Quarterly Bulletin

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South African Reserve Bank

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Quarterly Economic Review

Introduction

Economic growth in the industrialised world was slowing towards the end of 2000, mainly because monetary policies were tightened in many countries from the second half of 1999 and the cost of imported petroleum rose sharply. Several central banks around the world have had to tighten their policies since the middle of 1999, as precautionary measures against the potentially inflationary consequences of robust economic expansion and higher petroleum prices.

Currently it is widely acknowledged that the impact of petroleum prices on economic activity and inflation in industrialised countries is less severe than in the past, mainly because the oil intensity of production processes has been reduced over time. Moreover, there is little evidence of any strong wage responses to the rising petroleum prices. Naturally, this would reduce the possibility of a disruptive wage-price spiral towards persistently higher inflation.

In the absence of a serious threat to overall price stability, central banks could respond promptly to the first indications that a downturn in economic activity is imminent. The current easing of monetary policies in many countries raises the prospect that the global economic weakness may eventually turn out to be mild and of relatively short duration.

Very little of the global slowdown was seen in the South African economy during the second half of 2000. On the contrary, economic growth accelerated to 4 per cent in the third quarter of 2000. For the whole of 2000 economic growth came to 3 per cent – the highest growth in any calendar year since 1996.

Admittedly, growth in the real gross domestic product slowed down to 3 per cent in the fourth quarter of 2000. But this slowdown was more a consequence of agricultural output topping out at the high level attained in the third quarter than of emerging recessionary forces. Stronger growth continued in the secondary sectors, more specifically in the manufacturing sector, and real value added by the mining sector picked up despite a fall in gold-mining output.

On the demand side of the economy, there was a sharp reduction in the pace of inventory accumulation in the fourth quarter of 2000. This held back growth in aggregate domestic demand and production. It is not clear why the inventory build-up shrank so suddenly, but it may eventually turn out to be a consequence of the miscalculation by manufacturers and traders of the strength of total final demand.

Aggregate final demand, alongside export demand, grew at a fast pace in the fourth quarter of 2000. Private households, apparently confidently expecting strong future real income growth, stepped up their spending. Some slowdown in the growth in spending on durable goods was noticed but this may be attributed mostly to prospective buyers of new motorcars postponing their purchases until after the beginning of the new registration year. Fixed capital formation, especially in the private business sector, rose further at a brisk rate as producers and other suppliers continued to expand their productive capacities. General government too made a contribution to the higher growth in aggregate final demand, albeit rather modestly.

The long-term downward slide in the national saving ratio apparently bottomed out in 2000 and gross saving relative to gross domestic product rose in the last two quarters of the year. Saving was boosted by the healthier financial position of companies and the return to a positive gross saving situation in the general government sector. Households, however, remained poor savers and their share of saving relative to gross domestic product remained at a low level up to the end of 2000.

The demand for labour in the formal sectors of the economy fell further in the first three quarters of 2000 – contrary to what might have been expected in an economy where growth and activity have been picking up for some time. The declining levels of employment and the rising rates of under-utilisation of labour resources have, however, contributed to some meaningful moderation of nominal wage growth and strong increases in productivity. The growth in unit labour cost was contained at a modest level and there is reason to believe that labour cost may continue to grow fairly moderately. Recent rises in wage costs relative to output prices are likely to encourage employers to resist excessive demands for higher remuneration. Moreover, last year's gains in nominal household income relative to consumer price increases may introduce some restraint in wage demands.

High international petroleum prices have continued to exert upward pressure on the overall level of prices in the economy. Although the international price of crude oil has fallen from its earlier peak in September 2000, it has remained well above the level recorded late in 1999 and the early part of 2000. Other upward pressures on prices have come from the higher prices of imported intermediate and final goods, following the decline in the weighted value of the rand throughout 2000.

These upward pressures on the price level were checked by the slow growth in unit labour cost in virtually all the main sectors of the economy. There are also indications that keener competition in the domestic market, mainly from external suppliers, is preventing domestic manufacturers and retailers from passing forward their cost increases, thus keeping their operating margins tight. It is not clear whether retailers will continue to succeed in absorbing these cost increases. For this reason there is still some risk that the recent high rates of production price inflation might spill over into higher consumer price inflation in the near term.

As could be expected with a strengthening in aggregate final demand, the growth in the volume and value of imports accelerated in the second half of 2000. The typical result of this acceleration would have been a widening deficit on the current account of the balance of payments or a shrinking surplus. Contrary to expectations, the eventual result was that the balance on the current account changed from a deficit in the third quarter of 2000 to a sizeable surplus in the fourth quarter. A solid rise in merchandise export earnings, having been bolstered by benign international trading conditions and the depreciation of the rand, contributed most to the turnaround in the current-account balance.

International capital flows to and from South Africa during 2000 were dominated by flows of portfolio capital which are known for their volatility. Once again, there was an outflow of portfolio capital in the fourth quarter of 2000 which contributed to the fall into deficit of the balance on the financial account. Overall, the outflow through the financial account was smaller in absolute value than the surplus on the current account of the balance of payments and, as a consequence, the international reserves of the country increased further in the fourth quarter of 2000.

As international investor sentiment towards South Africa turned negative towards the end of 2000 and in the first two weeks or so of 2001, the exchange rate of the rand declined quite steeply. It was only when the news of the proposed restructuring of shareholdings in the De Beers diamond organisation was announced and expectations were raised that a strong inflow of foreign investment capital might follow, that the rand stabilised against other currencies.

Growth in the broadly defined money supply accelerated in the second half of 2000, at first somewhat modestly in the third quarter but later quite vigorously in the fourth quarter. Although this was partly a positive development reflecting the pick-up in overall economic activity, the high growth in money supply would not be consistent with low and stable inflation. This could indicate that the threat of continuously rising prices and expectations of higher inflation might still be lurking and that vigilance should be maintained in the fight against inflation.

Credit extension increased rapidly in the second half of 2000 and was particularly strong in the fourth quarter. Households and private-sector firms were the main recipients of credit extended by banks – bank credit to the government sector actually declined in the fourth quarter. Households were lured back into financing part of their current expenditure by means of debt accumulation while private-sector firms used bank credit for stockbuilding ahead of the festive season and bonus payments to employees. The rise in credit extension to the private sector was also the leading accounting counterpart of the rapid expansion of the broad money supply in the fourth quarter of 2000. The effect of private-sector credit growth on the money supply was only partly offset by a decline in the net foreign assets of banks.

In the primary debt market, the public sector's mobilisation of funds fell back from the levels of the previous year. This was the inevitable result of the steady downward movement in the public-sector borrowing requirement over the past seven years and, what is even more important, of national government's preference for issuing short-term debt instruments at lower interest costs than long-term government bonds. There was some pick-up in capital raising by the private sector, but not nearly enough to fill the void left by the declining public-sector borrowing requirement.

When the supply of new investment instruments declines, the price of fixed-interest securities rises. The yields on bonds, which move inversely to their prices, are expected to decline under these circumstances. The belief among market participants that fiscal policy will remain prudent, that the supply of government securities will be restricted and that inflation will be contained, caused yields on long-term government bonds to decline during most of 2000 and in the early months of 2001. Despite these attractive yields on bonds and the prospect of meaningful capital appreciation, non-resident investors steered clear of the South African bond market, selling bonds on a net basis in 2000 and the early months of 2001 whereas they had been net purchasers in 1999.

Equity capital raised in the primary share market almost doubled from 1999 to 2000, partly reflecting the higher levels of fixed capital formation of private-sector firms. Secondary share market activity was equally buoyant as heightened price volatility encouraged investors and speculators to enter the market.

Share prices fluctuated fairly widely in 2000, but on a net basis there was no gain in the overall share price level from the end of 1999 to the end of 2000. A strong rally in share prices which got under way in December 2000 carried through into 2001 and pushed the all-share price index to a record high in February 2001.

Non-resident investors maintained a presence as net buyers in the South African share market throughout 2000 and early 2001 but their net purchases were well down from the levels of 1999. Warrants on individually listed shares were introduced to the JSE Securities Exchange in 1997 and trading in these instruments continued to grow in popularity during 2000.

Sound management of national government finances ensured that the budgetary projections for fiscal 2000/01 will be approximately realised. The budget deficit relative to gross domestic product is expected to be close to 2,4 per cent, as indicated by the Minister of Finance in February 2000. In the process, the non-financial public-sector borrowing requirement relative to gross domestic product is expected to decline to its lowest level ever. Proceeds from the restructuring of government assets have contributed materially to the reduction in the public-sector borrowing requirement and are expected to do so even more in the year ahead.

Growth in interest payments on public debt was curtailed during the past year and the primary surplus of national government (i.e. the fiscal balance recalculated by excluding interest costs) increased as a portion of gross domestic product. These measures not only released resources for re-allocation towards meeting government's growth, employment and redistribution objectives, but also provided scope for the tax reforms announced by the Minister of Finance when he presented his revenue and expenditure proposals for fiscal 2001/02 to Parliament.

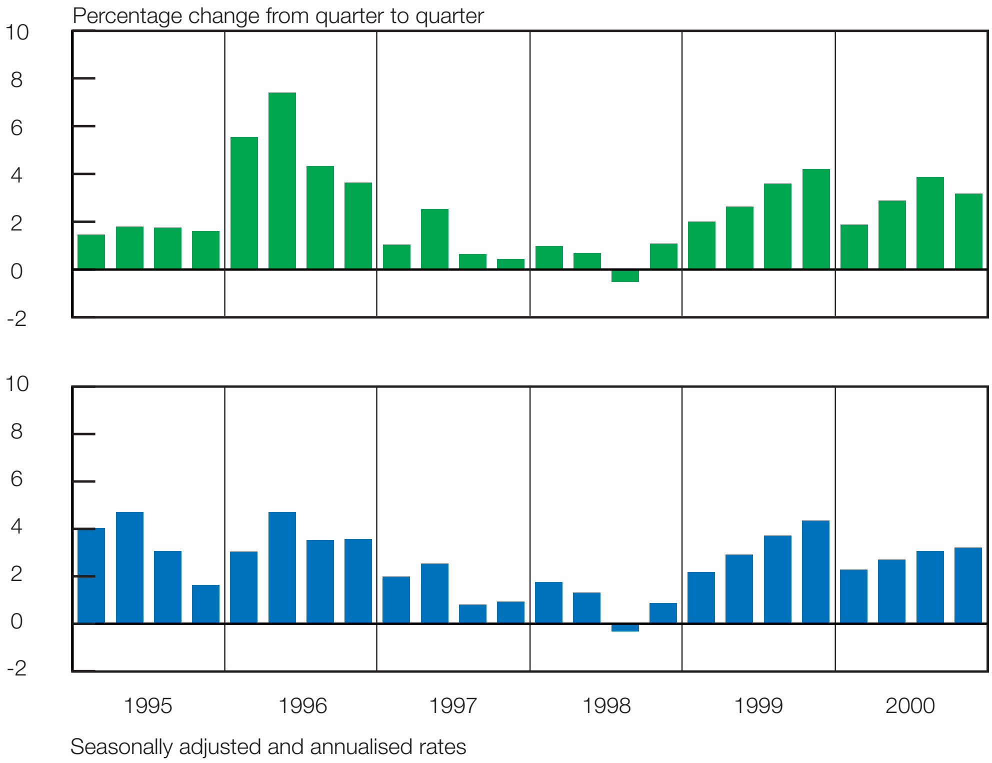
Domestic economic developments

Domestic output

The seasonally adjusted and annualised rate of growth in *real gross domestic product* slowed down from 4 per cent in the third quarter of 2000 to 3 per cent in the fourth quarter. The fourth-quarter slowdown should not be seen as the beginning of a general tapering off of the economy's current growth momentum; it was more the result of lower agricultural output growth than the emergence of recessionary forces in the economy.

Despite the mild slowdown in growth in the fourth quarter of 2000, the economic growth rate for 2000 as a whole was about 3 per cent, up from only 2 per cent in 1999. This has been the highest year-to-year growth rate since 1996 and was also significantly higher than the average growth rate of 1 per cent per year measured over the period from 1985 to 1994.

Real gross domestic product



Aggregate output growth in 2000 was boosted by a turn for the better in the fortunes of the secondary sector. Manufacturing production, in particular, had still been hampered in 1999 by the after-effects of the emerging-markets crisis of 1998 and weak demand in east Asian markets. There had been no growth in real manufacturing output in 1999, but after global economic conditions became more stable, and also assisted by the greater competitiveness of domestic firms following the depreciation of the rand, manufacturing output rose by 3½ per cent in 2000. In the second half of 2000, the manufacturing sector was growing at annualised rates of 4 per cent in the third quarter and 4½ per cent in the fourth quarter. This output expansion was experienced by most of the manufacturing subsectors but there were some laggards, namely the subsectors for food, beverages and tobacco products, clothing, textile and leatherwear and electronic equipment.

Real gross domestic product

Percentage change at seasonally adjusted and annualised rates

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

The *construction sector* was unable to recover fully from the setbacks of 1998 when construction activity had been badly affected by the stern measures taken to restore and then to strengthen macroeconomic balance. Nonetheless, although the real value added by the construction sector still declined by 1 per cent in 2000 – there had been a decline of 4 per cent in 1999 – activity picked up in the course of 2000 and annualised growth accelerated from ½ per cent in the first half of the year to 3 per cent in the second half.

Growth in the real value added by the sector supplying *electricity, gas and water* also accelerated from an annualised rate of about ½ per cent in the first quarter of 2000 to 2½ per cent in the fourth quarter, lifting real value added by this sector for calendar year 2000 to a level that was 4½ per cent higher than in 1999. Domestic electricity generation had to be stepped up because of declining imports from Mozambique where damage was caused by floods to transmission lines at a time when the demand for electricity was rising strongly in South Africa and in neighbouring countries.

Real output in the *agricultural sector* increased robustly in the third quarter of 2000. This high output level was sustained in the fourth quarter, implying that although activity was high, growth was rather flat. For the whole of 2000, agricultural output grew by 4 per cent which was slightly more than the growth rate of 3½ per cent recorded in 1999. Major contributors to the solid growth in 2000 were maize producers who increased their output from 7,9 million tons in 1999 to 10,9 million tons in 2000, and wheat farmers who increased their tonnage from 1,7 million in 1999 to 2,1 million in 2000.

Mining output has declined almost unabatedly since the first quarter of 1998, but production volumes responded in the fourth quarter of 2000 to higher international prices of metals and minerals and stronger demand for especially diamonds and coal. Real value added accordingly increased at a seasonally adjusted and annualised rate of ½ per cent in the fourth quarter of 2000, despite a decline in gold production to its lowest level in 46 years. Calendar-year estimates of real value added by the mining sector still show a decline of about 2 per cent in 2000, somewhat more than the decline of 1 per cent that had been recorded in 1999.

Real value added in the *commercial sector* rose at a seasonally adjusted and annualised rate of 4½ per cent in the fourth quarter of 2000, down from growth of 6 per cent in the second quarter and 5½ per cent in the third quarter. Activity in the motor trade, in particular, slowed down as sales of new motorcars were delayed until the 2001 registration year. The expansion of the retail-trade sector was robust and did not waver from the high growth rates registered in the third quarter. Special promotions which strengthened sales volumes at the expense of operating margins contributed meaningfully to the strong showing of the retail sector. Growth in real value added by the catering and accommodation sector remained strong in the fourth quarter of 2000, underpinned by lively tourist activity. In the end, the overall commercial sector grew by 5 per cent in 2000, compared with only 1½ per cent in 1999 when households were struggling to redress their balance sheets in the aftermath of the international financial crisis of 1998.

The ongoing expansion of cellular telephone and Internet activity kept the growth of the *transport, storage and communication subsector* at an annualised rate of 6½ per cent in the fourth quarter of 2000 – similar to the average growth over the preceding two quarters. The expansion of real value added by this sector in the full calendar year 2000 was also at a robust rate of 6½ per cent.

In the *financial services sector* (embracing financial intermediation, insurance, real-estate and business services) growth maintained a steady pace in the fourth quarter of 2000, but there were signs of some slowing from the third to the fourth quarter. Year-to-year growth, in fact, slowed down in this sector from 6½ per cent in 1999 to 5 per cent in 2000.

The weakening of South Africa's international terms of trade and the increase in income payments to the rest of the world (essentially interest and dividend payments to non-resident investors) curbed growth in the country's *gross national income*. The growth in domestic output was, however, sufficiently strong to override these offsetting factors and growth in real gross national income accelerated from 1 per cent in 1999 to 3 per cent in 2000. Per head of the population, this meant an increase of 1 per cent in gross national income in 2000.

Domestic expenditure

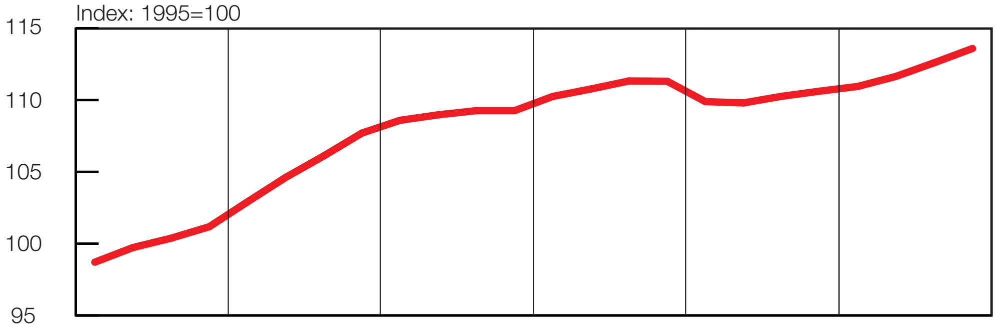
Aggregate real gross domestic expenditure (seasonally adjusted and annualised) increased at a very high rate of 6 per cent in the first quarter of 2000 but faltered somewhat in the second quarter when it declined at a rate of 1 per cent. Growth returned at a rate of 3½ per cent in the third quarter of 2000, and a high level of aggregate spending was sustained in the fourth quarter; this nevertheless implied that growth at a rate of only ½ per cent was not as vigorous as in the third quarter. Final demand kept on growing at an accelerated pace in the fourth quarter of 2000, but inventories were accumulated at a rather sedate rate compared with the strong build-ups of the first three quarters of the year.

An improvement in sentiment in the household sector and greater confidence about future income growth inspired households to raise their real *final consumption expenditure* at a rate of 3½ per cent in the third and fourth quarters of 2000. The buoyancy in consumer spending was also visible in a year-to-year growth rate of 3 per cent in final consumption expenditure by households in 2000, following growth of 1 per cent in 1999.

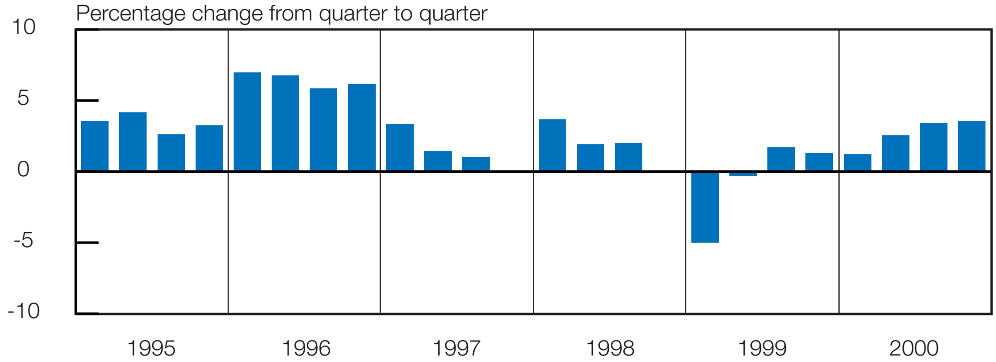
Real gross domestic expenditure
Percentage change at seasonally adjusted and annualised rates

	1999					2000				
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	-½	2½	4	3	1	3½	3	3½	3½	3
Final consumption expenditure by general government	-1½	-1½	-2	-3	-2	-7½	1	1	1½	-2½
Gross fixed capital formation	-23	-9½	-3	-½	-6	2½	3	6	6½	1½
Final domestic demand	-5	-½	1½	1½	-½	1	2½	3½	3½	2
Change in inventories (R billions)	-8,4	5,3	-4,2	1,8	-1,4	8,1	2,4	4,7	0,4	3,9
Gross domestic expenditure	**-11½**	**9½**	**-3½**	**4½**	**0**	**6**	**-1**	**3½**	**½**	**2½**

Real gross domestic final demand



Seasonally adjusted



Seasonally adjusted and annualised rates

The strong household spending in 2000 was underpinned by a healthy increase in the real income of households. Income-tax rates were lowered from the second quarter of 2000 and the steady decline in bank lending rates during 1999 cut the debt-servicing costs of households as a percentage of disposable income from 10½ per cent in 1999 to 8 per cent in 2000. The income from the property of households was boosted by rising profitability in the unincorporated business sector and through an increase in dividend receipts. As a consequence, the real disposable income of households rose by 3½ per cent in 2000, compared with ½ per cent in 1999.

All the major categories of household spending participated in the spending boom of 2000. Growth in spending on durable goods nevertheless slowed down in the fourth quarter of 2000 as prospective buyers of new motorcars delayed their purchases until the new registration year, and spending on furniture and household appliances lost some momentum. But for 2000 as a whole, real spending on durable goods increased by 7 per cent after the crisis-induced decline of 6 per cent in 1999. Expenditure on cellular telephones and Internet equipment remained lively, representing a structural change in the expenditure pattern of households that could have been detrimental to other spending categories.

The growth in real outlays on *semi-durable goods* accelerated towards the end of 2000 as spending on household textiles and glassware and motorcar tyres and accessories picked up. Real outlays on clothing and footwear slowed down slightly in the fourth quarter of 2000.

Growth in real household expenditure on *non-durable goods* slowed down too in the fourth quarter of 2000. Most of the subcategories of non-durable spending slowed down, but real outlays on petrol and other fuels *declined* as households re-aligned their spending patterns to soften the impact of the steep rise in petrol and diesel prices on households' budgets.

Real final consumption expenditure by households

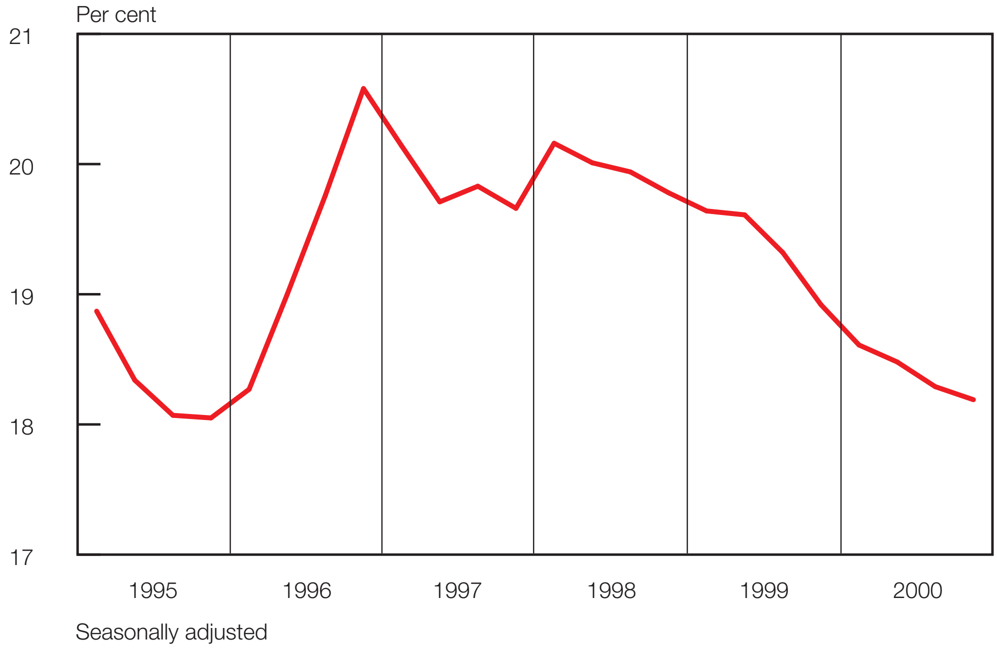
Percentage change at seasonally adjusted and annualised rates

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

Spending on *services* grew briskly throughout 2000. The establishment of the national lottery played a significant part in this: estimates show that about R2,5 billion has been spent on the national lottery since its inception in March 2000. The bulk of the spending on the national lottery represents merely a redistribution of income within the household sector. Final consumption expenditure by households on lottery activity was estimated at about R500 million in 2000, i.e. a relatively small amount relative to total household expenditure. Payments to vendors, and the operating costs and profits of the lottery-operating company are the prominent components of lottery activity included in the estimates of final consumption expenditure by households.

