Quarterly Bulletin
Kwartaalblad

December 2001

South African Reserve Bank
Suid-Afrikaanse Reserwebank

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List of tables

List of graphs

Quarterly Economic Review

Introduction

Economic events in the world during the third quarter of 2001 were overshadowed by the terrorist attacks on the United States on 11 September. Even before these attacks, projections had indicated there were marked slowdowns in activity in almost all regions of the world.

The September attacks are expected to depress world economic growth and reduce projected growth in international trade, arguably the most important conduit for spreading economic weakness, or strength, around the world. Some estimates of world economic growth for 2001 were scaled down by as much as a full percentage point as a consequence of the attacks. Growth in global trade looks set to decline to 2 per cent in 2001 from a 12 per cent high in 2000.

Initially, the economic effect of this unnatural disaster was predominantly a loss of productive assets. The loss of income came later and will probably endure much longer. The erosion of consumer and business confidence may conceivably lead to further reductions in aggregate spending. Airlines, insurance companies, travel agents and the financial services sector were affected almost immediately by the attacks, but disruption is now spilling over into other areas such as manufacturing, retailing and information and telecommunication technology.

The damage to economic activity could be deeper and more protracted if consumers and producers perceive an ongoing threat of more terrorism and an escalation of the allies' military response. Paradoxically, however, the negative effects on growth could be shortened and turn positive by mid-2002 if the monetary and fiscal policy stimuli in the United States have the desired results. The expansionary effects of easier macroeconomic policies in the United States and other developed economies will probably be reinforced by the onset of rebuilding and damage repair. By encouraging a stimulatory policy response, the attacks have, therefore, increased the likelihood of an early recovery in economic growth over the next year or so, particularly in the United States.

Economic growth in South Africa up to the second quarter of 2001 had apparently been unscathed by the gathering global recession. Domestic economic growth held firm and even accelerated in the second quarter of 2001. But by the third quarter of 2001 the domestic economic situation became more closely aligned with the world economy, and annualised growth in real gross domestic production fell from 2 per cent in the second quarter to about 1 per cent in the third. Output growth slowed down throughout all the main production sectors of the economy, but was particularly severe in agriculture, mining and manufacturing where output volumes actually declined.

The slowdown in domestic output growth coincided with a relatively strong pickup in aggregate gross domestic expenditure in the third quarter of 2001, establishing an excess of domestic expenditure over domestic production and a deficit on the current account of the balance of payments. All the major components of aggregate final demand continued to grow robustly during the third quarter of 2001, and there were even indications of some counter-cyclical acceleration in final consumption expenditure by general government. Capital formation in the private sector and by general government continued to rise strongly but public corporations cut back on their capital programmes. Inventories were accumulated, giving a fillip to domestic expenditure in the third quarter.

Although growth in the real disposable income of households slowed down in the third quarter of 2001, households maintained quite a brisk rate of spending growth, partly by financing expenditures through increased recourse to bank credit. This reduced the household saving ratio. At the same time, high levels of dividend payments by companies in the face of weaker growth in operating surpluses also whittled off part of corporate savings. Overall, the national saving ratio declined in the second and third quarters of 2001, threatening to reverse the steady progress made in improving the economy's saving performance over the past five years.

Broadly reflecting the slowing pace of economic activity, labour demand in the formal economy weakened in the first half of 2001. Employment in the formal sectors of the economy continued along a declining trend, but survey results point to an unchanged overall level of employment from the beginning of 2000 to the beginning of 2001, leaving the unemployment rate virtually unaffected but at a still uncomfortably high level.

Increases in worker compensation trended down in the second quarter of 2001, but growth in measured labour productivity was compressed by heightened industrial action and by slower growth in output. Growth in unit labour cost nevertheless remained flat, adding minimal upward pressure to the overall price level.

Slow growth in nominal unit labour cost undeniably helped to contain inflation, but other counter-inflationary forces also made noticeable contributions. These were

- subdued inflation in South Africa's trading-partner countries;
- the decline in international crude oil prices;
- growth in domestic expenditure that was until the second quarter of 2001 not out of line with the output capacity of the economy;
- the availability of unused manufacturing capacity;
- narrower retail profit margins which absorbed part of the relatively strong increases in prices at the production level; and
- the continued application of sound macroeconomic policies.

Although inflation moved lower in the third quarter of 2001, there are signs of potentially faster future increases in the aggregate price level. In particular, there are concerns about the potential second-round price effects of the depreciation in the exchange value of the rand. So far, many producers and merchants have succeeded in absorbing upward cost pressures by reducing profit margins, but the reduction in the exchange rate could easily result in a stronger pass-through effect of the higher prices paid for imported goods. Nor can the squeeze on retail profit margins continue indefinitely. Higher wage settlements during the third quarter also point to the likelihood of a stronger wage-push effect in the near term. The recent stronger growth in the money supply also signals a potential threat of future increases in aggregate gross domestic demand. Furthermore, high food prices may contribute to a temporary acceleration of the inflationary momentum of the economy.

Economic slowdowns are usually associated with improvements in the balance on the external current account – either as growing surpluses or as shrinking deficits. However, despite the general slowdown in economic activity, the current account of South Africa with the rest of the world fell into deficit in the third quarter of 2001.

Until the second quarter of 2001 exports had held up well in the face of slowing world economic growth, underpinned by the competitiveness of the exchange rate as well as positive developments in some commodity markets. But during the third quarter of 2001 the potentially positive effects of the depreciation of the rand were negated by the adverse effects of slowing growth and declining income levels in trading-partner countries. The low level of the rand and weaker domestic economic conditions also dampened import growth, but not enough to prevent the current account from falling into deficit.

In the external financial account, recorded inflows exceeded net outflows as had been the case in the second quarter of 2001. Within the components of the financial account the imbalances remained very volatile and to some extent offset one another, leaving the overall positive balance almost unchanged from the second quarter of 2001 to the third quarter.

Foreign direct investment capital continued to move into the economy, but at such a modest pace that it was more than fully offset by the outward movement of portfolio capital. The surplus on the financial account was therefore the net result of inward movements of other mostly short-term foreign capital, such as unsecuritised loans, trade finance and bank deposits.

The surplus on the financial account precisely matched the deficit on the current account, leaving no room for a build-up of the country's net international reserves during the third quarter of 2001. This exerted some downward pressure on the exchange rate, aggravated by a heightened awareness of the risks associated with investing in emerging markets, disquieting developments in neighbouring states, and the typical leads and lags phenomena in foreign payments and receipts during periods of currency weakness. The exchange value of the rand declined sharply, also because of some position-taking by market operators. In the end, the decline in the value of the rand during the third quarter has been more severe than during any single quarter since the international financial crisis in 1998.

Growth from quarter to quarter in the broadly defined money supply remained solidly high throughout the first three quarters of 2001 and even accelerated somewhat from the second to the third quarter. Depositors were probably influenced by fears of potential losses from equity investments and the lack of opportunities for diversifying investment assets into offshore markets, so they preferred to make longer-term deposits of a more saving-related nature. There had also been signs of a faster accumulation of short-term transaction-related deposits in the third quarter of 2001, increasing the potential of the money supply to fuel aggregate spending pressures in the economy. The growth in aggregate money supply exceeded by a substantial margin the growth capacity of the South African economy.

Growth in the money supply in the third quarter of 2001 was influenced strongly by the expansion of bank credit. The demand for bank credit grew at a relatively modest pace in the first two quarters of 2001, but credit growth picked up quite significantly during the third quarter of the year. In particular, credit extension to the private sector rose firmly in the third quarter. Asset-backed lending (i.e. mortgage financing, instalment sale and leasing finance) increased robustly, reflecting the buoyancy of the real-estate market and ongoing fixed capital formation by private-sector companies, as well as private households' strong demand for financing durable consumer goods.

The bull run in the secondary bond market continued throughout the first ten months of 2001. Bond yields were driven lower by the steadily declining supply of public-sector debt, coupled with the strong demand for fixed-interest assets by domestic institutional investors and the growing realisation in market circles that monetary policy was firmly committed to enduringly low inflation. Furthermore, price formation in the domestic bond market was largely unaffected by the terrorist attacks on America.

An assessment of a benign outlook for inflation allowed the Monetary Policy Committee of the Reserve Bank to announce reductions in the rate on repurchase transactions on two occasions during the June–September period. Together with a technical adjustment in September, the repurchase rate was reduced by a full 250 basis points from the middle of June 2001 to the end of September, taking the level of this rate down to 9,5 per cent. The predominant lending rates of the private banks and the short-term interest rates determined in the money market, broadly traced the movements of the repurchase rate, but when the technical adjustment was introduced, market rates remained essentially unchanged.

In the primary debt market the availability of excess funds, following the shrinking of the public sector's borrowing requirement, created opportunities for the further development of the corporate bond market. This is evident from the growth in the nominal value of listed private-sector fixed-interest securities from about R4 billion two years ago to R20 billion currently. Mirroring to some extent the growth in the primary corporate debt market, the demand for new equity financing waned noticeably in the first three quarters of 2001.

Unlike bond prices, share prices were at first drastically influenced by the events of 11 September. The all-share price index tumbled by 15 per cent from 10 to 21 September, but subsequently recovered quite impressively and by the middle of November was again higher than on the eve of the first attacks. Over the past fourteen months, starting in August 2000, the South African share market has also outperformed the Wall Street market by a fair margin. Global investors recognised this and added some R26 billion in South African equities to their asset holdings over the first ten months of 2001. Real-estate values grew impressively as well, but the robust pace of increase in 1999 and 2000 has been tempered somewhat in recent months.

The fiscal situation in South Africa remained healthy in the first half of fiscal 2001/02 and the prospects are that this situation will continue in the second half of the year. The finances of the provincial governments in particular have been placed on a sound footing. Overall expenditure increased faster than the usual growth in the months from April to September, but this was off a relatively low base in the first half of fiscal 2000/01. Simultaneously, growth in national government revenue by far exceeded the budget projections of revenue growth for the full fiscal year. As a consequence, and allowing for the usual seasonal pattern of revenue and expenditure flows, the budget deficit of the national government is on target to meet the projected deficit for the full fiscal year – in terms of absolute size and also as a percentage of gross domestic product.

The steady reduction in the borrowing requirement of the public sector in recent years has not only released resources for absorption by private-sector borrowers but also contributed to the substantial decline in the long-term cost of capital. Growth in the interest burden of national government accordingly slowed down to a low rate in the first half of fiscal 2001/02. At the same time, the primary surplus (i.e.

when interest payments are not seen as part of expenditure) rose to a level equal to about 1½ per cent of gross domestic product.

When presenting the Medium Term Budget Policy Statement to the Budget Committee of Parliament, the Minister of Finance announced that after consultation between the National Treasury and the Reserve Bank, agreement had been reached on medium-term inflation targets. The inflation target would remain at 3 to 6 per cent for the annual average of CPIX inflation for the year 2003, but for 2004 and 2005 the target was set at 3 to 5 per cent.

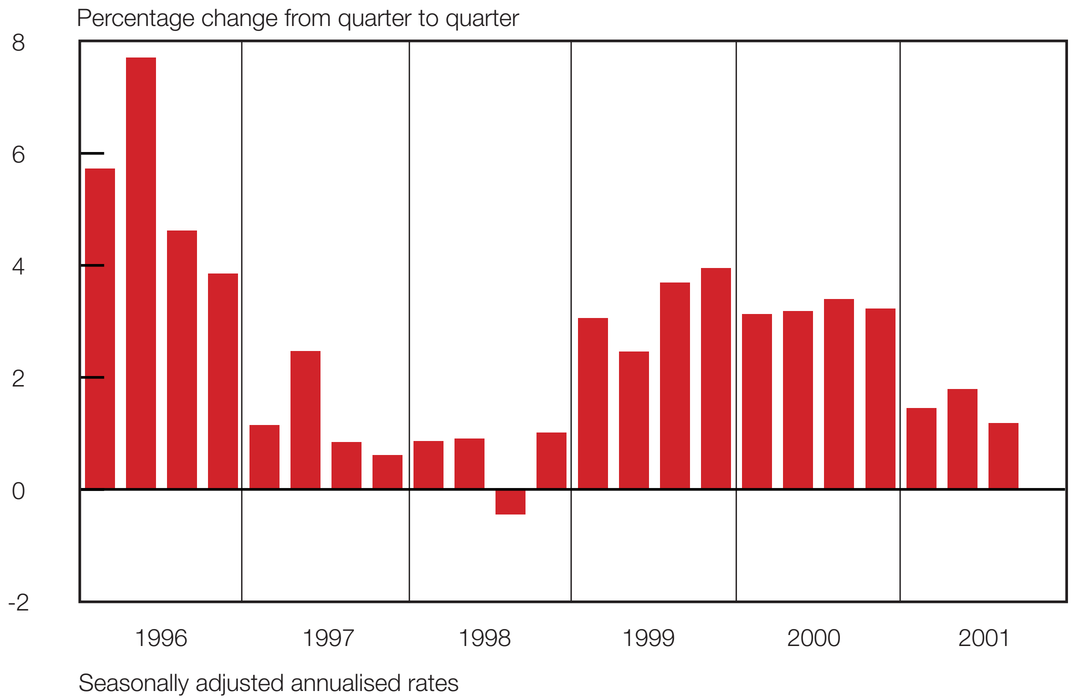
Domestic economic developments

Domestic output[1]

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

The weakening of the international economy was reflected in a slowdown of output growth in the South African economy during the third quarter of 2001. After having increased at a seasonally adjusted and annualised quarter-to-quarter rate of 1½ per cent in the first quarter of 2001 and 2 per cent in the second quarter, aggregate *real gross domestic product* increased at a decidedly lower rate of just 1 per cent in the third quarter. These increases raised the level of gross domestic output in the first three quarters of 2001 to about 1½ per cent above its level in the corresponding period of 2000. The year-to-year economic growth rate had been higher at 3½ per cent in 2000.

Real gross domestic product



Output in the agricultural sector declined further in the third quarter of 2001. If the agricultural sector is excluded, the real output of the other sectors still increased at a rate of just 1½ per cent in the third quarter of 2001 compared with 2 per cent in the first two quarters of the year. This signals a gradual deterioration of growth in the non-agricultural sectors of the economy from about the beginning of 2001.

The slowdown in the output growth of the non-agricultural sectors is broadly consistent with the slight downward tendency in the coincident business cycle indicator since the beginning of 2001 and could be indicative of an economy which is in the early stages of a period of relatively slower economic growth.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

	2000					2001		
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Primary sectors	2	2	½	-½	2	-4	-½	-1½
Agriculture	11	9½	3½	-2	7½	-10	-4	-1½
Mining	-3½	-3½	-2	½	-2	1½	2½	-1
Secondary sectors	3	3½	5½	6	4	½	1	-½
Manufacturing	5	4	6½	7½	5	½	1	-1
Tertiary sectors	3	3½	3	2½	3½	2½	2½	2½
Non-agricultural sectors	2½	3	3½	3½	3	2	2	1½
Total	**3**	**3**	**3½**	**3**	**3½**	**1½**	**2**	**1**

Agricultural production declined for the third consecutive time in the third quarter of 2001. This decline was particularly noticeable in the volumes of field crop production and to a lesser extent in the real value added by livestock producers. The decline in agricultural production at an annualised rate of 1½ per cent in the third quarter of 2001 was somewhat surprising in view of the late harvesting of the maize crop and indicates that output in the non-field crop subsectors of agriculture declined too. The size of the maize crop shrank from 10,8 million tons in 2000 to 7,7 million tons in 2001.

The real value added by the *mining sector* declined at a seasonally adjusted and annualised rate of 1 per cent in the third quarter of 2001, following increases of 1½ per cent in the first quarter and 2½ per cent in the second quarter. Output declines occurred in all the prominent subsectors of the mining industry during the third quarter of 2001, except for platinum mining where production levels were stepped up despite a decline in export volumes. Otherwise, the impact of the global economic slowdown was clearly evident in the output results of the mining sector. Overall output in the mining sector for the first three quarters of 2001 is estimated at roughly the same level as in the first three quarters of 2000.

The real output of the *manufacturing sector* declined somewhat in the third quarter of 2001. External demand for manufactured goods from South Africa declined considerably, despite the greater competitiveness of domestic producers provided by the lower exchange value of the rand. The impact of weak external demand was aggravated by output disruptions caused by fairly widespread industrial action during the third quarter. The worst-affected sectors were producers of food, beverages and tobacco, chemical products, base metal products and transport equipment.

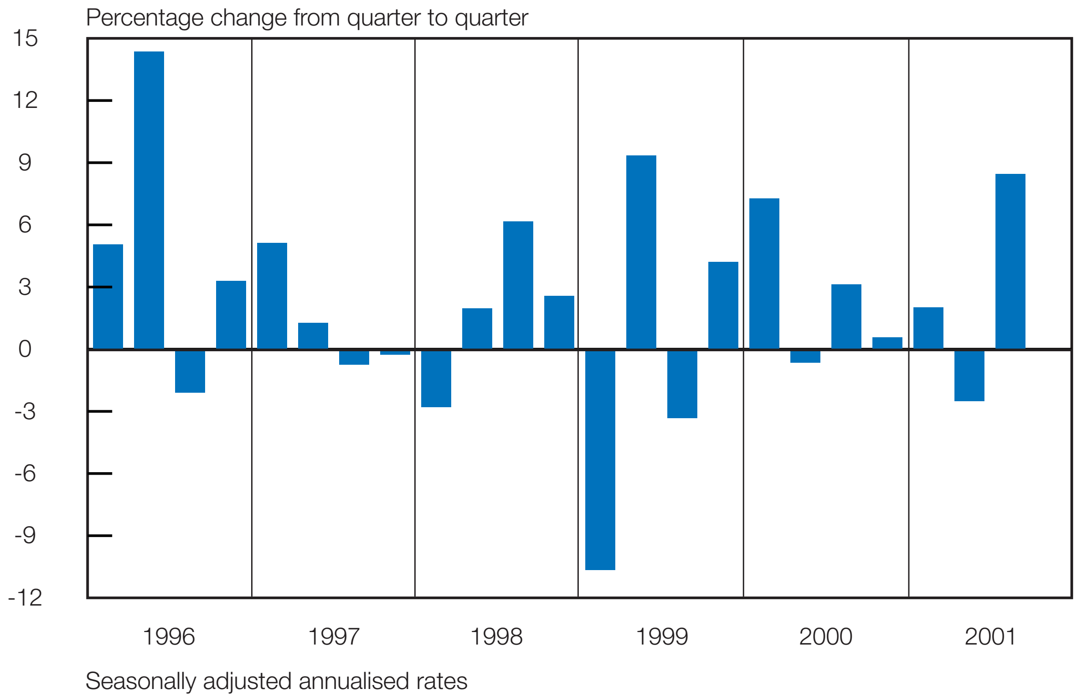
In the other goods-producing sectors, output by the sector supplying *electricity, gas and water* still increased at a modest pace of 2 per cent (seasonally adjusted and annualised) in the third quarter of 2001, but real value added by the construction sector declined. The ongoing programme of providing basic services to lower-income communities benefited the public utility companies, whereas output in the construction industry was constrained somewhat by the limited capacity of some provincial and local governments to implement infrastructure development plans.

The real value added of the *services sector* continued to increase in the third quarter of 2001 at broadly the same rate as in the preceding quarter. Activity slowed down in the commercial sector where growth in the real value added declined from 3½ per cent in the second quarter to 2½ per cent in the third quarter. In *transport, storage and communication* growth increased from 4 per cent in the second quarter to 4½ per cent in the third quarter, and in *financial intermediation, insurance, real estate and business services* from 3 per cent to 3½ per cent.

Domestic expenditure

In contrast to the growth in domestic output which tapered off in the third quarter of 2001, real gross domestic expenditure increased strongly, resulting in a worsening of the external imbalance of the economy and a deficit on the current account of the balance of payments. All the major components of final demand increased solidly in the third quarter of 2001, and inventories were accumulated. Overall gross domestic expenditure rose at an annualised 8½ per cent in the third quarter of 2001, following a decline of 2½ per cent in the second quarter.

Real gross domestic expenditure



Real *final consumption expenditure by households* increased at a seasonally adjusted and annualised rate of 2½ per cent in the third quarter, roughly maintaining the growth of the second quarter. Expenditure on *durable goods* was particularly lively, turning around from a decline at an annualised rate of 5 per cent in the second quarter to a rise at a rate of 3½ per cent in the third quarter. Purchases of new motorcars featured prominently in the third quarter expenditure on durable goods, but expenditure on other categories of durable goods also increased quite noticeably.

Real gross domestic expenditure
Percentage change at seasonally adjusted annualised rates

	2000					2001		
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Final consumption expenditure by households	3½	2½	3	3½	3½	2½	2½	2½
Final consumption expenditure by general government	0	0	0	½	½	1½	1½	2½
Gross fixed capital formation	2	2	2	2	½	4	4	3
Change in inventories (R billions)*	9,0	7,0	8,7	3,2	7,0	2,6	-2,4	5,3
Gross domestic expenditure	**7½**	**-½**	**3**	**½**	**3**	**2**	**-2½**	**8½**

* Constant 1995 prices

Real final consumption expenditure by households
Percentage change at seasonally adjusted annualised rates

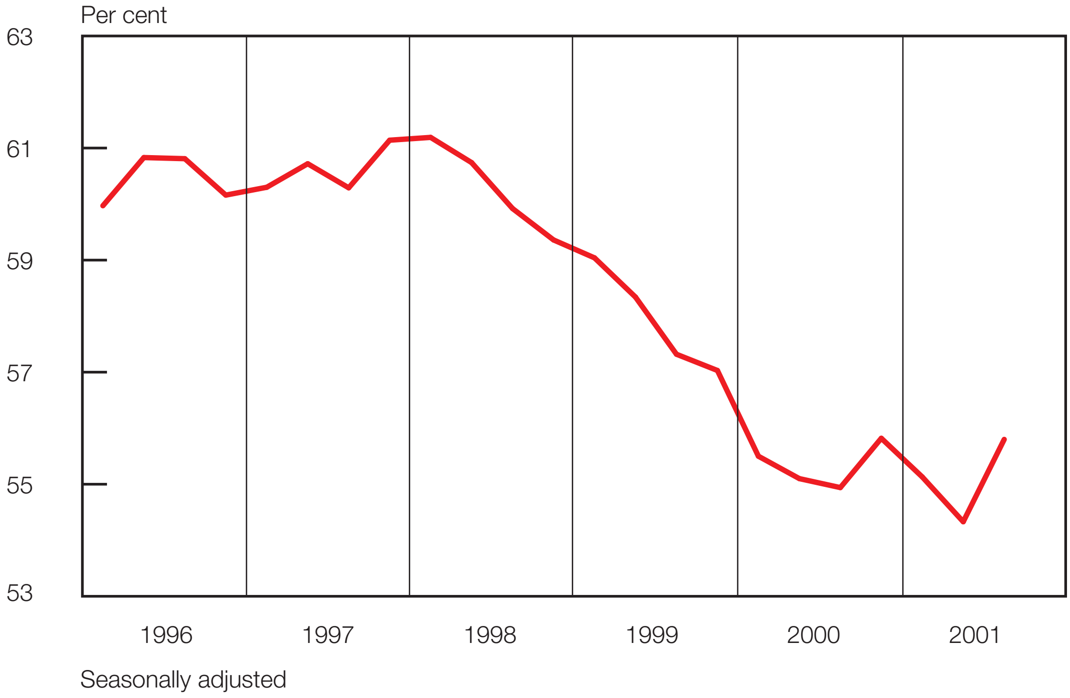
	2000					2001		
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Durable goods	11	6½	7	7½	9½	3½	-5	3½
Semi-durable goods	4½	6	4	8	5½	5½	4	4½
Non-durable goods	0	½	1	½	½	1	2½	2
Services	5	2½	4	4	4	3	3	2½
Total	**3½**	**2½**	**3**	**3½**	**3½**	**2½**	**2½**	**2½**

In the *semi-durable goods category* lively spending on recreational and entertainment goods, on clothing and footwear and on household textiles and furnishings, ensured that expenditure growth remained at a high plane in the third quarter of 2001. By contrast, and probably reflecting the increasing disparities in the distribution of income among different income classes, growth in real spending on non-durable goods and services slowed down from the second quarter of 2001 to the third quarter. The rising cost of medical and pharmaceutical goods and services and of transport and communication services forced households to economise their real spending on these household consumables.

The fairly solid expansion of real final consumption expenditure was not underpinned by an acceleration in households' real disposable income. In fact, the year-on-year growth in the real disposable income of households in the first three quarters of 2001 was down to 2½ per cent from 3½ per cent in 2000 as a whole. To sustain their spending, households collectively resorted to debt financing of part of their current spending, as is indicated by an increase of their debt-to-income ratio from 54½ per cent in the second quarter of 2001 to 56 per cent in the third quarter. This naturally has implications for household saving too.

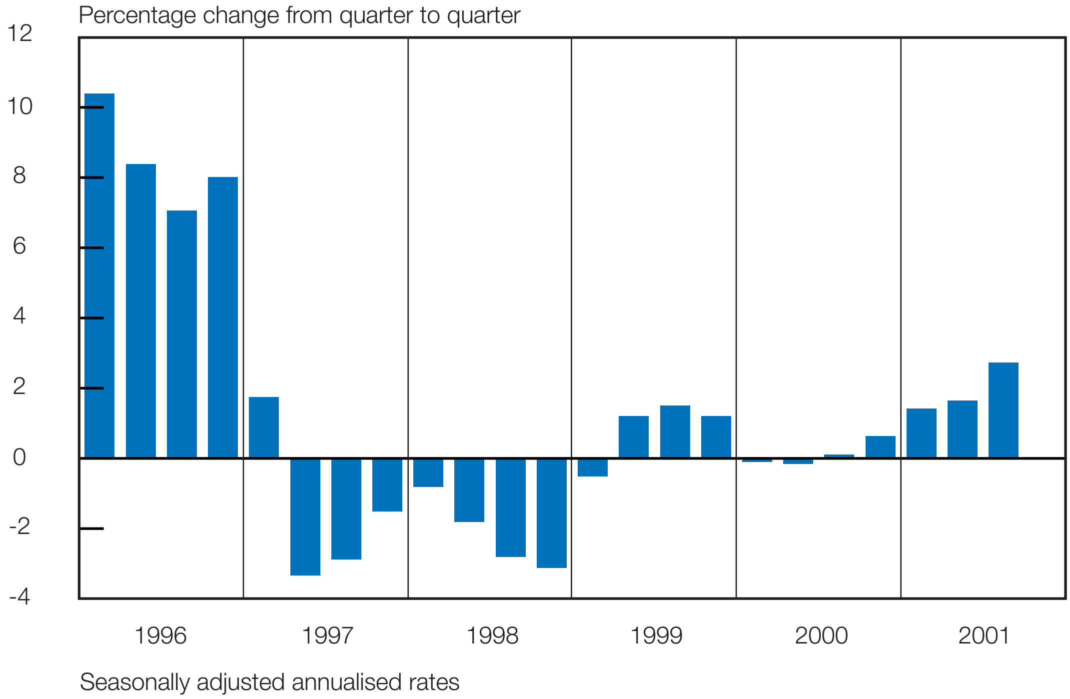
In typical counter-cyclical fashion, *general government* stepped up the rate of growth in its *final consumption expenditure* in real terms from 1½ per cent in the second quarter of 2001 to 2½ per cent in the third quarter. This lifted the level of final consumption expenditure by general government in the first three quarters of 2001

Household debt as percentage of disposable income



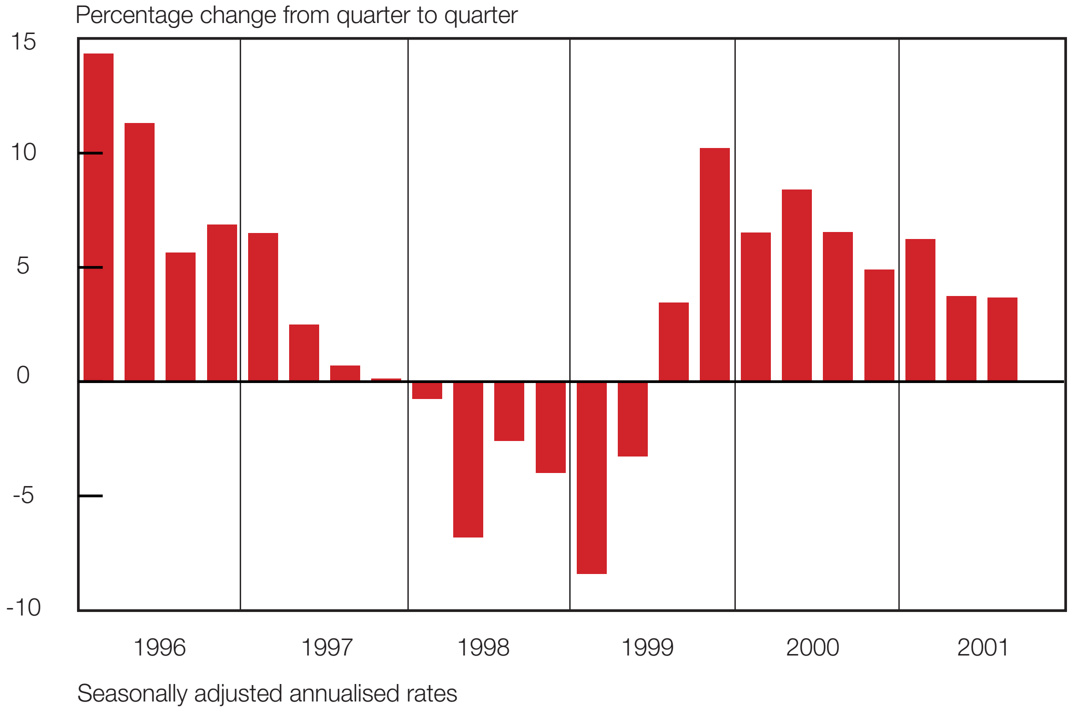
by 1 per cent from the level in the first three quarters of 2000. In 2000, real final consumption expenditure by general government increased by ½ per cent. Spending increased predominantly in the form of purchases of intermediate goods and services which mainly benefited the suppliers of these goods and services to the various government departments. Real spending on employee remuneration continued to contract.

