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SM/93/255
Correction 1

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INFORMATION

December 20, 1993

To: Members of the Executive Board

From: The Secretary

Subject: South Africa - Selected Economic Issues

The following corrections have been made in SM/93/255 (12/10/93):

Page 2, Table 1: revised

Page 6, column 6, last line of the table: for "0.5" read "4.5"

Page 14, 1st full para., line 2: for "1.5 percent...2.5 percent"
read "1.2 percent...2.1 percent"

Page 15, 2nd full para., line 4: for "2 1/2-3 months" read "2.2 months"

Page 16, first para., line 6: for "The first nine months"
read "The first eight months"

Page 124, Table 10: revised

Page 144, Table 30, last column: figures revised

Page 146, Table 32, last column: figures revised

Corrected pages are attached.

Att: (8)

Other Distribution:
Department Heads

I. Recent Economic Developments

South Africa is crossing its major political watersheds, the abandonment of apartheid and the adoption of majority rule, at a juncture when economic conditions are more depressed than at any time since the 1930s. By the fourth quarter of 1992, when the current depression appeared to have bottomed out, real GDP had shrunk for three successive years, real income per capita was 15 percent lower than in the early 1980s, and an estimated 45 percent of the labor force was unable to find employment in the formal sector.

The 1989-93 recession took place in the context of a long-term secular decline in growth: from 5-6 percent a year on average during the 1960s and 3-3½ percent a year during the 1970s to 1½ percent a year in the 1980s (Table 1; Chart 1). Growth during the 1980s was not enough to absorb a labor force growing at 2.7 percent per year or to raise real per capita income. Both domestic and external factors contributed to the slowdown. Successive waves of political unrest and rising uncertainty about future political and economic policies brought gross fixed investment down from 26 percent of GDP on average during 1970-85 to 16 percent in 1992, a level barely sufficient to cover depreciation. The external environment became increasingly hostile: trade sanctions reduced firms' access to international markets and their exposure to international competition; financial sanctions, imposed in August 1985, prevented South Africa from rolling over short-term debts, forcing the country to switch from being a net borrower to being a net lender on international credit markets; and the terms of trade worsened progressively. Partly in response, South Africa adopted an inward-looking development strategy with higher protective barriers and increased incentives for capital-intensive industries. In 1992, the third year of the recession, conditions were exacerbated by a severe drought which reduced agricultural production by 25 percent.

The remaining sections of this chapter provide a summary of developments during the course of the recession and highlight the importance of key problems that are developed further in the subsequent chapters: labor market rigidity, insufficient investment and saving; and pressures on the budget that threaten fiscal sustainability.

1. Real sector developments

In its first phase, lasting from 1989-91, the current recession was associated with a sharp reduction in demand, particularly investment demand (Appendix Tables 1 and 2). In 1989, real growth slowed to 2.3 percent from 4.2 percent in the previous year. The deceleration was attributable entirely to a falloff in domestic demand; in fact there was a substantial positive influence from the turnaround of net exports. During the next two years GDP shrank by 0.5 percent a year owing to inventory destocking during 1990 and an increasingly rapid decline in fixed investment in 1990 and 1991. The influence of the external balance was mixed: in 1990 imports fell sharply while exports continued to rise, resulting in a net positive impulse

