Quarterly Bulletin

September 2004

South African Reserve Bank

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Introduction

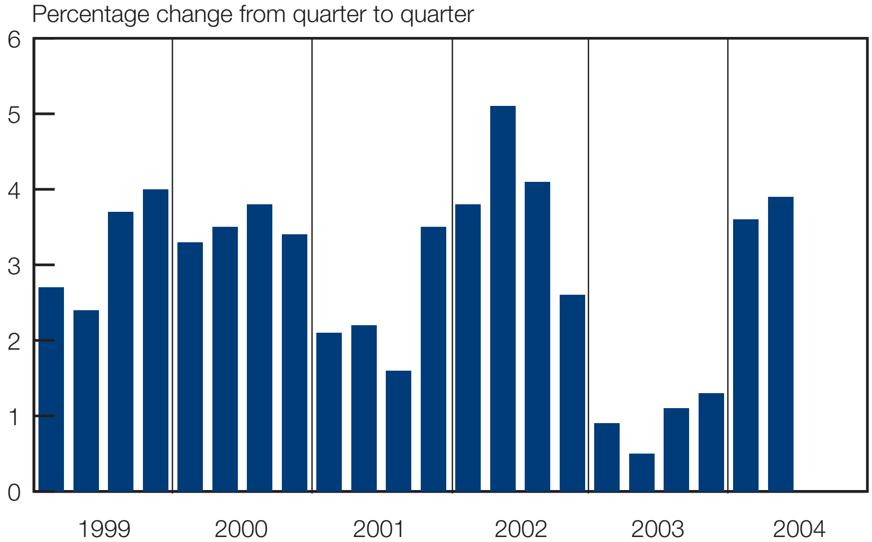
During the first half of 2004 the world economy continued along its stronger expansion path which started around mid-2003. This occurred despite disappointing growth in Japan in the second quarter of 2004 and tentative signs that the steps taken by the Chinese authorities to rein in growth were successful. Nevertheless, overall activity levels rose further and with international trade volumes expanding briskly, commodity prices remained high.

In the third quarter of 2004 the price of crude oil reached levels previously observed 14 years earlier around the time of the Gulf War. Strong world demand for petroleum and petroleum products was complemented by fears of supply disruptions. Against the background of fairly accommodative monetary and fiscal policies in most parts of the world, this contributed to an acceleration in inflation – quite modest in most instances, but more noticeable in a number of Asian economies. In the SADC region inflationary pressures are expected to subside somewhat on account of sustained policy discipline and improved food supply conditions in most parts of the subcontinent.

While levels of short-term interest rates generally remained fairly low, a number of central banks pre-emptively started raising interest rates from late 2003 in order to contain future inflation. Having maintained the federal funds target rate at 1 per cent since 2003, the Federal Open Market Committee in the United States raised the target policy rate by 25 basis points in June 2004 and by a further 25 basis points in August.

Economic activity in South Africa picked up further in the second quarter of 2004, with the real gross domestic product expanding for the twenty-third consecutive quarter – the longest period of uninterrupted quarter-to-quarter growth since quarterly data became available in 1960. Supported by lower interest rates, a moderately higher budget deficit

Real gross domestic product



Seasonally adjusted annualised rates

and favourable international terms of trade, the annualised pace of growth accelerated to 4 per cent in the second quarter of 2004 from an upwardly revised 3½ per cent in the first quarter. The growth trajectory has steepened noticeably since the second quarter of 2003, with each quarter's growth rate being higher than the one preceding it.

The improvement in the economic growth rate in the second quarter of 2004 was broadly based. Growth in the primary sector accelerated on account of an improvement in agricultural output, while higher growth in production in the secondary sector was led by manufacturing. In the tertiary sector growth was maintained at a brisk pace, with real output originating in the transport and communication subsector rising most noticeably. As in the first quarter, all sectors and subsectors registered increases in real output in the second quarter of 2004.

The pace of expansion in real gross domestic expenditure was more than three times as fast as that of gross domestic production in the second quarter of 2004. A sharp acceleration in inventory accumulation in the second quarter contributed to this divergence; an important element in this build-up was the exceptionally high quantity of crude oil which was imported and added to inventories.

Growth in domestic final demand, while remaining brisk, decelerated somewhat in the second quarter of 2004. Real gross fixed capital formation, while losing some momentum following the very high purchases of capital equipment by public corporations during the first quarter, still rose at a rate of more than 10 per cent in the second quarter. Growth in real final household consumption decelerated marginally as expenditure on semi-durable and durable goods lost some of its earlier momentum. Another corvette – the third in as many quarters – was acquired by the South African Navy during the second quarter of 2004, but growth in real government consumption expenditure moderated slightly.

South Africa's export volumes rose considerably in the second quarter of 2004, following a protracted lull since mid-2001 when the world economy moved into growth recession. Growth in mining exports was led by platinum and coal, while the volume of manufacturing exports also recorded a sizeable increase as foreign demand strengthened and producers started to come to terms with the recovery in the exchange rate. Import volumes increased even more briskly than exports as a number of aircraft, the abovementioned corvette and exceptionally large quantities of crude oil were imported. Accordingly, despite the favourable terms of trade, South Africa recorded the first trade-account deficit in 22 years and a current-account deficit of nearly 4 per cent of gross domestic product during the second quarter of 2004.

The deficit was again comfortably financed by capital inflows, enabling the Reserve Bank to continue its accumulation of foreign exchange reserves. The effective exchange rate of the rand continued its upward trend, resulting in further year-on-year declines in the rand prices of imported goods at the production level. Together with prudent financial policies this resulted in CPIX inflation remaining within the target range; July 2004 was the eleventh consecutive month in which the rate of CPIX inflation fell within the 3-to-6-per-cent target range. The latest available data on unit labour cost also display rates of increase marginally below 6 per cent.

Inflation outcomes so far in 2004 were generally lower than expected, feeding back into lower expectations of future inflation. Having maintained an unchanged level of the repurchase rate for a period of eight months, at its August 2004 meeting the Monetary Policy Committee reviewed prospects for inflation and concluded that a further reduction of 50 basis points in the repurchase rate would be consistent with projected CPIX inflation remaining in the target range. When this reduction was announced, the exchange rate of the rand immediately depreciated; this was in contrast to the experience in 2003 when the exchange rate appeared to be oblivious to interest rate reductions. The narrower margin between interest rates in South Africa and in the rest of the world might have contributed to this greater sensitivity of exchange rate changes to interest rate movements.

There was a deceleration in growth across the spectrum of the monetary aggregates in the second quarter of 2004, after a sharp increase in the preceding quarter. This deceleration in part reflected a reversal of the exceptionally high increase in money balances at the end of February caused by coupon interest payments on government bonds and the redemption of a maturing government bond. Measured over twelve months, growth in M3 receded somewhat to levels of around 12 per cent in the period April to July 2004.

The stimulus to consumer and business sentiment induced by lower interest rates, rising house prices and rising real income was reflected in brisk expenditure growth which in turn was partly financed through rising credit extension by the banking system. Growth in asset-backed loans and advances accelerated further during the first seven months of 2004, from already high levels. The modest level of overdue loans encouraged banks to accommodate the higher demand for mortgage, instalment sale and leasing advances. The demand for other loans and advances – often seen as a sign of corporate distress borrowing – tended downward in recent months as lower interest rates and the use of non-bank funding mechanisms made themselves felt.

Higher mortgage lending by the banking sector in turn supported residential property prices whose yearly rates of increase in the first eight months of 2004 were without precedent. Nevertheless, the monthly increases in house prices have lately decelerated somewhat.

Bond yields reached a peak in June 2004 and fluctuated around a declining trend in the ensuing period as the domestic inflation outlook improved. A mild softening in global bond yields reinforced the decline in domestic yields as markets apparently discounted less buoyant global economic conditions against the backdrop of high oil prices. South African share prices, which were rather lacklustre from March 2004, picked up from mid-August in response to the decline in the exchange value of the rand.

The authorities continued to pursue a cautiously expansionary fiscal policy. While the twelve-month growth in government revenue from taxes on income and profits in April – July 2004 was below the projected growth for the full 2004/05 fiscal year, the budget deficit remained well-contained and easily financed. Although the bulk of the deficit was financed through issues of conventional bonds in the domestic capital market, a foreign bond was also launched as well as a government bond series for retail investors. The latter bond series became available on 24 May 2004, and more than R600 million was raised by the end of August.

Domestic economic developments

Domestic output[1]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Following a rather subdued performance in 2003, the South African economy gained momentum in the first half of 2004. Growth in *real gross domestic product* accelerated from an annualised rate of only 1½ per cent in the fourth quarter of 2003 to 3½ per cent in the first quarter and 4 per cent in the second quarter of 2004. That this took place against a background of ongoing constraints faced by some sectors of the economy was indicative of the inherent resilience of the South African economy. The major contributors to the enhanced performance of the economy were the primary and secondary sectors of the economy where growth accelerated at a progressively firmer pace in the first and second quarters of 2004. Growth in the tertiary sector was maintained at the same solid rate in each of the first two quarters of 2004.

When comparing the second quarter of 2004 with the corresponding quarter in 2003, the level of real gross domestic product was 2½ per cent higher, thereby exceeding the 2-per-cent growth rate attained in 2003 as a whole.

The firm expansion in the agricultural and mining sectors boosted the real output of the *primary sector* in the second quarter of 2004. Quarter-to-quarter growth in this sector accelerated from an annualised rate of 4 per cent in the first quarter of 2004 to 5 per cent in the second quarter. Despite the firm quarter-to-quarter growth, the level of the real output of the primary sector in the second quarter of 2004 was only about ½ a per cent higher than in the second quarter of 2003.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

	2003					2004	
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Primary sector	-2½	-6½	-6½	-4	-1	4	5
Agriculture	-5½	-19½	-22	-9½	-6	4½	7½
Mining	½	5	6	0	2½	3½	3½
Secondary sector	-3	-3	-½	-1½	0	4½	5
Manufacturing	-4½	-4½	-1½	-3½	-1	4½	5½
Tertiary sector	3	3	3	3	3	3½	3½
Non-agricultural sector ..	*1*	*1½*	*2*	*1½*	*2*	*4*	*4*
Total	1	½	1	1½	2	3½	4

The quarter-to-quarter growth in the real value added by the *agricultural sector* accelerated from an annualised rate of 4½ per cent in the first quarter of 2004 to 7½ per cent in the second quarter. The firm expansion in the second quarter of 2004 can mainly be ascribed to robust growth in the output of the horticultural sector. The contribution of field crops to growth in the agricultural sector in the second quarter was rather subdued. This was in part due to the late start of the harvesting of the maize crop. Moreover, the maize crop harvested in 2004 was smaller than that of the previous year, despite upward revisions to the crop estimates as 2004 progressed.

The real value added by the *mining sector* increased further in the second quarter of 2004. After increasing by 2½ per cent for 2003 as a whole, the real value added by the mining sector accelerated to an annualised growth rate of 3½ per cent in the first and the second quarters of 2004. The performance of the mining sector in the second quarter was primarily due to increased gold and platinum production, which more than outweighed declines in diamond and coal mining.

Despite the pressure on the income of the mining industry, real output of gold and platinum mining increased from the first to the second quarter of 2004. Gold mines increased their output by mining higher grade ore, which enabled them to operate at prevailing high costs notwithstanding subdued income in the wake of the appreciation of the currency. The sustained demand for platinum metal products absorbed higher production in the second quarter.

Growth in the real value added by the *secondary sector* accelerated moderately in the second quarter of 2004. Following a decline of 1½ per cent in the fourth quarter of 2003, the real value added by the secondary sector grew at an annualised rate of 4½ per cent in the first quarter of 2004 before accelerating further to 5 per cent in the second quarter. This was the result of firm growth in the manufacturing and construction sectors, which was offset to some extent by slower growth in the sector that supplies electricity, gas and water.

The recovery in real manufacturing output which started in the first quarter of 2004 continued in the second quarter. After expanding at an annualised rate of 4½ per cent in the first quarter, growth in the real value added by the *manufacturing sector* accelerated to 5½ per cent in the second quarter of 2004. The increase in real manufacturing output was evident in enhanced production volumes of several subsectors. It was, however, more pronounced in the manufacture of food and beverages, wood and wood products, petroleum products, glass and non-metallic mineral products, as well as basic iron and steel.

Amidst the general resurgence of manufacturing production, there were indications that the export-oriented sectors remained under some pressure as their international competitiveness was eroded by the recovery in the currency. Import-competing sectors were likewise affected. However, manufacturing export volumes rose in the second quarter, while the buoyancy of domestic demand as well as exceptionally high business confidence also lifted the level of manufacturing production.

Growth in the real value added by the sector that supplies *electricity, gas and water* slowed down from an annualised rate of 3 per cent in the first quarter to 1½ per cent in the second quarter of 2004. This can partly be ascribed to the late onset of what turned out to be a relatively mild winter. In addition, there were increased imports of gas and electricity from neighbouring countries. However, the lively activity in the mining and manufacturing sector provided some support to the real output of the electricity and water subsectors.

The prolonged brisk demand for new residential units continued to underpin activity in the *construction sector*. This sector was further supported by improved conditions in the non-residential building sector. However, activity in the civil engineering sector remained subdued due to lack of new projects initiated in the mining sector, where new projects were put on hold while the industry grappled with constraints imposed by the appreciation of the rand. In addition, the delay in infrastructure investment took its toll on the civil engineering sector. Accordingly, growth in the real value added by the construction sector slowed down somewhat from an annualised rate of 6½ per cent in the first quarter of 2004 to just over 6 per cent in the second quarter.

Growth in the real value added by the *tertiary sector* remained brisk at an annualised rate of 3½ per cent in the first two quarters of 2004. Within the tertiary sector the highest growth rates recorded in the second quarter were those of the transport, storage and communication and the financial intermediation, insurance, real-estate and business services sectors.

Following an increase at an annualised rate of 3½ per cent in the fourth quarter of 2003, growth in the real value added by the *commerce sector* accelerated to 4 per cent in the first and second quarters of 2004. The solid performance of the retail and motor trade subsectors lifted the level of output in the commerce sector in the second quarter. The retail sector benefited from the robust domestic demand for consumer goods. The moderation in the price increases of new cars and the purchasing of fleet cars by businesses boosted growth in the real value added by the motor trade subsector.

The brisk performance of the retail and motor trade subsectors was counterbalanced to some extent by the weak real output of the catering and accommodation subsector. Activity in this sector was somewhat muted compared with most of 2003. This could partly be attributed to slightly smaller numbers of foreign tourists visiting the country.

Growth in the real value added by the *transport, storage and communication sector* slowed down from the rate of 6 per cent recorded in all four quarters of 2003 to 5½ per cent in the first quarter of 2004. However, this was short-lived and growth subsequently accelerated to 6½ per cent in the second quarter of 2004. The expansion in the second quarter can be attributed to faster growth in the transport sector and steady growth in the communication sector. Innovative products and competitive packages continued to attract new subscribers and contributed to solid increases in the real output of the cellular telephone communication subsector. The high volume of imports underpinned growth in the real value added by the transport sector.

The real value added by the *financial intermediation, insurance, real-estate and business services sector* increased firmly at an annualised rate of 4 per cent in the second quarter of 2004, marginally higher than the rate of 3½ per cent attained in the first quarter. This can mainly be attributed to a brisk increase in the real output of banks and other financial intermediaries. Activity in commercial banks was lively, aligned with firm domestic demand conditions and the high levels of business and consumer confidence. The performance of the housing market added a fillip to real value added by the real-estate sector.

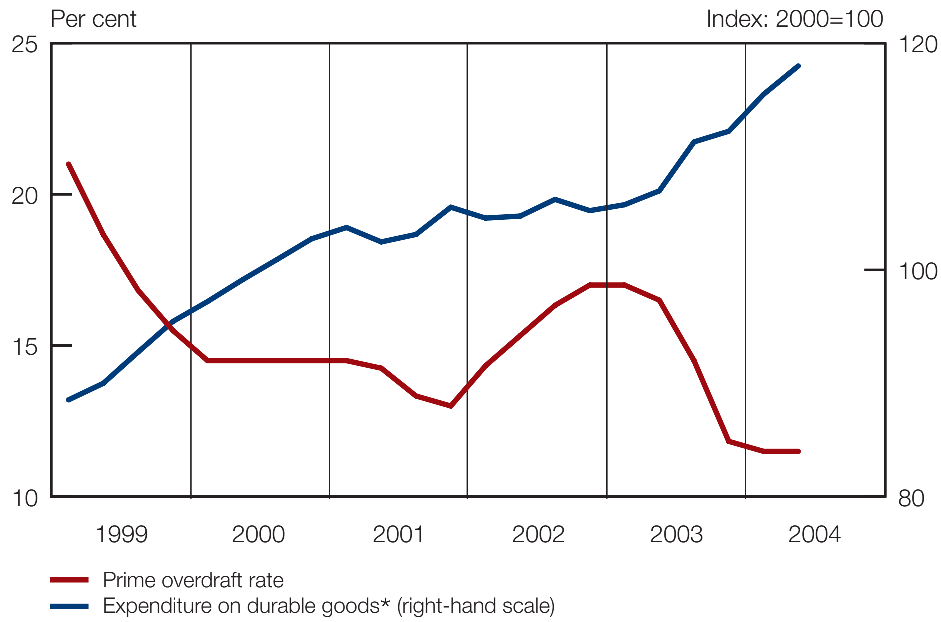
The real value added by *general government* increased at an annualised rate of 1 per cent in the second quarter of 2004, the same rate attained in the first quarter. The stable rate of output by general government is a reflection of government's determination to maintain fiscal discipline to support economic growth and job creation.

Domestic expenditure

Growth in *aggregate real gross domestic expenditure* surged from a quarter-to-quarter and annualised rate of 3 per cent in the first quarter of 2004 to 13 per cent in the second quarter. This can mainly be attributed to a sharp increase in the pace of real inventory investment. In addition, aggregate real domestic final demand still increased strongly, albeit at a slower pace than in the first quarter.

Real final consumption expenditure by households remained strong in the second quarter of 2004. Growth in real outlays on consumer goods and services slowed down somewhat from an annualised rate of 5 per cent in the first quarter of 2004 to 4½ per cent in the second quarter. When compared with the first two quarters of 2003, growth in real final consumption expenditure by households increased by 4 per cent over a year. This was substantially higher than the 3-per-cent growth attained in the calendar year 2003. The protracted strength in household spending was evident in all the major spending categories.

Prime overdraft rate and households' real final consumption expenditure on durable goods



* Seasonally adjusted annualised rates

The growth in expenditure on real *durable goods* lost some momentum in the second quarter of 2004. Following an increase of 12 per cent in the first quarter of 2004, from this high base growth in real outlays on durable goods slowed down to an annualised rate of 9 per cent in the second quarter. The slower growth in real outlays on durable goods occurred in most spending categories, but was particularly evident in furniture and household appliances. Household spending on recreational and entertainment goods remained strong.

The downward trend in growth in household spending was also evident in real outlays on semi-durable goods. By contrast, growth in real expenditure on non-durable goods and services accelerated from an annualised rate of 3 per cent in the first quarter to 3½ per cent in the second quarter of 2004. This could partly be attributed to higher expenditure on food which more than offset lower spending on household fuel and power. This was in line with the late start of winter and the annual increase in electricity tariffs.

The sustained increase in real household disposable income, albeit at a slower pace than in the first quarter, enabled households to maintain spending at a relatively brisk pace in the second quarter of 2004. However, it is evident that household spending, particularly on durable goods, was in part financed by credit. As a result, the ratio of household debt to disposable income rose from 54 per cent in the first quarter of 2004 to 55 per cent in the second quarter.

Growth in *real final consumption expenditure by general government* decelerated from an annualised rate of 4½ per cent in the first quarter to 4 per cent in the second quarter of 2004. This was mainly a result of marginally lower growth in expenditure on non-wage goods and services, while real compensation of employees did not display any significant change. However, the South African Navy acquired a vessel in each of the first two quarters of 2004. Despite the lower quarter-to-quarter growth rate, when evaluated over a period of one year, the level of government spending in the first two quarters of 2004 was 6½ per cent higher than in the same period of 2003. Accordingly, the ratio of final consumption expenditure by general government to gross domestic product increased from 19 per cent in the first quarter to 19½ per cent in the second quarter of 2004.

Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

	2003					2004	
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Final consumption expenditure by households	2½	3	4	4	3	5	4½
Final consumption expenditure by general government	4	4½	4½	13	4½	4½	4
Gross fixed capital formation	5	3	7½	8½	8½	14½	10½
Change in inventories (R billions)*	6,3	9,2	7,9	7,9	7,8	3,1	13,6
Gross domestic expenditure	**2½**	**3½**	**4½**	**7**	**4**	**3**	**13**

* At constant 1995 prices

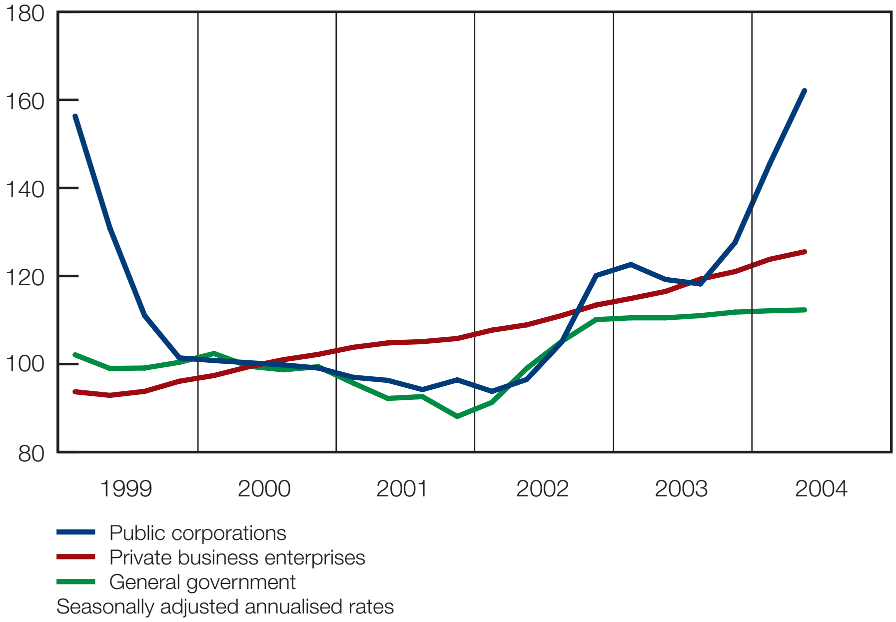
Real gross fixed capital formation increased further in the second quarter of 2004 though at a slower pace than in the first quarter. Following an annualised increase of 14½ per cent in the first quarter of 2004, growth in real gross fixed capital formation slowed down to 10½ per cent in the second quarter of 2004. All institutional sectors nevertheless continued to raise their rate of investment spending.

Growth in real gross fixed capital formation by the *private sector* slowed down from 9½ per cent in the first quarter to an annualised rate of 5½ per cent in the second quarter of 2004. This can mainly be attributed to a decline in real capital outlays by the agricultural sector as the prices of agricultural commodities steadily receded in the second quarter of 2004. The bulk of new capital formation took place in the manufacturing sector; relatively high imports of capital equipment by manufacturers to some extent compensated for the slow-growing expenditure in the other sectors. The continuance of existing projects in mining, particularly platinum mining, contributed to the level of real investment in the second quarter.

Real fixed capital outlays by *public corporations* increased further in the second quarter of 2004. This was underpinned by steady real capital expenditure by most public corporations. South African Airways continued with the acquisition of new aircraft to replace and add to its existing fleet. Infrastructure maintenance in the communication sector provided further impetus to capital formation by public corporations. The quarter-to-quarter growth in real fixed capital outlays by *general government* remained at comparatively low levels throughout the first two quarters of 2004.

Real gross fixed capital formation

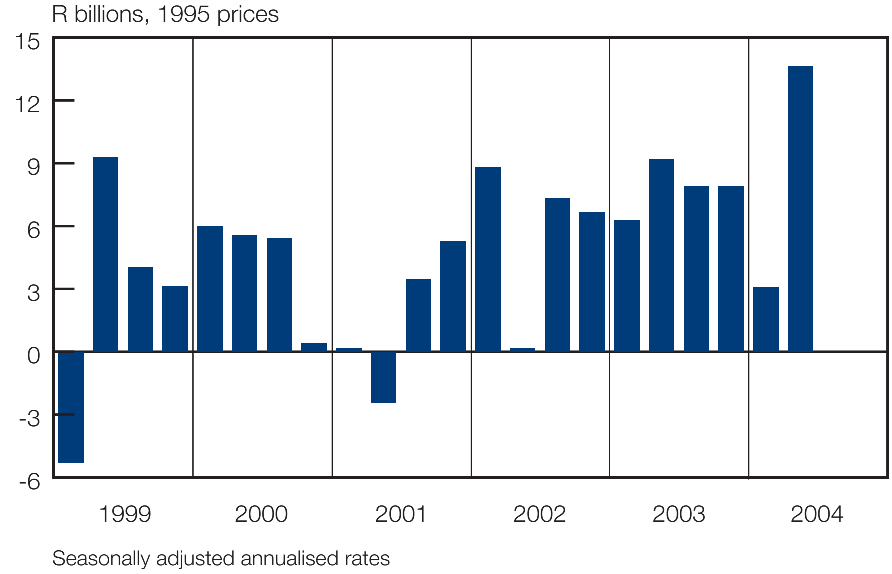
Indices: 2000=100



Real inventory investment increased from R3,1 billion in the first quarter of 2004 to R13,6 billion in the second quarter. In contrast to the first quarter, when inventories subtracted almost 3 percentage points from the growth in gross domestic expenditure, inventory investment contributed 6½ percentage points to growth in gross domestic expenditure in the second quarter of 2004. Most of the inventory accumulation took place in the manufacturing sector of the economy. This was underpinned by a large volume of oil imported. The rate of inventory accumulation by the commerce sector was distinctly lower compared with that of the manufacturing sector. The strength of domestic demand could have contributed to lower inventory accumulation in this sector. As a result of these developments, the ratio of industrial and commercial inventories to non-agricultural gross domestic product increased from 15½ per cent in the first quarter to 16 per cent in the second quarter of 2004.

Change in inventories

R billions, 1995 prices



Factor income

Growth in *total nominal factor income*, measured over four quarters, accelerated from 7 per cent in the first quarter of 2004 to 7½ per cent in the second quarter. This was mainly due to faster growth in the gross operating surpluses of business enterprises. While growth in compensation of employees increased at the same rate as in the first quarter, the level remained quite high.

Growth in compensation of employees, measured over one year, was sustained at a rate of 9 per cent in the first and second quarters of 2004. The firm growth was evident throughout most sectors of the economy with the exception of the mining, construction, commerce and financial services sectors where compensation growth slowed down. There appears to be a realignment of wage settlements in these sectors to reflect the downward trend of the inflation rate.

The four-quarter rate of increase in *gross operating surpluses* of business enterprises accelerated from 5 per cent in the first quarter of 2004 to 6 per cent in the second quarter. The improved performance in operating surpluses was broad-based and occurred in most economic sectors. However, the income of the agricultural sector remained under pressure as prices of agricultural commodities receded and the operating surplus contracted from the first to the second quarter of 2004.

Operating surpluses of the manufacturing sector benefited from improved production and sales. The buoyant conditions in the commerce sector and the lively activity in the finance, insurance, real-estate and business services sector further boosted growth in total operating surpluses. Despite the stronger growth in gross operating surpluses, the ratio of gross operating surplus to total factor income declined from 48½ per cent in the first quarter of 2004 to 48 per cent in the second quarter.

Gross saving

The national saving ratio or *gross saving as percentage of gross domestic product* weakened from 15½ per cent in the first quarter of 2004 to 14½ per cent in the second quarter. This can mainly be attributed to weaker corporate and government saving relative to gross domestic product. Gross saving by households as a ratio of gross domestic product remained broadly around the same rate as in the first quarter. As a result, South Africa could not finance gross capital formation without relying on a substantial amount of foreign resources. This was apparent in that foreign investment (net of reserve accumulation) was relatively high, amounting to nearly 4 per cent of gross domestic product.

Gross saving by the *corporate sector* as percentage of gross domestic product declined from 12 per cent in the first quarter to 11½ per cent in the second quarter of 2004, similar to the average rate of 11½ per cent recorded for the 2003 calendar year. Companies generally increased their dividend payments instead of retaining profits within the enterprises. Dividend payments to non-resident shareholders in particular rose faster in the second quarter of 2004, which rather neutralised the higher operating surpluses.

Gross saving by *households* as a percentage of gross domestic product remained around 3 per cent in the first and the second quarters of 2004. Despite an improvement in real disposable income, the saving of households remained under pressure as final consumption expenditure by households maintained a relatively high level.

The faster pace of expenditure by *general government* and lower year-on-year growth in tax revenue took its toll on government saving. The ratio of gross government saving to gross domestic product weakened sharply from the first to the second quarter of 2004.

