Quarterly Bulletin

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South African Reserve Bank

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Quarterly Economic Review

Introduction

Global economic activity expanded at a firm pace in the second half of 1999, following a period of subdued economic growth and heightened volatility in financial markets. As a consequence, the outlook for world economic growth has improved, as reflected in upward revisions to growth forecasts for 2000 by the International Monetary Fund and the Organisation for Economic Co-operation and Development.

A strengthening in world economic activity in the early months of 2000 was fairly broadly based, except for Japan where aggregate output declined. The outlook for Japan nevertheless remains one of a resumption of growth in the second half of 2000. The pace of activity in developing economies is also increasing, with the Asian emerging-market economies recovering rapidly from the output declines of 1998.

The latest developments in the world economy and the prospects for 2000 are more likely to help the South African economy along, rather than holding it back. The global recovery was expected to assist growth in the South African economy through international trade relations and higher commodity prices, and through increased international capital flows into the economy. Against this backdrop of rising expectations of an improvement in economic conditions, it was somewhat surprising when economic growth faltered in the first quarter of 2000 and international portfolio investors began to divest themselves of rand-denominated assets.

A sharp decline in agricultural production and a substantial slowdown in the growth of real output in manufacturing reduced aggregate output growth from an annualised rate of 3½ per cent in the fourth quarter of 1999 to just 1 per cent in the first quarter of 2000. Exceptional climatic conditions, as diverse as torrential rains and flooding in the north-eastern parts of the country and unseasonally high temperatures and widespread veld fires in the south-western parts, affected the agricultural sector adversely. Manufacturing output was also disrupted by the fall in agricultural output and by increased strike activity, but it is conceivable that some unintended inventory accumulation contributed to production cutbacks.

Aggregate spending growth in the economy slowed down too, almost exclusively owing to a sharp contraction in real consumption expenditure by general government. The growth in overall capital formation and household consumption expenditure continued to accelerate in the first quarter of 2000. General government is therefore making a contribution to the maintenance of macroeconomic stability in the country.

Unemployment remains high and the employment-creating capacity of the formal sector of the economy is still weak. But there are signs that the informal sector is absorbing increasing numbers of new entrants to the workforce: the latest available information indicates that overall employment in the economy increased between 1996 and 1998. Even so, the number of job seekers increased even faster, pushing the unemployment rate to 25 per cent in October 1998.

The growth in nominal earnings of workers slowed down appreciably in 1999. Labour productivity remained buoyant, reducing the growth in nominal unit labour costs to a rate roughly consistent with inflation in the lower end of the indicated inflation target range. This is an essential contribution to the combatting of high inflation expectations. Apart from securing a decline in price inflation, moderate wage settlements, particularly when they do not fully match productivity growth, could serve the cause of employment growth.

Despite the slowdown in nominal wage growth, the rate of inflation at the production price and consumer price levels has been accelerating. Rising oil prices, the weakness of the rand and higher food prices because of the flood damage are all adding to existing inflationary pressures. There are also indications that producers could have been widening their operating margins. Because firms can no longer count on a generally inflationary monetary policy to validate their decisions to raise their own prices, margin widening could easily endanger the continuation of the current modest recovery in economic activity.

There was a healthy surplus on the overall balance of payments in the first quarter of 2000, even though the net inflow of international capital declined from the fourth quarter of 1999 to the first quarter of 2000. The surplus on the trade account increased somewhat as total export earnings rose slightly more than the nominal value of aggregate imports. This improvement was only partially countered by a modest widening of the deficit on the services account, leading to a small improvement on the current account of the balance of payments.

Strong international capital inflows in the last two quarters of 1999 weakened abruptly in the early months of 2000. Negative sentiment towards emerging markets generally, aggravated by regional concerns, caused an outflow of portfolio capital through the Bond Exchange in the first quarter of the year. Despite this setback, the external financial position of the economy remained healthy and international reserves continued to be accumulated. The Reserve Bank's net open position in foreign currency declined to its lowest level since 1996, gradually eliminating an element of perceived vulnerability of the South African financial system.

The rand came under downward pressure because of the turn in investor sentiment towards the country, but even more so because of the strength of the United States dollar on the international currency markets. The nominal effective exchange rate of the rand accordingly declined quite sharply in the first five months of 2000. By May 2000, the earlier strengthening of the rand on an inflation-adjusted basis might have been reversed substantially. The price competitiveness of domestic producers in export markets should have benefited from this recent depreciation of the external value of the rand.

As is usually the case shortly after a decline in bank lending rates, the growth in bank credit extension and overall monetary growth once again slowed down in the first quarter of 2000. This easing of monetary growth, of course, coincided with the slowdown in the growth of aggregate output and expenditure, but it was also assisted by a decline in the return on deposits at banks. Such a slowdown in monetary expansion, if it continues, would probably have a moderating impact on the inflation outlook and would in this way help to contain inflation. Current trends in credit growth also indicate that households are still cautious about using debt finance for current expenditure. This should help to reassure market participants that the recent increases in exogenously determined prices may not necessarily develop into a renewed acceleration of inflation.

Liquidity conditions tightened in the money market in the first five months of 2000. This was essentially the result of deliberate Reserve Bank intervention. The existence of a liquidity requirement in the money market enables the Bank to guide the actions of market participants. From 14 January 2000 the repurchase rate remained at a level of 11,75 per cent at the daily auction for central bank funding.

Bond yields fell rapidly towards the end of 1999 and in the first two weeks or so of 2000. The positive sentiment in the market was encouraged by, among other things, a relaxation of monetary policy and lower demand for funds by the public sector in the domestic capital market. From around the middle of January 2000, downward pressure on bond prices was brought to bear by the weakening of the rand, the re-emergence of inflation pressures, increased uncertainty about the future direction of monetary policy and later also by developments in other parts of sub-Saharan Africa. Bond yields have generally moved higher since then.

Foreign buying in the domestic bond market picked up in 1999 as confidence in the prospects for South Africa improved. Sentiment appeared to have changed again and since the beginning of 2000 non-residents have been selling bonds on a net basis. The changed sentiment was apparently not confined to South Africa, but was part of a heightened global aversion to risk taking in emerging-market economies and a move back to quality assets in the advanced economies of the world. The spreads of emerging-market debt instruments over advanced economy debt have widened from March to April 2000.

The share market, which rebounded strongly in the final months of 1999 and in the first two weeks of 2000, faltered in the ensuing months. Falling interest rates and the acceleration in economic activity in the last two quarters of 1999 helped to boost the outlook for corporate earnings. From mid-January 2000, the rise in inflation and growing uncertainties about the future course of short-term interest rates might have dampened confidence and share prices declined steeply. Foreign participation in the share market fell as foreign investors were scared off by the weakness of the rand and concerns about stability in other parts of sub-Saharan Africa. Nevertheless, macro-economic policies have remained fundamentally sound and fairly modest price-earnings ratios suggest that the share market may have over-reacted.

Limited amounts of capital were raised in the primary debt market in the first quarter of 2000. To a significant extent this was related to the curtailment of the public-sector borrowing requirement, but private-sector demand for funds was also at a low ebb. There was some evidence, however, of an increase, albeit from a very depressed level, in the demand for debt financing by private-sector organisations.

The government continued to consolidate the fiscal position and improve the management of public finances during the past fiscal year. Unexpectedly strong growth in revenue and tight expenditure controls resulted in a lower-than-budgeted deficit of 2,6 per cent of gross domestic product in fiscal 1999/2000. A primary surplus, i.e. an excess of current revenue over expenditure when interest charges are not taken into consideration, is still being realised on the national government budgetary accounts. The absolute value of total government debt rose somewhat in the first quarter of 2000, but as a percentage of gross domestic product it fell to just more than 48 per cent. The slowdown in aggregate debt growth should help reduce interest costs over time and release resources for government's reconstruction, development and redistribution policies, and provide scope for introducing further tax reforms.

The disciplined fiscal policy is not in any way adding to existing demand pressures in the economy. Furthermore with regard to inflation containment, government is encouraging overall moderation in remuneration growth through modest wage settlements in the public sector. Although a bias towards higher inflation in the economy has developed lately, the role played by government policies is likely to dampen second-round inflation effects. Government's contribution towards curbing inflation is, among other things, reinforced by the following:

- The recent slowdown in the growth in the monetary and credit aggregates;
- the slowdown in the pace of growth in nominal unit labour costs;
- reductions in customs duties as part of the process of ongoing trade liberalisation;
- the existence of ample excess production capacity in the manufacturing sector; and
- increased competition from external suppliers, which is keeping a lid on domestically generated inflation.

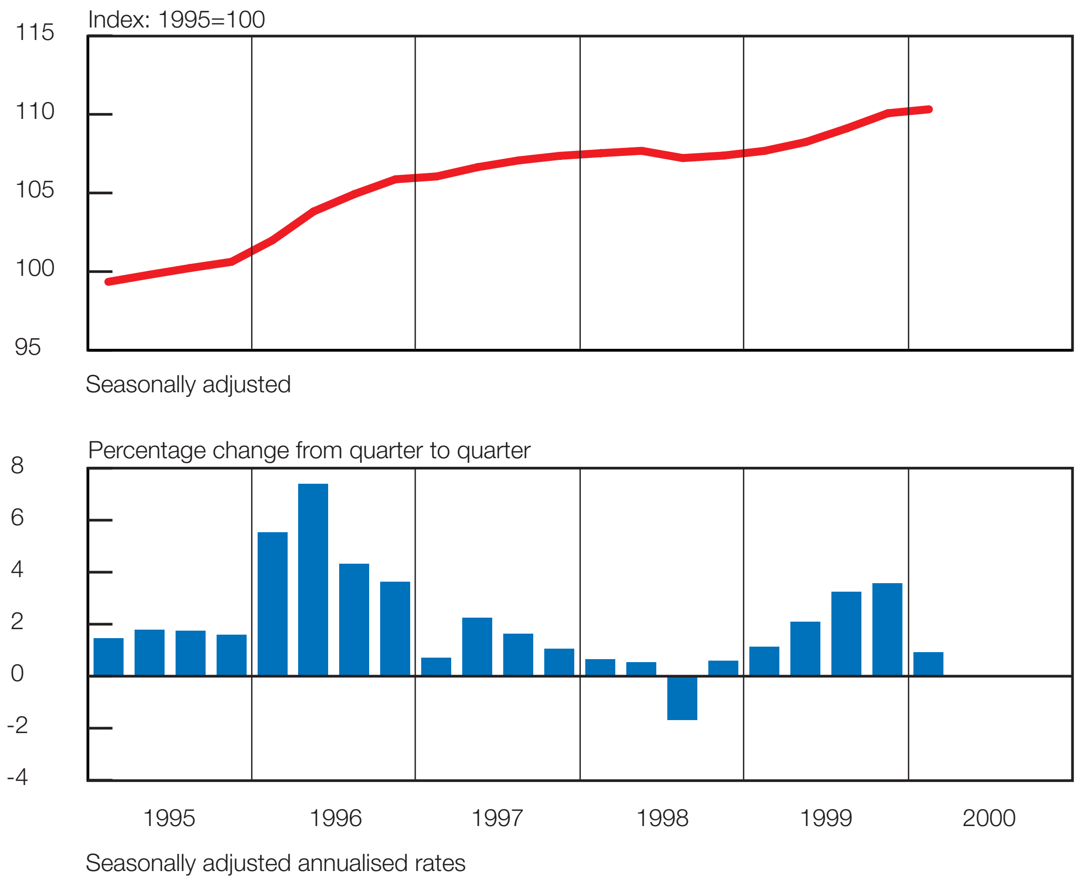
In the absence of any major random shock, these forces are likely to weigh down on price increases and reduce inflation to rates consistent with the Reserve Bank's targeted objectives.

Domestic economic developments

Domestic output

After five quarters of progressively stronger growth, the rate of expansion in the South African economy slowed down quite drastically in the first quarter of 2000. The annualised growth in the seasonally adjusted real gross domestic product fell from 3½ per cent in the fourth quarter of 1999 to just about 1 per cent in the first quarter of 2000. The total value of the real gross domestic product in the first quarter of 2000 was nevertheless still about 2½ per cent higher than in the first quarter of 1999.

Real gross domestic product



The slowdown in economic growth in the first quarter of 2000 was essentially a reflection of a *decline in the real value added by the agricultural sector* and slower growth in real output by the secondary sectors. Agricultural output rose strongly in the second half of 1999 as crops returned to normal levels following sharply reduced production volumes in 1998. In the first quarter of 2000, agricultural output in the eastern parts of the country was adversely affected by torrential rains and flooding, whereas in the south-western wine and deciduous fruit producing areas, extensive damage to crops was caused by high temperatures and veld fires.

Outside the agricultural sector, real value added (at basic prices) rose at a quarter-to-quarter annualised rate of 2 per cent in the first quarter of 2000 after an average increase of 2½ per cent had been recorded in the last two quarters of 1999. Growth over one year was also approximately 2 per cent in the first quarter of 2000.

Mining output increased at an annualised rate of 1 per cent in the first quarter of 2000. The industry's production contracted in the first three quarters of 1999, but output levelled out during the fourth quarter. The gold and diamond sectors raised output in the first quarter of 2000, but production volumes declined in the coal and other mining subsectors. Gold output responded to a rise in the price of gold in rand and also on account of efficiency gains made during 1999. These gains allow the industry to operate profitably at a lower gold price. Coal mines, faced by a general oversupply on international markets, had to curb output volumes, whereas platinum production topped out at the very high levels attained in the fourth quarter of 1999.

Real gross domestic product

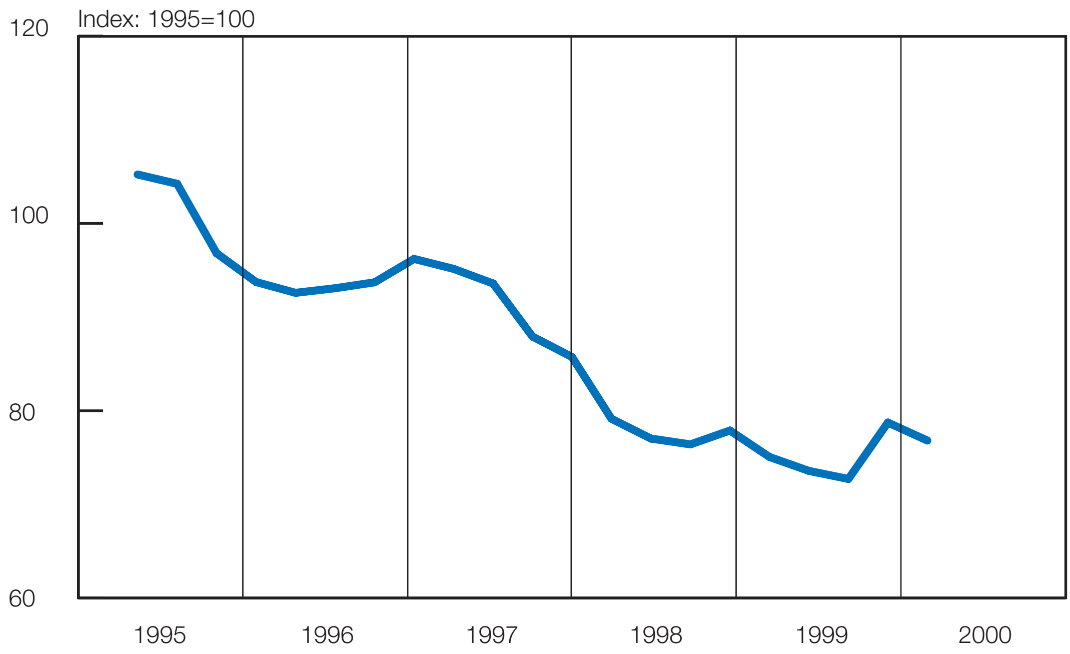
Percentage change at seasonally adjusted and annualised rates

Sectors	1999					2000
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sectors................	2½	6	13	5	1	-7½
Agriculture..................	7	16	38½	12½	4½	-17½
Mining.........................	-½	-½	-2	0	-1	1
Secondary sectors...........	0	1½	3	6	0	½
Manufacturing............	1	2	4	7	0	½
Tertiary sectors	1½	2	2	2½	2	2½
Non-agricultural sectors....	1	1½	2	3½	1	2
Total	1	2	3	3½	1	1

Manufacturing output rebounded in the second half of 1999, with seasonally adjusted growth at an annualised rate accelerating to 7 per cent in the fourth quarter of the year. In part, this strong output growth reflected the need to replenish inventories in order to meet rising demand. Demand growth in the first quarter of 2000 turned out to be somewhat less vigorous than anticipated earlier, causing some unplanned accumulation of inventories. This could have prompted some producers to curb their output expansion. Output was further affected by a spate of strikes and work stoppages in the first quarter and by delays in supplies caused by the disruption of agriculture production. Manufacturing output growth consequently slowed down to an annualised rate of just ½ per cent in the first quarter of 2000. The statistical carry-over effect of the high production volumes of the fourth quarter of 1999 still ensured year-on-year growth of 3½ per cent in the real value added by the manufacturing sector. The slight deterioration of manufacturers' sentiment was also reflected in a decline in the value of unfilled orders and in the rate of capacity utilisation during the first quarter of 2000.

The slowdown in overall economic activity led to weaker demand for electricity, and output growth in the sector supplying *electricity, gas and water* was flat in the first quarter of 2000. Because of the exceptionally wet season, supply and real output by water utilities actually declined. *Construction* activity was hampered by the high rainfall and showed virtually no growth from the fourth quarter of 1999 to the first quarter of 2000.

Real unfilled orders



Seasonally adjusted

The growth in the real value added by the *tertiary sectors* continued unabatedly at a seasonally adjusted and annualised rate of 2½ per cent in the first quarter of 2000. Output in the *transportation, storage and communication sector* was boosted by the continuing expansion of the telecommunications network and growth accelerated from an annualised rate of 3½ per cent in the fourth quarter of 1999 to 4½ per cent in the first quarter of 2000. In *commerce,* the growth in real value added received a fillip from strong household-sector demand and jumped from a quarter-to-quarter annualised rate of between 1½ per cent and 2 per cent in 1999 to 4½ per cent in the first quarter of 2000. Growth in the *financial intermediation, insurance, real-estate and business services sector* fell from an annualised rate of 7 per cent in the fourth quarter of 1999 to 3 per cent in the first quarter of 2000, mainly owing to a slow-down in the growth of demand in the financial services sector.

Domestic expenditure

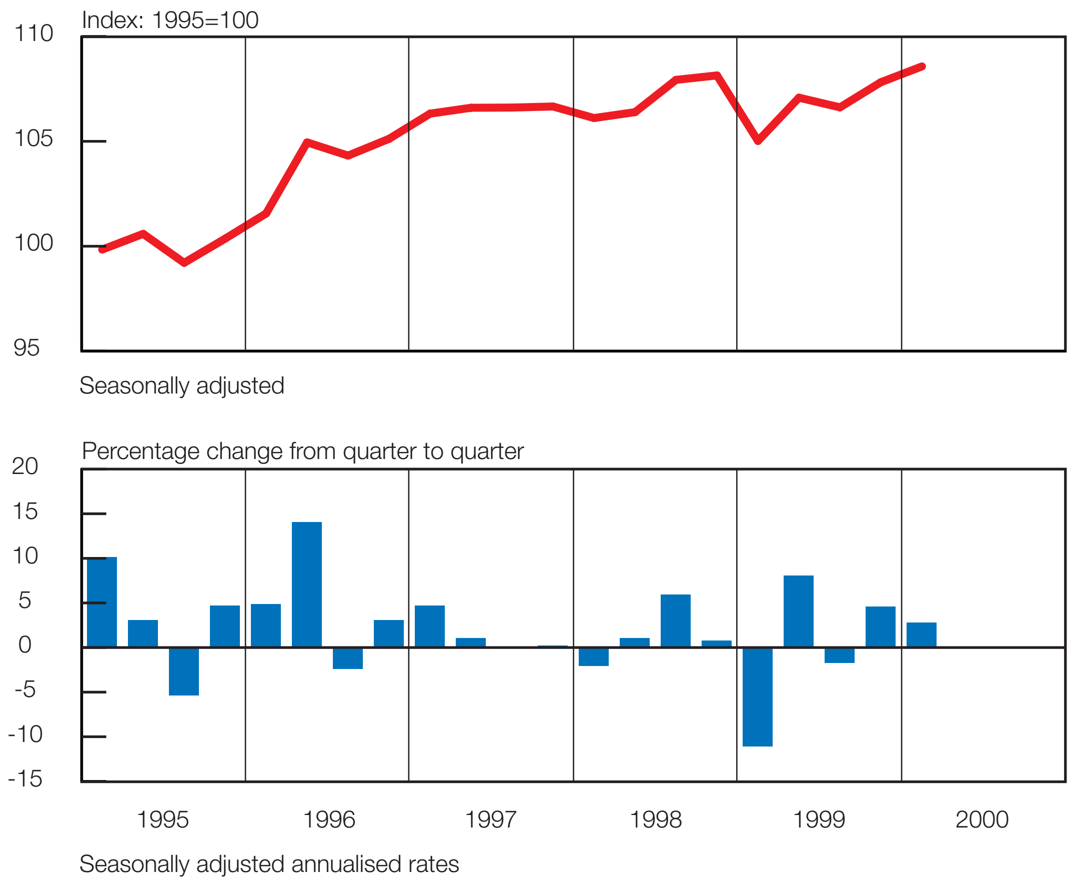
The growth in aggregate domestic demand weakened somewhat in the first quarter of 2000, reflecting a fall in real consumption expenditure by general government. Aggregate *real gross domestic expenditure* increased at a quarter-to-quarter seasonally adjusted and annualised rate of 3 per cent in the first quarter of 2000, following growth at a rate of 4½ per cent in the fourth quarter of 1999. The year-on-year growth in real gross domestic expenditure was almost 3½ per cent in the first quarter of 2000, compared with a decline of 1 per cent during the second half of 1999.