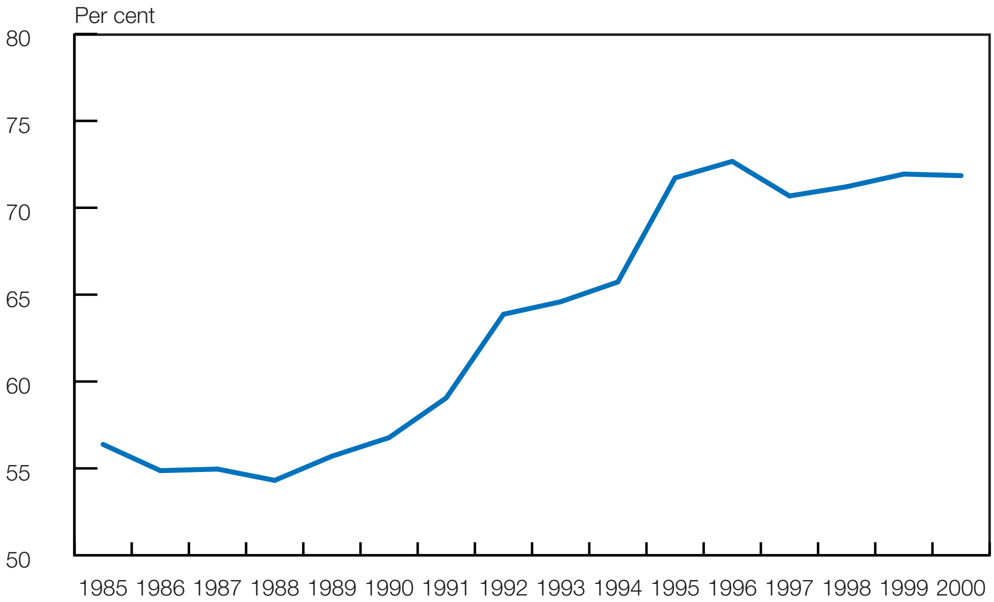
The growth in *real final consumption expenditure by general government* accelerated slightly from an annualised rate of 1 per cent in the third quarter of 2000 to 1½ per cent in the fourth quarter, but for the whole of 2000 government's recurrent

Final consumption expenditure by general government as percentage of gross domestic product



spending was some 2½ per cent lower than in 1999. Valued at constant 1995 prices, real government consumption expenditure in 2000 was back at levels last seen in 1992 and as a percentage of gross domestic product it declined from 19½ per cent in 1999 to 18½ per cent in 2000. This decline was fully consistent with the objectives that government had set out to achieve. The weight of government's spending

Compensation of employees as percentage of total government consumption expenditure

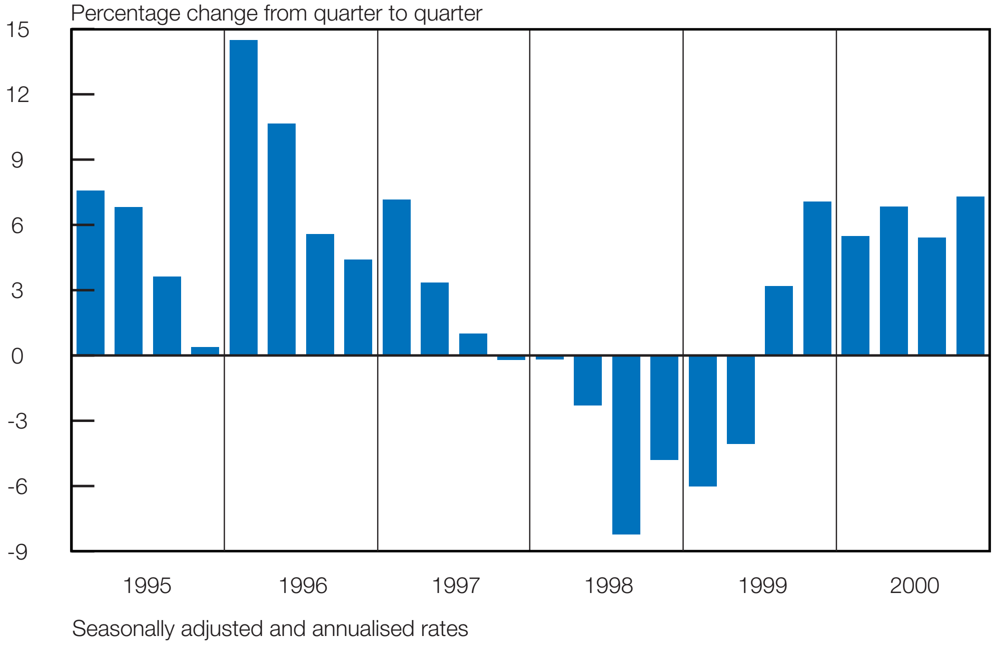


restraint fell on outlays for acquiring intermediate goods and non-labour services. As a consequence, the compensation of employees relative to total final consumption expenditure of general government increased from 65½ per cent in 1994 to 72 per cent in 2000.

The upward momentum in real *gross domestic fixed capital formation* since the first quarter of 2000 was sustained throughout the year. In fact, the growth in this spending aggregate accelerated from an annualised rate of 2½ per cent in the first quarter of 2000 to 6½ per cent in the fourth quarter, pushing growth for the full calendar year to 1½ per cent from a decline of 6 per cent in 1999. General government bodies were still hesitant to commit funds to capital programmes towards the end of 2000. Higher fixed capital outlays by private-sector companies and public corporations more than compensated for the decline in general government's fixed capital formation in the fourth quarter of 2000.

Real gross fixed capital formation in the *private sector* increased at a seasonally adjusted and annualised rate of 7½ per cent in the fourth quarter of 2000 and was 5 per cent higher in 2000 than in 1999. Most of the various economic sectors added to their productive capacity in the fourth quarter of 2000. A slowdown in investment growth was nonetheless noticeable in the transport and communication sector, but investment spending was still on a par with the very high rate of investment spending in the third quarter of 2000. In the agricultural sector, however, real fixed capital outlays declined in the fourth quarter, forced down mainly by the tight financial conditions in which this sector is operating.

Real gross fixed capital formation by the private sector



Despite the increase in real capital formation by *public corporations* in the fourth quarter of 2000, these organisations spent 14 per cent less in real terms on capital programmes in 2000 than in 1999. From 1998 to 1999 there was another decline of 15½ per cent. The continued downscaling of capital spending by public corporations was fully consistent with the strategy for restructuring government assets ahead of increased private-sector participation in the parastatal sector.

Although general government departments reduced their real fixed capital outlays in the fourth quarter of 2000, their real fixed capital formation in the whole of 2000 was about the same as in 1999. Most of this spending went on economic and social infrastructural development.

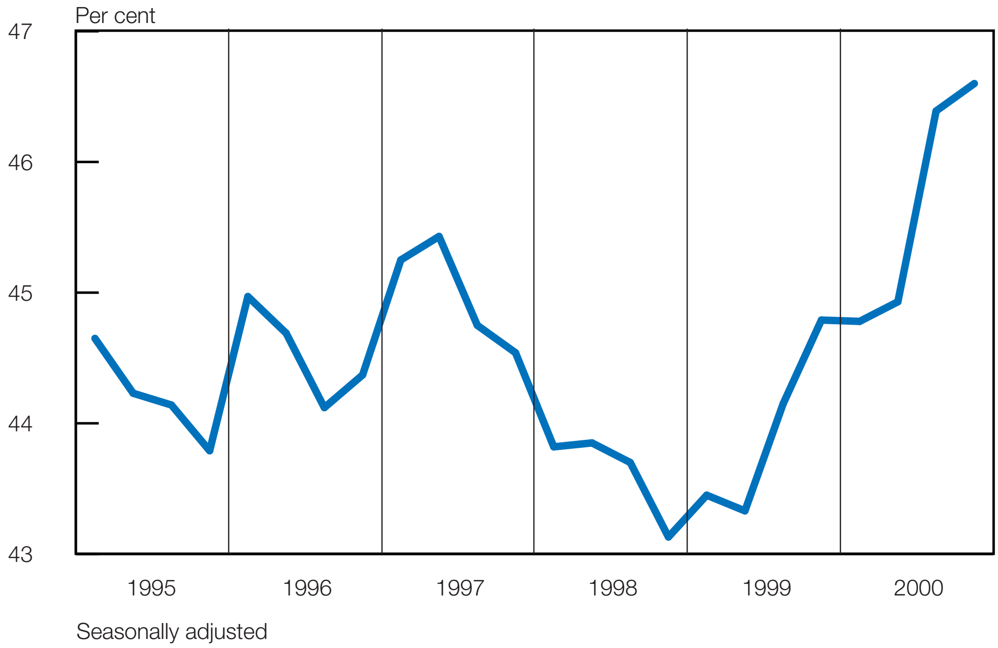
Inventory accumulation slowed down abruptly in the fourth quarter of 2000, following strong build-ups in the first three quarters of the year. Smaller net additions to inventories were reported by all the sectors of the economy, but the manufacturing sector stood out with a minimal net addition to its inventories. It is not clear whether the cutback in inventory accumulation was part of a planned strategy based on an expectation of slower sales growth, or whether it was an unplanned event resulting from unexpectedly strong growth in final demand. Nevertheless, for the whole of 2000 there was a net addition to inventories of R3,9 billion at constant prices, following a rundown of inventories valued at R1,4 billion in 1999.

The slowdown in inventory accumulation compressed economic growth by about 3 percentage points in the fourth quarter of 2000, compared with a net contribution to economic growth of about 1½ percentage points in the third quarter. As a percentage of non-agricultural gross domestic product, the level of industrial and commercial inventories declined slightly to 13½ per cent in the fourth quarter of 2000. Between 1999 and 2000 this ratio had risen from 13½ per cent to 14 per cent.

Factor income

The growth over four quarters in total *nominal factor income* slowed down from 11 per cent in the third quarter of 2000 to 10½ per cent in the fourth quarter. This slowdown was the result of weaker growth in the operating surpluses of firms, whereas growth in the compensation of employees accelerated in the fourth quarter.

Gross operating surplus as percentage of total factor income



Although the growth in *nominal gross operating surpluses* fell back in the fourth quarter of 2000, it was still at a healthy level of 15½ per cent. The slowdown from year-on-year growth of 16½ per cent in the third quarter of 2000 was not spread throughout the economy, but was mostly confined to three sectors, namely agriculture, commerce and financial services. The agricultural sector had to cope with rapidly rising input costs relative to output prices, whereas the slower growth in the operating surpluses of the commercial sector reflected the problems retailers had with passing forward to end-users the increases in production prices.

Overall operating surpluses in 2000 were still 14 per cent above their levels of 1999 – well above the economic growth rate in 2000 and also beating consumer and production price inflation by a fair margin. Rising profitability was underpinned by ongoing cost-cutting, especially in the area of employee remuneration. Employment numbers were reduced during the year, financing charges were lowered and the rand depreciated, impacting positively on the operating margins of firms, particularly those with a strong export orientation.

Some increases in *nominal salaries and wages* per worker counteracted the effects of employment reductions and caused the growth over four quarters in employee compensation to accelerate from 6 per cent in the first quarter of 2000 to 7 per cent in the fourth quarter. However, for 2000 as a whole, wage moderation and labour paring combined to slow down growth in the total compensation of employees from 7 per cent in 1999 to 6½ per cent in 2000. This reduced the relative share of employee compensation in total factor compensation from 56 per cent in 1999 to 54½ per cent in 2000.

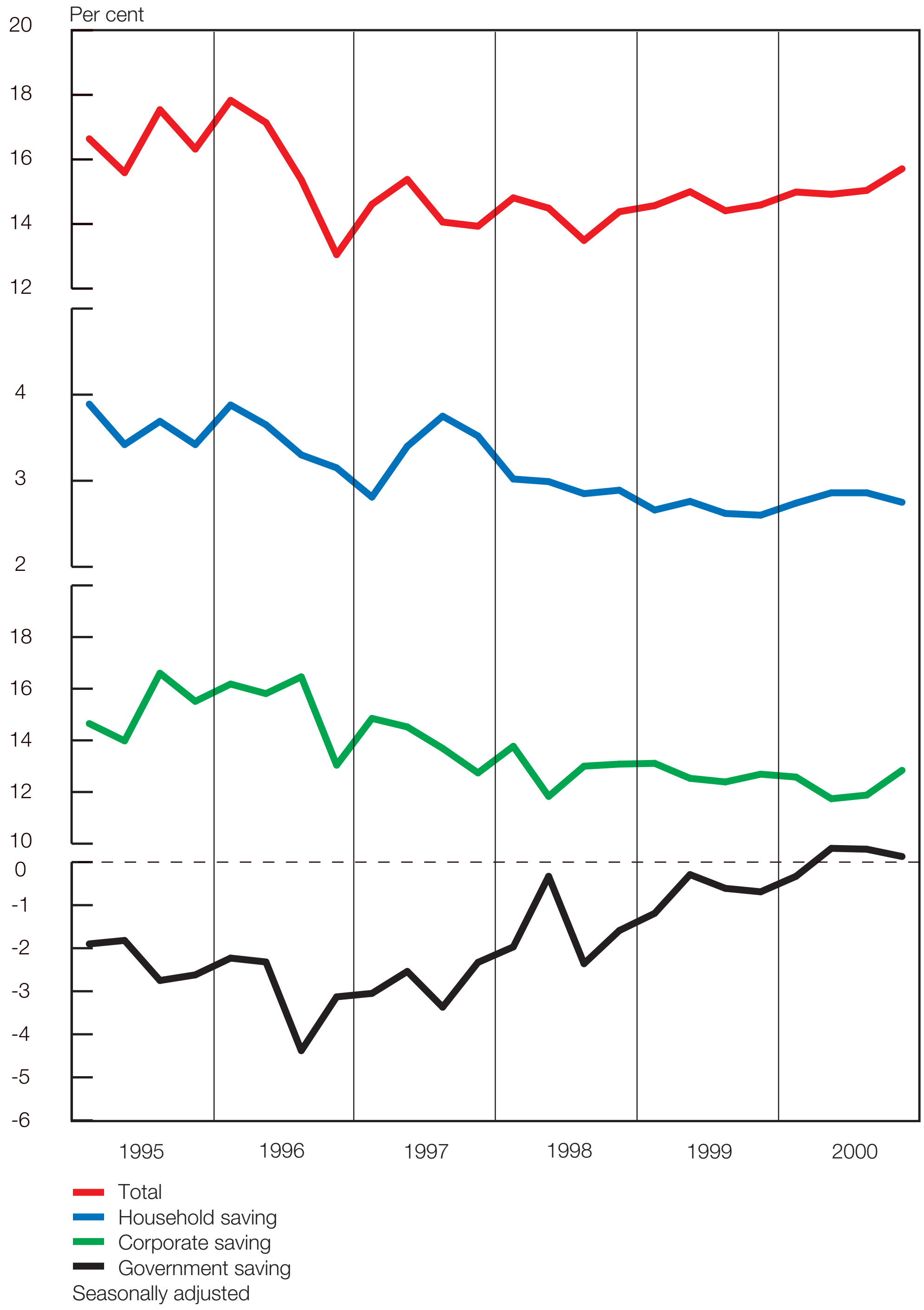
Gross saving

Gross saving as a percentage of gross domestic product improved from 14½ per cent in 1999 to 15 per cent in 2000. The saving ratio of the private sector remained more or less the same in 2000 as in 1999, but in the general government sector dissaving was turned into positive saving for the first time since 1990. Moreover, in calendar year 2000 the national saving rate improved from 15 per cent in the third quarter to 15½ per cent in the fourth quarter.

Gross saving by companies rose from 12 per cent of gross domestic product in the third quarter of 2000 to 13 per cent in the fourth quarter. Net income receipts from the rest of the world, mainly in the form of dividends and interest income, helped further by the decline in the exchange value of the rand, contributed significantly to the stronger corporate-sector saving performance. Saving by households, underpinned by a steady improvement in the real disposable income of households, was maintained at an amount equal to almost 3 per cent of gross domestic product in all four quarters of 2000.

General government made a positive contribution to the national saving effort from the second quarter of 2000. As a percentage of gross domestic product, general government's gross saving came to only about ½ per cent. Although the saving rate weakened slightly in the last two quarters of 2000, general government's current revenues and estimated allowance for the depreciation of assets have continued to exceed current expenditure, implying that positive general government saving was sustained up to the fourth quarter of 2000.

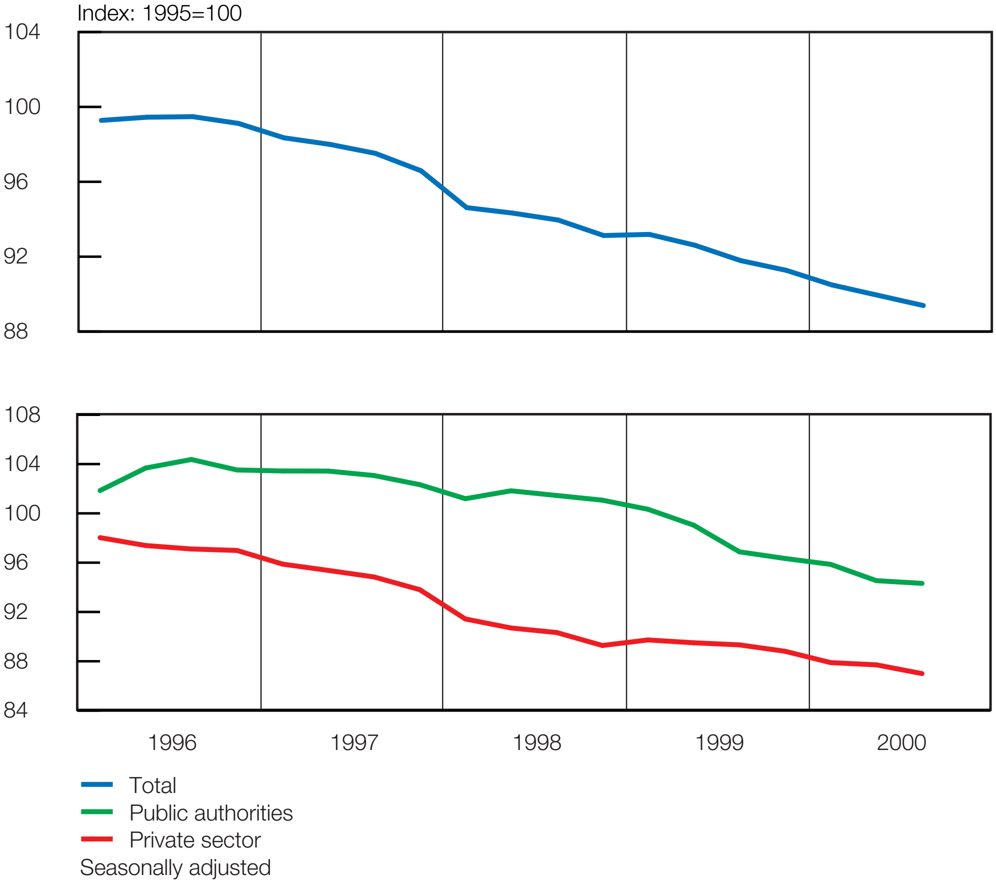
Gross saving as percentage of gross domestic product



Employment

Regularly surveyed *formal-sector non-agricultural employment* has not yet responded to the general improvement in economic activity since 1999. According to the latest *Survey of Total Employment and Earnings* (STEE) by Statistics South Africa, employment totals declined again in the third quarter of 2000. Comparing the average employment level in the first three quarters of 2000 with that of the first three quarters of 1999, there was a decline of 2,7 per cent in measured formal-sector employment, following declines of 3,7 per cent in 1998 and 1,9 per cent in 1999. The observed employment losses in 2000 occurred over a wide range of economic sectors and were not confined to any specific sector of economic activity.

Non-agricultural employment



A number of explanations are often cited to explain the weak labour absorption capacity of the South African economy. These include the following:

- The restructuring of South African firms since the beginning of the 1990s has been aimed at enhancing the international competitiveness of domestic producers but invariably had the negative side-effect of workers being laid off;
- the greater preference for capital-intensive rather than labour-intensive production processes;
- the introduction of new production technologies, often involving an important information-technology component, which raised the demand for a small number of highly skilled workers but at the same time lowered the demand for less-skilled workers;
- the shift in the production structure of the economy from an emphasis on primary and secondary sector activity towards the services sectors which are less reliant on large numbers of unskilled workers;

- the decline in the investment ratio which reduced the domestic economy's ability to create new jobs; and
- the process of right-sizing the public service in order to raise the efficiency of public-service delivery.

The average number of jobs in the non-agricultural formal *private sector* declined by 2,2 per cent when comparing the first nine months of 2000 with the first nine months of 1999. Employment losses were recorded in all the main sectors of economic activity, apart from the washing and dry-cleaning services sector and the transport, storage and communication sector where modest gains were recorded. The rate of decline in employment ranged from 9,2 per cent in the gold-mining sector to 0,3 per cent in the trade, catering and accommodation services sector.

Year-on-year change in non-agricultural private-sector employment in the first nine months of 2000

Sector	Percentage change
Gold mining	-9,2
Non-gold mining	-2,4
Manufacturing	-1,1
Electricity supply	-7,6
Construction	-5,6
Trade, catering and accommodation services	-0,3
Transport, storage and communication*	2,7
Financial intermediation and insurance	-5,4
Washing and dry-cleaning services	1,8
Total private sector	**-2,2**

* Non-governmental institutions only

Employment in the *public sector* declined more than in the private sector during 2000. Public-sector employment fell by 3,9 per cent when comparing the first three quarters of 2000 with the first three quarters of 1999. Declines in employment were recorded at all levels of the public sector, ranging from 0,6 per cent in local governments to 3,9 per cent in the departments of national government and the provincial governments. A spate of resignations and early retirement of employees aggravated the decline in public-sector employment in the third quarter of 2000.

The number of *workdays lost* on account of strikes and other work stoppages decreased from 3,1 million in 1999 to 500 000 in 2000, according to Andrew Levy and Associates, a private-sector labour consultancy. Although the number for 2000 represents a significant decline from 1999, it does not include the disruption caused by the socio-economic stay-away action which culminated in a general strike on 10 May 2000. This stay-away was organised to highlight the ongoing job losses in the economy and to demonstrate support for the amendments to the Insolvency Act that would strengthen the rights of workers employed by failing companies. In the end, the stay-away alone resulted in the loss of 900 000 workdays to the economy.

Generally, strike activity during 2000 was contained by the weak demand for labour by private-sector firms and long-term wage agreements negotiated earlier in key sectors of the economy. The restructuring of public-sector enterprises and general departments also put a damper on strike activity.