Real final consumption expenditure by general government



Total real *gross fixed capital formation* is estimated to have increased at an annualised rate of 3 per cent in the third quarter of 2001, following increases of 4 per cent in the first half of the year. The major part of the new capital formation occurred in the private sector, lifting private-sector capital expenditure in the first three quarters of 2001 to a level that was 5½ per cent higher than in the corresponding quarters of 2000. Prominent increases in capital spending were recorded in the mining sector, especially by platinum mines, and through expenditure on infrastructure for the cellular telephone industry. Private firms in all the other main sectors of the economy also expanded capacity, but not as aggressively as the mining sector and the telecommunication sector.

Real gross fixed capital formation by the private sector



In the public sector, public corporations scaled down their capital spending, probably as part of their preparation for future privatisations. Increased expenditure on the development of road infrastructure gave fixed capital formation by general government a strong boost in the third quarter. Overall, real fixed capital formation in the public sector rose at an annualised rate of 1½ per cent in the third quarter of 2001, following an increase at a rate of 4 per cent in the second quarter.

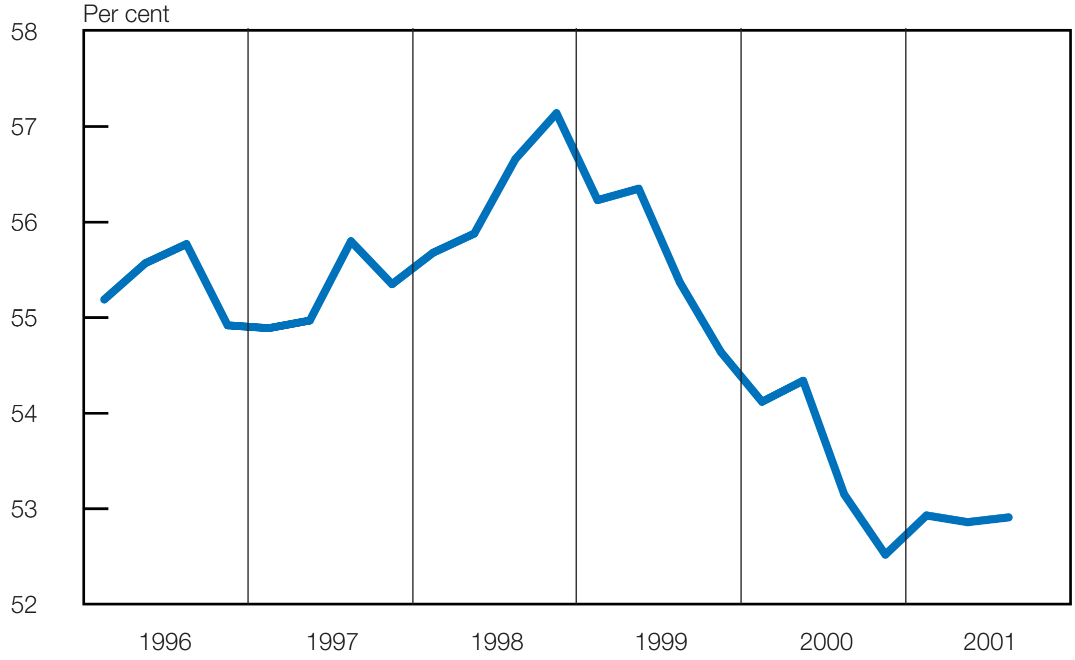
Inventories were accumulated in the third quarter of 2001, boosting growth in real gross domestic product in the third quarter of 2001 by some 5 percentage points. Alternatively stated, real gross domestic product could have contracted had it not been for the inventory build-up. Manufacturers and wholesalers added to their inventory levels in the third quarter of 2001, probably anticipating strong future growth in final demand. Mining inventories were also drawn down, but in this instance more from concern about further weakness in external demand. As a ratio of non-agricultural gross domestic product, total industrial and commercial inventories remained at 15½ per cent in the third quarter of 2001, roughly similar to the ratios recorded in the first half of the year.

Factor income and saving

The growth over four quarters in total *nominal factor income* declined from 10 per cent in the first quarter of 2001 to about 8½ per cent in the third quarter. Slower growth than previously was noted in operating surpluses.

The growth over four quarters in aggregate *compensation of employees* accelerated from 7½ per cent in the second quarter of 2001 to 8 per cent in the third quarter. Although compensation growth was still trailing behind growth in operating surpluses, the compensation of employees as a percentage of total factor income remained at about 53 per cent in the third quarter of 2001 – with the exception of 1980, the lowest level in the post-World War II period.

Compensation of employees as percentage of total factor income

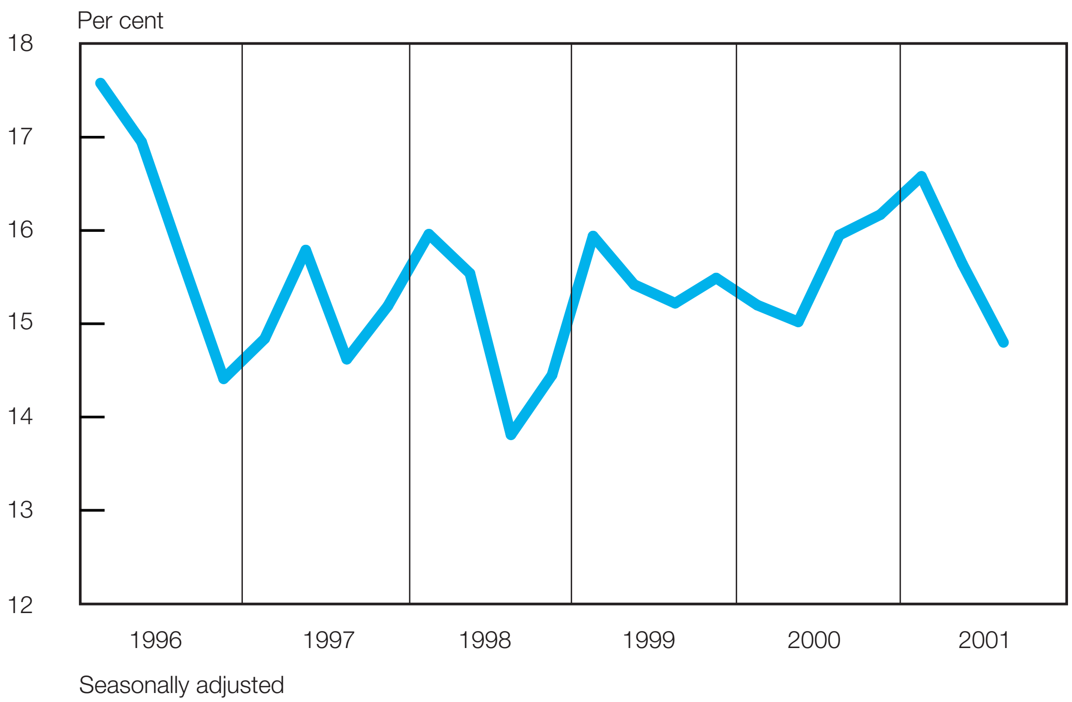


Seasonally adjusted

Growth in nominal gross *operating surpluses* of business enterprises, measured over periods of four quarters, slowed down from 13 per cent in the second quarter of 2001 to 9 per cent in the third quarter. The agricultural sector, manufacturing and the transport, storage and communications sectors were in the forefront of the sectors recording slower growth in operating surpluses, a development that is typical during periods of economic slowdown.

The ratio of gross saving to gross domestic product weakened from 16½ per cent in the first quarter of 2001 to 15 per cent in the third quarter. This decline in the national saving ratio, which is totally undesirable in view of the economy's growth and development needs, was primarily a consequence of weaker saving by the corporate sector which, in turn, was a consequence of slower growth in operating surpluses and relatively high dividend payments by companies.

Gross saving as percentage of gross domestic product



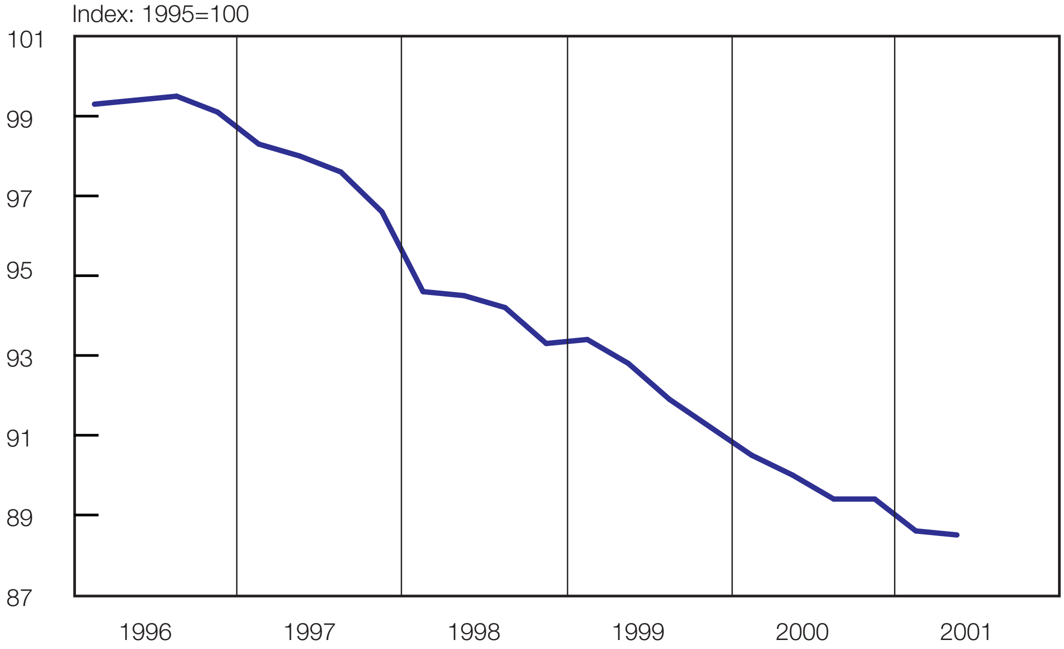
Gross saving by the corporate sector as a percentage of gross domestic product declined from 12 per cent in the first quarter of 2001 to 10½ per cent in the third quarter. As pointed out above, the solid growth in households' final consumption expenditure, the slowdown in the growth of personal disposable income and the heightened access to bank credit for financing the purchases of consumables, signalled the weakening of household saving. As a ratio of gross domestic product, household saving in the third quarter of 2001 remained at about 3 per cent.

The only area of the South African economy where gross saving has improved in recent times was in the general government sector. Prudent financial management and conservative fiscal policies helped general government to record a positive gross saving ratio in the past three quarters. By the third quarter of 2001, gross saving by general government had reached the equivalent of 1 per cent of gross domestic product.

Employment

The decline in employment in the regularly surveyed *formal non-agricultural private sector* of the economy has recently shown tentative signs of bottoming out. According to the *Survey of Employment and Earnings in Selected Industries* (SEE) by Statistics South Africa, the decline in private-sector employment moderated from a year-to-year rate of 2,0 per cent in 2000 to 1,5 per cent in the first half of 2001. When comparing year-on-year changes in private-sector employment in the first half of each year, the decline in 2001 was more muted than in any of the preceding five years.

Non-agricultural employment

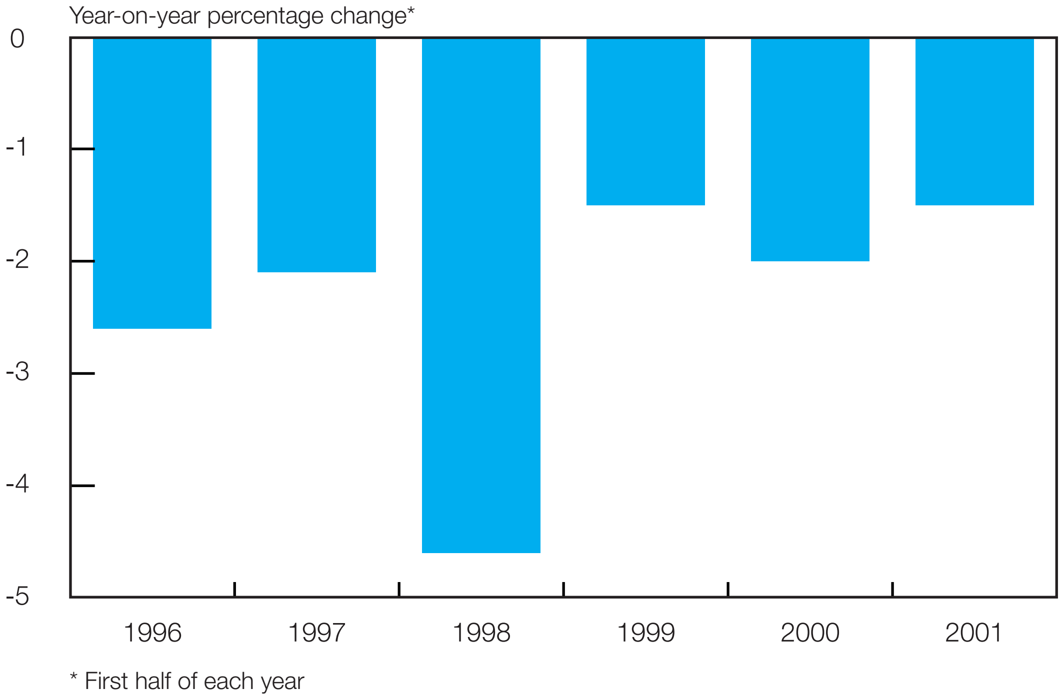


Results from the *Labour Force Survey* (LFS) by Statistics South Africa for February 2001 indicate that the official unemployment rate remained fairly stable between February 2000 and February 2001. The official unemployment rate was estimated at 26,4 per cent for February 2001. When the "discouraged" job seekers who are no longer searching for a job are also counted as unemployed, the unemployment rate amounts to 37,0 per cent.

Economy-wide employment in February 2001 amounted to about 11,8 million, comprising 1,4 million employees in the agricultural sector, 2,6 million in the informal economy, 0,9 million in domestic service and 0,2 million unclassified. The survey results also reveal that overall formal-sector employment numbers remained broadly unchanged at about 6,7 million from February 2000 to February 2001.

Despite the prevailing high unemployment in the country, the number of workdays lost due to strikes and other forms of work stoppages rose from about 235 000 at the end of June 2001 to 900 000 at the end of September, according to NMG-Levy Consultants and Actuaries. The rise in the number of workdays lost was mainly due to a number of wage strikes organised by high-profile unions with large memberships in prominent sectors of the economy. Furthermore, a number of long-term wage agreements were also renegotiated, increasing the potential for strike action across large sections of the economy.

Non-agricultural private-sector employment



The apparent moderation in the pace of job losses in recent months was not only confined to the private sector, but was also evident in the public sector. The quarter-to-quarter pace of decline in *public-sector employment* slowed down from an annualised rate of 5,0 per cent in the second quarter of 2000 to 2,3 per cent in the first quarter of 2001 and to 0,8 per cent in the second quarter. The year-to-year pace of employment reduction fell from 4,1 per cent in 2000 to 2,8 per cent in the first half of 2001. The sectoral pattern of job losses in public-sector employment in the first half of 2001 was diverse, but losses were most pronounced in the transport, storage and communication sector, followed by other governmental institutions and provincial governments.

In an attempt to balance the competing imperatives of job creation, small business promotion, better protection for vulnerable workers and improved investor perceptions about the labour market, the Cabinet approved certain amendments to the Labour Relations Act and the Basic Conditions of Employment Act for tabling in Parliament. These amendments were intended to

- improve the functioning of bargaining councils;
- increase the effectiveness of the Commission for Conciliation, Mediation and Arbitration, particularly its ability to serve small businesses and vulnerable workers;
- bring stability to the status of labour court judges;
- improve procedures in the event of dismissals, including provision for probation and the introduction of a fairer system of compensation in the event of unfair dismissal;
- revamp the procedures concerning retrenchments;
- provide certainty and clarity on the transfer of workers' contracts of employment in the event of a change of ownership of a business concern;
- address the problems workers encounter in the event of insolvency; and
- improve the balance between flexibility and protection in respect of the Basic Conditions of Employment Act.

Labour cost and productivity

Nominal compensation per worker in the formal non-agricultural sectors of the economy rose by 6,3 per cent in the year to June 2001, well down from an increase of 10,4 per cent in the year to March 2001. Nominal wage growth over this period slowed down primarily in the public sector as remuneration growth in the private sector accelerated somewhat. On average, year-on-year nominal remuneration growth per worker in the formal non-agricultural sectors of the economy slowed down from 9,1 per cent in 2000 to 8,4 per cent in the first half of 2001.

NMG-Levy Consultants and Actuaries report that the average rate of wage settlements in collective bargaining agreements amounted to 7,5 per cent in the first nine months of 2001, similar to the increase in the same period of the previous year. Inflationary pressures originating in the labour market have therefore remained relatively subdued in the past year or so. Salary and wage increases paid to workers at the entry level have, however, been somewhat more generous as the average *minimum monthly wage per worker* increased by 10,8 per cent from R2 040 at the end of September 2000 to R2 260 at the end of September 2001.

The growth in nominal compensation per worker in the *public sector* slowed down from a year-on-year rate of 16,3 per cent in the first quarter of 2001 to 4,4 per cent in the second quarter. The exceptionally high rate of public-sector wage growth in the first quarter of 2001 was mainly the result of annual bonus payments which used to be paid in April but have now been spread over the first four months of 2001. The growth in compensation per worker varied considerably within the public sector. For instance, employees in local government received average increases in excess of 10 per cent from the first half of 2000 to the first half of 2001, but those employed by provincial administrations earned 7,6 per cent more over the same period.

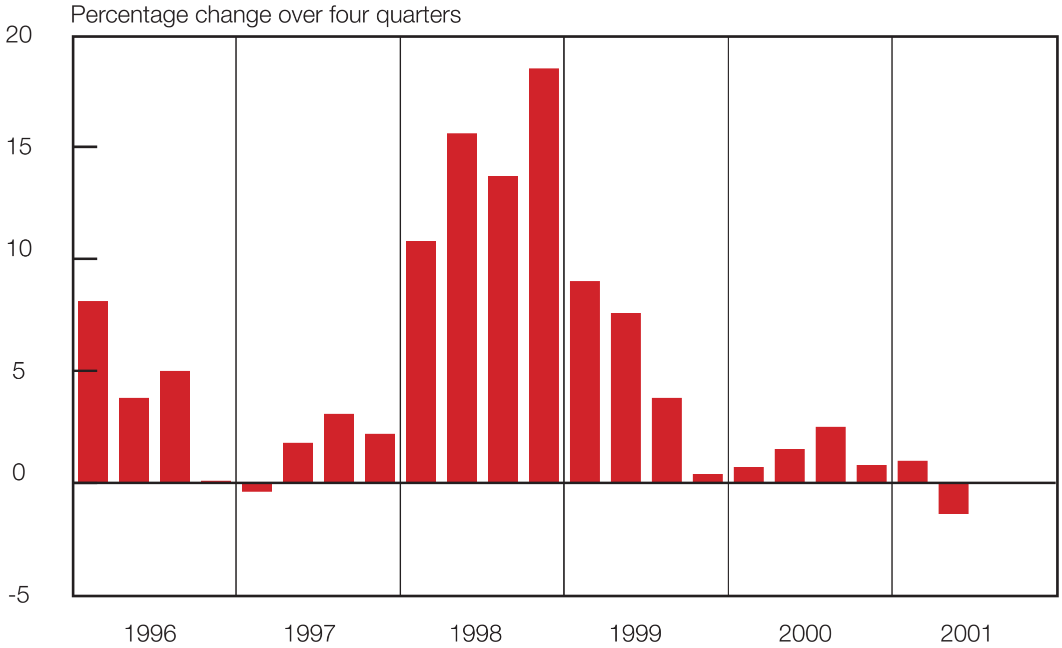
An agreement reached between government and the majority of trade unions representing government employees on 14 October 2001, provides for general remuneration improvements of government employees of between 6,5 per cent and 8,0 per cent.

Unlike the slowdown in nominal wage growth in the public sector from the first to the second quarter of 2001, remuneration increases granted by *private-sector* firms were, on average, more generous. When measured over periods of four quarters, nominal wage growth in the private sector rose from 6,7 per cent in the first quarter of 2001 to 7,9 per cent in the second quarter. However, when comparing the first half of 2001 with the first half of 2000, nominal compensation per worker in the private sector rose by 7,3 per cent, significantly below the 9,1 per cent increase for 2000 as a whole. Nominal remuneration growth also varied considerably within the private sector. The year-on-year growth in private-sector nominal remuneration per worker in the first half of 2001 ranged from a low of 3,1 per cent in the construction sector to 18,9 per cent in the gold-mining sector.

Alongside the rise in industrial action during 2001, the growth in output per worker in the formal non-agricultural sectors of the economy decreased from a year-to-year rate of 6,0 per cent in 2000 to 4,8 per cent in the first half of 2001. The slower growth in labour productivity in the first half of 2001 resulted mainly from the general slowdown in economic activity and, to a lesser extent, from the decline in employment.

Despite the slowdown in labour productivity growth from the first to the second quarter of 2001, the moderation in wage growth per worker over this period paved the way for a deceleration in the growth in *nominal unit labour cost* (i.e. the cost of labour per unit of output, or the ratio between nominal remuneration per worker and output per worker). The year-on-year growth in nominal unit labour cost in the formal non-agricultural sectors of the economy accordingly slowed down from 5,1 per cent in the first quarter of 2001 to 1,8 per cent in the second quarter. On average, nominal unit labour cost rose by 3,4 per cent in the first half of 2001 compared with the same period in the preceding year. This rate of increase is somewhat higher than the average rate of increase in nominal unit labour cost of 2,9 per cent in 2000, but is still fairly subdued compared with concurrent output price increases and could therefore be expected to help restrain future growth in end-product prices.

Nominal unit labour cost in manufacturing

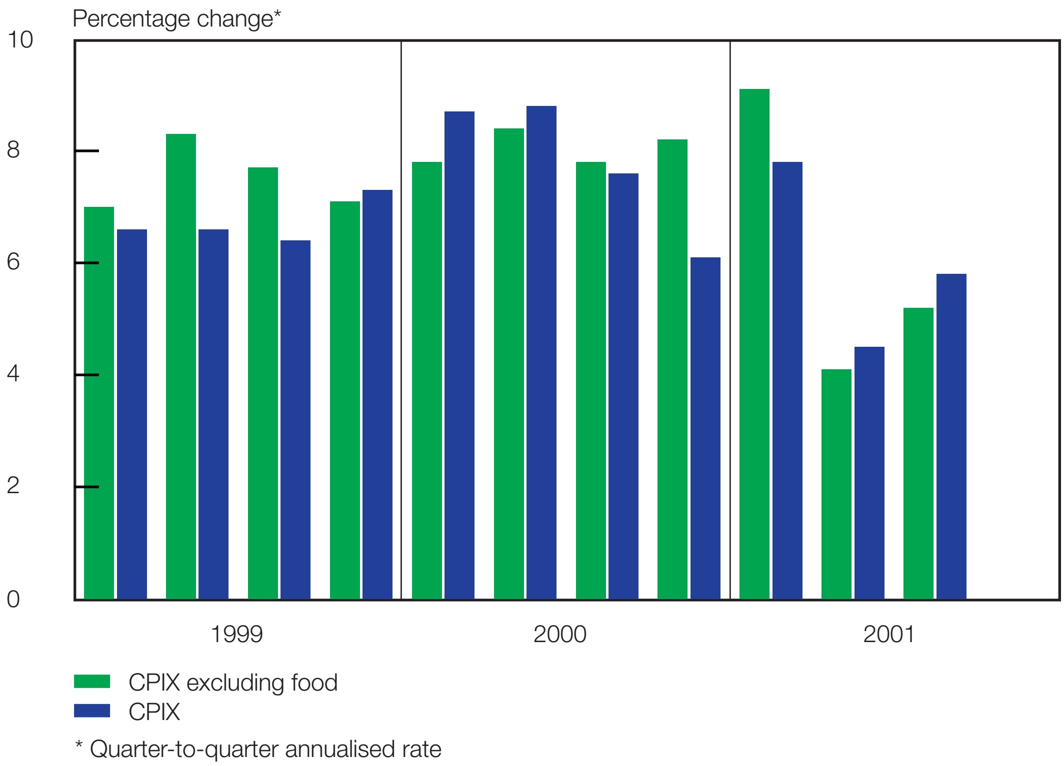


In the manufacturing sector, the growth in nominal unit labour cost remained essentially unchanged from the first half of 2000 to the first half of 2001. Output prices generally were rising at a much faster pace over this period, signalling that some building of operating margins could have been occurring at the production level.

Prices

Inflation in all the broad measures of price change has moderated in recent months. When measured over periods of twelve months, overall consumer price inflation in metropolitan and other urban areas, excluding interest cost on mortgage bonds, i.e. CPIX, declined from 8,2 per cent in August 2000 to 5,8 per cent in September 2001 and 5,9 per cent in October. When measured from quarter to quarter and expressed at an annualised rate, CPIX inflation was nevertheless slightly higher in the third quarter of 2001 than in the second quarter. The annualised rate of increase in CPIX rose from 4,5 per cent in the second quarter of 2001 to 5,8 per cent in the third quarter, a rate which still falls within the target range of between 3 and 6 per cent set for 2002. Food prices contributed materially to the acceleration in CPIX inflation in the third quarter of 2001, but there was a modest acceleration in the rate of price growth even when omitting food prices from the index.

CPIX inflation

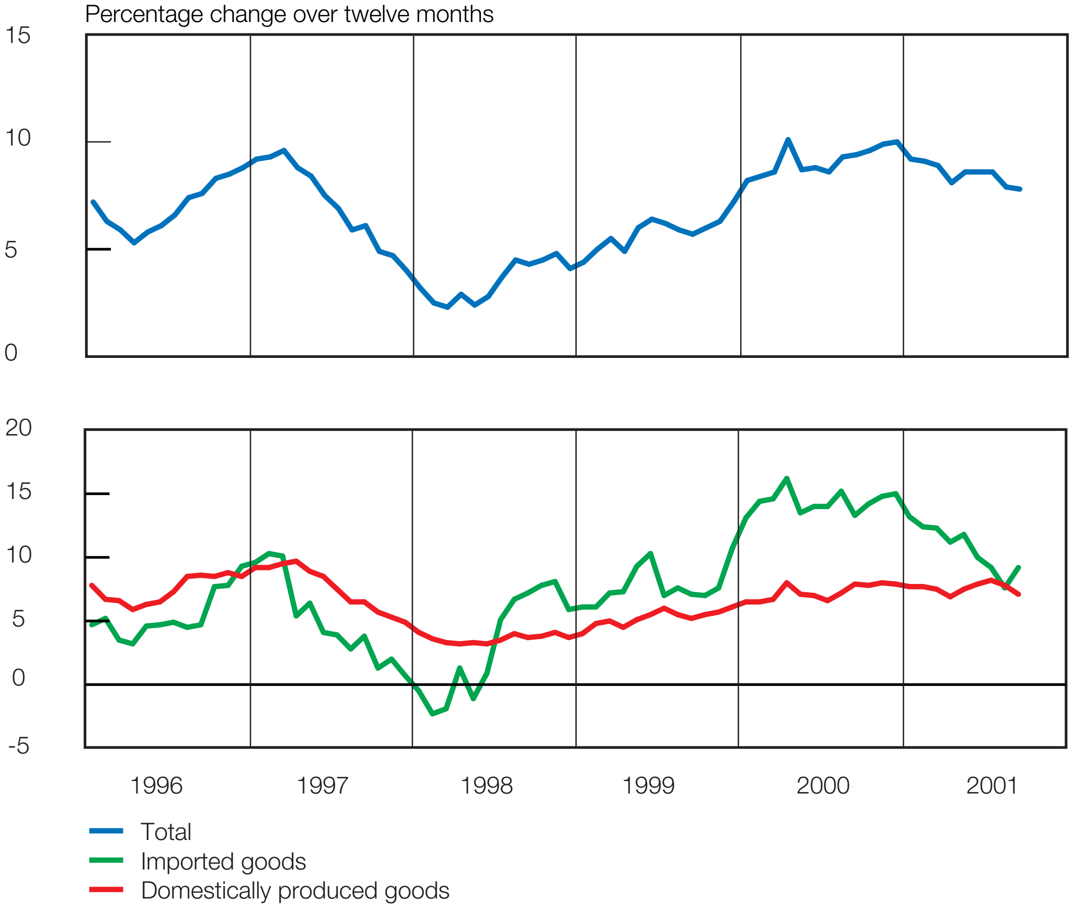


Similar to the moderation in consumer price inflation, production price inflation has also advanced at a slower pace in recent months. Measured over periods of twelve months, the rate of increase in the *all-goods production price index* slowed down from 10,0 per cent in December 2000 to 7,8 per cent in September 2001. When omitting the inflationary effect of food prices at both the agricultural and manufactured level, inflation in production prices would have amounted to a much lower rate of 6,7 per cent in the year to September 2001. The recent slowdown in production price inflation resulted mainly from lower international prices of crude petroleum. The quarter-to-quarter rate of increase in the all-goods production price index moderated from an annualised 10,6 per cent in the fourth quarter of 2000 to 6,7 per cent in the second quarter and 6,6 per cent in the third quarter of 2001.

