Quarterly Bulletin

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South African Reserve Bank

Quarterly Economic Review

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Quarterly Economic Review

Introduction

World economic growth decelerated noticeably towards the end of last year. In the United States the long period of robust economic expansion almost ground to a halt in the fourth quarter of 2000. Growth recovered somewhat in the first quarter of this year but it is not at all certain whether these slightly better economic conditions will herald a phase of renewed expansion. To date, the euro area has not been affected much by these events, but growth projections for this area by the International Monetary Fund and other reputable forecasting agencies are constantly being scaled down.

Towards the end of 2000 the South African economy, probably because of its closer ties with the euro area, had not been seriously affected by the world economic downturn. However, by the end of the first quarter of 2001 it became clearer that the domestic economy would probably be affected adversely by the cooling down of economic activity in the big economies of the world.

The country's apparent isolation from the global slowdown ended when weaker international demand conditions affected export volumes in the first quarter of 2001. However, the fall in the value of the rand cushioned the full impact of the weakening of the global economy on the domestic economy, preventing a decline in the nominal value of exports.

The recorded decline in export volumes contributed to a slowing down in domestic economic growth from 3 per cent in the fourth quarter of 2000 to 2 per cent in the first quarter of 2001. Growth had already slowed down from 4 per cent in the third quarter of 2000 to 3 per cent in the fourth quarter, but that slowdown had essentially been restricted to the agricultural sector. In the first quarter of 2001 the weakness in the economy spread to other sectors of the economy, and the goods-producing sectors in particular were materially affected.

Aggregate domestic demand remained surprisingly strong and outstripped aggregate output in the first quarter of 2001. Consumption expenditure by households and general government continued to rise steadily, but the growth in real fixed capital formation and inventory investment accelerated, signalling a positive attitude among producers about future growth prospects for the South African economy. Unlike many previous recoveries when heightened investment activity had been concentrated in a few mega projects, growth in investment activity was spread fairly evenly over the various production sectors of the economy during this period.

There was a further shift in the distribution of income towards gross operating surpluses. Against the backdrop of slowing growth and evidence of wage moderation, it seems that some producers, at least, widened their operating margins.

Despite some improvement in gross saving, the national saving rate remained rather low in the first quarter of 2001. General government, focusing primarily on sound fiscal management and spending containment, made a positive contribution to gross saving, but the overall quantum of saving is still too low to sustain rapid growth in the medium term.

The benefits of the current recovery in domestic economic activity spread to the labour market when employment in the formal private sector, apart from agriculture, increased in the fourth quarter of 2000. This was only the third such increase in the past six years. By contrast, public-sector employment declined further as government organisations maintained their focus on decreasing the cost and improving the efficiency of public-service delivery. Regrettably, the decline in public-sector employment outweighed the small increase in employment in the private sector.

It is important to note that shrinking employment in the formal sectors of the economy does not necessarily imply a corresponding increase in the number of unemployed people. Some of those who are no longer employed in the formal sectors will have found work or created employment in the informal sector or in industries not captured in the employment statistics.

The growing under-utilisation of labour resources is steadily compressing a rise in the cost of labour. Salary and wage increases in the private sector during 2000 fell to rates last seen some thirty years ago. At the same time, the growth in productivity was at an exceptionally high level, in part due to the shedding of labour in the formal sectors and because of efficiency-enhancing investments in the business sector. Wage moderation and robust productivity gains jointly reduced growth in unit labour costs, especially in the manufacturing sector, to levels consistent with very low price inflation.

The relative stability of unit labour costs more than offset the upward price pressures emanating from the depreciation of the rand and high international petroleum prices. Quarter-to-quarter CPIX inflation fell to 6,1 per cent in the first quarter of 2001. Year-on-year CPIX inflation, which has to attain a level of below 6 per cent on average in 2002 in order to meet the inflation target set by government, fell by 150 basis points from August 2000 to April 2001, but was still some 70 basis points higher than the upper end of the inflation target range. Furthermore, there are still some inflationary processes at work in the economy which may disrupt the gradual downward movement to lower inflation levels. For example, a consistently strong recovery in aggregate demand may disturb the current balance between aggregate supply and demand, and this together with stubborn administered prices would give fresh impetus to a rise in the currently waning inflationary process.

Demand for imports remained solid, reflecting the underlying strength of growth in gross domestic expenditure. But in this instance the pricing effects of the depreciation of the rand helped to avoid excessive growth in the volume of merchandise imports. Payments for imported goods rose somewhat but an abrupt fall in dividend payments to the rest of the world, ensured that the current account of the balance of payments remained decisively in surplus.

Financial flows continued to leave the economy on a net basis. There was some inward foreign direct and portfolio investment as foreign firms and investors bought into South African companies, but these were effectively swamped by an outflow of funds committed by resident economic entities to the accumulation of assets offshore. In the end, the country's net international reserves declined slightly, largely explaining the generally weaker exchange rate of the rand during the first quarter of 2001. Over the past eighteen months or so, the depreciation of the rand has exceeded by a substantial margin the inflation differential between South Africa and its major trading-partner countries, boosting the competitiveness of domestic producers in export markets.

Broad money growth accelerated quite noticeably in the first quarter of 2001, reflecting the relative strength in aggregate nominal domestic demand. By contrast, aggregate domestic credit extension by banks slowed down, especially banks' claims on the private business sector, which eased from the high levels recorded in the fourth quarter of 2000. But there were signs of renewed vigour in private households' demand for bank credit, and mostly for asset-backed lending such as mortgage financing, leasing and instalment sales financing.

The Monetary Policy Committee of the Reserve Bank decided to keep the Bank's official rate on repurchase transactions unchanged at 12 per cent throughout the first five months of 2001. The official rate was last raised by 25 basis points in October 2000. Other money-market interest rates broadly moved in tandem with the repurchase rate and similarly displayed a fair degree of stability over the past quarter. Nine-month interest-rate futures contracts have recently signalled that markets now expect the official repurchase rate to fall later in the year.

Long-term interest rates, measured by rates at the ten-year horizon, generally fell during 1999 and 2000, with further reductions since the beginning of 2001. Also, estimates of long real yields fell virtually in tandem, reflecting an improved outlook for the balance between domestic saving and investment.

Prominent among the reasons behind the steady decline in real long-term interest rates is the decline in the public-sector borrowing requirement over the past seven years or so. The reduction in the market for bond financing by the public sector was only partly filled by corporate borrowing. The demand for equity financing dwindled too in the early months of 2001, adding further to the better balance between aggregate saving and investment.

Price developments in the international securities markets, especially in the markets for equities, influenced the movements in prices on the JSE Securities Exchange SA. Fairly volatile price movements in the international markets were reflected in domestic share price movements. Non-residents participated eagerly in these lively trading conditions, pushing their share in total turnover on the domestic equity market to 40 per cent in the first few months of 2001 from an average of less than 30 per cent in 2000. Simultaneously, investors increasingly sought protection against capricious market behaviour, and turnover in the derivatives market boomed in the first quarter of 2001.

Sound management at the macro level continued to characterise the public finances during the 2000/01 fiscal year. Actual expenditure by national government for the full fiscal year was very close to the spending total projected by the Minister of Finance in February 2000. National government revenue, once again, exceeded earlier expectations by a considerable margin, reducing the absolute size of the budget deficit to a level well below that which had been expected when the original budget proposals were presented to Parliament. Growth in public-debt servicing costs was also well contained and the primary surplus of national government (i.e. the fiscal balance recalculated by excluding interest expenses) increased relative to gross domestic product, effectively allaying any lingering fears that public finances might become caught in a debt trap.

Overall there are grounds for optimism about the future growth prospects of the South African economy. Reasons for optimism are that

- the economy has been in a recovery phase of the business cycle since about the third quarter of 1999, yet it has not developed any of the usual imbalances (e.g. balance-of-payments problems and renewed inflationary pressures) so typical, in the past, of economic expansions;
- inflation has been moderate and appreciably lower than during previous recoveries, as has been the growth in unit labour costs;

- the levels and growth of asset prices (equities, fixed-interest securities and real-estate) are evidently not excessive;
- the balance sheets of banks and other financial intermediaries are sound;
- the exposure of the corporate sector to external debt does not pose any serious threat;
- the financial position of the household sector is far healthier than in previous expansions and bankruptcies of individuals have fallen sharply;
- private fixed-capital formation is rising but there is apparently no danger of creating excess capacity;
- the deficit on the current account of the balance of payments was turned into a surplus, most notably by the expansion in export earnings; and
- the exchange rate of the rand has fallen to a level where domestic producers can compete aggressively in export markets.

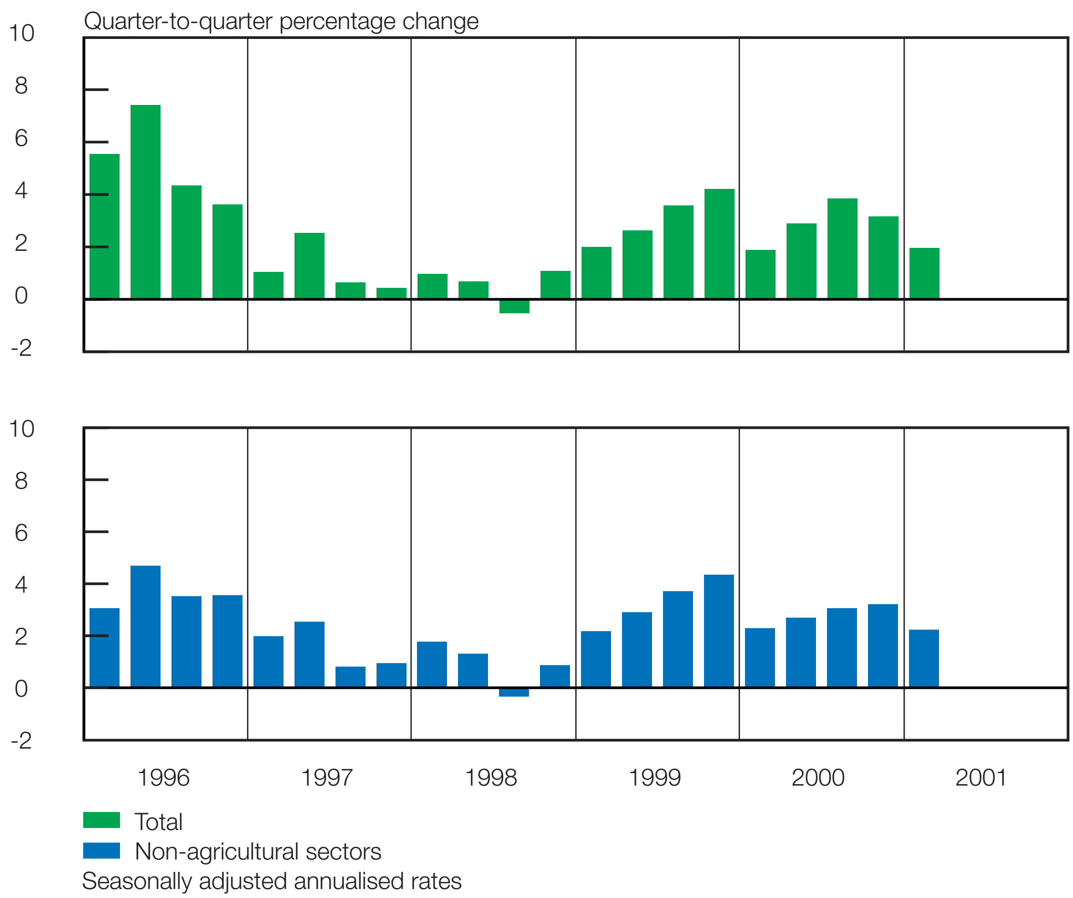
Even though the outlook is positive, there is still the danger that a global economic slowdown could harm domestic economic activity. Inflation has abated, but is still higher than in trading-partner countries and higher than the upper end of the target range set by government for 2002. Proactive steps to minimise the risk of slower economic growth have to be carefully balanced against achieving enduringly lower inflation.

Domestic economic developments

Domestic output

The growth in the seasonally adjusted real gross domestic product slowed down from an annualised rate of about 3 per cent in the fourth quarter of 2000 to 2 per cent in the first quarter of 2001. Economic growth had also slowed down in the fourth quarter of 2000 but then the slowdown had been mainly confined to the agricultural sector; the non-primary sectors of the economy had continued to expand at fairly solid rates. In the first quarter of 2001, however, the weakening of activity spread far wider over more sectors of the economy, with the exception of the financial services sector where growth continued robustly.

Real gross domestic product



Agricultural output shrank at an annualised rate of 6 per cent in the first quarter of 2001, still adjusting to more "normal" production conditions following the exceptionally strong expansion in the third quarter of 2000. Real output by the *mining sector* increased slightly but this was not nearly sufficient to restore output to the levels that had prevailed at the beginning of 2000. The demand for and output of platinum and coal held firm in the first quarter of the year, and diamond production expanded as stockpiling continued in the face of weaker demand conditions.

The slower pace of economic expansion was nowhere more obvious than in the *manufacturing sector* where the growth rate tumbled from an annualised level of 4½ per cent in the fourth quarter of 2000 to just 1 per cent in the first quarter of 2001. This slowdown is incongruent with the apparent strength of the overall demand for manufactured goods. This disparity between firm demand growth and weaker manufacturing output was also reflected in a steep increase in the overall value of unfilled orders. Ample unused capacity is still available in the manufacturing sector, providing scope for an output expansion which might reduce the backlog of unfilled orders in the near term.

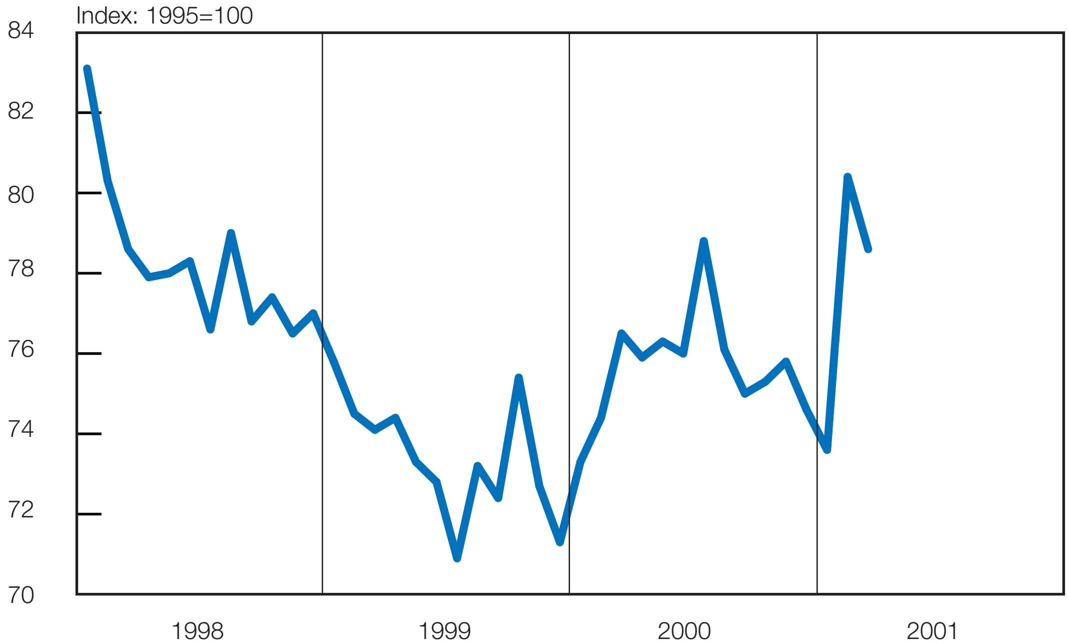
Real gross domestic product

Percentage change at seasonally adjusted annualised rates

	2000					2001
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sectors	-5	1	8	½	½	-2
Agriculture	-8½	7½	24	1	4	-6
Mining	-3	-3½	-2½	½	-2	1
Secondary sectors	2	2	3½	4½	3	1
Manufacturing	2½	2½	4	4½	3½	1
Tertiary sectors	3	3½	3½	3	3½	3
Non-agricultural sectors	2½	2½	3	3	3	2
Total	2	3	4	3	3	2

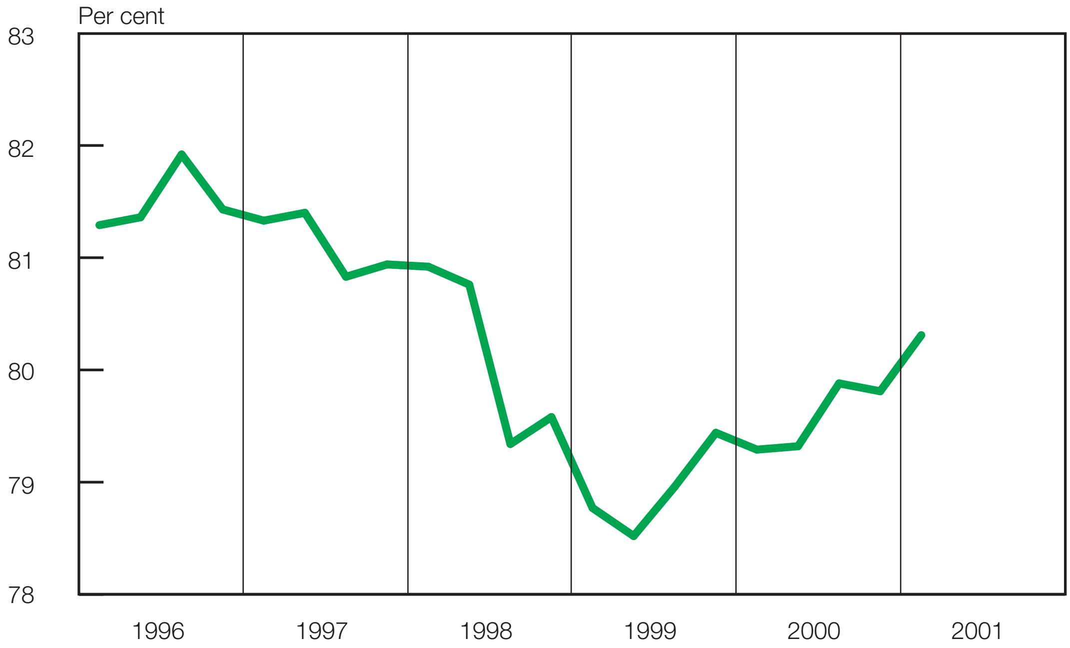
The slowdown in overall economic activity was also reflected in weak growth in the demand for electricity. There was almost no growth in the real value added by the sector supplying *electricity, gas and water* from the fourth quarter of 2000 to the first quarter of 2001. Activity in the *construction sector* was still rather lacklustre and real

Total monthly unfilled orders



Seasonally adjusted

Utilisation of production capacity in manufacturing



Seasonally adjusted

value added expanded at a rate of just 1½ per cent in the first quarter of 2001. A number of shopping complexes and entertainment centres had been completed towards the end of 2000, and new projects were slow to get under way in the early part of 2001.

Although still fairly vigorous, growth in the *commercial sector* fell back from a seasonally adjusted and annualised rate of 4½ per cent in the fourth quarter of 2000 to 3 per cent in the first quarter of 2001. The *retail sector,* in particular, was negatively affected. A change in household spending patterns may also be occurring as cellular telephones, lottery tickets and security services are apparently absorbing a greater proportion of the disposable income of households at the expense of more traditional non-durable and semi-durable items.

The *motor trade* remained buoyant in the first quarter of 2001. Domestic demand for motor cars by private individuals, car rental companies and the business sector strengthened perceptibly. Exports of motor vehicles were lively regardless of slower world economic growth. Easier access to information through the Internet is allegedly contributing to the vibrancy of the motor trade, especially of trading in the used-car market.

The weakening of harbour and dock activity, reflecting lower export and import volumes, was demonstrated by a slowdown in growth in the real value added by the *transport, storage and communication sector* from 6½ per cent in the fourth quarter of 2000 to 4½ per cent in the first quarter of 2001. By contrast, growth in real output by the *financial intermediation, insurance, real-estate and business services sector* accelerated slightly from 3½ per cent in the fourth quarter of 2000 to 4½ per cent in the first quarter of 2001. Private banks, securities trading and businesses in the real-estate sector contributed most to the higher level of activity in this broader grouping of economic sectors.

Domestic expenditure

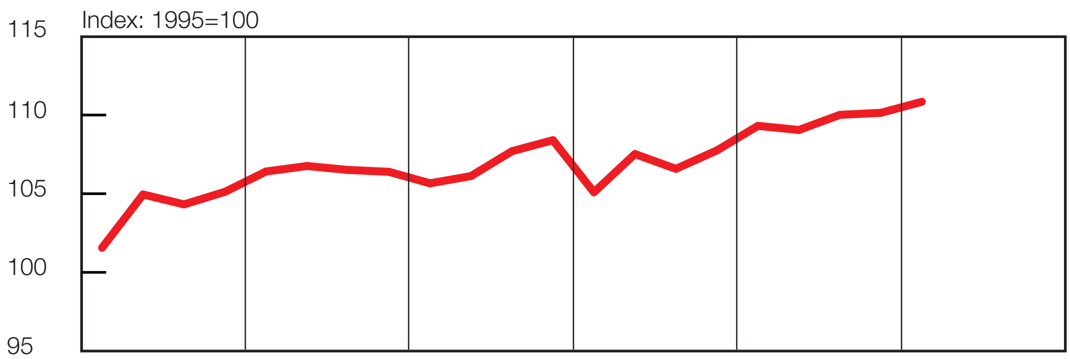
Growth in aggregate real gross domestic expenditure outpaced domestic production by a substantial margin in the first quarter of 2001: compared with annualised output growth of 2 per cent, expenditure grew at a rate of 2½ per cent. Furthermore, and in contrast to output growth which slowed down, annualised growth in aggregate expenditure picked up from ½ per cent in the fourth quarter of 2000 to 2½ per cent in the first quarter of 2001.

