The Johannesburg Stock Exchange returns, political developments and economic forces: A historical perspective of the 1990s

Nico Keyser
University of the Free State
keyserjn@ufs.ac.za

Ivan van der Merwe
University of the Free State
VDMerwel@ufs.ac.za

Jesse de Beer
University of Namibia
jdebeer@unam.na

Abstract

To contribute to economic growth and development, a stock market, as a leading economic indicator, should reflect the macroeconomic fundamentals of a country. The reflection of political and economic developments in the returns of companies listed on a stock market indicates the risk profile of those companies and the stock exchange. The objective of this article is to provide a historical perspective on how political and economic developments reflected in the returns of the Johannesburg Stock Exchange (JSE) during the nineties. The history of the JSE during the nineties can be divided into four periods: a pre-1994 era, the 1994 election, the 1995 big bang, and the post-1995 era. The study concludes that the JSE was exposed to extraordinary political changes and political events, eventually cumulating in a peaceful democratic election and a new political dispensation in 1994. Uncertainty surrounding future macroeconomic policy, global events such as the emergence of the Internet and the new economy, as well as an emerging market crisis, also impacted on JSE returns during the 1990s.

Keywords: Johannesburg Stock Exchange (JSE); Returns; Political events; Economic events; Global events; Gold mining.

Introduction

A question to be asked is to what extent does political developments and macroeconomic forces influence the risk of investing and reflect in profitability of companies in South Africa? To respond to this question, a comparative descriptive approach was taken to provide an historical perspective on how political and economic developments during the period 1990–1999 reflected in overall returns on the JSE. The article thus aims to verify the assertion that a well-functioning stock market functions as a barometer – a measuring instrument reflecting the health of the overall economy.¹

The history of the Johannesburg Stock Exchange (JSE) – in existence since 1887 – has seen dramatic developments in domestic government policy, far-reaching changes in the worldwide monetary system, fluctuations in inflation, several stock market crashes, the Great Depression, dramatic political developments and the rise of more than one world economic powerhouse, to name but a few. During the 120 years of its existence, several changes took place that shaped the trading environment of the JSE, including political factors and several periods of investor irrationality, greed and fear. In this regard, the period 1990–1999 was particularly interesting, as South Africa moved out of the apartheid era and into democracy, and financial contagion became much more prominent.

The early nineties were dominated by political developments, resulting in the democratic election of April 1994 and the return of South Africa to the international arena. At that stage, trading on the JSE was still dominated by goldmine stocks, while the presence of foreign investors grew rapidly. The relaxation of exchange controls and the inclusion of the JSE in the International Finance Corporation’s Investable (IFCI) emerging market index paved the way for a dramatic increase in foreign participation on the JSE. This also saw an increase in exchange rate and stock market volatility, and the JSE increasingly became the victim of contagion and emerging market crises. Following the lead from other developed countries, such as the United States and United Kingdom, the JSE also underwent a major restructuring process (called the ‘big bang’) in 1995. This entailed major changes to the general legal framework of the JSE, which not only influenced the trade environment but also significantly increased investor protection, trading liquidity and market turnover. This was in stark contrast to the notoriously limited trading that mostly characterised the JSE up until 1995. Furthermore, the unbundling of the conglomerate of mining houses started to take place. This was an era of major adjustment, which posed challenges for both the corporate sector and government to adapt to international standards and in sequencing financial liberalisation.

The rest of this article evaluates the performance of the JSE during four periods during the nineties: a pre-1994 era, the 1994 election, the 1995 ‘big bang’, and the post-1995 era.

---

Political and economic developments during the pre-1994 era

In February 1990, FW de Klerk announced the release of Nelson Mandela and the unbanning of all political parties. With this, the stage was set for a new political dispensation, a situation, which eventually resulted in policy changes within as well as towards South Africa. The uncertainty of economic policies implemented by a new ANC-led government caused nervousness in the markets, as it was feared that the new government’s economic policy would lead to a cycle of redistribution and macroeconomic populism following democratisation.

The highly unequal distribution of income, wealth and social services and how this would be addressed, was the main contributor to the uncertainty about economic policy. Intense policy debate on what the optimal strategy to achieve this started in 1990. The economic policies of the government of the time, the National Party, mainly aimed to advance the interests of the business community and the white population. The emphasis was on economic growth, minimal state intervention, privatisation, deregulation, wage restraints and low levels of inflation. By contrast, the leading anti-apartheid organisation, the African National Congress (ANC), aimed to advance the interests of the victims of apartheid and emphasised the need for expanding the public sector and re-orienting it toward meeting basic needs. The latter approach was labelled ‘growth through redistribution’ as opposed to the De Klerk regime’s ‘growth with redistribution’ initiatives.