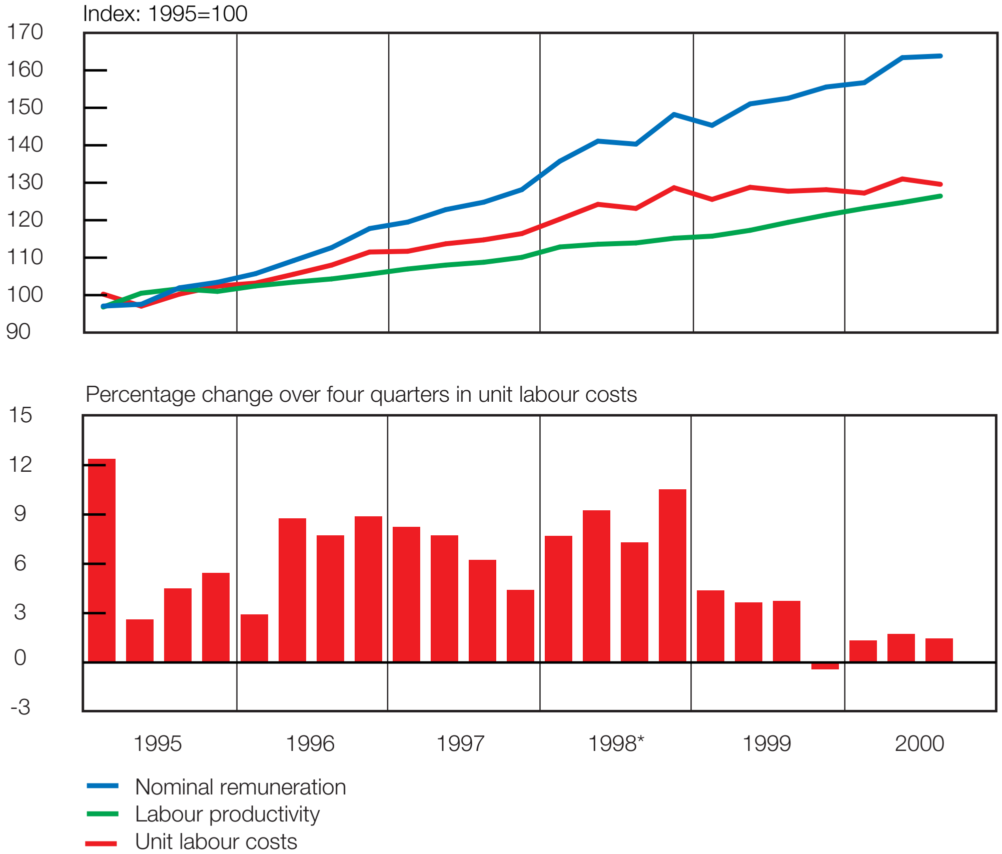
Labour costs and productivity

Nominal compensation per worker in the formal non-agricultural sectors of the economy rose by 7,4 per cent in the year to September 2000, slightly less than the increase in the year to June 2000. The slowdown in nominal wage growth was seen in the private as well as the public sector. Andrew Levy and Associates furthermore report that the average settlement rate in collective bargaining agreements declined from 8,3 per cent in 1999 to 7,4 per cent in 2000.

The growth in nominal compensation per worker in the *public sector* slowed down from a year-on-year rate of 8,2 per cent in the second quarter of 2000 to 6,0 per cent in the third quarter. When comparing the nominal compensation of public-sector workers in the first three quarters of 2000 with that in the first three quarters of 1999, the average public-sector employee earned some 6,3 per cent more in 2000 than in 1999. The growth in compensation per worker varied considerably within the public sector. For instance, employees in the transport, storage and communications sector received average increases of 15 per cent from the first three quarters of 1999 to the first three quarters of 2000, but those employed by the general departments of national government earned only 4 per cent more over the same period.

Salary and wage increases granted by private-sector institutions were, on average, more generous than those granted by the public sector. When comparing the first

Non-agricultural labour productivity, remuneration and unit labour costs



Seasonally adjusted annual rates
* Break in consistency of data in first quarter of 1998

three quarters of 2000 with the first three quarters of 1999, nominal compensation per worker in the private sector rose by 9,1 per cent, following a similar rise in 1999 as a whole. Increases ranged from a low of 3,3 per cent in the construction sector to 20,1 per cent in the financial intermediation and insurance services sector.

Nominal remuneration per worker rose faster than output prices (as reflected by the increase in the price deflator for value added in the non-agricultural sectors of the economy) in the course of 2000. This resulted in an increase of 1,5 per cent in the inflation-adjusted compensation per worker or *real product wage* from the first three quarters of 1999 to the first three quarters of 2000. Employers generally attempt to control their labour costs per employee relative to their output prices. The rise in the real product wage in the first three quarters of 2000 could therefore lead to greater reluctance among employers to agree to future wage demands.

Along with the decline in industrial action in 2000 and the smaller number of workers in gainful employment, output per worker in the formal non-agricultural sectors of the economy increased by 6,2 per cent when comparing the first three quarters of 2000 with the same period in 1999. This improvement in labour productivity was not only a consequence of declining employment numbers, but efficiency gains were also made throughout the economy with the implementation of new technologies.

The rate of change in *nominal unit labour cost* is one of the main determinants of the inflation process. Unit labour cost is derived as the ratio of nominal compensation per worker to output per worker. When productivity is rising faster than nominal compensation per worker, the cost of the labour required to produce one unit of output falls. The recent robust growth in labour productivity during 2000 therefore compressed the growth in unit labour cost to 1,5 per cent when comparing the first three quarters of that year with the first three quarters of the previous year. In the case of the manufacturing sector, the growth in unit labour cost was confined to just 0,5 per cent in the first nine months of 2000. These developments are likely to alleviate upward pressures on the output prices of goods and services in the months ahead, provided that the recent low growth in compensation per worker and the strong productivity growth are sustained.

Prices

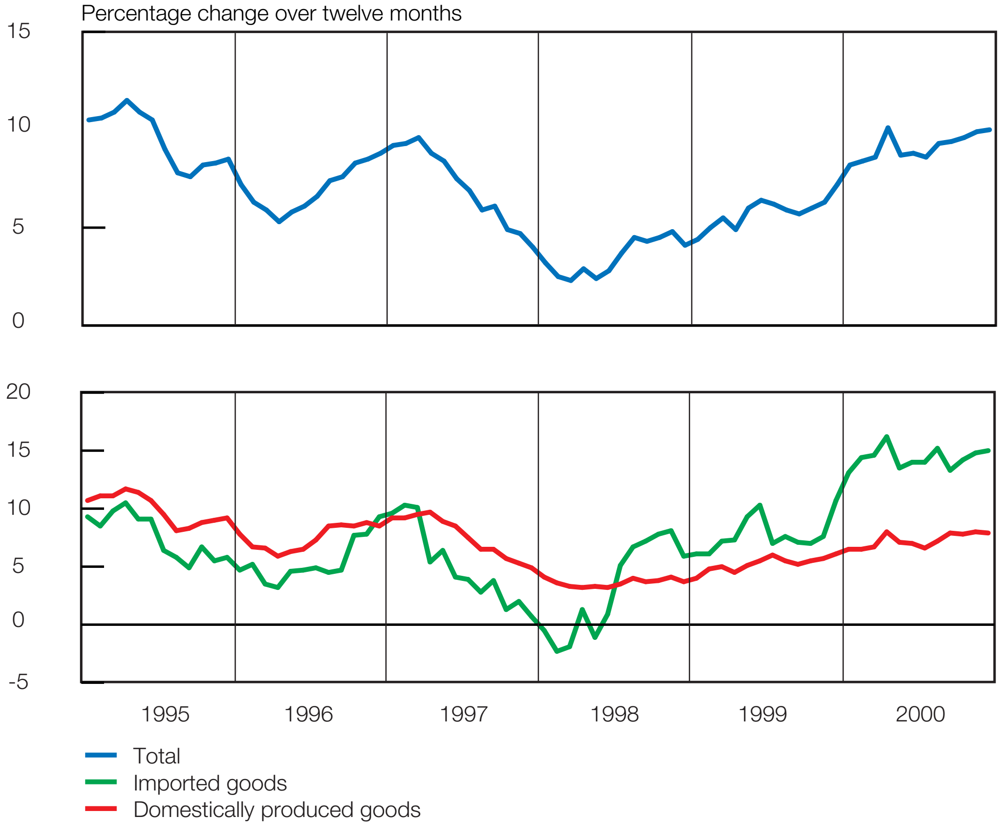
Production price inflation has risen sharply in recent years. The annual increase in the *all-goods production price index* accelerated from 3,5 per cent in 1998 to 5,8 per cent in 1999 and 9,2 per cent in 2000 – the highest rate of increase in five years. However, if the rise in crude oil and food prices over this period is omitted from the calculation of overall production price inflation, the annual rates of increase would have been unchanged at 4,9 per cent over the past three years. The accelerated rise in production prices since 1999 was therefore first and foremost a consequence of rising crude oil and food prices.

The twelve-month rate of increase in the all-goods production price index reached 10,1 per cent in April 2000, fell back to 8,6 per cent in July but then picked up again to 10,0 per cent in December. Measured from quarter to quarter, all-goods production price inflation accelerated from 7,4 per cent in the third quarter of 2000 to 10,6 per cent in the fourth quarter. Apart from the rise in the prices of energy and food over the past two years or so, the depreciation of the rand against a basket of currencies and the somewhat faster increases than before in the production prices of South Africa's major trading-partner countries can also be cited as factors underlying the recent acceleration in production price inflation.

Production prices
Quarter-to-quarter percentage change at annualised rates

Period		Domestically produced goods	Imported goods	Overall production prices
1999:	Year	5,3	7,8	5,8
2000:	1st qr	9,1	21,6	11,9
	2nd qr	8,3	13,8	9,9
	3rd qr	6,6	9,9	7,4
	4th qr	8,4	14,0	10,6
	Year	7,3	14,4	9,2

Production prices

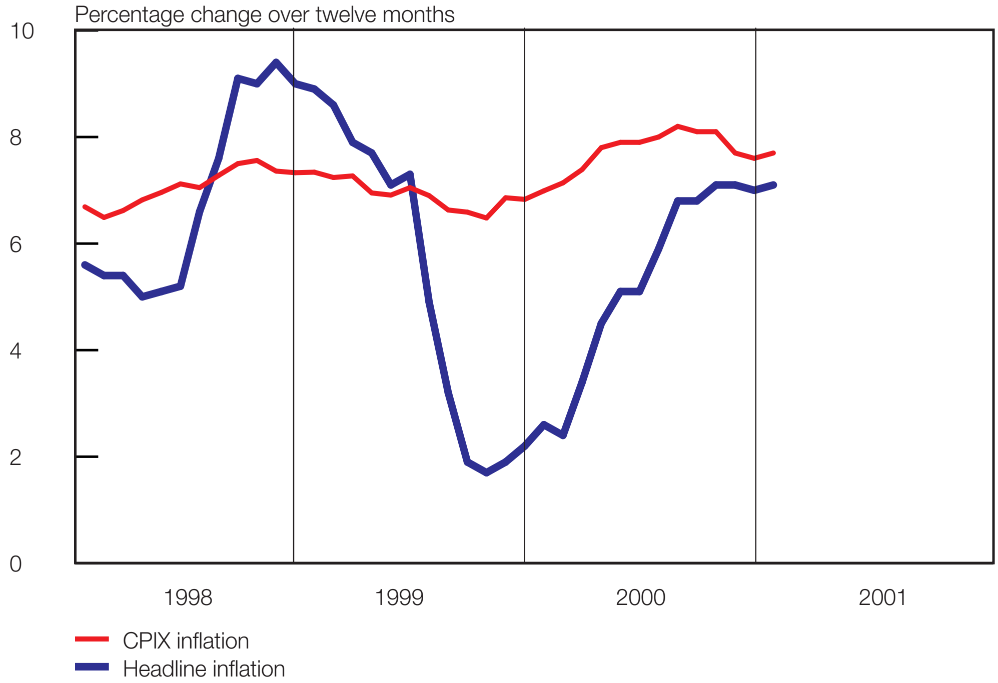


The recent acceleration from quarter to quarter in production prices occurred in the prices of domestically produced goods and imported goods. Inflation in the prices of *domestically produced goods* accelerated from an annualised rate of 6,6 per cent in the third quarter of 2000 to 8,4 per cent in the fourth quarter. Price increases accelerated over a broad front, including categories such as fishing, mining products, electricity, gas and water, tobacco products, textiles, clothing and footwear, chemical products, products of petroleum and coal, basic metals, electrical machinery and transport equipment.

Imported inflation picked up from an annualised rate of 9,9 per cent in the third quarter of 2000 to 14,0 per cent in the fourth quarter. Over and above the rise in the international price of crude oil, the weakness of the rand has also contributed to the acceleration in the prices of imported goods.

At the retail price level, *CPIX inflation* (i.e. overall consumer price inflation for metropolitan and other urban areas excluding changes in mortgage bond rates) rose from 6,9 per cent in 1999 to 7,8 per cent in 2000. Measured over twelve months, CPIX inflation increased to 8,2 per cent in August 2000 but fell back to 7,6 per cent in December and 7,7 per cent in January 2001. Quarter-to-quarter movements in CPIX also signalled some slowing of inflation from 8,8 per cent in the second quarter of 2000 to 6,2 per cent in the fourth quarter.

CPIX and headline inflation



Headline inflation, i.e. changes in the *overall consumer price index* for metropolitan areas, was 5,2 per cent in 1999 and 5,3 per cent in 2000, but signs of slowing inflation emerged in the second half of 2000. Firstly the year-on-year headline inflation rate declined marginally from 7,1 per cent in November 2000 to 7,0 per cent in December and secondly, quarter-to-quarter annualised headline inflation slowed down quite noticeably from 10,6 per cent in the second quarter of 2000 to 5,1 per cent in the fourth quarter. These slowdowns were more prominent in the prices of consumer goods than in the prices of consumer services. However, in January 2001 overall consumer price inflation picked up again to 7,1 per cent.

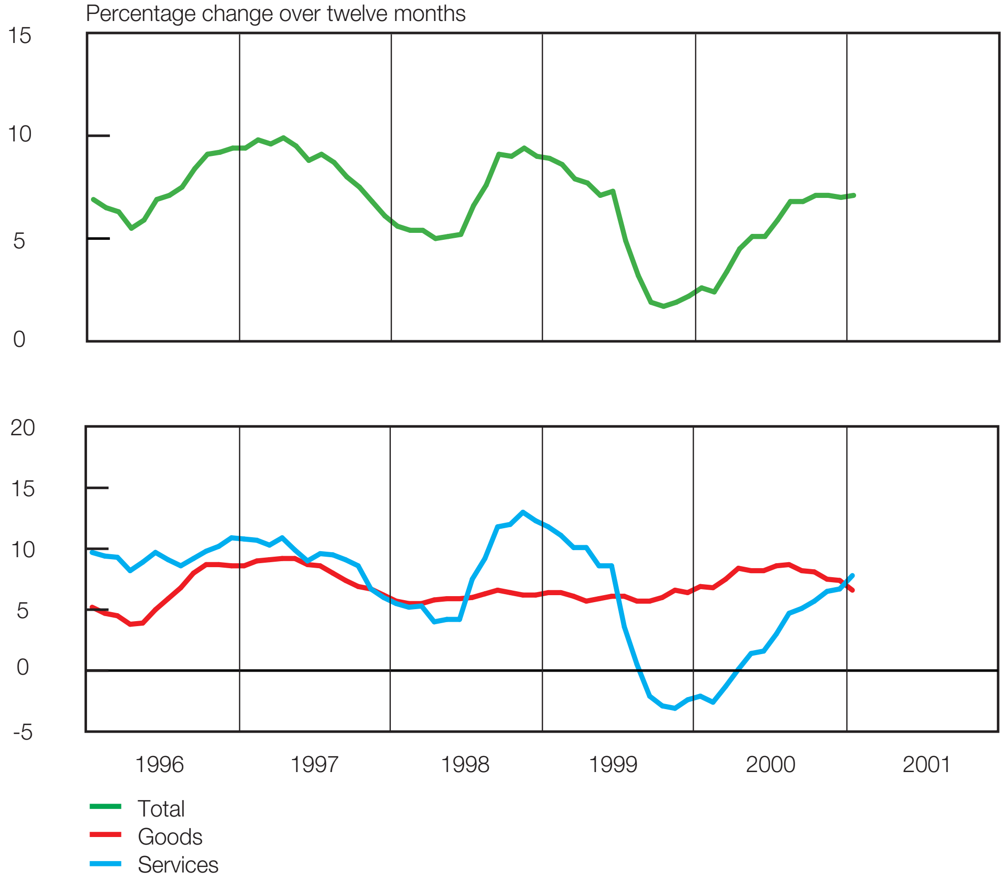
With production price inflation and consumer price inflation moving in opposite directions in the second half of 2000, the long-established relationship between

Consumer prices

Quarter-to-quarter percentage change at annualised rates

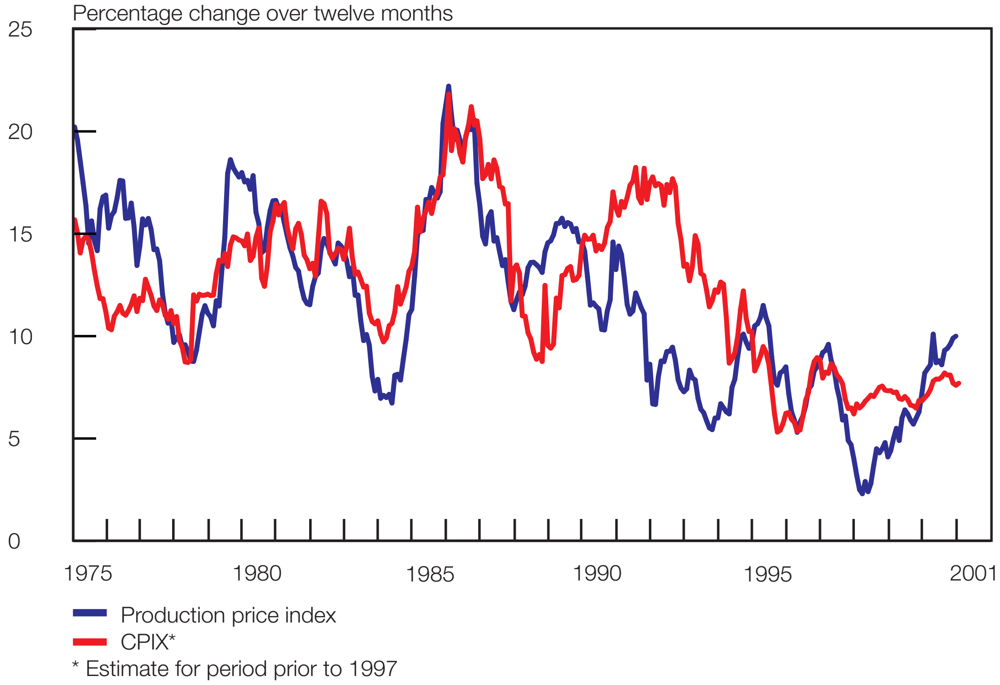
Period	Goods	Services	Overall consumer price inflation	CPIX inflation
1999: Year	6,1	4,2	5,2	6,9
2000: 1st qr	8,7	5,3	6,8	8,7
2nd qr	10,3	9,4	10,6	8,8
3rd qr	7,5	4,0	5,8	7,7
4th qr	4,2	6,6	5,1	6,2
Year	7,9	2,4	5,3	7,8

Consumer prices



movements in the production price index and the consumer price index has apparently broken down. According to this relationship, changes in the production price index usually foreshadow consumer price changes with a lead time of two or three months. It is not certain that the relationship will be re-established in the coming months, but there is a real risk that consumer price increases may accelerate in response to prior increases in production prices.

Changes in production price index and CPIX



A number of reasons can be listed for the current breakdown in the relationship between changes in production prices and consumer prices:

- The consumer price index takes account of changes in indirect taxes, such as the changes in customs and excise duties announced by the Minister of Finance in his February 2000 Budget proposals, whereas changes in these taxes are not reflected in the movements of the production price index;

- the rise in the international price of crude petroleum had a greater impact on the production price index than on the consumer price index, because changes in international crude oil prices are directly reflected in the imported component of the all-goods production price index. By contrast, the consumer prices of petrol and diesel are partially disconnected from the full changes in international petroleum prices because indirect taxes drive a large wedge between the price of crude petroleum and the pump price of petrol and diesel. All the taxes levied on petrol and diesel are specified as an absolute fixed amount which does not change in line with the international petroleum price. The higher these taxes, as a portion of the final price of petrol and diesel, the smaller will be the percentage increase in the petrol and diesel price for a given increase in the international oil price; and

- the rate of change in food prices at the production price level remained relatively flat in the second half of 2000, whereas food price inflation at the retail level slowed down considerably.

There is a possibility that the positive relationship between production price inflation and consumer price inflation could be restored in the coming year. For this reason, policy makers had to remain vigilant in their fight against inflation during the fourth quarter of 2000 in order to avoid the emergence of an upward spiral in consumer price inflation.

Foreign trade and payments

Balance of payments

Unlike the usual response when a domestic economic expansion coincides with a deterioration of the current-account balance, the deficit on the current account of R6,3 billion (seasonally adjusted and annualised) in the third quarter of 2000 was transformed into a surplus of R2,5 billion in the fourth quarter. In 2000 as a whole, the current account was in deficit to the amount of R3,1 billion, compared with a deficit of R3,4 billion in 1999. As a ratio of gross domestic product, the deficit improved marginally from 0,4 per cent in 1999 to 0,3 per cent in 2000. The typical response in a growing economy would have been for the current-account deficit to deteriorate relative to gross domestic product.

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

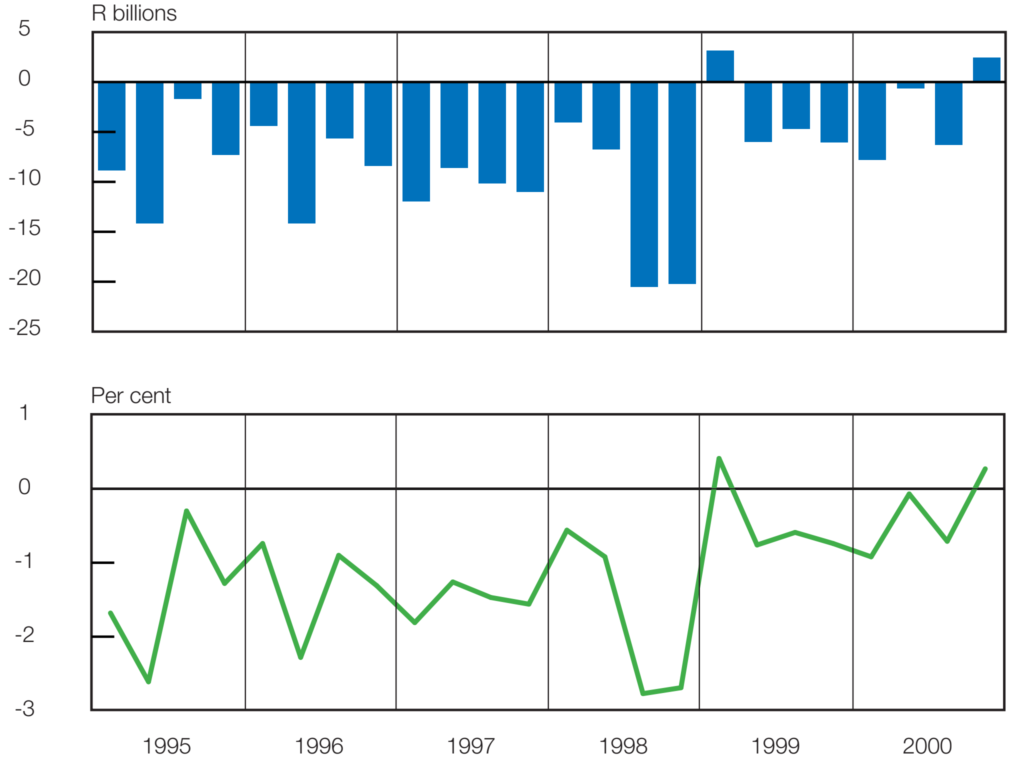
	1999	2000				
	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Merchandise exports	150,6	172,7	183,1	190,5	219,1	191,3
Net gold exports	24,3	27,0	26,0	28,4	27,2	27,2
Merchandise imports	-149,5	-177,6	-178,6	-190,6	-209,3	-189,0
Net service, income and current transfer payments	-28,8	-29,9	-31,1	-34,6	-34,5	-32,6
Balance on current account	**-3,4**	**-7,8**	**-0,6**	**-6,3**	**2,5**	**-3,1**

The marked improvement in the current-account balance in the fourth quarter of 2000 was mainly due to a substantial increase in merchandise export earnings. On a seasonally adjusted basis, the *value of merchandise exports* rose by 15 per cent in the fourth quarter of 2000. This was a continuation of the growth which had started in the second quarter of 1999, strongly influenced by fairly benign conditions in the global economy. In addition, the depreciation of the rand strengthened the competitiveness of South African manufacturers in export markets.