Real gross domestic expenditure

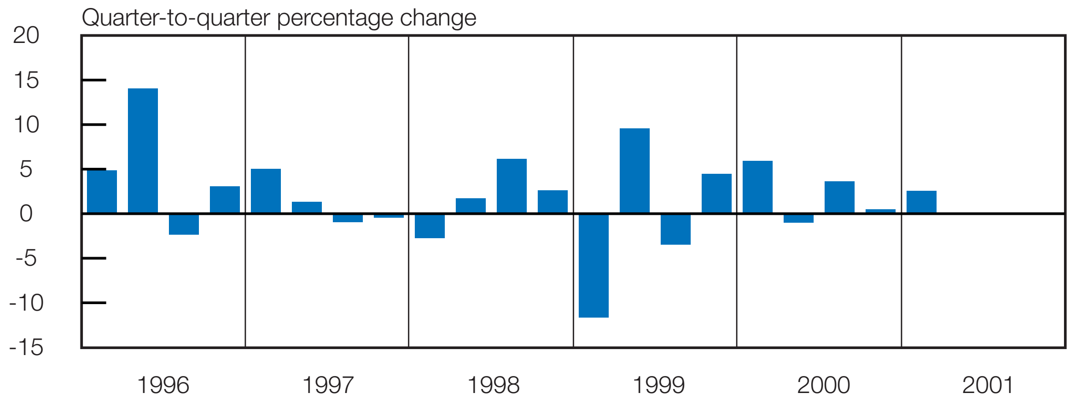
Percentage change at seasonally adjusted annualised rates

	2000					2001
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure by households.....	3½	3	3½	3½	3	3
Final consumption expenditure by general government	-7½	1	1	1½	-2½	1½
Gross fixed capital formation	2½	3	6	6½	1½	8
Change in inventories (R billions)	8,1	2,4	4,7	0,4	3,9	1,8
Gross domestic expenditure.......................	6	-1	3½	½	2½	2½

Real gross domestic expenditure



Seasonally adjusted



Seasonally adjusted annualised rates

All the major components of total expenditure gained or at least maintained momentum into the first quarter of 2001, except for real final consumption expenditure by households. The growth in real household consumption expenditure slowed down from an annualised rate of 3½ per cent in the fourth quarter of 2000 to 3 per cent in the first quarter of 2001.

The slight weakness in household spending was mostly confined to *spending on services* other than communication services. The slowdown in real payments for services was largely a response to a rapid rise over the past year in the prices of household services. Increased utilisation of the telecommunications network, especially of the cellular telephone network, could not prevent the observed slowdown in real spending on services.

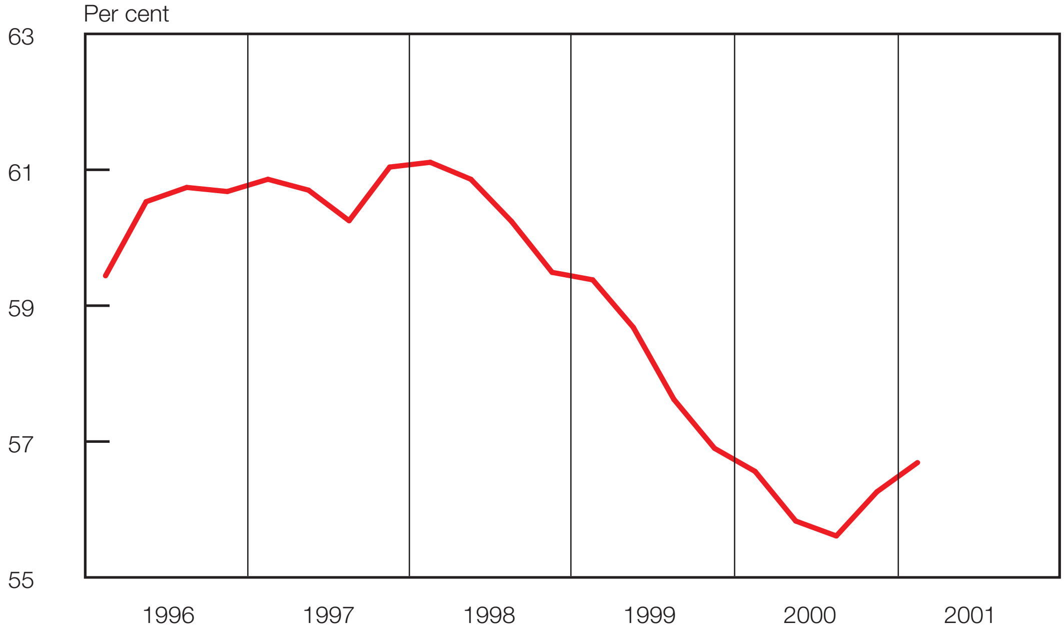
Growth in real household expenditure on *non-durable goods* continued at a rather sedate annualised rate of 1 per cent in the first quarter of 2001. Consumption of household fuel and power actually declined, probably because of the cost of paraffin. There is also reason to believe that spending on cellular phones, lottery tickets and security services is now absorbing household resources that were previously destined for spending on non-durable goods.

Real final consumption expenditure by households

Percentage change at seasonally adjusted and annualised rates

	2000					2001
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	9½	7	10	5	7	6
Semi-durable goods	7	5	4	4½	6	4½
Non-durable goods...............	1½	1	2	1	1	1
Services	3	3½	4	5	4	3½
Total	**3½**	**3**	**3½**	**3½**	**3**	**3**

Household debt as percentage of disposable income



Seasonally adjusted

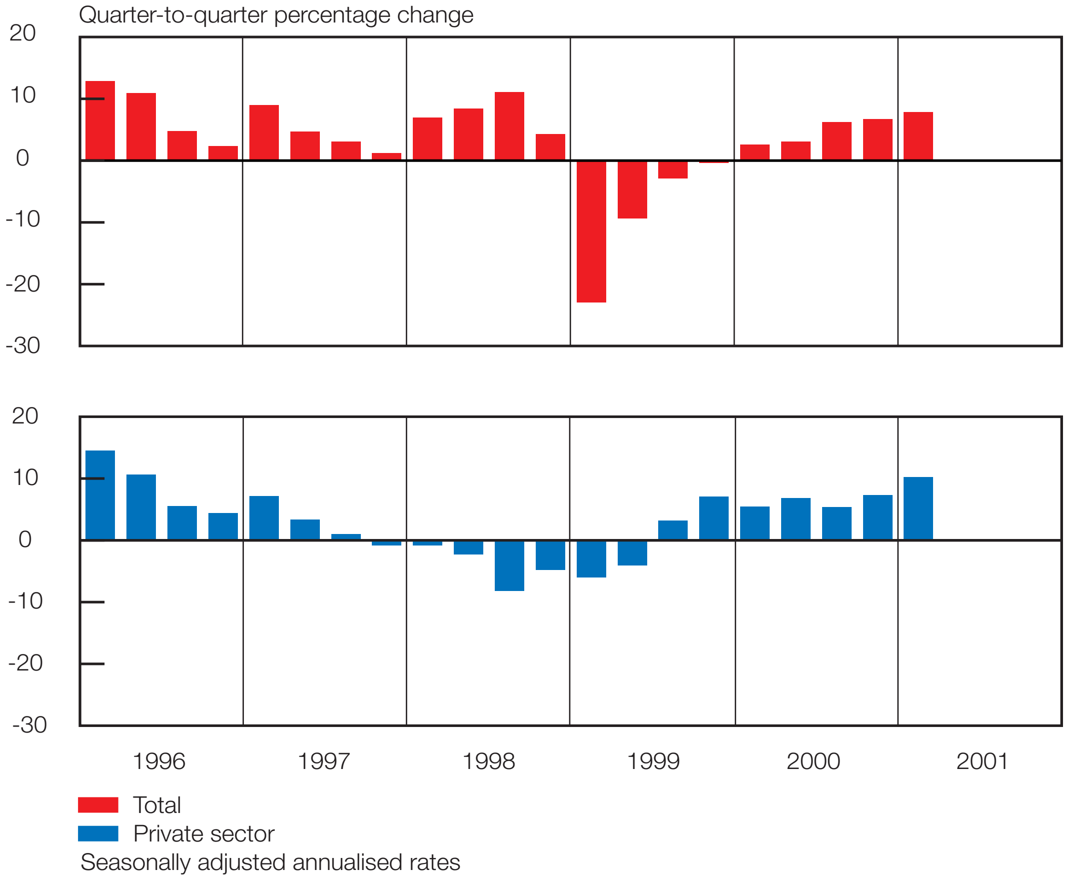
Real outlays on *durable goods* grew at annualised rates ranging from 5 to 10 per cent over the four quarters of 2000, and maintained their upward momentum at 6 per cent in the first quarter of 2001. Purchases of motor cars featured prominently in this spending spurt, probably driven by pent-up demand for luxury cars and pre-emptive buying ahead of price increases expected to follow the recent depreciation of the rand.

Generally, the growth in real final household expenditure was curbed somewhat by slower growth in real household disposable income. The potentially negative effects of the slowdown in household income on expenditure were to some extent softened by households' willingness to incur debt. Household debt as a percentage of disposable household income accordingly increased from 55½ per cent at the end of the third quarter of 2000 to 56½ per cent at the end of the first quarter of 2001.

Government's resolve to contain spending in the public sector was reflected in two consecutive quarterly increases of only 1½ per cent in the *final consumption expenditure by general government* bodies. These increases were mainly a result of growth in real expenditure on intermediate goods. Real outlays on labour compensation declined as public-sector employment continued to be whittled down. As a ratio of gross domestic product, final consumption expenditure of general government remained unchanged from the fourth quarter of 2000 to the first quarter of 2001 at a level of 18 per cent.

Growth in *real gross fixed capital formation* accelerated steadily from a seasonally adjusted and annualised rate of 2½ per cent in the first quarter of 2000 to 8 per cent in the first quarter of 2001. Fixed capital formation was at high levels in the private

Real gross fixed capital formation



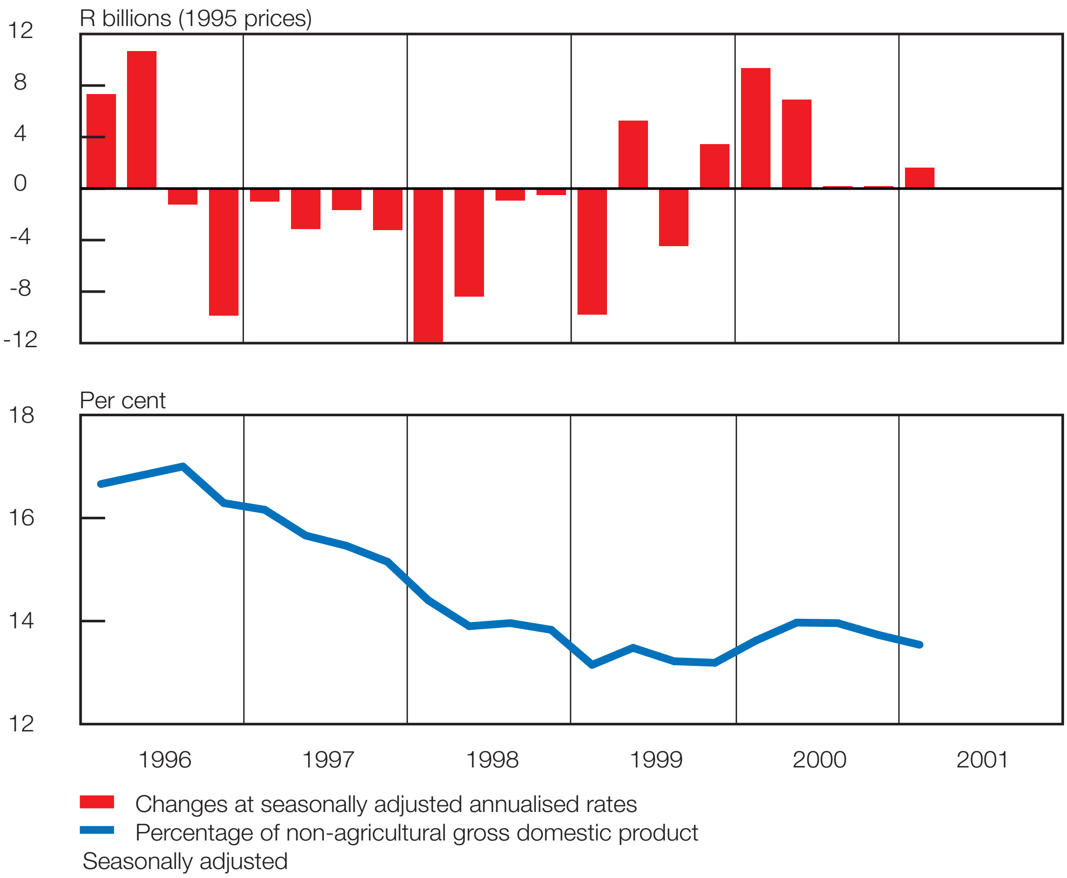
and general-government sectors in the first quarter of 2001, but declined in the public corporations sector. Relative to gross domestic product, total gross fixed capital formation is estimated at 15½ per cent in the first quarter of 2001, unchanged from the fourth quarter of 2000.

The acceleration in *private-sector fixed investment* was spread over a wide range of economic sectors but was particularly strong in agriculture, mining, communication services and residential construction. The strong improvement in farm incomes during the past production season enabled the agricultural sector to replace obsolete equipment and to add to productive capacity. The persistent growth in the demand for communication services called for the continued expansion of infrastructural facilities in the communication sector. In the mining sector, investment activity was seen mostly in the platinum subsector where international demand is expected to keep on growing. Residential fixed investment is still benefiting from the decline in interest rates since 1998.

Public corporations cut back on real fixed capital spending in the first quarter of 2001, but general government departments expanded their outlays on infrastructural expenditure, though from a very low base.

Inventory investment continued at a fairly brisk rate in the first quarter of 2001, probably in anticipation of further growth in aggregate final demand. Following the low level of net inventory investment in the fourth quarter of 2000, the increase in inventories in the first quarter of 2001 implied a substantial boost to the growth in real aggregate demand. Still, relative to the size of the economy, industrial and commercial inventory levels declined slightly.

Industrial and commercial inventories



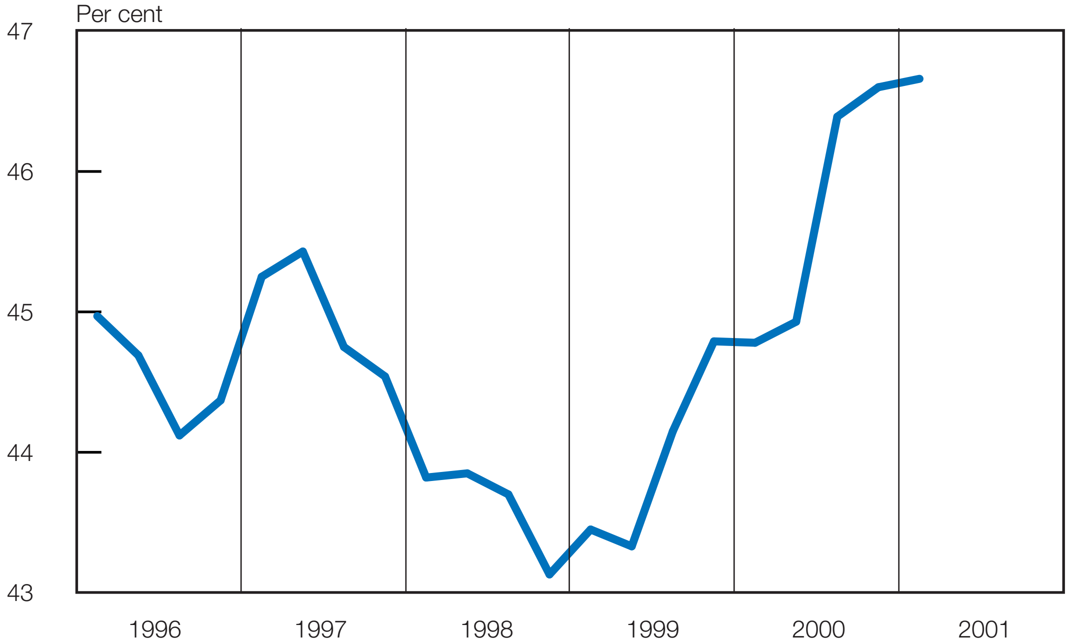
Factor income and saving

Nominal factor income increased by 11 per cent over the four quarters to the first quarter of 2001, maintaining the pace of growth seen in the previous quarter. Total compensation of employees in the first quarter of 2001 was 7 per cent higher than in the corresponding quarter of the previous year. Nominal gross operating surpluses, by contrast, rose by 15½ per cent in the year to the first quarter of 2001, implying a shift in overall factor rewards towards employers at the expense of employees' share.

Although operating surpluses rose considerably faster than labour compensation, the growth in nominal operating surpluses slowed down from the third quarter of 2000. Nevertheless, against the background of a slowdown in the growth in real output, and slower growth in labour compensation, the high growth in nominal operating surpluses may be interpreted as evidence of some widening in the operating margins of domestic producers. As a percentage of overall value added, gross operating surpluses have already increased from 43 per cent in the fourth quarter of 1998 to 46½ per cent in the first quarter of 2001.

Gross saving as a percentage of gross domestic product increased from 15½ per cent in the fourth quarter of 2000 to 16½ per cent in the first quarter of 2001. Saving by general government bodies, consistent with the overall improvement in public finances, contributed substantially to the better national saving performance. Though saving by general government improved, private-sector saving remained low, relative to the investment and growth needs of the economy. In the absence of steady inflows of foreign direct investment capital, the current saving rate is far too low to guarantee a sustainably high economic growth rate that will allow job creation at a pace that could make much difference to the pool of the unemployed.

Gross operating surplus as percentage of total factor income



Seasonally adjusted

Employment

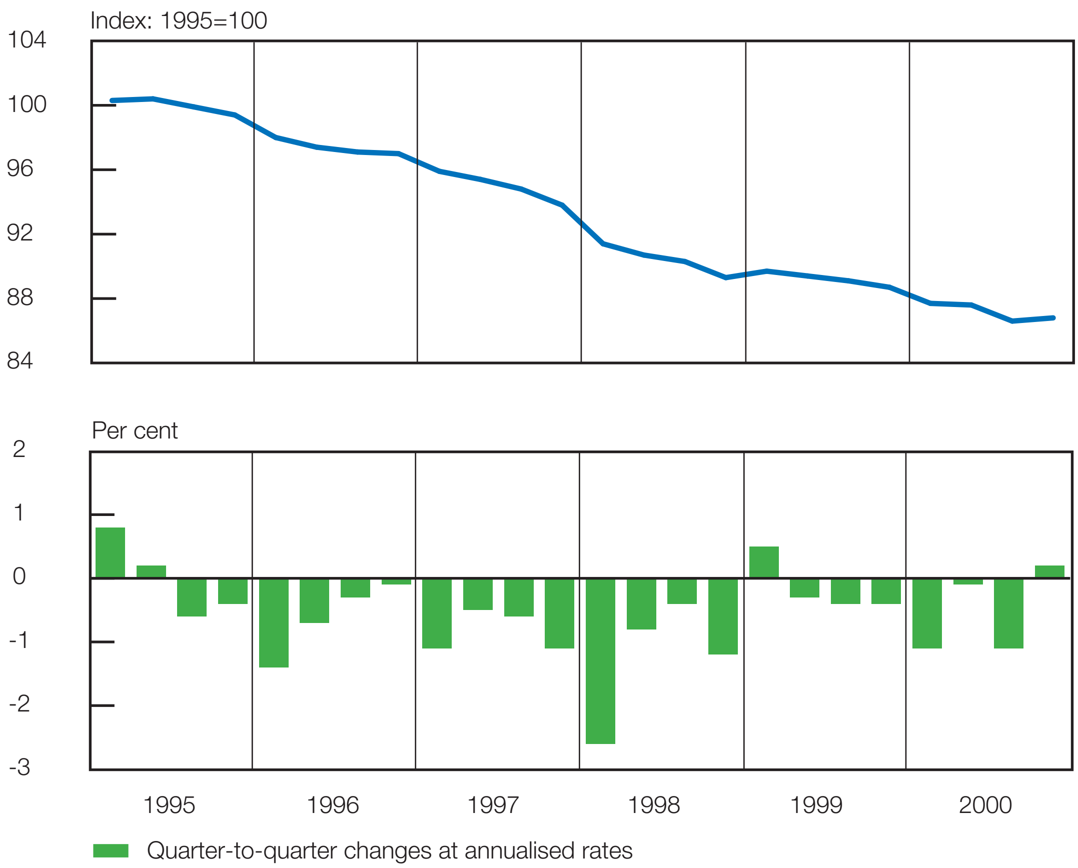
Overall employment in the *formal private sectors of the economy outside agriculture* increased at a seasonally adjusted and annualised rate of 0,9 per cent in the fourth quarter of 2000. This was the first such increase since the business cycle moved into an expansionary phase in the third quarter of 1999.