Uncertainty about the future of economic policy in South Africa was intensified by the fact that the economic policy of the ANC at the time was labelled as ‘schematic’ and ‘ambiguous’. The most important statement of the ANC’s pre-1990 economic intentions was the Freedom Charter (adopted by the ANC in 1955), which called for the restoration of national wealth to the people, a significant role for the state, and the regulation of key markets. Redistribution was to form the central element of a post-apartheid economic strategy, and this approach initially informed the ANC’s participation in the economic debate.

The controversy about the role of nationalisation in the ANC’s economic policy started the day Nelson Mandela was released from prison in February 1990. In his speech on the steps of Cape Town’s City Hall, he emphasised the necessity of nationalisation and redistribution by stating, “[t]he nationalisation of the mines, banks and monopoly industry is the policy of the ANC and a change or modification of our views in this regard is inconceivable.” This view implied either nationalisation without compensation or nationalisation by issuing long-term, low-interest

---

government debt.\textsuperscript{11}

This was followed by similar statements by senior ANC members who also emphasised the importance of government intervention in the economy. Joe Slovo, for instance, suggested that the post-apartheid economy was to be a mix between market and plan, with priority being allocated to the latter. Similarly, former COSATU education secretary and ANC/SACP activist Alec Erwin insisted on the need for state ownership of the country’s natural resources.\textsuperscript{12} These comments in early 1990 drew a dramatic reaction from the financial press and had a severe negative influence on the stock market (see Image 1).

As a result, considerable pressure was placed on the ANC to modify this viewpoint. This included pressure from economists, foreign and domestic businesses, governments and international organisations that previously supported the ANC’s struggle against apartheid. As a result, the ANC started to re-evaluate its approach to nationalisation, as suggested by media reports.\textsuperscript{13} Mandela himself seemed to change his stance on nationalisation in late 1991 when he reassured [then] President Bush and corporate executives in the United States that the ANC’s perceptions had changed on the issue. The ANC downplayed nationalisation, suggesting that it was merely one of several measures under consideration. By late 1992, nationalisation was effectively no longer a serious option on the ANC’s economic agenda, and the share market reacted favourably to this development (see Image 1).

In 1991 and 1992, the ANC began to emphasise long-run growth aspects and the need for a mixed economy. The private sector and the market were increasingly put into the foreground, at the expense of the public sector – notably in the 1993 ANC document “Ready to Govern”.\textsuperscript{14} This policy document represented an attempt to formulate a strategy that balanced growth, redistribution and basic needs with a growing need to become market-friendly and globally competitive. However, intense debate on economic policy continued within and among the ANC, SACP and COSATU. Grassroots activists within this tripartite alliance continued to advocate a radical economic programme that would include nationalisation, reigning in the power of the local conglomerates, and controls over foreign investors.

The strategy that finally emerged in 1994, the Reconstruction and Development Programme (RDP), was an attempt to marry the ANC’s old social democratic and socialist values (redistribution, basic needs) with new neoliberal tactics (trade and

\textsuperscript{11} A Habib & V Padayachee, “Economic policy and power relations in South Africa’s transition to democracy”, World Development, 28(2), 2000, pp. 245-263.
\textsuperscript{12} A Habib & V Padayachee, “Economic policy and power relations in South Africa’s transition to democracy”, World Development, 28(2), pp. 343-359.
\textsuperscript{13} N Natrass, “Politics and economicsIN anc economic policy”, African Affairs, 93, 1994, pp. 343-359.
\textsuperscript{14} ANC, “Ready to govern: ANC policy guidelines for a democratic South Africa” (ANC National Conference, May 1993).
financial liberalisation and the independence of the central bank). Essentially, it was a basic needs programme focused on the provision of infrastructure, such as housing, electricity, running water and sanitation, free and compulsory schooling, free healthcare and land to the poor. Influenced by findings of the ANC alliance’s own Macroeconomic Research Group and Industrial Strategy Project, the RDP served as an economic platform for the party during the 1994 elections, and was also adopted by the subsequent Government of National Unity. The RDP proposals envisaged a significant role for the state in leading and regulating the market to meet the twin goals of reconstruction and development. It also advocated prudent fiscal policy through tax reform, the consolidation of debt, and the cutting of debt service costs that were undermining the new government’s economic and social objectives. Export growth, especially in manufacturing, was also emphasised. Overall, the RDP indicated a greater outward orientation of the growth strategy than was previously associated with ANC economic policy, and throughout 1993 and 1994, this policy shift was met favourably in terms of performance on the JSE (see Image 1).