A broad range of economic sectors benefited from the increased demand for exports from South Africa. Prominent among these were the mining sector and exporters of manufactured goods, especially car manufacturers. Platinum group exports have been boosted by strong price increases since the middle of 1999 and exceeded the value of net gold exports for the first time in the fourth quarter of 2000.

Overall, the *volume of merchandise exports* increased by 7 per cent in the fourth quarter of 2000, taking growth for 2000 as a whole to 10 per cent. The growth in *export prices* was held back by some weakness in international commodity prices during the fourth quarter of 2000. Nonetheless export prices still rose by 7½ per cent as the rand equivalent of foreign-currency prices was pushed higher by the depreciation of the rand. For the whole of 2000, export prices increased by 15 per cent, double the increase in 1999.

Balance of payments: Current-account balance



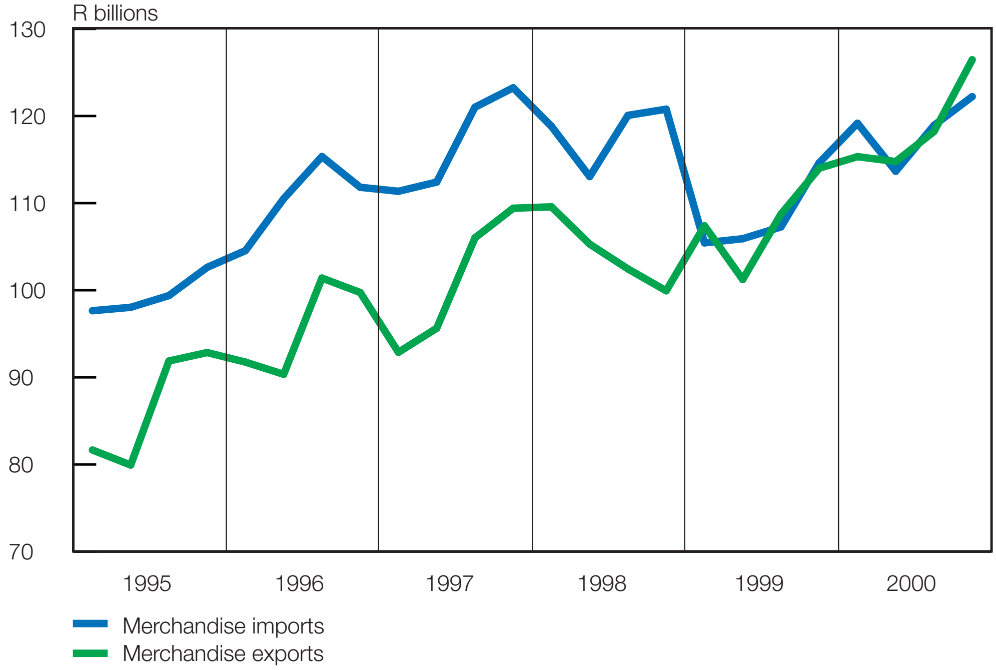
Current-account balance
Ratio of current-account balance to gross domestic product
Seasonally adjusted and annualised

The current-account balance in the fourth quarter of 2000 improved despite an acceleration in the growth of *merchandise import values* from 6,7 per cent in the third quarter of 2000 to 9,8 per cent in the fourth quarter. In terms of value, more manufactured goods, and mining and agricultural products were imported in the fourth quarter of 2000 than in the third quarter. Imports of petroleum, in particular, rose strongly in the fourth quarter of 2000.

The growth in *import volumes*, along with the slowdown in real gross domestic expenditure, fell back from 4½ per cent (seasonally adjusted) in the third quarter of 2000 to 3 per cent in the fourth quarter. The higher level of general economic activity in 2000 lifted the volume of imports for the year as a whole to 9½ per cent above that of 1999. In 1999, when the economy was still struggling to recover from the setbacks caused by the emerging-market crises of 1997 and 1998, import volumes fell by 8½ per cent. The quick turnaround in the growth of import volumes caused the import penetration ratio (i.e. the portion of real gross domestic expenditure allocated to imported goods) to rise from 18,7 per cent in 1999 to 19,9 per cent in 2000, once again validating that import volumes respond quickly and more than proportionally to a recovery in demand, whereas domestic supply is usually slow to respond to stronger domestic demand.

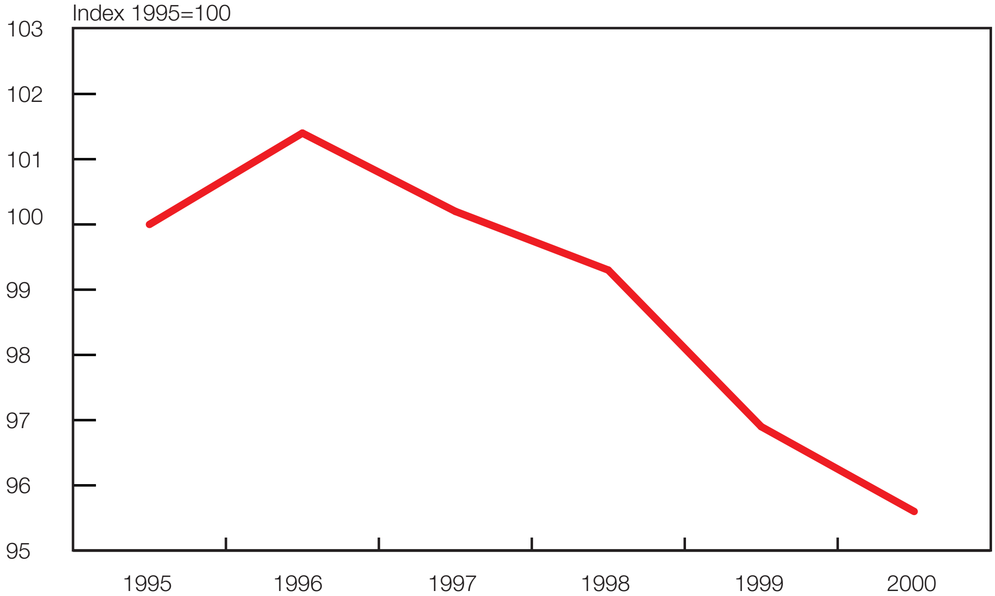
Import prices increased by 7 per cent from the third quarter of 2000 to the fourth quarter and by 15½ per cent when comparing the whole of 2000 with 1999. As import price inflation in 2000 exceeded by a slight margin the growth in export

Merchandise exports and imports at constant 1995 prices



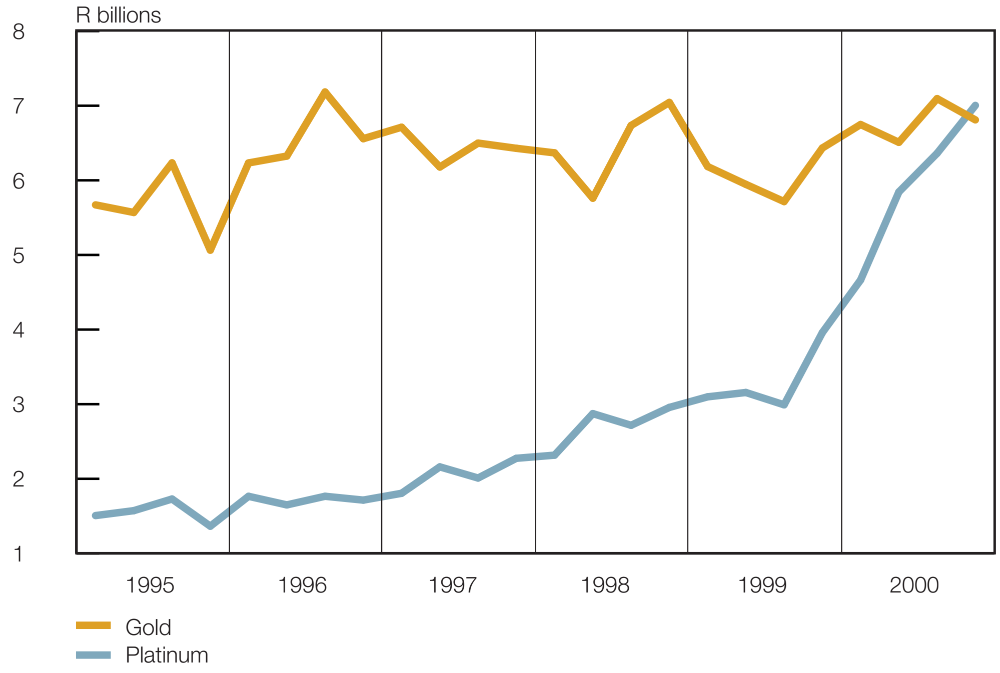
prices, South Africa's terms of trade (i.e. the ratio of export prices to import prices) deteriorated slightly from 1999 to 2000. This implies that a greater volume than before of domestically produced goods has to be surrendered for an unchanged volume of imported goods which, all other things remaining unchanged, means that the national income of the country has declined relative to that of other countries.

Terms of trade (including gold)



The annualised value of net gold exports declined from R28,4 billion in the third quarter of 2000 to R27,2 billion in the fourth quarter. The volume of gold exports declined but this was partly countered by an increase in the average realised rand price of gold exports. The average fixing price of gold on the London market fell to its lowest average quarterly level since the third quarter of 1999, but the average realised rand price, greatly assisted by the fall in the value of the rand, increased from R1 978 per fine ounce in the third quarter of 2000 to R2 069 per fine ounce in the fourth quarter. The fall in the value of net gold exports came from a decline in the gold content of ore milled, falling from 4,6 grams per ton in 1999 to 4,5 grams in 2000.

Exports of gold and platinum group metals



The deficit on the services and income account widened considerably from the first half of 2000 to the second half. Investment income payments increased strongly in the second half of 2000. Dividend payments on foreign direct investment in the economy rose from an annualised rate of R12,4 billion in the first half of 2000 to R16,6 billion in the second half, following the primary listing of a number of South African corporates on foreign stock exchanges. There was also a decline in dividends received by domestic parent companies from offshore subsidiaries, from an annualised rate of R5,6 billion in the first half of the year to R4,1 billion in the second half.

Financial account

The financial account of South Africa's balance of payments, which *inter alia* is influenced by the perceived risk associated with investment in emerging-market assets, changed from a surplus of R10,9 billion in the third quarter of 2000 to a deficit of R1,0 billion in the fourth quarter. Changed attitudes by international investors towards risk taking in South Africa were also revealed by the sharp contraction in the surplus on the financial account from R29,5 billion in 1999 as a whole to R8,5 billion in 2000.

Net financial transactions not related to reserves
R billions

	1999	2000				
	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Change in liabilities						
Direct investment	9,1	4,9	0,7	1,6	-1,1	6,1
Portfolio investment	83,9	6,8	-1,3	8,1	-1,8	11,8
Other investment	-16,9	1,8	7,1	5,7	-4,6	10,0
Change in assets						
Direct investment	-11,8	-1,0	-5,7	4,1	-1,3	-3,9
Portfolio investment	-31,5	-11,2	-4,3	-7,0	-3,1	-25,6
Other investment	-10,3	-2,7	0,9	-2,7	-3,4	-7,9
Total financial transactions*	29,5	4,2	-5,6	10,9	-1,0	8,5

* Including unrecorded transactions

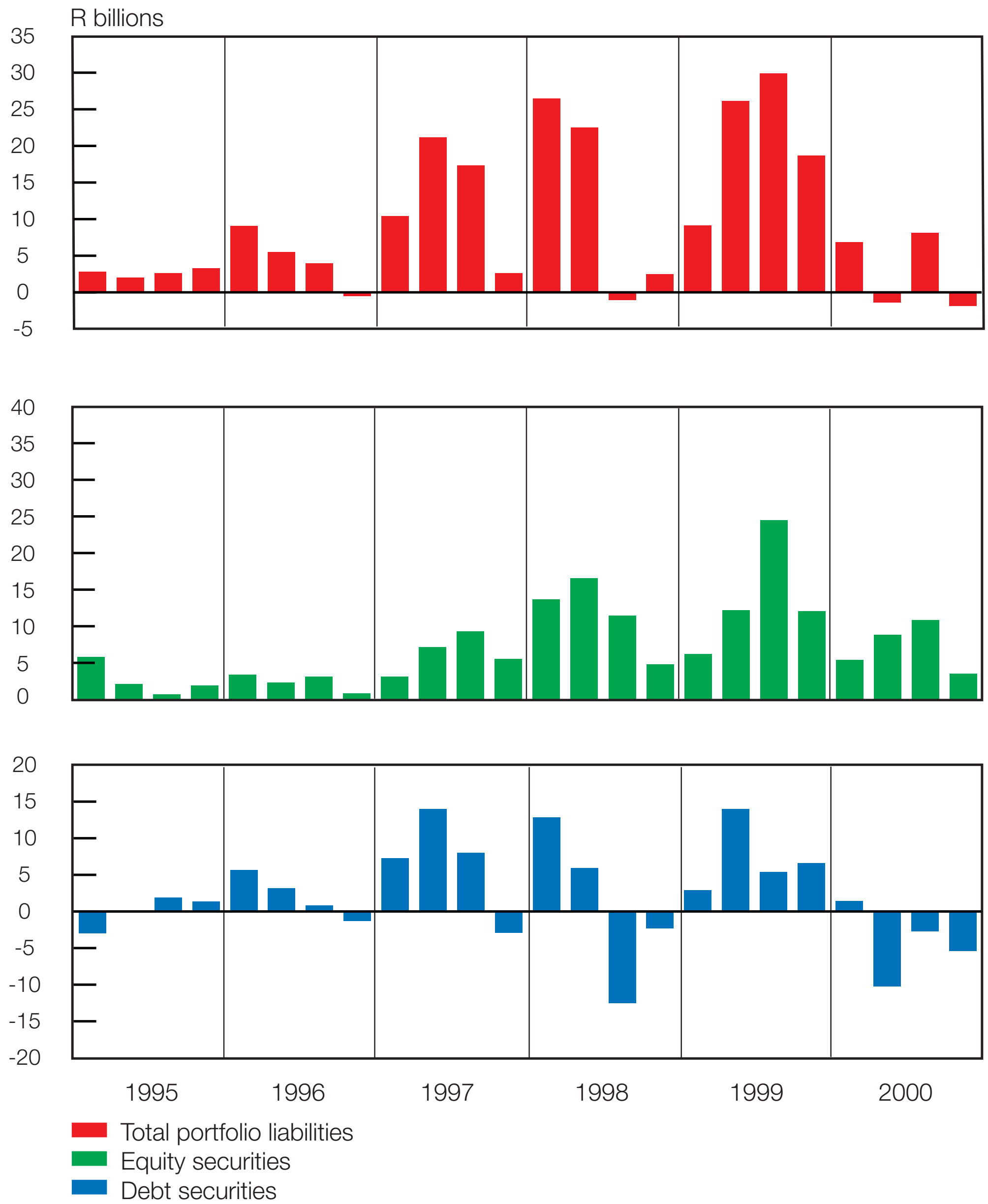
The movement of foreign direct investment to and from South Africa changed from an inflow of R1,6 billion in the third quarter of 2000 to an outflow of R1,1 billion in the fourth quarter. South African domiciled companies directly invested R1,3 billion in other countries, mainly by acquiring a dominant interest in the equity capital of foreign companies. Thus, there was a net outflow of foreign direct investment capital of R2,4 billion in the fourth quarter of 2000. Net inflows earlier in the year ensured that there was still an inflow of R2,2 billion of foreign direct investment capital for the whole of 2000, compared with an outflow of R2,7 billion in 1999.

The volatile behaviour of *portfolio investment capital* was demonstrated again when an inflow of portfolio capital of R8,1 billion in the third quarter of 2000 turned into an outflow of R1,8 billion in the fourth quarter. Non-resident holders of fixed-interest securities sold part of their holdings of public-sector stock in the secondary bond market whereas national government and one of the public corporations redeemed loan stock falling due in the fourth quarter of 2000. Still on the liability side of the national balance sheet, non-resident investors increased their holdings of shares listed on the JSE Securities Exchange, but by a considerably smaller amount than in the third quarter. This decline, together with the continuing net sales of bonds by non-resident stock holders, curbed the inflow of portfolio investment into South Africa from R83,9 billion in 1999 to R11,8 billion in 2000.

Domestic institutional investors continued to purchase foreign assets, essentially fixed-interest securities and shares, through the asset swap mechanism in the fourth quarter of 2000. Although these outflows contracted from the third to the fourth quarter of 2000, an outflow of R25,6 billion was still recorded in 2000 compared with an outflow of R31,5 billion in 1999. On a net basis, portfolio investment changed from an inflow of R52,4 billion in 1999 to an outflow of R13,8 billion in 2000.

Strong outflows of short-term capital caused a turnabout in other foreign investment into South Africa from an inflow of R5,7 billion in the third quarter of 2000 to an outflow of R4,6 billion in the fourth quarter. The outflows in the fourth quarter consisted mainly of the repayment of foreign loans and the reduction of outstanding trade finance owed by South African businesses when the rand was depreciating rapidly, and also a small decline in non-residents' rand-denominated deposits with South African banks. Other investment flows from South African entities to the rest of the world increased from R2,7 billion in the third quarter of 2000 to R3,4 billion in the

Portfolio investment: Liabilities



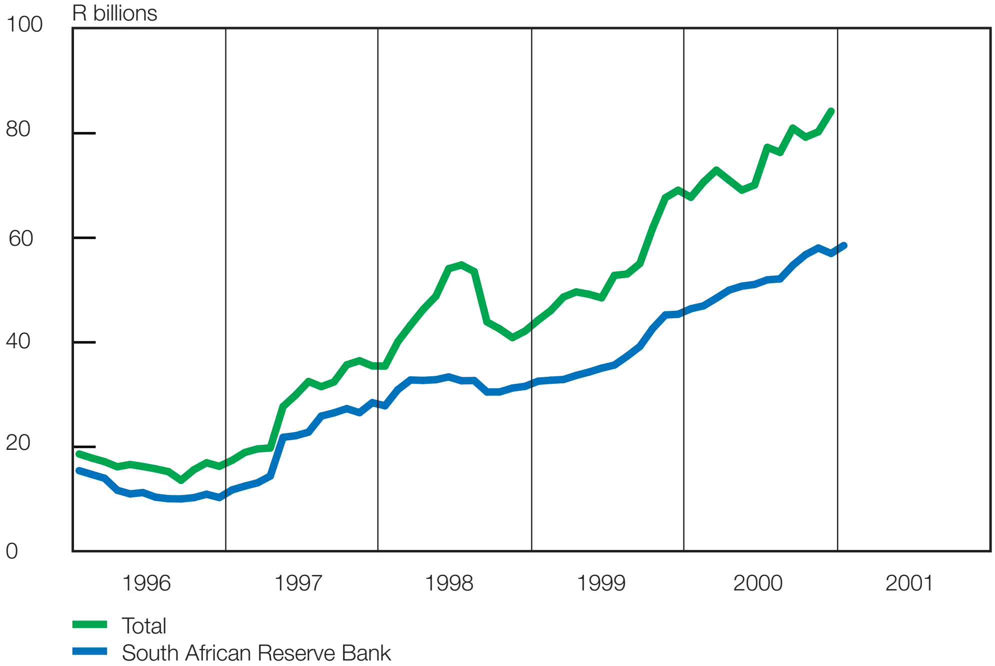
fourth quarter. Loans and trade finance extended by South African businesses and banks increased during the fourth quarter of 2000 and there was also an increase in deposits held by resident organisations at foreign banks. On a net basis, other foreign investment changed from an outflow of R27,2 billion in 1999 to an inflow of R2,1 billion in 2000.

Foreign reserves

The net result of the surplus on the current account of the balance of payments and the small outflow of funds through the financial account was a small net addition to the country's overall holdings of international reserves during the fourth quarter of 2000.

The change in net international reserves in the fourth quarter of 2000 as a result of balance of payments transactions was R0,8 billion, following an increase of R6,5 billion in the third quarter. For 2000 as a whole the net accumulation of international reserves amounted to R5,1 billion, compared with an increase of R25,9 billion in 1999.

Gross gold and other foreign reserves



The value of South Africa's *gross gold and other foreign exchange reserves* (i.e. international reserves before reserve-related loans are netted off) expressed in dollars remained unchanged at US$11,1 billion from the end of September 2000 to the end of December. Measured in rand, there was an increase from R81,0 billion to R84,2 billion over the same period. Import cover, i.e. the number of weeks' worth of imports of goods and services which the country can afford by simply utilising its available international reserves, declined from 16 weeks' worth of imports at the end of the third quarter of 2000 to 15 weeks' worth at the end of the fourth quarter.

For the whole of 2000, the dollar value of the country's international reserves declined by US$0,1 billion but because of the lower exchange rate, the value in rand increased from R69,1 billion at the end of December 1999 to R84,2 billion at the end of December 2000, or by R15,1 billion. During 1999 as a whole, gross reserve holdings were raised by R26,9 billion.

The international reserve holdings of the Reserve Bank increased by US$0,2 billion from the end of 1999 to the end of 2000. Converted into rands, these holdings rose by R11,6 billion to R57,0 billion at the end of December 2000. This was followed by a further increase to R58,5 billion at the end of January 2001, again mainly on account of revaluation gains.

Short-term credit facilities utilised by the Reserve Bank rose from R18,8 billion at the end of 1999 to R19,7 billion at the end of 2000. The Bank's non-borrowed reserves (i.e. total international reserves reduced by the amount of utilised foreign credit facilities) accordingly increased from R26,6 billion (US$4,3 billion) to R37,3 billion (US$4,9 billion) from the end of 1999 to the end of 2000.

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

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

The Reserve Bank has committed itself on more than one occasion to eliminating its oversold position in foreign currency, indicating that the eventual objective is to broadly match total sales with total purchases of foreign currency. Over the past calendar year the net oversold position in foreign currency was reduced from US$17,4 billion in December 1999 to US$14,5 billion at the end of December 2000. The Bank's net open position in foreign currency, which is calculated by netting the Bank's net international reserves against its oversold forward book, fell by US$3,5 billion during 2000 to US$9,5 billion at the end of that year.

Exchange rates

The exchange rate of the rand depreciated further in the fourth quarter of 2000. Concern among international investors about the prospects for emerging markets, following signs of slowing activity in the leading industrial countries, led to some selling of rand assets. A decline of 1,1 per cent in the nominal weighted exchange rate of the rand from the end of June 2000 to the end of September was followed by a further depreciation of 5,2 per cent from the end of September to the end of December.

