Quarterly Bulletin
Kwartaalblad

September 2000

South African Reserve Bank
Suid-Afrikaanse Reserwebank

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List of tables

List of graphs

Article
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The national accounts - a note on the treatment of losses resulting from natural disasters

by J W Prinsloo

Contents

List of graphs

Quarterly Economic Review

Introduction

Despite clear indications that the growth rate of the global economy was exceeding its potential, the pace of economic activity in South Africa slackened considerably in the first half of 2000. Annualised growth in the real gross domestic product fell back from about 3 per cent in the second half of 1999 to some 1½ per cent in the first half of 2000.

It is not exactly clear why South Africa's growth slowed down so suddenly. A possible reason may be the reappraisal by international investors of risk-return opportunities in emerging markets generally. This prompted sales of South African bonds by non-resident investors – on net, capital left the country in the first half of 2000. A further reason is the torrential rain and flooding in the north-eastern parts of the country and veld fires in the south-western parts which disrupted farming activities and caused widespread damage to crops. Through forward and backward linkages, other sectors of the economy, notably the manufacturing sector, were affected by the conditions in agriculture. Negative perceptions also contributed to the weak economic performance: unfounded fears that troubles in other parts of sub-Saharan Africa might spill over into South Africa not only influenced perceptions of non-resident investors negatively, but seem to have had a depressing effect on business confidence in the country.

Although economic activity was at a low ebb in the first half of 2000, there are signs that the worst is over and that economic growth is at the point of accelerating once more. This view was generally shared by non-resident investors who returned to the domestic market as net buyers of bonds in July and August. Growth of just more than 1½ per cent was recorded in the second quarter of 2000, up from only 1 per cent in the first quarter. Output growth in the secondary and tertiary sectors accelerated from the first to the second quarter, led by growth in the communications sector where the expansion of the cellular telephone network made an important contribution. Activity in the highly cyclical construction sector was apparently picking up too, and the manufacturing sector seems poised to move to higher levels of output.

Whereas the growth rate in real gross domestic product decelerated, though still remaining firmly positive in the first half of 2000, the rate of change in real gross domestic expenditure turned negative in the second quarter. Total real gross domestic expenditure in the second quarter of 2000 was not much more than in the second quarter of 1999. This was first and foremost the result of efforts by manufacturers and traders to reduce the cost of carrying inventories and to improve their return on total assets. Inventories were still accumulated, but at a far less aggressive rate than in the first quarter, leaving the ratio of inventories to gross domestic product broadly unchanged in the second quarter of 2000.

Growth in final consumption expenditure by households slowed down slightly in the second quarter of 2000, but still maintained a brisk pace. Far more impressive was fixed capital formation by private-sector companies. In most of the production sectors of the economy, producers were either replacing equipment or adding to production capacity at rates not seen over the past two years or so, signalling that stronger demand and output growth are expected to materialise shortly.

The disparate movements in the growth in aggregate output and in aggregate demand over the past year established a far healthier balance between aggregate supply and demand in the domestic economy. Although merchandise export volumes levelled off, the depreciation of the rand pushed the realised prices of exported goods higher, giving export earnings a boost in the second quarter of 2000. Import volumes, in turn, responded strongly to the decline in total real spending, and probably also to the rise in the prices of imported goods. The consequent fall in import volumes, together with the rise in export values, contributed most to a turnaround in the current-account of the balance of payments from a deficit in the second half of 1999 to a surplus in the first half of 2000.

The emergence of a surplus on the current account of the balance of payments coincided with the sudden reversal of net capital flows into the economy. Non-resident investors sold on a net basis part of their South African bond portfolios. In addition, foreign direct investment capital left the country as South African companies in search of profitable opportunities transferred larger amounts of capital to foreign markets than the amounts offshore companies were bringing into the country.

In the end, the deficit on the financial account of the balance of payments exceeded the absolute value of the surplus on the current account, leaving the country with a deficit on the overall external accounts and a decline in net holdings of international reserves in the second quarter of 2000. As a result, the rand experienced downward pressure in the first half of 2000, declining on a weighted basis by about 4 per cent from the end of December 1999 to the end of August 2000.

Employment growth in the formal sectors of the economy was still weak in the first three months of 2000, but the findings of recent surveys conducted by Statistics South Africa suggest that the informal economy is expanding rapidly and that it is providing a considerable number of new jobs and employment prospects. The growing importance of the informal economy as a provider of jobs, and its corollary the shrinking demand for labour by the formal economy, are relieving pressure on the formal labour market which is slowing down the growth in nominal wages and salaries. This helped to contain overall price inflation in the economy.

Despite the slowdown in the growth of labour compensation, South Africa could not escape the inflationary consequences of steeply rising international petroleum prices. However, these inflationary pressures are transitory and should more accurately be seen as random price shocks rather than the start of a new round of continuous price increases. Furthermore, government’s commitment to fiscal prudence, continued trade liberalisation, moderate increases in salaries and wages and relatively modest growth in aggregate domestic demand, are all favourable factors for the containment of domestically generated inflation.

The slower pace of economic expansion in the first half of 2000, and the reduction in inventory accumulation in the second quarter of the year, dampened the demand for money for transaction purposes. The first six months of the year also saw increased activity in the private securitised debt market, further curbing the growth in banks’ balance sheets and in overall money supply. Monetary deposits were also run down in order to meet payment commitments following the net selling of fixed-interest securities by non-resident investors. The monetary slowdown was an important indication that conditions are becoming increasingly benign for the inflation outlook.

Credit extension, being the most important factor determining the growth in banks' balance sheets, was also comparatively moderate in the first six months of 2000. It was mostly business firms that showed some apprehension about continued increases in their bank indebtedness. Households, by contrast, tentatively showed some appetite for a renewed accumulation of bank debt, yet their overall debt-to-income ratio remained at a fairly low level.

In the financial markets, the Reserve Bank proactively avoided undue volatility in the daily liquidity needs of the private banks. Liquidity conditions were tightened from the beginning of the year, but were managed in a way that forestalled any turbulence in the securities markets from spilling over into the money market. The interest rate on repurchase transactions at the daily auctions has remained unchanged at 11,75 per cent since about the middle of January 2000. Other money-market interest rates settled at levels roughly parallel to that of the repurchase rate; they rarely deviated substantially for any length of time from the direction indicated by the repurchase rate.

Trading activity in the secondary bond and equity markets, as well as in the market for derivatives, remained fairly buoyant throughout the first eight months of 2000. Price movements in these markets were negatively influenced by news that the economic recovery was not as vibrant as had been anticipated and by the weakness of the rand against the US dollar. Indications that non-resident investors were becoming slightly more hesitant about investing in emerging markets, and the unfortunate incidents in parts of sub-Saharan Africa, also dampened the spirit of optimism that had prevailed in the markets towards the end of 1999.

For the greater part of the first half of 2000, non-resident investors were net sellers of South African bonds, adding to the downward pressure on bond prices. They also cut back on their net purchases of equities, contributing to a fall of some 28 per cent in share prices from mid-January to mid-April 2000. Towards the middle of April 2000 investors gradually became more confident about prospects for the South African economy, triggering a mild recovery in asset prices. By the end of August 2000, most of the earlier losses in bond yields had been recovered, but share values were still well below their mid-January peaks.

The primary capital market showed clear signs of increased private-sector activity. Against the backdrop of a shrinking public-sector borrowing requirement, private-sector organisations stepped up their demand for debt financing. There was also a strong increase in new capital raised by companies listed on the Johannesburg Stock Exchange. These capital-raising activities were mostly related to mergers and acquisitions of existing assets, and would not necessarily give rise to more fixed capital formation. Moreover, the mobilisation of debt capital was to an important extent motivated by the need of some banking institutions to augment their secondary capital resources.

The deficit before borrowing and debt repayment of national government in the first three months of fiscal 2000/01 equalled about three-fifths of the budgeted deficit for the full fiscal year. When the typical seasonal patterns in revenue and spending flows are taken into consideration, national government's net financial position was nevertheless more or less consistent with the budgeted plans for the fiscal year as a whole. Expenditures were rising faster than the budgeted increase for the full year, but revenues also performed far better than envisaged in the Budget. Income-tax collections, value-added tax collections and receipts from customs duties all exceeded the budget projections by a sizeable margin.

The bulk of national government's deficit in the first three months of the current fiscal year was financed through the issuance of short-term paper at lower interest rates than the prevailing long-term rates. This naturally contributed to the low activity levels in the primary bond market.

Although gross saving remained low relative to gross domestic product, there was a most significant development in the second quarter of 2000. After persevering with conservative and prudent fiscal policies for the past six years or so, general government bodies succeeded, on a seasonally adjusted basis, in raising their current revenues beyond the level of their current expenditures, leaving them with a small surplus. In other words, general government became a contributor to gross national saving, after having absorbed private-sector saving resources for longer than a decade. Positive general-government saving on a sustained basis is likely to boost gross saving in the economy, thereby reducing pressure on interest rates and adding to the wherewithal required for a high investment ratio, which will ultimately lead to higher rates of economic growth and development.

Domestic economic developments

Domestic output

The latest estimates indicate that aggregate *real gross domestic product* grew at an annualised rate of just more than 1½ per cent in the second quarter of 2000, following growth of about 1 per cent in the first quarter. Such growth was well below the average annualised growth of 3 per cent in the second half of 1999. Because of the statistical carry-over effect of the strong growth in the second half of 1999, and despite the slower growth in economic activity in the first half of 2000, total output was still nearly 2½ per cent higher in the first half of 2000 than in the first half of 1999.

The modest recovery in economic growth in the second quarter of 2000 can be attributed to slight accelerations in output growth in the secondary and tertiary sectors. Production volumes continued to decline in the primary sectors of the economy, albeit at a slower rate than in the first quarter.

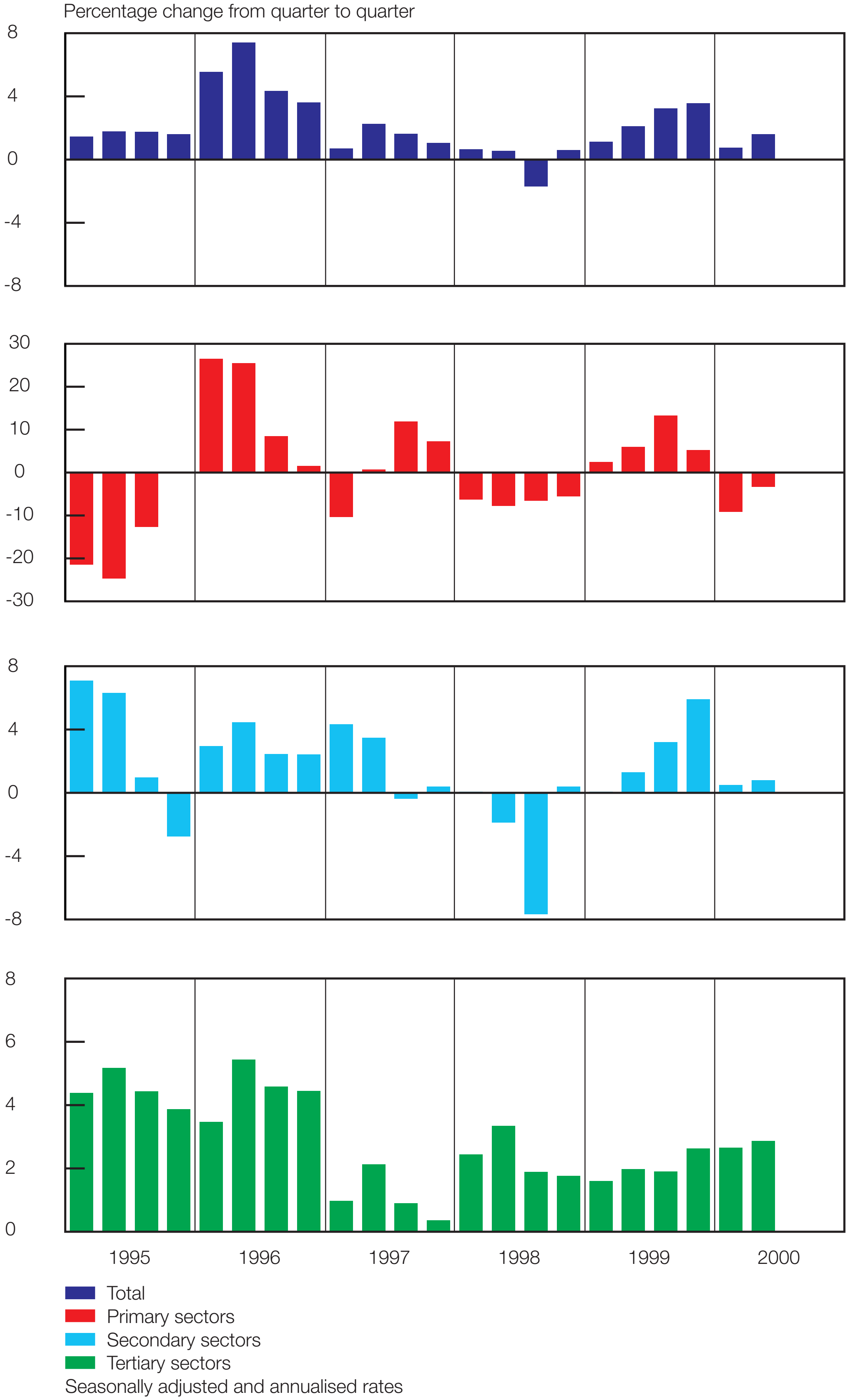
Agricultural production, which had increased by some 4½ per cent in 1999, contracted sharply in the first six months of 2000. This decline naturally had a detrimental effect on production in other sectors of the economy through forward and backward linkages. The manufacturing sector, in particular, was disrupted by delays in agricultural supplies, following the damage to crops and harvests caused by floods and veld fires in the early months of the year. The delay in the harvesting of the maize crop, partly because of wet soil conditions, also reduced agricultural output in the first half of 2000 to levels lower than could otherwise be expected in a year of normal rainfall.

Total output in the *mining sector* decreased at annualised rates of 2 per cent and 4 per cent in the first two quarters of 2000. More specifically, gold production contracted owing to weakness in the international price of gold. Coal output was curtailed in response to an oversupply on international markets. By contrast, the mining of metals in the platinum group benefited from greater world demand and better international commodity prices.

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

	1999					2000	
Sectors	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Primary sectors	2½	6	13	5	1	-9	-3½
Agriculture	7	16	38½	12½	4½	-17½	-2½
Mining	-½	-½	-2	0	-1	-2	-4
Secondary sectors	0	1½	3	6	0	½	1
Manufacturing	1	2	4	7	0	½	0
Tertiary sectors	1½	2	2	2½	2	2½	3
Commercial sector	1½	2	2	1½	0	4½	4½
Transport, storage and communication	3½	5	4	3½	6½	4½	5½
Non-agricultural sectors	1	1½	2	3½	1	1½	2
Total	**1**	**2**	**3**	**3½**	**1**	**1**	**1½**

Growth in real gross domestic product



The growth in the real value added by the *secondary sectors* accelerated from an annualised rate of only ½ per cent in the first quarter of 2000 to about 1 per cent in the second quarter. This stemmed mainly from some improvement in activity in *building construction* and the *electricity-generating* sector. Construction activity is increasingly showing signs of recovering from the setbacks of 1998 as residential building development responds to the decline in mortgage financing costs. The supply of electricity at the onset of winter rose more than the typical seasonal pattern because more and more households are gaining access to the electricity supply network.

Output by the *manufacturing* sector expanded at an annualised rate of 7 per cent in the fourth quarter of 1999, but slowed down to growth of only ½ per cent in the first quarter of 2000 and remained almost unchanged from the first to the second quarter. Manufacturers in the export-oriented industries experienced weak growth in demand during the second quarter of 2000 – the volume of merchandise exports of manufactured goods remained virtually unchanged from the volume in the first quarter. The unusual concentration of public holidays in the second quarter of 2000 and the decline in aggregate domestic expenditure, specifically the low level of investment spending, further suppressed the demand for manufactured output.

An analysis of the performance of the *tertiary sectors* in the second quarter of 2000 shows the following:

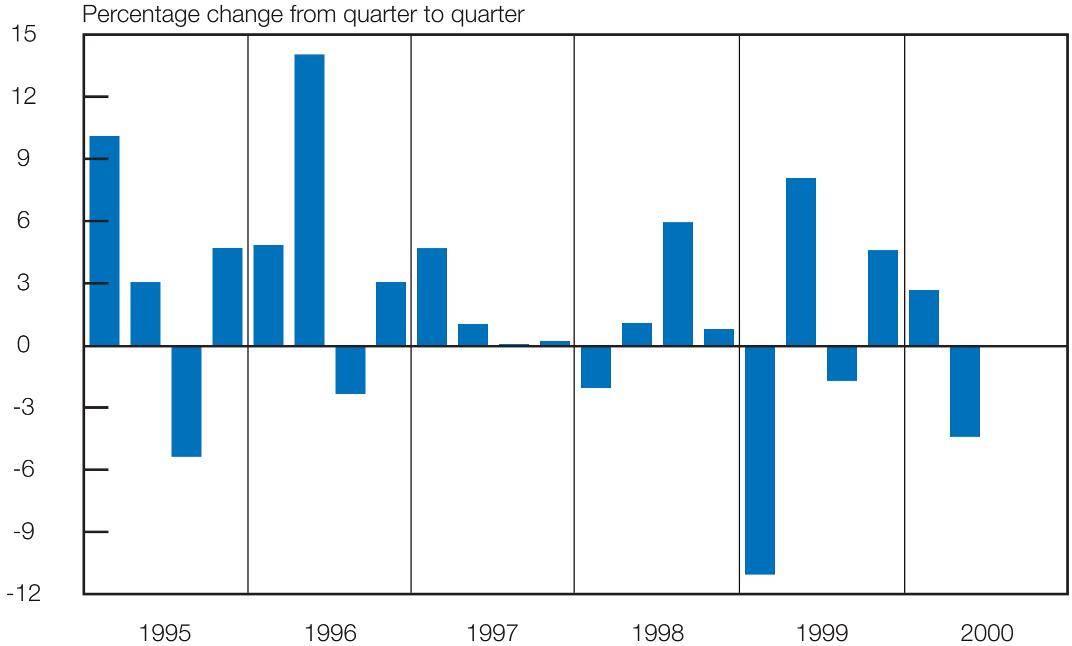
- The real value added by *transport and communications services* rose strongly at an annualised rate of 5½ per cent. This could be attributed to a rise in passenger traffic and air transport and the ongoing expansion of the cellular telephone network.
- The real value added by the commercial sector rose at an annualised rate of 4½ per cent, largely because of a solid expansion in the wholesale and retail trade sectors. Wholesale trade, in particular, was boosted by buoyant diamond sales. The real value added by the motor trade remained at a high level, but the growth was weak from the first to the second quarter.
- The real value added by the *financial intermediation, insurance, real-estate and business services sector* grew at an annualised rate of 3 per cent in both the first and second quarters of 2000, compared with growth at an annualised rate of 7 per cent which was registered in the fourth quarter of 1999. A decline in trading on the securities markets caused this slowdown, which was concentrated mostly in the financial services sector. Activity in the real-estate sector, which is relatively small in the context of the overall financial services sector, strengthened markedly during the second quarter of 2000.

Domestic expenditure

Aggregate *real* gross *domestic expenditure* declined at a quarter-to-quarter seasonally adjusted and annualised rate of 4½ per cent in the second quarter of 2000; in the first quarter of 2000 gross domestic expenditure had still increased by 2½ per cent, and in the fourth quarter of 1999 by 4½ per cent. A sharp decline in inventory accumulation essentially caused the decline in real spending in the second quarter of 2000.

Measured over one year, total real gross domestic expenditure in the second quarter of 2000 was not much higher than one year earlier. Real gross domestic product grew by about 2½ per cent from the second quarter of 1999 to the second quarter of 2000. Judging by the relatively wide margin between growth in real output and growth in real expenditure, there is little reason to expect upward pressure from domestic demand on the average level of end-product prices.

Real gross domestic expenditure



Seasonally adjusted and annualised rates

Real private consumption expenditure rose strongly in the first half of 2000, slowing only marginally from growth of 3½ per cent (seasonally adjusted and annualised) in the first quarter of 2000 to 3 per cent in the second quarter. The growth in real household spending on non-durable goods and services held in the second quarter of 2000 firm at the rates attained in the first quarter. Spending on durable and semi-durable goods, representing about 16 per cent of final household expenditure, slowed down in the second quarter of 2000.