Image 1: Economic growth, inflation and performance on the JSE (1990-1999)

Note: lhs = left-hand scale; rhs = right-hand scale

Another consequence of the political developments in South Africa since 1990 was the lifting of financial and trade restrictions. President Botha’s infamous Rubicon speech of August 1985 sparked a round of multilateral economic sanctions. The European Community and the Commonwealth countries imposed trade and financial sanctions on South Africa in 1985 and again in 1986. In the United States,

Congress passed the Comprehensive Anti-Apartheid Act (CAAA) in 1986, with Japan following in 1986–1988 and Israel in 1987. The sanctions involved severely restricting lending to South Africa, as well as import bans on iron, steel, coal, uranium, textiles and agricultural goods.\(^{19}\) Although some restrictions were already relaxed in 1991, sanctions were formally lifted during 1993 and 1994. The Commonwealth and the European Community pledged to lift their sanctions following the establishment of the Transitional Executive Council and Nelson Mandela’s call in October 1993 to the UN General Assembly to lift sanctions. The United Nations only lifted all sanctions after the inauguration of the new government on 25 May 1994. Sanctions had a significant negative influence on the SA economy and financial markets. It led to divestment by a large number of firms, visible macroeconomic signs of private capital flight, high inflation, and lower economic growth (see Image 1). Measures by the SA government to combat capital flight, combined with a faltering economy, market uncertainties and political turmoil, made the country an unattractive site for investment. The outflow of dividends and profits from foreign investments in South Africa exceeded new foreign direct investments (FDIs) during the sanctions era. As noted in the next section, the lifting of sanctions made a significant positive contribution to sentiment on the JSE.\(^{20}\)

**Developments on the JSE during the pre-1994 era**

Initial optimism and excitement about political changes in South Africa contributed to the JSE All-Share Index (ASI) reaching a new high in February 1990. Trading and prices continued upward from the recovery that started in the third quarter of 1989, with the ASI increasing by 17% between November 1989 and February 1990 and by 31% for the 12 months ending February 1990 (see Image 1).\(^{21}\) This increase was mainly due to gains in financial and gold mining shares, with gold also trading above $400/oz in December 1989. The issue of ordinary shares rose from R2.1 billion in the third quarter to R5.3 billion in the fourth quarter, mainly due to the privatisation and listing of Iscor Ltd on 8 November 1989.

The bullish sentiment did not persist though, and by March 1990, the ASI began to revert to lower levels due to a lower gold price and uncertainty surrounding the political dispensation and the ANC’s future economic policies. Together with the gold price, both the JSE gold mining and all share indices experienced negative returns throughout most of 1990. However, they all recovered briefly in July and August due to Iraq’s invasion of Kuwait, and this behaviour again confirmed the


role of gold as a haven in times of uncertainty. During the early nineties, the gold price had a large direct effect on the JSE gold mining index (see Image 2) while the gold mining index, in turn, still reflected sizeably in the performance of the ASI (see Image 3).

Image 2: Monthly returns: JSE gold mining index vs $ gold price
Image 3: Monthly JSE returns: All share gold mining index 1990-1995

Uncertainty in world markets due to developments in the Persian Gulf caused the ASI to fall back again in September, and by January 1991, share prices had declined by 18% from its peak in February 1990.22 The lifting of sanctions by countries, such as the United States, and expectations of improved prospects in the SA economy boosted share prices during 1991. In addition, the fall of communism, a recovery in the United States after a fourth-quarter recession in 1990, the introduction of mobile phones and the internet contributed to a bull market on international stock markets. As a result, the level of the ASI increased by 37.2% between January 1991 and January 1992.23 Industrial shares increased by 53%, and commercial shares increased by 42.5%, despite a poor international demand for raw materials. These higher share prices occurred despite negative real economic growth of -0.3%, -1.0% and -2.1% during 1990, 1991 and 1992 respectively (see Image 1).24 The excellent performance of JSE shares during this period of economic downturn was attributed to the demand for prime equities by institutional investors, rising world stock markets amidst positive expectations of world economic conditions and an expected decrease in the local bank rate and short-term interest rates.25

Before 1994, South Africa was subjected to volatile capital flows from non-residents due to political policies and events within the country. To stem capital outflows and to protect the country from political instability, the dual exchange rate was introduced in 1985. The commercial rand was used for trade flows, and the financial rand for capital flows. The financial rand traded at a discount to the commercial rate

in order to discourage capital withdrawals from South Africa.\textsuperscript{26} During 1992 and 1993, the highly discounted financial rand brought about favourable returns for non-residents and encouraged foreign investment on the JSE (see Image 4).