Real *final consumption expenditure by general government* declined at progressively increasing quarter-to-quarter annualised rates during 1999, reaching a decline of 3 per cent in the fourth quarter. It fell at an even faster annualised rate of 7½ per cent in the first quarter of 2000 as government departments and other organisations in the general government sector cut back their purchases of intermediate goods and economised on their remuneration expenditure. As a percentage of gross domestic

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

Components	1999					2000
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure by households	-1	1	3	3	½	3½
Final consumption expenditure by general government	-1½	-1½	-2	-3	-2	-7½
Gross fixed capital formation	-25½	-9	-5	0	-7	1½
Domestic final demand	-6	-1	1	1½	-1	1
Change in inventories (R billions)	-9,7	3,8	0,2	4,2	-0,4	6,7
Gross domestic expenditure	**-11**	**8**	**-1½**	**4½**	**-½**	**3**

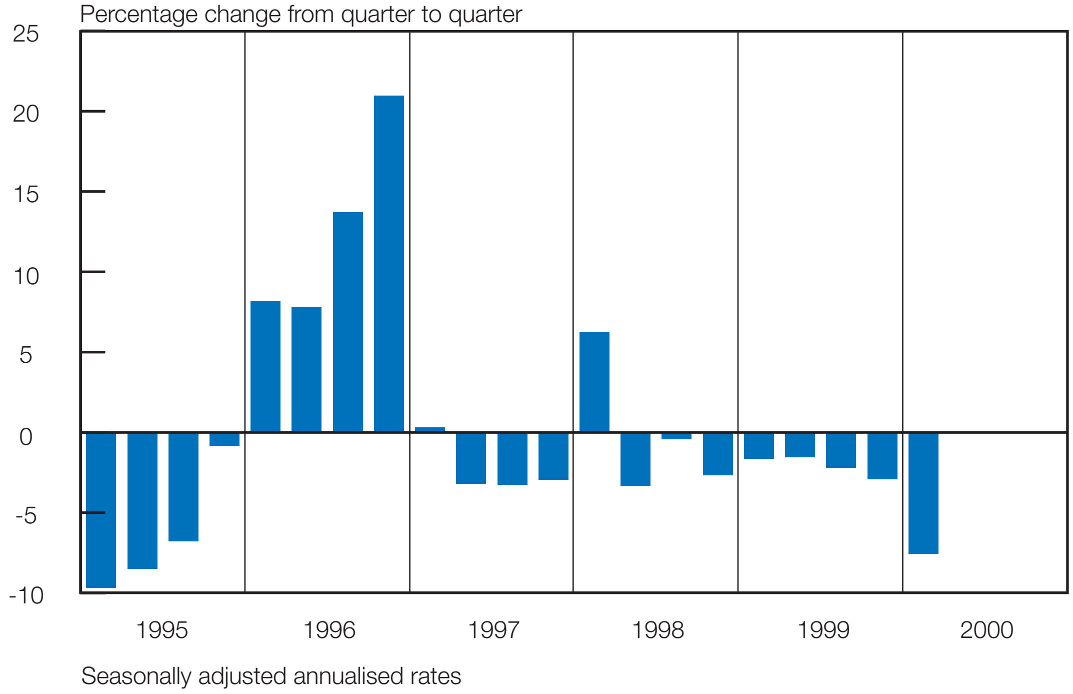
Real gross domestic expenditure



product, consumption expenditure by general government has now declined from 19½ per cent in the first quarter of 1999 to 18½ per cent in the first quarter of 2000.

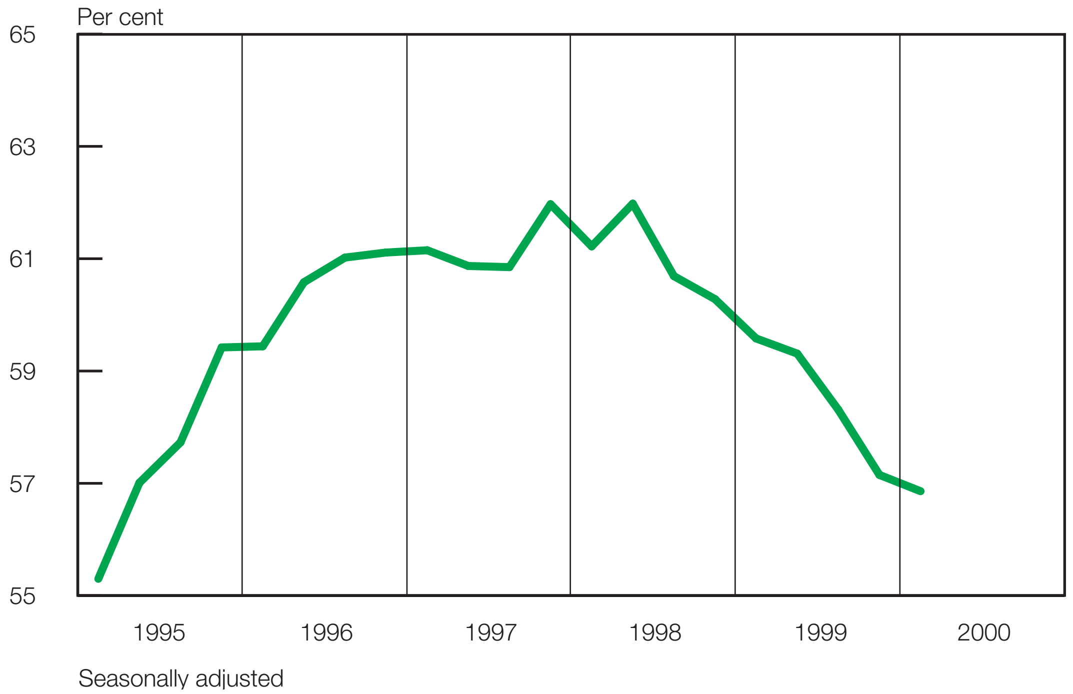
In sharp contrast to the steep decline in real general government consumption expenditure, the growth in real household consumption expenditure gathered momentum in the first quarter of 2000. The growth in *real final consumption expenditure by households* accelerated from a seasonally adjusted and annualised rate of 3 per cent in the fourth quarter of 1999 to 3½ per cent in the first quarter of 2000.

Real final consumption expenditure by general government



A fall in bank lending rates, a lowering of effective income-tax rates and a rise in real remuneration of workers encouraged households to increase their consumption expenditure. Despite the growing optimism among consumers, they avoided excessive debt accumulation. As a result, household debt as a percentage of disposable income fell from 59½ per cent in the first quarter of 1999 to 57 per cent in the first quarter of 2000.

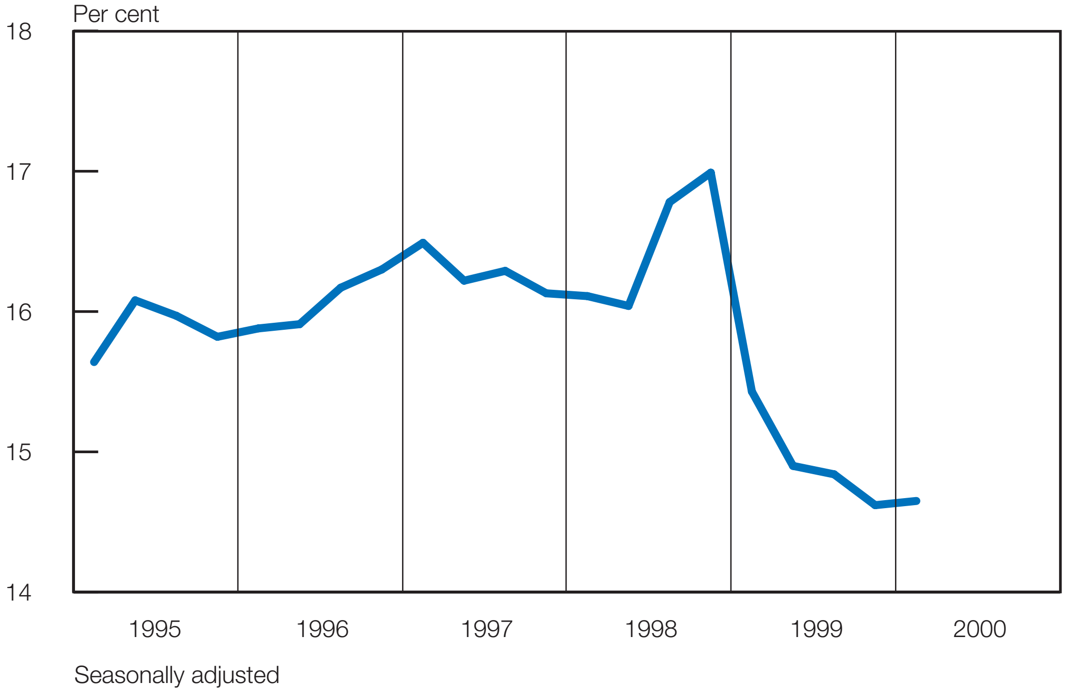
Household debt as percentage of disposable income



Increases occurred in all the major subcategories of household consumption expenditure during the first quarter of 2000. Boosted largely by consumer purchases of new motorcars and furniture, real expenditure by households on *durable goods* rose at a seasonally adjusted and annualised rate of 8½ per cent, following a decline at an annualised rate of 2 per cent in the fourth quarter of 1999. In the *semi-durables* category, higher spending was noted especially on clothing and footwear, household textiles and furniture. The less discretionary spending categories of non-durables and services also registered spending increases in real terms during the first quarter of 2000.

Real gross fixed capital formation remained virtually unchanged from the third quarter of 1999 to the fourth quarter, but increased modestly in the first quarter of 2000. There was an increase in the investment activities of private-sector firms, but capital expenditure by public corporations and general government declined in the first quarter of 2000. The reduction in fixed investment in 1999 and the small increase in the first quarter of 2000 meant that fixed investment as a percentage of gross domestic product has now fallen from 17 per cent in the fourth quarter of 1998 to 14½ per cent in the first quarter of 2000. At this level it is considered as insufficient to support economic growth at a rate high enough to lift the employment capacity of the economy.

Gross fixed capital formation as percentage of gross domestic product

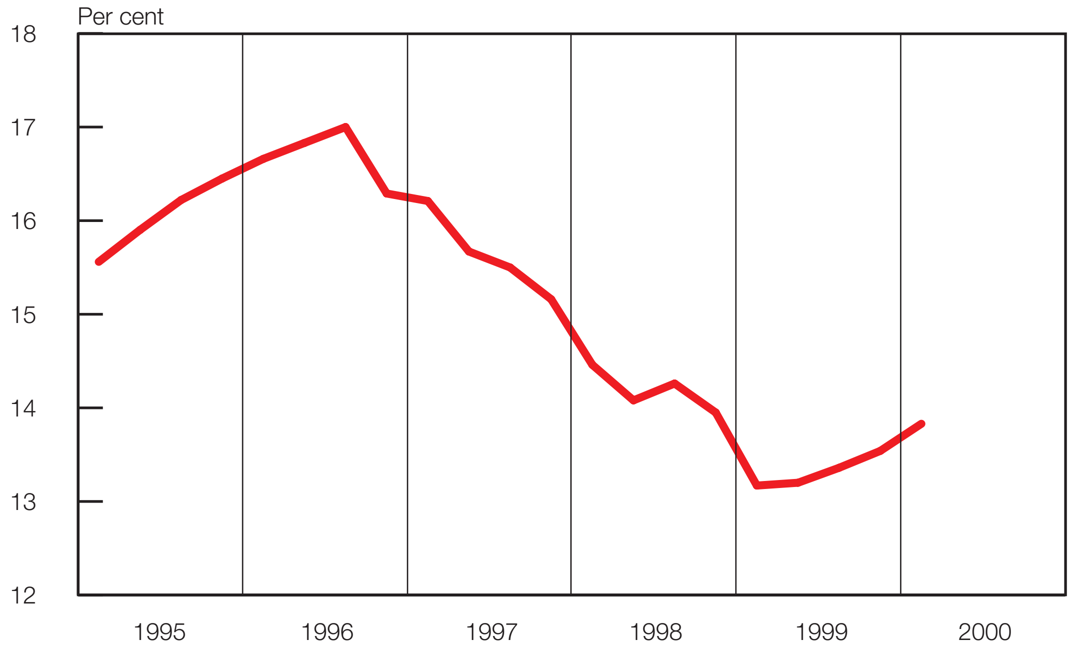


Private-sector fixed investment declined for eight consecutive quarters, before increasing at an annualised rate of 6½ per cent in the fourth quarter of 1999. This pick-up in fixed capital formation was sustained in the first quarter of 2000, albeit at a somewhat lower annualised rate of 3 per cent. Apart from the mining sector, all the main sectors of economic activity contributed to the expansion of private fixed investment activity. Companies apparently started to increase capital spending in anticipation of stronger growth in domestic and export demand. Sharply lower interest rates as well as early indications of a rise in manufacturing capacity utilisation might also have triggered some fixed investment spending. Capital formation was further boosted by the acquisition of capital equipment by companies in the financial services industry, which is leased out to producers in the other goods and service producing sectors.

Public-sector fixed capital formation declined from quarter to quarter throughout 1999 and continued to fall in the first quarter of 2000, largely because of cuts in capital spending by public corporations. Real fixed capital expenditure by general government showed almost no change from the fourth quarter of 1999 to the first quarter of 2000; increased infrastructural expenditure was neutralised by a decline in spending by the business enterprises of general government.

During the last half of 1999 businesses were encouraged to replenish inventories in anticipation of a strengthening of aggregate demand. The strengthening of demand was somewhat below expectations in the first quarter of 2000. Despite a slowdown in output growth in manufacturing there was a further rise in inventory levels in the first quarter of 2000, part of which had apparently been unplanned. As a consequence, the ratio of industrial and commercial inventories to gross domestic product increased from 13 per cent in the first quarter of 1999 to 14 per cent in the first quarter of 2000.

Industrial and commercial inventories as percentage of non-agricultural gross domestic product



Seasonally adjusted

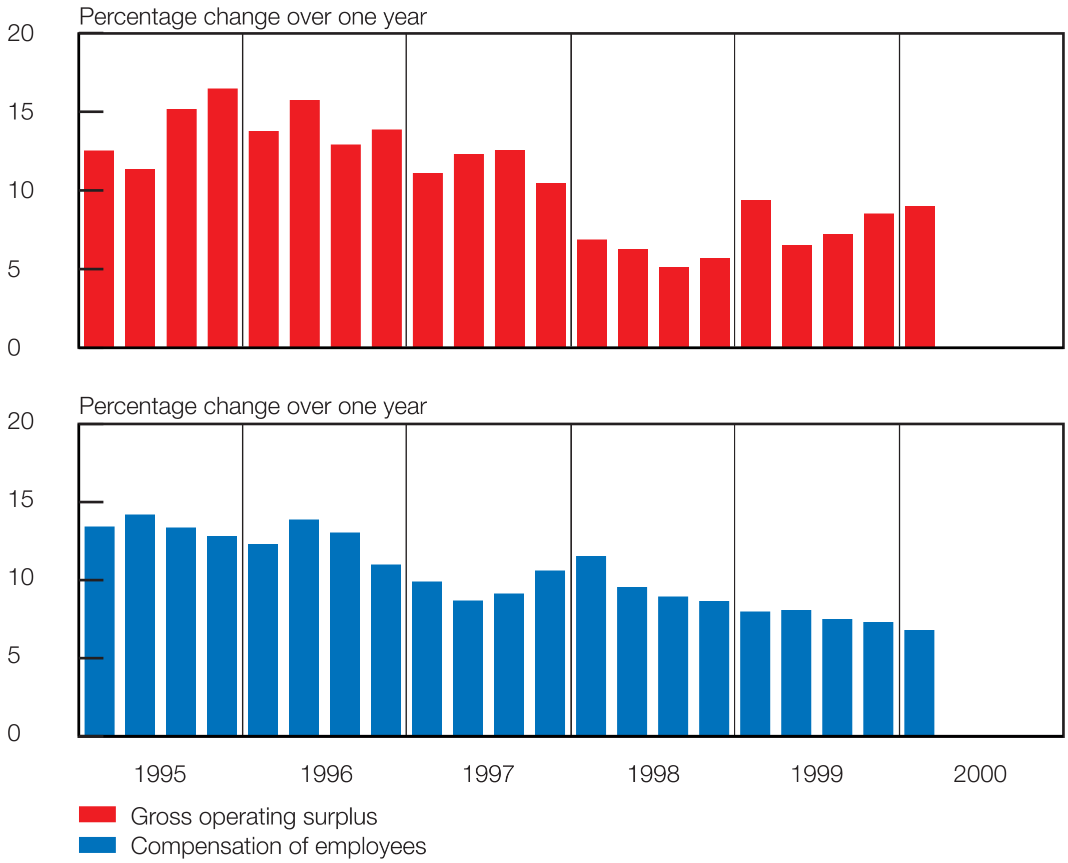
Factor income

The growth over four quarters in total nominal factor income increased slightly from 7½ per cent in the third quarter of 1999 to 8 per cent in the fourth quarter and then remained at that level in the first quarter of 2000. The unchanged growth in factor income in the first quarter of 2000 resulted essentially from slower growth in total employee compensation, which counteracted slightly stronger growth in the gross operating surpluses of businesses. These developments indicate that businesses might have widened their operating margins somewhat, in this way contributing to the existing upward pressures on production prices.

The rate of increase over four quarters in total *employee compensation* declined from 7½ per cent in the fourth quarter of 1999 to 7 per cent in the first quarter of 2000. This slowdown was particularly evident in the financial intermediation, insurance, business services and real-estate sector. In most of the other sectors of the economy, the growth in employee compensation remained broadly unchanged from the previous quarter. The growth in employee compensation nevertheless still exceeded contemporaneous consumer price inflation, and strengthened the real purchasing power of household income.

The growth over four quarters in *nominal gross operating surpluses* accelerated from 8½ per cent in the fourth quarter of 1999 to 9 per cent in the first quarter of 2000. Stronger increases were recorded in almost all the major non-agricultural sectors of the economy. Operating surpluses evidently benefited from the rising

Gross operating surplus and compensation of employees



turnovers that resulted from the relative strength in aggregate demand, some widening of operating margins and the fact that many firms had successfully economised on their overall compensation expenditures.

Domestic saving

After the *ratio of gross saving to gross domestic product* had deteriorated from the second quarter to the third quarter of 1999, there was a modest improvement to about 15½ per cent in the first quarter of 2000. This was mainly as a result of a reduction in the net dissaving of general government. The saving of private households and companies remained broadly unchanged from the fourth quarter of 1999 to the first quarter of 2000.

Despite the slight improvement in business conditions, corporate saving as a percentage of gross domestic product remained unchanged at the level of the fourth quarter of 1999. The rise in households' discretionary income resulting from lower debt servicing costs was mainly used for consumption expenditure, which left household saving unaltered as a percentage of gross domestic product.

The ongoing application of fiscal discipline caused general government dissaving as a percentage of gross domestic product to decline from 2½ per cent in the third quarter of 1998 to less than ½ per cent in the first quarter of 2000. This contributed most to the decline in the portion of capital expenditure financed by external sources from 4½ per cent in the fourth quarter of 1999 to 3½ per cent in the first quarter of 2000.

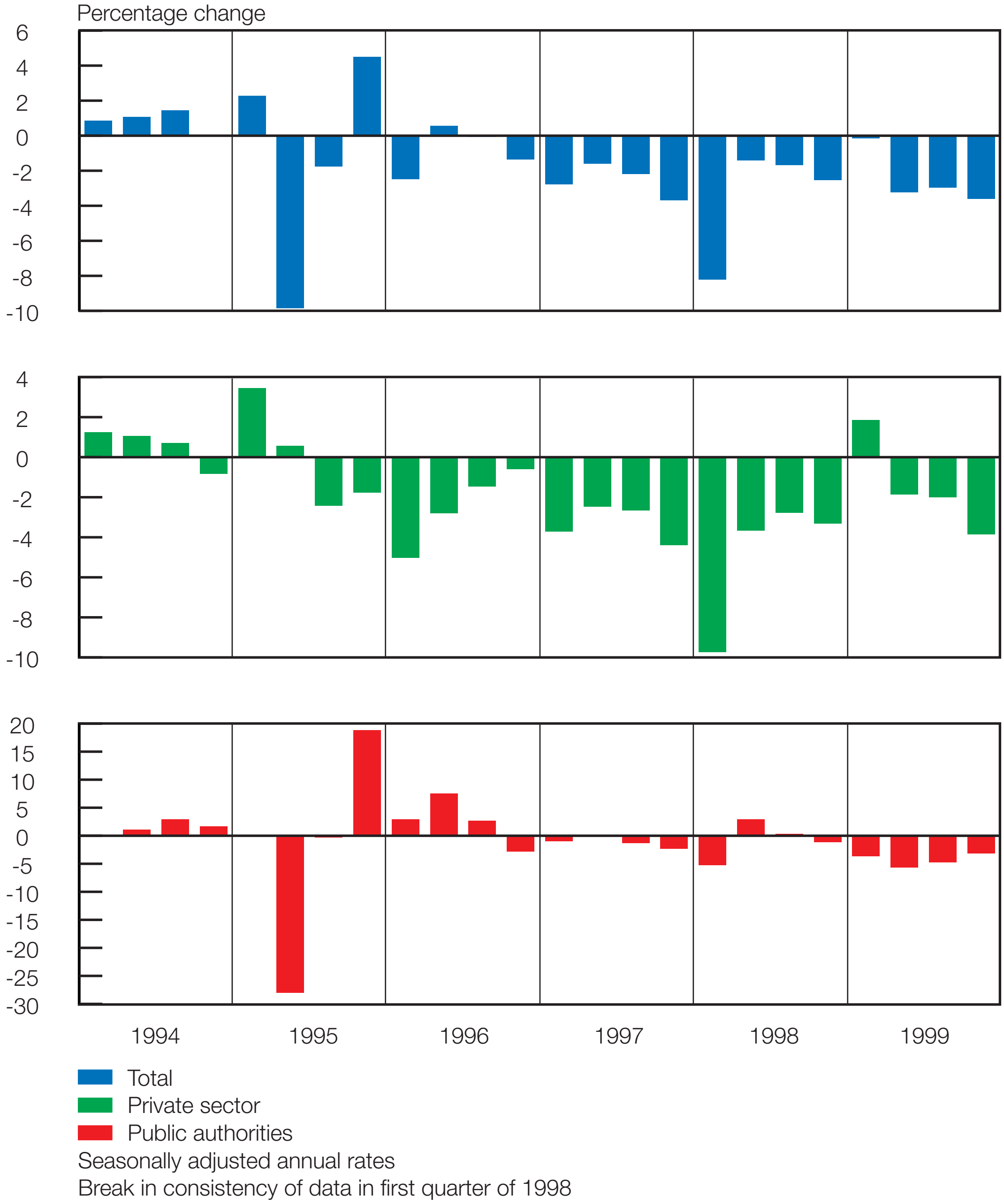
Employment

According to the *Survey of Total Employment and Earnings* by Statistics South Africa, approximately 4,79 million workers were employed in the formal non-agricultural sectors of the economy at the end of December 1999. This estimate of formal-sector employment signalled a decline of 121 000 employment opportunities or 2,5 per cent in 1999. The regular quarterly surveys further revealed a worsening in the rate of job destruction – whereas declines at an average annualised rate of 1,8 per cent occurred in the first three quarters of 1999, the rate of job losses accelerated to 3,6 per cent in the fourth quarter.