Table 1. South Africa: Selected Economic Data, 1988-93

	1992 (In millions of rand at current prices)	1988	1989	1990	1991	1992	1993 Official projections
			(Percentage change at constant prices)				
National accounts							
Private consumption	203,407	5.3	2.8	2.1	0.3	-2.3	--
Public consumption	69,727	1.7	3.7	2.6	5.2	0.3	-0.5
Gross fixed investment	52,060	8.9	5.1	-2.0	-8.4	-9.9	-3.0
Total domestic demand 1/	322,397	6.9	2.1	-1.5	-0.2	-2.2	0.5
Exports of goods and nonfactor services	78,070	9.8	4.6	1.9	0.3	1.0	2.0
Imports of goods and nonfactor services	65,285	21.9	-0.2	-5.8	2.1	5.4	1.0
Gross domestic product	327,068	4.2	2.3	-0.5	-0.4	-2.1	0.5
				(Percentage change)			
Prices and wages							
Consumer prices		12.9	14.7	14.3	15.3	13.9	10.0
Consumer prices (end of period)		12.4	15.6	14.4	16.0	9.5	...
GDP deflator		15.5	15.2	13.7	13.2	12.1	10.0
Remuneration per worker 2/		15.3	18.0	16.9	15.8	15.2	...
				(In billions of U.S. dollars)			
Balance of payments 3/							
Merchandise exports		22.8	21.9	23.5	23.3	23.6	23.3
Of which: net gold 4/		(8.7)	(7.3)	(7.0)	(7.1)	(6.4)	(6.7)
Merchandise imports		17.3	16.9	16.8	17.2	18.2	17.9
Services and transfers, net		-4.0	-3.7	-4.7	-3.9	-4.0	-3.7
Current account balance		1.5	1.3	2.1	2.2	1.4	1.7
(In billions of rand)		3.4	3.5	5.3	6.2	3.9	5.7
(In percent of GDP)		1.7	1.5	2.0	2.1	1.2	1.6
Long-term capital, net		-0.5	-0.2	-0.0	-0.6	-0.5	...
Short-term capital, net 5/		-2.5	-1.6	-0.9	-1.1	-1.6	...
Capital account balance		-3.0	-1.8	-0.9	-1.7	-2.2	...
Gross international reserves 6/		2.8	2.7	2.8	3.6	3.7	...
				(In billions of rand)			
Central government finances 7/							
Revenue 8/		48.1	61.1	66.8	72.3	75.8	88.2
Expenditures		55.9	65.5	73.9	85.9	103.8	114.2
Balance		-7.8	-4.4	-7.1	-13.6	-28.0	-26.0
(In percent of GDP)		-3.8	-1.8	-2.6	-4.4	-8.4	-7.0
Monetary aggregates				(Percentage change)			
Broad money, end-period		27.2	22.6	12.2	12.5	8.0	...
Bank credit to private sector, end-period		27.7	20.2	15.7	14.5	8.7	...
Exchange rates							
Period average							
U.S. dollars per rand		-10.4	-13.3	1.3	-6.3	-3.2	...
Nominal effective rate		-13.8	-8.8	-5.6	-6.2	-6.0	...
Real effective rate		-5.5	0.4	3.0	3.8	3.8	...
End period							
U.S. dollars per rand		-18.8	-6.2	-1.0	-6.6	-10.2	...
SDRs per rand		-14.4	-4.0	-8.6	-7.1	-6.5	...
				(In percent)			
Interest rates (period average)							
Discount rate (end of period)		14.5	18.0	18.0	17.0	14.0	...
Treasury bill rate		12.0	16.8	17.8	16.7	13.8	...
Government bond yield		16.4	16.9	16.2	16.3	15.4	...
Prime rate		15.3	19.8	21.0	20.3	18.9	...

Sources: South African Reserve Bank, Quarterly Bulletin; International Monetary Fund, International Financial Statistics; data provided by the South African authorities; and staff calculations.

1/ Excludes statistical discrepancy.
2/ At current prices; nonagricultural sector.
3/ Official projections converted to dollars using average exchange rate for first nine months of 1993.
4/ Includes net changes in gold holdings of the Reserve Bank and other banking institutions.
5/ Includes errors and omissions of current as well as capital account.
6/ End period; national valuation of gold.
7/ Department of Finance data. Fiscal year begins April 1. Budget data for 1993.
8/ Ordinary revenue.

5 percent. By contrast, public sector employment levels were sustained through the recession, rising by 2 percent during the three years through 1992.

Real wages continued to rise through the recession years in spite of high and rising unemployment. Wage increases in the public sector (more than 3 percent a year in real terms) and in the manufacturing sector (2.8 percent a year in real terms) were particularly rapid. In the rest of the private sector the increase in real remuneration was more modest so the economy-wide average was about 2 percent a year during 1989-92 (Appendix Table 9). By contrast, aggregate productivity rose by only 1 percent a year during the same period; consequently real unit labor costs increased by 1 percent a year. The stubborn upward trend in the real wage provides one part of the explanation of South Africa's high unemployment and depressed output. By causing unit labor costs to rise--and therefore firms' gross margins to fall--the wage increase also contributed to the reduction in the investment ratio. Chapter II below analyzes the labor market in some detail and advances several explanations for the failure of the real wage to fall in the face of unemployment.

The last three years have seen a significant abatement of inflation, which averaged around 15 percent during the 1980s, and has now fallen into single digits (Appendix Table 10; Chart 3). Measured by the GDP deflator, inflation decelerated each year from 1990 on, to reach 12 percent in 1992 compared with 15 percent in 1989. The drop-off in CPI inflation was more recent and more pronounced, reflecting the importance in the CPI basket of food prices, which rose sharply relative to the average through the third quarter of 1992, and fell relative to the average thereafter. By December 1992, the 12-month increase in the CPI had reached 9.5 percent, down from 16 percent a year earlier. During the first nine months of 1993 the 12-month CPI inflation rate has remained in the 9-10 percent range in spite of a 4 percentage point increase in the value-added tax (VAT) rate, which is estimated to have increased the CPI by 2 percentage points; thus the underlying rate of CPI inflation may be about 7-8 percent.

