pace in the first half of 2000. Early indications are that the expansion is more than likely to have spilled over into the second half of the year, but with some loss of momentum.

The industrialised economies of the world succeeded in maintaining relatively firm output growth. The United States economy is in its longest expansion phase in a century and widely held expectations are that any imminent slowdown will be more of a "soft" landing than an abrupt end to a period of prosperity. The world economy was further helped by the continued recovery in the east Asian economies, an improvement in some Latin American countries and exceptionally favourable conditions in certain of the transitional east European economies.

The sharp increase in international petroleum prices has had a negative impact on the prospects for containing global inflation. But, quite paradoxically, the transfer of real income from oil-importing countries to oil-exporting countries contributed in great measure to the stabilisation of the economies in some countries, particularly in the Russian Federation where the economy is booming because of oil export earnings. Although there is a risk of higher inflation everywhere, there are still no signs of any sustained price and cost increases in the oil-importing industrial countries. However, the longer the price pressures from petroleum prices persist, the greater the danger of second-round price and wage increases and a pick-up in endogenously generated inflation.

The South African economy gathered considerable momentum in the third quarter of 2000. The strong growth in the second half of 1999, which slowed down somewhat in the first half of 2000, was largely restored in the third quarter. Stronger growth in manufacturing production resumed and real income in the agricultural sector rose vigorously as the bulk of a bumper maize crop was harvested in the third quarter. Growth in real gross domestic product approached 4 per cent in the third quarter of 2000 – about the same as where it had been in the fourth quarter of 1999 and considerably firmer than the average annualised growth of about 2½ per cent in the first half of 2000.

In the third quarter of 2000 the composition of growth in expenditure shifted. A decline in the pace of export growth was offset by an increase in the growth in real gross domestic expenditure. The depreciation of the rand has not yet resulted in sustainably higher export volumes.

The national accounts showed continued growth in real final household spending in the third quarter. Increased spending on new motor cars and other durable goods more than offset the slower increases in spending on semi-durable goods.

Growth in household disposable income has supported personal consumption expenditure. Incomes were boosted by the tax reductions earlier in the year, a solid increase in farm and other property income which was buoyed by higher dividend payments. Asset price increases, especially that of real-estate and equities also encouraged consumer sentiment and added momentum to household spending.

On the other side of the household balance sheet, the debt of the household sector grew faster than its income, shifting the debt-income ratio slightly higher over the past quarter. The decline in bank lending rates over the past two years or so encouraged households to start borrowing again. The interest payment burden is now substantially lower than in 1998, allowing households some extra latitude for raising their discretionary spending.

A favourable external environment, continued growth in domestic final demand, rising profitability and the availability of investable funds provided the incentives for the business sector to raise its capital expenditure further in the third quarter. The improved outlook for the business sector was also reflected in firms' willingness to accumulate inventories ahead of an expected demand expansion.

Despite the recovery in income generation and aggregate spending, the formal labour market recorded further declines in employment numbers in the first half of 2000. Labour paring in the private sector was swelled by job losses at all levels of the public sector. Unemployment remained high, and may have contributed to some moderation in the growth of wages and salaries. The potential effect of rising labour costs on input costs was further checked by significant increases in productivity. For example, in the manufacturing sector the growth in nominal unit labour costs was flat when comparing the first half of 2000 with the first half of 1999.

The rates of increase in the broader measures of prices moved up in the course of 2000, despite the slow growth in unit labour costs. The pass-through of the steep rise in the cost of imported petroleum and the decline in the exchange rate of the rand since the beginning of the year, were the principal factors in the acceleration of production price increases. In the first half of the year, higher food prices added to the upward pressure on consumer prices. Apart from the effects of rising petrol and food prices, little indication of endogenously generated inflation could be seen in the changes in consumer prices. However, the recent rise in production prices, excluding exogenous cost-push pressures, gives evidence of some second-round price pressures and may be seen more fully in the consumer price index in coming months.

Reflecting the rise in final household expenditure and gross investment by firms, imports increased sharply in the third quarter. Although the value of gold exports rose impressively, the rise in merchandise exports failed to match the rise in merchandise imports, partly an indication of the long time delays between depreciations of the rand and their impact on export volumes. These developments were aggravated by a high level of dividend and interest payments to the rest of the world whereas income received from foreign sources actually declined. As a consequence, the surplus on the current account of the balance of payments was transformed into a deficit in the third quarter equal to about 0,6 per cent of gross domestic product.

The deterioration of the current account of the balance of payments in the third quarter of 2000 coincided with a reversal of international capital flows to the country: net outflows of capital in the second quarter were followed by a strong inward movement in the third quarter. This flow reversal emanated mostly from the changing pattern of securities purchases by non-resident investors. Equities, in particular, became quite popular among non-resident investors in the third quarter and net sales of fixed-income assets diminished. Foreign direct investment in real-sector job-creating projects remained low.

The surplus on the financial account of the balance of payments exceeded by a considerable margin the absolute value of the deficit on the current account, raising the country's international reserve holdings to their highest level ever. In the first two months of the third quarter, the excess supply of liquidity in the domestic foreign exchange market moved the external value of the rand higher, but from September the exchange rate of the rand came under downward pressure again when the inflows of portfolio capital subsided noticeably. From the end of 1999 the rand has depreciated on a weighted basis by some 10½ per cent to the middle of November 2000. The implicit real depreciation of the rand over this period is, of course, an approximate indication of the improved competitiveness of South African producers in export markets.

By the third quarter there were signs of a rebound in aggregate monetary growth and a return of stronger growth in banks' claims on the domestic private sector. Considering that inflation is ultimately determined by excessive monetary growth, the recent acceleration in the growth in M3 has the potential of fuelling inflation expectations and eventually the momentum of increase in the overall price level. These changes in the conditions underlying future inflation prompted the Reserve Bank to shift to a slightly more cautious policy stance in the fourth quarter of 2000.

Money market conditions tightened in the early months of 2000, but from about the beginning of the second quarter the daily liquidity requirements of the private banks fluctuated within a relatively narrow range. The Reserve Bank actively intervened in the money market to ensure such an outcome, in the process keeping the interest rate on repurchase transactions unchanged from January to October. Concerns about possible second-round price responses to the high crude oil prices and the depreciation of the rand, led to steps being taken by the Bank to raise the repurchase rate on 17 October by some 25 basis points. This was an unambiguous signal that the monetary policy stance has shifted towards greater caution. The private banks correctly interpreted the Bank's monetary policy statement as a precautionary measure and did not raise their prevailing lending rates as a result.

As the year began with concerns about the millennium date change out of the way, participants in the fixed-income market turned their attention to signs of possible changes in the domestic monetary policy stance and heightened uncertainty about future inflation movements in South Africa. At the international level there was also some increased aversion to risk taking in emerging markets. The investment mood changed quite dramatically and yields on long-term government bonds retraced part of their declines in 1999 over the period from January to May 2000.

Sentiment once again changed for the better in the second quarter. It became clear by then that developments in other parts of Africa would only have a limited impact on economic stability in South Africa. Non-resident investors returned as net buyers of fixed-income securities, contributing to a downward movement of bond yields up to August. Since about the end of August the bond market has been without clear direction, fluctuating around a fairly flat trend with an upward bias. Movements in equity prices almost perfectly mirrored developments in the fixed-income market, but non-residents maintained a presence as net buyers of shares throughout most of the first ten months of the year.

Activity was subdued in the primary market for long-term capital in the first nine months of 2000. The relatively small public-sector borrowing requirement, together with national government's preference for funding through the issuance of short-term Treasury bills, led to a decline in the net issuance of bonds. Companies listed on the Johannesburg Securities Exchange partly filled this void and stepped up their capital-raising activities. This was predominantly done for purposes of mergers and acquisitions, and less so for the financing of new investment projects.

Trading in the derivatives markets continued to grow strongly as these financial instruments are increasingly being used to hedge the positions taken in the underlying securities markets. Activity in the real-estate market remained at a high level from about the first quarter of the year, following a period of strong recovery in the wake of the interest-rate declines of late 1998 and 1999.

The declining budget deficit of national government in recent years has been an important factor in containing the decline in domestic saving. The decline in dissaving by general government was sufficient to offset the decline in personal saving. A deeper pool of national saving, along with the willingness of foreign investors to augment domestic saving, will make a major contribution to containing increases in the cost of capital and for financing the expansion of real fixed capital formation. The future involvement of multilateral financial institutions in providing project finance is expected to make a significant contribution towards accelerating the development of infrastructure in the country.

Domestic economic developments

Domestic output[1]

The growth in *real gross domestic product* picked up in the third quarter of 2000. After increasing at seasonally adjusted and annualised growth rates of 2 per cent in the first quarter of 2000 and 3 per cent in the second quarter, real gross domestic product (seasonally adjusted and annualised) grew by 4 per cent in the third quarter. The level of real gross domestic product was about 3 per cent higher in the first three quarters of 2000 than in the corresponding quarters of 1999.

1 In accordance with normal practice during the third quarter of every year, revisions have been made to national accounts data and are incorporated in this issue of the Quarterly Bulletin. These revisions are based on more detailed or more appropriate data that became available. In addition, seasonal factors have been updated.

Real output in the *primary sectors* increased at a seasonally adjusted and annualised rate of 8 per cent in the third quarter of 2000, following a decline of 5 per cent in the first quarter and an increase of just 1 per cent in the second quarter The recent strong output growth was particularly evident in the *agricultural sector.* Field crop production was pushed to new heights by the delayed harvesting of the bumper maize crop, but solid contributions to output growth were also made by livestock and horticultural farming. The outbreak of foot-and-mouth disease in KwaZulu-Natal apparently had only a minor impact on agricultural output growth at national level. By contrast, maize output in the current season is estimated to exceed 10 million tons, about one-fourth more than the 8 million tons harvested in 1999.

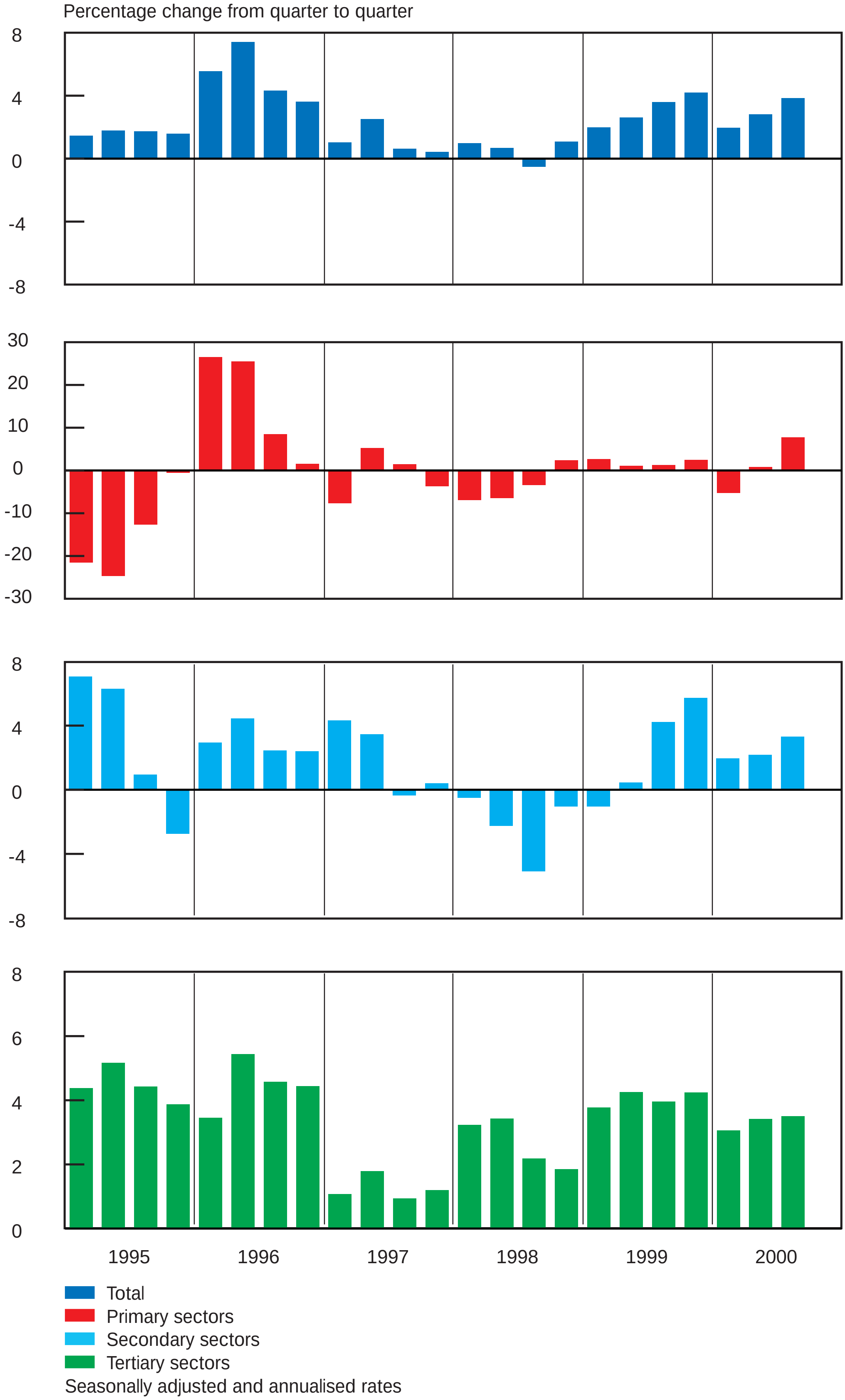
Total real output in the *mining sector,* which had fallen at seasonally adjusted and annualised rates of 3 per cent in the first quarter of 2000 and 3½ per cent in the second quarter, declined by 2½ per cent in the third quarter. The downward movement of mining output was the outcome of shrinking gold production which offset increases in the other sectors of the mining industry. Among the non-gold mining sectors, real output in platinum mining was buoyed by an improvement in the international price of this commodity.

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

	1999					2000		
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Primary sectors	2½	1	1½	2½	½	-5	1	8
Agriculture	6½	2½	4½	6½	3½	-8½	7½	24
Non-agricultural sectors	2	3	3½	4½	2	2½	2½	3
Mining	0	0	-1	0	-1	-3	-3½	-2½
Secondary sectors	-1	½	4	5½	-½	2	2	3½
Manufacturing	0	½	4½	6	0	2½	2	3½
Tertiary sectors	4	4½	4	4	3½	3	3½	3½
Total	2	2½	3½	4	2	2	3	4

Output growth in the *manufacturing* sector firmed in the third quarter of 2000 after a slowdown in growth during the first half of the year. Growth of 2½ per cent in the first quarter of 2000 was followed by 2 per cent growth in the second quarter and 3½ per cent in the third quarter. The acceleration in manufacturing output growth is explained by the rise in real domestic final demand and stronger export demand for certain subcategories of manufactured goods. Some inventory building, probably in anticipation of the continued

Growth in real gross domestic product



strengthening of demand, also contributed to the firmer growth in manufacturing output. A broad spectrum of manufacturing subsectors responded to the improvement in demand conditions. Noteworthy among these were the producers of food, beverages and tobacco products, chemicals and chemical products, base metal products and transport equipment.

In the other secondary sectors, the real value added by the sector supplying *electricity, gas and water* increased at an annualised rate of 2 per cent in the third quarter of 2000 with the strengthening of economic activity generally and the expansion of these services to the rural areas of the country. The real value added by the *construction sector* also increased in the third quarter of 2000 as flood repairs got under way and the development of housing infrastructure continued. The growth in output by the secondary sectors accelerated from 2 per cent in the second quarter of 2000 to 3½ per cent in the third quarter.

Despite a decline in the real value added by the general government sector, growth in the tertiary sectors continued at a rate of 3½ per cent in the third quarter of 2000. In the *commercial sector,* activity remained brisk as consumers adopted a more positive attitude and became more prepared to incur debt for financing their purchases of consumer goods. Sales of new motor vehicles rose strongly in the third quarter of 2000, giving a fillip to value added in the *motor trade*. The subsector *catering and accommodation* also experienced lively conditions as tourist activities continued at a brisk rate.

The real value added by the *transport, storage and communication services* sector grew at a seasonally adjusted and annualised rate of 6 per cent in the third quarter of 2000, following on the heels of growth of 5 per cent in the first quarter and 6½ per cent in the second quarter. These high growth rates were largely driven by the ongoing buoyancy of the telecommunication subsector where the expansion in the cellular network and Internet activity continued, along with the expansion of telephone services to previously under-serviced areas. Growth in the real value added by the transport sector was underpinned by the need to move the maize crop and the rising volumes of foreign trade. The recovery of the real-estate market after the setback of 1998 contributed to another increase in the output volumes of the *financial intermediation, insurance, real-estate and business services sector.*

Domestic expenditure

After a steep decline of 2½ per cent in the second quarter of 2000, real gross domestic expenditure (seasonally adjusted and annualised) rebounded and increased by 6½ per cent in the third quarter. This took the accumulated total of real gross domestic

Real gross domestic expenditure

Percentage change at seasonally adjusted and annualised rates

	1999					2000		
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Final consumption expenditure by households	-½	2½	4	3	1	3½	3	3½
Final consumption expenditure by general government......................	-1½	-1½	-2	-3	-2	-7½	1	1
Gross fixed capital formation..........................	-23	-9½	-3	-½	-6	3½	4	6
Change in inventories (R billions).........................	-8,4	5,3	-4,2	1,8	-1,4	6,9	0,1	3,8
Gross domestic expenditure	-11½	9½	-3½	4½	0	5	-2½	6½

expenditure in the first three quarters of 2000 to a level that was 2½ per cent higher than in the first three quarters of 1999. All the main components of aggregate spending contributed to the higher spending level, but inventory accumulation was particularly vigorous.

Real outlays on *final consumption by households* grew from quarter to quarter at an annualised rate of 3 per cent or more during the first two quarters of 2000. During the third quarter, this growth accelerated to 3½ per cent as households stepped up their spending in all the major expenditure categories.

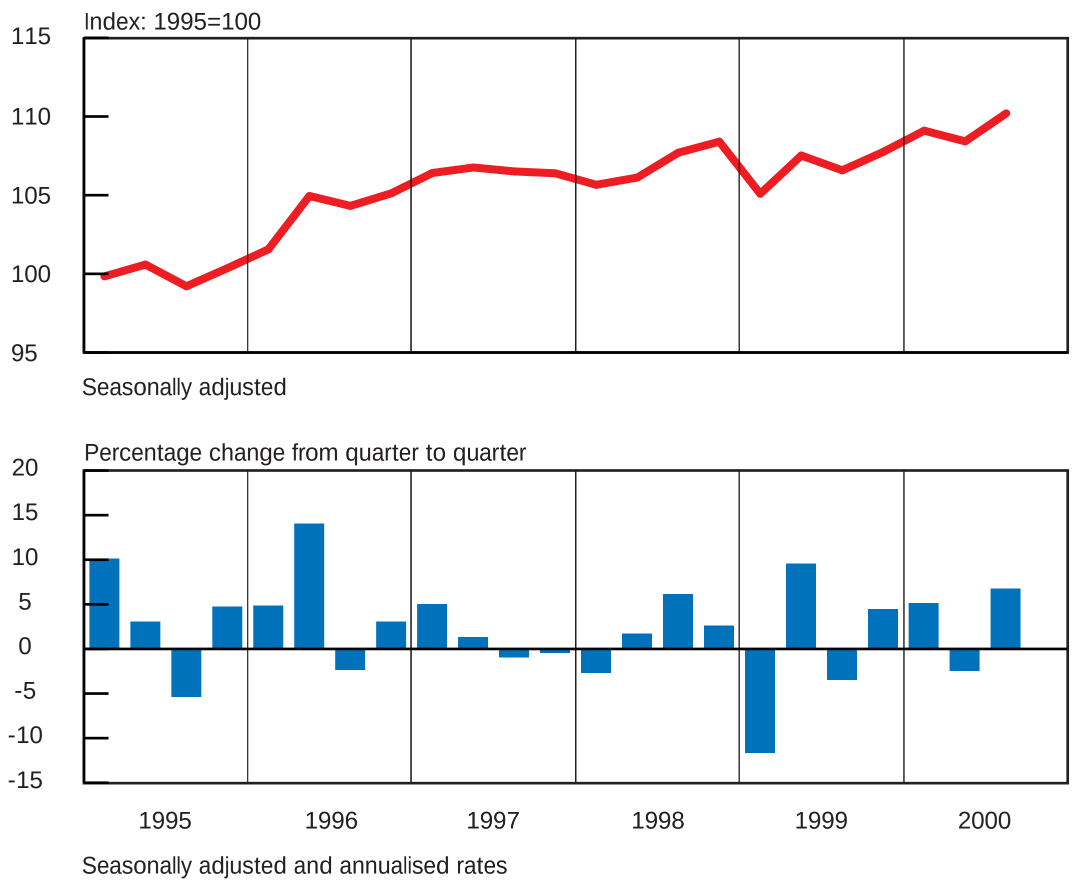
Real final consumption expenditure by households

Percentage change at seasonally adjusted and annualised rates

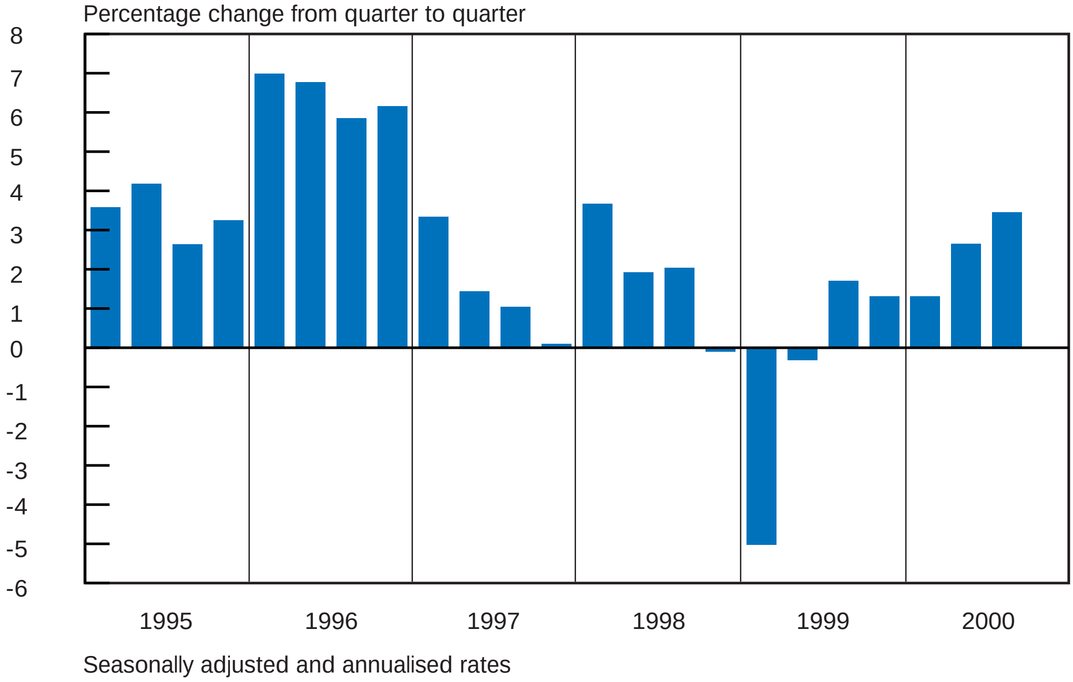
	1999					2000		
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Durable goods	-14½	12	14½	-3	-6	9	7	10
Semi-durable goods	-10½	3	6	9½	-½	6½	5	4
Non-durable goods	0	-½	½	1½	0	1½	1	2
Services	5	4½	5½	4	4	3	3½	4
Total	-½	2½	4	3	1	3½	3	3½

The acceleration of growth in real final consumption expenditure was realised despite a slowdown in the growth of spending on semi-durable goods. Real expenditure on clothing and footwear, an important component of semi-durable goods, was rather flat in the third quarter. By contrast, real expenditure on durable goods

Real gross domestic expenditure



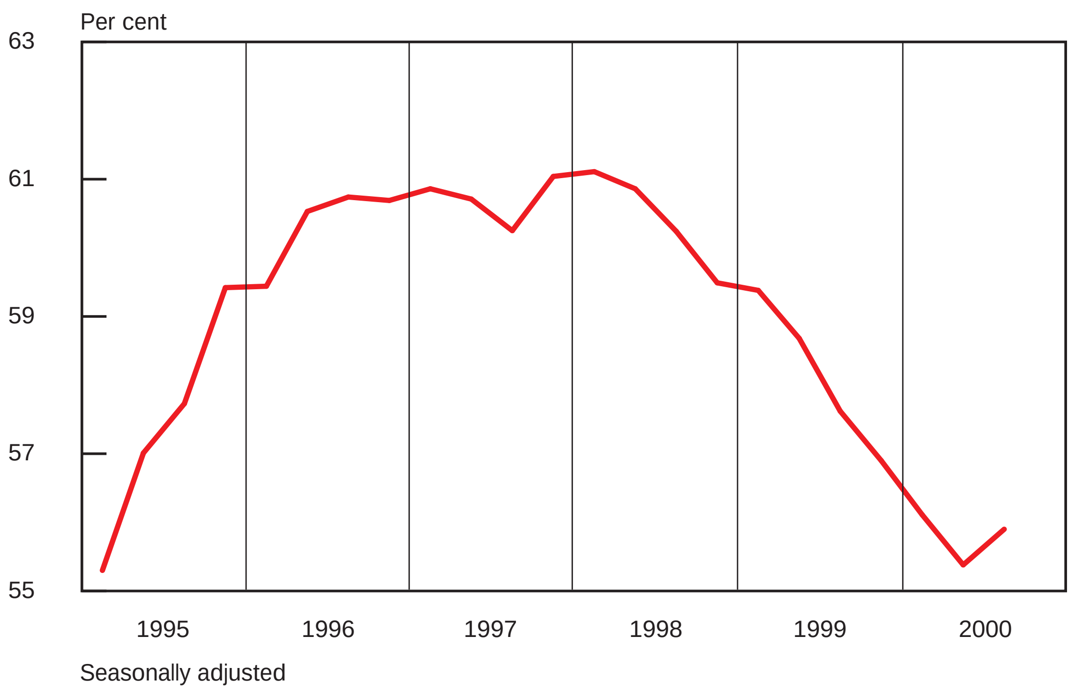
Real gross domestic final demand



accelerated from growth of 7 per cent in the second quarter to 10 per cent in the third quarter. Spending on new motorcars and furniture and household appliances was particularly strong in the third quarter.

Apart from the contributions made by higher real household income and the reduced personal tax burden, the rise in spending by consumers was also aided by the willingness of individuals to incur additional debt. In the aggregate, households have raised their debt at a rate that exceeded the growth in their disposable income. As a con-

Household debt as percentage of disposable income



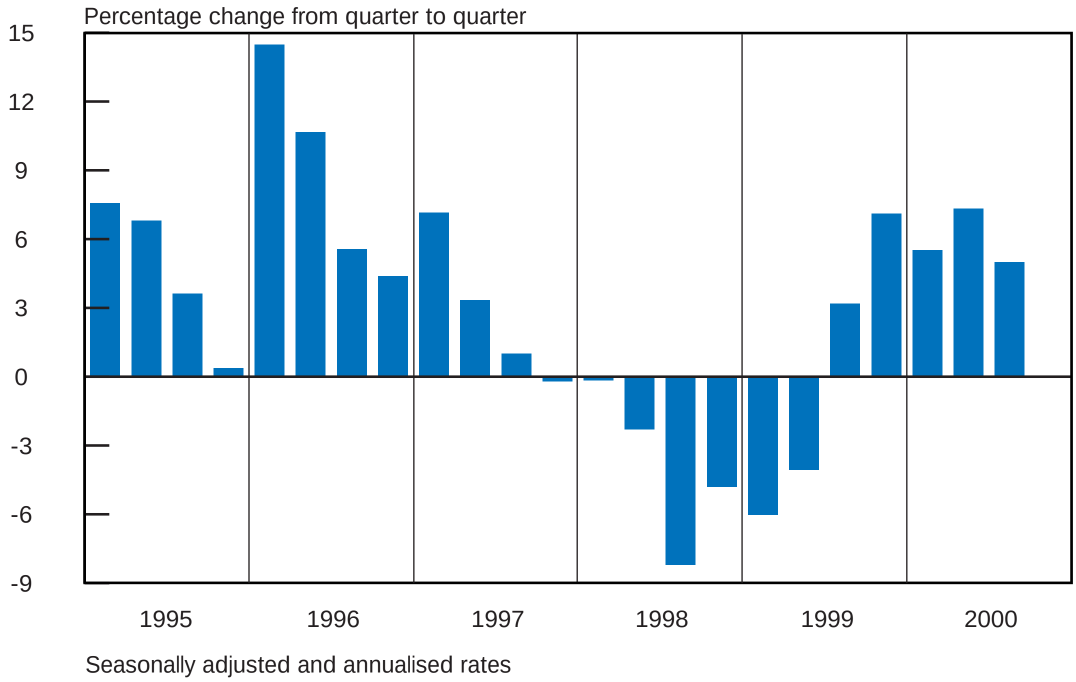
sequence, the ratio of household debt to personal disposable income increased from 55½ per cent in the second quarter of 2000 to 56 per cent in the third quarter. Household income, in turn, was strengthened by an increase in property income, mainly originating from a healthy increase in gross farm income. The aggregate compensation of employees increased at a rate that barely kept pace with the concurrent consumer price inflation, thus contributing little or nothing to the growth in real household income.