The acceleration in job losses in the course of 1999 was more pronounced in the *private sector* than in the public sector. In the second quarter of 1999, the rate of decline in private-sector job opportunities was estimated at 1,9 per cent, but this rate rose to 3,8 per cent in the fourth quarter. In contrast to this general deterioration in formal-sector job creation, new employment opportunities were created in the non-gold mining sector in the fourth quarter of 1999, while the rate of job attrition slowed down appreciably in the construction sector.

The pace at which jobs were destroyed in the *public sector* slowed down from a seasonally adjusted and annualised rate of 5,6 per cent in the second quarter of 1999 to 3,2 per cent in the fourth quarter. Nonetheless, new job opportunities were created at local government level in the fourth quarter of 1999. Furthermore, the indicated job losses in the public sector were exacerbated by the termination of the contracts of many part-time employees who had been involved in special projects.

Non-agricultural employment



Although there was no sign of a pick-up in the demand for labour in the quarterly surveyed formal non-agricultural sectors of the economy during 1999, the results of the *1998 October Household Survey* indicated an increase in overall employment in the economy from 9,3 million workers in October 1996 to 9,4 million in October 1998. Over the same period, however, the number of job-seekers increased at an even faster rate, causing the official estimate of unemployment to rise from 19,3 per cent of the economically active population in October 1996 to 25,2 per cent in October 1998. Prominent increases in informal-sector employment and employment in the agricultural sector were identified in the survey.

Surveys by a private-sector labour consultancy indicated that 100 000 workdays were lost due to industrial action in the first quarter of 2000 – substantially more than the 25 000 workdays lost in the first quarter of 1999, but still less than the first-quarter average of 140 000 for the past decade. Strike activity in the first quarter of 2000 was dominated by an unprocedural strike in the motor industry which lasted 11 days and led to the eventual dismissal of a large number of workers.

The Congress of South African Trade Unions (COSATU) embarked on a programme of public demonstrations to protest against on-going job losses, the amendment of the Insolvency Act and as a call for making retrenchment a negotiable issue. This programme manifested itself in all the major sectors of the economy at different times during the first quarter of 2000, consisting mainly of peaceful lunch-time demonstrations, marches and pickets with minimal disruption of work. The demonstrations culminated in a general strike on 10 May 2000 which reportedly could have had negative consequences for production volumes in the second quarter of 2000.

Official statistics indicate that only about one in five members of the working-age population is adequately skilled. Recognising this structural impediment to sustainable long-term economic growth, government enacted a skills levy which came into effect on 1 April 2000. Employers are required to pay this levy at a rate of 0,5 per cent of total payrolls, to be increased to 1 per cent from 1 April 2001.

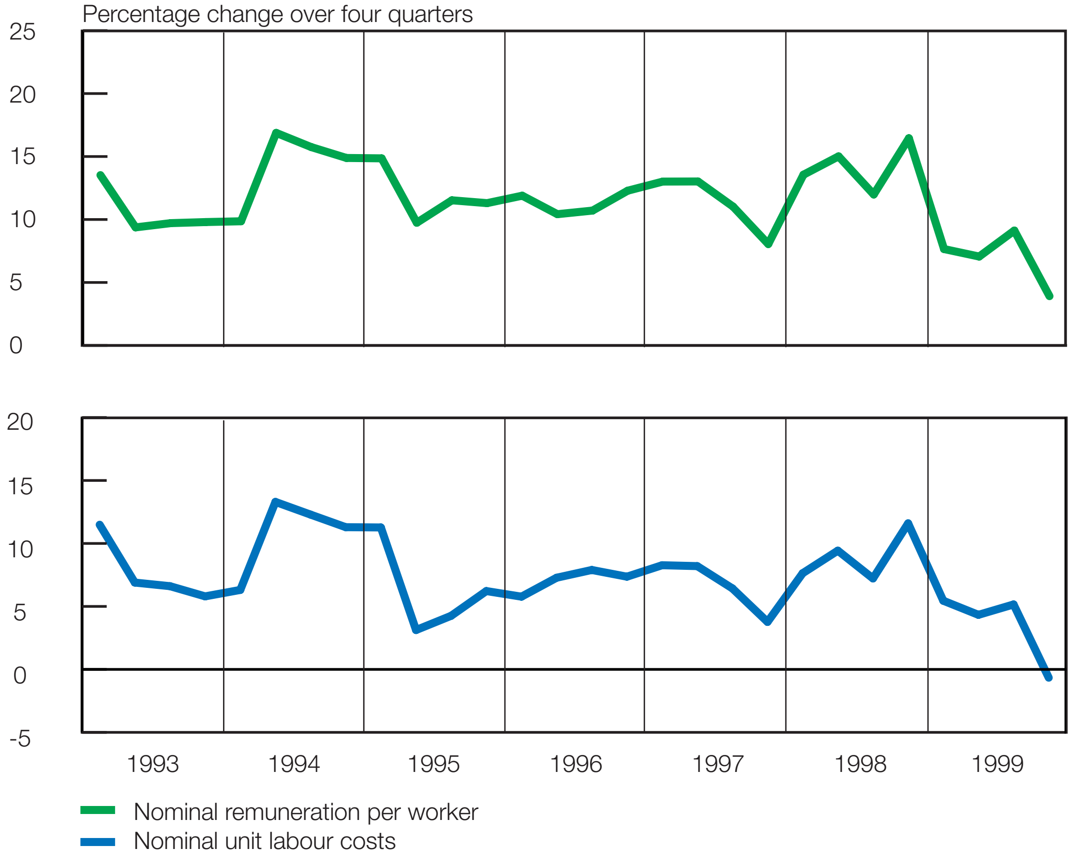
Labour costs and productivity

The growth in the *nominal remuneration per worker in the non-agricultural sectors* of the economy fell back from an average year-on-year rate of 7,9 per cent in the first three quarters of 1999 to 3,9 per cent in the fourth quarter. For 1999 as a whole, the average earnings of workers increased by 6,9 per cent, implying an increase in the real *consumption wage* (nominal remuneration per worker adjusted for consumer price inflation) of 1,7 per cent.

The slowdown in nominal earnings growth was led by the *public sector.* The growth in nominal remuneration per worker in the public sector slowed down from an average year-on-year rate of 5,5 per cent in the first three quarters of 1999 to 0,9 per cent in the fourth quarter. By slowing down the pace of earnings growth in the public sector, government is encouraging an overall slowdown in earnings growth that is consistent with the national objective of curbing inflation.

Salary and wage increases granted by *private-sector* institutions were, on average, more generous than those granted by the public sector during 1999. The year-on-year growth in nominal remuneration per worker slowed down from an average of 9,9 per cent in the first three quarters of 1999 to 6,7 per cent in the fourth quarter, but the average growth for the 1999 calendar year was still at 9,1 per cent, implying a rise of 3,7 per cent in the *real consumption wage of private-sector workers.*

Non-agricultural nominal remuneration per worker and unit labour costs



Nominal remuneration per worker rose marginally faster than output prices (as reflected by the price deflator for value added in the non-agricultural sectors of the economy) during 1999. This resulted in a small increase in the *real product wage* (i.e. nominal wage increases adjusted for output price inflation) of 0,3 per cent in 1999. During 1999, year-on-year growth in the real product wage accelerated from 0,1 per cent in the first quarter to 2,8 per cent in the third quarter, indicating that output price adjustments were increasingly lagging behind nominal wage developments. In the fourth quarter of 1999, the real product wage declined by 2 per cent – indicating that cost increases were still being partially absorbed by domestic producers in an environment of growing competition against external suppliers.

Despite the marked rise in industrial action in 1999, the growth in *real output per worker,* or labour productivity, in the formal non-agricultural sectors of the economy rose continuously from a year-on-year rate of 2,1 per cent in the first quarter of 1999 to 4,6 per cent in the fourth quarter. On average, production per worker increased at a year-to-year rate of 3,3 per cent in 1999. The improvement in labour productivity was not only a consequence of declining employment, but also of the broad-based economic recovery in the second half of 1999 and efficiency gains from the introduction of modern production technologies by South African producers.

Rising labour productivity contributed meaningfully to the containment of the growth in *nominal unit labour costs* (i.e. the ratio of nominal remuneration per worker to output per worker) during 1999. Unit labour costs rose by only 3,5 per cent in 1999, but declined on a year-on-year basis by 0,7 per cent in the fourth quarter. This was when the exceptionally strong increase in the fourth quarter of 1998 became included in the base for the calculation of year-on-year growth rates.

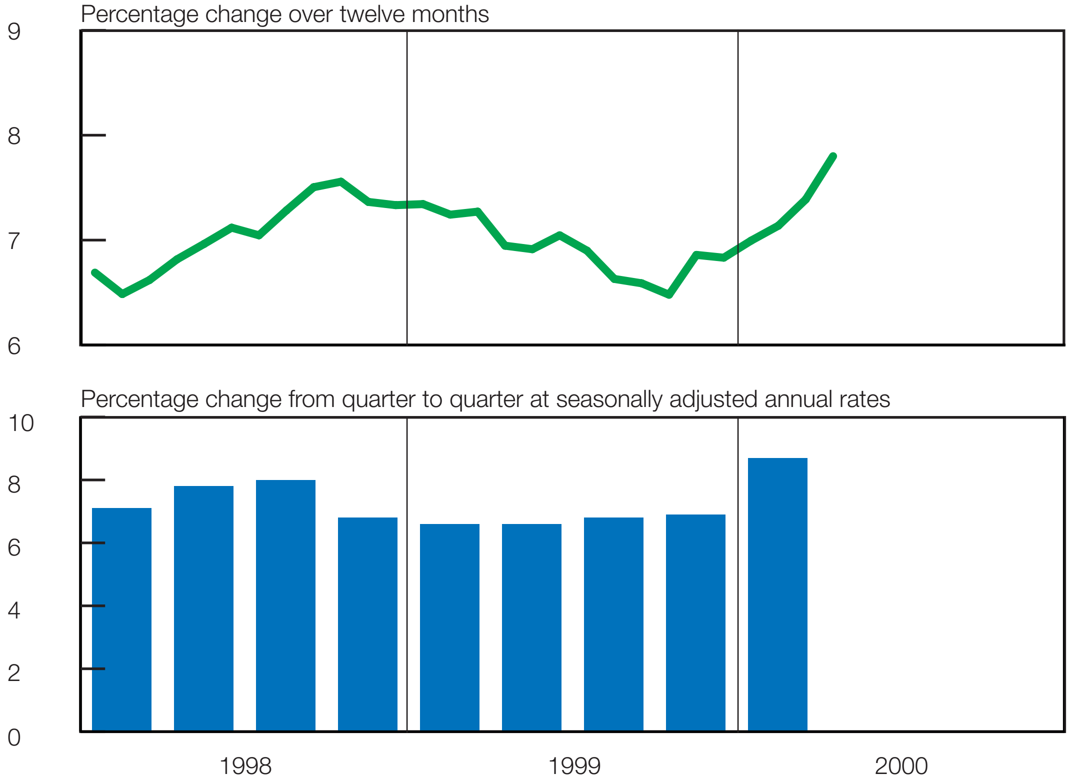
For the containment of price inflation, it remains essential that the growth in labour costs should continue to be moderate and not contribute to inflation expectations. In this way, wage developments would not endanger the sustainability of the current economic recovery and the ultimate reduction in the high level of unemployment. By the same token, production price developments should also not lead to an inappropriate widening of operating margins which could bring the recovery to a premature end.

Inflation

A new monetary policy framework based on the direct targeting of consumer price inflation was formally announced by the Minister of Finance when he presented his Budget proposals for the 2000/2001 fiscal year to Parliament. The inflation target was set as an average increase of between 3 and 6 per cent in 2002 in the overall consumer price index for metropolitan and other urban areas, excluding the influence of mortgage interest costs, or CPIX as it became known. The new approach was preferred to the previously applied "eclectic" approach because of certain advantages, such as

- the enhanced transparency of monetary policy;
- the formal co-ordination of macroeconomic policies to contain inflation in pursuit of the broader economic objective of sustainable high economic growth and employment creation;
- the focusing of monetary policy on a single objective and the enhanced accountability of the Reserve Bank; and
- the provision of an anchor for formulating expectations of future inflation which is expected to have a bearing on price and wage setting.

Consumer price index (CPIX)*



* Overall consumer price index for metropolitan and other urban areas, excluding interest rates on mortgage bonds

Over the past year or so the twelve-month rate of increase in the new benchmark index slowed down from 7,3 per cent in March 1999 to 6,5 per cent in October. CPIX then accelerated to 7,8 per cent in April 2000. Over the same period, the quarter-to-quarter increase in CPIX accelerated from a seasonally adjusted annualised rate of 6,8 per cent in the third quarter of 1999 to 8,7 per cent in the first quarter of 2000 – the highest quarter-to-quarter increase in more than three years.

The year-on-year rate of *overall consumer price inflation* declined from 9,4 per cent in November 1998 to 1,7 per cent in October 1999, mainly because of the steep decline in mortgage bond rates over this period. Subsequently overall consumer price inflation accelerated to 4,5 per cent in April 2000 as inflation in the prices of consumer goods picked up and the low base established by the reduction in mortgage bond rates in 1999 began to enter the calculation of year-on-year inflation.

Measured from quarter to quarter, overall consumer price inflation accelerated from 3,0 per cent in the fourth quarter of 1999 to 6,6 per cent in the first quarter. This acceleration arose mainly from a turnaround in the prices of *consumer services,* which went from a deflation rate of 0,9 per cent in the fourth quarter of 1999 to a rate of increase of 5,3 per cent in the first quarter of 2000. This inflation reversal was essentially related to the waning impact that declines in mortgage bond rates had on overall price changes. Inflation in the prices of consumer goods also accelerated from an annualised rate of 7,3 per cent in the fourth quarter of 1999 to 8,4 per cent in the first quarter of 2000. The persistence of high inflation in the prices of consumer goods was caused by the rising prices of petrol and diesel, food at the retail level, and alcoholic beverages and tobacco. The underlying reasons for these price increases were the rising cost of imported goods following the depreciation of the rand during the early months of 2000, the damage caused to crops and harvests by the recent floods and the impact on certain prices of the increase in excise duties announced in the budget of the National Government.

Paramount among the reasons for the acceleration in CPIX inflation were the rising transport costs associated with the steep rise in the international price of crude oil and higher food prices following extensive damage to crops and harvests caused by the recent torrential rains and flooding in many parts of the country. If the increases in the prices of food, petrol and diesel are excluded, the rise in CPIX from April 1999 to April 2000 could have been 1,7 percentage points lower than the actual measure of inflation.

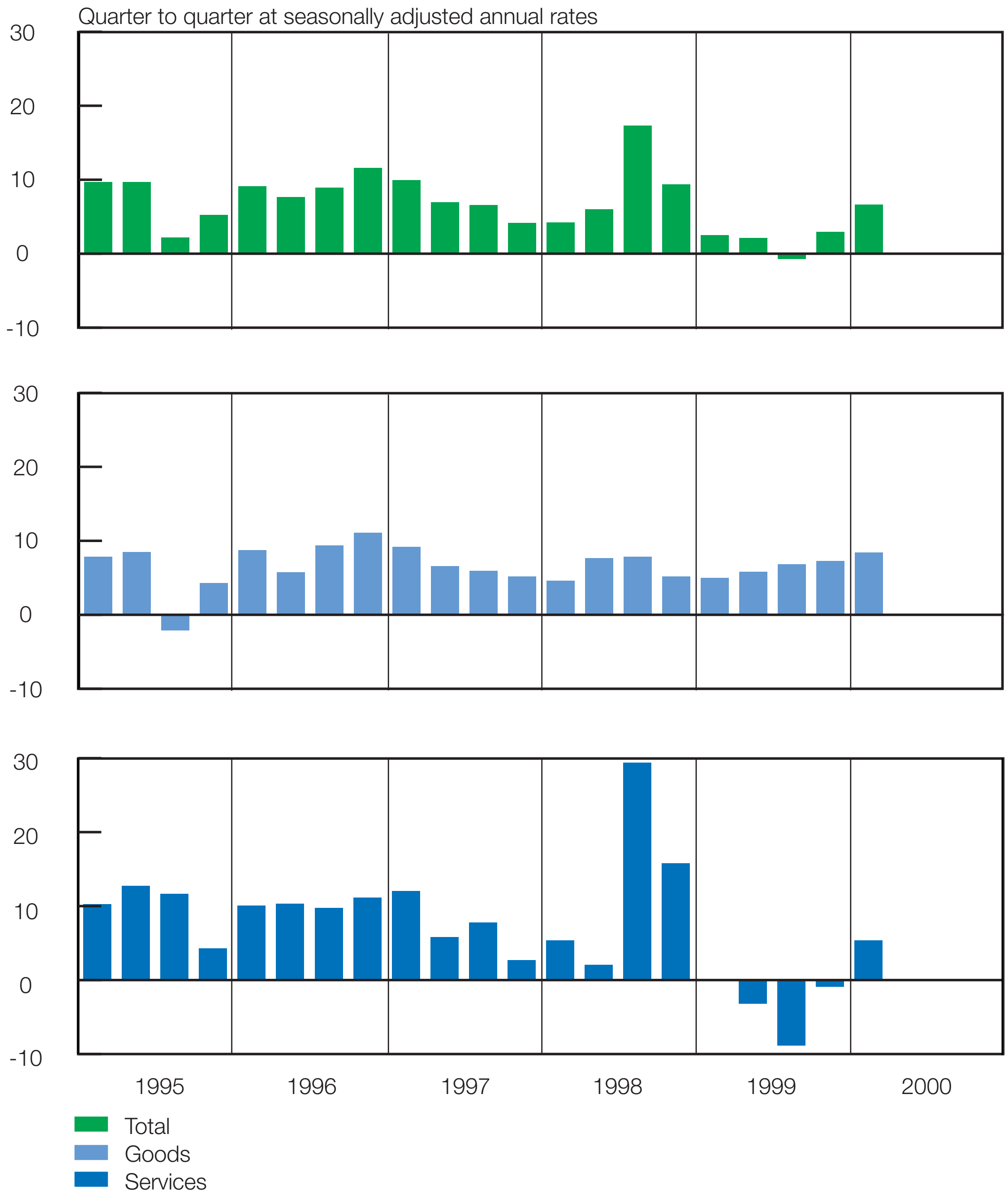
Consumer prices*

Quarter-to-quarter changes at annualised rates

Period	Goods	Services	Overall
1998: Year	**6,0**	**7,9**	**6,9**
1999: 1st qr	5,0	0,1	2,5
2nd qr	5,8	-3,2	2,2
3rd qr	6,8	-8,8	-0,7
4th qr	7,3	-0,9	3,0
Year	**6,1**	**4,2**	**5,2**
2000: 1st qr	8,4	5,3	6,6

* For metropolitan areas only

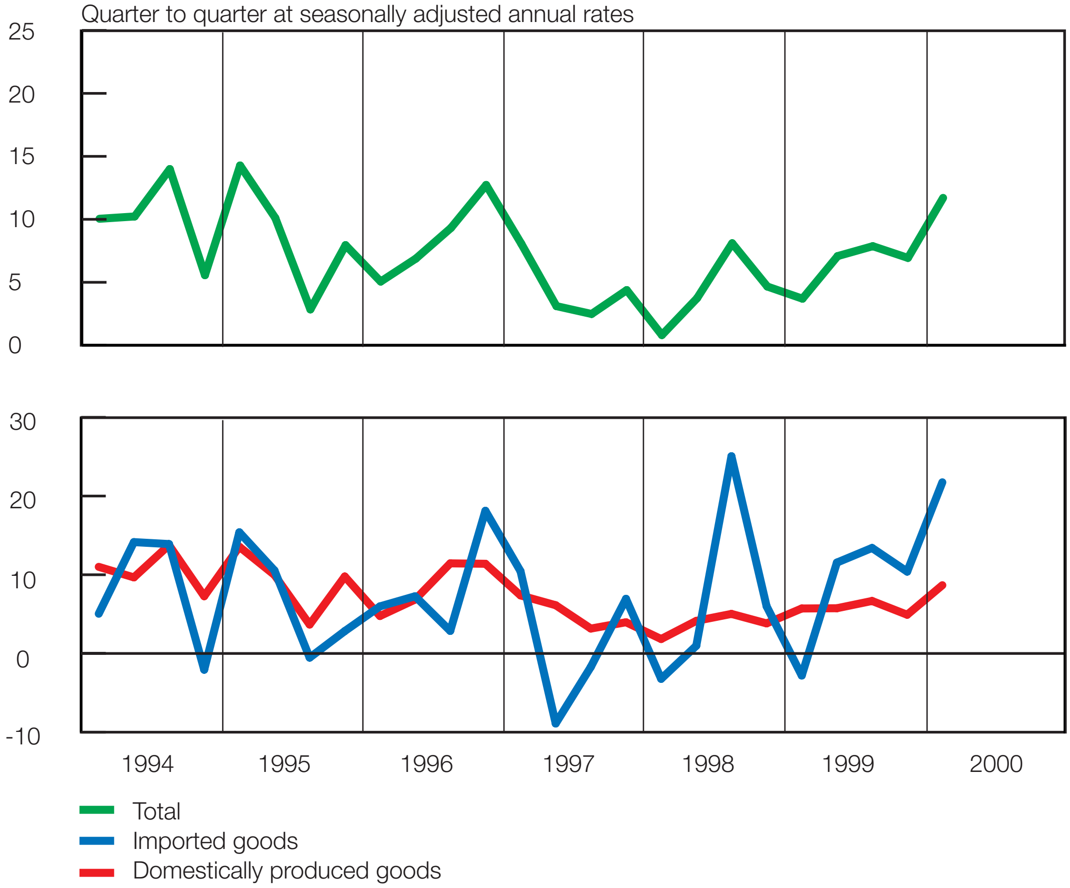
Consumer prices*



* Including mortgage costs
Metropolitan areas only

Inflation in production prices, which usually foreshadows consumer price changes, has risen sharply in recent months. The year-on-year rate of increase in the *all-goods production price index* almost doubled from 4,4 per cent in January 1999 to 8,6 per cent in March 2000 and 10,1 per cent in April. Measured from quarter to quarter, inflation in production prices rose from a seasonally adjusted and annualised rate of 6,9 per cent in the fourth quarter of 1999 to 11,7 per cent in the first quarter of 2000. Higher rates of increase in the prices of both domestically produced goods and imported goods contributed to this acceleration in production price inflation.