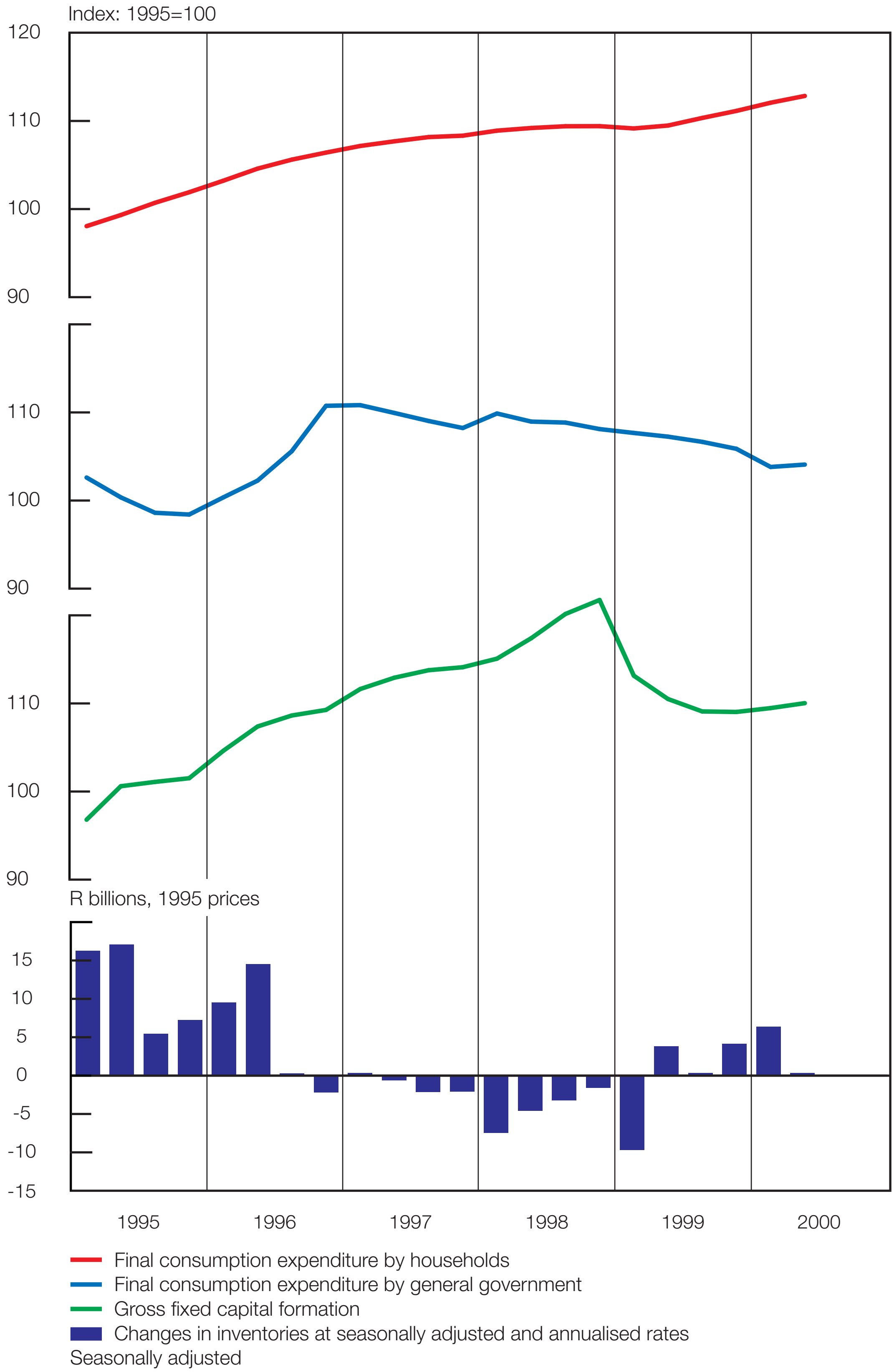
Real gross domestic expenditure
Percentage change at seasonally adjusted and annualised rates

	1999					2000	
Components	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr
Final consumption expenditure by households	-1	1	3	3	½	3½	3
Final consumption expenditure by general government	-1½	-1½	-2	-3	-2	-7½	1
Gross fixed capital formation	-25½	-9	-5	0	-7	1½	2
Domestic final demand	-6	-1	1	1½	-1	1	2½
Change in inventories (R billions)*	-9,7	3,8	0,2	4,2	-0,4	6,4	0,3
Gross domestic expenditure	**-11**	**8**	**-1½**	**4½**	**-½**	**2½**	**-4½**

* 1995 prices

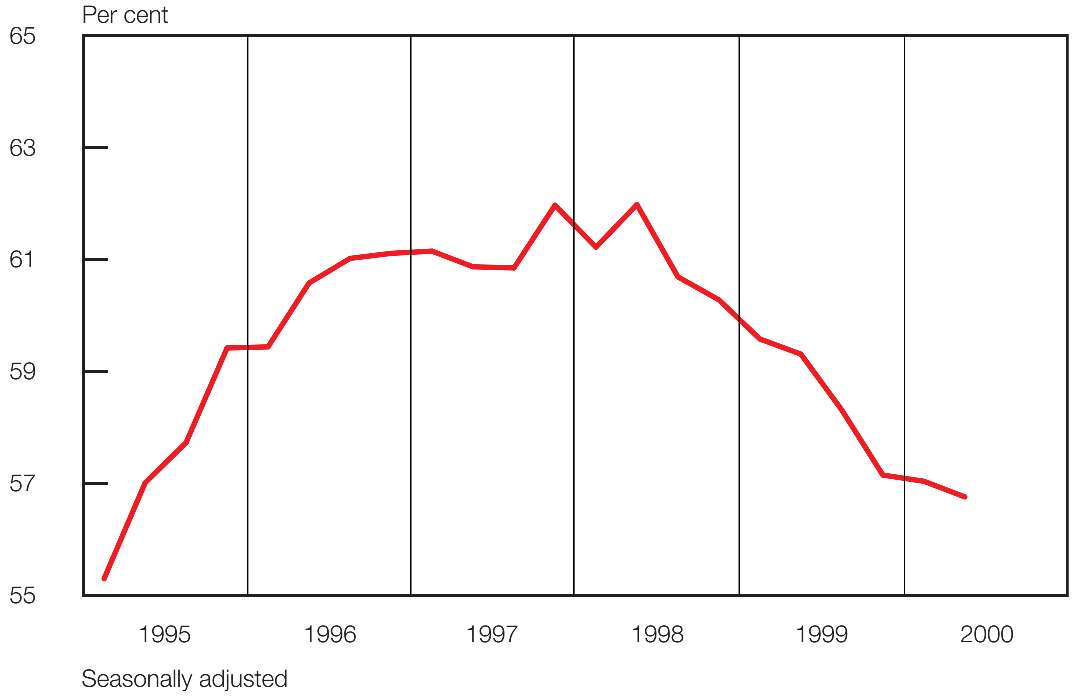
Consumer behaviour was somewhat ambivalent in the second quarter of 2000. On the one hand, real expenditure in the non-durables and services categories was driven higher by the rising real incomes of households. The notable exception was spending on petroleum products where sharp price increases necessitated spending cuts. In contrast to spending on non-durables and services, spending on durable

Main components of gross domestic expenditure



and semi-durable goods was held back by weak consumer confidence and a hesitancy to incur debt. In particular, purchases of new motor cars and furniture, and spending on clothing and footwear, were affected by the reluctance of consumers to spend. In the process, households' debt-to-income ratio declined to 57 per cent in the second quarter of 2000 – in the first quarter of 1999 this ratio was still 59½ per cent.

Household debt as percentage of disposable income



After eight consecutive quarter-to-quarter declines, *real final consumption expenditure by general government* turned around and increased at an annualised rate of 1 per cent in the second quarter of 2000. Measured over a period of four quarters, real consumption expenditure by general government in the first half of 2000 was about 3½ per cent lower than in the corresponding period of the previous year; in the 1999 calendar year this expenditure had declined by 2 per cent. The recent declines in consumption expenditure by general government are a clear indication of government's determination to reduce the national government budget deficit, boost investment confidence, and thus stimulate a high rate of investment in machinery and equipment as an important prerequisite for sustained growth and job creation.

Total *real gross fixed capital formation* is estimated to have increased at an annualised rate of 2 per cent in the second quarter of 2000; this growth rate was higher than the 1½ per cent in the first quarter and may signal that the decline in fixed investment expenditure since the beginning of 1999 could have come to an end. The pickup in investment activity was seen mostly in the private sector – public-sector capital formation declined further in the second quarter of 2000.

Real gross fixed capital formation in the *private sector,* which had declined uninterruptedly from the first quarter of 1998 to the third quarter of 1999, increased for the third consecutive time in the second quarter of 2000. What is more, the rate of growth in private-sector fixed capital formation accelerated from 3 per cent in the first quarter of 2000 to 7 per cent in the second quarter. Classified by sector of economic activity, all the major sectors participated in the expansion of investment activity. Particularly prominent was the increased capital formation in the trade and accommodation sector where the development of casinos and hotels had a strong effect. The construction sector was evidently preparing for better times and added to its stock of productive machinery and equipment. Manufacturers raised their level of capital formation, probably to expand production capacity in order to meet an anticipated increase in demand. Capital formation in the agricultural sector was mainly for the replacement of capital equipment that had been damaged by the recent floods and for new equipment with an eye to harvesting the expected large maize crop.

In the *public sector,* public corporations and other business enterprises scaled down their capital spending, probably as part of efficiency-enhancement strategies ahead of increased private-sector participation in these organisations. Real capital expenditure by general government services increased somewhat on account of the need to replace infrastructure that had been damaged by the floods and through higher expenditure on road and residential infrastructure.

The *inventory build-up* in the economy has become progressively stronger since the third quarter of 1999, but slowed down abruptly in the second quarter of 2000 when producers and traders realised that they had over-estimated the growth in aggregate effective demand. The result of the lower rate of output growth and the decline in merchandise import volumes, when domestic final demand rose marginally and merchandise exports volumes maintained their high levels, was that the quarterly accumulation of inventories fell back from an annualised rate of R6,4 billion in the first quarter of 2000 to only R0,3 billion in the second quarter. Despite this slowdown, the ratio of industrial and commercial inventories to gross domestic product in the non-agricultural sectors remained at about 14 per cent in the second quarter of 2000.

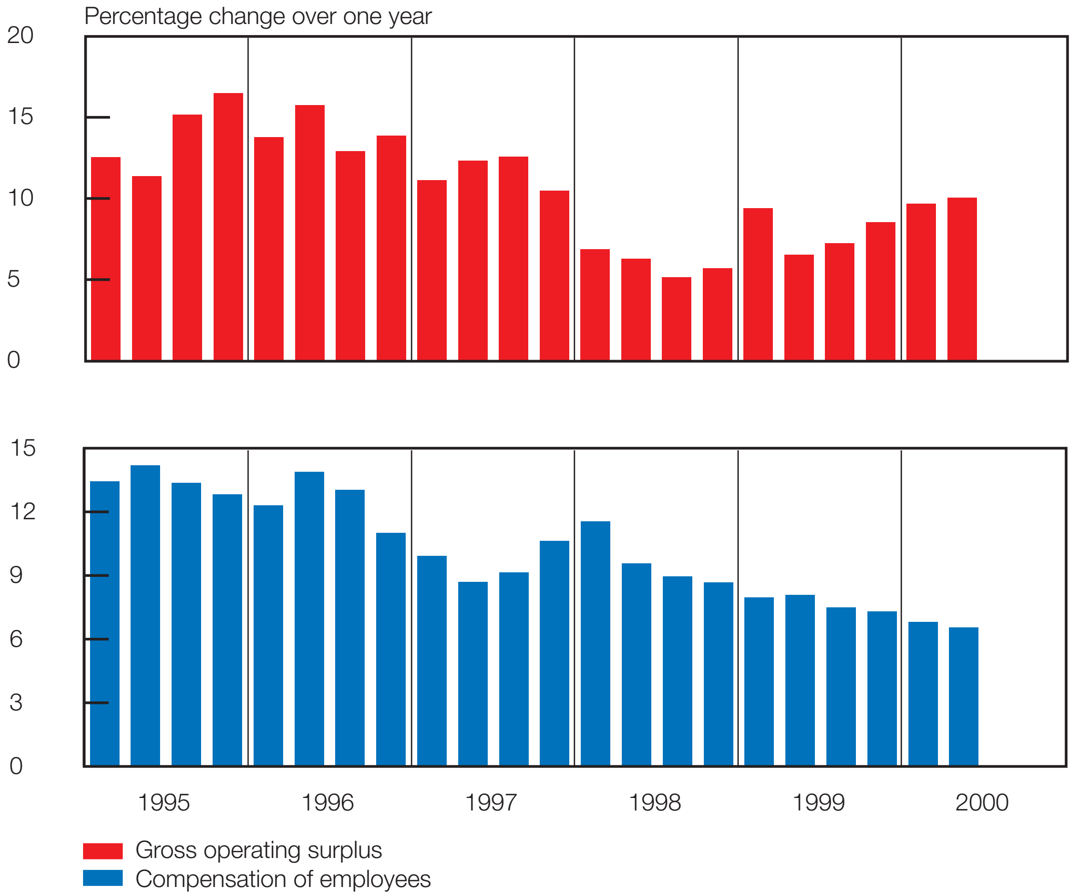
Factor income

The growth over one year in aggregate *nominal factor income* has been sustained at a rate of 8 per cent from the fourth quarter of 1999 to the second quarter of 2000. The growth in the nominal compensation of employees slowed down in the second quarter of 2000, but this was fully countered by accelerated growth in the aggregate gross operating surplus.

Lower remuneration settlements, less wage drift and weak employment growth contributed to the slowdown in the growth in *labour compensation.* Measured over one year at a rate of 6½ per cent in the second quarter of 2000, the growth in total labour compensation was at its lowest level in almost four decades. As a percentage of total factor income, the compensation of employees declined from 56 per cent in the first quarter of 1999 to below 55 per cent in the second quarter of 2000.

Mirroring the slower growth in the compensation of labour, and also partly caused by it, the growth in total *nominal operating surpluses* accelerated from 9½ per cent in the first quarter of 2000 to 10 per cent in the second quarter. All the main sectors of economic activity, except agriculture and financial services, experienced faster growth in operating surpluses in the second quarter of 2000. Widespread productivity increases and rising international commodity prices contributed most to the faster growth in operating surpluses, but there were also signs of some widening of operating margins.

Gross operating surplus and compensation of employees



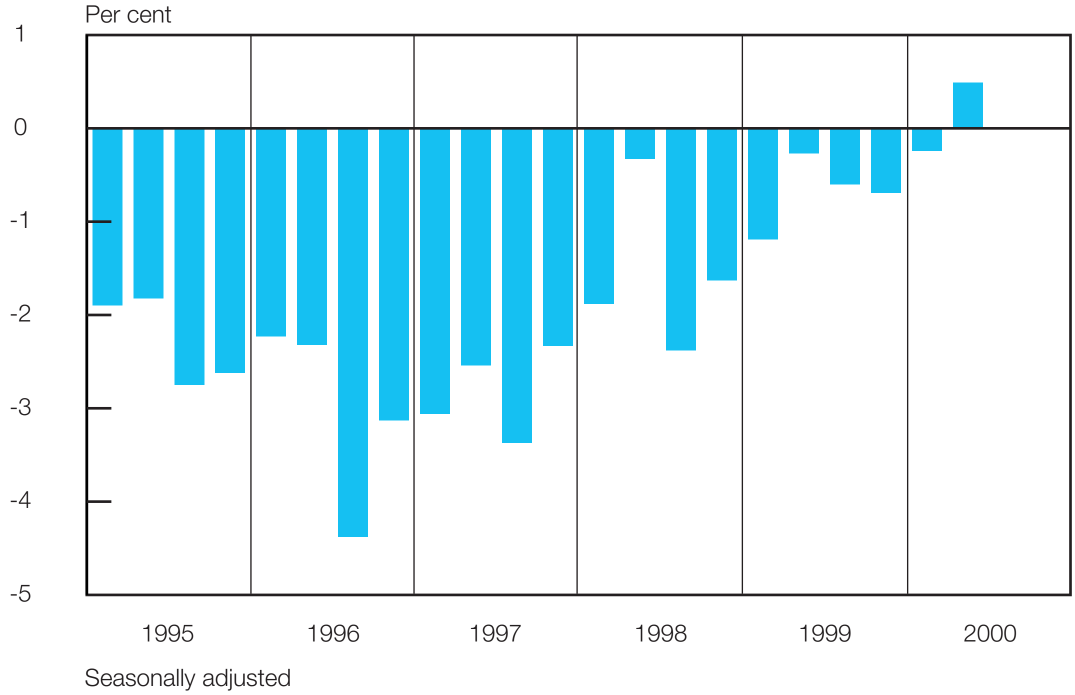
Gross saving

The ratio of gross saving to gross domestic product remained at the comparatively low level of 15½ per cent in the second quarter of 2000. Private-sector saving deteriorated in the second quarter of 2000, but there has been a positive contribution by general government to the national saving effort for the first time since 1991.

Despite an acceleration in the growth of operating surpluses, corporate saving as a percentage of gross domestic product fell from 13 per cent in the first quarter of 2000 to 12 per cent as companies disbursed a greater portion of operating surpluses as dividends. Private households increased their current outlays by more than the growth in their income levels, also compressing their saving as a ratio of gross domestic product from 3 per cent in the fourth quarter of 1999 to 2½ per cent in the second quarter of 2000.

For many years it was the stated objective of government that the public sector would add to the national saving effort, rather than absorbing part of private-sector saving. This objective was tentatively achieved in the second quarter of 2000 when the general-government sector's current revenue exceeded its current expenditure. Gross saving by general government is estimated to have been equal to about ½ per cent of gross domestic product in the second quarter of 2000. This was the first time since the first quarter of 1991 that general government had contributed positively to gross domestic saving. Further progress in this area would boost gross saving even more, and add to the wherewithal that is required for a high investment ratio which could ultimately lead to higher rates of economic growth and development.

Gross saving by general government as percentage of gross domestic product



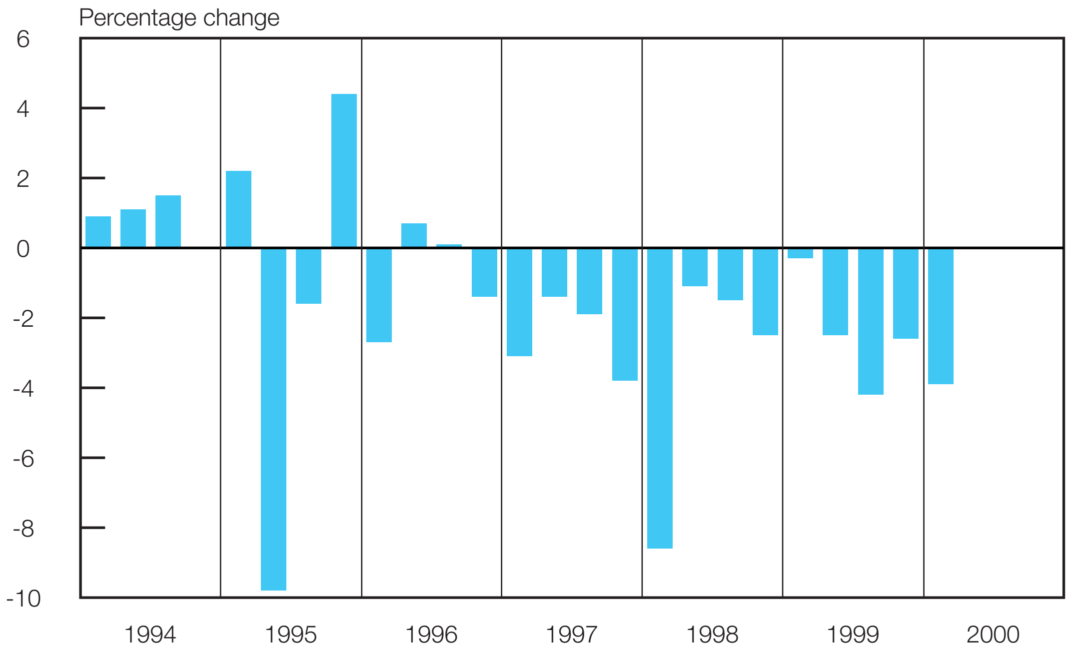
Employment

Employment in the South African economy increased in the year to October 1999, according to the findings of the *1999 October Household Survey* by Statistics South Africa. Overall, the number of jobs in the economy increased from October 1998 by about 10 per cent to a level of around 10,4 million in October 1999. The number of unemployed remained unchanged in the year to October 1999 at around 3,2 million, resulting in a decline in the official unemployment rate (i.e. the unemployed as a percentage of the economically active population) from 25,2 per cent in October 1998 to 23,3 per cent in October 1999.

The *informal sector* seems to be expanding and providing many new jobs. About 600 000 jobs were created in the informal sector in the year to October 1999. In the *formal sector,* an increase in employment opportunities was mainly found in the industries not adequately covered by regularly conducted surveys of formal establishments. An estimated 280 000 additional jobs were created in these industries between October 1998 and October 1999. By contrast, the regular surveys of formal establishments indicate that the number of jobs in the formal non-agricultural sectors of the economy declined from 5,2 million to 4,8 million between September 1996 and September 1999. The inability of the formal economy to create sufficient jobs and adequately address the issue of unemployment remains a major structural problem in the South African economy.

Formal-sector employment has declined further since September 1999. According to the *Survey of Total Employment and Earnings* by Statistics South Africa, *formal non-agricultural employment* decreased by 1,6 per cent or about 78 000 jobs in the six months to March 2000. In fact, the pace of job attrition accelerated from a seasonally adjusted and annualised rate of 2,6 per cent in the fourth quarter of 1999 to 3,9 per cent in the first quarter of 2000.

Total non-agricultural employment



Seasonally adjusted annualised rates
Regularly surveyed formal-sector employment

Most of the job losses in the opening months of 2000 occurred in the private non-agricultural sector of the economy where about 40 000 jobs were destroyed in the first quarter. Job losses were highest in the manufacturing, construction and the trade, catering and accommodation services sectors. Some employment gains were made in the non-gold mining sector, and employers in the transport, storage and communication sectors of the economy also added to their staff complements during the first quarter of 2000.

Employment in the *public sector* declined in the first quarter of 2000, but with less intensity than in the private sector. Employment gains in local governments and by public-sector firms in the transportation, storage and communications industries slowed the pace of job attrition in the public sector from an annualised rate of 6,0 per cent in the third quarter of 1999 to 1,7 per cent in the first quarter of 2000.

Government's willingness to re-evaluate certain aspects of labour legislation which may have had unintended negative effects on job creation, was illustrated in the recent announcement of proposed changes to existing labour legislation. Government is of the opinion that the proposed amendments may adequately address aspects of labour legislation which might impede job creation, inhibit labour market efficiencies, deter the establishment of small business enterprises and leave vulnerable workers inadequately protected. The main aspects of the proposed changes to labour legislation include the following:

- Removal of the obligation on employers to pay premium rates for work on Sundays;
- simplification of dismissal procedures during the six-month probationary period;
- more flexibility in weekly working hours and overtime limits;
- greater protection to those classified as independent contractors;
- speedier mediation and arbitration procedures;
- a greater obligation on employers to consider alternatives to retrenchments, and increased observance of aspects of procedural fairness;

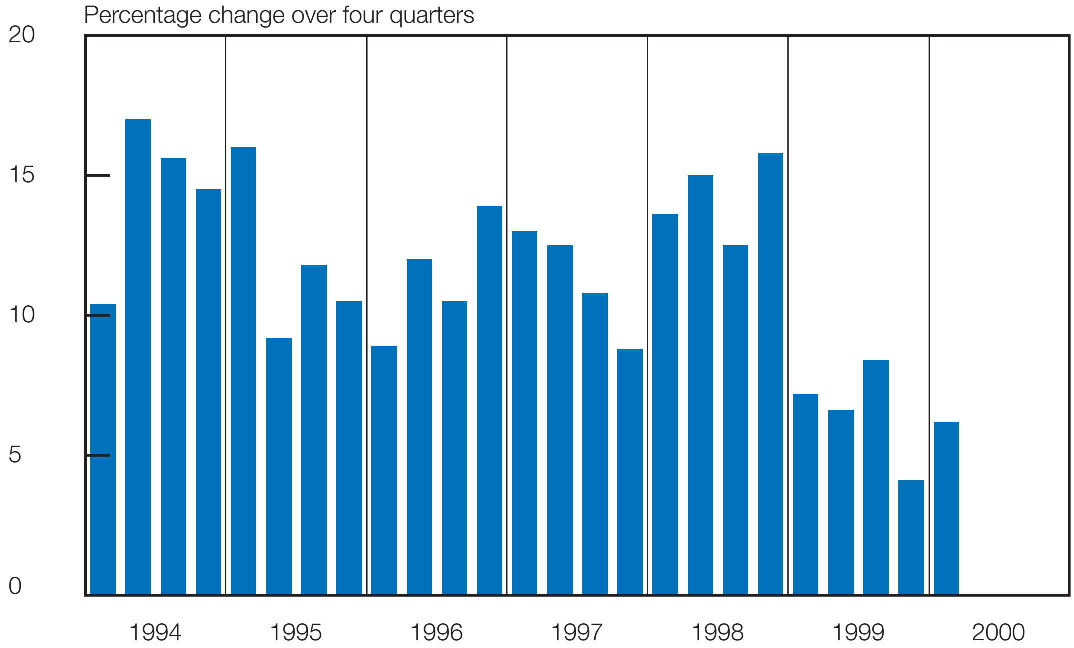
- an obligation to report retrenchments in excess of 500 employees to the Minister of Labour and additional rights for workers in instances of insolvency; and
- simplified procedures for the transfer of employment contracts in the case of mergers and acquisitions.

The trade union movement has indicated its opposition to these proposals. However, business has indicated its support. It seems that a long drawn out negotiation process lies ahead.

Labour costs and productivity

The growth in the *nominal remuneration per worker in the non-agricultural sectors* of the economy slowed down to 6,6 per cent in 1999. However, there were signs of a slight acceleration in nominal remuneration growth in the first quarter of 2000. The increase over one year in average remuneration per worker in the private sector picked up from 8,0 per cent in the fourth quarter of 1999 to 9,6 per cent in the first quarter of 2000. Remuneration growth in the public sector remained subdued, but nevertheless accelerated from a year-on-year increase of 0,1 per cent in the fourth quarter of 1999 to 2,1 per cent in the first quarter of 2000.

Nominal remuneration per worker in non-agricultural sectors



Break in consistency of data in 1998

The cumulative number of workdays lost owing to industrial action came to 125 000 at the end of June 2000. This has been the lowest six-month total since 1995. Almost 80 per cent of the workdays lost were related to pay issues. The bulk of the action occurred in the first quarter of 2000 and could have contributed to the slight acceleration in the growth in worker compensation in that quarter.