The rate of increase in real *final consumption expenditure by general government* remained at an annualised rate of 1 per cent in the third quarter of 2000. Measured over one year, real final consumption expenditure by general government in the first three quarters of 2000 was still about 3 per cent lower than in the corresponding period of the previous year. As a percentage of gross domestic product, general government's final consumption expenditure has now declined from nearly 20 per cent in 1998 to an average of 18½ per cent in the first three quarters of 2000. These developments were consistent with government's resolve to rein in government spending as part of a broader strategy that will create an environment conducive to enhanced economic growth and job creation.

The upward momentum in real gross fixed capital formation since the first quarter of 2000 was maintained in the third quarter. Current estimates indicate that increases in total real gross fixed investment, at an annualised rate of 3½ per cent in the first quarter of 2000 and 4 per cent in the second quarter, were followed by a further rise of 6 per cent in the third quarter. Despite this improvement in investment spending, real gross fixed capital formation in the first three quarters of 2000 was only about ½ per cent higher than the level in the corresponding period of 1999. The private and public business-sectors were entirely responsible for the further improvement in capital formation in the third quarter. Real fixed capital expenditure by the general-government sector declined in the third quarter of 2000.

Real gross fixed capital formation by the private sector increased at a seasonally adjusted and annualised rate of 5 per cent in the third quarter of 2000, taking the overall

Real gross fixed capital formation by the private sector



increase in the first three quarters of 2000 relative to the first three quarters of 1999 to 4½ per cent. A classification of capital spending in the private sector by kind of economic activity shows that the whole sector, apart from agriculture, participated in the expansion of capital formation in the third quarter of 2000. Prominent increases were recorded in the commercial sector, with the development of entertainment centres and shopping complexes, and in transport and communication where the telecommunications networks kept on expanding.

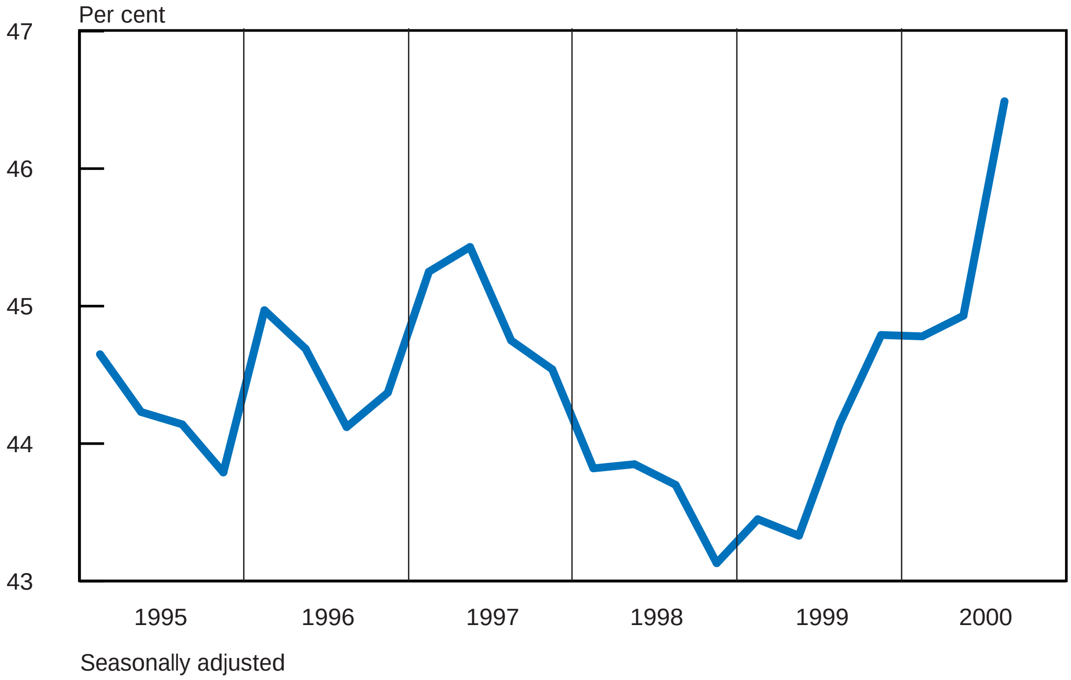
In the public sector, public corporations increased their capital spending as part of modernising strategies ahead of the expected increase in private-sector participation in these businesses. The business enterprises of general government are likewise being restructured, but with declining capital expenditure. General government increased its capital outlays somewhat, mainly in the form of higher spending on roads infrastructure.

The substantially larger *build-up in inventories* in the third quarter of 2000 than in the second quarter was the result of increases in industrial and commercial inventories, and in agricultural stocks-in-trade. The rise in industrial and commercial stocks probably reflected an optimistic assessment among firms regarding future demand growth, whereas the bulk of agricultural inventories consisted of maize stockpiles. Stock building added some 2½ percentage points to the growth in gross domestic product, quite a sizeable swing from the second quarter when the small accumulation of inventories had compressed growth by as much as 4½ percentage points. As a ratio of gross domestic product, the overall level of commercial and industrial inventories remained unchanged at a level of 14 per cent in the third quarter of 2000, despite the absolute increase in inventory holdings.

Factor income

The growth over four quarters in total *nominal factor income* accelerated from an average rate of 8½ per cent in the first half of 2000 to 11½ per cent in the third quarter. Growth in gross operating surpluses continued to outstrip growth in the aggregate compensation of employees.

Gross operating surplus as percentage of total factor income



A favourable external environment, continued growth in domestic final demand and the ready availability of financial resources at considerably lower cost than before, have underpinned a positive environment for the business sector. Profits continued to grow firmly with the gross operating surpluses of the corporate sector expanding by 17 per cent in the year to the third quarter of 2000. Cost containment, especially of labour costs, and much higher productivity levels added to the greater profitability of the corporate sectors. Strong growth in operating surpluses was obtained in most of the major sectors of the economy, but was quite profound in the telecommunication sector, the manufacturing sector and, for special reasons related to the bunching of the maize harvest, also in the agricultural sector.

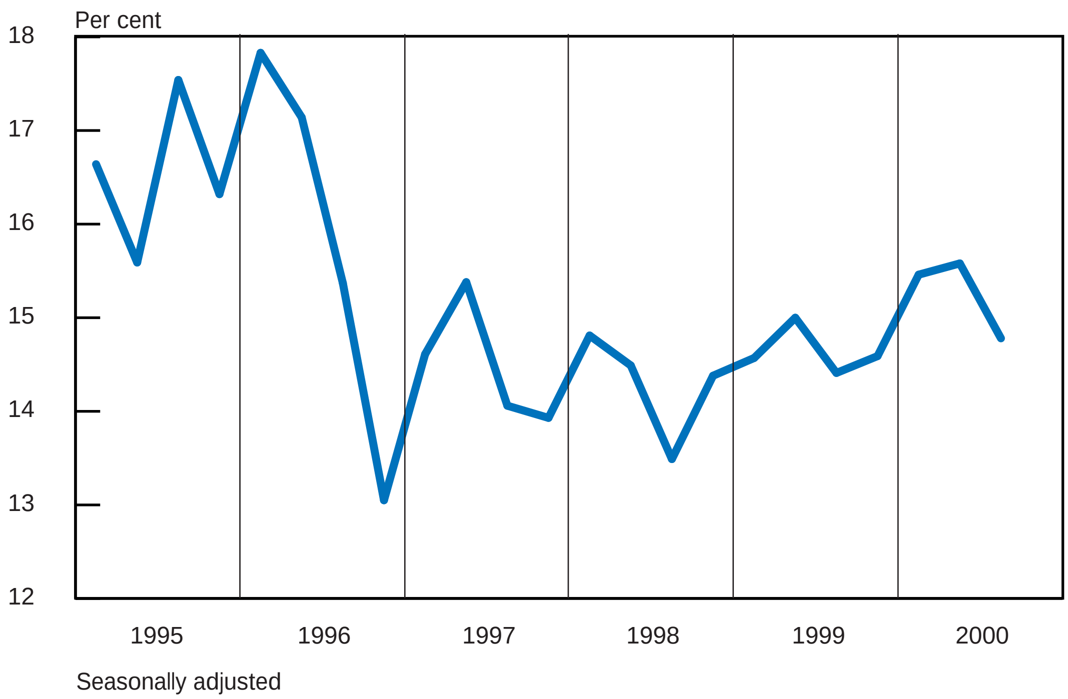
The rate of increase over four quarters in total *compensation of employees* slowed down from an average of 7½ per cent in the first three quarters of 1999 to an average of 6 per cent in the first three quarters of 2000 as nominal wage growth moderated and labour paring continued unabatedly. The compensation of employees as a percentage of total factor income accordingly declined from 56 per cent in the third quarter of 1999 to 53½ per cent in the third quarter of 2000.

Gross saving

Gross saving as a ratio of gross domestic product improved from 14½ per cent in the third quarter of 1999 to 15½ per cent in the second quarter of 2000, but weakened again to 15 per cent in the third quarter of 2000. This lower saving ratio, which is not nearly sufficient in view of the country's investment and growth requirements, was the result of a weakening in the savings effort of the corporate sector.

Gross saving by general government, which turned from dissaving to positive saving for the first time in almost a decade in the second quarter of 2000, remained positive in the third quarter at a level that was equal to approximately ½ per cent. The gross saving by private households remained equal to about 3 per cent of gross domestic

Gross saving as percentage of gross domestic product



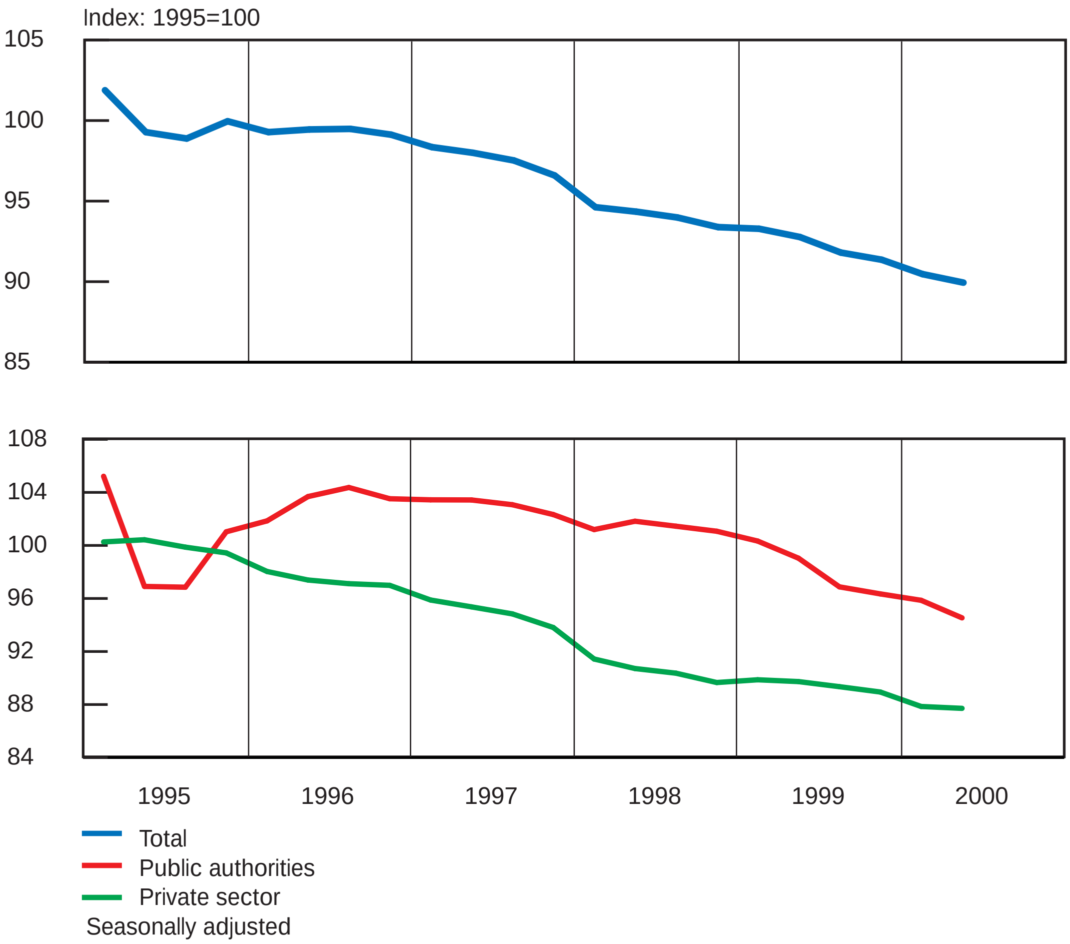
product despite households' increased appetite for consumption spending and debt accumulation.

Notwithstanding stronger profit growth in the corporate sector, gross saving by this sector relative to gross domestic product declined from 13 per cent in the first quarter of 2000 to 11½ per cent in the third quarter. An increase in dividend payments, which strengthened households' disposable income and contributed to the weakening of the current-account balance, was the main cause of the lower corporate saving ratio in the third quarter of 2000. Nevertheless, a substantial amount of internal funds were mobilised by the corporate sector. This, together with the ready availability of external sources of finance, and the continued prospects for sustained growth in aggregate demand, provided the incentive for the business sector to lift its capital expenditure meaningfully over the past three quarters.

Employment

The formal labour market continued to be characterised by employment declines in the first half of 2000. According to the *Survey of Total Employment and Earnings* by Statistics South Africa, employment in the formal non-agricultural sectors of the economy declined by 3,0 per cent or by about 149 000 jobs in the year to June 2000. Although this survey represents an understatement of about 27 per cent of total employment in the formal non-agricultural sectors of the economy, it should nevertheless be seen in terms of sample size as a representative sample of developments in the formal labour market in the country.

Non-agricultural employment in the formal sectors



Employment numbers in the *formal private non-agricultural sectors* fell on average by 2,2 per cent when comparing the first half of 2000 with the first half of 1999. Calculated in this way, employment gains were made in the trade, catering and accommodation services industry, washing and laundering services, and in the transport, storage and communication services sectors. These increases were, however, offset by strong declines in the gold-mining and in the manufacturing and construction sectors.

The decline in private-sector employment numbers was swelled by job losses at all levels of the *public sector*. On average, employment in the public sector fell by 4,5 per cent when comparing the first half of 2000 with the first half of 1999. The decline in employment numbers occurred at all levels of the public sector, but was most pronounced in the transport, storage and communication services sector, followed by provincial governments and national government departments.

Although the job-creating capacity of the economy is stronger than indicated by the regular establishment surveys, the inability of the formal economy to create jobs in sufficient numbers to reduce unemployment meaningfully remains a serious structural problem in the South African economy. The issue of structural unemployment was addressed by the Department of Labour in 1999 through reviewing certain provisions in existing labour laws that could have had unintended negative consequences for job creation.

A draft Code of Good Practice on HIV/Aids, an illness which has serious implications for the future evolution of the South African labour market, was gazetted in April 2000 as an annexure to the Employment Equity Act. The draft code provides guidelines for employers and employees on the handling of issues related to HIV/Aids. The code is based on the principle that no person, including job applicants, may be unfairly discriminated against in the workplace on the basis of that person's HIV status. In order to promote a non-discriminatory work environment, employers are also directed to adopt appropriate measures to ensure that HIV-affected employees are protected from discrimination and victimisation through measures such as recruitment practices, policies and awareness programmes.

Labour costs and productivity

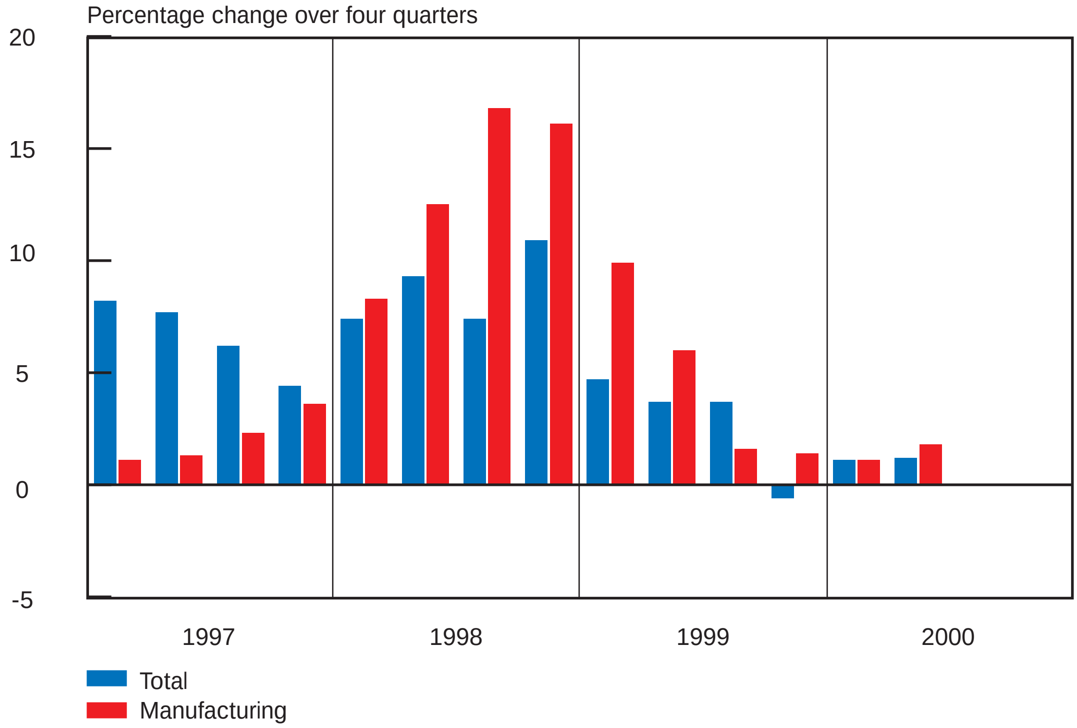
Nominal remuneration per worker in the non-agricultural sectors of the economy increased by 7,8 per cent in the year to the second quarter of 2000 – about the same increase as in the year to the first quarter. The absence of rising labour cost pressures in the economy is corroborated by the findings of surveys conducted by Andrew Levy and Associates, a private-sector labour consultancy firm. These surveys indicate that the average rate of wage settlements in collective bargaining agreements was 7,5 per cent in the first three quarters of 2000 – down from an overall average settlement rate of 8,3 per cent in 1999.

The growth in nominal worker compensation in the private sector slowed down from a year-on-year rate of 10,4 per cent in the first quarter of 2000 to 8,0 per cent in the second quarter. This slowdown was noted in almost all the various sectors of economic activity, but was more severe in the construction, electricity-generating, trade, catering and accommodation services sectors.

In contrast to wage developments in the private sector, the increase over one year in compensation per worker in the *public sector* accelerated from 4,5 per cent in the first quarter of 2000 to 7,9 per cent in the second quarter. The rise in nominal compensation growth in the public sector occurred mainly at the level of national government and in the transportation and communication services sectors.

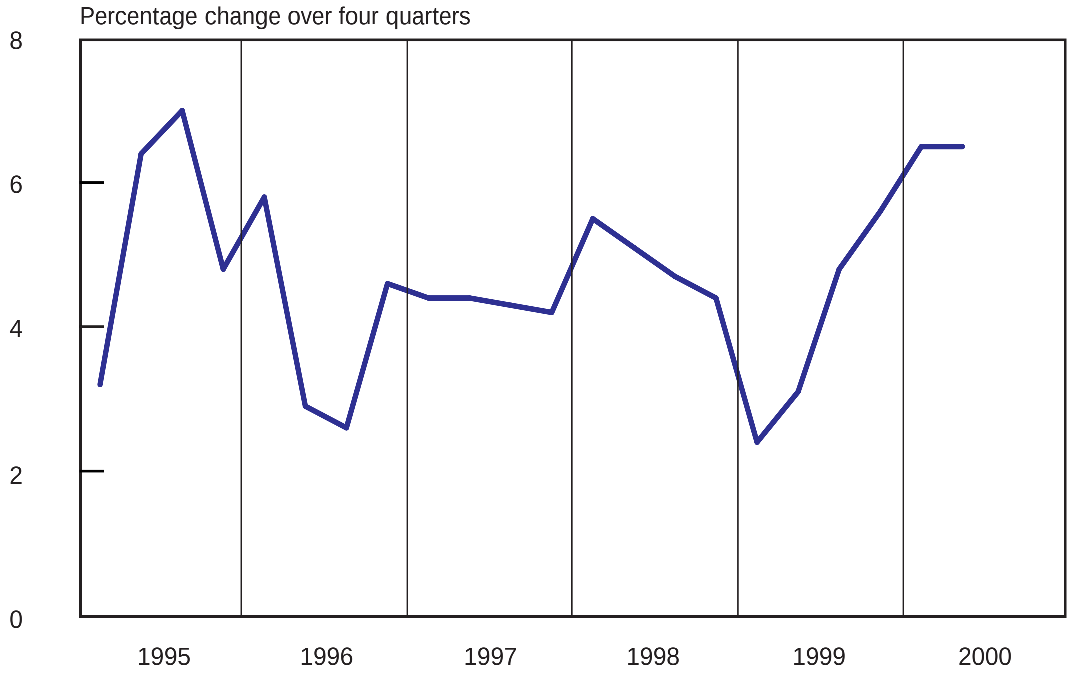
The combined effect of continuing growth in aggregate real output and declining employment in the formal sectors of the economy was an acceleration in the growth in real output per worker in the formal non-agricultural sectors from a year-on-year rate of 2,4 per cent in the first quarter of 1999 to 6,5 per cent in the first and second quarters of 2000. Because of the sizeable gains in productivity, increases in worker compensation have not generated significant pressure on production costs in the domestic economy. Overall *nominal unit labour costs* rose only by 1,1 per cent when comparing the first half of 2000 with the first half of 1999. In the manufacturing sector, where output is measured more directly and probably also more accurately, the average increase over one year in nominal unit labour costs was only 1,5 per cent in the second quarter of 2000.

Non-agricultural unit labour costs



With the strong rise in labour productivity recently, the average yearly rise in output per worker since the early 1990s has accelerated significantly to 3,5 per cent from the 0,2 per cent pace of the 1980s. What has been particularly impressive is that the acceleration of productivity has exceeded the pick-up in output growth over the past decade, and fewer workers are now producing a far greater volume of output than in the 1980s. It appears from the experiences of the past decade that strong productivity growth has become a permanent feature of the domestic economy. Employers are therefore now realising lasting benefits from their expenses on skills enhancement programmes and from their investments in equipment and processes that embody the advances made in information technologies over the past decade.

Non-agricultural labour productivity



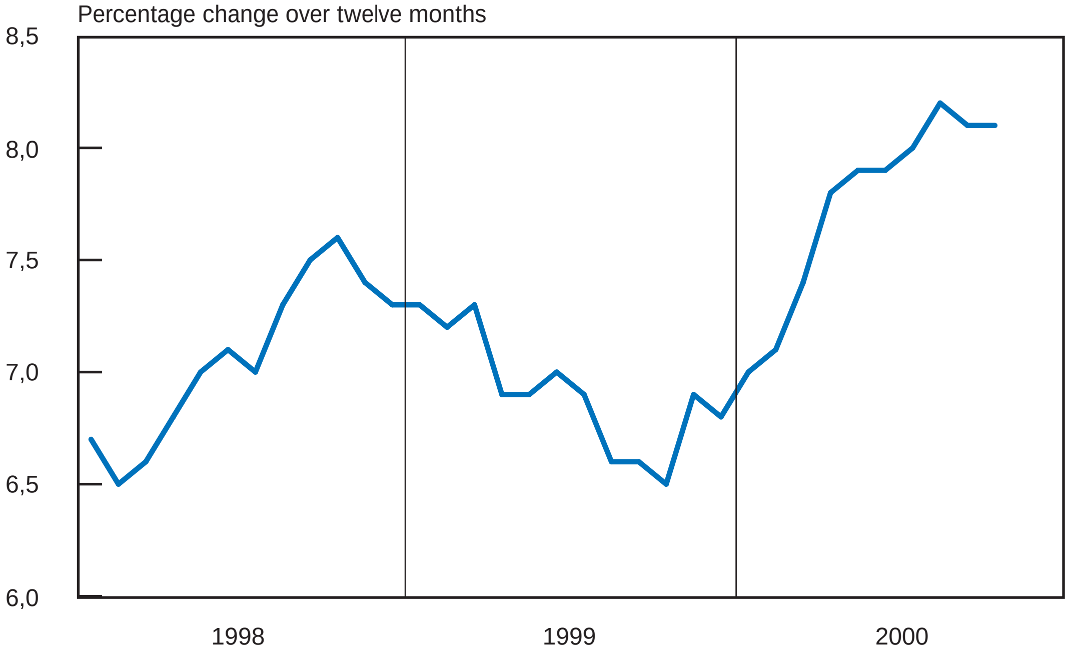
Prices

Despite the fairly benign trend in unit labour costs in the first half of 2000, measures of year-on-year inflation in consumer prices continued to increase in the third quarter. CPIX (i.e. the consumer price index for metropolitan and other urban areas, excluding mortgage interest costs) increased at annual rates of between 8,0 per cent and 8,2 per cent in the four months from July to October 2000; this inflation rate had been at 6,5 per cent in October 1999.

The steep rise in the cost of imported crude oil that began in early 1999 and continued into the first three quarters of 2000, and the upward shift in food prices following the damage to agricultural crops in the first quarter of 2000, have been the principal factors in the higher rates of increase in the prices of goods and services purchased by consumers. A measure of inflation that excludes fuel and food prices from CPIX actually slowed down marginally from a year-on-year rate of 6,8 per cent in the fourth quarter of 1999 to 6,7 per cent in the third quarter of 2000. This slowdown may be seen as indicating the absence of second-round price responses to the higher petrol and diesel prices.

Although the pass-through or second-round effects of the higher cost of imported crude oil are not clearly visible in the CPIX inflation indicator, these effects were much clearer in the rise in the index of prices paid at the production level during 2000. Measures of production price inflation over one year, excluding fuel and food prices, picked up strongly from 3,2 per cent in November 1999 to 6,2 per cent in October 2000.