Exchange rates of the rand
Percentage change

	30 Dec 1999 to 30 Jun 2000	30 Jun 2000 to 29 Dec 2000	29 Dec 2000 to 31 Jan 2001
Weighted average*	-6,6	-6,2	-2,4
Euro	-5,5	-7,0	-3,0
US dollar	-9,8	-9,8	-2,9
British pound	-3,5	-8,6	-0,9
Japanese yen	-6,9	-1,9	-1,6

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

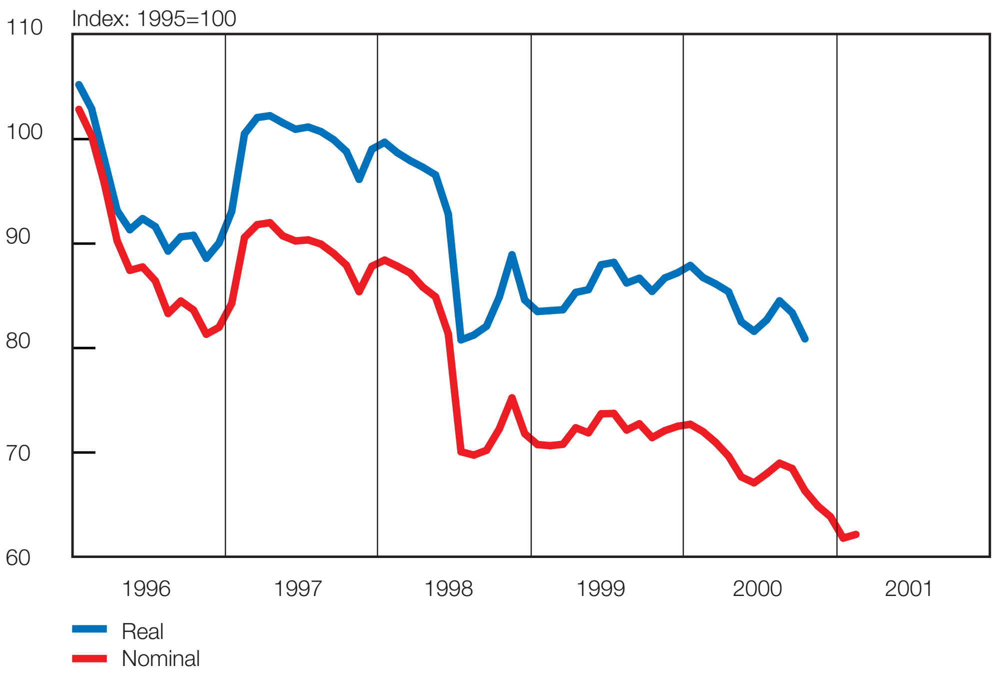
On balance, the nominal effective exchange rate of the rand declined by about 12½ per cent from the end of 1999 to the end of 2000, after it had strengthened marginally by 0,6 per cent during 1999. The depreciation was fairly evenly spread over the year: 6,6 per cent occurred in the first half of 2000 and 6,2 per cent in the second half. The depreciation occurred against most of the major currencies, but more against the US dollar than against the others.

The external value of the rand came under renewed pressure early in January 2001 as volatility persisted in the foreign-exchange markets. During the first eleven days of 2001, the weighted effective exchange rate of the rand weakened further by 4½ per cent to its lowest index value ever. The index of the weighted exchange rate subsequently recovered again in the remainder of January 2001 and returned almost to the levels reached at the end of December 2000 when the news broke that the restructuring of the De Beers diamond organisation could lead to a substantial inflow of foreign capital into the country.

The average daily turnover in the domestic market for foreign exchange declined from US$9,8 billion in the third quarter of 2000 to US$9,5 billion in the fourth quarter. The value of transactions in which residents participated, declined from US$3,8 billion per day to US$3,5 billion, whereas transactions involving non-residents remained broadly unchanged at a daily average level of US$6,0 billion.

Signalling the greater competitiveness of domestic producers in foreign markets, the inflation-adjusted effective exchange rate of the rand declined by almost 5 per cent from December 1999 to September 2000.

Effective exchange rates of the rand



Monetary developments, interest rates and financial markets

Money supply

The growth over twelve months in the monetary aggregates was subdued for the greater part of 2000. Only right at the end of the year in December did clear signs of an acceleration in the pace of monetary expansion begin to emerge. The twelve-month growth in the broadly defined money supply (M3) fell as low as 6,0 per cent in July 2000. Although it strengthened somewhat in the ensuing months, the growth over twelve months in M3 was still at only 6,5 per cent in November 2000, 7,5 per cent in December and 9,1 per cent in January 2001. At such low growth rates, monetary expansion in South Africa would appear to be broadly consistent with an inflation rate significantly lower than the most recently observed rate of consumer price inflation, assuming an unchanged income velocity of money.

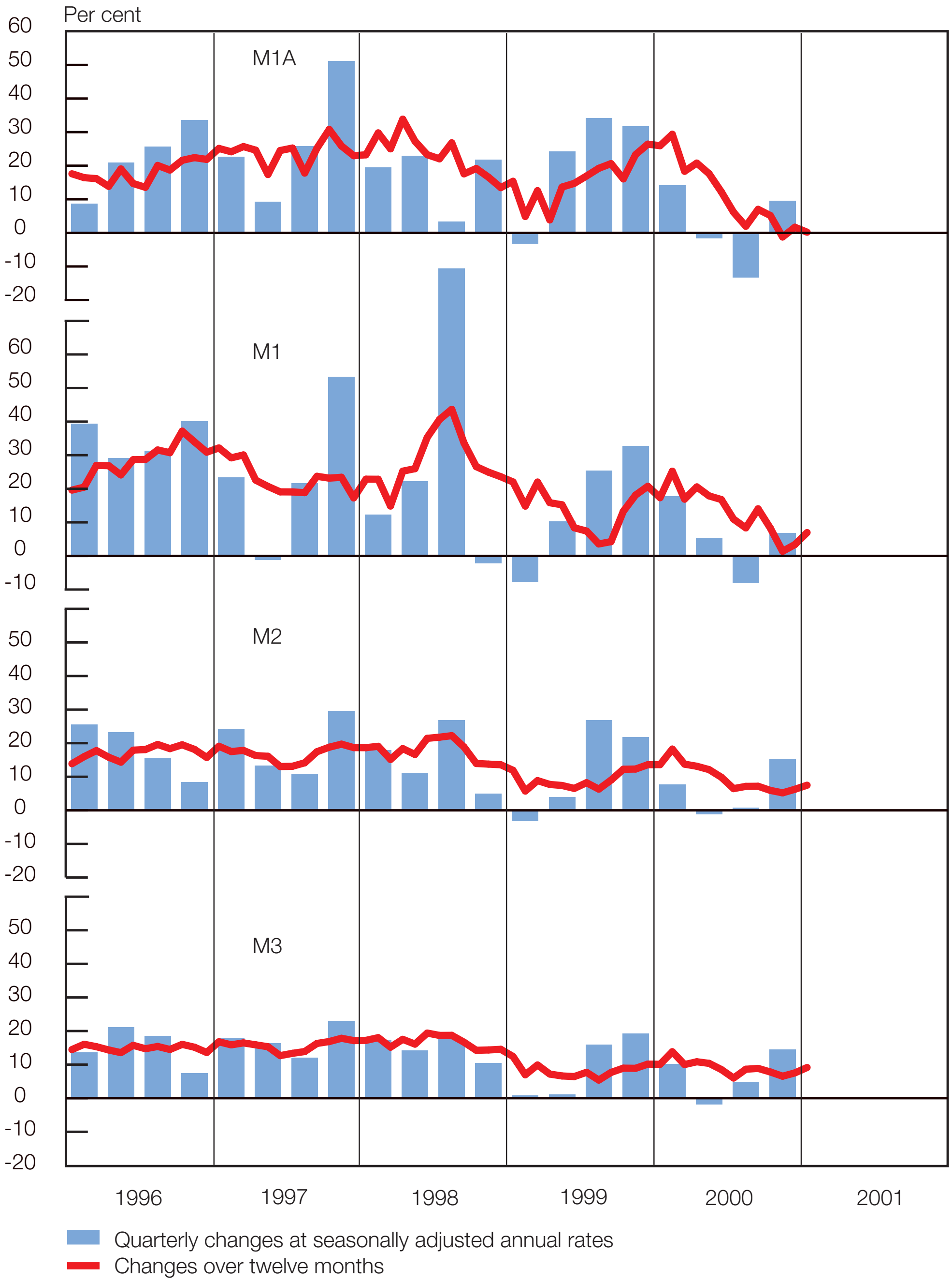
However, the relatively low twelve-month growth rates in M3 reflected to a large extent the high base for year-on-year growth calculations in 1999 which resulted from build-ups of notes and coin and demand deposits in the final months before the millennium date change. When analysing the quarter-to-quarter changes in M3, there are clear indications that the broad monetary aggregate was growing at a brisk pace towards the end of 2000. The seasonally adjusted and annualised rate of increase in M3 picked up from a negative growth rate of 1,7 per cent in the second quarter of 2000 to 4,9 per cent in the third quarter and 14,7 per cent in the fourth quarter. This monetary expansion, if it were to be sustained over an extended period of time, is not consistent with low inflation, but is more consistent with the vibrant growth in nominal gross domestic production and expenditure in the last two quarters of 2000.

Percentage change in monetary aggregates
Quarterly at seasonally adjusted annualised rates

Period	M1A	M1	M2	M3
2000: 1st qr	13,9	17,6	7,8	10,3
2nd qr	-1,8	5,2	-1,0	-1,7
3rd qr	-13,5	-8,3	0,5	4,9
4th qr	9,4	6,6	15,5	14,7

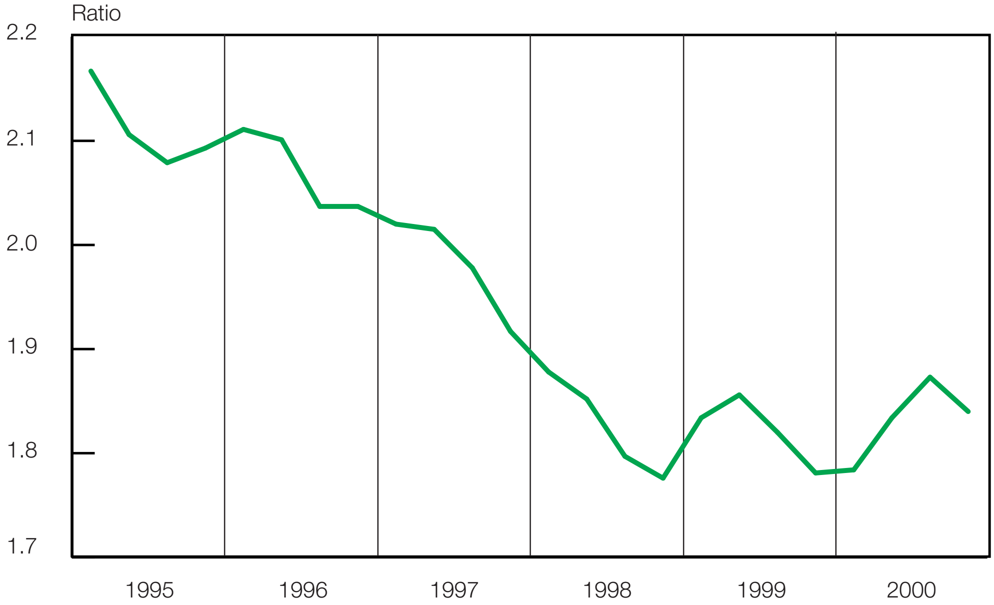
Faster quarter-to-quarter growth in the narrower monetary aggregates was also noticeable towards the end of 2000. M1A declined at a rate of 13,5 per cent in the third quarter of 2000 but then rose by 9,4 per cent in the fourth quarter. Similarly, the growth in M1 picked up from a decline at a rate of 8,3 per cent in the third quarter to an increase of 6,6 per cent in the fourth quarter. M2 also advanced at a sturdy rate in the fourth quarter of 2000 when the demand for other short and medium-term private-sector deposits rose briskly. Long-term deposits also increased rapidly in the second half of 2000 as banks' clients locked in fairly attractive interest rates on such deposits.

Growth in monetary aggregates



The growth rate of M3 reached an annualised level that was 7,1 percentage points higher than the growth in nominal gross domestic product in the fourth quarter of 2000. The income velocity of circulation of M3 accordingly decelerated from 1,87 in the third quarter of 2000 to 1,84 in the fourth quarter. The higher ratio of the broad money supply to gross domestic product represents an overhang of overall liquidity in the economy which could easily spur an upsurge in domestic spending, if the general public wished to reduce their preference for liquid monetary balances.

Income velocity of M3



Seasonally adjusted

The M3 money supply increased by R35,4 billion from the end of 1999 to the end of 2000. In a statistical or accounting sense, the change in M3 in 2000 was more than fully explained by an increase of R58,6 billion in the banks' claims on the domestic private sector. The monetary sector's net claims on the government sector contributed only R0,8 billion to the increase in the money supply. Contrary to these changes, monetary institutions' net foreign assets (including changes in the official holdings of gold and other foreign reserves) declined by R5,9 billion. Despite an increase in the deficit resulting from the Reserve Bank's involvement in the forward foreign-exchange market (which could be expected to increase the banks' other assets), there was a sharp fall in the monetary sector's net holdings of other assets. "Other liabilities", including capital and reserves rose strongly in 2000.

The full set of *accounting counterparts* of the growth in M3 during 2000 was as follows:

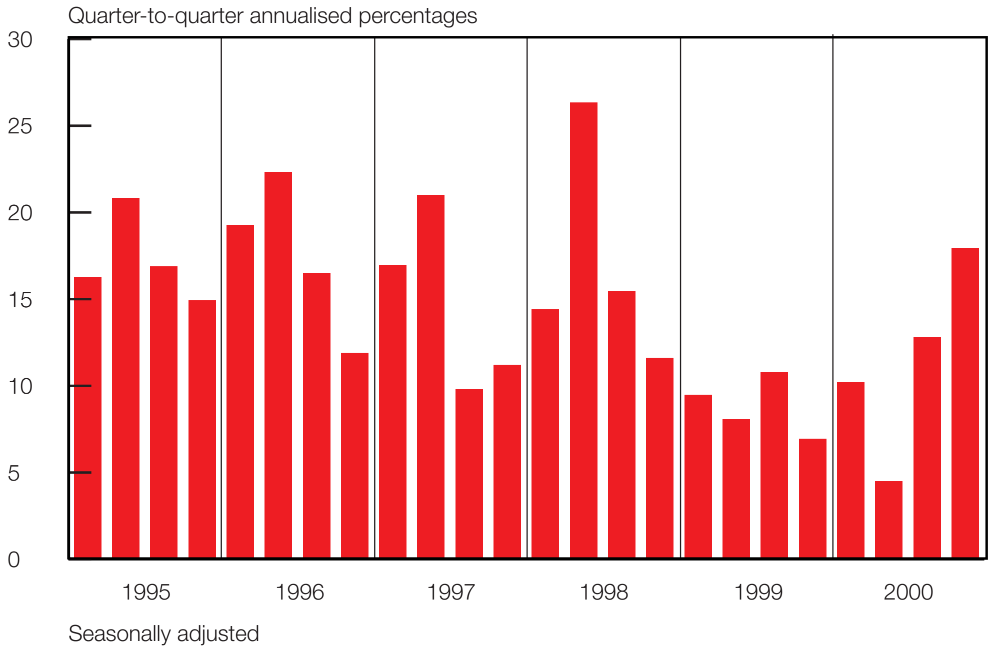
		R billions
Net foreign assets		-5,9
Net claims on government sector		0,8
Gross claims	2,9	
Less increase in government deposits	2,1	
Claims on the private sector		58,6
Net other assets and liabilities		-18,1
Increase in M3 (December 1999 to December 2000)		**35,4**

Credit extension

Credit growth picked up in the fourth quarter of 2000. Measured from quarter to quarter and annualised, growth in *total domestic credit extension* (i.e. credit extended to the private sector and net claims of banks on the government sector) accelerated from 2,5 per cent in the second quarter of 2000 to 19,0 per cent in the fourth quarter. The twelve-month growth rate in total domestic credit extension accelerated too: from 7,5 per cent in March 2000 to a high of 12,0 per cent in October and 10,6 per cent in December. In the year to January 2001 total credit extension increased by 7,1 per cent. The higher level of private-sector economic activity and the faster pace of overall economic expansion were the main drivers of the livelier credit extension. Net credit extended to the government sector declined somewhat in the fourth quarter of 2000.

The year-on-year growth in *bank credit extended to the private sector* gathered momentum from single-digit levels in the first eight months of the year to rates of between 10 and 12 per cent in the ensuing four months. Changes in the reporting format of banks caused a once-only decline of 8,3 per cent, measured from January 2000 to January 2001, in bank credit extended to private-sector parties. Measured from quarter to quarter and annualised, the growth in credit to the private sector accelerated rapidly from 4,5 per cent in the second quarter of 2000 to 12,8 per cent in the third quarter and 17,9 per cent in the fourth quarter. The strong demand for credit by the private sector was by and large a consequence of the pick-up in overall economic activity. However, measured growth was also influenced to some extent by changes in the reporting procedures of certain banks.

Credit extended to private sector



An analysis of banks' claims on the private sector by *type of credit* shows that the growth in *mortgage advances* strengthened consistently during the whole of 2000. The twelve-month growth rate accelerated, on balance, from 3,9 per cent in January 2000 to 7,3 per cent in June and was firmly above the 10 per cent level in November and December. In January 2001 the growth over one year in mortgage advances rose sharply to 14,4 per cent mainly because certain banks reported assets as mortgage advances that had previously been classified under “other loans and advances”. The acceleration in the growth in mortgage advances reflected the recovery in activity and prices in the real-estate market. This recovery kept the share of mortgage advances in the overall stock of outstanding private-sector credit at around 38 to 38½ per cent throughout 2000.

Instalment sale credit and leasing finance, mainly utilised in the financing of purchases of vehicles and other durable and capital goods, also showed signs of stronger growth in 2000. The percentage change over twelve months in this credit category accelerated from 7,4 per cent in October 2000 to 9,1 per cent in December and 9,8 per cent in January 2001. New business pay-outs on such credit reached a record high of R12,8 billion in the fourth quarter of 2000.

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

Credit category	2000				2001
	Sep	Oct	Nov	Dec	Jan
Mortgage advances	9,1	9,9	10,8	11,2	14,4
Instalment sale and leasing finance....................	6,7	7,4	8,9	9,1	9,8
Investments..............................	63,3	65,9	72,3	66,1	11,9
Bills discounted........................	-22,0	-14,1	22,7	36,7	75,2
Other loans and advances	7,5	9,9	7,1	5,0	0,7
Total...	**10,0**	**11,7**	**11,7**	**11,0**	**8,3**

Investments and bills discounted displayed exceptional volatility during 2000, partly because banks brought onto their balance sheets certain items that had previously been treated as off-balance sheet bookkeeping entries. Within overall credit extension, these credit categories are relatively small and their sizeable increase had only a minor impact on the growth in overall credit extension.

The rate of increase over twelve months in *other loans and advances* has recently declined from 9,9 per cent in October 2000 to 5 per cent in December; in the year to January 2001 it increased by just 0,7 per cent because part of some banks’ assets in this category had been reclassified to the mortgages asset class. The bulk of credit in this category was absorbed by the corporate sector in what might have been the financing of inventory accumulation ahead of the festive season and possibly some year-end bonus payments to employees.

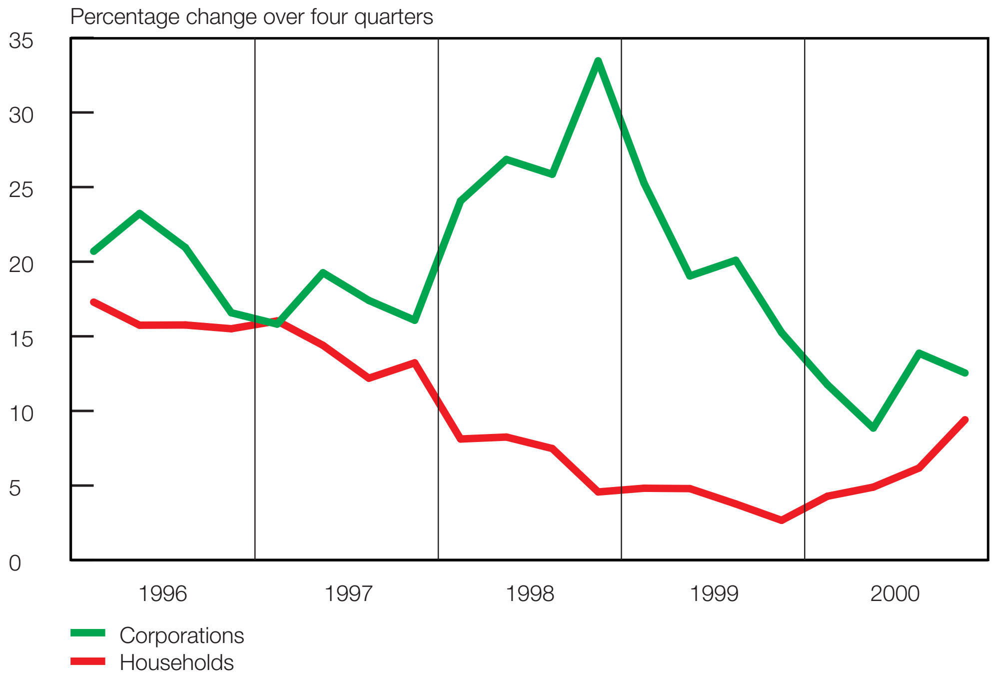
Despite the slower growth in “other loans and advances” over the past year, this category remains the largest single credit component, with a share in the overall stock of outstanding private-sector credit of 40,1 per cent in December 2000. The reclassification of assets by some banks from the “other loans and advances” category to “mortgage advances” pushed “other loans and advances” into the position of second-largest credit component in January 2001. The slight decline in the share of other loans and advances during the past year could be attributed to a gradual shift in the private business sector’s demand for funding away from credit intermediated through the banking system towards other financing instruments, such as fixed-interest securities and increased equity issuance. This change in funding behaviour was influenced by the steady reduction of the borrowing requirement of public-sector organisations.

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

Period	Investments and bills discounted	Instalment sales and leasing finance	Mortgage advances	Other loans and advances	Total
2000: Mar....................	5,5	13,9	38,3	42,3	100,0
Jun....................	6,1	14,1	38,5	41,3	100,0
Sep....................	7,1	13,7	38,1	41,1	100,0
Dec....................	7,9	13,7	38,3	40,1	100,0
2001: Jan....................	6,0	14,0	40,1	39,9	100,0

The corporate and household sectors shared proportionately in the increase in credit extended to the private sector in the fourth quarter of 2000. The share of the corporate sector in total credit extension to the private sector accordingly remained at about 51½ per cent in the third and fourth quarters of 2000, whereas the share of households was at about 48½ per cent.

Credit extended to corporations and households



The major part of the absolute increase of R7,8 billion in credit extended to the corporate sector in the fourth quarter of 2000 was an increase in "investments and bills discounted". Mortgage advances contributed most to the increase of R8,9 billion in credit extended to the household sector in the fourth quarter of 2000.

Yields and interest rates

Bond yields, which move inversely to the price of bonds, declined, on balance, during 2000. The *monthly average yield on long-term government bonds* declined by 107 basis points from December 1999 to December 2000. The decline in the *daily* *average yield* was more muted because of some market volatility during the year. From its lowest level in January 2000 to its lowest level in December, the daily average yield on long-term government bonds has declined by 57 basis points.