Year-to-year change in non-agricultural private-sector employment in 2000

Sector	Percentage change
Gold mining	-6,7
Non-gold mining	-3,5
Manufacturing	-1,3
Electricity supply	-6,4
Construction	-4,6
Trade, catering and accommodation services	-1,3
Transport, storage and communication*	2,3
Financial intermediation and insurance	-3,9
Washing and dry-cleaning services	-1,5
Total private sector	**-2,3**

* Non-governmental institutions only

Non-agricultural employment: private sector



The five-quarter delay in the employment response to an improvement in economic conditions is not unusual. In earlier cycles, employment levels usually strengthened only after economic conditions had been recovering for quite some time. Of particular significance was that the rise in employment was not confined to any specific sector of the economy but was fairly well dispersed over most of the major sectors of the economy.

Mainly because of the somewhat better employment situation in the private sector, the pace of decline in the regularly surveyed formal non-agricultural sectors of the economy slowed down from 3,7 per cent in the third quarter of 2000 to 0,4 per cent in the fourth quarter. The *average* level of total employment still fell by 2,9 per cent in 2000, following declines of 3,7 per cent in 1998 and 2,0 per cent in 1999.

The average number of jobs in the non-agricultural private sector declined by 2,3 per cent in 2000, compared with a decline of 1,3 per cent in 1999. Employment losses occurred in all the main sectors of economic activity, apart from the transport, storage and communications sector where a modest gain was recorded. Job losses were particularly severe in gold mining and in the electricity supply sector.

Employment declined more in the public sector than in the private sector during 2000. Average employment in the public sector was some 4,1 per cent down on the average level in 1999. There were job losses at all levels of the public service, i.e. at national government, provincial government and local government levels. A spate of resignations and early retirements, together with the termination of part-time contracts by universities, technikons and provincial governments, further aggravated the employment situation in 2000.

The total number of workdays lost on account of strikes and other work stoppages totalled 75 000 in the first quarter of 2001 – an estimated 25 000 fewer than in the first quarter of 2000. Andrew Levy and Associates expect strike activity to increase in the second quarter of 2001 as unresolved amendments to labour legislation and the approaching round of wage negotiations add to labour discontent.

The measurement of developments in the labour market has recently been overhauled. Statistics South Africa instituted a number of changes in the methodology of data collection and dissemination in order to enhance and improve the availability and comprehensiveness of labour market statistics. These changes include the following:

- The *Survey of Total Employment and Earnings* (STEE), which served as a source of official labour statistics, was renamed the *Survey of Employment and Earnings in Selected Industries* (SEE). This change was necessitated by the need to avoid possible misinterpretation of the term “total employment” which could have been incorrectly interpreted as referring to total employment in the country, instead of employment in a number of sectors in the formally organised modern economy.

- The annual *October Household Survey,* which was introduced as a means of collecting new social and economic statistics from the whole of South African society, was replaced by the *Labour Force Survey* (LFS). The LFS is a survey conducted twice a year to measure total employment and unemployment at a given point in time and to track changes in the labour market over time.

- The findings of the February 2000 LFS indicate an unemployment rate of 26,7 per cent of the economically active population. If discouraged workers are included in the pool of the unemployed, the unemployment rate would rise to 37,3 per cent.

Labour costs and productivity

There was a definite slowdown in the growth of *labour costs in the private sector* over the past year or so. Information obtained from the Automated Clearing Bureau on the salaries, wages and pensions deposited into the accounts of almost 5 million salaried and retired workers, indicates that nominal wage growth declined from 8,3 per cent in 1999 to 6,1 per cent in 2000. According to the Steel and Engineering Industries Federation of South Africa, the growth in actual labour costs in the steel and engineering industry slowed down from 8,8 per cent in 1999 to 5,3 per cent in 2000. Andrew Levy and Associates also report that the average rate of wage settlements in collective bargaining agreements declined from 8,3 per cent in the first quarter of 2000 to 6,8 per cent in the first quarter of 2001.

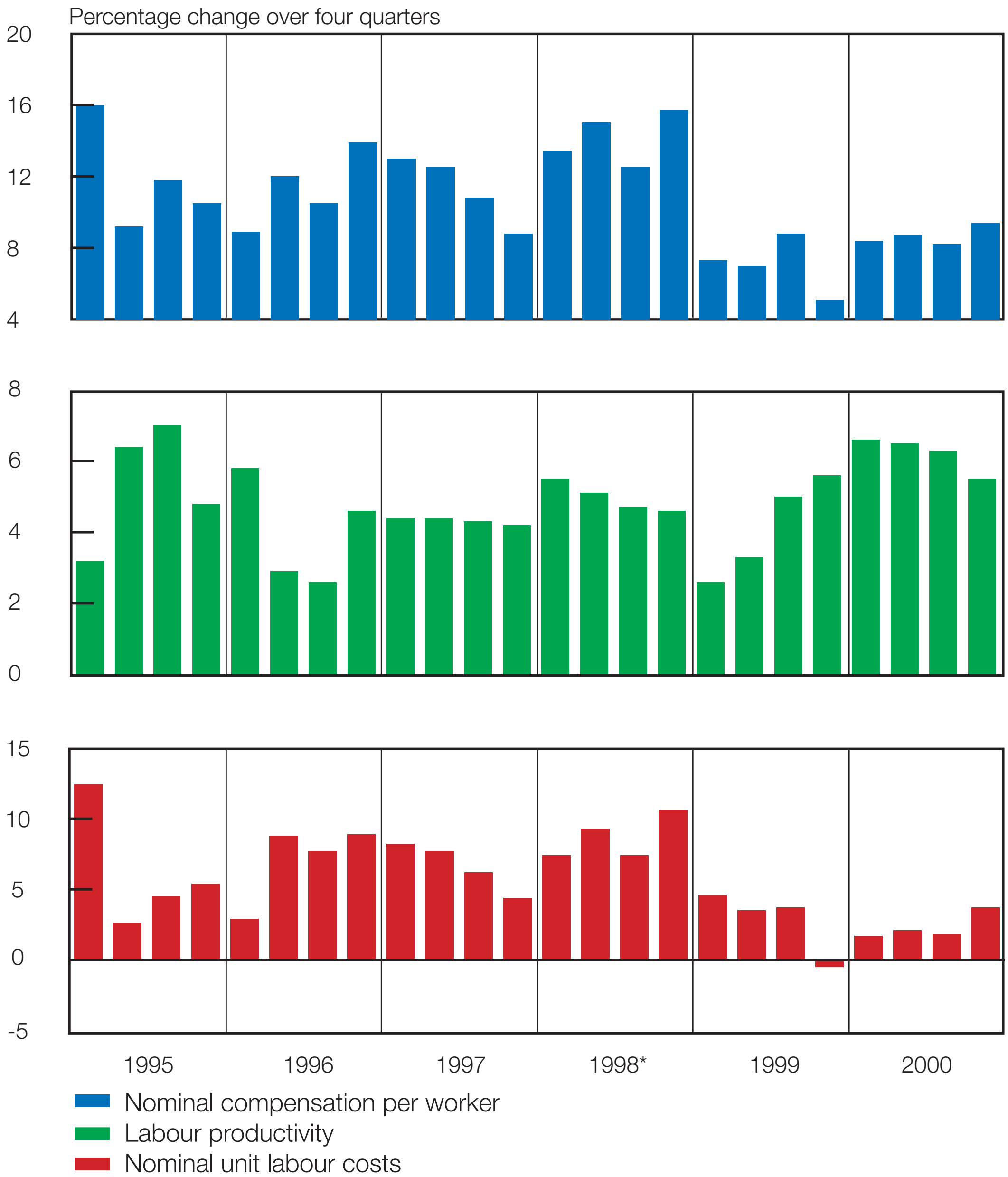
Surveys conducted by Statistics South Africa indicate that nominal wage growth in the private sector slowed down from a year-on-year rate of 8,6 per cent in the third quarter of 2000 to 6,6 per cent in the fourth quarter. On the whole, nominal wage growth in the private sector amounted to 8,5 per cent in 2000 – the lowest rate of increase in the past thirty years. Increases ranged from a low of 3,4 per cent in the construction sector to around 15 per cent in the gold-mining sector and in the financial intermediation and insurance industry.

Pay increases in the *public sector* in 2000 were somewhat more generous than in the private sector, admittedly following a year when public-sector compensation rose far more slowly than private-sector compensation. Nominal compensation per worker in the public sector rose by 9,3 per cent in 2000, compared with 4,6 per cent in the previous year. Within the public sector, the growth in compensation per worker varied considerably during 2000. In the transport, storage and communication sector increases exceeded 10 per cent on average, but in the local government sector increases of barely 4 per cent were granted.

Economy-wide the nominal compensation per worker rose faster than output prices (as reflected by the price deflator for value added in the non-agricultural sectors of the economy) in 2000. As a consequence, the inflation-adjusted compensation per worker or the *real product wage* rose by some 1,9 per cent. As employers generally attempt to control labour costs per employee relative to output prices, it can be expected that employers are likely to continue with their cost-containing practices, one element of which might be the further paring down of their labour force.

Mainly because of the smaller number of workers in gainful employment, but also following efficiency gains arising from the implementation of new technologies, output per worker in the formal non-agricultural sectors of the economy increased at a rate of 6,2 per cent in 2000. This compressed the annual growth in nominal unit labour cost in the non-agricultural formal sectors of the economy to 2,3 per cent. In the manufacturing sector, the growth in unit labour cost was down to 0,6 per cent. As the growth in *unit labour cost* is one of the main determinants of the inflationary process, these developments are likely to alleviate upward pressures on output prices in the months ahead, provided that the low growth in labour compensation and the strong growth in productivity are sustained.

Labour cost and productivity in non-agricultural sectors



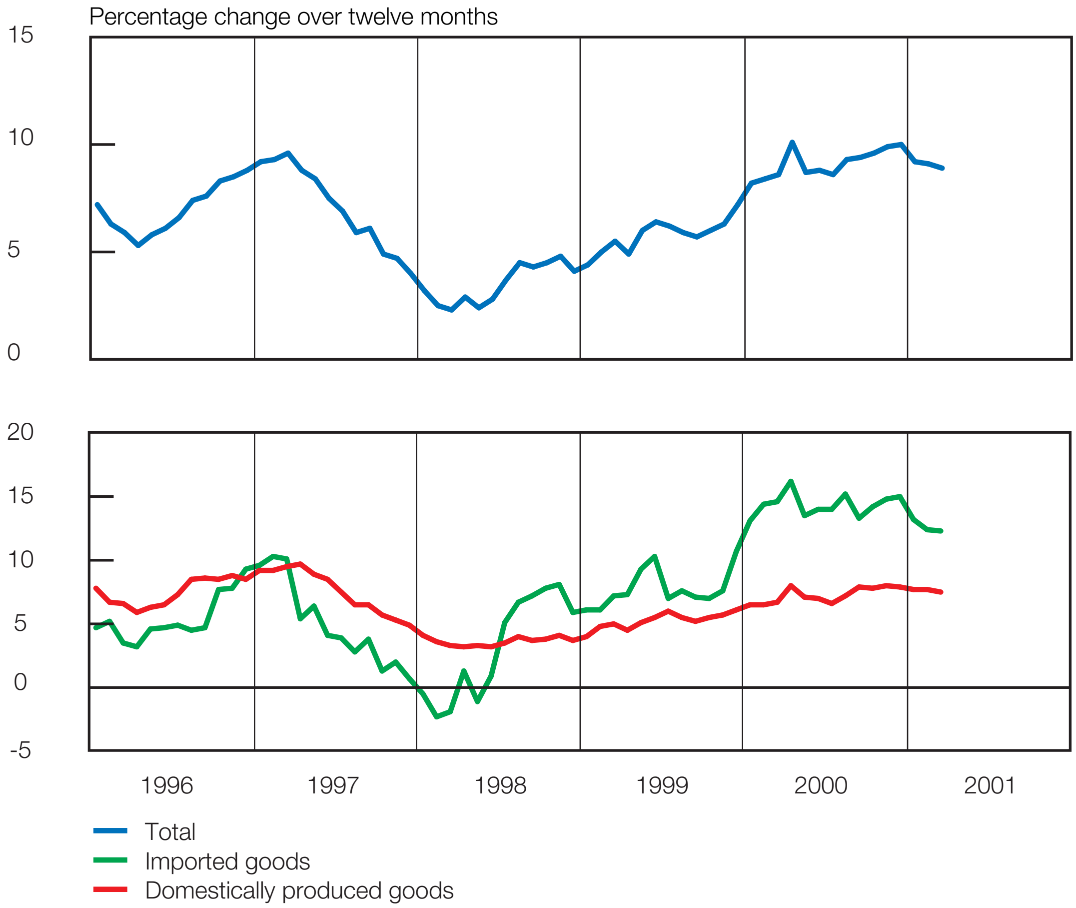
* Break in consistency of data in first quarter of 1998

Prices

Price increases accelerated quite substantially during 2000 as a consequence of rapid increases in food and energy prices. These potentially inflationary forces began to wane in recent months and price growth at both the producer and consumer level has moderated appreciably.

All-goods production price inflation slowed down on a year-on-year basis from 10,0 per cent in December 2000 to 8,1 per cent in April 2001 and on a quarter-to-quarter basis from 11,8 per cent in the first quarter of 2000 to 8,5 per cent in the first quarter of 2001. Lower rates of growth in the prices of imported goods and of domestically produced goods contributed to these slowdowns in production price inflation.

Production price inflation



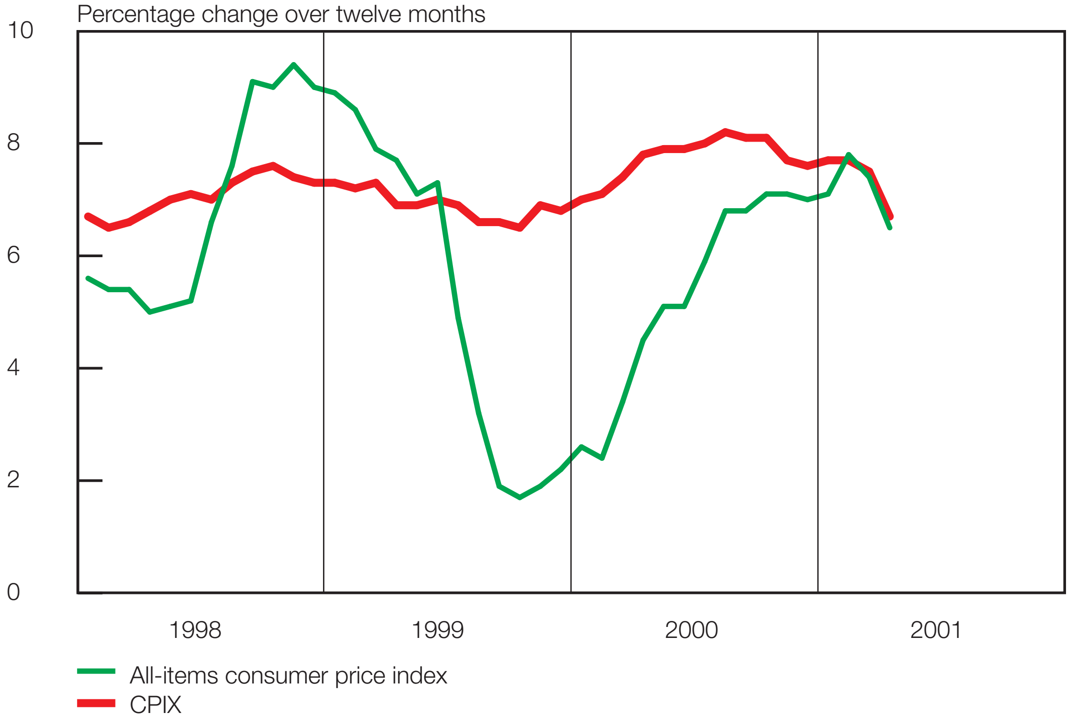
Lower increases in the prices of agricultural products, manufactured food products and oil products were the main reasons for a decline in the year-on-year inflation in *imported-goods prices* from 15,0 per cent in December 2000 to 11,2 per cent in April 2001. Import prices were also affected by changes in the exchange rate of the rand and the average export prices of major trading-partner countries. Both of these two forces were, however, expected to add considerably to production price inflation. That they failed to do so should be attributed to the inflation-offsetting effects of the lower increases in the prices of food products and of petroleum, and a small reduction in import duties.

Increases in the *prices of domestically produced goods* were reduced from a year-on-year rate of 8,0 per cent in November 2000 to 6,9 per cent in April 2001. In this instance too, the slowdown originated principally in the area of food and petroleum prices. Measured from quarter to quarter, inflation in the prices of domestically produced goods declined from an average annualised rate of around 8 per cent in 2000 to 7,1 per cent in the first quarter of 2001.

Year-on-year *CPIX inflation* (i.e. overall consumer price inflation for metropolitan and other urban areas, excluding interest rates on mortgage bonds) declined from 8,2 per cent in August 2000 to 6,7 per cent in April 2001. As was the case with production prices, lower inflation in the prices of food products contributed greatly to this slowdown. Inflation in rental values, wages of domestic workers, transport running costs and education continued at high rates.

Headline inflation, i.e. *changes in the overall consumer price index* for metropolitan areas, accelerated from a year-on-year rate of 1,7 per cent in October 1999 to 7,8 per cent in February 2001 but declined to 6,5 per cent in April. The gap between headline and CPIX inflation accordingly narrowed in 2000 and the early months of 2001, essentially because the previous declines in mortgage rates dropped out of the annual comparison for headline inflation.

Headline (all items) and CPIX inflation

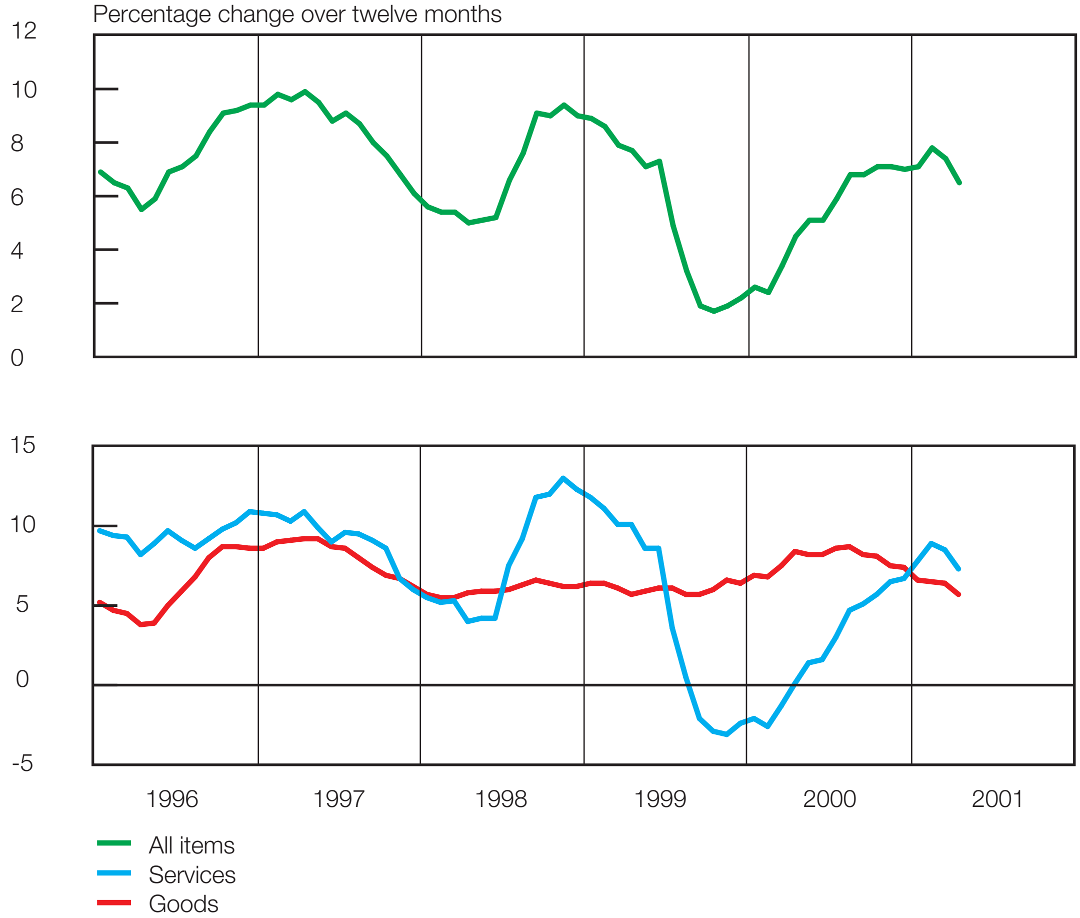


Measured from quarter to quarter and annualised, rather than measured over twelve months, the slowdown in consumer-price inflation is far more apparent – from 10,7 per cent in the second quarter of 2000 to just 3,8 per cent in the first quarter of 2001. Inflation in the *prices of consumer goods* fell from 10,6 per cent in the second quarter of 2000 to 2,5 per cent in the first quarter of 2001. By contrast, quarter-to-quarter inflation in the prices of consumer services picked up from 4,1 per cent in the third quarter of 2000 to 7,8 per cent in the first quarter of 2001, influenced fairly strongly by increases in the prices of housing-related services. More generally, services price inflation usually exceeds goods price inflation because labour accounts for a higher share of costs in services provision

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	8,7
2nd qr	10,6	9,3	10,7	8,8
3rd qr	7,6	4,1	6,0	7,6
4th qr	4,1	6,5	5,0	6,1
Year	**7,9**	**2,4**	**5,3**	**7,8**
2001: 1st qr	2,5	7,8	3,8	6,1

Consumer price inflation



than in goods production and average productivity growth tends to be lower in the services sector than in the goods-producing sectors.