CPIX inflation



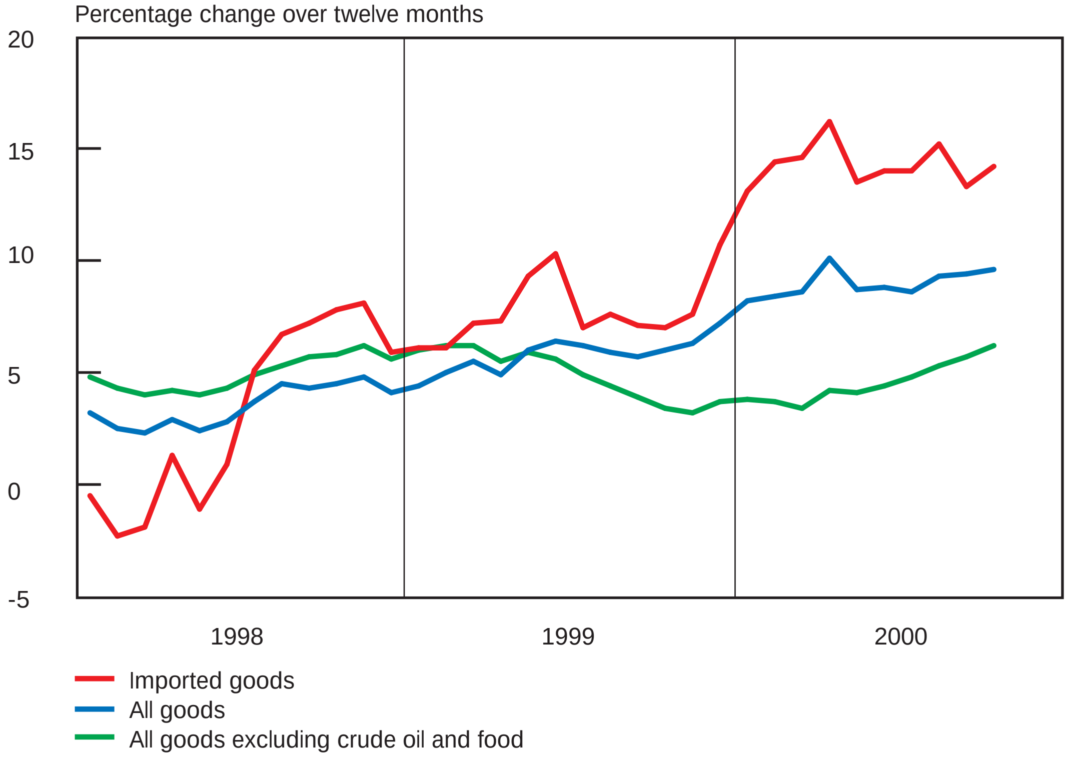
Though some of the rise in the all-goods production price index over the past year reflects the immediate effect of increases in the prices of imported crude oil and food, higher price increases have been registered quite broadly over the other components of the index. This could be interpreted as evidence of secondary price responses to the initial impact of the rising cost of imported crude oil. Even if commodity prices in sectors where import-parity prices apparently prevail, are excluded from the index, there remains evidence of second-round price effects.

Consumer and production price indices

Twelve-month percentage change

Period		CPIX		Production prices	
		All goods and services	Excluding fuel and food	Alll goods	Excluding fuel and food
1999:	Oct	6,5	6,8	6,0	3,4
	Nov	6,9	6,9	6,3	3,2
	Dec	6,8	6,7	7,2	3,7
2000:	Jan	7,0	6,8	8,2	3,8
	Feb	7,1	6,7	8,4	3,7
	Mar	7,4	6,6	8,6	3,4
	Apr	7,8	6,6	10,1	4,2
	May	7,9	6,8	8,7	4,1
	Jun	7,9	6,9	8,8	4,4
	Jul	8,0	6,7	8,6	4,8
	Aug	8,2	6,6	9,3	5,3
	Sep	8,1	6,7	9,4	5,7
	Oct	8,1	7,0	9,6	6,2

Production price inflation



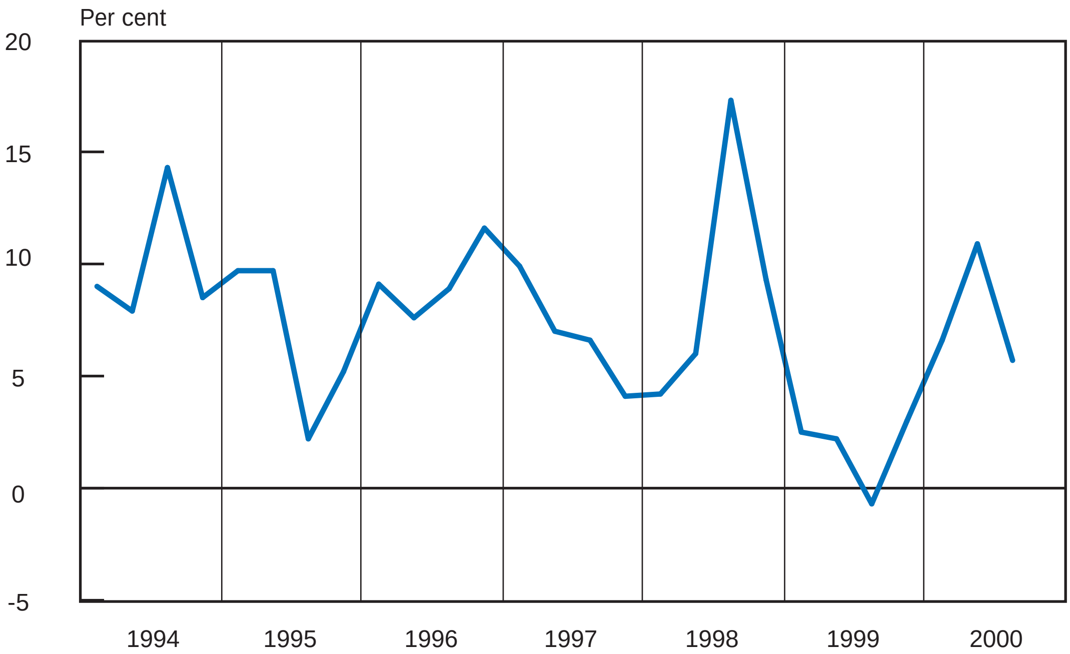
According to the long-established relationship in terms of which changes in production prices foreshadow changes in consumer prices by some two or three months, the higher increases in the production price index could be expected to spill over into higher increases in consumer prices. The faster pace of price increases at the production price level is therefore jeopardising the prospect of a steady downward drift in consumer price inflation.

The rand has depreciated on a weighted basis by around 8 per cent since the beginning of the year to October 2000. The lower exchange rate contributed to sharp increases in the import component of the production price index. The year-on-year increase in the prices of imported goods rose from 10,7 per cent in December 1999 to 16,2 per cent in April 2000 and was still at 14,2 per cent in October. As indicated above, some secondary price responses to these increases were apparent in the first three quarters of 2000. However, the effect of the acceleration in production prices, excluding imported crude oil and food, is likely to be seen more fully in consumer prices in the months ahead.

Quarter-to-quarter changes in consumer and production prices
Annualised percentage change

Period	CPIX	All-goods production price index
1999: 1st qr	6,6	3,7
2nd qr	6,6	7,1
3rd qr	6,8	7,9
4th qr	6,9	6,9
2000: 1st qr	8,7	11,7
2nd qr	9,2	10,1
3rd qr	7,6	7,3

Consumer price inflation



Quarter to quarter at seasonally adjusted and annualised rates

While it is still unclear what the secondary price effects of the depreciation of the rand and the rise in the price of crude oil will be, the marginal change from quarter to quarter in consumer prices and in production prices has tapered off recently. CPIX inflation has fallen back from a seasonally adjusted and annualised rate of 9,2 per cent in the second quarter of 2000 to 7,6 per cent in the third quarter. Even more impressively, the annualised quarter-to-quarter change in the all-goods production price index shrank from 11,7 per cent in the first quarter of 2000 to 7,3 per cent in the third quarter.

Headline inflation, or changes in the overall consumer price index for metropolitan areas only, has also slowed down from a quarter-to-quarter seasonally adjusted and annualised rate of 10,9 per cent in the second quarter of 2000 to 5,7 per cent in the third quarter.

Foreign trade and payments

Current account

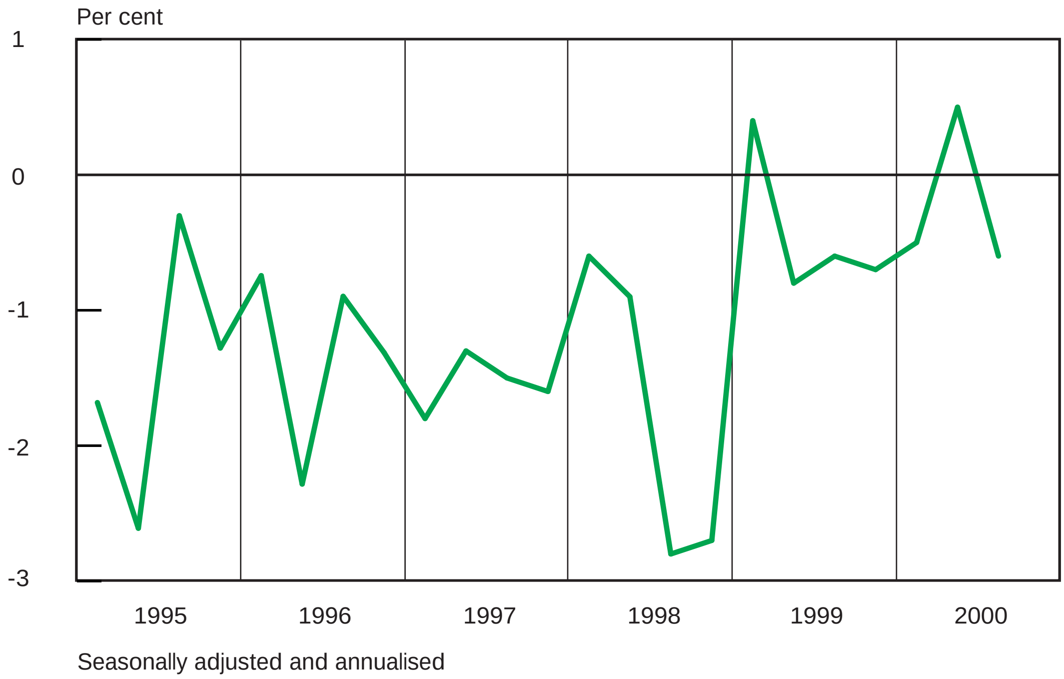
The surplus on the current account of the balance of payments (not seasonally adjusted and annualised), which had increased from less than R0,1 billion in the first quarter of 2000 to R1,4 billion in the second quarter, changed to a deficit of R3,9 billion in the third quarter. A cumulative deficit on the current account of R2,4 billion was therefore recorded in the first three quarters of 2000; in the first two quarters there had still been a surplus of R1,4 billion.

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

	1999				2000		
	1st qr	2nd qr	3rd qr	4th qr	1st qr	2nd qr	3rd qr
Merchandise exports.............	148,3	139,5	150,6	164,0	173,4	185,2	187,5
Net gold exports	24,7	23,8	22,9	25,7	27,0	26,0	28,4
Merchandise imports.............	-142,3	-142,2	-149,1	-164,6	-177,5	-178,7	-190,7
Net service, income and current transfer payments ...	-27,5	-27,1	-29,1	-31,2	-26,9	-27,8	-30,4
Balance on current account..	3,2	-6,0	-4,7	-6,1	-4,0	4,7	-5,2

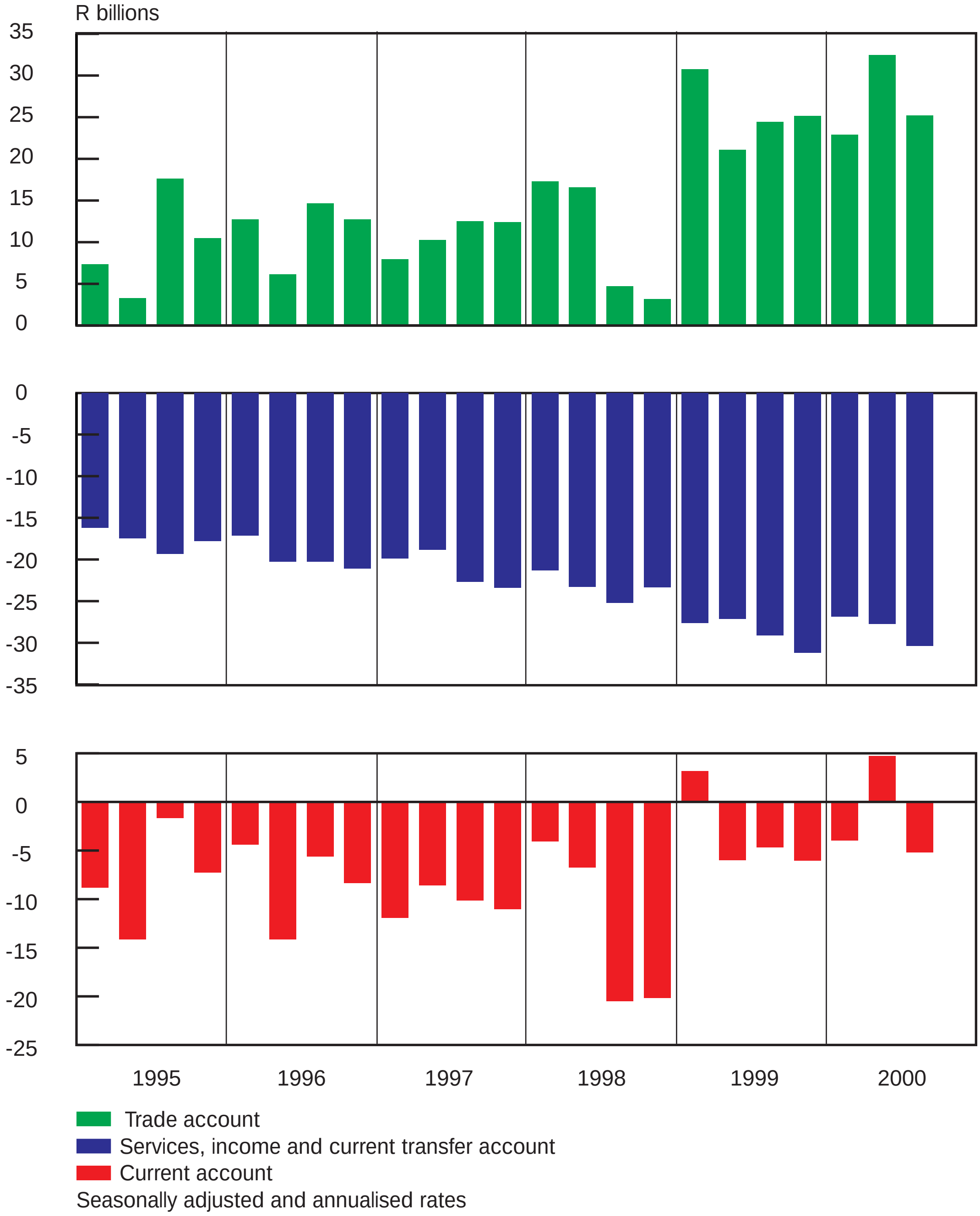
After adjustment for seasonal factors and measured at an annualised rate, the balance on the current account changed from a sizeable surplus of R4,7 billion in the second quarter of 2000 to a deficit of R5,2 billion in the third quarter. Expressed as

Current-account balance as percentage of gross domestic product



a percentage of gross domestic product the deficit was 0,6 per cent in the third quarter. This deterioration in the current-account balance was mainly caused by a noticeable rise in the value of merchandise imports and a decline in income receipts from non-residents. The shortfall of receipts from non-residents for services rendered and income earned, relative to payments to non-residents for such services, therefore widened from the second to the third quarter of 2000.

Balance of payments: Current account



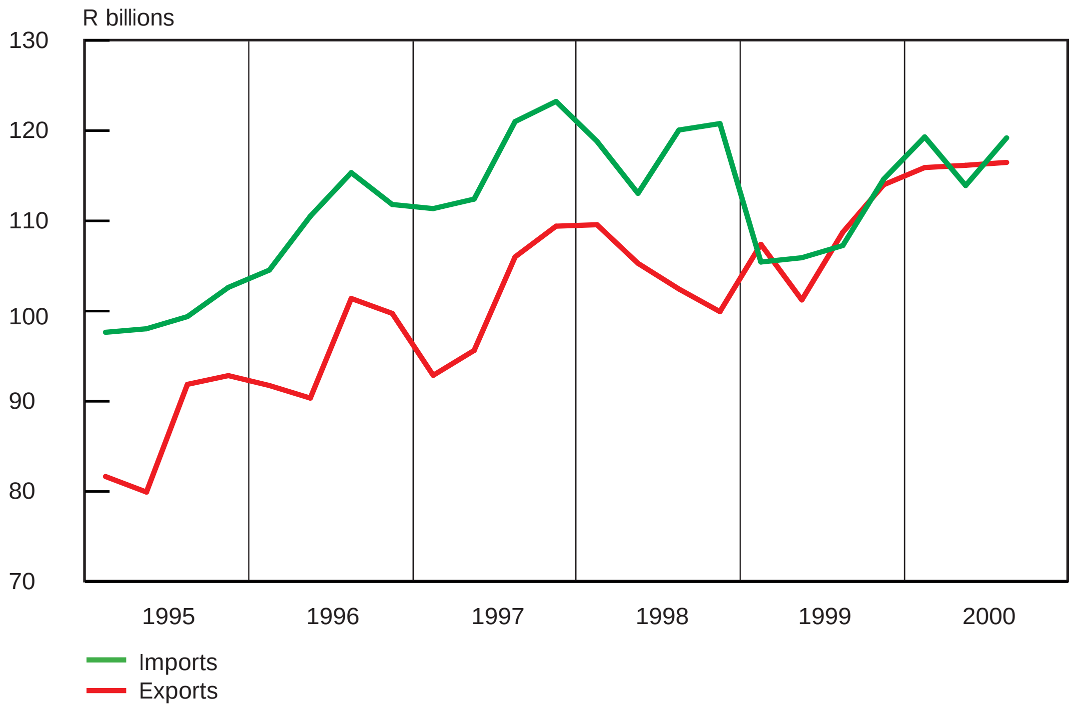
The higher level of domestic expenditure in the third quarter of 2000 raised the value of merchandise imports from a seasonally adjusted and annualised R178,7 billion in the second quarter to R190,7 billion in the third quarter. Imports were also influenced by the decline in the exchange rate of the rand and the expectations of further rises in import prices which encouraged the early importation of intermediate goods and capital equipment in order to avoid paying higher prices later. The physical quantity of merchandise imports consequently rose by 4½ per cent in the third quarter of 2000, raising the import penetration ratio (i.e. the portion of real gross domestic expenditure allocated to imported goods) from 19½ per cent in the second quarter to 20 per cent in the third quarter.

The depreciation of the rand, rising international oil prices and modest production price increases in trading-partner countries lifted the overall price level of imported goods by about 2 per cent in the third quarter.

The overall rise in the value of merchandise imports was observed in all the main sub-categories, namely agriculture, mining and manufactured products. In the mining category, import values were boosted by a sharp increase in the value of petroleum imports, following the recent rises in the international prices of crude oil.

Unlike the merchandise import volumes that increased strongly, the physical quantity of exported goods increased by only ½ per cent from the second quarter of 2000 to the third quarter. Exports of mining products and of manufactured goods increased in the third quarter, the latter probably boosted by the greater competitiveness of domestic producers in export markets.

Real merchandise trade



Although international commodity prices showed little variation from the second to the third quarter of 2000, the average price level of merchandise exports still rose by about 1 per cent owing to some acceleration of production-price inflation in South Africa and in trading-partner countries. These price increases combined with marginally higher export volumes, increased the value of merchandise exports (seasonally adjusted and annualised) from R185,2 billion in the second quarter of 2000 to R187,5 billion in the third quarter.

The annualised value of net gold exports increased from R26,0 billion in the second quarter of 2000 to R28,4 billion in the third quarter. This was primarily the result of an increased quantity of gold exported, which was reinforced by a modest increase in the average realised price of exported gold from R1 939 per fine ounce in the second quarter of 2000 to R1 978 in the third quarter.

Net payments to non-residents for services rendered and income earned, together with current transfers to the rest of the world, increased on a seasonally adjusted and annualised basis from R27,8 billion in the second quarter of 2000 to R30,4 billion in the third quarter. Investment income payments, including dividend payments, increased strongly in the second quarter of 2000 and remained high in the third quarter, whereas the amount of income received from the rest of the world actually declined.

Financial account

A deficit on the current account of the balance of payments arises when domestic economic agents in the public and private sectors spend more than their current income by raising funds in the rest of the world or by reducing foreign assets. The counterpart to a current-account deficit is a surplus on the financial account. Many resident borrowers are likely to borrow through the domestic banking system, causing domestic borrowing from South African banks to exceed domestic deposits placed with banks. The gap then has to be closed by non-resident deposits with domestic banks, or by loans extended by non-resident entities to domestic banks. These transactions are normally recorded as “other capital movements” in the financial account of the balance of payments.

These *other capital movements* into South Africa (i.e. changes in foreign liabilities such as loans, trade finance or bank deposits) registered an inflow of R2,6 billion in the third quarter of 2000. There was a sizeable increase in the deposits of non-resident depositors with South African banks and in short-term borrowing by non-bank financial institutions. The inflows were partly offset by the scheduled repayment of debt in terms of existing arrangements with foreign creditor banks and of other debt guaranteed by foreign governments.

Net financial transactions not related to reserves
R billions

	1999					2000		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Liabilities								
Direct investment	2,5	2,0	2,0	2,6	9,1	4,9	0,7	0,7
Portfolio investment	9,1	26,2	29,9	18,7	83,9	4,6	-2,7	9,1
Other investment	0,1	-3,2	-9,0	-4,8	-16,9	1,8	6,1	2,6
Total liabilities	11,7	25,0	22,9	16,5	76,1	11,3	4,1	12,4
Assets								
Direct investment	-5,8	-3,0	-3,1	0,1	-11,8	-1,0	-5,8	4,1
Portfolio investment	-6,8	-11,0	-6,1	-7,6	-31,5	-11,2	-4,3	-7,0
Other investment	-2,6	-1,3	-3,9	-2,5	-10,3	-3,1	2,4	-1,6
Total assets	-15,2	-15,3	-13,1	-10,0	-53,6	-15,3	-7,7	-4,5
Total financial transactions*	3,4	5,1	6,0	15,0	29,5	2,9	-8,8	11,9

* Including unrecorded transactions

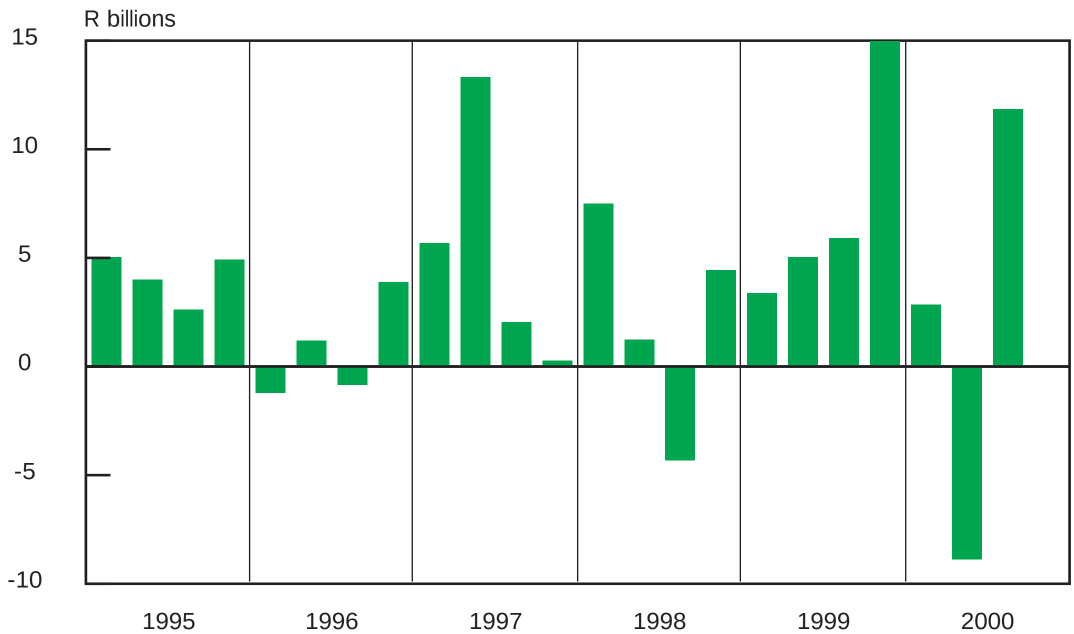
The accumulation of foreign assets by resident organisations through the granting of loans and trade finance to non-resident parties and deposits placed with non-resident financial institutions, totalled R1,6 billion in the third quarter. On a net basis, the *other investment* category registered an inward movement of capital of R1,0 billion in the third quarter of 2000, a significant reduction from the inflow of R8,5 billion in the second quarter.

Cross-border capital flows also include direct investment and portfolio investment, which can either offset or augment the flows through the banking system and other conduits. In the third quarter of 2000, foreign direct investment and portfolio investment clearly strengthened the inflow of other foreign investment.

Foreign direct investment into South Africa recorded an inflow of R0,7 billion in the third quarter of 2000. Prominent among these transactions was the acquisition of a significant additional interest in a domestic insurance company by the non-resident controlling shareholder. At the same time, equity held by South African companies in a United Kingdom property company was sold to a non-resident party, contributing to a decline in the asset values of South African investors in the rest of the world. Such transactions are recorded as inward movements of capital on the financial account: the aggregate inflow in the third quarter of 2000 through this avenue is estimated at R4,1 billion. On a net basis, i.e. offsetting changes in foreign direct investment liabilities against foreign direct investment assets, there was an inflow of *foreign direct investment* capital of R4,8 billion in the third quarter of 2000, reversing completely the outward movement of this class of capital during the second quarter.

Portfolio investment flows over international boundaries are renowned for their volatility. The third quarter of 2000 was no exception to this general pattern when non-resident investors acquired shares of companies listed on the Johannesburg Securities Exchange on a large scale, causing an inflow of portfolio capital into the economy of R9,1 billion, after an outflow of R2,7 billion had been recorded in the second quarter. The listing of an information technology company on the London Stock Exchange during the third quarter of 2000 contributed to the greater interest shown in the domestic equity market by non-resident investors.

Total net capital movements not related to reserves

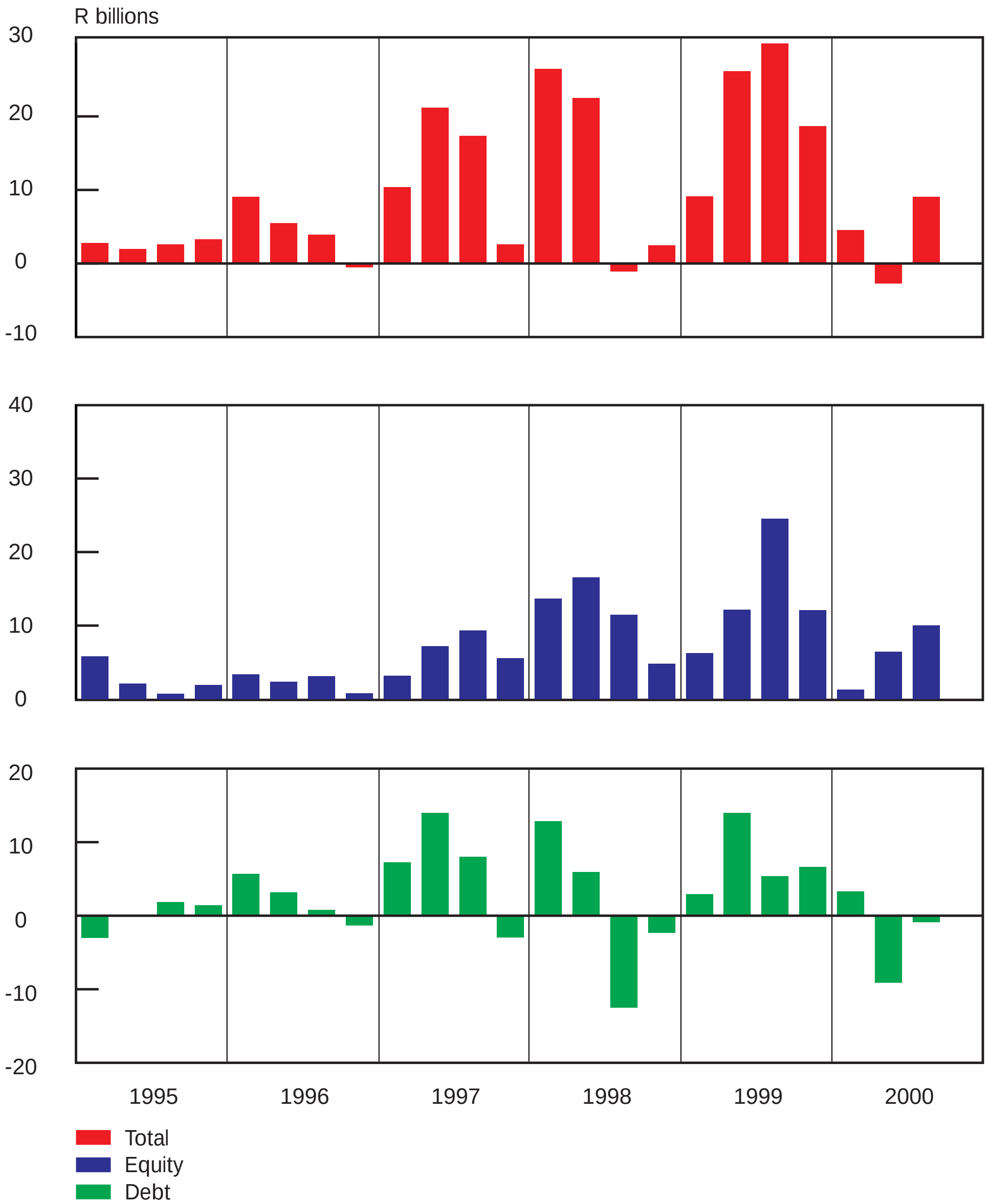


Including capital transfers and unrecorded transactions

On balance, non-residents were net purchasers of bonds and shares totalling R0,6 billion in the first ten months of 2000. This is well down from the net purchases of R55 billion in 1999, indicating a sharp change in foreign investor sentiment towards South Africa during most of 2000.