Production prices



Inflation in the prices of *domestically produced goods* accelerated from a seasonally adjusted and annualised rate of 4,9 per cent in the fourth quarter of 1999 to 8,7 per cent in the first quarter of 2000. Prices increased steeply over a broad front: petrol and diesel, food, alcoholic beverages and tobacco, textiles, clothing and footwear, electricity, gas and water, and mining products. Measured over periods of twelve months, the prices of domestically produced goods rose by 8,0 per cent in the year to April 2000, considerably more than the year-on-year rise of 3,2 per cent recorded less than two years earlier in June 1998.

Production prices
Quarter-to-quarter changes at annualised rates

Period	All-goods production prices	Domestically produced goods	Imported goods
1998: Year	**3,5**	**3,5**	**3,1**
1999: 1st qr	3,7	5,7	-2,8
2nd qr	7,1	5,7	11,5
3rd qr	7,9	6,7	13,4
4th qr	6,9	4,9	10,4
Year	**5,8**	**5,3**	**7,8**
2000: 1st qr	11,7	8,7	21,7

The quarter-to-quarter increase in the prices of *imported goods* accelerated from 10,4 per cent in the fourth quarter of 1999 to 21,7 per cent in the first quarter of 2000. Over and above the very sharp increase in the international prices of crude oil, the recent weakness of the rand contributed to the acceleration in the prices of imported goods. Sizeable price increases were recorded in a number of categories of imported goods, such as basic metals, chemicals and chemical products, wearing apparel and non-food agricultural products. In April 2000, the aggregate price level of imported goods was 16,2 per cent higher than in April 1999.

Foreign trade and payments

Current account

After having advanced strongly in the fourth quarter of 1999, the rate of increase in merchandise imports slowed down noticeably in the first quarter of 2000. The weaker growth in import demand was most likely related to the slowdown in aggregate domestic demand over this period. In nominal terms, however, increases in the value of merchandise and net gold exports more than offset the higher value of merchandise imports. Despite a slight deterioration in the deficit on the services account, the deficit on the current account of the balance of payments (seasonally adjusted and annualised) accordingly improved from R5,6 billion in the fourth quarter of 1999 to R4,7 billion in the first quarter of 2000. As a ratio of the gross domestic product, the current account deficit was reduced fractionally from 0,7 per cent in the fourth quarter of 1999 to 0,6 per cent in the first quarter of 2000.

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

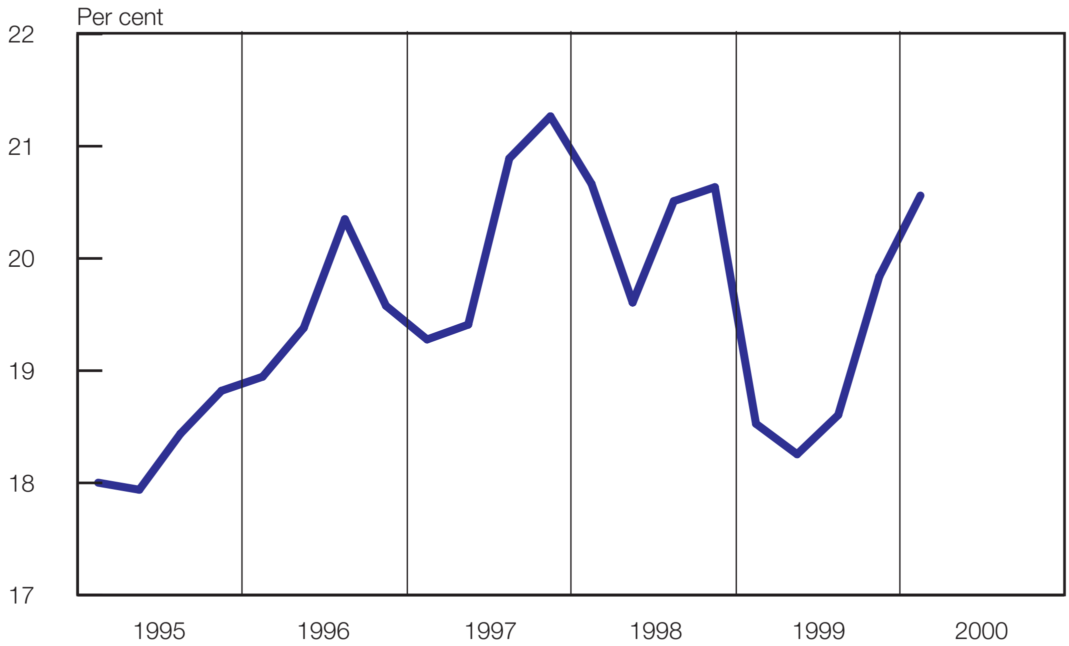
	1999					2000
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	147,2	139,6	148,2	161,0	149,0	174,7
Net gold exports	24,7	23,8	22,9	25,7	24,3	27,0
Merchandise imports	-142,6	-142,5	-149,7	-166,7	-150,4	-180,4
Net service, income and current transfer payments	-26,5	-24,6	-26,3	-25,6	-25,8	-26,0
Balance on current account	2,8	-3,7	-4,9	-5,6	-2,9	-4,7

The *value of merchandise imports* (seasonally adjusted and annualised) which had risen by 11,4 per cent in the fourth quarter of 1999, rose by 8,2 per cent to R180,4 billion in the first quarter of 2000. The higher value of imported goods could mainly be attributed to an increase in the value of manufactured goods. Strong increases were registered, especially in the category for vehicle and transport equipment. The physical volume of oil imports declined, but the impact that this could have had on the value of oil imports was partly neutralised by higher oil prices in the first quarter of 2000.

Despite the lower growth in real gross domestic expenditure and the lower oil imports, *merchandise import volumes* increased by about 4½ per cent in the first quarter of 2000, following growth of almost 8 per cent in the fourth quarter of 1999. This was the fourth consecutive quarter of growing import volumes and it took the portion of real gross domestic demand that is satisfied through imports of goods (i.e. the “import penetration ratio”) from 18½ per cent in the second quarter of 1999 to 20½ per cent in the first quarter of 2000. A slight acceleration in wholesale prices in trading-partner countries and the depreciation of the rand caused the prices of imported goods in rand to rise by 3,8 per cent in the first quarter of 2000.

The seasonally adjusted and annualised *value of merchandise exports* rose by 8½ per cent in the first quarter of 2000 to a level of R174,7 billion. Increases were recorded in all three main categories of merchandise exports, namely mining, agriculture and manufacturing. Exports of base and platinum group metals boosted mining exports, whereas increases in the subcategories for machinery and electrical equipment contributed to the higher value of exports of manufactured goods. The value of exports of agricultural products rose only marginally in the first quarter of 2000.

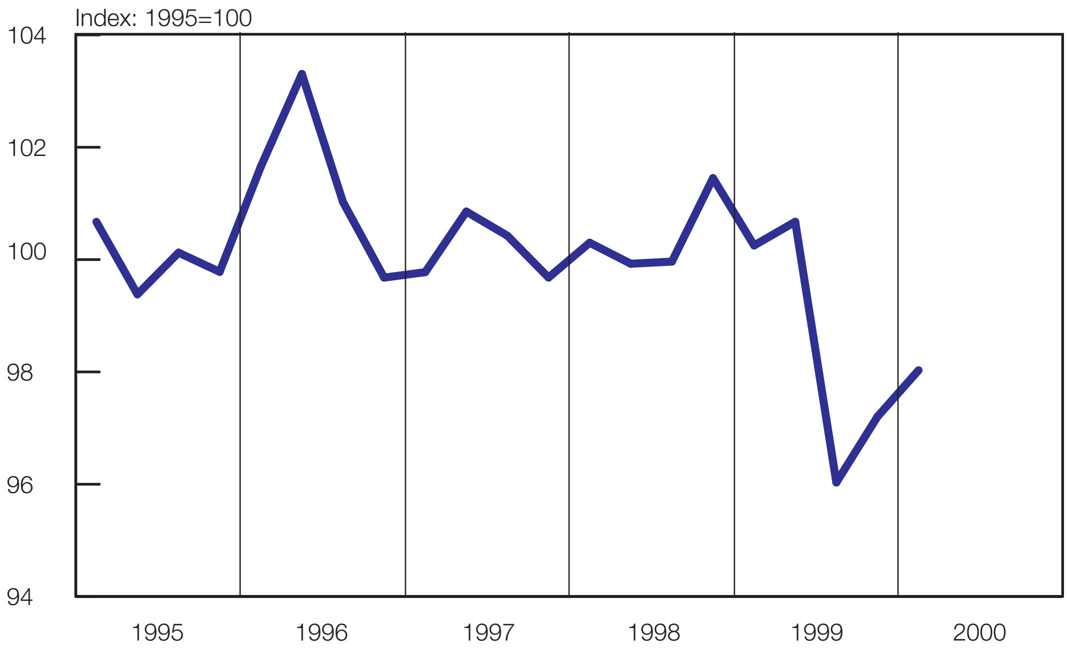
Import penetration ratio



The *prices in rand of merchandise exports* increased by 4 per cent from the fourth quarter of 1999 to the first quarter of 2000. International commodity prices improved slightly, but more important for the increase in export values was the depreciation of the rand against the US dollar. The terms of trade, which had deteriorated sharply in the third quarter of 1999, improved somewhat in the last quarter of 1999 and again in the first quarter of 2000, but still have not fully regained the losses of last year. Merchandise export volumes rose by 4½ per cent in the first quarter of 2000, only slightly slower than the average rate of 5 per cent per quarter attained in the second half of 1999.

The annualised *value of net gold exports* increased further by 5,1 per cent to R27,0 billion in the first quarter of 2000. The volume of gold exported declined somewhat, but the increase in the price per fine ounce was sufficient to secure the increase in nominal value. Assisted by the depreciation of the rand, the average realised gold price firmed from R1 834 per fine ounce in the fourth quarter of 1999 to R1 953 per fine ounce in the first quarter of 2000. In dollars, the fixing price of gold declined from US$296 per fine ounce to US$290 per fine ounce over the same period.

Terms of trade including gold



Net *service, income and current transfer payments* to non-residents rose modestly from a seasonally adjusted and annualised value of R25,6 billion in the fourth quarter of 1999 to R26,0 billion in the first quarter of 2000. This slight deterioration in the deficit on the services account could be attributed to an increase in service payments which outweighed higher service receipts. Although income from dividends and interest rose in the first quarter of 2000, it was neutralised by higher payments to non-resident organisations for transportation and travel services rendered.

Financial account

The balance on the financial account, which had shown inflows of capital at an increasing rate throughout 1999, contracted sharply from the fourth quarter of 1999 to the first quarter of 2000. The surplus on the financial account (including unrecorded transactions, but excluding reserve-related liabilities) declined from R13,8 billion in the fourth quarter of 1999 to R3,2 billion in the first quarter of 2000. Investors' sentiment towards South Africa turned negative in the first quarter as part of a global reassessment of risk-taking in emerging markets and heightened volatility in asset prices. Despite having been assessed as an investment-grade country by the Standard and Poor's rating agency, non-residents sold bonds in large amounts during the first five months of 2000.

International capital flows for the financing of *foreign direct investment* into South Africa increased from R3,2 billion in the fourth quarter of 1999 to R4,5 billion in the first quarter of 2000. The bulk of this inflow came from the acquisition of a domestic information technology company by a United States corporation. Direct outward investment by resident companies changed from an inflow of R2,7 billion in the fourth quarter of 1999 (which resulted mainly from the sale by a South African company of a controlling interest in a United Kingdom listed company to a non-resident) to an outflow of R1,3 billion in the first quarter of 2000. The outflow in the first quarter was essentially direct equity flows from South African residents seeking to diversify their assets into other markets. It should not be seen as a lack of confidence in the future wealth-creating capacity of the South African economy. On a net basis, direct investment capital still flowed into the South African economy in the first quarter of 2000, albeit at R3,2 billion, which is by far less than the inflow of R5,9 billion in the fourth quarter of 1999.

Net financial transactions not related to reserves
R billions

	1999					2000
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Liabilities						
Direct investment	2,0	1,5	1,7	3,2	8,4	4,5
Portfolio investment	10,8	26,2	29,9	15,5	82,4	4,6
Other investment	-2,2	-3,3	-9,1	-4,8	-19,4	3,2
Total liabilities	**10,6**	**24,4**	**22,5**	**13,9**	**71,4**	**12,3**
Assets						
Direct investment	-4,5	-3,0	-2,0	2,7	-6,8	-1,3
Portfolio investment	-6,7	-10,9	-6,1	-7,6	-31,3	-11,2
Other investment	-1,5	-0,6	-3,7	-2,4	-8,2	-2,5
Total assets	**-12,7**	**-14,5**	**-11,8**	**-7,3**	**-46,3**	**-15,0**
Total financial transactions*	**2,6**	**4,1**	**6,8**	**13,8**	**27,3**	**3,2**

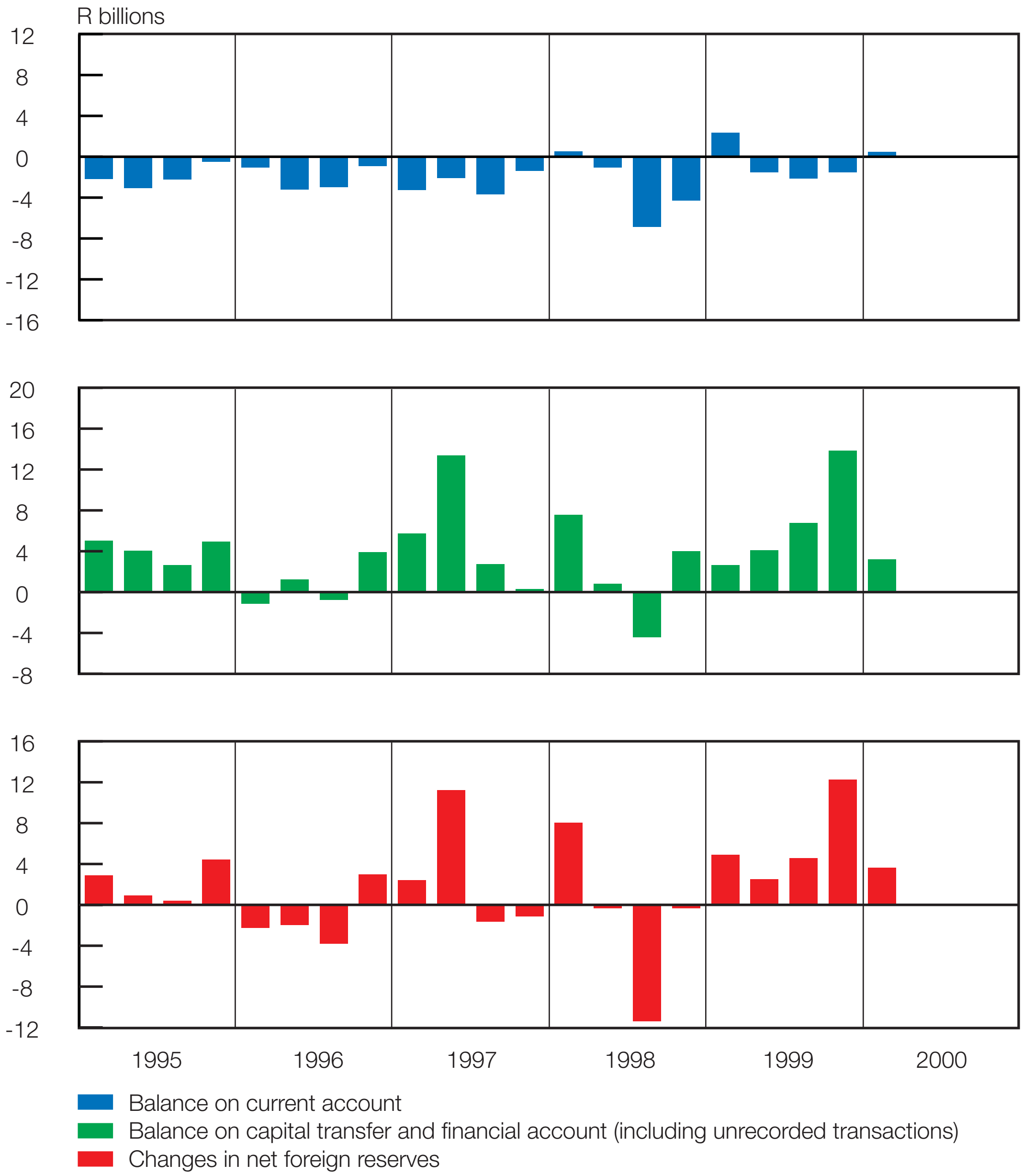
* Including unrecorded transactions

Foreign portfolio investments into South Africa fell from R15,5 billion in the fourth quarter of 1999 to R4,6 billion in the first quarter of 2000 as risk aversion towards emerging market economies mounted. Among other things, non-resident investors sold on a net basis part of their holdings of domestic fixed-interest securities. Offsetting this decline in portfolio investment were international bond issues of US$750 million by the National Government and €500 million by Telkom. There was also a further inflow of foreign equity portfolio capital, but this was significantly lower than the inflow of the fourth quarter of 2000.

As part of their asset diversification strategies, South African institutional investors and individuals continued to broaden their holdings of foreign assets under the existing exchange control regulations. Resident portfolio outflows accordingly accelerated from R7,6 billion in the fourth quarter of 1999 to R11,2 billion in the first quarter of 2000. A sizeable portion of the outflows in the first quarter of 2000 stemmed from the allocation of shares in a United States corporation to a South African resident in compensation for the acquisition of the information technology company referred to previously. In total, net portfolio investment changed from an inflow of R7,9 billion in the fourth quarter of 1999 to an outflow of R6,6 billion in the first quarter of 2000.

Other inward foreign investment to South Africa turned from an outflow of R4,8 billion in the fourth quarter of 1999 to an inflow of R3,2 billion in the first quarter of 2000. This inflow consisted mainly of capital flows to and from private banks and other private creditors, mainly in the form of changes in outstanding loans, trade finance and bank deposits. As was the case in the fourth quarter of 1999, non-residents reduced their foreign-currency denominated deposits with South African banks in the first quarter of 2000. This outflow was reinforced by scheduled debt repayments to foreign creditor banks. Offsetting these outflows were long-term and short-term borrowing by private-sector companies and public-sector corporations.