The year-on-year rate of increase in the prices of *domestically produced goods* has been fairly stable at around the 7 to 8 per cent mark for the past year or so, amounting to 7,1 per cent in September 2001. The smaller increase in these prices in September 2001 resulted mainly from a decline in electricity prices. The average price of electricity fell as bulk consumers of electricity, who in the normal course of business qualify for quantity discounts, raised their share of overall electricity generated, thereby driving the average price of electricity down. Fairly modest rates of increase in the prices of mining products, basic metals and non-electrical machinery, and the slowdown in the rate of increase in the prices of products of petroleum and coal, contributed to the slower overall rise in domestically generated production price inflation in recent months.

By contrast, stronger inflationary pressure came from agricultural food prices which rose by 18,4 per cent in the year to September 2001. Manufactured food prices rose at a year-on-year rate of 8,7 per cent in September 2001, compared with

Production prices



3,2 per cent eight months earlier in January. Furthermore, the rising prices of leather and leather products, footwear, fishing and non-food agricultural products added to upward price pressures. Consequently, the quarter-to-quarter pace of inflation in the prices of domestically produced goods picked up from 7,3 per cent in the second quarter of 2001 to 7,9 per cent in the third quarter.

Production prices

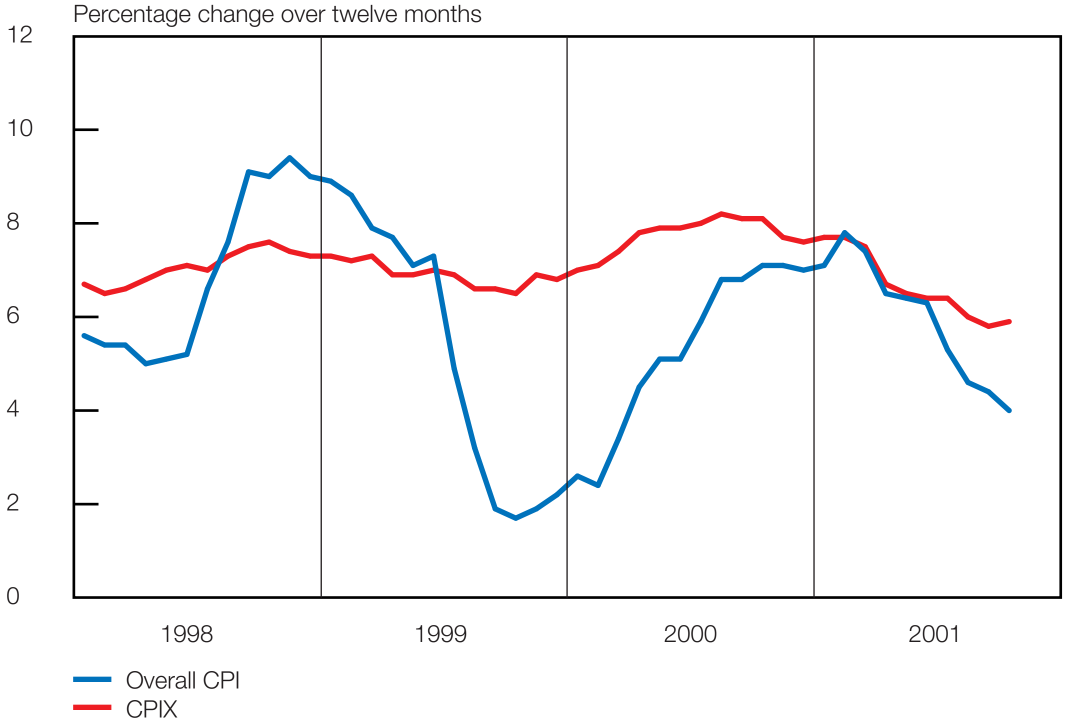
Quarter-to-quarter percentage changes at annualised rates

Period		Domestically produced goods	Imported goods	Overall production prices
2000:	1st qr	8,5	21,9	11,8
	2nd qr	8,8	14,4	10,0
	3rd qr	6,3	8,3	7,3
	4th qr	8,6	14,0	10,6
	Year	**7,3**	**14,4**	**9,2**
2001:	1st qr	7,1	14,1	8,5
	2nd qr	7,3	6,6	6,7
	3rd qr	7,9	0,7	6,6

The year-on-year rate of increase in the prices of *imported goods* slowed down rapidly from 16,2 per cent in April 2000 to 7,6 per cent in August 2001, driven lower in the main by the recent decline in international crude oil prices. Lower rates of inflation in trading-partner countries also contributed to the slowdown in imported inflation. The quarter-to-quarter pace of increase in the prices of imported goods fell from an annualised rate of 14,1 per cent in the first quarter of 2001 to only 0,7 per cent in the third quarter. Subsequently, a sharp depreciation in the exchange rate of the rand started in September 2001. This could potentially put upward pressure on the prices of imported goods in coming months, reversing the downward movement in imported inflation. The year-on-year rate of increase in the prices of imported goods has already risen to 9,2 per cent in September 2001 from 7,6 per cent in August.

Headline inflation or the *changes in the overall consumer price index* which tend to follow changes in production price inflation, fell from a most recent year-on-year high of 7,8 per cent in February 2001 to 4,0 per cent in October. This slowdown was to a significant extent a consequence of declines in mortgage bond rates following reductions in the Reserve Bank's repurchase rate in June and September 2001. The quarter-to-quarter pace in overall consumer price inflation slowed down from an annualised rate of 6,3 per cent in the second quarter of 2001 to *deflation* at a rate of 0,1 per cent in the third quarter.

Inflation



The year-on-year rate of increase in the prices of consumer *goods* declined from 8,7 per cent in August 2000 to 4,6 per cent in September 2001 and 4,8 per cent in October. The main driver behind the slowdown in consumer goods price inflation during the past year or so was a decrease in transport running cost (including the retail prices of petrol and diesel), which receded from a year-on-year rate of increase of 34,3 per cent in April 2000 to a situation in October 2001 when prices were back at their average level of a year earlier. Slower growth in the prices of furniture and equipment, clothing and footwear and alcoholic beverages and tobacco added to the slowdown in the short-term pace of inflation in the prices of consumer goods in the third quarter of 2001. All these factors helped to reduce inflation in the prices of consumer goods from an annualised rate of 7,0 per cent in the second quarter of 2001 to 4,0 per cent in the third quarter. Mitigating the general slowdown in goods price inflation in recent months was the renewed rise in consumer food prices from an annualised rate of 3,9 per cent in the first quarter of 2001 to 6,8 per cent in the second quarter and to 7,9 per cent in the third quarter.

Consumer prices

Quarter-to-quarter percentage changes at annual rates

Period		Goods	Services	Overall CPI	CPIX inflation
2000:	1st qr	8,5	5,5	6,6	8,2
	2nd qr	10,6	9,3	10,7	8,7
	3rd qr	7,6	4,1	6,0	7,7
	4th qr	4,1	6,5	5,0	6,6
	Year	**7,9**	**2,4**	**5,3**	**7,8**
2001:	1st qr	4,1	13,4	7,5	5,0
	2nd qr	7,0	4,2	6,3	4,5
	3rd qr	4,0	-4,7	-0,1	5,8

The headline inflation rate in the prices of *consumer services* is directly influenced by changes in interest rates – goods price inflation is only indirectly affected by these changes. Wide swings in services price inflation have occurred in recent years, mostly associated with the changes in domestic interest rates. When measured over periods of twelve months, inflation in the prices of consumer services fluctuated from a *decrease* of 3,1 per cent in November 1999 to an *increase* of 8,9 per cent in February 2001, but in October 2001 services prices were again only 2,7 per cent higher than in October 2000. When omitting home mortgage interest cost from the calculation of consumer services price inflation, the year-on-year rate of change in October 2001 would have amounted to 8,4 per cent – more than three times the rate at which all services prices had been rising. The quarter-to-quarter pace of inflation in the prices of consumer services also fluctuated widely – from an annualised rate of *decrease* of 8,8 per cent in the third quarter of 1999 to an increase of 13,4 per cent in the first quarter of 2001, falling back to deflation at a rate of 4,7 per cent in the third quarter.

Foreign trade and payments

Balance of payments on current account

Economic slowdowns are usually associated with improvements in the current-account balance – either as growing surpluses or as shrinking deficits. Despite the general slowdown in the pace of economic activity, the current-account balance of South Africa with the rest of the world turned from a surplus of R6,3 billion (seasonally adjusted and annualised) in the second quarter of 2001 into a deficit of R10,1 billion in the third quarter. A run of three successive surpluses on the quarterly current account from the fourth quarter of 2000 to the second quarter of 2001 was thus brought to an end. However, at a level equal to just 1 per cent of gross domestic product, the current-account deficit did not pose any external financing problems for the economy.

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

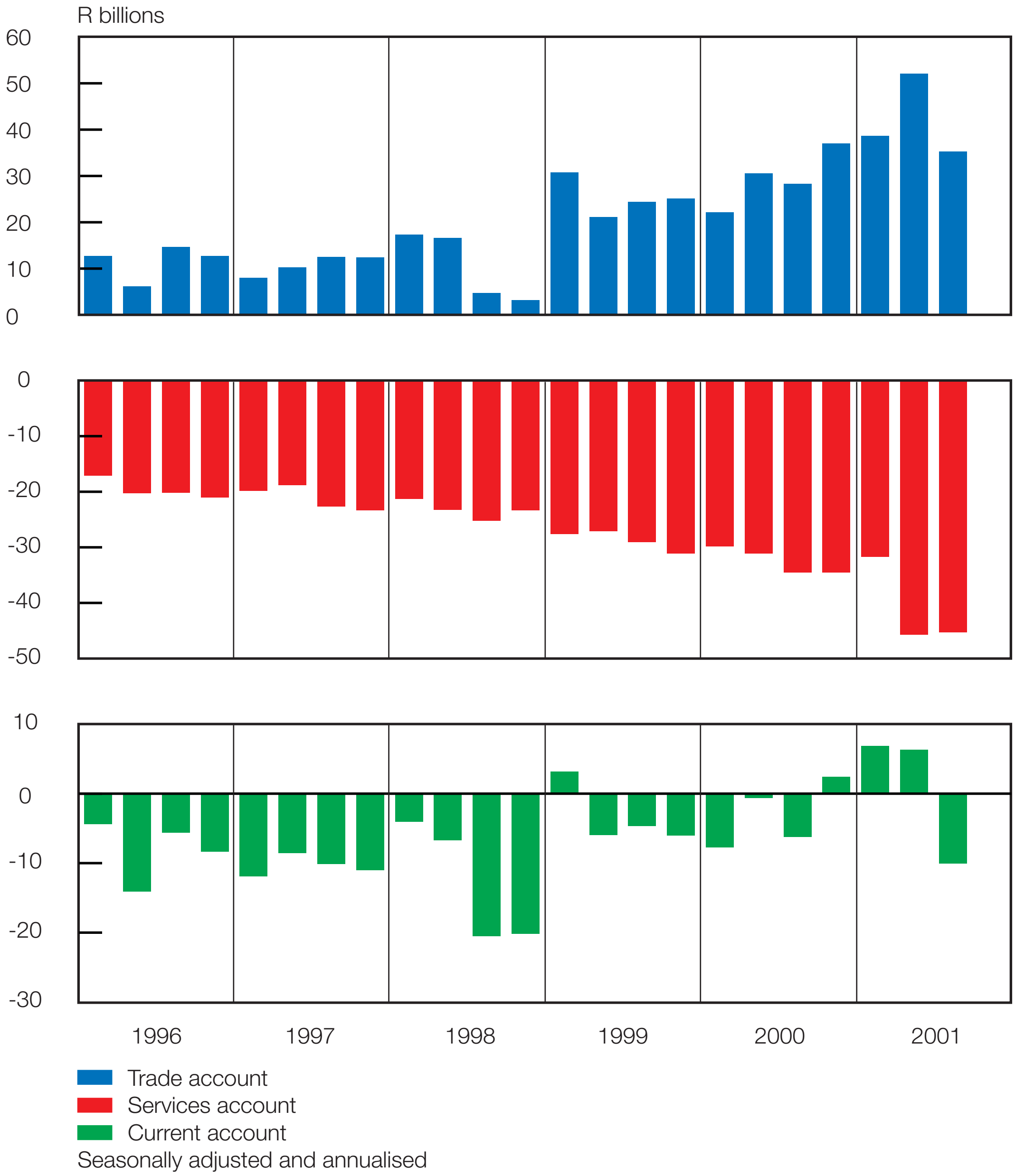
	2000					2001		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Merchandise exports	172,7	183,1	190,5	219,1	191,3	225,1	230,7	214,6
Net gold exports	27,0	26,0	28,4	27,2	27,2	26,6	29,9	30,1
Merchandise imports	-177,6	-178,6	-190,6	-209,3	-189,0	-213,1	-208,5	-209,5
Net service, income and current transfer payments	-29,9	-31,1	-34,6	-34,5	-32,6	-31,7	-45,8	-45,3
Balance on current account	**-7,8**	**-0,6**	**-6,3**	**2,5**	**-3,1**	**6,9**	**6,3**	**-10,1**

A steep decline in export values was the principal cause of the sudden deterioration in the current-account balance. South Africa's exports apparently held up well in the face of slowing global economic growth up to the second quarter of 2001, underpinned by the competitiveness of the exchange rate of the rand as well as positive developments in some commodity markets. However, in the third quarter of 2001 the cushioning effect of the weakening exchange rate of the rand was swamped by the negative impact that faltering global economic growth had on the demand for goods produced in South Africa.

The volume of merchandise exports fell sharply in the third quarter of 2001, declining to a level 11,0 per cent lower than in the second quarter. Exports were driven down primarily by a drop in the exports of resource products, especially those in the platinum group of metals. Price developments were slightly more positive, owing largely to the depreciation in the value of the rand. International commodity prices were very subdued and trended downwards in the third quarter, but the rand proceeds per unit of merchandise exports still rose by some 4½ per cent from the second to the third quarter of 2001. Despite this price increase, the nominal value of merchandise export earnings plunged by 7,0 per cent in the third quarter.

The low level of the rand, together with weaker domestic economic conditions, has also dampened the demand for imported goods, leading to a decline of 5 per cent in the volume of merchandise imports from the second to the third quarter of 2001.

Current account



Prices of merchandise imports, pushed higher by the weakening of the exchange rate of the rand, rose by about 5½ per cent over the same period. As a consequence, the overall value of merchandise imports in the third quarter of 2001 was fractionally higher than in the second quarter.

Imports of capital goods measured at constant prices declined in the third quarter of 2001. Though most categories of capital goods imported declined, the fall was particularly large in the categories for transport equipment and machinery and electrical equipment. This occurred in a period when recorded fixed-capital formation was still growing, indicating that an increasing share of investment in equipment is sourced from domestic suppliers. It is also possible, and perhaps likely, that the weakness in capital imports foreshadowed a period of weak investment in equipment. Oil import volumes declined too, largely reflecting the weaker domestic economic conditions and expectations of continued weak economic activity.

The value of net gold exports at a seasonally adjusted and annualised rate was also strongly boosted by the decline in the exchange rate of the rand. Production volumes fell by 0,8 per cent from the second quarter to the third quarter of 2001 and the price of gold in US dollars per fine ounce rose by 2,4 per cent, causing the annualised value of net gold exports to increase by 0,7 per cent from the second quarter of 2001 to the third quarter.

The deficit on the services and income account widened considerably in the second quarter of 2001 and remained at a high level, roughly equal to 4½ per cent of gross domestic product in the third quarter. A decline in investment income payments (essentially interest and dividend payments) was offset by a decline in investment income receivables. When combined with the steep fall in exports in the third quarter of 2001, this resulted in the ratio of net investment income payments to exports rising to 13½ per cent – a fairly high ratio by historical standards.

Financial account

As was the case in the second quarter of 2001, the net financial inflows into the economy continued to exceed net outflows in the third quarter. The accompanying table shows a significant turnaround in net capital flows in the second quarter of 2001. The net inflows of the second quarter of 2001 were then broadly sustained in the third quarter, resulting in a cumulative surplus on the financial account of R7,6 billion in the first three quarters of 2001, compared with a surplus of R8,5 billion in 2000 as a whole.

The flows of capital in the components of the financial account were highly volatile and sizeable changes occurred from the second to the third quarter of 2001, primarily as a consequence of the restructuring of the corporate relationship between the Anglo American Corporation and the De Beers mining company. For example, foreign direct investment into the economy shrank from R52,9 billion in the second quarter of 2001 to just R3,0 billion in the third quarter.

The inflows during the third quarter of 2001 came largely from three sources, namely

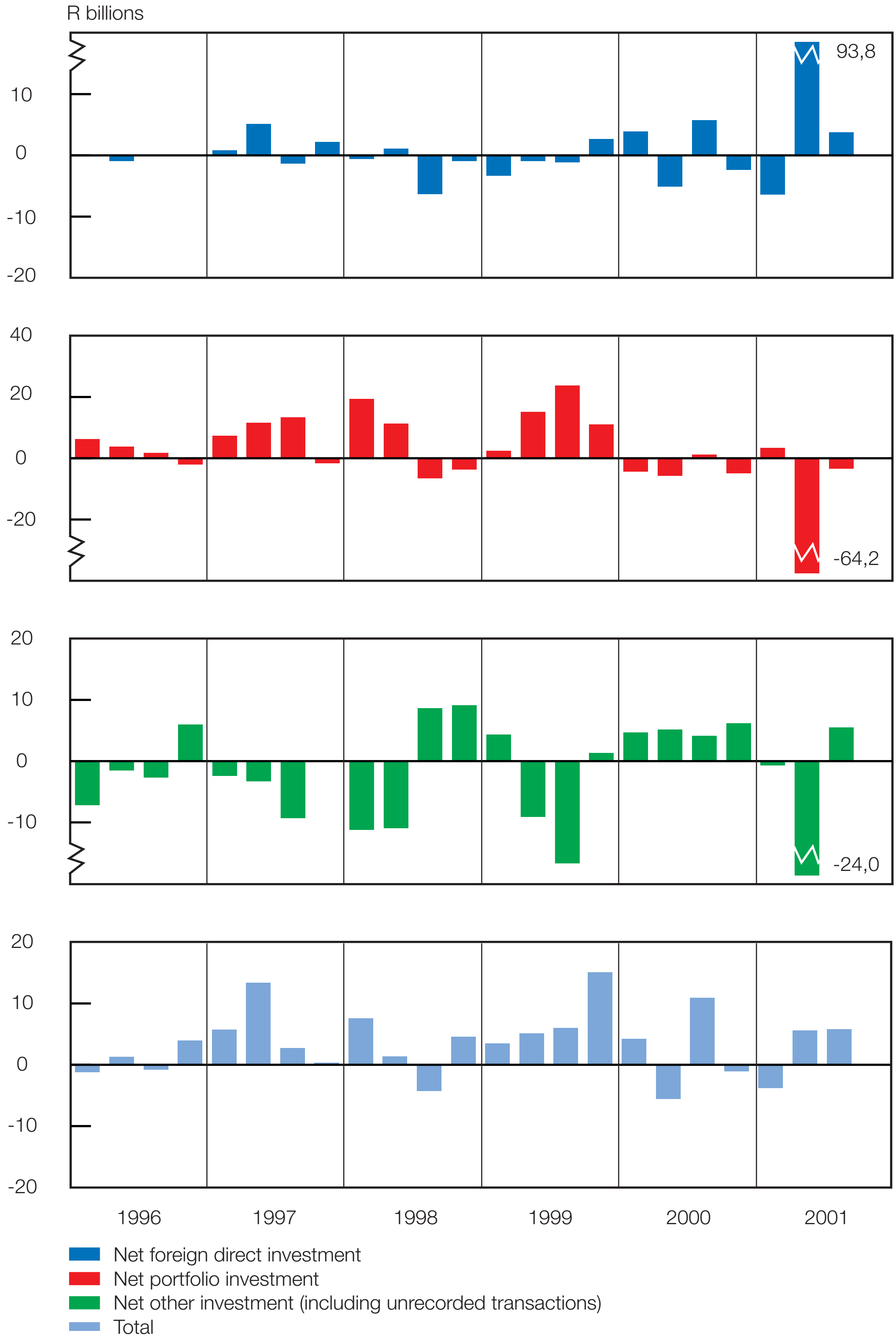
- liability accumulation following dividend declarations in the third quarter, but where the actual payment was only scheduled for subsequent quarters;
- merger and acquisition activities which led to the acquisition of a domestic security firm and paramedic service provider by a multinational group; and
- loans extended by a non-resident holding or parent company to a domestic subsidiary or affiliate.

Net financial transactions not related to reserves
R billions

	2000					2001		
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr
Change in liabilities								
Direct investment	4,9	0,7	1,6	-1,1	6,1	1,7	52,9	3,0
Portfolio investment	6,8	-1,3	8,1	-1,8	11,8	3,5	-27,2	-0,3
Other investment	1,8	7,1	5,7	-4,6	10,0	0,3	-11,3	-5,3
Change in assets								
Direct investment	-0,1	-5,7	4,1	-1,3	-3,9	-8,1	40,9	0,7
Portfolio investment	-11,2	-4,3	-7,0	-3,1	-25,6	-0,2	-36,9	-3,1
Other investment	-2,7	0,9	-2,7	-3,4	-7,9	-6,0	-8,0	4,2
Total financial transactions*	**4,2**	**-5,6**	**10,9**	**-1,0**	**8,5**	**-3,8**	**5,6**	**5,8**

* Including unrecorded transactions

Financial account



A reduction in offshore open account balances resulted in an inward movement of foreign direct investment into South Africa. In the process, the value of foreign assets declined by R0,7 billion. On a net basis, the economy gained some R3,7 billion in foreign direct investment capital in the third quarter of 2001.

Continued sales of fixed-interest securities by non-resident investors occasioned a steady outflow of portfolio investments from the economy. These outflows were partially offset by inflows arising from purchases of shares listed on the JSE Securities Exchange SA by non-resident investors, as well as the proceeds of external bond issuance in the Japanese capital market by the national government. Simultaneously, South African institutional investors and individuals increased their holdings of foreign portfolio assets within the context of the current exchange control regime. These flows jointly amounted to a net outward movement of portfolio capital from the economy amounting to R3,4 billion during the third quarter of 2001.

Other mainly short-term capital, predominantly in the form of loans, trade finance and bank deposits, was repatriated from South Africa and amounted to R5,3 billion in the third quarter of 2001. The major share of these outflows had their origin in the withdrawal of non-resident deposits from South African banks. These outflows were augmented by the payment of the final instalment of debt to foreign creditor banks in terms of the various foreign debt standstill arrangements. On the asset side of the financial account, the delayed repatriation of part of the proceeds of the Anglo American/De Beers transaction caused the foreign assets of the country to decline in the third quarter, contributing to a recorded inflow of other capital of R4,2 billion in that quarter. Overall, and including unrecorded transactions, other foreign capital entered the economy to the net amount of R5,5 billion in the third quarter of 2001.

Foreign debt

South Africa's total outstanding foreign debt declined from US$36,9 billion at the end of December 2000 to US$34,0 billion at the end of June 2001 or by US$2,9 billion in the first half of 2001. This decline could be attributed to declines in both foreign-currency and rand-denominated debt.

Foreign-currency denominated debt declined from US$24,9 billion at the end of December 2000 to US$23,0 billion at the end of June 2001. The bulk of this decline could be attributed to the repayment of foreign-currency denominated private-sector debt that was not affected by any of the rescheduling arrangements. Debt renegotiated in terms of the standstill arrangements was reduced to US$0,4 billion at the end

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

	1996	1997	1998	1999	2000	2001*
Renegotiated debt	**2,7**	**2,5**	**2,3**	**1,5**	**0,8**	**0,4**
Public sector	1,3	1,2	1,2	0,8	0,4	0,2
Monetary sector	0,3	0,2	0,1	0,1	0,1	0,0
Non-monetary private sector	1,1	1,1	1,0	0,6	0,3	0,2
Other foreign-currency denominated debt	**23,3**	**22,7**	**22,6**	**22,4**	**24,1**	**22,6**
Bearer bonds and notes	4,0	4,0	4,3	4,8	5,5	5,7
Converted long-term loans	2,1	1,3	0,8	0,4	0,2	0,2
Public sector	4,7	4,2	3,6	3,2	3,8	3,6
Monetary sector	6,6	7,5	8,8	8,2	8,3	7,3
Non-monetary private sector	5,9	5,7	5,1	5,8	6,3	5,8
Total foreign-currency denominated debt	**26,0**	**25,2**	**24,9**	**23,9**	**24,9**	**23,0**
Rand-denominated debt	**8,5**	**14,0**	**12,5**	**14,9**	**12,0**	**11,0**
Bonds	6,3	10,6	8,3	10,7	8,3	7,0
Other	2,2	3,4	4,2	4,2	3,7	4,0
Total foreign debt	**34,5**	**39,2**	**37,4**	**38,8**	**36,9**	**34,0**

* End of June 2001

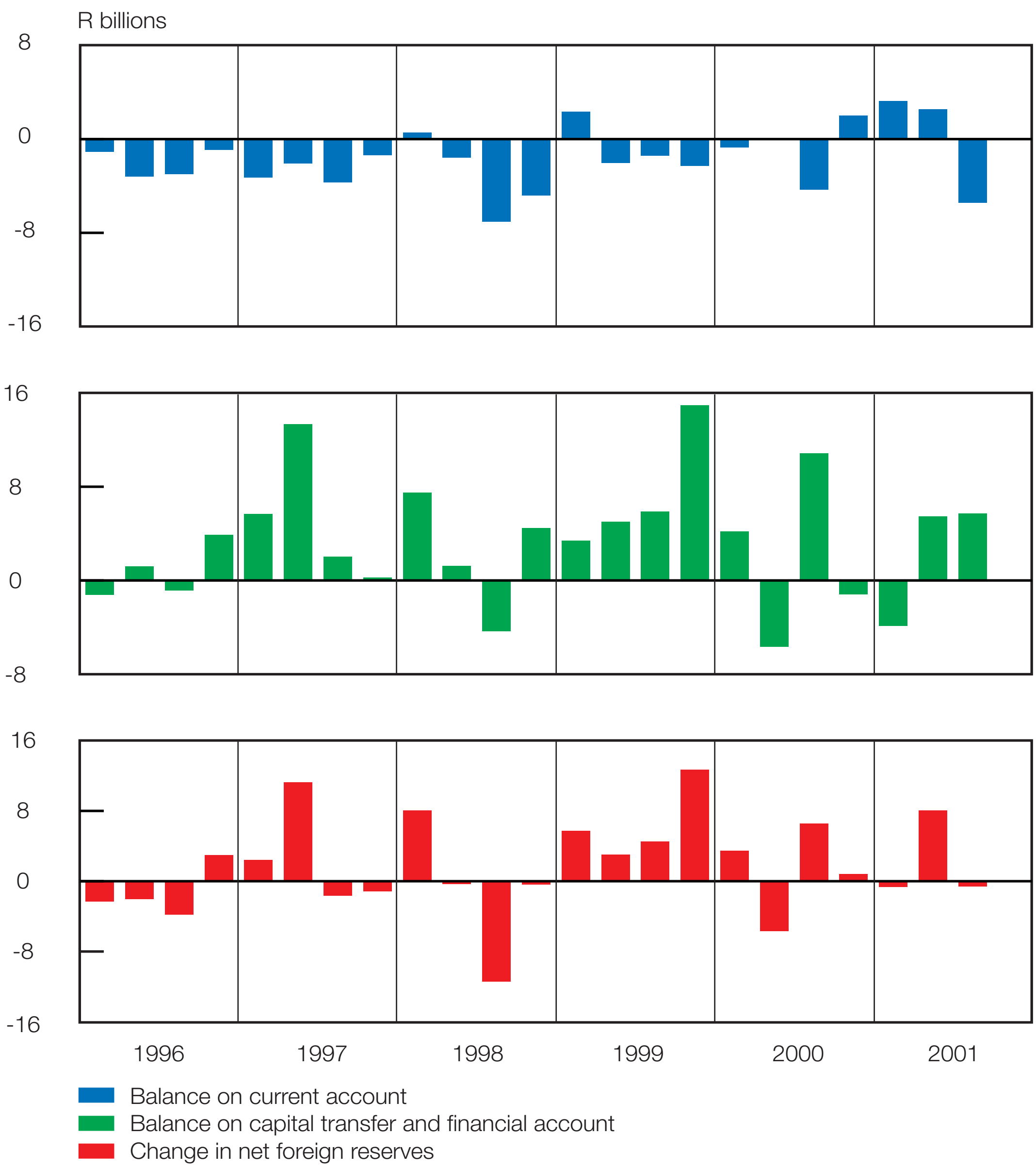
of June 2001. New bond issuance by the national government in the international capital markets contributed to an increase in outstanding bearer bond liabilities from US$5,5 billion at the end of 2000 to US$5,7 billion at the end of June 2001. Because of the continuous net selling of rand-denominated bonds by non-resident investors, this type of debt declined from US$12,0 billion at the end of December 2000 to US$11,0 billion at the end of June 2001.