Although wages are typically agreed upon in nominal terms, *employees* are concerned about their earnings in terms of real purchasing power, often referred to as the *real consumption wage.* The findings of a comprehensive remuneration survey by P-E Corporate Services, covering about 25 per cent of the formal-sector workforce, indicate that remuneration increases have generally exceeded consumer price inflation in the past five years (the period for which the survey was conducted). Most employers envisage a reduction in salary increases in the year ahead, but consumer price inflation is expected to be lower too. Statistics released by Andrew Levy and Associates indicate that the settlement rate in collective bargaining agreements declined from an average of 8,3 per cent in 1999 to 8,0 per cent in the first half of 2000, beating consumer price inflation by a fair margin.

Employers are concerned about their labour costs per employee relative to the prices of goods and services they sell – i.e. they care about the *real product wage.* Growth in real product wages over one year in the private sector accelerated from 1,3 per cent in the first quarter of 1999 to 4,0 per cent in the first quarter of 2000, signalling that remuneration per worker rose faster than the end-product prices of firms. This could easily have led to the compression of operating margins or higher production-price inflation, had it not been for strong growth in labour productivity. Overall, the growth in *real output per worker* in the formal non-agricultural sectors of the economy accelerated from a year-on-year rate of 2,0 per cent in the first quarter of 1999 to 5,7 per cent in the first quarter of 2000. These productivity gains were to a significant extent the result of cost-saving programmes which invariably led to reductions in the workforce of firms, but there was also some enhancement of production efficiency through investment in new technologies.

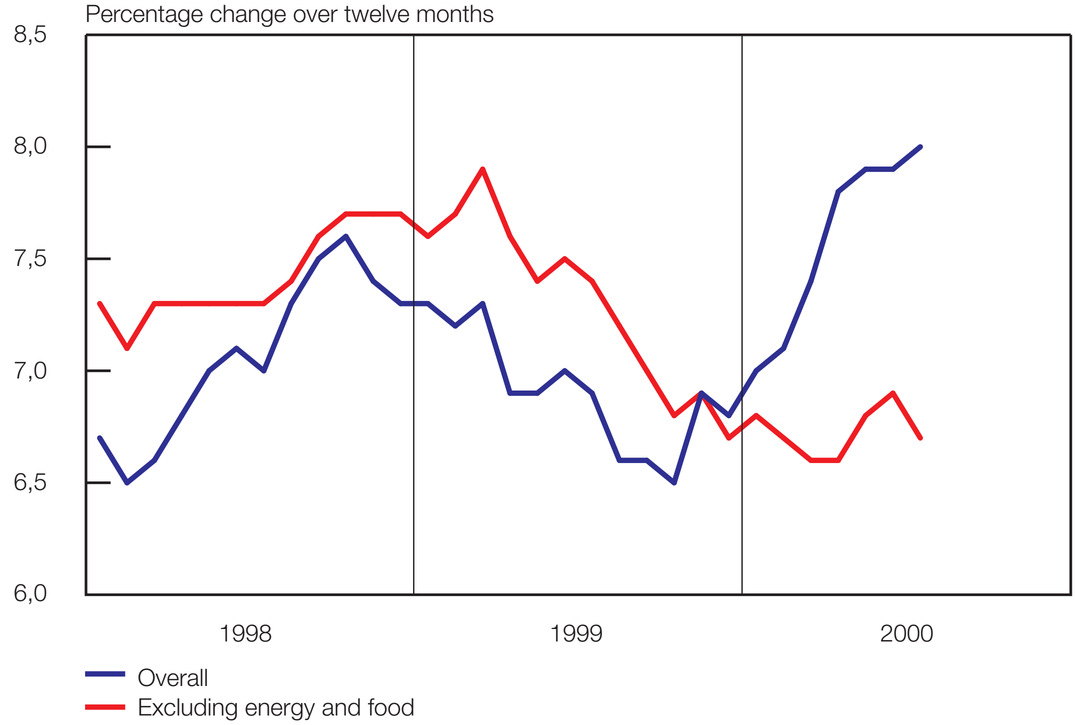
The joint effect of slower growth in nominal remuneration per worker and faster growth in output per worker was the slowdown in the growth in nominal unit labour cost to 3,2 per cent in 1999 and to a year-on-year rate of 0,5 per cent in the first quarter of 2000. Lower growth in the cost of labour per unit of real production, which is central to the inflationary process, will help to alleviate pressure on the output prices of goods and services in the coming months.

Inflation

The quarter-to-quarter rate of consumer price inflation in metropolitan and other urban areas, excluding mortgage interest rates (CPIX), was 9,2 per cent in the second quarter of 2000, considerably higher than the annualised rate of 6,6 per cent in the second quarter of 1999. In July 2000, CPIX inflation over twelve months was 8,0 per cent, compared with 6,5 per cent in October 1999. This increase reflects the effects of the rise in the prices of petrol and diesel following the steep rise in the international price of crude oil, and higher food prices following the damage to agricultural crops in the first quarter of 2000. If these price increases are omitted, CPIX inflation would be 6,7 per cent for June 2000 – only 0,2 percentage points higher than the lower turning point in the all-items CPIX inflation in October 1999.

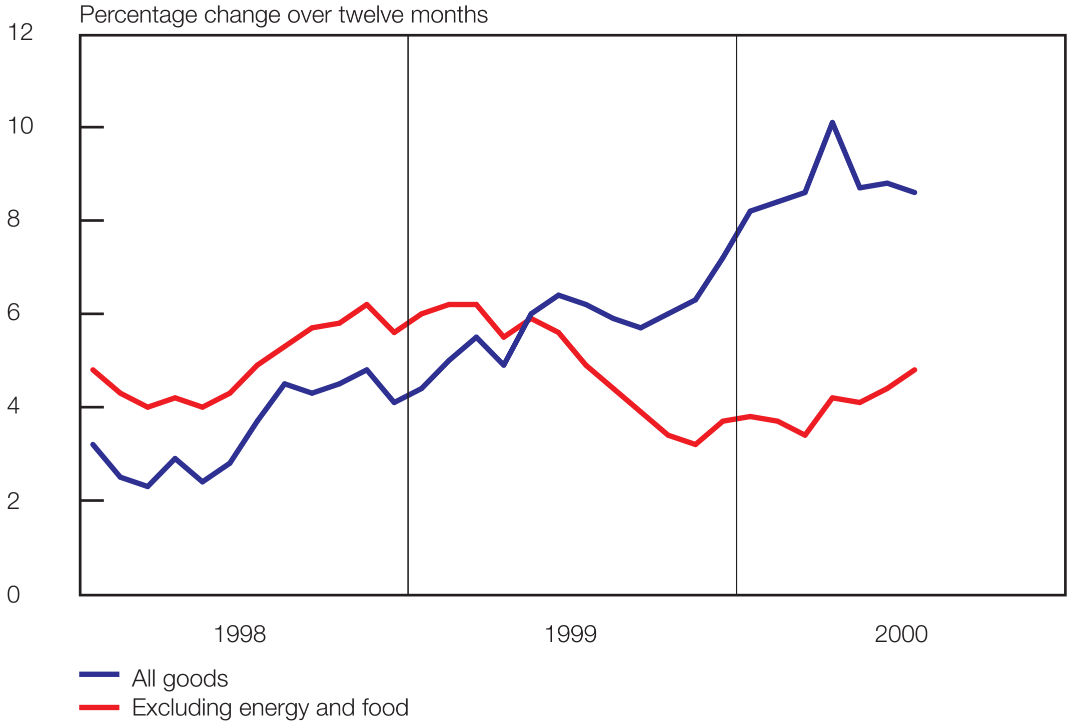
Overall consumer price inflation over twelve months accelerated from 1,7 per cent in October 1999 to 5,9 per cent in July 2000. This acceleration reflects the rise in the prices of petrol, diesel and food, and the low base for year-on-year inflation calculations that had been established in 1999 when mortgage bond interest rates were declining rapidly. When excluding the main drivers of overall consumer price increases over the past twelve months, namely fuel and food prices, overall consumer price inflation would be only 3,7 per cent for July 2000.

CPIX inflation



Inflation in the other broad measures of aggregate price changes has also rebounded in recent months, mainly for the same reasons as consumer price inflation. Inflation in *production prices*, which usually precedes changes in consumer price inflation, rose from a year-on-year rate of 2,3 per cent in March 1998 to 10,1 per cent in April 2000. Subsequently, production price inflation receded somewhat to a year-on-year rate of 8,8 per cent in June 2000 and 8,6 per cent in July as the month-to-month

Production price inflation



Consumer and production price indices excluding energy and food prices
Twelve-month percentage change

Period		CPIX		Overall consumer price index		All-goods production price index	
		Actual	Excluding energy and food	Actual	Excluding energy and food	Actual	Excluding energy and food
1999:	Jul	6,9	7,4	4,9	4,6	6,2	4,9
	Aug	6,6	7,2	3,2	2,7	5,9	4,4
	Sep	6,6	7,0	1,9	0,7	5,7	3,9
	Oct	6,5	6,8	1,7	0,3	6,0	3,4
	Nov	6,9	6,9	1,9	0,2	6,3	3,2
	Dec	6,8	6,7	2,2	0,5	7,2	3,7
2000:	Jan	7,0	6,8	2,6	0,8	8,2	3,8
	Feb	7,1	6,7	2,4	0,5	8,4	3,7
	Mar	7,4	6,6	3,4	1,2	8,6	3,4
	Apr	7,8	6,6	4,5	1,9	10,1	4,2
	May	7,9	6,8	5,1	3,0	8,7	4,1
	Jun	7,9	6,9	5,1	3,0	8,8	4,4
	Jul	8,0	6,7	5,9	3,7	8,6	4,8

increases in international petroleum prices became less pronounced. It is estimated that the all-goods production price index would have increased by only 4,2 per cent in the year to July 2000 if petroleum prices had remained unchanged over this period.

Increases in the prices of *domestically produced goods* fluctuated between 4,0 per cent in January 1999 and 6,1 per cent in December, but accelerated to 8,0 per cent in April 2000. This rate subsequently fell back to 6,6 per cent in July 2000. The acceleration in recent months was driven mostly by the effect of higher petrol and diesel prices on domestic production costs. Mainly because of higher petroleum prices, the year-on-year increase in the prices of *imported goods* reached 16,2 per cent in April 2000, before subsiding, on balance, to 14,0 per cent in June and July.

The rise in imported inflation during 1999 and the first half of 2000 is most strikingly indicated by the seasonally adjusted and annualised quarter-to-quarter rate of increase in the price index of imported goods. This rate had declined to 2,8 per cent in the first quarter of 1999 but rose to 21,7 per cent in the first quarter of 2000. The rate of increase slowed down to 14,4 per cent in the second quarter of 2000 when international oil prices levelled off somewhat.

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

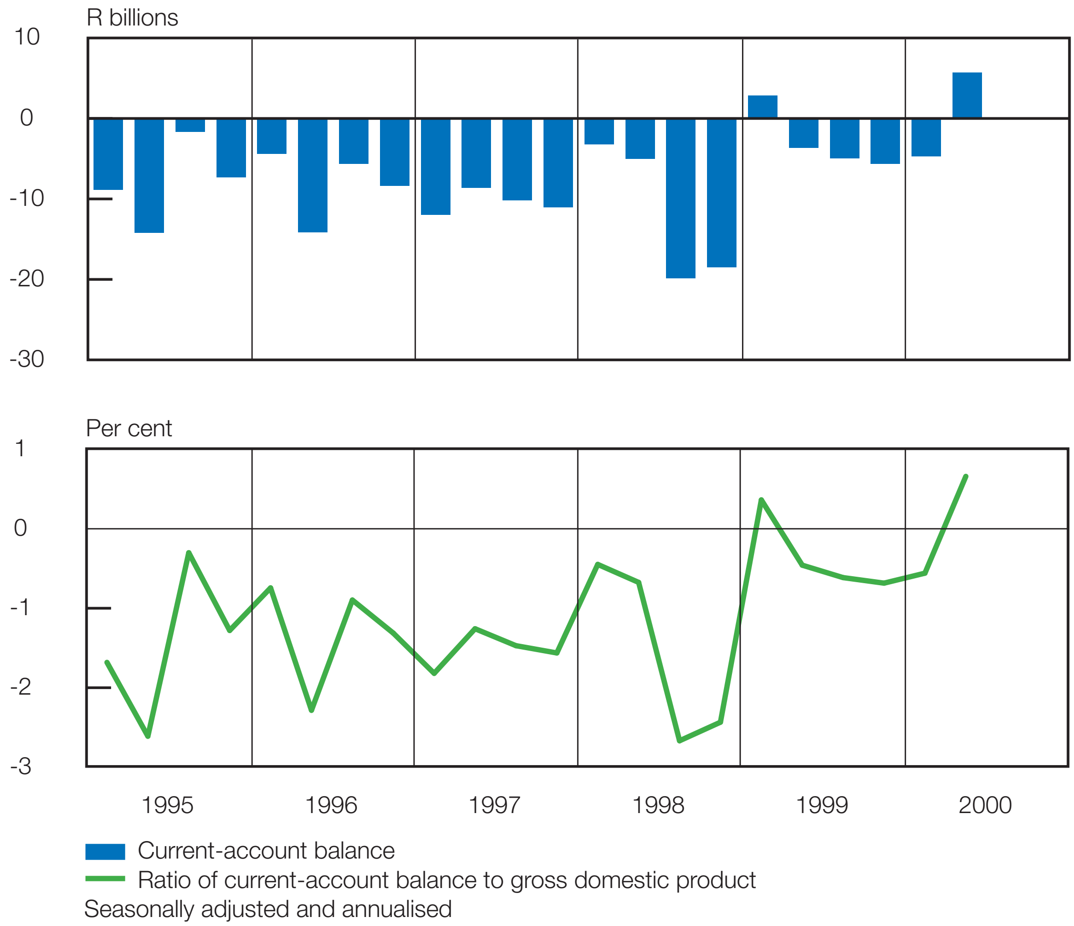
Period		Domestically produced goods	Imported goods	Overall production prices
1999:	1st qr	5,7	-2,8	3,7
	2nd qr	5,7	11,5	7,1
	3rd qr	6,7	13,4	7,9
	4th qr	4,9	10,4	6,9
	Year	**5,3**	**7,8**	**5,8**
2000:	1st qr	8,7	21,7	11,7
	2nd qr	8,8	14,4	10,1

Foreign trade and payments

Current account

The balance on the current account of the balance of payments (seasonally adjusted and annualised), which had narrowed from a deficit of R5,6 billion in the fourth quarter of 1999 to R4,7 billion in the first quarter of 2000, changed into a surplus of R5,7 billion in the second quarter. This surplus equalled 0,7 per cent of gross domestic product. For the whole of 1999 a deficit equal to 0,4 per cent of gross domestic product was recorded. On an unadjusted basis, the current account had a surplus of R1,9 billion in the first half of 2000.

Current account



The strong showing of the current account in the second quarter was largely due to a steep rise in the prices of merchandise exports following the depreciation of the rand, and a sizeable decline in the volume of merchandise imports occasioned by the decline in real gross domestic expenditure. The surplus on the trade account widened to such an extent that a deterioration in the services account could not prevent an improvement in the current-account balance.

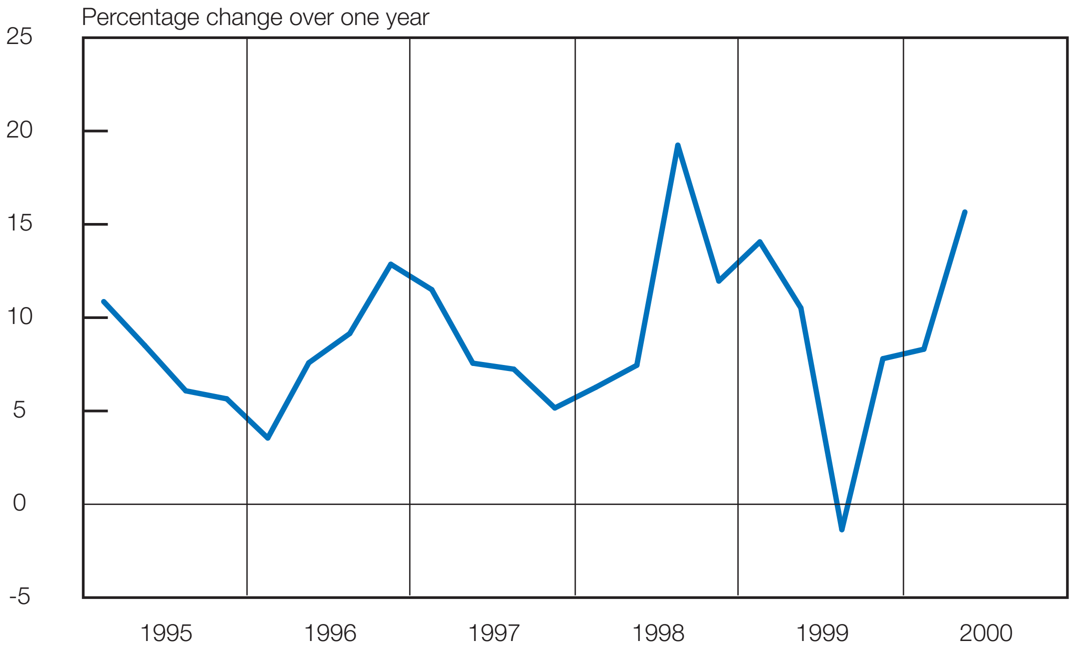
Balance of payments on current account

Seasonally adjusted and annualised
R billions

	1999				2000	
	1st qr	2nd qr	3rd qr	4th qr	1st qr	2nd qr
Merchandise exports....................	147,2	139,6	148,2	161,0	174,7	186,4
Net gold exports	24,7	23,8	22,9	25,7	27,0	26,0
Merchandise imports	-142,6	-142,5	-149,7	-166,7	-180,4	-178,8
Net service, income and current transfer payments.....................	-26,5	-24,6	-26,3	-25,6	-26,0	-27,9
Balance on current account	2,8	-3,7	-4,9	-5,6	-4,7	5,7

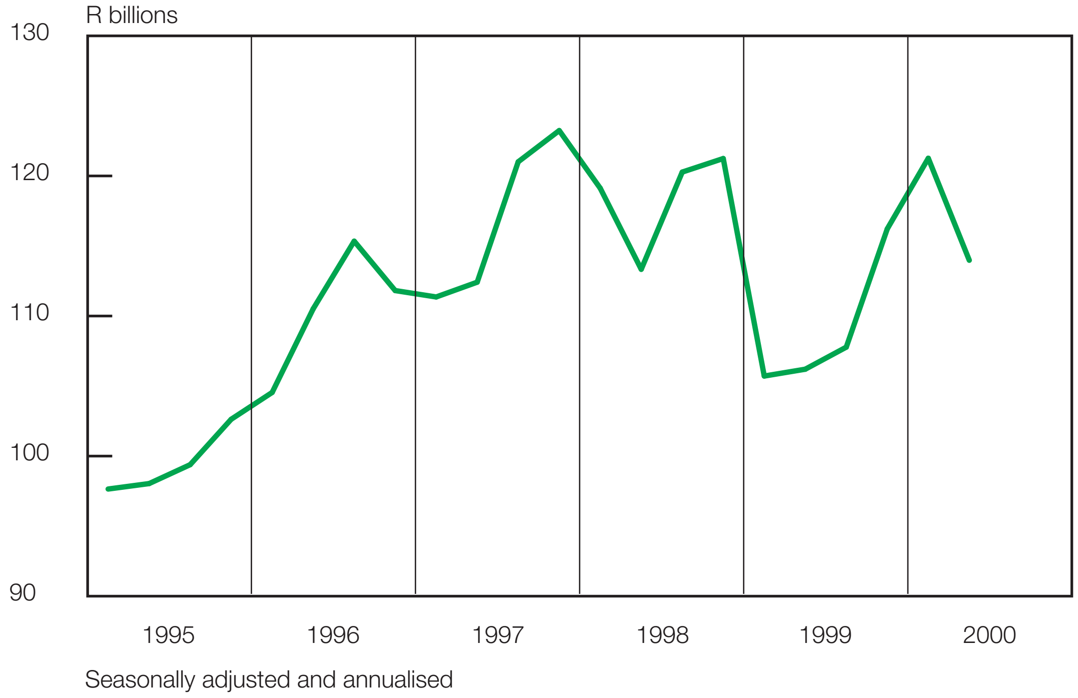
The price of *merchandise exports* expressed in rand rose by about 7 per cent from the first quarter of 2000 to the second quarter. As the foreign-currency prices of internationally traded commodities showed little variation during the second quarter, the price increase should mainly be attributed to the depreciation of the external value of the rand. The volume of merchandise exports, which had been growing strongly in the fourth quarter of 1999 and the first quarter of 2000, levelled off in the second quarter. Price growth nevertheless ensured an increase of 6,7 per cent in the seasonally adjusted and annualised value of merchandise exports from the first to the second quarter of 2000. Prominent increases were registered in the subcategories for base metals and platinum, and for vehicles and transport equipment.

Merchandise export prices



Merchandise import volumes had been growing strongly from the second quarter of 1999 to the first quarter of 2000. The decline in real gross domestic expenditure in the second quarter of 2000 led to a reduced demand for imported goods. As a matter of fact, the decline in import volumes was far greater than the decline in real gross domestic expenditure, lowering the import penetration ratio (i.e. the ratio of real merchandise imports to real gross domestic expenditure) from 20½ per cent in the first quarter of 2000 to 19½ per cent in the second quarter. A slight increase in output prices in the main countries supplying goods to South Africa, together with the price-raising effects of the depreciation of the rand, caused import prices to increase by about 5½ per cent in the second quarter of 2000. Nevertheless, import volumes decreased to such an extent that the seasonally adjusted and annualised value of merchandise imports still declined by about 1 per cent from the first to the second quarter of 2000.

Merchandise imports at constant 1995 prices



Lower production volumes in the gold mining industry, and a decline in the international market price of gold, resulted in a reduction in the value of net gold exports from a seasonally adjusted and annualised value of R27,0 billion in the first quarter of 2000 to R26,0 billion in the second quarter. The effect of a 3½ per cent decline in the London fixing price of gold was partly cushioned by the depreciation of the rand – the average realised rand price of gold was down by just 1 per cent to R1 938 per fine ounce in the second quarter of 2000.

The deficit on the services account of the balance of payments (seasonally adjusted and annualised) widened from R26,0 billion in the first quarter of 2000 to R27,9 billion in the second quarter. A prominent development in the services account was the marked increase in dividend receipts from the rest of the world, primarily from South African companies that had recently obtained primary listings on the London Stock Exchange. At the same time, there was an even bigger increase in dividend payments from subsidiary companies in South Africa to parent and holding companies in foreign jurisdictions. Transfer payments in terms of South Africa's agreement with other member countries of the customs union also increased in the second quarter of 2000.

Financial account

Investor sentiment towards South Africa was adversely affected by heightened volatility in asset prices and a global reassessment of risk taking in emerging markets. The changed sentiment was seen in a reversal of net international capital flows into the economy, so that a surplus on the financial account of R3,2 billion in the first quarter of 2000 was turned into a deficit of R5,8 billion in the second quarter. This has been the first deficit on the financial account since the third quarter of 1998 when trouble in Russia reverberated throughout the financial markets of the world. Once again, the instabilities were dominated by the volatility of portfolio capital flows.