Overall balance of payments position

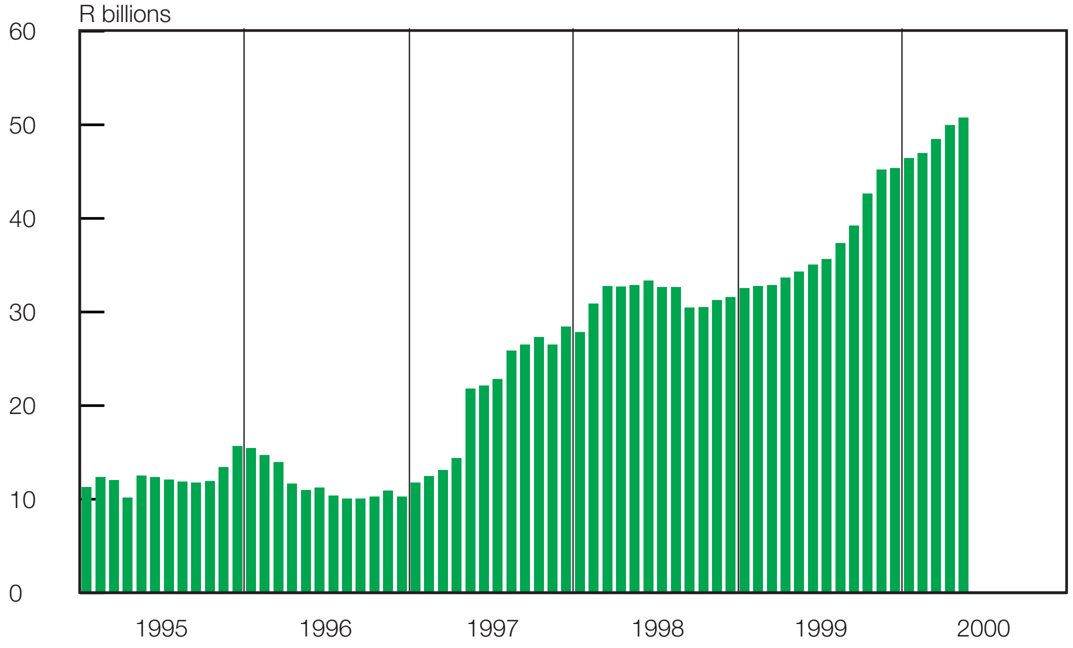


Other outward investment flows from the economy, consisting mainly of changes in foreign assets, such as loans granted, trade finance provided and deposits with non-resident banks, amounted to R2,4 billion in the fourth quarter of 1999 and R2,5 billion in the first quarter of 2000. On a net basis, there was an inflow of R0,7 billion in the first quarter of 2000, compared with an outflow of R7,2 billion in the fourth quarter of 1999.

Foreign reserves

South Africa's overall balance of payments was in surplus to the amount of R3,6 billion in the first quarter of 2000, compared with a surplus of R12,3 billion in the fourth quarter of 1999. Net international reserves were consequently accumulated at a far slower rate than in the fourth quarter of 1999, reflecting essentially the shrinking of net capital inflows into the economy.

Gross foreign reserves of the South African Reserve Bank



The country's *gross gold and other foreign exchange reserves,* which had reached R67,5 billion at the end of December 1999, improved further to R71,4 billion at the end of March 2000. In US-dollar terms, the country's international reserves declined marginally from US$11,0 billion at the end of December 1999 to US$10,9 billion at the end of the first quarter of 2000. Import cover, defined as the value of gross international reserves expressed as a ratio of the value of imports of goods and services, remained at about 15 weeks' worth of imports – roughly the same as at the end of December 1999.

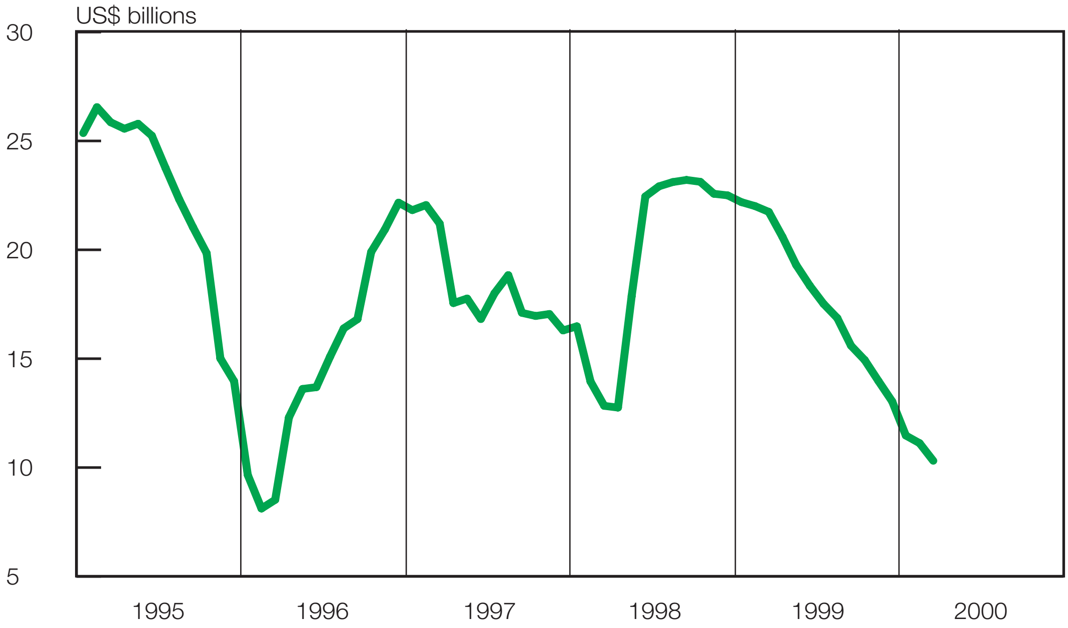
The gross international reserves of the Reserve Bank rose steadily in 1999 to a level of R45,4 billion at the end of the year. There was a further improvement to R48,5 billion at the end of March 2000 and R50,8 billion at the end of May. The Reserve Bank also reduced the use of short-term foreign credit lines from R18,8 billion at the end of December 1999 to R16,5 billion at the end of March. However, outstanding short-term foreign credit lines increased again to R17,1 billion at the end of May 2000.

International reserves and net open position of the Reserve Bank
US$ billions

Period		Amount as at end of period		
		Net reserves	Gross reserves	Net open position
1999:	1st qr	2,4	5,3	-21,7
	2nd qr	3,1	5,8	-18,3
	3rd qr	3,6	6,5	-15,6
	4th qr	4,3	7,4	-13,0
2000:	1st qr	4,9	7,4	-10,3

The improvement in the total international reserves of the Reserve Bank and the reduced utilisation of short-term foreign credit lines, together with the reduction in the oversold forward foreign-exchange book, resulted in a decline in the Bank's net *open position in foreign currency* from US$13,0 billion at the end of December 1999 to US$10,3 billion at the end of March 2000 and US$10,2 billion at the end of April. This was the lowest level since February 1996 when the net open position briefly declined below US$10 billion. A major source of the perceived vulnerability of the South African financial situation is gradually being whittled away in this manner.

Net open position in foreign currency*



* Oversold position of the Reserve Bank

Exchange rates

The domestic market for foreign exchange was far more stable in 1999 than in 1998, but was subjected to increased volatility in the first quarter of 2000. Downward pressure on the exchange rate of the rand, partly as a result of the narrowing of the interest rate differential between South Africa and its more important trading partners, was exacerbated by declining asset prices in other emerging and some developed markets during the first quarter of 2000. The announcement of South Africa's elevation to the class of investment-grade countries by the Standard and Poor's credit rating agency could not fully counter the negative investor sentiment.

Exchange rates of the rand
Percentage change

	30 Sep 1999 to 30 Dec 1999	30 Dec 1999 to 31 Mar 2000	31 Mar 2000 to 31 May 2000
Weighted average*	0,1	-4,0	-3,2
Euro	4,1	-1,9	-3,1
US dollar	-2,1	-6,6	-5,7
British pound	-0,4	-5,2	0,5
Japanese yen	-5,5	-3,9	-3,8

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

The *nominal effective exchange rate* of the rand declined by just 0,8 per cent from the end of December 1999 to the end of January 2000. With the deterioration of investor sentiment, the weighted nominal exchange value of the rand fell further by 3,2 per cent over the remainder of the first quarter of 2000, resulting in an overall depreciation of the rand by 4,0 per cent in the quarter as a whole. Even clear indications of a continued healthy surplus on the overall balance of payments could not stem the tide of negative sentiment towards the rand.

During April and May 2000 events in other parts of sub-Saharan Africa added volatility to the foreign exchange market. This caused the rand to depreciate effectively by another 3,2 per cent from the end of March 2000 to the end of May. Over the first five months of 2000, the rand depreciated against the dollar by as much as 11,9 per cent. To a certain extent, this may have reflected dollar strength rather than rand weakness, given that South Africa's macroeconomic policies remained sound. Growing aversion by international investors towards risk-taking in emerging markets and commodity-producing economies nevertheless caused the rand to depreciate also against most of the other major currencies of the world. However, the rand depreciated far less against the euro and the British pound than against the dollar.

With the heightening of volatility in the foreign exchange market, turnovers which had declined from the second quarter of 1999, jumped from a daily average of US$8,3 billion in the fourth quarter of 1999 to US$9,3 billion in the first quarter of 2000. Turnover in the foreign exchange market rose even further to daily average values of US$9,6 billion in April 2000 and US$10,4 billion in May.

The effective exchange rate of the rand, adjusted for inflation differentials between South Africa and its most important trading partners, strengthened by about 3 per cent from December 1998 to December 1999. The possible loss of competitiveness implied by this appreciation had most likely been reversed by May 2000.

Nominal effective exchange rate of the rand

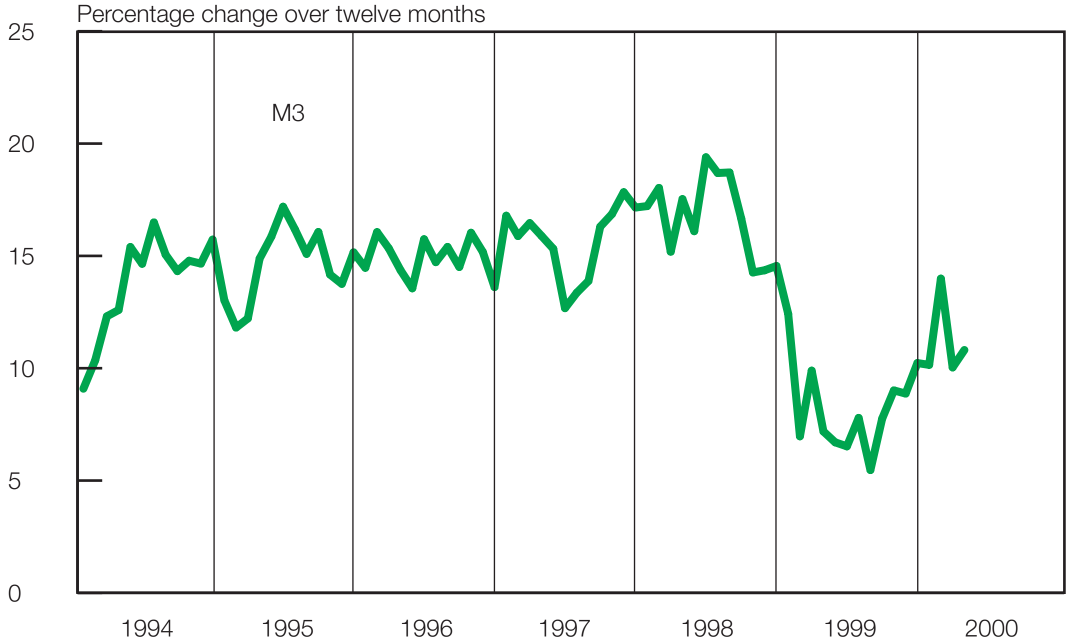
Monetary developments, interest rates and financial markets

Money supply

The acceleration in overall monetary expansion in the second half of 1999 appears to have run its course, since the growth in the aggregate money supply has slowed down again in the first quarter of 2000. The quarter-to-quarter annualised growth rate in the seasonally adjusted *broadly defined money supply* (M3) fell back to 10,4 per cent in the first quarter of 2000, after it had accelerated from around 1 per cent in the first two quarters of 1999 to 16,2 per cent in the third quarter and 19,2 per cent in the fourth quarter. The slower growth in real aggregate output and expenditure and the lower returns on monetary deposits with banks, probably contributed most to the less buoyant demand for money and the slowdown of the growth in M3.

The slower monetary expansion in the first quarter of 2000 was also reflected in fairly subdued rates of increase in M3 over periods of twelve months. The year-on-year growth in M3 accelerated from a low of 5,5 per cent in August 1999 to 14,0 per cent in February 2000, but then declined to 10,0 per cent in March and 10,8 per cent in April. The exceptionally high growth in February 2000 was partly determined by the low base in 1999 for year-on-year growth calculations. In February 1999 the growth in M3 was held back by a substantial build-up of government deposits ahead of large interest payments. Apart from the slowdown in the demand for broad money in the early months of 2000, the year-on-year growth estimates were also scaled down by the higher values of M3 in 1999 being included in the base for year-on-year growth calculations.

Money supply



The twelve-month growth in the *narrow monetary aggregate* M1A was higher and more volatile than that of M3 in the first four months of 2000. The year-on-year growth in M1A accelerated from a low of 3,9 per cent in April 1999 to 29,4 per cent in February 2000, before slowing down to 20,8 per cent in April. Similarly, the year-on-year growth in M1 has consistently outpaced the growth in M3 since October 1999. The faster growth in M1 than in M3 indicated that individuals and other private-sector entities preferred cheque and call deposits to other short-term, medium-term and long-term deposits. Growth in M2 likewise exceeded the growth in M3 from July 1999. This was a consequence of an absolute decline in long-term deposits, which are included in M3 but not in M2.

Twelve-month growth rates in monetary aggregates
Per cent

Period		M1A	M1	M2	M3
1999:	Apr	3,9	15,8	7,7	7,2
	May	13,6	15,2	7,4	6,7
	Jun	14,7	8,4	6,5	6,5
	Jul	16,9	7,4	8,2	7,8
	Aug	19,2	3,6	6,3	5,5
	Sep	20,6	4,2	9,0	7,8
	Oct	16,1	13,3	12,2	9,0
	Nov	23,3	18,1	12,2	8,9
	Dec	26,4	20,7	13,6	10,2
2000:	Jan	26,0	17,3	13,6	10,1
	Feb	29,4	25,3	18,3	14,0
	Mar	18,3	17,0	14,1	10,0
	Apr	20,8	20,6	13,1	10,8

The growth rate of M3 reached an annualised level in the fourth quarter of 1999 that was 9,0 percentage points higher than the growth in the nominal gross domestic product, and this reduced the *income velocity of circulation* of M3 by 1,9 per cent. In the first quarter of 2000 the margin between the two growth rates narrowed to 2 percentage points. The income velocity of money accordingly declined further from the fourth quarter of 1999 to the first quarter of 2000, but by only 0,5 per cent.

The value of M3 before adjustment for seasonal influences declined by R3,4 billion in the first quarter of 2000. The *main balance sheet counterparts* of this R3,4 billion decline in the M3 money supply were a decline of R9,3 billion in the *net other assets* of the monetary institutions and a decline of R6,3 billion in their *net claims on the government.* "Net other assets" declined, among other things, because of a rise in banks' capital and reserve funds and an increase in funds received from clients under repurchase transactions. The banks' net claims on the government sector declined on account of a reduction of R5,0 billion in their gross holdings of government securities. This reduction was reinforced by an increase of R1,3 billion in government deposits with banks.

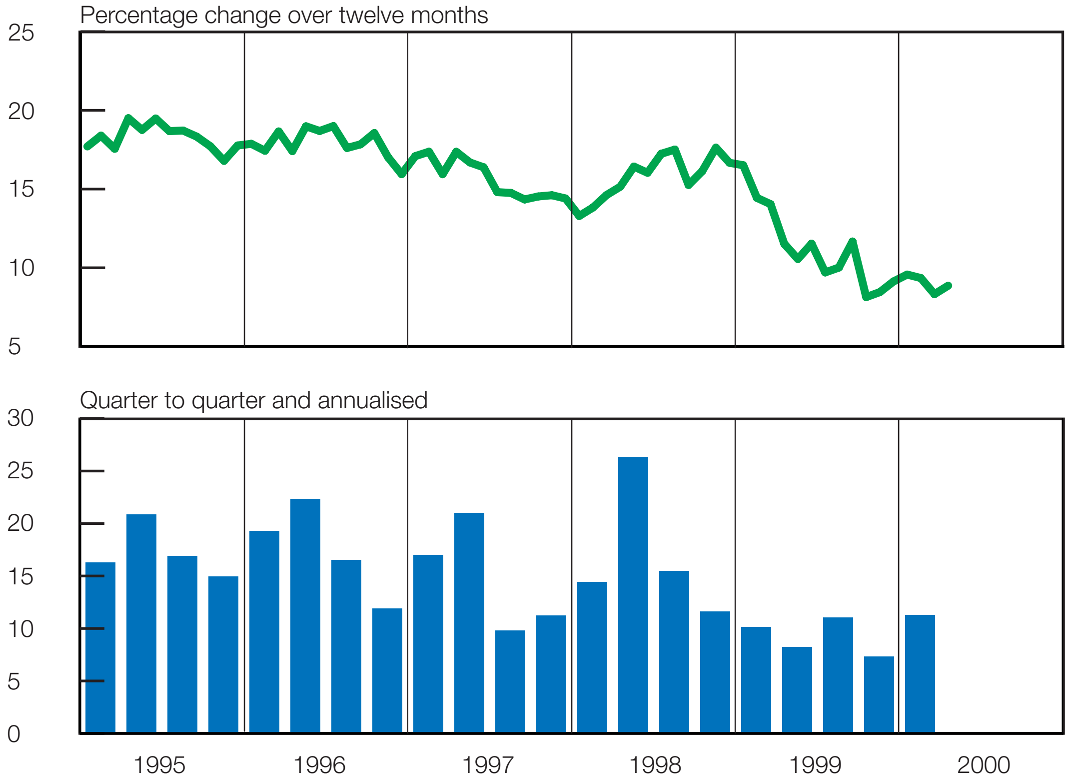
The decrease in "net other assets" and in net claims on the government sector was partially offset by increases of R7,8 billion in the monetary sector's *claims on the private sector* and of R4,4 billion in *net foreign assets*. Both these balance sheet counterparts increased by smaller amounts than in the fourth quarter of 1999 – banks' claims on the private sector had increased by R11,0 billion in the fourth quarter and net foreign assets by R16,3 billion.

Credit extension

Credit growth picked up somewhat in the first quarter of 2000. Measured from quarter to quarter and annualised, growth in total bank credit extension (i.e. credit extended to the private sector and net claims of banks on the government sector) accelerated from 4,1 per cent in the fourth quarter of 1999 to 12,7 per cent in the first quarter of 2000 – an acceleration of more than 8 percentage points. The acceleration in credit extension to the private sector was decidedly less impressive; private-sector credit growth accelerated from 7,3 per cent in the fourth quarter of 1999 to 11,3 per cent in the first quarter of 2000 – an acceleration of 4 percentage points.

Despite the acceleration in the first quarter of 2000, private-sector credit growth was still relatively moderate compared with the growth rates recorded in recent years. Measured over twelve months, growth in credit extension to the private sector has remained below 10 per cent since October 1999 – it slowed down from 11,7 per cent in September 1999 to 8,3 per cent in March, before accelerating to 8,9 per cent in April. This relatively moderate growth in private-sector credit over the past 12 months is mainly attributable to households' restraint in financing their purchases of durable goods with bank credit, and by monetary institutions' tighter credit-risk assessment of potential borrowers. The demand for credit by households and firms was also reduced by improved cash flows following the declines in interest rates after the fourth quarter of 1998.

Credit extended to private sector



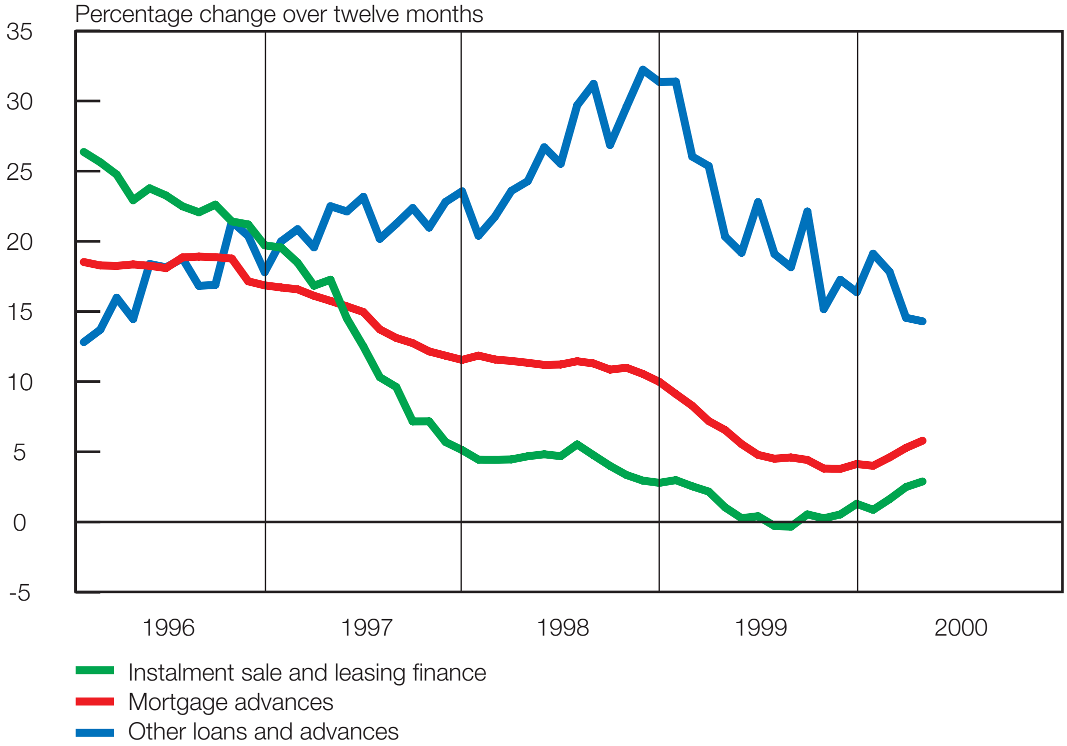
An analysis of banks' claims on the private sector by *type of credit* shows that the growth in *mortgage advances* has picked up somewhat in recent months; the twelve-month growth rate has accelerated, on balance, from 3,8 per cent in October 1999 to 5,3 per cent in March 2000 and 5,8 per cent in April. Although the year-on-year growth rates were still rather modest, their strengthening reflected a recovery in activity and prices in the real-estate market.