Employment

According to the latest *Survey of Employment and Earnings* by Statistics South Africa, the level of enterprise-surveyed employment in the *formal non-agricultural sectors of the economy* fell by 0,4 per cent in the three months to March 2004. The contraction in employment in the opening months of 2004 trimmed some 27 600 jobs from the gain of roughly 80 600 jobs during the third and fourth quarter of 2003. The first-quarter 2004 employment losses occurred in both the private and public sectors of the economy, lowering the employment level by 1,1 per cent compared with the same period in the preceding year.

Despite the fall-back in *overall private-sector employment* in the initial months of 2004, employment gains were still recorded in a number of industries. These included manufacturing, electricity generation, non-gold mining, trade, catering and accommodation services, and washing and laundry services. Employment losses in the first quarter of 2004 were mainly concentrated in the finance, insurance, real-estate and business services industry as well as in the construction industry.

Job losses in the finance, insurance, real-estate and business services industry in the first quarter of 2004 could be attributed to the ending of activities, and the retrenchment of employees. The decrease in employment numbers in the construction industry in this quarter resulted mainly from the completion of some projects. However, employment losses in the construction industry were partially counteracted by employment gains in site preparation activities, which might point towards renewed vigour in building-sector activities in the coming months.

Quarter-to-quarter change in non-agricultural private-sector employment at annualised rates in the first quarter of 2004

Sector	Percentage change
Gold mining	-2,4
Non-gold mining	2,5
Manufacturing	3,1
Electricity supply	3,9
Construction	-8,8
Trade, catering and accommodation services	6,9
Transport, storage and communication	-1,4
Finance, insurance, real-estate and business services	-17,3
Washing and laundry services	9,0
Total private sector	-1,5

Source: Statistics South Africa, *Survey of Employment and Earnings*

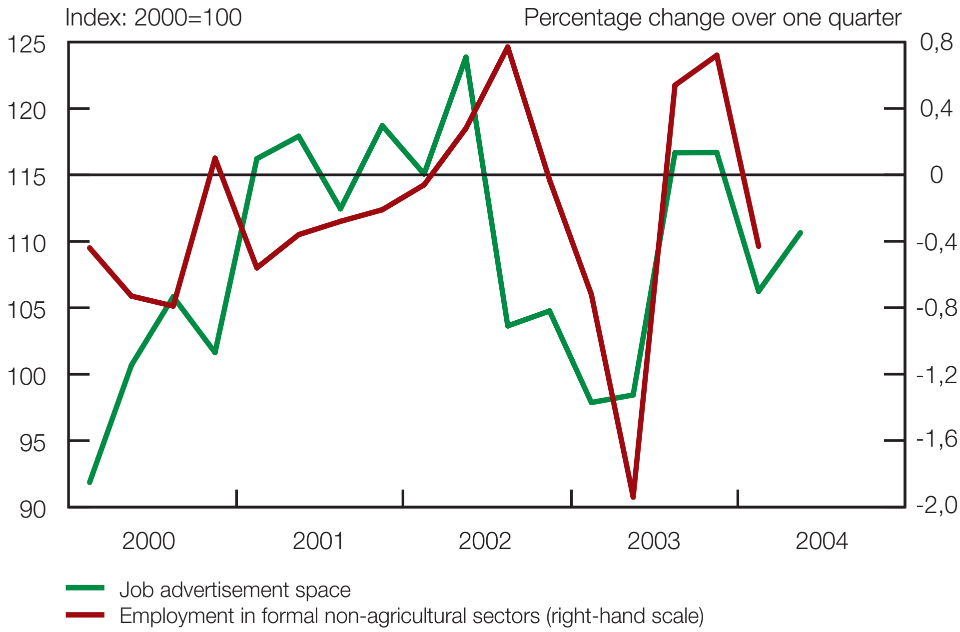
Business confidence in the building sector increased in the second quarter of 2004 following strong growth in the residential property market and heightened activity in the non-residential market. According to the business confidence index compiled by the Bureau for Economic Research, confidence in the building industry has risen to its highest level since the early 1980s. Contractors in the residential building industry also indicated an increase in employment levels, with an expectation of continued favourable conditions in coming months.

The Investec Purchasing Managers Index, representing purchasing managers' expectations in the manufacturing sector, reached its highest level since September 2002 in July 2004, indicating an improvement in manufacturing-sector prospects. During the five-month period to May 2004 the employment component of the index also picked up, but tapered off somewhat in June and July as expectations of further expansion in the industry moderated somewhat in accordance with the strong showing of the rand in international currency markets. The index has, however, remained above the 50-per-cent level, suggesting continued net growth in employment opportunities in the manufacturing sector, albeit at a reduced rate.

The decrease in *public-sector employment* in the first quarter of 2004 was more pronounced than in the private sector, amounting to an annualised rate of 2,3 per cent. Employment losses in the public sector were fairly pervasive with the main contraction occurring at local government level. Employment gains occurred at national department level and at parastatals, universities and other public corporations outside the transport and communication area. Despite a quarterly decrease in public-sector employment in the first quarter of 2004, the level of employment remained higher than at its nadir in the second quarter of 2003.

Job advertisement space in the print media is related closely to changes in formal non-agricultural employment. Notwithstanding the small size of the sample of advertisement statistics, there is a close relationship between changes in advertisement space and changes in non-agricultural employment. Based on this relationship, it can be expected that the increase in job advertisements in the second quarter of 2004 will lead to an increase in employment in coming months, as qualified candidates are appointed to these vacant positions.

Job advertisement space in the print media and employment in formal non-agricultural sectors



According to Andrew Levy Employment Publications (a private-sector labour consultancy) the number of workdays lost due to strikes and other forms of industrial action fell further from 240 000 in the first half of 2003 to 233 000 in the same period of 2004. Since the bulk of wage negotiations takes place in the third quarter of each year the propensity for strike action increases during this period, normally resulting in a more-than-proportionate increase in workdays lost. In fact, the number of workdays lost during the first half of 2003 only accounted for 34 per cent of the total number of workdays lost for the year as a whole. Significantly, there was a reduction in workdays lost during the first half of 2004, compared with the same period in 2003.

Labour cost and productivity

Despite the decline in consumer price inflation in the past year or so, the rate of increase in *nominal remuneration per worker* in the formal non-agricultural sector rose from an annual average of 8,7 per cent in 2003 to 9,4 per cent in the year to the first quarter of 2004. The acceleration in nominal wage growth was evident in the private sector, while public-sector wage growth remained at around 9,5 per cent in both the fourth quarter of 2003 and the first quarter of 2004.

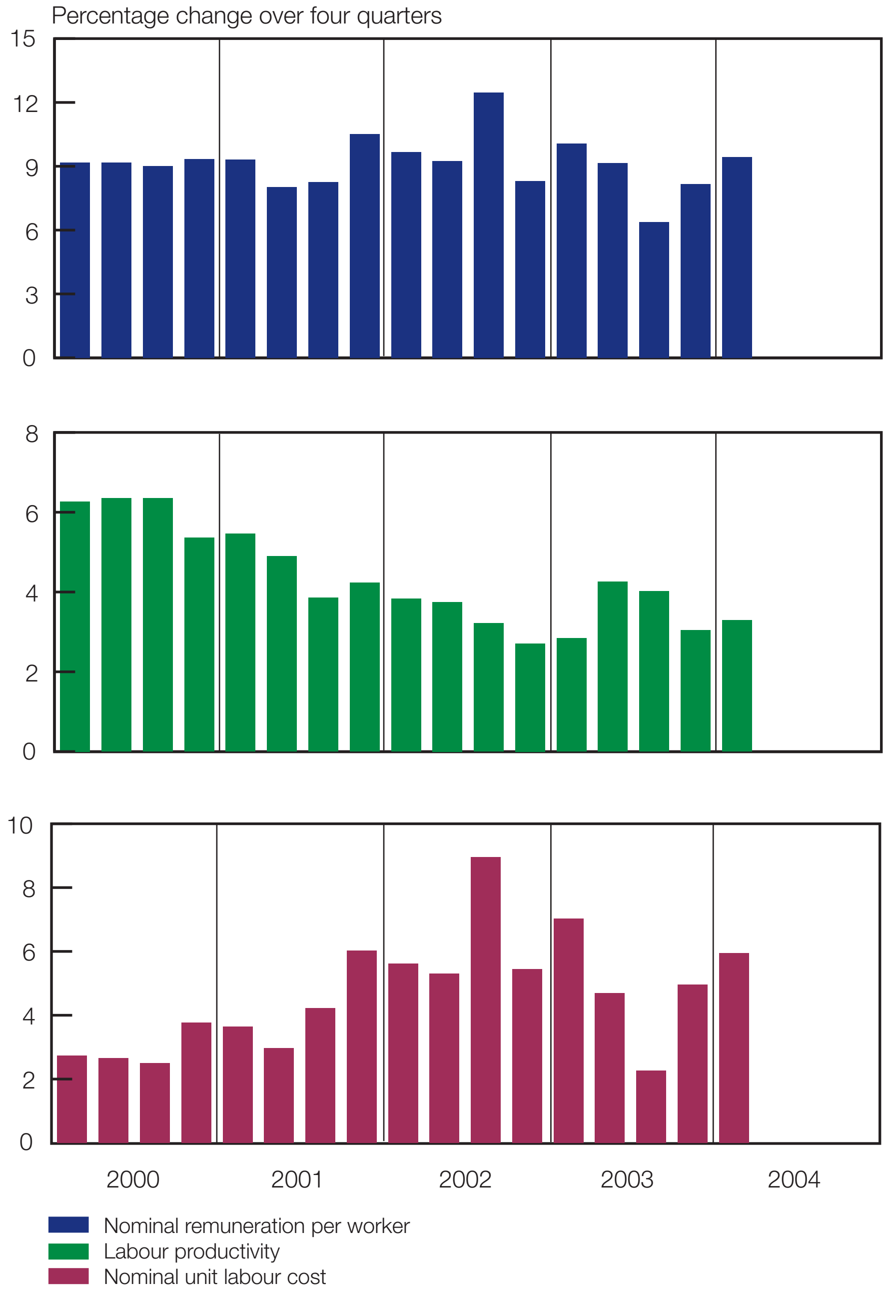
According to Andrew Levy Employment Publications, the average settlement rate in collective bargaining agreements fell to 7,3 per cent in the first half of 2004 compared with 8,9 per cent in the same period of the preceding year. The increase in the average *minimum wage per worker* at a year-on-year rate was somewhat less at 5,3 per cent in the first half of 2004, bringing the minimum wage to R2 646. Employers, especially in export-oriented industries, are likely to keep a lid on salary and wage increases during the current round of wage negotiations as their international competitiveness suffered a setback because of the recovery in the exchange rate of the rand in recent months. Salary and wage increases in the public sector are also likely to be moderated by government's commitment to low inflation.

Consistent with lower settlement rates, the rate of increase over four quarters in the average salary or pension payment per recipient paid into recipients' bank accounts slowed down appreciably from 7,3 per cent in the third quarter of 2003 to 3,9 per cent in the first quarter of 2004 and even further to 2,1 per cent in the second quarter.

Economy-wide labour productivity growth at average annual rates of around 3,5 per cent in the past two years was more sedate than in preceding years. The slight fall-back in the level of employment in the first quarter of 2004, alongside increases in production volumes, resulted in an increase of 3,3 per cent in the *real output per worker in the formal non-agricultural sectors* of the economy in the year to the first quarter of 2004. This rate of increase was somewhat lower at 3,0 per cent in the fourth quarter of 2003. Unlike increases in labour productivity in the economy as a whole, production per worker in the *manufacturing sector* fell by 3,1 per cent in 2003 as manufacturing production volumes declined without a concomitant fall in employment. When measured over periods of four quarters, production per worker in the manufacturing sector essentially remained unchanged in the first quarter of 2004 but there was an increase of 1 per cent from the fourth quarter of 2003 to the first quarter of 2004.

Absenteeism from the workplace results in a direct cost to the economy which is conservatively estimated to exceed R12 billion a year, according to AIC Insurance, a company specialising in the underwriting of the direct cost of absenteeism. It is normal for absenteeism to be higher in the manufacturing industry than in the financial services industry, but lower than in the mining industry where the work environment is more hazardous. However, the degree of absenteeism management and control will influence comparisons among sectors. The average sick leave per person taken per year is currently at around 7 workdays. Observing changes in sick leave taken may be useful in assessing the influence of illness-related work absence on variables such as labour productivity and labour costs.

Remuneration, labour productivity and unit labour cost in non-agricultural sectors



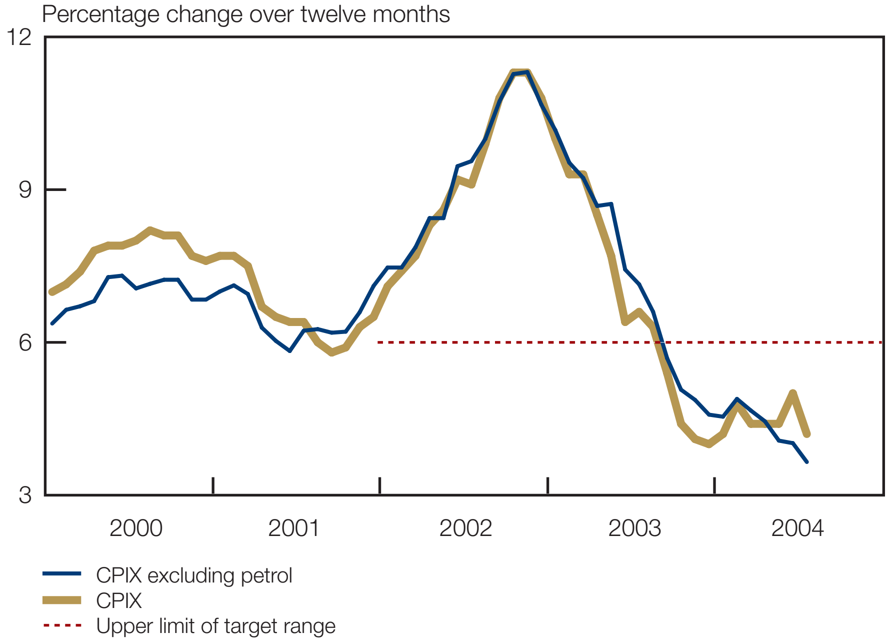
The increase in the *cost of labour per unit of production* in the entire formal non-agricultural sector was contained at a year-to-year rate of 5,0 per cent in 2003, somewhat lower than the 6,0 per cent increase in 2002. Notwithstanding the slight pick-up in labour productivity growth, increases in nominal wages pushed the year-on-year rate of increase in nominal unit labour cost higher to 5,9 per cent in the first quarter of 2004. Had it not been for higher labour productivity, growth in nominal unit labour cost in the first quarter of 2004 would have surpassed the upper limit of the inflation target range of 6 per cent.

The higher production volumes in the first quarter of 2004, accompanied by a slowdown in nominal wage growth, held back the increases in nominal unit labour cost in the manufacturing sector, but the year-on-year rate of increase in nominal unit labour cost was still high at 15,1 per cent in the fourth quarter of 2003 and 9,1 per cent in the first quarter of 2004. These high cost increases compressed profitability somewhat, thereby slowing the pace of employment growth.

Prices

Price inflation receded to historically low levels in the closing months of 2003 mainly on account of the disciplined monetary and fiscal policy environment and the continued appreciation of the value of the rand on international currency markets. Goods prices, particularly at the production level, recorded significant absolute declines. More recently, the marked rise in the international price of crude oil and associated increases in domestic petrol and diesel prices, impacted on consumer and production price inflation. In fact, when rising energy prices are omitted, year-on-year CPIX inflation would have moderated to only 3,7 per cent in July 2004, as opposed to the comparatively higher level in overall CPIX inflation in recent months.

CPIX



Consistent with the appreciation in the exchange rate of the rand, year-on-year inflation in the *prices of imported goods* fell from a high of 17,4 per cent in April 2002 to 0,5 per cent in March 2003. Thereafter the production prices of imported goods decreased by as much as 9,6 per cent in the year to November 2003. The year-on-year rate of decline in the prices of imported goods subsequently moderated, on balance, to 2,8 per cent in

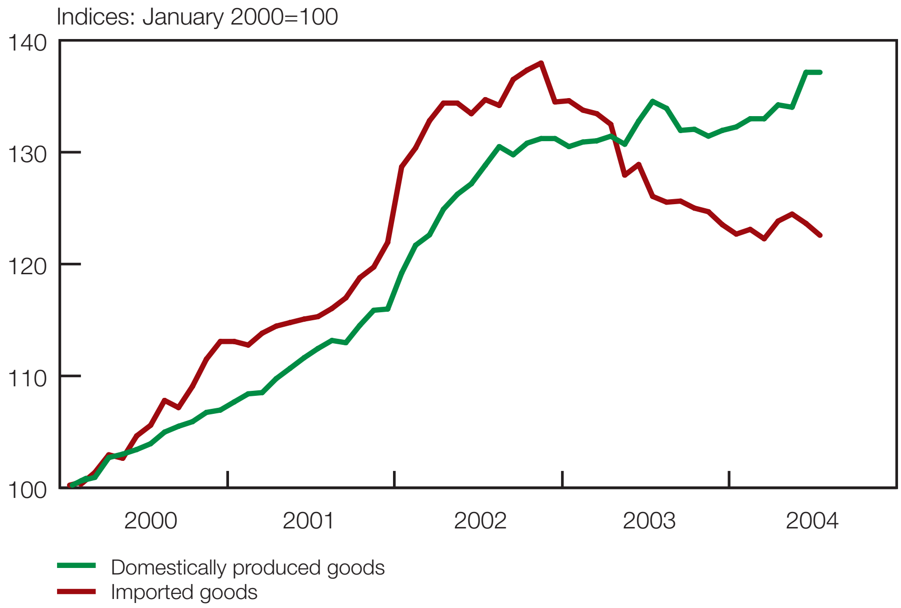
July 2004 as energy prices rose. The pace of decline in the prices of imported goods was also moderated by a pick-up in inflation pressures in South Africa's main trading-partner countries. Year-on-year rates of increase in the composite foreign wholesale price index of these countries rose strongly from 0,9 per cent in February 2004 to 3,8 per cent in June.

In recent months, declines occurred in the prices of a broad range of imported products as the exchange rate of the rand appreciated further. This contributed significantly to the waning of inflation pressures. The price-reducing effect of rand strength was most noticeable in the categories for imported food, apparel and computing equipment. The prices of computing equipment fell by as much as 14,2 per cent in the year to July 2004. Purchases of these lower-priced imported goods contributed to the buoyancy of consumption expenditure in recent months.

Notwithstanding continued declines in the prices of imported goods when measured over periods of twelve months, the short-term rate of change reverted from prices falling at an annualised 8,3 per cent in the first quarter of 2004 to prices rising at an annualised 4,9 per cent in the second quarter. The pick-up in the quarter-to-quarter pace of increase in the prices of imported goods can mainly be attributed to the increase in the prices of imported crude oil. Had it not been for the further appreciation in the exchange rate of the rand, higher international crude oil prices would have translated into even steeper increases in the retail prices of petrol and diesel.

Unlike the consistent decline in the price level of imported goods from November 2002 to March 2004, the level of *domestically produced goods* prices rose continuously during this period, albeit at a decelerating pace. When measured over periods of twelve months, inflation in the prices of domestically produced goods declined from 15,3 per cent in August 2002 to 0,2 per cent in November 2003. Thereafter, the year-on-year rate of increase rose progressively to 3,3 per cent in June 2004 as energy prices escalated. Following decreases in the prices of especially agricultural products, year-on-year inflation in domestically produced goods prices fell to 1,9 per cent in July 2004. Excess capacity in industry and the threat of imports at relatively low prices were important factors in limiting the acceleration of domestically produced goods inflation in recent months.

Production price index

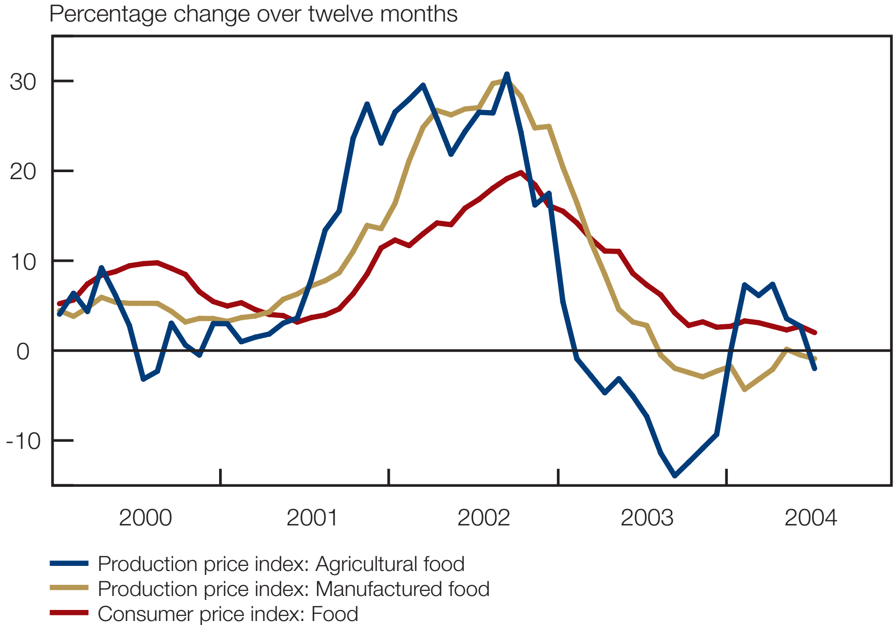


The quarter-to-quarter pace of increase in the prices of domestically produced goods rose from an annualised rate of 3,2 per cent in the first quarter of 2004 to 5,0 per cent in the second quarter. In the second quarter, higher rates of increase were recorded in the prices of electricity, gas, water and mining products, as well as in alcoholic beverages and tobacco, and basic metals and metal products.

The increase in electricity prices in June 2004 as charged by Eskom, the national electricity utility, aligned with its cost-related electricity tariff structure is most notable. According to this price structure, electricity tariffs are raised during high usage months, i.e. June to August of each year, but lowered with the onset of the summer months. Notwithstanding a month-to-month increase of 48 per cent in electricity tariffs in June 2004, electricity tariffs had only risen by 4,3 per cent over the year to June, and by 3,3 per cent over the year to July.

Following drought conditions in certain parts of the country, twelve-month inflation in the production prices of agricultural food products rose abruptly to levels around 7 per cent in February to April 2004 after it had been *negative* for twelve consecutive months up to January 2004. The recent improvement in agricultural conditions helped contain the year-on-year rate of increase in agricultural food prices to 2,7 per cent in June 2004. The prices of agricultural and manufactured food products both declined in the year to July 2004. To some extent, muted inflationary pressures in the production prices of food served as an offset to the rise in energy prices.

Food prices



In addition to improved rainfall in the earlier part of 2004, the continued appreciation in the exchange rate of the rand also helped to contain food price inflation by driving import and export parity prices down. The spot prices of yellow maize, for instance, decreased from around R1 400 per ton in early February 2004 to around R900 per ton at the end of July – a decrease of about 55 per cent. Wheat prices have also declined by 21 per cent during the three months to the end of July 2004. Favourable trends in international food prices as well as in local maize and wheat prices suggest that food price inflation will remain subdued for the immediate future.

As a result of the slowdown in domestically produced goods inflation and *declining* prices of imported goods, the year-on-year rate of increase in the *all-goods production price index* fell from 15,4 per cent in September 2002 to 0,2 per cent in August 2003. When measured over periods of twelve months, all-goods production prices actually fell for eight consecutive months to April 2004. However, by May 2004 all-goods production prices began to increase and by June these prices had risen by 1,3 per cent over the year. Subsequently, all-goods production price inflation moderated to 0,7 per cent in the year to July 2004 as domestically produced goods inflation subsided.

Production prices

Quarter-to-quarter percentage changes at annualised rates

Period		Domestically produced goods	Imported goods	Overall production prices
2002:	**Year**.......................................	**13,5**	**15,5**	**14,2**
2003:	1st qr.....................................	-0,5	-10,3	-3,1
	2nd qr	0,1	-11,4	-3,6
	3rd qr	5,5	-7,1	2,1
	4th qr	-2,6	-6,7	-3,3
	Year.......................................	**3,9**	**-4,2**	**1,7**
2004:	1st qr.....................................	3,2	-8,3	0,0
	2nd qr	5,0	4,9	4,8

The short-term pace of increase in the all-goods production price index picked up more decisively than the year-on-year rate of increase. When measured from quarter to quarter and expressed at an annualised rate, all-goods production prices remained unchanged in the first quarter of 2004 but increased by 4,8 per cent in the second quarter – the highest rate of increase in the past six quarters.

Twelve-month CPIX inflation (i.e. changes in the overall consumer price index for metropolitan and other urban areas, excluding the interest cost of mortgage bonds) rose from a nadir of 4,0 per cent in December 2003 to 5,0 per cent in June 2004. The pick-up in CPIX inflation over this period resulted mainly from the effect of higher petrol prices. Subsequently, year-on-year CPIX inflation moderated to 4,2 per cent in July 2004 as petrol prices declined temporarily. Alongside the resultant still high increase in transport running cost, year-on-year rates of increase in the prices of alcoholic beverages and tobacco and total housing services (excluding mortgage interest cost) and services not related to housing and transport exceeded the upper limit of the inflation target range in July 2004. However, year-on-year changes in the prices of 61 per cent of the goods and services contained within the CPIX measure fell below the upper limit of the inflation target range in July 2004, with some prices even declining.

CPIX goods price inflation more than doubled from a year-on-year rate of 2,0 per cent in December 2003 to 4,1 per cent in June 2004. Subsequently, CPIX goods price inflation declined to 3,0 per cent in the year to July 2004. Inflation in the prices of all the main consumer goods categories, however, remained fairly stable at their respective levels during the past six months or so. The only exception was transport running cost increases, which accelerated steeply to June 2004, thereafter decelerating in July. When the rise in petrol and diesel prices is not accounted for, year-on-year CPIX goods price inflation would have remained below the lower limit of the inflation target range at around 2,5 per cent during the four months to June 2004, and at 2,0 per cent in July. The quarter-to-quarter and annualised rate of increase in overall CPIX goods prices was also contained at 3,0 per cent in the second quarter of 2004.

Inflation in the components of CPIX

Percentage change over same period in the previous year

	Weights	2003	July 2004
Transport running cost	5,7	-0,4	14,7
Alcoholic beverages and tobacco	3,1	11,2	8,4
Total housing services	13,4	9,7	8,4
Services excluding housing and transport	16,5	7,3	6,3
Total other goods	*17,5*	*5,9*	*3,7*
Total transport services	*3,9*	*5,5*	*3,3*
Food	26,9	8,5	1,5
Furniture and equipment	3,2	4,1	0,9
Vehicles	5,7	4,2	-0,6
Clothing and footwear	4,1	2,0	-5,1
Total CPIX	*100,0*	*6,8*	*4,2*

Italics denote year-on-year increases within inflation target range of between 3 and 6 per cent for the latest available observation

As a consequence of the appreciation of the rand, the prices of motor vehicles, clothing and footwear declined in recent months. Year-on-year increases in the prices of furniture and equipment were also well contained at around 1 per cent since the closing months of 2003. Following initial declines and subsequent moderate increases in the prices of agricultural food products in the past year or so, year-on-year consumer food price inflation remained subdued at around 3,0 per cent since October 2003, declining to 1,5 per cent in July 2004.

Year-on-year increases in the prices of alcoholic beverages and tobacco remained consistently above the 8-per-cent level during the past decade and outpaced inflation in all other price categories over this period. These high rates of increase are partly accounted for by persistent annual increases in excise duties. Inflation in this category receded from a year-on-year rate of 13,6 per cent in July 2003 to a still high rate of 8,4 per cent in July 2004.

While CPIX goods price inflation picked up during the first half of 2004 *CPIX services price inflation* which remained at around 8 per cent during most of 2003, subsided somewhat to 6,8 per cent in the year to July 2004. Overall CPIX services price inflation was pulled lower by relatively low increases in transport services prices at year-on-year rates of around 3 per cent in recent months to July 2004. During this period, year-on-year inflation in the prices of transport services was almost outpaced three-fold by CPIX housing services price inflation. Year-on-year increases in the prices of services not related to housing or transport subsided to 5,9 per cent in June 2004 – within the inflation target range – but picked up slightly to 6,3 per cent in July. Also, the quarter-to-quarter pace of increase in overall CPIX services prices slowed down from an annualised rate of 6,7 per cent in the first quarter of 2004 to 6,1 per cent in the second quarter.