Measured in rands, the country's total foreign debt declined from R279,0 billion at the end of December 2000 to R274,6 billion at the end of June 2001. As a ratio of gross domestic product, total debt declined from 29,0 per cent to 28,0 per cent over the same period. The country's equity liabilities amounted to 39½ per cent of gross domestic product at the end of December 2000.

Foreign reserves

South Africa's net international reserves remained essentially unchanged in the third quarter of 2001, after having increased by R8,0 billion in the second quarter. Inflows

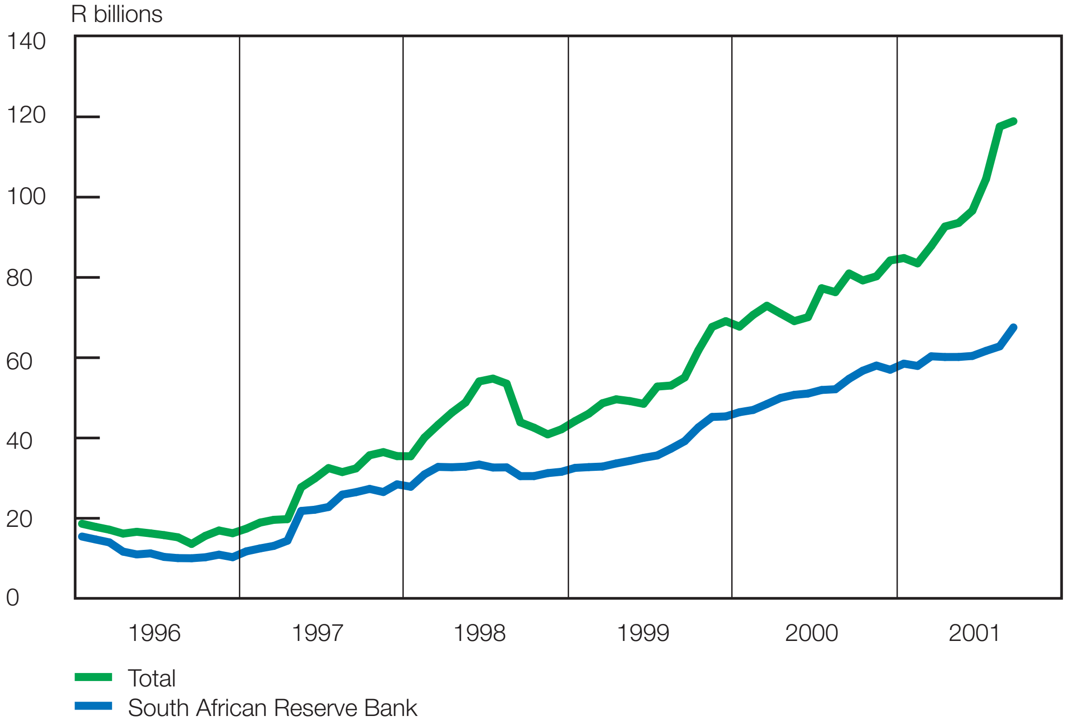
Overall balance of payments



of capital through the financial account of the balance of payments were fully offset by the deficit on the current account.

The country's gross gold and other foreign-exchange reserves (i.e. international reserves before reserve-related borrowing is netted off) increased from R96,6 billion (US$12,0 billion) at the end of June 2001 to R118,9 billion (US$13,3 billion) at the end of September 2001. Owing to the sharp increase in the value of gold and other foreign-exchange reserve holdings and especially a decrease in income payments to the rest of the world, import cover improved from about 16 weeks' worth of imports of goods and services at the end of June 2001 to 20 weeks' worth at the end of September. The September ratio was the highest ever recorded.

Gross gold and other foreign reserves

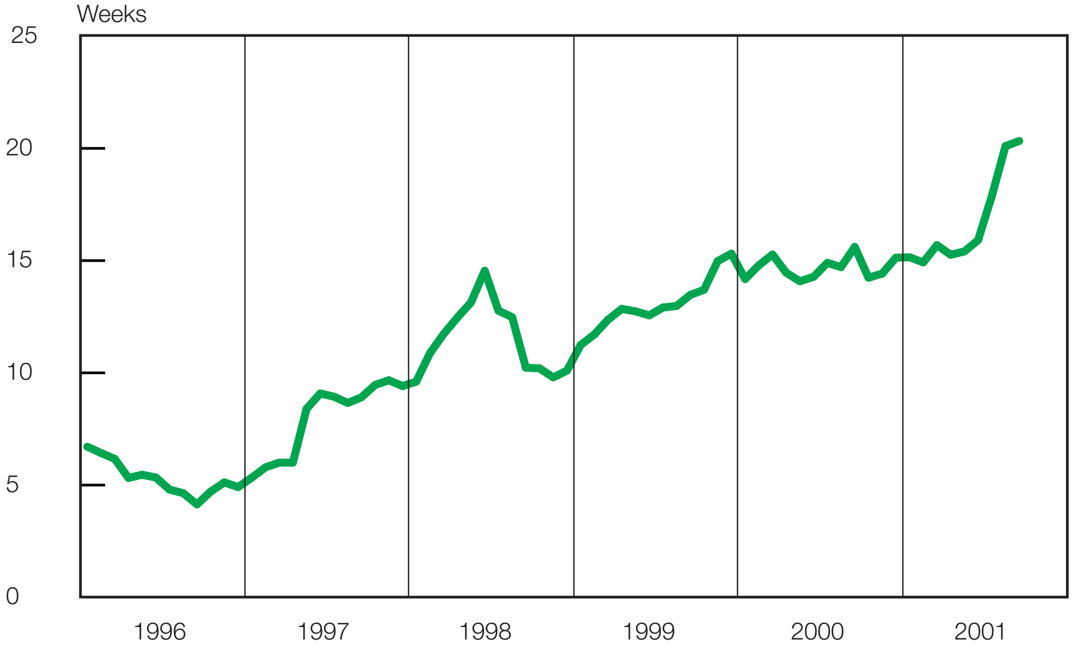


From the end of June 2001 to the end of September the Reserve Bank's gross international reserves increased from R60,4 billion to R67,5 billion. The higher rand value of the Bank's reserve assets was entirely due to the depreciation of the rand. The dollar value of the Bank's international reserves remained unchanged at US$7,5 billion from June to September 2001.

Short-term credit facilities utilised by the Reserve Bank increased from R20,8 billion at the end of June 2001 to R35,8 billion at the end of September. The main contribution to this was made by the drawdown of a US$1,5 billion syndicated term loan facility.

The foreign-currency proceeds from the syndicated loan facility were utilised for delivery against the Reserve Bank's forward book, reducing the oversold forward position in foreign currency from US$9,9 billion at the end of July 2001 to US$8,4 billion at the end of August. The oversold forward position in foreign currency then remained unchanged in September and October 2001. The net open foreign currency position (NOFP) of the Reserve Bank, determined as the oversold forward position in foreign currency adjusted for net holdings of spot international reserves, declined from US$5,3 billion at the end of June 2001 to US$4,8 billion at the end of July and remained unchanged at this level up to October.

Imports covered by international reserves



The Reserve Bank reduced the NOFP from US$23,2 billion at the end of September 1998 to its current level by purchasing foreign currency in the domestic market for foreign exchange. The exposure of the national government to foreign currency risk, including the NOFP, as a percentage of gross domestic product is reportedly comparable with that of certain G10 countries. Under these circumstances, the Reserve Bank announced on 14 October 2001 that the Bank would in future reduce the NOFP by utilising the cash flows derived from the proceeds of the government's offshore borrowing and privatisation rather than through intervention by purchasing foreign exchange in the market.

Exchange rates

Concern among international investors about developments in emerging markets in general weighed heavily on the external value of the rand during the third quarter of 2001. This aggravated the effects of the demand for foreign exchange to finance a deficit on the current account of the balance of payments during the third quarter of 2001. The pace of decline in the exchange rate was furthermore accelerated when exporters delayed the repatriation of their export proceeds in anticipation of a decline in the exchange value of the rand. Importers, in turn, advanced the payment of their external commitments.

After having increased by 1,2 per cent from the end of the first quarter of 2001 to the end of the second quarter, the nominal effective exchange rate of the rand declined by 13,5 per cent from the end of the second quarter of 2001 to the end of the

Exchange rates of the rand
Percentage change

	29 Dec 2000 to 30 Mar 2001	30 Mar 2001 to 29 Jun 2001	29 Jun 2001 to 28 Sep 2001	28 Sep 2001 to 31 Oct 2001
Weighted average*	-1,3	1,2	-13,5	-4,5
Euro	-0,6	3,6	-16,5	-4,2
US dollar	-5,6	-0,6	-9,8	-5,2
British pound	-1,4	1,0	-13,7	-4,2
Japanese yen	3,1	-1,3	-13,5	-3,2

* The weighted exchange-rate index is calculated with reference to a basket of 14 currencies

third quarter. On balance, this was the largest quarter-on-quarter decline in the trade-weighted value of the rand since the emerging-market crises of 1998, when the nominal effective exchange rate of the rand had declined by 14,4 per cent from the end of the first quarter to the end of the second quarter.

Rumours about a possible delay in the restructuring of the shareholding in Telkom, the strike in the motor vehicle industry, the continuing land crisis in Zimbabwe and the introduction of capital gains tax probably also added to the downward pressure on the rand. The terrorist attacks on the United States heightened volatility in the domestic foreign exchange market even further during September 2001.

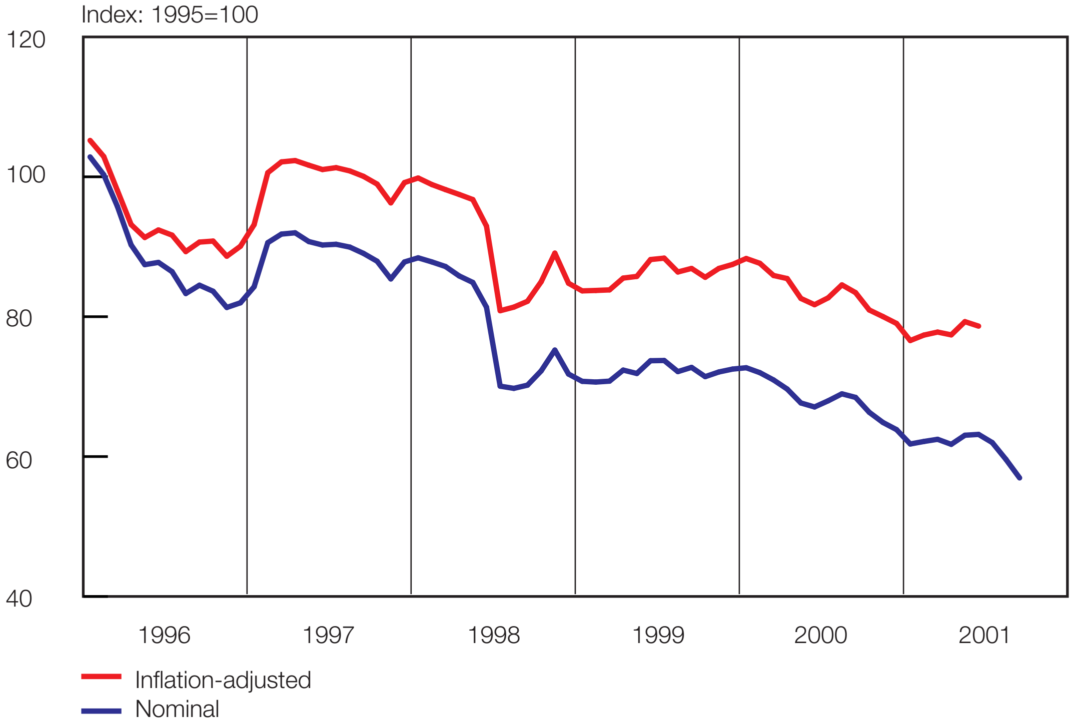
In an effort to bring stability to the domestic foreign-exchange market, the Reserve Bank reiterated on 14 October 2001 that, with the adoption of an inflation-targeting monetary policy framework, it no longer had any intermediate policy targets or guidelines such as the exchange rate or growth in the monetary aggregates. Under these circumstances, the value of the rand would be allowed to be determined by the market although the monetary authorities felt concerned that excessive volatility in the foreign-exchange market might negatively influence inflation, business decisions and the economy as a whole.

The Reserve Bank also announced that it would take appropriately firm steps against activities which are seen as inconsistent with the existing exchange-control rules and regulations. The enforcement of these rules would ensure that only legitimate transactions would take place in the foreign-exchange market. The financing of short rand positions in the domestic market was singled out as not within the ambit of the applicable exchange-control rules. The intent of this reminder was not to inhibit trading in the domestic foreign-exchange market, but to make every effort to thwart speculation against the currency.

After having increased from US$9,9 billion in the first quarter of 2001 to US$10,3 billion in the second quarter, the net average daily turnover in the domestic market for foreign exchange declined again to US$9,9 billion in the third quarter. This contraction in the net average daily turnover could be attributed to a decline in the participation of non-resident market players. The value of transactions in which non-residents participated, declined from US$6,3 billion in the second quarter of 2001 to US$5,9 billion in the third quarter.

The real effective exchange rate of the rand declined marginally by 0,5 per cent from December 2000 to June 2001. However, the average real effective exchange rate of the rand declined by about 8½ per cent in the first six months of 2001 compared with the corresponding period in 2000, strengthening the competitive ability of domestic producers in export markets.

Effective exchange rates of the rand



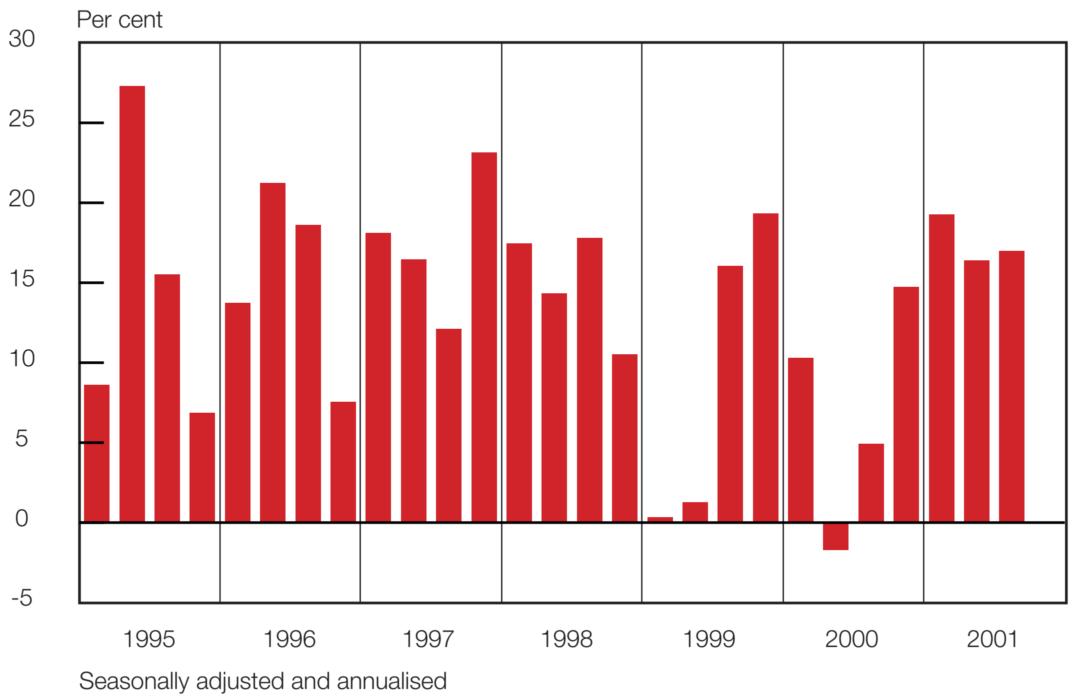
Monetary developments, interest rates and financial markets

Money supply

Experience has shown that changes in the quantity of money cause short-term changes in output and long-run changes in prices. In this respect, the composition of changes in the quantity of money is important. If individuals and firms decide to put their new money holdings in transaction-related deposits, these deposits are likely to have a stronger impact on spending and prices than when money is placed in saving-related deposits. For this reason, calculations of the money supply are divided into "narrow aggregates" which encompass deposits with banks that are more liquid and seen as representing the money held to make purchases of goods and services, and the "broad aggregates" which also include less liquid deposits which are thought to be associated with saving behaviour.

On a seasonally adjusted quarter-to-quarter annualised basis, the average level of the *broadly defined money supply (M3)* increased at high rates of 19,3 per cent in the first quarter of 2001, 16,4 per cent in the second quarter and 16,9 per cent in the third quarter. Towards the end of the third quarter there were indications of some slowdown in aggregate monetary growth when the growth over twelve months in M3, which went as high as 17,9 per cent in August 2001, fell back to 14,5 per cent in September.

Quarter-to-quarter growth in M3



The solid growth in the broadly defined money supply during the first three quarters of 2001 was initially concentrated in the more saving-related long-term deposits of private households and businesses, but around July and August strong increases were seen in the more transaction-related categories of short- and medium-term deposits. This build-up of transaction-related deposits slowed down somewhat in September 2001.

Quarter-to-quarter growth rates in monetary aggregates
Seasonally adjusted and annualised
Per cent

Period		M1A	M1	M2	M3
2001:	1st qr	9,5	18,8	21,0	19,3
	2nd qr	7,9	18,7	11,3	16,4
	3rd qr	27,3	10,5	9,8	16,9

The private corporate sector, rather than private households, contributed most to the growth in M3 over the first three quarters of 2001. Corporate managers could have been influenced in their decisions by

- the volatility of share-price movements and the associated risk of losses from equity investments;
- the speculative opportunities offered by the volatility of share prices;
- the withdrawal of the asset swap mechanism which narrowed the opportunities for offshore asset diversification; and
- strong inflows of funds from the rest of the world, emanating from the restructuring of the shareholding in the Anglo American Corporation and the De Beers mining company.

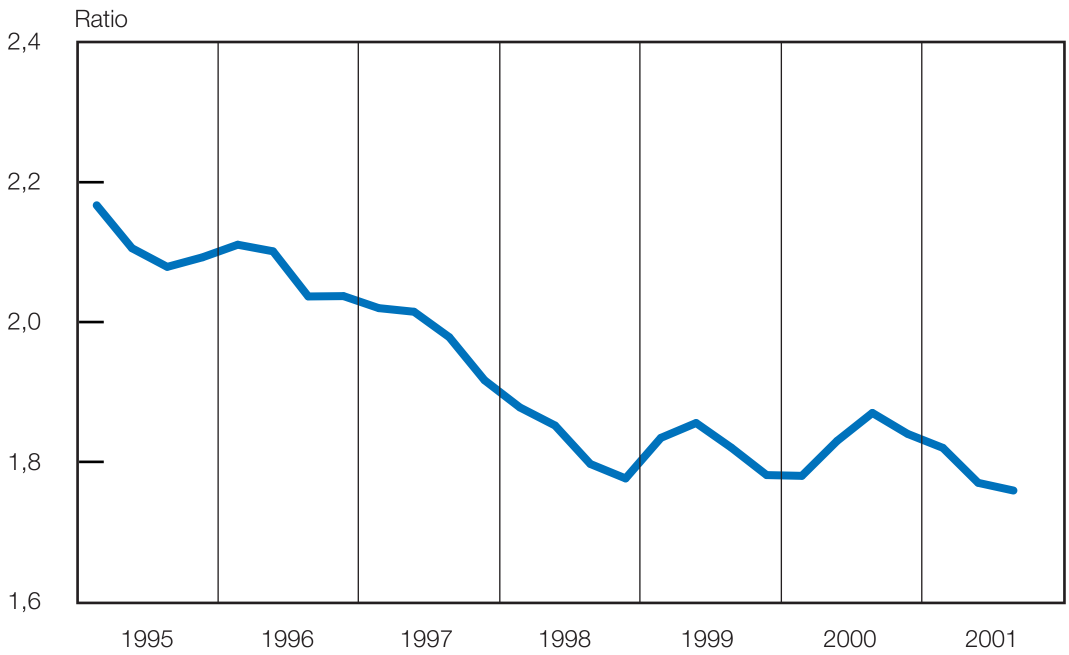
The pervasive sense of investor uncertainty following the September 11 attacks on the United States may also have strengthened the preference for liquidity generally, but the full effects of this on monetary developments will only become clear over time.

Growth in the *narrower monetary aggregates* during the third quarter showed diverging tendencies. Growth in M1A accelerated strongly from 7,9 per cent in the second quarter of 2001 (seasonally adjusted and annualised) to 27,3 per cent in the third quarter. Over the same period, growth in M1 fell back from 18,7 per cent in the second quarter to 10,5 per cent in the third quarter as overnight deposits with the monetary institutions levelled off. Similarly, quarter-to-quarter growth in M2 which had been at an annualised level of 21,0 per cent in the first quarter of 2001, declined to 11,3 per cent in the second quarter and to 9,8 per cent in the third quarter.

About 39 per cent of the overall increase in M3 in the nine months to September 2001 is accounted for by cheque, transmission and other demand deposits, i.e. typically transaction-related deposits which can easily fuel an increase in domestic spending. At the other end of the deposit maturity spectrum, long-term deposits contributed 37 per cent to the overall increase in M3 in the first nine months of 2001. These deposits represent less liquid assets which are more associated with saving behaviour and therefore less likely to activate spending. The intermediate maturity deposits, constituting some 24 per cent of the increase in M3 over the first nine months of 2001, fall in the middle of the spectrum as they may be intended either for spending or for saving. In the current uncertain investment climate, the probability is high that these funds were accumulated for asset-building purposes rather than for the financing of expenditure in the near term.

With the growth in M3 outpacing the growth in nominal gross domestic product, the income velocity of circulation of M3 declined from 1,80 in the second quarter of 2001 to 1,76 in the third quarter, representing a decrease of 6,6 per cent from the fourth quarter of 2000 to the third quarter of 2001. The higher ratio of the broad money supply to nominal gross domestic product (i.e. the inverse of the income velocity of M3) represents a liquidity overhang which could easily spill over into increased spending if the public collectively decided they were holding excess money balances.

Income velocity of M3



Seasonally adjusted

The main accounting counterpart of the increase of R23,5 billion in M3 in the third quarter of 2001 was an increase of R30 billion in the monetary institutions' claims on the private sector. Claims of the banks on the government sector rose by R2,4 billion in the third quarter of 2001, whereas "net other assets" declined by R9,5 billion. The latter decline can be attributed more to an increase in "other liabilities" than to a decrease in the monetary sector's holdings of "other assets".

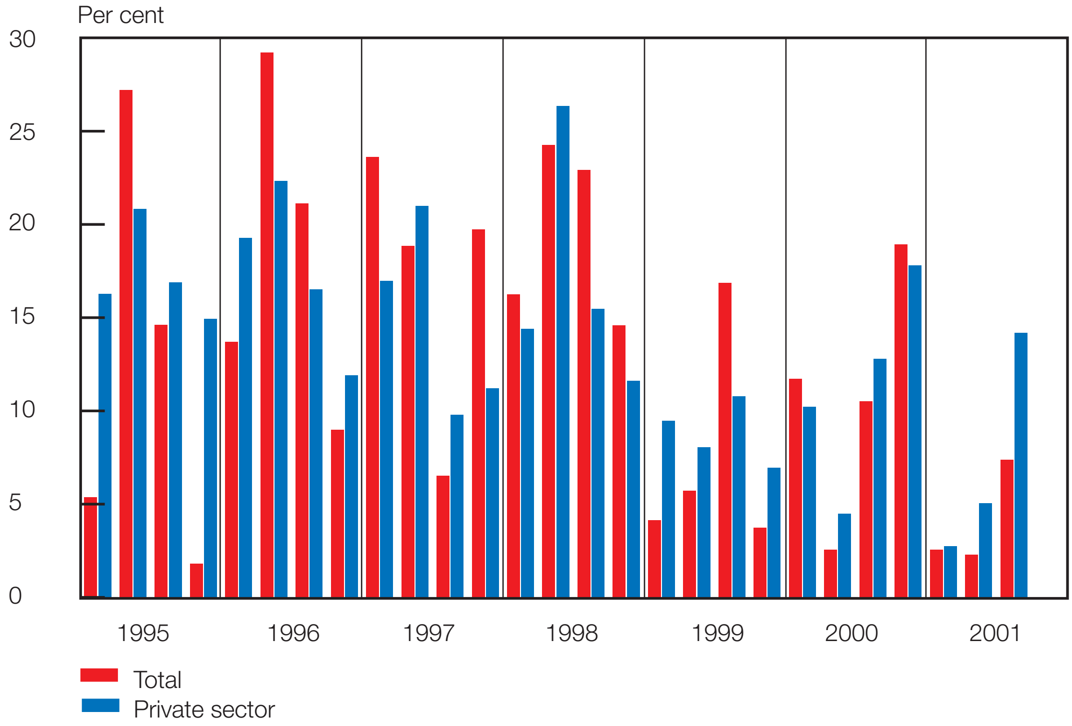
Accounting counterparts of change in M3
R billions

Counterparts	2nd quarter 2001		3rd quarter 2001	
Net foreign assets		9,6		0,6
Net claims on the government sector		-10,9		2,4
Gross claims	0,7		2,4	
Government deposits (+ decrease; - increase)	-11,6		0,0	
Claims on the private sector		11,2		30,0
Net other assets and liabilities		-1,0		-9,5
Total change in M3		**8,9**		**23,5**

Credit extension

Growth in *total domestic credit extension* was fairly sluggish during the first three quarters of 2001, but accelerated markedly in the third quarter, especially in private-sector credit demand. Measured from quarter to quarter and annualised, total domestic credit extension by banks increased at a rate of just 2,6 per cent in the first quarter of 2001 and 2,3 per cent in the second quarter, but then gathered momentum and grew at a rate of 7,4 per cent in the third quarter.

Quarter-to-quarter change in credit extension



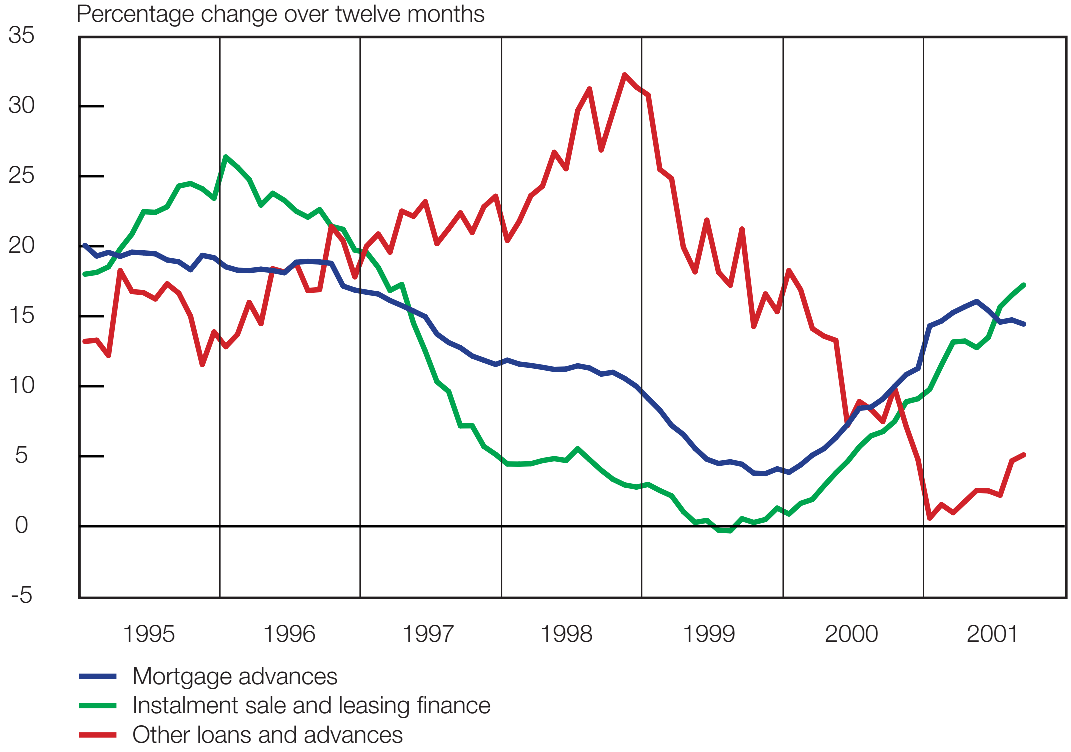
The generally weak growth in domestic credit extension in the first three quarters of 2001 was mainly caused by a decline in the net use of bank credit by the government sector and the emphasis placed on foreign borrowing in the government's funding strategy for the current fiscal year. Growth in the demand for bank credit by private households and businesses was also rather subdued in the first two quarters of 2001, but grew rapidly in the third quarter. Credit extension to the private sector had still been growing at an annualised rate of a mere 2,7 per cent in the first quarter of 2001, but accelerated to 14,2 per cent in the third quarter.