Although virtually all of the important measures of inflation pointed to a definite reduction in the inflationary momentum in recent months, there are still forces at work that might temporarily halt or permanently reverse the gradual downward movement, for example

- aggregate demand was still growing faster than aggregate output in the first quarter of 2001;
- the relatively strong demand might reinforce the pricing power of domestic producers and make it easier for them to pass on cost increases;
- there might be renewed rises in the international price of crude oil, not yet accounted for in available inflation statistics;
- there might be delayed second-round effects of last year's depreciation of the rand; and
- there might be continued high rates of increase in the prices of goods and services, in cases where regulatory agencies still have a major say.

Foreign trade and payments

Balance of payments

The March 2001 edition of the *Quarterly Bulletin* notes that very little of the current global slowdown was seen in the South African economy during the second half of 2000. This apparent isolation ended in the first quarter of 2001 when the weakening of the international economy was reflected in a decline in the volume of merchandise exports from South Africa. The potential impact of the slowdown in trading-partner growth was cushioned somewhat by the low level of the exchange rate of the rand.

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

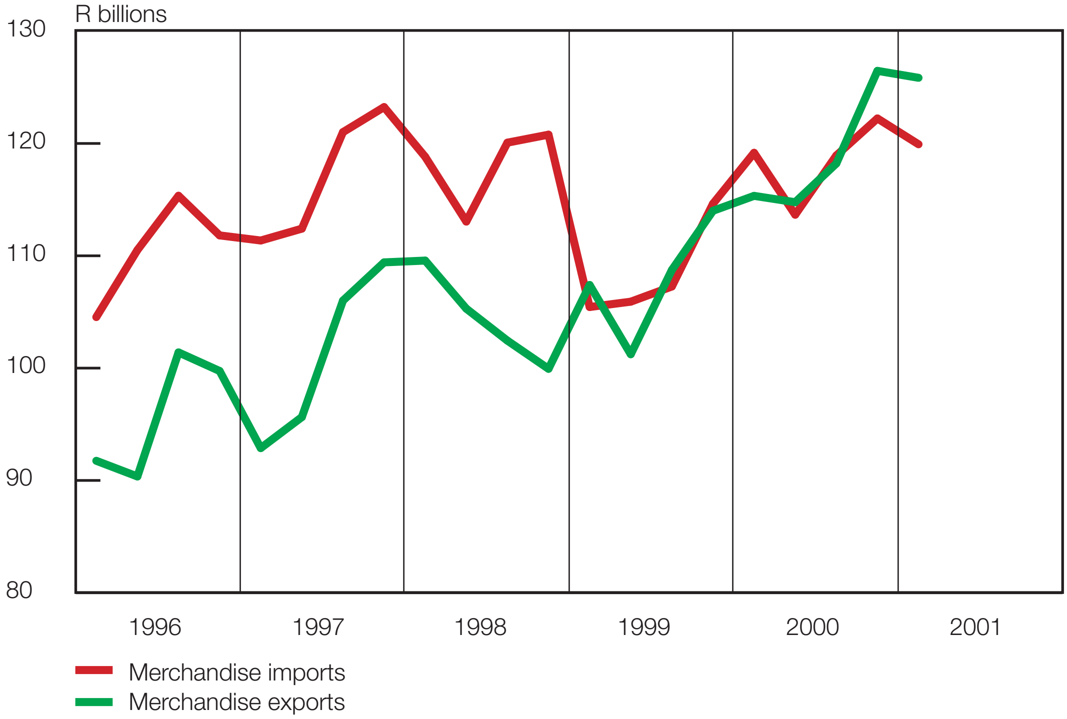
	2000					2001
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	172,7	183,1	190,5	219,1	191,3	225,1
Net gold exports	27,0	26,0	28,4	27,2	27,2	26,6
Merchandise imports	-177,6	-178,6	-190,6	-209,3	-189,0	-213,1
Net service, income and current transfer payments	-29,9	-31,1	-34,6	-34,5	-32,6	-31,7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

Mainly because of weak international demand, the *physical quantity of exported goods* declined by 0,5 per cent in the first quarter of 2001. By contrast, *export prices* in rand terms were propped up by the lower exchange rate and rose by 3,4 per cent from the fourth quarter of 2000 to the first quarter of 2001, raising the *value of merchandise exports* somewhat above its level in the fourth quarter of 2000. Export earnings of manufactured goods, which are generally believed to respond more quickly and strongly to exchange-rate movements, recorded a solid increase. This was countered to a large extent by a decline in the export value of agricultural and mining products, especially in the subcategory pearls, precious stones and semi-precious stones.

The *volume of merchandise imports* declined slightly in the first quarter of 2001. This was consistent with the preceding depreciation of the rand, which tends to compress the demand for imported goods outweighing the effect of strong growth in aggregate domestic demand on the demand for imported goods.

The *prices of imported goods* rose by 3,8 per cent from the fourth quarter of 2000 to the first quarter of 2001 (i.e. at an annualised rate of more than 15 per cent). As indicated above, aggregate real gross domestic expenditure increased at an annualised rate of 5 per cent in the first quarter of 2001. The price effect has been the slightly more significant of the two opposing forces impacting on the demand for imported goods as *merchandise import volumes* declined by 1,8 per cent in the first quarter of 2001.

Exports and imports at constant 1995 prices



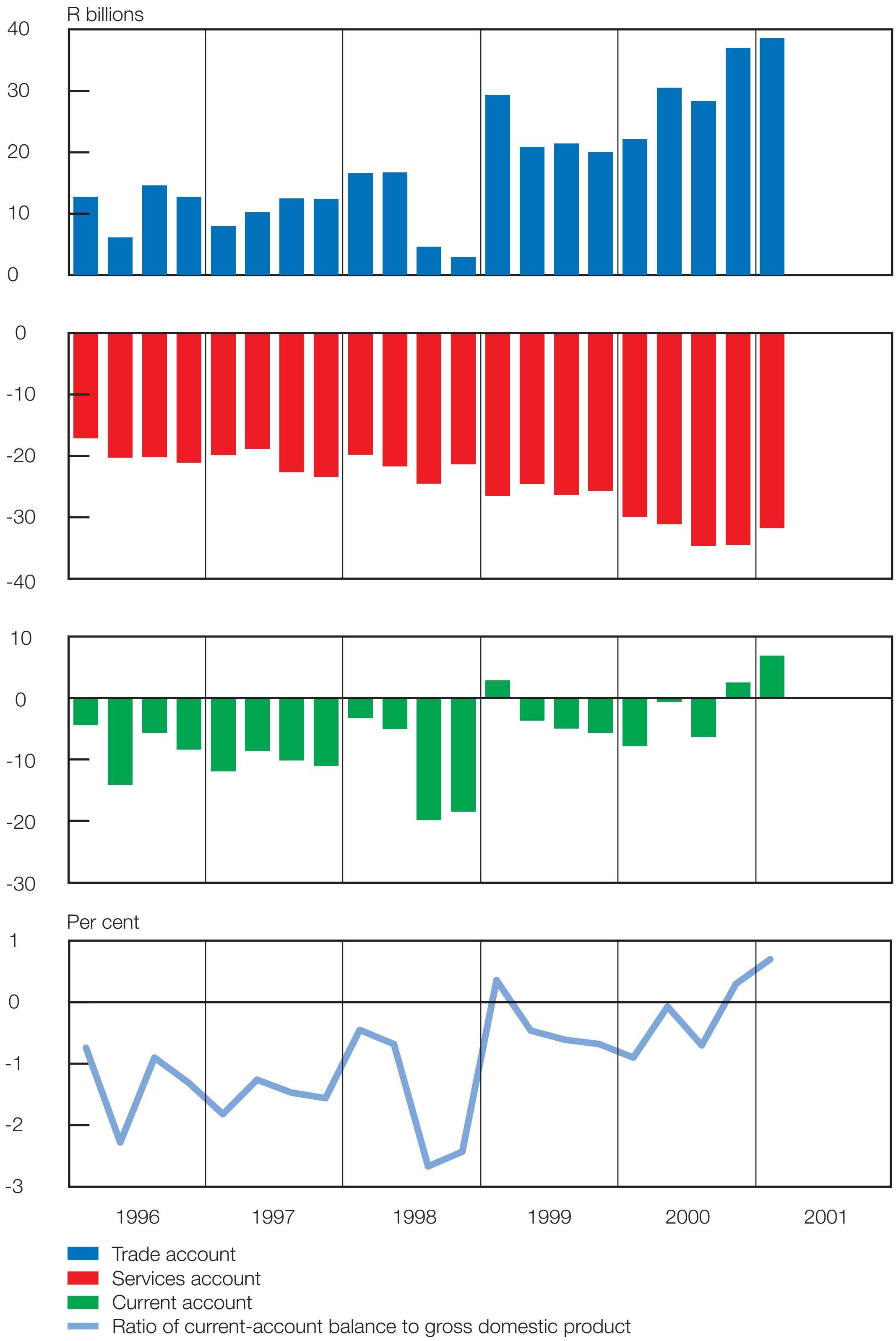
In nominal terms, spending on imported goods increased by 1,8 per cent in the first quarter of 2001, supporting the notion that the price elasticity of demand for imported goods is less than unity. Price increases can therefore be expected to reduce the volume of the demand for imported goods, but overall expenditure is expected to increase it. The value of manufactured imports increased sharply, especially in the subcategory vehicles and transport equipment. This was partly offset by declines in the import value of agricultural and mining products, including imported petroleum.

The continuing decline in gold production and a decline in the realised price of gold, reduced the value of net gold exports from a seasonally adjusted and annualised value of R27,2 billion in the fourth quarter of 2000 to R26,6 billion in the first quarter of 2001. The average realised price of gold dropped from R2 069 per fine ounce in the fourth quarter of 2000 to R2 031 in the first quarter of 2001. The physical quantity of gold exports shrank by 0,6 per cent in the first quarter of 2001, following a decline of 8,3 per cent in the fourth quarter of 2000.

Overall, the nominal value of merchandise imports increased by less than nominal export earnings. As a consequence, the positive international trade balance increased slightly from the fourth quarter of 2000 to the first quarter of 2001. However, the shortfall on the services account of the balance of payments narrowed from R34,5 billion (seasonally adjusted and annualised) in the fourth quarter of 2000 to R31,7 billion in the first quarter of 2001. A sharp fall in net investment income payments was the main reason for the improvement in the services account.

The slight improvement in the trade surplus, together with the more substantial improvement in the services account, lifted the seasonally adjusted annualised surplus on the current account of the balance of payments from R2,5 billion in the fourth quarter of 2000 to R6,9 billion in the first quarter of 2001. As a ratio of gross domestic product, the surplus on the current account improved to 0,7 per cent in the first quarter of 2001, compared with 0,3 per cent in the fourth quarter of 2000.

Current account



Seasonally adjusted and annualised

Financial account

The pervasive volatility in emerging-market economies in recent years persisted in the first three months of 2001. Owing largely to financial turbulence in other emerging markets, especially in Turkey and Argentina, South Africa experienced a further deterioration in the financial account of the balance of payments.

The balance on the financial account, which accounts transactions in financial assets and liabilities with non-residents, widened from a deficit of R1,0 billion in the fourth quarter of 2000 to R3,8 billion in the first quarter of 2001. The larger financial-account deficit occurred despite a sizeable turnaround in portfolio investment; net portfolio investment flows were reversed from an outflow of R4,9 billion in the fourth quarter of 2000 to an inflow of R3,3 billion in the first quarter of 2001

Net financial transactions not related to reserves
R billions

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

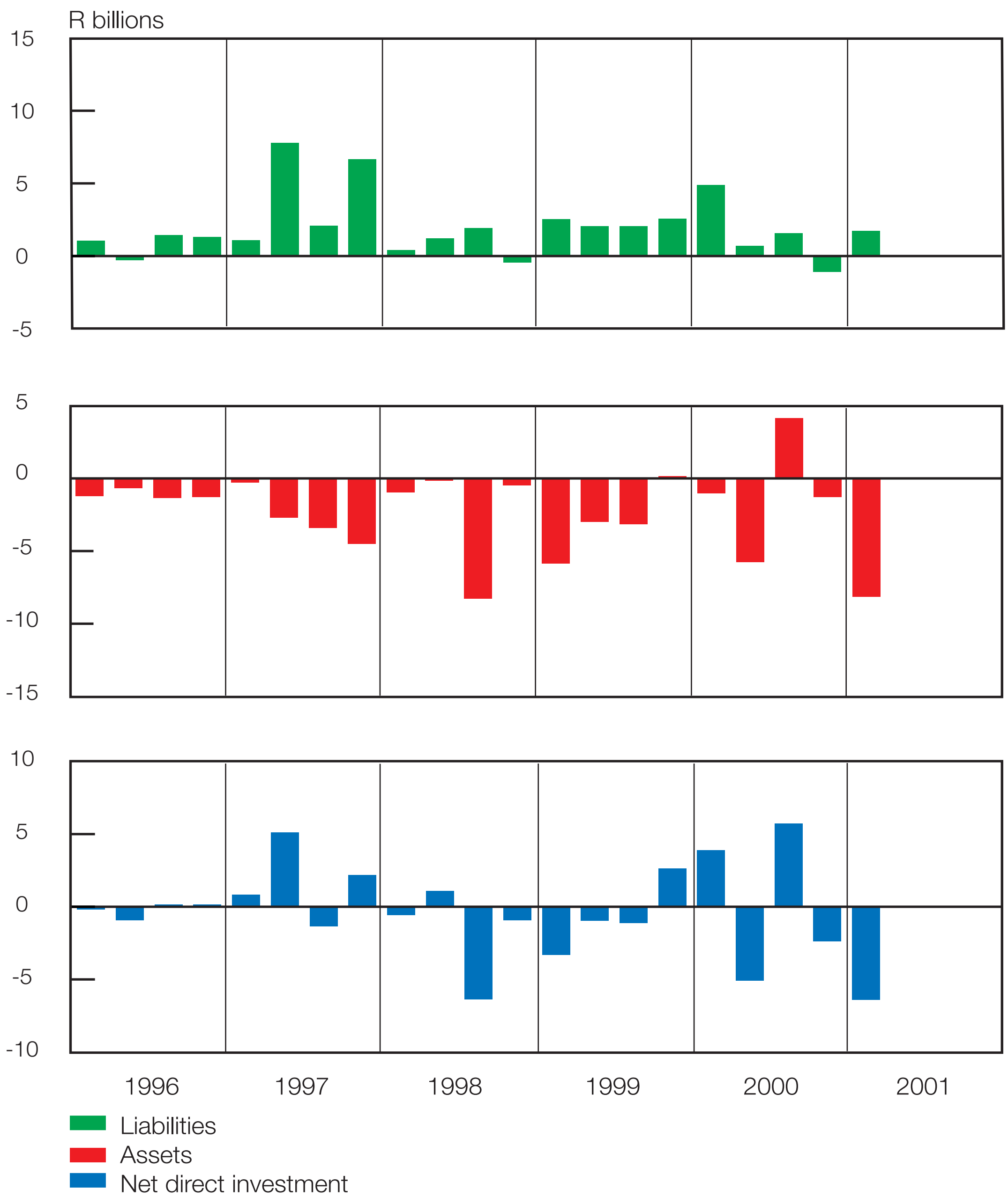
* Including unrecorded transactions

Foreign direct investment into South Africa changed from an outflow of R1,0 billion in the fourth quarter of 2000 to an inflow of R1,7 billion in the first quarter of 2001. Foreign firms bought a dominant interest in several South African companies in the first quarter of 2001, but these inflows were countered by the accumulation of offshore assets by resident companies. Overall, South African companies increased their directly-controlled foreign assets by R8,1 billion in the first quarter of 2001. A significant contribution to these outward investments was made through the acquisition of a foreign chemicals group by a South African petro-chemical company. On a net basis, foreign direct investment registered an outflow of R6,4 billion in the first quarter of 2001, compared with an outflow of R2,4 billion in the fourth quarter of 2000.

Portfolio investment into South Africa changed from an outflow of R1,8 billion in the fourth quarter of 2000 to an inflow of R3,5 billion in the first quarter of 2001. Non-residents were fairly substantial buyers of listed shares, but they continued to sell bonds on a net basis in the first quarter of 2001.

Domestic institutional investors used the asset swap mechanism until February 2001 to build up their portfolio of foreign assets. This mechanism was then discontinued – from 21 February institutional investors have been allowed to acquire foreign portfolio assets only by means of foreign-currency transfers from South Africa. These transfers are limited to 10 per cent of their net inflow of funds in the preceding calendar year. Overall limits on the percentage of foreign assets relative to total assets have been retained: 15 per cent in the case of long-term insurers and pension funds, 15 per cent of total assets under management for fund managers and 20 per cent for unit trust management companies.

Direct investment



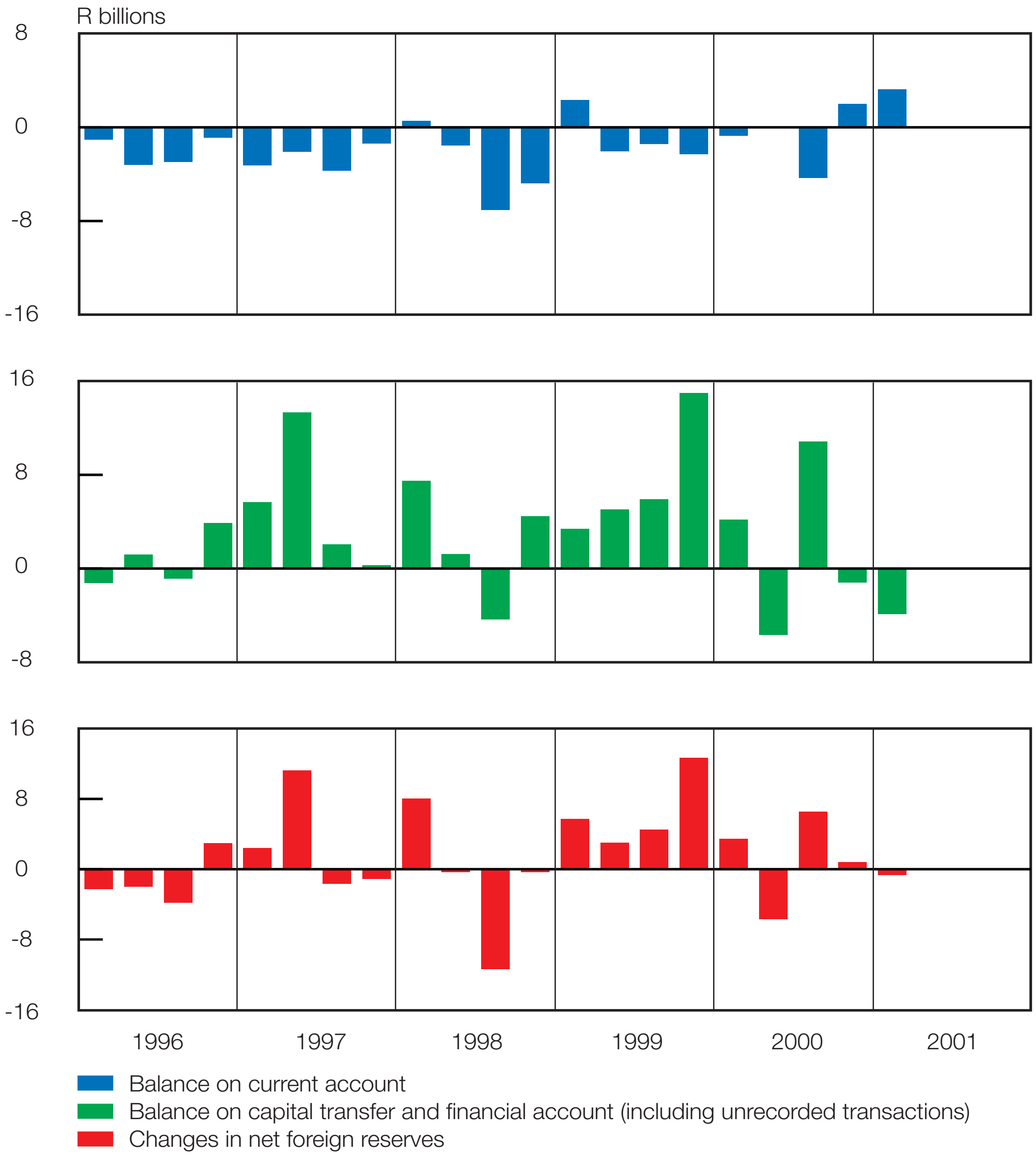
The *accumulation of foreign portfolio assets* by resident South African organisations shrank from R3,1 billion in the fourth quarter of 2000 to R0,2 billion in the first quarter of 2001. A decline in foreign assets following the repatriation of the capital realised by selling shares in a United States listed company contributed most to the decline in foreign portfolio assets. Offsetting the smaller foreign-asset accumulation against the increased inflows of portfolio capital, *net portfolio investment* changed from an outflow of R4,9 billion in the fourth quarter of 2000 to an inflow of R3,3 billion in the first quarter of 2001.