The reduction of inflation rates masked some important shifts in relative prices during 1989-92. The prices of vehicles and beverages each rose by 4.5 percent a year relative to the overall CPI; the cost of housing (a larger item in the basket, with a weight of 21 percent) fell by 6 percent a year relative to the CPI; and in 1992 the price of food rose by about 10 percent relative to the index. Finally, imported goods became cheaper relative to domestic goods as the rand appreciated in real effective terms.

The investment ratio in South Africa has fallen dramatically--from 25 percent of GDP in 1984 (equal to the norm over the preceding 15 years) to about 15 percent in 1992 (Chart 1 and tabular material below). For the eight-year period, the counterparts of this 10 percentage point fall in investment were a 3½ percentage point decline in net foreign savings, a 3½ percentage point increase in government dissaving, and a

2 percentage point fall in domestic private saving. The figures for the whole period are composed of three significant movements within the period. First, the 1985 moratorium on bank lending to South African firms turned the country into a net supplier of saving to the rest of the world. Repayments of bank debt forced the current account to move by 6½ percentage points, from a deficit of 2.4 percent of GDP in 1984 to surpluses of more than 4 percent in 1985-87; the external drain on saving subsequently moderated, reaching a low of 1.2 percentage points of GDP in 1992. Second, significant increases in government expenditure on social services raised government dissaving to more than 4 percent of GDP in 1992, up from zero two years earlier. And, third, domestic private saving, which had risen to 25 percent of GDP in 1987 (partially replacing the lost foreign saving), fell back gradually to about 20 percent of GDP in 1992.

Saving-Investment Balances, 1967-92

(In percentage points of GDP)

	Private saving	General government saving (gross)	Foreign saving 1/	Change in inventories	Fixed investment Private	Fixed investment Public sector 1/	Total saving and investment
1967	18.2	5.9	2.8	4.5	12.3	10.1	26.9
1972	21.3	3.5	0.9	-1.2	14.1	12.8	25.7
1977	25.1	2.4	-0.6	-1.1	13.7	14.3	26.9
1982	19.8	1.0	4.4	-2.7	15.9	12.0	25.2
1984	23.1	-0.6	2.4	0.5	14.6	9.9	24.9
1985	24.8	-0.3	-4.2	-3.0	13.1	10.2	20.3
1986	24.1	-0.6	-4.5	-1.2	11.6	8.6	19.0
1987	25.3	-1.8	-4.1	0.2	11.8	7.4	19.4
1988	23.3	-0.1	-1.7	1.6	13.3	6.6	21.5
1989	22.7	--	-1.5	0.4	13.8	7.0	21.2
1990	20.9	0.1	-2.0	-1.0	13.4	6.7	19.1
1991	20.5	-2.3	-2.1	-1.9	12.4	5.7	16.1
1992	20.4	-4.2	-1.2	-0.9	11.4	4.5	15.0

1/ Positive foreign saving corresponds to an external current account deficit.
2/ Public authorities (general government and business, and public enterprises) and public corporations.

Viewed from the perspective of longer-term growth, the decline in investment and saving brought gross fixed investment in 1992 to a low of 16 percent of GDP, and net fixed investment to 1 percent. Staff calculations, elaborated in Chapter IV, indicate that for growth to resume it may be necessary to raise fixed investment back to pre-1985 levels--an increase of 8-10 percentage points. Some additional saving may be forthcoming from the external sector but a pickup of investment of this magnitude would certainly be facilitated by a reduction in government dissaving.

extending overnight loans against collateral. This system was complex and potentially open-ended since the supply of eligible paper--particularly bankers' acceptances--was not under the control of the Government or the Reserve Bank. Under the new system, the Reserve Bank will provide accommodation exclusively by making overnight loans against collateral. The assets eligible to be used as collateral are Treasury bills, government stock, Land Bank bills and Reserve Bank bills. 1/ The stock outstanding of these assets is finite and under government control. There are three tiers of accommodation. For collateral of short maturity (less than 92 days), overnight loans are extended at Bank rate. For collateral of longer maturity (92 days to three years), loans are extended at Bank rate plus one percent. Finally, accommodation against other types of paper may be provided in exceptional circumstances on terms to be negotiated. The new method of accommodation is intended to enhance control over the evolution of monetary aggregates; it is also in line with a deliberate policy of encouraging the growth of the treasury bill market.

In June 1993, the Reserve Bank began transferring government deposits from the Exchequer account with the Reserve Bank to government accounts at private banks. To date, some R 7 billion has been transferred. These transfers are an interim measure pending new legislation that will set up a system of government Tax and Loan Accounts with private banks, leaving only the Paymaster General's account at the Reserve Bank. This change is expected to simplify operations by ending the need for intra-month liquidity management to offset movements in government accounts, and to improve transparency by clarifying the intentions of SARB activity.