Outward portfolio investment by South African residents, mainly through the acquisition of foreign equity and debt securities in terms of the asset swap mechanism, continued unabatedly in the third quarter of 2000 at a rate of R7,0 billion, up from R4,3 billion in the second quarter. Nevertheless, the strong inward movement of portfolio investment in the third quarter of 2000 was sufficient to reverse the *net movement of portfolio capital* from an outflow of R7,0 billion in the second quarter to an inflow of R2,1 billion in the third quarter.

Changes in portfolio investment liabilities of South Africa



The strong inward movement of portfolio capital was also instrumental in transforming a deficit of R8,9 billion on the overall financial account into a surplus of R11,8 billion in the third quarter.

Foreign debt

South Africa's total outstanding foreign debt declined by US$1,2 billion in the first half of 2000, from US$38,8 billion at the end of December 1999 to US$37,6 billion at the end of June 2000. This decline in the country's foreign debt can mainly be attributed to a decline in *rand denominated debt* from US$14,9 billion to US$12,8 billion.

Foreign debt of South Africa
US$ billions at end of year

	1996	1997	1998	1999	2000*
Renegotiated debt	**2,7**	**2,5**	**2,3**	**1,5**	**1,1**
Public sector	1,3	1,2	1,2	0,8	0,5
Monetary sector	0,3	0,2	0,1	0,1	0,1
Non-monetary private sector	1,1	1,1	1,0	0,6	0,5
Other foreign-currency denominated debt	**23,3**	**22,7**	**22,6**	**22,4**	**23,7**
Bearer bonds	4,0	4,0	4,4	4,8	5,9
Converted long-term loans	2,1	1,3	0,8	0,4	0,3
Public sector	4,7	4,2	3,5	3,2	3,7
Monetary sector	6,6	7,5	8,8	8,2	7,3
Non-monetary private sector	5,9	5,7	5,1	5,8	6,5
Total foreign-currency denominated debt	**26,0**	**25,2**	**24,9**	**23,9**	**24,8**
Rand-denominated debt	**8,5**	**14,0**	**12,5**	**14,9**	**12,8**
Bonds	6,3	10,4	7,6	9,8	8,0
Other	2,2	3,6	4,9	5,1	4,8
Total foreign debt	**34,5**	**39,2**	**37,4**	**38,8**	**37,6**

* End of June 2000

Debt renegotiated in terms of successive standstill arrangements with foreign creditors had been reduced from US$1,5 billion at the end of December 1999 to US$1,1 billion at the end of June 2000. This debt is expected to be redeemed in full by August 2001.

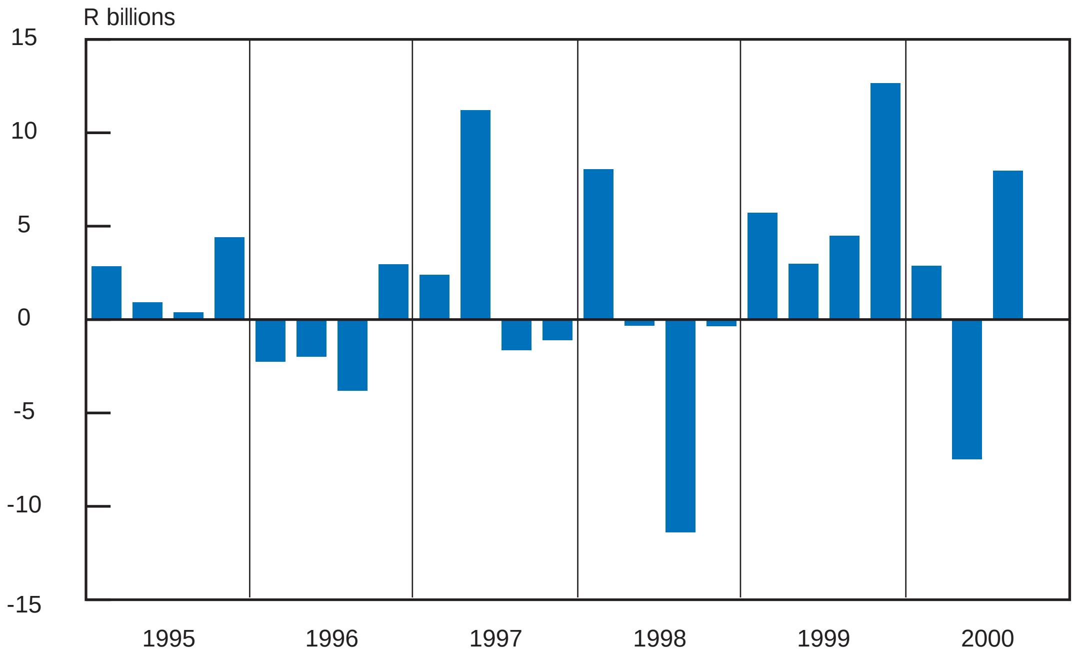
South Africa's *other foreign-currency denominated debt* (i.e. debt that had never been affected by the rescheduling arrangements) increased from US$22,4 billion at the end of December 1999 to US$23,7 billion at the end of June 2000, mainly as a result of net borrowing in foreign capital markets by public-sector entities. The national government issued bonds of US$750 million and ¥30 billion, whereas Telkom issued a €500 million bond in the first half of 2000.

Measured in rands, the country's total foreign debt rose from R239,2 billion at the end of December 1999 to R256,8 billion at the end of June 2000. As a ratio of gross domestic product, total debt rose from 29,9 per cent to 30,3 per cent over the same period.

Foreign reserves

The deficit on the current account of the balance of payments was more than countered by the surplus on the financial account in the third quarter of 2000. South Africa's overall balance of payments position (i.e. the change in the country's international reserves owing to balance of payments transactions) was therefore in surplus to the value of R8,0 billion in the third quarter of 2000, indicating a substantial improvement from the second quarter when a deficit of R7,5 billion had been registered.

Change in net gold and other foreign reserves



Owing to balance-of-payments transactions

Measured in US dollars, the country's gross international reserves improved from US$10,2 billion at the end of June 2000 to US$11,1 billion at the end of September. Expressed in rands, these reserves increased from R69,8 billion to R80,8 billion. A depreciation in the exchange rate of the rand during the third quarter of 2000 contributed meaningfully towards this increase in the rand value of the country's gross international reserves. Import cover (i.e. the value of gross international reserves relative to the value of imports of goods and services) increased from about 14½ weeks' worth of imports at the end of the second quarter of 2000 to 16 weeks at the end of the third quarter.

The gross gold and other foreign reserves of the Reserve Bank increased from R51,1 billion at the end of June 2000 to R54,7 billion at the end of September. In October, these reserves increased further to R56,8 billion. Short-term credit facilities utilised by the Bank increased from R17,8 billion at the end of June 2000 to R18,9 billion at the end of September and R19,6 billion at the end of October. The Bank's non-borrowed reserves accordingly rose from R33,2 billion at the end of June 2000 to R35,8 billion at the end of September and R37,1 billion at the end of October. The depreciation of the rand against the US dollar played a significant part in the recent increase in the value in rand of the Bank's foreign-currency holdings.

The Reserve Bank reduced its net oversold forward position in foreign currency from US$15,1 billion at the end of June 2000 to US$14,6 billion at the end of October. Similarly, the Bank's net open position in foreign currency declined from US$10,1 billion to US$9,6 billion over the same period.

Exchange rates

The exchange rate of the rand came under renewed downward pressure towards the end of the third quarter of 2000. Concern about the possible impact of rising petroleum prices on global growth prospects contributed to the increased volatility in international currency and securities markets as investors became increasingly risk-averse. The rand consequently depreciated by about 6½ per cent against the US dollar from the end of the second quarter of 2000 to the end of the third quarter. On balance, the rand weakened by more than 17 per cent against the US dollar from the end of December 1999 to the end of September 2000.

Exchange rates of the rand
Percentage change

	31 Mar 2000 to 30 June 2000	30 June 2000 to 29 Sep 2000	29 Sep 2000 to 31 Oct 2000	30 Dec 1999 to 31 Oct 2000
Weighted average*............	-2,7	-1,1	-1,2	-8,7
Euro.................................	-3,7	2,0	0,9	-2,7
US dollar..........................	-3,4	-6,3	-3,7	-18,6
British pound	1,7	-3,1	-2,7	-9,1
Japanese yen	-3,2	-4,2	-2,7	-13,2

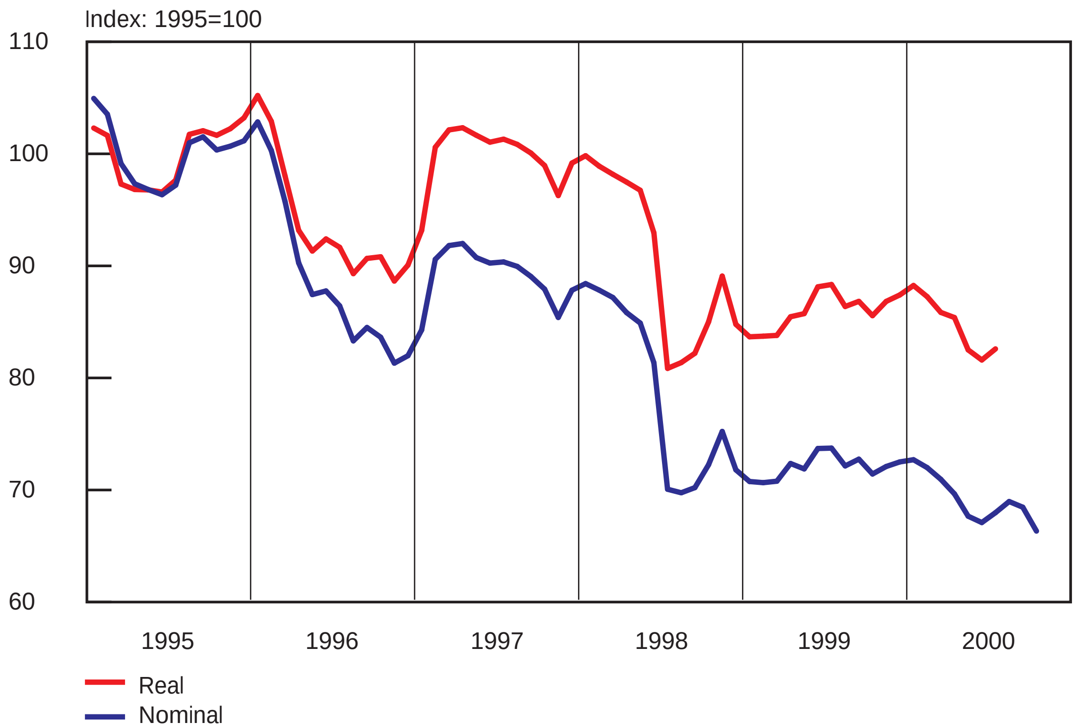
* The weighted exchange-rate index consists of a basket of 14 currencies

Despite having depreciated sharply against the US dollar, the exchange rate of the rand held up well against a basket of currencies of South Africa's major trading-partner countries. Following a decline of 6,6 per cent in the first half of 2000, the *nominal effective exchange rate* of the rand declined by only 1,1 per cent from the end of the second quarter to the end of the third quarter. From the end of June 2000 to the end of September the external value of the rand depreciated by 3,1 per cent against the British pound and by 4,2 per cent against the Japanese yen, but appreciated by 2 per cent against the euro.

Political tension in the Middle East and continued increases in international petroleum prices led to a further deterioration in investor sentiment and increased volatility in currency markets during October 2000. Amid this heightened turbulence, the exchange rate of the rand declined by 1,2 per cent on a weighted basis from the end of September 2000 to the end of October and by 3,7 per cent against the US dollar.

Turnover in the domestic market for foreign currency increased from a daily average of US$8,3 billion in the fourth quarter of 1999 to US$9,8 billion in both the second and third quarters of 2000. Participation by residents in the market subsided from US$4,0 billion in the second quarter of 2000 to US$3,8 billion in the third quarter, whereas transactions by non-resident participants increased from US$5,8 billion to US$6,0 billion.

Effective exchange rates of the rand



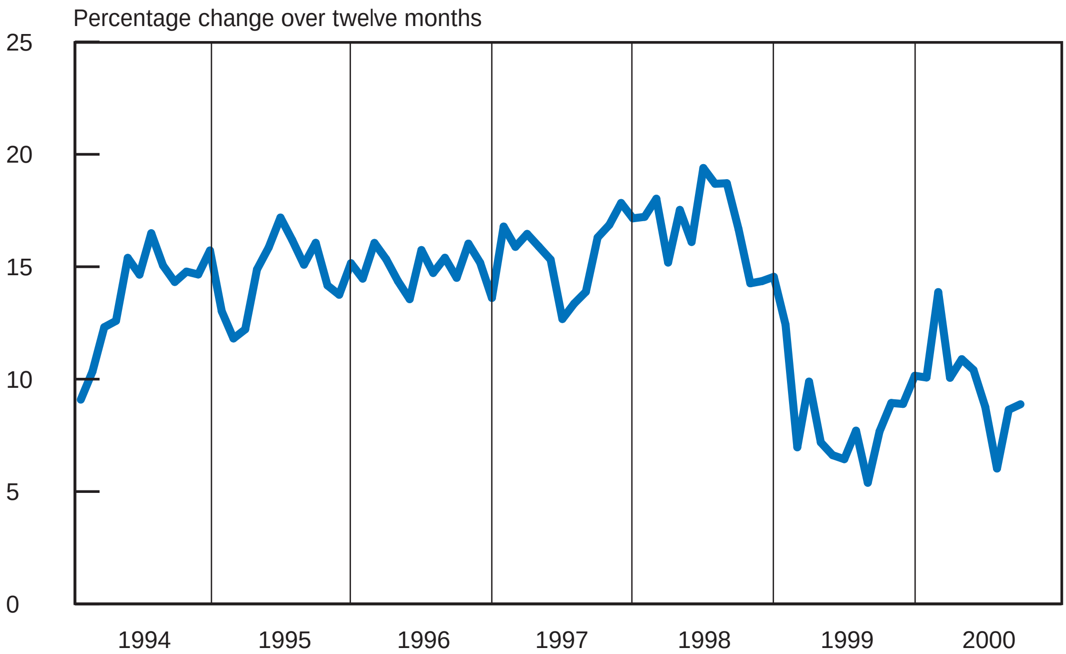
The effective exchange rate of the rand, adjusted for inflation differentials between South Africa and its main trading partners, declined by about 5½ per cent from December 1999 to July 2000. This decline is a fair approximation of the extent of the improved competitiveness of South African producers in foreign markets since the end of 1999.

Monetary developments, interest rates and financial markets

Money supply

Growth in the monetary aggregates over the first half of 2000 was held back by a number of factors. The demand for money for transaction purposes was relatively weak, owing to subdued economic conditions and slow growth in nominal gross domestic production and expenditure. A special factor which further compressed the demand for money in the early months of 2000 was the unwinding of build-ups of notes and coin and demand deposits in the final months of 1999 before the millennium date change.

M3 money supply



A third factor which could have depressed growth in the broad money supply (M3) was that interest rates on bank deposits were well below the interest rates on substitute assets, raising the opportunity cost of holding bank deposits. In response, deposit-holders could have reallocated a greater part of their funds to money-market unit trusts and direct holdings of money and capital-market instruments. The increased activity in the primary capital market where private-sector borrowers and lenders establish contracts directly without the intermediation of the banking system might also have contributed to the relatively slow growth in the consolidated balance sheet of the banking sector.

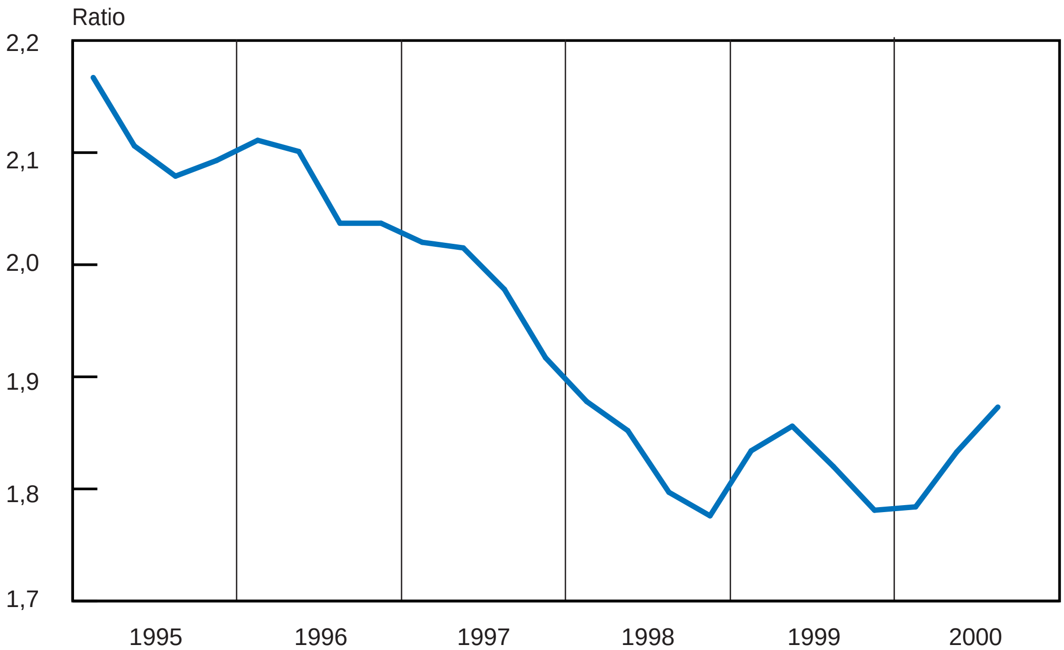
M3 expanded at year-on-year rates of more than 10 per cent in the first five months of 2000, but slowed down to 6,0 per cent in July 2000. The growth in M3 accelerated quite noticeably to 8,9 per cent in September. Measured from quarter to quarter and calculated at an annualised rate, the average value of M3 grew by 10,3 per cent in the first quarter, but declined by 1,6 per cent in the second quarter. Quarter-to-quarter growth in M3 then rebounded to 4,8 per cent in the third quarter.

Twelve-month growth rates in monetary aggregates
Per cent

Period	M1A	M1	M2	M3
2000: Jan	26,0	17,3	13,6	10,1
Feb	29,4	25,3	18,3	13,9
Mar	18,3	17,0	13,8	10,1
Apr	20,8	20,6	13,2	10,9
May	17,6	17,9	12,2	10,4
Jun	12,2	16,9	9,9	8,6
Jul	6,1	11,0	6,5	6,0
Aug	2,0	8,4	7,1	8,6
Sep	7,0	14,1	7,2	8,9

M3 velocity – the ratio of nominal gross domestic product to M3 – increased over the second and third quarter of 2000, consistent with the presumption that a rise in the opportunity cost of holding money deposits would reduce the importance of money holdings in portfolios. Investors evidently restrained flows of funds into M3 deposits in favour of other more attractively priced assets such as interest-bearing debt securities.

Income velocity of M3



Seasonally adjusted

Growth in the narrower monetary aggregates has also subsided noticeably since the beginning of 2000, but there are signs that growth in these aggregates has also been picking up from September. For example, the increase over twelve months in M1 slowed from 25,3 per cent in February 2000 to 8,4 per cent in August, before strengthening to 14,1 per cent in September.

The main counterparts in an accounting sense of the increase in M3 in the third quarter of 2000 were increases in the monetary institutions' claims on the private sector and in their net claims on the government sector. The net foreign assets of the banks rose marginally, but there was a sharp decline in their "net other assets". The decline in "net other assets" was caused by a sharp increase in the banks' derivative liabilities.

The increase in banks' derivative liabilities which had previously been netted off against "other assets", may be netted off against claims on the private sector, without fear of sacrificing any accuracy in the measurement of the M3 money supply. Such a rearrangement of the statistical analysis will, of course, leave unaltered the absolute level of the M3 money supply and changes in this monetary aggregate.

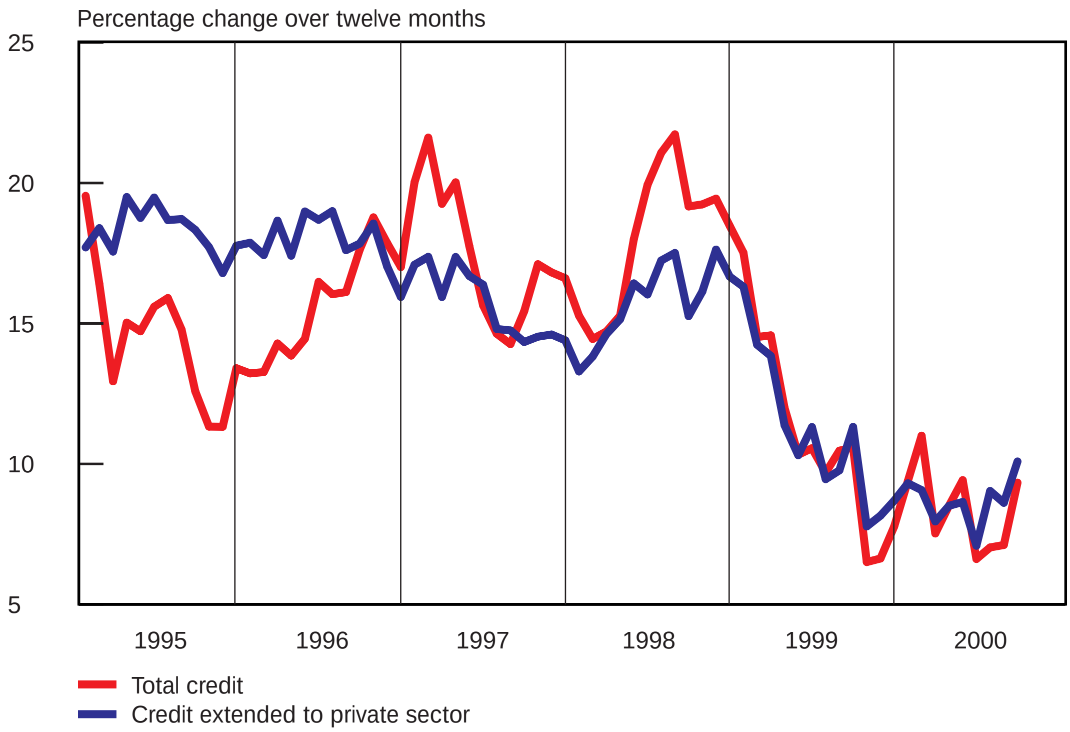
Credit extension

The total indebtedness of the non-bank private business sector, households and the government sector to the banking sector is estimated to have increased by 9,4 per cent from September 1999 to September 2000. In June 2000 the year-on-year growth in total bank credit extension was only 6,6 per cent and in July and August it was close to 7 per cent.

Outside the government sector, indebtedness to banks expanded at a year-on-year rate of 10,2 per cent in September 2000, buoyed by an unusually strong expansion in banks' investments in the non-bank private business sector. In June 2000 the year-on-year growth in bank credit extension was as low as 7,1 per cent.

As mentioned in the previous paragraph, banks' claims on the private sector were swelled by a large expansion in their investments in non-bank private-sector firms.

Credit extended by monetary institutions



Growth in this type of investment accelerated from a rate over twelve months of 11,0 per cent in June 2000 to 63,2 per cent in September. This extraordinary acceleration was almost completely due to a change in the reporting practices of banks.

Prior to the third quarter, the gross values of the banks' asset positions in derivative instruments were netted off against "liabilities in respect of derivative instruments" and were therefore not reported on the banks' consolidated balance sheet. Since July these transactions have been reported on the balance sheet of banks as part of "investments" assets and as "other liabilities in respect of derivative instruments" among the liabilities items.

Derivatives positions are now consolidated with "investments" whereas "liabilities in respect of derivative instruments" are lumped together with "other liabilities", reducing "net other assets" by a corresponding amount. If the increase in "liabilities in respect of derivative instruments" were still to be netted off against credit extension to the private sector, the year-on-year growth rate in bank credit extension to the private sector in September 2000 would be reduced to close to 8,6 per cent, the same as growth in August. In real or inflation-adjusted terms, credit extension to the non-bank private sector rose only marginally in the twelve months to September, after having vacillated between positive and negative growth rates in the course of 2000.

Increase in credit extension to the private sector by type of credit

Year-on-year percentage change

Credit category	2000			
	Jun	Jul	Aug	Sep
Mortgage advances	7,4	8,3	8,6	9,2
Instalment sales	4,8	5,9	6,7	7,1
Leasing finance	4,2	5,1	5,8	5,8
Investment	11,0	37,0	22,3	63,2
Bills discounted.........................	-7,4	-30,0	-15,1	-22,0
Other loans and advances	7,7	9,2	8,5	7,7
Total	7,1	9,0	8,6	10,2

The fairly slow growth in the private sector's bank indebtedness (excluding the banks' investments) resulted partly from the funding arrangements established by borrowers and lenders outside the banking system. Households were also hesitant about using bank credit for financing their purchases of durable goods. In addition, banks have tightened the terms and standards for loans and take particular care in assessing the credit-worthiness of potential clients. Nonetheless, quarter-to-quarter growth in nominal credit extension by banks to the private sector accelerated from an annualised rate of 4,4 per cent in the second quarter of 2000 to 12,9 per cent in the third quarter, reflecting stronger growth in overall economic activity in addition to the one-off effect of the change in reporting practices described in some detail earlier.