Other investments, essentially cross-border movements of loans, trade finance or bank deposits, continued to leave South Africa but at a slower pace than before. On a net basis, other outward foreign investment contracted from R8,0 billion in the fourth quarter of 2000 to R5,7 billion in the first quarter of 2001.

Foreign reserves

South Africa had a deficit on its overall balance of payments with the rest of the world in the first quarter of 2001. The financial account, rather than the current account where a surplus was registered, was primarily responsible for the overall deficit. The country's *net international reserves* accordingly declined by R0,6 billion, following an increase of R0,8 billion in the fourth quarter of 2000.

Overall balance of payments



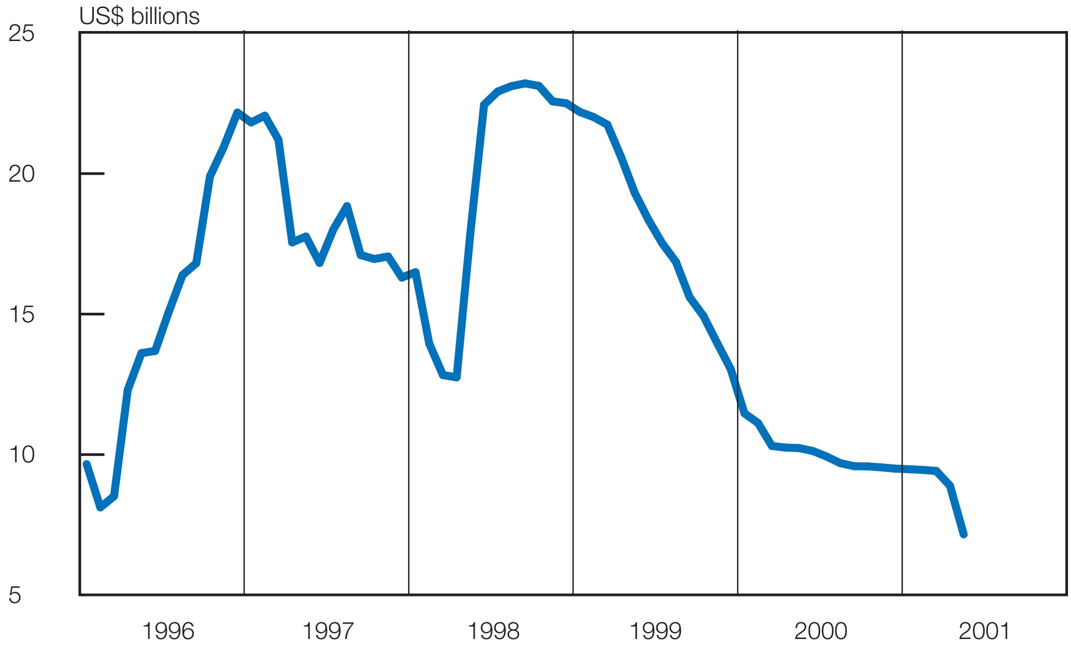
The value of South Africa's *gross gold and foreign-exchange reserves* (i.e. international reserves before reserve-related loans are netted off) increased by R3,6 billion to an overall level of R87,8 billion at the end of the first quarter of 2001. This increase was essentially caused by the depreciation of the rand against the US dollar over the first three months of 2001. The overall level of the gross gold and foreign-exchange reserves actually declined by US$0,1 billion from the end of December 2000 to the end of March 2001.

Despite the small increase in international reserves, the country's *import cover* improved from 15 weeks at the end of 2000 to 16 weeks at the end of the first quarter of 2001. Import cover indicates the number of weeks' worth of imports of goods and services that the country can afford by simply using international reserves, without accessing any available credit facilities.

The international reserve holdings of the Reserve Bank increased by R3,3 billion during the first quarter of 2001. This was followed by a slight decline of R0,2 billion in April and May 2001 when most of the foreign-currency inflow was employed for reducing the Reserve Bank's oversold forward position in foreign currency.

From the end of March 2001 to the end of May, the Bank's net oversold position in foreign currency (i.e. the Bank's oversold forward position in foreign currency reduced by its net holdings of spot international reserves) was reduced by US$2,2 billion from US$9,4 billion to US$7,2 billion. Major contributions to the resources allowing this, were made by the national government's eurobond loan issue and part of the proceeds from the buy-out of minority shareholders in the De Beers Diamond Corporation.

Net open position in foreign currency



Oversold position of the Reserve Bank

Exchange rates

The rand depreciated further in the first quarter of 2001, but at a much slower pace than in the fourth quarter of 2000. A decline of 5,2 per cent in the nominal weighted exchange rate of the rand from the end of September 2000 to the end of December was followed by a depreciation of 1,3 per cent in the ensuing three months to the end of March 2001.

Exchange rates of the rand

Percentage change

	30 Sep 2000 to 29 Dec 2000	29 Dec 2000 to 30 March 2001	30 March 2001 to 31 May 2001
Weighted average*	-5,2	-1,3	1,3
Euro	-8,8	-0,6	4,3
US dollar	-3,8	-5,6	0,1
British pound	-5,7	-1,4	0,9
Japanese yen	2,3	3,1	-5,1

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

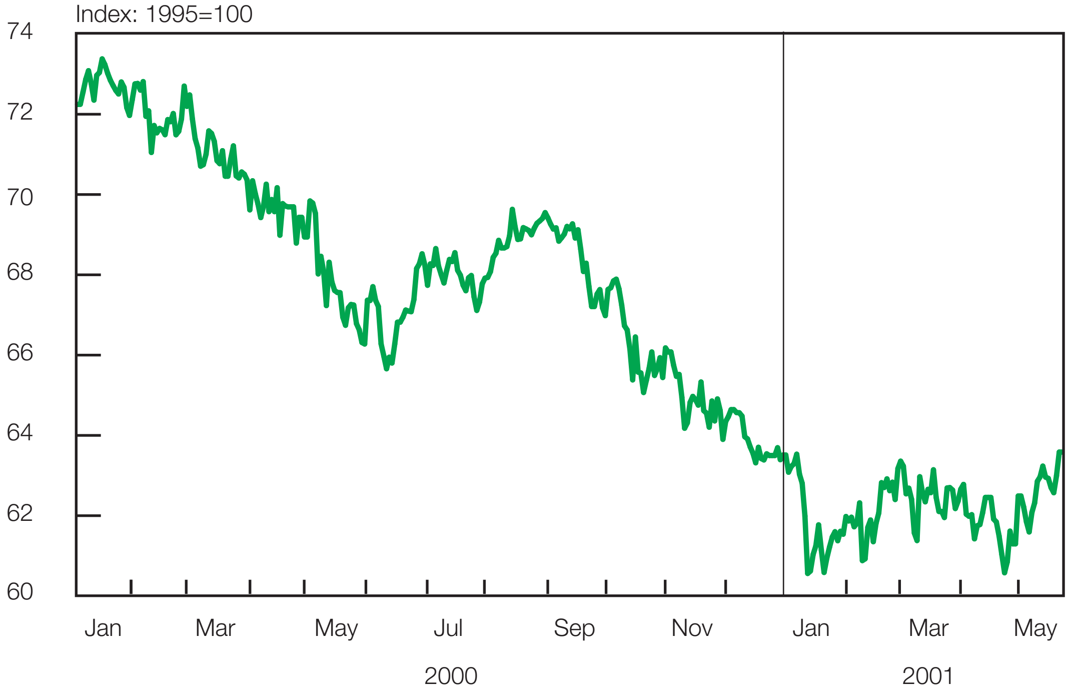
The depreciation of the rand was not evenly spread in the course of the first quarter of 2001. During the first 11 days of January, the weighted exchange rate of the rand weakened by some 4,6 per cent as the US dollar strengthened and most international fund managers failed to differentiate between different emerging markets. Concern about financial stability and overall economic prospects in other emerging markets were simply equated with the situation in South Africa.

Only some time after it became known that the restructuring of the De Beers diamond corporation could lead to a substantial inflow of foreign capital into South Africa did the rand rally. In February 2001 the rand received a further boost when the international ratings agency Standard and Poors' reaffirmed the country's foreign-currency rating as investment grade. All this contributed to an increase of 3,5 per cent in the nominal effective exchange rate of the rand from 11 January 2001 to 30 March. The strength of the rand continued into the second quarter of 2001 and by 31 May 2001 the weighted value of the rand had increased by another 1,3 per cent.

The rand depreciated against most of the major currencies during the first quarter of 2001, except for the Japanese yen where it appreciated by 3,1 per cent. In the ensuing two months the situation was reversed when the rand appreciated against most of the major currencies but depreciated against the Japanese yen.

The heightened volatility in the foreign-currency market pushed the net average daily turnover in the domestic market for foreign currency higher to US$9,9 billion in the first quarter of 2001, compared with US$9,4 billion in the fourth quarter of 2000. The value of transactions in which non-residents participated, increased proportionately more from US$5,9 billion to US$6,4 billion over the same period, raising the level of non-resident participation from 63 per cent in the fourth quarter of 2000 to 65 per cent in the first quarter of 2001.

Nominal effective exchange rate of the rand



The real effective exchange rate of the rand, i.e. the nominal effective exchange rate adjusted for the production price inflation differential between South Africa and its most important trading partners, declined by 9,4 per cent from December 1999 to December 2000, indicating that domestic producers are now even more competitive in export markets.

Monetary developments, interest rates and financial markets

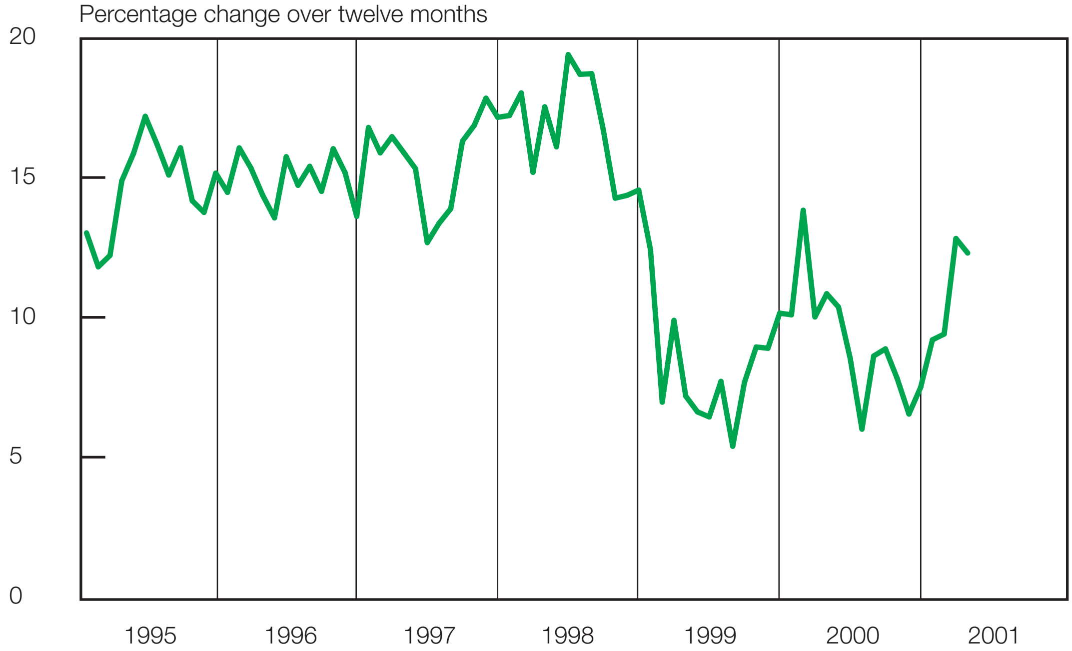
Money supply

Data on the money supply provide useful indications of current and future spending in the economy, and therefore of the degree of inflationary pressure generated by nominal demand for a given output capacity.

Since the second quarter of 2000, the seasonally adjusted and annualised quarter-to-quarter growth in the *broadly defined money supply* (M3) has accelerated quite substantially from 4,9 per cent in the third quarter to 14,7 per cent in the fourth quarter and 19,3 per cent in the first quarter of 2001. This acceleration reflects faster growth in bank deposits held by private individuals and companies, and firm increases in aggregate domestic nominal demand. Aggregate output growth, however, slowed down from the third quarter of 2000, whereas overall production capacity probably continued to expand along its historic time path. Consequently, the faster expansion of the money supply may have added to upward pressure on the general level of prices.

The robust monetary expansion in the early months of 2001 was also reflected in higher *year-on-year* growth in M3. Admittedly, part of the high year-on-year growth rates in the first quarter of 2001 can be attributed to a relatively low base for year-on-year growth calculations in 2000 after many deposit-holders had unwinded their pre-Y2K liquidity build-ups.

M3 money supply



In the end, year-on-year growth in M3 accelerated from 6 per cent in July 2000 to 12,8 per cent in March 2001 and 12,3 per cent in April. Private-sector deposit holdings were bolstered in February and March 2001 by a strong flow of interest payments from government's accounts with the banks. In January 2001, government made provision for the anticipated interest payments by accumulating substantial amounts in its accounts with the private banking sector.

Year-on-year growth in all the *narrower monetary aggregates* was lower than the growth in the broad M3 money supply. M1A increased by just 3,2 per cent in the year to April 2001 whereas the growth in M1 fell short of the growth in M3 by some 5,0 percentage points, and the growth in M2 was more than a full percentage point below that in M3. This development can partly be explained by the strong demand for bank notes and liquid-type deposits at the time of the millennium date changeover which was not fully restored to "normal" levels in the early months of 2000. The base for the annual growth calculations of the narrower monetary aggregates was consequently lifted and growth rates were compressed.

Twelve-month growth rates in monetary aggregates
Per cent

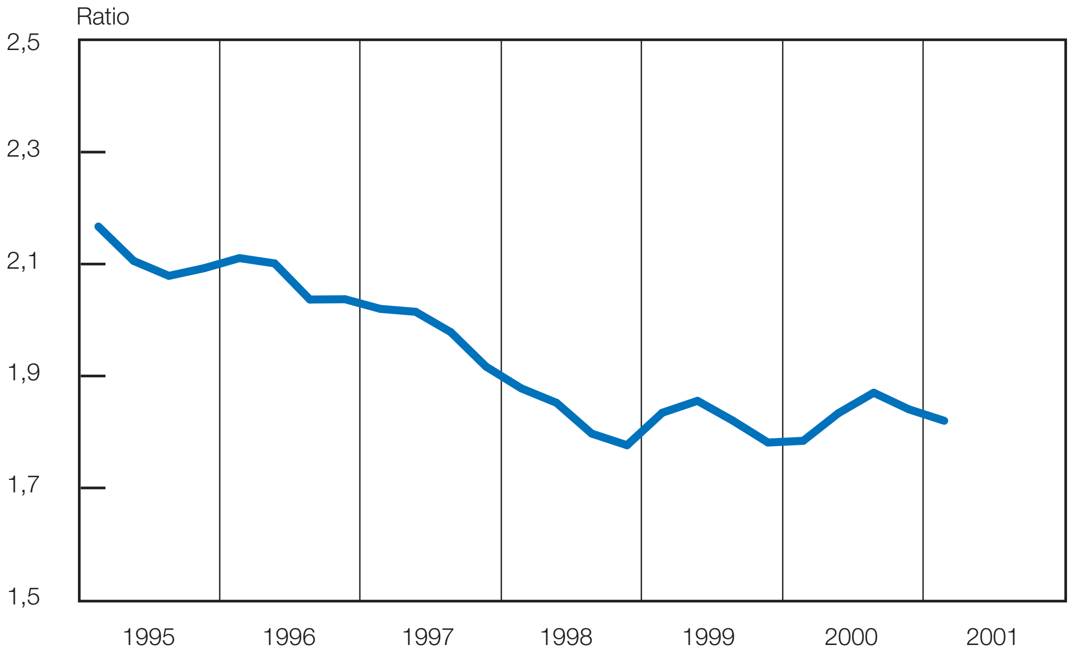
Period	M1A	M1	M2	M3
2000: Mar	18,3	16,9	13,8	10,0
Jun	12,2	16,8	9,9	8,5
Sep	7,0	14,0	7,2	8,9
Dec	1,7	3,3	6,2	7,5
2001: Jan	0,2	7,1	7,5	9,2
Feb	0,3	3,3	7,9	9,4
Mar	-1,1	6,5	11,8	12,8
Apr	3,2	7,3	11,1	12,3

Apart from the statistical explanation for the slower growth in the narrower monetary aggregates, M3 growth also outpaced the growth in the narrower aggregates because of a comparatively strong demand for long-term deposits by the general public. Long-term deposits were probably seen as a substitute for investing in the securities markets at a time when prospective market yields and returns were perceived to be uncertain. Also, expectations of declining interest rates might have prompted many deposit-holders to move funds from shorter-term deposits to higher yielding longer-term deposits.

The growth rate of M3 reached an annualised level in the fourth quarter of 2000 that was 7,1 percentage points higher than the growth rate of the nominal gross domestic product, lowering the *income velocity of circulation* of M3 by 1,6 per cent from the third quarter of 2000 to the fourth quarter. In the first quarter of 2001 the margin between the two growth rates decreased to 5,4 percentage points and the income velocity declined by 1,1 per cent. The decline in the income velocity of M3 reflects an increase in the stock of money relative to the overall size of the economy. This excess money could easily spill over into increased spending, if economic agents collectively decide to reduce their money holdings as a ratio of their nominal income.

The M3 money supply (before adjustment for seasonal influences) increased by R16,9 billion from the end of the third quarter of 2000 to the end of the fourth quarter and by R21,5 billion in the three months to the end of the first quarter of 2001. Aggregate lending by the banks continued to increase in the first quarter but at a far slower pace than growth in deposits; growth in bank lending to the domestic private

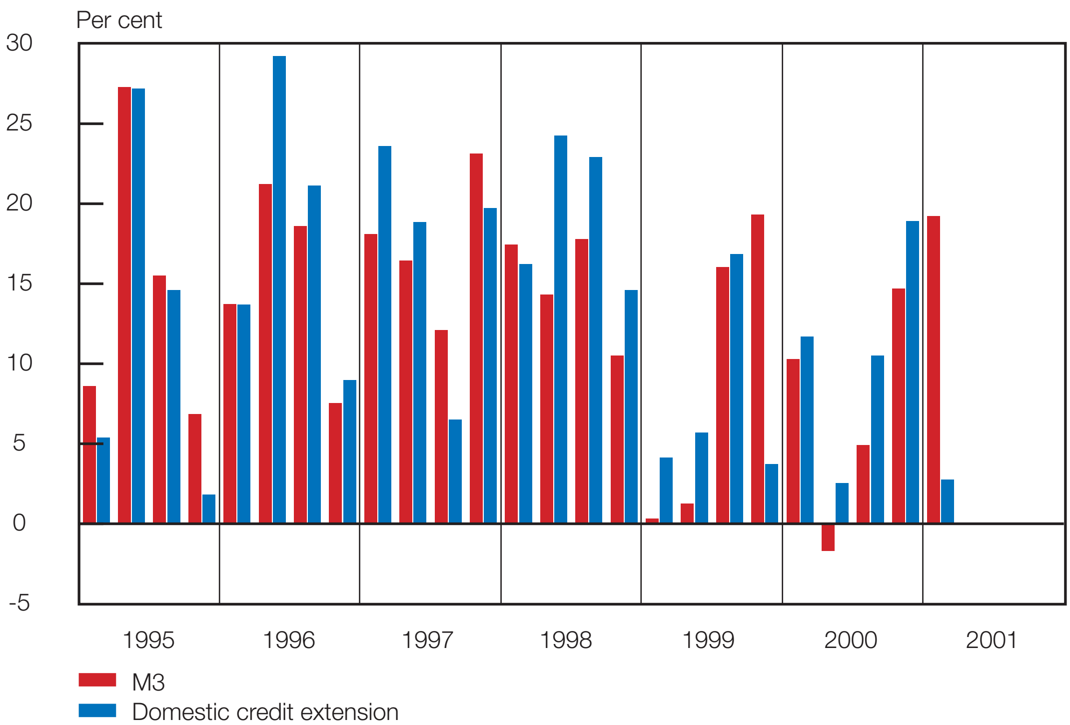
Income velocity of M3



Seasonally adjusted

sector eased from R15,5 billion in the fourth quarter of 2000 to just R1,6 billion in the first quarter of 2001. Growth in banks' deposit liabilities, therefore, exceeded growth in their assets arising from lending activities. Also, the banks reduced their net credit extension to the government sector by R2,2 billion in the first quarter of 2001.

Quarter-to-quarter growth in M3 and domestic credit extension



Seasonally adjusted and annualised

With lending or asset growth in the banking sector falling well short of deposit growth, resources were available for the accumulation of other assets or the reduction of other liabilities. The banks accordingly increased their *net other assets* by R22,8 billion in the first quarter of 2001. Deficits accruing from the Reserve Bank's transactions in the forward foreign-exchange market contributed to this increase. Net foreign assets, however, declined by R0,7 billion.

Credit extension

Bank lending to the private sector slowed down considerably in the first quarter of 2001. Measured from quarter to quarter and annualised, growth in the banks' claims on the private sector fell from 17,8 per cent in the fourth quarter of 2000 to 3,1 per cent in the first quarter of 2001.

As mentioned above, the private banks also reduced their net claims on the government sector during the first quarter of 2001. If these net claims by banks on the government sector are added to the banks' claims on the private sector, the growth in *total domestic credit extension* slowed down from 18,9 per cent in the fourth quarter of 2000 to 2,8 per cent in the first quarter of 2001.