The setting of increases in administered prices also contributed to the slowdown in overall consumer price inflation. Administered prices excluding petrol still continued to increase at a faster pace than overall CPIX in recent months, but low increases in electricity, water and telephone tariffs in early 2004 helped to slow down the pace of increase in administered prices and in CPIX. According to Reserve Bank calculations, administered prices increased by 9,0 per cent in the year to July 2004 while administered prices excluding petrol increased by 7,3 per cent.

Foreign trade and payments

Current account[2]

2 The current-account flows referred to in this section are seasonally adjusted and annualised.

After 22 years of consecutive quarterly trade surpluses, South Africa's trade balance with the rest of the world moved into deficit in the second quarter of 2004. This turnaround reflected a rapid acceleration in domestic expenditure, which was accompanied by robust growth in the volume of imports. In the second quarter the volume of exported goods responded positively to the apparent upswing in global economic activity, even though the further increase in the nominal effective exchange rate of the rand weighed down on the growth in export volumes. With imports rising more strongly than exports, the trade balance was turned into a deficit of R5,5 billion in the second quarter of 2004 from a surplus of R21,0 billion in the first quarter.

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

	2003					2004	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Merchandise exports	262,8	258,3	258,5	244,5	256,0	257,0	281,5
Net commodity gold exports	36,6	34,2	34,7	35,9	35,3	33,5	32,6
Merchandise imports	-262,0	-262,1	-260,9	-266,2	-262,8	-269,5	-319,6
Trade balance	**37,4**	**30,4**	**32,3**	**14,2**	**28,5**	**21,0**	**-5,5**
Net service, income and current transfer payments	-37,8	-40,7	-40,0	-36,3	-38,6	-35,4	-43,8
Balance on current account	**-0,4**	**-10,3**	**-7,7**	**-22,1**	**-10,1**	**-14,4**	**-49,3**

This negative imbalance on the trade account together with an increase in the shortfall on the net services, income and current transfer account with the rest of the world caused the deficit on the current account of the balance of payments to widen significantly to R49,3 billion in the second quarter of 2004. Expressed as a ratio of the country's gross domestic product, the deficit on the current account increased from 1,1 per cent in the first quarter of 2004 to 3,8 per cent in the second quarter.

The value of *merchandise exports* rose by a robust 9½ per cent in the second quarter of 2004. Having increased by 9 per cent in the first quarter of 2004, the rand *prices* of exported goods fell by 3 per cent in the second quarter, mainly due to an increase in the average nominal effective exchange rate of the rand. The decline in the aggregate export-price level was further reinforced by a decline in the international prices of South Africa's non-gold export commodities.

The impact of lower rand prices of exported goods was more than fully countered by an increase of 12½ per cent in the physical *quantity* of exported goods. Led by platinum and coal, the physical quantity of mining products exported rose solidly in the second quarter of 2004. At the same time, the physical quantity of manufactured exports also picked up somewhat.

Real imports and exports* of goods and non-factor services

As South African producers began to benefit from increased foreign demand, the ratio of real merchandise exports to real gross domestic product rose from 16,6 per cent in the first quarter of 2004 to 18,5 per cent in the second quarter. This ratio was, however, still lower than the average ratios which had been recorded in 2000 and 2001.

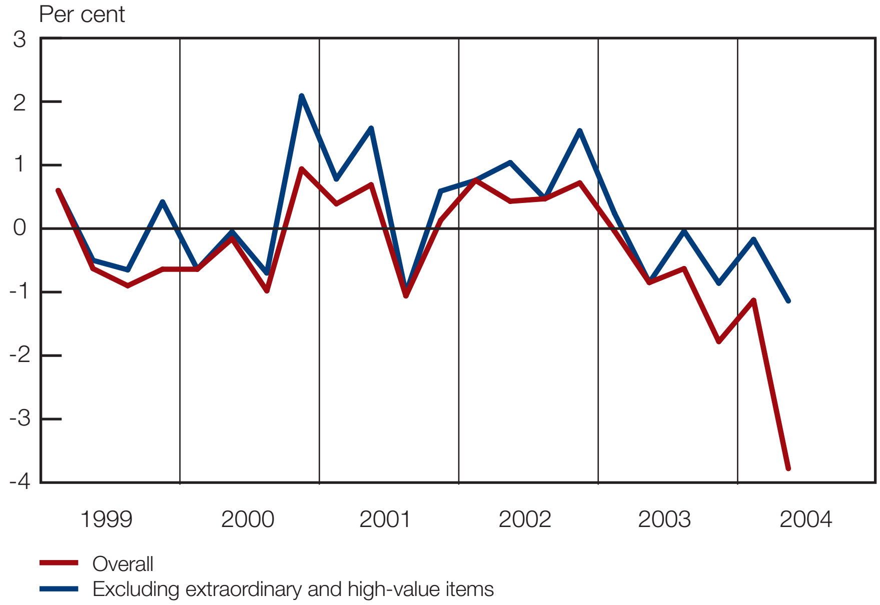
The value of South Africa's net *gold exports* continued to decline in the second quarter of 2004, despite an increase of almost 2½ per cent in the physical *quantity* of gold exported. While the average London fixing price declined significantly from US$409 per fine ounce to US$393 per fine ounce from the first to the second quarter of 2004, the average realised price of gold in rand recorded a more pronounced decline from R2 736 per fine ounce to R2 603 per fine ounce over the same period. The value of net gold exports accordingly fell by a further 2½ per cent in the second quarter of 2004, having already declined by 7 per cent in the first quarter.

After having receded marginally in the first quarter of 2004, the physical *quantity of merchandise imports* advanced by 20½ per cent in the second quarter. This increase could partially be attributed to a sharp increase in the volume of crude oil imported, the acquisition of a third corvette by the South African Navy and purchases of aircraft. Leaving these large-item imports aside, the deficit on current account would have been considerably smaller, as illustrated in the graph on the following page.

The strengthening of the external value of the rand countered the higher international price of crude oil and a slight acceleration in wholesale price inflation in South Africa's major trading-partner countries, causing the rand prices of imported goods to decline by about 1½ per cent in the second quarter of 2004.

The sharp increase in the physical quantity of imported goods contributed materially to an increase of 18½ per cent in the *value* of merchandise imports in the second quarter of 2004. The value of imported manufactured goods rose by about 5 per cent over the period as the growth in aggregate domestic demand spurred the demand for imported intermediate, capital and consumer goods. Of note was the sharply higher volume of oil imports which, together with the steep rise in the price of crude oil, increased the value of oil imports by more than 200 per cent over the period. Relative to the value of total merchandise imports, imports of crude oil constituted 16 per cent in the second quarter of 2004 compared with 5 per cent in the first quarter.

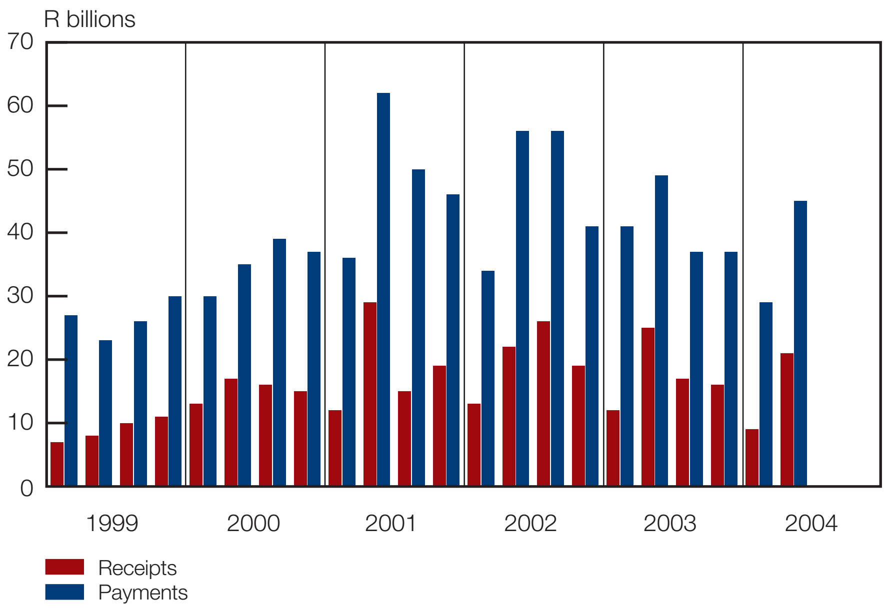
Ratio of current-account balance to gross domestic product



Seasonally adjusted data

The deficit on the net service, income and current transfer account with the rest of the world widened from a seasonally adjusted and annualised value of R35,4 billion in the first quarter of 2004 to R43,8 billion in the second quarter. Higher dividend payments to non-resident investors as well as an increase in interest payments on government's foreign

Investment income



Seasonally adjusted and annualised data

debt raised total foreign income payments from R35,8 billion in the first quarter of 2004 to R50,5 billion in the second quarter. Although larger income receipts were registered in the second quarter of 2004, the magnitude of these inward flows was not sufficient to counteract the outward income payments.

The rand prices of both exports and imports receded in the second quarter of 2004. Lower non-gold commodity export prices together with receding prices of other merchandise exports, gold and non-factor services rendered to non-residents were offset by a decline in import prices. This caused South Africa's terms of trade to remain broadly unchanged, but still at a relatively favourable level in the second quarter of 2004.

Terms of trade and non-gold commodity prices

Financial account

The net inward movement of capital into the South African economy continued unabatedly in the second quarter of 2004 when an inflow of R25,9 billion was recorded, compared with an inflow of R14,1 billion in the first quarter. From the first quarter of 2003

Net financial transactions not related to reserves
R billions

	2003					2004	
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Change in liabilities							
Direct investment	0,1	0,4	1,8	3,4	5,7	7,8	-1,8
Portfolio investment	-4,0	22,4	-4,3	-6,2	7,9	5,1	14,1
Other investment	-1,2	4,8	-1,7	11,6	13,5	4,5	4,0
Change in assets							
Direct investment	-2,8	0,7	-1,5	-1,8	-5,4	1,0	-10,2
Portfolio investment	-0,4	0,2	-0,3	-0,5	-1,0	0,0	-1,4
Other investment	5,2	1,7	5,8	10,8	23,5	-3,8	6,4
Total financial transactions*	-7,5	26,0	10,4	34,5	63,4	14,1	25,9

* Including unrecorded transactions

to the second quarter of 2004 total net financial flows into the economy (including unrecorded transactions) amounted to R103,4 billion, somewhat less than the cumulative net inflow of capital of R129,3 billion in the nine-year period from the first quarter of 1994 to the final quarter of 2002.

Foreign-owned assets in South Africa

Foreign direct investment flows changed to an outflow (i.e. a decline in foreign direct investment liabilities) of R1,8 billion in the second quarter of 2004 compared with an inflow of R7,8 billion in the first quarter of 2004. This outflow resulted mainly from the disposal of foreign direct investors' equity holdings in Telkom, as well as the selling of shares in a domestic short-term insurance company by a non-resident company. These outflows were partly countered by the acquisition of a domestic energy exploration company by a non-resident company.

Portfolio investment flows into South Africa improved from an inflow of R5,1 billion in the first quarter of 2004 to an inflow of R14,1 billion in the second quarter. Foreign portfolio investors were net buyers of domestic shares, but net sellers of domestic bonds during the quarter. An inflow also occurred when a South African gold-mining company issued shares to non-residents in order to finance the acquisition of a foreign gold-mining company. The National Treasury issued a new international bond to the value of US$1 billion in the international capital markets during the second quarter, while a Samurai bond of 40 billion yen was repaid.

Other foreign investment into South Africa recorded an inflow of R4,0 billion in the second quarter of 2004, compared with an inflow of R4,5 billion in the first quarter. This inflow can be attributed to an increase in short-term loans of the banking sector, as well as further drawings by the government on long-term loans pre-arranged for the funding of the armaments programme.

South African-owned assets abroad

Outward direct investment switched from an inflow of R1,0 billion during the first quarter of 2004 to an outflow of R10,2 billion during the second quarter. These outflows occurred as South African companies continued their offshore expansion and was strengthened through the acquisition by a South African gold-mining company of a foreign gold-mining company.

Portfolio investments by South African entities abroad increased to an outflow of R1,4 billion during the second quarter of 2004. This outflow occurred as institutional investors increased their investments abroad in terms of the existing exchange control dispensation.

Other outward investment from South Africa changed from an outflow of R3,8 billion in the first quarter of 2004 to an inflow of R6,4 billion in the second quarter. The factors contributing to the inflow in the second quarter of 2004 included a decline in rand-denominated deposits of the South African banking sector abroad. The delayed repatriation of proceeds resulting from the sale of shares in a South African mining company to a non-resident shareholder in the first quarter of 2004 also contributed to the inflow of other investment capital.

Foreign debt

South Africa's total outstanding foreign debt increased by US$2,0 billion from the end of December 2003 to US$39,2 billion at the end of March 2004. Increases were recorded in both rand-denominated debt and, to a lesser degree, foreign-currency denominated debt.

Foreign debt of South Africa

US$ billions at end of period

Period	2001	2002	2003	2004 1st qr
Foreign-currency denominated debt...	24,0	25,0	27,4	27,9
Bearer bonds..................................	6,0	7,8	9,7	9,6
Converted long-term loans.............	0,1	0,0	0,0	0,0
Public sector...................................	3,0	5,0	4,9	4,4
Monetary sector..............................	8,9	6,2	5,9	7,4
Non-monetary private sector...........	6,0	6,0	6,9	6,5
Rand-denominated debt	6,8	7,7	9,8	11,3
Bonds...	4,3	4,5	4,2	4,4
Other	2,5	3,2	5,6	6,9
Total foreign debt.................................	30,8	32,7	37,2	39,2

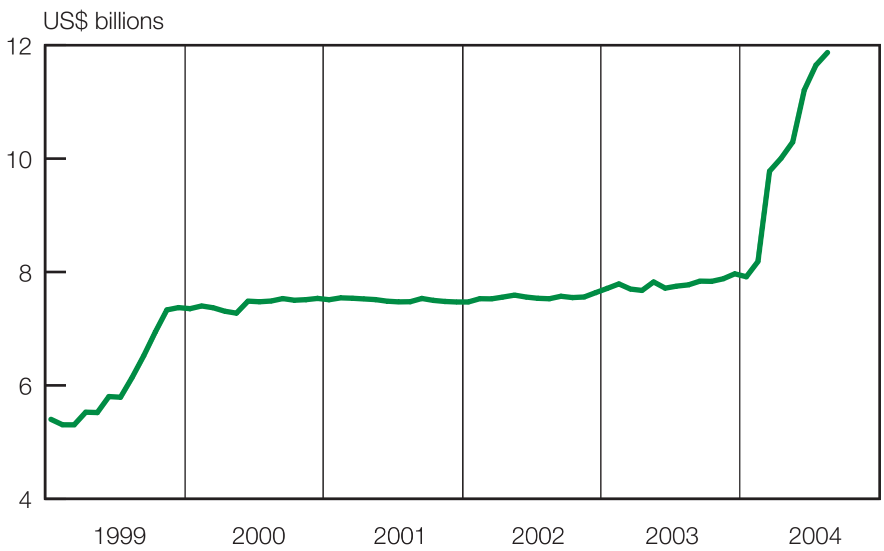
Foreign-currency denominated debt increased from US$27,4 billion at the end of December 2003 to US$27,9 billion at the end of March 2004. This increase can be attributed to an increase in non-residents' foreign-currency denominated deposits with South African banks as well as an increase in the Reserve Bank's use of its foreign credit facilities.

Measured in rand, South Africa's total foreign debt increased marginally from R247,2 billion at the end of December 2003 to R247,8 billion at the end of March 2004. The strengthening of the exchange rate of the rand resulted in only a marginal increase in the total foreign debt measured in rand, compared with a far larger increase in the total foreign debt measured in US dollars.

International reserves and liquidity

The surplus on the financial account during the second quarter of 2004 more than compensated for the growing deficit on the current account of the balance of payments. The country's net international reserves accordingly rose by R12,1 billion during the second quarter of 2004, following an increase of R13,4 billion in the first quarter.

Gross gold and other foreign exchange reserves of South African Reserve Bank



The South African Reserve Bank's gross gold and other foreign reserves increased from US$9,8 billion at the end of March 2004 to US$11,2 billion at the end of June and US$11,9 billion at the end of August. Simultaneously the private banks' gross foreign assets, which rose rapidly during 2003, fluctuated around US$17 billion throughout the first seven months of 2004.

The international liquidity position of the Reserve Bank improved from US$6,4 billion at the end of March 2004 to US$7,9 billion at the end of June, and further to US$8,4 billion at the end of July.

Exchange rates

On balance, the nominal effective exchange rate of the rand appreciated by 2,4 per cent from the end of March 2004 to the end of June. During the subsequent six weeks to 12 August it increased marginally further. However, following the announcement by the Bank of a 0,5-percentage-point reduction in the repurchase rate, the trade-weighted exchange rate of the rand depreciated by 4,5 per cent from 12 to 13 August 2004. This may partly be attributed to the narrowing interest rate differential between South Africa and its main trading-partner countries, as the US Federal Reserve increased its federal funds target rate by 0,25 percentage point prior to the decline in the repurchase rate.

In 2003 the exchange rate of the rand was impervious to the series of reductions in the repurchase rate of the Reserve Bank, possibly because of the considerable magnitude of the interest rate differential.

Exchange rates of the rand

Percentage change

	31 Dec 2003 to 31 Mar 2004	31 Mar 2004 to 30 Jun 2004	30 Jun 2004 to 31 Aug 2004
Weighted average*	5,7	2,4	-6,1
Euro	8,3	2,0	-6,1
US dollar	5,1	1,0	-6,4
British pound	2,1	2,6	-5,8
Japanese yen	1,8	6,1	-5,5

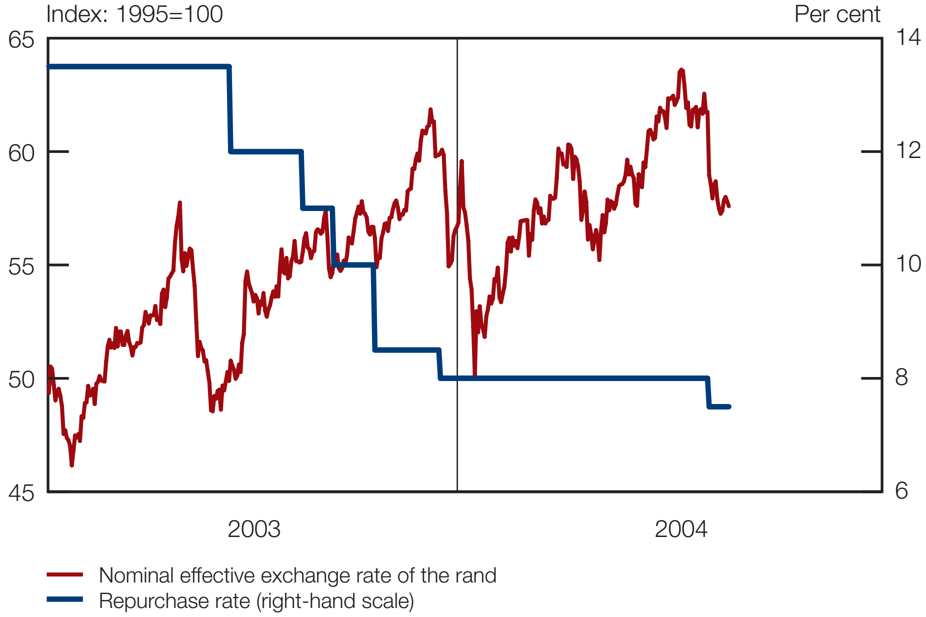
* Against a basket of 13 currencies

When the movements in the exchange rate of the rand against the US dollar from the end of December 2003 up to 31 August 2004 are compared with that of other commodity and/or high-yielding currencies, the rand was the strongest performer, depreciating by 0,7 per cent. Over this period, the New Zealand dollar depreciated by 0,8 per cent, the Canadian dollar by 1,7 per cent, the Australian dollar by 6,8 per cent and the Turkish lira by 7,5 per cent.

The net average daily turnover in the domestic market for foreign exchange decreased marginally from US$11,0 billion in the first quarter of 2004 to US$10,9 billion in the second quarter. Non-resident participation in this market increased marginally from US$7,6 billion in the first quarter to US$7,7 billion in the second quarter of 2004.

The inflation-adjusted effective exchange rate of the rand appreciated by only 1,1 per cent from December 2003 to June 2004, having appreciated by 54,4 per cent from December 2001 to December 2003.

Nominal effective exchange rate of the rand and South African Reserve Bank's repurchase rate



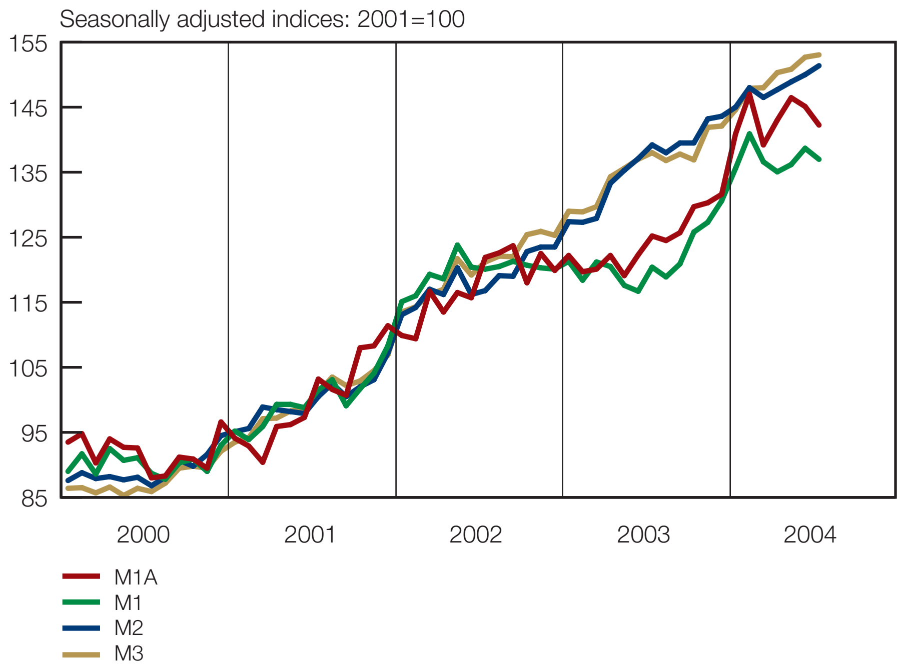
Monetary developments, interest rates and financial markets

Money supply[3]

3 The quarter-to-quarter growth rates referred to in this section are seasonally adjusted and annualised.

Growth in the broadly defined money supply (M3) decelerated somewhat during the second quarter of 2004. The slowdown in M3 growth was to some extent a reflection of the reversal of the uncharacteristic increase in private-sector deposits with banks at the end of February 2004 due to the payment of coupon interest and the redemption of some government bonds. Disintermediation – where both bank loans and deposits are substituted by non-bank financing mechanisms such as the issue of corporate bonds – also moderated money supply growth. Mergers and acquisitions activity and the reallocation by some investors of deposits to other asset classes in accordance with their expected return relative to monetary assets might also have played a role in slowing down M3 growth. Nevertheless, growth in M3 remained firm, consistent with the robust growth in domestic production and expenditure.

Monetary aggregates



Having accelerated to 19,3 per cent in the first quarter of 2004, quarter-to-quarter growth in M3 decelerated to 13,3 per cent in the second quarter. This trend was also evident in the twelve-month growth rate as it decelerated from a recent high of 14,9 per cent in February 2004 to 11,3 per cent in July.

Quarterly growth in the other monetary aggregates broadly resembled the trend in M3 growth, as reflected in the table on the opposite page. The narrow aggregates, M1A and M1, decelerated markedly from the high growth rates recorded during the first quarter of 2004 – with M1 recording a negative rate of 1,2 per cent during the second quarter of 2004. This partly reflected the reversal of the flows of funds between government and private-sector deposits in February, as mentioned above.

Growth in monetary aggregates

Per cent at seasonally adjusted annualised rates

	2003	2004	
	4th qr	1st qr	2nd qr
Notes and coin in circulation	24,1	25,2	5,9
Cheque and transmission deposits	32,7	35,9	-3,1
M1A	**16,9**	**40,6**	**8,1**
Demand deposits	30,6	41,4	-12,5
M1	**25,0**	**37,3**	**-1,2**
Short and medium-term deposits	-3,8	-7,7	14,5
M2	**8,7**	**13,8**	**6,2**
Long-term deposits	-15,3	73,7	96,9
M3	**6,5**	**19,3**	**13,3**

Twelve-month growth in the narrow aggregates M1A and M1 accelerated to fairly high levels in the first seven months of 2004: In July 15,0 per cent in the case of M1A and 14,2 per cent in the case of M1. This partly reflected the low base in 2003 of year-on-year growth calculations and the decline in interest rates, which reduced the opportunity cost of holding the assets included in M1A and M1. Growth in M2 decelerated, reflecting a growing preference for deposits with maturities of more than six months (which are included in M3 but not in M2). This was consistent with the increase in interest rates on such deposits offered by banks, probably in response to the competition posed by other investment vehicles such as the retail bonds issued by the National Treasury and expectations in some quarters of increases in official interest rates towards the end of 2004 and in 2005.

The corporate sector's deposit holdings rose by R9,1 billion in the second quarter of 2004, largely concentrated in deposits with maturities of more than six months. The household sector's deposit holdings rose by R7,6 billion over the same period, partly reflecting the growth in real disposable income.

Growth in M3 exceeded growth in nominal gross domestic product by 5,0 percentage points in the second quarter of 2004. As a result, the income velocity of circulation of M3 declined further from 1,60 in the first quarter of 2004 to a record low of 1,59 in the second quarter, signalling the availability of ample liquidity in the economy.

The counterparts of change in M3 are presented in the accompanying table.

Counterparts of change in M3

R billions

	2004			
Counterparts	1st qr		2nd qr	
Net foreign assets		9,8		10,7
Net claims on the government sector		9,2		5,9
Gross claims	-9,9		10,3	
Government deposits (decrease +; increase -)	19,1		-4,4	
Claims on the private sector		-3,4		2,2
Investments and bills discounted	-24,7		-8,0	
Total loans and advances	21,3		10,2	
Net other assets and liabilities		17,8		-2,2
Total change in M3		**33,4**		**16,6**

A significant part of the increase in M3 during the second quarter of 2004 was on account of the increase in net foreign assets of the monetary sector. The increase in the Reserve Bank's foreign reserves contributed to the increase in the net foreign assets of the monetary sector. The Bank's reserves benefited from normal market operations and customer transactions – essentially the acquisition of the foreign currency proceeds of the government's issue of a US$1 billion ten-year global bond.

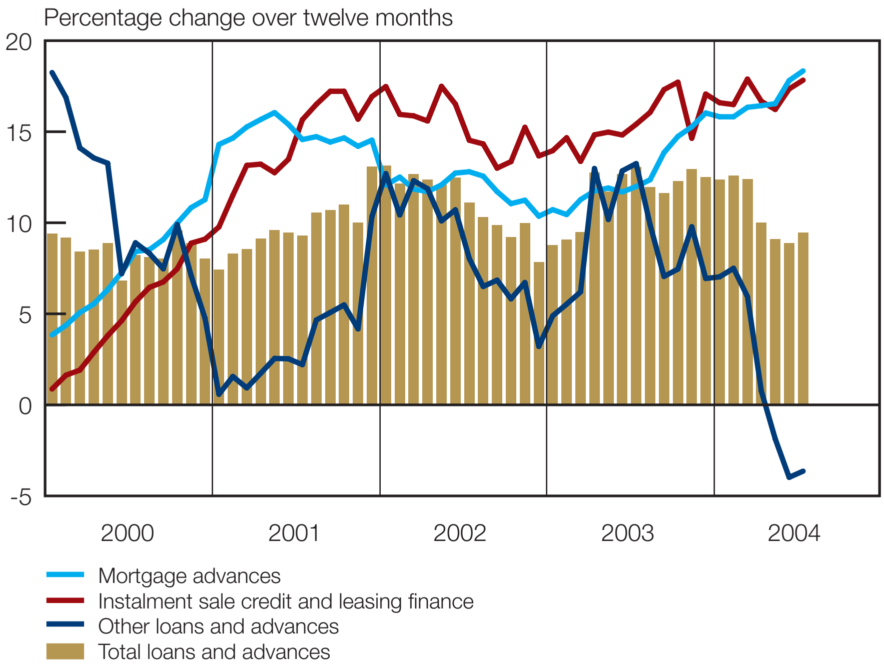
Net claims on the government sector increased during the second quarter, mainly on account of the issuing of R7 billion in zero-coupon bonds to the Bank as part payment of the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account. Coupon interest payments on some government bonds reduced the level of government deposits, but this was overshadowed by the increase in government deposits, partly due to the rand proceeds received for the US$1 billion global bond issue.