Growth in total domestic credit extension
Seasonally adjusted and annualised
Per cent

Period		Private sector	Total
2001:	1st qr	2,7	2,6
	2nd qr	5,1	2,3
	3rd qr	14,2	7,4

The strong pickup in credit extension to the private sector was particularly noticeable in the "asset-backed" lending categories. *Mortgage lending* grew at year-on-year rates varying between 14,3 per cent and 16,1 per cent in the first nine months of 2001. In September 2001, a year-on-year growth rate of 14,4 per cent was recorded, with individuals accounting for the bulk of this increase. The firm growth in mortgage lending is, of course, a reflection of the relatively high level of activity in the real-estate market. The share of this type of credit in the overall stock of outstanding private-sector credit accordingly rose from 38,1 per cent in September 2000 to 39,8 per cent in September 2001.

Credit extension to private sector by type of credit



The growth in the other main class of "asset-backed" lending, namely *instalment sale and leasing finance,* accelerated from 13,5 per cent in June 2001 to 17,2 per cent in September. New business payouts of such finance increased from R15,4 billion in the second quarter of 2001 to R15,7 billion in the third quarter, reflecting the ongoing high level of investment activity by the corporate sector.

In comparison with growth in "asset-backed" lending, the twelve-month growth in *other loans and advances* has remained sluggish over the past sixteen months. Despite the relatively weak growth in "other loans and advances" by banks, this category remains an important component of the consolidated balance sheet of banks, representing 39,4 per cent of the banks' total claims on the private sector in September 2001.

The relatively weak demand for "other loans and advances" granted by banks is partly explained by the steady development of a livelier corporate bond market which enables companies to meet part of their financing requirements through the issuance of fixed-interest securities. Furthermore, the healthier state of households' balance sheets kept distress borrowing by individuals at a relatively low level. But in September 2001, "other loans and advances" increased by R6,9 billion – the highest month-on-month change in almost two years. This change coincided with a fairly sharp depreciation of the exchange value of the rand, suggesting some domestic borrowing by exporters as they postponed the repatriation of export proceeds, and some advance payment of external commitments by importers.

Selected categories of credit to the private sector by type of credit
Percentage change over twelve months

Period		Instalment sale and leasing finance	Mortgages	Other loans and advances
2001:	Jan	9,8	14,3	0,6
	Feb	11,5	14,7	1,5
	Mar	13,2	15,3	0,9
	Apr	13,2	15,7	1,7
	May	12,7	16,1	2,6
	Jun	13,5	15,4	2,5
	Jul	15,7	14,6	2,2
	Aug	16,5	14,7	4,7
	Sep	17,2	14,4	5,1

The corporate sector accounted for the bulk of the increase in credit extended to the private sector during the third quarter of 2001; its share in total credit extension to the private sector increased from 50,8 per cent in the second quarter of 2001 to 51,4 per cent in the third quarter. Conversely, the share of households decreased from 49,2 per cent to 48,6 per cent over the same period.

Interest rates and yields

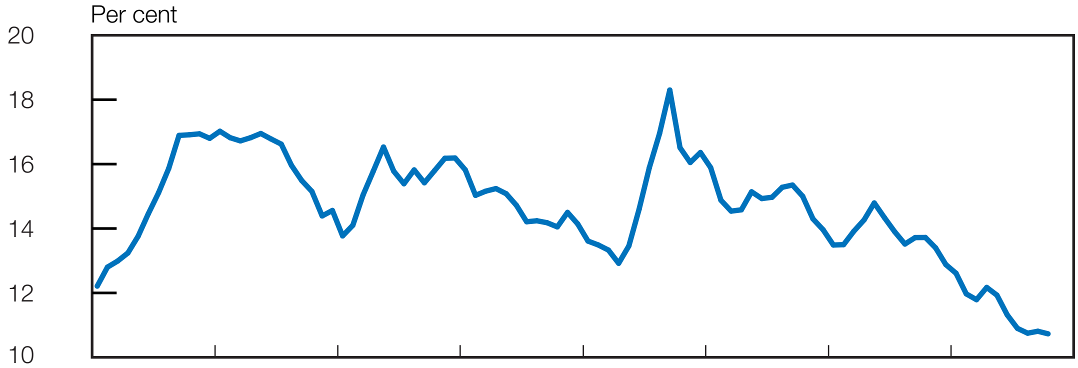
The yields on government bonds declined sharply from April 2001 to August, extending the bull market in bonds which dates back to September 1998. The steady longer-term decline in *bond yields* was mainly brought about by

- the shrinking supply of public-sector fixed-interest securities;
- lower measured year-on-year CPIX inflation from September 2000;
- the decline in the repurchase rate and other short-term interest rates from June 2001;
- a syndicated loan facility secured by the South African Reserve Bank and the National Treasury in July 2001 which reduced potential supply pressures in the domestic bond market; and
- strong demand for bonds by domestic institutional investors.

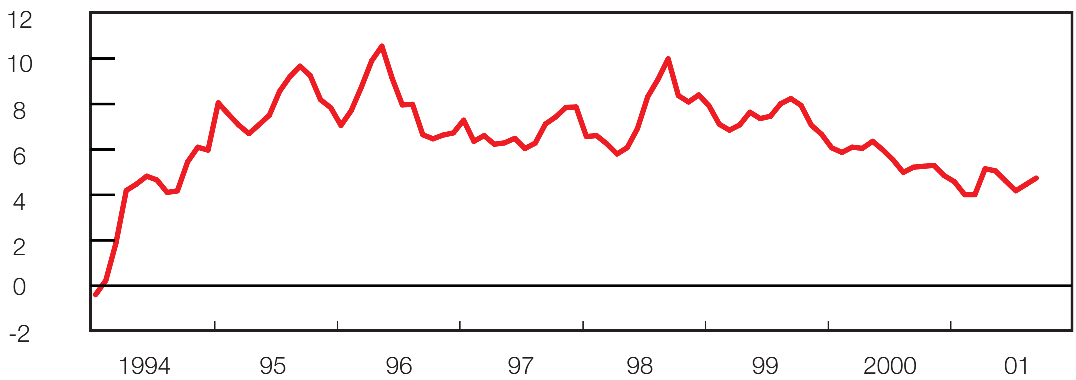
Since May 2000 bond yields have been moving independently of changes in the exchange rate of the rand, and the aggregate demand for bonds has been driven mainly by factors other than those usually prominent during rallies in the bond market. The decline in yields was strongly influenced by the demand of domestic investors for bonds and the belief that inflation would continue to slow down. This more than filled the void left by non-residents' persistent selling of bonds. Non-residents reduced their holdings of bonds in response to, *inter alia,* the volatility and weakness of the rand and a reassessment of risks that favoured investments in mature markets at the expense of investing in emerging markets.

The *monthly average yield on long-term government bonds* at the nine-year horizon declined from 12,2 per cent in April 2001 to 10,8 per cent in August. From the second half of August 2001 the *daily average bond yield* reflected a moderate deterioration in sentiment as yields drifted higher from 10,5 per cent on 13 August 2001 to 10,9 per cent on 12 September – the day after the terrorist attacks on the United States. These attacks do not seem to have had an enduring effect on the domestic bond market, and yields receded to 10,6 per cent on 20 September. Long-term yields rose somewhat when the Reserve Bank lowered its repurchase rate by 50 basis points on 21 September 2001. The monthly average bond yield in September 2001 was calculated as 10,8 per cent – the same as in August.

Monthly average yield on long-term government bonds



Inflation-adjusted yield on long-term government bonds



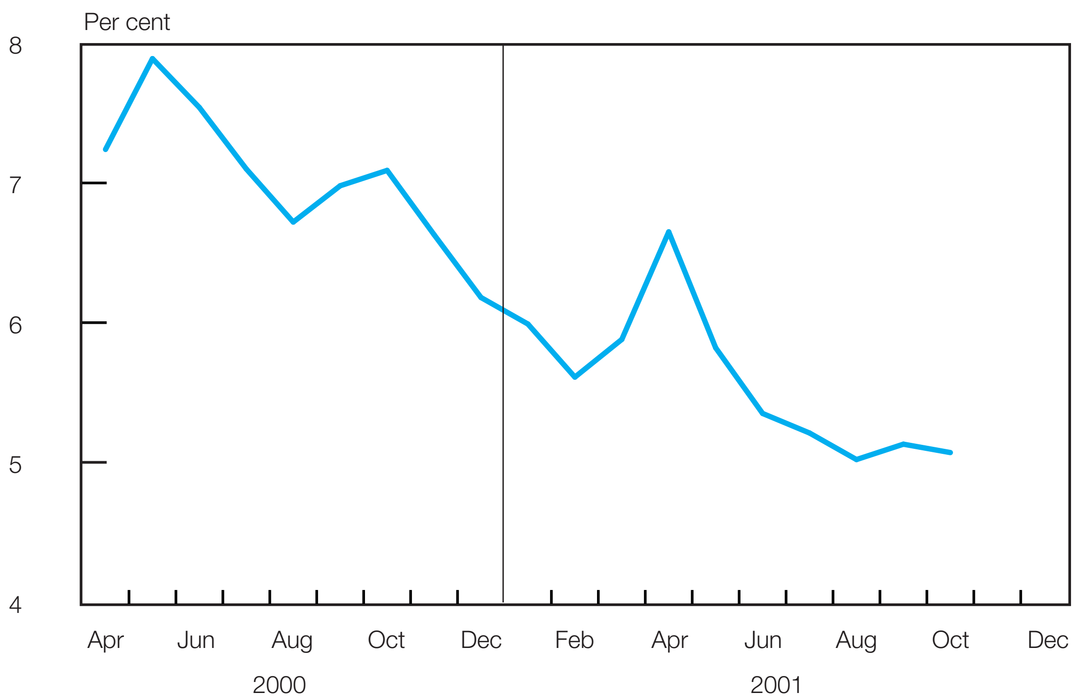
Bond yields moved along a rather flat trajectory with a slight downward bias in October 2001. Notwithstanding uncertainty about the potential consequences of the escalating international conflict for both developed and emerging economies, and also of the depreciation of the rand, the yield on long-term government bonds averaged just 10,7 per cent in October 2001 – the lowest level since 1983. Since August 2001, daily average bond yields at the four-year horizon have occasionally declined to below the 10 per cent mark.

The upward-sloping *yield curve* shifted downwards over its entire maturity spectrum and flattened significantly after bond yields had peaked on 10 May 2000. Since the lowering of the Reserve Bank's repurchase rate in June 2001, the slope of the curve has steepened somewhat as the decline in yields on short-dated bonds from

14 June 2001 to 20 September has not been matched by a similar decline in the yields on long-dated bonds. After the latest 50 basis-point reduction in the repurchase rate on 21 September, the yield curve temporarily moved higher at the long end, indicating that the attacks on America could have added to existing uncertainties, and concerns about the inflationary consequences of the depreciation of the rand. Since 8 October 2001, however, the level of the yield curve has shifted downwards as these concerns abated gradually.

The declining trend in the *implied or break-even inflation rate,* which equates the *nominal* return on government's conventional long-term bonds with the *real* yield on inflation-linked bonds, confirmed that there was a significant improvement in inflation expectations. According to this measure, expected inflation was seen as having declined by 287 basis points from May 2000 to August 2001. The monthly average break-even inflation rate increased a little in September 2001 when the market discounted the potential inflationary consequences of the depreciation of the rand and other upward pressures on the aggregate price level.

"Break-even" inflation rate*

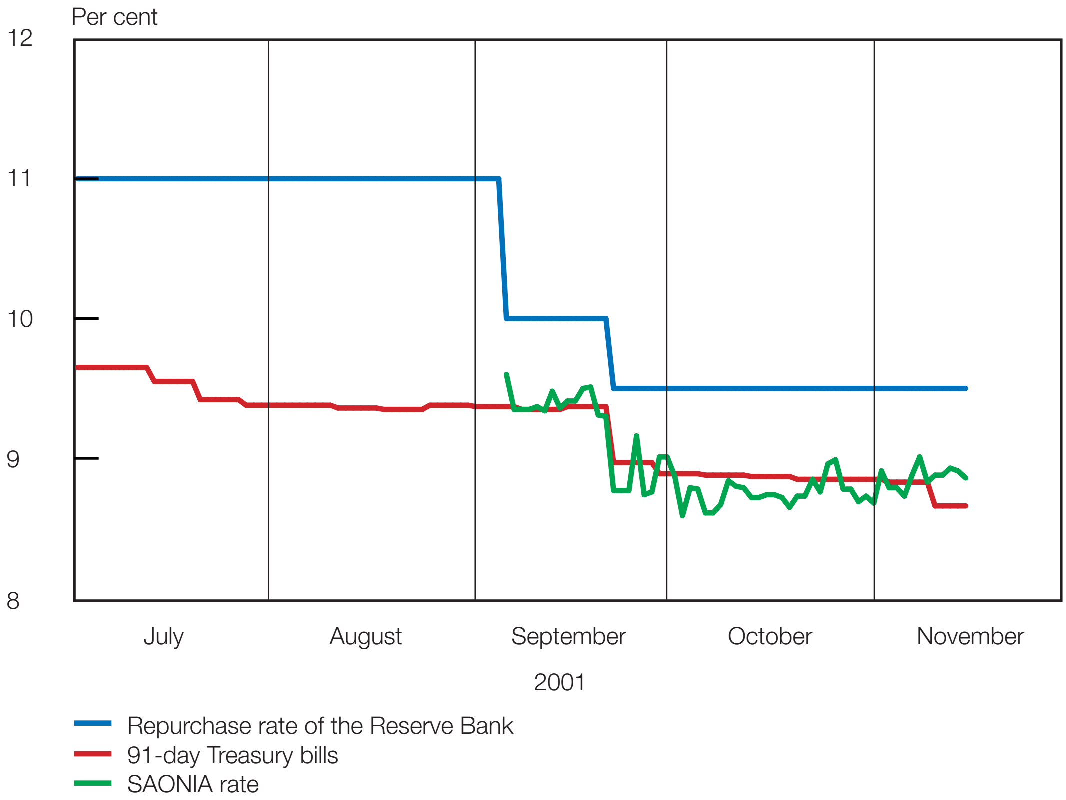


* Indicator of inflation expectations, derived from nominal yield on conventional and real yield on inflation-linked bonds

The *inflation-adjusted yield on long-term government bonds* fell from 5,1 per cent in April 2001 to 4,2 per cent in July, using past price increases as an indicator of expected inflation. Subsequently, the slowdown in CPIX inflation pushed the real yield up to 4,5 per cent in August and 4,7 per cent in September. However, at an average rate of 4,5 per cent in the first nine months of 2001, real bond yields are still at their lowest levels since 1994.

The Reserve Bank's repurchase rate was lowered on three occasions in 2001 by a cumulative total of 250 basis points. The first reduction of 100 basis points to 11,00 per cent was in June 2001. This was followed on 5 September by a one-off administrative adjustment to 10,00 per cent in order to narrow the margin between the repurchase rate and the interbank call rate. On 21 September the repurchase rate was lowered by a further 50 basis points to 9,50 per cent, following an assessment by the Monetary Policy Committee of the Reserve Bank that the risk of missing the inflation target in 2002 was small.

Money-market interest rates

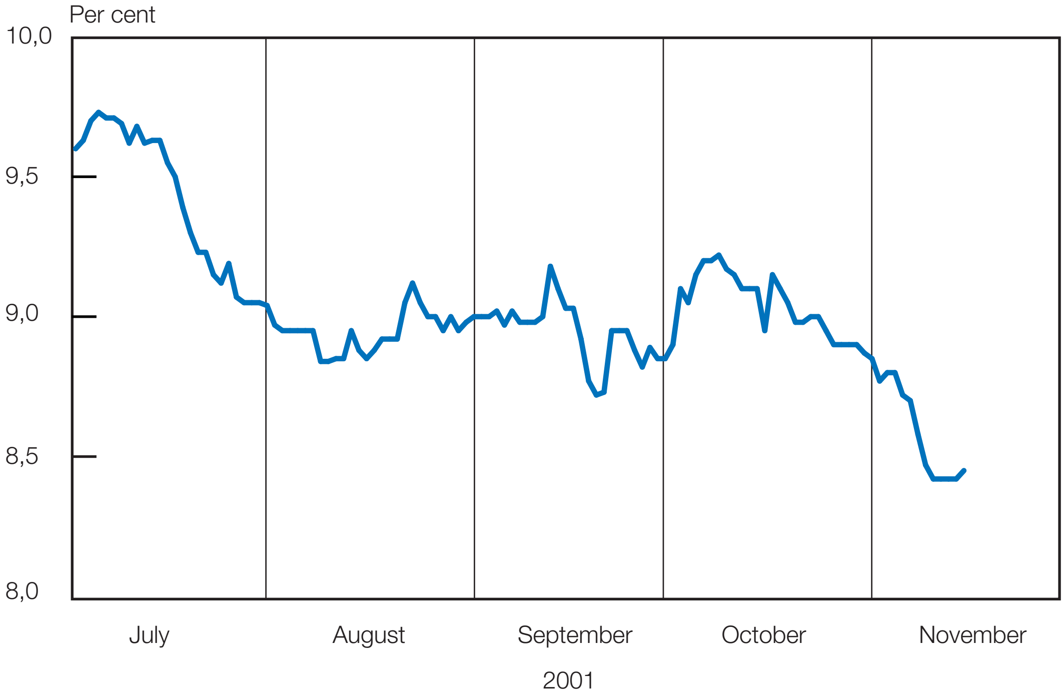


Consistent with the objective of making money-market interest rates more responsive to changes in liquidity conditions, the Reserve Bank on 5 September 2001 started calculating a South African Overnight Interbank Average (SAONIA) rate to serve as a benchmark for money market interest rates. At its inception, the SAONIA rate was calculated as 9,60 per cent. Subsequently, the rate fluctuated downwards to a low of 9,30 per cent on 20 September 2001, but declined by 53 basis points to 8,77 per cent on 21 September when the Reserve Bank's repurchase rate was lowered. As liquidity conditions in the market became relatively tight towards the end of the month, the rate increased to a high point of 9,01 per cent on 28 September but declined to 8,59 per cent on 2 October 2001. Over the October month-end it reached a peak value of 8,99 per cent, before moving back to 8,74 per cent on 19 November 2001.

Other money-market interest rates eased considerably in the third quarter of 2001, along with the reduction of the repurchase rate in June and September 2001. For example, the rate on three-month bankers' acceptances declined from a peak of 10,46 per cent on 7 June, to 9,63 per cent on 20 June and 8,82 per cent on 25 September 2001. However, in October the turbulence in the foreign-exchange markets caused money-market interest rates to move higher, increasing the rate on three-month bankers' acceptances by 12 basis points to 8,94 per cent on 11 October. The bankers' acceptances rate declined slightly to 8,91 per cent on 22 October 2001 and stood at 8,88 per cent on 16 November. Over the same period, the tender rate on 91-day Treasury bills declined from a peak of 10,40 per cent on 26 April to 9,60 per cent on 15 June and 8,97 per cent on 21 September 2001. This rate declined further to 8,73 per cent on 16 November 2001.

Expectations of downward movements in interest rates dominated in the third quarter of 2001, as reflected in the pattern of forward rate agreements (FRAs). The rate on 9x12 FRAs declined from a high point of 10,93 per cent on 3 April 2001 to 8,98 per cent on 10 September. However, renewed investor concerns about developments in some emerging markets and the terrorist attacks on the United States triggered a further decline in the exchange rate of the rand, and this heightened inflationary expectations. Consequently the rate on 9x12 FRAs increased and reached 9,22 per cent on 8 October, but declined to 8,60 per cent on 19 November 2001.

Rate on 9x12-months forward rate agreements



Other *lending and deposit rates* broadly followed the downward movements in the Reserve Bank's repurchase rate. The private banks lowered the *prime overdraft* rate and the *predominant rate on mortgage loans* from 14,50 per cent to 13,75 per cent in June 2001, 13,50 per cent in July and 13,00 per cent in September – its lowest level since 1988. The *predominant rate on twelve-month fixed deposits* with banks showed some variability within a range of 8,5 per cent and 9,5 per cent from October 1999 to August 2001. In September 2001, this rate was lowered from 8,5 per cent to 8,0 per cent – its lowest level since 1981. The *official rate of interest* for fringe benefit taxation was reduced from 13,0 per cent to 10,5 per cent from 1 October 2001.

Money market

As announced by the Governor on 28 August 2001, a number of important changes to the Reserve Bank's refinancing system were introduced on 5 September 2001. The Reserve Bank now conducts weekly repurchase tenders with a seven-day maturity instead of the daily auctions conducted previously. At the main repurchase auction on Wednesdays, the Reserve Bank invites bids from the private banks and proportionately allocates these bids up to the amount of the estimated liquidity needs of the private banking system. Allocations are made at a fixed pre-announced repurchase rate.

In cases where the Bank has unintentionally under- or over-estimated the market's liquidity requirement, *supplementary repurchase or reverse repurchase tenders* are conducted at the fixed repurchase rate. These tenders are mainly aimed at enabling banks to square off positions and are conducted at the Reserve Bank's discretion.

The supplementary auctions for repurchase transactions conducted since September 2001 ranged from a liquidity-providing tender of R480 million to a liquidity-draining tender of R613 million, all at a rate of 9,50 per cent. Twenty such auctions were held in September and fifteen in October.

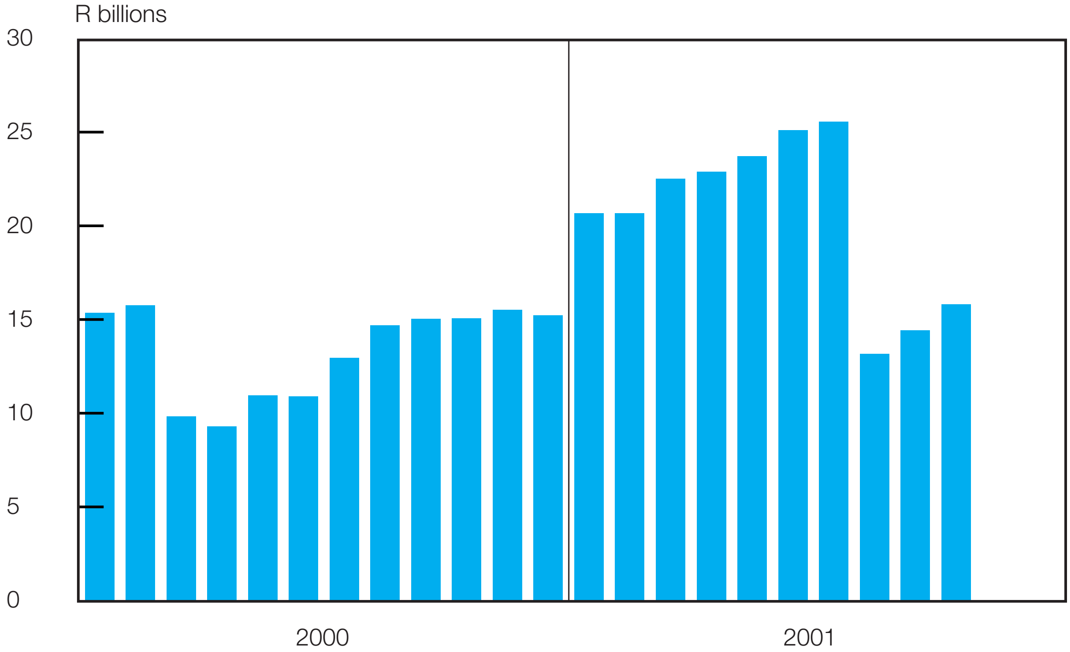
The Bank may also conduct *final* clearing repurchase or reverse repurchase auctions at rates of 1,50 percentage points above or below the fixed repurchase rate. These auctions are a means of accommodating banks which have short or long liquidity positions, so as to prevent unduly large fluctuations in interbank rates. There has been only one final clearing repurchase tender to the amount of R12 million at a margin of 1,50 percentage points above the fixed repurchase rate on 20 September 2001.

As had originally been intended, more banks are participating in the repurchase tenders under the new procedures than under the previous ones, essentially because of the narrower margin between the Reserve Bank's repurchase rate and the funding rates in the interbank market.

Money market conditions eased marginally in the three months to July but tightened in the subsequent months: the average daily liquidity requirement of the private banks increased from R8,8 billion in June and July to R10,6 billion in October 2001. The comparatively high level of the liquidity requirement during the third quarter of 2001 was achieved through various Reserve Bank interventions in the money market to drain the excess liquidity resulting from deficits realised by the Bank on forward foreign-exchange transactions and, occasionally, increases in the Bank's net foreign assets.

Actions to mop up excess liquidity in the money market by the Reserve Bank included foreign-currency money-market swap transactions with private-sector parties. The outstanding amount of these swap transactions rose from R22,5 billion at the end of March 2001 to R25,6 billion at the end of July. In August and September, the Reserve Bank curtailed the use of these swap transactions as a measure to drain liquidity from the money market, reducing the outstanding amount of these swap transactions to R13,2 billion at the end of August and R14,4 billion at the end of September. This turnabout was facilitated by the availability of foreign credit facilities to the Bank and the delivery of the foreign exchange obtained from its utilisation on forward foreign-exchange contracts for payment in rands.

Money market swaps with counter foreign-exchange deposits



Outstanding amounts as at month-end

Another measure taken by the Bank to drain excess liquidity from the money market was an increase in the amount of outstanding Reserve Bank debentures from R3,7 billion at the end of March to R5,0 billion at the end of July. The amount of outstanding reverse repurchase transactions in government securities was also increased from R5,4 billion at the end of March to R5,9 billion at the end of August. In September 2001, liquidity was injected into the money market through a decline in the amount of outstanding Reserve Bank debentures to R4,0 billion. Simultaneously, the amount of reverse repurchase transactions in government securities was reduced to R5,4 billion at the end of September.

Notes and coin in circulation outside the Reserve Bank also helped to tighten liquidity conditions in the money market. From the end of March to the end of October an increase of R1,8 billion was recorded, thus helping to tighten liquidity conditions in the money market. Similarly, the private banks' required cash reserve balances with the Reserve Bank rose from R10,1 billion at the end of August to R11,8 billion at the end of October as 25 per cent of banks' vault cash holdings no longer qualify as a deduction when the required cash reserve balances are determined.