Image 4: The financial rand, volatility and foreign investment on the JSE

![Graph showing financial rand, volatility and foreign investment on the JSE](image)


Amid tense negotiations between the SA government and several other political groups in the Convention for a Democratic South Africa (CODESA) talks, political violence escalated in the country.\textsuperscript{27} This includes the Boipatong and Bisho massacres during the second half of 1992. During the night of 17 June 1992, residents from the Boipatong township were attacked by armed men from the nearby KwaMadala Hostel. Forty-five people died and several were maimed in the attack. Shortly after the massacre, it was claimed by members of the ANC that the SA police, force in cooperation with the Inkatha Freedom Party (IFP), had organised the raid, and the ANC consequently stepped out of the negotiations.

In September 1992, a massacre took place in Bisho, then the capital of Ciskei, which added to the bleak political situation in South Africa. Led by top ANC officials, including Chris Hani, Cyril Ramaphosa, Steve Tshwete and Ronnie Kasrils, a group of 80 000 people gathered outside Bisho demanding an end to military rule and the re-absorption of the so-called ‘black homeland’ into South Africa. When the marchers tried to cross Ciskei Defence Force lines from Transkei to enter Bisho, soldiers were instructed to open fire. They killed 28 demonstrators and 20 were wounded.\textsuperscript{28}

\textsuperscript{26} O Bleeders, \textit{International stock market interdependence: A South African perspective} (Atlanta, Emory University, 2002), p. 2.


Political protest marches by the middle of 1992 had a dampening effect on the JSE, and the ASI fell by 17% between July and October. At the beginning of 1993, European central banks also announced their intention to reduce their gold reserves. Gold mining shares fell back because of negative investor sentiment deriving from this resolution, and this also affected the rest of the JSE. Overall, the price of gold and gold mining shares experienced high volatility in 1992 and the average price levels of gold and other mining shares were 37.8% and 22.9% lower in January 1993 than in January 1992. This filtered through to affect overall JSE volatility, which increased markedly between 1992 and 1993 (see Image 4).

Throughout 1993, positive activity on the JSE continued as local inflation declined, economic activity improved, and a weaker financial rand attracted non-resident purchases. By the end of the first quarter of 1993, R8 billion worth of shares were traded, the result of a decline in short-term interest rates, a higher gold price, and net purchases of shares by non-residents. During the second quarter of 1993, new record levels were recorded on the JSE. This was on the back of higher inflation expectations in the United States, the ongoing domestic economic recovery and an increase in the demand for gold, which resulted in a rising gold price. The higher gold price, a weaker financial rand and increased non-resident purchases caused the value of shares traded to rise to R10.8 billion in the second quarter of 1993. Despite a sluggish international economic recovery and weaker commodity prices causing a 7% decline between August and September 1993, the ASI still rose by 27.2% between September 1993 and January 1994. Other contributing factors included an improved political climate, the lifting of sanctions, growing bullish sentiment on world stock markets and stronger investor interest in emerging markets.

The effect of the 1994 election on the JSE

In contrast with sluggish share prices on most world stock markets, the JSE continued to rise at the beginning of 1994. In the first nine months of 1994, SA share prices outperformed those of emerging markets, and volatility reduced sharply (see Image 4). The capital account recorded net inflows of R5.2 billion in 1994 and, although lower than in 1993, non-residents were again net buyers of shares (see Image 5). The ASI rose by 52% between September 1993 and September 1994, underpinned by a stronger gold price and the economic recovery in South Africa. The value of shares receded slightly in April 1994 due to uncertainty regarding the political developments in South Africa and in anticipation of the first democratic election in April 1994. After the election, non-residents became net sellers of shares.

for most remaining months of 1994, thereby leaving the net foreign purchases figure for the year to be only slightly positive (see Image 5).

Image 5: Foreign net purchases and overall trading volume on the JSE (1990-1999)


At this stage, the JSE reached a historically high price–earnings ratio and international investors deemed the SA equity market to be expensive relative to its growth prospects. However, the price–earnings ratio of the JSE (14.8) was still low in comparison with other emerging markets, such as Argentina (61.4), Malaysia (48.2) and Taiwan (39.7). Other factors causing negative foreign investor sentiment were high real interest rates, a low overall dividend yield of 2.18% (October 1994), low liquidity, and the lingering dual exchange rate system. Although non-residents were important operators on the stock market and accounted for 31% of the turnover of listed shares, low net foreign purchases during 1994 were negated by strong domestic trading, and the ASI increased by 28% during the year. However, from December 1994 to the beginning of March 1995, the JSE plunged 11% in reaction to lower share prices on Wall Street, a lower gold price, the Mexican crisis, the earthquake in Japan, and the anticipation of the abolishment of the financial rand.