Credit extension

During the second quarter of 2004 the growth in banks' total loans and advances[4] was held back by disintermediation, evidenced by the funding of corporate sector capital outlays outside the banking sector and by mergers and acquisitions activity. Quarter-to-quarter growth in loans and advances decelerated from 12,8 per cent in the first quarter of 2004 to 10,2 per cent in the second quarter. However, the rate of growth remained firm, bolstered by significant increases in asset-backed credit extension which continued to benefit from the increase in real disposable income, lower interest rates and the positive wealth effects associated with the sustained increases in real-estate prices.

4 Total loans and advances to the domestic private sector consist of instalment sale credit, leasing finance, mortgage advances, overdrafts, credit card and general advances. The first three categories are referred to as asset-backed credit*, while the last three categories together are referred to as* other loans and advances*.*

Loans and advances to the private sector



Quarterly growth in asset-backed credit accelerated from 15,3 per cent in the first quarter of 2004 to 18,8 per cent in the second quarter. The asset-backed credit category expanded by R22,5 billion during the second quarter of 2004, in contrast with the significant decline recorded in other loans and advances.

Mortgage advances dominated the recent increases in credit extension, contributing R16,8 billion to the overall increase in asset-backed credit during the second quarter of 2004. The household sector accounted for R12,7 billion of the increase in asset-backed credit and the corporate sector for R4,1 billion. Quarterly growth in mortgage advances accordingly accelerated from 15,2 per cent in the first quarter of 2004 to 19,1 per cent in the second quarter of 2004. Seasonally adjusted gross amounts granted and paid out through mortgage accounts reached record-high levels of R3,8 billion and R2,5 billion, respectively, during the second quarter of 2004. This strong growth was consistent with the buoyant trading conditions in the real-estate market.

Changes in total loans and advances by type of credit

R billions

Component	2004	
	1st qr	2nd qr
Mortgage advances	13,1	16,8
Instalment sale credit and leasing finance	5,3	5,7
Other loans and advances	3,1	-12,3
Total change	**21,5**	**10,2**

The extension of instalment sale credit and leasing finance, which is mainly directed at financing expenditure on motor vehicles and other durable goods, remained strong and recorded growth rates of around 17 per cent during both the first and the second quarter of 2004. Brisk growth in this credit category reflected the strong growth in cyclically sensitive components of domestic expenditure; the buoyant demand for new vehicles was underpinned by moderation in car price inflation, attractive packages offered by the motor industry and fleet replacement by various sectors of the economy. More generally, the enhanced price competitiveness of imported durable consumer and capital goods which followed the recovery in the exchange rate of the rand stimulated demand for a wide range of items.

Other loans and advances declined by R12,3 billion during the second quarter of 2004. The quarterly growth in other loans and advances decelerated from 5,6 per cent in the first quarter of 2004 to a negative rate of 9,0 per cent in the second quarter. Growth in this credit category continued to be restrained by disintermediation evidenced by subdued demand for bank loans by the corporate sector and heightened demand for funding outside the banking sector. A sharp contraction in this credit category was recorded in May 2004 when the assets of a monetary institution were absorbed by a non-monetary institution.

The household sector's use of loans and advances during the second quarter of 2004 rose by R17,2 billion whereas that of the corporate sector declined by R7,0 billion.

Twelve-month growth in banks' asset-backed credit has remained above 10 per cent since November 2000 and accelerated further to levels above 15 per cent since September 2003, suggesting prolonged easy bank lending conditions. The declining trend displayed by banks' non-performing loans suggests that the banking sector has not been extending loans and advances imprudently.

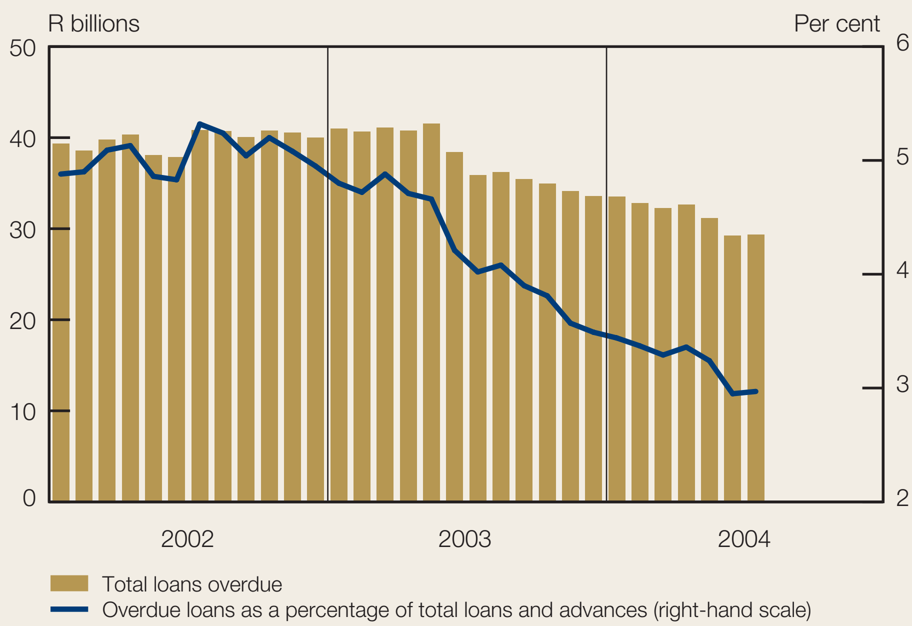
Developments in non-performing loans of the banking sector

The practice in South Africa is to consider a loan as overdue or non-performing when the borrower fails to repay specified instalments or contractual amounts for the period of three months or longer. Overdue loans are used as early warning indicators for assessing the credit risk run by banks, the stability of the banking sector and economic conditions in general.

The growth in banks' total loans and advances to the domestic private sector averaged 10 per cent per annum from the beginning of 2000 to July 2004. Within the broader category of loans and advances the twelve-month growth in asset-backed credit has been particularly brisk, accelerating to levels of more than 15 per cent since September 2003. The reduction in interest rates since mid-2003 contributed to easier bank lending conditions and stronger demand for such loans.

As shown in the accompanying graph the value of overdue loans remained relatively stable during 2002 and 2003 despite the interest rate increases effected in the first nine months of 2002. The fact that the initial debt levels of both the household and corporate sectors were well contained contributed to this outcome.

Total loan overdues



From around mid-2003, lower interest rates, rising incomes and positive wealth effects arising from increases in house prices contributed to a significant decline in the level of overdue loans. Current levels of the South African banking sectors' overdue loans compare favourably with those of the past and with those in other parts of the world.

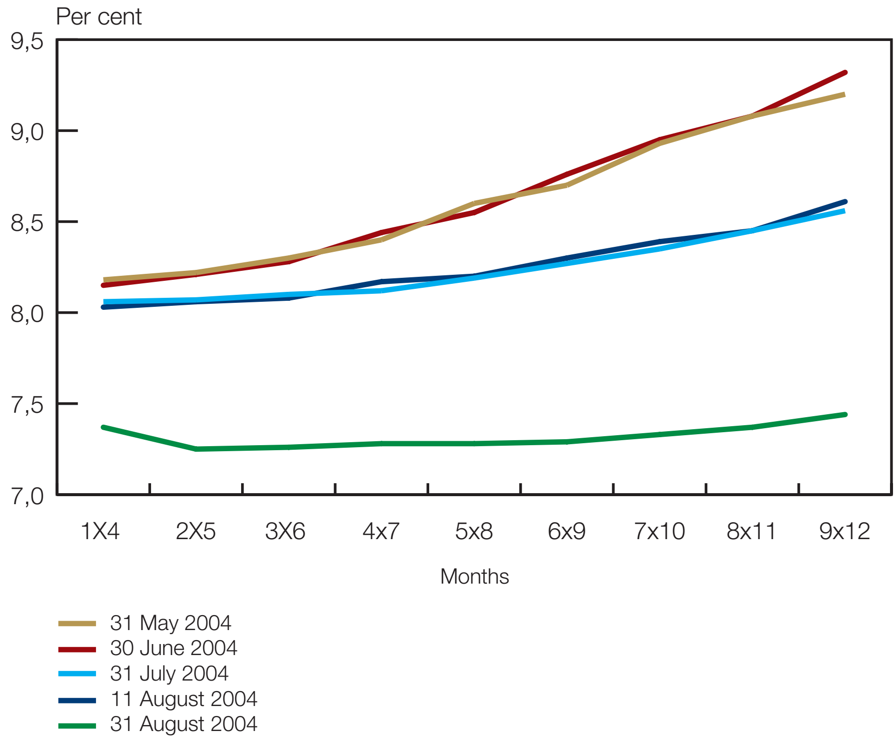
M A Brits and N Gumata

Interest rates and yields

The Monetary Policy Committee (MPC) left the repurchase rate unchanged at 8 per cent at its February, April and June 2004 meetings, guided by, among other things, the expectation of CPIX inflation remaining within the target range in 2004 and 2005. Mainly as a consequence of the availability of economic indicators pointing to a more favourable outlook for CPIX inflation than previously thought, the committee decided to reduce the repurchase rate by 50 basis points to 7,5 per cent at its August 2004 meeting. (The August MPC statement discussing developments underlying the decision is reproduced in full of on pages 53 – 56 of this *Quarterly Bulletin*). This brought the Bank's official policy rate to its lowest level since February 1981.

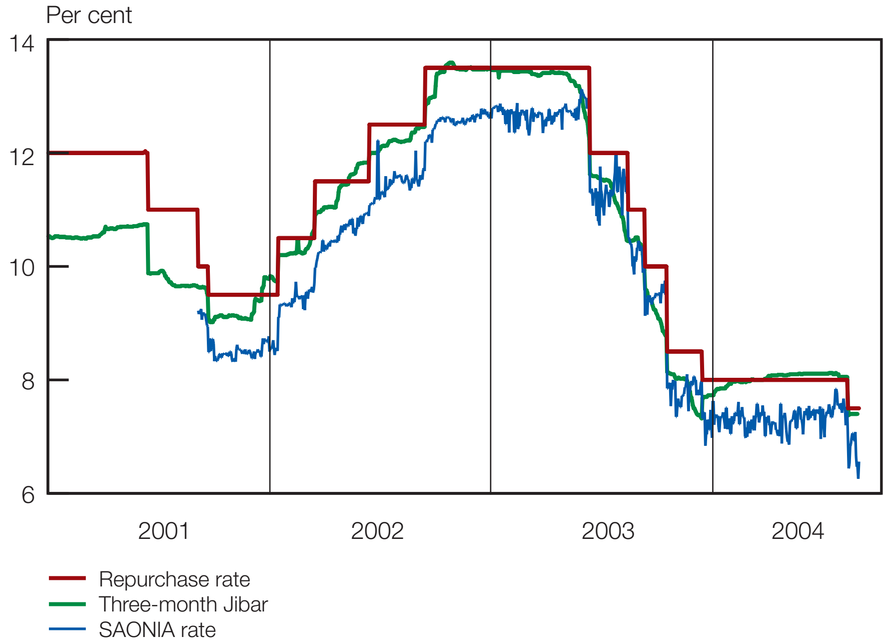
As depicted in the accompanying graph, in May and June 2004 forward money-market interest rates reflected expectations of sizeable increases in rates, with the 9x12-month forward rate, for example, a full percentage point higher than the current 3-month rate. During July the continued strength of the exchange rate of the rand and lower-than-expected inflation data contributed to more bullish expectations, causing a noticeable reduction in forward interest rates. The largely unanticipated reduction in the Reserve Bank's repurchase rate announced on 12 August led to declines in both current and forward interest rates. However, the forward rate curve initially remained mildly upward-sloping, suggesting that money-market participants expected the next movement in the policy rate to be upward, albeit well into the future. Following the release of a further round of encouraging inflation data, the forward rate curve assumed a horizontal shape towards the end of August 2004.

Forward rate agreements yield curve



Having adjusted to the less-than-expected reduction in the repurchase rate at the December 2003 MPC meeting, money-market interest rates moved broadly sideways from early 2004 to the second week in August 2004. For example, the South African Overnight Interbank Average (SAONIA) rate fluctuated in a range between 6,86 per cent and 7,84 per cent from the beginning of 2004 to the morning before the announcement of the MPC's August decision. In response to the decline in the official rate, the SAONIA rate receded from 7,45 per cent on 12 August 2004 to between 6,44 per cent and 7,05 per cent in the subsequent week. The rate recorded a level of 6,79 per cent on 10 September 2004.

Money-market interest rates



Similarly, having remained around the 8,00 per cent mark from the beginning of March 2004, and registering 8,06 per cent on the morning of 12 August, the 3-month Johannesburg Interbank Agreed Rate (Jibar) declined by 68 basis points to 7,38 per cent on 13 August and remained around this level until 10 September 2004.

Following the abolition of stamp duties on negotiable certificates of deposit (NCDs) announced in the February 2004 Budget and effected on 1 April 2004, private banks reverted to issuing NCDs as opposed to promissory notes. The rate on 3-month NCDs moved in tandem with other 3-month money-market interest rates and declined by slightly more than 50 basis points in reaction to the decline in the repurchase rate. It stood at 7,39 per cent on 10 September 2004.

Having remained unchanged at R1,8 billion in the seven months to July, the amount of 91-day Treasury bills on offer each week was increased by R200 million to R2,0 billion from 30 July 2004, partly to raise additional funding for coupon interest payments to be effected at the end of August 2004. Accordingly, the rate on 91-day Treasury bills increased from 7,91 per cent on 23 July 2004 to 7,87 per cent on 30 July and 7,88 per cent on 6 August but declined to 7,20 per cent on 13 August in response to the decline in the repurchase rate. The rate on 91-day Treasury bills amounted to 7,13 per cent on 10 September 2004.

Following the reduction in the Reserve Bank's repurchase rate, the *prime overdraft rate* as well as the *predominant rate on mortgage loans* were lowered to 11 per cent during August 2004, having been unchanged at 11½ per cent since December 2003.

The private banks increased their *predominant rate* on *twelve-month fixed deposits* from 6,1 per cent in December 2003 to 7,8 per cent in July 2004. Market expectations of interest rate increases and the availability of alternative savings mechanisms to investors, such as the RSA Government Retail Bond series launched in May 2004, might have contributed to the upward bias in deposit rates. Subsequently, banks lowered this twelve-month deposit rate to 7,10 per cent in late August 2004 in response to the reduction in the repurchase rate.

As shown in the accompanying table, banks' offered rates on fixed deposits have increased noticeably since the launch of RSA Government Retail Bonds in May 2004. However, following the decline in the repurchase rate effective from 13 August 2004, other interest rates have declined or are being reviewed. On 1 September 2004, rates on RSA Government Retail Bonds of all three maturities were lowered by one percentage point.

Interest rates on RSA Government Retail Bonds and fixed deposits with banks

	2004	
	May	June – July
RSA Government Retail Bond		
Minimum balance R1 000 to R1 million		
2 years	9,25	9,25
3 years	9,50	9,50
5 years	10,00	10,00
Banks		
Fixed deposit of R10 000 to R99 999*		
2 years	6,50 – 8,35	8,50 – 9,35
3 years	8,40 – 9,20	8,70 – 9,90
5 years	8,60 –10,20	8,90 –10,20

* Minimum and maximum rates offered by SA's four biggest banks

Bond yields started to rise early in 2004 in response to, among other things, rising issues of bonds, fluctuations in the exchange rate of the rand, weaker global bond markets and expectations of growing risks to inflation. The *monthly average yield on long-term government bonds* in the ten-to-twelve-year maturity range initially increased at a moderate pace from 9,1 per cent in October 2003 to 9,4 per cent in February 2004 before rising more vigorously to a recent high of 10,4 per cent in June 2004. The yield then declined moderately to 10,1 per cent in July as the strength of the exchange value of the rand partly allayed fears about the impact of rising oil prices on inflation. The lowering of the repurchase rate in August resulted in a further decline in the monthly average yield on long-term government bonds to 9,7 per cent.

After increasing to a recent high of 10,53 per cent on 15 June 2004, the *daily average yield* on the long-term R157 government bond fluctuated around a declining trend as the exchange value of the rand appreciated and the inflation outlook improved. This occasioned widely held expectations that short-term interest rates would remain broadly unchanged for a longer period than previously thought. The daily average bond yield receded to below the level of 10 per cent on 4 August, whereafter the lowering of the repurchase rate on 13 August resulted in a further decline from 9,66 per cent on 12 August to 9,56 per cent on 13 August. Bond yields continued to decline to 9,36 per cent on 10 September despite the weaker exchange value of the rand. The recent decline in domestic bond yields followed in the steps of a similar decline in international bond yields as global markets seemed to attach more significance to the expected impact of surging oil prices on the pace of growth rather than on inflation.

The change in the inflation outlook was also evident from the movements in the *break-even inflation rate*. This approximation of expected long-term inflation is calculated as the difference between the nominal yield on conventional bonds and the real yield on inflation-linked bonds within the five-to-nine-year maturity range. After progressively declining from above 6 per cent in early 2003 to a recent low of 4,6 per cent on 30 October 2003, break-even inflation increased to above the 6-per-cent mark early in May 2004, reaching 6,3 per cent on 14 May. Subsequently, break-even inflation within the five-to-nine-year maturity range fell back to below 6 per cent during July and came down to just below 5,0 per cent towards the end of August and the first 10 days of September.

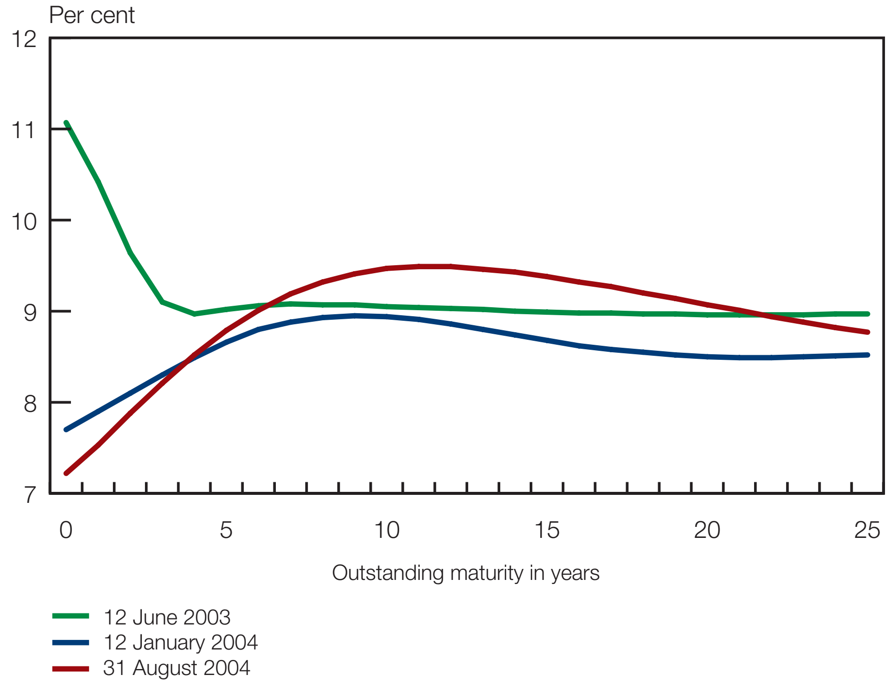
Break-even inflation rate

Difference between the nominal yield on conventional R153 bond and real yield on inflation-linked R189 bond

The higher bond yields in the first seven months of 2004 together with the subdued inflation during this period resulted in the *real* or *inflation-adjusted yield on long-term government bonds* (using historical year-on-year increases in CPIX as an indicator of expected future price changes) increasing to 5,6 per cent in July 2004, the highest real yield since June 2000. South African long-term bond yields continued to offer investors higher real returns than developed markets, such as the United States, United Kingdom and euro area.

Following five successive relaxations in the monetary policy stance during 2003 the *yield curve* reached its lowest level on 12 January 2004, as bond yields across the maturity spectrum declined to levels previously experienced in the 1980s. Subsequently, the slope of the yield curve steepened. Yields on short-dated bonds remained anchored to the repurchase rate while bond yields across the rest of the maturity spectrum moved upward in response to the steady supply of bonds and expectations of somewhat higher inflation later in 2004. The yield curve flattened during July 2004 as the inflation outlook became more benign and declined further in August as bond yields across the maturity spectrum reacted to the lowering of the repurchase rate. At the end of August 2004 bond yields beyond the six-year maturity interval were above the levels recorded on 12 June 2003 – immediately before monetary policy became more accommodative. The *yield gap*, i.e. the difference between bond yields at the extreme long and short ends of the curve, declined from 186 basis points on 15 June 2004 to a low of 83 basis points on 12 August, before widening to 155 basis points at the end of August as the lowering of the repurchase rate resulted in sharper declines at the shorter end than at the longer end of the curve.

Yield curve



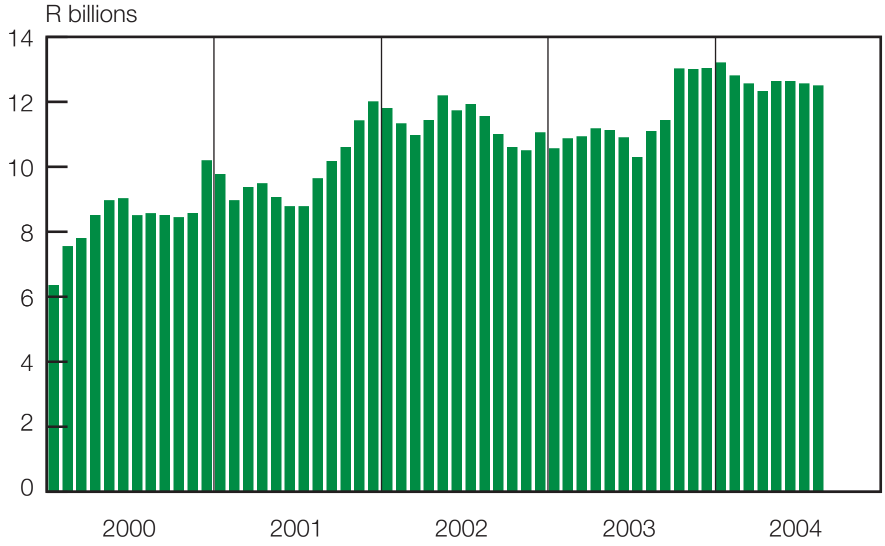
Rising oil prices gave cause for concern about the sustainability of economic growth in the United States and resulted in a decline in long-term bond yields in the United States from June 2004 – at the same time strengthening the demand for high-yielding emerging-market debt. The yield spread of emerging markets' sovereign debt over benchmark United States Treasury bonds (measured by the JP Morgan Emerging Markets Bond Index or EMBI+) subsequently narrowed from 508 basis points in May 2004 to 436 basis points in August. Broadly echoing these developments, the issue by South Africa of a ten-year US dollar-denominated bond at the end of May 2004 was priced at only 195 basis points above US Treasury notes of similar maturity – the country's lowest spread ever in the dollar bond market. The yield spread on this bond narrowed to 155 basis points in August, substantially lower than the sovereign risk premium of emerging markets in general.

Money market

Money-market conditions remained fairly stable during the second quarter of 2004 and the first two months of the third quarter. The monthly average of the daily liquidity requirement of the private banks remained around R12,6 billion throughout this period, while the amounts of repurchase transactions at the weekly main auctions stood at levels around R13,0 billion. Supplementary and final repurchase transactions together with banks' recourse to their cash reserve accounts successfully absorbed the temporary deviations from the Bank's desired level of the daily liquidity requirement of the private banks.

The Reserve Bank's foreign exchange transactions had a considerable impact on the money market during the first eight months of 2004. Following the squaring off of the oversold forward foreign exchange book in February 2004, the Bank gradually increased its foreign exchange reserves through measured buying of foreign exchange from the market and purchasing foreign exchange from the National Treasury. These purchases raised the Bank's foreign exchange reserves from US$8,2 billion at the end of February to US$11,9 billion at the end of August 2004 and expanded money-market liquidity by R8 billion in the second quarter and by a further R9 billion in July and August 2004.

Total liquidity requirement



Monthly average of daily values

On balance, changes in the amount of notes and coin in circulation outside the Reserve Bank tightened money-market liquidity by R0,5 billion in the second quarter of 2004 and by a further R1,0 billion in July and August 2004.

The main forces impacting on money-market liquidity from April to August 2004 are summarised in the accompanying table.

Money-market liquidity flows

R billions (easing +, tightening –)

	2004	
	1 April – 30 June	1 July – 31 August
Notes and coin in circulation	-0,5	-1,0
Required cash reserve deposits	0,4	-0,9
Money-market effect of Reserve Bank's foreign exchange transactions	8,0	9,0
Government deposits	0,0	0,0
Other items net	0,6	-3,9
Use of liquidity management instruments*	-8,3	-3,4
Banks' liquidity requirement	0,2	-0,2

* Reserve Bank debentures and reverse repurchase transactions

The Bank utilised its liquidity-draining instruments in such a way that other factors impacting on money-market liquidity conditions were broadly offset. The total amount of interest-bearing liquidity-draining instruments issued by the Bank amounted to R19,0 billion at the end of August 2004 compared with a total outstanding amount of R10,8 billion at the beginning of the second quarter of 2004. The amounts outstanding per individual instrument are reflected on the opposite page. The liquidity-draining effect of the use of these instruments was complemented by the profits realised on the Bank's maturing forward foreign exchange contracts.

Outstanding balances of selected money-market intervention instruments
R billions

End of		Forreign-currency swaps with deposits	Reserve Bank debentures 28 days	Reserve Bank debentures 91 days	Reserve Bank debentures Total	Reverse repurchase agreements 28 days	Reverse repurchase agreements 91 days	Reverse repurchase agreements Total	Total instruments outstanding
2003:	Jul	17,6	2,4	5,6	8,0	0,5	9,8	10,3	36,3
	Aug	15,3	2,8	5,2	8,0	0,6	9,7	10,3	34,0
	Sep	11,0	2,6	5,1	7,8	2,1	7,6	9,7	29,1
	Oct	3,6	4,0	3,0	7,0	5,7	2,9	8,6	19,2
	Nov	0,0	3,0	3,7	6,7	5,8	2,8	8,6	15,8
	Dec	0,0	0,5	2,8	3,2	2,8	2,5	5,2	8,5
2004:	Jan	0,0	5,4	1,5	6,9	3,1	0,3	3,4	10,3
	Feb	0,0	4,4	0,7	5,1	1,8	0,0	1,8	6,9
	Mar	0,0	6,0	0,3	6,3	3,5	0,0	3,5	9,8
	Apr	0,0	4,5	0,3	4,8	6,0	0,0	6,0	10,8
	May	0,0	5,6	0,3	5,9	8,5	0,0	8,5	14,4
	Jun	0,0	4,8	0,3	5,1	10,5	0,0	10,5	15,6
	Jul	0,0	8,3	0,3	8,6	12,0	0,0	12,0	20,6
	Aug	0,0	7,7	0,3	8,0	11,0	0,0	11,0	19,0

On 19 July 2004 the Reserve Bank concluded a new three-year syndicated term loan facility amounting to US$1,0 billion. The proceeds of this loan were utilised to partially repay the US$1,25 billion due in respect of a 2001 dual currency syndicated foreign loan, which was payable on 30 July 2004. This transaction had a neutral effect on money-market liquidity as the simultaneous use of the facility and the repayment of the outstanding loan cancelled each other out, with the remaining balance financed through the use of the Bank's foreign currency reserves.

Bond market

Funding by *public-sector borrowers* through the net issuance of fixed-interest securities in the domestic primary bond market amounted to R29,0 billion in the first four months of the fiscal year 2004/05, significantly more than the R18,0 billion raised in the corresponding period of fiscal 2003/04, while net issuance amounted to R31,5 billion in the fiscal year as a whole. During the current fiscal year National Treasury favoured the issuance of longer-dated bonds comprising the R201 (maturing in 2014) at 31 per cent of issuance, followed by the R203 (2017) at 26 per cent, the R194 (2008) at 10 per cent and the R186 (2026) at 8 per cent of the new issues. National Treasury also raised R605 million through the RSA Government Retail Bonds up to the end of August 2004.