4. The external sector

From 1985-92, financial sanctions, which all but stopped commercial bank lending to South Africa, were the dominant influence on the balance of payments. As South African debtors were unable to roll over their largely short-term external debts, the SARB imposed an embargo ("standstill") on repayments of private debt to foreign commercial banks and subsequently negotiated a series of interim agreements with creditor banks, providing for partial repayment of principal. 2/ In addition, capital outflows were restricted by reintroducing the financial rand system, which normally constrains portfolio divestment by nonresidents collectively to zero. 3/ The offset provided by these measures was only partial, however, and thus in 1985 South Africa's capital account balance moved sharply into deficit where it has remained since; naturally, the contraction in net borrowing forced an inverse movement in the external current account, which has remained in surplus since 1985 (Chart 7). The adjustment that was needed to bring about

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1/ To date, no Reserve Bank bills have been issued.

2/ Payments of interest were made on schedule. The debt standstill is described in more detail below.

3/ Exceptions are when commercial rand deposits are redesignated financial rand and when the Reserve Bank intervenes in the market (see Chapter V).

the current account surplus was effected through a sharp real depreciation of the rand and a reduction in absorption.

In 1992 the current account surplus narrowed to the equivalent of 1.2 percent of GDP, compared with 2.1 percent in the previous year, with the change reflecting the drought, and adverse changes in the terms of trade. The volume of total exports increased relative to its 1991 level, but export unit values declined, as a result of lower prices of gold and other metals, thereby keeping the value of total exports roughly constant in U.S. dollar terms (Appendix Tables 23-27). The increase in export volume was attributable to a very strong performance in the manufacturing sector, which more than compensated for reduced exports of agricultural products (owing to the drought) and of gold. 1/ Imports grew strongly in 1992 as a result of a real appreciation of the rand, the high import content of manufactured exports, and grain imports related to the drought. 2/ In the first half of 1993, export volume was 5 percent higher than in the first half of 1992, with the rebound being due to substantial increases in the exports of diamonds, agricultural products, manufactures, and some mining products. Imports continued to grow in the first quarter of 1993, but were lower in the second quarter, reflecting a lesser need for agricultural imports.

Although the moratorium on bank lending to South Africa remained in effect, some private borrowers regained access to international capital markets after 1990. Subsequently, in 1991-92, the Government and major public enterprises also returned to capital markets by launching public bond issues; in the first half of 1992 these issues raised R 2 billion on European markets. During the second half of the year, however, and through the first half of 1993, there were pronounced capital outflows (Appendix Table 28). In the wake of the breakdown of constitutional talks in May 1992, margins offered to South African borrowers doubled, to 3 percentage points, and major public enterprises elected not to roll over debt payments coming due. At the same time, payments began to come due on short-term debt that had been converted to medium-term debt under the first interim arrangement following the debt standstill. Finally, there was a speculative outflow of short-term capital through the adjustments in timing of foreign payments and receipts ("leads and lags"). The combination of these factors resulted in the Reserve Bank using a considerable amount of its external reserves in order to moderate the pace of depreciation of the rand.

The limits on South Africa's access to international capital markets have resulted in a steady lowering of both external indebtedness, which was reduced from more than 40 percent of GDP in late 1985 to 16 percent at end-1992, and the interest ratio, which fell from 10 percent of export earnings to 7 percent during the same period (Appendix Table 29). As for the debt caught in the standstill net ("affected debt"), the partial repayments of

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1/ Gold export volume was slightly lower in 1992 than in 1991 in spite of slightly higher production.

2/ In addition there were some major capital purchases by the national airline.

principal and the use by many creditors of the "exit options" (to convert affected debt into nonaffected longer term debt), contributed to reducing the stock of affected debt from US$14 billion (58 percent of outstanding debt) in August 1985 to US$5.5 billion (less than a third of outstanding debt) at end-1992.

In September 1993, South Africa and its bank creditors concluded the 1994 Debt Arrangements, which specify terms for the normalization of all debt remaining in the standstill net at the end of 1993, when the Third Interim Arrangement expires. This final arrangement provides for the repayment of these debts--an estimated US$5 billion--over eight years. The repayment schedule includes an up-front payment of 10 percent of the affected debt in February 1994. Thereafter, repayments are backloaded: smaller repayments are due from August 1994 through 1998, and larger repayments (about US$1 billion each year) come due during the last three years of the arrangements. The agreement retains exit options that had been available under the Third Interim Arrangement.