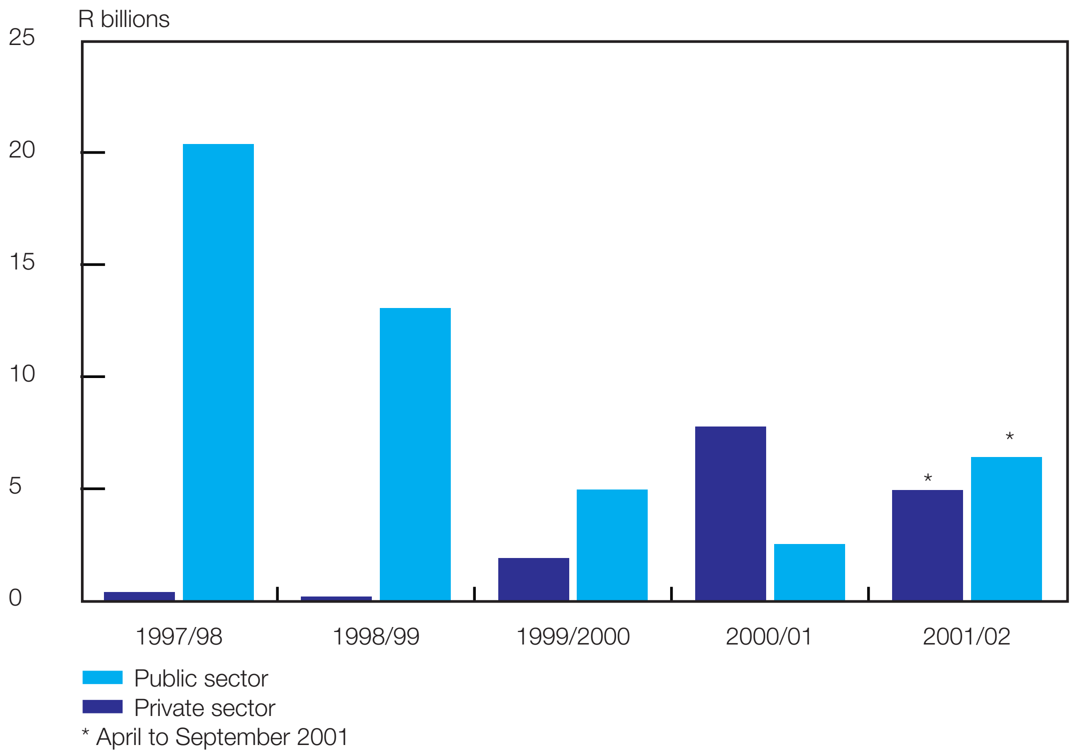
Bond market

New debt issued by *public-sector organisations* in the *domestic primary market for fixed-interest securities* has declined in recent years. Public-sector borrowers' demand for loanable funds through the net issuance of fixed-interest securities was R6,4 billion in the first half of the current fiscal year, considerably higher than the historically low level of R2,5 billion in the whole of fiscal 2000/01. The general decline in the supply of new debt securities is consistent with the reduction in the public-sector borrowing requirement. Furthermore, for the current fiscal year, the low level of net borrowing in the domestic primary bond market also reflected government's recourse to offshore financing.

The *national government* raised some R9,5 billion through three *foreign-currency denominated debt issues* in the *international bond markets* from April to October 2001, compared with R1,9 billion in the whole of fiscal 2000/01. *Other domestic public-sector borrowers,* however, have steered clear of the international bond market since their previous issue at the end of fiscal 1999/2000. South African issuers have also refrained from issuing *rand-denominated bonds* in the *eurorand market* since the previous issue made in March 1999.

The public sector's reduced demand for loanable funds left ample resources for growth in private-sector funding in the *primary corporate bond market.* The *outstanding nominal value of private-sector loan stock* listed on the Bond Exchange (excluding stripped bonds) increased by R7,8 billion in fiscal 2000/01 and R5,0 billion in the first half of the current fiscal year – i.e. on aggregate almost one and a half times the amount of the net issuance of fixed-interest securities by public-sector borrowers over the past one and a half fiscal years. Weak share markets and lower interest rates fostered borrowers' preference for debt rather than equity funding. In the first six months of fiscal 2001/02, corporates satisfied 42 per cent of their securitised funding needs in the primary debt market and 58 per cent in the primary share market. The comparable percentages were 11 and 89 in the whole of fiscal 2000/01.

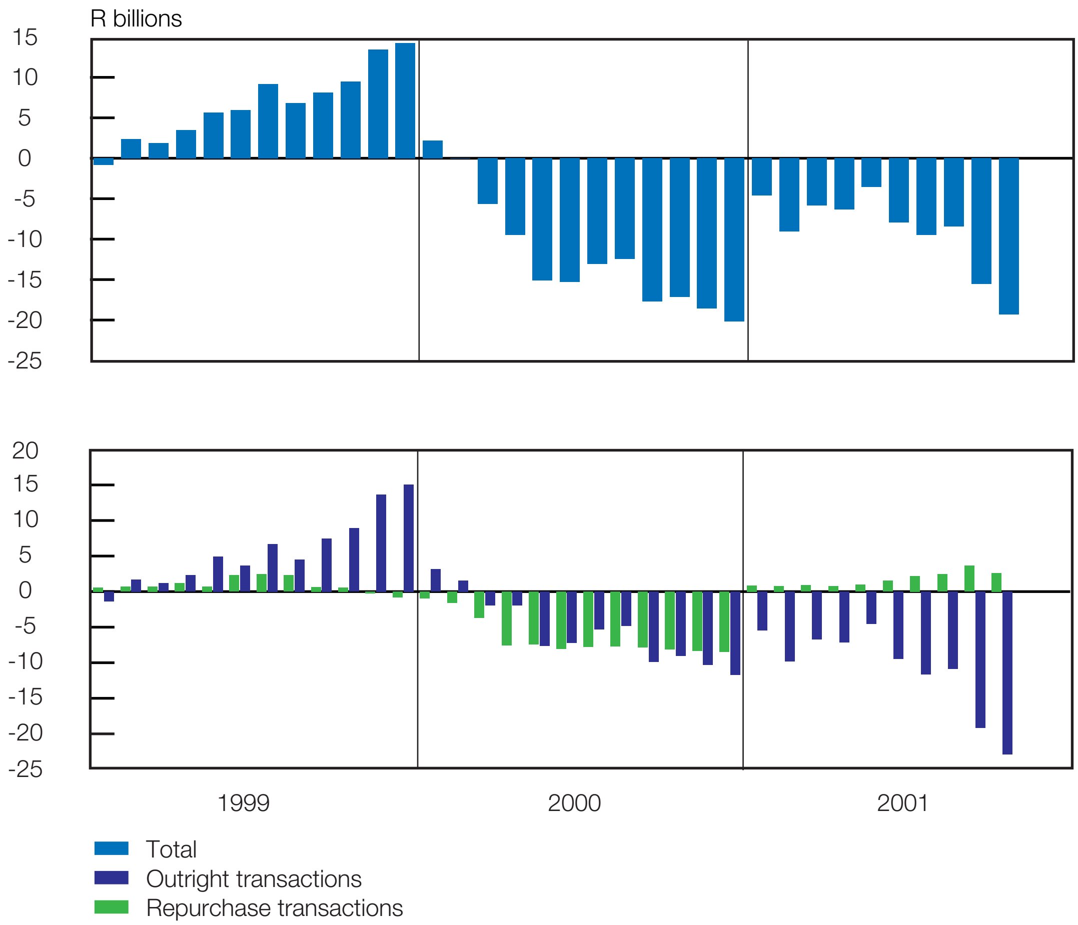
Funds raised in the domestic bond market



Trading activity on the Bond Exchange of South Africa in the first ten months of 2001 was boosted by rising bond prices. Activity in the market was driven by strong demand from domestic investors, net sales by non-residents and a dearth of new issues. Turnover in the *secondary bond market* rose to R10,1 trillion in the first ten months of 2001 – 13 per cent more than in the corresponding period of 2000. A quarterly record turnover of R3,3 trillion was reached in the third quarter of 2001 and a monthly one of R1,3 trillion in October.

The deterioration in foreign investor confidence which started in early 2000 persisted in 2001 as market sentiment was strongly influenced by concerns about macroeconomic stability in emerging markets, political events in sub-Saharan Africa and the protracted weakness of the rand. *Non-residents'* net sales of bonds in the *secondary bond market* of R20,2 billion in 2000 continued into 2001, amounting to R19,3 billion in the first ten months of 2001. The deterioration in non-resident investor sentiment was manifested largely in *net outright sales* of bonds which increased from R11,7 billion in 2000 as a whole to R23,1 billion in the first ten months of 2001. In September 2001 alone, net outright sales totalled R8,3 billion. By contrast, speculative non-resident investors maintained modest long positions in bonds as their net purchases through *repurchase transactions* totalled R3,8 billion in the first ten months of 2001.

Annual cumulative net purchases of bonds by non-residents

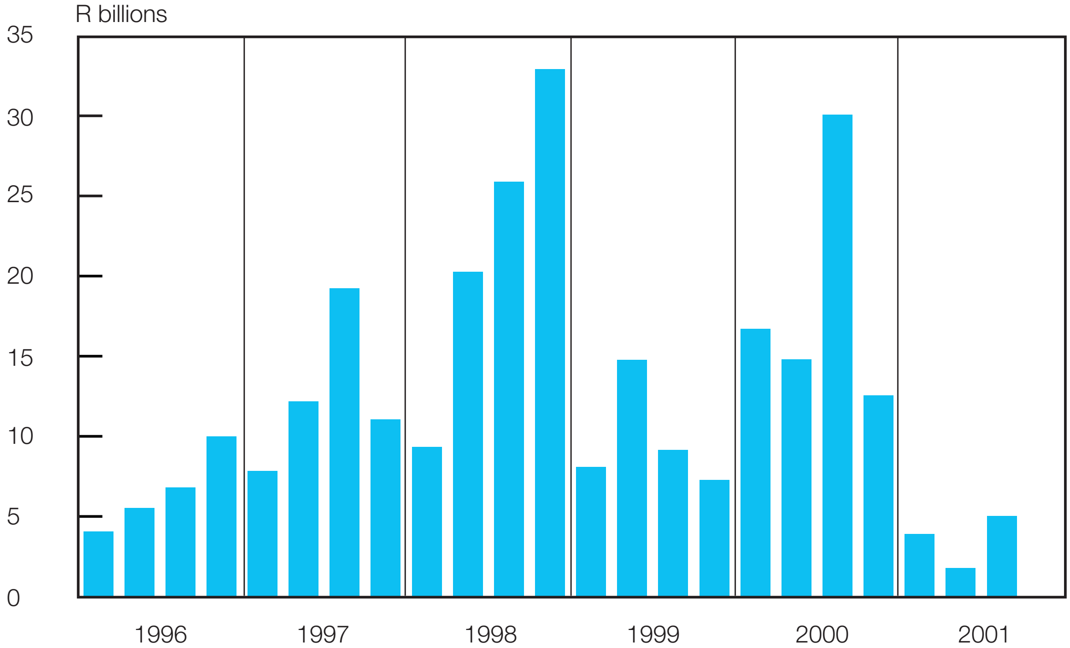


Share market

Weak and volatile share markets were reflected in the amount of funding sought in the *primary share market* by companies listed on the JSE Securities Exchange SA.

The total value of *equity capital raised* amounted to only R15,8 billion in the first ten months of 2001, well down from the R63,5 billion raised in the corresponding period of 2000. The quarterly value of the capital raised decreased from R3,9 billion in the first quarter of 2001 to R1,8 billion in the second quarter before increasing to R5 billion in the third quarter. Equity financing in the primary market amounted to R5,2 billion in October.

Capital raised in the share market



Turnover in the *secondary share market* was brisk in the first ten months of 2001 as lively non-resident trading in the first quarter of 2001 was followed by heightened price volatility in the second and third quarters. The value of shares traded on the JSE Securities Exchange SA in the first ten months of 2001, at R492 billion, was 10 per cent more than in the corresponding period of 2000. The quarterly value of shares traded peaked at R154 billion in the second quarter of 2001 – fractionally below the quarterly record turnover of R155 billion set in the first quarter of 2000 – before declining to R144 billion in the third quarter of 2001. Shares to the value of R46 billion were traded in October 2001.

Foreign investor sentiment towards the JSE Securities Exchange SA remained bullish in 2001, reflecting underlying optimism about prospects for future growth and profits. In the first ten months of 2001, non-resident net purchases of shares totalled R25,8 billion compared with a total of R17,4 billion in the whole of 2000. However, non-residents' net purchases fell from R9,4 billion in the first quarter of 2001 to R7,2 billion in the second quarter and R5,4 billion in the third quarter as uncertainty about global economic conditions led to a reappraisal of risk and a slowdown in portfolio investment in emerging markets. The monthly net purchases of listed shares amounted to R3,9 billion in October.

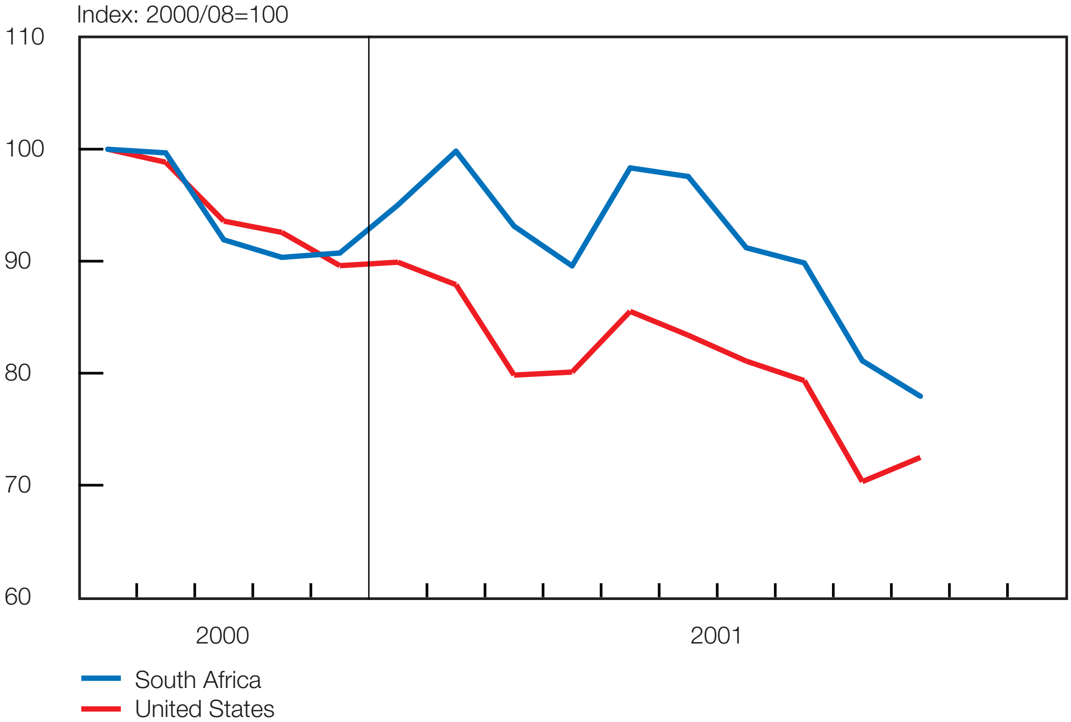
On average, the *transaction value* of non-resident purchases and sales of shares in the first ten months of 2001 accounted for 31,4 per cent of total purchases and sales of shares over the same period. At this level, non-resident participation has a material impact on price determination and volatility in the domestic secondary share market.

Movements in share prices in the United States, according to the Standard and Poor's composite index (S&P500), peaked in August 2000 but then the slowdown in world growth dampened sentiment towards share investments. By contrast, the *monthly average price level of all classes of shares* on the JSE Securities Exchange SA continued to increase to an all-time high in June 2001. However, the domestic share market subsequently succumbed to global pressures and the monthly average price level of all classes of shares fell by 11 per cent from an all-time high in June 2001 to September when the monthly average of share prices reached its lowest level since December 2000.

In September 2001, negative sentiment was aggravated by the terrorist attacks on the United States, and the *daily closing level of the all-share price index* tumbled by 15 per cent between 10 and 21 September 2001 – its lowest level in sixteen months. Subsequently, the all-share price index retraced some of its losses with a 3 per cent increase in the monthly average price level of all classes of shares in October and an end-October level that was 16 per cent higher than the low point reached on 21 September.

On balance, the *financial and industrial sector* was the sector worst affected by the sudden correction in September 2001. The *resources sector* was less severely affected and recovered to levels in excess of those recorded before the attacks. The resources sector is generally believed to be a currency hedge in times of rand weakness. The monthly average price of gold-mining shares, as a case in point, fell by about 3 per cent from June 2001 to September, but has subsequently increased by 13 per cent in October.

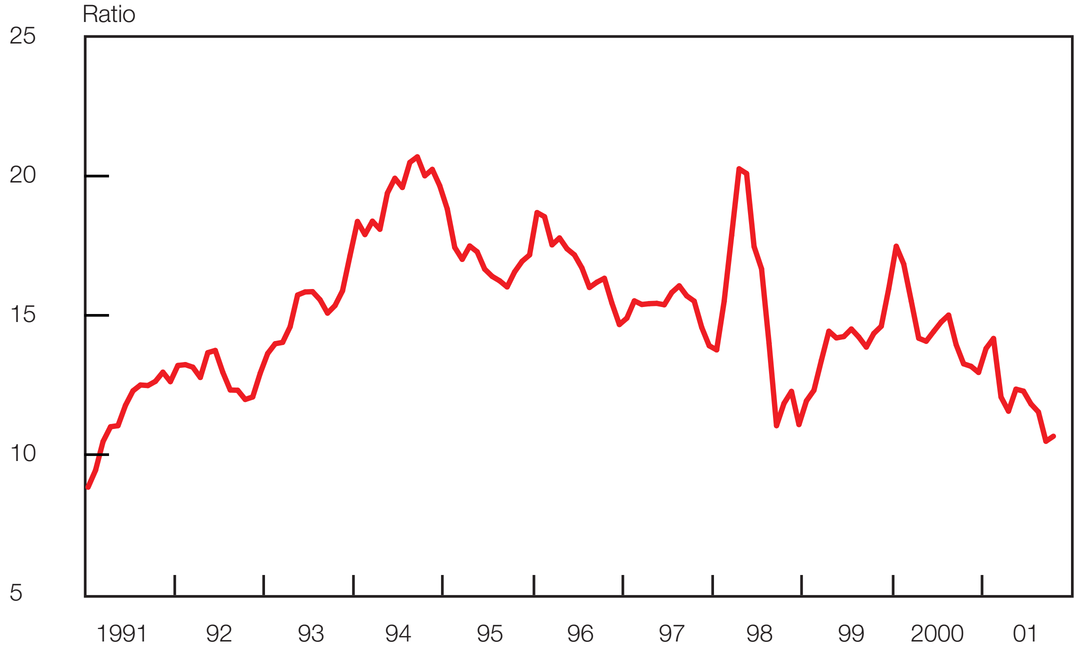
Monthly average share prices in dollar



The South African share market in *dollar terms* has, on balance, outperformed the US market over the past fourteen months with a *price loss* of 22 per cent compared with a decline of 28 per cent in the S&P500 from August 2000 to October 2001.

At current levels, shares are relatively cheap when assessed in terms of earnings potential. Mirroring the increase in the *monthly average earnings yield* on all classes of shares to 9,5 per cent in September 2001, the *price-earnings ratio* of all classes of shares fell to a low 10,5 in September 2001 – its lowest level since the emerging-markets crisis of 1998 and after the end of the Gulf War in 1991. The *dividend yield* on all classes of shares similarly increased to 3,4 per cent in September 2001 – its highest level since December 1998.

Price-earnings ratio: All shares



Yields and price ratios

Period		Dividend yield (Per cent)	Earnings yield (Per cent)	Price-earnings ratio
2001:	Jan	2,5	7,2	13,8
	Feb	2,5	7,1	14,2
	Mar	2,9	8,3	12,1
	Apr	2,9	8,7	11,6
	May	2,7	8,1	12,3
	Jun	2,7	8,1	12,3
	Jul	2,9	8,5	11,8
	Aug	3,0	8,7	11,5
	Sep	3,4	9,5	10,5
	Oct	3,3	9,4	10,6

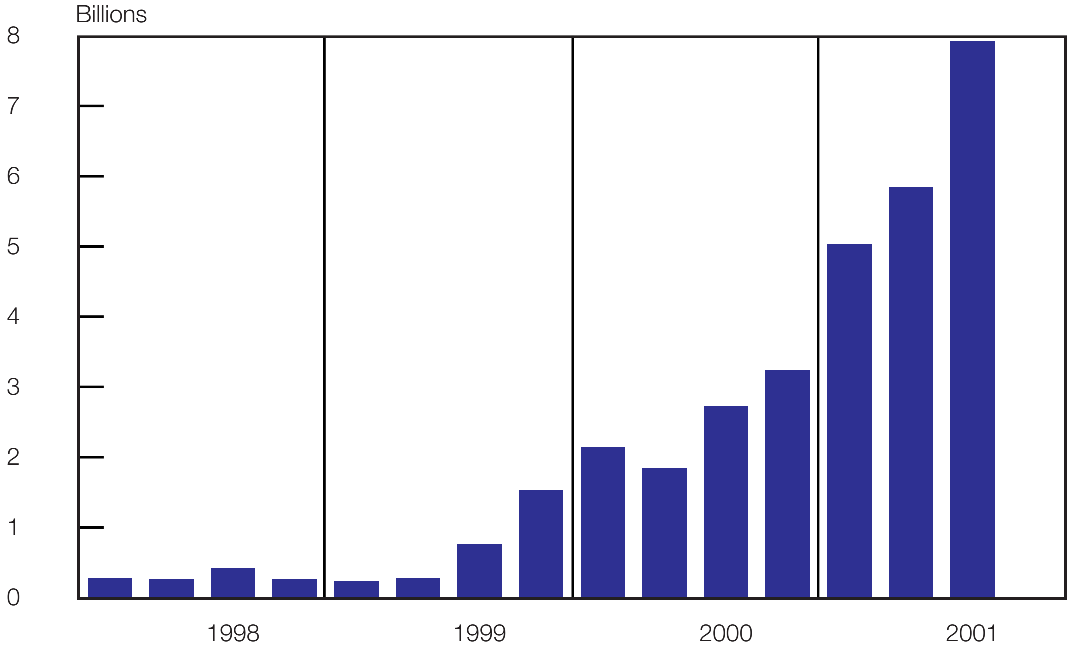
Market for derivatives

Heightened price volatility boosted trading in equity and commodity contracts in the *formal derivatives market* in the first ten months of 2001. The rising level of trading activity was accompanied by interaction between the underlying share market and *equity-related derivative products* such as *index and individual equity futures and options on such futures contracts.* Trading in these contracts on average accounts for about 99 per cent of the overall value and number of trades in financial derivatives. Transactions involving non-resident investors accounted for 42 per cent of the open interest in this market during the first ten months of 2001.

The combined number of *equity-related derivative contracts* traded in the Financial Derivatives Division of the JSE Securities Exchange SA, formerly Safex, rose by 45 per cent in the first ten months of 2001 compared with the corresponding period of 2000. The quarterly number of contracts traded increased from 7,6 million in the second quarter to a record of 8,9 million in the third quarter.

By June 2001, the number of *warrants* traded on the JSE Securities Exchange SA this year had already surpassed the number of warrants traded in 2000 as a whole. The number of trades increased to a record of 2,8 billion in September. In the first ten months of the year, 21,4 billion warrants were traded – 178 per cent more than in the corresponding period of 2000. The quarterly number of warrants traded increased from successive highs of 5,0 billion in the first quarter of 2001 to 5,8 billion in the second quarter and 7,9 billion in the third quarter.

Number of warrants traded

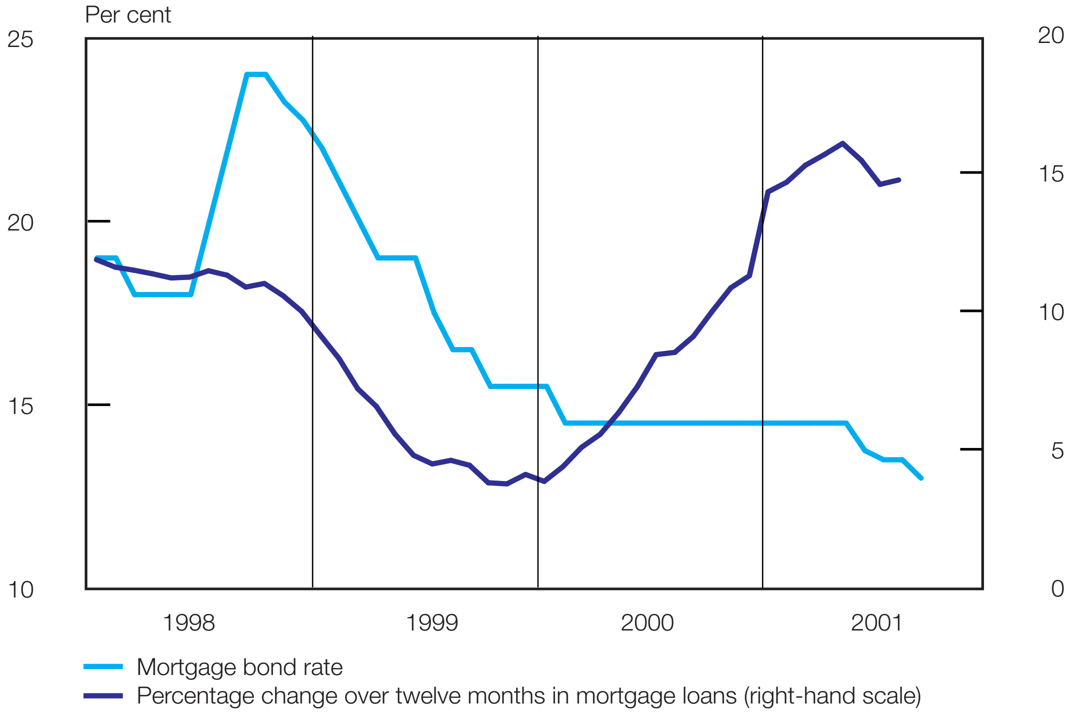


The number of *commodity futures contracts and options on such contracts* traded in the Agricultural Products Division of the JSE Securities Exchange SA in the first ten months of 2001 were 72 per cent more than the number traded in the whole of 2000. These contracts increased from 188 200 in the second quarter of 2001 to a record of 274 700 in the third quarter, greatly boosted by volatility in the spot price of white maize.

Real-estate market

Although still very lively, trading activity in the real-estate market slowed down somewhat in the first nine months of 2001. Turnover in the *real-estate market,* measured by *transfer duty paid,* rose by 15 per cent in the first nine months of 2001 compared with the corresponding period of the previous year, following a year-on-year increase of 42 per cent in 2000. In the third quarter of 2001, the growth over twelve months in *home loan balances outstanding* receded slightly from a relatively high level in the second quarter of 2001, despite a further decline in the cost of mortgage finance. The seasonally adjusted quarterly value of transfer duty revenue still increased by 6 per cent from the second to the third quarter of 2001.

Real-estate market

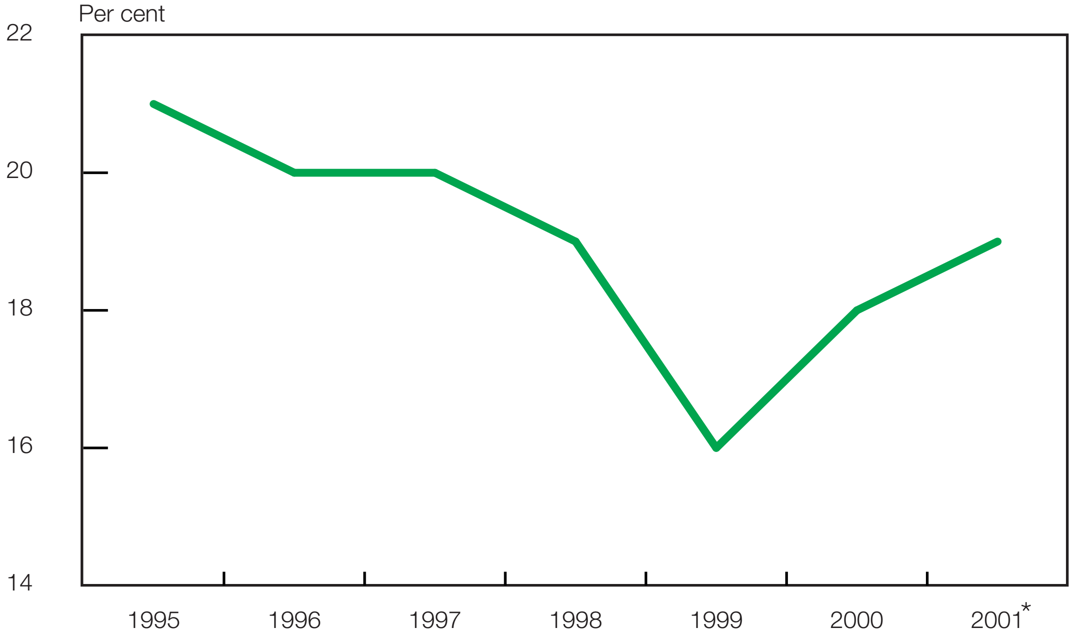


Gains in *residential property prices* also slowed down somewhat in the first three quarters of 2001. The rate of change over four quarters in the *average nominal price of houses* as measured by Absa Bank, slowed down from 20,6 per cent in the fourth quarter of 2000 to 11,9 per cent in the third quarter. The year-on-year increase in the *inflation-adjusted price of houses* also fell back from 10,6 per cent in the fourth quarter of 2000 to 7,3 per cent in the third quarter.

Non-bank financial intermediaries

The decline in yields on long-term government bonds from May 2000 was driven by domestic *demand for fixed-interest securities* in asset portfolios. The net sales of bonds by non-resident investors since the beginning of 2000 have been more than offset by the increase in the *holdings of government bonds* by *non-bank private-sector financial intermediaries* (i.e. insurers, private self-administered pension and provident funds and unit trusts) as well as by the Public Investment Commissioners who invest mainly on behalf of the pension fund for public servants.