Net financial transactions not related to reserves
R billions

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

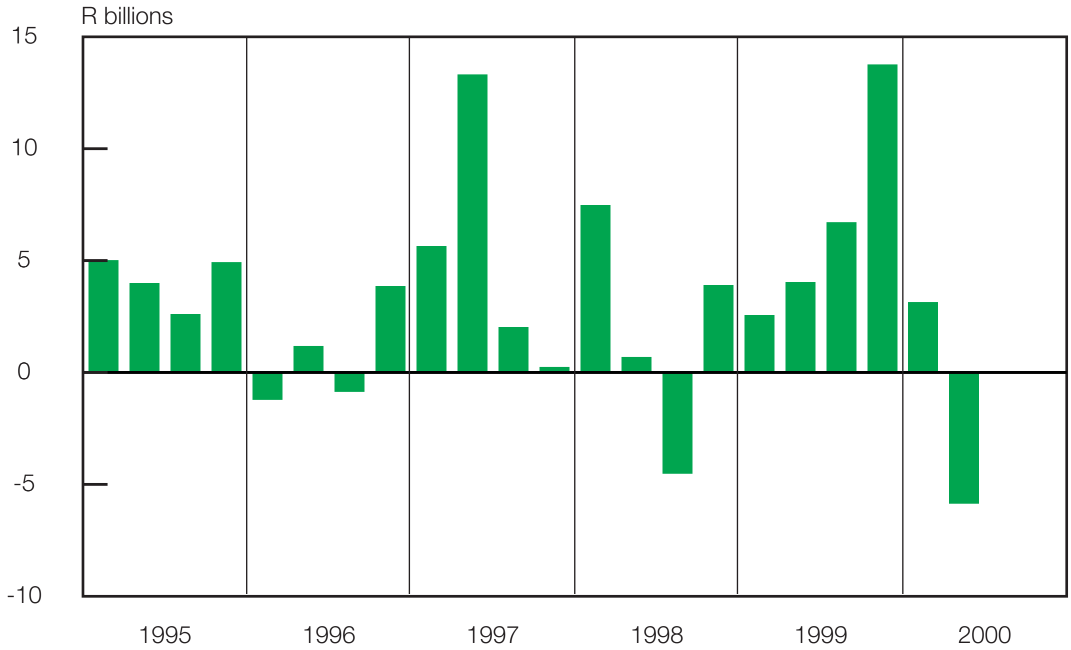
* Including unrecorded transactions

Foreign direct investment flows into South Africa contracted to R0,3 billion in the second quarter of 2000, from R4,5 billion in the first quarter of 2000. At the same time, outward direct investment increased from R1,3 billion to R4,1 billion as South African companies increased their operations in other parts of the world. On a net basis, foreign direct investment accordingly changed from an inflow of R3,2 billion in the first quarter of 2000 to an outflow of R3,8 billion in the second quarter of 2000.

Cautious international investor behaviour was again revealed when *portfolio capital flows* changed from an inflow of R4,6 billion in the first quarter of 2000 to an outflow of R2,7 billion in the second quarter. Non-resident investors remained net buyers of shares on the JSE, but the resulting capital inflows were totally outweighed by their net sales of fixed-interest securities. Further evidence of negative sentiment towards investment in South Africa was given by a slowdown in new issues of rand-denominated bonds in the European capital market in the second quarter of 2000. Only about 63 per cent of maturing Eurorand bonds were refinanced through new issues in the second quarter of 2000, compared with a refinancing rate of 82 per cent in the first quarter.

Portfolio investments by South African companies and individuals persisted into the second quarter of 2000, albeit at a considerably slower pace than in the first quarter. Investment capital totalling R5,0 billion left the country in the second quarter of 2000, compared with R11,2 billion in the first quarter. On balance, portfolio investment changes on the liability and asset sides of the national balance sheet indicate an outflow of capital of R7,7 billion in the second quarter of 2000, up from R6,6 billion in the first quarter.

Total net capital movements not related to reserves



Other foreign investment into South Africa, mostly in the form of non-resident deposits with domestic banks and long-term loans obtained abroad, increased by R4,2 billion in the second quarter of 2000, compared with an increase of R3,2 billion in the first quarter.

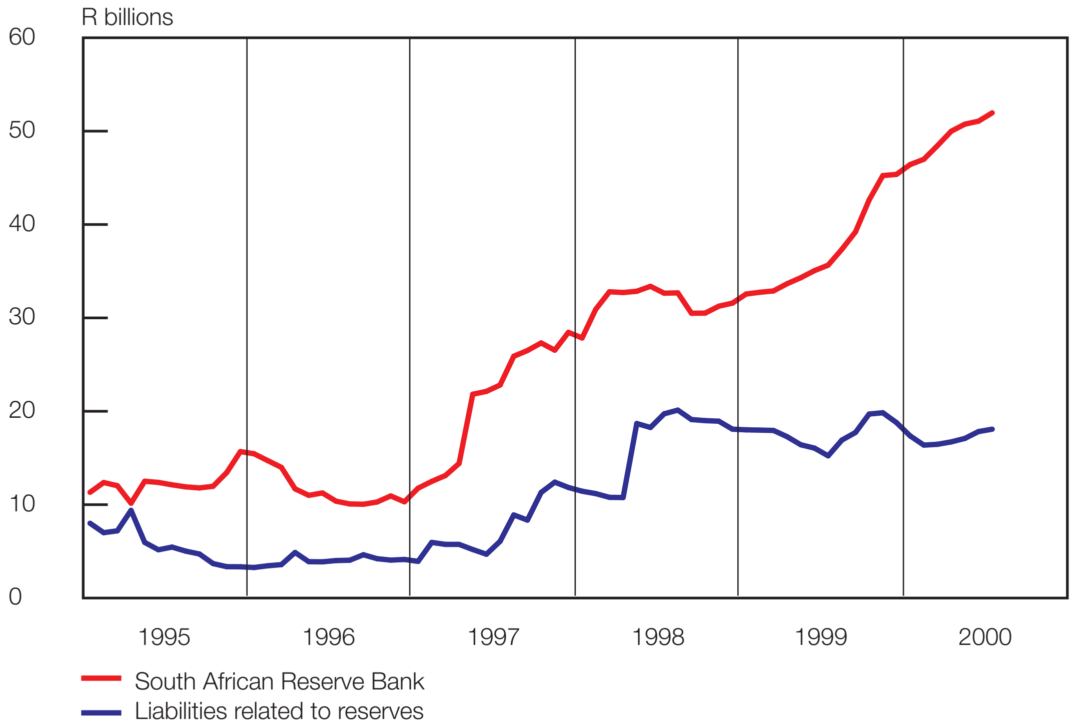
Other outward investment from South Africa, which arises, among other things, from changes in foreign loans and trade finance granted to non-resident parties and deposits by resident organisations and individuals at foreign banks, changed from an outflow of R2,5 billion in the first quarter of 2000 to an inflow of R3,1 billion in the second quarter. The inflow in the second quarter of 2000 originated in a foreign bond issue by a South African parastatal company during the first quarter of 2000. The proceeds of the issue were not repatriated before the end of March, allowing the accumulation of foreign assets by a South African organisation. When these funds were transferred to South Africa in the second quarter of 2000, the running down of foreign assets was registered as an inflow of capital into the economy.

Foreign reserves

Despite the surplus on the current account, the net outflow of capital through the financial account caused the overall balance of payments to fall into deficit to the amount of R4,4 billion in the second quarter of 2000. There had still been a surplus of R3,6 billion in the first quarter of 2000.

The decline in the net gold and other foreign reserves of the country, arising from the deficit on the overall balance of payments, was also reflected in a decline in the country's gross international reserves from US$10,9 billion at the end of March 2000 to US$10,2 billion at the end of June. Although the depreciation of the rand against the US dollar softened the impact of the balance-of-payments deficit on the rand value of the country's international reserves, there was still a decline in import cover (i.e. the value of gross international reserves relative to the value of imports of goods and services) from 15 weeks' worth of imports at the end of the first quarter of 2000 to about 14½ weeks' worth at the end of the second quarter.

Gross gold and other foreign reserves



The Reserve Bank steadily acquired foreign assets during the first half of 2000, in the process raising its international reserve holdings from R45,4 billion at the end of December 1999 to R51,1 billion at the end of June 2000 and R52,0 billion at the end of July. Part of this increase should be attributed to the utilisation of the available short-term credit facilities. Despite this increase in borrowing, the Reserve Bank's non-borrowed reserves still rose from R32,0 billion at the end of March 2000 to R33,2 billion at the end of June and R33,9 billion at the end of July.

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

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

The *net oversold forward position in foreign currency* of the Reserve Bank declined from US$15,2 billion at the end of March 2000 to US$15,0 billion at the end of June and US$14,9 billion at the end of July. The combined result of this improvement in the foreign-currency forward book and the higher level of non-borrowed reserves was a decline in the Bank's *net open position in foreign currency* from US$10,3 billion at the end of March 2000 to US$10,1 billion and US$9,9 billion at the end of June and July, respectively.

Exchange rates

As could be expected with a balance-of-payments deficit, the exchange rate of the rand encountered downward pressures during most of the second quarter of 2000. The strength of the dollar in the global currency markets, coupled with the net outflow of capital from the economy and investor concerns about economic and political stability in parts of sub-Saharan Africa, caused a depreciation of 3,2 per cent in the weighted value of the rand from the end of March 2000 to the end of May.

Exchange rates of the rand
Percentage change

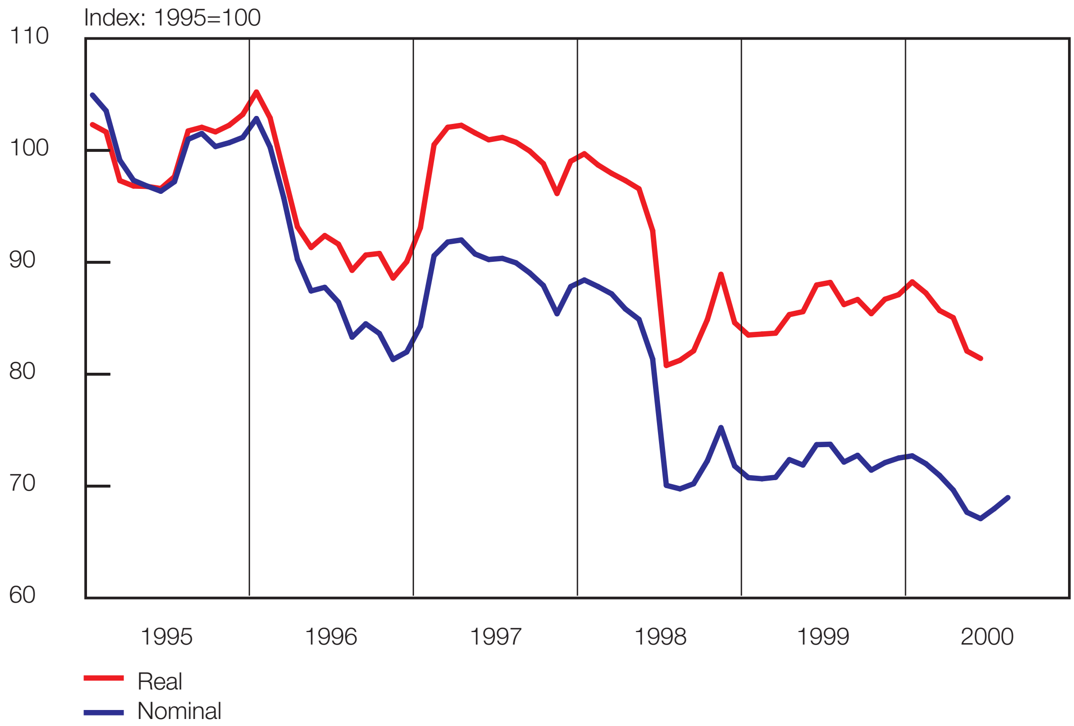
	30 Dec 1999 to 31 Mar 2000	31 Mar 2000 to 30 June 2000	30 June 2000 to 31 Aug 2000
Weighted average*	-4,0	-2,7	2,5
Euro	-1,9	-3,7	5,2
US dollar	-6,6	-3,4	-2,0
British pound	-5,2	1,7	2,1
Japanese yen	-3,9	-3,2	-1,0

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

From about the end of May 2000 the fortunes of the rand have changed. The US dollar weakened for a while against the euro and Fitch Ibca announced their revised rating of South Africa's long-term foreign-currency debt to investment grade. As a result, the average weighted value of the rand recovered by 0,6 per cent, bringing the overall depreciation from the end of March 2000 to the end of June to about 2,7 per cent. The strengthening persisted in July 2000 and August after another South African company had obtained a listing on the London Stock Exchange, contributing to a positive turn in investor sentiment and increased non-resident buying on the South African securities markets. The rand strengthened further by 2,5 per cent on a weighted basis from the end of June to the end of August 2000, bringing the overall depreciation since the beginning of the year to 4,3 per cent. In real terms, i.e. when the inflation differentials between South Africa and its main trading partners are brought into consideration, the weighted value of the rand has declined by only 0,2 per cent in the first six months of 2000 relative to the first six months of 1999.

Turnover in the foreign-currency market reflected the volatility in exchange-rate movements in the first half of 2000. Average monthly turnovers shot up from US$8,3 billion in the fourth quarter of 1999 to US$9,2 billion in the first quarter of 2000 and US$9,7 billion in the second quarter. In particular, it was the non-resident participants

Effective exchange rates of the rand



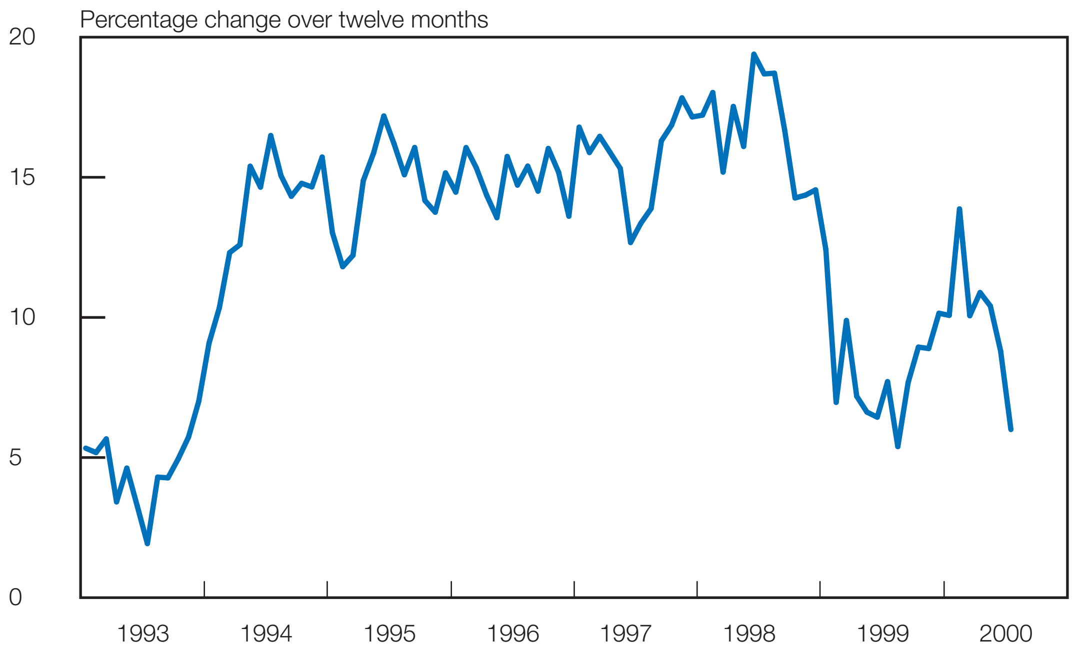
in the market who stepped up their trading from a monthly average of US$4,7 billion in the fourth quarter of 1999 to US$5,1 billion in the first quarter of 2000 and US$5,8 billion in the second quarter.

Monetary developments, interest rates and financial markets

Money supply

Money supply grew sluggishly in the first seven months of 2000. The quarter-to-quarter annualised growth in the seasonally adjusted average value of the broadly defined money supply (M3) decelerated from 19,3 per cent in the fourth quarter of 1999 to 10,3 per cent in the first quarter of 2000, before declining at a rate of 1,5 per cent in the second quarter. Measured over twelve months, the growth in M3 slowed down from 13,9 per cent in February 2000 to 10,1 per cent in March and 8,8 per cent in June. The low growth in June 2000 was to some extent a result of the high base for year-on-year growth calculations in June 1999. An even lower growth rate of 6,0 per cent was recorded in July 2000.

M3 money supply

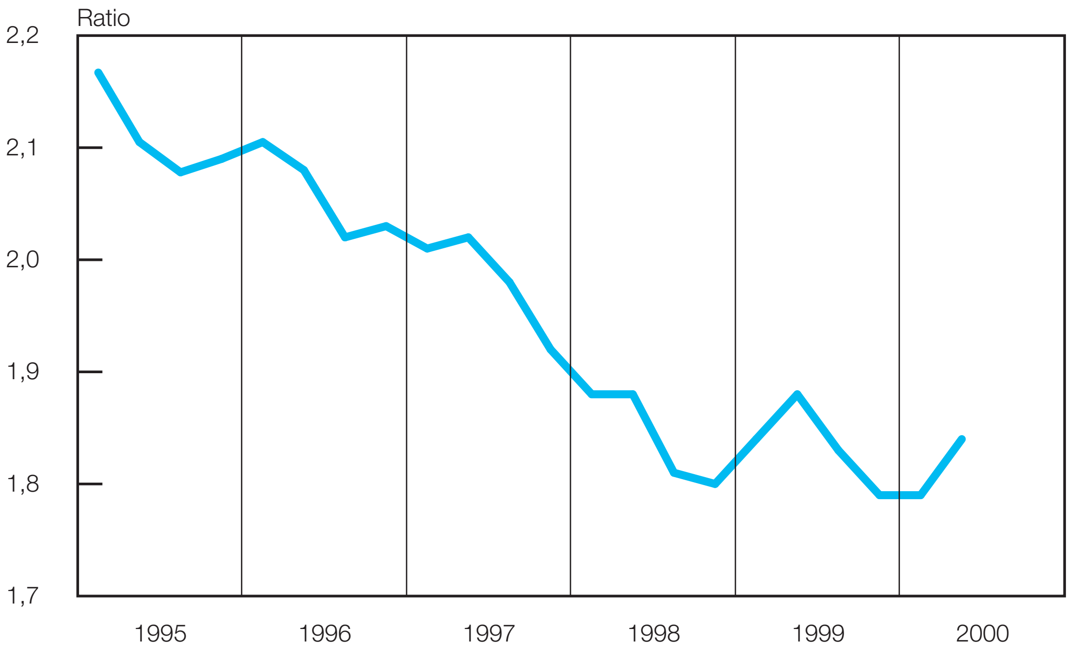


The subdued growth in M3 in the first seven months of 2000 could be attributed to a number of factors, such as

- the outflow of investment capital from the country in the first half of 2000 which reduced M3 deposits owing to payment for the securities purchased from non-residents;
- low short-term interest rates combined with the acceleration in consumer price inflation which could have reduced the attractiveness of M3 deposits as an investment alternative; and
- the slackness in economic activity which could have dampened the demand for money for transaction purposes.

The quarter-to-quarter annualised growth rates of M3 reached levels that were 9,1 percentage points higher than the growth in nominal gross domestic product in the fourth quarter of 1999 and 0,7 percentage points higher in the first quarter of 2000. In the second quarter of 2000, the quarterly average value of M3 declined while nominal gross domestic product continued to grow. As a consequence, the income velocity of circulation of M3 increased by 3,0 per cent from the first quarter of 2000 to the second quarter, but was still down by about 2 per cent from the same quarter of the previous year.

Income velocity of M3



Seasonally adjusted

The narrow M1A aggregate, which consists of coin, notes, cheque and transmission deposits, continually outpaced the growth in M3 in the twelve months to July 2000, but the growth differential between these two aggregates narrowed considerably towards the middle of 2000. For example, the rate of increase over twelve months in M1A reached 29,4 per cent in February 2000 before slowing to 17,6 per cent in May and 6,2 per cent in July. Similarly, M1 outpaced M3 from October 1999, recording growth of 25,3 per cent in February 2000 before tapering off to 16,9 per cent in June and 11,1 per cent in July. Whereas during most of the period under review the faster rates of increase in the narrower monetary aggregates indicated a stronger demand among the general public for relatively liquid assets, this was largely reversed in July 2000.

The decline in cheque and transmission deposits accounted for the overall decline in M3 during the six months from February to July 2000. The deposits held by insurers and pension funds as well as deposits placed by companies and close corporations declined too. Longer-term deposits increased over the same period.

The main accounting counterparts of the increase of R5,0 billion in M3 in the second quarter of 2000 were the increases of R9,8 billion in credit extended to the domestic private non-bank sector and R5,8 billion in net claims on the government sector. Each of these exceeded the overall increase in M3. The impact of domestic credit extension on growth in M3 was partly offset by a contraction of R10,4 billion in the net foreign assets of the banking sector.

Twelve-month growth rates in monetary aggregates
Per cent

Period		M1A	M1	M2	M3
1999:	Aug	19,2	3,6	6,3	5,4
	Sep	20,6	4,3	9,0	7,7
	Oct	16,1	13,3	12,2	8,9
	Nov	23,3	18,1	12,3	8,9
	Dec	26,4	20,7	13,6	10,1
2000:	Jan	26,0	17,3	13,6	10,1
	Feb	29,4	25,3	18,3	13,9
	Mar	18,3	17,0	13,8	10,1
	Apr	20,8	20,6	13,2	10,9
	May	17,6	17,9	12,2	10,4
	Jun	12,2	16,9	10,1	8,8
	Jul	6,2	11,1	6,5	6,0

Credit extension

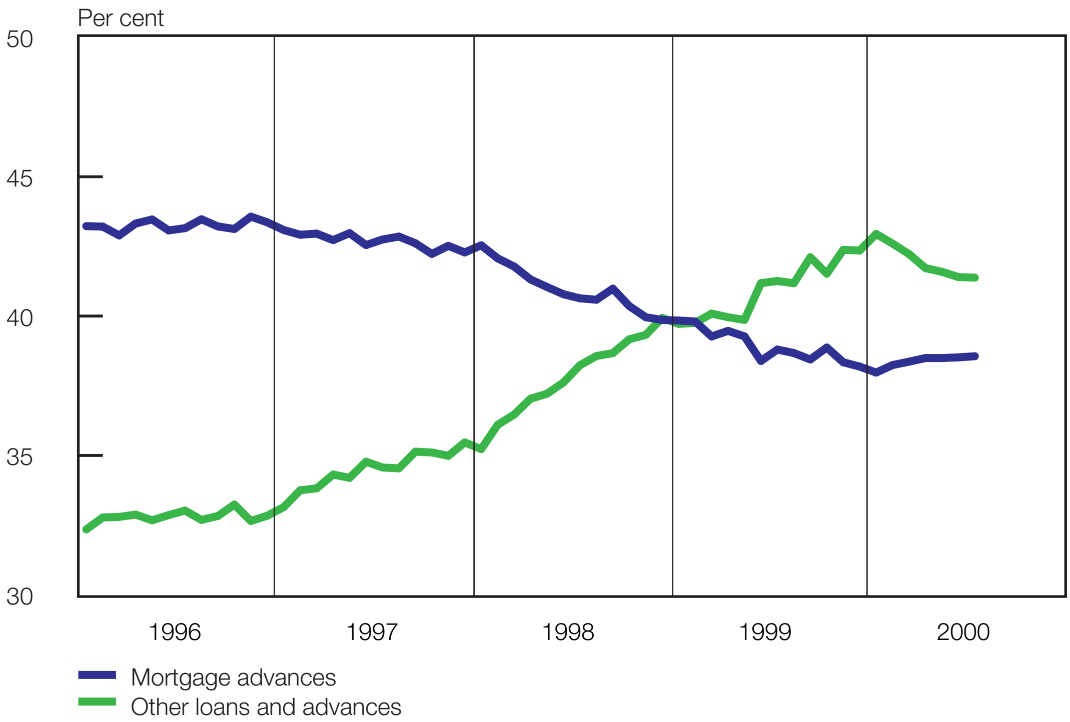
The growth over twelve months in *total domestic credit extended* by the monetary sector slowed down from an average of 11,0 per cent in 1999 to 7,3 per cent in March 2000, 6,6 per cent in June and 7,2 per cent in July. In addition to the effect of the generally weak demand for bank credit, the decline in credit growth in June 2000 was caused by an exceptionally high base for year-on-year growth calculations in 1999, which was reinforced by an actual month-on-month decline from May to June.