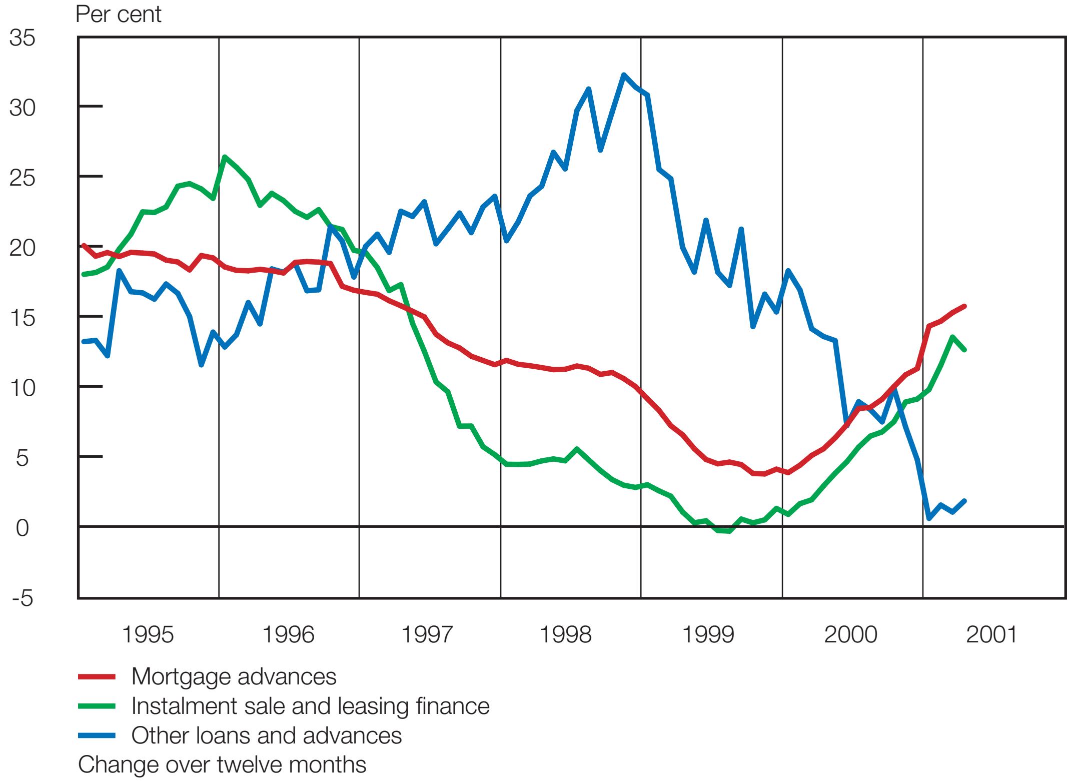
The year-on-year growth in bank lending to the *private sector* exceeded 10 per cent throughout the last four months of 2000, but sank below the 10 per cent mark in January 2001 when changes in the reporting template of banks allowed for the exclusion of interbank derivative positions from private-sector credit. This caused a once-only decline in the level of bank lending to the private sector in January 2001, but by March the strong demand for bank credit, especially from the household sector, had pushed back the year-on-year growth in banks' claims on the private sector to almost 10 per cent. Households' share in total bank lending to the private sector rose from 48,6 per cent at the end of December 2000 to 49,4 per cent at the end of March 2001. Conversely the share of the corporate sector decreased from 51,4 to 50,6 per cent over the same period.

An analysis of banks' claims on the private sector by *type of credit* shows that the growth in *mortgage advances* has picked up considerably in recent months – the growth accelerated from 3,8 per cent in the year to January 2000 to 15,3 per cent in the year to March 2001 and 15,7 per cent in the year to April 2001. The recovery in activity and prices in the real-estate market had much to do with the faster growth in the demand for mortgage financing. In fact, growth in mortgage advances contributed as much as 40,7 per cent to the overall increase in banks' claims on the private sector in the year to April 2001.

Instalment sale credit and leasing finance , which serve mainly as instruments for the financing of purchases of vehicles and other durable goods, gained momentum throughout 2000. Growth over twelve months in this credit category picked up from a low of 0,9 per cent in January 2000 to 13,5 per cent in March 2001 and 12,6 per cent in April. New pay-outs on such credit reached a record high of R15,8 billion in the first quarter of 2001.

Unlike the growth in mortgage advances, the twelve-month growth rates in *"other loans and advances",* including overdrafts on current accounts, have been relatively subdued since June 2000 when a single-digit growth figure was reported for the first time since February 1994. The slackness of growth in "other loans and advances" persisted into the first quarter of 2001 when twelve-month growth rates of

Credit extension to the private sector by type of credit



Credit extended to the private sector by type of credit

Percentage change over twelve months

	Instalment sale and leasing finance	Investments and bills discounted	Mortgages	Other loans and advances	Total
2000: Mar	1,9	-0,1	5,1	14,1	7,9
Jun	4,6	6,8	7,3	7,2	6,8
Sep	6,7	45,4	9,1	7,5	10,0
Dec	9,1	58,0	11,3	4,8	10,8
2001: Jan	9,8	22,3	14,3	0,6	8,2
Feb	11,5	34,4	14,7	1,5	9,7
Mar	13,5	27,0	15,3	1,0	9,6
Apr	12,6	11,9	15,7	1,8	9,3

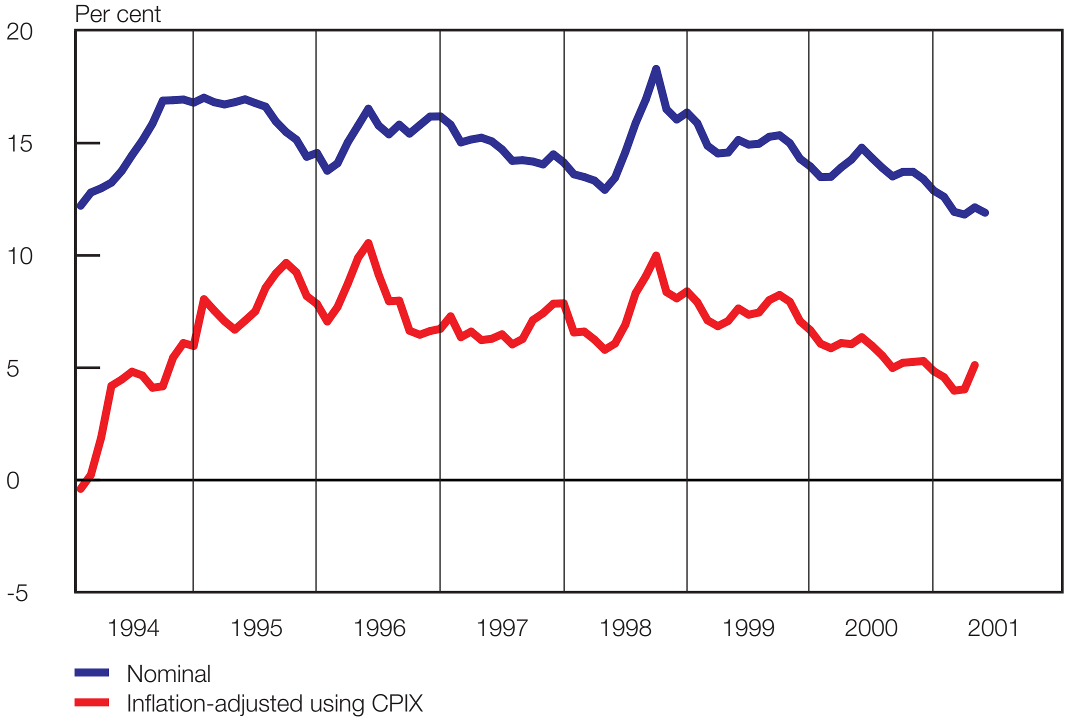
barely 1 per cent were recorded. In April 2001, “other loans and advances” were still just 1,8 per cent higher than in April 2000. Only 8,2 per cent of the overall growth in banks’ claims on the private sector in the year to April 2001 could be attributed to “other loans and advances”.

Growth over twelve months in *investments and bills discounted* by banks displayed exceptional volatility during 2000 and in the first quarter of 2001 – growth rates varied from a decline of 0,1 per cent in March 2000 to an increase of 58,0 per cent in December. The volatile growth pattern was caused by banks reporting certain assets on their balance sheets instead of treating them as off-balance-sheet items as they had done previously, and also by changes in the reporting format of banks which effectively eliminated interbank derivative positions from the consolidated balance sheet of the banking sector. Partly as a consequence of these changes in accounting practices, the change in investments and bills discounted contributed 7,4 per cent to the overall increase in banks' claims on the private sector in the year to April 2001.

Interest rates and yields

Long-term interest rates, measured by those at the ten-year horizon, have generally fallen during 1999 and 2000, with further reductions since the beginning of 2001. The *monthly average yield on long-term government bonds* fell to 12,9 per cent in December 2000, when it returned to the level it had been in April 1998 immediately before the international financial market crises, and to 11,8 per cent in March 2001 when it was at its lowest level since February 1983.

Yield on long-term government bonds



Towards the middle of March 2001 some uncertainty crept back into the market as inflation expectations were fuelled by the depreciation of the rand against the US dollar and high international petroleum prices. Bond yields, which move inversely to bond prices, picked up for a while and the average monthly yield on long-term government bonds rose to 12,1 per cent in April 2001.

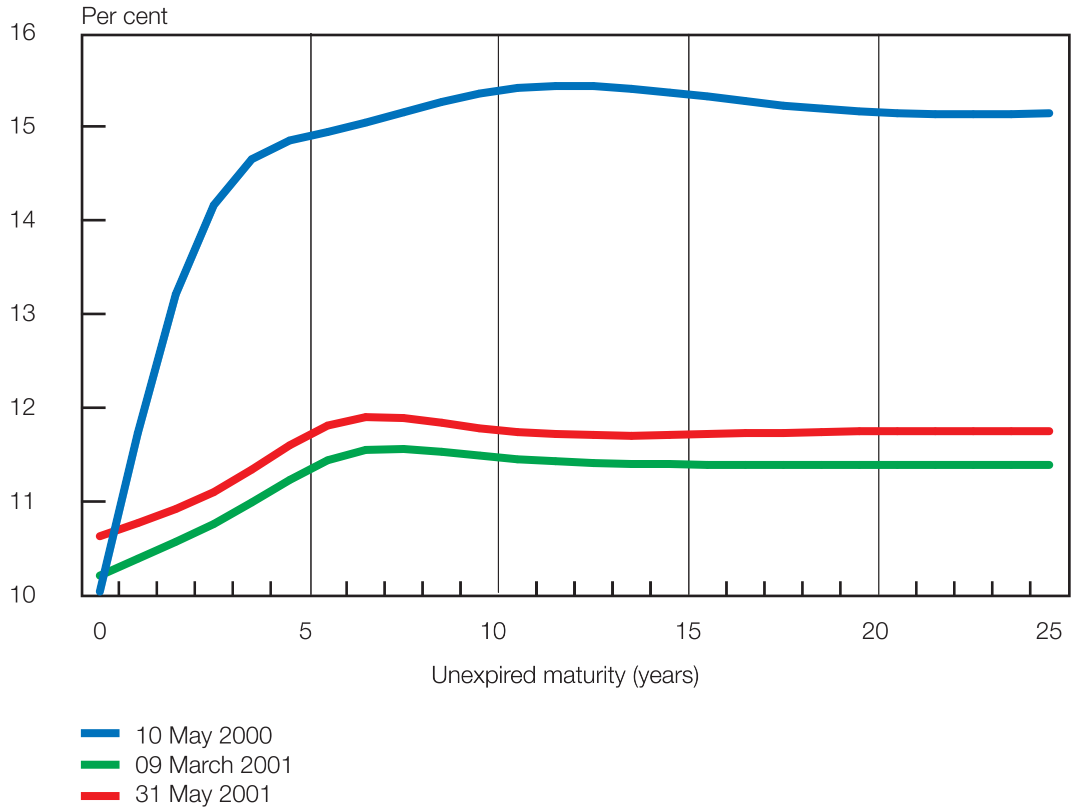
News of falling inflation domestically, and the much improved sentiment in the world securities markets, encouraged some buying interest to return to the South African market in May 2001, resulting in the monthly average yield retracing to 11,9 per cent. After increasing from 11,5 per cent on 12 March 2001 to 12,4 per cent on 24 April, the *daily* average yield on long-term government bonds fell back to 11,8 per cent on 31 May.

Developments in the area of public finance have reinforced the positive mood in the bond market over the past year or so. The smaller-than-expected outturn of the national government Budget deficit in fiscal 2000/01, and decisions by the National Treasury to buy back R7,4 billion worth of long-term debt and to borrow R11,3 billion on the international markets, reduced the expected supply of bonds in the domestic market, raised their price and simultaneously caused yields to decline.

The *inflation-adjusted or real yield* on long-term government bonds declined from 5,3 per cent in November 2000 to 4,0 per cent in February and March 2001 when it dropped to its lowest level since 1994. The rise in nominal yields and the fall in year-on-year CPIX inflation jointly raised the real yield to 5,1 per cent in April 2001.

The upward sloping *yield curve* has become significantly flatter after bond yields peaked for 2000 on 10 May. The yield curve shifted lower over its entire maturity spectrum in the period up to 9 March 2001. Concerns about inflation following the depreciation of the rand against the dollar and the high level of international petroleum prices, as well as heightened uncertainty in international financial markets, pushed the yield curve higher from 9 March 2001 to 23 April. After 23 April 2001 long-term yields declined again, but those on short-dated securities remained broadly unchanged. By the end of May 2001 the yield-differential between short- and long-dated stock had narrowed appreciably, but even at that lower level still reflected some concern about domestic inflation.

Yield curves

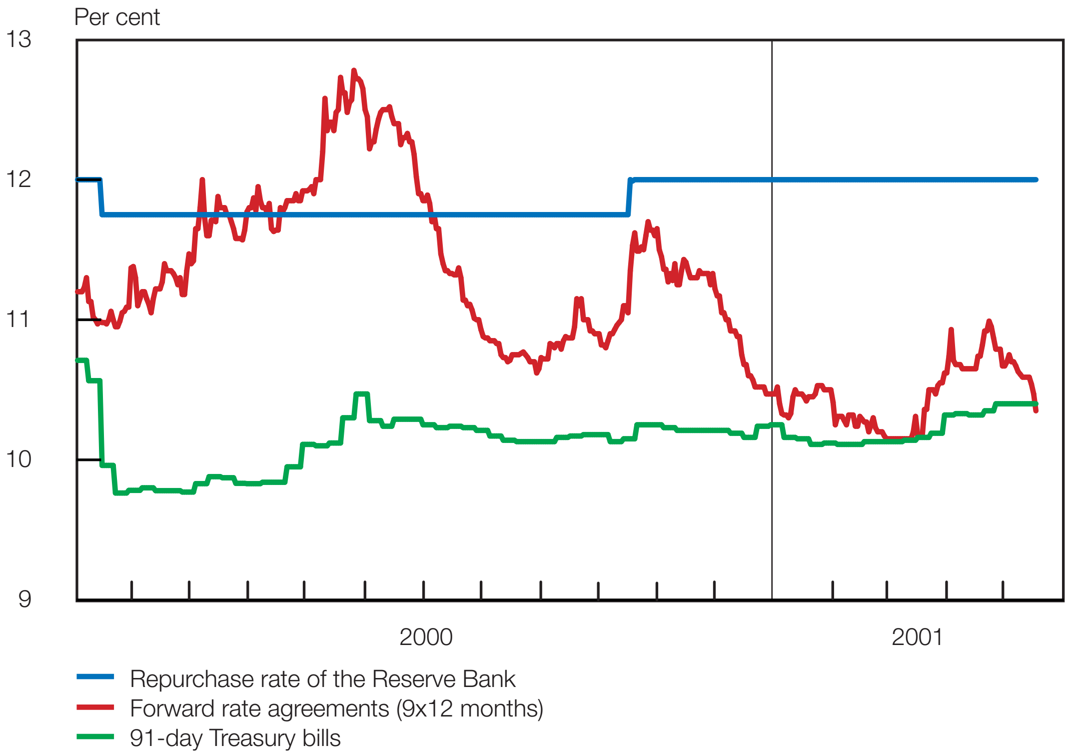


In sharp contrast to the behaviour of the yields on long-term fixed interest securities, short-term money-market rates were atypically stable in 2000 and in the first four months of 2001. The repurchase rate of the Reserve Bank has remained unchanged at a level of 12,00 per cent since 17 October 2000. Other money-market instruments also traded within a narrow interest-rate range during the first quarter of 2001, but some turbulence was encountered in April.

Towards the end of March 2001, uncertainty about movements in money-market interest rates was aggravated by the volatility in the exchange rate of the rand. As the rand depreciated against the US dollar, money-market interest rates moved to their highest levels since the beginning of the year. For instance, the rate on three-month negotiable certificates of deposit increased by a total of 20 basis points from 10,53 per cent on 22 March 2001 to 10,73 per cent on 4 May – a margin of change last seen about a year previously.

The tender rate on 91-day Treasury bills declined from 10,25 per cent on 4 January 2001 to 10,11 per cent on 19 January, but stabilised subsequently and fluctuated within a range of between 10,13 per cent and 10,19 per cent up to 29 April. Upward pressure on this rate was triggered on 30 March 2001 when the amount on tender was increased by R500 million to R2 billion, pushing it higher by 13 basis points. This increase in the amount of 91-day Treasury bills on offer was preceded by an issue of special Treasury bills amounting to R1,0 billion on 20 March, reaching maturity on 30 March. This chain of events was interpreted by some market participants as a signal that the government was experiencing cash-flow problems. The interest rate of 91-day Treasury bills has remained in the region of 10,40 per cent since 4 May 2001, largely reflecting movements in the exchange rate of the rand against the US dollar.

Money-market interest rates



Expectations of increases in money-market interest rates, as portrayed by rates on forward contracts, receded in the last two months of 2000 and the first two months of 2001. For instance, the rate on 9x12-month forward rate agreements (FRAs) declined from 11,70 per cent on 26 October 2000 to 10,15 per cent on 28 February 2001. However, upward pressure returned once again, lifting the rate on 9x12-month FRAs to 10,99 per cent on 23 April 2001. During the last week of April 2001 and the first three weeks of May, sentiment changed noticeably and the rate on 9x12-month FRAs declined to 10,33 per cent on 21 May, clearly signalling that market participants were expecting a general decline in money-market interest rates over the coming year.

Since February 2000, the private banks have kept the *predominant rate on mortgage loans* unchanged at 14,5 per cent – the lowest rate since 1988. The *predominant rate on twelve-month fixed deposits with banks* showed some variability within a range of between 8,5 per cent and 9,5 per cent in 2000, ending the year at 9,25 per cent. In January 2001 the rate was raised to 9,5 per cent and left unchanged at this level.

Money market

Money-market conditions eased marginally during the first two months of 2001 but tightened somewhat in March and April. The average daily liquidity requirement of the private banks decreased from R10,2 billion in December 2000 to R9,2 billion in February 2001, but increased to R10,3 billion in March and R11,0 billion in April. The relatively high level of liquidity required by private banks was achieved through various Reserve Bank interventions in the money market.

During the first four months of 2001 liquidity was injected into the money market through an increase in the Bank's net foreign assets and through losses realised on forward foreign-exchange transactions. Increases in the Reserve Bank's net foreign assets added R0,7 billion to money-market liquidity and losses realised on forward foreign-exchange transactions added another R5,0 billion.

In its intervention in the money market, the Reserve Bank engaged private banks in swap transactions against foreign-currency deposits. The outstanding amount of these swaps increased from R15,2 billion at the end of December 2000 to R22,1 billion at the end of April 2001. As a further measure to drain liquidity, the Bank increased the amount of its outstanding debentures from R3,0 billion at the end of December 2000 to R4,0 billion at the end of April 2001. These liquidity-draining operations were reinforced by the Bank stepping up its reverse repurchase transactions in government securities with private-sector parties from R3,8 billion at the end of December 2000 to R5,7 billion at the end of April 2001.

Following the usual seasonal pattern, notes and coin in circulation outside the Reserve Bank decreased by R4,2 billion during January and February 2001. A relatively small increase of R1,0 billion in notes and coin in circulation outside the Reserve Bank during March and April tightened liquidity conditions in the money market somewhat, helping the Bank in its efforts to counteract undue easing in the banks' liquidity position.

The Bank has continued to provide fully in the liquidity needs of the banks, sending a signal that it considered appropriate the prevailing interest rate on repurchase transactions.