The reconstruction programme of the JSE during 1995

By 1995, the JSE was the tenth largest stock exchange in the world and the largest among emerging markets. However, compared to international markets, liquidity on the JSE remained low prior to 1995 because of political uncertainty and remaining exchange controls. Trading turnover amounting to 6.5% of total market capitalisation made the JSE the least liquid of all 27 emerging markets, except for that of Nigeria. Other characteristics typical of the JSE before 1995 were inefficient price information, high transaction costs, and a lack of transparent and accurate information. These characteristics were attributed to the high rate of concentration on

---

the JSE, thin trading, illiquidity, as well as institutional and single capacity trading. Before 1994, the JSE was also dominated by five large conglomerates, with Anglo American Corporation, Sanlam, the Rembrandt Group (Remgro), SA Old Mutual, Liberty Life and Anglovaal controlling 80% of the JSE’s market capitalisation (see Image 6).

Image 6: Control of JSE market capitalisation during the 1990s

Exchange controls preventing South African companies from investing abroad led to the domination of the SA economy by these few conglomerates. The reintegration of South Africa into the world markets, black economic empowerment (BEE) transactions, changes in the mining sector, and globalisation led to a decline in the concentration of ownership on the JSE. By 1997, ownership of the five largest conglomerates dropped to 67.2%. The increase in flows from insurance and pension funds, and private investors switching to unit trusts instead of investing directly in equities, led to trading being dominated by institutional investors and a relative decline in private investors participating on the JSE. Institutional investors focused their investment strategy on a few blue-chip shares, resulting in between 10 and 15% of shares on the JSE being traded. The thin trading and illiquidity led to the discouragement of entrepreneurial risk-taking and development.

Only member stockbrokers, in a single capacity, were permitted to trade equities on the JSE. These rights prevented small amounts from being invested, as the cost of such transactions could exceed the investment amount; thus, excluding smaller investors from the JSE. At this stage, deregulation on the JSE was long overdue, as the

---

United States had already deregulated its market in 1976 with the United Kingdom following in 1986. In compliance with the worldwide trend of deregulation, reforms were implemented on the JSE in 1995. These reforms were driven by the relaxing of exchange controls on non-residents.\textsuperscript{40} The Stock Exchange Control Amendment Act (No. 54 of 1995) was passed by parliament on 13 September 1995 to facilitate the restructuring of the JSE and this Act led to the following changes:\textsuperscript{41}

- corporate membership, with the option of limited liability;
- the opening of membership to non-residents (foreign banks and security firms) and domestic financial institutions;
- the establishment of the South African Institute of Stockbrokers (SAIS); and
- the introduction of new capital adequacy requirements based on the European Union standard with electronic surveillance and the revision of the JSE Guarantee Fund rules.

The reconstruction programme of the JSE was implemented in a wide range of areas to make the stock exchange more competitive and efficient. This was also an attempt to attract more foreign investors by providing them with more opportunities to diversify their portfolios and thus increase liquidity on the JSE. The programme moved the JSE from a membership body, limited to persons of natural SA descent, to an open membership. The introduction of dual-capacity trading also permitted stockbrokers to act as agents and as principals. They were thus able to buy and sell shares on behalf of their clients and for themselves. Negotiable commissions increased competition among brokering firms and lowered transaction costs for investors. During 1995, deregulation in the foreign exchange market also gained momentum, and the financial rand was abolished in March.

In 1996, after more than 100 years, the open outcry system of trading was replaced by an automated trading system. The buying and selling of shares could now be done by using the centralised automated trading system (ATS). The introduction of computers contributed to a higher volume of transactions on the JSE (see Image 5). The Johannesburg Equity Trading (JET) system, an order-driven, centralised trading system, resulted in significant improvements in liquidity, transparency, price formation and cost of trading.\textsuperscript{42} Modernisation and deregulation improved efficiency of the JSE and contributed to a reduction in risk. New listing requirements in 1997 further improved investor protection and enhanced access by emerging companies to the capital markets. As a result, new listings doubled between 1997 and 1998, while new capital raised on the JSE amounted to R88.4 billion.\textsuperscript{43} Capital raised on


\textsuperscript{43} SARB, \textit{Quarterly Bulletin} (Pretoria, December 1999), pp. 35-36.
the primary equity market also doubled from R10 billion in 1994 to R21.4 billion in 1995 (see Image 7).