Non-bank private-sector financial intermediaries: Fixed-interest securities as percentage of total assets



* June 2001

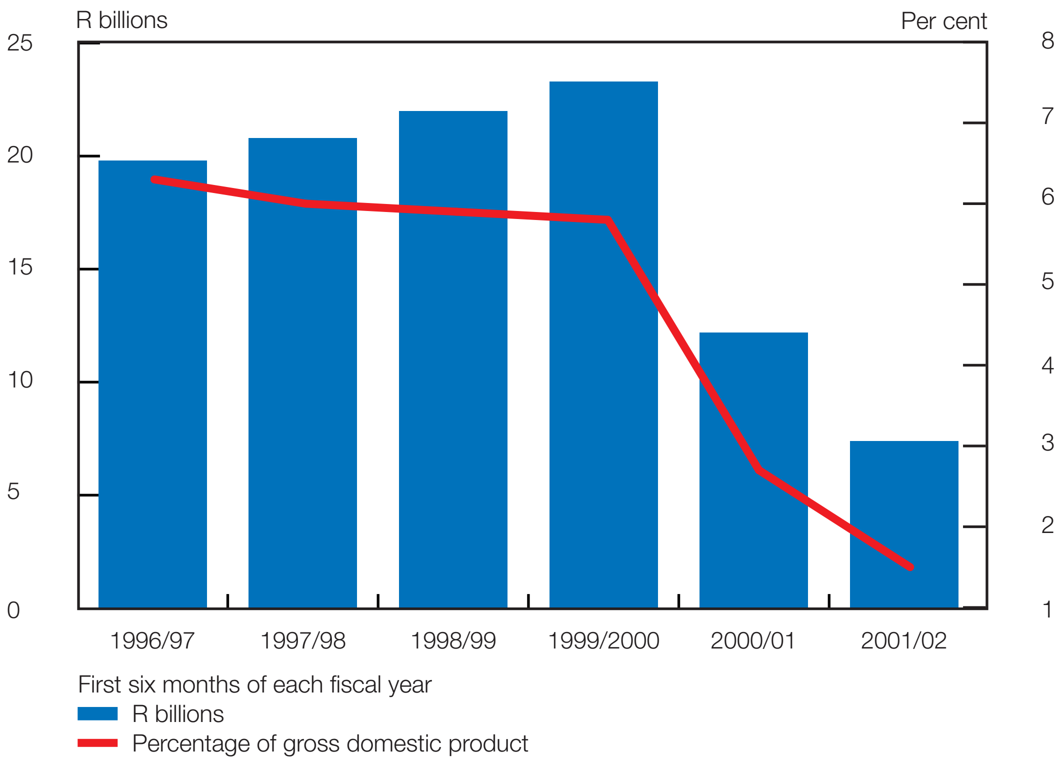
The acquisition of government bonds by *non-bank private-sector financial intermediaries* in 2000 was reflected in the sharp increases in these institutions' share of *total holdings of issued government debt* from 34 per cent in 1999 to 43 per cent in 2000, and *government bonds as a percentage of total assets* from 11 to 13 per cent over the same period. Overall holdings of all debt securities (including parastatal and private-sector bonds) now constitute just 19 per cent of total assets, leaving ample scope for allocating future cash flows to this asset class.

Public finance

Non-financial public-sector borrowing requirement

The borrowing requirement of the non-financial public sector (i.e. the deficit before borrowing and debt repayment of the consolidated central government, provincial governments, local authorities and non-financial public-sector businesses) amounted to R6,2 billion in the July–September quarter of 2001, compared with R4,5 billion in the corresponding quarter of 2000. This brought the non-financial public-sector borrowing requirement for the first half of fiscal 2001/02 to R7,4 billion, which is R4,8 billion less than in the same period of the previous fiscal year. As a ratio of gross domestic product, the borrowing requirement of the non-financial public sector declined from 2,7 per cent recorded in the first half of fiscal 2000/01 to 1,5 per cent in the first half of fiscal 2001/02. This ratio was substantially lower than the average ratio of 5,3 per cent observed in the first half of the preceding five fiscal years.

Non-financial public-sector borrowing requirement

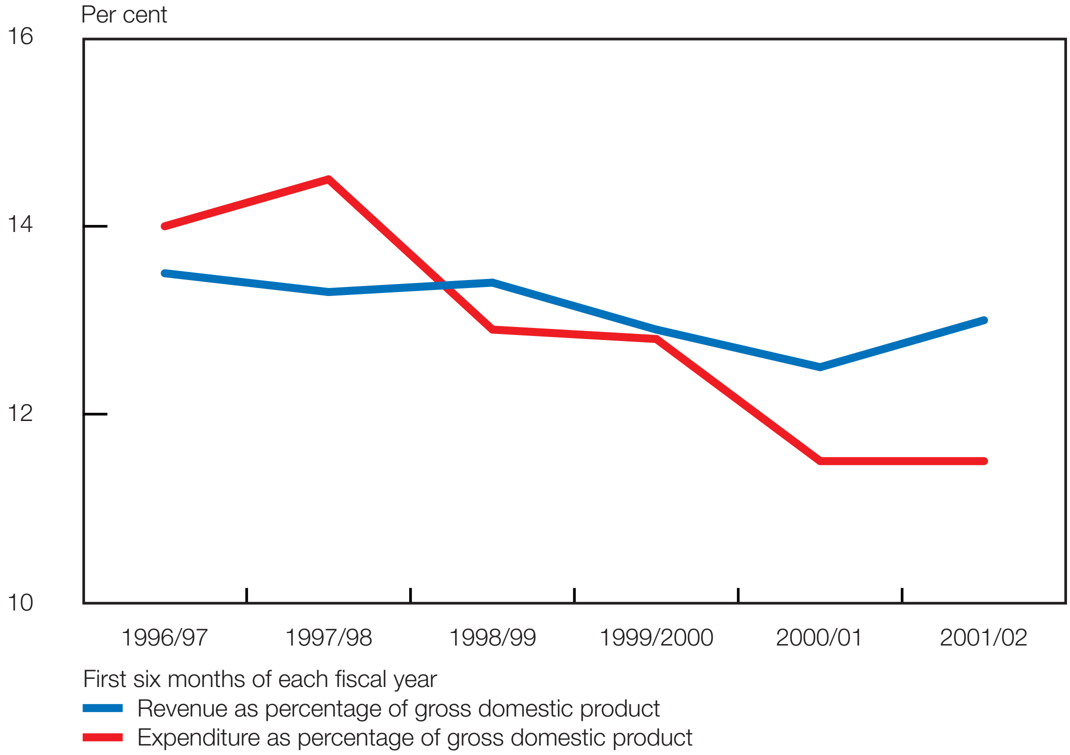


The improvement in the borrowing requirement of the non-financial public sector can be ascribed to an improvement in the finances of both the general government sector and the non-financial public-sector business enterprises. The financial results of the business enterprises indicate an improvement in their consolidated financial surplus from R2,8 billion in the first half of fiscal 2000/01 to R3,3 billion in the first half of fiscal 2001/02.

The borrowing requirement of the consolidated general government amounted to R8,2 billion in the July–September quarter, bringing the borrowing requirement for the first six months of fiscal 2001/02 to R10,7 billion, compared with a borrowing requirement of R15,0 billion recorded in the first six months of fiscal 2000/01. The improvement in the borrowing requirement of the consolidated general government was the result of improvements in the finances of national and provincial governments.

Provincial governments reported a surplus of R7,1 billion in the first six months of fiscal 2001/02 which is a substantial improvement on the surplus of R4,6 billion recorded in the first six months of fiscal 2000/01. This improvement was the result of an increase of 12,5 per cent in the equitable share of nationally raised revenue transferred to provincial governments and tight control over the growth in expenditure at the provincial government level. In the original Budget proposals for fiscal 2001/02 the equitable share of provincial governments was estimated to amount to R104,1 billion for the fiscal year as a whole.

Revenue and expenditure of provincial governments



Conditional grants to the amount of R4,2 billion were transferred to the provincial governments in the July–September 2001 quarter, of which only R1,9 billion was actually spent. This helped the provincial governments to increase their deposits with private banks from R7,9 billion at the end of March 2001 to R10,3 billion at the end of September 2001. Their overall bank indebtedness decreased from R1,6 billion to R0,4 billion over the same period.

The first budget year of the newly demarcated local government structures came into effect on 1 July 2001. Although the results of a full survey of local government activities for the July–September quarter by Statistics South Africa are not yet available, preliminary indications are that local governments recorded a deficit of R0,4 billion during this period. This brought their deficit for the first six months of the fiscal year to R1,7 billion.

National government finance

National government expenditure amounted to R130,1 billion in the first six months of fiscal 2001/02, representing 50,4 per cent of the originally budgeted expenditure of R258,3 billion for the full fiscal year. This brought the rate of increase in government expenditure to 12,8 per cent in the first six months of fiscal 2001/02, compared with the budgetary provision of 10,5 per cent for the fiscal year as a whole. The year-on-year growth in national government expenditure in the first six months of the previous fiscal year was an unusually low 5,0 per cent, whereas the average growth in the first six months of the past five fiscal years was 8,9 per cent.

Interest paid on government debt rose by only 3,6 per cent from the first half of fiscal 2000/01 to the first half of fiscal 2001/02. Approximately 50 per cent of the R13,0 billion originally budgeted for capital projects was spent in the first six months of fiscal 2001/02. Funds spent on capital projects were mainly for housing and infrastructure development.

National government expenditure as a ratio of gross domestic product amounted to 26,7 per cent in the first six months of fiscal 2001/02, slightly higher than the ratio of 25,8 per cent in the corresponding period of the previous fiscal year. After allowing for cash-flow adjustments (i.e. transactions recorded in the government accounting system but not yet cleared in the banking system, and late departmental requests) government's cash expenditure amounted to R130,3 billion, representing an increase of 11,9 per cent in the first half of fiscal 2001/02 compared with the corresponding period of the previous fiscal year.

National government revenue in the first six months of fiscal 2001/02 amounted to R113,3 billion or 48,5 per cent of the budgeted revenue of R233,4 billion for the fiscal year as a whole. Compared with the corresponding period of the previous fiscal year, the receipts represent a rate of increase of 17,5 per cent which comfortably exceeded the originally budgeted growth of 8,0 per cent for the full fiscal year. The rate of increase in national government revenue in the first six months of fiscal 2001/02 was also substantially higher than the 7,8 per cent recorded in the corresponding period of the previous fiscal year, and well above the average growth rate of 10,6 per cent in the corresponding period of the preceding five fiscal years.

The strong growth in national government revenue can primarily be explained by exceptionally high rates of increase in receipts from taxes on income and profits. This can reportedly be ascribed to the steady elimination of backlogs in the processing of tax assessments and to a reduction in the time spent on the processing of tax returns. Strong growth in the collection of secondary tax on companies and taxes on the profits of platinum mines also contributed to the buoyancy of tax revenue.

National government revenue as a ratio of gross domestic product amounted to 23,3 per cent in the first six months of fiscal 2001/02, slightly higher than the ratio of 21,6 per cent recorded in the corresponding period of the previous fiscal year. National government's cash revenue (after cash-flow adjustments stemming from timing differences in the recording of transactions and bank clearances) amounted to R111,7 billion, representing a year-on-year rate of increase of 15,2 per cent in the first six months of fiscal 2001/02.

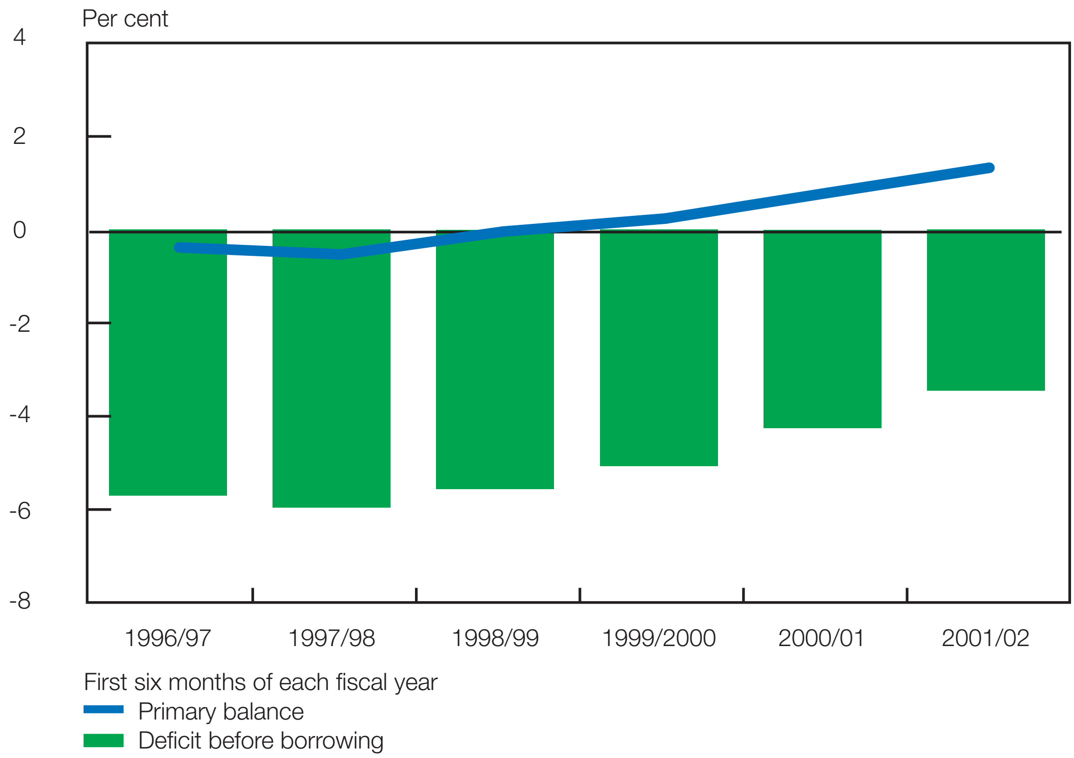
National government revenue
R billions

Revenue source	Fiscal 2001/02 Originally budgeted (R billions)	Apr–Sep 2001 Actual (R billions)	Percentage change*
Taxes on income and profits	131,6	67,1	23,1
Payroll taxes	2,8	1,3	145,8
Taxes on property	4,7	2,1	12,2
Domestic taxes on goods and services	86,7	40,0	8,6
Taxes on international trade and transactions	9,4	4,3	-2,8
Other revenue	6,4	2,6	-3,6
Less: SACU** payments	8,2	4,1	-8,4
Total revenue	**233,4**	**113,3**	**17,5**

* April–September 2000 to April–September 2001
** Southern African Customs Union

The net result of the revenue and expenditure recorded in the *Statement of National Government Revenue, Expenditure and Borrowing* for the July–September quarter of 2001 was a deficit before borrowing and debt repayment of R8,3 billion, bringing the deficit in the first six months of fiscal 2001/02 to R16,8 billion. This deficit represents 67,5 per cent of the R24,9 billion deficit originally budgeted for the full fiscal

National government balances as percentage of gross domestic product



year. As a ratio of gross domestic product, the deficit amounted to 3,5 per cent in the first six months of the fiscal year, compared with a ratio of 4,2 per cent in the corresponding period of the previous fiscal year. Due to the slowdown in the rate of increase in interest payments and the strong revenue performance, the primary balance (i.e. the balance recalculated by excluding interest payments from total expenditure) increased from a surplus of R3,7 billion recorded in the first six months of fiscal 2000/01 to a surplus of R6,7 billion in the current fiscal year. This resulted in an improvement in the primary surplus as a ratio of gross domestic product from 0,8 per cent to 1,4 per cent during the same period.

The cash deficit before borrowing and debt repayment amounted to R18,6 billion in the first six months of fiscal 2001/02. Taking into consideration the proceeds from the restructuring of the South African Special Risk Insurance Association (Sasria), the net borrowing requirement of national government amounted to R16,4 billion.

As indicated in the accompanying table, the net borrowing requirement of national government in the first six months of fiscal 2001/02 was financed mainly through the issuance of bonds in the foreign and domestic capital markets. A 7-year Eurobond of €500 million contributed R3,6 billion to funding in April 2001 and a 20-year marketable Samurai bond to the value of ¥30,0 billion added R2,0 billion to available resources in June 2001. In July 2001 there was another bond issue of ¥60,0 billion in the Samurai market, adding R3,9 billion to the outstanding balance on the marketable foreign loans of national government. Foreign funding of R2,9 billion was obtained in terms of the foreign export credit facilities arranged for the financing of the strategic defence procurement programme.

National government finance

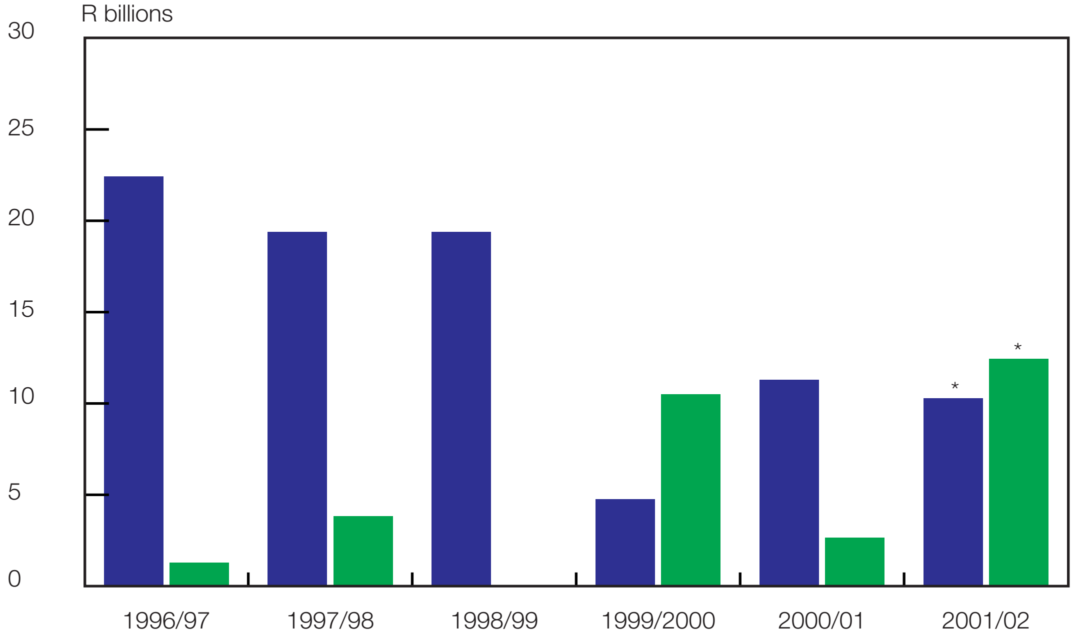
R billions

Instrument	Fiscal 2001/02 Originally budgeted	Apr–Sep 2001 Actual
Cash deficit	24,9	18,6
Plus: Extraordinary payments	0,6	0,0
Less: Extraordinary receipts	18,0	2,2
Net borrowing requirement	7,5	16,4
Domestic primary capital market		
Government bonds	...	9,2
Less: Discount on government bonds	...	1,2
Net receipts from domestic government bonds issued	-7,4	8,0
Treasury bills	3,5	2,3
Foreign loans	11,3	12,4
Change in available cash balances*	–	-6,3
Total net financing	7,5	16,4

* Increase -, decrease +

In the first six months of fiscal 2001/02, domestic government bonds to a nominal value of R9,2 billion were issued at an average cost of 9,5 per cent per year and short-term instruments were sold at an average rate of 9,6 per cent per year. These rates can be compared with budgeted assumptions of 11,6 per cent and 10,0 per cent respectively.

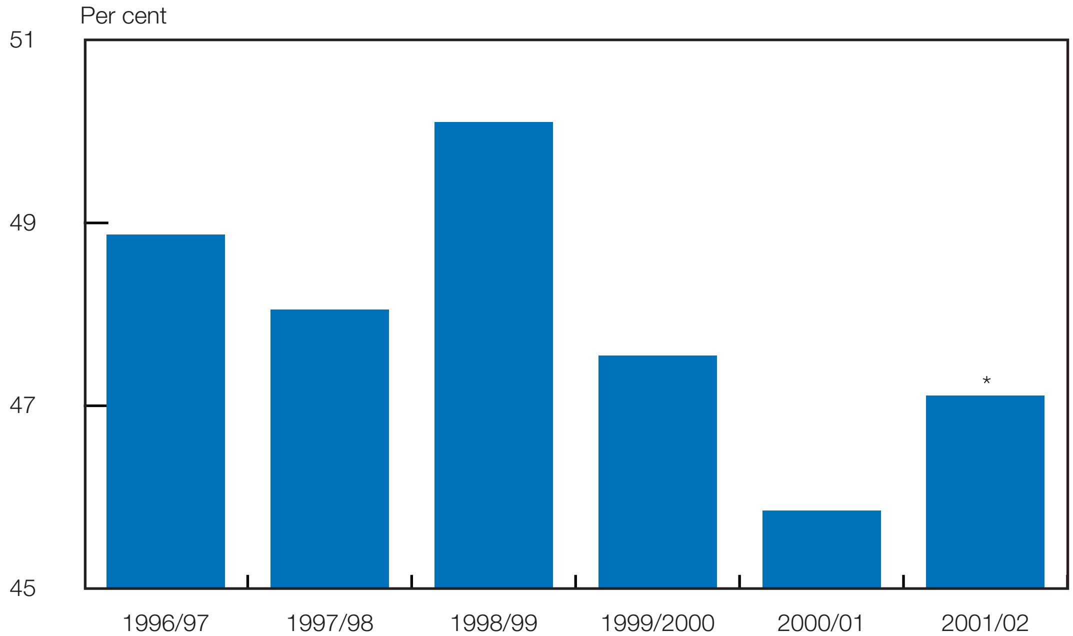
Financing of national government



Fiscal years
Domestic
Foreign
* April–September 2001

The borrowing requirement of national government, the discount on new government bond issues and the revaluation of foreign debt led to an increase in the total debt of national government from R417,5 billion at the end of March 2001 to R447,7 billion at the end of September 2001. This caused the national government

National government debt as percentage of gross domestic product



As at 31 March
*As at 30 September 2001

debt as a ratio of gross domestic product to increase from 45,8 per cent at the end of March 2001 to 47,1 per cent at the end of September 2001.

Intergovernmental Fiscal Review 2001

The *Intergovernmental Fiscal Review 2001* was released in the National Council of Provinces on 9 October 2001. The review assesses the financial position of provincial and local governments, the relationships between different levels of government and whether certain objectives for the delivery of services are met. It reiterates that the national government's responsibility lies with policy decisions and that provincial and local governments are responsible for providing basic and other public services to communities. The Minister of Finance stipulated that the provincial and local governments must be held accountable to their legislatures and councils.

The analysis of the financial and the non-financial information contained in the review has led government to the following conclusions:

- There is a discrepancy between actual outcomes and intentions to eradicate backlogs and poverty which should be blamed on a general lack of capacity to implement programmes and deliver services;
- the subsidisation of service delivery must not result in permanent dependency;
- the affordability of basic services remains a problem in poorer communities;
- capacity must be developed to ensure the effective delivery of services but the growth in personnel costs must be contained;
- financial and non-financial information must be available to ensure high-quality management decisions; and
- research and debate about future developments in the intergovernmental system must be encouraged.

Adjustments Estimates of National Government Expenditure

The *Adjustments Estimates of National Government Expenditure 2001,* tabled in Parliament on 30 October 2001 by the Minister of Finance, was presented in a new format that is similar to that of the original Estimates of National Government Expenditure. Although the Minister sought approval for additional government spending to the amount of R8,5 billion for fiscal 2001/02, a contingency reserve for unforeseen expenses to the amount of R2,0 billion and spending on infrastructure, flood damage repairs and poverty relief to the amount of R1,7 billion had already been provided for in the main estimates presented to Parliament in February.

The increase in expenditure was mainly related to the slightly higher-than-estimated remuneration increases for government employees and an increase in transfers to

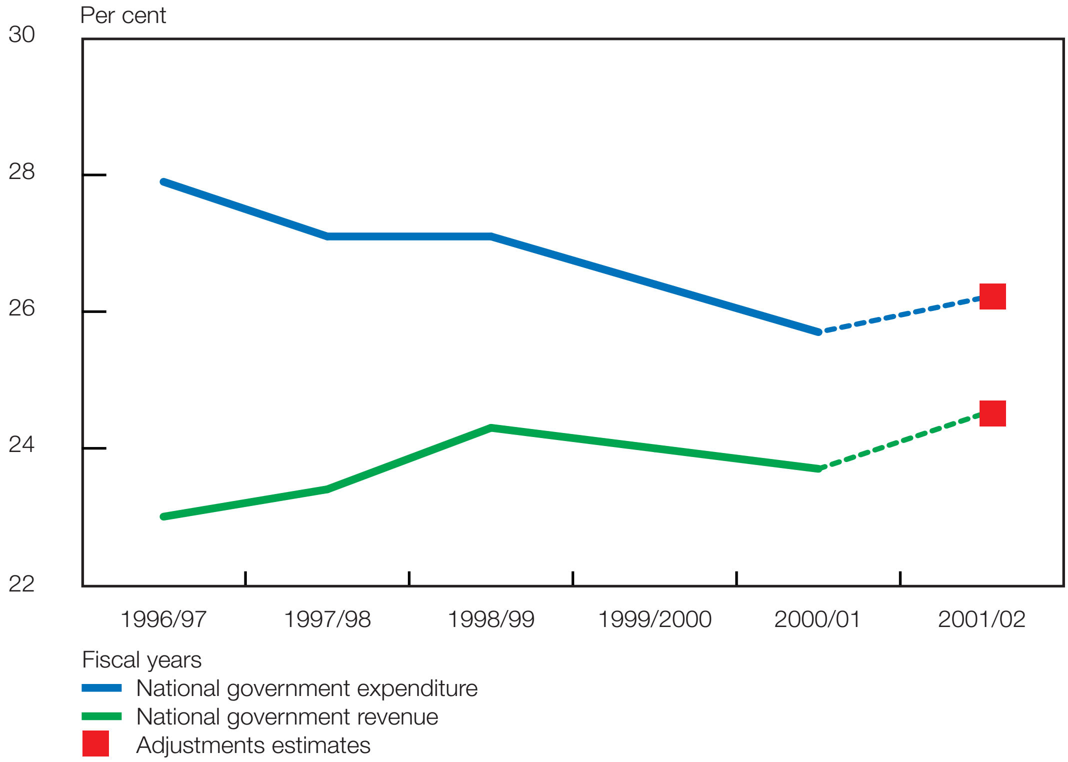
Revised Budget estimates for fiscal 2001/02

	R billions
Original budgeted expenditure	258,3
Plus: Additional expenditure	4,8
Less: Roll-overs, savings and suspensions	2,0
Total adjusted expenditure	**261,1**
Originally budgeted revenue	233,4
Estimated additional collections	4,8
Total adjusted revenue	**238,2**
Adjusted deficit	22,8
Adjusted deficit as percentage of gross domestic product	2,3

provincial and local governments, which were needed to improve financial management in provinces and newly formed local governments. Provision was also made for items such as additional transfers to the Post Office and the Unemployment Insurance Fund and to Statistics South Africa to fund the higher-than-expected cost of the 2001 Census. A number of allocations were made to other government departments to meet unforeseen and unavoidable costs.

The additional expenditure is expected to be financed from an increase in the revenue of national government. National government revenue is expected to yield R4,8 billion more than originally envisaged, mainly because of the higher-than-expected revenue from taxes on income and profits. The net result of the adjustments to national government revenue and expenditure is a decrease in the estimated deficit before borrowing and debt repayment. This estimated deficit of R22,8 billion (originally budgeted as R24,8 billion) is expected to equal 2,3 per cent of the estimated gross domestic product for the full fiscal year.

National government finance as percentage of gross domestic product



It was recognised that all the initially expected proceeds from the restructuring of state assets would not be realised during fiscal 2001/02. The estimated receipts of R18 billion from this source were revised to R3 billion. However, the Minister maintained that government bonds amounting to R7,4 billion would be redeemed and that a drawing on an international syndicated loan to the amount of R12 billion would meet any shortfall in government financing.

The Medium Term Budget Policy Statement

For the first time, the Minister of Finance presented the *Medium Term Budget Policy Statement 2001* to a newly formed Budget Committee on 30 October 2001. This committee comprises members of the National Assembly and the National Council of Provinces and was established to facilitate debate on government finances. The policy statement creates the policy framework within which government's progress in meeting objectives is measured and future plans are formulated. This policy statement also creates the framework for compiling the 2002 Budget.

The *Medium Term Budget Policy Statement 2001* restates government's firm intent to address South Africa's social and development challenges within a consistent, growth-oriented fiscal and budgetary framework. It reaffirms that government seeks to balance the high priority of meeting the social needs of all South Africans with its sustained commitment to fiscal discipline. The key areas for future reforms, as enunciated in the statement, include the following:

- Aligning and integrating the planning, budgeting and reporting processes;
- developing and implementing strategic and operational plans within agreed medium-term budgetary constraints;
- reporting on past performance in published annual reports;
- presenting measurable objectives and output to assess performance and progress in service delivery; and
- introducing generally recognised accounting practices and procurement reforms across the public sector.