The general downward movement in *bond yields* beginning in May 2000 was temporarily interrupted from August to October when bond yields retraced part of their earlier declines. This brief interruption was caused by, among other things, political developments in other parts of the southern African subregion and concerns that higher inflation might follow the rise in the price of crude petroleum and the persistent depreciation in the value of the rand.

By about mid-October, in the aftermath of a decision by the Reserve Bank to raise the interest rate on repurchase transactions by 25 basis points as a gesture demonstrating its resolve to fight inflation, fears of higher inflation began to dissipate and it also became evident that political events in other parts of the African continent would not have any serious repercussions in South Africa.

During the fourth quarter of 2000, the effects of lower inflation expectations were reinforced by news that the economy was performing better than anticipated and by the announcement of the Medium-Term Budget Policy Statement which reaffirmed Government's commitment to prudent revenue and spending policies. Bond yields resumed their downward movement during the fourth quarter and continued to decline into 2001, reaching their lowest level in seven years.

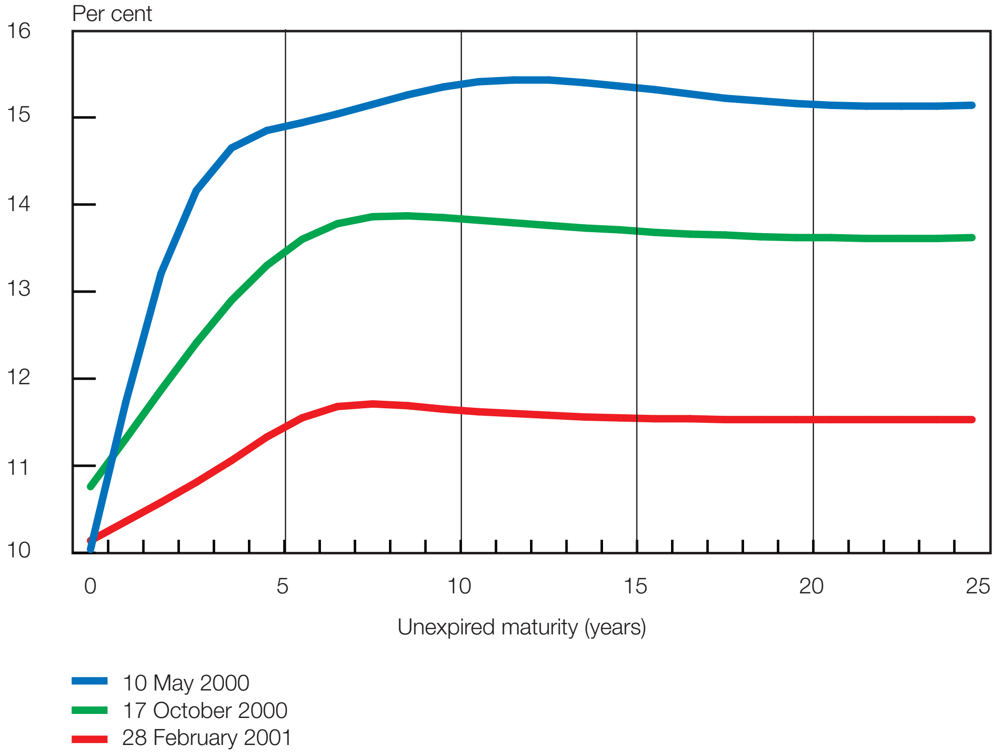
Yield on long-term government bonds

The bull market in bonds took the monthly average yield on long-term government bonds down from 14,8 per cent in May 2000 to 13,5 per cent in August. The uncertainties referred to earlier then took the monthly average yield on long-term government bonds to 13,7 per cent in September and October. When bond prices began to rise again in

October 2000, the monthly average yield on long-term government bonds was pushed lower to 11,9 per cent in February 2001 – its lowest level since January 1994. The daily average long-term bond yield fell from 13,89 per cent on 18 October to below the 13 per cent mark in December 2000 and reached 11,68 per cent on 28 February 2001.

The upward sloping *yield curve* has become flatter since reaching its peak for 2000 on 10 May, reflecting greater confidence among market participants that the current monetary policy campaign against high inflation will succeed. The yields on bonds with an outstanding maturity of twenty-five years have declined, on balance, by 361 basis points from 10 May 2000 to 28 February 2001, but the yield differential between the zero and twenty-five-year maturity intervals has still been at 139 basis points. This fairly wide yield differential indicates not only the underlying asymmetry in lenders' and borrowers' maturity preferences, but also some lingering concerns about domestic inflation and non-resident exposure to exchange-rate risk in the domestic bond market.

Yield curves



The variations in inflation expectations have been confirmed by the trends in the *implied or break-even inflation rate,* which equates the return on government's conventional bond with an outstanding maturity of nine years with the real yield on the inflation-linked bond. According to this measure, expected inflation is seen to have declined because the differential between the two yields has declined by 289 basis points from 10 May 2000 to 16 February 2001. The incremental month-to-month reduction in this differential slowed down markedly in January 2001, probably because of concerns that brisk production price increases might spill over into higher consumer price inflation.

"Break-even" inflation rate*

* Derived from yields on R153 bond and inflation-linked R189 bond

Developments in the *currency risk premium* of South African government bonds (measured as the difference between the nominal yield on South African government bonds with an outstanding maturity of five years in the domestic market and those in the United States debt market) confirmed the fairly sanguine outlook for domestic inflation. According to this measure, the exchange-rate risk premium built into the yields on South African bonds was on average lower in the second half of 2000 than in the first half.

The *inflation-adjusted yield* on long-term government bonds increased from 4,9 per cent in August 2000 to 5,3 per cent in November, using past price increases as an indicator of expected inflation. The real bond yield then moved back to 4,6 per cent in January 2001 along with the absolute decline in the nominal yield on long-term government bonds.

Unlike the highly volatile bond yields, money-market interest rates were exceptionally stable during 2000. The Reserve Bank's rate on repurchase transactions was adjusted on only two occasions: from 12,00 per cent to 11,75 per cent in January 2000 and from 11,75 per cent to 12,00 per cent in October. The three-month bankers' acceptances rate moved in a narrow range of 9,83 per cent to 10,93 per cent – narrower by far than the typical range in the second half of the 1990s.

Rate on bankers' acceptances of three months
Per cent per annum

	1995	1996	1997	1998	1999	2000
Maximum	14,60	17,00	17,00	21,60	17,53	10,93
Minimum	12,60	13,90	14,20	12,75	10,93	9,83
Spread	2,00	3,10	2,80	8,85	6,60	1,10

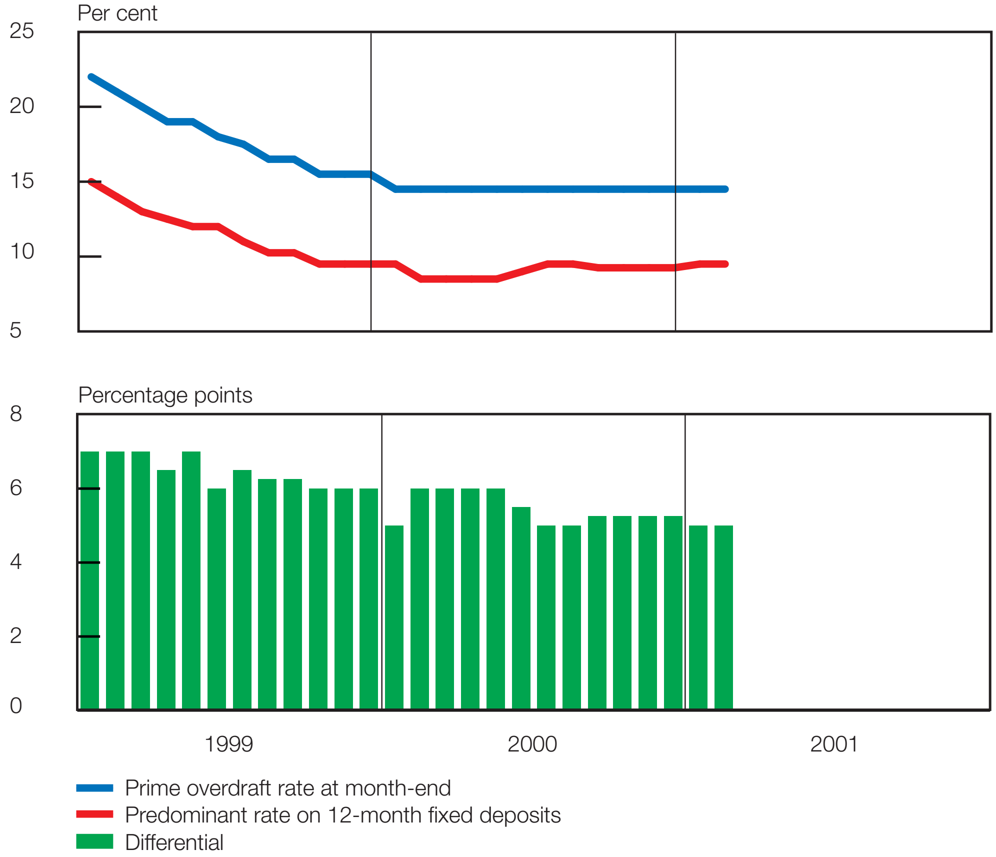
At the beginning of October 2000 money-market interest rates began to rise somewhat when market participants became concerned about the inflationary consequences of high international petroleum prices and the depreciation of the rand. Money-market rates generally edged higher when the repurchase rate of the Reserve Bank was increased on 17 October 2000, but they peaked before the end of October and declined steadily over the ensuing period. The rate on three-month bankers' acceptances, for example, peaked at 10,31 per cent on 26 October 2000 and then began to decline, reaching 10,23 per cent on 28 February 2001. This decline was interrupted on two occasions: from 21 November 2000 to 27 December when it remained unchanged at 10,27 per cent and since 22 January 2001 when it has maintained a level of 10,25 per cent. The tender rate on Treasury bills of three months rose to 10,25 per cent on 20 October 2000, before declining steadily to 10,13 per cent on 16 February 2001, and stabilised at the latter level in the ensuing period.

Money-market interest rates

When expectations of increases in money-market interest rates intensified in October 2000, the rates on forward rate agreements (FRAs) rose. For instance, the rate on 9x12-month forward agreements (indicating market expectations of rates on three-month instruments nine months hence) gained almost a full percentage point during the three weeks to 26 October when they peaked at 11,70 per cent. News that the economy was performing better than had earlier been anticipated and that inflation was not widely expected to accelerate, caused the 9x12-FRA rate to recede to 10,15 per cent by 28 February 2001. With the concurrent rate on three-month negotiable certificates of deposit at 10,53 per cent, the FRA rates signalled market expectations of a slight decline in money-market rates over the next nine months.

Since February 2000 the private banks have kept the *predominant rate on mortgage loans* unchanged at its lowest level in twelve years, namely at 14,50 per cent. The predominant rate on *twelve-month fixed deposits* with banks remained unchanged at 8,50 per cent from February 2000 to May, but was raised in two steps to 9,50 per cent in July. Subsequently this rate was lowered to 9,25 per cent in September 2000, but restored to 9,50 per cent in January 2001. These rate movements narrowed the differential between banks' prime lending rates and the rate on twelve-month fixed deposits, on balance, from 600 basis points in February 2000 to 500 basis points in January 2001.

Bank lending and deposit rates



Money market

After fluctuating between R8,4 billion and R9,4 billion in the eight months from April to November 2000, the average daily liquidity requirement of the private banks increased to R10,2 billion in December 2000. It eased slightly to R10,0 billion in January 2001 and R9,2 billion in February. In the months from April to November 2000 the Reserve Bank kept the daily liquidity requirement above R8 billion by actively implementing various intervention techniques.

The intervention strategy of the Bank was essentially aimed at counteracting the effects of liquidity injections into the money market, arising from increases in the Bank's net foreign asset holdings and deficits incurred on the Bank's transactions in the forward foreign-exchange market. Over the eleven months from the beginning of April 2000 to the end of February 2001 the Bank's net foreign-exchange purchases and forward-book deficits added more than R10 billion to liquidity in the money market.

In its intervention in the money market, the Reserve Bank increased the outstanding amounts of foreign-currency swap arrangements with private-sector parties from R10,9 billion at the end of June 2000 to R20,5 billion at the end of January 2001. To reinforce its liquidity-draining operations, the Bank also increased the outstanding amounts of reverse repurchase transactions in government securities from R4,0 billion at the end of May 2000 to R5,0 billion at the end of November. For similar reasons, Reserve Bank debentures were increased from R3,0 billion at the end of the first quarter of 2000 to R4,0 billion at the end of November 2000.

During the festive season at the end of 2000, money-market conditions were seasonally tightened by a considerable increase in the value of notes and coin in circulation outside the Reserve Bank. At the height of the holiday season, notes and coin in circulation outside the Reserve Bank reached a peak value of R34,7 billion on 27 December 2000 compared with the previous peak of R33,3 billion on 28 December 1999.

On balance, notes and coin in circulation rose by R3,2 billion from the end of November to the end of December 2000. The tightening effect of the increase in notes and coin in circulation was alleviated to some extent by decreasing the reserve repurchase transactions of the Bank from R5 billion at the end of November 2000 to R3,75 billion at the end of December. At the same time, Reserve Bank debentures in issue were reduced from R4 billion to R3 billion. When notes and coin began to flow back to the Reserve Bank during January 2001, the reverse repurchase and debenture levels were restored to their November 2000 values. In February 2001 the value of reverse repurchase transactions outstanding was raised marginally to R5,43 billion. Issues of Reserve Bank debentures were increased to R4 billion in February 2001.

The Reserve Bank has continuously met in full the liquidity needs of the private banks during 2000. The only exception was on 17 October 2000 when the market was under-provided by R50 million in order to apply upward pressure on the repurchase rate of the Reserve Bank. Full provision of the liquidity needs of the private banks usually sends a signal that the Reserve Bank considers the prevailing interest rate on repurchase transactions as appropriate.

Bond market

Funding by public-sector borrowers through the issuance of fixed-interest securities in the *domestic primary bond market* amounted to a net value of R5,1 billion in the first nine months of fiscal 2000/01, considerably more than the net amount of R3,2 billion raised in the same period of the previous fiscal year. New issues of long-term fixed interest securities were held back by the relatively small borrowing requirement of the national government and by the preference given to funding through lower-cost Treasury bills than through more costly long-term bonds. Financing through short-term Treasury bills came to the net amount of R11,0 billion between April and December 2000. On a quarterly basis, a net amount of R4,9 billion was raised in the primary bond market by public-sector borrowers in the third quarter of 2000, but this was followed by net redemptions of public-sector debt of R2,0 billion in the fourth quarter.

Private-sector borrowers are increasingly targeting the primary bond market to meet their financing needs. Over the past year, 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.

Although South Africa has been assessed as an investment-grade country by two major international credit-rating agencies, domestic borrowers were hesitant to access *foreign debt markets* in 2000. Possible explanations for this could have been fear of the cost implications of potential declines in the exchange rate of the rand and also the increased aversion to risk taking in emerging markets by international investors. In the end, South African *public-sector borrowers* raised R10,1 billion through the issuance of foreign-currency denominated bonds in 2000, up from R9,5 billion in 1999. The *national government* raised an amount of about R6,9 billion through two issues, the last of which was concluded in June 2000. One of the public corporations mobilised R3,2 billion in March 2000.

Exchange-rate concerns also dampened enthusiasm for issuing *rand-denominated bonds* in the *eurobond market* during 2000. South African issuers completely abstained from issuing rand-denominated bonds in the euro market, whereas non-resident investors made net redemptions of such bonds to the value of R3,0 billion, compared with 1999 when net issues amounting to R2,6 billion had still been made.

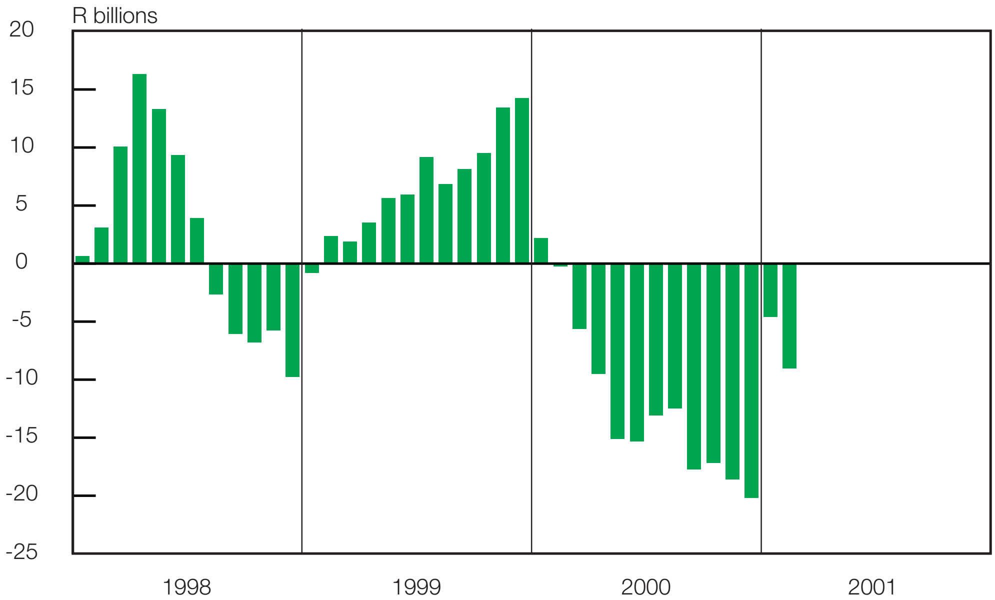
High volatility in bond prices caused the turnover in the *domestic secondary bond market* to rise from R8,8 trillion in 1999 to R10,5 trillion in 2000 – an increase of almost 20 per cent. Quarterly turnovers, however, decreased from a record level of R2,8 trillion in the first quarter of 2000 to R2,5 trillion in the fourth quarter. Based on developments in January and February 2001, turnover in the bond market could rise to R2,7 trillion in the first quarter of 2001. "Stripped" bonds are included in the bond market statistics, but trading in these bonds amounted to just R0,4 billion in the period from September to December 2000 and R4,6 billion in January and February 2001.

Non-resident investors reduced their holdings of domestic rand-denominated debt in 2000. Non-residents' cautious attitude towards investment in South Africa stemmed from heightened uncertainties over future interest-rate and exchange-rate movements. This was probably exacerbated by an increased awareness of the risks of investing in emerging markets, particularly after Argentina's debt problems surfaced and the Turkish banking crisis deepened.

On a net basis, non-residents sold bonds to the value of R20,2 billion in 2000 after they had been net buyers of bonds to the value of R14,3 billion in 1999. *Net outright sales*, as opposed to repurchase transactions, amounted to R11,7 billion in 2000, compared with R13,5 billion in 1998 during the emerging-markets crisis. Non-resident investors were apparently somewhat less negative towards South African debt securities in 2000 than in the crisis year of 1998.

Non-residents were also active participants in the market for collaterised borrowing and lending through *repurchase transactions* with net sales of bonds amounting to R8,5 billion in 2000.

Annual cumulative net purchases of bonds by non-residents



Share market

The total value of equity capital raised in the *primary share market* by companies listed on the JSE Securities Exchange (JSE) increased to R74 billion in 2000, almost twice as much as in 1999. The quarterly value of capital mobilised increased from R14,8 billion in the second quarter of 2000 to R30,1 billion in the third quarter, but fell back to R12,5 billion in the fourth quarter, and to only R0,8 billion in January 2001.

Volatile price movements throughout 2000 boosted trading activity in the *secondary share market.* Shares to the value of R537 billion were traded on the JSE in 2000, about 20 per cent more than the previous record set in 1999. From quarter to quarter, share market turnover declined during 2000: from R155 billion in the first quarter of 2000 to around R125 billion in the second and third quarters and R132 billion in the fourth quarter.

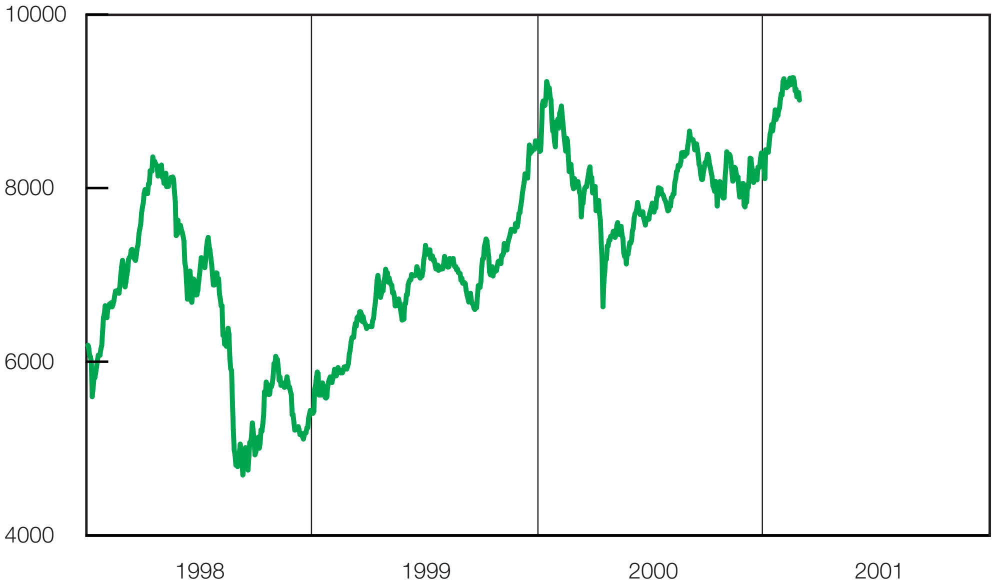
From the fourth quarter of 2000 turnover statistics include *traded index funds*. Since the launch of Satrix40 in November 2000 the value of trades in this sector has totalled R0,2 billion in 2000 and R0,4 billion in the first two months of 2001.

Non-resident investors were far less interested in the South African equity market in 2000 than in 1999. On a net basis non-resident shareholders bought R17,4 billion worth of shares in 2000, down from R40,6 billion in 1999. The negative turn in non-resident investor interest is best explained by a decline of 26 per cent in the dollar value of share prices from January to December 2000.

Share prices (in rand terms) closed the year slightly lower than their opening levels. Year on year the daily closing level of the all-share price index declined by 2,5 per cent from the end of December 1999 to the end of December 2000.

The *monthly average* price level of all classes of shares declined by 4 per cent in October 2000, but afterwards increased by 1 per cent to December. The daily closing level of the all-share price index rallied by 19 per cent from 1 December 2000 to a new record high on 16 February 2001. This high drove the monthly average price level up by 13 per cent from December 2000 to February 2001, beating the previous record high of January 2000 by about 4 per cent.

All-share price index



The dividend and earnings yields on shares generally move inversely to share prices. The *earnings yield* of the non-gold sector in recent months rose from 7,5 per cent in September 2000 to 8,6 per cent in December, before retreating somewhat to 7,8 per cent in January 2001. The *dividend yield* on all classes of shares increased from 2,4 per cent in September 2000 to an average rate of 2,7 per cent in the fourth quarter of 2000. When share prices recovered again, the dividend yield decreased to 2,5 per cent in January 2001. The *price-earnings ratio* of all classes of shares, excluding gold-mining shares, fell from 16,4 in January 2000 to 13,3 in September and further to 11,6 in December before increasing to 12,8 in January 2001.