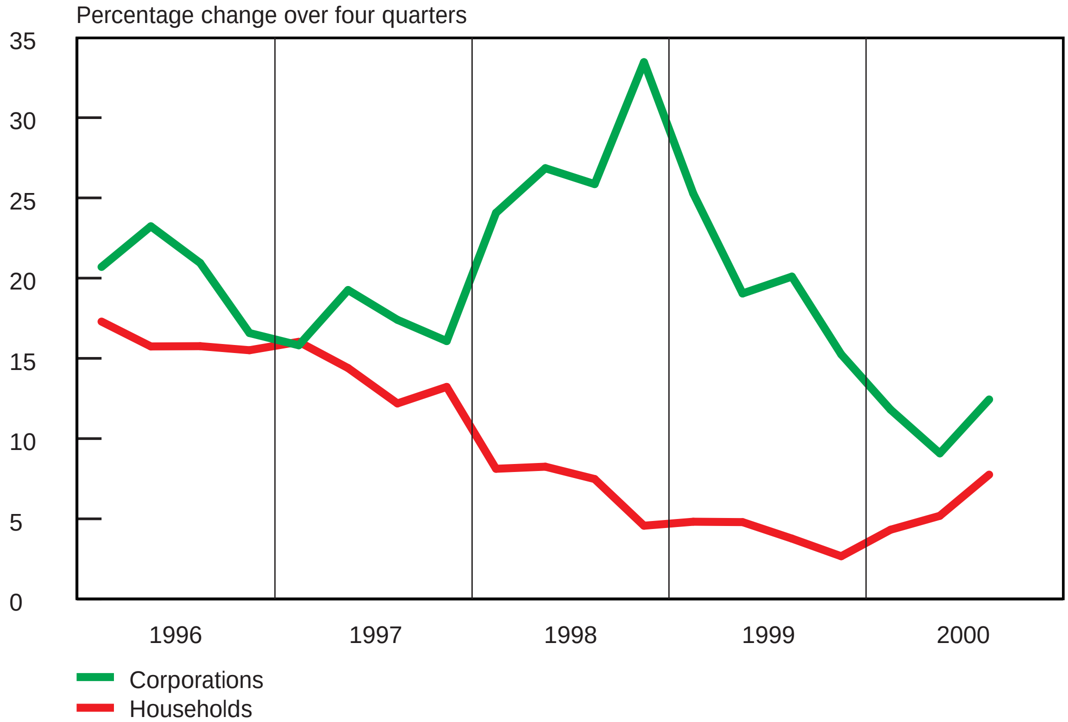
The rate of growth in "other loans and advances" declined from 14,0 per cent in March 2000 to 7,7 per cent in September. The slowdown was most noticeable in credit extended to companies. From about the beginning of 2000, private business demand for funds has increasingly been satisfied through the issuance of share capital and fixed-interest securities, and this could have contributed to the slowdown in credit intermediated through the banking sector. Despite the slower growth in “other loans and advances”, this category remains the largest credit component on banks’ balance sheets with a share in the overall stock of outstanding private-sector credit of 41,2 per cent in September 2000.

Credit categories as percentage of total claims on the domestic private sector

		Investments and bills discounted	Instalment sale and leasing finance	Mortgage advances	Other loans and advances	Total
2000:	Jan	5,3	13,8	38,0	42,9	100,0
	Feb	5,3	13,9	38,2	42,6	100,0
	Mar	5,5	13,9	38,4	42,2	100,0
	Apr	5,8	14,0	38,5	41,7	100,0
	May	5,9	14,0	38,5	41,6	100,0
	Jun	6,1	14,0	38,5	41,4	100,0
	Jul	6,2	13,9	38,5	41,4	100,0
	Aug	6,3	13,7	38,7	41,1	100,0
	Sep	7,0	13,7	38,1	41,2	100,0

During the second and third quarters of 2000, the largest contribution to the growth in bank credit extension to the private sector came from the category *mortgage advances.* The rate of increase over twelve months in mortgage advances picked up somewhat from 5,3 per cent in March 2000 to 9,2 per cent in September. Although these growth rates are still rather modest, their strengthening is consistent with the lower interest rate levels and the recovery in the real-estate market. The share of mortgage advances in the overall stock of outstanding private-sector credit accordingly increased slightly from 38,0 per cent in January 2000 to 38,1 per cent in September.

Credit extended to households and corporations



As was the case with mortgage advances, the types of credit regularly used for the financing of purchases of consumer durables and movable assets by firms, i.e. *instalment sale credit and leasing finance,* have also shown signs of stronger growth in recent months. The percentage change over twelve months in instalment sale credit and leasing finance accelerated from 1,9 per cent in March 2000 to 6,8 per cent in September. New business payouts in respect of instalment sale credit and leasing finance reached a record high of R12,7 billion in the third quarter of 2000.

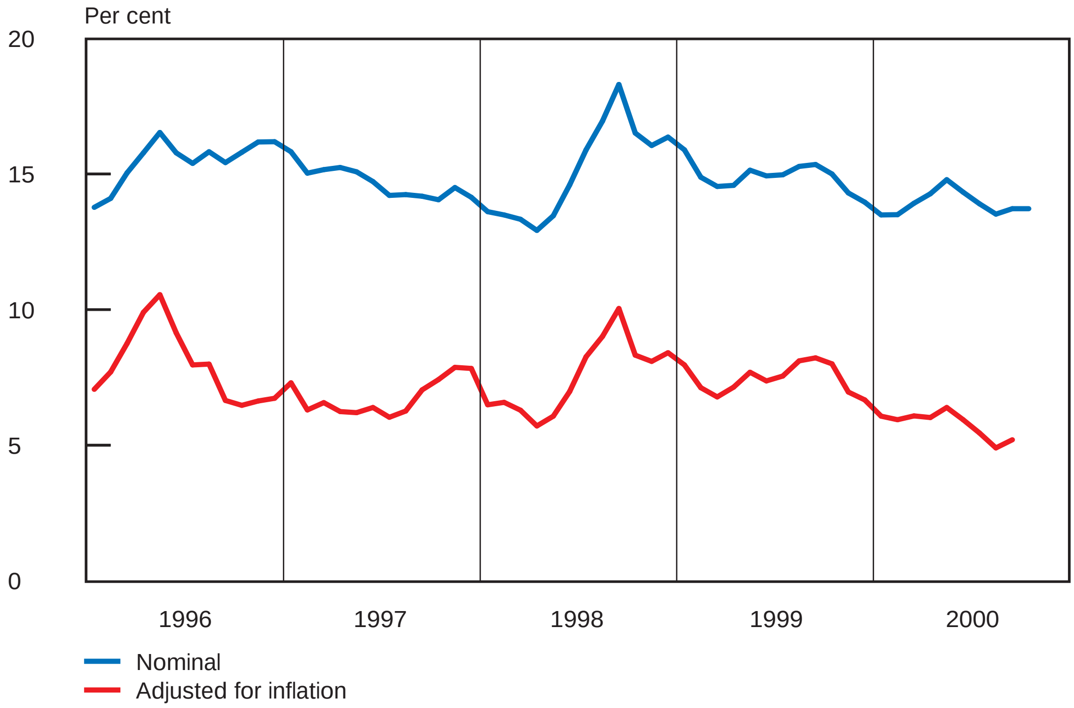
The corporate sector absorbed the greater part of the increase in credit extended to the private sector in the third quarter of 2000. The share of the corporate sector in total credit extension to the private sector consequently increased from 49,8 per cent in the second quarter of 2000 to 50,9 per cent at the end of the third quarter. Conversely, the share of the household sector decreased from 50,2 per cent to 49,1 per cent over the same period.

Yields and interest rates

Bond yields declined from May 2000 to August as the bond market responded positively to an apparent improvement in inflation expectations, some strengthening of the rand against the US dollar and the return of non-resident investors as net purchasers to the domestic bond market. Reflecting the positive sentiment in the market, the *monthly average yield* on long-term government bonds declined from 14,8 per cent in May 2000 to 13,5 per cent in August – i.e. similar to its level in January and February this year.

Perceptions changed again in September 2000 as sentiment in the bond market was affected by events in other parts of sub-Saharan Africa and by fears that second-round responses to rising crude oil prices and the depreciation of the rand would lead to enduringly higher inflation. Long-term bond yields retraced part of their earlier declines and the monthly average yield on long-term government bonds rose to 13,7 per cent in September and October 2000.

Yield on long-term government bonds



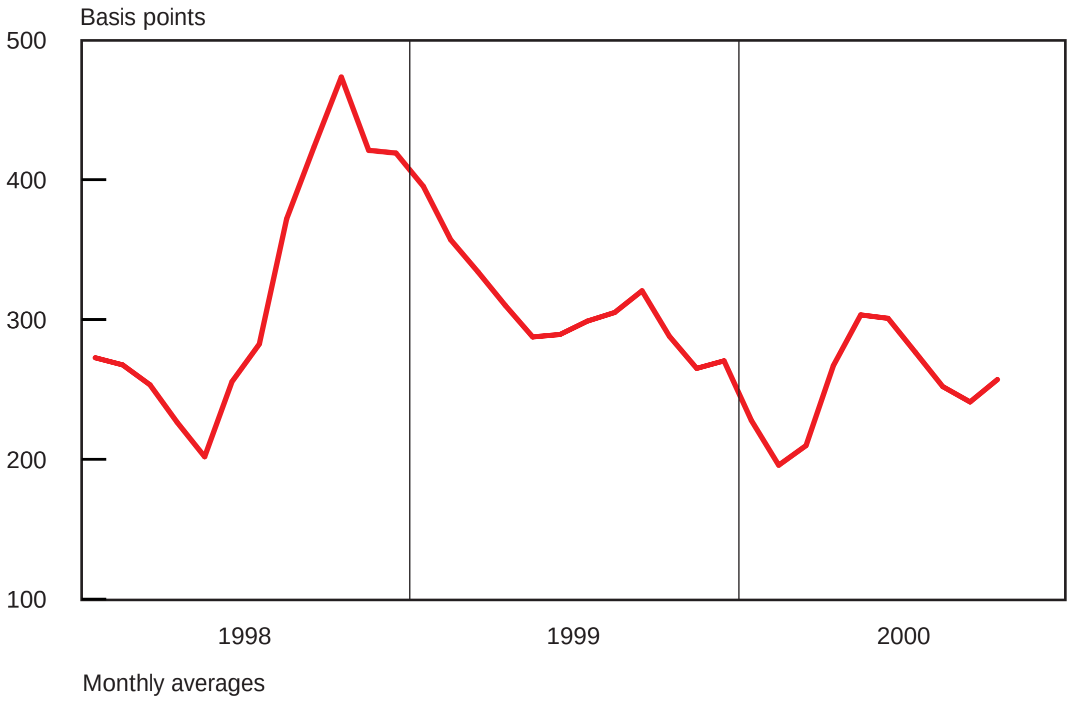
The *daily average yield* on long-term government bonds declined from a high of 15,21 per cent on 10 May 2000 to 13,31 per cent on 14 August – its lowest level since the second week of February. Bouts of profit-taking and the waxing and waning of non-resident interest in the domestic bond market subsequently caused long-term yields to vacillate around a slightly upwardly sloping trend, reaching a high point of 13,89 per cent on 18 October 2000.

The *inflation-adjusted yield on long-term government bonds,* along with the decline in nominal yields, fell from 6,4 per cent in May 2000 to 4,9 per cent in August, when using past price increases as an indicator of expected inflation. When nominal yields moved higher in September 2000 and year-on-year inflation levelled off, the real yield rose to 5,2 per cent.

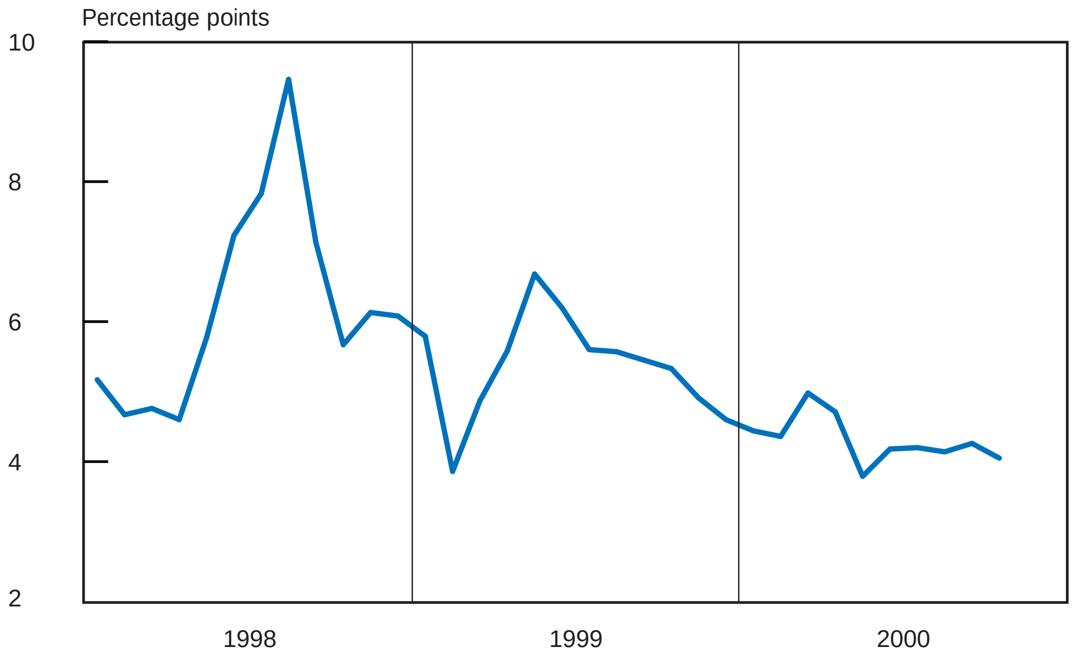
The *differential* between the *real yield* on South African Government bonds and bonds of the United States Federal Government has narrowed noticeably since 1998 when the international financial crisis widened the interest-rate spread on virtually all emerging-market debt. The current margin for South Africa is below the average differential calculated for the period since 1994. The recent narrowing might be seen as an indication of an improvement in South Africa's sovereign and currency risks.

Changes in risk premiums reflect foreign investor's perceptions of risk-reward opportunities in a country. The current level of the *sovereign risk premium*, although well down from its recent high in May 2000, still suggests a fair measure of negative sentiment towards South Africa when compared with the risk assessments of May 1998 and February 2000 (see accompanying graph). The *currency risk premium,* in turn, signalled a fairly sanguine outlook for inflation. According to this measure (calculated as the difference between the nominal yield on South African Government bonds with an outstanding maturity of five years in the domestic market and in the United States market), inflation expectations have levelled off at 4,3 per cent in the first ten months of 2000.

Sovereign risk premium on South African government bonds



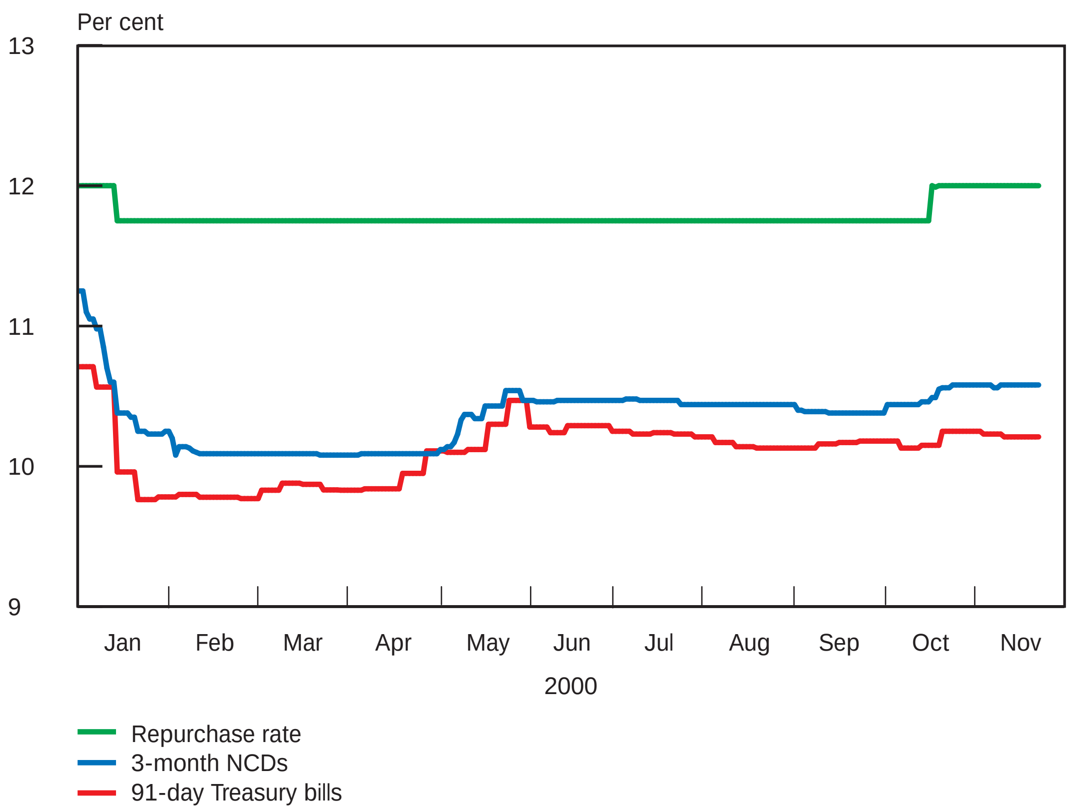
Currency risk premium on South African government bonds



Month-end

The interest rate on repurchase transactions by the Reserve Bank remained unchanged at 11,75 per cent from 14 January 2000 to 16 October. A special meeting of the Reserve Bank's Monetary Policy Committee was convened on 16 October to review the potential second-round price effects of the depreciation in

Money-market interest rates



the exchange rate of the rand and the continued high international oil prices. The committee decided that a marginal tightening in the monetary policy stance would be appropriate as a signal that such second-round price effects would not be accommodated by a monetary easing. The Bank also indicated that it would intervene in the money market in a manner that would ensure a rise in the repurchase rate to 12 per cent on 17 October.

Money-market interest rates moved downwards towards the end of May 2000 when expectations of an increase in official short-term interest rates began to dissipate. Afterwards, money-market interest rates moved broadly parallel with the repurchase rate of the Reserve Bank until the beginning of October 2000 when concerns about the inflation consequences of rising oil prices and the depreciating rand contributed to an upward shift in these rates. When the repurchase rate of the Reserve Bank rose on 17 October most of the other money-market interest rates also moved slightly. Notable exceptions were the interbank call money rate and the prime lending rate, which have been unchanged since January 2000.

The rate on three-month Treasury bills declined from a high point of 10,47 per cent on 1 June 2000 and stood at 10,15 per cent on 13 October, immediately prior to the Reserve Bank's decision to increase the repurchase rate. The Treasury bill rate then increased to 10,25 per cent on 20 October and broadly maintained that level in the ensuing period. The rate on three-month bankers' acceptances rose from 10,16 per cent on 16 October to around 10,31 per cent after the effects of the repurchase rate increases had permeated the market.

The upward sloping *yield curve* has become flatter since May 2000 as bond yields at the short end of the curve have increased somewhat and long-term yields generally declined up to August. On balance, the overall level of the curve declined to a level on 29 August 2000 that was well below the level on 7 January 2000. From the end of August the yield curve, at first, moved higher, indicating among other things that there was still concern about the possibility of higher inflation. After reaching a peak on 18 October 2000, there has been a downward shift in the overall level of the curve.

The private banks have kept their *lending rates* unchanged since January 2000. The *prime lending rate* and the *predominant rate on mortgage loans* have accordingly remained unchanged at 14,5 per cent from February 2000 to October. This has been the lowest level of these rates since June 1988. The *predominant rate on twelve-month fixed deposits* was nevertheless raised in two steps from 8,50 per cent in May 2000 to 9,50 per cent in July, but was lowered to 9,25 per cent in September.

Money market

The relatively small liquidity requirement that prevailed towards the end of 1999 before the millennium date change, increased considerably in the first ten months of 2000, essentially through the liquidity-draining operations of the Reserve Bank. The private banks' daily liquidity requirement rose from a monthly average of R4,9 billion in December 1999 to R7,2 billion in March 2000, afterwards fluctuating between R8,4 billion and R9,4 billion in the months to October.

The relative stability in the daily cash requirements of the private banks during the second and third quarters of 2000 was also brought about mainly by Reserve Bank interventions in the money market. Over this period, liquidity was injected into the money market through steady increases in the Bank's net foreign asset holdings and through the deficits realised by the Bank in its forward foreign-currency transactions.

In order to counter the continuous additions to money market liquidity, the Reserve Bank stepped up the outstanding amount of reverse-repurchase transactions in government securities (with private-sector parties) from R4 billion at the end of September 2000 to R5 billion at the end of October. More important, the outstanding amounts of foreign-currency swap arrangements with private-sector parties were increased from R9,3 billion at the end of April 2000 to R15,1 billion at the end of October. In addition, a relatively small increase in the amount of notes and coin in circulation outside the Reserve Bank, which tightened liquidity conditions in the market somewhat, aided the Bank in its efforts to counteract undue increases in the banks' liquidity position.

The Reserve Bank has continuously accommodated in full the liquidity needs of the private banks. In terms of the Bank's signalling mechanism, this was understood by market participants as an indication that the interest rate on repurchase transactions at the daily auction should remain unchanged.

On 16 October 2000 the Bank made known that in its view the repurchase rate should move higher by 25 basis points to 12 per cent as a clear indication that any future monetary accommodation of inflation pressures would not be tolerated. On 17 October 2000 this announcement was reinforced by an underprovision in the daily liquidity requirement to the amount of R50 million. The repurchase rate responded in the desired manner and full provision of the banks' daily liquidity needs resumed on 18 October.

Bond market

Funding by *public-sector borrowers* through the net issuance of fixed-interest securities in the *domestic primary bond market* declined by 15 per cent from R8,4 billion in the first six months of fiscal 1999/2000 to R7,1 billion in the first half of the current fiscal year. The *national government's* demand for loanable funds in the *domestic primary bond market* shrank by 50 per cent from the first half of fiscal 1999/2000 to the corresponding period of the current fiscal year. Government satisfied the major part of its borrowing needs through the issuance of short-term Treasury bills. In total, a net amount of R12,4 billion in Treasury bills was issued in the April-September 2000 period, compared with a net amount of R3,8 billion in the corresponding period of the previous year.

"Stripped bonds" were introduced by a private-sector issuer in September 2000. These involve the acquisition of government bonds and the separate listing of their interest and principal components as new financial instruments. The *outstanding nominal value of private-sector loan stock* listed on the Bond Exchange of South Africa (excluding "stripped" bonds) increased strongly from R3,8 billion in December 1999 to R8,5 billion in September 2000. By contrast, private-sector companies listed on the Johannesburg Securities Exchange (JSE) made no *rights issues of preference shares and debentures* in the first nine months of 2000.

National government and other domestic borrowers successfully accessed the *international primary bond markets* in the first ten months of 2000. South African *public-sector borrowers* raised R10,1 billion through the issuance of *foreign-currency* *denominated bonds* in the first ten months of 2000, compared with R9,5 billion in the corresponding period of the previous year. The *national government* raised R4,9 billion in March and R2 billion in June. *Other domestic public-sector borrowers* raised R3,2 billion in March.

Exchange-rate concerns and the associated deterioration of foreign investor sentiment towards rand-denominated investments had a dampening effect on funding through *rand-denominated bonds* in the *eurobond market.* As a consequence South African public-sector borrowers have steered clear of this market since March 1999. Net redemptions of euro-rand bonds to the value of R1,6 billion were made by resident and non-resident borrowers in the first ten months of 2000 – net issues to the value of R3,6 billion had been made in 1999.

Trading activity on the Bond Exchange of South Africa in the first ten months of 2000 was boosted by the volatility in bond prices and by the market's susceptibility to exchange-rate volatility and non-economic events in sub-Saharan Africa. Turnover in the *secondary bond market* rose sharply and the value of bonds traded, at R8,9 trillion in the first ten months of 2000, surpassed the annual turnover of R8,8 trillion in 1999. However, the quarterly value of bonds traded decreased somewhat from a record high of R2,8 trillion in the first quarter of 2000 and levelled off at R2,6 trillion in each of the second and third quarters. Limited trading in the newly created stripped bonds started towards the end of September 2000.

The sudden deterioration in foreign investor sentiment early in 2000 led to substantial net sales of bonds in the domestic market by non-resident investors. *Non-residents'* net purchases of bonds in the *secondary bond market* of R14,3 billion in 1999 as a whole turned into net sales of R17,2 billion in the first ten months of 2000. Net outright sales by non-resident investors totalled R9,1 billion in the first ten months of 2000 and sales through repurchase transactions R8,1 billion. This indicated negative sentiment among speculative and longer-term investors alike.

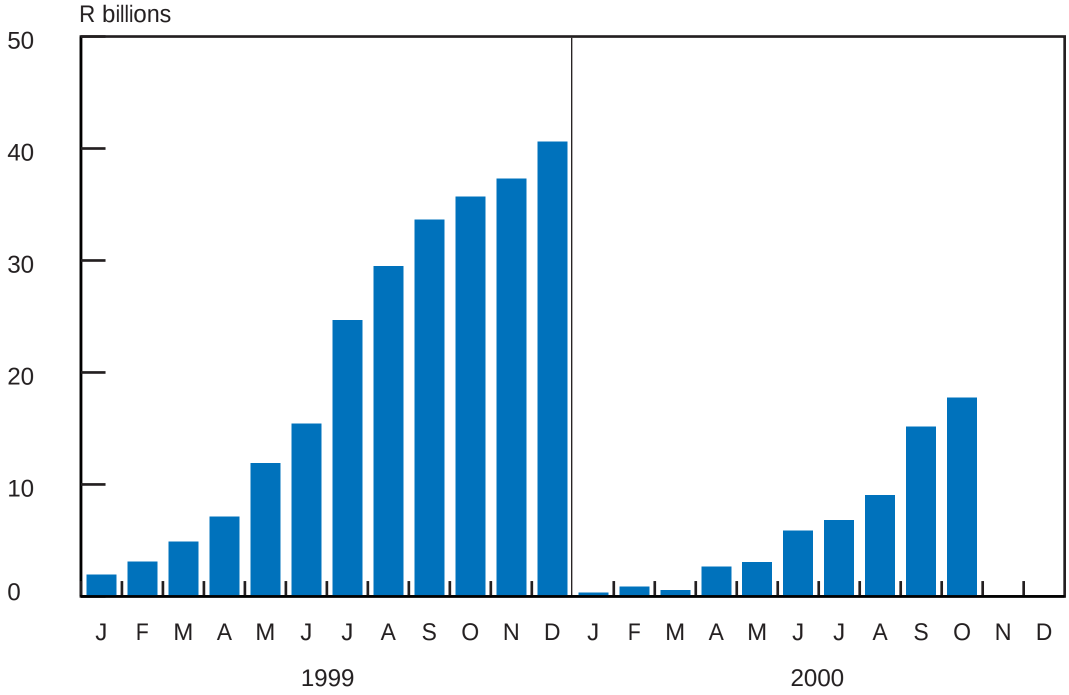
Share market

The *number of listed private-sector companies* on the JSE declined from 668 in December 1999 to 642 in September 2000, but the total value of *equity capital* raised in the *primary share market* by listed companies rose from R39,3 billion in the whole of 1999 to R61,6 billion in the first nine months of 2000. Included in the statistics for the first nine months of 2000 were shares issued for the *acquisition of unlisted assets* to the value of R36,8 billion; only R16,5 billion had been raised in this manner in the corresponding period of 1999.

Turnover in the *secondary share market* was brisk in the first ten months of 2000 as heightened price volatility fuelled trading activity. The value of shares traded in the first ten months of 2000, at R447 billion, was 21 per cent more than in the corresponding period of 1999. The quarterly value of shares traded rose to an all-time high of R155 billion in the first quarter of 2000 but receded to about R125 billion in each of the second and third quarters. *Market liquidity,* measured as annualised turnover relative to market capitalisation, accordingly peaked at 41 per cent in the first quarter of 2000 but fell back to 32 per cent in the third quarter.

Foreign investors maintained a bullish outlook on South African shares and domestic economic prospects, as reflected by their net purchases of R17,8 billion worth of shares in the first ten months of 2000. Nevertheless, foreign investor sentiment has deteriorated since 1999 when net purchases of shares by non-resident investors totalled R40,6 billion. The quarterly value of net purchases by non-residents increased from just R0,6 billion in the first quarter of 2000 to R5,3 billion and R9,3 billion in the second and third quarters respectively as sentiment was buoyed by, *inter alia*, the rise in domestic share prices. In October 2000, non-residents lowered their net acquisition of shares to R2,6 billion along with the correction in share prices.

Annual cumulative net purchases of shares by non-residents



The *monthly average price level of all classes of shares* declined, on balance, by 8,6 per cent from an all-time high in January 2000 to October. During this period a decrease of 16,3 per cent in share prices from January to May was followed by an increase of 13,6 per cent from May to September, but share prices declined again by 3,8 per cent from September to October. The *daily* closing level of the *all-share price index* declined by 10 per cent from a most recent high on 4 September 2000 to 18 October before firming by about 4,1 per cent at the end of October.