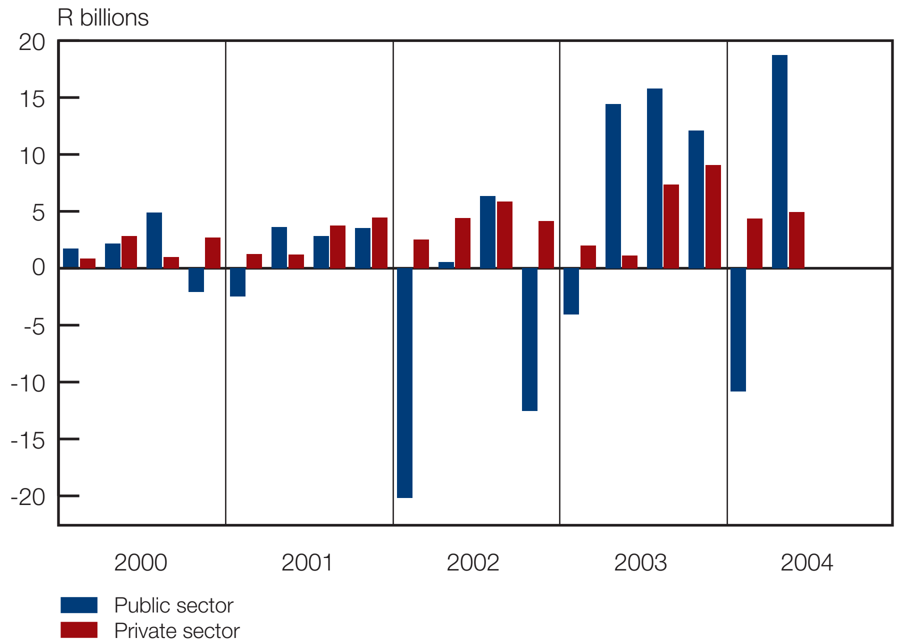
The issuance of stripped bonds, introduced by a private-sector issuer, Stripco, in September 2000, initially grew rapidly after the government entered that market from January 2002. The total outstanding amount of stripped bonds in issue increased from R37 million in September 2000 to a high of R17,0 billion in October 2002. Subsequently, the market lost its lustre and the total outstanding amount of stripped bonds gradually declined to R12,9 billion in August 2004. Stripped bonds involve the listing of the interest and principal components of bonds as separate financial instruments. Government bonds currently used for these purposes are the R153, the R194, the R157 and the R186.

In the February 2004 Budget, the issuance of two new conventional bonds that would lengthen the maturity profile of government debt was announced. The first bond, the R203 maturing in 2017, was issued from May 2004. The second bond, the R204 maturing in 2018, was first issued on 10 August with a small initial offering of R200 million. Low demand through a bid/offer ratio of less than three signalled the market's lack of enthusiasm for new issues in this area of the curve.

A similar lack of demand for *inflation-linked bonds* also resulted in the National Treasury cutting back the normal monthly offering of these bonds. In the first four months of 2004 the National Treasury offered inflation-linked bonds worth R1 billion once a month, but thereafter scaled this down by more than half. In June, inflation-linked bonds to the value of only R385 million were auctioned, followed by R400 million in July and August. Inflation-linked bonds subsequently regained favour and R1 billion were issued early in September. Thus far in the 2004/05 fiscal year, National Treasury raised R3,2 billion through the issuance of inflation-linked bonds, favouring short and medium-term bonds.

Activity in the corporate bond market continued along a rising trend in 2004 as the private sector increasingly sourced funding in the primary bond market. The *outstanding nominal value of private-sector loan stock* listed on the Bond Exchange of South Africa increased from R58,4 billion in December 2003 to R72,2 billion in August 2004. Banks accounted for 40 per cent of the increase of R13,8 billion in the first eight months of 2004. Asset-backed securitisation and collateral debt obligations – mainly vehicle, credit card and mortgage securitisation – accounted for 40 per cent of the issues, while conventional corporate bond issuance accounted for the remaining 20 per cent.

Net issues in the domestic primary bond market



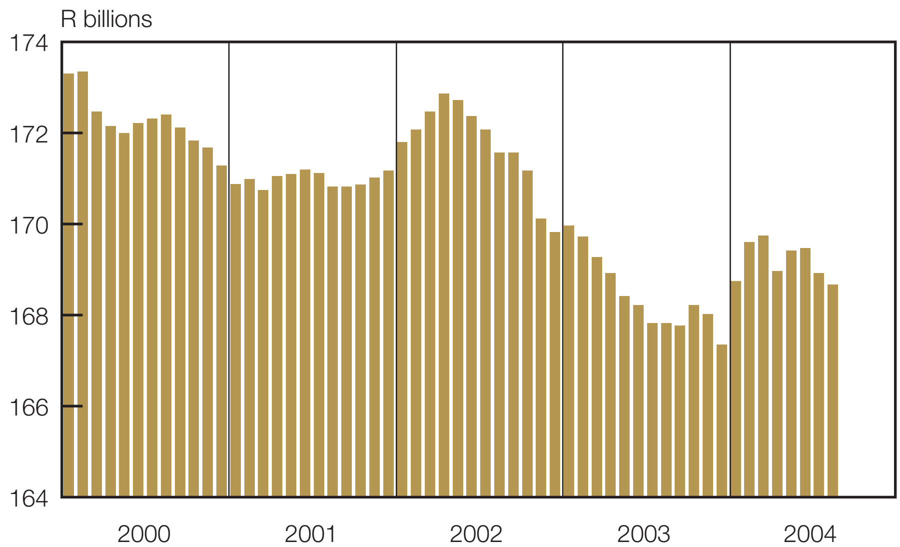
Short-term funding in the form of *asset-backed commercial paper* maintained its momentum and increased by R3,6 billion in the first eight months of 2004 to reach R13,4 billion in August. The number of active conduits in this market amounted to 5 at the end of August.

The government's offshore borrowing programme for the 2004/05 fiscal year was completed with the successful issuance of a US$1 billion ten-year global bond in the *international bond markets* which mobilised funds to the amount of R6,4 billion in June

2004. However, later in June foreign debt was reduced by R2,4 billion when a bond denominated in Japanese yen and issued in 1997 reached maturity. Other public-sector borrowers steered clear of the international bond markets in 2003 and so far in 2004.

Investors' interest in rand-denominated bonds in the *European bond markets* rebounded during 2004. New issues of rand-denominated bonds by non-residents exceeded scheduled redemptions by R1,3 billion during the first eight months of 2004. In 2003 net redemptions amounted to R2,5 billion. A total of 23 issues were made in the first eight months of 2004 compared with only 12 issues in 2003 as a whole. The European Investment Bank (EIB) was responsible for twelve of the issues during 2004.

Outstanding balance of eurorand bonds issued by non-residents



Trading activity on the Bond Exchange of South Africa amounted to R6,4 trillion in the first eight months of 2004, 20 per cent less than the turnover of R8,0 trillion recorded in the corresponding period of 2003. Influenced by rising bond yields, turnover reached a low point in the second quarter of 2004. Subsequently the bond market benefited from the downward movement in bond yields from mid-June and the lowering of the repurchase rate by the Monetary Policy Committee on 13 August 2004. Turnover improved markedly from a low R580 billion in April 2004 to R906 billion in August.

The dissipation of *non-residents'* interest in South African debt securities from the second half of 2003 continued into the first months of 2004. Non-resident transactions in bonds reverted from net purchases of R8,3 billion in the second quarter of 2003 to net sales of R4,7 billion in the second quarter of 2004. Total cumulative net sales of bonds amounted to R2,6 billion in the first eight months of 2004. Non-residents' net purchases of bonds, calculated on a cumulative basis over a rolling twelve-month period, indicate that their interest in the bond market started to wane from December 2002, as bond yields declined. Calculated in this manner their bond transactions changed from cumulative net purchases of R0,3 billion in December 2002 to cumulative net sales of R15,4 billion in June 2004, whereafter the net sales position receded to R8,2 billion in August 2004.

Share market

After slowing down in 2003, the total value of equity capital raised in the domestic and international *primary share markets* by companies listed on the JSE Securities Exchange SA (JSE) increased markedly from early 2004. Equity financing amounted to R36,7 billion in the first eight months of 2004, exceeding the R22,7 billion raised in the year 2003 as a whole. Of the total amount raised, the resources sector accounted for R25,2 billion, mainly the result of the acquisition of complementary businesses by mostly dual-listed companies.

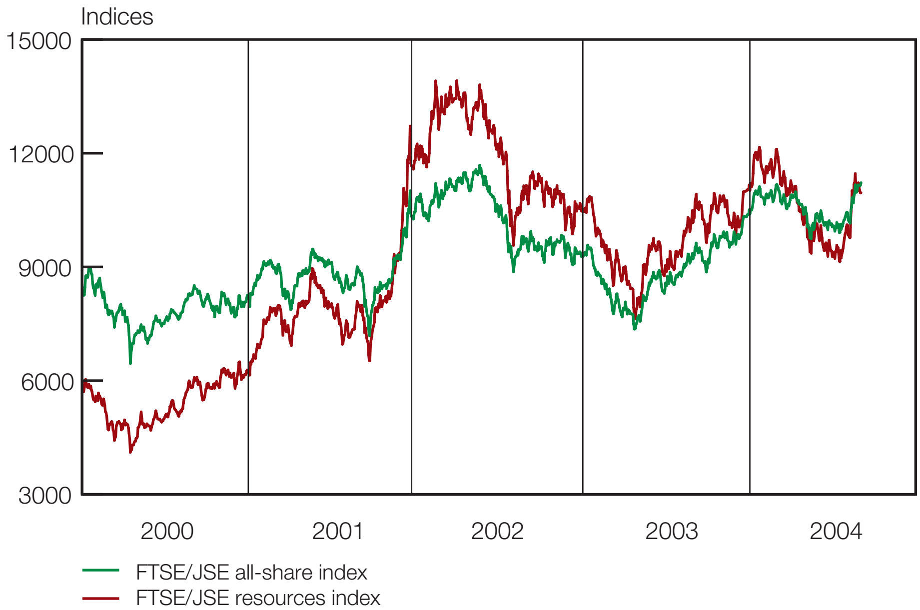
Buoyed by the recovery in share prices from April 2003, turnover in the *secondary share market* improved from R176 billion in the second quarter of 2003 to a record high of R254 billion in the first quarter of 2004. The value of listed shares traded on the JSE contracted somewhat in the subsequent months as the appreciation in the exchange value of the rand and the concomitant decline in overall share prices dampened trading activity. Turnover nonetheless amounted to R647 billion in the eight months to August 2004, an increase of 35 per cent over the R479 billion recorded in the corresponding period of 2003. The market capitalisation of the JSE recovered by 68 per cent from April 2003 to R2 185 billion in August 2004. In July the market capitalisation of the JSE placed it at number 15 in the world league as rated by the World Federation of Exchanges.

The number of companies listed on the Alt^x alternative exchange stood at six at the end of August 2004. After commencing with trading from the end of January 2004 when the first companies listed, the value of shares traded on Alt^x up to August amounted to R8,4 million. By comparison, turnover in the Venture Capital and Development Capital Markets amounted to R22,3 million in the first eight months of 2004, far lower than the R53,2 million traded in the same period of 2003. The JSE initially intended to close the Venture Capital and Development Capital Markets because of the limited success and low liquidity of these markets, but after consultation with interested parties decided to keep them open. The intention is that these companies should eventually apply for transfers to the main board or to the new Alt^x alternative exchange.

Non-residents increased their holdings of shares by R10,1 billion in the first eight months of 2004, compared with net sales of R0,4 billion for 2003 as a whole. In 2004, non-residents recorded net purchases of shares in all the months, with the exception of net sales during March and August. Their net purchases of shares, calculated on a cumulative basis over a rolling twelve-month period, indicate that their interest in the share market started to improve from May 2003 as the share market recovered. Calculated in this manner their share transactions changed from cumulative net sales of R13,0 billion in April 2003 to cumulative net purchases of R11,4 billion in August 2004. However, during this period non-residents' participation in the share market, measured as purchases and sales as a percentage of the total value of shares traded on the JSE, moderated from 23 per cent in June 2003 to 18 per cent in August 2004.

A recovery in world bourses, favourable commodity prices and the more accommodative monetary policy environment resulted in the *daily closing level of the all-share price index* posting a gain of 52 per cent from a recent low on 25 April 2003 to 3 March 2004. Since then the all-share index declined by 11 per cent to 19 July, following the downward trend of international equity markets in the wake of weaker commodity prices, the higher oil price and rising international interest rates. The all-share price index increased by 13 per cent to 10 September when commodity prices once again rose sharply while the exchange rate of the rand depreciated.

Share prices



Buoyed by the improved global economic outlook, rising commodity prices and the depreciation of the exchange value of the rand during December 2003 and January 2004, the monthly average price level of the *resources sector* of the JSE increased by 36 per cent from April 2003 to January 2004. The improvement in global economic activity since the conclusion of the war in Iraq, coupled with the weak US dollar, has contributed to an extended bull market in international commodity prices since mid-2001. The appreciation of the exchange value of the rand, however, moderated the impact of the stronger dollar prices of commodities. Measures introduced by the Chinese authorities to curb the robust economic growth in that country, resulted in a further fall-back in commodity prices. The monthly average price level of resources shares subsequently declined by 21 per cent from January 2004 to July, led by a sharp fall of 38 per cent in the prices of gold-mining shares and 28 per cent in the prices of platinum-mining shares. Higher commodity prices and a weaker rand during August boosted investors' optimism about the future earnings potential of the mining sector, and resources shares subsequently gained some 12 per cent during the month.

The prices of *financial shares* improved markedly from April 2003 and increased by 28 per cent to August 2004 as banking shares benefited from higher levels of consumer and business demand boosted by lower domestic inflation and interest rates. The buoyant residential property market, record vehicle sales and the conclusion of significant empowerment deals in order to fulfil the obligations of the Financial Sector Charter, underpinned investor interest in financial shares.

The prices of *industrial shares* similarly benefited from the lower interest rate environment since June 2003. Many companies in this sector are less exposed to developments in the exchange value of the rand and rely mostly on earnings generated by South African operations. Domestic growth prospects resulted in an increase of 59 per cent in the monthly average price level of industrial shares from April 2003 to August 2004.

The strong rise in share prices during 2003 took the *price-earnings ratio* of all classes of shares from 9,7 in April 2003 to 15,0 in February 2004. The upward movement came to an end in February and the price-earnings ratio declined to 13,2 in July as share prices weakened before improving to 13,5 in August as the share market recovered. The *dividend yield* on all classes of shares also changed course during 2004 and increased from a low of 2,8 per cent in February 2004 to 3,2 per cent in July before declining to 2,9 per cent in August.

Market for derivatives

The stronger exchange value of the rand and fluctuating share prices coincided with sluggishness in the formal market for equity derivative products. The number of *warrants* traded on the JSE fell by 70 per cent from 19,6 billion contracts in 2002 to 5,8 billion contracts in 2003. In the first eight months of 2004 the 4,0 billion contracts traded represented an increase of only 5,5 per cent when compared to the same period in 2003.

By contrast, the total number of *futures and options contracts* traded on the Financial Derivatives Division of the JSE in the first eight months of 2004 was 17 per cent higher than in the corresponding period of 2003. The value of turnover in this market improved noticeably during the course of 2003 – boosted by the recovery in the underlying share market – but stabilised somewhat in the first eight months of 2004.

The prices of agricultural products, which generally declined following the improved supply prospects and the sustained appreciation in the exchange value of the rand, dampened trading in commodity derivative instruments on the Agricultural Products Division of the JSE. Trading in *commodity futures contracts and options* on such contracts declined by 21 per cent from the first eight months of 2003 to the first eight months of 2004. Turnover weakened in July and August even though the prices of agricultural products increased alongside a weaker exchange rate of the rand from the end of July.

Real-estate market

The *real-estate market* remained buoyant so far in 2004. The overall seasonally adjusted value of turnover, measured by *transfer duty paid*, increased by 29 per cent in 2003 and by 57 per cent in the first seven months of 2004 when compared with the same period of 2003.

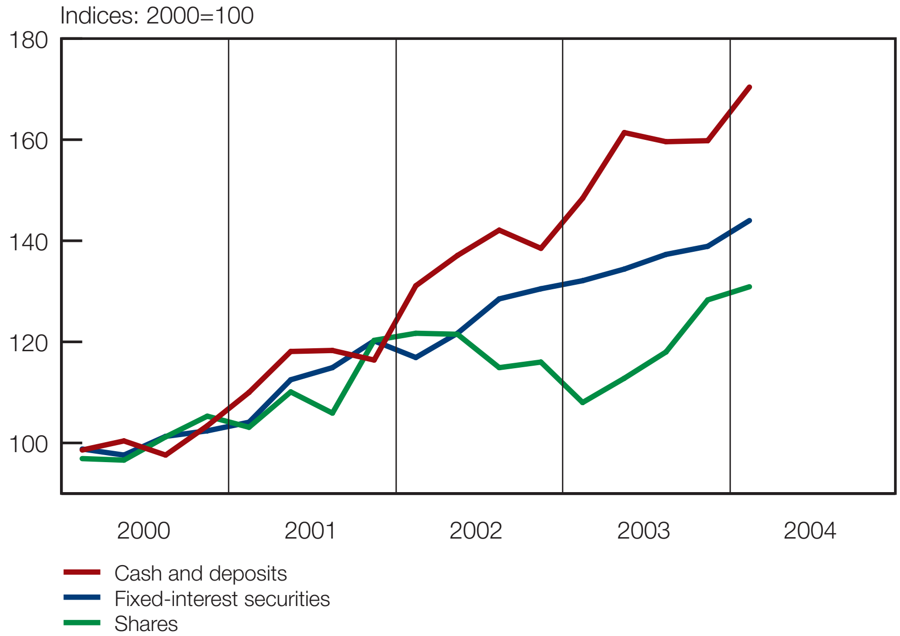
Year-on-year increases in *residential property prices*, as measured by Absa, accelerated almost uninterruptedly from January 2002 and recorded rates of increase of around 25 per cent in the first eight months of 2004. However, the month-on-month rate of increase in house prices receded from February 2004. Demand for residential property is likely to be supported by the recent lowering of the repurchase rate in August.

Non-bank financial intermediaries

In March 2004 the non-bank financial intermediaries, defined as unit trusts, long and short-term insurers, official and private pension and provident funds and financial public enterprises, collectively held over 80 per cent of their total assets in domestic financial instruments. This placed non-bank financial intermediaries among the largest holders of domestic financial instruments. Their other funds are mostly held in the form of physical assets, such as real-estate, and foreign assets.

The non-bank financial intermediaries have, on balance, recently displayed a slight shift in their investment preference. Prompted by fluctuations and uncertainty in the financial markets the non-bank financial institutions adopted a more cautious approach and their holdings of fixed-interest securities and cash and deposits increased. The preference of investors for safer investments is also evident from the rapid growth in money-market unit trusts. The market value of the net assets of these funds more than doubled from R39,0 billion in December 2001 to R87,4 billion in June 2004. Over the same period the market share of money-market funds in relation to the total unit trust industry increased from 23 per cent to 35 per cent.

Non-bank financial intermediaries: Financial assets

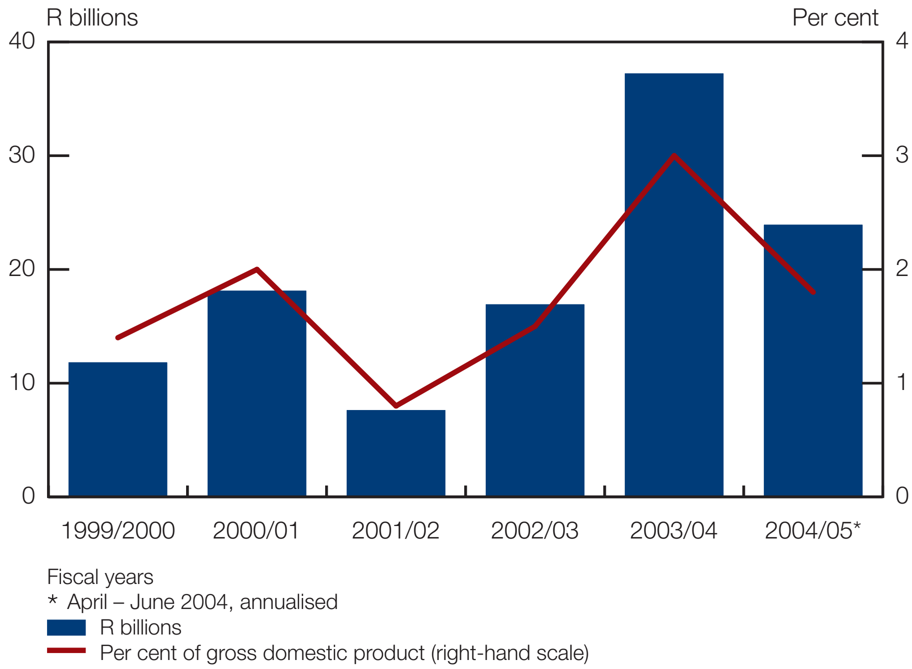


Public finance

Non-financial public-sector borrowing requirement

The *borrowing requirement of the non-financial public sector* (calculated as the cash deficit of the consolidated central government, provincial governments, local governments and non-financial public enterprises and corporations) increased from R1,8 billion in the April-June quarter of 2003 to R6,0 billion in the April-June quarter of 2004, or from 0,6 per cent to 1,8 per cent of gross domestic product. A R7,0 billion capital transfer by the national government to the South African Reserve Bank made a major contribution to the increase in the non-financial public-sector borrowing requirement. This sector's net investment in non-financial assets amounted to R9,6 billion in April – June 2004, compared with an investment amount of R13,4 billion in the corresponding quarter of the previous year.

Non-financial public-sector borrowing requirement

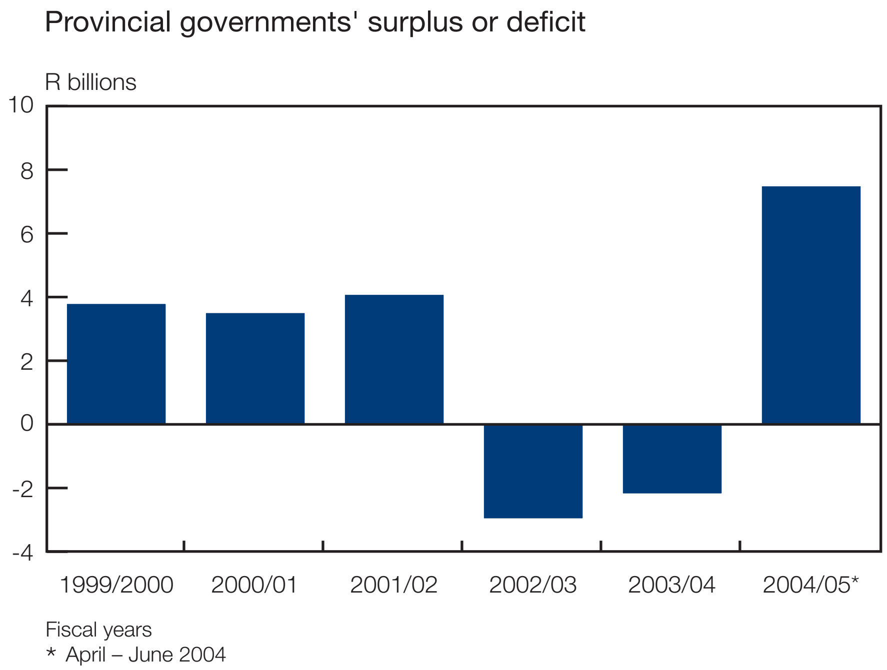


The net cash flow from operating activities exceeded the net investment in non-financial assets of the *non-financial public-sector enterprises and corporations*, resulting in a cash surplus of R2,3 billion in the April-June quarter of 2004 compared with a cash surplus of R2,2 billion in the April-June quarter of the previous fiscal year. Included among the net acquisitions of non-financial assets were new aircraft purchased by the South African Airways.

At the level of *consolidated general government,* there was a cash deficit amounting to R8,3 billion in the April-June quarter of 2004 compared with R4,0 billion in the same period of the previous fiscal year. This increase was essentially due to the operating activities at the level of national government.

An analysis of *national government* finances indicates that cash receipts from operating activities increased by 11,0 per cent in the April-June quarter of 2004 compared with the same period in the previous fiscal year. Cash payments for operating activities of national government increased by 27,9 per cent. Transfers to provincial governments constituted the bulk of those payments. The national government operating activities together with the net investment in non-financial assets resulted in a cash deficit of R17,9 billion in the April-June quarter of 2004 compared with a cash deficit of R5,2 billion recorded in the same period of the previous fiscal year. The cash deficit was financed through the issuance of long-term bonds in the domestic and international capital markets and a reduction in the amount of cash on hand.

The *Statement of revenue, expenditure and borrowing of provincial governments* indicates that the provincial governments recorded a cash surplus of R7,5 billion in the April-June quarter of 2004 compared with a cash surplus of R4,6 billion recorded in the same quarter of the previous fiscal year. Grants received from national government – the main source of provincial governments' cash receipts – amounted to R49,2 billion which was 24,7 per cent higher than in the corresponding period of the previous fiscal year. Growth in cash payments for operating activities amounted to 19,1 per cent, which was consistent with the objective of improving service delivery. Viewed by function, expenditure was for the most part incurred in respect of education, social services and healthcare.



The cash surplus of the provincial governments was largely reflected in an increase in their bank deposits from R8,4 billion at the end of March 2004 to R12,8 billion at the end of June 2004, while their overall indebtedness to banks increased slightly from R3,2 billion to R3,3 billion between these two dates.

The estimated cash deficit of *local governments* in the April-June quarter of 2004 was R1,9 billion, which was lower than the amount of R4,8 billion recorded in the same quarter of the previous fiscal year. The new Municipal Finance Management Act 2003, which deals, *inter alia,* with independent borrowing by local authorities, provided the framework for the issue of marketable bonds to the amount of R2,0 billion in the first quarter of fiscal 2004/05. Preliminary analysis of the data on *extra-budgetary institutions* indicates a cash surplus of R2,4 billion in the April-June quarter of 2004 compared with a cash surplus of R0,1 billion in the same period of the previous fiscal year. During the quarter under review, the activities of *social security funds* resulted in a cash surplus of R1,7 billion compared with a cash surplus of R1,4 billion a year earlier.

Budget comparable analysis of national government finance

National government expenditure in the first quarter of fiscal 2004/05 amounted to R85,5 billion, representing a year-on-year rate of increase of 15,8 per cent. This increase was significantly higher than the 8,1 per cent recorded in the April-June quarter of 2003 and also outpaced the average rate of increase of 7,9 per cent evidenced in the same period of the preceding five fiscal years. The *Budget Review 2004* projected that national government expenditure would increase at a rate of 12,1 per cent to amount to R368,9 billion for the fiscal year 2004/05 as a whole.

For the period under review, interest paid on national government debt amounted to R5,6 billion, representing an increase of 27,0 per cent compared with the corresponding period of the previous fiscal year. This increase could be ascribed to government's restructuring of its domestic bond liabilities: Government bonds with interest payment dates in August were converted to bonds with interest payable in June. The budget estimate indicates that interest payments would increase at a rate of 8,9 per cent for fiscal 2004/05 as a whole.

The equitable share of revenue transferred to provincial governments increased strongly in April – June 2004, growing at a rate of 25,8 per cent compared with the same quarter in 2003. Although the changes in these transfers tend to fluctuate widely, the recent increase is partly due to the increased provision for services delivered by the provincial governments. These transfers to provincial governments amounted to 52,4 per cent of total national government expenditure in the April-June quarter of 2004.

Payments for capital assets amounted to R0,6 billion in the April-June quarter of 2004, or 12,5 per cent more than in the same period of the previous fiscal year. The Budget projected that payments for capital assets would amount to R5,2 billion for fiscal 2004/05 as a whole.

National government revenue in the first quarter of fiscal 2004/05 amounted to R75,4 billion, representing a year-on-year rate of increase of 9,8 per cent. This rate of increase was significantly higher than the rate recorded in the same period of fiscal 2003/04, but still markedly lower than the average growth rate of 14,8 per cent recorded in the same period of the preceding five fiscal years. The *Budget Review 2004* estimated that national government revenue would grow by 9,4 per cent to amount to R327,0 billion for fiscal 2004/05 as a whole.

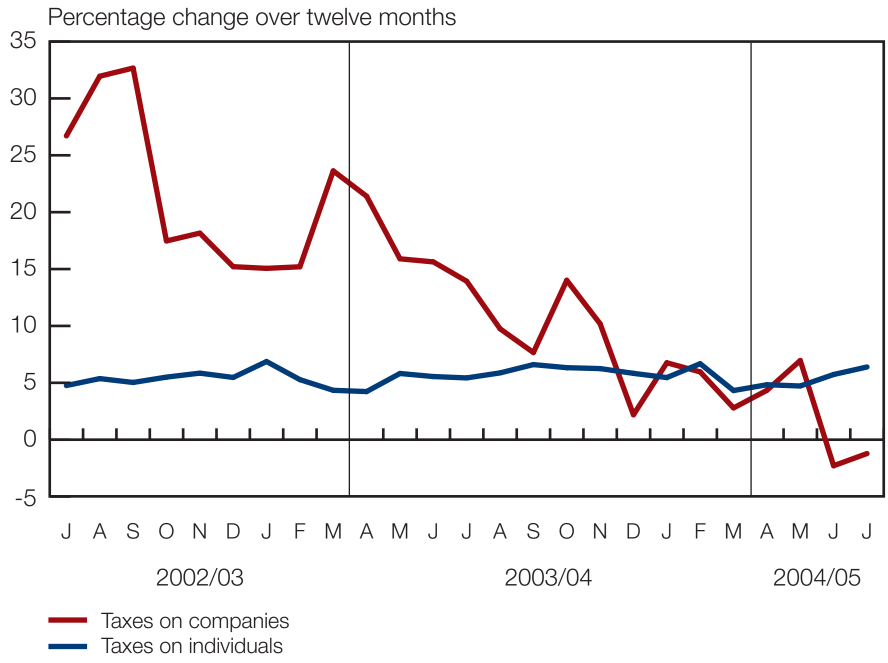
As shown in the table on the opposite page, taxes on income, profits and capital gains showed an increase of 0,8 per cent in the April-June quarter of 2004 compared with the same period a year earlier. This slight increase was mainly as a result of a decline in corporate income tax collections, which could partly be ascribed to the effects of the strengthening of the exchange rate of the rand on corporate profits. The recovery in the exchange rate of the rand also contributed to lower collections of taxes on international trade and transactions. All major components of domestic taxes on goods and services recorded strong growth rates; the largest, i.e. value-added tax collections, reflected the buoyancy in consumer spending. The *Budget Review 2004* provided for a sharp increase in transfers to the Southern African Customs Union (SACU) partners – Botswana, Lesotho, Namibia and Swaziland – which came into effect from the April-June quarter of 2004, thereby detracting from national government revenue.