Market for derivatives

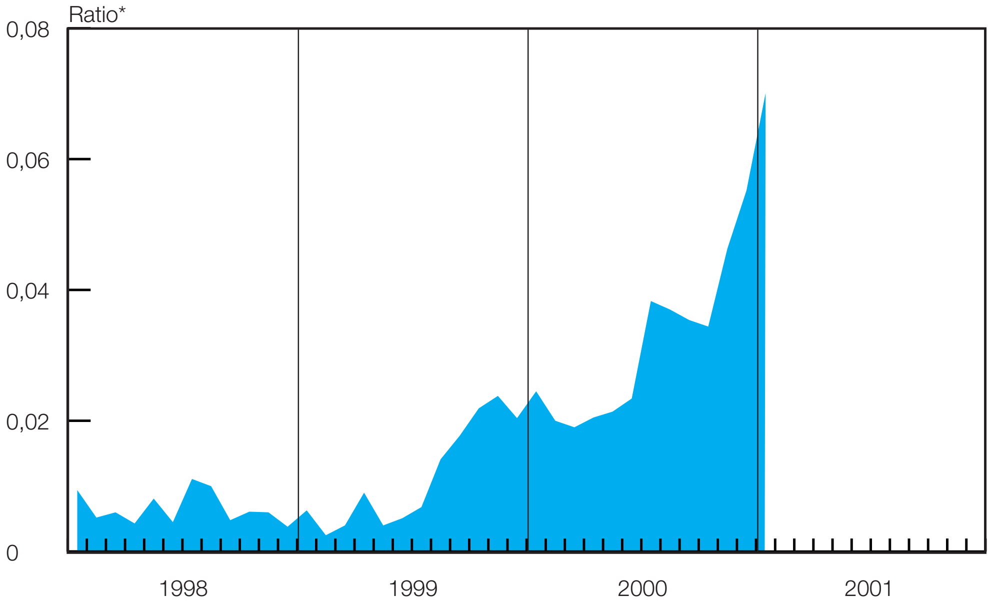
The use of derivative instruments as an investment alternative to adjust portfolio exposure without trading in the underlying securities markets, increased strongly in 2000, especially in the second half of the year.

The combined number of *futures and options on futures contracts* traded on the South African Futures Exchange – almost exclusively equity-related contracts – rose by 29 per cent from 18,7 million in 1999 to 24,2 million in 2000. The quarterly number of these contracts traded increased from 4,8 million in the first quarter of 2000 to a quarterly all-time high of 7,4 million in the fourth quarter. The number of contracts traded increased further from a monthly average of about 2,5 million in the fourth quarter to 3,8 million in January 2001 and 2,1 million in February.

The number of *warrants* traded on the JSE increased more than threefold from 2,8 billion in 1999 to 9,9 billion in 2000. An all-time quarterly record of 3,2 billion warrants was set in the fourth quarter of 2000. Trading increased further from a monthly average of 1,1 billion in the fourth quarter of 2000 to 1,3 billion in January 2001 and 1,6 billion in February.

The *number of underlying shares* associated with traded warrants increased by 162 per cent in 2000, compared with a decline of 2 per cent in the number of shares traded on the JSE. Part of the volume decline in JSE share trading during 2000 should be attributed to the growing popularity of warrants trading. Not only has the number of listed warrants increased from 109 in January 2000 to 223 in January 2001, but the option features of warrants boosted trading in this product during periods of share price volatility.

Warrants versus shares



* The number of underlying shares associated with the number of warrants traded versus the number of shares traded on the JSE Securities Exchange

The number of *commodity futures contracts and options* on such contracts traded in the Agricultural Market Division of the South African Futures Exchange rose by 82 per cent from 250 000 contracts in 1999 to 455 000 contracts in 2000, boosted by the volatility in the spot price of white maize. The quarterly number of these contracts traded recorded an all-time high of 134 000 in the fourth quarter of 2000. Trading increased from a monthly average of about 45 000 contracts in the fourth quarter of 2000 to 69 000 in January 2001 and 81 000 in February.

Real-estate market

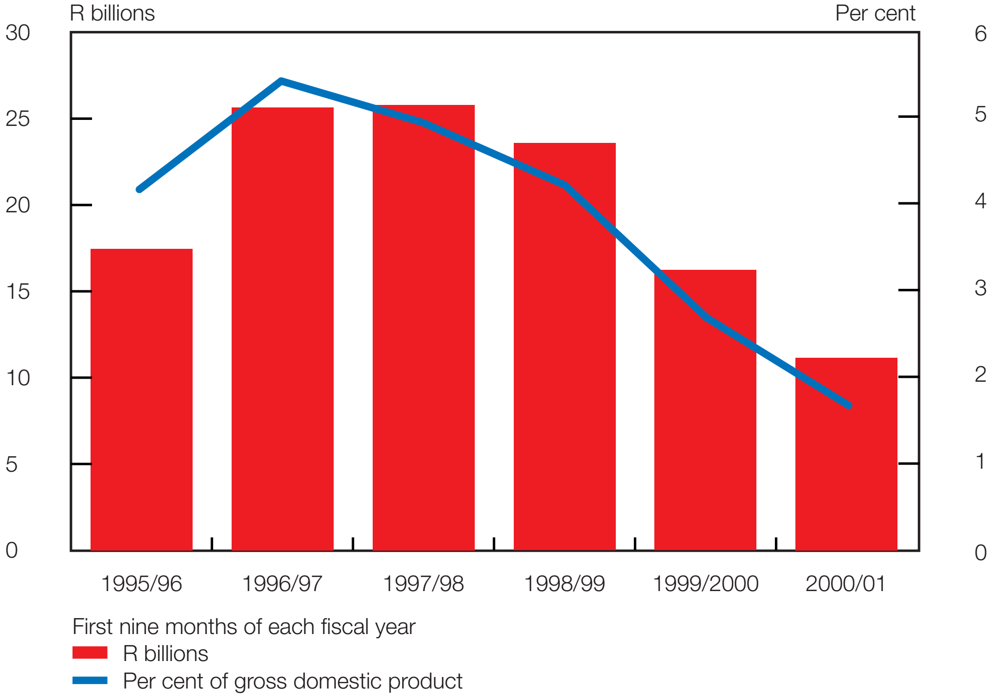
The *real-estate market* became increasingly buoyant in 1999 and the first quarter of 2000 but the seasonally adjusted value of transactions levelled off at a relatively high level in the remainder of 2000. The *value* of real-estate transactions increased from R5,9 billion in the first quarter of 1999 to R9,9 billion in the first quarter of 2000, primarily in response to the sharp reduction in mortgage bond rates from their high levels in 1998. The value of real-estate transactions levelled off at R9,8 billion in the second and third quarters of 2000 before increasing to a quarterly rate of R10,1 billion in October and November 2000. The total value of transactions was 37 per cent more in the first eleven months of 2000 when compared with the first eleven months of 1999. The total *number* of real-estate transactions increased by 27 per cent over the same period. The *average nominal value per real-estate transaction* increased by 8,4 per cent in the first eleven months of 2000 relative to its level in the first eleven months of 1999 – i.e. an increase marginally higher than the current rate of CPIX inflation.

Public finance

Non-financial public-sector borrowing requirement

The activities of the *non-financial public sector* (i.e. the consolidated central government, provincial governments, local authorities and non-financial public-sector businesses) resulted in a surplus of R4,6 billion in the October to December quarter of 2000 – R3,3 billion less than the surplus recorded in the corresponding quarter of 1999. This brought the non-financial public-sector borrowing requirement for the first nine months of fiscal 2000/01 to R11,2 billion, which is R5,1 billion less than in the same period of the previous fiscal year. As a ratio of gross domestic product, the non-financial public-sector borrowing requirement declined to 1,7 per cent in the first nine months of fiscal 2000/01. This ratio was lower than the average ratio of 4,3 per cent observed in the first nine months of the preceding five fiscal years.

Public-sector borrowing requirement



The improvement in the borrowing requirement of the non-financial public sector can partly be ascribed to an improvement in the finances of non-financial public-sector business enterprises. The financial results of these businesses indicate a reduction in their consolidated financial deficits from R0,9 billion in the first nine months of fiscal 1999/2000 to R0,4 billion in the corresponding period of fiscal 2000/01.

The activities of *general government* in the October to December quarter ended in a financial surplus of R4,9 billion, bringing its borrowing requirement for the first nine months of fiscal 2000/01 to R10,7 billion. Provincial governments and the consolidated central government were the main contributors to this improvement in public finances.

The finances of the *provincial governments* improved from a surplus of R1,2 billion in the first nine months of fiscal 1999/2000 to a surplus of R4,9 billion in the first nine months of fiscal 2000/01. This was mainly caused by an increase of 12,5 per cent in the equitable share of national government revenue transferred to provincial governments; expenditure by provincial governments increased by only 6,0 per cent. As a consequence of the positive revenue flow of the provinces, they could increase their deposits with private banks from R4,4 billion at the end of March 2000 to R5,7 billion at the end of December 2000. Their bank indebtedness nevertheless still increased from R1,4 billion to R2,1 billion over the same period.

A reduction in the borrowing requirement of the consolidated central government occurred mainly at the level of the extra-budgetary institutions. By contrast, the reported financial position of local governments deteriorated slightly during the first nine months of fiscal 2000/01.

National government finance

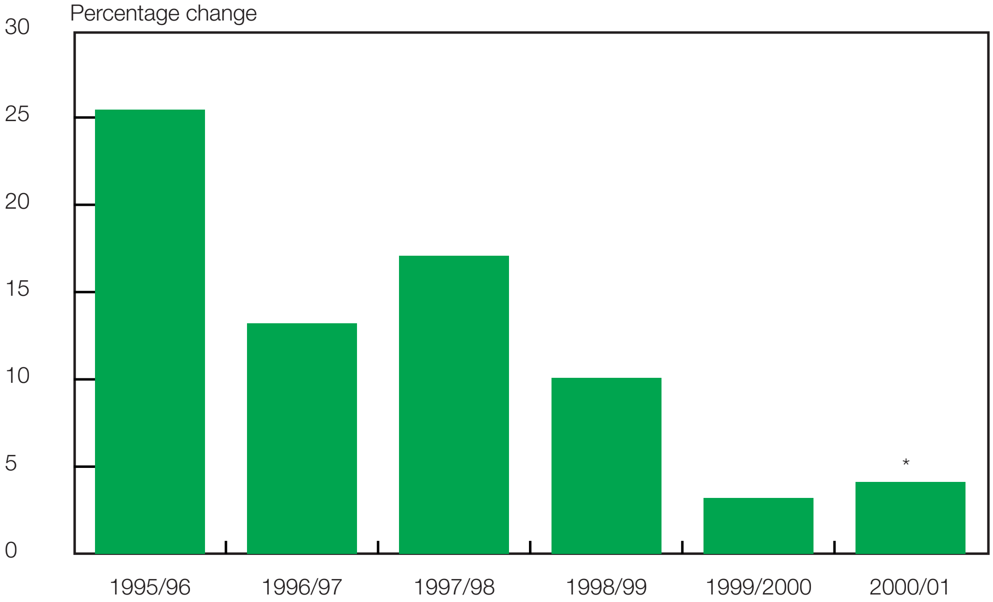
National government expenditure in the October to December quarter of 2000 amounted to R52,0 billion, bringing expenditure in the first nine months of fiscal 2000/01 to R167,4 billion which equals 71,7 per cent of the originally budgeted expenditure for the full year. The year-on-year rate of increase in government expenditure amounted to 5,6 per cent in the first nine months of fiscal 2000/01, which was somewhat lower than the budgetary provision of 7,9 per cent for the fiscal year as a whole. This rate of increase in national government expenditure was virtually the same as the increase in the first nine months of the previous fiscal year but significantly below the average increase of 10,4 per cent in the first nine months of the preceding five fiscal years. As a ratio of gross domestic product, national government expenditure in the first nine months of fiscal 2000/01 amounted to 25,0 per cent, well down from the 26,1 per cent recorded in the same period of the preceding fiscal year.

There was a marked slowdown in the rate of increase in interest on government debt. Interest on government debt amounted to R28,7 billion in the first nine months of fiscal 2000/01 compared with R27,6 billion in the same period of the previous fiscal year, an increase of only 4,1 per cent. The slower growth in interest payments allows some latitude for the allocation of resources to government’s social programmes which will contribute to the general upliftment of the quality of life of people in South Africa.

The equitable share of revenue transferred to the provinces amounted to R72,0 billion in the first nine months of fiscal 2000/01, which was 12,5 per cent more than in the same period of the previous fiscal year. An amount of R4,3 billion was spent on capital projects in the first three quarters of 2000/01. Overall spending on capital projects in the first nine months of fiscal 2000/01 represented only about 56 per cent of the originally budgeted capital expenditure.

After allowing for cash-flow adjustments (i.e. transactions recorded in the government ledgers but not yet cleared by the banking system, and late departmental requests for funds) government expenditure amounted to R169,0 billion, representing a year-on-year rate of increase of 7,8 per cent in the first nine months of fiscal 2000/01.

Interest on national government debt



Fiscal years
* First nine months

National government revenue in the October to December quarter of 2000 was R55,6 billion which brought revenue for the first nine months of fiscal 2000/01 to R151,9 billion or 72,2 per cent of the originally budgeted revenue of R210,4 billion for the fiscal year as a whole. Revenue increased at a year-on-year rate of 6,8 per cent in the first nine months of fiscal 2000/01, slightly higher than the projected rate of revenue growth of 6,6 per cent for the full fiscal year.

National government revenue in fiscal 2000/01
R billions

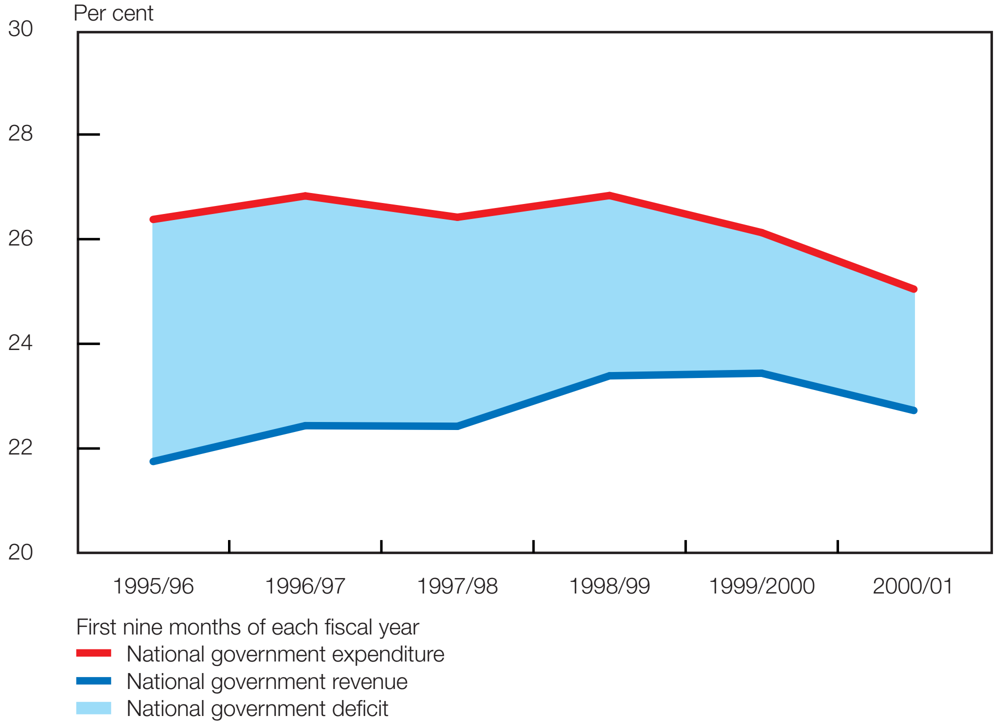
Revenue source	Budgeted	Actual for first nine months
Taxes on income and profits	121,3	87,4
Payroll taxes	1,4	0,9
Taxes on property	3,3	2,9
Domestic taxes on goods and services	79,4	56,9
Taxes on international trade and transactions	6,5	6,6
Other revenue	6,9	3,6
Less: SACU* payments	8,4	6,3
Total revenue	210,4	151,9

* Southern African Customs Union

Taxes on income and profits remained the principal source of revenue, amounting to R87,4 billion, whereas domestic taxes on goods and services contributed R56,9 billion to the Revenue Fund. The Air Passenger Tax came into effect on 1 November 2000. This departure tax on air travel from South Africa to a destination outside South Africa was introduced at a rate of R100 per ticket sold, except for air travel from South Africa to one of the Southern African Customs Union countries, where the departure tax is R50 per ticket sold. The total yield of this tax was R15,1 million in the two months to the end of December 2000.

In the first nine months of fiscal 2000/01 the National Revenue Fund received R869 million for the Skills Development Levy, which had been introduced on 1 April 2000. Eighty per cent of the levy collected is intended to fund the sectoral education and training authorities (SETAs) and twenty per cent will fund the National Skills Fund. An amount of R439 million was transferred from these collections during the first nine months of the current fiscal year.

National government revenue and expenditure as ratios of gross domestic product

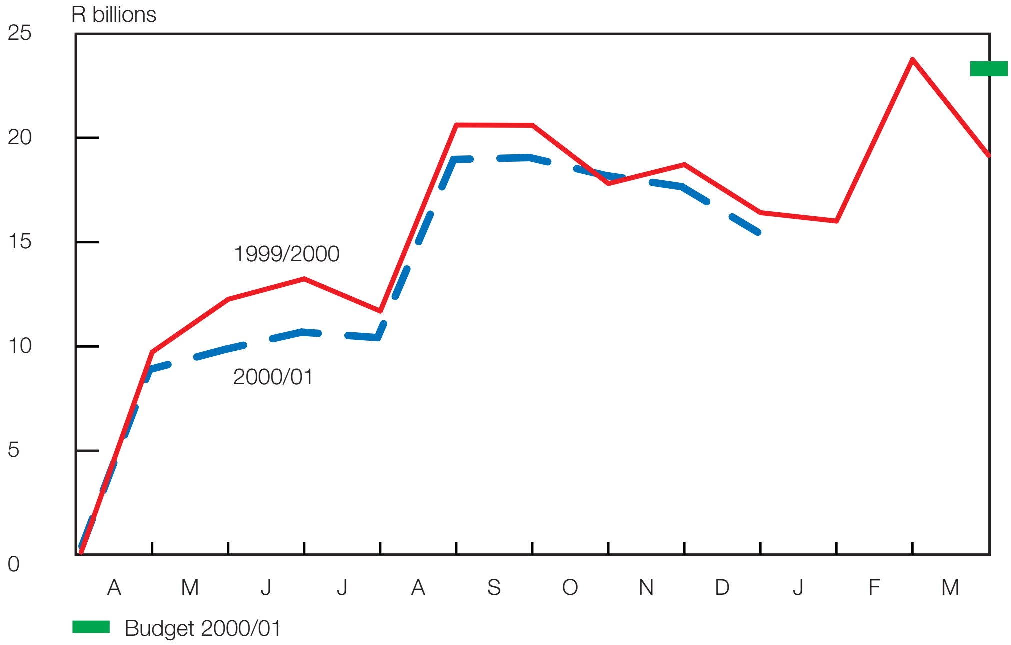


As a ratio of gross domestic product, national government revenue amounted to 22,7 per cent in the first nine months of fiscal 2000/01 compared with 23,4 per cent in the corresponding period of the previous fiscal year.

National government revenue, adjusted for differences in timing between the recording of transactions and bank clearances, amounted to R152,0 billion representing an increase of 6,9 per cent when comparing the first nine months of fiscal 2000/01 with the same period of the previous fiscal year.

The net result of the revenue and expenditure recorded in the Statement of National Revenue, Expenditure and Borrowing was a *national government deficit before borrowing and debt repayment* of R15,5 billion in the first nine months of fiscal 2000/01, which amounts to 67,1 per cent of the deficit originally envisaged for the fiscal year as a whole. As a ratio of gross domestic product, the deficit before borrowing and debt repayment amounted to 2,3 per cent in the first nine months of fiscal 2000/01. This can be compared with the deficit ratio of 2,7 per cent recorded in the corresponding period of the previous fiscal year. Due to the containment of the national government's interest cost, the primary balance (i.e. the balance calculated after excluding interest cost) improved from a surplus equal to 1,9 per cent of gross domestic product in the first three quarters of fiscal 1999/2000 to a surplus of 2,0 per cent in the first nine months of fiscal 2000/01. Over the past five fiscal years the primary surplus as a percentage of gross domestic product has averaged 0,9 per cent per year.

Cumulative deficit of national government



The deficit before borrowing and debt repayment, adjusted for cash flows, amounted to R17,0 billion in the first nine months of fiscal 2000/01. Apart from financing this deficit, national government also had to fund the cost of the revaluation of maturing foreign loans. After taking these revaluation costs as well as the proceeds from the restructuring of state assets into consideration, the net borrowing requirement of national government amounted to R15,5 billion. The greater part of the borrowing requirement in the first nine months of fiscal 2000/01 was financed by means of new issues of Treasury bills and through foreign loans, as indicated in the accompanying table.

Long-term funding in the first nine months of fiscal 2000/01 was obtained at an average rate of 12,2 per cent per annum compared with a budget assumption of 13,6 per cent. Short-term instruments were sold at an average rate of 9,9 per cent per annum compared with a budget assumption of 11,0 per cent. The proceeds from the restructuring of government assets made a sizeable contribution towards reducing the overall financing requirement in the first nine months of fiscal 2000/01. Receipts from this source include an amount of R0,3 billion received from the restructuring of the insurance agency Sasria and a R1,8 billion special restructuring dividend from the transport utility Transnet.

Financing of national government deficit in fiscal 2000/01

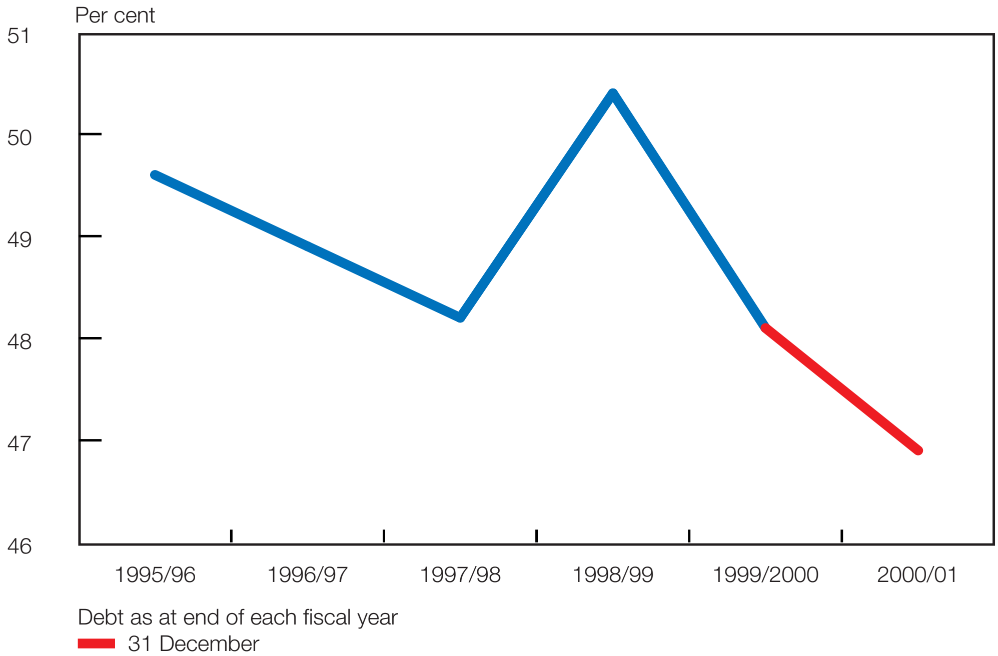
R millions

Instrument	Budgeted	Actual for first nine months
Deficit	**23 052**	**16 963**
Plus: Extraordinary payments	2 200	0
Revaluation of maturing foreign loans	560	693
Less: Extraordinary receipts	5 000	2 141
Net borrowing requirement	**20 812**	**15 515**
Domestic primary capital market		
Government bonds	...	2 720
Less: Discount on government bonds	...	723
Net receipts from domestic government bonds issued	**10 140**	**1 997**
Treasury bills	3 500	10 899
Foreign loans	5 172	2 584
Changes in available cash balances*	2 000	35
Total net financing	**20 812**	**15 515**

* Increase -, decrease +

The borrowing requirement of the government, together with the discount on new government stock issued, led to an increase in the total *debt of national government*

National government debt as a ratio of gross domestic product



from R390,4 billion at the end of March 2000 to R409,4 billion at the end of December 2000. As a ratio of gross domestic product, government debt decreased from 48,1 per cent at the end of March 2000 to 46,9 per cent at the end of December 2000.