The SARB accumulated foreign exchange reserves steadily from mid-1990 through late 1992; gross official reserves rose from US$2.1 billion in December 1989 to a peak of US$4.2 billion in August 1992, representing 2.2 months of import cover (Appendix Table 30). Subsequently, an increase in imports and a weakening of the capital account caused gross reserves to fall to US$3 billion in December and to a little under US$2 billion (less than six weeks of imports) by September 1993. The loss would have been even greater if the Reserve Bank had not begun in December 1992 to draw on its credit lines at foreign banks in order to maintain reasonable import cover: short-term liabilities rose from zero in August 1992 to US$0.8 billion in September 1993.

While South Africa's external competitiveness was improved by the large devaluations in 1984-85, this gain was eroded by a steady appreciation in the real effective value of the rand through 1992 (Appendix Table 31). Indeed, a variety of indices would suggest that relative price movements have reduced the incentive to produce for export or import substitution and encouraged a shift in consumption toward imports (Appendix Table 32). 1/ Non-gold export prices deteriorated relative to the various indices of domestic and input costs, by 10-40 percent between 1985 and mid-1993. 2/ Higher import taxes (through excises as well as import surcharges) offset some of the incentive to import but domestic costs and prices nonetheless rose faster than import prices.

1/ The discrepancies between the two real exchange rate indices shown in the tables reflect in part different baskets of currencies used in the calculations.

2/ Subsidies through the General Export Incentive Scheme (GEIS) and other export promotion measures improved the profitability of the export sector compared with what is shown by these indices, but the trend in profit margins was not conducive to investment in export production.

During 1992 the rand (commercial exchange rate) depreciated by close to 8 percent against the U.S. dollar. This was only 4 percent in nominal effective terms, since the dollar appreciated against the currencies of South Africa's major trading partners. In view of South Africa's high inflation relative to partner countries, the real effective exchange rate appreciated further in 1992. The first eight months of 1993 saw a significant depreciation of the rand--by 11 percent against the U.S. dollar and 9 percent in nominal effective terms. This more rapid depreciation, combined with consumer price inflation that remained at about 9 percent a year, gave rise to a 3.4 percent depreciation in real effective terms.

The financial rand discount, a closely watched index of the economic impact of political developments, was generally larger in 1992 and 1993 than the low levels attained in 1991. In June 1992, after the interruption of constitutional talks, the discount widened from 18 percent to 25 percent and by year-end it was nearly 40 percent. In April 1993 the discount rose sharply after the assassination of Chris Hani, a key figure in the African National Congress alliance. The discount narrowed to about 30 percent after the assassination failed to derail the constitutional talks and narrowed further to about 20 percent in the wake of the passage by Parliament of the bill establishing a Transitional Executive Council (TEC) and the lifting of sanctions by the United Nations.

5. Further analysis

The most pressing problem of the South African economy is how to create enough jobs, not only for those now unemployed but also for entrants into a labor force that is growing at an estimated 2.7 percent a year. Chapter II of this report argues that much of South Africa's unemployment is structural rather than cyclical and is, therefore, not amenable to solution by short-term demand management. A durable reduction in unemployment will require some combination of increased investment, increased labor productivity, and more flexibility in the labor market.

A second issue that will require the immediate attention of the new Government is fiscal policy. It will be critically important to ensure that the fiscal stance is sustainable in the medium term and does not entail an excessive claim on resources in the short term. Chapter III shows that the margin for maneuver is extremely narrow, even after correcting for cyclical factors that contribute to the current deficit. While there is not much scope to raise taxes, there will be mounting pressure for increased social spending. Yet even at its present level, the deficit puts fiscal sustainability at risk. A stylized supply-side model is used to show how an unsustainable fiscal position can reduce private investment and growth.

In Chapter IV, the pieces of the puzzle are put together in the context of a simple macroeconomic model of the South African economy. Alternative scenarios lay emphasis on the importance of the saving-investment balance and on the need for sustainable fiscal policies. In addition, the model highlights the interplay between investment ratios and real wages in

Table 9. South Africa: Remuneration, Productivity, and Unit Labor Costs in the Nonagricultural Sector, 1988-93