Bond market

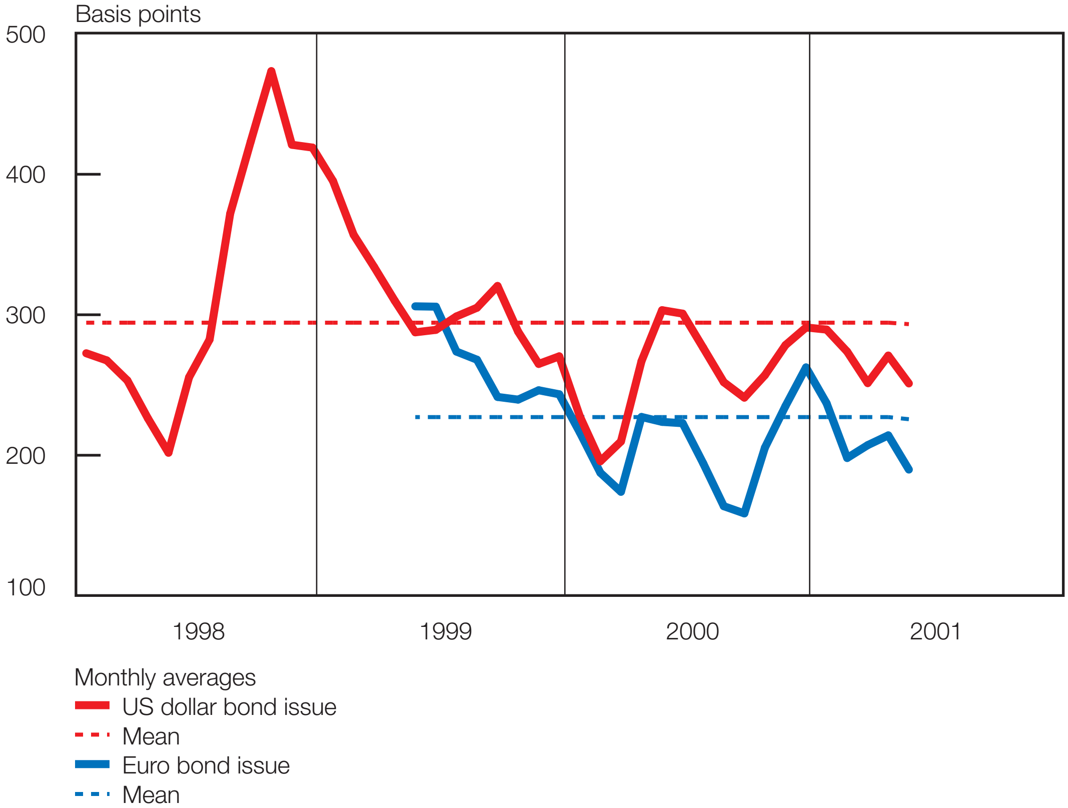
Total *net issues of fixed-interest securities* by the *public sector* in the *domestic primary bond market* fell from R4,9 billion in fiscal 1999/2000 to R2,5 billion in fiscal

2000/01. The main reason for this steep decline was the smaller demand for loanable funds following the reduction in the public-sector borrowing requirement and national government's increased recourse to offshore borrowing. Furthermore, for the greater part of the past fiscal year, government preferred to meet its funding requirements by issuing lower-cost Treasury bills rather than long-term paper. There were also major redemptions of debt by national government and Transnet, especially in the fourth quarter of 2000 and in the first quarter of 2001.

Potential pressures on the domestic capital markets were relieved during 2000 when public-sector borrowers mobilised a total amount of R10,1 billion on *international markets* through three *foreign-currency denominated bond issues*. The offshore borrowing programme of the public sector for fiscal 2001/02 was opened in April 2001 when an amount of €500 million was raised through the issuance of a 7-year bond. The proceeds of this loan accounted for about 32 per cent of the budgeted foreign borrowing programme of R11,3 billion for the current fiscal year.

The eurobond issue in April 2001 carried a coupon interest rate of 7,0 per cent and was priced at 272 basis points above securities of the German Federal Government with a similar maturity. However, the effective cost of the loan in rand terms will eventually be determined by changes in the exchange rate of the rand against the euro over the maturity of the bond. Borrowing-cost considerations apparently favoured issuing bonds in the eurobond market; as indicated in the accompanying graph, the sovereign risk premium on South African debt over the past two years has consistently been lower in Europe than in the United States.

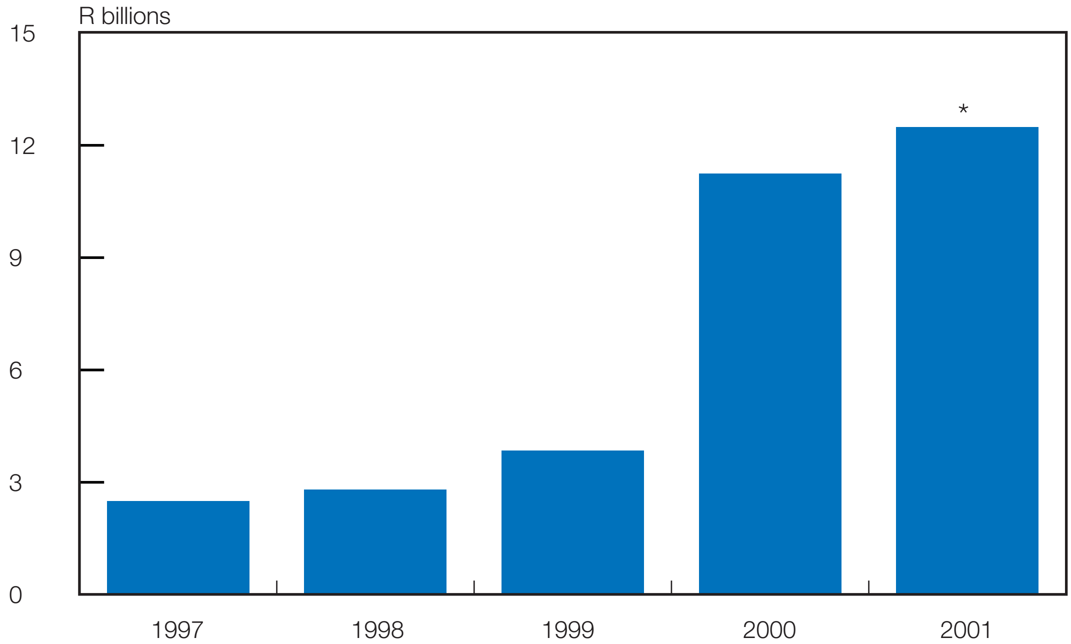
Sovereign risk premium on South African government bonds



In contrast to the interest shown by foreign investors in the market for South African foreign-currency denominated debt, net redemptions of rand-denominated bonds in the *eurorand market* by non-resident borrowers amounted to R3,0 billion in the whole of 2000 and R0,3 billion in the first four months of 2001. Mainly because of this obvious lack of interest, South African issuers also refrained from issuing rand-denominated debt in the eurorand market, having last made an issue in March 1999.

Activity in the corporate bond market is picking up quite strongly. The increase in *private sector issues of fixed-interest securities* that began in calendar year 2000, gained further momentum in the first three months of 2001. The outstanding nominal value of private-sector loan stock listed on the Bond Exchange of South Africa, excluding "stripped bonds", increased almost threefold from R3,8 billion in December 1999 to R11,2 billion in December 2000 and rose further to R12,5 billion in March 2001.

Outstanding nominal value of private-sector loan stock listed on the Bond Exchange of South Africa at 31 December



* April 2001

The value of bonds traded on the Bond Exchange of South Africa receded from a record quarterly value of R2,8 trillion in the first quarter of 2000 to a quarterly average of R2,6 trillion in the remainder of 2000, but increased slightly to R2,7 trillion in the first quarter of 2001. Despite heightened volatility in bond yields and continued non-resident participation, turnover in the *domestic secondary bond market* decreased from a monthly average of R0,9 trillion in the first quarter of 2001 to R0,8 trillion in April, essentially because of the bunching of public holidays in that month. The value of bonds traded amounted to R1,1 trillion in May – a monthly all-time record.

On a net basis, *non-residents* sold bonds to the value of R20,2 billion in 2000 and R3,5 billion in the first five months of 2001. Net sales of bonds by non-residents in the *secondary bond market* more than doubled from a quarterly average of R2,4 billion in the third and fourth quarters of 2000 to R5,8 billion in the first quarter of 2001, even though they bought bonds to the net amount of R3,2 billion in March. In April 2001, non-resident investors once again sold bonds on a net basis to the amount of R0,5 billion, but they returned to the market as net buyers in May to the amount of R2,8 billion.

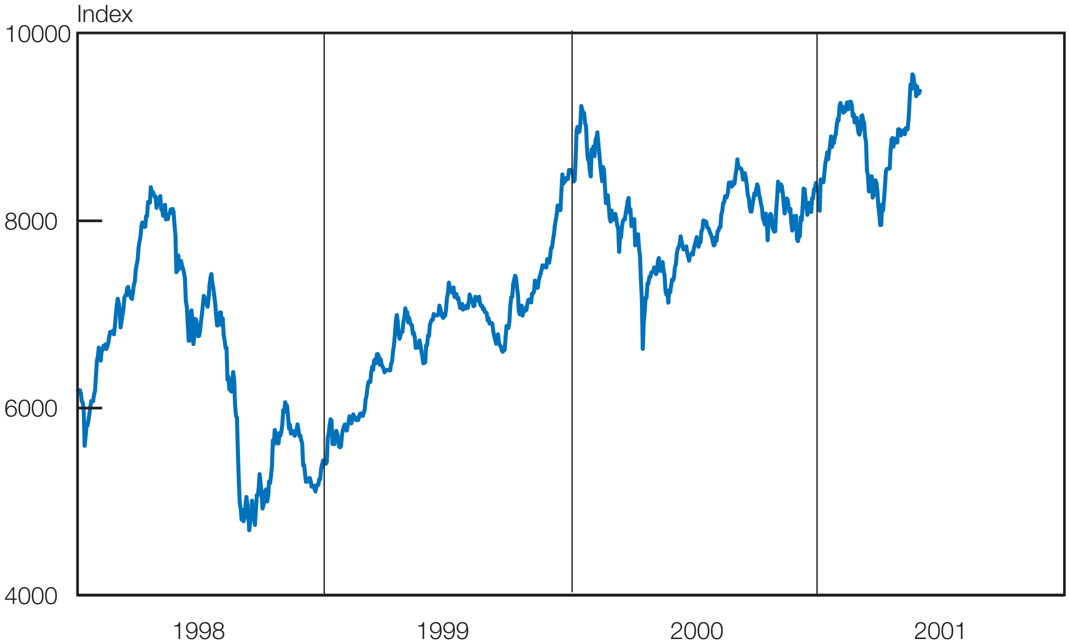
Share market

The *monthly average price level of all classes of shares* increased by 24 per cent from a most recent low in May 2000 to February 2001. Fund managers' and other investors' outlook on corporate profitability in South Africa became less favourable in the ensuing two months, consistent with a downward revision of expectations of dividend and earnings growth. The average monthly level of share prices consequently declined by 7 per cent from February 2001 to April.

The rerating of earnings growth in South Africa was probably influenced more by price movements in the major international equity markets than by profit warnings and other news about the potential earnings of local companies. Particularly sharp falls occurred in the share prices of companies operating in high-technology sectors. These were followed by a noticeable recovery in global equity markets after the fourth and the fifth reductions in the US official interest rate in 2001, reversing the downward movement of prices in the US market over the previous year. South African shares rallied too and the monthly average share price level increased by 8 per cent in May 2001.

On a daily basis the closing level of the all-share price index fell by 14 per cent between 16 February 2001 and 3 April. The all-share price index subsequently recovered to a level on 21 May 2001 that was 20 per cent above the level of 3 April and 3 per cent above the previous all-time high of 16 February 2001.

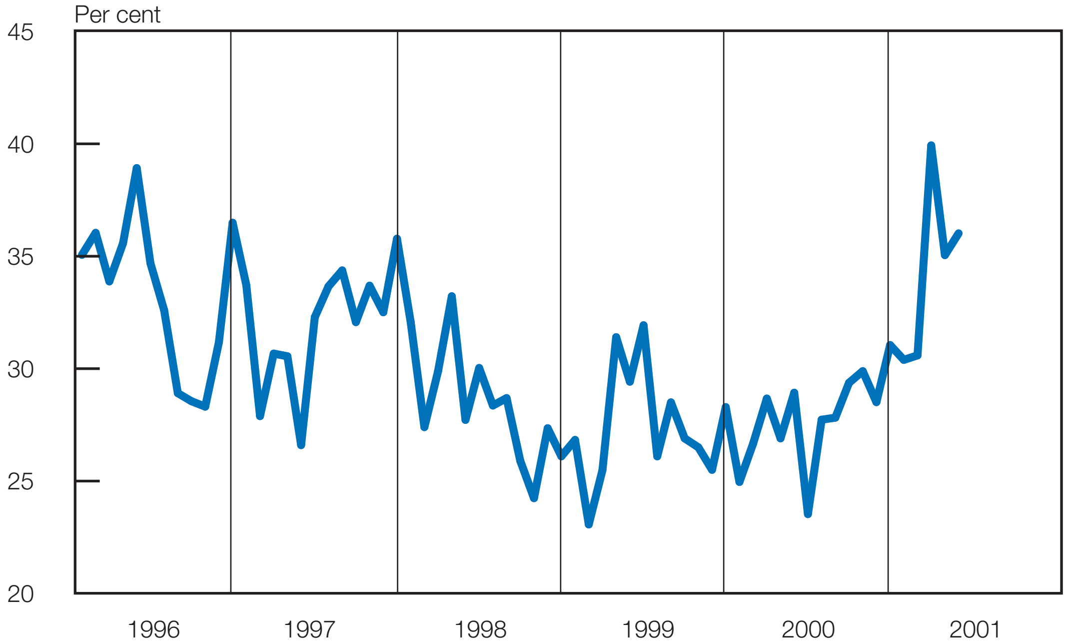
All-share price index



The quarterly value of net purchases of shares by *non-residents* in the *secondary share market* fell back from R9,3 billion in the third quarter of 2000 to only R2,2 billion in the fourth quarter, but rebounded to R9,4 billion in the first quarter of 2001. However, on a monthly basis, non-residents' net purchases declined from R4,0 billion in February 2001 to R2,3 billion in March and R2,8 billion in April before increasing to R3,7 billion in May. In the first five months of 2001, non-residents bought shares on a net basis to the value of R15,9 billion.

In the secondary share market the sudden price correction and heightened volatility encouraged the buying and selling of shares in the first quarter of 2001. Foreign participation in the *secondary share market*, measured as the gross transaction value of non-residents' purchases and sales of shares as a percentage of total purchases and sales of shares, increased sharply from an average level of 28 per cent in 2000 to almost 40 per cent in March 2001. The quarterly value of shares traded on the JSE Securities Exchange SA increased from R131 billion in the fourth quarter of 2000 to R147 billion in the first quarter of 2001 – i.e. only 5 per cent below the quarterly all-time high turnover of R155 billion in the first quarter of 2000. The small number of trading days caused turnover to fall back to R45 billion in April 2001, from a monthly average of R49 billion in the first quarter. The value of shares traded amounted to R57 billion in May, the highest level ever recorded in a calendar month.

Non-resident participation in the secondary share market



Volatile price movements were reflected in the amount of funding sought by listed companies in the *primary share market*. The total value of *equity capital raised* declined from R30,1 billion in the third quarter of 2000 to R12,5 billion in the fourth quarter and to only R3,9 billion in the first quarter of 2001. Equity financing in the primary share market amounted to R0,3 billion in April.

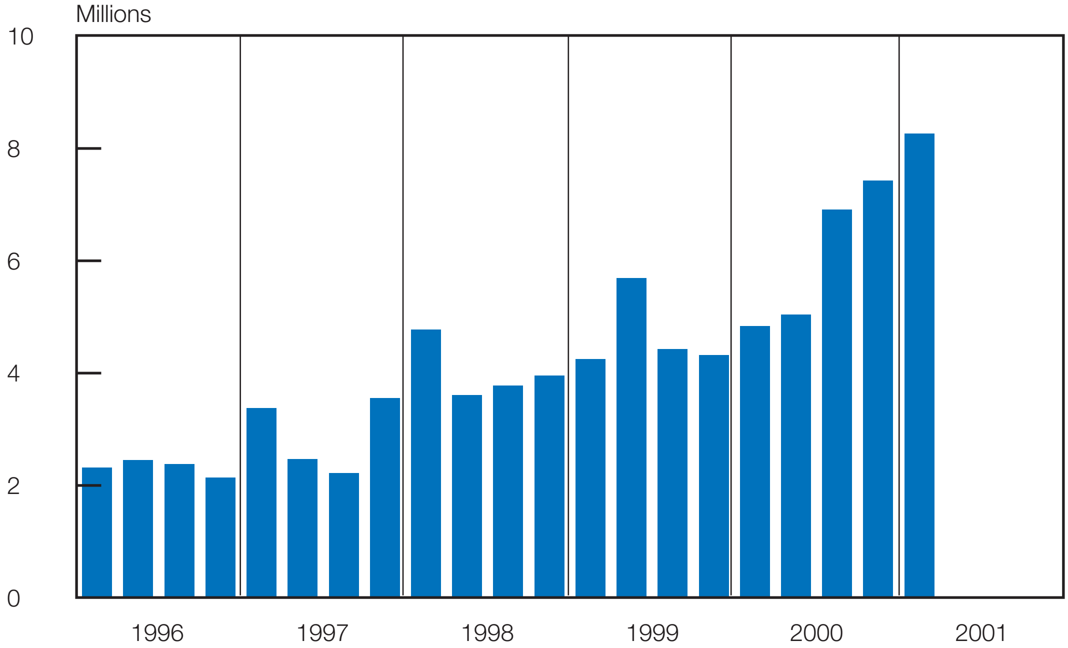
Strong earnings growth took the *price-earnings ratio* of all classes of shares, excluding gold-mining shares, down from 16,4 in January 2000 to 10,4 in April 2001, i.e. to its lowest level since the last quarter of 1998 at the time of the international financial crises. In May 2001, the price-earnings ratio rose to 11,4. The *earnings yield* of the non-gold sector rose from 6,1 per cent in January 2000 to 9,6 per cent in April 2001 and 8,8 per cent in May. The *dividend yield on all classes of shares* increased too, from 1,9 per cent in January 2000 to 3,1 per cent in April 2001 and 2,9 per cent in May.

Market for derivatives

Price volatility in the domestic securities markets and non-resident participation prompted trading in the market for derivative products in the first five months of 2001.

The combined number of *futures and options on futures contracts* traded on the South African Futures Exchange in a quarter reached consecutive all-time highs of 7,4 million in the fourth quarter of 2000 and 8,3 million in the first quarter of 2001. The number of these contracts traded subsequently decreased from a monthly average of 2,8 million in the first quarter of 2001 to 1,5 million in April and then increased to 3,0 million in May.

Derivatives market



Number of futures and options on futures contracts traded

The number of *commodity futures contracts and options* on such contracts traded in the Agricultural Market Division of the South African Futures Exchange increased from 134 000 in the fourth quarter of 2000 to a quarterly all-time high of 209 400 in the first quarter of 2001. The monthly number of such contracts traded peaked at 81 300 in February 2001. Trading decreased from a monthly average number of about 69 800 contracts in the first quarter of 2001 to 38 000 in April and then increased to 63 000 in May.

The number of *warrants* traded on the JSE Securities Exchange SA increased from 3,2 billion in the fourth quarter of 2000 to an all-time quarterly high of 5,0 billion in the first quarter of 2001. Trading subsequently declined slightly from a monthly average of 1,7 billion contracts in the first quarter of 2001 to 1,5 billion contracts in April and then increased to the highest number ever of 2,2 billion in May.

Real-estate market

Activity in the real-estate market became increasingly buoyant in 1999 but then levelled off in 2000. The seasonally adjusted value of transactions increased from R5,9 billion in the first quarter of 1999 to R9,9 billion in the first quarter of 2000 in reaction to the decline in mortgage bond rates. The value of transactions then levelled off at a relatively high average amount of R9,8 billion per quarter for the remainder of 2000 as mortgage rates remained unchanged at their lowest levels in 12 years.

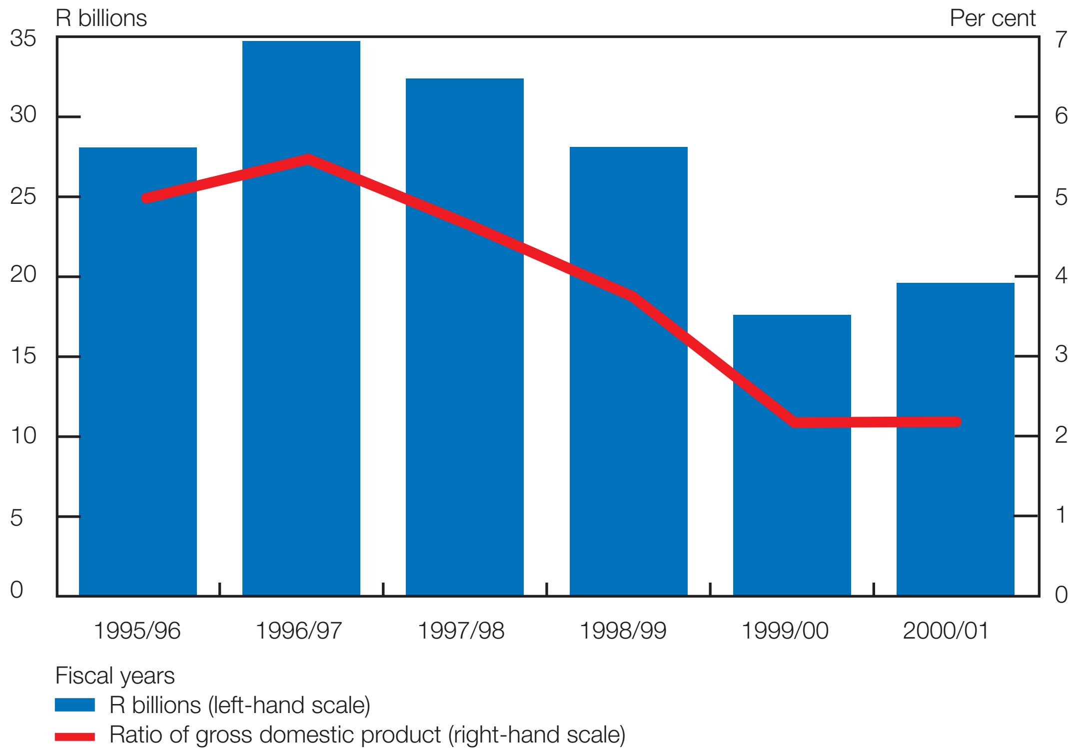
The movement in share prices of companies listed in the real-estate and building, construction and engineering sectors of the JSE Securities Exchange SA reflected positive sentiment in the real-estate market. Optimism in the construction sector was also buoyed by expectations of increased construction activity stemming from infrastructural development and flood damage repairs by the national government and other public-sector agencies.