The growth over twelve months in *credit extended to the private sector* slowed down from 11,3 per cent in September 1999 to rates continuously below 10 per cent in the first seven months of 2000. The modest growth in the private sector's use of bank credit resulted partly from borrowers' and lenders' direct debt contracts outside the banking system. In addition, households were hesitant about utilising bank credit for financing their purchases of durable goods, and banks, in turn, scrutinised the creditworthiness of clients far more thoroughly than before.

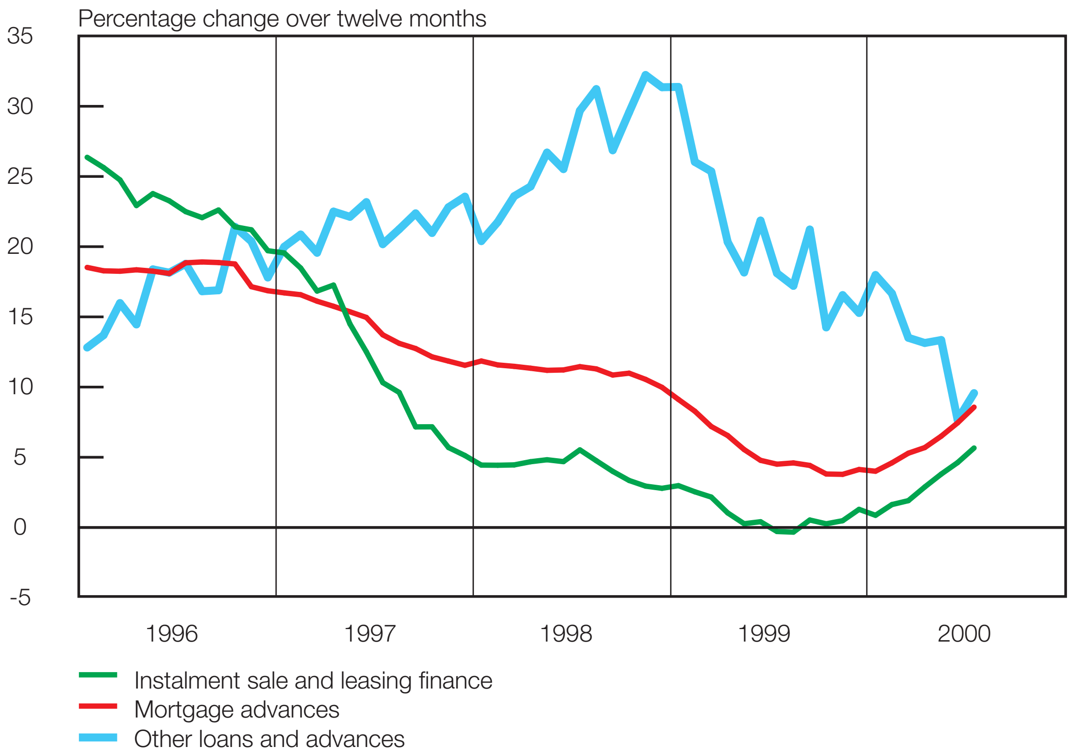
An analysis of banks' claims on the private sector by type of credit shows that the rate of growth in *mortgage advances* has picked up somewhat in recent months: the twelve-month growth rate accelerated from 5,3 per cent in March 2000 to 7,5 per cent in June and 8,6 per cent in July. Although these growth rates are still rather modest, their strengthening is consistent with the recovery in the real-estate market and rising property values. The share of mortgage advances in the overall stock of outstanding private-sector credit accordingly increased slightly from 38,2 per cent in December 1999 to 38,6 per cent in July 2000.

As was the case with mortgage advances, other types of credit regularly used by households, such as *instalment sale credit* and *leasing finance*, have also shown signs of stronger growth in recent months. The percentage change over twelve months in instalment sale credit and leasing finance accelerated from 1,9 per cent in March 2000 to 4,6 per cent in June and 5,7 per cent in July. Though strengthening, these growth rates were still modest, reflecting the aversion of economic agents to rising debt burdens. Nevertheless, new business payments in respect of instalment sale credit and leasing finance still recorded an all-time high of R12,6 billion in the second quarter of 2000.

Percentage contribution to private-sector credit



Credit extended to private sector by type of credit



The household sector absorbed the greater part of the increase in credit extended to the private sector in the second quarter of 2000. The share of households in total credit extension to the private sector consequently increased from a low of 49,2 per cent in the fourth quarter of 1999 to 50,2 per cent at the end of the second quarter of 2000. Conversely, the share of the corporate sector decreased from 50,8 per cent to 49,8 per cent over the same period.

The share of “other loans and advances” in outstanding private-sector credit peaked at 42,9 per cent in January 2000 and settled down at an average level of 42 per cent in the first seven months of 2000. The year-on-year growth in “other loans and advances” slowed down from 18,0 per cent in January 2000 to 7,7 per cent in June and 9,6 per cent in July. The slowdown was most noticeable in the case of credit extended to the corporate sector. From February 2000, private business demand for funds has increasingly been satisfied through issues of share capital and fixed-interest securities, which slowed down the growth in credit intermediated via the banking system. The improved cash flows of firms and households, following the decline in interest rates during 1999 and early 2000, and the reduction in personal income tax rates from the beginning of fiscal 2000/01, could also have contributed to the relatively subdued demand for bank credit in the first half of 2000. Part of the rebound in credit extension in July was apparently a temporary phenomenon.

Increase in credit extension to the private sector by type of credit
Twelve-month percentage change

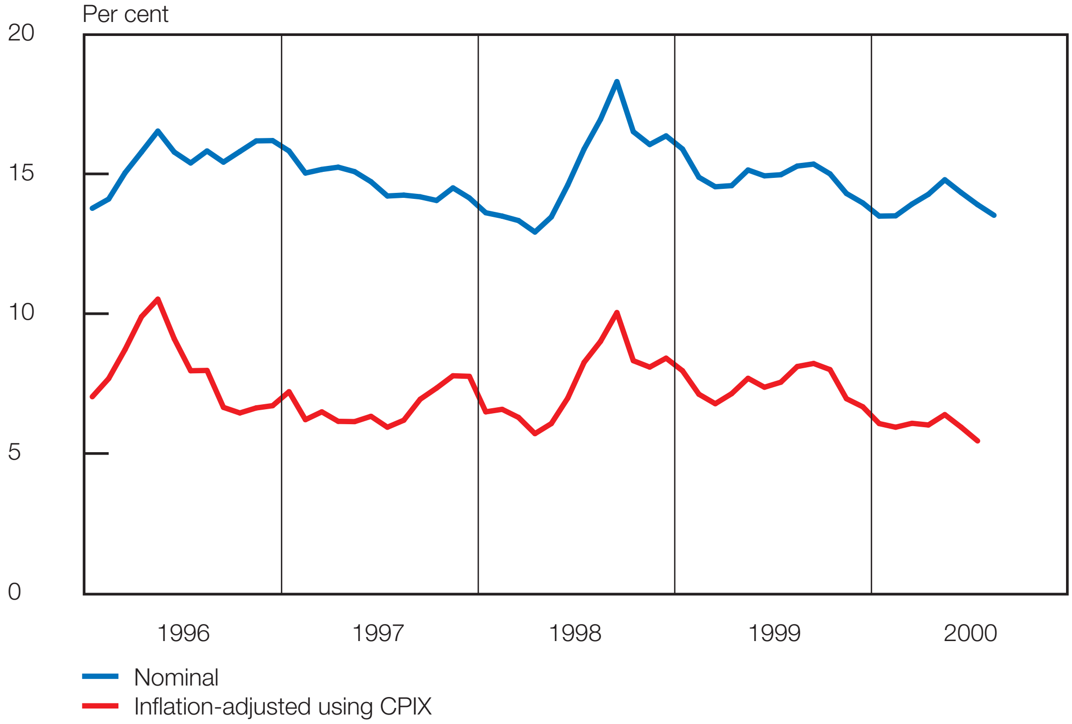
Credit category	1999	2000		
	Dec	Mar	Jun	Jul
Mortgage advances	4,1	5,3	7,5	8,6
Instalment sale and leasing finance	1,3	1,9	4,6	5,7
Investment and bills discounted	14,5	-0,1	6,8	20,9
Other loans and advances	15,3	13,5	7,7	9,6
Total	8,7	7,8	7,1	9,3

Interest rates and yields

Bond yields began to rise in March 2000 when market participants became less certain about the future direction of changes in short-term interest rates. This rise in bond yields was also partly a response to the progressive weakening of the rand against the United States dollar and a steady accumulation of inflation pressures from October 1999. Reflecting the changed sentiment in the market, the average monthly *yield on long-term government bonds* increased from 13,5 per cent in February 2000 to 14,8 per cent in May, reaching a daily average high of 15,2 per cent on 10 May. Perceptions changed during May and investors gradually recognised that bonds were offering good value. With the rand also beginning to show signs of recovery, non-resident investors returned to the domestic market and bond yields fell back to an average level of 13,9 per cent in July 2000 and 13,5 per cent in August.

The *inflation-adjusted yield on long-term government bonds,* along with the increase in nominal yields, increased from an average rate of 6,0 per cent in the first four months of 2000 to 6,4 per cent in May. From June 2000, the decline in nominal yields, together with the slight rise in year-on-year CPIX inflation, lowered the real bond yield to 5,5 per cent in July – the lowest level recorded since October 1994.

Yield on long-term government bonds



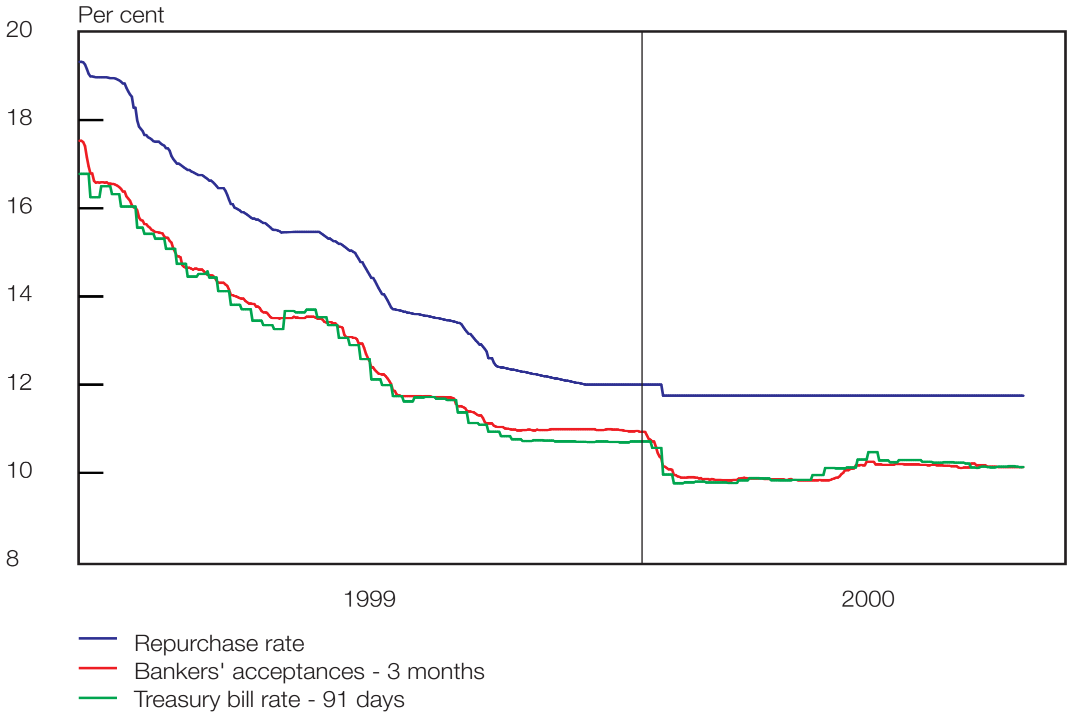
At the short end of the maturity spectrum, the repurchase rate of the Reserve Bank has remained unchanged at a level of 11,75 per cent from 14 January 2000. Rates on other money-market instruments were largely determined by the unchanged level of the repurchase rate and, at times, by expectations in the market that a change in the repurchase rate might be imminent. Such an event occurred towards the end of April 2000 when money-market interest rates started to move slightly higher. At that time, the weakness of the rand, aggravated by conflicts in some sub-Saharan countries and the rise in international petroleum prices, created expectations that the Reserve Bank might consider signalling an increase in the repurchase rate in an attempt to alleviate inflationary pressures.

From late in May 2000, concerns about the possibility of higher short-term interest rates began to die down and money-market interest rates gradually gravitated towards a horizontal time path shaped by the repurchase rate. The tender rate on 91-day Treasury bills, for instance, decreased by 19 basis points to 10,47 per cent on 26 May 2000 to 10,28 per cent on 2 June, eventually reaching 10,14 per cent on 11 August. The decline in the rate was hastened when the weekly amount of Treasury bills on offer at the tender was reduced from R2,0 billion to R1,8 billion on 28 July.

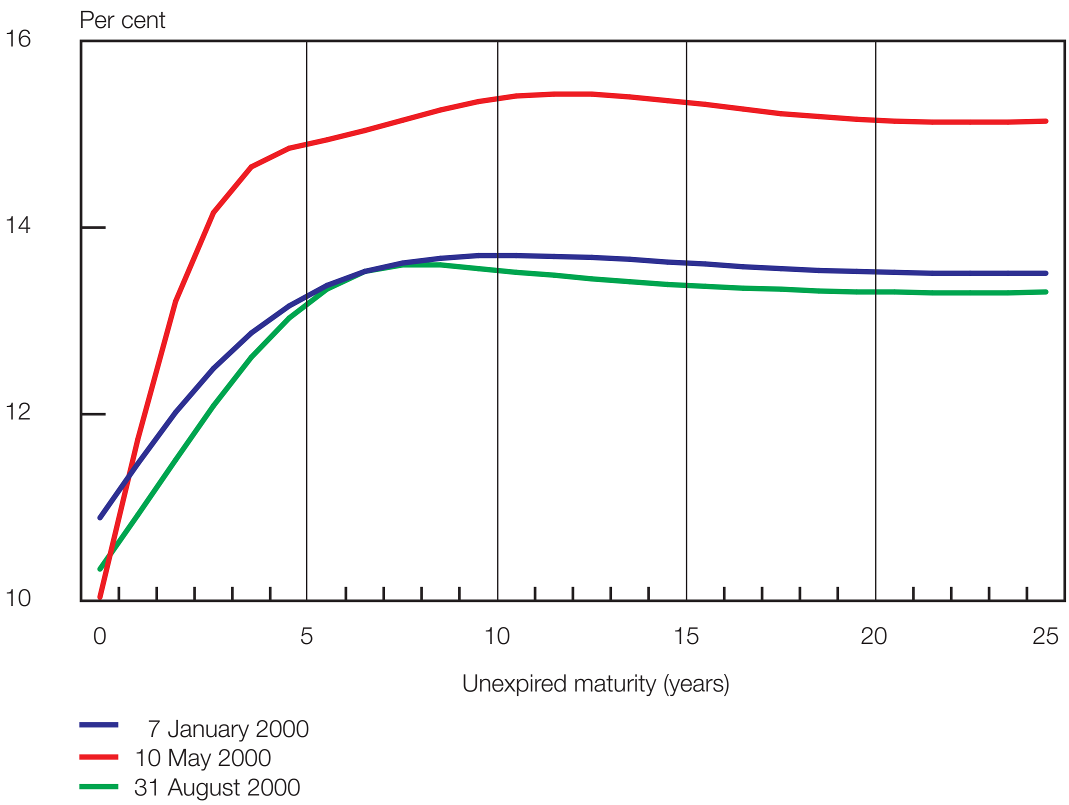
Other money-market interest rates, such as those on Reserve Bank debentures, three-month bankers' acceptances and short-term negotiable certificates of deposit, displayed a pattern broadly similar to that of the 91-day Treasury bill rate.

The rate on three-month negotiable certificates of deposit declined from 10,54 per cent on 30 May 2000 to 10,44 per cent at the end of August. This rate declined to 10,39 per cent on 4 September. The rate on three-month bankers' acceptances

Money market rates (daily)



Yield curve

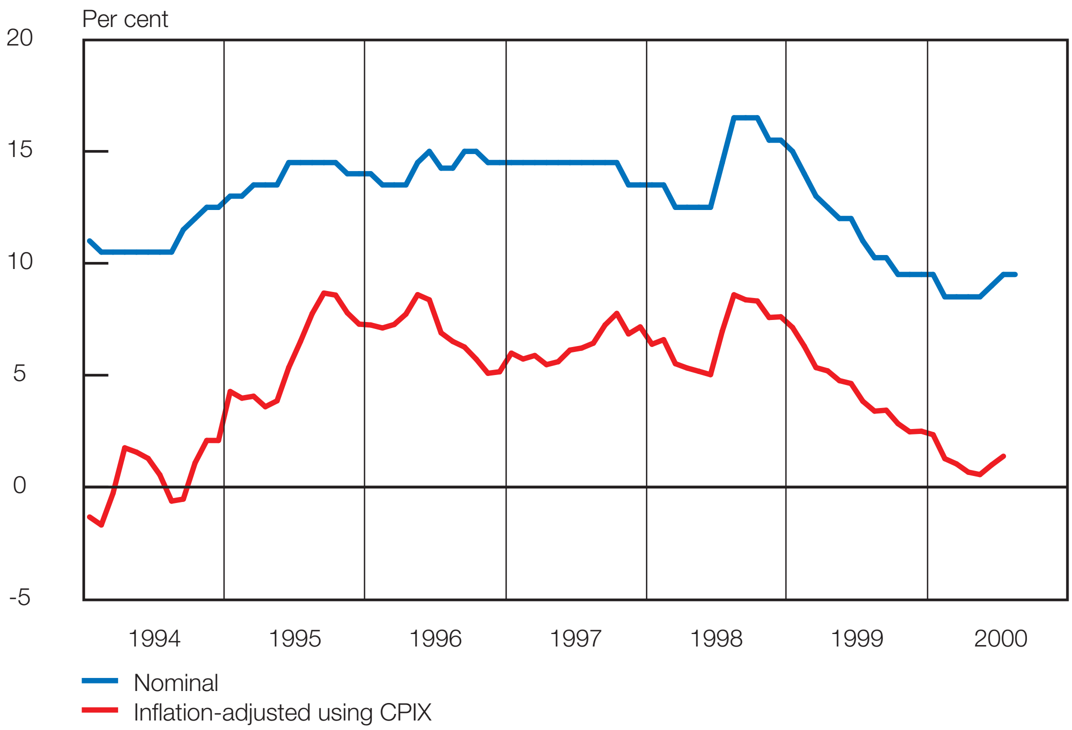


has moved more or less in tandem with the rate on Reserve Bank debentures and both rates have fluctuated within a narrow range of between 10,15 per cent and 10,20 per cent from 31 May 2000 to 18 July. Over the period to the end of July, the rate on Reserve Bank debentures moved higher to 10,25 per cent, whereas the rate on bankers' acceptances declined to 10,12 per cent. In August and early September, the latter rate fluctuated between 10,12 and 10,15 per cent, but the rate on Reserve Bank debentures increased to 10,39 per cent on 4 September.

The slope of the *yield curve* has become flatter since 10 May 2000 as long-term yields have generally declined more than short-term yields. The longer end of the yield curve has accordingly shifted downwards – an indication that expectations of higher inflation are becoming less of a concern to market participants. Another reason for the downward shift of the yield curve was the diminishing effect of the turmoil in other African countries. In the end, the yield curve declined to a level that was unambiguously lower than the level on 7 January 2000.

The banks have kept their prime overdraft rate and the predominant rate on mortgage loans unchanged at 14,5 per cent since February 2000. The *predominant rate on twelve-month fixed deposits* has also been left unchanged at 8,5 per cent from February 2000 to May – its lowest level since March 1981. Subsequently, this rate has been adjusted in two steps to 9,5 per cent in July 2000. The *pre-tax inflation-adjusted yield* earned by savers consequently increased from 0,6 per cent in May 2000 to 1,4 per cent in July, still leaving savers in the higher income brackets with a negative real return after tax. The margin between the rate on twelve-month fixed deposits and the month-end prime overdraft rate narrowed from 600 basis points in May 2000 to 500 basis points in July and August, thus restoring the margin that had prevailed in January.

Interest rate on 12-month fixed deposits



Money market

Money-market conditions were relatively tight in the first eight months of 2000 compared with the situation at the end of 1999 when the Reserve Bank allowed the market to become highly liquid as a precaution against potential Y2K-related problems. Reflecting the tighter money-market conditions, the private banks' daily liquidity requirement rose from an average of R4,9 billion in December 1999 to R7,2 billion in March 2000 and eventually to a high of R9,4 billion in June. It receded slightly to R8,9 billion in July and R9,0 in August.

The increase in the banks' liquidity needs was achieved essentially through Reserve Bank interventions in the money market. On its own initiative, the Bank entered into foreign-currency swap agreements with private-sector parties, increased the outstanding amount of Reserve Bank debentures and increased the amount of reverse-repurchase transactions in government securities.

The outstanding amount of foreign-currency swap arrangements increased from R4,3 billion at the end of December 1999 to an all-time high of R15,7 billion at the end of February 2000, but declined to R10,9 billion at the end of May and R14,7 billion at the end of August.

The Reserve Bank also increased the amount of its own outstanding debentures from R1 billion in December 1999 to R4 billion from late April 2000, and then maintained it at this higher level. Reverse repurchase transactions in government securities were also increased from R1 billion at the end of December 1999 to R4 billion towards the end of May 2000. The amount of reverse-repurchase transactions between the Bank and private-sector parties was maintained at R4 billion in the ensuing period.

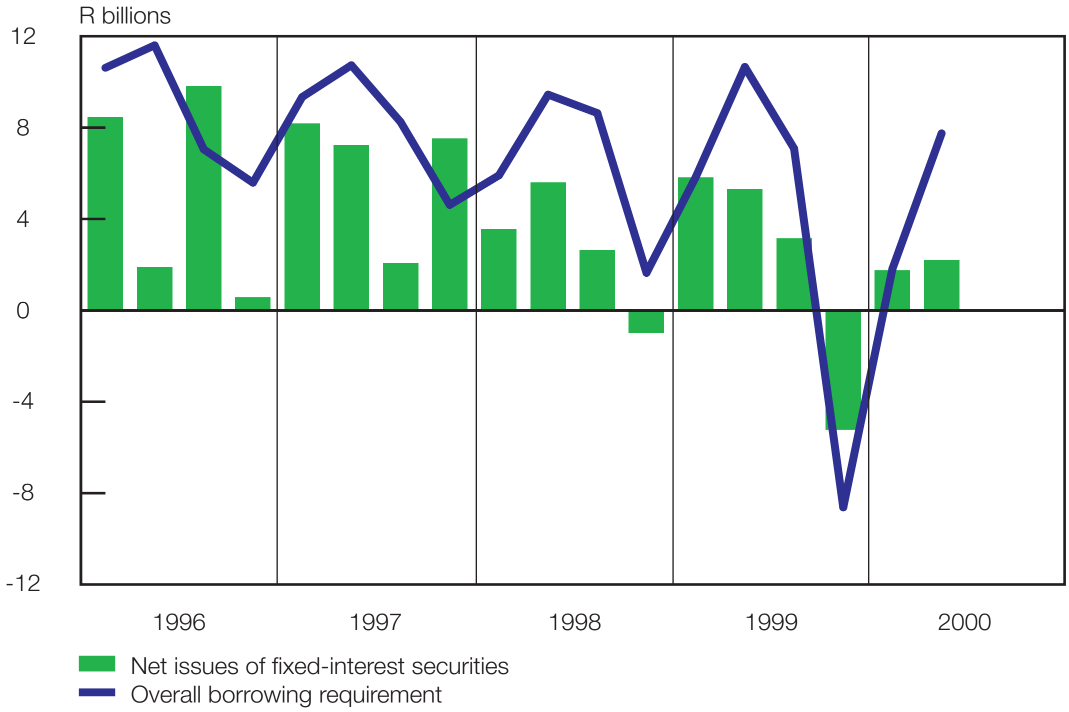
The steps taken by the Reserve Bank to drain liquidity from the market were reinforced by surpluses arising from the Bank's involvement in forward foreign exchange transactions in the first quarter of 2000. Later, during the second quarter of 2000, the measures towards tightening had to be intensified when deficits were realised by the Bank on its forward foreign-currency transactions. Liquidity was also added to the market by a decline in notes and coin in circulation outside the Reserve Bank, from the unusually high levels in April 2000. The acquisition of net foreign assets by the Reserve Bank, and its corollary the selling of rands, also added liquidity to the market from April to August 2000.