	1988	1989	1990	1991	1992	1992 1/				1993 1/
						I	II	III	IV	I
	(Percentage change from year earlier)									
Remuneration per worker										
At current prices										
Public authorities	12.3	21.9	17.5	17.3	15.3	16.2	17.4	14.5	13.1	14.0
Private sector	16.7	16.2	16.6	14.8	15.0	15.9	15.9	14.6	15.8	13.9
Total	15.3	18.0	16.9	15.8	15.2	16.1	16.5	14.7	15.0	14.0
At constant prices 2/										
Public authorities	-1.6	5.5	2.1	2.7	2.6	2.4	4.5	1.7	2.3	2.6
Private sector	2.0	1.1	1.7	0.9	3.0	2.1	3.1	1.8	4.6	2.7
Total	0.8	2.5	1.8	1.7	2.9	2.2	3.7	2.0	3.9	2.7
Labor productivity	2.3	0.9	0.3	1.4	1.2	1.3	1.2	1.4	1.7	1.6
Unit labor costs										
Nominal	13.0	17.2	16.6	14.5	13.9	14.7	15.2	13.1	13.1	12.2
Real 2/	-1.1	1.5	1.3	0.3	1.4	1.1	2.5	0.5	2.1	1.5

Source: South African Reserve Bank, Quarterly Bulletin.

1/ Seasonally adjusted.
2/ At 1985 prices; deflated by non-agricultural deflator.

Table 10. South Africa: Price Developments, 1988-93

(Percentage change over the previous period)

	Weight 1/	1988	1989	1990	1991	1992	1992				1993		
							I	II	III	IV	I	II	III
							(Seasonally adjusted at annual rate)						
Consumer prices	100.0	12.9	14.7	14.3	15.3	13.9	13.0	12.7	12.2	4.7	8.2	17.6	7.4
Goods	57.9	14.5	15.2	15.5	17.0	16.3	14.8	15.3	16.4	6.7	8.0	16.4	6.5
Of which:													
Food	19.3	(15.8)	(11.1)	(16.0)	(19.6)	(24.8)	(18.9)	(24.2)	(24.9)	(1.1)	(5.4)	(1.1)	(7.5)
Services	42.1	10.0	13.6	12.2	12.6	11.2	9.8	11.4	7.8	0.4	6.2	19.6	14.0
Of which:													
Housing	21.4	(8.6)	(13.8)	(9.2)	(5.6)	(1.9)	(1.9)	(0.7)	(-4.3)	(-4.1)	(-4.3)	(4.0)	(11.7)
Producer prices	100.0	13.1	15.2	12.0	11.4	8.2	4.5	11.0	12.5	1.4	6.4	9.0	5.4
Goods produced in South Africa	80.5	13.8	14.7	12.5	12.1	9.1	4.9	11.9	11.5	4.5	6.5	7.1	5.8
Imported goods	19.5	10.9	16.3	10.1	8.3	4.2	-0.5	10.1	15.3	-10.1	4.3	21.6	1.0
GDP deflator at market prices		15.5	15.2	13.7	13.2	12.1	11.4	9.1	15.4	13.9	11.3	7.2	11.4
Memorandum items:													
Twelve month rate to end of period													
Consumer prices		12.4	15.6	14.4	16.0	9.5	15.6	15.0	13.5	9.5	9.6	10.0	9.1
Producer prices		14.3	14.5	13.6	8.2	6.9	8.3	9.6	8.6	6.9	8.0	6.3	5.2

Source: South African Reserve Bank, Quarterly Bulletin.

1/ 1990 weights for consumer price series; 1985 weights for producer price series.

Table 29. South Africa: External Debt, 1986-92

	1986	1987	1988	1989	1990	1991	1992
	(In millions of U.S. dollars)						
Debt outstanding (at year-end)							
Medium and long term 1/	8,228	9,503	8,867	8,288	8,520	8,904	8,279
Public sector 2/	6,048	6,097	4,857	3,784	3,492	...	...
Private sector	2,180	3,406	4,010	4,504	5,028	...	...
Short term 1/	14,365	13,115	12,318	12,309	10,863	9,225	9,022
Public sector 2/	4,659	4,390	4,075	5,466	3,729	...	...
Private sector	9,706	8,725	8,243	6,843	7,134	...	...
Total external debt	22,593	22,618	21,185	20,597	19,383	18,129	17,301
Public sector	10,707	10,487	8,932	9,250	7,221	6,805	6,780
Private sector	11,886	12,131	12,253	11,347	12,162	11,324	10,521
	(In percent)						
Memorandum items:							
Total external debt (in billions of rand)	49.3	43.7	50.4	52.1	49.7	49.7	52.9
Debt/GDP	36.3	28.0	24.3	23.1	19.0	16.8	15.1
Debt/Exports of goods and nonfactor services	108.4	89.8	87.0	79.0	70.3	67.0	67.7
Share of short-term debt in total debt	63.4	58.0	58.2	59.8	56.0	50.9	52.1
Interest payments/Exports of goods and nonfactor services	10.8	8.4	8.4	8.9	9.0	7.7	6.9

Sources: South African Reserve Bank, Quarterly Bulletin; data provided by the South African authorities; and staff estimates.