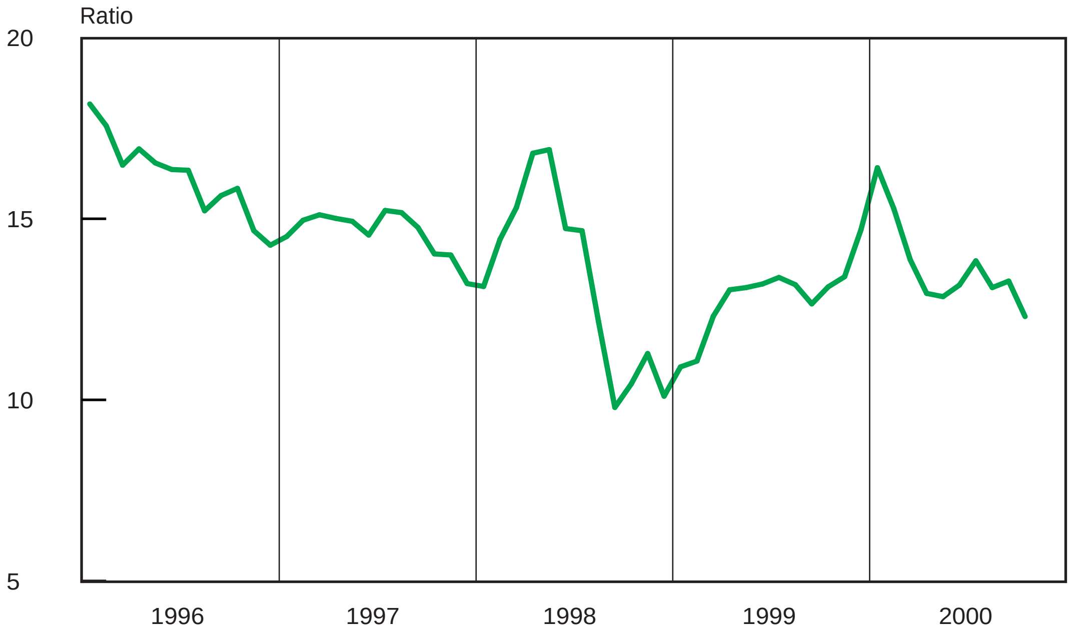
A number of factors could be cited as potential contributors to the equity market weakness from early September 2000. These include

- the weakness of the rand against the United States dollar;
- the sustained high price of petroleum, giving rise to inflation concerns;
- the increase in domestic interest rates and yields which impacted negatively on earnings expectations and share valuations;
- the volatility of share prices in the major international markets; and
- escalating tension in the Middle East.

The *major indices* on the JSE moved broadly in unison over the past ten months. The broad advances from May to September were led by the rebound in the *information technology sector* and the *mining and non-mining resources sectors* which gained favour on account of the weaker rand and firmer commodity prices. The performance of the "blue chip" companies, included in the *Alsi Top 40 Index,* also helped to push the market higher as these indices outperformed the all-share index. The smaller increases of share prices in the *financial and industrial sectors* reflected continued qualms about the future direction of interest rates and the sustainability of the domestic economic recovery.

The volatility in *price-earnings ratios* mostly reflected changes in corporate earnings expectations. The price-earnings ratio for all classes of shares, excluding gold-mining shares, fell from 16,4 in January 2000 to 12,9 in May and 12,3 in October. Mirroring the movements in the price-earnings ratio, the *earnings yield* of the non-gold sector in recent months rose from 7,2 per cent in July to 8,1 per cent in October. The *dividend yield* on all classes of shares increased from 1,9 per cent in January 2000 to 2,6 per cent in May along with the decline in share prices and then remained broadly unchanged at an average rate of 2,4 per cent from July 2000 to October.

Price-earnings ratio: All shares



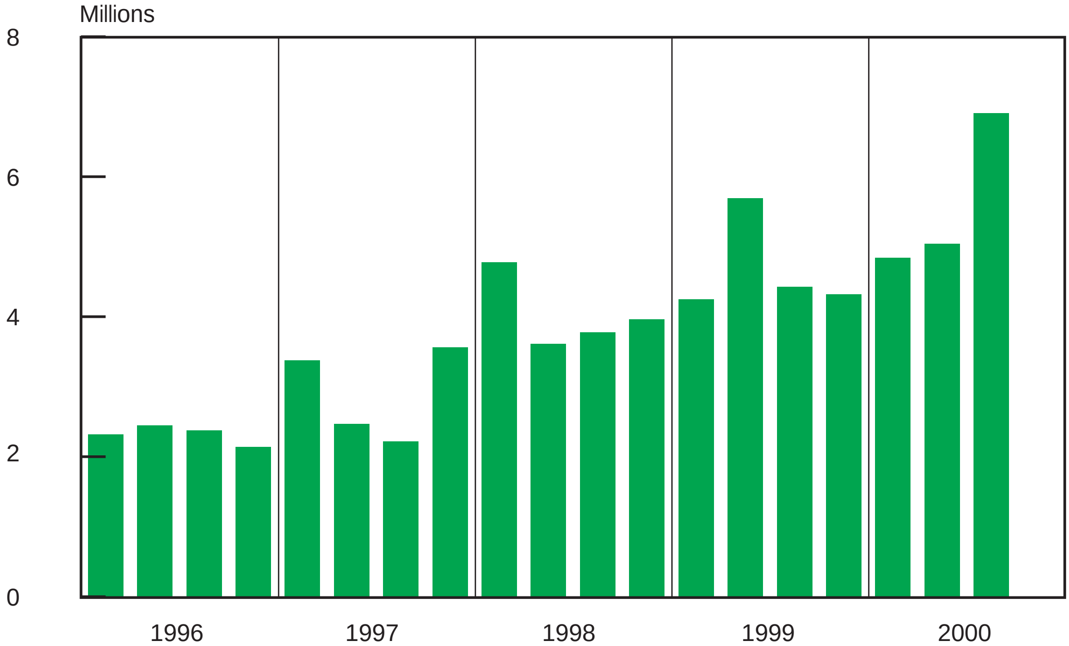
Excluding gold-mining shares

Market for derivatives

Heightened price volatility boosted trading in equity and commodity contracts in the *formal derivatives market* in the first ten months of 2000. Market participants are increasingly making use of derivatives to reduce their risk exposures in the underlying securities markets.

The combined number of *futures and options on futures contracts* traded on the *South African Futures Exchange* – almost exclusively equity-related contracts – rose by 20 per cent in the first ten months of 2000 compared with the corresponding period of 1999. The introduction of a further 34 *individual equity futures and options on futures contracts* in August 2000 expanded the range of equity-related derivative products to full coverage of all the underlying shares included in the Alsi 40 and Indi 25 indices of the JSE. This contributed to a quarterly all-time high of 6,9 million contracts traded in the third quarter of 2000.

Derivatives market



Number of futures and options on futures contracts traded

By May 2000, the number of *warrants* traded on the JSE since the beginning of the year had already surpassed the number of warrants traded in 1999 as a whole. Warrants of 2,77 times more than the whole of 1999 were traded up to October 2000. The number of warrants traded increased from a quarterly average of 1,9 billion in the first half of 2000 to an all-time high of 2,7 billion in the third quarter.

The number of *commodity futures contracts and options on such contracts* traded in the Agricultural Market Division of the South African Futures Exchange in the first ten months of 2000 was 48 per cent more than the number traded in the whole of 1999. These contracts increased from a quarterly average of 62 500 in 1999 to a quarterly all-time high of 124 600 in the third quarter of 2000, boosted by the volatility in the spot price of white maize.

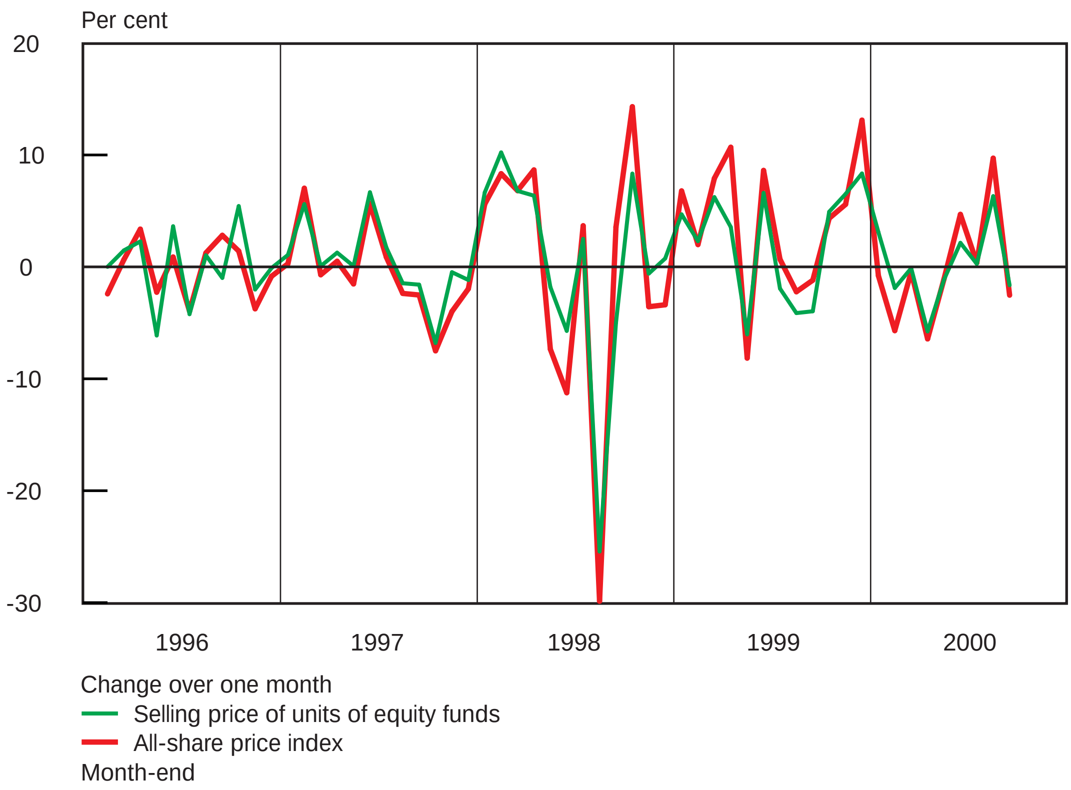
Real-estate market

The *value* of real-estate transactions increased from a low of R5,9 billion in the first quarter of 1999 to R9,9 billion in the first quarter of 2000, essentially in response to the sharp decline in mortgage bond rates from the very high levels of 1998. Turnover in the *real-estate market* then levelled off at this relatively high level. The value of real-estate transactions amounted to R9,8 billion in the second quarter of 2000 and R9,9 billion in the third quarter. The *average nominal value* per real-estate transaction increased by 8,4 per cent in the first nine months of 2000 relative to its level in the first nine months of 1999; i.e. an increase marginally higher than the current rate of CPIX inflation.

Non-bank financial intermediaries

Asset price volatility and uncertainty in the financial markets showed up in increased volatility in the *net acquisition of units in unit trusts* as investors closely matched their purchases and sales of units with the movements in share prices. The *net sales of units* by unit trusts amounted to a quarterly average of about R8,5 billion from the fourth quarter of 1998 to the second quarter of 1999. These net sales fell to R3,8 billion in the third quarter of 1999, but increased over three consecutive quarters to R4,9 billion in the second quarter of 2000 before falling back to net repurchases of R0,1 billion in the third quarter of 2000.

Unit trust price movements



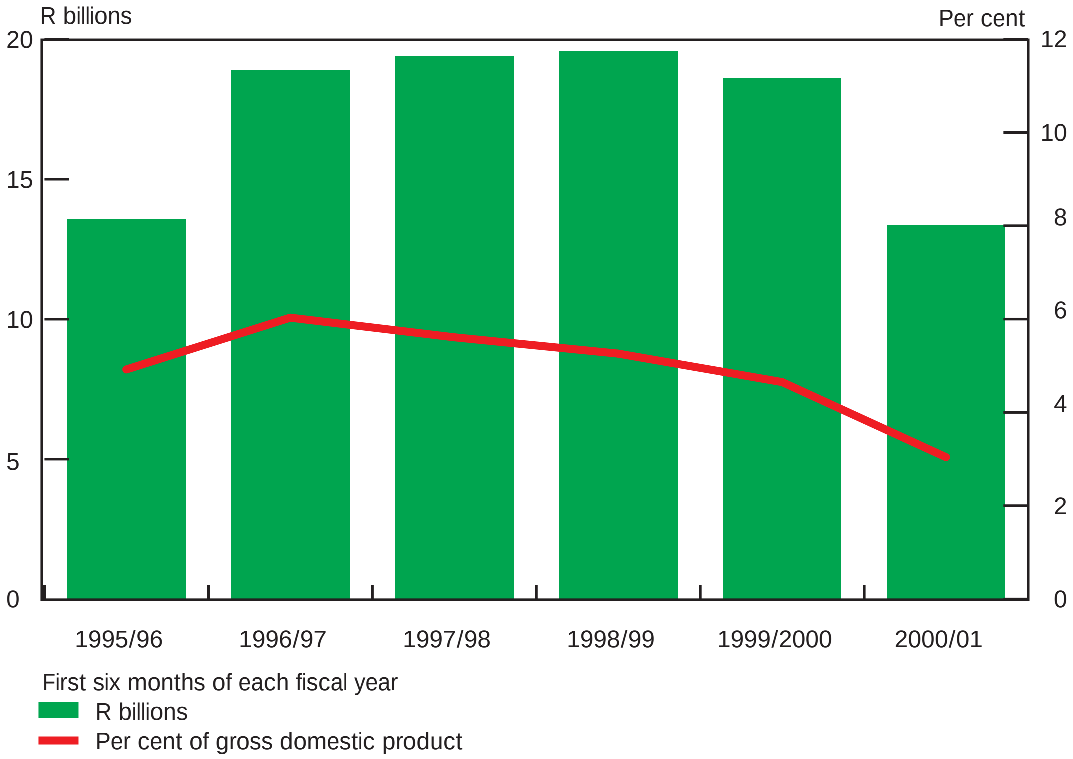
The index of the *selling price of units of equity funds* tracked the overall trend in the all-share price index of the JSE relatively closely, as indicated by the difference in the growth over one month in these indices. However, the differential tends to widen somewhat during periods of heightened market volatility.

Public finance

Non-financial public-sector borrowing requirement

The borrowing requirement of the non-financial public sector (i.e. the deficit before borrowing and debt repayment of the consolidated central government, provincial governments, local authorities and non-financial public enterprises and corporations) amounted to R5,6 billion in the July-September quarter of 2000 – R2,1 billion less than in the corresponding quarter of 1999. This brought the non-financial public-sector borrowing requirement for the first half of fiscal 2000/01 to R13,4 billion, which is R5,2 billion less than in the same period of the previous fiscal year. As a ratio of gross domestic product, the non-financial public-sector borrowing requirement declined from 4,7 per cent in the first half of fiscal 1999/2000 to 3,0 per cent in the first half of fiscal 2000/01. This ratio was substantially lower than the average ratio of 5,3 per cent observed in the first half of the preceding five fiscal years.

Non-financial public-sector borrowing requirement



The improvement in the borrowing requirement of the non-financial public sector can partly be ascribed to an improvement in the financial balances of public-sector business enterprises. The financial results of these businesses indicate a reduction in their consolidated financial deficits from R1,2 billion in the first half of fiscal 1999/2000 to R0,2 billion in the first half of fiscal 2000/01.

The borrowing requirement of *general government* amounted to R5,5 billion in the July-September quarter, bringing the borrowing requirement for the first six months of fiscal 2000/01 to R13,2 billion. The improvement in the borrowing requirement of general government is mainly due to improvements in the finances of provincial governments.

The finances of the provincial governments turned around from a deficit of R0,8 billion in the first six months of fiscal 1999/2000 to a surplus of R5,1 billion in the first six months of fiscal 2000/01. This surplus arose mainly as a result of an increase of 9,6 per cent in the equitable share of national government revenue transferred to provincial governments. This surplus was primarily used for the reduction of outstanding liabilities. As a consequence, the provincial governments could increase their deposits with private banks from R4,4 billion at the end of March 2000 to R5,7 billion at the end of September 2000. Their bank indebtedness nevertheless increased somewhat from R1,4 billion to R2,0 billion over the same period.

The financial position of local governments deteriorated slightly during the first half of fiscal 2000/01. The reduction in the balance of the consolidated central government occurred mainly at the level of national government.

National government finance

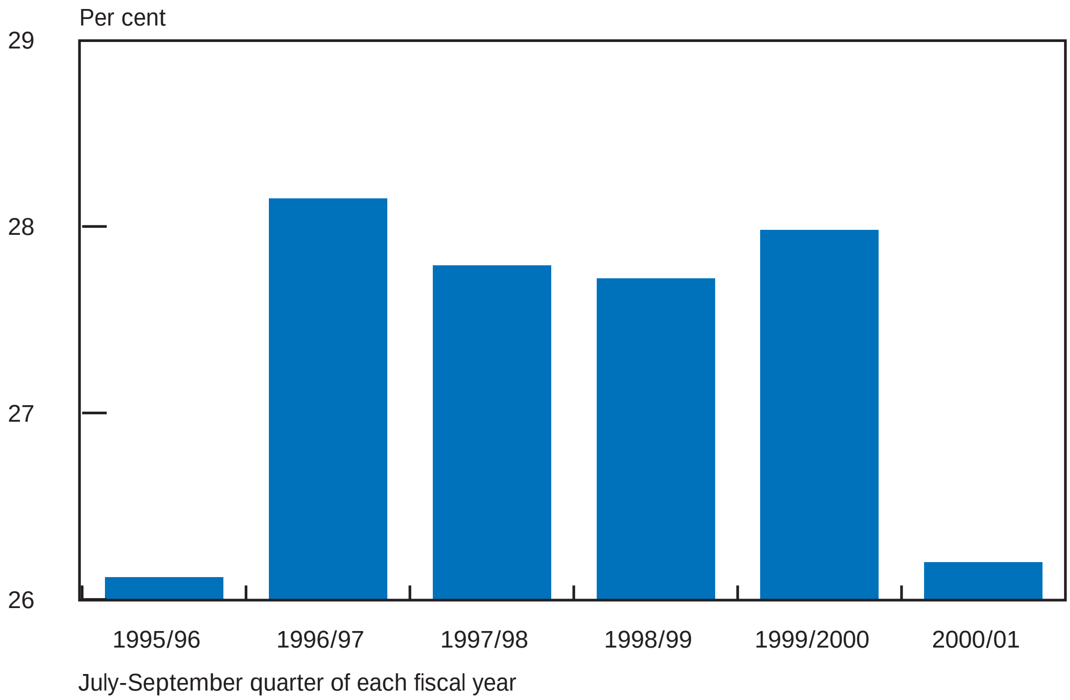
The Public Finance Management Act came into effect on 1 April 2000. In accordance with Section 32 of this Act, the National Treasury now publishes a Statement of National Revenue, Expenditure and Borrowing within 30 days after the end of each month. This statement replaces the monthly statement of Exchequer issues and receipts, previously published in the *Government Gazette.* A cash-flow statement is also provided as part of the new information set. Cash-book transactions recorded in the general ledgers of the National Government serve as the basis for the new reporting structure, whereas the previous structure relied on bank statement transactions. Data reflected in the Statement of National Revenue, Expenditure and Borrowing are therefore not strictly comparable with data for the period prior to June 2000. The historical data based on bank statement transactions were adjusted in accordance with the methodology followed in the compilation of the new cash-flow statement in order to obtain estimates of spending and revenue flows that are consistent over time.

National government expenditure in the July-September quarter of 2000 amounted to R59,2 billion, bringing accumulated expenditure to R114,8 billion in the first half of fiscal 2000/01. Expenditure in the first half of fiscal 2000/01 accounted for 49,2 per cent of the originally budgeted expenditure of R233,5 billion for the full year. National government expenditure as a ratio of gross domestic product amounted to 26,2 per cent in the July-September quarter of 2000, slightly lower than the ratio of 28,0 per cent in the corresponding quarter of the previous fiscal year.

During the first half of the fiscal year, the equitable share of national government revenue transferred to provincial governments amounted to R48,0 billion and interest paid on government debt to R22,8 billion. Only R2,0 billion of the R7,7 billion originally budgeted for capital projects for the full year was spent in the first six months of fiscal 2000/01.

After allowing for cash-flow adjustments (i.e. transactions recorded in the government ledgers but not yet cleared in the banking system, and late departmental requests) government expenditure amounted to R116,4 billion, representing an increase of 8,5 per cent in the first half of fiscal 2000/01 compared with the corresponding period of the previous fiscal year. This rate of increase was slightly lower

National government expenditure as a ratio of gross domestic product



than the average rate of increase of 9,1 per cent in the corresponding period of the preceding five fiscal years.

National government revenue in the July-September quarter of 2000 amounted to R51,7 billion which brought the revenue for the first half of fiscal 2000/01 to R96,4 billion or 45,8 per cent of the budgeted revenue of R210,4 billion for the fiscal year as a whole. Taxes on income and profits remained the principal source of revenue, contributing R54,4 billion to total revenue in this period. The domestic taxes collected on goods and services (including value-added tax and excise duties) contributed a further R36,8 billion to the Revenue Fund.

National government revenue, adjusted for cash flows stemming from time delays between the occurrence and the recording of transactions, amounted to R96,9 billion, representing an increase of 8,3 per cent in the first half of fiscal 2000/01 com-

National government revenue
R billions

Revenue source	Budgeted 2000/01	Actual: First six months of fiscal 2000/01
Taxes on income and profits	121,3	54,4
Payroll taxes	1,4	0,5
Taxes on property	3,3	2,0
Domestic taxes on goods and services	79,4	36,8
Taxes on international trade and transactions	6,5	4,4
Other revenue	6,9	2,8
Less: SACU payments*	8,4	4,5
Total revenue	210,4	96,4

* In terms of the Customs Union agreement

pared with the corresponding period of the previous fiscal year. This increase can be compared with an average rate of increase of 10,9 per cent in the corresponding period of the preceding five fiscal years.

The net result of revenue and expenditure recorded in the Statement of National Revenue, Expenditure and Borrowing, was a deficit before borrowing and debt repayment of R18,5 billion in the first half of fiscal 2000/01. This deficit amounts to 80,1 per cent of the deficit envisaged for the fiscal year as a whole. Although not strictly comparable, the corresponding ratio in the previous fiscal year was 86,0 per cent. No conclusions about the outcome of the finances for the full fiscal year should be drawn from the deficit for the April–September period, as a large deficit in the first months of the fiscal year is generally a regular seasonal occurrence.

The cash-flow adjusted deficit before borrowing and debt repayment amounted to R19,5 billion in the first half of fiscal 2000/01. Apart from financing this deficit, national government had to fund the cost of the revaluation of maturing foreign debt. After also taking into consideration the proceeds from the restructuring of state assets, the net borrowing requirement of national government amounted to R19,8 billion.

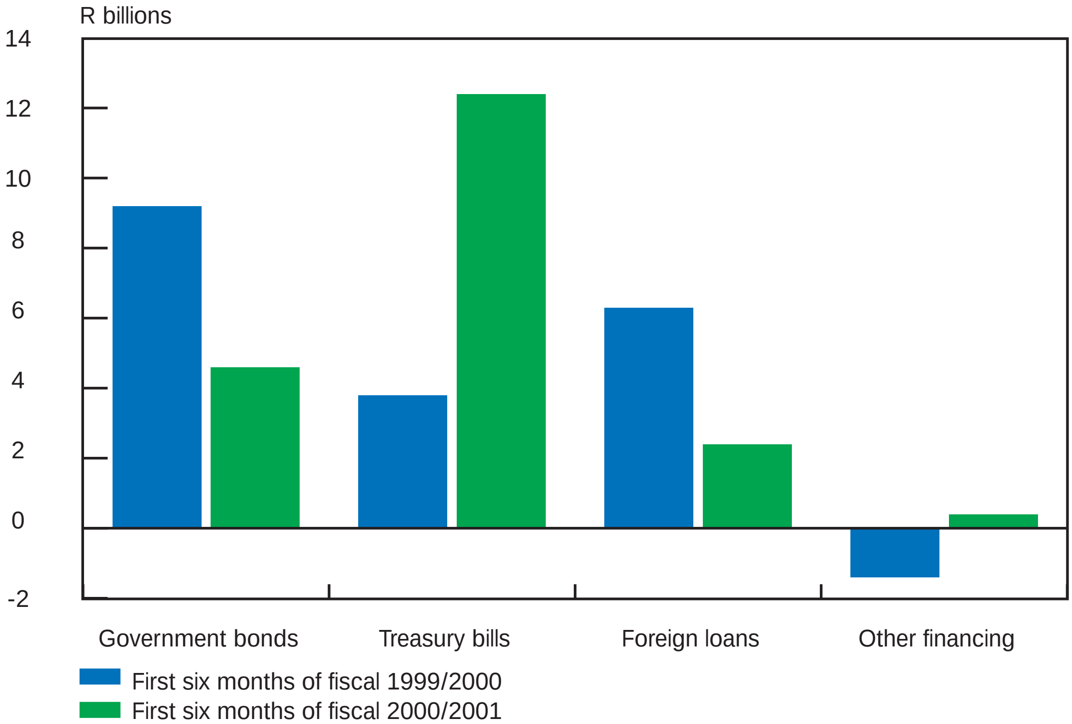
As indicated in the accompanying table, the greater part of the borrowing requirement in the first half of fiscal 2000/01 was financed by means of new issues of Treasury bills in the domestic market. These bills were sold at an average rate of 9,9 per cent per annum. Government bonds to the nominal value of R5,5 billion were issued during this period at an average cost of 12,6 per cent per annum which can be compared with a budget assumption of 13,6 per cent for fiscal 2000/01 as a whole. The foreign financing obtained during this period was mostly related to the export credit facility for defence procurement.

Financing of national government deficit
R billions

Instrument	Budgeted 2000/01	Actual: First six months of fiscal 2000/01
Deficit	23,1	19,5
Plus: Extraordinary payments	2,2	0,0
Revaluation of maturing foreign loans	0,6	0,7
Less: Extraordinary receipts	5,0	0,4
Borrowing requirement	20,8	19,8
Domestic primary capital market		
Government bonds	...	5,5
Less: Discount on government bonds	...	0,9
Net receipts from domestic government bonds issued	10,1	4,6
Treasury bills	3,5	12,4
Foreign loans	5,2	2,3
Changes in available cash balances*	2,0	0,5
Total net financing	20,8	19,8

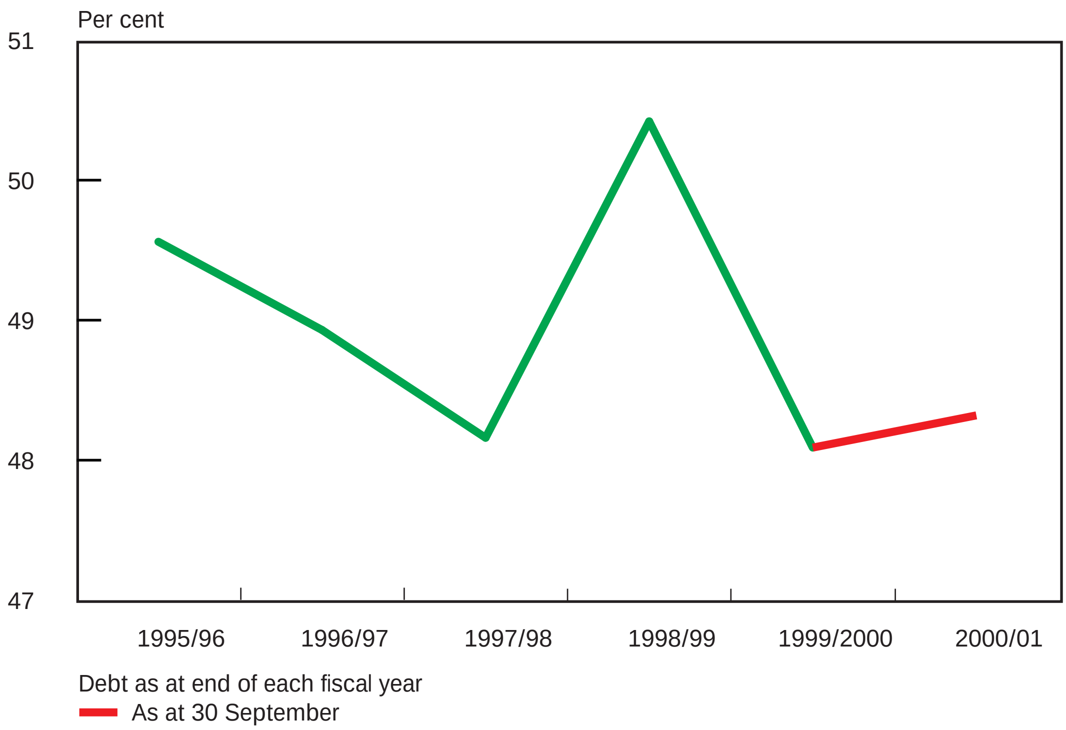
* Increase -, decrease +

Financing of national government deficit



The borrowing requirement of the national government and the discount on new issues of government bonds led to an increase in the total debt of national government from R390,4 billion at the end of March 2000 to R412,0 billion at the end of September. As a percentage of gross domestic product, national government debt increased from 48,1 per cent at the end of March 2000 to 48,3 per cent at the end of September.