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

		Instalment sale and leasing finance	Investments and bills	Mortgages	Other loans and advances	Total
1999:	Mar	2,2	26,9	7,2	25,4	14,0
	Jun	0,4	16,6	4,8	22,8	11,5
	Sep	0,5	25,8	4,4	22,1	11,7
	Dec	1,3	14,4	4,1	16,4	9,1
2000:	Jan	0,9	4,6	4,0	19,1	9,6
	Feb	1,6	3,4	4,6	17,8	9,3
	Mar	2,5	0,9	5,3	14,5	8,3
	Apr	2,9	7,5	5,8	14,3	8,9

Instalment sale credit and leasing finance, which are used mainly for the financing of spending on vehicles and other durable goods, declined from July and August 1998 to July and August 1999. By December 1999, credit extended through instalment sale and leasing finance agreements had risen by just 1,3 per cent, but this growth accelerated to a still very modest 2,5 per cent in March 2000 and 2,9 per cent in April, confirming households' reluctance to accumulate debt imprudently.

Credit extended to private sector by type of credit



The main thrust of growth in credit extension continued to be "other loans and advances", which is the largest component of private-sector credit. Although well down from the year-on-year growth of 25,4 per cent recorded in March 1999, this credit category was still growing at a twelve-month rate of 14,5 per cent in March 2000 and 14,3 in April, exceeding all of the conventional measures of inflation by a substantial margin. Demand for overdraft facilities was buoyant in the first quarter of 2000. Most of the overdrafts were destined for the corporate sector, which started to replenish inventories that had fallen to low levels in the first half of 1999.

The absolute increase in overall credit extension to the private sector amounted to R7,8 billion in the first quarter of 2000 of which the larger share of R5,8 billion was intended to satisfy the demand for credit by households. Credit extended to the corporate sector increased by just R1,8 billion. Measured over periods of twelve months, the growth in credit extended to the corporate sector slowed down from 16,1 per cent in December 1999 to 12,6 per cent in March 2000, whereas the corresponding growth in credit extended to households accelerated from 2,7 per cent to 4,2 per cent.

Interest rates and yields

The *monthly average yield on long-term government bonds* fell by about 180 basis points from September 1999 to January and February 2000 against a backdrop of waning inflation expectations, the relaxation of monetary policy, a shrinking of the public-sector borrowing requirement and expectations of an upgrading of the country's international credit rating. From March 2000 sentiment in the market has changed and bond yields have generally tended to rise – the increase in the monthly average yield between February 2000 and May has been about 129 basis points. The recent deterioration in sentiment may be linked to

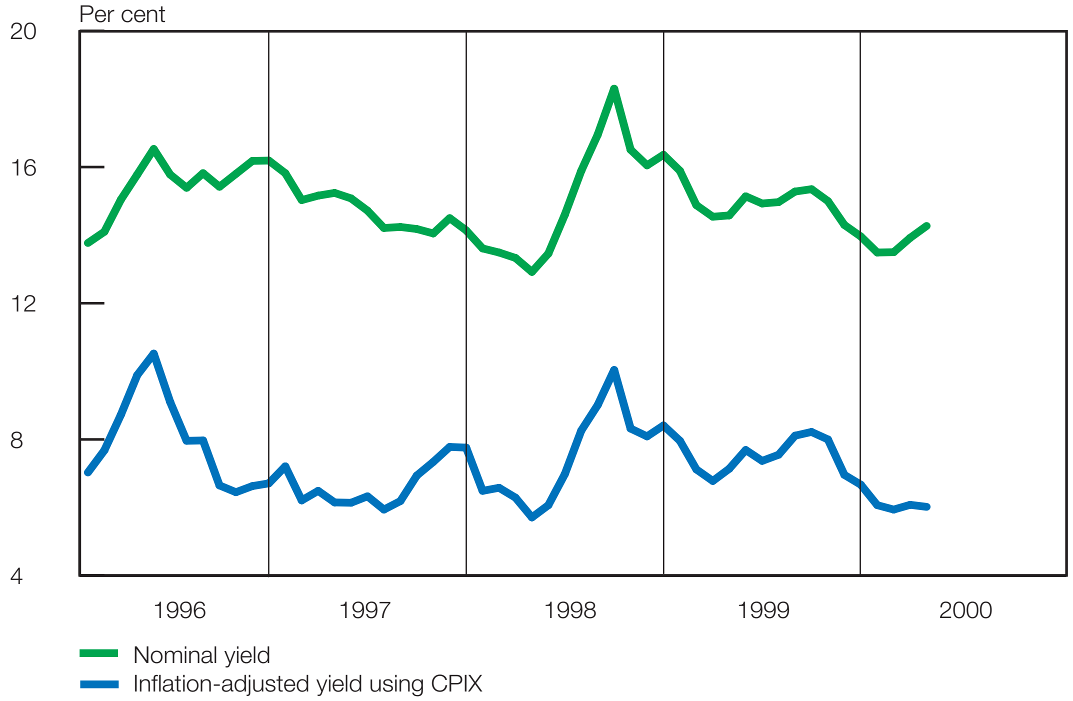
- mounting inflationary pressures in the international and the domestic markets;
- rising bond yields and short-term interest rates in the major international financial centres;
- the weakness of the rand against the dollar and the reversal of international portfolio investment inflows; and
- developments in neighbouring countries which contributed to higher risk premiums on South African assets.

The *daily* average yield on long-term government bonds moved in a tight range around an average level of 13,5 per cent in January and February 2000. After the National Budget proposals had been presented to Parliament, bonds consolidated somewhat before the depreciation of the rand and selling by non-residents put downward pressure on bond prices. This caused yields to break out of their narrow trading range and to move above 14 per cent on 7 March 2000 and above 15 per cent on 9 May. The daily average yield moved as high as 15,21 per cent on 10 May – its highest level since late September 1999 and 206 basis points higher than the most recent low of 13,15 per cent on 18 January 2000.

Using year-on-year CPIX inflation to measure the rise in the general level of prices, the *inflation-adjusted yield on long-term government bonds* declined from 8,2 per cent in September 1999 to 5,9 per cent in February 2000 – its lowest level since April 1998. The rise in nominal yields then raised the real yield to 6,0 per cent in April 2000. The *inflation-linked bond* that is structured around changes in the overall consumer price index for metropolitan areas only, was issued at a "real" yield of 6,5 per cent and last traded at 6,28 per cent on 17 May.

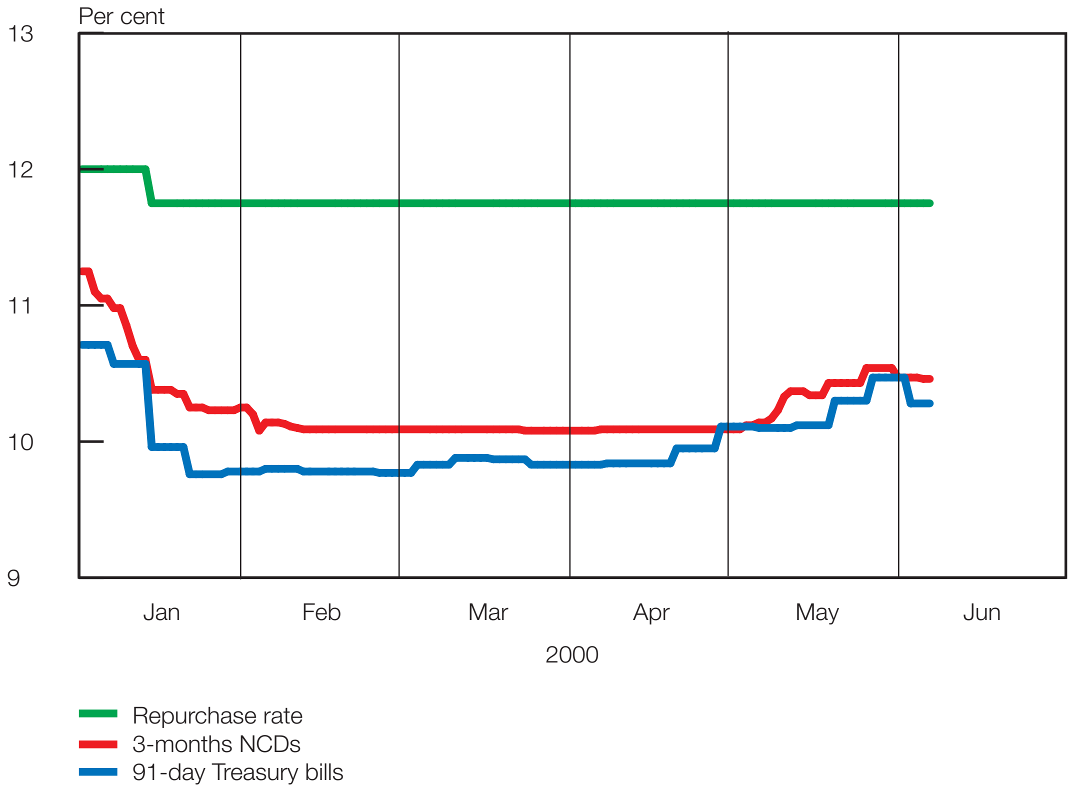
The *repurchase rate* of the Reserve Bank has been stable at 11,75 per cent since 14 January 2000. This was after the Monetary Policy Committee of the Reserve Bank concluded that a reduction of 25 basis points in the repurchase rate from

Nominal and inflation-adjusted yield on long-term government bonds



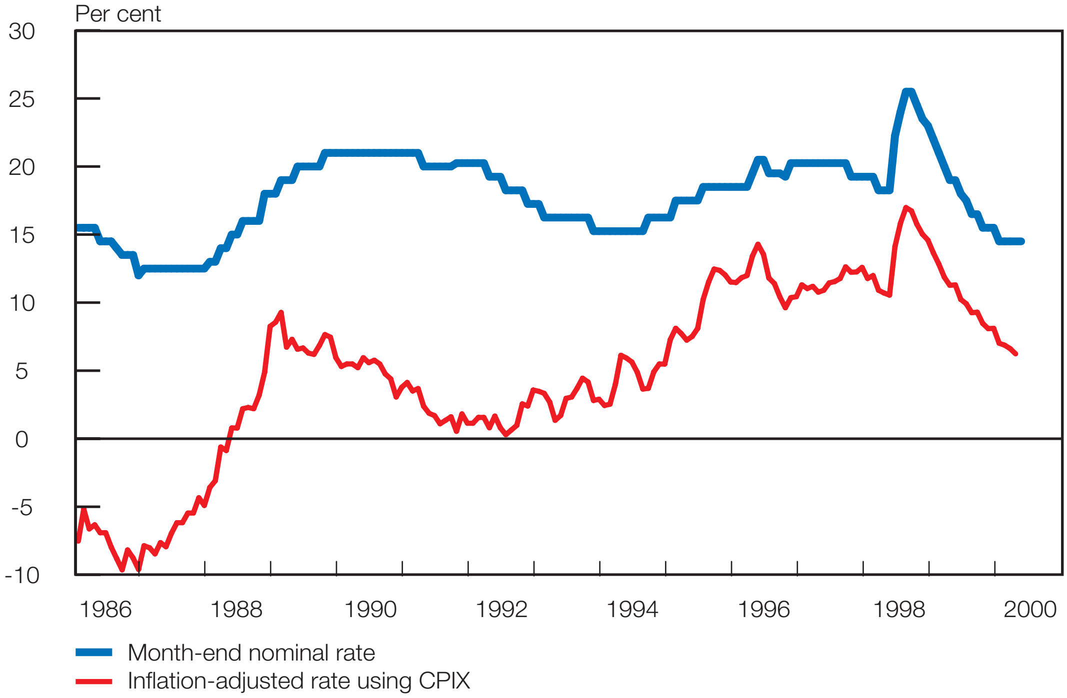
12,00 per cent to 11,75 per cent was appropriate. The committee indicated that the daily liquidity requirement of banks would be managed in a way that would keep the repurchase rate at or around 11,75 per cent. This cautious monetary policy stance was reiterated at subsequent meetings of the Monetary Policy Committee.

Money-market interest rates



Following the January meeting of the Monetary Policy Committee, the private banks reduced their prime overdraft and predominant mortgage bond rates by 1 percentage point to 14,50 per cent. The prime overdraft rate is now at its lowest level since 1988, having fallen below the nadir of mid-1994 when it briefly levelled out at 15,25 per cent. By contrast, the inflation-adjusted prime overdraft rate of 6,2 per cent in April 2000 was still 4,8 percentage points higher than its average level in 1988.

Nominal and inflation-adjusted prime overdraft rate



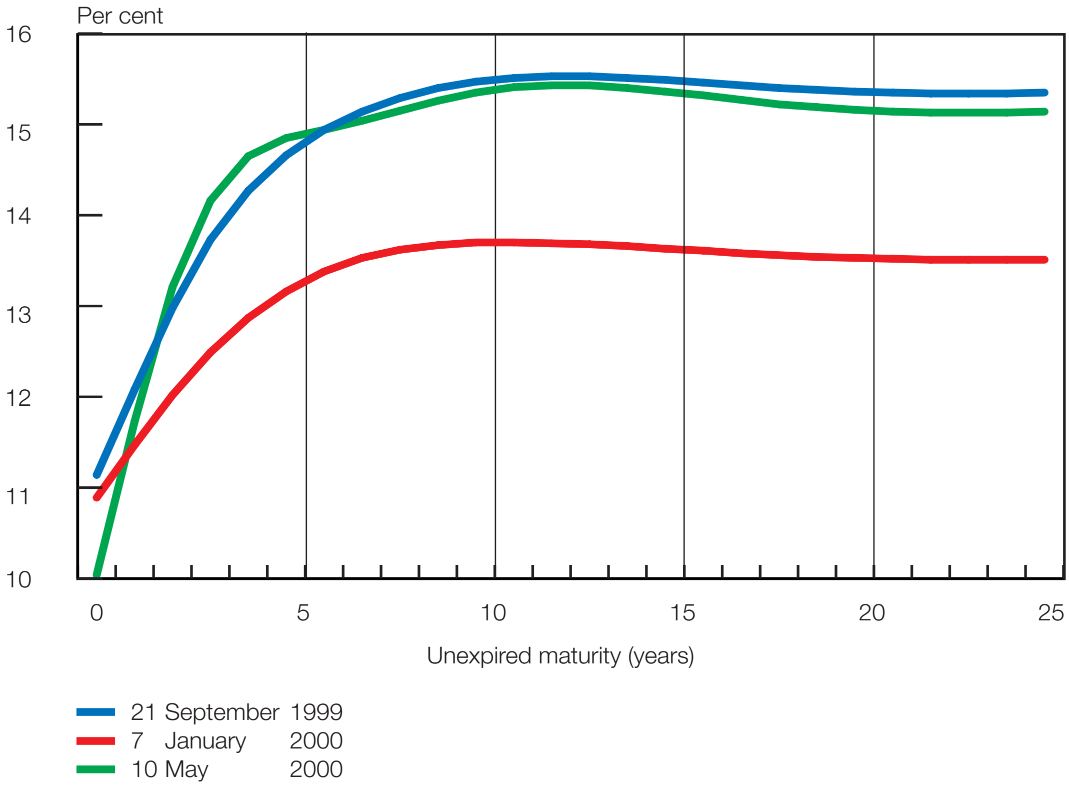
Most money-market interest rates followed the downward movement in the repurchase rate in January, and emulated its steady behaviour in the ensuing months. For instance, the rate on bankers' acceptances with a maturity of three months declined by 110 basis points from 10,93 per cent on 3 January 2000 to 9,83 per cent on 22 February 2000. Up to 5 May 2000, the rate on bankers' acceptances fluctuated in a narrow range between 9,83 per cent and 9,89 per cent. The tender rate on 91-day Treasury bills fell by 80 basis points from 10,56 per cent on 7 January 2000 to 9,76 per cent on 21 January 2000 and remained around 9,80 per cent until 19 April 2000. The rate on interbank call funds declined from 10,0 per cent to 9,5 per cent on 21 January 2000 and remained at this lower level in the four-month period up to the end of May 2000.

Towards the end of April 2000 money-market rates started to move slightly higher, partly in response to rising short-term interest rates in most of the advanced economies. The weakening of the rand, and the expectation of some future increase in official short-term interest rates may also have contributed to the upward movement in money-market rates. The tender rate on 91-day Treasury bills increased by 27 basis points in two weeks to 10,11 per cent on 28 April 2000 – partly assisted by an increase in the amount of the tender by R800 million to R2 billion on 20 April. At the end of May the Treasury bill tender rate stood at 10,47 per cent. During the course of May the rates on negotiable certificates of deposit of three, six and twelve months rose by 45, 84 and 92 basis points respectively. Following the rise in the

Treasury bill rate, the rate on three-month bankers' acceptances rose from 9,83 per cent on 28 April to 10,25 per cent on 29 May 2000.

The upward-sloping *yield curve* drifted downwards from 21 September 1999 to 7 January 2000. The curve also flattened as yields on bonds with long unexpired maturities declined more than yields on short-dated securities. The gradient of the curve steepened from 7 January 2000 to 10 May because of the divergent movements of yields on long-term and short-term securities. From 10 May 2000, the yields on short-term securities increased whereas yields on long-term securities declined somewhat, thus flattening the shape of the curve.

Yield curves



Along with the decline in the prime overdraft rate, the banks also lowered the *predominant retail rate on twelve-month fixed deposits* from 9,5 per cent in January 2000 to 8,5 per cent in February. The *standard interest rate* applicable to loans granted from the State Revenue Fund was increased in three steps from 13,5 per cent in February 2000 to 14,5 per cent in May. The *maximum permissible finance charges rates* laid down in terms of the Usury Act, which had remained unchanged from October 1999 at 24 per cent in respect of money lending, credit and leasing transactions of more than R6 000 but less than R500 000 and 27 per cent for amounts up to R6 000, were lowered to 22 per cent and 25 per cent, respectively, in March 2000.

Money market

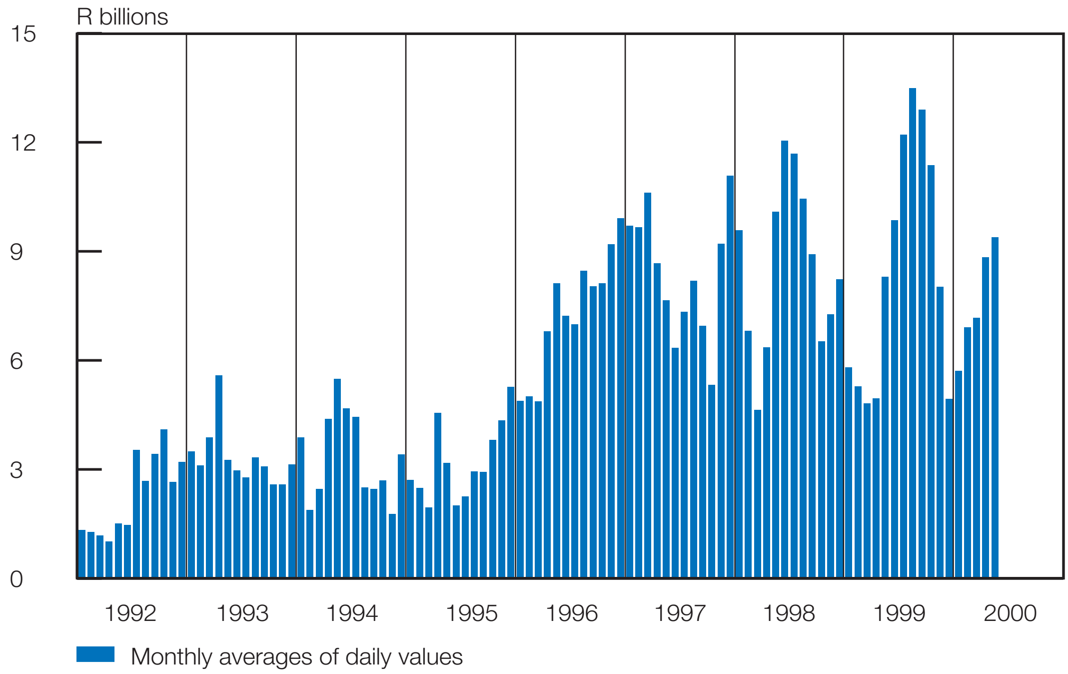
The Reserve Bank deliberately eased money-market conditions during the fourth quarter of 1999 in order to allay fears of major disruptions in the financial markets at the date changeover to 2000. The average daily liquidity requirement of the private banks accordingly shrank from R13,5 billion in August 1999 to R4,9 billion in December.

After the year-end and the smooth transition to the new millennium, the Reserve Bank once more started liquidity-draining operations to raise the private banks' dependence on central bank funding. The average daily liquidity requirement of banks consequently increased to R7,2 billion in March 2000, R8,8 billion in April and R9,4 billion in May.

During the first five months of 2000, money-market conditions were tightened mainly through the deliberate liquidity-draining operations of the Reserve Bank. Among other things, the Reserve Bank entered into foreign exchange swap transactions with private banks. The outstanding amounts of these swaps increased from R4,3 billion at the end of December 1999 to a high of R15,7 billion in February 2000 before declining to R9,8 billion at the end of March. It increased again to R10,9 billion at the end of May 2000.