Image 7: Primary Market Activity on the JSE during the 1990s


The largest part of the funds was obtained for the industrial sector (52%) and the financial sector (27%). The importance of the stock market as a source of finance was reflected in the increased listings on the JSE (see Image 7). Overall, non-resident purchases of shares on the JSE were boosted from 1995. The following factors:\textsuperscript{44\&45} the normalisation of international financial relations; to foreign trade financing; access to international finance; positive investor sentiment; the return of foreign companies; the removal of the financial rand; and the inclusion of the JSE in the International Finance Corporation's emerging-market index all contributed to increase in foreign interest.

The effect of economic, political and policy developments on the JSE: 1995-1999

Due to stronger economic growth and the factors mentioned above, the JSE All-Share index increased by 30.3% between February 1995 and February 1996. A higher gold price (above $400) also improved sentiment towards gold shares during January 1996. The automated trading system was extended in 1996 by the implementation of the electronic scrip registry named Share Transactions Totally Electronic (STRATE) and rolling settlement.\textsuperscript{46} This process of modernisation introduced electronic settlement to replace weekly account settlements, and included a central security depository to enable the dematerialisation of equity certification. The JSE thus moved in line with international best practice, conforming to the G-30 (Group of Thirty) recommendation for electronic settlement. However, share prices fluctuated

\textsuperscript{44} SARB, Quarterly Bulletin (Pretoria, December 1996), pp. 55-56.
\textsuperscript{46} SARB, Quarterly Bulletin (Pretoria, December 1996), p. 51.
aimlessly during 1996 despite stronger performances on international stock markets and increased trading by non-residents due to the admission of subsidiaries of foreign banks and security firms.47 This lack of performance on the JSE was reflective of the underlying pressure that was facing the post-apartheid government.

At this stage, the new government was faced with enormous challenges on the economic front. Domestically, it had to come up with a consistent set of policies that would promote economic growth and job creation, alleviate white fears and boost business confidence, while simultaneously supporting redistribution, affirmative action (AA), small business development, and trade union demands. On the international front, it also had to bring a vulnerable and isolated SA economy back into a volatile global economy at a time when the forces of globalisation were accelerating. While much progress was made towards reconstructing public finances under the RDP, achievements regarding social and economic growth objectives were limited.

Market participants also required clarity on major macroeconomic policies and related variables that determine long-run investment decisions, such as tax rates, fiscal and monetary policy, inflation and interest rates. This uncertainty was spilling over onto financial markets, and in February 1996, a lack of clarity about the SARB’s exchange rate policy became a main driving force behind a speculative attack on the rand.48 This caused the rand to depreciate sharply, losing about 20% of its value between February and September 1996. Other factors also contributed to this negative sentiment, including high inflation, a persistent current account deficit, uncertainty about the abolition of exchange controls and future economic policy under the new minister of finance. To support the exchange rate, the SARB became a net seller of foreign currency in 1996 and, when this failed, the bank rate was raised to 17%. Although the reaction of the JSE to these uncertainties was less severe, the ASI still fell by 4% between February and September 1996.

The inability of the RDP to achieve its social and economic growth objectives, combined with the above-mentioned policy uncertainty, led to the adoption of the Growth, Employment and Redistribution (GEAR) strategy in June 1996. This strategy set out a framework to achieve macroeconomic stability as a basis for economic growth and to alleviate fears of international investors that fuelled the ongoing currency crisis. The GEAR strategy focused on accelerating fiscal reform, further tariff reform, public sector restructuring (including the disposal of non-strategic assets), continued reorientation of expenditure towards service delivery to the poor, and more consistent monetary policy. Primary objectives were to reduce the central government deficit to less than 3.0%, to reduce inflation, and to speed up the privatisation of parastatals.49 This policy shift, combined with intervention

49 J Hentz, South Africa and the logic of regional cooperation (Bloomington, Indiana University Press, 2005), p. 120.
by the SARB, eventually restored calm to the markets. Growth in real GDP also improved noticeably to a 3.4% average between 1994 and 1997, while inflation was on a noticeable downward trend (see Image 1). The combination of growth-oriented policies and market deregulation contributed to the doubling of the share trading volume on the JSE between 1996 and 1997, while the value of shares traded increased by 77%. The overall performance of the JSE was also positive, and the ASI increased by 13% between August 1996 and August 1997. In August 1997, the Stock Exchange News Service (SENS) was launched to provide the market with real-time company-specific information and announcements.50 These developments and the further relaxation of exchange controls, allowing institutional investors to enter swap transactions with non-resident investors, helped market liquidity on the JSE improve from 10.9% in 1996 to 18.3% in 1997.51

Post-apartheid developments also meant that the JSE entered a new era where foreign factors, such as foreign capital flows, global investment sentiment and returns on foreign share markets would play an increasingly important role.52