National government revenue in fiscal 2004/05

Revenue source	R billions Originally budgeted	R billions Actual Apr – Jun	Percentage change*
Taxes on income, profits and capital gains...........	189,2	43,0	0,8
Payroll taxes	4,3	1,0	16,5
Taxes on property	6,9	2,1	50,7
Domestic taxes on goods and services	121,5	28,9	30,5
Taxes on international trade and transactions	10,5	2,6	-1,3
Other revenue	7,9	1,2	-17,8
Less: SACU payments..	13,3	3,3	37,1
Total revenue...	327,0	75,4	9,8

* April – June 2003 to April – June 2004

Twelve-month moving average of national government revenue



After taking into account cash-flow adjustments due to timing differences between the recording of transactions and bank clearances, national government's cash revenue amounted to R74,1 billion in the first quarter of fiscal 2004/05, representing an increase of 7,5 per cent compared with the same period of the previous fiscal year.

The net result of national government revenue and expenditure in the April-June quarter of 2004 was a deficit before borrowing and debt repayment of R10,1 billion, which was almost double the deficit recorded in the same period of the previous fiscal year. As a ratio of gross domestic product, this cumulative deficit amounted to 3,1 per cent in the first three months of fiscal 2004/05 compared with 1,7 per cent in the same quarter of fiscal 2003/04. For the period under review, the cash-flow deficit amounted to R11,7 billion.

During April 2004 government issued R7,0 billion in zero-coupon bonds to the Reserve Bank to defray the costs associated with the losses on the Gold and Foreign Exchange Contingency Reserve Account. These bonds were subsequently converted into interest-bearing bonds. During the first quarter of fiscal 2004/05 national government also incurred costs related to the revaluation of maturing foreign loans at redemption. After taking these extraordinary items into account, the net borrowing requirement amounted to R19,5 billion. The *Budget Review 2004* indicated that the cost of revaluation of foreign loans at redemption would amount to R2,2 billion, while extraordinary receipts – mainly funds obtained from the restructuring of state-owned enterprises – would generate R2,7 billion towards the financing of national government in fiscal 2004/05.

National government financing in fiscal 2004/05
R billions

Instrument	Originally budgeted 2004/05	Actual Apr – Jun 2004
Deficit	**41,9**	**11,7***
Plus: Extraordinary payments	7,0	7,0
Cost/profit on revaluation of foreign loans at redemption**	2,2	0,8
Less: Extraordinary receipts	2,7	0,0
Net borrowing requirement	**48,4**	**19,5**
Treasury bills	6,0	0,0
Domestic government bonds	34,3	17,7
Foreign loans	8,1	5,9
Change in available cash balances ***	0,0	-4,1
Total net financing	**48,4**	**19,5**

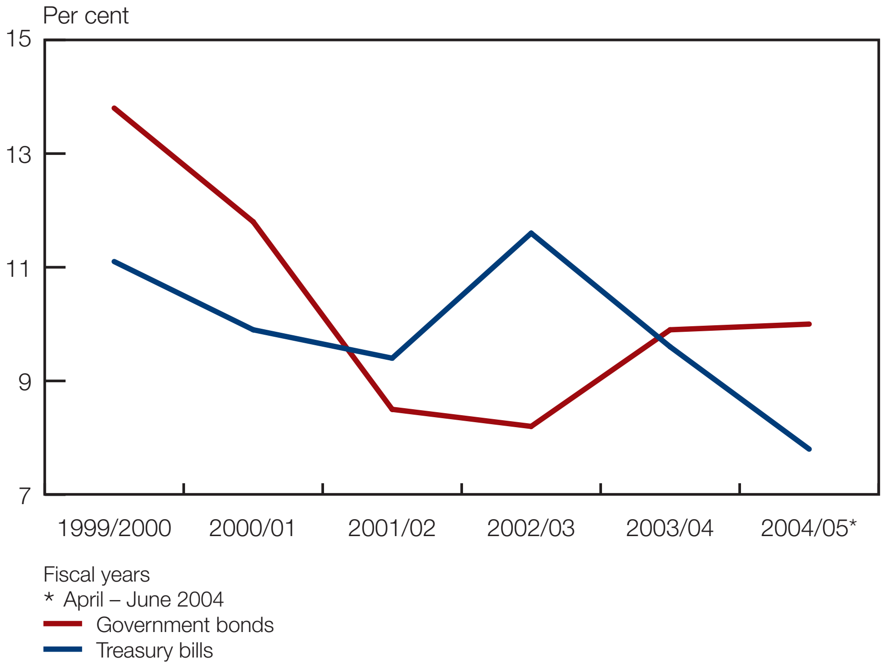
* Cash-flow deficit
** Cost +, profit -
*** Increase -, decrease +

As indicated in the accompanying table, the net borrowing requirement of the national government in the April-June quarter of 2004 was financed mainly through the issuance of long-term bonds in the domestic capital market. Net receipts from government bonds issued in the domestic capital market amounted to R17,7 billion during the April-June quarter of 2004. Long-term fixed-interest bonds were issued at an average rate of 10,0 per cent, and short-term bills at an average rate of 7,8 per cent. In May 2004, the National Treasury launched the RSA Government Retail Bond; these bonds raised R197 million in May – June 2004.

In June 2004, the National Treasury issued a 10-year global bond to the amount of US$1 billion, carrying a coupon rate of 6,5 per cent per annum. This bond yielded R6,4 billion to the National Revenue Fund. The average outstanding maturity of government's foreign bonds lengthened from 79 months at the end of March 2004 to 84 months at the end of June 2004. In the first quarter of fiscal 2004/05, an amount of R1,3 billion was also drawn on foreign export credit facilities for the financing of the strategic defence procurement programme.

These funding activities resulted in an increase of R4,1 billion in government cash balances in the April-June quarter of 2004, bringing the cash balances to R16,7 billion at the end of June.

Average interest rate on government bonds and Treasury bills



Total national government debt rose from R473,0 billion at the end of March 2004 to R487,7 billion at the end of June 2004 due to both domestic and foreign issues of debt instruments. Foreign debt amounted to 14,3 per cent of the total national government loan debt at the end of June 2004 compared with 17,4 per cent at the end of March 2003. The value in rand of foreign-currency denominated debt declined as a consequence of the recovery in the exchange rate of the rand. Along with the redemption of certain foreign debt commitments, this contributed to the decline of the relative share of foreign debt in total national government debt.

As a ratio of gross domestic product, total national government debt amounted to 38,8 per cent at the end of June 2004 compared with 38,4 per cent at the end of March 2004. Foreign debt as ratio of gross domestic product increased slightly from 5,2 per cent at the end of March 2004 to 5,4 per cent at the end of June 2004.

National government finance in July 2004

National government expenditure in July 2004 amounted to R26,6 billion, bringing the cumulative expenditure in the first four months of fiscal 2004/05 to R112,1 billion which was 12,9 per cent more than in the same period of the previous fiscal year. The cash-flow adjusted expenditure for the first four months of fiscal 2004/05 amounted to R112,4 billion which was 14,2 per cent more than in the corresponding period of the previous fiscal year.

National government revenue amounted to R21,6 billion in July 2004 and to R97,0 billion in the first four months of fiscal 2004/05, representing a year-on-year rate of increase of 8,4 per cent. After the usual adjustment for cash flows, revenue amounted to R96,4 billion in the first four months of fiscal 2004/05, which was 7,5 per cent more than in the corresponding period of fiscal 2003/04.

The net result of the national government's revenue and expenditure in the first four months of fiscal 2004/05 was a deficit of R15,1 billion compared with R9,8 billion in the same period of the previous fiscal year. The deficit before borrowing and debt repayment, adjusted for cash flows, amounted to R16,0 billion. After taking into account the extraordinary receipts and payments, this resulted in a net borrowing requirement of R23,9 billion which was mainly financed by issuing government bonds in the domestic capital market.

Financing of the deficit of national government

R billions

Instrument	Fiscal 2004/05 Originally budgeted	Actual Apr – Jul 2004
Deficit	**41,9**	**16,0***
Plus: Extraordinary payments	7,0	7,1
Cost/profit on revaluation of foreign loans at redemption**	2,2	0,8
Less: Extraordinary receipts	2,7	0,0
Net borrowing requirement	**48,4**	**23,9**
Treasury bills	6,0	0,0
Domestic government bonds	34,3	21,9
Foreign loans	8,1	7,4
Change in available cash balances ***	0,0	-5,4
Total net financing	**48,4**	**23,9**

* Cash-flow deficit
** Cost +, profit -
*** Increase -, decrease +

Statement of the Monetary Policy Committee

12 August 2004

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

Introduction

The inflation outcome during the first six months of 2004 was more favourable than had been thought to be the case at the previous meeting of the Monetary Policy Committee. The actual year-on-year increases in the consumer price index in metropolitan and other urban areas when mortgage cost is excluded (CPIX) was much better than forecast. The lower base, combined with the recent rise in the value of the rand, has resulted in a lower projection for CPIX inflation in the next two years. Although CPIX inflation is still expected to rise over the forecast period, it will probably not breach the upper 6-per-cent level of the target range, as previously concluded, provided that the assumptions made in the projection are not too wide off the mark. These results are expected to be achieved in combination with robust growth rates in domestic production as well as demand.

The inflation outcome

The twelve-month rate of increase in the CPIX rose from 4,0 per cent in December 2003 to 4,8 per cent in February 2004, before slowing down to 4,4 per cent in March and remaining at that level for the next two months. In June 2004 CPIX inflation rose to 5,0 per cent mainly due to increases in petrol and diesel prices. This was probably a temporary spike in CPIX inflation because the prices of petrol and diesel were reduced in the next two months. If changes in petrol and diesel prices are excluded from the CPIX, the year-on-year rate of increase in the prices of other consumer goods and services continued to slow down from 4,9 per cent in February 2004 to 4,0 per cent in June. CPIX inflation has now been within the inflation target range for a period of ten consecutive months.

Measured from quarter to quarter at seasonally adjusted and annualised rates, CPIX inflation declined from 7,2 per cent in the first quarter of 2004 to 5,2 per cent in the second quarter. The deceleration in CPIX inflation was discernible in most of the main categories of consumer goods and services and the prices of certain products actually declined, such as those of clothing and footwear, food and soft drinks, and of new and used vehicles.

In contrast to these developments, the running cost of vehicles, and the prices of water, education and alcoholic drinks and tobacco rose at quarterly annualised rates in excess of 10 per cent. The rates of increase over twelve months in the prices of these goods and services and in the cost of medical services were also still well above the upper limit of the inflation target range. These high increases were largely due to changes in administered prices and indirect taxes. However, recent announcements by the government indicate a greater determination to moderate increases in administered prices as part of the co-ordination of policies to achieve the objective of price stability.

The all-goods production price index declined in the second half of 2003 to a lower level in January 2004 owing to a decline in the prices of imported goods and relatively low rates of increase in the prices of domestically produced goods. From February 2004 this index started to move upwards, with the result that the all-goods production price inflation measured over twelve months became positive in May and amounted to 1,3 per cent in June. The quarter-to-quarter rate of increase in production prices, seasonally adjusted and annualised, rose from 0,2 per cent in the first quarter of 2004 to 4,7 per cent in the second quarter. These recent increases in production prices are consistent with the expected rise in consumer prices in the coming months since consumer prices normally react to changes in the prices charged by producers with a time lag.

The favourable inflation outcome was at first achieved with slower growth in the domestic economy. Growth in real gross domestic product deteriorated in 2003 and averaged only 2 per cent for the year as a whole. Production volumes were affected by a hesitant global economic recovery, a deterioration in the international price competitiveness of domestic manufacturers and a decline in agricultural output. In the latter part of 2003 growth started to gather momentum and in the first quarter of 2004 amounted to a seasonally adjusted annualised rate of 3 per cent in reaction to a more accommodative monetary and fiscal policy stance, stronger global growth and increased business and consumer confidence. Data, such as manufacturing and mining output, wholesale and retail trade volumes and the number of new vehicles sold, indicate that the economy continued to grow briskly in the second quarter of the year.

The inflation outlook

As already indicated, the inflation outlook is generally promising and CPIX inflation is expected to stay within the inflation target range over the next two years, but it could move close to the upper boundary of the target range in the second half of 2005. One of the main factors responsible for the recent and expected future low inflation is the decline in import prices, brought about by the further rise in the external value of the rand and low global inflation. Import price inflation, measured over periods of twelve months, has been negative since April 2003, or for a period of fifteen months.

South African import prices will be influenced, in the first instance, by global inflation. As could be expected with the significant increase that has been experienced in international commodity prices since the beginning of 2002, consumer price inflation has started to rise in most of the major industrialised economies. For example, year-on-year core inflation in the United States of America increased from 1,1 per cent in January 2004 to 1,9 per cent in June, and the corresponding rate of increase in the harmonised index of consumer prices in the euro area rose from 1,6 per cent in February 2004 to 2,4 per cent in June. These increases are, however, coming from low levels. A marked acceleration in global inflation to high levels is not foreseen, particularly because of the continued strong productivity growth in some of these countries combined with a tightening in the monetary policy stance.

Import price inflation is also dependent, in the second instance, on the external value of the rand. Having recovered during 2002 and 2003 from the sharp fall in the latter part of 2001, the nominal effective exchange rate of the rand increased by a further 9 per cent until the end of July 2004. This sharp rise in the average exchange rate of the rand has distorted the planning of many enterprises in the country and has had a serious negative impact on international price competitiveness with the resultant stress being witnessed in the export earnings of manufacturing and mining companies. At the same time, the exchange rate of the rand has also contributed to lower imported inflation and, looking forward, to a lower prospective profile of CPIX inflation within the target range.

Currency markets are unpredictable and so is the future performance of the exchange rate of the rand, which is, among other things, subject to balance of payments developments. South Africa's international trade balance has declined from a surplus at a seasonally adjusted annualised rate of about R30 billion in the second quarter of 2003 to nearly R15 billion in the first quarter of 2004 and a deficit of R5,5 billion in the second quarter. However, if special factors affecting the trade balance are excluded, such as purchases of commercial aircraft and military equipment, the trade balance has remained broadly unchanged over the past three quarters. Moreover, the turnaround to a negative overall trade balance did not affect the exchange rate of the rand because it was easily financed by an inflow of capital. The future external value of the rand might depend to a large extent on the behaviour of these financial inflows.

Concern about the influence of another exogenous factor, food prices, has dissipated somewhat. At the beginning of 2004 the Monetary Policy Committee noted the severe drought in many parts of the country, combined with the rise in global food prices. Widespread rains in the summer-rainfall area led to upward revisions of crop estimates, and shortages of maize and other grains should not negatively affect agricultural prices. Despite the heavy rains in the winter-rainfall areas, evidence suggests that some parts are still in the grip of a drought. The recent reversal in global food prices should alleviate pressures that could arise from poor agricultural conditions.

An important positive development on the inflation front has been the declining trend of inflation expectations in the country. This is clearly illustrated by the Survey of Inflation Expectations of The Bureau for Economic Research at the University of Stellenbosch undertaken on behalf of the Reserve Bank in the second quarter of 2004. According to this survey, CPIX inflation expectations have declined continuously. In contrast to this, the break-even inflation rate calculated as the difference between the nominal yield on government bonds and the real yield on inflation-linked bonds within the five-to-nine-year maturity range, has increased in 2004. This approximation of long-term inflation rose from a low of 4,8 per cent in December 2003 to 6,1 per cent in May 2004, before recently declining to 5,6 per cent in July.

A number of other factors support a positive inflation outlook. These include the low levels of utilisation of manufacturing production capacity, continued fiscal prudence and more restraint in administered price increases. In addition, the twelve-month growth in total loans and advances extended by banks to the domestic private sector declined from a peak of 12,6 per cent in February 2004 to 8,9 per cent in June. However, part of this lower growth is due to disintermediation as the corporate sector is funding capital outlays and other expenditure to an increasing extent outside the banking sector.

The most important risks over the short term to this positive inflation outlook are probably global imbalances, exchange rate movements and increases in international oil prices. In particular, the rise in oil prices presents a major threat to inflation over the short term. Brent crude oil prices have increased from levels of around US$24 per barrel in May 2003 to almost US$40 per barrel in May 2004. This rise in international oil prices reflected mainly ongoing geopolitical tensions in the Middle East and a strong demand for oil in the United States and China. Although oil prices declined somewhat in June 2004 to levels of around US$34 per barrel when the OPEC countries stated that they would increase production, this did not last long and at present oil prices are fluctuating around levels of US$42 per barrel. Such high prices will not only have an impact on inflation, but could also neutralise to some extent the recent improvements in the global economy as well as South Africa's terms of trade and growth.

Over the longer term, the current growth in nominal unit labour cost could be a significant threat to low inflation as well. This growth in nominal unit labour cost rose from an average of 5,0 per cent in 2003 to a year-on-year rate of 5,9 per cent in the first quarter of 2004.

Another development which could have an impact on inflation over the long term is the higher rate of increase in domestic demand reflecting the reduction in interest rates, rising real disposable income and the higher priority assigned to infrastructural development. National accounts statistics are not yet available for the second quarter of 2004, but available indicators, such as retail sales, signal that domestic demand continued to increase rapidly in this quarter.

Growth in the money supply also remained relatively brisk, while the income velocity of circulation reached historically low levels in the first half of 2004. The twelve-month growth rate in the broadly-defined money supply (M3) increased from 12,3 per cent in December 2003 to 14,9 per cent in February 2004, before declining to 12,1 per cent in June. Moreover, it was mainly the growth in the transaction demand for money that was responsible for the high rates of increase in M3 during the first half of 2004.

Monetary policy stance

Against this background, the Monetary Policy Committee took note of the moderate improvement in the outlook for inflation noted above, and came to the conclusion that it would be appropriate and prudent to lower the repo rate by 50 basis points to 7,5 per cent per annum with effect from Friday 13th of August 2004. The Committee will continue to monitor the various factors that impact on inflation and will accordingly make any future decisions based on the inflation outlook.

The integrated economic accounts of South Africa

by H Smith and National Accounts Division[1]

Introduction

The System of National Accounts (SNA) is a set of guidelines that provides a comprehensive conceptual and accounting framework for compiling a macroeconomic database suitable for analysing and evaluating economic performance. The latest version of the SNA, released in 1993, describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules. The detailed *integrated economic accounts* (IEA) introduced by the 1993 SNA are at the centre of the accounting framework.

The flows and stocks in the economy are recorded in the IEA in an ordered set of accounts describing the economic process from the generation of income, through distribution and redistribution and finally to accumulation in the form of assets. The structured recording of transactions summarises the activities of industries, institutional sectors and the economy as a whole.

This article presents estimates of a set of integrated economic accounts, capturing the transactions and flows in the South African economy. The second section discusses the conceptual framework of the IEA. The third section presents an overview of the relationships of transactions between the various accounts. The expansion of the South African national accounts is discussed in the fourth section and the last section contains some concluding observations.

Conceptual framework

The basic framework of the 1993 SNA is a set of classifications of units (economic agents), of flows and stocks (actions and objects) and of purposes into different categories. All these categories are recorded in an accounting framework, partly using rules and procedures from business accounting and partly principles of valuation and recording based on economic theory. Institutional units are grouped into five main institutional sectors on the basis of their principal functions, behaviour and objectives. These institutional sectors are:
- non-financial corporations;
- financial corporations;
- general government, including social security funds;
- households; and
- non-profit institutions serving households (NPISHs).

In order to judge the economic behaviour of resident units, it is necessary to record all transactions between resident and non-resident units. These transactions are grouped together in the "rest of the world" accounts. From an accounting point of view it is convenient to describe the rest of the world as if it were an institutional sector.

Economic actions and the effects of such actions are reflected by the SNA as flows and stocks. Flows are recorded over a certain period of time, usually an accounting period of one year or one quarter. Stocks are recorded at a certain point in time, at the beginning and at the end of the accounting period.

1 Ms K Kuhn and Mr Z B Jansen compiled the statistical tables with assistance from Ms T H Mantshimuli, Head: National Accounts Division and members of the division. Staff members who contributed to the compilation of specific components of the IEA are: Production and generation of income accounts – Z B Jansen, H Wagner and K Kuhn; Final consumption expenditure by households – A M Stols; Gross fixed capital formation and change in inventories – P T Seepi, T Ntsheke and N N Molemoeng; General government transactions – E Botes and M Swanepoel; Transactions by incorporated business enterprises – Z B Jansen, K Kuhn and R Willemse; Transactions by households – Z B Jansen and K Kuhn; and Transactions with the rest of the world – Balance of Payments Division.

Economic flows reflect the creation, transformation, exchange, transfer or extinction of economic value. Two categories of flows are distinguished, i.e. transactions and “other” flows. Transactions are flows that result from the interaction of institutional units. “Other” flows occur in the accumulation accounts. They include the consumption of fixed capital, revaluation of assets and liabilities, economic appearance and disappearance of assets, natural growth of non-cultivated biological assets, uncompensated seizure, and catastrophic losses of assets.

Transactions and “other” flows are classified in the IEA into four types of economic flows, namely transactions in goods and services (P), distributive transactions (D), transactions in financial instruments (F) and other accumulation entries (K).

Transactions in goods and services describe the supply of products (domestic output and imports) and the use of products (intermediate consumption, final consumption, capital formation and exports).

Distributive transactions comprise transactions of which the income generated in production (value added) is distributed as compensation of employees, taxes on production and imports (less subsidies) and property income to different institutional sectors and the rest of the world. It also includes transactions by which income is redistributed as transfers between institutional sectors and the rest of the world. Transactions in financial instruments include the acquisition and disposal of financial assets and the net incurrence of financial liabilities. Other accumulation entries coincide with “other” flows.

Stocks are a position in, or holdings of assets and liabilities at a point in time. They are subject to ownership rights and must be used in some kind of economic activity. Durable consumer goods, and natural resources that are not owned, are excluded. Stocks are classified in two main categories, namely non-financial assets (produced and non-produced) and financial assets or liabilities.

Sequence of accounts

The transactions of specific groups of institutional units in the economy are summarised in a set of economic accounts, showing how income is distributed and redistributed, and how saving is used to add to wealth through investment in fixed or financial assets.

The full sequence of accounts of institutional sectors, the “rest of the world” accounts as well as the “goods and services” account gives a comprehensive picture of the whole economy. The sequence of accounts for the institutional sectors and the “rest of the world” accounts contains three types of accounts, namely current accounts, accumulation accounts and balance sheets.

Although it is necessary to present the accounts in a particular order, the activities they describe should not be interpreted as occurring sequentially in time. For example, processes of production generate income continuously, while expenditure on the outputs produced may also occure more or less simultaneously.

Table 1 provides a list of the integrated accounts with an indication of the main aggregates and the balancing item of each account. The current accounts record the production of goods and services, the generation of income through production, the subsequent distribution and redistribution of income among institutional units, and the use of income for the purpose of consumption or saving.

Table 1 Summary of the 1993 SNA integrated economic accounts

	Accounts	Balancing items and aggregates
	Current accounts (Account I and II)	
I	Production account	Gross domestic product (GDP) for the economy and gross value added for the sectors
II	Distribution and use of income accounts	
II.1	Primary distribution of income account	
I.1.1	Generation and allocation of income account	Compensation of employees, taxes less subsidies on production and imports, and operating surplus
II.1.2	Allocation of primary income account	Property income received and paid (interest and dividends), and gross national income (GNI) for the economy
II.2/3	Secondary distribution of income account	Taxes on income and wealth, current transfers, social contributions and benefits, and gross disposable income (GDI)
II.4	Use of income account	Consumption, saving, and current external balance
	Accumulation accounts (Account III)	
III.1	Capital account	Gross fixed capital formation, capital transfers, change in inventories, and net lending or borrowing
III.2	Financial account	Net acquisition of financial assets, net incurrence of liabilities, and net lending or borrowing
III.3	Other changes in assets account	Catastrophic losses, uncompensated seizures, economic appearance and disappearance of assets, holding (capital) gains and losses, and changes in net worth due to these factors
	Balance sheets (Account IV)	
IV.1	Opening balance sheet	Non-financial assets, financial assets, liabilities, and net worth
IV.2	Changes in balance sheet	Changes in net worth reflected in accumulation accounts
IV.3	Closing balance sheet	Non-financial assets, financial assets, liabilities, and net worth
	Rest of the world accounts (Account V)	
	Current accounts	
V.I	External account of goods and services	External balance of goods and services
V.II	External account of primary income and current transfers	Current external balance
	Accumulation accounts	
V.III.1	External capital account	Net lending/borrowing of the nation
V.III.2	External financial account	Net lending/borrowing of the nation
V.III.3	External account for other changes in assets	Changes in net worth
	Balance sheets	
V.IV.1	External opening balance sheet	Net external financial position of the nation
V.IV.2	External changes in balance sheet	Changes in net external financial position of the nation
V.IV.3	External closing balance sheet	Net external financial position of the nation
	Transaction accounts	
0	Goods and services account	

The accumulation accounts cover changes in assets, liabilities and net worth that occur as a result of transactions between institutional units, other changes in the volume of assets and liabilities (such as the discovery and depletion of subsoil assets, and destruction of assets by natural disaster or war) and changes in prices (revaluation of assets and liabilities).

The balance sheets show the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of an accounting period.

The SNA does not require that accounts be compiled for economic activities by resident units conducted in the rest of the world. However, in order to judge the economic behaviour of resident units, it is necessary to record all transactions between resident and non-resident units. These transactions are grouped together in the "rest of the world" accounts.

Current accounts

The current accounts (Accounts I and II) deal firstly with production and secondly with the generation, distribution and use of income. These are current transactions that either increase (resources) or decrease (uses) the economic value of a unit, sector or the whole economy. Saving is the difference between all resources and uses. It represents the changes in net worth resulting from current transactions. Resources and uses are distinguished for each account and the opening balance for each account, shown as a resource, is the balancing item of the previous account.

"Balancing item" is a term used to describe those entries in any specific account that cannot be measured independently of the other entries in that account. The end result of the current accounts is the balancing item of the "use of income" account, which is also equal to saving – i.e. that part of income originating in production that is not used for final consumption. These accounts are normally compiled separately for the institutional sectors of the economy. The "production" and "generation of income" accounts can also be compiled for various industries.

Accumulation accounts

These accounts show changes in assets, liabilities and net worth. They are flow accounts that record the acquisition and disposal of financial and non-financial assets and liabilities by institutional units through transactions or as a result of other events in the "capital" account, the "financial" account and the "other changes in assets" account.

The capital account records acquisitions and disposals of non-financial assets as a result of transactions with other units or internal bookkeeping transactions linked to production (change in inventories and consumption of fixed capital). The financial account records acquisitions, and disposals of financial assets and liabilities, through transactions.

The third account, the "other changes in assets" account, consists of two subaccounts. The first, the "other changes in volume of assets" account, records changes in the amounts of the assets and liabilities held by institutional units or sectors as a result of factors other than transactions, such as the destruction of fixed assets by natural disasters. The second, the "revaluation" account, records those changes in the values of assets and liabilities as a result of changes in their prices.

The balancing item "saving" provides the link between the accumulation accounts and the current accounts. Saving is disposable income not spent on the consumption of goods or services that is used to acquire financial or non-financial assets of one kind or another. When saving is negative, disposal of assets or incurring of liabilities must finance the excess of consumption over disposable income. The "financial" account shows the way in which funds are channelled from one institutional sector to another through the intermediation of financial institutions.

Balance sheets

Balance sheets contain stocks of all assets at the beginning of the period – the opening balance sheet (Account IV.1), and at the end of the period – the closing balance sheet (Account IV.3). The balancing item "net worth" is defined as the value of the assets owned less the value of all outstanding liabilities. Changes in net worth are reflected in changes in balance sheet totals (Account IV.2).