As a further measure to mop up liquidity, the Bank increased the amount of its outstanding debentures from R1,0 billion at the beginning of the year to R3,0 billion at the end of March 2000 and R4,0 billion at the end of May. This was reinforced when the Bank stepped up its reverse repurchase transactions in government securities with private-sector parties from R1,0 billion at the end of December 1999 to R3,0 billion by the end of March 2000 and R4,0 billion by the end of May.

Total liquidity provided



During the first quarter of 2000, surpluses arising from the Reserve Bank's involvement in forward foreign exchange transactions drained some liquidity from the money market. Following the recent depreciation of the rand during April, deficits were once again realised on forward foreign exchange transactions and this added liquidity to the market. Further liquidity was added by a reduction in notes and coin in circulation outside the Reserve Bank from R32,7 billion at the end of December 1999 to R27,8 billion at the end of May 2000, and an increase in the Bank's net foreign assets of R7,1 billion over the same period.

These liquidity additions were totally counteracted by the mopping-up operations of the Reserve Bank. The Bank provided liquidity to the full extent of the private banks' needs throughout the first five months of 1999 as a signal that the prevailing repurchase rate was appropriate.

Bond market

Largely reflecting the reduction in the public-sector borrowing requirement, *net issues of fixed interest securities* by the *public sector* in the *domestic primary bond market* declined to R4,9 billion in fiscal 1999/2000 from R13,1 billion in fiscal 1998/99. The quarterly amount of debt issued by public-sector entities changed from net redemptions of R5,2 billion in the fourth quarter of 1999 to net issues of R1,7 billion in the first quarter of 2000.

Public-sector borrowers raised R9,5 billion in the *international primary bond market* through *foreign-currency denominated bond issues* in 1999, and R8,1 billion in March 2000. In February 2000, the National Government projected that foreign borrowing would amount to US$1,0 billion for the fiscal year 2000/01. Government reopened its offshore borrowing programme in March 2000 when an amount of US$750 million was raised by increasing an existing global bond issue maturing in May 2009 from US$0,5 billion to US$1,25 billion. The spread of 275 basis points over US Treasuries of this issue compared favourably with the original spread of 370 basis points in May 1999. At the end of March, Telkom followed with a €500 million five-year bond issue priced at 220 basis points above comparable German bonds. The significant disparity in spread between these two issues could be attributed partly to the difference in the outstanding term to maturity, i.e. five years in the case of Telkom and nine years in the case of government, and inherent differences between euro and dollar issues.

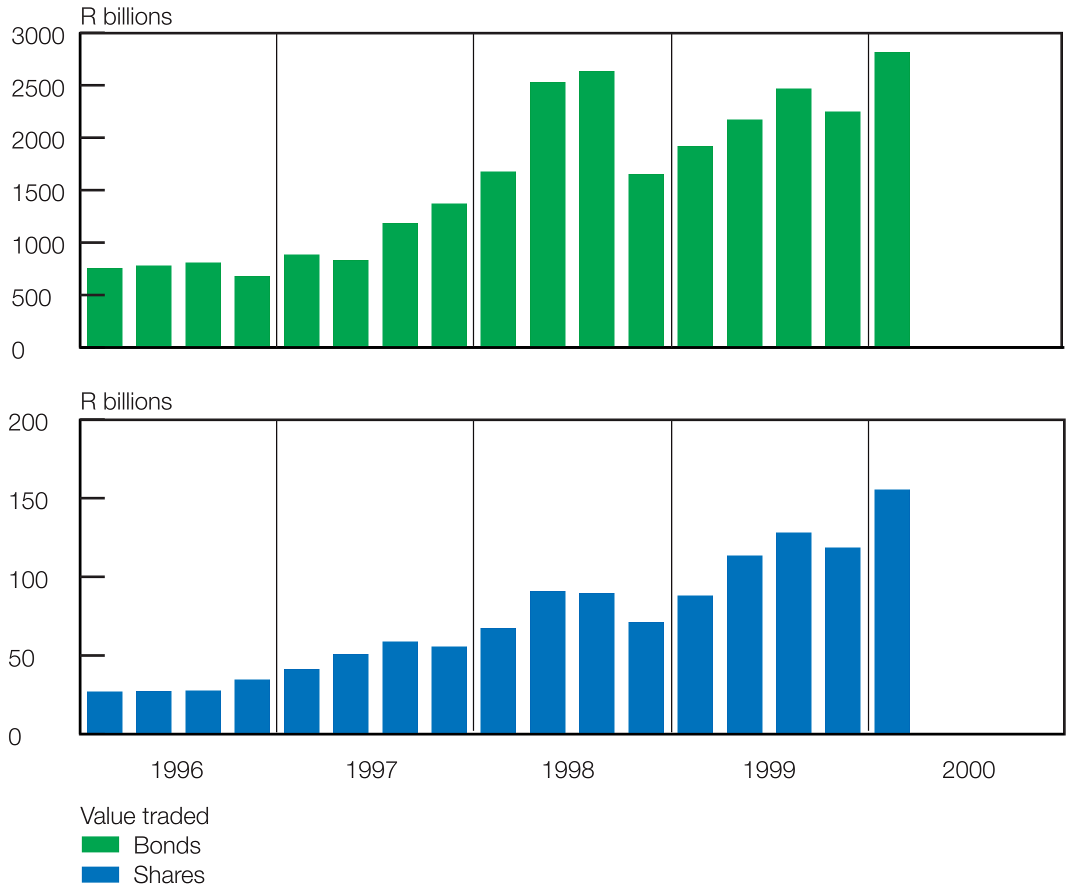
The lull in *private sector issues of fixed-interest securities* dissipated somewhat and a prominent bank issued South Africa's first domestic callable bond in February 2000. This bond was issued in the amount of R750 million. The bond matures in ten years, but is callable in five years and was priced at a spread of 195 basis points over the benchmark R150 government bond. The *outstanding nominal value of private-sector loan stock* listed on the Bond Exchange of South Africa accordingly increased, on balance, from an average of R2,8 billion in the first eleven months of 1999 to R3,8 billion in December 1999 and to R4,7 billion at the end of April 2000. Private-sector companies listed on the Johannesburg Stock Exchange made no *rights issues of preference shares and debentures* in the first four months of 2000.

In sharp contrast to the interest shown by foreign investors in the market for South African foreign-currency denominated debt, *non-resident investors* sold some of their holdings of *rand-denominated bonds.* As a result of this obvious lack of interest, South African issuers have refrained from issuing *rand-denominated bonds* in the eurorand market since the last issue in March 1999.

In the *eurorand market* the net proceeds of rand-denominated bonds issued by non-resident entities changed to net redemptions of R0,8 billion in the first four months of 2000. In the domestic bond market non-resident investors purchased a net R6,1 billion worth of bonds in the fourth quarter of 1999 but sold bonds to a net value of R5,6 billion in the first quarter of 2000. Net sales by non-resident investors persisted into the second quarter of 2000 at a net amount of R3,9 billion in April and R5,6 billion in May.

The value of bonds traded on the Bond Exchange of South Africa receded from R2,5 trillion in the third quarter of 1999 to R2,2 trillion in the fourth quarter. The subsequent increase and heightened volatility in bond yields were accompanied by an increase in turnover in the *secondary bond market*, reaching an all-time high of R2,8 trillion in the first quarter of 2000. The value of transactions subsequently decreased from a monthly average of R937 billion in the first quarter of 2000 to R783 billion in April, essentially due to the bunching of public holidays in that month. The value of bonds traded increased to R1,1 trillion in May.

Turnover in the secondary capital markets



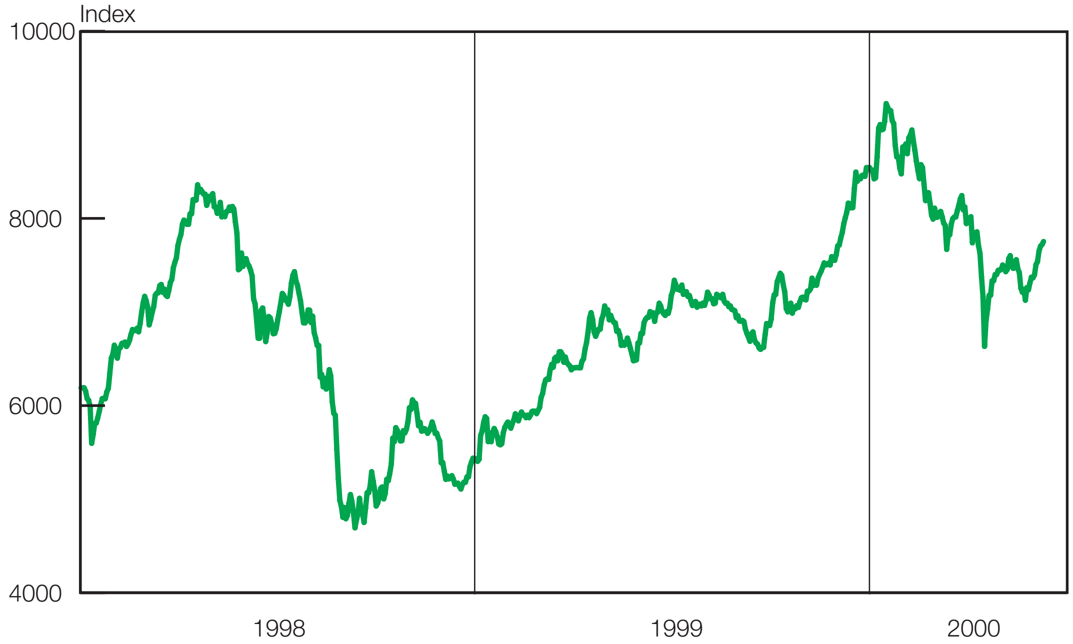
Share market

The share market, which rebounded strongly from September 1999 to January 2000, faltered in the ensuing months. Towards the end of 1999 the all-share price index rose strongly against a background of buoyant economic activity and declining interest rates which together hinted at rising corporate earnings. However, a number of factors have combined to adversely affect investors' confidence in the first five months of 2000. These are, among other things:

- market concerns that the interest rate decline could have come to an end;
- abrupt corrections on major international share markets;
- increased volatility on global currency markets;
- negative sentiment among international investors towards commodity-based economies;
- waning international portfolio investment flows;
- the weaker gold price; and
- concern that problems in other parts of sub-Saharan Africa could adversely affect stability in South Africa.

The recent weakness in the market was reflected in a decline of 15 per cent from an all-time high in January 2000 to April in the *monthly average price level of all classes of shares.* In terms of US dollars the decline amounted to 22 per cent. The *daily* all-share price index fell by 28 per cent from an all-time high on 17 January 2000 to 17 April when it reached its lowest level since September 1999. Share prices then rose on average by 11 per cent to the end of May 2000.

All shares

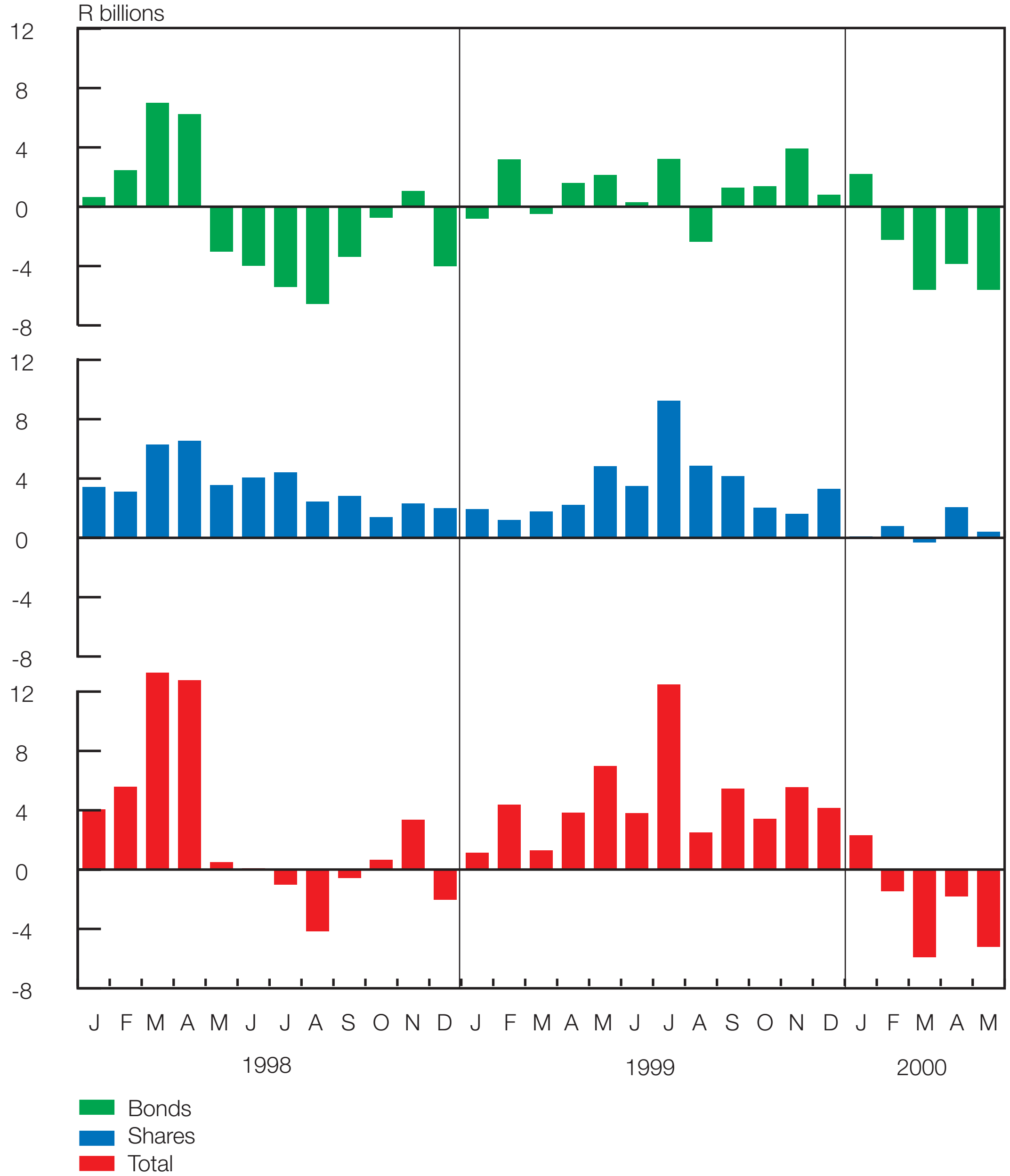


The movements of gold-mining share prices were highly volatile in the first five months of 2000. The monthly average value of the gold index rose by almost 10 per cent from December 1999 to February 2000, but when the gold price fell below US$300 per fine ounce, gold shares declined on average by 20 per cent from February 2000 to May.

The decline in the overall index was driven by decreases in the financial and mining-resources sectors from mid-January 2000. Meanwhile, industrial share prices declined too, but initially at a slower pace than the financial and mining-resources sectors. Strong rises in the information technology sector underpinned the industrial sector up to mid-March, but from the second half of March the technology sector has weakened considerably.

Non-resident portfolio capital flows weakened in the first quarter of 2000 and in March the share market recorded a monthly net sell-off by non-resident investors for the first time since January 1997. On the whole, the net purchases of shares by non-residents on the Johannesburg Stock Exchange have now fallen back from R18,2 billion in the third quarter of 1999 to R6,9 billion in the fourth quarter and only R0,6 billion in the first quarter of 2000. There were net purchases of shares to the value of approximately R2,4 billion in total in April and May 2000, suggesting that non-resident interest in South African equities may have been strengthening again.

Non-residents' net transactions in the secondary capital markets



Overall share-market turnover declined from R128 billion in the third quarter of 1999 to R119 billion in the fourth quarter, but picked up and totalled R155 billion in the first quarter of 2000 when the sudden price correction and heightened volatility encouraged the buying and selling of shares. Market liquidity, measured as turnover as a percentage of market capitalisation, continued to rise from 28 per cent in December 1999 to 44 per cent in March 2000. The small number of trading days caused the turnover to fall back to R34 billion in April, from a monthly average of R52 billion in the first quarter. The value of shares traded amounted to R40 billion in May.

The quarterly value of *share capital raised* in the *primary share market* by companies listed on the Johannesburg Stock Exchange decreased from R14,8 billion in the second quarter of 1999 to R7,3 billion in the fourth quarter of 1999. The value of capital raised subsequently increased to R16,7 billion in the first quarter of 2000.

Included in the first-quarter statistics were shares issued for the *acquisition of unlisted assets* to the value of R11,9 billion. Equity financing in the primary share market amounted to R10,7 billion in April.

The declines in share prices from their high levels in January 2000 were reflected in the rise in the *monthly average dividend yield on all classes of shares* from 1,9 per cent in January to 2,6 per cent in May. The *monthly average earnings yield* (gold-mining shares excluded) increased similarly from 6,1 per cent in January 2000 to 7,8 per cent in May. The *monthly average price-earnings ratio* of all classes of shares, apart from gold-mining shares, mirrored the movement in the earnings yield, and decreased from 16,4 in January 2000 to 12,9 in May.

Market for derivatives

Price volatility in the domestic financial markets and non-resident participation on the South African Futures Exchange supported trading activity in the *formal derivatives market.* The combined number of *futures and options on futures contracts* traded on the South African Futures Exchange increased from 4,3 million in the fourth quarter of 1999 to 4,8 million in the first quarter of 2000. The number of these contracts traded subsequently decreased from a monthly average of 1,6 million in the first quarter of 2000 to 1,0 million in April and then increased to 1,7 million in May.

Trading in *commodity futures contracts and options* on such contracts on the South African Futures Exchange increased from a high of 81 400 in the fourth quarter of 1999 to a new record high of 94 600 in the first quarter of 2000, as the number of these contracts peaked at 39 800 in February 2000. The monthly average number of commodity contracts traded subsequently decreased from about 31 500 in the first quarter of 2000 to 23 700 in April and then increased to 37 800 in May.

The number of *warrants* traded on the Johannesburg Stock Exchange increased from a quarterly high of 1,5 billion in the fourth quarter of 1999 to an all-time high of 2,1 billion in the first quarter of 2000. Trading decreased from a monthly average number of 715 million warrants in the first quarter of 2000 to 538 million in April and increased to 633 million in May.

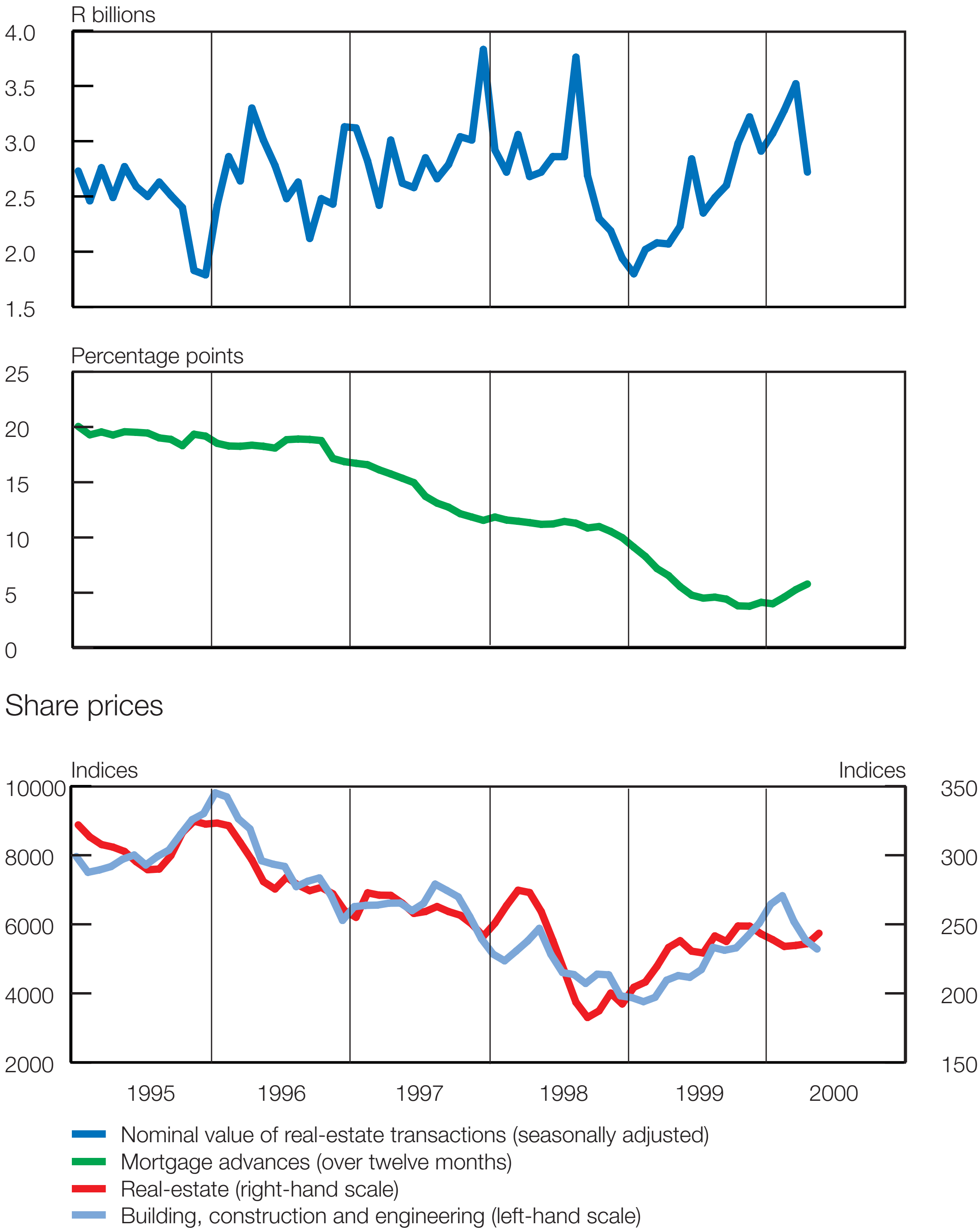
Real-estate market

Activity in the *real-estate market* returned to relatively high levels in late 1999 and early 2000 as the market became increasingly buoyant in reaction to the decline in mortgage bond rates. The rising turnovers in the real-estate market were also reflected in the *home loan market* where the rate of increase over twelve months in banks' mortgage loans outstanding accelerated somewhat from a low 3,8 per cent in November 1999 to 5,8 per cent in April 2000.