The Reserve Bank has continuously accommodated in full the liquidity needs of the private banks since the end of November 1999. In terms of the Bank's signalling mechanism, the other participants in the market understood this as an indication that the interest rate on repurchase contracts should remain unchanged. These signals were amplified by the periodic statements issued from about the middle of January to August 2000 by the Bank's Monetary Policy Committee regarding an unchanged monetary policy stance.

Bond market

Activity in the *domestic primary bond market* remained dominated by national government and reflected the shrinking of the overall public-sector borrowing requirement. The *net issuance of fixed-interest securities* by public-sector organisations fell by about 65 per cent from R11,1 billion in the first half of 1999 to R3,9 billion in the first half of 2000.

Borrowing by the public sector



National government maintained a presence in the *international primary bond market* by raising R2 billion through the issuance of *foreign-currency denominated debt* in the period April to June 2000, compared with an amount of R6,3 billion raised in the corresponding period of the previous year. The bond issue was denominated in Japanese yen, and was issued in terms of the European Medium-Term Note Programme. The proceeds were earmarked for the redemption of a 30 billion yen Samurai bond that fell due in June 2000. *Other domestic public-sector borrowers* steered clear of the international bond market in the first four months of the current fiscal year.

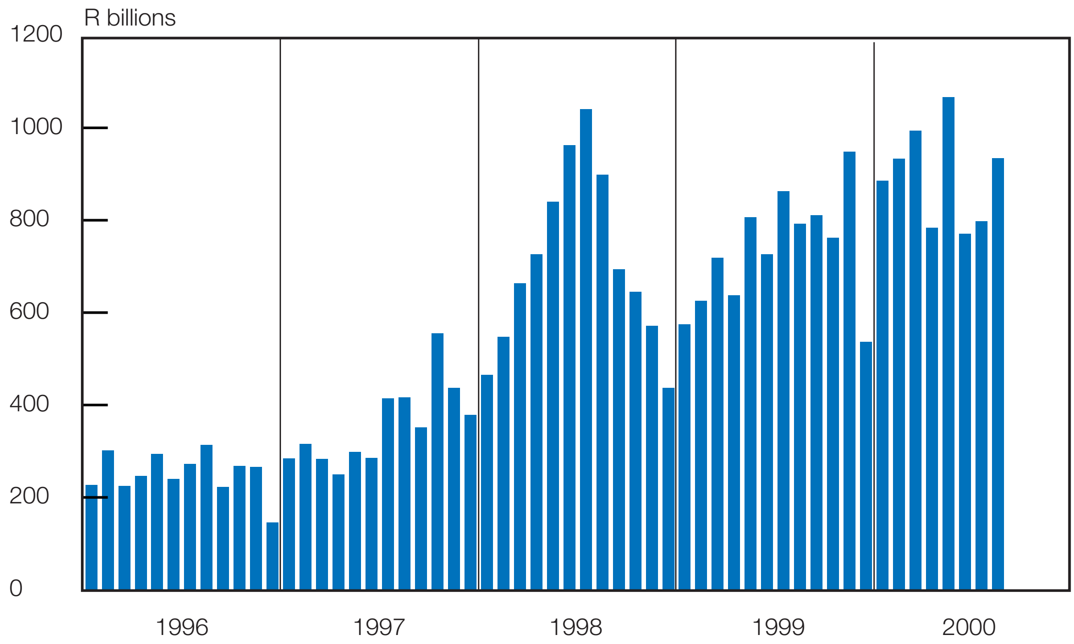
Exchange rate concerns had a dampening effect on funding through *rand-denominated bonds* in the *eurobond market*. No issues have been made by South African public-sector borrowers in the Eurorand market since March 1999, whereas net redemptions to the value of R0,9 billion were made by non-resident entities in the first eight months of 2000. In the whole of 1999 a net amount of R2,6 billion was raised by non-resident borrowers through rand-denominated bond issues.

The void left by the shrinking public-sector borrowing requirement was partly filled by *debt issues* by the *private corporate sector*. The outstanding nominal value of private-sector loan stock listed on the Bond Exchange of South Africa more than doubled from

R3,8 billion in December 1999 to R8 billion in July 2000. These corporate bonds were well received and the spread over the yield on the comparable bond of national government narrowed from 213 basis points in February 2000 to 126 basis points in July.

Trading activity on the Bond Exchange in the first eight months of 2000 was strongly influenced by concerns about exchange rate volatility, which to a certain extent were related to non-economic events in sub-Saharan Africa. Turnovers rose sharply and the value of bonds traded in the *secondary bond market* increased to R7,2 trillion in the first eight months of 2000 – 25 per cent more than in the corresponding period of 1999. An all-time high of R2,8 trillion was reached in the first quarter of 2000, before the value of bonds traded declined somewhat to R2,6 trillion in the second quarter. Bonds to the value of R1,7 trillion were traded in July and August 2000, signalling that turnover in the third quarter could decline further from the level of the second quarter.

Turnover in the secondary bond market



The sensitivity of bond-market activity was particularly evident in the volatility of foreign portfolio capital flows to and from the market. There was still a net inflow of foreign investment to the bond market to the value of R6,1 billion in the fourth quarter of 1999, but this turned into a net outflow of R15,3 billion in the first half of 2000 when non-residents sold bonds on a net basis. The value of net bond sales by non-residents nevertheless fell to only R0,2 billion in June 2000, before sentiment turned positive once more and net purchases were made to the amount of R2,2 billion in July and R0,6 billion in August.

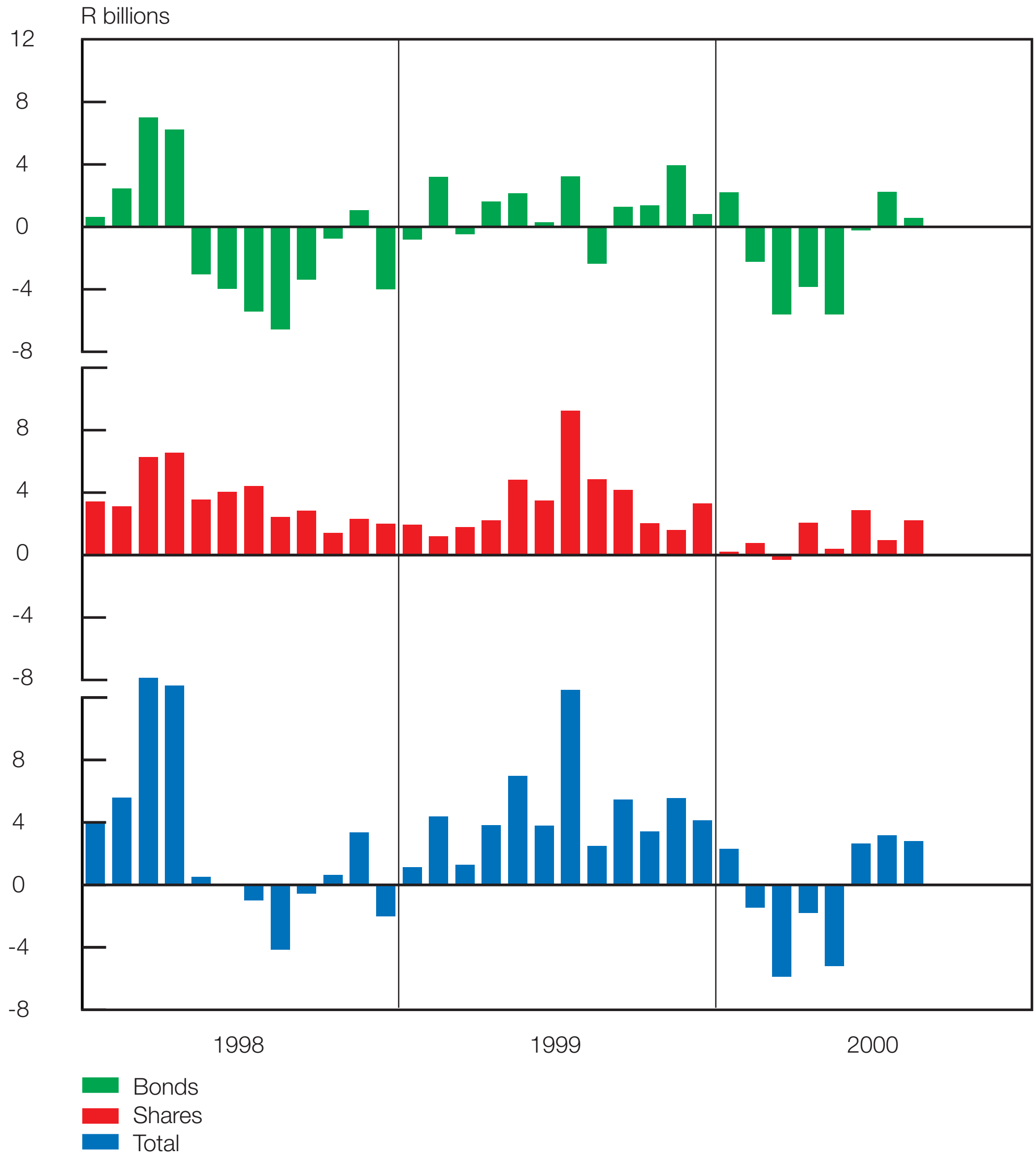
Share market

Capital raised in the *primary share market* by companies listed on the Johannesburg Stock Exchange (JSE) amounted to R46 billion in the first seven months of 2000 compared with R28 billion in the corresponding period of 1999. In July alone, listed companies mobilised an amount of R14 billion in capital. The heightened activity in the primary share market was largely related to mergers and acquisitions.

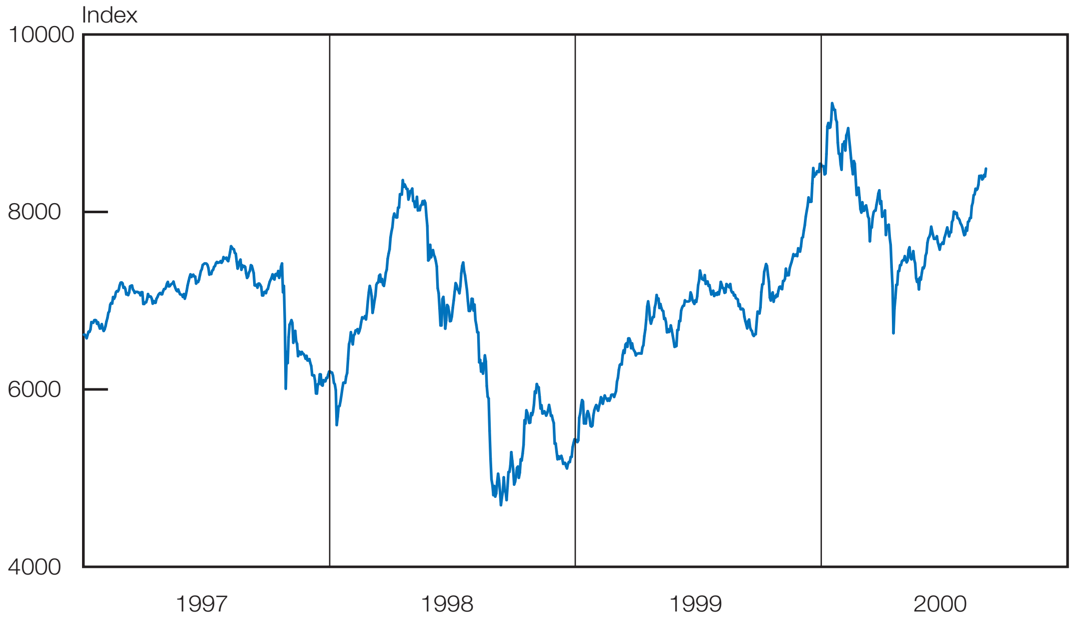
Heightened price volatility spurred secondary trading on the JSE and the *value of shares traded* rose from a quarterly average of R112 billion in 1999 to an all-time high of R155 billion in the first quarter of 2000. Turnover receded somewhat in the second quarter of 2000, but was still at a high quarterly level of R125 billion. Shares amounting to a monthly average value of R38 billion were traded in July and August 2000, compared with an average monthly value of R42 billion from April to June.

Non-residents traded actively on the JSE during the first eight months of 2000. The value of their transactions represented some 27 per cent of the total purchases and sales of shares on the JSE. The negative sentiment in the early months of 2000 caused non-residents' net acquisition of South African shares to decline to R0,6 billion in the first quarter of 2000. When sentiment turned more positive, non-residents stepped up their net acquisitions of shares to an amount of R5,3 billion in the second quarter of 2000 and to an accumulated total of R9 billion in the first eight months of 2000.

Non-residents' net transactions in the secondary capital markets



All-share price index



The *monthly average price level of all classes of shares* declined by 16 per cent from an all-time high in January 2000. A lower turning point was reached in May 2000 and share prices strengthened on average by 11 per cent over the period from May to August, but were still about 7 per cent below their peak value in January. The daily closing level of the all-share price index fell by 28 per cent from 17 January 2000 to 17 April, but has subsequently recovered also by 28 per cent to the end of August.

The recent strength in the share market lifted the *price-earnings ratio* of all classes of shares (apart from gold-mining shares) from 12,9 in May 2000 to 13,1 in August. Mirroring the movements of the price-earnings ratio, the average *earnings yield* of the non-gold sector declined from 7,8 per cent in May 2000 to 7,6 per cent in August. The *dividend yield* on all classes of shares tracked the earnings yield and declined from 2,6 per cent in May 2000 to 2,5 per cent in August.

Market for derivatives

Price movements in the underlying securities markets, together with non-resident participation, underpinned lively trading on the South African Futures Exchange in the first eight months of 2000.

The combined number of *futures contracts and options on futures contracts* traded in the *formal derivatives market* increased from a quarterly average of 4,7 million contracts in 1999 to 4,8 million in the first quarter of 2000 and 5,0 million in the second quarter. Trading in these contracts reached an all-time high of 2,8 million in August. The range of interest-rate related derivatives products was expanded in August 2000 with the introduction of futures and options contracts on the newly-created total-return government bond index.

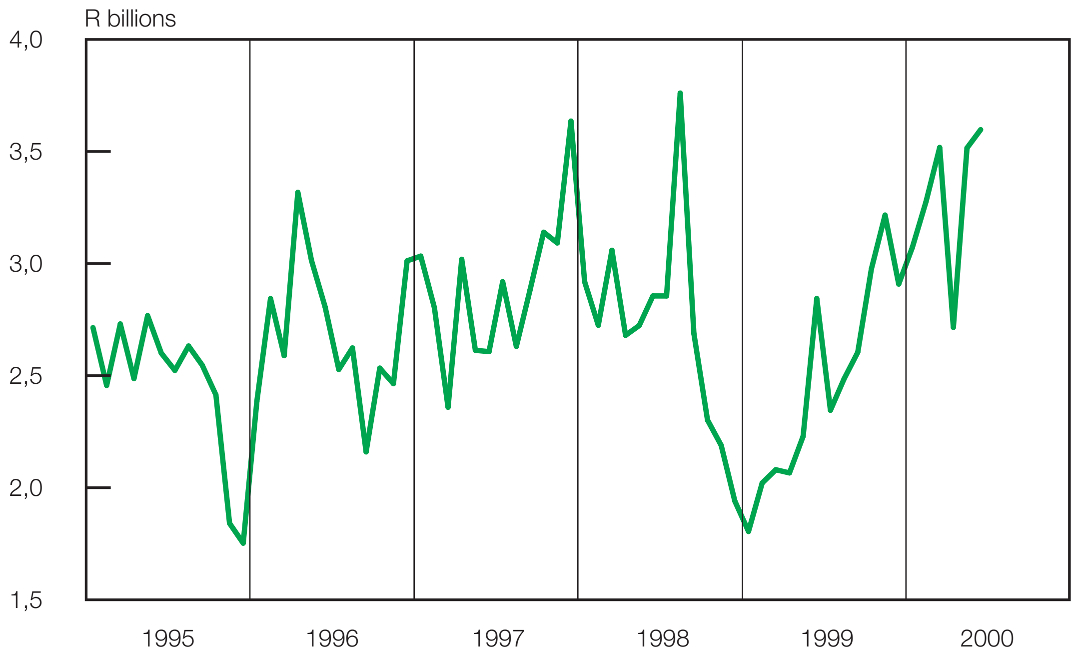
The number of *warrants* traded on the Johannesburg Stock Exchange decreased from a quarterly all-time high of 2,1 billion in the first quarter of 2000 to 1,8 billion in the second quarter. In the ensuing period, trading reached a monthly record high of 971 million in August.

The sharp decline in the spot price of white maize was the main thrust behind the strong rise in the number of *commodity futures contracts and options on such contracts* traded in the Agricultural Market Division of the South African Futures Exchange in the first eight months of 2000. The total number of commodity futures and options traded increased from a quarterly average of 62 500 in 1999 to 94 600 in the first quarter of 2000 and rose further to a quarterly all-time high of 102 300 in the second quarter. The monthly number of commodity contracts traded peaked at 46 300 in August.

Real-estate market

Activity in the *real-estate market* picked up in response to declining mortgage bond rates. The *value* of real-estate transactions increased from a low of R5,9 billion in the first quarter of 1999 to R9,9 billion in both the first and second quarters of 2000. From February 2000 mortgage rates were set at their lowest level in twelve years. The *home loan market* responded and 346 000 loans were granted in the first half of 2000, compared with 276 000 in the first half of 1999. The *average nominal value per real-estate transaction* increased by 5,5 per cent in the first quarter of 2000 relative to its average level in 1999 and was about 2,6 per cent higher in the second quarter of 2000 than in the first quarter.

Nominal value of real-estate transactions

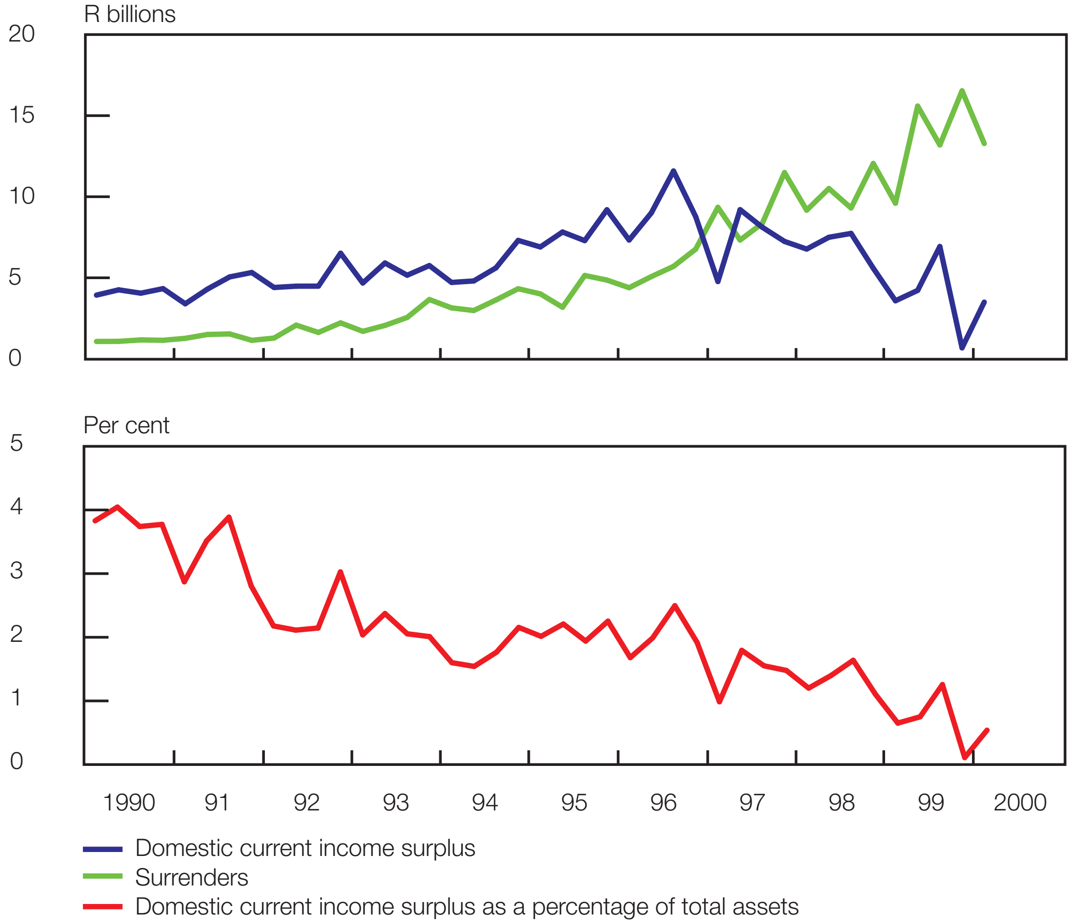


Seasonally adjusted

Non-bank financial intermediaries

Increased access by the general public to a wider variety of investment outlets and the tight monetary conditions in 1998 and 1999 negatively affected households' ability to service life-assurance premiums. *Policy surrenders* (i.e. when policyholders terminate their contributions to pension annuities and other life policies and have the present value of accumulated contributions paid out prematurely) increased by 50 per cent from R36,5 billion in 1997 to R54,9 billion in 1999. The cash value paid for these surrendered policies increased to a quarterly all-time high of R16,5 billion in the fourth quarter of 1999 and amounted to R13,3 billion in the first quarter of 2000.

Long-term insurers: Current income surplus and surrenders



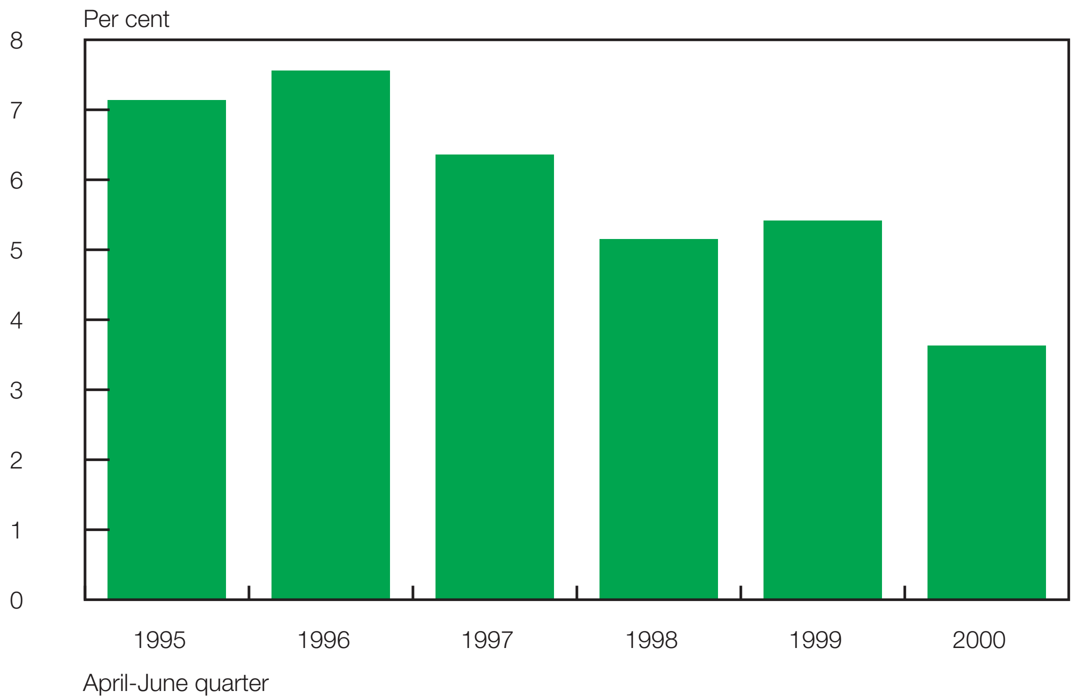
The sustained increase in the total value of surrendered policies had a strong negative effect on the *cash flow* of the life assurance industry. The *domestic current income surplus* of long-term insurers (i.e. current receipts less current expenditure) has almost been halved from R29,3 billion in 1997 to R15,3 billion in 1999. This surplus declined to a quarterly value of only R0,7 billion in the fourth quarter of 1999 and amounted to R3,5 billion in the first quarter of 2000. The decline in the domestic current income surplus reduced the *cash flow available for investment in bonds and shares.* Life assurers' annual domestic current income surplus declined from about 5,9 per cent of total assets in 1997 to 2,4 per cent in 1999, and to an annualised rate of 0,5 per cent in the fourth quarter of 1999 and 2,2 per cent in the first quarter of 2000.