1/ The distinction between short-term and long-term debt is not based on the original maturity structure, but on the schedule of repayments, i.e., short-term debt comprises all amortization payments due over the next year.

2/ Central Government, local authorities, public business enterprises, and public corporations.

Table 30. South Africa: External Reserves, 1989-93

(In millions of U.S. dollars; end of period)

	1989	1990	1991	1992	1992				1993		
					I	II	III	IV	I	II	III
Gross external reserves	2,722	2,834	3,574	3,670	4,022	4,259	4,441	3,670	2,999	3,070	2,614
Gross official reserves 1/	2,097	2,422	2,973	2,984	3,427	3,679	3,832	2,984	2,359	2,260	1,974
Gold, national valuation 2/	1,137	1,415	2,074	1,992	2,057	2,109	2,100	1,992	1,639	1,670	1,457
SDRs	2	2	2	--	1	1	1	--	--	6	2
Other foreign exchange	958	1,005	897	991	1,369	1,569	1,731	991	720	584	515
External liabilities	3,986	3,145	3,519	4,257	3,342	3,839	4,009	4,257	4,440	3,773	4,140
Official liabilities relating to reserves	551	267	16	289	--	--	--	289	667	472	758
Net external reserves	-1,263	-311	55	-587	680	420	432	-587	-1,442	-703	-1,526
Net official reserves	1,545	2,156	2,957	2,695	3,427	3,679	3,832	2,695	1,692	1,788	1,216
Memorandum items:											
Gross official reserves											
In millions of rand	5,317	6,207	8,155	9,110	9,853	10,198	10,779	9,110	7,491	7,520	6,779
In millions of SDRs	1,595	1,703	2,078	2,170	2,498	2,571	2,602	2,170	1,688	1,610	1,392
In millions of dollars, excluding gold	960	1,008	899	991	1,370	1,570	1,732	991	720	590	517
In millions of SDRs, IMF definition 3/	838	851	855	954	1,234	1,336	1,411	954	706	593	524
Gold (millions of ounces)	3.08	4.09	6.47	6.65	6.70	6.83	6.70	6.65	5.46	4.94	4.56
In months of imports 4/											
Gross external reserves	1.6	1.6	2.0	2.1	2.4	2.2	2.1	2.0	1.7	1.7	1.4
Gross official reserves	1.2	1.4	1.7	1.7	2.0	1.9	1.8	1.6	1.3	1.3	1.0

Sources: International Monetary Fund, International Financial Statistics; and South African Reserve Bank, Quarterly Bulletin.

1/ Holdings of the Reserve Bank and Central Government.
2/ Gold reserves are valued at 90 percent of the average of the last ten London fixing prices during the month.
3/ Gold valued at SDR 35 per ounce.
4/ Imports of goods and nonfactor services.

Table 31. South Africa: Exchange Rate and Gold Price Developments, 1986-93

(Average data)

	U.S. dollar/ Rand	U.S. dollar/ Financial rand 1/		Effective exchange rate 3/		London gold price 5/	
				Nominal	Real 4/	In rand	In U.S. dollars
	Level	Level	Discount	Index 1985=100		Level	
1986	0.438	0.215	52.9	78.9	92.2	840.4	367.6
1987	0.491	0.321	38.1	78.3	104.1	908.8	446.6
1988	0.440	0.261	37.9	67.5	98.3	991.6	437.1
1989	0.381	0.279	28.9	61.5	98.7	998.9	381.5
1990	0.386	0.295	24.2	58.1	101.6	991.9	383.6
1991	0.362	0.315	13.5	54.5	105.5	999.5	362.2
1992	0.351	0.206	37.2	51.3	109.5	980.0	343.7
1991							
Jan.	0.390	0.300	23.6	55.6	102.0	984.5	384.1
Feb.	0.394	0.310	20.7	55.3	102.7	923.6	363.8
Mar.	0.378	0.306	16.5	55.8	104.2	962.9	363.4
Apr.	0.365	0.297	17.0	55.7	105.2	982.1	358.3
May	0.358	0.305	14.1	55.0	104.9	997.7	357.0
June	0.349	0.301	13.0	55.1	105.8	1,050.1	366.5
July	0.347	0.307	12.1	54.8	106.2	1,059.5	367.9
Aug.	0.348	0.308	11.5	54.1	105.9	1,022.5	356.4
Sep.	0.353	0.317	11.0	53.8	106.4	989.0	348.6
Oct.	0.353	0.320	9.5	53.6	107.7	1,015.5	358.8
Nov.	0.358	0.327	8.5	53.1	107.2	1,006.4	360.1
Dec.	0.361	0.315	13.5	52.5	107.3	1,000.4	361.5
1992							
Jan.	0.360	0.291	18.1	52.2	107.8	986.4	354.5
Feb.	0.355	0.263	24.9	52.5	109.2	996.9	353.9
Mar.	0.347	0.285	18.0	52.5	109.6	992.5	344.5
Apr.	0.347	0.290	16.5	52.3	110.1	974.5	338.6
May	0.351	0.291	17.6	52.0	109.9	959.6	337.1
June	0.356	0.266	26.2	51.7	110.4	957.2	340.8
July	0.363	0.259	28.5	51.1	110.4	971.1	352.6
Aug.	0.362	0.269	26.4	50.4	109.4	949.3	343.3
Sep.	0.357	0.246	30.9	50.0	108.9	966.4	345.4
Oct.	0.347	0.230	32.1	50.0	109.1	994.3	344.3
Nov.	0.334	0.210	36.3	50.4	110.2	1,003.9	335.0
Dec.	0.332	0.206	37.2	50.0	109.2	1,007.8	334.6
1993							
Jan.	0.326	0.216	33.7	49.9	109.7	1,009.9	329.0
Feb.	0.321	0.221	30.7	49.6	109.4	1,028.1	329.3
Mar.	0.315	0.220	30.1	48.5	108.1	1,049.0	330.0
Apr.	0.316	0.219	30.8	47.2	107.6	1,083.9	342.0
May	0.315	0.217	31.0	46.9	106.9	1,162.5	366.4
June	0.309	0.213	29.3	45.3	103.9	1,204.6	371.9
July	0.298	0.224	24.2	45.4	105.0	1,312.6	392.1
Aug.	0.297	0.213	28.1	45.2	105.4	1,274.2	378.9
Sep.	0.293	0.239	17.9	...	...	1,211.0	355.3
Oct.	0.295	0.236	20.8	...	...	1,233.2	364.1