The total *value* of real-estate transactions increased from R5,9 billion in the first quarter of 1999 to R9,1 billion in the fourth quarter and R9,8 billion in the first quarter of 2000. Real-estate transactions to the value of R2,7 billion were recorded in April. The *number* of real-estate transactions increased from April 1999 to November but fell back somewhat to January 2000 before increasing further to March. The upward movement in the number of real-estate transactions was once again interrupted in April 2000. The monthly *average nominal value per real-estate transaction* increased strongly in the first four months of 2000 to a level that was about 7,1 per cent higher than in the fourth quarter of 1999.

The movement in the *share prices* of companies listed in the real-estate and building, construction and engineering sectors of the Johannesburg Stock Exchange reflected the improvement in the real-estate market and respectively recorded increases of 26 per cent and 53 per cent from December 1998 to December 1999. In the first five months of 2000 these indices faltered, along with the general correction in share prices.

Home loans and real-estate market

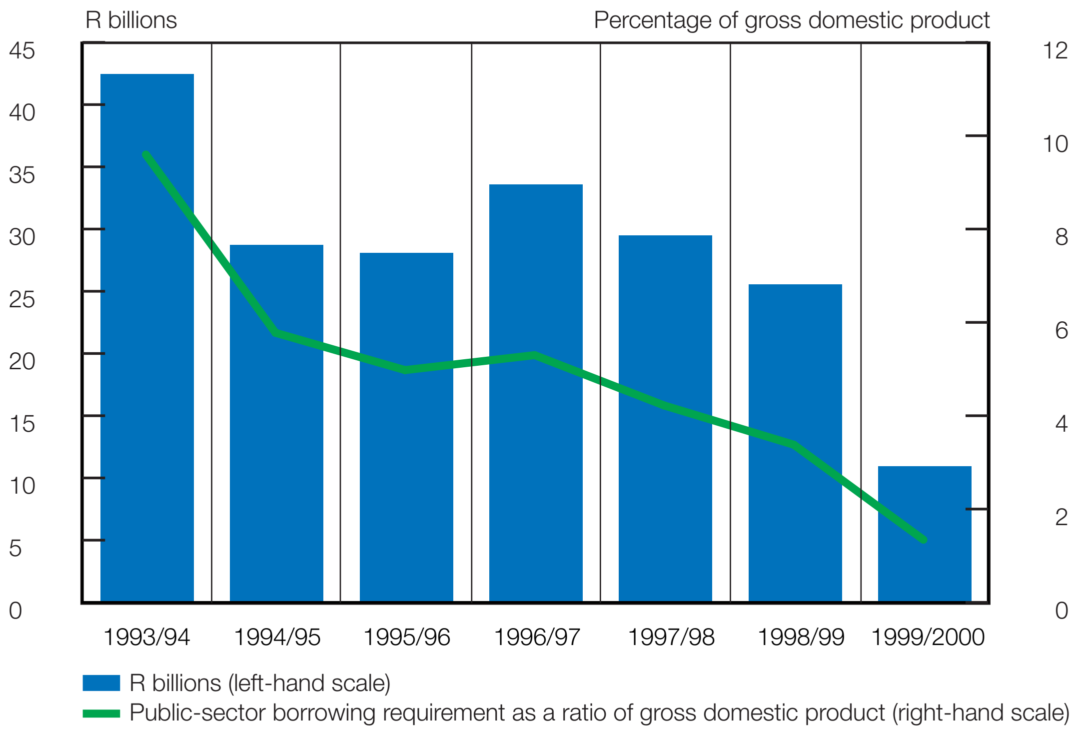


Public finance

Public-sector borrowing requirement

The *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the consolidated central government, provincial governments, local authorities, and non-financial public enterprises and corporations) amounted to R1,8 billion in the January-March quarter of 2000, which brought the public-sector borrowing requirement for the whole of fiscal 1999/2000 to R11,0 billion. This can be compared with the R25,6 billion recorded in fiscal 1998/99. As a ratio of gross domestic product, the public-sector borrowing requirement declined from 3,4 per cent in fiscal 1998/99 to 1,3 per cent in fiscal 1999/2000.

Public-sector borrowing requirement



The decline in the borrowing requirement of the public sector can be attributed to substantial improvements in the financial position of general government and the non-financial public enterprises and corporations. The accounts of the *non-financial public enterprises and corporations* reflect a borrowing requirement of R2,4 billion in fiscal 1999/2000 compared with a borrowing requirement of R8,4 billion in the previous fiscal year. The decline in the borrowing requirement was the result of a decline in investment spending in 1999/2000, following heavy spending by companies such as Eskom, Telkom and Transnet during fiscal 1998/99.

The deficit of *general government* amounted to R1,2 billion in the January-March quarter of 2000, bringing the deficit for the whole of fiscal 1999/2000 to R8,6 billion.

This deficit is the lowest since fiscal 1989/90 and is significantly less than the deficit of R17,2 billion recorded in fiscal 1998/99.

Total revenue and grants received by general government increased at a rate of 11,0 per cent in fiscal 1999/2000. Tax revenue increased by 7,9 per cent and non-tax revenue even more strongly by 35,8 per cent owing to the restructuring of the South African Special Risks Insurance Association (Sasria). Total *expenditure and net lending* by general government rose at a rate of 6,6 per cent in fiscal 1999/2000 compared with an increase of 5,4 per cent in fiscal 1998/99. Interest payments increased at a rate of only 3,4 per cent, while spending on goods and services increased by 3,6 per cent in fiscal 1999/2000.

The financial position of general government improved mainly because of a significant strengthening of the finances of the consolidated central government. By contrast, the results of the consolidated accounts of provincial governments indicated a smaller surplus in fiscal 1999/2000 than in fiscal 1998/99. The borrowing requirement of local governments in fiscal 1999/2000 remained virtually unchanged at the levels recorded in the previous fiscal year.

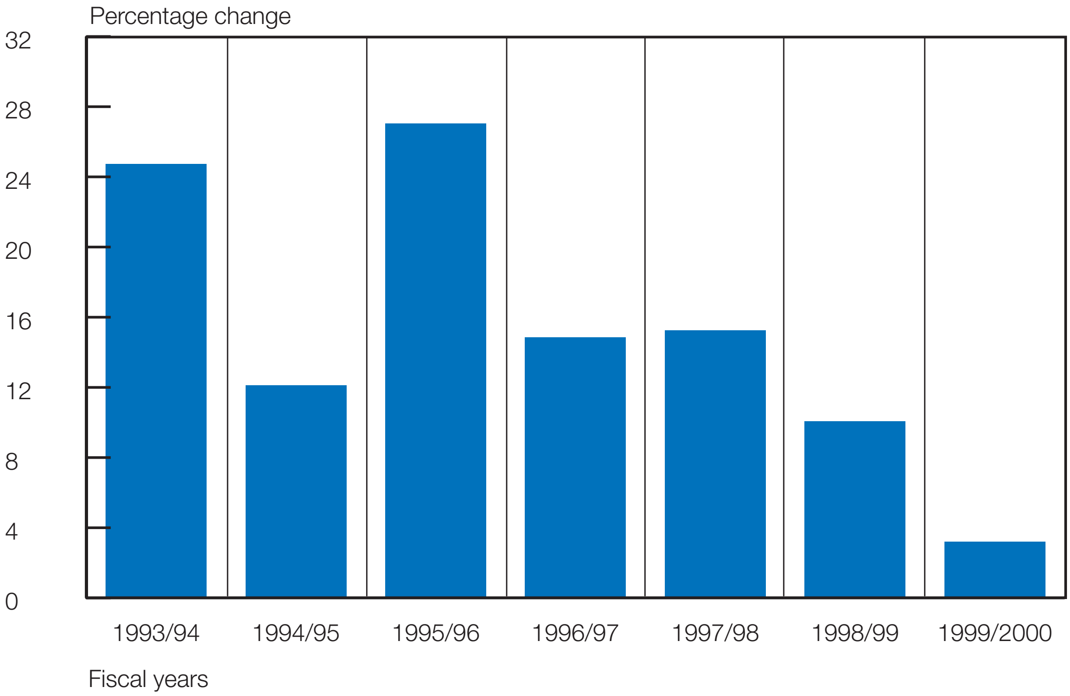
Provincial governments recorded a surplus of R0,6 billion in the January-March quarter of 2000, which took their aggregated financial balances to a surplus of R3,0 billion in fiscal 1999/2000. This surplus is lower than the surplus of R3,2 billion recorded in the previous fiscal year and is partly explained by the condition attached to a transfer of R1,4 billion from the national government to provincial governments. The condition stipulated that the funds be used to reduce outstanding debts and that it should not be applied against recurrent expenditures. Bank credit extended to provincial governments increased from R0,9 billion at the end of March 1999 to R1,4 billion at the end of March 2000, while the bank deposits of provincial governments increased from R2,7 billion to R4,4 billion over the same period.

The improvement in the financial position of the consolidated central government resulted essentially from a decrease in the borrowing requirement of the national government. This improvement was complemented by improvements in the financial positions of extra-budgetary institutions and social security funds, following the inclusion of the Road Accident Fund in this category of public-sector institutions. The transformed Multilateral Motor Vehicle Accident Fund now performs all the typical functions of a social security fund and should therefore no longer be classified as a public-sector insurance agency.

National government finance

The preliminary outcome of national government finances indicates that *national government expenditure* (including R2,0 billion for the revaluation of maturing foreign loans and R0,9 billion as a transfer to the Umsobomvu Fund) in fiscal 1999/2000 amounted to R218,4 billion – R1,6 billion higher than the original budgetary provision. This brought the year-on-year rate of increase in government expenditure to 6,7 per cent in fiscal 1999/2000 which exceeded the rate of 5,9 per cent set in the original budget proposals. However, this increase was significantly lower than the increase of 7,9 per cent recorded in the previous fiscal year and well down from an average growth rate of 11,0 per cent recorded in the five preceding fiscal years. Interest payments by national government increased to R44,0 billion or by only 3,2 per cent in fiscal 1999/2000. This can be compared with an average rate of increase of 15,9 per cent in the five preceding fiscal years. The slowdown is consistent with the objective to reduce government interest cost to more sustainable levels.

Interest on national government debt



As a ratio of gross domestic product, national government expenditure amounted to 26,8 per cent in fiscal 1999/2000, which was just below the 27,1 per cent recorded in the preceding fiscal year. After allowing for cash-flow adjustments, such as funds requested and allocated to the departments but not yet spent and late departmental requests, national government expenditure amounted to R219,0 billion or 5,9 per cent more than in the previous fiscal year.

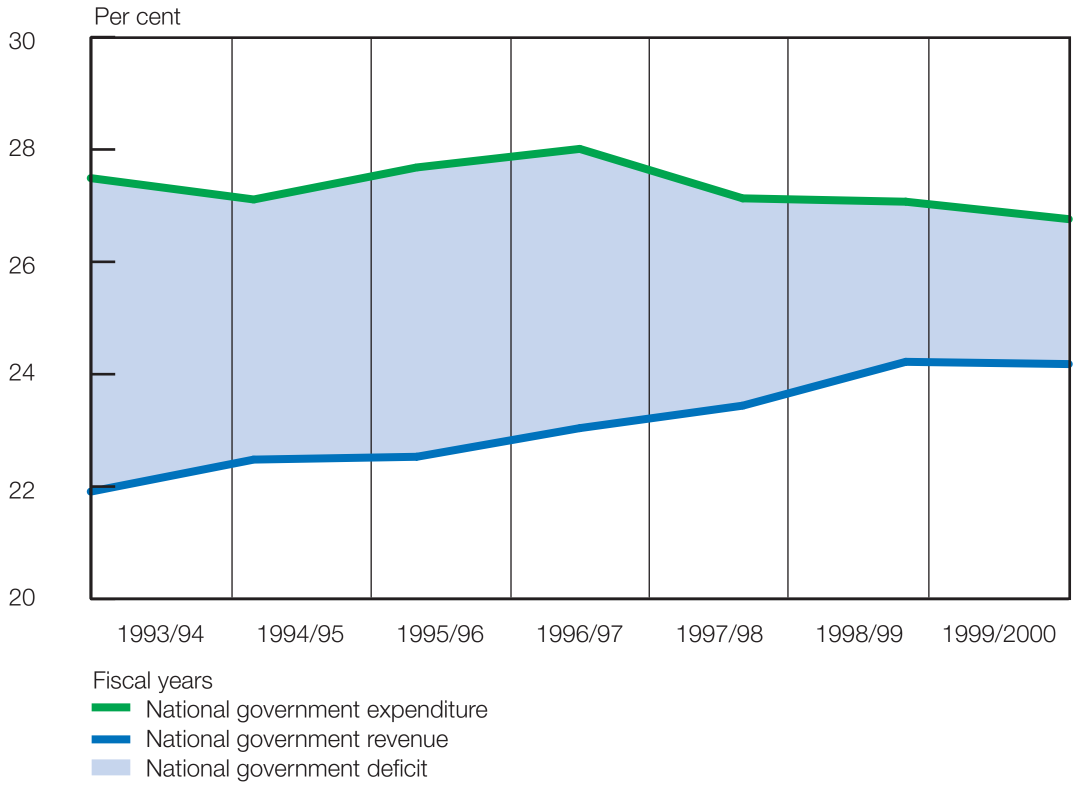
National government revenue by type of income in fiscal 1999/2000
Percentage change*

Type of revenue	Budgeted	Actual
Income tax	3,4	7,3
Value-added tax	7,7	10,1
Customs duty	10,4	8,9
Fuel levy	5,9	4,8
Other excise duties	9,1	10,4
Total revenue	4,6	7,8

* Based on the actual outcome of the previous year

The preliminary Exchequer Account indicated that national government revenue amounted to R197,4 billion in fiscal 1999/2000. This represented an increase of 7,8 per cent for the fiscal year compared with an originally budgeted increase of 4,6 per cent. As shown in the accompanying table, the higher-than-budgeted rate of increase was primarily due to a strong growth in income tax and value-added tax collections. Revenue from customs duties and the fuel levy fell short of the original projections, but income from other excise duties comfortably exceeded the budget targets.

National government revenue and expenditure as a ratio of gross domestic product



As a ratio of gross domestic product, national government revenue amounted to 24,2 per cent in fiscal 1999/2000, compared with government's stated longer-term objective of 25,0 per cent. After allowing for cash-flow adjustments resulting from surrenders and other receipts, national government revenue amounted to R200,2 billion in fiscal 1999/2000. This represented an increase of 7,7 per cent over the previous fiscal year.

The higher-than-expected expenditure and revenue resulted in a *national government deficit before borrowing and debt repayment* of R21,0 billion for fiscal 1999/2000, which was clearly lower than the originally budgeted deficit of R25,1 billion. As a ratio of gross domestic product, the deficit amounted to 2,6 per cent in fiscal 1999/2000, compared with a ratio of 2,8 per cent recorded in the preceding fiscal year. National government also succeeded in maintaining the primary surplus (i.e. the difference between revenue and expenditure recalculated by excluding interest payments from total expenditure) at 2,8 per cent of gross domestic product in fiscal 1999/2000.

The Minister of Finance announced that, in keeping with international practice, the cost of the revaluation of maturing foreign loans would in future be excluded from government expenditure. If such revaluations are excluded in fiscal 1999/2000, the deficit would be R19,3 billion or 2,4 per cent of gross domestic product.

The deficit before borrowing and debt repayment, adjusted for cash flows, amounted to R18,8 billion in fiscal 1999/2000. This came to 2,3 per cent of gross domestic product, compared with 2,8 per cent in fiscal 1998/99. This was financed by means of government securities issued in the domestic and foreign markets and from the proceeds of the restructuring of government assets, as shown in the accompanying table.

Financing of national government deficit in fiscal 1999/2000

Financial instruments	R millions
Domestic primary capital market	
Government bonds (including discount)	6 997
Less: Discount on government bonds	3 686
Net receipts from government bonds issued	**3 311**
Treasury bills	1 884
Extraordinary receipts	
Restructuring of government assets	7 145
International Monetary Fund	8
Extraordinary payments	
Transnet Pension Fund	-1 333
Closed Pension Fund	-152
Other	-8
Foreign loans	10 496
Redemption of Namibian debt	-272
Redemption of Section 239-debt*	-181
Non-marketable securities	-5
Increase(-) in available cash balances	-2 120
Total net financing	**18 773**

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

As indicated in the table, new funds obtained through domestic government bond issues amounted to approximately R3,3 billion. Bonds to the value of R1,3 billion were also issued to Transnet in accordance with the burden-sharing agreement regarding the Transnet Pension Fund shortfall, attributable to South African Airways.

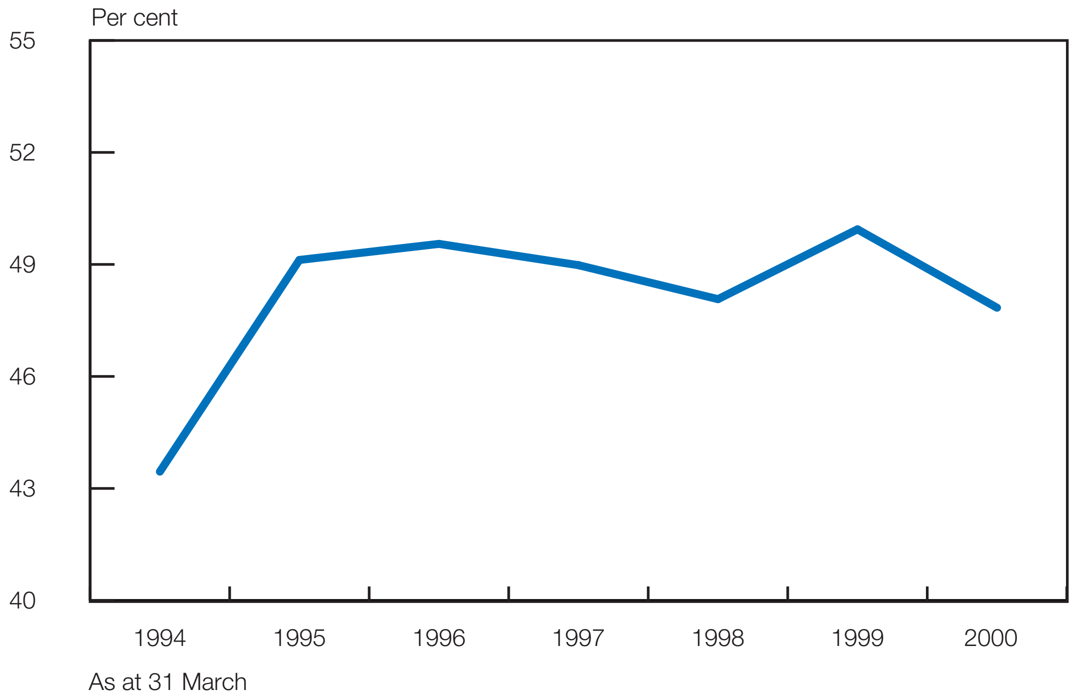
Government also successfully reopened the 9,125 per cent Global Dollar Bond with a further issue of US$750 million. This issue was allotted at 275 basis points over the rate on 10-year United States Treasury Bonds and yielded R4,9 billion to the Exchequer Account in March 2000. This issue lengthened the average outstanding maturity of government foreign debt from 90 months at the end of December 1999 to 92 months at the end of March 2000. Subsequent to this issue, a downward revision was announced regarding the expected foreign financing in fiscal 2000/01, from R6,5 billion to R2,0 billion.

The proceeds from the restructuring of government assets made a significant contribution to the financing of the deficit of national government in fiscal 1999/2000. Receipts from this source included R6,3 billion from the restructuring of the South African Special Risks Insurance Association (Sasria), R44 million from the partial sale of the Airports Company of South Africa (ACSA), R625 million from Transnet for the partial sale of South African Airways and R165 million from the outsourcing of the motorcar financing scheme for senior government officials.

Long-term funding was obtained at an average rate of 13,8 per cent per annum and short-term debt instruments were sold at an average rate of 11,1 per cent per annum during fiscal 1999/2000. These rates compare with an initial budget assumption of 14,0 per cent.

Total *national government debt* rose from R377,7 billion at the end of March 1999 to R390,5 billion at the end of March 2000. The increases in outstanding securitised debt were offset to some extent by the lower balance on the Gold and Foreign Exchange Contingency Reserve Account, which fell from R14,4 billion at the end of March 1999 to R9,2 billion at the end of March 2000. As a ratio of gross domestic product, government debt decreased from 49,9 per cent at the end of March 1999 to 47,8 per cent at the end of March 2000.

National government debt as a ratio of gross domestic product



National government finance in April 2000

In April 2000 national government expenditure amounted to R23,2 billion or 14,0 per cent more than in April 1999. After allowing for cash-flow adjustments, expenditure amounted to R22,1 billion, which was 16,8 per cent higher than the corresponding amount a year earlier. The Budget envisaged an increase of 7,2 per cent in fiscal 2000/01. Revenue received by national government amounted to R12,4 billion in April 2000 or 15,1 per cent more than in April 1999. After allowing for cash-flow adjustments, revenue amounted to R12,4 billion. The net result of these changes in revenue and expenditure in April 2000 was a deficit before borrowing and debt repayment of R10,8 billion.