The Budget for the fiscal years 2001/02 to 2003/04

The Minister of Finance presented his revenue and expenditure proposals for the 2001/02 fiscal year to Parliament on 21 February 2001. He stated that the Budget bears testimony to the successful and powerful transformation of the South African economy and more specifically of fiscal policies pursued during the past five years. Since 1996, fiscal reprioritisation and consolidation have been aimed at reversing the growth of government debt and the rising interest burden. Having reined in the deficit and government debt, the saving in interest on public debt could now be utilised for government's growth, employment and redistribution objectives. The Minister stated that it was now possible to enter a new phase of economic reforms because of the economic stability and fiscal consolidation attained during this time.

The Minister said that the Public Finance Management Act had laid down a sound legal and administrative framework for the fiscal domain. This framework requires a commitment to accountability and responsibility in the management of public resources. As a result, a new document, the "Estimates of National Expenditure" was presented to Parliament. This document combines the "National Expenditure Survey" and the "Estimate of Expenditure" and contains information about measurable objectives to which departments will be held responsible. It also sets out the details of departmental spending plans and programmes and creates the opportunity to evaluate service delivery in the public domain against a set of service-delivery indicators.

The Budget proposes a growth-oriented agenda of increased spending, especially spending on infrastructure, and ongoing tax reforms within the established fiscal framework. However, the Minister explicitly stated that the Budget aims at reducing the overall tax burden and releasing household spending power.

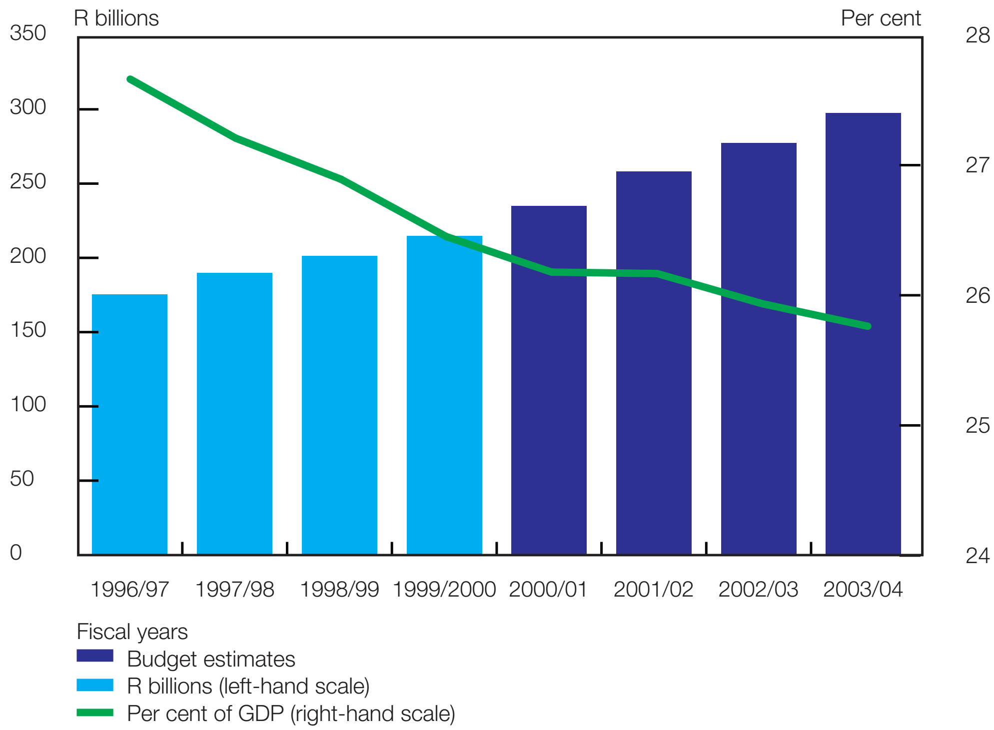
A number of fiscal interventions in support of broader economic reforms were also announced. These proposals included measures to

- step up *fixed investment* through giving tax incentives to companies embarking on approved strategic industrial projects and through substantial increases in capital expenditure by national and provincial government departments;
- encourage *employment creation* through the wage incentives introduced in the tax system;
- promote the development of *skills* through continued investment in education and the Skills Development Fund; and
- improve the *efficiency* of the use of assets through the restructuring of state assets, the effective use of public-private partnerships and the introduction of measurable spending objectives.

The progress made with the liberalisation of exchange controls had made a substantial contribution to the establishment of important financial relationships with the rest of the world. It was decided that the current limits on the foreign asset holdings of institutional investors would be retained but that the asset swap mechanism was no longer appropriate and would be terminated. The limit on the use of South African funds for new approved foreign direct investment was increased from R50 million to R500 million. As part of government's commitment to the economic recovery of Africa, South African firms would be permitted to utilise up to R750 million of local cash holdings for new approved foreign direct investment in Africa.

The policy objectives that were considered in formulating government's spending plans for the medium term included economic growth, job creation, equity and social development and the strengthening of the safety and justice sector. *National government expenditure* is estimated to amount to R235,0 billion in the current fiscal year and R258,3 billion in fiscal 2001/02, representing a year-on-year increase of 9,9 per cent in expenditure. It is estimated that national government expenditure will increase at an average rate of 8,2 per cent over the three-year budget period. As a ratio of gross domestic product, the expectation is that national government expenditure will decrease from 26,2 per cent in fiscal 2001/02 to 25,8 per cent in fiscal 2003/04.

National government expenditure



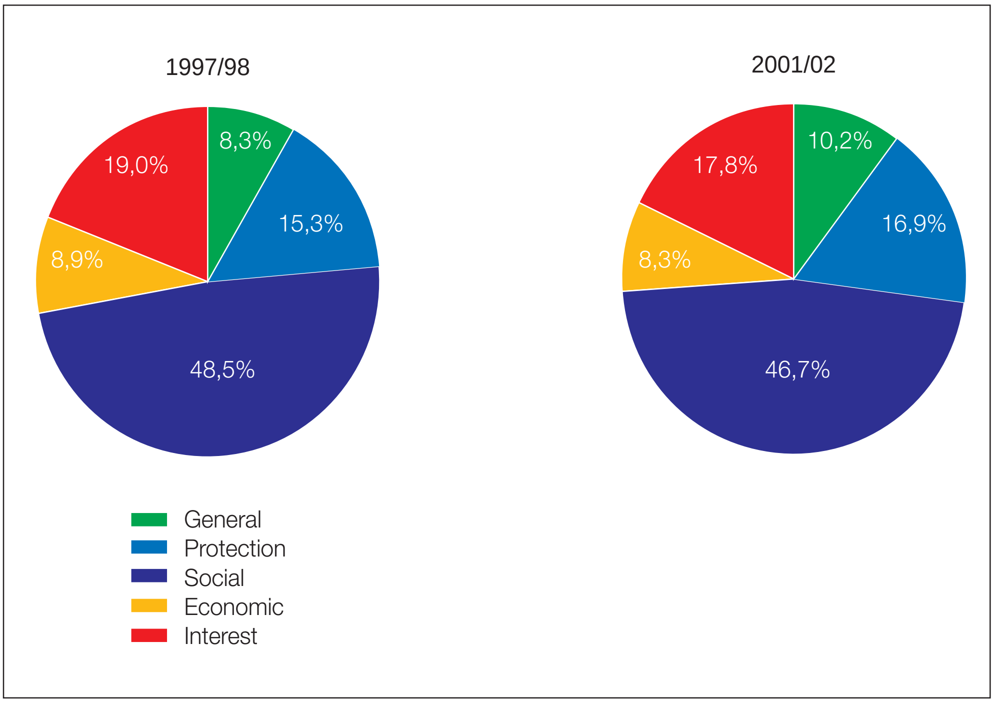
Interest payments on government debt are estimated to amount to R46,1 billion in fiscal 2000/01. This amount represents 19,6 per cent of the total expenditure of national government and is expected to decrease to 18,6 per cent of total expenditure in fiscal 2001/02 and to 17,1 per cent in fiscal 2003/04. The revised estimates indicate that non-interest current expenditure is expected to increase from R176,2 billion in fiscal 2000/01 to R225,3 billion in fiscal 2003/04 or by an average of 8,6 per cent over the three-year medium-term budget period. Approximately half of this expenditure constitutes the equitable share of government revenue that needs to be transferred to provincial governments. Capital expenditure is budgeted to amount to R15,8 billion in fiscal 2001/02, representing an increase of 24,2 per cent, to be followed by increases of 19,3 per cent in fiscal 2002/03 and 12,9 per cent in fiscal 2003/04.

Comparison of the revised estimates for fiscal 2000/01 and the 2001/02 to 2003/04 Budget

	2000/01		2001/02		2002/03		2003/04	
	Revised estimates		Budget		Budget		Budget	
		Annual change		Annual change		Annual change		Annual change
	R bn	Per cent	R bn	Per cent	R bn	Per cent	R bn	Per cent
Expenditure	**235,0**	**9,5**	**258,3**	**9,9**	**277,3**	**7,4**	**297,5**	**7,3**
Capital	12,7	38,7	15,8	24,2	18,8	19,3	21,2	12,9
Interest	46,1	4,4	48,1	4,3	49,6	3,1	51,0	2,8
Non-interest current	176,2	9,1	194,4	10,4	208,9	7,4	225,3	7,9
Revenue	**213,4**	**7,5**	**233,4**	**9,4**	**252,9**	**8,3**	**273,1**	**8,0**
Deficit before borrowing and debt repayment	21,7		24,9		24,5		24,4	
Deficit as a ratio of GDP (per cent)	2,4		2,5		2,3		2,1	

As indicated in the accompanying graph, spending on social services remains the largest functional category of government spending, amounting to 46,7 per cent of the consolidated national and provincial government expenditure in fiscal 2001/02. Spending on these services is expected to increase at an average annual rate of

Functional classification of the expenditure by consolidated national and provincial governments



7,3 per cent over the medium-term budget period. A slight shift in the functional classification of expenditure towards expenditure on protection and general government services is planned for the next three fiscal years.

Functional classification of expenditure of consolidated national and provincial governments
Per cent of total expenditure

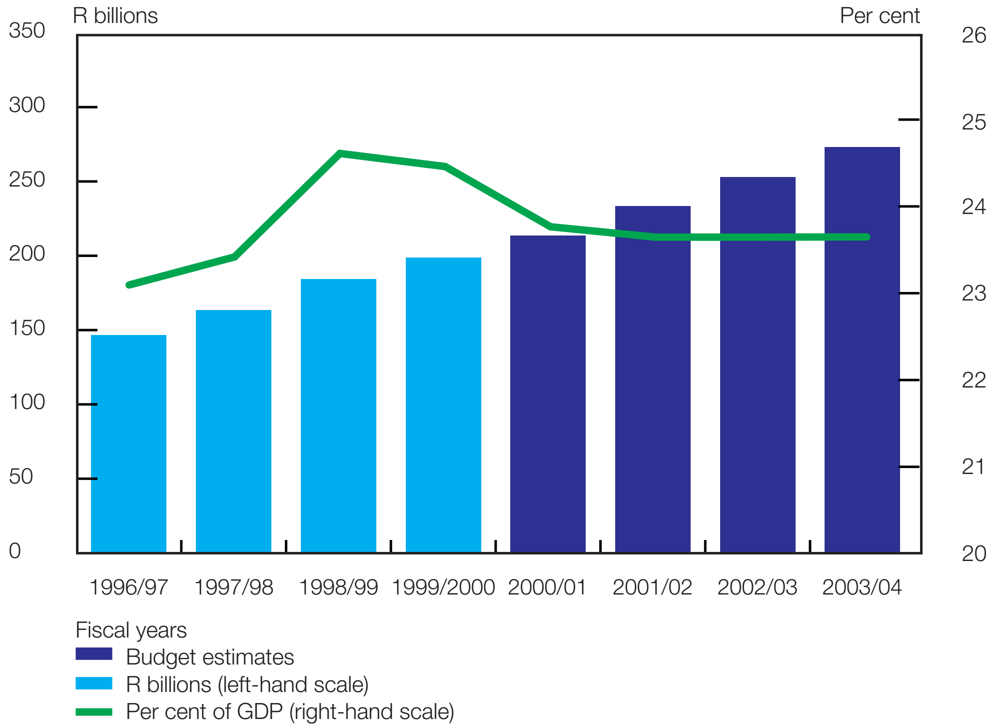
Spending category	2000/01	2001/02	2002/03	2003/04
General government services and unallocatable expenditure	9,0	10,3	10,8	12,2
Protection services	16,7	16,9	17,1	16,8
Defence	6,2	6,4	6,4	6,3
Police	6,7	6,6	6,6	6,5
Prisons	2,4	2,4	2,5	2,5
Justice	1,4	1,5	1,6	1,5
Social services	47,5	46,7	46,6	46,4
Education	21,5	21,6	21,4	21,3
Health	11,1	11,0	10,8	10,8
Social security and welfare	12,4	11,7	11,7	11,6
Housing and community development	2,1	2,0	2,2	2,2
Other	0,4	0,4	0,5	0,5
Economic services	8,0	8,3	8,4	8,2
Water schemes and related services	1,2	1,2	1,2	1,2
Fuel and energy	0,1	0,1	0,2	0,1
Agriculture, forestry and fishing	1,8	1,7	1,7	1,7
Mining, manufacturing and construction	0,6	0,7	0,7	0,7
Transport and communication	3,1	3,2	3,3	3,3
Other economic services	1,1	1,4	1,3	1,2
Interest	18,8	17,8	17,1	16,4
Total	100,0	100,0	100,0	100,0

The total *revenue of national government* is estimated to amount to R213,4 billion in the current fiscal year and R233,4 billion in fiscal 2001/02, representing a year-on-year rate of increase of 9,4 per cent. It is estimated that national government revenue will increase at an average rate of 8,6 per cent over the three-year budget period. National government revenue as a ratio of gross domestic product is projected to decrease slightly from 23,8 per cent in fiscal 2000/01 to 23,6 per cent in fiscal 2003/04. National government tax revenue is estimated to amount to R208,4 billion in fiscal 2000/01 and R228,6 billion in fiscal 2001/02, representing a year-on-year rate of increase of 7,5 per cent. National government tax revenue is expected to increase at an average rate of 8,7 per cent over the three-year medium-term budget period. This will result in a slight increase in the overall tax burden from 24,0 per cent of gross domestic product in fiscal 2001/02 to 24,2 per cent in fiscal 2003/04.

Specific tax adjustments were announced and are expected to reduce tax revenue by R9,1 billion in fiscal 2001/02. However, R3,0 billion of this reduction will be recovered through improved tax collections. The tax proposals include the following:

- A single-rate scale for individuals at the existing maximum marginal rate of 42 per cent is retained but the tax brackets have been adjusted to reach the marginal rate at a taxable income of R215 000 a year.
- The primary rebate is increased from R3 800 to R4 140.

National government revenue



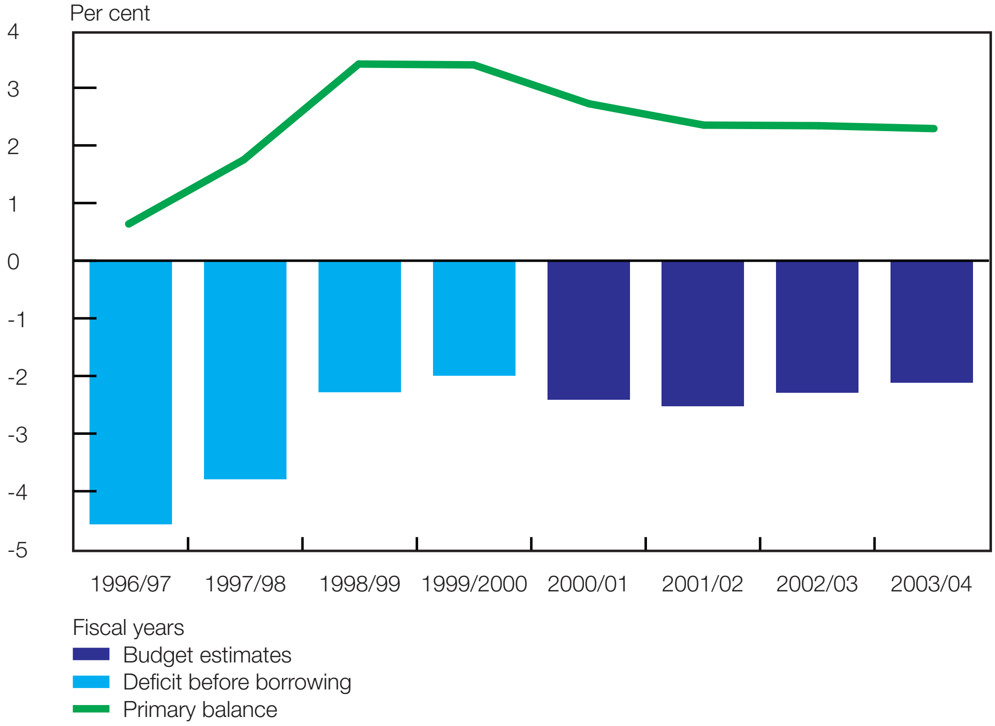
- The secondary rebate for individuals 65 years and older is increased from R2 900 to R3 000.
- The implementation of capital gains tax is deferred to 1 October 2001, and will apply to all gains accruing after this date.
- The National Treasury and the South African Revenue Service (SARS) are developing an administratively and economically efficient wage and tax measure which will encourage job creation by reducing the cost of hiring new workers and offering learnerships. This tax relief measure will be fully operational from 1 October 2001.
- Provisional taxpayer thresholds have been raised in order to release administrative resources for other revenue collection purposes.
- A targeted incentive scheme which will promote investment in strategic projects, and investment incentives for small business development were introduced.
- A tax allowance of 5 per cent a year calculated on a straight-line basis for investment in airport hangers and runways is introduced.
- The interest and dividend income exemption is raised from R3 000 to R4 000 for taxpayers under the age of 65 and from R4 000 to R5 000 for taxpayers aged 65 and over.
- Illuminating paraffin will be zero-rated for value-added tax purposes as from 1 April 2001.
- Estate duty and donations tax are reduced from 25 per cent to 20 per cent, with effect from 1 October 2001.
- Excise duties on tobacco products and alcoholic beverages are increased and the duty on soft drinks decreased.
- With effect from 1 April 2001 the general fuel levy on leaded and unleaded petrol will be increased by 2,4 cents a litre and on diesel by 1,9 cents a litre.

- A concession on the diesel fuel levy for certain units of the primary production sectors and certain exemptions from the Road Accident Fund levy were also announced.
- Ad valorem customs and excise duties have been restructured in order to simplify the administrative system.
- Stamp duties on bills of exchange, bills of entry and securities and suretyships will be removed as from 1 April 2001.

In addition to the specific tax measures announced, it was also stated that an investigation into a number of potential loopholes in income tax will be investigated, with a view to introducing appropriate legislative changes. The rules pertaining to the unbundling of companies and the tax status of banks are also under investigation. In September 2000, Ministers of Trade and the Ministers of Finance of the Southern African Customs Union (SACU) agreed on principles for a new formula for the distribution of SACU customs and excise revenues. Payments in terms of the SACU agreement are estimated to be R8,2 billion in fiscal 2001/02, which is 2,3 per cent lower than in fiscal 2000/01.

The net result of the revised estimates for the revenue and expenditure of the national government in the current fiscal year is an estimated *deficit before borrowing and debt repayment* of R21,7 billion, equal to 2,4 per cent of the projected gross domestic product. As indicated in the accompanying graph, a steady reduction in the national government's deficit ratio to the gross domestic product is envisaged in the Budget. The deficit is projected to reach a level of 2,1 per cent of gross domestic product in fiscal 2003/04. The primary balance (i.e. the deficit recalculated by excluding interest payments from total expenditure) is estimated to reach a level of 2,7 per cent of gross domestic product in fiscal 2000/01. A slight decrease to 2,4

National government balances as a ratio of gross domestic product



per cent is envisaged for fiscal 2001/02, and the deficit ratio is expected to be maintained at approximately that level over the three-year budget horizon.

Government dissaving as a ratio of gross domestic product is expected to improve slightly from 1,0 per cent in fiscal 2000/01 to 0,9 per cent in fiscal 2001/02 and further to 0,3 per cent in fiscal 2003/04.

As indicated in the accompanying table, the borrowing requirement of national government was determined after providing for certain extraordinary receipts and payments. Although extraordinary receipts of R5,0 billion were provided for in the original Budget for fiscal 2000/01, only R2,8 billion is expected to be paid into the National Revenue Fund during this year. It is further expected that the restructuring of state assets will contribute R18,0 billion to the financing of national government in fiscal 2001/02, with R5,0 billion provided for each of the following years. A payment of R2,3 billion in fiscal 2000/01 pertains to the planned takeover of the South African Rail Commuter Corporation's debt. Provision was made for the winding down of the South African Housing Trust which could result in the repayment of Government-guaranteed debt obligations of approximately R0,6 billion in fiscal 2001/02.

Financing of national government deficit
R billions

	Revised estimates	Medium-term estimates		
	2000/01	2001/02	2002/03	2003/04
Deficit	**21,7**	**24,9**	**24,5**	**24,4**
Plus: Extraordinary payments	2,3	0,6	-	-
Revaluation of maturing foreign loans	0,7	0,0	-	0,6
Less: Extraordinary receipts	2,8	18,0	5,0	5,0
Net borrowing requirement	**21,8**	**7,5**	**19,5**	**20,0**
Net receipts from domestic government bonds issued	**7,6**	**-7,4**	**3,2**	**4,0**
Treasury bills	4,6	3,5	4,0	4,5
Foreign loans	2,7	11,3	12,3	11,5
Changes in available cash balances*	6,9	-	-	-
Total net financing	**21,8**	**7,5**	**19,5**	**20,0**

* Increase -, decrease +

It is envisaged that financing through the issuance of foreign loans will become the principal means of financing government over the medium term, though a net redemption of government bonds to the amount of R7,4 billion during fiscal 2001/02 is foreseen. Government has decided to promote liquidity in the short-term market by increasing issues of Treasury bills by an amount of R3,5 billion in fiscal 2001/02.

It is estimated that *government loan debt* will increase from R374,2 billion at the end of fiscal 1999/2000 to R397,5 billion at the end of fiscal 2000/01 and to R408,8 billion at the end of fiscal 2001/02. As a percentage of gross domestic product, national government loan debt is expected to fall from 46,1 per cent at the end of fiscal 1999/2000 to 44,3 per cent at the end of fiscal 2000/01 and eventually to 39,1 per cent at the end of fiscal 2003/04. Losses made on forward contracts are expected to bring the estimated balance on the Gold and Foreign Exchange Contingency Reserve Account to R17,5 billion at the end of fiscal 2000/01. No projections have been made for the ensuing years.

Total loan debt of national government as a ratio of gross domestic product