Sources: South African Reserve Bank, Quarterly Bulletin; and International Monetary Fund, International Financial Statistics.

1/ End-of-period.
2/ The difference between the commercial and the financial rand as a percentage of the commercial rand.
3/ IMF estimates.
4/ Relative consumer prices, adjusted for exchange rate changes.
5/ Average daily fixing price per fine ounce.

Table 32. South Africa: Selected Indicators of Competitiveness, 1985-93

(Indices: 1985 = 100)

	1985	1986	1987	1988	1989	1990	1991	1992	1993 1/
Real effective exchange rate (IFS)	100.0	92.2	104.0	98.2	98.6	101.5	105.4	109.4	106.7
Real effective exchange rate (SARB)	100.0	103.4	119.9	114.8	114.1	119.5	122.8	124.5	119.8
Terms of trade (SARB) 2/	100.0	102.6	105.7	105.0	103.6	105.0	103.0	103.8	101.8
Production of exports 2/									
Export price/Unit labor cost in non-agriculture	100.0	102.9	96.5	93.0	89.3	83.3	75.9	70.8	68.4
Export price/CPI	100.0	99.0	90.6	86.3	84.3	79.4	70.8	64.6	62.6
Export price/PPI	100.0	99.7	94.7	91.2	89.0	86.4	81.0	79.5	79.4
Export price/Domestic components of PPI	100.0	100.4	94.3	90.3	88.5	85.6	79.7	77.5	77.3
Export price/Import components of PPI	100.0	97.2	95.8	94.1	91.0	89.9	86.6	88.3	89.1
Production of import substitutes									
PPI (manufactures)/Import components of PPI	100.0	97.0	101.8	104.7	105.0	107.2	110.8	114.9	117.5
PPI (manufactures)/Unit labor cost (manufactures)	100.0	103.0	103.9	105.4	104.3	100.2	98.2	91.6	92.0
PPI (domestic goods)/Import components of PPI	100.0	96.8	101.6	104.2	102.8	105.0	108.7	113.9	115.3
PPI (domestic goods)/Unit labor cost (nonagriculture)	100.0	102.6	102.4	103.1	100.9	97.3	95.3	91.3	91.8
Consumption substitution									
CPI (goods)/Import price	100.0	103.4	116.6	121.7	122.9	132.2	145.5	160.5	162.6
Memorandum items:									
Labor share in nonagriculture	100.0	99.8	101.8	100.7	102.1	103.5	103.8	105.3	105.1
Labor share in manufactures	100.0	97.1	96.2	94.8	95.9	99.8	101.8	109.2	108.6

Sources : South African Reserve Bank (SARB) Quarterly Bulletin; and International Monetary Fund, International Financial Statistics (IFS).

1/ Labor shares and calculations involving unit labor costs reflect data through March; SARB real exchange rate data are through August; rest of data are through September.

2/ Export price excludes gold.