National government debt as a ratio of gross domestic product



Adjustments Budget for fiscal 2000/01

In the Adjustments Budget tabled in Parliament on 12 October 2000, the Minister of Finance gave the assurance that national government finances would not add to existing pressures in the South African capital market. Although the Minister sought approval for additional government spending to the amount of R3,9 billion for fiscal 2000/01, a contingency reserve for unforeseen expenses to the amount of R2,0 billion had already been provided for in the main estimates presented to Parliament in February.

The increase in expenditure was mainly related to the higher-than-estimated salary increases for government employees, flood-related damage, expenses for the creation of new local government structures and for the forthcoming local government elections. Provision was also made for the costs associated with higher fuel prices and for the new arrangement for the payment of bonuses in the month of their birthdays to those public servants celebrating their birthdays in January, February and March. In the past these bonuses were paid in April.

Adjustments Budget estimates for fiscal 2000/01

	R billions
Original budgeted expenditure	233,5
Plus: Additional expenditure	3,9
Less: Roll-overs, savings and suspensions	2,2
Total adjusted expenditure	235,2
Total revenue	212,2
Adjusted deficit	23,0
Adjusted deficit as percentage of gross domestic product	2,6

The additional expenditure will be financed from an expected increase in the revenue of national government. Income tax is expected to yield R1,3 billion more than originally envisaged, mainly because of the higher revenue from taxes on companies and retirement funds. It is also expected that the greater consumption of imported goods will result in higher revenue from value-added tax.

The net result of the adjustments to national government revenue and expenditure is an unchanged estimate of the deficit before borrowing and debt repayment. This deficit is still expected to be equal to about 2,6 per cent of gross domestic product for the full fiscal year.

The Medium Term Budget Policy Statement

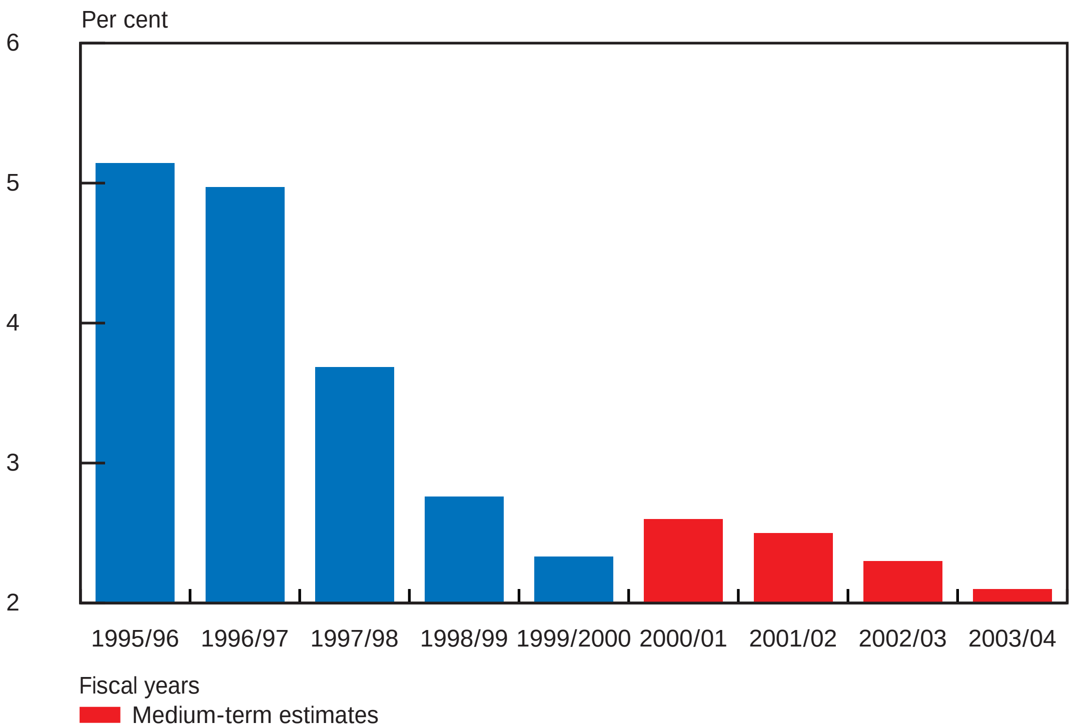
The Minister of Finance released the Medium Term Budget Policy Statement and Medium Term Expenditure Framework (MTEF) on 30 October 2000. This policy statement contains National Treasury's assessment of the economy, creates the policy framework within which government's spending plans are formulated and articulates government's medium-term vision for the economy. It was reiterated that government sought to balance the high priority of meeting the social needs of all South Africans with its sustained commitment to fiscal discipline. The Medium Term Budget Policy Statement focuses on the following two key policy themes:

- Public spending on programmes that promote human development and broaden economic opportunities; and
- additional expenditure on capital formation and the maintenance of infrastructure.

It was noted that a number of external factors adversely affected the growth performance of the economy. Although the current growth performance of the economy was less vigorous than expected, the economy has adjusted to serious external shocks and is expected to resume more rapid growth next year. Economic growth, mainly driven by a strong export performance and accelerated investment, is expected to average 3,5 per cent over the MTEF period. It is also envisaged that the higher priority assigned to capital formation in the public sector is likely to raise the rate of sustainable long-term growth and enhance service delivery.

The success attained in containing the national government deficit over the past five years has resulted in lower debt levels and lower debt-servicing costs. This has released significant amounts of funds for non-interest expenditure, which is expected to grow by more than 3 per cent a year in real terms. The success attained with tax reforms has broadened the tax base and resulted in buoyant tax collections, creating the opportunity for further income-tax rate reductions.

National government deficit as a ratio of gross domestic product



The MTEF clearly reflects a shift in the allocation of public resources towards provincial and local government. The increase in the allocation to provincial governments pertains to higher social benefit payments, poverty alleviation programmes, health services resulting from HIV/Aids and increased spending on infrastructure. Increased allocations to local governments are related to government's objective to provide basic services, including water, sanitation and municipal services, to all communities. It was also announced that guidelines for the possible introduction of selected provincial taxes were being developed with the aim of ensuring that such taxes would not have negative consequences for the overall fiscal position of government. It was also announced that the local government grant system would be rationalised and extended to a three-year time horizon in order to promote more effective planning at this level of government.

As indicated in the accompanying table, government envisages a steady decline in the borrowing requirement at all levels of the public sector relative to the gross domestic product. The national government deficit is projected to reach 2,1 per cent of gross domestic product in fiscal 2003/04 and general government's borrowing requirement is projected to reach a level of 1,6 per cent of gross domestic product at that time. Similarly, the public-sector borrowing requirement is projected to decline to a level of 2,0 per cent of gross domestic product in fiscal 2002/03.

Fiscal projections

Period	2000/01 Revised estimates	Medium-term estimates 2001/02	2002/03	2003/04
		R billions		
National government				
Revenue	212,2	232,2	251,5	271,0
Expenditure	235,3	257,1	275,5	295,4
Deficit before borrowing	23,1	24,9	24,0	24,4
General government deficit	19,7	19,9	17,1	17,9
Public-sector deficit	21,8	23,4	21,1	22,6
		Ratio of gross domestic product		
National government				
Revenue	23,8	23,8	23,7	23,6
Expenditure	26,4	26,3	25,9	25,7
Deficit before borrowing	2,6	2,5	2,3	2,1
General government deficit	2,3	2,0	1,6	1,6
Public-sector deficit	2,4	2,4	2,0	2,0

It was also revealed that Cabinet had agreed to consider project loan proposals with multilateral financial institutions. These loans must comply with the following criteria:

- All project loans must form part of a broader partnership, including benefits such as technical expertise, additional grant funding and capacity building;
- the financial terms and conditions of a loan must be acceptable to, and must fit into the broader borrowing strategy of government; and
- expenditure to be financed through a loan must form part of the normal departmental budget plans.

Consideration is being given to a hospital rehabilitation programme. Local government development projects and municipal infrastructure development are also included among the projects qualifying for financial assistance by the multilateral lending agencies.

Statement of the Monetary Policy Committee

21 September 2000

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

At a meeting on 20 and 21 September 2000 the Monetary Policy Committee reviewed international and domestic economic conditions and the monetary policy stance. The main conclusions of the committee are summarised in this statement.

International economic developments

A significant development on the international economic scene has been the continued increase in the oil price. At the time of the previous Monetary Policy Committee meeting, the oil price had responded to the Organisation of Petroleum Exporting Countries' (OPEC) announcement of output increases by falling from a level above US$30 to below US$26 per barrel. Since then the oil price has moved upwards again to US$37 per barrel in early September. After a decision by OPEC to increase output further, the price has fluctuated between US$30 to US$35 per barrel. In view of the lack of additional refining capacity, the low American oil stocks, a continued increase in world economic growth and with the onset of winter in the northern hemisphere, there is a likelihood of continued pressure on oil prices over the short term.

As could be expected, the increase in the oil price has contributed to a rise in inflation in most oil-importing countries. For instance, in the United States the year-on-year rate of increase in the all-goods consumer price index has accelerated from levels of around 1,5 per cent at the beginning of 1999 to 3,4 per cent in August 2000. Similarly, the year-on-year rate of increase in consumer prices in the euro area accelerated from 0,8 per cent to 2,3 per cent over the same period. In contrast to these developments, Japan continued to experience deflationary conditions in the first seven months of 2000.

Up to now, the increase in the crude oil price seems to have had little effect on global economic growth. The second-quarter real growth in the United States, seasonally adjusted and annualised, amounted to 5,3 per cent. However, indications are that the growth rate in the United States is moderating. Growth in consumer spending is slowing down and the labour market is less tight than it had been, a marginal increase in the unemployment rate having been recorded in the second quarter of 2000. Productivity growth amounted to a seasonally adjusted and annualised rate of 5,7 per cent in the second quarter of 2000, resulting in a decline in unit labour costs and reduced pressure on inflation.

Economic growth in the euro area is expected to remain robust, despite an increase of 25 basis points in interest rates announced by the European Central Bank at the end of August. According to preliminary official estimates the real gross domestic product of the United Kingdom grew at a seasonally adjusted and annualised rate of 3,6 per cent in the second quarter of 2000, following an increase of 2,0 per cent in the first quarter of this year. The recovery in Japan has also been stronger than expected at a seasonally adjusted annualised growth rate of 4,2 per cent in the second quarter of 2000. However, consumer spending remains weak in Japan and leading indicators show a mixed picture.

Growth in the emerging markets of Asia has moderated somewhat in the second quarter of 2000, and some increased inflationary pressure has been observed in Indonesia and Korea mainly as a result of higher oil prices. Growth in most Latin American countries has slowed down.

Domestic real economic developments

From available information it is difficult to determine whether the acceleration in the growth rate of real gross domestic product from a seasonally adjusted and annualised rate of about 1 per cent in the first quarter of 2000 to 1½ per cent in the second quarter, continued in the third quarter. Some indicators point to an improvement in economic activity while others indicate declining output volumes, making it difficult to interpret the overall change in the economy.

The monthly index of manufacturing production apparently resumed its upward movement towards the end of the second quarter of 2000. Moreover, manufacturing capacity utilisation picked up slightly, electricity generation was rising solidly, real wholesale sales showed strong growth, buildings completed and new building plans approved continued to recover, and new vehicle sales remained firm. Higher and more sustainable economic expansion was also reflected in increases in new company registrations, and declines in company liquidations and insolvencies of individuals and partnerships.

Contrary to these developments, signs of a deceleration in economic activity were given by a decline in mining output and a levelling off in the rate of increase in transactions in the real-estate market. Taking into account an expected increase in agricultural production due to the harvesting of summer crops in the third quarter, conditions seem to indicate continued moderate growth in the third quarter of 2000.

Domestic monetary and fiscal conditions

The level of the broadly defined M3 money supply has declined somewhat since the end of 1999. Over the seven-month period to the end of July 2000, M3 recorded an annualised rate of decline of 1,4 per cent. This reflected fairly subdued economic activity, lower absolute and relative returns on deposits, some disintermediation, and in July in particular, a build-up of government deposits with the banking sector.

Credit extension to the private sector recorded an annualised rate of increase of 8,3 per cent over the seven months to the end of July 2000. In July it grew at a high annualised rate of almost 22 per cent. However, a large part of this sudden increase resulted from changes in accounting practices.

The public-sector borrowing requirement amounted to R7,7 billion in the April-June quarter of 2000, against R10,6 billion in the corresponding quarter of 1999. The cumulative budget deficit for the current fiscal year is well contained and closely follows the typical seasonal pattern. Treasury bills and foreign loans have so far been the main instruments used to finance the deficit.

Domestic financial markets

Turnover in the bond market, share market and futures market picked up in August 2000, having not been quite as brisk in July and during most of the second quarter of the year.

Bond rates were relatively volatile during the third quarter of 2000. At first they generally drifted lower during July and August and declined markedly towards the end of August, probably owing to the reinvestment in bonds of the larger part of the coupon interest of R10,1 billion paid on government debt at month-end. Subsequently, yields rose somewhat due to the increase in the oil price and a stronger dollar. At the same time non-residents became net sellers of bonds, after they had purchased bonds on a net basis of R2,8 billion in July and August.

Share prices continued to recover during the third quarter of 2000. These prices have now increased by 25 per cent from their recent trough on 17 April 2000 to 19 September 2000. Non-residents contributed to this recovery, having been net buyers of South African shares since April 2000. Their total net purchases of shares from the beginning of April 2000 up to 19 September 2000 amounted to R13,0 billion.

Money-market interest rates continued to move sideways in the third quarter of 2000. There were, however, slight increases in the rates on forward agreements and shorter-term negotiable certificates of deposit towards the end of August.

The tendency displayed by the yield curve to flatten at the short end and to shift downwards at the long end, was reversed recently. Since the previous meeting of the Monetary Policy Committee, the short end of the yield curve has become steeper and the longer end of the curve has shifted upwards parallel to the previous position. This probably reflected the market's uncertainty of the possible impact of the high oil price on inflation and interest rates.

Balance of payments and foreign exchange market

The trade account registered a further but considerably smaller surplus in July 2000. This decline in the trade surplus was mainly due to a decrease of nearly 10 per cent in the seasonally adjusted value of merchandise exports. This decrease could be seen in nearly all the main categories of export goods. More particularly, a sharp decrease was recorded in the exports of base metals, agricultural products, chemicals, and machinery and electrical equipment. Despite this decline in merchandise exports during July, the three-month moving average value of exports continued to rise.

The seasonally adjusted value of merchandise imports declined by about 3 per cent in July. A sharp increase in the imports of petroleum products was offset by declines in the value of manufactured goods imported. The three-month moving average value of imports increased further, probably in line with signs of economic recovery.

The gross gold and other foreign reserves of the Reserve Bank increased by R1,1 billion in July and August to a level of R52,1 billion at the end of August. Over the same period the net oversold forward position in foreign currency of the Reserve Bank was reduced by US$0,2 billion to US$9,7 billion at the end of August 2000.

After the external value of the rand had strengthened markedly from the end of May until the end of August 2000, it started to come under pressure early in September. The recent weakness of the rand was mainly a reflection of the strength of the US dollar. Since the beginning of the year, the rand has depreciated by about 19 per cent against the dollar. The general weakness of currencies against the dollar is demonstrated by depreciations of 21 per cent for the euro, 16 per cent for pound sterling and 22 per cent for the Australian dollar over the same period. The nominal effective exchange rate of the rand has therefore declined by only 6 per cent from the end of 1999 up to 20 September 2000.

Stability in the financial sector

Conditions in the banking sector remained stable during July. Growth in total assets improved marginally, while capital and reserves rose strongly. Although the profitability of banks declined in July, liquidity improved. The anticipated short-term liquidity mismatch as a percentage of total funding declined significantly, whereas wholesale deposits as a percentage of total funding declined slightly.

Monetary policy

The increase in the oil price and the damage to agricultural crops caused by adverse weather conditions were the major factors responsible for the continued rise of consumer price inflation in metropolitan and other urban areas, excluding mortgage interest cost (CPIX). The year-on-year increase in the CPIX has accelerated from 6,5 per cent in October 1999 to 8,2 per cent in August 2000. If fuel and food prices are excluded, CPIX inflation declined slightly from 6,8 per cent to 6,6 per cent over the same period.

For the same reasons as those stated for the acceleration in consumer price inflation, the year-on-year increase in production prices also accelerated from 5,7 per cent in September 1999 to 10,1 per cent in April 2000, before declining to 8,6 per cent in July. However, if energy and food prices are omitted, the year-on-year increase in production prices has continued to accelerate from a low of 3,2 per cent in November 1999 to 4,8 per cent in July 2000. This upward trend was mainly due to increases in the prices of imported goods, while domestically generated inflation has remained low and has shown a downward tendency from April 2000.

The domestic fundamental factors for containing inflation remain favourable. These include low growth in nominal unit labour costs, surplus production capacity in the economy, no signs of excessive growth in demand, sluggish growth in money supply and bank credit extension, prudent fiscal and monetary policies and increased competition arising from tariff reforms. On top of this, the rate of increase in food prices seems to be levelling off.

In view of these circumstances the Monetary Policy Committee has decided to maintain the current monetary policy stance. However, the Monetary Policy Committee will continue to closely monitor the possible second-round effects of the depreciation in the exchange rate and continued high prices of petroleum.

Statement of the Monetary Policy Committee

16 October 2000

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

A special meeting of the Monetary Policy Committee was convened today to review the effect of recent developments on the outlook for inflation in South Africa.

At the end of its previous meeting (21 September 2000), the committee expressed concern about the second-round price effects of the depreciation in the exchange rate of the rand and the continued high prices of petroleum. Trade statistics that have been released since the last meeting indicate that the surplus on the current account of the balance of payments in the second quarter of 2000 could have changed to a deficit in the third quarter. At the same time, non-residents again became net sellers of South African bonds, signalling a possible shortfall on the financial account. As a result of these changes and the continued strength of the US dollar, downward pressure was exerted on the rand with concomitant import price increases, raising the risk of higher inflation. These tendencies were aggravated by continued high levels of international petroleum prices.

In view of the likely effects of these changes on future price developments and expectations, the Monetary Policy Committee (MPC) decided to revise its monetary policy stance. It was concluded that a modest increase in interest rates at this stage may avoid later steep increases in rates in order to meet the inflation target. Consequently, the committee decided to marginally under-provide in the liquidity requirement of the banks at the daily auction of repurchase transactions tomorrow, 17 October 2000. The committee is of the opinion that these steps may lead to an increase of approximately 25 basis points in the repurchase rate, but the actual increase will be determined at the repo auctions. The outcome of this position will be evaluated at the next scheduled meeting of the MPC.

Statement of the Monetary Policy Committee

16 November 2000

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

At a meeting on 15 and 16 November 2000 the Monetary Policy Committee reviewed current and likely future economic developments to arrive at a decision regarding the monetary policy stance. The main conclusions of the committee are summarised in this statement.

International economic developments

Oil prices continue to affect international economic developments. International crude oil prices remained at levels above US$30 per barrel despite the release by the United States of 30 million barrels from its Strategic Petroleum Reserve, and the increase in output by the Organisation of Petroleum Exporting Countries (OPEC), which intended to maintain the price of crude oil at between US$22 to US$28 per barrel. Uncertainty in the Middle East and the onset of the northern hemisphere winter are factors maintaining the upward pressure on oil prices.

There are also signs that economic activity in the United States may have started to slow down. The increase in the real gross domestic product of the United States decelerated from a seasonally adjusted and annualised rate of 5,6 per cent in the second quarter of 2000 to 2,7 per cent in the third quarter. Largely as a result of higher oil prices, the overall consumer price index in the United States increased by 3,5 per cent over the twelve months to September 2000. In addition, the labour market remained tight and unit labour costs rose in the third quarter following an increase in remuneration and a decline in productivity growth. The current account deficit also remains high. A downturn in industrial production in the United States could have a negative effect on international commodity prices in general and South Africa's exports in particular.

A slight moderation is also expected in the growth of the euro area in the third quarter of 2000 after the economy had performed well in the first half of 2000. High oil prices and a depreciation in the exchange rate of the euro have maintained upward pressure on inflation. The twelve-month rate of increase in the Harmonised Index of Consumer Prices accelerated from 2,3 per cent in August 2000 to 2,8 per cent in September. In the United Kingdom, real economic growth appears to have moderated as well, but inflation remains under control.

Economic growth in the emerging-market economies of Latin America and Asia also seems to have abated somewhat. Most countries in these regions recorded lower second-quarter growth than in previous quarters. Inflation generally appears to be under control, except in Indonesia where significant increases have been recorded over the past few months. Inflation rates in the Southern African Development Community (SADC) continued to diverge significantly. The Common Monetary Area members together with Botswana, Tanzania, Mauritius and Seychelles generally managed to maintain inflation rates below 10 per cent, but in the other SADC countries prices continued to rise rapidly.

Domestic real economic developments

Domestic economic growth, which had been subdued in the first half of 2000, seems to have picked up in the third quarter. Estimates made by the Reserve Bank indicate that the growth in production accelerated in all the major sectors, with agriculture and manufacturing in particular performing well. Agricultural output was pushed to higher levels by the late harvesting of a bumper maize crop in the third quarter, and strong internal and external demand bolstered manufacturing production.

Preliminary estimates indicate that real gross domestic expenditure increased sharply in the third quarter of 2000, after contracting in the previous quarter. Both final demand and inventory accumulation were responsible for this turnaround. Expenditure on durable goods resulted in continued strong consumer demand and there are signs that households have become more prepared to finance their transactions by incurring debt. Fixed investment in the private sector rose further, indicating a more positive outlook for future growth in demand.

Despite the growth in aggregate production and some moderation in wage increases, Statistics South Africa reports that employment in the non-agricultural sectors of the economy decreased further by nearly 150 000 jobs in the first half of 2000. The low growth in wages helped to keep the increase in unit labour costs down, and thus to contain price inflation.

Domestic monetary and fiscal conditions

The broadly defined money supply (M3) rose significantly in August and September, after actually declining over the seven-month period to the end of July 2000. This development reflects the stronger performance of the economy in the third quarter, leading to an average annualised growth rate of M3 in August and September of 27,8 per cent. M3 nevertheless continued to register single-digit twelve-month rates of increase in the first nine months of 2000.

Credit extension to the domestic private sector also increased more rapidly in the third quarter of 2000. In July and September, in particular, credit rose at very high rates. However, this rise was mainly due to changes in the method of reporting investments by banks. After allowing for these technical changes, the adjusted annualised growth rate in credit extension to the private sector still amounted to almost 14 per cent from the end of June to the end of September, as opposed to only about 6 per cent in the first six months of the year.

The borrowing requirement of the non-financial public sector declined from 4,7 per cent of gross domestic product in the first half of the fiscal year 1999/2000 to 2,4 per cent in the corresponding period of 2000/2001. An increase in the surplus of provincial governments and an improvement in the finances of the non-financial public enterprises led to this decline. The national government's deficit remained well-contained. Although fiscal projections provide for increased expenditure over the next three years, this is not expected to have a significant impact on the government's budget deficit.

Domestic financial markets

Turnover in the bond, share and futures markets has remained brisk since August 2000, following somewhat subdued conditions in the preceding four months. The depth and breadth of the primary bond market were increased by the introduction of stripped bonds by the private sector in September 2000.

The decline in the yield on long-term government bonds which had been apparent from May 2000, halted from August onwards. Since then bouts of profit taking and fluctuations in non-residents' transactions in South African bonds have contributed to more volatility in bond yields. From 18 October bond yields generally started to move to lower levels, despite the weakening of the rand and a widening of credit spreads globally. This could perhaps reflect lower inflation expectations as well as the low demand for loanable funds by the government.

From the end of August up to 15 November 2000 non-residents decreased their holdings of South African bonds by R6,9 billion. However, over the same period they continued to purchase South African equities to the amount of R9,4 billion. This contributed to an increase in share prices over this period. On 15 November 2000 the average price level of all classes of shares was nevertheless still 10,7 per cent below the peak on 17 January 2000.

Although the banks kept their prime and call rates unchanged after the 25 basis point increase in the repo rate on 17 October, other money market rates generally rose somewhat. The rate on six-month negotiable certificates of deposit, for example, rose by 27 basis points up to 15 November 2000. Expectations of future rate increases were also heightened immediately after the increase in the repo rate.

Balance of payments and foreign exchange market

The Monetary Policy Committee's concern that the current account of the balance of payments would change from a surplus in the second quarter of 2000 to a deficit in the third quarter, was confirmed by the statistics that became available after the special meeting on 16 October 2000. This reversal in the current-account balance was the result of a rise in the volume of imports, weaker exports of agricultural commodities, a deterioration in South Africa's terms of trade and a widening of the deficit on the services account of the balance of payments.

Fortunately this deficit could at first be funded by means of capital inflows from the rest of the world. There was a sizeable surplus on the financial account of the balance of payments in the third quarter of 2000, essentially due to a turnaround of portfolio capital flows from a net outflow in the second quarter of 2000 to a net inflow in the third quarter. These inflows also brought about a further increase in the country's total holdings of foreign reserves to the equivalent of about 16 weeks' worth of imports of goods and services at the end of September.

As already indicated, the inflow of portfolio capital seems to have slowed down since the beginning of September. This is also reflected in the spreads at which South Africa's foreign currency debt trades. The ten-year US dollar tap-bond of the government, for example, was trading at a spread of around 365 basis points on 15 November 2000, compared with 321 basis points at the end of August and its original spread of 275 basis points when issued in March 2000.

This reversal in sentiment towards emerging markets and the deficit on the current account put further pressure on the exchange rate of the rand. The nominal effective exchange rate of the rand accordingly declined by about 5 per cent from 20 September 2000 to 15 November 2000. From the beginning of the year the weighted value of the rand has now declined by no less than 10½ per cent. This could have inflationary consequences if it is not countered by other developments.

Monetary policy

The weakness of the rand, a steep rise in the cost of imported crude oil and an upward shift in food prices, were the main factors responsible for a sharp increase in consumer prices excluding mortgage costs (CPIX). The twelve-month rate of increase in the CPIX rose from 6,5 per cent in October 1999 to 8,1 per cent in September 2000. However, if energy and food prices are excluded from this index, CPIX inflation actually declined from 6,8 per cent to 6,7 per cent over the same period. This indicates that there are still no visible second-round effects on consumer prices, arising from these exogenous shocks.

A number of positive fundamental factors were probably responsible for this favourable inflation outcome. These include low growth in nominal unit labour costs, surplus production capacity, little evidence of excessive growth in domestic demand, moderate growth in the money supply and bank credit extension, prudent fiscal and monetary policies and increased competition as a result of import tariff reforms.

However, there are signs that the second-round effects of these external shocks are appearing in production prices. Production price inflation, measured over one year and excluding crude oil and food prices, rose steeply from 3,2 per cent in November 1999 to 5,7 per cent in September 2000. Price increases have been recorded in most of the components of the production price index excluding oil and food prices. This could indicate that CPIX inflation will be affected indirectly by external factors in the coming months because increases in production prices normally precede increases in consumer price inflation. The influence on consumer prices will depend on competitive forces in the economy and will be tempered in the medium term by the prudent fiscal and monetary policies.