The normalisation of South Africa’s internal and external relationships after 1994 and the globalisation of its markets meant that asset prices were influenced more by global economic events and less by political events. The JSE became a major player within the world market, and its share price indices became more vulnerable to contagious global economic events and interdependent with other stock markets. For instance, the Dow Jones Industrial Index (DJIA) started having a much greater effect on the volatility of SA share returns after 1995. This took place against the background of a strong United States (US) economy and booming US stock markets. The United States experienced a financing boom for new firms and productivity gains with acceleration in the growth rates of output, employment, investment and wages during the second half of the 1990s.53 A sense of moving towards a ‘New Economy’ was linked, among other things, to the emergence of the internet and the ever-wider use of computer technology. Technology companies boomed in the light of the euphoria surrounding the internet.54

54 D Brett, “The longest bull market in history: Five charts that tell the story”, Schroder and Thomson Reuters Datastream, 20 August 2018.
Similarly, since South Africa’s inclusion in the Dow Jones Composite value price index (S&P/IFCI index), the country carried a heavier weight in the portfolios of emerging market fund managers, who benchmark to the IFCI. This rendered South Africa more vulnerable to contagion than before as foreign capital flows increased. This became apparent in August 1997 when the JSE experienced a sharp decline as confidence in emerging markets was eroded due to the Asian crisis. The volume of shares traded declined in November and December 1997 as investors became risk-averse towards emerging markets. From August 1997 to June 1998, emerging stock markets fell 40%, while developed stock markets remained positive, with the S&P 500, for example, showing a 21% gain during this period. Despite the negative sentiment towards emerging markets, non-residents remained net buyers of SA shares during the fourth quarter of 1997 and the first quarter of 1998 due to a perception of a reduced exchange rate risk and a positive economic outlook for South Africa. For the same reason, non-residents remained net buyers during this period due to a perception of a reduced exchange rate risk and a positive economic outlook for South Africa. Furthermore, the problems in Asia seemed much worse, and this encouraged non-residents to increase their investment share in SA companies.

However, on 17 August 1998, the Russian government abruptly defaulted on their government bonds, devalued the rouble by 25% and declared a three-month moratorium on foreign obligations of Russian banks. The distinguishing feature of this episode was that the default included bonds denominated in both roubles and foreign currencies. Defaults on a country’s domestic currency obligations have been rare in financial history, which is why financial markets worldwide responded drastically to this default shock. US stock prices fell by over 14 per cent in August 1998, the largest one-month decline since October 1987 and this led to the onset of the Russian–emerging market crisis.

The continuation of the East Asian crisis and the onset of the Russian crisis in 1998 lowered the global demand for primary goods, which reduced SA exports and caused economic growth to dwindle to only 0.5% in 1998. On the financial markets, the crisis led to increased volatility, fewer capital inflows, a depreciating rand and negative returns on the JSE.

Between April and August 1998, the rand depreciated by 26% against the US dollar in nominal terms, while the real effective exchange rate showed similar losses. This crisis severely affected share prices in most emerging markets, including the JSE.

which fell by 38.7% between June and September 1998.

The backward movement in economic growth until 1999 was criticised by the Congress of South African Trade Unions (COSATU) (amongst others), who claimed that the GEAR strategy had been a failure. Nevertheless, the continuous strict monetary and fiscal policy stance of the government started to pay off. Increased exports and lower inflation contributed to setting the scene for an economic upswing, and economic growth quickly accelerated to 4.15% in 2000. Similarly, the JSE reflected this positive economic growth phase and, combined with the end of the Asian crisis, the ASI grew by 61% between September 1998 and December 1999.

Image 8: Share markets performance (1990-1999)

Despite recording four years of negative returns and amidst periods of political uncertainty, international financial crises and overall low domestic economic growth, the JSE still performed exceptionally when compared to other major stock markets (see Image 8).

The diminishing role of gold mining on the JSE: 1990-1999

Since the discovery of gold in 1886, gold dominated the SA economy. With the establishment of the JSE in 1887, mining houses – and especially gold mining – dominated events on the JSE. However, since the 1990s, a period of transition started for the mining industry in South Africa. Problems in the industry became palpable in 1994 when labour unrest and the mining of low-grade gold ore caused gold share prices to drop by 44% between September 1994 and December 1995. Throughout the decade, a declining gold price, the ageing of mines and increases in production costs contributed to the diminishing role of the gold industry. The contraction in

---

60 C. Harmse, “The relationship between South Africa’s macroeconomic policies and the performance of the various asset classes” (SARB Conference, Pretoria, 2006).
gold mining output – from 566 tons in 1990 to 420 tons in 1998 – added to the diminishing role of gold mining in the economy and thus also the role of the gold mining sector on the JSE.