It was also announced that, after extensive consultation between the National Treasury and the Reserve Bank, agreement had been reached on the inflation targets. Cabinet has approved that the inflation target would remain at 3 to 6 per cent for the annual average of CPIX inflation for the year 2003. The targets for 2004 and 2005 were also announced. These targets were set at an average increase in CPIX of between 3 and 5 per cent.

As indicated in the accompanying table, government envisaged that fiscal prudence would prevail at all levels of the public sector. The national government deficit is projected to average 2,4 per cent of gross domestic product over the 3-year period and consolidated general government's borrowing requirement is projected to average 1,9 per cent of gross domestic product. Similarly, the public-sector borrowing requirement is projected to be contained below the level of 2,5 per cent of gross domestic product in the medium term.

Fiscal projections

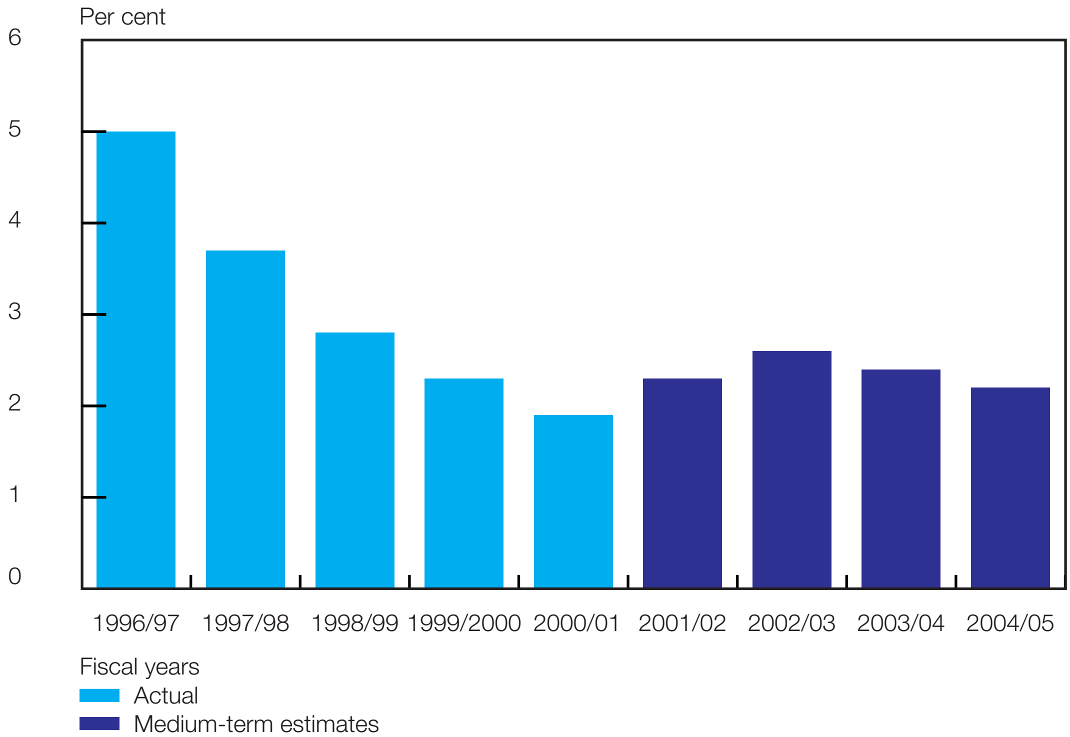
	2001/02 Revised estimates	Medium-term estimates		
		2002/03	2003/04	2004/05
	R billions			
National government				
Revenue	238,2	254,7	276,8	299,3
Expenditure	261,1	282,6	304,8	327,3
Deficit before borrowing	22,8	27,9	28,0	28,0
Consolidated general government borrowing requirement	21,4	14,4	25,0	25,5
Public-sector borrowing requirement	22,4	16,4	28,0	29,5
	Ratio of gross domestic product			
National government				
Revenue	24,5	24,1	24,1	24,1
Expenditure	26,8	26,7	26,5	26,3
Deficit before borrowing	2,3	2,6	2,4	2,2
Consolidated general government borrowing requirement	2,2	1,4	2,2	2,0
Public-sector borrowing requirement	2,3	1,6	2,4	2,4

Steady growth in government revenue is envisaged and the scene has been set for tax relief and reforms in the years ahead. It was announced that

- adjustments to the personal income tax structure would provide further relief to lower and middle-income taxpayers and narrow the gap between the maximum personal tax rate and the company tax rate;
- amendments to the list of social benefit organisations would extend the range of organisations qualifying for tax exemption;
- the tax treatment of the banking sector would be refined;
- the tax treatment of retirement savings would be reviewed;
- capital gains tax rules have been introduced to allow for company reorganisations aimed at increasing capital efficiency;
- a strategic investment tax incentive scheme was announced with the aim of promoting faster investment and job creation; and
- details of a wage incentive for learnerships would be announced in due course.

The medium-term expenditure framework provided for *real* non-interest spending to grow at an average rate of 3,7 per cent per annum and a continuous decline in debt service cost as a ratio of gross domestic product, releasing resources for spending on public services. Increased spending on health services, with special reference to a programme addressing the HIV/Aids epidemic, was also announced in the statement. Renewed emphasis was placed on social spending, enabling expansion in social grants and including financial support to the Unemployment Insurance Fund during the restructuring of the fund over the medium term. Financial assistance was also pledged to the Post Office, enabling this business to restructure and extend services to under-serviced areas. Government's continued commitment to upliftment was also enunciated in the envisaged growth in capital spending. The provision made for investment in new infrastructure and the rehabilitation of existing infrastructure in a number of spending categories, resulted in a projected average growth rate of 14,2 per cent per annum in capital expenditure over the medium term.

National government deficit as percentage of gross domestic product



Statement of the Monetary Policy Committee

20 September 2001

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

The Monetary Policy Committee evaluated the monetary policy stance at a meeting on 20 September 2001. After carefully analysing the current and likely future economic and price developments, the Committee decided to lower the repurchase rate by 50 basis points to 9,5 per cent effective from 21 September 2001. This decision was based on the following considerations:

International economic developments

The international economic outlook has been overshadowed by the tragic events of 11 September 2001 in the United States. Although it is still too early to tell what the longer-term impact will be, it is expected to have a negative effect on consumer confidence in the United States over the short term, that will intensify the economic slowdown and delay its recovery. The current extent of the slowdown in economic activity was underlined by the revised growth figure of just 0,2 per cent in the gross domestic product of the United States in the second quarter of 2001. In addition, employment figures for August showed that unemployment in the United States had risen to its highest level in four years. Macroeconomic data for Europe and Japan also remained disappointing, while economic strains in Argentina, Brazil and Turkey adversely affected sentiment towards emerging-market economies.

The downward movement of global interest rates has continued since the previous meeting of the Monetary Policy Committee. Official interest rates were reduced in the United States, Japan, the United Kingdom, the euro area, Denmark, Canada and Australia. The emerging-market economies that relaxed monetary policy included South Korea, Taiwan and Poland. The negative growth outlook for the world economy is likely to reinforce or prolong this trend. It is also expected that the major central banks will provide sufficient liquidity to financial markets to alleviate any systemic pressures which may arise from the impact of the abovementioned tragic events. In reaction, the Federal Open Market Committee decided to reduce the federal funds rate by a further 50 basis points to 3 per cent on 17 September 2001. This was followed by downward adjustments in interest rates by the European Central Bank and a number of other central banks.

International oil prices, which had already begun to rise since the previous meeting of the Monetary Policy Committee, rose sharply in the wake of the events in the United States. Subsequently, they fell back somewhat after assurances from OPEC that it is committed to ensuring stable oil supplies to the market. However, the oil price is expected to remain relatively firm following the OPEC supply cut in early September and the onset of winter in the northern hemisphere. World inflation rates nevertheless still seem to be contained.

The atrocity in the United States also led to increased pressure on exchange rates in a number of economies, including South Africa. The rand immediately depreciated against all the major currencies. As a result, the trade-weighted value of the rand on 20 September 2001 was 11,5 per cent below its level at the beginning of the year.

Real domestic economic developments

Despite the deepening of the slowdown in the world economy, the growth in real gross domestic product in South Africa rose from 2 per cent in the first quarter of 2001 to 2½ per cent in the second quarter. Moreover, a better growth performance was discernible in most of the main economic sectors, with the exception of electricity generation and financial services. A further, albeit smaller, decline in agricultural output was recorded in the second quarter, while output growth in mining, manufacturing, construction and commerce improved somewhat.

In contrast to these developments in production, real gross domestic expenditure declined by 2 per cent in the second quarter of 2001. In the first quarter of 2001 it had still increased by 2½ per cent. The decline in total domestic spending was caused by a reduction in inventories. Aggregate real final demand remained relatively buoyant, even though growth in consumption expenditure and fixed capital formation declined slightly.

Despite continued weakness in the employment numbers of the formal non-agricultural sectors, the incidence of strikes and work stoppages rose markedly in the second and third quarters of 2001. These actions led to relatively higher wage settlements which could detrimentally affect nominal unit labour cost if they are not countered by continued high productivity gains.

Domestic monetary and fiscal conditions

The broadly defined money supply (M3) accelerated considerably from a year-on-year increase of 9,2 per cent in January 2001 to 17,8 per cent in July. Quarter-to-quarter growth in M3 has also been strong since the last quarter of 2000, amounting to successive annualised figures of 14,7 per cent, 19,2 per cent and 16,5 per cent in the three quarters respectively. This rise in the broad money supply can mainly be attributed to an increase in the demand for longer-term deposits by the private sector which is normally not associated with an acceleration in domestic spending. Growth over twelve months in the narrower monetary aggregate M1A, however, started to pick up from a negative 1,1 per cent in March 2001 to 6,7 per cent in June and 15,9 per cent in July.

Growth in total domestic credit extension over twelve-month periods slowed down from 10,1 per cent in March 2001 to 7,0 per cent in June and 8,3 per cent in July. This slowdown in total domestic credit extension was essentially caused by a decline in the net use of bank credit by the government sector and the increased foreign financing of the fiscal deficit. Growth in bank credit extension to the private sector remained below 10 per cent in the first seven months of 2001, with twelve-month growth in both June and July amounting to 9,5 per cent. Instalment sale credit, leasing finance and mortgage advances gained momentum over this period, reflecting the relative strength of private households' demand for durable goods and supporting the solid performance of the property market.

Government finance remained sound and continued to support monetary policy. Government revenue in the first four months of fiscal 2001/02 was 16,9 per cent more than in the corresponding period of fiscal 2000/01. This higher-than-expected increase in revenue can be ascribed to greater administrative efficiency and higher collections of taxes on international trade and transactions. Revenue growth exceeded the growth in government expenditure. As a result, the public-sector borrowing requirement narrowed from R6,7 billion in the first quarter of fiscal 2000/01 to R2,2 billion in the first quarter of fiscal 2001/02.

Domestic financial markets

Lively trading conditions prevailed in the bond market in the first eight months of 2001. The seasonally adjusted monthly value of turnover in the secondary bond market increased by 39 per cent from a recent low in May 2001 to an all-time high in June 2001, before declining by 12 per cent to a still relatively high level in August. Non-residents, on balance, were net sellers of domestic bonds. The cumulative net sales of bonds by non-residents in 2001 amounted to R15,6 billion on 19 September 2001.

The yield on long-term government bonds declined from a monthly average of 12,1 per cent in April 2001 to 10,7 per cent in August – its lowest level since 1983. Profit taking, mounting concerns about macroeconomic stability in some emerging-market economies and unfounded negative perceptions of unlawful threats to property rights in the country, introduced some volatility in the market at times.

Turnover in the secondary share market remained high. This can be attributed to volatile price movements throughout the first eight months of 2001 and the takeover of the De Beers mining company by Anglo American. Despite the volatility in the market, the average monthly all-share price index rose by 8 per cent from December 2000 to August 2001. The tragedy in the United States brought the all-share price index sharply down in September. This was consistent with most other markets. Non-residents stepped up their acquisition of shares to the amount of R21,2 billion from the end of 2000 to 19 September 2001.

The liquidity requirement in the money market has hovered around the R10 billion mark since June 2001. Money-market interest rates have remained relatively stable since the previous meeting of the Monetary Policy Committee and increased only moderately for a few days following the events in the United States. The repurchase rate was reduced by one percentage point on 5 September 2001 to administratively narrow the margin between this rate and the interbank call rate.

Balance of payments

The current-account of the balance of payments, which had moved to a surplus in the fourth quarter of 2000, continued to perform well in the first half of 2001. The depreciation of the rand dampened the demand for imports while stimulating exports. These developments, together with a decline in domestic expenditure and a decline in the price of imported crude oil, contributed to an increase in the trade balance during the second quarter of 2001. This increase, however, was offset by a widening of the deficit on the services and income account because of higher net dividend payments to the rest of the world. As a result, the surplus on the current-account of the balance of payments declined slightly from a seasonally adjusted and annualised value of R6,9 billion in the first quarter of 2001 to R6,3 billion in the second quarter.

A deficit of R3,8 billion on the financial account of the balance of payments in the first quarter of 2001 was turned into a surplus of R5,6 billion in the second quarter. This change in the second quarter was mainly brought about by the restructuring of the shareholding in the De Beers mining company. This transaction resulted in a large net inflow of direct investment capital, which was partly neutralised by an outflow of portfolio and other investments.

The joint effect of the surpluses on the current and financial accounts of the balance of payments was an increase of R8,0 billion in the gross gold and other foreign reserves of the country in the second quarter of 2001. These strong inflows of capital and the government's bond issue in the Samurai market in July, allowed the Reserve Bank to reduce its net oversold position in foreign currency further from US$9,4 billion at the end of March 2001 to US$4,8 billion at the end of July 2001. Further increases in the country's gross international reserves during August can be attributed to the proceeds of the US$1,5 billion syndicated loan of the Reserve Bank and National Treasury, the proceeds of which were delivered in the foreign-exchange market. This led to a reduction in the Bank's oversold forward book. Should the National Treasury decide to assume the role of borrower of this facility, the Bank's net oversold position in foreign currency will decrease further.

Monetary policy

South Africa has been able to withstand the inflationary consequences of rising international oil prices and a sharp depreciation in the external value of the rand. Despite these developments, inflation in consumer prices moderated meaningfully in the first half of 2001. The year-on-year rate of increase in the consumer price index for metropolitan and other urban areas excluding mortgage cost (CPIX) declined from 8,2 per cent in August 2000 to 6,0 per cent in August 2001. This favourable outcome was largely related to low increases in unit labour cost, no signs of excess aggregate demand, surplus production capacity in the economy, fiscal prudence, moderate credit growth, sound monetary discipline and recent declines in petrol prices.

In contrast to the moderation in consumer price inflation, production price inflation has accelerated in recent months and remains stubbornly high. The year-on-year rate of increase in the all-goods production price index rose from a recent low of 8,1 per cent in April 2001 to 8,6 per cent in May, June and July. When omitting the moderating effect of relatively low rises in food prices, other production prices increased by 8,9 per cent in the year to July 2001. The year-on-year growth in the prices of imported goods slowed down from 15,0 per cent in December 2000 to 9,2 per cent in July 2001. The acceleration in production prices was therefore due to a rise in the prices of domestically produced goods from a year-on-year rate of 6,9 per cent in April 2001 to 8,2 per cent in July 2001.

An acceleration in domestic production prices could lead, after a while, to a more rapid increase in consumer prices if these prices are not neutralised by lower import prices or tighter retail margins. The recent attacks on the United States and the further depreciation of the rand seem to suggest that it is highly unlikely that import price inflation will continue to slow down. As already indicated, it is generally feared that international oil prices will remain firm in the coming months, which could place pressure on import prices. Despite the fact that the Reserve Bank's projections indicate that the rate of increase in the CPIX should fall within the target range of 3 to 6 per cent if all other things remain the same, there are also other important risks for inflation. These include an acceleration in the growth of money supply, continued high rates of increase in administered prices, and greater pressure from the trade union movement for wage increases in excess of the current inflation rate.

Statement of the Monetary Policy Committee

15 November 2001

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

The Monetary Policy Committee carefully assessed recent international and domestic economic developments at its meeting on 14 and 15 November 2001 to decide on the appropriate monetary policy stance. Based on this analysis, the Committee decided to maintain the current monetary policy stance. In arriving at this decision, the following developments were regarded as important:

International economic developments

Since the previous meeting of the Monetary Policy Committee it has become apparent that the tragic events in the United States on 11 September 2001 have exacerbated the economic downturn in most countries. After this incident, consumer and business confidence deteriorated considerably in the United States and Europe while economic conditions remained depressed in Japan. International tourism declined and most airlines suffered major losses. The generally negative sentiment heightened the risk of a more prolonged downturn in the world economy.

In the United States, production contracted for the first time since 1993 at an annualised rate of 0,4 per cent in the third quarter of 2001 and an even more severe decrease is expected for the fourth quarter. Consumer confidence in October dropped to its lowest level in almost 8 years, while unemployment continued to rise. In the euro area, the growth in real gross domestic product was down in the second quarter of 2001, with a substantial further downturn in industrial production. In contrast to these developments, the real gross domestic product of the United Kingdom is estimated to have grown at a seasonally adjusted and annualised rate of 2,4 per cent in the third quarter, up from the 1,8 per cent recorded in the second quarter of 2001.

The economic downturn in the United States and the continued poor performance of the Japanese economy had a negative effect on the East Asian economies. Countries such as Hong Kong, Malaysia, Singapore and Taiwan are experiencing negative growth rates. On top of this the Argentina debt problems continue to impact negatively on Latin America in particular, and emerging markets in general. The attack on the United States resulted in reduced access to global financial markets and a deeper decline in international commodity prices. In contrast to what had at first been expected, the downturn also led to a significant decline in the demand for crude oil, and international oil prices reached a two-year low. The Organisation of Petroleum Exporting Countries (OPEC) is finding it increasingly difficult to keep the oil price between its chosen band of US$22 and US$28 per barrel, despite indications of a further cut in the production quota.

In reaction to the international slowdown, most countries have adopted a more lenient fiscal and monetary policy stance. Many countries have announced tax reductions, increased government expenditure and reduced their interest rates. The Federal Funds rate in the United States has been lowered to only 2 per cent, its lowest level in forty years. If the inflation rate is taken into account, the real federal funds rate is negative. Other central banks that have lowered official rates since the previous meeting of the Monetary Policy Committee include those of the United Kingdom, the euro area, Canada, Switzerland, Australia, New Zealand, Hong Kong, Taiwan, Hungary and Poland.

Real domestic economic developments

At first the downturn in economic activity hardly affected the South African economy. In fact, growth in the real gross domestic product rose from an annualised rate of 2 per cent in the first quarter of 2001 to 2½ per cent in the second quarter. However, a sharp decline in exports has led to a considerably lower estimate for growth in the third quarter. The slowdown in real economic activity was broadly based. Output in the primary sectors and manufacturing declined, and slower growth was recorded in the real value added by almost all the major sectors in the economy.

Despite the slowdown in aggregate production, real gross domestic expenditure increased in the third quarter of 2001, following a decline of 2 per cent in the preceding quarter. The driving force behind the increase in domestic spending in the third quarter was a strong performance in real domestic final demand and a more modest decline in inventories. Household consumption expenditure and gross fixed capital formation continued to increase strongly. However, lower increases in the operating surpluses of business enterprises led to a further decline in the domestic saving ratio.

On the labour front, there were tentative signs of a bottoming out in the rate of decline in employment in the formal non-agricultural sectors of the economy. This seems to be confirmed by the more stable official unemployment rate recorded over the past year. Although work stoppages and industrial stayaways affected production, increases in labour productivity continued to moderate the increase in labour costs. On average, nominal unit labour cost rose by about 3½ per cent in the first half of 2001 compared with the same period in the preceding year.

Domestic monetary and fiscal conditions

Growth in the broadly defined money supply remained brisk in the third quarter of 2001. Quarter-to-quarter growth has been in the double-digit range since the fourth quarter of 2000, and amounted to a seasonally adjusted and annualised rate of 17,0 per cent in the third quarter of 2001. Twelve-month growth in M3 also accelerated considerably from 9,2 per cent in January 2001 to 17,9 per cent in August, but then receded somewhat to 14,5 per cent in September. Moreover, the recent strong rise in the supply of money occurred in long as well as shorter-term deposits, the latter normally being associated with a rise in domestic expenditure.

The growth in total domestic credit extension by the banking sector slowed down from a twelve-month rate of increase of 10,4 per cent in December 2000 to 6,7 per cent in September 2001. This mainly reflected a rise in government deposits with banks, together with a decline in the gross claims of the government over the past 18 months. Credit extension to the private sector was less subdued, recording twelve-month rates of increase straddling the 10 per cent level over the past year and registering 9,6 per cent in September 2001. Growth in mortgage advances, instalment sale credit and leasing finance remains brisk, while the increase in other loans and advances is also starting to pick up. The recent increases in private-sector credit extension by the banks are probably related to the financing of international trade.

The government's *Medium Term Budget Policy Statement* of 30 October 2001, reaffirmed the prudent principles adhered to by the fiscal authorities. Although higher increases in social and infrastructural expenditure have been projected, strong growth in government revenue collection is forecast to maintain low deficits. The national government deficit for 2001/02 is now estimated at 2,3 per cent of gross domestic product, i.e. somewhat lower than an earlier budget projection of 2,5 per cent in February 2001. This deficit is then expected to increase slightly to 2,6 per cent in the fiscal year 2002/03, before receding again somewhat. The total public-sector borrowing requirement is also estimated at a magnitude of less than 2,5 per cent of gross domestic product in the current and each of the next three fiscal years. Moreover, the financing of these deficits should not present any problems. All budget parameters therefore remain conservative and supportive of the inflation target path.

Domestic financial markets

Turnover in the bond market remained high with record transactions of R3,3 trillion in the third quarter of 2001. The market was characterised by strong demand from domestic investors and net sales by non-residents. Foreign sales started in early 2000 and persisted in 2001, with market sentiment strongly influenced by concerns about emerging-market stability, political events in other parts of Africa and the protracted weakness of the rand. At the same time, bond yields moved to eighteen-year lows in October and early November 2001, with the R153-bond, for example, trading at 10,10 per cent on 14 November 2001.

Activity in the secondary share market remained brisk in the first ten months of 2001 and foreign investor sentiment was bullish. Reflecting their underlying optimism about future economic prospects, non-residents' net purchases of shares totaled R25,8 billion over this period, compared with R17,4 billion in 2000 as a whole. As a result, domestic share prices rose by 4,5 per cent from the beginning of 2001 up to 10 September, in contrast to the poor performance of most other stock exchanges. Following the World Trade Center attacks, share prices fell by nearly 15 per cent until 21 September 2001. Subsequently they recovered again by about 24 per cent up to 14 November 2001.

After following the lowering of the repo rate by 50 basis points, money market rates have been fairly stable. The SAONIA rate currently fluctuates at a level of 60 to 80 basis points below the Bank's repo rate, whereas other interbank funding fluctuates between about 100 and 125 basis points below the repo rate.

Turnover in the real-estate market slowed somewhat in the first seven months of 2001, but was firmer in August and September. This brought the estimated value of transactions in the first nine months of the year to a level that was 15 per cent higher than in the corresponding period of 2000. Year-on-year increases in nominal house prices moved down, but remained in the double-digit range in the third quarter of 2001.

Balance of payments and exchange rate developments

The current account of the balance of payments (seasonally adjusted and annualised) changed from a surplus of R6,3 billion in the second quarter of 2001 to a provisionally estimated deficit of just more than 1 per cent of gross domestic product in the third quarter. This deterioration in the current-account balance was mainly the result of a substantial decline in exports, related to weak international demand and lower international commodity prices.

Despite considerable leads and lags in foreign payments and receipts and speculation against the exchange rate of the rand, a surplus was nevertheless recorded on the financial account of the balance of payments in the third quarter of 2001. Capital inflows during the third quarter could mainly be attributed to non-residents' net purchases of domestic equities listed on the share market, foreign direct investments and the government's borrowing on international capital markets.

The deficit on the current account was fully offset by a surplus on the financial account, leaving the net international reserves of the country nearly unchanged in the third quarter of 2001. Revaluation gains resulting from the depreciation of the rand and a syndicated loan of the central bank and government caused the gross gold and other foreign reserves to increase sharply. Import cover therefore improved from about 16 weeks' worth of imports of goods and services at the end of June 2001 to 20 weeks at the end of September 2001 – its highest level ever recorded.

This relatively sound overall balance-of-payments position notwithstanding, since 11 September the rand has depreciated from R8,54 against the dollar to R9,70 on 14 November 2001. The decline in the nominal effective exchange rate of the rand since the beginning of the year is approximately 19 per cent as at 14 November 2001.

Monetary policy

The global economic slowdown and lower oil and other international commodity prices have helped to subdue domestic inflationary pressures in recent months. As a result, inflation has moderated meaningfully in all the broad measures of price change.

Over periods of twelve months, overall consumer price inflation in metropolitan and other urban areas, excluding interest cost on mortgage bonds, i.e. CPIX, declined from 8,2 per cent in August 2000 to 5,8 per cent in September 2001. Calculated from quarter to quarter and expressed at seasonally adjusted and annualised rates, the rate of increase in CPIX rose from 4,5 per cent in the second quarter of 2001 to 5,8 per cent in the third quarter. This rate still falls within the target range of between 3 and 6 per cent set for 2002 and 2003. Food prices contributed materially to the acceleration in CPIX inflation in the third quarter of 2001, but there was a modest acceleration in price growth even when omitting food prices from the index.

Production price inflation has also slowed down in recent months. The twelve-month rate of increase in the all-goods production price index declined from 10,0 per cent in December 2000 to 7,8 per cent in September 2001. The recent slowdown in production price inflation resulted mainly from lower international prices of crude petroleum. If energy is excluded, the twelve-month rate of increase in production prices fluctuated around 8 per cent in the first nine months of 2001. This was largely due to stable rates of increase in the prices of domestically produced goods over this period.

Most of the factors favourable for the containment of inflation in the coming months, which were outlined in the previous Monetary Policy Statement, still apply. Downward pressure on price increases is largely related to low increases in unit labour cost, subdued inflation in trading-partner countries, surplus production capacity in the economy, continued adherence to fiscal and monetary discipline, moderate credit growth and the recent decline in oil prices. Moreover, the deterioration in the current account of the balance of payments in the third quarter of 2001 was not due to excess demand conditions but rather to a weaker international demand for South African goods. The Reserve Bank projections therefore indicate that the inflation target for 2002 will be met.

The risk of higher inflation has, however, increased since the previous meeting of the Monetary Policy Committee. The weighted exchange rate of the rand against a basket of currencies has now declined substantially. To a large extent the effect of the depreciation of the rand has been absorbed by reduced labour costs and lower profit margins. The growth in operating surpluses of business enterprises has declined considerably in the third quarter of 2001. An expected lower demand for goods and services might lead to a further squeeze on profit margins. In the recent round of wage negotiations, wage settlements were higher than the inflation rate. In the event that wage growth exceeds productivity gains, pressure will be exerted on inflation.

Following the recommendations of the Joint Technical Committee on Inflation Targeting composed of officials of the South African Reserve Bank and the National Treasury, agreement was reached between the South African Reserve Bank and the Government on inflation targets for the period 2003 to 2005. For 2003 the inflation target is to remain at 3 to 6 per cent, while for 2004 and 2005 it is to be lowered to 3 to 5 per cent. These targets will be taken into account in all future monetary policy decisions.

Notes to tables

Selected money-market and related indicators – S-26

Since 1988, the Reserve Bank has introduced a number of new instruments in its money market operations which are shown in this table. The new information replaces the Reserve Bank transactions in government stock and options which were undertaken while the Reserve Bank acted as market-maker in government securities. Prior to April 1998 the Reserve Bank had acted as the government's agent in the issuance of debt securities in order to fund the budget deficit. In that month, the government moved to a primary dealership system for the issuance of its debt securities, in which weekly auctions are held with only the officially appointed primary dealers.

Balances in respect of the main instruments used by the Reserve Bank for draining liquidity from the money market are now introduced to Table S-26 and cover the following:

- Money-market swaps with foreign-currency deposits;
- Reserve Bank debentures; and
- reverse repurchase agreements.

Money-market accommodation – S-27

On 28 August 2001, the Governor of the Reserve Bank announced changes to the Bank's operational procedures in the money market for implementation on 5 September. These changes were fully described in the September 2001 *Quarterly Bulletin* and have in turn necessitated some changes to Table S-27.

Short-term insurers – S-38 and S-39

The assets, liabilities and income statement of short-term insurers have been revised from June 1996 onwards to exclude the Road Accident Fund, having been reclassified as a social security fund.

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

Direct investment equity capital has been sub-divided into equity capital and reinvested earnings.