The upside risks for inflation are substantiated by the results of an inflation expectations survey conducted by the Bureau of Economic Research of the University of Stellenbosch in October 2000. This survey shows that the inflation expectations of the trade union movement increased from July to October 2000. The inflation expectations of the business and finance sector, however, remained largely unchanged.

In view of the analysis of the present and probable future price developments, and building on the decision of the special meeting of the Monetary Policy Committee of 16 October 2000, the committee has decided to maintain the current monetary policy stance. However the Monetary Policy Committee will continue to closely monitor any further effects of the depreciation of the exchange rate and the continued high prices of petroleum.

Minimum reserve requirements

by H F Nel [1]

Introduction

Central banks became custodians of the cash reserves of commercial banks by a process of evolution, which was closely associated with their functions as sole issuer of notes and coin and as banker for government. Over time, it became the practice in many countries for banks to entrust their surplus cash to the central bank, partly because the latter issued notes that could be bought by using part of these reserve balances. Similarly, keeping reserve balances with central banks became convenient, since the latter took on the responsibility of being the banker for government and since the purchase of government securities could be facilitated by tapping reserve balances held with the central bank. This practice of maintaining reserve balances with central banks developed further as central banks assumed the function of being settlement banks, that is the settlement of the clearance differences between banks.

1 Valuable assistance in the article's preparation by J A Hattingh of the Bank Supervision Department, as well as helpful comments and suggestions by other colleagues in the Reserve Bank are gratefully acknowledged. The views expressed are those of the author and do not necessarily reflect those of the South African Reserve Bank.

Central banks originally became the custodian of banks' cash reserves partly for prudential reasons, in other words, to protect the liquidity, solvency and safety of banks, and partly to safeguard their own financial position. The money-creating capacity of banks is also materially influenced by the amount of reserve balances that the banks keep with the central bank. Consequently, adjustments in the minimum required reserve balances of banks have been widely used as an instrument of monetary policy. Nevertheless, as countries placed more emphasis on market-related instruments of monetary policy during the 1980s, minimum reserve requirements did diminish in importance as a monetary-policy instrument. Since the 1980s there has, however, been a general tendency towards simplifying the calculation of reserve requirements and lowering reserve ratios.

Historical development

During the course of the early part of the 1900s, many of the central banks that were established then, were given legal powers to require commercial banks to keep reserve balances at the central banks. In other words, statutory provisions were introduced compelling commercial banks to maintain, with their respective central banks, minimum reserve balances depending upon the amount of the commercial banks' time and demand liabilities. In many countries, however, the practice by commercial banks of voluntarily keeping significant balances with central banks continued. Part of these balances served as working balances for clearing purposes, whereas the remainder served as minimum reserve balances. Commercial banks saw this arrangement as convenient and mutually advantageous.

Since 1921, the South African Reserve Bank has acted as custodian of the reserve balances of the country's banking institutions and, from November 1986, of the former building societies. This action was based on the legal minimum reserve requirements that were in force at different times. Until March 1993, such balances had to be maintained in terms of the Banks Act of 1990, or its precursors. In March 1993, it was decided that the minimum reserve requirements would be included in the requirements stipulated in section 10A of the South African Reserve Bank Act of 1989. This step further demonstrated that minimum reserve requirements were no longer seen primarily as a prudential measure, but as a monetary-policy instrument.

2 Non-interest bearing minimum reserve requirements constitute a 'tax' on the banking system and therefore act as an incentive for the non-bank intermediation of credit arrangements.

During the course of the 1980s, minimum reserve requirements in South Africa were lowered on more than one occasion. The impact of these measures was small in the context of overall monetary control, but the measures did diminish the incentive for the disintermediation of credit.[2] The creation of a fairer competitive environment for the entire financial system was also facilitated in the sense that the lower minimum reserve ratios diminished the extent of discrimination between the financial institutions that were subject to the requirements and those that escaped such requirements.

In the 1990s, the minimum reserve requirements to be held by banks in South Africa were changed from a fixed proportion of the value of short-term liabilities to a fixed proportion of the value of total liabilities (see Annexure). Banks are, however, not required to hold reserves against their issued share capital and accumulated reserves. In February 1994, a new requirement came into effect. Initially, the minimum reserve balance was fixed at 1 per cent of total liabilities, but, in March 1995, this requirement was doubled to 2 per cent. No interest was paid on these balances. In addition, a supplementary reserve requirement of 1 per cent of banks' short-term liabilities was introduced in 1992, on which interest was paid by the Reserve Bank at a rate of 50 basis points below the weekly tender rate for Treasury bills.

As part of the changes made to the monetary-policy operational procedures and Reserve Bank accommodation practices during March 1998, an averaging provision in the application of the minimum reserve balances that banks have to maintain at the Reserve Bank was introduced. To simplify the current minimum reserve requirements, the Reserve Bank then introduced one reserve ratio of 2,5 per cent on the total liabilities of banks. This led to a slight reduction in the amount of the reserve balances held by banks, which did not have any serious effect, since interest was no longer paid on these balances. Banks, however, are allowed to draw funds from their reserve accounts to meet daily settlement shortages, as long as sufficient amounts are redeposited to meet the requirement on a monthly average basis.

Banks may at times place relatively small amounts of 'free' reserves with the Reserve Bank, in the form of current accounts. Such 'free' reserves serve as a first line of liquidity and can be used for purposes of acquiring banknotes for issuance to the public, and for effecting the settlement of claims between banks arising from the daily clearing of cheques. Often, however, the holding of an excess reserve balance is found to be incidental, rather than deliberate. Normally, banks will endeavour not to hold reserve balances with the Reserve Bank in excess of the minimum requirements. The reason is that the Reserve Bank, although allowed to pay interest on its deposit liabilities, has not yet done so. Therefore, banks normally prefer to invest excess cash balances in the interbank market, where such investments can readily be converted into cash balances with the Reserve Bank, as and when required.

Arguments for and against enforcement

The centralisation of reserve balances in a central bank is a source of strength for the banking system of a country, for a number of reasons. Firstly, when reserve balances are pooled in a central bank that has the responsibility for monitoring the stability of the banking system of a country, such reserves can be employed effectively to meet seasonal fluctuations, or during a financial crisis. For instance, if circumstances arise where a particular bank needs additional funds, the central bank can utilise part of the cash reserves of that bank to tide the bank over the period during which the circumstances prevail. Secondly, centralised reserve balances facilitate the role of the central bank in supplying currency to banks. Thirdly, centralised reserve balances provide a central bank with a certain amount of funds with which it can operate, and also strengthen its financial position. Statutory provisions for banks to hold minimum reserve balances with central banks were introduced to secure such advantages of centralised cash reserves.

The present position is that, in many countries, irrespective of whether or not they have prescribed minimum reserve balances, commercial banks have grown accustomed to keeping most, if not all, of their cash requirements with the central bank. Commercial banks regularly draw currency from the central bank as required for operational purposes, and they deposit surplus currency as it accumulates.

The maintenance of minimum reserve requirements laid down by law is also a source of controversy. It is argued that such requirements promote the disintermediation of credit. The abolition of such requirements would allegedly create a more level playing field for the entire financial system. Low or zero cash-reserve ratios diminish or remove the discrimination between the financial institutions subject to the requirements and those that escape such requirements. In the South African context, the prudential need for minimum reserve balances has arguably become imperative as a result of the development of more sophisticated financial markets, the enhanced ability of banks to raise short-term funds, and the role of the Reserve Bank as the supervisor of the banking system.

In view of these drawbacks, some analysts argue that minimum reserve requirements should be abolished. The maintenance of such requirements can be supported, however, on the grounds that banks differ in one important respect from other financial institutions. The argument for the retention of minimum reserve requirements is linked to banks having access to assistance in the form of overnight loans at the discount or accommodation window of central banks.

Banks that are subject to minimum reserve requirements, will try to avoid tying up significant amounts of funds in central-bank balances earning no, or minimal, interest. In countries where legal minimum reserve requirements are not enforced, voluntary balances held by commercial banks with central banks could well decline over time as payment systems develop further. Instead of cash balances, an accommodation facility could be used. The banks would still require ‘perfectly safe assets’, for example Treasury bills, as collateral but would not need cash reserve balances with the central bank.

Payment of interest on reserve requirements

Originally, when central banks became the bankers of commercial banks, it was argued that no interest on such deposits should be paid for various reasons. Firstly, it was argued that it was important to be able to distinguish clearly the different natures of central banking and commercial banking. Secondly, it was argued that central banks should not compete with commercial banks for deposits and in the process, become a player in the market. When central banks did pay interest on these balances, an unhealthily competitive situation often developed between commercial banks and the central bank, particularly if the interest rates paid were market-related. Thirdly, few central banks could afford to pay interest to banks on their reserve balances. For many central banks, these reasons are still valid today.

In the case of South Africa, the De Kock Commission recommended that the Reserve Bank should be authorised to pay interest on reserve balances. This recommendation gave rise to the South African Reserve Bank Act being amended accordingly in 1984. The Reserve Bank, however, did not apply this new arrangement until 1992, and then only on a limited basis. Apart from considerations of profitability, the central bank did not regard itself as being in competition for deposits with private banks, causing the Reserve Bank to be somewhat reluctant to pay interest on such funds. Moreover, the burden on banks in meeting the minimum reserve requirements had diminished substantially, for the reasons set out below.

Firstly, the minimum reserve requirements of banks had been reduced on more than one occasion since 1963 (see Annexure), relieving the burden significantly. Secondly, in 1985, banks were granted a concession that they could include vault cash in their minimum reserve requirements, similarly relieving the burden. This concession represents a substantial advantage to the South African banking sector, since vault cash, for example, represented more than 50 per cent of the total minimum reserve requirement at the end of December 1999.

Thirdly, upon the introduction of the new accommodation procedures by the Reserve Bank in 1998, and in an effort to simplify the cash reserve requirements, a single reserve ratio (2,5 per cent of total liabilities) was announced. The supplementary requirement of 1 per cent of short-term liabilities was abolished in the process, implying that the Reserve Bank had to do away with the payment of interest on the reserve balances of banks. Banks were, however, compensated partially for the loss of interest that they had earned on part of their cash reserves before the above changes, because the Reserve Bank decided to issue South African Reserve Bank debentures for the management of bank liquidity. This implied that, instead of, for example, increasing minimum reserve requirements to reduce market liquidity, the Reserve Bank could issue debentures on which banks could earn a market-related interest rate.

The majority of the countries listed in Table 1 and Table 2 do not pay interest on the reserve balances of banks. The countries that form part of the Group of Seven (G7) that do pay interest on these balances, namely France, Germany and Italy, fall under the European Central Bank (ECB). The ECB takes responsibility for deciding on the reserve requirements of its member countries, as well as on the rate of remuneration, if any. Currently all ECB member countries' reserve balances are fully remunerated, with interest paid at the end of the maintenance period at the repurchase rate for that week. France and Germany did not pay interest on the reserve balances of banks before they joined the European Union (EU).

Of the countries listed as 'other countries', in Table 2, only Chile, India, Israel and Portugal pay interest on the reserve balances of banks. Portugal pays interest as a result of its membership of the EU (reserve balances were unremunerated before Portugal became an EU member), whereas Indian banks receive interest payment only on the reserves that they maintain in excess of the statutory minimum of 3 per cent specified by the Banking Regulation Act in India. Indian banks, therefore, earn interest on 5,5 per cent (8,5 per cent less 3 per cent) of their total reserve balances. Similarly, the Bank of Israel pays no interest on the reserve requirement of banks, but has been paying a below-market-interest rate on the deposits held in excess of their requirement since the middle of 1996. In Chile the central bank pays interest on both the local and foreign-currency reserves maintained by banks.

Table 1 Required minimum reserve ratios - G7 countries

	Required minimum reserve ratio	Interest paid on reserves	Required minimum reserves		Gross domestic product		Domestic credit extension		Required minimum reserves as percentage of gross domestic product		Required minimum reserves as pecentage of domestic credit extension	
	Per cent		Billions*		Billions*		Billions*		Per cent		Per cent	
			1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
United States	3 to 10	No	171,4	189,8	8300,8	8759,9	5444,5	6082,5	2,1	2,2	3,1	3,1
United Kingdom	0,15	No	2,8	3,0	803,9	843,7	973,4	1016,2	0,3	0,4	0,3	0,3
Germany	1,5 to 2,0	Yes	41,0	45,8	3667,2	3784,4	4137,6	4471,9	1,1	1,2	1,0	1,0
France	1	Yes	134,3	n.a	8224,9	8564,7	6671,0	6804,0	1,6	-	2,0	-
Italy	15	Yes	31444,5	31948,5	195070,0	203460,0	1123530,0	1224360,0	16,1	15,7	2,8	2,6
Japan	1,3	No	19310,7	19337,6	507852,0	495211,0	578790,0	583350,0	3,8	3,9	3,3	3,3
Canada	0	-	0,0	0,0	874,0	895,7	772,4	789,8	0,0	0,0	0,0	0,0
Russia	9 to 14	No	38,6	48,3	2521,9	2684,5	236,7	346,4	1,5	1,8	16,3	14,0

* In each country's own currency

Sources: *International Financial Statistics,* March 2000
Annual Report of various central banks
Kamin, Turner & Van't Dack, *Central Banks*, 1998
Davies, H., *Bank of England,* 1998
BIS, *Payment of interest on minimum reserve balances,* September 2000

Table 2 Required minimum reserve ratios - other countries

	Required minimum reserve ratio	Interest paid on reserves	Required minimum reserves		Gross domestic product		Domestic credit extension		Required minimum reserves as percentage of gross domestic product		Required minimum reserves as pecentage of domestic credit extension	
	Per cent		Billions*		Billions*		Billions*		Per cent		Per cent	
			1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Australia	0	-	0	0	549,3	579,1	427,3	477,2	0	0	0	0
Argentina	10 to 20	No	12,6	13,9	292,9	298,1	64,2	72,2	4,3	4,6	19,6	19,2
Brazil	55 *(demand)*	No	15,4	16,0	864,1	899,8	266,6	311,7	1,8	1,8	5,8	5,1
Chile	3,6 to 9,0	Yes	862,1	911,2	31774,0	33577,7	19886,8	21631,0	2,7	2,7	4,3	4,2
India	8,5	Yes	497,1	595,2	15635,5	n.a.	3640,0	4196,4	3,2	-	13,7	14,2
Israel	8	Yes	29,9	35,2	340,0	370,4	254,9	303,4	8,8	9,5	11,7	11,6
Singapore	3	No	6,6	7,1	142,5	141,3	143,4	154,9	4,6	5,0	4,6	4,6
Switzerland	2,5 *(short term)*	No	2,6	2,8	371,6	380,0	625,7	635,7	0,7	0,7	0,4	0,4
Portugal	2	Yes	535,9	596,3	17859,0	19246,0	15812,6	19747,7	3,0	3,1	3,4	3,0
South Africa	2,5	No	5,8	6,5	683,7	740,6	420,1	490,1	0,8	0,9	1,4	1,3
South Africa: including vault cash	2,5	No	12,1	13,6	683,7	740,6	420,1	490,1	1,8	1,8	2,9	2,8

* In each country's own currency

Sources: *International Financial Statistics*, March 2000
Annual Report of various central banks
Kamin, Turner & Van't Dack, *Central Banks,* 1998
Davies, H., *Bank of England,* 1998
BIS, *Payment of interest on minimum reserve balances*, September 2000

Minimum reserve requirements in South Africa compared with some other countries

Group of Seven countries

Canada is the only G7 country in which banks are no longer required to hold minimum reserve balances with the central bank. The United Kingdom, France, Japan, Germany and the United States of America all have relatively low percentage requirements. South Africa's current minimum reserve requirement of 2,5 per cent of total bank liabilities, excluding issued capital and reserves, is broadly similar to that of G7 countries. When the required reserves are expressed as a percentage of gross domestic product (GDP), Italy stands out with very high percentages of 16,1 in 1997 and 15,7 in 1998. These percentages reflect Italy's high required reserve ratio of 15 per cent. The other G7 countries (including Russia) all have fairly low ratios, with Japan's at the upper end of the range. South Africa compares fairly well with a ratio of 0,8 in 1997 and 0,9 in 1998. Without the vault-cash concession, these ratios would have been 1,8 per cent in both years, which is broadly consistent with the ratio in some of the G7 countries.

When the required minimum reserves are expressed as percentages of domestic credit extension, Russia had the highest ratio of 16,3 per cent in 1997 and 14,0 per cent in 1998. The other G7 countries all have relatively low ratios. The United Kingdom, with a required reserve ratio of 0,15 per cent and a ratio of required reserves to domestic credit extension of 0,3 per cent in both 1997 and 1998, was at the lowest end of the range. For South Africa the ratios were 1,4 per cent in 1997 and 1,3 per cent in 1998. Excluding the vault-cash concession, these ratios would have been 2,9 and 2,8 per cent, respectively, comparing favourably with countries such as the United States of America, Italy and Japan.

Other countries

Among other countries, Argentina, Brazil, Chile and Israel have relatively high percentage requirements. Portugal, with a ratio of 2 per cent, has a lower required reserve ratio than South Africa.

When the required reserves are expressed as a percentage of GDP, Israel (8,8 and 9,5) and Singapore (4,6 and 5,0) have the highest ratios, whereas the rest of the selected 'other countries' (including South Africa) compare well with the G7 countries. Expressed as a percentage of domestic credit extension, Argentina (4,0 and 3,7), Israel (11,7 and 11,6), Brazil (5,8 and 5,1) and Chile (4,3 and 4,2) have relatively high required reserves. South Africa (1,4 and 1,3) and Switzerland (0,4) again compare favourably with the ratios of the G7 countries.

Conclusion

In general, the evolution and application of minimum reserve requirements in South Africa compare well with international best practice.

Internationally, the payment of interest on minimum reserve balances cannot be seen as the norm, but rather the exception. This may be attributed partly to the fact that the burden on banks in meeting the minimum reserve requirement diminished as the required ratios were reduced over time. South Africa applied this practice to a limited extent between 1992 and 1998. The practice of allowing banks to include their vault cash in fulfilling their minimum reserve requirements, as currently applied in South Africa, is only practised to a fairly limited extent internationally, for example in Switzerland, Singapore and the United States of America. However, the proposed changes to the South African Reserve Bank Act, 1989 could reduce the amount of vault cash allowed to be included in banks‘ reserve requirements in future.

The South African Reserve Bank Amendment Bill, 2000, has gone through the Parliamentary process and is poised for promulgation during November 2000. The Amendment Bill empowers the Governor of the South African Reserve Bank to determine what percentage of banks’ holdings of Reserve Bank notes and subsidiary coin may be taken into account for the purpose of calculating the minimum reserve balances required to be maintained by banks in their accounts with the Reserve Bank.

Finally, a comparison of the reserve ratio of 2,5 per cent in South Africa with that in the G7 and other selected countries proves that South Africa is not out of step with international practice, although it is stricter than some leading banking centres. The required reserves as a percentage of GDP and of domestic credit extension also compare favourably with those of the advanced economies, even when the vault-cash concession is not taken into account.

Annexure: South African cash reserve requirements since 1969

Cash reserve requirements	Effective date	Reference	Remarks
8 per cent of short-term liabilities, interest-free with the Reserve Bank, plus additional 7 per cent of increase in short-term liabilities since 31 March 1968, also interest-free with the Reserve Bank. An interest-bearing call deposit consisting of 25 per cent of the above-mentioned increase must be kept with the National Finance Corporation (NFC).	Aug 1969	*Government Gazette* 2089, Notice 1004.	
Additional requirement of 7 per cent abolished.	30 Mar 1971	*Government Gazette*, 14 April 1974, Notice 600.	
25 per cent interest-bearing deposit with the NFC is abolished and replaced with a supplementary cash requirement, amounting to 10 per cent of all short-term liabilities, to be held with the NFC.	1 Nov 1972	*Government Gazette* 3697, 1 November 1972, Notice R2008.	
Interest-bearing deposit with the NFC lowered to 7 per cent.	21 Apr 1973	*Government Gazette*, 11 April 1973, Notice 617.	
Increase in additional requirements and new classification of banks. Class A (Total assets exceeding R800 million): 7 per cent of short-term liabilities, interest-free with the Reserve Bank. 5 per cent of medium-term liabilities, interest-bearing with the NFC. Class B (Total assets less than R800 million): 7 per cent of short-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-bearing with the NFC.	11 Apr 1980	*Government Gazette* 6940, 11 April 1980, Notice 723.	The basic requirement of 8 per cent of short-term liabilities, interest-free with the Reserve Bank, still exists. Together with the basic requirement, the additional requirements apply as indicated.
Increase in additional requirements Class A: 10 per cent of short-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-free with the Reserve Bank. 2 per cent of medium-term liabilities, interest-bearing with the NFC. Class B: 7 per cent of short-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-bearing with the NFC.	12 Sep 1980	*Government Gazette* 7214, 12 September 1980, Notice 1905.	
Decrease in additional requirements Class A: 4 per cent of short-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-free with the Reserve Bank. 2 per cent of medium-term liabilities, interest-bearing with the NFC. Class B: 4 per cent of short-term liabilities, interest-free with the Reserve Bank. 3 per cent of medium-term liabilities, interest free with the Reserve Bank. 3 per cent of medium-term liabilities, interest-bearing with the NFC.	31 Mar 1982	*Government Gazette* 8147, 31 March 1982, Notice 699.	

Cash reserve requirements	Effective Date	Reference	Remarks
Decrease in additional requirements All banks: 2 per cent of medium-term liabilities, interest-free with the Reserve Bank. 2 per cent of medium-term liabilities, interest-bearing with the NFC.	27 Sep 1982	*Government Gazette* 8406, 8 October 1982, Notice 2169.	All banks are treated equally.
Additional requirements change to basic requirements Basic requirements: 8 per cent of short-term liabilities, interest-free with the Reserve Bank. 2 per cent of medium-term liabilities, interest-free with the Reserve Bank. 2 per cent of medium-term liabilities, interest-bearing with the NFC.	30 Sep 1983	*Government Gazette* 8906, 30 September 1983, Notice 2149.	
The requirement for holding 2 per cent of medium-term liabilities with the NFC is abolished.	15 Mar 1984	*Government Gazette* 9140, 23 March 1984, Notice 603.	
Banks' vault cash will qualify as part of required cash reserves.	31 Jul 1985	*Government Gazette* 9904, 30 August 1985, Notice 1942.	From the effective date interest-free cash reserves can be held in the form of any combination of vault cash and deposits in an interest-free reserve account with the Reserve Bank.
Decrease in basic requirements 5 per cent of short-term liabilities, interest-free. 2 per cent of medium-term liabilities, interest-free.	1 Apr 1986	*Government Gazette* 10184, 11 April 1986, Notice 675.	
Decrease in basic requirements Abolishment of basic requirement of 2 per cent of medium-term liabilities, interest-free, whereas the basic requirement against short-term liabilities is lowered to 4 per cent.	1 Feb 1991	*Government Gazette* 3092, 22 March 1991, Notice 632.	At the same time the definition of short-term liabilities is modified to include certain types of repurchase agreements and other liabilities, previously not included.
The introduction of an additional requirement of 1per cent against short-term liabilities, kept in an interest-bearing account with the Reserve Bank.	21 Jul 1992	*Government Gazette* 14161, 15 July 1992, Notice 67/1992.	
Decrease in basic requirements The basic requirement against short-term liabilities is immediately lowered from 4 per cent to 3 per cent, with a further programme to lower the basic requirement against short-term liabilities to 1,5 per cent and to increase the requirement against all other liabilities from 0 per cent to 1,5 per cent (phasing-in period of 15 months).	26 Apr 1993	*Government Gazette* 14763, 28 April 1993, Notice R696.	The 1 per cent additional requirement against short-term liabilities, interest-bearing with the Reserve Bank, is maintained.

Cash reserve requirements	Effective Date	Reference	Remarks
Decrease in basic requirements Final percentage of 1,5 per cent lowered to 1 per cent of all liabilities. The immediate lowering of the 2,5 per cent of short-term liabilities which would have been effective under the previous programme to 1,5 per cent with a further lowering by 0,1 per cent each month to reach 1 per cent by January 1994. The continuation of the monthly 0,1 per cent increase from the existing 0,5 per cent of all other liabilities to reach 1 per cent by January 1994.	Aug 1993	*Government Gazette* 15060, 12 August 1993, Notice R1537.	The 1 per cent additional requirement against short-term liabilities, interest-bearing with the Reserve Bank, is maintained.
Increase in basic requirements The basic minimum reserve balance requirement is increased from 1 per cent to 2 per cent. Deductions against total liabilities are the average daily amount of: i Loans received under repurchase agreements or granted under resale agreements with the Reserve Bank and the Corporation for Public Deposits (CPD); ii Loans received under repurchase agreements in liquid assets, other than (i) above; iii Loans received under repurchase agreements, other than (i) and (ii), for readily marketable interest-bearing securities of public sector bodies; iv Loans received under matched repurchase agreements, other than (i) to (iii) above, in readily marketable interest-bearing securities; v Amounts owing by banks and mutual banks. Deductions against short-term liabilities are the average daily amount of: i Short-term loans received under matched agreements in readily marketable interest-bearing securities other than those of public sector bodies, approved by the Registrar.	Feb 1995	*Government Gazette* 16315, 15 March 1995, Notice 425 and 426.	
The following deductions against liabilities (of repurchase agreement funding) for calculating the cash reserve requirements will no longer apply: i Loans received under repurchase agreements or granted under resale agreements with the Reserve Bank and the CPD. ii Loans received under repurchase agreements in liquid assets. iii Loans received under repurchase agreements for readily marketable fixed interest-bearing securities of public sector bodies. iv Loans received under matched repurchase agreements. The only deduction against liabilities (of repurchase agreement funding) for the purposes of calculating the minimum cash reserve requirements, is: i Loans received under repurchase agreements with a term of 31 days and shorter with Government loan stock and Treasury bills as underlying security.	Oct 1996.	Banks Act Circulars 11/96 and 13/96.	
The basic minimum reserve balance requirement (percentage) is determined as 2,5 per cent of total liabilities as adjusted. The supplementary interest-bearing cash-reserve requirement of 1 per cent of short-term liabilities is withdrawn.	Apr 1998	*Government Gazette* 18809, 1 April 1998, Notice 497. *Government Gazette* 18810, 1 April 1998, Notice 572.	

Source: Money and banking statistics of South Africa 1973–1992. *Supplement to the South African Reserve Bank Quarterly Bulletin.* September 1993.

Notes to tables

Derivative market activity – Table S-31

The number of individual equity futures contracts traded on the South African Futures Exchange replaced the column indicating the number of rand-dollar futures contracts traded. Information on rand-dollar futures contracts was omitted because of a lack of trading activity. The number of individual equity futures contracts traded currently represents full coverage of the underlying shares comprising the Alsi-40 and the Indi-25 indices of the Johannesburg Securities Exchange. Table S-31 shows the new series as from February 1999 when individual equity futures were introduced for the first time.

Yields and stock exchange activity – Table S-33

The index of the selling price of units by unit trusts is presented for equity funds only. The price index calculated by the Reserve Bank is based on the selling prices of units and the number of outstanding units, as obtained respectively from daily media reporting and monthly returns submitted to the Bank. In calculating the price index, the selling prices are weighted by the number of outstanding units. The market value calculated is adjusted to eliminate the effects of changes in the weighting pattern. The methodology has now changed from compiling monthly average selling prices to month-end prices. The published time series has been adjusted accordingly since inception in 1984.

The yield on equity unit trusts is no longer published owing to a lack of information.

Foreign liabilities and assets of South Africa – S-92 to S-99

The level of South Africa's liabilities and assets valued as at the end of December 1999 was significantly higher than at the end of December 1998. These higher levels could mainly be attributed to a reclassification of the liabilities and assets of South African companies which moved their primary listings to the London Stock Exchange during 1999. The flows through the financial account of the balance of payments in 1999 reflect only part of the revised classifications. For this reason, changes in the international assets and liabilities of the country will not necessarily be consistent with the capital flows through the financial account.