Public finance

Public-sector borrowing requirement

The *public-sector borrowing requirement* (i.e. the deficit before borrowing and debt repayment of the consolidated central government, provincial governments, local authorities and non-financial business enterprises in the public domain) amounted to R7,7 billion in April-June 2000 – R2,9 billion less than in April-June 1999. This is equivalent to a decline from 5,4 per cent of gross domestic product to 3,6 per cent. The average ratio for the April-June quarter of the previous five fiscal years was 6,3 per cent.

Public-sector borrowing requirement as a ratio of gross domestic product



General-government finances, especially the finances of provincial governments, contributed most to the shrinking of the overall public-sector borrowing requirement. The borrowing requirement of general government declined by R1,8 billion from April-June 1999 to April-June 2000 – more than three fifths of the decline in the overall public-sector borrowing requirement. Total revenue and grants received by the general-government sector increased at a year-on-year rate of 9,9 per cent in April-June 2000, outpacing total expenditure and net lending which grew at a year-on-year rate of 5,3 per cent.

In accordance with the Public Finance Management Act, quarterly statements of provincial revenue and expenditure were recently published for the first time. The basis of reporting is cash-book transactions which are seen to be consistent with plans to move towards an accrual accounting system in all spheres of the public sector. These statements indicate that provincial governments recorded a financial surplus of R3,9 billion in April-June 2000. An analysis of changes in the bank balances of provincial governments, however, points to a financial surplus of just R1,1 billion.

In the context of the overall public-sector borrowing requirement, the financing needs of local governments are relatively small; their borrowing requirement decreased from R0,2 billion in April-June 1999 to R0,1 billion in April-June 2000. Government is continuing the financial reforms at the local-government level through the publication of the Municipal Finance Management Bill. The Bill has been submitted for discussion and its aims are to

- modernise municipal budgeting and financial management through increased transparency, accountability and reporting requirements;
- facilitate the development of a long-term municipal lending and bond market; and
- introduce a governance framework for separate entities created by municipalities.

The finances of non-financial public-sector business enterprises turned around from a deficit of R0,9 billion in April-June 1999 to a surplus of R0,2 billion in April-June 2000. Government reaffirmed its commitment to the restructuring of state-owned enterprises with the release of the Policy Framework for an Accelerated Agenda for the Restructuring of State Owned Enterprises on 10 August 2000. It is envisaged that restructuring in the energy, telecommunications, transport and armaments sectors will make a positive contribution to the socioeconomic development of South Africa. The framework proposes a phased approach to restructuring which is expected to be completed by the end of 2004. The introduction of greater competitiveness, efficiency gains and increased foreign capital flows are some of the economic benefits that are expected to result from the proposed programme.

National government finance

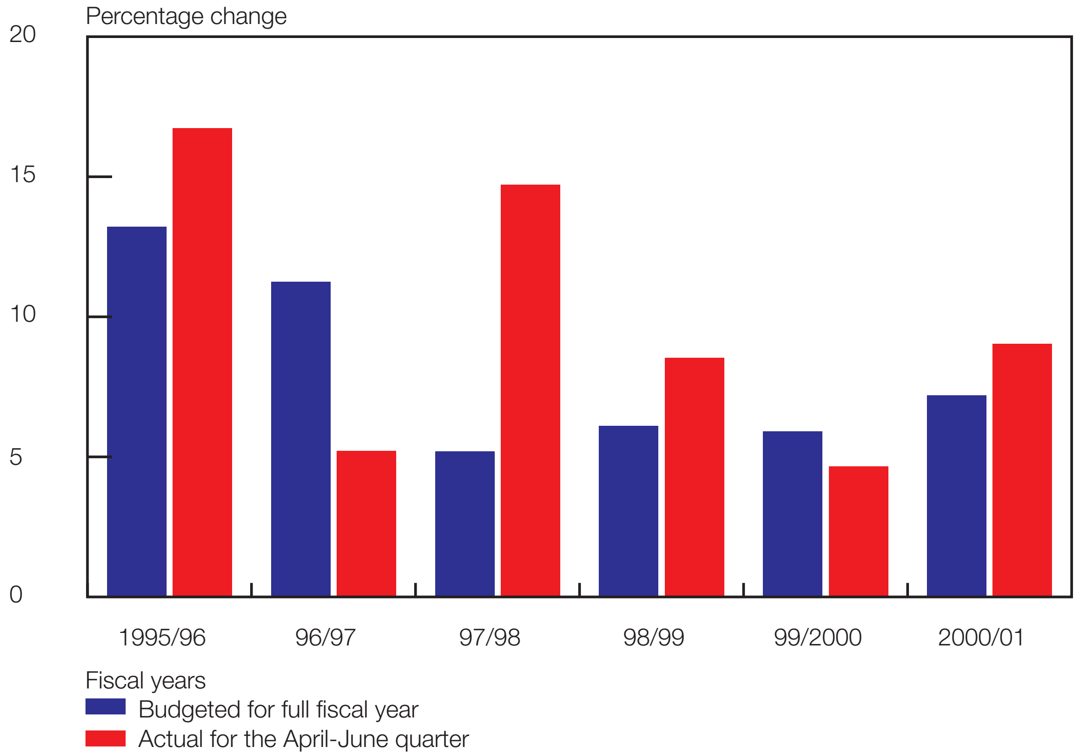
National government expenditure in the April-June quarter of 2000 amounted to R57,9 billion which was 9,0 per cent more than in the corresponding quarter of 1999. This increase was lower than the average year-on-year rate of increase of 10,0 per cent in the first quarters of the five preceding fiscal years but somewhat higher than the increase of 7,2 per cent envisaged in the Budget of the national government for the full fiscal year. National government expenditure as a ratio of gross domestic product amounted to 27,1 per cent in the April-June quarter of 2000 which was slightly higher than the ratio of 27,0 per cent in the corresponding quarter of the previous fiscal year.

After allowing for cash-flow adjustments, total expenditure increased by 13,2 per cent to R58,2 billion in the April-June quarter of 2000 compared with R51,4 billion in the corresponding period of the previous year. This high rate of increase in national government expenditure in the first quarter of fiscal 2000/01 was mainly the result of strong growth in expenditure on defence and public works. Defence expenditure increased by 68,1 per cent and expenditure on public works by 30,5 per cent.

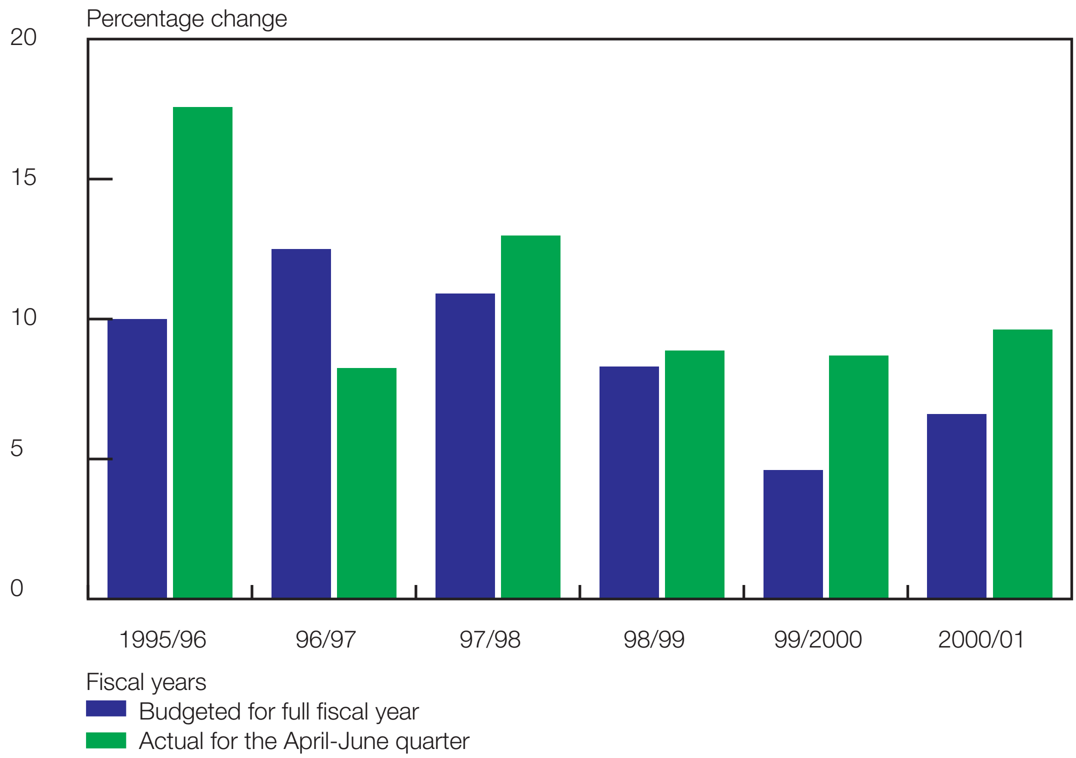
Revenue received by national government amounted to R43,8 billion in the April-June quarter of 2000, representing year-on-year growth of 9,6 per cent. The Budget for fiscal 2000/01 envisaged an increase of 6,6 per cent on the actual collections of the previous year.

National government revenue as a ratio of gross domestic product increased from 20,3 per cent in April-June 1999 to 20,5 per cent in April-June 2000. After allowing for cash-flow adjustments, national government revenue amounted to R44,7 billion in the April-June quarter of 2000. This represents an increase of 11,0 per cent over the same period in the previous fiscal year.

National government expenditure



National government revenue



Percentage change in national government revenue*

Revenue source	Budgeted Fiscal 2000/01	Actual April–June 2000
Income tax	4,3	8,9
Value-added tax	9,5	25,1
Customs duty	-3,4	45,5
Fuel levy	11,8	-1,0
Other excise duties	7,9	5,4
Total revenue	**6,6**	**9,6**

* Compared with actual outcome in fiscal 1999/2000

The net result of the revenue and the expenditure of national government in the April-June quarter of 2000 was a *deficit before borrowing and debt repayment* of R14,1 billion, equivalent to about 60 per cent of the planned deficit for the full fiscal year. As a ratio of gross domestic product, the deficit came to 6,6 per cent in the April-June quarter of 2000. This can be compared with a deficit ratio of 6,7 per cent in the corresponding quarter of the previous fiscal year. When allowing for the typical seasonal factors in revenue and spending flows, government's net financial position in the first quarter of fiscal 2000/01 was broadly consistent with the strategy charted in the Budget for the fiscal year as a whole. After adjustments for cash flows, the deficit amounted to R13,5 billion in the April-June quarter of 2000.

As indicated in the accompanying table, the principal means of financing the government's deficit in the April-June quarter of 2000 was through the issuance of short-term Treasury bills. Government bonds to the nominal value of R1,0 billion were issued during this period. These funds were obtained at an average interest cost of 12,6 per cent per annum which can be compared with a budget assumption of 13,6 per cent for fiscal 2000/01 as a whole. Receipts from the restructuring of Sasria yielded R89 million to the Exchequer account.

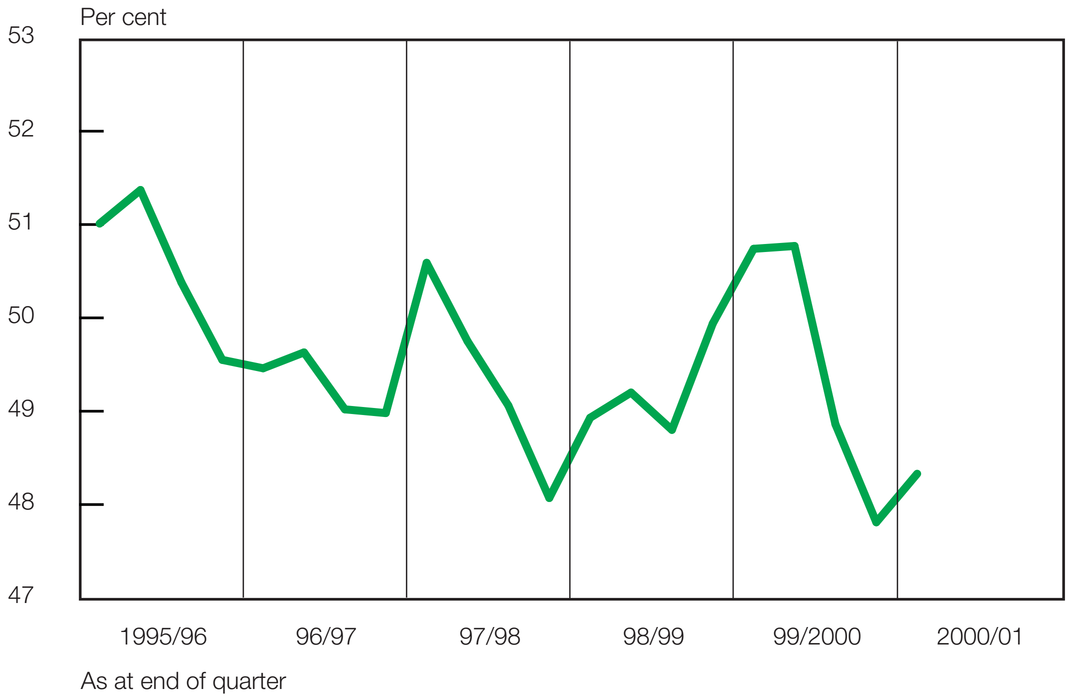
Financing of national government deficit in the April–June quarter of fiscal 2000/01

Financial instrument	R millions
Domestic primary capital market	
Government bonds (including discount)	1 013
Less: Discount on government bonds	533
Net receipts from government bonds issued	**480**
Treasury bills	8 824
Extraordinary receipts	89
Foreign loans	2 126
Redemption of Section 239-debt*	-14
Redemption of Namibian debt	-5
Change in available cash balances	1 968
Total net financing	**13 468**

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

Total *national government debt* rose from R390,5 billion at the end of March 2000 to R402,7 billion at the end of June 2000. Apart from the need to finance the deficit of national government, government debt also increased due to the higher rand value of outstanding foreign-currency denominated debt. At the end of June 2000 total national government debt was equivalent in value to 48,3 per cent of gross domestic product, compared with 47,8 per cent at the end of March 2000. New foreign bond issues in June 2000 lengthened the average outstanding maturity of foreign loans from 92 months at the end of March 2000 to 106 months at the end of June. An amount of R1,5 billion was also drawn on foreign export credit facilities for the financing of strategic defence expenditure.

National government debt as a ratio of gross domestic product



Statement of the Monetary Policy Committee

15 June 2000

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

At its meeting of 14 and 15 June 2000 the Monetary Policy Committee analysed recent international and domestic economic developments and reviewed the monetary policy stance. The main conclusions drawn at this meeting are summarised in this statement.

International economic developments

Since the last meeting of the Monetary Policy Committee there have been indications that economic growth in the United States of America may have slowed down. For instance, the private sector shed 116 000 jobs in May 2000, leading to an increase in the unemployment rate of 0,2 percentage points. As a result, financial markets rallied as fears of a further monetary tightening in the United States receded. It is still too early to tell whether recent data reflect a sustained trend, but it is widely anticipated that it could affect the future monetary policy stance. However, there is a possibility that higher share prices may reinforce the wealth effects that underlie much of the demand pressure in the United States.

Clearer signs of an economic recovery in Japan are emerging. Recently released data show that the real gross domestic product of Japan rose at a seasonally adjusted and annualised rate of 10 per cent in the first quarter of 2000, compared with a decline to over 6 per cent in the fourth quarter of the preceding year. Real production in the euro area increased at a weaker-than-expected growth rate of 2,8 per cent in the first quarter of 2000. However, growth is expected to be higher in the second quarter owing to strong increases in industrial production. The United Kingdom's preliminary first quarter production figures were weaker than projected, with declining growth in manufacturing production.

The process of monetary tightening, which had generally been pursued in most of the industrial countries during 1999, continued in 2000. Interest rates were increased when it became apparent that inflation rates were rising. Sharp increases in oil prices put upward pressure on other prices, which in an environment of relatively high growth, made it necessary to apply stricter monetary discipline.

The performance of emerging-market economies improved considerably during the first months of 2000. Many of the world's poorest countries, including some in Africa, are recording good growth rates in production. Unfortunately, the political developments in some sub-Saharan African countries impede economic growth in this region. The rate of inflation in emerging-market economies has declined, but the recent depreciation in the currencies of many of these countries, if sustained, may result in an acceleration of inflation.

Domestic real economic developments

The recently released national accounts statistics confirm that growth in the South African economy slowed down markedly in the first quarter of 2000. Adverse agricultural conditions were to a large extent responsible for the lower growth. The growth in non-agricultural production nevertheless also declined from a seasonally adjusted and annualised rate of 2½ per cent in the last two quarters of 1999 to 2 per cent in the first quarter of 2000, largely because of a levelling off in manufacturing output. This does not bode well for the already poor capacity of the economy to create employment and decrease the unemployment rate.

The growth in aggregate domestic demand weakened somewhat in the first quarter of 2000, owing to a fall in the real consumption expenditure of general government. This contributed to a further large increase in inventory accumulation. In contrast to the development in overall demand, the growth in real final consumption expenditure by households accelerated from a seasonally adjusted and annualised rate of 3 per cent in the fourth quarter of 1999 to 3½ per cent in the first quarter of 2000. However, consumers avoided financing this expenditure by excessive increases in debt. Household debt as a percentage of personal disposable income therefore declined from 59½ per cent in the first quarter of 1999 to 57 per cent in the first quarter of 2000.

Gross fixed capital formation, which had declined in 1999, rose modestly in the first quarter of 2000. The rise in fixed investment was confined to the private sector, while capital expenditure by public corporations and general government contracted further. The level of fixed investment at 14½ per cent of gross domestic product is well below the level required to support economic growth at a rate high enough to lift the employment-creating capacity of the economy.

Domestic monetary and fiscal conditions

The broadly defined money supply (M3) at the end of April 2000 was close to the value that it had reached at the end of December 1999. In fact, M3 contracted at an annualised rate of 0,2 per cent in the first four months of 2000, whereas it had increased at a rate of 18,9 per cent in the second half of 1999. Moreover, the decline in the money supply in the first four months of 2000 was mainly concentrated in short-term deposits of the non-bank private sector, i.e. in deposits reflecting the transactions demand for money. Mainly because of the statistical carry-over of strong growth in the money supply during the second half of 1999, the twelve-month growth rate in M3 amounted to a relatively high 10,8 per cent in April 2000.

Bank credit extension to the private sector expanded slowly during the first four months of 2000. The seasonally adjusted and annualised growth rate in such credit amounted to 5,7 per cent from the end of December 1999 to the end of April 2000, compared with a rate of 8,0 per cent recorded during the last six months of 1999. In April 2000 the twelve-month rate of increase in credit extension to the private sector came to 8,9 per cent.

Public finances were characterised by continued discipline in the first four months of 2000. The public-sector borrowing requirement amounted to only 1,3 per cent of gross domestic product in the fiscal year ended 31 March 2000, compared with 3,4 per cent in the preceding fiscal year. Lower capital expenditure by public corporations and a smaller national government deficit made the major contributions to this reduction.

Domestic financial markets

Financial market activity remained brisk throughout the first five months of 2000 and share prices on the whole declined up to mid-April and bond prices up to mid-May. Market sentiment then started to change. Share prices rose by 16,6 per cent from a low point on 17 April 2000 to 14 June, while long-term bond yields declined by 70 basis points from a peak value on 10 May 2000 up to 14 June.

Foreign investors remained net sellers of South African bonds up to the last week of May, but from 25 May 2000 to 14 June became net purchasers to the amount of R0,8 billion. From the beginning of the year until 14 June their net sales still totalled R15,6 billion. Non-residents have purchased R4,4 billion of equities so far this year, compared with R11,9 billion during the first five months of 1999.

In the money market the Treasury bill and bankers' acceptance rates started to rise marginally in April and showed a distinct upward trend during most of May, probably reflecting expectations that the Reserve Bank will react to the weaker rand and higher oil prices. After the beginning of June both these rates began to decline again. Other market-determined rates, such as forward rate agreements and rates on negotiable certificates of deposits, displayed similar patterns.

The recent developments in the money and capital markets were also reflected in a change in the shape of the yield curve. The yield curve flattened somewhat with the upward sloping short end reflecting the rise in shorter-term rates and the longer end of the yield curve the decline in longer-term yields.

Balance of payments and foreign exchange market

The overall balance of payments was in surplus to the amount of R3,6 billion during the first quarter of 2000. This was the combined result of a surplus of R0,5 billion on the current account and a net inflow of capital not related to reserves of R3,1 billion. After making adjustments for seasonal factors, the current account of the balance of payments was in deficit to an annualised amount of R4,7 billion, i.e. at a slightly lower value than the R5,6 billion recorded in the fourth quarter of 1999. Exports of goods continued to perform well and neutralised increases in merchandise imports and net service, income and transfer payments to non-residents.

Despite the large net sales of domestic securities by non-residents, a further although considerably smaller surplus was recorded on the financial account of the balance of payments. This was largely the result of net inward direct investment into South Africa and the proceeds obtained from an international bond issue of the government. There was also a further but smaller inflow of foreign equity portfolio capital and inflows arising from trade finance and bank deposits.

Despite the overall surplus on the balance of payments, the exchange rate of the rand came under pressure. The weighted value of the rand against a basket of currencies declined by about 7½ per cent from the end of 1999 until the middle of May 2000. This decline in the rand was probably related to the strength of the US dollar and perceptions about the effects of developments in some sub-Saharan African countries. Towards the end of May and in the first two weeks of June 2000 the US dollar weakened considerably on international foreign exchange markets, resulting in a moderate appreciation in the external value of the rand against the dollar. However, the nominal effective exchange rate of the rand declined further to a level on 14 June 2000 that was 8 per cent lower than at the beginning of the year. In view of the weakness of the rand, the Reserve Bank did not reduce its net open foreign currency position during April and May. At the end of May 2000 the net open foreign currency position of the Bank therefore remained at US$10,2 billion.

Stability in the financial sector

The additional information that has become available since the last meeting of the Monetary Policy Committee about developments in the banking sector, reaffirmed that banks are managing risks in an efficient and sound way. Gross overdues on advances have declined in absolute and relative terms. In addition, banks have made adequate provision for bad and doubtful loans. These provisions, at more than 60 per cent of total gross overdues, are currently well above the international norm of 40 per cent. However, there are signs that the profitability of the banking sector as a whole is coming under some pressure. Lower income combined with increased operating expenses, resulted in marginally lower returns on assets and equity during the first four months of 2000.