The values of assets and liabilities at any moment in time change whenever any transactions, price changes or other changes affecting the volume of assets or liabilities occur. These are all recorded in one of the accumulation accounts so that the difference between the values in the opening and closing balance sheets is entirely accounted for within the system, provided that the assets and liabilities recorded in the balance sheets are valued consistently with the transactions and other changes. Both opening and closing balance sheets are presented. The accumulation accounts list the sources of the difference between the two balance sheets.

Rest of the world accounts

All transactions between resident institutional units of the total economy and transactions with non-resident units from the rest of the world are grouped together in the "rest of the world" accounts. The transactions are recorded in current accounts, accumulation accounts and balance sheets.

Goods and services account

The integrated economic accounts provide information for the calculation of the gross domestic product according to the production, income and demand (expenditure) methods. The latter can best be illustrated in the "goods and services" account (Account 0). This account, which is a transactions account, gives a global balance of transactions in goods and services. It indicates the total resources in terms of output and imports for the economy as a whole, and the use of goods and services in terms of intermediate consumption, final consumption, gross capital formation and exports.

Expansion of the South African national accounts

The South African Reserve Bank and Statistics South Africa jointly implemented the 1993 SNA in 1999. The results were published in a supplement to the South African Reserve Bank *Quarterly Bulletin*, June 1999, titled *South Africa's national accounts 1946 – 1998: An overview of sources and methods.* Statistics South Africa published the revisions to the gross domestic product data in *Statistical Release P0441 – Gross Domestic Product, Revised estimates 1993 – 1998* and *First quarter 1999.*

South Africa's national accounts are generally consistent with the principal guidelines and recommendations contained in the 1993 SNA. However, there are a number of areas where they do not fully adhere to the SNA specifications. In general, the differences are encountered where data limitations prevent the SNA recommendations from being adopted, or where an alternative treatment is considered more appropriate because of specific South African circumstances. In addition, the degree of disaggregation, or in some cases aggregation of sectors or activities, corresponds with particular economic and statistical realities.

Since the first release of the South African national accounts estimates according to the 1993 SNA, research into the expansion of the scope of the country's national accounts has continued. As an extension of the implementation of the 1993 SNA, Statistics South Africa compiled and published supply and use tables and a social accounting matrix for South Africa.

The compilation of integrated economic accounts for South Africa in the format and level of detail shown below is a further step in expanding the scope of the South African national accounts. Until now only the income and distribution accounts for the total corporate sector, households and general government were available. The institutional sectors are now disaggregated, resulting in the following sectors:

- Non-financial corporations.
- Financial corporations.
- General government.
- Households (including non-profit institutions serving households).
- The rest of the world.

In order to do the above compilation, some data limitations with regard to the disaggregation into institutional sectors had to be addressed. Of particular importance were the components of the "production" and "generation of income" accounts, social contributions and benefits, certain current transfers, and property income received and paid.

The institutional sector classification of the "production" and "generation of income" accounts and the "capital" account was mainly based on ratios of the ownership of establishments reported to Statistics South Africa in various surveys and censuses. Additional information from surveys conducted by the South African Reserve Bank among financial intermediaries was analysed to improve the institutional classification of social contributions and benefits, current transfers, and property income received and paid.

Among the most noteworthy changes are the following:

- A clear disaggregation of output, intermediate consumption and value added at basic prices for the institutional sectors.
- The flow of compensation of employees, operating surpluses as well as taxes and subsidies between the institutional sectors.
- The disaggregation of property income, comprising property income attributable to insurance policy holders as well as dividend, interest and rent payments and receipts between the institutional sectors.
- Detail that highlights the distribution of social benefits and other current transfers such as non-life insurance claims. In addition, there is also information on employers' and employees' social contributions.
- A separation of gross fixed capital formation, consumption of fixed capital, change in inventories and net lending or borrowing between institutional sectors.
- A table that shows the relationship between the rest of the world transactions (i.e. balance of payments) and the national accounts.

The compilation of South Africa's national accounts according to the principles of the IEA is illustrated in the set of statistical tables. The first statistical table shows the IEA in a matrix format from the production account to the financial account for the year 1995. The rows represent the economic flows and the columns the institutional sectors. Information is currently not available to compile the "other changes in assets" account (Account III.3) and balance sheets (Account IV).

Tables 2 to 7 contain time series data of individual institutional sector accounts from 1995 to 2002. Table 8 is the "goods and services" account that presents a global balance of transactions in goods and services. This table indicates the total resources in terms of output and imports for the economy as a whole, and the use of goods and services in terms of intermediate consumption, final consumption, gross capital formation and exports. This account is similar to the table of expenditure on gross domestic product that is regularly published in the *Quarterly Bulletin* of the Bank.

Conclusion

This article is an introduction to the concepts and data of the IEA to users of South Africa's national accounts. The information incorporated in this framework is more comprehensive than the national accounts information currently published in the *Quarterly Bulletin* of the Bank. But more research needs to be done to obtain separate estimates of resources and uses between the institutional sectors. Some of these shortcomings will be addressed later in 2004 in the process of benchmarking the national accounts to the year 2000.

The disaggregated detail of the institutional sectors presented in the IEA provides scope for a better understanding of the economic interaction between the institutional sectors. In addition, the comprehensive revision of the compilation of the national accounts introduces a number of important changes to the way South Africa's national accounts are presented. These changes will make it easier for data users to analyse the institutional sector accounts and will improve the international comparability of South Africa's national accounts.

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Table 1

Integrated economic accounts of South Africa for the year 1995

R millions

		S.11 Non-financial corporations		S.12 Financial corporations		S.13 General government	
		U	R	**U**	R	**U**	R
I	**Production account**						
P.1	Output at basic prices		631 172		52 008		122 141
P.7	Imports of goods and services						
P.2	Intermediate consumption	368 647		18 801		35 630	
P.6	Exports of goods and services						
B.1g	**Gross value added at basic prices**	**262 525**		**33 207**		**86 511**	
D.21	Taxes on products						
D.31	Subsidies on products.						
B.1g	**Gross domestic product at market prices**						
B.11	**External balance of goods and services**						
II.1.1	**Generation of income account**						
B.1g	**Gross value added at basic prices**		**262 525**		**33 207**		**86 511**
B.1g	**Gross domestic product at market prices**						
B.11	**External balance of goods and services**						
D.1	Compensation of employees	140 676		16 453		74 109	
D.11	Wages and salaries	132 387		15 483		69 741	
D.12	Employers' social contributions	8 289		970		4 368	
D.29	Other taxes on production	4 924		1 391		561	
D.21	Taxes on products						
D.39	Other subsidies on production	-1 589		-71		0	
D.31	Subsidies on products.						
B.2,3g	**Gross operating surplus/mixed income**	**118 514**		**15 434**		**11 841**	
B.11.1	**External balance**						
II.1.2	**Allocation of primary income account**						
B.2,3g	**Gross operating surplus/mixed income[2]**		**107 571**		**15 434**		**11 841**
B.11.1	**External balance**						
D.1	Compensation of employees						
D.11	Wages and salaries						
D.12	Employers' social contributions						
D.29	Other taxes on production						10 516
D.21	Taxes on products						53 644
D.39	Subsidies on production						-2 351
D.31	Other subsidies on products						-5 898
D.4	Property income	45 980	17 657	129 748	135 019	32 518	4 106
D.41	Interest.	24 018	11 610	68 434	109 404	32 518	3 698
D.421	Dividends	21 565	3 706	14 868	25 615		117
D.44	Property income attributed to insurance policy holders		1 897	46 446			
D.45	Rent	397	444				291
B.5g	**Gross balance of primary income/Gross national income**	**79 248**		**20 705**		**39 340**	
B.11.2	**External balance**						
II.2	**Secondary distribution of income account**						
B.5g	**Gross balance of primary income/Gross national income**		**79 248**		**20 705**		**39 340**
B.11.2	**External balance**						
D.5	Current taxes on income and wealth	12 950		2 810			65 729
D.61	Social contributions				49 119		2 182
D.62	Social benefits other than social transfers in kind			24 283		2 546	
D.7	Other current transfers	8 572	8 316	28 256	27 721	18 784	1 998
D.71	Net non-life insurance premiums	8 039			27 721		
D.72	Non-life insurance claims		8 316	27 721			
D.74	Current international co-operation					2 877	599
D.75	Miscellaneous current transfers	533		535		15 907	1 399
B.6g	**Gross disposable income**	**66 042**		**42 196**		**87 919**	
B.12	**Current external balance (balance on current account)**						

R = Resources, i.e. transactions which add to the amount of economic value of sectors.
U = Uses, i.e. transactions that reduce the amount of economic value of sectors.
1. NPISHs: Non-profit institutions serving households.
2. Inconsistencies with the allocation of resources and uses between institutional sectors due to data limitations are accommodated in the gross operating surplus of households and NPISHs and non-financial corporations.

Table 1

Integrated economic accounts of South Africa for the year 1995

R millions

S.14 – S.15 Households and NPISHs[1]		S.1 Total economy		S.2 Rest of the world			
U	R	U	R	U	R		
						Production account	**I**
	203 642		1 008 963			Output at basic prices	P.1
					121 093	Imports of goods and services	P.7
85 531		508 609				Intermediate consumption	P.2
				125 870		Exports of goods and services	P.6
118 111		**500 354**				**Gross value added at basic prices**	**B.1g**
			53 644			Taxes on products	D.21
			-5 898			Subsidies on products	D.31
		548 100				**Gross domestic product at market prices**	**B.1g**
				-4 777		**External balance of goods and services**	**B.11**
						Generation of income account	**II.1.1**
	118 111		**500 354**			**Gross value added at basic prices**	**B.1g**
			548 100			**Gross domestic product at market prices**	**B.1g**
					-4 777	**External balance of goods and services**	**B.11**
43 435		274 673		301		Compensation of employees	D.1
40 875		258 486		301		Wages and salaries	D.11
2 560		16 187		0		Employers' social contributions	D.12
3 640		10 516				Other taxes on production	D.29
		53 644				Taxes on products	D.21
-691		-2 351				Other subsidies on production	D.39
		-5 898				Subsidies on products	D.31
71 727		**217 516**				**Gross operating surplus/mixed income**	**B.2,3g**
				-5 078		**External balance**	**B.11.1**
						Allocation of primary income account	**II.1.2**
	82 670		**217 516**			**Gross operating surplus/mixed income[2]**	**B.2,3g**
					-5 078	**External balance**	**B.11.1**
	272 916		272 916		2 058	Compensation of employees	D.1
	256 729		256 729		2 058	Wages and salaries	D.11
	16 187		16 187		0	Employers' social contributions	D.12
			10 516			Other taxes on production	D.29
			53 644			Taxes on products	D.21
			-2 351			Other subsidies on production	D.39
			-5 898			Subsidies on products	D.31
31 921	74 715	240 167	231 497	3 827	12 497	Property income	D.4
31 478	23 425	156 448	148 137	1 177	9 488	Interest	D.41
	6 636	36 433	36 074	2 650	3 009	Dividends	D.421
	44 549	46 446	46 446			Property income attributed to insurance policy holders	D.44
443	105	840	840			Rent	D.45
398 380		**537 673**				**Gross balance of primary income/Gross national income**	**B.5g**
				5 650		**External balance**	**B.11.2**
						Secondary distribution of income account	**II.2**
	398 380		**537 673**			**Gross balance of primary income/Gross national income**	**B.5g**
					5 650	**External balance**	**B.11.2**
49 969		65 729	65 729			Current taxes on income and wealth	D.5
51 301		51 301	51 301			Social contributions	D.61
	26 829	26 829	26 829			Social benefits other than social transfers in kind	D.62
20 585	35 821	76 197	73 856	709	3 050	Other current transfers	D.7
19 682		27 721	27 721			Net non-life insurance premiums	D.71
	19 405	27 721	27 721			Non-life insurance claims	D.72
		2 877	599	599	2 877	Current international co-operation	D.74
903	16 416	17 878	17 815	110	173	Miscellaneous current transfers	D.75
339 175		**535 332**				**Gross disposable income**	**B.6g**
				7 991		**Current external balance (balance on current account)**	**B.12**

R = Resources, i.e. transactions which add to the amount of economic value of sectors.
U = Uses, i.e. transactions that reduce the amount of economic value of sectors.
1. NPISHs: Non-profit institutions serving households.
2. Inconsistencies with the allocation of resources and uses between institutional sectors due to data limitations are accommodated in the gross operating surplus of households and NPISHs and non-financial corporations.

Table 1 – continued

Integrated economic accounts of South Africa for the year 1995

R millions

		S.11 Non-financial corporations		S.12 Financial corporations		S.13 General government	
		U	R	U	R	U	R
II.3	**Redistribution of income in kind account**						
B.6g	**Gross disposable income**		**66 042**		**42 196**		**87 919**
D.63	Social transfers in kind					45 423	
B.7g	**Gross adjusted disposable income**	**66 042**		**42 196**		**42 496**	
II.4.1	**Use of disposable income account**						
B.6g	**Gross disposable income**		**66 042**		**42 196**		**87 919**
P.3	Final consumption expenditure					100 424	
P.31	Individual consumption expenditure					45 423	
P.32	Collective consumption expenditure					55 001	
D.8	Adjustment for change in net equity of households in pension funds			24 836			
	Residual[2]						
B.8g	**Gross saving**	**66 042**		**17 360**		**-12 505**	
K.1	Consumption of fixed capital[3]	45 249		2 422		10 631	
B.8n	**Net saving**	**20 793**		**14 938**		**-23 136**	
II.4.2	**Use of adjusted disposable income**						
B.7g	**Gross adjusted disposable income**		**66 042**		**42 196**		**42 496**
P.4	Actual final consumption					55 001	
P.41	Actual individual consumption						
P.42	Actual collective consumption					55 001	
D.8	Adjustment for change in net equity of households in pension funds			24 836			
	Residual[2]						
B.8g	**Gross saving**	**66 042**		**17 360**		**-12 505**	
III.1	**Capital account: Changes in assets and liabilities**						
B.8g	**Gross saving**		**66 042**		**17 360**		**-12 505**
B.12	**Current external balance (balance on current account)**						
D.9	Capital transfers, receivable		292		148		360
D.9	Capital transfers, payable						-880
B.10.1	**Change in net worth due to saving and capital transfers**	**66 334**		**17 508**		**-13 025**	
	Change in assets	70 446		2 239		13 113	
P.51	Gross fixed capital formation	59 370		2 239		13 123	
P.52	Change in inventories[4]	11 076		0		-10	
B.9	**Net lending (+)/net borrowing (-)**	**-4 112**		**15 269**		**-26 138**	
III.2	**Financial account: Changes in assets and liabilities[5]**						
B.9	**Net lending (+)/net borrowing (-)**		**-4 112**		**15 269**		**-26 138**
F.1	Monetary gold and SDRs	0	0	3 921	0	2	0
F.2	Currency and deposits	17 092	0	15 773	53 671	7 641	0
F.3	Securities other than shares	2 270	1 692	23 339	-735	130	25 239
F.4	Loans	10 369	20 938	46 971	2 520	4 963	6 870
F.5	Shares and other equity	2 354	32 134	38 797	17 684	618	-21
F.6	Insurance technical reserves	9 269	0	4 140	52 545	0	-1 742
F.7	Other accounts receivable/payable	7 143	-3 632	9 830	3 260	1 794	13 489
	Statistical discrepancy	-6 555	-5 078	10 268	8 825	203	-2 346

R = Resources, i.e. transactions which add the amount of economic value of sectors.
U = Uses, i.e. transactions that reduce the amount of economic value of sectors.
1. NPISHs: Non-profit institutions serving households.
2. Statistical discrepancy between expenditure components and gross domestic product.
3. At replacement value.
4. After inventory valuation adjustment.
5. Due to data limitations the subsectors of the institutional sectors are not consolidated but added together.

Table 1 – continued

Integrated economic accounts of South Africa for the year 1995

R millions

S.14 – S.15 Households and NPISHs[1]		S.1 Total economy		S.2 Rest of the world			
U	R	U	R	U	R		
						Redistribution of income in kind account	**II.3**
	339 175		**535 332**			**Gross disposable income**	**B.6g**
	45 423	45 423	45 423			Social transfers in kind	D.63
384 598		**535 332**				**Gross adjusted disposable income**	**B.7g**
						Use of disposable income account	**II.4.1**
	339 175		**535 332**			**Gross disposable income**	**B.6g**
343 037		443 461				Final consumption expenditure	P.3
343 037		388 460				Individual consumption expenditure	P.31
		55 001				Collective consumption expenditure	P.32
	24 836	24 836	24 836			Adjustment for change in net equity of households in pension funds	D.8
1 303		1 303				Residual[2]	
19 671		**90 568**				**Gross saving**	**B.8g**
13 525		71 827				Consumption of fixed capital[3]	K.1
6 146		**18 741**				**Net saving**	**B.8n**
						Use of adjusted disposable income	**II.4.2**
	384 598		**535 332**			**Gross adjusted disposable income**	**B.7g**
388 460		443 461				Actual final consumption	P.4
388 460		388 460				Actual individual consumption	P.41
0		55 001				Actual collective consumption	P.42
	24 836	24 836	24 836			Adjustment for change in net equity of households in pension funds	D.8
1 303		1 303				Residual[2]	
19 671		**90 568**				**Gross saving**	**B.8g**
						Capital account: Changes in assets and liabilities	**III.1**
	19 671		**90 568**			**Gross saving**	**B.8g**
					7 991	**Current external balance (balance on current account)**	**B.12**
	168		968		-88	Capital transfers, receivable	D.9
	-233		-1 113		233	Capital transfers, payable	D.9
19 606		**90 423**		**8 136**		**Change in net worth due to saving and capital transfers**	**B.10.1**
12 761		98 559				Change in assets	
12 310		87 042				Gross fixed capital formation	P.51
451		11 517				Change in inventories[4]	P.52
6 845		**-8 136**		**8 136**		**Net lending (+)/net borrowing (-)**	**B.9**
						Financial account: Changes in assets and liabilities[5]	**III.2**
	6 845	**0**	**-8 136**		**8 136**	**Net lending (+)/net borrowing (-)**	**B.9**
0	0	3 923	0	0	3 923	Monetary gold and SDRs	F.1
12 636	0	53 142	53 671	532	0	Currency and deposits	F.2
-2 712	0	23 027	26 196	3 247	78	Securities other than shares	F.3
1 534	39 243	63 837	69 571	8 074	2 341	Loans	F.4
2 920	0	44 689	49 797	6 221	1 115	Shares and other equity	F.5
34 683	0	48 092	50 803	2 712	0	Insurance technical reserves	F.6
1 199	3 676	19 966	16 793	-3 174	-2	Other accounts receivable/payable	F.7
-496	0	3 420	1 401	0	2 021	Statistical discrepancy	

R = Resources, i.e. transactions which add to the amount of economic value of sectors.
U = Uses, i.e. transactions that reduce the amount of economic value of sectors.
1. NPISHs: Non-profit institutions serving households.
2. Statistical discrepancy between expenditure components and gross domestic product.
3. At replacement value.
4. After inventory valuation adjustment.
5. Due to data limitations the subsectors of the institutional sectors are not consolidated but added together.

Table 2

Institutional sector accounts
Non-financial corporations – at current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
I	**Production account**								
P.1	Output at basic prices	631 172	701 612	773 521	813 995	868 977	978 878	1 103 123	1 296 335
P.2	*less* Intermediate consumption	368 647	409 257	453 019	475 750	508 089	574 779	650 373	765 922
B.1g	**Gross value added at basic prices**	**262 525**	**292 355**	**320 502**	**338 245**	**360 888**	**404 099**	**452 750**	**530 413**
II.1.1	**Generation of income account**								
B.1g	**Gross value added at basic prices**	**262 525**	**292 355**	**320 502**	**338 245**	**360 888**	**404 099**	**452 750**	**530 413**
D.1	*less* Compensation of employees	140 676	152 940	165 864	182 423	193 881	205 501	221 970	244 481
D.11	Wages and salaries	132 387	144 710	156 364	172 015	183 670	194 147	210 966	231 117
D.12	Employers' social contributions	8 289	8 230	9 500	10 408	10 211	11 354	11 004	13 364
D.29	*less* Other taxes on production	4 924	5 345	6 848	7 807	8 968	10 320	10 388	11 804
D.39	Other subsidies on production	1 589	2 076	1 929	1 734	1 557	1 371	1 321	1 757
B.2g	**Gross operating surplus**	**118 514**	**136 146**	**149 719**	**149 749**	**159 596**	**189 649**	**221 713**	**275 885**
II.1.2	**Allocation of primary income account**								
B.2g	**Gross operating surplus[1]**	**107 571**	**126 944**	**132 403**	**128 297**	**128 222**	**142 252**	**172 653**	**220 557**
D.4	Property income received	17 657	22 377	26 066	29 668	33 544	33 684	40 011	40 402
D.41	Interest	11 610	15 652	16 951	21 504	22 862	22 163	24 459	27 149
D.421	Dividends	3 706	4 227	4 185	5 181	5 592	5 973	10 500	5 731
D.44	Property income attributed to insurance policy holders	1 897	2 008	4 420	2 405	4 502	4 955	4 440	6 884
D.45	Rent	444	490	510	578	588	593	612	638
D.4	*less* Property income paid	45 980	52 794	62 012	69 899	66 503	70 289	87 027	105 403
D.41	Interest	24 018	28 174	35 498	40 024	34 734	30 137	31 300	41 692
D.421	Dividends	21 565	24 213	26 064	29 450	31 265	39 616	55 135	63 040
D.45	Rent	397	407	450	425	504	536	592	671
B.5g	**Gross balance of primary income**	**79 248**	**96 527**	**96 457**	**88 066**	**95 263**	**105 647**	**125 637**	**155 556**
II.2	**Secondary distribution of income account**								
B.5g	**Gross balance of primary income**	**79 248**	**96 527**	**96 457**	**88 066**	**95 263**	**105 647**	**125 637**	**155 556**
D.7	Other current transfers								
D.72	Non-life insurance claims	8 316	9 103	10 135	11 420	12 342	13 563	15 333	18 262
D.5	*less* Current taxes on income and wealth	12 950	16 710	18 223	22 049	24 460	23 912	48 327	58 375
D.7	*less* Other current transfers	8 572	9 273	10 308	11 592	12 598	13 767	15 464	18 327
D.71	Net non-life insurance premiums	8 039	8 800	9 797	11 040	11 931	13 111	14 822	17 653
D.75	Miscellaneous current transfers	533	473	511	552	667	656	642	674
B.6g	**Gross disposable income**	**66 042**	**79 647**	**78 061**	**65 845**	**70 547**	**81 531**	**77 179**	**97 116**
II.4.1	**Use of disposable income account**								
B.6g	**Gross disposable income**	**66 042**	**79 647**	**78 061**	**65 845**	**70 547**	**81 531**	**77 179**	**97 116**
B.8g	**Gross saving**	**66 042**	**79 647**	**78 061**	**65 845**	**70 547**	**81 531**	**77 179**	**97 116**
K.1	*less* Consumption of fixed capital[2]	45 249	49 844	54 692	59 968	66 835	72 578	78 425	88 197
B.8g	**Net saving**	**20 793**	**29 803**	**23 369**	**5 877**	**3 712**	**8 953**	**-1 246**	**8 919**
III.1	**Capital account**								
B.8g	**Gross saving**	**66 042**	**79 647**	**78 061**	**65 845**	**70 547**	**81 531**	**77 179**	**97 116**
D.9	Capital transfers, receivable	292	240	288	2 668	1 777	4 238	5 528	11 924
B.10.1	**Change in net worth due to saving and capital transfers**	**66 334**	**79 887**	**78 349**	**68 513**	**72 324**	**85 769**	**82 707**	**109 040**
	less Change in assets	70 446	73 937	75 220	83 576	89 276	97 493	100 663	125 037
P.51	Gross fixed capital formation	59 370	67 196	74 654	86 469	85 717	91 904	100 359	114 452
P.52	Change in inventories[3]	11 076	6 741	566	-2 893	3 559	5 589	304	10 585
B.9	**Net lending (+)/net borrowing (-)**	**-4 112**	**5 950**	**3 129**	**-15 063**	**-16 952**	**-11 724**	**-17 956**	**-15 997**

1. Inconsistencies with the allocation of resources and uses between institutional sectors due to data limitations are accommodated in the gross operating surplus.
2. At replacement value.
3. After inventory valuation adjustment.

Table 3

Institutional sector accounts
Financial corporations – at current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
I	**Production account**								
P.1	Output at basic prices	52 008	59 007	71 769	79 538	95 197	106 892	120 392	135 166
P.2	*less* Intermediate consumption	18 801	21 658	26 847	31 314	35 281	39 439	47 587	52 190
B.1g	**Gross value added at basic prices**	**33 207**	**37 349**	**44 922**	**48 224**	**59 916**	**67 453**	**72 805**	**82 976**
II.1.1	**Generation of income account**								
B.1g	**Gross value added at basic prices**	**33 207**	**37 349**	**44 922**	**48 224**	**59 916**	**67 453**	**72 805**	**82 976**
D.1	*less* Compensation of employees	16 453	18 290	21 213	23 216	26 287	28 923	30 945	33 703
D.11	Wages and salaries	15 483	17 310	19 886	21 217	24 717	27 315	29 587	31 779
D.12	Employers' social contributions	970	980	1 327	1 999	1 570	1 608	1 358	1 924
D.29	*less* Other taxes on production	1 391	1 630	1 456	1 608	1 979	2 296	2 372	2 676
D.39	Other subsidies on production	71	18	120	112	102	88	85	102
B.2g	**Gross operating surplus**	**15 434**	**17 447**	**22 373**	**23 512**	**31 752**	**36 322**	**39 573**	**46 699**
II.1.2	**Allocation of primary income account**								
B.2g	**Gross operating surplus**	**15 434**	**17 447**	**22 373**	**23 512**	**31 752**	**36 322**	**39 573**	**46 699**
D.4	Property income received	135 019	161 657	189 110	225 809	222 589	214 385	221 949	271 630
D.41	Interest	109 404	133 661	158 369	191 953	186 491	174 788	181 459	219 683
D.421	Dividends	25 615	27 996	30 741	33 856	36 098	39 597	40 490	51 947
D.4	*less* Property income paid	129 748	153 367	181 611	215 971	223 210	217 427	231 236	276 047
D.41	Interest	68 434	83 940	99 127	128 869	129 449	120 534	126 146	154 385
D.421	Dividends	14 868	17 460	23 224	24 084	27 201	25 686	34 154	38 097
D.44	Property income attributed to insurance policy holders	46 446	51 967	59 260	63 018	66 560	71 207	70 936	83 565
B.5g	**Gross balance of primary income**	**20 705**	**25 737**	**29 872**	**33 350**	**31 131**	**33 280**	**30 286**	**42 282**
II.2	**Secondary distribution of income account**								
B.5g	**Gross balance of primary income**	**20 705**	**25 737**	**29 872**	**33 350**	**31 131**	**33 280**	**30 286**	**42 282**
D.61	Social contributions	49 119	56 725	66 601	70 251	73 829	80 565	81 306	95 773
D.7	Other current transfers								
D.71	Net non-life insurance premiums	27 721	30 344	33 782	38 068	41 141	45 210	51 111	60 874
D.5	*less* Current taxes on income and wealth	2 810	7 142	8 769	5 323	3 601	5 894	6 736	7 657
D.62	*less* Social benefits other than social transfers in kind	24 283	28 516	39 132	43 023	46 791	46 959	44 602	51 141
D.7	*less* Other current transfers	28 256	30 817	34 293	38 620	41 807	45 866	51 754	61 547
D.72	Non-life insurance claims	27 721	30 344	33 782	38 068	41 141	45 210	51 111	60 874
D.75	Miscellaneous current transfers	535	473	511	552	666	656	643	673
B.6g	**Gross disposable income**	**42 196**	**46 331**	**48 061**	**54 703**	**53 902**	**60 336**	**59 611**	**78 584**
II.4.1	**Use of disposable income account**								
B.6g	**Gross disposable income**	**42 196**	**46 331**	**48 061**	**54 703**	**53 902**	**60 336**	**59 611**	**78 584**
D.8	*less* Adjustment for change in net equity of households in pension funds	24 836	28 209	27 469	27 228	27 038	33 606	36 704	44 632
B.8g	**Gross saving**	**17 360**	**18 122**	**20 592**	**27 475**	**26 864**	**26 730**	**22 907**	**33 952**
K.1	*less* Consumption of fixed capital[1]	2 422	2 612	2 844	3 120	3 446	3 794	4 222	4 805
B.8n	**Net saving**	**14 938**	**15 510**	**17 748**	**24 355**	**23 418**	**22 936**	**18 685**	**29 147**
III.1	**Capital account**								
B.8g	**Gross saving**	**17 360**	**18 122**	**20 592**	**27 475**	**26 864**	**26 730**	**22 907**	**33 952**
D.9	Capital transfers, receivable	148	180	952	0	0	0	0	0
B.10.1	**Change in net worth due to saving and capital transfers**	**17 508**	**18 302**	**21 544**	**27 475**	**26 864**	**26 730**	**22 907**	**33 952**
	less Change in assets								
P.51	Gross fixed capital formation	2 239	3 107	5 059	5 029	3 121	2 803	2 977	4 963
B.9	**Net lending (+)/net borrowing (-)**	**15 269**	**15 195**	**16 485**	**22 446**	**23 743**	**23 927**	**19 930**	**28 989**