Public finance

Non-financial public-sector borrowing requirement

The financial activities of the *non-financial public sector* (i.e. those of the consolidated central government, provincial governments, local authorities and non-financial public enterprises and corporations) led to a deficit of R6,8 billion in the first quarter of 2001. This brought the non-financial public-sector borrowing requirement for fiscal 2000/01 to R19,6 billion which was R2,0 billion more than in the previous fiscal year. Although the borrowing requirement widened in nominal terms, it remained unchanged as a ratio of gross domestic product at 2,2 per cent. The latest ratio was nevertheless markedly lower than the average ratio of 4,2 per cent in the preceding five fiscal years.

Non-financial public-sector borrowing requirement

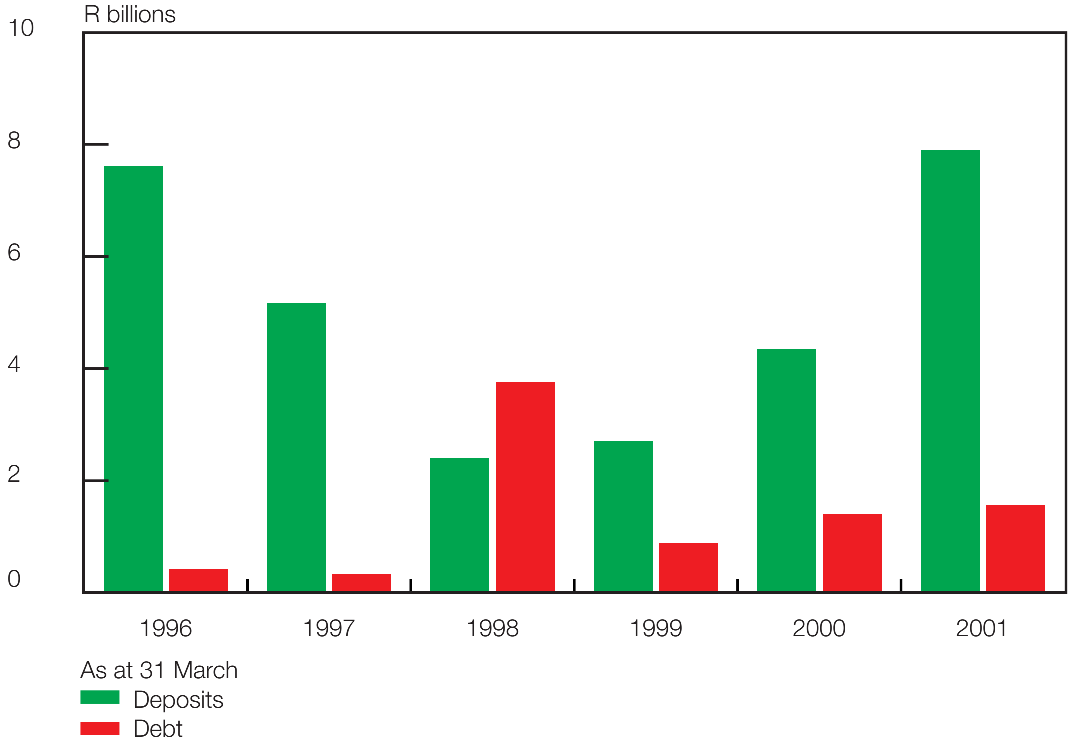


The widening of the overall borrowing requirement was largely due to an increase in the borrowing requirement of the general government. The financial position of the non-financial public-sector businesses deteriorated slightly from a borrowing need of R1,7 billion in fiscal 1999/2000 to R1,8 billion in fiscal 2000/01.

The finances of the *consolidated general government* were turned around from a surplus of R3,7 billion in the October to December quarter of 2000 to a deficit of R5,4 billion in the January to March quarter of 2001, bringing the borrowing requirement for the full fiscal year to R17,7 billion. Prudent financial management by the provincial governments caused their combined surpluses to increase, but this was offset by an increase in the borrowing requirement of the consolidated central government.

For the full fiscal year 2000/01 the provincial governments recorded a surplus of R3,6 billion – R2,2 billion more than in fiscal 1999/2000. The bank indebtedness of the provincial governments nevertheless rose from R1,4 billion at the end of March 2000 to R1,6 billion at the end of March 2001, but their balances with the banking sector increased from R4,4 billion to R7,9 billion over the same period.

Bank debt and deposits of provincial governments

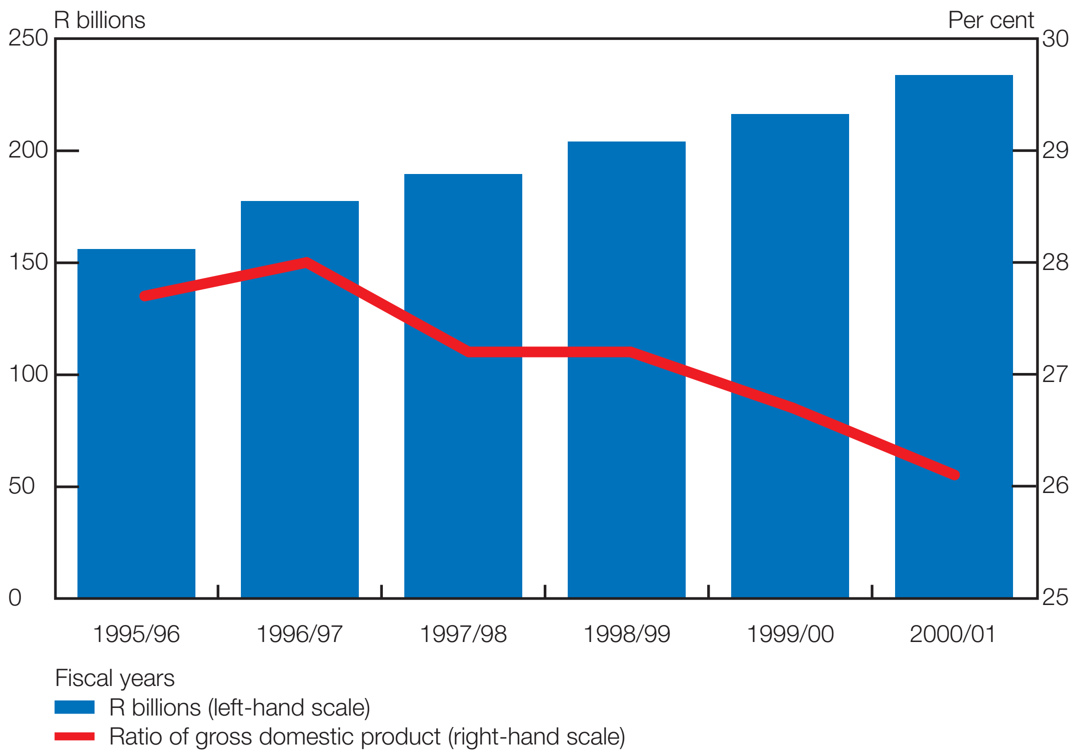


The borrowing requirement of the *consolidated central government* in fiscal 2000/01 widened at the level of national government and social security funds. This deterioration was mainly because extraordinary receipts and payments were included in the accounts. Consolidated central government finances would have improved had it not been for these extraordinary transactions.

National government finance

National government expenditure in the final quarter of fiscal 2000/01 amounted to R66,4 billion, bringing the unaudited expenditure of national government in fiscal 2000/01 to R233,8 billion – R0,3 billion more than the amount originally budgeted. The year-on-year rate of increase in government expenditure amounted to 8,0 per cent in fiscal 2000/01, only just exceeding the target of 7,9 per cent set in the Budget. The year-on-year increase of 8,0 per cent in national government expenditure in fiscal 2000/01 was higher than the increase of 6,1 per cent recorded in the previous fiscal year, but substantially lower than the average year-on-year rate of increase of 10,0 per cent in the preceding five fiscal years. In the budget proposals for fiscal 2001/02, national government expenditure was estimated to amount to R258,3 billion, representing an increase of 10,5 per cent on the actual expenditure for fiscal 2000/01.

National government expenditure



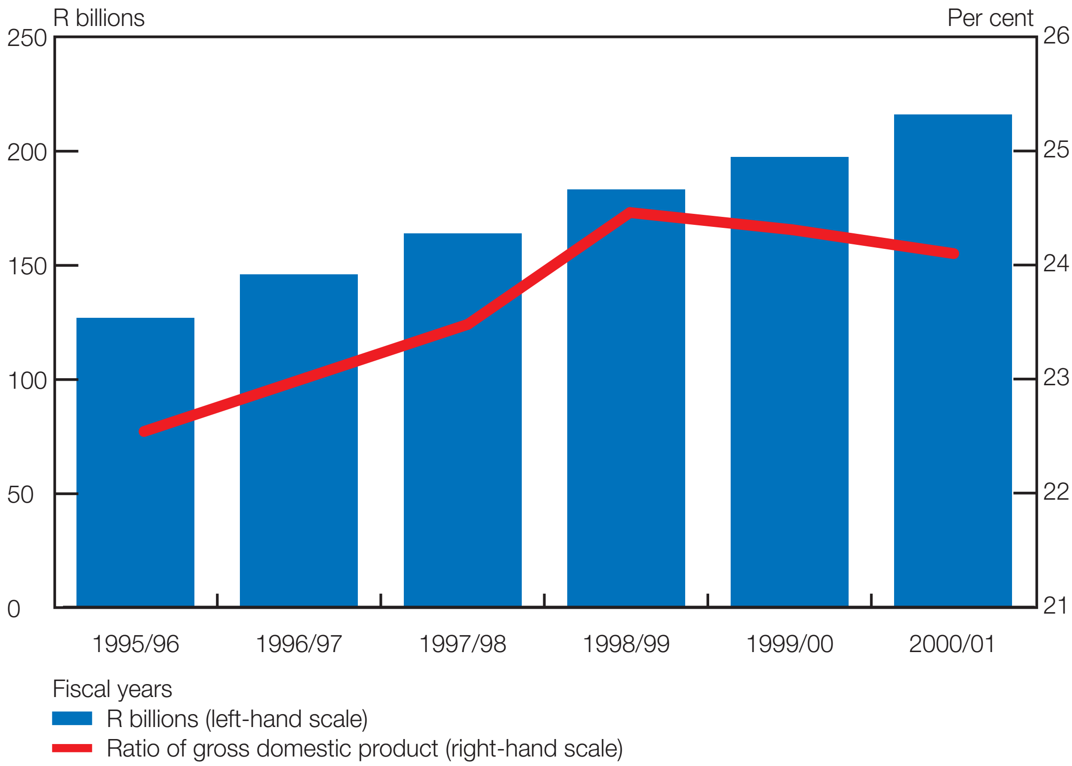
Interest payments of national government increased to R46,2 billion or by 4,9 per cent in fiscal 2000/01. Although this rate of increase was somewhat higher than the 3,2 per cent increase recorded in the previous year, it was significantly lower than the average rate of increase of 13,8 per cent in the preceding five fiscal years. Appropriate borrowing strategies, together with the continuous annual decrease in the borrowing requirement of government, jointly contributed to the decrease in debt service cost. In the Budget presentation for fiscal 2001/02, the Minister of Finance projected that debt service cost would decrease from 5,5 per cent of gross domestic product in fiscal 1999/2000 to 4,4 per cent in fiscal 2003/04. In fiscal 2000/01 interest payments as a ratio of total expenditure amounted to 19,8 per cent.

National government transferred 40,4 per cent of its total expenditure to provincial governments as their equitable share of the revenue pool. Only 3,0 per cent of overall national government spending was allocated for acquiring capital assets.

As a ratio of gross domestic product, national government expenditure in fiscal 2000/01 amounted to 26,1 per cent, compared with 26,7 per cent in the preceding fiscal year. This decline in national government expenditure as a ratio of gross domestic product is a continuation of the trend established since fiscal 1996/97.

After allowing for cash-flow adjustments (i.e. transactions recorded as a result of timing differences between the recording of transactions and bank clearances, and late departmental requests for funds), government expenditure amounted to R234,3 billion in fiscal 2000/01, which was 9,4 per cent higher than in the previous fiscal year.

National government revenue



National government revenue in the final quarter of fiscal 2000/01 amounted to R64,0 billion or 16,1 per cent more than in the corresponding period of the previous fiscal year. This brought the unaudited revenue for fiscal 2000/01 as indicated in the preliminary Statement of National Revenue, Expenditure and Borrowing to R216,1 billion, representing a year-on-year rate of increase of 9,5 per cent. The preliminary outcome was R5,7 billion more than projected in the original Budget and the rate of increase was appreciably higher than the 6,6 per cent growth envisaged at that time, mainly because of the improved efficiency of tax collection. The rate of increase in national government revenue in fiscal 2000/01 was also higher than the rate of increase of 7,8 per cent recorded in the previous fiscal year, but was well below the average year-on-year rate of increase of 12,1 per cent recorded in the preceding five fiscal

National government revenue in fiscal 2000/01
R billions

Revenue source	Budgeted	Actual
Taxes on income and profits	121,3	125,9
Payroll taxes..	1,4	1,2
Taxes on property	3,3	4,0
Domestic taxes on goods and services................	79,4	79,0
Taxes on international trade and transactions	6,5	8,3
Other revenue	6,9	6,1*
Less: SACU** payments	8,4	8,4
Total revenue..	210,4	216,1

* Including R0,8 billion received in the National Revenue Fund but not yet cleared to a specific tax source

** Southern African Custums Union

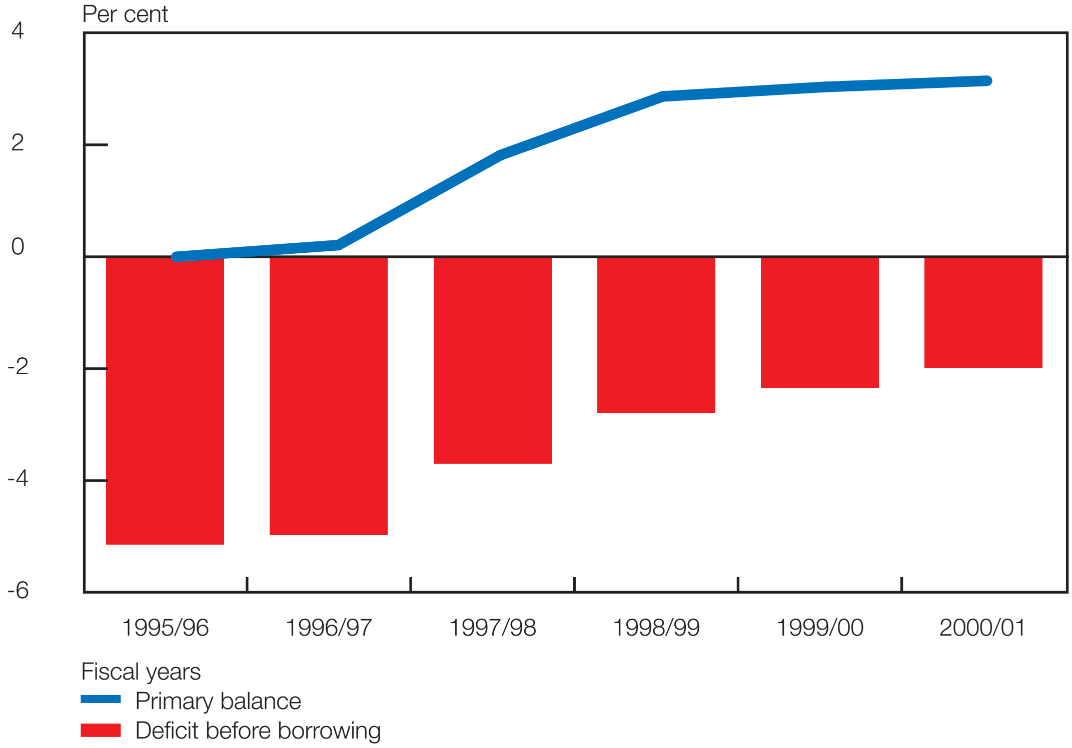
years. At the time of presenting the Budget for fiscal 2001/02 to Parliament, national government revenue was projected to increase to R233,4 billion – representing an increase of 8,0 per cent on the actual outcome of the preceding fiscal year.

As indicated in the table, the increase in national government revenue was primarily due to strong growth in taxes on income and profits and in taxes on international trade and transactions. An amount of R0,8 billion was received by the National Revenue Fund but not yet allocated to any specific tax source. However, current indications are that none of the revenue categories seriously underperformed relative to the original Budget projections.

National government revenue as a ratio of gross domestic product amounted to 24,1 per cent in fiscal 2000/01 compared with 24,3 per cent in the previous fiscal year. National government revenue, adjusted for differences in timing between the recording of transactions and bank clearances, amounted to R216,0 billion, representing an increase of 9,4 per cent in fiscal 2000/01 compared with the previous fiscal year.

The net result of the higher-than-budgeted revenue and close-to-budgeted expenditure was a *national government deficit before borrowing and debt repayment* of R17,7 billion in fiscal 2000/01 – well below the deficit of R23,1 billion envisaged in the original Budget and the revised estimate of R21,7 billion announced in February 2001. As a ratio of gross domestic product, the national government deficit before borrowing and debt repayment amounted to 2,0 per cent in fiscal 2000/01 compared with 2,3 per cent in the previous fiscal year and the 2,8 per cent originally budgeted for the full fiscal year. The primary balance (i.e. the deficit recalculated by excluding interest payments from total expenditure) reached a surplus of 3,2 per cent of gross domestic product in fiscal 2000/01, slightly higher than the 3,1 per cent recorded in the previous fiscal year.

National government balances as a ratio of gross domestic product



The deficit before borrowing and debt repayment, adjusted for cash flows, amounted to R18,3 billion in fiscal 2000/01. Apart from financing this deficit, national government also had to fund the cost of revaluing maturing foreign loans and some debt of the South African Rail Commuter Corporation.

Although the proceeds from the restructuring of state assets were less than anticipated in the original Budget, they nevertheless contributed significantly to financing the national government deficit in fiscal 2000/01. Receipts from this source included R0,4 billion from the restructuring of the South African Special Risks Insurance Association (Sasria), R1,8 billion from a special restructuring dividend paid by the transport utility Transnet and R0,6 billion received from the telecommunications corporation, Telkom. In a public announcement by the Minister of Public Enterprises, government's commitment to the National Framework Agreement on the restructuring of state-owned enterprises was reaffirmed. The Minister acknowledged organised labour's concerns regarding these developments, but stated clearly that interaction among all parties involved in the process would continue and that progress would be sought within the principles of sound corporate governance.

After taking the extraordinary transactions into consideration, the net borrowing requirement of national government amounted to R18,6 billion. The greater part of this borrowing requirement was financed by means of new issues of Treasury bills in the first eleven months of fiscal 2000/01. However, Treasury bills to the amount of R5,6 billion were redeemed in March 2001, making government bond issues the preferred financing instrument for the full fiscal year. During March 2001 a small amount of R14,4 million was drawn on the export credit facility that had been arranged specifically for the Special Defence Procurement Programme, bringing the total utilisation of this facility in fiscal 2000/01 to R2,0 billion and total foreign loans to R2,6 billion.

Long-term funding in fiscal 2000/01 was obtained at an average rate of 11,8 per cent per annum and short-term instruments were sold at an average rate of 9,9 per cent per annum. These rates were appreciably below the Budget assumptions of 13,6 per cent and 11,0 per cent respectively.

National government financing in fiscal 2000/01

R millions

	Originally budgeted	Actual
Deficit	**23 052**	**18 256**
Plus: Extraordinary payments	2 200	2 281
Revaluation of maturing foreign loans	560	735
Less: Extraordinary receipts	5 000	2 706
Net borrowing requirement	**20 812**	**18 566**
Domestic primary capital market		
Government bonds	...	6 892
Less: Discount on government bonds	...	576
Net receipts from domestic government bonds issued	**10 140**	**6 316**
Treasury bills	3 500	4 979
Foreign loans	5 172	2 637
Change in available cash balances*	2 000	4 634
Total net financing	**20 812**	**18 566**

* Increase -, decrease +

The borrowing requirement of the national government and the discount on new government bond issues led to an increase in the *total debt of national government* from R390,4 billion at the end of March 2000 to R417,5 billion at the end of March 2001. Included in this aggregate is the unaudited balance on the Gold and Foreign Exchange Contingency Reserve Account which increased from R9,2 billion at the end of March 2000 to R18,2 billion at the end of March 2001. As a ratio of gross domestic product, national government debt decreased from 48,1 per cent at the end of March 2000 to 46,6 per cent at the end of March 2001.

National government debt