Coal exports, supported by platinum, played an increasing role in the mining sector during the nineties. Although the output of platinum increased at a substantial rate between 1990 and 1999, a lower gold price and a decline in the value of coal exports limited growth in the mining sector. The price of platinum was also more volatile than the price of gold and vulnerable to developments in the international economy. Despite the declining role of mining in the economy, 50% of the top 40 companies on the JSE were still exposed to commodity market movements by 1999.61

The changing role of the mining houses and conglomerates on the JSE: 1994-1999

During the early 1990s, foreign institutions were critical to the returns and management of the SA mining houses. The poor returns were attributed to depressed commodity prices and low industrial holdings returns, due to the re-integration of South Africa into the global economy. Valuation of the mining houses implied a significant discount relative to the value of their assets. The discount encouraged restructuring and changes to the mining houses, by unbundling and focusing on core business. The drop in commodity prices and the Asian financial crisis in the second half of the nineties also emphasised the need for restructuring.62

Mining houses restructured in several ways, amongst others by unbundling and reducing the diversity of investment. Billiton (Gencor) divested itself from paper, oil and consumer interests. Anglovaal split into three groups, focusing on mining, consumer goods, and engineering and capital goods; thus, concentrating on core operations. The traditional mining house was replaced by holding companies, such as Billiton, Anglo American and Gold Fields.63 The restructured mining companies were quick to embrace the strategies of international capitalism. Access to international financial markets was prioritised, including participation in the merger and acquisition frenzy of the 1990s and relocating several primary listings to the world’s financial capitals.

The number of listed mining companies on the JSE fell from 45 in 1992 to 14 in 1999. By outsourcing and downsizing, mines refrained from unprofitable areas. SA mining companies became global players, expanded into mining around the world,
accessed global markets and listed on offshore capital markets. The effects of this restructuring meant that only the most efficient mines were able to survive at lower prices. As a consequence, 300 000 people lost their jobs in the mining sector between 1980 and 1998. Despite the reconstruction and diminishing role of the mining industry, the JSE was still dominated by a few large mining conglomerates during the 1990s (see Image 6) and considered a resource-based stock exchange.

During the late 1990s, there was also intense speculation about the continued role of gold in monetary policy and the sale of gold reserves by central banks, which held nearly a quarter of all the gold estimated to be above ground. Since central banks had an influential position in the gold markets, it was feared that uncoordinated central bank gold sales would destabilise the market, and this drove the gold price down. In response to these concerns, the first Central Bank Gold Agreement was announced on 26 September 1999. Known as the Washington Agreement on Gold, several European central banks announced that gold would remain an important element of global monetary reserves, and they agreed to limit their collective sales of gold. This announcement removed some uncertainty and prompted a sharp, but temporary, spike of 17% in the gold price during October 1999. Although this also contributed to the positive sentiment to the JSE, which rose by 5% in October 1999, the future of gold and gold mining in South Africa remained gloomy.

Non-mining conglomerates also started the process of globalisation, driven by the need to enhance competitiveness and develop growth capacity. They employed foreign market- and capital-seeking strategies to overcome the limitations of the domestic capital market. The first big business from South Africa to move across the borders was South African Breweries (SAB), who initially moved into developing markets and then excelled in developed markets. Most South African transnational companies (TNCs) primarily entered developed markets. This included Naspers Limited, Steinhoff International, the MTN Group Limited, Datatec and the Bidvest Group and within a period of three to five years, these enterprises internationalised rapidly.

Conclusion

A stock market is regarded as a leading indicator of economic activity. As a barometer of economic sentiment, stock markets reflect economic and political developments, and historical returns should therefore not be ignored. Our findings confirm that major economic and political developments during the 1990s were often reflected in JSE returns – though not always in a consistent manner. However, positive stock

---

64 S Malherbe, A perspective on the South African mining industry..., Report prepared for the Chamber of Mines of SA by the Graduate School of Business, University of Cape Town, pp. 25-29.
market returns almost always occurred during times of economic prosperity.

Our study also suggests that a shift occurred during the 1990s in terms of how the JSE reflected dramatic macroeconomic conditions, policy changes and political events. Before 1994, the SA economy and the JSE were very vulnerable to the gold price and volatile foreign capital flows stemming from political events within the country. After 1994, South Africa’s re-acceptance into the world community and deregulation resulted in higher trading volume and liquidity, but also rendered local share prices and index returns more susceptible to contagious global economic events rather than local political events.