1. At replacement value.

Table 4

Institutional sector accounts

General government – at current prices

R millions

		1995	1996	1997	1998	1999	2000	2001	2002
I	**Production account**								
P.1	Output at basic prices	122 141	143 381	161 314	170 674	181 519	200 531	219 737	246 564
P.2	*less* Intermediate consumption	35 630	41 107	47 701	45 942	51 401	60 959	70 059	85 959
B.1g	**Gross value added at basic prices**	**86 511**	**102 274**	**113 613**	**124 732**	**130 118**	**139 572**	**149 678**	**160 605**
II.1.1	**Generation of income account**								
B.1g	**Gross value added at basic prices**	**86 511**	**102 274**	**113 613**	**124 732**	**130 118**	**139 572**	**149 678**	**160 605**
D.1	*less* Compensation of employees	74 109	88 773	99 372	106 634	111 560	119 062	127 204	137 075
D.11	Wages and salaries	69 741	83 943	93 883	100 441	104 865	112 496	120 688	129 437
D.12	Employers' social contributions	4 368	4 830	5 489	6 193	6 695	6 566	6 516	7 638
D.29	*less* Other taxes on production	561	625	852	990	1 210	1 571	1 870	2 161
D.39	Other subsidies on production	0	0	150	140	128	110	107	128
B.2g	**Gross operating surplus**	**11 841**	**12 876**	**13 539**	**17 248**	**17 476**	**19 049**	**20 711**	**21 497**
II.1.2	**Allocation of primary income account**								
B.2g	**Gross operating surplus**	**11 841**	**12 876**	**13 539**	**17 248**	**17 476**	**19 049**	**20 711**	**21 497**
D.29	Other taxes on production	10 516	11 627	14 506	16 503	19 652	22 487	22 025	25 060
D.21	Taxes on products	53 644	58 119	63 419	70 668	76 707	83 316	91 119	103 306
D.39	*less* Other subsidies on production	2 351	2 726	2 796	2 487	2 219	1 967	1 894	2 598
D.31	*less* Subsidies on products	5 898	5 635	4 856	5 600	4 720	3 322	3 204	4 095
D.4	Property income received	4 106	5 935	5 393	4 749	5 120	7 309	7 333	8 196
D.41	Interest	3 698	5 406	5 065	4 501	4 872	7 037	6 887	7 788
D.421	Dividends	117	347	141	54	69	34	221	261
D.45	Rent	291	182	187	194	179	238	225	147
D.4	*less* Property income paid	32 518	39 350	41 987	46 941	49 205	51 251	53 320	54 325
D.41	Interest[1]	32 518	39 350	41 987	46 941	49 205	51 251	53 320	54 325
B.5g	**Gross balance of primary income**	**39 340**	**40 846**	**47 218**	**54 140**	**62 811**	**75 621**	**82 770**	**97 041**
II.2	**Secondary distribution of income account**								
B.5g	**Gross balance of primary income**	**39 340**	**40 846**	**47 218**	**54 140**	**62 811**	**75 621**	**82 770**	**97 041**
D.5	Current taxes on income and wealth	65 729	79 811	90 485	105 305	114 535	121 089	148 385	163 840
D.61	Social contributions	2 182	4 332	5 499	6 160	6 188	6 481	7 138	8 418
D.7	Other current transfers	1 998	1 048	1 647	1 291	1 699	1 816	1 996	2 215
D.74	Current international co-operation	599	131	485	144	174	481	812	1 085
D.75	Miscellaneous current transfers	1 399	917	1 162	1 147	1 525	1 335	1 184	1 130
D.62	*less* Social benefits other than social transfers in kind	2 546	4 237	4 950	6 208	5 567	6 035	6 524	5 972
D.7	*less* Other current transfers	18 784	23 208	26 018	25 876	28 439	31 043	33 357	37 475
D.74	Current international co-operation	2 877	3 242	3 823	4 280	5 851	6 955	7 122	7 011
D.75	Miscellaneous current transfers	15 907	19 966	22 195	21 596	22 588	24 088	26 235	30 464
B.6g	**Gross disposable income**	**87 919**	**98 592**	**113 881**	**134 812**	**151 227**	**167 929**	**200 408**	**228 067**
II.3	**Redistribution of income in kind account**								
B.6g	**Gross disposable income**	**87 919**	**98 592**	**113 881**	**134 812**	**151 227**	**167 929**	**200 408**	**228 067**
D.63	*less* Social contributions	45 423	51 746	62 068	64 916	66 916	72 002	80 598	93 049
B.7g	**Gross adjusted disposable income**	**42 496**	**46 846**	**51 813**	**69 896**	**84 311**	**95 927**	**119 810**	**135 018**

1. Amortised discount included.

Table 4 – continued

Institutional sector accounts

General government – at current prices

R millions

		1995	1996	1997	1998	1999	2000	2001	2002
II.4.1	**Use of disposable income account**								
B.6g	**Gross disposable income**	**87 919**	**98 592**	**113 881**	**134 812**	**151 227**	**167 929**	**200 408**	**228 067**
P.3	*less* Final consumption expenditure[1]	100 424	118 013	131 903	140 170	149 393	166 469	185 704	209 353
P.31	Individual consumption expenditure	45 423	51 746	62 068	64 916	66 916	72 002	80 598	93 049
P.32	Collective consumption expenditure	55 001	66 267	69 835	75 254	82 477	94 467	105 106	116 304
B.8g	**Gross saving**	**-12 505**	**-19 421**	**-18 022**	**-5 358**	**1 834**	**1 460**	**14 704**	**18 714**
K.1	*less* Consumption of fixed capital[2]	10 631	11 903	13 327	15 134	17 029	18 886	20 468	23 123
B.8n	**Net saving**	**-23 136**	**-31 324**	**-31 349**	**-20 492**	**-15 195**	**-17 426**	**-5 764**	**-4 409**
II.4.2	**Use of adjusted disposable income account**								
B.7g	**Gross adjusted disposable income**	**42 496**	**46 846**	**51 813**	**69 896**	**84 311**	**95 927**	**119 810**	**135 018**
P.4	*less* Actual final consumption	55 001	66 267	69 835	75 254	82 477	94 467	105 106	116 304
B.8g	**Gross saving**	**-12 505**	**-19 421**	**-18 022**	**-5 358**	**1 834**	**1 460**	**14 704**	**18 714**
III.1	**Capital account**								
B.8g	**Gross saving**	**-12 505**	**-19 421**	**-18 022**	**-5 358**	**1 834**	**1 460**	**14 704**	**18 714**
D.9	Capital transfers, receivable	360	740	680	223	0	105	1 168	3 129
D.9	Capital transfers, payable	-880	-1 204	-2 621	-3 671	-1 983	-5 196	-10 895	-18 691
B.10.1	**Change in net worth due to saving and capital transfers**	**-13 025**	**-19 885**	**-19 963**	**-8 806**	**-149**	**-3 631**	**4 977**	**3 152**
	less Change in assets	13 113	16 160	18 662	19 173	18 947	20 374	20 209	24 346
P.51	Gross fixed capital formation	13 123	16 134	18 586	19 195	18 898	20 414	20 220	24 390
P.52	Change in inventories[3]	-10	26	76	-22	49	-40	-11	-44
B.9	**Net lending (+)/net borrowing (-)**	**-26 138**	**-36 045**	**-38 625**	**-27 979**	**-19 096**	**-24 005**	**-15 232**	**-21 194**

1. Current expenditure on salaries and wages and on goods and other services of a non-capital nature by the service departments (not business enterprises) of general government. General government includes central government, provincial governments and local governments.
2. At replacement value.
3. After inventory valuation adjustment.

Table 5

Institutional sector accounts

Households and NPISHs[1] – at current prices

R millions

		1995	1996	1997	1998	1999	2000	2001	2002
I	**Production account**								
P.1	Output at basic prices	203 642	229 423	254 023	277 258	301 741	333 183	371 806	419 620
P.2	*less* Intermediate consumption	85 531	95 931	105 893	114 601	123 881	135 847	151 504	171 930
B.1g	**Gross value added at basic prices**	**118 111**	**133 492**	**148 130**	**162 657**	**177 860**	**197 336**	**220 302**	**247 690**
II.1.1	**Generation of income account**								
B.1g	**Gross value added at basic prices**	**118 111**	**133 492**	**148 130**	**162 657**	**177 860**	**197 336**	**220 302**	**247 690**
D.1	*less* Compensation of employees	43 435	48 118	53 623	59 363	65 337	71 753	78 853	86 164
D.11	Wages and salaries	40 875	45 518	50 623	55 627	61 442	67 772	74 942	81 707
D.12	Employers' social contributions	2 560	2 600	3 000	3 736	3 895	3 981	3 911	4 457
D.29	*less* Other taxes on production	3 640	4 027	5 350	6 098	7 495	8 300	7 395	8 419
D.39	Other subsidies on production	691	632	597	501	432	398	381	611
B.2g	**Gross operating surplus/mixed income**	**71 727**	**81 979**	**89 754**	**97 697**	**105 460**	**117 681**	**134 435**	**153 718**
II.1.2	**Allocation of primary income account**								
B.2g	**Gross operating surplus/mixed income[2]**	**82 670**	**91 181**	**107 070**	**119 148**	**136 834**	**165 078**	**183 495**	**209 046**
D.1	Compensation of employees	272 916	306 225	338 204	369 684	395 022	423 237	456 937	498 929
D.11	Wages and salaries	256 729	289 585	318 888	347 348	372 651	399 728	434 148	471 546
D.12	Employers' social contributions	16 187	16 640	19 316	22 336	22 371	23 509	22 789	27 383
D.4	Property income received	74 715	85 484	100 397	111 371	108 528	102 621	112 081	138 034
D.41	Interest	23 425	27 983	32 782	39 258	33 299	26 159	27 590	34 560
D.421	Dividends	6 636	7 415	12 635	11 355	13 003	10 021	17 792	26 549
D.44	Property income attributed to insurance policy holders	44 549	49 959	54 840	60 613	62 058	66 252	66 496	76 681
D.45	Rent	105	127	140	145	168	189	203	244
D.4	*less* Property income paid	31 921	41 426	48 332	54 321	48 421	39 054	39 931	49 393
D.41	Interest	31 478	41 034	47 945	53 829	47 990	38 570	39 483	49 035
D.45	Rent	443	392	387	492	431	484	448	358
B.5g	**Gross balance of primary income**	**398 380**	**441 464**	**497 339**	**545 882**	**591 963**	**651 882**	**712 582**	**796 616**
II.2	**Secondary distribution of income account**								
B.5g	**Gross balance of primary income**	**398 380**	**441 464**	**497 339**	**545 882**	**591 963**	**651 882**	**712 582**	**796 616**
D.62	Social benefits other than social transfers in kind	26 829	32 753	44 082	49 231	52 358	52 994	51 126	57 113
D.7	Other current transfers	35 821	41 759	46 499	49 023	52 253	56 669	63 011	74 195
D.72	Non-life insurance claims	19 405	21 241	23 647	26 648	28 799	31 647	35 778	42 612
D.75	Miscellaneous current transfers	16 416	20 518	22 852	22 375	23 454	25 022	27 233	31 583
D.5	*less* Current taxes on income and wealth	49 969	55 959	63 493	77 933	86 474	91 283	93 322	97 808
D.61	*less* Social contributions	51 301	61 057	72 100	76 411	80 017	87 046	88 444	104 191
D.7	*less* Other current transfers	20 585	22 166	24 772	27 807	30 253	33 004	37 133	44 040
D.71	Net non-life insurance premiums	19 682	21 544	23 985	27 028	29 210	32 099	36 289	43 221
D.75	Miscellaneous current transfers	903	622	787	779	1 043	905	844	819
B.6g	**Gross disposable income**	**339 175**	**376 794**	**427 555**	**461 985**	**499 830**	**550 212**	**607 820**	**681 885**

1. NPISHs: Non-profit institutions serving households.
2. Inconsistencies with the allocation of resources and uses between institutional sectors due to data limitations are accommodated in the gross operating surplus.

Table 5 – continued

Institutional sector accounts
Households and NPISHs – at current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
II.3	**Redistribution of income in kind account**								
B.6g	**Gross disposable income**	**339 175**	**376 794**	**427 555**	**461 985**	**499 830**	**550 212**	**607 820**	**681 885**
D.63	Social transfers in kind	45 423	51 746	62 068	64 916	66 916	72 002	80 598	93 049
B.7g	**Gross adjusted disposable income**	**384 598**	**428 540**	**489 623**	**526 901**	**566 746**	**622 214**	**688 418**	**774 934**
II.4.1	**Use of disposable income account**								
B.6g	**Gross disposable income**	**339 175**	**376 794**	**427 555**	**461 985**	**499 830**	**550 212**	**607 820**	**681 885**
D.8	Adjustment for change in net equity of households in pension funds	24 836	28 209	27 469	27 228	27 038	33 606	36 704	44 632
P.3	*less* Final consumption expenditure	343 037	384 624	431 403	466 552	504 289	556 652	612 349	690 949
	less Residual[1]	1 303	-1 031	387	772	-998	850	3 011	640
B.8g	**Gross saving**	**19 671**	**21 410**	**23 234**	**21 889**	**23 577**	**26 316**	**29 164**	**34 928**
K.1	*less* Consumption of fixed capital[2]	13 525	14 458	16 325	18 360	20 548	23 315	26 340	31 788
B.8n	**Net saving**	**6 146**	**6 952**	**6 909**	**3 529**	**3 029**	**3 001**	**2 824**	**3 140**
II.4.2	**Use of adjusted disposable income account**								
B.7g	**Gross adjusted disposable income**	**384 598**	**428 540**	**489 623**	**526 901**	**566 746**	**622 214**	**688 418**	**774 934**
D.8	Adjustment for change in net equity of households in pension funds	24 836	28 209	27 469	27 228	27 038	33 606	36 704	44 632
P.4	*less* Actual final consumption	388 460	436 370	493 471	531 468	571 205	628 654	692 947	783 998
	less Residual[1]	1 303	-1 031	387	772	-998	850	3 011	640
B.8g	**Gross saving**	**19 671**	**21 410**	**23 234**	**21 889**	**23 577**	**26 316**	**29 164**	**34 928**
III.1	**Capital account**								
B.8g	**Gross saving**	**19 671**	**21 410**	**23 234**	**21 889**	**23 577**	**26 316**	**29 164**	**34 928**
D.9	Capital transfers, receivable	168	160	220	914	331	985	4 336	3 851
D.9	Capital transfers, payable	-233	-320	-411	-443	-503	-491	-393	-375
B.10.1	**Change in net worth due to saving and capital transfers**	**19 606**	**21 250**	**23 043**	**22 360**	**23 405**	**26 810**	**33 107**	**38 404**
	less Change in assets	12 761	14 517	15 121	14 815	14 721	17 122	19 785	23 704
P.51	Gross fixed capital formation	12 310	14 195	14 922	14 640	14 426	16 863	19 492	23 857
P.52	Change in inventories[3]	451	322	199	175	295	259	293	-153
B.9	**Net lending (+)/net borrowing (-)**	**6 845**	**6 733**	**7 922**	**7 545**	**8 684**	**9 688**	**13 322**	**14 700**

1. Statistical discrepancy between expenditure components and gross domestic product.
2. At replacement value.
3. After inventory valuation adjustment.

Table 6

Economic accounts of South Africa

Total economy – at current prices

R millions

		1995	1996	1997	1998	1999	2000	2001	2002
I	**Production account**								
P.1	Output at basic prices	1 008 963	1 133 423	1 260 627	1 341 465	1 447 434	1 619 484	1 815 058	2 097 685
P.2	*less* Intermediate consumption	508 609	567 953	633 460	667 607	718 652	811 024	919 523	1 076 001
B.1g	**Gross value added at basic prices**	**500 354**	**565 470**	**627 167**	**673 858**	**728 782**	**808 460**	**895 535**	**1 021 684**
D.21	Taxes on products	53 644	58 119	63 419	70 668	76 707	83 316	91 119	103 306
D.31	*less* Subsidies on products	5 898	5 635	4 856	5 600	4 720	3 322	3 204	4 095
B.1g	**Gross domestic product at market prices**	**548 100**	**617 954**	**685 730**	**738 926**	**800 769**	**888 454**	**983 450**	**1 120 895**
II.1.1	**Generation of income account**								
B.1g	**Gross domestic product at market prices**	**548 100**	**617 954**	**685 730**	**738 926**	**800 769**	**888 454**	**983 450**	**1 120 895**
D.1	*less* Compensation of employees	274 673	308 121	340 072	371 636	397 065	425 239	458 972	501 423
D.11	Wages and salaries	258 486	291 481	320 756	349 300	374 694	401 730	436 183	474 040
D.12	Employers' social contributions	16 187	16 640	19 316	22 336	22 371	23 509	22 789	27 383
D.2	*less* Taxes on production and imports	64 160	69 746	77 925	87 171	96 359	105 803	113 144	128 366
D.3	Subsidies	8 249	8 361	7 652	8 087	6 939	5 289	5 098	6 693
B.2,3g	**Gross operating surplus/mixed income**	**217 516**	**248 448**	**275 385**	**288 206**	**314 284**	**362 701**	**416 432**	**497 799**
II.1.2	**Allocation of primary income account**								
B.2,3g	**Gross operating surplus/mixed income**	**217 516**	**248 448**	**275 385**	**288 205**	**314 284**	**362 701**	**416 432**	**497 799**
D.1	Compensation of employees[1]	272 916	306 225	338 204	369 684	395 022	423 237	456 937	498 929
D.11	Wages and salaries	256 729	289 585	318 888	347 348	372 651	399 728	434 148	471 546
D.12	Employers' social contributions	16 187	16 640	19 316	22 336	22 371	23 509	22 789	27 383
D.29	Other taxes on production	10 516	11 627	14 506	16 503	19 652	22 487	22 025	25 060
D.21	Taxes on products	53 644	58 119	63 419	70 668	76 707	83 316	91 119	103 306
D.39	*less* Other subsidies on production	2 351	2 726	2 796	2 487	2 219	1 967	1 894	2 598
D.31	*less* Subsidies on products	5 898	5 635	4 856	5 600	4 720	3 322	3 204	4 095
D.4	Property income received	231 497	275 453	320 966	371 597	369 781	357 999	381 374	458 262
D.41	Interest	148 137	182 702	213 167	257 216	247 524	230 147	240 395	289 180
D.421	Dividends	36 074	39 985	47 702	50 446	54 762	55 625	69 003	84 488
D.45	Rent	840	799	837	917	935	1 020	1 040	1 029
D.4	*less* Property income paid	240 167	286 937	333 942	387 132	387 339	378 021	411 514	485 168
D.41	Interest	156 448	192 498	224 557	269 663	261 378	240 492	250 249	299 437
D.421	Dividends	36 433	41 673	49 288	53 534	58 466	65 302	89 289	101 137
D.45	Rent	840	799	837	917	935	1 020	1 040	1 029
B.5g	**Gross national income**	**537 673**	**604 574**	**670 886**	**721 438**	**781 168**	**866 430**	**951 275**	**1 091 495**
II.2	**Secondary distribution of income account**								
B.5g	**Gross national income**	**537 673**	**604 574**	**670 886**	**721 438**	**781 168**	**866 430**	**951 275**	**1 091 495**
D.7	Other current transfers	18 414	21 566	24 499	23 666	25 153	26 838	29 229	33 798
D.74	Current international co-operation	599	131	485	144	174	481	812	1 085
D.75	Miscellaneous current transfers	17 815	21 435	24 014	23 522	24 979	26 357	28 417	32 713
D.7	*less* Other current transfers	20 755	24 776	27 827	27 759	30 815	33 260	35 486	39 641
D.74	Current international co-operation	2 877	3 242	3 823	4 280	5 851	6 955	7 122	7 011
D.75	Miscellaneous current transfers	17 878	21 534	24 004	23 479	24 964	26 305	28 364	32 630
B.6g	**Gross disposable income**	**535 332**	**601 364**	**667 558**	**717 345**	**775 506**	**860 008**	**945 018**	**1 085 652**

1. Adjusted for net compensation to non-residents.

Table 6 – continued

Economic accounts of South Africa
Total economy – at current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
II.4.1	**Use of disposable income account**								
B.6g	**Gross disposable income**	**535 332**	**601 364**	**667 558**	**717 345**	**775 506**	**860 008**	**945 018**	**1 085 652**
P.3	*less* Final consumption expenditure	443 461	502 637	563 306	606 722	653 682	723 121	798 053	900 302
P.31	Individual consumption expenditure	388 460	436 370	493 471	531 468	571 205	628 654	692 947	783 998
P.32	Collective consumption expenditure	55 001	66 267	69 835	75 254	82 477	94 467	105 106	116 304
	less Residual[1]	1 303	-1 031	387	772	-998	850	3 011	640
B.8g	**Gross saving**	**90 568**	**99 758**	**103 865**	**109 851**	**122 822**	**136 037**	**143 954**	**184 710**
K.1	*less* Consumption of fixed capital[2]	71 827	78 817	87 188	96 582	107 858	118 573	129 455	147 913
B.8n	**Net saving**	**18 741**	**20 941**	**16 677**	**13 269**	**14 964**	**17 464**	**14 499**	**36 797**
III.1	**Capital account**								
B.8g	**Gross saving**	**90 568**	**99 758**	**103 865**	**109 851**	**122 822**	**136 037**	**143 954**	**184 710**
D.9	Capital transfers, receivable	968	1 320	2 140	3 805	2 108	5 328	11 032	18 903
D.9	Capital transfers, payable	-1 113	-1 524	-3 032	-4 114	-2 486	-5 687	-11 288	-19 065
B.10.1	**Change in net worth due to saving and capital transfers**	**90 423**	**99 554**	**102 973**	**109 542**	**122 444**	**135 678**	**143 698**	**184 548**
	less Change in assets	98 559	107 721	114 062	122 593	126 065	137 792	143 634	178 050
P.51	Gross fixed capital formation	87 042	100 632	113 221	125 333	122 162	131 984	143 048	167 662
P.52	Change in inventories[3]	11 517	7 089	841	-2 740	3 903	5 808	586	10 388
B.9	**Net lending (+)/net borrowing (-)**	**-8 136**	**-8 167**	**-11 089**	**-13 051**	**-3 621**	**-2 114**	**64**	**6 498**

1. Statistical discrepancy between expenditure components and gross domestic product.
2. At replacement value.
3. After inventory valuation adjustment.

Table 7

Rest of the world accounts
At current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
V.I	**External account of goods and services**								
P.7	Imports of goods and services	121 093	143 340	160 718	181 972	185 037	229 757	266 122	336 631
P.6	*less* Exports of goods and services	125 870	151 967	168 693	190 811	207 057	256 448	304 874	378 534
B.11	**External balance of goods and services**	**-4 777**	**-8 627**	**-7 975**	**-8 839**	**-22 020**	**-26 691**	**-38 752**	**-41 903**
V.II	**External account of primary income and current transfers**								
B.11	**External balance of goods and services**	**-4 777**	**-8 627**	**-7 975**	**-8 839**	**-22 020**	**-26 691**	**-38 752**	**-41 903**
D.1	*less* Compensation of employees	301	320	810	1 425	1 875	2 242	2 403	2 814
D.1	Compensation of employees	2 058	2 216	2 678	3 378	3 918	4 244	4 438	5 308
D.4	Property income received	12 497	15 826	18 643	22 225	26 630	35 212	48 862	46 801
D.41	Interest	9 488	11 035	13 897	16 486	18 424	16 638	16 830	18 995
D.421	Dividends	3 009	4 791	4 746	5 739	8 206	18 574	32 032	27 806
D.4	*less* Property income paid	3 827	4 342	5 667	6 690	9 072	15 190	18 722	19 895
D.41	Interest	1 177	1 239	2 507	4 039	4 570	6 293	6 976	8 738
D.421	Dividends	2 650	3 103	3 160	2 651	4 502	8 897	11 746	11 157
D.7	Other current transfers	3 050	3 444	3 968	4 427	6 067	7 163	7 362	7 304
D.74	Current international co-operation	2 877	3 243	3 823	4 280	5 851	6 955	7 122	7 011
D.75	Miscellaneous current transfers	173	201	145	147	216	208	240	293
D.7	*less* Other current transfers	709	234	640	334	405	741	1 105	1 461
D.74	Current international co-operation	599	132	485	144	174	481	812	1 085
D.75	Miscellaneous current transfers	110	102	155	190	231	260	293	376
B.12	**Current external balance (balance on current account)**	**7 991**	**7 963**	**10 197**	**12 742**	**3 243**	**1 755**	**-320**	**-6 660**
V.III	**External accumulation accounts**								
V.III.1	**Capital account**								
B.12	**Current external balance (balance on current account)**	**7 991**	**7 963**	**10 197**	**12 742**	**3 243**	**1 755**	**-320**	**-6 660**
D.9	Capital transfers, receivable	-88	-116	-144	-134	-125	-132	-137	-213
D.9	Capital transfers, payable	233	320	1 036	443	503	491	393	375
B.10.1	**Change in net worth due to saving and capital transfers**	**8 136**	**8 167**	**11 089**	**13 051**	**3 621**	**2 114**	**-64**	**-6 498**
B.9	**Net lending (+)/net borrowing (-)**	**8 136**	**8 167**	**11 089**	**13 051**	**3 621**	**2 114**	**-64**	**-6 498**

Table 8

Goods and services account
At current prices
R millions

		1995	1996	1997	1998	1999	2000	2001	2002
0	**Goods and services account**								
P.1	Output at basic prices	1 008 963	1 133 423	1 260 627	1 341 465	1 447 434	1 619 484	1 815 058	2 097 685
P.7	Imports of goods and services	121 093	143 340	160 718	181 972	185 037	229 757	266 122	336 631
P.71	Imports of goods	99 425	118 658	133 061	150 705	149 854	189 411	221 235	280 644
P.72	Imports of services	21 668	24 682	27 657	31 267	35 183	40 346	44 887	55 987
D.21	Taxes on products	53 644	58 119	63 419	70 668	76 707	83 316	91 119	103 306
D.31	Subsidies on products	-5 898	-5 635	-4 856	-5 600	-4 720	-3 322	-3 204	-4 095
	Total resources	**1 177 802**	**1 329 247**	**1 479 908**	**1 588 505**	**1 704 458**	**1 929 235**	**2 169 095**	**2 533 527**
P.2	Intermediate consumption	508 609	567 953	633 460	667 607	718 652	811 024	919 523	1 076 001
P.3	Total final consumption expenditure	443 461	502 637	563 306	606 722	653 682	723 121	798 053	900 302
P.3	Final consumption expenditure by households[1]	343 037	384 624	431 403	466 552	504 289	556 652	612 349	690 949
P.31	Individual consumption expenditure	343 037	384 624	431 403	466 552	504 289	556 652	612 349	690 949
P.3	Final consumption expenditure by general government[2]	100 424	118 013	131 903	140 170	149 393	166 469	185 704	209 353
P.31	Individual consumption expenditure	45 423	51 746	62 068	64 916	66 916	72 002	80 598	93 049
P.32	Collective consumption expenditure	55 001	66 267	69 835	75 254	82 477	94 467	105 106	116 304
P.5	Gross capital formation	98 559	107 721	114 062	122 593	126 065	137 792	143 634	178 050
P.51	Gross fixed capital formation	87 042	100 632	113 221	125 333	122 162	131 984	143 048	167 662
P.52	Change in inventories[3]	11 517	7 089	841	-2 740	3 903	5 808	586	10 388
P.6	Exports of goods and services	125 870	151 967	168 693	190 811	207 057	256 448	304 874	378 534
P.61	Export of goods	109 118	130 206	143 830	161 121	175 232	221 498	265 102	329 502
P.62	Export of services	16 752	21 761	24 863	29 690	31 825	34 950	39 772	49 032
	Residual[4]	1 303	-1 031	387	772	-998	850	3 011	640
	Total uses	**1 177 802**	**1 329 247**	**1 479 908**	**1 588 505**	**1 704 458**	**1 929 235**	**2 169 095**	**2 533 527**

1. Including non-profit institutions serving households.
2. Current expenditure on salaries and wages and on goods and services of a non-capital nature by the service departments (not business enterprises) of general government. General government includes central government, provincial governments and local governments.
3. After inventory valuation adjustment.
4. Statistical discrepancy between expenditure components and gross domestic product.