Monetary policy

Consumer and production price indices indicate that inflationary pressures are increasing in South Africa. The rate of increase in the consumer price index for metropolitan and urban areas excluding the interest costs on mortgage bonds, i.e. the CPIX which is used as the benchmark for inflation targeting, has continued to accelerate from the fourth quarter of 1999. The higher rates of consumer price inflation were mainly due to increases in the prices of energy and food. If these prices are excluded from the CPIX, the twelve-month rate of increase in this index actually declined from a peak of 7,9 per cent in March 1999 to 6,7 per cent in April 2000.

The secondary effects of recent oil and food price increases, as well as the weakness of the rand, therefore seem quite muted or simply not yet fully reflected in an acceleration in the underlying rate of price increases. Moreover, it is possible that the temporary upward pressure exerted by these external shocks may be tempered by fundamental domestic economic factors, such as the modest growth in money supply and bank credit extension; the excess production capacity in the economy; fiscal and monetary discipline; and a slowdown in the growth of nominal unit labour costs.

According to projections made by the Reserve Bank, the inflation outlook for South Africa is still positive. Given the effects of external shocks, the growth in the overall CPIX is likely to increase into the second half of 2000, but price increases may then start to slow down and the average growth in CPIX should be within the target band of 3 to 6 per cent for the year 2002.

Taking the above circumstances into account, the Monetary Policy Committee has decided to maintain the current monetary policy stance.

Statement of the Monetary Policy Committee

11 August 2000

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

At a meeting on 10 and 11 August 2000 the Monetary Policy Committee reviewed economic conditions and the monetary policy stance. The main conclusions of the Committee are summarised in this statement.

International economic developments

Global economic conditions remain favourable. In the United States the growth in real gross domestic product improved from a seasonally adjusted and annualised rate of 4,8 per cent in the first quarter of 2000 to 5,2 per cent in the second quarter. This strong growth was fuelled primarily by business investment and federal government spending. Over the same period, the inflation rate rose further largely due to increases in energy and food prices.

Growth in the euro area is robust and is expected to average more than 3 per cent in 2000. However, the euro remains under pressure, and the weaker currency together with higher oil prices led to an inflation rate of 2,4 per cent in June 2000. This is considerably above the inflation reference rate of 2,0 per cent. In the United Kingdom, real gross domestic product grew by a stronger than expected 3,6 per cent in the second quarter of 2000. Inflationary pressures also arose because of increases in the price of petrol and oil.

The Japanese economy has recovered somewhat since the beginning of 2000, despite the weak consumer demand. The Policy Board of the Bank of Japan is of the opinion that the downward pressure on prices stemming from insufficient demand is abating. The Board has decided at its recent meeting to terminate its zero interest rate policy.

Growth in the emerging markets of Asia and Latin America is still strong with no signs of undue inflationary pressures. The performance of African economies has varied considerably, with some parts of sub-Saharan Africa being affected by political and social developments. Some corrective measures are being put in place, as demonstrated by the recent devaluation of the Zimbabwean dollar by about 24 per cent against the United States dollar in order to improve the price competitiveness of Zimbabwe's export sector.

In recent weeks the oil price has declined from levels above US$30 per barrel to between US$26 to US$28 following a decision by OPEC to increase production. If these lower levels are sustained, inflationary pressures will be reduced internationally.

Domestic real economic developments

Economic activity in South Africa expanded during the first half of 2000, but at a considerably slower pace than in the second half of 1999. From preliminary information it appears that the more subdued economic growth was mostly concentrated in the primary and secondary sectors of the economy. This was reflected in considerable underutilisation of production capacity in manufacturing. The real value added by the services sectors seems to have grown at a solid rate in the first six months of 2000, led by growth in the trade, transport and communication sectors.

Preliminary estimates indicate that aggregate final demand continued to expand during the first six months of 2000. In particular, growth in real final consumption expenditure by households remained firm, largely because of increased expenditure on durable and semi-durable goods. However, inventory accumulation was cut back, partly in response to some involuntary inventory build-up in previous quarters, causing a decline in real gross domestic expenditure in the second quarter of 2000.

Labour absorption in the formal non-agricultural sectors of the economy remained weak in the first three months of 2000. The latest information about the labour market is nonetheless more positive, showing that unemployment declined from 25 per cent of the economically active population in October 1998 to 23 per cent in October 1999. Total employment increased over this period, not least owing to strong growth in informal-sector employment. Another positive factor in the labour market is the low year-on-year increase in the cost of labour per unit of real output, rising by only 0,5 per cent in the first quarter of 2000.

Domestic monetary and fiscal conditions

Reflecting the subdued growth in economic activity, the level of the broadly defined money supply (M3) at the end of June 2000 was virtually the same as at the end of 1999. In fact, the seasonally adjusted quarterly average value of M3 declined slightly from the first to the second quarter of the year. Measured over a period of twelve months, M3 increased by 8,8 per cent in June 2000.

Bank credit extension to the private sector increased at an average annualised rate of 4,9 per cent in the first six months of 2000. Private-sector businesses were increasingly prepared to satisfy part of their financing needs through non-bank mechanisms, such as issuing share capital or debt securities. This had a dampening effect on credit intermediated via the banking system and on the growth of money supply. By contrast, credit extended to households showed signs of recovery after a period of consolidation.

The fiscal situation remained sound in the April-June quarter of fiscal 2000/01, with government revenue increasing more rapidly than government expenditure. The accumulated budget deficit for the current fiscal year developed closely in accordance with its typical seasonal pattern.

Domestic financial markets

Lively trading conditions prevailed in the bond market during the second quarter of 2000, but turnovers declined somewhat from the levels attained in the first quarter. The domestic bond market has been in a strong recovery phase since the last Monetary Policy Committee meeting in June. The yield on the R150 bond strengthened from just above 14 per cent to 12,75 per cent on 10 August 2000. As a consequence, the yield curve became flatter over this period. The difference between the nominal yield on long-term government bonds and the real yield on the inflation-linked government bond has declined significantly since May, tentatively signalling that inflation expectations have moderated.

Foreign investors became net buyers of South African bonds in July to an amount of R2,2 billion. However, the net sales by non-residents still totalled R13,1 billion in the first seven months of 2000.

Turnover on the secondary equity market remained high in the first six months of 2000, but share prices were relatively depressed. The all-share price index, on balance, declined from a peak of 9 227 on 17 January 2000 to 8 066 on 10 August 2000, or by 12,6 per cent. Non-residents purchased equities to the amount of R6,8 billion in the first seven months of 2000, compared with R24,7 billion in the same period of the preceding year. August 2000 to date has demonstrated a considerable improvement in net purchases by non-residents of both bonds and equities amounting to R3,1 billion.

In the money market, the interest rates which respond to changes in the Reserve Bank's repo rate, i.e. the interbank overnight rate, prime overdraft rate and mortgage rates, have remained broadly unchanged since the last meeting of the Monetary Policy Committee. Some of the other rates, such as those on Treasury bills and bankers' acceptances, declined only marginally. By contrast, the rates on forward rate agreements displayed significant downward movements from 15 June to 10 August 2000.

Balance of payments and foreign exchange market

Despite a large oil import bill, the current account of the balance of payments changed from a deficit in the first quarter of 2000 to a healthy surplus in the second quarter. This was the combined result of a decrease in the value and volume of merchandise imports, and a further substantial increase in the value of merchandise exports. The exports of mining and manufactured goods have performed remarkably well during the first six months of 2000, reflecting the weaker external value of the rand and strong international demand.

Investor sentiment deteriorated in the second quarter, leading to a net outflow of capital from South Africa. To a large extent this consisted of a net outflow of portfolio investments, but some South African companies also sought to diversify their operations into other parts of the world.

With the surplus on the current account of the balance of payments falling short of the deficit on the financial account, the overall balance of payments showed a small deficit in the second quarter of 2000. The net international reserve position of the country consequently deteriorated somewhat, and the Reserve Bank was able to reduce its net open foreign currency position only marginally to US$10,1 billion at the end of the second quarter. At the end of July the net open foreign currency position was reduced further to US$9,9 billion.

As could be expected with an overall deficit on the balance of payments, the nominal effective exchange rate of the rand declined by 2,7 per cent from the end of March 2000 to the end of June 2000. Following the improvement in the transactions of securities by non-residents in July and August, the weighted value of the rand rose by 1,4 per cent in this period. On 11 August the nominal effective exchange rate of the rand was approximately 5,0 per cent below its level at the beginning of the year.

Stability in the financial sector

The overall efficiency in the banking sector improved somewhat in June 2000. Not only did growth in capital and reserves remain strong, but the capital adequacy ratio also rose from 12 per cent in the first quarter of 2000 to 12,5 per cent in the second quarter. Liquidity pressures eased somewhat because of a lower dependency on short-term wholesale deposits for funding. An increase in the anticipated liquidity mismatch appeared to be partly of a structural nature and partly a result of some banks' views on future interest-rate movements. Although overdue accounts increased slightly in the quarter ended June 2000, both general and specific provisions increased accordingly.

Monetary policy

The increase in overall consumer prices excluding the interest costs on mortgage bonds for metropolitan and other urban areas (the CPIX) accelerated from 6,5 per cent in October 1999 to 7,9 per cent in June 2000. When omitting the effects of the rise in domestic prices of energy and food (as related to flood damage), the twelve-month rate of increase in the CPIX remained unchanged at 6,9 per cent over the same period.

For policy purposes the price increases arising from exogenous shocks cannot, of course, be ignored. It is, however, important to note that inflation in South Africa over the past nine months was largely related to supply-side shocks on which monetary policy has little effect over the short run. However, some important counter-inflationary forces were also present in the economy. Unit labour costs, money supply and credit aggregates grew at low rates, the rate of increase in aggregate domestic demand was low and the economy operated well below production capacity.

From projections made by the Reserve Bank it appears that inflation is near an upper turning point. This is supported by the recent slower rate of increase in production prices, which usually precedes inflation-rate changes in consumer prices. All things remaining the same, the projections of the Bank show that the increase in CPIX should slow down over the next two years and that the average annual rate of increase in the year 2002 should be within the target range of 3 to 6 per cent. The spill-over effect of external inflationary pressures on domestic prices will nevertheless be carefully monitored to ensure that appropriate steps are taken so that the inflation target range is met.

Taking all the above circumstances into account, the Monetary Policy Committee has decided to maintain the current monetary policy stance.

The national accounts – a note on the treatment of losses resulting from natural disasters

by J W Prinsloo

Introduction

Losses suffered on account of natural disasters caused by fires, droughts and floods are not explicitly accounted for in the national accounts. The cost of flood damage in Mpumalanga, the Northern Province and other regions since the beginning of 2000 and the severe damage earlier this year caused by wildfires in the Western Cape, nevertheless call for some quantitative assessment of the likely impact of these catastrophes on economic activity generally. To this end, the national accounts present a useful framework for deriving estimates of the extent of the damage caused by natural disasters.

This note outlines how the consequences of a natural disaster are captured in the production and expenditure accounts. The treatment of capital stock and aid provided by general government are also briefly analysed. The final section contains a few graphs and some concluding remarks.

Production and expenditure

It is difficult to determine the overall impact of natural disasters on national income and production aggregates. Firstly, most of the effects are embedded in the source data. If, for example, a disaster has temporarily curtailed residential and other construction work, or some mining production, then the data on capital formation or production statistics would be lower than they would otherwise have been. This shortfall cannot easily be isolated from the effects of other factors that may also have influenced investment or production activities. Secondly, the reduction in production and incomes in the areas hit by a disaster may be at least partly offset by increases in production and incomes elsewhere in the economy. Thirdly, rebuilding efforts may, perversely, boost production, income and employment in the areas affected by disasters.

A sensible assessment of the damage caused by natural disasters should be based on a comparison of output estimates under “normal” conditions and the ex post estimates of actual disaster-affected output. In the case of agriculture, surveys based on intended acreage planted, projections of prospective yields, actual acreage planted and prospective yields should provide an estimate of the output that would have been recorded had there been no disaster. This clearly indicates that it is virtually impossible to quantify precisely the total impact that disasters could have had on the national accounts aggregates.

Losses in production arising from damage to stocks and production capacity, including the loss of production time, will as a rule be captured by a decline in the value added by the specific sector and region. Inventory losses will be accounted for in the calculation of the gross value added by industry, and on the expenditure side of the accounts by a decline in inventories. This will bring into equilibrium the production and expenditure estimates of the gross domestic product. The total destruction of residential buildings should be accounted for through the adjustment of the rental value of houses at current and constant prices. However, because of the lack of accurate data on the actual value of the houses destroyed, the rental values forfeited can be assessed only with a considerable margin of error.
As soon as conditions start returning to normal after a disaster, increases may be record-

ed in expenditure components such as household final consumption expenditure (especially on durable goods), fixed capital formation and the accumulation of inventories. However, the impact that these changes have on investment and expenditure will depend on the availability of financial resources and possible constraints resulting from infrastructural bottlenecks and supply limitations in the region. The empirical estimates of the economic consequences of a natural disaster will therefore be captured in the national production and expenditure estimates over an extended time, and not necessarily in the period immediately following the disaster. Furthermore, output from a disaster region will be lower than normal until such time as production capacity is fully restored in that region. By contrast, other unaffected regions could temporarily benefit from the increased demand from devastated areas.

Capital stock

In the case of losses of capital stock, the estimated damage should be deducted from total capital stock. The method used by the South African Reserve Bank to calculate the consumption of fixed capital provides indirectly for this. In accordance with international guidelines, the Bank uses the straight-line method to provide for the consumption of fixed capital by type of asset, using different asset lifetimes. This means there is a mechanism that implicitly provides for the gradual decay of physical assets and that some assets might have been written off in their entirety even before they were devastated by a disaster.

In practice, the capital stock is calculated fairly conservatively because assets with a lifetime longer than the period used for writing them off, remain part of total capital stock and are used in the production process, even though they are no longer part of the estimated capital stock. As stated in the recommendations of the System of National Accounts: "It seems reasonable, however, to value consumption of fixed capital on a straight-line basis with reference to the expected economic lifetime of the individual assets. The estimates of the expected economic lifetime of fixed capital should take account of the average (normally expected) amount of accidental damage to fixed assets which will not be made good by repair or replacement of parts, for example, damage arising from fire or floods."

The total cost of the flood damage caused by cyclone Eline in the Northern Province and Mpumalanga has not yet been finalised. Preliminary estimates of the flood damage in the agricultural sector as at the end of June 2000 amounted to more than R550 million. This does not include crop losses and insured or insurable damages. If, for example, an aggregate figure of between R3,0 and R4,0 billion is used, the total cost of the disaster would amount to less than 0,5 per cent of South Africa's gross domestic product. Although the influence of a natural disaster will be concentrated in some local authorities and provinces, the net effect on the overall economy (depending on the magnitude of the disaster), phased in over several quarters, would probably be negligible.

Aid

General government normally provides aid during and after a disaster, through increased government spending, current transfers to households and capital transfers to business enterprises. These types of expenditure are fully accounted for in the national accounts. Aid given to households by business enterprises in the private sector is treated as transfers from the corporate sector to the household sector. Transfers and aid among households are not recorded because these transactions reflect only a redistribution of income in the household sector. If households and non-profit institutions serving households are treated as independent institutions, aid in the form of grants and donations between these two institutions should be shown as current transfers.

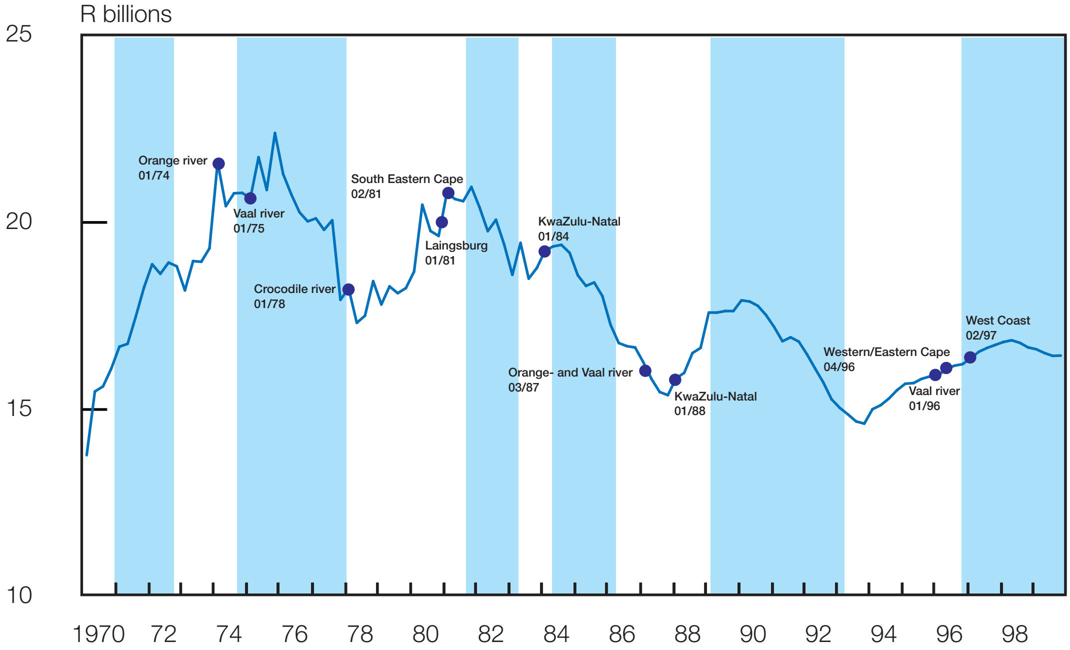
General government

The direct losses suffered by general government will normally be due to damage to infrastructure such as roads, dams, bridges and irrigation canals. Provision for the consumption of fixed capital embodied in these assets forms part of total consumption expenditure by general government. Work to repair the damage caused by a disaster will be captured as part of consumption expenditure by general government. By contrast, the replacement of equipment and infrastructure is part of gross capital formation by all levels of general government, namely central government, provincial government and local authorities. Emergency supplies provided by general government and the cost of rescuing flood victims are treated as part of current expenditure by general government.

Concluding remarks

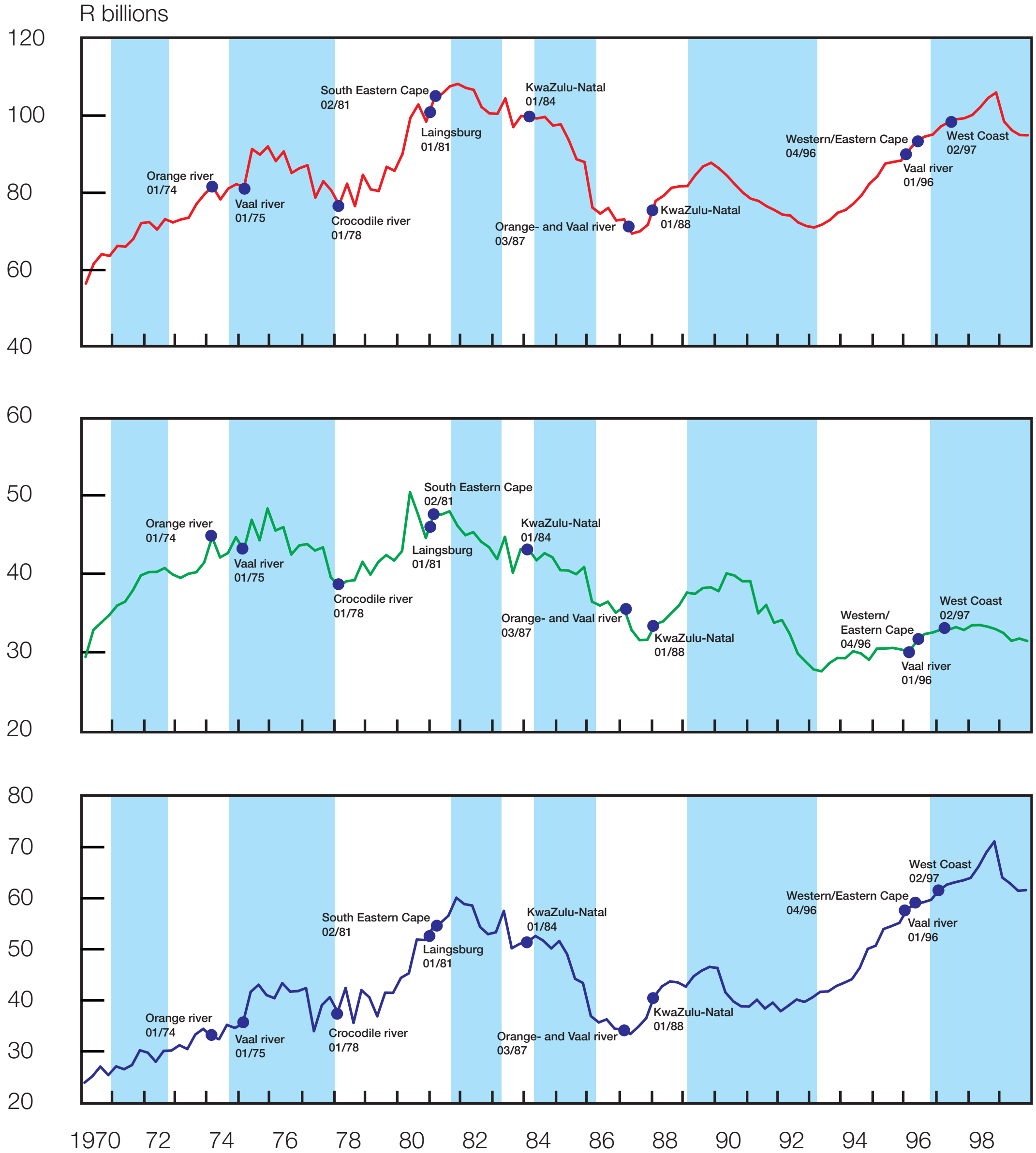
In the accompanying graphs the dates of some of the major floods in South Africa since 1970 are plotted along with the estimated real gross domestic fixed capital formation and the real value added by the construction industry. It seems that the South African economy has almost always been in a cyclical upswing when flood disasters occurred. This, and the fact that the total cost of disasters was small in relation to aggregate gross domestic product, complicate the empirical assessment of the implications that natural disasters have for growth and investment.
The overall consistency of the national-accounts estimates will be intact because increases in capital formation, consumption and the change in inventories following exogenous

Real value added by the construction industry



● Dates of floods
Shaded areas, downward phases of the business cycle
Seasonally adjusted and annualised rates

Real gross fixed capital formation



Total
Buildings and construction works
Machinery and transport equipment
Dates of floods
Shaded areas, downward phases of the business cycle
Seasonally adjusted and annualised rates

shocks are captured along with endogenously determined changes in production levels, employment and the compensation of employees. In addition, the national-accounts estimates should reflect the underlying trends in production and expenditure activities and indicate the direction in which aggregate economic activity is moving. If a "complete" record of the cost of disasters coupled with reliable estimates of potential output under "normal" conditions could be obtained, it should be possible to assess with the aid of a quantitative macroeconometric model the most likely impact that a natural disaster would have on activity and growth in the economy.

Note to tables

National government finance – S-54 and S-145:

Section 32 of the Public Finance Management Act requires the publication of a monthly statement of actual revenue, expenditure and borrowing with regard to the National Revenue Fund. To comply with this requirement, a *Statement of National Revenue, Expenditure and Borrowing* based on cash-book transactions, has been published by National Treasury since July 2000, replacing the previously published version of the *Exchequer Account.* The format of the new statement differs from that of its predecessor; notably, the separate identification of revenue items under the subheadings Inland Revenue and Customs and Excise was omitted and these revenue collections now fall under the South African Revenue Service. Tables S-54 and S-145 have been revised accordingly.